



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS:

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1. EXTERNAL DEVELOPMENTS¹

Available indicators revealed a steady growth in economic activities of Vanuatu's main trading partners over the year to August 2024. Retail spending via electronic transactions - a proxy indicator for consumption indicated a steady growth in New Zealand, Australia and China. Investment in fixed assets have remained strong particularly in China, though manufacturing activity was slower, while non-manufacturing activities remain robust. Proxy for real sector activities have contracted. Both Australia and New Zealand recorded a fall in the total number of new dwellings, while China's real sector development declined. Trade indicators have shown mixed performances; with China reporting a trade surplus, while New Zealand recorded a trade deficit. Inflation has decelerated towards respective central bank targets in August, initiating the Reserve Bank of New Zealand (RBNZ) to reduce its policy rate while other central banks have maintained rates. The unemployment rate moderated though remaining high, except in the Euro area and China where the unemployed rate declined year-on-year. Refer to appendix A4 for detailed analysis.

Global commodity prices² relevant to Vanuatu's main imports have eased relative to the previous month and year, respectively. This is expected to ease off inflationary pressures arising from import costs on domestic prices. Movements in commodity price changes were as follows; Crude oil (-7.0%; Aug 24, -9.9%; Aug 23), Sugar (-5.0%; Aug 24, -11.2%; Aug 23), wheat (-6.0%; Aug 24, -10.8%; Aug 23), rice (0%; Aug 24, -7.2%; Aug 23). Prices for main commodity exports, have generally increased month-on month and year-on-year. This is anticipated to boost Vanuatu's export earnings; Ply wood (+8%; Aug 24, -1.0%; Aug 23), cocoa (+8%; Aug 24, -1.0%; Aug 23), coconut oil (-3.6%; Aug 24; 47.3% Aug 23), coffee (2%; Aug 24, 39.9%; Aug 23), and beef (+2%; Aug 24, +28.5%; Aug 23).

¹ Sources: US Federal Reserve Bank, US Bureau of Economic Analysis, US Bureau of Labor Statistics, European Central Bank, Eurostat, Australian Bureau of Statistics, Reserve Bank of Australia, Stats NZ, Reserve Bank of New Zealand, National Bureau of Statistics of China & Peoples Bank of China

² <http://www.worldbank.org/commodities>

³ The movements of the Vanuatu Vatu currency vis-à-vis the major currencies reflected developments in the economic and financial conditions of Vanuatu and its major trading partners. An appreciation of Vatu against its major

EXCHANGE RATES DEVELOPMENTS³

At the end of August 2024, the Vatu appreciated against the USD and EURO by 2.5 percent and 0.5 percent while it depreciated against the AUD and the NZD by 1.1 percent and 3.5 per cent, respectively. The monthly average shows that the Vatu appreciated against the AUD by 0.6 percent and depreciated against the USD by 0.1 percent in August 2024 relative to July 2024.

Table 1. Exchange rate of Vatu against major currencies

Exchange rate of the Vatu against Major Currencies						
Period	End Rates				Average Rates	
	USD	AUD	NZD	EURO	USD	AUD
Aug-24	116.9	79.5	73.1	129.5	118.5	78.8
Jul-24	119.9	78.6	70.7	130.2	118.4	79.2
% ▲	- 2.5	1.1	3.5	- 0.5	0.1	- 0.6
May-24	118.8	78.8	72.6	128.6	119.0	78.8
% ▲	- 1.6	0.9	0.7	0.7	- 0.4	- 0.0
Aug-23	120.3	77.9	71.7	131.3	120.0	77.7
% ▲	- 2.8	2.0	2.0	- 1.4	- 1.2	1.5
% ▲	Note: (-) Appreciation of Vatu					

Source: Reserve Bank of Vanuatu

2. FOREIGN RESERVE DEVELOPMENTS

Official foreign reserves increased by VT326 million or 0.5 percent to VT70,297 million in August 2024, relative to VT69,971 million recorded in July 2024; while it declined by 3.5 percent from August 2023. The improvement reflected inflows (approximately VT837.8 million) in external grants to the Government; which outweighed (approximately VT556.4 million) outflows via import financing. The current level of foreign reserves is sufficient to cover at least 7.0 months of overall imports.

trading currencies is beneficial for resident importers since less Vatu currency is required to purchase foreign goods or services in foreign currency terms. Conversely, a depreciation of Vatu against its major trading currencies could be costly for the Vanuatu's consumers, importers and institutions that have investments in Vanuatu while it benefits the Vanuatu's exporters and institutions that have investments abroad.

