

## REVIEW OF MONETARY DEVELOPMENTS DECEMBER 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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December 2020

### Monetary Forecast

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

### Money Supply (M2)

Total Money Supply (M2) rose for the fourth consecutive month, up by \$17.78 million (or 1.4 percent) to \$1,309.91 million. This hike was underpinned by a marked expansion of \$51.03 million in net foreign assets (NFA), against a drop of \$33.25 million in net domestic assets (NDA). The upturn in NFA reflected the increases in foreign holdings of both the Central Bank and the banking system whilst the fall in NDA was underpinned by a surplus (of \$31.64 million) in the government net position with the monetary system, highlighting a build-up of government funds. In addition, total commercial banks' credit to the private sector and non-monetary financial institutions also contracted.

As a result, the annual average growth rate of M2 leveled out at 1.5 percent over the month but was much lower than 10.1 percent over the year.

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

Total financial system (FS) credit increased further by \$5.53 million to \$1,986.63 million,

due mainly to a rise of \$7.59 million in total lending of non-bank financial institutions, offsetting a decline of \$2.05 million in commercial banks credit.

The growth in total FS credit mostly lent to 'Other activities', sector, with smaller hikes in 'Building, construction and installation', 'Electricity, gas and water' and 'Manufacturing' industries.

By sector, the bulk of FS credit was directed to the private sector (mainly to individuals) with a share of 98.9 percent, while the rest were lent to the public non-bank financial institutions.

On an annual average basis, the total FS credit slowed down further to 4.6 percent from 5.1 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 \$2,077.93 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.

<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.

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

Total reserve money (RM) expanded by \$3.75 million (or 0.7 percent) to \$504.43 million as a result of a seasonal expansion of \$24.06 million in currency in circulation, despite a reduction of \$20.30 million in commercial banks' reserves.

In addition, total reserve money was \$78.19 million higher than its level in December 2019, or 37.56 percent and 58.51 percent higher than its corresponding levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

Total commercial banks' liquidity dropped by a seasonal \$10.39 million due to a contraction of \$20.65 million in excess reserves, despite a hike of \$10.26 million in their holdings of vault cash.

Consequently, total liquidity improved significantly by \$43.94 million over the same month last year and was also 40.86 percent and 65.59 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 rose by 9 basis points to 2.65 percent over the month, and was also 27

basis points higher than that of December last year. On the other hand, the weighted average lending (WAL) rate shrank by 15 basis points to 8.50 percent from the previous month, and was 29 basis points lower than a year ago. As a result, the overall weighted average interest rate spread edged down to 5.85 percent from 6.08 percent in the previous month, but was lower than 6.41 percent in the same month of 2019.

The current WAD rate was higher than its average rate of 2.55 percent and 2.50 percent in the last three and five years respectively. Conversely, the current WAL rate was lower than 8.90 percent and 9.00 percent in the last three and five years in that order.

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

The overall WAL rate for non-bank financial institutions (NFI's) remained at 8.27 percent over the month, but was higher than 8.18 percent in December last year. This was underpinned by lower lending rates for both DBS and SHC, falling by 10 basis points (to 4.28 percent) and 4 basis points (to 13.08 percent) in that order. Meanwhile, the SNPF's WAL rate increased by 3 basis points to 8.70 percent.

The current overall WAL rate (of 8.27 percent) was higher than its rates of 7.80 and 7.40 percent in the last three and five years correspondingly.

## **CENTRAL BANK OF SAMOA 1<sup>st</sup> February 2021**

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<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

<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.

