



# RESERVE BANK OF VANUATU

## FINANCIAL & ECONOMIC ANALYSIS: June 2014

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### Exchange Rate and International Developments

Global growth continues to strengthen at a moderate pace, but remains uneven, with growth mainly reflecting improved conditions in advanced economies. Risks to growth remain, including low inflation in advanced economies and an increased financial volatility in emerging market economies. This is due to the change in the flow of investment funds back to the advanced economies as a result of the monetary policy changes to the tapering.

During June the Reserve Bank of **Australia** left 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. 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 and there has been an improvement in consumer demand. Seasonally-adjusted growth in the first quarter of 2014 reached 3.5 percent (yoy). The seasonally-adjusted unemployment rate increased to 6.0 percent in June, from 5.9 percent in May 2014.

In the **Euro area** annual inflation is expected to be 0.5 percent in June 2014, constant with May 2014. This is well below the target communicated by the European Central Bank (ECB) of just below 2 percent. In their June meeting, the ECB reduced the key refinancing rate from 0.25 percent to 0.15 percent, in an attempt to support growth and prevent inflation falling any further. The seasonally-adjusted unemployment rate continued to decline to 11.6 percent in May 2014; down from 11.7 percent in the previous month and down from 12.2 percent in May 2013. 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 continues to reduce its bond-buying program, cutting asset purchases down to \$35 billion in June 2014. Growth in the March quarter fell to 2.0 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 in the economy. The unemployment rate fell to 6.1 percent in June 2014, down from 6.3 percent in May 2014. 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 May 2014, compared to 2.0 percent in April 2014.

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

### Real Sector Developments

Total number of visitors rose by 2.6 percent during the first quarter of 2014 compared to March 2013. This is attributed to both a 1.6 percent increase in arrivals by air and a 2.9 percent increase in arrivals by cruise ships. The 2.9 percent increase in cruise ship visitors led to a total of 67,627 day visitors compared to 65,678 day visitors in

Table 1: Exchange Rate of Vatu/Foreign Currency

	USD	AUD	NZD	EURO
Jun-14	94.32	89.09	82.75	128.72
1 month ago	95.2	88.7	80.9	129.6
% ▲	-1.0	0.5	2.4	-0.6
3 months ago	95.1	88.0	82.5	130.9
%▲	-0.9	1.2	0.3	-1.7
12 months ago	97.0	90.0	75.6	126.5
%▲	-2.8	-1.0	9.4	1.8

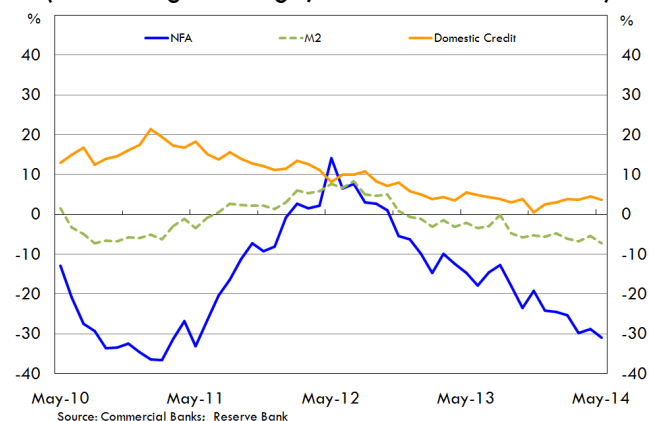
Note: (-) Appreciation of Vatu

March 2013. The 1.6 percent increase in air arrivals is caused by the rise in the number of visitors arriving from New Caledonia, other Pacific countries, North America, Japan and other countries. The number of holiday visitors, which increased by 4.3 percent, accounted for more than 80 percent of the total number of visitors arriving by plane. Despite the fall in the number of visitors entering to visit friends and attend business meetings, there has been a 7.6 percent increase in number of visitors entering for a stop-over, holidays or other purposes. Overall, the first quarter of 2014 has seen an increase in the number of visitors entering Vanuatu compare to same period of 2013.

