

CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT JUNE 2009

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.6/09

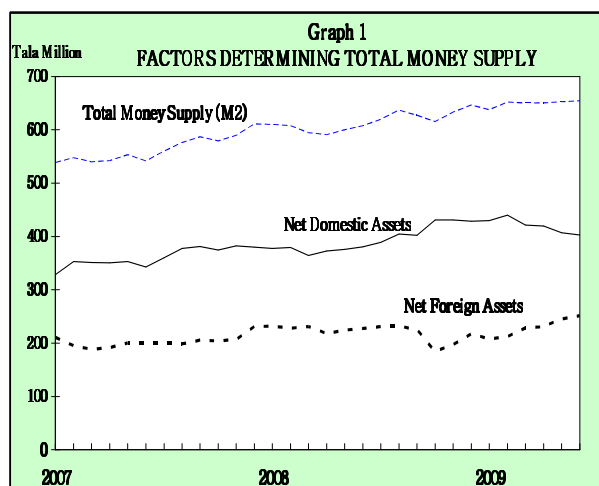
June 2009

MONEY SUPPLY

In June 2009, total money supply (M2) overall reflected the current recessionary conditions, edging up \$1.7 million to \$654.4 million during the month. This month's marginal increase reflected a 2 percent expansion in net foreign assets which outweighed a 1 percent decline in net domestic assets. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY (Amounts in Tala Million)				
End of Period	2008		2009	
	May	June	May	June
1. Net Foreign Assets	224.34	227.72	245.56	251.52
2. Net Domestic Assets	375.59	380.60	407.17	402.87
(a) Domestic Credit	562.97	563.07	599.96	602.27
Government, net	-90.84	-88.60	-93.50	-86.43
Non-financial public enterprises	39.01	38.99	46.26	46.55
Non-monetary financial institutions	28.51	28.60	27.03	27.60
Private Sector	586.29	584.08	620.17	614.55
(b) Other items, net	-187.38	-182.47	-192.79	-199.40
3. Total Assets = Total Money Supply (M2)	599.93	608.31	652.73	654.39
(a) Money (M1)	144.23	153.61	158.14	154.60
(b) Quasi-money	455.70	454.70	494.59	499.79

Source : Central Bank of Samoa



Determinants of Money Supply

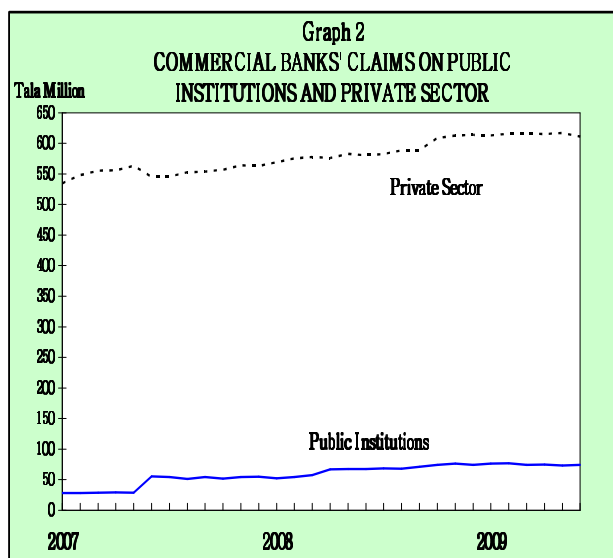
Net foreign assets increased \$6.0 million to \$251.5 million in June 2009; 10 percent (\$23.8 million) higher than in June 2008. This month's expansion reflected entirely a \$7.6 million increase in holdings of net foreign reserves by the commercial banks, partially offset by decreases of \$1.6 million and \$0.05 million in net foreign assets of the Central Bank and the Ministry of Finance respectively.

Net domestic assets (NDA) on the other hand, recorded a \$4.3 million drop to \$402.9 million in the month under review, a level that was however, 6 percent (\$22.3 million) higher than in the same month a year earlier. This month's reduction in NDA was due to a \$6.6 million increase in the deficit on "other items, net" which outweighed a \$2.3 million increase in domestic credit. While the expansion in the latter represented a \$7.1 million cash deficit in Government's net position with the monetary system and a \$4.8 million drop in claims on the private sector and public institutions combined, the reduction in "other items net" was attributed to expansions in other domestic liabilities of the banking system and the commercial banks' capital accounts.

