



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: Jan 2013

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### **Exchange Rate and International Developments**

Over January the IMF updated to their World Economic Outlook and revised down headline growth forecasts. As a result global growth is projected to pick up only modestly during 2013. They suggest downside risks remain significant, including renewed problems in the euro area and risks of excessive near-term fiscal consolidation in the United States.

In the **US**, December's CPI was flat in comparison to November, leading to an increase of 1.7 percent over the year. Given the modest inflationary pressures, the Federal Reserve remain concerned over the slow recovery, meaning the federal funds rate is expected to remain appropriate at least until the unemployment rate remains falls below 6-1/2 percent. In **New Zealand** too inflationary pressures have been weak. December quarter inflation contracted 0.2 percent, while the annual rate remained at historically low levels of 0.9 percent. In January the Reserve Bank of New Zealand held their loose monetary stance but highlighted their concern over recent increases in house prices.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Jan-13	90.97	94.74	76.05	123.41
1 month ago	91.73	95.10	75.18	121.19
%	-0.8	-0.4	1.2	1.8
3 months ago	92.05	95.34	75.35	119.07
%	-1.2	-0.6	0.9	3.6
12 months ago	90.99	96.43	74.50	119.44
%	0.0	-1.8	2.1	3.3

Note : (-) appreciation of vatu

In **Australia** consumer prices showed a slight upturn with increases of 0.2 percent over the December quarter and 2.2 percent over the year. Unemployment ticked up to 5.4 percent in December 2012 from 5.3 percent, returning to the levels seen in September and October. **Euro area** annual inflation held steady at 2.2 percent in December 2012, the same as in November but down on October, August and September 2012. The euro area seasonally-adjusted unemployment rate has continued to increase reaching 11.8 percent in November 2012, up from 11.7 percent in October. Over the month, the European Central Bank held its stance and with financial sector stability improving they expect somewhat of a recovery in 2013.

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 arrivals** for the month of December 2012 continued to show increase over the year. Both air and cruise-ship arrivals rose 23 percent and 39 percent over the year respectively (recording 11,070 air visitors and 17,188 cruise visitors). As a result, the total non-resident arrivals rose 32 percent over the year to 28,258 visitors. The increase in air visitors was led by increases from the major markets: Australia, New Zealand, New Caledonia, Other Pacific Countries, N. America, Europe, Japan and Other Countries. Visitors on holiday made up by 21 percent of total arrivals, meeting and conferences (51 percent) and those visiting friends/relatives (20 percent). The January-December 2012 accumulated data concluded a strong performing year for tourism as air arrivals rose 15 percent and cruise-ship arrivals rose 41 percent over the year.

**Total export earnings** for the month of December declined over the year (despite an increase in the month) to VT430 million while total imports fell slightly to VT2.2 billion The export earnings (accumulated) for the year-ended period January – December 2012 period declined 16 percent to VT5.1 billion while total imports rose 0.7 percent over the year to VT27.5 billion. Compared to the same period of last year, the trade deficit rose (deteriorated) 5.4 percent to VT22.4 billion. This was a result of declined export earnings (from major export commodities of coconut oil, sawn timber, kava, live fish, alcoholic drinks, fish and other products despite improvement in copra, beef and cocoa exports

in the period) and increased import expenditure throughout the period (in particularly beverages and tobacco, crude materials except fuels, oils, fats and waxes, basic manufactured products, and machines and transport equipment while food and live animals, mineral fuels, chemical products and miscellaneous manufactured goods declined). (Source: Vanuatu National Statistics Office)

### **Monetary Developments**

Total money supply (M2) declined further by 2.3 percent at the end of 2012 causing the annual growth rate to contract 0.6 percent over the year to December 2012. The fall in money supply was mirrored in both its determinants, of which **Net Foreign Assets (NFA) and Domestic Credit** fell by 4.6 percent and 0.5 percent respectively.

