



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: Sep 2012

The news items covered in this publication do not necessarily imply any judgment by the Bank on the accuracy of the information or any endorsement or acceptance of such news

Issue 169

Sep 2012

Exchange Rate and International Developments

Over September a number of central banks revised down their growth forecasts reflecting the slowing of global activity, in contrast there were upward revisions by the central banks in New Zealand and Australia with their economic outlook continuing to look relatively strong.

Labour market data from the *United States* showed a decline in the unemployment rate to 8.1 percent in August from 8.3 percent in July; however the persistent high levels remain a concern for policy makers with economic growth remaining insufficient to drive further improvements. In response to these challenges the Federal Reserve began implementation of its third round of Quantitative Easing by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. In the *Eurozone* unemployment remained at historically high levels of 11.3 percent in July, reaching as much as 25.1 percent in Spain. In response the ECB outlined their plans to undertake Outright Monetary Transactions (OMT) for sovereign bonds in secondary markets as a backstop 'against destructive scenarios'.

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Sep-12	91.56	95.61	76.13	118.26
1 month ago	93.03	95.74	74.27	116.37
%	-1.6	-0.1	2.5	1.6
3 months ago	94.23	94.59	74.22	117.24
%	-2.8	1.1	2.6	0.9
12 months ago	94.32	92.24	72.69	128.22
%	-2.9	3.7	4.7	-7.8

Note: (-) appreciation of vatu

Unemployment in *Australia* fell somewhat unexpectedly to 5.1 percent in August from 5.2 percent in July. Over the month the IMF suggested that that outlook for the Australian economy looked favourable given the flexibility of policy makers to respond to any upcoming problems. However, the latest minutes from the Reserve Bank of Australia's policy meeting show continued concern over the outlook for China and the strong Australian Dollar, leading policy makers to suggest that future policy rate cuts may be expected. In *New Zealand*, GDP increased somewhat more than expected by 0.6 percent in the June quarter of 2012 and up 2.0 percent over the previous year. This compares to 1.0 percent and 2.4 percent respectively over the previous quarter. This month the Reserve Bank of New Zealand revised upwards its forecast for 2012 GDP growth to 1.7 percent, while also announcing upcoming change to its inflation target to 2 percent to try and help anchor expectations.

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

Real Sector Developments

Tourism arrivals in July 2012 rose over the year (and over the last month) due to increased air and cruise-ship visitors. Air visitors grew 10 percent over the year to 11,767 visitors and cruise visitors rose 63 percent to 18,595 visitors (due to approximately 9 P&O cruise-ship visits). As a result, the total non-resident visitor arrivals (air plus cruise) rose 37 percent over the previous year to 30,362 visitors. Air arrivals was driven by increased visitors from all major markets led by Australia, Other Pacific Countries and Europe mainly led by considerable increases in holiday and those arriving for meetings/conferences. The January-July data continues show a strong performance in tourism as air, cruise and total visitor arrivals rose over the year by 15 percent, 29 percent and 24 percent, respectively.

Total exports earnings (accumulated) for the year-ended period January – July 2012 declined 11 percent to VT3.1 billion while total imports declined 1.4 percent over the year to VT14.9 billion. Compared to the same period of previous year, the trade deficit rose (deteriorate) 1.4 percent to VT11.8 billion. This was a result of declined export earnings (from major export commodities of coconut oil, cocoa, sawn timber, kava, live fish, alcoholic drinks and fish exports while copra and beef exports improved in the period) and a slight decline in import expenditure throughout the period (in particularly food and live animals, beverages and tobacco, chemical products, basic manufactured

products and miscellaneous manufactured goods while crude materials except fuels, mineral fuels and machines & transport equipment rose over same period of last year). (Source: Vanuatu National Statistics Office)

Monetary Developments

During August M2 decreased by 1.3 percent while the annual M2 growth rate fell slightly to 5.1 percent from 6.5 percent over the year to the previous month. Of the components of M2, NFA recorded a decrease of 1.9 percent in August after contracting 0.8 percent last month but remained up by 3.0 percent over the year. After increasing the previous month, domestic credit decreased by 1.0 percent in August, but increased 6.3 percent over the year.

