



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: May 2014

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Exchange Rate and International Developments

Global growth continues to strengthen at a moderate pace, but remains uneven, with rebound in the advanced economies. Nonetheless, risks to growth remains, including low inflation in advanced economies and an increased financial volatility in emerging market economies due to low commodity prices; declining demand for manufactured goods globally; stock market valuations declining; and currencies in many emerging countries depreciating, as capital flows reversed seeking to find a safe haven.

On 6 May, 2014 the Reserve Bank of **Australia** left its policy rate unchanged at 2.5 percent since August 2013, this accommodative monetary policy stance 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 as well as a notable improvement in consumer demand. Seasonally-adjusted growth in the first quarter of 2014 reached 3.5 percent (yoy). The seasonally-adjusted unemployment rate remained at 5.8 percent in May, unchanged from April 2014.

In the **Euro area** annual inflation is expected to be down to 0.5 percent in May 2014, from 0.7 percent recorded in April. This is well below the target communicated by the European Central Bank (ECB) of just below 2 percent and it is anticipated that action will be taken in June by the ECB to prevent inflation falling any further. The ECB has kept its key interest rate at 0.25 percent since November 2013. The seasonally-adjusted unemployment rate continued to decline to 11.7 percent in April 2014; down from 11.8 percent in the previous month and 12.0 percent in April 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 continued to reduce its bond-buying program, cutting asset purchases down to \$45 billion in April. Growth in the March quarter fell by 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, improved this period. The unemployment rate remained at 6.3 percent in May, stable with April, compared with 6.7 percent in March. 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 2.0 percent in April, compared to 1.5 percent in March.

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

Table 1: Exchange Rate of Vatu/Foreign Currency

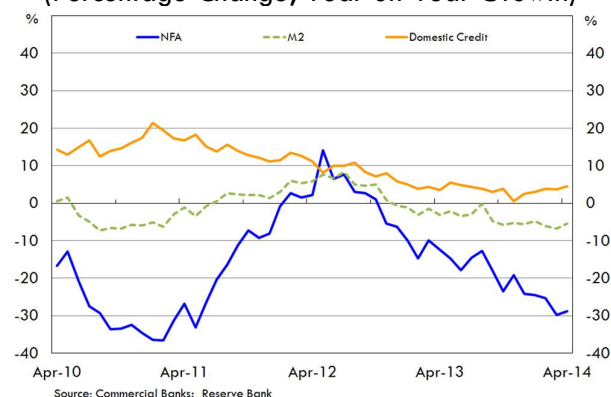
	USD	AUD	NZD	EURO
May-14	95.24	88.68	80.86	129.55
1 month ago	94.9	88.4	81.8	131.7
% ▲	0.3	0.4	-1.1	-1.6
3 months ago	96.8	86.8	81.0	132.8
%▲	-1.6	2.2	-0.2	-2.4
12 months ago	95.0	91.8	76.7	124.0
%▲	0.3	-3.4	5.4	4.5

Note: (-) Appreciation of Vatu

Monetary Developments

Money Supply (M2) increased further by 0.1 percent over the month, whilst the annual growth over the year to April 2014 decreased by 5.4 percent. The growth during the month reflected increases in net foreign assets (NFA) and net claims on government. NFA noted a slight increase of 0.1 percent due mainly to an increase in commercial banks' NFA. The increase resulted mainly from an increase of 7.6 percent in the banks' foreign assets, which more than outweighed the 3.0 percent rise in their foreign liabilities. The Reserve Bank in contrast, recorded net outflows of foreign exchange. Despite the rise over the month, total NFA declined over the year. **Private Sector Credit** fell by 0.9 percent in April triggering the annual growth rate to slow further by 2.2 percent over the year to April 2014. Total loans extended by commercial banks to various economic sectors are depicted in Table 4. Loans extended by ¹Other financial institutions increased by 1.0 percent and 1.1 percent during April and over the year to April 2014.

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



Net Claims on Government by the banking system deteriorated in April 2014, recording an increase of 38.7 percent from the level recorded in March. This deterioration reflected partly the increase in the Reserve Bank claims on government and the decline in government deposits held with both the Reserve Bank and commercial banks, respectively. Similarly, over the year to April 2014, the Government's net credit position deteriorated with an increase of 48.2 percent.

Claims on Government by other financial institutions declined by VT150 million to reach VT3049.1 million at the end of April when the government retired some of its bonds.

