

## REVIEW OF MONETARY DEVELOPMENTS AUGUST 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 3.4 percent higher than its projection. This was highlighted by higher than expected levels of net foreign assets due to the influx of official funds in the past few months for COVID-19 assistance and the usual budget support funds.

### Money Supply (M2)

Total M2 recorded a drop of \$4.49 million (or 0.4 percent) to \$1,244.19 million, on account of a marked decrease of \$76.14 million in net domestic assets (NDA). This was partially offset by an increase of \$69.44 million in net foreign assets (NFA). The reduction in NDA was underpinned by a huge surplus (of \$56.56 million) in government net position with the monetary system, reflecting the influx of government funds for COVID-19 assistance and for budget support. This was coupled with a drop in total credit to the private sector. The foreign inflows of government funds pushed up official reserves of the Central Banks, which led to an expansion in NFA despite the decline in those of the banking system.

As a result, the annual average growth of M2 decelerated further to 0.8 percent, from 1.2 percent in the previous month and 12.3 percent over the year.

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

Total financial system (FS) credit for August 2020 increased slightly by \$0.67 million (or 0.04 percent) to \$1,966.80 million, due to an

increase of \$5.25 million in non-banks financial institutions total lending, offsetting a drop of \$5.04 million in commercial banks total lending.

The expansion in total FS credit highlighted the increases in the 'Building, construction and installation', 'Professional and business services', 'Agriculture, forestry and fisheries', 'Transportation, storage and communication', and 'Manufacturing'.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.5 percent while the rest was attributed to the public non-bank financial institutions. On an annual average basis, total FS credit slowed to 6.7 percent from 7.1 percent in the previous month, and was also lower than 8.9 percent in the previous 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)<sup>2</sup> amounted to \$2,161.33 million at end of June 2020. At this level, the share of the FS credit to NGDP increased to 91.0 percent from 88.2 percent in the June 2020 quarter. As for M2, its share to NGDP edged down to 57.6 percent from 54.9 percent in the previous quarter.

### Reserve Money<sup>3</sup>

Total reserve money (RM) continued to grow, rising by \$24.78 million (or 5.5 percent) to \$479.40 million, as driven mainly by an

<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

expansion of \$17.11 million in commercial banks' reserves (dominated by an increase in exchange settlement accounts (ESA)), necessitated by a growth of \$7.67 million in currency in circulation.

In addition, total reserve money was \$37.31 million higher than its level in August 2019 or 34.81 percent and 51.34 percent higher than its levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

Total bank liquidity widened by \$24.87 million to \$313.46 million, as a result of a hike of \$16.98 million in commercial banks' holdings of excess reserves along with a rebound of \$7.90 million in their vault cash holdings. Furthermore, the CBS Securities were not issued during the month.

Consequently, total liquidity edged up by \$8.74 million over the same month last year and was also 31.33 percent and 48.47 percent higher than its level in the past three and five years respectively.

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

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 of global financial conditions call for a temporary halt in the OMO since April 2020. The CBSS was last issued in March 2020 with a 0.15 percent recorded for overall weighted average yield. Therefore, the official rate is to remain at 0.15 percent until OMO resumes its operations again.

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

The commercial banks' weighted average deposit (WAD) rate moved up slightly by 1 basis point to 2.69 percent from the previous month, but was 9 basis points lower than that of August last year. In contrast, the weighted

average lending (WAL) rate remained at 8.63 percent from the previous month, but was 25 basis points lower than a year ago.

Thus, the overall weighted average interest rate spread narrowed slightly to 5.94 percent from 5.96 percent in the previous month but was lower than 6.28 percent in the same period of 2019.

The current WAD rate was higher than its average rates over the last three and five years of 2.68 percent and 2.56 percent respectively. In contrast, the current WAL rate was lower than 8.87 percent and 9.00 percent in the last three years and five years in that order.

The slight increase of the WAD rate and unchanged WAL interest rates, has seen the interest rates margin remain below the 6.00 percent mark for the fourth consecutive month, which 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 the website:

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

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

The overall WAL rate for non-bank financial institutions (NFI's) remained at 7.42 percent for the third consecutive month, but was lower than 8.21 percent in August last year. This level reflected the unchanged lending rates for SNPF and DBS at 8.27 percent and 4.40 percent in that order, while the lending rate for SHC dropped by 1 basis point to 6.16 percent.

The current overall WAL rate was also below its rate of 7.70 percent in the last three years but higher than 7.39 percent in the last five years.

