CENTRAL BANK OF SAMOA

MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR

2021 / 2022

APIA

OCTOBER 2021

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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 its price stability objective. 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 account 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 of 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 Exchange Rate policy (ERP) 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. This is one area the CBS is closely monitoring since the onset of the COVID-19 pandemic. The CBS is undertaking quarterly reviews of its exchange rate basket as well as actively consulting with the IMF through its annual Article IV Missions, to ensure Samoa's Exchange rate regime and policy remains appropriate given the current macroeconomic environment.

2. EXECUTIVE SUMMARY

2.1 World Economy

The July 2021 World Economic Outlook (WEO) by the International Monetary Fund (IMF) indicated a 1.4 percent expansion in the global economy in FY2020/2021, from a -0.2 percent contraction in the previous year. This was slightly faster than the earlier expected 1.35 percent recovery in the April 2021 WEO, reflecting the boost in advanced economies from the substantial stimulus packages that were implemented as well as the global rollout of Covid-19 vaccines in the second half of the year.

2.2 Domestic Economy

Following a -2.6 percent decline in real GDP in FY2019/20 due to the detrimental effects of the Measles Outbreak in late 2019 followed by the onset of Coronavirus (Covid-19) pandemic in 2020, the Samoan economy contracted further by -8.1 percent in FY2020/21. This reflected the loss of visitor arrivals for over a year due to the closure of its international borders coupled with weak demand conditions, which later created local supply shocks that compounded the decline in economic activity.

On the monetary sector, commercial banks' average liquidity improved further during the course of the year in light of strong external inflows mainly through government budget support funds while the banking system remained well capitalized with non-performing loans at low levels and were also well provisioned for.

On the external sector side, these large budget support funds and external grants saw gross foreign reserves increase to record levels (above $700 million) with the import cover rising to 10.7 months of imports.

On the fiscal side, the Government budget remained expansionary in light of the sharp slowdown in economy activity, with the Budget deficit sitting at around an estimated -3.2 percent fiscal deficit. Much of this deficit involved fiscal stimulus spending in the face of rising economic and social hardships for both businesses and families, while still prioritizing key sectors such as Education and Health.

Looking at prices, both the headline and underlying consumer price index (CPI) recorded downward trends given weak demand conditions following the COVID-19 pandemic. (See Table 1.)

Table 1

Selected Domestic Economic Indicators

Fiscal year to end June	2017/18	2018/19	2019/20	2020/21	Forecast 2021/22
	(Percentage change over the previous year)				
Real sector					
Nominal GDP	1.0	5.8	-2.8	-7.3	3.8
Real GDP	-1.2	4.4	-2.6	-8.1	1.7
Prices (February 2018=100)					
Headline Consumer Price Index (ann ave)	3.7	2.2	1.5	-3.0	3.7
Underlying Consumer Price Index (ann ave)	3.7	0.1	2.1	-2.1	4.4
Implicit GDP Deflator (annual average)	1.2	1.4	0.2	0.8	2.2
Monetary aggregates					
Net foreign assets (annual average)	97.7	43.9	10.6	31.1	11.5
Government's net monetary position (end of period)	15.3	7.6	31.8	14.2	3.2
Bank credit to private sector					
Annual average	2.2	4.70	6.40	2.10	2.3
End period	-0.7	6.1	5.8	1.5	8.0
Money Supply, M2					
Annual average	12.8	13.2	1.8	5.5	7.0
End period	16.5	9.9	-0.9	8.1	6.3
Exchange rate (March 2016=100)					
Nominal Exchange Rate (annual average)	-0.09	-0.11	0.03	-0.08	n/a
Real Exchange Rate (annual average)	1.71	0.71	-0.36	-4.91	n/a
International reserves					
Gross International Official Reserves (Tala million)	399.06	490.71	594.27	732.68	765.68
Gross International Official Reserves (Months of imports)	5.8	6.4	8.4	10.7	11.0
Weighted average interest rates	(End of period, percent p.a.)				
CBS 14 days Securities	0.13	0.13	0.13	0.13	0.13 (1)
CBS 28 days Securities	0.16	0.16	0.16	0.16	0.16 (1)
CBS 56 days Securities	0.18	0.18	0.18	0.18	0.18 (1)
CBS 91 days Securities	0.41	0.41	0.41	0.41	0.41 (1)
	(period average, p.a.)				
CBS Securities overall weighted avg yield (ann avg)	0.17	0.19	0.15	0.15	0.15 (1)
Commercial bank deposits	2.70	2.75	2.73	2.11	1.94 (1)
Commercial bank credit	8.98	8.97	8.63	8.57	8.48 (1)
Commercial bank interest rate spread	6.28	6.22	5.90	6.46	6.54 (1)

Source: *Central Bank of Samoa*
(1) Interest rate as at end August 2021
n/a - not available

3. REVIEW OF 2020/2021

3.1 WORLD ECONOMY

The easing of national lockdowns and international border restrictions in some of the major economies also provided some support for economic activities. The strength of these economic recoveries, however, will vary and may largely be dependent on the extent of government support to vulnerable workers and businesses, a country's dependency on particular sectors such as tourism (which has been severely impacted by the health pandemic and would require rebuilding for the future), as well as by public health and vaccination policies recalibration. Accordingly, the IMF estimates further improvements in 2021 and 2022, which will be equivalent to a 5.45 percent growth for FY2021/2022. These projections will be subject to prevailing downside risks, which includes geopolitical tensions, natural disasters as well as the spread of the more contagious Delta variant as second or third Covid-19 waves in many of the countries around the world, including our main trading partners such as Australia, New Zealand and other neighbouring Pacific countries.

Inflationary pressures picked up in FY2020/2021 with a reported global inflation rate of 3.40 percent, accelerating from 3.07 percent in FY2019/2020. This mainly reflected increasing international commodity prices over the year, particularly fuel, as well as increased domestic demand in countries such as the USA in view of the gradual reopening from Covid-19 lockdowns. Of Samoa's major trading partners, their inflation rates recorded increasing inflation trends particularly in the last six months of the year, with the inflation rates in the USA, NZ and Australia accelerating well above their target levels. Global inflationary pressures in the next 12 months is anticipated to pick up slightly, with a modest increase in the inflation rate to 3.65 percent.

Labour market conditions were subdued in the beginning of 2020/2021 before the re-opening measures adopted by several countries from the impact of Covid-19 helped reduce unemployment rates across the globe, particularly in the US and Australia.

Overall, monetary policies in most economies were largely accommodative in 2020/2021, as showed by the Reserve Bank of Australia decision to cut its official cash rate by 15 basis point from 2.50 percent to 0.10 percent in November 2020. Most other major central banks maintained their policy interest rates to support their economies' recoveries. For the next 12 months, the markets are anticipating a hike in the Reserve Bank of New Zealand's overnight cash rate mainly driven by the tone of the reserve bank's pre-August monetary policy statements as the NZ economy's recovery seem to have picked up faster and stronger than the rest of the world. This, however, was before the current lockdown due to the emergence of a positive Covid-19 Delta variant carrier in the Auckland community, which subsequently and adversely impacted on the general strength of economic activities in the weeks or months ahead.