The monthly decrease in the NFA of the banking system stemmed mainly from a 13.6 percent decrease in commercial banks' NFA while monetary authorities' saw an increase of 3.7 percent over the month. The decrease in commercial banks' NFA resulted from a 4.7 percent decrease in foreign assets combined with an increase of 2.4 percent in foreign liabilities. August 2012 saw the lowest level of commercial Banks' foreign assets and net foreign assets in over 18 years. Monetary authorities saw a 3.3 percent increase in foreign assets driven from 3.4 percent increase in foreign exchange within the Reserve Bank. RBV's foreign liabilities saw an increase of 1.3 percent partly due to an increase in SDR allocation from revaluation gain, leading to an overall increase of 3.7 percent during the month. Over the year, growth in NFA of the monetary authorities has remained strong owing largely to donor inflows reaching 14.3 percent.

Private sector credit increased by 0.8 percent during August, bringing the year-on-year growth rate to 9.1 percent, the same rate as the year to July¹. During the month loans to individuals and households and loans to businesses recorded increases of 0.7 percent and 1.0 percent, respectively. Over the year to August 2012, loans to business and loans to individuals and households recorded increases of 12.0 percent and 6.6 percent, respectively.

Net claims on government of the banking system increased over the month by VT646.3 million. This resulted from a decrease in government deposits with monetary authorities by VT537.9 million, combined with decreases in deposits of 108.4 million with commercial banks. In August, government spent deposits acquired after the issuance of large amount of bonds in June.

Open Market Operations

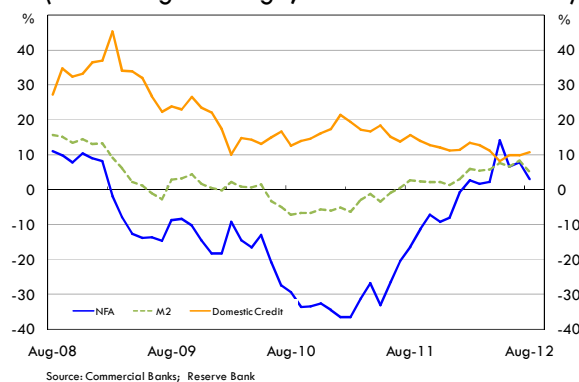
The Bank conducted Four Open Market Operations in September 2012 where it issued VT736 million compared to VT932 million over the previous month.

The total tender for those four issues were over-subscribed by VT1.38 billion. The over subscription reflects the high level of liquidity in the system.

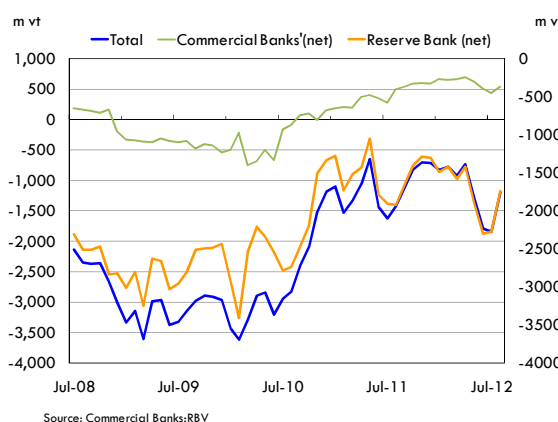
Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

¹ Revised from 9.3 %to 9.1 %

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



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



Term	Amount Allotted	Yield End August 2012	Yield End July 2012
7 days	146	0.40	0.40
14 days	146	0.40	0.40
28 days	146	0.40	0.40
63 days	151	0.65	0.60
91 days	157	0.10	0.90

Total maturity for the month was VT756 million leaving outstanding notes at VT1.07 billion at the end of September.

