



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT AUGUST 2008

This report is a monthly release of the latest available key monetary and credit aggregates on the Samoan economy, with information sourced from the Central Bank, commercial banks, the Ministry of Finance and the Samoa Bureau of Statistics.

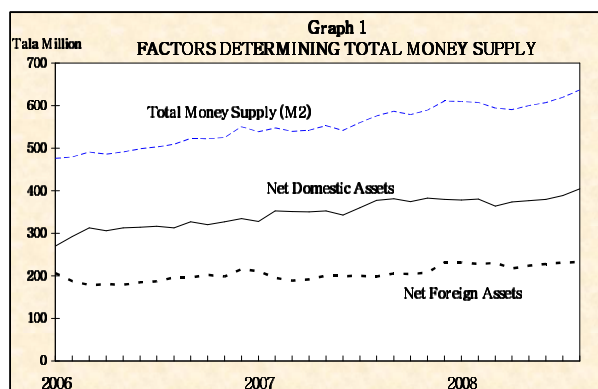
Report No.8/08	August 2008
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Money Supply

Following a 2 percent increase in the previous month, money supply (M2) surged by a further \$17.0 million (3 percent) to \$636.9 million in August 2008 and was 11 percent (\$62.6 million) higher than in August a year earlier. The expansion over the previous month was attributed mainly to increases in both net domestic assets and net foreign assets during the month. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY
(Amounts in Tala Million)

End of Period	2007		2008	
	Aug	Jun	Jul	Aug
1. Net Foreign Assets	198.72	227.82	231.18	232.45
2. Net Domestic Assets	377.53	379.75	388.72	404.42
(a) Domestic Credit	542.63	562.97	564.81	578.77
Government, net	-64.35	-88.70	-89.54	-80.75
Non-financial public enterprises	25.86	38.99	39.77	40.69
Non-monetary financial institutions	25.47	28.60	28.49	27.00
Private Sector	555.65	584.08	586.09	591.83
(b) Other items, net	-165.10	-183.22	-176.09	-174.35
3. Total Assets = Total Money Supply (M2)	576.25	607.57	619.90	636.87
(a) Money (M1)	176.04	152.87	156.99	160.89
(b) Quasi-money	400.21	454.70	462.91	475.98



Determinants of Money Supply

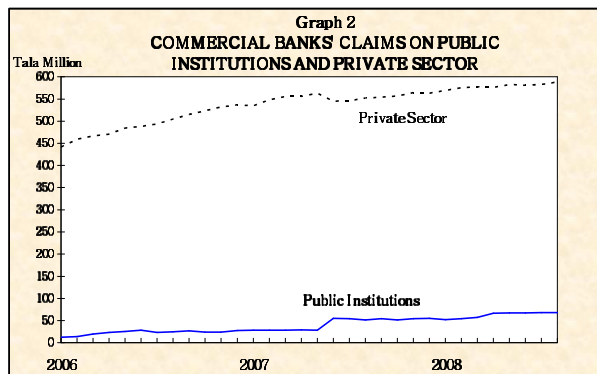
Underpinning the increase in M2 was largely a \$15.7 million (or 4 percent) rise in net domestic assets to \$404.4 million; 7 percent (\$26.9 million) higher than in the same month a year earlier. The current month's expansion reflected a drawdown of \$8.8 million in Government's net deposits with the monetary system, a \$5.2 million increase in commercial banks' credit to the private sector and public institutions combined, and a \$1.7 million fall in the deficit on "other items, net". The decline in "other items, net" reflected mainly, the reduction in the capital accounts and miscellaneous liabilities of the banking system during the month.

Net foreign assets (NFA) likewise, increased \$1.3 million to \$232.4 million, a level that was 17 percent (\$33.7 million) higher than in the same month last year. This expansion was due entirely to a \$6.2 million increase in net foreign reserves held by the Central Bank which more than outweighed decreases of \$4.7 million and \$0.2 million in net foreign assets held by the commercial banks and the Ministry of Finance respectively. (See Graph 1 and Table 1.)

