CENTRAL BANK OF SAMOA

Reconstruction and rehabilitation of infrastructure and facilities damaged by the September 2009 tsunami were well under way in 2010/11.

MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2011/2012

APIA
November 2011

CENTRAL BANK OF SAMOA

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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 Central Bank's Corporate Plan and the latest of 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 currently 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 particularly in the last half of 2007/08 bared witness to this situation when the persistently sharp and new heights of international prices for crude oil and food exerted significant pressures on the domestic prices of petroleum and food items. During such periods, attention is focused more on the underlying or core inflation rate.

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

World Economy

The world economy only grew by 2.3 percent in real terms in 2009/10 and is expected to expand by 4.7 percent by the end of June 2011, down from an earlier forecast growth rate of 4.9 percent reflecting debt problems in the US, Greece and Portugal as well as the Japanese tsunami devastation. Much of this growth for 2010/11 is expected to come from Emerging and developing countries, which is expected to rise by 7.0 percent with Advanced countries rising by only 2.6 percent.

Inflation in 2009/10 was recorded at 3.1 percent and it is estimated to increase to 4.1 percent in 2010/11. Inflation rates for Advanced economies is estimated to reach 2.1 percent in 2010/11 while the rates for the Emerging and Developing economies is estimated to reach 6.5 percent.

In the early months of 2010/11, monetary policy for some economies began veering towards a slightly restrictive stance. However, with severe weather conditions, natural calamities and ongoing debt crisis standing in the way of steadfast recovery, one central bank was led to reverse its previous interest rate increases whereas other Reserve Banks, either continued holding at current levels after a single increase or continued to uphold their extraordinarily easy monetary conditions since lowering their official policy rates to historical lows in 2009/10. By the end of 2010/11, the Fed funds rate stood unchanged at its target range of 0 - 0.25 percent, the Bank of England kept its official policy rate at 0.5 percent and the Bank of Japan lowered its policy rate from 0.1 percent to a target range of 0 - 0.1 percent. The European Central Bank, on the other hand, increased its policy rate to 1.25 percent and the Reserve Bank of Australia increased its cash rate to 4.75 percent from 4.5 percent. The Reserve Bank of New Zealand also increased its overnight cash rate to 3.0 percent in

July 2010 but following the aftermath of the 2010/11 Christchurch earthquakes, the RBNZ reversed its increase by cutting back to 2.5 percent.

In the financial markets, the US dollar was on a general downtrend in 2010/11 as risk-appetite-driven demand for currencies such as the Australian and the New Zealand dollar, rose on the back of speculations that the United States Government would launch a second round of quantitative easing over mid 2010/11 to provide further support to the US economy's fragile recovery. The Euro, likewise, was seen trekking lower over the period reviewed as its ongoing debt debacle weighed it down. While the Kiwi currency traded firmly against the Greenback as a result of resilient commodity prices over the year, the Australian dollar proved the most impressive as it steadily and surely, as it steadily rose and finally surpassed parity with the US dollar in 2010/11.

Domestic Economy

With subtle signs of recovery at the start of the 2010/11 fiscal year, the Central Bank further eased its monetary policy stance in order to prop up flagging demand and business confidence and ensure growth momentum could be sustained. The Central Bank continued its Credit Line Facility to non monetary financial institutions, namely the Development Bank of Samoa and the Samoa Housing Corporation, as a means of injecting much needed liquidity into Samoa's main priority sectors such as tourism, agriculture and fisheries, manufacturing and housing.

The latest national accounts figures point to a 2.1 percent growth in the Samoan economy in real terms, driven by improvements in the 'Construction', 'Transport & communications', 'Commerce' and 'Public administration' sectors.

With large capital and financial account outflows, the external sector posted a $53.9 million deficit in the balance of payments.

However, international reserves were maintained at a level equivalent to 6.4 months of imports in 2010/11.

Inflation started to pick up in 2010/11 mainly due to pressure from the external sector pushing both the headline and underlying inflation rates to 2.9 percent and 3.1 percent respectively at end 2010/11.

The economy is expected to improve further in fiscal year 2011/12, with a real growth of 2.8 percent. This turnaround is expected to come from expected growth in the ‘Commerce’ and ‘Finance and Business Service’ sectors as well as improvements in the ‘Construction’ and ‘Transport and Communications’ industries. The balance of payments is expected to register an overall surplus of $17.7 million in light of significant external loans disbursements by Government, increased project grants and further recovery in exports, tourism earnings and private remittances.

Inflation is expected to increase further in 2011/12 to around 4.1 percent in light of expected increases in both local and imported components of the CPI. Likewise, the underlying rate of inflation is also expected to pick up.

To support economic recovery, the Central Bank has decided to continue its easing monetary policy stance in order to bring down the high interest rates to boost the weak private sector credit demand and ultimately revive business and consumer confidence. Improved credit demand and strong inflows from abroad will improve the level of money supply (M2). (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**	
			(Percentage change over the previous year)				
Real sector							
Nominal GDP	8.6	9.1	9.6	-2.5	1.8	3.9	
Real GDP	2.2	1.9	4.3	-5.4	0.2	2.1	
Prices							
Headline Consumer Price Index (annual average)	3.2	4.9	6.2	14.6	-0.2	2.9	
Underlying Consumer Price Index (annual average)	2.2	5.6	6.9	17.2	1.2	3.1	
Implicit GDP Deflator (annual average)	6.2	7.1	5.1	3.0	1.6	1.8	
Monetary aggregates							
Net foreign assets (annual average)	-2.3	-3.6	9.5	2.1	20.1	22.7	
Government's net monetary position (end of period)	-10.9	12.7	-11.6	-2.3	109.8	-5.6	
Bank credit to private sector							
Annual average	21.3	21.6	6.1	7.2	6.2	4.9	
End period	28.2	11.7	6.9	5.7	5.1	6.0	
Money Supply, M2							
Annual average	14.0	13.1	11.2	8.0	4.2	5.9	
End period	13.0	8.7	12.1	7.7	12.2	-0.8	
Exchange rate							
Nominal Exchange Rate	0.11	0.76	0.16	-2.06	0.80	1.49	
Real Exchange Rate	-1.49	2.49	4.50	10.96	-1.72	0.02	
International reserves							
Gross International Official Reserves (Tala million)	179.08	207.54	254.5	260.28	410.72	356.82	
Gross International Official Reserves (Months of imports)	3.9	4.0	5.1	5.0	7.6	6.4	
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	0.13	(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	0.40	(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	0.15	(1)
Commercial bank deposits	4.80	6.50	6.20	5.19	4.81	2.31	(1)
Commercial bank credit	11.50	12.80	12.70	12.21	12.15	9.92	(1)
Commercial bank interest rate spread	6.70	6.22	6.60	7.02	7.34	7.61	(1)

Source: Central Bank of Samoa

(1) Interest rate as at end August 2011

na - not available

3. WORLD ECONOMY

The global recovery over the fiscal year 2010/11 continued broadly as anticipated in the World Economic Outlook (WEO) projections of October 2010 and January 2011. World growth decelerated to about 3.75 percent during the second half of 2010, from about 5.25 percent in the first half. As fears of a global depression receded in 2009 and confidence continued to improve, businesses began to rebuild depleted inventories. This stock rebuilding led to a sharp rebound in industrial production and trade, which lasted through the first half of 2010 and continued, albeit at a slightly slower pace, into the second half of 2010. In the meantime, however, reduced spare capacity, continuously accommodative policies, and further improvements in confidence and financial conditions encouraged investment and sharply reduced the rate of job destruction. Consumption also regained strength. Consequently, the recovery has become more self-sustaining, risks of a double-dip recession in advanced economies have receded, and global activity seems set to accelerate again. The recovery, however, remains unbalanced. In most advanced economies, output is still far below potential, while many emerging and developing economies have continued to experience robust growth. Unemployment is high and low growth, particularly in advanced economies, implies that it will remain so for many years to come.