## **CENTRAL BANK OF SAMOA** **05 October 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).

<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	Aug	July	August
<b>Determinants of Money Supply (M2)</b>	<b>Amount in tala million</b>				
Net Foreign Assets <sup>7</sup>	387.08	302.03	486.04	516.953	586.390
Net Domestic Assets	740.08	729.01	736.63	733.936	657.800
<b>Money Supply (M2)</b>	<b><u>1127.157</u></b>	<b><u>1031.05</u></b>	<b><u>1222.67</u></b>	<b><u>1248.67</u></b>	<b><u>1244.19</u></b>
<i>Trend / Annual Average (%)</i>	11.0	9.3	12.3	1.2	0.8
<i>Narrow Money (M1)</i>	495.60	452.49	551.54	525.115	517.58
Currency outside banks	84.26	73.30	102.20	109.164	108.94
Transferable Deposits <sup>4</sup>	411.34	379.19	449.34	415.951	408.64
<i>Quasi Money</i>	631.56	578.56	671.13	723.56	726.61
Other Deposits <sup>5</sup>	427.21	455.95	58.08	723.56	726.61
<b>Central Bank of Samoa</b>					
<b>Open Markets Operations</b>					
Securities Official Rate	0.15	0.15	0.16	0.15	0.15
<b>Reserve Money<sup>2</sup></b>					
<b>Total</b>	<b>355.53</b>	<b>316.71</b>	<b>444.09</b>	<b>448.32</b>	<b>479.40</b>
<i>Trend / Annual Growth (%)</i>	17.6	14.2	26.1	15.5	13.6
<b>Financial System (FS)</b>					
<b>FS Credit</b>					
<b>Commercial Banks</b>	<b>1081.36</b>	<b>1017.24</b>	<b>1133.79</b>	<b>1170.842</b>	<b>1165.80</b>
<i>Trend / Annual Growth (%)</i>	6.6	7.9	5.3	4.7	4.6
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>662.86</b>	<b>601.64</b>	<b>751.19</b>	<b>795.30</b>	<b>801.00</b>
<i>Trend / Annual Growth (%)</i>	11.4	9.9	15.0	11.0	10.1
<b>Private Sector</b>	<b>1698.18</b>	<b>1573.29</b>	<b>1834.38</b>	<b>1937.14</b>	<b>1937.29</b>
Businesses	977.13	910.70	1014.18	1076.709	1083.00
Individuals	721.05	662.59	820.20	860.43	854.29
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>46.05</b>	<b>45.59</b>	<b>50.60</b>	<b>28.87</b>	<b>29.52</b>
<b>Total FS Credit <sup>6</sup></b>	<b>1744.22</b>	<b>1618.88</b>	<b>1884.98</b>	<b>1966.14</b>	<b>1966.80</b>
<i>Trend / Annual Growth (%)</i>	8.3	8.6	8.9	7.1	6.7
<b>Commercial Banks<sup>3</sup></b>					
<b>Liquidity</b>					
<b>Total</b>	<b>238.67</b>	<b>211.12</b>	<b>304.72</b>	<b>288.58</b>	<b>313.46</b>
<i>Trend / Annual Growth (%)</i>	23.3	18.4	27.6	14.2	12.0
<b>Interest Rates</b>					
<b>Overall Weighted Average Lending</b>	<b>8.87</b>	<b>9.00</b>	<b>8.88</b>	<b>8.63</b>	<b>8.63</b>
Australia New Zealand Bank (Sāmoa) Limited	9.42	9.28	9.42	8.42	8.42
Bank South Pacific (Sāmoa) Limited	7.81	8.06	7.99	8.05	8.06
National Bank of Sāmoa Limited	8.10	8.51	8.22	8.20	8.19
Samoa Commercial Bank Limited	10.55	10.50	10.59	10.35	10.36
<b>Overall Weighted Average Deposit</b>	<b>2.68</b>	<b>2.56</b>	<b>2.60</b>	<b>2.68</b>	<b>2.69</b>
Australia New Zealand Bank (Sāmoa) Limited	1.41	1.59	1.32	1.16	1.16
Bank South Pacific (Sāmoa) Limited	3.13	2.72	3.20	3.05	3.08
National Bank of Sāmoa Limited	3.59	3.42	3.58	3.99	4.09
Samoa Commercial Bank Limited	3.22	3.13	3.04	2.67	2.62
<b>Market Shares</b>					
<b>Lending</b>					
Australia New Zealand Bank (Sāmoa) Limited	29.4	34.7	25.9	24.5	24.4
Bank South Pacific (Sāmoa) Limited	28.9	26.3	31.9	30.4	30.6
National Bank of Sāmoa Limited	21.9	19.6	22.9	25.7	25.4
Samoa Commercial Bank Limited	19.8	19.4	19.2	19.4	19.6

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<b>Deposit</b>					
Australia New Zealand Bank (Sāmoa) Limited	30.5	34.6	29.7	26.6	27.0
Bank South Pacific (Sāmoa) Limited	29.2	26.6	28.3	29.0	28.7
National Bank of Sāmoa Limited	19.9	18.2	20.5	22.5	22.3
Samoa Commercial Bank Limited	20.4	20.6	21.5	21.9	22.0
<b>Non-monetary Financial Institutions (NFIs)</b>					
<b>Weighted Average Lending (WAL)</b>					
Sāmoa National Provident Fund (SNPF)	8.23	7.91	8.59	8.27	8.27
Development Bank of Samoa (DBS)	5.35	5.52	4.73	4.40	4.40
Samoa Housing Corporation (SHC) <sup>1</sup>	13.37	13.37	13.37	6.17	6.16
<b>NFIs' Overall WAL 6</b>	<b>7.70</b>	<b>7.39</b>	<b>8.21</b>	<b>7.42</b>	<b>7.42</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, 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.