



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT JULY 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 Bureau of Statistics.

Report No.7/08	July 2008
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Money Supply

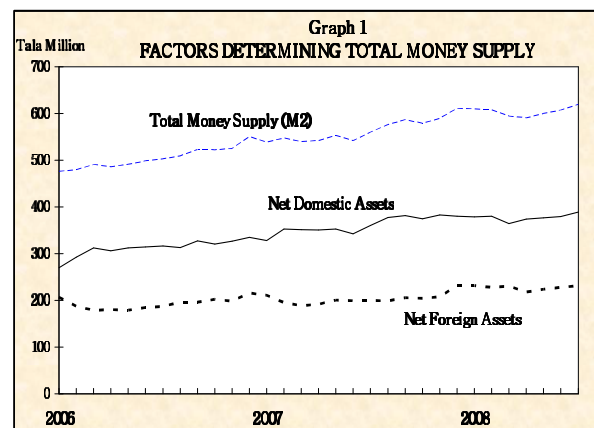
At \$619.9 million, money supply (M2) increased 2 percent (\$12.3 million) in July 2008, and was 11 percent (\$60.0 million) higher than in July a year earlier. The expansion over the previous month was attributed mainly to increases in both net domestic assets and net foreign assets during the month. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY
(Amounts in Tala Million)

End of Period	2007				2008			
	Jul	May	Jun	Jul	Jul	May	Jun	Jul
1. Net Foreign Assets	199.93	224.34	227.82	231.18				
2. Net Domestic Assets	360.00	375.81	379.75	388.72				
(a) Domestic Credit	523.88	562.97	562.97	564.81				
Government, net	-79.12	-90.84	-88.70	-89.54				
Non-financial public enterprises	28.82	39.01	38.99	39.77				
Non-monetary financial institutions	25.51	28.51	28.60	28.49				
Private Sector	548.67	586.29	584.08	586.09				
(b) Other items, net	-163.88	-187.16	-183.22	-176.09				
3. Total Assets = Total Money Supply (M2)	559.93	600.15	607.57	619.90				
(a) Money (M1)	164.09	144.45	152.87	156.99				
(b) Quasi-money	395.84	455.70	454.70	462.91				

Determinants of Money Supply

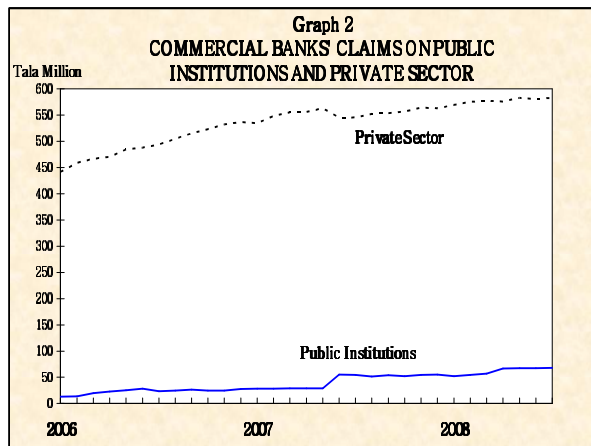
Underpinning the increase in M2 was a \$9.0 million (or 2 percent) increase in net domestic assets to \$388.7 million; 8 percent (\$28.7 million) higher than in the same month a year earlier. The current month's expansion was largely due to a decrease in the deficit on "Other items, net" by \$7.1 million, reflecting mainly, the contraction in the capital accounts and miscellaneous domestic liabilities of the banking system during the month. Commercial banks' credit to the private sector and non-financial public enterprises (NPEs) as well, increased \$2.0 million and \$0.8 million respectively during the month. The Government's net deposits with the monetary system on the other hand, went up \$0.8 million and was \$10.4 million higher than in the same month a year earlier. A relatively smaller \$0.1 million decline in credit to the non-monetary financial institutions (NFIs) was also recorded in the month under review.



Net foreign assets (NFA) increased \$3.4 million to \$231.2 million, a level that was 16 percent (\$31.3 million) higher than in the same month last year. This expansion was due largely to a \$5.8 million increase in net foreign reserves held by the commercial banks with a relatively smaller (\$0.9 million) expansion in NFA of the Ministry of Finance. These more than outweighed a decrease in holdings of \$3.3 million in net foreign reserves of the Central Bank during the month. (See Graph 1 and Table 1.)

