



CENTRAL BANK OF SAMOA

MONETARY SURVEY REPORT JULY 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.07/10

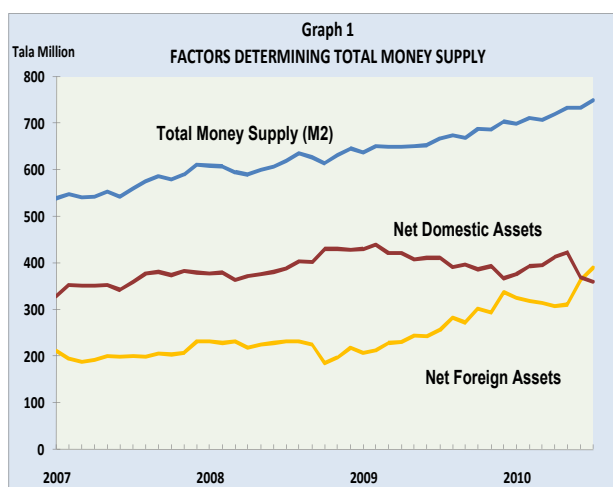
July 2010

MONEY SUPPLY

Total money supply (M2) in July 2010 surged \$16.7 million to \$750.9 million following a \$7.3 million increase in June 2010. Contributing mainly to this month's expansion was a 7 percent jump in net foreign reserves which more than offset a 2 percent decrease in net domestic assets. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY (Amounts in Tala Million)				
End of Period	2009		2010	
	Jul	Dec	Jun	Jul
1. Net Foreign Assets	256.28	338.38	364.53	390.39
2. Net Domestic Assets	411.71	366.86	369.66	360.47
(a) Domestic Credit	611.88	566.68	557.94	549.43
Government, net	-72.87	-149.54	-181.32	-186.56
Non-financial public enterprises	45.62	46.29	44.55	39.64
Non-monetary financial institutions	27.73	35.03	35.13	34.95
Private Sector	611.40	634.89	659.59	661.40
(b) Other items, net	-200.17	-199.82	-188.28	-188.95
3. Total Assets = Total Money Supply (M2)	667.99	705.24	734.19	750.86
(a) Money (M1)	170.31	200.60	204.64	216.97
(b) Quasi-money	497.68	504.64	529.56	533.90

Source : Central Bank of Samoa



Determinants of Money Supply

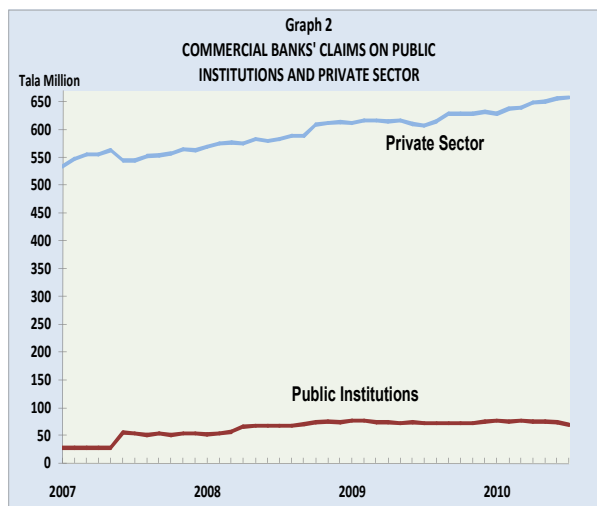
Net foreign assets rose significantly by \$25.9 million to \$390.4 million in July 2010 and was 52 percent (or \$134.1 million) higher than in July 2009. The expansion in net foreign reserves in the month under review reflected entirely a \$27.9 million surge in net external assets of the Central Bank which was partially offset by decreases of \$1.8 million and \$0.2 million in commercial banks and the Ministry of Finance net foreign reserves respectively.

Net domestic assets (NDA), on the other hand, declined \$9.2 million to \$360.5 million during the month under review and was 12 percent (or \$51.2 million) lower than in the same month a year ago. Pulling down net domestic assets was an \$8.5 million decrease in domestic credit and a \$0.7 million decline in "other items, net". The former was driven mainly by a moderate \$5.2 million cash surplus in Government's financial operations vis-à-vis the monetary system and a decline of \$3.3 million in commercial banks' credit to the private sector and public institutions combine. The slightly higher net liabilities in "other items net" were due largely to an increase in the capital accounts of the banking system in July 2010.

