



## REVIEW OF MONETARY DEVELOPMENTS

January 2018

*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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### Monetary Forecast

The actual level of total money supply (M2) was 1.0 percent lower than its projected level for the month. This reflected lower than anticipated levels of commercial banks foreign assets and combined credit to the private sector and public institutions.

### Money Supply<sup>1</sup>

The first month of 2018 recorded a significant contraction of \$38.92 million to \$1,053.17 million in total money supply (M2), following the six months of consecutive increases. This drop was due to a considerable decline in net domestic assets (NDA) of \$36.58 million coupled with a marginal reduction of \$2.34 million in net foreign assets (NFA). The drop in NDA was accounted for by a surplus or increase in the government's net position as well as a large drop in credit to the private sector and public institutions combined. The decrease in NFA was underpinned by a contraction in commercial banks foreign holdings, which outweighed an increase in Central Bank of Samoa (CBS) foreign assets or reserves.

Nevertheless, the annual average growth rate of M2 increased slightly to 10.3 percent from 10.1 percent; which was much higher than 6.6 percent in January last year.

### Credit<sup>2</sup>

Following its expansion in the last four consecutive months, total financial system (FS)

credit dropped by 1.03 percent (or \$17.39 million) to \$1,671.08 million in January 2018. This was due to reductions of \$17.04 million and \$0.35 million in commercial banks' and non-bank financial institutions' (NFIs) lending respectively. The drop in commercial bank credit was fuelled by contractions in credit directed to both the private sector and public institutions during the month under review.

The bulk of FS credit was directed to the private sector, which accounted for 96.5 percent while the rest was allocated to non-banks financial institutions and public enterprises.

By industry, the decline was mostly due to lower lending to the 'building, construction and installation', 'other activities' and 'transportation, storage and communication' sectors.

As a result, the annual average growth of FS credit slipped to 8.5 percent from 9.4 percent last month and 11.4 percent in January 2017.

The latest available update on National Accounts was up to September 2017; recording an annual total of \$2,132.94 million in Nominal Gross Domestic Product (NGDP). At this level, the ratio of FS credit to NGDP increased to 77.1 percent from 76.4 percent in the previous quarter. As for M2, its ratio to NGDP also jumped to 48.5 percent from 45.3 percent in the June quarter of 2017.

<sup>1</sup> Money Supply (M2) or Broad Money consists of Narrow Money and Quasi Money.

<sup>2</sup> Commercial banks total credit has been revised back to October 2014 due to reclassification issues.

### Reserve Money<sup>3</sup>

The total reserve money edged down by \$0.28 million to \$302.88 million reflecting a return to normal levels following the peak season in December 2017. Currency in circulation dropped by \$23.64 million, offsetting an increase of \$23.36 million in commercial banks reserves, comprising of excess reserves (up \$23.42 million) and required reserves (down slightly by \$0.06 million).

At this level, the current RM was 24.1 percent and 34.5 percent higher than its average levels in the last three and five years respectively.

### Commercial Banks' Liquidity

Total bank liquidity increased \$27.61 million to \$205.35 million due to expansions of \$23.42 million and \$10.00 million in exchange settlement account (ESA) and CBS securities respectively. Nevertheless, banks' vault cash dropped \$5.82 million. At this level, it was 56.9 percent higher than in January 2017.

When compared to last three and five years' average levels, total liquidity were 30.5 percent and 44.1 percent higher respectively.

### Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)<sup>4</sup>

CBS securities outstanding jumped to \$22.00 million from \$12.00 million in the month under review. These comprised of maturities at 14-day, 28-day, 56-day and 91-day papers, which were purchased at 0.13 percent (\$6.00 million), 0.16 percent (\$10.00 million), 0.18 percent (\$4.00 million) and 0.41 percent (\$1.00 million) in that order. As a result, the overall weighted average yield of CBS securities (official rate) remained at 0.17 percent as of last month, which was also higher than 0.15 percent in January 2017.