Open Market Operations (OMO)

The Bank conducted one open market operation during May 2014, in which VT112 million worth of RBV notes were issued compared to VT446 million issued during April 2014. The total subscription received for the issue was VT336 million, compared to VT750 million received throughout April 2014. The total amount of matured RBV notes for the month was at VT112 million leaving outstanding notes at VT426 million as of end May, compared to VT930 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 EndMay2014	Yield End Apr. 2014
7 days	24	1.45	1.50
14 days	22	1.55	1.60
28 days	22	1.80	1.85
63 days	22	1.85	1.90
91 days	22	1.95	2.00

¹ 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	Apr-13	Jan-14	Mar-14	Apr-14	%Change		
					1 Month	3 months	12months
Foreign Assets	16,721.4	17,591.5	17,004.5	16,653.8	-2.1	-5.3	-0.4
Foreign Exchange 1/	16,165.6	16,987.9	16,415.5	16,062.8	-2.1	-5.4	-0.6
Reserve Position with IMF	345.1	375.5	366.7	368.0	0.4	-2.0	6.6
SDR Holdings	210.7	228.1	222.2	223.0	0.4	-2.2	5.9
Claims on Government	1,518.3	2,160.1	2,355.0	2,473.9	5.0	14.5	62.9
Advances to statutory Bodies	-	-	-	-	-	-	-
Advances to commercial Banks	-	-	-	-	-	-	-
0/w under repurchase agreement	-	-	-	-	-	-	-
Other Assets	2,010.5	1,940.1	1,866.7	1,861.3	-0.3	-4.1	-7.4
Total Assets	20,250.3	21,691.6	21,226.2	20,989.0	-1.1	-3.2	3.6
Reserve Money	12,652.6	14,949.4	14,299.2	14,733.8	3.0	-1.4	16.4
Currency outside Banks mVT	4,574.0	4,917.5	4,768.2	4,878.3	2.3	-0.8	6.7
Commercial Banks Cash mVT	1,682.0	1,461.6	1,364.5	1,640.5	20.2	12.2	-2.5
Commercial Banks Deposit with RBV mVT	6,396.5	8,570.3	8,166.5	8,215.0	0.6	-4.1	28.4
Foreign Liabilities 2/	2,386.5	2,622.8	2,618.5	2,622.1	0.1	0.0	9.9
Government Deposits, of which	2,805.9	2,493.6	2,285.6	1,994.3	-12.7	-20.0	-28.9
Government contribution to RTP	345.1	375.5	366.7	368.0	0.4	-2.0	6.6
RBV Notes	1,439.9	910.4	1,291.2	926.4	-28.3	1.8	-35.7
Other Liabilities	965.4	715.4	731.7	712.5	-2.6	-0.4	-26.2
TOTAL Liabilities	20,250.3	21,691.6	21,226.2	20,989.0	-1.1	-3.2	3.6

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	Apr-13	Jan-14	Mar-14	Apr-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,682.0	1,461.6	1,364.5	1,640.5	20.2	12.2	-2.5
Deposits with RBV	6,396.5	8,570.3	8,166.5	8,215.0	0.6	-4.1	28.4
RBV Notes	1,439.9	910.4	1,291.2	926.4	-28.3	1.8	-35.7
Foreign Assets, of which	10,492.8	10,423.5	8,943.2	9,619.4	7.6	-7.7	-8.3
Claims on non-residents' banks	779.4	1,748.3	1,779.9	1,756.4	-1.3	0.5	125.4
Claims on Private sector	51,587.2	52,681.7	53,465.8	52,941.2	-1.0	0.5	2.6
Claims on Government	787.0	599.5	787.5	587.5	-25.4	-2.0	-25.4
Other claims 1/	642.1	657.6	672.8	945.7	40.6	43.8	47.3
Other Assets	3,407.8	7,846.8	6,901.7	7,252.4	5.1	-7.6	112.8
TOTAL ASSETS	76,435.3	83,151.4	81,593.2	82,128.1	0.7	-1.2	7.4
Demand Deposits, of which	19,262.2	21,472.8	21,271.3	20,765.5	-2.4	-3.3	7.8
Foreign currency	8,858.6	7,497.4	7,239.8	6,759.7	-6.6	-9.8	-23.7
Savings deposits, of which	6,356.8	1,886.5	1,835.3	1,897.8	3.4	0.6	-70.1
Foreign currency	419.6	16.5	16.2	17.2	6.2	4.2	-95.9
Time deposits, of which	27,481.0	25,707.7	26,189.6	27,040.4	3.2	5.2	-1.6
Foreign Currency	8,584.7	7,575.2	7,653.9	8,233.2	7.6	8.7	-4.1
Foreign Liabilities, of which	6,202.3	11,324.6	10,076.9	10,379.2	3.0	-8.3	67.3
Non residents Banks	1,421.0	3,494.3	2,446.0	2,902.5	18.7	-16.9	104.3
Government Deposits	696.3	1,821.0	1,867.3	1,686.6	-9.7	-7.4	142.2
Credit from RBV	-	-	-	-	-	-	-
Other Liabilities, including shareholders' funds	16,437.1	20,938.8	20,352.7	20,358.5	0.0	-2.8	23.9
TOTAL LIABILITIES	76,435.6	83,151.4	81,593.2	82,128.1	0.7	-1.2	7.4