Credit

Commercial banks' lending to private households and businesses expanded further in August 2008, with the former posting a larger increase. After a slight increase in the previous month, loans to the private household jumped \$4.4 million while that to

businesses went up to \$1.4 million. Consequently, bank credit to the private sector increased 1 percent to \$588.5 million. Loans disbursed to public institutions, on the other hand, edged down 0.9 percent to \$67.7 million, as lending to non-monetary financial institution (NFIs) which dropped 5 percent, more than offset a 2 percent rise in credit absorbed by non-financial public enterprises (NPEs). (See Graph 2).

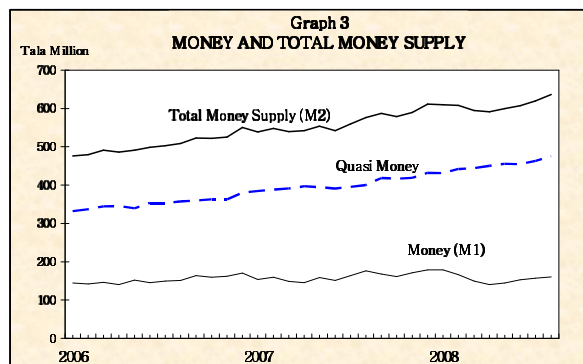


In the event, total commercial bank credit to the private sector and public institutions combined increased 0.8 percent (\$5.1 million) to \$656.2 million in August 2008, and was 9 percent (\$52.3 million) higher than in the same month last year. On an annual average basis however, credit growth continued to slow down, reaching 9.7 percent at end August 2008 from 10.2 percent at end July 2008. The easing of monetary policy for the fiscal year 2008/09, however, may see a change in this trend in the coming months.

The sectoral analysis of commercial bank lending in August 2008 saw a significant increase in credit absorption by the “trade” (up \$10.1 million), “building and construction” (up \$5.4 million), “manufacturing” (up \$2.4 million) and “electricity” (up \$1.0 million) sectors which outweighed decreases in credit to other industries. In particular, loans directed to the “professional and business services”, “transport and communication”, “agriculture” and “other activities” sectors went down \$10.0 million, \$1.9 million, \$1.5 million and \$0.4 million respectively during the month.

Components of Money Supply

The monetary expansion in August 2008 reflected increases in both quasi-money and narrow money (M1) by \$13.1 million and \$3.9 million in that order. (See Graph 3.)

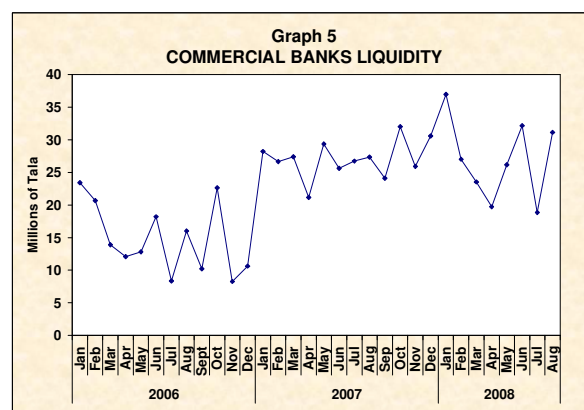
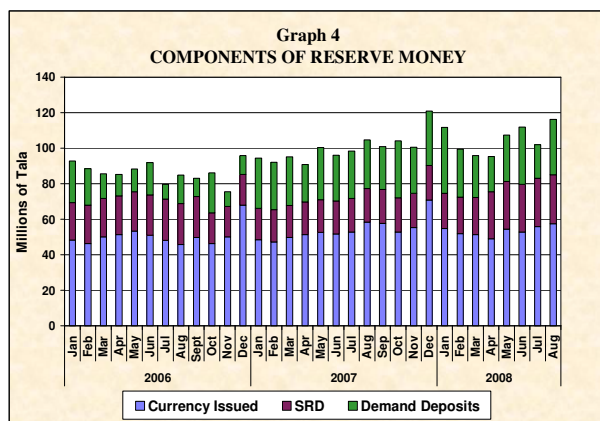


The higher level of quasi money was driven by increases in all of its components. In particular, foreign currency deposits of residents picked up by a significant \$9.5 million with smaller increases of \$2.0 million and \$1.5 million in time deposits and savings deposits respectively. The expansion in M1 on the other hand, was entirely a result of a \$9.5 million surge in currency outside banks, outweighing a \$2.3 million decline in demand deposits.

