



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: Nov 2012

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Exchange Rate and International Developments

Statistics published over November continued to point towards the slowdown in the world economy. However, despite this, news over the month suggests that the economies of Australia and the United States have performed relatively well, particularly when compared to the continued slowdown in the Eurozone.

In the **Eurozone**, the economy continued to slow. Inflation eased to 2.5 percent in October from 2.6 percent in September. While the flash estimate released at the end of the month suggested that inflation also eased further in November to 2.2 percent. Unemployment continued to rise to record highs, reaching 11.7 percent in October from 11.6 percent in September 2012 and 10.1 percent in the same period of last year. Over the month the ECB held its policy stance unchanged following rate cuts seen in July. In **Australia** data published over the month showed the seasonally adjusted unemployment rate remained at 5.4 percent in October, its highest levels since October 2010. During November the International Monetary Fund completed their Article IV consultation which gave approval to Australia's economic policies, commending the Reserve Bank's easy monetary stance and saying there was room to ease policy further if needed. The Fund also reiterated its forecast for 2012 of 3.25 percent growth, the highest of any advanced economy.

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Nov-12	91.66	95.65	75.45	118.95
1 month ago	92.05	95.34	75.35	119.07
%	-0.4	0.3	0.1	-0.1
3 months ago	93.03	95.74	74.27	116.37
%	-1.5	-0.1	1.6	2.2
12 months ago	93.77	94.05	71.48	124.99
%	-2.3	1.7	5.6	-4.8

Note : (-) appreciation of vatu

In November the **US** published statistics suggesting economy grew at an annualised rate of 2.7 percent in the third quarter of the year. The figure is significantly higher than the 2 percent initial estimate. However, it has been suggested that much of the growth was due to companies rebuilding their inventories, and some expect it not to be sustained. Consumer prices were up 2.2 percent from October 2011 to October 2012, their highest level since April.

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

Balance of Payments

Over the September quarter, the current account deficit expanded significantly by 116.9 percent due to increases in import payments, services from abroad and income payments abroad, which offset increases in export of services. Imports of goods increased by 18 percent while export of goods declined by 11 percent leading to an overall trade deficit of VT 5,416 million. The increase of export services over the quarter was supported fundamentally by a 26.7 percent increase in tourism earnings. Tourism earnings have shown improvement over the year due to increased number of both air and cruise ship visitors. Imports of services also increased slightly by 4 percent due to increased freight payments in line with high imports paid over the September quarter. The primary income deficit which measures investment income and compensation of employees, increased over the September quarter due to increased investment income paid abroad along with decreases in compensation of employees income received from abroad which is mostly RSE remittances.

Monetary Developments

During October **money supply** (M2) increased by 0.2 percent, while the annual M2 growth rate increased to 5.1 percent from 4.7 percent in September. Driving these changes have been movements in both of two main M2 components: **Domestic Credit** and **Net Foreign Assets (NFA)**. Domestic Credit increased slightly by 0.7 percent in October from September's 1.1 percent expansion, while NFA fell 4.3 percent compared to a 1.0 percent increase over the month.

Banking system **NFA** over the month was weighed down by a 14.3 percent decrease in commercial banks' NFA, bringing a yearly contraction of 18.9 percent. This provides evidence that commercial banks are seeing a return to the rapid decreases in their foreign asset holdings seen in 2011. In contrast monetary authorities' NFA has been supported by donor inflows and saw an increase of 0.3 percent over the month, bringing the growth rate over the year to 3.3 percent.

Private sector credit grew 0.3 percent during October, bringing the year-on-year growth rate down to 6.5 percent, its lowest rate since May 2007. This is despite observing commercial banks' excess reserves increasing over recent months and weighted average interest rates falling to relatively low levels. During the month loans to individuals grew by 1.0 percent while loans to businesses saw a decrease of 0.5 percent. Over the year to October 2012, loans to business and loans to individuals and households recorded increases of 3.7 percent and 9.4 percent, respectively.

Net claims on Government of the banking system increased over the month by VT173.7 million. This resulted largely from a decrease in government deposits with commercial banks by VT81.7.0 million, combined with an increase in commercial banks claims on government by VT387.5 million. This outweighed an increase of 295.5 million in deposits with the Reserve Bank. These movements reflect the gradual worsening of the government's position with the banking system owing to this year's government fiscal deficit.

Open Market Operations

The Bank conducted four Open Market Operations in November 2012 where it issued VT956 million compared to VT 1.13 billion over the previous month.

