

REVIEW OF MONETARY DEVELOPMENTS

August 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 July 2019 was 3.9 percent lower than its projected level for the month. This deviation reflected a weaker than expected level of net domestic assets, underpinning stronger inflows of government funds which boost the net, government position (or surplus) with the monetary system.

Money Supply (M2)

Total money supply (M2) continued to decline by \$5.63 million (or 0.5 percent) to \$1,222.69 million, on account of a \$6.03 million fall in net domestic assets (NDA) against a slight increase of \$0.40 million in net foreign assets. The drop in the former underpinned a further surplus of \$20.99 million (or a contraction) in the government's net position with the monetary system, contrary to an increase of \$17.08 million in combined credit to the private sector and non-financial public enterprises respectively. On the other hand, the latest on NFA saw reductions in official reserves of the Central Bank and a decline in foreign investments of the banking system.

The annual average growth rate of M2 has reduced to 12.3 percent from 12.7 percent in the previous month and from 13.3 percent in August 2018.

Credit¹

Total financial system (FS) lending elevated by \$16.52 million (or 0.9 percent) to \$1,882.18 million, after recording a marked rebound of \$14.52 in commercial banks total lending,

supplementing a hike of \$2.00 million in total lending of non-bank financial institutions.

By sector, the bulk of FS credit was directed to the private sector with a share of 97.3 percent while the rest was attributed to the public non-banks financial institutions.

The expansion in total FS credit highlighted the increases in the 'Transportation, storage and communication', 'other activities', 'Building, construction and installation', 'Agriculture, forestry and fisheries' and 'Trade' industries.

As a result, the annual average growth of the FS credit rose to 8.8 percent from 8.5 percent in the previous month, and from 4.7 percent in August of last year.

According to the latest national accounts figures released by the Sāmoa Bureau of Statistics (SBS), the annual total Nominal Gross Domestic Product (NGDP)² at end March 2019 amounted to \$2,184.55 million. At this level, the share of FS credit to NGDP dropped slightly to 84.7 percent from 84.9 percent share in December 2018. As for M2, its share recorded at 57.0 percent increase from 55.1 percent in the previous quarter for those respective periods.

Reserve Money³

Total reserve money (RM) recorded an increase of \$14.99 million to \$442.09 million, as driven mainly by an expansion of \$20.57 million in commercial banks' holdings of excess reserves, offsetting reductions of \$5.24 million and \$0.33

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

million in currency in circulation and required reserves respectively.

At this level, total RM was \$105.82 million higher than its level in the previous year. Similarly, it was 55.5 percent and 63.1 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total bank liquidity widened by \$16.84 million to \$304.71 million, as a result of a marked increase of \$20.57 million in commercial banks' exchange settlement accounts, opposing to a slight drop of \$3.73 million in their vault cash holdings. Furthermore, CBS securities remained the same during the month.

Consequently, total liquidity was \$67.82 million higher than its level last year. Likewise, current total liquidity was 68.9 percent and 70.8 percent higher than its levels in the past three and five years' respectively.

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

Total CBS securities issued has increased to \$28.00 million from \$18.50 million of the previous month. Of this total, \$15.00 million and \$8.50 million were issued at short-term maturities of 14-day and 28-day papers respectively, while the remaining \$2.50 million and \$2.00 million were issued at longer-term maturities of 56-day and 91-day papers in that order. Thus, the total monthly amount of CBS securities outstanding remained at \$20.00 million, same as the previous month.

As a result, the official interest rate (or overall weighted average yield of CBS securities) sustained at 0.16 percent over the previous month but was slightly lower than 0.17 percent at end of June 2018.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate increased by 4 basis points

to 2.87 percent over the previous month, and also higher by 14 basis points over the previous year. On the other hand, the weighted average lending (WAL) rate was 7 basis points lower to 8.88 percent from the previous month, and also below by 14 basis points than that of last year. As a result, the overall weighted average dropped to 6.01 percent from 6.12 percent in the previous month and 6.23 percent in August 2018.

In comparison to the last three and five years respectively, the current WAD rate was higher than 2.61 percent and 2.64 percent for those respective periods. On the other hand, the current WAL rate was lower than 8.90 percent and 9.22 percent in the past three and five years, in that order.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFIs) edged up by 14 basis point to 8.17 percent. Accounting for the increase was an 18 basis points and 4 basis points rise in WAL rates of SNPF and DBS respectively, although SHC WAL remained stable for the month.

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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 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.

⁶ Lending rates of SHC are provisional for the reporting month.

