



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: Dec 2012

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Exchange Rate and International Developments

During December policy makers in the US were faced with the challenge of managing the risk of a rapid fiscal consolidation that has the potential to have widespread negative effects on the world economy. However, by the end of the month no concrete resolution had been found. Statistics published over December suggest the world economy continued to slow, with most forecasters now expecting little improvement over the course 2013.

It became clear over December that the **euro area** economy had officially fallen back into recession for the second time in four years owing to a slowdown in trade and government expenditure. GDP fell by 0.1 percent compared to a 0.2 percent contraction in the previous quarter. Inflation fell to 2.2 percent in November, down from 2.5 percent recorded in the previous month, with easing energy prices and sluggish economic activity. Over the month the ECB held their low policy interest rate and made downward revisions to growth forecasts.

It is now expected that GDP growth would be in the range of -0.9 per cent to 0.3 percent in 2013. By the end of December the **US** found a temporary solution to prevent \$500 billion of tax increases and spending cuts, with some tax hikes being implemented and spending cuts delayed. Despite this longstanding uncertainty, revised GDP figures published in December suggest consumer spending has been driving economic activity with the economy growing 3.1 percent in the third quarter, up from the previous estimate of 2.7 percent and more than double the growth rate recorded in the previous quarter.

GDP growth in **New Zealand** in the September 2012 quarter was less than expected at 0.2 percent. Construction activity contributed to the growth with reconstruction activity picking up, however manufacturing was down over the quarter. The Reserve Bank maintained its monetary policy stance and still considers the New Zealand Dollar a significant drag on economic activity. The **Australian** economy continues to outperform other advanced economies with unemployment falling to 5.2 percent in November from 5.4 percent the previous month. The economy expanded 0.5 per cent in the third quarter with the mining sector providing the main boost however growth was down slightly from the 0.6 percent recorded in the previous quarter. Despite the relatively robust performance, the RBA expects mining sector activity to peak during 2013 and as a result decided to cut its policy interest rate to 3.0 percent, returning to levels not seen since the midst of the financial crisis in 2009.

During the month the Vatu appreciated against the AUD and NZD but depreciated against the USD and the EUR.

Real Sector Developments

Tourism arrivals for the month of October 2012 showed continued year-on-year increases despite a recorded decline in air arrivals in the month as cruise-ship arrivals rose significantly. Both air and cruise-ship arrivals rose 15 percent and 270 percent over the year respectively recording 9,922 air visitors and 26,644 cruise visitors respectively, one of the highest cruise-ship arrival month since January 2012. There were 14 cruise-ship visits during the month compared to 4 visits same month last year. As a result, the total non-resident visitor arrivals (air plus cruise) rose 131 percent over October 2011 to 36,566 visitors.

The increase in air visitors was led by increases from the New Zealand, Australia, Europe, Other Pacific Countries and N. America market, despite slight declines from New Caledonia and Japan. The increased portion was contributed by increased holiday and conference/meeting visitors. Overall, for the accumulated period January-October, air visitor

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Dec-12	91.73	95.10	75.18	121.19
1 month ago	91.66	95.65	75.45	118.95
%	0.1	-0.6	-0.4	1.9
3 months ago	91.56	95.61	76.13	118.26
%	0.2	0.5	1.2	2.5
12 months ago	93.56	94.91	72.17	121.29
%	-2.0	0.7	4.2	-0.1

Note: [-] appreciation of vatu

arrivals rose 16 percent and cruise-ship visitor arrivals (day visitors) rose 41 percent over the year (with total visitor arrivals up by 31 percent to 274,166 visitors) (Source: Vanuatu National Statistics Office).

Monetary Developments

Total money supply (M2) fell by 1.8 percent during November thus triggered the annual growth rate to slow from 5.1 percent in October to 1.1 percent over the year to November 2012. The changes in M2 reflected a decline of 2.2 percent in **Net Foreign Assets (NFA)** which outweighed the increase of 1.3 percent in **Domestic Credit**.

The fall in the banking systems **NFA** reflected declines of 0.5 percent and 6.7 percent in the monetary authorities and commercial banks holdings of NFA, respectively. Monetary authorities recorded net outflows of foreign exchange during the month however the level remained up over the year to November 2012. Likewise, commercial banks foreign liabilities increased more than their foreign assets hence contributed to decline in their NFA during the month and over the year ago, respectively.

