



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: April 2014

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### Exchange Rate and International Developments

Global growth continues to strengthen, but remains uneven, with growth mainly reflecting improved conditions in advanced economies. Risks to growth remain, including low inflation in advanced economies and financial market volatility in emerging market economies associated with large capital flows.

In its April monetary policy meeting, the Reserve Bank of **Australia** left its policy rate unchanged at 2.5 percent for the seventh consecutive month. The easing in monetary policy continues to support interest-sensitive spending and asset values. The record low interest rates and lower Australian dollar are supporting growth in non-mining sectors. There have been some signs of growth rebalancing in the economy; activity in the housing market has picked up with an improvement in consumer demand. The seasonally-adjusted unemployment rate remained at 5.8 percent in April, unchanged from March 2014.

In the **Euro area** annual inflation is expected to be 0.7 percent in April 2014, up from 0.5 percent recorded in March. This is well below the target communicated by the European Central Bank (ECB) of just below 2 percent. The ECB kept its key interest rate at 0.25 percent since November

2013. The seasonally-adjusted unemployment rate continued to decline to 11.8 percent in March 2014; from 12.0 percent in March 2013. Growth is becoming more broad-based, with more activity seen in Southern Europe in the fourth quarter.

In the **United States** the Fed continued to reduce its bond-buying program, cutting asset purchases down to \$45 billion in April. Growth in the March quarter was about 0.1 percent (yoy) due in part to the cold weather experienced at the beginning of the year. However, more recent economic indicators, including employment, show signs of strengthening. The unemployment rate fell 4 percentage points in April to 6.3 percent, compared with 6.7 percent in March. The Federal Open Market Committee decided to keep the target range for the federal funds rate at 0 to 0.25 percent and reiterated that interest rates are likely to remain low for a considerable time. Annual inflation stood at 1.5 percent in March, compared to 1.1 percent in February.

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

### Real Sector Developments

Annual **inflation** as measured by the consumer price index recorded a small increase of 0.7 percent during the March quarter of 2014. This is low compared to quarterly increases of 1.4 percent in March of last year through to September of 2013 and the 1.5 percent increase in the December quarter. Contributing to the inflation were increases in the category of clothing and footwear, miscellaneous, drinks and tobacco, education, housing and utilities and health. Meanwhile decreases were mainly from recreation, household supplies, transport and communications. The underlying inflation slowed further to increase of just 0.3 percent over the quarter and 0.7 percent compared to same period of 2013.

**Table 1: Exchange Rate of Vatu/Foreign Currency**

	USD	AUD	NZD	EURO
Apr-14	94.9	88.4	81.8	131.7
1 month ago	95.1	88.0	82.5	130.9
% ▲	-0.2	0.4	-0.8	0.6
3 months ago	98.1	86.2	79.9	132.9
%▲	-3.2	2.6	2.3	-0.9
12 months ago	91.6	94.8	78.4	120.0
%▲	3.7	-6.8	4.4	9.8

**Note: (-) Appreciation of Vatu**

## Monetary Developments

**Money Supply** (M2) increased by 0.4 percent in the month of March, though fell by 6.7 percent over the year to March 2014. The growth in M2 resulted from a 1.7 percent increase in domestic credit, while **Net Foreign Assets** (NFA) further trended downwards by 5.3 percent. The decline in NFA was attributed to a decline in both foreign assets and liabilities of Commercial banks and net outflows of foreign exchange recorded by the Reserve Bank (RBV). Total NFA fell over the year while, **Private Sector Credit** grew further by 0.7 percent in the month of March and 3.3 percent over the year to March 2014. Total loans extended to various economic sectors are depicted in Table 4.

