



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: January 2014

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### Exchange Rate and International Developments

During January the Reserve Bank of **Australia** left its policy rate unchanged at 2.5 percent. The easing in monetary policy since November 2011 to continues to support interest-sensitive spending and asset values but it may take more time for the full effects to show. The record low interest rates and a lower Australian dollar have given a boost to business confidence in January. The dollar fell to a lower level in January following a slowdown in Chinese manufacturing activity and the announcement of further stimulus reduction by the US Federal Reserve. If sustained, this will assist in achieving balanced growth in the economy. Unemployment rose to 6.0 percent in January.

In January **Euro zone** annual inflation was 0.8 percent, stable with December. The largest upward impacts to annual inflation came from tobacco (+0.08 percentage points), electricity and milk, cheese & eggs (+0.05 each), while

fuels for transport (-0.19), telecommunications (-0.13) and heating oil (-0.05) had the biggest downward impacts. This is far 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, after a rate cut from 0.5 percent in November. The seasonally-adjusted unemployment rate in the euro area stood at 12.0 percent in January, stable since October 2013. The growth outlook for the region remains anaemic; the IMF forecasts growth to recover to 1 percent in 2014. In addition, data in recent quarters have shown that the pace of recovery is uneven across the bloc.

In January, the Federal Reserve in the **United States** decided to continue to wind down the quantitative easing stimulus. The Fed announced that it will reduce its bond-buying program to \$65 billion in February, down from \$75 billion in January. This is a signal that the Fed is optimistic about the strength of the US economy. This is supported by growth in the December quarter of 2.7 percent (yoy). The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and reiterated that interest rates are likely to remain low even after the unemployment rate drops below 6.5 percent, the threshold at which the Fed has previously said it would start to consider rate increases. After a weak jobs report in December (businesses added just 74,000 new jobs), January saw employers add 113,000 jobs. The unemployment rate fell slightly to 6.6 percent during the month.

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

### Real Sector Developments

Total tourism arrivals during the month of December 2013 stood at around 32,406, of which 9, 853 or 30 percent, arrived by air. Total visitor arrivals increased 14.7 percent over the same month of 2012. This increase is attributed mainly to cruise visitor numbers which rose 31.2 percent, while air arrivals recorded a drop of 11.0 percent against corresponding month of 2012. There were 11 cruise visits during the month of December 2013. On annual terms, Air arrivals from Australia decreased 10.4 percent, New Zealand by 20.2 percent, New Caledonia by 22.8 percent, other Pacific countries by 14.2 percent and Japan by 22.1 percent. Air arrivals increased for Europe by 19.1 percent, North America by 40.5 percent and other countries by 35.6 percent. Total air visitors to Vanuatu since January until

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

	USD	AUD	NZD	Euro
Jan-14	98.07	85.17	79.93	132.92
1 month ago	97.26	86.64	79.77	134.20
%▲	0.8	-1.7	0.2	-1.0
3 months ago	94.84	89.97	78.42	130.29
%▲	3.4	-5.3	1.9	2.0
12 months ago	90.97	94.74	76.05	123.41
%▲	7.8	-10.1	5.1	7.7

Note : (-) Appreciation of vatu

December 2013 was recorded at 287,077, which is equivalent to a 3.0 percent increase (Source: Vanuatu National Statistics Office)

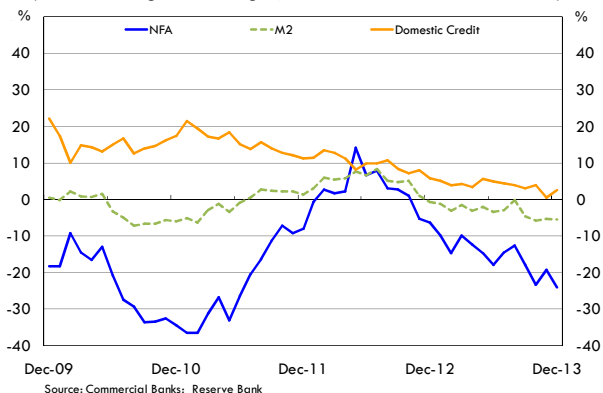
Inflation in December (year on year) as measured by consumer price index (CPI) rose 1.5 percent over the same period of 2012. During the course of the year, annual inflation has remained within the range of 1.4 and 1.5 percent, compared to 0.8 percent in 2012. The expenditure items contributing to the increase came from clothing and foot ware 4.4 percent, housing and utilities 2.9 percent and miscellaneous 1.5 percent. The underlying inflation for the December quarter saw an increase of 1.6 percent when compared to same period of 2012.

