



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT JANUARY 2010

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.01/10

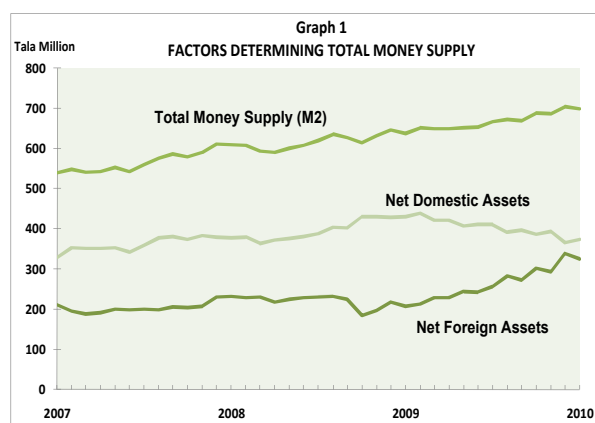
January 2010

MONEY SUPPLY

After expanding in the previous month, total money supply (M2) contracted \$5.4 million to \$699.8 million in January 2010. Contributing to this month's seasonal drop was a 4 percent reduction in net foreign assets, which stemmed the 2 percent expansion in net domestic assets. (See Table 1 and Graph 1.)

End of Period	2008		2009		2010
	Dec	Jan	Dec	Jan	Jan
1. Net Foreign Assets	217.90	207.69	339.70	326.08	
2. Net Domestic Assets	428.51	430.03	365.54	373.74	
(a) Domestic Credit	604.59	601.52	565.36	566.94	
Government, net	-86.74	-91.12	-150.85	-147.34	
Non-financial public enterprises	45.68	48.51	46.29	46.99	
Non-monetary financial institutions	28.34	28.08	35.03	34.93	
Private Sector	617.31	616.05	634.89	632.36	
(b) Other items, net	-176.08	-171.49	-199.82	-193.21	
3. Total Assets = Total Money Supply (M2)	646.42	637.72	705.24	699.81	
(a) Money (M1)	174.38	159.71	200.60	196.53	
(b) Quasi-money	472.04	478.01	504.64	503.29	

Source : Central Bank of Samoa



Determinants of Money Supply

While net foreign assets declined \$13.6 million from December 2009, its' \$326.1

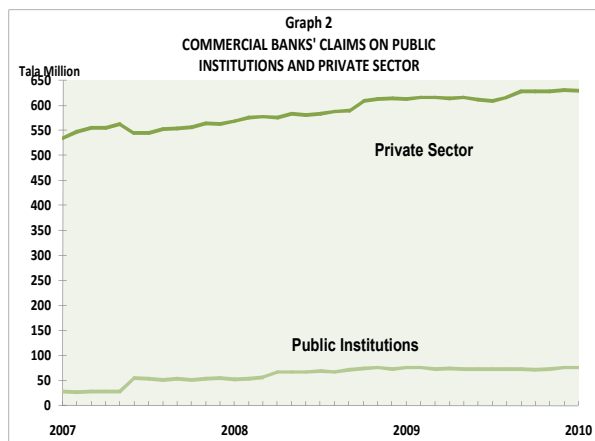
million level in the month under review was still 57 percent (or \$118.4 million) higher than in January 2009. The reduction in net foreign reserves in January 2010 reflected a significant \$14.3 million decline in net foreign assets of commercial banks as well as a \$0.1 million drop in those held by the Central Bank. These were partially offset by a \$0.8 million increase in net foreign assets of the Ministry of Finance.

Net domestic assets (NDA), on the other hand, grew \$8.2 million to \$373.7 million in the month under review but was 13 percent (or \$56.3 million) lower than in the same month a year ago. Boosting net domestic assets from December 2009 was a \$6.6 million increase in "other items, net" and a \$1.6 million rise in domestic credit. The former was driven by increased commercial bank's liquidity and other domestic liabilities in the banking system while the latter was elevated by a cash deficit in Government's financial operations vis-à-vis the monetary system, which partially offset reductions in commercial bank credit to the private sector and public institutions combined.

