



# RESERVE BANK OF VANUATU

## MONTHLY ECONOMIC REVIEW

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### 1. EXTERNAL DEVELOPMENTS

#### International Sector<sup>1</sup>

Available economic indicators for the month of September depicted further deceleration of inflation in all Vanuatu's main trading partners. Easing in inflation implies lower prices of tradeable goods into Vanuatu, and further lessen inflationary pressures from import prices. Annual inflation in New Zealand reached 2.2 percent; the United States (US), 2.4 percent; Euro area, 1.7 percent; and China, 0.4 percent. Due to the deceleration in inflation towards the respective central bank targets, the Federal Reserve and the European Central Bank cut policy rates in September. Similarly, the Peoples Bank of China further eased its interest rates on its medium-term loans. The Reserve Bank of New Zealand and Reserve Bank of Australia maintained policy interest rates over the period.

Partial indicators of consumption depicted mixed performances in September. In New Zealand, consumption was moderate as total electronic card transaction remain virtually unchanged relative to August but contracted year-on-year. Consumption was more robust in China, as total consumer retail sales picked up strongly relative to the previous year and month. The rise in the unemployment rate relative to the year ago also led to lower consumption spending and growth. Updated unemployment data were as follows: in the US (4.1%; Sep-24, 3.8%: Sept-23), Australia (4.1%: Sept-24, 3.6%: Sept-23) and China (5.1%: Sep-24, 5.0%: 2023). In terms of business climate, China's PMI<sup>2</sup> for manufacturing was slower relative to a year ago; (49.8: in Sep-24, 50.2: Sep-23), a similar trend to business climate in the non-manufacturing sector (50.0: Sep-24, 51.7: Sep-23).

<sup>1</sup> Sources: Bureau of Labor Statistics Bureau of Economic Analysis, Federal Reserve Bank, Eurostat-European Commission, European Central Bank, Australian Bureau of Statistics, Reserve Bank of Australia, Stats NZ, Reserve Bank of New Zealand, National Bureau of Statistics of China, The Peoples Bank of China.

<sup>2</sup> Purchasing Managers' Index (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

#### Commodity prices<sup>3</sup>

The World Bank overall commodity price index fell by 3.8 percent in September 2024. This reflected the decelerating trend in energy price index (-7.1%: Aug-24; -19.0%: Sep-23). Non-energy price index, in contrast remained high (+2.3%: Aug-24; +2.0%: Sep-23). The changes in price indexes were recorded as follows; beverage (+1.4%: Aug-24; +63.4%: Sep-23), food (+3.1%: Aug-24; -7.8%: Sep-23), raw material (+3% Aug-24; +2.7%: Sep-23), fertilizer (-1.1%: Aug-24; -24.6%: Sep-23) and metals and minerals (+1.8%: Aug-24; 4.2%: Sep-23). The lower energy price index implies lower domestic prices for crude oil, coal and natural gas imports, though prices of tradeable non energy commodities are expected to remain high.

Export prices relevant to Vanuatu's main exports commodities have increased in September, except for cocoa and beef. Similarly, prices have remained high for a range of commodities relative to the previous year. International price level and price changes are as follows: Cocoa: USD6.52/kg (-5.2%: Aug-24; +80.8%: Sep-23), Coffee Arabica: USD6.12/kg (+6.3%: Aug-24; +51.4%: Sep-23), Coconut Oil: USD1735.75/mt (7.2% Aug-24; +62.0%: Sep-23), Coffee Robusta: USD5.33/kg (+12.6%: Aug-24; +95.2%: Sep-23), Beef: USD6.30/kg (-0.6%: Aug-24; +28.4%: Sep-23), Sawn wood: USD720.22/cubic meter (+2.2%: Aug-24; +6.6%: Sep-23). Favorable export prices are expected to boost tradeable goods earnings for Vanuatu.

#### EXCHANGE RATES DEVELOPMENTS<sup>4</sup>

At the end of September 2024, the Vatu appreciated against the USD and EURO by 0.9 percent and 0.2

<sup>3</sup> <https://www.worldbank.org/en/research/commodity-markets>

<sup>4</sup> 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.

percent while it depreciated against the AUD and the NZD by 0.6 percent and 0.4 percent, respectively. The monthly average rate showed that the Vatu appreciated against the USD by 1.1 percent and depreciated against the AUD by 0.6 percent in September 2024 relative to August 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
Sep-24	115.9	79.9	73.4	129.3	117.3	79.3
Aug-24	116.9	79.5	73.1	129.5	118.5	78.8
% ▲	- 0.9	0.6	0.4	- 0.2	- 1.1	0.6
Jun-24	118.9	79.0	72.3	127.2	118.7	78.8
% ▲	- 2.5	1.2	1.5	1.6	- 1.2	0.6
Sep-23	121.1	77.8	72.2	127.9	121.1	77.7
% ▲	- 4.3	2.8	1.7	1.1	- 3.1	2.0
% ▲	Note: (-) Appreciation of Vatu					

