

MONETARY POLICY STATEMENT
FOR THE FINANCIAL YEAR
2019/2020

Apia
DECEMBER 2019

CENTRAL BANK OF SAMOA

MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2019/2020

APIA

DECEMBER 2019

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1. INTRODUCTION

The ultimate goal of Monetary Policy Statements (MPS) is to effectively communicate the Central Bank of Samoa's (CBS) monetary policy stance in a transparent and accountable manner to improve public awareness. The main objectives of the monetary policy and its corresponding targets are set out in its main legislation, the CBS Act 2015. This Statement is also aligned with the Central Bank of Samoa's Corporate Plan (CBSCP) and the latest Government's Strategy for the Development of Samoa. The primary aim of the Central Bank's monetary policy is to achieve and maintain price stability as well as fostering and maintaining a stable financial system in order to achieve a sustainable real economic growth and a comfortable level of international reserves. Monetary policy decisions are conducted through open market operations (OMO) through the issuance and trading of CBS Securities (CBSS) to achieve these objectives.

The CBS continues to quantify Samoa's targeted inflation rate to its major trading partners' at an annual average inflation rate of 3.0 percent in order to pursue and achieve price stability. This naturally determines the target that the CBS seeks to maintain each year even though price volatilities are usually influenced by external shocks beyond CBS' monetary policy control. Past years' experiences reveal that persistent sharp hikes in international prices such as crude oil and imported food prices had exerted significant pressures on the domestic prices of petroleum and food items. During such periods, the focus was mainly on the underlying (core) inflation rate.

Another major aim of the CBS is to nurture and maintain a stable financial system by promoting regulation and supervision of commercial banks and non-bank financial institutions like the Samoa National Provident Fund, Development Bank of Samoa, Unit

Trust of Samoa as well as money transfer operators, foreign exchange dealers and insurance companies. This will ensure an efficient operation of the financial market amidst a sound and effective infrastructure.

Samoa is a small open economy with total merchandise trade representing about 60 percent of nominal gross domestic product (GDP). Total earnings from exports of goods accounts roughly for one tenth of total import payments every year. It is crucial therefore that Samoa maintains a sufficient level of international reserves in order to withstand the many unanticipated economic shocks (both natural and man-made). CBS, under prevailing circumstances, targets a level of gross official international reserves to no less than 4.0 months of imports of goods, sufficient to maintain Samoa's adequate level of long term international reserves.

The main objective of the CBS's policy on Exchange Rate (ER) is to ensure that export-oriented industries remain competitive in overseas markets whilst 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 its international competitiveness through its export sector.

2. EXECUTIVE SUMMARY

2.1 World Economy

The International Monetary Fund (IMF)'s July 2019 World Economic Outlook Update, indicates a sluggish global economic growth in the short term after a further downgrade in its projections as downside risks continue to escalate. Compared to an earlier 3.45 percent projection in April, the global economy is now estimated to have grown by 3.40 percent in 2018/2019, slowing down from 3.7 percent in the previous year. This reflected a faster decrease in the

expansion of the emerging market and developing economies by 4.3 percent (from 4.45 percent in earlier projections) offsetting a 2.05 percent decline in the advanced economies.

2.2 Domestic Economy

The Samoan economy posted a growth pick-up in 2018/19, in line with CBS forecasts reflecting the preparations and developments for the Pacific Games (PG) and the positive results from tourism earnings and private remittances receipts that impacted expansions on ‘Construction’, ‘Electricity and Water’, ‘Commerce’ and ‘Transport’ sectors to name a few, despite the ‘Other manufacturing’ sector experiencing the adverse effect of the closure of Yazaki Samoa Limited in November 2017.

On the monetary side, commercial bank’s average liquidity continued to improve during the course of the year in light of strong external inflows mainly through government budget support funds while the commercial banks’ average interest rates remained more or less stable.

On the fiscal side, the Government expenditure was under control and in line with fiscal consolidation objectives while still prioritizing key sectors such as Education, Health and Infrastructure.

Looking at prices, both the headline and underlying consumer price index (CPI) recorded downward trends given reductions in both imported (lower prices for food commodities and fuel) and domestic prices (as prices of local production were return to normal levels following the post recovery of Cyclone Gita). (See Table 1.)

Table 1
Selected Domestic Economic Indicators

Fiscal year to end June	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(Percentage change over the previous year)						
Real sector							
Nominal GDP	-0.2	1.5	4.4	5.5	1.3	1.1	5.3
Real GDP	-1.9	6.1	4.3	8.1	1.0	-2.2	2.1
Prices (February 2018=100)							
Headline Consumer Price Index (ann ave)	-0.2	-1.3	1.9	0.1	1.3	3.7	2.2
Underlying Consumer Price Index (ann ave)	0.03	0.8	0.6	-3.7	1.5	3.7	0.1
Implicit GDP Deflator (annual average)	1.7	-4.6	0.1	-2.6	0.3	3.3	3.2
Monetary aggregates							
Net foreign assets (annual average)	-11.2	25.4	-42.4	3.1	-14.9	97.7	43.9
Government's net monetary position (end of period)	-11.4	5.5	14.9	14.8	28.4	15.3	7.6
Bank credit to private sector							
Annual average	1.5	1.5	13.5	10.6	13.9	2.2	8.00
End period	1.1	3.5	17.6	13.0	8.7	-0.7	10.4
Money Supply, M2							
Annual average	-1.9	8.5	8.0	7.6	6.6	12.8	13.2
End period	-0.8	18.7	0.6	7.1	7.8	16.5	9.9
Exchange rate (March 2016=100)							
Nominal Exchange Rate (annual average)	1.74	-0.27	-0.18	-0.03	0.16	-0.02	-0.15
Real Exchange Rate (annual average)	-3.56	-3.35	0.52	-1.24	-0.36	1.64	0.73
International reserves							
Gross International Official Reserves (Tala million)	322.63	352.34	335.77	283.04	312.79	422.74	514.47
Gross International Official Reserves (Months of imports)	5.5	5.4	5.1	4.3	4.8	6.1	6.7
Weighted average interest rates							
	(End of period, percent p.a.)						
CBS 14 days Securities	0.00	0.13	0.13	0.13	0.13	0.13	0.13
CBS 28 days Securities	0.14	0.16	0.16	0.16	0.16	0.16	0.16
CBS 56 days Securities	0.14	0.18	0.18	0.18	0.18	0.18	0.18
CBS 91 days Securities	0.40	0.41	0.41	0.41	0.41	0.41	0.41
CBS 182 days Securities	-						
CBS 365 days Securities	-						
	(period average, p.a.)						
CBS Securities overall weighted avg yield (ann avg)	0.21	0.21	0.15	0.16	0.14	0.16	0.19
Commercial bank deposits	2.66	3.02	3.02	2.58	2.45	2.70	2.85
Commercial bank credit	10.07	10.28	10.45	10.02	8.82	8.98	8.97
Commercial bank interest rate spread	7.41	7.26	7.43	7.44	6.37	6.11	6.12

Source: Central Bank of Samoa

(1) Interest rate as at end August 2018

n/a - not available

3. REVIEW OF 2018/2019

3.1 WORLD ECONOMY

2018/2019 was marked by mounting headwinds particularly the United States' increased trade protectionist measures that resulted in trade conflicts with Canada, Mexico and Europe, with its ongoing and unresolved tensions with China looming as the greatest threat to the global economy. Additional risks stemmed from the already softening economic conditions in China, weak growth in the Euro area, low business and economic confidence associated with the prolonged Brexit negotiations and political uncertainties amidst more frequent natural disasters worldwide.

