

II. OVERVIEW OF ECONOMIC DEVELOPMENTS DURING THE THIRD QUARTER OF 2008.

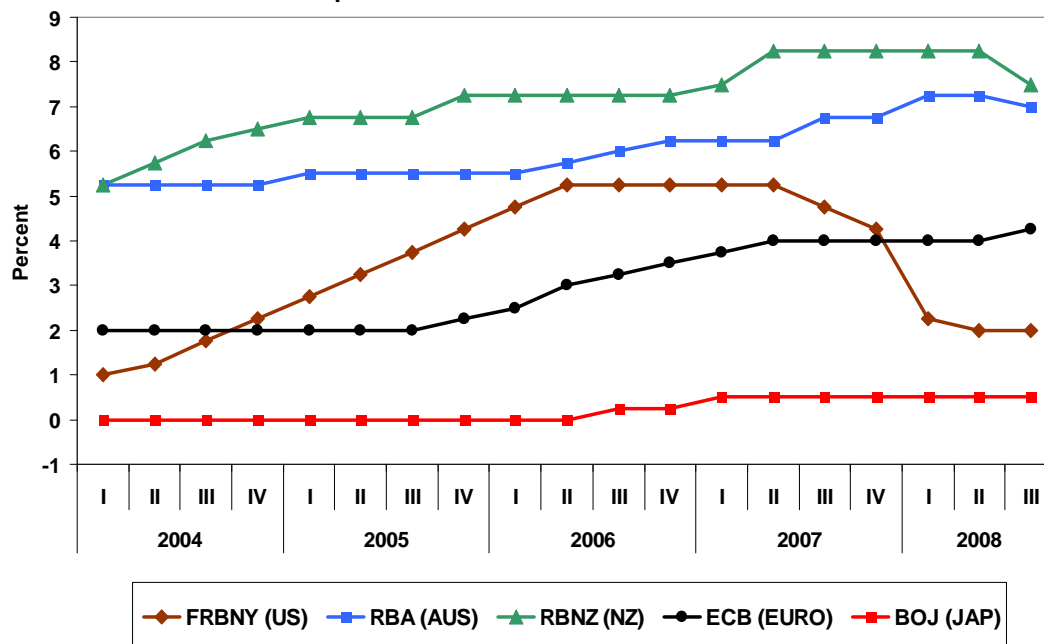
a. The World Economy

After signs of moderating in the June quarter, world growth in the third quarter slumped even further as wave upon wave of weak economic statistics swept most economies towards the deeper end of the recession pool as credit conditions began to tighten. Economic growth rates reported for the US, the UK, Europe, Japan and New Zealand worsened. Although Australia recorded a positive growth rate, it was clearly on a downward trend. Inflation for most countries, increased with record high oil prices in July 2008. During much of the quarter under review, inflation was the core concern for most Central Banks across the globe but increasing downside risks to growth impelled some Reserve Banks to move forward their easing cycles to stave off risks of declining growth rates.

In the September quarter, the United States economy contracted at an annual rate of 0.5 percent from the previous quarter. The decline in growth reflected negative contributions from personal consumption expenditures, residential fixed investment as well as equipment and software investment. However, the decline in these growth indicators were partly offset by increases in Federal government spending, non-residential structures investment as well as strong exports and declining imports, which contributed significantly to a narrower current account deficit in the September quarter. The US labour market continued to post consecutive monthly job losses, which resulted in the unemployment rate expanding by 0.6 percent in the quarter to an annual rate of 6.1 percent. As can be expected with rising job losses, consumer spending fell, while online spending slowed. Consumer sentiment was also increasingly pessimistic over the period under review. As domestic demand became increasingly sluggish and oil prices retreated, the CPI level fell from 5.0 percent in the previous quarter to 4.9 percent in the quarter under review.

Although growth in the US slumped further, it was evident that upside risks to inflation persisted due to the record high oil prices seen in July and the prior months. As such, the Fed decided to keep its key interest rate unchanged at 2.0 percent over the September quarter.

Graph 1 : Official International Interest Rates



The Australian economy grew only 0.1 percent over the quarter, dragging the annual growth rate down to 1.9 percent, its slowest pace in eight years, with private household consumption struggling under the weight of falling asset prices, record high debt burdens, tightening global credit conditioning and high effective exchange rates. The labour market remained weak as the unemployment rate rose to 4.3 percent in September. Exports jumped because of higher export prices, while imports rose at a slower pace as the steep decline in demand dragged down import volumes. The net improvement in the trade balance contributed to a narrower current account deficit in the quarter under review. The weaker growth environment led to a slower rise in prices of 1.2 percent compared to 1.5 percent in the June quarter. However, the annual inflation rate, reach a 13-year high of 5.0 percent in the third quarter of 2008.

Over the September quarter, the Reserve bank of Australia (RBA) rate was on hold at 7.25 percent in the first two months. Price pressures were quite resilient over the third quarter but the noticeable slowdown in growth fundamentals and the escalating downside risks to growth particularly during the onslaught from the global financial markets upheaval, led the RBA to lower its cash rate to 7.0 percent.

In New Zealand, the economy contracted 0.4 percent in the third quarter of 2008, which follows two consecutive quarters of negative growth. In annual terms, growth contracted 0.1 percent after growing 1.0 percent in the previous quarter. Retail sales were weak over the September quarter as household de-leveraging, high debt levels and concern over the health of the economy, dominated households' attitude to spending. In the housing sector, there was a slight pick-up in building consents but core figures confirmed underlying weakness in the housing market. The labour market also continued to weaken as employment increased by a trivial 0.1 percent, while the unemployment rate rose 0.3 percent to an annual rate of 4.2 percent. The trade deficit widened in September as exports fell by a large 11 percent due to waning global demand and falling commodity prices for agricultural exports. Although growth contracted further in the quarter under review, inflationary pressures from high food and oil prices in the prior months kept the CPI stubbornly high at 5.1 percent in the year.

After holding the OCR at 8.25 percent in the June quarter, the deteriorating global growth environment and the financial markets upheaval, altogether preceded by negative growth in the June quarter finally pressed the Reserve Bank of New Zealand (RBNZ) to move forward its easing cycle by shaving off 25 basis points from its OCR in July and in September by 50 basis points to 7.50 percent.

In the Euro area, real GDP fell 0.2 percent in the third quarter to an annual growth rate of only 0.6 percent. The unemployment rate rose to 7.5 percent from 7.4 percent in the June quarter. Construction in the Euro area continued to post further losses over the quarter while industrial production fell 1.9 percent after gaining 0.7 percent in the previous quarter. Retail sales, on the other hand, picked up to an annualised growth rate of 2.1 percent in the September quarter, up from 1.9 percent in the previous period, despite overall consumer sentiment being negative. The net trade position in September was negative and this added to the worsening current account deficit. The Euro area CPI rose to 3.8 percent from 3.6 percent in the June quarter, mainly because of higher food and oil prices.

