



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT SEPTEMBER 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.9/08

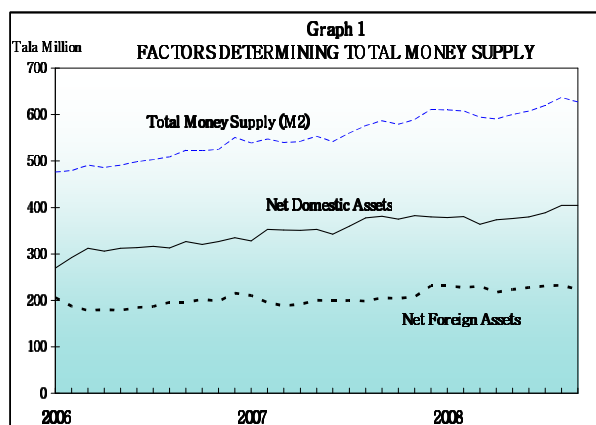
September 2008

Money Supply

After a 3 percent increase in the previous month, money supply (M2) dropped \$9.6 million (2 percent) to \$627.3 million in September 2008, but was 7 percent (\$40.4 million) higher than in September a year earlier. The contraction from the previous month was attributed largely to a decrease in net foreign assets with a relatively slight decline 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	
	Sep	Jul	Aug	Sep
1. Net Foreign Assets	205.55	231.18	232.45	223.09
2. Net Domestic Assets	381.34	388.72	404.42	404.19
(a) Domestic Credit	544.83	564.81	578.77	581.15
Government, net	-66.34	-89.54	-80.75	-82.14
Non-financial public enterprises	28.49	39.77	40.69	38.86
Non-monetary financial institutions	25.64	28.49	27.00	27.08
Private Sector	557.04	586.09	591.83	597.35
(b) Other items, net	-163.49	-176.09	-174.35	-176.96
3. Total Assets = Total Money Supply (M2)	586.89	619.90	636.87	627.27
(a) Money (M1)	168.32	156.99	160.89	162.06
(b) Quasi-money	418.57	462.91	475.98	465.21



Determinants of Money Supply

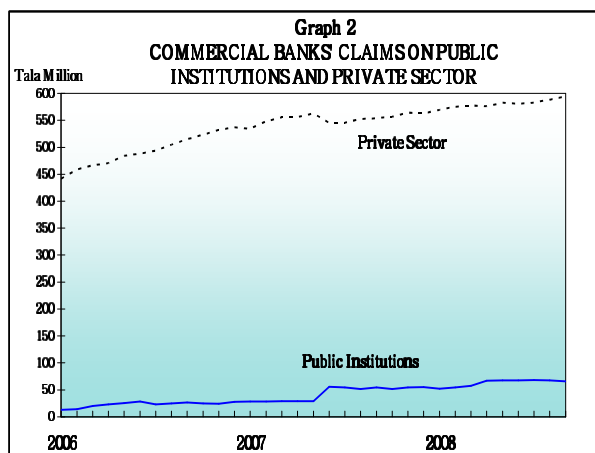
Underpinning the drop in M2 was largely a \$9.4 million (or 4 percent) fall in net foreign assets (NFA) to \$223.1 million; a level that was nevertheless, 9 percent (\$17.5 million) higher than in the same month last year. This contraction was due entirely to a \$16.2 million fall in net foreign reserves held by the Central Bank, which more than outweighed increases of \$6.0 million and \$0.8 million in net foreign assets held by the commercial banks and the Ministry of Finance respectively.

Net domestic assets, likewise, declined \$0.2 million to \$404.2 million, but was 6 percent (\$22.9 million) higher than in the same month last year. The current month's contraction reflected an increase of \$1.4 million in Government's net deposits with the monetary system, a \$2.6 million increase in the deficit on "other items, net" and a \$1.7 million drop in claims on public institutions combined. These more than offset the increase of \$5.5 million in bank credit to the private sector. The increase in "other items, net" reflected largely, the expansion in the capital accounts in particular, the cumulative balance of profit and loss account of the banking system during the month. (See Graph 1 and Table 1.)