World growth forecasts are largely unchanged since the January 2011 IMF World Economic Outlook update. The world output is expected to have grown by 4.7 percent in 2010/11, with advanced economies now expected to grow 2.7 percent, down from 2.75 percent in the January 2011 WEO projections. The US and Japan are expected to grow by 2.8 and 2.65 percent respectively, down from 2.9 and 2.75 percent. Emerging and Developing countries on the other hand are expected to grow by 6.9 percent, with China and India in the lead, expanding at robust rates of 9.95 and 9.3 percent respectively. (See Table 2.)

Table 2

Selected World Economic Indicators

Fiscal year to end June	2006/07	2007/08	2008/09	2009/10	2010/11 Estimate	2011/12 Forecast
Real growth rate	5.3	4.1	1.2	2.3	4.7	4.4
Inflation rate	3.9	5.0	4.2	3.1	4.1	3.9
Official international interest rates,	(End of period, percent p.a)					
US Federal Reserve	5.25	2.00	0.25	0.09	0 - 0.25	0 - 0.25
Reserve Bank of Australia	6.25	7.25	3.00	4.50	4.75	4.50
Reserve Bank of New Zealand	8.01	8.25	2.50	2.75	2.50	2.50
Bank of Japan	0.50	0.50	0.10	0.10	0 - 0.10	0 - 0.10
Bank of England	5.50	5.00	0.50	0.50	0.50	0.5
European Central Bank	4.00	4.00	1.00	1.00	1.25	1.25
Reserve Bank of Fiji Notes, 91 days	4.25	n/a	n/a	n/a	n/a	n/a

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

New Zealand

On an annual basis, the New Zealand economy grew 1.5 percent in calendar year 2010 (q/q result for the fourth quarter was an expansion of 0.5 percent). Quarterly growth performance by the NZ economy over 2010 lurked below 0.8 percent, which caused the annual growth rates to remain at or below 1.5 percent. Despite appearing miserably slow, when compared to the 2.1 percent contraction in calendar year 2009, the less-than-appealing growth rates were a welcome relief as it indicated that recovery was afoot albeit at a sluggish pace. The recent March quarter 2011 GDP release for the New Zealand economy was a quarterly increase of 0.8 percent, which increased the annual rate of growth to 1.5 percent and is a continued improvement from the 1.2 percent annual growth reported for the December quarter of 2010.

Despite the disastrous earthquake that shook Christchurch in February 2011, the strong growth rate in the March quarter was due mainly to manufacturing, which grew 3.6 percent, with large increases in machinery, metal product and food and beverage manufacturing. Real estate and business services rose 1.0 percent due to increases in business services. Wholesale trade was also up, by 1.5 percent as the volume of spending by New Zealand households and Government spending rose. Construction activity was down 4.3 percent due to declines in residential and non-residential building. Fishing, forestry and mining also detracted from growth as it declined 3.2 percent over the quarter. Export receipts were also healthy over the quarter, capitalizing on high commodity prices. Despite consumer sentiment being slightly pessimistic in the first quarter, the pick-up in employment has seen the jobless rate drop from to 6.6 percent in March quarter 2011 from 6.7 percent in the previous quarter.

New Zealand	Current	Forecasts		
		2011	2011/12	2012
GDP	Mar Quarter 11 0.8% *q/q* 1.5% *y/y*	0.9%	2.5%	4.1%
CPI	Jun Quarter 11 1.0% *q/q* 5.3% *y/y*	4.1%	3.4%	2.7%
Unemployment	Mar Quarter 11 6.6%	6.6%	6.30%	5.9%
OCR	2.50%	2.75%	3.5%	3.75%
Exchange Rate (vs. USD)	End June 11: US$0.83	US$0.81	US$0.77	US$0.75

Australia

The Australian economy, grew 2.7 percent in 2010 (calendar year) up from 1.3 percent in calendar year 2009 as it continued to steer clear of the economically debilitating effects of the global financial crisis. However, the Australian economy cannot evade the effects of severe weather disruptions, which in the first quarter of 2011 saw the Australian economy contract by 0.2 percent from the previous quarter. In annual terms, the economy grew only 1.2 percent. The detraction from annual growth, was the result of a decline in mining (down 6.1 percent), manufacturing (down 2.4 percent), and agriculture (down 8.9 percent) over the March quarter amid floods and cyclones early in 2011. Net exports were also down over the quarter. Positively contributing to growth were construction and financial and business services. Household and government spending over the quarter also added to growth over the quarter. With consumer sentiment softening in recent months, it is expected that consumer spending will be sub-par as consumers continue to remain cautious in their spending behavior amid residual uncertainty stemming from the financial crisis and above average interest rates, which lead them to focus more on increasing savings and reducing household debt. Housing credit growth had eased, although housing loan approvals picked up in the latter months of 2010/11. Employment growth has slowed, partly due to slower growth in estimated working-age population but regardless of this, the unemployment rate has remained steady in recent months to June 2011 at 4.9 percent.

Australia	**Current**	**Forecasts**		
		2009	**2009/10**	**2010**
GDP	June quarter 09: 0.6% q/q and 0.6% y/y	-1.4%	0.4%	0.6%
CPI	June quarter 09:0.5% q/q and 1.5% y/y	1.6%	1.5%	1.3%
Unemployment	June 09: 5.8%	6.8%	7.3%	7.8%
Cash Rate	End June 09: 3.0%	3.0%	3.0%	3.0%
Exchange Rate (vs. USD)	End June 09: US$0.80	US$0.80	US$0.84	US$0.87

4. DOMESTIC ECONOMY

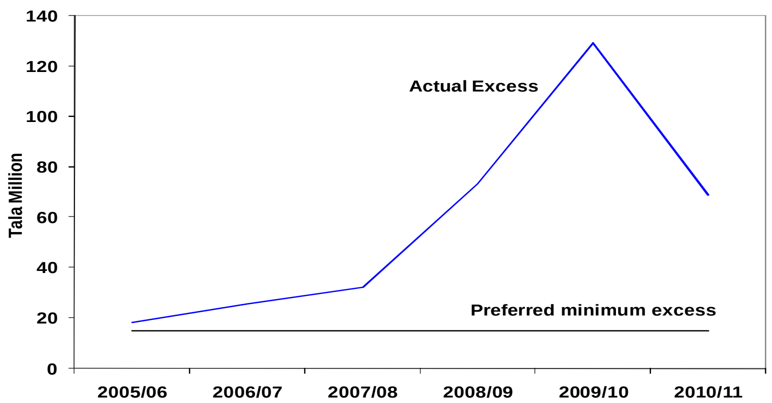
4.1 Policy Developments

Expansionary fiscal policy continued in 2010/11 with an estimated overall Government Budget deficit of $97.4 million (equivalent to 6.4 percent of the nominal GDP). This outcome, which was financed mainly by official soft term foreign loans, was much lower when compared to the original deficit of $160.1 million in the budget figures.

