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# MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2015/2016

APIA

JANUARY 2016

# CENTRAL BANK OF SAMOA

## MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2015/2016

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## 1. INTRODUCTION

The Monetary Policy Statements (MPS) ultimate goal is to effectively communicate and accountably promote public awareness of the main objectives of monetary policy and the targets that the Central Bank of Samoa (CBS) would follow in the set period. This Statement aligns with the Central Bank of Samoa Corporate Plan (CBSCP) and the latest Government's Strategy for the development of Samoa. The main aim of the Central Bank's monetary policy is to promote sustainable real economic growth by maintaining price stability and sound levels of international reserves. Monetary policy decisions are conducted through open market operations (OMO) with the issuance and trading of CBS Securities (CBSS) to achieve these objectives.

The CBS relates Samoa's inflation rate to its major trading partners' annual average inflation rate of 3.0 percent to pursue price stability. This naturally determines the target that the CBS seeks to maintain each year although price volatilities most of the times are beyond CBS monetary policy control. Recent years' trend reveals that persistent sharp hikes in international prices for crude oil and food have exerted significant pressures on the domestic prices of petroleum and food items. During such periods, focus is mainly on the underlying (core) inflation rate.

Another major aim of the CBS is to nurture and maintain a stable financial system by promoting the regulation and supervision of commercial banks and non-monetary financial institutions including money transfer operators, foreign exchange dealers and insurers. This will ensure

efficient operation of the financial market amidst a sound and effective infrastructure.

Samoa is a small open economy with total merchandise trade representing about 60 percent of nominal gross domestic product (GDP). It is crucial therefore that Samoa maintains a sufficient level of international reserves to alleviate unpredicted economic shocks. The CBS under prevailing circumstances targets a level of gross official international reserves to no less than 4.0 months of imports of goods, suffice to maintain Samoa's long term international viability.

The main objective of the CBS's policy on Exchange Rate (ER) is to ensure that export-oriented industries remain competitive in overseas markets whilst at the same time minimizing imported inflation. While there is no specific target level for the nominal effective exchange rate (NEER) of the Tala, the Central Bank aims to avoid a substantial real appreciation of the Tala since it can adversely affect the international competitiveness of Samoa's export sector.

## 2. EXECUTIVE SUMMARY

### World Economy

The World Economic Outlook (WEO) update from the International Monetary Fund (IMF) for July 2015 reported real growth of 3.4 percent in 2013/14 and it is expected to remain at 3.4 percent by end 2014. However, by end 2015, growth is projected to be slightly lower at 3.3 percent, with only a gradual pick up in advanced economies expected and a slowdown anticipated for the emerging market and developing economies. The 2014/15 forecast of 3.4 percent for world growth is expected to be driven by a 1.95 percent real growth in the advanced economies and real growth of 4.4 percent in emerging and developing countries.

World inflation decelerated in 2013/14 to 3.4 percent, with the effect of previously low oil prices and falling global commodities expected to drive inflation lower to 3.2 percent in 2014/15. For advanced economies, inflation is estimated to ease down to 0.7 percent in 2014/15 while inflation in the emerging and developing economies is estimated to decrease 0.2 percentage points to 5.3 percent.

Monetary policies in most economies remained highly accommodative in 2014/15. Central banks across the globe either maintained at near zero levels or resumed to lower their official policy rates in 2014/15 to provide ongoing monetary stimulus to support their economies. The Reserve Bank of Australia (RBA) delivered two interest rate cuts totaling 50 basis points between February and May 2015, reducing the cash rate to 2.0 percent while in New Zealand, the Reserve Bank delivered its first rate

cut in June by 25 basis points, lowering the overnight cash rate to 3.25 percent.

In the financial markets, foreign exchange continued to be influenced by the divergent monetary policy outlooks in the United States (US) and other major economies. Whereas the US dollar has continued to appreciate on expectations for higher US interest rates in the second half of 2015, other currencies, such as the Australian and New Zealand dollars have weakened amid expectations for lower interest rates, following interest rate cuts delivered in mid to late 2014/15. Lower official interest rates, motivated by, among other factors, slowing growth in commodity-related investment and/or reduced incomes through lower terms of trade, led the Australian dollar down to US\$0.76 and the New Zealand dollar down to US\$0.68 by the end of the fiscal year 2014/15. Against the rallying US dollar, the Euro likewise, has depreciated from levels seen in the previous year as the banking sector issues in Greece continues to weigh in on the currency.

## Domestic Economy

Despite strong growth during the first quarter of 2014/15 in light of the UNSIDS conference, economic activity has since slowed down in the December 2014 and March 2015 quarters. The continuation of easing monetary policy stance has seen a notable reduction in market interest rates and likewise rejuvenated commercial bank lending in the second half of 2014/15.

The Samoan economy grew by 1.7 percent in real terms in 2014/15 driven mainly by strong performance in sectors such as ‘Commerce’, ‘Transport’, ‘Fishing’ and ‘Electricity and Water’.

Prices continued to build momentum in the year under review following a prolonged deflationary period in the past two years, with the headline inflation rate rising to 1.9 percent at end 2014/15 from -1.2 percent at end June 2014. (See Table 1.)

The external sector recorded a \$16.3 million balance of payments deficit in the 12 months of 2014/15 given an increase in financial account out flows. As a result, gross foreign reserves fell to \$336.0 million or equivalent to 5.2 months of imports from 5.4 months in the previous year.

