

## REVIEW OF MONETARY DEVELOPMENTS MARCH 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.9: 2020/21

March 2021

### **Monetary Forecast**

*The actual level of money supply (M2) was 7.5 percent above its projection for March 2021. This higher than expected outcome reflected the stronger than anticipated level of total lending of the banking system to the private sector and public enterprises coupled with the pickup in government spending for the month over forecasts.*

### **Money Supply (M2)**

Total money supply (M2) rebounded sharply by \$24.32 million (or 1.9 percent) to \$1,302.86 million, due to expansions of \$11.91 million (or 1.9 percent) in net foreign assets (NFA) and \$12.43 million (or 1.9 percent) in net domestic assets (NDA). The hike in NFA was caused by an increase in foreign assets of the commercial banks despite a decline in those held by the Central Bank. In addition, the monthly improvement in NDA was underpinned by a decline in the government's net position with the monetary system; due to an increase in government spending.

However, the annual average growth rate of M2 grew to 3.0 percent from 2.3 percent in the previous month, which was lower than 5.8 percent in the same month of last year.

### **Credit<sup>1</sup>**

Total financial system (FS) credit recorded a decline of \$3.23 million (or 0.16 percent) to \$1,977.90 million, due to a reduction in commercial banks' credit by \$5.93 million (or 0.5 percent), despite an increase in total lending

of non-bank financial institutions (NFIs) by \$2.70 million (or 0.34 percent).

The contraction in total FS credit reflected the decreases in lending to the 'Manufacturing', 'Other Activities' 'Transportation, storage and communication' and 'Electricity, gas and water' industries in that order.

By sector, the bulk of FS credit was directed to the private sector with a share of 98.85 percent while the small remaining portion was lent to the public NFIs.

On an annual average basis, total FS credit continued to slow further to 3.2 percent from 3.7 percent in the previous month, and was also lower than the 8.4 percent in the same month last 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)<sup>2</sup> amounted to \$2,057.90 million at end of December 2020. At this level, the share of the FS credit to NGDP increased to 96.5 percent in the December 2020 quarter, from 93.5 percent in the September 2020 quarter. As for M2, its share to NGDP rose to 66.7 percent in the December 2020 quarter from 60.3 percent in the previous quarter.

### **Reserve Money<sup>3</sup>**

Total reserve money (RM) contracted by \$1.23 million (or 0.2 percent) to \$502.56 million as a

<sup>1</sup> 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)

<sup>2</sup> GDP 2013 Rebase became effective December 2018

<sup>3</sup> 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

result of a reduction of \$13.62 million in commercial banks' reserves, offsetting an expansion of \$12.40 million in the 'currency in circulation'.

In addition, total reserve money was \$59.00 million higher (or 13.3 percent) than its level in March 2020, or 34.0 percent and 57.5 percent higher than its corresponding levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

With the issuance of CBS Securities on-hold since April 2020, for liquidity reasons in the wake of COVID-19 pandemic, total commercial banks' liquidity has remained at a high level (of above \$300.00 million mark). Nevertheless, commercial banks' liquidity dropped by \$8.92 million to \$323.02 million in March 2021. This was a result of a reduction of \$13.09 million in excess reserves, offsetting a \$4.18 million increase in banks' vault cash.

When compared to the same month last year, total liquidity was \$13.30 million higher or 25.7 percent and 53.7 percent higher than its level in the past three and five years respectively.

### **Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)<sup>4</sup>**

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 remained at 0.15 percent until OMO resumes its operations again.

### **Commercial Banks' Interest Rates**

The commercial banks' weighted average deposit (WAD) rate fell further by 11 basis points to 2.33 percent over the month and was

43 basis points lower than that of March last year. On the other hand, the weighted average lending (WAL) rate rose by 3 basis points to 8.57 percent but was 30 basis points lower than a year ago. As a result, the overall weighted average interest rate spread increased to 6.24 percent from 6.10 percent in the previous month and 6.11 percent a year ago.

