

CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT DECEMBER 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.12/08

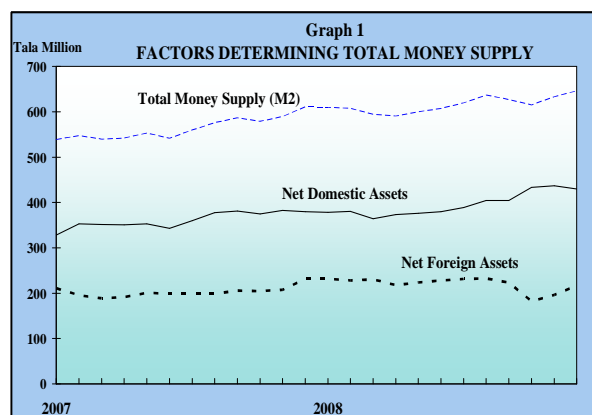
December 2008

Money Supply

Following a 3 percent expansion in November 2008, M2 increased another 2 percent (\$13.2 million) to \$646.4 million in December 2008. The expansion from the previous month was attributed entirely to an increase in net foreign assets which more than outweighing a drop in net domestic assets during the month. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY
(Amounts in Tala Million)

End of Period	2007		2008	
	Dec	Oct	Nov	Dec
1. Net Foreign Assets	231.12	184.37	198.74	219.14
2. Net Domestic Assets	380.04	430.94	434.49	427.28
(a) Domestic Credit	549.16	607.10	611.21	603.41
Government, net	-72.11	-79.47	-81.01	-87.98
Non-financial public enterprises	25.99	40.80	42.69	45.68
Non-monetary financial institutions	28.94	28.40	29.02	28.34
Private Sector	566.34	617.37	620.51	617.37
(b) Other items, net	-169.12	-176.16	-176.72	-176.13
3. Total Assets = Total Money Supply (M2)	611.16	615.32	633.22	646.42
(a) Money (M1)	179.21	146.80	170.57	174.38
(b) Quasi-money	431.95	468.52	462.65	472.04



Determinants of Money Supply

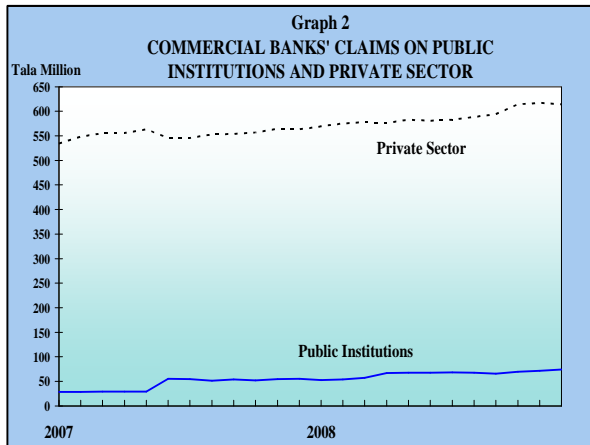
Reflecting the seasonal surge in M2 was entirely a \$20.4 million (or 10 percent) increase in net foreign assets (NFA) to \$219.1 million; a level that was nevertheless, 5 percent (\$12.0 million) lower than in the same month last year. This expansion was due largely to a jump of \$20.2 million in net foreign reserves held by the Central Bank and a \$2.0 million rise in those of the Ministry of Finance, outweighing a \$1.8 million drop in net foreign reserves held by commercial banks.

On the other hand, net domestic assets fell \$7.2 million to \$427.3 million, but was 12 percent (\$47.2 million) higher than in the same month last year. The current month's contraction largely reflected a \$7.0 million increase in Government's net deposits with the monetary system and decreases of \$3.1 million and \$0.7 million in commercial banks' claims on the private sector and non-monetary financial institutions respectively during the month. These more than offset a \$3.0 million increase in banks' credit to non-financial public enterprises and a \$0.6 million decline in the deficit in "other items, net". The contraction in the latter reflected a drop in other miscellaneous domestic liabilities of the banking system in the month under review. (See Graph 1 and Table 1.)

Credit

There were some major reclassifications of private sector credit (by business and private

households) by one of the banks in December 2008 and therefore detailed analysis and comparisons with the previous month were not feasible. However, in total, bank credit to the private sector fell slightly (0.5 percent) to \$614.2 million while those disbursed to public institutions increased by a further 3 percent to \$74.0 million in December 2008. (See Graph 2).