**MONETARY POLICY STATEMENT FOR THE FINANCIAL  
YEAR 2015-2016**

<b>Table 1</b>					
<b>Selected Domestic Economic Indicators</b>					
Fiscal year to end June	2011/12	2012/13	2013/14	2014/15	Forecast 2015/16
(Percentage change over the previous year)					
<b>Real sector</b>					
Nominal GDP	4.4	-0.2	1.5	4.8 <sup>2</sup>	4.3
Real GDP	0.4	-1.9	1.2	1.7 <sup>2</sup>	2.3
<b>Prices</b>					
Headline Consumer Price Index (annual average)	6.2	-0.2	-1.2	1.9	2.3
Underlying Consumer Price Index (annual average)	2.2	0.08	0.8	0.6	1.2
Implicit GDP Deflator (annual average)	3.0	0.7	-0.4	3.1	2.0
<b>Monetary aggregates</b>					
Net foreign assets (annual average)	-24.1	-7.0	21.0	-34.6	-2.2
Government's net monetary position (end of period)	-5.4	-5.9	0.3	-8.6	-33.1
Bank credit to private sector					
Annual average	5.9	1.5	2.1	3.0	5.1
End period	1.9	1.2	2.9	1.4	2.1
Money Supply, M2					
Annual average	-5.5	-1.9	2.2	9.9	3.0
End period	-4.0	-0.8	1.7	0.3	2.4
<b>Exchange rate</b>					
Nominal Exchange Rate (annual average)	1.11	0.82	0.01		na
Real Exchange Rate (annual average)	2.71	-2.34	-2.85		na
<b>International reserves</b>					
Gross International Official Reserves (Tala million)	366.76	322.63	351.38	339.96	350.07
Gross International Official Reserves (Months of im)	5.7	5.5	5.4	5.2	5.0
<b>Weighted average interest rates</b>					
	(End of period, percent p.a.)				
CBS 14 days Securities	0.11	0.00	0.13	0.13	(1)
CBS 28 days Securities	0.12	0.14	0.16	0.16	(1)
CBS 56 days Securities	0.14	0.14	0.17	0.17	(1)
CBS 91 days Securities	0.40	0.40	0.41	0.41	(1)
CBS 182 days Securities	-	-			
CBS 365 days Securities	-	-			
	(period average p.a.)				
CBS Securities overall weighted average yield (ann)	0.16	0.21	0.21	0.19	(1)
Commercial bank deposits	2.36	2.66	3.02	2.97	(1)
Commercial bank credit	9.81	10.07	10.28	9.44	(1)
Commercial bank interest rate spread	7.45	7.41	7.26	6.47	(1)
<b>Source: Central Bank of Samoa</b>					
(1) Interest rate as at end October 2014					
(2) Estimates as June 2015 Quarter is not yet available					
na - not available					

### 3. WORLD ECONOMY

In the IMF's July 2015 update on the WEO, the global economy grew 3.4 percent in the fiscal year 2013/14 and it is expected that growth pulse was unchanged for the year 2014/15, as another 3.4 percent is projected. For the past three years, the world economy continues to grow at rates just over 3.0 percent, indicating that the global recovery remains weak and chronically low interest rates are still a requirement to support growth. In 2015, growth is expected to be marginally lower at 3.3 percent while in 2016 growth is projected to strengthen to 3.8 percent. Despite the setback to activity in first quarter 2015 as a result of an unexpected slowdown in North America, the key factors driving growth in the advanced economies are lower fuel prices, ease of financial conditions, more neutral fiscal policy in the euro area, improving confidence and labor market conditions – remain in place.

In the April edition of the IMF's WEO projections, the world economy was expected to grow 3.5 percent in 2015. However, in its July update, global growth is now projected to expand at 3.3 percent as a result of a downward adjustment to growth in the United States economy. Harsh winter weather, port closures and strong downsizing effects of the oil sector on capital expenditure led to an unexpected contraction in the US' output in the first quarter of 2015. This had spillover effects to Canada and Mexico, thereby slowing overall growth out of North America for the first quarter. As such, advanced economies are now projected to grow 2.0 percent in 2014/15 and in 2015/16 growth is projected at 2.3 percent. The US economy will drive this rebound, with growth of 2.8 percent forecasted for 2015/16. Growth rates for the

United Kingdom and Japan have also been marked down to 2.3 and 1.0 percent respectively in 2015/16. The emerging market and developing economies are expected to grow by 4.2 percent in 2015, with China and India continuing to drive growth in emerging and developing Asia. No revisions to growth were made for the Euro area which is projected to grow 1.5 percent as initially expected and with Spain expected to drive growth in this area.

Fuel end-user prices have started rising with the rebound in oil prices. Monthly headline inflation has started to bottom out in many advanced economies, but the impact of disinflationary factors earlier in the year was stronger than expected, particularly in the United States. Core inflation has remained broadly stable well below inflation objectives. In many emerging market economies, notably those with weak domestic demand, headline inflation has declined. (See Table 2.)

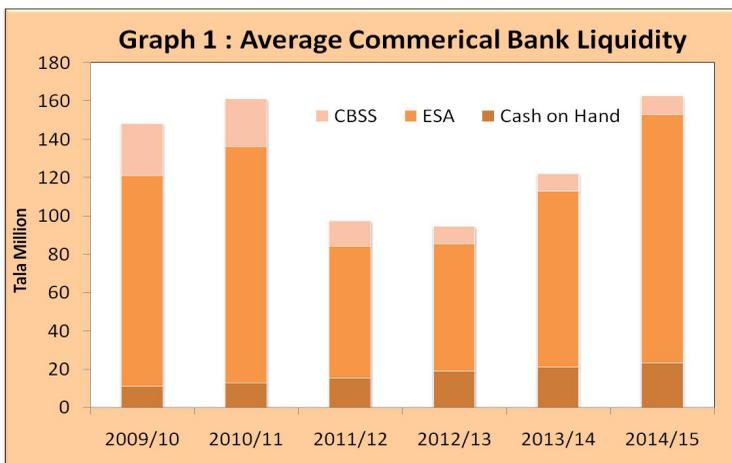
<b>Table 2</b>				
<b>Selected World Economic Indicators</b>				
Fiscal year to end June	2011/12	2012/13	2013/14	2014/15 Forecast
Real growth rate	3.55	3.40	3.30	3.55 (1)
Inflation rate	4.48	3.85	3.60	3.63 (1)
Official international interest rates,	<b>d of period, percent</b>			
US Federal Reserve	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25
Reserve Bank of Australia	4.50	2.75	2.5	2.0
Reserve Bank of New Zealand	2.50	2.50	3.25	3.25
Bank of Japan	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
Bank of England	0.5	0.5	0.5	0.5
European Central Bank	1.25	0.5	0.15	0.05
Reserve Bank of Fiji Notes, 91 days	n/a	n/a	n/a	n/a
Source: IMF and reserve banks' publications and information releases.				
(1) IMF World Economic Outlook Database October 2014				
n/a : not available				

