



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: Mar 2013

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

Over March headline indicators suggested modest improvements in economic activity in the United States, however the situation in the Euro zone saw further signs of deterioration. Economic activity in Australia continues to ease slightly, while some improvements were seen in the New Zealand economy over the month.

In the **United States** the unemployment rate edged down to 7.7 percent in February, its lowest levels since the beginning of 2009. In March it was also announced the US economy grew at a faster than expected 0.4 percent in the fourth quarter. In **Australia** labour market statistics released this month suggest that unemployment remained around the elevated levels reached in September 2012 at 5.4 percent. GDP, in seasonally adjusted volume terms, grew 0.6 per cent in the December quarter 2012 and 2.9 percent over the year. This is a significant slowdown from the strong rates of economic expansion seen at the beginning 2012.

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
Mar-13	91.74	95.79	76.78	117.25
1 month ago	92.41	94.55	76.40	121.47
%	-0.7	1.3	0.5	-3.5
3 months ago	91.73	95.10	75.18	121.19
%	0.0	0.7	2.1	-3.3
12 months ago	91.61	95.13	74.90	121.86
%	0.1	0.7	2.5	-3.8

Note : (-) appreciation of vatu

In **New Zealand** it was shown that GDP growth in the last quarter of 2012 reached 1.5

percent, its quickest quarterly pace for three years. The Reserve Bank of New Zealand suggested this month that it expects their current monetary policy stance to remain appropriate until the end of the year, while noting that current droughts, fiscal consolidation and the strong New Zealand Dollar are weighing on economic activity. Over the month it became clear that the **Euro zone** economy experienced its third consecutive quarter of contractions with GDP falling by 0.6 percent in the last quarter of 2012. As a result unemployment reached highs of 11.9 percent in January from 11.8 percent in the previous month. Inflationary pressures continued to ease over February with inflation falling to 1.8 percent from 2.0 percent in January 2013.

During the month, the vatu appreciated against the US dollar and Euro, but depreciated against the New Zealand dollar and Australian Dollar.

### **Real Sector Developments**

**Tourism arrivals** for the month of February 2013 declined over the year (as a result of a slowdown in cruise-ship visitors due to fewer visits compared to the same month of last year, while air visitors showed an increase amidst a seasonally low month for arrivals). Over the year, cruise ship visitors declined 25 percent as cruise-visits fell to 8 compared to 13 calls in February last year, mainly from Sydney and Brisbane ports, while air visitors rose 4 percent (recording 16,127 day visitors and 4,867 air visitors, respectively in the month). As a result, the total non-resident visitor arrivals (air plus cruise) declined 20 percent over the year to 20,994 visitors. The increase in air visitors over the year was led by increase from major markets New Zealand and New Caledonia, Other Pacific Countries, N. America and Other Countries mainly visitors arriving to visit friends/relatives (up 13 percent) and meetings/conferences (up by 3 percent). On the other hand, Australian market (being the largest market) declined slightly over the year reflective of a seasonally low month for holiday visitors.

**Total export** earnings for the month of February 2013 declined 18 percent over the year to VT251 million while total imports rose 4 percent over the year to VT2.5 billion. Compared to the same period of last year, the trade deficit rose (deteriorate) 8 percent to VT2.2 billion. In all, the cumulative data for the period January-February show total exports decline 27 percent over the year to VT527 million while total imports rose 21 percent to VT5 billion. As a result, compare to the same period of previous year, the trade deficit rose (deteriorate) 31 percent to VT4.5 billion. This was a result of declined export earnings (from major export commodities of copra, coconut oil, beef, live fish and other products while kava, alcoholic drink and fish improved) and an increase in import expenditure throughout the period (in

particularly food and live animals, crude materials except fuel, mineral fuels, basic manufactured products, machines and transport equipment, and miscellaneous manufactured goods except beverages and tobacco, oils, fats and waxes and chemical products). (Source: Vanuatu National Statistics Office).

