

REVIEW OF MONETARY DEVELOPMENTS JULY 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.

Report No.1: 2020/21

July 2020

Monetary Forecast

The actual level of money supply (M2) was 1.9 percent higher than its projection for July 2020. This was highlighted by higher than expected levels of net domestic assets and foreign assets of the monetary system.

Money Supply (M2)

Total money supply (M2) expanded by \$23.2 million (or 1.9 percent) to \$1,248.67 million over the previous month. This was accounted for by increases in net foreign assets (NFA) (up \$13.7 million) and net domestic assets (NDA) (up by \$11.7 million). The hike in NFA reflected expansions in foreign holdings of the Central Bank and the banking system while the improvement in NDA was underpinned by a decline in the government net position with the monetary system due to increased government spending as well as a modest increase in total credit to the private sector.

However, the annual average growth of M2 slowed to 1.2 percent in July 2020; down from 1.8 percent in the previous month and way below 12.7 percent in the same month last year.

Credit¹

Total financial system (FS) credit picked up by \$5.61 million (or 0.4 percent) to \$1,966.14 million. This was mainly due to an expansion of \$5.25 million (to \$795.30 million) in non-banks financial institutions' lending with a marginal increase of \$0.36 million (to \$1,170.84 million) in commercial banks'

lending. Furthermore, increases were recorded in lending mainly to 'trade', 'professional and business activities', 'transport' and 'manufacturing', offsetting reductions in lending to 'other activities' and 'building, constructions' sectors

The private sector's dominance of total FS credit increased to 98.5 percent while the rest went to the non-banks financial institutions.

On an annual average basis, total FS credit grew by 7.1 percent, down from 7.5 percent in the previous month, and was also lower than 8.5 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) jumped further by \$17.32 million (or 4.0 percent) to \$454.62 million due to hikes in both of its components. Commercial banks' reserves went up by \$11.16 million due to an increase of \$11.36 million in excess reserves coupled with a rebound of \$6.16 million 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 \$27.52 million higher than its level in July 2020 or 32.9 percent and 46.0 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total liquidity recorded a further increase of \$6.46 million to \$288.58 million in July 2020. This expansion was due to an \$11.38 million increase in exchange settlement accounts (ESA), offsetting a \$4.92 million drop vault cash while the CBS Securities remained inactive in the beginning of the financial year.

Furthermore, total liquidity edged up by \$0.70 million over the same month last year and was also 27.0 percent and 40.2 percent higher than its level 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 July 2020.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate fell further by 3 basis points to 2.70 percent from the previous month but was similar to that of last year. In contrast, the weighted average lending (WAL) rate remained at 8.63 percent over the previous month but was 32 basis points lower over a year ago.

Consequently, the overall weighted average interest rate spread widened to 5.93 percent from 5.90 percent in the previous month but

lower than 6.25 percent in the same period of 2019.

The continuous reduction of WAD and WAL interest rates has seen the interest rates margin remain below the 6.00 percent mark for third consecutive month, which that is in-line with CBS's 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 of 2.67 percent and 2.53 percent respectively. In contrast, the current WAL rate was lower than 8.88 percent and 9.04 percent in the last three years and five years respectively.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFI's) remained at 7.42 percent from the previous month but lower than 8.03 percent in July last year. This was underpinned by an unchanged lending rate for DBS at 4.41 percent. Furthermore, the lending rates for SNPF and SHC moved in opposite directions as the former dropped to 8.27 percent (from 8.28 percent) while the latter increased to 6.17 percent (from 6.13 percent) over the previous month.

The current overall WAL rate was also below its rate of 7.63 percent in the last three years but higher than 7.27 percent in the last five years.