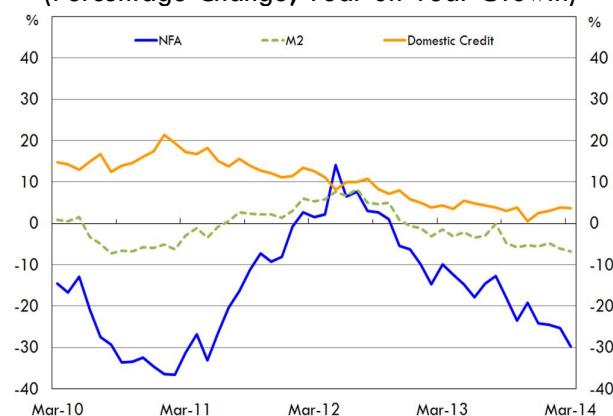
**Net Claims on Government** by the banking system deteriorated in March 2014, recording an increase of 31.8 percent from the level recorded in February. This deterioration reflected the government drawing down its deposits with both commercial banks and the Reserve Bank to finance the imbalances in its budget during the month. Similarly, over the year to March 2014, the Government's net credit position increased by 10.9 percent.

Claims on Government by <sup>1</sup>Other financial institutions remained at VT 3,199.06 million in March, as in February 2014.

## Open Market Operations (OMO)

The Bank conducted Three Open Market Operations during April 2014 where VT446 million worth of RBV notes was issued compared to VT676 million issued during March 2014. Total subscription received for these issues was VT750 million compared to VT1,022 million received throughout March 2014. Total amount of matured RBV notes for the month was at VT446 million leaving outstanding notes at VT930 million as of end April compared to VT1,552 million as reported in the previous month. The interbank rate remained at 5.0 percent.

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



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

Term	Amount Allotted	Yield End Apr 2014	Yield End Mar . 2014
7 days	90	1.50	1.50
14 days	90	1.60	1.60
28 days	90	1.85	1.85
63 days	90	1.90	1.90
91 days	90	2.00	2.00

<sup>1</sup>Other financial institution covers Credit Corporation, Vanuatu Agriculture Bank and the Vanuatu National Provident Fund.

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

End of Period	Mar-13	Dec-13	Feb-14	Mar-14	%Change		
					1 Month	3 months	12months
Foreign Assets	16,629.7	17,436.3	17,096.1	17,004.5	-0.5	-2.5	2.3
Foreign Exchange 1/	16,077.8	16,834.9	16,497.1	16,415.5	-0.5	-2.5	2.1
Reserve Position with IMF	342.7	374.2	373.0	366.7	-1.7	-2.0	7.0
SDR Holdings	209.2	227.2	226.0	222.2	-1.7	-2.2	6.2
Claims on Government	1,518.3	1,920.9	2,355.0	2,355.0	0.0	22.6	55.1
Advances to statutory Bodies	-	-	-	-	-	-	-
Advances to commercial Banks	-	-	-	-	-	-	-
O/w under repurchase agreement	-	-	-	-	-	-	-
Other Assets	2,054.2	1,901.1	1,981.7	1,866.7	-5.8	-1.8	-9.1
<b>Total Assets</b>	<b>20,202.2</b>	<b>21,258.4</b>	<b>21,432.9</b>	<b>21,226.2</b>	-1.0	-0.2	5.1
Reserve Money	12,602.1	15,328.0	13,848.5	14,299.2	3.3	-6.7	13.5
Currency outside Banks mVT	4,595.9	5,054.3	4,736.6	4,768.2	0.7	-5.7	3.7
Commercial Banks Cash mVT	1,681.3	1,881.4	1,564.1	1,364.5	-12.8	-27.5	-18.8
Commercial Banks Deposit with RBV mVT	6,324.9	8,392.3	7,547.8	8,166.5	8.2	-2.7	29.1
Foreign Liabilities 2/	2,368.7	2,614.3	2,604.8	2,618.5	0.5	0.2	10.5
Government Deposits, of which	2,807.3	2,143.0	2,725.4	2,285.6	-16.1	6.7	-18.6
Government contribution to RTP	342.7	374.2	373.0	366.7	-1.7	-2.0	7.0
RBV Notes	1,357.5	627.6	1,567.5	1,291.2	-17.6	105.7	-4.9
Other Liabilities	1,066.6	545.5	686.7	731.7	6.6	34.1	-31.4
<b>TOTAL Liabilities</b>	<b>20,202.2</b>	<b>21,258.4</b>	<b>21,432.9</b>	<b>21,226.2</b>	-1.0	-0.2	5.1