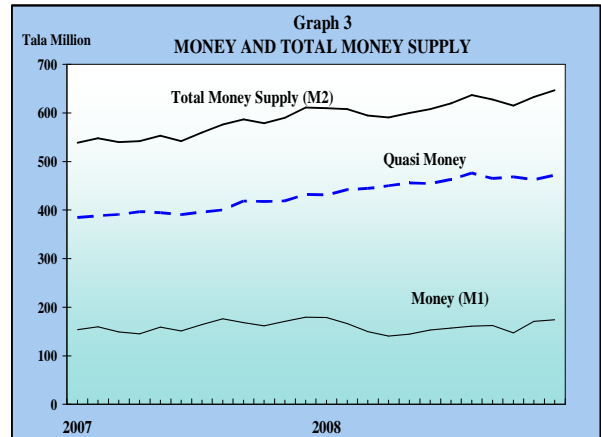


Combining the two sectors above saw total commercial bank credit (to the private sector and public institutions combined) edged down 0.1 percent (\$0.8 million) to \$688.2 million in the month under review, and was 11 percent (\$70.2 million) higher than in the same month last year. And, on an annual average basis, credit growth rose further to 9.75 percent at end December 2008 from 9.59 percent at end November 2008, in line with the current easing of monetary policy stance.

The sectoral analysis of commercial bank lending in December 2008 saw a drop in credit absorption by the “other activities” sector (down \$12.1 million) followed by decreases of \$8.3 million, \$1.3 million and \$0.04 million in loans directed to “professional and business services”, “transport and communication” and “agriculture” sectors respectively. Loans directed to the “building and construction”, “electricity”, “trade” and “manufacturing” industries, on the other hand, increased \$9.8 million, \$5.5 million, \$5.1 million and \$0.5 million respectively during the month.

Components of Money Supply

The monetary expansion in December 2008 reflected increases of \$9.4 million and \$3.8 million in quasi-money and narrow money (M1) respectively. (See Graph 3.)

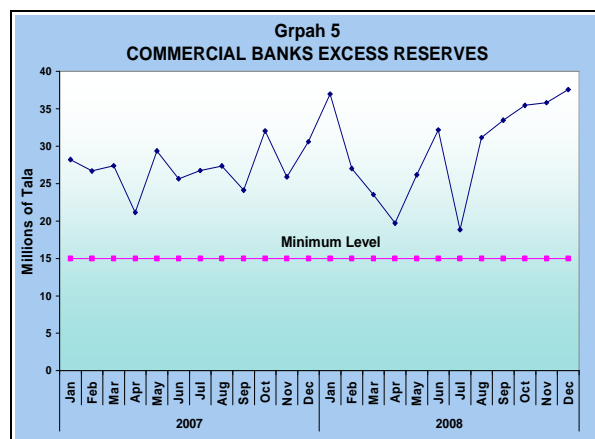
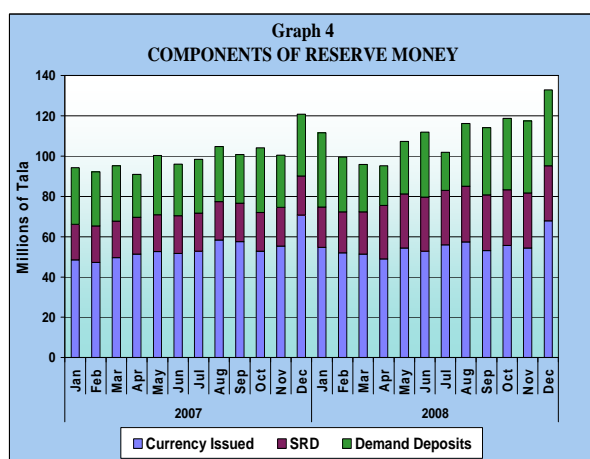


The higher level of quasi money was driven entirely by an \$18.8 million surge in time deposits which more than outweighed decreases of \$7.3 million and \$2.1 million in foreign currency deposits of residents and savings deposits in that order. As well, the rise in M1 was largely a result of a \$7.3 million increase in currency outside banks, reflecting the strong demand for cash during the festive season which was partially offset by a \$3.5 million decrease in demand deposits.

