



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: February 2012

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Exchange Rate and International Developments

Headline economic indicators published over the month of February showed improving prospects for some countries, despite uncertainty over the sustainability of such changes in the face of the eurozone slowdown.

During February data suggested unemployment in New Zealand and Australia had fallen more than expected to 6.3 percent (December 2011 quarter) and 5.1 percent (January 2012) respectively. Unemployment in the US also improved, continuing on its downward trend to 8.3 percent, its lowest level in three years. These results, combined with the subdued inflation figures, suggest that talks of further monetary easing may be put on hold in these countries, unless there is an apparent worsening in conditions. This was reflected in the Reserve Bank of Australia's decision to maintain rates at 4.25 percent during the month.

In sharp contrast, in the eurozone, it became apparent that the problems in the financial sector were feeding through into real sector statistics with the evidence that the region had contracted 0.3 percent during the last quarter of 2011. This was the first contraction since 2009 at the height of the financial crisis. Inflation showed only a small decrease over the month from 2.7 percent in December 2011 to 2.6 percent in January despite the significant slowdown in GDP growth. This in part reflects the depreciation of the euro putting significant upward pressure on energy prices and the inflation rate. During the month the ECB decided to hold its key policy rate at 1.0 percent given the previous liquidity injections by the bank seen in December 2011 and planned for early March 2012.

During the month, the vatu appreciated against the US dollar (USD), but depreciated against the euro (EUR), New Zealand dollar (NZD) and Australian dollar (AUD).

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Feb-12	89.75	96.73	75.21	120.88
1 month ago	90.99	96.43	74.50	119.44
%▲	-1.4	0.3	1.0	1.2
3 months ago	93.77	94.05	71.48	124.99
%▲	-4.3	2.8	5.2	-3.3
12 months ago	93.09	94.49	69.80	128.07
%▲	-3.6	2.4	7.8	-5.6

Note: (-) appreciation of vatu

Real Sector Developments

Tourism arrivals for the month of December 2011 continued to remain weak over the same period of last year with total non-resident visitor arrival into the country down by 11 percent to 21,242 visitors (despite an improvement from the previous month). Both air and cruise visitors fell over the period by 8 percent and 13 percent, respectively. The decline in visitor arrivals by air was driven by the Australian market declines followed by Other Pacific countries and N. America, in particularly those on holiday and meeting/ conference however there were more visitors from New Caledonia and New Zealand. Total non-resident visitor arrivals for the year to December 2011 showed a 5 percent increase to 248,762 visitors with cruise visitors up by 10 percent despite a fall in air visitors by 3 percent.

Headline inflation as measured by the Consumer Price Index for the year-ended December Quarter 2011 rose moderately to 1.2 percent from a 1.0 percent recorded in the previous quarter. This is represented by an increase of 1.4 percent for Port Vila and 0.4 percent for Luganville. The increase in the quarter (0.4 percent) was mainly a result of increased prices for household supplies and transport mainly influenced by higher prices for furniture and fuel, despite fallen price for clothing and footwear, food, health, alcoholic drinks and housing utilities. The underlying inflation rate remained at 1.9 percent as in the previous quarter. Forecast for inflation in the upcoming quarters is expected to remain within the bound of RBV target inflation range of 0-4 percent.

Total exports for the year-ended period January – December rose 28 percent to VT6.0 billion while total imports were down by 1.0 percent valued at VT27.3 billion. Trade deficit improved (declined) 6.9 percent to VT21.2 billion supported by higher commodity prices in the first half of the year contributing to increased export earnings from major

domestic commodity export earners (from highest contributor: coconut oil, copra, kava, beef, fish exports, cocoa, alcoholic drinks and live fish exports) in the year while imports fell (mainly led by machines & transport, crude materials and chemical products). (Source: Vanuatu National Statistics Office)

Monetary Developments

In January, the NFA increased by 2.7 percent after its declining trend observed in previous months, while domestic assets also showed growth of 0.2 percent over January. However, changes to other items left net domestic assets negative, down 1.4 percent, and therefore growth in M2 flat over the month. The annual M2 growth rate for the year ending January 2012 remained positive at 3.0 percent.