Credit

The lower level of bank credit in July 2010 was a result of a drop in claims on public institutions, which went down \$3.3 million to

\$69.6 million. This was partially offset by a \$1.8 million increase in commercial bank loans disbursed to the private sector. Underpinning this month’s higher claims on the private sector was an increase of \$1.9 million to private households which outweighed a \$0.1 million decline in credit directed to businesses. (See Graph 2).

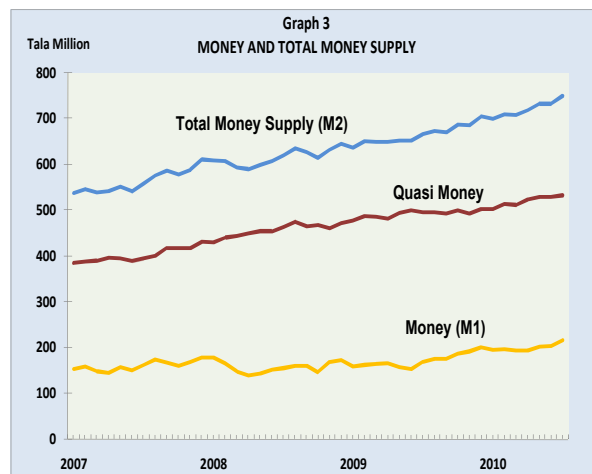


Combined total commercial bank credit to the private sector and public institutions declined \$3.3 million to \$727.9 million. However, compared to July 2009, it was 7 percent higher, consequently pulling up the annual average credit growth rate to 4.3 percent at end July 2010, from 4.1 percent in the previous month.

The sectoral analysis of commercial bank loans to the private sector and public institutions combined in July 2010 showed decreased lending to “other activities” (down \$4.4 million), “electricity, gas and water” (down \$3.9 million), “building and construction” (down \$1.3 million, “manufacturing” (down \$0.8 million) and “agriculture and fisheries” (down \$0.1 million) industries. On the other hand, credit extended to the “professional and business services” went up \$6.4 million, while those absorbed by “transport and communication” and “trade” sectors increased by \$0.4 million and \$0.2 million in that order in the month under review.

Components of Money Supply

The higher level of money supply (M2) in July 2010 reflected largely a \$12.3 million expansion in narrow money and a moderate \$4.3 million rise in quasi-money. (See Graph 3.)



The bulk in the expansion in narrow money was attributed mainly to increases of \$8.1 million and \$4.2 million in demand deposits and currency outside banks respectively in July 2010.

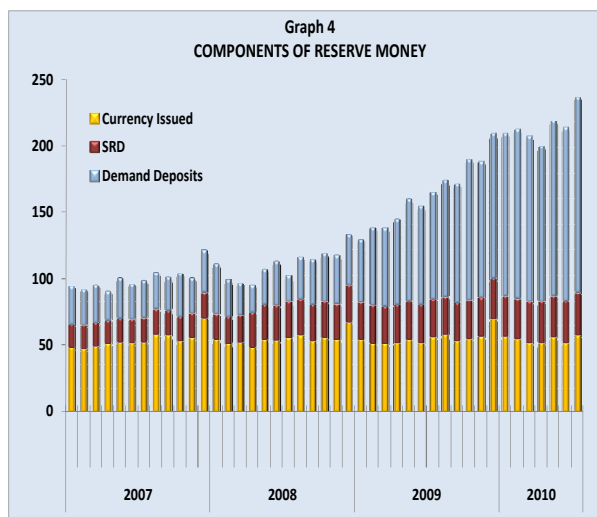
On the other hand, the growth of quasi-money was attributed mainly to \$3.3 million and \$3.1 million increases in savings deposits and time deposits respectively that more than outweighed a \$2.1 million decrease in foreign currency deposits of residents in the month under review.

