

CENTRAL BANK OF SAMOA

MONETARY POLICY STATEMENT

FOR THE FINANCIAL YEAR 2023/2024

APIA

JANUARY 2024

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1. INTRODUCTION

The main aim 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 Path for Development of Samoa.

Central Bank of Samoa's Monetary Policy Framework

Objectives

The primary aim of the Central Bank's monetary policy is to achieve and maintain price stability. By achieving price stability, volatility and uncertainty in inflation is reduced thereby long-term growth and investments can flourish. 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.

The secondary objective of the Bank is to foster and maintain financial stability. The aim 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.

The third objective includes three 'Other objectives' of the Bank. This includes achieving sustainable real economic growth in the Samoan economy, which is defined as having real GDP growth of around 3.0 percent in the medium term. This objective is one of the main objectives of the Government of Samoa through its Pathway for Development of Samoa (PDS). The CBS is also committed to achieving this goal for the betterment of Samoa and its people.

Another goal under third objective is ensuring a comfortable level of official foreign reserves for the country. Samoa is a small but highly open economy with total merchandise trade representing around 60-65 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 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 foreign reserves.

Having an appropriate level of exchange rate that is conducive for promoting exports but at the same time mitigate imported inflation is another goal for the Bank under its third objective. In particular, 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.

Monetary policy tools

The main monetary policy tool employed by the Bank are Open Market Operations through the buying and selling of CBS Securities to influence commercial banks interest rates (deposit and interbank rates). The CBS also offers standing facilities such as the discount and repurchase facilities on the CBS securities. Another monetary policy tool within the CBS toolbox is the reserve requirement ratio which is called the Statutory Reserve Deposit (SRD) which is currently around 4.5 percent of commercial banks' deposit liabilities. The CBS also uses in foreign exchange operations and interventions (buying and selling of foreign currencies with commercial banks) as another means to achieve its policy objectives.

Monetary Policy Transmission

Monetary policy decisions are usually conducted via open market operations (OMO) through the issuance and trading of CBS Securities (CBSS) to achieve these objectives. This is transmitted through the money market Interest rate channel. Also, through its foreign exchange rate policy and operations (buying and selling of foreign exchange to commercial banks), monetary policy is also transmitted through the exchange rate channel.

2. EXECUTIVE SUMMARY

2.1 World Economy

The January 2024 World Economic Outlook (WEO) Update by the International Monetary Fund (IMF) indicated a 3.30 percent expansion in the global economy in FY2022/23, up from 4.75 percent in the previous financial year. Although growth dropped from the previous period, it is slightly higher than the earlier expected 3.25 percent recovery in the October 2023 WEO, reflecting stronger than expected economic recoveries in the United States and several major emerging markets and developing economies.

2.2 Domestic Economy

With the reopening of its international borders in August 2022 following 25 months or around 2 years of COVID-19 lockdown and isolation, the Samoan economy rebounded strongly. Real Gross Domestic Product (GDP) jumped up by 8.0 percent in FY 2022/2023 following sharp reductions in the past three years. Sectors such as 'Commerce', 'Food & Beverage Manufacturing', 'Personal & other services' and 'Construction' and 'Communication' recorded robust growth.

On the external front, gross foreign reserves continued to reach record levels with its total value peaking at \$1,098 million large inflow of budget support funds and external grants resulted in further hikes in with the import cover rising to 10.9 months of imports. On the monetary sector, commercial banks' average liquidity improved further during the year in-light of strong external inflows while the banking system remained well capitalized with non-performing loans at low levels that were well provisioned for.

On the fiscal side, the strong revenue collection given the rebound in economic activity saw the Government Budget Net Operating

Balance increase further in FY2022/2023 despite a hike in Government expenses during the year. (See Table 1.)

Table 1						
Selected Domestic Economic Indicators						
Fiscal year to end June	2018/19	2019/20	2020/21	2021/22	2022/23	Forecast 2023/24
Real sector						
Nominal GDP	6.0	-1.9	-7.5	0.0	17.5	12.1
Real GDP	4.5	-3.1	-7.1	-5.3	8.0	6.8
Prices (February 2018=100)						
Headline Consumer Price Index (ann ave)	2.2	1.5	-3.0	8.8	12.0	5.0
Underlying Consumer Price Index (ann ave)	0.1	2.1	-2.1	8.4	14.2	6.1
Implicit GDP Deflator (annual average)	1.5	1.2	-0.4	5.6	8.8	5.3
Monetary aggregates						
Net foreign assets (annual average)	43.9	10.6	31.1	7.0	25.6	44.2
Government's net monetary position (end of period)	7.6	31.8	14.2	4.5	18.4	19.8
Bank credit to private sector						
Annual average	4.7	6.4	2.1	1.2	-1.4	-3.8
End period	6.1	5.8	1.5	0.2	-2.4	-2.6
Money Supply, M2						
Annual average	13.2	1.8	5.5	3.0	9.5	9.9
End period	9.9	-0.9	8.1	2.2	16.3	1.7
Exchange rate (March 2016=100)						
Nominal Exchange Rate (annual average)	-0.11	0.03	-0.08	-0.14	0.09	n/a
Real Exchange Rate (annual average)	0.71	-0.36	-4.91	2.56	4.89	n/a
International reserves						
Gross International Official Reserves (Tala million)	490.7	594.3	732.7	812.7	1,098.1	1,206.0
Gross International Official Reserves (Months of imports)	6.4	8.4	10.7	10.9	11.1	12.1
Weighted average interest rates						
CBS 14 days Securities	0.13	0.13	0.13	0.13	0.13	n/a ⁽¹⁾
CBS 28 days Securities	0.16	0.16	0.16	0.16	0.16	n/a ⁽¹⁾
CBS 56 days Securities	0.18	0.18	0.18	0.18	0.18	n/a ⁽¹⁾
CBS 91 days Securities	0.41	0.41	0.41	0.41	0.41	n/a ⁽¹⁾
CBS Securities overall weighted avg yield (ann avg)	0.19	0.15	0.15	0.15	0.23	n/a ⁽¹⁾
Commercial bank deposits	2.75	2.73	2.11	1.82	1.76	n/a ⁽¹⁾
Commercial bank credit	8.97	8.63	8.57	8.29	8.31	n/a ⁽¹⁾
Commercial bank interest rate spread	6.22	5.90	6.46	6.47	6.55	n/a ⁽¹⁾
Source: Central Bank of Samoa						
(1) Interest rates as at end December 2023						
n/a - not available						

3. REVIEW OF 2022/2023

3.1 WORLD ECONOMY

Global economic growth stalled in 2022–2023, and indicators in many economies now point to an extended period of subdued growth. This was despite the re-opening of international borders since the COVID-19 pandemic in early 2020 as well as the World Health Organization's (WHO) declaration that COVID-19 has ended as a “public health emergency.” One of the main driving factors behind the weakening global economy in FY2022/2023 was the aggressive monetary policy tightening adopted by many advanced economies during the year, which also triggered (to some extent) turmoil in the US and Swiss banking systems. The ongoing Ukraine-Russia war also overshadowed the global recovery, amidst rising geopolitical tensions and renewed US and Chinese trade concerns. As a result, global growth is estimated to have grown by 3.30 percent in 2022/2023, slowing from a 4.75 percent expansion in the previous year, 2021/2022.

Global inflation is estimated at around 7.80 percent in FY2022/2023, up from 6.70 percent in the previous year, FY2021/2022. The Ukraine-Russia war pushed up energy and food prices substantially, aggravating inflationary pressures at a time when the cost of living was already rising rapidly around the world from the global supply disruptions from the lingering COVID-19 pandemic. Of Samoa’s major trading partners (notably USA, NZ, and Australia), while their inflation rates decreased over the year, they remained well above their target levels of around 2 to 3 percent. (Refer to Table 2).

