



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: Oct 2012

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Exchange Rate and International Developments

At the beginning of October the IMF again made downward revisions to their World Economic Outlook forecasts, with prospects for the world economy still looking weak. Global growth rates for 2013 were revised from July's 3.9 percent forecast to 3.6 percent, suggesting we should expect global activity to remain weak, albeit with modest improvements on 2012. In their report, the IMF highlighted the fragility of these forecasts and suggests they would be subject to further downward revision if policy makers are unable to deal with the sovereign debt issues in the eurozone and the upcoming fiscal challenges in the US.

Statistics published over the month in the **United States** showed some positive signs for the economy. Unemployment fell to 7.8 percent in September from 8.3 percent in August, while economic growth in the third quarter unexpectedly reached an annual rate of 2.0 percent from 1.3 percent in the second. During October the Reserve Bank of **Australia** decided to cut its headline policy rate by 0.25 percent for the fifth time in a year owing to the slowing world economy and its impact on domestic development. Australian unemployment has also slightly worsened seeing an increase to 5.4 percent in September from 5.1 percent the previous month. However, this still remains relatively low in comparison with many other advanced economies.

In the **Eurozone** the outlook continues to look bleak with unemployment reaching record highs of 11.6 percent in September compared from 11.5 percent in August. Annual inflation also remained steady at 2.6 percent in September, unchanged compared with the previous month. **New Zealand's** rate of inflation fell to its smallest average movement since 1999 with the CPI increasing just 0.8 percent in the year to September 2012. As a result the Reserve Bank of New Zealand held its loose monetary policy stance this month with fiscal consolidation and a high New Zealand Dollar thought to be weighing on activity.

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

Real Sector Developments

Total **exports earnings** from trade in goods (accumulated) for the year-ended period January – September 2012 declined 14 percent to VT3.8 billion while **total imports** rose 2.2 percent over the year to VT20.2 billion. Compared to the same period of previous year, the trade deficit rose (deteriorated) 7 percent to VT16.3 billion. On the other hand, the balance in trade in services continues to remain in surplus supported by the **export services** mainly tourism, while inflows from remittances and donor flows also continued. In September 2012, air visitors grew 28 percent over the year to 12,182 visitors and cruise visitors rose 16 percent to 15,104 visitors (due to approximately 8 cruise-ship visits). As a result, the total non-resident visitor arrivals (air plus cruise) rose 21 percent over the previous year to 27,286 visitors. Air arrivals were driven by increased holiday visitors (up by 25 percent over the year) from all major markets led by Australia, New Zealand, New Caledonia and Other Pacific Countries and Other Countries. The January-September data continues show a strong performance in tourism as air, cruise and total visitor arrivals rose over the year by 14 percent, 29 percent and 24 percent, respectively (Source: Vanuatu National Statistics Office).

Headline inflation as measured by the **Consumer Price Index** for the year-ended September Quarter 2012 rose to 1.1 percent (a drop from 1.5 percent recorded in the June quarter). This is represented by an increase of 1.1 percent for Port Vila and 1.1 percent for Luganville. Over the quarter, the All Group CPI rose by just 0.1 percent. The main contributing causes for the increase in CPI over the year were price increases in household supplies, food, miscellaneous,

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Oct-12	92.05	95.34	75.35	119.07
1 month ago	91.56	95.61	76.13	118.26
%	0.5	-0.3	-1.0	0.7
3 months ago	92.32	96.95	74.69	113.20
%	-0.3	-1.7	0.9	5.2
12 months ago	89.60	96.00	73.51	126.80
%	2.7	-0.7	2.5	-6.1

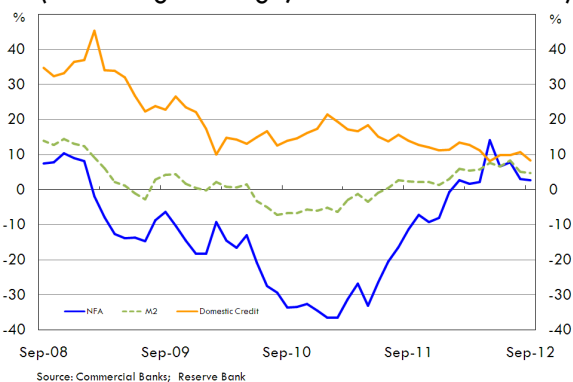
Note: (-) appreciation of vatu

transport, education, and drinks and tobacco, off-set by decline in prices for housing and utilities, communication, health, and recreation. The underlying inflation (annual) rate declined to 1.8 percent from 3.8 percent in the previous quarter. Forecast for inflation in the upcoming quarters is still expected to remain subdued within the bound of the RBV target range of 0-4 percent. (Source: Vanuatu National Statistics Office)

