



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: June 2013

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Exchange Rate and International Developments

International economic activity over June remained subdued with evidence mounting of a slowdown in some of Vanuatu's nearest trading partners.

In **Australia** the unemployment rate fell from 5.6 percent in April to 5.5 percent in May. Despite this, statistics released over the month continued to suggest that economic activity is easing. In March, year-on-year economic growth fell more than expected to 2.5 percent from 3.2 percent recorded in the previous quarter. Following this worsening in economic sentiment, the Australian Dollar weakened significantly.

New Zealand's economic growth slowed in the first quarter of 2013 as a major drought hit the farming sector, according to the latest official data. Statistics New Zealand estimate economic activity was up 2.4 percent in the year to March 2013 compared to 3.2 percent recorded in the previous quarter. However, the New Zealand economy continues to perform relatively well.

In the **United States** unemployment ticked up slightly to 7.6 percent in May. Over the month, both fiscal and monetary policy made headlines with the IMF cautioning against an 'ill-designed' deficit reduction plan, while the Federal Reserve provided a first indication of winding down their monetary stimulus programme. The **Eurozone** saw evidence of economic activity continuing to slow with GDP falling by 1.1 percent over the year to March 2013 compared to a 0.9 percent contraction estimated in the previous quarter. Over June, labour market conditions appeared to further worsen throughout much of the region.

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

Real Sector Developments

Total visitor arrivals for the month of April 2013 rose 44 percent over the same month of last year driven by growth in both cruise and air visitor arrivals by 61 and 10 percent respectively. This resulted, in part, from increased numbers of cruise-ship visits (9 to 14 vessels). The increase in air visitors over the year was led by Other Pacific Countries, Europe, New Zealand, New Caledonia and N. America who were mainly arriving for holiday, conferences/meetings other purposes and those arriving to visit friends and relatives. In the year to April (Jan-Apr data), cruise ship visitors rose 14 percent (to 90,155 visitors) compared to the same period last year and air visitor arrivals rose 2 percent to 28,118 visitors, with noticeable growth in the New Zealand market, despite a slowdown in the Australian market. Altogether, these represented a growth of 11 percent in total visitor arrivals for the first 4 months period, indicating strength in visitor arrivals as we move toward midyear.

Total export earnings for the month of April 2013 declined 36 percent over the year to VT204 million while total imports rose 43 percent over the year to VT2.5 billion. Compared to the same period of last year, the trade deficit rose (deteriorated) 61 percent to VT2.3 billion. In all, the cumulative data for the period January-April show total exports declined 34 percent over the year to VT968 million while total imports rose 23 percent to VT9.1 billion. As a result, compared to the same period of previous year, the trade deficit rose (deteriorated) 37 percent to VT8.2 billion. This was a result of declining export earnings from major export commodities of copra, coconut oil, beef, live fish and other products despite kava, cocoa, sawn timber, cowhides, coconut meal, alcoholic drink and seeing improvements. An increase in import expenditure throughout the period was driven by food and live animals, beverages and tobacco, crude materials except fuel, mineral fuels, basic manufactured products, machines and transport equipment, and

Table 1: Exchange Rate Movements

| | Vatu/USD | Vatu/AUD | Vatu/NZD | Vatu/Euro |
|---------------|----------|----------|----------|-----------|
| Jun-13 | 97.02 | 90.05 | 75.62 | 126.26 |
| 1 month ago | 95.32 | 91.63 | 77.12 | 122.55 |
| % | 1.8 | -1.7 | -1.9 | 3.0 |
| 3 months ago | 91.74 | 95.79 | 76.78 | 117.25 |
| % | 5.8 | -6.0 | -1.5 | 7.7 |
| 12 months ago | 94.23 | 94.59 | 74.22 | 117.24 |
| % | 3.0 | -4.8 | 1.9 | 7.7 |

Note : (-) appreciation of vatu

miscellaneous manufactured goods except, oils, fats and waxes, and chemical products. (Source: Vanuatu National Statistics Office)

Monetary Developments

Money supply (M2) expanded by 0.9 percent in May 2013 due to increases of 0.7 percent and 1.0 percent in Net Foreign Assets (NFA) and Domestic Credit respectively. However, the annual growth of M2 contracted by 2.1 percent.