Reserve Money¹

The level of reserve money expanded by a significant 13 percent (\$15.4 million) to \$132.8 million in December 2008; 10 percent (\$12.0 million) higher than in the same month last year. Contributing to this month’s expansion were increases in all of its components namely currency in circulation (up \$13.5 million), commercial banks demand deposits with the Central Bank (up \$1.8 million) and their statutory reserve deposits (up \$0.1 million. (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

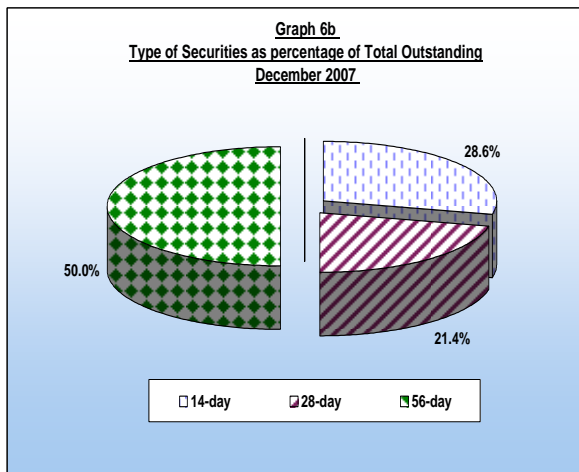
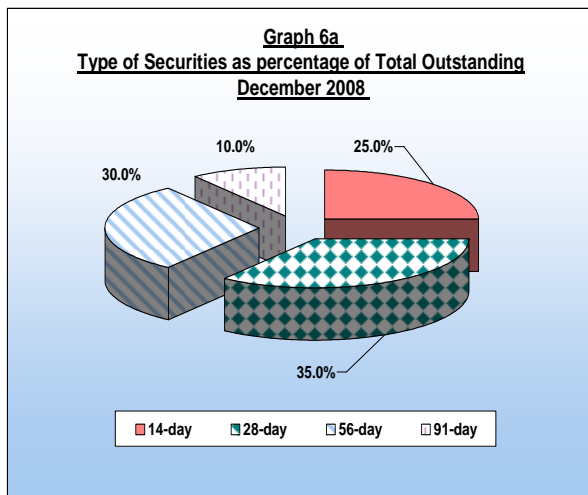
Following a drop in the previous month, commercial banks' total liquidity rebounded \$10.5 million in December 2008. This position was due mainly to increases of 67 percent, 14 percent and 5 percent in commercial banks' vault cash, investment in CBS securities and their excess reserves with the CBS during the month. At \$37.6 million, commercial banks' excess reserves were 5 percent higher than in the previous month; comfortably higher than their preferred minimum working balance level of \$15.0 million.

With its demand deposits with the Central Bank expanding \$4.4 million to \$28.8 million, ANZ continued to account for the bulk of total commercial banks' demand deposits with CBS at end December 2008, followed by WESTPAC which edged up \$0.3 million to \$5.5 million. These increases more than outweighed decreases in excess reserves of NBS and SCB by \$2.4 million and \$0.4 million to \$0.2 million and \$3.2 million respectively in the month under review. (See Graph 5.)

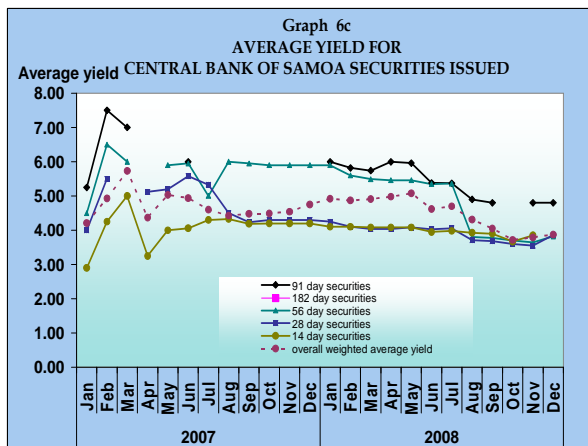
CBS Securities and Official Interest Rates

While \$16.5 million worth of CBS securities matured in December 2008, there were new bills totaling \$19.0 million issued to commercial banks. In particular, short-term securities, of 14-days and 28-days (\$7.0 million each), 56-days (\$4.0 million) and 91-days (\$1.0 million). Consequently, the amounts outstanding of \$5.0 million, \$7.0 million, \$6.0 million and \$2.0 million for the 14-day, 28-day, 56-day and 91-day papers registered a total outstanding of \$20.0 million in CBS securities at end December 2008 from \$17.5 million in November 2008.

