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CBS TO MAINTAIN LOOSENING MONETARY POLICY STANCE FOR FY2021/22

Monday, 5th September 2021: The Central Bank Board of Directors approved the continuation of its easing monetary policy stance for another year (FY2020/21) at its meeting on the 3rd September 2021.

According to the IMF's July 2021 World Economic Outlook (WEO), the global economy is expected to grow by 6.0 percent in 2021 with a smaller growth of 4.9 percent in 2022. This positive outlook is based on strong growth expected for major economies like the US, China and Euro zone as easing of national lockdowns and international border restrictions are expected to spur economic activity. For the year 2021/22, the IMF is forecasting a 5.45 percent global growth.

On the domestic front, the Samoan economy continued to suffer from the adverse effects of the COVID-19 pandemic, with real GDP falling further by -8.7 percent¹ in 2020/21 from -2.7 percent in the previous year. This is equivalent to a total loss of around SAT\$172 million in the country's real GDP up to June 2021. The absence of inbound tourism travel and their related real-sector contributions and activities for over a year now, has contributed to the lowest real GDP level since SAT\$1.77 billion in FY2013/2014. The overall decline was underpinned by reductions in sectors such as Commerce, Construction, Business services, Accommodation & Restaurants and Transport amongst others. On the other hand, the headline inflation decelerated further during the year, falling to -3.0 percent at end June 2021. There were no visitor arrivals and earnings in FY 2020/21 due to ongoing border restrictions however, official foreign reserves improved dramatically (by \$138.4 million) to \$732.68 million due to the influx of foreign grants and budget support funds for Government as well as a 6.9 percent improvement in remittances. As a result, the overall import cover stood at around 10.7 months² as at end June 2021.

The banking system at end June 2021 remained well-capitalized with the capital adequacy ratio at 28.1 percent, well above the 15.0 percent minimum prudential requirement. Its liquidity was more than adequate at 27.4 percent, also well above its minimum prudential requirement of 10.0 percent. Non-performing loans (NPLs) as at end June 2021 stood at 3.7 percent and its provisioning for doubtful loans to total NPLs stood at 189.6 percent in June 2021.

¹ Estimated as the June 2021 quarter figures are not yet available.

² Imports of goods only

The outlook for the Samoan economy in FY2021/22 is for real GDP to rebound by 1.7 percent. This recovery is in line with the economy moving past a full 12 months of no visitor earnings as well as expected increases for most sectors of the economy. On the other hand, the headline inflation is expected to rise to around 3.7 percent by end June 2022, underpinned mainly by the expected hike in imported inflation. The prices for fuel, food and imported construction materials have all increased recently and are expected to go up further during the year. On the other hand, export of goods are expected to drop, primarily due to lower fish exports. Remittances are expected to increase slightly by 0.5 percent in the coming year. As a result, total foreign reserves are expected to expand to \$765.68 million, sufficient to buy around 11.0 months of goods only in FY 2021/22.

As such, the Board felt that the monetary policy should remain easing in order to support the economic recovery momentum. The aim is to maintain interest rates at low and affordable levels to encourage lending to private businesses in order to foster domestic investment and economic activity. However, the Board also noted the pickup of inflationary pressures and the need to monitor closely the developments in the headline inflation going forward.