Reserve Money¹

The level of reserve money rebounded 9 percent (up \$10.2 million) to \$121.3 million in August 2008, but was 3 percent (\$4.2 million) lower than in the same month last year. Underpinning this month’s expansion was a significant \$12.3 million jump in commercial banks’ demand deposits with the Central Bank, and a \$1.6 million increase in currency in circulation which outweighed a \$3.7 million drop in their required reserves. (See Graph 4.)

¹ Reserve Money comprises of currency in circulation, statutory reserve deposits (SRD) and demand deposits of commercial banks with the CBS.



Commercial Bank Liquidity

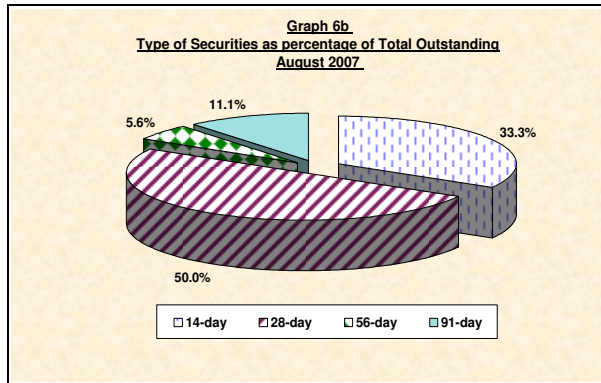
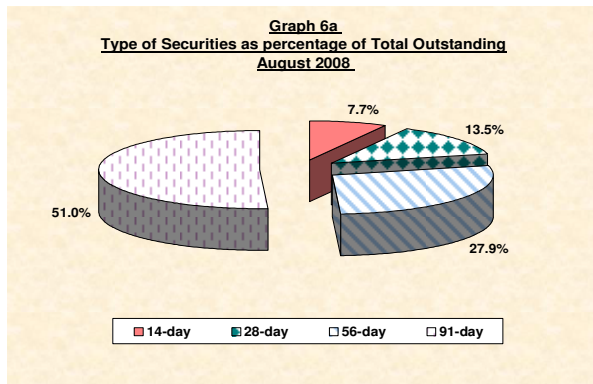
After a slight decline in the previous month, commercial banks’ total liquidity picked up \$4.6 million in August 2008. This position was due largely to a notable rise in commercial banks’ excess reserves with the CBS which more than offset decreases in both their investment in CBS securities and cash on hand during the month. At \$31.2 million, commercial banks’ excess reserves were 65 percent higher than in the previous month; comfortably higher than their preferred minimum working balance level of \$15.0 million.

With a distinct \$18.2 million rebound to \$19.0 million in its demand deposits with the Central Bank, ANZ bank mostly accounted for the increase in total commercial banks’ liquidity at end August 2008. This was followed by WESTPAC with a \$3.5 million increase to \$8.8 million in the month under review, which more than offset decreases of \$6.6 million and \$2.7 million in excess reserves of the SCB and NBS to \$2.4 million and \$1.0 million respectively at end August 2008. (See Graph 5.)

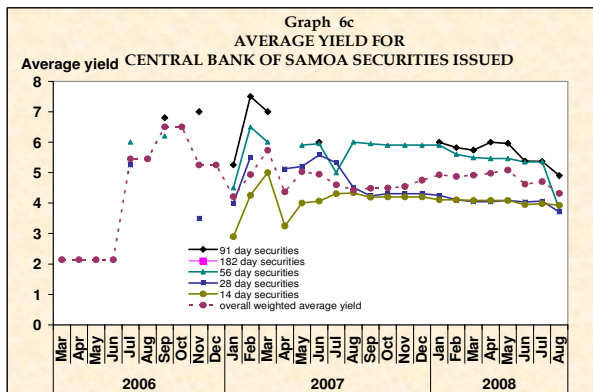
CBS Securities and Official Interest Rates

While \$34.0 million worth of CBS securities matured in August 2008, there were new bills totaling \$31.0 million issued to commercial banks. In particular, short-term securities of 14-days (\$7.0 million), 28-days (\$8.0 million), 56-days (\$7.0 million) and 91-days (\$9.0 million) were issued during the month. Consequently, the amounts outstanding of \$4.0 million, \$7.0 million, \$14.5 million and \$26.5 million for the 14-day, 28-day, 56-day and 91-day papers, landed the level of CBS securities outstanding to \$52.0 million at end August 2008 from \$55.0 million in July 2008.

