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SAMOA

June 2013

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—STAFF REPORT; STAFF SUPPLEMENT; PRESS RELEASE ON THE EXECUTIVE BOARD DISCUSSION; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SAMOA

In the context of the request for a disbursement under the Rapid Credit Facility for Samoa, the following documents have been released and are included in this package:

- **Staff Report** for Samoa on the request for disbursement under the Rapid Credit Facility, prepared by a staff team of the IMF, following discussions that ended on March 22, 2013, with the officials of Samoa on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 1 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Press Release** summarizing the views of the Executive Board as expressed during its May 15, 2013 discussion of the staff report that completed the request and/or review.
- **Statement by the Executive Director** for Samoa.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Samoa*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SAMOA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

May 1, 2013

EXECUTIVE SUMMARY

Context: On December 13, 2012, a powerful tropical cyclone, Evan, hit Samoa, resulting in the loss of at least five lives and inflicting extensive damages to infrastructure, agriculture, and properties. The disaster caused a significant disruption to economic activity, which had just recovered from the devastating effects of the 2009 tsunami. Official estimates put the total cost of the cyclone disaster at SAT 480 million, equivalent to almost 30 percent of GDP.

Request for Fund assistance: The authorities requested Fund emergency assistance equivalent to SDR5.8 million (50 percent of quota) under the Rapid Credit Facility (RCF) to support the recovery and reconstruction efforts. Staff supports the request for Fund assistance, which would help ease the pressure on the balance of payments, including through catalyzing financing from development partners.

Discussions: The focus was on the macroeconomic impact of the cyclone and a policy framework that would support the recovery and reconstruction efforts while ensuring macroeconomic and financial stability. To minimize borrowing, the government should reprioritize existing expenditure and seek grant financing as much as possible. Given the high level of public debt, as soon as the recovery takes hold, the fiscal deficit should be reduced decisively to bring public debt to more sustainable levels over time. Support for affected businesses should be provided through the budget rather than channeled through schemes financed by the central bank. Financial supervision should be strengthened to minimize a buildup of risk in the financial system. The authorities are committed to preserving macroeconomic stability, while providing necessary support for recovery and reconstruction.

Approved By
Hoe Ee Khor and Masato Miyazaki

Discussions were held with the authorities in Apia, Samoa during March 13-22, 2013. The team comprised Yongzheng Yang (mission chief and resident representative), Masahiko Kataoka and Shiu Raj Singh (APD), Dusan Kovacevic (SEC), as well as Caroline Currie (ADB). Craig Fookes (OED) participated in discussions. The team met with Prime Minister Tuilaepa Aiono Sailele Malielegaoi, Finance Minister Faumuina Tiatia Faaolatane Liuga, Ministry of Finance CEO Tupa'imatuna Iulai Lavea, and Central Bank Governor Atalina Ainuu Enari, as well as other senior officials, representatives of the private sector, development partners, and civil society organizations.

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APPENDIX

BACKGROUND AND CONTEXT

1. **Samoa was hit hard by a strong tropical cyclone on December 13, 2012**. The cyclone took several lives and caused extensive damages to the country's infrastructure and productive capacity (Box 1). The macroeconomic impact of the cyclone is especially significant coming just three years after the devastation caused by the 2009 tsunami. As a small and open island economy, dependent on tourism and agriculture, Samoa is highly vulnerable to such shocks. Like other Pacific island countries, Samoa's remoteness, small size, and high fixed costs of providing public services pose major challenges in raising growth and living standards. Among the small states in the Asia and Pacific region, Samoa is the most remote.[1]

2. **The total cost to the economy from the cyclone is estimated to exceed that inflicted by the 2009 tsunami.** While the loss in lives and damages to the tourism industry were larger in 2009, the cyclone inflicted damages and losses across the whole spectrum of economic activity on the main island of Upolu, home to 70 percent of the population. With assistance from the World Bank, the authorities undertook a detailed damage and loss assessment in January 2013, which puts the total value of the damages to properties at SAT 251 million (about US$110 million). Together with estimated production losses of SAT 229 million (about US$100 million), the total estimated cost of the cyclone disaster amounts to SAT 480 million (about US$210 million)—equivalent to almost 30 percent of GDP. Even though these estimates are subject to considerable uncertainty, the severity of the impact on the economy is undoubted.

3. **The Samoan authorities took swift actions to address the immediate needs of the people and have embarked on recovery work**. With the help of development partners, immediate humanitarian relief was provided to the population, especially several thousands of displaced residents whose homes were destroyed or severely damaged. Essential services—water, electricity, schools, clinics, transportation, and telecommunication—were restored for the vast majority of the people within weeks after the disaster. The authorities have also formulated a plan to guide recovery and reconstruction work, which is already under way. After some initial shortages, most food products are now readily available in the markets, although the supply of some key food items, such as breadfruits and bananas, will take some time to recover. At the same time, most hotels are slowly being reopened, although some will require more time, including a landmark hotel in Apia that was a considerable source of employment and revenue for the local economy.

[1] See "Asia and Pacific Small States—Raising Potential Growth and Enhancing Resilience to Shocks" (www.imf.org).