Credit

The lower level of bank credit in January 2010 was consequent to a reduction in claims on the private sector, which fell \$2.5 million to \$629.1 million in contrast to commercial bank loans disbursed to public institutions, which edged up \$0.6 million to \$76.9 million. Reflecting this month's lower claims to the private sector was a \$14.4 million decline in credit to private households, which was

partially offset by an \$11.9 million increase in claims outstanding with the business sector. (See Graph 2).

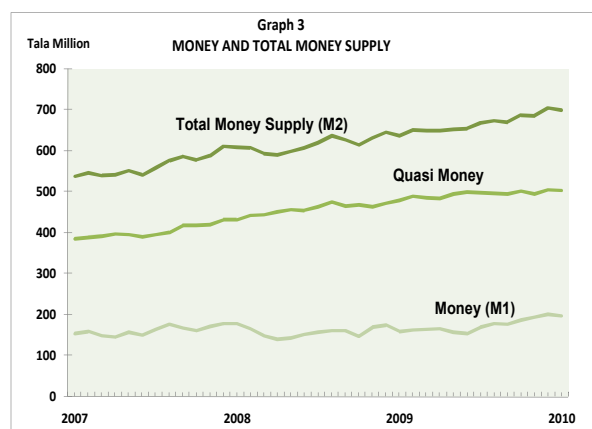


When combined, total commercial bank credit to the private sector and public institutions fell \$1.9 million to \$706.0 million, 2 percent higher than in January 2009. On an annual average basis, credit growth slowed down to 5.2 percent at end January 2010, from 5.9 percent at end December 2009.

The sectoral analysis of commercial bank loans to the private sector and public institutions combined in January 2010 showed significant decreases in the “building and construction” (down \$11.5 million) and “electricity, gas and water” (down \$9.3 million) industries along with a smaller \$1.4 million drop in the “transport and communications” sector. Partially stemming these decreases were increased bank credit disbursed to the “manufacturing” (up \$8.1 million), “trade” (up \$4.7 million), “professional and business services” (up \$3.8 million) and “other activities” (up \$3.7 million) sectors while the “agriculture and fisheries” sector was relatively unchanged.

Components of Money Supply

The decreased money supply (M2) in January 2010 reflected reductions of \$4.1 million and \$1.3 million respectively in narrow money and quasi-money. (See Graph 3.)



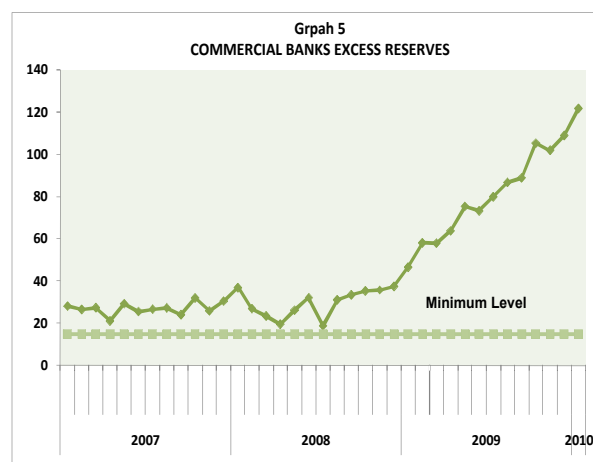
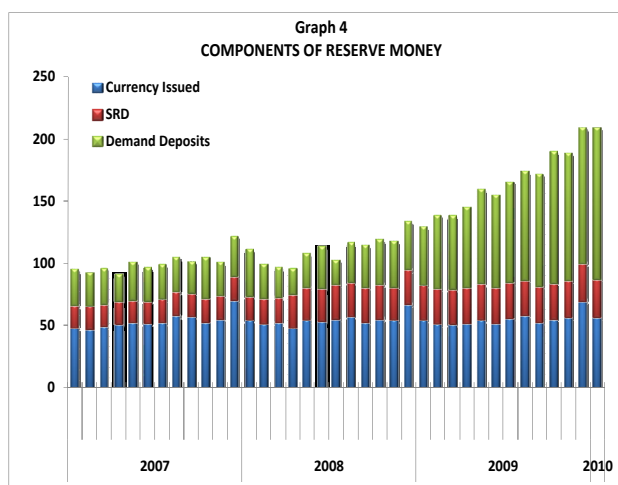
The contraction in narrow money in the month under review was due to an \$8.5 million decrease in currency outside banks, reflecting a return to normal levels after the high consumption spending during the end-year festive celebrations in December 2009. This was stemmed by a \$4.4 million increase in demand deposits at the start of the year.

