

REVIEW OF MONETARY DEVELOPMENTS

May 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 money supply (M2) in May 2019 was 6.2 percent above its projected level for the month. This deviation reflected stronger than expected gains in foreign holdings of the Central Bank and commercial banks in the past few months over their projections.

Money Supply (M2)

Total money supply (M2) fell by \$5.51 million (or 0.4 percent) to \$1,252.33 million, as a result of a \$4.66 million decline in net foreign assets (NFA) and a slight drop of \$0.86 million in net domestic assets (NDA). The reduction in the former was underpinned by a decrease in foreign holdings of the commercial banks despite an increase in foreign assets of the Central Bank, while the latter was underscored by a contraction in credit to the private sector coupled with a decline in other items net.

The annual average growth rate of M2 edged up to 13.8 percent from 13.5 percent in the previous month and 12.1 percent in the same month last year.

Credit¹

Total financial system (FS) lending grew further by \$10.26 million (or 0.6 percent) to \$1,860.57 million. This hike was fuelled by an increase of \$12.90 million in total non-banks financial institutions (NFIs) lending despite a slight drop of \$2.63 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 the 'Building and Infrastructure', 'Professional and business services', 'trade' and 'other activities' industries.

As a result, the annual average growth of FS credit rose to 7.5 percent from 7.0 percent in the previous month, and 5.8 percent in May last year.

The annual total Nominal Gross Product (NGDP)² 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 the December 2018 quarter, from 82.1 percent and 54.2 percent at end September 2018.

Reserve Money³

Total reserve money (RM) continued to rise by \$5.98 million to \$408.26 million, due mainly to gains of \$4.07 million in currency in circulation and \$1.91 million in commercial banks reserves, which comprises of excess reserves (up \$2.10 million) and required reserves (down \$0.25 million).

¹ 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 GDP 2013 Rebase became effective in December 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

At this level, total RM was \$85.28 million higher than its level in the previous year. Similarly, it was 58.59 percent and 61.94 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total bank liquidity rebounded slightly by \$0.68 million (or 0.2 percent) to \$274.03 million. This expansion stemmed mainly from increases of \$2.10 million and \$0.50 million in commercial banks' exchange settlement account (ESA) balances and their holdings of CBS securities respectively. This was partially offset by a decline of \$1.92 million in commercial banks' vault cash.

Furthermore, total liquidity was well above its level of \$218.89 million last year. Likewise, compared to its level in the past three and five years' respectively, the current total liquidity was 78.4 percent and 74.9 percent higher.

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

Total CBS securities issued has increased to \$22.00 million from \$13.50 million in the previous month. Of this total, \$7.00 million and \$6.50 million were issued at short-term maturities of 14-day and 28-day papers respectively, while the remaining \$6.50 million and \$2.00 million were issued at longer-term maturities of 56-day and 91-day papers in that order. However, the total amount of CBS securities outstanding decreased to \$20.00 million from \$23.50 million in the previous month.

As a result, the official interest rate (or overall weighted average yield of CBS securities) decreased to 0.18 percent from 0.19 percent in the previous month but higher than 0.15 percent in May 2018.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) dropped 23 basis points to 2.52 percent over the previous month, or 22 basis points lower than its level a year ago. Similarly, the weighted average lending (WAL) rate went down by 5 basis points to 8.97 percent over the previous month, but was 8 basis points higher than its level in the same month last year. As a result, the overall weighted average interest rate spread rose to 6.45 percent from 6.27 percent in the previous month and 6.15 percent in May 2018.

In comparison to the last three and five years respectively, the current WAD rate was lower than 2.61 percent and 2.68 percent for those respective periods. On the other hand, the current WAL rate was higher than 8.91 percent in the past three years, but was lower than 9.32 percent in the past five years.

NFIs⁵ lending rates

The overall WAL rate for non-bank financial institutions (NFIs) decreased by 8 basis points to 8.00 percent from 8.08 percent in the previous month. Accounting for the fall was a significant drop of 68 basis points (or 12.6 percent) in WAL of Development Bank of Samoa to 4.69 percent, while those for Samoa Housing Corporation and Samoa National Provident Fund edged up 16 basis points and 4 basis points to 13.02 percent and 8.39 percent respectively.

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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).