Box 1. The Impact of Tropical Cyclone Evan

Tropical Cyclone Evan is considered the worst tropical cyclone to hit Samoa since Cyclone Val in 1991. TC Evan brought heavy rainfall, flash floods and maximum sustained winds of up to 90 knots (167 kilometers per hour). The cyclone took at least 5 lives (several people are still missing) and about 4,800 people were temporarily displaced. TC Evan demolished power plants, cut power and water, disrupted communication services, destroyed buildings and roads, and damaged crops. In particular, water facilities and distribution systems were severely damaged, disrupting supplies throughout the main island of Upolu. Some 2,088 houses were destroyed or damaged, a major tourist hotel has been closed indefinitely, and three major bridges may need to be replaced. The table below shows the costs of damages to properties and of losses to production, based on the official assessment.

Text Table 1. Damage and Losses Caused by the Cyclone

(In millions of Samoan talas)

Sector	Damage	Losses	Total
Productive	**72.3**	**106.2**	**178.5**
Agriculture	4.9	58.1	63.0
Livestock	3.5	0.8	4.3
Fishery	2.1	5.5	7.6
Manufacturing	17.3	4.6	21.8
Commerce	1.6	15.6	17.2
Tourism	43.0	21.7	64.7
Social	**49.2**	**7.4**	**56.6**
Education	7.2	0.5	7.7
Health	3.6	2.0	5.6
Housing	38.4	5.0	43.4
Infrastructure	**113.3**	**58.7**	**172.0**
Electricity	39.1	31.9	71.0
Water and	8.8	3.8	12.7
Transport	65.4	23.0	88.3
Cross -Sectoral	**16.3**	**56.4**	**72.6**
Environment	16.3	56.4	72.6
Total	**251.0**	**228.8**	**479.8**

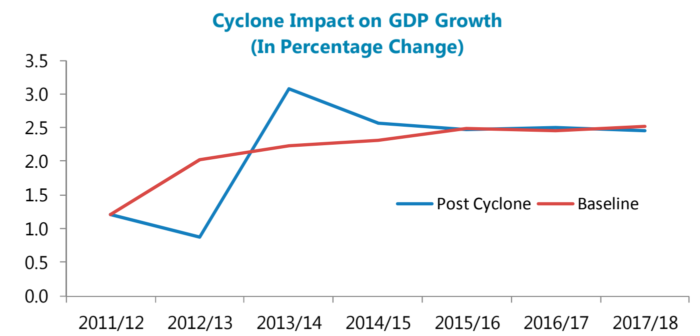
Source: Samoa Cyclone assessment team.

Source: IMF Staff compilation.

4. **The authorities are requesting financial assistance from the Fund under the Rapid Credit Facility (RCF) to ease the pressure on official foreign reserves.** The amount of financing requested is equivalent to SDR5.8 million (50 percent of quota). Though small relative to the overall impact of the cyclone on the budget and balance of payments, Fund assistance will help catalyze support from development partners as they look to the Fund to provide the macroeconomic framework used to identify the overall financing needs. Staff supports the authorities' request.

RECENT DEVELOPMENTS AND OUTLOOK

5. Economic growth is expected to slow down in 2012/13 as a consequence of the cyclone disaster. Real GDP is still expected to increase by about 1 percent in this fiscal year (July/June), approximately one percentage point lower than the pre-cyclone forecast. As agriculture and tourism recover, supported by higher capital expenditure, GDP is projected to increase by about 3 percent in 2013/14, recouping most of the lost output in the previous year. Over the medium term, growth is projected to stabilize to around 2½ percent per annum. However, this outlook is subject to considerable risks. On the downside, the main sectors of the economy were showing signs of slowing growth even before the cyclone disaster, due to structural bottlenecks and lingering impact of the global financial crisis and the tsunami. In particular, the Yazaki auto parts plant, the largest formal private sector employer in the country, faces an uncertain future because of continuous downsizing of Australia's auto industry. More broadly, the external environment remains quite uncertain, and any slower-than-expected global recovery could generate additional headwinds for growth in Samoa (see the Risk Assessment Matrix). On the upside, recent interest from foreign investors, supported by policy measures to improve the business environment, may provide a boost to investment and growth, particularly in tourism and renewable energy. In addition, "build back better" of damaged infrastructure could provide a stronger support for future growth.



Sources: Samoan authorities and IMF staff projections.

6. The inflation outlook remains stable despite the adverse impact of the cyclone on production. After initial surges in the immediate aftermath of the cyclone, food prices have declined and stabilized and the pressure should continue to ease over time as agricultural production recovers. The headline CPI is expected to average around 2 percent (year-on-year) in 2012/13, partly reflecting the drought-induced high bases in late 2011 and early 2012. With projected declines in world commodity prices, inflation is expected to be around 1.5 percent in 2013/14, barring any major shocks.

7. The fiscal deficit will remain high over the next 2-3 years as a result of increased spending for recovery and reconstruction. Prior to the cyclone, Samoa had begun to consolidate its fiscal position after several years of high deficits to finance post-tsunami reconstruction. The cyclone will delay this consolidation until post-cyclone reconstruction is completed. The government introduced a supplementary budget in January 2013, raising expenditure by 0.8 percent of GDP to meet the immediate needs of post-cyclone recovery. The government intends to undertake additional rehabilitation work using donor funds, costing 2.4 percent of GDP in 2012/13. At the same time, revenue is expected to fall by SAT 10 million, close to ¾ percent of GDP. As a result, the fiscal deficit is projected to rise to close to 7 percent of GDP in 2012/13 from the pre-cyclone budget of 4.8 percent of GDP. Staff estimates that the deficit is likely to be in the range of 7-8 percent of GDP during 2013/14-2014/15.

