

REVIEW OF MONETARY DEVELOPMENTS FEBRUARY 2019

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

Actual money supply (M2) for the month was 6.0 percent higher than its projection¹ due to higher than expected levels for foreign assets of the Central Bank and the banking system, as well as an increase in total credit to the private sector.

Money Supply (M2)

Total money supply (M2) continued to grow, rising by \$37.55 million (or 3.1 percent) to \$1,244.40 million. This expansion reflected a significant rebound of \$23.9 million in Net Domestic Assets (NDA), as well as an increase of \$13.61 million in Net Foreign Assets (NFA). The hike in the former was fuelled by a further improvement in credit to the private sector, coupled with a decline in the government's net position with the monetary system. The improvement in the latter was underpinned by an upturn in foreign holdings of both the Central Bank and commercial banks during the month.

Consequently, the annual average growth rate of M2 slightly increased to 12.8 percent, up from 12.2 percent in the previous month, and from 10.7 percent in the same month last year.

Credit²

The total financial system (FS) credit rebounded by \$19.36 million (or 1.07 percent) to \$1,835.70 million, after a drop in the

previous month. This increase was due entirely to a hike of \$19.58 million (or 1.76 percent) in total commercial banks credit, while total non-bank financial institutions' (NFIs) lending slightly declined by \$0.22 million.

Moreover, the hike in total credit was mainly lent to the businesses and individuals sectors, of which were 'other activities', 'manufacturing' and 'professional services' industries.

As a result, the annual average growth of FS credit increased to 5.9 percent, from 5.4 percent in the previous month, but was lower than 7.6 percent in February last year.

The latest update for national accounts released by the Sāmoa Bureau of Statistics' (SBS), registered an annual total of Nominal Gross Product (NGDP)³ of \$2,156.41 million at end December 2018. At this level, the shares of FS credit and M2 to NGDP increased to 84.9 percent and 55.1 percent respectively in December 2018, from 82.1 percent and 54.2 percent in that order at end September 2018.

Reserve Money⁴

The total reserve money (RM) was unchanged at \$397.65 million, following a gradual increasing trend over the past three months. This level was primarily due to a moderate increase of \$1.58 million in currency in circulation, which was offset by a \$1.62 million decrease in commercial banks' reserves. The

¹ Original Forecasts made in July 2018.

² 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)

³ GDP 2013 Rebase became effective in December 2018.

⁴ 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

drop in the latter reflected a decrease of \$2.95 million in excess reserves, which outweighed a \$1.33 million increase in required reserves. However, total RM rose considerably by \$103.06 million above its level in the same month last year.

Similarly, the current level was 53.76 percent and 61.06 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Following an increase in the previous month, total commercial banks liquidity grew further by \$2.93 million (or 1.0 percent) to \$284.34 million. This is mainly due to an expansion of \$5.00 million in commercial banks' holdings of CBS securities, coupled with a slight gain of \$0.88 million in their vault cash holdings. These improvements were partially offset by a drop of \$2.95 million in commercial banks' aggregated exchange settlement accounts (ESA).

Furthermore, total liquidity was \$78.44 million higher than last month's level. Similarly, when compared to the previous three and five years' respectively, total liquidity were 68.5 percent and 71.2 percent higher in that order.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)⁵

Total CBS securities issued has increased to \$28.00 million from \$26.00 million in the previous month. Of this total, \$19.00 million were issued at short-term maturities of 14-day and 28-day papers, while the remaining \$9.00 million was issued at slightly longer-term maturities of 56-day and 91-day papers. These were purchased at yields of 0.13 percent, 0.16 percent, 0.18 percent and 0.41 percent in that corresponding order. As a result, the total amount of CBS securities outstanding

increased to \$31.00 million in February 2019 from \$26.00 million in the previous month.

As a result, the official interest rate (or overall weighted average yield on CBS securities) edged up to 0.19 percent from 0.17 percent a month ago and 0.15 percent in the same month last year.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate dropped 5 basis points to 2.72 percent over the previous month, and was also 16 basis points lower than that of February 2018.

In contrast, the weighted average lending (WAL) rate edged up by 1 basis point to 9.02 percent from the previous month, or 13 basis points higher than in February 2018. Consequently, the overall weighted average spread expanded to 6.30 percent from 6.24 percent in the previous month and 6.01 percent in the same month last year.

When compared to the last three and five years, the current WAD rate was higher than 2.41 percent but lower than 3.14 percent for those respective periods. On the other hand, the WAL rate was way below its rates of 9.35 percent and 10.20 percent for those corresponding periods.

NFIs⁶ lending rates

The overall WAL rate for non-bank financial institutions (NFIs) edged up 2 basis points to 8.04 percent. Accounting for the increase was a rise of 2 basis points to 8.36 percent in WAL rate for SNPF while those for DBS and SHC were both down by 2 basis points each to 5.35 percent and 12.55 percent respectively.

Central Bank of Samoa 10 April 2019

⁵Central 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).

⁶ 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.

