

REVIEW OF MONETARY DEVELOPMENTS FEBRUARY 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 was slightly lower by 0.2 percent than its projection for the month. Underpinning the current deviation from its forecast was a lower than expected total lending level to the private sector and the non-financial public enterprises.

Money Supply¹

Following a significant drop in the previous month, total money supply (M2) edged up \$0.34 million to \$1,053.51 million in February 2018. This is in light of an expansion of \$1.73 million in net foreign assets (NFA), offsetting a drop of \$1.39 million in net domestic assets (NDA). The hike in the former was accounted for by an increase in Central Bank held foreign reserves while the decline in the latter was due to an increase in the net, government position as well as a reduction in total lending to non-financial public enterprises.

As a result, the annual average growth rate of M2 increased slightly to 10.7 percent from 10.3 percent a month ago and 6.4 percent in February of last year.

Credit²

Total financial system (FS) credit rebounded by 0.28 percent (or \$4.62 million) to \$1,675.70 million, fuelled by gains in non-banks' financial institutions (NFIs) lending (up \$3.61 million) and commercial banks' credit (up \$1.01 million).

The share of lending to the private sector remained at 96.5 percent of total credit while the rest was lent to NFIs.

The monthly expansion in total credit was mainly directed to 'trade', 'professional and business services', 'electricity, gas and water' and 'other activities' sectors.

Nevertheless, the annual average growth rate of FS credit dropped to 7.6 percent from 8.5 percent last month and 12.0 percent in February 2017.

The latest available update on National Accounts was up to September 2017; amounting to an annual total of \$2,132.94 million in terms of 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.

Reserve Money³

Reserve money (RM) fell by 2.7 percent due to reductions for both commercial banks reserves and currency in circulation, down by \$4.80 million and \$3.49 million respectively. The decrease in Banks' reserves was accounted for by a drop of \$5.06 million in excess reserves, offsetting a slight increase of \$0.26 million in required reserves. Consequently, total RM contracted by \$8.29 million to \$294.59 million

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

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

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

in February 2018 but was \$75.45 million higher than that of February 2017.

The current RM level was 23.5 percent and 32.5 percent higher than its average levels in the last three and five years respectively.

Commercial Banks' Liquidity

Total bank liquidity edged up \$0.54 million to \$205.90 million, as a result of a \$6.00 million increase in CBS securities' offsetting a 5.06 million drop in exchange settlement accounts as well as a small decline of \$0.39 million in banks' vault cash. When compared to the same month last year, the current level was \$84.7 million higher.

Over the last three and five years, total liquidity was 34.4 percent and 48.0 percent higher respectively.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)⁴

Total CBS Securities outstanding increased to \$28.00 million from \$22.00 million in the previous month. Total securities issued dropped slightly to \$27.00 million from \$27.50 million as the bulk of the papers issued were lower term maturities, namely the 14-day (\$13.50 million) and 28-day (\$11.50 million) at yields of 0.13 percent and 0.16 percent respectively. Furthermore, the 56-day (\$2.00 million) paper was tendered at 0.18 percent during the month.

As a result, the official interest rate dropped to 0.15 percent from 0.17 percent but was similar to that of February 2017.

Commercial Banks' Interest Rates

The weighted average deposit (WAD) dropped by 3 basis points to 2.88 percent but was way above 2.34 percent in the same month last year. Similarly, the weighted average lending

rates slipped 1 basis point to 8.89 percent but higher than 8.81 percent in February 2017.

Compared to their current levels, the WAD rates in the last three and five years was lower at 2.76 percent and 2.74 percent respectively. In contrast, WAL rates for those respective periods were higher at 9.59 percent and 10.21 percent in that order.

NFIs⁵ lending rates

The NFI's overall WAL rate edged up by 1 basis point to 7.23 percent but was 44 basis points lower than its rate in the same month last year. The slight increase reflected a 1 basis point hike to 5.20 percent in DBS's WAL rate while that for SNPF remained at 7.91 percent from the previous month.

The quarterly update for Samoa Housing Corporation's (SHC)⁶ saw its WAL rate increase slightly by 1 basis point to 11.88 percent in December 2017 or 2 basis points higher when compared to the December 2016 quarter.

**Central Bank of Samoa
29th March 2018**

⁴Central 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. Only reports the main NFIs, Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS).

⁶ Only reports on a quarterly basis.