Quasi-money, on the other hand, was reduced by decreases in time deposits (down \$1.1 million) and savings deposits (down \$1.0 million), which more than offset a \$0.8 million rise in foreign currency deposits of residents.

Reserve Money¹

While reserve money was 62 percent (\$80.2 million) higher than in January 2009, its \$209.3 million level in January 2010 was just \$0.3 million above that of the previous month. The modest expansion of reserve money in the month under review reflected higher commercial banks’ reserves in the form of increased required reserves (up \$0.6 million) and demand deposits (up \$12.9 million) with the Central Bank, which was partially outweighed by a \$13.1 million decrease in currency in circulation. (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

Commercial banks’ total liquidity continued to strengthen in the month under review, increasing \$8.3 million to \$159.4 million, a level that was 97 percent (or \$78.5 million) larger than in January 2009. The liquidity expansion from December 2009 was, to a large extent, driven by a \$12.8 million increase in commercial banks’ excess reserves at the Central Bank and partially offset by a \$4.6 million decrease in commercial banks’ holdings of vault. The investment of commercial banks’ in CBS securities, on the other hand, remained unchanged at \$27.5 million, as it was in the previous eight months.

At \$121.7 million, commercial banks’ excess reserves has become the foremost influential component of total liquidity, reaching levels well above their preferred minimum working balance of \$15.0 million on a monthly basis. (See Graph 5.)

Accounting for the increased level of commercial banks’ excess reserves in January 2010 were expansions in excess liquidity of ANZ (up \$9.5 million), NBS (up \$5.9 million) and WESTPAC (up \$0.7 million), which were partially offset by a \$3.3 million contraction in demand deposits of SCB held at the Central Bank.

CBS Securities and Official Interest Rate

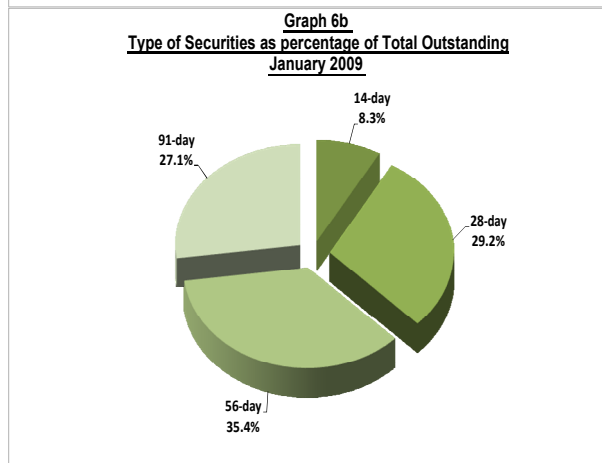
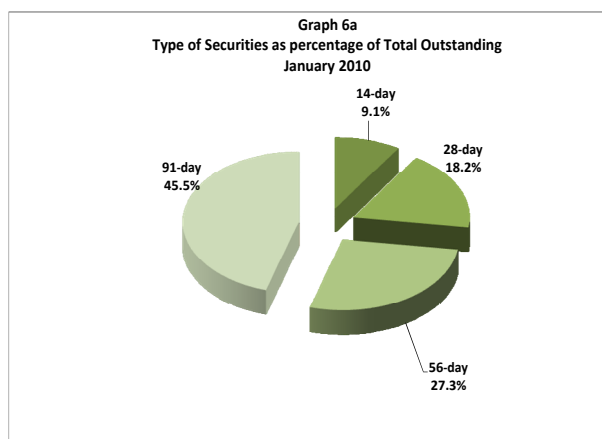
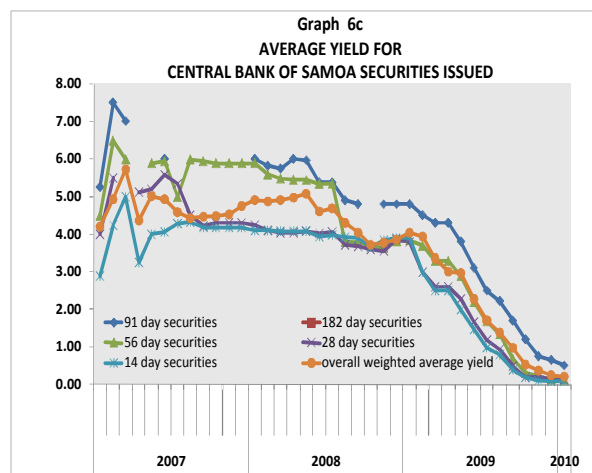
Continued efforts by the CBS to encourage commercial bank lending in January 2010 has seen the total outstanding amount of CBS securities remain at \$27.5 million². This development in the CBS Securities market reflected \$20.5 million worth of CBS securities that matured during the month under review, which were rolled over with a \$20.5 million worth of new bills issued to commercial banks. The new securities issued in January 2010 consisted of short term maturities in the form of 14-days (\$6.5 million), 28-days (\$5.0 million), 56-days (\$4.5 million) and 91-days (\$4.5 million) papers.