Table 2
Selected World Economic Indicators

Fiscal year to end June	2016/17	2017/18	2018/19	2019/20	2020/21	Forecast 2021/22
Real growth rate	3.45	3.70	3.25	-0.20	1.40	5.45 (1)
Inflation rate	3.00	3.20	3.30	3.07	3.40	3.65 (1)
Official policy interest rates						
US Federal Reserve	1.00 - 1.25	1.75 - 2.00	2.25 - 2.50	0.00 - 0.25	0.00 - 0.25	0.00 - 0.25
Reserve Bank of Australia	1.5	1.50	1.25	0.25	0.10	0.10
Reserve Bank of New Zealand	1.75	1.75	1.50	0.25	0.25	1.25
Bank of England	0.25	0.50	0.75	0.10	0.10	0.10
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00
People's Bank of China	4.35	4.35	4.35	3.85	3.85	3.85

Source: IMF and reserve banks' publications and information releases.
(1) IMF World Economic Outlook Database (IMF website)

In the global financial markets, the broad release of favourable economic indicators across the advanced economies and the successful Covid-19 vaccination developments saw risk sentiments shift, with the USD weakening against most of the major currencies in the Samoa Tala basket during 2020/2021. As a result, the Sāmoa Tala, on a bilateral basis, appreciated 4.9 percent against the US dollar and depreciated against the NZD (by 3.9 percent), AUD (by 5.8 percent) and the Euro (by 2.7 percent). As a result, the overall nominal value of the Sāmoa Tala appreciated modestly (by 0.08 percent) against the basket, while weak inflationary pressures saw the Sāmoa Tala real effective exchange rate depreciated by 4.91 percent over the year. (See Table 2.)

3.2 DOMESTIC ECONOMY

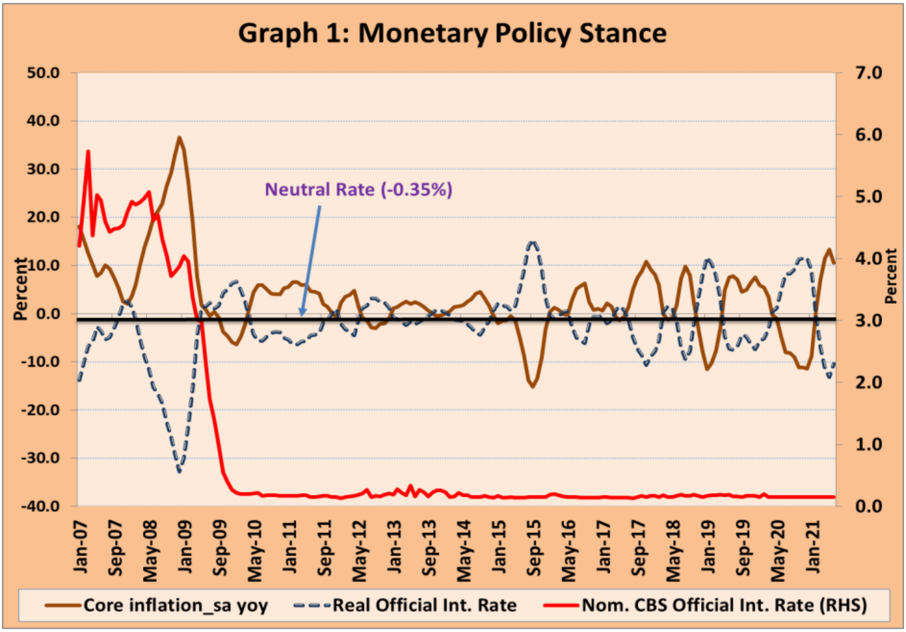
3.2.1 Policy Developments

3.2.1.1 Macroeconomic Policy Settings

With the adverse effects of the Covid-19 pandemic peaking in 2020/21, the Government rolled out two stimulus packages to provide some relief and assistance to struggling local businesses (including hotels and accommodations) and households (especially low income families) to cope with the prolonged effects of the pandemic. This saw the Government budget deficit rise out to -3.5 percent of GDP in FY2020/21 after containing the deficit within its medium term target of -1.0 percent in the past three years. Even with the fiscal stimulus spending, the Budget still managed to prioritize its expenditures on critically important sectors such as health, education and infrastructure while maintaining its external debt target at less than 50.0 percent of GDP.

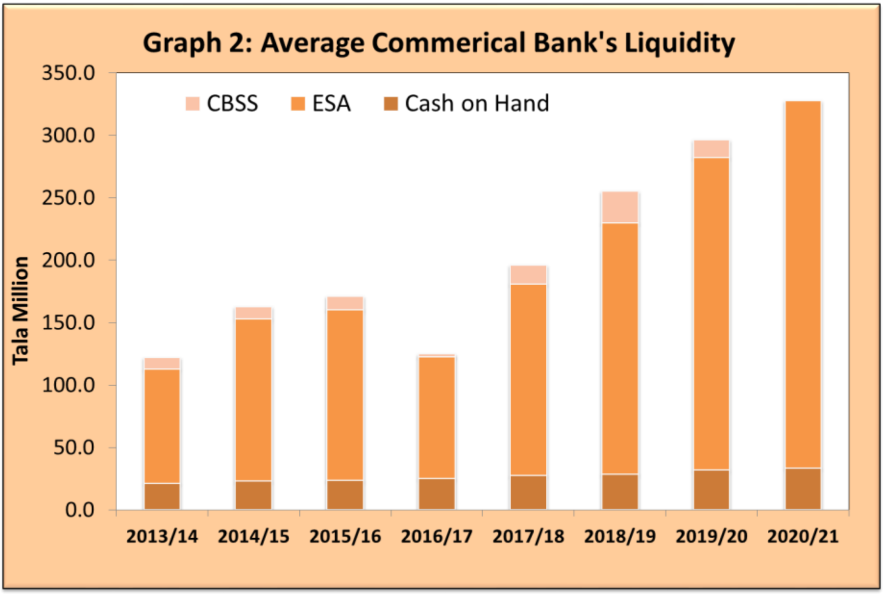
As part of the overall Government policy mix to alleviate and mitigate the pandemic induced recession and its tangible effects on the Samoan economy, monetary policy also remained expansionary by encouraging the financial sector to provide much needed finance in order to spur economic activity. The decline in both economic output and weak demand has seen the annual inflation rate drop (or deflation) in FY2020/21.

Since 2008, the Central Bank of Samoa has pursued an accommodative or easing monetary policy stance given the many challenges the economy has gone through starting from the Global Financial crisis (GFC), the 2009 tsunami, 2012 Cyclone Evans, 2nd round effects of the GFC (2014), closure of Yazaki and Cyclone Gita in 2018, the Measles Outbreak in 2019 and the ongoing COVID-19 pandemic since the start of 2020. 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 0.10 percent. This is represented on the graph by the areas where (ex-Post) Real Interest rate line (dotted line) is above the neutral interest rate of -0.35 percent, which mostly occurred in 2009, early 2012 and around 2014 and 2015. More recently, we can see that from November 2018 to April 2019 as well as from April 2020 to January 2021, the Real interest rate were above the neutral rate of interest indicating an actual tightening of monetary policy conditions despite Central Bank efforts to implement a loosening monetary policy stance. (See Graph 1.)

