



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: June 2012

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Issue 166

June 2012

### **Exchange Rate and International Developments**

Despite some better than expected quarter one GDP growth figures from Australia and New Zealand, uncertainty over the world economic outlook persisted throughout June, owing to continued problems in the euro zone and the apparent stalling of recovery in the US and the slowdown in China.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/EUR
Jun-12	94.23	94.59	74.22	117.24
1 month ago	96.16	93.35	72.44	118.95
%▲	-2.0	1.3	2.5	-1.4
3 months ago	91.61	95.13	74.90	121.86
%▲	2.9	-0.6	-0.9	-3.8
12 months ago	89.39	95.45	73.77	129.04
%▲	5.4	-0.9	0.6	-9.1

Note: (-) appreciation of vatu

In the euro zone, unemployment remained at historically high levels of 11.0 percent in April, similar to March levels. Intermediate indicators also pointed toward further contraction, while the continued downgrading of sovereign debt and banks by rating agencies has created significant policy challenges. In June the ECB held tight its interest rate stance, however by the end of the month governments were in tough negotiations over a potential growth package for the region.

In May the US unemployment rate increased slightly to 8.2 percent from 8.1 percent in April, underlining the US slow recovery. In response to these challenges the Federal Reserve announced plans to extend Operation Twist in order to drive down long-term interest rates.

Over June, Australia posted surprising first quarter growth figures, with quarterly GDP growth reaching 1.3 percent, bringing year-on year GDP growth to 4.3 percent (0.4 percent and 2.3 percent respectively in the last three months of 2011). However, some intermediate indicators published in June suggested that a slowdown may occur in the second half of the year. Reflecting these risks, the Reserve Bank of Australia cut its policy interest rate for a second month by 25 basis points to 3.5 percent. New Zealand also posted strong growth of 1.1 percent GDP growth over the quarter (0.4 percent in December 2011). This is its quickest pace of expansion since the first quarter of 2007. Despite this relatively strong growth, falling commodity prices of key exports continue to weigh on activity. In June the Reserve Bank of New Zealand maintained its policy rate.

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

### **Domestic Real Sector Developments**

Tourism arrivals for the month of May continued to increase over the year (despite a fall in air arrivals, cruise-ship arrivals rose in the month). Air visitors grew 16 percent over the year to 7,474 visitors and cruise-ship visitors grew 4 percent over the year to 17,684 visitors (supported by an estimated 10 cruise-ship visits mainly P&O cruises from Australian ports). As a result, the total non-resident visitor arrivals (air plus cruise) rose 7 percent over the previous year to 25,158 visitors. The increase in air arrivals over the same month of the previous year was driven by more visitor arrivals for holiday from all major tourist markets led by Australia (up 11 percent), New Caledonia (up 23 percent), New Zealand (up 25 percent) and Other Pacific Countries (up 35 percent) over the period.

Total exports earnings (accumulated) for the year-ended period January – May declined 16 percent to VT2.1 billion while total imports rose 4 percent over the year to VT10.4 billion. As a result, compared to the same period of previous year, the trade deficit rose (deteriorate) 12 percent to VT8.6 billion. This was a result of declined export earnings (from major export commodities of coconut oil, beef, cocoa and fish exports while copra and kava improved in the period) and a stronger increase import expenditure specifically in the month of May (in particularly food and live

animals, beverages & tobacco, mineral fuel, crude material, machine and transport equipment while chemical products and basic manufactured products imports decline over same period of last year). (Source: Vanuatu National Statistics Office)

### **Monetary Developments**

During the month M2 remained virtually unchanged, and the annual M2 growth rate for the year ending May increased to 7.6 percent from a 5.8 percent recorded last month. NFA recorded a third consecutive growth of 3.3 percent in May. Domestic credit recorded a decrease of 0.9 percent in May, after a slight increase of 0.3 percent the previous month.

The monthly increase in the NFA of the banking system stemmed from an increase of 9.3 percent in commercial banks' NFA while Monetary Authorities' remained stable. The increase in commercial banks' NFA stemmed from decreases in both foreign assets and foreign liabilities by 5.3 percent and 16.3 percent, respectively. Monetary authorities saw a 0.3 percent increase in foreign assets and a 2.6 percent increase in foreign liabilities leading to an overall stable NFA during May.