Credit

Following an increase in the previous month, commercial banks' lending to the private households expanded by a further \$6.1 million to \$311.6 million in September 2008, while that to businesses went down \$0.6 million to

\$282.4 million. Consequently, bank credit to the private sector increased 1 percent to \$594.1 million. Loans disbursed to public institutions, on the other hand, went down 3 percent to \$65.9 million, as lending to non-financial public enterprises (NPEs) which dropped 4 percent, outweighed a 0.3 percent rise in credit absorbed by non-monetary financial institution (NFIs). (See Graph 2).



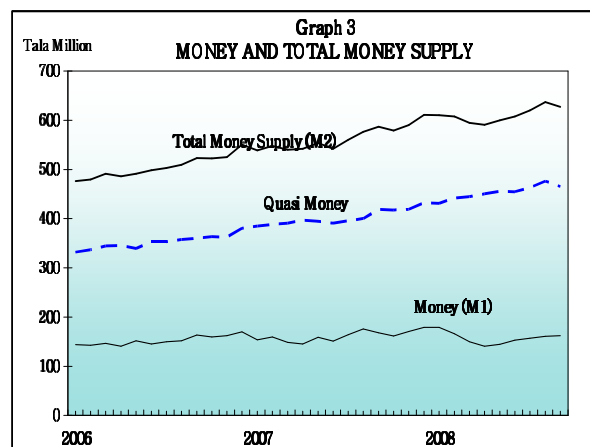
In the event, total commercial bank credit to the private sector and public institutions combined rose 0.6 percent (\$3.8 million) to \$660.0 million in September 2008, and was 9 percent (\$52.0 million) higher than in the same month last year. On an annual average basis however, credit growth continued to slow down, reaching 9.4 percent at end September 2008 from 9.7 percent at end August 2008. The easing of monetary policy for the fiscal year 2008/09, however, would see a reverse in this trend in the months ahead.

The sectoral analysis of commercial bank lending in September 2008 saw a significant rise in credit absorption by the “other activities” sector (up \$6.6 million), followed by increases in “trade” (up \$0.7 million), “electricity” (up \$0.7 million), “manufacturing” (up \$0.6 million), “agriculture” (up \$0.3 million) and “transport and communication” (up \$0.1 million) industries. Loans directed to the “building and construction” and “professional and business services” industries on the other

hand, decreased \$5.2 million and \$0.1 million respectively.

Components of Money Supply

The monetary contraction in September 2008 reflected entirely a \$10.8 million drop in quasi-money which outweighed a \$1.2 million increase in narrow money (M1). (See Graph 3.)



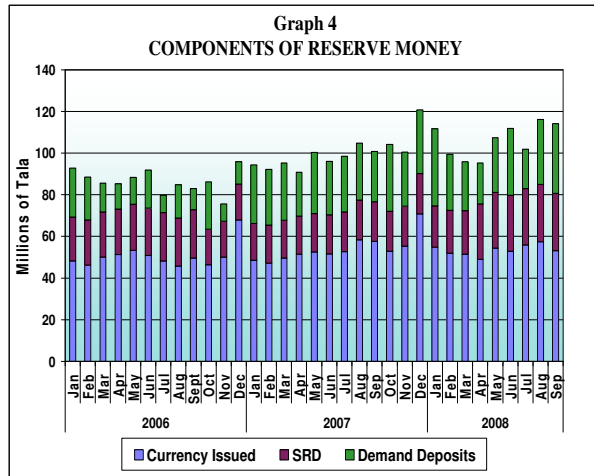
The lower level of quasi money during the month was driven by decreases in all of its components except savings deposits. In particular, foreign currency deposits of residents and time deposits plunged \$5.6 million and \$5.5 million respectively which more than offset an increase of \$0.3 million in savings deposits. The expansion in M1 on the other hand, was entirely a result of an \$8.6 million surge in demand deposits, outweighing a \$7.4 million decline in currency outside banks.

