



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS: October 2014

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International Developments

Global activity continues to recover at a moderate pace despite a slowdown in the first half of the year. Economic growth was particularly muted in the second quarter in Europe and Japan. In the third quarter, the US economy continued to show signs of strengthening whereas growth in the Chinese economy slowed to 7.3 percent, lower than the official growth targeted by the Government for this period. IMF global growth forecast for 2014 and 2015 has been revised down to 3.3 percent and 3.8 percent, respectively. Risks to growth continue, heightened by geopolitical tensions in Ukraine and the Middle East, and increased volatility in financial markets.

In October the Reserve Bank of Australia left its policy rate at 2.5 percent, unchanged since August 2013. The easing in monetary policy continues to support interest-sensitive spending and asset values. The lowest recorded interest rates are supporting growth in non-mining sectors. Seasonally-adjusted growth in the second quarter of 2014 stood at 3.1 percent (yoy). Inflationary pressures lessened over the third quarter, with annual inflation at 2.3 percent, compared to 3.0 percent in the second quarter of 2014. The seasonally-adjusted unemployment rate remained at 6.2 percent in October, from a revised September 2014 estimate.

In the Euro area, annual inflation is expected at 0.4 percent in October, up from 0.3 percent in September. This is well below the target communicated by the European Central Bank (ECB) of just below 2 percent. In September, the ECB key refinancing rate was reduced to 0.05 percent, after an earlier reduction to 0.15 percent in June. The ECB also plans to launch its asset purchase program in the fourth quarter to avoid deflation. The seasonally-adjusted unemployment rate remained stable at 11.5 percent in September from the previous month. Growth continues to be fragile and uneven, with year on year growth at 0.7 percent across the bloc in the second quarter.

In the United States, the Federal Reserve announced the end of the bond-buying program in its October meeting; asset purchases will be reduced to zero from \$15 billion in the previous month. Seasonally-adjusted growth in the September quarter stood at 2.3 percent

(yoy), showing a continual rebound after a slow start to the year. Total nonfarm employment payroll increased by 214,000 in October, and the unemployment rate fell to 5.8 percent, down from 5.9 percent in September and far below the rate of 7.3 percent in October 2013. The Federal Open Market Committee kept 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 of 1.7 percent was recorded in September, stable with August, owing to weak fuel and food prices.

Real Sector Developments

Tourism arrivals in August reached 26,532. This level represents an increase of 15.8 percent and 8.6 percent over the previous month and the same month of the 2013, respectively. Air visitors, increased by 4 and 10 percent over July 2014 and August 2013, respectively totalling 11,865. This growth mainly reflected an increase in holiday visitors. Australian tourists continued to dominate the number of air visitors with 48 percent of the total. Visitors from New Zealand make up 22 percent, New Caledonia 10 percent, other Pacific Island countries 7 percent, Europe 6 percent, other countries and North America make up 3 percent each and Japan 1 percent. Furthermore, cruise ship or day visitors rose to 14,667, recording an increase of 28 percent and 8 percent over the month and year, respectively. This trend reflected the increase in the number of cruise ship visits from 6 in August 2013 to 8 in August 2014. (Source: Vanuatu National Statistics Office)

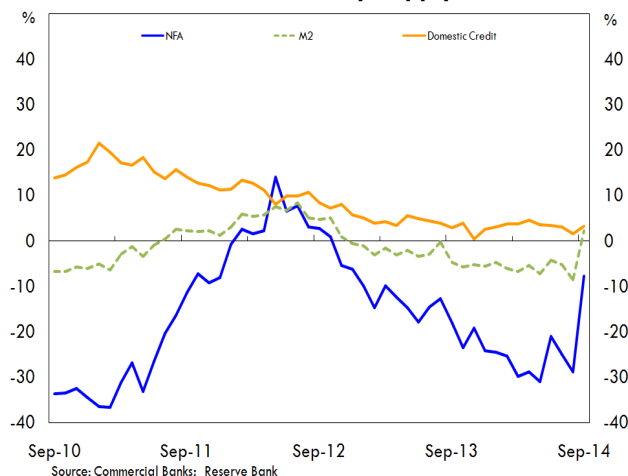
Export earnings at the end of August reached VT614 million, increasing significantly by 146 percent compared to August 2013. Major export commodities contributing to this are as followings in order of largest contributor: sawn timber, which constituted 35 percent of the total, copra and coconut oil, comprising 21 percent and 16 percent, respectively, cocoa and kava 7 percent each, beef and live fish, 3 percent each and other products 7 percent. The value of total imports moreover, increased by 20 percent from August 2013 to VT2, 878 million. Major imported items contributed to this increase are: mineral fuels, 29 percent, machines and transport equipment, 21 percent, food and live

