



MONETARY SURVEY REPORT SEPTEMBER 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.09/10

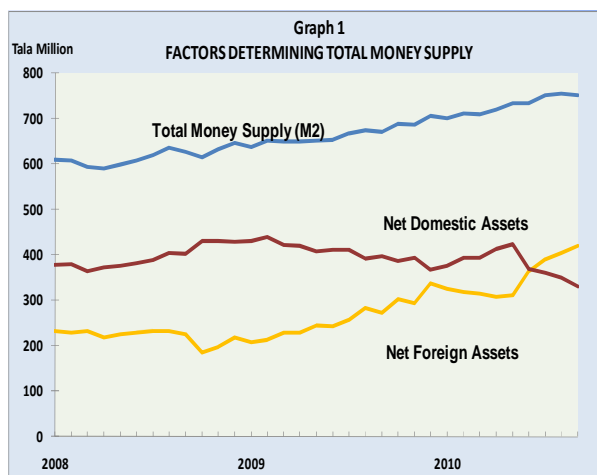
September 2010

MONEY SUPPLY

Total money supply (M2) decreased by \$3.9 million to \$750.7 million in September 2010 following a \$3.8 million increase in the previous month. Contributing to this month's reduction was a 5.5 percent drop in net domestic assets, which more than offset a 3.8 percent increase in net foreign assets. (See Table 1 and Graph 1.)

Table 1 : MONETARY SURVEY (Amounts in Tala Million)				
End of Period	2009		2010	
	Sept	Dec	Aug	Sep
1. Net Foreign Assets	273.28	338.38	405.11 @	420.47
2. Net Domestic Assets	397.08	366.86	349.53	330.28
(a) Domestic Credit	593.96	566.68	539.31	536.84
Government, net	-110.49	-149.54	-196.16	-197.58
Non-financial public enterprises	46.27	59.29	53.00	52.53
Non-monetary financial institutions	26.48	35.03	34.43	34.16
Private Sector	631.70	621.89	648.04	647.73
(b) Other items, net	-196.88	-199.82	-189.77	-206.56
3. Total Assets = Total Money Supply (M2)	670.36	705.24	754.64	750.74
(a) Money (M1)	176.65	200.60	219.54	215.61
(b) Quasi-money	493.71	504.64	535.11	535.14

Source : Central Bank of Samoa
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Determinants of Money Supply

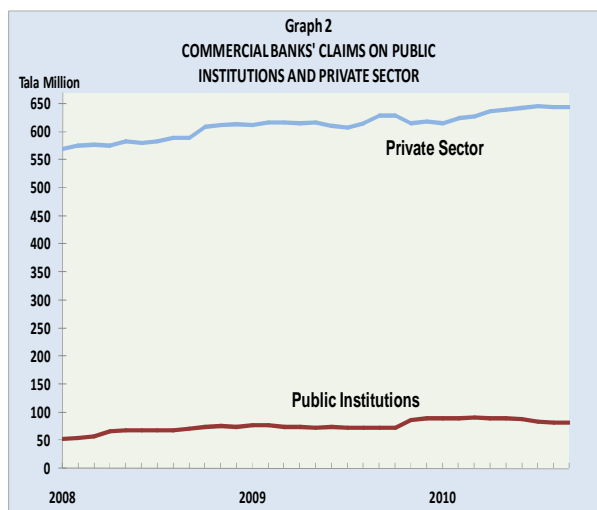
Net foreign assets further expanded by \$15.4 million to \$420.5 million in September 2010 and was 54 percent (or \$147.2 million) higher than in September 2009. The increase in net foreign reserves in the month under review reflected a \$12.2 million expansion in net external assets of the Central Bank plus a moderate \$3.3 million increase in commercial banks' net foreign reserves. These more than offset a \$0.1 million decline in the Ministry of Finance's net foreign assets in the month under review.

Net domestic assets (NDA), on the other hand, fell \$19.3 million to \$330.3 million during the month and was 17 percent (or \$66.8 million) lower than in the same month a year earlier. Driving down net domestic assets was a huge \$16.8 million increase in "other items, net" and a \$2.5 million drop in domestic credit. The large expansion in "other items net" reflected the revaluation of overseas reserves while the latter's drop was mainly caused by a \$1.4 million cash surplus in Government's financial position vis-à-vis the monetary system and a \$1.1 million reduction in commercial banks' credit to the private sector and public institutions combined.

