



PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

CENTRAL BANK OF SAMOA

PO Box Private Bag, Apia, Samoa

Ph: 685-34100 | Fax: 685-20293/24058

E-mail: centralbank@cbs.gov.ws

Web: www.cbs.gov.ws



MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2016/2017

APIA
SEPTEMBER 2016

CENTRAL BANK OF SAMOA

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1. INTRODUCTION

The ultimate goal of Monetary Policy Statements (MPS) is to effectively communicate and promote accountability through public awareness. The main objectives of the monetary policy and its corresponding targets would be followed in the set period by the Central Bank of Samoa (CBS). This Statement aligns with the Central Bank of Samoa's Corporate Plan (CBSCP) and the latest Government's Strategy for the Development of Samoa. The primary aim of the Central Bank's monetary policy is to achieve and maintain price stability as well as fostering and maintaining a stable financial system in order to achieve sustainable real economic growth 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 that are usually created by external shocks are beyond CBS monetary policy control. Recent years' trend reveals that persistent sharp hikes in international prices for crude oil and food had exerted significant pressures on the domestic prices of petroleum and food items. During such periods, focus was 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 an 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, sufficient 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 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 its international competitiveness through its export sector.

2. EXECUTIVE SUMMARY

2.1 World Economy

In the IMF's July 2016 Update of the World Economic Outlook (WEO), the global economy was estimated to have grown 3.10 percent in 2015/2016, declining from 3.25 percent in 2014/2015. This slowdown in the world economy was driven by weak conditions in the emerging market and developing economies, particularly the deeper than expected economic downturn in Brazil, Russia's economic recession and the adverse impact of low fuel prices on the oil exporting countries. However, with improved macroeconomic conditions in these countries expected to offset the downsized economic outlook in the advanced economies, the world economy is projected to recover to 3.25 percent in 2016/2017.

World inflation decelerated in 2015/16 to 2.8 percent due to low commodity prices but it is projected to average around 3.0 percent in 2016/17 as commodity prices normalize.

Monetary policies in most economies remained highly accommodative in 2015/2016. Central banks across the globe opted to either maintain their interest rates at near zero levels or reduce their official policy rates in 2015/2016 to provide ongoing monetary stimulus to support their economies. In particular, the European Central Bank reduced its policy rate by 25 basis point to zero percent in March 2016 with the Reserve Bank of Australia (RBA) also delivering one 25 basis points cut in May 2016, reducing their cash rate to 1.75 percent. In New Zealand, the Reserve Bank delivered three interest rate cuts of 25 basis points each throughout the year, resulting in a 2.25 percent overnight cash rate at end June 2016. On the other hand, the US Federal Reserve raised its Funds Rate for the first time in nearly 10 years in December 2015, with a 25 basis point hike in its policy range of between 0.25 percent and 0.50 percent.

In the financial markets, mixed economic data releases for the main trading partner countries, commodity price movements and speculation continued to be influencing factors in the major currencies. Of the four currencies in the Samoan Tala exchange rate basket, the Australian dollar and Euro weakened as expected by the end of 2015/2016. The New Zealand and United States dollars, on the other hand, appreciated on the back of positive data releases from both countries and, particularly for the latter, uncertainty over its interest rate path given weak global conditions.

2.2 Domestic Economy

With a 1.6 percent real growth in 2014/15, economic activity continued to improve in the last half of 2015 (September and December quarters). The continuation of the easing of monetary

policy stance has seen a notable reduction in commercial bank interest rates and likewise strengthened commercial bank lending in 2015/16.

The Samoan economy is expected to grow further by 3.3percent in real terms in 2015/16, driven mainly by strong performance in sectors such as 'Fishing', 'Construction', 'Commerce', 'Transport' and 'Accommodation and restaurants'.

Prices continued to fall in the year under review making it the third year in row where inflation has remained below 3 percent. (See Table 1.)

Table 1					
Selected Domestic Economic Indicators					
Fiscal year to end June	2012/13	2013/14	2014/15	2015/16	Forecast 2016/17
(Percentage change over the previous year)					
Real sector					
Nominal GDP	-0.2	1.5	4.5	3.0 ²	3.5
Real GDP	-1.9	1.2	1.6	3.3 ²	1.8
Prices					
Headline Consumer Price Index (ann ave)	-0.2	-1.2	1.9	0.1	2.0
Underlying Consumer Price Index (ann ave)	0.03	0.8	0.6	-3.7	0.1
Implicit GDP Deflator (annual average)	1.7	0.3	2.9	-0.3	1.7
Monetary aggregates					
Net foreign assets (annual average)	-11.2	25.4	-42.4	3.1	-6.3
Government's net monetary position (end of period)	-11.4	5.5	14.9	14.8	-9.9
Bank credit to private sector					
Annual average	1.5	1.5	13.5	10.6	8.7
End period	1.1	3.5	17.6	13.0	1.0
Money Supply, M2					
Annual average	-1.9	8.5	8.0	7.6	3.4
End period	-0.8	18.7	0.6	7.1	4.6
Exchange rate (March 2016=100)					
Nominal Exchange Rate (annual average)	1.74	-0.27	-0.18	-0.02	na
Real Exchange Rate (annual average)	-3.56	-3.36	0.53	-1.28	na
International reserves					
Gross International Official Reserves (Tala million)	322.63	352.34	335.77	283.04	298.04
Gross International Official Reserves (Months of imports)	5.5	5.4	5.1	4.2	4.3
Weighted average interest rates					
(End of period, percent p.a.)					
CBS 14 days Securities	0.00	0.13	0.13	0.13	na ⁽¹⁾
CBS 28 days Securities	0.14	0.16	0.16	0.16	na ⁽¹⁾
CBS 56 days Securities	0.14	0.17	0.17	0.17	na ⁽¹⁾
CBS 91 days Securities	0.40	0.41	0.41	0.41	na ⁽¹⁾
CBS 182 days Securities	-	-	-	-	-
CBS 365 days Securities	-	-	-	-	-
(period average, p.a.)					
CBS Securities overall weighted average yield (annual average)	0.21	0.21	0.15	0.16	na ⁽¹⁾
Commercial bank deposits	2.66	3.02	3.02	2.58	na ⁽¹⁾
Commercial bank credit	10.07	10.28	10.45	10.02	na ⁽¹⁾
Commercial bank interest rate spread	7.41	7.26	7.43	7.44	na ⁽¹⁾
Source: Central Bank of Samoa					
(1) Interest rate as at end June 2016					
(2) Estimates as June 2016 Quarter is not yet available					
na - not available					