Monetary Developments

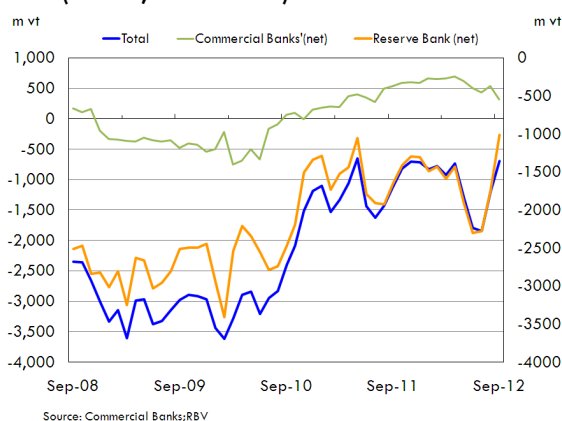
During September **money supply (M2)** increased by 1.0 percent, while the annual M2 growth rate fell to 4.7 percent from 5.1 percent in August - its lowest rate since January 2012. Driving these declines have been movements in both of two main M2 components: **Domestic Credit** and **Net Foreign Assets (NFA)**. Despite NFA recording an increase of 1.0 percent compared to September's 1.9 percent contraction, growth over the year weakened to 2.8 percent in September from 3.0 percent last month. Meanwhile, Domestic Credit contracted by 1.1 percent in September from August's 2.1 percent expansion. This led to yearly credit growth rates falling from 10.7 percent to 8.4 percent over the last two months and reemphasises the gradual downward trend in lending. This is the second time the growth rate has dipped below 9 percent in the past five months, to rates not seen since September 2007.

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



Banking system NFA was weighed down by a 3.1 percent decrease in monetary Authorities' NFA, however over the year growth remained strong at 11.3 percent owing largely to donor inflows. In contrast commercial banks' saw an increase of 11.6 percent over the month, a rapid recovery from a similar size contraction observed last month, however over the year commercial bank NFA remained 12.1 percent down having returned back to year-on-year contractions seen since 2008. Private sector credit growth fell 2.0 percent during September, bringing the year-on-year growth rate down to 6.6 percent, the lowest rate since May 2007. During the month loans to individuals and households and loans to businesses recorded decreases of 0.8 percent and 3.3 percent, respectively. Over the year to September 2012, loans to business and loans to individuals and households recorded increases of 3.9 percent and 9.4 percent, respectively.

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



Net claims on Government of the banking system increased over the month by VT511.2 million. This resulted largely from a decrease in government deposits with monetary authorities by VT731.0 million, combined with decreases in deposits of VT119.7 million with commercial banks. These movements are likely to reflect in part the payout of MPs prior to the election.

Open Market Operations

The Bank conducted Five Open Market Operations in October 2012 where it issued VT1.13 billion compared to VT736 million over the previous month. The total tender for those five issues were over-subscribed by VT2.26 billion reflecting the high level of liquidity in the system. Total maturity for the month was VT982 million leaving outstanding notes at VT1.21 billion at the end of October.

