

PRESS RELEASE

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Date: 21<sup>st</sup> September 2020

## CBS MAINTAINS EASING MONETARY POLICY STANCE FOR FY2020/21

**Friday, 18 September 2020:** The Central Bank Board of Directors at its meeting of 18 September 2020 approved the continuation of its expansionary monetary policy stance which means to keep the cost of capital low and/or encourage commercial banks to continue lending to the private sector at lower interest rates.

According to the International Monetary Fund's June 2020 World Economic Outlook (WEO), the global economic activities are expected to decline by 4.9 percent in 2020 due to the severe economic consequences of the COVID 19 pandemic but it is expected to turnaround by a modest 5.4 percent in 2021.

On the domestic front, the Samoan economy is also feeling the pinch, with real GDP<sup>1</sup> in constant prices falling by 3.5 percent in 2019/20 due to the combined adverse impacts of the Measles Outbreak and the COVID-19 pandemic. The reductions were mainly transmitted through sectors such as Commerce (-\$29.6 million or -4.4 percent), Electricity and Water (-\$14.8 million or -10.6 percent), Business Services (-\$10.5 million or -13.9 percent) and Food & Beverages manufacturing (-\$10.4 million or -12.7 percent) amongst others. On the other hand, headline inflation<sup>2</sup> at the end of June 2020 continues to remain low at 1.6 percent. Visitor arrivals and earnings have fallen sharply due to the travel restrictions however, foreign reserves<sup>3</sup> is expected to continue to remain high at \$616.0 million due to the influx of remittances and inflow of grants and budget support funds for Government. As a result, import cover<sup>4</sup> is at around 8.7 months as at end June 2020.

For 2020/21, real GDP is expected to slow down further to around -10.0 percent as the adverse impact of travel restrictions for the safeguarding and protection of the Samoan public and the associated weak and reduced domestic demand takes its toll on the economy. On the other hand, head inflation is expected to pick up slightly to 1.8 percent but still below its medium target of 3.0 percent. Due to the continuing adverse impact of COVID 19, exports, visitor earnings and private remittances are all expected to drop in FY2020/21 although this is expected to be cushioned by lower import payments for

goods and services. As a result, foreign reserves are expected to drop to \$509.0 million or sufficient to buy around 8.3 months of goods only in 2020/21.

With manageable inflationary pressures and the expected decline in economic growth and foreign reserves, the Board felt that monetary policy should continue to encourage low cost of capital in order to support economic growth. That said, commercial banks average interest rates at end July 2020 were at low levels with the weighted average lending rate at 8.63 percent while the average deposit rate was at 2.70 percent. The main aim is to maintain these low levels going forward to encourage continuous lending to the private businesses in order to foster domestic investment and economic activity.

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<sup>1</sup> Total value added of all goods and services produced in a country at a set period.

<sup>2</sup> Cost of living measurement or prices of all goods and services

<sup>3</sup> It is the country's holdings of foreign currencies to ensure that outward payments are timely settled.

<sup>4</sup> Import cover shows the ability of a country to settle its imports of goods with its foreign reserves expressed in months.