3. DOMESTIC DEVELOPMENTS⁴

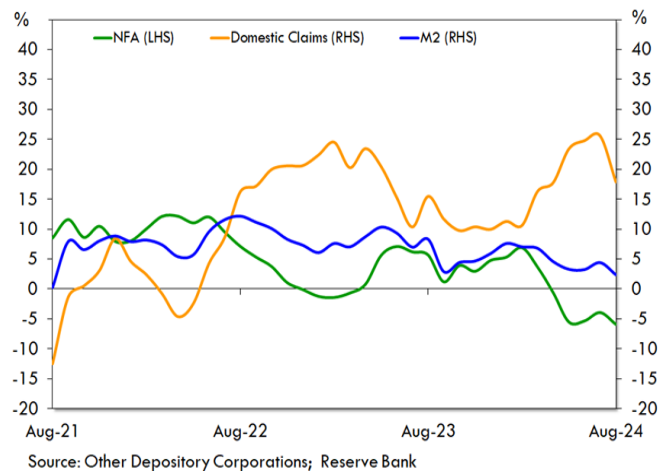
The total number of job vacancies⁵ eased back in August, indicating a softer demand for labour relative to August 2023. The number of vacancies fell by 5.0 percent and 47 percent compared to the previous month and year levels, respectively. The monthly decline was mainly driven by job openings within the services and industry sectors. The agriculture sector recorded an increase in job openings, in particular, within the fisheries subsector.

In terms of price indicators, average⁶ domestic fuel prices rose slightly by 0.5 percent in August, though still lower (-0.8%) than previous year's price. Port Vila and Luganville's average electricity tariff⁷ fell by 0.3 percent in August, due to a decrease in weighted unit cost of diesel and material index. However, the average tariff was still higher by 10.2 percent relative to August 2023.

4. MONETARY DEVELOPMENTS⁸

Total money supply is projected to reach VT121,089.8 million in August, slightly higher by 0.4 percent and 2.4 percent, month-on-month and year-on-year, respectively. Domestic credit is expected to remain the main driver of money growth.

Chart 1: Determinants of Money Supply (Y-O-Y% Change)



Net foreign assets is expected to record VT83,615.0 million in August 2024. Growth is expected to weaken (-1.1%) relative to the previous month, driven mainly by net outflows via commercial banks, offsetting net inflows recorded by the RBV. Owing to persistent high import payments, the annual growth is expected to contract by 5.9 percent.

⁴ Sources: Vanuatu Daily Post, Vanuatu Wok, Utility Regulatory Authority (URA), Department of Energy and RBV.

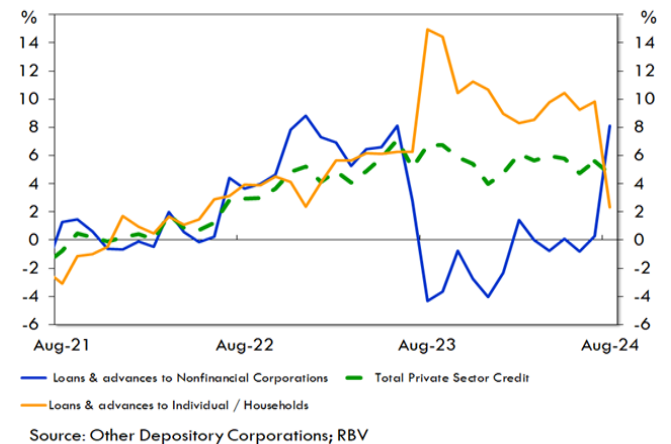
⁵ Proxy for domestic labour demand

⁶ Average prices of both petrol and diesel

⁷ Utilities Regulatory Authority (URA)

