



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: May 2013

*The news items covered in this publication do not necessarily imply any judgment by the Bank on the accuracy of the information or any endorsement or acceptance of such news*

Issue 177

May 2013

### Exchange Rate and International Developments

Over May, in **Australia**, the Reserve Bank of Australia (RBA) cut its policy interest rate to 2.75 percent, its lowest level in over a decade, with the hope of stimulating economic activity. The RBA in its latest Monetary Policy Statement now expects economic growth in the near term to be weighed down by the strong Australia dollar, fiscal consolidation and the peak in resource investment, before seeing activity returning to trend in 2014. Unemployment remained elevated despite falling slightly from 5.6 to 5.5 percent in April. In contrast the outlook for the **New Zealand** economy remains fairly robust despite fiscal consolidation and the impact of a recent drought on agricultural output. House prices inflation and inflows of capital are holding up the New Zealand Dollar which remains a concern for policy makers.

Over May it became increasingly apparent that economic activity in the **United States** may not be as strong as previously hoped. First quarter economic growth was recorded at 2.4 percent, while news released over the month pointed toward weak factory activity, declines in home construction and increases in jobless figures suggesting weak second quarter activity. Over the month the Federal Reserve held its monetary policy stance. Unemployment in the **eurozone** continues to increase, having reached 12.2 percent in April from 12.1 percent recorded in March. Indicators also continue to point toward weak economic sentiment leading the European Central Bank to cut its key policy interest rate to 0.5 percent for the second time since June 2012.

Over the month the Vatu appreciated against the AUD and NZD but depreciated against the USD and Euro.

### Real Sector Developments

**Total visitor arrivals** declined by 14 percent to 23,037 visitors over the year to March 2013. The decline mainly came from a fall of 22 percent in cruise ship arrivals to 16,060 day visits, as cruise-visits fell to 9 in March 2013 from 10 calls in March 2012, mainly from Sydney and Brisbane ports. Air arrivals in contrast rose by 10 percent to 6,977 air visitors over the year to March 2013, due to increases in air visitors from major markets Australia, New Zealand, Other Pacific Countries and Europe. This is driven mainly by visitors arriving for holiday, visiting friends/relatives, stopovers and other purposes.

**Total export earnings** declined by 44 percent to VT237 million over the previous year to March 2013. Alternatively imports rose by 4 percent over the same period to VT1.6 billion thus triggered trade deficit to increase (deteriorate) by 23 percent to VT1.4 billion. Cumulative data for the period January-March 2013 showed that exports declined by 33 percent to VT764 million, while total imports rose 17 percent to VT5 billion. Consequently, the trade deficit rose (deteriorated) by 17 percent to VT6.6 billion during the period. Decline in export earnings were noted for major export commodities such as, copra, coconut oil, beef, live fish and other products which outweighed the increased earnings for kava, cocoa, sawn timber, coconut meal, alcoholic drink and fish. Increased import expenditure were registered for 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.

**Headline inflation** as measured by the Consumer Price Index for the year-ended March Quarter 2012 rose 1.4 percent, an increase from 0.8 percent recorded in the December quarter. This is represented by an increase of 1.4 percent for Port Vila and 1.0 percent for Luganville. The All Group CPI rose by 1.1 percent over the previous quarter, the largest increase in 3 consecutive quarters. The main contributing factors to the increase in CPI over the year were

**Table 1: Exchange Rate Movements**

	Vatu/USD	Vatu/AUD	Vatu/NZD	Vatu/Euro
May-13	95.32	91.63	77.12	122.55
1 month ago	91.59	94.77	78.35	119.97
%	4.1	-3.3	-1.6	2.2
3 months ago	92.41	94.55	76.40	121.47
%	3.1	-3.1	0.9	0.9
12 months ago	96.16	93.35	72.44	118.95
%	-0.9	-1.8	6.5	3.0

Note : (-) appreciation of vatu

food, recreation, clothing and footwear, household supplies, miscellaneous, education, housing & utilities, communication, drinks & tobacco as a result of the increase in men's clothing, stationary, tertiary education, furniture and furnishings, and dairy and related products. The increase was off-set by declines in prices for health while transport showed no change over the year. (Source: Vanuatu National Statistics Office)

### **Monetary Developments**

Money supply (M2) contracted by 0.5 percent in April due to declines of 1.3 percent and 0.5 percent in total Net Foreign Assets (NFA) and Domestic Credit respectively. Similarly, over the year M2 contracted by 3.0 percent.

