



REVIEW OF MONETARY DEVELOPMENTS

August 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-bank financial institutions.

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Monetary Forecast

The actual level of money supply (M2) was 3.7 percent above its projection for the month. This deviation was mainly due to a higher than expected level of credit to the private sector as well as a sharper decline in foreign assets of the commercial banks.

Money Supply (M2)

Total M2 expanded further by \$8.81 million to \$1,140.97 million for the seventh consecutive month. This was highlighted by a \$17.62 million hike in net domestic assets (NDA) despite a decline of \$8.80 million in net foreign assets (NFA). The hike in the former was accounted for by an increase in private sector credit coupled with a surplus in the government net position with the monetary system. On the other hand, the decline in the latter was due to a significant drop in the foreign holdings of the banking system.

Consequently, the annual average growth rate of M2 remained the same at 13.4 percent as was in the previous month but higher than 7.4 percent in August 2017.

Credit

On total Financial System (FS) credit, it expanded further by \$17.27 million (or 1.02 percent) to \$1,718.33 million in August 2018. This was due to improvements in commercial banks' credit (up \$13.88 million) to \$1,082.89 million and non-banks financial institutions lending (up \$3.42 million) to \$635.44 million during the month. The bulk of FS credit was directed to the private sector with a share of

96.7 percent while the remaining 3.3 percent went to government corporations and other financial institutions. Furthermore, the monthly increase was mainly lent to the "building constructions and installation" and "trade" industries.

However, the annual average growth of FS credit slowed down further to 4.7 percent from 4.9 percent in the previous month and 11.4 percent in July last year.

The latest update for national accounts is up to March 2018 quarter, which amounted to an annual total for Nominal Gross Domestic Products (NGDP) at \$2,172.44 million. At this level, the ratios of FS credit and M2 to NGDP improved to 77.5 percent and 51.8 percent respectively, compared to their previous March 2017 levels of 76.5 percent and 45.3 percent respectively.

Reserve Money¹

Total reserve money (RM) expanded further by \$3.74 million (or 1.1 percent) to \$336.28 million, mainly due to both increases in its components such as commercial banks' reserves (up by \$3.72 million) and currency in circulation (up slightly by \$0.02 million). The hike in banks' reserves were highlighted by expansions in both excess reserves and required reserves. The current RM level was also 17.4 percent higher than its level in July last year.

¹ 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 addition, when compared to the last three and five years respectively, the current level was 25.56 percent and 41.58 percent higher in that order.

Commercial Banks' Liquidity

For the fifth consecutive month, total bank liquidity expanded further by \$0.25 million (or 0.1 percent) to \$236.90 million. The increase reflected improvements in both exchange settlement account (\$3.65 million) and CBS securities (\$3.50 million). These managed to outweigh a decline in the vault cash (down \$6.90 million). Similarly, the current level of bank liquidity was also 35.8 percent higher.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)²

The commercial banks (only players of CBS OMO) increased their holdings of CBSS to \$32.99 million from \$29.49 million in the previous month and \$2.00 million in August last year. The CBS papers were mostly at maturities of 14-day, 28-day, 56-day and 91-day papers, which were purchased at their respective yields of 0.13 percent (total value \$12.00 million), 0.16 percent (\$8.00 million), 0.18 percent (\$4.50 million) and 0.41 percent (\$2.00 million).

Given that the bulk of CBS securities were issued at lower yields, the overall weighted average yield (official rate) dropped by 2 basis points to 0.17 percent from the previous month but higher than 0.14 percent in August last year.

Commercial Banks' Interest Rates

Following its downward trend last month, the weighted average deposit (WAD) rate increased 8 basis points to 2.73 percent and a 1 basis point above August last year. On the other hand, the weighted average lending (WAL) rate dropped 3 basis points to 8.96

percent last month but was 18 basis points higher than that of last year. As a result, the weighted average margin narrowed to 6.23 percent from 6.34 percent a month ago but was higher than 6.06 percent in August 2017.

The current rate was higher than 2.35 percent in the last three years but lower than 2.88 percent in the last five years. As for the WAL rate, its current level was below 9.41 percent and 10.19 percent for those respective periods.

NFIs³ lending rates

On non-banks financial institutions' (NFIs) cost of lending, their overall weighted average lending rate increased by 4 basis points to 7.30 percent from the previous month but was lower than 7.60 percent in August last year. The increase was due to increases of 7 and 2 basis points in lending rates of the Development Bank of Samoa (DBS) and Samoa National Provident Fund (SNPF) respectively, to 5.35 percent and 7.91 percent in that order.

The latest quarterly update for Samoa Housing Corporation's (SHC)⁴ saw its WAL rate climb 12 basis points to 11.88 percent in the June 2018 quarter, which was also 1 basis point higher than the same quarter last year.

