1. INTRODUCTION

In line with Government's emphasis on transparency and accountability, Monetary Policy Statements (MPS) serve as the main vehicle to communicate and promote public awareness of the main objectives of monetary policy and the targets that would be pursued by the Central Bank in the year ahead. As well, these Statements are issued in accordance with the Government's Strategy for The Development of Samoa. The main objective of the Central Bank's monetary policy is to promote sustainable real economic growth by maintaining price stability and international reserves viability. In order to achieve these objectives, monetary policy decisions are conducted via open market operations through the issuance and trading of Central Bank Securities.

In pursuing the goal of price stability, the Central Bank relates Samoa's inflation rate to those of its major trading partners. The annual inflation rates for Samoa's main trading partners usually average around 3.0 percent and this is the target that the Central Bank normally aims to achieve and maintain each year. However, there are times that the changes in prices are beyond the realms of monetary policy and the control of the Central Bank. The experience of recent years bore witness to this situation when the persistently sharp rise of international prices for crude oil and food exerted significant pressures on the domestic prices of petroleum and food items. In addition, the rise in inflation in a particular year reflect the revised prices of public goods and services that are subject to review every three to five years such as bus, taxi and boat fares, water, electricity and port tariffs. During such periods, both the headline and the underlying or core inflation rates is expected to rise substantially as seen in recent years.

Samoa is a small open economy with total merchandise trade alone representing around 60 percent of nominal GDP. It is crucial therefore that Samoa maintains a sufficient level of international reserves to withstand unforeseeable economic shocks. Under present circumstances, the Central Bank considers a level of gross official international reserves, equivalent to no less than 4.0 months of imports of goods, as adequate for maintaining the country's long term international viability. On the exchange rate, the main objective of the Central Bank's policy 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 the export sector.

2. EXECUTIVE SUMMARY

After declining substantially in 2008/09, the world economy recovered 2.0 percent in the 2009/10 fiscal year. Reduced consumer demand saw global inflation drop to 0.8 percent from 1.8 percent in the previous fiscal year. Growth of the advanced economies contracted 0.3 percent in 2009/10 in part reflecting the sovereign debt crisis in the Euro area, which created further drag and uncertainty to an already sluggish recovery from the financial crisis. The US, Euro area and Japan registered growth of 3.1 percent, 1.2 percent and 2.1 percent respectively, while the Emerging and Developing group of economies recorded a 4.7 percent growth rate, led by robust growth of 10.1 percent and 8.9 percent respectively in the Chinese and Indian economies.

In 2009/10, monetary policy remained highly expansionary with concerted quantitative easing focused on stimulating growth. By the end of the period under review, the US Federal funds rate was left unchanged, with its target range of 0.0-0.25 percent at end June 2010. Likewise, the European Central Bank (ECB) and the Bank of Japan (BOJ) upheld their expansionary monetary policy stances, maintaining their official interest rates respectively at 1.0 percent and 0.1 percent.

Low interest rates, sluggish growth and uncertainty surrounding the outlook for the US' frail recovery and that of the world economy, has kept the US dollar well supported by its haven appeal. However, the greenback weakened in the latter half of 2009/10 as the dollar's vivacity was undermined by risk-hungry investors, who were quick to capitalize on resilient stock market performances that thrived on positive data pointing to strong recovery and growth prospects. Thus, a deterioration of the US dollar's haven demand and subsequently an upsurge in demand for currencies often referred to as risk currencies (such as the AUD and NZD) was the end result.

A year on from the onset of the Global recession, the Samoan economy showed signs of recovery in 2009/10, The Central Bank (CBS) responded to the global recession by further easing monetary policy stance in order to boost flagging demand and business confidence. The main priority was to lower the lending rates by the commercial banks to a meaningful level, injecting much needed liquidity into the economy. In the process the weighted average interest rates (for both deposit and lending) fell steadily over the year to levels equivalent to pre-financial liberalization years. However, the reductions have yet to revive business confidence and loan demand as the annual average growth rates of private sector credit and money supply are slowly gaining momentum.

After slumping 5.1 percent in 2008/09, Central Bank estimates pointed to the economy consolidating or even rebounding with real gross domestic product (GDP) in 2009/10 of up to 1.0 percent. The consolidation and / or recovery was driven by the estimated growths in the ‘Public Administration’, ‘Finance and Business Services’ ‘Other manufacturing’, ‘Transport and Communications’, ‘Construction’ and ‘Agriculture’ sectors.

Despite adverse impacts of the global recession and the September 2009 tsunami, huge inflows of external loans resulted in a record $151.4 million overall surplus in the balance of payments, boosting reserves to 7.6 months at end 2009/10.

Inflation, which started the year at very high levels, dropped significantly with both the domestic and external factors pushing down both the headline and underlying rates to lows of -0.2 percent and 1.2 percent respectively at end June 2010.

For the 2010/11 financial year, the economy is expected to build on the steady outcome for 2009/10, with the Central Bank forecasts pointing to real growth of up to 3 percent in the fiscal year 2010/11. This growth is expected to be driven mostly by the large overall deficit in the Government Budget for 2010/11 which is equivalent to 9 percent of GDP. The Budget incorporates Government's economic stimulus response in the form of a salary adjustment for the public service, large investments in construction activities such as buildings, road infrastructure upgrades and tsunami reconstruction projects as well as private projects such as hotels and businesses. Special focus is also placed on reviving the flagging tourism sector with increased funds for marketing. The balance of payments is expected to register a modest surplus of $11.7 million in light of further Government loans disbursements.

Inflation is expected to rise moderately in 2010/11 with an expected recovery in world demand pushing up global commodity prices. This, in turn, is expected to nudge the annual headline inflation rate up to 3.0 percent at end June 2011 from -0.2 percent at end June 2010. The annual underlying inflation rate is also expected to increase to 2.4 percent from 1.2 percent at end June 2010.

The main concern in 2010/11 is the weak private sector environment. Consequently, given the expected recovery in the economy, which is mainly driven by the Government Budget, strong external position and relatively stable inflation rate, the CBS has decided to continue with its easing monetary policy stance in order to further drive down interest rates, the aim is to boost private sector credit, ultimately reviving business confidence and consumer demand. Money supply is therefore expected to expand significantly in 2010/11. (See Table 1.)

Table 1

Selected Domestic Economic Indicators

Fiscal year to end June	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 Forecast	
	(Percentage change over the previous year)						
Real sector							
Nominal GDP	8.7	9.4	10.1	-2.3	1.5	4.7	
Real GDP	2.3	2.1	5.1	-5.1	1.0	3.2	
Prices							
Headline Consumer Price Index (annual average)	3.2	4.9	6.2	14.6	-0.2	3.0	
Underlying Consumer Price Index (annual average)	2.2	5.6	6.9	17.2	1.2	2.4	
Implicit GDP Deflator (annual average)	6.3	7.2	4.7	2.9	0.5	1.5	
Monetary aggregates							
Net foreign assets (annual average)	-2.3	-3.6	9.5	2.1	20.1	20.0	
Government's net monetary position (end of period)	-10.9	12.7	-11.9	-2.4	109.8	8.2	
Bank credit to private sector							
Annual average	21.3	21.6	6.1	7.2	6.2	6.2	
End period	28.2	11.7	6.5	5.2	5.1	8.0	
Money Supply, M2							
Annual average	14.0	13.1	11.2	8.0	4.2	4.2	
End period	13.0	8.7	12.1	7.6	12.2	4.2	
Exchange rate							
Nominal Exchange Rate	0.11	0.76	0.16	-2.06	0.80	na	
Real Exchange Rate	-1.49	2.49	4.50	10.96	-1.72	na	
International reserves							
Gross International Official Reserves (Tala million)	179.08	207.54	254.5	260.28	410.72	422.4	
Gross International Official Reserves (Months of imports)	3.9	4.0	5.1	5.0	7.6	7.6	
Weighted average interest rates		(End of period, percent p.a.)					
CBS 14 days Securities	-	4.30	4.08	1.48	0.12	0.12	(1)
CBS 28 days Securities	-	5.65	4.04	1.68	0.14	0.14	(1)
CBS 56 days Securities	-	6.00	5.35	2.20	0.14	0.14	(1)
CBS 91 days Securities	-	6.00	5.38	3.10	0.44	0.44	(1)
CBS 182 days Securities	-	-	-	-	-	-	
CBS 365 days Securities	-	-	-	-	-	-	
CBS Securities overall weighted average yield (annual average)	1.90	4.90	4.70	2.28	1.72	0.18	(1)
Commercial bank deposits	4.80	6.50	6.20	5.19	4.81	2.45	(1)
Commercial bank credit	11.50	12.80	12.70	12.21	12.15	10.34	(1)
Commercial bank interest rate spread	6.70	6.22	6.60	7.02	7.34	7.89	(1)