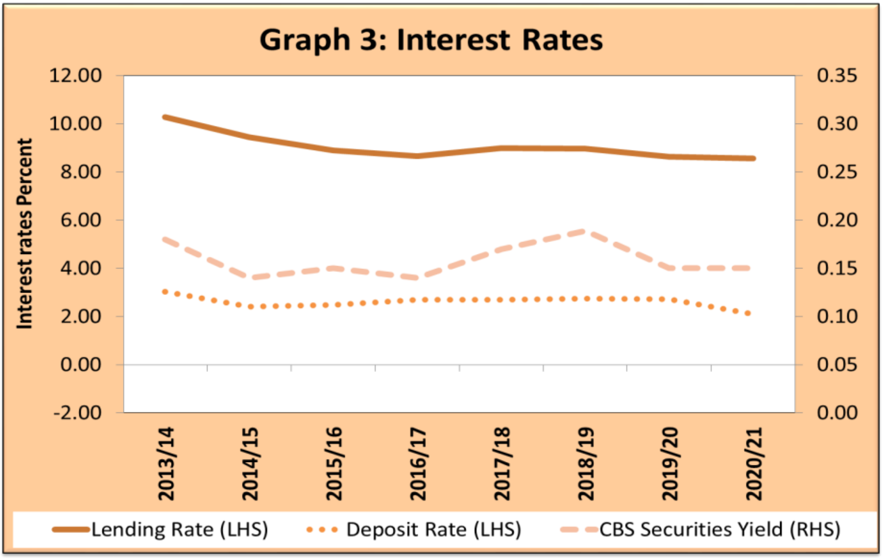


3.2.1.2 Monetary Conditions

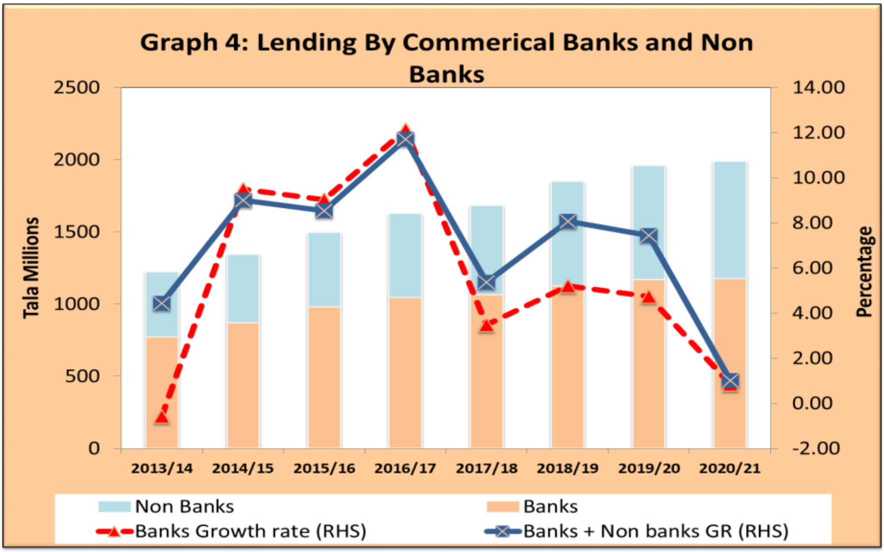
Liquidity conditions in the banking system improved further in 2020/21 despite the economic slowdown. The average commercial banks' holdings of excess reserves expanded by 17.8 percent to $294.4 million from $249.9 million last year. In addition, the average commercial banks' vault cash holding increased by 4.2 percent to $33.6 million in 2020/21. (See Graph 2.)



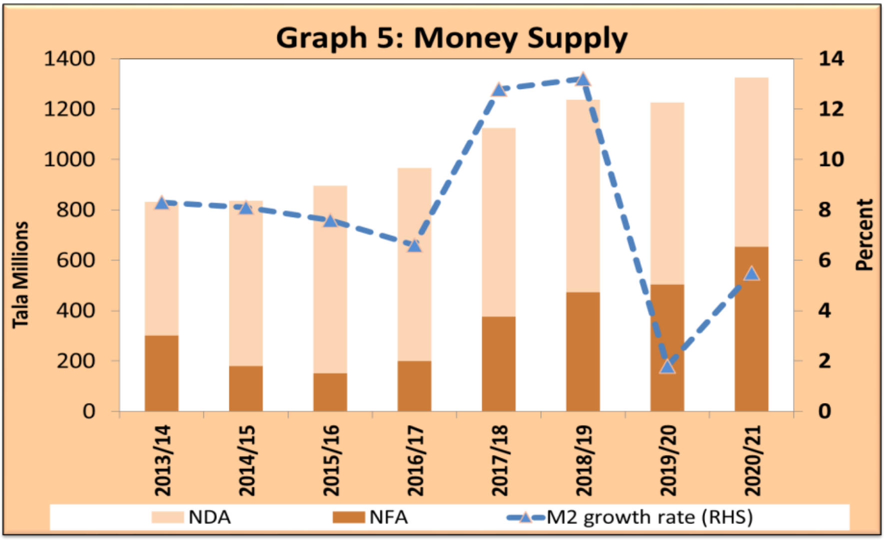
On interest rates, the CBS' official interest rate continued to remain stable at 0.15 percent once open market operations were ceased in April 2020. This was part of the CBS monetary policy response to ensure the Samoan financial system remains liquid and able to provide much needed finance to the private sector and households amidst the economic uncertainty created by the COVID-19 pandemic. On the other hand, the commercial banks' weighted average deposit rates fell sharply by 62 basis points to 2.71 percent. The rationale for this large reduction is part of commercial banks' efforts to bring down lending rates by first reducing high deposits rates (in excess of 3.0 percent) that were largely enjoyed by wholesale/corporate depositors. Once the cost of deposits comes down, lending rates can then also be lowered for households and small medium enterprises that were affected disproportionately by the recession. Similarly, the weighted average lending rates dropped by 6 basis points to 8.57 percent at end June 2021. As a result, the weighted average interest rates margin expanded to 6.46 percent from 5.90 percent in June 2020, an unfavorable outcome that could be effectively addressed through bilateral consultations. (See Graph 3.)



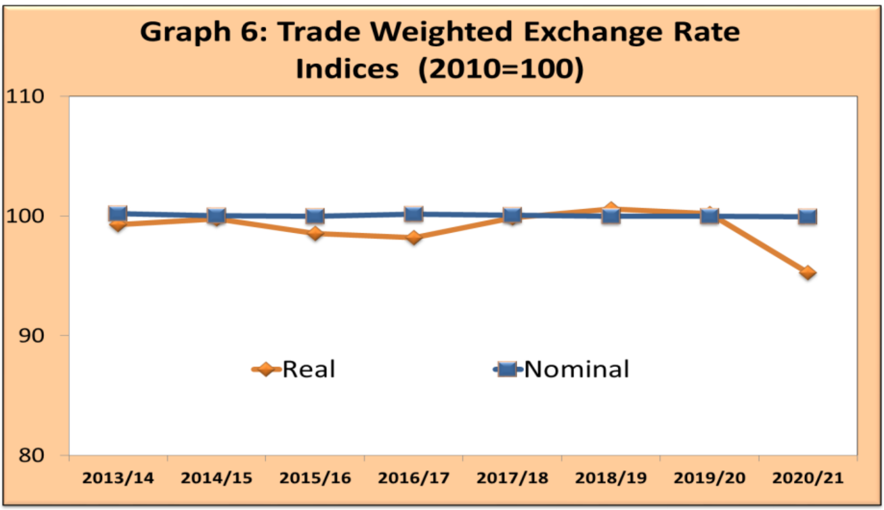
Despite the decline in the cost of borrowing, commercial banks' credit to the private sector and public institutions rose slightly by 0.5 percent to $1,175.9 million at end June 2021. Likewise, its annual average growth rate slowed to 0.84 percent at end June 2021 from 4.75 percent in June of last year. This slowdown in credit reflects the risk averseness of banks to lend during these uncertain times coupled with weak economic activity. Similarly, total financial system credit, which includes non-banks financial institutions (NFIs) such as Samoa National Provident Fund (SNPF), Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC), increased by 1.5 percent to $1,990.6 million with an annual growth rate of 2.0 percent at end of June 2021 compared to 7.5 percent last year. (See Graph 4.)



Net foreign assets jumped by 29.9 percent (or $29.6 million) to $653.49 million in light of large inflows of external grants and budget support funds from international development partners to assist Samoa in its efforts to prevent the spread of Covid-19 from reaching its shores. Despite a 7.0 percent drop in net domestic assets, total money supply (M2) grew by 8.1 percent on a point to point basis to $1,325.3 million. As a result, the annual average growth rate of M2 improved to 5.5 percent at end June 2021 from 1.8 percent in June 2020. (See Graph 5.)