Credit

Total bank credit disbursed to the private sector dropped \$5.6 million to \$611.2 million in the month under review, entirely reflecting an \$8.6 million drop in bank credit to the private households which was partially offset by a \$3.0 million increase in claims outstanding against

the business sector. Commercial bank loans disbursed to public institutions, on the other hand, rose \$0.8 million to \$74.1 million in June 2009. (See Graph 2).

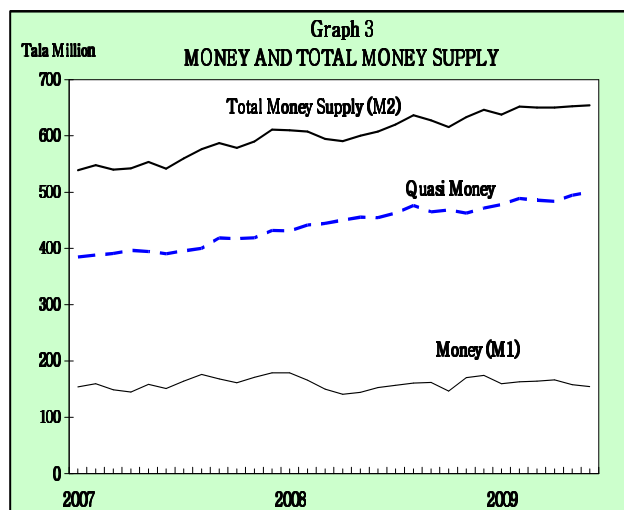


Total commercial bank credit to the private sector and public institutions combined therefore, at end June 2009, fell 1 percent (\$4.8 million) to \$685.4 million. At this level, however, it was 6 percent (\$37.0 million) higher than in the same month last year. On an annual average basis, credit growth continued to slow down to 9.1 percent from 9.3 percent at end May 2009.

The sectoral analysis of commercial bank loans to the private sector and public institutions combined showed decreased claims by the “trade” (down \$8.5 million), “building and construction” (down \$6.7 million), “agriculture” (down \$0.8 million) and “electricity” (down \$0.1 million) industries during the month under review. These were partially offset by increased credit extended to the “transportation and communication” (up \$6.2 million), “other activities” (up \$2.8 million), “professional and business services” (up \$2.3 million) and “manufacturing” (up \$0.1 million) sectors.

Components of Money Supply

The higher level of money supply (M2) in June 2009 entirely reflected a \$5.2 million increase in quasi-money that was partially offset by a \$3.5 million decline in narrow money (M1). (See Graph 3.)



The higher level of quasi-money was mainly driven by \$3.2 million and \$1.5 million increases in foreign currency deposits of residents and savings deposits in that order during the month. Time deposits also rose by \$0.5 million in June 2009.

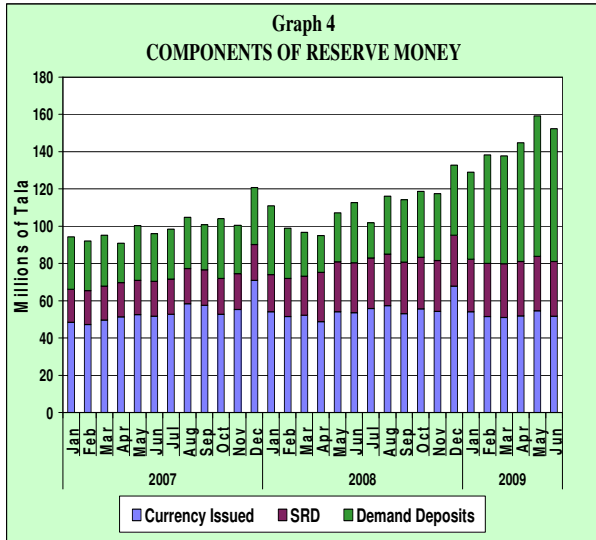
Narrow money (M1), on the other hand, contracted on account of \$0.7 million and \$2.8 million declines in demand deposits and currency outside banks respectively during the month.