Monetary Aggregates

End of Period Figures	Average level in the previous		2018	2019	
	3-years	5-years	Dec	Jan	Feb
Determinants of Money Supply (M2) ⁷			Amount in Tala Million		
Net Foreign Assets	208.03	194.07	421.77	445.49	459.09
Net Domestic Assets	750.78	689.92	765.97	761.37	785.30
Money Supply (M2)	958.81	883.99	1187.740	1206.855	1244.400
<i>Trend / Annual Average (%)</i>	7.67	7.86	11.9	12.2	12.8
<i>Narrow Money (M1)</i>	410.41	366.90	525.77	542.92	579.70
Currency outside banks	61.06	57.17	103.18	88.28	88.99
Transferable Deposits ⁴	349.35	309.72	422.59	454.64	490.71
<i>Quasi Money</i>	548.39	517.09	661.97	663.93	664.70
Other Deposits ⁵	548.39	517.09	661.97	663.93	664.70
Central Bank of Samoa			Maturity Yield		
Open Markets Operations					
Securites Official Rate	0.20	0.15	0.15	0.17	0.19
Reserve Money²			Amount in Tala Million		
Total	258.61	246.90	370.69	397.69	397.65
<i>Trend / Annual Growth (%)</i>	53.8	61.1	22.4	22.7	23.0
Financial System (FS)			Amounts in Tala Million		
FS Credit					
Commercial Banks ⁷	1005.79	930.07	1124.86	1112.16	1131.73
<i>Trend / Annual Growth (%)</i>	12.5	21.7	3.1	3.3	3.7
Non-Monetary Financial Institutions (NFIs)	567.55	522.48	705.35	704.19	703.97
<i>Trend / Annual Growth (%)</i>	24.0	34.7	8.4	9.1	9.8
Private Sector	1524.92	1402.83	1773.14	1762.83	1781.98
Businesses	898.79	806.79	984.06	983.31	1000.31
Individuals	626.13	596.04	779.95	779.53	781.67
Public Sector (NFIs, NPEs, & Govt)	48.43	49.93	55.15	53.51	53.53
Total FS Credit ⁸	1573.35	1452.76	1830.21	1816.34	1835.70
<i>Trend / Annual Growth (%)</i>	16.7	26.4	5.0	5.4	5.9
Commercial Banks³			Amounts in Tala Million		
Liquidity					
Total	168.73	162.80	232.25	281.41	284.35
<i>Trend / Annual Growth (%)</i>	68.5	74.7	39.0	37.6	35.8
Interest Rates			Percentage		
Overall Weighted Average Lending ⁷	9.35	10.20	9.03	9.01	9.02
Australia New Zealand Bank (Sāmoa) Limited	8.78	9.95	9.79	9.77	9.74
Bank South Pacific (Sāmoa) Limited	9.65	10.23	7.86	7.84	7.88
National Bank of Sāmoa Limited	9.44	10.57	8.15	8.19	8.21
Samoa Commercial Bank Limited	10.26	10.42	10.68	10.66	10.67
Overall Weighted Average Deposit	2.41	3.14	2.72	2.77	2.72
Australia New Zealand Bank (Sāmoa) Limited	1.90	2.71	1.43	1.42	1.37
Bank South Pacific (Sāmoa) Limited	2.14	2.88	2.87	2.98	2.85
National Bank of Sāmoa Limited	3.30	3.62	3.64	3.88	4.05
Samoa Commercial Bank Limited	2.98	3.99	3.41	3.25	3.24

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Market Shares					
Lending ⁷					
Australia New Zealand Bank (Sāmoa) Limited	42.82	48.51	28.0	28.01	27.60
Bank South Pacific (Sāmoa) Limited	23.39	16.97	29.7	30.11	29.70
National Bank of Sāmoa Limited	15.75	15.47	22.7	22.3	23.1
Samoa Commercial Bank Limited	18.05	19.05	19.6	19.6	19.6
Deposit					
Australia New Zealand Bank (Sāmoa) Limited	38.20	46.01	28.7	28.41	29.50
Bank South Pacific (Sāmoa) Limited	24.10	18.22	29.8	31.60	31.80
National Bank of Sāmoa Limited	16.20	16.93	21.3	19.98	19.70
Samoa Commercial Bank Limited	21.40	18.84	20.1	20.01	19.00
Non-monetary Financial Institutions (NFIs)					
Weighted Average Lending (WAL)			Percentage		
Sāmoa National Provident Fund (SNPF) ⁶	7.60	7.83	8.33	8.34	8.36
Development Bank of Samoa (DBS)	5.73	4.32	5.39	5.37	5.35
Samoa Housing Corporation (SHC) ¹	11.57	10.03	12.57	12.57	12.55
NFIs' Overall WAL ^{6 8}	7.00	6.80	8.01	8.02	8.04

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 and commercial banks Exchange Settlement Accounts (ESA) and

(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) Reflects the reclassification of loans to their appropriate interest rate structure in November 2018.

(7) Changes back to June 2016 under Financial System Credit section due to revised figures from the commercial banks

(8) Effective October 2018, Sāmoa Housing Corporation started reporting to Central Bank on monthly basis as was previously

¹® Revised