animals, 19 percent, basic manufactured goods 10 percent, miscellaneous goods 7 percent, chemical products 6 percent and other products, 5 percent. The large increase in imports resulted in a further deterioration in the trade balance to VT2264 million. (Source: Vanuatu National Statistics Office)

Monetary and Exchange Rate Developments

Money Supply (M2) increased by 7.8 percent and 2.3 percent in September and over the year to September 2014, respectively. These growths were attributed to increases in Net Foreign Assets (NFA) and Net claims on Government. NFA noted a significant increase of 22.5 percent over the month, reflecting in particular a large increase of 144.1 percent in commercial banks' NFA; moreover the RBV's NFA grew by 3.1 percent. This trend signifies higher investment abroad by commercial banks and net inflows of foreign exchange recorded by the RBV. However, total NFA declined over the year. Private sector credit fell by 0.5 percent in September, triggering the annual growth to 4.6 percent. Total loans extended by commercial banks to various sectors are depicted in table A4. Loans extended by other financial institutions¹ decreased by 3.3 percent over the month.

Chart 1: Determinants of Money Supply



Net Claims on Government vis-à-vis the banking system increased by 6.2 percent in September. This reflected mainly the decline in government deposits held with the Reserve Bank. Over the year to September, the banking system net claims on the Government declined by 31.9 percent. Claims on Government by other financial institutions remained unchanged at VT3549.1 million at end September.

¹Other financial institution covers Credit Corporation, Vanuatu Agriculture Bank and the Vanuatu National Provident Fund.

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

Table 1: Exchange Rate of Vatu/Foreign Currency

	USD	AUD	NZD	EURO
Sep-14	99.73	86.95	77.46	126.54
1 month ago	95.5	89.3	80.0	125.9
% ▲	4.5	-2.7	-3.2	0.5
3 months ago	94.3	89.1	82.8	128.7
% ▲	5.7	-2.4	-6.4	-1.7
12 months ago	95.7	89.2	79.2	129.2
% ▲	4.2	-2.5	-2.2	-2.0

Note: (-) Appreciation of Vatu

Monetary Policy

The RBV Board of Directors, during their meeting on the 7th of November 2014 approved the reduction of the policy interest rate from 5.50 percent to 5.25 percent. While, the SRD and LAR rates remain at 7.00 percent and 5.00 percent, respectively.

Open Market Operations (OMO)

The Bank conducted four Open Market Operations during October, in which VT400 million worth of RBV Notes were issued, the same volume was also issued in September. Total subscription received for these issues stands at VT900 million compared to VT600 million received in September. Total amount of matured RBV notes for the month of October totalled VT319 million leaving outstanding notes at VT413.5 million, compared to VT412 million as 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 October 2014	Yield End September 2014
7 days	225	1.40	1.40
14 days	225	1.50	1.50
28 days	180	1.80	1.80
63 days	135	1.85	1.85
91 days	135	1.90	1.90