The nominal effective exchange rate (NEER) of the Tala fell marginally by 0.08 percent in FY2020/21, as a result of sharp depreciations against the New Zealand and Australian dollars as well the Euro. However, the real effective exchange rate (REER) fell by 4.91 percent during the course of the year as a result of decline in inflation (or deflation) in the year under review. (See Graph 6.)



3.3 MACROECONOMIC PERFORMANCE

3.3.1 Real Sector

Following a contraction of -2.6 percent in FY2019/20, real GDP fell further by another -8.1 percent in FY2020/21 as the economy felt the full brunt of the Covid-19 pandemic. The main impact was felt primarily in the tourism industry (which accounts for around 20-25 percent of GDP), with now over a year of no visitor arrivals nor earnings, due to the containment measures (lockdown of international borders, travel restrictions and health measures) were put in-place to protect and safeguard the Samoan people. The depressed global growth and demand coupled with the weakened local demand (no visitor arrivals and job losses) have compounded the decline in economic activity (real GDP). On the positive side, significant Government assistance through its two stimulus packages have managed to somewhat mitigate further the sharp decline in real GDP.

The overall decline was driven mainly by substantial reductions in output of various sectors like ‘Commerce’ (down 6.3 percent or $40.6 million), ‘Business Services’ (down 51.9 percent or $33.6 million), ‘Construction’ (down 25.1 percent or $33.1 million), Accommodations and Restaurants’ (down 64.7 percent or $25.5 million), ‘Transport’ (down 35.7 percent or $25.3 million) ‘and ‘Financial services’ (down 7.2 percent or $15.4 million) and ‘Communications’ (down 6.3 percent or $8.7 million).

On the upside, ‘Public Administration’ rose by 3.7 percent or $6.7 million, ‘Personal and Other services’ (up 9.2 percent or $5.6 million), ‘Food & Beverage manufacturing’ (up 7.0 percent or $5.0 million). (See Table 3.)

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

During the period	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Forecast
Agriculture	157.8	154.8	157.8	159.3	162.5
Fishing	43.5	33.5	28.4	28.3	27.8
Food & Beverages manufacturi	73.2	81.4	71.0	76.0	78.7
Other manufacturing	41.5	41.1	35.9	35.8	36.1
Construction	124.9	140.2	131.6	98.6	101.5
Electricity and water	55.1	62.1	61.2	58.4	58.9
Commerce	616.6	673.3	643.7	603.1	609.1
Accommodations & Restaurant:	39.8	47.6	39.4	13.9	13.0
Transport	73.4	77.5	70.7	45.5	46.0
Communication	128.6	130.3	138.0	129.3	134.7
Public administration	160.6	180.8	183.4	190.1	195.8
Financial services (2)	195.0	203.0	215.1	199.7	199.0
Business services	95.4	75.3	64.8	31.2	31.3
Ownership of dwellings	123.4	124.8	126.2	128.4	130.5
Personal and other services	65.3	56.0	60.6	66.1	69.4
Total	1,994.2	2,081.5	2,027.6	1,863.6	1,895.3
Annual percent change	-1.2%	4.4%	-2.6%	-8.1%	1.7%
Implicit GDP deflator	105.7	107.2	107.4	108.8	111.1
Annual percent change	1.2%	1.4%	0.2%	1.3%	2.2%

Source: *Samoa Bureau of Statistics*

3.2.3 Balance of payments

On the external sector side, gross foreign reserves jumped by $138.4 million (a balance of payments surplus) in FY2020/21, marking four consecutive years of bop surpluses. The main reason for this large hike in foreign reserves is due to the heavy influx of grants and aid for COVID-19 assistance, which roughly amounts to around $155.63 million[1]. (See Table 4.)

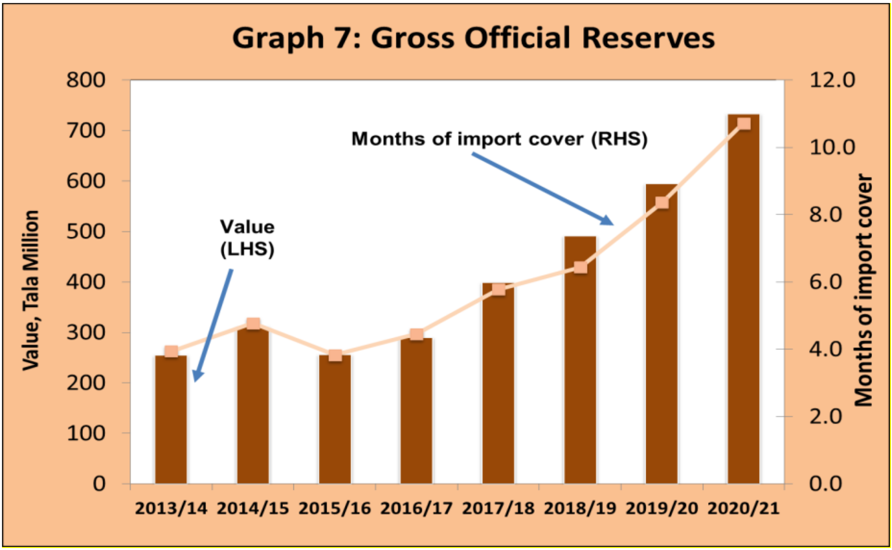
[1] Taken from the Government Finance Statistics (GFS) published by the Samoa Bureau of Statistics.

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

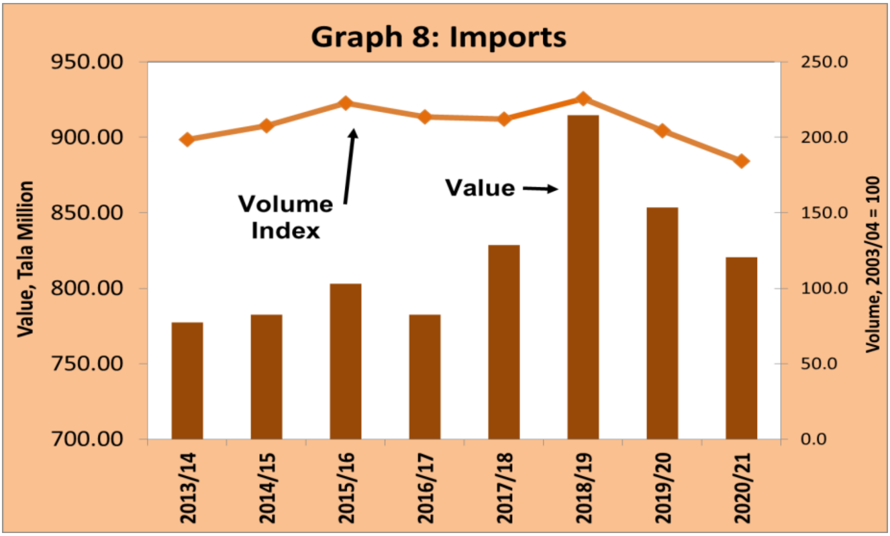
During the period	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Forecast
A. Current Account Balance	18.1	67.8	3.3	-310.1	-308.1
Balance on Trade in Goods	-737.4	-783.7	-731.2	-731.1	-747.0
Exports	91.4	130.9	122.2	89.5	84.5
Imports	828.8	914.7	853.3	820.7	831.5
Balance on Trade in Services	399.2	470.8	307.2	-78.2	-76.9
Balance on Primary Income	-74.8	-93.8	-82.4	-38.3	-32.2
Balance on Secondary Income	431.1	474.5	509.7	537.5	547.9
Personal transfers	315.2	341.4	402.4	497.2	498.5
Other transfers	115.8	133.1	107.3	40.3	49.4
B. Capital Account Balance	81.6	64.8	182.5	198.6	108.3
Capital Transfers	81.6	64.8	182.5	198.6	108.3
Other	0.0	0.0	0.0	0.0	0.0
C. Net Lending (+)/Net Borrowin	99.7	132.6	185.8	-111.4	-199.9
D. Financial Account	3.7	57.4	147.6	114.8	-97.0
Net Lending (+)/Net Borrowing (-)					
Direct Investment	-39.6	-6.8	17.0	-16.0	-28.0
Portfolio Investment	-9.4	-3.8	59.7	-38.1	-12.0
Other Investment	-29.8	35.0	-33.6	77.4	-90.0
Reserve Assets	82.5	33.1	104.4	91.5	33.0
E. Net Errors & omissions	-96.0	-75.2	-38.2	226.2	102.9