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**Monetary Aggregates**

End of Period Figures	Average level in the previous		2019	2020		
	3-years	5-years	Dec	Oct	Nov	Dec
<b>Determinants of Money Supply (M2)</b>	<b>Amount in Tala Million</b>					
Net Foreign Assets <sup>7</sup>	393.66	303.87	465.95	600.700	603.130	654.160
Net Domestic Assets	780.57	763.94	776.909	669.330	688.990	655.730
<b>Money Supply (M2)</b>	<b><u>1174.23</u></b>	<b><u>1067.81</u></b>	<b><u>1242.865</u></b>	<b><u>1261.93</u></b>	<b><u>1292.13</u></b>	<b><u>1309.89</u></b>
<i>Trend / Annual Average (%)</i>	10.7	8.8	10.1	1.1	1.5	1.5
<i>Narrow Money (M1)</i>	524.26	473.87	550.64	530.33	537.44	554.96
Currency outside banks	99.68	86.86	108.58	113.98	108.01	121.8
Transferable Deposits <sup>4</sup>	424.58	387.01	442.06	416.35	429.43	430.43
<i>Quasi Money</i>	649.97	593.94	692.22	739.70	754.69	754.95
Other Deposits <sup>5</sup>	649.97	593.94	692.22	739.70	754.69	754.95
<b>Central Bank of Samoa</b>						
<b>Open Markets Operations</b>						
Securites Official Rate	0.16	0.16	0.17	0.15	0.15	0.15
<b>Reserve Money<sup>2</sup></b>						
<b>Total</b>	<b><u>366.69</u></b>	<b><u>318.22</u></b>	<b><u>426.23</u></b>	<b><u>493.83</u></b>	<b><u>500.67</u></b>	<b><u>504.43</u></b>
<i>Trend / Annual Growth (%)</i>	21.5	14.2	28.2	11.6	11.9	12.2
<b>Financial System (FS)</b>						
<b>FS Credit</b>						
<b>Commercial Banks</b>	<b><u>1128.83</u></b>	<b><u>1060.82</u></b>	<b><u>1184.31</u></b>	<b><u>1178.577</u></b>	<b><u>1186.74</u></b>	<b><u>1184.69</u></b>
<i>Trend / Annual Growth (%)</i>	5.6	7.7	5.5	4.1	3.6	3.1
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b><u>697.35</u></b>	<b><u>634.50</u></b>	<b><u>775.56</u></b>	<b><u>785.67</u></b>	<b><u>794.35</u></b>	<b><u>801.94</u></b>
<i>Trend / Annual Growth (%)</i>	11.6	10.1	14.8	8.1	7.6	7.0
<b>Private Sector</b>	<b><u>1773.86</u></b>	<b><u>1645.49</u></b>	<b><u>1919.79</u></b>	<b><u>1942.35</u></b>	<b><u>1958.20</u></b>	<b><u>1964.79</u></b>
Businesses	999.39	943.36	1059.09	1073.19	1078.00	1077.44
Individuals	771.43	700.30	860.70	869.16	880.69	887.36
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b><u>51.69</u></b>	<b><u>49.45</u></b>	<b><u>40.09</u></b>	<b><u>21.90</u></b>	<b><u>22.40</u></b>	<b><u>21.84</u></b>
<b>Total FS Credit <sup>6</sup></b>	<b><u>1826.52</u></b>	<b><u>1695.52</u></b>	<b><u>1960.87</u></b>	<b><u>1964.24</u></b>	<b><u>1981.10</u></b>	<b><u>1986.63</u></b>
<i>Trend / Annual Growth (%)</i>	7.8	8.6	8.9	5.6	5.1	4.6
<b>Commercial Banks<sup>3</sup></b>						
<b>Liquidity</b>						
<b>Total</b>	<b><u>230.02</u></b>	<b><u>195.66</u></b>	<b><u>280.06</u></b>	<b><u>321.74</u></b>	<b><u>334.38</u></b>	<b><u>324.00</u></b>
<i>Trend / Annual Growth (%)</i>	28.4	16.9	29.3	9.3	9.7	9.4
<b>Interest Rates</b>						
<b>Overall Weighted Average Lending</b>	<b><u>8.90</u></b>	<b><u>9.00</u></b>	<b><u>8.79</u></b>	<b><u>8.67</u></b>	<b><u>8.65</u></b>	<b><u>8.50</u></b>
Australia New Zealand Bank (Sāmoa) Limited	9.52	9.33	9.28	8.42	8.32	8.29
Bank South Pacific (Sāmoa) Limited	7.79	8.11	7.76	8.14	8.15	8.21
National Bank of Sāmoa Limited	8.09	8.41	8.17	8.23	8.22	7.57
Samoa Commercial Bank Limited	10.61	10.56	10.67	10.36	10.33	10.31
<b>Overall Weighted Average Deposit</b>	<b><u>2.55</u></b>	<b><u>2.50</u></b>	<b><u>2.38</u></b>	<b><u>2.74</u></b>	<b><u>2.57</u></b>	<b><u>2.65</u></b>
Australia New Zealand Bank (Sāmoa) Limited	1.42	1.59	1.39	1.22	1.03	1.04
Bank South Pacific (Sāmoa) Limited	2.82	2.60	3.11	2.94	2.57	2.75
National Bank of Sāmoa Limited	3.29	3.23	3.87	4.07	3.90	3.84
Samoa Commercial Bank Limited	3.36	3.21	3.18	3.16	3.09	3.01
<b>Market Shares</b>						
<b>Lending</b>						
Australia New Zealand Bank (Sāmoa) Limited	28.6	33.2	26.0	23.6	24.7	24.5
Bank South Pacific (Sāmoa) Limited	29.4	26.8	31.8	30.8	30.4	30.4
National Bank of Sāmoa Limited	22.9	20.9	24.0	25.8	25.0	25.0
Samoa Commercial Bank Limited	19.1	19.1	18.2	19.9	19.9	20.1

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<b>Deposit</b>						
Australia New Zealand Bank (Sāmoa) Limited	29.1	32.7	28.6	25.8	25.5	24.3
Bank South Pacific (Sāmoa) Limited	29.4	26.8	28.7	29.3	28.5	29.9
National Bank of Sāmoa Limited	21.6	20.2	22.1	22.3	23.1	22.7
Samoa Commercial Bank Limited	19.9	20.3	20.6	22.6	22.9	23.1
<b>Non-monetary Financial Institutions (NFIs)</b>						
<b>Weighted Average Lending (WAL)</b>						
Sāmoa National Provident Fund (SNPF)	8.26	7.91	8.54	8.66	8.68	8.70
Development Bank of Samoa (DBS)	5.04	5.21	4.56	4.22	4.38	4.28
Samoa Housing Corporation (SHC) <sup>1</sup>	12.59	12.59	13.31	13.15	13.12	13.08
<b>NFIs' Overall WAL 6</b>	<b>7.80</b>	<b>7.40</b>	<b>8.18</b>	<b>8.23</b>	<b>8.27</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.