Reserve Money¹

Reserve money surged 11 percent (\$23.1 million) from the previous month to \$236.4 million in July 2010 or \$71.2 million higher than in July 2009. The expansion in reserve money in the month under review largely reflected higher reserves in the form of commercial banks’ demand deposits with the Central Bank (up \$16.9 million) and currency

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

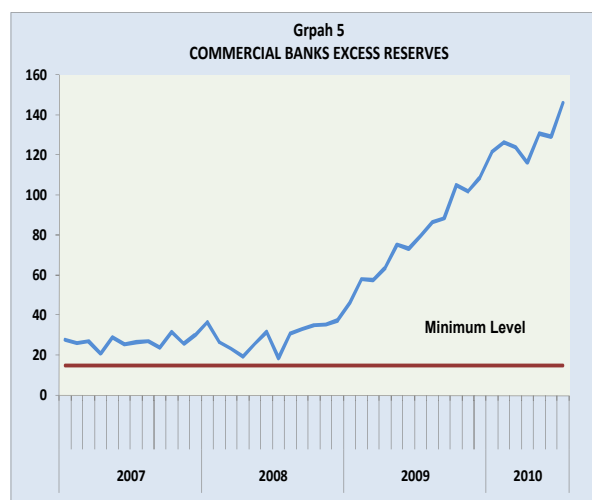
in circulation (up \$5.7 million). Commercial banks’ statutory reserves with the CBS also edged up \$0.5 million in the month under review. (See Graph 4.)



Commercial Bank Liquidity

Commercial banks’ total liquidity in the month under review expanded \$18.4 million to \$183.6 million, a level that was 56 percent (or \$65.6 million) higher than in July 2009. The surge in liquidity during the month under review was driven largely by a \$16.9 million rebound in commercial banks’ excess reserves with the Central Bank and a \$1.5 million increase in commercial banks’ holdings of vault cash. In support of the continued easing monetary policy stance, the level of CBS securities outstanding in July 2010 remained unchanged at \$27.5 million.

Commercial banks’ excess reserves were also significantly higher than the previous month’s \$129.1 million and well above their preferred minimum working balance of \$15.0 million on a monthly basis. (See Graph 5.)



The notably higher level of commercial banks’ excess reserves in July 2010 were accounted for by the expansions of \$17.3 million, \$4.6 million and \$0.9 million in excess liquidity of ANZ, SCB and NBS banks respectively which were partially offset by a loss of \$5.9 million in WESTPAC’s excess reserves during the month under review.

CBS Securities and Official Interest Rate

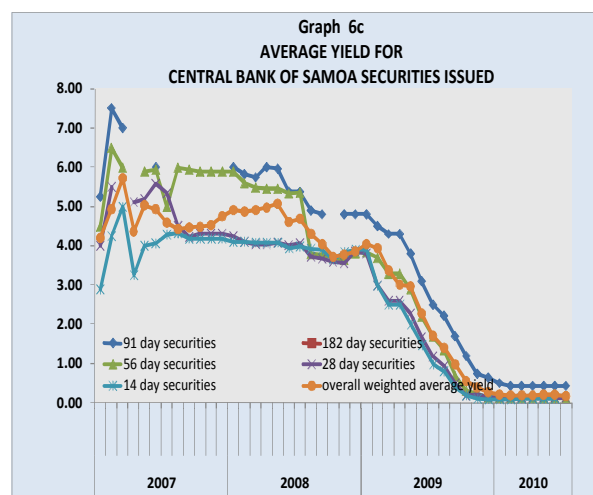
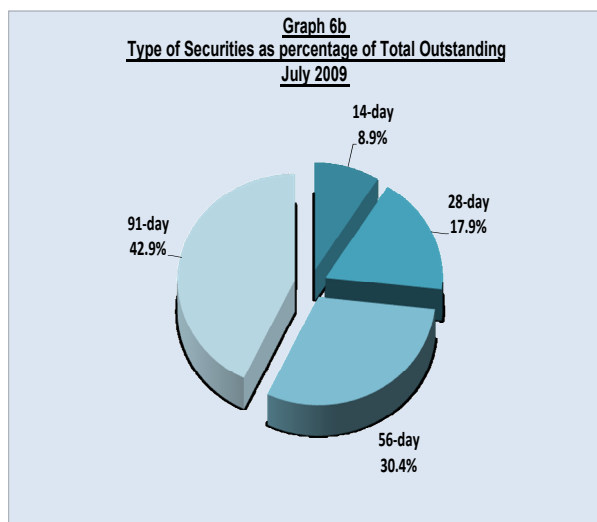
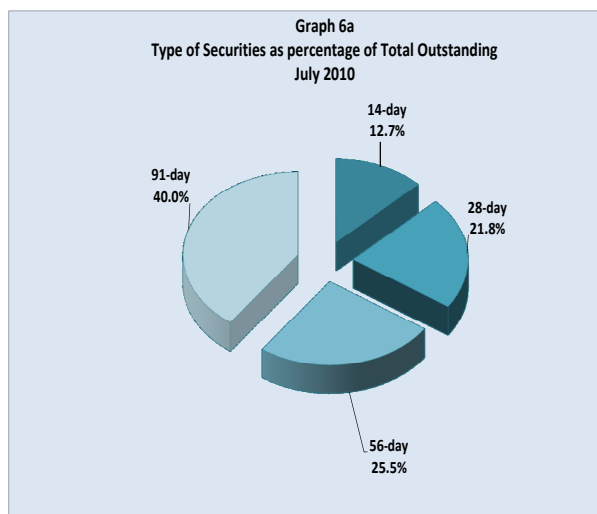
As part of the CBS’ efforts to encourage commercial banks lending, *the level of total outstanding CBS securities in the starting month (July 2010) of the fiscal year, were held at \$27.5 million².* All of the \$22.5 million worth of CBS securities that matured were rolled over and issued to commercial banks at the end of the month. The new securities issued in the month under review, therefore comprised of short term maturities in the form of 14-days (\$8.5 million), 28-days (\$7.5 million), 56-days (\$4.0 million) and 91-days (\$2.5 million) papers.

