



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: Apr 2013

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 176

Apr 2013

### Exchange Rate and International Developments

Over April the IMF made downward revisions to their 2013 economic growth forecasts, however it is now believed the outlook has improved with some of the bigger risks to the world economy subsiding. The IMF now consider there to be a three-speed recovery with the prospects of advanced economies split between the relative success of the US and the continued troubles in the Euro zone, while economic growth in emerging and developing economies remains fairly strong.

In **Australia** the Reserve Bank held its monetary stance and remained concerned with levels of investment outside of the resource sector. Overall slowing economic activity was reflected in the labour market with unemployment ticking up to 5.6 percent in March, the highest rate since the end of 2009. Inflationary pressures in Australia remain fairly subdued reaching 2.5 percent, although inflation is considerably stronger than seen in the same period of 2012.

In **New Zealand** the rate of inflation remained

at 0.9 percent in March meaning that the country continues to experience the weakest rates of inflation in over ten years. The Reserve Bank maintained its monetary policy stance over April, while noting consumer and rebuilding activity appears to be picking up.

In the **United States** unemployment continued on its downward trend, reaching a four-year low at 7.6 percent in March, however in April the IMF suggested that the current rate of economic activity in the region is insufficient to sustain such improvements. Over the month the deteriorating conditions of **Euro zone's** real economy were underlined with unemployment exceeding the 12 percent mark. Inflationary pressures continue to weaken with annual inflation falling to 1.7 percent in March. As a result, the ECB maintained its stance over the month.

During the month, the vatu appreciated against the US dollar and Australian Dollar, but depreciated against the New Zealand dollar and Euro.

### Real Sector Developments

Tourism earnings reached VT6579.8 million at the end of the December quarter 2012. This represents a decline of 7.2 percent from the September quarter of 2012 however this level is substantially higher by 23.8 percent over the same quarter of 2011. The annual growth reflected the large increase in the number of air arrivals in 2012 as compared to 2011.

### Monetary Developments

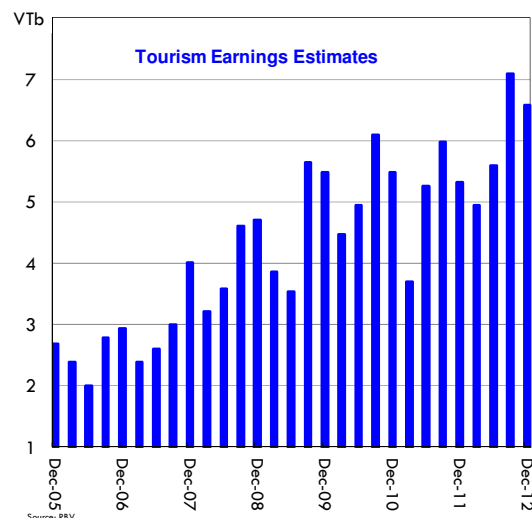
Total money supply (M2) expanded further by 1.1 percent in March 2013 owing to increases in both **Net Foreign Assets (NFA)** and **Domestic Credit** by 0.7 percent and 1.8, respectively. Nevertheless, over the year to March 2013, M2 declined by 1.5 percent.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Apr-13	91.59	94.77	78.35	119.97
1 month ago	91.74	95.79	76.78	117.25
%	-0.2	-1.1	2.0	2.3
3 months ago	90.97	94.74	76.05	123.41
%	0.7	0.0	3.0	-2.8
12 months ago	91.75	95.16	74.96	121.29
%	-0.2	-0.4	4.5	-1.1

