

## REVIEW OF MONETARY DEVELOPMENTS NOVEMBER 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.5: 2020/21

November 2020

### **Monetary Forecast**

The actual level of money supply (M2) was 8.2 percent above its forecast level for November 2020. This deviation was due to higher than expected levels of net foreign assets (reflecting the influx of external grants and budget support funds for COVID-19 assistance) as well as an expansion in private sector credit.

### **Money Supply (M2)**

Total Money Supply (M2) rose for the third consecutive month by \$22.10 million (or 1.7 percent) to \$1,292.13 million, due to expansions in both net domestic assets (NDA) and net foreign assets (NFA) by \$19.66 million and \$2.43 million respectively. The upturn in NDA was mainly driven by a deficit in the government net position with the monetary system (reflecting increased government's spending), coupled with a hike in the total credit to the private sector. Similarly, the increase in NFA reflected an expansion in foreign holdings of the banking sector, offsetting a slight drop in those of the Central Bank.

As a result, the annual average growth rate of M2 edged up to 1.5 percent from 1.1 percent in the previous month but was much lower than 10.5 percent over the year.

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

Total financial system (FS) credit continued to grow, rising by \$16.36 million to \$1,981.10 million, on account of increases in both non-

bank financial institutions' and commercial banks' lending by \$8.69 million and \$8.17 million in that order.

The growth in total FS credit highlighted the expansions in lending to the 'Other activities', 'Electricity, gas and water' and 'Building, construction and installation' industries.

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, the total FS credit slowed down further to 5.1 percent from 5.6 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)<sup>2</sup> amounted to \$2,077,939 million at end of September 2020. At this level, the share of the FS credit to NGDP increased to 95.33 percent in the September 2020 quarter from 91.0 percent in the June 2020 quarter. As for M2, its share to NGDP edged up to 62.2 percent in the September quarter of 2020 from 57.6 percent in the previous quarter.

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

Total reserve money (RM) recorded a further increase of \$6.85 million (or 1.4 percent) to \$500.67 million, as a result of an improvement

<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

of \$8.38 million in commercial banks' reserves against a minimal drop of \$1.55 million in currency in circulation.

In addition, total reserve money was \$84.94 million higher than its level in November 2019, or 41.17 percent and 62.90 percent higher than its corresponding levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

Total commercial banks' liquidity remained abundant in November 2020, increasing by \$12.6 million to \$334.38 million. This was underpinned by an expansion of \$8.21 million in excess reserves coupled with an increase of \$4.44 million in their vault cash holdings.

Consequently, total liquidity improved significantly by \$54.4 million over the same month last year and was also 39.76 percent and 65.10 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>**

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 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 18 basis points to 2.57 percent over the month, in-light of reductions in deposit rates of all the commercial banks recorded for the month. At this level it was also 16 basis points lower than that of November last year. Similarly, the weighted

average lending (WAL) rate contracted by 2 basis point to 8.65 percent from the previous month, and was 16 basis points lower than a year ago. As a result, the overall weighted average interest rate spread expanded to 6.08 percent from 5.93 percent in the previous month, but was lower than 6.09 percent in the same month of 2019.

The current WAD rate was lower than its average rate of 2.70 percent in the last three years, but was similar to its average rate of 2.57 percent over the past five years. Likewise, the current WAL rate was also lower than 8.91 percent and 9.00 percent in the last three and five years respectively.

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

The overall WAL rate for non-bank financial institutions (NFI's) edged up 4 basis points to 8.27 percent, and was higher than 8.16 percent in November last year. This was underpinned by a hike of 16 basis points (to 4.38 percent) and 2 basis points (to 8.68 percent) in the lending rates recorded for DBS and SNPF respectively, while that for SHC fell by 2 basis points to 13.12 percent.

The current overall WAL rate was higher than its rates of 7.86 and 7.46 percent in the last three and five years respectively.

## **CENTRAL BANK OF SAMOA** **11<sup>th</sup> January 2021**

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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).

