

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

Money Supply (M2)

Total Money Supply (M2) continued to expand, rising by \$7.25 million (or 1.2 percent) to \$1,270.03 million, due to expansions in both net foreign assets (NFA) and net domestic assets (NDA) by \$7.25 million and \$1.85 million respectively. The increase in NFA was derived from higher foreign inflows of government funds through the Central Bank, while the hike in NDA was underpinned by an increase in total credit to the private sector, offsetting a small surplus in the government net position with the monetary system.

As a result, the annual average growth rate of M2 edged up to 1.1 percent from 0.9 percent in the previous month but was much lower than the 11.1 percent over the year.

Credit¹

Total financial system (FS) credit rebounded by \$8.81 million to \$1,964.24 million, on account of increases in both commercial banks and non-bank financial institutions' lending by \$4.41 million and \$4.40 million in that order.

The growth in total FS credit highlighted the expansions in the *'Professional and business*

services', 'Manufacturing', '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 5.6 percent from 6.1 percent in the previous month, and was also lower than 9.1 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 in the September 2020 quarter from 88.2 percent in the June 2020 quarter. As for M2, its share to NGDP edged up to 57.6 percent in the September quarter of 2020 from 54.9 percent in the previous quarter.

Reserve Money³

Total reserve money (RM) recorded a further increase of \$7.46 million (or 1.5 percent) to \$493.82 million, as driven mainly by an increase of \$6.37 million in currency in circulation, alongside a minimal hike of \$0.94 million in commercial banks' reserves.

In addition, total reserve money was \$64.32 million higher than its level in October 2019, or 36.77 percent and 57.43 percent higher than its

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

corresponding levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity narrowed slightly by \$0.50 million to \$321.74 million, resulting from a drop of \$1.21 million in commercial banks' holdings of vault cash against a rise of \$0.71 million in their holdings of excess reserves.

Consequently, total liquidity improved by \$25.45 million over the same month last year and was also 29.99 percent and 53.83 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 at zero 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 remains at 0.15 percent until OMO resumes its operations again.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate declined by 2 basis points to 2.74 percent over the month, and was 4 basis points lower than that of October last year. On the contrary, the weighted average lending (WAL) rate rose by 1 basis point to 8.67 percent from the previous month, but was 17 basis points lower a year ago.

Thus, the overall weighted average interest rate spread expanded to 5.93 percent from 5.90 percent in the previous month, but was lower than 6.06 percent in the same month of 2019.

The current WAD rate was lower than its average rate of 2.75 percent over the last three years, but was higher than 2.61 percent over the last five years. Conversely, the current WAL rate was lower than 8.88 percent and 8.99 percent in the last three years and five years in respectively.

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 seventh 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) jumped 47 basis points to 8.23 percent, but was lower than 8.14 percent in October last year. This was underpinned by a sharp hike of 699 basis points (to 13.15 percent) in the lending rate recorded for SHC⁷. In contrast, the DBS WAL rate dropped by 58 basis points to 4.22 percent while that for SNPF remained steady at 8.66 percent.

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

3rd December 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 Samoa (DBS) and Samoa 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.

⁷ This is due to interest rates reverting back to normal rates as the interest rate holiday ends for some SHC clients.