The current WAD rate was lower than its deposit rates of 2.83 percent and 2.67 percent in the last three and five years respectively. On the other hand, the current WAL rate was also lower than its rates of 8.94 percent and 8.96 percent in the last three and five years in that order.

### **NFIs<sup>5</sup> lending rates<sup>6</sup>**

The overall WAL rate for NFIs decreased by 6 basis point to 8.22 percent over the month, but was higher than 8.14 percent in March last year. This was due to a decline in lending rates for DBS, which decreased by 34 basis points to 3.99 percent, that for SHC decreased by 2 basis points to 12.95 percent while NPF's WAL rate remained at 8.71 percent.

Despite the drop, the current overall WAL rate was higher than its rates of 7.81 percent for both the last three and five years respectively.

## **CENTRAL BANK OF SAMOA** **12 May 2021**

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<sup>4</sup>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).

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

<sup>6</sup> Lending rates of SHC are provisional for the reporting month.

**Monetary Aggregates**

End of Period Figures	Average level in the previous		2021		
	3-years	5-years	Mar20	Feb	Mar
<b>Determinants of Money Supply (M2) <sup>7</sup></b>			<b>Amount in Tala Million</b>		
Net Foreign Assets	409.58	302.54	473.20	626.84	638.74
Net Domestic Assets	766.35	767.01	748.74	651.69	664.11
<b>Money Supply (M2)</b>	<b>1175.93</b>	<b>1069.55</b>	<b>1221.948</b>	<b>1278.530</b>	<b>1302.860</b>
<i>Trend / Annual Average (%)</i>	10.08	8.55	5.8	2.3	3.0
<i>Narrow Money (M1)</i>	512.18	463.67	520.00	536.82	575.39
Currency outside banks	85.70	75.54	91.66	113.01	121.23
Transferable Deposits <sup>4</sup>	426.48	388.13	428.34	423.82	454.21
Quasi Money	663.74	605.88	701.95	741.71	727.42
Other Deposits <sup>5</sup>	663.74	605.88	701.95	741.71	727.42
<b>Central Bank of Samoa</b>			<b>Maturity Yield</b>		
<b>Open Markets Operations</b>			0.15	0.15	0.15
Securites Official Rate	0.17	0.17			
<b>Reserve Money <sup>2</sup></b>			<b>Amount in Tala Million</b>		
<b>Total</b>	<b>375.15</b>	<b>319.04</b>	<b>443.57</b>	<b>503.792</b>	<b>502.564</b>
<i>Trend / Annual Growth (%)</i>	24.23	14.89	22.7	11.8	11.9
<b>Financial System (FS)</b>			<b>Amounts in Tala Million</b>		
<b>FS Credit</b>					
<b>Commercial Banks <sup>7</sup></b>	<b>1126.23</b>	<b>1074.27</b>	<b>1181.29</b>	<b>1178.64</b>	<b>1172.71</b>
<i>Trend / Annual Growth (%)</i>	4.83	7.34	5.2	2.2	1.5
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>702.04</b>	<b>640.65</b>	<b>781.05</b>	<b>802.50</b>	<b>805.19</b>
<i>Trend / Annual Growth (%)</i>	11.36	10.31	13.7	5.8	5.2
<b>Private Sector</b>	<b>1780.42</b>	<b>1668.34</b>	<b>1929.08</b>	<b>1958.31</b>	<b>1954.49</b>
Businesses	1004.36	956.99	1057.29	1064.87	1054.70
Individuals	776.06	711.35	871.79	893.44	899.79
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>47.85</b>	<b>46.58</b>	<b>33.26</b>	<b>22.83</b>	<b>23.41</b>
