

## REVIEW OF MONETARY DEVELOPMENTS

### APRIL 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 4.7 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 from the influx in the inflows of funds for COVID19 and project funds.

#### **Money Supply (M2)**

Total money supply (M2) recorded a reduction of \$1.4 million (or 0.1 percent) to \$1,220.59 million. This outcome was mainly driven by a \$4.0 million drop in net domestic assets (NDA) whilst net foreign assets (NFA) widened by \$2.64 million. On the former, an increase in net, government position with the monetary system and the decline in lending to both the private sector and non-banks contributed to the decline. The latter was primarily underpinned by increases in foreign holdings of the Central Bank and the banking system.

Consequently, the annual average growth rate of M2 fell to 4.1 percent from 5.8 percent in the previous month but increased by 13.5 percent in the same month last year.

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

Total financial system (FS) lending fell by \$0.40 million (or 0.01 percent) to \$1,961.94 million. This drop was fuelled by a loss of \$2.07 million in total commercial banks' lending whereas non-banks financial institutions lending edged up by \$1.67 million.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.3 percent while the rest went to the public non-banks financial institutions.

The drop in total FS credit highlighted major decreases in lending to the 'trade, building, construction and installation' and 'professional and business services' industries.

On an annual average basis, the FS credit grew by 8.1 percent which was slightly down from 8.4 percent growth last month, but was higher than 7.1 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)<sup>2</sup> 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 Money<sup>3</sup>**

Total reserve money (RM) rebounded by \$4.60 million (or 1.04 percent) to \$448.17 million. Accounting for the expansion was a \$5.92 million increase in commercial banks' reserves where excess reserves boosted by \$13.14 million despite a \$6.52 million decline in required reserves. On the other hand, the

<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

currency in circulation reduced by \$1.32 million.

Moreover, total reserve money was \$45.89 million higher than its level in the previous year, or 45.79 percent and 58.38 percent higher than those levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

On liquidity, a \$2.82 million drop to \$306.91 million was recorded at the end of the month, driven mainly by decreases of \$11.0 million and \$4.97 million in banks' holdings of CBS securities and banks' vault cash respectively. On the upside, banks' exchange settlement account increased by \$13.15 million over the previous month.

Despite the drop, this liquidity level was higher by \$33.55 million than its level last year and was also higher by 54.45 percent and 65.76 percent in the past three and five years respectively.

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

The CBS overall official interest rate on securities remained unchanged at 0.15 percent as of the previous month but was lower than 0.19 percent in April of last year.

With the current situation and negative impacts of COVID19 and for liquidity reasons, there was no demand for CBS securities from the banking system during the month which has resulted in no bids received for securities. As a result, the outstanding securities dropped to \$5.50 million, (in-light of \$11.00 million securities matured) from \$16.50 million a month ago and \$23.50 million in April last year.

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

This month recorded mixed performances for interest rates, as banks' weighted average deposit (WAD) rate fell slightly by 1 basis point to 2.75 percent but remained steady from

its level a year ago. In addition, the weighted average lending (WAL) rate declined by 7 basis points to 8.80 percent over the previous month and was also 22 basis points lower than that of last year.

As a result, the overall weighted average interest rate spread narrowed to 6.05 percent from 6.11 percent in the previous month, and was also lower than 6.27 percent in April 2019.

The current performance of interest rates saw WAD and WAL rates both decreasing in two consecutive months. 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 all the commercial banks' fees and charges on website:

<https://www.cbs.gov.ws/index.php/banking-system/supervision-and-regulation/>

The current WAD rate was slightly lower than its average rates of 2.75 percent in the last three years but higher than 2.65 percent for the last five years. In contrast, the current WAL rate was below 8.88 percent and 9.10 percent for the last 3 years and 5 years respectively.

### **NFIs<sup>5</sup> lending rates<sup>6</sup>**

The overall WAL rate for non-bank financial institutions (NFIs) remained unchanged at 8.15 percent. This update reflected a slight increase of 1 basis point to 8.55 percent in SNPF's lending rate whilst that for SHC and DBS lending rates fell by 9 basis points to 13.15 percent and 1 basis point to 4.44 percent respectively.

The overall WAL rate was above 7.62 percent and 7.49 percent in the last three and five years respectively

## **CENTRAL BANK OF SAMOA** **09 June 2020**

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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 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.