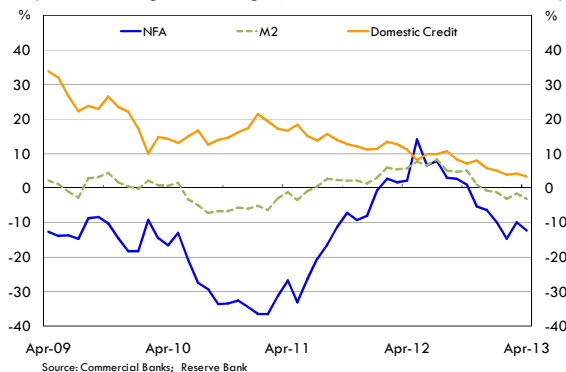
The decline in NFA was attributed to a 6.7 percent decrease in commercial banks NFA which offsets the 0.5 percent increase in the monetary authorities NFA. Commercial banks foreign assets, in particular with foreign financial institutions have declined hence contributed to the decline in its NFA over the month and year respectively. In contrary the Reserve Bank recorded net inflows of foreign exchange during the month, which improved its NFA position over the previous year. **Private sector credit** contracted by 0.2 percent in April 2013 hence triggered the annual growth to slow further to 4.5 percent as compared to 4.7 percent over the year to March 2013. This trend reflects the current slowdown in economic activity. Loans extended by Other financial institutions<sup>1</sup> fell by 0.7 percent in April 2013 but increased by 5.2 percent over the year.

**Net claims on Government** by the banking system declined by 5.6 percent over April as the government accumulated deposits with commercial banks while its deposits with the Reserve Bank remain virtually unchanged as in the previous month. Likewise the government's net credit position remains favourable over the year to March 2013. Claims on the Government by Other financial institutions remained at VT3499.1 million at the end of April 2013.

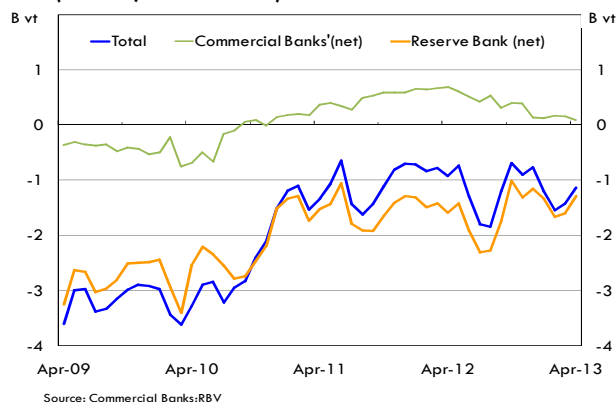
### **Open Market Operations (OMO)**

The Bank conducted five OMO's during May 2013 where VT972 million worth of RBV notes were issued compared to VT759 million issued during the previous month. Total subscription received for these issues was VT 1,765 million compared to VT683 million received throughout March. The high level of subscription compared to the level of RBV Notes issued reflects the high liquidity in the system. The total amount of matured RBV notes for the month was at VT935 million leaving outstanding notes at VT1,268 million as of end May compared to VT 1,284 million reported in the previous month.

