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. 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 and financial 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 have shown that persistently sharp hikes in international prices for crude oil and food have 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.

Another major goal of the Central Bank is to foster and maintain a stable financial system. This is implemented through the regulation and supervision of commercial banks, non-monetary financial institutions, money transfer operators, foreign exchange dealers and insurers. This ensures the smooth operation of the financial market, and building sound financial market infrastructure.

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 grew 3.35 percent in 2012/13 and it is projected that world growth will be lower at 3.30 percent by end June 2014. The downward revision of forecasts from earlier updates in the International Monetary Fund (IMF) World Economic Outlook (WEO) was mainly due to weaker-than-expected global activity in the first half of 2014 and increased downside risks to growth. Despite this, the global recovery remains uneven with the progress tempos becoming more particular to each country. For the year 2013/14, the advanced economies are projected to have grown by 1.6 percent, while the Emerging Market and Developing economies are estimated to have both grown by 4.55 percent each.

Inflation in the world economy was 3.85 percent in 2012/13 and is projected to have eased to 3.60 percent in 2013/14. The inflation rate for advanced economies is estimated to decrease marginally to 1.50 percent, while in the Emerging and developing economies, inflation is expected to fall to 5.70 percent in 2013/14.

Most major central banks across the globe upheld their expansionary monetary policies in 2013/14, either by continued reductions to their official interest rate or by maintaining at near zero levels to support their economic recoveries. The Reserve Bank of New Zealand (RBNZ) was an exception as it had moved towards a slight tightening policy. As such, by end June 2014, the RBNZ overnight cash rate (OCR) stood 75 basis points higher at 3.25 percent. In the United States (US) the Federal funds rate was unchanged at its target range of 0 – 0.25 percent, and in the United Kingdom (UK) and Japan, the monetary policy rates were unchanged at 0.5 percent and a zero to 0.1 percent range, respectively. In the Euro area, the policy rate was reduced by 35 basis points to 0.15 percent, and in Australia the cash rate was gradually cut by a total of 75 basis points to 2.75 percent.

In the financial markets, the US dollar was generally weak as investors continued to favor higher yielding currencies. Nevertheless, it gained some support from its safe haven status in the face of dismal global growth reports, and from speculations for higher US yields as the Fed was rumored to gradually phase out its quantitative easing program amid improving US economic data. The Euro strengthened over 2013/14, supported by the European Central Bank's ongoing implementation of quantitative easing measures to stimulate growth in the sluggish-growing Euro economies. The Australian dollar gained support from its interest rate advantage over the US dollar but speculations of rate cuts amid reports of weak growth in Australia rendered the currency weaker. The New Zealand (NZ) dollar on the other hand held firmly against the US dollar over 2013/14 supported by its high OCR despite episodes of currency dip when NZ economic data surprised on the downside.

Domestic Economy

With the economy on its back heel following the aftermath of Tropical Cyclone Evans and to a lesser extent the economic slowdown from the second round effects of the global financial crisis, the Central Bank continued its easing monetary policy stance in order to revive economic growth. One monetary policy instrument, was the continuation of its Credit Line Facility to non monetary financial institutions, namely the Development Bank of Samoa (and the Samoa Housing Corporation to a lesser extent), as a means of injecting much needed liquidity into Samoa's main priority sectors such as tourism, agriculture and fisheries, manufacturing and housing.

The Sāmoan economy rebounded by 1.9 percent (real terms) in 2013/14[1] driven mainly by noticeable improvements in the

[1] GDP June Quarter 2014.

'Agriculture', 'Commerce', 'Construction' and 'Finance & business service' sectors.

Due to significant financial and capital inflows despite an increase in the current account deficit, the external sector posted a $29.4 million surplus in the balance of payments. However, with a sharp increase in import payments, international reserves rose slightly to a level equivalent to 5.6 months of imports in 2013/14 from 5.4 months in the previous year.

Prices remained weak in the year under review given strong adverse weather conditions earlier in the financial year, slowing the headline rate down to a low of -1.2 percent at end 2013/14. Underlying inflation, on the other hand, crawled up to 0.8 percent by end of the June 2014. (See Table 1.)

Table 1

Selected Domestic Economic Indicators

Fiscal year to end June	2011/12	2012/13	2013/14	Forecast 2014/15	
	(Percentage change over the previous year)				
Real sector					
Nominal GDP	4.4	0.2	1.5	4.3	
Real GDP	2.9	-0.3	1.9	2.2	
Prices					
Headline Consumer Price Index (annual average)	6.2	-0.2	-1.2	2.4	
Underlying Consumer Price Index (annual average)	2.2	0.03	0.8	2.4	
Implicit GDP Deflator (annual average)	3.0	0.7	-0.4	2.1	
Monetary aggregates					
Net foreign assets (annual average)	-24.1	-7.0	21.0	10.7	
Government's net monetary position (end of period)	-5.4	-5.9	0.3	-8.6	
Bank credit to private sector					
Annual average	5.9	1.5	2.1	3.0	
End period	1.9	1.2	2.9	1.4	
Money Supply, M2					
Annual average	-5.5	-1.9	2.2	9.9	
End period	-4.0	-0.8	1.7	0.3	
Exchange rate					
Nominal Exchange Rate (annual average)	1.11	0.82	0.01	na	
Real Exchange Rate (annual average)	2.71	-2.34	-2.85	na	
International reserves					
Gross International Official Reserves (Tala million)	366.76	322.63	351.38	369.48	
Gross International Official Reserves (Months of imports)	5.7	5.5	5.4	5.6	
Weighted average interest rates	(End of period, percent p.a.)				
CBS 14 days Securities	0.11	0.00	0.13	0.13	(1)
CBS 28 days Securities	0.12	0.14	0.16	0.16	(1)
CBS 56 days Securities	0.14	0.14	0.17	0.17	(1)
CBS 91 days Securities	0.40	0.40	0.41	0.41	(1)
CBS 182 days Securities	-	-			
CBS 365 days Securities	-	-			
	(period average, p.a.)				
CBS Securities overall weighted average yield (annual average)	0.16	0.21	0.21	0.19	(1)
Commercial bank deposits	2.36	2.66	3.02	2.97	(1)
Commercial bank credit	9.81	10.07	10.28	9.44	(1)
Commercial bank interest rate spread	7.45	7.41	7.26	6.47	(1)