The total outstanding CBS securities at end January 2010, therefore, amounted to \$2.5 million for the 14-day paper, \$5.0 million for the 28-day paper, and \$7.5 million for the 56-day paper whereas the total outstanding value

² Outstanding securities are quoted at their face value.

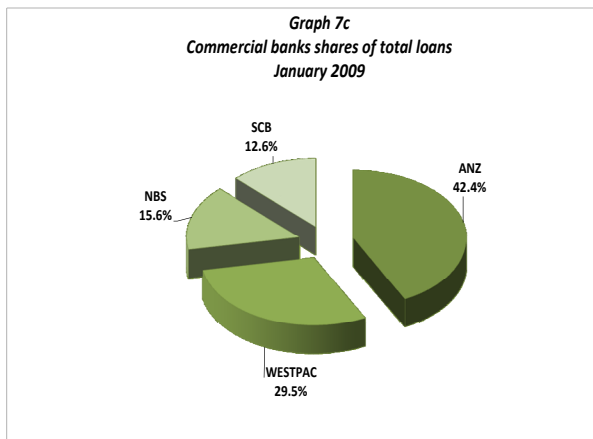
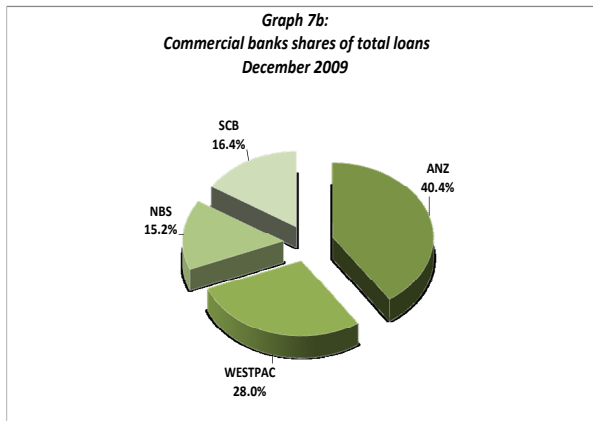
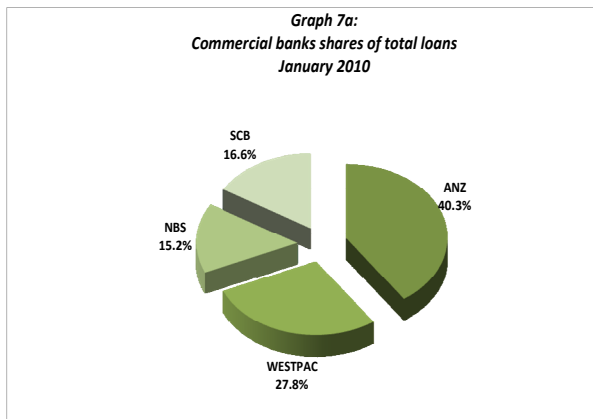
for the benchmark 91-day bill was the largest at \$12.5 million. And, while the structure of securities outstanding in the month under review was similar to that of a year ago, the proportional breakdown has changed. In particular, the current outstanding amount for the 91-day paper represented 45 percent of total CBS securities outstanding, which was nearly doubled that of January 2009 at 27 percent. This was followed by the 56-day paper, which shrank to a 27 percent share, from a 35 percent share in January last year. Also recording a lower share from a year ago was the 28-day paper, which accounted for 18 percent of the total amount outstanding of CBS Securities in January 2010 compared to its 29 percent share in January 2009. The remaining 9 percent of total CBS securities outstanding in the month under review reflected the share of the 14-day bill, slightly larger than its 8 percent share in January 2009. (See Graph 6a and 6b).