Inflationary pressures were marginally higher at 3.3 percent in 2018/2019, driven mainly by high inflation rates in the emerging market and developing economies. By comparison, inflation rates in advanced economies were fairly subdued, averaging 1.8 percent over the year due to low commodity prices and moderate wage growth pressures in these countries. In particular, Samoa's trading partner countries have undershot their annual inflation targets, bringing additional challenges in the midst of weak global economic conditions.

As a result, monetary policies in most economies remained highly accommodative in 2018/2019, except for the US which continued its tightening stance, with two interest rate hikes (of a total 50 basis points) in the first half of the financial year before maintaining its Federal Fund Rate range at 2.25 percent to 2.50 percent. The Bank of England similarly raised its policy rate by 25 basis points, although it remained at low levels of 0.75 percent. Closer to home, both the Reserve Banks of Australia and New Zealand made surprise cuts near the end of the year with 25 basis points reductions to 1.25 percent and 1.50 percent respectively.

Reflecting the headwinds and sluggish global economic conditions during the year, the foreign exchange markets were highly volatile, with the US currency appreciating against most of the major currencies. In particular, the major currencies in Samoa's Tala currency basket, namely the Australian, New Zealand and the Euro dollars, weakened against the greenback. Subsequently, the Samoan Tala appreciated individually against these three currencies but depreciated against the USD. Overall, the nominal value of the Samoa Tala depreciated modestly by 0.15 percent against the Tala currency basket, while the real effective value appreciated 0.74 percent over the year as Samoa's inflation rate remained higher than its trading partners. (See Table 2.)

Fiscal year to end June	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Forecast
Real growth rate	3.55	3.40	3.50	3.70	3.70	1.70 (1)
Inflation rate	1.90	0.10	1.30	3.70	2.17	2.60 (1)
Official international interest rates, period, per						
US Federal Reserve	0 - 0.25	0.25 - 0.50	1.00 - 1.25	1.75-2.00	2.25-2.50	0.75-1.00 (2)
Reserve Bank of Australia	2.00	1.75	1.50	1.50	1.25	0.50 (2)
Reserve Bank of New Zealand	3.00	2.25	1.75	1.75	1.50	0.75 (2)
Bank of England	0.50	0.50	0.25	0.50	0.75	0.25 (2)
European Central Bank	0.05	0.00	0.00	0.00	0.00	0.00 (2)
People's Bank of China	4.85	4.35	4.35	4.35	4.35	4.35 (2)

Source: IMF and reserve banks' publications and information releases.

3.2 DOMESTIC ECONOMY

3.2.1 Policy Developments

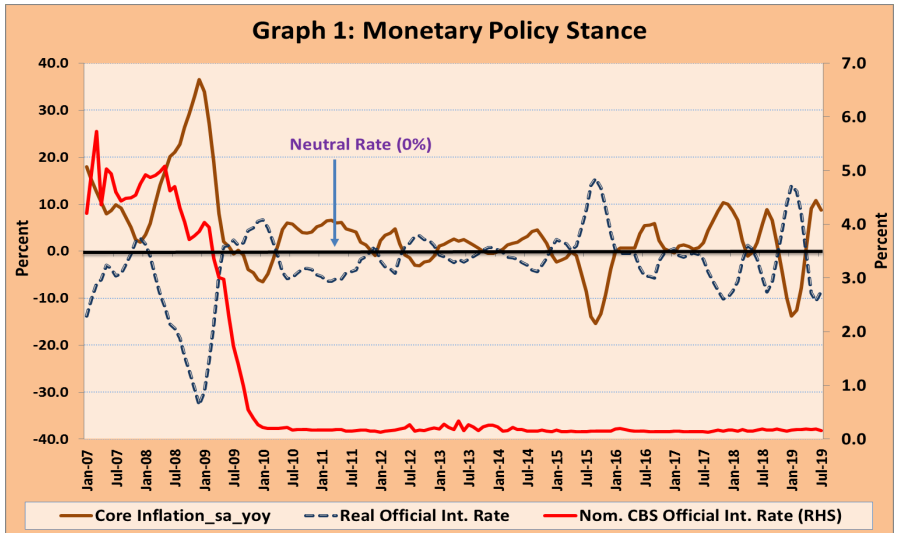
3.2.1.1 Macroeconomic Policy Settings

In line with its medium term target of the Budget deficits to be within 3.5 percent of GDP, the Government continued its fiscal consolidation stance in 2018/19. In actual fact, the budget deficits

for the past two years were both below 1.0 percent of GDP, signalling the intent of Government to effectively reduce unnecessary spending and create fiscal buffers in the face of more frequent natural disasters. This was broadly achieved by prioritising its expenditures on critically important sectors such as health, education and infrastructure while consolidating its external debt levels and ramping up its revenue collection measures.

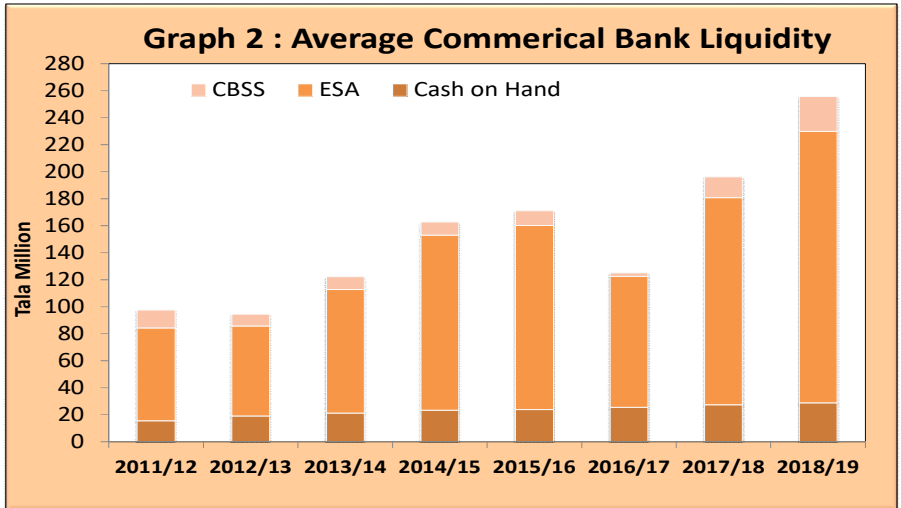
With fiscal policy mainly neutral in terms of total expenditure, monetary policy continued to remain accommodative in order to achieve economic growth while ensuring a low inflation for a stable financial system.

In fact, looking at the conduct of monetary policy since the onset of the global financial crisis (GFC) in 2008, the Central Bank of Samoa has pursued an accommodative or easing monetary policy stance all throughout the past ten years given the many challenges the economy has gone through starting from the GFC, the 2009 tsunami, 2012 Cyclone Evans, 2nd round effects of the GFC, closure of Yazaki and Cyclone Gita in 2018. However, as illustrated in the graph below, despite the easing stance adopted by the CBS, there were periods where monetary policy were in fact, tightening or contractionary due to periods where the hikes in the headline inflation rate managed to more than offset the low official interest rates levels, which are currently just above 0.0 percent. This was represented on the graph by the areas where ex-Post Real Interest rate line is above 0.0, which mostly occurred in 2009, early 2012 and around 2014 and 2015. (See Graph 1.)