The external sector recorded a significant \$52.7 million deficit in the balance of payments for the whole of 2015/16 given large payments for outward investments and capital payments during the year. As a result, gross foreign reserves fell to \$283.0 million or equivalent to 4.2 months of imports from 5.1 months in the previous year.

3. REVIEW OF 2015/2016

3.1 WORLD ECONOMY

The initial IMF World Economic Outlook (WEO) for 2015/16 in July 2015 projected a 3.55 percent rebound in global economic activity. The latest updated economic growth estimates, however, point to a downward revision to 3.10 percent, mainly reflecting the larger than expected slowdown in emerging market and developing economies to 4.05 percent from 4.40 percent in 2014/15. This weakness largely reflected the deeper than expected economic downturn in Brazil, economic recession in Russia, worsening macroeconomic conditions in most other Commonwealth of Independent States as well as the lingering impact of lower commodity prices on oil exporting countries. Although China's economy has slowed down as expected, robust growth in its services sector has helped ease the downturn in manufacturing activities for the Asian economy in recent months.

A 1.85 percent estimated growth for the advanced economies, down from 1.95 percent in the previous fiscal year. This reflected slower growth in Japan and softer economic activity in the USA in the first half of the year.

Given the weak global economic conditions, most monetary authorities maintained accommodative easing monetary policies

during 2015/2016, resulting in a continuation of the low interest rate environment. (See Table 2.)

Fiscal year to end June	2012/13	2013/14	2014/15	2015/16	2016/17 Forecast	
Real growth rate	3.0	3.40	3.25	3.10	3.25	(1)
Inflation rate	3.9	3.4	3.0	2.8	3.0	(1)
Official international interest rates,	(End of period, percent p.a)					
US Federal Reserve	0 - 0.25	0 - 0.25	0 - 0.25	0.25 - 0.50	0.75 - 1.00	
Reserve Bank of Australia	2.75	2.50	2.00	1.75	1.50	(2)
Reserve Bank of New Zealand	2.50	3.25	3.00	2.25	1.75	(2)
Bank of Japan	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	(2)
Bank of England	0.50	0.5	0.5	0.50	0.25	(2)
European Central Bank	1.25	0.15	0.05	0.00	0.00	(2)
Source: IMF and reserve banks' publications and information releases.						
(1) IMF World Economic Outlook Database (IMF website)						
(2) Bloomberg and Westpac Market Outlook, 22 August 2016						

Global consumer prices were generally subdued in 2015/16, dropping to 2.80 percent from 3.00 percent in 2014/15. This was mainly attributable to the sharp decline in commodity prices (mainly oil and food), which contributed to the lowest inflationary pressures in advanced economies (at 0.47 percent) since the global financial crisis.

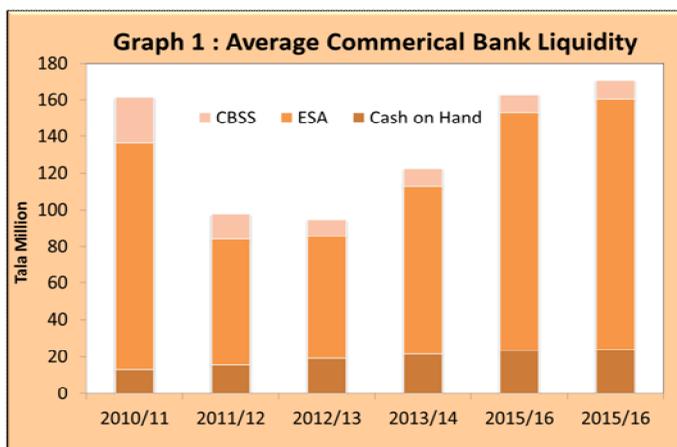
3.2 DOMESTIC ECONOMY

3.2.1 Policy Developments

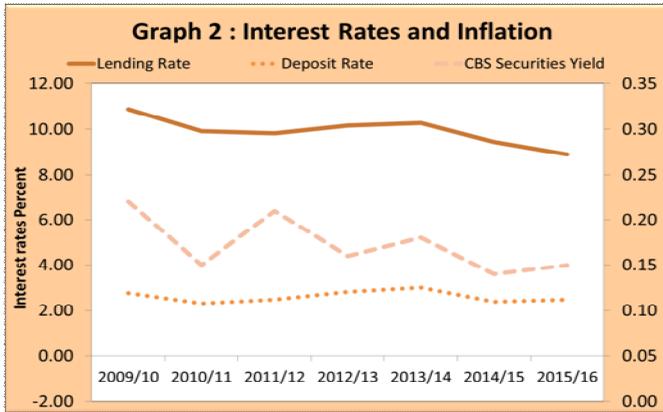
Fiscal policy remained relatively contractionary in 2015/16 as Government prioritised its expenditure, consolidated its external debt levels and putting more effort into rebuilding its fiscal buffers following the 2008 global financial crisis, 2009 tsunami and 2012 cyclone. With the aim of achieving its medium term target of the Budget deficit to be within 3.5 percent of GDP, the Government budget deficit in 2015/16 was reduced to 4.7 percent of GDP. Government placed emphasis on improving Government revenue