To ease the burden on businesses and consumers alike, monetary policy was further relaxed in 2010/11, supported by ample liquidity, strong external position and a relatively low level of inflation.

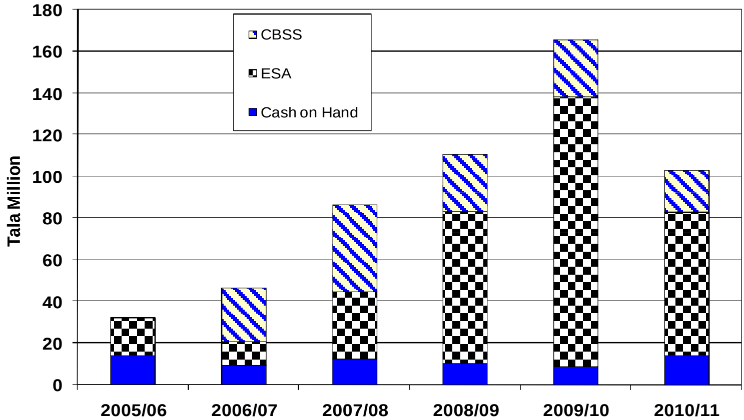
The Central Bank's monetary policy stance saw commercial banks' excess reserves stay up at very high levels. Commercial banks average liquidity in 2010/11 rose further to $161.2 million from $148.4 million in 2009/10 while the average monthly level of excess reserves rose to $123.5 million in 2010/11 from $110.0 million in the previous financial year. (See Graph 1.)

Graph 1 : Commercial Banks' Excess Liquidity



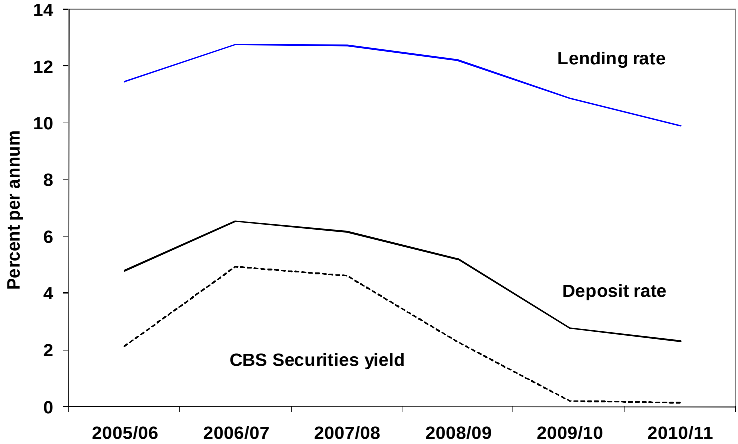
The average monthly level of CBS securities outstanding declined 9.2 percent from the $27.4 million outstanding in 2009/10 to $24.9 million in 2010/11. (See Graph 2.) With the loosened monetary policy stance in 2010/11 to support private sector growth, the weighted average yield on Central Bank securities decreased to 0.15 percent at end June 2011 from 0.22 percent at end June 2010.

Graph 2 : Total Commerical Bank Liquidity



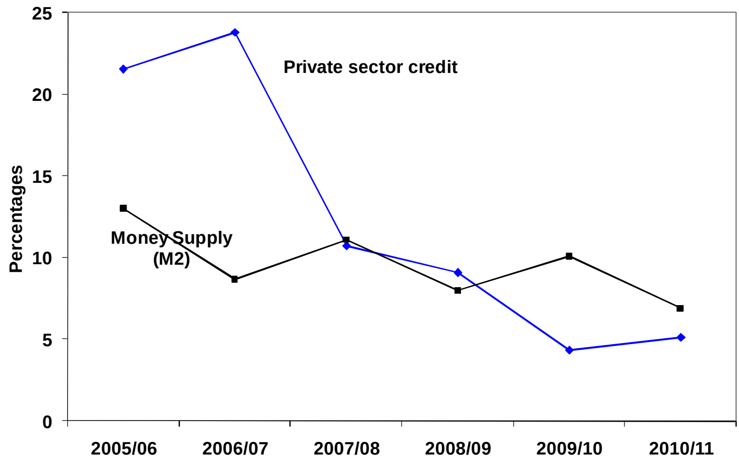
In response to the continued easing of monetary policy, the commercial banks' cut their lending and wholesale term deposit rates. In particular, the commercial banks' weighted average lending and deposit rates were both reduced to 9.92 percent and 2.31 percent respectively at end June 2011, from 10.88 percent and 2.77 percent in that order at end June 2010. (See Graph 3.)

Graph 3 : Weighted Average Interest Rates



Despite the downward trend in interest rates, the response of bank credit to the private sector and public institutions has been soft with only a 5.1 percent growth in 2010/11 compared to 4.4 percent in 2009/10. The annual growth rate of total money supply (M2) decelerated to 6.9 percent from 10.1 percent in the previous financial year. (See Graph 4.)

Graph 4 : Annual Average Growth Rates



In 2010/11, the nominal effective exchange rate (NEER) of the Tala appreciated 1.5 percent on an annual average basis against the currencies in its exchange rate basket. The real effective exchange rates (REER) also appreciated 0.02 percent in the course of the year. The exchange rate of the Tala was allowed to appreciate in order to ease pressure coming from imported inflation.

4.2 Macroeconomic performance

4.2.1 Real Sector

National accounts figures for the fiscal year 2011/12 showed that the economy expanded by 2.1 percent in real terms in 2010/11, a much better result than the 0.2 percent recovery in 2009/10. The main contributor was a significant 7.6 percent increase in 'Construction' activity as a result of the tsunami recovery projects and infrastructural projects such as the road widening and water sanitation projects implemented in 2010/11. 'Transport & Communications' also rose by 1.8 percent due to strong improvements in the telecommunications market, together with robust growth in transport activity as a by-product of construction activities. The 'Commerce' sector also recovered by 2.9 percent as business sales and consumption such as large supermarkets and clothing retailers started to rebound from global recession. After a significant reduction in 2009/10, output of the 'Hotels & restaurants' industry grew by 14.1 percent as many resorts and tourism facilities that were destroyed by the 2009 tsunami were rebuilt. 'Public administration' rose by 2.4 percent in light of the expansionary budget by Government while 'Finance & Business service', 'Electricity & water' and 'Personal & other services' increased by 0.5 percent, 3.9 percent and 1.0 percent in that order. The 'Agriculture' sector rebounded 0.7 percent due to improvement in supplies to the Fugalei Market.

However, on the down side, output of the 'Fishing' industry fell by 6.6 percent due to a large drop in catches. 'Other manufacturing' decreased by 2.40 percent as a direct result of the impact of the tsunami in Japan on car production in that country while 'Food and Beverage manufacturing' fell by 5.9 percent due to flagging demand for beer and soft drinks. The combination of high excise taxes and cheaper imported alternatives (as the case with soft drinks) has probably softened the demand and consequently the sales and production of beer and soft drinks. (See Table 3.)

