

## REVIEW OF MONETARY DEVELOPMENTS

### August 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.2: 2021/22

August 2021

#### **Monetary Forecast**

*As an intermediate target for monetary policy, the actual level of money supply (M2) was 4.9 percent lower than its forecast for August 2021. This lower than expected level was mostly in light of lower than expected level of official foreign reserves despite higher inflows of government funds and domestic credit, than their forecast levels.*

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

Total money supply (M2) rebounded by \$7.84 million (or 0.6 percent) to \$1,307.11 million. This was due to an expansion of \$25.96 million in net foreign assets (NFA), which outweighed a decline of \$18.12 million in net domestic assets (NDA). The expansion in NFA was mainly driven by an increase in foreign holdings<sup>1</sup> of the Central Bank whereas the reduction in NDA was mainly due to an increase in the net, government's position with the financial system as well as an increase in total lending of the banking system to the private sector.

Overall, the annual average growth rate of M2 rose further to 6.0 percent from 5.7 percent in the previous month and 0.8 percent in the same month last year.

#### **Credit<sup>2</sup>**

Total financial system (FS) credit recorded an increase of \$10.36 million (or 0.52 percent) to \$2,013.77 million from the previous month.

This was underpinned by gains of \$5.24 million and \$5.12 million in both commercial banks' and non-banks' financial institutions (NFIs) lending respectively. Furthermore, expansions were recorded in lending to 'other activities' and 'trade' sectors.

The private sector's dominance of total FS credit continued with a 98.8 percent share while the rest was lent to public institutions.

On an annual average basis, total FS credit growth decreased further to 1.5 percent, from 1.7 percent in the previous month, and was lower than 6.7 percent in the same month last year.

The latest update on National Accounts released by the Sāmoa Bureau of Statistics (SBS) was up to June 2021, which saw an annual total Nominal Gross Domestic Product (NGDP) of around \$2,026.74 million. At this level, the share of the FS credit to NGDP increased slightly to 98.2 percent from 98.1 percent in the March 2021 quarter. As for M2, its share to NGDP increased to 65.4 percent from 64.6 percent in the previous quarter.

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

Total reserve money (RM) continued to drop, decreasing by \$3.93 million (or 0.8 percent) to \$518.97 million. This is due to a decline in both commercial banks' reserves (by \$3.77 million), and currency in circulation (by \$0.16 million).

However, total reserve money was \$39.57 million higher than its level in August 2020 or 23.59 percent and 46.08 percent higher than its

<sup>1</sup> Samoa received the IMF-Special Drawing Rights (SDRs) allocation of SDR15.5 million, an equivalent of around \$55.5 million Tala in August 2021.

<sup>2</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>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

levels in the past three and five years respectively.

### **Commercial Banks' Liquidity**

Total liquidity of the banking system increased slightly by \$0.29 million to \$342.15 million over the previous month. This was underpinned by an increase of \$3.88 million in vault cash holdings of the commercial banks, offsetting a decrease in their exchange settlement accounts by \$3.59 million. Meanwhile, CBS open market operations (Securities) remained on-hold since March 2020.

Furthermore, total liquidity was \$28.69 million higher than the same month last year and was also 20.04 percent and 47.56 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>**

For liquidity reasons, the CBS OMO remained on-hold given the volatile and uncertain economic environment created by the pandemic. The sharp slowdown in business activities and production coupled with tightening global financial conditions call for a temporary halt in the OMO. As a result, the overall weighted average yield remained at 0.15 percent at the end of August 2021.

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

The commercial banks' weighted average deposit (WAD) rate decreased by 16 basis points to 1.94 percent (a record low) over the previous month but it was 74 basis points lower than that of last year. The weighted average lending (WAL) rate also dropped by 8 basis point to 8.48 percent over the previous month but was 15 basis points lower than a year ago.

As a result of the larger drop in the WAD rate, the weighted average interest rate margin increased to 6.54 percent from the previous

month and was higher than 5.94 percent in the same month of 2020.