Credit

Commercial bank credit channeled to businesses went up \$1.8 million in July 2008, with \$0.3 million hike in loans to private households. Consequently, bank lending to the private sector increased 0.3 percent to \$582.8 million. Loans disbursed to public institutions, on the other hand, edged up 1 percent (\$0.7 million) to \$68.3 million, as lending to non-monetary public enterprises which rose 2 percent, more than offsetting a slight decline in credit absorbed by non-monetary financial institution. (See Graph 2).



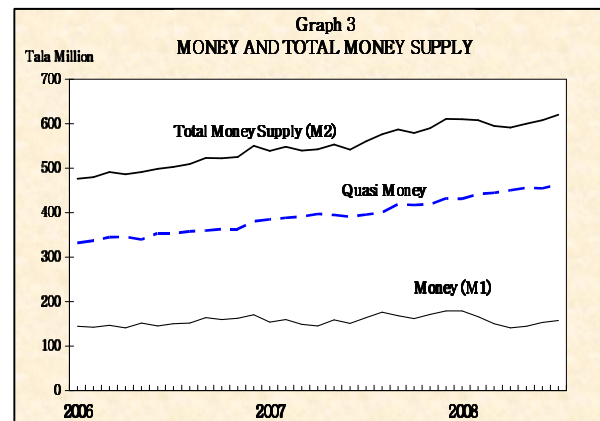
In the event, total commercial bank credit to the private sector and public institutions combined increased 0.4 percent (\$2.7 million) to \$651.1 million in July 2008, but was 9 percent (\$51.1 million) higher than in the same month last year. On an annual average basis however, credit growth continued to slow down, reaching 10.2 percent at end July 2008 from 10.8 percent at end June 2008. The slight 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 July 2008 saw a significant increase in credit absorption by the “building and construction” (up \$9.1 million) and “agriculture” (up \$2.2 million) sectors, which outweighed decreases in credit to most industries. In particular, loans directed to the “professional and business services”, “other

activities”, “transport and communication”, “manufacturing”, “trade” and “electricity” sectors went down \$2.7 million, \$2.3 million, \$1.7 million, \$1.1 million, \$0.9 million and \$0.7 million respectively during the month.

Components of Money Supply

The monetary expansion in July 2008 reflected mainly increases on both quasi-money and narrow money (M1) by \$8.2 million and \$4.1 million in that order. (See Graph 3.)



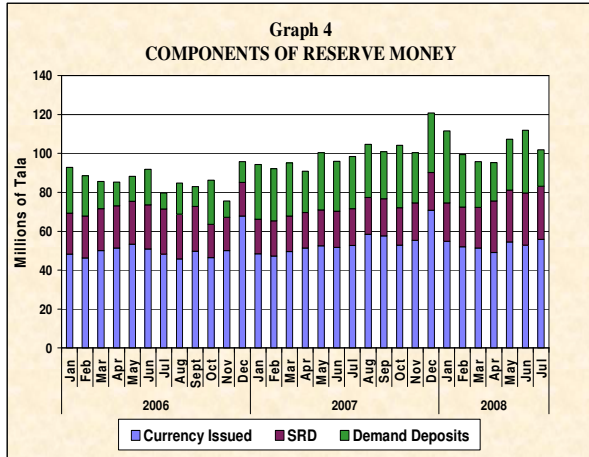
The higher level of quasi money was due largely to an \$8.6 million jump in time deposits coupled with a \$2.9 million rise in savings deposits which offset a \$3.3 million drop in foreign currency deposits of residents in July 2008. The expansion in narrow money (M1) as well, reflected increases in both currency outside banks and demand deposits by \$3.0 million and \$1.1 million respectively during the month.

