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REVIEW OF MONETARY DEVELOPMENTS DECEMBER 2015

This report is a monthly release of the latest available key monetary aggregates, official interest rate and the analysis on commercial banks' interest rates of the Samoan economy with information sourced from the Central Bank, commercial banks, Ministry of Finance and Non-monetary financial institutions.

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December 2015

Monetary Target

The actual level of money supply was 1.4 percent higher than its projection for the month. Contributing to the current performance were higher than expected increases in the level of foreign holdings of the Central Bank of Samoa (CBS) and the banking system.

Money Supply¹

Total money supply (M2) contracted by \$12.53 million (or 1.4 percent) to \$868.41 million as a result of a drop of \$22.78 million in 'net domestic assets' (NDA) despite a \$10.25 million increase in 'net foreign assets' (NFA). The drop in NDA was due to reductions in 'net domestic credit' (NDC) as Government deposits rose sharply coupled with a decrease in 'other items net'. Conversely, the hike in NFA reflected increases in foreign assets of the CBS and the commercial banks respectively.

As a result, the annual average growth rate for M2 at end December 2015 decelerated to 5.4 percent from 5.7 in the previous month and 14.1 percent in the corresponding month of 2015.

Credit

Total financial system (FS) credit continued to increase, up \$5.19 million to \$1433.32 million. The current level reflected expansions of \$3.81 million and \$1.39 million in commercial banks and

non-bank financial institutions (NFIs) lending respectively.

The ratio of private sector credit to total FS credit fell to 96.4 percent from 96.8 percent a month ago, while those directed to the public sector increased to 3.6 percent from 3.2 percent.

On the commercial banks' credit by sector, increases were reflected in loans to 'other activities', 'transportation, storage and communication', electricity, gas and water' and 'agriculture, forestry and fisheries' sectors.

On the other hand, foreign currency loans fell by \$4.23 million to \$132.34 million compared to previous month. As a result, its share to total credit dropped to 14.3 percent from 14.8 percent a month earlier and 15.2 percent in December 2014.

Consequently, the annual average growth rate of FS credit dropped to 10.9 percent from 11.4 percent but was higher than 7.5 percent in November 2014.

The ratio of both FS credit and M2 to Nominal Gross Domestic Products (NGDP)² increased to 71.6 percent in the September quarter of 2015 (from 70.6 percent) and 44.0 percent (down from 42.8 percent) respectively.

¹ Money Supply (M2) or Broad Money consists of Narrow Money and Quasi Money

² Figures are available on quarterly basis. December 2015 figure is not available at the time of this analysis.

Reserve Money³

Total reserve money registered a drop of \$4.12 million to \$260.17 million due entirely to a decline of \$13.63 million in commercial banks reserves (mainly excess reserves). This was partially offset by an increase of \$9.51 million in the currency in circulation.

At this level, RM was 13.9 percent higher than in December 2014 or 29.9 percent and 30.2 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

The banking system liquidity fell by \$7.11 million to \$177.67 million in the last month of 2015. This was due entirely to a decrease of \$13.76 million in exchange settlement account (ESA) of the commercial banks'. On the upside, their holding of vault cash increased by \$6.65 million while the total outstanding level of CBS Securities (CBSS) remained unchanged during the month.

CBSS and Open Market Operation (OMO)⁴

The short term papers of 14-days and 56-days were the only maturities purchased during the month at yields of 0.13 and 0.16 percent respectively. As a result, the overall official interest rate remained at 0.15 percent for the fifth consecutive month but was slightly higher than 0.14 percent rate in December 2014.

Commercial Banks' Interest Rates

Market interest rates were a mixed bag in December 2015 with the weighted average deposits (WAD) rate increasing further by 11 basis points to 2.48 percent while weighted average lending (WAL) rate dropped 2 basis points to 9.30 percent.

The current WAD rate was however, lower than its 2.67 percent three years ago but was above its 2.32 percent in the last five years. The WAL rate likewise, was lower than 10.06 percent and 10.24 percent in the last three and five years respectively.

NFIs⁵ lending rates

The NFIs WAL rate⁶ declined further by 6 basis points to 6.84 percent or 11 basis points lower when compared to December 2014. Similarly, it was also lower than 10.63 percent and 10.57 percent in the last three and five years respectively.

As for Samoa Housing Corporation (SHC), its WAL rate at end December 2015 quarter rose 7 basis points to 11.52 percent compared to the September 2015 quarter.

Central Bank of Samoa 5th February 2016

³ Reserve Money (also known as monetary base) comprises of currency in circulation, statutory reserve deposits (SRD) and demand deposits of commercial banks with the CBS

⁴ Central Bank of Samoa Securities (CBSS) is the main instrument for implementing monetary policy in the country and it is traded in various maturities in the domestic financial market through the open market operation (OMO).

⁵ Non-monetary Financial Institutions.

⁶ Sāmoa National Provident Fund and Development Bank of Sāmoa only.

