



## REVIEW OF MONETARY DEVELOPMENTS SEPTEMBER 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) for September 2018 was 5.2 percent and above its projection for the month. This was due to higher than expected improvements in foreign assets of both for the Central Bank of Samoa (CBS) and the banking system over the past few months despite a contraction in CBS official reserves.

### Money Supply (M2)

Total M2 increased further by \$4.91 million for the eighth consecutive month to \$1,145.88 million. This was underpinned by a \$30.50 million hike in net domestic assets (NDA) despite a decline of \$25.58 million in net foreign assets (NFA). The hike in the former was accounted for by an expansion in total credit to the private sector coupled with a deficit recorded in the government's net position with the monetary system. On the other hand, the decline in the latter was due to a drop in net foreign holdings of the central bank given large outflows during the month.

As a result, the annual average growth rate of M2 remained at 13.3 percent as was in the previous month but higher than 7.8 percent in September 2017.

### Credit

Total Financial System (FS) credit increased further by \$18.43 million (or 1.07 percent) to \$1,736.75 million in September 2018. This was due to improvements in commercial banks' credit (up \$15.89 million) to \$1,098.78 million while non-banks financial institutions (NFIs)

lending rose by \$2.54 million to \$637.97 million during the month. At this level, the increase in total FS credit was mainly to the private sector with a share of 96.8 percent while the remaining 3.2 percent was to NFIs and public enterprises. By industry, the monthly increase was mainly to the lendings to the "Professional and business services", "Building, construction and installation", "Trade", and "Other activities" industries.

Despite this increase, the annual average growth of FS credit slowed down further to 4.6 percent from 4.7 percent in the previous month and 11.0 percent in September last year.

The latest update for national accounts is up to June 2018 quarter, which recorded an annual total for Nominal Gross Domestic Products (NGDP) at \$2,210.93 million. At this level, the ratios of FS credit and M2 to NGDP stood at 76.1 percent and 50.9 percent respectively, compared to their previous March 2018 levels of 77.3 percent and 48.7 percent respectively.

### Reserve Money<sup>1</sup>

Total reserve money (RM) rose further by \$5.20 million (or 1.5 percent) to \$341.48 million in September 2018. This was due to a hike in currency in circulation by \$10.00 million while commercial banks' reserves fell \$ 4.80 million from the previous month. The drop in commercial banks' reserves was accounted for contractions in both excess reserves and

<sup>1</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

required reserves by \$3.72 million and \$1.08 million respectively.

Furthermore, the current RM level was also 10.5 percent higher than its level in September last year.

When compared to the last three and five years, the current level was also 26.11 percent and 42.08 percent higher respectively.

### **Commercial Banks' Liquidity**

Total commercial banks' liquidity decreased by \$10.60 million (or 4.5 percent) to \$226.30 million in September 2018. The decline reflected reductions of \$8.00 million in CBS securities and \$3.72 million in exchange settlement account (ESA) while vault cash holdings went up by \$1.12 million. Consequently, the current level of bank liquidity was 13.1 percent higher than the same month last year.

Similarly, total commercial bank liquidity was also 30.8 percent and 47.8 percent higher over the last three and five years respectively.

### **Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)<sup>2</sup>**

Total CBS securities issued decreased to \$16.50 million from \$26.50 million a month ago where the 14-day (\$6.50 million), 28-day (\$6.50 million), 56-day (\$2.50 million), and 91-day (\$1.00 million) papers were purchased at their respective yields of 0.13 percent, 0.16 percent, 0.18 percent, and 0.41 percent respectively. As a result, the outstanding level of securities during the month stood at \$25.00 million. The overall weighted average yield (or official interest rate) remained at 0.17 percent in September 2018 but higher than 0.15 percent in the same month last year.

### **Commercial Banks' Interest Rates**

On commercial bank interest rates, the weighted average deposit (WAD) rate fell 14 basis points to 2.59 percent in September 2018 from the previous month and September 2017. On the other hand, the weighted average lending (WAL) rate increased 2 basis points to 8.98 percent last month and was 18 basis points higher than that of last year. As a result, the weighted average margin widened to 6.39 percent from 6.23 percent a month ago but was higher than 6.06 percent in September 2017.

The current WAD rate was higher than 2.33 percent in the last three years but lower than 2.94 percent in the last five years. In contrast, the WAL rate was below 9.40 percent in the last three years and 10.19 percent in the last five years.

### **NFIs<sup>3</sup> lending rates**

The overall weighted average lending (WAL) rate for NFIs increased by 2 basis points to 7.32 percent from the previous month but was lower than 7.64 percent in September last year. This was driven by an increase of 2 basis point to 7.93 percent for Samoa National Provident Fund (SNPF) lending rate while Development Bank of Samoa (DBS) lending rate dropped 1 basis point to 5.34 percent.