The total tender for those four issues were over-subscribed by VT2.40 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 November 2012	Yield End October 2012
7 days	209	0.40	0.40
14 days	209	0.40	0.40
28 days	203	0.40	0.40
63 days	163	0.59	0.60
91 days	172	0.89	0.90

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

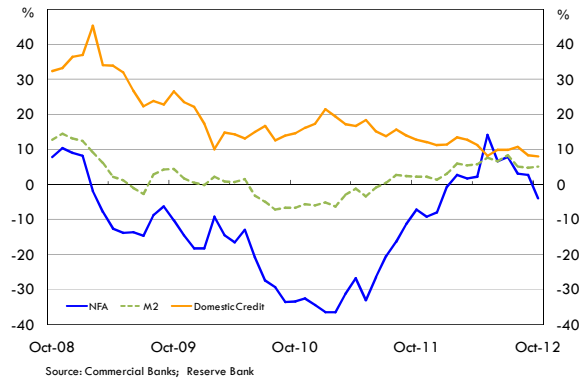


Chart 2: Net Claims on Government (Levels; VT millions)

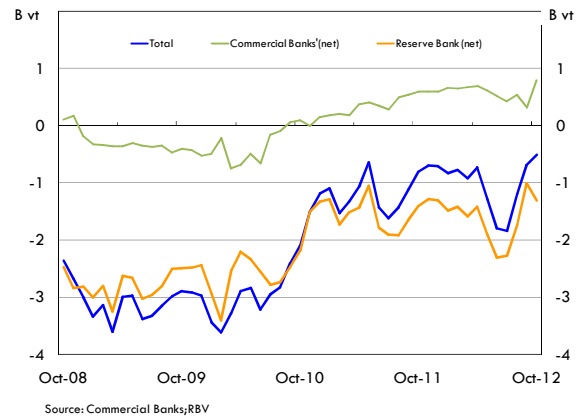


TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU

End of Period	Oct-11	Jul-12	Sep-12	Oct-12	%Change		
					1 Month	3 months	12months
Foreign Assets	16596.4	16890.6	16983.8	17025.3	0.2	0.8	2.6
Foreign Exchange 1/	16022.6	16334.7	16421.5	16462.6	0.2	0.8	2.7
Reserve Position with IMF	358.0	348.4	353.1	353.4	0.1	1.4	-1.3
SDR Holdings	215.8	207.6	209.2	209.3	0.1	0.8	-3.0
Claims on Government	1517.6	1518.5	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
O/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	1967.3	2044.3	1942.8	1994.3	2.7	-2.4	1.4
Total Assets	20081.4	20453.4	20444.9	20537.9	0.5	0.4	2.3
Reserve Money	11596.7	12078.8	13381.9	13058.1	-2.4	8.1	12.6
Currency outside Banks mVT	4538.3	4825.7	4900.0	4768.0	-2.7	-1.2	5.1
Commercial Banks Cash mVT	1297.6	1457.1	1528.6	1726.1	12.9	18.5	33.0
Commercial Banks Deposit with RBV mVT	5760.9	5796.0	6953.4	6564.0	-5.6	13.3	13.9
Foreign Liabilities 2/	2472.0	2407.8	2438.8	2440.6	0.1	1.4	-1.3
Government Deposits, of which	2925.7	3795.7	2526.8	2822.3	11.7	-25.6	-3.5
Government contribution to RTP	358.0	348.4	353.1	353.4	0.1	1.4	-1.3
RBV Notes	2032.6	1084.2	1068.1	1217.0	13.9	12.2	-40.1
Other Liabilities	1053.9	1086.8	1029.3	999.8	-2.9	-8.0	-5.1
TOTAL Liabilities	20080.8	20453.4	20444.9	20537.9	0.5	0.4	2.3

1/ Reserve Bank's foreignz currency accounts with residents' commercial banks are included in foreignz 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	Oct-11	Jul-12	Sep-12	Oct-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1297.6	1457.1	1528.6	1726.1	12.9	18.5	33.0
Deposits with RBV	5760.9	5796.0	6953.4	6564.0	-5.6	13.3	13.9
RBV Notes	2032.6	1084.2	1068.1	1217.0	13.9	12.2	-40.1
Foreign Assets, of which	16837.8	15490.3	15327.8	13863.9	-9.6	-10.5	-17.7
Claims on non-residents' banks	2486.4	1917.2	1790.4	1737.0	-3.0	-9.4	-30.1
Claims on Private sector	46977.3	50490.4	49906.7	50041.9	0.3	-0.9	6.5
Claims on Government	1086.3	1085.0	985.0	1372.5	39.3	26.5	26.3
Other claims 1/	133.2	621.7	510.8	534.6	4.7	-14.0	301.2
Other Assets	3246.3	3232.6	3244.4	4031.1	24.2	24.7	24.2
TOTAL ASSETS	77372.1	79257.3	79524.7	79351.1	-0.2	0.1	2.6
Demand Deposits, of which	17475.6	18741.0	19067.8	18972.4	-0.5	1.2	8.6
Foreignz currency	7764.4	9088.4	8832.9	8612.1	-2.5	-5.2	10.9
Savings deposits, of which	5803.7	6201.6	6757.9	6890.7	2.0	11.1	18.7
Foreignz currency	452.1	352.5	589.1	695.5	18.1	97.3	53.9
Time deposits, of which	28776.5	29761.9	28623.4	28835.8	0.7	-3.1	0.2
Foreign Currency	8771.8	10182.6	9108.6	9472.4	4.0	-7.0	8.0
Foreign Liabilities, of which	9904.4	8674.4	8757.1	8233.1	-6.0	-5.1	-16.9
Non residents Banks	2080.8	1520.1	1553.1	3604.0	132.1	137.1	73.2
Government Deposits	493.6	653.7	665.0	583.3	-12.3	-10.8	18.2
Credit from RBV	0.3	0.3	0.2	0.2	-15.8	-36.8	-25.9
Other Liabilities, including shareholders' funds	14918.0	15224.4	15653.1	15835.5	1.2	4.0	6.2
TOTAL LIABILITIES	77372.1	79257.3	79524.6	79351.1	-0.2	0.1	2.6