On the other hand, labor market conditions improved in the last twelve months, with most countries recording low unemployment rates across the globe, particularly in the US, Australia, and New Zealand.

Overall, to curb the increasing inflation rates throughout 2022–2023, most central banks continued their aggressively tightening monetary policies during the financial year. However, concerns over their economic outlook have seen some of the major central banks slow down or pause their policy interest rate hikes in the last three months to June 2023. (Refer to Table 2).

Table 2								
Selected World Economic Indicators								
Fiscal year to end June	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Forecast 2023/24
World Economic Performance								
Real growth rate	3.45	3.70	3.25	-0.20	1.40	4.60	4.60	2.95
Inflation rate	3.00	3.20	3.30	3.07	3.40	6.75	6.75	7.65
Unemployment Rate	5.10	5.00	5.30	6.00	6.40	5.70	5.20	
Samoa's Main Trading Partners								
New Zealand								
Real growth rate	3.1	3.2	2.7	-9.9	18.5	0.7	1.6	
Inflation rate	1.7	1.5	1.7	1.5	3.3	7.3	6.0	
Unemployment Rate	4.8	4.4	3.9	4.0	4.0	3.3	3.8	
Australia								
Real growth rate	2.1	3.2	1.7	-6.0	9.5	3.4	n/a	
Inflation rate	1.9	2.1	1.6	-0.3	3.8	6.1	6.0	
Unemployment Rate	5.6	5.4	5.2	7.4	4.9	3.6	3.6	
United States of America								
Real growth rate	2.0	3.3	2.1	-8.4	12.5	1.8	2.6	
Inflation rate	1.6	2.9	1.6	0.6	5.4	9.1	3.0	
Unemployment Rate	4.3	3.9	3.7	11.1	5.9	3.6	3.6	
Source: IMF and reserve banks' publications and information releases. IMF World Economic Outlook Database (IMF website) Westpac Market Outlook								

3.2 DOMESTIC ECONOMY

3.2.1 Policy Developments

3.2.1.1 Macroeconomic Policy Settings

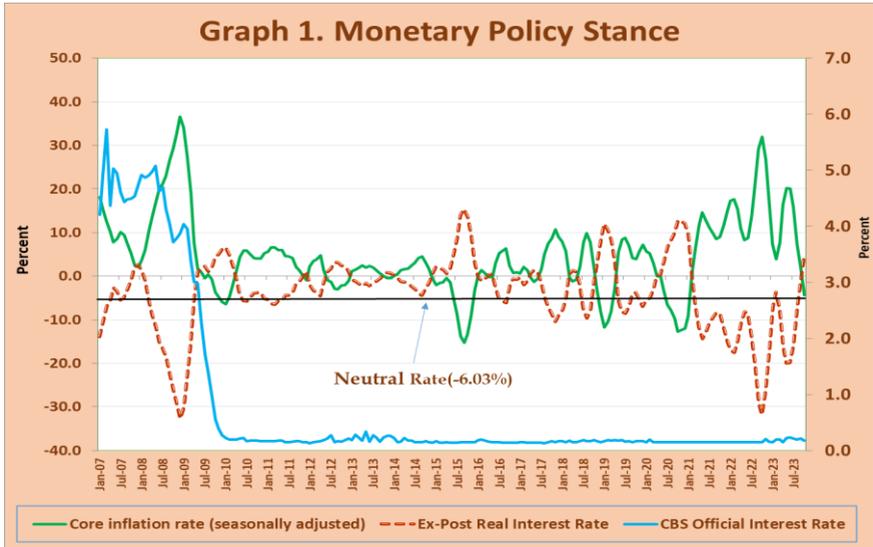
The Government's Budget according to the Government Finance Statistics published by the Samoa Bureau of Statistics recorded a Budget surplus of 3.7 percent in FY 2022/23 from another surplus of 3.6 percent in 2021/2022. This reflected the sharp recovery in the economy given the influx of visitors once the borders reopened, boosting business activity and ultimately resulting in a rebound in

tax revenues in FY 2022/2023. At the same time, there was a pickup in Government expenses, especially towards its prioritised sectors such as social, health, education and infrastructure according to its Pathway to Development of Samoa (PDS).

As part of the overall Government objective to drive economic recovery coming out of more than 2 years of economic downturn created by the COVID-19 pandemic, both fiscal and monetary policy remained expansionary.

In trying to ascertain the effectiveness of the conduct of monetary policy, we compile and analyze the real interest rates as well as a neutral interest rate. Where the real interest rate is above the neutral interest rate, monetary policy may be observed to exert a tightening effect on the Samoan economy and where the real interest rate is below the neutral interest rate, it is applying an expansionary influence on the economy. As indicated in Graph 1, there may also be periods in which the actual monetary conditions may differ from the implemented monetary policy stance over time.

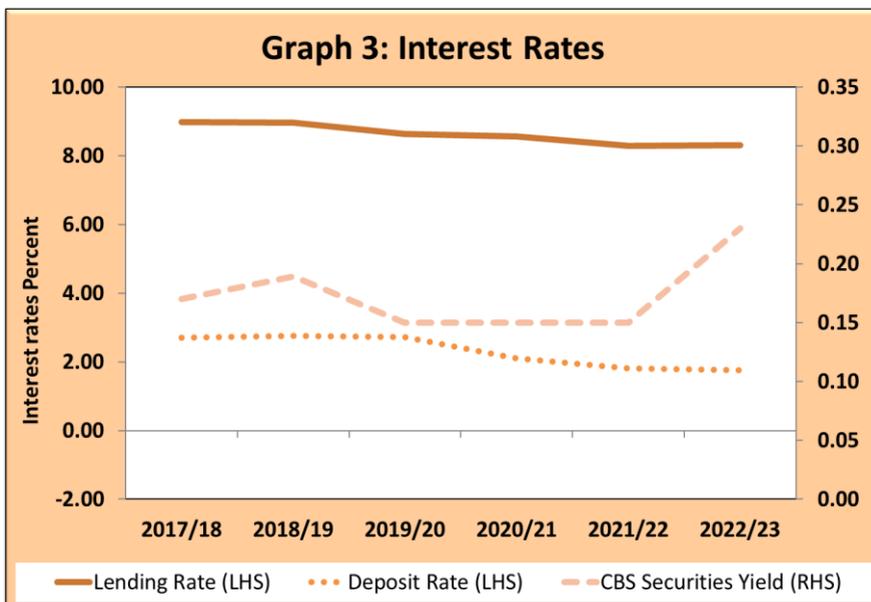
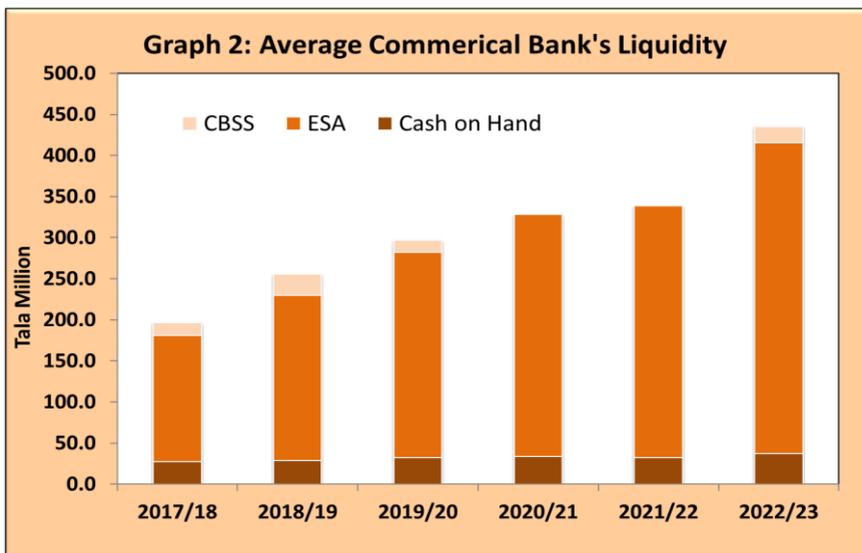
Based on the latest assessment, it is observed that starting from March 2021 up to August 2023, the real interest rate was below the neutral rate of interest indicating a loosening of monetary policy conditions as the sharp rise in core inflation, saw real interest drop well below the neutral rate. However, we can see monetary conditions tightening since June 2023 and real interest rate is now above the neutral interest rate up to October 2023. (See Graph 1.)



