

REVIEW OF MONETARY DEVELOPMENTS MAY 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.

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Monetary Forecast

The actual level of money supply (M2) was 3.1 percent above its projected level of May 2021 due to higher than expected level of net foreign assets given large inflows of government funds as well as higher domestic credit.

Money Supply (M2)

Total money supply (M2) recorded a contraction of \$14.29 million (or 1.1 percent) to \$1,299.85 million, due to decreases of \$7.21 million (or 1.1 percent) in net foreign assets (NFA) and \$7.09 million (or 1.1 percent) in net domestic assets (NDA). The reduction in NFA was caused by a decline in both the official reserves of the Central Bank of Samoa and the foreign holdings of the banking system. In addition, the drop in NDA was underpinned by a reduction in the government's net position (due to an increase in government project spending) despite a slight expansion in total commercial banks' credit to private sector.

However, the annual average growth rate of M2 accelerated to 4.7 percent from 3.9 percent in the previous month and 2.7 percent growth in the same month of last year.

Credit¹

Total financial system (FS) credit increased further by \$20.05 million (or 1.01 percent) to \$2,001.57 million. The large expansion was driven by an \$18.31 million (or 2.7 percent) hike in total lending of non-bank financial institutions (NFIs) to the private sector with a

smaller increase in commercial banks' credit by \$1.74 million (or 0.15 percent).

By sector, the bulk of the FS credit was directed to the private sector with a share of 98.81 percent while the remaining portion was lent to the public NFIs.

Moreover, the expansion reflected increases in lending mainly directed to the *'Other Activities'* and *'Building, construction and installation'* sectors.

On an annual average basis, total FS credit decreased to 2.3 percent from 2.8 percent in the previous month, and 7.8 percent 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)² 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 Money³

Total reserve money (RM) declined by \$1.57 million (or 0.3 percent) to \$508.51 million due to a decrease of \$2.24 million in currency in circulation, offsetting an increase of \$0.67 million (or 0.2 percent) in commercial banks reserves.

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 December 2018

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

In addition, total reserve money was \$69.58 million higher (or 15.9 percent) than its level in the same month last year, or 30.4 percent and 57.0 percent higher than its corresponding levels in the past three and five years respectively.

Commercial Banks' Liquidity

Total commercial banks' liquidity fell slightly by \$0.15 million to \$330.78 million, as a result of a \$0.87 million drop in vault cash holdings despite a slight increase of \$0.73 million in commercial banks' holdings of exchange settlement accounts (or excess reserves).

Consequently, total liquidity jumped by \$49.82 million over the same month last year and was also 28.23 percent and 62.8 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

CBS OMO has 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. 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 6 basis points to 2.16 percent over the month and was also 59 basis points lower than that of the same month last year. On the other hand, the weighted average lending (WAL) rate also dropped by 4 basis points to 8.53 but was 7 basis points lower than a year ago. As a result, the overall weighted average interest rate spread increased to 6.37 percent from 6.36

percent in the previous month and 5.85 percent a year ago.

The current WAD rate was lower than its deposit rates of 2.67 percent and 2.62 percent in the last three and five years respectively. Similarly, the current WAL rate was also lower than its rates of 8.82 percent and 8.86 percent in the last three and five years in that order.

NFIs⁵ lending rates⁶

The overall WAL rate for NFIs fell further by 12 basis points to 8.07 percent over the month, but was higher than 7.43 percent in the same month last year. The reduction in the overall WAL was reflected in SNPF's drop by 18 basis points to 8.51 percent in its lending rate as well as a slight drop for DBS's lending rate of 2 basis points to 3.89 percent. On the upside, the SHC increased to 12.92 percent from 12.89 percent last month.

Despite the drop, the current overall WAL rate was higher than its rates of 7.55 and 7.40 percent in the last three and five years respectively.

CENTRAL BANK OF SAMOA 13th July 2021

⁴Central 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 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.