Private sector credit picked up growth from 0.3 percent in October 2012 to 1.9 percent in November 2012, bringing the year-on-year growth rate to 7.4 percent from 6.5 percent in October. This growth reflected a pickup in economic activities as both loans to business and non business sector rose by 4.0 percent over the month. Likewise over the year, loans to both sectors recorded increases of 5.1 percent and 7.8 percent, respectively.

Net claims on Government by the banking system increased by 15.6 percent during the month. This resulted largely from deterioration in the governments' net credit position with the Reserve Bank during the month and over the year respectively. In contrast, its net credit position with commercial banks improved over the month and from a year ago. Despite its deteriorating position during the month, the governments' net credit position over a year ago improved. Part of this reflects increased claims by Other Non-financial Institutions not captured by the monetary survey.

Open Market Operations

The Bank conducted two Open Market Operations in December 2012 where it issued VT452 million compared to VT 956 million over the previous month. The total tender for those two issues were over-subscribed by VT958 million. The over subscription reflects the high level of liquidity in the system. Total maturity for the month was VT813 million leaving outstanding notes at VT1.01 billion at the end of December. The inter-bank rate remained at 5.5 percent.

Chart 1: Money Supply
(Percentage Change; Year-on-Year Growth)

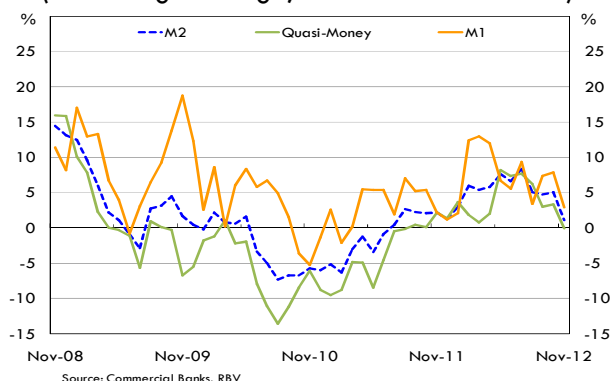


Chart 2: Net Claims on Government
(Levels; VT millions)

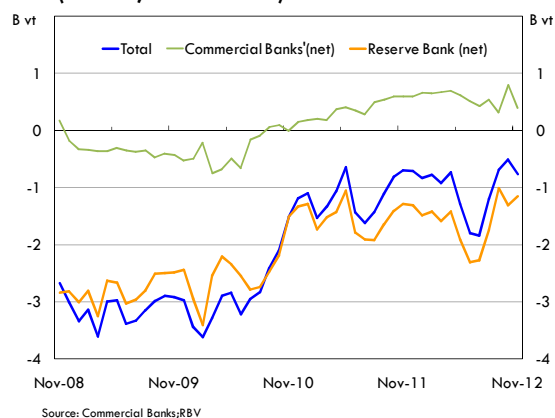


Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

Term	Amount Allotted	Yield End December 2012	Yield End November 2012
7 days	96	0.40	0.40
14 days	96	0.40	0.40
28 days	96	0.40	0.40
63 days	96	0.59	0.59
91 days	68	0.89	0.89

TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Nov-11	Aug-12	Oct-12	Nov-12	%Change		
					1 Month	3 months	12months
Foreign Assets	16323.9	17451.3	17025.3	16930.1	-0.6	-3.0	3.7
Foreign Exchange 1/	15742.0	16888.1	16462.6	16365.0	-0.6	-3.1	4.0
Reserve Position with IMF	364.1	353.2	353.4	350.7	-0.8	-0.7	-3.7
SDR Holdings	217.8	210.0	209.3	214.4	2.4	2.1	-1.6
Claims on Government	1518.5	1518.4	1518.3	1518.3	0.0	0.0	0.0
Advances to statutory Bodies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advances to commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	2082.6	1874.4	1994.3	1848.7	-7.3	-1.4	-11.2
Total Assets	19925.0	20844.1	20537.9	20297.1	-1.2	-2.6	1.9
Reserve Money	11567.4	13071.1	13058.1	12891.2	-1.3	-1.4	11.4
Currency outside Banks mVT	4660.7	4821.5	4768.0	4944.4	3.7	2.6	6.1
Commercial Banks Cash mVT	1296.3	1425.8	1726.1	1549.7	-10.2	8.7	19.5
Commercial Banks Deposit with RBV mVT	5610.4	6823.8	6564.0	6397.1	-2.5	-6.3	14.0
Foreign Liabilities 2/	2509.3	2439.5	2440.6	2423.0	-0.7	-0.7	-3.4
Government Deposits, of which	2809.9	3257.8	2822.3	2677.0	-5.2	-17.8	-4.7
Government contribution to RTP	364.1	353.2	353.4	350.7	-0.8	-0.7	-3.7
RBV Notes	2057.8	1084.2	1217.0	1220.0	0.2	12.5	-40.7
Other Liabilities	980.6	991.6	999.8	1085.9	8.6	9.5	10.7
TOTAL Liabilities	19925.0	20844.1	20537.9	20297.1	-1.2	-2.6	1.9

1/ Reserve Bank's foreign currency accounts with residents' commercial banks are included in foreign exchange holdings of the Bank.

2/ Including deposits by the Asian Development Bank and the Commission of the European Communities (CEC)

3/ Currency Outside Banks was revised to comply with the Monetary and Financial Statistics Manual

TABLE A2 : CONDENSED BALANCE SHEET OF COMMERCIAL BANKS IN VANUATU

END OF PERIOD	Nov-11	Aug-12	Oct-12	Nov-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1296.3	1425.8	1726.1	1549.7	-10.2	8.7	19.5
Deposits with RBV	5610.4	6823.8	6564.0	6397.1	-2.5	-6.3	14.0
RBV Notes	2057.8	1084.2	1217.0	1220.0	0.2	12.5	-40.7
Foreign Assets, of which	17561.5	14765.8	13863.9	14027.1	1.2	-5.0	-20.1
Claims on non-residents' banks	2575.2	1800.8	1737.0	1755.1	1.0	-2.5	-31.8
Claims on Private sector	47453.5	50910.1	50041.9	50974.9	1.9	0.1	7.4
Claims on Government	1086.3	1085.0	985.0	985.0	0.0	-9.2	-9.3
Other claims 1/	157.1	582.1	534.6	498.6	-6.7	-14.3	217.4
Other Assets	3586.0	3190.2	4418.6	3222.5	-27.1	1.0	-10.1
TOTAL ASSETS	78808.8	79867.0	79351.1	78874.7	-0.6	-1.2	0.1
Demand Deposits, of which	17619.1	18412.1	18972.4	17990.7	-5.2	-2.3	2.1
Foreignz currency	7859.1	8492.6	8612.1	8206.0	-4.7	-3.4	4.4
Savings deposits, of which	6409.3	6614.4	6890.7	6725.2	-2.4	1.7	4.9
Foreignz currency	1055.2	545.8	695.5	480.9	-30.9	-11.9	-54.4
Time deposits, of which	29062.1	28907.9	28835.8	28720.8	-0.4	-0.6	-1.2
Foreign Currency	9004.0	9172.8	9472.4	9179.0	-3.1	0.1	1.9
Foreign Liabilities, of which	10496.3	8878.7	8233.1	8773.2	6.6	-1.2	-16.4
Non residents Banks	1833.2	1597.4	3604.0	1745.2	-51.6	9.3	-4.8
Government Deposits	492.8	545.3	583.3	587.8	0.8	7.8	19.3
Credit from RBV	0.3	0.2	0.2	0.1	-49.3	-56.2	-66.2
Other Liabilities, including shareholders' funds	14728.9	16508.4	15835.5	16077.0	1.5	-2.6	9.2
TOTAL LIABILITIES	78808.8	79867.0	79351.1	78874.7	-0.6	-1.2	0.1

1/ Includes: Claims on other Financial Institutions and Interbank Claims, Claims on Municipalities and Claims on Public Enterprises

