



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC NEWS

### SUMMARY

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Issue 164

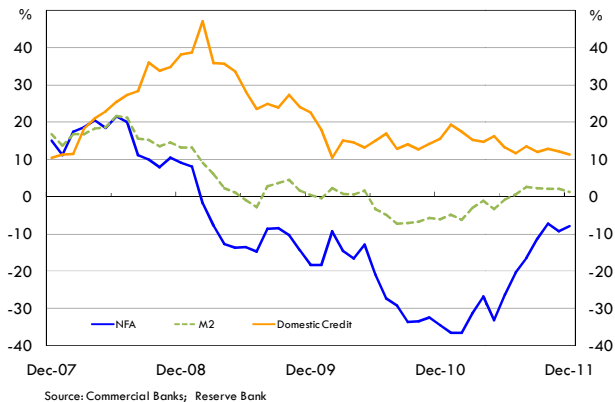
January 2012

### MONETARY SURVEY

Broad money supply (M2) decreased by 0.8 percent in December. The decrease stemmed from a 3.7 percent decrease in the banking system's net foreign assets (NFA), outweighing a 1.5 percent increase in domestic credit. The annual growth rate of M2 for the year ending December 2011 remained positive at 1.3 percent.

Chart 1 below shows that the annual growth rate of M2 was determined by the trends in NFA and domestic credit.

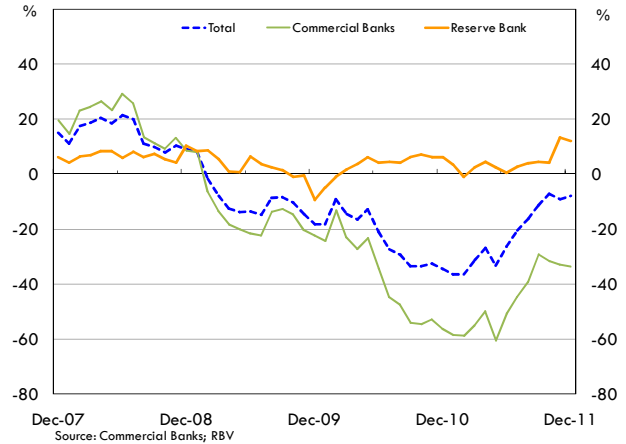
**Chart 1: Total Money Supply**  
(Percentage Change; Year-on-Year Growth)



### Determinants of Money Supply

In December the banking system's NFA decreased following a decrease in November. This resulted from both a 0.2 percent decrease in the NFA of the Reserve Bank and a 10.4 percent decrease in the NFA of the commercial Banks. The year-on-year growth rate of aggregate NFA remained negative at -8.1 percent.

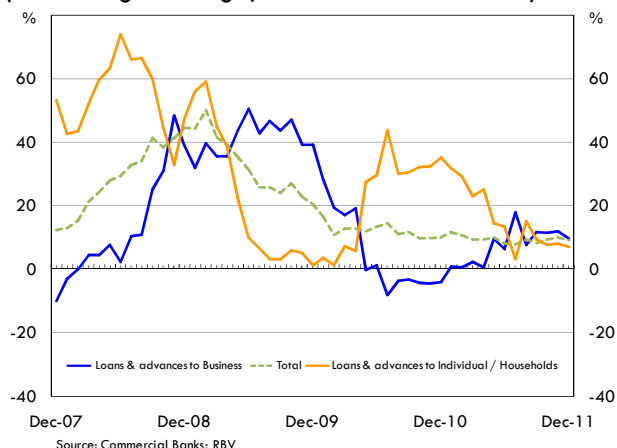
**Chart 2: Net Foreign Assets**  
(Percentage Change; Year-on-Year Growth)



The decrease in the commercial banks' NFA in December was driven by a 7.8 percent decrease in their foreign assets outweighing a 6.0 percent decrease in its foreign liabilities. Over the year to December 2011, commercial banks' NFA have fallen by 33.7 percent.

Domestic credit increased by 1.5 percent in December, following a 1.3 percent increase the previous month. Growth over the year to December 2011 remained positive at 11.2 percent. The increases in December were driven in the main by claims on the private sector, claims on Non Financial Public Enterprises (NFPE), whilst net claims on government fell by 2.1 percent.