(1) Based on Balance of Payments Manual 6 format
Source: *Central Bank of Samoa*

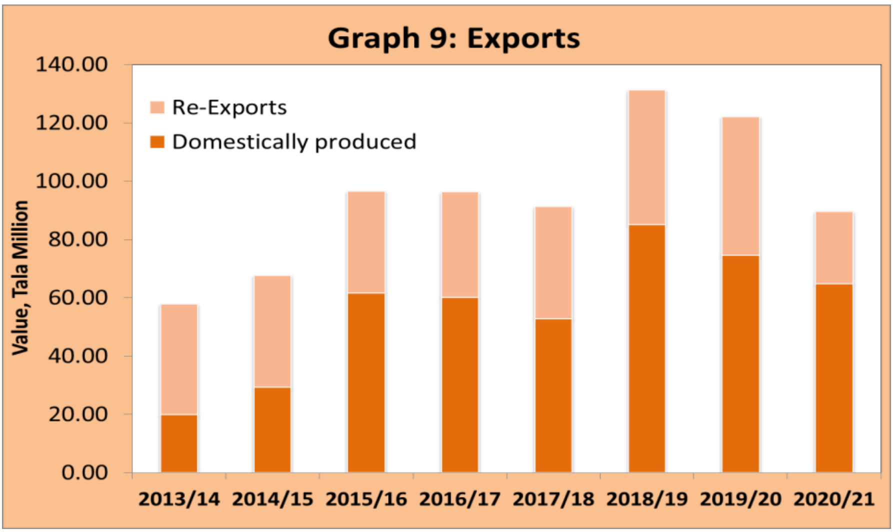
The current account deficit ballooned in 2020/21 and rising to $310.1 million deficit in 2020/21, compared to a $3.3 million surplus in 2019/20. This main culprit for the sudden turnaround was a substantial worsening of the Balance of Trade in 'Services', falling from a significant surplus of $307.2 million in 2019/20 to a deficit of $78.2 million. This was primarily underpinned by the complete loss in travel credit (tourism earnings). On the upside, the surplus in Secondary Income balance grew by 5.5 percent in 2020/21 as remittances continued to pour in despite the spread of the pandemic and national lockdowns that were enforced in our main source markets. Similarly, the deficit in Primary Income balance contracted sharply as local foreign direct investment companies recorded lower profitability due to the recession. The Trade in Goods deficit was largely unchanged in 2020/21 as the decline in export of goods was offset by the drop in import of goods. (See Graph 7.)



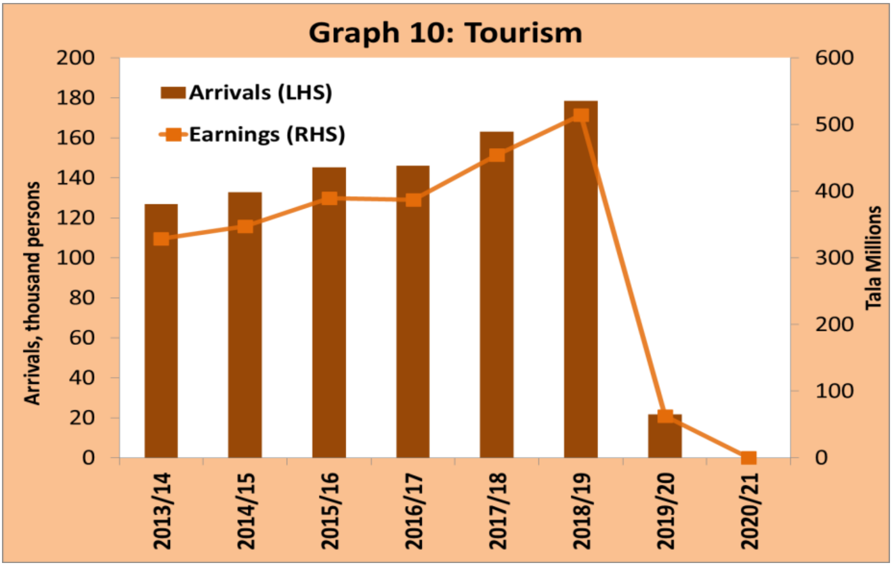
Total import payments declined by 3.8 percent (or $32.7 million) to $820.7 million in 2020/21, mainly due to reductions in government (down 8.0 percent) and petroleum imports (down 37.0 percent) while non-petroleum private sector imports rose by 3.9 percent over the year. (See Graph 8.)



Likewise, export earnings also contracted by 26.7 percent to a total of $89.5 million, which was highlighted by the decreases of 12.9 percent in domestically produced exports and 48.3 percent in those of the re-exports in FY2020/21. The decline in domestic exports was mainly due to a 36.8 percent ($16.9 million) drop in fish exports. (See Graph 9.)



As mentioned earlier, there were no visitor arrivals and earnings for the whole 2020/21 due to the continued closure of Samoa's international borders. (See Graph 10.)



3.3.3 Prices

The annual average headline inflation rate decelerated drastically to -3.0 percent at end June 2021 from a positive 1.5 percent at end June 2020, primarily due to the faster reduction in imported inflation as well as a decline in domestic inflation but at a smaller magnitude. The slowdown in global economic activity and demand saw global commodity prices such as crude oil and selected imported products such as food, raw materials and finished products, drop in the early part of 2020/21. This saw imported inflation fall by -4.3 percent in 2020/21. On the domestic side, dampened local demand saw local inflation drop by -1.7 percent, mostly stemming from prices of local agricultural commodities. Similarly, the core or underlying inflation rate also slowed to -2.1 percent at end June 2021 from 2.1 percent at end June 2020 due to the drop in its imported prices especially from fuel and food items. (See Graph 11 & 16, and Table 5.)

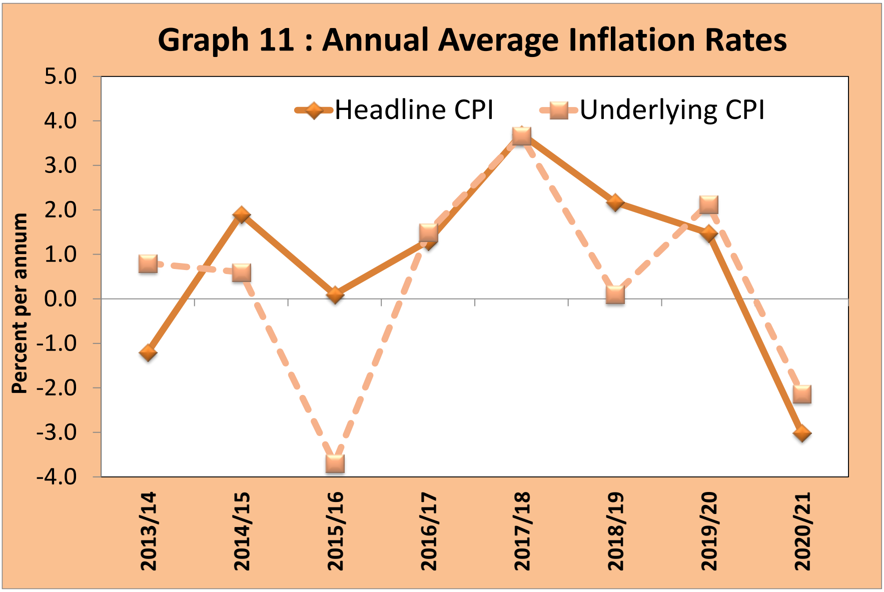


Table 5
Consumer Price Index
(February 2016 = 100)

