



MONETARY POLICY STATEMENT
FOR THE FINANCIAL YEAR
2017/2018

APIA
SEPTEMBER 2017

CENTRAL BANK OF SAMOA

MONETARY POLICY STATEMENT FOR THE FINANCIAL YEAR 2017/2018

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1. INTRODUCTION

The ultimate goal of Monetary Policy Statements (MPS) is to effectively communicate and promote accountability through public awareness. The main objectives of the monetary policy and its corresponding targets would be followed in the set period by the Central Bank of Samoa (CBS). This Statement aligns 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 sustainable real economic growth and sound levels of international reserves. Monetary policy decisions are conducted through open market operations (OMO) with the issuance and trading of CBS Securities (CBSS) to achieve these objectives.

CBS relates Samoa's inflation rate to its major trading partners' annual average inflation rate of 3.0 percent to pursue price stability. This naturally determines the target that the CBS seeks to maintain each year although price volatilities that are usually created by external shocks beyond CBS monetary policy control. Recent years' trend reveals that persistent sharp hikes in international prices for crude oil and food had exerted significant pressures on the domestic prices of petroleum and food items. During such periods, 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 the regulation and supervision of commercial banks and non-monetary financial institutions including money transfer operators, foreign exchange dealers and insurers. 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). It is crucial therefore that Samoa maintains a sufficient level of international reserves to alleviate unpredicted economic shocks. 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 long term international viability.

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

In the IMF's April 2017 World Economic Outlook (WEO), the global economy was estimated to have grown 3.30 percent in 2016/2017, gaining from 3.15 percent in 2015/2016. This higher growth rate reflected a renewed growth prospects for a few of the advanced economies, mainly the United Kingdom (UK) and Japan. The latter half of 2016 for the UK showed a solid growth stemming from robust spending, following its shock Brexit decision in June 2016. Strong net exports in the same period for Japan provided support for its revised growth outlook. While risks to the global economy remain, a gradual consolidation stemming from increased global demand and improving labor market conditions in most developed economies will provide support for a 3.55 percent growth in FY2017/2018. World inflation in 2016/17 is estimated at 2.98 percent following the upward trajectory in international commodity

prices since August 2016. It is projected that with a healthy global growth, higher commodity prices and labor market conditions, world inflation will rise to 3.25 percent in FY2017/2018.

Monetary policies in most economies remained highly accommodative in 2016/2017. Central banks across the globe opted to either maintain their interest rates at near zero levels or reduced their official policy rates in 2016/2017 to provide ongoing monetary stimulus to support their economies. In particular, the Reserve Bank of New Zealand (RBNZ) delivered two 25 basis points cuts during the year, resulting in a 1.75 percent overnight cash rate at end June 2017 compared to 2.25 percent at end June 2016. The Reserve Bank of Australia reduced its policy rate by 25 basis point to its lowest recorded level so far of 1.50 percent by end June 2017 while the Bank of England also delivered a 25 basis point cut, reducing its policy rate to 0.25 percent. While the European Central Bank maintained its policy rate at zero percent during the year, the US Federal Reserve raised its Funds Rate Range three times in the latter half of the year, with a total 75 basis point increase, resulting in a range of between 1.00 percent and 1.25 percent at end June 2017. It is anticipated that most of the central banks will maintain their policy interest rates at current levels, with the exception of the US Federal Reserve, which is expected to continue its tightening with further hikes in the Fund Rate to between 1.75 percent and 2.00 percent by end 2017/2018.

In the financial markets, differing economic data releases for the main trading partner countries, commodity price movements and speculation continued to be influencing factors in the major currencies. Despite earlier expectations, the Australian and New Zealand currencies strengthened against the United States dollar (USD) on the back of favourable domestic data releases during the year. The Euro, on the other hand, weakened as expected. As a

result, the Samoan Tala depreciated against the Australasian currencies but appreciated against the USD and Euro. Expectations are for the USD to strengthen, with some weakness in the currencies of Australia, New Zealand and Europe, albeit moderately.

2.2 Domestic Economy

The Samoan economy exceeded expectations in 2015/16, recording a bumper growth of 7.1 percent in real terms. Sharp expansions in sectors such as Commerce, Fishing and Construction. However, following such high growth, the economy in 2016/17 returned to trend growth of around 2.4 percent, driven mainly by growth in sectors such as Commerce, Agriculture and Personal & other services.

Monetary conditions were relatively tight during the year, which saw commercial bank's average liquidity contract. However, in line with the easing monetary policy stance, commercial bank interest rates continued to come down in 2016/17. On the fiscal side, Government expenditure were mostly prioritized to key sectors such as Education, Health and Construction while at the same time, consolidating its overall expenditure in 2016/17. Focus was also put on reviewing government fees and charges to improve Government revenues.

Prices on average, were on an upward trend but still below the 3 percent target for the fourth year in a row. (See Table 1.)

Table 1					
Selected Domestic Economic Indicators					
Fiscal year to end June	2013/14	2014/15	2015/16	2016/17	Forecast 2017/18
(Percentage change over the previous year)					
Real sector					
Nominal GDP	1.5	4.5	5.6	3.7	3.2
Real GDP	1.2	1.6	7.1	2.4	1.9
Prices					
Headline Consumer Price Index (ann ave)	-1.2	1.9	0.1	1.3	1.7
Underlying Consumer Price Index (ann ave)	0.8	0.6	-3.7	1.5	2.8
Implicit GDP Deflator (annual average)	0.3	2.9	-0.3	1.7	1.3
Monetary aggregates					
Net foreign assets (annual average)	25.4	-42.4	3.1	-14.9	6.4
Government's net monetary position (end of period)	5.5	14.9	14.8	28.4	-1.9
Bank credit to private sector					
Annual average	1.5	13.5	10.6	13.9	2.8
End period	3.5	17.6	13.0	8.7	4.3
Money Supply, M2					
Annual average	8.5	8.0	7.6	6.6	1.9
End period	18.7	0.6	7.1	7.8	1.0
Exchange rate (March 2016=100)					
Nominal Exchange Rate (annual average)	-0.27	-0.18	-0.02	-0.19	na
Real Exchange Rate (annual average)	-3.36	0.53	-1.24	-0.38	na
International reserves					
Gross International Official Reserves (Tala million)	352.34	335.77	283.04	312.79	330.75
Gross International Official Reserves (Months of imp)	5.4	5.1	4.3	4.8	5.0
Weighted average interest rates					
(End of period, percent p.a.)					
CBS 14 days Securities	0.13	0.13	0.13	0.13	na (1)
CBS 28 days Securities	0.16	0.16	0.16	0.16	na (1)
CBS 56 days Securities	0.17	0.17	0.17	0.17	na (1)
CBS 91 days Securities	0.41	0.41	0.41	0.41	na (1)
CBS 182 days Securities					
CBS 365 days Securities					
(period average, p.a.)					
CBS Securities overall weighted avg yield (ann avg)	0.21	0.15	0.16	0.14	na (1)
Commercial bank deposits	3.02	3.02	2.58	na	na (1)
Commercial bank credit	10.28	10.45	10.02	na	na (1)
Commercial bank interest rate spread	7.26	7.43	7.44	na	na (1)
Source: Central Bank of Samoa					
(1) Interest rate as at end June 2016					
(2) Estimates as June 2016 Quarter is not yet available					
na - not available					