Reserve Money¹

Reserve money dropped 3 percent (\$4.9 million) to \$154.3 million in June 2009, a level that was nevertheless, 37 percent (\$41.7 million) higher than in the same month last year. Contributing heavily to this month’s drop were \$2.1 million and \$3.0 million falls in commercial banks’ demand deposits with the Central Bank and

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

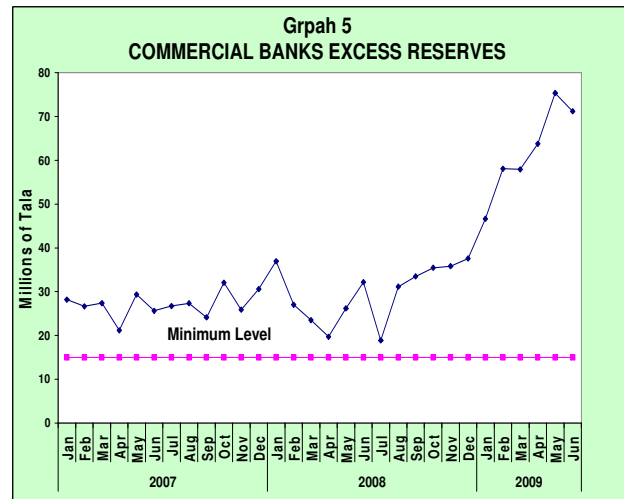
currency in circulation in that order during the month. These, more than outweighed a \$0.2 million increase in their statutory reserve deposits with the Central Bank in the month under review. (See Graph 4.)



Commercial Bank Liquidity

After a large expansion (of \$8.1 million) in the previous month, commercial banks’ total liquidity declined \$2.2 million in June 2009. This month’s decline mainly reflected 3 percent and 1 percent decreases in commercial banks’ holdings of excess reserves at the Central Bank and their vault cash respectively. On the other hand, commercial banks’ investments in CBS securities remained at the same level (\$27.50 million) as it was in the previous month.

In spite of the \$2.2 million drop in commercial banks’ excess reserves from the highest monthly level recorded in the previous month, its level in June 2009 at \$73.2 million was still comfortably well above their preferred minimum working balance level of \$15.0 million. (See Graph 5.)



This month’s level of commercial banks’ excess reserves at the Central Bank was largely held by ANZ, although its’ holdings decreased \$3.1 million to \$42.3 million, while Westpac followed with its excess liquidity expanding \$5.2 million to \$12.6 million during the month. SCB and NBS’s excess deposits with the Central Bank, on the other hand, decreased \$2.8 million and \$1.5 million respectively to \$11.5 million and \$6.9 million by the end of the month under review.

CBS Securities and Official Interest Rate

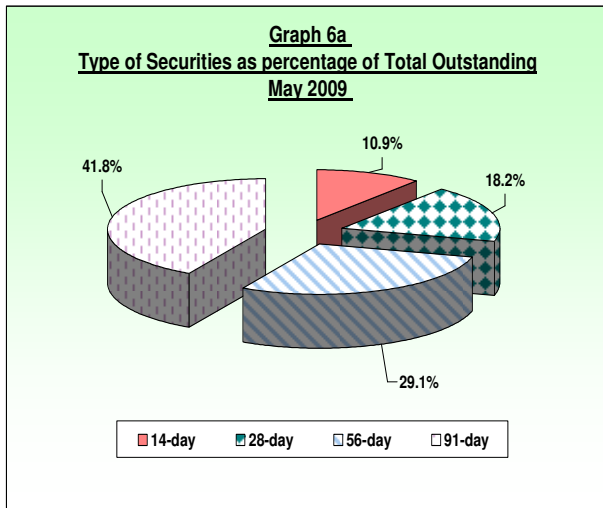
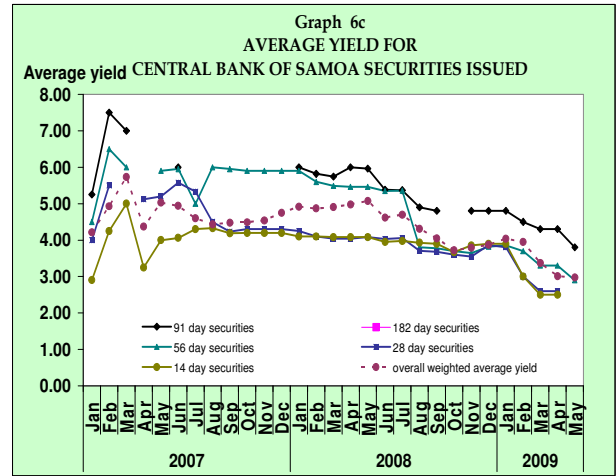
With the current easing stance of monetary policy, the total outstanding amount of CBS securities² at end June 2009 remained at \$27.50 million. This reflected \$18.0 million worth of CBS papers that matured during the month under review and a total of \$18.0 million new bills issued to commercial banks. Of these new bills issued during the month, \$14 million were short-term papers, particularly the 14-days (\$5.0 million), 28-days (\$5.0 million) and 56-days (\$4.0 million) maturities. The benchmark security – 91 day paper – accounted for the remaining \$4.0 million of the new issues during the month.

