



RESERVE BANK OF VANUATU

FINANCIAL & ECONOMIC ANALYSIS:

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Issue 310

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1. EXTERNAL DEVELOPMENTS

The International Monetary Fund (IMF)¹ kept its 2024 global growth forecast unchanged at 3.2 percent and increased its 2025 forecasts by 0.1 percent to 3.3 percent. This outlook reflected offsetting shifts in growth for major economies during the first quarter of 2024. Global disinflation has been slower than expected owing to higher services inflation in few advanced economies. Thus, causing central banks to keep interest rates elevated, adding to the rising trade tensions could further delay growth.

Annual inflation in the **US** reached 2.9 percent in July, due mainly a rise of 3.2 percent in all items, less food and energy index. The annual energy and food indexes grew gradually by 1.1 percent and 2.2 percent, respectively. The unemployment rate rose to 4.3 percent in July, higher than 3.5 percent in July 2023. Import prices rose by 0.1 percent in July and 1.6 percent relative to July 2023, owing to higher non fuel and fuel prices. Export prices rose 0.7 percent in July and 1.4 percent for the year to July 2024, owing to higher non-agricultural prices, which more than offset lower prices for agricultural exports. The Fed maintained the target range for the federal funds rate at 5.25-5.50 percent in July, as inflation is still above the 2 percent target and tight labour market still persists.

In the **Euro-area** annual inflation is projected to rise to 2.6 percent² in July, higher than 2.5 percent in June. Services inflation is projected to increase by 4.0 percent; prices of food, alcohol and tobacco are expected to rise by 2.3 percent, energy prices, 1.3 percent and non-energy industrial goods 0.8 percent. The European central bank has kept its three policy interest rates unchanged in July owing to domestic price pressures associated with service inflation. Interest rate on the main refinancing operations

at 4.2 percent, the marginal lending facility at 4.50 percent and the deposit facility at 3.75 percent.

In **Australia**, annual unemployment rate rose to 4.2 percent from 3.7 percent in June 2023. The labour participation rate increased to 67.1 percent, from 66.9 percent in June and 66.7 percent in June 2023. The Reserve Bank of Australia (RBA) commodity price index³ decreased by 0.2 percent and 3.6 percent in July and July 2023, respectively. Lower prices were recorded for iron ore and lithium. Though inflation was easing, it remained elevated, thus the RBA kept its cash rate target unchanged at 4.35 percent.

Growth in consumer spending and economic activity in **New Zealand** was steady in July, as partially reflected by a 0.1 percent decline in electronic card spending. Annual food prices increased by 0.6 percent in July 2024, owing mainly to increased prices for restaurant meals and read-to-eat food. Annual price decreases were noted for fruit and vegetables, meat, poultry and fish. Month-on-month diesel and petrol prices fell by 0.5 percent and 0.2 percent, respectively⁴. The Reserve Bank of New Zealand (RBNZ) continues to pursue a restrictive monetary policy stance by keeping the official cash rate at 5.50 percent in July.

Monthly prices⁵ relevant to Vanuatu's trading commodities saw upward trend for the following: crude oil average (+2.6%), coffee (+3.5%), beef (+5.8%) and coconut oil (5.4%). Downward prices were recorded for wheat (-5.1%), rice (-6.6%), iron ore (-0.6%) and cocoa (-14.3%). Global price of sugar was maintained at USD0.83/kg and plywood at US346 cents/sheet for June and July, respectively.

¹ IMF / World Economic Outlook July 2024 Update

² flash estimate from Eurostat

³ Preliminary estimates by the Reserve Bank of Australia valued in Australian Dollar

⁴ The decline was mainly in Auckland, due to removal of the Auckland regional fuel tax of 10 cents per GST on 30 June 2024. All other regions in NZ saw increases in petrol prices during the month.