The external sector recorded a large surplus of \$28.36 million in the balance of payments for the whole of 2016/17 reflecting large Government inflows in the latter half of the year. As a result, gross

foreign reserves rose to \$313.22 million or equivalent to 4.8 months of imports from 4.3 months in the previous year.

3. REVIEW OF 2016/2017

3.1 WORLD ECONOMY

The initial IMF World Economic Outlook (WEO) in July 2016 projected a 3.25 percent rebound in global economic activity for 2016/17. The latest updated economic growth estimates¹, however, point to an upward revision to 3.30 percent, mainly reflecting:

- The larger than expected growth in emerging market and developing economies to 4.30 percent from 4.10 percent in 2015/16. This reflected the relative strength of the Chinese and Indian economies compared to the previous years. Buoyant private sector economic activities and healthy external demand were some contributing factors for the Chinese economy earlier in 2017.
- A 1.85 percent estimated growth from the advanced economies, similar to the previous fiscal year.

Given the gradual recovery in the global economy, most monetary authorities maintained accommodative easing monetary policies during 2016/2017, resulting in a continuation of the low interest rate environment. (See Table 2.)

¹ July 2016 IMF World Economic Outlook Update

Table 2
Selected World Economic Indicators

Fiscal year to end June	2013/14	2014/15	2015/16	2016/17	2017/18 Forecast	
Real growth rate	3.40	3.25	3.15	3.30	3.55	(1)
Inflation rate	3.4	3.0	2.8	3.0	3.3	(1)
Official international interest rates, id of period, percent						
US Federal Reserve	0 - 0.25	0 - 0.25	0.25 - 0.50	1.00 - 1.25	1.75 - 2.00	
Reserve Bank of Australia	2.50	2.00	1.75	1.50	1.50	(2)
Reserve Bank of New Zealand	3.25	3.00	2.25	1.75	1.75	(2)
Bank of Japan	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	(2)
Bank of England	0.5	0.5	0.50	0.25	0.25	(2)
European Central Bank	0.15	0.05	0.00	0.00	0.00	(2)
Source: IMF and reserve banks' publications and information releases.						
(1) IMF World Economic Outlook Database (IMF website)						
(2) Bloomberg 23/06/17 and Westpac Market Outlook 19/06/17						

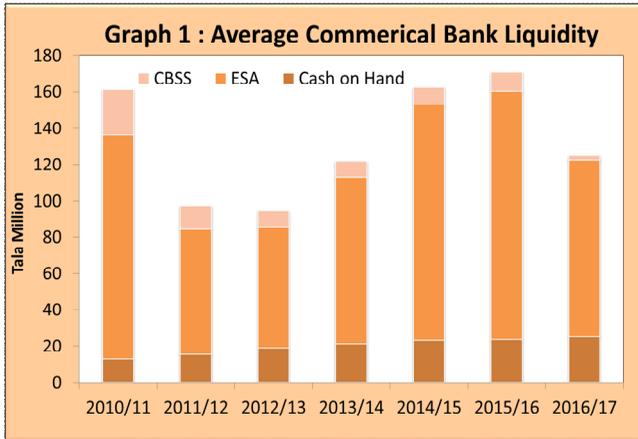
Global consumer prices started to pick up in the later part of 2016, which together with robust demand resulted in a modest pickup in inflationary pressures in 2016/2017.

3.2 DOMESTIC ECONOMY

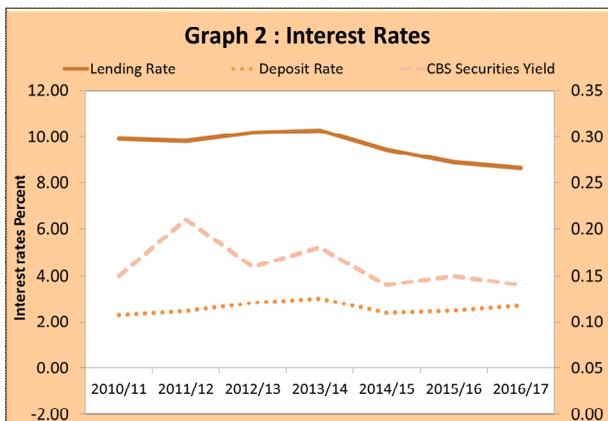
3.2.1 Policy Developments

The Government continued its fiscal consolidation stance in 2016/17 in trying to achieve its medium term target of the Budget deficit to be within 3.5 percent of GDP. This was broadly achieved by prioritising its expenditure on critically important sectors such as health, education and infrastructure while consolidating its external debt levels and ramping up its revenue collection measures. Part of Government's emphasis on improving its revenue collection were increasing the selected fees and charges as well as excise tax on alcohol, tobacco and sugary products.