### Commercial Banks' Interest Rates

An update on commercial banks interest rates saw an upward trend for both weighted average deposit (WAD) and weighted average lending (WAL) rates. The former increased by 36 basis points to 2.91 percent and 52 basis points higher than that of last year. Similarly, WAL rate increased 2 basis points to 8.90 percent from the previous month and 5 basis points higher when compared to the same month last year. As result, the weighted average margin narrowed 33 basis points to 6.00 percent, which was also lower than 6.46 percent in January 2017.

When compared to the last three and five years, the current WAD rate was higher than 2.75 percent and 2.71 percent respectively while the current WAL rate was lower than its 9.63 percent and 10.13 percent for those respective periods.

### NFIs<sup>5</sup> lending rates

The overall WAL rate for NFIs edged up 1 basis point to 7.22 percent in January 2018 and 2 basis points above its rate in the same month last year. This was driven by an increase in WAL rate of DBS; rising 3 basis points to 5.19 percent while that for SNPF remained stable at 7.91 percent for the first month of 2018.

The quarterly update for Samoa Housing Corporation's (SHC)<sup>6</sup> saw its WAL rate increased slightly 1 basis point to 11.88 percent in December 2016 or 2 basis points higher when compared to December 2016 quarter.

## Central Bank of Samoa 5<sup>th</sup> March 2018

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<sup>3</sup> 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

<sup>4</sup>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).

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<sup>5</sup> Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS).

<sup>6</sup> Only reports on a quarterly basis.