The latest quarterly update for Samoa Housing Corporation's (SHC)<sup>4</sup> is up to the June quarter 2018, which saw an increase in its WAL rate increase by 12 basis points to 11.88 percent from the previous quarter and 1 basis point higher than the same quarter last year.

**Central Bank of Samoa  
5<sup>th</sup> November 2018**

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<sup>2</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>3</sup> Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS).

<sup>4</sup> Reports to the Central Bank of Samoa on quarterly basis.

**Monetary Aggregates**

| End of Period Figures                                 | Average level in the previous |                | 2017                           |                 |                 | 2018 |  |  |
|---|-------------------------------|----------------|--------------------------------|-----------------|-----------------|------|--|--|
|   | 3-years                       | 5-years        | Sep                            | Aug             | Sep             |      |  |  |
| <b>Determinants of Money Supply (M2) <sup>7</sup></b> |                               |                | <b>Amount in Tala Million</b>  |                 |                 |      |  |  |
| Net Foreign Assets                                    | 196.10                        | 190.73         | 253.08                         | 399.18          | 373.60          |      |  |  |
| Net Domestic Assets                                   | 747.70                        | 669.25         | 782.03                         | 741.79          | 772.28          |      |  |  |
| <b>Money Supply (M2)</b>                              | <b>943.80</b>                 | <b>859.98</b>  | <b>1035.114</b>                | <b>1140.967</b> | <b>1145.879</b> |      |  |  |
| <i>Trend / Annual Average (%)</i>                     | 214                           | 332            | 7.8                            | 13.3            | 13.3            |      |  |  |
| <i>Narrow Money (M1)</i>                              | 42.72                         | 359.17         | 446.30                         | 491.93          | 501.33          |      |  |  |
| Currency outside banks                                | 63.48                         | 57.55          | 69.27                          | 81.79           | 90.66           |      |  |  |
| Transferable Deposits <sup>4</sup>                    | 349.25                        | 301.63         | 377.03                         | 410.15          | 410.67          |      |  |  |
| <i>Quasi Money</i>                                    | 531.08                        | 500.81         | 588.82                         | 649.03          | 644.55          |      |  |  |
| Other Deposits <sup>5</sup>                           | 531.08                        | 500.81         | 588.82                         | 649.03          | 644.55          |      |  |  |
| <b>Central Bank of Samoa</b>                          |                               |                |                                |                 |                 |      |  |  |
| <b>Open Markets Operations</b>                        |                               |                | <b>Maturity Yield</b>          |                 |                 |      |  |  |
| Securities Official Rate                              | 0.15                          | 0.16           | 0.15                           | 0.17            | 0.17            |      |  |  |
| <b>Reserve Money <sup>2</sup></b>                     |                               |                | <b>Amount in Tala Million</b>  |                 |                 |      |  |  |
| <b>Total</b>  | 270.77                        | 240.34         | 308.98                         | 336.00          | 341.48          |      |  |  |
| <i>Trend / Annual Growth (%)</i>                      | 26.1                          | 42.1           | 0.1                            | 30.6            | 28.2            |      |  |  |
| <b>Financial System (FS)</b>                          |                               |                |                                |                 |                 |      |  |  |
| <b>FS Credit</b>                                      |                               |                | <b>Amounts in Tala Million</b> |                 |                 |      |  |  |
| <b>Commercial Banks <sup>7</sup></b>                  | <b>975.72</b>                 | <b>896.02</b>  | <b>1040.67</b>                 | <b>1082.89</b>  | <b>1098.78</b>  |      |  |  |
| <i>Trend / Annual Growth (%)</i>                      | 2.6                           | 22.6           | 10.5                           | 3.0             | 3.2             |      |  |  |
| <b>Non-Monetary Financial Institutions (NFIs)</b>     | <b>543.55</b>                 | <b>502.78</b>  | <b>605.14</b>                  | <b>635.44</b>   | <b>637.97</b>   |      |  |  |
| <i>Trend / Annual Growth (%)</i>                      | 17.4                          | 26.9           | 11.8                           | 7.7             | 7.1             |      |  |  |
| <b>Private Sector</b>                                 | <b>1478.60</b>                | <b>1353.01</b> | <b>1613.49</b>                 | <b>1662.38</b>  | <b>1681.71</b>  |      |  |  |
| Businesses  | 877.51                        | 781.14         | 964.49                         | 961.40          | 969.72          |      |  |  |
| Individuals   | 601.10                        | 571.87         | 648.99                         | 700.97          | 711.99          |      |  |  |
| <b>Public Sector (NFIs, NPEs, &amp; Govt)</b>         | <b>40.66</b>                  | <b>45.94</b>   | <b>32.32</b>                   | <b>55.95</b>    | <b>55.04</b>    |      |  |  |
| <b>Total FS Credit</b>                                | <b>1519.27</b>                | <b>1398.95</b> | <b>1645.81</b>                 | <b>1718.33</b>  | <b>1736.75</b>  |      |  |  |
| <i>Trend / Annual Growth (%)</i>                      | 14.3                          | 24.2           | 11.0                           | 4.7             | 4.6             |      |  |  |