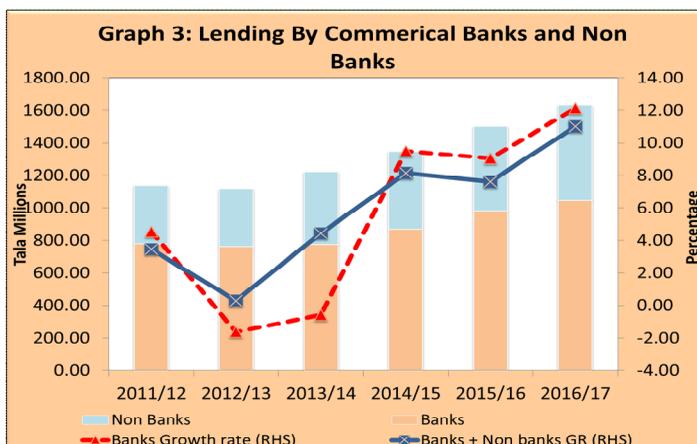
On the monetary policy side, liquidity conditions in the financial system continued to tighten during the year with average commercial banks' excess reserves dropping to \$97.1 million in 2016/17 from \$136.5 million last year. Similarly, the average total commercial banks' liquidity in 2016/17 decreased to \$125.1 million from \$170.8 million in 2015/16. (See Graph 1.)



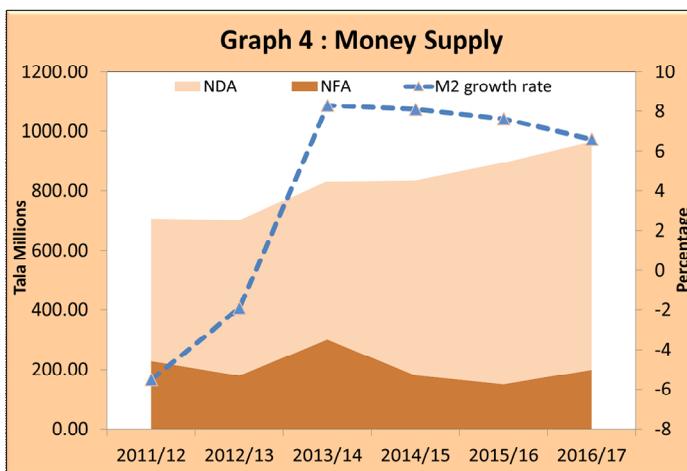
The CBS' official interest rate remained low at 0.14 percent at end June 2017 from 0.15 percent last year in line with its easing policy stance. Likewise, the commercial banks' average lending rates dropped by 36 basis points to 8.70 percent at end June 2017, from 9.01 percent at end June 2016. However, commercial banks' deposit rates rose by 38 basis points to 2.70 percent from 2.32 percent in the same month last year. (See Graph 2.)



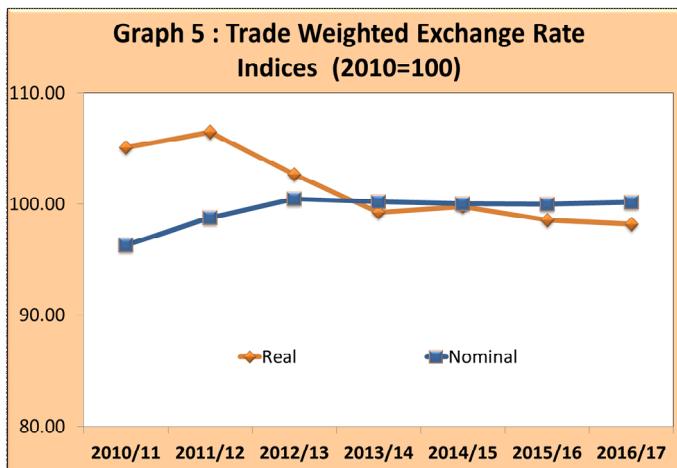
Due to lower lending rates, commercial banks’ credit to the private sector and public institutions rose by 6.6 percent to \$1,046.9 million on a point to point basis or up by 12.1 percent on an annual average basis in 2016/17. Similarly, total financial system credit, which combines the lending of the four commercial banks with those for the non-bank financial institutions like the Samoa National Provident Fund and Development Bank of Samoa, amounted to \$1,630.0 million, recording an annual growth rate of 11.7 percent at end June 2017 compared to 8.5 percent at end June 2016. (See Graph 3.)



Net foreign assets registered a large increase of 32.6 percent (\$49.0 million) primarily due to a sharp hike of \$34.0 million in Gross foreign reserves and a \$2.7 million rise in ‘other’ foreign assets. This was offset by a \$12.9 percent increase in foreign liabilities. Similarly, net domestic assets rose by \$20.9 million up to June 2017 to see total money supply (M2) grow by 7.8 percent or \$69.9 million on a point to point basis, or around 6.6 percent on an annual average basis. (See Graph 4.)



The nominal effective exchange rate (NEER) of the Tala in 2016/17 appreciated 0.16 percent against the currencies in its exchange rate basket. However, the real effective exchange rates (REER) depreciated 0.38 percent in the course of the year. (See Graph 5.)



3.3 MACROECONOMIC PERFORMANCE

3.3.1 Real Sector

The economy expanded by 2.4 percent in real terms in 2016/17 compared to a 7.1 percent expansion in 2015/16. This slowdown in growth compared to last year is mainly due to a sharp turnaround in the Fishing and Construction sectors, which recorded strong growth in 2015/16 but have now registered significant reductions in 2016/17. On nominal terms, GDP increased by 3.7 percent in 2016/17 due mainly in part of a 1.3 percent rise in the GDP deflator.

The growth in the economy is largely due to a further 6.8 percent hike in the 'Commerce' sector given increases in tourism earnings, remittances and business activity. Likewise, the 'Agriculture' sector expanded by 17.6 percent in light of the strong improvement in overall supply to the local produce markets during the course of the year. The 'Personal & other services' sector increased by 11.0 percent while 'Other manufacturing' grew by 7.0 percent while 'Financial services', 'Electricity & water' and 'Food & beverage

manufacturing' rose by 6.8 percent, 5.9 percent and 5.5 percent respectively.

On the other hand, the 'Construction' sector tumbled by 11.1 percent while the 'Communications', 'Fishing' and 'Transport' also dropped by 12.5 percent, 13.1 percent and 3.3 percent respectively in the reviewed period. (See Table 3.)