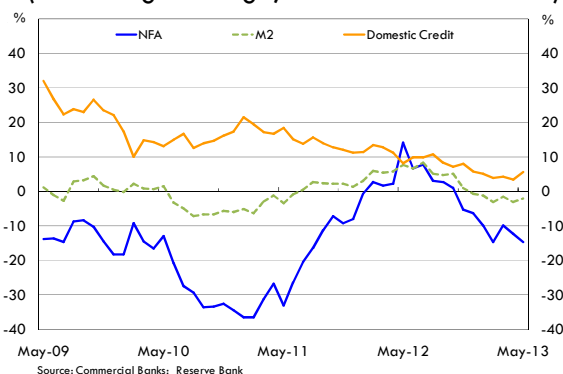
The improvement in NFA during the month reflected an increase of 11.1 percent in commercial banks NFA which outweighed the fall of 2.5 percent in the Reserve Banks NFA. The pick-up in commercial banks foreign assets with offshore financial institutions and with non residents contributed to the overall improvement in their NFA during the month. Despite this improvement the annual growth still shows a negative trend. The Reserve Bank witnessed net outflows of foreign exchange in May which contributed to the deterioration in its NFA position during the month and over the previous year. **Private sector credit** recorded a marginal increase of 0.8 percent in May, and triggered the slight pickup in its annual growth from 4.5 percent over the year to April 2013 to 5.1 percent over the year to May 2013. Sectors contributing to this annual growth include, agriculture, distribution, public utilities, professional & other services and personal loans. Loans extended by Other financial institutions¹ also increased by 3.9 percent and 11.3 percent over the previous month and year, respectively.

Net claims on Government by the banking system increased by 10.4 percent in May 2013 as the government had drawdown its deposits with the Reserve Bank to finance the imbalances in its budget. Hence, over the year to May 2013, the governments net credit position deteriorated by 17.0 percent. Claims on the Government by Other financial institutions reached VT3399.1 million at the end of May 2013.

Open Market Operations (OMO)

The Bank conducted four Open Market Operations during June 2013 where VT998 million worth of RBV notes were issued compared to VT 972 million issued during the previous month. Total subscription received for these issues was VT 2,556 million compared to VT1, 765 million received throughout May. The high level of subscription compared to the level of RBV Notes issued reflects the high liquidity in the system.

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



2013 to 5.1 percent over the year to May 2013. Sectors contributing to this annual growth include, agriculture, distribution, public utilities, professional & other services and

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

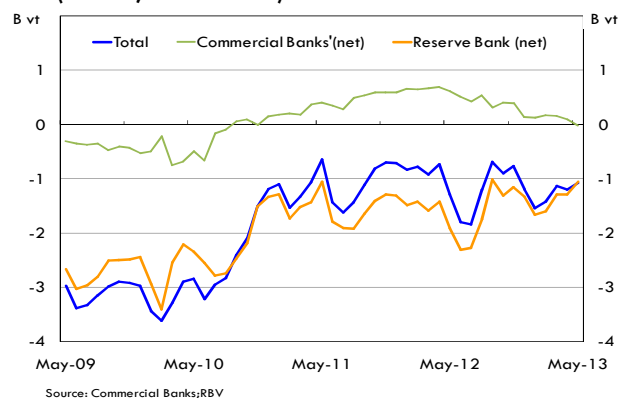


Table 2: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

| Term | Amount Allotted | Yield End Jun. 2013 | Yield End May. 2013 |
|---------|-----------------|---------------------|---------------------|
| 7 days | 201 | 1.10 | 1.30 |
| 14 days | 201 | 1.15 | 1.35 |
| 28 days | 201 | 1.20 | 1.40 |
| 63 days | 201 | 1.25 | 1.45 |
| 91 days | 194 | 1.35 | 1.55 |