Source: Central Bank of Samoa
(1) Interest rate as at end October 2014
na - not available

3. WORLD ECONOMY

Growth in the global economy was 3.35 percent in 2012/13, down from 3.70 percent in 2011/12 and it is expected to weaken further to 3.30 percent by end 2013/14. The downward adjustment of global growth forecasts from earlier projections in the April and July WEO updates reflected increased downside risks to growth arising from mounting geopolitical tensions (the Russia-Ukraine situation and conflicts in some Middle Eastern countries) and weak global economic activity reported for the first half of 2014 in the US, Euro area, Japan and notably in some large emerging market economies. In most cases, various economies were still facing high unemployment rates while price pressures have become generally subdued.

Despite the markdown in growth estimates in the October IMF-WEO, world output is still expected to expand albeit by 3.3 percent in 2013/14 from an initial forecast of 3.7 percent in April. Global growth will then rebound in 2014/15, motivated by recoveries in both the advanced economies and emerging market economies. Although the pace of recovery will vary across regions, the advanced economies are estimated to continue on its projected growth path of 1.6 percent in 2013/14 as set out in the July forecasts. The US economy is expected to have grown 2.2 percent in 2013/14, up from a previously expected 1.95 percent. As such, it is anticipated the US economy will lead growth in the advanced economies. The Euro area is forecasted to grow at a modest 0.2 percent, down from an initially expected 0.35 percent, while Japan is expected to grow by 1.2 percent, down from 1.55 percent previously envisaged. Growth in the UK economy is projected at 2.45 percent in 2013/14. The emerging market and developing economies were previously expected to grow 6.5 percent but are now expected to grow marginally higher by 6.55 percent in 2013/14 and will continue as such into 2014/15. China and India are expected to lead the rebound with growth rates of 7.55 percent and 5.3 percent respectively. Inflation is expected to ease lower in both advanced and emerging market economies with mixed projections for unemployment levels. (See Table 2.)

Table 2

Selected World Economic Indicators

Fiscal year to end June	2010/11	2011/12	2012/13	2013/14	2014/15 Forecast	
Real growth rate	4.56	3.55	3.40	3.30	3.55	(1)
Inflation rate	4.22	4.48	3.85	3.60	3.63	(1)
Official international interest rates,	(End of period, percent p.a)					
US Federal Reserve	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	
Reserve Bank of Australia	4.75	4.50	2.75	2.5	2.5	
Reserve Bank of New Zealand	2.50	2.50	2.50	3.25	3.50	
Bank of Japan	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	
Bank of England	0.50	0.5	0.5	0.5	0.5	
European Central Bank	1.25	1.25	0.5	0.15	0.05	
Reserve Bank of Fiji Notes, 91 days	n/a	n/a	n/a	n/a	n/a	

Source: IMF and reserve banks' publications and information releases.
(1) IMF World Economic Outlook Database October 2014
n/a : not available

New Zealand

The New Zealand economy continued to expand in 2013/14 on strong economic activity reported in late 2013 and impressive performances from various sectors in the first half of 2014. The modest growth picked up its momentum from the Canterbury rebuild and robust private consumption. Reconstruction activities in Christchurch have helped both the labor and housing market conditions. Manufacturing and business confidence also reported gains on the back of strong growth in construction activity. Positive economic performance over the year has seen a cooling of unemployment in the labor market. However, on the inflation front, resilient house prices drove up inflation. Although house price inflation remains elevated, expectations are for a moderation in the next three years as demand pressures are dampened by projected interest rate increases, easing immigration and high household debt. Furthermore, projections indicate that a boost to construction will continue in order to address housing shortages in Auckland and Canterbury, and help slow the rise in prices.

In the second quarter of 2014, annual growth in the New Zealand economy was unchanged at 3.8 percent but over the quarter, it expanded 0.7 percent. Strong growth in the services sector formed the bulk of the GDP increase with positive contributions from construction, retail trade and accommodation. Activity in the primary industries, such as agriculture, forestry, fishing and mining all fell over the quarter. As overall growth improved, unemployment rate to 5.6 percent in June from 5.9 percent in the previous quarter. The inflation rate also rose 0.3 percent over the quarter to be 1.6 percent higher than a year ago, due to the rise in housing costs.