This monthly increase in the NFA of the overall banking system stemmed from increases in both commercial banks' and the monetary authorities' NFA. A 5.4 percent increase in the commercial banks NFA was driven by 1.1 percent increase in foreign assets combined with a 1.7 percent decrease in its foreign liabilities. A similar picture was seen for monetary authorities in January. Private sector credit increased 0.5 percent bringing about a 9.7 percent increase over the year.

During the month loans to individuals and households increased by 1.0 percent, whilst loans to businesses decreased by 0.1 percent. Over the year to January 2012, both loans to business and loans to individuals and households recorded increases of 9.2 percent and 8.5 percent respectively.

Net claims on government by the banking system decreased over the month by VT116.0, while over the year net claims increased reflecting particularly large increases in claims by commercial banks of VT 398.3 million, with a corresponding decrease in deposits of VT 79.1 million.

Open Market Operations

The Bank conducted Four Open Market Operations in January 2012 where it issued VT2.15 billion compared to VT900 million over the previous month.

The total tender for those four issues were over-subscribed by VT1.6 billion. The over subscription reflects the high level of liquidity in the system during the month.

The inter-bank rate remained at 5.5 percent.

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

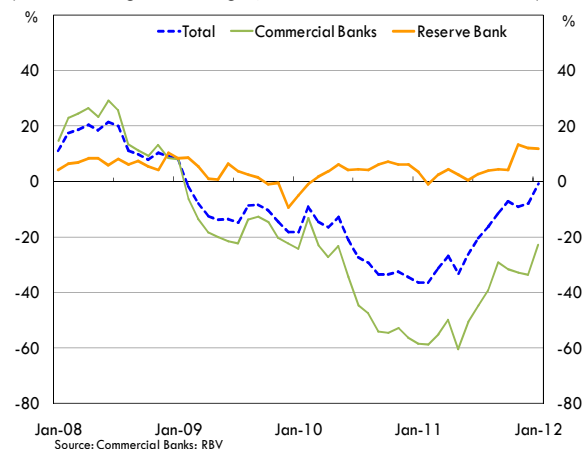


Chart 2: Net Claims on Government
(Percentage Change; Year-on-Year Growth)

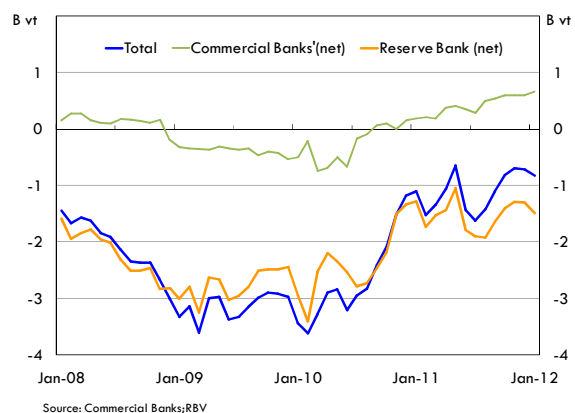


Table 2: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

Term	Amount Allotted	Yield End January 2012	Yield End December 2011
7 days	470	1.70	1.80
14 days	470	1.70	2.00
28 days	470	1.88	2.10
63 days	370	2.68	2.95
91 days	370	3.05	3.25

