CBS

The Samoan tala exchange rate

What is an exchange rate?

An exchange rate is the price at which one nation's currency can be swapped for another currency. For example, on 17 July 2015, one New Zealand dollar was worth Sāmoan tālā $1.71.

Why do we need an exchange rate?

Samoa interacts with overseas countries for the purpose of economic trade and development, and because of this, it sometimes needs to deal with foreign money.

Other countries that Sāmoa trades with have their own currencies, an exchange rate is needed to calculate the value of Sāmoa's trade and payments flows with each of its trading partner countries.

How does the exchange rate work in Samoa?

In Sāmoa, the currency used is the tālā. Before 1985, the tālā was fixed to the NZ dollar and so movements in the NZ dollar largely influenced the value of the tālā.

This was suitable at the time because Sāmoa's trade with the rest of the world was dominated by New Zealand.

The increase in the number of Sāmoa's main trading partners in the 1980s saw the tālā delinked from the NZ dollar and pegged to a 'basket of currencies', where each currency is weighted in proportion to its trade with Sāmoa.

This became a shift from a pure fixed exchange rate regime to an intermediate exchange rate regime, which is now common for most small island economies in the Pacific region.

Sāmoa currently uses this exchange rate regime of fixing to a basket of currencies and it reviews this basket annually to ensure that the tālā's value closely reflects Sāmoa's international trade and payments patterns.

The goal is to maintain the exchange rate at a level that helps maintain a competitive export sector while also helping to minimise imported inflation.

The tālā is currently pegged to a basket of four currencies, which

include the US dollar, the Australian dollar, the New Zealand dollar and the Euro currency.

Who are the users of exchange rates?

Anyone who expects to receive money from overseas and/or to pay money abroad (outside of Samoa) is a user of exchange rates.

This includes individuals and social groups, the business community and non-profit organisations, the Government of Sāmoa and its ministries, basically anybody who deals with foreign money.

Even the Central Bank of Sāmoa uses exchange rates on a daily basis.

How is the exchange rate set?

Each day, the Central Bank will set the value of the tālā against the US dollar based on the pre-determined weightings of the currencies in the tālā currency basket.

This exchange rate is communicated to the commercial banks no later than 9am.

The banks then use this exchange rate of the tālā against the US dollar to price the tālā's value against other currencies (cross exchange rates), such as the NZ dollar, the Australian dollar, the Sterling pound and all other foreign currencies the banks are able to trade in.

These are the commercial exchange rates that the banks will use for transactions with all its clients.

The Central Bank monitors the commercial exchange rates to ensure they are traded within the Central Bank's approved limits.

What are the benefits of an independent currency?

One of the main benefits of Sāmoa having its own currency is that it allows the Central Bank the independence and the flexibility to formulate and implement its own monetary policy as it sees fit, given the conditions in the monetary system.

This includes the Central Bank's responsibilities of ensuring there is adequate supply of currency, adequate cushioning against capital flight[1] through exchange control measures as well as cushioning through inflationary pressures[2] using exchange rate rigidity.

The international scrutiny of the exchange rate by the International Monetary Fund (IMF) is another benefit of having an independent currency.

According to the 2015 IMF Article IV Report, there is no significant misalignment of the Samoan tālā, which in itself gives confidence to Samoa's exchange rate regime.

[1] Capital flight occurs when assets or money rapidly flow out of a country, due to an event of economic consequence.

[2] Inflationary pressures refers to the demand and supply-side pressures that can cause a rise in the prices of everyday goods and services. For more information see the CBS Factsheet on "Inflation".