



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: August 2014

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Exchange Rate and International Developments

Global growth moderated more than expected in the first half of the year although there were some upside surprises to activities but negative activities to growth dominated. In Europe and Japan economic growth was particularly muted whilst the US and Chinese economies both experienced a partial rebound this period. Risks to growth remain, including heightened geopolitical tensions in Ukraine and the Middle East pair with the weak demand in advanced economies.

In August the Reserve Bank of **Australia** continues to maintain its policy rate at 2.5 percent, unchanged since August 2013. The easing in monetary policy continues to support interest-sensitive spending and asset values. The record low interest rates are supporting growth in non-mining sectors. There are signs of stronger growth and a rebalancing in the economy with activity in the housing market picking up due to an improvement in consumer demand. Seasonally-adjusted growth year on year in the second quarter of 2014 stood at 3.1 percent. There were signs of inflationary pressures with annual inflation at 3.0 percent in the second quarter, up from 2.9 percent in the first quarter. The seasonally-adjusted unemployment rate increased to 6.4 percent in July, compared to 6.0 percent in June.

In the **Euro area** annual inflation is expected at 0.3 percent in August 2014, down from 0.4 percent in July. This is well below the target communicated by the European Central Bank (ECB) of below 2 percent. The ECB key refinancing rate remains at 0.15 percent, after a reduction in June from 0.25 percent, in an attempt to support growth and prevent inflation falling further. The seasonally-adjusted unemployment rate remained at 11.5 percent in July; stable with the previous month. Growth continues to be fragile and uneven, with growth of 0.7 percent (yoy) across the bloc in the second quarter.

In the **United States** asset purchases under the Fed's bond-buying program reached \$25 billion in August 2014. Seasonally-adjusted growth in the June quarter rose by 2.4 percent (yoy), showing a rebound after a slow start to the year. The unemployment rate stood at 6.1 percent in August slightly down from 6.2 percent in July and far below the 7.3 percent in August 2013. The Federal Open Market Committee kept 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 of 2.0 percent was recorded in July, down from 2.1 percent in June.

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

Real Sector Developments

The value of total exports (excluding re-exports) reached VT522 million in May 2014; increasing substantially by 63.1 percent compared to May 2013. Major export commodities contributing to this annual growth include: copra by 79 percent, coconut oil by 259 percent, kava by 32 percent and beef exports by 13 percent. While coconut meal export, declined by 20 percent. Total imports (excluding imports for re-exports) increased by 31 percent from May 2013 to VT3090 million in May 2014. Major commodities contributing to this increase include: mineral fuels, by 303.5 percent, food & live animals by 38 percent, and machines & transport equipment by 2.0 percent. Meanwhile, other commodity groups that recorded decreases in their respective values are: crude materials, down by 34 percent, basic manufactured goods, by 26 percent, chemical products and oils & fats each by 21 percent, beverages & tobacco and

Table 1: Exchange Rate of Vatu/Foreign Currency				
	USD	AUD	NZD	EURO
Aug-14	95.48	89.34	80.04	125.90
1 month ago	95.3	88.9	80.9	127.7
% ▲	0.2	0.5	-1.1	-1.4
3 months ago	95.2	88.7	80.9	129.6
% ▲	0.3	0.7	-1.0	-2.8
12 months ago	98.4	87.8	76.4	130.3
% ▲	-2.9	1.7	4.8	-3.3

Note: (-) Appreciation of Vatu

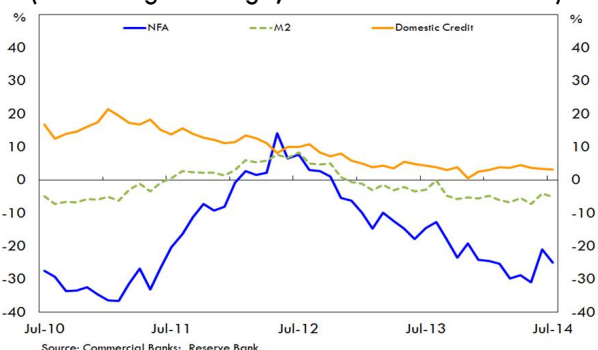
miscellaneous goods each by 11 percent, while goods not classified elsewhere fell by 20 percent. The increase in exports could not outweigh the increase in imports resulting in a worsening trade deficit to VT2593 million from VT2054 million recorded the same period a year ago. (Source: Vanuatu National Statistics Office)