### **Monetary Developments**

Money supply (M2) decreased by 6.3 percent in December 2013 and similarly by 7.7 percent from December 2012. The decline during the reviewed month reflected a 21.2 percent fall in Net Foreign Assets (NFA), while Domestic Credit expanded by 1.6 percent.

The fall in the banking system's NFA during the month was attributed to decline in commercial banks' NFA by 125.3 while of Reserve Bank noted an increase of 1.2 percent over the month. The level of net foreign exchange flows into the Reserve Bank remained virtually unchanged as in the previous month, however increased by 4.2 percent over a year ago. The main driver of the decline in commercial banks NFA was foreign liabilities which increased by 39.6 percent. The overall downward trend in NFA is now driven by foreign liabilities. **Private sector credit** increased slightly by 0.5 percent in December 2013, triggering the annual growth to increase to 3.5 percent from 1.7 percent over the year to December 2013, indicating a gradual pick-up in economic activities over the previous year. Sectors which contributed to this annual growth are depicted in table A4.

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



**Net claims on Government** by the banking system increased by 32.4 percent in December 2013. This deterioration reflects the decrease of government deposits held with the Reserve Bank. While government deposits with commercial banks in contrary increased substantially during the month. Similarly, over the year to December 2013, the Government's net credit position deteriorated by 9.3 percent.

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

The Bank conducted Two Open Market Operations in January 2014 where VT2.0 billion worth of RBV notes was issued compared to VT282 million issued during December 2013. Total subscriptions received for this issue was VT1.1 billion compared to VT384 million received throughout December 2013. Total amount of matured RBV notes for the month was at VT526 million leaving outstanding notes at VT913 million as of end January compared to VT 858 million as reported in the previous month.

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

Term	Amount Allotted	Yield End Jan 2014	Yield End Dec. 2013
7 days	500	1.30	1.20
14 days	50	1.35	1.30
28 days	50	1.40	1.30
63 days	50	1.50	1.35
91 days	50	1.50	1.40

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

End of Period	Dec-12	Sep-13	Nov-13	Dec-13	%Change		
					1 Month	3 months	12months
Foreign Assets	16713.6	16669.2	17417.1	17436.3	0.1	4.6	4.3
Foreign Exchange 1/	16148.8	16079.9	16821.4	16834.9	0.1	4.7	4.2
Reserve Position with IMF	350.5	366.4	370.6	374.2	1.0	2.1	6.8
SDR Holdings	214.3	222.9	225.1	227.2	1.0	2.0	6.1
Claims on Government	1518.3	1618.8	1618.8	1920.9	18.7	18.7	26.5
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
O/w under repurchase agreement	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	1890.1	1874.6	1953.1	1901.1	-2.7	1.4	0.6
<b>Total Assets</b>	<b>20122.0</b>	<b>20162.6</b>	<b>20988.9</b>	<b>21258.4</b>	1.3	5.4	5.6
Reserve Money	12992.1	13469.8	14117.9	15328.0	8.6	13.8	18.0
Currency outside Banks mVT	4889.1	5034.6	4975.0	5054.3	1.6	0.4	3.4
Commercial Banks Cash mVT	2073.4	1508.3	1333.8	1881.4	41.0	24.7	-9.3
Commercial Banks Deposit with RBV mVT	6029.6	6926.9	7809.1	8392.3	7.5	21.2	39.2
Foreign Liabilities 2/	2421.1	2526.8	2600.3	2438.8	-6.2	-3.5	0.7
Government Deposits, of which	2854.5	2625.9	2807.5	2143.0	-23.7	-18.4	-24.9
Government contribution to RTP	350.5	366.4	370.6	374.2	1.0	2.1	6.8
RBV Notes	802.3	1039.0	1039.0	627.6	-39.6	-39.6	-21.8
Other Liabilities	1052.0	501.1	424.2	545.5	28.6	8.9	-48.1
<b>TOTAL Liabilities</b>	<b>20122.0</b>	<b>20162.6</b>	<b>20988.9</b>	<b>21258.4</b>	1.3	5.4	5.6