The European Central Bank (ECB) was less hasty in its response to lower its official rate as it continued to prioritize addressing the high inflation rate. In fact, the ECB raised its repo rate in July from 4.0 percent to 4.25 percent to restrain inflation pressures posed by record high oil prices. From there on the ECB rate was on hold at 4.25 percent over the September quarter.

After zero growth in the second quarter, GDP in the United Kingdom contracted 0.5 percent in the third quarter of 2008. the negative growth in the September quarter reflected contractions in

output from the production industry and the services sector. Retail sales remained sluggish over the quarter as household expenditure also fell. In the labour market, employment growth was negative and the unemployment rate rose to an annual rate of 5.8 percent. On a monthly basis, annual inflation in September rose to 5.2 percent, up from 4.7 percent in August and 4.4 percent in July.

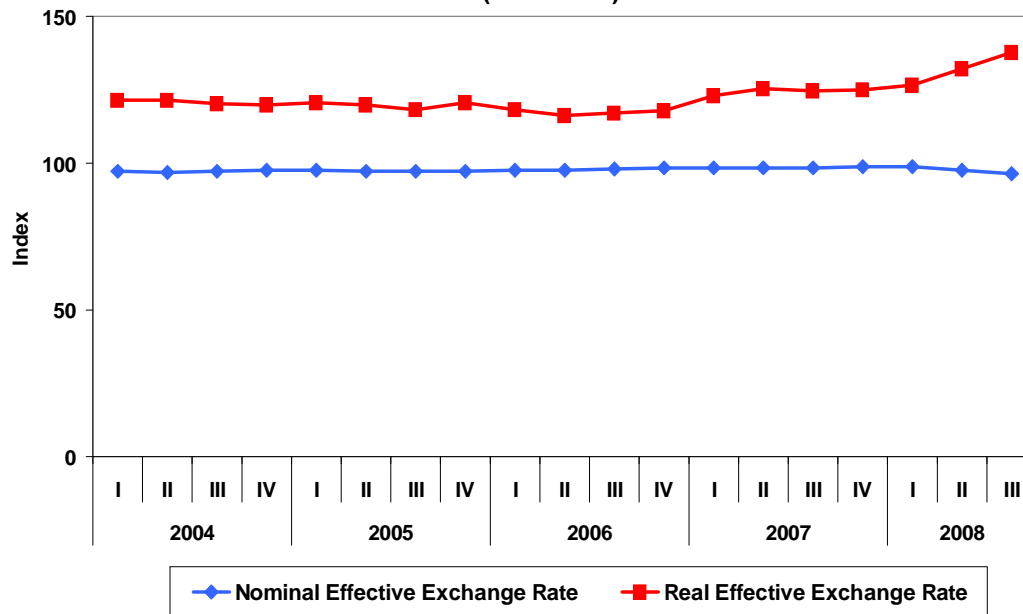
In the third quarter, the bank of England (BOE) kept its key interest rate unchanged at 5.0 percent. Despite stagnant growth in the second quarter, oil prices were still considerably high and as such, inflation was still at the forefront of concern, hence the BOE's decision to maintain a somewhat tight monetary stance.

The Japanese economy slipped into recession in the September quarter, after GDP contracted by 0.5 percent from the previous quarter. In annual terms, growth declined 1.8 percent following a 3.7 percent slump in the previous quarter. The Japanese economy's exports weakened, domestic demand fell and businesses braced themselves for a prolonged downturn amid the worsening global growth environment. Inflation in Japan expanded an annualised 2.3 percent in September 2008, its twelfth consecutive monthly rise due to surging food and oil prices. Over the September quarter, the Bank of Japan (BOJ) continued to hold its official interest rate at 0.5 percent.

In the foreign exchange markets, the US dollar continued to weaken against most major currencies. For the Tala, this only led to an extended period of strengthening against the US dollar and an extended period of depreciation against the currencies of our major trading partners; the NZ dollar, the Australian dollar, the Fijian dollar and the Euro. However, the tables turned in mid-September when the global financial markets screamed havoc and the gains shifted in favour of the Greenback. Although the severity of the financial crisis was unexpected and mostly concentrated in the US, it was obvious that the dollar was gaining by default as investors flocked to seek haven in the Greenback's US Treasuries. This subsequently saw the Tala weaken against the Greenback, while it strengthened against the NZ dollar, Australian dollar, Fijian dollar and the Euro.

In terms of the Tala's nominal index, the overall value of the Samoan currency against the currency basket was, a 0.9 percent depreciation in the quarter under review. In real terms, the real effective exchange rate indicated that the Tala appreciated by 4.27 percent, down from 4.32 percent in the previous quarter due to the nominal depreciation of the Tala. Nevertheless, the real effective exchange rate was still high, thus indicating that prices in Samoa continued to rise faster than those of our major trading partners.

**Graph 2 : Trade Weighted Exchange Rate Index
(1998 = 100)**

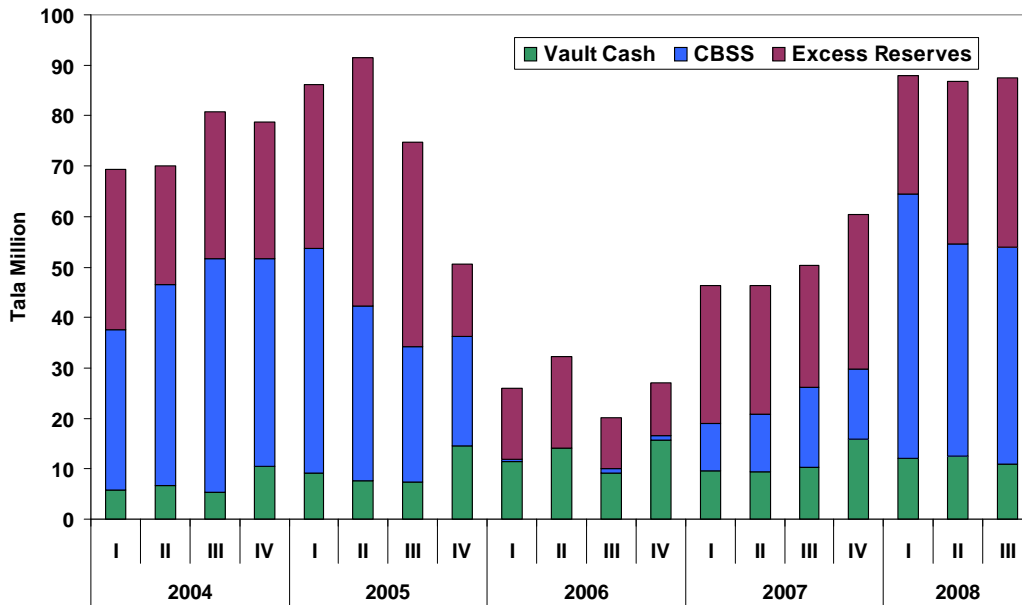


b. The Domestic Economy

Fiscal policy was eased in the September 2008 quarter with Government's financial operations recording a cash deficit of \$4.3 million; virtually unchanged from the preceding quarter. Despite this deficit, Government's net deposits with the monetary system increased \$18.0 million to \$84.3 million over the year.