## 4. DOMESTIC ECONOMY

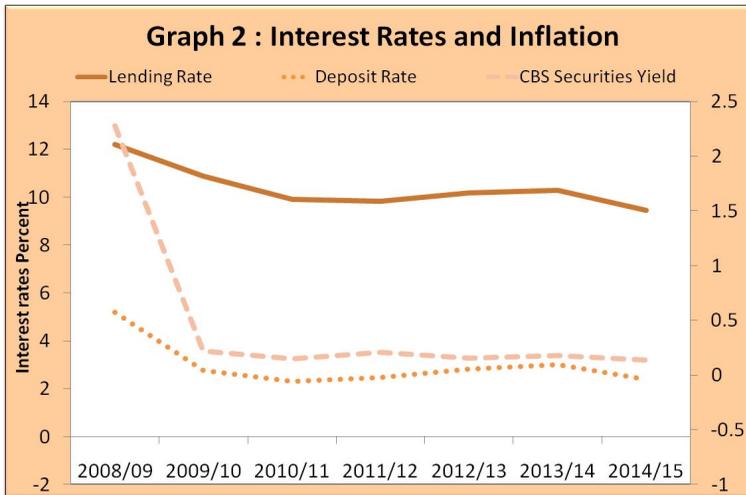
### 4.1 Policy Developments

Fiscal policy via the 2014/15 Government budget was mainly designed to continue economic recovery from Cyclone Evan while at the same time consolidate Government expenditure and its external debt levels. The budget was to be less expansionary than the previous year's budget with the aim of achieving the medium term target of the Budget deficit to be 3.5 percent of GDP. Efforts focused more on compliance and rationalising Government's fees and charges instead of increasing taxes or tariffs to improve Government revenues.

On the monetary policy side, liquidity conditions improved further with average commercial banks' excess reserves rising to \$129.7 million in 2014/15 from \$91.6 million last year. Similarly, average commercial banks' liquidity in 2014/15 increased to \$162.7 million from \$122.1 million in 2013/14. (See Graph 1.)

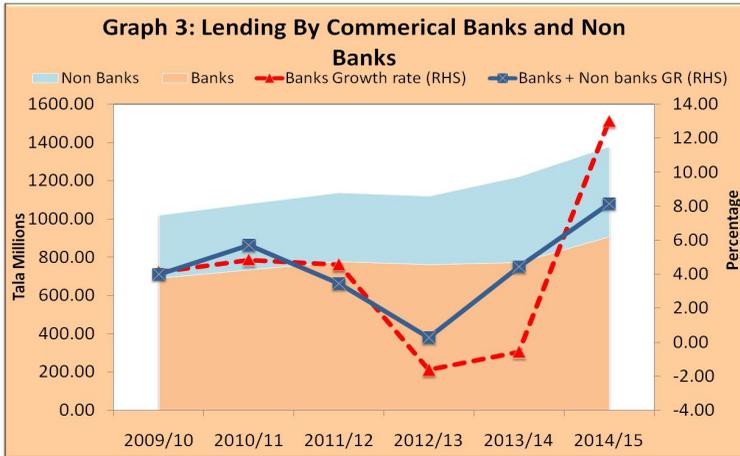


In line with the continued easing of monetary policy, the CBS official interest rate recorded fell to 0.14 percent at end June 2015 from 0.18 percent at end June last year. Likewise, the commercial banks' average lending rates dropped by 82 basis points to 9.46 percent at end June 2015, from 10.28 percent at end June 2014. Furthermore, commercial banks' deposit rates fell 62 basis points to 2.40 percent, from 3.02 percent in the same month a year earlier. (See Graph 2.)

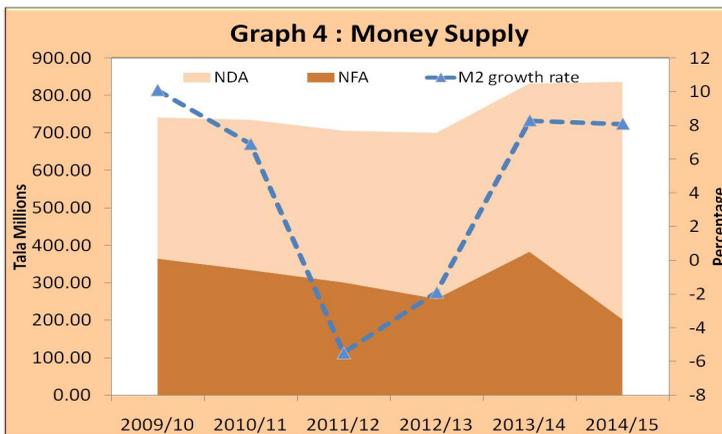


In line with the drop in the average cost of borrowing, commercial bank's lending to the private sector and public institutions rose considerably by 17.4 percent to \$906.9 million. This was equivalent to an annual growth rate of 13.0 percent in 2014/15 compared to -0.58 percent in 2013/14. Similarly, combined with lending of the non-bank financial institutions like the Sāmoa National Provident Fund and Development Bank of Sāmoa, total financial system credit amounted to \$1,379.5 million, recording an annual growth rate of 11.2 percent at