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	Apr-13	Jan-14	Mar-14	Apr-14	%Change		
					1 Month	3 months	12 Months
1. Net Foreign Assets	18,625.4	14,067.6	13,252.3	13,271.9	0.1	-5.7	-28.7
Monetary Authorities (Net)	14,334.9	14,968.7	14,386.0	14,031.7	-2.5	-6.3	-2.1
Commercial Banks (Net)	4,290.5	(901.1)	(1,133.7)	(759.8)	33.0	15.7	-117.7
2. Net Domestic Assets	39,048.6	39,916.9	40,812.1	41,310.1	1.2	3.5	5.8
(a) Domestic Credit	51,002.4	51,834.6	53,173.0	53,328.7	0.3	2.9	4.6
(i) Net claims on government	(1,196.8)	(1,555.0)	(1,010.4)	(619.5)	38.7	60.2	48.2
Monetary Authorities	(1,287.6)	(333.5)	69.4	479.6	591.1	243.8	137.2
Commercial Banks	90.8	(1,221.5)	(1,079.8)	(1,099.1)	-1.8	10.0	-1,311.0
(ii) Claims on Non financial Public enterprises (NFPE)	509.8	1,005.4	1,005.4	1,005.4	0.0	0.0	97.2
(iii) Claims on Private Sector (1)	51,661.7	52,732.0	53,510.6	53,002.5	-0.9	0.5	2.6
(iv) Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(v) Claims on Municipalities	27.7	2.4	0.8	1.7	112.5	-29.2	-93.9
(b) Other items (net)	(11,953.8)	(11,917.7)	(12,360.9)	(12,018.6)	-2.8	0.8	-0.5
3. Total Assets= Total Money Supply	57,674.0	53,984.5	54,064.4	54,582.0	1.0	1.1	-5.4
(a) Money (M1)	23,836.2	26,390.3	26,039.5	25,643.8	-1.5	-2.8	7.6
(i) Currency outside Banks	4,574.0	4,917.5	4,768.2	4,878.3	2.3	-0.8	6.7
(ii) Demand deposits	19,262.2	21,472.8	21,271.3	20,765.5	-2.4	-3.3	7.8
(b) Quasi-money	33,837.8	27,594.2	28,024.9	28,938.2	3.3	4.9	-14.5
(i) Saving Deposits	9,004.3	1,886.5	1,835.3	1,897.8	3.4	0.6	-78.9
(ii) Time Deposits	24,833.5	25,707.7	26,189.6	27,040.4	3.2	5.2	8.9

1) Include RBV staff loans excluding credit corp

Table A4: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	Apr-13	Mar-14	Apr-14	% Change	
				1 Month	12 Months
Agriculture	935.3	566.8	566.3	-0.1	-39.5
Fisheries	33.8	9.1	9.3	2.1	-72.5
Mining & Quarring	203.5	44.5	43.7	-1.7	-78.5
Manufacturing	1,582.1	1,683.8	1,730.6	2.8	9.4
Distribution	7,099.0	5,332.3	5,279.3	-1.0	-25.6
Tourism	4,454.0	5,343.0	5,494.0	2.8	23.4
Entertainment & Catering	253.4	692.0	703.3	1.6	177.5
Transport	1,169.5	477.7	547.2	14.5	-53.2
Public Utilities	269.0	195.9	196.9	0.5	-26.8
Construction	5,452.9	3,698.7	3,922.4	6.0	-28.1
a) Central Government	24.4	-	-	0.0	0.0
b) Public Corporation	209.9	672.8	945.7	40.6	350.5
Financial Institutions	163.6	5.0	6.3	26.0	-96.1
Professional & Other Services	6,285.5	6,022.8	5,855.9	-2.8	-6.8
Housing & Land Purchases	14,274.6	20,122.1	17,260.4	-14.2	20.9
Other Personal	8,959.1	6,903.0	9,600.0	39.1	7.2
Miscellaneous	720.8	2,374.2	1,731.8	-27.1	140.3
TOTAL	52,090.5	54,143.7	53,893.2	-0.5	3.5
Of which : Vatu	40,308.7	40,784.8	40,721.5	-0.2	1.0