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

Term	Amount Allotted	Yield End October 2012	Yield End September 2012
7 days	250	0.40	0.40
14 days	250	0.40	0.40
28 days	240	0.40	0.40
63 days	220	0.60	0.65
91 days	170	0.90	0.10

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

End of Period	Sep-11	Jun-12	Aug-12	Sep-12	%Change		
					1 Month	3 months	12 months
Foreign Assets	15619.8	16956.2	17451.3	16983.8	-2.7	0.2	8.7
Foreign Exchange 1/	15027.4	16388.0	16888.1	16421.5	-2.8	0.2	9.3
Reserve Position with IMF	369.6	356.0	353.2	353.1	0.0	-0.8	-4.5
SDR Holdings	222.8	212.2	210.0	209.2	-0.4	-1.4	-6.1
Claims on Government	1517.6	1518.5	1518.4	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
0/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	1946.1	1915.2	1874.4	1942.8	3.6	1.4	-0.2
Total Assets	19083.6	20389.9	20844.1	20444.9	-1.9	0.3	7.1
Reserve Money	11485.2	12110.6	13071.1	13381.9	2.4	10.5	16.5
Currency outside Banks mVT	4693.8	4669.6	4821.5	4900.0	1.6	4.9	4.4
Commercial Banks Cash mVT	1230.6	1428.1	1425.8	1528.6	7.2	7.0	24.2
Commercial Banks Deposit with RBV mVT	5560.9	6012.9	6823.8	6953.4	1.9	15.6	25.0
Foreign Liabilities 2/	2547.7	2457.7	2439.5	2438.8	0.0	-0.8	-4.3
Government Deposits, of which	3164.1	3822.0	3257.8	2526.8	-22.4	-33.9	-20.1
Government contribution to RTP	369.6	356.0	353.2	353.1	0.0	-0.8	-4.5
RBV Notes	1036.1	1084.1	1084.2	1068.1	-1.5	-1.5	3.1
Other Liabilities	850.5	915.6	991.6	1029.3	3.8	12.4	21.0
TOTAL Liabilities	19083.6	20389.9	20844.1	20444.9	-1.9	0.3	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	Sep-11	Jun-12	Aug-12	Sep-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1230.6	1428.1	1425.8	1528.6	7.2	7.0	24.2
Deposits with RBV	5560.9	6012.9	6823.8	6953.4	1.9	15.6	25.0
RBV Notes	1036.1	1084.1	1084.2	1068.1	-1.5	-1.5	3.1
Foreign Assets, of which	18024.3	15709.2	14765.8	15327.8	3.8	-2.4	-15.0
Claims on non-residents' banks	2579.2	1984.4	1800.8	1790.4	-0.6	-9.8	-30.6
Claims on Private sector	46809.3	49997.5	50910.1	49906.7	-2.0	-0.2	6.6
Claims on Government	1086.3	1085.0	1085.0	985.0	-9.2	-9.2	-9.3
Other claims 1/	148.7	574.9	582.1	510.8	-12.3	-11.2	243.4
Other Assets	5267.6	3026.3	3190.2	3244.4	1.7	7.2	-38.4
TOTAL ASSETS	79163.9	78917.9	79867.0	79524.7	-0.4	0.8	0.5
Demand Deposits, of which	17623.4	18389.6	18412.1	19067.8	3.6	3.7	8.2
Foreign currency	8552.0	9030.8	8492.6	8832.9	4.0	-2.2	3.3
Savings deposits, of which	5816.1	6265.5	6614.4	6757.9	2.2	7.9	16.2
Foreign currency	438.1	408.2	545.8	589.1	7.9	44.3	34.5
Time deposits, of which	28535.7	29628.6	28907.9	28623.4	-1.0	-3.4	0.3
Foreign Currency	8516.0	9924.1	9172.8	9108.6	-0.7	-8.2	7.0
Foreign Liabilities, of which	10550.6	8736.9	8878.7	8757.1	-1.4	0.2	-17.0
Non residents Banks	1800.6	1606.6	1597.4	1553.1	-2.8	-3.3	-13.7
Government Deposits	547.4	575.4	545.3	665.0	22.0	15.6	21.5
Credit from RBV	0.3	0.4	0.2	0.2	2.6	-36.7	-11.4
Other Liabilities, including shareholders' funds	16090.3	15321.5	16508.4	15653.1	-5.2	2.2	-2.7
TOTAL LIABILITIES	79163.9	78917.9	79867.0	79524.6	-0.4	0.8	0.5