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	Mar-13	Dec-13	Feb-14	Mar-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,681.3	1,881.4	1,564.1	1,364.5	-12.8	-27.5	-18.8
Deposits with RBV	6,324.9	8,392.3	7,547.8	8,166.5	8.2	-2.7	29.1
RBV Notes	1,357.5	627.6	1,567.5	1,291.2	-17.6	105.7	-4.9
Foreign Assets, of which	10,677.0	10,080.5	9,600.6	8,943.2	-6.8	-11.3	-16.2
Claims on non-residents' banks	726.3	1,776.8	1,743.2	1,779.9	2.1	0.2	145.1
Claims on Private sector	51,704.7	52,070.5	53,075.1	53,465.8	0.7	2.7	3.4
Claims on Government	787.0	987.5	811.1	787.5	-2.9	-20.3	0.1
Other claims 1/	680.9	733.1	626.4	672.8	7.4	-8.2	-1.2
Other Assets	3,745.8	7,253.4	6,905.2	6,901.7	-0.1	-4.8	84.3
<b>TOTAL ASSETS</b>	<b>76,959.1</b>	<b>82,026.3</b>	<b>81,697.8</b>	<b>81,593.2</b>	-0.1	-0.5	6.0
<b>Demand Deposits, of which</b>	<b>19,877.4</b>	<b>21,421.6</b>	<b>21,485.8</b>	<b>21,271.3</b>	<b>-1.0</b>	<b>-0.7</b>	<b>7.0</b>
Foreign currency	9,231.5	7,289.5	7,293.5	7,239.8	-0.7	-0.7	-21.6
<b>Savings deposits, of which</b>	<b>6,312.2</b>	<b>1,876.0</b>	<b>1,933.0</b>	<b>1,835.3</b>	<b>-5.1</b>	<b>-2.2</b>	<b>-70.9</b>
Foreign currency	373.5	17.8	17.1	16.2	-5.3	-9.0	-95.7
<b>Time deposits, of which</b>	<b>27,174.4</b>	<b>25,420.4</b>	<b>25,700.4</b>	<b>26,189.6</b>	<b>1.9</b>	<b>3.0</b>	<b>-3.6</b>
Foreign Currency	8,443.1	7,661.7	7,630.0	7,653.9	0.3	-0.1	-9.3
Foreign Liabilities, of which	6,076.3	10,771.3	10,091.0	10,076.9	-0.1	-6.4	65.8
Non residents Banks	1,374.7	2,909.8	2,297.6	2,446.0	6.5	-15.9	77.9
Government Deposits	631.9	1,854.6	1,922.9	1,867.3	-2.9	0.7	195.5
Credit from RBV	-	-	-	-	-	-	-
Other Liabilities, including shareholders' funds	16,886.8	20,682.4	20,564.6	20,352.7	-1.0	-1.6	20.5
<b>TOTAL LIABILITIES</b>	<b>76,959.1</b>	<b>82,026.3</b>	<b>81,697.8</b>	<b>81,593.2</b>	-0.1	-0.5	6.0