Corresponding to the easing stance of monetary policy in the current fiscal year was the reduction of yields for each of the CBS securities, which on average, drove the overall official interest rate further down by 5 basis points to 0.22 percent in January 2010. (See Graph 6c.)

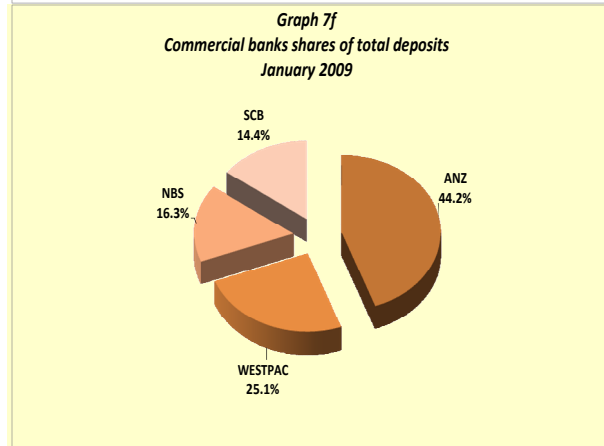
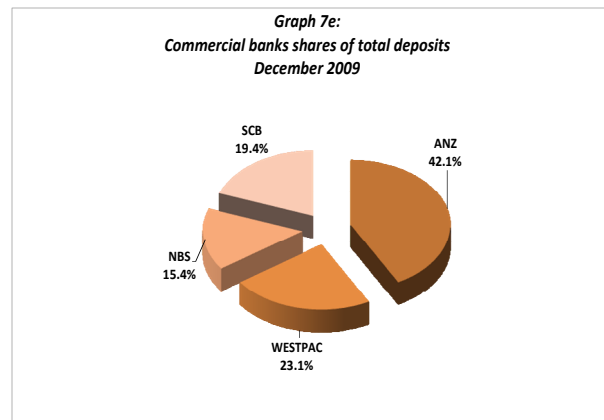
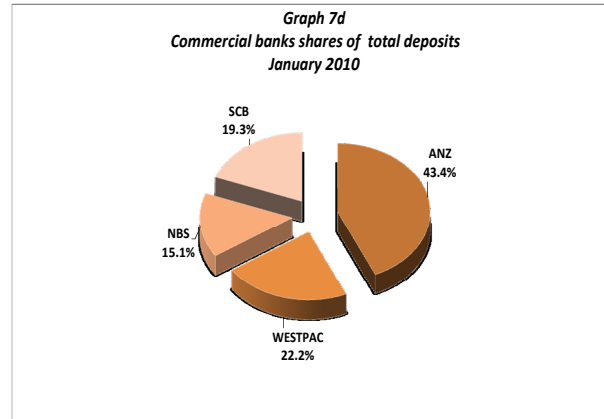