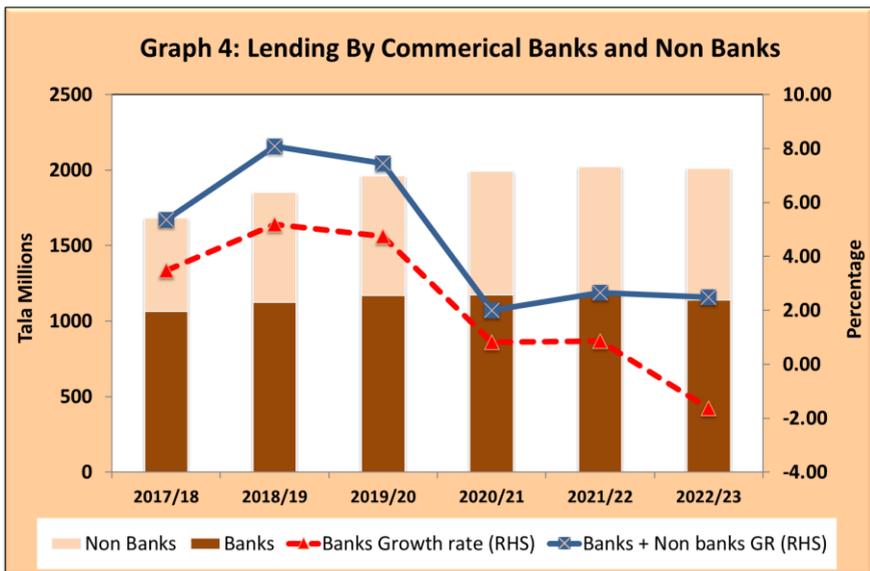
3.2.1.2 Monetary Conditions

Banks’ average liquidity continued to expand in FY2022/23 with the average commercial banks’ holdings of excess reserves jumping further by 29.4 percent to an average of \$434.7 million from \$336.1 million last year. This was largely driven by a 24.8 percent hike in the average commercial banks’ excess settlement accounts (ESA) to \$379.0 million while holdings of CBS securities resumed at an average of \$18.9 million in year under review. (See Graph 2.)

On interest rates, the CBS’ official interest rate rose to 0.23 percent at end June 2023 from 0.15 percent last year once open market operations resumed in September 2023. Similarly, the commercial banks’ weighted average lending rates rose slightly by 2 basis points to 8.3 percent at end June 2023 as commercial bank lending remained low. On the other hand, the weighted average deposit rate dropped by 6 basis points to 1.8 percent over the year given the flushed liquidity situation. As a result, the weighted average interest rates spread widened to 6.55 percent from 6.47 percent in the previous year. (See Graph 3.)



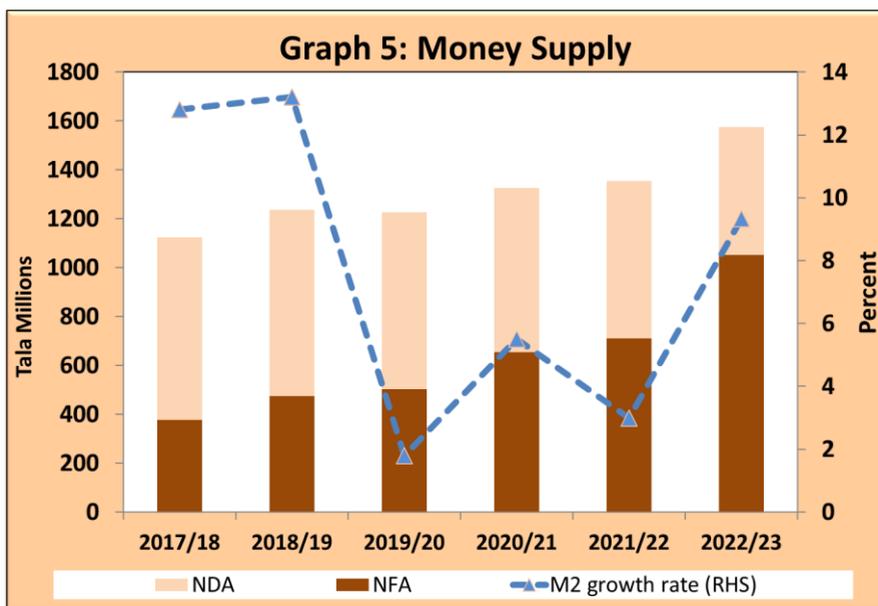
Total commercial banks’ lending to the private sector and public institutions declined by 2.7 percent to \$1,140.05 million at end June 2022. Likewise, its annual average growth rate slowed further to -1.63 percent at end June 2023 from 0.86 percent growth at end June 2022. This slowdown in credit growth reflects the risk averseness of commercial banks to lend even once economic activity resumed and prioritized consolidation of existing debt. Unlike commercial banks, total lending of the non-bank financial institutions increased by 2.5 percent to \$850.9 million. However, its annual growth rate slowed to 1.2 percent at end June 2023 from 5.3 percent last year. As a result, the financial system total credit amounted to \$2.02 billion at end June 2023, equivalent to an annual growth of -0.5 percent, down from 2.7 percent end June of 2022. (See Graph 4.)

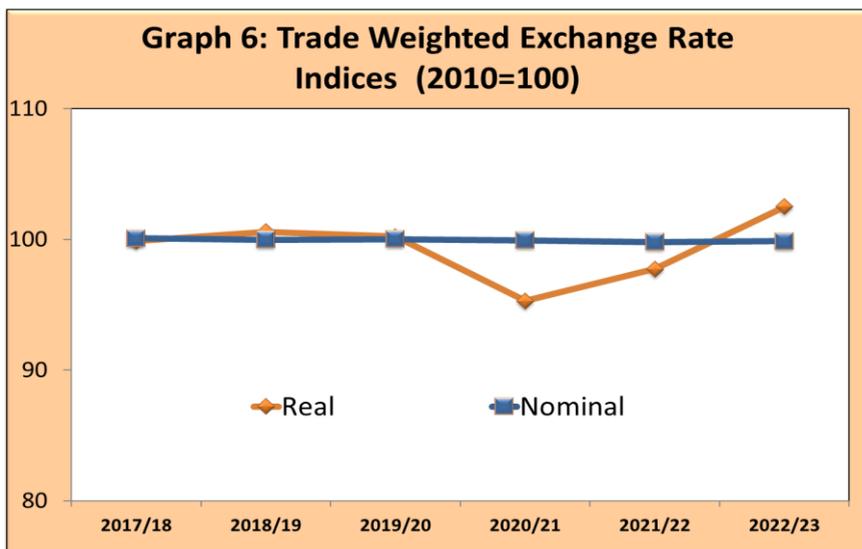


Net foreign assets leapt by 49.2 percent (or \$394.4 million) to \$1,059.5 million considering exceptional inflows of external grants and budget support funds from international development partners to assist Samoa in its post Covid-19 efforts. On the other hand, net

domestic assets dropped by 20.0 percent to \$516.3 million. All in all, total money supply (M2) expanded by 16.3 percent to \$1,575.4 million over its level last year. As a result, the annual average growth rate of M2 accelerated to 9.3 percent at end June 2023 from 3.0 percent in June 2022. (See Graph 5.)