collection and maintaining its expenditure investment in health, education, and infrastructure and agriculture as the top four expenditure priorities of Government.

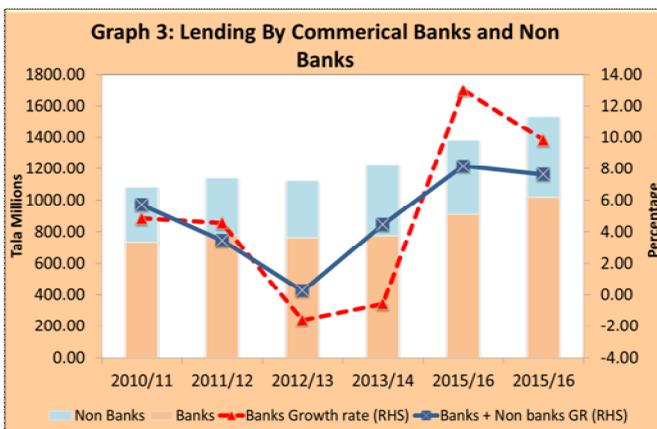
On the monetary policy side, liquidity conditions in the financial system continued to improve with average commercial banks' excess reserves rising for the third year in row to \$36.5 million in 2015/16 from \$129.7 million last year. Similarly, the average commercial banks' liquidity in 2015/16 increased to \$170.8 million from \$162.7 million in 2014/15. (See Graph 1.)



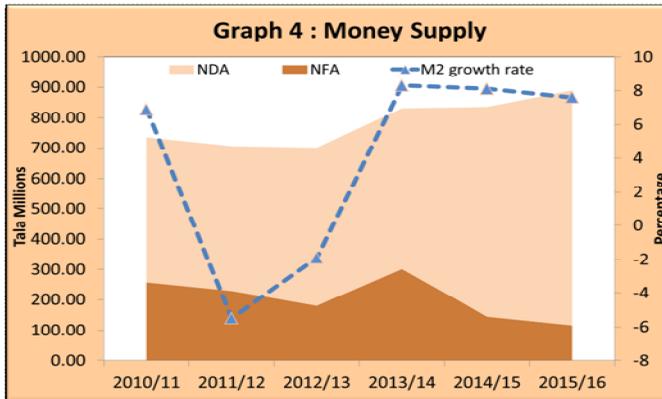
The CBS' official interest rate remained low at 0.15 percent at end June 2016 from 0.14 percent last year in line with its policy stance. Likewise, the commercial banks' average lending rates dropped by 55 basis points to 8.90 percent at end June 2016, from 9.45 percent at end June 2015. However, commercial banks' deposit rates rose by 9 basis points to 2.49 percent from 2.40 percent in the same month a year earlier. (See Graph 2.)



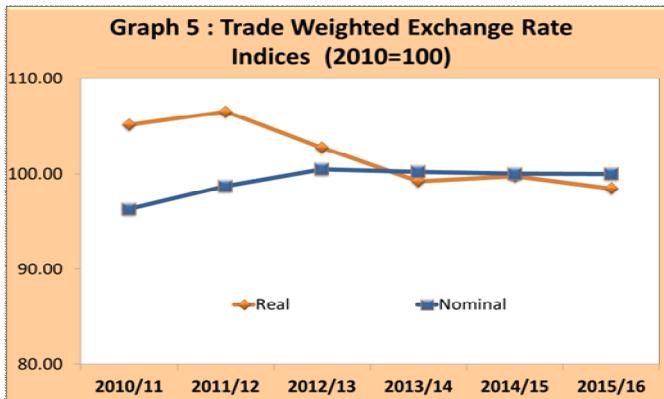
Due to lower lending rates, commercial banks' credit to the private sector and public institutions rose considerably by 12.0 percent to \$1,016.3million. This was equivalent to an annual growth rate of 9.9 percent in 2015/16 compared to 13.1 percent in 2014/15. Similarly, total financial system credit, which combines the lending of the four commercial banks with those for the non-bank financial institutions like the Samoa National Provident Fund and Development Bank of Samoa, amounted to \$1,533.4 million, recording an annual growth rate of 9.1 percent at end June 2016 compared to 11.2 percent at end June 2015. (See Graph 3.)



Net foreign assets registered a large drop of 19.9 percent (\$28.7 million) primarily due to a sharp drop of \$55.0 million in CBS held foreign reserves as well as a decline of \$12.7 million in commercial banks foreign assets. This was offset by a 12.7 percent hike in net domestic assets to see total money supply (M2) go up by 7.1 percent on a point to point basis, or around 7.7 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.)



3.3 Macroeconomic performance

3.3.1 Real Sector

The economy is expected to expand by 3.3 percent in real terms in 2015/16 compared to 1.6 percent in 2014/15. On nominal terms, GDP increased by 3.0 percent in 2015/16 in part due to a 0.3 percent decline in the GDP deflator.