Reserve Money¹

The level of reserve money fell 2 percent (down \$2.0 million) to \$114.2 million in September 2008, and was 16 percent (\$16.0 million) higher than in the same month last year. Underpinning this month’s contraction was a significant \$4.3 million decline in currency in circulation which outweighed a

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

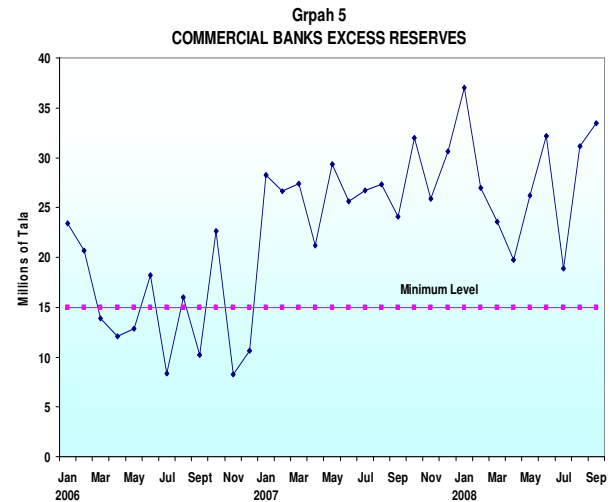
\$2.3 million increase in commercial banks' demand deposits with the Central Bank, and a slight (\$0.01 million) increase in their statutory reserve deposits. (See Graph 4.)



Commercial Bank Liquidity

After an increase in the previous month, commercial banks' total liquidity decreased \$3.6 million in September 2008. This position was due entirely to a 17 percent drop 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 \$33.5 million, commercial banks' excess reserves were 7 percent higher than in the previous month; comfortably higher than their preferred minimum working balance level of \$15.0 million.

With a further \$3.4 million increase to \$22.4 million in its demand deposits with the Central Bank, ANZ bank mostly accounted for the increase in total commercial banks' demand deposits with CBS at end September 2008. This was followed by NBS and SCB with increases of \$2.1 million and \$0.6 million to \$3.1 million and \$3.0 million respectively in the month under review. Excess reserves of WESTPAC, on the other hand, tumbled \$3.7 million to \$5.1 million. (See Graph 5.)

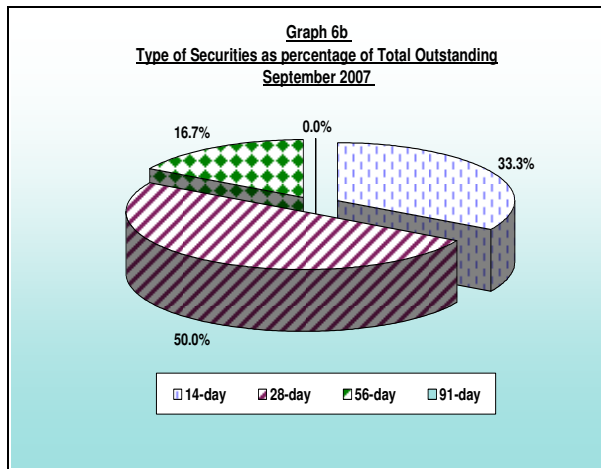
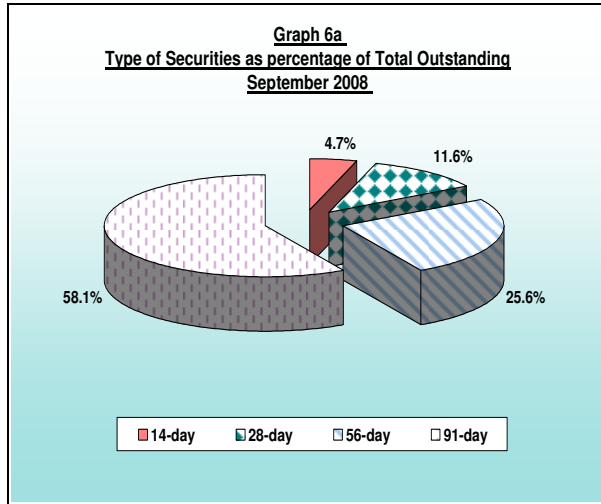