SAMOA: RISK ASSESSMENT MATRIX

Nature/Source of Main Threats	Overall Level of Concern	
	Likelihood of Severe Realization of Threat in the Next 1–3 Years *(high, medium or low)*	**Expected Impact on Samoa if Threat is Realized** *(high, medium or low)*
Another global recession leading to a weaker external environment.	***Staff assessment: Low*** • The latest WEO projects a low probability of a major fiscal shock in the U.S. and deeper than expected slowdown in emerging markets, that could also impact Australia and New Zealand. • Samoa would be exposed to a drop in tourist arrivals, remittances and demand for its other exports. FDI may also be affected.	***Staff assessment: High*** • A severe shock like this could further reduce GDP growth in Samoa by 1-2 percentage points and unemployment would rise. • Inflation is likely to fall as a global recession leads to lower commodity prices.
World commodity (especially food and fuel) price increases	***Staff assessment: Low*** • Geopolitical tensions in some oil-producing regions are still present, although these potential supply shocks are somewhat mitigated by shale gas production. Adverse weather conditions and low inventories could drive food prices up. • Samoa heavily relies on imports of food and fuel.	***Staff assessment: High*** • A 20 percent increase in food and fuel prices could increase the CPI by about 7 percentage points. • Current account deficit could widen by about 3 percent of GDP. • Given Samoa's good community-based social protection networks, the impact on poverty would be limited.
Delays in exchange rate adjustment	***Staff assessment: Medium*** • Prolonged delays in exchange rate adjustment due to the fear of inflation and increase in debt stock.	***Staff assessment: Medium*** • Competitiveness would remain weak over the medium term. • Trade balance would continue to deteriorate pushing down reserves to inadequate levels.

8. The Central Bank of Samoa (CBS) has maintained an accommodative monetary policy. The CBS policy rate, as indicated by its 91-day bill rate, has remained largely unchanged, at 0.2 percent, since the 2009 tsunami. Meanwhile, the CBS acted quickly after the cyclone to provide support to the hard-hit sectors by extending another credit line of SAT 26 million to the

Development Bank of Samoa (DBS) and the Samoa Housing Corporation (SHC) with a government guarantee. Credit growth to both the private sector and SOEs remained low at about 1 percent in December 2012 (year-on-year), amid tightening liquidity conditions in the banking system during the second half of 2012. However, liquidity has since started to ease due to aid and remittances inflows. Interest rates have inched upward and are expected to continue to rise gradually before the liquidity situation eases further with increased aid inflows.

9. The current account deficit is expected to rise again in 2012/13, and is likely to remain high over the next couple of years on account of post-cyclone reconstruction. As a result of shortfalls in tourism receipts and other export earnings, as well as increases in reconstruction-related imports, the current account deficit is expected to widen further over the next 2-3 years, on top of the elevated level as a result of post-tsunami reconstruction. Foreign reserves had declined considerably before the cyclone disaster following several large one-off outflows, including payments for electric generators for power plants and an overseas investment by the Samoa National Provident Fund (SNPF). However, reserves have recovered somewhat since early 2013 and are expected to reach about 4 months of imports at end June as development partners scale up their assistance and exports (including tourism) begin to rebound. The nominal effective exchange rate remained stable in 2012, but the real effective exchange rate depreciated somewhat as a result of Samoa's relatively low inflation, following a period of substantial real appreciation.

REQUEST FOR FUND ASSISTANCE

The December cyclone disaster will result in rising current account deficits and put pressure on the balance of payments over the next 2-3 years. The authorities have requested urgent Fund assistance under the Rapid Credit Facility (RCF) to alleviate this pressure. Fund support would help garner donor support and maintain a relatively comfortable reserves position during reconstruction. Due to the urgency of the current balance of payments need, Samoa does not currently have the capacity to implement an upper credit tranche-quality program. The RCF support would give Samoa a breathing space to consider a multi-year reform program that could be potentially supported by the Fund to tackle the country's medium-term challenges.

10. As part of their overall strategy to sustain poverty reduction and growth during this difficult time, the authorities are requesting Fund financial assistance under the RCF. The amount of assistance requested is equivalent to SDR 5.8 million (50 percent of quota) that would be made available through a one-off disbursement. Following the 2009 tsunami, the Fund provided financial support equivalent to SDR 5.8 million under the RCF's predecessor—the Exogenous Shocks Facility (ESF)—to help the reconstruction effort. Samoa intends to draw on an additional 50 percent of quota under the RCF.

11. The cyclone disaster has clearly resulted in an urgent need for balance of payments support. Over the period 2012/13-2014/15, Samoa's current account deficit is projected to widen by 2-6 percent of GDP each year as a result of expected declines in exports (including tourism) and sharp increases in reconstruction-related imports of goods and services (Text Table 2). Even with expected significant increases in development partner support, an overall balance of payment deficit is expected over the next 2-3 years. Without external support, Samoa's foreign reserves could fall to inadequate levels, possibly below three months of import cover.

