CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT
JUNE 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 and the Ministry of Finance

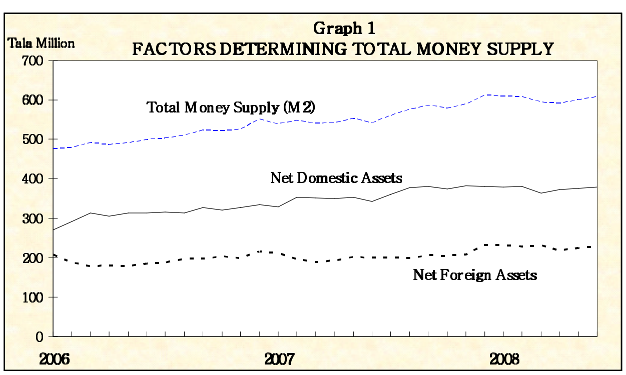
Report No.6/08 June **2008**

Money Supply

Money supply (M2) increased 1 percent ($7.4 million) in June 2008. At $607.6 million, M2 was 12 percent ($65.8 million) higher than in June a year earlier. The expansion over the previous month was attributed mainly to increases in both net foreign assets and net domestic assets during the month. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY
(Amounts in Tala Million)

	2007		2008		
End of Period	**May**	**Jun**	**Apr**	**May**	**June**
1. Net Foreign Assets	200.41	199.12	217.46	223.73	227.82
2. Net Domestic Assets	352.92	342.66	373.47	376.42	379.75
(a) Domestic Credit	509.33	502.96	551.90	563.58	562.97
Government , net	-85.56	-100.62	-94.30	-90.23	-88.70
Non-financial public enterprises	8.21	29.77	38.18	39.01	38.99
Non- monetary financial institutions	20.59	25.52	28.71	28.51	28.60
Private Sector	566.09	548.29	579.31	586.29	584.08
(b) Other items , net	-156.41	-160.30	-178.43	-187.16	-183.22
3. Total Assets = Total Money Supply (M2)	553.33	541.78	590.93	600.15	607.57
(a) Money (M1)	158.65	151.00	140.69	144.45	152.87
(b) Quasi-money	394.68	390.78	450.24	455.70	454.70



Determinants of Money Supply

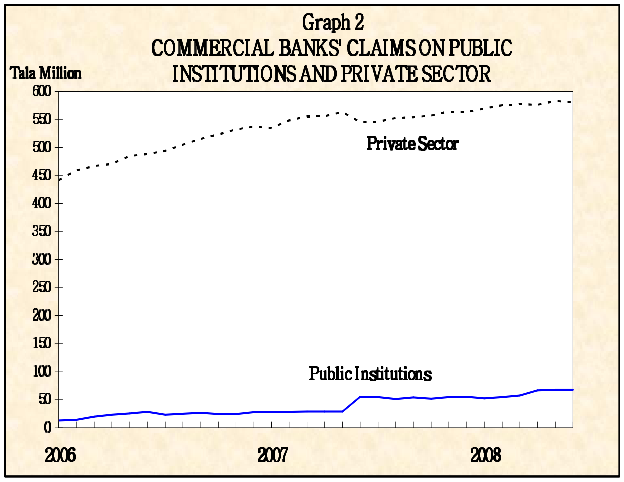
Reflecting the increase in M2 was a $4.1 million rise in net foreign assets (NFA) to $227.8 million. At this level, NFA was 14 percent ($28.7 million) higher than in the same month last year. This increase was due largely to a $7.0 million rise in foreign reserves held by the Central Bank with a relatively smaller ($0.8 million) expansion in NFA of the Ministry of Finance. These more than outweighed a decrease of $3.7 million in net foreign reserve holdings of commercial banks during the month.