Private sector credit increased slightly by 0.2 percent during, bringing the year-on-year growth to 8.1 percent from 8.9 percent and 10.4 over the year to April and March 2012. During the month loans to individuals and households decreased by 0.9 percent consecutive to the slight decrease of 0.3 percent recorded the previous month. Loans to businesses increased by 1.3 percent after a decrease of 0.3 percent the previous month. Over the year to May, both loans to business and loans to individuals and households recorded increases of 9.3 percent and 7.5 percent, respectively.

Net claims on government of the banking system increased over the month by VT558.6 million and 642.4 million over the month and over the year to May 2012, respectively.

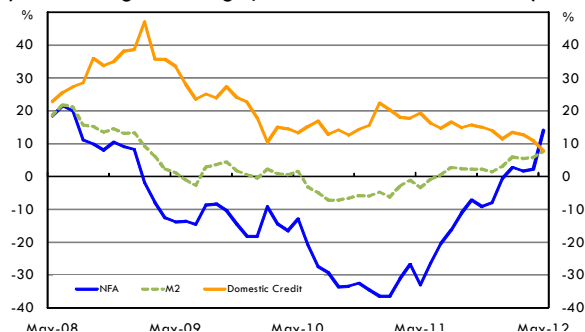
### **Open Market Operations**

The Bank conducted Four Open Market Operations in June 2012 where it issued VT926million compared to VT1.13 billion over the previous month. The total tender for those four issues were over-subscribed by VT2.13 billion. The over subscription reflects the high level of liquidity in the system.

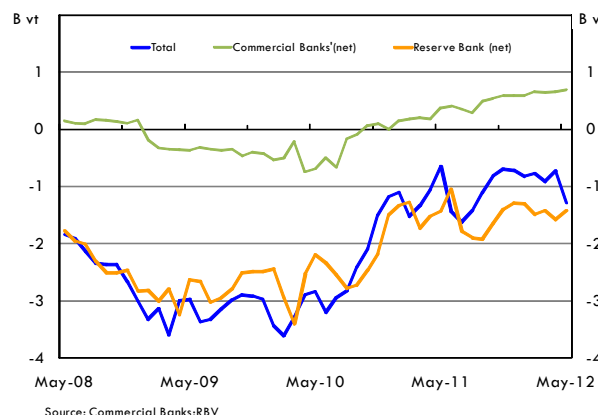
**Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)**

Term	Amount Allotted	Yield End June 2012	Yield End May 2012
7 days	235	0.35	0.35
14 days	210	0.35	0.35
28 days	190	0.35	0.35
63 days	163	0.56	0.75
91 days	128	0.90	0.95

**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	May-11	Feb-12	Apr-12	May-12	%Change		
					1 Month	3 months	12months
Foreign Assets	15235.2	16717.5	16595.2	16653.1	0.3	-0.4	9.3
Foreign Exchange 1/	14661.1	16160.3	16030.3	16074.1	0.3	-0.5	9.6
Reserve Position with IMF	356.5	348.7	353.5	362.8	2.6	4.0	1.8
SDR Holdings	217.5	208.6	211.4	216.2	2.3	3.7	-0.6
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
O/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	2029.2	1978.2	2069.9	1936.8	-6.4	-2.1	-4.6
	18782.3	20214.2	20183.6	20108.4			
<b>Total Assets</b>	<b>18782.3</b>	<b>20214.2</b>	<b>20183.6</b>	<b>20108.4</b>	-0.4	-0.5	7.1
Reserve Money	10883.8	12408.9	12731.1	12266.9	-3.6	-1.1	12.7
Currency outside Banks 3/	4543.6	4353.7	4501.5	4559.1	1.3	4.7	0.3
Commercial Banks Cash	1157.4	1524.2	1405.2	1463.9	4.2	-4.0	26.5
Commercial Banks Deposit with RBV	5182.8	6531.0	6824.5	6243.9	-8.5	-4.4	20.5
Foreign Liabilities 2/	2474.2	2407.5	2438.4	2501.7	2.6	3.9	1.1
Government Deposits, of which	2571.4	2943.9	2943.6	3426.4	0.0	0.0	0.0
Government contribution to RTP	356.5	348.7	353.5	362.8	2.6	4.0	1.8
RBV Notes	2045.8	1373.1	1082.1	1083.7	0.0	0.0	0.0
Other Liabilities	807.2	1080.8	988.4	829.8	-16.0	-23.2	2.8
	18782.3	20214.2	20183.6	20108.4			
<b>TOTAL Liabilities</b>	<b>18782.3</b>	<b>20214.2</b>	<b>20183.6</b>	<b>20108.4</b>	-0.4	-0.5	7.1