Table 3

Real Gross Domestic Product by Industry

(At 2002 prices, amounts in Tala Million)

During the period	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Forecast
Agriculture	66.5	68.0	58.6	56.0	56.4	57.7
Fishing	50.3	51.7	48.2	47.3	44.2	44.0
Food & Beverage manufacturing	28.2	24.9	17.4	20.2	19.0	18.9
Other Manufacturing	113.9	126.3	88.9	92.2	90.0	90.2
Construction	128.8	137.2	127.0	127.4	137.1	140.8
Electricity and water	48.1	49.3	51.3	53.2	55.3	56.9
Commerce	191.1	195.3	193.4	192.2	197.8	208.4
Hotels, restaurants	32.8	37.8	39.4	31.5	36.0	37.9
Transport, Communication	143.8	146.4	152.7	157.2	160.0	164.4
Public administration	82.8	85.8	88.9	92.1	94.3	96.1
Finance and business service	99.1	102.6	104.6	106.1	106.6	109.8
Less: Enterprise share of FISIM (1)	-12.5	-13.0	-13.6	-13.9	-14.3	-14.3
Ownership of dwellings	31.0	31.1	31.2	31.3	31.4	31.5
Personal and other service	55.1	60.9	56.5	54.1	54.6	56.1
Total	1059.1	1104.4	1044.6	1046.9	1068.4	1098.3
Annual percent change	1.9	4.3	-5.4	0.2	2.1	2.8
Implicit GDP deflator	125.7	132.2	136.1	138.4	140.7	145.0
Annual percent change	7.1	5.1	3.0	1.6	1.8	3.1

Source: Samoa Bureau of Statistics

(1) FISIM : Financial Intermediary Services Imputed

4.2.2 Balance of payments

The balance of payments recorded a large deficit of $53.9 million in 2010/11, following a huge surplus of $150.4 million in 2009/10. This deficit was mainly the result of large financial transactions for NPF's building project, higher petroleum payments and investment earnings payments. (See Table 4.)

Table 4

Balance of Payments

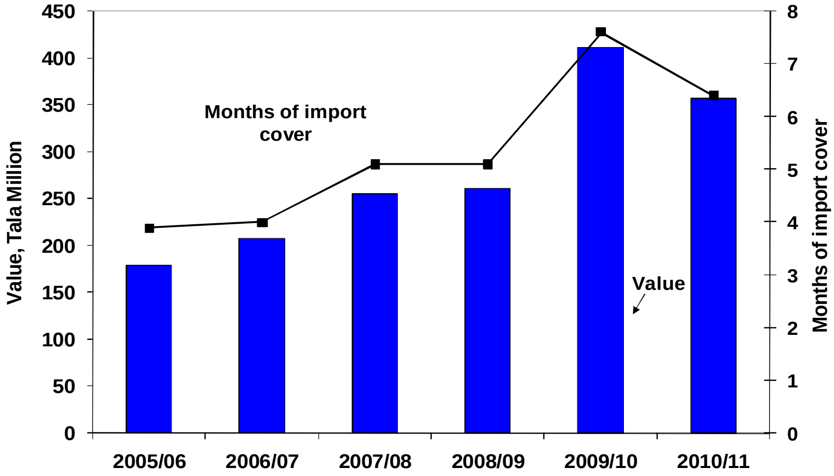
(Amounts in Tala Million)

During the period	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Updated	2011/12 Forecast
A. Current Account Balance	-206.1	-92.8	-39.4	-105.2	-140.1	-183.7
Merchandise Trade Balance	-585.5	-561.1	-598.0	-619.2	-641.3	-663.3
Exports	31.3	32.4	28.1	30.9	28.1	29.5
Imports	-616.7	-593.5	-626.1	-650.1	-669.4	-692.9
Services, net	209.5	249.3	253.3	233.6	226.9	213.9
Income, net	-95.8	-110.4	-47.4	-46.1	-71.9	-90.2
Current Transfers, net	265.8	329.4	352.7	326.5	346.2	355.9
Private transfers	260.8	323.0	342.6	326.6	346.7	356.3
Official transfers	4.9	6.4	10.1	-0.1	-0.5	-0.5
B. Capital Account Balance	125.7	60.9	100.3	174.8	142.9	112.9
Official Grants	126.2	68.0	101.9	152.8	145.2	115.3
Other	-0.5	-7.1	-1.5	22.0	-2.4	-2.4
C. Financial Account Balance	61.9	63.0	48.9	62.7	-53.4	63.9
Direct Investment	80.4	11.7	23.1	2.6	22.6	28.0
Portfolio Investment	-0.1	-0.5	1.0	-2.1	-4.6	-4.7
Other Investment	-18.4	51.8	24.9	62.1	-71.4	40.6
D. Reserve Assets	-28.2	-47.8	-7.1	-150.4	53.9	-17.7
E. Net Errors & omissions	46.6	16.7	-102.9	18.2	-3.3	0.0

Source: Central Bank of Samoa

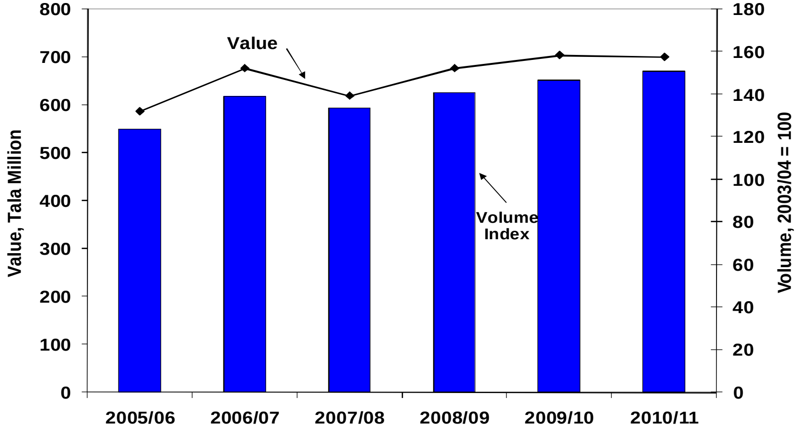
The level of international reserves in 2010/11 was equivalent to 6.4 months of imports, down from 7.6 months in 2009/10 but well above the long term benchmark of 4 months. (See Graph 5.)

Graph 5 : Gross Official Reserves



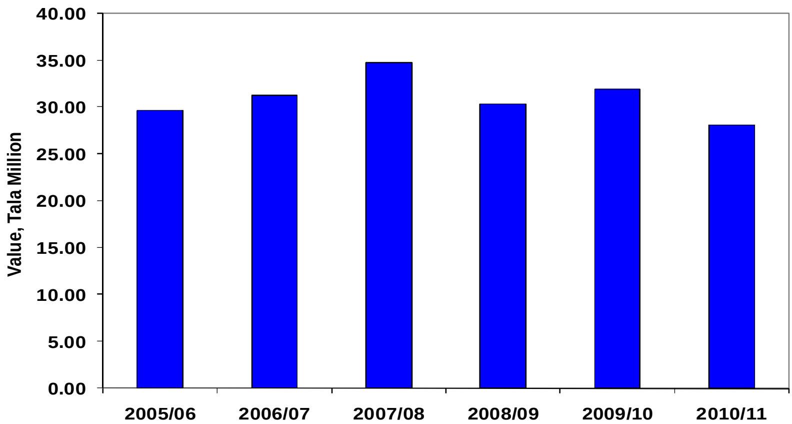
Total imports rose 3 percent to $669.4 million in 2010/11 as both petroleum and Government imports went up during the period. Non petroleum private sector imports however, decreased 5 percent reflecting mainly lower food imports by wholesale companies such as meat products (poultry and mutton mainly), eggs, dairy products and fruits. Furthermore, large one off shipments such as EPC materials and SSC's new ferry boat in 2009/10 also accounted for the drop in this category in 2010/11. Petroleum imports rose 7 percent to $136.5 million as oil prices rose 13 percent from the previous year while its volume picked up 4 percent. In addition, Government imports leapt to $55.8 million due to a substantial hike in volume reflecting imported building materials for the new international convention centre and the new Headquarters for Ministry of Health. (See Graph 6.)