Net domestic assets, as well, rose $3.3 million (or 1 percent) to $379.8 million and were 11 percent ($37.1 million) higher than in the same month a year earlier. The current month's expansion was largely due to decreases of $4.0 million and $1.8 million respectively in Government's net deposits with the monetary system and the deficit on "Other items, net". The decline in "other items net", reflected the contraction in the cumulative balance of profit and loss accounts and miscellaneous domestic liabilities of the banking system during the month. A relatively smaller $0.1 million increase in credit to the non-monetary financial institutions (NFIs) was also recorded during the month. Private sector credit on the other hand, declined $2.2 million with an insignificant $0.02 million decrease registered against NPEs. (See Graph 1 and Table 1).

Credit

Commercial bank credit channeled to businesses dropped $4.7 million in June 2008, more than offsetting a $2.5 million increase in loans to private households. Consequently, bank lending to the private sector declined 0.4 percent to

$580.8 million. Loans disbursed to public institutions, on the other hand, edged up 0.1 percent ($0.1 million) to $67.6 million, as lending to NFIs which rose 0.3 percent more than offset a slight decline in credit absorbed by NPEs. (See Graph 2).



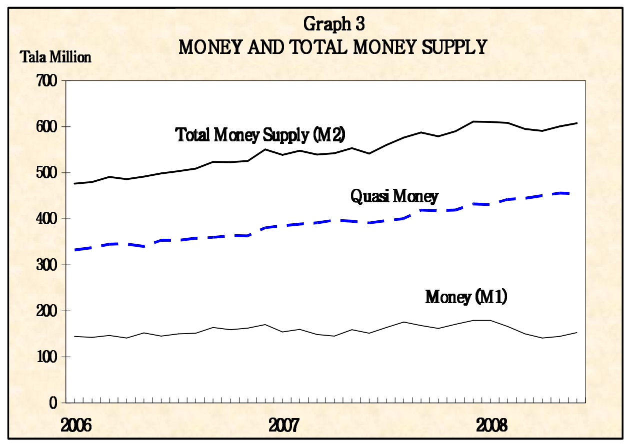
In the event, total commercial bank credit to the private sector and public institutions combined declined 0.3 percent ($2.1 million) to $648.4 million in June 2008, but was 8 percent ($47.8 million) higher than in the same month last year. On an annual average basis however, credit growth continued to slow down, reaching 10.8 percent at end June 2008 from 11.4 percent at end May 2008. The decline is in line with the tightened stance of monetary policy for 2007/08.

The sectoral analysis of commercial bank lending in June 2008 saw significant decreases in credit absorption by the "building and construction" (down $9.1 million) and "agriculture" (down $2.0 million) sectors, which outweighed increased credit to most industries. In particular, loans directed to the "transport and communication", "other activities", "trade", "electricity", "professional and business services" and "manufacturing" sectors went up $4.4 million, $2.1 million, $1.1 million, $0.8 million, $0.4 million and $0.3 million respectively during the month.

Components of Money Supply

The monetary expansion in June 2008 was reflected entirely in an $8.4 million increase in narrow money (M1) which outweighed a $1.0 million decrease in quasi-money. (See Graph 3.)

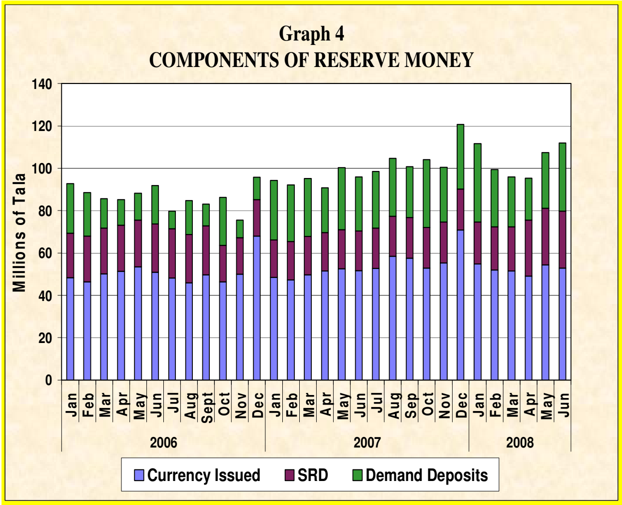
The higher level of M1 was due entirely to a $12.2 million jump in demand deposits, offseting a $3.8 million drop in currency outside banks. The contraction in quasi-money on the other hand, reflected decreases in savings deposits and time deposits by $2.7 million and $1.8 million respectively, which outweighed a $3.5 million increase in foreign currency deposits of residents in June 2008.

