

REVIEW OF MONETARY DEVELOPMENTS JULY 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.1: 2021/22

July 2021

Monetary Forecast

As an intermediate target for monetary policy, the actual level of money supply (M2) was 3.0 percent lower than its projected level for end July 2021. This lower than expected level was mostly in-light of lower than anticipated level of official foreign reserves as a result of stronger than expected outflows in July 2021.

Money Supply (M2)

Total money supply (M2) contracted by \$25.99 million (or 2.0 percent) to \$1,299.27 million in July 2021 over the previous month. This was accounted for by reductions in both, net foreign assets (NFA) (down by \$17.33 million) and net domestic assets (NDA) (down by \$8.66 million). The decline in NFA was dominated by a modest decline in foreign holdings of the Central Bank as well as a smaller reduction in foreign holdings of the banking system. The drop in NDA was underpinned by a decrease in the government's net position with the monetary system (a surplus in government accounts with the commercial banks) offsetting the expansion in combined credit to the private sector and public institutions.

However, the annual average growth of M2 continued to rise to 5.7 percent from 5.5 percent in the previous month but was higher than 1.2 percent in the same month last year.

Credit¹

Total financial system (FS) credit rebounded by \$13.40 million (or 0.67 percent) to \$2,003.41 million. This was driven by gains of \$6.85

million and \$6.55 million in both commercial banks' and non-banks' financial institutions (NFIs) lending respectively. Furthermore, expansions were recorded in lending mainly to 'other activities', 'building, construction and installation', 'professional and business services' and 'transportation, storage and communication' sectors.

The private sector's dominance of total FS credit increased to 98.9 percent while the rest was lending to NFIs.

On an annual average basis, total FS credit growth slowed further to 1.7 percent, from 2.0 percent in the previous month, and was way below its 7.1 percent growth in the same month last year.

The latest update on National Accounts released by the Sāmoa Bureau of Statistics (SBS) is up to March 2021, which sees an annual total Nominal Gross Domestic Product (NGDP) of around \$2,016.21 million. At this level, the share of the FS credit to NGDP increased to 98.1 percent in March 2021 from 96.5 percent in the December 2020 quarter. As for M2, its share to NGDP dropped to 64.6 percent from 66.7 percent in the December 2020 quarter.

Reserve Money²

Total reserve money (RM) fell by \$18.33 million (or 3.4 percent) to \$522.91 million due mainly to a contraction of \$24.55 million in commercial banks' reserves, offsetting an

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 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

increase of \$5.29 million in currency in circulation.

Nevertheless, total reserve money was \$68.38 million higher than its level in July 2020 or 29.20 percent and 52.44 percent higher than its levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total liquidity fell by \$28.87 million to \$341.87 million in July 2021 due to a drop of \$24.55 million in exchange settlement accounts (ESA), coupled with a decline of \$4.32 million in vault cash holdings of the commercial banks. Meanwhile, CBS open market operations (Securities) remained inactive since March 2020.

Furthermore, total liquidity was \$53.28 million higher than the same month last year and was also 26.13 percent and 55.19 percent higher than its level in the past three and five years respectively.

Central Bank of Samoa Securities (CBSS) and Open Market Operations (OMO)³

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 July 2021.

Commercial Banks' Interest Rates

The commercial banks' weighted average deposit (WAD) rate remained at 2.11 percent over the previous month but was 57 basis points lower than that of last year. In contrast, the weighted average lending (WAL) rate dropped one basis point to 8.56 percent over the previous month but was 7 basis points lower than a year ago.

Consequently, the overall weighted average interest rate remained at 6.46 percent from the previous month but was higher than 5.96 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 8.93 percent and 8.91 percent in the last three years and five years respectively.

NFIs⁴ lending rates⁵

The overall WAL rate for non-bank financial institutions (NFI's) increased by 4 basis points to 8.07 percent over the previous month but was higher than 7.42 percent in July of last year. This was underpinned by hikes in lending rates for SNPF and SHC, by 5 and 4 basis points in that order, while that of DBS remained the same as the previous month.

The current overall WAL rate was also higher than its rates of 7.82 percent and 7.54 percent in the last three years and five years correspondingly.

CENTRAL BANK OF SAMOA **9th September 2021**

³Central 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).

⁴ 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.