The strong growth in the economy is largely due to a 44.6 percent hike in the 'Fishing' sector given entrance of a new fish freezing and storage company. Likewise, the 'Construction' and 'Transport' sectors expanded by 10.6 percent and 11.1 percent respectively reflecting the various construction projects such as the Taumeasina and Sheraton Aggie's Hotels as well as the road widening and Airport extension public projects. The 'Commerce' sector rose by 1.6 percent while the 'Accommodations & restaurants', 'Personal and other services', 'Communications' and 'Ownership of dwellings' all grew in the reviewed period.

On the other hand, contractions were registered for 'Other manufacturing' (down 5.3 percent) and others like 'Agriculture', 'Business services' and 'Electricity & Water' sectors which fell by 3.5 percent, 6.3 percent and 4.5 percent respectively. (See Table 3.)

Table 3					
Real Gross Domestic Product by Industry					
(At 2009 prices, amounts in Tala Million)					
During the period	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Estimate	Forecast
Agriculture	132.2	146.9	130.3	125.8	129.7
Fishing	30.4	31.4	47.4	68.5	69.2
Food & Beverages manufacturing	58.1	61.1	56.5	55.8	57.5
Other manufacturing	117.3	108.7	100.8	95.5	77.6
Construction	183.3	204.3	180.6	199.7	207.7
Electricity and water	64.0	64.8	73.7	70.3	72.6
Commerce	531.0	537.6	538.5	547.1	563.7
Accommodation & Restaurants (1)	29.6	25.0	28.0	34.6	35.6
Transport	55.5	54.6	75.0	83.3	86.2
Communication	70.1	63.6	75.7	78.7	81.7
Public administration	129.1	129.4	131.4	133.5	136.1
Financial services	63.8	63.2	65.3	65.4	66.8
Business services	56.9	50.9	55.6	52.1	53.7
Ownership of dwellings	93.9	94.5	95.1	96.1	98.5
Personal and other service	76.2	75.1	85.5	89.1	90.8
Less: Enterprise share of FISIM	-20.2	-20.0	-20.7	-20.8	-21.1
Total	1,670.9	1,690.9	1,718.6	1,774.7	1,806.1
Annual percent change	-1.9%	1.2%	1.6%	3.3%	1.8%
Implicit GDP deflator	110.1	110.3	113.4	113.2	115.2
Annual percent change	1.7%	0.2%	2.8%	-0.2%	1.7%

Source: Samoa Bureau of Statistics and CBS

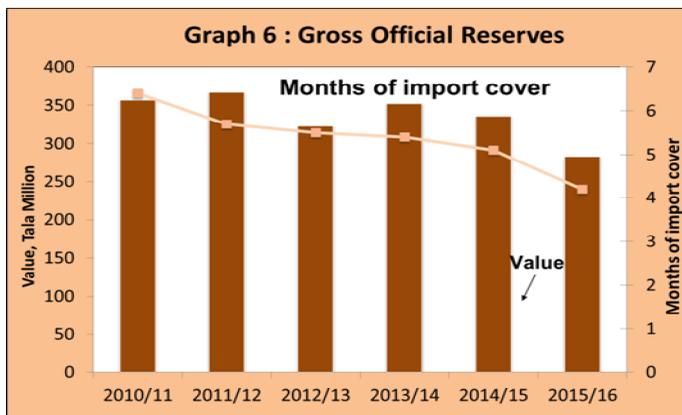
(1) FISIM: Financial Intermediary Services Imputed

3.3.2 Balance of payments

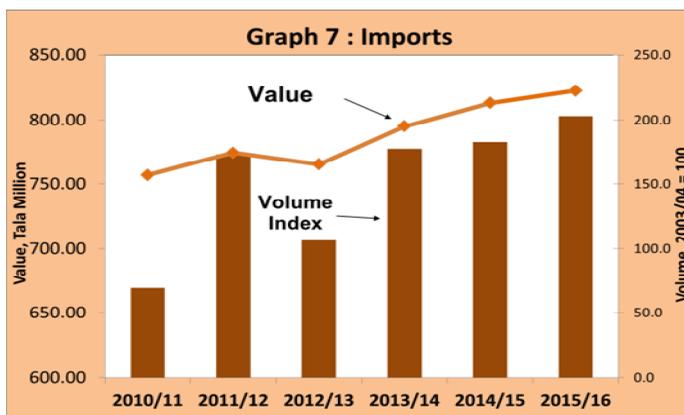
The balance of payments (bop) recorded a large deficit of \$52.7 million in 2015/16 of which \$50.6 million were due to net transactions and the \$2.1 million net exchange rate valuations. This deficit was mainly due to large outward investments and capital payments for Government and private sector commitments. (See Table 4.)

