



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: August 2013

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### Exchange Rate and International Developments

During August the Reserve Bank of **Australia** decided to cut its policy rate by 25 basis points to 2.5 percent putting further downward pressure on the Australian Dollar. Policy makers continue to look to interest-sensitive spending and the Dollar's depreciation to help rebalance the economy in the face of the slowing mining sector activity. Unemployment remained flat over the month at a relevantly elevated level of 5.7 percent.

In the **Euro area**, it appears as though the worsening labour market conditions have slowed with unemployment recorded at 12.1 percent in June, the same level as the previous month. Inflationary pressures in the region look to continue to weaken with the initial estimate for August pointing toward a significant slowing to 1.3 percent from 1.6 percent recorded in the previous month.

In the **United States**, economic growth figures were revised upwards, reaching an annualised pace of 2.5 percent in the second quarter of the year owing in part to the strong performance of exports. This was more than double the pace of the previous quarter. Minutes released from July's monetary policy meeting suggest the Federal Reserve still looks toward pulling back their bond-buying programme but most agreed that it was not appropriate in the current conditions. It therefore still remains unclear when the much anticipated 'tapering' will occur.

Over the month the Vatu depreciated against the USD and the Euro, but depreciated against the AUD and the NZD.

### Real Sector Developments

Total visitor arrivals rose by 39 percent for the month of June 2013 compared to June 2012. This growth was largely attributed to a 60 percent growth in cruise-ship visitors as a result of an increase in the number of cruise-ship visits from 8 to 10 vessels. Furthermore air arrivals rose by 12 percent over the year. This increase was led by the major markets, of which Australia accounts for 62 percent of visitors, followed by New Caledonia, New Zealand, Other Pacific Countries and North America. The majority of the visitors came here for holiday, followed by visiting friends/relatives and other purposes. From January to June 2013, cruise ship visitors increased by 15 percent to reach 127,683 visitors relative to the same period of 2012. Moreover, air arrivals reached 46,994 visitors which is a 4 percent growth compared to January to June 2012. Hence, total visitors into the country over the first six months of 2013 increased by 12 percent over the corresponding period of 2012.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Aug-13	98.20	87.78	76.50	131.00
1 month ago	96.45	89.26	77.91	128.08
%	1.8	-1.7	-1.8	2.3
3 months ago	95.32	91.63	77.12	122.55
%	3.0	-4.2	-0.8	6.9
12 months ago	93.03	95.74	74.27	116.37
%	5.6	-8.3	3.0	12.6

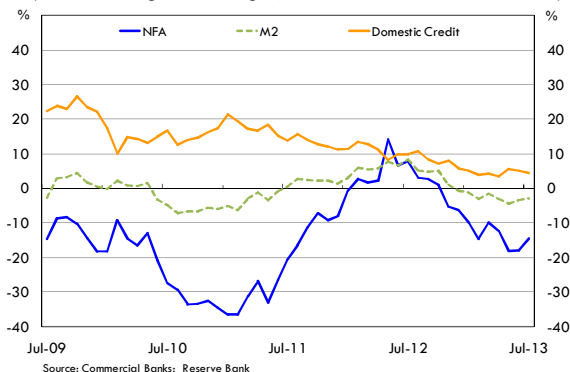
Note : (-) appreciation of vatu

## Monetary Developments

Money supply (M2) rose 1.5 percent in July 2013 owing to increases in both **Net Foreign Assets (NFA)** and **Domestic Credit**. Despite this increase M2 contracted by 2.9 percent over the year to July 2013.

NFA rose 3.2 percent in July due to increases in the NFA holdings of both the Reserve Bank and commercial banks by 0.6 percent and 14.0 percent respectively. The Reserve Bank witnessed net inflows of foreign exchange during the month, while commercial banks recorded increases in their holding of foreign assets and decline in their foreign liabilities. These developments explain the upward trend in overall NFA in the reviewed month. Nonetheless, the year-on-year growth in NFA still portrays a negative trend. **Private sector credit** rose slightly by 0.3 percent in July 2013, however the annual growth fell further to 3.0 percent over the year to July 2013. The downtrend in private sector credit continues to reflect subdued economic conditions. Loans extended by Other financial institutions<sup>1</sup> increased by 3.3 percent and 22.2 percent in July and over the year to July 2013.

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



**Net claims on Government** by the banking system increased by 1.5 percent in July as the Government simultaneously retired VT100 million worth of bonds held with the Reserve Bank, while issuing VT200 million to commercial banks. Likewise, over the year to July 2013, the governments net credit position deteriorated by 34.3 percent. Claims on the Government by Other financial institutions fell to VT 3299.1 million, as the government retired VT 100 million worth of bonds held with them at the end of July 2013.