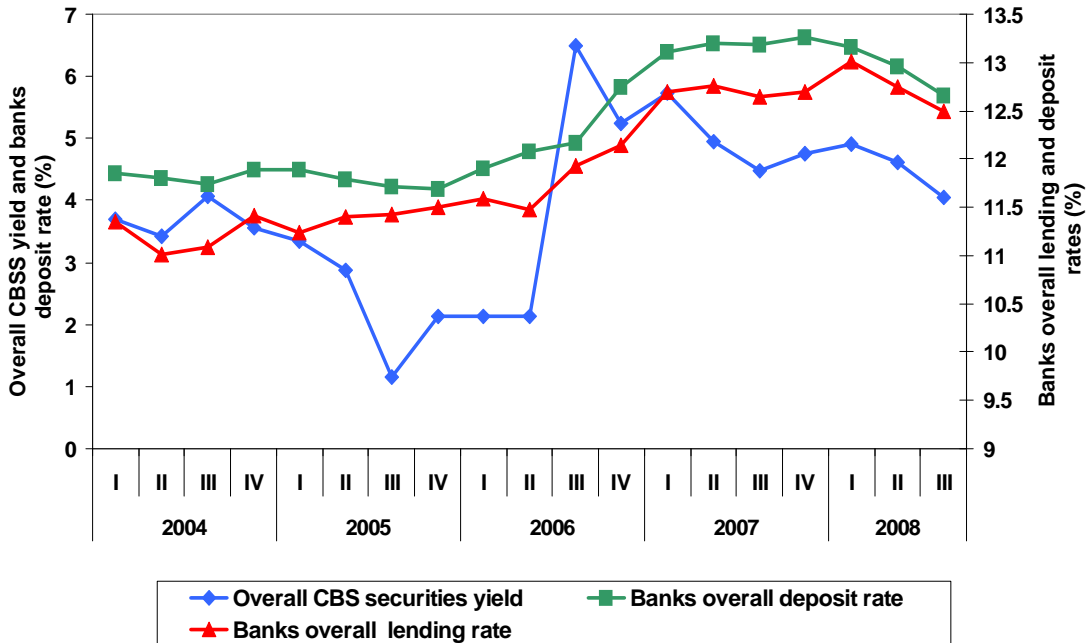
Monetary conditions, on the other hand, similarly eased in the quarter under review, with total commercial bank liquidity rebounding 1 percent to \$87.5 million after a \$1.3 million (or 2 percent) decline in the previous quarter. The commercial banks' excess reserves in particular, rose by a further 4 percent to \$33.5 million while their investments in CBS securities picked up 2 percent to \$43.0 million. Cash holdings of commercial banks, on the other hand, declined \$1.6 million during the quarter. (See Graph 3.)

Graph 3 : Commercial Banks Total Liquidity



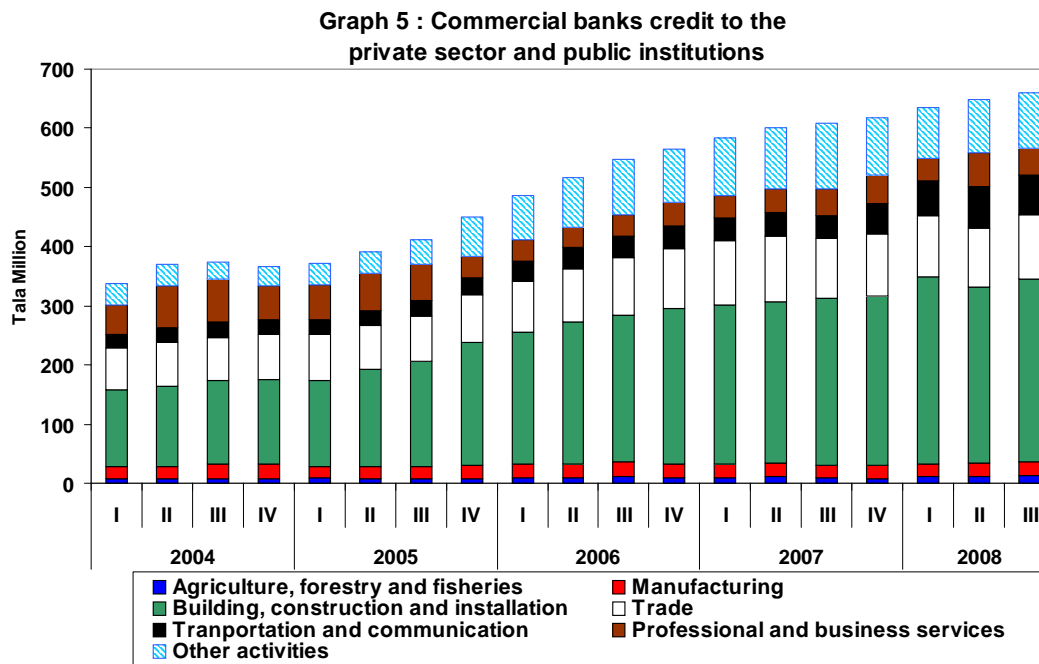
The increased demand for short term securities saw the weighted average official interest rate decline further to 4.05 percent at the end of the September 2008 quarter from 4.62 percent at end of the previous quarter. Corresponding to the decline in official rates, the commercial banks' interest rates fell, with the weighted average deposit and lending rates easing by 46 basis points to 5.69 percent and 25 basis points to 12.49 percent respectively. In the event, the commercial banks' interest rate spread widened to 6.80 percent from 6.59 percent in the previous quarter. (See Graph 4.)

