

REVIEW OF MONETARY DEVELOPMENTS

March 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 3.5 percent lower than its revised monthly projection. This was mainly due to lower than expected level of net domestic assets (highlighted by the increase in net, government position with the monetary system) and the lower position of credit to the public institutions.

Money Supply (M2)

Total money supply (M2) rebounded slightly by \$1.27 million (or 0.1 percent) to \$1,221.95 million, in light of an expansion of \$10.71 million in net foreign assets (NFA) which had offset the decline of \$9.44 million in net domestic assets (NDA). On the former, the influx of government budget support funds reflected an expansion in Central Bank's foreign holdings. On the latter, an increase in net, government position with the monetary system contributed to the decline as well as the drop in other items net.

As a result, the M2 annual average growth stood at 5.8 percent which was well below 7.4 percent growth a month ago and 13.1 percent in March of last year.

Credit¹

Following its downward trend in the previous month, total financial system's (FS) credit picked up by \$13.12 million (or 0.7 percent) to \$1,962.18 million. Its current position reflects the expansions in total lending of the commercial banks (up by \$9.69 million) and

those of the non-banks (up by \$3.42 million) to the private sector (business and individuals).

The private sector's dominance status of total FS credit remained at 98.3 percent share while the rest was taken up by those of the non-bank financial institutions.

This monthly expansion in total FS credit was driven by increases in lending to those industries such as 'trade', 'professional and business services', 'manufacturing' to name a few.

On an annual average basis, the FS credit grew by 8.4 percent which was slightly down from 8.6 percent growth last month, but was higher than 6.4 percent growth in the same period 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 at end of 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) declined by \$6.85 million (or 1.5 percent) to \$443.57 million. Accounting for the reduction was a \$7.69 million decline in commercial banks' reserves where both excess and required reserves

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

dropped by \$6.93 million and \$0.76 million respectively over the month. In contrast, the currency in circulation edged up by \$0.84 million.

However, total reserve money was \$47.57 million higher than its level in the previous year, or 48.76 percent and 58.61 percent higher than those levels in the past three and five years respectively.

Commercial Banks' Liquidity

On liquidity, a \$3.65 million drop to \$309.73 million was recorded at the end of the month, driven mainly by decreases of \$6.93 million in exchange settlement account and \$3.50 million in banks' holdings of CBS securities. On the upside, banks' vault cash increased by \$6.78 million over the previous month.

Despite the drop, this liquidity level was higher by \$31.67 million than its level last year and was also higher by 60.15 percent and 69.05 percent in the past three and five years respectively.

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

The CBS overall official interest rate on securities dropped 5 basis points to 0.15 percent from 0.20 percent in the previous month and was 0.18 percent in March of last year.

This was driven by a reduction in securities issued which dropped to \$11.50 million from \$22.00 million in the previous month. Those issued were mainly to shorter term papers; namely 14-days (\$6.00 million), 28-days (\$4.00 million) and 56-days (\$1.50 million). As a result the level of outstanding securities at the end of the month dropped to \$16.50 million from \$20.00 million a month ago and from \$30.00 million in the same month last year.

Commercial Banks' Interest Rates

This month recorded mixed performances for interest rates, as banks' weighted average deposit (WAD) rate increased 34 basis points to 2.76 percent but was 5 basis points below its

level a year ago. On the contrary, the weighted average lending (WAL) rate declined slightly by 4 basis points to 8.87 percent over the previous month and also 18 basis points lower than that of last year.

As a result, the overall weighted average interest rate spread narrowed to 6.11 percent from 6.49 percent in the previous month, and was also lower than 6.25 percent in March 2019.

Despite the weighted average interest margin slightly widening in the past few months, both the WAD and WAL have decreased overtime. This situation is encouraging as it is consistent with CBS' push to keep the cost of capital (interest) 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 higher than its average rates of 2.75 percent and 2.65 percent for those respective periods. In contrast, the current WAL rate was slightly lower than 8.88 percent in the past three years and 9.10 percent in the last five years.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFIs) increased by 2 basis points to 8.15 percent. This update reflected a slight increase of 1 basis point to 8.54 percent in SNPF's lending rate whereas that for DBS dropped by 2 basis points to 4.45 percent. SHC lending rate remained stable at 13.24 percent which was also the same as the previous month.