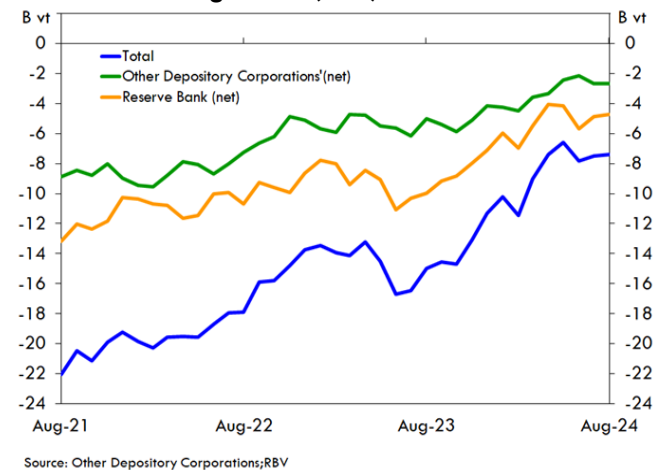
Domestic credit is forecasted to further rise month-on-month (+0.7%) and year-on-year (+21.1%), respectively, to reach VT62,120.1 million in August. Growth will largely be driven by net claims on the Central Government, and to a lesser extent Private Sector Credit (PSC).

Chart 2: Private Sector Credit (Y-O-Y% Change)



PSC⁹ is expected to rise by 0.3 percent and 4.7 percent month-on-month and year-on-year, respectively, to reach VT67,776.1 million. Credit to individual and household will remain the key driver to growth, followed by credit to businesses.

Chart 3: Net Claims of the Vanuatu Government vis-à-vis the Banking Sector (BVT)



The Central Government's net credit position vis-à-vis the banking system is expected to further deteriorate in August; as the Government borrowing has continued from both the RBV and commercial banks to finance emerging fiscal imbalances. Recent fiscal developments indicate

⁸ Forecasts

⁹ Private Sector Credit comprises of credit to non-financial corporations and other resident sectors

that these challenges are expected to remain and expected to further contribute to deterioration in the government's net credit position with the banking system within the short term.

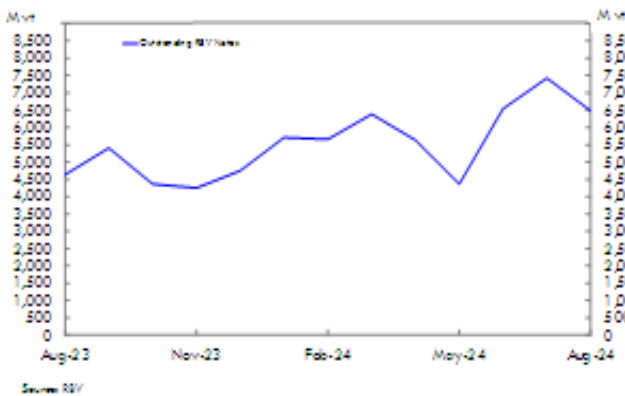
5. OPEN MARKET OPERATIONS (OMO)

The RBV issued a total of VT8,800 million worth of RBV notes in August, an amount on par with July 2024. Subscriptions totaled VT4,924.7 million, below the level of VT8,382 million received in July. The decline reflected a lower level of notes that were accepted for each note received.

Allotments were made as follow:

- 7 days: VT864.7 million
- 14 days: VT1460 million
- 28 days: VT1245 million
- 63 days: VT777.5 million
- 91 days: VT477.5 million

Chart 4: Outstanding RBV Notes
(Levels, millions of Vatu, Month-End Data)



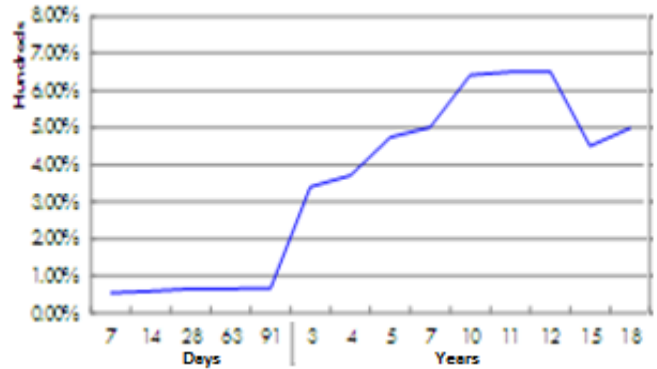
A total of VT5,777 million worth of RBV notes matured, and a balance of outstanding notes remained at VT6,472.4 million, compared to VT7,424.8 million in July.

