



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: March 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 continue to remain, including low inflation in advanced economies and an increased financial volatility in emerging market economies associated large capital flows.

The Reserve Bank of **Australia** left its policy rate unchanged at 2.5 percent in its 4th March meeting this year. The easing in monetary policy since November 2011 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. The seasonally-adjusted unemployment rate stood at 5.8 percent in March, down from 6.0 percent in February 2014.

In the **Euro area** annual inflation in March 2014 was 0.5 percent, down from 0.7 percent in February. The largest upward impacts to euro area annual inflation came from tobacco and restaurants & cafés (+0.08 percentage points each) and milk, cheese & eggs (+0.06), while fuels for transport (-0.24), telecommunications (-0.10) and heating oil (-0.06) had the biggest downward impacts. Five countries within the euro area experienced negative annual inflation 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, after a rate cut from 0.5 percent in November 2013. The seasonally-adjusted unemployment rate in the euro area dipped to 11.9 percent in February, it was 12.0 percent in February 2013. Growth is becoming more broad-based, with growth being seen in Southern Europe (including in Spain, Portugal and Italy) in the fourth quarter.

In March, the Federal Reserve in the **United States** decided to continue with the winding down the quantitative easing stimulus. The Fed continued to reduce its bond-buying program, with asset purchases down to \$55 billion in March, signalling current optimistic strength of the U.S. economy. This is supported by growth in the December quarter of 2.7 percent (yoy) and more recent economic indicators. The 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. March saw employers add 192,000 jobs, an improvement on February. The unemployment rate was unchanged in March at 6.7 percent and has shown little movement since December. 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 Euro, but depreciated against the AUD and the NZD.

Table 1: Exchange Rate of Vatu/Foreign Currency

	USD	AUD	NZD	EURO
Mar-14	95.1	88.0	82.5	130.9
1 month ago	96.8	86.8	81.0	132.8
% ▲	-1.7	1.4	1.8	-1.4
3 months ago	97.3	86.6	79.8	134.2
%▲	-2.2	1.6	3.4	-2.4
12 months ago	91.7	95.8	76.8	117.3
%▲	3.7	-8.1	7.4	11.7

Note: (-) Appreciation of Vatu

Monetary Developments

Money supply (M2) fell by 0.2 percent and 6.0 percent in February and over the year to February 2014, respectively. The decline was mainly attributed to the fall in **Net Foreign Assets** (NFA), while domestic credit gradually expanded. Decline in the NFA holdings of both the Reserve Bank (RBV) and Commercial Banks contributed to the downward trend in NFA. The decline in the NFA of the RBV reflected net outflows of foreign exchange witnessed during the month, though the current NFA of the RBV still exceeded that of over a year ago. Commercial Banks foreign liabilities continue to exceed their foreign assets, explaining the decline in their NFA. **Private sector credit** grew by 0.7 percent in February 2014, which triggered the annual growth to increase to 3.7 percent over the year to February 2014. Sectors which contributed to this annual growth are depicted in table A4.

Net claims on Government by the banking system improved in February 2014, recording a decline of 27.0 percent. This improvement reflected accumulation of government deposits with both commercial banks and the Reserve Bank. Similarly, over the year to January 2014, the Government's net credit position declined by 4.0 percent.

Claims on Government by ¹Other financial institutions remained at VT 3,199.06 million in February, as in January 2014.

Open Market Operations (OMO)

The Bank conducted Three Open Market Operations during March 2014 where VT676 million worth of RBV notes were issued compared to VT1,886 million issued during February 2014.

Total subscription received for these issues reached VT1,022 million compared to VT3,622 million received throughout February 2014. Total amount of matured RBV notes for the month was at VT696 million leaving outstanding notes at VT1,552 million as of end March compared to VT1,572 million as reported in the previous month. Interbank rate remained at 5.0 percent

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

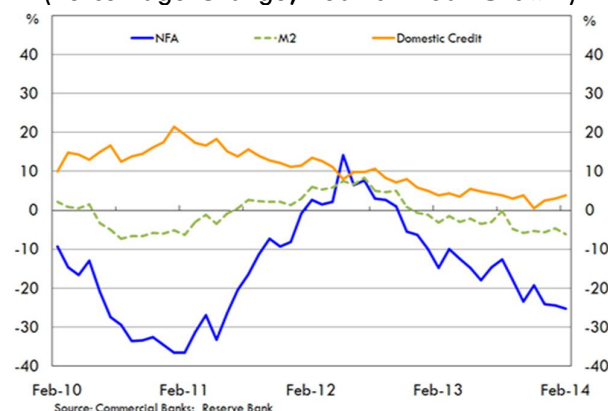


Table 2: Amount Allotted (Millions of Vatu) and Yields on RBV Notes (Percent)