⁵ <http://www.worldbank.org/commodities>

EXCHANGE RATES DEVELOPMENTS⁶

At the end of July 2024, the Vatu appreciated against the AUD and NZD by 0.6 percent and 2.3 percent, while it depreciated against the USD and the EURO by 0.9 percent and 2.3 percent, respectively. The monthly average shows that the Vatu appreciated against the USD by 0.2 percent and depreciated against the AUD by 0.5 percent in July 2024 relative to June 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
Jul-24	119.9	78.6	70.7	130.2	118.4	79.2
Jun-24	118.9	79.0	72.3	127.2	118.7	78.8
% ▲	0.9	- 0.6	- 2.3	2.3	- 0.2	0.5
Apr-24	119.7	78.6	71.6	128.4	120.2	78.3
% ▲	0.2	- 0.1	- 1.3	1.4	- 1.5	1.3
Jul-23	117.9	79.1	72.9	129.4	117.4	79.1
% ▲	1.8	- 0.6	- 3.0	0.7	0.8	0.1
% ▲	Note: (-) Appreciation of Vatu					

Source: Reserve Bank of Vanuatu

2. FOREIGN RESERVE DEVELOPMENTS

Official foreign reserves contracted by 0.4 percent to VT69,971 million in July 2024 (VT70,236 million: June 2024, VT72,718 million: July 2023). The downward trend in the Reserve Bank (RBV) official foreign reserves reflected high demand and cost for import financing compared to inflows. The level of current foreign reserves is sufficient to cover at least 6.8 months of imports.

3. DOMESTIC DEVELOPMENTS⁷

The number of monthly job vacancies⁸ rose by 15.4 percent in July, though lower by 27.1 percent over July 2023. Increased job openings were recorded for professional and administrative services, finance and insurance, education and other services, accommodation and food services and retail trade, for the services sector. Similarly, the following sectors recorded increased vacancies under the industry sector: manufacturing and electricity and water supply sectors. There were no job openings related to the Agriculture sector.

⁶ 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 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

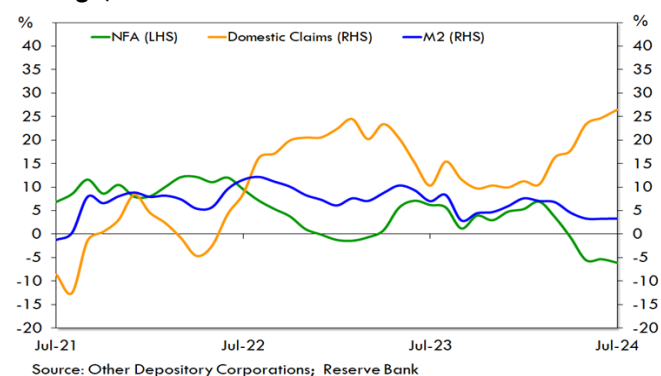
investments in Vanuatu while it benefits the Vanuatu's exporters and institutions that have investments abroad.

In terms of price indicators, average⁹ domestic fuel price fell by 4.4 percent and 0.8 percent over the month and the same period of the previous year, respectively. Port Vila and Luganville's average electricity tariff¹⁰ increased by 0.4 percent and 8.4 percent over the month and over the same period of the previous year. This was attributed to an increase in the weighted average cost of diesel.

4. MONETARY DEVELOPMENTS¹¹

Total money supply was forecasted to have risen by 0.1 percent and 3.3 percent, month-on-month and year-on-year, respectively, to reach VT119,327.3 million in July 2024. The month-on-month and year-on-year, growths are expected to be driven mainly by the continuous growth in domestic credit.

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



Net foreign assets were anticipated to decline by 0.9 percent and 6.1 percent month-on-month and year-on-year, respectively, to reach VT82, 665.5 million in July 2024. These downward trends reflected net outflows of foreign currencies via both the commercial banks and the RBV; as aforementioned under foreign reserves developments. Moreover, growth in foreign liabilities for both the commercial banks and the RBV are expected to be moderate.

Domestic credit is forecasted to further increase by 0.8 percent and 24.9 percent month-on-month and year-on-year, respectively, to VT61, 395.9 million. Growth was expected to be largely driven by the increase in net claims on the Central Government and, to a lesser extent, the gradual growth in private sector credit (PSC).

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⁷ Sources: Vanuatu Daily Post, Vanuatu Wok, Utility Regulatory Authority (URA), Department of Energy and RBV.

