

REVIEW OF MONETARY DEVELOPMENTS

December 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, Non-bank financial institutions and Samoa Bureau of Statistics.

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Monetary Forecast

The actual level of broad money supply (M2) was 9.6 percent higher than its forecast level¹. This deviation was mainly due to higher than expected level of CBS foreign reserves as well as expansions in domestic credit to the private sector and other financial institutions.

Money Supply (M2)

Total broad money (M2) expanded by \$13.49 million (or 1.12 percent) to \$1,187.74 million for the eleventh consecutive month. This was fuelled mainly by a considerable increase of \$28.85 million in net foreign assets (NFA), offsetting a decline of \$15.37 million in net domestic assets (NDA). The hike in NFA reflected inflows of government funds for budget support while the drop in NDA was due to an increase in the net, government position, despite a further expansion in credit to the private sector.

However, the annual average growth rate of M2 fell to 11.9 percent from 12.5 percent a month ago, but higher than 10.1 percent in the last month of 2017.

Credit²

Total financial system (FS) credit went up by \$13.07 million (or 0.7 percent) to \$1,830.21 million due to gains in commercial banks' lending (up \$9.19 million) and non-bank

financial institutions (NFIs) lending (up \$3.88 million).

The bulk of FS credit was lent to the private sector (at 97.0 percent), which were mainly to industries such as "Other activities", "Professional and business services" and "Agriculture".

Consequently, the annual average growth of FS credit increased to 5.0 percent, from 4.8 percent a month ago but lower than 9.4 percent in December of last year.

The latest update for national accounts registered an annual total of Nominal Gross Product (NGDP) of \$2,231.77 million at end September 2018. At this level, the shares of FS credit and M2 to NGDP increased to 77.9 percent and 51.3 percent respectively in September 2018, from 76.0 percent and 50.8 percent in that order in June 2018.

Reserve Money³

Given the higher consumer demand during the festive season, total reserve money (RM) rose by \$18.90 million (seasonal high) to \$370.69 million in December 2018. Underpinning this overall increase was a large expansion in currency in circulation of \$28.0 million despite a reduction of \$9.12 million in commercial banks reserves, which was led by a reduction in commercial banks excess reserves (ESA) while their required reserves picked up slightly.

¹ Original Forecasts made in July 2018.

² Comprises of commercial banks and three largest non-monetary financial institutions' (NFIs) total lending.
NFIs – Sāmoa National Provident Fund (SNPF), Development Bank of Sāmoa (DBS) and Sāmoa Housing Corporation (SHC)

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

Over the last three and five years, the current RM level was 40.0 percent and 51.1 percent higher respectively.

Commercial Banks' Liquidity

Following an increase in the previous month, total bank liquidity contracted by \$9.71 million (or 4.0 percent) to \$232.25 million. This seasonal trend reflected both decreases of \$10.92 million and \$9.99 million in commercial banks' exchange settlement accounts and their holdings of CBS securities respectively. In contrast, their vault cash balances improved by \$11.20 million during the month.

The current level of bank liquidity was 49.5 percent and 60.1 percent higher than its levels in the last three and five years.

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

Total CBS securities issued has dropped to \$15.00 million from \$28.00 million in November 2018, at mainly short-term papers like the 14-day, 28 day and 56-day maturities. Similarly, the outstanding amount of securities at the end of the month dropped to \$19.00 million from \$29.00 million. Total amount issued (the 14-day, 28 day and 56-day maturities) were purchased at yields of 0.13 percent, 0.16 percent and 0.18 percent in that order. As a result, the overall weighted average yield (or official rate) dropped to 0.15 percent from 0.17 percent a month ago but similar to that of December last year.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) and weighted average lending (WAL) remained stable at 2.72 percent and 9.03 percent in that order from the previous month but were higher than their respective rates of 2.55 percent and 8.88 percent in December last year.

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).

Over the last three and five years respectively, the current WAD rate was higher than 2.48 percent but lower than 3.12 percent for those respective periods. However, the WAL rate was way below 9.42 percent and 10.21 percent in the corresponding period.

NFIs⁵ lending rates

The overall WAL rate for non-bank financial institutions (NFIs) edged up 3 basis points to 8.01 percent when compared to a month ago. Responsible for this increase were hikes in lending rates of DBS and SHC by 4 basis points each to 5.39 percent and 12.57 percent respectively. SNPF's WAL rate also rose by 2 basis point to 8.33 percent from last month.

**Central Bank of Samoa
29 January 2019**

⁵Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF), Development Bank of Sāmoa (DBS) and Sāmoa Housing Corporation (SHC). Effective October 2018, SHC started reporting to CBS on monthly basis, as was previously reported on quarterly basis.