Graph 4 : Overall yield on CBS securities and commercial banks interest rates

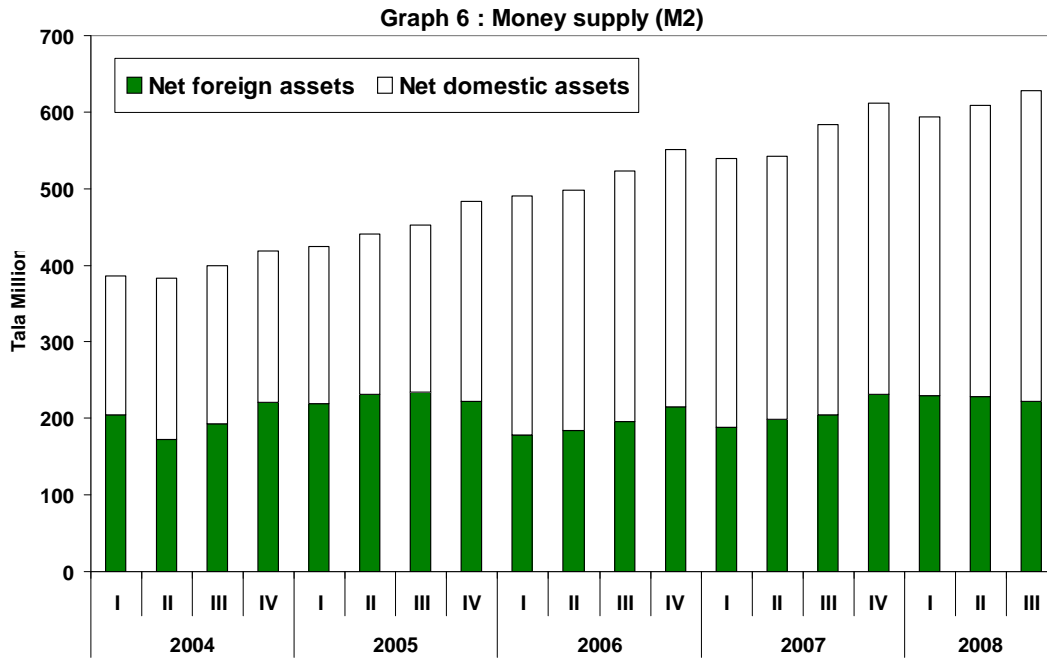


With lower lending rates, commercial bank credit to the private sector and Government corporations expanded further by 2 percent (\$11.6 million) to \$660.0 million, on top of a larger \$13.5 million growth in the June 2008 quarter. The bulk of bank lending during the September

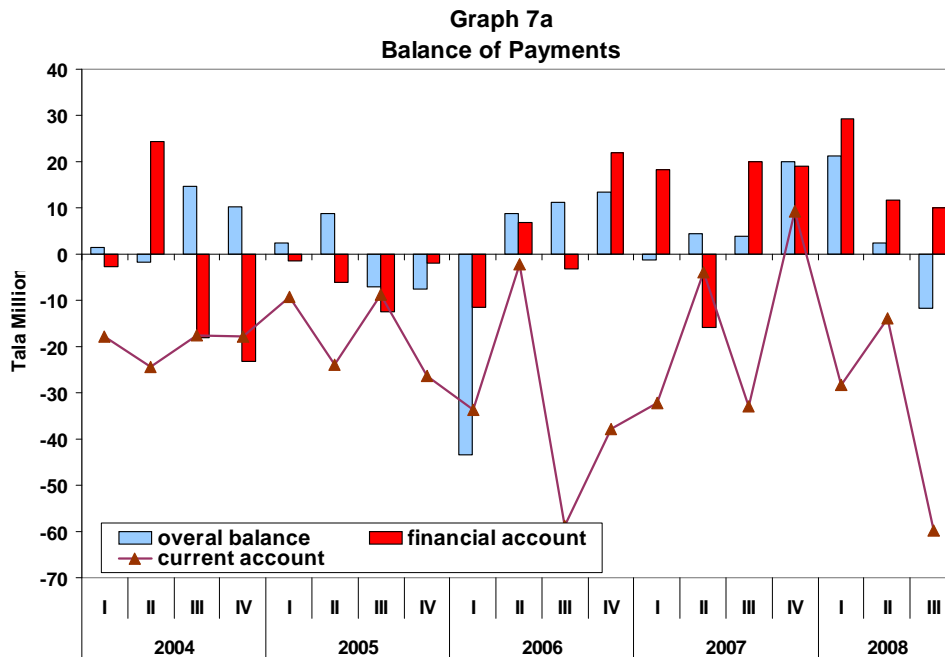
quarter was absorbed mainly by the “Building and construction” (up \$10.2 million to \$307.9 million), “Trade” (up \$9.8 million to \$109.1 million), “Other activities” (up \$5.9 million to \$54.6 million) and “Manufacturing” (up \$1.9 million to \$24.2 million) sectors. Similarly, further credit were extended to the “Agriculture” (up \$1.1 million to \$10.8 million) and “Electricity” (up \$0.8 million to \$8.5 million) sectors. (See Graph 5.) Partially offsetting these increases were reductions in claims on “Professional and business services” and “Transport and communication” which dropped \$12.8 million and \$6.7 million to \$45.1 million and \$33.8 million respectively during the quarter. On an annual average basis, however, the rate of growth of commercial bank loans outstanding continued to slow down to 9.4 percent at end September 2008, from 10.7 percent at end June 2008.