Graph 6 : Imports



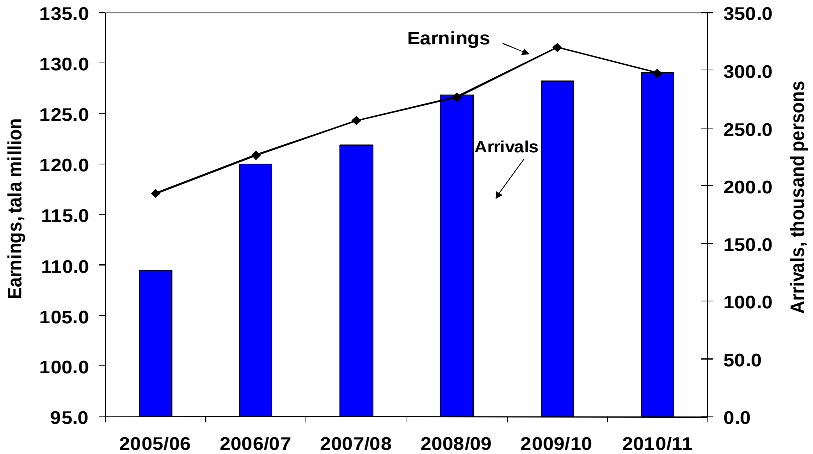
Exports fell 12 percent in 2010/11 as a result of declines in fresh fish, beer, coconut cream, bottled spring water and nonu fruits to name a few. On the upside, coconut oil, nonu juice copra meal and re-exports recorded higher proceeds over the year. Coupled with the increase on import payments, the merchandise trade deficit widened 3.7 percent. (See Graph 7.)

Graph 7 : Exports



Tourism earnings rebounded by 3 percent in 2010/11 reflecting the influx of mostly those visiting friends and relatives and those on holiday from mainly New Zealand and Australia, which went up by 4 percent each in the fiscal year under review. On the other hand, arrivals from the US, Europe and American Samoa fell by 10 percent, 18 percent and 1 percent in that order. With the prices of goods and services consumed by tourists increasing over the year, the average tourist expenditure rose by 2 percent in 2010/11. (See Graph 8.)

Graph 8 : Tourism



Private remittances in 2010/11 recorded a 6 percent increase to $368.9 million due mainly to a 25 percent pick-up in remittances for churches and charitable organizations while household remittances increased by 5 percent mainly due to higher remittances from the large local communities in New Zealand, American Samoa and Australia.

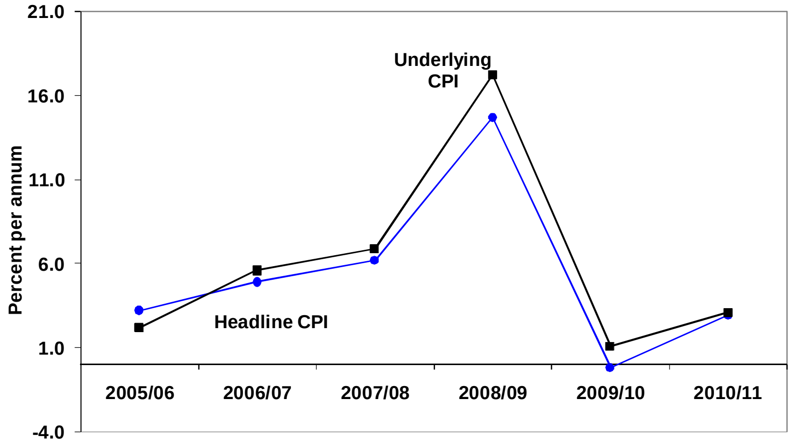
Official capital transfers recorded a drop of 27 percent to $145.9 million as projected in the 2010/11 Government Budget from $184.8 million in the previous financial year. Government loans liabilities went down reflecting increased repayments as well as lower loan disbursements compared to last year.

4.2.3 Prices

Following on from low levels in 2009/10, consumer prices remained reasonably low at the start of fiscal year 2010/11 before sharp oil price hikes in early 2011 pushed prices well above the US$100 per barrel mark. In addition, imported food items such as chicken, sugar, flour and rice also registered price hikes in 2010/11, pushing imported inflation up to 4.6 percent at end June 2011 from -0.6 percent at end June 2010.

Likewise, the local component of the headline Consumer Price Index (CPI) recorded an increase of 1.5 percent in 2010/11, much higher than 0.2 percent last year. Some of the driving forces was high electricity costs following higher oil prices and increased alcohol and tobacco prices. This was despite the abundance of agricultural production at local produce markets that pushed down the prices of vegetables and staple food crops sold at the main produce Market at Fugalei. (See Graph 9.)

Graph 9 : Annual Average Inflation Rates



As a result of the higher imported and local components of the headline CPI, the headline annual inflation rate rose to 2.9 percent at end June 2011 from -0.2 percent at end June 2010.

Similarly, the underlying inflation rate edged upward to 3.1 percent in 2010/11 from 1.1 percent in the previous fiscal year. (See Table 5.)

Table 5
Consumer Price Index
(August 2010 = 100)

Fiscal year to end June	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 Forecast
A. Headline Inflation							
12 months average percent change							
Description							
All Groups	3.2	4.5	6.3	14.6	-0.2	2.9	4.1
Food and Non-Alcoholic Beverages	2.1	6.4	7.1	20.6	-0.9	2.0	3.3
Import Component	3.5	6.0	8.0	15.5	-0.6	4.6	5.0
Local Component	3.1	3.2	4.8	13.8	0.2	1.5	3.5
B. Underlying Inflation (1)							
12 months average percent change							
Description							
All Groups	2.2	5.6	6.9	17.2	1.1	3.1	3.3
Food and Non-Alcoholic Beverages	3.1	6.5	7.9	20.5	1.2	4.2	3.6
Import Component	1.9	5.8	6.8	17.3	0.6	3.7	3.6
Local Component	3.0	4.9	7.1	16.8	2.7	1.2	2.0

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 2011/2012

5.1 Government Budget

With the tsunami rehabilitation as a backdrop, Parliament approved another expansionary Government Budget for 2011/12 although the overall Budget deficit was lower compared to last financial year's budget deficit. The Budget for 2011/12 is projected to result in an overall deficit of $146.1 million compared to an overall budget deficit of $97.4 million in 2010/11. The 2011/12 budget deficit is about 6.5 percent of nominal GDP, down from well above the 8 percent for 2010/11. The current financial year's budget deficit, to be financed largely by external soft term loans, includes some large public and social infrastructural developments, large education and health projects as well as road and seawall upgrades.

Total revenue is expected to expand in the face of new revenue measures introduced such as an increase in excise taxes on beverages and tobacco as well as other fixed taxes and charges. External grants, however, are expected to decrease to $133.3 million. Nevertheless, with tax and non tax revenues expected to rise, total revenue and grants is projected to increase to $549.0 million. On the other hand, total expenditure, is projected to rise to $695.1 million in 2011/12 from $664.6 million in 2010/11. (See Table 6 and Graph 10.)