The current WAD rate was lower than its average rates over the last three and five years of 2.71 percent and 2.59 percent respectively. Similarly, the current WAL rate was also lower than 8.82 percent and 8.84 percent in the last three years and five years in that order.

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

The overall WAL rate for non-bank financial institutions (NFI's) increased by 1 basis point to 8.08 percent over the previous month but was higher than 7.42 percent in August of last year. This was underpinned by hikes in lending rates for SNPF, up by 2 basis points, offsetting a decrease in SHC's lending rate, while that for DBS remained at same level from the previous month.

The current overall WAL rate was also higher than its rates of 7.64 percent and 7.44 percent in the last three years and five years respectively

## **CENTRAL BANK OF SAMOA** **12<sup>th</sup> October 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	Aug20	June	July	August
<b>Determinants of Money Supply (M2) <sup>7</sup></b>			<b>Amount in Tala Million</b>			
Net Foreign Assets <sup>9</sup>	490.10	381.91	585.73	653.49	636.16	662.12
Net Domestic Assets	712.50	724.78	658.45	671.77	663.10	644.99
<b>Money Supply (M2)</b>	<b>1202.61</b>	<b>1106.69</b>	<b>1244.188</b>	<b>1325.260</b>	<b>1299.260</b>	<b>1307.110</b>
<i>Trend / Annual Average (%)</i>	8.79	8.32	0.8	5.5	5.7	6.0
<i>Narrow Money (M1)</i>	520.35	479.04	517.58	598.92	578.44	589.13
Currency outside banks	97.64	84.86	108.94	112.55	122.16	118.12
Transferable Deposits <sup>4</sup>	422.71	394.17	408.64	486.37	456.27	471.01
<i>Quasi Money</i>	682.26	627.65	726.61	726.34	720.84	717.98
Other Deposits <sup>5</sup>	682.26	627.65	726.61	726.34	720.84	717.98
<b>Central Bank of Samoa</b>						
<b>Open Markets Operations</b>				<b>Maturity Yield</b>		
<i>Securities Official Rate</i>	0.16	0.15	0.15	0.15	0.15	0.15
<b>Reserve Money<sup>2</sup></b>			<b>Amount in Tala Million</b>			
<b>Total</b>	<b>419.92</b>	<b>355.27</b>	<b>479.40</b>	<b>541.231</b>	<b>522.905</b>	<b>518.97</b>
<i>Trend / Annual Growth (%)</i>	23.4	13.1	13.6	14.1	14.8	14.8
<b>Financial System (FS)</b>			<b>Amounts in Tala Million</b>			
<b>FS Credit</b>						
<b>Commercial Banks <sup>7</sup></b>	<b>1127.50</b>	<b>1075.62</b>	<b>1165.80</b>	<b>1175.33</b>	<b>1182.18</b>	<b>1187.42</b>
<i>Trend / Annual Growth (%)</i>	4.30	6.68	4.6	0.8	0.5	0.5
<b>Non-Monetary Financial Institutions (NFIs)</b>	<b>729.21</b>	<b>664.71</b>	<b>801.00</b>	<b>814.68</b>	<b>821.23</b>	<b>826.35</b>
<i>Trend / Annual Growth (%)</i>	10.93	10.56	10.1	3.7	3.4	3.1
<b>Private Sector</b>	<b>1811.35</b>	<b>1699.60</b>	<b>1937.29</b>	<b>1966.60</b>	<b>1980.74</b>	<b>1990.21</b>
Businesses	1019.53	978.85	1083.00	1063.16	1069.87	1067.86