Fiscal year to end June	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Forecast
A. Headline Inflation							
12 months average percent change							
Description							
All Groups	0.1	1.3	3.7	2.2	1.5	-3.0	3.7
Food and Non-Alcoholic Beverages	3.5	3.2	5.2	2.1	2.5	-4.6	3.7
Import Component	-6.9	3.2	5.2	0.8	1.0	-4.3	7.0
Local Component	5.0	-0.9	2.1	3.7	2.0	-1.7	0.6
B. Underlying Inflation (1)							
12 months average percent change							
Description							
All Groups	-3.7	1.5	3.7	0.1	2.1	-2.1	4.4
Food and Non-Alcoholic Beverages	-5.1	3.3	5.6	-0.4	3.0	-3.9	6.7
Import Component	-6.8	4.2	7.2	-0.6	2.4	-3.3	6.5
Local Component	1.5	-0.2	0.7	1.7	1.5	0.5	-0.2

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 2020/2021

4.1 WORLD ECONOMY

While the economic recovery from the COVID-19 pandemic continues, the pace has weakened due to the resurgence in recent months of the highly contagious Delta Variant particularly in countries deemed to be critical links for global supply chains. According to the October 2021 World Economic Outlook (WEO) by the International Monetary Fund (IMF), the global economy is projected to grow by 5.9 percent in 2021 reflecting supportive fiscal and monetary policy measures undertaken earlier as well as the vaccination rollout across the globe. This, however, is a downward revision from its 6.0 percent outlook back in July, as the economic outturn in the major advanced economies are downgraded due partly to supply disruptions and the worsening COVID-19 pandemic developments in the developing economies. The highly contagious COVID-19 Delta variant and other new variants adds more downside pressure on the economic recovery going into 2022, with the resumption and easing of lockdown restrictions in some countries, expected to weigh heavily on economic activities. The emergency of other challenging issues such as the US debt ceiling negotiations, debt restructurings in China's property sector and escalating cross-border trade and technological tensions, present further downside risk on the global economy. Given the uncertainties and rising risks, policymakers and authorities are encouraged to continue their collaboration, ensure policy frameworks are adequate and tailored to local economic conditions, with consistent and concerted policy actions needed to overcome any unnecessary divergence that may derail the economic recovery.

Global inflation is expected to rise substantially in 2021, driven by global supply disruptions, recovering economic activities, increasing commodity prices and the effects of significant stimulus injection in most advanced economies. This includes Samoa's trading partners, whose recent inflation rates are all in the red (with the USA at 5.4 percent, New Zealand at 4.9 percent and Australia at 3.8 percent) exceeding their mandated targets that average around 3 percent. While the inflation outlook for 2022 is expected to ease, they are projected to remain elevated given the ongoing supply bottlenecks in global trade.

Overall, given these developments, most central banks are continuing with their easing monetary policies to support their respective economies. The Reserve Bank of New Zealand, on the other hand, is the first major central bank to tighten its monetary policy amidst the COVID-19 pandemic environment, as its inflation concerns triggered a 25-basis point hike in their policy interest rate to 0.50 percent earlier in October.

On the exchange rate front, the US dollar has weakened against the major currencies (in the Sāmoa Tala Currency Basket) since the start of October 2021 as the foreign exchange markets react to favorable economic data releases in other major economies, COVID-19 developments and other risk-related fundamentals.

4.2 DOMESTIC ECONOMY

4.2.1 Government Budget

With a change in Government in June 2021, the FY2021/22 Budget objectives were modified slightly with more focus on social welling and protection amidst the economic downturn the country is facing, as well as building resilience and recovery going forward. Total Government revenue is expected to increase by 4.6 percent in FY2021/22 largely coming from an 18.6 percent pickup in tax collection. Although total Government expenses are forecast to increase slightly by 0.2 percent to $703.8 million, there are several new government assistance initiatives for the social, health and education sector. In addition, the Budget is estimating a 10.1 percent increase in its spending on non-financial assets (e.g. infrastructure spending), resulting in a $53.0 million net borrowing or a budget deficit of -2.5 percent of GDP. This is compared to a budget deficit of 72.6 million in FY2020/21 or -3.2 percent of GDP. (See Table 6 and Graph 12.)

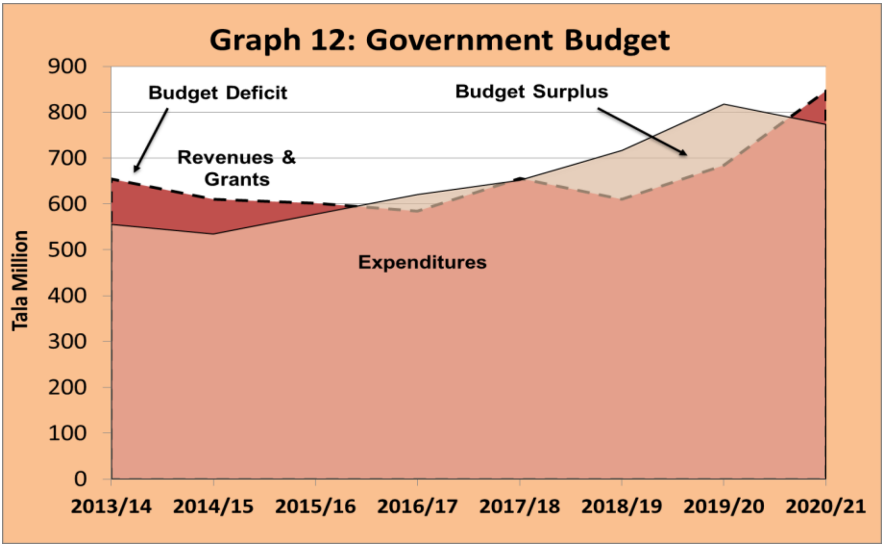


Table 6

Financial Operations of Government (1)
(Amounts in Tala Million)

During the period	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Estimate (2)	2021/22 Budget (2)
Revenues	651.7	716.7	818.0	773.3	808.8
Taxes	528.1	571.8	563.4	407.5	483.3
Grants	64.6	55.7	179.4	255.8	241.2
Other Revenues	59.0	89.2	75.2	110.0	84.3
Expenses	520.0	600.4	638.5	702.5	703.8
Compensation of employees	195.0	230.7	261.8	323.9	343.1
Use of goods and services	145.9	201.6	188.8	272.5	248.3
Interest	17.3	16.6	15.9	10.7	11.2
Subsidies	5.1	8.7	9.5	26.8	22.6
Grants	135.6	110.9	124.5	17.3	13.0
Social benefits	18.6	19.9	23.0	39.4	52.7
Other expenses	2.4	12.0	15.0	11.9	12.9
Net Operating Balance	131.7	116.2	179.5	70.8	105.0
TRANSACTIONS IN NONFINANCIAL ASSETS:	136.1	10.3	45.2	143.5	158.0
Net Acquisition of Nonfinancial Assets					
Net lending / borrowing (Budget Surplus/Deficit)	**-4.3**	**106.0**	**134.3**	**-72.6**	**-53.0**
Net acquisition of financial asset:	13.5	52.8	89.2	-116.7	-113.6
Domestic	13.5	52.8	89.2	-118.1	-117.0
Net incurrence of liabilities	17.8	-53.1	-45.1	-44.1	-60.6
Domestic	-9.8	-9.3	-7.1	-4.2	-5.5
Foreign	27.6	-43.8	-37.9	-39.9	-55.2