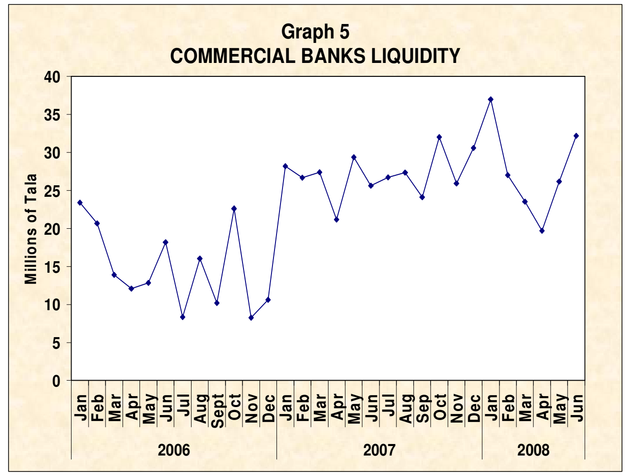


Reserve Money[1]

The level of reserve money increased 4 percent ($4.5 million) to $111.9 million in June 2008; a level that was 17 percent ($15.9 million) higher than in the same month last year. This month's expansion was driven by increases of $6.0 million and $0.1 million in commercial banks' demand deposits with the Central Bank and their required reserves respectively, Currency in circulation, on the other hand, declined $1.6 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

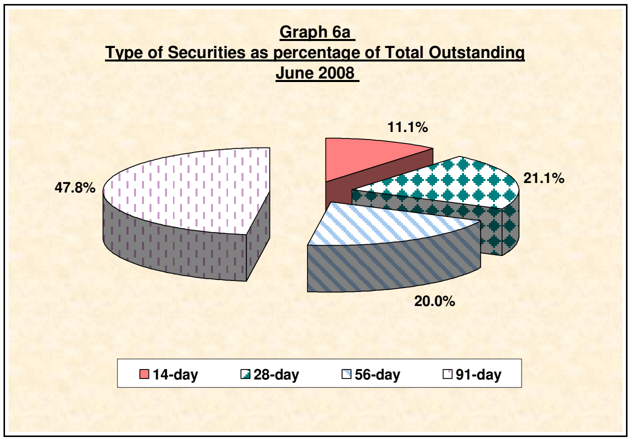
Following an improvement in the previous month, commercial banks' total liquidity recorded another $6.0 million expansion in June 2008. This position was due to increases in all components of liquidity namely excess reserves, cash a higher level of commercial banks' demand deposits with the CBS, their cash on hand and investment in CBS securities. At $32.2 million, commercial banks' excess reserves were 23 percent higher than in the previous month; a level that was comfortably higher than their minimum working balance level of $15.0 million.

All commercial banks' demand deposits with the Central Bank, increased in the month under review, with NBS excess posting the largest increase of $2.6 million to total $5.7 million, at end June 2008. ANZ and SCB followed with rises of $1.5 million each to $22.8 million and $3.2 million respectively. WESTPAC's demand deposits with CBS rose slightly to $0.4 million during the month. (See Graph 5.)