Annual inflation as measured by the consumer price index recorded a 0.6 percent increase during the June quarter. This is low compared to 0.7 percent increase over the year to the March quarter of 2014. Items contributing to the annual inflation are: clothing and footwear (3.1%), food (1.8%), drinks and tobacco (1.0%), miscellaneous (0.9%), health (0.6%), and education (0.5%). The only group that recorded decline in prices is recreation (-2.8%). (Source: Vanuatu National Statistics Office)

Monetary Developments

Money Supply (M2) rose by 0.4 percent in July, however declined by 5.2 percent over the year. The increase during the month reflected growth in Domestic credit which outweighed the decline in **Net foreign Assets (NFA)**. The increase in Domestic Credit is mainly attributed to the growth in **Private sector credit**, increasing by 1.0 percent in July, while year on year an increase of 3.0 percent is recorded. Net Foreign Assets deteriorated by 2.1 percent over the month due to a net outflow of foreign reserves recorded by the RBV, outweighing a slight improvement in commercial banks' NFA. Over the year, total NFA depicted a similar trend, declining by 25 percent.. Total loans extended by commercial banks to various sectors are depicted in table A4. Loans extended by other financial institutions fell by 1.8 percent over the month.

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



Net Claims on Government by the banking system improved in July, recording a decline of 47.0 percent from the level recorded in June. This improvement reflected the accumulation of government deposits held with both the Reserve Bank of Vanuatu and the Commercial Banks. The improvement in deposits is a result of the proceeds of the government bond issued this month. Over the year to June, the Government's net credit position also improved with a decline of 20.3 percent.

Claims on Government by other financial institutions increased by VT300 million to VT3349.1 million at end July.

Open Market Operations (OMO)

The Bank conducted two Open Market Operations during August 2014 where VT205 million worth of RBV Notes were issued compared to VT211 million issued during July. Total subscription received over the month of August recorded VT420 million compared to VT388 million received throughout July. Total amount of matured RBV notes for the month of August reached VT132.5 million while outstanding notes remain at VT299 million, compared to VT226.5 million reported in the previous month. The interbank rate remained unchanged at 5.0 percent while the rediscount window remains at 5.5 percent.

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

Term	Amount Allotted	Yield End August 2014	Yield End July 2014
7 days	84	1.40	1.40
14 days	84	1.50	1.50
28 days	84	1.80	1.80
63 days	84	1.85	1.85
91 days	84	1.90	1.90