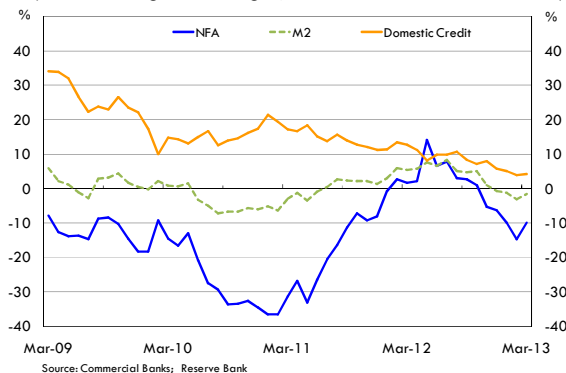
Note : (-) appreciation of vatu

**Chart 1: Tourism Earnings**  
(Billions of Vatu; Quarterly Data)



The improvement in NFA was attributed to an increase of 1.3 percent in the NFA of monetary authorities which outweighed falls of 1.0 percent in the NFA of commercial banks. The Reserve Bank recorded net inflows of foreign exchange in March 2013, which improved its NFA position during the month and over the year to March 2013. Commercial banks on the other hand continued to witness declines in their NFA during the reviewed month and over the same month of last year, respectively. **Private sector credit** grew by 1.1 percent in March 2013 however the annual growth rate slowed further to 4.7 percent as compared to 5.3 percent recorded over the year to February 2013. The decline in private sector growth reflects current subdued economic conditions. Loans extended by Other financial institutions<sup>1</sup> fell by 13 percent and 2.8 percent during the March quarter of 2013 and over same quarter of 2012, respectively.

**Chart 2: Money Supply**  
(Percentage Change; Year-on-Year Growth)

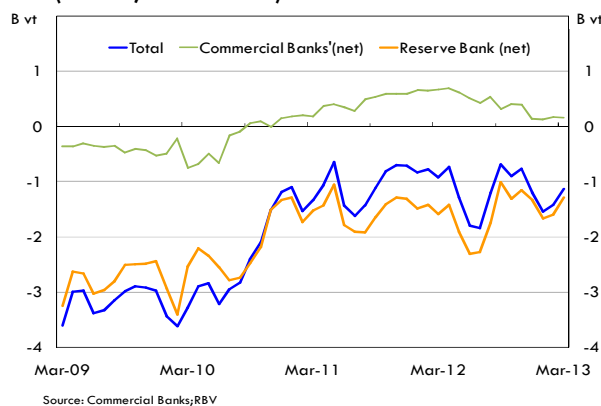


**Net claims on Government** by the banking system increased by 20.5 percent over March as the Government has drawn down its deposits with the Reserve Bank to finance its expenditure. However, the government's net credit position remains favourable over the year to March 2013. Claims on the Government by Other financial institutions remained at VT3499.1 million at the end of March 2013.

**Open Market Operations**

The Bank conducted three Open Market Operations during April 2013 where VT759 million worth of RBV notes were issued compared to VT 1,440 million issued on March 2013. Total subscriptions received for these issues was VT 683 million compared to VT2,760 million received during the previous month.

**Chart 3: Net Claims on Government**  
(Levels; VT millions)



The low level of subscription compared to the level of RBV Notes issued shows that not all commercial banks participated in the auction in April. Total amount of matured RBV notes for the month was at VT532 million leaving outstanding notes at VT1,284 million as of end April compared to VT 1,360 million as reported in the previous month.

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

Term	Amount Allotted	Yield End Apr. 2013	Yield End Mar. 2013
7 days	129	1.30	0.70
14 days	129	1.30	0.70
28 days	167	1.40	0.70
63 days	129	1.30	0.95
91 days	129	1.50	1.00

<sup>1</sup> Other financial Institutions include Credit Corporation, Vanuatu Agriculture Development Bank and the Vanuatu National Provident Fund.

