PRESS

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**Economic Consequences of Covid-19: The outlook so far**

In these extraordinary times as the loss of lives from the Coronavirus (Covid-19) pandemic continues to rise globally, the necessary measures undertaken to protect human lives and contain the further widespread of this greatest health crisis of our time, will also have a severe impact on the global economy. According to the International Monetary Fund’s latest World Economic Outlook (WEO) released on 16 April 2020, the world economy is predicted to contract sharply by -3.0 percent in 2020, a major downward revision from the 3.3 percent real growth for 2020 that was projected in their January 2020 WEO Update. This notable turnaround reflects the immediate impact of weakened global demand and the adverse effects of the Covid-19 pandemic on the global economy as various containment measures and subsequent disruptions to international travel and trade were implemented in February and March.

In these very challenging times, there is a high degree of uncertainty in the extent to which any economy will fare as the economic consequences of the Covid-19 pandemic is yet to be fully realized or how successful the various containment measures by different countries will be over in the coming months. The only certainty is that disruptions to economic growth are expected over the next twelve months, with the Covid-19 pandemic likely to have a sharper downturn on the global economy compared to the 2007/2008 Global Financial Crisis (GFC).

The IMF’s global economic projections expects near zero percent growth in Asia for 2020, in what may be its weakest performance in the last 60 years, even worse than that during the GFC and the 1997 Asian Financial Crisis. Similarly, for the Pacific region, major downward revisions have been made by the IMF, with an average -2.7 percent contraction expected in 2020 across the region, reflecting our high dependency on tourism, remittance and commodity exports, all of which will be critically impacted from current developments. The extent of these economic downturns varies across the Pacific island countries, with Palau being the worst affected, with a forecast annual reduction of -11.9 percent to a -0.2 percent contraction forecast for the Marshall Islands.

Of Samoa’s main trading partners, the IMF’s April WEO points to substantial contractions in the annual real GDP forecast for Australia (by -6.7 percent), New Zealand (by -7.2 percent) and the United States of America (by -5.9 percent) in 2020. These unprecedented global economic developments and outlook may severely impact Samoa’s own economic performance in the next twelve months.

Preliminary CBS forecasts undertaken on 23 March 2020 (at the outset of the State of Emergency period) on the effects of Covid-19 is for the Samoan economy to track from -2.2 percent to a -5.0 percent (mainly on the downside) in real GDP[[1]](#footnote-1) in the year ending June 2020, however, these estimates are highly susceptible to the following:

1. the effectiveness of the implementation of any relief and/or stimulus policy package(s),
2. the tightened or restrictive measures on domestic and international activities,
3. the adverse implications on our main source markets (New Zealand, Australia and the United States of America);

Going forward, as the extent of current containment measures and global developments will start to be fully realized over the next six to nine months, we forecast real GDP to further contract by -6.6 percent in the year ending December 2020. This is reflecting the expectation of prolonged closure of international borders which will result in no tourism arrivals in the next six or so months and the recessionary effects in our main trading partners that would limit any external demand or flows into Samoa. We project some economic recovery to take place in 2021, with the real GDP forecast to contract to around -1.7 percent in the financial year to June 2021, and positive real growth of around 1.1 percent in the year ending December 2021.

These forecasts, similar to those by the IMF, are associated with a high degree of uncertainty. The projected growth path for Sāmoa was based only on the information available up to 23 March 2020. Given the ever-changing global developments as a result of Covid-19 measures by various countries as well as our Government’s anticipated policy responses in the next few months, these forecasts will also highly likely to change as new information becomes available.

Given this weak economic outlook, the Central Bank of Sāmoa is committed to maintaining an accommodative monetary policy stance to further enforce and support the private sector and the general public in the months ahead. The latest available economic data indicates low inflation and the continued adequate supply of foreign reserves. At the end of February 2020, headline inflation was recorded at 1.9 percent (well below the 3.0 percent long term target), with the country’s foreign reserves amounting to SAT$498.4 million, which was more than sufficient to cover 6.4 months of imports of goods. Furthermore, official financial aid assistance for Government has steadily been received in March from our development partners. This will further bolster the level of foreign reserves in the months ahead, to support the country’s international trade and other obligations with the rest of the world.

In respect of Samoa’s financial system, the Central Bank continues to engage with the Commercial Banks’ Association on a weekly basis to ensure the soundness of the banking system in view of any current and future disruptions to domestic economic activities. We continue to strongly encourage any individual or business to approach your respective bank or financial institution early on if you foresee a likely financial difficulty that would affect your debt servicing obligations.

International and domestic downside risks have continued to rise in recent weeks and will remain elevated for some time. The CBS will prudently and continuously monitor these developments and their impact on the financial system, the economy, and will also adjust its monetary policy where appropriate.

**17April 2020**

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1. This downward trend in real GDP growth is consistent with the growth forecasts published by the International Monetary Fund. [↑](#footnote-ref-1)