

REVIEW OF MONETARY DEVELOPMENTS

February 2020

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) was 2.7 percent lower than its revised monthly projection. This deviation was due entirely to lower than expected level of official foreign holdings as well as the huge drop in the banking system credit to the private sector.

Money Supply (M2)

Total money supply (M2) recorded a further decline of \$10.32 million (or 0.8 percent) to \$1,220.68 million, on the account of \$19.48 million decrease in net foreign assets (NFA) offsetting a \$9.16 million expansion in net domestic assets (NDA). The performance of the former, highlighted the drop in foreign holdings of Central Bank and a slight drop in those of the commercial banks while the latter registered multiple government spending as underpinned by a decline in net, government position with the monetary system despite the drop in total lending of the commercial banks.

Consequently, the annual average growth rate of M2 dropped to 7.4 percent from 9.0 percent in the previous month, and from 12.8 percent in the same month last year.

Credit¹

Total financial system's (FS) credit contracted by \$16.09 million (or 0.8 percent) to \$1,949.06 million, following seven months of continuous expansions. Contributing to the downward trend was a reduction in credit of the banking system by \$16.07 million (which was mainly to the business sector) and those of the non-bank

financial institutions which slid by \$0.02 million.

The sectorial analysis saw that the private sector credit sits at 98.3 percent share of the total FS credit where the rest was absorbed by those of the non-bank financial institutions.

The drop in total FS credit highlighted major decreases in lending to the 'electricity, gas and water' and 'other activities' industries.

As a result, the annual average growth rate of the FS credit edged down to 8.6 percent over the month but was above 5.9 percent growth in the same month last year.

The latest update on national accounts released by the Sāmoa Bureau of Statistics (SBS), recorded the annual total Nominal Gross Domestic Product (NGDP)² at \$2,369.26 million end December 2019. At this level, the share of the FS credit to NGDP increased to 82.3 percent from 79.8 percent in the September 2019 quarter. As for M2, its share to NGDP also edged up to 51.5 percent from 50.1 percent in the previous quarter.

Reserve Money³

Total reserve money (RM) recorded a decline of \$8.17 million (or 1.8 percent) to \$450.42 million, highlighted by downturns in 'currency in circulation' (down \$5.56 million) and 'commercial banks' reserves' (down \$2.61 million) respectively.

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 \$52.77 million higher than its level in the previous year, or 48.26 percent and 59.96 percent higher than those levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity contracted by end of the month by \$8.44 million (or 2.6 percent) to \$313.37 million, following reductions of \$4.70 million in banks' vault cash and \$3.74 million in their exchange settlement accounts. In contrast, CBS securities held by banks remained constant at \$20.00 million from the previous month.

As a result, total commercial banks' liquidity was \$29.02 million higher than its level last year and was also higher by 53.76 percent and 64.99 percent in the past three and five years respectively.

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

The overall official interest rate on CBS securities increased to 0.20 percent in February 2020 from 0.15 percent in the previous month and 0.18 percent last year.

This was supported by an increase in the level of securities issued to \$22.00 million, which were directed to 14-days (\$9.00 million), 28-days (\$5.00 million), 56-days (\$4.00 million) and 91-days (\$4.00 million). However, the total amount of CBS securities' outstanding remained the same at \$20.00 million as in the past month; lower than \$31.00 million outstanding in February 2019.

Commercial Banks' Interest Rates

This month recorded mixed performances for interest rates, as banks' weighted average deposit (WAD) rate dropped 4 basis points to 2.42 percent over the previous month, but was way below by 30 basis points than its level a year ago. Unlike the deposit rate, the weighted average lending (WAL) rate increased slightly

by 3 basis points to 8.91 percent over the previous month; or 11 basis points lower than that of last year.

As a result, the overall weighted average interest rate spread widened to 6.49 percent from 6.42 percent in the previous month, and was also higher than 6.30 percent in February 2019.

Despite the weighted average interest margin slightly widening, both the WAD and WAL have decreased overtime. This situation is encouraging as it is consistent with our push to keep cost of capital low. Another factor to note is the availability of the commercial banks' fees and charges on website: <https://www.cbs.gov.ws/index.php/banking-system/supervision-and-regulation/>

Over the last three and five years, the current WAD rate was lower than its average rates of 2.65 percent and 2.62 percent for those respective periods. Likewise, the WAL rate was similar to that of the past three years while was lower than its 9.13 percent in the last five years.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFIs) narrowed by 3 basis points to 8.13 percent. This was underpinned by reductions of 7 basis points each in both lending rates of DBS (to 4.47 percent) and SHC (to 13.24 percent) and 1 basis point decline in SNPF lending rate to 8.53 percent over the month.

The overall WAL level however, was higher than 7.38 percent and 7.22 percent in the last three and five years respectively.

CENTRAL BANK OF SAMOA 16th April 2020

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.