⁵ 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	Jul	May	June	July
Determinants of Money Supply (M2) ⁷			Amount in Tala Million			
Net Foreign Assets	447.38	346.04	516.95	634.12	653.49	636.16
Net Domestic Assets	738.51	746.37	731.72	665.73	671.77	683.10
Money Supply (M2)	1185.899	1091.405	1248.674	1299.849	1325.260	1299.260
<i>Trend / Annual Average (%)</i>	12.4	10.4	1.2	4.7	5.5	5.7
<i>Narrow Money (M1)</i>	522.00	480.78	525.11	562.89	598.92	578.44
Currency outside banks	91.54	81.15	109.16	119.59	112.55	122.16
Transferable Deposits ⁴	430.46	399.62	415.95	443.30	486.37	456.27
<i>Quasi Money</i>	663.90	610.63	723.56	736.96	726.34	720.84
Other Deposits ⁵	663.90	610.63	723.56	736.96	726.34	720.84
Central Bank of Samoa			Maturity Yield			
<i>Open Markets Operations</i>			0.15	0.15	0.15	0.15
<i>Securities Official Rate</i>	0.17	0.16				
<i>Reserve Money²</i>			Amount in Tala Million			
Total	396.38	338.02	454.53	508.51	541.231	522.905
<i>Trend / Annual Growth (%)</i>	28.5	16.3	15.5	12.8	14.1	14.8
Financial System (FS)			Amounts in Tala Million			
<i>FS Credit</i>						
Commercial Banks ⁷	1118.27	1073.04	1170.84	1178.19	1175.33	1182.18
<i>Trend / Annual Growth (%)</i>	4.6	6.9	4.7	1.1	0.8	0.5
Non-Monetary Financial Institutions (NFIs)	713.01	652.46	795.07	823.38	814.68	821.23
<i>Trend / Annual Growth (%)</i>	12.7	11.5	11.0	4.2	3.7	3.4
<i>Private Sector</i>	1782.83	1682.75	1936.90	1977.80	1966.60	1980.74
Businesses	998.97	967.58	1076.48	1067.83	1063.16	1069.87
Individuals	783.86	715.17	860.43	909.97	903.44	910.87
<i>Public Sector (NFIs, NPEs, & Govt)</i>	48.45	42.75	29.00	23.77	23.41	22.67
Total FS Credit ⁸	1831.28	1725.50	1965.91	2001.57	1990.01	2003.41
<i>Trend / Annual Growth (%)</i>	7.5	8.6	7.1	2.3	2.0	1.7
Commercial Banks³			Amounts in Tala Million			
<i>Liquidity</i>						
Total	273.61	221.83	288.58	330.777	370.737	341.865
<i>Trend / Annual Growth (%)</i>	39.51	18.77	14.2	8.7	10.6	12
<i>Interest Rates</i>			Percentage			
Overall Weighted Average Lending ⁷	8.93	8.91	8.63	8.53	8.57	8.56
Australia New Zealand Bank (Sāmoa) Limited	9.63	9.35	8.42	7.99	7.91	7.63
Bank South Pacific (Sāmoa) Limited	7.85	7.73	8.05	8.34	8.35	8.35
National Bank of Sāmoa Limited	8.10	8.31	8.20	7.98	8.15	8.14
Samoa Commercial Bank Limited	10.60	10.59	10.35	10.14	10.12	10.10
Overall Weighted Average Deposit	2.71	2.59	2.70	2.16	2.11	2.11
Australia New Zealand Bank (Sāmoa) Limited	1.35	1.43	1.16	0.97	0.92	0.90
Bank South Pacific (Sāmoa) Limited	3.08	2.88	3.05	2.14	2.29	2.29
National Bank of Sāmoa Limited	3.79	3.56	3.99	2.89	2.69	2.60
Samoa Commercial Bank Limited	3.16	3.12	2.67	2.73	2.61	2.66
<i>Market Shares</i>						
Lending ⁷						
Australia New Zealand Bank (Sāmoa) Limited	27.44	31.61	24.53	24.51	24.70	24.74
Bank South Pacific (Sāmoa) Limited	30.56	28.01	30.43	30.28	30.00	30.28
National Bank of Sāmoa Limited	22.70	20.92	25.67	24.14	23.96	23.76
Samoa Commercial Bank Limited	19.33	19.48	19.37	21.07	21.34	21.22
Deposit						
Australia New Zealand Bank (Sāmoa) Limited	29.76	32.37	26.94	24.35	24.76	24.17
Bank South Pacific (Sāmoa) Limited	28.47	27.61	28.93	30.39	31.57	31.23
National Bank of Sāmoa Limited	20.48	19.52	22.31	21.95	20.50	20.77
Samoa Commercial Bank Limited	21.29	20.52	21.83	23.32	23.16	23.83
Non-monetary Financial Institutions (NFIs)			Percentage			
<i>Weighted Average Lending (WAL)</i>						
Sāmoa National Provident Fund (SNPF) ⁸	8.25	8.03	8.26	8.51	8.48	8.53
Development Bank of Samoa (DBS)	4.90	5.21	4.40	3.89	3.83	3.83
Samoa Housing Corporation (SHC) ¹	13.36	13.36	6.17	12.92	12.92	12.96
NFIs' Overall WAL ^{8,8}	7.82	7.54	7.42	8.07	8.03	8.07

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.

¹ Revised