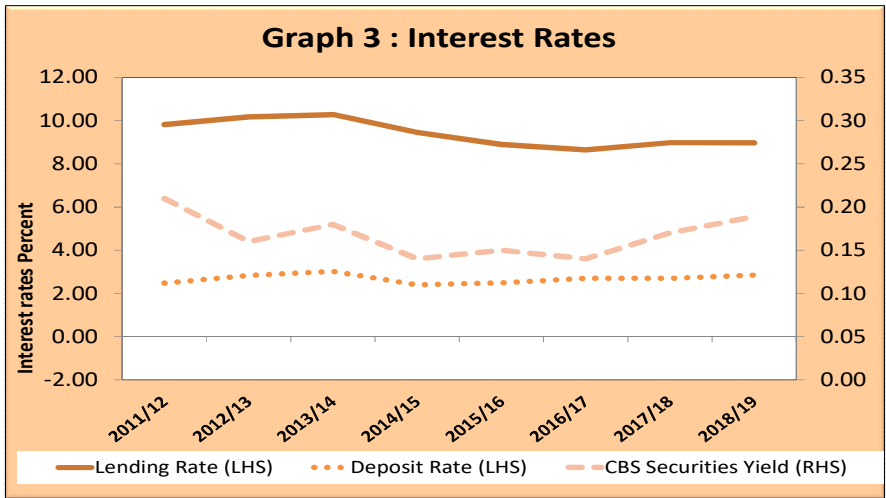


3.2.1.2 Monetary Conditions

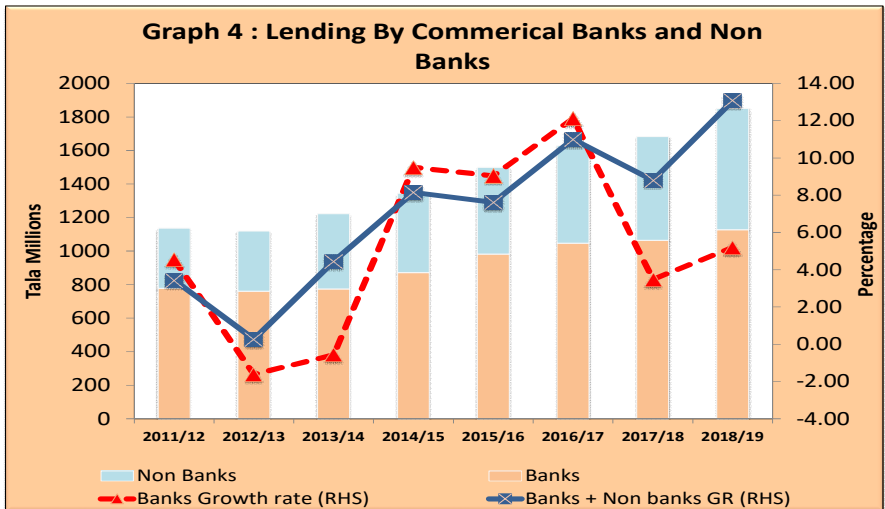
Liquidity conditions in the banking system increased further during the year with average banks’ excess reserves increasing by 47.9 percent to \$201.1 million from \$153.2 million last year. This was coupled with the improvement in the banks’ holding of CBS securities, which saw a jump of 64.7 percent to \$25.7 million in 2018/19. (See Graph 2.)



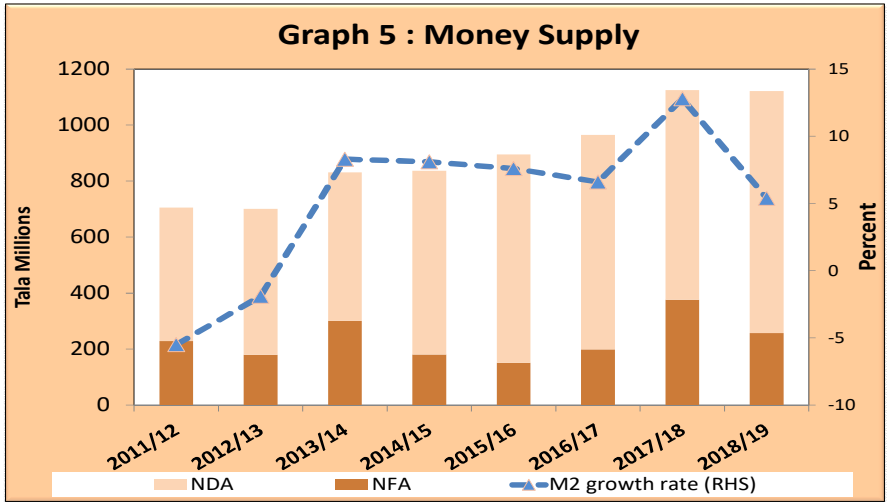
On interest rates, CBS’ official interest rate continued to remain low despite a slight increase to 0.19 percent at end June 2019 from 0.17 percent last year. On the other hand, banks’ weighted average deposit rates increased by 15 basis points to 2.85 percent while that for weighted average lending rates edged down by 1 basis point to 8.97 percent in June 2018/19. As a result, the weighted average interest rates margin narrowed to 6.12 percent from 6.28 percent in June 2018. (See Graph 3.)



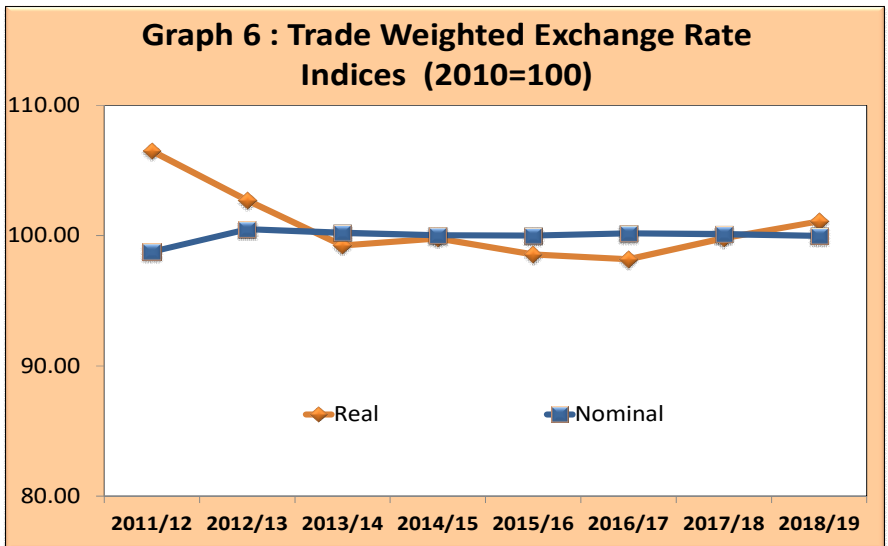
Consistent with the decline in the cost of borrowing, commercial banks’ credit to the private sector and public institutions also rose by 5.8 percent to \$1,126.3 million over the year to June 2019. As a result, its annual average growth rate had increased to 5.2 percent in June 2019 from 3.5 percent in June of last year. On the total financial system credit, which includes non-banks financial institutions such as Samoa National Provident Fund (SNPF), Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC), it had increased significantly by 10.0 percent to \$1,851.3 million with an annual growth rate of 8.1 percent at end of June 2019 compared to its growth of 5.4 percent last year. (See Graph 4.)



Net foreign assets continued to expand further, recording an increase of 26.0 percent (or \$97.8 million) to \$485.6 million, mainly due to a sharp hike of 23.0 percent in official CBS foreign reserves and a 29.8 percent jump in the commercial banks’ foreign assets despite a 21.0 percent increase in foreign liabilities. Consequently, total money supply (M2) grew by 10.0 percent or \$111.9 million to \$1,236.3 million on a point to point basis, or around 13.2 percent on an annual average basis, compared to 12.8 percent at end June 2018. (See Graph 5.)



The nominal effective exchange rate (NEER) of the Tala in 2018/19 depreciated marginally by 0.2 percent against the selected currencies in its exchange rate basket. However, the real effective exchange rate (REER) appreciated by 0.7 percent in the course of the year. (See Graph 6.)



