



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT OCTOBER 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.10/08

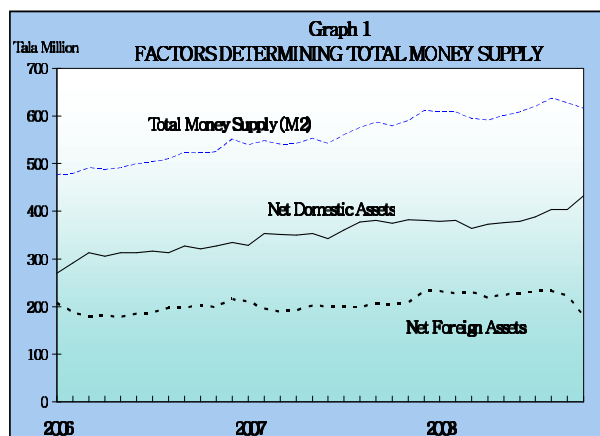
October 2008

Money Supply

Following a 2 percent drop in the previous month, money supply (M2) fell another \$12.0 million (2 percent) to \$615.3 million in October 2008, but was 6 percent (\$37.0 million) higher than in October a year earlier. The contraction from the previous month was attributed entirely to a drop in net foreign assets which was partially offset by an increase 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	
	Oct	Aug	Sep	Oct
1. Net Foreign Assets	204.12	232.45	223.09	181.87
2. Net Domestic Assets	374.18	404.42	404.19	433.44
(a) Domestic Credit	545.56	578.77	581.15	609.60
Government, net	-66.20	-80.75	-82.14	-76.97
Non-financial public enterprises	24.52	40.69	38.86	39.81
Non-monetary financial institutions	27.25	27.00	27.08	28.40
Private Sector	559.99	591.83	597.35	618.36
(b) Other items, net	-171.38	-174.35	-176.96	-176.16
3. Total Assets = Total Money Supply (M2)	578.30	636.87	627.27	615.32
(a) Money (M1)	160.94	160.89	162.06	146.80
(b) Quasi-money	417.36	475.98	465.21	468.52



Determinants of Money Supply

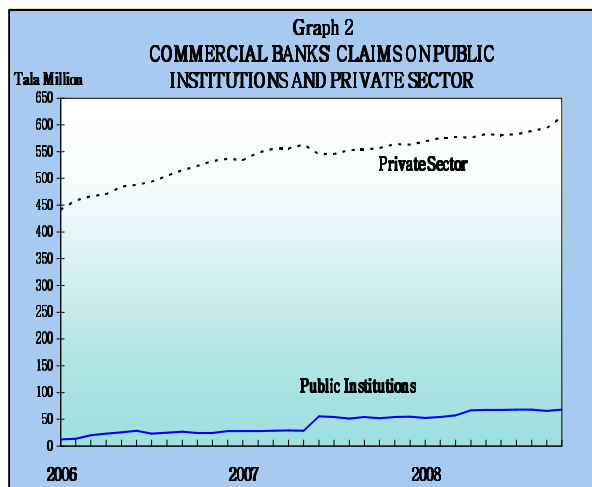
Reflecting the drop in M2 was entirely a \$41.2 million (or 19 percent) fall in net foreign assets (NFA) to \$181.9 million; a level 11 percent (\$22.3 million) lower than in the same month last year. This decline was due mainly to decreases of \$24.5 million and \$17.3 million in net foreign reserves held by the Central Bank and commercial banks respectively, which more than outweighed an increase of \$0.6 million in net foreign assets held by the Ministry of Finance.

Net domestic assets, on the other hand, jumped \$29.3 million to \$433.4 million and was 16 percent (\$59.3 million) higher than in the same month last year. The current month's rise reflected largely a surge of \$21.0 million in bank credit to the private sector with a \$2.3 million increase in claims on public institutions. In addition, Government's net deposits with the monetary system went down by \$5.2 million. The deficit on "other items, net" likewise, declined \$0.8 million in the month under review. (See Graph 1 and Table 1.)