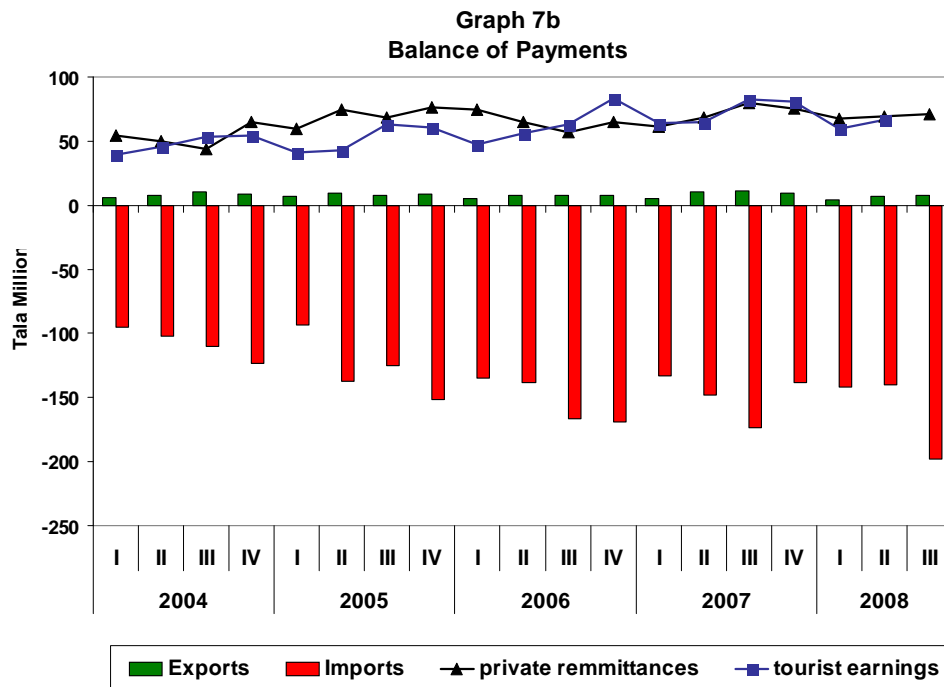


Driven by the higher level of bank credit and Government’s cash deficit with the monetary system, was a 6 percent (\$21.4 million) surge in net domestic assets at end September 2008, which more than offset a 1 percent (\$2.5 million) drop in net foreign assets. As a result, total money supply (M2) expanded 3 percent (\$19.0 million) to \$627.3 million. (See Graph 6.)



After recording surpluses in the previous five quarters, the balance of payments closed the September 2008 quarter with an overall deficit of \$9.5 million. This position was entirely due to an expansion in the current account deficit which outweighed the inflows in the capital and financial accounts. (See Graph 7a.) The deterioration in the current account balance reflected an expansion in the merchandise trade deficit, in spite of the increases in tourism earnings and private remittances during the quarter. (See Graph 7b.)





The merchandise trade balance deteriorated by a significant 44 percent (\$57.8 million) to \$190.4 million, as a marked 42 percent (\$58.4 million) surge in imports more than outweighed an 8 percent (\$0.6 million) rise in exports.

Underpinning the substantial increase in import payments in the September 2008 quarter were the exceptionally large increases in all of its categories, with private sector imports in particular, jumping 26 percent (\$27.2 million), reflecting a one-off shipment of new currency banknotes for the Central Bank of Samoa valued at \$4.3 million, as well as increased imports of food products. Following the surge in the international price of oil to peak at US\$147 a barrel in July 2008, the value of petroleum imports leaped 89 percent (\$26.7 million) during the quarter while Government imports almost doubled (up \$4.5 million) that of the previous quarter.

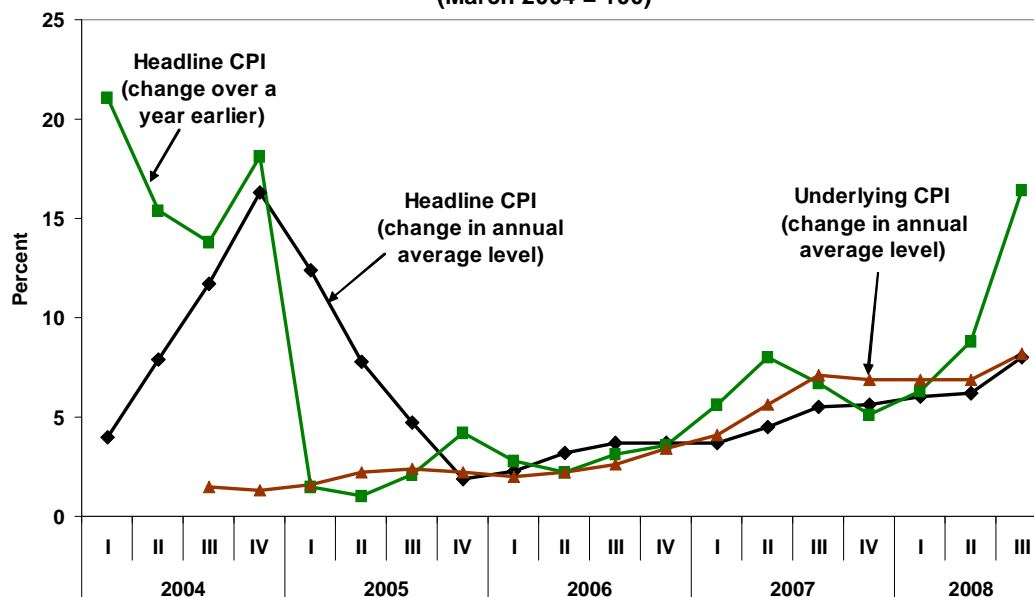
By contrast, the main contributors to the higher level of exports in the third quarter of 2008 were modest increases in re-exports (up \$0.4 million) and domestic exports (up \$0.2 million). Large shipments of scrap metal to New Zealand and the Asian region combined with increased consignments of some miscellaneous commodities (such as soft drinks, wine, and medicines) to American Samoa, shipments to Tonga and Fiji pushed the level of re-exports higher to \$1.4 million. The higher level of domestic exports was attributed to fresh fish, taro and 'other exports' with increases of \$0.9 million, \$0.1 million and \$0.1 million respectively. These more than offset decreases in earnings from nonu juice, (down \$0.5 million to \$0.5 million), beer (down \$0.3 million to \$0.6 million), coconut oil (down \$38 thousand to \$16 thousand) and soft drinks (down \$29 thousand to \$47 thousand). Other commodities to record lower proceeds in the quarter under review were coconut (down \$20 thousand to \$0.1 million), coconut cream (down \$3 thousand to \$0.6 million) and nonu fruit (down \$2 thousand to \$16 thousand).

Following a 13 percent jump in the June 2008 quarter, foreign exchange revenue from tourism recorded another 11 percent (\$7.4 million) rise, compliments of a seasonal 14 percent increase in tourist arrivals despite a seasonal drop in average tourist expenditures. Of the increased arrivals in the three months to September 2008, the majority were, as usual, those from New Zealand (44 percent) with American Samoa and Australia recording shares of 17 percent each. The majority (50 percent) of travelers were tourists who were here on holiday mainly for the Teuila Festival in

September, while 31 percent were those who came to “visit friends and relatives”. The inflow of private transfers rose by a further 10 percent (\$8.3 million) in the September 2008 quarter, reflecting an 18 percent jump in remittances for charitable organizations and a 7 percent rise in household and family remittances.

On prices, both the external (particularly the escalating price of oil and food) and domestic factors dominated price developments in the September 2008 quarter. The average level of the headline CPI, which was 13.3 percent higher than in the same quarter a year earlier, surged 6.4 percent in the quarter under review reflecting increases of 6.9 percent and 6.7 percent in its import and local components respectively when compared to the June 2008 quarter. Consequently, the headline inflation rate, on an annual average basis, soared to 8.0 percent at end September 2008, from 6.2 percent at end June 2008 and 5.5 percent at end September 2007. Similarly, the annual underlying inflation rate accelerated to 8.2 percent from the 6.9 percent at end June 2008 and 7.1 percent a year earlier. (See Graph 8a.)