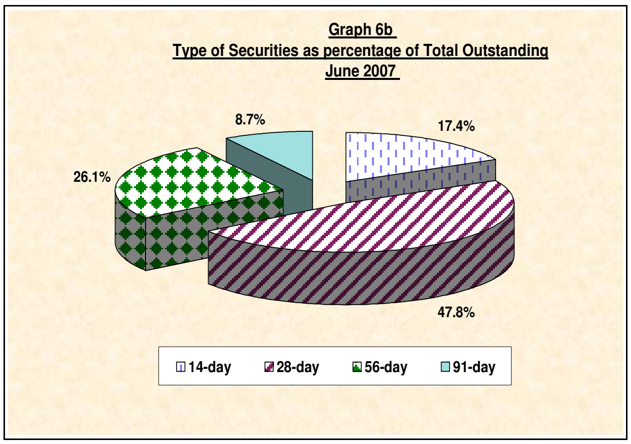
CBS Securities and Official Interest Rates

While $27.0 million worth of CBS securities matured in June 2008, there were new bills totaling $31.0 million issued to commercial banks. In particular, short-term securities of 14-days ($8.5 million), 28-days ($9.5 million), 56-days ($6.5 million) and 91-days ($6.5 million) were issued during the month. Consequently, the amounts outstanding of $5.0 million, $9.5 million, $9.0 million and $21.5 million for the 14-day, 28-day, 56-day and 91-day papers, boosted the level of CBS securities outstanding to $45 million at end June 2008 from $41.0 million in May 2008.

In the event, the structure of securities outstanding differed significantly from June 2007. Most of the outstanding securities in June 2008 were invested in longer-term bills, with 91 days accounting for almost a half (48 percent) of total securities outstanding. This was followed by 21 percent for the 28-day paper, while the 56 days and 14 days accounted for 20 percent and 11 percent in that order. In comparison, the total outstanding of $11.5 million in June 2007, accounted for 48 percent invested for 28 days followed by 56 days, 14 days and 91 day securities with shares of 26 percent, 17 percent and 9 percent respectively. (See Graph 6a and 6b).

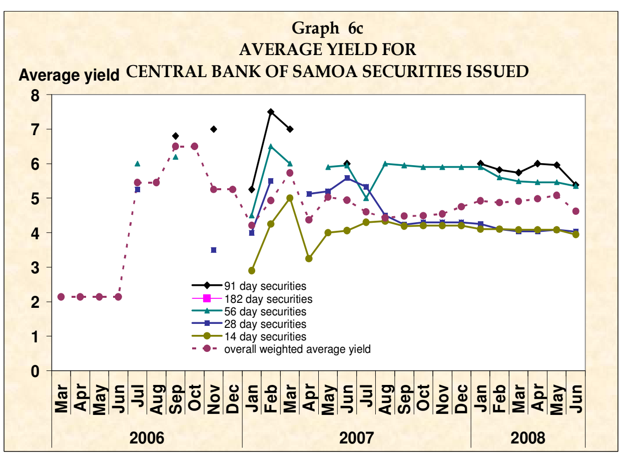


Graph 6a
Type of Securities as percentage of Total Outstanding
June 2008



Graph 6b
Type of Securities as percentage of Total Outstanding
June 2007

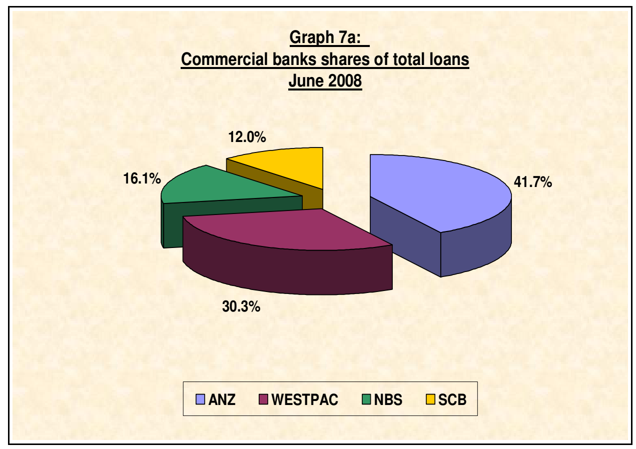
Consequently, the overall official interest rate dropped 46 basis points to 4.62 percent in June 2008. (See Graph 6c.)