CBS Securities and Official Interest Rates

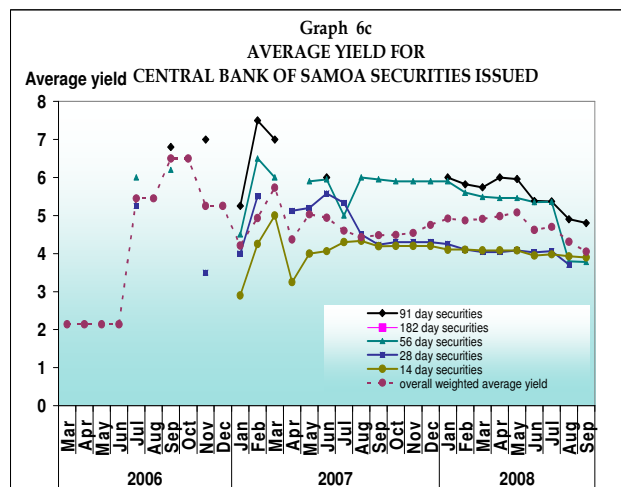
While \$30.0 million worth of CBS securities matured in September 2008, there were new bills totaling \$21.0 million issued to commercial banks. In particular, short-term securities of 14-days (\$6.0 million), 28-days (\$5.0 million), 56-days (\$5.0 million) and 91-days (\$5.0 million) were issued during the month. Consequently, the amounts outstanding of \$2.0 million, \$5.0 million, \$11.0 million and \$25.0 million for the 14-day, 28-day, 56-day and 91-day papers, registered the level of CBS securities outstanding at \$43 million at end September 2008 from \$52.0 million in August 2008.

As a result, the structure of securities outstanding differed significantly from September 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 (58 percent) of total securities outstanding. This was followed by 25 percent for the 56-day paper while the 28 days and 14 days accounted for 12 percent and 5 percent in that order. In comparisons, the total value of securities outstanding of \$12.0 million in September 2007, comprised of 75 percent and 25 percent invested in the 28-day and 56-day papers respectively while there was none for the 14

days and 91-day securities. (See Graph 6a and 6b).

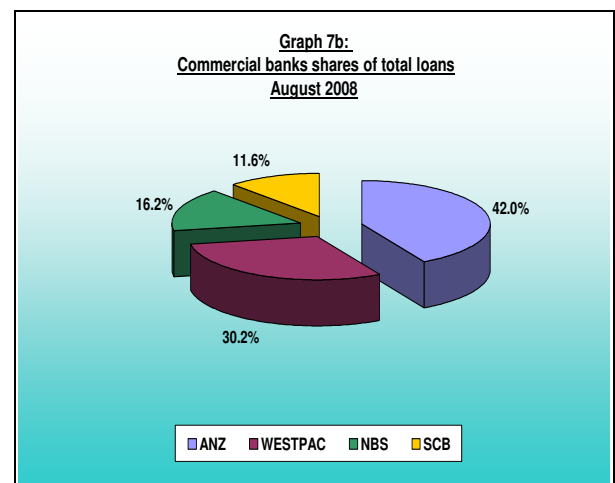
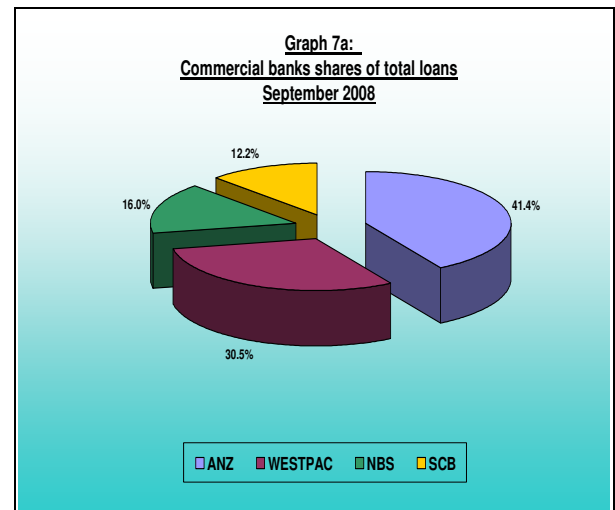