The nominal effective exchange rate (NEER) of the Tala fell marginally by 0.14 percent in FY2021/22, because of a sharp depreciation against the US dollar. However, the real effective exchange rate (REER) rose by 2.56 percent during the year as a result of the increase in inflation in the year under review. (See Graph 6.)





3.3 MACROECONOMIC PERFORMANCE

3.3.1 *Real Sector*

Once the international borders were reopened in August 2022, domestic economic activity jumpstarted and took off. This was aided by the influx of overseas visitors, who were primarily those visiting their family and friends. As a result, economic sectors such as ‘Commerce’ (up by \$48.8 million), ‘Business Services’ (up by \$27.5 million), ‘Accommodations & Restaurants’ (up by \$19.1 million), ‘Transport’ (up by \$11.8 million) flourished in FY 2022/23. Even ‘Taxes less subsidies’ jumped by \$50.7 million as tax collection exceeded expectations. All in all, the Samoa economy expanded by 8.0 percent in FY2022/23, well above CBS forecasts and -5.3 percent recorded in FY 2021/22.

However, there were some notable reductions recorded in FY 2022/23 such as ‘Communications’ (down \$20.5 million), ‘Electricity & Water’ (down \$11.8 million), ‘Financial services’ (down \$3.9

million) and 'Agriculture' (down \$2.9 million) to name a few. (See Table 3.)

Table 3						
Real Gross Domestic Product by Industry						
(At 2013 prices, amounts in Tala Million)						
During the period	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Actual	Actual	Actual	Actual	Forecast
Agriculture	154.8	157.8	159.3	150.2	147.3	148.2
Fishing	34.6	29.0	29.1	20.6	24.9	26.3
Food & Beverages manufacturi	67.8	57.4	61.5	61.2	59.5	58.0
Other manufacturing	31.6	26.7	27.9	29.2	31.0	27.6
Construction	122.0	114.5	85.9	70.0	77.4	80.8
Electricity and water	62.1	57.8	56.3	70.7	58.9	60.2
Commerce	585.8	558.8	523.1	441.9	490.7	539.6
Accommodations & Restaurant:	43.0	36.0	13.8	13.6	32.7	42.4
Transport	69.7	64.1	42.3	38.9	52.1	58.5
Communication	105.5	113.4	105.0	97.9	77.3	80.5
Public administration	180.8	183.4	190.1	192.1	191.8	193.3
Financial services (2)	292.0	308.6	302.4	309.3	305.4	315.4
Business services	75.0	64.5	24.7	25.6	53.0	63.8
Ownership of dwellings	157.9	163.1	168.1	173.3	178.6	184.2
Personal and other services	53.7	53.5	70.8	68.5	69.1	81.5
Less: Enterprise share of FISIM	-138.4	-144.0	-152.1	-147.9	-136.2	-137.0
Taxes less Subsidies	292.8	278.2	264.1	252.7	303.4	320.7
Total Real GDP	2,190.7	2,122.6	1,972.4	1,867.7	2,017.0	2,144.2
Annual percent change	4.5%	-3.1%	-7.1%	-5.3%	8.0%	6.3%
Implicit GDP deflator	109.1	110.4	110.0	116.2	126.5	132.7
Annual percent change	1.5%	1.2%	-0.4%	5.6%	8.8%	4.9%

Source: Samoa Bureau of Statistics and Central Bank of Samoa

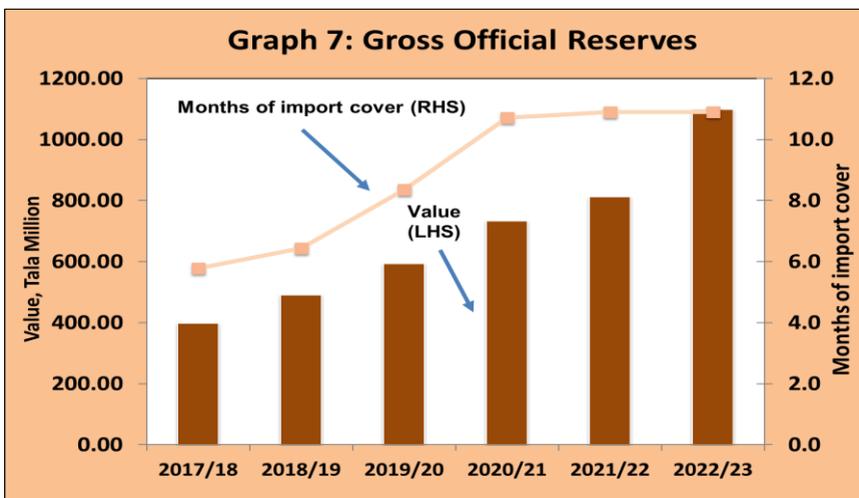
3.3.2 Balance of payments

On the external sector, the gross official international reserves expanded further by \$285.4 million (a surplus for balance of payments) to its highest level yet of \$1,098.1 million in FY2022/23, This has also marked the first time gross foreign reserves have exceeded the SAT\$1.0 billion mark. This large hike was underpinned by substantial inflows of government budget support funds and grant assistance from Samoa's international donor partners. This also marks the seventh consecutive years of bop surpluses, even during the COVID-19 pandemic in light of strong donor assistance and remittances inflows. (See Table 4.)

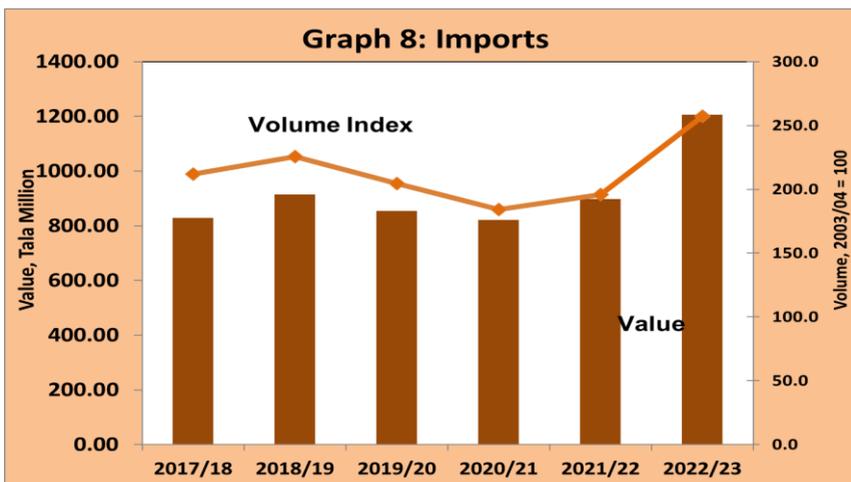
Table 4						
Balance of Payments (1)						
(Amounts in Tala Million)						
During the period	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Actual	Actual	Actual	Actual	Forecast
A. Current Account Balance	67.9	14.8	-313.8	-245.6	-98.9	-123.8
Balance on Trade in Goods	-783.7	-731.2	-731.1	-814.5	-1,087.0	-1,097.2
Exports	130.9	122.2	89.5	82.9	119.0	122.1
Imports	914.7	853.3	820.7	897.4	1,206.0	1,219.3
Balance on Trade in Services	470.8	307.8	-85.4	-63.3	263.5	300.6
Balance on Primary Income	-93.8	-71.6	-36.3	-56.5	-32.0	-23.7
Balance on Secondary Income	474.5	509.7	539.0	688.8	756.6	696.5
Personal transfers	341.4	402.4	497.2	648.3	658.8	673.7
Other transfers	133.1	107.3	41.8	40.5	97.8	22.8
B. Capital Account Balance	64.8	182.5	198.4	259.3	293.4	272.7
Capital Transfers	64.8	182.5	198.4	259.3	293.4	272.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
C. Net Lending (+)/Net Borrowin	132.7	197.3	-115.4	13.7	194.5	148.9
D. Financial Account	73.6	183.1	124.5	103.0	266.4	164.0
<i>Net Lending (+)/Net Borrowing (-)</i>						
Direct Investment	-6.8	14.9	-23.1	-12.9	-26.9	37.0
Portfolio Investment	-3.8	45.1	-38.6	96.2	-2.0	-11.0
Other Investment	51.1	18.8	111.0	-31.6	103.9	30.0
Reserve Assets	33.1	104.4	75.2	51.3	191.4	108.0
E. Net Errors & omissions	-59.1	-14.2	240.0	89.3	71.9	15.1