As a result, the structure of securities outstanding differed significantly from December 2007. With the \$7.0 million issued for the 28 day security, it accounted for 35 percent of total securities outstanding in the month under review. This was followed by 30 percent for the 56-day paper while the 14-day and the 90-day securities accounted for 25 percent and 10 percent respectively of outstanding papers in December 2008. In comparisons, the total value of securities outstanding of \$14.0 million in December 2007 comprised of 50 percent, 29 percent and 21 percent invested in the 56-day, 14-day and the 28 day bills respectively while there was none registered for the 91-day security. (See Graph 6a and 6b).

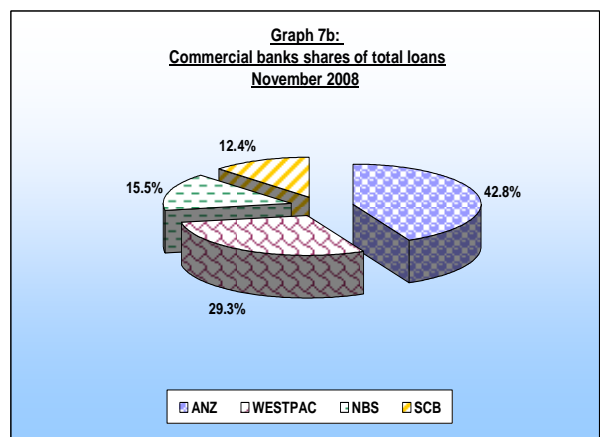
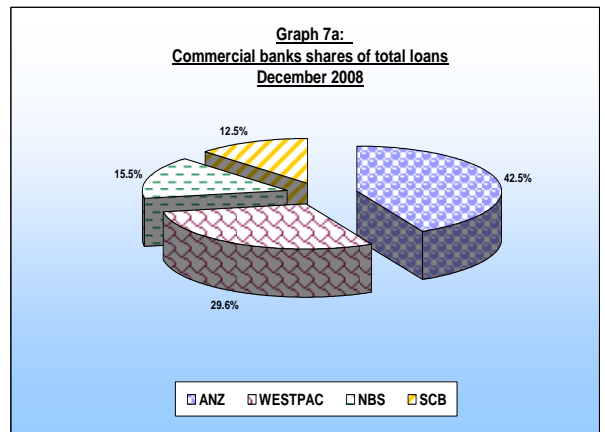


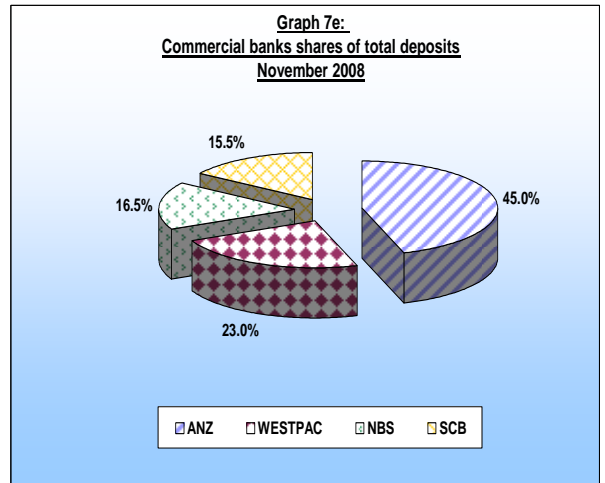
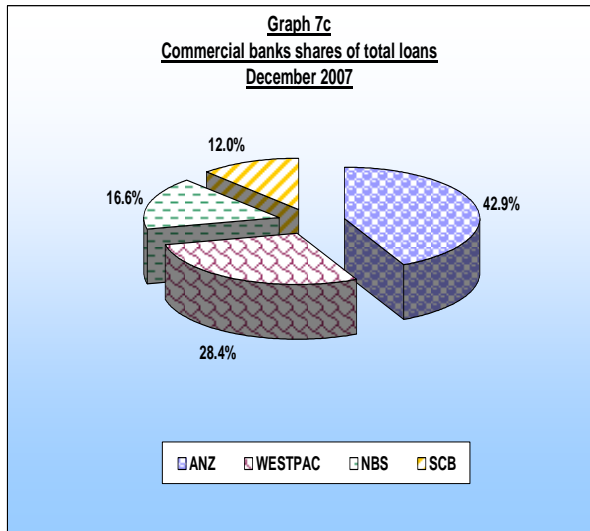
The overall official interest rate increased 8 basis points to 3.87 percent in December 2008. (See Graph 6c.)