Credit

Following an increase in the previous month, commercial banks' lending to the private households surged by a further \$16.0 million to \$327.6 million in October 2008, and that to businesses went up \$5.2 million to \$287.6 million. Consequently, bank credit to the private sector expanded 4 percent to \$615.2

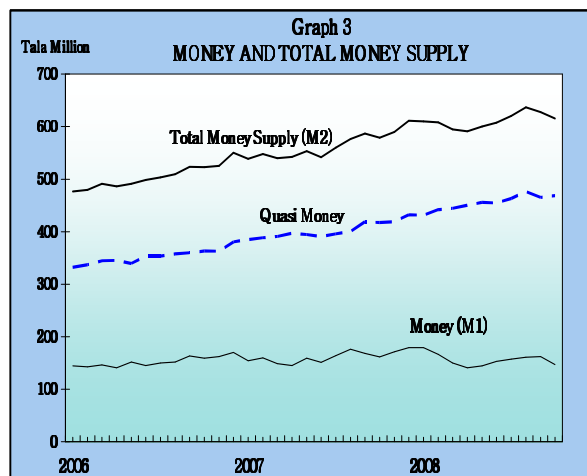
million, while those disbursed to public institutions combined rose 4 percent to \$68.2 million (See Graph 2).



In the event, total commercial bank credit to the private sector and public institutions combined expanded 4 percent (\$23.4 million) to \$683.4 million in October 2008, and was 12 percent (\$74.9 million) higher than in the same month last year. And, on an annual average basis, credit growth picked up to 9.6 percent at end October 2008 from a low of 9.4 percent at end September 2008, in line with the current easing of monetary policy stance.

The sectoral analysis of commercial bank lending in September 2008 saw another significant rise in credit absorption by the “other activities” sector (up \$9.5 million), followed by increases in “trade” (up \$8.8 million), “building and construction” (up \$7.9 million), “manufacturing” (up \$1.1 million) and “electricity” (up \$0.7 million) industries. Loans directed to the “transport and communication”, “professional and business services” and “agriculture” sectors on the other hand, decreased \$2.3 million, \$2.0 million and \$0.3 million respectively during the month.

The monetary contraction in October 2008 reflected entirely a \$17.4 million drop in narrow money (M1), which outweighed a \$3.3 million increase in quasi-money. (See Graph 3.)



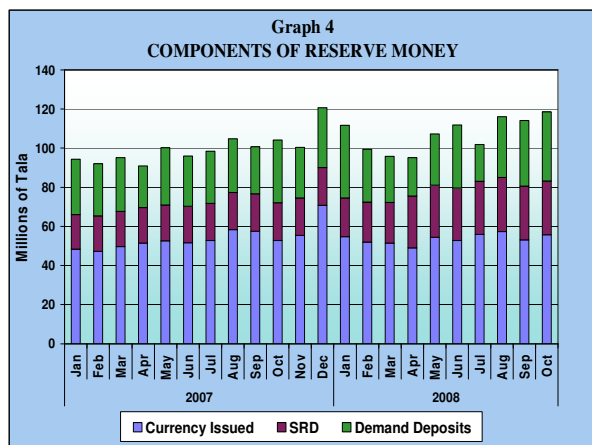
The lower level of M1 was solely a result of a \$15.3 million fall in demand deposits, more than offsetting a \$2.1 million rise in currency outside banks. The expansion in quasi money, on the other hand, was driven entirely by the \$9.5 million increase in time deposits which outweighed decreases of \$4.4 million and \$1.8 million in savings deposits and foreign currency deposits of residents respectively.