New Zealand	Current	Forecasts		
		2013	2013/14	2014
GDP	Jun Quarter 14 0.7 q/q 3.8% y/y	2.80%	3.20%	3.60%
CPI	Jun Quarter 14 0.3% q/q 1.6% y/y	1.10%	1.40%	1.60%
Unemployment	Jun-14 5.60%	6.20%	6.00%	5.70%
Cash Rate	3.25%	2.50%	3.00%	3.50%
Exchange Rate (vs. USD)	End June 14: US$0.8781	US$0.78	US$0.77	US$0.75

Sources: RBNZ Statistics, IMF October WEO and Bloomberg LP

Australia

Growth in the Australian economy picked up over the second half of 2013 and continued into 2014. Although exports weakened over the June quarter, positive contributions to growth from consumption and private investment modestly pulled up growth over the period. Retail sales volumes were marginally lower in the June quarter and growth in household wealth was a little less rapid than the pace seen in 2013. Nevertheless, over the year, business conditions have trended at average levels while consumer sentiment rebounded, albeit more recently towards year end. Housing market conditions improved consistent with strong growth in dwelling investments. The mining industry and the services sector also picked up, positively contributing to growth but are expected to decline further over 2014, as GDP is projected to be slightly below trend. Employment growth was modest and as such, the unemployment rate was gradually reduced. Inflation rose as commodity prices increased.

In June quarter 2014, growth in the Australian economy fell to 3.1 percent from 3.8 percent in the same quarter a year ago. The key sectors contributing to moderate growth in the June quarter were partly net exports, and increases in consumption expenditure and private investment. The unemployment rate decreased to 6.0 percent in the June quarter from 6.2 percent in the previous year, despite having increased from 5.8 percent in the March quarter. Inflation also increased, to 3.0 percent in the June quarter, up from 2.9 percent in the previous quarter and from 2.4 percent in June quarter 2013.

Australia	Current	Forecasts		
		2013	2013/14	2014
GDP	Jun Quarter 14 0.5 q/q 3.1% y/y	2.30%	2.60%	2.80%
CPI	Jun Quarter 14 0.3% q/q 3.0% y/y	2.40%	2.60%	2.70%
Unemployment	Jun-14 6.00%	5.70%	6.00%	6.20%
Cash Rate	2.50%	3.00%	2.80%	2.75%
Exchange Rate (vs. USD)	End June 14: US$0.9423	US$0.89	US$0.88	US$0.87

Sources: Australian Bureau of Statistics, RBA, IMFs October WEO, Bloomberg LP

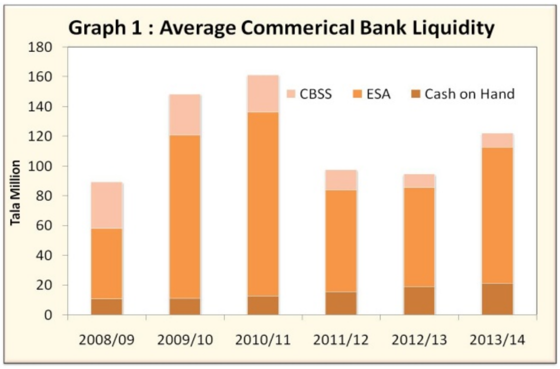
4. DOMESTIC ECONOMY

4.1 Policy Developments

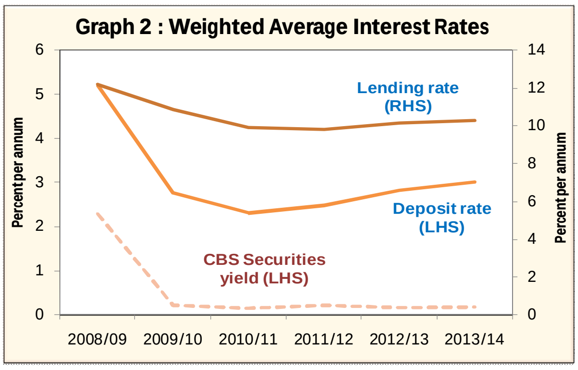
With Tropical Cyclone Evan in December 2012, the fiscal policy stance in 2013/14, remained loosened with an overall Government Budget deficit of $80.84 million (equivalent to 4.8 percent of nominal GDP)[2] approved by Parliament, aimed at sustaining economic growth but at the same time continue Government's fiscal consolidation efforts which started in 2010/11. While relatively large, this budget deficit, which was financed mainly by official soft term foreign loans, was much lower when compared to the previous year's budget deficit of $103.7 million or 6.1 percent of GDP.

The economy in 2013/14 was initially expected to grow by 1.7 percent, however better than expected recovery in most macroeconomic indicators up to May 2014 led to the updated Central Bank forecasts estimating a 1.9 percent growth for the year. Latest national accounts for the fiscal year 2013/14 shows a 1.9 percent real growth, up from -1.1 percent in 2012/13.

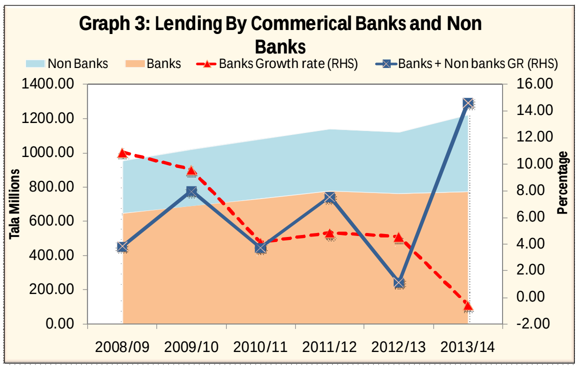
On the financial sector, liquidity conditions improved during the year with average commercial banks' excess reserves rising to $91.6 million in 2013/14 from $66.6 million in 2012/13. Likewise, average total commercial banks' liquidity in 2013/14 increased to $122.1 million from $94.6 million in 2012/13. (See Graph 1.)