**Chart 3: Private Sector Credit**  
(Percentage Change; Year-on-Year Growth)



**Table 1: Commercial Banks Sector Distribution of Loans and Advances**

Table 1: Commercial Banks Sectoral Distribution of Loans and Advances			
SECTOR	(Millions of Vatu)		
	Dec-10	Nov-11	Dec-11
Agriculture	806.9	668.7	663.2
Fisheries	57.4	46.7	45.6
Mining & Quarring	120.5	142.0	144.2
Manufacturing	1777.9	1866.4	1795.3
Distribution	3188.6	3327.3	3225.2
Tourism	3829.7	3818.9	3928.5
Entertainment & Catering	166.4	326.3	324.4
Transport	1607.2	1474.9	1487.3
Public Utilities	38.0	50.5	50.3
Construction	6923.1	7345.5	7332.5
a) Central Government	24.7	0.0	17.6
b) Public Corporation	18.1	21.8	21.3
Financial Institutions	534.9	599.7	600.2
Professional & Other Services	1891.6	3070.9	2373.1
Housing & Land Purchases	13165.2	15207.5	15398.6
Other Personal	7727.3	7694.1	7964.8
Miscellaneous	2177.9	1.636.5	1748.7
<b>TOTAL</b>	<b>44043.3</b>	<b>47,297.6</b>	<b>47,120.8</b>
of which Vatu:	35761.1	37231.8	36840.6

NB: Loans to Central Govt does not include government Bonds

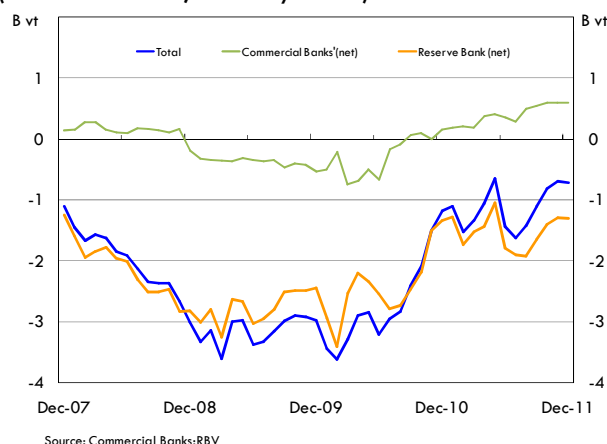
During the month, loans to individuals & households increased by 1.1 percent, whilst loans to businesses increased by 0.5 percent. Over the year to December, both loans to businesses and loans to individual & households recorded increases of 9.5 percent and 7.0 percent respectively.

The banking system's net claims on the Government decreased in December. The Reserve Bank's net claims on the Government decreased by VT14.0 million over the month, resulting from a 0.5 percent increase in Government deposits, claims on government remained flat over the month. On a year-on-year basis, the Reserve Bank's net claims on the Government showed an increase of VT31.6 million.

The commercial banks' net claims on the Government saw only a small decrease, reflecting

a 20.5 percent increase in government deposit which outweighed by a 9.2 percent increase in the claims on government. Over the year to December, the aggregate banking system's net claims on the Government increased by VT470.4 million (Chart 4).

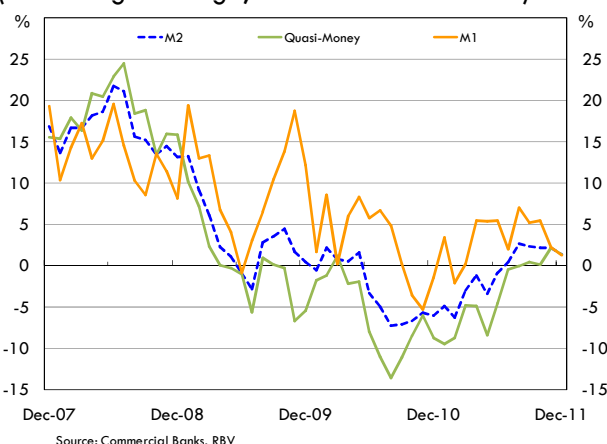
**Chart 4: Net Claims on Government**  
(Billions of Vatu; Monthly Data)



**Measures of Money Supply**

The monthly decrease of M2 stemmed from a 1.7 percent decrease in quasi-money which outweighed a 0.6 percent increase in narrow money (M1). Over the year ending December 2011, the increase in M2 was driven by 1.2 percent and 1.4 percent increases in narrow money and quasi-money respectively (Chart 5).

