

REVIEW OF MONETARY DEVELOPMENTS

March 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

As an intermediate target for monetary policy, actual money supply (M2) for March 2019 was 5.1 percent higher than its projection¹. Underpinning this deviation were higher than expected levels of net foreign assets and total credit of the banking system. The increase in the former was due to a strong expansion in foreign holdings of the Central Bank in the past four months.

Money Supply (M2)

Total money supply (M2) rose slightly by \$0.95 million (or 0.1 percent) to \$1,245.35 million. This outcome was mainly due to an \$18.73 million increase in net domestic assets (NDA), which reflected a deficit in the net government position with the monetary system and a slight decline in combined credit to the private sector and public institutions. This was partially offset by a \$17.78 million decrease in net foreign assets (NFA) due to a decline in foreign assets of the Central Bank of Sāmoa.

Consequently, the annual average growth rate of M2 grew marginally to 13.1 percent from 12.8 percent of the previous month, and from 11.4 percent of the same month last year.

Credit²

The total financial system (FS) lending rose further by \$3.25 million (or 0.18 percent) to \$1,838.94 million. This increase was mainly

driven by gains of \$3.08 million and \$0.17 million in total credit of both non-bank financial institutions and the banking system respectively.

Moreover, the bulk of the increase in FS credit was mainly lent to the businesses sector, of which were to 'other activities', 'manufacturing', 'trade' and 'professional and business' industries.

As a result, the annual average growth of FS credit expanded to 6.4 percent from 5.9 percent in the previous month, but was lower than 6.9 percent in February last year.

The annual total Nominal Gross Product (NGDP)³ at end December 2018 amounted to \$2,156.41 million according to the latest update for national accounts released by the Sāmoa Bureau of Statistics' (SBS). At this level, the shares of FS credit and M2 to NGDP increased to 84.9 percent and 55.1 percent respectively in December 2018, from 82.1 percent and 54.2 percent in that order at end September 2018.

Reserve Money⁴

Total reserve money (RM) declined by \$1.66 million to \$396.0 million due to a moderate drop of \$2.00 million in commercial banks reserves, of which comprised of excess reserves (down \$2.72 million) offsetting a \$0.72 million rise in required reserves. On the other hand, currency in circulation edged up

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 GDP 2013 Rebase became effective in December 2018.

⁴ 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

further by \$0.34 million in the reviewed month. However, total RM was \$110.11 million higher than its level in the same month last year.

Similarly, the current level was 57.2 percent and 63.2 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total bank liquidity dropped by \$6.28 million (or 2.2 percent) to \$278.06 million. This was mainly due to downward trends in all of its components namely, commercial banks' exchange settlement accounts (ESA) (down \$2.72 million), vault cash holdings (down \$2.56 million) and holdings of CBS securities (down \$1.00 million). Furthermore, total liquidity was well above its level of \$182.89 million in March last year.

Similarly, when compared to the previous three and five years' respectively, the current total liquidity was 80.1 percent and 79.84 percent higher.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)⁵

Total CBS securities issued decreased to \$27.50 million from \$32.00 million in the previous month. Of this total, \$20.50 million were issued at short-term maturities of 14-day and 28-day papers, while the remaining \$7.00 million was issued at slightly longer-term maturities of 56-day and 91-day papers. These were purchased at yields of 0.13 percent, 0.16 percent, 0.18 percent and 0.41 percent in that corresponding order. As a result, the total amount of CBS securities outstanding decreased slightly to \$30.00 million in March 2019 from \$31.00 million in the previous month.

As a result, the official interest rate (or overall weighted average yield of CBS securities) remain unchanged at 0.18 percent from the previous month and March 2018.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rose by 9 basis points to 2.81 percent over the previous month, but was 10 basis points lower than a year ago. Similarly, the weighted average lending (WAL) rate also edged up by 3 basis points to 9.05 percent from the previous month, or 16 basis points higher than its level in March 2018. Consequently, the overall weighted average spread narrowed to 6.24 percent from 6.30 percent in the previous month but higher than 5.98 percent in the same month last year.

In comparison to the last three and five years respectively, the current WAD rate was higher than 2.36 percent but lower than 3.13 percent for those respective periods. On the other hand, the WAL rate was way below the rates of 9.30 percent and 10.21 percent for those corresponding periods.

NFIs⁶ lending rates

The overall WAL rate for non-bank financial institutions (NFIs) edged up 2 basis points to 8.06 percent. Accounting for the current hike were increases in WAL rate for SHC by 9 basis points to 12.64 percent and 1 basis point rise in SNPF's WAL rate to 8.37 percent. The WAL rate for DBS remained at 5.35 percent in March 2019.

14 May 2019
Central Bank of Samoa

⁵Central 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).

