Leasi Papali'i Tommy Scanlan: Samoa's economy, interest rates and the expanded mandate of its central bank

Address by Mr Leasi Papali'i Tommy Scanlan, Governor of the Central Bank of Samoa, on the induction of new graduates to the Samoa Institute of Accountants, Apia, 25 March 2010.

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Distinguished Guests
Ladies and Gentlemen

1. Introduction

At the outset, I want to thank the President and her Committee for inviting me to address you on this special occasion. It is indeed both a privilege and an honour for me to be here this evening.

In 1970, when the Minister of Finance (Hon. Niko Lee Hang) and I attended form 4 at Saint Joseph's College, we were told that a number of students in our class will need to take "physics" as an option, while the rest will take "accounting" or "bookkeeping", as it was called in those days. Physics was a relatively new subject at that time, and they needed some guinea pigs to continue their experiment with. And, that was where we came in. We were never given the chance to decide which subject to take. So, from 1970 to 1972, nine of us studied physics while the rest of our colleagues studied accounting.

I can never forget what one of the best accounting teachers in the country in those days used to say to us. He said, ***"you can study physics all your life, but none of you will ever go to the moon". And,*** this teacher continued, ***"in the unlikely event that you physicists become rich, you will not only need accountants to look after your money but the accountants could also end up spending your money for you!"***

The teacher's name was ***Brother Conrad***, and I have no doubt that many of the senior accountants here tonight will remember this very ***learned Marist Brother***.

Anyway, in 1973, seven of us from the ***"SJC Class of 1972"*** won scholarships to study in New Zealand to become a doctor, engineers, a teacher, a lawyer, an air traffic controller and a master mariner. No scholarships were offered for accountants or physicists!

The end result was, the Minister (Niko Lee Hang) and most of our other class mates eventually became Accountants, whilst one became an Economist and another an Engineer. I suppose because of Br. Conrad's warning, there was no physicist from our group.

And, fortunately for me, I don't have any money to start worrying about an accountant spending it on my behalf!

We have just witnessed the awarding of Certificates to those who have passed their ***"final qualifying exams" (or FQEs)***. And, later on this evening, we will also witness the ***Induction of New Members*** into the ***Samoa Institute of Accountants***.

On behalf of everyone here tonight, I wish to congratulate all of you on the achievement of these important milestones in your education and career lives. You have continued to make your families both proud and happy. But, I caution you, this is only the first step in your careers as Accountants. Remember, ***"it is not what you learned, but how you use what you learned, that counts"***.

I came across a definition of an ***Accountant*** the other day. It said, ***"an accountant is someone who solves a problem that you did not know you had, in a way that you don't understand"!***

I hope that tonight's Graduates do not end up being one of these Accountants, who creates a problem first and then pretends to solve it. And, worse still, they end up charging the client for something that was not there in the first place! It's almost like being a lawyer!

The recent global financial crisis started from a liquidity shortfall in the United States. This liquidity shortfall resulted from many loans (especially for housing) going into default, and there were insufficient assets to cover these loans.

As a result, many large banks and financial institutions went bankrupt. And, if it were not for the quick and substantial intervention by some major Governments and Central Banks, the global economy would have collapsed.

Among others, the Accountants have been blamed for the "financial crisis", as a result of their ***"creative accounting"*** techniques, which contributed to inflating the values of the assets which were used as collateral for the many risky loans that were issued.

As well, the ability of many accountants to hide a substantial volume of very large transactions ***"off the balance sheet"***, contributed to the demise of many of these large financial institutions.

I mention this to highlight the critical roles that Accountants can play in maintaining financial stability in national economies and thereby the global economy as a whole.

The stable economic environment that Samoa has enjoyed over the past many years is also partly due to the responsible way that the members of the Samoa Institute of Accountants have carried out their duties. And, I commend and thank you all for that.

Let me now say something about our economy, interest rates and a bit about the Central Bank's expanded mandate.