Source: Central Bank of Samoa
(1) Interest rate as at end August 2010
na - not available

3. WORLD ECONOMY

In the July 2010 update of the IMF's World Economic Outlook (WEO), the world economy is projected to grow 2.5 percent by 2010/11. With price pressures expected to also build momentum, inflation forecasts in the Advanced economies and the Developing and Emerging economies are projected at 1.4 percent and 5.7 percent respectively in the financial year 2010/11. China and India are expected to continue their resilient rates of growth at 10.1 percent and 8.9 percent respectively for the financial year 2010/11. In contrast, the US, Euro region and Japan are forecast to grow by 3.1 percent, 1.2 percent and 2.1 percent respectively in 2010/11.

While the world economic growth is expected to continue to recover in 2010/11, growth forecasts for the US, Euro region and Japan remain distinctly fragile. As such, monetary policy is expected to remain largely expansionary in 2010/11 with inflation pressures projected to remain low, held down by high unemployment rates and excess capacity. (See Table 2.)

Table 2

Selected World Economic Indicators

Fiscal year to end June	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 Forecast
Real growth rate	4.9	5.5	4.5	0.9	2.0	4.5
Inflation rate	2.3	2.0	2.8	1.8	0.8	1.4
Official international interest rates,	(End of period, percent p.a)					
US Federal Reserve	5.25	5.25	2.00	0.25	0.09	0-0.25
Reserve Bank of Australia	5.75	6.25	7.25	3.00	4.50	5.50
Reserve Bank of New Zealand	7.25	8.01	8.25	2.50	2.75	4.25
Bank of Japan	0.10	0.50	0.50	0.10	0.10	0.10
Bank of England	4.50	5.50	5.00	0.50	0.50	0.50
European Central Bank	2.75	4.00	4.00	1.00	1.00	1.00
Reserve Bank of Fiji Notes, 91 days	2.25	4.25	n/a	n/a	n/a	n/a

Source: IMF and reserve banks' publications and information releases.
n/a : not available

Despite recent financial stress in the Euro region amid the sovereign debt crisis there, the global recovery is expected to continue, albeit at a modest pace. Oil prices, as such, have been revised down from US$81.5 to trade at the US$76.4 per barrel mark in 2010/11. Commodity and food prices are expected to remain elevated throughout the recovery.

The fragile state of the US' recovery is expected to undermine the US dollar amid risks of a derailment, coupled with low interest rates and most especially bouts of surging risk appetite.

A look at Samoa's two closest trading partners: New Zealand and Australia.

New Zealand

Since posting its first quarterly growth in June 2009, the Kiwi economy continued to register consecutive quarters of growth up to the June quarter of 2010. The New Zealand economy grew 0.2 percent in June quarter 2010 and has slowed from the previous quarter's 0.5 percent growth rate. For the year ended June 2010, economic activity was up 0.7 percent when compared to the twelve months to June 2009. Growth in the June quarter of 2010 reflected improvements in the primary and services industries, while activity in the goods-producing industries declined.

In the year to end June 2010, fishing, forestry and mining activity continued to boost primary industry growth. Activity in the goods-producing industries however, declined in the same period as manufacturing activity, mainly in food, beverage and tobacco registered significant declines but was partly offset by strong construction growth. The services industry also improved in the year ended June 2010, with retail trade, accommodation, restaurant and government administration services picking up, offsetting declines in transport and communication services over the quarter. Household consumption expenditure rose in the year to June 2010 and was a result of increased spending for durable and non-durable goods and services. Business investment, on the contrary, declined in the period under review. In the labor market, unemployment in New Zealand continued with its gradual descent despite an unexpected increase in the June quarter period. Inflation was 1.8 percent in June quarter 2010.

After delivering its first interest rate hike in June 2010, the Reserve Bank of New Zealand (RBNZ) has since signaled that the gradual removal of monetary stimulus will continue but the timing will be largely dependent on developments in the economic recovery.

The NZ economy is expected to grow in 2010/11 by 3.1 percent with an inflation forecast of 2.3 percent. The frail domestic recovery, however, is expected to weigh down the NZ dollar but surprises from the 'risk' front are expected, coupled with expectations of higher interest rates should the pace of recovery strengthen.

New Zealand	**Latest figures**	**Forecasts**		
		2010	**2010/11**	**2011**
GDP	June quarter 10: 0.2% q/q and 1.9% y/y	2.9%	3.1%	3.2%
CPI	June quarter 10: 0.3% q/q and 1.8% y/y	2.1%	2.3%	2.5%
Unemployment	June quarter 10: 6.9%	7.2%	6.9%	6.6%
OCR	End June 10 : 2.75%	3.00%	4.25%	4.75%
Exchange Rate (vs USD)	End June 10: US$0.68	US$0.71	US$0.72	US$0.73

Australia

The Australian economy grew 1.2 percent over the June quarter 2010 to be 3.3 percent higher compared to the same quarter a year ago. The main positive contributors to the increase in gross domestic product were “household final consumption expenditure” and “net exports”. To a lesser extent, “construction”, “mining” and “professional, scientific and technical services”, each contributed to growth in the June quarter. The main negative contributor to GDP was the “change in inventories”. Unemployment in Australia dropped to 5.2 percent in June 2010 and inflation rose 0.6 percent over the quarter to be 3.1 percent higher compared to the same quarter in 2009.

Having benefited from elevated commodity prices and high levels of public investment, the Australian economy has continued on a steady rate of recovery. Household income and confidence levels remained generally positive, supported by the improvement in labour market conditions. Despite this, household spending grew at a moderate pace in recent months as households remained cautious about their finances. In June, retail sales volumes rose but household consumption expenditure on motor vehicles and services registered were noticeably stronger. Conditions in the business sector remained reasonably favorable despite variations across industries. The housing construction sector has also continued on a modest upswing with forward looking surveys indicating further investment activity in buildings and structures led by the mining sector.

The Reserve Bank of Australia (RBA) is expected to continue to gradually remove its monetary stimulus from the economy and doing so will be timed according to developments in the Australian economy in terms of price pressures and the pace of growth. A rebalancing of growth is expected in the months ahead, with public investment set to decline as fiscal stimulus projects are completed, while private demand is expected to become a more important driver of growth. The outlook for investment in the resources sector remains favorable and the high level of the terms of trade is boosting incomes and demand. The Australian economy is expected to continue on a strong recovery over 2010/11 by 3.3 percent with an inflation forecast of 2.4 percent.