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Monetary Aggregates

End of Period Figures	Average level in the previous		2017	2018	
	3-years	5-years	Dec	Nov	Dec
Determinants of Money Supply (M 2) ⁷			Amount in Tala Million		
Net Foreign Assets	210.54	197.43	293.25	392.91	421.77
Net Domestic Assets	758.94	697.46	798.83	781.34	765.97
Money Supply (M 2)	969.48	894.89	1092.09	1174.250	1187.740
<i>Trend</i> / Annual Average (%)	22.5	32.7	10.1	2.5	11.9
Narrow Money (M 1)	430.97	385.41	496.38	519.98	525.77
Currency outside banks	74.18	68.77	87.29	86.36	103.18
Transferable Deposits ⁴	356.80	316.63	409.09	432.62	422.59
Quasi Money	538.51	509.48	595.71	655.27	661.97
Other Deposits ⁵	538.51	509.48	595.71	655.27	661.97
Central Bank of Samoa			Maturity Yield		
Open Markets Operations					
Securities Official Rate	0.15	0.26	0.17	0.17	0.15
Reserve Money ²			Amount in Tala Million		
Total	264.73	245.39	303.16	351.79	370.69
<i>Trend</i> / Annual Growth (%)	40.0	51.1	14.0	23.1	22.4
Financial System (FS)			Amounts in Tala Million		
FS Credit					
Commercial Banks ⁷	998.31	922.05	1077.33	1115.67	1124.86
<i>Trend</i> / Annual Growth (%)	2.7	22.0	8.1	3.2	3.1
Non-Monetary Financial Institutions (NFIs)	563.86	519.02	611.15	701.47	705.35
<i>Trend</i> / Annual Growth (%)	24.8	35.6	11.7	7.6	8.4
Private Sector	1511.50	1389.01	1628.64	1711.52	1773.14
Businesses	891.21	802.60	955.01	985.27	984.06
Individuals	620.29	586.41	673.63	727.22	779.95
Public Sector (NFIs, NPEs, & Govt)	50.67	52.19	59.83	54.65	55.15
Total FS Credit ⁸	1562.17	1441.20	1688.47	1817.14	1830.21
<i>Trend</i> / Annual Growth (%)	17.0	26.9	9.4	4.8	5.0
Commercial Banks ³			Amounts in Tala Million		
Liquidity					
Total	155.34	145.04	177.75	241.96	232.25
<i>Trend</i> / Annual Growth (%)	49.1	60.1	17.0	41.1	39.0
Interest Rates			Percentage		
Overall Weighted Average Lending ⁷	9.42	10.21	8.88	9.03	9.03
Australia New Zealand Bank (Sāmoa) Limited	8.92	9.80	9.50	9.80	9.79
Bank South Pacific (Sāmoa) Limited	9.67	10.23	7.75	7.88	7.86
National Bank of Sāmoa Limited	9.51	10.67	7.94	8.19	8.15
Samoa Commercial Bank Limited	10.19	10.88	10.49	10.60	10.68
Overall Weighted Average Deposit	2.48	3.12	2.55	2.72	2.72
Australia New Zealand Bank (Sāmoa) Limited	2.00	2.84	1.44	1.38	1.43
Bank South Pacific (Sāmoa) Limited	2.31	2.90	2.48	2.76	2.87
National Bank of Sāmoa Limited	3.16	3.42	2.36	3.86	3.64
Samoa Commercial Bank Limited	2.97	3.72	3.50	3.41	3.41
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Sāmoa) Limited	37.38	41.37	31.7	28.6	28.0
Bank South Pacific (Sāmoa) Limited	24.22	22.27	26.7	29.9	29.7
National Bank of Sāmoa Limited	19.21	17.38	21.9	21.8	22.7
Samoa Commercial Bank Limited	19.15	18.96	19.6	19.6	19.6
Deposit					
Australia New Zealand Bank (Sāmoa) Limited	35.33	38.79	29.9	29.3	28.7
Bank South Pacific (Sāmoa) Limited	25.23	22.67	29.6	29.7	29.8
National Bank of Sāmoa Limited	19.20	18.51	21.4	21.0	21.3
Samoa Commercial Bank Limited	20.27	20.06	19.1	20.0	20.1
Non-monetary Financial Institutions (NFIs)			Percentage		
Weighted Average Lending (WAL)					
Sāmoa National Provident Fund (SNPF) ⁶	7.61	10.34	7.91	8.31	8.33
Development Bank of Samoa (DBS)	5.23	4.37	5.16	5.35	5.39
Samoa Housing Corporation (SHC) ¹	11.57	10.03	11.88	12.53	12.57
NFIs' Overall WAL ^{6,8}	6.84	8.59	7.21	7.98	8.01

Source: Central Bank of Samoa

- (1) Samoa Housing Corporation reports on a quarterly basis up to September 2018 quarter.
- (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) Reflects the reclassification of loans to their appropriate interest rate structure in November 2018.
- (7) Changes back to June 2016 under Financial System Credit section due to revised figures from the commercial banks
- (8) Effective October 2018, Sāmoa Housing Corporation started reporting to Central Bank on a monthly basis as was previously reported on a quarterly basis.