Table 6

Financial Operations of Government (1)

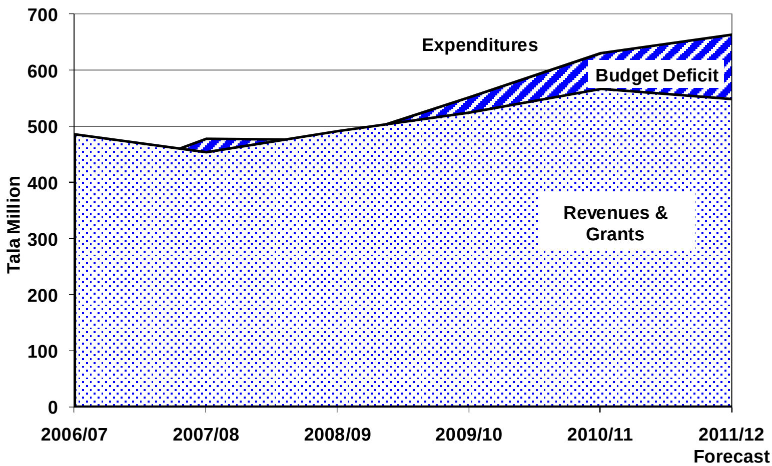
(Amounts in Tala Million)

During the period	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Provisional	2011/12 Budget
Total Revenue and Grants	387.1	461.5	454.9	492.0	525.2	567.2	549.0
Total Revenue	315.3	363.0	378.0	381.4	372.4	423.8	415.7
Tax	273.1	317.9	330.2	324.7	324.8	346.0	370.6
Non-tax	42.2	45.2	47.8	56.7	47.6	77.8	45.1
External Grants	71.8	98.5	76.9	110.7	152.8	143.4	133.3
Total Expenditure	391.7	477.6	476.5	552.5	631.7	664.5	695.1
Current Expenditure	281.9	325.1	372.4	358.8	347.0	374.8	440.6
Development Expenditure	86.1	131.7	96.2	182.1	273.8	272.9	200.3
Net Lending (1)	23.7	20.7	7.8	11.7	10.9	16.8	54.2
Overall Surplus / Deficit (-)	-4.6	-16.1	-21.6	-60.5	-106.6	-97.3	-146.1
Financing	4.6	16.1	21.6	60.5	106.6	97.3	146.1
External Financing	6.2	17.8	12.5	44.6	-15.3	82.7	90.4
Disbursements	19.2	33.3	28.5	60.4	144.8	100.6	108.8
Amortisation	13.0	15.5	16.0	15.8	160.1	17.9	18.4
Domestic Financing	-1.6	-1.7	9.1	15.9	-121.1	14.7	55.7
Monetary system	-11.0	0.0	11.9	2.2	-38.2	10.3	0.0
Other	-12.6	-1.7	-2.8	13.7	-82.9	4.4	55.7

(1) GFS Manual 1986 format

Source: Samoa Bureau of Statistics

Graph 10 : Government Budget

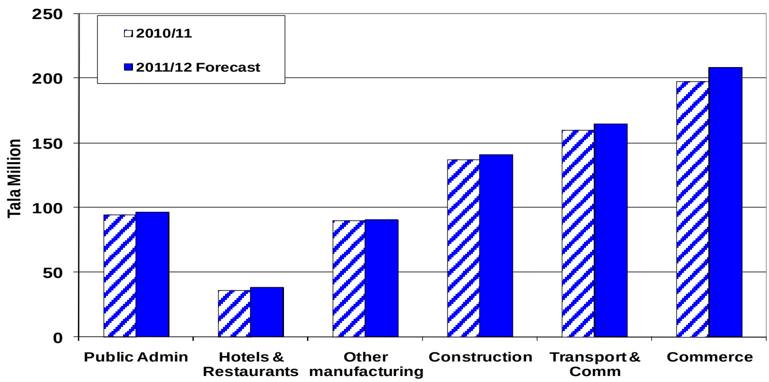


5.2 Real Sector

The economy in 2011/12 is expected to remain on a recovery path in light of expected improvements in tourism, remittances and general consumer demand, together with the expansionary fiscal and monetary policies. Government projects aimed at improving and strengthening the education, health, agriculture, water and electricity sectors, in addition to continual infrastructural works, will be expedited in the current budget, adding further stimulus for economic growth and recovery in 2011/12.

In the event, real GDP is expected to grow by about 2.8 percent in 2011/12. The 'Commerce' sector is expected to recover by 5.4 percent as demand picks up, the 'transport and communications' sector is anticipated to improve by 2.8 percent as both the transport and telecommunications industries are expected to strengthen. The 'Construction' sector, the third largest sector of the economy, is expected to grow by 2.7 percent in light of the implementation of Government funded projects and private construction activities while the 'Public administration' and 'Finance & Business' sectors are expected to increase by 2.0 percent and 3.0 percent respectively. 'Hotels & Restaurants' and 'Agriculture' sectors are forecast to grow by 5.3 percent and 2.2 percent in that order. (See Graph 11.)

Graph 11 : Real GDP Forecast



5.3 Balance of Payments

The balance of payments is expected to record an overall surplus in 2011/12, compliments of the projected significant Budgetary inflows such as the $105 million disbursement of Government external loans as well as an increase in project grants to $128 million from $124 million in 2010/11.

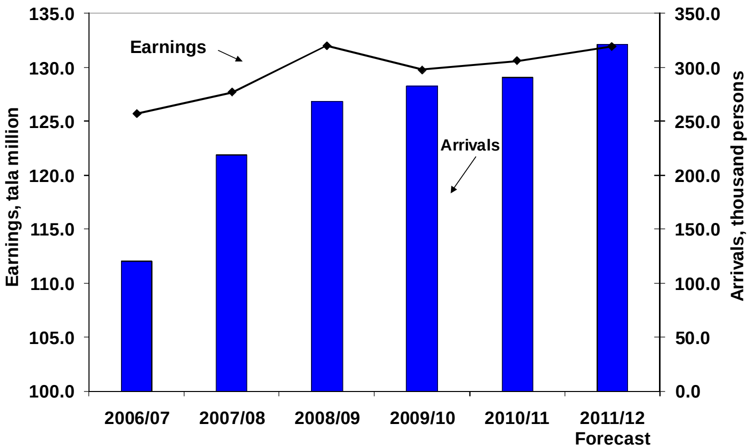
On the current account, exports for 2011/12 are anticipated to improve from last fiscal year due to expected large gains in nonu juice, coconut oil, fish, virgin oil and bottled water. With the opening up of Chinese markets to nonu juice, kava and bottled spring water products, their export value for 2011/12 are expected to expand, especially nonu juice which is already capitalizing on the opportunity. Kava and bottled water are expected to be shipped to China later in the current financial year. Fish exports are expected to recover slightly as favourable weather conditions are expected to improve the volume of fish exports. The current strong demand for coconut oil will see exports of coconut oil improve in 2011/12 as well.