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	May-11	Feb-12	Apr-12	May-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1157.4	1524.2	1405.2	1463.9	4.2	-4.0	26.5
Deposits with RBV	5182.8	6531.0	6824.5	6243.9	-8.5	-4.4	20.5
RBV Notes	2045.8	1373.1	1082.1	1083.7	0.1	-21.1	-47.0
Foreign Assets, of which	16950.3	16707.0	17059.6	16162.1	-5.3	-3.3	-4.7
Claims on non-residents' banks	2508.5	1994.1	1983.8	2017.9	1.7	1.2	-19.6
Claims on Private sector	45614.3	48548.9	49357.5	49434.9	0.2	1.8	8.4
Claims on Government	986.3	1184.6	1085.0	1085.0	0.0	-8.4	10.0
Other claims 1/	146.0	624.7	643.8	665.5	3.4	6.5	355.9
Other Assets	3554.2	3059.0	3005.0	2869.3	-4.5	-6.2	-19.3
<b>TOTAL ASSETS</b>	<b>75637.0</b>	<b>79552.4</b>	<b>80462.6</b>	<b>79008.1</b>	-1.8	-0.7	4.5
Demand Deposits, of which	17484.7	19898.3	19439.8	18943.9	-2.6	-4.8	8.3
Foreign currency	8293.4	9376.6	9016.2	9137.3	1.3	-2.6	10.2
Savings deposits, of which	5694.1	5523.4	5789.8	5874.9	1.5	6.4	3.2
Foreign currency	365.4	390.4	398.8	394.1	-1.2	0.9	7.8
Time deposits, of which	27526.7	29375.5	29742.6	30074.1	1.1	2.4	9.3
Foreign Currency	8449.9	9482.0	10008.3	10191.5	1.8	7.5	20.6
Foreign Liabilities, of which	10453.5	9061.8	9962.4	8339.1	-16.3	-8.0	-20.2
Non residents Banks	1980.5	1196.3	1881.7	1497.1	-20.4	25.1	-24.4
Government Deposits	582.2	532.6	393.1	468.9	19.3	-12.0	-19.5
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	13895.6	15160.4	15134.6	15306.9	1.1	1.0	10.2
<b>TOTAL LIABILITIES</b>	<b>75637.0</b>	<b>79552.3</b>	<b>80462.6</b>	<b>79008.1</b>	-1.8	-0.7	4.5

