

REVIEW OF MONETARY DEVELOPMENTS MAY 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 5.5 percent lower than its revised monthly projection. This was mainly due to a lower than expected level of net domestic assets (highlighted by the increase in net, government position with the monetary system) in light of huge inflows of government funds for COVID-19 as well as an unanticipated project funds in recent months.

Money Supply (M2)

Total money supply (M2) recorded a further reduction of \$2.7 million (or 0.2 percent) to \$1,217.85 million for the third consecutive month. This outcome was mainly driven by a \$16.0 million drop in net foreign assets (NFA) whilst net domestic assets (NDA) increased by \$13.24 million. The decline in NFA was due to a contraction in the official foreign assets of the Central Bank despite a minimal increase in those of the banking system. The increase in the latter was primarily underpinned by a reduction in net, government position with the monetary system and an expansion in total lending to non-bank financial institutions.

Consequently, the annual average growth rate of M2 slowed to 2.7 percent from 4.1 percent in the previous month and 13.8 percent in the same month last year.

Credit¹

Total financial system (FS) lending increased by \$16.84 million (or 0.9 percent) to \$1,977.78

million. This increase was fuelled by gains of \$15.41 million and \$1.43 million in both of non-banks financial institutions and commercial banks' lending respectively.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.2 percent while the rest went to non-banks financial institutions, which were mainly directed to 'other activities' industry.

On an annual average basis, total FS credit grew by 7.8 percent, down from 8.1 percent in April 2020, but higher than 7.6 percent in the same month last year.

According to the latest update on national accounts released by the Sāmoa Bureau of Statistics (SBS), the annual total Nominal Gross Domestic Product (NGDP)² amounted to \$2,225.28 million at end of March 2020. At this level, the share of the FS credit to NGDP increased to 88.2 percent from 87.4 percent in the December 2019 quarter. As for M2, its share to NGDP also edged down to 54.9 percent from 55.5 percent in the previous quarter.

Reserve Money³

Total reserve money (RM) fell by \$9.2 million (or 2.1 percent) to \$438.93 million. Accounting for this reduction was a \$14.52 million decrease in commercial banks' excess reserves coupled with a slight drop of \$0.83 million in required reserves over the month. On the other hand,

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

currency in circulation increased by \$6.11 million.

However, total reserve money was \$30.75 million higher than its level in May 2019, or 35.8 percent and 52.6 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total liquidity tumbled by \$25.95 million to \$280.95 million in the month under review. This was driven mainly by decreases in all of its components, namely exchange settlement account (down \$18.93 million), CBS securities (down \$5.50 million) and a slight \$0.83 million drop in vault cash.

In contrast, total liquidity rose by \$6.92 million over its level last year and was also higher by 35.6 percent and 53.7 percent in the past three and five years respectively.

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

For liquidity reasons, the CBS OMO is now on hold given the volatile and uncertain economic environment created by the pandemic. The sharp slowdown in business activities and production coupled with tightening global financial conditions call for temporary halt in OMO. As a result, the overall weighted average yield on CBS securities fell to zero at the end of May 2020.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate remained steady at 2.75 percent but was 24 basis points higher than its level a year ago. In contrast, the weighted average lending (WAL) rate dropped further by 20 basis points to 8.60 percent over the previous month and also 37 basis points below than that of last year.

As a result, the overall weighted average interest rate spread narrowed to 5.85 percent

from 6.05 percent in the previous month and 6.46 percent in May 2019.

The continuous decline in the weighted average margin in the past three months in a row, mainly due to the lower WAL (and WAD) rates, is consistent with CBS' push to keep the cost of capital (interest) low and affordable for businesses to access. 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 2.66 percent and 2.56 percent for those respective periods. In contrast, the current WAL rate was lower than 8.83 percent in the past three years and 9.05 percent in the last five years.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFIs) declined to 7.43 percent from 7.73 percent as recorded last month and 8.00 percent in May of 2019. This update reflected decreases of 23 basis points to 8.32 percent and 20 basis points to 4.24 percent in SNPF and DBS's lending rates respectively. In addition, there was a slight decline in the SHC's lending rate by 1 basis point to 6.18 percent.

The overall WAL rate was also below its 7.59 percent rate recorded in the last three years but higher than 7.27 percent in the last five years.

CENTRAL BANK OF SAMOA **08 May 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.