Reserve Money¹

The level of reserve money rose 4 percent (up \$4.6 million) to \$118.7 million in October 2008, and was 15 percent (\$15.3 million) higher than in the same month last year. Driven this month’s expansion were increases of \$2.5 million, \$2.0 million and \$0.1 million in currency in circulation, commercial banks’ demand deposits with the Central Bank, and their statutory reserve deposits respectively. (See Graph 4.)

Components of Money Supply

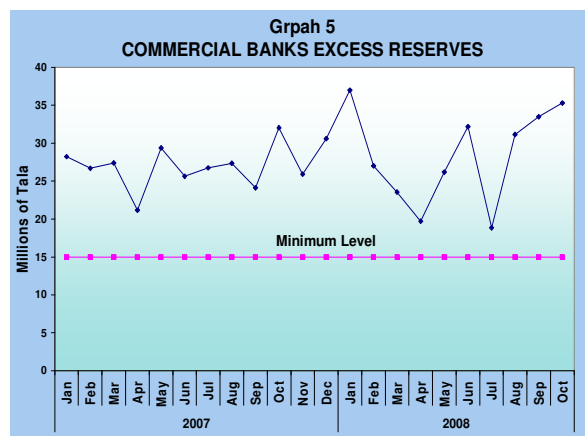
¹ Reserve Money comprises of currency in circulation, statutory reserve deposits (SRD) and demand deposits of commercial banks with the CBS.



Commercial Bank Liquidity

Following a decrease in the previous month, commercial banks’ total liquidity dropped further by a significant \$18.0 million in October 2008. This position was due entirely to a 48 percent decline in commercial banks’ investment in CBS securities which more than offset increases in their excess reserves with the CBS and cash on hand during the month. At \$35.5 million, commercial banks’ excess reserves were 6 percent higher than in the previous month; comfortably higher than their preferred minimum working balance level of \$15.0 million.

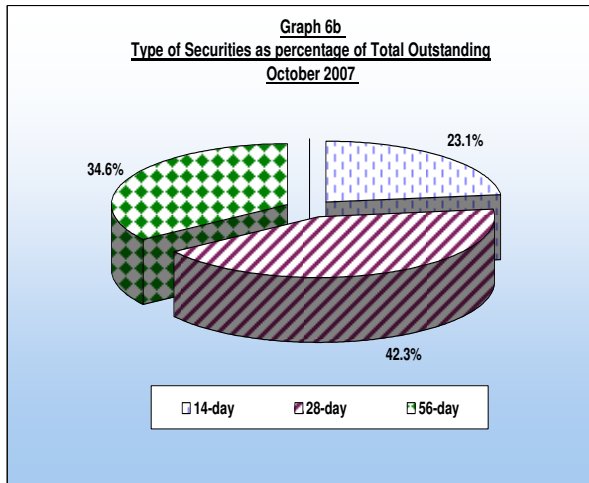
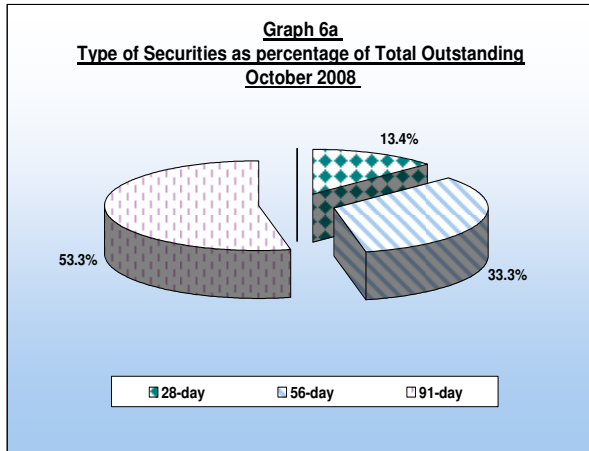
Although ANZ’s demand deposits with the Central Bank fell \$9.0 million to \$13.4 million, ANZ continued to account for the bulk of total commercial banks’ demand deposits with CBS at end October 2008. This decline was outweighed by increased excess reserves of WESTPAC, NBS and SCB by \$4.5 million, \$4.2 million and \$2.3 million to \$9.6 million, \$7.2 million and \$5.3 million respectively in the month under review. (See Graph 5.)



