

## REVIEW OF MONETARY DEVELOPMENTS

April 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.*

Report No.10: 2018/19

April 2019

### Monetary Forecast

The actual level of money supply (M2) in April 2019 was 7.1 percent above its projected level for the month. This deviation highlighted a strong gain in foreign holdings of the banking system and an increase in total lending to the private sector.

### Money Supply (M2)

Total money supply (M2) recorded an expansion of \$12.49 million (or 1.0 percent) to \$1,257.84 million. This outcome was mainly driven by increases of \$9.34 million in net foreign assets (NFA) and \$3.15 million in net domestic assets (NDA). The former reflected an increase in foreign holdings of the commercial banks and to a lesser extent the Central Bank foreign assets. The latter was underpinned by an expansion in credit to both the private sector and non-banks, which outweighed a surplus in the government's net position with the monetary system.

Consequently, the annual average growth rate of M2 grew slightly to 13.5 percent from 13.1 percent in the previous month and 11.8 percent in the same month last year.

### Credit<sup>1</sup>

Total financial system (FS) lending continued to trend upwards, growing by \$11.36 million (or 0.6 percent) to \$1,850.304 million. This hike was fuelled by gains of \$7.75 million in total non-banks financial institutions lending and

\$3.61 million in commercial banks' lending. By sector, the bulk of FS credit was directed to the private sector with a share of 97.0 percent while the rest went to the public non-banks financial institutions. The expansion in total FS credit was mainly lent to industries such as 'Other activities', 'manufacturing', 'trade' and 'professional and business services' industries.

As a result, the annual average growth of FS credit rose to 7.0 percent from 6.4 percent in the previous month, and 6.3 percent in April last year.

The annual total Nominal Gross Product (NGDP)<sup>2</sup> 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 Money<sup>3</sup>

Total reserve money (RM) rebounded by \$6.28 million to \$402.28 million. This was due to a gain of \$5.58 million in currency in circulation, coupled with a slight increase of \$0.70 million in commercial banks reserves. This level of RM was \$109.81 million higher than its level in the same month last year.

<sup>1</sup> 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)

<sup>2</sup> GDP 2013 Rebase became effective in December 2018.

<sup>3</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

Similarly, the current level was 61.4 percent and 64.4 percent higher than its levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

Total bank liquidity continued to trend downwards with a further drop of \$3.70 million (or 1.3 percent) to \$274.36 million. This movement stemmed mainly from a \$9.50 million decrease in commercial banks holdings of CBS securities, against increases of \$5.01 million in their vault cash holdings, and \$0.08 million in their exchange settlement accounts (ESA). Furthermore, total liquidity was well above its level of \$198.88 million over the year.

Similarly, when compared to the previous three and five years' respectively, the current total liquidity was 79.4 percent and 75.1 percent higher.

### **Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)<sup>4</sup>**

Total CBS securities issued has decreased to \$13.50 million from \$27.50 million in the previous month. Of this total, \$8.00 million were issued at short-term maturities of 14-day and 28-day papers, while the remaining \$5.50 million was issued at 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. Consequently, the total amount of CBS securities outstanding decreased to \$23.50 from \$30.00 million in the previous month.

As a result, the official interest rate (or overall weighted average yield of CBS securities) increased slightly to 0.19 percent from 0.18 percent of the previous month, and 0.15 percent in April 2018.

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

The commercial banks' weighted average deposit (WAD) declined by 6 basis points to 2.75 percent over the previous month, and was 9 basis points lower than a year ago. Similarly, the weighted average lending (WAL) rate dropped by 3 basis points to 9.02 percent from the previous month, but was 17 basis points higher than its level in the same month last year. As a result, the overall weighted average spread widened to 6.27 percent from 6.25 percent in the previous month, and 6.02 percent in April 2018.

In comparison to the last three and five years respectively, the current WAD rate was higher than 2.62 percent and 2.71 percent for those respective periods. On the other hand, the current WAL rate was higher than 8.97 percent in the past three years, but was lower than 9.34 percent in the past five years.

### **NFIs<sup>5</sup> lending rates**

The overall WAL rate for non-bank financial institutions (NFIs) edged up 2 basis points to 8.08 percent from the previous month. Accounting for the current hike were increases in the WAL rates for SHC and DBS, up by 22 and 2 basis points respectively to 12.86 percent and 5.37 percent in that order. Meanwhile, SNPF WAL rate slipped by 2 basis points to 8.35 percent in April 2019.