3.3 MACROECONOMIC PERFORMANCE

3.3.1 *Real Sector*¹

The economy recovered by 3.5 percent in real terms in 2018/19 following negative growth of -2.2 percent in 2017/18. This strong rebound reflected the positive impacts of the preparations and developments (renovations and building of new facilities) for the Pacific Games (PG) in July 2019, the completion of the Faleolo International Airport and the Tanumalala Prison, as well as, the various on-going government projects under construction, such as the various bridges, road widening and Apia Waterfront Project.

The real growth was due to strong improvements in ‘Commerce’ (up 9.2 percent), ‘Construction’ (up 12.2 percent), ‘Financial Services’ (up 4.1 percent), ‘Accommodation and Restaurant’ (up 20.0 percent), ‘Food and Beverages’ (up 9.6 percent), ‘Electricity and Water’ (up 11.7 percent), ‘Transport’ (up 5.6 percent), ‘Public administration’ (up 2.0 percent) and ‘Communication’ (up 1.3 percent) sectors.

On the downside, the ‘Business Services’ (down 21.1 percent), ‘Personal and other services’ (down 14.2 percent), ‘Fishing’ sector dropped by 21.0 percent, while ‘Other Manufacturing’ and ‘Agriculture’ also dropped by 1.0 percent and 2.2 percent respectively. (See Table 3.)

¹ Reflects the changes from 2009 to 2013 new base year.

Table 3
Real Gross Domestic Product by Industry
(At 2013 prices, amounts in Tala Million)

During the period	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual	Actual
Agriculture	157.9	144.3	133.2	165.4	157.8	154.3
Fishing	30.1	40.9	55.6	53.5	43.8	34.6
Food & Beverages manufacturii	69.1	70.5	73.7	77.4	73.2	80.3
Other manufacturing	84.6	75.2	80.4	82.7	41.5	41.1
Construction	63.3	51.8	59.5	59.5	52.5	140.2
Electricity and water	107.8	125.6	144.5	116.4	124.9	58.7
Commerce	535.6	539.0	595.6	619.8	616.6	673.3
Accommodations & Restaurant:	30.6	32.2	42.8	40.7	39.6	47.5
Transport	73.6	91.6	91.4	83.0	73.4	77.5
Communication	106.9	118.0	134.7	127.0	128.6	130.3
Public administration	145.7	146.5	144.8	140.7	142.2	145.0
Financial services (2)	128.3	148.0	166.5	180.1	195.0	203.0
Business services	50.0	78.1	83.1	83.7	95.4	75.3
Ownership of dwellings	117.6	119.3	121.1	122.3	123.4	124.8
Personal and other service	71.2	67.2	70.1	64.9	65.3	56.0
Less: Enterprise share of FISIM	0.0	0.0	0.0	0.0	0.0	0.0
Total	1,772.4	1,848.1	1,996.9	2,017.2	1,973.5	2,041.9
Annual percent change	0.1%	4.3%	8.1%	1.0%	-2.2%	3.5%
Implicit GDP deflator	99.2	103.4	104.6	104.6	106.7	109.0
Annual percent change	-0.2%	4.2%	1.2%	-0.1%	2.0%	2.1%

Source: Samoa Bureau of Statistics

(1) FISIM : Financial Intermediary Services Imputed

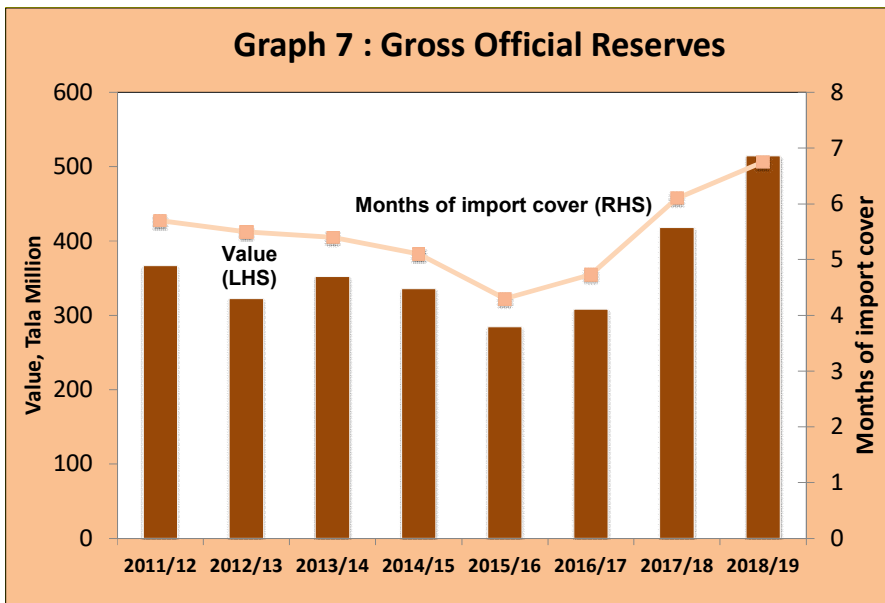
3.2.3 Balance of payments

The balance of payments (bop) continued recording a surplus of \$96.5 million for the third consecutive years in 2018/19, on top of its huge surplus of \$109.3 million in 2017/18. This surplus was a combination of continuous influx of large inflows of Government funds, inward private sector investments and strong growth in tourism, remittances markets, as well as, the positive result from export receipts over the year. (See Table 4.)

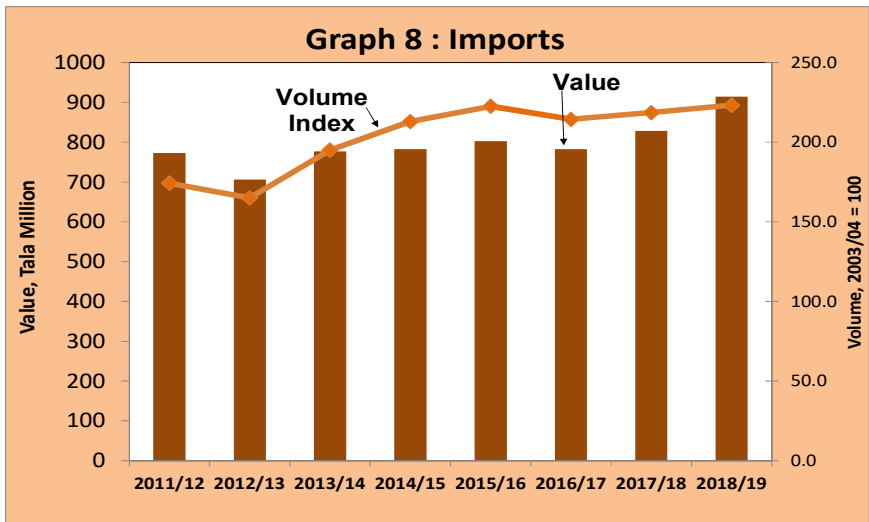
Table 4					
Balance of Payments (1)					
(Amounts in Tala Million)					
During the period	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
A. Current Account Balance	-52.6	-93.4	-42.0	17.2	38.3
Balance on Trade in Goods	-714.8	-706.4	-686.1	-737.4	-783.7
Exports	67.7	96.5	96.3	91.4	130.9
Imports	782.5	802.9	782.5	828.8	914.7
Balance on Trade in Services	308.2	316.9	356.6	399.2	446.4
Balance on Primary Income	-39.6	-48.8	-67.5	-75.6	-99.0
Balance on Secondary Income	393.5	344.9	355.0	431.1	474.6
Personal transfers	323.0	320.4	326.9	352.1	378.1
Other transfers	58.3	48.2	53.0	73.3	81.6
B. Capital Account Balance	86.8	71.1	109.5	81.6	73.8
Capital Transfers	87.6	72.4	113.3	83.5	74.6
Other	-4.0	-3.0	-2.0	-1.0	-0.8
C. Net Lending (+)/Net Borrowing	34.1	-22.3	67.5	98.9	112.0
D. Financial Account	-6.8	-82.2	35.1	59.6	51.6
<i>Net Lending (+)/Net Borrowing (-)</i>					
Direct Investment	-66.0	-16.2	21.7	-39.6	-6.8
Portfolio Investment	20.7	0.6	14.3	-9.4	-11.8
Other Investment	-23.1	-24.1	-23.4	8.5	67.3
Reserve Assets	61.6	-42.6	22.5	100.2	2.9
E. Net Errors & omissions	-40.9	-59.9	-32.4	-39.3	-57.3
(1) Based on Balance of Payments Manual 6 format					
Source: Central Bank of Samoa					