Yields of Domestic Securities

Yields on Domestic Securities as of end August 2024:

Term	End August.24	End July.24
7 days	0.55%	0.55%
14 days:	0.58%	0.58%
28 days:	0.40%&0.65%	0.40%&0.65
63 days:	0.65%	0.63%
91 days:	0.68%	0.68%
3 years:	3.38%	3.38%
4 years:	3.70%	3.70%
5 years:	4.75%	-
7 years:	5.00%	5.00%
10 years:	6.41%	6.41%
11 years:	6.50%	6.50%
12 years:	6.50%	6.50%
15 years:	4.5%	4.50%
18 years:	4.99%	4.99%

Chart 5: Yields on Domestic Securities
(Levels, Percentage, Month-end Position)



6. MONETARY POLICY UPDATE

Domestic inflation has fallen below the RBV's target range, recording 2.2 percent during the 2024 June quarter. Foreign reserves have been maintained well above the RBV's minimum threshold, recording 7.0 months of projected import cover in August 2024. Official reserves are forecasted to remain adequate, well above the minimum threshold until the end of 2024.

The RBV is expected to further tighten its monetary policy in the short term; to address continuing high levels of excess liquidity in the banking system.

TABLE A3 : DEPOSITORY CORPORATION SURVEY

END OF PERIOD	Aug-23	May-24	Jul-24	Aug-24	%Change		
					1 Month	3 Months	12 Months
1. Net Foreign Assets	88,893.7	81,504.6	84,564.7	83,615.0 f	-1.1	2.6	-5.9
Monetary Authorities (Net)	69,234.8	65,426.7	66,062.4	66,394.2 f	0.5	1.5	-4.1
Other Depository Corporations (Net)	19,659.0	16,077.9	18,502.3	17,220.9 f	-6.9	7.1	-12.4
2. Net Domestic Claims	29,364.3	36,776.0	36,058.6	37,474.8 f	3.9	1.9	27.6
(a) Domestic Claims	51,282.1	61,523.4	61,704.3	62,120.1 f	0.7	1.0	21.1
(i) Net claims on central government	-14,991.6	-6,592.7	-7,513.4	-7,404.5 f	1.4	-12.3	50.6
Monetary Authorities	-9,990.6	-4,143.8	-4,860.5	-4,745.0 f	2.4	-14.5	52.5
Other Depository Corporations	-5,001.0	-2,449.0	-2,652.8	-2,659.5 f	-0.2	-8.6	46.8
(ii) Claims on other Sectors	66,273.7	68,116.2	69,217.7	69,524.6 f	0.4	2.1	4.9
Other Financial Corporations	299.6	285.9	222.8	264.3 f	18.6	-7.5	-11.8
State and local government	22.5	16.9	16.8	16.9 f	0.5	-0.1	-25.1
Public nonfinancial corporations	1,202.3	1,409.6	1,397.3	1,467.2 f	5.0	4.1	22.0
Other nonfinancial corporations	26,266.0	28,178.4	28,591.2	28,396.7 f	-0.7	0.8	8.1
Other residents sectors	38,483.2	38,225.4	38,989.5	39,379.4 f	1.0	3.0	2.3
(b) Other items (net)	-21,917.8	-24,747.4	-25,645.7	-24,645.3 f	-3.9	-0.4	12.4
3. Broad Money (M2)	118,258.0	118,280.6	120,623.3	121,089.8 f	0.4	2.4	2.4
(a) Money (M1)	92,235.1	89,885.2	92,053.9	92,665.3 f	0.7	3.1	0.5
(i) Currency in circulation	13,932.1	14,225.5	14,759.7	14,907.3 f	1.0	4.8	7.0
(ii) Transferable deposits	78,303.0	75,659.7	77,294.2	77,758.0 f	0.6	2.8	-0.7
(b) Quasi-money	26,022.9	28,395.4	28,569.4	28,424.5 f	-0.5	0.1	9.2
Other Deposits	26,022.9	28,395.4	28,569.4	28,424.5 f	-0.5	0.1	9.2