### Monetary Developments

**Money Supply (M2)** decreased by 0.1 percent and 7.2 percent during the month and over the year to May 2014, respectively. The decline during the month reflected a 2.5 percent decrease in net foreign assets (NFA) which outweighs the gradual increase of 0.8 percent in private sector credit. The fall in NFA resulted mainly from a decrease in commercial banks' NFA, as a result of the combined effects of a decline of 6.9 percent in their foreign assets and an increase of 1.3 percent in their foreign liabilities. The Reserve Bank in contrast, recorded net inflows of foreign exchange. Overall, total NFA declined over the year to May 2014. The marginal growth in **Private Sector Credit** in May triggered the annual growth rate to increase by 2.6 percent over the year to May 2014. Total loans extended by commercial banks to various economic sectors are depicted in Table 4 below. Loans extended by other financial institutions decreased by 1.2 percent and 3.9 percent during May and over the year to May 2014.

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



**Net Claims on Government** by the banking system improved in May 2014, recording a decrease of 60.8 percent from the level recorded in April. This improvement reflected the increase in government deposits held with the Reserve Bank. However, over the year to May 2014, the Government's net credit position deteriorated with an increase of 7.3 percent.

Claims on Government by other financial institutions remained unchanged at VT3049.1 million at the end of May 2014.

### Open Market Operations (OMO)

The Bank conducted three open market operations during the month of June 2014, in which VT192 million worth of RBV notes were issued compared to VT112 million issued during May 2014. The total subscription received for the issue was VT358 million, compared to VT336 million received throughout May 2014. The total amount of matured RBV notes for the month was at VT192 million leaving outstanding notes at VT312 million as of end June, compared to VT426 million reported in the previous month. The interbank rate remained at 5.0 percent while the rediscount window is at 5.5 percent.

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

Term	Amount Allotted	Yield End June 2014	Yield End May 2014
7 days	46	1.40	1.45
14 days	36	1.50	1.55
28 days	36	1.80	1.80
63 days	36	1.85	1.85
91 days	34	1.90	1.95

