



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: July 2012

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Exchange Rate and International Developments

Indicators released over July continued to emphasise the slowing pace of the world economy in the face of the ongoing uncertainty in the Euro zone. Despite this, concerns over a Chinese 'hard landing' have somewhat eased owing to recent policy interventions, with room still for further stimulus to meet growth targets.

Despite particularly strong first quarter growth in Australia, intermediate indicators point to a movement back to trend over coming quarters. Australia's unemployment also increased slightly in June to 5.2 percent, remaining elevated by historical standards although low in comparison to most other larger economies. Inflation fell to 1.2 percent from 1.6 percent through the year to the March quarter 2012 in line with easing commodity prices. Meanwhile data published this month showed New Zealand's inflation rate also weakened, falling to 1.0 percent in June from 1.6 percent in the previous quarter.

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Jul-12	92.32	96.95	74.69	113.20
1 month ago	94.23	94.59	74.22	117.24
%▲	-2.0	2.5	0.6	-3.4
3 months ago	91.75	95.16	74.96	121.29
%▲	0.6	1.9	-0.4	-6.7
12 months ago	87.72	96.54	76.41	125.73
%▲	5.2	0.4	-2.3	-10.0

Note: (-) appreciation of vatu

Policy makers in the Euro zone continued to search for solution to sovereign debt challenges facing the region. Unemployment was stable at 11.2 percent in June, with highs of 24.8 percent recorded in Spain. The USA over July posted its second quarter growth figures which fell to an annualised 1.5 percent from a revised 2.0 percent in the previous quarter. The slowdown was largely attributed to a weakening in consumer spending. In June, following world trends, inflation remained at 1.7 percent.

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

Real Sector Developments

Total exports earnings (accumulated) for the year-ended period January – June 2012 declined 13 percent to VT2.6 billion while total imports declined 1.4 percent over the year to VT12.3 billion. As a result, compared to the same period of previous year, the trade deficit rose (deteriorate) 2.3 percent to VT9.7 billion. This was a result of declined export earnings (from major export commodities of coconut oil, beef, cocoa, sawn timber, kava and fish exports while copra and live fish exports improved in the period) and a slight decline in import expenditure throughout the period (in particularly food and live animals, chemical products, basic manufactured products and miscellaneous manufactured goods while beverages and tobacco, crude materials except fuels, mineral fuels, oils and machines & transport equipment rose over same period of last year).

Headline inflation as measured by the Consumer Price Index for the year-ended June Quarter 2012 fell to 1.5 percent (a drop from 2.1 percent recorded in the March quarter). This is represented by an increase of 1.5 percent for Port Vila and 1.3 percent for Luganville. Over the previous quarter, the All Group CPI rose by merely 0.1 percent. The main contributing causes for the increase in CPI over the year was due to higher price for miscellaneous, household supplies, transport, recreation, education, food, and drinks and tobacco due to increased prices in furniture and furnishings, motor vehicles parts and accessories and other recreation. The increase was off-set by decline in prices for clothing & footwear, housing and utilities, health and communication. The underlying inflation (annual) rate rose to 3.8 percent from 2.9 percent in the previous quarter. Forecast for inflation in the upcoming quarters is still expected to remain within the bound of RBV target range of 0-4 percent. (Source: Vanuatu National Statistics Office)

Monetary Developments

During the month M2 decreased slightly by 0.8 percent, and the annual M2 growth rate for the year ending June 2012 decreased to 6.7 percent from a 7.6 percent recorded last month. After three consecutive growth recorded the last three previous months, NFA recorded a decrease of 2.3 percent in June. Domestic credit remained virtually unchanged after a decrease of 0.9 percent in May, after a slight increase of 0.3 percent over the month of April.

The monthly decrease in the NFA of the banking system stemmed from a decrease of 10.9 percent in commercial banks' NFA while Monetary Authorities' recorded an increase of 2.5 percent. The decrease in commercial banks' NFA stemmed from an increase in foreign liabilities by 4.8 percent while foreign assets noted a decrease of 2.8 percent.

Monetary authorities saw a 1.8 percent increase in foreign assets and a 1.8 percent decrease in foreign liabilities leading overall increase in NFA during June.

Private sector credit increased by 1.1 percent during June, bringing the year-on-year growth to 9.3 percent from 8.1 percent and 8.9 over the year to May and April 2012. During the month loans to individuals and households increased by 1.3 percent after the decrease of 0.9 percent recorded the previous month. Loans to businesses increased slightly by 0.8 percent after an increase of 1.3 percent the previous month. Over the year to June 2012, both loans to business and loans to individuals and households recorded increases of 7.7 percent and 11.3 percent, respectively.

