

REVIEW OF MONETARY DEVELOPMENTS JANUARY 2019

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 11.1 percent higher than its forecast level¹. This deviation was mainly due to higher than expected level of CBS foreign reserves as well as the higher level of government spending during the month.

Money Supply (M2)

For the first month of 2019, total money supply (M2) rose for the twelfth month in a row, up by \$19.12 million (or 1.6 percent) to \$1,206.85 million. The expansion was mainly driven by a significant increase in net foreign assets (NFA) of \$23.72 million reflecting an increase in net foreign holdings of the Central Bank despite a decline in commercial banks net foreign assets. On the other hand, net domestic assets (NDA) declined by \$4.60 million because of a drop in total credit to the private sector and public institutions, more than offsetting a decline in the net government position during the month.

Consequently, the annual average growth of M2 increased to 12.2 percent from 11.89 percent a month ago and 10.32 percent in the same month last year.

Credit²

Following an expansion in the previous month, the total financial system (FS) credit dropped by \$13.86 million (or 0.8 percent) to \$1,816.34 million, due mainly to decreases of \$12.70 million and \$1.16 million in both commercial banks' and non-bank financial institutions' lending respectively.

Despite the overall decline, lending to the private sector accounted for 97.1 percent of FS credit; increasing up slightly from 97.0 percent in the previous month while those directed to non-bank financial institutions dropped to 2.9 percent of total lending.

Accounting for the decline in overall FS Credit were reductions in lending to the 'other activities', 'manufacturing' and 'professional and business services' industries.

However, the annual average growth of FS credit increased to 5.4 percent, from 5.0 percent a month ago but lower than 8.5 percent in January of last year.

The latest update for national accounts registered an annual total of Nominal Gross Product (NGDP) of

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)

\$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 at end June 2018.

Reserve Money³

Total reserve money (RM) expanded further by \$27.00 million to \$397.69 million in January 2019. This is due to a large increase of \$54.22 million in commercial banks reserves, offsetting a drop of \$27.22 million in currency in circulation. The hike in banks' reserves reflected a \$54.49 million jump in excess reserves despite a marginal decline of \$0.27 million in required reserves. At this level, total RM was also \$94.81 million higher than its level in the same month last year.

Similarly, the current level was 48.0 percent and 58.1 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity rebounded substantially by \$49.16 million (or 21.2 percent) to \$281.41 million in January 2019, following its seasonal decline in the previous month. This was mainly due to a considerable increase in exchange settlement accounts of \$54.49 million and a \$7.00 million pick-up in banks' holdings of CBS securities. These were partially offset by a drop of \$12.32 million in their holdings of vault cash. In addition, it was much higher by \$76.06 million than its level in January 2018.

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

As a result, the current level of bank liquidity was 62.2 percent and 71.2 percent higher than its respective levels in the past three and five years in that order.

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

Total CBS securities issued rebounded to \$28.00 million from its low of \$15.00 million in the previous month, with around \$19.00 million issued at short-term maturities of 14-day and 28-day papers while \$9.00 million was issued at slightly longer term of 56-day and 91-day papers. These were sold at yields of 0.13 percent, 0.16 percent, 0.18 percent and 0.38 percent in that corresponding order. As a result, the total amount of CBS securities outstanding increased to \$26.00 million in January 2019 from \$19.00 million in the previous month.

The official interest rate (or overall weighted average yield on CBS securities) edged up to 0.17 percent from 0.15 percent a month ago but similar to that of last year.

Commercial Banks' Interest Rates

Similarly, the commercial banks' weighted average deposit (WAD) rate increased by 5 basis points to 2.77 percent but lower than 2.91 percent in the same month last year. In contrast, the weighted average lending (WAL) rate dropped 2 basis points to 9.01 percent over the previous month or 11 basis points higher than in January 2018. As a

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).

result, the overall weighted average spread narrowed to 6.24 percent from 6.31 percent last month but higher than 5.99 percent margin in the same period last year.

When compared to the last three and five years, the current WAD rate was higher than 2.43 percent but lower than 3.03 percent for those respective periods. However, the WAL rate was way below 9.38 percent and 10.22 percent in those corresponding periods.

NFIs⁵ lending rates

The overall WAL rate for non-bank financial institutions (NFIs) edged up 1.0 basis point to 8.02 percent when compared to a month ago. This was due to a slight increase in WAL rate for SNPF by 1 basis point to 8.34 percent. On the other hand, the Development Bank of Samoa (DBS) lending rate dropped by 2 basis points to 5.37 percent while that for Samoa Housing Corporation (SHC) remained at 12.57 percent.

Central Bank of Samoa 11 March 2019

⁵ Non-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.