### Monetary Developments

Total money supply (M2) grew by 1.2 percent in February 2013 following a decline recorded in the previous month. The increase during the reviewed month was attributed to increases in both **Net Foreign Assets (NFA)** and **Domestic Credit** by 0.6 percent and 0.2 percent respectively. However, the annual growth of M2 over the year to February 2013 showed a decline of 3.1 percent.

The growth in NFA reflected an increase of 5.4 percent in the NFA holdings of commercial banks which outweighed the decline of 0.9 percent in the NFA of monetary authorities. Although commercial banks experienced a monthly expansion in their NFA, over the year to February NFA contracted by 39 percent. The Reserve Bank on the other hand continued to witness net outflows of foreign exchange during the reviewed month and over the year to February 2013. **Private sector credit** dropped by 0.1 percent in February 2013, triggering the annual growth rate to slow further to 5.3 percent over the year to the reviewed month, as compared to 6.4 percent recorded over the year to January 2013. The decline in private sector growth reflects current subdued economic conditions. Loans extended by Other financial institutions<sup>1</sup> increased by 0.6 percent during the reviewed month, while declined by 1.9 percent over the year to February 2013.

**Net claims on Government** by the banking system increased by 7.2 percent over February implying that the Government has drawdown its deposits with both the Reserve Bank and commercial banks to finance its expenditure. However, the government's net credit position remains favourable over the year to February 2013. Claims on the Government by Other financial institutions remained at VT3499.1 million at the end of February 2013.

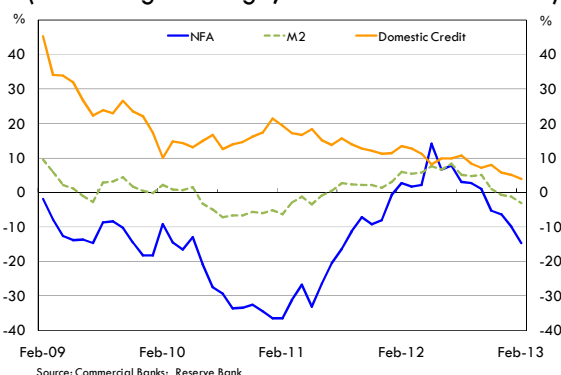
### Open Market Operations

The Bank conducted four Open Market Operations during March 2013 where VT1,440 million worth of RBV notes were issued compared to VT 765 million issued in February 2013. Total subscriptions received for these issues was VT 2,760 million compared to VT1,065 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 VT764 million leaving outstanding notes at VT1,360 million as of end March compared to VT 799 million at the end of the previous month. The inter-bank rate remained at 5.5 percent.

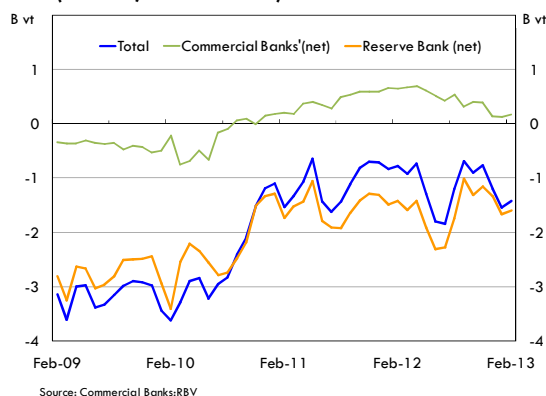
**Table 1: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)**

Term	Amount Allotted	Yield End March 2013	Yield End February 2013
7 days	247	0.70	0.65
14 days	247	0.70	0.65
28 days	247	0.70	0.70
63 days	287	0.95	0.95
91 days	292	1.00	1.00