In line with the continued easing of monetary policy, the CBS official interest rate remained low at 0.18 percent at end June 2014, up slightly from 0.16 percent at end June last year. Likewise, commercial banks' average lending rates rose 11 basis points to 10.28 percent at end June 2014, from 10.17 percent at end June 2013. Furthermore, commercial banks' deposit rates edged up 19 basis points to 3.02 percent, from 2.83 percent over the referenced period. (See Graph 2.)

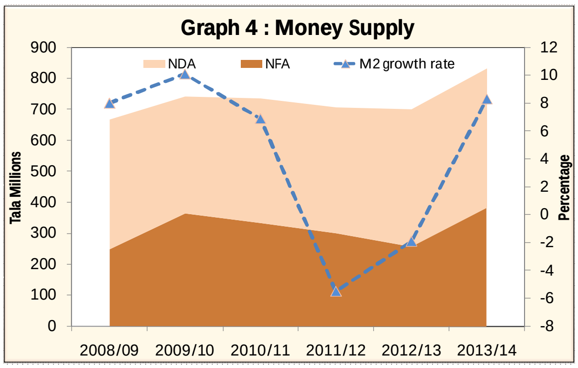


Despite the slight increase in the average cost of borrowing, commercial bank loans to the private sector and public institutions combined rose 1.9 percent over the year to $772.5 million, or equivalent to an annual growth rate of -0.58 percent in 2013/14 compared to -1.62 percent in 2012/13. However, if we include lending by non bank institutions like the Sāmoa National Provident Fund and Development Bank of Sāmoa, total lending amounts to $1,222.2 million, or around an annual growth of 4.44 percent at end June 2014 compared to 0.27 percent at end June 2013. (See Graph 3)

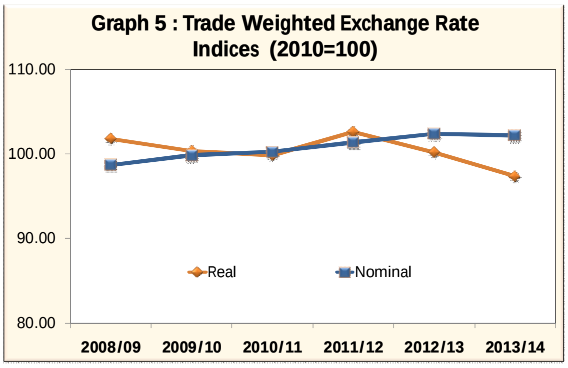


[2] Budget Address 2013/14

And, together with a substantial increase of net foreign assets (primarily commercial banks' held foreign assets), this contributed to total money supply (M2) expanding by 18.7 percent on a point to point basis, or around 8.3 percent growth on an annual basis. (See Graph 4.) The recent uptick of credit growth reflects strong growth in lending by the non monetary financial institutions given slow rate of credit expansion in the past three financial years due to relatively weak economic conditions.



The nominal effective exchange rate (NEER) of the Tala in 2013/14 depreciated 0.19 percent against the currencies in its exchange rate basket. The real effective exchange rates (REER) also depreciated 2.8 percent in the course of the year. (See Graph 5.)



4.2 Macroeconomic performance

4.2.1 Real Sector

The economy grew by 1.9 percent in real terms in 2013/14, picking up from the -1.1 percent last year.

The turnaround in the fiscal year 2013/14 was consequent of a further strengthening in agricultural production, up 11.0 percent in line with strong increases in production of agricultural commodities such as taro, banana and coconut to name a few. Likewise, the 'Construction' sector expanded by 11.6 percent (around $21.1 million) in light of large construction projects such as the Taumeasina Hotel, SISDAC headquarters and NUS Marine Campus. The output of the 'Commerce' sector rose by 2.0 percent reflecting robust growth in wholesale and retail businesses while 'Food & beverage manufacturing' increased by 5.8 percent in the year under review.

On the other hand, the 'Other manufacturing' sector fell by 5.8 percent in line with reduced demand for automotive wire harnessing while output for the 'Communications' sector declined 8 percent. The 'Accommodations & restaurants' sector contracted by 16.2 percent in line with lower visitor numbers while 'Business services' decreased 5.8 percent due to weak domestic demand in 2013/14. (See Table 3.)

Table 3
Real Gross Domestic Product by Industry
(At 2009 prices, amounts in Tala Million)

During the period	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Forecast
Agriculture	129.6	132.2	146.8	152.9
Fishing	37.1	30.5	31.5	32.4
Food & Beverages manufacturing	60.6	56.2	59.4	60.9
Other manufacturing	116.1	116.6	110.2	101.9
Construction	194.3	181.9	203.0	209.5
Electricity and water	60.7	64.1	64.9	65.4
Commerce	520.4	540.4	551.1	570.6
Accomodation & Restaurants (1)	35.9	29.8	25.0	26.0
Transport	74.0	56.2	56.1	54.5
Communication	63.6	70.0	64.5	66.8
Public administration	137.5	145.0	146.6	152.0
Financial services	55.8	64.8	64.4	65.8
Less: Enterprise share of FISIM	-17.7	-20.6	-20.4	-21.0
Business services	60.9	55.5	52.3	53.4
Ownership of dwellings	93.3	93.9	94.5	96.4
Personal and other service	91.8	78.7	77.8	77.3
Total	1,713.8	1,695.3	1,727.6	1,764.8
Annual percent change	1.2	-1.1	1.9	2.2
Implicit GDP deflator	107.4	108.2	107.8	110.1
Annual percent change	3.0	0.7	-0.4	2.1