**Chart 2: Money Supply**  
(Percentage Change; Year-on-Year Growth)



**Chart 3: 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 May. 2013	Yield End Apr. 2013
7 days	206	1.30	1.30
14 days	198	1.35	1.30
28 days	198	1.40	1.40
63 days	191	1.45	1.30
91 days	179	1.55	1.50

<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	Apr-12	Jan-13	Mar-13	Apr-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16595.2	16610.3	16629.7	16721.4	0.6	0.7	0.8
Foreign Exchange 1/	16030.3	16049.5	16077.8	16165.6	0.5	0.7	0.8
Reserve Position with IMF	353.5	348.1	342.7	345.1	0.7	-0.8	-2.4
SDR Holdings	211.4	212.8	209.2	210.7	0.7	-1.0	-0.4
Claims on Government	1518.5	1518.4	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	2069.9	1923.1	2054.2	2010.5	-2.1	4.5	-2.9
<b>Total Assets</b>	<b>20183.6</b>	<b>20051.8</b>	<b>20202.2</b>	<b>20250.3</b>	0.2	1.0	0.3
Reserve Money	12731.1	12919.9	12602.1	12652.6	0.4	-2.1	-0.6
Currency outside Banks mVT	4501.5	4550.1	4595.9	4574.0	-0.5	0.5	1.6
Commercial Banks Cash mVT	1405.2	1739.2	1681.3	1682.0	0.0	-3.3	19.7
Commercial Banks Deposit with RBV mVT	6824.5	6630.6	6324.9	6396.5	1.1	-3.5	-6.3
Foreign Liabilities 2/	2438.4	2404.5	2368.7	2386.5	0.8	-0.7	-2.1
Government Deposits, of which	2943.6	3181.7	2807.3	2805.9	0.0	-11.8	-4.7
Government contribution to RTP	353.5	348.1	342.7	345.1	0.7	-0.8	-2.4
RBV Notes	1082.1	561.6	1357.5	1439.9	6.1	156.4	33.1
Other Liabilities	988.4	984.0	1066.6	965.4	-9.5	-1.9	-2.3
<b>TOTAL Liabilities</b>	<b>20183.6</b>	<b>20051.8</b>	<b>20202.2</b>	<b>20250.3</b>	0.2	1.0	0.3

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	Apr-12	Jan-13	Mar-13	Apr-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	1405.2	1739.2	1681.3	1682.0	0.0	-3.3	19.7
Deposits with RBV	6824.5	6630.6	6324.9	6396.5	1.1	-3.5	-6.3
RBV Notes	1082.1	561.6	1357.5	1439.9	6.1	156.4	33.1
Foreign Assets, of which	17059.6	10990.4	10677.0	10492.8	-1.7	-4.5	-38.5
Claims on non-residents' banks	1983.8	628.1	726.3	779.4	7.3	24.1	-60.7
Claims on Private sector	49357.5	51187.0	51704.7	51587.2	-0.2	0.8	4.5
Claims on Government	1085.0	787.0	787.0	787.0	0.0	0.0	-27.5
Other claims 1/	657.3	738.7	680.9	642.1	-5.7	-13.1	-2.3
Other Assets	2991.5	2818.3	3745.8	3407.8	-9.0	20.9	13.9
<b>TOTAL ASSETS</b>	<b>80462.6</b>	<b>75452.8</b>	<b>76959.1</b>	<b>76435.3</b>	-0.7	1.3	-5.0
Demand Deposits, of which	19439.8	17388.1	19877.4	19262.2	-3.1	10.8	-0.9
Foreign currency	9016.2	8011.4	9231.5	8858.6	-4.0	10.6	-1.7
Savings deposits, of which	5789.8	6590.7	6312.2	6356.8	0.7	-3.5	9.8
Foreign currency	398.8	406.8	373.5	419.6	12.3	3.1	5.2
Time deposits, of which	29742.6	28108.2	27174.4	27481.0	1.1	-2.2	-7.6
Foreign Currency	10008.3	9034.2	8443.1	8584.7	1.7	-5.0	-14.2
Foreign Liabilities, of which	9962.4	6582.9	6076.3	6202.3	2.1	-5.8	-37.7
Non residents Banks	1881.7	1508.2	1374.7	1421.0	3.4	-5.8	-24.5
Government Deposits	393.1	661.0	631.9	696.3	10.2	5.3	77.1
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	15134.6	16121.9	16886.8	16437.1	-2.7	2.0	8.6
<b>TOTAL LIABILITIES</b>	<b>80462.6</b>	<b>75452.9</b>	<b>76959.1</b>	<b>76435.6</b>	-0.7	1.3	-5.0