12. Fund assistance would help alleviate this pressure on Samoa's balance of payments. Even though the requested amount is small relative to the overall financing needs arising from the impact of the cyclone on the balance of payments and government finance, Fund assistance would send a strong signal of its support in meeting the reconstruction challenges and preserving a stable and sustainable macroeconomic position, consistent with strong and durable poverty reduction and growth. Importantly, Fund assistance would also help catalyze support from development partners, including through Fund assessment of macroeconomic performance that would help inform development partners' engagement with the authorities.

13. Staff projects that with concerted support from the Fund and development partners, Samoa's official reserves could be maintained at reasonably comfortable levels. Specifically, official reserves could be maintained at about 4 months of prospective imports in the period 2012/13-2014/15 (See Text Table 2). Given Samoa's exposure to frequent natural disasters and vulnerability to external shocks, such levels of reserves are essential to maintaining macroeconomic stability. Thus, donor and Fund support would allow Samoa to address its balance of payments need arising from the cyclone disaster and position the country to undertake exchange rate adjustment and structural reforms to tackle the medium-term issues of competitiveness and external and fiscal sustainability.

14. Samoa has adequate capacity to repay the Fund despite an outstanding purchase in 2010 under the ESF and a rising debt stock. As most of Samoa's public debt is concessional, its debt service is low relative to projected foreign reserves and government revenue. With the new purchase under the RCF, Samoa's repayments to the Fund are projected to peak in 2018/19, but would still be at a low level of 0.4 percent of GDP, or less than 2 percent of goods and services exports (See Table 6 on Capacity to Repay the Fund). Moreover, much of Samoa's debt is long term and over 60 percent of it is owed to the World Bank and ADB, and 30 percent to China. Based on an announcement made by China in August 2012 during the 43rd Pacific Islands Forum Leaders Meeting in Cook Islands, there is a chance that Samoa will receive a debt cancellation from China. To be prudent, this potential debt cancellation has not been considered in the DSA or the assessment of Samoa's capacity to repay the Fund.

15. The authorities are committed to implementing sound policies to ensure macroeconomic stability and to reduce poverty. As outlined in the Letter of Intent (see Appendix), the authorities' policies are broadly in line with staff's recommendations outlined in this report (see below). In particular, staff believes that the RCF will help achieve stable macroeconomic conditions and facilitate the authorities' effort to reprioritize development expenditure which would allow them to better target the poor and most vulnerable segments of the population, and give development partners a sharper focus in their development assistance. The authorities welcome an update of the 2010 safeguards assessment, which was undertaken in connection with the Fund disbursement under the ESF.

Text Table 2. Preliminary Estimates of Balance of Payments Impact
(Changes in US$ million, unless otherwise indicated)

	2012/13	2013/14	2014/15
Current account	-15.5	-42.9	-43.3
(In percent of Post cyclone GDP)	(-2.2)	(-5.8)	(-5.6)
Of which:			
Goods	-11.2	-34.7	-35.0
- Exports	-1.9	-0.3	-0.7
- Imports	-9.3	-34.3	-34.2
Services (net)	-3.3	-7.4	-7.3
Private transfers	0.0	0.0	0.0
Capital and financial account	12.2	42.0	35.4
(In percent of Post cyclone GDP)	(1.7)	(5.7)	(4.6)
Of which:			
Private investment	0.0	0.0	0.0
Official financing (grants & loans)	12.2	42.0	35.3
Overall balance	-3.3	-0.9	-7.9
(In percent of Post cyclone GDP)	(-0.5)	(-0.1)	(-1.0)
Changes in reserves	-5.5	0.9	7.9
RCF request	8.8		
Memo items:			
Current account deficit (percent of GDP)			
Pre-cyclone	-10.8	-10.3	-10.0
Post-cyclone	-13.1	-16.2	-15.6
Gross reserves (in months of GNFS imports)			
Pre-cyclone	4.4	4.3	4.1
Post-cyclone with RCF	4.2	4.0	3.8

Source: IMF staff estimates based on needs assessments.

POLICY FRAMEWORK FOR RECOVERY

Given the large financing needs and the high level of public debt, post-cyclone recovery and reconstruction will require reprioritization of government expenditure as well as greater donor support, preferably in grants. The government should begin to consolidate its fiscal position as soon as the recovery takes hold, based on a credible medium-term fiscal framework. Financial regulation and supervision need to be strengthened to prevent a build-up of systemic risk.

16. A key post-cyclone challenge is to secure sufficient financial resources for recovery and reconstruction while minimizing the debt burden. According to the government's recovery plan, the total fiscal cost for recovery and reconstruction amounts to SAT 393 million, or 24½ percent of GDP, over the period 2012/13-2014/15. Given Samoa's relatively high and rising external public debt, which had reached 55½ percent of GDP at end 2011/2012, additional borrowing to finance such a large expenditure outlay would push public debt to unprecedented levels and seriously constrain the policy space available for responding to future shocks. To reconcile these two conflicting objectives—meeting the immediate reconstruction needs and reducing the public debt—staff recommends the following set of measures:

a. *Reprioritize expenditure*. Samoa has a large development program in the pipeline that is primarily financed by development partners. A significant portion of the program could be redeployed to exploit synergies with reconstruction projects. The authorities agreed that about one-fifth of the pre-cyclone projects could be redeployed, which would create a fiscal space equivalent to 7½ percent of GDP over the period 2012/13-2014/15. A public expenditure review, with ongoing assistance from the World Bank, would help the government realign its expenditure more closely with the country's recovery and development needs (see initial findings on expenditure trends in Box 2).