Reserve Money¹

The level of reserve money dropped 9 percent (\$10.0 million) to \$101.9 million in July 2008; a level that was nevertheless 4 percent (\$3.5 million) higher than in the same month last year. This month’s contraction was driven entirely by a significant \$13.3 million

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

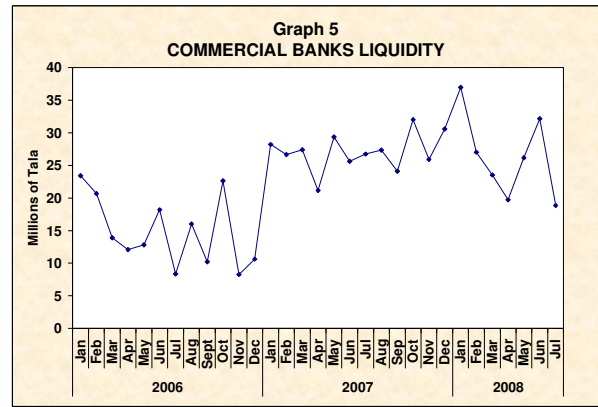
fall in commercial banks' demand deposits with the Central Bank which outweighed a slight \$0.3 million rise in their required reserves, with currency in circulation increasing \$3.0 million. (See Graph 4.)



Commercial Bank Liquidity

Commercial banks' total liquidity recorded a slight \$0.3 million decline in July 2008. This position was due largely to a marked decrease in commercial banks' excess reserves with the CBS which more than offset an increase in their investment in CBS securities while their cash on hand remained the same as it was in the previous month. At \$18.9 million, commercial banks' excess reserves were 41 percent lower than in the previous month; but higher than their minimum working balance level of \$15.0 million.

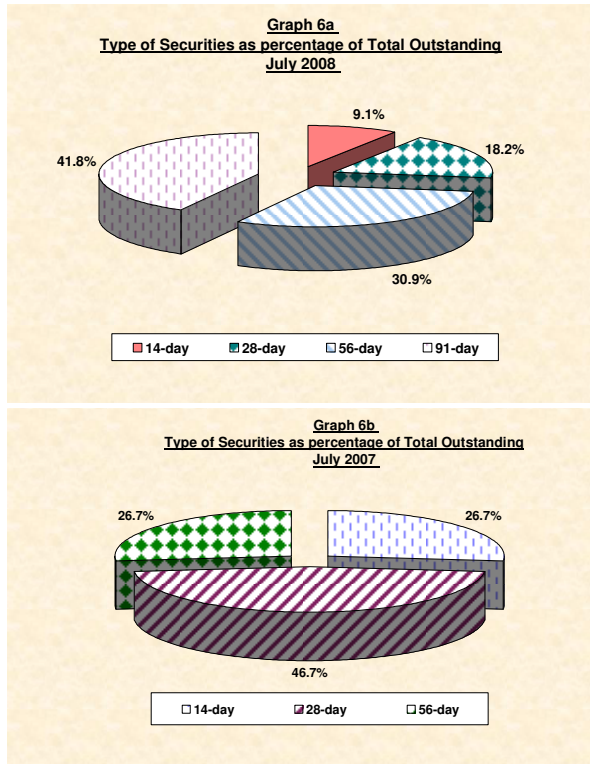
With a distinct \$22.0 million fall to \$0.8 million in its demand deposits with the Central Bank, ANZ bank mostly accounted for the decrease in total commercial banks' liquidity at end July 2008. This was followed by NBS with a \$2.0 million drop to \$3.7 million in the month under review, which more than offset increases of \$5.7 million and \$5.0 million in SCB and WESTPAC's excess reserves to \$9.0 million and \$5.4 million respectively at end July 2008. (See Graph 5.)



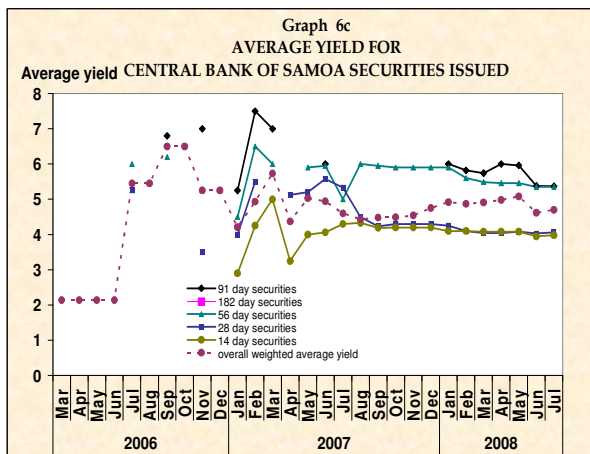
CBS Securities and Official Interest Rates