The NFA holdings of both the monetary authorities and commercial banks registered falls of 1.5 percent and 13.3 percent respectively leading to the overall downward movement in NFA. Monetary authorities recorded net outflows of foreign exchange during the month though the level remained high as compared to a year ago. Likewise, commercial banks foreign assets contracted during the month and over the year respectively.

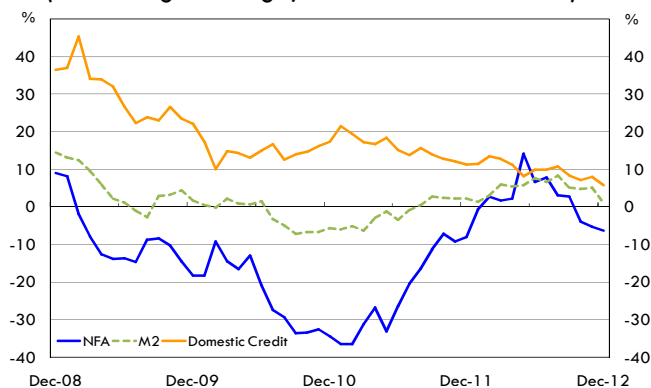
**Growth in Private sector credit** decelerated in December to 0.4 percent from a 1.9 percent growth in November causing the annual growth to slow to 6.9 percent down from 7.4 percent over the year to November 2012. The trend in private sector credit reflected the slow growth in the economy over the year.

**Net claims on Government<sup>1</sup>** by the banking system decreased by 57.6 percent in December 2012 and by 68.5 percent over the year. This was attributed to increases in government deposits held with both the reserve bank and commercial banks over the month and year respectively. The improvement reflected a maturity of government bond held by one commercial bank and likewise the issuance of government bond during December 2012, respectively.

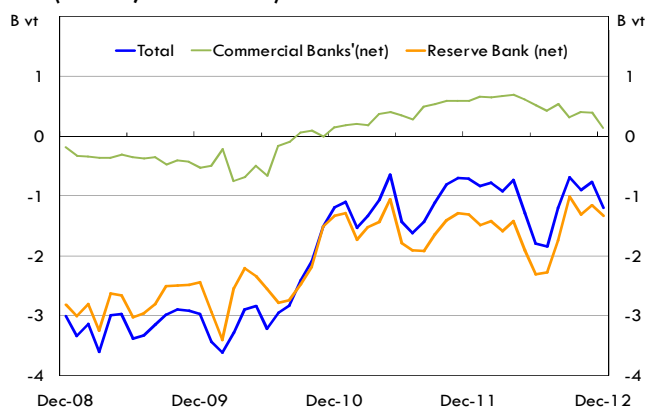
### **Open Market Operations**

The Bank conducted four Open Market Operations during January 2013 where VT499 million worth of RBV notes were issued compared to VT 452 million issued on December 2012. Total tender received were over-subscribed by VT580 million. This high level of subscription reflects the excessive level of liquidity in the system. Total maturity for the month was VT454 million leaving outstanding notes at VT563 million as of end January compared to VT 1.01 billion 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	98	0.55	0.40
14 days	98	0.55	0.40
28 days	97	0.60	0.40
63 days	97	0.85	0.59
91 days	109	0.90	0.89

<sup>1</sup> Net Claims on Government by the banking system may reflect claims by Other Non-Financial Institution not captured by the monetary survey.