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

End of Period	Jul-13	Apr-14	Jun-14	Jul-14	%Change		
					1 Month	3 months	12months
Foreign Assets	16,805.8	16,653.8	17,746.3	17,428.4	-1.8	4.7	3.7
Foreign Exchange 1/	16,213.7	16,062.8	17,162.6	16,843.8	-1.9	4.9	3.9
Reserve Position with IMF	368.0	368.0	363.8	364.4	0.2	-1.0	-1.0
SDR Holdings	224.2	223.0	219.8	220.2	0.2	-1.3	-1.8
Claims on Government	1,418.3	2,473.9	2,474.0	2,474.0	0.0	0.0	74.4
Advances to statutory Bodies	-	-	-	-	-	-	-
Advances to commercial Banks	-	-	-	-	-	-	-
0/w under repurchase agreement	-	-	-	-	-	-	-
Other Assets	1,974.3	1,861.3	2,188.5	2,097.1	-4.2	12.7	6.2
Total Assets	20,198.4	20,989.0	22,408.8	21,999.5	-1.8	4.8	8.9
Reserve Money	12,944.2	14,733.8	15,700.7	15,568.9	-0.8	5.7	20.3
Currency outside Banks mVT	4,863.4	4,878.3	5,042.4	5,107.7	1.3	4.7	5.0
Commercial Banks Cash mVT	1,628.3	1,640.5	1,711.3	1,673.9	-2.2	2.0	2.8
Commercial Banks Deposit with RBV	6,452.6	8,215.0	8,947.0	8,787.3	-1.8	7.0	36.2
Foreign Liabilities 2/	2,542.6	2,622.1	2,683.5	2,660.9	-0.8	1.5	4.7
Government Deposits, of which	2,764.5	1,994.3	2,743.0	2,881.7	5.1	44.5	4.2
Government contribution to RTP	368.0	366.7	363.8	364.4	0.2	-0.6	-1.0
RBV Notes	1,445.2	926.4	310.9	225.8	-27.4	-75.6	-84.4
Other Liabilities	502.0	712.5	970.7	662.2	-31.8	-7.1	31.9
TOTAL Liabilities	20,198.4	20,989.0	22,408.8	21,999.5	-1.8	4.8	8.9

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	Jul-13	Apr-14	Jun-14	Jul-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,628.3	1,640.5	1,711.3	1,673.9	-2.2	2.0	2.8
Deposits with RBV	6,452.6	8,215.0	8,947.0	8,787.3	-1.8	7.0	36.2
RBV Notes	1,445.2	926.4	310.9	225.8	-27.4	-75.6	-84.4
Foreign Assets, of which	10,902.7	9,619.4	8,939.3	8,869.8	-0.8	-7.8	-18.6
Claims on non-residents' non-banks	760.7	1,756.4	1,684.8	1,647.4	-2.2	-6.2	116.6
Claims on Private sector	51,987.6	52,929.5	53,040.3	53,563.6	1.0	1.2	3.0
Claims on Government	987.0	587.5	587.5	587.5	0.0	0.0	-40.5
Other claims 1/	798.3	945.7	956.3	1,046.9	9.5	10.7	31.1
Other Assets	3,424.0	7,252.4	7,511.4	7,307.5	-2.7	0.8	113.4
TOTAL ASSETS	77,625.7	82,128.1	82,004.1	82,062.3	0.1	-0.1	5.7
Demand Deposits, of which	19,730.1	20,765.5	20,678.1	21,887.7	5.8	5.4	10.9
Foreign currency	8,545.7	6,759.7	6,408.2	6,724.8	4.9	-0.5	-21.3
Savings deposits, of which	6,621.4	1,897.8	1,876.3	1,937.2	3.2	2.1	-70.7
Foreign currency	506.6	17.2	15.8	16.1	1.6	-6.6	-96.8
Time deposits, of which	26,566.2	27,040.4	26,981.5	25,868.7	-4.1	-4.3	-2.6
Foreign Currency	7,624.6	8,233.2	8,186.7	7,742.2	-5.4	-6.0	1.5
Foreign Liabilities, of which	6,972.1	10,379.2	10,068.8	9,994.5	-0.7	-3.7	43.3
Non residents Banks	2,292.7	2,902.5	2,385.9	2,239.4	-6.1	-22.8	-2.3
Government Deposits	853.6	1,686.6	1,426.5	1,809.2	26.8	7.3	111.9
Credit from RBV	-	-	-	-	-	-	-
Other Liabilities, including shareholders' funds	16,882.3	20,358.5	20,972.8	20,565.0	-1.9	1.0	21.8
TOTAL LIABILITIES	77,625.7	82,128.1	82,004.1	82,062.3	0.1	-0.1	5.7