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

END OF PERIOD	Sep-11	Jun-12	Aug-12	Sep-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	20,545.8	21,470.7	20,899.0	21,115.6	1.0	-1.7	2.8
Monetary Authorities (Net)	13,072.1	14,498.5	15,011.8	14,545.0	-3.1	0.3	11.3
Commercial Banks (Net)	7,473.7	6,972.2	5,887.2	6,570.6	11.6	-5.8	-12.1
2. Net Domestic Assets	36,123.3	37,482.6	37,856.9	38,233.5	1.0	2.0	5.8
(a) Domestic Credit	45,902.8	48,811.0	50,296.2	49,754.8	-1.1	1.9	8.4
(i) Net claims on government	(1,107.5)	(1,793.8)	(1,199.6)	(688.5)	42.6	61.6	37.8
Monetary Authorities	(1,646.5)	(2,303.5)	(1,739.3)	(1,008.4)	42.0	56.2	38.8
Commercial Banks	538.9	509.6	539.7	320.0	-40.7	-37.2	-40.6
(ii) Claims on Non financial Public enterprises (NFPE) (1)	88.3	479.7	460.1	410.0	-10.9	-14.5	364.4
(iii) Claims on Private Sector (2)	46,912.1	50,095.1	51,006.4	49,999.8	-2.0	-0.2	6.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	9.9	30.1	29.4	33.5	13.9	11.3	237.3
(b) Other items (net)	(9,779.6)	(11,328.4)	(12,439.4)	(11,521.3)	-7.4	1.7	17.8
3. Total Assets= Total Money Supply (M2)	56,669.0	58,953.3	58,755.8	59,349.1	1.0	0.7	4.7
(a) Money (M1)	22,317.2	23,059.2	23,233.6	23,967.8	3.2	3.9	7.4
(i) Currency outside Banks	4,693.8	4,669.6	4,821.5	4,900.0	1.6	4.9	4.4
(ii) Demand deposits	17,623.4	18,389.6	18,412.1	19,067.8	3.6	3.7	8.2
(b) Quasi-money	34,351.9	35,894.1	35,522.3	35,381.3	-0.4	-1.4	3.0
(i) Saving Deposits	5,816.1	6,265.5	6,614.4	6,757.9	2.2	7.9	16.2
(ii) Time Deposits	28,535.7	29,628.6	28,907.9	28,623.4	-1.0	-3.4	0.3

Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)				% change		
	Sep-11	Jun-12	Aug-12	Sep-12	1 Month	3 Months	12 Months
Agriculture	677.6	707.3	765.0	898.6	17.5	27.1	32.6
Fisheries	46.6	34.0	35.6	33.1	-7.0	-2.5	-29.0
Mining & Quarrying	139.6	212.8	186.2	188.2	1.1	-11.5	34.8
Manufacturing	1850.2	1821.4	1654.9	2542.4	53.6	39.6	37.4
Distribution	3302.9	3455.9	5035.1	4953.1	-1.6	43.3	50.0
Tourism	3779.6	5143.4	3962.7	4037.3	1.9	-21.5	6.8
Entertainment & Catering	320.4	414.2	399.2	369.0	-7.6	-10.9	15.2
Transport	1563.7	1393.8	1493.3	1494.9	0.1	7.3	-4.4
Public Utilities	50.4	48.3	104.1	89.9	-13.7	86.1	78.3
Construction	7203.2	6992.6	5501.8	5557.9	1.0	-20.5	-22.8
a) Central Government	26.0	188.2	184.1	140.1	-23.9	-25.5	438.5
b) Public Corporation	21.3	188.2	158.9	110.7	-30.3	-41.2	419.5
Financial Institutions	581.4	552.4	170.7	168.2	-1.4	-69.5	-71.1
Professional & Other Services	3223.0	3027.2	6794.3	6202.6	-8.7	104.9	92.4
Housing & Land Purchases	15033.6	16249.1	16029.4	14574.8	-9.1	-10.3	-3.1
Other Personal	7675.6	8311.2	8085.9	9041.6	11.8	8.8	17.8
Miscellaneous	1673.1	1764.4	838.8	763.5	-9.0	-56.7	-54.4
TOTAL	47168.8	50504.2	51399.6	51166.1	-0.5	1.3	8.5
of which Vatu:	37196.4	38810.7	39657.1	38790.5	-2.2	-0.1	4.3

NB: Loans to Central Gvt does not include government Bonds