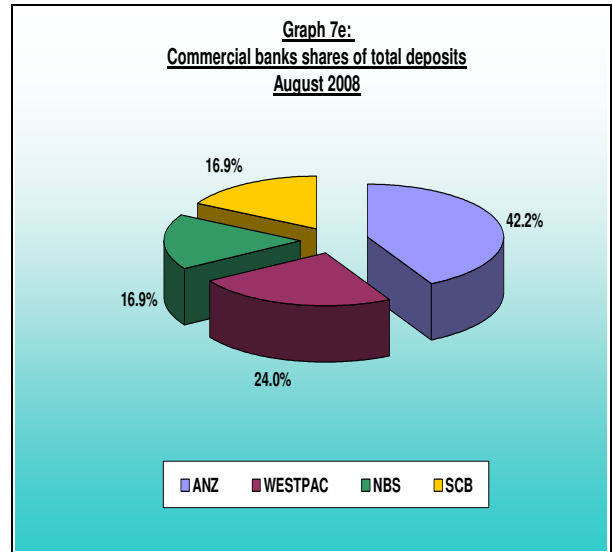
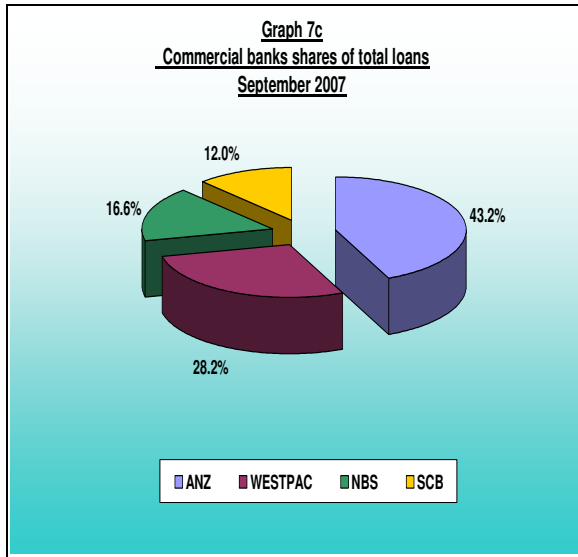
The overall official interest rate dropped 26 basis points to 4.05 percent in September 2008. (See Graph 6c.)



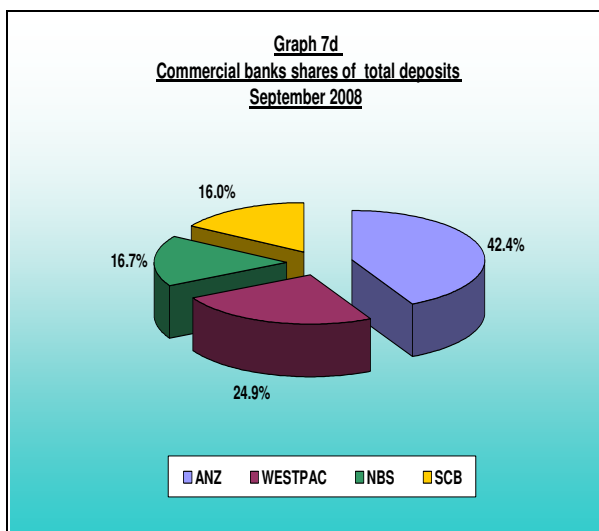
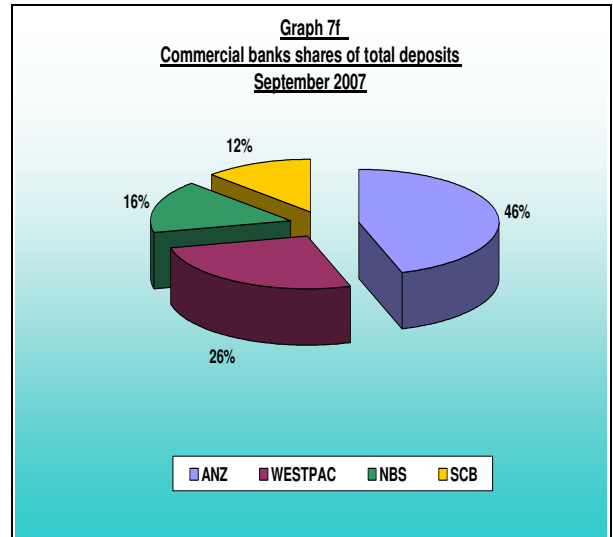
Commercial Bank Credit and Deposit Market Shares