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

4.2.2 Balance of payments

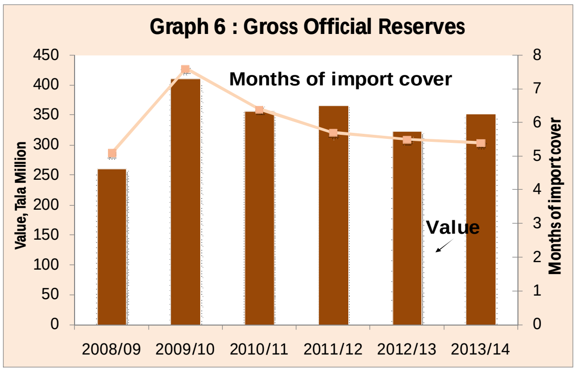
Following a modest surplus of $25.9 million in 2012/13, the balance of payments (bop) recorded another healthy surplus of $28.1 million in 2013/14 due to large inflows of Government grants and inward foreign direct investment. (See Table 4.)

Table 4
Balance of Payments (1)
(Amounts in Tala Million)

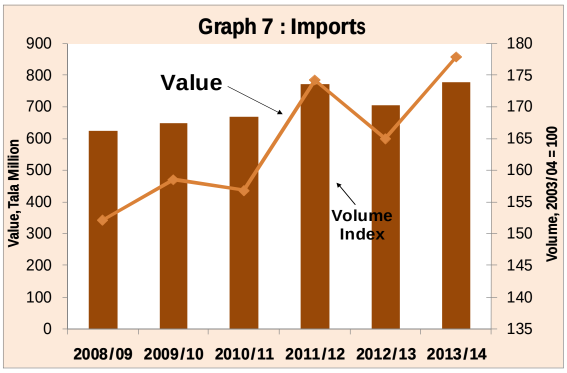
During the period	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Forecast
A. Current Account Balance	-143.2	-58.6	-70.6	-144.8
Merchandise Trade Balance	-705.5	-643.9	-676.6	-730.4
Exports *	67.4	62.8	56.7	60.7
Imports	-772.8	-706.7	-733.3	-791.1
Services, net	262.4	273.4	300.3	306.4
Primary Income, net	-84.5	-87.3	-57.6	-81.7
Secondary Income, net	384.4	399.1	363.2	360.9
Personal transfers	325.3	330.9	287.5	314.4
Other transfers	59.1	68.3	75.7	46.5
B. Capital Account Balance	155.7	164.7	150.9	122.1
Capital Grants	155.7	164.7	150.9	122.1
Other	0.0	0.0	0.0	0.0
C. Net Lending (+)/Net Borrowing (-)	12.5	106.0	80.3	-22.7
D. Financial Account	-39.4	-33.6	7.9	-54.0
Net Lending (+)/Net Borrowing (-)				
Direct Investment	-29.1	-33.0	-44.1	-93.2
Portfolio Investment	1.0	8.0	0.9	0.9
Other Investment	-21.3	-34.5	23.0	20.1
Reserve Assets	9.9	25.9	28.1	18.1
E. Net Errors & omissions	51.9	139.6	72.4	-31.3

(1) Based on Balance of Payments Manual 6 format
** Export figures now include the re-export of fuel (from 2010 onwards).*
Source: Central Bank of Samoa

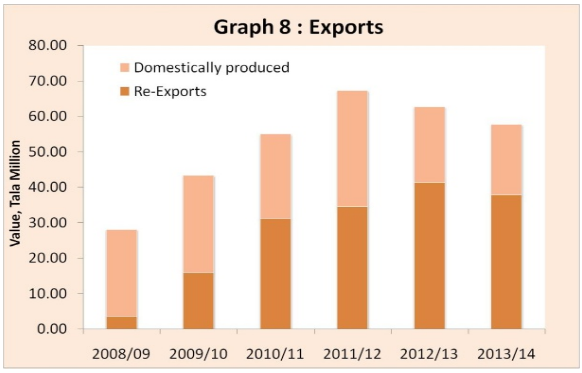
Nevertheless, the current account deficit widened during the year due to a sharp increase in the 'Goods' trade deficit coupled with a decline in private remittances and lower than expected increase in visitor earning (travel credit). As a result of the modest surplus in the bop, the level of international reserves in 2013/14 was equivalent to 5.4 months of imports, down slightly from 5.5 months in 2012/13 but was well above the long term benchmark of 4.0 months cover. (See Graph 6.)



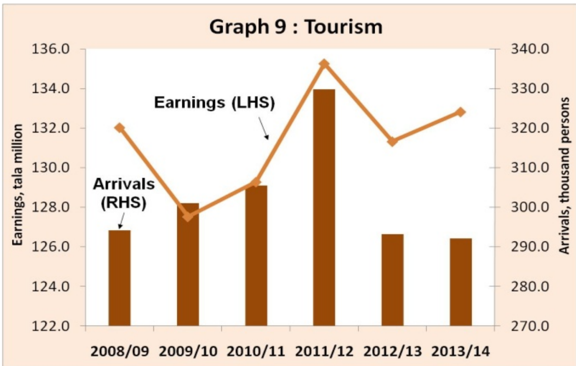
Total import payments grew 10.0 percent (or $70.8 million) to $777.2 million in 2013/14, largely underpinned by increased private sector imports. (See Graph 7.)



On the other hand, exports fell by 7.9 percent mainly resulting from reductions in both re-exports and domestically produced exports in 2013/14. As a result of the increase in import payments and reduction in export revenues, the merchandise trade deficit widened 11.8 percent. (See Graph 8.)