APPENDIX A4: INTERNATIONAL SECTOR DETAIL ANALYSIS

Update indicators for the **US** economy, showed that annual inflation rose 2.5 percent in August 2024, largely reflecting all items less the food and energy index (+ 3.2%) and food index (2.1%). The offset is the energy index (-4.0%). The unemployment rate recorded 4.2 percent in August 2024, the same level as in July but higher than 3.8 percent in August 2023. Job gains occurred in the construction and health care. The price index for US imports fell 0.3 percent in August, owing to lower fuel and nonfuel prices, though slightly higher than 0.8 percent from August 2023. US export prices also fell by 0.5 percent in August, due to lower prices for nonagricultural and agricultural exports. Export prices also fell by 0.7 percent in August 2023.

Annual inflation in the **Euro area** recorded 2.2 percent in August 2024, lower than 2.6 percent in July and 5.2 percent in August 2023. Services inflation attributed largely to annual inflation, by 1.9 percentage points (pp), food, alcohol & tobacco (+0.46 pp), non-energy industrial goods (+0.11 pp) and energy (-0.29 pp). Unemployment in the Euro area recorded 5.9 percent in August, slightly stable from July (6.0%) and lower than 6.6 percent in August 2023.

In **Australia**, consumption has gradually risen, as retail spending/turnover- a proxy for consumption rose 0.7 percent and 3.1 percent relative to July and August 2023, respectively. This largely reflected the warmer than usual time of the year, which boosted spending on summer clothing, liquor, outdoor dining, hardware, gardening items, camping goods and outdoor equipment. Real estate activities showed declines, as indicated by the fall of 1.6 percent in the total number of dwellings approved in August, compared to increases of 11.0 percent in July and 3.6 percent in August 2023. Annual inflation rose 2.7 percent in August 2024 down from 5.2 percent in August 2023. The main drivers to inflation were housing (+2.6%), food and non-alcoholic beverages (+3.4 %), and alcohol and tobacco (+6.6 %) expenditure categories. The offset was transport (-1.1%). Unemployment rate remained 4.1 percent in August as in July 2024, though was still higher than 3.7 percent in August 2023. Job vacancies fell by 5.2 percent in August relative to May 2024 and 17.1 percent from August 2023. Both private and public sector have recorded decreases in vacancies.

Recent indicators in **New Zealand** showed that prices of food rose 0.4 percent over the year to August 2024, lower than the 0.6 percent rise over the year to July 2024. The key drivers were higher prices for restaurant meals and ready-to-eat food and grocery food. Transport prices declined in August 2024 relative to July, attributed to prices of petrol (-1.7%), diesel prices (-2.8%), domestic air transport prices (-0.8%) and international air transport prices (-2.0%). The Reserve Bank of New Zealand reduced its interest rate by 25 basis points to 5.25 percent on the 14th of

August, as inflation returns to the target band of 1-3 percent (Inflation was 3.3% June quarter). The value of electronic card transactions declined marginally by 0.2 percent from July and 1.8 percent August 2023. Similarly, the number of new dwellings fell 20 percent from the level recorded in August 2023. Trade in goods balance recorded a deficit relative to August 2023, as a decline in the goods export outweighed a decrease in goods imports.

Recent indicators in **China** showed the Manufacturing Purchasing Managers' Index (PMI)¹⁰ at 49.1 percent, lower than 49.7 percent in August 2023, and the non-manufacturing business activity index registered 50.3 percent compared to 51.0 percent in August 2023. Total retail sales of consumer goods rose by 2.1 percent relative to August 2023, though down by 0.01 percent month on month. Investment in fixed assets was up by 3.4 percent relative to August 2023, while real estate development contracted. Annual inflation rose by 0.6 percent, while annual producer prices for industrial products contracted by 1.8 percent relative to August 2023. The urban surveyed unemployment rate averaged 5.2 percent, for the year to August, 0.1 percentage points lower than that of the same period of the previous year. Overall, the trade balance was in surplus in the first eight months of 2024 as exports increased while imports remained steady compared to the same period of 2023.

¹⁰ The headline PMI is a number from 0 to 100. A PMI above 50 represents an expansion. A PMI reading under 50 represents a contraction while a reading at 50 indicates no change. The further away from 50, the greater the level of change