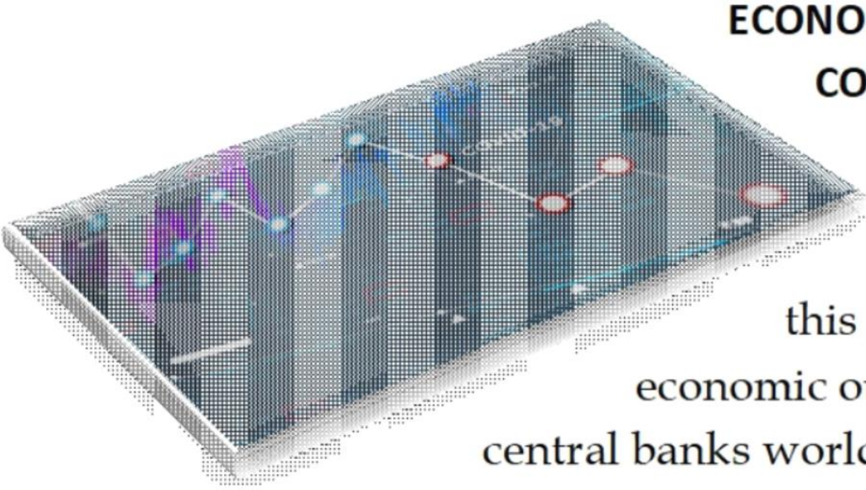
ECONOMY REPORT-
COVID 19 AS OF
MAY 2020



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CENTRAL BANK OF SAMOA

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DETAILED REPORT ON THE MACRO-ECONOMY FOR THE FIRST ELEVEN MONTHS OF FY2019/20 TO MAY 2020

A. WORLD ECONOMY

The outset of the Covid-19 Pandemic since January 2020 has intensified downside risks on the global economy, which is now expected to be severely hit, much worse than that experienced in the 2009 Global Financial Crisis, the 1987 Stock Market Crash or even any other natural and/or climatic disaster known to mankind in modern history.

The immediate worldwide travel restrictions, lockdowns and containment measures by most countries have resulted in the sudden halt in economic activities across the globe, notably Asia, Europe, the United States and including the Pacific region.

According to the International Monetary Fund (IMF)'s June 2020 World Economic Outlook, the global economy is now projected to track deeper into a recession, contracting sharply by -4.9 percent in 2020 (1.9 percentage points lower than the April WEO), from a 2.9 percent growth estimate for 2019 (or on a fiscal year basis, equivalent to -1.00 percent in FY2019/2020, from 3.25 percent in FY2018/2019). On the assumption that the pandemic eases in the second half of 2020, global containment measures are gradually lifted and with appropriate policy support, the global economy is projected to recover by 5.4 percent in 2021, a 0.4 percent downward revision from April 2020 (or on a fiscal year basis, to grow by 0.25 percent in FY2020/2021). This global growth outlook has a higher than normal degree of uncertainty given the pandemic evolution and timing of when these lockdowns may be eased. Adding to this downside risk is the renewed trade tensions by the two global powerhouses (US and China) and civil disruptions in these two countries, which will weigh further on the global growth trajectory over the next year.

Given this gloomy economic outlook, most central banks worldwide swiftly reduced their policy interest rates to historically low levels of near zero percent and undertook significant quantitative easing programs to support their respective economies.

Of Samoa's trading partners,

- The second release of GDP estimates for the USA in the first quarter of 2020 points to a 5.0 percent contraction, more than initially expected (of -4.8 percent) and ending the country's longest period of expansion, possibly since the Great Recession. This was the largest drop in US' GDP since the last quarter of 2008 at the outset of the Global Financial Crisis, with the current outcome reflecting the economic costs of the Covid-19 pandemic which forced several state lockdowns and millions of job losses. The latest economic releases for the second quarter indicate a worse outcome with as much as 40 percent contraction estimated as containment measures take full effect. Adding further downward pressure on the major economy is the reigniting of trade tensions with China relating to Covid-19 and Hong Kong, as well as the damaging effects of recent civil protests across the US.