Credit

The contraction of \$1.0 million in bank credit combined for the month of September 2010 was mainly due to a \$0.8 million decline in

loans absorbed by public institutions as well as a \$0.2 million drop in claims on the private sector. Underpinning this month's lower credit to the private sector was a \$3.6 million drop in credit to businesses, which more than offset a \$3.4 million increase in credit to private households. (See Graph 2).

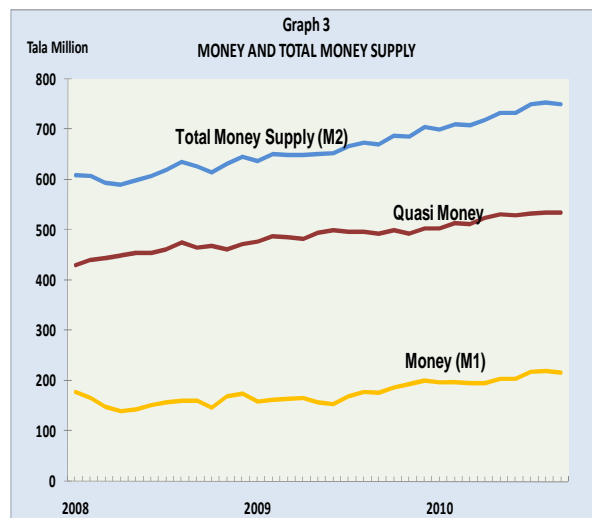


Total commercial bank credit to the private sector and public institutions therefore declined \$1.0 million to \$726.3 million. And, compared to September 2009, total credit was 4 percent or \$25.1 million higher, although the annual average credit growth rate declined to 4.2 percent at end September 2010, from 4.4 percent in the previous month.

The sectoral analysis of commercial bank loans to the private sector and public institutions combined in September 2010 showed decreases in lending to “trade” (down \$3.8 million) and “other activities” (down \$1.0 million), while “electricity” and “transport and communication” industries decreased \$0.4 million each. On the other hand, credit extended to the “building and construction”, “professional and business services”, “manufacturing” and “agriculture and fisheries” sectors went up \$3.9 million, \$0.3 million, \$0.3 million and \$0.1 million in that order in the month under review.

Components of Money Supply

The reduced level of money supply (M2) in September 2010 reflected a \$3.9 million decrease in narrow money (M1) which was partially offset by a \$0.03 million rise in quasi-money. (See Graph 3.)



The drop in narrow money was attributed entirely to a \$5.9 million fall in demand deposits which was partially offset by a \$2.0 million increase in currency outside banks during the month under review.

