



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: Feb 2013

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Exchange Rate and International Developments

Over February statistical releases and central bank forecasts across the world continued to underline the limited ability of policy measures to feed through into some kind of recovery in economic activity and employment.

In the **United States**, January's unemployment rate was estimated at 7.9 percent having remained around this level since September 2012. Inflation remained flat at 1.6 percent. Therefore, despite upward revisions to fourth quarter GDP growth, efforts by the Federal Reserve have yet to feed through into any sustained improvements for the real economy. Over the month, the Chairman of the Federal Reserve reiterated his commitment to monetary stimulus, while asking the government to be mindful of the impact of a rapid fall in government spending on the prospects for recovery. Over February, the Reserve Bank of **Australia** revised down its economic growth and inflation forecasts, reflecting in part the continued strength of the currency, subdued non-resource investment and fiscal consolidation. As a result, economic growth is expected to be below trend in 2013 before recovering in 2014. Reflecting this, Reserve Bank policy interest rates were held over the month.

Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Feb-13	92.41	94.55	76.40	121.47
1 month ago	90.97	94.74	76.05	123.41
%	1.6	-0.2	0.5	-1.6
3 months ago	91.66	95.65	75.45	118.95
%	0.8	-1.2	1.3	2.1
12 months ago	89.75	96.73	75.21	120.88
%	3.0	-2.3	1.6	0.5

Note : (-) appreciation of vatu

In **New Zealand** the labour market saw some signs of improvement at the end of December quarter 2012, falling to 6.9 percent from 7.3 percent recorded in the last quarter. In the **Euro area** economic activity continued to slow with GDP growth contracting by 0.6 percent over the quarter from 0.1 percent over the September quarter. Inflationary pressures also remained subdued over January with inflation falling to 2.0 percent from 2.2 percent in December 2012. In February the European Commission announced it expects further declines in activity and increases in unemployment in the region. Unemployment is therefore expected to exceed 12 percent in 2013 before beginning to fall back.

Real Sector Developments

Headline inflation as measured by the **Consumer Price Index** for the year-ended December Quarter 2012 rose 0.8 percent (a drop from 1.1 percent recorded in the September quarter). This is represented by an increase of 0.9 percent for Port Vila and 0.5 percent for Luganville. The All Group CPI rose by merely 0.1 percent over the previous quarter. The main contributing causes for the increase in CPI over the year was due to higher price for miscellaneous, clothing and footwear, household supplies, recreation, food and education due to increases in women's clothing, furniture and furnishings, recreation, dairy and related products and tertiary education. The increase was off-set by a decline in prices for transportation, communication, health, and housing and utilities. Forecast for inflation in the upcoming quarters is still expected to remain within the bound of RBV target range of 0-4 percent generally reflecting the weak international commodity prices. (Source: Vanuatu National Statistics Office)

Monetary Developments

Broad money supply (M2) contracted further by 0.5 percent in January 2013. The trend continued to reflect declines of 1.2 percent and 0.4 percent in **Net Foreign Assets (NFA)** and **Domestic Credit**, respectively. The annual trend in M2 followed a similar trend, recording a fall of 1.1 percent over the year to January 2013.

The downtrend in the banking system NFA witnessed during the second half of 2012 continued through to January 2013 with the NFA holdings of both the monetary authorities and commercial banks' registering falls of 0.6 percent and 3.2 percent over the month, respectively. The Reserve Bank, witnessed net outflows of foreign exchange during the

month however the level remained slightly higher than a year ago. Commercial banks recorded declines in both their holdings of foreign assets and foreign liabilities over the month and year.

Growth in **Private sector credit** in January 2013 remained virtually unchanged from December 2012. This led to the annual growth slowing further to 6.4 percent over the year to January 2013. The trend continued to reflect the slowdown in economic activities over the year. Loans extended by Other financial institutions¹ contracted by 1.3 percent in January and by 4.7 percent over the year to January 2013.

Net claims on Government by the banking system declined by 28.1 percent in January and 85.5 percent over the year to January 2013. This improvement reflected increases in revenue collection during the month, as mirrored in the accumulation of government deposits held with the Reserve Bank and commercial banks, respectively.

Claims on the Government by Other financial institutions stood at VT3499.1 million the end of January 2013. This represents an increase of VT1750 million from a year ago.

