

REVIEW OF MONETARY DEVELOPMENTS JUNE 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

With lower than expected level of net domestic assets due entirely to strong inflows of government budget support funds for COVID-19, the actual level of money supply (M2) was 4.0 percent lower than its revised monthly projections for June 2020.

Money Supply (M2)

Total money supply (M2) expanded by \$7.6 million (or 0.6 percent) to \$1,225.45 million over the previous month. This result was accounted for by a significant increase in net foreign assets (NFA) (up \$43.37 million) offsetting a \$35.76 million drop in net domestic assets (NDA). The increase in NFA was attributed to a strong inflow of government budget support funds and those for COVID-19. Conversely, the current level of NDA reflected the sharp hike in the government net position with the monetary system as well as the further drop in total lending to the private sector and non-bank financial institutions.

Despite the expansion during the month, the annual growth of M2 fell to 1.8 percent in June 2020; down from 2.7 percent in the previous month and way below 13.2 percent in the same month last year.

Credit¹

Total financial system (FS) credit fell by \$7.18 million (or 0.4 percent) to \$1,970.60 million. This was mainly due to a reduction in commercial banks' lending by \$10.18 million

(to \$1,170.48 million) offsetting a \$3.00 million increase (to \$800.12 million) in non-banks financial institutions lending. Furthermore, reductions were recorded in lending mainly to, 'trade', 'manufacturing', 'building, constructions' and 'professional and business services' sectors

The private sector's dominance of total FS credit remained at 98.2 percent while the rest went to the non-banks financial institutions.

On an annual average basis, total FS credit grew by 7.5 percent, down from 7.8 percent in the previous month, and was also lower than 8.1 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 edged down to 54.9 percent from 55.5 percent in the previous quarter.

Reserve Money³

Total reserve money (RM) rebounded by \$2.75 million (or 0.6 percent) to \$437.28 million. Responsible for this expansion was an increase in commercial banks' reserves (by \$3.93 million) due to an increase in excess reserves. This was partially offset by a \$0.56 million decline in currency in circulation.

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

In addition, total reserve money was \$29.75 million higher than its level in June 2019 or 33.3 percent and 49.5 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total liquidity recorded an increase of \$7.47 million to \$288.42 million in the month under review. This was due to increases in exchange settlement accounts (up \$4.50 million), vault cash (up \$2.97 million) while CBS securities remained inactive during the month.

Furthermore, total liquidity rose by \$14.41 million over the same month last year and was also 35.5 percent and 53.4 percent higher 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 remained 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 a temporary halt in the OMO. As a result, the overall weighted average yield remained at zero at the end of June 2020.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate fell by 2 basis points to 2.73 percent from the previous month and the same month last year respectively. In contrast, the weighted average lending (WAL) rate improved by 3 basis points to 8.63 percent over the previous month but was 34 basis points lower over the year.

Consequently, the overall weighted average interest rate spread increased to 5.90 percent from 5.85 percent in the last month but fell from 6.22 percent in June 2019.

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).

The continuous decline in the weighted average margin (below 6.00 percent mark) is mainly due to the steady reduction in WAL (and WAD) rates, which is consistent with CBS' efforts 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/>

The current WAD rate was higher than its average rates over the last three and five years by 2.72 percent and 2.57 percent respectively. In contrast, the current WAL rate was lower than 8.86 percent in the last three years and 9.03 percent in the previous five years.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFI's) recorded a further decline to 7.39 percent from 7.43 percent in the last month and 8.01 percent in June 2019. Responsible for this reduction were lower lending rates for SNPF (down by 4 basis points to 8.28 percent) and SHC (down by 5 basis points to 6.13 percent) while that for DBS remained at 4.24 percent

The overall WAL rate was also below its 7.60 percent rate in the last three years but higher than 7.26 percent in the last five years.