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

Monetary Aggregates

End of Period Figures	Average level in the previous		2021			
	3-y ears	5-y ears	May 20	Mar	Apr	May
Determinants of Money Supply (M2) ⁷				Amount in Tala Million		
Net Foreign Assets	420.04	310.11	459.86	638.74	641.32	634.12
Net Domestic Assets	765.72	771.89	757.98	664.11	672.82	665.73
Money Supply (M2)	1185.76	1081.99	1217.841	1302.860	1314.140	1299.849
<i>Trend / Annual Average (%)</i>	9.51	8.43	2.7	3.0	3.9	4.7
<i>Narrow Money (M1)</i>	521.24	469.16	515.72	575.44	590.73	562.89
Currency outside banks	91.98	80.71	102.24	121.23	120.95	119.59
Transferable Deposits ⁴	429.26	388.45	413.47	454.21	469.78	443.30
<i>Quasi Money</i>	664.52	612.83	702.13	727.42	723.41	736.96
Other Deposits ⁵	664.52	612.83	702.13	727.42	723.41	736.96
Central Bank of Samoa				Maturity Yield		
<i>Open Markets Operations</i>				Amount in Tala Million		
<i>Securites Official Rate</i>	0.16	0.15	0.15	0.15	0.15	0.15
Reserve Money ²				Amount in Tala Million		
Total	390.03	323.89	438.93	502.564	510.077	508.51
<i>Trend / Annual Growth (%)</i>	24.51	14.39	19.0	11.9	12.1	12.8
Financial System (FS)				Amounts in Tala Million		
<i>FS Credit</i>				Amounts in Tala Million		
Commercial Banks ⁷	1129.74	1084.77	1180.66	1172.71	1176.45	1178.19
<i>Trend / Annual Growth (%)</i>	4.55	7.07	4.9	1.8	1.5	1.1
Non-Monetary Financial Institutions (NFIs)	714.62	650.43	797.12	805.19	805.08	823.38
<i>Trend / Annual Growth (%)</i>	11.34	10.40	12.5	5.2	4.7	4.2
Private Sector	1795.04	1687.81	1941.40	1954.49	1958.10	1977.80
Businesses	1012.24	972.42	1076.36	1054.70	1053.28	1067.83
Individuals	782.80	715.39	865.05	899.79	904.82	909.97
Public Sector (NFIs, NPEs, & Govt)	49.32	47.39	36.38	23.41	23.42	23.77
Total FS Credit ⁸	1844.36	1735.20	1977.78	1977.90	1981.53	2001.57
<i>Trend / Annual Growth (%)</i>	7.04	8.30	7.8	3.2	2.8	2.3
Commercial Banks ³				Amounts in Tala Million		
<i>Liquidity</i>				Amounts in Tala Million		
Total	257.96	203.15	280.95	323.022	330.925	330.777
<i>Trend / Annual Growth (%)</i>	34.99	16.97	17.7	7.8	7.5	8.7
<i>Interest Rates</i>				Percentage		
Overall Weighted Average Lending ⁷	8.82	8.86	8.60	8.57	8.57	8.53
Australia New Zealand Bank (Sāmoa) Limited	9.10	9.02	8.30	8.24	8.24	7.99
Bank South Pacific (Sāmoa) Limited	7.91	7.82	8.05	8.31	8.31	8.34
National Bank of Sāmoa Limited	8.15	8.48	8.22	7.86	7.87	7.98
Samoa Commercial Bank Limited	10.53	10.55	10.35	10.20	10.21	10.14
Overall Weighted Average Deposit	2.67	2.62	2.75	2.33	2.22	2.22
Australia New Zealand Bank (Sāmoa) Limited	1.41	1.52	1.35	1.01	1.01	0.97
Bank South Pacific (Sāmoa) Limited	2.65	2.66	3.05	2.13	2.01	2.14
National Bank of Sāmoa Limited	3.84	3.68	3.84	3.21	2.88	2.89
Samoa Commercial Bank Limited	3.21	3.16	2.95	2.93	2.83	2.73
<i>Market Shares</i>				Percentage		
Lending ⁷				Percentage		
Australia New Zealand Bank (Sāmoa) Limited	27.76	32.13	25.51	24.20	24.39	24.51
Bank South Pacific (Sāmoa) Limited	29.57	27.27	30.59	30.70	30.86	30.28
National Bank of Sāmoa Limited	23.25	21.20	25.02	24.70	24.23	24.14
Samoa Commercial Bank Limited	19.42	19.40	18.88	20.40	20.52	21.07
Deposit				Percentage		
Australia New Zealand Bank (Sāmoa) Limited	27.87	31.36	26.76	23.80	23.57	24.35
Bank South Pacific (Sāmoa) Limited	31.14	28.74	30.67	31.60	31.51	30.39
National Bank of Sāmoa Limited	20.60	19.60	21.29	22.50	21.91	21.95
Samoa Commercial Bank Limited	20.43	20.34	21.29	22.10	23.01	23.32
Non-monetary Financial Institutions (NFIs)				Percentage		
<i>Weighted Average Lending (WAL)</i>				Percentage		
Sāmoa National Provident Fund (SNPF) ⁶	8.19	7.99	8.32	8.71	8.68	8.51
Development Bank of Samoa (DBS)	4.73	5.18	4.24	3.99	3.91	3.89
Samoa Housing Corporation (SHC) ¹	9.60	9.60	6.18	12.95	12.89	12.92
NFIs' Overall WAL ^{6,8}	7.55	7.40	7.43	8.22	8.18	8.07

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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.
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