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	Oct-11	Jul-12	Aug-12	Sep-12	Oct-12	%Change		
						1 Month	3 months	12 Months
						1. Net Foreign Assets	21,057.9	21,298.8
Monetary Authorities (Net)	14,124.5	14,482.9	15,011.8	14,545.0	14,584.7	0.3	0.7	3.3
Commercial Banks (Net)	6,933.5	6,815.9	5,887.2	6,570.6	5,630.8	-14.3	-17.4	-18.8
2. Net Domestic Assets	35,536.1	38,231.5	37,856.9	38,233.5	39,251.5	2.7	2.7	10.5
(a) Domestic Credit	46,359.2	49,275.6	50,296.2	49,754.8	50,088.0	0.7	1.6	8.0
(i) Net claims on government	(815.4)	(1,846.0)	(1,199.6)	(688.5)	(514.8)	25.2	72.1	36.9
Monetary Authorities	(1,408.0)	(2,277.2)	(1,739.3)	(1,008.4)	(1,304.0)	-29.3	42.7	7.4
Commercial Banks	592.7	431.3	539.7	320.0	789.2	146.7	83.0	33.2
(ii) Claims on Non financial Public enterprises (NFPE) (1)	87.0	505.3	460.1	410.0	439.8	7.3	-13.0	405.4
(iii) Claims on Private Sector (2)	47,082.5	50,587.4	51,006.4	49,999.8	50,134.2	0.3	-0.9	6.5
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	5.0	29.0	29.4	33.5	28.9	-13.7	-0.3	473.2
(b) Other items (net)	(10,823.1)	(11,044.2)	(12,439.4)	(11,521.3)	(10,836.5)	-5.9	-1.9	0.1
3. Total Assets= Total Money Supply (M2)	56,594.0	59,530.2	58,755.8	59,349.1	59,467.0	0.2	-0.1	5.1
(a) Money (M1)	22,013.8	23,566.7	23,233.6	23,967.8	23,740.5	-0.9	0.7	7.8
(i) Currency outside Banks	4,538.3	4,825.7	4,821.5	4,900.0	4,768.0	-2.7	-1.2	5.1
(ii) Demand deposits	17,475.6	18,741.0	18,412.1	19,067.8	18,972.4	-0.5	1.2	8.6
(b) Quasi-money	34,580.2	35,963.5	35,522.3	35,381.3	35,726.5	1.0	-0.7	3.3
(i) Saving Deposits	5,803.7	6,201.6	6,614.4	6,757.9	6,890.7	2.0	11.1	18.7
(ii) Time Deposits	28,776.5	29,761.9	28,907.9	28,623.4	28,835.8	0.7	-3.1	0.2

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	
	Oct-11	Sep-12	Oct-12	1 Month	12 Months
Agriculture	663.2	898.6	863.1	-3.9	30.1
Fisheries	46.7	33.1	32.7	-1.3	-30.0
Mining & Quarring	142.0	188.2	191.2	1.6	34.7
Manufacturing	1866.4	2542.4	1654.0	-34.9	-11.4
Distribution	3327.3	4953.1	5008.2	1.1	50.5
Tourism	3818.9	4037.3	4055.0	0.4	6.2
Entertainment & Catering	326.3	369.0	363.2	-1.6	11.3
Transport	1474.9	1494.9	1492.7	-0.1	1.2
Public Utilities	50.5	89.9	87.7	-2.4	73.8
Construction	7345.5	5557.9	5695.4	2.5	-22.5
a) Central Government	0.0	29.4	24.8	-15.6	N/A
b) Public Corporation	21.8	110.7	148.2	33.9	579.9
Financial Institutions	599.7	168.2	157.5	-6.4	-73.7
Professional & Other Services	3070.9	6202.6	5974.2	-3.7	94.5
Housing & Land Purchases	15207.5	14574.8	12232.3	-16.1	-19.6
Other Personal	7694.1	9041.6	11807.0	30.6	53.5
Miscellaneous	1642.6	874.2	723.2	-17.3	-56.0
TOTAL	47,297.6	51,166.1	50,510.5	-1.3	6.8
Of which : Vatu	37231.8	38790.5	39066.8	0.7	4.9

Nb: The figures highlighted have been revised.