ANZ maintained its position as the largest provider of credit to the private sector and public institutions combined in September 2008, although its share edged down to 41.4 percent from 42.0 percent in August 2008 and 43.2 percent in September 2007. WESTPAC followed, with a share of 30.5 percent; slightly up from 30.2 percent in the previous month and 28.2 percent in September 2007. The ratio for NBS although declined to 16.0 percent from 16.2 percent share in the previous month and 16.6 percent in September last year came third, while SCB's share rose to 12.2 percent from 11.6 percent in the previous month and 12.0 percent in September a year ago. (See Graphs 7a, 7b and 7c.)



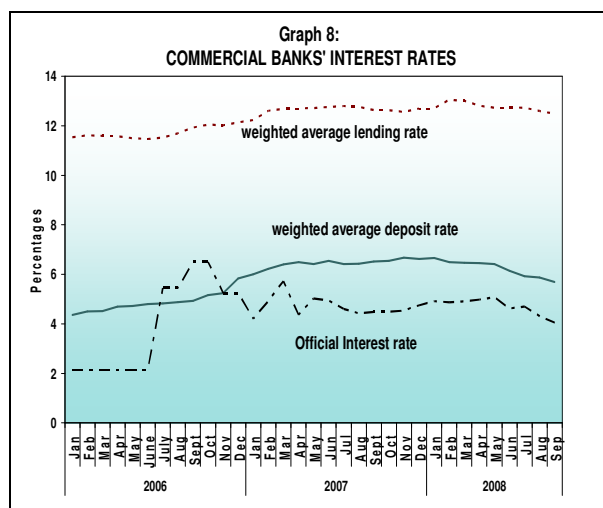


ANZ also continued to account for most of the commercial banks' total deposits, with its share rising to 42.4 percent from 42.2 percent in August 2008, but lower than 45.1 percent in September 2007. This was followed by WESTPAC's share of 24.9 percent, which was higher than its 24.0 percent share in the previous month but lower than 26.3 percent in September last year. NBS and SCB accounted for 16.7 percent and 16.0 percent of total deposits in the month under review; lower than their shares of 16.9 percent each in the previous month but higher than 16.2 percent and 12.4 percent respectively in the same month a year earlier. (See Graph 7d, 7e and 7f.)



Commercial Bank Interest Rates

Commercial banks' interest rates moved in the same direction in September 2008. The overall weighted average deposit and lending rates dropped 18 basis points and 11 basis points to 5.69 percent and 12.49 percent respectively. The banks' interest rate spread, as a result, widened 7 basis points to 6.80 percent in September 2008. (See Graph 8.)



The lower overall weighted average lending rate during the month under review was driven by all commercial banks except the SCB. The weighted average lending rates charged by WESTPAC, NBS and ANZ declined 37 basis points, 4 basis points and 1 basis point to 11.96 percent, 12.72 percent and 12.77 percent respectively. SCB’s weighted lending rate on the other hand, increased 16 basis points to 12.57 percent. Despite a declining rate, ANZ offered the highest lending rate in the market while WESTPAC charged the lowest.