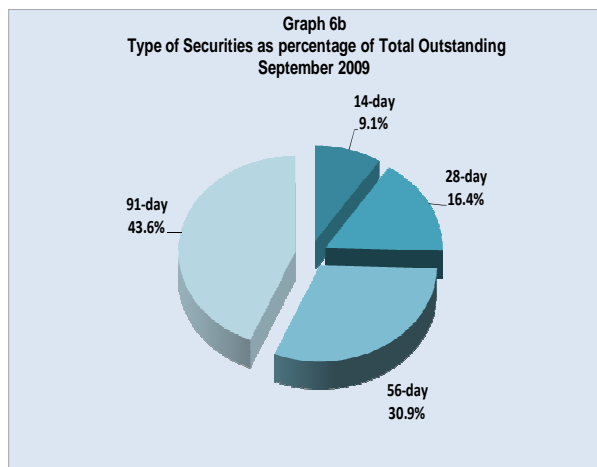
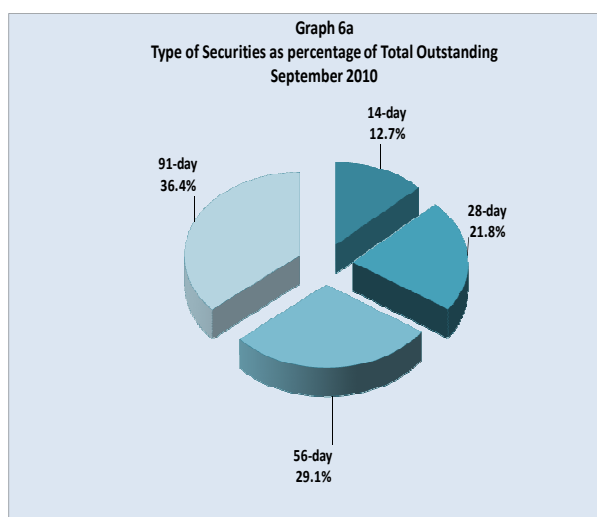
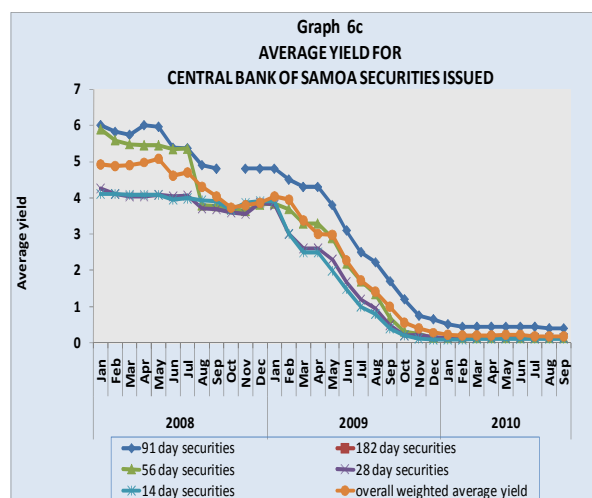
On the other hand, the slight growth of quasi-money was attributed mainly to increases of \$1.6 million and \$1.0 million in savings' deposits and foreign currency deposits of residents respectively, which outweighed a \$2.5 million reduction in time deposits in September 2010.

Reserve Money¹

Reserve money grew moderately by 2 percent (\$5.6 million) to \$250.4 million in September 2010, \$79.2 million higher than in September 2009. The expansion in reserve money in the month under review largely reflected higher reserves in the form of commercial banks'

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

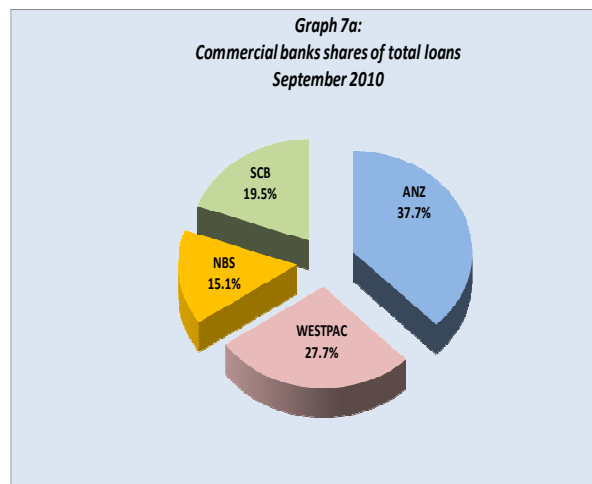
for the benchmark 91-day bill remained the largest at \$10.0 million, although it declined from \$11.0 million at end August 2010. The share of the 14-day security paper rose to 13 percent in September 2010 from 9 percent in the same month a year earlier while that of the 28-day paper increase to 22 percent from 16 percent in September 2009. The higher shares for these two papers meant reduced shares for the 56-day and the 91-day papers, which dropped to 29 percent and 36 percent in that order from 31 percent and 44 percent in that order in September a year ago. (See Graph 6a and 6b).