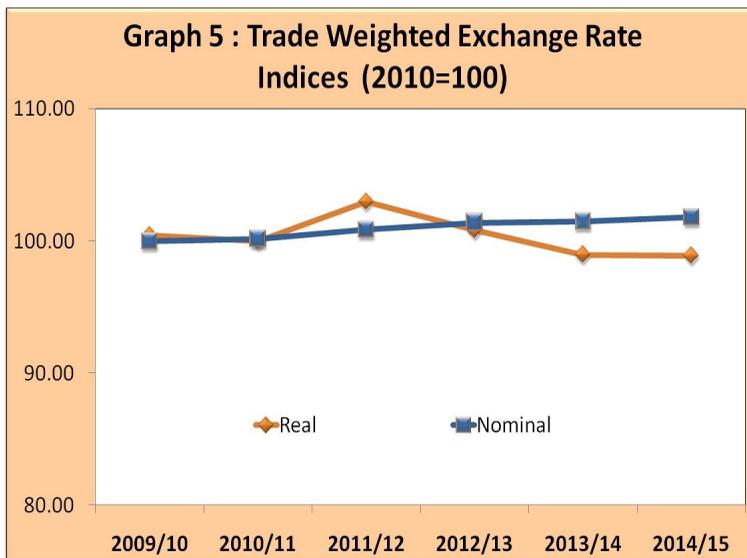
end June 2015 compared to 4.4 percent at end June 2014.  
(See Graph 3)



And despite a huge drop in net foreign assets (primarily those held by the commercial banks), total money supply (M2) went up by 0.6 percent on a point to point basis, or around 8.1 percent on an annual average basis. (See Graph 4.)



The nominal effective exchange rate (NEER) of the Tala in 2014/15 appreciated 0.3 percent against the currencies in its exchange rate basket. The real effective exchange rates (REER) also appreciated 1.0 percent in the course of the year. (See Graph 5.)



## 4.2 Macroeconomic performance

### 4.2.1 Real Sector

The economy grew by 3.0 percent in real terms in 2014/15 compared to 1.2 percent in 2013/14. On nominal terms, GDP increased by 4.7 percent in 2014/15 in part due to a 3.0 percent hike in the GDP deflator.

The further recovery in the economy was largely due to a 2.9 percent hike in the 'Commerce' sector given increases in wholesale and retail businesses as well as expansions in

remittances and tourism earnings. Likewise, the ‘Transport’ sector expanded by 26.7 percent while the ‘Fishing’ industry rose by 42.3 percent during the year. Furthermore, ‘Electricity and water’, ‘Personal and other services’, ‘Communication’, ‘Business services’, ‘Accommodation and restaurants’, ‘Financial services’, ‘Public administration’ and ‘Ownership of dwellings’ all grew in the reviewed period.

On the other hand, contractions were registered for ‘Construction’ (down 10.8 percent) and others like ‘Agriculture’, ‘Other manufacturing’ and ‘Food and Beverage manufacturing’ sectors which fell by 9.5 percent, 8.4 percent and 1.0 percent respectively.(See Table 3.)

**MONETARY POLICY STATEMENT FOR THE FINANCIAL  
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<b>Table 3</b>					
<b>Real Gross Domestic Product by Industry</b>					
<b>(At 2009 prices, amounts in Tala Million)</b>					
<b>During the period</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>
Agriculture	129.6	132.2	146.9	132.8	135.5
Fishing	37.1	30.5	31.5	40.7	41.8
Food & Beverages manufacturing	63.6	58.1	61.1	60.4	62.2
Other manufacturing	115.9	117.3	108.7	99.5	99.1
Construction	196.8	183.3	204.3	182.2	187.2
Electricity and water	60.7	64.1	64.9	77.4	79.0
Commerce	517.9	531.0	537.6	549.9	561.5
Accommodation & Restaurants (1)	35.7	29.6	25.0	26.5	27.8
Transport	73.6	55.5	54.6	70.0	72.0
Communication	62.6	70.1	63.6	69.8	71.5
Public administration	126.8	129.1	129.4	130.6	135.3
Financial services	55.3	63.8	63.2	64.4	66.5
Business services	62.7	56.9	50.9	56.4	58.1
Ownership of dwellings	93.3	93.9	94.5	95.2	96.4
Personal and other service	90.1	76.2	75.1	84.9	86.6
Less: Enterprise share of FISIM	-17.5	-20.2	-20.0	-20.4	-20.8
<b>Total</b>	<b>1,704.0</b>	<b>1,671.2</b>	<b>1,691.1</b>	<b>1,720.4</b>	<b>1,759.7</b>
Annual percent change	5.6	0.4	-1.9	1.2	1.7
Implicit GDP deflator	108.2	110.1	110.4	113.7	116.0
Annual percent change	4.0%	1.7%	0.3%	3.0%	2.0%

**Source:** Samoa Bureau of Statistics  
(1) FISIM : Financial Intermediary Services Imputed

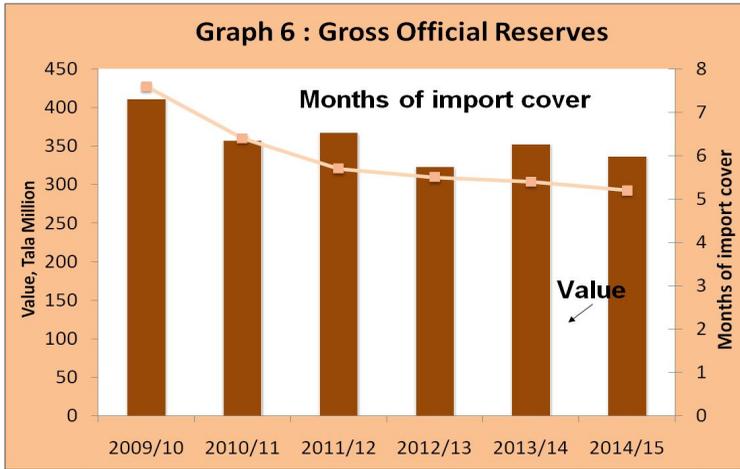
## 4.2.2 Balance of payments

The balance of payments (bop) recorded a moderate deficit of \$16.3 million in 2014/15 after a large surplus of \$29.7 million in 2013/14. This deficit was mainly due to large financial and capital outflows for Government and private sector commitments. (See Table 4.)