Net claims on government of the banking system decreased over the month by VT502.1 million and 357.8 million over the month and over the year to June 2012, respectively.

Open Market Operations

The Bank conducted four Open Market Operations in July 2012 where it issued VT941 million compared to VT926 million over the previous month.

The total tender for those four issues were over-subscribed by VT2.01 billion. The over subscription reflects the high level of liquidity in the system.

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

Term	Amount Allotted	Yield End July 2012	Yield End June 2012
7 days	245	0.40	0.35
14 days	215	0.40	0.35
28 days	185	0.45	0.35
63 days	160	0.60	0.56
91 days	136	0.90	0.90

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

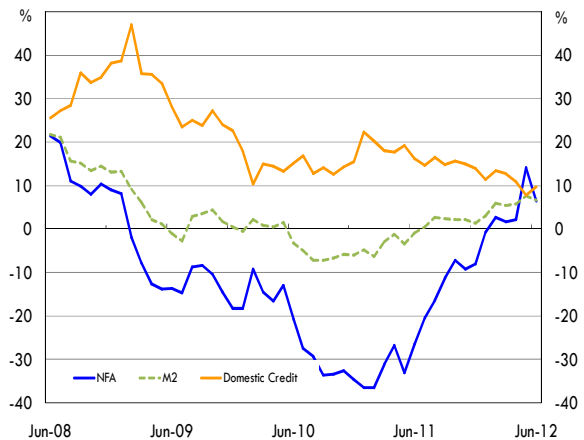
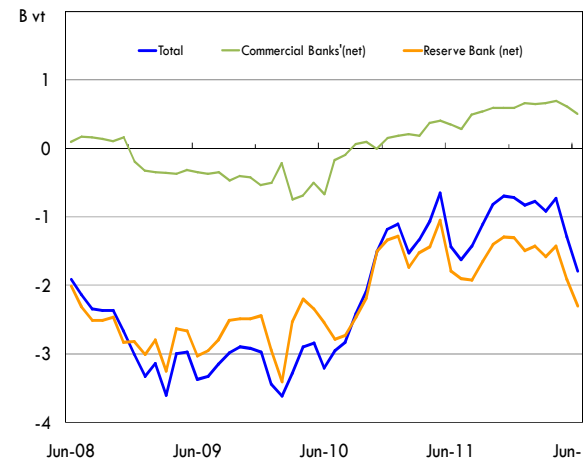


Chart 2: Net Claims on Government
(Levels; VT billions)



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

End of Period	Jun-11	Mar-12	May-12	Jun-12	%Change		
					1 Month	3 months	12months
Foreign Assets	15369.3	16449.1	16653.1	16956.2	1.8	3.1	10.3
Foreign Exchange 1/	14795.7	15884.7	16074.1	16388.0	2.0	3.2	10.8
Reserve Position with IMF	356.2	353.2	362.8	356.0	-1.9	0.8	-0.1
SDR Holdings	217.4	211.2	216.2	212.2	-1.9	0.4	-2.4
Claims on Government	1517.9	1518.5	1518.5	1518.5	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	2029.4	1963.4	1936.8	1915.2	-1.1	-2.5	-5.6
Total Assets	18916.7	19931.0	20108.4	20389.9	1.4	2.3	7.8
Reserve Money	10520.0	12321.3	12266.9	12110.6	-1.3	-1.7	15.1
Currency outside Banks 3/	4557.5	4505.4	4559.1	4669.6	2.4	3.6	2.5
Commercial Banks Cash	1238.2	1338.2	1463.9	1428.1	-2.4	6.7	15.3
Commercial Banks Deposit with RBV	4724.3	6477.8	6243.9	6012.9	-3.7	-7.2	27.3
Foreign Liabilities 2/	2467.4	2436.8	2501.7	2457.7	-1.8	0.9	-0.4
Government Deposits, of which	3305.4	3104.1	3426.4	3822.0	11.5	23.1	15.6
Government contribution to RTP	356.2	353.2	362.8	356.0	-1.9	0.8	-0.1
RBV Notes	1816.8	1120.9	1083.7	1084.1	0.0	-3.3	-40.3
Other Liabilities	807.0	947.9	829.8	915.6	10.3	-3.4	13.5
TOTAL Liabilities	18916.7	19931.0	20108.4	20389.9	1.4	2.3	7.8