Australia	**Latest figures**	**Forecasts**		
		2010	**2010/11**	**2011**
GDP	June quarter 10: 1.2% q/q and 3.3% y/y	3.0%	3.3%	3.5%
CPI	June quarter 10:0.6% q/q and 3.1% y/y	2.4%	2.4%	2.4%
Unemployment	June 10: 5.2%	5.3%	5.2%	5.1%
Cash Rate	End June 10: 4.50%	5.00%	5.50%	5.75%
Exchange Rate (vs USD)	End June 10: US$0.84	US$0.90	US$0.94	US$0.94

4. DOMESTIC ECONOMY

4.1 Policy Developments

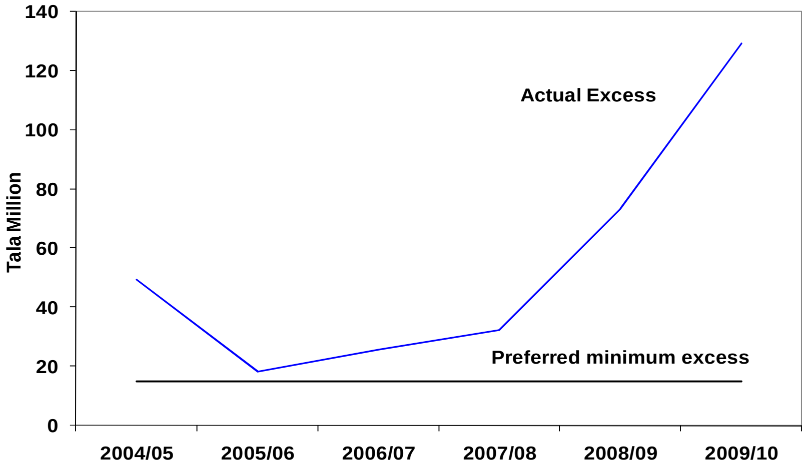
Fiscal policy in 2009/10 continued on an expansionary path, with Parliament approving an overall Government Budget deficit of about 11 percent of GDP, aimed at stimulating economic activity. Implementation of some of the major projects have started to pick up with the actual budget deficit in the first nine months to end March 2010 (the period for which figures are available) amounting to $86.3 million, equivalent to 8.0 percent of nominal GDP. The budget deficit was financed mainly by soft term foreign loans.

The economy in 2009/10 was initially expected to recover by 1.5 percent in the updated CBS forecasts compiled in January 2010. However, larger than expected reductions in remittances, tourism and exports have led to a downward reduction in the growth estimate to around 1 percent for the year. However, the latest GDP figure for the period up to December 2009 shows a contraction but is expected to rebound by June 2010. As a result, at its end January 2010 meeting, the CBS Board approved the continuation of the Central Bank's accommodative monetary policy stance to stimulate the economy.

In line with this monetary policy stance, the financial system's liquidity position was allowed to grow, driving down market interest rates.

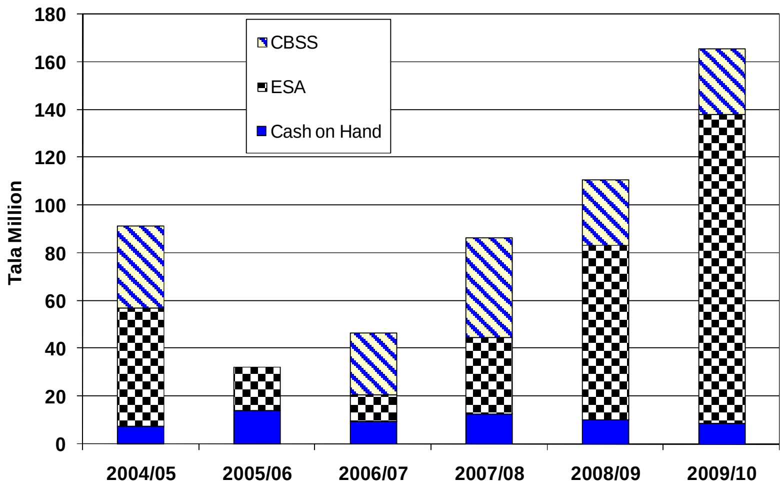
However, weak private sector demand, along with the cautiousness of the commercial banks following the global downturn saw non-interest bearing excess reserves of the banks pushed up to some of their highest levels ever. Total commercial banks' excess reserves expanded substantially from $73.2 million in June 2009 to $129.4 million in June 2010, a level that was well above the minimum comfortable level of $15 million. (See Graph 1.)

Graph 1 : Commercial Banks' Excess Liquidity



As a result, total commercial bank liquidity rose from $110.9 million in June 2009 to $165.5 million in June 2010. (See Graph 2.)

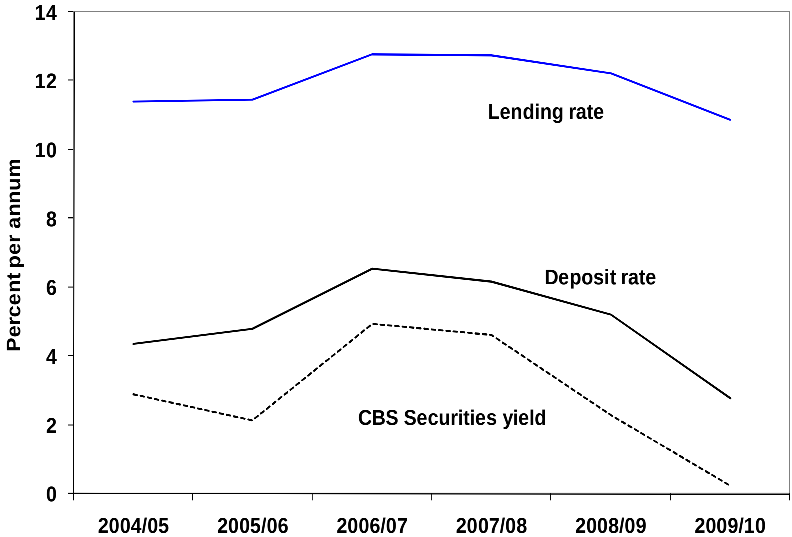
Graph 2 : Total Commerical Bank Liquidity



In addition to reducing the CBS lending rate to the commercial banks by 2.8 percentage points from 7.8 percent to 5.0 percent, secured by Central Bank securities in 2008/09, the Central Bank began lending to the Development Bank in January 2010 as part of its effort to boost lending and bring down interest rates as well offering much needed assistance to the tsunami devastated tourism industry.

In line with the Central Bank's easing monetary policy stance, the weighted average interest rate on CBS securities fell steadily throughout the year to reach a low of 0.22 percent at end June 2010 compared to 2.28 percent in June 2009. In response, the commercial banks' weighted average deposit rate fell by 2.43 percentage points to 2.76 percent in June 2010 from 5.19 percent in June 2009. Similarly, the commercial banks' weighted average lending rate fell by 1.33 percentage points to 10.88 percent in June 2010 from 12.21 percent in June 2009. (See Graph 3.)

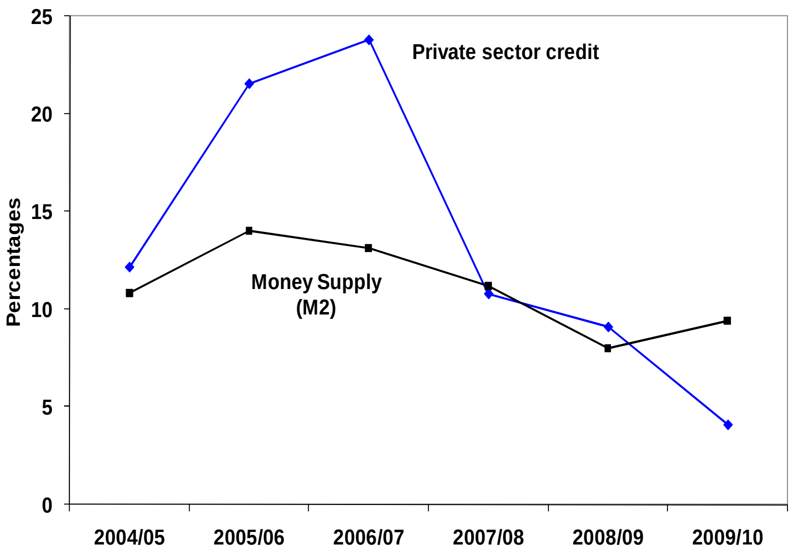
Graph 3 : Weighted Average Interest Rates



On credit, the total commercial bank loans to the private sector and public institutions combined increased by $45.8 million to