b. *Seek grant financing as much as possible*. Even with significant reprioritization of existing expenditure, a large scaling up of external financing will be needed. Staff and the authorities fully share the view on the need to seek external grants as much as possible before resorting to concessional loans or domestic borrowing. Based on the current information on expected response by development partners, external financing (of which two-thirds are grants

Text Table 3. Fiscal Financing of Recovery and Reconstruction

(Cummulative 2012/13-2014/15; in percent of post-cyclone GDP)

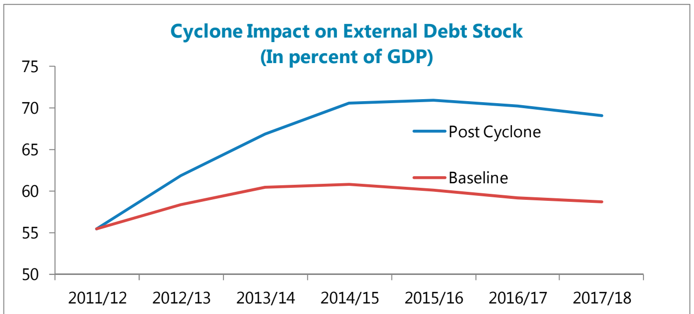
	Contribution
Total financing requirements (a)	25.2
Post-cyclone recovery	24.5
Revenue losses	0.7
Sources of financing (b)	18.8
Expenditure reprioritization	7.5
Additional Donor support	10.0
Insurance payments	1.3
Financing gap (a-b)	6.4

Source: Staff estimates based on the Recovery Plan.

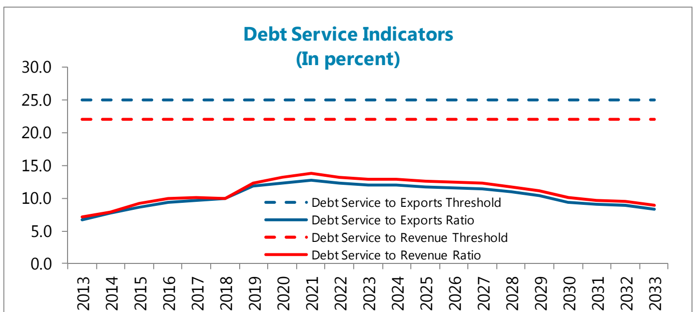
and one-third is concessional loans) could contribute around SAT 160 million (10 percent of GDP) to meeting the financing needs. This includes contributions from the Asian Development Bank (SAT 63 million), World Bank (SAT 46 million), Australia (SAT 16 million). Taking into account an expected revenue loss of ¾ percent of GDP and insurance payments of $1^{1}/_{3}$ percent of GDP, this leaves a financing gap of about 6½ percent of GDP over the period 2012/13-2014/15 (see Text Table 3). The authorities are seeking additional donor support to close the financing gap, but they have indicated that, if needed, they will further reprioritize development expenditure and reduce recurrent expenditure to close the financing gap.

c. *Improve debt management*. In light of the rising debt burden and expected increases in debt repayments over the coming years, it is critical to minimize borrowing costs and reduce debt service risks, as well as support fiscal consolidation by providing timely information on the country's debt profile. Procedures for debt initiation, approval, and monitoring should be strengthened to avoid *ad hoc* borrowings. Staff welcomes the recent review of debt management assisted by the World Bank.

17. As soon as economic recovery takes hold, the government should begin to consolidate its fiscal position. Even with the proposed financing arrangements that minimize additional borrowing, Samoa's external public debt is expected to rise rapidly, reaching about 70 percent of GDP by 2014/15. A joint Fund-Bank debt sustainability analysis (DSA) suggests that Samoa has shifted from moderate to high risk of debt distress based on the present value of its debt relative to GDP (see Supplement I to the Staff Report). However, Samoa's debt service burden remains comfortable, largely reflecting the high concessionality of its existing debt stock. Staff projects that to bring the debt to a level of moderate risk of debt distress by 2021/22 (seven years after the expected completion of reconstruction), the fiscal deficit needs to be reduced steadily to 2 percent of GDP in 2017/18 and further to 1 percent of GDP in the longer run. This steady fiscal consolidation would avoid undue pressure on economic growth given the large role of the public sector in the economy.



Sources: Samoan authorities and IMF staff projections.



Sources: Samoan authorities and IMF staff projections.