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

End of Period	Aug-11	May-12	Jul-12	Aug-12	%Change		
					1 Month	3 months	12months
Foreign Assets	15607.8	16653.1	16890.6	17451.3	3.3	4.8	11.8
Foreign Exchange 1/	15034.5	16074.1	16334.7	16888.1	3.4	5.1	12.3
Reserve Position with IMF	357.7	362.8	348.4	353.2	1.4	-2.6	-1.2
SDR Holdings	215.6	216.2	207.6	210.0	1.1	-2.9	-2.6
Claims on Government	1517.6	1518.5	1518.5	1518.4	0.0	0.0	0.1
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	1979.1	1936.8	2044.3	1874.4	-8.3	-3.2	-5.3
Total Assets	19104.5	20108.4	20453.4	20844.1	1.9	3.7	9.1
Reserve Money	11202.1	12266.9	12078.8	13071.1	8.2	6.6	16.7
Currency outside Banks mVT	4506.0	4559.1	4825.7	4821.5	-0.1	5.8	7.0
Commercial Banks Cash mVT	1390.8	1463.9	1457.1	1425.8	-2.1	-2.6	2.5
Commercial Banks Deposit with RBV mVT	5305.3	6243.9	5796.0	6823.8	17.7	9.3	28.6
Foreign Liabilities 2/	2470.6	2501.7	2407.8	2439.5	1.3	-2.5	-1.3
Government Deposits, of which	3440.5	3426.4	3795.7	3257.8	-14.2	-4.9	-5.3
Government contribution to RTP	357.7	362.8	348.4	353.2	1.4	-2.6	-1.2
RBV Notes	1147.3	1083.7	1084.2	1084.2	0.0	0.0	-5.5
Other Liabilities	844.0	829.7	1086.8	991.6	-8.8	19.5	17.5
TOTAL Liabilities	19104.5	20108.4	20453.4	20844.1	1.9	3.7	9.1

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	Aug-11	May-12	Jul-12	Aug-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1390.8	1463.9	1457.1	1425.8	-2.1	-2.6	2.5
Deposits with RBV	5305.3	6243.9	5796.0	6823.8	17.7	9.3	28.6
RBV Notes	1147.3	1083.7	1084.2	1084.2	0.0	0.0	-5.5
Foreign Assets, of which	17507.8	16162.1	15490.3	14765.8	-4.7	-8.6	-15.7
Claims on non-residents' banks	2500.3	2017.9	1917.2	1800.8	-6.1	-10.8	-28.0
Claims on Private sector	46632.5	49434.9	50490.4	50910.1	0.8	3.0	9.2
Claims on Government	986.3	1085.0	1085.0	1085.0	0.0	0.0	10.0
Other claims 1/	145.0	665.5	621.7	582.1	-6.4	-12.5	301.5
Other Assets	3618.4	2869.3	3232.6	3190.2	-1.3	11.2	-11.8
TOTAL ASSETS	76733.3	79008.1	79257.3	79867.0	0.8	1.1	4.1
Demand Deposits, of which	17959.2	18943.9	18741.0	18412.1	-1.8	-2.8	2.5
Foreign currency	8602.3	9137.3	9088.4	8492.6	-6.6	-7.1	-1.3
Savings deposits, of which	5344.5	5874.9	6201.6	6614.4	6.7	12.6	23.8
Foreign currency	371.0	394.1	352.5	545.8	54.8	38.5	47.1
Time deposits, of which	28095.4	30074.1	29761.9	28907.9	-2.9	-3.9	2.9
Foreign Currency	8497.3	10191.5	10182.6	9172.8	-9.9	-10.0	7.9
Foreign Liabilities, of which	10362.7	8339.1	8674.4	8878.7	2.4	6.5	-14.3
Non residents Banks	1786.3	1497.1	1520.1	1597.4	5.1	6.7	-10.6
Government Deposits	489.9	468.9	653.7	545.3	-16.6	16.3	11.3
Credit from RBV	0.2	0.3	0.3	0.2	-26.8	-25.2	23.7
Other Liabilities, including shareholders' funds	14481.4	15306.9	15224.4	16508.4	8.4	7.8	14.0
TOTAL LIABILITIES	76733.3	79008.1	79257.3	79867.0	0.8	1.1	4.1

