



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: July 2013

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Exchange Rate and International Developments

During July the ADB released their latest Pacific Economic Monitor. Overall economic growth in 2013 across the Pacific Islands is expected to slow further than previously estimated, largely reflecting a significant downward revision to activity in the Solomon Islands with weakening gold production. It is now believed that Pacific region will see a recovery in 2014 in line with the projected upturn in the world economy.

With inflation in **Australia** remaining low at 2.4 percent recorded in June 2013, the Reserve Bank held its policy interest rate to help stimulate broader based economic activity. Over the month, the impact of the slowing economy was seen in the latest labour market data which showed unemployment reached 5.7 percent in June, the highest rate seen since 2009. Data released over the month also confirmed that in **New Zealand** inflationary pressures remained particularly subdued. Inflation over the year to June 2013 was 0.7 percent, its lowest rate in 14 years.

In the **United States**, the Federal Reserve decided to hold its monetary policy stance with the Federal Funds rate still expected to remain at the current level until at least unemployment falls to 6.5 percent. Inflation is projected to remain within target with having reached 1.8 percent in the year to June. Over June the unemployment rate remained at 7.6 percent. In the **Euro area** unemployment fell back slightly to 12.1 percent in June, while inflation was stable at 1.6 percent.

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

Real Sector Developments

Total visitor arrivals for May 2013 declined by 3 percent over the same month of 2012 due to a decline of 5% in cruise-ship visits. This trend was mainly attributed to a drop in the number of cruise-ship visits from 14 to 8 vessels. Air visitors however increased by 3% over the year. The increase was led by Australia and Japan. Majority of visitors came here for holiday, friends/relatives and other purposes. From January to May 2013, total visitor arrivals grew by 7 percent as compared to the same period of 2012. Of this growth, cruise ship visitors rose 9 percent to 106,972 visitors and air arrivals rose 2 percent to 35,788 visitors. (Source: Vanuatu National Statistics Office)

Headline inflation as measured by the Consumer Price Index (CPI) for the year-ended June Quarter 2013 rose 1.5 percent (an increase from 1.4 percent recorded in the March quarter). This is represented by an increase of 1.4 percent for Port Vila and 1.9 percent for Luganville. The All Group CPI rose by 0.2 percent over the previous quarter). The main contributing causes for the increase in CPI over the year was due to higher price for food, housing and utilities, clothing and footwear, miscellaneous, recreation, communication, and drinks and tobacco. The increase was off-set by decline in prices for transport. (Source: Vanuatu National Statistics Office)

Monetary Developments

Money supply (M2) contracted by 2.1 percent in June 2013, reflecting declines of 6.0 percent and 0.6 percent **Net Foreign Assets (NFA)** and **Domestic Credit** correspondingly. This decline triggered the annual growth of M2 to contract by 3.4 percent over the year to June 2013.

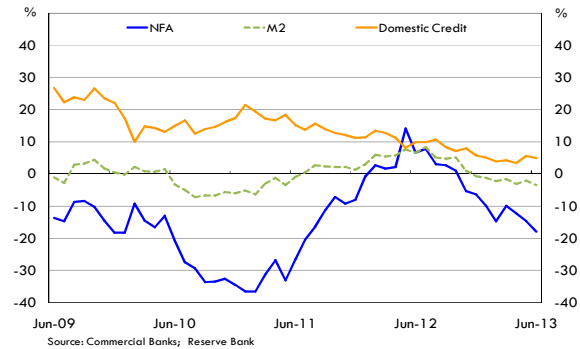
Table 1: Exchange Rate Movements

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Jul-13	96.45	89.26	77.91	128.08
1 month ago	97.02	90.05	75.62	126.26
%	-0.6	-0.9	3.0	1.4
3 months ago	91.59	94.77	78.35	119.97
%	5.3	-5.8	-0.6	6.8
12 months ago	92.32	96.95	74.69	113.20
%	4.5	-7.9	4.3	13.1

Note : (-) appreciation of vatu

Commercial banks NFA fell by 27.7 percent in June leading to a monthly decline in banking system NFA, having outweighed the increase of 1.4 percent in the Reserve Bank's NFA. The improvement in the Reserve Bank's NFA implies that the bank registered net inflows of foreign exchange during the month. The year-on-year growth in NFA still shows a negative trend. **Private sector credit** contracted by 0.3 percent in June causing the annual growth to slide further to 3.6 percent over the year to June from 5.1 percent over the year to May 2013. The downtrend in private sector credit continues to reflect the slowdown in economic activities. Loans extended by Other financial institutions¹ also contracted by 0.7 percent during the June quarter 2013 however noted a positive growth of 1.0 percent from the same quarter of 2012.