| <b>Commercial Banks <sup>3</sup></b>                  |                               |                |                                |                 |                 |      |  |  |
| <b>Liquidity</b>                                      |                               |                | <b>Amounts in Tala Million</b> |                 |                 |      |  |  |
| <b>Total</b>  | <b>172.99</b>                 | <b>153.16</b>  | <b>200.05</b>                  | <b>236.90</b>   | <b>226.30</b>   |      |  |  |
| <i>Trend / Annual Growth (%)</i>                      | 30.8                          | 47.8           | -9.9                           | 58.9            | 53.6            |      |  |  |
| <b>Interest Rates</b>                                 |                               |                | <b>Percentage</b>              |                 |                 |      |  |  |
| <b>Overall Weighted Average Lending <sup>7</sup></b>  | <b>9.40</b>                   | <b>10.19</b>   | <b>8.80</b>                    | <b>8.96</b>     | <b>8.98</b>     |      |  |  |
| Australia New Zealand Bank (Samoa) Limited            | 8.92                          | 9.89           | 9.07                           | 9.77            | 9.79            |      |  |  |
| Bank South Pacific (Samoa) Limited                    | 9.56                          | 10.19          | 7.72                           | 7.79            | 7.80            |      |  |  |
| National Bank of Samoa Limited                        | 9.55                          | 10.36          | 8.10                           | 7.97            | 8.03            |      |  |  |
| Samoa Commercial Bank Limited                         | 10.25                         | 10.82          | 10.50                          | 10.54           | 10.59           |      |  |  |
| <b>Overall Weighted Average Deposit</b>               | <b>2.33</b>                   | <b>2.94</b>    | <b>2.74</b>                    | <b>2.73</b>     | <b>2.59</b>     |      |  |  |
| Australia New Zealand Bank (Samoa) Limited            | 2.02                          | 2.67           | 1.41                           | 1.43            | 1.47            |      |  |  |
| Bank South Pacific (Samoa) Limited                    | 2.07                          | 2.89           | 3.40                           | 2.83            | 2.61            |      |  |  |
| National Bank of Samoa Limited                        | 2.62                          | 3.23           | 3.35                           | 3.83            | 3.31            |      |  |  |
| Samoa Commercial Bank Limited                         | 2.98                          | 3.39           | 3.37                           | 3.38            | 3.38            |      |  |  |
| <b>Market Shares</b>                                  |                               |                |                                |                 |                 |      |  |  |
| <b>Lending <sup>7</sup></b>                           |                               |                |                                |                 |                 |      |  |  |
| Australia New Zealand Bank (Samoa) Limited            | 38.8                          | 42.1           | 32.8                           | 29.4            | 29.2            |      |  |  |
| Bank South Pacific (Samoa) Limited                    | 23.8                          | 22.0           | 26.4                           | 28.6            | 29.2            |      |  |  |
| National Bank of Samoa Limited                        | 18.5                          | 17.0           | 20.9                           | 22.0            | 22.0            |      |  |  |
| Samoa Commercial Bank Limited                         | 18.9                          | 18.9           | 19.9                           | 20.1            | 19.6            |      |  |  |
| <b>Deposit</b>  |                               |                |                                |                 |                 |      |  |  |
| Australia New Zealand Bank (Samoa) Limited            | 38.0                          | 40.5           | 32.4                           | 29.0            | 27.9            |      |  |  |
| Bank South Pacific (Samoa) Limited                    | 24.0                          | 21.9           | 28.7                           | 30.8            | 31.2            |      |  |  |
| National Bank of Samoa Limited                        | 17.4                          | 17.0           | 20.1                           | 19.6            | 20.1            |      |  |  |
| Samoa Commercial Bank Limited                         | 20.7                          | 20.6           | 18.8                           | 20.5            | 20.9            |      |  |  |
| <b>Non-monetary Financial Institutions</b>            |                               |                |                                |                 |                 |      |  |  |
| <b>Weighted Average Lending (WAL)</b>                 |                               |                | <b>Percentage</b>              |                 |                 |      |  |  |
| Samoa National Provident Fund (SNPF) <sup>6</sup>     | 7.66                          | 10.29          | 8.22                           | 7.91            | 7.93            |      |  |  |
| Development Bank of Samoa (DBS)                       | 6.03                          | 3.99           | 5.97                           | 5.35            | 5.34            |      |  |  |
| <b>Overall WAL (NPF &amp; DBS) <sup>6</sup></b>       | <b>7.14</b>                   | <b>8.54</b>    | <b>7.64</b>                    | <b>7.30</b>     | <b>7.32</b>     |      |  |  |
| <b>Quarterly Rates</b>                                |                               |                |                                |                 |                 |      |  |  |
| Samoa Housing Corporation (SHC) <sup>1</sup>          | 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