On the back of a decline in 2012/13, tourism earnings picked up around 2.4 percent to $324.1 million during the year, which was still weak compared to past average growth rates of 4-5 percent. Higher tourist numbers were recorded for visitors from Australia, Other countries and Europe, the lower arrivals in the year were from 'American Sāmoa, New Zealand and the USA. (See Graph 9.)



Private remittances fell 6.5 percent to $392.0 million, mainly resulting from a 4.3 percent drop in household remittances and a 12.0 percent decline in funds for churches; mainly from the large Samoan communities in Australia and New Zealand.

4.2.3 Prices

Consumer prices were generally deflationary for most of 2013/14, well below the Bank's long term target of 3.0 percent. Agricultural production continued to flourish in 2013/14 due to favourable weather conditions and increase in the number of sellers at local markets despite fragmentation of markets around. As a result, the annual average local headline CPI fell to -1.2 percent, from -0.2 percent at end 2012/13. On the import side, with relatively weak global demand, imported inflation edged up to 0.9 percent at end 2013/14, from a -0.2 percent rate in the previous year. (See Graph 10 and Table 5.)

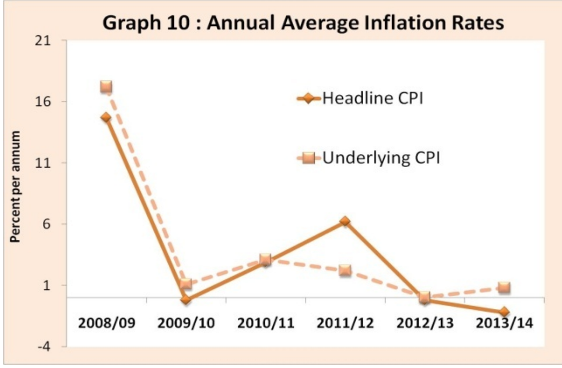


Table 5
Consumer Price Index
(August 2010 = 100)

Fiscal year to end June	2011/12	2012/13	2013/14	2014/15 Forecast
A. Headline Inflation				
12 months average percent change				
Description				
All Groups	6.2	-0.2	-1.2	2.4
Food and Non-Alcoholic Beverages	9.2	-1.2	-4.0	2.5
Import Component	3.6	-0.2	-0.2	2.0
Local Component	8.1	-0.2	0.02	2.7
B. Underlying Inflation (1)				
12 months average percent change				
Description				
All Groups	2.2	0.03	0.5	
Food and Non-Alcoholic Beverages	2.6	0.1	0.9	
Import Component	2.4	0.5	0.3	
Local Component	1.5	0.5	1.1	

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 IN 2014/15

5.1 Government Budget

With weak global economic conditions as a backdrop, Parliament approved another expansionary Government Budget for 2014/15 albeit at a lower overall Budget deficit compared to the last financial year's budget deficit. The Budget for 2014/15 is projected to result in an overall deficit of $69.1 million compared to an overall (cash) deficit of $70.8 million, after supplementary budget adjustments in 2013/14. This budget deficit is about 4.2 percent of nominal GDP, down from 4.8 percent for 2013/14[3]. The current financial year's budget deficit is to be financed largely by highly concessional external soft term loans and external grants. The drop in the relative size of the budget deficit is part of fiscal consolidation to try and get the budget deficit to manageable levels in the medium term. (See Table 6 and Graph 11.)

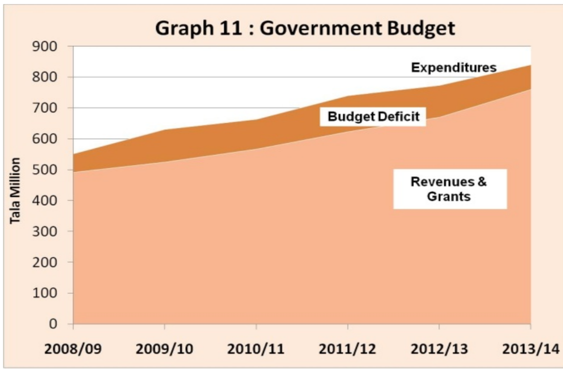
Table 6

Financial Operations of Government (1)

(Amounts in Tala Million)

During the period	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Budget
Total Revenue and Grants	444.7	450.4	478.3	556.4	723.0
Total Revenue	387.7	394.2	440.9	512.2	723.0
Taxes	361.6	360.5	393.0	430.3	544.9
Grants	26.1	33.6	47.9	81.8	178.1
Other Revenues	56.9	56.3	37.4	44.2	
Total Expenditure	453.2	453.3	477.3	551.4	792.1
Compensation of employees	126.6	135.3	137.2	143.9	n/a
Use of goods and services	112.6	111.5	115.2	154.5	n/a
Interest	12.8	13.4	14.9	14.9	n/a
Subsidies	17.7	22.7	24.7	17.1	n/a
Grants	147.6	130.4	152.3	193.8	n/a
Social benefits	18.2	22.8	19.5	18.6	n/a
Other expenses	17.6	17.2	13.6	8.6	n/a
Net Operating Balance	-8.6	-2.8	1.0	5.0	-69.1
TRANSACTIONS IN NONFINANCIAL Net Acquisition of Nonfinancial Assets	88.8	129.4	70.5	103.7	n/a
Net lending / borrowing	-97.4	-132.2	-69.6	-98.7	69.1
Net acquisition of financial assets	-6.8	-5.5	13.5	-10.4	-69.1
Domestic	-6.8	-5.5	13.5	-10.4	4.5
Net incurrence of liabilities	84.6	119.5	98.9	123.7	73.6
Domestic	90.6	126.6	83.1	88.3	
Foreign	-6.0	-7.2	15.9	35.4	73.6