Open Market Operations

The Bank conducted four Open Market Operations during February 2013 where VT765 million worth of RBV notes were issued compared to VT 499 million issued on January 2013. Total subscriptions received for these issues were VT 1,065 million compared to VT580 million received during the previous month. The high level of subscription compared to the level of issue reflects the excessive level of liquidity in the system and the weekly increase in RBV notes issued. Total maturity for the month was VT554 million leaving outstanding notes at VT799 million as of end February compared to VT 563 million at the end of the previous month. The inter-bank rate remained at 5.5 percent.

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

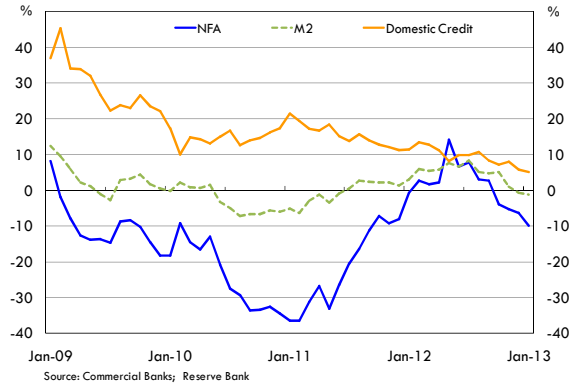


Chart 2: Net Claims on Government
(Levels; VT millions)

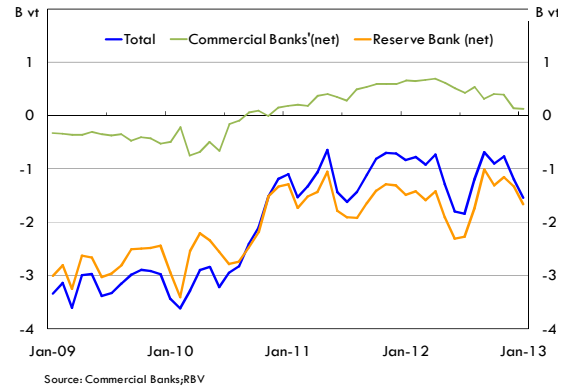


Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

Term	Amount Allotted	Yield End January 2013	Yield End December 2012
7 days	153	0.65	0.55
14 days	153	0.65	0.55
28 days	153	0.70	0.60
63 days	153	0.95	0.85
91 days	153	1.00	0.90

¹ 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	Jan-12	Oct-12	Dec-12	Jan-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16411.7	17025.3	16713.6	16610.3	-0.6	-2.4	1.2
Foreign Exchange 1/	15848.0	16462.6	16148.8	16049.5	-0.6	-2.5	1.3
Reserve Position with IMF	352.7	353.4	350.5	348.1	-0.7	-1.5	-1.3
SDR Holdings	211.0	209.3	214.3	212.8	-0.7	1.6	0.9
Claims on Government	1518.5	1518.3	1518.3	1518.4	0.0	0.0	0.0
Advances to statutory Bodies	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
Other Assets	2027.5	1994.3	1890.1	1923.1	1.7	-3.6	-5.1
Total Assets	19957.7	20537.9	20122.0	20051.8	-0.3	-2.4	0.5
Reserve Money	11221.9	13058.1	12992.1	12919.9	-0.6	-1.1	15.1
Currency outside Banks mVT	4485.2	4768.0	4889.1	4550.1	-6.9	-4.6	1.4
Commercial Banks Cash mVT	1443.0	1726.1	2073.4	1739.2	-16.1	0.8	20.5
Commercial Banks Deposit with RBV mVT	5293.6	6564.0	6029.6	6630.6	10.0	1.0	25.3
Foreign Liabilities 2/	2434.3	2440.6	2421.1	2404.5	-0.7	-1.5	-1.2
Government Deposits, of which	3007.1	2822.3	2854.5	3181.7	11.5	12.7	5.8
Government contribution to RTP	352.7	353.4	350.5	348.1	-0.7	-1.5	-1.3
RBV Notes	2218.3	1217.0	802.3	561.6	-30.0	-53.9	-74.7
Other Liabilities	1076.1	999.8	1052.0	984.0	-6.5	-1.6	-8.6
TOTAL LIABILITIES	19957.7	20537.9	20122.0	20051.8	-0.3	-2.4	0.5