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<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	Nov	October	November
<b>Determinants of Money Supply (M2)</b>	<b>Amount in Tala Million</b>				
Net Foreign Assets <sup>7</sup>	374.29	283.12	437.495	600.700	603.130
Net Domestic Assets	776.87	768.47	769.25	669.330	688.990
<b>Money Supply (M2)</b>	<b><u>1150.16</u></b>	<b><u>1050.98</u></b>	<b><u>1203.745</u></b>	<b><u>1261.93</u></b>	<b><u>1292.13</u></b>
<i>Trend / Annual Average (%)</i>	10.83	8.93	10.5	1.1	1.5
<i>Narrow Money (M1)</i>	510.72	464.60	524.25	530.33	537.44
Currency outside banks	83.38	72.95	98.29	113.98	108.01
Transferable Deposits <sup>4</sup>	427.33	391.65	425.962	416.35	429.43
<i>Quasi Money</i>	640.44	586.99	682.495	739.70	754.69
Other Deposits <sup>5</sup>	430.96	461.30	54.06	739.70	754.69
<b>Central Bank of Samoa</b>					
<b>Open Markets Operations</b>					
Securites Official Rate	0.16	0.16	0.17	0.15	0.15
<b>Reserve Money<sup>2</sup></b>					
<b>Total</b>	<b>354.65</b>	<b>307.34</b>	<b>415.73</b>	<b>493.83</b>	<b>500.67</b>
<i>Trend / Annual Growth (%)</i>	20.80	14.13	29.0	11.6	11.9
<b>Financial System (FS)</b>					
<b>FS Credit</b>					
<b>Commercial Banks</b>	<b>1122.88</b>	<b>1055.34</b>	<b>1183.11</b>	<b>1178.577</b>	<b>1980.61</b>
<i>Trend / Annual Growth (%)</i>	5.83	7.76	5.4	4.1	3.6
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>693.76</b>	<b>626.38</b>	<b>768.72</b>	<b>785.67</b>	<b>794.35</b>
<i>Trend / Annual Growth (%)</i>	11.73	10.07	15.3	8.1	7.6
<b>Private Sector</b>	<b>1748.70</b>	<b>1623.90</b>	<b>1912.12</b>	<b>1942.35</b>	<b>1958.20</b>
Businesses	998.03	939.43	1050.71	1073.19	1078.00
Individuals	767.66	694.66	861.41	869.16	880.20
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>50.95</b>	<b>47.62</b>	<b>39.7</b>	<b>21.90</b>	<b>22.40</b>
<b>Total FS Credit <sup>6</sup></b>	<b>1816.64</b>	<b>1681.72</b>	<b>1951.83</b>	<b>1964.24</b>	<b>1981.10</b>
<i>Trend / Annual Growth (%)</i>	8.00	8.61	9.1	5.6	5.1
<b>Commercial Banks<sup>3</sup></b>					
<b>Liquidity</b>					
<b>Total</b>	<b>239.25</b>	<b>202.54</b>	<b>279.95</b>	<b>321.74</b>	<b>334.38</b>
<i>Trend / Annual Growth (%)</i>	26.53	16.56	30.2	9.3	9.7
<b>Interest Rates</b>					
<b>Overall Weighted Average Lending</b>	<b>8.91</b>	<b>9.00</b>	<b>8.81</b>	<b>8.67</b>	<b>8.65</b>
Australia New Zealand Bank (Sāmoa) Limited	9.49	9.33	9.23	8.42	8.32
Bank South Pacific (Sāmoa) Limited	7.81	8.11	7.80	8.14	8.15
National Bank of Sāmoa Limited	8.12	8.37	8.18	8.23	8.22
Samoa Commercial Bank Limited	10.61	10.52	10.72	10.36	10.33
<b>Overall Weighted Average Deposit</b>	<b>2.70</b>	<b>2.57</b>	<b>2.72</b>	<b>2.74</b>	<b>2.57</b>
Australia New Zealand Bank (Sāmoa) Limited	1.34	1.54	1.35	1.22	1.03
Bank South Pacific (Sāmoa) Limited	3.08	2.70	3.24	2.94	2.57
National Bank of Sāmoa Limited	3.67	3.42	3.76	4.07	3.90
Samoa Commercial Bank Limited	3.32	3.20	3.08	3.16	3.09
<b>Market Shares</b>					
<b>Lending</b>					
Australia New Zealand Bank (Sāmoa) Limited	29.18	33.96	26.6	23.6	24.7
Bank South Pacific (Sāmoa) Limited	29.13	26.52	31.4	30.8	30.4
National Bank of Sāmoa Limited	22.50	20.54	23.8	25.8	25.0

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Samoa Commercial Bank Limited	19.23	19.00	18.3	19.9	19.9
<b>Deposit</b>					
Australia New Zealand Bank (Sāmoa) Limited	30.87	34.22	30.3	25.8	25.5
Bank South Pacific (Sāmoa) Limited	28.70	26.22	26.7	29.3	28.5
National Bank of Sāmoa Limited	20.53	19.30	21.4	22.3	23.1
Samoa Commercial Bank Limited	19.87	20.22	21.6	22.6	22.9
<b>Non-monetary Financial Institutions (NFIs)</b>					
<b>Weighted Average Lending (WAL)</b>					
Sāmoa National Provident Fund (SNPF)	8.35	7.99	8.52	8.66	8.68
Development Bank of Samoa (DBS)	5.01	5.19	4.55	4.22	4.38
Samoa Housing Corporation (SHC) <sup>1</sup>	12.96	12.96	13.39	13.15	13.12
<b>NFIs' Overall WAL 6</b>	<b>7.86</b>	<b>7.46</b>	<b>8.16</b>	<b>8.23</b>	<b>8.27</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.