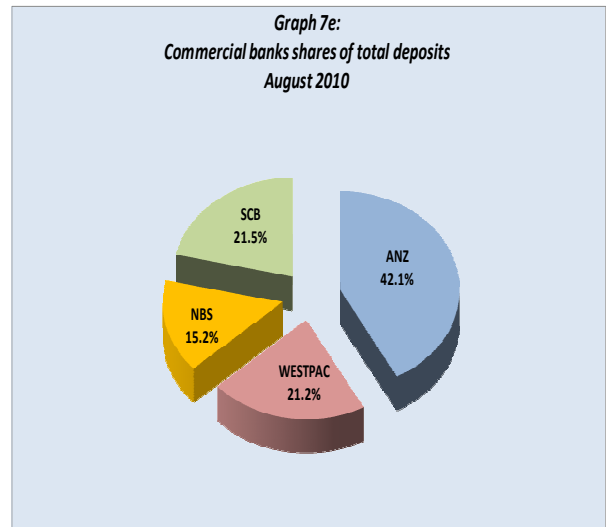
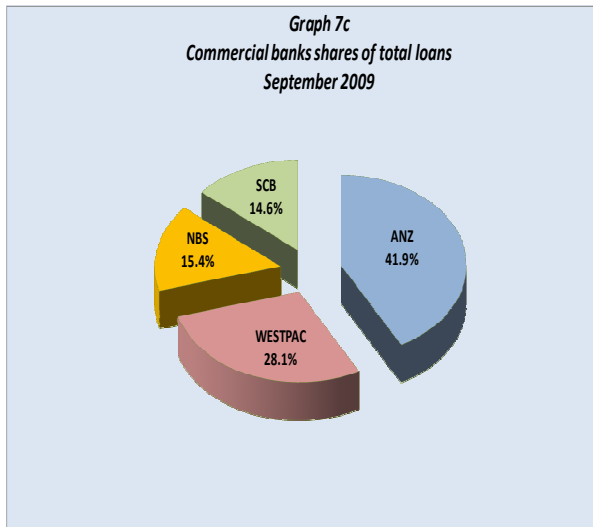
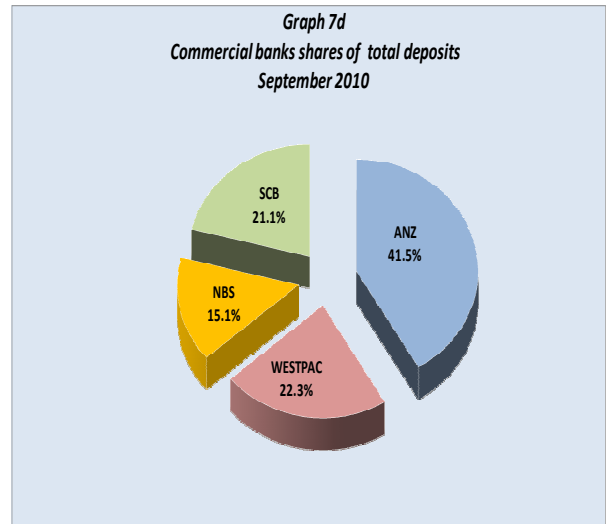
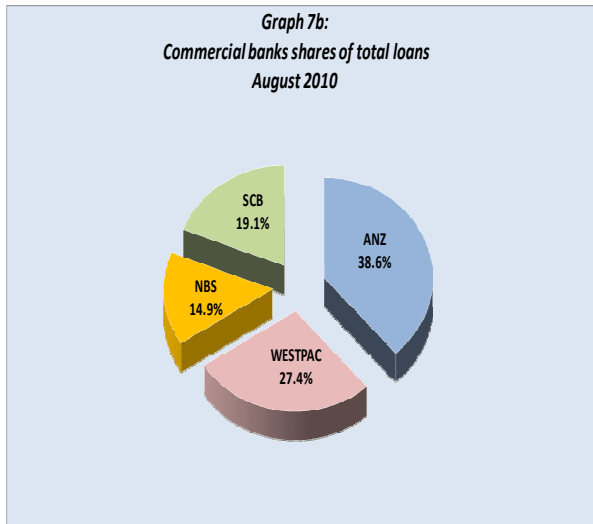


The overall official interest rate therefore, remained the same as it was in the previous month at 0.18 percent. (See Graph 6c.)

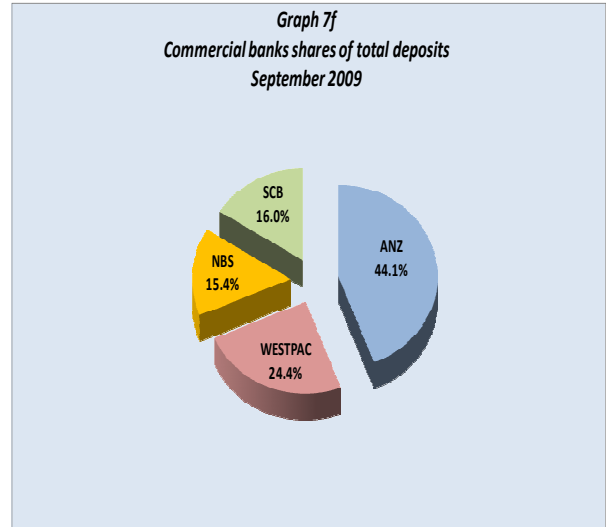
Commercial Bank Credit and Deposit Market Shares