While \$31.5 million worth of CBS securities matured in July 2008, there were new bills totaling \$41.5 million issued to commercial banks. In particular, short-term securities of 14-days (\$10.0 million), 28-days (\$10.0 million), 56-days (\$10.5 million) and 91-days (\$11.0 million) were issued during the month. Consequently, the amounts outstanding of \$5.0 million, \$10.0 million, \$17.0 million and \$23.0 million for the 14-day, 28-day, 56-day and 91-day papers, boosted the level of CBS securities outstanding to \$55.0 million at end July 2008 from \$45.0 million in June 2008.

In the event, the structure of securities outstanding differed significantly from July 2007. Most of the outstanding securities in the month under review were invested in longer-term bills, with 91 days accounting for almost a half (42 percent) of total securities outstanding. This was followed by 31 percent for the 56-day paper while the 18 days and 14 days accounted for 18 percent and 9 percent in that order. The total value of securities outstanding of \$6.5 million in July 2007, comprised of 54 percent invested in 28 days, 31 percent in 56 days and 15 percent in 14 days. There was no issue recorded for the 91 day paper during the same month. (See Graph 6a and 6b).



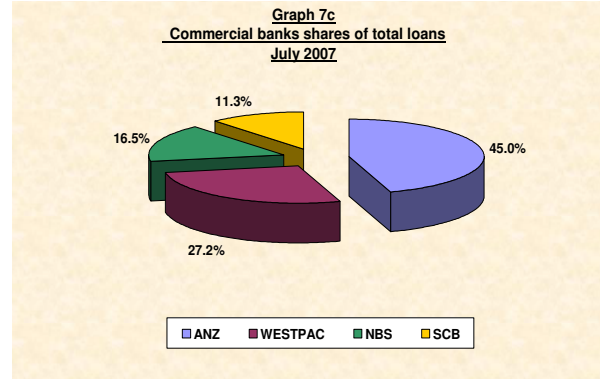
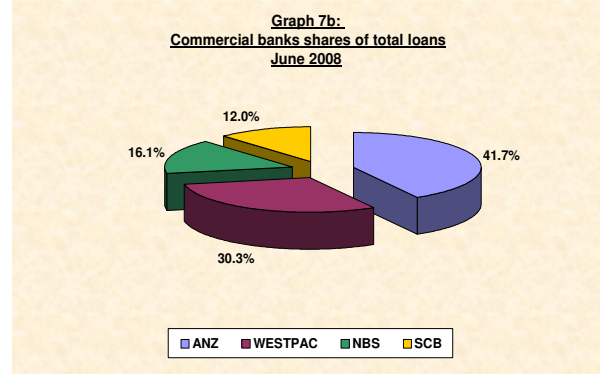
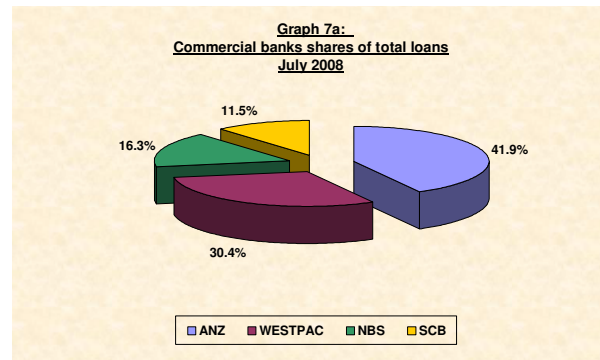
The overall official interest rate increased 8 basis points to 4.70 percent in July 2008. (See Graph 6c.)