The overall WAL rate was above 7.65 percent and 7.56 percent in the last three and five years 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 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 | | 2019 | | | 2020 | | |
|---|-------------------------------|----------------|-------------------------------|-----------------|-----------------|------|--|--|
| | 3-years | 5-years | Mar | Feb | Mar | | | |
| Determinants of Money Supply (M2) ⁷ | | | Amount in tala million | | | | | |
| Net Foreign Assets | 297.09 | 232.58 | 441.31 | 462.493 | 473.204 | | | |
| Net Domestic Assets | 781.47 | 759.39 | 804.04 | 758.183 | 748.744 | | | |
| Money Supply (M2) | 1078.56 | 991.97 | 1245.350 | 1220.676 | 1221.948 | | | |
| <i>Trend / Annual Average (%)</i> | 10.23 | 9.92 | 13.1 | 7.4 | 5.8 | | | |
| <i>Narrow Money (M1)</i> | 469.28 | 428.53 | 576.95 | 532.32 | 520 | | | |
| Currency outside banks | 75.97 | 66.14 | 91.89 | 97.595 | 91.657 | | | |
| Transferable Deposits ⁴ | 393.32 | 362.39 | 485.07 | 434.72 | 428.339 | | | |
| <i>Quasi Money</i> | 609.28 | 563.43 | 668.40 | 688.361 | 701.952 | | | |
| Other Deposits ⁵ | 609.28 | 563.43 | 668.40 | 688.361 | 701.952 | | | |
| Central Bank of Samoa | | | | | | | | |
| Open Markets Operations | | | | | | | | |
| <i>Securities Official Rate</i> | 0.17 | 0.16 | 0.18 | 0.20 | 0.15 | | | |
| Reserve Money ² | | | | | | | | |
| Total | 302.24 | 279.65 | 396.00 | 450.42 | 443.57 | | | |
| <i>Trend / Annual Growth (%)</i> | 11.24 | 14.56 | 24.0 | 24.8 | 22.7 | | | |
| Financial System (FS) | | | | | | | | |
| FS Credit | | | | | | | | |
| Commercial Banks ⁷ | 1082.12 | 1012.22 | 1131.90 | 1171.6 | 1181.292 | | | |
| <i>Trend / Annual Growth (%)</i> | 7.47 | 7.64 | 4.1 | 5.4 | 5.2 | | | |
| Non-Monetary Financial Institutions (NFIs) | 635.89 | 579.81 | 707.05 | 777.465 | 780.888 | | | |
| <i>Trend / Annual Growth (%)</i> | 10.37 | 9.56 | 10.5 | 14.0 | 13.7 | | | |
| Private Sector | 1668.46 | 1540.84 | 1785.09 | 1931.79 | 1928.92 | | | |
| Businesses | 970.68 | 890.35 | 1003.01 | 1044.24 | 1057.29 | | | |
| Individuals | 697.77 | 650.49 | 782.08 | 870.90 | 871.63 | | | |
| Public Sector (NFIs, NPEs, & Govt) | 49.56 | 51.20 | 53.86 | 33.926 | 33.263 | | | |
| Total FS Credit ⁸ | 1718.01 | 1592.04 | 1838.94 | 1949.063 | 1962.18 | | | |
| <i>Trend / Annual Growth (%)</i> | 8.5 | 8.3 | 6.4 | 8.6 | 8.38 | | | |
| Commercial Banks ³ | | | | | | | | |
| Liquidity | | | | | | | | |
| Total | 193.40 | 183.22 | 278.06 | 313.37 | 309.73 | | | |
| <i>Trend / Annual Growth (%)</i> | 15.29 | 22.01 | 36.2 | 24.6 | 21.6 | | | |
| Interest Rates | | | | | | | | |
| Overall Weighted Average Lending ⁷ | 8.88 | 9.10 | 9.05 | 8.91 | 8.87 | | | |
| Australia New Zealand Bank (Sāmoa) Limited | 9.32 | 9.25 | 9.73 | 9.17 | 9.12 | | | |
| Bank South Pacific (Sāmoa) Limited | 7.74 | 8.34 | 7.91 | 8.09 | 8.06 | | | |
| National Bank of Sāmoa Limited | 8.13 | 8.71 | 8.28 | 8.22 | 8.23 | | | |
| Samoa Commercial Bank Limited | 10.60 | 10.47 | 10.68 | 10.73 | 10.66 | | | |
| Overall Weighted Average Deposit | 2.75 | 2.65 | 2.81 | 2.42 | 2.76 | | | |
| Australia New Zealand Bank (Sāmoa) Limited | 1.57 | 1.79 | 1.45 | 1.38 | 1.41 | | | |
| Bank South Pacific (Sāmoa) Limited | 2.94 | 2.61 | 2.97 | 3.22 | 2.87 | | | |
| National Bank of Sāmoa Limited | 3.68 | 3.47 | 3.97 | 3.96 | 3.87 | | | |
| Samoa Commercial Bank Limited | 3.31 | 3.21 | 3.18 | 3.16 | 3.22 | | | |
| Market Shares | | | | | | | | |
| Lending ⁷ | | | | | | | | |
| Australia New Zealand Bank (Sāmoa) Limited | 31.3 | 36.8 | 27.5 | 25.9 | 26.2 | | | |
| Bank South Pacific (Sāmoa) Limited | 27.5 | 25.3 | 30.1 | 31.0 | 30.4 | | | |
| National Bank of Sāmoa Limited | 21.5 | 18.9 | 22.8 | 24.2 | 24.4 | | | |
| Samoa Commercial Bank Limited | 19.7 | 19.1 | 19.6 | 18.9 | 19.0 | | | |
| Deposit | | | | | | | | |
| Australia New Zealand Bank (Sāmoa) Limited | 31.2 | 35.4 | 27.7 | 27.6 | 27.0 | | | |
| Bank South Pacific (Sāmoa) Limited | 29.0 | 26.0 | 31.6 | 29.9 | 29.9 | | | |
| National Bank of Sāmoa Limited | 20.6 | 18.8 | 21.5 | 21.4 | 21.8 | | | |
| Samoa Commercial Bank Limited | 19.3 | 19.8 | 19.2 | 21.1 | 21.3 | | | |
| Non-monetary Financial Institutions (NFIs) | | | | | | | | |
| Weighted Average Lending (WAL) | | | | | | | | |
| Sāmoa National Provident Fund (SNPF) ⁶ | 8.19 | 8.23 | 8.37 | 8.53 | 8.54 | | | |
| Development Bank of Samoa (DBS) | 5.50 | 5.52 | 5.35 | 4.47 | 4.45 | | | |
| Samoa Housing Corporation (SHC) ¹ | 12.06 | 11.69 | 12.64 | 13.24 | 13.24 | | | |
| NFIs' Overall WAL ^{6,8} | 7.65 | 7.56 | 8.06 | 8.13 | 8.15 | | | |

Source: Central Bank of Samoa

(1) Samoa Housing Corporation reports on a quarterly basis up to September

(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

(5) Comprised of time deposits, savings deposits, and the interest payable on

(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