Commercial Bank Credit and Deposit Market Shares

ANZ maintained its dominance in the credit market despite its share of loans to the private sector and public institutions combined edging down to 40.3 percent from 40.4 percent in December 2009 and 42.4 percent in January 2009. This was followed by WESTPAC, which recorded a 27.8 percent share compared to its 28.0 percent and 29.5 percent shares respectively in the previous month and a year ago. NBS, on the other hand, maintained its share of total loans to the private sector and public institution combined at 15.2 percent from the previous month, which was lower than its 15.6 percent share in January last year. The remaining 16.6 percent of total loans outstanding at end January 2010 was extended by SCB, which expanded its share from 16.4 percent in December 2009 and 12.6 percent a year ago. (See Graphs 7a, 7b and 7c.)



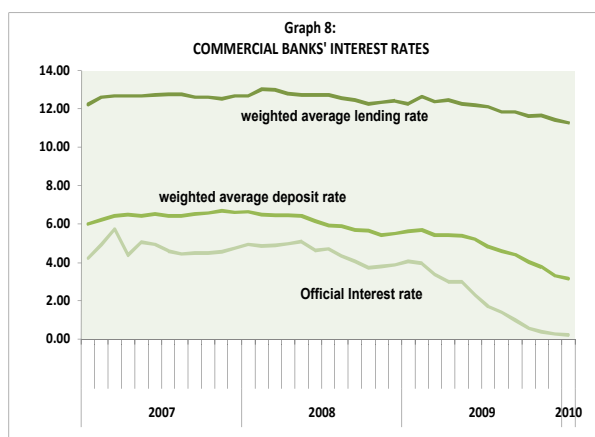
2009. At third place was SCB, which accounted for 19.3 percent of commercial banks' total deposits, down from its 19.4 percent share in December 2009 but higher than its 14.4 percent intake last year. The remaining 15.1 percent of total deposits in January 2010 reflected NBS's share, which was lower than its share in the previous month (15.4 percent) and December last year (16.3 percent). (See Graph 7d, 7e and 7f.)



On deposits, ANZ was again the dominant player, raising its share of commercial banks' total deposits from 42.1 percent in December 2009 to 43.4 percent in January 2010, which was nevertheless lower than its 44.5 percent share last year. The second major recipient of deposits in the month under review was WESTPAC, which continued to lose ground with its 22.2 percent share in January 2010 lower than its 23.1 percent share in the previous month and 25.1 percent in January

Commercial Bank Interest Rates

The current easing stance of monetary policy has seen commercial banks' average interest rates reach unprecedented lows in recent times. In particular, the weighted average deposit rates fell 15 basis points to 3.16 percent, its lowest level since the financial deregulation in January 1998. Likewise, average lending rates were reduced to its lowest level in over six years, dropping 17 basis points from December 2009 to 11.29 percent in January 2010. The commercial banks' interest rate spread, as a result, narrowed 2 basis points to 8.13 percent, from 8.15 percent in the previous month. (See Graph 8.)



The decline in the overall weighted average lending rate in the month under review reflected a 62 basis point cut to 10.77 percent by WESTPAC as well as smaller reductions by SCB (down 10 basis points to 12.38 percent) and NBS (down 1 basis point to 12.66 percent). These were partially offset by a 2 basis point increase to 10.67 percent in average lending rates charged by ANZ, which was the lowest in the month under review.

On the other hand, the lower overall weighted average deposit rates in January 2010 was driven by NBS, which cut its average deposit rates down 17 basis points to 4.76 percent, which was the highest level in the month under review. This was followed by a 15 basis point drop in average deposit rates offered by

WESTPAC, which fell to 3.49 percent. Similarly, ANZ reduced its' average deposit rates by 15 basis points, which, at 1.87 percent, was the lowest offered in the banking system in January 2010. And, shaving 1 basis point off its average deposit rate was SCB, which edged down to 4.44 percent in the month under review from 4.45 percent in December 2009. (See Table 2.)