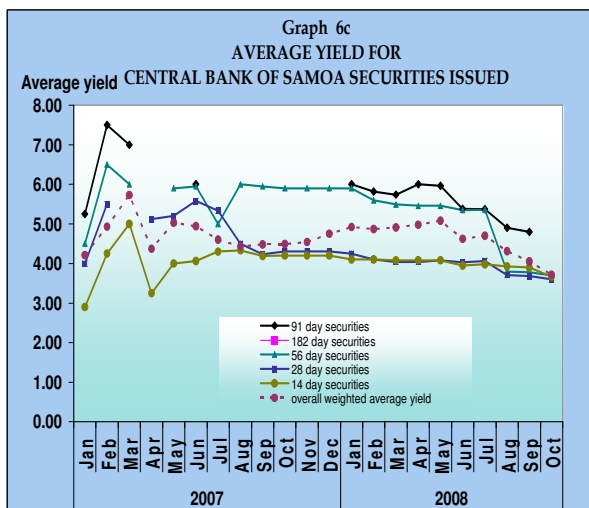
CBS Securities and Official Interest Rates

While \$31.0 million worth of CBS securities matured in October 2008, there were new bills totaling \$12.5 million issued to commercial banks. In particular, short-term securities of 14-days (\$3.0 million), 28-days (\$5.0 million), 56-days (\$4.5 million) were issued during the month while none for the 91-day paper. Consequently, the amounts outstanding of \$3.0 million, \$7.5 million and \$12.0 million for the 28-day, 56-day and 91-day papers, recorded the level of CBS securities outstanding at \$22.5 million at end October 2008 from \$43.0 million in September 2008.

As a result, the structure of securities outstanding differed significantly from October 2007. Although there was none issued for the 91 day security, it accounted for more than a half (53 percent) of total securities outstanding in the month under review. This was followed by 33 percent for the 56-day paper while the 28 days accounted for 14 percent with none outstanding for the 14 day security. In comparisons, the total value of securities outstanding of \$13.0 million in October 2007 comprised of 42 percent, 35 percent and 23 percent invested in the 28-day, 56-day and the 14 day papers respectively while there was none registered for the 91-day security. (See Graph 6a and 6b).

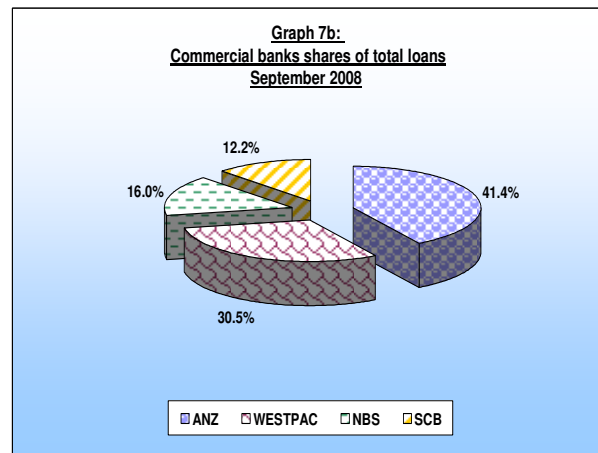
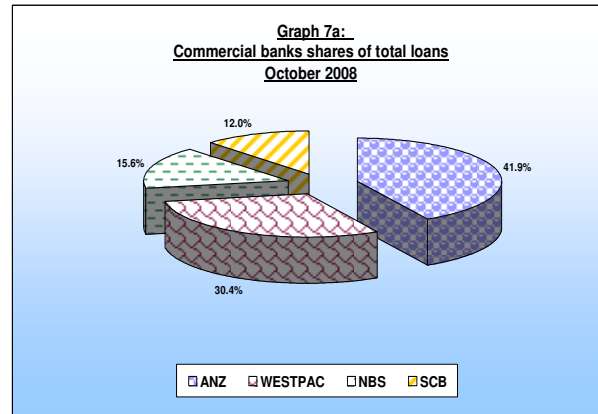