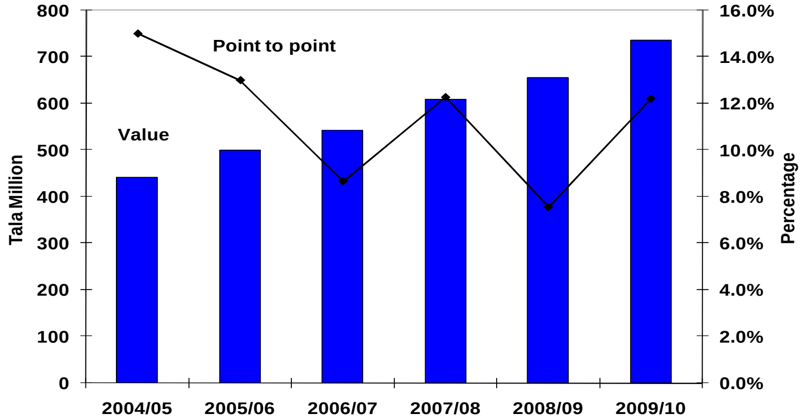
$731.2 million in the year to end June 2010, which was up from an increase of $37.0 million in the previous financial year. On an annual average basis, the growth rate of total credit to the two sectors combined fell from 9.1 percent in June 2009 to 4.1 percent in June 2010. This largely reflected the deceleration of credit growth to private sector from 7.2 percent last year to 3.0 percent in 2009/10 while the growth rate of credit to public institutions fell to 13.7 percent from 28.4 percent in 2008/09. The relatively slow rate of credit expansion in the last two financial years indicated that the reduction in commercial bank interest rates so far was insufficient to boost credit demand under the prevailing recessionary economic conditions. (See Graph 4.)

Graph 4 : Annual Average Growth Rates



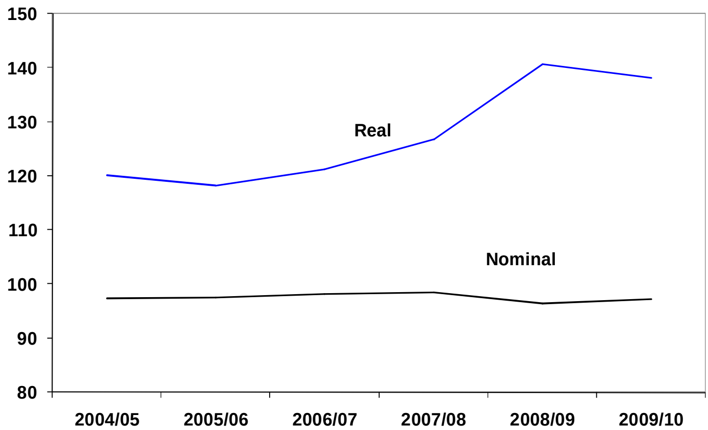
In addition to the increase in credit to the private sector and public institutions combined, there was a substantial net inflow of foreign funds in 2009/10, associated with an overall surplus in the balance of payments. Consequently, money supply (M2) expanded 12.2 percent ($79.8 million) in the fiscal year under review to $734.2 million at end June 2010. (See Graph 5.)

Graph 5 : Money Supply



In 2009/10, the Central Bank allowed the exchange rate of the Tala to drift upwards to ease some of the pressure from rising imported inflation. Consequently, the .nominal effective exchange rate (NEER) of the Tala appreciated 1.0 percent on an annual average basis against the currencies in its exchange rate basket. On the other hand, the real effective exchange rate (REER) fell by 1.72 percent reflecting the decline in the headline inflation rate. (See Graph 6.)

Graph 6 : Trade Weighted Exchange Rate Indices
(1998=100)



4.2 Macroeconomic performance

4.2.1 Real Sector

National accounts figures for the March and June 2010 quarters are not yet available but estimates indicate that the economy is expected to recover by 1.0 percent in real terms in 2009/10, a recovery from the 5.1 percent real decline in 2008/09. The main reason for the estimated rebound in GDP is the significant Budget spending as Government expedites many of its planned projects. This is expected to push up 'Public Administration' by 6.9 percent with 'Construction' and 'Transport and communications' increasing by 1.7 percent and 2.7 percent respectively. 'Finance and business service' is expected to expand by 3.8 percent while 'Agriculture' is estimated to improve by 1.3 percent. 'Other manufacturing', which recorded a large decline in 2008/09, is estimated to rebound by 0.5 percent in 2009/10, largely reflecting a slow recovery in Yazaki production.

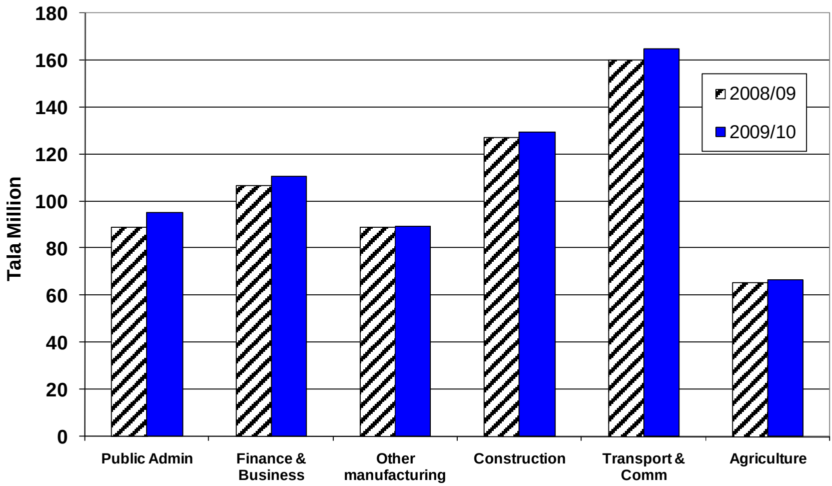
On the other hand, the 'Commerce' sector is expected to remain suppressed, down by 0.5 percent in light of reduced tourism earnings, remittances and weak consumer demand. The 'Hotels and restaurants' output is estimated to drop by 11.1 percent reflecting the adverse impact of the destruction of tourist accommodations and facilities by the September 2009 tsunami as well as the drop in tourist arrivals. The output of the 'Fishing' sector is estimated to decline 2.2 percent reflecting the current decline is fish catch in 2009/10 while 'Food and beverage manufacturing' is expected to drop by 2.6 percent in light of reduced sales and demand for beer and coconut oil, the two main industries in this category. (See Table 3 and Graph 7.)

Table 3
Real Gross Domestic Product by Industry
(At 2002 prices, amounts in Tala Million)

During the period	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Updated	2010/11 Forecast
Agriculture	71.4	68.2	72.3	65.5	66.4	70.5
Fishing	47.2	50.3	51.7	48.2	47.1	45.7
Food & Beverage manufacturing	32.6	28.3	24.9	17.5	17.1	16.8
Other Manufacturing	114.8	113.9	126.3	88.9	89.4	95.0
Construction	109.1	128.8	137.2	127.2	129.3	131.5
Electricity and water	46.8	48.1	49.3	51.3	52.0	54.6
Commerce	184.5	191.1	195.3	193.4	192.4	193.6
Hotels, restaurants	30.1	30.4	37.3	38.5	34.3	36.1
Transport, Communication	146.3	147.8	155.1	160.2	164.6	171.7
Public administration	81.6	82.8	85.8	88.9	95.1	102.7
Finance and business service	95.7	99.1	102.6	106.5	110.6	114.2
Less: Enterprise share of FISIM (1)	-12.2	-12.5	-13.0	-13.7	-14.3	-14.4
Ownership of dwellings	30.9	31.0	31.1	31.2	31.2	31.2
Personal and other service	62.3	55.1	61.0	56.3	55.7	56.3
Total	1041.1	1062.5	1117.0	1060.0	1070.9	1105.5
Annual percent change	2.3	2.1	5.1	-5.1	1.0	3.2
Implicit GDP deflator	117.3	125.7	131.7	135.5	136.2	138.1
Annual percent change	6.3	7.2	4.7	2.9	0.5	1.5

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

Graph 7 : GDP by Sector



4.2.2 Balance of payments

The balance of payments recorded a record surplus of $151.1 million for the third consecutive year, following a modest surplus of $7.1 million in 2008/09. This surplus was mainly the result of large net disbursement of Government loans for tsunami rehabilitation and recovery as well as an additional allocation of SDRs from the International Monetary Fund. (See Table 4.)

