

FOR IMMEDIATE RELEASE

CBS MONETARY POLICY TO CONTINUE REDUCING HIGH LIQUIDITY

Tuesday, 1st July 2025: At its meeting on the 27th of June 2025, the Central Bank of Samoa (CBS) Board of Directors approved to maintain the Central Bank's monetary policy stance aimed at reducing the elevated level of liquidity in the financial system for fiscal year (FY) 2025/2026.

In making its decision, the Board considered the following outlook of the Samoan economy for the next twelve months:

1. ***Price stability is expected to be maintained:*** While the annual inflation rate is forecast to pick up to 2.6 percent in June 2026 (from 1.8 percent in May 2025), it will still be within its 3.0 percent medium term target. This upward trend reflects slightly higher prices expected for local agricultural food items like taro and fish as a result of uptick in domestic demand as well as insufficient supply. Whereas the general outlook for global prices for imported commodities like oil, food and construction materials is expected to decline in 2025 and 2026 from weak demand globally, downside risks from current geopolitical and trade tensions remain high and may exert upward pressure.
2. ***Foreign exchange reserves will remain more than adequate in the medium term:*** Estimated further inflows of Government aid funds as well as projected increases from tourism revenues and private remittances (including seasonal workers income) are expected to drive official foreign exchange reserves to around SAT\$1.5 billion or 14.6 months import cover. This continues to be well above the Bank's minimum benchmark cover of 4.0 months of current imported goods.
3. ***Real GDP growth is to rebound to be within the near-term target:*** The Samoan economy is forecast to grow by 3.2 percent in FY2025/2026, driven by several ongoing public and private investment projects. Also contributing favourably to the recovery will be further expansions projected in government spending and consumption activities, the latter to be supported by higher income, inward remittances and tourism revenues.
4. ***The financial system will continue to be highly liquid, sound and stable:*** To date, commercial banks remain well capitalised, with adequate asset quality and modest profitability. With the projected economic outlook, the financial system is expected to remain sound and resilient. Furthermore, ongoing infrastructure reforms by the Bank for the finance sector in the medium term, will support the availability and accessibility of necessary financial services to the public.

As a result, the Central Bank's **monetary policy priority will be to continue to bring down the high level of liquidity in the banking system and normalise its official interest rates.** This will include continuing the sale of longer-term CBS Securities. This will support yields and the gradual upward adjustment of the CBS's official interest rate to a neutral range of 2 percent to 3 percent in the medium term. This approach will be implemented in a measured manner by the Bank, with the collaboration and cooperation of the financial institutions.

Furthermore, the Central Bank acknowledges the risks from domestic developments and the ongoing trade and geopolitical tensions that can adversely weigh on the CBS's price stability objective and the economic growth outlook. CBS will continue to monitor these factors, particularly the escalating tensions in the Middle East and its potential impact on global commodity prices and will adjust its monetary policy as appropriate.