



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: July 2014

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Exchange Rate and International Developments

Global growth moderated slightly in the first quarter of 2014, with lower growth seen in the U.S, China and Russia, amongst other countries, and some spill over effects to other emerging markets. Risks to growth remain, including heightened geopolitical tensions in Ukraine and the Middle East, and low inflation in advanced economies.

In July the Reserve Bank of **Australia continued to** maintain its policy rate unchanged at 2.5 percent, since August 2013. The easing in monetary policy continues to support interest-sensitive spending and asset values also supporting growth in non-mining sectors. There have been some signs of stronger growth and a rebalancing in the economy; with the housing market activity picking up and improvement in consumer demand. Seasonally-adjusted growth in the first quarter of 2014 reached 3.5 percent (yoy). There were some 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, from 6.0 percent in June 2014.

In the **Euro area**, annual inflation is expected to be 0.4 percent in July 2014, down from 0.5 percent in June 2014. This is well below the target communicated by the European Central Bank (ECB) of just below 2 percent. In July the ECB

maintained the key refinancing rate 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 continued to decline to 11.5 percent in June 2014; down from 11.6 percent in May and 12.1 percent year on year (yoy). Growth is becoming more broad-based, with growth of 0.9 percent (yoy) in the first quarter of 2014.

In the **United States** the Fed continued to reduce its bond-buying program, cutting asset purchases down to \$25 billion in July 2014. Seasonally-adjusted growth in the June quarter rose by 2.4 percent (yoy), showing a rebound after a slow start to the year. However, more recent economic indicators, including employment show signs of strengthening in the economy. The unemployment rate stood at 6.2 percent in July 2014, slightly elevated from 6.1 percent in June 2014 but far below the 7.4 percent (yoy). 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 2.1 percent in June 2014, stable with May 2014.

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

Real Sector Developments

Total export for the month of April 2014 was recorded at VT 586 million, of which VT488 million indicated exports out of Luganville. Total exports increased by 206.8 percent over the month and 187.3 percent over the same period a year ago. The increase in exports could be attributed to increased world commodity prices for Vanuatu's major export

Table 1: Exchange Rate of Vatu/Foreign Currency

	USD	AUD	NZD	EURO
Jul-14	95.3	88.91	80.92	127.66
1 month ago	94.3	89.1	82.8	128.7
% ▲	1.0	-0.2	-2.2	-0.8
3 months ago	94.9	88.4	81.8	131.7
% ▲	0.4	0.6	-1.0	-3.1
12 months ago	97.4	88.3	77.8	129.2
% ▲	-2.2	0.7	4.1	-1.2

Note: (-) Appreciation of Vatu

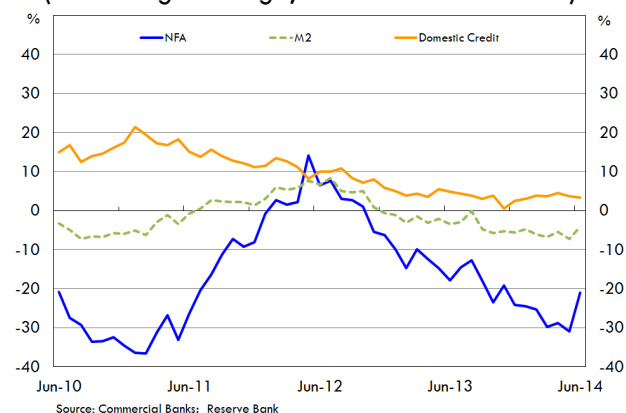
commodities, resulting from unfavourable weather conditions in major producing countries compared to past periods leading to increased production of commodities, in particular copra. Copra accounts for 61.8 percent of total export value, followed by kava exports composing 10.8 percent, coconut oil accounting 9.0 percent, beef 3.9 percent and the rest of the other export products making up the 14.5 percent. Total imports during the month of April 2014 stood at VT1710 million, representing a reduction in imports by 21.3 percent and 31.7 percent over the month and same month of 2013 respectively. The reductions were reflection of relatively stable prices of Vanuatu's major import items in April 2014. The increase in exports and reduction in imports resulted in a trade deficit of VT1124 million, an improvement from the VT1981 million and VT2299 million in the previous month and same month of 2013, respectively as reported by the Vanuatu National Statistics Office.

Monetary Developments

Money Supply (M2) rose by 1.0 percent during June, however the level declined by 4.2 percent over the month to June 2014. The increase during the month reflected the improvement in **Net Foreign Assets (NFA)**, which outweighs the decline in domestic credit. The increase in NFA reflected net inflows of foreign exchange recorded by the RBV combined with a decline in commercial bank foreign liabilities. However, total NFA still depicted a decline over the previous year. **Private sector Credit** fell by a slight 0.6 percent in June therefore the annual growth slowed further by 2.3 percent. Total loans extended by commercial banks to various sectors are depicted in table A4. Loans extended by 'other financial institutions fell during the month and over the year, respectively.