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	May-11	Feb-12	Apr-12	May-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	19,257.7	21,955.1	21,254.0	21,974.4	3.3	0.1	14.1
Monetary Authorities (Net)	12,760.9	14,310.0	14,156.8	14,151.4	0.0	-1.1	10.9
Commercial Banks (Net)	6,496.8	7,645.1	7,097.2	7,823.0	9.3	2.3	20.4
2. Net Domestic Assets	35,991.5	37,195.8	38,219.7	37,477.7	-2.0	0.8	4.1
(a) Domestic Credit	46,354.1	49,632.3	50,488.6	50,015.4	-0.9	0.8	7.9
(i) Net claims on government	(649.4)	(773.4)	(733.2)	(1,291.8)	-43.2	-67.0	-98.9
Monetary Authorities	(1,053.5)	(1,425.4)	(1,425.1)	(1,907.9)	-25.3	-33.9	-81.1
Commercial Banks	404.1	652.0	691.9	616.1	12.3	5.5	-52.5
(ii) Claims on Non financial Public enterprises (NFPE) (1)	91.0	531.1	541.2	549.3	1.5	3.4	
(iii) Claims on Private Sector (2)	46,907.0	49,842.8	50,651.3	50,728.7	0.2	1.8	8.1
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	5.5	31.8	29.3	29.2	-0.3	-8.3	430.5
(b) Other items (net)	(10,362.6)	(12,436.5)	(12,268.9)	(12,537.7)	2.1	0.8	21.0
3. Total Assets= Total Money Supply (M2)	<b>55,249.2</b>	<b>59,150.9</b>	<b>59,473.7</b>	<b>59,452.0</b>	0.0	0.5	7.6
(a) Money (M1)	22,028.3	24,252.0	23,941.3	23,503.0	-1.9	-3.1	6.7
(i) Currency outside Banks	4,543.6	4,353.7	4,501.5	4,559.1	1.3	4.7	0.3
(ii) Demand deposits	17,484.7	19,898.3	19,439.8	18,943.9	-2.6	-4.8	8.3
(b) Quasi-money	33,220.9	34,898.9	35,532.4	35,949.0	1.2	3.0	8.2
(i) Saving Deposits	5,694.1	5,523.4	5,789.8	5,874.9	1.4	6.4	3.2
(ii) Time Deposits	27,526.7	29,375.5	29,742.6	30,074.1	1.1	2.4	9.3

1) revised on December 2011 due to misclassification

2) include RBV staff loans excluding credit corp

3) figures highlighted need to be revised

**TABLE 4: ASSETS AND LIABILITIES OF CREDIT CORPORATION AND VANUATU AGRICULTURE BANK**

<b>End of Period</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Mar-12</b>	<b>May-12</b>
Reserves	30.4	80.7	0.0	91.3
Domestic currency	30.38	80.66	0.00	91.31
Deposits with RBV	0.00	0.00	0.00	0.00
RBV Notes	0.00	0.00	0.00	0.00
Foreign Assets 1/	0.00	0.00	0.00	0.00
Claims on non-resident banks; of which	0.00	0.00	0.00	0.00
Vanuatu's offshore financial Inst. 2/				
Claims on non-resident nonbanks	0.00	0.00	0.00	0.00
Claims on Government	0.00	0.00	0.00	0.00
Claims on Municipalities	0.00	0.00	0.00	0.00
Claims on public enterprises	0.00	0.00	0.00	0.00
Claims on private sector	1,061.10	1,030.23	1,009.68	1,009.68
Claims on other finan. Inst. 2/				
Inter-bank claims	37.92	164.41	224.26	246.46
Fixed Assets	18.29	13.71	12.11	14.94
Debit Items for collection	0.00	0.00	0.00	0.00
Unclassified assets	7.66	9.768	4.923	1.895
<b>TOTAL</b>	<b>1,155.3</b>	<b>1,298.78</b>	<b>1,250.98</b>	<b>1,364.29</b>
Demand Deposits	0.0	0.0	0.0	0.0
Local currency	0.00	0.00	0.00	
Foreign currency	0.00	0.00	0.00	0.00
Savings deposits	0.00	0.00	0.00	0.00
Local currency	0.00	0.00	0.00	0.00
Foreign currency	0.00	0.00	0.00	0.00
Time deposits	186.9	-	185.52	181.37
Local currency	186.92	0.00	185.52	181.37
Foreign currency				
Foreign Liabilities	0.5	1.936	2.108	2.234
Non residents banks & Financial Instit	0.51	1.936	2.108	2.234
Non residents nonbanks				
Government Deposits				
Credit from monetary authorities				
Capital and fixed reserves	768.68	868.680	868.680	868.680
Profit and loss accounts	39.28	58.252	63.862	65.787
Reserves including Provisions	59.65	94.412	106.359	117.854
Inter-bank liabilities				
Unclassified Liabilities	287.23	275.500	94.690	128.370
<b>TOTAL</b>	<b>1342.3</b>	<b>1298.78</b>	<b>1321.22</b>	<b>1364.29</b>
Other items (net) [Unclassified Liabilities [minus Unclassified Assets]	279.6	265.7	89.8	126.5