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 | May-12 | Feb-13 | Apr-13 | May-13 | %Change | | |
|---------------------------------------|----------------|----------------|----------------|----------------|---------|----------|----------|
| | | | | | 1 Month | 3 months | 12months |
| Foreign Assets | 16653.1 | 16495.8 | 16721.4 | 16439.9 | -1.7 | -0.3 | -1.3 |
| Foreign Exchange 1/ | 16074.1 | 15932.9 | 16165.6 | 15867.1 | -1.8 | -0.4 | -1.3 |
| Reserve Position with IMF | 362.8 | 349.5 | 345.1 | 355.9 | 3.1 | 1.8 | -1.9 |
| SDR Holdings | 216.2 | 213.4 | 210.7 | 216.8 | 2.9 | 1.6 | 0.3 |
| 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 | 1936.8 | 2110.9 | 2010.5 | 1871.1 | -6.9 | -11.4 | -3.4 |
| Total Assets | 20108.4 | 20125.0 | 20250.3 | 19829.3 | -2.1 | -1.5 | -1.4 |
| Reserve Money | 12266.9 | 12826.0 | 12652.6 | 12882.7 | 1.8 | 0.4 | 5.0 |
| Currency outside Banks mVT | 4559.1 | 4461.8 | 4574.0 | 4801.3 | 5.0 | 7.6 | 5.3 |
| Commercial Banks Cash mVT | 1463.9 | 1734.1 | 1682.0 | 1312.2 | -22.0 | -24.3 | -10.4 |
| Commercial Banks Deposit with RBV mVT | 6243.9 | 6630.1 | 6396.5 | 6769.2 | 5.8 | 2.1 | 8.4 |
| Foreign Liabilities 2/ | 2501.7 | 2414.1 | 2386.5 | 2456.8 | 2.9 | 1.8 | -1.8 |
| Government Deposits, of which | 3426.4 | 3115.2 | 2805.9 | 2568.7 | -8.5 | -17.5 | -25.0 |
| Government contribution to RTP | 362.8 | 348.5 | 345.1 | 355.9 | 3.1 | 2.1 | -1.9 |
| RBV Notes | 1083.7 | 797.4 | 1439.9 | 1211.8 | -15.8 | 52.0 | 11.8 |
| Other Liabilities | 829.7 | 972.3 | 965.4 | 709.2 | -26.5 | -27.1 | -14.5 |
| TOTAL Liabilities | 20108.4 | 20125.0 | 20250.3 | 19829.3 | -2.1 | -1.5 | -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 | May-12 | Feb-13 | Apr-13 | May-13 | %Change | | |
|--|----------------|----------------|----------------|----------------|---------|----------|-----------|
| | | | | | 1 Month | 3 months | 12 Months |
| Domestic currency | 1463.9 | 1734.1 | 1682.0 | 1312.2 | -22.0 | -24.3 | -10.4 |
| Deposits with RBV | 6243.9 | 6630.1 | 6396.5 | 6769.2 | 5.8 | 2.1 | 8.4 |
| RBV Notes | 1083.7 | 797.4 | 1439.9 | 1211.8 | -15.8 | 52.0 | 11.8 |
| Foreign Assets, of which | 16162.1 | 11211.7 | 10492.8 | 11007.3 | 4.9 | -1.8 | -31.9 |
| Claims on non-residents' banks | 2017.9 | 650.3 | 779.4 | 784.1 | 0.6 | 20.6 | -61.1 |
| Claims on Private sector | 49434.9 | 51146.2 | 51587.2 | 52001.0 | 0.8 | 1.7 | 5.2 |
| Claims on Government | 1085.0 | 787.0 | 787.0 | 787.0 | 0.0 | 0.0 | -27.5 |
| Other claims 1/ | 578.5 | 621.5 | 642.1 | 527.8 | -17.8 | -15.1 | -8.8 |
| Other Assets | 2956.3 | 3013.4 | 3407.8 | 3450.0 | 1.2 | 14.5 | 16.7 |
| TOTAL ASSETS | 79008.1 | 75941.4 | 76435.3 | 77066.3 | 0.8 | 1.5 | -2.5 |
| Demand Deposits, of which | 18943.9 | 19877.4 | 19262.2 | 19039.0 | -1.2 | -4.2 | 0.5 |
| Foreign currency | 9137.3 | 9231.5 | 8858.6 | 8744.4 | -1.3 | -5.3 | -4.3 |
| Savings deposits, of which | 5874.9 | 6534.2 | 6356.8 | 7067.7 | 11.2 | 8.2 | 20.3 |
| Foreign currency | 394.1 | 373.5 | 419.6 | 1088.2 | 159.3 | 191.3 | 176.1 |
| Time deposits, of which | 30074.1 | 28107.9 | 27481.0 | 27292.4 | -0.7 | -2.9 | -9.2 |
| Foreign Currency | 10191.5 | 8443.1 | 8584.7 | 8138.0 | -5.2 | -3.6 | -20.1 |
| Foreign Liabilities, of which | 8339.1 | 6565.0 | 6202.3 | 6239.3 | 0.6 | -5.0 | -25.2 |
| Non residents Banks | 1497.1 | 1490.4 | 1421.0 | 1474.7 | 3.8 | -1.1 | -1.5 |
| Government Deposits | 468.9 | 616.1 | 696.3 | 809.2 | 16.2 | 31.4 | 72.6 |
| Credit from RBV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Liabilities, including shareholders' funds | 15306.9 | 15907.0 | 16437.1 | 16618.7 | 1.1 | 4.5 | 8.6 |
| TOTAL LIABILITIES | 79008.1 | 75941.4 | 76435.6 | 77066.3 | 0.8 | 1.5 | -2.5 |