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	Dec-12	Sep-13	Nov-13	Dec-13	%Change		
					1 Month	3 months	12 Months
Domestic currency	2073.4	1508.3	1452.1	1997.3	37.5	32.4	-3.7
Deposits with RBV	6029.6	6926.9	8008.0	8319.6	3.9	20.1	38.0
RBV Notes	802.3	1039.0	1128.4	1128.4	0.0	8.6	40.6
Foreign Assets, of which	12957.9	12057.0	11676.0	9964.6	-14.7	-17.4	-23.1
Claims on non-residents' banks	1699.7	1778.0	1869.7	1776.8	-5.0	-0.1	4.5
Claims on Private sector	51170.4	50874.2	51865.8	52070.5	0.4	2.4	1.8
Claims on Government	787.0	936.0	898.8	987.5	9.9	5.5	25.5
Other claims 1/	757.2	1082.1	877.3	733.1	-16.4	-32.3	-3.2
Other Assets	3227.7	7227.9	7377.5	7212.4	-2.2	-0.2	123.5
<b>TOTAL ASSETS</b>	<b>77805.5</b>	<b>81651.5</b>	<b>83284.0</b>	<b>82394.2</b>	-1.1	0.9	5.9
<b>Demand Deposits, of which</b>	<b>17745.3</b>	<b>22754.9</b>	<b>22124.0</b>	<b>21421.6</b>	<b>-3.2</b>	<b>-5.9</b>	<b>20.7</b>
Foreign currency	8030.8	8367.7	7923.7	7289.5	-8.0	-12.9	-9.2
<b>Savings deposits, of which</b>	<b>6505.3</b>	<b>1954.1</b>	<b>1899.3</b>	<b>1876.0</b>	<b>-1.2</b>	<b>-4.0</b>	<b>-71.2</b>
Foreign currency	410.4	16.5	1881.1	1858.2	-1.2	11170.7	352.7
<b>Time deposits, of which</b>	<b>27790.7</b>	<b>26819.6</b>	<b>28390.7</b>	<b>25420.4</b>	<b>-10.5</b>	<b>-5.2</b>	<b>-8.5</b>
Foreign Currency	9009.5	8001.9	9648.1	7661.7	-20.6	-4.3	-15.0
Foreign Liabilities, of which	8403.8	8881.8	5638.1	7868.0	39.6	-11.4	-6.4
Non residents Banks	1662.8	2230.6	134.7	6.4	-95.2	-99.7	-99.6
Government Deposits	651.2	1235.5	1320.9	1854.6	40.4	50.1	184.8
Credit from RBV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities, including shareholders' funds	16709.2	19799.5	23911.1	23911.1	0.0	20.8	43.1
<b>TOTAL LIABILITIES</b>	<b>77805.5</b>	<b>81651.5</b>	<b>83284.0</b>	<b>82026.3</b>	<b>-1.5</b>	<b>0.5</b>	<b>5.4</b>