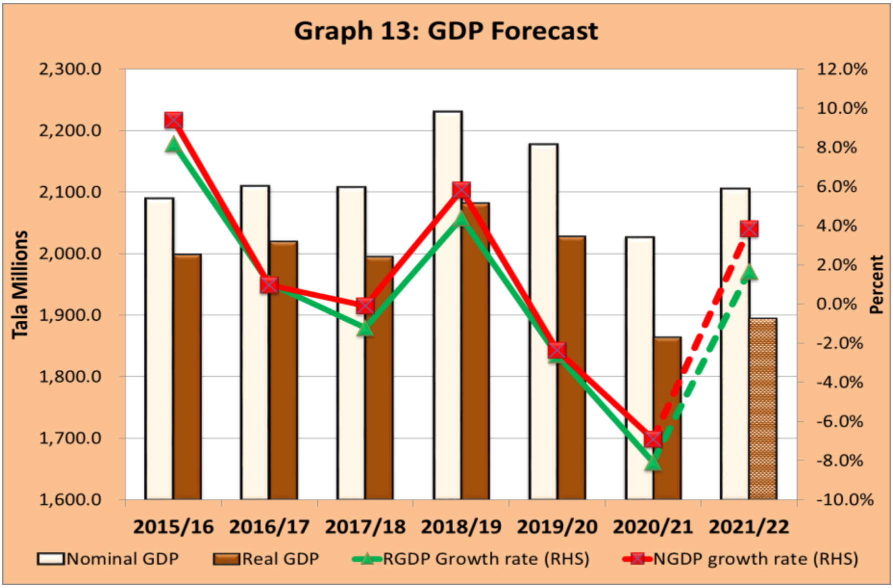
(1) GFS Manual 2001 format

(2) Adapted from the Budget Address 2021/22, which is slightly different from GFSM 2001 format

Source: *Samoa Bureau of Statistics and Ministry of Finance*

4.2.2 Real Sector

The Samoan economy is expected to move past the worst part of the pandemic induced recession and begin to recover, rising by 1.7 percent in FY2021/22, up from -8.1 percent in 2020/21. This expected rebound reflects the positive outlook for remittances, coupled with expected pickup in domestic demand for goods and services as the domestic economy normalizes without visitor arrivals. These will boost sectors like 'Commerce', 'Communications', 'Personal & other services', 'Food & Beverage manufacturing' and 'Agriculture'. In addition, directed Government assistance to families or households, non-government organizations, small-medium business and several government construction projects earmarked for FY2021/22 and beyond will drive the recovery in 'Construction', 'Public Administration', 'Transport' and 'Ownership of dwellings' to name a few. (See Table 3 and Graph 13.)

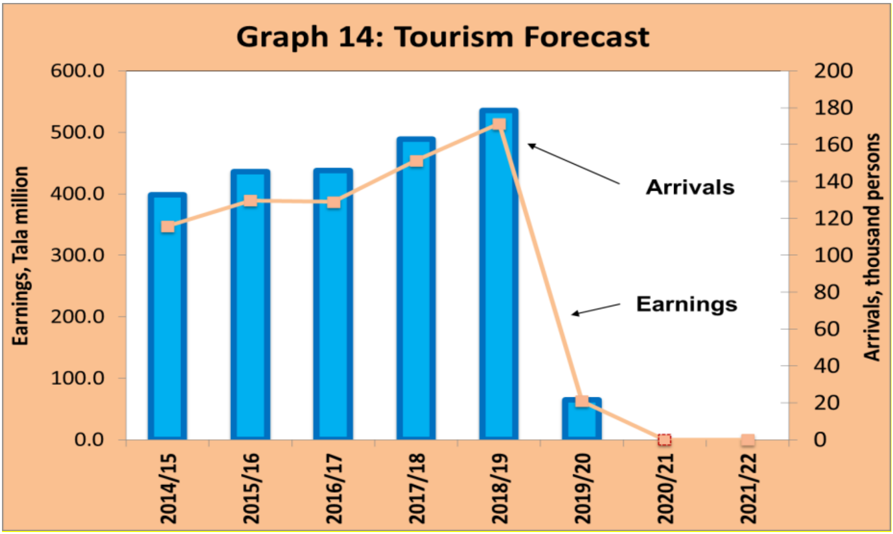


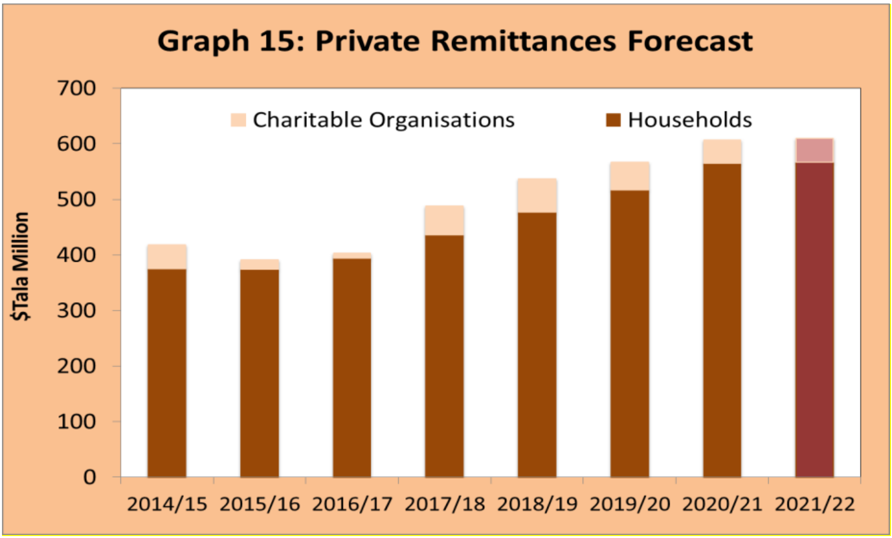
4.2.3 *Balance of Payments*

The balance of payments is expected to record an overall surplus[2] of $33.0 million in 2020/21 on top of last year's surplus of $138.4 million or $91.5 million[3] (less revaluation losses). As a result, the gross official reserves is estimated to increase to around $735.7 million, at around 11.0 months of import cover. This net inflow of

[2] The increase in Official Foreign Reserves includes both transactions and foreign exchange valuations
[3] Includes only transactions but excludes revaluation changes.

foreign reserves is expected to come from a further hike in **remittances,** up slightly by 0.5 percent due to two factors, which are mitigating each other. On the upside, the New Zealand and Australian Governments have rolled out further financial support measures (including wage subsidy schemes) following their recent COVID-19 lockdowns, which will see remittances from both countries increase in the near future. However, on the other hand, the level of remittances (just above $600 million) is already at a very high level and it will be difficult to achieve another 3.0 – 6.0 percent increase in FY2021/22 and likely to return to normal levels after the stimulus pay-outs in some of our source countries. However, total **exports** are expected to drop further by 5.6 percent in FY2021/22 due to further reduction in fish exports as regional fish catch is expected to decline in 2022 as ocean temperature continues to warm, driving tuna stocks eastward to South America. However, taro, beer and coconut oil are expected to improve further due to increase in local production. One mitigating factor on both exports and imports, is the COVID-19 impact on the frequency and cost of shipping. As a result, shipping routes face delays due to quarantine procedures which means cost escalations, which can hamper the volume of Samoan exports in FY2021/22. On the other hand, total **imports** are expected to rebound by 1.3 percent ($10.9 million) to $831.5 million in 2021/22. This increase is in line with recent trends where imports are starting to pick up, which also aligns with the expected recovery in economic activity (real GDP) for FY2021/22. Also underpinning the increase in total value of imports is the expected rise in global fuel, food and construction materials like steel and timber. Both **visitor arrivals and earnings** are expected to remain dormant in FY2021/22 as borders are not expected to reopen in the coming year but tentatively estimated to reopen around September 2023 for now. (See Table 4 and Graphs 14 and 15.)