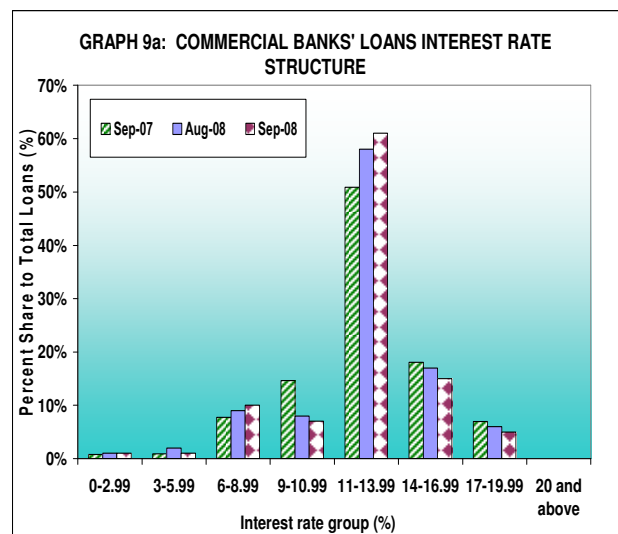
On the deposits side, the lower weighted average deposit rate was driven by all banks. ANZ, WESTPAC, NBS and SCB posted reduced weighted average interest rates on deposits by 203 basis points to 5.05 percent, 46 basis points to 5.45 percent, 20 basis points to 6.82 percent and 2 basis points to 6.61 percent in that order during the month. NBS offered the highest deposit rate while ANZ’s rate was the lowest. (See Table 2.)

		ANZ	WESTPAC	NBS	SCB	Actual WA
Lending	Aug-08	12.78	12.33	12.76	12.41	12.60
	Sep-08	12.77	11.96	12.72	12.57	12.49
Deposit	Aug-08	5.08	5.91	7.02	6.63	5.87
	Sep-08	5.05	5.45	6.82	6.61	5.69

Commercial Banks Interest Rate Structure.

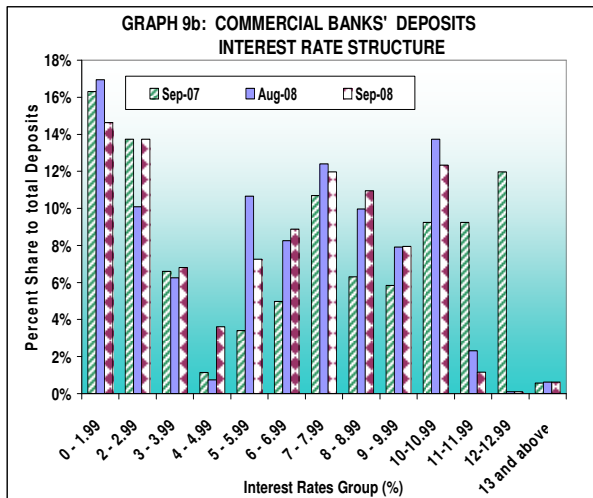
The movements in commercial banks’ weighted average interest rates in September 2008 saw some changes in the overall structure of interest rates.

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, higher than the 58 percent share in the previous month and 51 percent in September 2007. Disbursed loans at the interest rate range of 14.00–19.99 percent represented 20 percent of total bank loans during the month, down from 23 percent in August 2008 and 25 percent in September 2007. The proportion of loans issued at interest rates between 9.00 – 10.99 percent, also declined to 7 percent from 8 percent in the previous five months, but was lower than the 14 percent ratio in the same month last year. The remaining 12 percent of total commercial bank loans were issued at interest rates within the 0.00 – 8.99 percent; the same as the 12 percent share in the previous month but higher than the 10 percent share in September 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 14 percent than the 17 percent share in August 2008 and 31 percent in September 2007. Deposits in the 7-9.99 percent interest-rate band with a share of 31 percent, was higher than the 30 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 20 percent was the same as that in the previous month and more than doubled the 9 percent share in September a year earlier. The lower end of the interest rate spectrum of 0–3.99 percent attracted 35 percent of total deposits from the 33 percent share in the previous month, but lower than 37 percent in September 2007. (See Graph 9b).



CENTRAL BANK OF SAMOA
27 October 2008