<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	May-13	Feb-14	Apr-14	May-14	%Change		
					1 Month	3 months	12months
Foreign Assets	16,439.9	17,096.1	16,653.8	17,097.3	2.7	0.0	4.0
Foreign Exchange 1/	15,867.1	16,497.1	16,062.8	16,510.1	2.8	0.1	4.1
Reserve Position with IMF	355.9	373.0	368.0	366.0	-0.5	-1.9	2.8
SDR Holdings	216.8	226.0	223.0	221.2	-0.8	-2.1	2.0
Claims on Government	1,518.3	2,355.0	2,473.9	2,474.0	0.0	5.1	62.9
Advances to statutory Bodies	-	-	-	-			
Advances to commercial Banks	-	-	-	-			
O/w under repurchase agreement	-	-	-	-			
Other Assets	1,871.1	1,981.7	1,861.3	1,887.9	1.4	-4.7	0.9
<b>Total Assets</b>	<b>19,829.3</b>	<b>21,432.9</b>	<b>20,989.0</b>	<b>21,459.2</b>	2.2	0.1	8.2
Reserve Money	12,882.7	13,848.5	14,733.8	15,236.9	3.4	10.0	18.3
Currency outside Banks mVT	4,801.3	4,736.6	4,878.3	5,021.8	2.9	6.0	4.6
Commercial Banks Cash mVT	1,312.2	1,564.1	1,640.5	1,811.0	10.4	15.8	38.0
Commercial Banks Deposit with RBV	6,769.2	7,547.8	8,215.0	8,404.1	2.3	11.3	24.2
Foreign Liabilities 2/	2,456.8	2,604.8	2,622.1	2,601.9	-0.8	-0.1	5.9
Government Deposits, of which	2,568.7	2,725.4	1,994.3	2,522.1	26.5	-7.5	-1.8
Government contribution to RTP	355.9	373.0	366.7	366.0	-0.2	-1.9	2.8
RBV Notes	1,211.8	1,567.5	926.4	424.4	-54.2	-72.9	-65.0
Other Liabilities	709.2	686.7	712.5	674.0	-5.4	-1.9	-5.0
<b>TOTAL LIABILITIES</b>	<b>19,829.3</b>	<b>21,432.9</b>	<b>20,989.0</b>	<b>21,459.2</b>	2.2	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	May-13	Feb-14	Apr-14	May-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,312.2	1,564.1	1,640.5	1,811.0	10.4	15.8	38.0
Deposits with RBV	6,769.2	7,547.8	8,215.0	8,404.1	2.3	11.3	24.2
RBV Notes	1,211.8	1,567.5	926.4	424.4	-54.2	-72.9	-65.0
Foreign Assets, of which	11,007.3	9,600.6	9,619.4	8,956.7	-6.9	-6.7	-18.6
Claims on non-residents' non-banks	784.1	1,743.2	1,756.4	1,668.7	-5.0	-4.3	112.8
Claims on Private sector	52,001.0	53,061.0	52,929.5	53,363.9	0.8	0.6	2.6
Claims on Government	787.0	811.1	587.5	587.5	0.0	-27.6	-25.4
Other claims 1/	527.8	626.4	945.7	979.2	3.5	56.3	85.5
Other Assets	3,450.0	6,905.2	7,252.4	7,470.1	3.0	8.2	116.5
<b>TOTAL ASSETS</b>	<b>77,066.3</b>	<b>81,697.8</b>	<b>82,128.1</b>	<b>81,996.8</b>	-0.2	0.4	6.4
<b>Demand Deposits, of which</b>	<b>19,039.0</b>	<b>21,485.8</b>	<b>20,765.5</b>	<b>19,979.7</b>	<b>-3.8</b>	<b>-7.0</b>	<b>4.9</b>
Foreign currency	8,744.4	7,293.5	6,759.7	6,065.9	-10.3	-16.8	-30.6
<b>Savings deposits, of which</b>	<b>7,067.7</b>	<b>1,933.0</b>	<b>1,897.8</b>	<b>1,860.7</b>	<b>-2.0</b>	<b>-3.7</b>	<b>-73.7</b>
Foreign currency	1,088.2	17.1	17.2	15.9	-7.4	-6.9	-98.5
<b>Time deposits, of which</b>	<b>27,292.4</b>	<b>25,700.4</b>	<b>27,040.4</b>	<b>27,152.2</b>	<b>0.4</b>	<b>5.6</b>	<b>-0.5</b>
Foreign Currency	8,138.0	7,630.0	8,233.2	8,269.1	0.4	8.4	1.6
Foreign Liabilities, of which	6,239.3	10,091.0	10,379.2	10,509.0	1.3	4.1	68.4
Non residents Banks	1,474.7	2,297.6	2,902.5	2,444.7	-15.8	6.4	65.8
Government Deposits	809.2	1,922.9	1,686.6	1,535.3	-9.0	-20.2	89.7
Credit from RBV	-	-	-	-			
Other Liabilities, including shareholders' funds	16,618.7	20,564.6	20,358.5	20,959.8	3.0	1.9	26.1
<b>TOTAL LIABILITIES</b>	<b>77,066.3</b>	<b>81,697.8</b>	<b>82,128.1</b>	<b>81,996.8</b>	-0.2	0.4	6.4