Monetary Aggregates

End of Period Figures	Average level in the previous		2018		2019	
	3-years	5-years	Aug	Jun	Jul	Aug
Determinants of Money Supply (M2) ⁷			Amount in Tala Million			
Net Foreign Assets	279.47	256.58	399.18	473.64	485.64	486.04
Net Domestic Assets	742.72	696.08	741.79	762.67	742.66	736.63
Money Supply (M2)	<u>1022.20</u>	<u>952.65</u>	1140.97	1236.320	1228.299	1222.668
<i>Trend / Annual Average (%)</i>	9.50	9.21	13.3	13.2	12.7	12.3
<i>Narrow Money (M1)</i>	442.02	415.42	491.93	566.19	558.43	551.54
Currency outside banks	71.06	62.81	81.79	97.61	103.71	102.20
Transferable Deposits ⁴	370.96	352.60	410.15	468.58	454.72	449.34
<i>Quasi Money</i>	580.17	537.24	649.03	670.13	669.87	671.13
Other Deposits ⁵	580.17	537.24	649.03	65.68	65.71	58.08
Central Bank of Samoa			Maturity Yield			
Open Markets Operations						
Securities Official Rate	0.15	0.15	0.17	0.19	0.16	0.16
Reserve Money²			Amount in Tala Million			
Total	284.19	271.08	336.00	407.55	427.11	444.09
<i>Trend / Annual Growth (%)</i>	8.6	13.8	30.6	24.5	24.9	26.1
Financial System (FS)			Amounts in Tala Million			
FS Credit						
Commercial Banks ⁷	1026.16	948.81	1082.89	1126.27	1119.27	1133.79
<i>Trend / Annual Growth (%)</i>	7.83	6.90	3.0	5.2	5.4	5.3
Non-Monetary Financial Institutions (NFIs)	590.45	544.50	635.44	725.00	728.00	748.39
<i>Trend / Annual Growth (%)</i>	9.23	9.76	7.7	13.1	14.0	15.0
Private Sector	1575.45	1447.55	1662.38	1797.42	1812.11	1831.58
Businesses	932.36	839.47	961.40	1005.46	1002.24	1014.18
Individuals	643.09	608.08	700.97	791.96	809.87	817.40
Public Sector (NFIs, NPEs, & Govt)	41.17	45.91	55.95	53.76	49.34	50.60
Total FS Credit ⁸	1616.61	1493.46	1718.33	1851.28	1861.45	1882.18
<i>Trend / Annual Growth (%)</i>	8.33	7.85	4.7	8.1	8.5	8.9
Commercial Banks³			Amounts in Tala Million			
Liquidity						
Total	180.40	178.38	236.90	274.02	287.88	304.72
<i>Trend / Annual Growth (%)</i>	10.91	22.65	58.9	30.2	28.1	27.6
Interest Rates			Percentage			
Overall Weighted Average Lending ⁷	8.90	9.22	8.96	8.99	8.95	8.88
Australia New Zealand Bank (Sāmoa) Limited	9.33	9.32	9.77	9.56	9.55	9.42
Bank South Pacific (Sāmoa) Limited	7.61	8.49	7.79	7.97	7.93	7.99
National Bank of Sāmoa Limited	8.28	8.92	7.97	8.26	8.25	8.22
Samoa Commercial Bank Limited	10.53	10.47	10.54	10.65	10.58	10.59
Overall Weighted Average Deposit	2.61	2.64	2.73	2.85	2.83	2.87
Australia New Zealand Bank (Sāmoa) Limited	1.54	1.82	1.43	1.53	1.25	1.32
Bank South Pacific (Sāmoa) Limited	2.81	2.56	2.83	2.82	3.26	3.20
National Bank of Sāmoa Limited	3.54	3.52	3.83	3.96	3.91	3.58
Samoa Commercial Bank Limited	3.18	3.30	3.38	3.06	2.96	3.04
Market Shares						
Lending ⁷						
Australia New Zealand Bank (Sāmoa) Limited	34.28	38.69	29.4	26.70	26.20	25.90
Bank South Pacific (Sāmoa) Limited	26.08	24.04	28.6	31.10	31.50	31.90
National Bank of Sāmoa Limited	19.80	17.98	22.0	22.70	22.80	22.90
Samoa Commercial Bank Limited	19.87	19.29	20.1	19.40	19.40	19.20

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Deposit						
Australia New Zealand Bank (Sāmoa) Limited	33.43	37.53	29.0	26.73	30.48	29.68
Bank South Pacific (Sāmoa) Limited	27.67	24.60	30.8	31.36	27.29	28.30
National Bank of Sāmoa Limited	18.70	17.49	19.6	21.08	20.58	20.52
Samoa Commercial Bank Limited	20.17	20.37	20.5	20.83	21.64	21.49
Non-monetary Financial Institutions (NFIs)						
Weighted Average Lending (WAL)				Percentage		
Sāmoa National Provident Fund (SNPF) ⁶	7.76	7.74	7.91	8.38	8.41	8.59
Development Bank of Samoa (DBS)	5.60	5.70	5.35	4.68	4.69	4.73
Samoa Housing Corporation (SHC) ¹				13.17	13.17	13.17
NFIs' Overall WAL ^{6 8}	7.20	7.17	7.30	8.01	8.03	8.17

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