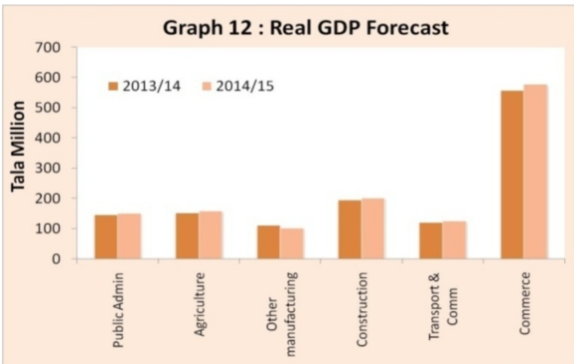
(1) GFS Manual 2001 format
Source: Samoa Bureau of Statistics



5.2 Real Sector

The economy in 2014/15 is expected to build on its modest growth from last year in light of the expected improvements in exports, tourism, remittances and expansionary fiscal budget and monetary policy. Whilst there are few large Government funded projects outlined in the 2014/15 Budget, current expenditure on Government services such as health, education and infrastructure are more or less maintained together with funds for the hosting of the UN-SIDS in September 2014 and Commonwealth Youth Games in 2015.

In the event, GDP is expected to grow by about 2.2 percent in 2014/15, underpinned by a strong growth expected in the 'Commerce' (up 3.5 percent), 'Agriculture' (up 4.0 percent), 'Construction' (up 2.9 percent) and 'Transport & Communications' (up 3.6 percent) and 'Public administration' (up 3.2 percent). On the downside, 'Other manufacturing' is forecast to drop by 8.1 percent as demand and production is expected to wind down. (See Graph 12.)



[3] Budget Speech 2014/15

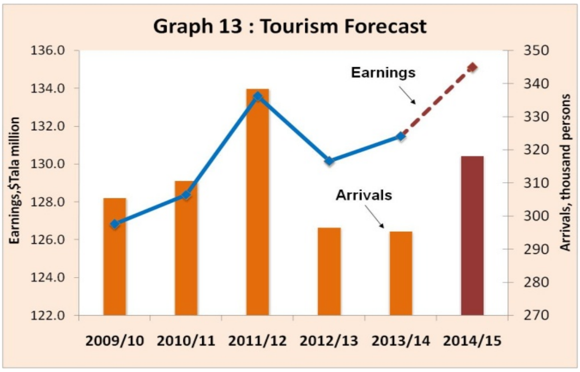
5.3 Balance of Payments

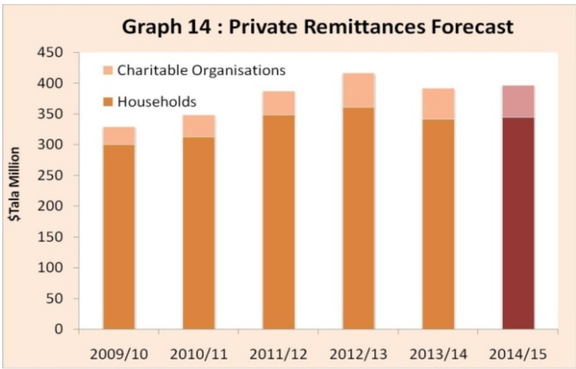
The balance of payments is tentatively expected to record an overall surplus in 2014/15, supported by recoveries in exports and remittances as well as significant inflows projected in the Budget, such as net disbursement of Government external loans as well as project grants in 2014/15.

Total exports are expected to improve modestly by 5.1 percent to $60.7 million due in large part to expected recovery for coconut oil and copra meal production exports together with a further increase projected for nonu juice exports. In addition, beer exports are forecast to expand with demand from the Samoan Diaspora in New Zealand.

Total imports are expected to rise by 4.2 percent to $791.1 million in line with steady growth in economy activity in 2014/15. Government imports are expected to rise by 3.5 percent while ‘other’ private sector imports are expected to increase by 4.0 percent. Likewise, petroleum imports are projected to increase by 5.0 percent, due in large part to an expected growth in volume consequent of an anticipated increase in local demand, offsetting a slight decline in the international crude oil price.

The tourism sector is expected to continue its steady recovery albeit at a slower pace compared to past growth rates. The hosting of the UN-SIDS meeting in September 2014 as well as the lead up to the Commonwealth Youth Games together with the Manu Sāmoa All Blacks match around June 2014 underpins the expected increase in arrivals. As consequence, visitor earnings are forecast to rise by 6.5 percent due to a 3.2 percent increase in total arrivals coupled with a 3.3 percent hike in average tourist spending in 2014/15. Private remittances are tentatively projected to edge up by 1.3 percent, in line with expected growth in source markets such as New Zealand, Australia and the US. One major downside risk is the closure of Australian and New Zealand banks of money transfer operators’ accounts, which may have played a part in the decline in remittances in 2013/14. (See Graph 13 and Graph 14.)





On the whole, the balance of payments is expected to post a surplus of $18.1 million in 2014/15, on top of the $28.1 million overall surplus in the last financial year. The level of international reserves is anticipated to rise to 5.6 months of imports from 5.4 months cover for 2013/14.