The total outstanding CBS securities at end July 2010, therefore, consisted of \$3.5 million for the 14-day paper, \$6.0 million for the 28-day issue, and \$7.0 million for the 56-day security whereas the total outstanding value

² Outstanding securities are quoted at their face value.

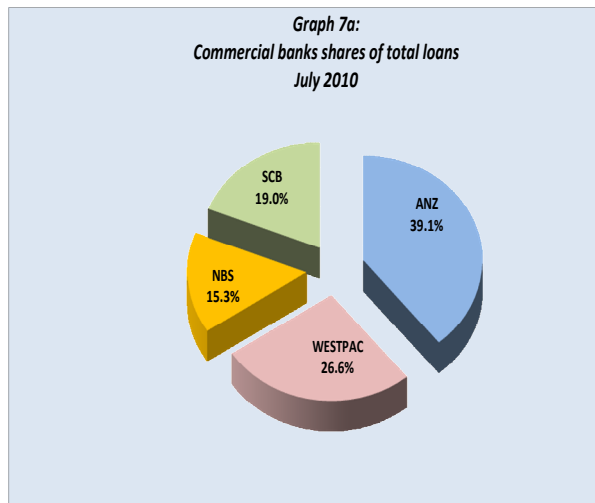
for the benchmark 91-day bill remained the largest at \$11.0 million. The change in the structure of securities outstanding in the month under review reflected the impact of the current monetary policy effort in reducing the commercial banks' weighted average lending rates in particular. This saw the 14-day security's share increase to 13 percent in July 2010 from 9 percent in the same month a year earlier while that of the 28-day paper rose to 22 percent from 18 percent in July 2009. The gain in the shares for these two papers meant lower shares for the 56-day and the 91-day papers, down to 25 percent and 40 percent in that order from 30 percent and 43 percent in July a year earlier. (See Graph 6a and 6b).

As a consequence of increased shares of securities issued for short end of the maturities range, particularly the 14-day and 28-day securities, the overall official interest rate edged down to 0.17 percent in July 2010 from 0.22 percent in the previous month. As a matter of fact, the interest rates for all the papers went down during the month. (See Graph 6c.)