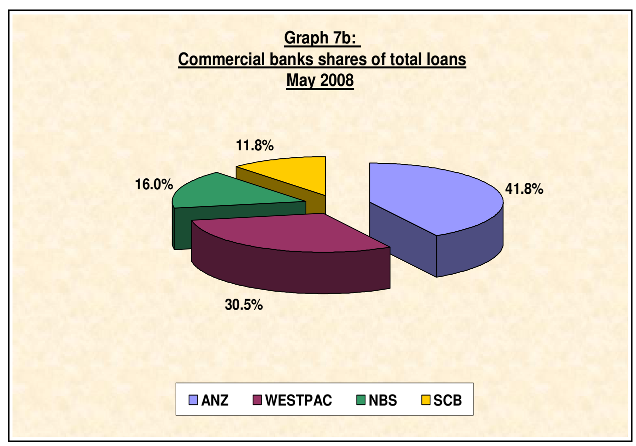
Graph 6c
AVERAGE YIELD FOR
CENTRAL BANK OF SAMOA SECURITIES ISSUED

Commercial Bank Credit and Deposit Market Shares

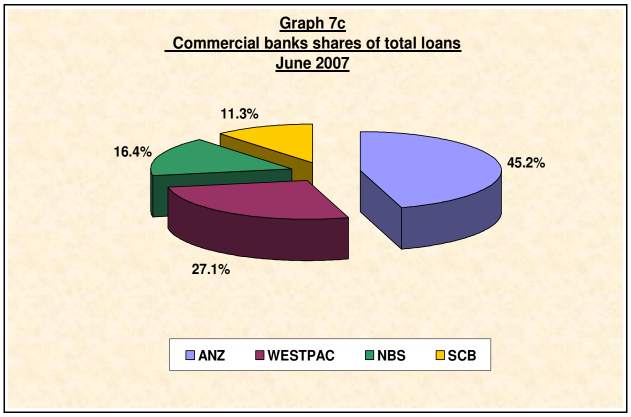
ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in June 2008, although its share edged down to 41.7 percent from 41.8 percent in May 2008, WESTPAC, was in second place accounting for 30.3 percent of total credit; slightly down from 30.5 percent in the previous month but higher than 27.2 percent in June 2007. Both shares of NBS and SCB on the other hand, increased to 16.1 percent and 12.0 percent from their May portions of 16.0 percent and 11.8 percent respectively. The latter's current share was higher than its 11.3 percent share in June 2007 while the former's share was lower than its 16.5 percent share in the same month . (See Graphs 7a, 7b and 7c).