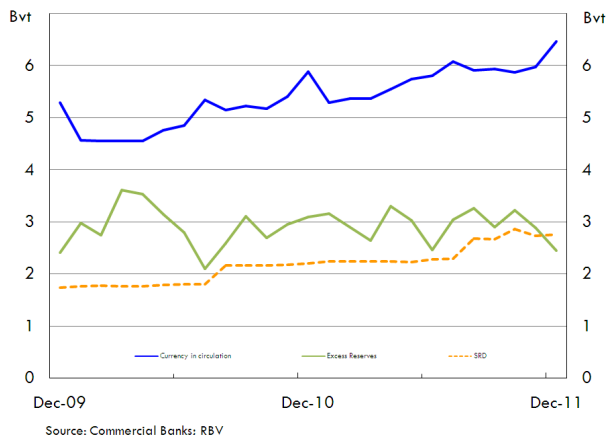
**Chart 5: Measures of Money**  
(Percentage Change; Year-on-Year Growth)



**Reserve Money**

Reserve money<sup>1</sup> increased by 0.7 percent and 4.5 percent over the month and over the year, respectively. This monthly increase was due to an increase of 0.9 percent in SRD which outweighed a 15.0 percent decrease in excess reserves. Over the month, currency in circulation increased by 8.3 percent.

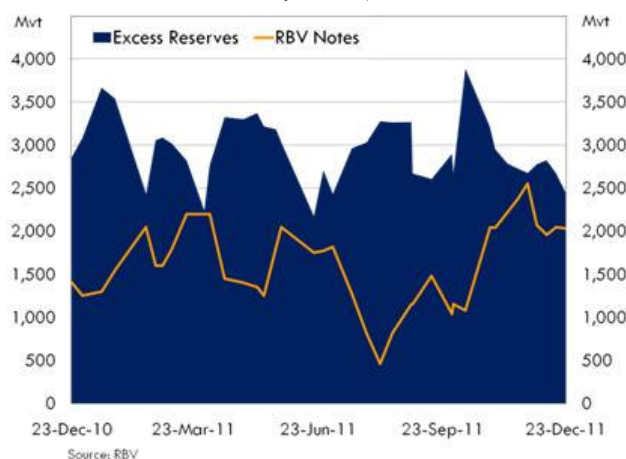
**Chart 6: Components of Reserve Money (Billions of Vatu)**



**Open Market Operations (OMO) – Dec 2011**

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

**Chart 7: Commercial Banks Liquidity (Millions of Vatu; Weekly Data)**



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.

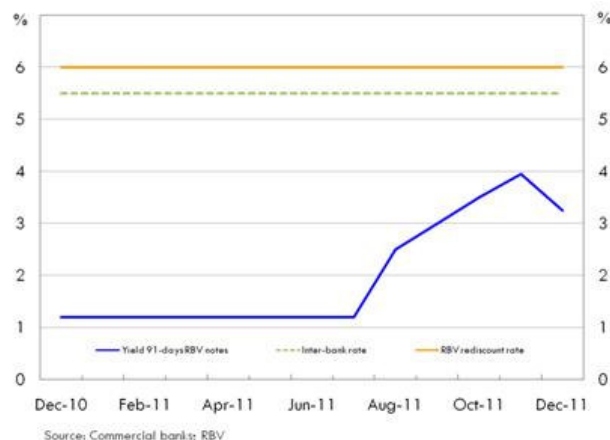
**Table 2: Amount Allotted (Millions of Vatu)**

Term	Amount Allotted
7 days	470
14 days	470
28 days	470
63 days	370
91 days	370

**Table 3: Yields on RBV Notes (Percent)**

Term	End Jan. 2012	End Dec. 2011
7 days	1.70	1.80
14 days	1.70	2.00
28 days	1.88	2.10
63 days	2.68	2.95
91 days	3.05	3.25

**Chart 8: Short-term Interest rates (Percent)**



The inter-bank rate remained at 5.5 percent.