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

End of Period	Dec-11	Sep-12	Nov-12	Dec-12	%Change		
					1 Month	3 months	12months
Foreign Assets	16258.7	16983.8	16930.1	16713.6	-1.3	-1.6	2.8
Foreign Exchange 1/	15686.9	16421.5	16365.0	16148.8	-1.3	-1.7	2.9
Reserve Position with IMF	359.3	353.1	350.7	350.5	-0.1	-0.7	-2.5
SDR Holdings	212.4	209.2	214.4	214.3	-0.1	2.4	0.9
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	2029.4	1942.8	1848.7	1890.1	2.2	-2.7	-6.9
<b>Total Assets</b>	<b>19806.6</b>	<b>20444.9</b>	<b>20297.1</b>	<b>20122.0</b>	-0.9	-1.6	1.6
Reserve Money	11880.8	13381.9	12791.7	12992.1	1.6	-2.9	9.4
Currency outside Banks mVT	4885.7	4900.0	4844.9	4889.1	0.9	-0.2	0.1
Commercial Banks Cash mVT	1686.4	1528.6	1549.7	2073.4	33.8	35.6	22.9
Commercial Banks Deposit with RBV mVT	5308.7	6953.4	6397.1	6029.6	-5.7	-13.3	13.6
Foreign Liabilities 2/	2477.4	2438.8	2423.0	2421.1	-0.1	-0.7	-2.3
Government Deposits, of which	2823.9	2526.8	2677.0	2854.5	6.6	13.0	1.1
Government contribution to RTP	359.3	353.1	350.7	350.5	-0.1	-0.7	-2.5
RBV Notes	1619.1	1068.1	1220.0	802.3	-34.2	-24.9	-50.4
Other Liabilities	1005.2	1029.3	1185.4	1052.0	-11.3	2.2	4.7
<b>TOTAL Liabilities</b>	<b>19806.6</b>	<b>20444.9</b>	<b>20297.1</b>	<b>20122.0</b>	-0.9	-1.6	1.6

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	Dec-11	Sep-12	Nov-12 *	Dec-12	%Change		
					1 Month	3 months	12 Months
Domestic currency	1686.4	1528.6	1549.7	2073.4	33.8	35.6	22.9
Deposits with RBV	5308.7	6953.4	6397.1	6029.6	-5.7	-13.3	13.6
RBV Notes	1619.1	1068.1	1220.0	802.3	-34.2	-24.9	-50.4
Foreign Assets, of which	16198.7	15327.8	14027.1	12957.9	-7.6	-15.5	-20.0
Claims on non-residents' banks	2635.6	1790.4	1755.1	1699.7	-3.2	-5.1	-35.5
Claims on Private sector	47856.3	49906.7	50974.9	51170.4	0.4	2.5	6.9
Claims on Government	1186.7	985.0	985.0	787.0	-20.1	-20.1	-33.7
Other claims 1/	443.8	443.5	426.0	757.2	77.8	70.7	70.6
Other Assets	3155.5	3311.8	3295.0	3227.7	-2.0	-2.5	2.3
<b>TOTAL ASSETS</b>	<b>77455.3</b>	<b>79524.7</b>	<b>78874.7</b>	<b>77805.5</b>	-1.4	-2.2	0.5
Demand Deposits, of which	17527.7	19067.8	17990.7	17745.3	-1.4	-6.9	1.2
Foreign currency	7827.0	8832.9	8206.0	8030.8	-2.1	-9.1	2.6
Savings deposits, of which	5737.4	6757.9	6725.2	6505.3	-3.3	-3.7	13.4
Foreign currency	376.8	589.1	480.9	410.4	-14.7	-30.3	8.9
Time deposits, of which	29136.9	28623.4	28720.8	27790.7	-3.2	-2.9	-4.6
Foreign Currency	9180.4	9108.6	9179.0	9009.5	-1.8	-1.1	-1.9
Foreign Liabilities, of which	9867.0	8757.1	8773.2	8403.8	-4.2	-4.0	-14.8
Non residents Banks	1646.5	1553.1	1745.2	1662.8	-4.7	7.1	1.0
Government Deposits	593.9	665.0	587.8	651.2	10.8	-2.1	9.7
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	14592.3	15653.1	16077.0	16709.2	3.9	6.7	0.0
<b>TOTAL LIABILITIES</b>	<b>77455.3</b>	<b>79524.6</b>	<b>78874.7</b>	<b>77805.5</b>	-1.4	-2.2	0.5