The current account improved further with a surplus of \$38.3 million recorded for 2018/19, compared to a \$17.2 million surplus in 2017/18. This surplus was due to the sharp gains in the Balance of Trade in 'Services' and Secondary Income net despite increases in balance on Trade of Goods and Primary Income deficits. The increase in the Trade in Goods deficit has reflected a strong hike in import payments while the increase in the Trade in Services surplus

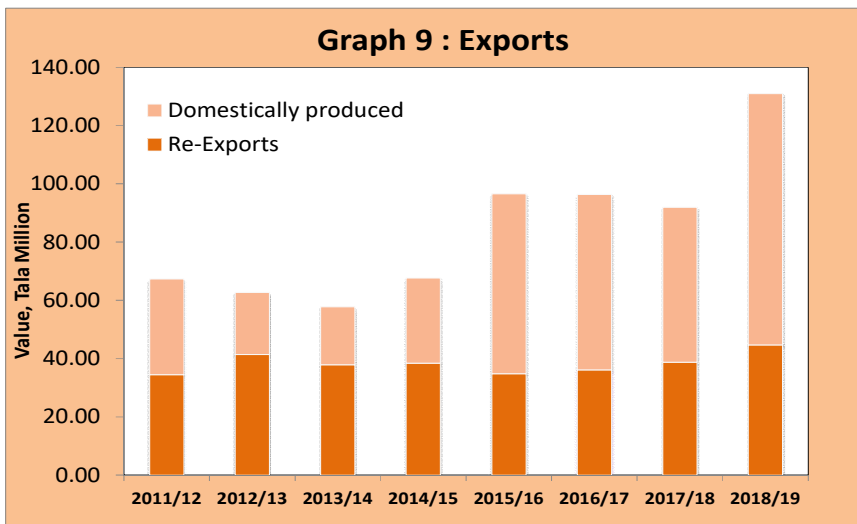
was due largely to the sharp improvement in Travel (visitors) receipt services. As a result, gross foreign reserves rose to \$514.5 million in 2018/19 or equivalent to 6.7 months of imports, up from 6.1 months in 2017/18. (See Graph 7.)



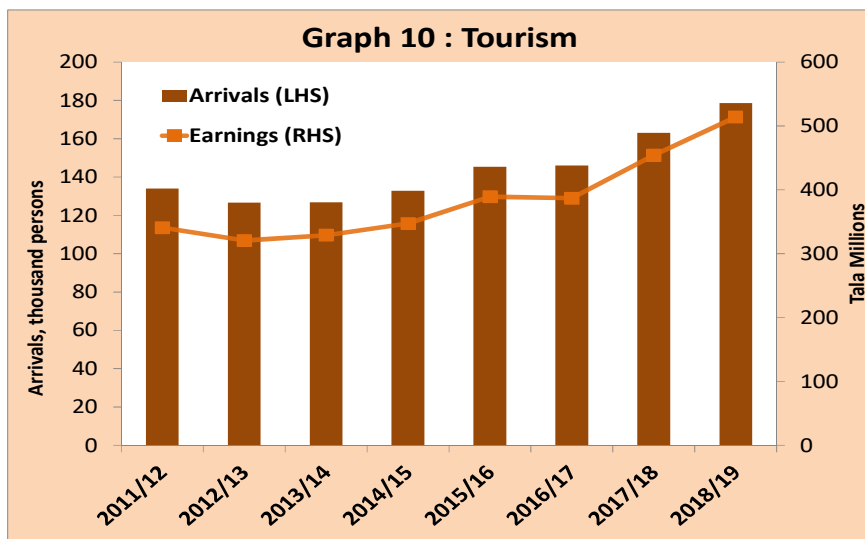
Total import payments jumped by 10.4 percent (or \$85.9 million) to \$914.7 million in 2018/19, mainly due to expansions in payments by importers such as government (up 32.0 percent), petroleum imports (up 16.1 percent) and non-petroleum private sector imports (up 6.6 percent) over the year. (See Graph 8.)



Likewise, exports also expanded by 42.4 percent to record a high of \$130.9 million, which was highlighted by the increases of 61.9 percent in domestically produced exports and 15.6 percent in those of the re-exports in June 2019. As a result, the Balance in Trade of Goods deficit widened by 6.2 percent. (See Graph 9.)



Visitor earnings (Travel, credit) jumped by 14.5 percent to \$514.1 million in 2018/19 due to a 9.3 percent hike in the number of visitors coupled with a 3.1 percent increase in the average visitor spending. (See Graph 10.)

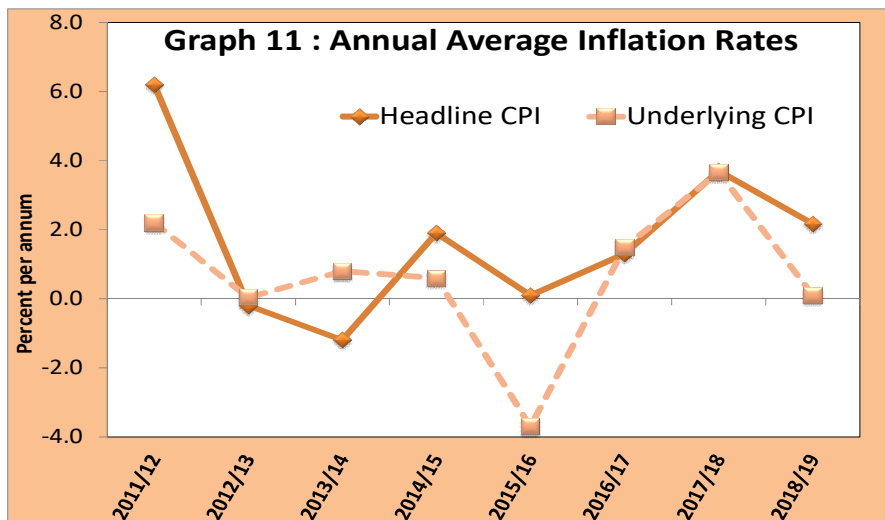


Similarly, balance on secondary income net (remittances) shot up by 10.1 percent to \$537.4 million, mainly due to a sharp pickup in funds for non-profit institutions serving households (churches), individuals and households, and in-kind transfers.

3.3.3 Prices

The annual headline inflation rate grew to 2.2 percent at end June 2019 from 3.7 percent at end June 2018, as both local and imported inflations declined over the year. On the domestic side, it recorded recoveries in agriculture produce following inflationary pressures created by the aftermath of Cyclone Gita in February 2018 on local agricultural commodity average prices increased more than twofold. Similarly, the world price of crude oil and selected imported food commodity prices were at their low levels during the year, which contributed to the huge drop in imported inflation in

2018/19. Similarly, the core or underlying inflation rate dropped to 0.1 percent from 3.7 percent at end June 2018 due to the decline in its imported component especially from food items. (See Graph 11 and Table 5.)