⁶ Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF), Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC). Effective October 2018, SHC started reporting to CBS on monthly basis, as was previously reported on quarterly basis.

Monetary Aggregates

End of Period Figures	Average level in the previous		2018		2019
	3-years	5-years	Mar	Feb	Mar
Determinants of Money Supply (M2) ⁷			Amount in Tala Million		
Net Foreign Assets	199.30	201.39	313.95	459.09	441.31
Net Domestic Assets	760.84	704.92	746.53	785.30	804.04
Money Supply (M2)	960.14	906.32	1060.48	1244.400	1245.350
<i>Trend / Annual Average (%)</i>	7.97	8.05	11.4	12.8	13.1
<i>Narrow Money (M1)</i>	407.13	384.13	439.60	579.70	576.95
Currency outside banks	64.72	58.41	73.57	88.99	91.89
Transferable Deposits ⁴	342.41	325.73	366.03	490.71	485.07
<i>Quasi Money</i>	553.01	522.18	620.88	664.70	668.40
Other Deposits ⁵	553.01	522.18	620.88	664.70	668.40
Central Bank of Samoa			Maturity Yield		
Open Markets Operations					
Securities Official Rate	0.17	0.16	0.18	0.18	0.18
Reserve Money²			Amount in Tala Million		
Total	251.88	242.67	285.89	397.65	396.00
<i>Trend / Annual Growth (%)</i>	9.3	10.9	26.0	23.0	24.0
Financial System (FS)			Amounts in Tala Million		
FS Credit					
Commercial Banks ⁷	1019.38	939.85	1065.50	1131.73	1131.90
<i>Trend / Annual Growth (%)</i>	9.13	6.57	5.2	3.7	4.1
Non-Monetary Financial Institutions (NFIs)	571.72	528.63	618.02	703.97	707.05
<i>Trend / Annual Growth (%)</i>	9.13	10.19	9.9	9.8	10.5
Private Sector	1542.52	1418.13	1627.09	1782.17	1785.09
Businesses	908.23	816.93	952.78	1000.50	1003.01
Individuals	634.29	601.21	674.31	781.67	782.08
Public Sector (NFIs, NPEs, & Govt)	48.59	50.52	56.42	53.53	53.86
Total FS Credit ⁸	1591.11	1468.66	1683.51	1835.70	1838.94
<i>Trend / Annual Growth (%)</i>	9.1	7.8	6.9	5.9	6.4
Commercial Banks³			Amounts in Tala Million		
Liquidity					
Total	154.30	154.61	182.89	284.35	278.06
<i>Trend / Annual Growth (%)</i>	11.01	16.37	44.4	35.8	36.2
Interest Rates			Percentage		
Overall Weighted Average Lending ⁷	8.96	9.34	8.89	9.02	9.05
Australia New Zealand Bank (Sāmoa) Limited	9.06	9.30	9.40	9.74	9.73
Bank South Pacific (Sāmoa) Limited	8.10	8.81	7.78	7.88	7.91
National Bank of Sāmoa Limited	8.56	9.20	8.02	8.21	8.28
Samoa Commercial Bank Limited	10.49	10.43	10.55	10.67	10.68
Overall Weighted Average Deposit	2.60	2.71	2.91	2.72	2.81
Australia New Zealand Bank (Sāmoa) Limited	1.70	2.05	1.57	1.37	1.45
Bank South Pacific (Sāmoa) Limited	2.64	2.55	3.23	2.85	2.97
National Bank of Sāmoa Limited	3.43	3.42	3.76	4.05	3.97
Samoa Commercial Bank Limited	3.22	3.38	3.56	3.24	3.18
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Sāmoa) Limited	36.74	40.99	31.1	27.60	27.50

Review of Monetary Developments
March 2019

Bank South Pacific (Sāmoa) Limited	25.10	22.76	27.4	29.70	30.10
National Bank of Sāmoa Limited	18.95	17.34	21.5	23.1	22.8
Samoa Commercial Bank Limited	19.25	18.93	20.1	19.6	19.6
Deposit					
Australia New Zealand Bank (Sāmoa) Limited	34.45	39.11	29.7	29.50	28.22
Bank South Pacific (Sāmoa) Limited	26.55	23.37	30.2	31.80	32.19
National Bank of Sāmoa Limited	18.90	17.79	20.7	19.70	21.92
Samoa Commercial Bank Limited	20.1	19.7	19.4	19.00	19.58
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)				Percentage	
Sāmoa National Provident Fund (SNPF) ⁶	8.35	8.09	7.88	8.36	8.37
Development Bank of Samoa (DBS)	5.71	5.31	5.23	5.35	5.35
Samoa Housing Corporation (SHC) ¹				12.55	12.64
NFIs' Overall WAL ^{6 8}	7.61	7.28	7.22	8.04	8.06

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
(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 monthly basis as was previously