ANZ still dominated the commercial banks' credit market although its share of loans to the private sector and public institutions combined declined to 37.7 percent from 38.6 percent in August 2010 and 41.9 percent in September 2009. This was followed by WESTPAC, with its share increasing to 27.7 percent from 27.4 percent in August 2010 but lower than 28.1 percent a year ago. SCB followed with its share rising to 19.5 percent from 19.1 percent in the previous month and 14.6 percent in September a year earlier. NBS' share also rose to 15.1 percent from 14.9 percent in the previous month but was slightly lower than 15.4 percent in the same month last year. (See Graphs 7a, 7b and 7c.)



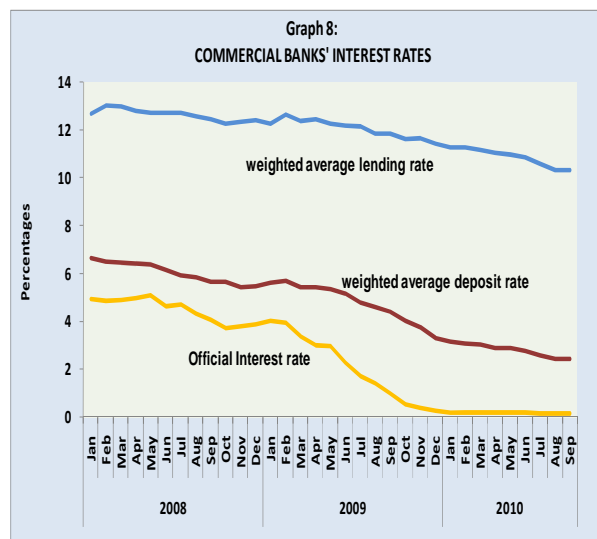


On deposits, ANZ maintained its dominance of total deposits, although its share slipped to 41.5 percent in September 2010 from 42.1 percent in the previous month and 44.1 percent in September 2009. WESTPAC came second with its share increasing to 22.3 percent from 21.2 percent in August 2010 but lower than its 24.4 percent share in September 2009. At third place was SCB, which accounted for 21.1 percent of commercial banks' total deposits, lower than 21.5 percent in the previous month and 16.0 percent in the same month last year. The remaining 15.1 percent of total deposits in the month under review was accounted for by NBS, which was slightly lower than 15.2 percent in the previous month and 15.4 percent in September 2009. (See Graph 7d, 7e and 7f.)



Commercial Bank Interest Rates

The downward trend in commercial banks' average interest rates reflected the prevalent easing stance of monetary policy. In particular, the weighted average lending rates fell 1 basis point to 10.33 percent, its lowest level since the start of financial deregulation in January 1998. Likewise, the average deposit rates were reduced to its lowest level in over six years, edging down 1 basis point to 2.44 percent in September 2010. With both rates falling at the same pace, the commercial banks' interest rate spread remained at 7.89 percent. (See Graph 8.)



The decrease in the overall weighted average lending rate in the month under review reflected a 20 basis points drop to 11.45 percent in SCB's lending interest rate (although it was the highest rate in September 2010), with a 14 basis points fall in NBS's interest rate to 11.34 percent. Despite charging the lowest lending rate during the month under review, WESTPAC's lending rate increased 7 basis points to 9.42 percent while ANZ's lending rate rose by 8 basis points to 10.02 percent in September 2010.

The slight reduction in the overall weighted average deposit interest rate was mainly caused by WESTPAC, which recorded a drop of 11 basis points to 2.61 percent while NBS

declined 3 basis points to 2.99 percent in September 2010. ANZ offered the lowest deposit rate of 1.76 percent although it increased by 2 basis points from the previous month while SCB offered the highest deposit rate of 3.22 percent. (See Table 2.)