Monetary Aggregates

End of Period Figures	Average level in the previous		2017	2018	
	3-years	5-years	Feb	Jan	Feb
Determinants of Money Supply (M2) ⁷			Amount in Tala Million		
Net Foreign Assets	151.72	173.30	150.64	290.91	292.64
Net Domestic Assets	721.16	640.33	793.73	762.26	760.87
Money Supply (M2)	872.88	813.63	944.368	1053.169	1053.513
<i>Trend / Annual Average (%)</i>	20.7	29.5	6.4	10.3	10.7
<i>Narrow Money (M1)</i>	370.65	329.00	415.84	437.33	437.02
Currency outside banks	54.83	55.11	59.15	69.47	66.37
Transferable Deposits ⁴	315.81	273.90	356.69	367.87	370.65
<i>Quasi Money</i>	502.24	484.63	528.53	615.84	616.49
Other Deposits ⁵	502.24	484.63	528.53	615.84	616.49
Central Bank of Samoa			Maturity Yield		
Open Markets Operations					
Securities Official Rate	0.14	0.28	0.15	0.17	0.15
Reserve Money ²			Amount in Tala Million		
Total	238.54	222.28	219.15	302.88	294.59
<i>Trend / Annual Growth (%)</i>	23.5	32.5	-15.7	18.1	22.8
Financial System (FS)			Amounts in Tala Million		
FS Credit					
Commercial Banks ⁷	939.72	871.68	1044.31	1060.28	1061.29
<i>Trend / Annual Growth (%)</i>	2.9	2.17	2.9	7.1	6.0
Non-Monetary Financial Institutions (NFI) ⁶	518.51	476.72	577.84	610.80	614.41
<i>Trend / Annual Growth (%)</i>	18.5	28.9	10.3	11.1	10.5
Private Sector	1411.61	1298.64	1583.08	1611.81	1617.62
Businesses	820.10	738.64	956.18	941.21	945.41
Individuals	591.51	559.99	626.90	670.60	672.22
Public Sector (NFIs, NPEs, & Govt)	46.62	50.14	39.07	59.27	58.08
Total FS Credit	1458.24	1348.78	1622.15	1671.08	1675.70
<i>Trend / Annual Growth (%)</i>	14.9	24.3	11.9	8.5	7.6
Commercial Banks ³			Amounts in Tala Million		
Liquidity					
Total	153.15	139.13	121.19	205.35	205.90
<i>Trend / Annual Growth (%)</i>	34.4	48.0	-33.3	25.7	36.2
Interest Rates			Percentage		
Overall Weighted Average Lending ⁷	9.59	10.21	8.82	8.90	8.89
Australia New Zealand Bank (Samoa) Limited	9.33	9.82	9.12	9.46	9.44
Bank South Pacific (Samoa) Limited	9.50	10.35	7.50	7.74	7.79
National Bank of Samoa Limited	9.74	10.29	8.20	8.14	7.97
Samoa Commercial Bank Limited	10.24	10.88	10.57	10.42	10.54
Overall Weighted Average Deposit	2.76	2.74	2.34	2.91	2.88
Australia New Zealand Bank (Samoa) Limited	2.52	2.25	1.72	1.49	1.52
Bank South Pacific (Samoa) Limited	2.32	2.37	2.07	3.34	3.23
National Bank of Samoa Limited	3.24	3.55	3.06	3.72	3.65
Samoa Commercial Bank Limited	3.29	3.36	3.10	3.60	3.60
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Samoa) Limited	42.02	43.88	36.6	31.7	31.1
Bank South Pacific (Samoa) Limited	23.25	21.33	24.7	26.9	27.2
National Bank of Samoa Limited	16.27	15.93	19.5	21.6	21.6
Samoa Commercial Bank Limited	18.46	18.87	19.2	19.8	20.1
Deposit					
Australia New Zealand Bank (Samoa) Limited	39.57	41.77	36.3	30.5	29.7
Bank South Pacific (Samoa) Limited	22.60	20.44	24.6	29.4	29.0
National Bank of Samoa Limited	17.37	17.20	20.0	20.5	22.0
Samoa Commercial Bank Limited	20.47	20.59	19.1	19.7	19.2
Non-monetary Financial Institutions			Percentage		
Weighted Average Lending (WAL)					
Samoa National Provident Fund (SNPF) ⁶	7.75	10.18	7.22	7.91	7.91
Development Bank of Samoa (DBS)	5.23	11.96	5.94	5.19	5.20
Overall WAL (NPF & DBS) ⁶	6.96	10.64	6.87	7.22	7.23
Quarterly Rates			Dec-16	Sep-17	Dec-17
Samoa Housing Corporation (SHC) ¹	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