	ANZ	WESTPAC	NBS	SCB	Actual WA
Lending					
December 2009	10.65	11.39	12.67	12.48	11.46
January 2010	10.67	10.77	12.66	12.38	11.29
Deposit					
December 2009	2.02	3.64	4.93	4.45	3.31
January 2010	1.87	3.49	4.76	4.44	3.16

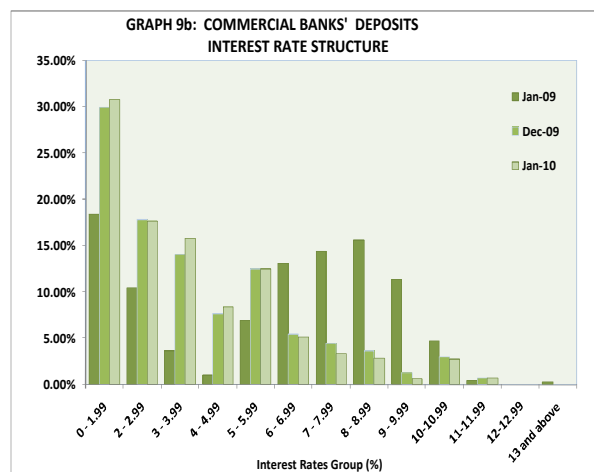
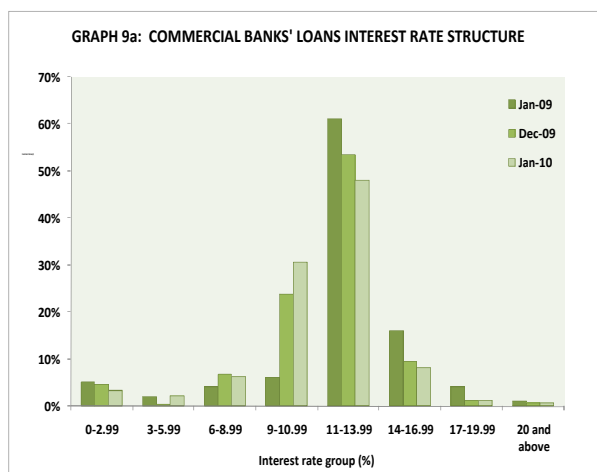
Commercial Banks Interest Rate Structure.

Concerted efforts by commercial banks in response to the current easing monetary policy stance has seen continued changes in the overall structure of commercial banks' interest rates in January 2010.

The reduced cost of borrowing in the month under review reflected a downward shift in the proportion of lending that was at higher interest rate spectrum in December 2009. In particular, loans outstanding at the 11-13.99 percent interest rate range, which recorded a 53 percent share in December 2009 and 61 percent in January 2009, accounted for 48 percent share of commercial banks' total loans outstanding in January 2010. Similarly, outstanding loans charged at interest rates between 14 percent and 16.99 percent recorded an 8 percent share from its 9 percent share in the previous month and 16 percent share a year ago. These were taken up by interest rates from 9-10.99 percent, which increased its share to 31 percent from 24 percent in December 2009 and 6 percent in January 2009. Loans outstanding at interest rates between 6-8.99 percent were

proportional lower at 6 percent from 7 percent in the previous month but higher than its 4 percent share in January last year. Commercial banks' loans extended at interest rates below 5.99 percent accounted for 6 percent of total loans outstanding compared to its 5 percent and 7 percent shares in the comparable period. Commercial banks' loans disbursed at interest rates above 17 percent remained steady at 2 percent, which was lower than its 5 percent share a year ago. (See Graph 9a.)

percent and 9.99 percent represented 12 percent of total deposits in January 2010 compared to its 15 percent share in the previous month and 54 percent share in January last year. The loss in shares from these higher interest rate spectrum were allocated to interest rates below 5.99 percent, which accounted for 85 percent of total deposits in the month under review, up from its 82 percent and 40 percent shares respectively in December 2009 and January 2009. (See Graph 9b).



The lower average deposit rates in January 2010 also recorded some significant downward changes in the shares of different interest rate bands. In particular, deposits at interest rates above 10 percent accounted for 3 percent of commercial banks' total deposits in the month under review, down from its 4 percent and 5 percent shares respectively in December 2009 and January 2009. Similarly, deposits offered at interest rates between 6

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 11th March 2010