

FOR IMMEDIATE RELEASE

CBS MONETARY POLICY DECISION FOR FY2023/24

Monday, 8 April 2024: The Central Bank of Samoa Board of Directors, at its meeting on the 22nd March 2024, approved the continuation of the Central Bank's monetary policy stance to reduce the high level of liquidity that exist in the financial system as well as continuing its efforts to normalise or adjust its official interest rate upwards without signalling a tightening of monetary policy.

In making its decision, the Board took into account the following **highlights** of the Samoan economy;

- *Inflation is declining, as expected, although it remains above its medium-term target of 3.0 percent;*
- *Economic growth remains positive, with a strong recovery to date;*
- *Foreign reserves continue to remain high;*
- *Financial sector remains sound but highly liquid.*

Inflation to continue to fall but still above its target

Headline inflation continues to moderate, falling to 6.6 percent at end February 2024, from 12.0 percent at end June 2023. This reflects a sharp drop in both the imported and local components of headline inflation since June last year. Similarly, the underlying inflation rate is also down to 8.8 percent at end February 2024 from 14.2 percent at end June 2023. Looking ahead, the headline inflation rate is expected to drop further to 5.0 percent by end June 2024 as prices continue to come down from highs in the past two years.

Strong economic growth expected

Real GDP in the twelve months to September 2023 quarter recorded a 10.4 percent growth rate, which is higher than 8.0 percent recorded for FY2022/23 and -5.3 percent for FY2021/22. The source of this strong growth reflects the exceptionally large expansion in the Commerce and Personal and other services sectors, stemming from strong tourism activity as well as high tax collection. Going forward, real GDP growth for FY2023/24 is expected to remain positive, albeit slowing down to 6.3 percent as the initial surges in post-COVID business activities starts to wind down. Robust economic activities to date and the associated spending on preparations for the hosting of the upcoming Commonwealth Heads of Government Meeting (CHOGM) later this year will drive this growth momentum towards end June 2024.

Foreign reserves continue to remain high

Gross foreign reserves currently stand at \$1,305.3 million at end February 2024, an increase of \$207.2 million from end June 2023. This level of foreign reserves is sufficient to buy around 13.1 months of import of goods only. In the first eight months of FY2023/24, total exports and imports are down by 0.9 percent and 1.2 percent respectively. Meanwhile, total visitor earnings are up by 91.8 percent while inflow of remittances is up by 2.1 percent, compared to same period of FY 2022/23. For the whole year

FY2023/24, total foreign reserves are expected to increase further due mainly to expected increases in grant and budget support inflows for Government as well as improvements in visitor earnings.

Financial sector remains stable but highly liquid.

The banking system continues to remain strong, with a combined capital adequacy ratio of 33.8 percent in January 2024, higher than its levels in December 2023 and January 2023. Similarly, the non-performing loans (NPLs) of the banking sector at the end of January 2024 stood at \$59.7 million, down from December 2023 but slightly higher than January 2023. However, the banking system's average liquidity in the seven months to end January 2024 continues to build up, jumping to an average of \$613.7 million. The bulk of this increase mainly reflects a significant hike in the average exchange settlement accounts (ESA).

Priority in reducing the high level of liquidity and normalisation of official interest rates

As the financial system continues to be over saturated with liquidity, the focus of monetary policy will be to continue to absorb (some of) that excess liquidity through its open market operations. With its latest inflation and economic growth outlook, the CBS will continue with efforts to normalise its official interest rate path bringing it up to around 2-3 percent range over the medium term). This will include the issuance of longer term CBS Securities and ongoing discussions with all the financial institutions.