Commercial Bank Credit and Deposit Market Shares

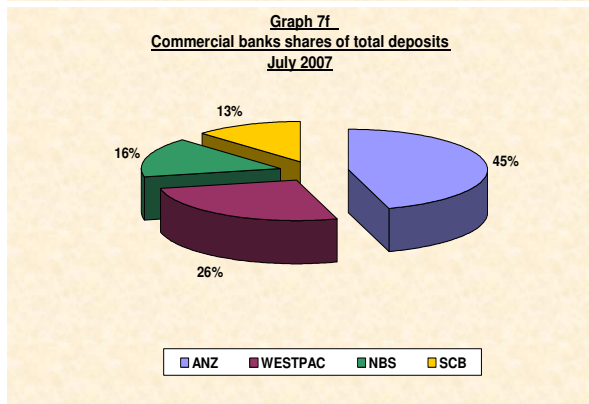
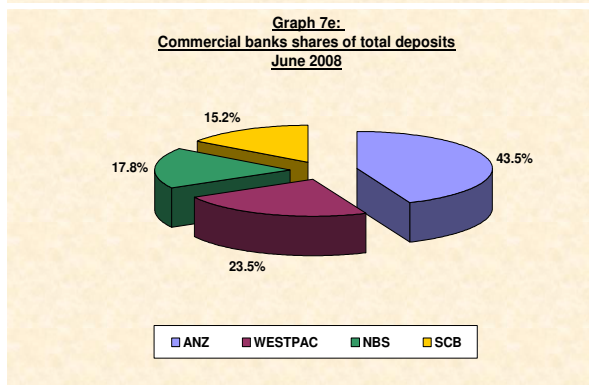
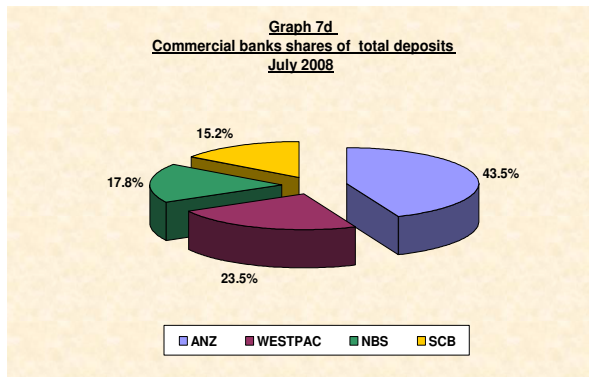
ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in July 2008, with its share edging up to 41.9 percent from 41.7 percent in June 2008 (lower than the

43.2 percent in July 2007). WESTPAC was in second place, accounting for 30.4 percent of total credit; slightly up from 30.3 percent in the previous month and higher than 28.6 percent in July 2007. The ratio for the NBS also rose to 16.3 percent from 16.1 percent in June 2008, while SCB's share dropped to 11.5 percent from 12.0 percent in the previous month. (See Graphs 7a, 7b and 7c.)

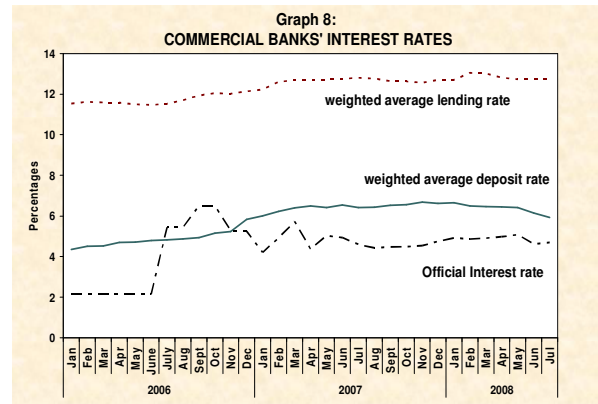


ANZ, also continued to account for most of the commercial banks' total deposits, even-though, its share dropped to 43.0 percent from 43.5 percent in June 2008 and 45.2 percent in July 2007. This was followed by WESTPAC's contribution of 24.6 percent, which was also higher than its share in the

previous month (23.5 percent) but lower than the 26.4 percent share in July last year. NBS and SCB with their respective shares fell to 17.3 percent and 15.0 percent, from 17.8 percent and 15.2 percent in the previous month but higher than their respective 15.9 percent and 12.5 percent shares in July a year ago. (See Graph 7d, 7e and 7f.)



percent. The banks' interest rate spread, as a result, widened 21 basis points to 6.80 percent in July 2008. (See Graph 8.)