**Interest Rates**

**Table 4: Interest Rates (Percent)**

Deposit Interest Rates				
	Savings	1 -Mnth	2-6 Mnths	Above 6 Mnths
Dec-10	0.5-5.00	1.50-6.00	1.50-6.50	2.50-9.00
Nov-11	0.5-5.00	1.50-7.50	1.50-7.30	2.50-8.18
Dec-11	0.5-5.00	1.50-7.50	1.50-7.30	2.50-8.18
Lending Rates				
	Commercial	Personal	Housing	Agriculture
Dec-10	8.95-23.0	5.5-26.5	8.9-13.0	9.99-19.5
Nov-11	8.50-23.0	5.5-26.5	8.45-13.0	9.99-19.5
Dec-11	8.50-23.0	5.5-26.5	8.45-13.0	9.99-19.5

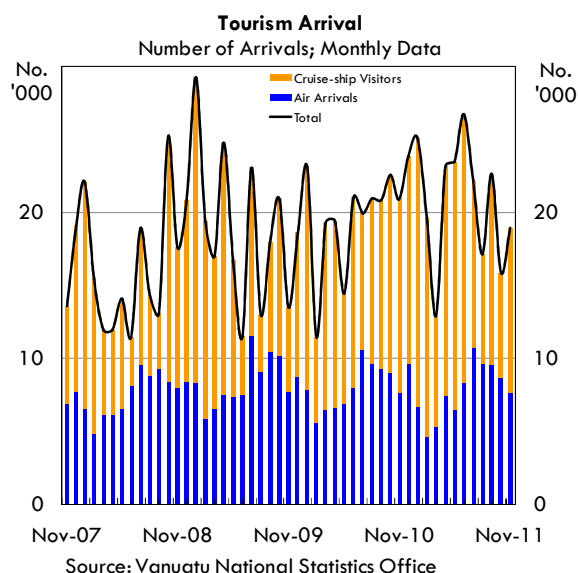
<sup>1</sup> Reserve money comprises currency in circulation, Statutory Reserve Deposits (SRD) and Excess Reserves.

## November 2011 Monthly Tourism & September Quarter Inflation Rate Update

Tourism arrivals in November 2011 slowed down as total non-resident visitors arrival into the country fell 9 percent over the same month of the previous year to 18,923 visitors (despite an improvement from the previous month). The drop was due to a 15 percent decline in cruise-ship (day) visitors as a result of fewer P&O scheduled cruise visits in the month (mostly originated from Australian ports). Air visitor arrivals rose 1 percent compared to a year ago, mainly visitors visiting friends and arriving for meetings from major markets of New Zealand, Other Pacific Countries and Europe, despite declines from major markets of Australia (accounts for 62 percent of total visitor arrivals), New Caledonia and N. America who are mainly holiday visitors. In the eleven months ending November, total non-resident visitors arrival rose 6 percent over the previous year to 227,520 visitors led by stronger increases in cruise-ship visitors though visitors by air was down by 3 percent.

Annual Inflation rate for the September Quarter 2011 increased moderately to 1.0 percent from a 0.6 percent recorded in the previous quarter. The increase in the quarter (0.5 percent) was mainly a result of increased food, recreation, drinks & tobacco, education and clothing & footwear costs mainly as a result of increased prices for audio/visual media and imported beer and tobacco. Declines were shown for transport, household supplies and miscellaneous group categories mainly due to price reduction in repair and servicing of motor vehicle, air fare for international flights, hairdressing and toiletries and other household supplies. (Source: Vanuatu National Statistics Office)

**Table 9: Tourism Arrivals**



## Exchange Rate Developments

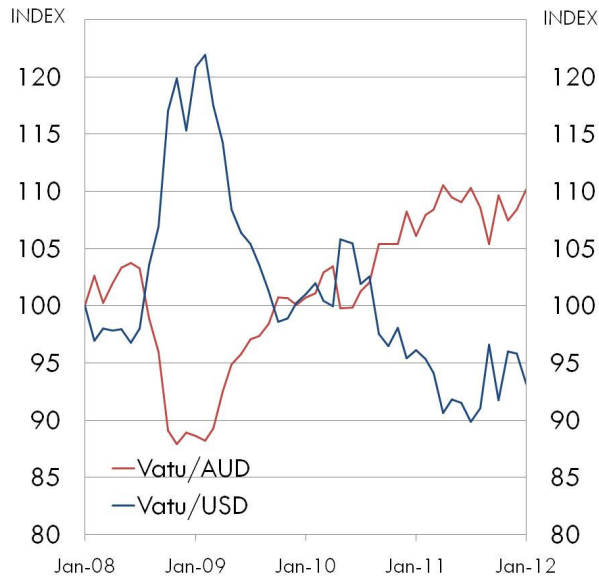
The exchange rate developments of the vatu vis-à-vis its major trading currencies for the month of January are shown in the following table and charts.