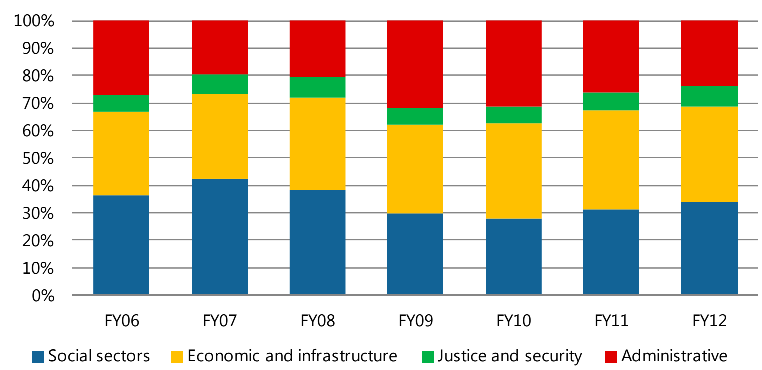
Box 2. Expenditure Trends in Samoa: 2005/06-2011/12

Over the past six years, government expenditure has increased markedly, resulting in an expanding deficit largely financed by aid inflows. Samoa's domestically-financed expenditure increased by 7 percent of GDP between 2005/06 and 2011/12 (up by 10 percent of GDP when aid-financed expenditure is included). At the same time, however, domestic revenue receipts were relatively flat, increasing by just 1 percent of GDP. The expanding gap has therefore been largely financed by loans and grants from development partners.

Expenditure growth was driven by recurrent and capital spending in similar proportions. Recurrent expenditure growth was largely driven by the wage bill, which grew by an average of 4 percent a year above inflation over the period. Two-thirds of this growth was due to increases in employment, and one-third to wage increases. However, at 39 percent of recurrent spending, Samoa's wage bill remains low relative to comparators. General expenditure on goods and services also grew over the period, partly driven by increases in international oil prices over the period. Social benefits introduced to cushion the impact of the 2009 Tsunami in the form of grants doubled between 2008/09 and 2009/10, and have since remained relatively high. In terms of the capital budget, expenditure expanded as aid-funded projects were implemented in a wide range of sectors, including education, health, water, and energy.

The sectoral composition of total spending in Samoa has remained relatively stable over the period. On average, total expenditure remained almost uniformly split between infrastructure, social sectors, and the administration and justice sector since 2006. Expenditure allocations to all of the main sectors increased in real terms although the economic and infrastructure sectors were the fastest growing area with the take-up of relatively large investments in infrastructure and energy projects. Expenditures targeted at the infrastructure and social sectors should provide the basis for expanding access to public services with improved quality and support economic growth.

Expenditure by Function
(Percent of total expenditure)



Sources: Samoan authorities and World Bank staff.

Overall, expenditure seems to be well-managed with good budget execution and sectoral prioritization. However, this expenditure review is still in early stages, and more detailed analysis will be needed, especially at the sectoral level to gauge the effectiveness of service delivery and the efficiency of resource use.

Source: World Bank staff.

18. Central to the success of this fiscal consolidation strategy is a firm commitment to a medium-term fiscal framework. Samoa has such a framework, but it needs to be revised to reflect the need for sustained fiscal consolidation in the post-cyclone period by taking into account the higher public debt and slower growth going forward than is assumed in the current framework. This revised framework should spell out a path of declining fiscal deficits over time, supported by rigorous implementation of corresponding fiscal targets, including external borrowing targets, through the annual budgets. It will be critical to increase the credibility of the framework by securing public and political support. Staff is encouraged by the authorities' appreciation of such an approach and their commitment to bringing debt to more sustainable levels over time. The authorities are working on a revised medium-term fiscal framework and details on revenue and expenditure measures will be released along with the 2013/14 budget.

19. Monetary policy should remain accommodative in light of the subdued inflationary pressures and the need to support recovery. With weak economic activity and the declining trends of world commodity prices, there appears to be little underlying inflation pressure at present. The quick stabilization of food prices after the cyclone has also reduced the risk of second-round effects of price increases. Nevertheless, with the recent increase in liquidity, there is no immediate need to inject liquidity into the banking system. The CBS should encourage interbank lending to meet liquidity shortfalls in individual banks, and continue to provide liquidity support to banks through the discount window when needed. The CBS should continue to monitor liquidity developments and strengthen forecasting to guide its monetary operations and market participants in managing their liquidity. Closer coordination with the Ministry of Finance on forecasting government financing needs would also be important.

20. Targeted support for business recovery should be provided through fiscal operations rather than credit line facilities financed by the CBS. Staff supports the authorities' initiative to provide support to private businesses that were most severely affected by the cyclone and appreciates the difficulties in providing timely fiscal support in the immediate aftermath of the disaster. However, any further support can be more transparently undertaken through the budget without increasing risks to the balance sheet of the CBS or financial institutions that operate such facilities. The government could explicitly allocate resources in the budget for such operations with a specific objective and a sunset clause, as part of the recovery plan.

21. There is a need to strengthen financial oversight in light of the likely adverse impact of the cyclone on the asset quality of financial institutions. While the level of non-performing loans (NPLs) at commercial banks has remained relatively stable in 2012, banks' asset quality is likely to worsen in the coming months as a result of the cyclone and the slowdown in economic activity. Meanwhile, the Development Bank of Samoa (DBS) and SNPF continue to hold significant amounts of NPLs, although they are small relative to GDP (about 2 percent). The DBS is also the primary institution that bears the direct cost of subsidized CBS credit line facilities. In light of this, staff recommends the CBS to enhance its monitoring of all financial institutions. Furthermore, loan classifications, provisions, and NPL resolution practices in the DBS and SNPF should be reviewed to minimize a potential build up of risk. The authorities are aware of the challenges and expressed interest in a Financial Sector Assessment Program (FSAP) update, given the increasing complexity of the financial system and the likely adverse impact of the recent shocks on the system and the economy in general.

