

REVIEW OF MONETARY DEVELOPMENTS SEPTEMBER 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 5.9 percent above than its forecast level due to higher than expected levels of net foreign assets reflecting the influx of external grants and the buildup of budget support funds for COVID-19 assistance.

Money Supply (M2)

Total Money Supply (M2) rose by \$16.75 million (or 1.3 percent) to \$1,260.93 million, due to expansions in both net domestic assets (NDA) and net foreign assets (NFA) by \$9.68 million and \$7.05 million respectively. The expansion in NDA was underpinned by a \$17.74 million rebound in total credit to the private sector, coupled with a small deficit in the government net position with the monetary system. The higher foreign inflows of government funds contributed to an increase in official reserves of the Central Banks, which ultimately led to an increase in NFA.

As a result, the annual average growth of M2 edged up to 0.9 percent from 0.8 percent in the previous month but was much lower than the 11.7 percent of the same month of the previous year.

Credit¹

Total financial system (FS) credit declined by \$11.37 million to \$1,955.43 million, on account of a significant drop of \$19.74 million in non-banks financial institutions' total lending, more

than offsetting an increase of \$8.37 million in commercial banks total lending.

The contraction in total FS credit highlighted the reductions in the 'Other activities', 'Building, constructions', and 'Trade' sectors.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.9 percent while the rest was attributed to the public non-bank financial institutions.

On an annual average basis, total FS credit has slowed down further to 6.1 percent from 6.7 percent in the previous month, and was also lower than 9.2 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)² 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 Money³

Total reserve money (RM) continued to grow, increasing by \$6.96 million (or 1.5 percent) to \$486.36 million, due mainly to an improvement of \$11.24 million in commercial banks' reserves (dominated by an increase in exchange settlement accounts (ESA)), offsetting a drop of \$4.28 million in the 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 \$51.67 million higher than its level in September 2019, or 34.5 percent and 53.14 percent higher than its corresponding levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity widened by \$8.78 million to \$322.23 million, resulting from a \$10.53 million in commercial banks' holding of excess resources more than offsetting a drop of \$1.75m in the banks' vault holdings.

Consequently, total liquidity edged up by \$32.82 million over the same month last year and was also 35.06 percent and 55.72 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 uncertainty of the economic environment created by the pandemic. The sharp slowdown in business activities and production coupled with the 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 the 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 rose by 7 basis points to 2.76 percent over the month, and was 3 basis points higher than that of September last year. Similarly, the weighted average lending (WAL) rate escalated by 3 basis points to 8.66 percent from the previous month, but was 18 basis points lower from a year ago.

Thus, the overall weighted average interest rate spread narrowed slightly to 5.90 percent from 5.94 percent in the previous month, but was

lower than 6.11 percent in the same period of 2019.

The current WAD rate was lower than its average rates of 2.8 percent over the last three years, but was higher than its level of 2.6 percent over the last five years. Contrarily, the current WAL rate was lower than 8.87 percent and 8.98 percent in the last three years and five years in that order.

The slight changes in the WAD rate and WAL interest rates, has seen the interest rates margin remain below the 6.00 percent mark for the sixth 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/>

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFI's) edged up 33 basis points to 7.75 percent, but was lower than 8.09 percent in September last year. This level was driven by the rises in the lending rates recorded for DBS and SNPF by 40 (to 4.80 percent) and 38 basis points (to 8.66 percent) while the lending rate for SHC steady at 6.16 over the month.

The current overall WAL rate was higher than its rate of 7.68 and 7.38 percent in the last three and five years respectively.