**TABLE A1 : CONDENSED BALANCE SHEET OF RESERVE BANK OF VANUATU**

End of Period	Mar-12	Dec-12	Feb-13	Mar-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16449.1	16713.6	16495.8	16629.7	0.8	-0.5	1.1
Foreign Exchange 1/	15884.7	16148.8	15932.9	16077.8	0.9	-0.4	1.2
Reserve Position with IMF	353.2	350.5	349.5	342.7	-2.0	-2.2	-3.0
SDR Holdings	211.2	214.3	213.4	209.2	-2.0	-2.4	-1.0
Claims on Government	1518.5	1518.3	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	1963.4	1890.1	2110.9	2054.2	-2.7	8.7	4.6
<b>Total Assets</b>	<b>19931.0</b>	<b>20122.0</b>	<b>20125.0</b>	<b>20202.2</b>	0.4	0.4	1.4
Reserve Money	12321.3	12992.1	12826.0	12602.1	-1.7	-3.0	2.3
Currency outside Banks mVT	4505.4	4889.1	4461.8	4595.9	3.0	-6.0	2.0
Commercial Banks Cash mVT	1338.2	2073.4	1734.1	1681.3	-3.0	-18.9	25.6
Commercial Banks Deposit with RBV mVT	6477.8	6029.6	6630.1	6324.9	-4.6	4.9	-2.4
Foreign Liabilities 2/	2436.8	2421.1	2414.1	2368.7	-1.9	-2.2	-2.8
Government Deposits, of which	3104.1	2854.5	3115.2	2807.3	-9.9	-1.7	-9.6
Government contribution to RTP	353.2	350.5	348.5	342.7	-1.7	-2.2	-3.0
RBV Notes	1120.9	802.3	797.4	1357.5	70.2	69.2	21.1
Other Liabilities	947.9	1052.0	972.3	1066.6	9.7	1.4	12.5
<b>TOTAL LIABILITIES</b>	<b>19931.0</b>	<b>20122.0</b>	<b>20125.0</b>	<b>20202.2</b>	0.4	0.4	1.4

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	Mar-12	Dec-12	Feb-13	Mar-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1338.2	2073.4	1734.1	1681.3	-3.0	-18.9	25.6
Deposits with RBV	6477.8	6029.6	6630.1	6324.9	-4.6	4.9	-2.4
RBV Notes	1120.9	802.3	797.4	1357.5	70.2	69.2	21.1
Foreign Assets, of which	16772.9	12957.9	11211.7	10677.0	-4.8	-17.6	-36.3
Claims on non-residents' banks	2017.6	1699.7	650.3	726.3	11.7	-57.3	-64.0
Claims on Private sector	49362.8	51170.4	51146.2	51704.7	1.1	1.0	4.7
Claims on Government	1184.6	787.0	787.0	787.0	0.0	0.0	-33.6
Other claims 1/	579.4	757.2	621.5	680.9	9.6	-10.1	17.5
Other Assets	3085.4	3227.7	3013.4	3745.8	24.3	16.1	21.4
<b>TOTAL ASSETS</b>	<b>79921.9</b>	<b>77805.5</b>	<b>75941.4</b>	<b>76959.1</b>	1.3	-1.1	-3.7
Demand Deposits, of which	19098.2	17745.3	18211.3	19877.4	9.1	12.0	4.1
Foreign currency	9217.6	8030.8	8284.1	9231.5	11.4	15.0	0.2
Savings deposits, of which	5632.9	6505.3	6534.2	6312.2	-3.4	-3.0	12.1
Foreign currency	371.5	410.4	389.8	373.5	-4.2	-9.0	0.5
Time deposits, of which	29609.7	27790.7	28107.9	27174.4	-3.3	-2.2	-8.2
Foreign Currency	9948.4	9009.5	8988.4	8443.1	-6.1	-6.3	-15.1
Foreign Liabilities, of which	9850.9	8403.8	6565.0	6076.3	-7.4	-27.7	-38.3
Non residents Banks	2139.3	1662.8	1490.4	1374.7	-7.8	-17.3	-35.7
Government Deposits	519.6	651.2	616.1	631.9	2.6	-3.0	21.6
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15210.3	16709.2	15907.0	16886.8	6.2	1.1	11.0
<b>TOTAL LIABILITIES</b>	<b>79921.9</b>	<b>77805.5</b>	<b>75941.4</b>	<b>76959.1</b>	1.3	-1.1	-3.7

