

REVIEW OF MONETARY DEVELOPMENTS

January 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 0.9 percent lower than its revised projection for the month. This deviation was due mainly to lower than expected level of net domestic assets; reflecting surpluses in government accounts and lower than expected lending to the non-bank financial institutions.

Money Supply (M2)

Total money supply (M2) reported a contraction of \$11.87 million (or 1.0 percent) to \$1,230.94 million over December 2019, due mainly to a considerable decline of \$27.89 million in net domestic assets (NDA) despite an increase of \$16.03 million in net foreign assets (NFA). The drop in the former was on account of an increase in the government net position with the monetary system (or government surplus), in addition to a further drop in net credit to non-monetary financial institutions and other items net. In contrast, the net foreign assets (NFA) saw a significant increase in foreign holdings of the Central Bank, offsetting a fall in foreign holdings of the commercial banks.

As a result, the annual average growth rate of M2 slowed to 9.0 percent from 10.1 percent in the previous month, and from 12.2 percent in the same month last year.

Credit¹

Total financial system (FS) continued to expand by \$5.28 million (or 0.3 percent) to \$1,965.15 million for the seventh consecutive month,

attributed mainly to expansions of \$3.35 million and \$1.93 million in total lending of commercial banks and non-banks respectively.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.3 percent while the rest was directed to the public non-bank financial institutions.

The expansion in total FS credit highlighted major increases in lending to the 'building, constructions and installations' and 'trade' industries.

Consequently, the annual average growth rate of the FS credit remained the same at 8.9 percent over the month but was higher than 5.4 percent over the year.

According to the latest national accounts figures released by the Sāmoa Bureau of Statistics (SBS), the annual total Nominal Gross Domestic Product (NGDP)² at end September 2019 amounted to \$2,255.98 million. At this level, the share of the FS credit to NGDP increased to 86.3 percent from 83.2 percent in the June 2019 quarter. As for M2, its share to NGDP declined to 53.0 percent from 55.6 percent in the previous quarter.

Reserve Money³

Total reserve money (RM) rose notably by \$32.30 million (or 7.6 percent) to \$458.53 million, by cause of a marked recovery of \$53.22 million in commercial banks reserves, against a drop of \$20.92 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

At this level, total RM was \$60.84 million higher than its level in the previous year, or 47.36 percent and 60.03 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity was further improved by a huge expansion of \$41.76 million to \$321.81 million (or 14.9 percent), after recording a substantial hike of \$52.49 million in commercial banks' holdings of excess reserves, counteracting a drop of \$10.80 million in commercial banks' vault cash. Conversely, CBS securities held by banks stayed the same at \$20.00 million from the previous month.

Consequently, total liquidity was \$40.41 million higher than its level last year, likewise the past three and five years, where it was 56.32 percent and 67.83 percent higher in that order.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)⁴

Total CBS securities issued has increased to \$18.00 million from \$12.50 million in the previous month. The bulk of this increase were issued at shorter term maturities of 14-days (\$10.00 million) and 28-days (\$6.50 million), while the remaining papers were issued at longer term maturity of 56-days (\$1.50 million) only. As a result, securities outstanding remained stable at \$20.00 million.

Subsequently, the overall weighted average yield on CBSS (or official interest rate) edged down by 2 basis points to 0.15 percent, from 0.17 percent over the previous month and January 2019.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate broadened by 8 basis points to 2.46 percent over the previous month, but was 31 basis points less than its level a year

ago. Similarly, the weighted average lending (WAL) rate increased by 9 basis points to 8.88 percent over the previous month; or 13 basis points lower than that of last year.

As a result, the overall weighted average interest rate spread moved up to 6.42 percent from 6.41 percent in the previous month, and was also higher than 6.24 percent in January 2019.

Despite the weighted average interest margin slightly widening, both the WAD and WAL have decreased overtime. This situation is encouraging as it is consistent with our push to keep cost of capital low. Another factor to note is the availability of the commercial banks fees and charges on website: <https://www.cbs.gov.ws/index.php/banking-system/supervision-and-regulation/>

Over the last three and five years, the current WAD rate was lower than its average rates of 2.69 percent and 2.65 percent for those respective periods. Likewise, the WAL rate was lower than its average rates of 8.93 percent and 9.16 percent in that order.

NFIs⁵ lending rates⁶

The overall WAL rate for non-bank financial institutions (NFIs) narrowed by 2 basis points to 8.16 percent. This was underpinned by a reduction of 2 basis points in both lending rates of SNPF (to 8.52 percent) and DBS (to 4.54 percent), while that of SHC remained firm at 13.31 percent over the month. The overall WAL level however, was higher than 7.33 percent and 7.16 percent in the last three and five years respectively.