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	Mar-13	Dec-13	Feb-14	Mar-14	% Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	18,861.7	14,131.2	14,000.9	13,252.3	-5.3	-6.2	-29.7
Monetary Authorities (Net)	14,260.9	14,822.0	14,491.3	14,386.0	-0.7	-2.9	0.9
Commercial Banks (Net)	4,600.8	(690.8)	(490.4)	(1,133.7)	-131.2	-64.1	-124.6
2. Net Domestic Assets	39,098.3	39,641.1	39,854.9	40,812.1	2.4	3.0	4.4
(a) Domestic Credit	51,241.0	51,767.9	52,266.1	53,173.0	1.7	2.7	3.8
(i) Net claims on government	(1,133.9)	(1,089.2)	(1,482.2)	(1,010.4)	31.8	7.2	10.9
Monetary Authorities	(1,289.0)	(222.1)	(370.4)	69.4	118.7	131.2	105.4
Commercial Banks	155.1	(867.1)	(1,111.8)	(1,079.8)	2.9	-24.5	-796.1
(ii) Claims on Non financial Public enterprises (NFPE)	550.4	1,005.4	1,005.4	1,005.4	0.0	0.0	82.6
(iii) Claims on Private Sector (1)	51,788.4	52,124.0	53,121.9	53,510.6	0.7	2.7	3.3
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	36.0	3.5	0.4	0.8	100.0	-77.1	-97.8
(b) Other items (net)	(12,142.7)	(12,126.8)	(12,411.2)	(12,360.9)	0.4	-1.9	-1.8
3. Total Assets= Total Money Supply	<b>57,960.0</b>	<b>53,772.3</b>	<b>53,855.8</b>	<b>54,064.4</b>	0.4	0.5	-6.7
(a) Money (M1)	24,473.3	26,475.9	26,222.4	26,039.5	-0.7	-1.6	6.4
(i) Currency outside Banks	4,595.9	5,054.3	4,736.6	4,768.2	0.7	-5.7	3.7
(ii) Demand deposits	19,877.4	21,421.6	21,485.8	21,271.3	-1.0	-0.7	7.0
(b) Quasi-money	33,486.7	27,296.4	27,633.4	28,024.9	1.4	2.7	-16.3
(i) Saving Deposits	8,816.7	1,876.0	1,933.0	1,835.3	-5.1	-2.2	-79.2
(ii) Time Deposits	24,670.0	25,420.4	25,700.4	26,189.6	1.9	3.0	6.2

1) Include RBV staff loans excluding credit corp

**Table A4: Commercial Banks Sectoral Distribution of Loans and Advances**

SECTOR	Mar-13	Feb-14	Mar-14	% Change	
				1 Month	12 Months
Agriculture	930.2	597.9	566.8	-5.2	-39.1
Fisheries	32.8	11.5	9.1	-20.9	-72.3
Mining & Quarring	201.0	44.4	44.5	0.2	-77.9
Manufacturing	1,528.1	1,744.9	1,683.8	-3.5	10.2
Distribution	7,151.0	5,115.2	5,332.3	4.2	-25.4
Tourism	4,464.2	5,094.6	5,343.0	4.9	19.7
Entertainment & Catering	256.4	707.3	692.0	-2.2	169.9
Transport	1,210.7	480.5	477.7	-0.6	-60.5
Public Utilities	81.3	203.7	195.9	-3.8	141.0
Construction	5,509.4	3,756.8	3,698.7	-1.5	-32.9
a) Central Government	32.5	-	-	-	0.0
b) Public Corporation	266.0	658.6	672.8	2.2	152.9
Financial Institutions	192.5	5.1	5.0	-2.0	-97.4
Professional & Other Services	6,352.5	6,084.2	6,022.8	-1.0	-5.2
Housing & Land Purchases	14,223.7	17,043.8	20,122.1	18.1	41.5
Other Personal	8,991.8	10,015.7	6,903.0	-31.1	-23.2
Miscellaneous	868.2	2,220.7	2,374.2	6.9	173.5
<b>TOTAL</b>	<b>52,292.3</b>	<b>53,784.9</b>	<b>54,143.7</b>	0.7	3.5
Of which : Vatu	40,297.9	40,597.7	40,784.8	0.5	1.2