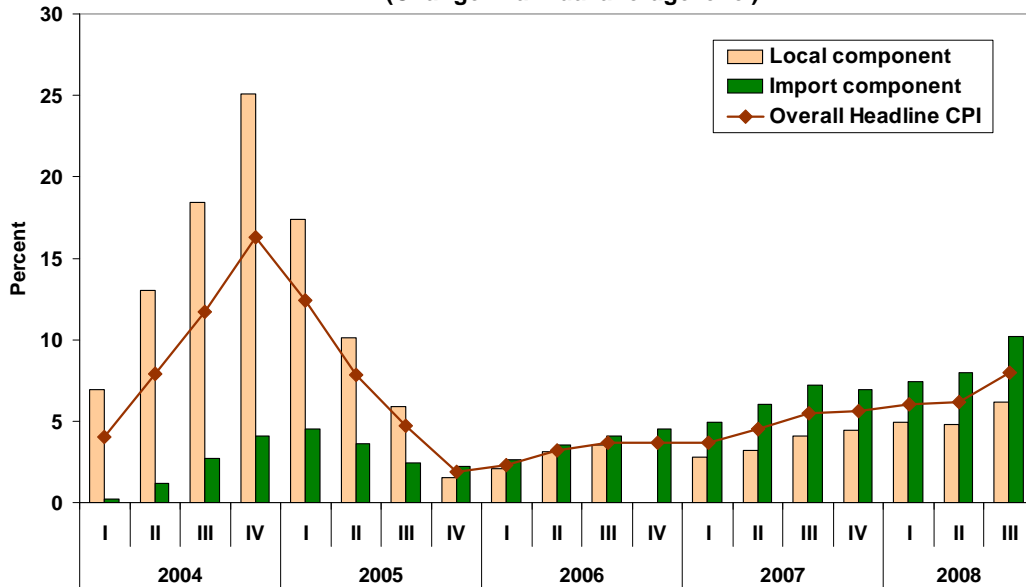
**Graph 8a : Consumer Price Index
(March 2004 = 100)**



The price increases during the quarter were driven by seasonal factors and regulatory changes in prices following global economic developments. Local food prices were adversely affected by the prolonged dry weather conditions which saw the volume of most of the agricultural produce particularly the vegetables decline. Effective from July 2008 was a 10 percent rise in the excise tax on alcohol and tobacco followed by further increases in fuel surcharges on electricity in August 2008, the third so far in the year. In September 2008, the Price Control Board approved a second increase in bread prices while an upward revision in bus and taxi fares were granted (after the last revision in October 2005) following increases in fuel prices earlier in the year. On the external front, the higher inflation rates for Samoa’s major trading partners contributed to higher imported food prices. On the other hand, fuel prices which have been declining in international markets since the end of July 2008, were dropped in September 2008 at the local petrol stations, providing some relief to owners of motor vehicles. These developments saw a decrease in the import component of the “Transport and Communication” (down 10.5 percent) which was outweighed by increases in “Housing and Household Operations” (up 8.2 percent), “Food” (up 7.0 percent), “Miscellaneous” (up 4.6 percent), “Alcohol and Tobacco” (up 1.2 percent) and “Clothing and Footwear” (up 0.8 percent) sub-groups during the quarter. The overall local component of the headline CPI, on the other hand, saw all sub-groups increase in the September 2008 quarter. The

largest increase was recorded in the “Food” sub index (up 8.2 percent) with the “Housing and Household Operations”, “Transport and communication” and “Alcohol and tobacco” increasing 7.7 percent, 7.0 percent and 3.6 percent respectively. As a result, the overall import and local components of the headline CPI recorded annual average increases of 10.2 percent and 6.2 percent respectively, notably higher than the 8.0 percent and 4.8 percent in that order in the previous quarter. (See Graph 8b.)

**Graph 8b : Headline Consumer Price Index
(Change in annual average level)**



III. PRUDENTIAL SUPERVISION

For the quarter ended 30 September 2008, the banking system registered a moderate growth in terms of total assets as total liabilities rose marginally over the previous quarter. An adequate level of capital has been maintained comfortably above the Central Bank's minimum requirement of 15.0 percent with liquidity level remained relatively strong, reflecting a slight increase over the previous quarter.

At \$903.1 million, the commercial banks combined assets reflected an increase of 2.7 percent (\$23.8 million) in the September quarter and indicated an annual growth of 12.8 percent (\$102.3 million) when compared to the same period a year earlier. The composition of the commercial banks assets comprised mainly of loans and advances of \$682.9 million (75.6 percent of total assets), cash reserves and deposits with the Central Bank and other banks combined at \$170.5 million (18.9 percent) and fixed assets of \$54.1 million (6.0 percent) respectively.

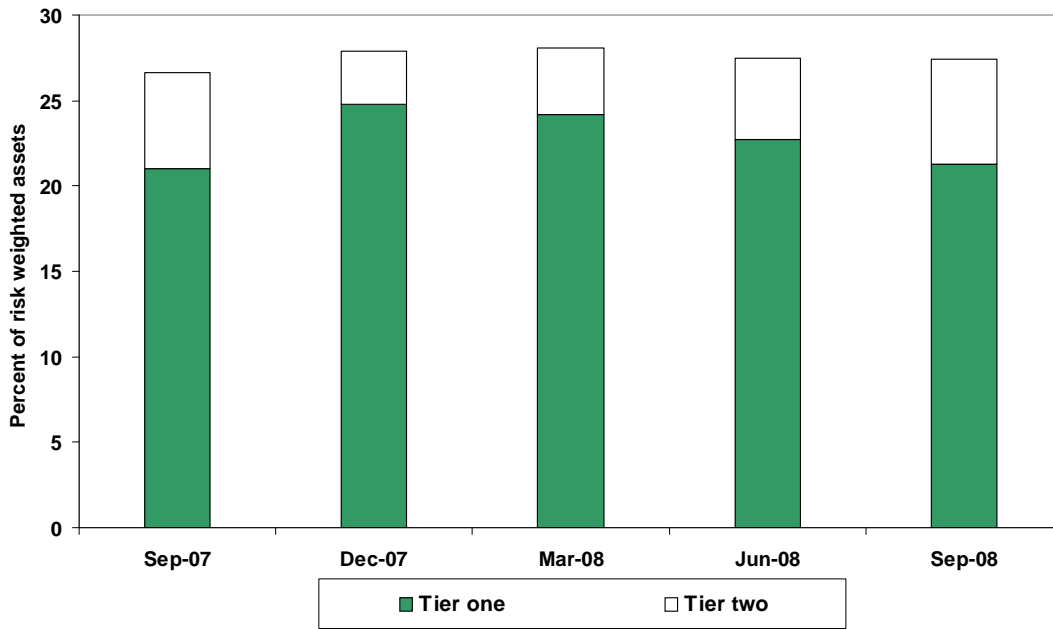
Total loans and advances of \$682.9 million increased by 2.1 percent (\$13.8 million) at the end of the quarter and further rose 8.5 percent (\$53.7 million) over the same time a year earlier. The strong growth in loans and advances was attributed mainly to loans to private businesses and households and Government.