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

The current account deficit shrank by 59.7 percent to \$98.9 million over the year, mainly due to the sharp recovery in the Balance of Trade in 'Services' jumped to a surplus of \$263.5 million from a deficit of \$63.3 million last year. This is mainly underpinned by the resumption of visitor arrivals and earnings once borders reopened. In addition, Balance on Secondary income also expanded by 9.8 percent in light of another expansion in private remittances. The Trade in Goods deficit widened significantly in FY2022/23 as total imports jumped significantly given the strong growth in the economy, meant more import of goods and services needed for production. However, export of goods also improved in the year under review. (See Graph 7.)

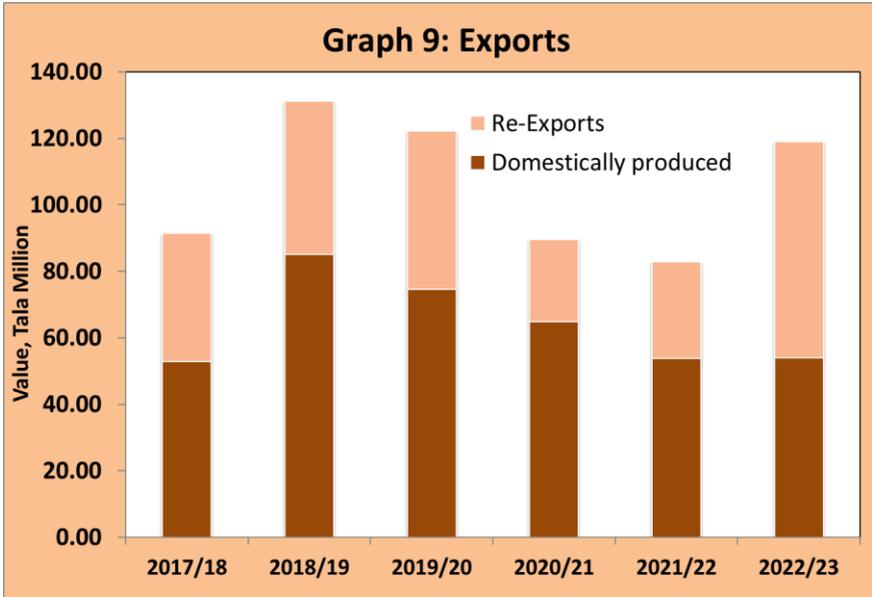


Total import payments grew by 34.4 percent (or \$308.6 million) to \$1,087.0 million in 2022/23, driven by gains in petroleum imports (up 49.8 percent), government (up 7.3 percent) and non-petroleum private sector imports rose by 4.1 percent over the year. (See Graph 8.)

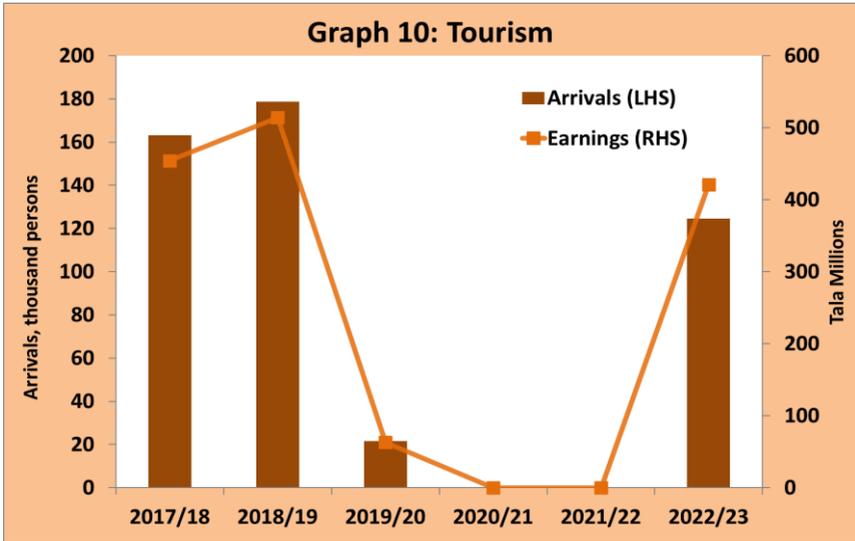


Similarly, total export earnings leapt by 43.6 percent to a total of \$119.0 million, which was highlighted by the gains of 123.8 percent

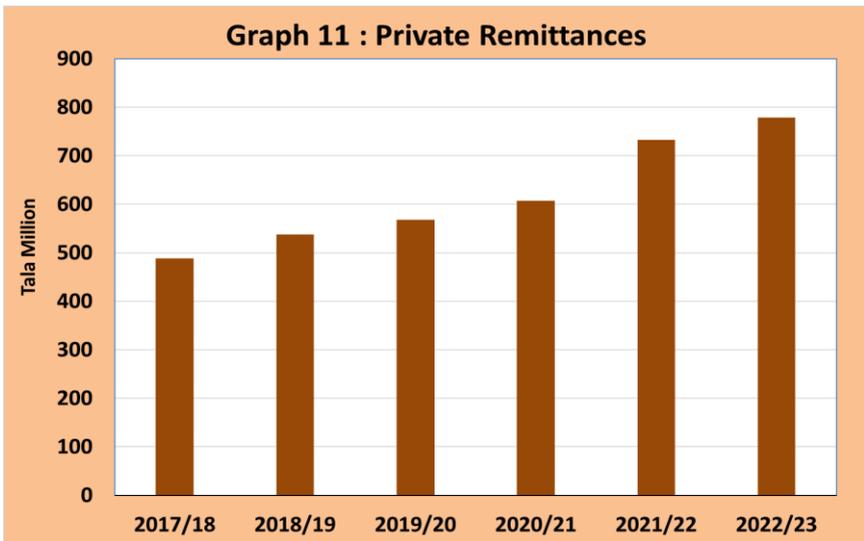
in re-exports and a 0.3 percent rise domestically produced exports in FY2022/23. The sharp increase in re-exports was underpinned by strong hike in petroleum reports via refueling of foreign aircrafts and ships. On the domestically produced exports, the export of fish, crude coconut oil expanded during the year, but were partially offset by large reductions in the exports of virgin coconut oil, beer and cigarettes to name a few . (See Graph 9.)



Total visitor arrivals resumed in FY2022/23 (starting August 2022) with a total of 124,655 visitors. From these number of visitors, estimated visitor earnings amounted to around \$421.0 million, of which these visitors spent in Samoa. This contrasts with no visitor arrivals in FY 2021/22 when international borders were closed during the COVID-19 Pandemic restrictions. (See Graph 10.)



Similarly, total private remittances grew by 13.6 percent to \$832.1 million in FY 2022/23, given the continued expansion in funds for families and households as well as harried carried cash, mainly from Australia and New Zealand. (See Graph 11.)