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Monetary Aggregates

End of Period Figures	Average level in the previous		2020		
	3-years	5-years	Feb	Jan	Feb
Determinants of Money Supply (M2) ⁷	Amount in Tala Million				
Net Foreign Assets	293.46	244.61	459.09	481.98	462.493
Net Domestic Assets	776.83	735.30	785.30	749.02	758.183
Money Supply (M2)	1070.29	979.90	1244.400	1230.99	1220.676
<i>Trend / Annual Average (%)</i>	9.70	9.74	12.8	9.0	7.4
<i>Narrow Money (M1)</i>	470.18	426.63	579.70	535.32	532.32
Currency outside banks	73.12	65.48	88.99	98.46	97.595
Transferable Deposits ⁴	397.07	361.15	490.71	436.86	434.72
<i>Quasi Money</i>	600.10	553.27	664.70	695.68	688.361
Other Deposits ⁵	600.10	553.27	664.70	695.679	688.361
Central Bank of Samoa					
Open Markets Operations	Maturity Yield				
Securities Official Rate	0.16	0.17	0.18	0.15	0.20
Reserve Money ²	Amount in Tala Million				
Total	311.16	286.53	397.65	458.53	450.42
<i>Trend / Annual Growth (%)</i>	9.1	14.2	23.0	26.7	24.8
Financial System (FS)	Amounts in Tala Million				
FS Credit					
Commercial Banks ⁷	1079.11	1002.44	1131.73	1187.67	1171.6
<i>Trend / Annual Growth (%)</i>	7.5	7.5	3.7	5.6	5.4
Non-Monetary Financial Institutions (NFIs)	632.07	574.78	703.97	777.49	777.465
<i>Trend / Annual Growth (%)</i>	10.2	9.6	9.8	14.4	14.0
Private Sector	1660.96	1526.93	1782.17	1931.79	1931.79
Businesses	967.36	881.24	1000.50	1068.28	1044.24
Individuals	693.60	645.69	781.67	863.51	870.90
Public Sector (NFIs, NPEs, & Govt)	50.23	50.30	53.53	53.53	33.926
Total FS Credit ⁸	1711.18	1577.22	1835.70	1965.15	1949.063
<i>Trend / Annual Growth (%)</i>	8.5	8.2	5.9	8.9	8.6
Commercial Banks ³	Amounts in Tala Million				
Liquidity					
Total	203.81	189.94	284.35	321.82	313.37
<i>Trend / Annual Growth (%)</i>	12.91	21.94	35.8	27.2	24.6
Interest Rates	Percentage				
Overall Weighted Average Lending ⁷	8.91	9.13	9.02	8.88	8.91
Australia New Zealand Bank (Sāmoa) Limited	9.43	9.28	9.74	9.32	9.17
Bank South Pacific (Sāmoa) Limited	7.72	8.46	7.88	7.79	8.09
National Bank of Sāmoa Limited	8.13	8.71	8.21	8.20	8.22
Samoa Commercial Bank Limited	10.59	10.46	10.67	10.81	10.73
Overall Weighted Average Deposit	2.65	2.62	2.72	2.46	2.42
Australia New Zealand Bank (Sāmoa) Limited	1.54	1.81	1.37	1.40	1.38
Bank South Pacific (Sāmoa) Limited	2.72	2.52	2.85	3.24	3.22
National Bank of Sāmoa Limited	3.59	3.46	4.05	3.90	3.96
Samoa Commercial Bank Limited	3.31	3.24	3.24	3.26	3.16
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Sāmoa) Limited	31.8	37.0	27.6	25.6	25.9
Bank South Pacific (Sāmoa) Limited	27.2	25.3	29.7	31.8	31.0
National Bank of Sāmoa Limited	21.4	18.7	23.1	24.3	24.2
Samoa Commercial Bank Limited	19.6	19.0	19.6	18.3	18.9
Deposit					
Australia New Zealand Bank (Sāmoa) Limited	31.8	35.6	29.5	27.7	27.6
Bank South Pacific (Sāmoa) Limited	28.5	25.7	31.8	30.4	29.9
National Bank of Sāmoa Limited	20.6	18.8	19.7	21.7	21.4
Samoa Commercial Bank Limited	19.1	19.9	19.0	20.1	21.1
Non-monetary Financial Institutions (NFIs)	Percentage				
Weighted Average Lending (WAL)					
Sāmoa National Provident Fund (SNPF) ⁶	7.83	7.77	8.36	8.52	8.53
Development Bank of Samoa (DBS)	5.50	5.49	5.35	4.54	4.47
Samoa Housing Corporation (SHC) ¹	12.55	12.55	12.55	13.31	13.24
NFIs' Overall WAL ^{6,8}	7.38	7.22	8.04	8.16	8.13

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) ar

(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

(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 previous