Source: Reserve Bank of Vanuatu

## 2. FOREIGN RESERVE DEVELOPMENTS

Official foreign reserves decreased by 1.1 percent (VT 780.3 million) to VT69,517 million in September relative to August, and also declined by 2.7 percent (VT1,895) from September 2023. The monthly deterioration was attributed mainly to an estimated 113.4 percent (approximately VT631.0 million) increase in outflows of foreign reserves which outweighed a 59.9 percent contraction (around VT502.2 million) in foreign currency inflows. The contraction of total receipts in foreign currency reflected movements in Government development funds<sup>5</sup> (-95.2%) and Reserve Bank's (RBV) investment income from abroad<sup>6</sup> (-42.1%). The high outflows were driven mainly by Government external loan repayments (VT712 million), while outflows related to demand for import financing, declined by 3.5 percent. Accordingly, the current level of foreign reserves is adequate to cover at least 6.8 months of total imports.

## 3. DOMESTIC DEVELOPMENTS<sup>7</sup>

The total number of job vacancies<sup>8</sup> fell by 47 percent and 189 percent over the month and the same period of 2023, respectively. The decline in the number of job vacancies over the month was mainly driven by job openings within the services sector whilst there were zero job openings recorded in both the Agriculture and

<sup>5</sup> Foreign cash grants provided to the Government sector

<sup>6</sup> Income receipts in terms of interest and coupon received.

<sup>7</sup> Vanuatu Daily Post, Vanuatu Wok, Utility Regulatory Authority (URA), Department of Energy

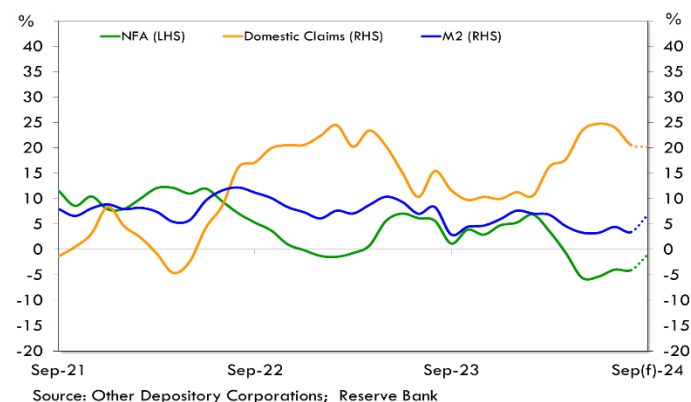
Industry sectors. Reduction in job vacancies were recorded for retail trade, accommodation and food services, information and communication and professional, scientific, technical and administrative services.

Average<sup>9</sup> domestic fuel price fell slightly by 0.3 percent in September and 3.7 percent relative to September 2023. Port Vila's electricity tariff<sup>10</sup> slightly rose by 0.4 percent and 2.9 percent over the month and year, correspondingly. This trend reflected the combined effects of increases in the weighted unit cost of diesel, material index and exchange rate movements.

## 4. MONETARY DEVELOPMENTS<sup>11</sup>

Money supply is forecasted to reach VT121,761.9 million in September, a slight decline of 0.4 percent month-on-month. Though the current level is expected to be higher by 6.7 percent relative to September 2023. The month on month trend is expected to be driven by a further decline in Net Foreign Assets (NFA). While the positive annual growth is expected to be driven by domestic credit.

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



Net Foreign Asset is expected to record VT83,783.9 million, lower by 1.7 percent month-on-month and 1.1 percent, year-on-year. The expected downward trend over the month, reflected the net outflows of foreign currencies recorded via both Commercial Banks and the RBV. Similarly, net outflows foreign reserves via the RBV remained the main driver of weak growth in NFA for the year to September 2024.