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	Mar-12	Dec-12	Feb-13	Mar-13	%Change		
					1 Month	3 months	12 Months
					1. Net Foreign Assets	20,934.2	18,846.6
Monetary Authorities (Net)	14,012.3	14,292.5	14,081.7	14,260.9	1.3	-0.2	1.8
Commercial Banks (Net)	6,921.9	4,554.0	4,646.6	4,600.8	-1.0	1.0	-33.5
2. Net Domestic Assets	37,912.0	38,083.7	38,586.8	39,098.3	1.3	2.7	3.1
(a) Domestic Credit	49,123.1	50,468.5	50,348.5	51,241.0	1.8	1.5	4.3
(i) Net claims on government	(920.5)	(1,200.4)	(1,425.9)	(1,133.9)	20.5	5.5	-23.2
Monetary Authorities	(1,585.6)	(1,336.2)	(1,596.8)	(1,289.0)	19.3	3.5	18.7
Commercial Banks	665.1	135.8	171.0	155.1	-9.3	14.2	-76.7
(ii) Claims on Non financial Public enterprises (NFPE)	550.0	370.9	507.9	550.4	8.4	48.4	0.1
(iii) Claims on Private Sector (1)	49,464.2	51,261.7	51,235.1	51,788.4	1.1	1.0	4.7
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	29.4	36.3	31.4	36.0	14.6	-0.9	22.4
(b) Other items (net)	(11,211.1)	(12,384.7)	(11,761.7)	(12,142.7)	3.2	-2.0	8.3
3. Total Assets= Total Money Supply	<b>58,846.2</b>	<b>56,930.3</b>	<b>57,315.1</b>	<b>57,960.0</b>	1.1	1.8	-1.5
(a) Money (M1)	23,603.6	22,634.4	22,673.0	24,473.3	7.9	8.1	3.7
(i) Currency outside Banks	4,505.4	4,889.1	4,461.8	4,595.9	3.0	-6.0	2.0
(ii) Demand deposits	19,098.2	17,745.3	18,211.3	19,877.4	9.1	12.0	4.1
(b) Quasi-money	35,242.6	34,295.9	34,642.1	33,486.7	-3.3	-2.4	-5.0
(i) Saving Deposits	5,632.9	6,505.3	6,534.2	6,312.2	-3.4	-3.0	12.1
(ii) Time Deposits	29,609.7	27,790.7	28,107.9	27,174.4	-3.3	-2.2	-8.2

1) Include RBV staff loans excluding credit corp

**Commercial Banks Sectoral Distribution of Loans and Advances**

SECTOR	(Millions of Vatu)			% Change	
	Mar-12	Feb-13	Mar-13	1 Month	12 Months
Agriculture	673.4	916.1	930.2	1.5	38.1
Fisheries	38.4	31.1	32.8	5.5	-14.4
Mining & Quarring	152.0	198.8	201.0	1.1	32.2
Manufacturing	1786.2	1588.7	1528.1	-3.8	-14.4
Distribution	3374.8	7081.6	7151.0	1.0	111.9
Tourism	4907.8	4343.0	4464.2	2.8	-9.0
Entertainment & Catering	422.0	350.5	256.4	-26.9	-39.2
Transport	1408.4	1193.9	1210.7	1.4	-14.0
Public Utilities	49.1	83.0	81.3	-2.0	65.6
Construction	7377.5	5483.9	5509.4	0.5	-25.3
a) Central Government	27.2	27.9	32.5	16.6	19.8
b) Public Corporation	234.5	224.4	266.0	18.5	13.4
Financial Institutions	564.9	160.7	192.5	19.7	-65.9
Professional & Other Services	3164.8	6217.0	6352.5	2.2	100.7
Housing & Land Purchases	16095.9	14143.1	14223.7	0.6	-11.6
Other Personal	7944.4	8929.9	8991.8	0.7	13.2
Miscellaneous	1898.1	711.8	868.2	22.0	-54.3
<b>TOTAL</b>	<b>50,119.4</b>	<b>51,685.5</b>	<b>52,292.3</b>	1.2	4.3
Of which : Vatu	38640.3	39772.8	40297.9	1.3	4.3