CENTRAL BANK OF SAMOA 03 August 2020

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	June	May	June	June	June	
Determinants of Money Supply (M2) ⁷			Amount in tala million					
Net Foreign Assets	349.57	275.88	473.64	459.877	466.562			
Net Domestic Assets	759.09	735.61	762.67	757.982	758.892			
Money Supply (M2)	1108.66	1011.50	1236.320	1217.846	1225.454			
<i>Trend / Annual Average (%)</i>	10.87	9.65	13.2	2.7	18			
<i>Narrow Money (M1)</i>	490.33	444.29	566.19	515.72	516.608			
Currency outside banks	79.95	70.15	97.61	102.243	98.089			
Transferable Deposits ⁴	410.38	374.14	468.58	413.478	418.519			
<i>Quasi Money</i>	618.33	567.20	670.13	702.125	708.846			
Other Deposits ⁵	416.85	446.31	65.68	702.125	708.846			
Central Bank of Samoa								
<i>Open Markets Operations</i>								
Securities Official Rate	0.17	0.16	0.19	0.00	0.00			
<i>Reserve Money ²</i>								
Total	328.13	292.49	407.55	438.93	437.30			
<i>Trend / Annual Growth (%)</i>	14.87	14.21	24.5	19	17.3			
Financial System (FS)								
<i>FS Credit</i>								
Commercial Banks ⁷	1079.30	1018.27	1126.27	1180.66	1170.48			
<i>Trend / Annual Growth (%)</i>	6.93	7.85	5.2	4.9	4.7			
Non-Monetary Financial Institutions (NFIs)	642.17	583.22	725.00	797.12	790.45			
<i>Trend / Annual Growth (%)</i>	10.97	9.73	13.1	12.5	11.8			
<i>Private Sector</i>	1674.80	1552.21	1797.42	1941.4	1868			
Businesses	973.35	905.38	1005.46	1076.36	1068.22			
Individuals	701.44	646.84	791.96	865.05	799.76			
<i>Public Sector (NFIs, NPEs, & Govt)</i>	46.64	49.26	53.76	36.38	35.03			
Total FS Credit ⁸	1721.47	1601.49	1851.28	1977.78	1960.93			
<i>Trend / Annual Growth (%)</i>	8.40	8.54	8.1	7.8	7.5			
Commercial Banks ³								
<i>Liquidity</i>								
Total	212.92	188.02	274.02	280.95	288.42			
<i>Trend / Annual Growth (%)</i>	20.11	19.70	30.2	17.7	16.0			
<i>Interest Rates</i>								
Overall Weighted Average Lending ⁷	8.87	9.04	8.99	8.60	8.63			
Australia New Zealand Bank (Samoa) Limited	9.37	9.30	9.56	8.30	8.42			
Bank South Pacific (Samoa) Limited	7.79	8.08	7.97	8.05	8.10			
National Bank of Samoa Limited	8.04	8.55	8.26	8.22	8.20			
Samoa Commercial Bank Limited	10.59	10.53	10.65	10.35	10.29			
Overall Weighted Average Deposit	2.75	2.59	2.85	2.75	2.73			
Australia New Zealand Bank (Samoa) Limited	1.52	1.68	1.53	1.35	1.22			
Bank South Pacific (Samoa) Limited	2.93	2.59	2.82	3.05	3.04			
National Bank of Samoa Limited	3.61	3.39	3.96	3.84	4.14			
Samoa Commercial Bank Limited	3.29	3.18	3.06	2.95	2.78			
<i>Market Shares</i>								
Lending ⁷								
Australia New Zealand Bank (Samoa) Limited	30.55	36.00	26.7	25.5	25.1			
Bank South Pacific (Samoa) Limited	27.96	25.57	31.1	30.6	30.5			
National Bank of Samoa Limited	21.69	19.17	22.7	25.0	25.3			
Samoa Commercial Bank Limited	19.77	19.25	19.4	18.9	19.1			
Deposit								
Australia New Zealand Bank (Samoa) Limited	29.61	33.99	26.7	26.5	26.9			
Bank South Pacific (Samoa) Limited	30.45	27.25	31.4	30.8	29.0			
National Bank of Samoa Limited	19.89	18.45	21.1	21.4	22.4			
Samoa Commercial Bank Limited	20.08	20.35	20.8	21.4	21.7			
Non-monetary Financial Institutions (NFIs)								
<i>Weighted Average Lending (WAL)</i>								
Samoa National Provident Fund (SNPF) ⁶	8.14	7.86	8.38	8.32	8.28			
Development Bank of Samoa (DBS)	5.30	5.30	4.68	4.24	4.24			
Samoa Housing Corporation (SHC) ¹	12.53	12.53	13.17	6.18	6.18			
NFIs' Overall WAL ^{6,8}	7.60	7.26	8.01	7.43	7.39			

Source: Central Bank of Samoa

(1) Samoa Housing Corporation reports on a quarterly basis up to September 21

(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 them

(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

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