Table 3					
Real Gross Domestic Product by Industry					
(At 2009 prices, amounts in Tala Million)					
During the period	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	Actual	Actual	Forecast
Agriculture	146.9	130.3	122.3	143.8	132.6
Fishing	31.4	47.4	69.8	60.7	76.6
Food & Beverages manufacturi	61.1	56.5	63.6	67.1	68.7
Other manufacturing	108.7	100.8	103.4	110.6	109.5
Construction	204.3	180.6	202.8	180.2	200.9
Electricity and water	64.8	73.7	71.6	75.9	77.3
Commerce	537.6	538.5	574.4	613.2	599.9
Accommodations & Restaurant:	25.0	28.0	38.5	38.7	39.7
Transport	54.6	75.0	91.7	88.6	97.2
Communication	63.6	75.7	81.7	71.5	80.5
Public administration	129.4	131.4	133.1	131.9	136.0
Financial services	63.2	65.3	68.4	73.1	76.4
Business services	50.9	55.6	50.6	51.8	56.9
Ownership of dwellings	94.5	95.1	95.7	96.3	98.8
Personal and other service	75.1	85.5	95.5	106.0	105.9
Less: Enterprise share of FISIM	-20.0	-20.7	-21.7	-23.2	-24.1
Total	1,690.9	1,718.6	1,841.4	1,886.4	1,932.7
Annual percent change	1.2%	1.6%	7.1%	2.4%	1.9%
Implicit GDP deflator	110.4	113.4	111.6	113.0	115.0
Annual percent change	0.3%	2.7%	-1.6%	1.3%	1.3%

Source: Samoa Bureau of Statistics

(1) FISIM: Financial Intermediary Services Imputed

3.3.2 Balance of payments

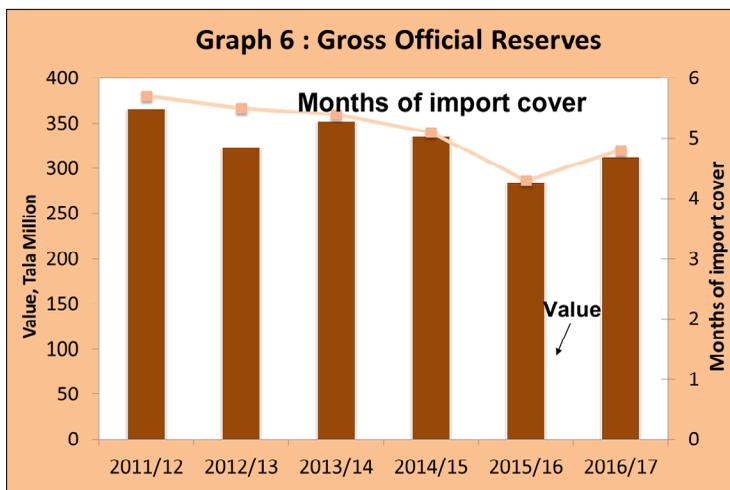
After a large deficit in the previous year, the balance of payments (bop) recorded a modest surplus of \$27.9 million in 2016/17 of which \$26.7 million were due to net transactions and the \$1.2 million net exchange rate valuations gain. This surplus was mainly due to large inflows of Government funds and inward private sector investments. (See Table 4.)

Table 4					
Balance of Payments (1)					
(Amounts in Tala Million)					
During the period	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	Actual	Actual	Forecast
A. Current Account Balance	-151.2	-58.9	-115.4	-29.0	-62.6
Balance on Trade in Goods	-719.4	-714.8	-706.4	-686.1	-693.5
Exports	57.8	67.7	96.5	96.3	101.9
Imports	-777.2	-782.5	-802.9	-782.5	-795.4
Balance on Trade in Services	259.5	301.3	294.6	372.7	313.0
Balance on Primary Income	-69.2	-38.9	-48.5	-72.1	-55.8
Balance on Secondary Income	377.9	393.5	344.9	356.5	373.7
Personal transfers	295.1	297.0	290.3	290.6	370.9
Other transfers	82.8	96.5	54.6	65.9	2.8
B. Capital Account Balance	140.6	86.8	71.1	94.0	74.5
Capital Transfers	143.7	87.6	72.4	97.8	16.8
Other	-3.2	-0.9	-1.3	-3.8	57.7
C. Net Lending (+)/Net Borrowing	-10.7	27.8	-44.3	64.9	12.0
D. Financial Account	-89.4	-6.8	-82.2	39.0	59.2
<i>Net Lending (+)/Net Borrowing (-)</i>					
Direct Investment	-37.1	-66.0	-16.2	21.7	-9.3
Portfolio Investment	0.9	20.7	0.6	14.3	-1.4
Other Investment	-15.1	-23.1	-24.1	-23.6	51.8
Reserve Assets	-38.2	61.6	-42.6	26.7	18.0
E. Net Errors & omissions	78.7	34.6	37.9	25.9	-47.2

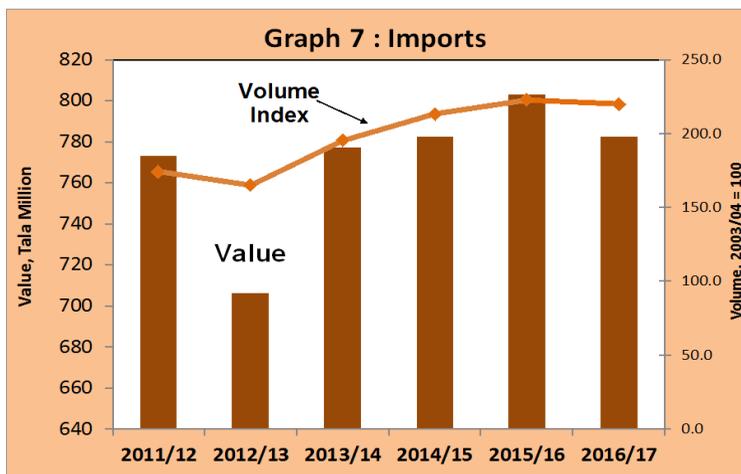
(1) Based on Balance of Payments Manual 6 format