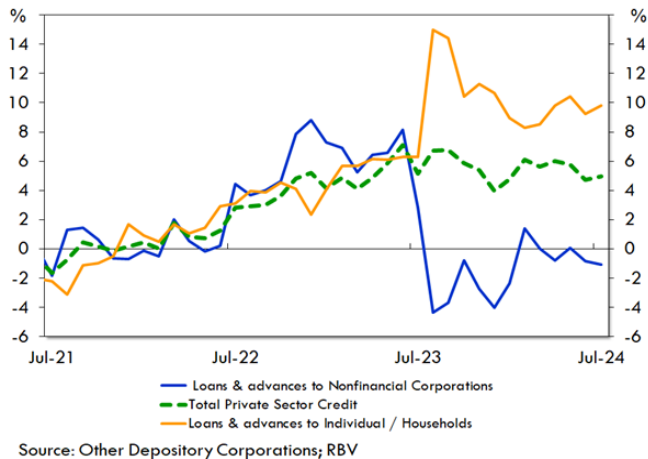
⁸ Proxy for demand for domestic labour, in terms of employers

⁹ Average prices of both benzene and diesel prices

¹⁰ Utilities Regulatory Authority (URA)

¹¹ Forecasts by RBV

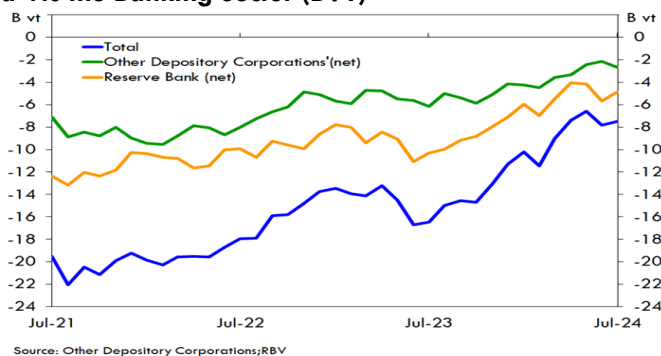
Chart 2: Private Sector Credit (Y-O-Y% Change)



PSC¹² was estimated to further rise by 0.3 percent and 5.0 percent month-on-month and year-on-year, respectively, to reach VT67,194.8 million in July 2024. Growth was projected to be driven by personal consumptions.

The Central Government's net credit position vis-à-vis the banking system was forecasted to deteriorate further in July 2024. This monthly deterioration largely reflected the decline in Government deposits held with the RBV. Moreover, both the RBV and commercial banks have significantly increased their holdings of Government bonds over the year; hence the deteriorating position with both institutions' year-on-year. Overall, fiscal challenges remain; thus, is expected to further worsen the Government's net credit position with the banking system in the short term.

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



5. OPEN MARKET OPERATIONS (OMO)

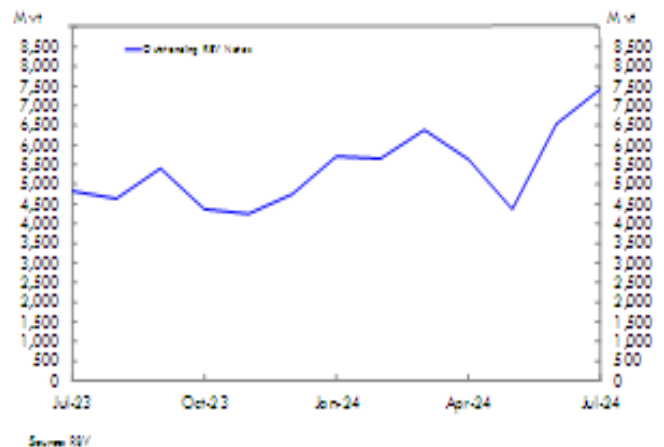
The RBV issued VT8,800 million worth of RBV notes in July (VT8,700 million: June 2024), reflecting the rise in the amount of new notes issued.

Total subscriptions decreased to VT8,382 million, (VT9,250.133 million: June 2024), due to the decline in the amount of new notes accepted.