Table 4					
Balance of Payments (1)					
(Amounts in Tala Million)					
During the period	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Forecast
A. Current Account Balance	-7.6	-151.2	-56.9	-137.3	-91.7
Balance on Trade in Goods	-643.7	-719.4	-714.8	-710.4	-732.9
Exports *	62.8	57.8	67.7	96.6	100.3
Imports	-706.5	-777.2	-782.5	-807.0	-833.2
Balance on Trade in Services	267.5	259.5	319.8	302.6	350.8
Balance on Primary Income	-62.7	-69.2	-55.4	-72.0	-67.2
Balance on Secondary Income	431.4	377.9	393.5	342.6	357.6
Personal transfers	357.0	295.1	297.0	303.4	345.0
Other transfers	74.4	82.8	96.5	39.2	12.6
B. Capital Account Balance	43.2	156.1	95.0	40.5	18.5
Capital Transfers	43.2	156.1	95.0	40.5	18.5
Other	0.0	0.0	0.0	0.0	0.0
C. Net Lending (+)/Net Borrowin	35.7	4.9	38.1	-96.8	-73.2
D. Financial Account	-39.6	-89.4	-51.5	-68.6	-66.1
<i>Net Lending (+)/Net Borrowing (-)</i>					
Direct Investment	67.8	67.8	67.8	67.8	67.8
Portfolio Investment	-8.2	-8.2	-8.2	-8.2	-8.2
Other Investment	-9.8	-9.8	-9.8	-9.8	-9.8
Reserve Assets	-34.0	-38.2	61.6	-39.2	15.0
E. Net Errors & omissions	75.3	94.4	89.7	-28.2	-7.1
(1) Based on Balance of Payments Manual 6 format					
Source: Central Bank of Samoa					

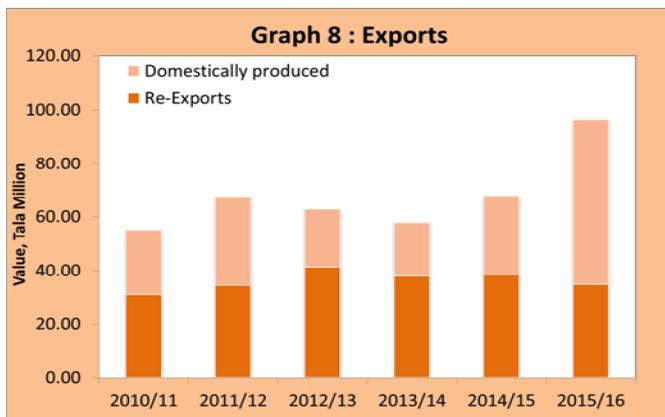
The current account deficit expanded sharply due to a reduction in the Balance of Trade in 'Services' surplus coupled with a sharp increase in both balance on Primary income deficit due to large dividend and reinvested earnings during the year. As a result, gross foreign reserves fell to \$283.0 million in 2015/16 or equivalent to 4.2 months of imports, down from 5.1 months in 2014/15. (See Graph 6.)



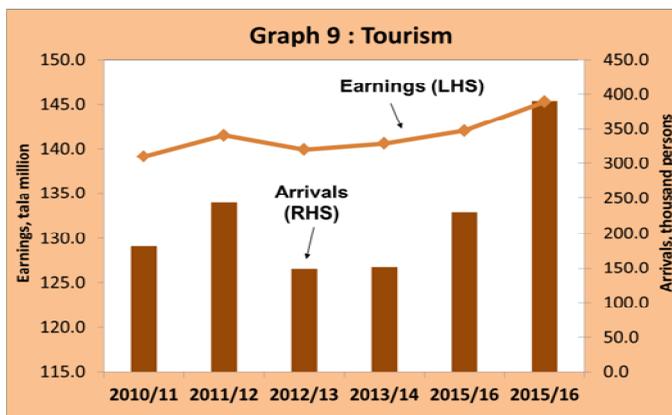
Total import payments rose 2.6percent (or \$20.5 million) to \$802.9 million in 2015/16, due entirely to a 13.1 percent hike in other private sector imports despite reductions of 35.5 percent and 13.6 percent in government and petroleum imports in that order. (See Graph 7.)



On the other hand, exports expanded significantly by 42.6 percent largely resulting from a sharp expansion in domestically produced exports despite a drop in re-exports during the year. As a result, the Balance in Trade of Goods deficit narrowed by 1.2 percent. (See Graph 8.)



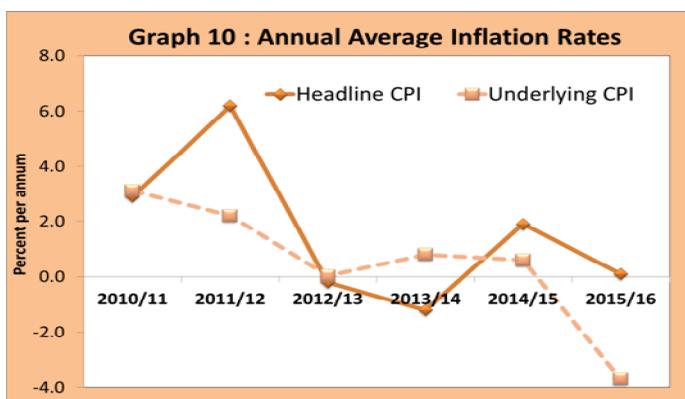
Visitor earnings grew by 12.1 percent to \$389.3 million in 2015/16, which was healthier when compared to average growth rates of 2.8 percent in the past 5 years. The number of visitors rose by 9.4 percent due to higher number of tourists from New Zealand, USA, other countries and Europe. (See Graph 9.)



Private remittances fell by 6.6 percent to \$390.8 million, mainly due to a steep decline in funds for churches and non-government organizations.

3.3.3 Prices

Consumer prices trended downwards for most of 2015/16 due to further weakening in imported prices. Prices at the local produce markets rose steadily during the course of the year with taro prices leading the way. As a result, domestic inflation increased to 5.0 percent from 4.0 percent at end 2014/15. On the import side, with relatively weak global demand, imported inflation fell to -6.9 percent at end 2015/16, from a -0.8 percent rate in the previous year. (See Graph 10 and Table 5.)