**MONETARY POLICY STATEMENT FOR THE FINANCIAL  
YEAR 2015-2016**

<b>Table 4</b>					
<b>Balance of Payments (1)</b>					
<b>(Amounts in Tala Million)</b>					
<b>During the period</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>
A. Current Account Balance	-190.4	-70.7	-232.8	-117.6	-68.6
Balance on Trade in Goods	-705.5	-643.7	-719.4	-710.4	-732.8
Exports *	67.4	62.8	57.8	66.3	69.2
Imports	-772.8	-706.5	-777.2	-776.7	-802.0
Balance on Trade in Services	173.2	200.6	166.7	249.7	294.4
Balance on Primary Income	-61.8	-59.0	-58.0	-51.9	-36.3
Balance on Secondary Income	403.5	431.4	377.9	395.0	406.1
Personal transfers	362.7	357.0	295.1	312.0	361.0
Other transfers	40.9	74.4	82.8	83.1	45.1
B. Capital Account Balance	40.6	55.7	141.7	83.1	34.4
Capital Grants	40.6	55.7	141.7	83.1	34.4
Other	0.0	0.0	0.0	0.0	0.0
C. Net Lending (+)/Net Borrowing	-149.9	-15.0	-91.1	-34.5	-34.1
D. Financial Account	-58.9	-37.4	-105.8	-35.6	-34.1
<i>Net Lending (+)/Net Borrowing (-)</i>					
Direct Investment	-15.2	-24.5	-49.1	-54.1	-17.9
Portfolio Investment	1.0	24.6	0.9	20.7	0.0
Other Investment	-61.6	-3.5	-15.1	-19.3	-26.4
Reserve Assets	16.9	-34.0	-42.6	17.1	10.1
E. Net Errors & omissions	90.9	-22.4	-14.7	-1.0	0.0
<b>(1) Based on Balance of Payments Manual 6 format</b>					
<b>* Export figures now include the re-export of fuel (from 2010 onwards).</b>					
<b>Source: Central Bank of Samoa</b>					

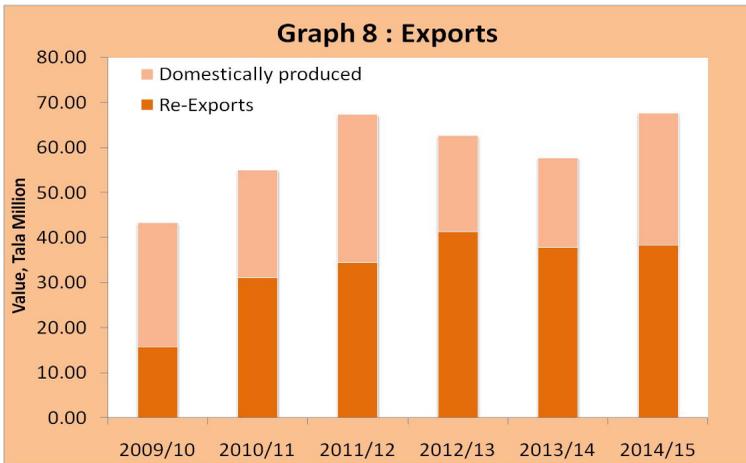
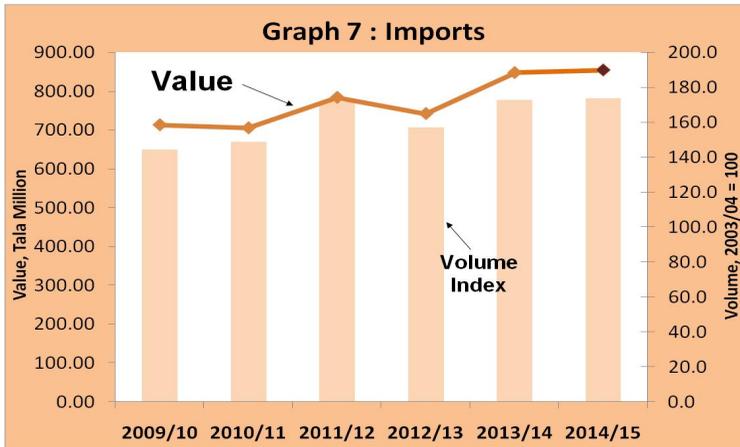
Nevertheless, the current account deficit narrowed due to the sharp reduction in the Balance of Trade in ‘Goods’ deficit coupled with increases in both private remittances and visitors’ earning (travel credit). As a result, gross foreign reserves fell to \$336.0 million in 2014/15 or equivalent to 5.2 months of imports, down from 5.4 months in 2013/14 but comfortably above the medium term benchmark of 4.0 months cover. (See Graph 6.)



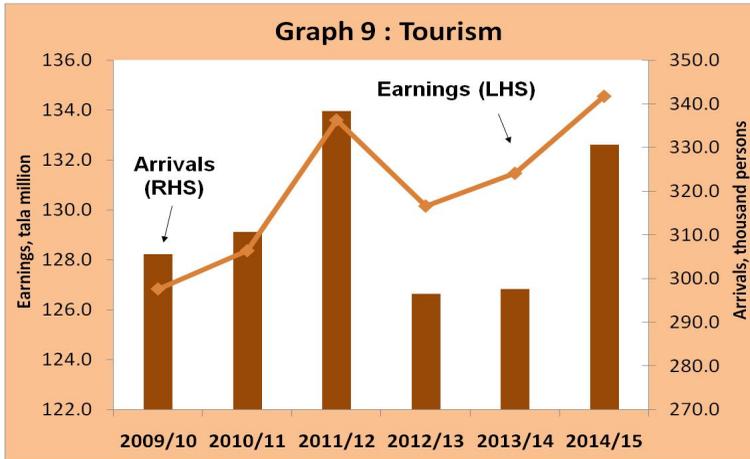
Total import payments rose 1.0 percent (or \$5.25 million) to \$782.5 million in 2014/15, due entirely to a 3.3 percent drop in petroleum imports as well as a 27.2 percent decline in government imports despite a 5.9 increase in private sectors' imports. (See Graph 7.)

On the other hand, exports expanded significantly by 17.1 percent largely resulting from the expansion in domestically produced exports and to a smaller extent re-exports in 2014/15. As a result, the Balance in Trade of Goods deficit narrowed by 0.6 percent. (See Graph 8.)