MONETARY AND FINANCIAL STATISTICS
TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Jan-11	Oct-11	Dec-11	Jan-12	%Change		
					1 Month	3 months	12months
Foreigz Assets	14868.4	16596.4	16258.7	16411.7	0.9	-1.1	10.4
Foreigz Exchange 1/	14285.7	16022.6	15686.9	15848.0	1.0	-1.1	10.9
Reserve Position with IMF	358.6	358.0	359.3	352.7	-1.8	-1.5	-1.6
SDR Holdings	224.0	215.8	212.4	211.0	-0.7	-2.2	-5.8
Claims on Government	1419.4	1517.6	1518.5	1518.5	0.0	0.1	7.0
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
O/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	2082.6	1967.3	2029.4	2027.5	-0.1	3.1	-2.6
Total Assets	18483.4	20081.4	19806.6	19957.7	0.8	-0.6	8.0
Reserve Money	10669.2	11596.7	11880.8	11221.9	-5.5	-3.2	5.2
Currency outside Banks 3/	4198.7	4538.3	4885.7	4485.2	-8.2	-1.2	6.8
Commercial Banks Cash	1083.5	1297.6	1686.4	1443.0	-14.4	11.2	33.2
Commercial Banks Deposit with RBV	5387.1	5760.9	5308.7	5293.6	-0.3	-8.1	-1.7
Foreigz Liabilities 2/	2709.1	2472.0	2477.4	2434.3	-1.7	-1.5	-10.1
Government Deposits, of which	2702.8	2925.7	2823.9	3007.1	6.5	2.8	11.3
Government contribution to RTP	358.6	358.0	359.3	352.7	-1.8	-1.5	-1.6
RBV Notes	1746.7	2032.6	1619.1	2218.3	37.0	9.1	27.0
Other Liabilities	655.5	1054.4	1145.4	1076.1	-6.0	2.1	64.2
TOTAL Liabilities	18483.4	20081.4	19806.6	19957.7	0.8	-0.6	8.0

1/ Reserve Bank's foreigz currency accounts with residents' commercial banks are included in foreigz 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	Jan-11	Oct-11	Dec-11	Jan-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1083.5	1297.6	1686.4	1443.0	-14.4	11.2	33.2
Deposits with RBV	5387.1	5760.9	5308.7	5293.6	-0.3	-8.1	-1.7
RBV Notes	1746.7	2032.6	1619.1	2218.3	37.0	9.1	27.0
Foreigz Assets, of which	20879.6	16837.8	16198.7	16376.0	1.1	-2.7	-21.6
Claims on non-residents' banks	2564.5	2486.4	2635.6	2662.1	1.0	7.1	3.8
Claims on Private sector	43840.4	46977.3	47856.3	48080.7	0.5	2.3	9.7
Claims on Government	786.3	1086.3	1186.7	1184.6	-0.2	9.1	50.7
Other claims 1/	236.7	92.0	443.8	506.2	14.0	449.9	113.9
Other Assets	3428.8	5217.7	5217.7	5217.7	0.0	0.0	52.2
TOTAL ASSETS	77389.1	77372.1	77455.3	78148.7	0.9	1.0	1.0
Demand Deposits, of which	17520.3	17475.6	17527.7	17688.6	0.9	1.2	1.0
Foreigz currency	8291.6	7764.4	7827.0	8055.0	2.9	3.7	-2.9
Savings deposits, of which	5527.7	5803.7	5737.4	5413.5	-5.6	-6.7	-2.1
Foreigz currency	400.2	452.1	376.8	350.8	-6.9	-22.4	-12.3
Time deposits, of which	28354.9	28776.5	29136.9	29701.3	1.9	3.2	4.7
Foreigz Currency	10031.8	8771.8	9180.4	9548.8	4.0	8.9	-4.8
Foreigz Liabilities, of which	12226.5	9904.4	9867.0	9701.0	-1.7	-2.1	-20.7
Non residents Banks	3254.1	2080.8	1646.5	1656.3	0.6	-20.4	-49.1
Government Deposits	603.8	493.6	593.9	524.7	-11.7	6.3	-13.1
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	13155.8	14918.0	14592.3	15119.6	3.6	1.4	14.9
TOTAL LIABILITIES	77389.1	77372.1	77455.3	78148.6	0.9	1.0	1.0