2. Economic update for the first seven months of 2009/10 and outlook for the remaining five months

Mainly, as a result of the Global Financial Crisis, the Samoan economy declined by close to 5 percent in the last financial year which ended in June, 2009. So, as we tried to get our economy out of recession, through the introduction of expansionary fiscal and monetary policies, the country was struck by the devastating tsunami in September.

In the event, Government and private sector resources were diverted for the rehabilitation and reconstruction of tsunami affected infrastructure and other sectors, and thus putting on hold (albeit temporarily) a number of developments identified in the 2009/2010 budget.

According to an assessment by the IMF Mission that visited Samoa earlier this month, about a quarter of the tourism sector's capacity was destroyed by the tsunami. Beyond tourism, the IMF Mission noted that the widespread damage to physical infrastructure implies that other sectors such as commerce, transport, and communication have also been directly affected.

In the seven months to end January 2010, tourist arrivals increased. On the surface, any increase is good news. However, a significant number of the visitors were volunteers and overseas personnel who came to assist with the tsunami emergency and recovery efforts. Many of these people stayed in makeshift camps in the tsunami affected areas, resulting in a reduction in paid hotel accommodation. This, combined with a general decline in the other categories of tourist expenditures, saw total tourism earnings in the period under review fall 5 percent to $180 million.

Private remittances, which is one of the major sources of income for our people, was also affected by the ***recession*** and ***tsunami***. In the early months of the current financial year, private remittances were well on their way down, due to the global recession. However, the huge inflows following the tsunami outweighed the earlier reductions resulting in an overall increase to $215 million, in the first 7 months to end January.

Exports rose slightly in the period under review, reflecting increases in exports of fish, coconut oil, copra meal, nonu fruit and bottled water. Weak demand and reduced global oil prices saw imports drop 20 percent.

Our balance of payments recorded an overall surplus of $102 million at end January, compliments of increased revenues from telecommunication services, and the large inflows of tsunami related external assistance and loans. The substantial inflow of foreign exchange pushed our international reserves up to a very a high level of $362 million. This level of reserves is sufficient to cover 8.0 months of imports, which is much higher than the 4 months cover in January 2009.

An improvement was recorded in agriculture production with the overall volume of produce supplied to the Fugalei Market rising in the first seven months of 2009/10. This has helped to drive down the prices of produce sold at the Market. Apart from the reduction in their prices, there has also been a noticeable increase in the volume of produce sold on the streets and roadside stalls.

This meant good news on the inflationary front, with the annual inflation rate decelerating to 4.8 percent in January 2010 from a peak of 14.5 percent in June 2009.

3. Revised macroeconomic outlook and monetary policy for the rest of 2009/10

On the basis of the economic developments so far, our (pre-tsunami) forecasts for the remaining months of 2009/10 have been revised downwards.

Expectation for a sharp recovery in the economy, which was based on a record Government Budget deficit and continued strong growth in tourism in the financial year 2009/10, has been dashed by the September tsunami.

The Central Bank’s latest forecasts now point to the economy recovering much slower than original expectations, with our real GDP growth rate struggling to make it past 1 percent. This is way down from the 3.0 percent growth anticipated in the Bank’s earlier forecasts.

The recent IMF Article IV Mission has suggested that the economy may even decline further, by up to (negative) 3 percent in 2009/10, due mainly to the severe impact of the tsunami on the tourism sector.

Our balance of payments, however, is expected to be in substantial surplus resulting in the level of our foreign exchange reserves being sufficient to still cover in excess of 7 months of imports.

At the same time, our inflation rate is expected to decline further and is likely to remain close to zero for the remainder of the current financial year, on the back of lower global food and commodity prices as well as the recovery of domestic food supplies.

Reflecting the relatively weak state of the economy, the Central Bank’s Board decided at its Meeting last month, for monetary policy to remain eased to help stimulate the economy. The current deflationary trend and the substantial level of international reserves have made it feasible for the Bank to pursue this monetary policy stance.