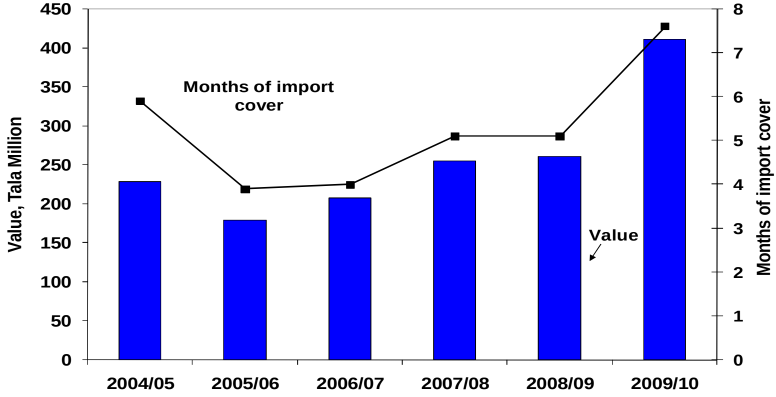
Table 4
Balance of Payments
(Amounts in Tala Million)

During the period	**2005/06 Actual**	**2006/07 Actual**	**2007/08 Actual**	**2008/09 Actual**	**2009/10 Actual**	**2010/11 Forecast**
A. Current Account Balance	-124.8	-206.1	-92.8	-39.4	-122.8	-199.0
Merchandise Trade Balance	-519.9	-585.5	-561.1	-598.0	-619.7	-642.0
Exports	29.6	31.3	32.4	28.1	30.4	26.5
Imports	-549.5	-616.7	-593.5	-626.1	-650.1	-668.5
Services, net	197.9	209.5	249.3	253.3	224.9	202.0
Income, net	-97.1	-95.8	-110.4	-47.4	-54.2	-63.1
Current Transfers, net	294.2	265.8	329.4	352.7	326.2	304.1
Private transfers	293.8	260.8	323.0	342.6	326.3	304.2
Official transfers	0.5	4.9	6.4	10.1	-0.1	-0.1
B. Capital Account Balance	61.1	125.7	60.9	100.3	154.4	122.5
Official Grants	64.9	126.2	68.0	101.9	152.8	119.4
Other	-3.7	-0.5	-7.1	-1.5	1.6	3.1
C. Financial Account Balance	-4.8	61.9	63.0	48.9	141.5	88.1
Direct Investment	16.0	80.4	11.7	23.1	6.0	9.7
Portfolio Investment	-7.0	-0.1	-0.5	1.0	-3.5	-3.5
Other Investment	-13.8	-18.4	51.8	24.9	139.0	81.9
D. Reserve Assets	49.5	-28.2	-47.8	-7.1	-151.4	-11.7
E. Net Errors & omissions	19.0	46.6	16.7	-102.9	-21.8	0.0

Source: Central Bank of Samoa

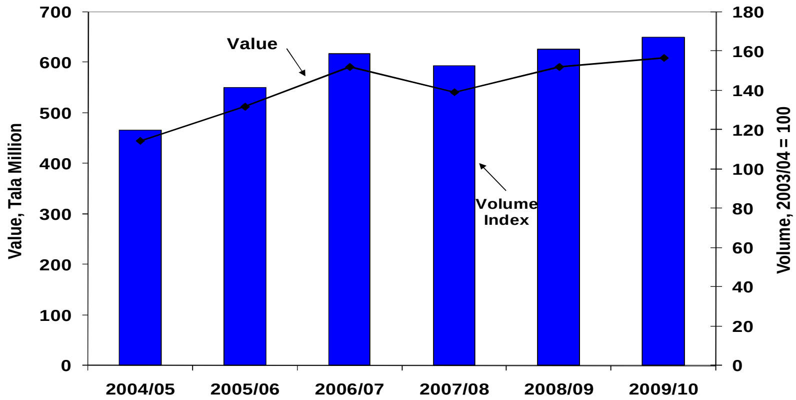
As a result, the level of international reserves in 2009/10 leapt to $410.7 million or equivalent to 7.6 months of import cover, well above the target cover of 4 months. (See Graph 8.)

Graph 8 : Gross Official Reserves



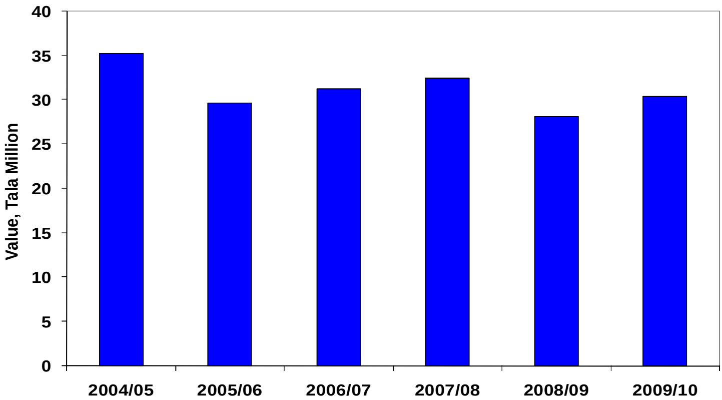
Total imports rose 4 percent to $650.1 million in 2009/10 primarily due to an increase in non petroleum private sector imports while Government petroleum imports fell. Non petroleum private sector imports rose 10 percent reflecting the increase in importation of RHD vehicles as well as large items such as the MV Lady Samoa III, EPC generators and meters and telecommunications materials. Petroleum imports fell 12 percent to $127.9 million reflecting the slump in local consumer demand despite a 6 percent recovery in the global oil prices. In addition, Government imports decreased 20 percent. (See Graph 9.)

Graph 9 : Imports



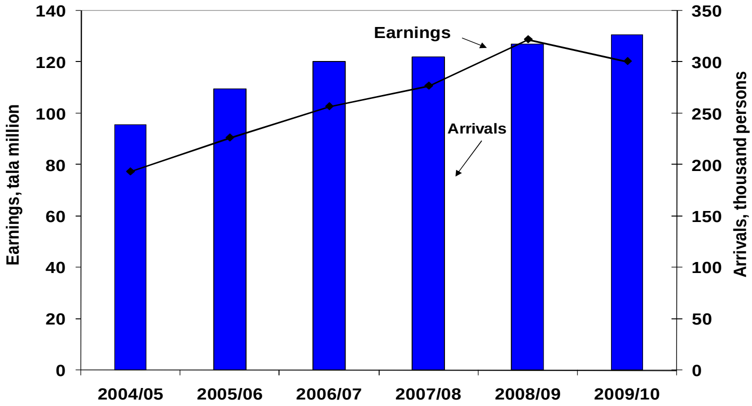
Exports rose 8 percent in 2009/10, largely as a result of significant gains in fresh coconut oil, bottled spring water, copra meal and nonu juice. On the downside, coconut cream, fish and re-exports fell. With the larger increase in import payments offsetting the hike in export revenues, the merchandise trade deficit widened 4 percent. (See Graph 10.)

Graph 10 : Exports



Tourism arrivals managed to increase by 3 percent in 2009/10 largely due to a strong first half performance, offsetting a notable decline in the second half due to the adverse impact of the September 2009 tsunami as well as the lingering impact of the global recession on source countries like the US and Europe. Visitors from New Zealand, Australia and American Samoa increased by 6 percent, 5 percent and 3 percent respectively, accounting for the bulk of the overall improvement in arrivals. However, with the sharp decline in inflation during 2009/10 pushing down the average tourist spending, total tourism earnings fell 7 percent to $300.7 million. (See Graph 11.)

Graph 11 : Tourism



Private remittances in 2009/10 recorded a 5 percent decline to $346.8 million, which was no doubt linked to the high unemployment in main source countries such as New Zealand, US and Australia. Household remittances went up by 1 percent but funds for charitable organizations fell 41 percent. The US accounted for most of this overall drop offsetting modest gains for New Zealand and Australia.