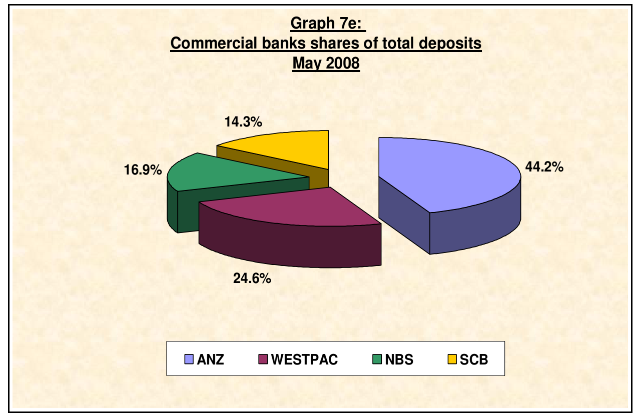


Graph 7a:
Commercial banks shares of total loans
June 2008

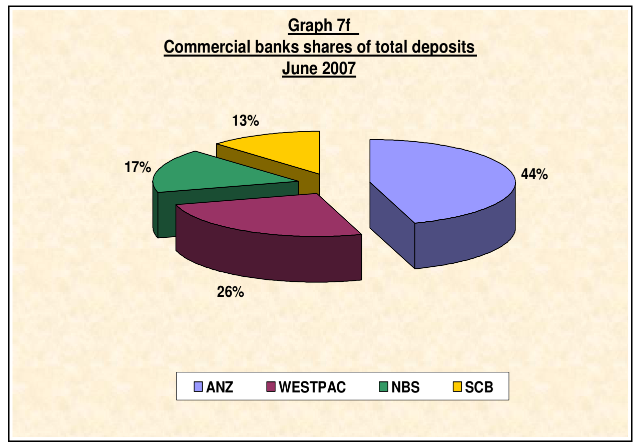


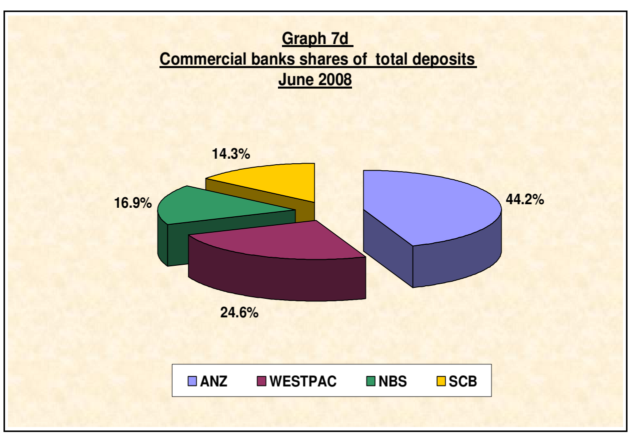
Graph 7b:
Commercial banks shares of total loans
May 2008





ANZ, likewise, continued to account for most of the commercial banks' total deposits, even-though, its share dropped to 43.5 percent from 44.2 percent in May 2008 and 44.9 percent in June 2007. This was followed by WESTPAC's contribution of 23.5 percent, and was also lower than its shares of 24.6 percent and 26.1 percent respectively in the previous month and the same month a year ago. NBS and SCB gained from this loss with their respective shares increasing to 17.8 percent and 15.2 percent, from 16.9 percent and 14.3 percent in the previous month and 16.6 percent and 12.5 percent in that order in June last year. (See Graph 7d, 7e and 7f).

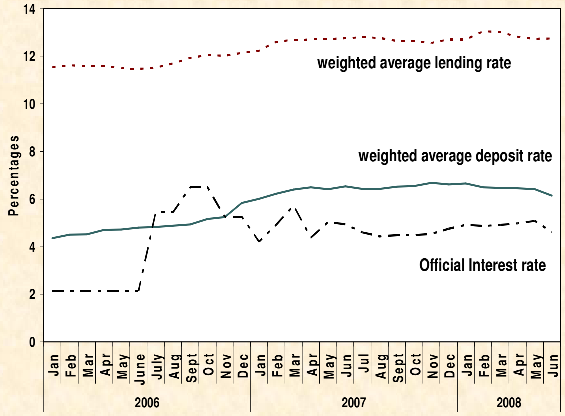




Commercial Bank Interest Rates

Commercial banks' interest rates moved in the opposite direction in June 2008. The overall weighted average lending rate edged up 1 basis point to 12.74 percent while that of deposit rate dropped 26 basis points to 6.15 percent. The banks' interest rate spread, as a result, widened 27 basis points to 6.59 percent in June 2008. (See Graph 8.)

Graph 8:
COMMERCIAL BANKS' INTEREST RATES



The slightly higher overall weighted average lending rate during the month under review was driven by the ANZ and SCB. Their weighted average lending rates went up 11 basis points and 19 basis points to 12.72 percent and 12.53 percent respectively. These more than outweighed lower weighted lending rate offered by the WESTPAC and NBS of 12.76 percent and 12.88 percent in that order. The NBS bank offered the highest lending rate in the market while SCB charged the lowest.

On the deposits side, the lower weighted average deposit rate was driven by all banks. WESTPAC, ANZ, SCB and NBS posted reduced weighted average interest rates on deposits of 5.91 percent, 5.48 percent, 7.05 percent and 7.39 percent respectively. NBS offered the highest rate while ANZ's rate was the lowest. (See Table 2.)