Monetary Aggregates

End of Period Figures	Average level in the previous		2019		2020
	3-years	5-years	October	September	October
Determinants of Money Supply (M2)	Amount in Tala Million				
Net Foreign Assets ⁷	360.07	276.61	449.08	593.450	600.700
Net Domestic Assets	770.04	760.75	748.16	667.480	669.330
Money Supply (M2)	<u>1130.114</u>	<u>1037.363</u>	<u>1197.242</u>	<u>1260.93</u>	<u>1270.03</u>
<i>Trend / Annual Average (%)</i>	10.90	9.06	11.1	0.9	1.1
<i>Narrow Money (M1)</i>	486.34	447.19	514.46	521.17	530.33
Currency outside banks	81.92	72.69	96.03	106.41	113.98
Transferable Deposits ⁴	404.42	374.50	418.43	414.76	416.35
<i>Quasi Money</i>	643.78	590.18	682.79	739.77	739.70
Other Deposits ⁵	432.31	463.30	48.39	739.77	739.70
Central Bank of Samoa					
Open Markets Operations					
Securities Official Rate	0.18	0.16	0.17	0.15	0.15
Reserve Money²					
Total	361.073	313.670	429.51	486.36	493.83
<i>Trend / Annual Growth (%)</i>	19.70	14.19	29.2	12.4	11.6
Financial System (FS)					
FS Credit					
Commercial Banks	1110.359	1044.682	1166.5	1174.17	1178.577
<i>Trend / Annual Growth (%)</i>	6.0	7.8	5.2	4.4	4.1
Non-Monetary Financial Institutions (NFIs)	685.35	601.30	764.45	781.26	785.67
<i>Trend / Annual Growth (%)</i>	11.7	10.1	15.8	8.8	8.1
Private Sector	1756.48	1589.41	1890.89	1933.33	1942.35
Businesses	1005.92	925.45	1044.68	1072.30	1073.19
Individuals	755.98	684.53	846.2	861.03	869.16
Public Sector (NFIs, NPEs, & Govt)	44.91	43.37	40.07	22.10	21.90
Total FS Credit ⁶	1796.19	1629.80	1930.57	1955.43	1964.24
<i>Trend / Annual Growth (%)</i>	8.1	8.6	9.1	6.1	5.6
Commercial Banks³					
Liquidity					
Total	247.50	209.14	296.29	322.23	321.74
<i>Trend / Annual Growth (%)</i>	25.1	17.0	31.0	10.8	9.3
Interest Rates					
Overall Weighted Average Lending	8.88	8.99	8.84	8.66	8.67
Australia New Zealand Bank (Sāmoa) Limited	9.49	9.32	9.50	8.45	8.42
Bank South Pacific (Sāmoa) Limited	7.77	8.09	7.77	8.10	8.14
National Bank of Sāmoa Limited	8.09	8.42	8.1	8.20	8.23
Samoa Commercial Bank Limited	10.57	10.50	10.68	10.40	10.36
Overall Weighted Average Deposit	2.75	2.61	2.78	2.76	2.74
Australia New Zealand Bank (Sāmoa) Limited	1.37	1.56	1.35	1.11	1.22
Bank South Pacific (Sāmoa) Limited	3.18	2.80	3.29	3.06	2.94
National Bank of Sāmoa Limited	3.76	3.51	3.91	4.11	4.07
Samoa Commercial Bank Limited	3.27	3.13	3.06	3.10	3.16
Market Shares					
Lending					
Australia New Zealand Bank (Sāmoa) Limited	29.2	34.1	26.6	23.7	23.6
Bank South Pacific (Sāmoa) Limited	29.1	26.5	31.8	30.8	30.8
National Bank of Sāmoa Limited	22.4	20.5	23.2	25.9	25.8
Samoa Commercial Bank Limited	19.3	18.9	18.5	19.6	19.9

Review of Monetary Developments
October 2020

Deposit					
Australia New Zealand Bank (Sāmoa) Limited	30.3	33.8	29.3	27.4	25.8
Bank South Pacific (Sāmoa) Limited	28.9	26.3	27.7	27.7	29.3
National Bank of Sāmoa Limited	20.4	19.0	21.2	22.2	22.3
Samoa Commercial Bank Limited	20.5	20.9	21.8	22.7	22.6
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)					
Sāmoa National Provident Fund (SNPF)	8.20	7.90	8.44	8.66	8.66
Development Bank of Samoa (DBS)	5.08	5.32	4.72	4.80	4.22
Samoa Housing Corporation (SHC) ¹	12.92	12.92	13.43	6.16	13.15
NFIs' Overall WAL 6	7.79	7.36	8.14	7.75	8.23

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.