Net Claims on Government by the banking system improved in June, recording a decline of 11.3 percent from the level recorded in May. This improvement reflected the accumulation of government deposits held with the Reserve Bank. However, over the year to June 2014, the Government's net credit position deteriorated with an increase of 45.8 percent in the banking system net claims on the government.

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



Claims on Government by other financial institutions remained unchanged at VT3049.1 million as at end June 2014.

Open Market Operations (OMO)

The Bank conducted three **Open Market Operations** during July where VT211 million worth of RBV Notes were issued compared to VT192 million issued during June. Total subscription received for these issues came to VT388 million compared to VT358 million received throughout June. Total amount of matured RBV notes for the month was at VT211 million leaving outstanding notes at VT226.5 million as of end July compared to VT312 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 July 2014	Yield End June 2014
7 days	46	1.40	1.40
14 days	40.5	1.50	1.50
28 days	40.5	1.80	1.80
63 days	40.5	1.85	1.85
91 days	40.5	1.90	1.90

¹Other 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	Jun-13	Mar-14	May-14	Jun-14	%Change		
					1 Month	3 months	12months
					Foreign Assets	16,722.6	17,004.5
Foreign Exchange 1/	16,136.6	16,415.5	16,510.1	17,162.6	4.0	0.1	4.1
Reserve Position with IMF	364.1	366.7	366.0	363.8	-0.6	-1.9	2.8
SDR Holdings	221.9	222.2	221.2	219.8	-0.6	-2.1	2.0
Claims on Government	1,518.3	2,355.0	2,474.0	2,474.0	0.0	5.1	62.9
Advances to statutory Bodies	-	-	-	-	-	-	-
Advances to commercial Banks	-	-	-	-	-	-	-
O/w under repurchase agreement	-	-	-	-	-	-	-
Other Assets	1,971.2	1,866.7	1,887.9	2,188.5	15.9	-4.7	0.9
Total Assets	20,212.1	21,226.2	21,459.2	22,408.8	4.4	0.1	8.2
Reserve Money	13,090.3	14,299.2	15,236.9	15,700.7	3.0	10.0	18.3
Currency outside Banks mVT	4,775.8	4,768.2	5,021.8	5,042.4	0.4	6.0	4.6
Commercial Banks Cash mVT	1,384.8	1,364.5	1,811.0	1,711.3	-5.5	15.8	38.0
Commercial Banks Deposit with RBV	6,929.7	8,166.5	8,404.1	8,947.0	6.5	11.3	24.2
Foreign Liabilities 2/	2,542.7	2,618.5	2,601.9	2,683.5	3.1	-0.1	5.9
Government Deposits, of which	2,725.5	2,285.6	2,522.1	2,743.0	8.8	-7.5	-1.8
Government contribution to RTP	364.1	366.7	366.0	363.8	-0.6	-1.9	2.8
RBV Notes	1,277.6	1,291.2	424.4	310.9	-26.7	-72.9	-65.0
Other Liabilities	576.0	731.7	674.0	970.7	44.0	-1.9	-5.0
TOTAL Liabilities	20,212.1	21,226.2	21,459.2	22,408.8	4.4	0.1	8.2

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	Jun-13	Mar-14	May-14	Jun-14	%Change		
					1 Month	3 months	12 Months
					Domestic currency	1,384.8	1,364.5
Deposits with RBV	6,929.7	8,166.5	8,404.1	8,947.0	6.5	9.6	29.1
RBV Notes	1,277.6	1,291.2	424.4	310.9	-26.7	-75.9	-75.7
Foreign Assets, of which	10,445.4	8,943.2	8,956.7	8,939.3	-0.2	0.0	-14.4
Claims on non-residents' non-banks	775.4	1,779.9	1,668.7	1,684.8	1.0	-5.3	117.3
Claims on Private sector	51,835.9	53,450.7	53,363.9	53,040.3	-0.6	-0.8	2.3
Claims on Government	787.0	787.5	587.5	587.5	0.0	-25.4	-25.4
Other claims 1/	535.5	672.8	979.2	956.3	-2.3	42.1	78.6
Other Assets	3,605.9	6,901.7	7,470.1	7,511.4	0.6	8.8	108.3
TOTAL ASSETS	76,801.7	81,593.2	81,996.8	82,004.1	0.0	0.5	6.8
Demand Deposits, of which	19,060.6	21,271.3	19,979.7	20,678.1	3.5	-2.8	8.5
Foreign currency	8,609.1	7,239.8	6,065.9	6,408.2	5.6	-11.5	-25.6
Savings deposits, of which	6,546.5	1,835.3	1,860.7	1,876.3	0.8	2.2	-71.3
Foreign currency	425.8	16.2	15.9	15.8	-0.8	-2.4	-96.3
Time deposits, of which	26,567.9	26,189.6	27,152.2	26,981.5	-0.6	3.0	1.6
Foreign Currency	7,504.4	7,653.9	8,269.1	8,186.7	-1.0	7.0	9.1
Foreign Liabilities, of which	6,996.6	10,076.9	10,509.0	10,068.8	-4.2	-0.1	43.9
Non residents Banks	2,156.2	2,446.0	2,444.7	2,385.9	-2.4	-2.5	10.7
Government Deposits	810.5	1,867.3	1,535.3	1,426.5	-7.1	-23.6	76.0
Credit from RBV	-	-	-	-	-	-	-
Other Liabilities, including shareholders' funds	16,819.7	20,352.7	20,959.8	20,972.8	0.1	3.0	24.7
TOTAL LIABILITIES	76,801.7	81,593.2	81,996.8	82,004.1	0.0	0.5	6.8