Table 2 : Weighted Average Rates by Commercial Banks

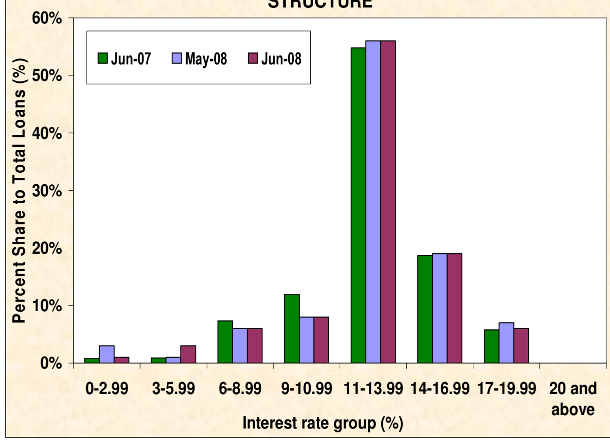
		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	May-08	12.61	12.96	12.90	12.34	12.73
	Jun-08	12.72	12.76	12.88	12.53	12.74
Deposit	May-08	5.79	6.31	7.49	7.26	6.41
	Jun-08	5.48	5.91	7.39	7.05	6.15

Commercial Banks Interest Rate Structure.

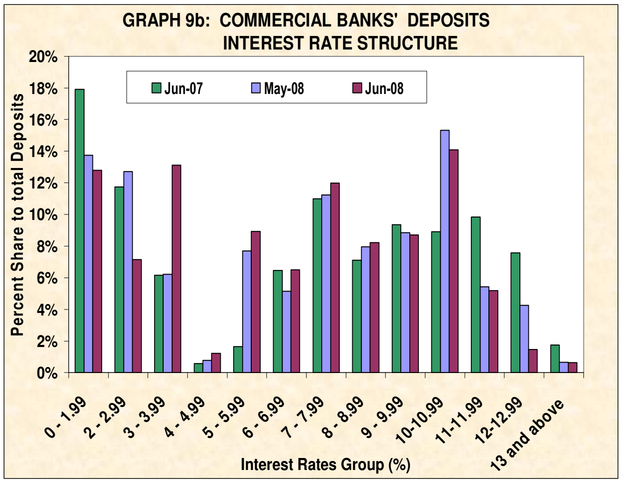
The movements in the commercial banks' weighted average interest rates in June 2008 saw some changes in the overall structure of interest rates.

On the lending side, the bulk (or 56 percent) of total commercial banks' loans were charged at interest rates within the 11.00–13.99 percent band, the same share as was in the previous month but was slightly up from 55 percent in June 2007. Disbursed loans at the interest rate range of 14.00–19.99 percent represented 26 percent of total bank loans during the month, the same level as in May and April 2008 but higher than 24 percent in June 2007. Loans issued at interest rates between 9.00 – 10.99 percent, also maintained the same position (8 percent) as they were in the previous two months; but was lower than 12 percent in the same month last year. The remaining 10 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; the same as in the previous month and higher than the 9 percent share in June a year earlier. (See Graph 9a)

GRAPH 9a: COMMERCIAL BANKS' LOANS INTEREST RATE STRUCTURE



As most deposits tended to spread towards the middle range during the month, the higher deposit rate spectrum of 10 percent and above which were introduced in October 2006 to attract more deposits, accounted for a lower 22 percent than the 25 percent share in May 2008, and 29 percent in June 2007. Deposits in the 7-9.99 percent interest-rate band with a share of 29 percent, was higher than the 28 percent and 26 percent shares in the previous month and the same month in that order a year earlier. For the 4.00 - 6.99 percent interest range, its share of total deposits in the month under review of 16 percent was higher than the 14 percent and 9 percent shares respectively in the previous month and June 2007. The lower end of the interest rate spectrum of 0–3.99 percent attracted 33 percent of total deposits, the same as its share in the previous two months but lower than 36 percent in June 2007. (See Graph 9b).



CENTRAL BANK OF SAMOA
31 July 2008