3.3.3 Prices

Following very high external inflationary pressures in FY 2021/22, the annual average headline inflation picked up all throughout FY 2022/23 and peaked at 12.0 percent at end June 2023 from 8.8 percent at end FY2021/22. Underpinning the overall increase was a further hike in imported inflation, which rose to 14.5 percent from 13.6 percent last year. In addition, local inflation accelerated sharply to 9.2 percent (from 3.6 percent) as the large number of foreign visitors so far as well as increase in business activity drove up local demand and pushed up local prices. Similarly, the underlying (core) inflation rate has trended to the same direction, jumping to 14.2 percent from 8.4 percent in 2021/22. (See Graph 12 & 17, and Table 5.)

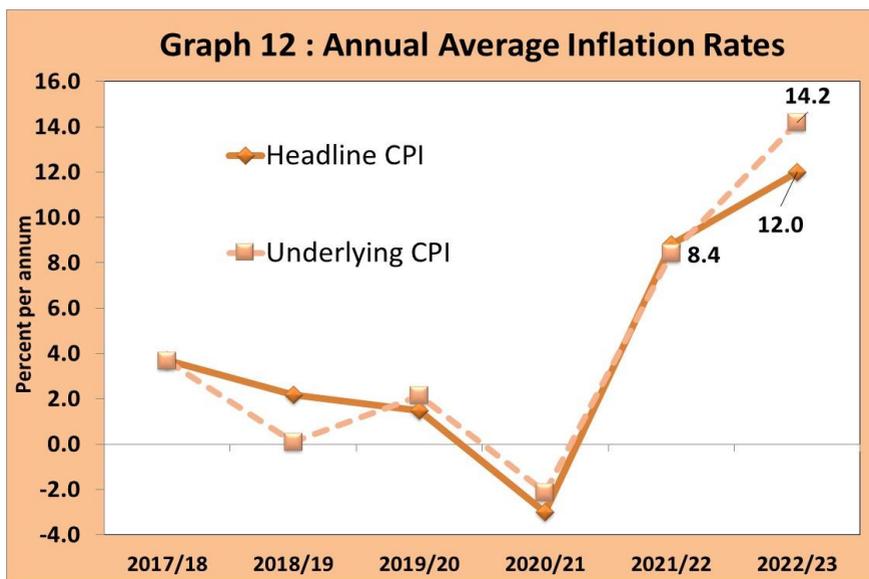


Table 5 Consumer Price Index (August 2010 = 100)						
Fiscal year to end June	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Actual	Actual	Actual	Actual	Forecast
A. Headline Inflation						
Description						
All Groups	2.2	1.5	-3.0	8.8	12.0	5.0
Food and Non-Alcoholic Beverages	2.1	2.5	-4.6	12.2	19.1	10.1
Import Component	0.8	1.0	-4.3	13.6	14.5	5.5
Local Component	3.7	2.0	-1.7	3.9	9.2	4.8
B. Underlying Inflation (1)						
Description						
All Groups	0.1	2.1	-2.1	8.4	14.2	6.1
Food and Non-Alcoholic Beverages	-0.4	3.0	-3.9	10.9	17.1	8.1
Import Component	-0.6	2.4	-3.3	11.0	15.1	7.2
Local Component	1.7	1.5	0.5	2.8	12.4	3.7
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 2023/2024

4.1 *WORLD ECONOMY*

According to the latest IMF World Economic Outlook (WEO) Update in January 2024, global economic activity is forecast to drop slightly to 3.10 percent in 2023/2024 from 3.30 percent in 2022/2023, but higher than 2.95 percent in its earlier predictions in the October 2023 WEO as reports showed improvement in growth in the United States and several other major economies. Although economic growth is expected to improve slightly when compared to its earlier predictions, it is still trending below the pre-pandemic growth rate of 3.80 percent due to restrictive monetary policies and the withdrawal of fiscal support, as well as low underlying productivity growth.

Global inflation is projected to decline further, from an estimated 7.80 percent in 2022/2023 to 6.35 percent in 2023/2024, reflecting faster disinflation in the advanced economies than emerging markets and developing economies. This is driven by lower core inflation as a result of still-tight monetary policies, a related softening in labor markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

For 2023–2024, most major central banks appear on the verge of loosening monetary policy, as it appears the global inflationary challenge has been largely addressed. Although the global economy has slowed, the outlook is somewhat more benign than anticipated, with downside risks remaining. There are still some uncertainties in the IMF’s latest WEO forecast as the Russia-Ukraine conflict continues, the emergence of a new war and crisis in the Middle East, tensions between the world’s two largest economies remain significant, and patterns of trade and cross-border investment are shifting.

On the exchange rate front, the US dollar has strengthened against the major currencies (in the Samoa Tala Currency Basket) since the start of July 2023 as the foreign exchange markets react to unfavorable economic data releases in most major economies, weak economic growth, and on expectations most reserve banks will cut their key policy rates in 2024. Some modest rebound in other major currencies against the USD is projected in FY2023/2024, but general volatility from current levels will be expected, subject to risk appetite and economic data releases over the year.

4.2 DOMESTIC ECONOMY

4.2.1 Government Budget

The FY2023/24 Budget aimed at promoting growth through sustainable pathways (Pathway for the Development of Samoa FY2021/22–FY2025/26. The Budget looked at capitalising the strong recovery in the economy to prioritize social and community developments as well as diversifying the economy. According to the GFS Budget format, total Government revenue is expected to grow to \$841.4 million, down from last years' total due to the \$876.1 million according to the SBS GFS data. Total Government expenses are forecast to increase to around \$826.1 million in the proposed budget, mainly due to increases in government workers' salaries or compensation of employees and use of goods and services. The Net operating balance for FY 2023/24 is estimated at a surplus of \$15.3 million. However, with an expected net acquisitions of non-financial assets of around \$103.3 million during the year, the net borrowing or budget deficit is estimated at \$88.0 million or -3.3 percent of GDP. (See Table 6 and Graph 13.)