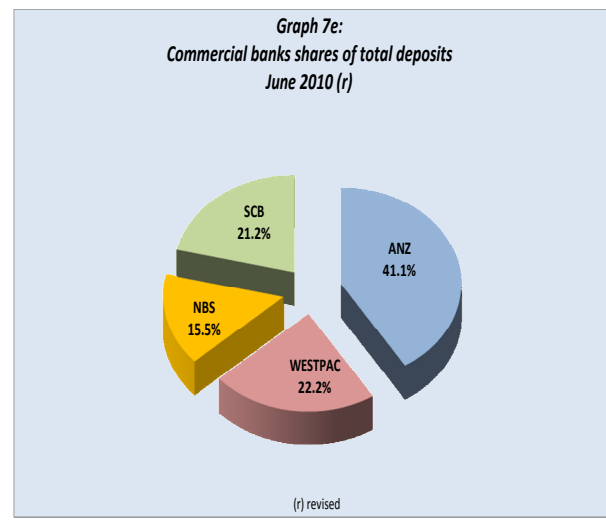
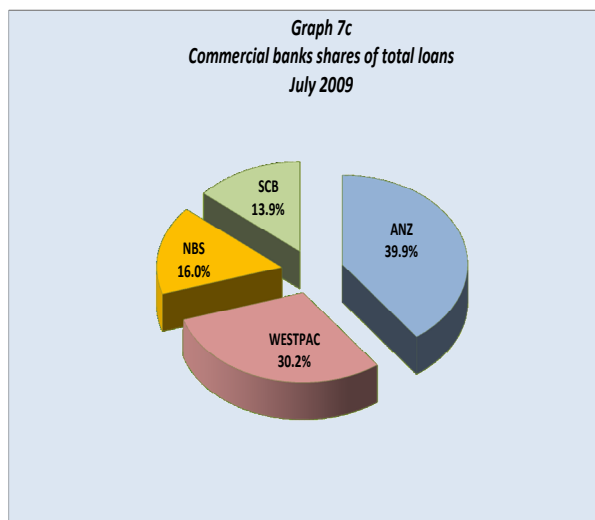
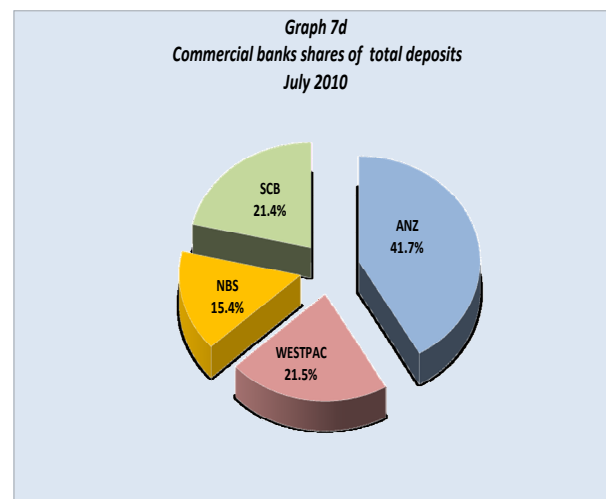
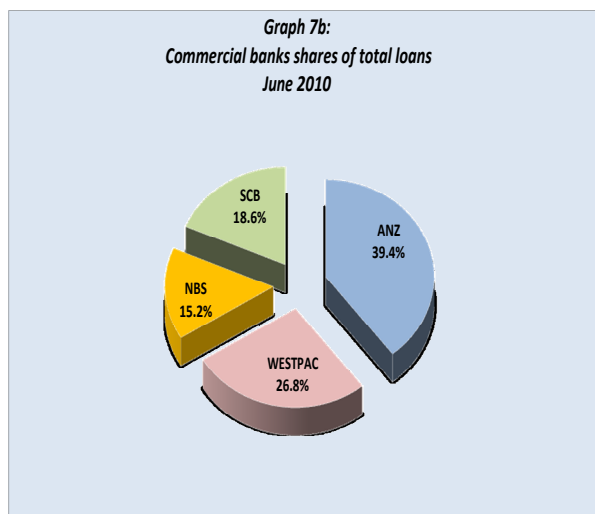