Source: Central Bank of Samoa

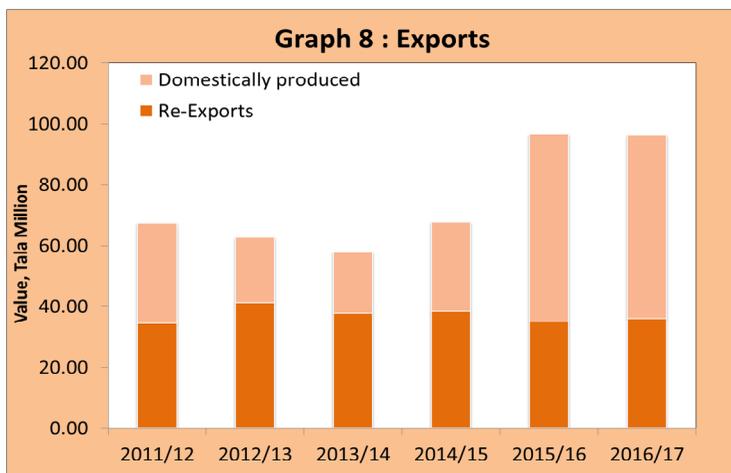
The current account deficit narrowed due to a reduction in the Balance of Trade in 'Goods' deficit coupled with a sharp increase in balance on Trade of Services surplus. The decline in the former reflected lower import payments while the increase in the latter was due to improvements in travel (visitor receipts) and transport and financial services. As a result, gross foreign reserves rose to \$312.8 million in 2016/17 or equivalent to 4.8 months of imports, up from 4.3 months in 2015/16. (See Graph 6.)



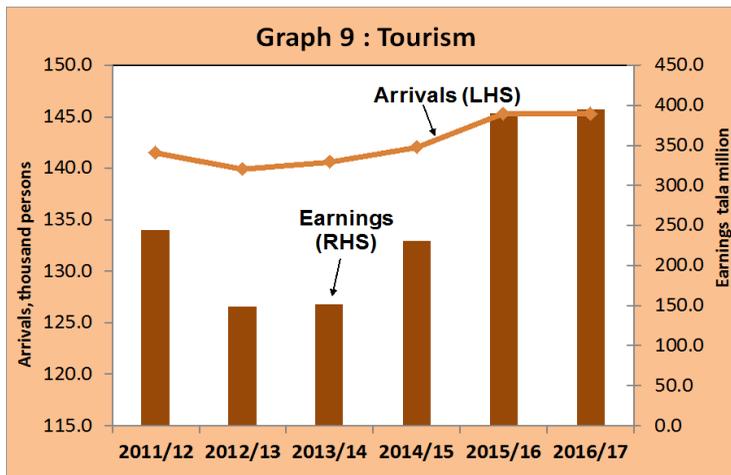
Total import payments declined 2.5 percent (or \$20.5 million) to \$782.5 million in 2016/17, due to reductions of 6.5 percent and 9.1 percent respectively in other private sector imports and petroleum imports although government imports increased by 54.2 percent. (See Graph 7.)



On the other hand, exports fell slightly by 0.2 percent largely resulting from a 2.4 percent drop in domestically produced exports despite a 3.6 percent hike in re-exports during the year. As a result, the Balance in Trade of Goods deficit narrowed by 2.9 percent. (See Graph 8.)



Visitor earnings (Travel, credit) grew by 0.1 percent to \$389.5 million in 2016/17 despite the number of visitors down by 0.3 percent. (See Graph 9.)



Private remittances rebounded by 3.6 percent to \$405.2 million, mainly due to a sharp pickup in hand carried cash and funds for individuals and households.

3.3.3 Prices

The annual headline inflation rate rose to 1.3 percent at end June 2017 from 0.1 percent at end June 2016 as imported inflationary pressures developed gradually over the year. Global commodity prices like imported food, beverages, tobacco, fuel and transport prices were on the upswing while the average price index of agricultural commodities sold at the local markets fell during the course of the year. Similarly, the core or underlying inflation rate has increased from -3.7 percent at end June 2016 to around 1.5 percent at end June 2017 given the hike in its imported component especially food and beverage items. (See Graph 10 and Table 5.)

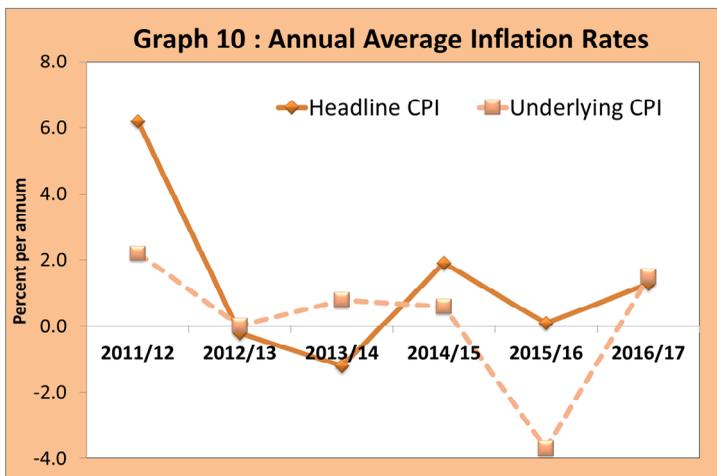


Table 5 Consumer Price Index (February 2016 = 100)					
Fiscal year to end June	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Actual	Actual	Actual	Forecast
A. Headline Inflation					
12 months average percent change					
Description					
All Groups	-1.2	1.9	0.1	1.3	1.7
Food and Non-Alcoholic Beverage	-4.0	2.6	3.5	3.2	1.8
Import Component	0.9	-0.8	-6.8	3.2	1.6
Local Component	-2.80	4.0	5.0	-0.9	2.3
B. Underlying Inflation (1)					
12 months average percent change					
Description					
All Groups	0.8	0.6	-3.7	1.5	2.8
Food and Non-Alcoholic Beverage	1.1	0.5	-1.9	3.3	2.8
Import Component	0.8	0.4	-5.4	2.3	1.2
Local Component	1.0	1.2	1.5	-0.2	3.0
Source: Samoa Bureau of Statistics (formerly Statistical Services Division, Ministry of Finance)					
(1) The historical series for this new index started in August 2003.					

4. OUTLOOK FOR 2017/18

4.1 WORLD ECONOMY

The IMF's latest World Economic Outlook in April 2017 indicated a pickup in global economic activity, with an upward revision in world economic growth for 2017, to 3.5 percent from its earlier 3.4 percent projection in January. As a result, the world economy is projected to improve further to 3.55 percent in 2017/2018.