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 | May-12 | Feb-13 | Apr-13 | May-13 | %Change | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------------|----------|-----------|
| | | | | | 1 Month | 3 months | 12 Months |
| | | | | | 1. Net Foreign Assets | 21,974.4 | 18,728.3 |
| Monetary Authorities (Net) | 14,151.4 | 14,081.7 | 14,334.9 | 13,983.0 | -2.5 | -0.7 | -1.2 |
| Commercial Banks (Net) | 7,823.0 | 4,646.6 | 4,290.5 | 4,768.0 | 11.1 | 2.6 | -39.1 |
| 2. Net Domestic Assets | 37,477.7 | 39,097.6 | 39,048.6 | 39,449.4 | 1.0 | 0.9 | 5.3 |
| (a) Domestic Credit | 48,822.8 | 50,348.5 | 51,002.4 | 51,527.7 | 1.0 | 2.3 | 5.5 |
| (i) Net claims on government | (1,291.8) | (1,425.9) | (1,196.8) | (1,072.6) | 10.4 | 24.8 | 17.0 |
| Monetary Authorities | (1,907.9) | (1,596.8) | (1,287.6) | (1,050.4) | 18.4 | 34.2 | 44.9 |
| Commercial Banks | 616.1 | 171.0 | 90.8 | (22.2) | -124.4 | -113.0 | -103.6 |
| (ii) Claims on Non financial Public enterprises (NFPE) | 549.3 | 507.9 | 509.8 | 499.3 | -2.1 | -1.7 | -9.1 |
| (iii) Claims on Private Sector (1) | 49,536.1 | 51,235.1 | 51,661.7 | 52,072.5 | 0.8 | 1.6 | 5.1 |
| (iv) Claims on other financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (v) Claims on Municipalities | 29.2 | 31.4 | 27.7 | 28.5 | 2.9 | -9.2 | -2.3 |
| (b) Other items (net) | (11,345.1) | (11,250.9) | (11,953.8) | (12,078.3) | 1.0 | 7.4 | 6.5 |
| 3. Total Assets= Total Money Supply | 59,452.0 | 57,825.9 | 57,674.0 | 58,200.4 | 0.9 | 0.6 | -2.1 |
| (a) Money (M1) | 23,503.0 | 24,339.2 | 23,836.2 | 23,840.3 | 0.0 | -2.1 | 1.4 |
| (i) Currency outside Banks | 4,559.1 | 4,461.8 | 4,574.0 | 4,801.3 | 5.0 | 7.6 | 5.3 |
| (ii) Demand deposits | 18,943.9 | 19,877.4 | 19,262.2 | 19,039.0 | -1.2 | -4.2 | 0.5 |
| (b) Quasi-money | 35,949.0 | 33,486.7 | 33,837.8 | 34,360.1 | 1.5 | 2.6 | -4.4 |
| (i) Saving Deposits | 5,874.9 | 6,534.2 | 6,356.8 | 7,067.7 | 11.2 | 8.2 | 20.3 |
| (ii) Time Deposits | 30,074.1 | 28,107.9 | 27,481.0 | 27,292.4 | -0.7 | -2.9 | -9.2 |

1) Include RBV staff loans excluding credit corp

Commercial Banks Sectoral Distribution of Loans and Advances

| SECTOR | (Millions of Vatu) | | | % Change | |
|-------------------------------|--------------------|-----------------|-----------------|----------|-----------|
| | May-12 | Apr-13 | May-13 | 1 Month | 12 Months |
| Agriculture | 709.1 | 935.3 | 955.3 | 2.1 | 34.7 |
| Fisheries | 35.3 | 33.8 | 31.0 | -8.4 | -12.3 |
| Mining & Quarring | 211.0 | 203.5 | 205.4 | 1.0 | -2.6 |
| Manufacturing | 1795.5 | 1582.1 | 1485.9 | -6.1 | -17.2 |
| Distribution | 3291.2 | 7099.0 | 7265.6 | 2.3 | 120.8 |
| Tourism | 4907.4 | 4454.0 | 4478.7 | 0.6 | -8.7 |
| Entertainment & Catering | 412.8 | 253.4 | 278.8 | 10.0 | -32.5 |
| Transport | 1404.2 | 1169.5 | 1153.5 | -1.4 | -17.9 |
| Public Utilities | 48.5 | 269.0 | 273.7 | 1.7 | 464.1 |
| Construction | 7043.5 | 5452.9 | 5727.5 | 5.0 | -18.7 |
| a) Central Government | 24.8 | 24.4 | 25.3 | 3.8 | 2.0 |
| b) Public Corporation | 195.3 | 244.2 | 231.4 | -5.2 | 18.5 |
| Financial Institutions | 558.8 | 163.6 | 165.3 | 1.0 | -70.4 |
| Professional & Other Services | 3093.6 | 6285.5 | 6323.2 | 0.6 | 104.4 |
| Housing & Land Purchases | 15777.3 | 14274.6 | 14253.7 | -0.1 | -9.7 |
| Other Personal | 8056.4 | 8959.1 | 8803.4 | -1.7 | 9.3 |
| Miscellaneous | 1895.6 | 720.8 | 871.1 | 20.9 | -54.0 |
| TOTAL | 50,013.0 | 52,124.7 | 52,528.9 | 0.8 | 5.0 |
| Of which : Vatu | 38696.9 | 40308.7 | 40377.2 | 0.2 | 4.3 |