Total deposit liabilities showed an increase of 2.9 percent (\$19.2 million) over the previous quarter and thus recording an annual growth rate of 12.5 percent (\$75.6 million) respectively. Time deposits (\$404.2 million) represents 59.5 percent of total deposits, demand deposits (\$196.6 million) accounted for 28.9 percent while savings deposits (\$78.7 million) made up 11.6 percent of total deposit liabilities.

Total contingent and off-balance sheet items increased by 32.7 percent (\$33.7 million) to \$136.8 million over the previous quarter, due mainly to increases in direct credit substitutes and trade related items.

The banking system remained strongly capitalized at \$165.8 million, revealing an increase of 6.4 percent (\$9.9 million) over the previous quarter due mainly to the banks profitable performance throughout the period. In relation to the overall level of risk weighted assets, the capital adequacy ratio dropped slightly from 27.5 percent to 27.4 percent. Tier 1 capital of 21.3 percent decreased by 1.4 percent over the June 2008 quarter. (See Graph 9.)

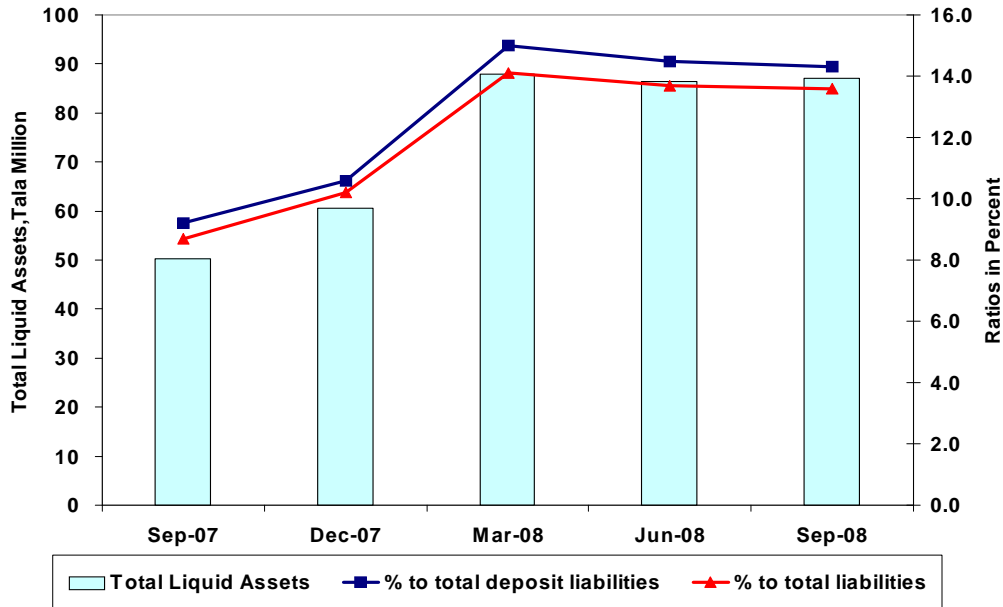
Graph 9 : Capital Adequacy Ratio



All the banks complied with the Central Bank’s minimum capital adequacy requirement (15.0 percent) at the end of the quarter.

The banking system also revealed a marginal 0.8 percent (\$0.7 million) increase in the level of liquid assets over the previous quarter and showed a marked improvement of 73.0 percent (\$36.7 million) when compared to the past twelve months level. Total liquid assets stood at \$87.1 million, equivalent of 14.3 percent of total domestic deposit liabilities. Total Central Bank Securities at \$42.6 million made up 48.9 percent of total liquid assets at the end of the quarter. (See Graph 10.)

Graph 10 : Liquidity Position

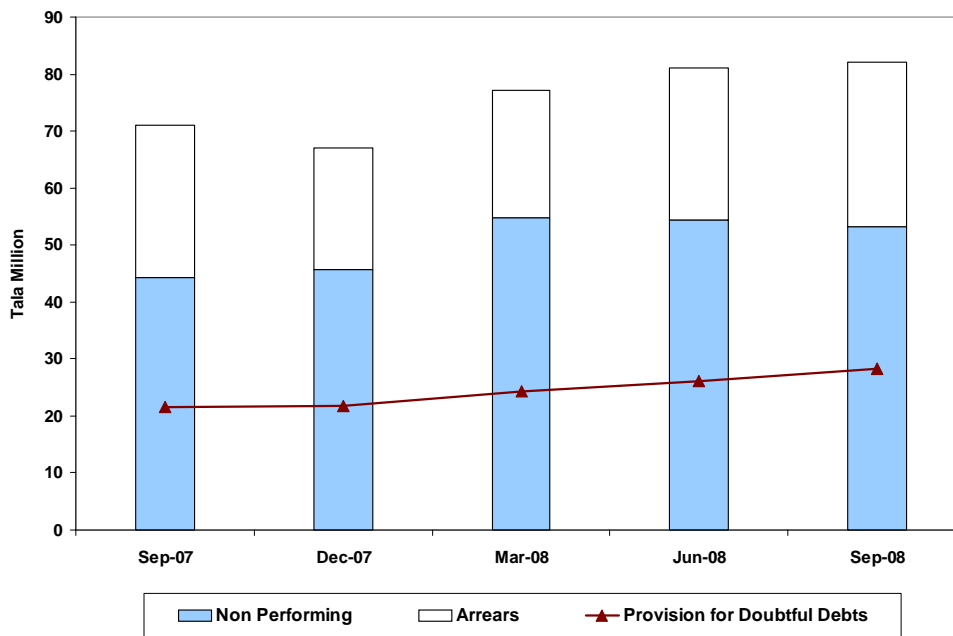


The combined foreign assets of the commercial banks amounted to \$122.9 million as compared to total foreign liabilities of \$107.4 million. At these levels, it showed a net long exposure position of around \$15.5 million or 9.3 percent of total capital.