Monetary Aggregates

End of Period Figures	Average level in the previous		2014		2015	
	3-years	5-years	Nov	Dec	Nov	Dec
Determinants of Money Supply (M2)			Amount in Tala Million			
Net Foreign Assets	169.75	209.29	98.31	102.28	149.23	159.49
Net Domestic Assets	586.32	539.25	702.21	716.64	731.71	708.93
Money Supply (M2)	756.07	748.54	800.52	818.93	880.94	868.41
<i>Trend / Annual Average (%)</i>	<u>14.9</u>	<u>16.0</u>	14.0	14.2	5.7	5.4
Narrow Money (M1)	293.46	279.72	332.07	348.56	389.98	373.86
Currency outside banks	61.77	61.56	49.20	58.12	54.10	56.97
Transferable Deposits ⁴	231.69	218.16	282.87	290.43	335.88	316.90
Quasi Money	462.61	468.82	468.45	470.37	490.96	494.55
Other Deposits ⁵	462.61	468.82	468.45	470.37	490.96	494.55
Central Bank of Samoa						
Open Markets Operations			Maturity Yield			
Securities Official Rate	0.21	0.17	0.15	0.14	0.15	0.15
Reserve Money²			Amount in Tala Million			
Total	200.27	199.83	228.70	228.38	264.29	260.17
<i>Trend / Annual Growth (%)</i>	29.9	30.2	29.3	28.2	17.4	17.6
Financial System (FS)						
FS Credit			Amounts in Tala Million			
Commercial Banks	809.25	791.07	870.20	879.75	922.87	926.68
<i>Trend / Annual Growth (%)</i>	14.5	17.1	3.6	4.9	14.4	13.6
Non-Monetary Financial Institutions (NFIs)	427.27	403.76	466.83	468.45	505.26	506.64
<i>Trend / Annual Growth (%)</i>	18.6	25.5	13.0	12.4	6.0	6.0
Private Sector	1176.87	1120.25	1280.32	1292.76	1382.98	1382.38
Businesses	653.73	612.52	720.84	731.01	820.77	813.83
Individuals	523.14	507.73	559.48	561.75	562.22	568.55
Public Sector (NFIs, NPEs, & Govt)	59.65	74.59	56.70	55.43	45.15	50.94
Total FS Credit	1236.52	1194.83	1337.02	1348.19	1428.13	1433.32
<i>Trend / Annual Growth (%)</i>	15.9	20.0	6.9	7.5	11.4	10.9
Commercial Banks³						
Liquidity			Amounts in Tala Million			
Total	113.66	117.21	155.76	142.04	184.79	177.67
<i>Trend / Annual Growth (%)</i>	56.3	51.6	58.8	56.0	25.6	25.9
Interest Rates			Percentage			
Overall Weighted Average Lending	10.06	10.24	9.48	9.49	9.32	9.30
Australia New Zealand Bank Samoa	9.58	10.10	9.32	9.45	8.98	8.92
Bank South Pacific Samoa Ltd	10.14	9.49	9.55	9.48	9.73	9.67
National Bank of Samoa	10.18	10.72	9.01	8.77	8.83	8.91
Samoa Commercial Bank	10.88	11.13	10.31	10.33	10.23	10.19
Overall Weighted Average Deposit	2.67	2.31	2.89	2.79	2.37	2.48
Australia New Zealand Bank Samoa	2.26	1.73	2.48	2.50	1.95	2.00
Bank South Pacific Samoa Ltd	2.08	2.43	2.40	2.26	2.15	2.31
National Bank of Samoa	3.54	2.91	3.67	3.36	2.85	3.16
Samoa Commercial Bank	3.25	2.88	3.54	3.43	3.01	2.97
Market Shares						
Lending						
Australia New Zealand Bank Samoa	45.5	42.9	44.7	44.3	42.4	41.6
Bank South Pacific Samoa Ltd	19.2	21.8	19.8	20.8	20.8	21.4
National Bank of Samoa	16.1	15.8	17.9	17.3	19.6	19.4
Samoa Commercial Bank	19.2	19.5	17.6	17.6	17.2	17.6
Deposit						
Australia New Zealand Bank Samoa	43.3	41.6	43.5	43.7	41.3	39.5
Bank South Pacific Samoa Ltd	18.6	20.2	18.8	18.9	20.2	21.7
National Bank of Samoa	17.5	17.0	17.2	16.8	16.3	16.8
Samoa Commercial Bank	20.5	21.2	20.5	20.6	22.1	22.1
Non-monetary Financial Institutions						
Weighted Average Lending (WAL)			Percentage			
National Provident Fund (NPF)	10.18	10.14	7.75	7.75	7.65	7.61
Development Bank of Samoa (DBS)	11.96	11.95	5.63	5.19	5.20	5.23
Overall WAL (NPF & DBS)	10.63	10.57	7.08	6.95	6.90	6.84
Quarterly Rates			Dec-14	Jun-15	Sep-15	Dec-15
Samoa Housing Corporation (SHC) ¹	12.02	-	10.68	11.14	11.45	11.52

Source: Central Bank of Samoa

(1) Samoa Housing Corporation reports on a quarterly basis.

(2) Reserve Money is composed of: Currency in Circulation and commercial banks Exchange Settlement Accounts (ESA) and Statutory Required Deposits (SRDs).

(3) As of July 13th 2015, Bank South Pacific took over Westpac.

(4) Comprised of demand deposits, foreign currency deposits of residents, and interest payable on these deposits.

(5) Comprised of time deposits, savings deposits, and the interest payable on these deposits.

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