The slightly lower overall weighted average lending rate during the month under review was driven by WESTPAC and NBS. Their weighted average lending rates went down 16 basis points and 3 basis points to 12.60 percent and 12.85 percent respectively. These more than outweighed increases of 9 basis points and 8 basis points in the weighted lending rates offered by ANZ and SCB, at 12.81 percent and 12.61 percent in that order. Despite fallings, the NBS 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. WESTPAC, NBS and ANZ posted reduced weighted average interest rates on deposits by 28 basis points to 5.63 percent, 27 basis points to 7.12 percent, 23 basis points to 5.25 percent respectively, while a decline of 6 basis points to 6.99 percent was offered by SCB during the month. NBS offered the highest rate while ANZ's rate was the lowest. (See Table 2.)

Commercial Bank Interest Rates

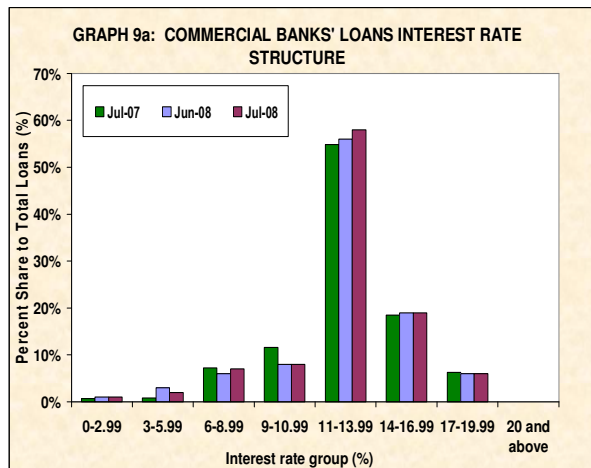
Commercial banks' interest rates moved in the same direction in July 2008. The overall weighted average lending rate edged down 1 basis point to 12.73 percent while that for deposits dropped 22 basis points to 5.93

		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	Jun-08	12.72	12.76	12.88	12.53	12.74
	Jul-08	12.81	12.6	12.85	12.61	12.73
Deposit	Jun-08	5.48	5.91	7.39	7.05	6.15
	Jul-08	5.25	5.63	7.12	6.99	5.93

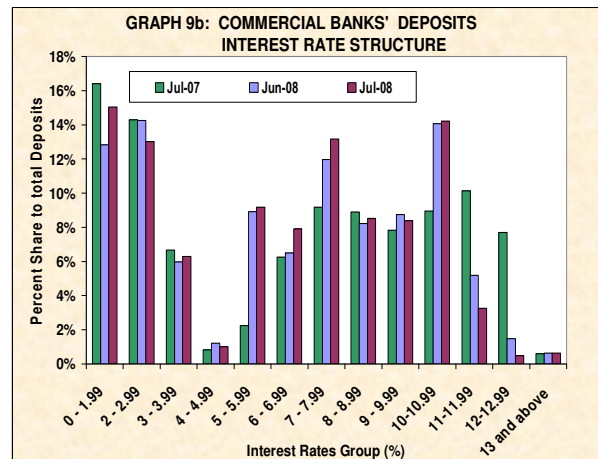
Commercial Banks Interest Rate Structure.

The movements in the commercial banks' weighted average interest rates in July 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, higher than the 56 percent share in the previous month and 55 percent in July 2007. Disbursed loans at the interest rate range of 14.00–19.99 percent represented 25 percent of total bank loans during the month, slightly down from 26 percent in June 2008 but the same as the 25 percent share in July 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 three months; but was lower than 12 percent in the same month last year. The remaining 9 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; slightly down from the 10 percent share in the previous month but the same as the 9 percent share in July 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 19 percent; lower than the 22 percent share in June 2008 and 28 percent in July 2007. Deposits in the 7-9.99 percent interest-rate band with a share of 29 percent, was up slightly from 28 percent in the previous month and 26 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 18 percent was higher than the 17 percent in the previous month and doubled the 9 percent share in July a year earlier. The lower end of the interest rate spectrum of 0–3.99 percent attracted 34 percent of total deposits, slightly higher than its share in the previous month of 33 percent, but lower than 37 percent in July 2007. (See Graph 9b).



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