In the remaining months of 2009/10, therefore, the Central Bank will aim at maintaining a substantial amount of free liquidity in the financial system, to drive down market interest rates further.

And, in line with this objective, foreign investments abroad by residents have been discouraged, to ensure that there are sufficient funds available for domestic investments.

This stance of monetary policy will be reviewed when Government’s Budget for 2010/11 is finalized in June this year.

Now let me say something briefly about interest rates.

4. Interest rates and bank fees

Ladies and Gentlemen, in the past twelve months or so, there has been much criticism by the private sector and the public at large of our relatively high interest rate environment. This debate has been ongoing since the outbreak of the global recession two years ago.

Reflecting the continued easing of monetary policy, the Central Bank's official interest rates have declined steeply to record low levels. Consequently, the commercial banks' deposit rates have also fallen sharply.

In the event, the commercial banks' weighted average lending rate has declined to 10.7 percent in January this year, from 12.5 percent in March 2008.

The commercial banks have undertaken to effect further reductions in their lending rates in the near future. These further reductions reflect the maturity of several long term wholesale deposits which have been reinvested at lower rates.

In the medium to long term, the Central Bank is aiming at reducing the interest rates in Samoa, to be closer to those of our major trading partners (such as Fiji). That way, our local industries will be able to compete on a more equal footing against their rivals, not only in relation to import prices but export prices as well.

The momentum for more meaningful reductions in interest rates is well underway. This, in part, reflects the implementation of a credit friendly monetary policy stance over the past two financial years. Moral suasion, the relatively weak state of the domestic economy and the large volume of excess liquidity are factors which have assisted in the Central Bank's efforts to drive interest rates down.

In addition, amendments to the Central Bank Act are currently being proposed to, amongst other things, allow the Central Bank to extend loans to non-bank financial institutions for specific purposes, as well as regulating bank fees and charges.

5. Expanding the Central Bank's mandate

Reflecting the leading roles increasingly played by many overseas central banks in driving f***inancial inclusion*** in their economies, the Board of the Central Bank of Samoa recently approved for the Bank's mandate to be expanded to include financial inclusion. Financial inclusion refers to the extension of financial services to reach those that are classified as the ***"unbanked"***. These people are either so poor, or live in very remote areas, that they cannot get access to basic financial services.

The adoption of financial inclusion as part of our mandate will ensure that the Central Bank takes on a more ***holistic*** approach to promoting and maintaining financial and economic stability for Samoa. Moreover, it would lend support to Government's efforts for the achievement of the ***Millennium Development Goals***.

In this connection, plans are well underway to implement two key strategies within our financial inclusion mandate. They are ***mobile banking*** and ***financial literacy***.

The Bank believes that the introduction of ***mobile banking*** in the domestic economy will be hugely beneficial. It will allow better financial access to our low-income community in the rural and remote areas as well as to improve and speed up our payments system. Furthermore, it has great potential to address some issues specific to the economy of Samoa like the current relatively high costs of remittances.

6. Conclusion

In conclusion, I just want to say that when I first received the invitation from your President to be the guest speaker tonight, I asked myself the question, why me?

Is it because of my position as the Governor of the Central Bank for all these years? I think maybe not, judging from the bored looks on many faces after listening to that last part of my address on the economy. Central bankers are generally regarded as very boring anyway.

Is the reason for my invitation due to my age, I asked? Most probably not, as there are others who are older and wiser than me.

The answer was clear to me yesterday when I came across a definition of an ***"economist"***, which is the term used for people in my profession! It said ***"an Economist is someone who did not have enough personality to become an Accountant"***.

I said to myself, maybe your President thought that by being here tonight among these many distinguished accountants, I could end up having some kind of personality after all.

I wish you, the new Members of the Institute, all the very best as you embark on your careers as fully fletched Accountants. Your future is how you make of it. Work hard, be honest and avoid being ***"overly creative"*** in the way you keep and look after your clients accounts.

***Thank you for attention*.**