The total outstanding amount of CBS securities at end June 2009, therefore, was distributed among the 14-day (\$3.0 million), 28-day (\$5.0

² Outstanding securities are quoted at their face value.

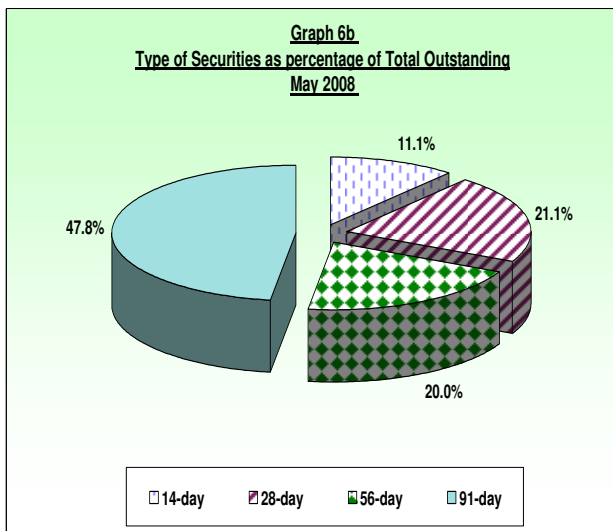
million), 56-day (\$8.0 million) and 91-day (\$11.5 million) maturities. As a result, the structure of securities outstanding in the month under review changed significantly from that of a year ago. In particular, the current outstanding amount for the 91-day paper accounted for 42 percent, down from its 48 percent share in June 2008. This was followed by the 56-day bill, with 29 percent of this month’s outstanding securities, up from its 20 percent share in June last year. On the other hand, the share of outstanding bills for the 28-day maturities declined to 18 percent in June 2009 from 21 percent in the same month a year earlier, whereas the 14-day paper’s share remained the same as it was in June 2008 at 11 percent. (See Graph 6a and 6b).

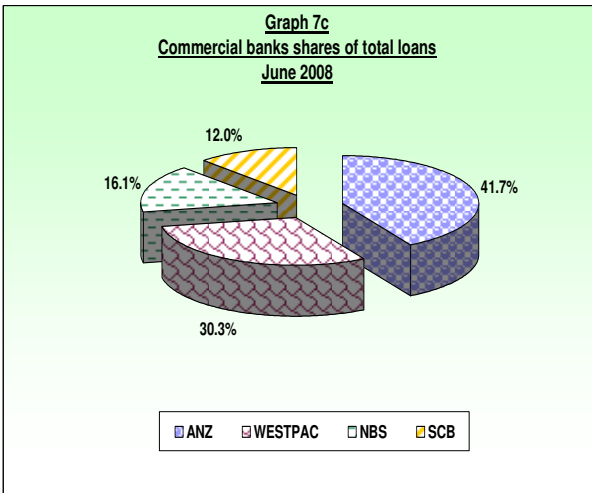
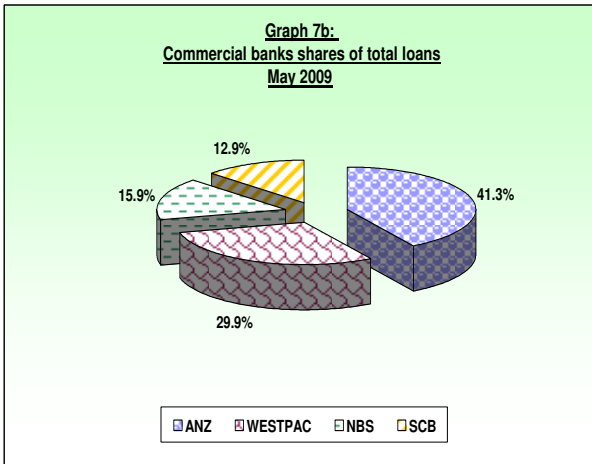
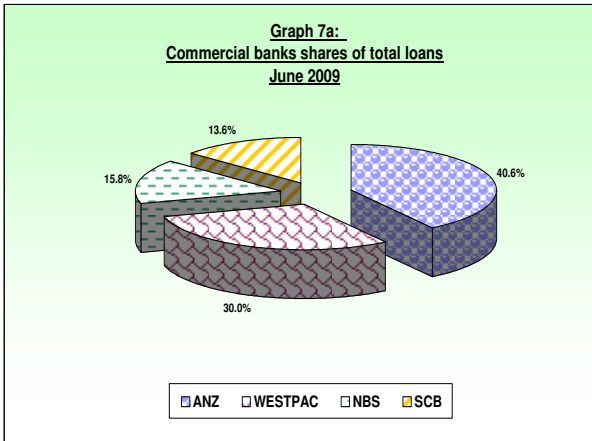
In line with the current easing monetary policy stance, the overall official interest rate dropped another 70 basis points to 2.28 percent in June 2009. (See Graph 6c.)



