

REVIEW OF MONETARY DEVELOPMENTS JANUARY 2021

This report is a monthly release of the latest available key monetary aggregates, official interest rate and the analysis on commercial banks' interest rates of the Samoan economy with information sourced from the Central Bank, commercial banks, Ministry of Finance, non-bank financial institutions and Samoa Bureau of Statistics.

Report No.7: 2020/21

January 2021

Monetary Forecast

The actual level of money supply (M2) was 6.8 percent above its forecast level for January 2021. This deviation was due to higher than expected levels of foreign assets and domestic lending of the banking system to the private sector.

Money Supply (M2)

Total money supply (M2) contracted by \$19.84 million (or 1.5 percent) to \$1,290.07 million over December 2020, due to decreases of \$16.63 million (or 2.5 percent) to \$637.53 million in net foreign assets (NFA) and \$3.20 million (or 0.6 percent) to \$652.54 million in net domestic assets (NDA). The reduction in NFA was caused by a drop in the foreign holdings of the banking system despite a slight increase in those held by the Central Bank. In addition, the decline in NDA was underpinned by a reduction in the government's net position (due to an increase in government spending) coupled with a decline in total commercial banks' credit to private sector and non-banks financial institutions.

Despite the drop in January 2021, the annual average growth rate of M2 rose to 1.8 percent from 1.5 percent in the previous month, which was much lower than 9.0 percent in the same month of last year.

Credit¹

Total financial system (FS) credit recorded a decline of \$5.80 million to \$1,980.83 million. This had reflected reductions of both

commercial banks' total lending to private sector and financial and public enterprises by \$5.52 million and non-banks' financial institutions' total lending by \$0.28 million.

The contraction in total FS credit was due to decreases in lending to the 'Building and constructions', 'Other activities', 'Trade', 'Transportation, storage and communication', and 'Agriculture, forestry and fisheries' as well as 'Manufacturing' sectors.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.96 percent while the remaining was attributed to the public non-bank financial institutions.

On an annual average basis, total FS credit slowed down to 4.0 percent from 4.6 percent in the previous month, and was also lower than 8.9 percent in the previous year.

According to the latest update on national accounts released by the Sāmoa Bureau of Statistics (SBS), the annual total Nominal Gross Domestic Product (NGDP)² amounted to \$2,077.93 million at end of September 2020. At this level, the share of the FS credit to NGDP increased to 95.33 percent in the September 2020 quarter from 91.0 percent in the June 2020 quarter. As for M2, its share to NGDP edged up to 62.2 percent in the September quarter of 2020 from 57.6 percent in the previous quarter.

¹ Comprises of commercial banks and three largest non-monetary financial institutions' (NFIs) total lending.
NFIs – Sāmoa National Provident Fund (SNPF), Development Bank of Sāmoa (DBS) and Sāmoa Housing Corporation (SHC)

² GDP 2013 Rebase became effective in December 2018.

Reserve Money³

Total reserve money (RM) expanded by \$7.08 million (or 1.4 percent) to \$511.51 million as a result of a rebound in commercial banks' reserves by \$32.02 million, partially outweighed by a seasonal reduction of \$25.02 million in the currency in circulation.

In addition, total reserve money was \$52.98 million higher than its level in January 2020, or 32.39 percent and 53.85 percent higher than its corresponding levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity increased by \$19.19 million due to an expansion of \$32.02 million in excess reserves, despite a reduction of \$12.84 million in their holdings of vault cash. CBS Securities continued with its no issuance since April 2020 for liquidity reasons.

Consequently, total liquidity improved significantly by \$21.36 million over the same month last year and was also 27.33 percent and 52.68 percent higher than its levels in the past three and five years respectively.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)⁴

As mentioned earlier, CBS OMO remained on-hold given the volatility and uncertainty of the economic environment created by the pandemic. The sharp slowdown in business activities and production coupled with the tightening of global financial conditions call for a temporary halt in the OMO since April 2020. The CBSS was last issued in March 2020 with a 0.15 percent recorded for the overall weighted average yield. Therefore, the official rate remains at 0.15 percent until OMO resumes its operations again.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate fell by 9 basis points to 2.56 percent over the month but was 10 basis points higher than that of January last year. On the other hand, the weighted average lending (WAL) rate rose by 4 basis points to 8.54 percent from the previous month, but was 34 basis points lower than a year ago. As a result, the overall weighted average interest rate spread increased to 5.98 percent from 5.85 percent in the previous month.

The current WAD rate was higher than its average rate of 2.71 percent and 2.60 percent in the last three and five years respectively. Likewise, the current WAL rate was lower than 8.93 percent and 9.01 percent in the last three and five years in that order.

NFIs⁵ **lending rates**⁶

The overall WAL rate for non-bank financial institutions (NFI's) increased by 1 basis point to 8.28 percent over the month, but was higher than 8.16 percent in January last year. This was underpinned by higher lending rates for DBS, which increased by 5 basis points to 4.33 percent while SNPF's lending rate edged up 1 basis point to 8.71 percent. That for SHC however, fell by 6 basis points to 13.02 percent.