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	Apr-12	Jan-13	Mar-13	Apr-13	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	21,254.0	18,613.3	18,861.7	18,625.4	-1.3	0.1	-12.4
Monetary Authorities (Net)	14,156.8	14,205.8	14,260.9	14,334.9	0.5	0.9	1.3
Commercial Banks (Net)	7,097.2	4,407.5	4,600.8	4,290.5	-6.7	-2.7	-39.5
2. Net Domestic Assets	38,219.7	38,023.9	39,098.3	39,048.6	-0.1	2.7	2.2
(a) Domestic Credit	49,295.7	50,270.9	51,241.0	51,002.4	-0.5	1.5	3.5
(i) Net claims on government	(733.2)	(1,537.3)	(1,133.9)	(1,196.8)	-5.6	22.1	-63.2
Monetary Authorities	(1,425.1)	(1,663.4)	(1,289.0)	(1,287.6)	0.1	22.6	9.7
Commercial Banks	691.9	126.1	155.1	90.8	-41.5	-28.0	-86.9
(ii) Claims on Non financial Public enterprises (NFPE)	541.2	490.5	550.4	509.8	-7.4	3.9	-5.8
(iii) Claims on Private Sector (1)	49,458.4	51,279.5	51,788.4	51,661.7	-0.2	0.7	4.5
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	29.3	38.1	36.0	27.7	-23.0	-27.4	-5.4
(b) Other items (net)	(11,076.0)	(12,246.9)	(12,142.7)	(11,953.8)	-1.6	-2.4	7.9
3. Total Assets= Total Money Supply	<b>59,473.7</b>	<b>56,637.2</b>	<b>57,960.0</b>	<b>57,674.0</b>	-0.5	1.8	-3.0
(a) Money (M1)	23,941.3	21,938.3	24,473.3	23,836.2	-2.6	8.7	-0.4
(i) Currency outside Banks	4,501.5	4,550.1	4,595.9	4,574.0	-0.5	0.5	1.6
(ii) Demand deposits	19,439.8	17,388.1	19,877.4	19,262.2	-3.1	10.8	-0.9
(b) Quasi-money	35,532.4	34,699.0	33,486.7	33,837.8	1.0	-2.5	-4.8
(i) Saving Deposits	5,789.8	6,590.7	6,312.2	6,356.8	0.7	-3.5	9.8
(ii) Time Deposits	29,742.6	28,108.2	27,174.4	27,481.0	1.1	-2.2	-7.6

1) Include RBV staff loans excluding credit corp

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

SECTOR	(Millions of Vatu)			% Change	
	Apr-12	Mar-13	Apr-13	1 Month	12 Months
Agriculture	692.1	930.2	935.3	0.5	35.1
Fisheries	36.3	32.8	33.8	3.1	-6.8
Mining & Quarring	209.2	201.0	203.5	1.2	-2.7
Manufacturing	1814.3	1528.1	1582.1	3.5	-12.8
Distribution	3385.1	7151.0	7099.0	-0.7	109.7
Tourism	4879.5	4464.2	4454.0	-0.2	-8.7
Entertainment & Catering	430.9	256.4	253.4	-1.2	-41.2
Transport	1407.2	1210.7	1169.5	-3.4	-16.9
Public Utilities	48.8	81.3	269.0	230.9	450.9
Construction	7291.1	5509.4	5452.9	-1.0	-25.2
a) Central Government	27.7	32.5	24.4	-25.0	-12.0
b) Public Corporation	236.2	266.0	244.2	-8.2	3.4
Financial Institutions	568.9	192.5	163.6	-15.0	-71.2
Professional & Other Services	3081.4	6352.5	6285.5	-1.1	104.0
Housing & Land Purchases	16122.1	14223.7	14274.6	0.4	-11.5
Other Personal	8072.1	8991.8	8959.1	-0.4	11.0
Miscellaneous	1866.2	868.2	720.8	-17.0	-61.4
<b>TOTAL</b>	<b>50,168.9</b>	<b>52,292.3</b>	<b>52,124.7</b>	-0.3	3.9
Of which : Vatu	38713.6	40297.9	40308.7	0.0	4.1