Fiscal year to end June	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
A. Headline Inflation					
12 months average percent change					
Description					
All Groups	1.9	0.1	1.3	3.7	2.2
Food and Non-Alcoholic Beverages	2.6	3.5	3.2	5.2	2.1
Import Component	-0.8	-6.9	3.2	5.2	0.8
Local Component	4.0	5.0	-0.9	2.1	3.7
B. Underlying Inflation (1)					
12 months average percent change					
Description					
All Groups	0.6	-3.7	1.5	3.7	0.1
Food and Non-Alcoholic Beverages	0.5	-5.1	3.3	5.6	-0.4
Import Component	0.7	-6.8	4.2	7.2	-0.6
Local Component	1.2	1.5	-0.2	0.7	1.9

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

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

4. OUTLOOK FOR 2019/2020

4.1 *WORLD ECONOMY*

Currently, the intensifying US trade tensions with China and other countries (now including India) have raised concerns of an imminent world economic crisis, if trade negotiations are not resolved soon. Given the confluence of downside risks and challenges to the global economic environment heading into 2019/2020, the IMF's July 2019 WEO update projects further sluggish global growth of 3.35 percent in the year ahead. This reflects the expected softer economic activities in the advanced economies that would result in a 1.8 percent expansion whereas the emerging market and developing economies are projected to recover to 4.4 percent.

It is forecasted that with a softer outlook for commodity prices and a moderate economic growth, inflation rates in the advanced economies will be steady at current levels while those in the emerging market and developing economies are projected to decline slightly to 4.75 percent in FY2019/2020. As a result, the average world inflation rate should remain steady at around 3.3 percent.

Following the weak outlook on the global economy for 2019/2020 and subdued inflationary pressures in the months ahead, most of the central banks have signaled a more accommodative stance to support the global economy. In particular, the US Federal Reserve, RBA and RBNZ are expected to ease their monetary policies in the first half of the financial year, with the markets pricing up to two expected cuts from each of the central banks by December 2019. These central banks have already reduced their policy interest rates in July and August 2019, with RBNZ delivering a surprise 50 basis points cut to a historic low so far of 1.00 percent. While the projected interest rate cuts by RBA and RBNZ reflect possible policy

actions on expectations of the weak outlook to their respective economies, the potential interest rate reduction by the US Federal Reserve Bank is seen by the market as more of an ‘economic insurance’ move to provide a cushion against uncertainties resulting from the US trade tensions and global economic weakness.

4.2 DOMESTIC ECONOMY

4.2.1 Government Budget

The 2019/20 budget theme is ‘**A shared vision for prosperity**’, in which Government understands the need to ensure an all-encompassing approach that will see the key socio-economic sectors of the economy strengthened to continue sustaining quality of life for its citizen through a longer term planning approach. In doing this, there are mixed priorities that will push not only the key transformative sectors of the economy but it should also strengthen the remaining sectors to provide the necessary support that will drive the implementation of the Samoa 2040. According to the Government’s Budget Address for 2019/20, a much smaller deficit of 1.0 percent of nominal GDP is expected, which is below its medium term fiscal budget deficit target of 3.5 percent of GDP. (See Table 6 and Graph 12.)

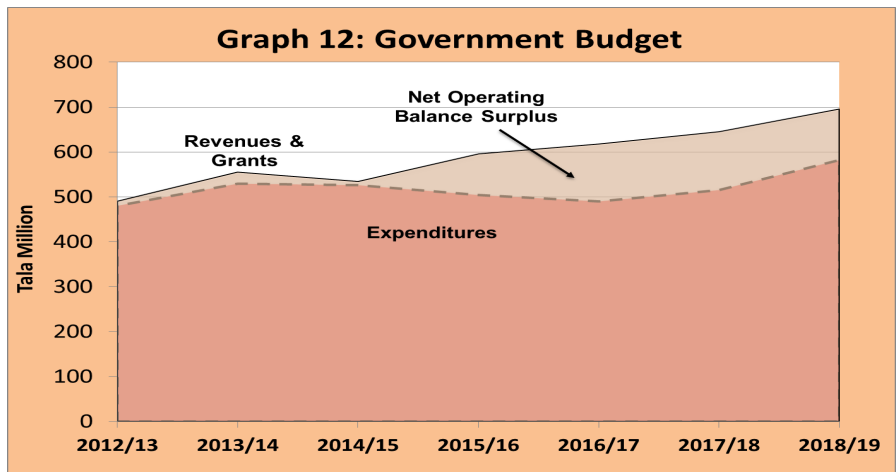


Table 6					
Financial Operations of Government (1) (Amounts in Tala Million)					
During the period	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
Revenues	534.4	595.6	617.4	645.4	695.8
Taxes	442.0	497.6	517.5	525.8	563.5
Grants	41.2	45.4	40.8	61.1	44.6
Other Revenues	51.2	52.6	59.1	58.4	87.8
Expenses	526.7	503.9	490.5	515.5	582.3
Compensation of employees	154.6	163.5	170.0	194.4	230.5
Use of goods and services	151.7	120.3	112.7	141.9	176.0
Interest	17.9	18.4	17.2	17.3	16.5
Subsidies	17.8	15.1	10.2	5.1	4.9
Grants	165.2	163.6	158.8	135.5	105.6
Social benefits	17.6	17.9	18.1	18.6	19.9
Other expenses	1.8	5.1	3.5	2.6	28.8
Net Operating Balance	7.7	91.7	126.9	129.9	113.5
BUDGET DEFICIT					
TRANSACTIONS IN NONFINANCIAL					
ASSETS:	83.3	100.1	149.5	134.2	7.5
Net Acquisition of Nonfinancial Assets					
Net lending / borrowing	-75.7	-8.4	-22.5	-4.3	106.0
Net acquisition of financial asset	-35.2	-9.3	-29.3	13.5	52.8
Domestic	-35.2	-9.3	-29.3	13.5	52.8
Net incurrence of liabilities	40.4	-0.8	-6.8	17.8	-53.1
Domestic	-4.9	-9.9	-9.5	-9.8	-9.3
Foreign	45.3	9.1	2.8	27.6	-43.8

(1) GFS Manual 2001 format

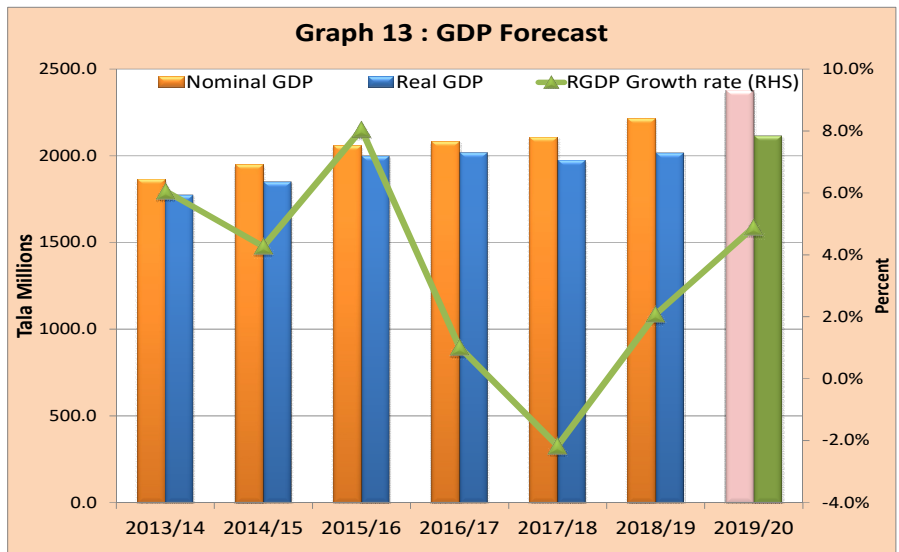
Source: Samoa Bureau of Statistics and Ministry of Finance

4.2.2 Real Sector

The original forecast for real GDP was based on the 2009 base year period. Effective December 2018, the Samoa Bureau of Statistics (SBS) has rebased its national accounts data with a new base year of

2013, which consist of several major changes. The historical figures have been revised to reflect the new base year.