Term	Amount Allotted	Yield EndMar2014	Yield End Feb. 2014
7 days	136	1.50	1.50
14 days	136	1.60	1.60
28 days	136	1.85	1.85
63 days	134	1.90	1.90
91 days	134	2.00	2.00

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	Feb-13	Nov-13	Jan-14	Feb-14	%Change		
					1 Month	3 months	12 months
Foreign Assets	16,495.8	17,417.1	17,591.5	17,096.1	-2.8	-1.8	3.6
Foreign Exchange 1/	15,932.9	16,821.4	16,987.9	16,497.1	-2.9	-1.9	3.5
Reserve Position with IMF	349.5	370.6	375.5	373.0	-0.7	0.6	6.7
SDR Holdings	213.4	225.1	228.1	226.0	-0.9	0.4	5.9
Claims on Government	1,518.3	1,618.8	2,160.1	2,355.0	9.0	45.5	55.1
Advances to statutory Bodies	-	-	-	-	0.0	0.0	0.0
Advances to commercial Banks	-	-	-	-	0.0	0.0	0.0
O/w under repurchase agreement	-	-	-	-	0.0	0.0	0.0
Other Assets	2,110.9	1,953.1	1,940.1	1,981.7	2.1	1.5	-6.1
Total Assets	20,125.0	20,988.9	21,691.6	21,432.9	-1.2	2.1	6.5
Reserve Money	12,826.0	14,117.9	14,949.4	13,848.5	-7.4	-1.9	8.0
Currency outside Banks mVT	4,461.8	4,975.0	4,917.5	4,736.6	-3.7	-4.8	6.2
Commercial Banks Cash mVT	1,734.1	1,333.8	1,461.6	1,564.1	7.0	17.3	-9.8
Commercial Banks Deposit with RBV mVT	6,630.1	7,809.1	8,570.3	7,547.8	-11.9	-3.3	13.8
Foreign Liabilities 2/	2,414.1	2,600.3	2,622.8	2,604.8	-0.7	0.2	7.9
Government Deposits, of which	3,115.2	2,807.5	2,493.6	2,725.4	9.3	-2.9	-12.5
Government contribution to RTP	348.5	370.6	375.5	373.0	-0.7	0.6	7.0
RBV Notes	797.4	1,039.0	910.4	1,567.5	72.2	50.9	96.6
Other Liabilities	972.3	424.2	715.4	686.7	-4.0	61.9	-29.4
TOTAL Liabilities	20,125.0	20,988.9	21,691.6	21,432.9	-1.2	2.1	6.5

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	Feb-13	Nov-13	Jan-14	Feb-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,734.1	1,452.1	1,461.6	1,564.1	7.0	7.7	-9.8
Deposits with RBV	6,630.1	8,008.0	8,570.3	7,547.8	-11.9	-5.7	13.8
RBV Notes	797.4	1,128.4	910.4	1,567.5	72.2	38.9	96.6
Foreign Assets, of which	11,211.7	11,676.0	10,423.5	9,600.6	-7.9	-17.8	-14.4
Claims on non-residents' banks	650.3	1,869.7	1,748.3	1,743.2	-0.3	-6.8	168.1
Claims on Private sector	51,146.2	51,865.8	52,681.7	53,075.1	0.7	2.3	3.8
Claims on Government	787.0	898.8	987.0	811.1	-17.8	-9.8	3.1
Other claims 1/	621.5	877.3	657.6	626.4	-4.7	-28.6	0.8
Other Assets	3,013.4	7,377.5	7,846.8	6,905.2	-12.0	-6.4	129.1
TOTAL ASSETS	75,941.4	83,284.0	83,151.4	81,697.8	-0.4	-1.9	7.6
Demand Deposits, of which	18,211.3	22,124.0	21,472.8	21,485.8	0.1	-2.9	18.0
Foreign currency	9,231.5	7,923.7	7,497.4	7,293.5	-2.7	-8.0	-21.0
Savings deposits, of which	6,534.2	1,899.3	1,886.5	1,933.0	2.5	1.8	-70.4
Foreign currency	373.5	1,881.1	16.5	17.1	3.6	-99.1	-95.4
Time deposits, of which	28,107.9	28,390.7	25,707.7	25,700.4	0.0	-9.5	-8.6
Foreign Currency	8,443.1	9,648.1	7,575.2	7,630.0	0.7	-20.9	-9.6
Foreign Liabilities, of which	6,565.0	5,638.1	11,324.6	10,091.0	-10.9	79.0	53.7
Non residents Banks	1,490.4	134.7	3,494.3	2,297.6	-34.2	1605.5	54.2
Government Deposits	616.1	1,320.9	1,821.0	1,922.9	5.6	45.6	212.1
Credit from RBV	-	-	-	-	-	-	-
Other Liabilities, including shareholders' funds	15,907.0	23,911.1	20,938.8	20,564.6	-1.8	-14.0	29.3
TOTAL LIABILITIES	75,941.4	83,284.0	83,151.4	81,697.8	-1.7	-1.9	7.6