- 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	Jan-12	Oct-12	Dec-12	Jan-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1443.0	1726.1	2073.4	1739.2	-16.1	0.8	20.5
Deposits with RBV	5293.6	6564.0	6029.6	6630.6	10.0	1.0	25.3
RBV Notes	2218.3	1217.0	802.3	561.6	-30.0	-53.9	-74.7
Foreign Assets, of which	16376.0	14918.1	12957.9	10990.4	-15.2	-26.3	-32.9
Claims on non-residents' banks	2662.1	1737.0	1699.7	628.1	-63.0	-63.8	-76.4
Claims on Private sector	48080.7	50041.9	51170.4	51187.0	0.0	2.3	6.5
Claims on Government	1184.6	985.0	787.0	787.0	0.0	-20.1	-33.6
Other claims 1/	506.2	468.6	757.2	738.7	-2.4	57.6	45.9
Other Assets	3046.3	3430.3	3227.7	2818.3	-12.7	-17.8	-7.5
TOTAL ASSETS	78148.7	79351.1	77805.5	75452.8	-3.0	-4.9	-3.4
Demand Deposits, of which	17688.6	18972.4	17745.3	17388.1	-2.0	-8.4	-1.7
Foreign currency	8055.0	8612.1	8030.8	8011.4	-0.2	-7.0	-0.5
Savings deposits, of which	5413.5	6890.7	6505.3	6590.7	1.3	-4.4	21.7
Foreign currency	350.8	695.5	410.4	406.8	-0.9	-41.5	16.0
Time deposits, of which	29701.3	28835.8	27790.7	28108.2	1.1	-2.5	-5.4
Foreign Currency	9548.8	9472.4	9009.5	9034.2	0.3	-4.6	-5.4
Foreign Liabilities, of which	9701.0	8233.1	8403.8	6582.9	-21.7	-20.0	-32.1
Non residents Banks	1656.3	3604.0	1662.8	1508.2	-9.3	-58.2	-8.9
Government Deposits	524.7	583.3	651.2	661.0	1.5	13.3	26.0
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15119.6	15835.5	16709.2	16121.9	-3.5	1.8	6.6
TOTAL LIABILITIES	78148.6	79351.1	77805.5	75452.9	-3.0	-4.9	-3.4

* Data have been revised

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	Jan-12	Oct-12	Dec-12	Jan-13	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	20,652.4	21,269.7	18,846.6	18,613.3	-1.2	-12.5	-9.9
Monetary Authorities (Net)	13,977.4	14,584.7	14,292.5	14,205.8	-0.6	-2.6	1.6
Commercial Banks (Net)	6,675.1	6,685.0	4,554.0	4,407.5	-3.2	-34.1	-34.0
2. Net Domestic Assets	36,636.2	38,197.3	38,083.7	38,023.9	-0.2	-0.5	3.8
(a) Domestic Credit	47,860.9	49,700.5	50,468.5	50,270.9	-0.4	1.1	5.0
(i) Net claims on government	(828.6)	(902.3)	(1,200.4)	(1,537.3)	-28.1	-70.4	-85.5
Monetary Authorities	(1,488.6)	(1,304.0)	(1,336.2)	(1,663.4)	-24.5	-27.6	-11.7
Commercial Banks	660.0	401.7	135.8	126.1	-7.2	-68.6	-80.9
(ii) Claims on Non financial Public enterprises (NFPE)	470.6	439.8	370.9	490.5	32.2	11.5	4.2
(iii) Claims on Private Sector (1)	48,183.4	50,134.2	51,261.7	51,279.5	0.0	2.3	6.4
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	35.6	28.9	36.3	38.1	5.1	32.1	7.1
(b) Other items (net)	(11,224.7)	(11,503.2)	(12,384.7)	(12,246.9)	-1.1	6.5	9.1
3. Total Assets= Total Money Supply	57,288.6	59,467.0	56,930.3	56,637.2	-0.5	-4.8	-1.1
(a) Money (M1)	22,173.9	23,740.5	22,634.4	21,938.3	-3.1	-7.6	-1.1
(i) Currency outside Banks	4,485.2	4,768.0	4,889.1	4,550.1	-6.9	-4.6	1.4
(ii) Demand deposits	17,688.6	18,972.4	17,745.3	17,388.1	-2.0	-8.4	-1.7
(b) Quasi-money	35,114.8	35,726.5	34,295.9	34,699.0	1.2	-2.9	-1.2
(i) Saving Deposits	5,413.5	6,890.7	6,505.3	6,590.7	1.3	-4.4	21.7
(ii) Time Deposits	29,701.3	28,835.8	27,790.7	28,108.2	1.1	-2.5	-5.4

1) Include RBV staff loans excluding credit corp