Given the forecast growth in economic activity in 2011/12, total imports are expected to pick up by 4 percent to $692.9 million. Non petroleum private sector imports are envisaged to rebound by 5 percent to $495.8 million reflecting more demand for food products by wholesale companies, more construction materials for new construction projects as well as higher international commodity prices particularly for food items. The value of petroleum imports is expected to increase by 18 percent to $160.8 million as world oil prices are expected to remain above the US$100 per barrel mark as well as increased demand for petroleum as the economy recovers. Government imports, on the other hand, are expected to decline by 35 percent as construction activities related to the new international conference centre and Ministry of Health headquarters wind down to completion.

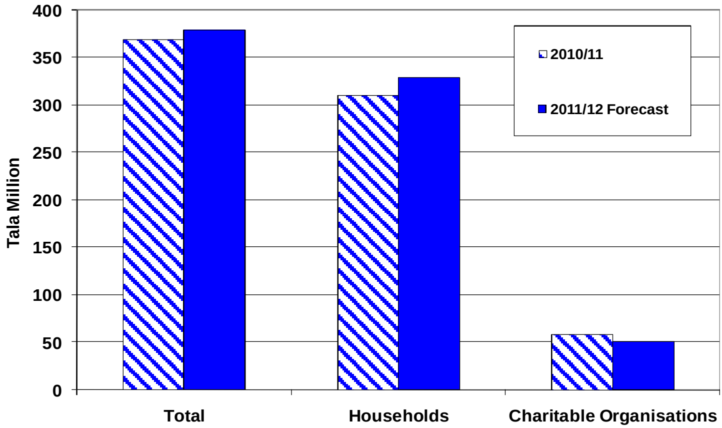
Tourism is expected to continue its recovery in 2011/12 in line with global economic recovery, ongoing promotion and marketing of Samoa in the main tourist markets of New Zealand and Australia. A number of regional meetings are also included in the 2011/12 calendar of international meetings to be hosted in Samoa.

These include the Pacific Islands Forum Economic Ministers Meeting, Rio+20 Meeting, the annual church conferences as well as the annual SPREP leaders meeting. There are also sporting events and festivities planned for the current fiscal year with the 50th year of Independence of Samoa being the highlight in June 2012. (See Graph 12 and Graph 13.)

Graph 12 : Tourism Forecast



Graph 13 : Private Remittances Forecast



On the whole, the balance of payments is expected to post a surplus of $17.7 million in 2011/12, a stark contrast to the $40.5 million overall deficit in the last financial year. The level of international reserves is anticipated to edge up to 6.5 months of imports from 6.4 months cover for 2010/11, thus remaining well above the minimum benchmark target of 4.0 months.

5.4 Prices

Consumer prices in 2011/12 are expected to rise although gradually from the previous year as inflationary pressures continue to buildup. Imported inflation is expected to continue its upward trajectory as the current recovery in global demand for international traded commodities will see prices of oil and food remain high in 2011/12. Domestic inflation is also anticipated to rise to accommodate the stipulated increases in some Government fees and charges and transport costs.

5.4.1 Headline Inflation

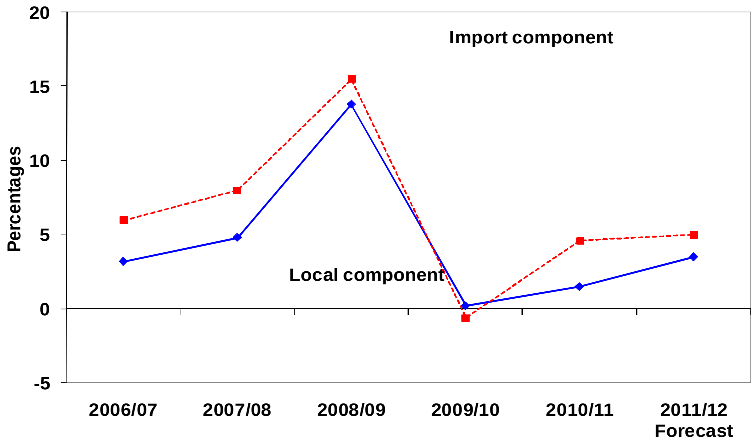
Import Component

While fears of a hike in commodity prices similar to that of 2007/08 did not materialize in 2010/2011, an upside risk remains with most commodity prices set to linger on at their prevailing high levels reflecting continued strong demand, low stock and ongoing supply constraints for some commodities. In particular, the ongoing political unrest in the Middle East and North Africa will continue to affect the oil markets, particularly if major disruptions in oil supplies continue. The June 2011 Update of the IMF's WEO forecasts a 12 percent increase in the global average oil price above that of 2010/2011. Supply constraints could further aggravate some commodity markets especially food prices, which may remain sensitive to adverse weather conditions and escalating energy prices. Furthermore, given higher oil prices, biofuel production will continue to attract the usage of more land, increasing the sensitivity of food prices to oil prices. Forecasts by the New Zealand Ministry of Agriculture and Forestry (MAF) indicated that dairy and lamb prices will strengthen in 2011/12 before decreasing in 2012/13 on improved outlook in milk supplies and flock numbers. With the forecast steadying of inflation rates in Australia, New Zealand and USA over the next twelve months as well as a bit more stability of major currencies, inflationary pressures sourced externally are expected to be moderate. On average therefore, imported inflation is expected to peak at 5.8 percent in December 2011 before subsiding to 5.0 percent in June 2012.

Local Component

Similar to imported inflation, the domestic headline inflation rate for the forecast period ahead (2011/2012) is expected to moderate, with a continued improvement in local food supplies evened out by a strengthening of domestic demand. Increased revenue measures by Government, as noted in the MOF's Budget Address for 2011/12, have been incorporated into the forecasts, primarily, the increased excise tax on tobacco products (up 5 percent), alcoholic beverages and soft drinks (up 10 percent), a 5 percent excise on petroleum fuels and a 30 percent increase in car registrations by LTA, all of which were effective in July 2011. Similarly, apart from the usual monthly fluctuation in fuel surcharge, a 7 percent increase in the base tariff rate for electricity rates is incorporated into the forecast following information received from the EPC. A modest increase in local taxi and bus fares has been included, given the current high levels of fuel prices. Overall, the domestic headline inflation rate is projected to gradually increase to 3.5 percent at end June 2012. (See Graph 14.)

Graph 14 : Headline Consumer Price Index

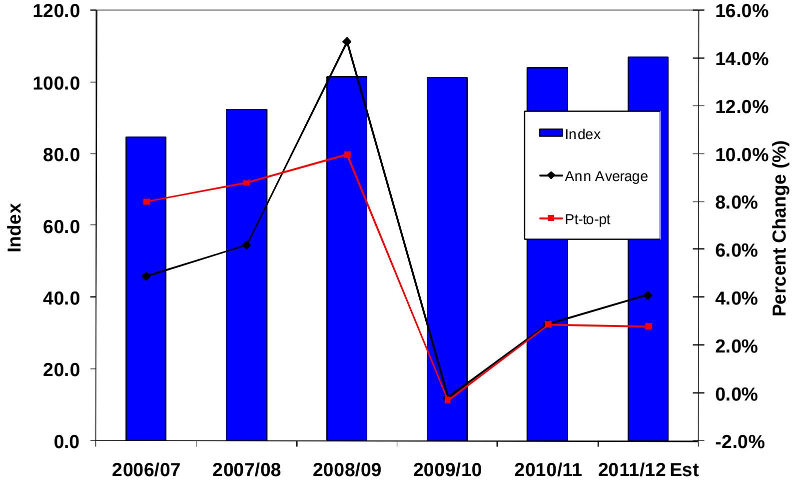


Headline Inflation Rate

With the expected robust global demand for internationally and domestically traded commodities, moderate inflation rates for Samoa's main trading partners and improved local agricultural production, inflationary pressures are expected to peak at 4.2

percent in March 2012 before edging down to 4.1 percent at end fiscal year 2011/2012. (See Graph 15.)