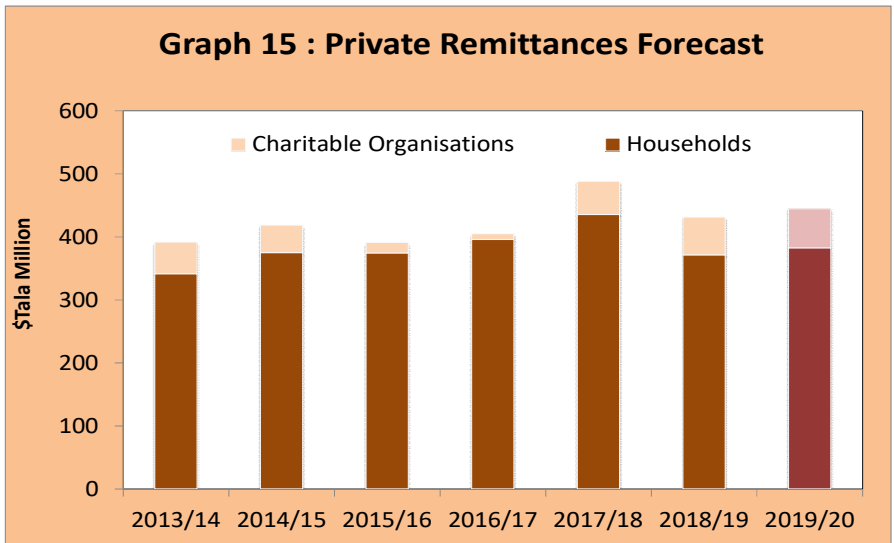
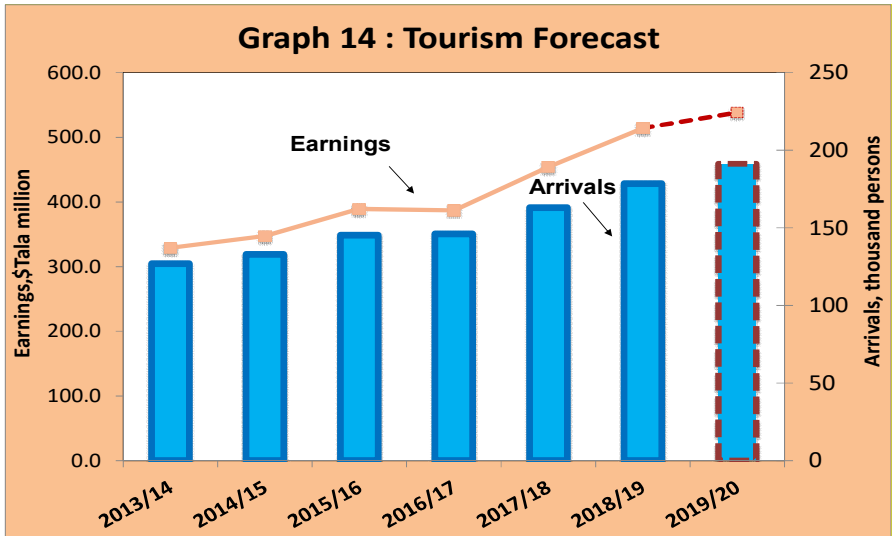
The Samoan economy is expected to continue to grow further by 4.9 percent in 2019/20, up from 3.5 percent recorded for 2018/19. This forecast reflects the current strong growth in remittances and visitor receipts, coupled with several large government construction projects and the post preparations for the 2019 Pacific Games and various government led projects under constructions such as the Apia Waterfront, the multicultural Centre at Malifa, Lotosamasoni, Maliolio and Vaisigano bridges, the widening of the road to Malua, private sector projects (hotels and churches) as well as various regional meetings that are to be held in the country in the next twelve months as well as the Pacific Festival of Arts in June 2020. The post impact of Pacific Games will continue to push up economic activities mainly through continuous manufacturing of goods and services that will be consumed during these meetings and events, and through the spill-over effects on other related sectors.



4.2.3 *Balance of Payments*

The balance of payments is expected to record an overall surplus² of \$17.8 million in 2019/20 from last year's surplus of \$96.5 million. This net inflow of foreign reserves is expected to account for the improvements and the ever increasing positive results from tourism earnings and private remittances, as well as the impact of continuous influx of government funds for sustainable developments. Total **exports** are expected to expand by 17.6 percent due to expected improvements in fresh fish, nonu juice, coconut oil and taro exports. On the other hand, **import payments** are expected to rise by 4.1 percent given the steady rise in food, fuel and other imported commodities, and given a lot of constructions at the moment. **Visitor earnings** are also expected to expand further by 4.7 percent in light of the Pacific Games in July 2019, various regional meetings and events hosted during the year as well as the Pacific Festival of Arts in June 2020. **Remittances** are expected to grow further by 3.0 percent in-line with expected slowdown from its significant increases in 2017/18 and 2018/19. (See Graphs 14 and 15.) As a result, the gross official reserves is forecasted to stabilize at around 6.8 months of import cover.

² The increase in Official Foreign Reserves includes both transactions and foreign exchange valuations



4.2.4 Prices

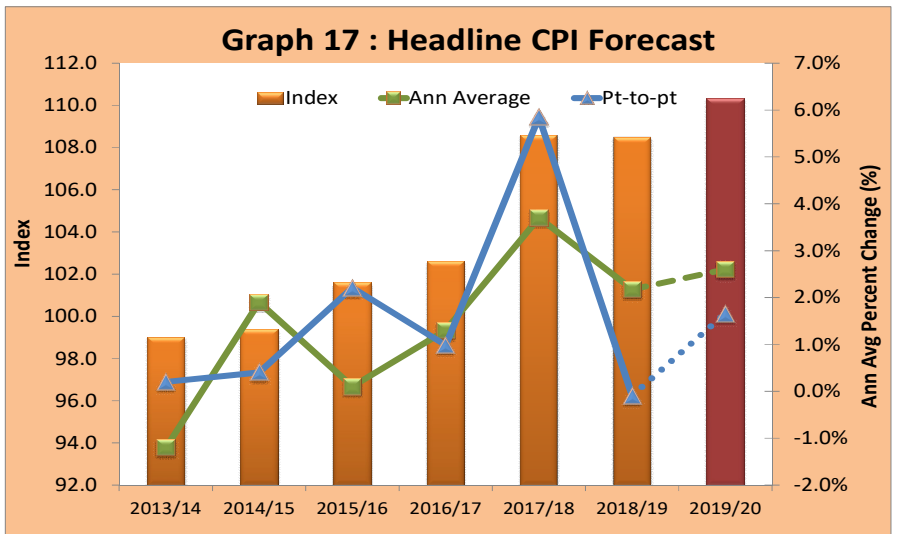
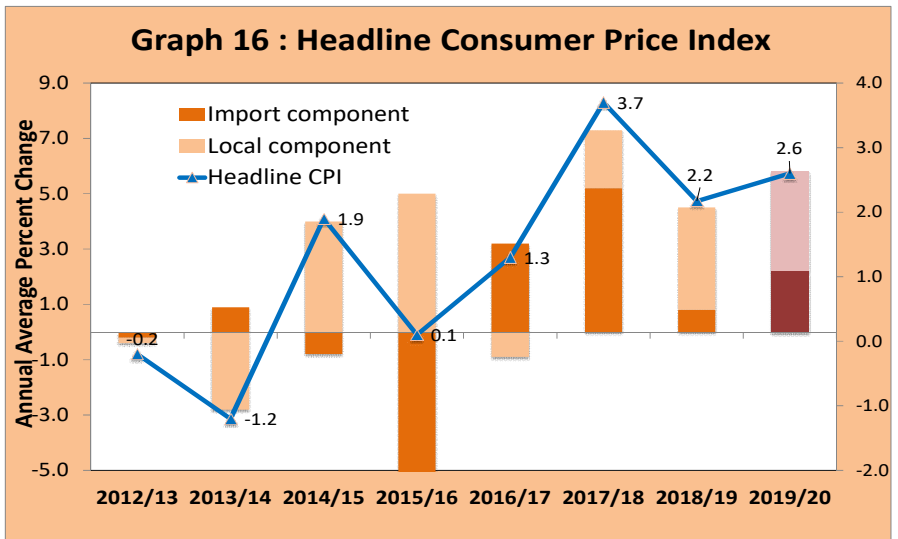
Inflationary pressures are expected to elevate in the next twelve months to 2019/20, following a downturn last year as a result of lower imported inflation reflecting the lower prices of imported food commodities and movements in the fuel prices as well as the