As a result, the structure of securities outstanding differed significantly from August 2007. Most of the outstanding securities in the month under review were invested in longer-term bills, with 91 days accounting for more than a half (51 percent) of total securities outstanding. This was followed by 28 percent for the 56-day paper while the 28 days and 14 days accounted for 13 percent and 8 percent in that order. The total value of securities outstanding of \$9.0 million in August 2007, comprised of 50 percent invested in 28 days, 33 percent in 14 days, 11 percent and 6 percent for the 91 days and 56 days in that order. (See Graph 6a and 6b).



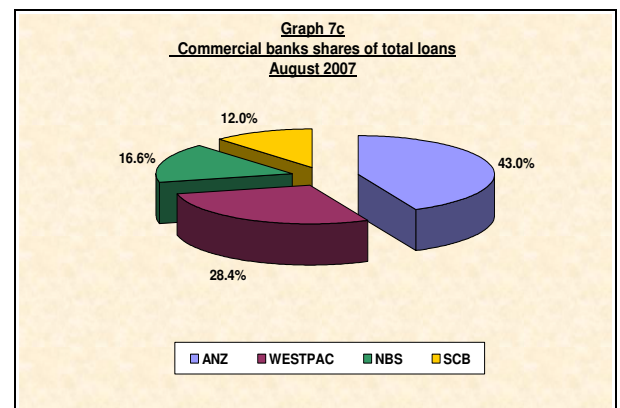
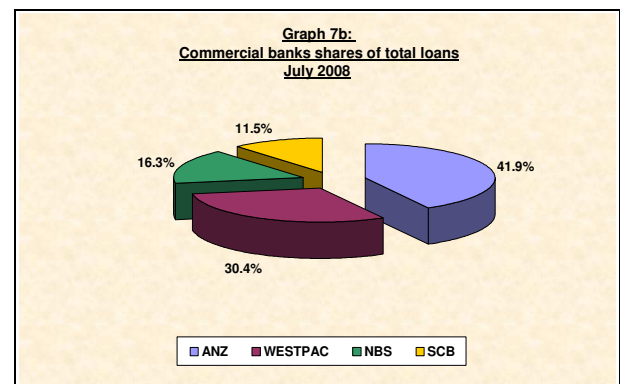
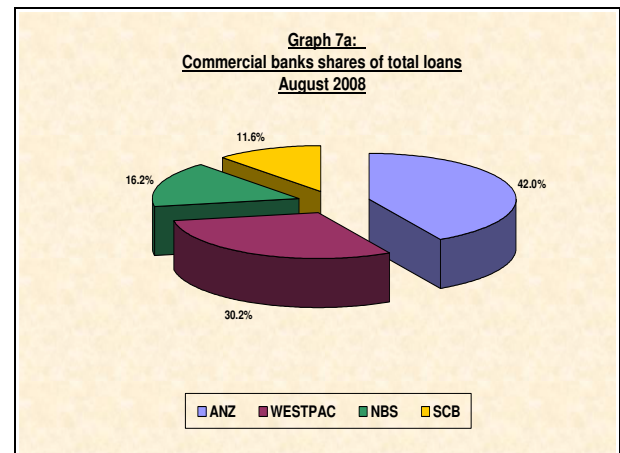
The overall official interest rate dropped 39 basis points to 4.31 percent in August 2008. (See Graph 6c.)



Commercial Bank Credit and Deposit Market Shares

ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in August 2008, with its share edging up to 42.0 percent from 41.9 percent in July 2008 but lower than the 43.0 percent in August 2007. WESTPAC was