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Jan-12	90.99	96.43	74.50	119.44
1 month ago	93.56	94.91	72.17	121.29
%▲	-2.7	1.6	3.2	-1.5
3 months ago	89.60	96.00	73.51	126.80
%▲	1.6	0.4	1.3	-5.8
12 months ago	93.88	92.89	72.30	127.69
%▲	-3.1	3.8	3.0	-6.5

Note: (-) appreciation of vatu

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

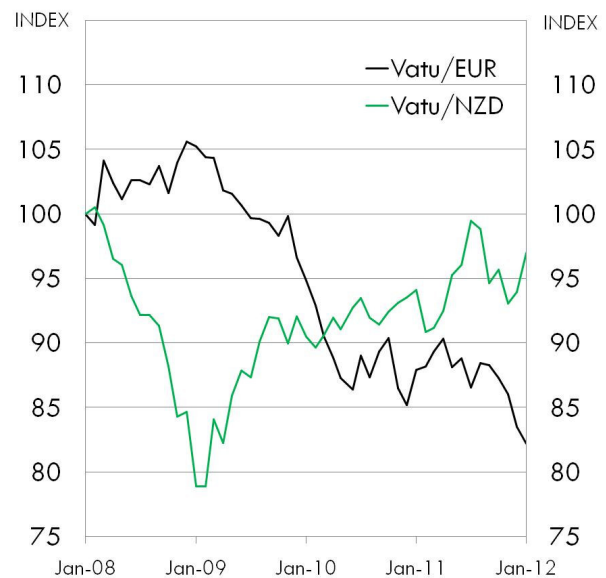
**Figure 10: Exchange Rate against USD and AUD**  
(Indices; January 2008=100)<sup>2</sup>



During January, the Federal Reserve announced that it now expects its loose monetary stance to be maintained until late-2014 in comparison to mid-2013 previously forecast. This weighed on the dollar as expectations adapted to a longer period of loose monetary policy. Despite improving labour market conditions with unemployment and inflation falling, property market performance and business fixed investment growth remained weak, while the slowdown in the world economy continued to leave uncertainty over the US recovery.

Australia, posted relatively strong growth figures in the last few months of 2011, however in December it became apparent that unemployment remained relatively high. Data published this month also showed that inflation over the last three months of the year was flat, providing room for future monetary policy stimulus. It is thought that strong figures from the US over the month -suggesting economic growth might be picking up- may have helped encourage demand for high-yielding assets such as the Australian Dollar leading to the strengthening over the month.

**Figure 11: Exchange Rate against NZD and EUR**  
(Indices; January 2008=100)



The Reserve Bank of New Zealand again decided to maintain its loose monetary policy stance at its January meeting in the face of global uncertainty and the slowdown of key trading partners. Data published in January suggests inflation is slower, but as with the Australian Dollar, some strong figures from the US are likely to have encouraged movement back into higher yielding assets, helping to strengthen the value of the New Zealand Dollar.

A series of poor economic data releases and continued uncertainty, combined with interventions by the ECB to ease liquidity problems weighed on the Euro in January. At the end of the month, data from the Eurozone showed that unemployment had reached historic levels, while the rate of inflation, as expected, had begun to fall. Concerns grew over liquidity in the region as a series of downgrades by rating agencies highlighted the continued sovereign debt troubles, and commercial banks showed their unwillingness to lend in the face of such risk.

<sup>2</sup> An increase in the index represents a depreciation of the vatu.

**TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU**

End of Period	Dec-10	Sep-11	Nov-11	Dec-11	%Change		
					1 Month	3 months	12 months
Foreign Assets	15035.1	15619.8	16323.9	16258.7	-0.4	4.1	8.1
Foreign Exchange 1/	14452.5	15027.4	15742.0	15686.9	-0.3	4.4	8.5
Reserve Position with IMF	358.6	369.6	364.1	359.3	-1.3	-2.8	0.2
SDR Holdings	224.0	222.8	217.8	212.4	-2.5	-4.7	-5.2
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	2109.7	1946.1	2082.6	2029.4	-2.6	4.3	-3.8
<b>Total Assets</b>	<b>18564.2</b>	<b>19083.6</b>	<b>19925.0</b>	<b>19806.6</b>	-0.6	3.8	6.7
Reserve Money	11156.7	11485.2	11567.4	11880.8	2.7	3.4	6.5
Currency outside Banks 3/	4553.3	4693.8	4660.7	4885.7	4.8	4.1	7.3
Commercial Banks Cash	1320.0	1230.6	1296.3	1686.4	30.1	37.0	27.8
Commercial Banks Deposit with RBV	5283.5	5560.9	5610.4	5308.7	-5.4	-4.5	0.5
Foreign Liabilities 2/	2714.1	2547.7	2509.3	2477.4	-1.3	-2.8	-8.7
Government Deposits, of which	2756.4	3164.1	2809.9	2823.9	0.5	-10.8	2.4
Government contribution to RTP	358.6	369.6	364.1	359.3	-1.3	-2.8	0.2
RBV Notes	1196.5	1036.1	2057.8	1619.1	-21.3	56.3	35.3
Other Liabilities	638.4	850.5	980.6	1145.4	16.8	34.7	79.4
<b>TOTAL Liabilities</b>	<b>18564.2</b>	<b>19083.6</b>	<b>19925.0</b>	<b>19806.6</b>	-0.6	3.8	6.7

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	Dec-10	Sep-11	Nov-11	Dec-11	%Change		
					1 Month	3 months	12 Months
Domestic currency	1320.0	1230.6	1296.3	1686.4	30.1	37.0	27.8
Deposits with RBV	5283.5	5560.9	5610.4	5308.7	-5.4	-4.5	0.5
RBV Notes	1196.5	1036.1	2057.8	1619.1	-21.3	56.3	35.3
Foreign Assets, of which	21780.6	18024.3	17561.5	16198.7	-7.8	-10.1	-25.6
Claims on non-residents' banks	2520.5	2579.2	2575.2	2635.6	2.3	2.2	4.6
Claims on Private sector	43857.3	46809.3	47453.5	47856.3	0.8	2.2	9.1
Claims on Government	786.3	1086.3	1086.3	1186.7	9.2	9.2	50.9
Other claims 1/	172.5	198.6	110.4	443.8	302.1	123.4	157.3
Other Assets	3281.3	5217.7	5217.7	5217.7	0.0	0.0	59.0
<b>TOTAL ASSETS</b>	<b>77677.9</b>	<b>79163.9</b>	<b>78808.8</b>	<b>77455.3</b>	-1.7	-2.2	-0.3
Demand Deposits, of which	17591.8	17623.4	17619.1	17527.7	-0.5	-0.5	-0.4
Foreign currency	8097.5	8552.0	7859.1	7827.0	-0.4	-8.5	-3.3
Savings deposits, of which	5536.5	5816.1	6409.3	5737.4	-10.5	-1.4	3.6
Foreign currency	390.4	438.1	1055.2	376.8	-64.3	-14.0	-3.5
Time deposits, of which	28870.4	28535.7	29062.1	29136.9	0.3	2.1	0.9
Foreign Currency	10854.1	8516.0	9004.0	9180.4	2.0	7.8	-15.4
Foreign Liabilities, of which	12226.1	10550.6	10496.3	9867.0	-6.0	-6.5	-19.3
Non residents Banks	3229.9	1800.6	1833.2	1646.5	-10.2	-8.6	-49.0
Government Deposits	632.2	547.4	492.8	593.9	20.5	8.5	-6.1
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' fund	12820.8	16090.3	14728.9	14592.3	-0.9	-9.3	13.8
<b>TOTAL LIABILITIES</b>	<b>77677.9</b>	<b>79163.9</b>	<b>78808.8</b>	<b>77455.3</b>	-1.7	-2.2	-0.3