22. Staff welcomes the authorities' intention to bring the Unit Trust of Samoa (UTOS) and Samoa Housing Corporation (SHC) under CBS's oversight as soon as possible. The UTOS continues to attract deposits of state-owned enterprises (SOEs) away from commercial banks by offering higher interest rates. The unit trust is currently considering expanding into the real estate and private equity markets, including some overseas markets. Although the CBS receives financial statements from UTOS and SHC and maintains an open communication channel with UTOS and SHC management, the institutions are not subject to regulatory and supervisory oversight by the CBS. Given that the government guarantees UTOS and SHC loans, the lack of prudential oversight at these institutions poses risks to taxpayers. The authorities are aware of these risks and have placed a CBS staff member in the Reserve Bank of Fiji to learn how to regulate and supervise unit trusts.

BEYOND THE RECOVERY: RAISING GROWTH

Samoa needs to improve external competitiveness and restore strong growth by adjusting the exchange rate and pursuing structural reforms. Together with fiscal consolidation, this would help enhance fiscal and external sustainability and lay the foundation for higher growth in the long run.

23. Staff continues to encourage greater flexibility in the tala exchange rate to improve Samoa's competitiveness. The pegged exchange rate regime continues to serve Samoa well, but a series of shocks has weakened Samoa's external competitiveness in recent years. An update of the assessment undertaken for the last Article IV consultation suggests that the tala continues to be overvalued, in the range of 9-26 percent (Box 3). While there is merit to maintain exchange rate stability in the wake of the cyclone, greater flexibility could be introduced as soon as economic recovery takes hold. The CBS could make greater use of the rules that allow it to move the exchange rate by two percent at any time. Such moves should be supported by a tightening of monetary policy and fiscal consolidation to prevent secondary effects on inflation. The government would need to assess the impact of exchange rate realignment on public external debt and strengthen debt management to minimize risks to debt service.

Box 3. Exchange Rate Assessment

Three standard approaches have been applied to assess the tala exchange rate, and the results suggest that the tala is overvalued by a range of 9-26 percent. This assessment is based on the post-cyclone macroeconomic framework and is against the background that the tala has appreciated by 34 percent in real effective terms (CPI-based) during the last decade.

The macroeconomic balance (MB) approach shows that Samoa's current account deficit norm is about 6½ percent of GDP. The norm is estimated based on Samoa's macroeconomic fundamentals relative to its trading partners, such as population growth, income levels, output growth, oil trade balance, fiscal balances, initial net foreign assets, and aid inflows. While the current account deficit is expected to decline once post-cyclone reconstruction is over, it is likely to remain higher than the estimated norm. To close the gap, the real effective exchange rate (REER) would need to depreciate by about 26 percent.

The equilibrium real exchange rate (ERER) approach suggests a smaller overvaluation of about 9 percent. In this approach, the equilibrium REER is estimated by linking it to medium-term fundamentals, including terms-of-trade, relative productivity, and relative government consumption. The tala's REER was around its equilibrium level in 2007/2008 but has since deviated from it, mainly due to higher domestic inflation.

The purchasing power parity (PPP) approach suggests that the tala is above its long-run equilibrium level by around 18 percent. This approach is based on the assumption that nominal exchange rates are related to national price levels and they should change in line with changes in relative price levels.

Caution should be exercised in interpreting these results. They have large confidence intervals, and hence are subject to considerable margins of error. Small economies such as Samoa are volatile and their economic fundamentals can be frequently altered by exogenous shocks.

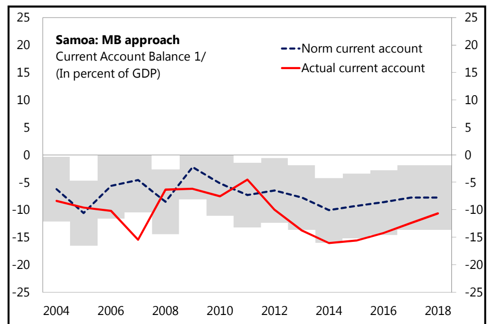
Source: IMF staff estimates.

Reference: Lee et al. *Exchange Rate Assessments: CGER Methodologies*, IMF, 2008.

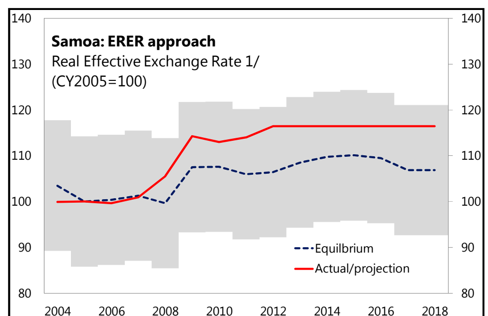
Exchange Rate Assessment: Baseline Results 1/

	CA/GDP		REER
	Norm	Proj. 2/	Overvaluation
MB approach 3/	-6.6	-10.7	25.7
ERER approach 4/	...	...	9.4
PPP approach	...	...	17.7

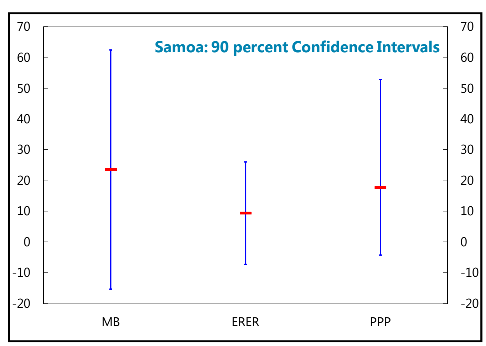
Source: Fund staff estimates.
1/ All results are expressed in percent.
2/ Staff projection of the underlying CA/GDP in 2017/18.
3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.16.
4/ Overvaluation is assessed relative to June 2012.