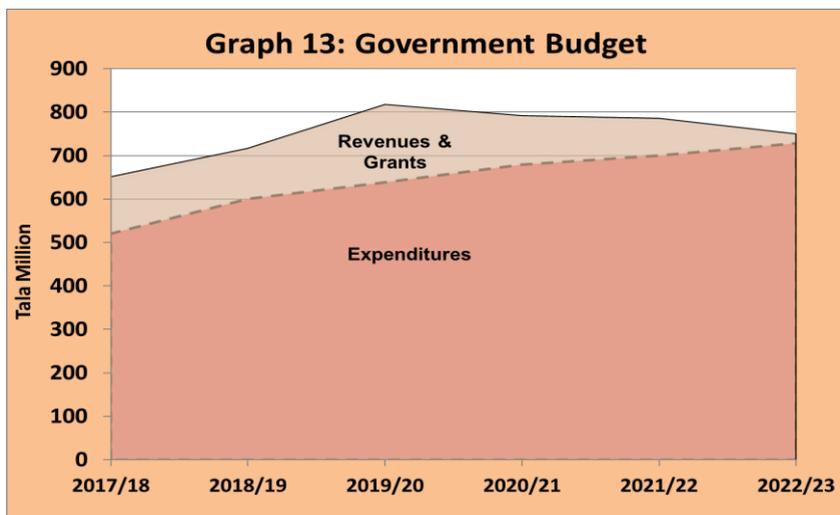


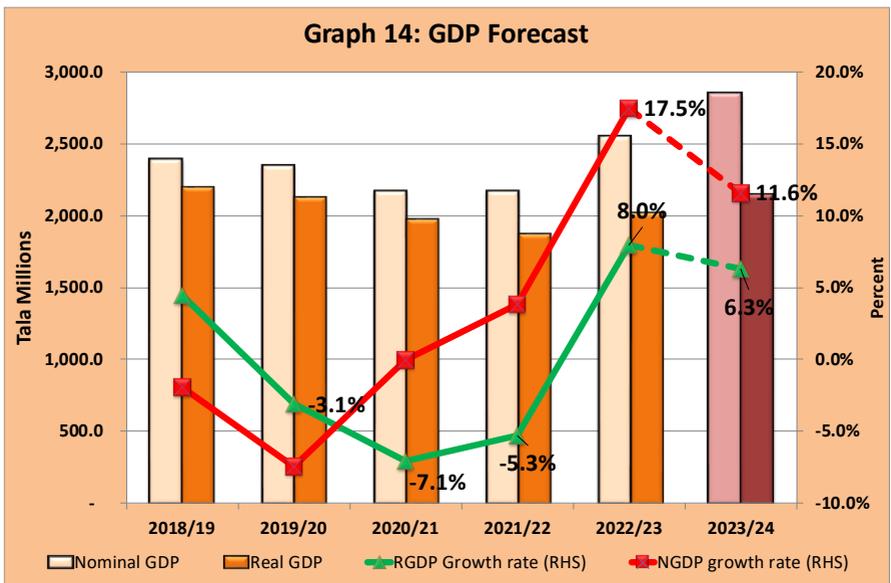
Table 6
Financial Operations of Government (1)
(Amounts in Tala Million)

During the period	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	2023/24 Forecast (2)
Revenues	716.7	818.0	791.3	835.3	876.1	841.4
Taxes	571.8	563.4	542.6	549.8	673.2	560.6
Grants	55.7	179.4	148.1	203.5	119.9	165.4
Other Revenues	89.2	75.2	100.6	82.0	83.1	115.4
Expenses	600.4	638.5	679.2	699.8	704.3	826.1
Compensation of employees	230.7	261.8	267.9	281.5	278.5	369.6
Use of goods and services	201.6	188.8	170.3	170.0	183.8	353.4
Interest	16.6	15.9	6.7	10.6	12.7	12.6
Subsidies	8.7	9.5	17.4	16.1	4.4	24.2
Grants	110.9	124.5	159.0	178.9	180.0	11.6
Social benefits	19.9	23.0	28.0	34.4	35.6	41.2
Other expenses	12.0	15.0	29.9	8.3	9.4	13.5
Net Operating Balance	116.2	179.5	112.1	135.4	171.8	15.3
ASSETS:	10.3	45.2	74.3	18.9	94.1	103.3
Net Acquisition of Nonfinancial Assets						
Net lending / borrowing	106.0	134.3	37.8	116.5	77.6	-88.0
(Budget Surplus/Deficit)						
Net acquisition of financial assets	52.8	89.2	12.5	60.9	6.4	-77.2
Domestic	52.8	89.2	12.5	60.9	6.4	-87.2
Net incurrence of liabilities	-53.1	-45.1	-25.3	-55.6	-71.3	-90.7
Domestic	-9.3	-7.1	-3.1	-2.9	-1.1	-10.0
Foreign	-43.8	-37.9	-22.3	-52.7	-70.2	-1.6
Budget Deficit as Percent of GDP	5.3%	6.8%	2.1%	6.4%	3.7%	-3.3%

(1) GFS Manual 2001 format - All actuals are sourced from the SBS GFS data.
 (2) Adapted from the Budget Address 2023/24, which is slightly different from GFSM 2001 format
 Source: Samoa Bureau of Statistics and Ministry of Finance

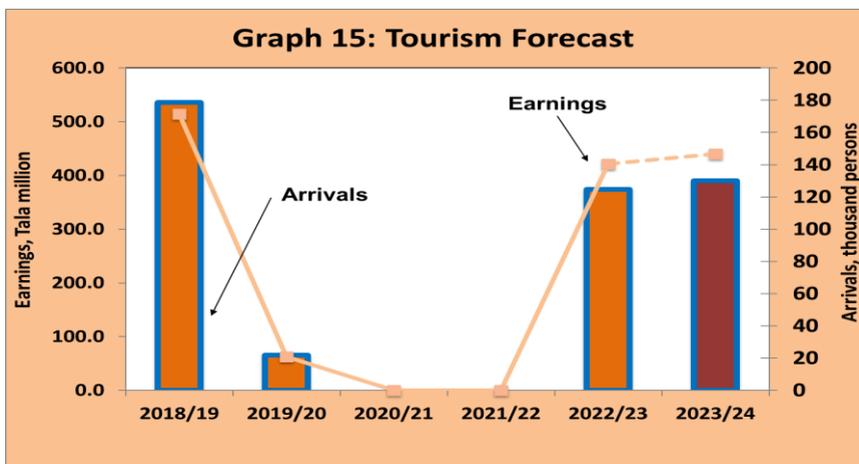
4.2.2 Real Sector

In view of the very fast recovery of around 8.0 percent in FY 2022/23, real GDP for 2023/24 is naturally expected to slow down to around 6.3 percent as the pent-up demand settles down as well as a levelling effect (comparing to very low levels during the pandemic period) one year removed from the COVID affected GDP numbers. From the Government fiscal Budget for FY 2023/24, several Government projects like the Apia Port Project, road widening and the preparations for the upcoming Commonwealth Heads of Government Meeting (CHOGM) in October 2024, will contribute to strong economic activities and translate to some growth in tourism (Accommodations and Restaurants) and further expansion in Construction, Transport and Communication services. However, with the projected easing of demand conditions in the period ahead, there is an expected slowdown (but still positive growth) in output for the Commerce, Fishing, Finance and Business services to name a few, that will ensure there is still real GDP growth for FY2023/24. (See Table 3 and Graph 14.)

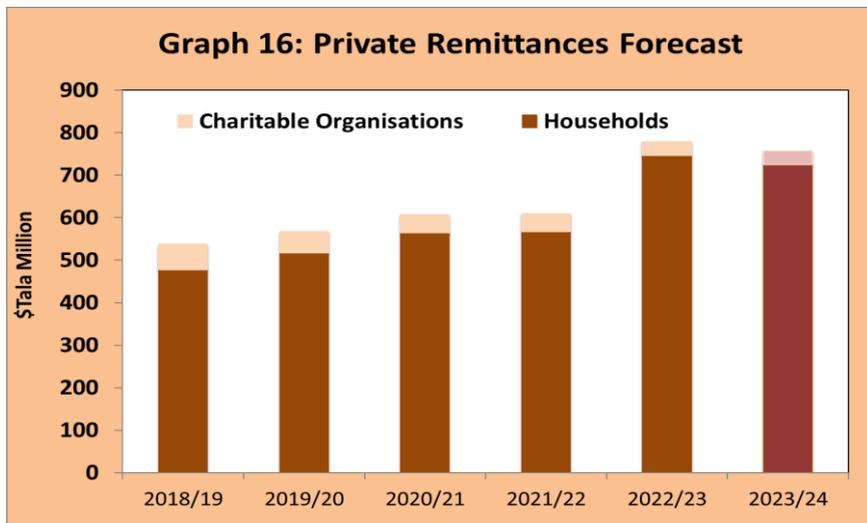


4.2.3 Balance of Payments

The overall bop is expected to record another strong surplus of \$108.0 million in FY 2022/23. As a result, the gross official reserves¹ is estimated to increase to around \$1,206.0 million, at around 12.1 months of import cover. This increase in foreign reserves is expected to come from a further increase in expected Government grants and budget support funds of around \$276.4 million that is outlined in the Budget FY 2023/24. **Total import payments** is expected to rise by 1.1 percent given the continued strong growth in economic activity as well as preparations for the upcoming Commonwealth Heads of Government Meeting (CHOGM). **Total transfers (remittances)** are expected to return to normal levels (down by 2.8 percent) after sustained increases in the past eight years. Similarly, visitor arrivals are estimated to continue its recovery with another 4.3 percent expansion to 129,964 visitors. As a result, **total visitor earnings** are expected to rise by 4.5 percent. However, **total exports of goods** are forecast to improve further by 2.6 percent to \$122.1 million due to expected increases in the export of goods such as fish, coconut oil, nonu juice and re-exports to name a few. (See Table 4 and Graphs 15 and 16.)