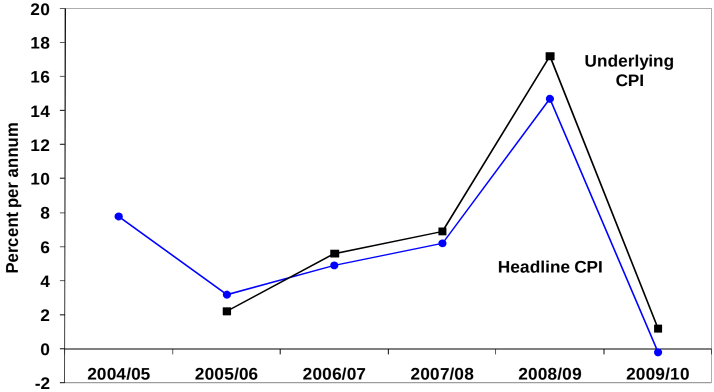
Official capital transfers are estimated to rise 50 percent to $152.8 million as projected in the 2009/10 Budget, up from $101.9 million in the previous year. Government loans liabilities went up by 40 percent reflecting the loan disbursements from the IMF and World Bank for tsunami rehabilitation.

4.2.3 Prices

Coming from a high of 14.6 percent at end June 2009, inflationary pressures eased significantly in 2009/10, led mainly by a large drop in imported inflation as well as reduction in the local component of the CPI. Falling consumer spending and the weakening of the Samoan economy has seen prices at the Fugalei Produce Market and Savalalo Fish Market drop in 2009/10, dragging down domestic inflation to 1.5 percent from 12.5

percent last year. In addition, the contraction in the world economy, coupled with weak consumer demand saw global commodity prices fall, particularly those of food products such as grains (wheat and rice), sugar, copra as well as raw materials such as timber and steel. This saw imported inflation decrease to -2.0 percent from 17.1 percent in 2008/09. The global price of crude oil rose by 9 percent to US $74.74 per barrel in 2009/10. However, the appreciation of the Tala against the US dollar saw local petrol prices drop by 11 percent in the financial year under review. (See Graph 12.)

Graph 12 : Annual Average Inflation Rates



As a result of the reduction in both imported and local components of the headline CPI, the headline annual inflation rate dropped to -0.2 percent at end June 2010 from 14.6 percent at end June 2009.

Similarly, the underlying inflation rate tumbled to 1.2 percent in 2009/10 from 17.2 percent in the previous fiscal year. (See Table 5.)

Table 5
Consumer Price Index
(March 2004 = 100)

Fiscal year to end June	2005/06	2006/07	2007/08	2008/09	2009/10 Forecast
A. Headline Inflation					
	12 months average percent change				
Description					
All Groups	3.2	4.9	6.2	14.5	2.3
Food	2.1	6.4	7.1	20.6	4.9
Clothing and Footwear	-7.3	-3.3	-1.4	5.5	3.3
Housing and Household Operations	6.2	2.6	6.9	9.6	-3.6
Transport and Communication	10.0	-1.1	4.7	11.3	-1.6
Alcohol and Tobacco	1.2	11.1	6.7	5.9	1.3
Miscellaneous	0.4	3.2	4.0	5.9	2.0
Import Component	3.5	6.0	8.0	15.5	2.6
Local Component	3.1	3.9	4.8	13.7	2.3
B. Underlying Inflation (1)					
	12 months average percent change				
Description					
All Groups	2.2	5.6	6.9	17.2	4.6
Food	3.0	6.5	7.9	20.5	5.3
Clothing and Footwear	-7.3	-3.3	-1.4	5.5	3.3
Housing and Household Operations	1.5	0.5	4.7	5.3	3.1
Transport and Communication	1.4	7.1	15.6	13	4.7
Miscellaneous	0.9	6.6	2.9	5.7	0.4
Import Component	1.9	5.8	6.8	17.3	4.6
Local Component	3.0	4.9	7.1	16.8	4.2

Source: Samoa Bureau of Statistics (formerly Statistical Services Division, Ministry of Finance

(1) The historical series for this new index started in August 2003.

5. DOMESTIC ECONOMY OUTLOOK FOR 2010/2011

5.1 Government Budget

With the global recession and tsunami rehabilitation as a backdrop, Parliament approved another heavily expansionary Government Budget for 2010/11. The GFS Budget for 2010/11 is projected to result in an overall deficit of $140.5 million compared to budget deficit of $160.8 million in 2009/10. This budget deficit is about 9 percent of nominal GDP, lower than the 11 percent approved for 2009/10. This budget deficit, to be financed largely by external soft term loans, reflects public and social infrastructural developments, including large education and health projects as well as the public salary adjustment for middle income earners.

Total revenue is expected to pick up in 2010/11 in the face of a recovery in consumer demand and economic growth, which will lead to a rebound in import duties and VAGST taxes collected. External grants, however, are expected to decrease to $143.4 million. Nevertheless total revenue and grants are expected to increase to $528.7 million. Total expenditure, on the other hand, is projected to drop to $669.2 million in 2010/11 from $671.8 million in 2009/10. (See Table 6 and Graph 13.)

Financial Operations of Government (1)

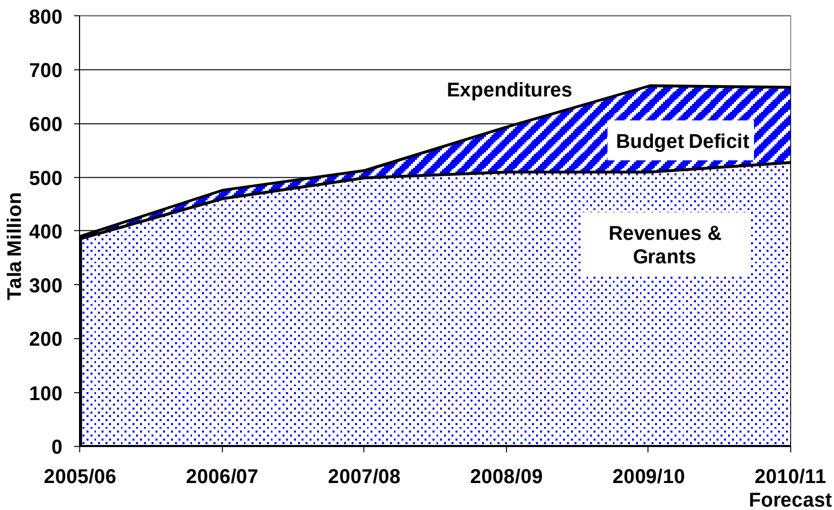
(Amounts in Tala Million)

During the period	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Budget	2010/11 Budget
Total Revenue and Grants	387.1	461.5	500.1	510.7	511.0	528.7
Total Revenue	315.3	363.0	423.1	400.0	358.2	385.3
Tax	273.1	317.9	358.7	340.6	321.8	354.1
Non-tax	42.2	45.2	64.5	59.4	36.4	31.2
External Grants	71.8	98.5	76.9	110.7	152.8	143.4
Total Expenditure	391.7	477.6	514.0	595.5	671.8	669.2
Current Expenditure	281.9	325.1	401.5	379.0	388.1	422.5
Development Expenditure	86.1	131.7	108.2	216.1	271.2	230.4
Net Lending (1)	23.7	20.7	4.4	0.4	12.5	16.3
Overall Surplus / Deficit (-)	-4.6	-16.1	-14.0	-84.8	-160.8	-140.5
Financing	4.6	16.1	14.0	84.8	160.8	140.5
External Financing	6.2	17.8	17.7	91.5	151.7	136.8
Disbursements	19.2	33.3	31.2	105.4	172.0	155.7
Amortisation	13.0	15.5	13.5	13.9	20.3	18.9
Domestic Financing	-1.6	-1.7	-3.7	-6.7	9.1	3.7
Monetary system	-11.0	0.0	0.0	0.0	0.0	0.0
Other	-12.6	-1.7	-3.7	-6.7	9.1	3.3