	ANZ	WESTPAC	NBS	SCB	Actual WA
Lending					
August 2010	9.94	9.35	11.48	11.65	10.34
September 2010	10.02	9.42	11.34	11.45	10.33
Deposit					
August 2010	1.74	2.72	3.02	3.20	2.45
September 2010	1.76	2.61	2.99	3.22	2.44

* Exclude Government, Central Bank and non residents.

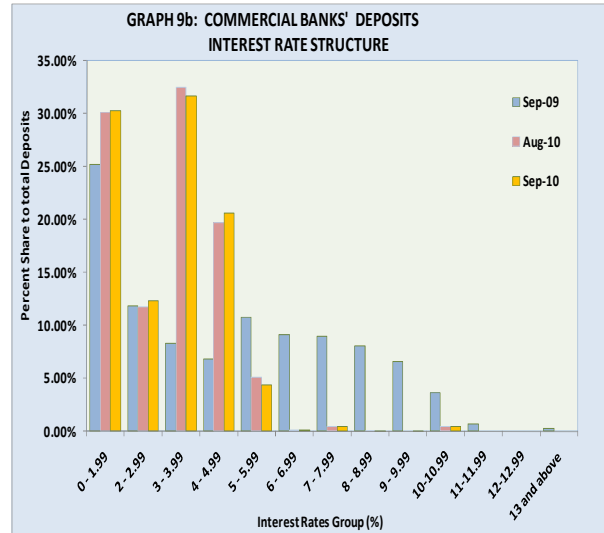
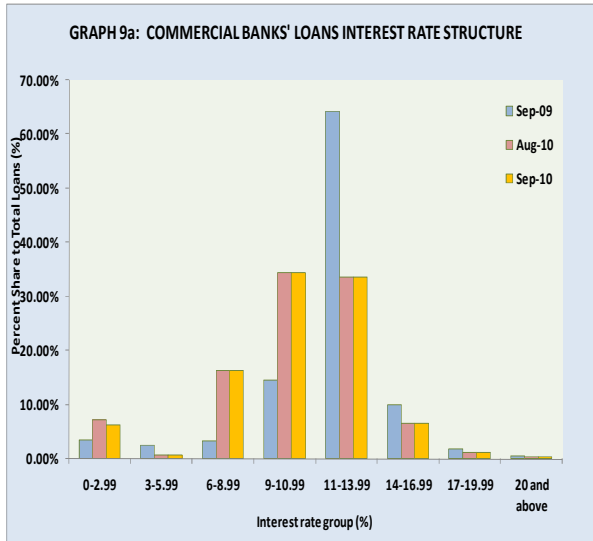
Commercial Banks Interest Rate Structure.

The current reduction in commercial banks' interest rates in September 2010 reflected efforts by commercial banks to reduce their interest rates in line with the continued easing of monetary policy.

The reduction in the cost of acquiring credit in recent months showed significant changes to the structure of lending rates. Loans outstanding at the 11-13.99 percent interest rate range accounted for 33 percent of commercial banks' total loans outstanding in September 2010, up from 30 percent in the previous month but was much lower than the 64 percent share in September 2009. The share of outstanding loans in the range of 14 percent to 16.99 percent remained at 6 percent but was lower than 10 percent a year ago. On the other hand, the share of interest rates between 0-5.99 percent increased to 8 percent from 7 percent in the previous month and 6 percent in September 2009. Shares of loans outstanding at interest rates between 6.0-

10.99 percent dropped to 51 percent from 58 percent in August 2010 but was much higher than 18 percent in September last year. Commercial banks' loans disbursed at interest rates above 17 percent edged up to 2 percent from 1 percent in the previous month but was the same as that a year ago. (See Graph 9a.)

earlier. The loss in shares from these higher interest rate ranges were claimed by the interest rate bracket below 5.99 percent, which accounted for almost all (99 percent) of total deposits in the month under review, from 62 percent in September 2009. (See Graph 9b.)



Further reductions in deposit rates up to end September 2010 saw the share of interest rates above 10 percent reduced to none in the month under review compared to a 5 percent in September 2009. On the other hand, deposits offered at interest rates between 6 percent and 9.99 percent, accounted for 0.5 percent of total deposits compared to 0.6 percent share in the previous month and 33 percent share in the same month a year

CENTRAL BANK OF SAMOA
 27th October 2010