**MONETARY POLICY STATEMENT FOR THE FINANCIAL  
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Following an increase in 2013/14, tourism earnings further expanded by 5.2 percent to \$342.0 million in 2014/15, which was healthier when compared to past average growth rates of 2 - 3 percent. The number of visitors rose by 4.8 percent due to higher number of tourists from New Zealand, Australia, other countries and the US. (See Graph 9.)

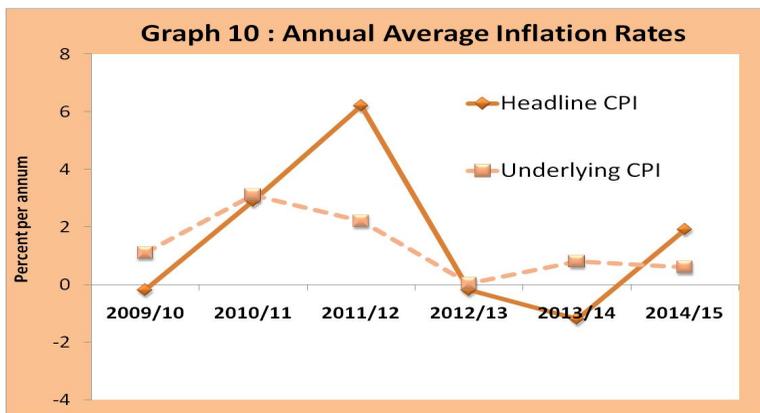


Private remittances rebounded by 6.9 percent to \$418.5 million, entirely resulting from a 9.6 percent increase in household remittances outweighing an 11.3 percent drop in funds from churches communities.

### 4.2.3 Prices

Consumer prices trended upwards for most of 2014/15. Supply at the local produce markets were mixed with those for taro down compared to previous years. As a result, domestic inflation increased to 2.9 percent from 2.3 percent at end 2013/14. On the import side, with relatively weak global demand, imported inflation edged up to 0.9 percent at end 2013/14, from a -0.2 percent rate in the previous year. (See Graph 10 and Table 5.)

**MONETARY POLICY STATEMENT FOR THE FINANCIAL  
YEAR 2015-2016**

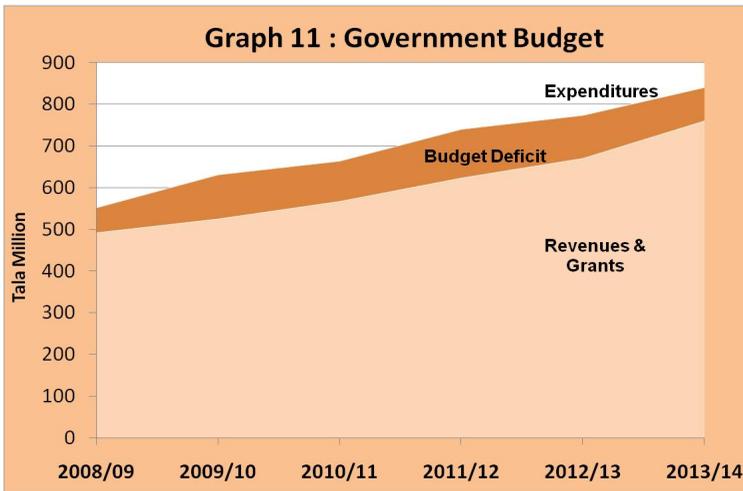


<b>Table 5 Consumer Price Index (August 2010 = 100)</b>					
Fiscal year to end June	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Forecast
<b>A. Headline Inflation</b>					
12 months average percent change					
<b>Description</b>					
All Groups	6.2	-0.2	-1.2	1.9	2.3
Food and Non-Alcoholic Beverage	9.2	-1.2	-4.0	2.6	4.9
Import Component	3.6	-0.2	0.9	-0.8	-1.2
Local Component	8.1	-0.2	-2.80	4.0	4.8
<b>B. Underlying Inflation (1)</b>					
12 months average percent change					
<b>Description</b>					
All Groups	2.2	0.03	0.8	0.6	-1.2
Food and Non-Alcoholic Beverage	2.6	-0.3	1.1	0.5	-1.9
Import Component	2.4	-0.5	0.8	0.4	-2.1
Local Component	1.5	1.7	1.0	1.2	1.5
<b>Source:</b> Samoa Bureau of Statistics (formerly Statistical Services Division, Ministry of Finance)					
<b>(1) The historical series for this new index started in August 2003.</b>					

## 5. DOMESTIC ECONOMY OUTLOOK FOR 2015/16

### 5.1 Government Budget

Given the large government spending in the past in light of the 2008 global financial crisis, the 2009 tsunami and cyclone Evan in 2012, government is now cutting back the size of the fiscal deficit to its medium term target of 3.5 percent of GDP. The Government budget for 2015/16 is expected to be further tightened to around 4.7 percent of GDP from 4.9 percent in the previous year. Despite this fiscal outlook, there will be some pressure on expenditure as it is an election year. There are no proposed major hikes in taxes except for levies on unhealthy products (fizzy drinks, cigarettes and alcohol). (See Table 6 and Graph 11.)