- NZ's real GDP shrank 1.6 percent in the March 2020 quarter, more than the 1.0 percent contraction expected by the markets and the largest decline in 29 years as the immediate impact of Covid-19 took hold following travel restrictions and national lockdowns in the latter part of March. The country's statistical authorities also noted this quarterly decline had exceeded the quarterly reduction during the Global Financial Crisis. While the country's lockdown has eased with the recent move to Level 1 in its Covid-19 restrictions, the country's border remains shut similar to most other countries worldwide. The trade risks remain high for NZ given recent developments in China particularly with political tensions relating to the Covid-19 pandemic. The markets forecast NZ's economy to contract by -3.0 percent in June, and to shrink further to -6.3 percent by December 2020.
- The Australian economy continued to lose its growth momentum, ending its longest expansionary period with concerns of a pending recession for the first time since the 1930s. Shrinking to 0.3 percent in the March 2020 quarter (from a 0.5 percent growth in the previous quarter), the Australian economy suffered its first contraction since the March quarter of 2011 as a culmination of devastating events (bushfires, drought and the Covid-19 pandemic) severely impacted business activities, with household consumption and business sentiments decreasing and mounting job losses adding to further pressures. While recent indicators in June indicate a quick recovery than initially expected, as partial lock-downs across various states gradually open up, business conditions and confidence remain in extreme lows when compared to pre-Covid times. The full economic impact from Covid-19 containment measures will be reflected in the June quarter numbers, with the markets predicting around -6.3 percent annual contraction in real GDP, with modest recoveries towards a -4.0 percent contraction at end December 2020.

With the weak outlook on our main trading partners' economies, the external pressures on the Samoan economy will likely be felt in its full effects in the first half of FY2020/21. These outlooks (globally and domestically) are highly uncertain and will depend on the magnitude and speed in which Covid-19 containment measures and international travel restrictions may be lifted across most countries.

Given the weak economic prospects amidst the rising downside risks, the subdued inflationary pressures and weak labour market conditions, central banks worldwide are expected to continue with their easing monetary policies to support their economies out of their recessionary outlooks. As a result, the unprecedentedly low global interest rate environment of near zero percent is expected to be maintained for up to the next two years alongside substantial quantitative easing programs.

B. DOMESTIC ECONOMIC DEVELOPMENTS

I. POLICY INSTRUMENTS AND DEVELOPMENTS

1. The ***Government's net financial position*** in May 2020 recorded a huge surplus of $67.14 million over the same month last year, in-light of government's inflows of budget support funds and those for COVID-19.

2. On **exchange rates**, the average nominal value of the Tala in the first eleven months to May 2020, strengthened by 0.03 percent when compared to the same period last year. This increase was underpinned by the appreciation of Tala against AUD dollar (up 3.9 percent), New Zealand dollar (up by 2.5 percent) and the Euro (up 0.2 percent) which outweighed the 3.1 percent depreciation of Tala against the US dollar.

3. *The banking system's* ***average liquidity in the first eleven months to May 2020 expanded by 17.1 percent (or $43.48 million) to $297.37 million compared its average level in the same period of 2019.*** The bulk of this expansion was due mainly to a significant increase in commercial banks' average exchange settlement accounts (up $50.81 million) and a slight pickup in vault cash (up $3.07 million) while their average holdings of CBS securities fell by $10.41 million.

4. On interest rates, **the overall weighted average yield on CBS securities (or *official interest rate) registered zero rate*** in May 2020 from 0.18 percent in the same month of the previous year. Commercial banks' **weighted average deposit rate increased to** 2.75 percent from 2.51 percent last year while the **weighted average lending rate** dropped to 8.60 percent in May 2020 from 8.97 percent last year. As a result, the **weighted average interest rate margin** narrowed to 5.85 percent from 6.46 percent margin a year ago.