Renewed growth prospects for a few of the advanced economies, mainly the United Kingdom (UK) and Japan will contribute to a 2.0 percent expansion for advanced economies in the twelve months ahead. The emerging market and developing economies are also expected to continue their growth momentum with a 4.30 percent growth, driven by China and India.

Of Samoa's main trading partners:

- The US economy is projected to grow further by 2.4 percent in 2017/2018, from 1.85 percent in 2016/17, as an expected boost in fiscal spending will provide support to the labour market and consumption growth. The Federal Reserve expects moderation in economic activity, further improvements in labour market conditions and inflation to stabilize around its 2.0 percent target over the medium term. The size and timing of future interest rate adjustments will be decided subject to the Federal Reserve's objectives of maximum employment and 2 percent inflation. Accordingly, and given the latest economic releases, the markets are expecting further hikes in the US Federal Funds rate in December 2017, March and June 2018, and subsequently be between 1.75 percent and 2.00 percent (or average around 1.875 percent) by end June 2018.

- The NZ economic growth outlook remains positive supported by on-going accommodative monetary policy, strong population growth and robust household spending and construction activity. With the RBNZ projecting inflation to be around 2.0 percent over the medium term, it is expected that monetary policy will remain accommodative, with its overnight cash rate to remain unchanged at 1.75 percent up until 2019.
- The Australian economy will face challenges from its labour and housing markets, with modest recovery projected. As a result, RBA is expected to maintain an accommodative monetary policy stance for some time, consistent with its objectives for sustainable growth and price stability. As such, the policy interest rate in Australia is largely projected to remain at 1.50 percent over FY2017/2018, although poor economic data releases over the next few months may trigger a 25 basis point cut.
- The IMF's latest outlook of the Chinese economy shows an upward revision in GDP growth for the medium term due to stronger than expected growth momentum in 2016 and subsequent policy support. It is projected that China's economic growth will slow gradually to 6.6 percent in 2017 and 6.2 percent in 2018 amidst ongoing economic reforms by the Chinese authorities. The People's Bank of China policy interest rate is currently at 4.35 percent and is not expected to change during FY2017/2018.

Global commodity prices are forecast to continue its increase over 2017/2018, contributing to a 1.95 percent inflation in the advanced economies (from 1.4 percent in 2016/17) while inflationary pressures in the emerging market and developing economies are expected to be stable at 4.55 percent from the previous year.

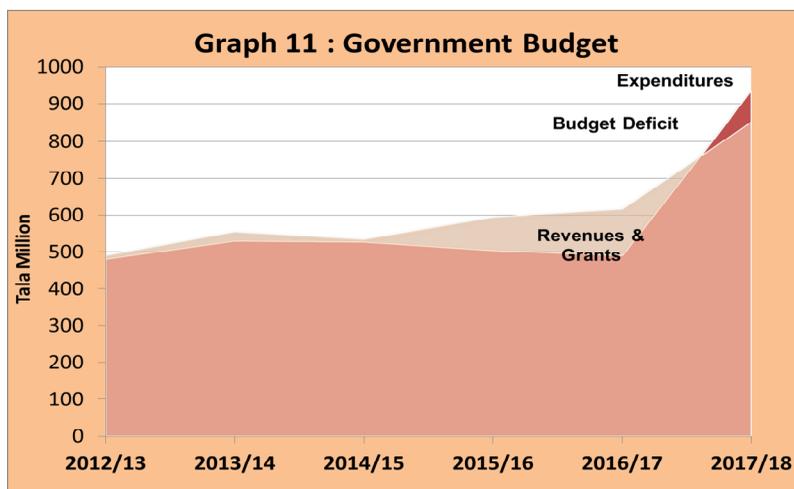
4.2 DOMESTIC ECONOMY

4.2.1 Government Budget

With last year's budget theme of 'Strengthening the Foundations: Building for Tomorrow', the 2017/18 budget theme is 'Equity and Fairness'. After setting and strengthening the foundation of the economy last year, the next logical step is to ensure not only Government's systems and processes are fair and equitable, but everyone contributes to the development of the country. With recommendation from its revenue reviews in 2016/17, Government is looking to improve its current taxation arrangements and selected fees and charges. The medium term fiscal budget deficit target of 3.5 percent of GDP was achieved in 2017/18. (See Table 6 and Graph 11.)

During the period	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Estimate	2017/18 Budget
Revenues	490.7	555.4	534.4	595.6	617.4	852.3
Taxes	406.0	430.4	442.0	497.6	517.5	614.9
Grants	48.1	81.8	41.2	45.4	40.8	237.4
Other Revenues	36.6	43.2	51.2	52.6	59.1	n/a
Expenses	479.9	529.9	526.7	503.9	490.5	934.3
Compensation of employees	137.2	143.9	154.6	163.5	170.0	n/a
Use of goods and services	115.0	142.7	151.7	120.3	112.7	n/a
Interest	14.9	14.9	17.9	18.4	17.2	n/a
Subsidies	27.2	17.8	17.8	15.1	10.2	n/a
Grants	153.6	189.7	165.2	163.6	158.8	n/a
Social benefits	19.5	17.6	17.6	17.9	18.1	n/a
Other expenses	12.4	3.3	1.8	5.1	3.5	n/a
Net Operating Balance	10.8	25.5	7.7	91.7	126.9	
BUDGET DEFICIT						-82.0
TRANSACTIONS IN						
NONFINANCIAL ASSETS:						
Net Acquisition of Nonfinancial Assets	80.4	124.2	83.3	100.1	171.0	n/a
Net lending / borrowing	-69.6	-98.7	-75.7	-8.4	-44.1	90.3
Net acquisition of financial ass	13.5	-10.4	-35.2	-9.3	-50.8	n/a
Domestic	13.5	-10.4	-35.2	-9.3	-50.8	n/a
Net incurrence of liabilities	83.1	88.3	40.4	-0.8	-6.8	n/a
Domestic	15.9	35.4	-4.9	-9.9	-9.5	n/a
Foreign	67.2	52.9	45.3	9.1	2.8	n/a