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

Nb: Figures highlighted have been revised

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

END OF PERIOD	Jan-11	Oct-11	Dec-11	Jan-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	20,812.3	21,057.9	20,112.9	20,652.4	2.7	-1.9	-0.8
Monetary Authorities (Net)	12,159.2	14,124.5	13,781.2	13,977.4	1.4	-1.0	15.0
Commercial Banks (Net)	8,653.0	6,933.5	6,331.7	6,675.1	5.4	-3.7	-22.9
2. Net Domestic Assets	34,789.3	35,536.1	37,174.7	36,636.2	-1.4	3.1	5.3
(a) Domestic Credit	42,945.1	46,359.2	47,694.6	47,860.9	0.3	3.2	11.4
(i) Net claims on government	(1,100.9)	(815.4)	(712.6)	(828.6)	-16.3	-1.6	24.7
Monetary Authorities	(1,283.4)	(1,408.0)	(1,305.4)	(1,488.6)	-14.0	-5.7	-16.0
Commercial Banks	182.5	592.7	592.8	660.0	-11.3	-11.4	-261.6
(ii) Claims on Non financial Public enterprises (NFPE)	98.7	87.0	410.2	470.6	14.7	440.8	377.0
(iii) Claims on Private Sector (1)	43,940.7	47,082.5	47,963.3	48,183.4	0.5	2.3	9.7
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	6,629.0	5.0	33.6	35,602.00	5.8	606.8	437.1
(b) Other items (net)	(8,155.8)	(10,823.1)	(10,519.8)	(11,224.7)	6.7	3.7	37.6
3. Total Assets= Total Money Supply (M2)	55,601.6	56,594.0	57,287.6	57,288.6	0.0	1.2	3.0
(a) Money (M1)	21,718.9	22,013.8	22,413.3	22,173.9	-1.1	0.7	2.1
(i) Currency outside Banks	4,198.7	4,538.3	4,885.7	4,485.2	-8.2	-1.2	6.8
(ii) Demand deposits	17,520.3	17,475.6	17,527.7	17,688.6	0.9	1.2	1.0
(b) Quasi-money	33,882.6	34,580.2	34,874.3	35,114.8	0.7	1.5	3.6
(i) Saving Deposits	5,527.7	5,803.7	5,737.4	5,413.5	-5.6	-6.7	-2.1
(ii) Time Deposits	28,354.9	28,776.5	29,136.9	29,701.3	1.9	3.2	4.7

1) Include RBV staff loans excluding credit corp

Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)				% change		
	Jan-11	Oct-11	Dec-11	Jan-12	1 Month	3 Months	12 Months
Agriculture	793.6	668.7	659.4	679.2	3.0	1.6	-14.4
Fisheries	62.4	46.7	39.1	38.6	-1.2	-17.2	-38.0
Mining & Quarring	124.4	142.0	146.1	148.1	1.3	4.3	19.1
Manufacturing	1726.8	1866.4	1832.8	1790.9	-2.3	-4.0	3.7
Distribution	3322.7	3327.3	3471.5	3296.9	-5.0	-0.9	-0.8
Tourism	3993.1	3818.9	4762.2	3963.0	-16.8	3.8	-0.8
Entertainment & Catering	157.1	326.3	322.9	325.8	0.9	-0.2	107.4
Transport	1599.7	1474.9	1406.1	1430.2	1.7	-3.0	-10.6
Public Utilities	37.0	50.5	50.1	49.6	-1.0	-1.8	34.0
Construction	7434.5	7345.5	7214.7	7386.9	2.4	0.6	-0.6
a) Central Government	24.4	21.8	29.8	31.2	4.7	43.1	28.0
b) Public Corporation	23.6	21.8	21.0	97.3	363.8	346.3	313.0
Financial Institutions	615.2	599.7	591.2	701.4	18.6	17.0	14.0
Professional & Other Services	2159.3	3070.9	3113.4	3157.9	1.4	2.8	46.2
Housing & Land Purchases	13723.1	15207.5	15829.0	15942.0	0.7	4.8	16.2
Other Personal	8042.7	7694.1	7892.7	8166.8	3.5	6.1	1.5
Miscellaneous	876.9	1614.7	1225.1	1772.7	44.7	9.8	102.2
TOTAL	44716.4	47297.6	48,607.2	48,978.5	0.8	3.6	9.5
of which Vatu:	36263.3	37231.8	38116.9	38094.4	-0.1	2.3	5.0

NB: Loans to Central Gvt does not include government Bonds