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

End of Period	Sep-13	Jun-14	Aug-14	Sep-14	%Change		
					1 Month	3 months	12months
Foreign Assets	16,669.2	17,746.3	17,412.0	17,927.6	3.0	1.0	7.5
Foreign Exchange 1/	16,079.9	17,162.6	16,831.9	17,334.0	3.0	1.0	7.8
Reserve Position with IMF	366.4	363.8	361.9	370.3	2.3	1.8	1.1
SDR Holdings	222.9	219.8	218.2	223.3	2.3	1.6	0.2
Claims on Government	1,618.8	2,474.0	2,474.0	2,474.5	0.0	0.0	52.9
Advances to statutory Bodies	-	-	-	-	-	-	-
Advances to commercial Banks	-	-	-	-	-	-	-
O/w under repurchase agreement	-	-	-	-	-	-	-
Other Assets	1,874.6	2,188.5	2,049.1	2,074.8	1.3	-5.2	10.7
Total Assets	20,162.6	22,408.8	21,935.0	22,476.8	2.5	0.3	11.5
Reserve Money	13,469.8	15,700.7	15,288.4	15,792.4	3.3	0.6	17.2
Currency outside Banks	5,034.6	5,042.4	5,169.1	5,347.0	3.4	6.0	6.2
Commercial Banks Cash	1,508.3	1,711.3	1,576.5	1,518.5	-3.7	-11.3	0.7
Commercial Banks Deposit with RBV	6,926.9	8,947.0	8,542.9	8,926.9	4.5	-0.2	28.9
Foreign Liabilities 2/	2,526.8	2,683.5	2,638.3	2,693.4	2.1	0.4	6.6
Government Deposits, of which	2,625.9	2,743.0	3,028.9	2,845.2	-6.1	3.7	8.4
Government contribution to RTP	366.4	363.8	361.9	370.3	2.3	1.8	1.1
RBV Notes	1,039.0	310.9	298.1	411.3	38.0	32.3	-60.4
Other Liabilities	501.1	970.7	681.2	734.5	7.8	-24.3	46.6
TOTAL Liabilities	20,162.6	22,408.8	21,935.0	22,476.8	2.5	0.3	11.5

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	Sep-13	Jun-14	Aug-14	Sep-14	%Change		
					1 Month	3 months	12 Months
Domestic currency	1,508.3	1,711.3	1,576.5	1,518.5	-3.7	-11.3	0.7
Deposits with RBV	6,926.9	8,947.0	8,542.9	8,926.9	4.5	-0.2	28.9
RBV Notes	1,039.0	310.9	298.1	411.3	38.0	32.3	-60.4
Foreign Assets, of which	12,057.0	8,939.3	8,304.7	10,118.9	21.8	13.2	-16.1
Claims on non-residents' non-banks	1,778.0	1,684.8	1,515.7	1,459.9	-3.7	-13.3	-17.9
Claims on Private sector	50,874.2	53,040.9	53,472.2	53,177.1	-0.6	0.3	4.5
Claims on Government	936.0	587.5	588.4	587.5	-0.2	0.0	-37.2
Other claims 1/	1,082.1	956.4	1,412.5	1,374.5	-2.7	43.7	27.0
Other Assets	7,227.9	7,510.8	7,052.6	7,727.6	9.6	2.9	6.9
TOTAL ASSETS	81,651.5	82,004.1	81,247.9	83,842.4	3.2	2.2	2.7
Demand Deposits, of which	22,754.9	20,678.1	20,403.1	22,131.1	8.5	7.0	-2.7
Foreign currency	8,367.7	6,408.2	6,144.7	7,377.0	20.1	15.1	-11.8
Savings deposits, of which	1,954.1	1,876.3	1,873.6	1,845.8	-1.5	-1.6	-5.5
Foreign currency	16.5	15.8	13.1	13.3	1.3	-16.1	-19.5
Time deposits, of which	26,819.6	26,981.6	26,213.6	28,528.6	8.8	5.7	6.4
Foreign Currency	8,001.9	8,186.7	7,926.1	8,536.8	7.7	4.3	6.7
Foreign Liabilities, of which	8,881.8	10,068.8	10,026.5	9,359.7	-6.7	-7.0	5.4
Non residents Banks	2,230.6	2,386.0	2,243.4	2,827.8	26.0	18.5	26.8
Government Deposits	1,235.5	1,426.5	1,871.2	1,940.7	3.7	36.0	57.1
Credit from RBV							
Other Liabilities, including shareholders' funds	20,005.6	20,972.8	20,859.7	20,039.5	-3.9	-4.4	0.2
TOTAL LIABILITIES	81,651.5	82,004.1	81,247.6	83,845.4	3.2	2.2	2.7