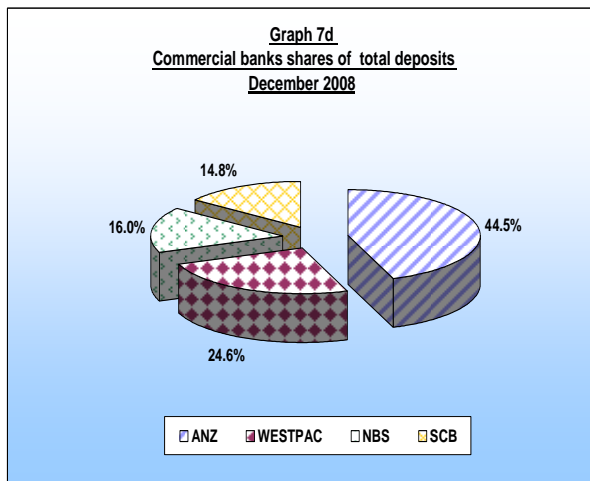
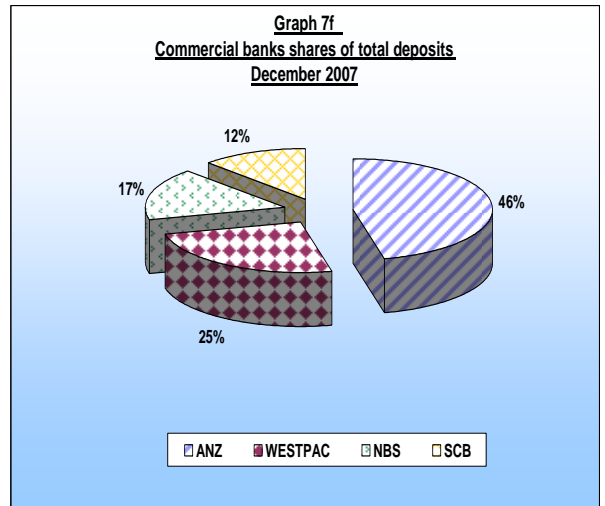
Commercial Bank Credit and Deposit Market Shares

ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in December 2008, although its share edged down to 42.5 percent from 42.8 percent in November 2008 and lower than the 42.9 percent in December 2007. WESTPAC followed, with its share increasing slightly to 29.6 percent from 29.3 percent in the previous month but notably higher than the 28.4 percent in December a year earlier. The ratio for SCB as well edged up to 12.5 percent from 12.4 percent and 12.0 percent respectively in the previous month and the same month last year. NBS's share, on the other hand, remained at 15.5 percent as it was in the previous month but lower than 16.6 percent in the same month a year earlier. (See Graphs 7a, 7b and 7c.)



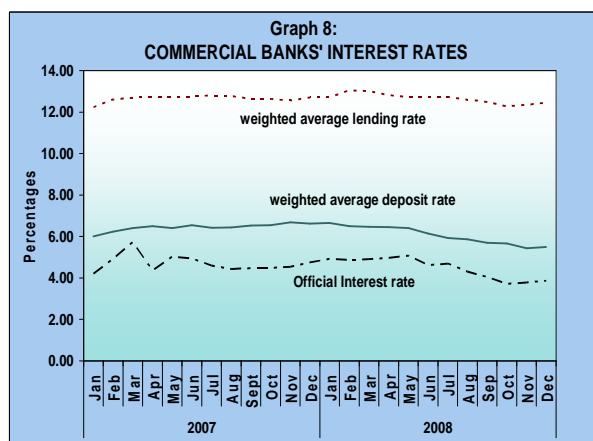


On deposits, ANZ also continued to account for most of the commercial banks' total deposits, although its share edged down to 44.5 percent from 45.0 percent in November 2008 and 46.3 percent in December 2007. This was followed by WESTPAC's increased share to 24.6 percent, from 23.0 percent in the previous month but lower than 24.8 percent in December a year ago. The shares by the NBS and SCB declined to 16.0 percent and 14.8 percent from 16.5 percent (the same share as was in December 2007) and 15.5 percent (12.3 percent in December 2007) respectively in the previous month. (See Graph 7d, 7e and 7f.)



Commercial Bank Interest Rates

Commercial banks' weighted average interest rate for both lending and deposit increased in December 2008, by 10 basis points to 12.45 percent and 6 basis points to 5.50 percent respectively. As a result commercial banks' interest rate spread widened 4 basis points to 6.95 percent in December 2008. (See Graph 8.)



