International Monetary Fund

Samoa and the IMF

Press Release:
IMF Executive Board Approves US$9.3 Million Disbursement for Samoa Under the Exogenous Shocks Facility
December 7, 2009

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Samoa: Letter of Intent

November 18, 2009

The following item is a Letter of Intent of the government of Samoa, which describes the policies that Samoa intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Samoa, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Apia, November 18, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431, USA

Dear Mr. Strauss-Kahn:

On September 29, 2009, Samoa was hit by an earthquake and tsunami that resulted in the worst human suffering and damage to physical infrastructure in the history of our nation. Nearly 150 people were killed, and about 5,300 made homeless, which is 2½ percent of our entire population. The damage to physical infrastructure is estimated at Tala 160 million (over 10 percent of GDP), but the cost of implementing a recovery framework could be substantially higher, as we need to maintain access to basic social services and livelihood opportunities, provide for resettlement, and invest in greater disaster protection.

The tsunami has set back our hopes for a swift recovery from the global recession. In particular, our tourism sector has been hit hard, with a quarter of hotel capacity destroyed in some of our most popular destinations. As a result, we expect our economy to experience a severe contraction in FY 2009/10. This follows a contraction of 5½ percent in real GDP in FY 2008/09 as the global recession not only hit our manufacturing sector, but many Samoans also lost their jobs in the fish processing industry in neighboring American Samoa. At the same time, the current account deficit is expected to widen sharply, primarily because of the shortfall in tourism revenues and the increase in reconstruction-related imports.

Our efforts at reducing poverty have also suffered a serious setback. The tsunami has primarily affected some 5,300 people on the South Eastern coast of Upolu island, where average weekly per-capita spending is nearly 20 percent below the national average, and poverty levels have increased relative to the national average since 2002.

Our government is working closely with international donors on designing and implementing a recovery framework that focuses on access to basic social services, infrastructure rehabilitation, resettlement, and investments in disaster risk reduction. Given the poverty implications of the disaster, the framework will be integrated with our *Strategy for the Development of Samoa (SDS) 2008-12*, which aims at ensuring sustainable economic and social progress. A key goal of the SDS is to improve social services in our village communities that still largely rely on subsistence production. Many of these communities are in the areas affected by the 2009 Tsunami.

The higher expenditure will result in a temporary widening of the fiscal deficit. We currently anticipate that the total fiscal cost of the recovery framework would amount to about

Tala 270 million, about 18 percent of GDP. We have already received pledges and identified about Tala 160 million of funding in grants and concessional financing so far, which is expected to cover Tsunami-related financing needs through FY 2010/11. About a quarter of the recovery framework cost will be covered in a supplementary budget for this fiscal year to focus on the most urgent tasks, including humanitarian relief, road repair, continued access to health and education, as well as water and electricity.

To limit the adverse impact on Samoa's fiscal position and debt sustainability we are carefully reviewing existing development spending plans with a view to identify synergies with the recovery framework and re-allocate to the extent possible funds to infrastructure rehabilitation. We will also seek savings of non-priority current expenditure to provide for basic social needs. We are committed to closing any remaining Tsunami-related fiscal financing gap through external grants and concessional borrowing.

We remain committed to our public debt management strategy which has served us well in halving our public debt between 2000 and 2008 to some 30 percent of GDP, and achieving a favorable debt outlook. Consistent with this strategy and the objective to stabilize the net present value of public debt below 40 percent of GDP, we intend to reduce the fiscal deficit to less than 3 percent over the medium-term.

Moreover, we are committed to maintain the tala exchange-rate basket peg, which has proved a credible anchor during the recent global financial turmoil and helped inflation to subside quickly after the food and commodity price hikes in 2008.

Against this background, the Government of Samoa requests a disbursement of SDR 5.8 million (50 percent of quota) under the rapid access component of the Fund's Exogenous Shocks Facility. The disbursement would help ease pressures on our official external reserves and help catalyze further financial assistance from international donors necessary to rehabilitate our damaged economy.

The Government of Samoa will continue to cooperate with the Fund in an effort to strengthen Samoa's balance of payments and maintain economic stability. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new or intensify trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. Furthermore, we are committed to undergo a safeguards assessment and have already authorized the external auditor of the Central Bank of Samoa to share relevant documents and hold discussions with Fund staff.

Sincerely yours,

/s/

The Hon Nickel Lee Hang
Minister of Finance, Government of Samoa