(1) GFS Manual 1986 format

Source: Samoa Bureau of Statistics

Graph 13 : Government Budget

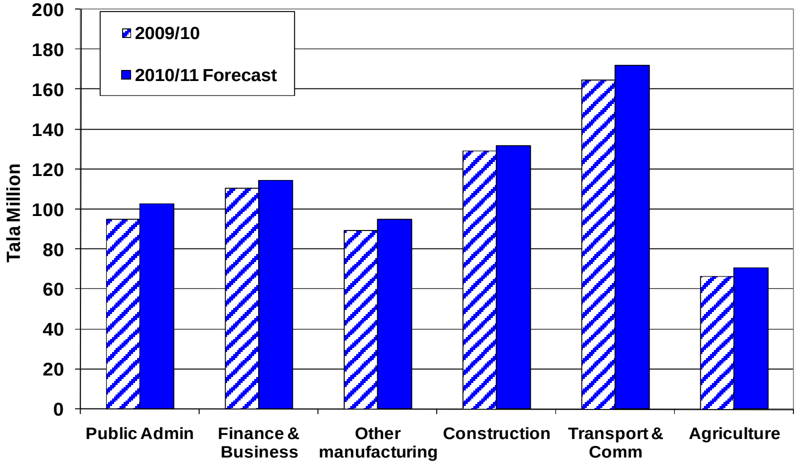


5.2 Real Sector

The economy in 2010/11 is expected to improve further from last year in light of the aggressiveness of the fiscal policy. Projects aimed at improving and strengthening the education, health and agriculture sectors as well as reconstruction for water and electricity facilities damaged by the September 2009 tsunami are prioritized in the budget in order to stimulate economic growth in 2010/11. These are expected to combine with private sector projects to revive flagging business confidence and boost growth in the real sector.

In the event, real GDP is expected to increase by about 3.2 percent in 2010/11, driven mainly by 'Public administration', 'Other manufacturing' and 'Transport and Communications'. The 'Construction' sector (third largest) is expected to grow by 2 percent in line with government funded and private projects while 'Transport and communications' and 'Electricity and water' sectors are anticipated to improve by 4 percent and 5 percent respectively, as both industries are tied closely to construction activities. The 'Commerce' sector is expected to recover by 1 percent as demand picks up while the 'Agriculture' sector is expected to increase by 6 percent. 'Finance & business service' sector is forecast to grow by 3 percent. (See Graph 14.)

Graph 14 : Real GDP Forecast



5.3 Balance of Payments

The balance of payments is expected to record another surplus in 2010/11 reflecting the significant inflows projected in the Budget, such as the $149.1 million net disbursement of Government loans.

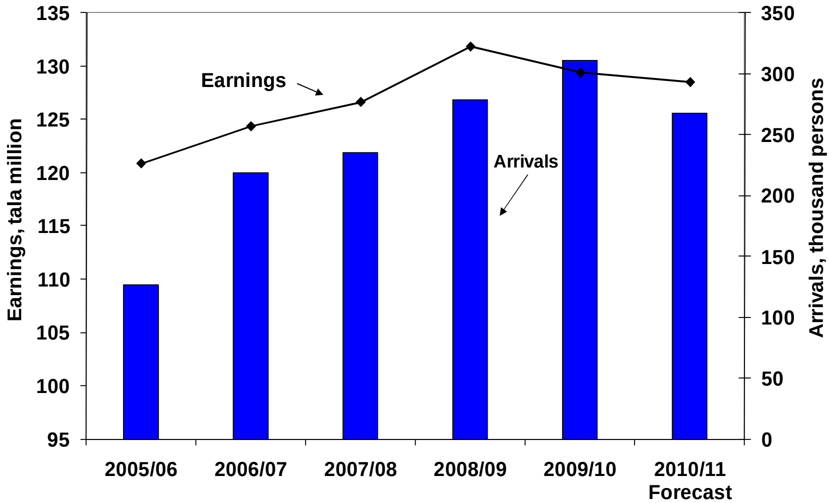
On the current account, exports for 2010/11 are anticipated to fall slightly from last year to $26.5 million. This is due to expected declines in fish, coconut oil, spring water and beer being offset by improvements in taro and re-exports. Fish exports are expected to decline in line with the current low catch trend compared to last year's level. The closing of the Chicken of the Sea cannery in American Samoa had minimal impact on fish exports. However if the Star-Kist cannery closes as well, fish exports will be dramatically affected. Conservative outlooks were projected for nonu juice and bottled spring water as at the time when the forecasts were compiled, their actual volumes exported were relatively low. However, both products are undergoing negotiations for entrance to potential lucrative markets (nonu juice to China and bottled spring water to the North America and

Australasia), which if successful, could mean significant increases than previously projected.

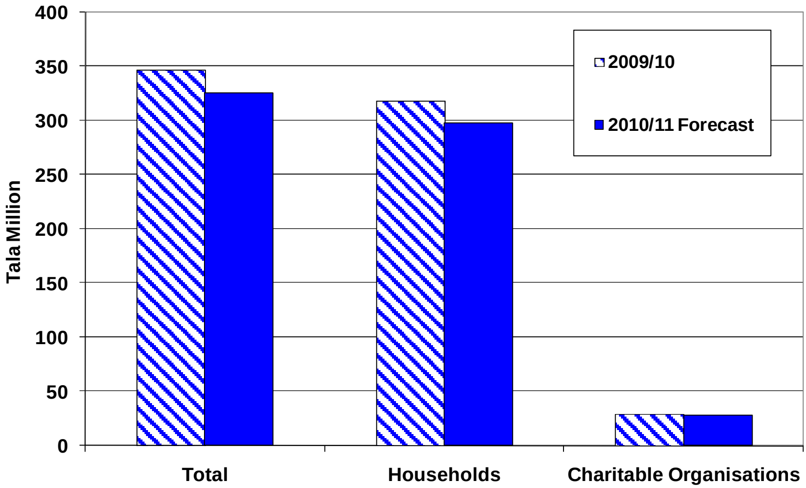
Given the growth in economic activity in 2010/11, total imports are expected to pick up by 3 percent to $668.5 million. Non petroleum private sector imports are envisaged to improve by 1 percent to $505.3 million reflecting more demand for food products by wholesale companies and more construction materials for new construction projects. The value of petroleum imports is expected to increase by 11 percent to $142.5 million reflecting the anticipated recovery of demand after the recession as well a slight gain expected in oil prices in the next twelve months. In addition, Government imports are expected to increase by 5 percent reflecting the large Government construction projects in 2010/11 including the Ministry of Health administration headquarters at Motootua.

Tourism is expected to continue to contract in the first half of 2010/11 (July to December 2010) as the impact of the tsunami reduces tourist arrivals, before an improvement is seen in the last half of the year. As a whole, tourist arrivals are expected to decrease by 4 percent in 2010/11 with expected reductions from all source markets. On the bright side, the Government Budget has allocated $2.54 million for tourism marketing and promotion. With inflation expected to pick up moderately in 2010/11, the Tourism Price Index (TPI) is expected to rise by 1 percent pushing up the average spending per tourist by a similar margin. In the event, total tourism proceeds are expected to decrease by 3 percent to $293.0 million. Private remittances are also expected to decline by 6 percent to $325.1 million in 2010/11, driven by a 6 percent drop in household remittances as well as a 4 percent decline in remittances for charitable organizations as Samoa's major source countries still face relatively high unemployment and weak economic growth. (See Graph 15 and Graph 16.)

Graph 15 : Tourism Forecast



Graph 16 : Private Remittances Forecast



On the whole, the balance of payments is expected to post another overall surplus of $11.7 million in 2010/11, much lower than the $151.4 million surplus last year. With the increase in total imports matched by the increase in gross official reserves, the level of international reserves is anticipated to remain at 7.6 months of imports from 2009/10 but well above the minimum target of 4.0 months.