⁵ 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	May	Apr	May
Determinants of Money Supply (M2) ⁷			Amount in Tala Million		
Net Foreign Assets	214.90	214.82	354.28	450.65	445.99
Net Domestic Assets	765.04	711.61	732.84	807.19	806.33
Money Supply (M2)	979.93	914.44	1087.12	1257.840	1252.329
<i>Trend / Annual Average (%)</i>	8.57	8.39	12.1	13.5	13.5
<i>Narrow Money (M1)</i>	416.90	396.87	468.62	576.24	579.39
Currency outside banks	67.63	63.86	75.25	92.45	98.44
Transferable Deposits ⁴	349.28	333.01	393.37	483.79	480.95
<i>Quasi Money</i>	563.03	529.56	618.50	681.60	672.94
Other Deposits ⁵	563.03	529.56	618.50	681.60	681.94
Central Bank of Samoa			Maturity Yield		
Open Markets Operations					
Securites Official Rate	0.15	0.15	0.15	0.19	0.14
Reserve Money²			Amount in Tala Million		
Total	257.44	252.10	322.98	402.28	408.26
<i>Trend / Annual Growth (%)</i>	9.6	11.9	30.3	24.9	24.3
Financial System (FS)			Amounts in Tala Million		
FS Credit					
Commercial Banks ⁷	1036.78	950.21	1075.68	1135.51	1132.87
<i>Trend / Annual Growth (%)</i>	8.5	6.7	3.9	4.5	4.9
Non-Monetary Financial Institutions (NFIs)	575.78	531.89	619.05	714.79	727.69
<i>Trend / Annual Growth (%)</i>	9.1	10.1	9.4	11.3	12.1
Private Sector	1564.30	1431.78	1638.98	1795.09	1804.73
Businesses	925.19	827.78	950.19	1007.64	1010.17
Individuals	639.11	604.00	688.79	787.45	794.56
Public Sector (NFIs, NPEs, & Govt)	48.25	50.51	55.76	55.22	55.84
Total FS Credit ⁸	1612.55	1482.29	1694.74	1850.31	1860.56
<i>Trend / Annual Growth (%)</i>	8.73	7.81	5.8	7.0	7.5
Commercial Banks³			Amounts in Tala Million		
Liquidity					
Total	153.59	156.71	218.89	273.36	274.03
<i>Trend / Annual Growth (%)</i>	11.73	18.32	55.3	35.0	32.0
Interest Rates			Percentage		
Overall Weighted Average Lending ⁷	8.91	9.32	8.89	9.02	8.97
Australia New Zealand Bank (Sāmoa) Limited	9.06	9.32	9.40	9.68	9.60
Bank South Pacific (Sāmoa) Limited	7.71	8.59	7.76	7.92	7.91
National Bank of Sāmoa Limited	8.66	9.29	8.05	8.23	8.19
Samoa Commercial Bank Limited	10.57	10.47	10.56	10.69	10.67
Overall Weighted Average Deposit	2.61	2.68	2.74	2.75	2.75
Australia New Zealand Bank (Sāmoa) Limited	1.60	1.92	1.42	1.42	1.47
Bank South Pacific (Sāmoa) Limited	2.70	2.56	2.77	2.83	2.13
National Bank of Sāmoa Limited	3.55	3.50	3.77	4.07	3.90
Samoa Commercial Bank Limited	3.25	3.37	3.60	3.14	3.09
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Sāmoa) Limited	36.03	40.35	30.7	27.10	27.10
Bank South Pacific (Sāmoa) Limited	25.02	22.98	27.4	30.60	30.70
National Bank of Sāmoa Limited	19.37	17.50	21.9	22.80	22.80

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Samoa Commercial Bank Limited	19.57	19.17	20.0	19.60	19.40
Deposit					
Australia New Zealand Bank (Sāmoa) Limited	34.07	38.71	29.0	29.29	28.37
Bank South Pacific (Sāmoa) Limited	27.40	23.55	31.9	31.95	31.41
National Bank of Sāmoa Limited	18.47	17.70	19.2	21.44	21.69
Samoa Commercial Bank Limited	20.13	20.07	20.0	20.09	20.38
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)				Percentage	
Sāmoa National Provident Fund (SNPF) ⁶	7.75	7.74	7.85	8.35	8.39
Development Bank of Samoa (DBS)	5.65	5.26	5.26	5.37	4.69
Samoa Housing Corporation (SHC) ¹			-	12.86	13.02
NFIs' Overall WAL^{6,8}	7.19	7.02	7.21	8.08	8.00

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.