CENTRAL BANK OF SAMOA **11 March 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		2019			2020
	3-years	5-years	Jan	Nov	Dec	Jan
Determinants of Money Supply (M2) ⁷			Amount in Tala Million			
Net Foreign Assets	293.46	244.61	445.49	437.495	465.95	481.98
Net Domestic Assets	776.83	735.30	761.37	769.25	776.909	749.02
Money Supply (M2)	<u>1070.29</u>	<u>979.90</u>	1206.85	1203.74	1242.86	1230.99
<i>Trend / Annual Average (%)</i>	9.70	9.74	5	5	5	
<i>12.2</i>			12.2	10.5	10.1	9.0
<i>Narrow Money (M1)</i>	470.18	426.63	542.92	524.25	550.64	535.32
Currency outside banks	73.12	65.48	88.28	98.29	108.579	98.46
Transferable Deposits ⁴	397.07	361.15	454.64	425.962	442.064	436.86
<i>Quasi Money</i>	600.10	553.27	663.93	682.495	692.222	695.68
Other Deposits ⁵	600.10	553.27	663.93	54.06	64.29	63.94
Central Bank of Samoa						
Open Markets Operations			Maturity Yield			
Securities Official Rate	0.16	0.17	0.17	0.17	0.17	0.15
Reserve Money²			Amount in Tala Million			
Total	311.16	286.53	397.69	415.73	426.23	458.53
<i>Trend / Annual Growth (%)</i>	9.1	14.2	22.7	29.0	28.2	26.7
Financial System (FS)			Amounts in Tala Million			
FS Credit						
Commercial Banks ⁷	1068.11	989.17	1112.16	1183.11	1184.31	1187.67
<i>Trend / Annual Growth (%)</i>	7.50	7.43	3.3	5.4	5.5	5.6
Non-Monetary Financial Institutions (NFIs)	629.64	572.53	704.19	768.72	775.56	777.49
<i>Trend / Annual Growth (%)</i>	10.04	9.59	9.1	15.3	14.8	14.4
Private Sector	1647.06	1510.37	1762.83	1912.12	1919.79	1931.79
Businesses	956.78	868.66	983.31	1050.71	1059.09	1068.28
Individuals	690.29	641.71	779.53	861.41	860.70	863.51
Public Sector (NFIs, NPEs, & Govt)	50.68	51.33	53.51	39.7	40.09	33.37
Total FS Credit ⁸	1697.74	1561.69	1816.34	1951.83	1960.87	1965.15
<i>Trend / Annual Growth (%)</i>	8.43	8.19	5.4	9.1	8.9	8.9
Commercial Banks³						
Liquidity			Amounts in Tala Million			
Total	205.87	191.76	281.41	279.95	280.06	321.82
<i>Trend / Annual Growth (%)</i>	11.07	22.08	37.6	30.2	29.3	27.2
Interest Rates			Percentage			
Overall Weighted Average Lending ⁷	8.93	9.16	9.01	8.81	8.79	8.88
Australia New Zealand Bank (Sāmoa) Limited	9.46	9.33	9.77	9.23	9.28	9.32
Bank South Pacific (Sāmoa) Limited	7.72	8.46	7.84	7.80	7.76	7.79
National Bank of Sāmoa Limited	8.20	8.73	8.19	8.18	8.17	8.20
Samoa Commercial Bank Limited	10.55	10.42	10.66	10.72	10.67	10.81
Overall Weighted Average Deposit	2.69	2.65	2.77	2.72	2.38	2.46
Australia New Zealand Bank (Sāmoa) Limited	1.54	1.82	1.42	1.35	1.39	1.40
Bank South Pacific (Sāmoa) Limited	2.85	2.57	2.98	3.24	3.11	3.24
National Bank of Sāmoa Limited	3.57	3.46	3.88	3.76	3.87	3.90
Samoa Commercial Bank Limited	3.31	3.25	3.25	3.08	3.18	3.26

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Market Shares						
Lending ⁷						
Australia New Zealand Bank (Sāmoa) Limited	32.2	37.2	28.0	26.6	26.0	25.6
Bank South Pacific (Sāmoa) Limited	27.0	25.0	30.1	31.4	31.8	31.8
National Bank of Sāmoa Limited	21.2	18.8	22.3	23.8	24.0	24.3
Samoa Commercial Bank Limited	19.6	19.0	19.6	18.3	18.2	18.3
Deposit						
Australia New Zealand Bank (Sāmoa) Limited	31.8	35.6	28.4	30.3	28.6	27.7
Bank South Pacific (Sāmoa) Limited	28.5	25.5	31.6	26.7	28.7	30.4
National Bank of Sāmoa Limited	20.0	18.6	20.0	21.4	22.1	21.7
Samoa Commercial Bank Limited	19.8	20.3	20.0	21.6	20.6	20.1
Non-monetary Financial Institutions (NFIs)						
Weighted Average Lending (WAL)			Percentage			
Sāmoa National Provident Fund (SNPF) ⁶	7.82	7.76	8.34	8.52	8.54	8.52
Development Bank of Samoa (DBS)	5.51	5.43	5.37	4.55	4.56	4.54
Samoa Housing Corporation (SHC) ¹	12.57	12.57	12.57	13.39	13.31	13.31
NFIs' Overall WAL ^{6 8}	7.37	7.19	8.02	8.16	8.18	8.16

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