Commercial Bank Credit and Deposit Market Shares

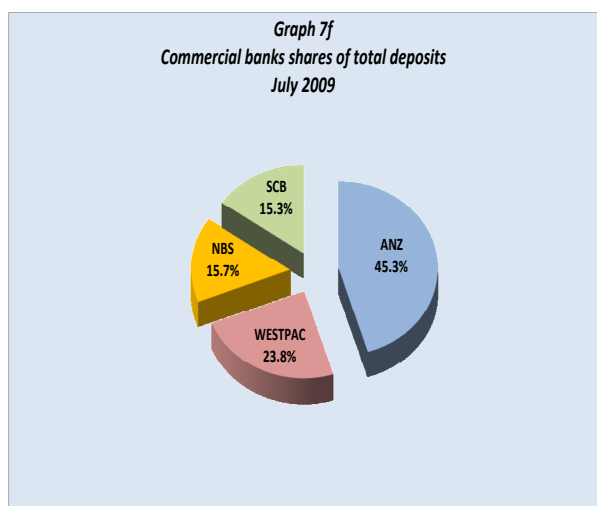
ANZ still dominated the commercial banks' credit market although its share of loans to the private sector and public institutions combined, continued to decline to 39.1 percent from 39.4 percent in June 2010 and 39.9 percent in July 2009. This was followed by WESTPAC, with its share edging down to 26.6 percent from 26.8 percent in June 2010 and 30.2 percent a year ago, while NBS share edged up to 15.3 percent from 15.2 percent in June 2010 but lower than 16.0 percent in July 2009. SCB recorded an increase in its share, with its ratio rising to 19.0 percent from 18.6 percent in the previous month; much higher than 13.9 percent a year earlier. (See Graphs 7a, 7b and 7c.)



percent last year. WESTPAC’s share at second place fell to 21.5 percent from 22.2 percent in June 2010 and was much lower than its 23.8 percent share in July 2009. At third place was SCB, which accounted for 21.4 percent of commercial banks’ total deposits, higher than 21.2 percent in the previous month and 15.3 percent in the same month last year. The remaining 15.4 percent of total deposits in the month under review was accredited to NBS, which was slightly lower than its 15.5 percent share in the previous month and 15.7 percent in July 2009. (See Graph 7d, 7e and 7f.)

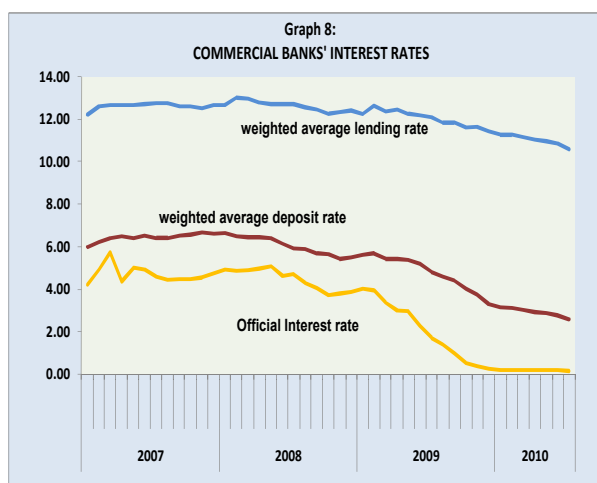


On deposits, ANZ continued to lead, with its share of the market for deposits rebounding to 41.7 percent in July 2010 from 41.1 percent in the previous month but lower than 45.3



Commercial Bank Interest Rates

The continued easing stance of monetary policy saw commercial banks’ average interest rates falling further from the previous month. In particular, the weighted average lending rates dropped 28 basis points to 10.60 percent, its lowest level since the financial deregulation in January 1998. Likewise, the average deposit rates were reduced to its lowest level in over six years, falling 19 basis points from June 2010 to 2.58 percent in July 2010. With average lending rates falling faster than deposit rates, the commercial banks’ interest rate spread therefore, narrowed 9 basis points to 8.02 percent from 8.11 percent in the previous month. (See Graph 8.)



The decline in the overall weighted average lending rate in the month under review reflected decreases of 43 basis points to 9.95 percent by ANZ (the lowest rate in July 2010), 76 basis points to 11.47 percent by NBS and 2 basis points by SCB to 11.65 percent (the highest rate during the month). WESTPAC’s lending rate, on the other hand, edged up 1 basis point to 10.30 percent in the month under review.

Similarly, the lower overall weighted average deposit interest rate in July 2010 was driven by all banks except NBS bank which went up 28 basis points to 3.26 percent. ANZ, SCB and WESTPAC banks reduced their rates by 36 basis points, 8 basis points and 3 basis points to 1.87 percent (the lowest offered in July 2010), 3.34 percent (the highest during the month) and 2.93 percent respectively. (See Table 2.)