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

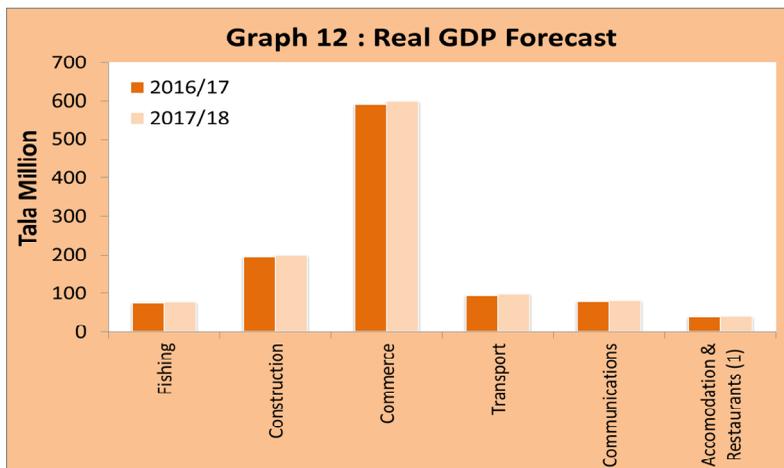


4.2.2 Real Sector

The Samoan economy is expected to grow by 1.9 percent in 2017/18, down from 3.0 percent estimated for 2016/17. This drop reflects the full closure of the Yazaki Samoa Manufacturing plant in July 2017.

Nevertheless, there are strong growth expected for sectors such as 'Commerce' (up 1.3 percent), 'Construction' (up 2.5 percent), and 'Transport' (up 3.5 percent), 'Communications' (up 3.0 percent), 'Accommodation and Restaurants' (up 4.0 percent) and 'Agriculture' (up 2.3 percent), in light of various public and private sector projects. Government projects include the expected construction of the Vaisigano bridges, continuation of the submarine cable project from Fiji, further investments in hydropower stations, upgrade of SPG 2018 facilities as well as ongoing works such as Airport extension project and Vaisigano River Protection wall. Private sector projects include the construction of new Frankie branch at Utualii, several new church buildings around the country and ground work for new Lava Hotel at Sogi. The spillover effects on consumer demand are expected to boost sectors such as, 'Finance services'

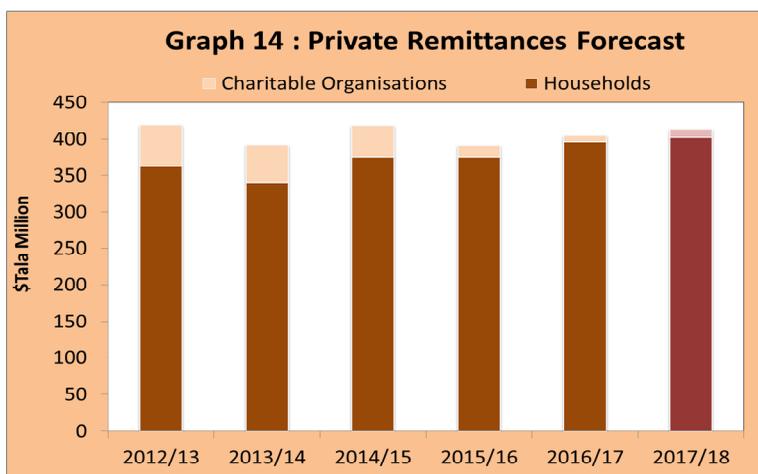
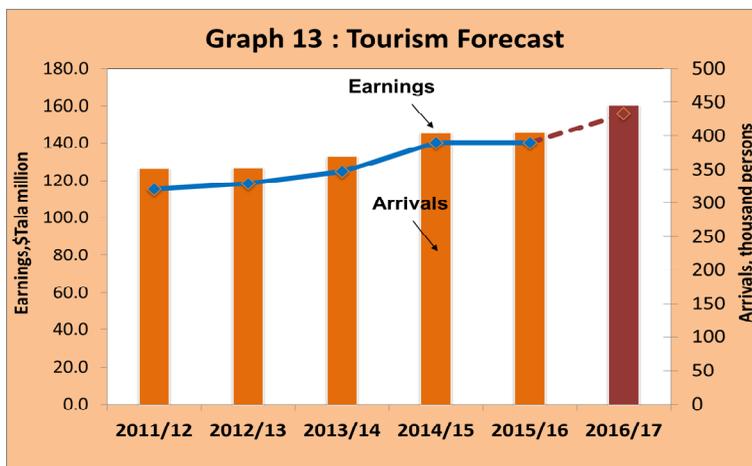
(up 2.1 percent), 'Business services' (up 3.0 percent) and 'Personal and other services' (up 2.0 percent) in the period under review. (See Graph 12.)



4.2.3 Balance of Payments

For the FY 2017/18, the balance of payments is expected to post an overall surplus of \$18.0 million. This net inflow of foreign reserves is mainly underpinned by an expected increase in the financial account despite a decline in the current account deficit to around \$62.4 million or 2.8 percent of GDP. The increase in the financial account reflects expected increase in capital inflows from both private sector investments into Samoa and government grants. On the other hand, the increase in the current account deficit is mainly due to widening of the net trade in goods deficit and a drop in the net trade in services surplus. The drop in the latter is despite an expected hike in **visitor earnings (travel credit)** by 3.6 percent in line with the launch of new Samoa Airways as well as increased seat capacity from existing and licensed airlines such as Air New Zealand and Fiji Airways. **Remittances** are expected to grow further by 3.7 percent to \$414.0 million as transfers for households and individuals from the diaspora in Australia and New Zealand increase

despite the ongoing concern on the closure of MTO bank accounts in Australia and New Zealand. (See Graph 13 and Graph 14.) **Total exports** are expected to rebound by 6.8 percent due to modest increases in domestic export products such as fish, coconut oil, beer and nonu juice. Also, **imports** are estimated to recover by 1.9 percent to \$795.4 million given an expected rebound in other private sector imports as global commodity prices are forecast to increase gradually from its relatively low levels in the past 2 years.