Allotments were made as follow:

- 7 days: VT1250 million
- 14 days: VT1240 million
- 28 days: VT1897.4 million
- 63 days: VT1287.4 million
- 91 days: VT1150 million

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



A total of VT4,780 million worth of notes have matured, leaving outstanding notes at VT7,424.8 million in July, (VT6,527.133 million: June 2024).

Yields of Domestic Securities

Yields on Domestic Securities as of end July 2024:

Term	End July.24	End June.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%
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%

¹² Private Sector Credit comprises of credit to non-financial corporations and other resident sectors

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

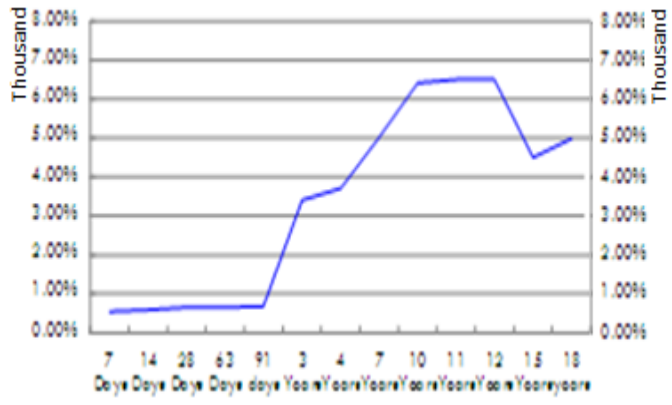


TABLE A3 : DEPOSITORY CORPORATION SURVEY

(In Million VT)

END OF PERIOD	Jul-23	Apr-24	Jun-24	Jul-24	% Change		
					1 Month	3 Months	12 Months
1. Net Foreign Assets	88,064.2	82,328.4	83,454.1	82,665.5 f	-0.9	0.4	-6.1
Monetary Authorities (Net)	69,458.0	65,679.4	66,371.7	66,062.4	-0.5	0.6	-4.9
Other Depository Corporations (Net)	18,606.2	16,649.0	17,082.4	16,603.1 f	-2.8	-0.3	-10.8
2. Net Domestic Claims	27,451.3	35,382.6	35,741.5	36,661.9 f	2.6	3.6	33.6
(a) Domestic Claims	49,167.0	60,377.8	60,910.2	61,395.9 f	0.8	1.7	24.9
(i) Net claims on central government	-16,443.2	-7,392.7	-7,819.9	-7,513.4 f	3.9	-1.6	54.3
Monetary Authorities	-10,300.5	-4,042.1	-5,660.9	-4,860.5	14.1	-20.2	52.8
Other Depository Corporations	-6,142.7	-3,350.6	-2,158.9	-2,652.8 f	-22.9	20.8	56.8
(ii) Claims on other Sectors	65,610.2	67,770.5	68,730.1	68,909.3 f	0.3	1.7	5.0
Other Financial Corporations	318.6	305.2	284.3	291.8 f	2.6	-4.4	-8.4
State and local government	24.1	17.5	17.0	17.1 f	0.9	-2.1	-28.9
Public nonfinancial corporations	1,256.5	1,402.4	1,404.8	1,405.6 f	0.1	0.2	11.9
Other nonfinancial corporations	28,507.4	28,016.9	28,420.6	28,205.3 f	-0.8	0.7	-1.1
Other residents sectors	35,503.6	38,028.5	38,603.5	38,989.5 f	1.0	2.5	9.8
(b) Other items (net)	-21,715.7	-24,995.2	-25,168.7	-24,734.1 f			
3. Broad Money (M2)	115,515.5	117,711.0	119,195.6	119,327.3 f	0.1	1.4	3.3
(a) Money (M1)	89,914.4	89,313.0	90,886.8	90,959.9 f	0.1	1.8	1.2
(i) Currency in circulation	14,085.6	13,845.5	14,409.9	14,909.5 f	3.5	7.7	5.8
(ii) Transferable deposits	75,828.8	75,467.5	76,477.0	76,050.4 f	-0.6	0.8	0.3
(b) Quasi-money	25,601.1	28,398.0	28,308.8	28,367.4 f	0.2	-0.1	10.8
Other Deposits	25,601.1	28,398.0	28,308.8	28,367.4 f	0.2	-0.1	10.8

f: Forecast