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	Jul-13	Apr-14	Jun-14	Jul-14	%Change		
					1 Month	3 months	12 Months
					1. Net Foreign Assets	18,193.8	13,271.9
Monetary Authorities (Net)	14,263.2	14,031.7	15,062.8	14,767.5	-2.0	5.2	3.5
Commercial Banks (Net)	3,930.5	(759.8)	(1,129.4)	(1,124.7)	0.4	-48.0	-128.6
2. Net Domestic Assets	39,729.1	41,310.1	40,645.0	41,158.6	1.3	-0.4	3.6
(a) Domestic Credit	51,296.9	53,328.7	52,957.8	53,053.3	0.2	-0.5	3.4
(i) Net claims on government	(1,354.8)	(619.5)	(1,108.1)	(1,629.4)	-47.0	-163.0	-20.3
Monetary Authorities	(1,346.2)	479.6	(269.0)	(407.7)	-51.5	185.0	69.7
Commercial Banks	(8.6)	(1,099.1)	(839.0)	(1,221.7)	-45.6	-11.2	-14,135.4
(ii) Claims on Non financial Public enterprises (NFPE)	566.6	859.7	877.3	911.7	3.9	6.0	60.9
(iii) Claims on Private Sector (1)	52,053.4	52,990.8	53,109.5	53,635.7	1.0	1.2	3.0
(iv) Claims on other financial institutions	0.0	11.7	6.5	54.5	744.8	366.7	0.0
(v) Claims on Municipalities	31.7	86.0	72.6	80.7	11.2	-6.2	154.8
(b) Other items (net)	(11,709.8)	(12,018.6)	(12,312.8)	(11,894.7)	-3.4	-1.0	1.6
3. Total Assets= Total Money Supply	57,780.9	54,582.0	54,578.4	54,801.4	0.4	0.4	-5.2
(a) Money (M1)	24,593.4	25,643.8	25,720.6	26,995.5	5.0	5.3	9.8
(i) Currency outside Banks	4,863.4	4,878.3	5,042.4	5,107.7	1.3	4.7	5.0
(ii) Demand deposits	19,730.1	20,765.5	20,678.1	21,887.7	5.8	5.4	10.9
(b) Quasi-money	33,187.5	28,938.2	28,857.9	27,805.9	-3.6	-3.9	-16.2
(i) Saving Deposits	8,131.2	1,897.8	1,876.3	1,937.2	3.2	2.1	-76.2
(ii) Time Deposits	25,056.3	27,040.4	26,981.6	25,868.7	-4.1	-4.3	3.2

1) Include RBV staff loans excluding credit corp

SECTOR	Jul-13	Jun-14	Jul-14	% Change	
				1 Month	12 Months
Agriculture	944.2	621.0	634.1	2.1	-32.8
Fisheries	33.3	9.2	10.1	9.9	-73.0
Mining & Quarring	160.1	47.9	47.9	0.0	-69.6
Manufacturing	1,488.3	1,753.2	1,692.9	-3.4	16.0
Distribution	7,240.2	5,379.7	5,375.4	-0.1	-25.6
Tourism	4,403.0	5,615.9	5,607.7	-0.1	27.4
Entertainment & Catering	268.6	774.6	794.5	2.6	183.6
Transport	1,127.6	564.4	558.1	-1.1	-51.0
Public Utilities	269.0	188.3	187.8	-0.3	-30.7
Construction	5,703.7	3,804.5	3,767.9	-1.0	-33.8
a) Central Government	28.7	-	-	0.0	0.0
b) Public Corporation	250.3	949.9	992.4	4.5	341.8
Financial Institutions	163.6	6.5	54.5	745.6	-96.0
Professional & Other Services	6,320.0	5,934.2	6,479.2	9.2	-4.5
Housing & Land Purchases	14,452.9	17,159.5	16,871.0	-1.7	20.5
Other Personal	8,901.8	9,567.9	9,902.8	3.5	7.8
Miscellaneous	830.7	1,624.6	3,281.5	102.0	79.9
TOTAL	52,586.0	54,001.2	56,258.0	4.2	3.1
Of which : Vatu	40,419.9	41,471.5	41,837.9	0.9	3.4