CENTRAL BANK OF SAMOA

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PRESS RELEASE ON STATE OF SAMOA'S ECONOMY AND OUTLOOK FOR FY2022/2023

Friday, 16th December 2022:

Current economic performance:

According to the latest National Accounts data from the Samoa Bureau of Statistics, total goods and services produced (called Gross Domestic Product or GDP) in the year up to June 2022 (fiscal year 2021/2022) amounted to around SAT$1.85 billion (real GDP), which was 6.0 percent lower than the twelve months to June 2021 (FY 2020/2021). This marks three consecutive years of negative growth with FY 2019/2020 falling by -3.1 percent, FY 2020/2021 decreasing by -7.1 percent and now another -6.0 percent in FY 2021/2022. The cause of this prolonged recession in the Samoan economy started with the Measles Outbreak in the December 2019 quarter, which was then followed by the COVID-19 pandemic in the March 2020 quarter right up to the June 2022 quarter. The international border lockdown and other self-isolation measures to safeguard the people of Samoa from COVID-19, resulted in a substantial economic loss of real GDP (of approximately SAT$234.0 million) from April 2019 - March 2020 to April 2020 - March 2021, and a further SAT$57.3 million drop to April 2021 - March 2022.

With the strict COVID restrictions implemented around the world during 2020, global shipping and trade fell significantly. This led to acute supply shortage problems around the world, which began to see global commodity prices increase starting from January 2021 right up to now. This has gradually seeped through to Samoa's inflation rate through its imported (prices) inflation. Russia's invasion of Ukraine in early 2022 further drove up imported prices like fuel and gas, which pushed up global inflation further. In effect, prices such as imported food, construction materials, household items and fuel have risen steadily in 2021 and 2022, culminating in Samoa's headline inflation rate at 11.3 percent at end October 2022, substantially well above its medium-term target of 3.0 percent.

On the external sector, the closure of Samoa's international borders starting from March 2020 resulted in a complete loss of visitor earnings (falling from over SAT$500 million tala to zero for at least two years) as well as loss of employment opportunities for many working in the tourism industry. However, this huge drop in tourism earnings was outweighed by the pickup in remittances from our families (diaspora) residing aboard (mainly in New Zealand, Australia and the US) as well as a pickup in seasonal workers' income due to more opportunities offered by New Zealand and Australia. In addition, Samoa received large inflows of aid grant funds for its

COVID-19 Response and general budget support funds from its usual development partners like the World Bank and the Asian Development Bank (ADB) and its bilateral partners of Australia, New Zealand, People's Republic of China and Japan. These financial assistances helped protect Samoa from the pandemic as well as coping with the negative impact of isolation during these unprecedented times. These resulted in an improvement in the country's official foreign reserves during the pandemic, rising from SAT$490.7 million at end FY2018/2019 (pre-COVID) to a total level of SAT$732.7 million in FY2020/2021 (or equivalent to 10.7 months of imports) and SAT$812.7 million in FY2021/2022 (10.9 months of imports).

Similarly, the domestic financial system was relatively resilient and sound despite the negative impact of the COVID pandemic on employment and production. The commercial banks were in good shape despite the immediate shutdown of the tourism industry (who were clients of the banks). The commercial banks' remained well capitalised while the non-performing loans were low and the provisioning by banks were more than adequate. The commercial banks also were able to offer COVID relief assistance to their various clients during the pandemic.

<u>Economic Outlook</u>

The re-opening of our international borders on 1 August 2022 has provided the much needed pickup in domestic economic activities across all sectors. The outlook on inflation, however, is still uncertain due to the ongoing Russia-Ukraine war. There are early signs that global inflation is starting to slow down given the aggressive monetary policy tightening by the US, the UK, Japan, Australia and New Zealand and many other advanced economies. However, there is still risk that Russia-Ukraine war could intensify and drive up the price of fuel and gas in the months ahead, which will ultimately push Samoa's headline inflation further higher in 2023. The Central Bank of Samoa will continue to monitor these geo-political events and macroeconomic developments that could impact Samoa inflation going forward.

Due to the current sharp rise in inflation levels coupled and a modest recovery in economic activity (as measured by real GDP), there are two main course of action for the Central Bank of Samoa's monetary policy:

1. Pursue its main objective of ensuring price stability, which would mean a tightening monetary policy, where the CBS would raise interest rates to cut commercial bank lending and the level of money supply in the economy. This has been the action taken by most major central banks in developed economies since the start of 2022. Theoretically, this will reduce domestic demand and ultimately bring down inflation. However, a tightening monetary policy can also have a negative impact on economic growth and hinder the recovery, of which Samoa is currently experiencing since the reopening of its borders.
    a. A hike in interest rates means borrowing from commercial banks will be expensive, and businesses looking to rebuild or expand following more than years of COVID shutdown, will find it difficult to access much needed funds. Similarly, existing borrowers, especially household debt and mortgages, will likely face higher interest rates, meaning they will struggle to repay their debts

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and worsening their ability to service their loan obligations during the COVID period.

b. Since the main factors driving the rise in inflation are external supply side prices, like imported fuel, food and construction materials, any domestic monetary policy action by the CBS will have no to little impact on these foreign prices as Samoa are price takers in the international commodities markets.

2. CBS is to forego its primary objective of price stability and support its economic growth objective by continuing to pursue a loosening or expansionary monetary policy. An expansionary monetary policy means the banking system will continue to lower and/or keep interest rates low and affordable and CBS encourages commercial banks to lend to businesses so that production and employment can expand, growing the Samoan economy at the same. On the other hand, this may result in more money supplied and circulating in the economy, and subsequently drive-up inflation further.

From the Central Bank's perspective, as the Samoan economy has been in a prolonged recession of around 10 quarters of negative growth, it is critically important to support the recovery of local businesses and employment opportunities, especially for those who have struggled during the pandemic. This is further supported by the view that there may be alternative measures to address the high inflationary pressures in Samoa at the moment. In particular, fiscal policy measures can be considered and implemented to address the issue of rising cost of living. From the experiences of other small island countries around the world, targeted fiscal assistance to the most vulnerable and hard-hit sectors of the economy (e.g. low income families, pensioners) can provide some relief from the high cost of living while an expansionary monetary policy stance can ensure funds are available for the private sector and Government, supporting the Samoan economy recovery path from the COVID pandemic. In addition, with local or domestic prices starting to go up as well, especially food, meals and other consumable goods, it is vital that Price Orders and Controls are maintained and enforced by the Government to ensure any local price hikes are justifiable and within reason.

Given the latest available information to date, maintaining an expansionary monetary policy stance for the rest of FY 2022/23 may see economic growth improve to around +1.0 percent while a tightening monetary stance will see real GDP drop to around -3.0 percent.

For now, the CBS will maintain its expansionary monetary policy stance to push and support Samoa's economic recovery. It will continue to coordinate with the Government on alternative measures such as potential targeted fiscal assistance for vulnerable groups to relieve the high cost of living and inflationary pressures currently experienced in the domestic economy. It will, however, continue to closely monitor all available information and economic indicators as they become available over the next few months and will take the appropriate actions, within its mandate, should circumstances change.

Central Bank of Samoa
16th December 2022