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	Sep-13	Jun-14	Aug-14	Sep-14	%Change		
					1 Month	3 months	12 Months
1 Net Foreign Assets	17,317.6	13,933.3	13,052.0	15,993.4	22.5	14.8	-7.6
Monetary Authorities (Net)	14,142.4	15,062.8	14,773.7	15,234.2	3.1	1.1	7.7
Commercial Banks (Net)	3,175.2	(1,129.5)	(1,721.8)	759.2	144.1	-167.2	-76.1
2 Net Domestic Assets	39,245.7	40,645.1	40,607.4	41,859.1	3.1	3.0	6.7
(a) Domestic Credit	50,710.2	52,958.5	53,117.9	52,909.9	-0.4	-0.1	4.3
(i) Net claims on government	(1,306.5)	(1,108.0)	(1,837.8)	(1,723.9)	6.2	55.6	-31.9
Monetary Authorities	(1,007.0)	(269.0)	(555.0)	(370.7)	33.2	37.8	63.2
Commercial Banks	(299.5)	(839.0)	(1,282.8)	(1,353.2)	-5.5	61.3	-351.8
(ii) Claims on Non financial Public enterprises (NFPE)	1,005.4	877.3	1,294.2	1,250.9	-3.3	42.6	24.4
(iii) Claims on Private Sector (1)	50,934.5	53,110.1	53,543.3	53,259.3	-0.5	0.3	4.6
(iv) Claims on other financial institutions	528.7	6.5	55.3	55.1	-0.4	747.4	-89.6
(v) Claims on Municipalities	76.7	72.6	62.9	68.5	8.9	-5.6	-10.7
(b) Other items (net)	(11,464.5)	(12,313.4)	(12,510.6)	(11,050.8)	-11.7	-10.3	-3.6
3 Total Assets= Total Money Supply	56,563.2	54,578.4	53,659.4	57,852.5	7.8	6.0	2.3
(a) Money (M1)	27,789.5	25,720.5	25,572.2	27,478.1	7.5	6.8	-1.1
(i) Currency outside Banks	5,034.6	5,042.4	5,169.1	5,347.0	3.4	6.0	6.2
(ii) Demand deposits	22,754.9	20,678.1	20,403.1	22,131.1	8.5	7.0	-2.7
(b) Quasi-money	28,773.7	28,857.9	28,087.2	30,374.4	8.1	5.3	5.6
(i) Saving Deposits	1,954.1	1,876.3	1,873.6	1,845.8	-1.5	-1.6	-5.5
(ii) Time Deposits	26,819.6	26,981.6	26,213.6	28,528.6	8.8	5.7	6.4

1) Include RBV staff loans excluding credit corp

Table A4: Commercial Banks Sectoral Distribution of Loans and Advances

SECTOR	Sep-13	Aug-14	Sep-14	% Change	
				1 Month	12 Months
Agriculture	529.4	544.5	575.3	5.7	8.7
Fisheries	9.1	9.6	8.4	-12.0	-7.6
Mining & Quarring	41.8	44.0	41.9	-4.8	0.1
Manufacturing	6,327.7	1,633.1	1,602.7	-1.9	-74.7
Distribution	3,756.1	5,345.9	4,812.7	-10.0	28.1
Tourism	4,758.9	5,629.5	5,702.7	1.3	19.8
Entertainment & Catering	665.6	971.3	957.8	-1.4	43.9
Transport	330.7	563.6	444.0	-21.2	34.3
Public Utilities	6.6	185.4	181.7	-2.0	2634.2
Construction	3,174.6	3,570.8	2,960.0	-17.1	-6.8
a) Central Government	0.2	0.9	-	0.0	0.0
b) Public Corporation	1,082.1	1,357.2	1,319.4	-2.8	21.9
Financial Institutions	199.5	55.2	54.9	-0.5	-72.5
Professional & Other Services	3,008.0	6,138.4	6,735.0	9.7	123.9
Housing & Land Purchases	16,059.8	16,946.5	17,089.7	0.8	6.4
Other Personal	11,509.6	10,259.1	10,402.8	1.4	-9.6
Miscellaneous	1,025.4	1,630.7	1,662.6	2.0	62.1
TOTAL	52,485.1	54,885.7	54,551.6	-0.6	3.9
Of which : Vatu	41,282.3	41,179.7	41,303.5	0.3	0.1