<sup>6</sup> 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	Apr	Mar	Apr
<b>Determinants of Money Supply (M 2) <sup>7</sup></b>			<b>Amount in tala million</b>		
Net Foreign Assets	309.72	237.74	450.65	473.204	475.844
Net Domestic Assets	786.71	765.28	807.19	748.744	744.742
<b>Money Supply (M 2)</b>	<b>1096.43</b>	<b>1003.02</b>	<b>1257.840</b>	<b>1221.948</b>	<b>1220.586</b>
<i>Trend / Annual Average (%)</i>	10.47	9.89	13.5	5.8	4.1
<i>Narrow Money (M 1)</i>	473.35	428.18	576.24	520	521.67
Currency outside banks	73.80	65.93	92.45	91.657	95.302
Transferable Deposits <sup>4</sup>	399.54	362.25	483.79	428.339	426.363
<i>Quasi Money</i>	623.08	574.84	681.60	701.952	698.921
Other Deposits <sup>5</sup>	623.08	574.84	681.60	701.952	698.921
<b>Central Bank of Samoa</b>					
<i>Open Markets Operations</i>					
Securities Official Rate	0.16	0.16	0.19	0.15	0.15
<i>Reserve Money <sup>2</sup></i>					
<b>Total</b>	<b>307.40</b>	<b>282.97</b>	<b>402.28</b>	<b>443.57</b>	<b>448.17</b>
<i>Trend / Annual Growth (%)</i>	12.67	14.61	24.9	22.7	20.6
<b>Financial System (FS)</b>					
<i>FS Credit</i>					
<b>Commercial Banks <sup>7</sup></b>	<b>1086.65</b>	<b>1017.02</b>	<b>1135.51</b>	<b>1181.292</b>	<b>1179.226</b>
<i>Trend / Annual Growth (%)</i>	7.30	7.73	4.5	5.2	5
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>639.32</b>	<b>583.86</b>	<b>714.79</b>	<b>780.888</b>	<b>782.715</b>
<i>Trend / Annual Growth (%)</i>	10.52	9.59	11.3	13.7	13.1
<b>Private Sector</b>	<b>1675.96</b>	<b>1549.79</b>	<b>1795.09</b>	<b>1928.92</b>	<b>1927.53</b>
Businesses	972.56	895.00	1007.64	1057.29	1064.12
Individuals	703.40	654.79	787.45	871.63	863.41
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>50.01</b>	<b>51.09</b>	<b>55.22</b>	<b>33.263</b>	<b>34.411</b>
<b>Total FS Credit <sup>8</sup></b>	<b>1725.97</b>	<b>1600.88</b>	<b>1850.31</b>	<b>1962.18</b>	<b>1961.941</b>
<i>Trend / Annual Growth (%)</i>	8.5	8.42	7.0	8.38	8.1
<b>Commercial Banks <sup>3</sup></b>					
<i>Liquidity</i>					
<b>Total</b>	<b>198.71</b>	<b>185.15</b>	<b>273.36</b>	<b>309.73</b>	<b>306.91</b>
<i>Trend / Annual Growth (%)</i>	17.39	21.74	35.0	21.6	19.7
<i>Interest Rates</i>					
<b>Overall Weighted Average Lending <sup>7</sup></b>	<b>8.86</b>	<b>9.10</b>	<b>9.02</b>	<b>8.87</b>	<b>8.80</b>
Australia New Zealand Bank (Samoa) Limited	9.30	9.25	9.68	9.12	9.06
Bank South Pacific (Samoa) Limited	7.76	8.36	7.92	8.06	8.06
National Bank of Samoa Limited	8.11	8.64	8.23	8.23	8.25
Samoa Commercial Bank Limited	10.55	10.48	10.69	10.66	10.38
<b>Overall Weighted Average Deposit</b>	<b>2.73</b>	<b>2.64</b>	<b>2.75</b>	<b>2.76</b>	<b>2.75</b>
Australia New Zealand Bank (Samoa) Limited	1.48	1.73	1.42	1.41	1.32
Bank South Pacific (Samoa) Limited	3.00	2.65	2.83	2.87	2.89
National Bank of Samoa Limited	3.72	3.49	4.07	3.87	4.00
Samoa Commercial Bank Limited	3.30	3.21	3.14	3.22	3.09
<i>Market Shares</i>					
<b>Lending <sup>7</sup></b>					
Australia New Zealand Bank (Samoa) Limited	31.05	36.60	27.1	26.2	25.4
Bank South Pacific (Samoa) Limited	27.69	25.27	30.6	30.4	30.8
National Bank of Samoa Limited	21.59	18.99	22.8	24.4	24.9
Samoa Commercial Bank Limited	19.74	19.18	19.6	19.0	18.9
<b>Deposit</b>					
Australia New Zealand Bank (Samoa) Limited	31.21	35.21	28.4	27.0	26.8
Bank South Pacific (Samoa) Limited	29.06	25.94	31.1	29.9	30.9
National Bank of Samoa Limited	20.33	18.84	20.9	21.8	21.7
Samoa Commercial Bank Limited	19.40	20.00	19.6	21.3	20.6
<b>Non-monetary Financial Institutions (NFIs)</b>					
<b>Weighted Average Lending (WAL)</b>					
Samoa National Provident Fund (SNPF) <sup>6</sup>	8.13	8.14	8.35	8.54	8.55
Development Bank of Samoa (DBS)	5.50	5.49	5.37	4.45	4.44
Samoa Housing Corporation (SHC) <sup>1</sup>	12.86	12.86	12.86	13.24	13.15
<b>NFIs' Overall WAL <sup>6,8</sup></b>	<b>7.62</b>	<b>7.49</b>	<b>8.08</b>	<b>8.15</b>	<b>8.15</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

(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, Samoa Housing Corporation started reporting to Central Bank on monthly basis as was previously

<sup>1</sup> Revised