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	Jun-13	Mar-14	May-14	Jun-14	%Change		
					1 Month	3 months	12 Months
					1. Net Foreign Assets	17,797.6	13,252.3
Monetary Authorities (Net)	14,179.9	14,386.0	14,495.4	15,062.8	3.9	4.7	6.2
Commercial Banks (Net)	3,617.7	(1,133.7)	(1,552.3)	(1,129.4)	27.2	0.4	-131.2
2. Net Domestic Assets	39,967.6	40,812.1	41,071.4	40,645.0	-1.0	-0.4	1.7
(a) Domestic Credit	50,397.9	53,173.0	53,415.2	52,957.8	-0.9	-0.4	5.1
(i) Net claims on government	(2,045.2)	(1,010.4)	(995.9)	(1,108.1)	-11.3	-9.7	45.8
Monetary Authorities	(1,207.3)	69.4	(48.0)	(269.0)	-459.9	-487.6	77.7
Commercial Banks	(837.9)	(1,079.8)	(947.8)	(839.0)	11.5	22.3	-0.1
(ii) Claims on Non financial Public enterprises (NFPE)	503.0	590.7	891.8	877.3	-1.6	48.5	74.4
(iii) Claims on Private Sector (1)	51,907.5	53,495.5	53,431.9	53,109.5	-0.6	-0.7	2.3
(iv) Claims on other financial institutions	0.0	15.1	7.2	6.5	-10.7	-57.3	-
(v) Claims on Municipalities	32.5	82.1	80.1	72.6	-9.4	-11.6	123.1
(b) Other items (net)	(11,244.7)	(12,360.9)	(12,343.8)	(12,312.8)	0.3	0.4	-9.5
3. Total Assets= Total Money Supply	56,950.8	54,064.4	54,014.5	54,578.4	1.0	1.0	-4.2
(a) Money (M1)	23,836.4	26,039.5	25,001.6	25,720.6	2.9	-1.2	7.9
(i) Currency outside Banks	4,775.8	4,768.2	5,021.8	5,042.4	0.4	5.8	5.6
(ii) Demand deposits	19,060.6	21,271.3	19,979.7	20,678.1	3.5	-2.8	8.5
(b) Quasi-money	33,114.4	28,024.9	29,013.0	28,857.8	-0.5	3.0	-12.9
(i) Saving Deposits	7,930.2	1,835.3	1,860.7	1,876.3	0.8	2.2	-76.3
(ii) Time Deposits	25,184.2	26,189.6	27,152.2	26,981.5	-0.6	3.0	7.1

1) Include RBV staff loans excluding credit corp

Table A4: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	Jun-13	May-14	Jun-14	% Change	
				1 Month	12 Months
Agriculture	945.9	574.3	621.0	8.1	-34.3
Fisheries	34.0	47.6	9.2	-80.7	-73.0
Mining & Quarring	157.4	43.8	43.8	0.1	-72.1
Manufacturing	1,511.5	1,754.7	1,753.2	-0.1	16.0
Distribution	7,228.1	5,415.6	5,379.7	-0.7	-25.6
Tourism	4,408.6	5,565.7	5,615.9	0.9	27.4
Entertainment & Catering	273.2	726.5	774.6	6.6	183.6
Transport	1,151.2	554.0	564.4	1.9	-51.0
Public Utilities	271.8	194.2	188.3	-3.0	-30.7
Construction	5,743.6	3,786.1	3,804.5	0.5	-33.8
a) Central Government	29.5	-	-		-100.0
b) Public Corporation	215.0	891.8	949.9	6.5	341.8
Financial Institutions	161.5	7.2	6.5	-10.7	-96.0
Professional & Other Services	6,216.4	6,309.7	5,934.2	-6.0	-4.5
Housing & Land Purchases	14,243.6	17,188.5	17,159.5	-0.2	20.5
Other Personal	8,877.3	9,596.4	9,567.9	-0.3	7.8
Miscellaneous	903.0	1,687.1	1,624.6	-3.7	79.9
TOTAL	52,371.5	54,343.6	53,997.2	-0.6	3.1
Of which : Vatu	40,126.9	41,049.4	41,471.5	1.0	3.4