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



Net claims on Government by the banking system declined by 14.7 percent in June 2013 as the government has accumulated its deposits with the banking system during the month. Yet, over the year to June 2013, the governments net credit position deteriorated by 31.4 percent. Claims on the Government by Other financial institutions reached VT3399.1 million at the end of June 2013.

Interest Rates

Commercial banks interest rates have marginally declined during the June quarter 2013. This was characterised by the narrowing of interest rates spread² to 7.9 percent in the reviewed quarter, from 8.4 percent and 8.1 percent from the March quarter of 2013 and June quarter of 2012, respectively.

Open Market Operations (OMO)

The Bank conducted four OMOs during July 2013 where VT1,390 million worth of RBV notes were issued compared to VT 998 million issued during the previous month. Total subscription received for these issues was VT 1,964 million compared to VT2,556 million received in June. The high level of subscription compared to the level of RBV Notes issued reflects the high liquidity in the system. Total amount of matured RBV notes for the month was at VT980 million leaving outstanding notes at VT5,932 million as of end July compared to VT 1,281 million as reported in the previous month. The interbank rate ranged 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 Jul. 2013	Yield End Jun. 2013
7 days	212	1.10	1.10
14 days	212	1.20	1.15
28 days	212	1.20	1.20
63 days	212	1.25	1.25
91 days	202	1.30	1.35

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

² Difference between average lending and deposit interest rates.

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

End of Period	Jun-12	Mar-13	May-13	Jun-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16956.2	16629.7	16439.9	16722.6	1.7	0.6	-1.4
Foreign Exchange 1/	16388.0	16077.8	15867.1	16136.6	1.7	0.4	-1.5
Reserve Position with IMF	356.0	342.7	355.9	364.1	2.3	6.3	2.3
SDR Holdings	212.2	209.2	216.8	221.9	2.3	6.1	4.6
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
0/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	1915.2	2054.2	1871.1	1971.2	5.4	-4.0	2.9
Total Assets	20389.9	20202.2	19829.3	20212.1	1.9	0.0	-0.9
Reserve Money	12110.6	12602.1	12882.7	13090.3	1.6	3.9	8.1
Currency outside Banks mVT	4669.6	4595.9	4801.3	4775.8	-0.5	3.9	2.3
Commercial Banks Cash mVT	1428.1	1681.3	1312.2	1384.8	5.5	-17.6	-3.0
Commercial Banks Deposit with RBV mVT	6012.9	6324.9	6769.2	6929.7	2.4	9.6	15.2
Foreign Liabilities 2/	2457.7	2368.7	2456.8	2542.7	3.5	7.3	3.5
Government Deposits, of which	3822.0	2807.3	2568.7	2725.5	6.1	-2.9	-28.7
Government contribution to RTP	356.0	342.7	355.9	364.1	2.3	6.3	2.3
RBV Notes	1084.1	1357.5	1211.8	1277.6	5.4	-5.9	17.8
Other Liabilities	915.6	1066.6	709.2	576.0	-18.8	-46.0	-37.1
TOTAL Liabilities	20389.9	20202.2	19829.3	20212.1	1.9	0.0	-0.9

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	Jun-12	Mar-13	May-13	Jun-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1428.1	1681.3	1312.2	1384.8	5.5	-17.6	-3.0
Deposits with RBV	6012.9	6324.9	6769.2	6929.7	2.4	9.6	15.2
RBV Notes	1084.1	1357.5	1211.8	1277.6	5.4	-5.9	17.8
Foreign Assets, of which	15709.2	10677.0	11007.3	10445.4	-5.1	-2.2	-33.5
Claims on non-residents' banks	1984.4	726.3	784.1	775.4	-1.1	6.8	-60.9
Claims on Private sector	49997.5	51704.7	52001.0	51835.9	-0.3	0.3	3.7
Claims on Government	1085.0	787.0	787.0	787.0	0.0	0.0	-27.5
Other claims 1/	509.8	680.9	527.8	535.5	1.5	-21.4	5.1
Other Assets	3091.5	3745.8	3450.0	3605.9	4.5	-3.7	16.6
TOTAL ASSETS	78917.9	76959.1	77066.3	76801.7	-0.3	-0.2	-2.7
Demand Deposits, of which	18389.6	19877.4	19039.0	19060.6	0.1	-4.1	3.6
Foreign currency	9030.8	9231.5	8744.4	8609.1	-1.5	-6.7	-4.7
Savings deposits, of which	6265.5	6312.2	7067.7	6546.5	-7.4	3.7	4.5
Foreign currency	408.2	373.5	1088.2	425.8	-60.9	14.0	4.3
Time deposits, of which	29628.6	27174.4	27292.4	26567.9	-2.7	-2.2	-10.3
Foreign Currency	9924.1	8443.1	8138.0	7504.4	-7.8	-11.1	-24.4
Foreign Liabilities, of which	8736.9	6076.3	6239.3	6996.6	12.1	15.1	-19.9
Non residents Banks	1606.6	1374.7	1474.7	2156.2	46.2	56.9	34.2
Government Deposits	575.4	631.9	809.2	810.5	0.2	28.3	40.9
Credit from RBV	0.4	0.0	0.0	0.0	0.0	0.0	-100.0
Other Liabilities, including shareholders' funds	15321.5	16886.8	16618.7	16819.7	1.2	-0.4	9.8
TOTAL LIABILITIES	78917.9	76959.1	77066.3	76801.7	-0.3	-0.2	-2.7