The higher overall weighted average lending rate during the month under review was driven by the WESTPAC and NBS. The weighted average lending rates charged by the WESTPAC jumped 40 basis points to 12.63 percent while that of NBS went up 5 basis points to 12.73 percent. ANZ and SCB, on the other hand, lowered their lending rate by 2 basis points and 12 basis points to 12.68 percent and 10.91 percent respectively. In the event, NBS offered the highest lending rate in the market while SCB charged the lowest.

On the deposits side, the higher weighted average deposit rate was driven by ANZ and WESTPAC, with their weighted average interest rates on deposits increasing 15 basis points and 14 basis points to 4.60 percent and 5.85 percent in that order. The weighted average deposit rates presented by the NBS and SCB, on the other hand, dropped 17 basis points and 4 basis points to 6.68 percent and 6.41 percent. NBS offered the highest deposit rate during the month, while ANZ's rate was the lowest. (See Table 2.)

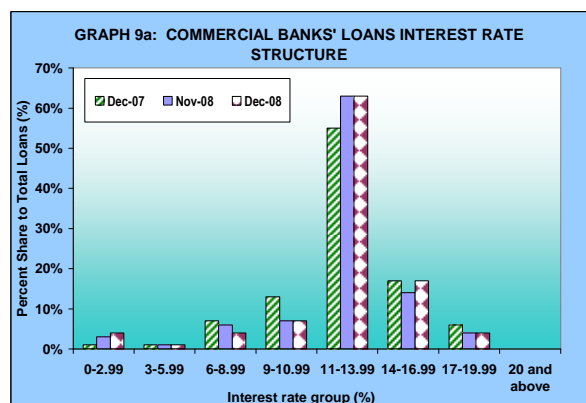
Table 2 : Weighted Average Rates by Commercial Banks

		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	Nov-08	12.70	12.23	12.68	11.03	12.35
	Dec-08	12.68	12.63	12.73	10.91	12.45
Deposit	Nov-08	4.45	5.71	6.85	6.45	5.44
	Dec-08	4.60	5.85	6.68	6.41	5.50

Commercial Banks Interest Rate Structure.

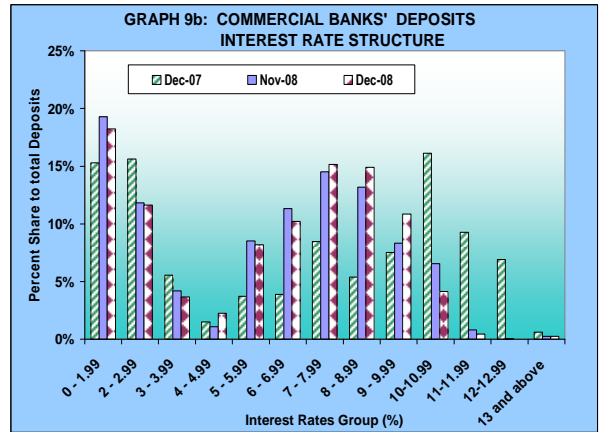
In December 2008, the movements in commercial banks' weighted average interest rates saw some changes in their overall structure.

On the lending side, the bulk (or 62 percent) of total commercial banks' loans were charged at interest rates within the 11.00–13.99 percent band, slightly lower than 63 percent in the previous month but higher than 55 percent in December 2007. Disbursed loans at the interest rate range of 14.00–20 percent and above represented 22 percent of total bank loans during the month, higher than 19 percent ratio in November 2008 but lower than 24 percent in December 2007. The proportion of loans issued at interest rates between 9.00 – 10.99 percent was the same (7 percent) as in the previous month, but lower than the 13 percent ratio in December a year earlier. The remaining 9 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; lower than the 11 percent share in the previous month but slightly higher than the 8 percent share in December last year. (See Graph 9a.)



With the share of the introduced interest rate range (10 percent and above) that was intended to attract more deposits declining further in December 2008 (down to 5 percent from 8 percent in November 2008), most deposits have now spread towards the middle interest rate range. The 7-9.99 percent interest-rate band in particular increased its share to 41 percent from 36 percent in the previous month

and 21 percent in the same month last year. For the 4.00 - 6.99 percent interest bracket, its share of total deposits in the month under review of 21 percent remained the same as was in the previous month but doubled its 10 percent share in December a year earlier. The lower end of the interest rate spectrum of 0–3.99 percent attracted 33 percent of total deposits, down from the 35 percent share in the previous month and 36 percent in December 2007. (See Graph 9b).



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27th January 2009