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	Aug-11	May-12	Jul-12	Aug-12	%Change		
Monetary Authorities (Net)	13,137.2	14,151.4	14,482.9	15,011.8	3.7	6.1	14.3
Commercial Banks (Net)	7,145.1	7,823.0	6,815.9	5,887.2	-13.6	-24.7	-17.6
2. Net Domestic Assets	35,622.7	37,477.7	38,231.5	37,856.9	-1.0	1.0	6.3
(a) Domestic Credit	45,415.8	48,822.8	49,275.6	50,296.2	2.1	3.0	10.7
(i) Net claims on government	(1,426.5)	(1,291.8)	(1,846.0)	(1,199.6)	35.0	7.1	15.9
Monetary Authorities	(1,922.9)	(1,907.9)	(2,277.2)	(1,739.3)	23.6	8.8	9.5
Commercial Banks	496.4	616.1	431.3	539.7	25.1	-12.4	8.7
(ii) Claims on Non financial Public enterprises (NFPE) (1)	91.9	549.3	505.3	460.1	-8.9	-16.2	400.9
(iii) Claims on Private Sector (2)	46,740.1	49,536.1	50,587.4	51,006.4	0.8	3.0	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	10.4	29.2	29.0	29.4	1.5	0.8	183.3
(b) Other items (net)	(9,793.0)	(11,345.1)	(11,044.2)	(12,439.4)	12.6	9.6	27.0
3. Total Assets= Total Money Supply (M2)	55,905.1	59,452.0	59,530.2	58,755.8	-1.3	-1.2	5.1
(a) Money (M1)	22,465.2	23,503.0	23,566.7	23,233.6	-1.4	-1.1	3.4
(i) Currency outside Banks	4,506.0	4,559.1	4,825.7	4,821.5	-0.1	5.8	7.0
(ii) Demand deposits	17,959.2	18,943.9	18,741.0	18,412.1	-1.8	-2.8	2.5
(b) Quasi-money	33,439.8	35,949.0	35,963.5	35,522.3	-1.2	-1.2	6.2
(i) Saving Deposits	5,344.5	5,874.9	6,201.6	6,614.4	6.7	12.6	23.8
(ii) Time Deposits	28,095.4	30,074.1	29,761.9	28,907.9	-2.9	-3.9	2.9

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		
	Aug-11	May-12	Jul-12	Aug-12	1 Month	3 Months	12 Months
Agriculture	678.7	756.2	756.2	765.0	1.2	1.2	12.7
Fisheries	44.8	35.2	35.2	35.6	1.2	1.2	-20.6
Mining & Quarrying	137.4	184.2	184.2	186.2	1.1	1.1	35.5
Manufacturing	1846.4	1645.3	1645.3	1654.9	0.6	0.6	-10.4
Distribution	3281.9	5061.7	5061.7	5035.1	-0.5	-0.5	53.4
Tourism	3997.2	3985.5	3985.5	3962.7	-0.6	-0.6	-0.9
Entertainment & Catering	332.6	409.2	409.2	399.2	-2.4	-2.4	20.0
Transport	1547.9	1500.7	1500.7	1493.3	-0.5	-0.5	-3.5
Public Utilities	50.7	106.0	106.0	104.1	-1.8	-1.8	105.3
Construction	7215.8	6248.5	6248.5	5501.8	-11.9	-11.9	-23.8
a) Central Government	24.8	220.1	220.1	184.1	-16.4	-16.4	641.7
b) Public Corporation	19.8	195.3	195.3	158.9	-18.6	-18.6	703.9
Financial Institutions	622.2	170.0	170.0	170.7	0.4	0.4	-72.6
Professional & Other Services	3100.3	6180.4	6180.4	6794.3	9.9	9.9	119.2
Housing & Land Purchases	14889.1	15777.3	15777.3	16029.4	1.6	1.6	7.7
Other Personal	8152.7	8311.2	8056.4	8085.9	0.4	-2.7	-0.8
Miscellaneous	993.8	238.1	492.9	838.4	70.1	252.1	-15.6
TOTAL	46936.1	51024.9	51024.9	51399.6	0.7	0.7	9.5
of which Vatu:	37048.2	38696.9	39197.2	39197.2	0.0	1.3	5.8

NB: Loans to Central Gvt does not include government Bonds