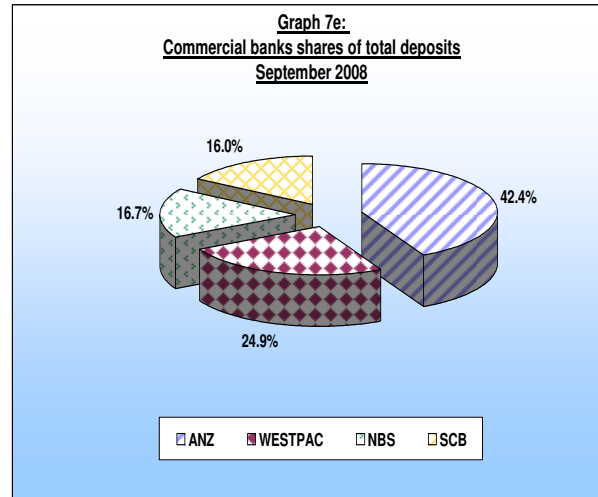
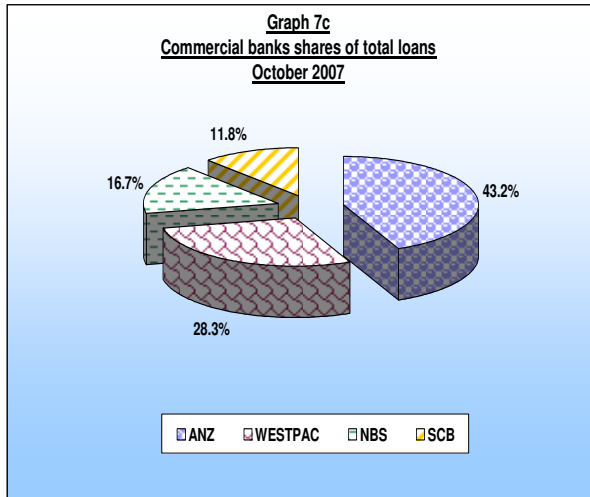
In line with the easing stance of monetary policy, the overall official interest rate dropped 34 basis points to 3.72 percent in October 2008. (See Graph 6c.)



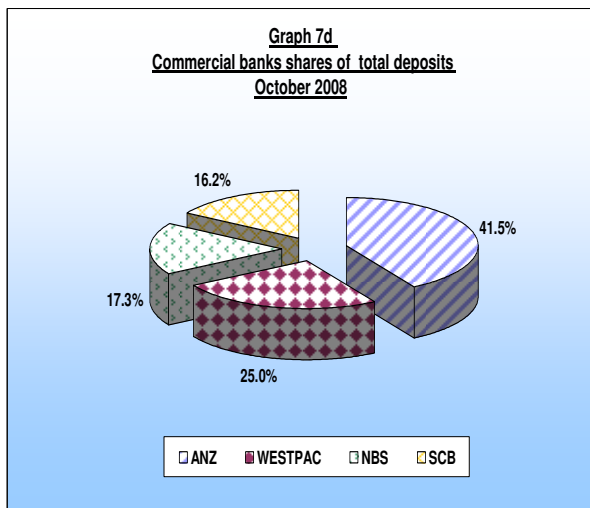
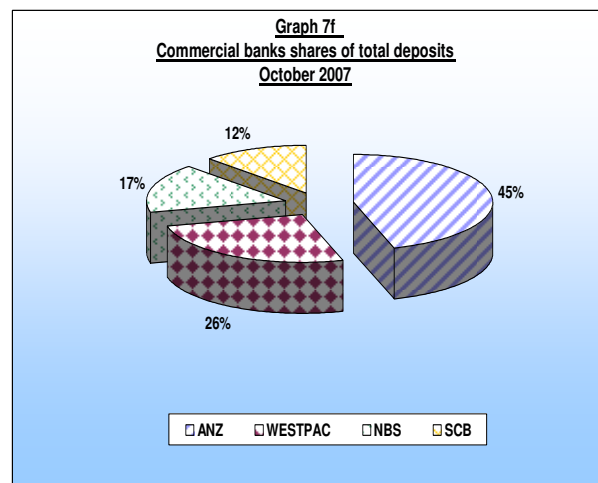
Commercial Bank Credit and Deposit Market Shares

ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in October 2008, as its share went up to 41.9 percent from 41.4 percent in September 2008, but was lower than the 43.2 percent in October 2007. WESTPAC followed, with a share of 30.4 percent although slightly down from 30.5 percent in the previous month but was higher than 28.3 percent in October 2007. The ratio for NBS and SCB as well declined to 15.6 percent and 12.0 percent from their respective shares of 16.0 percent and 12.2 percent in the previous month. NBS's share was also lower than its 16.7 percent ratio in October last year while SCB's share was higher than its correspondence 11.8 percent share. (See Graphs 7a, 7b and 7c.)



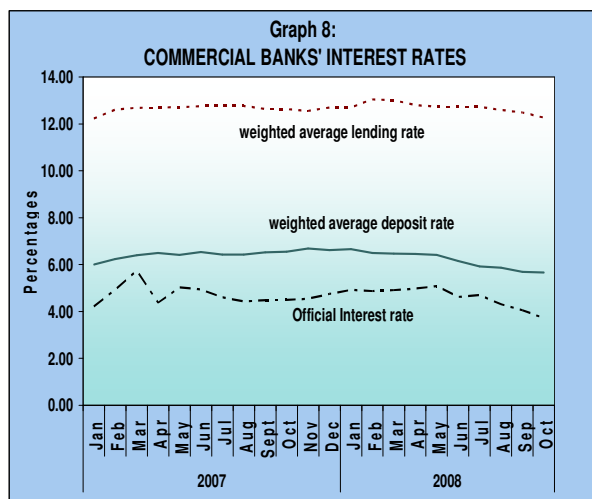


On deposits, ANZ also continued to account for most of the commercial banks' total deposits, despite its share falling to 41.5 percent from 42.4 percent in October 2008 and 45.4 percent in October 2007. This was followed by WESTPAC's share of 25.0 percent, which was slightly higher than its 24.9 percent share in the previous month, but lower than 25.8 percent in October last year. NBS and SCB accounted for 17.3 percent and 16.2 percent of total deposits in the month under review; higher than their shares of 16.7 percent and 16.0 percent in the previous month and 16.6 percent and 12.2 percent respectively in the same month a year earlier. (See Graph 7d, 7e and 7f.)



Commercial Bank Interest Rates

Commercial banks' interest rates continued with their downward trend in October 2008. The overall weighted average lending and deposit rates dropped 34 basis points and 3 basis points to 12.27 percent and 5.66 percent respectively. The banks' interest rate spread, as a result, narrowed 19 basis points to 6.61 percent in October 2008. (See Graph 8.)



The lower overall weighted average lending rate during the month under review was driven by the ANZ and SCB. The weighted average lending rates charged by ANZ declined 18 basis points to 12.59 percent while that of SCB dropped 133 basis points to 11.24 percent. NBS and WESTPAC, on the other hand, charged the higher cost of borrowing, with their weighted lending rate increasing 7 basis points and 3 basis points to 12.79 percent and 11.99 percent respectively. Consequently, NBS offered the highest lending rate in the market while SCB charged the lowest.