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<b>Table 6</b>						
<b>Financial Operations of Government (1)</b>						
<b>(Amounts in Tala Million)</b>						
<b>During the period</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>
Revenues	444.7	450.4	490.7	555.4	490.1	689.0
Taxes	361.6	360.5	406.0	430.4	437.7	551.9
Grants	26.1	33.6	48.1	81.8	3.8	137.1
Other Revenues	56.9	56.3	36.6	43.2	48.7	n/a
Expenses	453.2	453.3	479.9	529.9	476.2	785.4
Compensation of employees	126.6	135.3	137.2	143.9	116.0	n/a
Use of goods and services	112.6	111.5	115.0	142.7	136.8	n/a
Interest	12.8	13.4	14.9	14.9	20.7	n/a
Subsidies	17.7	22.7	27.2	17.8	17.3	n/a
Grants	147.6	130.4	153.6	189.7	166.0	n/a
Social benefits	18.2	22.8	19.5	17.6	18.3	n/a
Other expenses	17.6	17.2	12.4	3.3	1.1	n/a
Net Operating Balance	-8.6	-2.8	10.8	25.5	13.9	-96.3
<b>TRANSACTIONS IN</b>						
NONFINANCIAL ASSETS:	88.8	129.4	80.4	124.2	112.7	n/a
Net Acquisition of Nonfinancial Assets						
Net lending / borrowing	-97.4	-132.2	-69.6	-98.7	-98.8	96.3
Net acquisition of financial asset	-6.8	-5.5	13.5	-10.4	-58.6	12.3
Domestic	-6.8	-5.5	13.5	-10.4	-58.6	12.3
Net incurrence of liabilities	90.6	126.6	83.1	88.3	40.2	84.1
Domestic	-6.0	-7.2	15.9	35.4	-5.5	
Foreign	96.7	133.8	67.2	52.9	45.7	84.1

(1) GFS Manual 2001 format

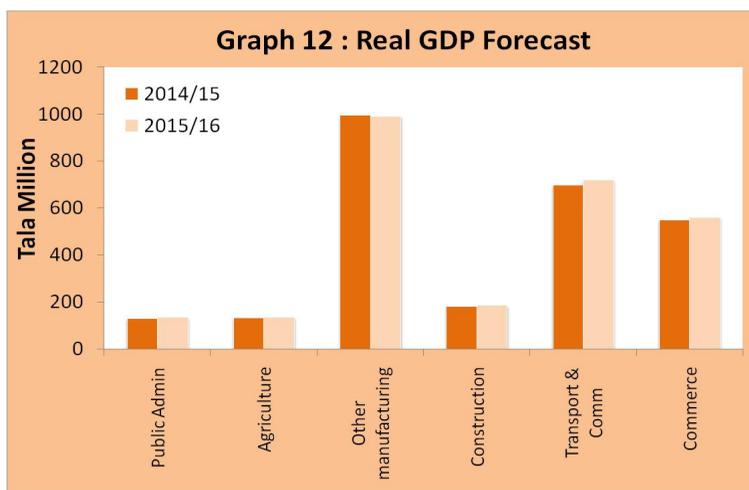
Source: Samoa Bureau of Statistics

## 5.2 Real Sector

The Samoan economy is expected to grow further by 2.3 percent in 2015/16, in light of further growth in exports and tourism as well as expected improvement in consumption, private sector investment and prioritized government spending.

Analyzing it further, sectors such as ‘Construction’ (up 2.8 percent), and ‘Transport’ (up 3.8 percent), ‘Public administration’ (up 2.6 percent), ‘Accommodation and Restaurants’ (up 4.3 percent) and ‘Agriculture’ (up 2.0

percent), are expected to benefit from underlying growth generated from ongoing private sector projects such as the Aggie Grey’s and Taumeasina-Lamana Hotels as well as Government led projects such as Road widening and Airport upgrade projects. The spillover effects on consumer demand are expected to boost sectors such as ‘Commerce’ (up 1.8 percent), ‘Finance services’ (up 3.4 percent), ‘Business services’ (up 4.0 percent) and ‘Personal and other services’ (up 2.4 percent) in the period under review. (See Graph 12.)

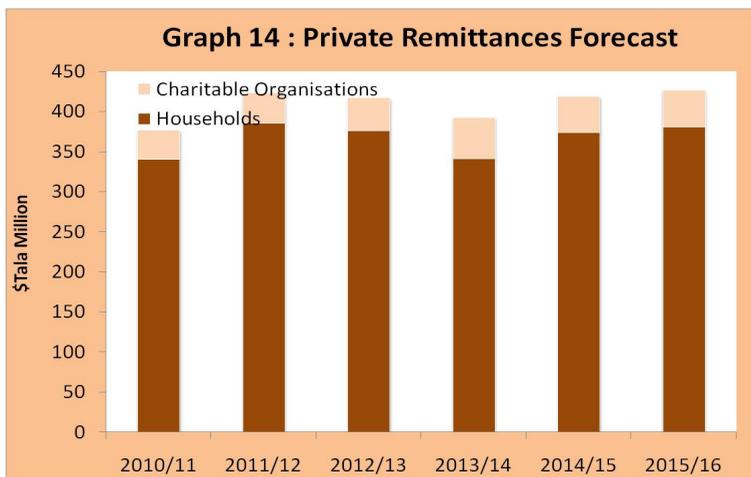


### 5.3 Balance of Payments

The balance of payments for 2015/16 is projected to register an overall surplus of \$10.1 million. This stems from an expected decline in the current account deficit by 41.7 percent to \$68.6 million. This reduction is underpinned by a further hike in **export proceeds** by 4.3 percent in line with strong growth in domestic export products such as coconut oil, virgin oil, beer and taro. Export of fish are tentatively expected to drop given the

onset of the El Nino weather phenomena but given the entrance of Deep Sea Fishing Co Ltd, fish exports could easily pick up in 2015/16. Re-exports are also expected to increase by 2.0 percent. Also, **imports** are estimated to recover by 3.3 percent to \$802.0 million given an expected rebound in petroleum imports and increase in Government imports due to new and ongoing government projects. **Export processing services** are expected to drop by 9.0 percent as the expected closure of Yazaki EDS looms large in 2017. On the other hand, **tourism earnings** are expected to improve by 5.1 percent in line with estimated 900 athletes and officials for Commonwealth Youth Games, proposed new flights being pursued by Government as well as the ongoing recovery trend in normal visitors (holiday and visiting friends and relatives) from New Zealand, Australia and the US. **Remittances** are forecast to increase further by 2.0 percent despite the uncertainty over the adverse impact of closure of local MTO accounts in NZ and Australia in light of the strong underlying growth in remittances in the past 12 months.(See Graph 13 and Graph 14.)