Table 2 : Weighted Average Rates by Commercial Banks *

	ANZ	WESTPAC	NBS	SCB	Actual WA
Lending					
June 2010	10.39	10.29	12.23	11.67	10.88
July 2010	9.95	10.30	11.47	11.65	10.60
Deposit					
June 2010	2.26 ®	2.96	2.98	3.41	2.77 ®
July 2010	1.87	2.93	3.26	3.34	2.58

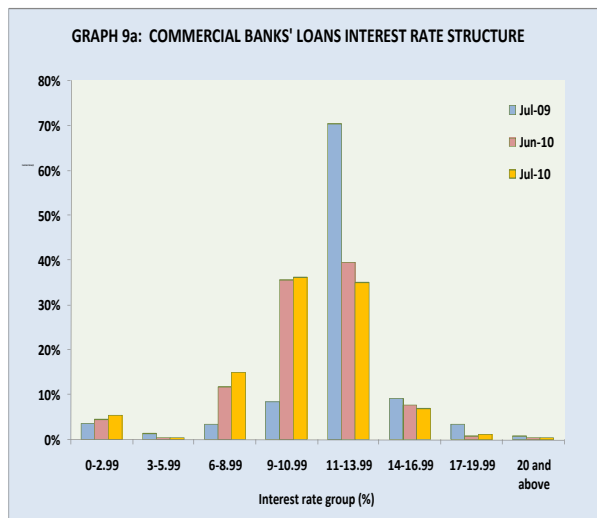
* Exclude Government, Central Bank and non residents.
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Commercial Banks Interest Rate Structure.

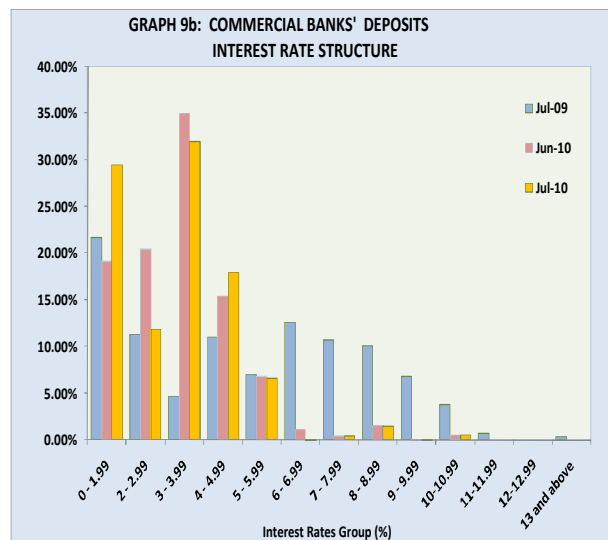
The continued change in the overall composition of commercial banks’ interest rates in July 2010 reflected efforts by commercial banks to reduce their interest rates in response to the current easing monetary policy stance.

The decreasing momentum in the cost of borrowings in recent months saw significant modification to the composition of lending, with portions of total credit at the higher end

of the interest rate spectrum progressing towards the lower end. In particular, loans outstanding at the 11-13.99 percent interest rate range accounted for 35 percent of commercial banks' total loans outstanding in July 2010, from 39 percent in the previous month and much lower than the 70 percent share in July 2009. The share of outstanding loans in the range of 14 percent and 16.99 percent declined to 7 percent from 8 percent in June 2010 and lower than 9 percent a year ago. These were taken up by interest rates between 6-10.99 percent, with its share increasing to more than a half (51 percent) from 47 percent in the previous month and 12 percent in July 2009. Shares of loans outstanding at interest rates between 0-5.99 percent edged up to 6 percent from 5 percent each in June 2010 and July last year. Commercial banks' loans disbursed at interest rates above 17 percent remained at 1 percent as that in the previous month; much lower than the 4 percent share a year ago. (See Graph 9a.)



10 percent fade out compared to a 5 percent share recorded in July 2009. On the other hand, deposits offered at interest rates between 6 percent and 9.99 percent, accounted for 2 percent of total deposits during the month compared to a 3 percent share in the previous month and 40 percent share in the same month a year earlier. The loss in shares from these higher interest rate brackets were absorbed by the interest rate range below 5.99 percent, which accounted for 98 percent of total deposits in the month under review, up from 97 percent in June 2010 and 55 percent in July 2009. (See Graph 9b).



CENTRAL BANK OF SAMOA
 31st August 2010

The downward shift of average deposit rates up to end July 2010 saw interest rates above