Fiscal year to end June	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Forecast
A. Headline Inflation					
12 months average percent change					
Description					
All Groups	-0.2	-1.2	1.9	0.1	2.0
Food and Non-Alcoholic Beverage	-1.2	-4.0	2.6	3.4	3.8
Import Component	-0.2	0.9	-0.8	-6.9	0.1
Local Component	-0.2	-2.80	4.0	5.0	3.7
B. Underlying Inflation (1)					
12 months average percent change					
Description					
All Groups	0.03	0.8	0.6	-3.7	0.2
Food and Non-Alcoholic Beverage	-0.3	1.1	0.5	-1.9	0.5
Import Component	-0.5	0.8	0.4	-5.4	0.5
Local Component	1.7	1.0	1.2	1.5	-0.2
Source: Samoa Bureau of Statistics (formerly Statistical Services Division, Ministry of Finance)					
(1) The historical series for this new index started in August 2003.					

4. OUTLOOK FOR 2016/17

4.1 WORLD ECONOMY

According to the IMF's July 2016 World Economic Outlook (WEO), despite a downward revision from the April 2016 Update, the global economy is expected to recover slightly to 3.25 percent in 2016/17 from a 3.10 percent growth in 2015/16. This downsized global economic recovery reflects a worsening outlook for the advanced economies (down to 1.80 percent) while those of emerging markets and developing economies remained positive (up to 4.35 percent).

In particular, the United Kingdom's decision to leave the European Union in late June, its 2016 growth forecast has been revised downwards by 0.2 percentage points to 1.7 percent and a further nearly 1 percentage point downward revision to 1.3 percent in 2017. This mainly reflects the likely protracted economic activities in the year ahead due to heightened uncertainties surrounding exit negotiations that will weigh on business and investor confidence as well as disruption to trade and financial flows between the UK and the European region.

Growth in the Euro Area remains positive for 2016 while its 2017 outlook has been revised downwards on the back of the Brexit decision. Japan's growth forecast for 2016 has also been revised downwards on the back of the recent appreciation of the Japanese Yen, with the trend in 2017 growth subject to the approval of its fiscal budget for the upcoming year.

The emerging market and developing economies are forecast to have modest growth in 2016 before a pickup in economic activities in 2017 on the back of expected improved macroeconomic conditions in Brazil, Russia and India. The recent recovery in oil prices should also provide some relief for some of the oil exporters

in the Middle East. These strong performances should offset the continued slowdown in the Chinese economy, which could worsen if growth in the European Union is significantly affected from the Brexit.

Global prices are forecast to remain low with world inflation to trend around 3.00 percent. This will be driven by decreasing inflation in emerging market and developing economies (to 4.35 percent from 4.6 percent in 2015/16) compared to advanced economies (edging up slightly to 1.1 percent from 0.5 percent in 2015/16).

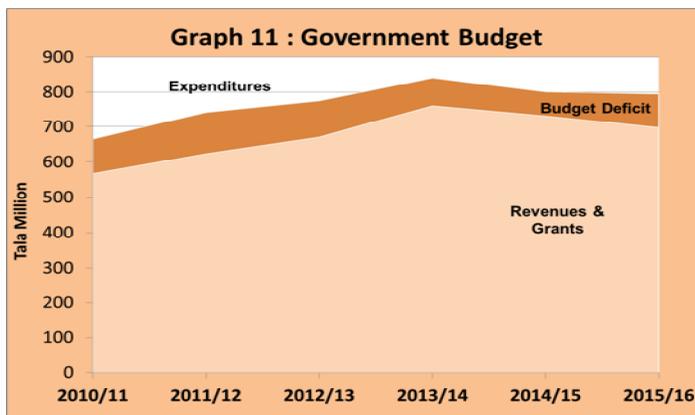
4.2 DOMESTIC ECONOMY

4.2.1 Government Budget

With last year's budget theme of 'living within our means', the 2016/17 budget continues the consolidation of Government spending and improving its revenue collection in order to meet its fiscal budget medium term target of 3.5 percent of GDP. With the budget deficit for 2016/17 expected around 3.5 percent of GDP from 4.7 percent in the previous year, a lot of Government recurrent spending has been reduced to be in line with its recurrent revenue in order to achieve long term budget sustainability and rebuilding of fiscal buffers. (See Table 6 and Graph 11.)

Table 6					
Financial Operations of Government (1)					
(Amounts in Tala Million)					
During the period	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Estimate	2016/17 Budget
Revenues	490.7	555.4	534.4	697.6	820.1
Taxes	406.0	430.4	442.0	560.5	578.1
Grants	48.1	81.8	41.2	137.1	242.0
Other Revenues	36.6	43.2	51.2	n/a	n/a
Expenses	479.9	529.9	526.7	793.9	894.9
Compensation of employees	137.2	143.9	154.6	n/a	n/a
Use of goods and services	115.0	142.7	151.7	n/a	n/a
Interest	14.9	14.9	17.9	n/a	n/a
Subsidies	27.2	17.8	17.8	n/a	n/a
Grants	153.6	189.7	165.2	n/a	n/a
Social benefits	19.5	17.6	17.6	n/a	n/a
Other expenses	12.4	3.3	1.8	n/a	n/a
Net Operating Balance	10.8	25.5	7.7	-96.3	-74.8
TRANSACTIONS IN NONFINANCIAL ASSETS:					
Net Acquisition of Nonfinancial Assets	80.4	124.2	83.3	n/a	n/a
Net lending / borrowing	-69.6	-98.7	-75.7	96.3	98.4
Net acquisition of financial assets	13.5	-10.4	-35.2	n/a	n/a
Domestic	13.5	-10.4	-35.2	n/a	n/a
Net incurrence of liabilities	83.1	88.3	40.4	n/a	n/a
Domestic	15.9	35.4	-4.9	n/a	n/a
Foreign	67.2	52.9	45.3	n/a	n/a