CENTRAL BANK OF SAMOA **01 September 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-y years	5-y years	July	June	July	Amount in tala million		
Determinants of Money Supply (M2)								
Net Foreign Assets ⁷	371.59	298.17	485.64	503.227	516.953			
Net Domestic Assets	743.92	727.33	742.66	722.227	733.936			
Money Supply (M2)	1115.52	1025.50	1228.299	1225.454	1248.673			
<i>Trend / Annual Average (%)</i>	10.97	9.50	12.7	1.8	1.2			
Narrow Money (M1)	490.79	454.85	558.43	516.608	525.115			
Currency outside banks	81.53	72.98	103.71	98.089	109.164			
Transferable Deposits ⁴	409.26	381.87	454.72	418.519	415.951			
Quasi Money	624.73	570.65	669.87	708.846	723.56			
Other Deposits ⁵	423.35	449.82	65.71	708.846	723.56			
Central Bank of Samoa								
Open Markets Operations								
Securities Official Rate	0.16	0.16	0.16	0.00	0.00			
Reserve Money ²								
Total	342.18	311.49	427.11	443.58	448.32			
<i>Trend / Annual Growth (%)</i>	16.27	14.19	24.9	17.4	15.5			
Financial System (FS)								
FS Credit								
Commercial Banks	1077.22	1012.96	1119.27	1170.48	1170.842			
<i>Trend / Annual Growth (%)</i>	6.77	7.91	5.4	4.7	4.7			
Non-Monetary Financial Institutions (NFIs)	656.49	596.01	742.55	790.45	795.30			
<i>Trend / Annual Growth (%)</i>	11.17	9.80	14.0	11.8	11.0			
Private Sector	1687.68	1563.40	1812.11	1925.50	1937.14			
Businesses	972.18	905.15	1002.24	1068.22	1076.709			
Individuals	715.79	658.42	810.72	858.41	860.43			
Public Sector (NFIs, NPEs, & Govt)	45.91	45.50	49.34	34.90	28.87			
Total FS Credit ⁶	1733.71	1608.98	1861.82	1960.53	1966.14			
<i>Trend / Annual Growth (%)</i>	8.33	8.57	8.5	7.5	7.1			
Commercial Banks ³								
Liquidity								
Total	227.28	205.84	287.88	288.42	288.58			
<i>Trend / Annual Growth (%)</i>	21.77	18.98	28.1	16.0	14.2			
Interest Rates								
Overall Weighted Average Lending	8.88	9.04	8.95	8.63	8.63			
Australia New Zealand Bank (Sāmoa) Limited	9.36	9.30	9.55	8.42	8.42			
Bank South Pacific (Sāmoa) Limited	7.81	8.08	7.93	8.10	8.05			
National Bank of Sāmoa Limited	8.13	8.60	8.25	8.20	8.20			
Samoa Commercial Bank Limited	10.55	10.50	10.58	10.29	10.35			
Overall Weighted Average Deposit	2.67	2.53	2.83	2.73	2.70			
Australia New Zealand Bank (Sāmoa) Limited	1.39	1.56	1.25	1.22	1.18			
Bank South Pacific (Sāmoa) Limited	2.92	2.65	3.26	3.04	3.05			
National Bank of Sāmoa Limited	3.53	3.31	3.91	4.14	4.08			
Samoa Commercial Bank Limited	3.24	3.12	2.96	2.78	2.67			
Market Shares								
Lending								
Australia New Zealand Bank (Sāmoa) Limited	30.12	35.28	26.2	25.1	24.5			
Bank South Pacific (Sāmoa) Limited	28.51	25.95	31.5	30.5	30.4			
National Bank of Sāmoa Limited	21.61	19.34	22.8	25.3	25.7			
Samoa Commercial Bank Limited	19.76	19.43	19.4	19.1	19.4			
Deposit								
Australia New Zealand Bank (Sāmoa) Limited	30.96	35.29	30.5	26.9	26.6			
Bank South Pacific (Sāmoa) Limited	28.63	26.10	27.3	29.0	29.0			
National Bank of Sāmoa Limited	20.03	18.51	20.6	22.4	22.5			
Samoa Commercial Bank Limited	20.41	20.13	21.6	21.7	21.9			
Non-monetary Financial Institutions (NFIs)								
Weighted Average Lending (WAL)								
Sāmoa National Provident Fund (SNPF)	8.17	7.88	8.41	8.28	8.27			
Development Bank of Samoa (DBS)	5.30	5.25	4.69	4.41	4.41			
Samoa Housing Corporation (SHC) ¹	13.29	13.29	13.29	6.13	6.17			
NFIs' Overall WAL ⁶	7.63	7.27	8.03	7.42	7.42			

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, commercial banks Exchange Settlement Accounts (ESA) and Statutory Required Deposits (SRD)

(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 on these deposits.

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

(6) Effective October 2018, Sāmoa Housing Corporation started reporting to Central Bank on monthly basis.

(7) IMF Loan disbursement of USD\$22.03 million received in April 2020 to address the COVID-19 pandemic.