The current overall WAL rate was lower than its rates of 7.80 percent and 7.43 percent in the last three and five years correspondingly.

CENTRAL BANK OF SAMOA **3rd March 2021**

³ Reserve Money (also known as monetary base) comprises of currency in circulation, statutory reserve deposits (SRD) and demand deposits of commercial banks with the CBS

⁴ Central Bank of Samoa Securities (CBSS) is the main instrument for implementing monetary policy in the country and it is traded in various maturities in the domestic financial market through the open market operation (OMO).

⁵ Non-monetary Financial Institutions. Only reports the main NFIs, Samoa National Provident Fund (SNPF), Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC). Effective October 2018, SHC started reporting to CBS on monthly basis, as was previously reported on quarterly basis.

⁶ Lending rates of SHC are provisional for the reporting month.

Review of Monetary Developments
January 2021

Monetary Aggregates

| End of Period Figures | Average level in the previous | | 2020 | | | | 2021 |
|---|--------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 3-years | 5-years | Jan | Oct | Nov | Dec | Jan |
| Determinants of Money Supply (M2) ⁷ | Amount in Tala Million | | | | | | |
| Net Foreign Assets | 406.42 | 315.53 | 482.75 | 600.70 | 603.13 | 654.16 | 637.53 |
| Net Domestic Assets | 757.25 | 749.40 | 748.24 | 669.33 | 688.99 | 655.73 | 652.54 |
| Money Supply (M2) | 1163.67 | 1064.93 | 1230.999 | 1270.031 | 1292.126 | 1309.908 | 1290.072 |
| <i>Trend</i> / Annual Average (%) | 10.9 | 2.11 | 9.0 | 1.1 | 1.5 | 1.5 | 1.8 |
| <i>Narrow Money (M1)</i> | 505.19 | 466.80 | 535.32 | 530.34 | 537.44 | 554.96 | 545.12 |
| Currency outside banks | 85.40 | 75.63 | 98.46 | 113.98 | 108.01 | 121.80 | 115.19 |
| Transferable Deposits ⁴ | 419.79 | 391.17 | 436.86 | 416.35 | 429.43 | 433.16 | 429.93 |
| <i>Quasi Money</i> | 658.48 | 598.12 | 695.68 | 739.70 | 754.69 | 754.95 | 744.96 |
| Other Deposits ⁵ | 658.48 | 598.12 | 695.68 | 739.70 | 754.69 | 754.95 | 744.96 |
| Central Bank of Samoa | Maturity Yield | | | | | | |
| <i>Open Markets Operations</i> | Amount in Tala Million | | | | | | |
| Securities Official Rate | 0.16 | 0.17 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Reserve Money ² | Amount in Tala Million | | | | | | |
| Total | 386.37 | 332.47 | 458.53 | 493.83 | 500.67 | 504.43 | 511.51 |
| <i>Trend</i> / Annual Growth (%) | 32.4 | 53.9 | 26.7 | 116 | 119 | 12.2 | 119 |
| Financial System (FS) | Amounts in Tala Million | | | | | | |
| <i>FS Credit</i> | Amounts in Tala Million | | | | | | |
| Commercial Banks ⁷ | 1120.04 | 1056.89 | 1187.67 | 1178.58 | 1186.74 | 1184.69 | 1179.17 |
| <i>Trend</i> / Annual Growth (%) | 5.3 | 7.6 | 5.6 | 4.1 | 3.6 | 3.1 | 2.5 |
| Non-Monetary Financial Institutions (NFIs) | 697.49 | 634.88 | 777.49 | 785.67 | 794.35 | 801.94 | 801.66 |
| <i>Trend</i> / Annual Growth (%) | 11.5 | 10.2 | 14.4 | 8.1 | 7.6 | 7.0 | 6.4 |
| <i>Private Sector</i> | 1768.81 | 1644.55 | 1931.79 | 1942.35 | 1958.69 | 1964.79 | 1960.23 |
| Businesses | 997.60 | 943.27 | 1068.28 | 1073.19 | 1078.00 | 1077.44 | 1070.57 |
| Individuals | 771.22 | 701.28 | 863.51 | 869.16 | 880.69 | 887.36 | 889.66 |
| <i>Public Sector (NFIs, NPEs, & Govt)</i> | 48.71 | 47.21 | 33.37 | 21.90 | 22.40 | 21.84 | 20.60 |
| Total FS Credit ⁸ | 1817.53 | 1691.77 | 1965.15 | 1964.24 | 1981.10 | 1986.63 | 1980.83 |