r: revised

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	Feb-13	Nov-13	Jan-14	Feb-14	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	18,728.3	15,957.9	14,067.6	14,000.9	-0.5	-12.3	-25.2
Monetary Authorities (Net)	14,081.7	14,816.8	14,968.7	14,491.3	-3.2	-2.2	2.9
Commercial Banks (Net)	4,646.6	1,141.1	(901.1)	(490.4)	-45.6	-143.0	-110.6
2. Net Domestic Assets	38,586.8	39,268.5	39,916.9	39,854.9	-0.2	1.5	3.3
(a) Domestic Credit	50,348.5	50,983.6	51,834.6	52,266.1	0.8	2.5	3.8
(i) Net claims on government	(1,425.9)	(1,610.8)	(1,167.5)	(1,482.2)	-27.0	8.0	-4.0
Monetary Authorities	(1,596.8)	(1,188.7)	(333.5)	(370.4)	-11.1	68.8	76.8
Commercial Banks	171.0	(422.1)	(834.0)	(1,111.8)	-33.3	-163.4	-750.3
(ii) Claims on Non financial Public enterprises (NFPE)	507.9	1,005.4	1,005.4	1,005.4	0.0	0.0	98.0
(iii) Claims on Private Sector (1)	51,235.1	51,917.0	52,732.0	53,121.9	0.7	2.3	3.7
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	31.4	3.1	2.4	0.4	-83.3	-87.1	-98.7
(b) Other items (net)	(11,761.7)	(11,715.1)	(11,917.7)	(12,411.2)	4.1	5.9	5.5
3. Total Assets= Total Money Supply	57,315.1	55,226.4	53,984.5	53,855.8	-0.2	-2.5	-6.0
(a) Money (M1)	22,673.0	27,099.0	26,390.3	26,222.4	-0.6	-3.2	15.7
(i) Currency outside Banks	4,461.8	4,975.0	4,917.5	4,736.6	-3.7	-4.8	6.2
(ii) Demand deposits	18,211.3	22,124.0	21,472.8	21,485.8	0.1	-2.9	18.0
(b) Quasi-money	34,642.1	28,127.4	27,594.2	27,633.4	0.1	-1.8	-20.2
(i) Saving Deposits	9,378.2	1,899.3	1,886.5	1,933.0	2.5	1.8	-79.4
(ii) Time Deposits	25,263.8	26,228.1	25,707.7	25,700.4	0.0	-2.0	1.7

1) Include RBV staff loans excluding credit corp

r : revised

Table A4: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	Feb-13	Jan-14	Feb-14	% Change	
				1 Month	12 Months
Agriculture	916.1	594.5	597.9	0.6	-34.7
Fisheries	31.1	9.6	11.5	20.0	-63.0
Mining & Quarring	198.8	44.3	44.4	0.2	-77.7
Manufacturing	1,588.7	1,781.2	1,744.9	-2.0	9.8
Distribution	7,081.6	4,839.9	5,115.2	5.7	-27.8
Tourism	4,343.0	4,976.2	5,094.6	2.4	17.3
Entertainment & Catering	350.5	686.7	707.3	3.0	101.8
Transport	1,193.9	454.9	480.5	5.6	-59.8
Public Utilities	83.0	203.6	203.7	0.0	145.5
Construction	5,483.9	3,750.5	3,756.8	0.2	-31.5
a) Central Government	27.9	-	-	-	-
b) Public Corporation	172.4	657.6	658.6	0.2	282.1
Financial Institutions	160.7	5.1	5.1	0.0	-96.8
Professional & Other Services	6,217.0	6,082.1	6,084.2	0.0	-2.1
Housing & Land Purchases	14,143.1	17,026.1	17,043.8	0.1	20.5
Other Personal	8,929.9	10,481.4	10,015.7	-4.4	12.2
Miscellaneous	711.8	1,750.6	2,220.7	26.9	212.0
TOTAL	51,633.4	53,344.4	53,784.9	0.8	4.2
Of which : Vatu	39,772.8	40,214.5	40,597.7	1.0	2.1