## Open Market Operations (OMO)

The Bank conducted three OMO's during August 2013 where VT708 million worth of RBV notes were issued compared to VT 1,390 million issued during the previous month. Total subscription received for these issues was VT 1,898 million compared to VT1,964 million received during July. The high level of subscription compared to the level of RBV Notes issued reflects the high liquidity in the system. During the month a total of VT708 million worth of RBV notes matured leaving outstanding notes at VT1264 million as of end August, compared to VT 1323 million in July. The interbank rate ranges from 5.00 to 5.5 percent.

**Table 2: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)**

Term	Amount Allotted	Yield End Aug . 2013	Yield End Jul. 2013
7 days	144	1.10	1.10
14 days	144	1.20	1.20
28 days	145	1.20	1.20
63 days	138	1.25	1.25
91 days	133	1.30	1.30

<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	Jul-12	Apr-13	Jun-13	Jul-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16890.6	16721.4	16722.6	16805.8	0.5	0.5	-0.5
Foreign Exchange 1/	16334.7	16165.6	16136.6	16213.7	0.5	0.3	-0.7
Reserve Position with IMF	348.4	345.1	364.1	368.0	1.0	6.6	5.6
SDR Holdings	207.6	210.7	221.9	224.2	1.0	6.4	8.0
Claims on Government	1518.5	1518.3	1518.3	1418.3	-6.6	-6.6	-6.6
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	2044.3	2010.5	1971.2	1974.3	0.2	-1.8	-3.4
<b>Total Assets</b>	<b>20453.4</b>	<b>20250.3</b>	<b>20212.1</b>	<b>20198.4</b>	-0.1	-0.3	-1.2
Reserve Money	12078.8	12652.6	13090.3	12944.2	-1.1	2.3	7.2
Currency outside Banks mVT	4825.7	4574.0	4775.8	4863.4	1.8	6.3	0.8
Commercial Banks Cash mVT	1457.1	1682.0	1384.8	1628.3	17.6	-3.2	11.8
Commercial Banks Deposit with RBV mVT	5796.0	6396.5	6929.7	6452.6	-6.9	0.9	11.3
Foreign Liabilities 2/	2407.8	2386.5	2542.7	2542.6	0.0	6.5	5.6
Government Deposits, of which	3795.7	2805.9	2725.5	2764.5	1.4	-1.5	-27.2
Government contribution to RTP	348.4	345.1	364.1	368.0	1.0	6.6	5.6
RBV Notes	1084.2	1439.9	1277.6	1445.2	13.1	0.4	33.3
Other Liabilities	1086.8	965.4	576.0	502.0	-12.9	-48.0	-53.8
<b>TOTAL LIABILITIES</b>	<b>20453.4</b>	<b>20250.3</b>	<b>20212.1</b>	<b>20198.4</b>	-0.1	-0.3	-1.2

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	Jul-12	Apr-13	Jun-13	Jul-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1457.1	1682.0	1384.8	1628.3	17.6	-3.2	11.8
Deposits with RBV	5796.0	6396.5	6929.7	6452.6	-6.9	0.9	11.3
RBV Notes	1084.2	1439.9	1277.6	1445.2	13.1	0.4	33.3
Foreign Assets, of which	15490.3	10492.8	10445.4	10902.7	4.4	3.9	-29.6
Claims on non-residents' banks	1917.2	779.4	775.4	760.7	-1.9	-2.4	-60.3
Claims on Private sector	50490.4	51587.2	51835.9	51987.6	0.3	0.8	3.0
Claims on Government	1085.0	787.0	787.0	987.0	25.4	25.4	-9.0
Other claims 1/	534.2	642.1	535.5	798.3	49.1	24.3	49.4
Other Assets	3320.1	3407.8	3605.9	3424.0	-5.0	0.5	3.1
<b>TOTAL ASSETS</b>	<b>79257.3</b>	<b>76435.3</b>	<b>76801.7</b>	<b>77625.7</b>	1.1	1.6	-2.1
Demand Deposits, of which	18741.0	19262.2	19060.6	19730.1	3.5	2.4	5.3
Foreign currency	9088.4	8858.6	8609.1	8545.7	-0.7	-3.5	-6.0
Savings deposits, of which	6201.6	6356.8	6546.5	6621.4	1.1	4.2	6.8
Foreign currency	352.5	419.6	425.8	506.6	19.0	20.7	43.7
Time deposits, of which	29761.9	27481.0	26567.9	26566.2	0.0	-3.3	-10.7
Foreign Currency	10182.6	8584.7	7504.4	7624.6	1.6	-11.2	-25.1
Foreign Liabilities, of which	8674.4	6202.3	6996.6	6972.1	-0.3	12.4	-19.6
Non residents Banks	1520.1	1421.0	2156.2	2292.7	6.3	61.3	50.8
Government Deposits	653.7	696.3	810.5	853.6	5.3	22.6	30.6
Credit from RBV	0.3	0.0	0.0	0.0	0.0		-100.0
Other Liabilities, including shareholders' funds	15224.4	16437.1	16819.7	16882.3	0.4	2.7	10.9
<b>TOTAL LIABILITIES</b>	<b>79257.3</b>	<b>76435.6</b>	<b>76801.7</b>	<b>77625.7</b>	1.1	1.6	-2.1