reduction in local inflation reflecting the reduction in prices of agricultural production from the abundance of supply to local market outlets.

4.2.4.1 Headline Inflation

Local agricultural production and supply is expected to pick up in 2019/20 especially for crops such as taro, coconut, banana and most vegetable items. However, downside risks of another devastating cyclone as well as the threat of the US-China trade war remains a threat to inflation forecasts.

As a result, ***imported inflation*** is expected to grow by 2.2 percent in June 2019/20 from 0.8 percent in the same period last year, as various imported prices for food and fuel are expected to rebound during the year. Similarly, ***domestic inflation*** is expected to remain at 3.6 percent in 2019/20 due to expectation of stronger demand from the Pacific Games and other local events during the year that should be reflected on ‘food and non-alcoholic beverages’, ‘housing, water, electricity, gas and other fuels’ and other related components. As a result, **the annual average headline inflation** is forecasted to pick-up to 2.6 percent from 2.2 percent in the previous fiscal year. (See Graph 16 and Graph 17.)



4.2.4.2 Underlying Inflation

The underlying inflation rate is also expected to rise in line with an increase in imported inflation, rising steadily to 1.9 percent by end June 2020 from 0.1 percent last year.

4.2.5 Monetary Aggregates

Looking at the outlook of the monetary system, commercial banks' credit to the private sector and public institutions are expected to grow at around 4.2 percent at end June 2020, down from 4.7 percent in 2018/19. On the other hand, the annual growth rate of M2 is expected to slow to around 9.4 percent at end June 2020 from 13.2 percent at end June 2019 as net foreign assets is expected to return to normal levels from the substantial high in 2018/19. (See Table 7.)

Table 7						
Monetary Survey						
(Amounts in Tala million)						
End of Period	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
A. Determinants of Money Supply						
Net Foreign Assets	301.2	180.5	150.2	199.3	375.8	473.6
Net Domestic Assets	530.4	655.7	745.0	766.0	748.6	762.7
Net Credit to Non-financial Public Sector	-101.1	-79.7	-96.3	-156.5	-185.1	-202.7
Credit to private sector	734.2	827.2	940.0	1,022.2	1,014.6	1,076.6
Net Credit to Non-monetary Financial Instit	87.6	109.8	110.8	113.2	135.2	138.8
Others, net	12.8	25.7	33.9	21.9	43.9	18.0
B. Money Supply (M2)						
Narrow Money	380.2	356.2	394.2	405.5	499.3	566.2
Currency Outside banks	46.2	49.5	61.4	67.0	75.2	97.6
Transferable Deposits	334.0	306.8	332.8	338.5	424.1	468.6
Demand Deposits	217.4	250.3	275.8	270.8	353.4	402.9
Foreign Currency Deposits of Residents	116.6	56.4	57.0	67.6	70.7	65.7
Quasi-money	451.4	480.0	501.1	559.7	625.1	670.1
Other Deposits	451.4	480.0	501.1	559.7	625.1	670.1
Savings Deposits	106.5	122.0	129.5	132.7	139.9	148.9
Time Deposits	344.9	357.9	371.5	427.0	485.2	521.2
Source: Central Bank of Samoa						

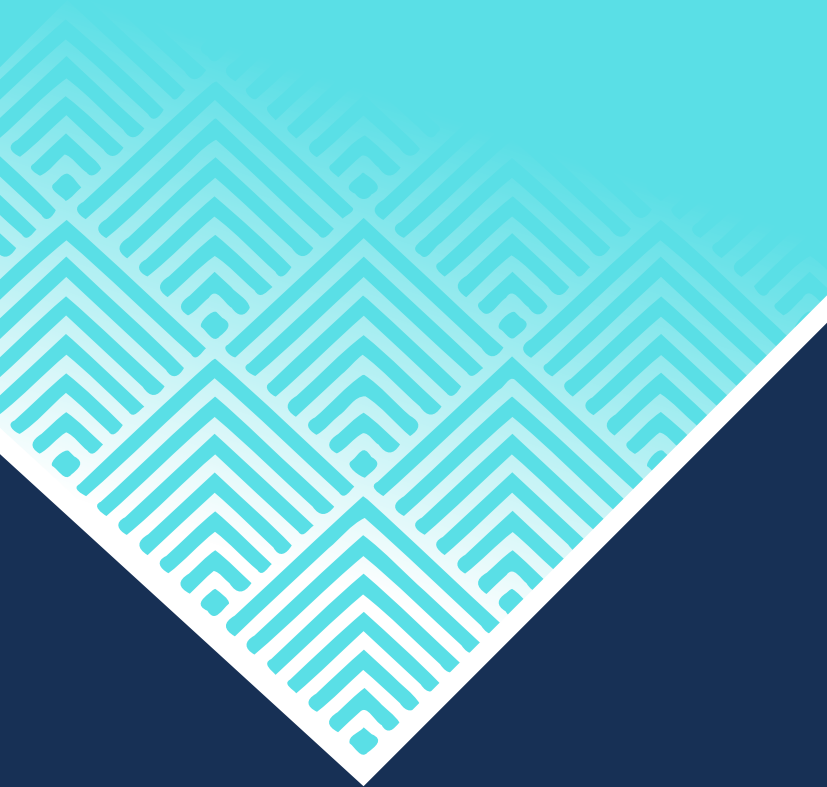
5. MONETARY POLICY STANCE FOR 2019/2020

In summary, headline inflation is expected to pick up in 2019/20 to around 2.6 percent from 1.3 percent at end August 2019 and 2.2 percent at end June 2019. Real GDP growth is expected to recover further by 4.9 percent in light of current strong growth in remittances and visitor receipts, positive results expected from the Pacific Games, as well as ongoing construction projects like the Apia Waterfront, Vaisigano, Maliolio and Lotosamasoni bridges, road widening project to Faleolo and other planned works mentioned earlier. Foreign reserves are expected to remain high at 6.1 months of imports and foreign exchange earnings from exports of goods, tourism and remittances are forecasted to grow further in 2019/20.

However, there are downside risks to these forecasts and outlook with possible natural disasters namely, flooding from heavy rains and cyclones that could affect the country during the cyclone season.

As expected, inflation would remain below the medium term target of 3.0 percent in the next twelve months, ensuring and maintaining the price stability with the expectations to maintain with a further recover in the economy in 2019/20. The Central Bank of Samoa will continue to pursue an easing or loosening monetary policy stance in 2019/20 to foster economic growth (its third main objective) while at the same time ensuring the soundness of its financial system through prudential and financial supervision compliance.

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



CENTRAL BANK OF SAMOA