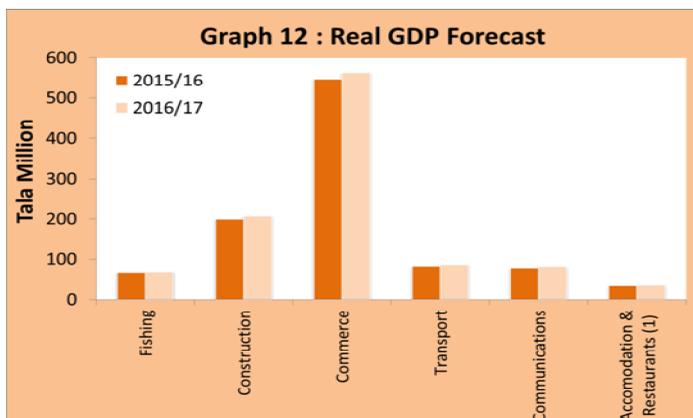
(1) GFS Manual 2001 format
 Source: Samoa Bureau of Statistics and Ministry of Finance



4.2.2 Real Sector

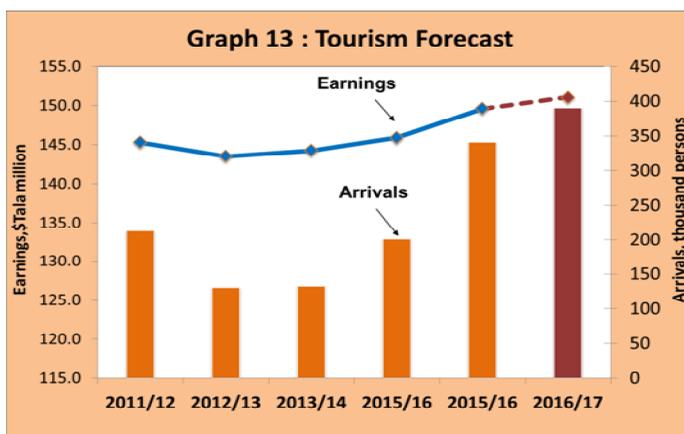
The Samoan economy is expected to grow by 1.8 percent in 2016/17, down from 3.3 percent estimated for 2015/16. This drop is due to the expected closure of the Yazaki Samoa Manufacturing plant in 2017. Currently, Yazaki Samoa’s production of automotive wires is under ‘Other Manufacturing’, which is currently around 5 percent of GDP.

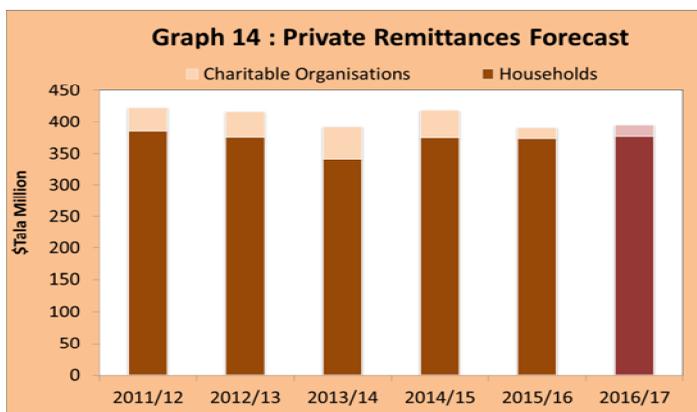
Nevertheless, there are strong growth expected for sectors such as ‘Commerce’ (up 3.0 percent), ‘Construction’ (up 4.0 percent), and ‘Transport’ (up 3.4 percent), ‘Communications’ (up 3.7 percent), ‘Accommodation and Restaurants’ (up 2.9 percent) and ‘Agriculture’ (up 3.1 percent), in light of various public and private sector projects such as the construction of the Leone and Vaisigano bridges, new submarine cable from Fiji, further investments in solar farms, Apia Waterfront as well as ongoing works such as the road widening and Airport extension projects. The spillover effects on consumer demand are expected to boost sectors such as, ‘Finance services’ (up 2.1 percent), ‘Business services’ (up 3.0 percent) and ‘Personal and other services’ (up 2.0 percent) in the period under review. (See Graph 12.)



4.2.3 Balance of Payments

The outlook for the balance of payments in 2016/17 is for an overall surplus of \$15 million. This surplus is mainly underpinned by an expected decline in the current account deficit to around \$91.7 million or 4.4 percent of GDP. This reduction is mainly due to increase in net trade in services reflecting a further hike in **visitor earnings (travel credit)** by 4.2 percent in line with the opening of the Sheraton Samoa Aggie Grey's Hotel and the Taumeasina Island Resort. **Total exports** are expected to increase further by 3.8 percent due to modest increases in domestic export products such as nonu juice, taro, beer and copra meal. Also, **imports** are estimated to rise further by 3.2 percent to \$833.2 million given an expected rebound in petroleum imports as global commodity prices are forecast to increase gradually from its relatively low levels in the past 2 years, especially fuel prices. **Remittances** are expected to rebound slightly by 1.0 percent to \$389.8 million as New Zealand and Australian currencies rebound while the closure of MTO bank accounts in New Zealand and Australia will continue to pose risks to these forecasts. (See Graph 13 and Graph 14.)