**Monetary Aggregates**

End of Period Figures	Average level in the previous		2017		2018
	3-years	5-years	Jan	Dec	Jan
<b>Determinants of Money Supply (M<sup>2</sup>)<sup>7</sup></b>			<b>Amount in Tala Million</b>		
Net Foreign Assets	162.21	182.48	143.98	293.25	290.91
Net Domestic Assets	717.62	635.02	806.85	798.83	762.26
<b>Money Supply (M<sup>2</sup>)</b>	<b>879.83</b>	<b>817.50</b>	<b>950.832</b>	<b>1092.088</b>	<b>1053.169</b>
<i>Trend</i> / Annual Average (%)	19.7	28.8	6.6	10.1	10.3
<i>Narrow Money (M<sup>1</sup>)</i>	384.30	338.16	430.30	496.38	437.33
Currency outside banks	56.55	56.12	6161	87.29	69.47
Transferable Deposits <sup>4</sup>	327.75	282.04	368.69	409.09	367.87
<i>Quasi Money</i>	495.53	479.35	520.53	595.71	615.84
Other Deposits <sup>5</sup>	495.53	479.35	520.53	595.71	615.84
<b>Central Bank of Samoa</b>			<b>Maturity Yield</b>		
<b>Open Markets Operations</b>					
Securities Official Rate	0.17	0.19	0.15	0.17	0.17
<b>Reserve Money<sup>2</sup></b>			<b>Amount in Tala Million</b>		
<b>Total</b>	<b>244.03</b>	<b>225.23</b>	<b>232.90</b>	<b>303.16</b>	<b>302.88</b>
<i>Trend</i> / Annual Growth (%)	24.1	34.5	-13.6	14.0	18.1
<b>Financial System (FS)</b>			<b>Amounts in Tala Million</b>		
<b>FS Credit</b>					
<b>Commercial Banks<sup>7</sup></b>	<b>924.46</b>	<b>863.80</b>	<b>1031.89</b>	<b>1077.33</b>	<b>1060.28</b>
<i>Trend</i> / Annual Growth (%)	14.7	22.7	12.1	8.1	7.1
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>515.89</b>	<b>472.73</b>	<b>573.93</b>	<b>611.15</b>	<b>610.80</b>
<i>Trend</i> / Annual Growth (%)	18.4	29.2	9.9	11.7	11.1
<b>Private Sector</b>	<b>1392.40</b>	<b>1284.92</b>	<b>1566.54</b>	<b>1628.64</b>	<b>1611.81</b>
Businesses	806.25	732.10	945.81	955.01	941.21
Individuals	586.14	552.82	620.73	673.63	670.60
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>47.95</b>	<b>51.95</b>	<b>39.27</b>	<b>59.83</b>	<b>59.27</b>
<b>Total FS Credit</b>	<b>1440.35</b>	<b>1336.87</b>	<b>1605.81</b>	<b>1688.47</b>	<b>1671.08</b>
<i>Trend</i> / Annual Growth (%)	16.0	25.0	11.4	9.4	8.5
<b>Commercial Banks<sup>3</sup></b>			<b>Amounts in Tala Million</b>		
<b>Liquidity</b>					
<b>Total</b>	<b>157.34</b>	<b>142.53</b>	<b>130.84</b>	<b>177.75</b>	<b>205.35</b>
<i>Trend</i> / Annual Growth (%)	30.5	44.1	-30.1	17.0	25.7
<b>Interest Rates</b>			<b>Percentage</b>		
<b>Overall Weighted Average Lending<sup>7</sup></b>	<b>9.63</b>	<b>10.13</b>	<b>8.87</b>	<b>8.88</b>	<b>8.90</b>
Australia New Zealand Bank (Samoa) Limited	9.44	9.74	9.14	9.50	9.46
Bank South Pacific (Samoa) Limited	9.49	10.19	7.58	7.75	7.74
National Bank of Samoa Limited	9.59	10.25	8.27	7.94	8.14
Samoa Commercial Bank Limited	10.28	10.82	10.56	10.49	10.42
<b>Overall Weighted Average Deposit</b>	<b>2.75</b>	<b>2.71</b>	<b>2.39</b>	<b>2.55</b>	<b>2.91</b>
Australia New Zealand Bank (Samoa) Limited	2.54	2.27	1.70	1.44	1.49
Bank South Pacific (Samoa) Limited	2.11	2.18	2.24	2.48	3.34
National Bank of Samoa Limited	3.33	3.55	3.11	2.36	3.72
Samoa Commercial Bank Limited	3.36	3.31	3.09	3.50	3.60
<b>Market Shares</b>					
<b>Lending<sup>7</sup></b>					
Australia New Zealand Bank (Samoa) Limited	42.07	43.85	36.8	31.7	31.7
Bank South Pacific (Samoa) Limited	22.72	21.03	24.0	26.7	26.9
National Bank of Samoa Limited	16.65	16.18	19.7	21.9	21.6
Samoa Commercial Bank Limited	18.56	18.94	19.5	19.6	19.8
<b>Deposit</b>					
Australia New Zealand Bank (Samoa) Limited	39.63	41.34	36.5	29.9	30.5
Bank South Pacific (Samoa) Limited	22.20	20.44	24.4	29.6	29.4
National Bank of Samoa Limited	17.53	17.54	19.6	21.4	20.5
Samoa Commercial Bank Limited	20.67	20.70	19.6	19.1	19.7
<b>Non-monetary Financial Institutions</b>			<b>Percentage</b>		
<b>Weighted Average Lending (WAL)</b>					
Samoa National Provident Fund (SNPF) <sup>6</sup>	7.75	10.17	7.20	7.91	7.91
Development Bank of Samoa (DBS)	5.26	11.96	5.97	5.16	5.19
<b>Overall WAL (NPF &amp; DBS)<sup>6</sup></b>	<b>6.97</b>	<b>10.62</b>	<b>6.86</b>	<b>7.21</b>	<b>7.22</b>
<b>Quarterly Rates</b>			<b>Dec-16</b>	<b>Sep-17</b>	<b>Dec-17</b>
Samoa Housing Corporation (SHC) <sup>1</sup>	10.68	12.03	11.86	11.87	11.88

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.

(6) Historical Series for SNPF and overall WAL rate has been revised to reflect the reclassification of personal and short term loans to their appropriate rates (effective April 2017).

(7) Changes back to June 2016 under Financial System Credit section due to revised figures from the commercial banks