<sup>8</sup> In terms of employers; proxy for demand for labour

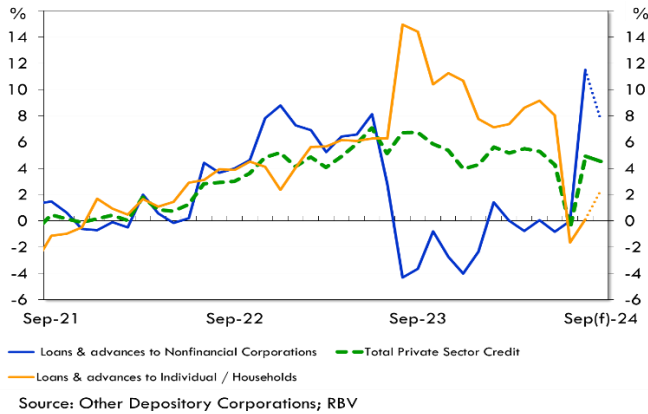
<sup>9</sup> Average prices of both benzene and diesel prices

<sup>10</sup> Utilities Regulatory Authority (URA)

<sup>11</sup> Forecasts by RBV

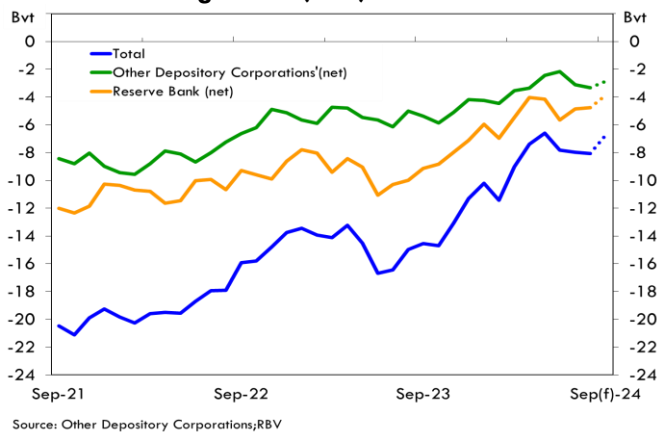
Domestic credit is projected at VT 63,093.2 million, higher by 2.1 percent and 20.2 percent, month-on month and year-on-year, respectively. The projected increase is expected to be driven mainly by the further deterioration in the Governments net credit position with the banking system and, to a smaller extent, the gradual growth in private sector credit (PSC).

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



PSC<sup>12</sup> is anticipated to have slightly contracted by 0.2 percent in September to level VT68,119.6 million. Though growth is expected to be higher by 4.5 percent year-on-year, driven by credit extended to both individuals & households and 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 September as the Government continued to drawdown its deposits with both the commercial banks and the RBV to finance imbalances in its budget. The Government's domestic borrowing remained at higher levels. With the current fiscal challenges, the Government's net credit position with the banking system is expected to further deteriorate over the short term.

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

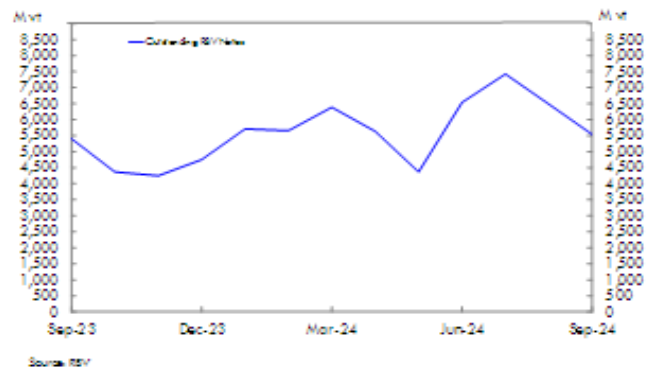
**5. OPEN MARKET OPERATIONS (OMO)**

The RBV issued VT8,100 million worth of RBV notes in September, higher than VT8,800 million in August. Total subscriptions reached VT4,290 million, compared with VT4,924.7 million a month ago due to a decline in bids.

Allotments were made as follow:

- 7 days: VT805.1 million
- 14 days: VT1 300 million
- 28 days: VT1 230 million
- 63 days: VT449.8 million
- 91 days: VT330 million

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



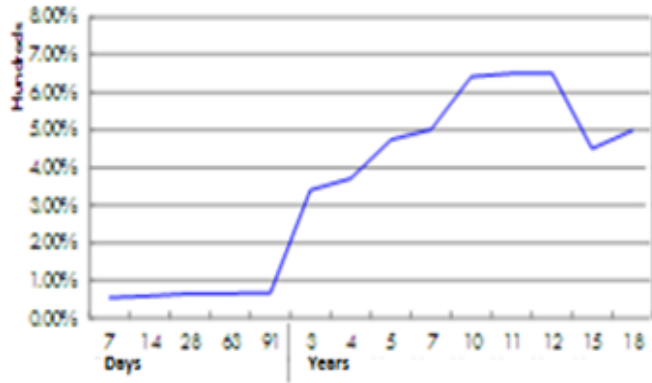
Matured RBV notes recorded VT5,327.4 million in September, leaving outstanding notes at VT5,522.2 million, compared to VT6,472.4 million in August.