Commercial Bank Credit and Deposit Market Shares

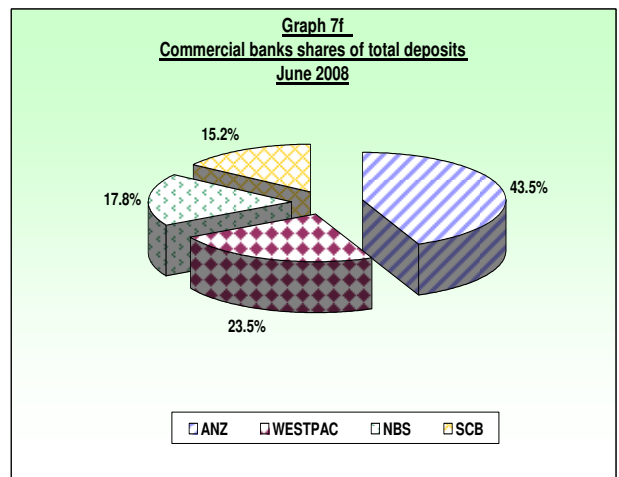
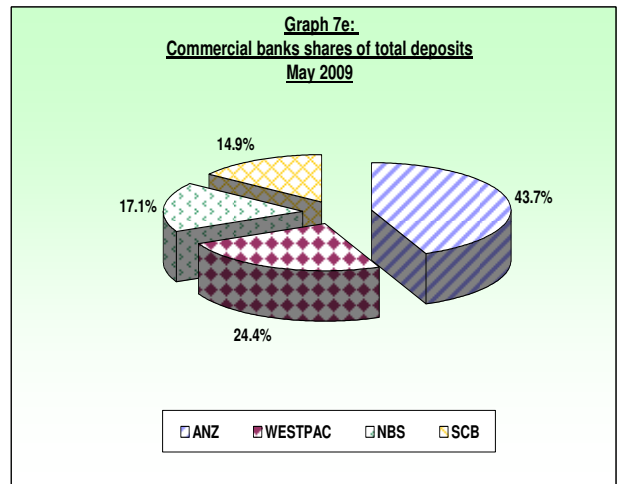
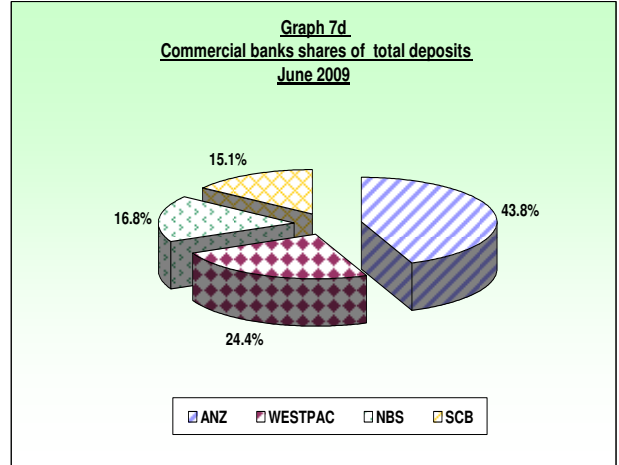
ANZ continued to be the largest provider of credit to the private sector and public institutions combined in June 2009 with a share of 41 percent, similar to its share in each of the previous three months but slightly lower than its 42 percent share a year ago. WESTPAC was the second major provider of bank credit, maintaining its 30 percent share in the past four months; the same level as it was in June 2008. NBS, likewise, accounted for 16 percent of total commercial banks’ loans disbursed at end June 2009, which was the same as its shares in the previous month and June 2008. On the other hand, SCB’s ratio of total loans in the month under review remained at 13 percent from the previous month but higher than its 12 percent contribution in the same month last year. (See Graphs 7a, 7b and 7c.)