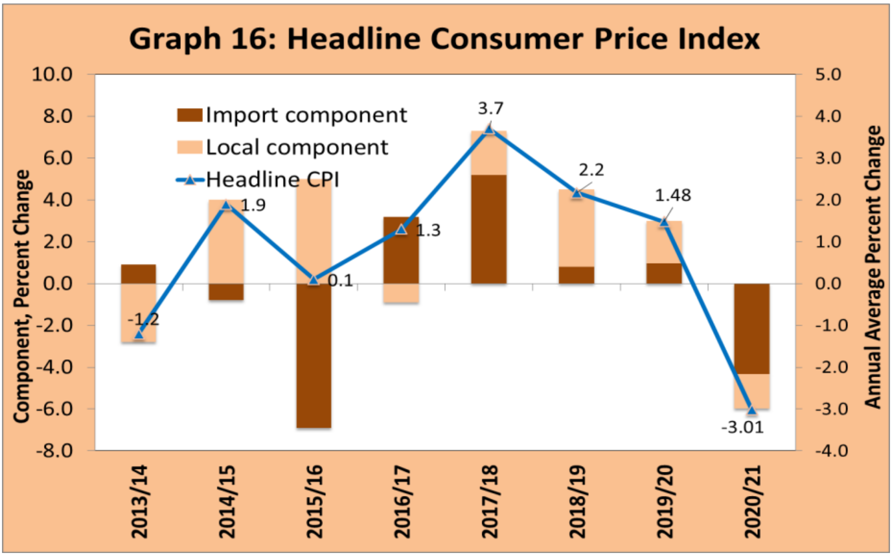


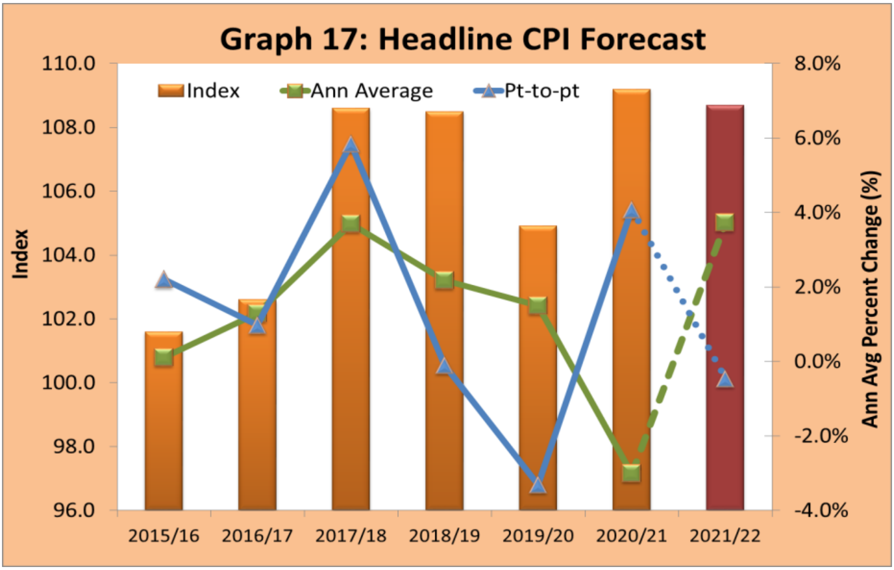


4.2.4 Prices

4.2.4.1 Headline Inflation

The headline inflation rate is expected to pick up quickly in 2021/22 in line with the recent trends recorded in April to July 2021. Imported fuel and food prices have risen quite sharply in the past few months and are expected to rise further in the next 8-10 months, driving up imported inflation to 7.0 percent at end June 2022 from -4.3 percent last year. In addition, the local component of inflation is also expected to increase but at a much slower pace to 0.6 percent in 2021/22 from -1.7 percent in 2020/21. The food, transport, appliances, housing and electricity subgroups are expected to drive this overall increase. As a result, the headline inflation rate is expected to climb to 3.7 percent at end June 2022 from -3.0 percent at end June 2021. However, there is a large downside risk to this outlook, and that is if imported price hikes spill over to local prices such as electricity and local transport costs like bus and taxi fares for example. This may see the headline inflation rate jump up further to around 4.0 to 6.0 percent in FY2021/22. (See Graph 16 and Graph 17.)





4.2.4.2 Underlying Inflation

Similarly, the underlying inflation rate is also expected to rise to 4.4 percent from -2.1 percent last year as the hike in imported prices in the next 12 months will push up the imported component of CPI, thereby driving up the underlying inflation rate.

4.2.5 Monetary Aggregates

Looking at the outlook of the monetary system, total broad money (M2) is expected to rise further by 7.0 percent in FY2021/22 to around $1,408.7 million. This will reflect increases in both domestic and foreign components of money supply. Private sector credit is however, expected to remain stable and low at 2.3 percent in 2021/22 from 2.0 percent last year. (See Table 7.)

Table 7
Monetary Survey
(Amounts in Tala million)

End of Period	2017/18	2018/19	2019/20	2020/21	Forecast 2021/22
A. Determinants of Money Supply					
Net Foreign Assets	375.8	473.6	503.2	653.5	663.0
Net Domestic Assets	748.6	762.7	722.2	671.8	745.7
Net Credit to Non-financial Public Sector	-185.1	-202.7	-271.4	-310.2	-321.6
Credit to private sector	1,014.6	1,076.6	1,139.0	1,155.7	1,248.0
Net Credit to Non-monetary Financial Instit	135.2	138.8	112.1	97.9	93.1
Others, net	43.9	18.0	32.7	27.0	33.7
B. Money Supply (M2)	1,124.4	1,236.3	1,225.5	1,325.3	1,408.7
Narrow Money	499.3	566.2	516.6	598.9	621.1
Currency Outside banks	75.2	97.6	98.1	112.6	116.2
Transferable Deposits	424.1	468.6	418.5	486.4	504.9
Demand Deposits	353.4	402.9	370.1	430.5	447.4
Foreign Currency Deposits of Residents	70.7	65.7	48.4	55.9	57.5
Quasi-money	625.1	670.1	708.8	726.3	787.6
Other Deposits	625.1	670.1	708.8	726.3	787.6
Savings Deposits	139.9	148.9	165.0	190.9	195.2
Time Deposits	485.2	521.2	543.9	535.4	592.4

Source: Central Bank of Samoa

5. MONETARY POLICY STANCE FOR 2021/2022

In summary, inflationary pressures are building with the headline inflation expected to pick up in 2021/22 to around 3.7 percent. The latest update up to August 2021 confirms this with the headline inflation rate now at -1.7 percent. The Central Bank of Samoa will monitor this closely going forward. Price stability is the main objective of monetary policy; however, the source of these inflationary pressures is from external sources that are outside of the CBS sphere of influence. Any monetary policy action by the CBS to counter these imported price hikes will have little or no impact on foreign prices except through timely adjustments of its exchange rate policy to ensure stability in its nominal effective exchange rate position.

The Samoan economy is expected to continue its recovery path in FY2021/22 culminating in a 1.7 percent increase in overall real GDP. Apart from remittances, which is expected to improve slightly, exports of goods are expected to decline further while visitor earnings remain dormant in 2021/22 and until such time when international borders could be safe to open. Foreign reserves are tentatively expected to remain high at 11.0 months of imports.

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. In addition to the downside risk of global commodity prices continuing to rise in 2022 and beyond, another risk is that the economic recovery is hampered by slow pickup in domestic demand and delays in both Government and private sector project implementation.

Given the above, the Central Bank of Samoa will continue its accommodative monetary policy stance in FY2021/2022, to support the recovery in economic activity while at the same time closely monitor inflation (price stability objective) and revisit the monetary policy stance if conditions worsen. Monetary policy will also continue to support and supplement fiscal policy to drive the expected economic recovery.

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