CENTRAL BANK OF SAMOA **04 November 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		2020		
	3-years	5-years	Sep	August	September
Amount in Tala Million					
Determinants of Money Supply (M 2)					
Net Foreign Assets ⁷	359.86	282.96	452.90	586.390	593.450
Net Domestic Assets	765.99	751.81	743.66	657.800	667.480
Money Supply (M 2)	1125.852	1034.768	1196.563	1244.19	1260.93
<i>Trend / Annual Average (%)</i>	10.9	9.2	11.7	0.8	0.9
<i>Narrow Money (M 1)</i>	457.95	433.14	540.95	517.58	521.17
Currency outside banks	86.61	76.20	99.89	108.94	106.41
Transferable Deposits ⁴	371.34	356.95	441.06	408.64	414.76
<i>Quasi Money</i>	629.66	578.68	655.61	726.61	739.77
Other Deposits ⁵	430.48	459.17	58.07	726.61	739.77
Central Bank of Samoa					
Open Markets Operations					
Securities Official Rate	0.16	0.15	0.15	0.15	0.15
Reserve Money ²					
Total	361.71	317.69	434.69	479.40	486.36
<i>Trend / Annual Growth (%)</i>	18.6	14.1	27.5	13.6	12.4
Financial System (FS)					
FS Credit					
Commercial Banks	1095.37	1034.52	1146.67	1165.804	1174.17
<i>Trend / Annual Growth (%)</i>	6.30	7.76	5.2	4.6	4.4
Non-Monetary Financial Institutions (NFIs)	667.51	605.61	759.43	801.00	781.26
<i>Trend / Annual Growth (%)</i>	11.70	10.04	16.2	10.1	8.8
Private Sector	1720.38	1596.69	1865.94	1937.29	1933.33
Businesses	991.43	928.47	1040.09	1083.00	1072.30
Individuals	728.9	668.2	825.85	854.29	861.03
Public Sector (NFIs, NPEs, & Govt)	42.51	43.44	40.16	29.52	22.10
Total FS Credit ⁶	1762.89	1640.13	1906.11	1966.80	1955.43
<i>Trend / Annual Growth (%)</i>	8.27	8.65	9.2	6.7	6.1
Commercial Banks ³					
Liquidity					
Total	238.59	206.94	289.42	313.46	322.23
<i>Trend / Annual Growth (%)</i>	23.87	17.30	27.9	12.0	10.8
Interest Rates					
Overall Weighted Average Lending	8.87	8.98	8.84	8.63	8.66
Australia New Zealand Bank (Samoa) Limited	9.40	9.26	9.35	8.42	8.45
Bank South Pacific (Samoa) Limited	7.77	8.04	7.79	8.06	8.10
National Bank of Samoa Limited	8.12	8.45	8.22	8.19	8.20
Samoa Commercial Bank Limited	10.58	10.51	10.64	10.36	10.40
Overall Weighted Average Deposit	2.8	2.6	2.95	2.69	2.76
Australia New Zealand Bank (Samoa) Limited	1.4	1.6	1.32	1.16	1.11
Bank South Pacific (Samoa) Limited	3.1	2.6	3.20	3.08	3.06
National Bank of Samoa Limited	3.5	3.3	3.89	4.09	4.11
Samoa Commercial Bank Limited	3.3	3.1	3.04	2.62	3.10
Market Shares					
Lending					
Australia New Zealand Bank (Samoa) Limited	29.5	34.4	26.5	24.4	23.7
Bank South Pacific (Samoa) Limited	29.2	26.5	32.1	30.6	30.8
National Bank of Samoa Limited	21.9	20.1	22.8	25.4	25.9
Samoa Commercial Bank Limited	19.39	18.98	18.7	19.6	19.6
Deposit					
Australia New Zealand Bank (Samoa) Limited	29.86	34.22	29.3	27.0	27.4
Bank South Pacific (Samoa) Limited	29.40	26.29	28.3	28.7	27.7
National Bank of Samoa Limited	20.34	18.61	20.8	22.3	22.2
Samoa Commercial Bank Limited	20.43	20.92	21.6	22.0	22.7
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)					
Samoa National Provident Fund (SNPF)	8.2	7.89	8.42	8.27	8.66
Development Bank of Samoa (DBS)	5.3	5.49	4.71	4.40	4.80
Samoa Housing Corporation (SHC) ¹	12.85	12.85	13.37	6.16	6.16
NFIs' Overall WAL ⁶	7.68	7.38	8.09	7.42	7.75

Source: Central Bank of Samoa

Review of Monetary Developments
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- (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.