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	May-13	Feb-14	Apr-14	May-14	%Change		
					1 Month	3 months	12 Months
1 Net Foreign Assets	17,993.7	14,000.9	13,271.9	12,943.1	-2.5	-7.6	-28.1
Monetary Authorities (Net)	13,983.0	14,491.3	14,031.7	14,495.4	3.3	0.0	3.7
Commercial Banks (Net)	4,010.7	(490.4)	(759.8)	(1,552.3)	-104.3	-216.5	-138.7
2 Net Domestic Assets	40,208.0	39,854.9	41,310.1	41,071.4	-0.6	3.1	2.1
(a) Domestic Credit	51,526.4	52,266.1	53,328.7	53,415.2	0.2	2.2	3.7
(i) Net claims on government	(1,073.9)	(1,482.2)	(619.5)	(995.9)	-60.8	32.8	7.3
Monetary Authorities	(1,050.4)	(370.4)	479.6	(48.0)	-110.0	87.0	95.4
Commercial Banks	(23.5)	(1,111.8)	(1,099.1)	(947.8)	13.8	14.8	-3,938.4
(ii) Claims on Non financial Public enterprises (NFPE)	499.3	555.9	859.7	891.8	3.7	60.4	78.6
(iii) Claims on Private Sector (1)	52,072.5	53,107.8	52,990.8	53,431.9	0.8	0.6	2.6
(iv) Claims on other financial institutions	0.0	14.1	11.7	7.2	-38.2	-48.9	0.0
(v) Claims on Municipalities	28.5	70.5	86.0	80.1	-6.8	13.7	181.2
(b) Other items (net)	(11,319.7)	(12,411.2)	(12,018.6)	(12,343.8)	2.7	-0.5	-9.0
3 Total Assets= Total Money Supply	<b>58,200.4</b>	<b>53,855.8</b>	<b>54,582.0</b>	<b>54,014.5</b>	-1.0	0.3	-7.2
(a) Money (M1)	23,840.3	26,222.4	25,643.8	25,001.6	-2.5	-4.7	4.9
(i) Currency outside Banks	4,801.3	4,736.6	4,878.3	5,021.8	2.9	6.0	4.6
(ii) Demand deposits	19,039.0	21,485.8	20,765.5	19,979.7	-3.8	-7.0	4.9
(b) Quasi-money	34,360.1	27,633.4	28,938.2	29,013.0	0.3	5.0	-15.6
(i) Saving Deposits	9,226.2	1,933.0	1,897.8	1,860.7	-2.0	-3.7	-79.8
(ii) Time Deposits	25,133.9	25,700.4	27,040.4	27,152.2	0.4	5.6	8.0

1) Include RBV staff loans excluding credit corp

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

SECTOR	May-13	Apr-14	May-14	% Change	
				1 Month	12 Months
Agriculture	955.3	566.3	574.3	1.4	-39.9
Fisheries	31.0	9.3	47.6	412.1	53.4
Mining & Quarring	205.4	43.7	43.8	0.2	-78.7
Manufacturing	1,485.9	1,730.6	1,754.7	1.4	18.1
Distribution	7,265.6	5,279.3	5,415.6	2.6	-25.5
Tourism	4,478.7	5,494.0	5,565.7	1.3	24.3
Entertainment & Catering	278.8	703.3	726.5	3.3	160.6
Transport	1,153.5	547.2	554.0	1.2	-52.0
Public Utilities	273.7	196.9	194.2	-1.4	-29.0
Construction	5,727.5	3,922.4	3,786.1	-3.5	-33.9
a) Central Government	25.3	-	-	-	-
b) Public Corporation	196.9	945.7	891.8	-5.7	353.0
Financial Institutions	165.3	6.3	7.2	14.6	-95.6
Professional & Other Services	6,323.2	5,855.9	6,309.7	7.7	-0.2
Housing & Land Purchases	14,253.7	17,260.4	17,188.5	-0.4	20.6
Other Personal	8,803.4	9,600.0	9,596.4	0.0	9.0
Miscellaneous	871.1	1,731.8	1,687.1	-2.6	93.7
<b>TOTAL</b>	<b>52,494.3</b>	<b>53,893.2</b>	<b>54,343.6</b>	<b>0.8</b>	<b>3.5</b>
Of which : Vatu	40,377.2	40,721.5	41,049.4	0.8	1.7