**CENTRAL BANK OF SAMOA**  
**31<sup>st</sup> May 2019**

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<sup>4</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>5</sup> 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	Apr	Mar	Apr
<b>Determinants of Money Supply (M2) <sup>7</sup></b>			<b>Amount in Tala Million</b>		
Net Foreign Assets	202.94	207.81	323.69	441.31	450.65
Net Domestic Assets	773.16	706.63	748.59	804.04	807.19
<b>Money Supply (M2)</b>	<b>976.10</b>	<b>914.44</b>	<b>1072.27</b>	<b>1245.350</b>	<b>1257.840</b>
<i>Trend / Annual Average (%)</i>	8.25	8.19	11.8	13.1	13.5
<i>Narrow Money (M1)</i>	408.28	384.40	440.67	576.95	576.24
Currency outside banks	63.56	58.94	65.17	91.89	92.45
Transferable Deposits <sup>4</sup>	344.72	325.45	375.51	485.07	483.79
<i>Quasi Money</i>	567.82	530.05	631.60	668.40	681.60
Other Deposits <sup>5</sup>	567.82	530.05	631.60	668.40	681.60
<b>Central Bank of Samoa</b>			<b>Maturity Yield</b>		
<b>Open Markets Operations</b>					
Securites Official Rate	0.15	0.16	0.15	0.18	0.19
<b>Reserve Money<sup>2</sup></b>			<b>Amount in Tala Million</b>		
<b>Total</b>	<b>249.31</b>	<b>244.77</b>	<b>292.47</b>	<b>396.00</b>	<b>402.28</b>
<i>Trend / Annual Growth (%)</i>	9.18	11.34	28.4	24.0	24.9
<b>Financial System (FS)</b>			<b>Amounts in Tala Million</b>		
<b>FS Credit</b>					
<b>Commercial Banks <sup>7</sup></b>	<b>1029.24</b>	<b>943.59</b>	<b>1067.98</b>	<b>1131.90</b>	<b>1135.51</b>
<i>Trend / Annual Growth (%)</i>	8.83	6.62	4.5	4.1	4.5
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>575.81</b>	<b>531.37</b>	<b>618.50</b>	<b>707.05</b>	<b>714.79</b>
<i>Trend / Annual Growth (%)</i>	9.13	10.11	9.4	10.5	11.3
<b>Private Sector</b>	<b>1557.20</b>	<b>1424.86</b>	<b>1630.73</b>	<b>1785.09</b>	<b>1795.09</b>
Businesses	915.73	819.79	956.38	1003.01	1007.64
Individuals	641.47	605.07	674.35	782.08	787.45
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>47.85</b>	<b>50.29</b>	<b>55.75</b>	<b>53.86</b>	<b>55.22</b>
<b>Total FS Credit <sup>8</sup></b>	<b>1605.05</b>	<b>1475.16</b>	<b>1686.48</b>	<b>1838.94</b>	<b>1850.31</b>
<i>Trend / Annual Growth (%)</i>	8.96	7.79	6.3	6.4	7.0
<b>Commercial Banks<sup>3</sup></b>			<b>Amounts in Tala Million</b>		
<b>Liquidity</b>					
<b>Total</b>	<b>152.93</b>	<b>156.72</b>	<b>198.88</b>	<b>278.06</b>	<b>273.36</b>
<i>Trend / Annual Growth (%)</i>	11.12	17.34	50.7	36.2	35.0
<b>Interest Rates</b>			<b>Percentage</b>		
<b>Overall Weighted Average Lending <sup>7</sup></b>	<b>8.97</b>	<b>9.34</b>	<b>8.85</b>	<b>9.05</b>	<b>9.02</b>
Australia New Zealand Bank (Sāmoa) Limited	9.08	9.30	9.38	9.73	9.68
Bank South Pacific (Sāmoa) Limited	8.11	8.82	7.77	7.91	7.92
National Bank of Sāmoa Limited	8.48	9.16	8.00	8.28	8.23
Samoa Commercial Bank Limited	10.49	10.44	10.43	10.68	10.69
<b>Overall Weighted Average Deposit</b>	<b>2.62</b>	<b>2.71</b>	<b>2.84</b>	<b>2.81</b>	<b>2.75</b>
Australia New Zealand Bank (Sāmoa) Limited	1.68	2.02	1.59	1.45	1.42
Bank South Pacific (Sāmoa) Limited	2.76	2.57	3.10	2.97	2.83
National Bank of Sāmoa Limited	3.44	3.42	3.60	3.97	4.07
Samoa Commercial Bank Limited	3.23	3.37	3.54	3.18	3.14
<b>Market Shares</b>					
<b>Lending <sup>7</sup></b>					
Australia New Zealand Bank (Sāmoa) Limited	36.47	40.70	31.0	27.60	27.50
Bank South Pacific (Sāmoa) Limited	24.94	22.92	27.2	29.70	30.10
National Bank of Sāmoa Limited	19.22	17.41	21.8	23.10	22.80

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Samoa Commercial Bank Limited	19.41	18.99	20.1	19.60	19.60
<b>Deposit</b>					
Australia New Zealand Bank (Sāmoa) Limited	34.71	38.59	30.2	28.22	29.29
Bank South Pacific (Sāmoa) Limited	26.33	23.33	28.7	32.20	32.05
National Bank of Sāmoa Limited	18.97	17.99	21.6	21.92	21.51
Samoa Commercial Bank Limited	19.96	20.08	19.5	19.58	20.15
<b>Non-monetary Financial Institutions (NFIs)</b>					
<b>Weighted Average Lending (WAL)</b>				<b>Percentage</b>	
Sāmoa National Provident Fund (SNPF) <sup>6</sup>	8.20	8.01	7.85	8.37	8.35
Development Bank of Samoa (DBS)	5.70	5.29	5.18	5.35	5.37
Samoa Housing Corporation (SHC) <sup>1</sup>			-	12.64	12.86
<b>NFIs' Overall WAL<sup>6 8</sup></b>	<b>7.51</b>	<b>7.22</b>	<b>7.18</b>	<b>8.06</b>	<b>8.08</b>

**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 reported on quarterly basis.