Central Bank of Samoa 3 October 2018

²Central 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).

³ Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS).

⁴ Reports to the Central Bank of Samoa on quarterly basis.

Review of Monetary Developments
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Monetary Aggregates

End of Period Figures	Average level in the previous		2017			2018		
	3-years	5-years	Aug	Jul	Aug	Jul	Aug	
Determinants of Money Supply (M 2) ⁷								
Net Foreign Assets	208.32	209.68	276.02	407.98	399.18			
Net Domestic Assets	722.22	652.67	741.82	724.17	741.79			
Money Supply (M 2)	930.53	862.34	1017.836	1132.156	1140.967			
<i>Trend / Annual Average (%)</i>	22.6	32.3	7.4	13.4	13.4			
Narrow Money (M 1)								
Currency outside banks	60.84	59.07	68.79	74.87	81.79			
Transferable Deposits ⁴	345.49	308.50	374.54	418.23	410.15			
Quasi Money								
Other Deposits ⁵	524.20	494.77	574.50	639.06	649.03			
Central Bank of Samoa								
Open Markets Operations								
Securities Official Rate	0.15	0.23	0.13	0.19	0.17			
Reserve Money ²								
Total	267.82	237.51	286.49	332.54	336.00			
<i>Trend / Annual Growth (%)</i>	25.6	41.6	-3.9	31.5	33.6			
Financial System (FS)								
FS Credit								
Commercial Banks ⁷								
Total	956.50	882.76	1027.39	1069.04	1082.89			
<i>Trend / Annual Growth (%)</i>	13.2	22.6	11.4	3.1	3.0			
Non-Monetary Financial Institutions (NFIs)								
Total	540.52	500.17	601.97	632.02	635.44			
<i>Trend / Annual Growth (%)</i>	17.6	27.0	11.5	8.3	7.7			
Private Sector								
Businesses	859.30	770.76	955.79	950.48	961.40			
Individuals	597.26	567.37	641.98	694.66	700.97			
Public Sector (NFIs, NPEs, & Govt)								
Total FS Credit	1497.03	1383.19	1629.36	1701.06	1718.33			
<i>Trend / Annual Growth (%)</i>	14.8	24.3	11.4	4.9	4.7			
Commercial Banks ³								
Liquidity								
Total	171.33	148.04	174.40	236.65	236.90			
<i>Trend / Annual Growth (%)</i>	38.3	60.0	-16.6	59.4	58.9			
Interest Rates								
Overall Weighted Average Lending ⁷								
Australia New Zealand Bank (Samoa) Limited	9.41	10.19	8.78	8.99	8.96			
Bank South Pacific (Samoa) Limited	8.97	9.86	9.06	9.83	9.77			
National Bank of Samoa Limited	9.50	10.22	7.64	7.85	7.79			
Samoa Commercial Bank Limited	9.48	10.36	8.12	7.94	7.97			
Overall Weighted Average Deposit	10.32	10.80	10.51	10.53	10.54			
Australia New Zealand Bank (Samoa) Limited	2.35	2.88	2.72	2.65	2.73			
Bank South Pacific (Samoa) Limited	2.00	2.56	1.47	1.45	1.43			
National Bank of Samoa Limited	1.97	2.78	3.36	2.68	2.83			
Samoa Commercial Bank Limited	2.91	3.18	3.36	3.55	3.83			
Market Shares	3.07	3.42	3.24	3.46	3.38			
Lending ⁷								
Australia New Zealand Bank (Samoa) Limited	39.3	42.1	33.0	29.5	29.4			
Bank South Pacific (Samoa) Limited	23.7	22.0	26.3	28.4	28.6			
National Bank of Samoa Limited	17.7	16.6	20.7	22.1	22.0			
Samoa Commercial Bank Limited	19.2	19.2	20.0	20.1	20.1			
Deposit								
Australia New Zealand Bank (Samoa) Limited	38.1	40.5	32.7	29.5	29.0			
Bank South Pacific (Samoa) Limited	24.6	22.4	28.5	30.4	30.8			
National Bank of Samoa Limited	17.0	16.8	19.5	19.7	19.6			
Samoa Commercial Bank Limited	20.3	20.3	19.3	20.4	20.5			
Non-monetary Financial Institutions								
Weighted Average Lending (WAL)								
Samoa National Provident Fund (SNPF) ⁶	7.68	10.28	8.18	7.89	7.91			
Development Bank of Samoa (DBS)	6.05	7.42	5.96	5.28	5.35			
Overall WAL (NPF & DBS) ⁶	7.16	9.49	7.60	7.26	7.30			
Quarterly Rates								
Samoa Housing Corporation (SHC) ¹	Jun-15	Jun-13	Jun-17	Mar-18	Jun-18			
	11.14	10.31	11.87	11.76	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