\* 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	Dec-11	Sep-12	Nov-12 *	Dec-12	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	20,112.9	21,115.6	19,760.9	18,846.6	-4.6	-10.7	-6.3
Monetary Authorities (Net)	13,781.2	14,545.0	14,507.0	14,292.5	-1.5	-1.7	3.7
Commercial Banks (Net)	6,331.7	6,570.6	5,253.9	4,554.0	-13.3	-30.7	-28.1
2. Net Domestic Assets	37,174.7	38,233.5	38,520.7	38,083.7	-1.1	-0.4	2.4
(a) Domestic Credit	47,694.6	49,754.8	50,732.0	50,468.5	-0.5	1.4	5.8
(i) Net claims on government	(712.6)	(688.5)	(761.5)	(1,200.4)	-57.6	-74.4	-68.5
Monetary Authorities	(1,305.4)	(1,008.4)	(1,158.7)	(1,336.2)	-15.3	-32.5	-2.4
Commercial Banks	592.8	320.0	397.2	135.8	-65.8	-57.6	-77.1
(ii) Claims on Non financial Public enterprises (NFPE)	410.2	410.0	396.5	370.9	-6.5	-9.5	-9.6
(iii) Claims on Private Sector (1)	47,963.3	49,999.8	51,067.6	51,261.7	0.4	2.5	6.9
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	33.6	33.5	29.5	36.3	23.1	8.4	7.8
(b) Other items (net)	(10,519.8)	(11,521.3)	(12,211.4)	(12,384.7)	1.4	7.5	17.7
3. Total Assets= Total Money Supply	<b>57,287.6</b>	<b>59,349.1</b>	<b>58,281.6</b>	<b>56,930.3</b>	-2.3	-4.1	-0.6
(a) Money (M1)	22,413.3	23,967.8	22,835.6	22,634.4	-0.9	-5.6	1.0
(i) Currency outside Banks	4,885.7	4,900.0	4,844.9	4,889.1	0.9	-0.2	0.1
(ii) Demand deposits	17,527.7	19,067.8	17,990.7	17,745.3	-1.4	-6.9	1.2
(b) Quasi-money	34,874.3	35,381.3	35,446.0	34,295.9	-3.2	-3.1	-1.7
(i) Saving Deposits	5,737.4	6,757.9	6,725.2	6,505.3	-3.3	-3.7	13.4
(ii) Time Deposits	29,136.9	28,623.4	28,720.8	27,790.7	-3.2	-2.9	-4.6

1) Include RBV staff loans excluding credit corp

\* Data have been revised.

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

SECTOR	(Millions of Vatu)			% Change	
	Dec-11	Nov-12	Dec-12	1 Month	12 Months
Agriculture	659.4	906.9	931.1	2.7	41.2
Fisheries	39.1	32.2	34.4	7.1	-12.0
Mining & Quarring	146.1	192.2	194.4	1.1	33.0
Manufacturing	1832.8	1649.4	1637.1	-0.7	-10.7
Distribution	3471.5	5063.7	5035.8	-0.6	45.1
Tourism	4762.2	4108.4	4350.2	5.9	-8.7
Entertainment & Catering	322.9	356.5	352.2	-1.2	9.1
Transport	1406.1	1329.0	1321.1	-0.6	-6.0
Public Utilities	50.1	86.7	85.2	-1.8	70.1
Construction	7214.7	5842.1	5660.6	-3.1	-21.5
a) Central Government	29.8	25.4	32.3	26.9	8.2
b) Public Corporation	24.3	109.7	75.3	-31.4	209.6
Financial Institutions	591.2	161.4	164.1	1.6	-72.2
Professional & Other Services	3113.4	6244.9	6327.9	1.3	103.2
Housing & Land Purchases	15829.0	12397.2	16175.6	30.5	2.2
Other Personal	7892.7	12040.2	8418.6	-30.1	6.7
Miscellaneous	1221.8	855.0	781.9	-8.6	-36.0
<b>TOTAL</b>	<b>48,607.2</b>	<b>51,400.9</b>	<b>51,577.6</b>	<b>0.3</b>	<b>6.1</b>
Of which : Vatu	38116.9	39744.0	39622.8	-0.3	4.0