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



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



<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	Feb-12	Nov-12	Jan-13	Feb-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16717.5	16930.1	16610.3	16495.8	-0.7	-2.6	-1.3
Foreign Exchange 1/	16160.3	16365.0	16049.5	15932.9	-0.7	-2.6	-1.4
Reserve Position with IMF	348.7	350.7	348.1	349.5	0.4	-0.3	0.3
SDR Holdings	208.6	214.4	212.8	213.4	0.3	-0.5	2.3
Claims on Government	1518.5	1518.3	1518.4	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	1978.2	1848.7	1923.1	2110.9	9.8	14.2	6.7
<b>Total Assets</b>	<b>20214.2</b>	<b>20297.1</b>	<b>20051.8</b>	<b>20125.0</b>	0.4	-0.8	-0.4
Reserve Money	12408.9	12791.7	12919.9	12826.0	-0.7	0.3	3.4
Currency outside Banks mVT	4353.7	4844.9	4550.1	4461.8	-1.9	-7.9	2.5
Commercial Banks Cash mVT	1524.2	1549.7	1739.2	1734.1	-0.3	11.9	13.8
Commercial Banks Deposit with RBV mVT	6531.0	6397.1	6630.6	6630.1	0.0	3.6	1.5
Foreign Liabilities 2/	2407.5	2423.0	2404.5	2414.1	0.4	-0.4	0.3
Government Deposits, of which	2943.9	2677.0	3181.7	3115.2	-2.1	16.4	5.8
Government contribution to RTP	348.7	350.7	348.1	348.5	0.1	-0.6	0.0
RBV Notes	1373.1	1220.0	561.6	797.4	42.0	-34.6	-41.9
Other Liabilities	1080.9	1185.4	984.0	972.3	-1.2	-18.0	-10.0
<b>TOTAL Liabilities</b>	<b>20214.2</b>	<b>20297.1</b>	<b>20051.8</b>	<b>20125.0</b>	0.4	-0.8	-0.4

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	Feb-12	Nov-12	Jan-13	Feb-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1524.2	1549.7	1739.2	1734.1	-0.3	11.9	13.8
Deposits with RBV	6531.0	6397.1	6630.6	6630.1	0.0	3.6	1.5
RBV Notes	1373.1	1220.0	561.6	797.4	42.0	-34.6	-41.9
Foreign Assets, of which	16707.0	14027.1	10990.4	11211.7	2.0	-20.1	-32.9
Claims on non-residents' banks	1994.1	1755.1	628.1	650.3	3.5	-62.9	-67.4
Claims on Private sector	48548.9	50974.9	51187.0	51146.2	-0.1	0.3	5.3
Claims on Government	1184.6	985.0	787.0	787.0	0.0	-20.1	-33.6
Other claims 1/	562.9	426.0	738.7	621.5	-15.9	45.9	10.4
Other Assets	3120.8	3295.0	2818.3	3013.4	6.9	-8.5	-3.4
<b>TOTAL ASSETS</b>	<b>79552.4</b>	<b>78874.7</b>	<b>75452.8</b>	<b>75941.4</b>	0.6	-3.7	-4.5
Demand Deposits, of which	19898.3	17990.7	17388.1	18211.3	4.7	1.2	-8.5
Foreign currency	9376.6	8206.0	8011.4	8284.1	3.4	1.0	-11.7
Savings deposits, of which	5523.4	6725.2	6590.7	6534.2	-0.9	-2.8	18.3
Foreign currency	390.4	480.9	406.8	389.8	-4.2	-18.9	-0.1
Time deposits, of which	29375.5	28720.8	28108.2	28107.9	0.0	-2.1	-4.3
Foreign Currency	9482.0	9179.0	9034.2	8988.4	-0.5	-2.1	-5.2
Foreign Liabilities, of which	9061.8	8773.2	6582.9	6565.0	-0.3	-25.2	-27.6
Non residents Banks	1196.3	1745.2	1508.2	1490.4	-1.2	-14.6	24.6
Government Deposits	532.6	587.8	661.0	616.1	-6.8	4.8	15.7
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15160.4	16077.0	16121.9	15907.0	-1.3	-1.1	4.9
<b>TOTAL LIABILITIES</b>	<b>79552.3</b>	<b>78874.7</b>	<b>75452.9</b>	<b>75941.4</b>	0.6	-3.7	-4.5