The overall level of problem loans recorded a slight decrease of 1.9 percent (\$1.0 million) to \$53.3 million. When compared to the preceding year, the level of non performing loans registered a marked increase of \$20.2 million. In relation thereto, total provision for bad and doubtful debts of \$28.2 million provided a 52.9 percent buffer against possible loan losses that may derive from non-performing loans. As a proportion of total loans and advances, total provision stood at 4.1 percent.

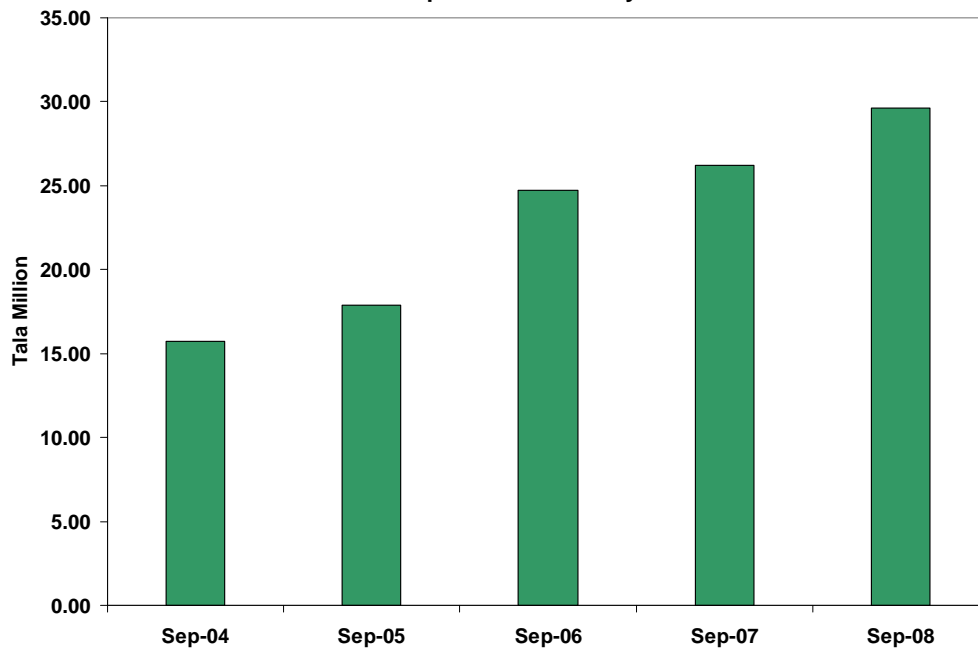
The Central Bank continues to monitor closely the banks performances towards reducing their levels of arrearages and non-performing loans, which require them to be extra vigilant in their approaches towards asset quality. Equally important, is the need for the banks to ensure that adequate provisions are being provided to cover for such problem loans while recovery efforts are pursued. (See Graph 11).

Graph 11 : Past Due and Non-Performing Loans



At a combined figure of \$39.8 million, the banking system’s pre tax profit level increased by 4.1 percent when compared to the same period a year earlier. Total net profit after tax amounted to \$29.6 million, up from \$26.2 million recorded a year earlier. At this level, return on average networth and assets stood at 19.7 percent and 3.5 percent respectively. (See Graph 12).

Graph 12 : Profitability



For the period under review, total operating expenses represented 65.3 percent of total income, up 2.2 percent when compared to the previous year's performance. The banks continued to achieve good earnings from their non-interest earning activities such as foreign exchange gains, commission, fees and charges. Nevertheless, there has been a noticeable rise in non-interest operational costs which more than offset earnings in non-interest activities for the year.

IV. PRESS RELEASE**INTERNATIONAL FINANCIAL MARKETS CRISIS**

Since our Press Release on the international financial crisis, issued on 20 September 2008, the international financial markets have been subjected to extreme volatility, with all advanced economies and emerging market economies adversely affected. Since September 2008, monetary and fiscal policies around the world have reversed course from tight stances in the period up to August 2008 to expansionary stances starting in September 2008 as Governments struggled to prop-up their ailing financial markets and economies. Consequently, official interest rates have been declining at a rapid pace with Governments approving record financial bailout spending. World exchange rates have moved in diverse directions with most currencies depreciating sharply, whilst the US dollar strengthened steadily as international investors sought refuge in the safe haven arms of the greenback. These events have been and continue to be well reported in the international and local media. In this second Press Release on the issue, we would like to update the public on the impact on the Samoa economy as reflected in the latest available economic indicators.

The most immediate impact so far on the Samoan economy is on the exchange rate of the Tala. Being linked to a trade based basket of currencies, dominated by the US dollar, the appreciation of the US dollar has also driven up the value of the Samoan Tala against most other currencies in the basket, except for the US dollar. In the two months to end October 2008, the US dollar appreciated by 10.4 percent against the Tala. During the same period, the greenback appreciated by 21.9 percent and 14.3 percent against the Aussie and Kiwi dollars respectively. In turn, the Tala appreciated significantly against the Australian dollar (up 14.0 percent) and NZ dollar (up 5.6 percent). On the other hand, the Tala weakened against the Yen by 20.5 percent.

The appreciations in the US dollar and the Yen should be favourable to Samoa's fish, nonu and other exports which are directed to American Samoa, the US mainland and Japan, as well as tourists from these markets visiting Samoa. On the other hand, declining inflation in America and Japan should help offset the adverse impact of their currency appreciations on the prices of imports from these countries.

At the same time, the sharp depreciations in the NZ and Australian currencies, combined with the expected declines in their inflation rates, should see the prices of imports from these two countries fall in the near future. On the downside, the Tala prices of commodity exports and tourism services to these two countries have appreciated, possibly restraining demand for these industries.

According to available figures, September 2008 saw a dramatic increase in overseas payments related to accumulated petroleum shipments, a one-off shipment of new currency notes, and increased shipments of food imports and construction materials for ongoing public sector infrastructural projects. Tourism revenue improved while private remittances recorded a seasonal reduction. In the event, international reserves fell to 4.7 months of imports but was still higher than the benchmark target of 4.0 months. Based on historical trends, international reserves are expected to recover in the last quarter of 2008.

Samoa's financial system has remained secure, having no direct credit exposure to the international financial crisis. In keeping with the eased stance of monetary policy, market interest rates were reduced early this month and domestic liquidity remains at a comfortably high level. On the other hand, foreign exchange movements are being monitored very closely to prevent speculative demands on our foreign exchange reserves.

And, at its monthly meeting on Friday 31 October 2008, the Central Bank's Board of Directors agreed for the Bank's easy monetary policy stance to continue. At the same time, Management was asked to continue their close monitoring of the international and domestic environments to ensure that the Samoan economy remains stable and safeguarded from any adverse effects of the current global financial crisis.

CENTRAL BANK OF SAMOA
31 October 2008