Individuals	791.82	720.75	854.29	903.44	910.87	921.11
<b>Public Sector (NFIs, NPEs, &amp; Govt)</b>	<b>45.36</b>	<b>40.72</b>	<b>29.52</b>	<b>23.41</b>	<b>22.67</b>	<b>23.57</b>
<b>Total FS Credit <sup>8</sup></b>	<b>1856.70</b>	<b>1740.32</b>	<b>1966.80</b>	<b>1990.01</b>	<b>2003.41</b>	<b>2013.77</b>
<i>Trend / Annual Growth (%)</i>	6.76	8.12	6.7	2.0	1.7	1.5
<b>Commercial Banks<sup>3</sup></b>						
<b>Liquidity</b>			<b>Amounts in Tala Million</b>			
<b>Total</b>	<b>285.02</b>	<b>231.87</b>	<b>313.46</b>	<b>370.737</b>	<b>341.865</b>	<b>342.15</b>
<i>Trend / Annual Growth (%)</i>	32.84	14.47	12.0	10.6	12	12.6
<b>Interest Rates</b>			<b>Percentage</b>			
<b>Overall Weighted Average Lending <sup>7</sup></b>	<b>8.82</b>	<b>8.84</b>	<b>8.63</b>	<b>8.57</b>	<b>8.56</b>	<b>8.48</b>
Australia New Zealand Bank (Sāmoa) Limited	9.20	9.17	8.42	7.91	7.63	7.87
Bank South Pacific (Sāmoa) Limited	7.95	7.77	8.06	8.35	8.35	8.17
National Bank of Sāmoa Limited	8.13	8.25	8.19	8.15	8.14	8.08
Samoa Commercial Bank Limited	10.49	10.51	10.36	10.12	10.10	10.08
<b>Overall Weighted Average Deposit</b>	<b>2.68</b>	<b>2.63</b>	<b>2.70</b>	<b>2.11</b>	<b>2.11</b>	<b>1.94</b>
Australia New Zealand Bank (Sāmoa) Limited	1.30	1.42	1.16	0.92	0.90	0.80
Bank South Pacific (Sāmoa) Limited	3.04	2.94	3.08	2.29	2.29	2.32
National Bank of Sāmoa Limited	3.83	3.66	4.09	2.69	2.60	2.60
Samoa Commercial Bank Limited	3.01	3.04	2.62	2.61	2.66	2.11
<b>Market Shares</b>						
<b>Lending <sup>7</sup></b>						
Australia New Zealand Bank (Sāmoa) Limited	26.58	30.63	24.42	24.70	24.74	25.06
Bank South Pacific (Sāmoa) Limited	30.37	28.15	30.60	30.00	30.28	30.14
National Bank of Sāmoa Limited	23.44	21.54	25.37	23.96	23.76	23.49
Samoa Commercial Bank Limited	19.65	19.69	19.61	21.34	21.22	21.32
<b>Deposit</b>						
Australia New Zealand Bank (Sāmoa) Limited	28.67	31.46	27.32	24.76	24.17	24.90
Bank South Pacific (Sāmoa) Limited	29.25	27.99	28.63	31.57	31.23	31.29
National Bank of Sāmoa Limited	20.77	19.76	22.17	20.50	20.77	19.88
Samoa Commercial Bank Limited	21.29	20.77	21.88	23.16	23.83	23.93
<b>Non-monetary Financial Institutions (NFIs)</b>						
<b>Weighted Average Lending (WAL)</b>			<b>Percentage</b>			
Sāmoa National Provident Fund (SNPF) <sup>6</sup>	8.26	8.03	8.27	8.48	8.53	8.55
Development Bank of Samoa (DBS)	4.83	5.19	4.40	3.83	3.83	3.83
Samoa Housing Corporation (SHC) <sup>1</sup>	9.77	9.77	6.16	12.92	12.96	12.84
<b>NFIs' Overall WAL <sup>6,8</sup></b>	<b>7.64</b>	<b>7.44</b>	<b>7.42</b>	<b>8.03</b>	<b>8.07</b>	<b>8.08</b>

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.
- (9) Samoa received the IMF-Special Drawing Rights (SDRs) allocation of SDR15.5 million, an equivalent of around \$55.5 million Tala in August 2021.