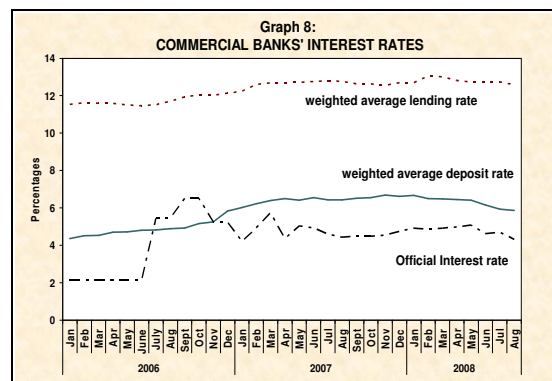
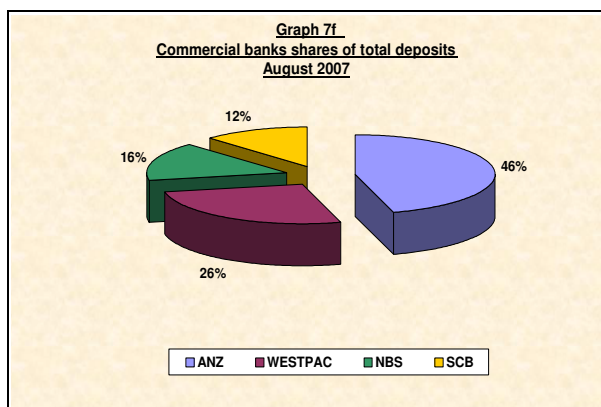
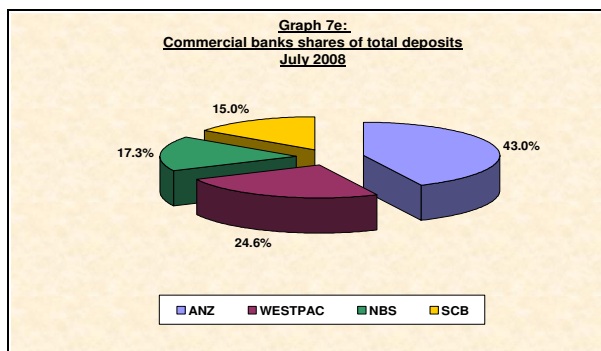
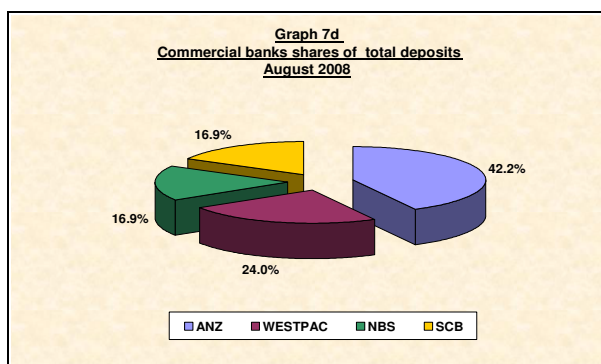
in second place, accounting for 30.2 percent of total credit; slightly down from 30.4 percent in the previous month but higher than 28.4 percent in August 2007. The ratio for NBS also declined to 16.2 percent from 16.3 percent in the previous month and 16.6 percent in August last year, while SCB with an 11.6 percent share increased from 11.5 percent in the previous month but lower than 12.0 percent in August a year ago. (See Graphs 7a, 7b and 7c.)



ANZ also continued to account for most of the commercial banks' total deposits, even-though, its share dropped to 42.2 percent from 43.0 percent in July 2008 and 45.6 percent in August 2007. This was followed by WESTPAC's contribution of 24.0 percent, although lower than its 24.6 percent share in the previous month and 26.3 percent share in August last year. NBS's share also declined to 16.9 percent from 17.3 percent in July 2008 but higher than 15.8 percent in the same month a year earlier. SCB's share on the other hand, rose to 16.9 percent from 15.0 percent in the previous month; much higher than its 12.3 percent shares in August a year ago. (See Graph 7d, 7e and 7f.)

Commercial Bank Interest Rates

Commercial banks' interest rates moved in the same direction in August 2008. The overall weighted average lending and deposit rates dropped 13 basis points and 6 basis points to 12.60 percent and 5.87 percent respectively. The banks' interest rate spread, as a result, narrowed 7 basis points to 6.73 percent in August 2008. (See Graph 8.)



The lower overall weighted average lending rate during the month under review was driven by all commercial banks. The weighted average lending rates charged by WESTPAC and SCB declined 27 basis points and 20 basis points to 12.33 percent and 12.41 percent respectively. NBS and ANZ likewise, offered lower weighted lending rates which were reduced by 9 basis points and 3 basis points to 12.76 percent and 12.78 percent in that order. Despite charging lower rates, ANZ offered the highest lending rate in the market while WESTPAC charged the lowest.