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	Jul-12	Apr-13	Jun-13	Jul-13	%Change		
					1 Month	3 months	12 Months
					1. Net Foreign Assets	21,298.8	18,625.4
Monetary Authorities (Net)	14,482.9	14,334.9	14,179.9	14,263.2	0.6	-0.5	-1.5
Commercial Banks (Net)	6,815.9	4,290.5	3,448.8	3,930.5	14.0	-8.4	-42.3
2. Net Domestic Assets	38,231.5	39,048.6	39,322.0	39,587.3	0.7	1.4	3.5
(a) Domestic Credit	49,275.6	51,002.4	51,212.3	51,438.9	0.4	0.9	4.4
(i) Net claims on government	(1,846.0)	(1,196.8)	(1,230.7)	(1,212.8)	1.5	-1.3	34.3
Monetary Authorities	(2,277.2)	(1,287.6)	(1,207.3)	(1,346.2)	-11.5	-4.6	40.9
Commercial Banks	431.3	90.8	(23.5)	133.4	-668.4	47.0	-69.1
(ii) Claims on Non financial Public enterprises (NFPE)	505.3	509.8	503.0	566.6	12.7	11.1	12.1
(iii) Claims on Private Sector (1)	50,587.4	51,661.7	51,907.5	52,053.4	0.3	0.8	2.9
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	29.0	27.7	32.5	31.7	-2.7	14.4	9.3
(b) Other items (net)	(11,044.2)	(11,953.8)	(11,890.3)	(11,851.6)	-0.3	-0.9	7.3
3. Total Assets= Total Money Supply	<b>59,530.2</b>	<b>57,674.0</b>	<b>56,950.8</b>	<b>57,781.1</b>	1.5	0.2	-2.9
(a) Money (M1)	23,566.7	23,836.2	23,836.4	24,593.4	3.2	3.2	4.4
(i) Currency outside Banks	4,825.7	4,574.0	4,775.8	4,863.4	1.8	6.3	0.8
(ii) Demand deposits	18,741.0	19,262.2	19,060.6	19,730.1	3.5	2.4	5.3
(b) Quasi-money	35,963.5	33,837.8	33,114.4	33,187.6	0.2	-1.9	-7.7
(i) Saving Deposits	6,201.6	6,356.8	6,546.5	6,621.4	1.1	4.2	6.8
(ii) Time Deposits	29,761.9	27,481.0	26,567.9	26,566.2	0.0	-3.3	-10.7

1) Include RBV staff loans excluding credit corp

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

SECTOR	(Millions of Vatu)			% Change	
	Jul-12	May-13	Jul-13	1 Month	12 Months
Agriculture	756.2	945.9	944.2	-0.2	24.9
Fisheries	35.2	34.0	33.3	-2.0	-5.3
Mining & Quarring	184.2	157.4	160.1	1.7	-13.1
Manufacturing	1645.3	1511.5	1488.3	-1.5	-9.5
Distribution	5061.7	7228.1	7240.2	0.2	43.0
Tourism	3985.5	4408.6	4403.0	-0.1	10.5
Entertainment & Catering	409.2	273.2	268.6	-1.7	-34.4
Transport	1500.7	1151.2	1127.6	-2.0	-24.9
Public Utilities	106.0	271.8	269.0	-1.0	153.7
Construction	6248.5	5743.6	5703.7	-0.7	-8.7
a) Central Government	24.8	29.5	28.7	-2.7	0.0
b) Public Corporation	195.3	215.0	250.3	16.4	28.1
Financial Institutions	170.0	161.5	163.6	1.3	-3.7
Professional & Other Services	6180.4	6216.4	6320.0	1.7	2.3
Housing & Land Purchases	15777.3	14243.6	14452.9	1.5	-8.4
Other Personal	8056.4	8877.3	8901.8	0.3	10.5
Miscellaneous	688.2	903.0	830.7	-8.0	20.7
<b>TOTAL</b>	<b>51,024.9</b>	<b>52,371.5</b>	<b>52,586.0</b>	0.4	3.1
Of which : Vatu	39197.2	40126.9	40419.9	0.7	3.1