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	Feb-12	Nov-12	Jan-13	Feb-13	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	21,955.1	19,760.9	18,613.3	18,728.3	0.6	-5.2	-14.7
Monetary Authorities (Net)	14,310.0	14,507.0	14,205.8	14,081.7	-0.9	-2.9	-1.6
Commercial Banks (Net)	7,645.1	5,253.9	4,407.5	4,646.6	5.4	-11.6	-39.2
2. Net Domestic Assets	37,195.8	38,520.7	38,023.9	38,586.8	1.5	0.2	3.7
(a) Domestic Credit	48,443.6	50,732.0	50,270.9	50,348.5	0.2	-0.8	3.9
(i) Net claims on government	(773.4)	(761.5)	(1,537.3)	(1,425.9)	7.2	-87.2	-84.4
Monetary Authorities	(1,425.4)	(1,158.7)	(1,663.4)	(1,596.8)	4.0	-37.8	-12.0
Commercial Banks	652.0	397.2	126.1	171.0	35.6	-57.0	-73.8
(ii) Claims on Non financial Public enterprises (NFPE)	531.1	396.5	490.5	507.9	3.5	28.1	-4.4
(iii) Claims on Private Sector (1)	48,654.1	51,067.6	51,279.5	51,235.1	-0.1	0.3	5.3
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0			
(v) Claims on Municipalities	31.8	29.5	38.1	31.4	-17.7	6.5	-1.4
(b) Other items (net)	(11,247.8)	(12,211.4)	(12,246.9)	(11,761.7)	-4.0	-3.7	4.6
3. Total Assets= Total Money Supply	<b>59,150.9</b>	<b>58,281.6</b>	<b>56,637.2</b>	<b>57,315.1</b>	1.2	-1.7	-3.1
(a) Money (M1)	24,252.0	22,835.6	21,938.3	22,673.0	3.3	-0.7	-6.5
(i) Currency outside Banks	4,353.7	4,844.9	4,550.1	4,461.8	-1.9	-7.9	2.5
(ii) Demand deposits	19,898.3	17,990.7	17,388.1	18,211.3	4.7	1.2	-8.5
(b) Quasi-money	34,898.9	35,446.0	34,699.0	34,642.1	-0.2	-2.3	-0.7
(i) Saving Deposits	5,523.4	6,725.2	6,590.7	6,534.2	-0.9	-2.8	18.3
(ii) Time Deposits	29,375.5	28,720.8	28,108.2	28,107.9	0.0	-2.1	-4.3

1) Include RBV staff loans excluding credit corp

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

SECTOR	(Millions of Vatu)			% Change	
	Feb-12	Jan-13	Feb-13	1 Month	12 Months
Agriculture	672.1	918.5	916.1	-0.3	36.3
Fisheries	40.0	32.2	31.1	-3.4	-22.3
Mining & Quarring	150.0	196.8	198.8	1.0	32.6
Manufacturing	1804.1	1619.2	1588.7	-1.9	-11.9
Distribution	3359.5	6728.5	7081.6	5.2	110.8
Tourism	4310.6	4342.0	4343.0	0.0	0.8
Entertainment & Catering	330.0	350.4	350.5	0.0	6.2
Transport	1406.9	1214.5	1193.9	-1.7	-15.1
Public Utilities	49.6	83.9	83.0	-1.1	67.4
Construction	7289.3	5590.5	5483.9	-1.9	-24.8
a) Central Government	30.5	34.5	27.9	-19.2	-8.4
b) Public Corporation	209.6	204.0	224.4	10.0	7.1
Financial Institutions	602.4	168.8	160.7	-4.8	-73.3
Professional & Other Services	3085.4	6292.2	6217.0	-1.2	101.5
Housing & Land Purchases	16130.4	14064.1	14143.1	0.6	-12.3
Other Personal	8051.0	9169.3	8929.9	-2.6	10.9
Miscellaneous	1798.8	706.3	711.8	0.8	-60.4
<b>TOTAL</b>	<b>49,320.3</b>	<b>51,715.7</b>	<b>51,685.5</b>	-0.1	4.8
Of which : Vatu	38401.1	39883.8	39772.8	-0.3	3.6