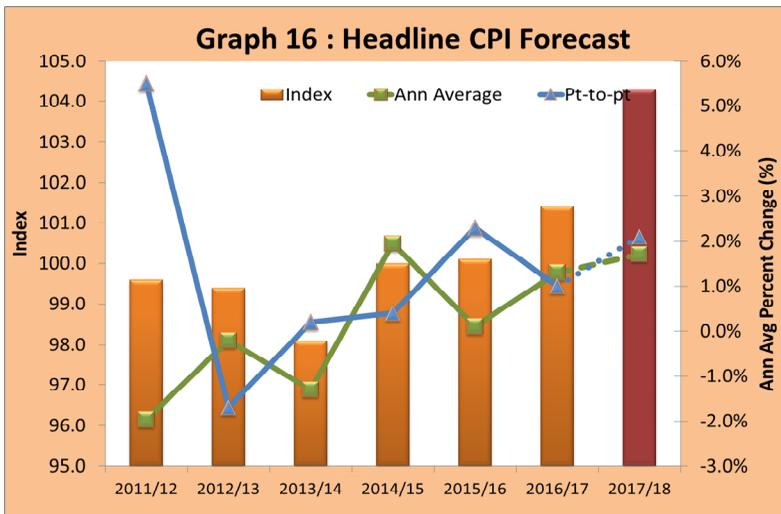
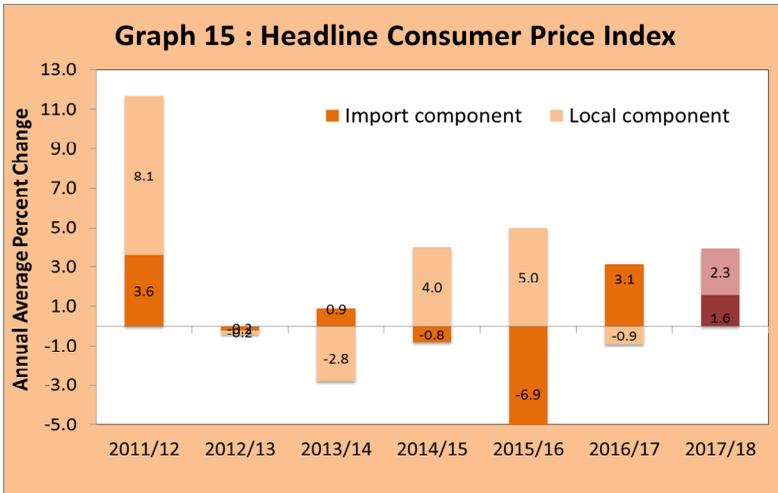
4.2.4 Prices

With inflationary pressures expected to pick up progressively in the next 12 months given rising global commodity prices around the world. On the local front, domestic inflation is expected to rise after falling in 2016/17 but remain manageable in FY 2017/18. Downside risks like ongoing global political unrest and OPEC rationing oil supplies however, could push up oil prices quicker than expected and speed up both global and domestic inflation.

4.2.4.1 Headline Inflation

Local agricultural production and supply is expected to remain stable in 2017/18 especially for crops such as taro, coconut, banana and most vegetable items. However, downside risks of another devastating cyclone remains a threat to inflation forecasts.

As a result, **imported inflation** is expected to drop to 1.6 percent from 3.1 percent as various imported prices like clothing and canned food prices are expected to weaken during the year. On the other hand, **domestic inflation** is expected to rise to 2.3 percent in 2017/18 in line with normal growth economic activity and aggregate demand. As a result, **the annual average headline inflation** is forecast to increase to 1.7 percent from 1.5 percent in the previous fiscal year. (See Graph 15.)



4.2.4.2 Underlying Inflation

The underlying inflation rate is expected to pick up in line with rise in imported inflation, rising to 2.8 percent by end June 2018 from 1.5 percent last year.

5. MONETARY POLICY STANCE FOR 2017/2018

Following a drop in 2016/17 due to a return to normal levels as well as the winding down of Yazaki production, the Samoan economy is expected to experience a further reduction to 1.9 percent growth, from 3.0 percent in 2016/17.

However, there are recent developments that have created positive upside risks that have not been factored in the above forecasts. These include the imminent entry of Fero Samoa Limited and Sleepwell International will see an expansion in manufacturing output and employment in 2017/18. Also, the new Samoa Airways inaugural flight in November 2017 together with the bigger capacity planes from Air New Zealand and Fiji Airways will contribute positively to higher visitor numbers and increased output in the transport sector.

Since its primary objective of ensuring and maintaining price stability are met; given that inflation is expected to remain below the medium term target of 3.0 percent, the Central Bank of Samoa will continue to pursue an easing or loosening monetary policy stance to foster economic growth (its third main objective) while at the same time ensure the soundness of its financial system through prudential and financial supervision.

The main aim is to continue to normalize commercial banks' interest rates levels while encouraging both commercial banks and non-bank financial institutions to lend to fund private sector developments. Private sector credit is expected to slow down to around 2.8 percent at end June 2018, down from 6.4 percent in 2016/17. Also the growth in money supply is tentatively forecast to drop to 3.3 percent due to slowdown in net domestic assets while net foreign assets is expected to improve in 2017/18. (See Table 7.)

Table 7
Monetary Survey
(Amounts in Tala million)

End of Period	2012/13	2013/14	2014/15	2015/16	2016/17	Forecast 2016/18
A. Determinants of Money Supply						
Net Foreign Assets	179.9	301.2	144.5	150.2	199.3	187.5
Net Domestic Assets	520.5	530.4	691.7	745.0	766.0	787.0
Net Credit to Non-Financial Public sector	-95.8	-101.1	-116.2	-96.3	-156.5	-153.0
Credit to private sector	709.3	734.2	863.2	940.0	1,022.2	1,066.5
Net credit to Non-Monetary Financial instit	85.1	122.9	146.3	110.8	113.2	109.2
Others, net	27.9	12.8	25.7	-209.4	-212.9	-235.7
B. Money Supply (M2)						
Narrow Money	259.4	380.2	356.2	394.2	405.5	409.4
Currency Outside banks	60.9	46.2	49.5	61.4	67.0	67.7
Transferable Deposits	198.5	334.0	306.8	332.8	338.5	341.8
Demand Deposits	162.9	217.4	250.3	275.8	270.8	273.5
Foreign Currency Deposits of Residents	35.6	116.6	56.4	57.0	67.6	68.3
Quasi-money	441.0	451.4	480.0	501.1	559.7	565.1
Other Deposits	441.0	451.4	480.0	501.1	559.7	565.1
Savings Deposits	102.2	106.5	122.0	129.5	132.7	134.0
Time Deposits	338.8	344.9	357.9	371.5	427.0	431.1

Source: Central Bank of Samoa

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