<b>Total FS Credit <sup>8</sup></b>	<b>1828.27</b>	<b>1714.92</b>	<b>1962.34</b>	<b>1981.13</b>	<b>1977.90</b>
<i>Trend / Annual Growth (%)</i>	7.23	8.43	8.4	3.7	3.2
<b>Commercial Banks <sup>3</sup></b>			<b>Amounts in Tala Million</b>		
<b>Liquidity</b>					
<b>Total</b>	<b>256.89</b>	<b>210.14</b>	<b>309.73</b>	<b>331.939</b>	<b>323.022</b>
<i>Trend / Annual Growth (%)</i>	34.04	18.16	21.6	8.4	7.8
<b>Interest Rates</b>			<b>Percentage</b>		
<b>Overall Weighted Average Lending <sup>7</sup></b>	<b>8.94</b>	<b>8.96</b>	<b>8.87</b>	<b>8.54</b>	<b>8.57</b>
Australia New Zealand Bank (Sāmoa) Limite	9.42	9.21	9.12	8.28	8.24
Bank South Pacific (Sāmoa) Limited	7.92	8.05	8.06	8.16	8.31
National Bank of Sāmoa Limited	8.18	8.44	8.23	7.83	7.86
Samoa Commercial Bank Limited	10.63	10.56	10.66	10.27	10.20
<b>Overall Weighted Average Deposit</b>	<b>2.83</b>	<b>2.67</b>	<b>2.76</b>	<b>2.44</b>	<b>2.33</b>
Australia New Zealand Bank (Sāmoa) Limite	1.46	1.58	1.38	1.11	1.01
Bank South Pacific (Sāmoa) Limited	3.02	2.75	2.87	2.35	2.13
National Bank of Sāmoa Limited	3.87	3.62	3.87	3.46	3.21
Samoa Commercial Bank Limited	3.32	3.21	3.22	2.97	2.93
<b>Market Shares</b>					
<b>Lending <sup>7</sup></b>					
Australia New Zealand Bank (Sāmoa) Limite	28.26	32.78	26.16	24.54	24.20
Bank South Pacific (Sāmoa) Limited	29.32	27.17	30.42	30.97	30.70
National Bank of Sāmoa Limited	22.91	20.82	24.46	24.32	24.70
Samoa Commercial Bank Limited	19.54	19.26	18.96	20.17	20.40
<b>Deposit</b>					
Australia New Zealand Bank (Sāmoa) Limite	28.12	31.60	26.98	24.53	23.80
Bank South Pacific (Sāmoa) Limited	30.57	28.23	29.92	30.99	31.60
National Bank of Sāmoa Limited	21.35	20.01	21.84	22.30	22.50
Samoa Commercial Bank Limited	19.96	20.15	21.27	22.18	22.10
<b>Non-monetary Financial Institutions (NFIs)</b>			<b>Percentage</b>		
<b>Weighted Average Lending (WAL)</b>					
Sāmoa National Provident Fund (SNPF) <sup>6</sup>	8.27	8.39	8.54	8.71	8.71
Development Bank of Samoa (DBS)	5.01	5.39	4.45	4.33	3.99
Samoa Housing Corporation (SHC) <sup>1</sup>	12.90	12.90	13.15	12.97	12.95
<b>NFIs' Overall WAL <sup>6,8</sup></b>	<b>7.81</b>	<b>7.81</b>	<b>8.14</b>	<b>8.27</b>	<b>8.22</b>

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Source: Central Bank of Samoa

- (1) Samoa Housing Corporation reports on a quarterly basis up to September 2018 quarter.
- (2) Reserve Money is composed of: Currency in Circulation and commercial banks Exchange Settlement Accounts (ESA) and Statutory Required Deposits (SRDs).
- (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) Reflects the reclassification of loans to their appropriate interest rate structure in November 2018.
- (7) Changes back to June 2016 under Financial System Credit section due to revised figures from the commercial banks
- (8) Effective October 2018, Sāmoa Housing Corporation started reporting to Central Bank on monthly basis as was previously reported on quarterly basis.