Yields of Domestic Securities

Yields on domestic Securities as of end September 2024:

Term	End September.24	End August.24
7 days	0.55%	0.55%
14 days:	0.58%	0.58%
28 days:	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%	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**

The RBV Board of Directors further tightened monetary policy in September 2024 through the following policy measures:

1. The RBV policy rate was raised from 2.25 percent to 2.75 percent.
2. The Commercial Banks Capital Adequacy Ratio (CAR) was raised from 10 percent to 12 percent.

These measures aim to further safeguard the Reserve Bank’s objectives of price stability, adequacy of foreign reserves and financial sector stability over the short to medium term.

TABLE A3 : DEPOSITORY CORPORATION SURVEY

(In Million VT)

END OF PERIOD	Sep-23	Jun-24	Aug-24	Sep-24	%Change		
					1 Month	3 Months	12 Months
<b>1. Net Foreign Assets</b>	<b>84,713.3</b>	<b>83,454.1</b>	<b>85,265.5</b>	<b>83,783.9</b> f	<b>-1.7</b>	<b>0.4</b>	<b>-1.1</b>
Monetary Authorities (Net)	67,934.0	66,371.7	66,394.2	65,631.9 f	-1.1	-1.1	-3.4
Other Depository Corporations (Net)	16,779.3	17,082.4	18,871.3	18,152.0 f	-3.8	6.3	8.2
<b>2. Net Domestic Claims</b>	<b>29,407.6</b>	<b>35,741.5</b>	<b>37,029.8</b>	<b>37,978.0</b> f	<b>2.6</b>	<b>6.3</b>	<b>29.1</b>
<b>(a) Domestic Claims</b>	<b>52,475.5</b>	<b>60,910.2</b>	<b>61,815.8</b>	<b>63,093.2</b> f	<b>2.1</b>	<b>3.6</b>	<b>20.2</b>
<b>(i) Net claims on central government</b>	<b>-14,541.6</b>	<b>-7,819.9</b>	<b>-8,068.5</b>	<b>-6,745.0</b> f	<b>-16.4</b>	<b>-13.7</b>	<b>-53.6</b>
Monetary Authorities	-9,149.8	-5,660.9	-4,754.0	-3,877.5 f	-18.4	-31.5	-57.6
Other Depository Corporations	-5,391.8	-2,158.9	-3,314.5	-2,867.6 f	-13.5	32.8	-46.8
<b>(ii) Claims on other Sectors</b>	<b>67,017.2</b>	<b>68,730.1</b>	<b>69,884.2</b>	<b>69,838.2</b> f	<b>-0.1</b>	<b>1.6</b>	<b>4.2</b>
Other Financial Corporations	385.2	284.3	233.9	247.0 f	5.6	-13.1	-35.9
State and local government	21.5	17.0	16.4	16.7 f	2.0	-1.5	-22.4
Public nonfinancial corporations	1,441.6	1,404.8	1,385.6	1,454.8 f	5.0	3.6	0.9
Other nonfinancial corporations	26,697.9	28,420.6	29,283.5	28,765.1 f	-1.8	1.2	7.7
Other residents sectors	38,470.9	38,603.5	38,964.9	39,354.5 f	1.0	1.9	2.3
<b>(b) Other items (net)</b>	<b>-23,067.9</b>	<b>-25,168.7</b>	<b>-24,786.0</b>	<b>-25,115.2</b> f	<b>1.3</b>	<b>-0.2</b>	<b>8.9</b>
<b>3. Broad Money (M2)</b>	<b>114,120.9</b>	<b>119,195.6</b>	<b>122,295.3</b>	<b>121,761.9</b> f	<b>-0.4</b>	<b>2.2</b>	<b>6.7</b>
<b>(a) Money (M1)</b>	<b>88,022.9</b>	<b>90,886.8</b>	<b>93,175.2</b>	<b>93,095.8</b> f	<b>-0.1</b>	<b>2.4</b>	<b>5.8</b>
(i) Currency in circulation	14,247.1	14,409.9	15,042.3	15,794.5 f	5.0	9.6	10.9
(ii) Transferable deposits	73,775.8	76,477.0	78,132.9	77,301.4 f	-1.1	1.1	4.8
<b>(b) Quasi-money</b>	<b>26,098.0</b>	<b>28,308.8</b>	<b>29,120.0</b>	<b>28,666.0</b> f	<b>-1.6</b>	<b>1.3</b>	<b>9.8</b>
Other Deposits	26,098.0	28,308.8	29,120.0	28,666.0 f	-1.6	1.3	9.8