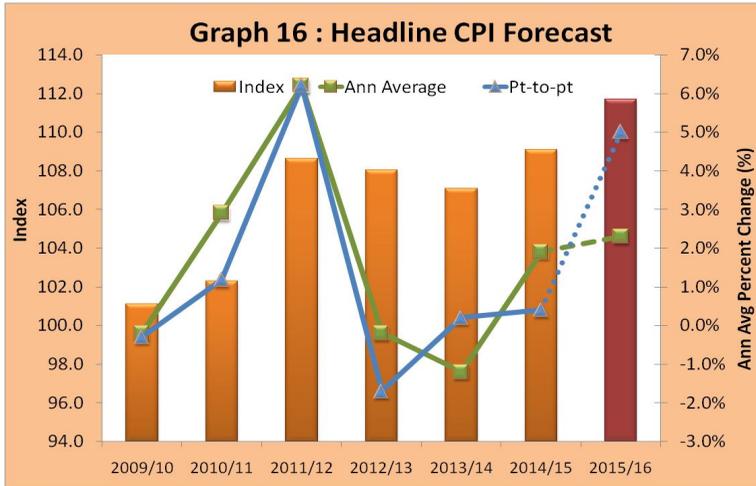
## 5.4 Prices

Due to weak global demand and sluggish recovery in world economy, global commodity prices are expected to remain subdued in 2015/16. Coupled with relatively stable domestic supply conditions, inflation is expected to remain manageable in 2015/16. Downside risks like ongoing political unrest however, could push up oil prices quickly to near US\$90 per barrel and speed up global inflation. Average imported inflation is forecast to increase slowly in the medium term as petroleum prices rises back up.

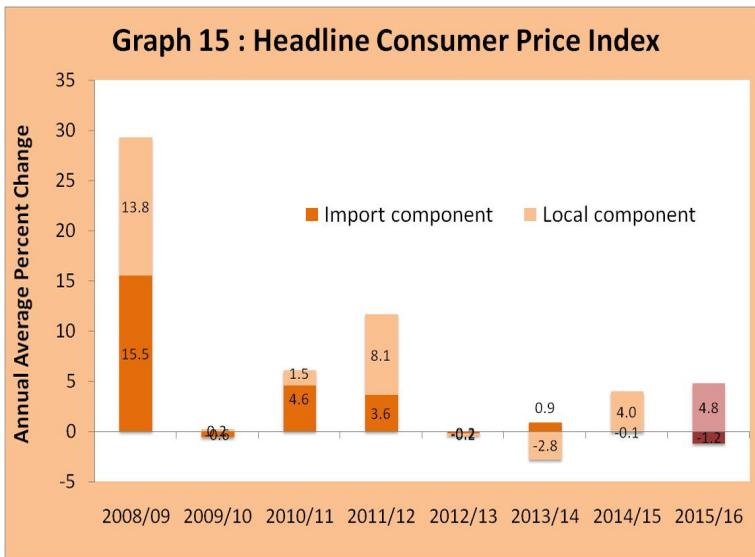
### 5.4.1 Headline Inflation

Local agricultural production and supply in 2015/16 is expected to improve especially for crops such as taro, banana and cabbages although there is strong downside risk of another cyclone. On the other hand, electricity prices

are expected to come down as various solar farms around



the country start to supply cheaper electricity to EPC.



Therefore *domestic inflation* is expected to rise to 4.8 percent as prices of local agricultural commodities are expected to pick up. *Imported inflation* is estimated to drop to -1.2 percent as imported prices especially food and fuel prices, are expected to remain low. As a result, **the annual average headline inflation** is forecast to increase to 2.3 percent from 1.9 percent in the previous fiscal year. (See Graph 15.)

#### 5.4.2 Underlying Inflation

**Underlying Inflation** is forecast to increase slightly to 1.2 percent in 2015/16 from 0.6 percent last year, taking into account the impact of both external and local pressure on prices for commodities that are not subject to extreme volatility and price regulations.

## 6. MONETARY POLICY STANCE FOR 2015/2016

Following modest growth in 2014/15, the Samoan economy is forecast to continue to push further, to around 2.3 percent real growth from 1.7 percent at end June 2015. Although the expected improvement is lower than the average growth rates of our resource rich Pacific Island neighbours, it is still encouraging development given low growth globally. And given inflation is expected to remain below the medium term target of 3 percent, the Central Bank of Samoa will continue to pursue an easing or loosening monetary policy stance in order to sustain the current economic growth and medium to long-term recovery from Cyclone Evan.

The main aim is to continue applying downward pressure on market interest rates to encourage both commercial banks and non-bank financial institutions to lend to fund private sector developments. Private sector credit is expected to increase by 5.1 percent at end June 2016, down from 13.5 percent in 2014/15. Also the growth in money supply is forecast to drop to 3.0 percent due to slowdown in net domestic assets while net foreign assets are expected to improve in 2015/16. (See Table 7

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<b>Table 7</b>					
<b>Monetary Survey</b>					
<b>(Amounts in Tala million)</b>					
End of Period	2011/12	2012/13	2013/14	2014/15	Forecast 2015/16
<b>A. Determinants of Money Supply</b>					
Net Foreign Assets	301.2	257.6	383.2	202.7	216.0
Net Domestic Assets	404.6	442.8	448.4	633.5	639.9
Government's Net Position	-186.7	-179.2	-187.7	-128.8	-86.2
Bank credit to private sector	700.7	708.6	733.4	862.6	881.0
Bank credit to public institutions	86.8	86.0	123.8	147.2	140.6
Others, net	-196.2	-172.6	-221.0	-247.4	295.5
<b>B. Money Supply (M2)</b>					
Money Supply	705.8	700.4	831.6	836.2	855.9
<b>Narrow Money</b>					
Currency Outside banks	58.8	60.9	46.2	49.5	48.2
Demand Deposits	160.6	162.9	217.4	250.3	262.5
<b>Quasi-money</b>					
Savings deposits	95.2	102.2	106.5	122.0	122.4
Time deposits	363.9	338.8	344.9	357.9	359.4
Foreign Currency Deposits of Residents	27.3	35.6	116.6	56.4	63.4

Source: Central Bank of Samoa

This monetary policy stance will be reviewed after six months or earlier if necessary

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