5. The ***commercial banks' total lending to the private sector and public institutions combined*** increased by 4.2 percent to $1,180.66 million in May 2020, compared to the same month last year. As a result, ***the total bank credit grew by 4.9 percent*** slightly lower than its growth of 5.0 percent in May of 2019.

6. ***Overall, total money supply (M2)*** contracted by $34.48 million (or 2.8 percent) in May 2020 to $1,217.85 million from end May 2019. As a result, the ***annual average growth rate of M2 was at 2.7 percent at end May 2020,*** way below 13.8 percent growth in the same month last year.

II. MACRO-ECONOMIC OUTCOMES AND RESULTS – FIRST ELEVEN MONTHS OF FY2019/20 TO MAY 2020

7. ***Visitor arrivals*** in the eleven months to May 2020 declined by ***23.4 percent to 124,399 visitors*** over the same time last year. As a result, ***total visitor earnings dropped by 23.9 percent to $375.26 million***.

8. On the other hand, ***private remittances increased by 3.0 percent to $511.74 million*** in eleven months to May 2020, compared to the same period last year.

9. ***Total export earnings*** jumped by ***0.1 percent to $117.17 million*** in the first eleven months of 2019/20 over the same period last year. The current overall expansion was due to increases in re-exports (up 1.9 percent) while domestically produced exports declined by 0.8 percent.

10. On imports***, total import payments decline by 4.4 percent to $799.01 million in eleven months to May 2020***. This was mainly due to lower levels recorded for government imports (down by 34.4 percent), petroleum imports (down 1.2 percent) and private sector non-petroleum imports (also down 1.0 percent). As a result, the ***merchandise***

trade deficit narrowed by 5.3 percent to $681.14 million in eleven months of 2019/20 *compared to the same period last year*.

11. The ***balance of payments posted a surplus of $99.61 million (to $572.79 million) in May 2020*** over the same period last year. This is in-light of government inflows of external funds for budget support and COVID19. The current level of ***gross official reserves was sufficient to cover 7.8 months of imports***; which was significantly higher than ***6.3 months*** in May of 2019.

12. The average volume of agricultural produce supplied to local produce markets around the Apia area recorded a drop of ***14.4 percent*** in the eleven months to May 2020. This reduction in supplies was mainly due to lower supplies of ta'amū and coconut as well as vegetable items such as head cabbage, tomatoes, cucumber, and pumpkin. As a result ***the overall price level increased by 9.7 percent*** in the reviewed period.

13. The ***annual average headline inflation rate stood at 1.7 percent at end May 2020*** from 2.2 percent in June 2019, which was much lower than 3.1 percent in the same month last year. Underpinning this decrease was a further reduction in both its imported components (to 1.0 percent from 1.7 last year) and local component inflation to 2.4 percent from 3.7 percent last year.

14. The ***underlying inflation rate, (excluding the adjusted and cyclic price movements from the headline CPI) increased to 1.8 percent at end May 2020*** compared to 0.1 percent in June 2019 and 0.8 percent in May 2019.

15. Latest update on ***Real GDP[1] is March 2020 quarter, saw a drop by 2.6 percent to $486.67 million*** from the previous quarter and also 4.2 percent lower compared to the same quarter last year.

16. For the whole year up to March 2020, real GDP grew by 0.7 percent, compared to 1.6 percent annual growth at end March 2019.

17. The ***annual nominal GDP per capita up to March 2020 increased to $11,056; which was 0.9 percent higher*** than $10,962 for the twelve months up to March 2019.

18. Total outstanding external debt at end March 2020 stood at $1,075.7 million, or roughly 48.3 percent of nominal GDP. This was 2.1 percent higher than its level ($1,053.6 million) at end March 2019.

19. Total debt servicing in the twelve months to March 2020 amounted to $80.91 million which was 7.4 percent higher than its level in the same period last year. The current level was equivalent to 14.76 percent of recurrent government revenue, 14.68 percent of gross foreign reserves or 9.41 percent of total exports of goods and services.

[1] Effective April 2019, the Sāmoa Bureau of Statistics (SBS) have published the rebased national accounts data with new base year 2013 (2013=100).