Review of Monetary Developments January 2019

Monetary Aggregates

End of Period Figures	Average level in the previous		2017	2018		2019
	3-years	5-years	Dec	Nov	Dec	Jan
Determinants of Money Supply (M2) ⁷	Amount in Tala Million					
Net Foreign Assets	216.43	199.77	293.25	392.91	421.77	445.49
Net Domestic Assets	745.83	689.06	798.83	781.34	765.97	761.37
Money Supply (M2)	962.26	888.83	1092.09	1174.250	1187.740	1206.855
<i>Trend / Annual Average (%)</i>	22.5	32.7	10.1	12.5	11.9	14.6
<i>Narrow Money (M1)</i>	418.59	377.30	496.38	518.98	525.77	542.92
Currency outside banks	63.80	59.15	87.29	86.36	103.18	88.28
Transferable Deposits ⁴	354.79	318.15	409.09	432.62	422.59	454.64
Quasi Money	543.67	511.53	595.71	655.27	661.97	663.93
Other Deposits ⁵	543.67	511.53	595.71	655.27	661.97	663.93
Central Bank of Samoa	Maturity Yield					
Open Markets Operations	Amount in Tala Million					
Securities Official Rate	0.19	0.23	0.17	0.17	0.15	0.17
Reserve Money ²	Amount in Tala Million					
Total	268.71	251.56	303.16	351.79	370.69	397.69
<i>Trend / Annual Growth (%)</i>	48.0	58.1	14.0	23.1	22.4	22.7
Financial System (FS)	Amounts in Tala Million					
FS Credit	Amounts in Tala Million					
Commercial Banks ⁷	994.88	920.94	1077.33	1115.67	1124.86	1112.16
<i>Trend / Annual Growth (%)</i>	11.8	20.7	8.1	3.2	3.1	3.1
Non-Monetary Financial Institutions (NFIs)	564.24	519.39	611.15	701.47	705.35	704.19
<i>Trend / Annual Growth (%)</i>	24.8	35.6	11.7	7.6	8.4	8.4
Private Sector	1509.38	1389.49	1628.64	1711.52	1773.14	1762.83
Businesses	888.26	800.56	955.01	985.27	984.06	983.31
Individuals	621.12	588.93	673.63	777.22	779.95	779.53
Public Sector (NFIs, NPEs, & Govt)	49.73	51.00	59.83	54.65	55.15	53.51
Total FS Credit ⁸	1559.11	1440.48	1688.47	1817.14	1830.21	1816.34
<i>Trend / Annual Growth (%)</i>	16.5	26.1	9.4	4.8	5.0	5.4
Commercial Banks ³	Amounts in Tala Million					
Liquidity	Amounts in Tala Million					
Total	173.54	164.35	177.75	241.96	232.25	281.41
<i>Trend / Annual Growth (%)</i>	62.2	71.2	17.0	41.1	39.0	37.6
Interest Rates	Percentage					
Overall Weighted Average Lending ⁷	9.38	10.22	8.88	9.03	9.03	9.01
Australia New Zealand Bank (Sāmoa) Limited	8.86	9.83	9.50	9.80	9.79	9.77
Bank South Pacific (Sāmoa) Limited	9.67	10.23	7.75	7.88	7.86	7.84
National Bank of Sāmoa Limited	9.47	10.57	7.94	8.19	8.15	8.19
Samoa Commercial Bank Limited	10.18	10.92	10.49	10.60	10.68	10.66
Overall Weighted Average Deposit	2.45	3.03	2.55	2.72	2.72	2.77
Australia New Zealand Bank (Sāmoa) Limited	1.96	2.70	1.44	1.38	1.43	1.42
Bank South Pacific (Sāmoa) Limited	2.20	2.75	2.48	2.76	2.87	2.98
National Bank of Sāmoa Limited	3.27	3.34	2.36	3.86	3.64	3.88
Samoa Commercial Bank Limited	2.97	3.81	3.50	3.41	3.41	3.25
Market Shares	Percentage					
Lending ⁷	Percentage					
Australia New Zealand Bank (Sāmoa) Limited	37.15	41.34	31.7	28.6	28.0	28.01
Bank South Pacific (Sāmoa) Limited	24.42	22.37	26.7	29.9	29.7	30.11
National Bank of Sāmoa Limited	19.28	17.41	21.9	21.8	22.7	22.3
Samoa Commercial Bank Limited	19.15	18.89	19.6	19.6	19.6	19.6
Deposit	Percentage					
Australia New Zealand Bank (Sāmoa) Limited	35.63	38.82	29.9	29.3	28.7	28.41
Bank South Pacific (Sāmoa) Limited	25.17	22.94	29.6	29.7	29.8	31.60
National Bank of Sāmoa Limited	18.87	18.17	21.4	21.0	21.3	19.98
Samoa Commercial Bank Limited	20.37	20.10	19.1	20.0	20.1	20.01
Non-monetary Financial Institutions (NFIs)	Percentage					
Weighted Average Lending (WAL)	Percentage					
Sāmoa National Provident Fund (SNPF) ⁶	7.61	10.35	7.91	8.31	8.33	8.34
Development Bank of Samoa (DBS)	5.36	4.33	5.16	5.35	5.39	5.37
Samoa Housing Corporation (SHC) ¹	11.57	10.03	11.88	12.53	12.57	12.57
NFIs' Overall WAL ^{6,8}	6.89	8.61	7.21	7.98	8.01	8.02

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.