5.4 Prices

Consumer prices in 2010/11 are expected to pick up from the previous year as inflationary pressures start to build up again from the current low inflation rates. Imported inflation is expected to rise moderately over the next twelve months as the global economy start to register positive growth rates, reviving consumer demand in the process. Prices for global commodities such as food, timber, steel and energy are expected to rebound but not to a significant degree as recovery is still expected to take awhile to strengthen. Oil prices are expected to rise by 7 percent to an average price of US$80-85 per barrel in 2010/11. Domestic inflation is also anticipated to pickup reflecting the expected recovery in the local economy and salary hikes for public servants, which will boost consumer spending.

5.4.1 Headline Inflation

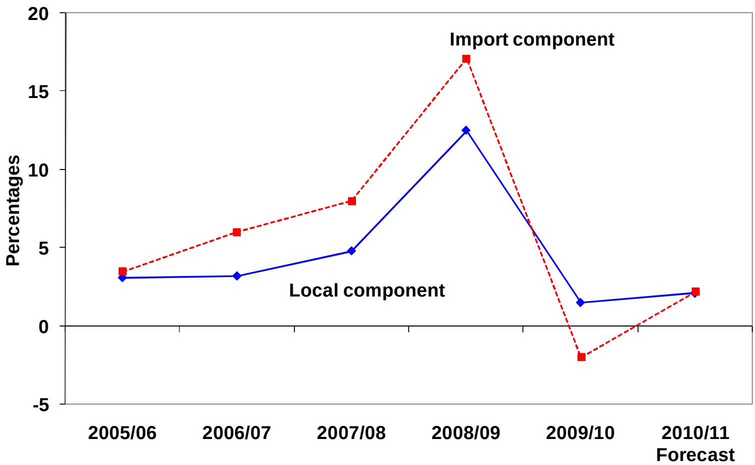
Import Component

While the gradual recovery in the global economy is expected to pump up global demand for internationally traded commodities, favourable output conditions for some specific commodities (such as rice and sugar) are expected to partially ease the strengthening of prices over the fiscal year currently underway. Similarly, with the forecast steady inflation rates in Australia and USA over the next twelve months as well as an anticipated marginal depreciation of the New Zealand dollar, inflationary pressures sourced externally are expected to be moderate. On average, imported inflation is expected to bottom out in September 2010 before rising gradually to 2.8 percent at end 2010/2011 from its deflation of -0.7 percent at end 2009/2010.

Local Component

Similar to imported inflation, the domestic headline inflation rate for the forecast period ahead (2010/2011) is expected to moderate with an improvement in local food supplies to be offset by a strong rebound in domestic demand largely influencing the trend of domestic prices. No major Government regulated price revision is expected, apart from the usual monthly fluctuation in fuel surcharge for electricity rates. Overall, the domestic headline inflation rate is projected to continue its decline from 0.3 percent at end June 2010 to -0.3 percent in September 2010 before rising to 3.2 percent at end June 2011. (See Graph 17.)

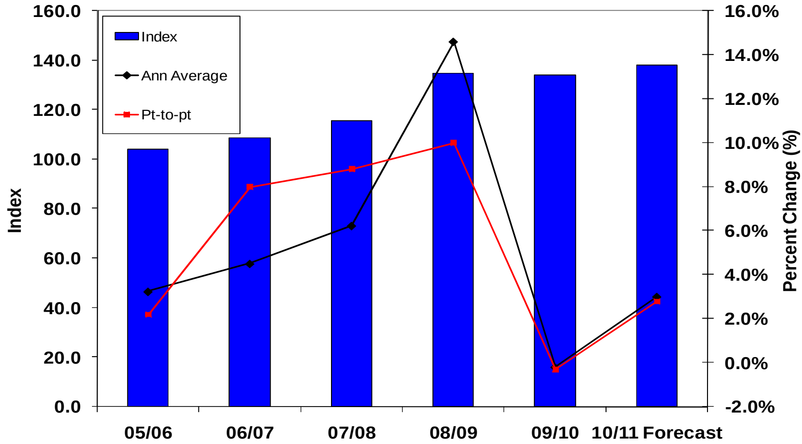
Graph 17 : Headline Consumer Price Index



Headline Inflation Rate

With the expected recovery of global demand for internationally and domestically traded commodities, moderate inflations of Samoa's main trading partners and improved local agricultural production, inflationary pressures are expected to bottom out in October 2010 (zero percent) before moving back up in the latter half of 2010/11. (See Graph 18.)

Graph 18 : CPI Forecast



5.4.2 Underlying Inflation

Import Component

It is anticipated that the overall import component of the underlying CPI will decline in the first half of 2010/2011 reaching a deflation rate of -0.1 percent in December 2010 before rising to 2.4 percent at end June 2011. This forecast largely reflects moderate easing of commodity prices in the global markets and robust domestic demand conditions on the back of an expected strong recovery in the Samoan economy.

Local Component

On average, the domestic underlying inflation rate is expected to slow down to 1.3 percent at end October 2010 before reverting back up to 2.5 percent at end June 2011. Strong demand conditions are expected to influence local food prices, which is the main factor behind the trend in this component.

Underlying Inflation Rate

Taking into account the effects of both external and local pressure on prices for commodities that are not subject to extreme volatility and price regulations, the annual underlying inflation rate is expected to continue its current deceleration, bottoming out at a deflation rate o -0.2 percent in November 2010 before rising gradually to 2.4 percent at end June 2011.

6. MONETARY POLICY STANCE FOR 2010/2011

In the financial year 2010/11, the Samoan economy is expected to recover around 3.0 percent from the adverse impact of the global financial crisis and more recently the September 2009 tsunami. This recovery is expected to be driven mostly by the large fiscal deficit as well as gains in the production of the 'Other Manufacturing', 'Construction', 'Transport and communications' and 'Finance and business' sectors. Exports, however, are anticipated to decline while imports are expected to expand in line with the expected recovery in the economy. In addition, significant net disbursements of external loans in 2010/11 should see the balance of payments record an overall surplus leaving the relative level of international reserves unchanged at 7.6 months of imports.

In addition, imported inflation is expected to remain relatively subdued in light of continuing weak but recovering global demand. Currently, domestic headline inflation rate is quite depressed at -0.2 percent but with the point-to-point rate already increasing, inflation will start to pick up around September to November 2010, to reach around 3.0 percent in June 2011.

On the other hand, there is a concern on the slow growth of private sector investment demand with recent data reflecting the stagnant growth rate in credit to that sector despite recent declines in interest rates. To encourage and stimulate activity in the private sector, monetary policy will continue with its easing stance in 2010/11. The main objective is to support and strengthen the private sector in these trying times. The increase in credit to the private sector will help increase local production especially export oriented production and revive consumer demand. Market interest rates are therefore expected to decline even further in 2010/11, which should encourage a recovery in agriculture, manufacturing, commerce, renewable energy and communications sectors.

Table 7
Monetary Survey
(Amounts in Tala million)

End of Period	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 Forecast
A. Determinants of Money Supply						
Net Foreign Assets	184.6	199.1	227.7	248.2	364.5	357.3
Net Domestic Assets	313.9	342.6	380.6	406.1	369.7	455.2
Government's Net Position	-89.3	-100.6	-88.6	-86.4	-181.3	-150.7
Bank credit to private sector	490.9	548.3	584.1	614.6	646.0	709.7
Bank credit to public institutions	28.5	55.3	67.6	74.2	93.2	72.5
Others, net	-116.2	-160.3	-182.5	-196.1	-188.3	-176.3
B. Money Supply (M2)	498.6	541.8	608.3	654.3	734.2	812.4
Narrow Money	145.2	151.0	153.6	154.6	204.6	218.0
Currency Outside banks	37.0	42.4	41.0	41.6	43.1	50.6
Demand Deposits	108.2	108.6	112.6	113.0	161.5	167.5
Quasi-money	353.4	390.8	454.7	499.7	529.6	594.4
Savings deposits	64.3	71.2	73.8	78.2	88.0	100.5
Time deposits	269.4	309.9	360.1	402.5	420.2	469.2
Foreign Currency Deposits of Residents	19.7	9.7	20.8	19.0	21.4	24.7

Source: Central Bank of Samoa

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