On the deposits side, the lower weighted average deposit rate was driven by all banks except WESTPAC, with its interest rate increasing 28 basis points to 5.91 percent. SCB, ANZ and NBS posted reduced weighted average interest rates on deposits by 36 basis points to 6.63 percent, 12 basis points to 5.08 percent and 10 basis points to 7.02 percent respectively during the month. NBS offered the highest rate while ANZ's rate was the lowest. (See Table 2.)

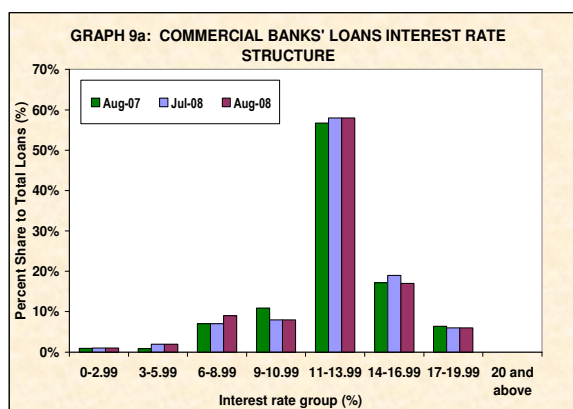
Table 2 : Weighted Average Rates by Commercial Banks

		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	Jul-08	12.81	12.60	12.85	12.61	12.73
	Aug-08	12.78	12.33	12.76	12.41	12.60
Deposit	Jul-08	5.25	5.63	7.12	6.99	5.93
	Aug-08	5.08	5.91	7.02	6.63	5.87

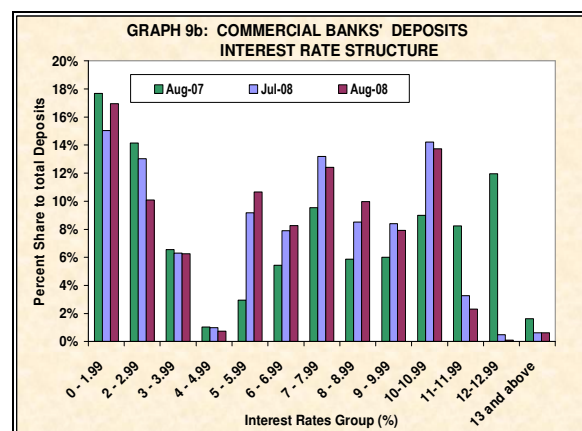
Commercial Banks Interest Rate Structure.

The movements in the commercial banks' weighted average interest rates in August 2008 saw some changes in the overall structure of interest rates.

On the lending side, the bulk (or 58 percent) of total commercial banks' loans were charged at interest rates within the 11.00–13.99 percent band, the same level as it was in the previous month; slightly higher than the 57 percent in August 2007. Disbursed loans at the interest rate range of 14.00–19.99 percent represented 23 percent of total bank loans during the month, slightly down from 25 percent in July 2008 but the same as that in August 2007. The proportion for loans issued at interest rates between 9.00 – 10.99 percent, also remained unchanged at 8 percent, the same as they were in the previous four months, but was lower than the 11 percent in the same month last year. The remaining 11 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; slightly up from the 10 percent share in the previous month and 9 percent share in August a year earlier. (See Graph 9a.)



As most deposits tended to spread towards the middle range during the month, the higher deposit rate range of 10 percent and above, which were introduced in October 2006 to attract more deposits, accounted for a lower share of 17 percent than the 19 percent share in July 2008 and 31 percent in August 2007. Deposits in the 7-9.99 percent interest-rate band with a share of 30 percent, was the same as in the previous month and 22 percent in the same month last year. For the 4.00 - 6.99 percent interest range, its share of total deposits in the month under review of 20 percent was slightly higher than the 18 percent in the previous month and doubled the 9 percent share in August a year earlier. The lower end of the interest rate spectrum of 0–3.99 percent attracted 34 percent of total deposits, the same share as in the previous month, but lower than 38 percent in August 2007. (See Graph 9b).



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30 September 2008