Monetary Aggregates

End of Period Figures	Average level in the previous		2019		2020
	3-years	5-years	May	Apr	May
Determinants of Money Supply (M2) ⁷			Amount in tala mill		
Net Foreign Assets	321.13	244.32	445.99	475.844	459.877
Net Domestic Assets	781.15	764.26	806.33	744.742	759.791
Money Supply (M2)	1102.27	1008.57	1252.329	1220.586	1217.846
<i>Trend / Annual Average (%)</i>	10.80	9.81	13.8	4.1	2.7
Narrow Money (M1)	485.39	437.03	579.39	521.67	515.72
Currency outside banks	79.98	70.87	98.44	95.302	102.243
Transferable Deposits ⁴	405.40	366.16	480.95	426.363	413.478
Quasi Money	616.89	571.55	672.94	698.921	702.125
Other Deposits ⁵	619.89	573.35	681.94	698.921	702.125
Central Bank of Samoa					
Open Markets Operations					
Securities Official Rate	0.16	0.15	0.18	0.15	0.00
Reserve Money ²					
Total	323.19	287.74	408.26	448.17	438.93
<i>Trend / Annual Growth (%)</i>	13.80	14.35	24.3	20.6	19.0
Financial System (FS)					
FS Credit					
Commercial Banks ⁷	1090.01	1022.95	1132.87	1179.23	1180.66
<i>Trend / Annual Growth (%)</i>	7.20	7.84	5.0	5.0	4.9
Non-Monetary Financial Institutions (NFIs)	640.95	588.01	727.69	781.72	797.12
<i>Trend / Annual Growth (%)</i>	10.73	9.66	12.1	13.1	12.5
Private Sector	1680.97	1559.37	1804.73	1927.53	1941.4
Businesses	978.33	902.90	1010.17	1064.12	1076.36
Individuals	702.64	656.47	794.56	863.41	865.05
Public Sector (NFIs, NPEs, & Govt)	49.99	51.59	55.84	33.42	36.38
Total FS Credit ⁸	1730.96	1610.96	1860.56	1960.94	1977.78
<i>Trend / Annual Growth (%)</i>	8.47	8.49	7.6	8.1	7.8
Commercial Banks ³					
Liquidity					
Total	207.16	182.77	274.03	306.91	287.36
<i>Trend / Annual Growth (%)</i>	18.85	20.84	32.0	19.6	17.7
Interest Rates					
Overall Weighted Average Lending ⁷	8.83	9.05	8.97	8.80	8.60
Australia New Zealand Bank (Samoa) Limited	9.24	9.22	9.60	9.06	8.30
Bank South Pacific (Samoa) Limited	7.75	8.11	7.91	8.06	8.05
National Bank of Samoa Limited	8.05	8.76	8.19	8.25	8.22
Samoa Commercial Bank Limited	10.60	10.49	10.67	10.38	10.35
Overall Weighted Average Deposit	2.66	2.56	2.52	2.75	2.75
Australia New Zealand Bank (Samoa) Limited	1.45	1.69	1.47	1.32	1.35
Bank South Pacific (Samoa) Limited	2.69	2.46	2.13	2.89	3.05
National Bank of Samoa Limited	3.79	3.49	3.90	4.00	3.84
Samoa Commercial Bank Limited	3.30	3.19	3.09	3.09	2.95
Market Shares					
Lending ⁷					
Australia New Zealand Bank (Samoa) Limited	30.90	36.31	27.1	25.4	25.5
Bank South Pacific (Samoa) Limited	27.70	25.29	30.7	30.8	30.6
National Bank of Samoa Limited	21.72	19.12	22.8	24.9	25.0
Samoa Commercial Bank Limited	19.68	19.27	19.4	18.9	18.9
Deposit					
Australia New Zealand Bank (Samoa) Limited	30.29	34.67	27.9	26.8	26.5
Bank South Pacific (Samoa) Limited	29.88	26.53	30.8	30.9	30.8
National Bank of Samoa Limited	20.13	18.66	21.3	21.7	21.4
Samoa Commercial Bank Limited	19.74	20.18	20.0	20.6	21.4
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)					
Samoa National Provident Fund (SNPF) ⁶	8.13	7.87	8.39	8.55	8.32
Development Bank of Samoa (DBS)	5.29	5.31	4.69	4.44	4.24
Samoa Housing Corporation (SHC) ¹	13.02	13.02	13.02	6.19	6.18
NFIs' Overall WAL ^{6,8}	7.59	7.27	8.00	7.73	7.43

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) a

(3) As of July 13th 2015, Bank South Pacific took over Westpac.

(4) Comprised of demand deposits, foreign currency deposits of residents, ar

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

(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 prevoiu