| <i>Trend</i> / Annual Growth (%) | 7.6 | 8.6 | 8.9 | 5.6 | 5.1 | 4.6 | 4.0 |
| Commercial Banks ³ | Amounts in Tala Million | | | | | | |
| <i>Liquidity</i> | Amounts in Tala Million | | | | | | |
| Total | 269.53 | 224.77 | 321.82 | 321.74 | 334.38 | 324.00 | 343.18 |
| <i>Trend</i> / Annual Growth (%) | 27.3 | 52.7 | 27.2 | 9.3 | 9.7 | 9.4 | 8.8 |
| <i>Interest Rates</i> | Percentage | | | | | | |
| Overall Weighted Average Lending ⁷ | 8.93 | 9.01 | 8.88 | 8.67 | 8.65 | 8.50 | 8.54 |
| Australia New Zealand Bank (Samoa) Limited | 9.52 | 9.31 | 9.32 | 8.42 | 8.32 | 8.29 | 8.28 |
| Bank South Pacific (Samoa) Limited | 7.79 | 8.12 | 7.79 | 8.14 | 8.15 | 8.21 | 8.21 |
| National Bank of Samoa Limited | 8.18 | 8.45 | 8.20 | 8.23 | 8.22 | 7.57 | 7.75 |
| Samoa Commercial Bank Limited | 10.63 | 10.53 | 10.81 | 10.36 | 10.33 | 10.31 | 10.29 |
| Overall Weighted Average Deposit | 2.71 | 2.60 | 2.46 | 2.74 | 2.57 | 2.65 | 2.56 |
| Australia New Zealand Bank (Samoa) Limited | 1.44 | 1.59 | 1.40 | 1.22 | 1.03 | 1.04 | 1.05 |
| Bank South Pacific (Samoa) Limited | 3.19 | 2.80 | 3.24 | 2.94 | 2.57 | 2.75 | 2.57 |
| National Bank of Samoa Limited | 3.83 | 3.58 | 3.90 | 4.07 | 3.90 | 3.84 | 3.69 |
| Samoa Commercial Bank Limited | 3.37 | 3.23 | 3.26 | 3.16 | 3.09 | 3.01 | 2.94 |
| <i>Market Shares</i> | Percentage | | | | | | |
| Lending ⁷ | Percentage | | | | | | |
| Australia New Zealand Bank (Samoa) Limited | 28.4 | 33.0 | 25.59 | 23.63 | 24.66 | 24.51 | 24.64 |
| Bank South Pacific (Samoa) Limited | 29.6 | 27.0 | 31.78 | 30.75 | 30.44 | 30.40 | 30.58 |
| National Bank of Samoa Limited | 22.7 | 20.9 | 24.31 | 25.75 | 24.96 | 25.01 | 24.66 |
| Samoa Commercial Bank Limited | 19.2 | 19.1 | 18.32 | 19.86 | 19.93 | 20.08 | 20.11 |
| Deposit | Percentage | | | | | | |
| Australia New Zealand Bank (Samoa) Limited | 28.9 | 32.6 | 27.68 | 26.01 | 25.55 | 24.41 | 23.49 |
| Bank South Pacific (Samoa) Limited | 30.4 | 27.5 | 30.35 | 29.01 | 28.08 | 29.46 | 30.50 |
| National Bank of Samoa Limited | 20.7 | 19.7 | 21.68 | 22.63 | 23.84 | 23.37 | 23.34 |
| Samoa Commercial Bank Limited | 20.0 | 20.3 | 20.29 | 22.36 | 22.53 | 22.76 | 22.67 |
| Non-monetary Financial Institutions (NFIs) | Percentage | | | | | | |
| Weighted Average Lending (WAL) | Percentage | | | | | | |
| Samoa National Provident Fund (SNPF) ⁶ | 8.26 | 7.92 | 8.52 | 8.66 | 8.68 | 8.70 | 8.71 |
| Development Bank of Samoa (DBS) | 5.03 | 5.29 | 4.54 | 4.22 | 4.38 | 4.28 | 4.33 |
| Samoa Housing Corporation (SHC) ¹ | 12.94 | 12.94 | 13.31 | 13.15 | 13.12 | 13.08 | 13.02 |
| NFIs' Overall WAL ^{6,8} | 7.80 | 7.43 | 8.16 | 8.23 | 8.27 | 8.27 | 8.28 |

Source: Central Bank of Samoa

(1) Samoa Housing Corporation reports on a quarterly basis up to September 2018 quarter.

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- (2) Reserve Money is composed of: Currency in Circulation, commercial banks Exchange Settlement Accounts (ESA) and Statutory Required Deposits (SRD)
- (3) As of July 13th 2015, Bank South Pacific took over Westpac.
- (4) Comprised of demand deposits, foreign currency deposits of residents, and interest payable on these deposits.
- (5) Comprised of time deposits, savings deposits, and the interest payable on these deposits.
- (6) Effective October 2018, Sāmoa Housing Corporation started reporting to Central Bank on monthly basis.
- (7) IMF Loan disbursement of USD\$22.03 million received in April 2020 to address the COVID-19 pandemic.