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	Jun-11	Mar-12	May-12	Jun-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1238.2	1338.2	1463.9	1428.1	-2.4	6.7	15.3
Deposits with RBV	4724.3	6477.8	6243.9	6012.9	-3.7	-7.2	27.3
RBV Notes	1816.8	1120.9	1083.7	1084.1	0.0	-3.3	-40.3
Foreign Assets, of which	18185.1	16772.9	16162.1	15709.2	-2.8	-6.3	-13.6
Claims on non-residents' banks	2503.3	2017.6	2017.9	1984.4	-1.7	-1.6	-20.7
Claims on Private sector	45639.7	49362.8	49434.9	49997.5	1.1	1.3	9.5
Claims on Government	986.3	1184.6	1085.0	1085.0	0.0	-8.4	10.0
Other claims 1/	181.7	634.8	665.5	574.9	-13.6	-9.4	216.5
Other Assets	3430.5	3030.0	2869.3	2869.3	0.0	-5.3	-16.4
TOTAL ASSETS	76202.7	79921.9	79008.1	78917.9	-0.1	-1.3	3.6
Demand Deposits, of which	17284.1	19098.2	18943.9	18389.6	-2.9	-3.7	6.4
Foreign currency	8506.6	9217.6	9137.3	9030.8	-1.2	-2.0	6.2
Savings deposits, of which	5928.1	5632.9	5874.9	6265.5	6.6	11.2	5.7
Foreign currency	369.5	371.5	394.1	408.2	3.6	9.9	10.5
Time deposits, of which	27499.3	29609.7	30074.1	29628.6	-1.5	0.1	7.7
Foreign Currency	8509.5	9948.4	10191.5	9924.1	-2.6	-0.2	16.6
Foreign Liabilities, of which	10933.8	9850.9	8339.1	8736.9	4.8	-11.3	-20.1
Non residents Banks	1852.4	2139.3	1497.1	1606.6	7.3	-24.9	-13.3
Government Deposits	634.9	519.6	468.9	575.4	22.7	10.7	-9.4
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	13922.4	15210.3	15306.9	15321.5	0.1	0.7	10.0
TOTAL LIABILITIES	76202.7	79921.9	79008.1	78917.9	-0.1	-1.3	3.6

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	Jun-11	Mar-12	Apr-12	May-12	Jun-12	%Change		
						1 Month	3 months	12 Months
1. Net Foreign Assets	20,153.2	20,934.2	21,254.0	21,974.4	21,470.7	-2.3	2.6	6.5
Monetary Authorities (Net)	12,901.9	14,012.3	14,156.8	14,151.4	14,498.5	2.5	3.5	12.4
Commercial Banks (Net)	7,251.3	6,921.9	7,097.2	7,823.0	6,972.2	-10.9	0.7	-3.8
2. Net Domestic Assets	35,115.7	37,912.0	38,219.7	37,477.7	37,482.6	0.0	-1.1	6.7
(a) Domestic Credit	45,592.3	50,315.4	50,488.6	50,015.4	50,007.2	0.0	-0.6	9.7
(i) Net claims on government	(1,436.1)	(920.5)	(733.2)	(1,291.8)	(1,793.8)	-38.9	-94.9	-24.9
Monetary Authorities	(1,787.5)	(1,585.6)	(1,425.1)	(1,907.9)	(2,303.5)	-20.7	-45.3	-28.9
Commercial Banks	351.4	665.1	691.9	616.1	509.6	-17.3	-23.4	45.0
(ii) Claims on Non financial Public enterprises (NFPE) (1)	89.3	550.0	541.2	549.3	479.7	-12.7	-12.8	437.0
(iii) Claims on Private Sector (2)	46,932.5	50,656.6	50,651.3	50,728.7	51,291.3	1.1	1.3	9.3
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	6.6	29.4	29.3	29.2	30.1	3.0	2.3	353.9
(b) Other items (net)	(10,476.6)	(12,403.5)	(12,268.9)	(12,537.7)	(12,524.6)	-0.1	1.0	19.5
3. Total Assets= Total Money Supply (M2)	55,269.0	58,846.2	59,473.7	59,452.0	58,953.3	-0.8	0.2	6.7
(a) Money (M1)	21,841.5	23,603.6	23,941.3	23,503.0	23,059.2	-1.9	-2.3	5.6
(i) Currency outside Banks	4,557.5	4,505.4	4,501.5	4,559.1	4,669.6	2.4	3.6	2.5
(ii) Demand deposits	17,284.1	19,098.2	19,439.8	18,943.9	18,389.6	-2.9	-3.7	6.4
(b) Quasi-money	33,427.4	35,242.6	35,532.4	35,949.0	35,894.1	-0.2	1.8	7.4
(i) Saving Deposits	5,928.1	5,632.9	5,789.8	5,874.9	6,265.5	6.6	11.2	5.7
(ii) Time Deposits	27,499.3	29,609.7	29,742.6	30,074.1	29,628.6	-1.5	0.1	7.7

1) revised on December 2011 due to misclassification

2) Include RBV staff loans excluding credit corp

3) figures highlighted need to be revised