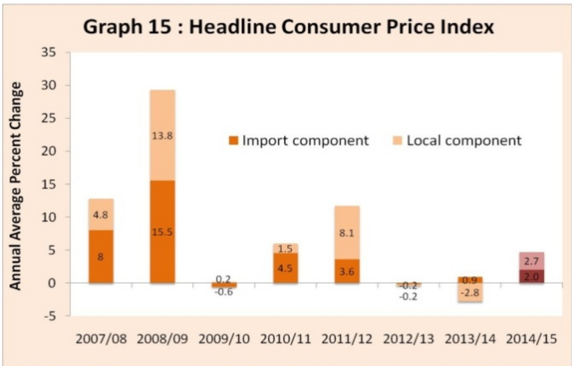
5.4 Prices

Consumer prices in 2014/15 are expected to accelerate from the previous year as inflationary pressures start to build after two years of general deflation. Domestic inflation is expected to drive this pick up as production normalizes from peaks last year and consumer demand starts to revive.

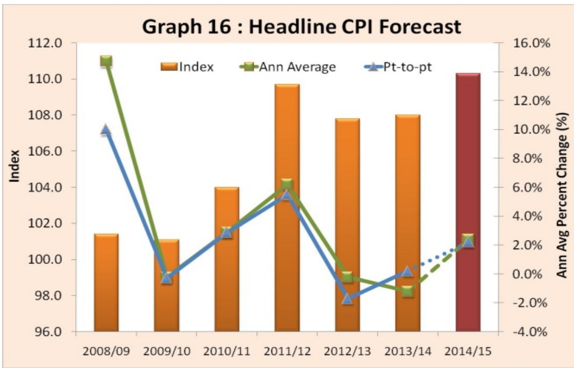
5.4.1 Headline Inflation

With the current recovery in global economy although at a sluggish pace, global demand for internationally traded commodities are expected to pick up at a gradual speed. This coupled with fairly stable supply conditions, are expected to keep commodity price forecasts in check in the coming year especially for food items. However, downside risks include ongoing political unrest in the Ukraine, the Iraqi crisis and Israel – Palestine conflict; still threaten to push up global inflation through higher crude oil prices. On average, imported inflation is to increase to 2.0 percent at end June 2015 from 0.9 percent at end June 2014.

Local agricultural production 2014/15 is expected to return to normal levels following a bumper harvest in past two year, especially in terms of taro output. In particular, local food, beverage and tobacco prices are expected to rise in the course of the year, pushing the forecast for local component of the headline inflation up to 2.7 percent at end June 2015 from -2.8 percent at end June 2014. (See Graph 15.)



With an expected build up of inflationary pressures on domestic prices and to a lesser extent on imported sourced goods in the fiscal year 2014/15, the annual average overall headline inflation rate is projected to accelerate to 2.4 percent at end June 2015, from -1.2 percent at end June 2014. (See Graph 16.)



5.4.2 Underlying Inflation

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 slow but steady increase to 2.4 percent by end June 2015 compared to 0.8 percent at end June 2014.

6. MONETARY POLICY STANCE FOR 2014/2015

After trying times in 2012/13, the Samoan economy is expected to continue along the recovery road, although it will be relatively fragile at 2.2 percent real growth. This moderate increase is expected to be driven mostly by expansions in the ‘Commerce’ and ‘Construction’, reflecting various building projects (private and public) in the pipeline for 2014/15. Exports are forecast to improve modestly while imports are anticipated to increase at its underlying medium term growth rate of around 5 percent. In addition, expected net disbursements of external loans and inward foreign investment during the year should see the balance of payments record another modest surplus, with the level of international reserves expected to rise slightly to the equivalent of 5.6 months of imports.

In addition, inflation is expected to increase gradually as domestic inflationary pressures start to pick up from growth in the economy and also real risk of international oil prices picking up from its current levels due to potential conflicts in oil producing countries.

Similarly, private sector investment and demand have started to revive with recent data reflecting an upward trend in credit growth given recent reductions in commercial bank interest rates. To further stimulate and encourage economic activity in the private sector, monetary policy will continue with its easing stance in 2014/15, with its main objective of supporting and strengthening the private sector. As an added monetary policy measure, the Central Bank Credit Line Facility will to a lesser extent may play a role to 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.

Overall, monetary aggregates are expected to increase further to around 9.9 percent growth by end June 2015, with the annual average bank credit to the private sector and public institutions combined anticipated to rise to around 2.2 percent.

Table 9
Monetary Survey
(Amounts in Tala million)

End of Period	2011/12	2012/13	2013/14	Forecast 2014/15
A. Determinants of Money Supply				
Net Foreign Assets	301.2	257.6	383.0	375.3
Net Domestic Assets	404.6	442.8	448.6	459.1
Government's Net Position	-186.7	-179.2	-187.5	-171.4
Bank credit to private sector	700.7	708.6	733.4	743.6
Bank credit to public institutions	86.8	86.0	35.4	36.6
Others, net	-196.2	-172.6	-132.6	-149.6
B. Money Supply (M2)	705.8	700.4	831.6	834.5
Narrow Money	219.3	223.8	263.6	259.8
Currency Outside banks	58.8	60.9	46.2	57.9
Demand Deposits	160.6	162.9	217.4	201.9
Quasi-money	486.5	476.6	568.1	574.6
Savings deposits	95.2	102.2	106.5	114.5
Time deposits	363.9	338.8	344.9	367.2
Foreign Currency Deposits of Residents	27.3	35.6	116.6	93.0

Source: Central Bank of Samoa

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