**TABLE A3 : MONETARY SURVEY: A CONSOLIDATED STATEMENTS OF ACCOUNTS OF THE MONETARY INSTITUTIONS**

END OF PERIOD	Nov-12	Sep-13	Nov-13	Dec-13	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	19,760.9	17,317.6	18,002.1	14,190.8	-21.2	-18.1	-28.2
Monetary Authorities (Net)	14,507.0	14,142.4	14,816.8	14,997.5	1.2	6.0	3.4
Commercial Banks (Net)	5,253.9	3,175.2	3,185.4	(806.7)	-125.3	-125.4	-115.4
2. Net Domestic Assets	38,520.7	39,245.7	39,386.8	39,581.5	0.5	0.9	2.8
(a) Domestic Credit	50,732.0	50,710.2	51,666.7	52,511.6	1.6	3.6	3.5
(i) Net claims on government	(761.5)	(1,306.5)	(1,610.7)	(1,089.2)	-32.4	-16.6	43.0
Monetary Authorities	(1,158.7)	(1,007.0)	(1,188.7)	(222.0)	-81.3	-78.0	-80.8
Commercial Banks	397.2	(299.5)	(422.0)	(867.2)	105.5	189.5	-318.3
(ii) Claims on Non financial Public enterprises (NFPE)	396.5	1,005.4	597.9	648.4	8.4	-35.5	63.5
(iii) Claims on Private Sector (1)	51,067.6	50,934.6	52,594.4	52,862.3	0.5	3.8	3.5
(iv) Claims on other financial institutions	0.0	0.0	5.5	5.2	-5.0	0.0	0.0
(v) Claims on Municipalities	29.5	76.7	79.5	84.7	6.6	10.3	187.5
(b) Other items (net)	(12,211.4)	(11,464.5)	(12,279.9)	(12,930.2)	5.3	12.8	5.9
3. Total Assets= Total Money Supply	<b>58,281.6</b>	<b>56,563.2</b>	<b>57,389.0</b>	<b>53,772.2</b>	-6.3	-4.9	-7.7
(a) Money (M1)	22,835.6	27,789.5	27,099.0	26,475.9	-2.3	-4.7	15.9
(i) Currency outside Banks	4,844.9	5,034.6	4,975.0	5,054.3	1.6	0.4	4.3
(ii) Demand deposits	17,990.7	22,754.9	22,124.0	21,421.6	-3.2	-5.9	19.1
(b) Quasi-money	35,446.0	28,773.7	30,290.0	27,296.4	-9.9	-5.1	-23.0
(i) Saving Deposits	9,659.9	1,954.1	1,899.3	1,876.0	-1.2	-4.0	-80.6
(ii) Time Deposits	25,786.1	26,819.6	28,390.7	25,420.4	-10.5	-5.2	-1.4

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

SECTOR	Dec-12	Nov-13	Dec-13	% Change	
				1 Month	12 Months
Agriculture	931.1	583.5	575.8	-1.3	-38.2
Fisheries	34.4	9.6	10.2	6.2	-70.5
Mining & Quarring	194.4	45.4	44.9	-1.1	-76.9
Manufacturing	1,637.1	1,703.7	1,723.8	1.2	5.3
Distribution	5,035.0	4,779.0	4,716.5	-1.3	-6.3
Tourism	4,350.2	4,928.3	4,990.8	1.3	14.7
Entertainment & Catering	352.2	679.2	694.9	2.3	97.3
Transport	1,321.1	486.2	443.4	-8.8	-66.4
Public Utilities	85.2	206.3	205.3	-0.5	141.0
Construction	5,660.6	3,996.7	3,772.5	-5.6	-33.4
a) Central Government	32.3	-	-	-	-100.0
b) Public Corporation	75.3	677.3	733.1	8.2	873.6
Financial Institutions	164.1	5.5	5.2	-5.5	-96.8
Professional & Other Services	6,327.9	6,234.7	6,048.5	-3.0	-4.4
Housing & Land Purchases	16,175.6	16,800.7	16,894.3	0.6	4.4
Other Personal	8,418.6	10,011.9	10,506.1	4.9	24.8
Miscellaneous	781.9	2,078.3	2,176.6	4.7	178.4
<b>TOTAL</b>	<b>51,577.6</b>	<b>52,548.9</b>	<b>52,808.8</b>	0.5	2.4
Of which : Vatu	39,622.8	39,622.1	39,724.4	0.3	0.3