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	Jun-12	Mar-13	May-13	Jun-13	%Change		
					1 Month	3 months	12 Months
					1. Net Foreign Assets	21,470.7	18,861.7
Monetary Authorities (Net)	14,498.5	14,260.9	13,983.0	14,179.9	1.4	-0.6	-2.2
Commercial Banks (Net)	6,972.2	4,600.8	4,768.0	3,448.8	-27.7	-25.0	-50.5
2. Net Domestic Assets	37,482.6	39,098.3	39,449.4	39,322.0	-0.3	0.6	4.9
(a) Domestic Credit	48,811.0	51,241.0	51,527.7	51,212.3	-0.6	-0.1	4.9
(i) Net claims on government	(1,793.8)	(1,133.9)	(1,072.6)	(1,230.7)	-14.7	-8.5	31.4
Monetary Authorities	(2,303.5)	(1,289.0)	(1,050.4)	(1,207.3)	-14.9	6.3	47.6
Commercial Banks	509.6	155.1	(22.2)	(23.5)	-5.8	-115.1	-104.6
(ii) Claims on Non financial Public enterprises (NFPE)	479.7	550.4	499.3	503.0	0.7	-8.6	4.9
(iii) Claims on Private Sector (1)	50,095.1	51,788.4	52,072.5	51,907.5	-0.3	0.2	3.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	30.1	36.0	28.5	32.5	14.2	-9.5	8.3
(b) Other items (net)	(11,328.4)	(12,142.7)	(12,078.3)	(11,890.3)	-1.6	-2.1	5.0
3. Total Assets= Total Money Supply	58,953.3	57,960.0	58,200.4	56,950.8	-2.1	-1.7	-3.4
(a) Money (M1)	23,059.2	24,473.3	23,840.3	23,836.4	0.0	-2.6	3.4
(i) Currency outside Banks	4,669.6	4,595.9	4,801.3	4,775.8	-0.5	3.9	2.3
(ii) Demand deposits	18,389.6	19,877.4	19,039.0	19,060.6	0.1	-4.1	3.6
(b) Quasi-money	35,894.1	33,486.7	34,360.1	33,114.4	-3.6	-1.1	-7.7
(i) Saving Deposits	6,265.5	6,312.2	7,067.7	6,546.5	-7.4	3.7	4.5
(ii) Time Deposits	29,628.6	27,174.4	27,292.4	26,567.9	-2.7	-2.2	-10.3

1) Include RBV staff loans excluding credit corp

Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	(Millions of Vatu)			% Change	
	Jun-12	May-13	Jun-13	1 Month	12 Months
Agriculture	707.3	955.3	945.9	-1.0	33.7
Fisheries	34.0	31.0	34.0	9.5	0.0
Mining & Quarring	212.8	205.4	157.4	-23.4	-26.0
Manufacturing	1821.4	1485.9	1511.5	1.7	-17.0
Distribution	3455.9	7265.6	7228.1	-0.5	109.2
Tourism	5143.4	4478.7	4408.6	-1.6	-14.3
Entertainment & Catering	414.2	278.8	273.2	-2.0	-34.0
Transport	1393.8	1153.5	1151.2	-0.2	-17.4
Public Utilities	48.3	273.7	271.8	-0.7	462.8
Construction	6992.6	5727.5	5743.6	0.3	-17.9
a) Central Government	0.0	25.3	29.5	16.6	0.0
b) Public Corporation	188.2	231.4	215.0	-7.1	14.3
Financial Institutions	552.4	165.3	161.5	-2.3	-70.8
Professional & Other Services	3027.2	6323.2	6216.4	-1.7	105.3
Housing & Land Purchases	16249.1	14253.7	14243.6	-0.1	-12.3
Other Personal	8311.2	8803.4	8877.3	0.8	6.8
Miscellaneous	1952.5	871.1	903.0	3.7	-53.8
TOTAL	50,504.2	52,528.9	52,371.5	-0.3	3.7
Of which : Vatu	38810.7	40377.2	40126.9	-0.6	3.4