¹ Includes only transactions but excludes revaluation changes.

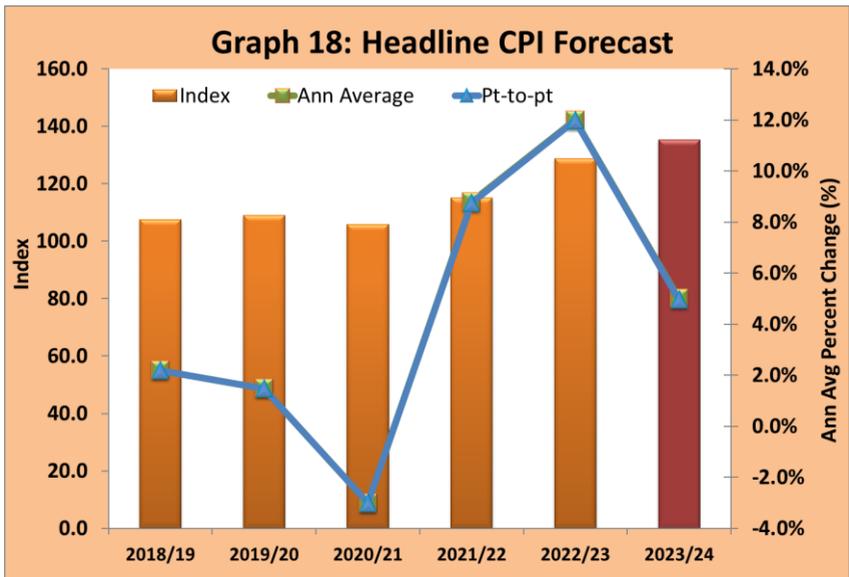
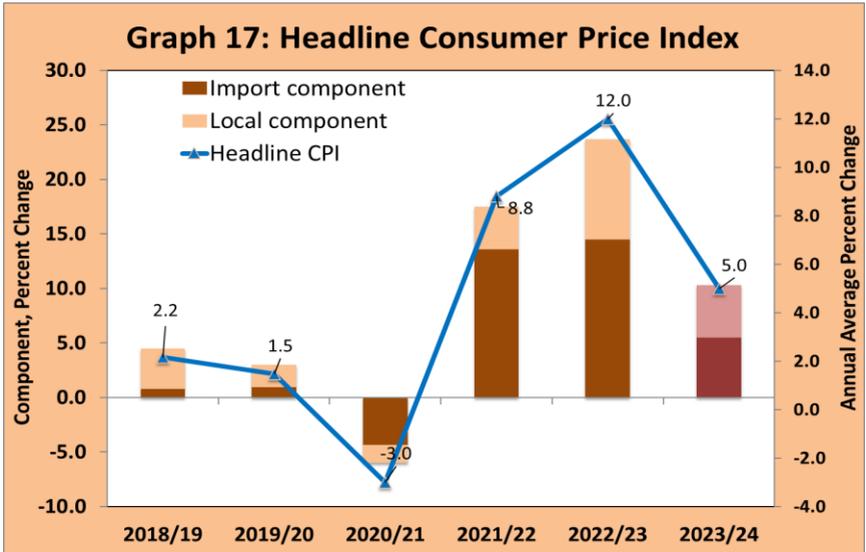


4.2.4 Prices

4.2.4.1 Headline Inflation

Headline inflation is expected to ease back to 5.0 percent by end June 2024 from 12.0 percent in June 2023 as imported prices are expected to drop further in the last half of 2023 before a small increase in 2024. Most of the main global commodity prices like oil (Brent crude), agricultural food like grains and meat (chicken and beef) are expected to decline in 2023 and for some, rebound in 2024 but in small increases. As such, imported inflation is forecast to come down gradually to 10.5 percent by end June 2024. The El Nino weather phenomena and Russia-Ukraine war also poses upside risks to imported inflation, as these could push up global food and fuel prices contrary to initial forecasts. On domestic inflation, strong domestic demand conditions create uncertainty on how high and long, the hike in domestic inflation will last. Latest estimates based on expected continuation in influx of overseas visitors and local producers sticking to high prices, will expect

domestic inflation to rise and peak at 10.4 percent around December 2023 before receding to 9.6 percent by June 2024. (See Graph 17 and Graph 18.)



4.2.4.2 Underlying Inflation

Similarly, the **underlying inflation rate is expected to slow to 7.0 percent at end June 2024** from 14.2 percent at end June 2023.

4.2.5 Monetary Aggregates

The growth rate of broad money supply is expected to continue to grow but at a slower pace of 8.8 percent in FY 2023/24 compared to 9.5 percent at end June 2023. Net domestic credit to the private sector is expected to post a gradual pickup of 2.2 percent by end June 2023 given the conservative approach taken by commercial banks. Given, the large foreign inflows, total commercial banks liquidity is expected to remain high. (See Table 7.)

End of Period	2018/19	2019/20	2020/21	2021/22	2022/23	Forecast 2023/24
A. Determinants of Money Supply						
Net Foreign Assets	473.6	503.2	653.5	709.7	1,052.4	1257.6
Net Domestic Assets	762.7	722.2	671.8	645.0	523.0	344.5
Net Credit to Non-financial Public Sector	-202.7	-271.4	-310.2	-326.7	-387.5	-467.9
Credit to private sector	1,076.6	1,139.0	1,155.7	1,157.6	1,130.2	1,100.3
Net Credit to Non-monetary Financial Institutions	138.8	112.1	97.9	88.4	80.4	72.3
Others, net	-250.0	-257.5	-271.7	-274.4	-300.0	-360.1
B. Money Supply (M2)						
Narrow Money	1,236.3	1,225.5	1,325.3	1,354.7	1,575.4	1,602.1
Currency Outside banks	566.2	516.6	598.9	624.7	825.9	842.8
Transferable Deposits	97.6	98.1	112.6	123.8	162.7	143.6
Demand Deposits	468.6	418.5	486.4	500.9	663.2	699.2
Foreign Currency Deposits of Residents	402.9	370.1	430.5	437.1	548.9	600.2
65.7	48.4	55.9	63.8	114.3	99.0	
Quasi-money	670.1	708.8	726.3	730.0	749.6	759.3
Other Deposits	670.1	708.8	726.3	730.0	749.6	759.3
Savings Deposits	148.9	165.0	190.9	206.8	242.3	223.7
Time Deposits	521.2	543.9	535.4	523.2	507.3	535.5

Source: Central Bank of Samoa

5. MONETARY POLICY STANCE FOR 2023/2024

In summary, the high inflationary pressures experienced in the first half of FY 2022/23 have receded, first in the global area and now domestically.

The Samoan economy is expected cool off from the hot start it has experienced since the reopening of borders and influx of visitors. Growth is expected to come down to around 6.3 percent in 2023/24 from 8.0 percent last year.

Given the above, the Central Bank of Samoa has adjusted its monetary policy stance to focus on absorbing the very high liquidity levels that exist in the financial system. This will help make monetary policy more effective. In addition, the CBS is also conducting the normalization of its official (policy) interest rate. What this means is that the CBS will bring up its official interest rates to its “neutral” rate which we have estimated to be around 2-3 percent. This normalization process does not entail a tightening monetary policy but more of adjusting the CBS official interest rate which has been near zero since 2008.