TABLE A3 : MONETARY SURVEY: A CONSOLIDATED STATEMENTS OF ACCOUNTS OF THE MONETARY INSTITUTIONS

END OF PERIOD	Nov-11	Aug-12	Oct-12	Nov-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	20,879.8	20,899.0	20,215.5	19,760.9	-2.2	-5.4	-5.4
Monetary Authorities (Net)	13,814.6	15,011.8	14,584.7	14,507.0	-0.5	-3.4	5.0
Commercial Banks (Net)	7,065.2	5,887.2	5,630.8	5,253.9	-6.7	-10.8	-25.6
2. Net Domestic Assets	36,871.5	37,856.9	39,251.5	38,620.2	-1.6	2.0	4.7
(a) Domestic Credit	46,969.9	50,296.2	49,700.5	50,732.0	2.1	0.9	8.0
(i) Net claims on government	(697.9)	(1,199.6)	(902.3)	(761.5)	15.6	36.5	-9.1
Monetary Authorities	(1,291.4)	(1,739.3)	(1,304.0)	(1,158.7)	11.1	33.4	10.3
Commercial Banks	593.5	539.7	401.7	397.2	-1.1	-26.4	-33.1
(ii) Claims on Non financial Public enterprises (NFPE) (1)	92.0	460.1	439.8	396.5	-9.8	-13.8	331.0
(iii) Claims on Private Sector (2)	47,557.4	51,006.4	50,134.2	51,067.6	1.9	0.1	7.4
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	18.4	29.4	28.9	29.5	2.0	0.2	60.1
(b) Other items (net)	(10,098.4)	(12,439.4)	(10,449.0)	(12,111.9)	15.9	-2.6	19.9
3. Total Assets= Total Money Supply (M2)	57,751.2	58,755.8	59,467.0	58,381.1	-1.8	-0.6	1.1
(a) Money (M1)	22,279.8	23,233.6	23,740.5	22,935.1	-3.4	-1.3	2.9
(i) Currency outside Banks	4,660.7	4,821.5	4,768.0	4,944.4	3.7	2.6	6.1
(ii) Demand deposits	17,619.1	18,412.1	18,972.4	17,990.7	-5.2	-2.3	2.1
(b) Quasi-money	35,471.4	35,522.3	35,726.5	35,446.0	-0.8	-0.2	-0.1
(i) Saving Deposits	6,409.3	6,614.4	6,890.7	6,725.2	-2.4	1.7	4.9
(ii) Time Deposits	29,062.1	28,907.9	28,835.8	28,720.8	-0.4	-0.6	-1.2

1) revised on December 2011 due to misclassification

Nb: Figures highlighted have been revised.

2) Include RBV staff loans excluding credit corp

3) figures highlighted need to be revised

Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)			% Change	
	Nov-11	Oct-12	Nov-12	1 Month	12 Months
Agriculture	663.2	863.1	906.9	5.1	36.7
Fisheries	45.6	32.7	32.2	-1.6	-29.4
Mining & Quarring	144.2	191.2	192.2	0.5	33.3
Manufacturing	1795.3	1654.0	1649.4	-0.3	-8.1
Distribution	3225.2	5008.2	5063.7	1.1	57.0
Tourism	3928.5	4055.0	4108.4	1.3	4.6
Entertainment & Catering	324.4	363.2	356.5	-1.9	9.9
Transport	1487.3	1492.7	1329.0	-11.0	-10.6
Public Utilities	50.3	87.7	86.7	-1.2	72.5
Construction	7332.5	5695.4	5842.1	2.6	-20.3
a) Central Government	17.6	24.8	25.4	2.4	44.5
b) Public Corporation	24.6	148.2	109.7	-26.0	346.6
Financial Institutions	600.2	157.5	161.4	2.5	-73.1
Professional & Other Services	2373.1	5974.2	6244.9	4.5	163.2
Housing & Land Purchases	15398.6	12232.3	12397.2	1.3	-19.5
Other Personal	7964.8	11807.0	12040.2	2.0	51.2
Miscellaneous	1745.4	723.2	855.0	18.2	-51.0
TOTAL	47,120.8	50,510.5	51,400.9	1.8	9.1
Of which : Vatu	36840.6	39066.8	39744.0	1.7	7.9

Nb: The figures highlighted have been revised.