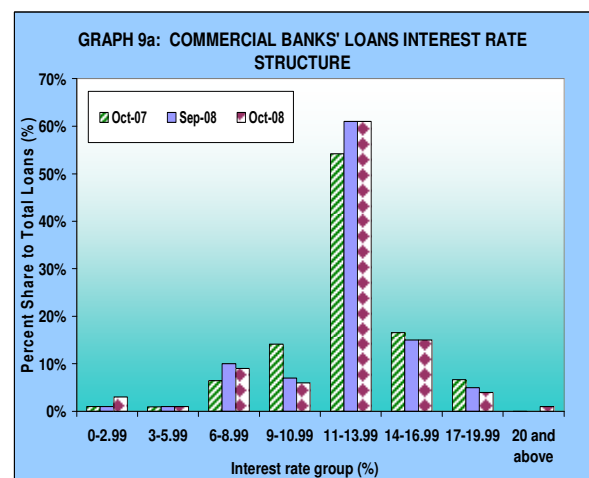
On the deposits side, the lower weighted average deposit rate was driven by all banks except NBS, with its weighted average interest rates on deposits increasing 16 basis points to 6.98 percent. SCB and WESTPAC’s weighted average deposit rates declined 21 basis points and 9 basis points respectively to 6.40 percent and 5.36 percent while that of ANZ remained the same at 5.05 percent as it was in the previous month. NBS offered the highest deposit rate while ANZ’s rate was the lowest. (See Table 2.)

		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	Sep-08	12.77	11.96	12.72	12.57	12.49
	Oct-08	12.59	11.99	12.79	11.24	12.27
Deposit	Sep-08	5.05	5.45	6.82	6.61	5.69
	Oct-08	5.05	5.36	6.98	6.40	5.66

Commercial Banks Interest Rate Structure.

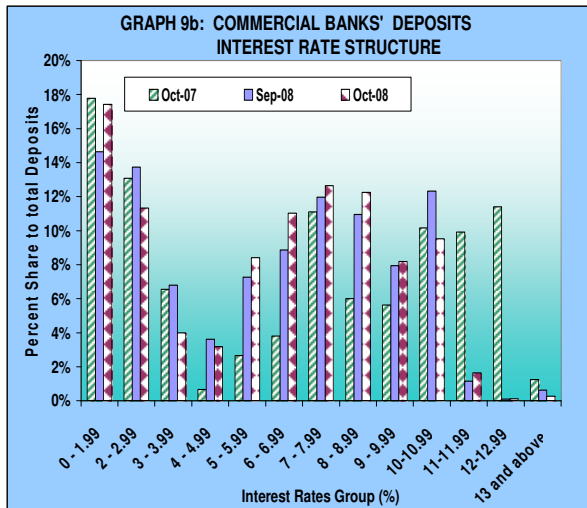
The movements in commercial banks’ weighted average interest rates in October 2008 saw some changes in the overall structure of interest rates.

On the lending side, the bulk (or 61 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 but higher than 54 percent in October 2007. Disbursed loans at the interest rate range of 14.00–20 percent and above represented 20 percent of total bank loans during the month, the same ratio as was in September 2008, but lower than 24 percent in October 2007. The proportion of loans issued at interest rates between 9.00 – 10.99 percent also declined to 6 percent from 7 percent in the previous month, and was also lower than the 14 percent ratio in October a year earlier. The remaining 13 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; slightly higher than the 12 percent share in the previous month and 8 percent share in October last year. (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 12 percent than the 14 percent share in September 2008 and 32 percent in October 2007. Deposits in the 7-9.99 percent interest-rate band with a share of 33 percent, was higher than the 31 percent in the previous month and 23 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 22 percent was higher than the 20 percent share in the previous month and almost tripled the 8 percent share in October a year earlier. The lower end of the interest rate spectrum of 0–3.99 percent attracted 33 percent of total deposits from the 35 percent share in the previous month and the 38 percent share in October 2007. (See Graph 9b).



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25th November 2008