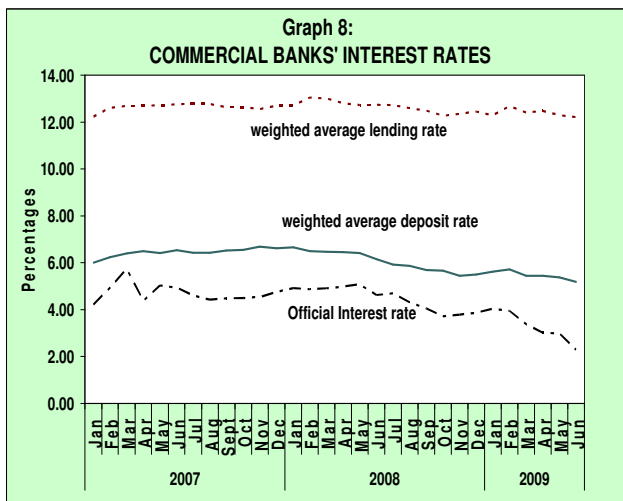
On deposits, ANZ also continued to account for most of the commercial banks' total deposits, with its share remaining at 44 percent from May 2009 but lower than 43 percent in June 2008. WESTPAC followed, with its 24 percent share also the same as in the previous month and in June last year. NBS maintained its deposit ratio with 17 percent from May 2009 but slightly

lower than in June 2008. Similarly, SCB's share of total deposits by the banking system stayed the same (15 percent) as it was in May 2009 and the same month a year ago. (See Graph 7d, 7e and 7f.)



Commercial Bank Interest Rates

Commercial banks' interest rates moved in the same direction in June 2009. With monetary policy holding on to its current easing stance, the weighted average lending rates declined 9 basis points to 12.21 percent while that of deposits dropped to 5.19 percent from 5.38 percent in May 2009. With deposit rates falling faster than lending rates, the commercial banks' interest rate spread widened 10 basis points to 7.02 percent. (See Graph 8.)



The decreased overall weighted average lending rate in June 2009 was mainly due to a 33 basis points drop to 12.05 percent in lending rates by Westpac bank and a 12 basis points decline to 12.77 percent in that of SCB. This was partially offset by an overall increase of 4 basis points to 11.99 percent in the weighted lending rate for ANZ, whereas NBS's rate remained the same as it was in the previous two months. Although it increased during the month, ANZ offered the lowest lending rate in the banking system while SCB continued to offer the highest weighted average lending rate, although it was reduced to 12.77 percent (from 12.89 percent in the previous month).

The movements in deposit rates were echoed by movements in the lending rates of the commercial banks during the month. In particular, ANZ's average deposit rate, which was the lowest during the month, declined by 15

basis points to 4.03 percent. NBS recorded the highest weighted average deposit rate for the month, although it declined 9 basis points to 6.60 percent. WESTPAC and SCB weighted average deposit rates as well dropped 22 basis points and 39 basis points respectively to 5.82 percent and 5.97 percent in the month under review. (See Table 2.)