Graph 15 : CPI Forecast



5.4.2 Underlying Inflation

Import Component

It is anticipated that the overall import component of the underlying CPI will continue to rise steadily to 4.7 percent in October 2011 before easing gradually to 3.6 percent at end June 2012. This forecast largely reflects the moderation 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 0.9 percent at end September 2011 before reverting back up to 2.0 percent at end June 2011. A continued improvement of real GDP growth over the forecast period is the main factor responsible for the moderate estimate for 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 acceleration, peaking at 3.8 percent in October 2011 before slowing down to 3.3 percent at end June 2012.

6. MONETARY POLICY STANCE FOR 2011/2012

The Samoan economy is expected to improve further on its performance in 2010/11 posting a 2.8 percent growth in 2011/12. This growth is expected to be driven mainly by the expansion in the ‘construction’ and ‘transport and communications’ sectors reflecting substantial public and private sector projects, recovery in ‘agriculture’ as well as improvements in tourism earnings and remittances that will boost ‘commerce’. Exports are anticipated to rebound while imports are expected to increase in line with the recovery in the economy. In addition, net disbursements of external loans in 2011/12 should see the balance of payments record a modest surplus but the level of international reserves is expected to remain relatively unchanged at the equivalent of 6.5 months of imports due to the expected offsetting increase in imports.

In addition, inflation is expected to pick up as international commodity prices remain high in light of continuing recovery in global demand and volatility in supply. Already, prices have started to trend upwards, with the annual headline and underlying rates to rise to 4.1 percent and 3.3 percent respectively at end June 2012.

On the other hand, there is concern with the slow pick up of private sector investment demand, with recent data pointing to a stagnant credit growth to that sector despite the continued decline in interest rates. To encourage and stimulate activity in the private sector, therefore, monetary policy will continue on its eased stance in 2011/12. The main focus of this easing stance is to support and strengthen the private sector in these trying times. The Central Bank Credit Line Facility will also infuse some more liquidity to selected sectors of the economy, fostering competition in the financial system, reducing or holding down interest rates and boosting private sector credit demand.

In effect, monetary aggregates are expected to grow in 2011/12. Following a 4.8 percent growth rate in 2010/11, bank credit to the private sector is anticipated to rise to 8.3 percent in 2011/12. This, combined with an expected net inflow of foreign funds during the course of the year would see a total money supply (M2) posting a higher annual growth rate of 8.0 percent from 5.9 percent in 2010/11.

Table 7
Monetary Survey
(Amounts in Tala million)

End of Period	2006/07	2007/08	2008/09	2009/10	2010/11	Forecast 2011/12
A. Determinants of Money Supply						
Net Foreign Assets	199.1	227.7	248.5	364.7	334.1	360.0
Net Domestic Assets	342.6	392.6	419.8	376.5	401.0	461.1
Government's Net Position	-100.6	-89.0	-86.9	-181.6	-171.1	-276.4
Bank credit to private sector	548.3	586.3	619.4	648.7	687.3	734.9
Bank credit to public institutions	55.3	67.6	74.2	93.2	105.7	111.7
Others, net	-160.3	-172.4	-186.9	-183.8	-220.6	-105.0
B. Money Supply (M2)	541.8	620.2	668.3	741.2	735.1	821.1
Narrow Money	151.0	153.6	154.6	204.6	220.2	246.1
Currency Outside banks	42.4	41.0	41.6	43.1	50.7	56.9
Demand Deposits	108.6	112.6	113.0	161.5	169.5	189.3
Quasi-money	390.8	466.6	513.7	536.5	514.9	575.0
Savings deposits	71.2	74.1	78.3	88.0	94.1	105.1
Time deposits	309.9	371.5	416.4	427.1	391.1	436.6
Foreign Currency Deposits of Residents	9.7	21.0	19.0	21.4	29.8	33.3

Source: Central Bank of Samoa

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

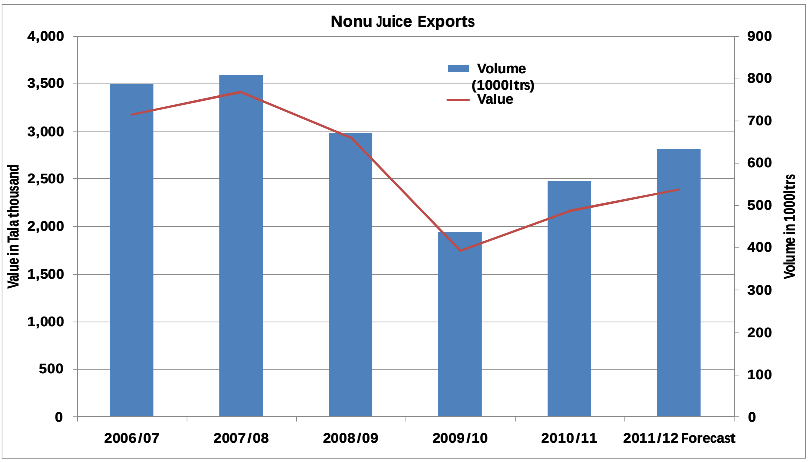
Box Article

Nonu Export Prospects

With reference to the 2003/04 Monetary Policy Statement Box Article Titled, ‘Nonu – A promising new addition to Samoa’s exports’, which introduces nonu as an upcoming export commodity for the country, this article is a follow up outlining the current and future potential of nonu to become Samoa’s major export earner.

Nonu products are exported and recorded under two main categories, the liquid form or nonu juice and the solid form, which is mainly nonu powder but may also include nonu chips, leaves stems etc…

Nonu juice is the more popular of the two and fetches a much higher price in the international market. The main markets are USA, Japan and Europe. Nonu juice has earned on average, in the past 5 years, around SAT$2.7 million per annum.



In 2009, a delegation of major nonu producers in Samoa went to China in order to gauge the potential demand for nonu in China as well as seeking potential clients. More exposure for nonu products came via the Shanghai Expo 2010, culminating in Samoan Delegation to China in July 2011 which saw the successful negotiation of exports of nonu, kava, Samoan cocoa, honey and bottled spring water as import duty free items in China.

Already, several large nonu producing companies in Samoa like Pure Pacifika Samoa, Reef Group and Samoan Nonu Enterprise are preparing large volumes of nonu juice for export to the Chinese market.

One thing is certain, demand is not a concern but local supply is. The Ministry of Agriculture recently launched a nonu workshop to inform farmers about the potentially large market for nonu in China and the best practices for planting, maintaining and harvesting nonu.

Nonu is a fairly simple crop to plant and maintain with relatively lower farming costs compared to other high maintenance crops such as taros and bananas. Nonu can grow in almost any terrain and bears fruit all year round.

The outlook for nonu juice exports is encouraging, with a relatively conservative estimate in terms of volume incorporated in the 2011/12 exports forecast by the Central Bank. Earnings from nonu could very well exceed expectations if the 4 major nonu producing companies do manage to capitalise fully on the newly opened gigantic Chinese market.