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	Dec-10	Sep-11	Nov-11	Dec-11	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	21,875.5	20,545.8	20,879.8	20,112.9	-3.7	-2.1	-8.1
Monetary Authorities (Net)	12,321.1	13,072.1	13,814.6	13,781.2	-0.2	5.4	11.9
Commercial Banks (Net)	9,554.4	7,473.7	7,065.2	6,331.7	-10.4	-15.3	-33.7
2. Net Domestic Assets	34,676.5	36,123.3	36,871.5	37,174.7	0.8	2.9	7.2
(a) Domestic Credit	42,885.3	45,902.8	46,969.9	47,694.6	1.5	3.9	11.2
(i) Net claims on government	(1,183.0)	(1,107.5)	(697.9)	(712.6)	-2.1	35.7	39.8
Monetary Authorities	(1,337.0)	(1,646.5)	(1,291.4)	(1,305.4)	-1.1	20.7	2.4
Commercial Banks	154.1	538.9	593.5	592.8	-0.1	10.0	284.8
(ii) Claims on Non financial Public enterprises (NFPE)	95.3	88.3	92.0	410.2	345.9	364.6	330.4
(iii) Claims on Private Sector (1)	43,957.1	46,912.1	47,557.4	47,963.3	0.9	2.2	9.1
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	15.8	9.9	18.4	33.6	82.9	239.1	112.7
(b) Other items (net)	(8,208.8)	(9,779.6)	(10,098.4)	(10,519.8)	4.2	7.6	28.2
3. Total Assets= Total Money Supply (M2)	<b>56,551.9</b>	<b>56,669.0</b>	<b>57,751.2</b>	<b>57,287.6</b>	-0.8	1.1	1.3
(a) Money (M1)	22,145.1	22,317.2	22,279.8	22,413.3	0.6	0.4	1.2
(i) Currency outside Banks	4,553.3	4,693.8	4,660.7	4,885.7	4.8	4.1	7.3
(ii) Demand deposits	17,591.8	17,623.4	17,619.1	17,527.7	-0.5	-0.5	-0.4
(b) Quasi-money	34,406.9	34,351.9	35,471.4	34,874.3	-1.7	1.5	1.4
(i) Saving Deposits	5,536.5	5,816.1	6,409.3	5,737.4	-10.5	-1.4	3.6
(ii) Time Deposits	28,870.4	28,535.7	29,062.1	29,136.9	0.3	2.1	0.9

1) Include RBV staff loans excluding credit corp

TABLE A4 : MONTHLY CHANGES IN TOTAL MONEY SUPPLY

END OF PERIOD	Dec-10	Sep-11	Nov-11	Dec-11
1. Net Foreign Assets	(1,133.6)	779.3	(178.2)	(766.8)
Monetary authorities	(150.5)	78.8	(309.9)	(33.4)
Commercial Banks	(983.1)	700.5	131.7	(733.5)
			0.0	
2. Domestic Money creation	1,164.8	937.3	1,335.3	303.3
(a) Domestic credit	999.8	1,081.6	610.7	724.7
Net Claims on Government	325.8	517.5	117.4	(14.7)
Monetary Authorities (net)	167.8	258.3	116.6	(14.0)
Commercial Banks (net)	158.0	259.2	0.8	(0.6)
Claims on non financial public enterprises	(4.3)	(0.3)	5.0	318.2
Claims on Private sector	679.5	559.8	474.9	405.9
(b) Other Domestic factor	165.0	(144.3)	0.0	(421.4)
			13.4	
3. Money Supply creation (M4)	31.2	1,716.6	0.0	(463.6)
Money (M1)	349.6	768.7	724.6	133.5
Quasi-money	(318.4)	947.9	0.0	(597.1)

TABLE 6: ASSETS AND LIABILITIES OF THE VANUATU NATIONAL PROVIDENT FUND

(Millions of VT)

End of Period	Sep-10	Dec-11
Deposit with Banks	5372.5	13115.0
Cash		
Term Deposit	5372.5	13115.0
Deposit with Other Financial Institutions	160.0	162.0
Term Deposit	160.0	162.0
Foreign Assets	589.7	
Claims on Government	1400.0	1748.9
Market Bonds	1400.0	1748.9
Government Loans		
Claims on private sector	300.0	325.0
Members	300.0	325.0
Claims on public non financial enterprise	435.8	387.4
Equity Shares	2.1	454.4
Fixed Assets	2881.3	10380.9
Other assets	1240.2	6601.0
<b>TOTAL</b>	<b>12,381.8</b>	<b>33,174.6</b>
Accumulated Members Credit	11677.0	13368.7
o/w Members Contributions	320.974	276.4
General Reserve	707.64	12943.0
Accumulated Funds	10969.3	425.7
Other Liabilities	704.8	19,805.9
<b>TOTAL</b>	<b>12381.8</b>	<b>33174.6</b>