4.2.4 Prices

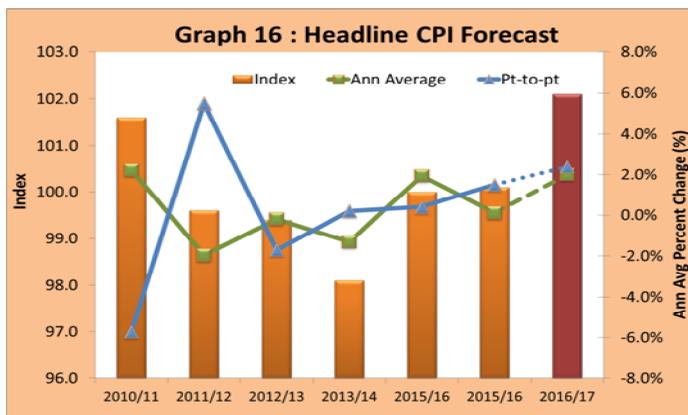
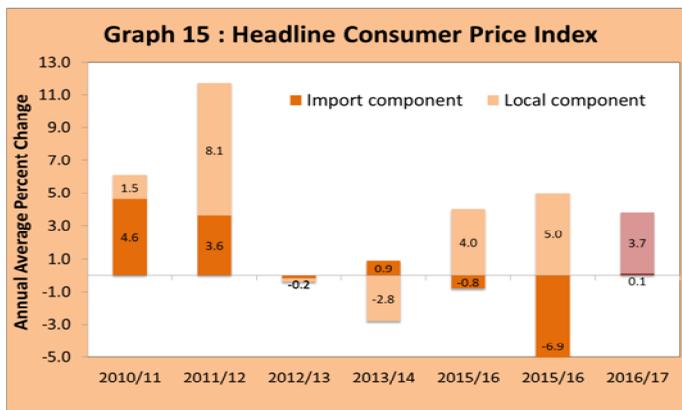
In line with the gradually rising global commodity prices around the world, inflationary pressures are expected to pick up albeit slowly in 2016/17. Coupled with relatively stable domestic supply conditions, inflation is expected to rise but remain manageable in FY 2016/17. Downside risks like ongoing political unrest however, could push up oil prices quicker than expected and speed up both global and domestic inflation.

4.2.4.1 Headline Inflation

Local agricultural production and supply in 2016/17 is expected to remain stable especially for crops such as taro, banana and pumpkin although the downside risk of another cyclone looms large. 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 while at the same time reducing the volume and cost of diesel used by EPC.

As a result, **imported inflation** is expected to rise to -0.1 percent from -6.9 percent as imported prices especially fuel prices are expected to rise during the year. On the other hand, **domestic inflation** is expected to drop from 5.0 percent in 2015/16 to 3.6

percent by end June 2017. As a result, **the annual average headline inflation** is forecast to increase to 2.0 percent from 0.1 percent in the previous fiscal year. (See Graph 15.)



4.2.4.2 Underlying Inflation

The underlying inflation rate is expected to pick up in line with rise in imported inflation, rising to 0.2 percent by end June 2017 from -4.1 percent last year.

5. MONETARY POLICY STANCE FOR 2016/2017

Following strong growth in 2015/16, the Samoan economy is expected to experience a one off setback, pushing real growth down to 1.8 percent from 3.3 percent at end June 2016. This is an issue that the Bank will be monitoring closely to see what the extent of its closure will have on the economy apart from the loss of employment and export processing services. 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 mitigate the closure of Yazaki Samoa and encourage economic expansion in other main sectors of the economy such as tourism, commerce, construction, transport and communications.

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 7.2 percent at end June 2017, down from 10.2 percent in 2015/16. Also the growth in money supply is forecast to drop to 3.4 percent due to slowdown in net domestic assets while net foreign assets is expected to improve in 2016/17. (See Table 7.)

Table 7					
Monetary Survey					
(Amounts in Tala million)					
End of Period	2012/13	2013/14	2014/15	2015/16	Forecast 2016/17
A. Determinants of Money Supply					
Net Foreign Assets	179.9	301.2	144.5	115.8	132.8
Net Domestic Assets	520.5	530.4	691.7	779.5	798.1
Government's Net Position	-95.8	-101.1	-116.2	-133.4	-109.4
Bank credit to private sector	709.3	734.2	863.2	974.4	985.8
Bank credit to public institutions	85.1	122.9	146.3	147.9	139.1
Others, net	27.9	12.8	25.7	33.9	32.1
B. Money Supply (M2)					
Narrow Money	259.4	380.2	356.2	394.2	396.8
Currency Outside banks	60.9	46.2	49.5	61.4	52.4
Transferable Deposits	198.5	334.0	306.8	332.8	344.4
Demand Deposits	162.9	217.4	250.3	275.8	279.3
Foreign Currency Deposits of Residents	35.6	116.6	56.4	57.0	65.1
Quasi-money	441.0	451.4	480.0	501.1	534.1
Other Deposits	441.0	451.4	480.0	501.1	534.1
Savings Deposits	102.2	106.5	122.0	129.5	136.8
Time Deposits	338.8	344.9	357.9	371.5	397.3
Source: Central Bank of Samoa					

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