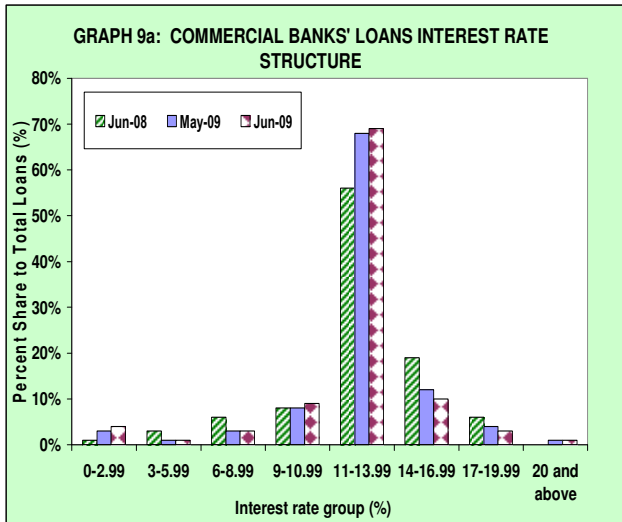
	ANZ	WESTPAC	NBS	SCB	Actual WA
Lending					
May 2009	11.95	12.38	12.60	12.89	12.30
June 2009	11.99	12.05	12.60	12.77	12.21
Deposit					
May 2009	4.18	6.04	6.69	6.36	5.38
June 2009	4.03	5.82	6.60	5.97	5.19

Commercial Banks Interest Rate Structure.

There were some changes in the overall structure of commercial banks' interest rates during the month under review.

On the lending side, more than two-thirds (69 percent) of total commercial banks' loans outstanding in June 2009 were charged at interest rates within the 11.00 – 13.99 percent range, which was higher than its 68 percent share in May 2009 and 56 percent share in June last year. Loans disbursed by commercial banks within the 14.00 – 16.99 percent interest rate band accounted for a 10 percent share, up from 12 percent in the previous month but was much lower than its 19 percent share in June last year. The same proportion of loans (8 percent) as in the previous month was charged at interest rates between 9.00 – 10.99 percent in June 2009 and the same month in 2008. The proportion of loans outstanding in June 2009 that were charged at interest rates above 17 percent declined to 4 percent from 5 percent in May 2009 and were lower than their 7 percent share in May a year ago. The remaining 8 percent of outstanding bank credit in the month under review were

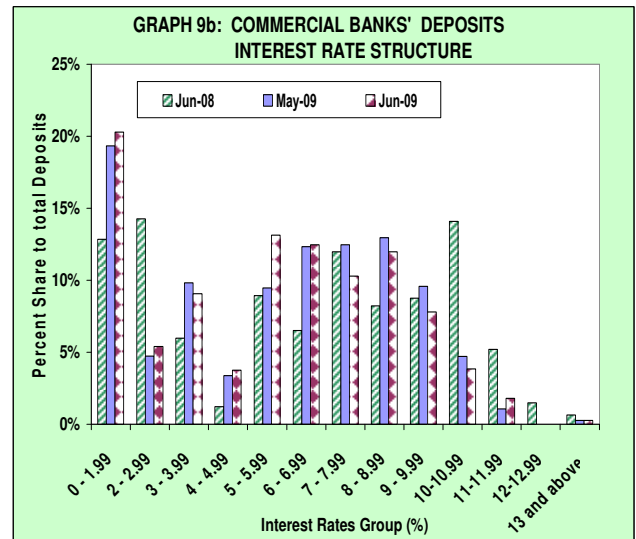
charged at interest rates within the 0.00 – 8.99 percent range; higher than the 7 percent share in the previous month but lower than 10 percent in the same month last year. (See Graph 9a.)



On deposits, some significant changes in the shares of different interest rate bands in June 2009 were recorded, although they were not as notable in comparison to last year's structure.

In particular, the share of the interest rate range (10 percent and above) that was introduced two years ago to attract more deposits remained at 6 percent since the beginning of 2009, but was a significant shift from its 21 percent share in June 2008. This decline over the year in the share of deposits from the higher-end of the interest rate spectrum was reflected in a rise in the middle of the range in June 2009. In particular, at interest rates between 7.00 - 9.99 percent, there were 30 percent of this month's total deposits; down from its 35 percent share in May 2009 but higher

than 29 percent in June 2008. As well, total deposits in June 2009 at 4.00 – 6.99 percent range, accounted for 29 percent; higher than its 25 percent share in the previous month and 17 percent share in the same month a year ago. The lower end of the interest rate spectrum of 0–3.99 percent, on the other hand, attracted 35 percent of total deposits in June 2009; slightly higher than its respective shares of 34 percent and 33 percent in that order, in the previous month and the same month of 2008. (See Graph 9b).



CENTRAL BANK OF SAMOA
27th July 2009