1/ The shaded area represents the 90 percent confidence interval.



1/ The shaded area represents the 90 percent confidence internal of the equilibrium.



24. Continued structural reforms will be critical to improving Samoa's competitiveness and growth performance. While exchange rate realignment would help strengthen competitiveness and growth, improvements in productivity through structural reforms would have similar and even broader benefits. Samoa once achieved enviable growth rates in the Pacific through bold reforms. Such reform efforts are also needed in the current environment of slow growth and should be pursued alongside the recovery and reconstruction efforts.

25. Considerable progress has been made on structural reforms in recent years, but more remains to be done, especially in the areas that are of macroeconomic importance:

- *SOE reforms*. The privatization of the Samoa Tel in early 2011 was a major success, and the establishment of the Independent Selection Committee for board directors of SOEs is expected to bring significant benefits over time. However, given the continued poor financial performance of SOEs, further efforts are needed, particularly in timely implementation of the remaining SOE privatization plans and strengthening of SOE accountability.
- *Customary land*. With the financial and technical assistance of ADB, the government has established an institutional structure and a program to make customary land more accessible for productive purposes. Staff welcomes the progress made and looks forward to continued advances in the next stage of the program (Box 4).
- *Business climate*. The adoption of the Competition Law is a significant step forward, as is the passage of the Personal Property Securities Bill (Box 4). For a long time, Samoa was a top performer in the Pacific in improving the ease of doing business indicators, but other countries have recently caught up. Going forward, Samoa could target its relatively weak areas such as access to credit, contract enforcement, and insolvency resolution. Early establishment of a credit bureau would help manage credit risk and boost credit to the private sector.
- *Public financial management*. Significant progress has been made during the first two phases of the reform in this area. Staff welcomes the authorities' plans to move into the third phase of the reform, which should aim for improvements in procurement, audit of public accounts, and timely payments to suppliers, among other areas. Rigorous implementation of recommendations from the forthcoming public expenditure and financial accountability (PEFA) assessment and public expenditure review (PER) would be also important.

26. The authorities attach great importance to continued reforms. The government has been working closely with development partners to finalize a matrix of joint policy actions to guide its reform efforts. Staff encourages the authorities to formulate a well-targeted and ambitious agenda, which would help garner more resources from development partners for recovery and reconstruction as well as to enhance the growth impact of reforms.

Box 4. Improving the Business Climate—Access to Finance and Customary Land

The Personal Property Securities Act was passed by parliament on March 27, 2013, following extensive local consultations and continuous support from the Asian Development Bank (ADB). The Act has strong support from commercial banks. It allows moveable assets such as motor vehicles to be used as collateral, making it easier for individuals and businesses to secure loans and conduct business. Under the Act, a Personal Property Security Online Registry will be established to help protect consumers.

The Act was introduced as part of the Government's emphasis on facilitating business development by modernizing business laws and increasing access to financing. People from rural communities in particular will be able to save time and money by using the online registry instead of having to physically travel to register or check collateral. The registry will also allow the users to make safer and more informed purchases as buyers can search records for the existence of liens on prospective purchases. Individuals and companies will be better protected when buying items and obtaining property titles.

In Samoa, 80 percent of land is under customary title, making it difficult to secure loans using land as collateral. Land is one of Samoa's main natural resources. It is the most important asset from a cultural and economic perspective, but is also the least utilized. Large areas of land remain underdeveloped as traditional owners are unable to put the land to productive use.

To improve the utilization of land, the government has established new institutions to move the reform forward. With technical assistance from the ADB, a Customary Land Leasing Section (CLLS) has been formed within the Ministry of Natural Resources and Environment to act as the one-stop-shop on customary land issues. CLLS will not only have regulatory responsibilities but also serve as a primary source of information, advice and support to both landowners and investors, such as on development options available and the processes required to secure leases, including information on which customary land is available for development. CLLS will also provide secretariat support to the Customary Land Advisory Commission (CLAC), which was established to help promote the economic use of customary land. The bill for the CLAC was passed in parliament on March 27, 2013.

CLAC has been given challenging tasks: (i) advising the Cabinet on the facilitation, encouragement and promotion of economic use of customary land; (ii) conducting public consultations on areas affecting customary land considered to be in need of reform; and (iii) reviewing all laws affecting customary land in Samoa and make recommendations to the Cabinet for changes to such laws.

Source: Asian Development Bank staff.

STAFF APPRAISAL

27. The authorities are to be commended for their swift response to the disaster caused by the cyclone. The quick restoration of essential public services alleviated the suffering of the Samoan people who have shown great resilience to natural disasters. Initial work on reconstruction also signaled a good start of the recovery process, as did the recent approval of a recovery plan.

28. Economic growth this fiscal year is expected to be significantly lower than projected prior to the cyclone, but there are encouraging signs of early recovery. Real GDP growth is likely to slow to about 1 percent this year and rebound to 3 percent in 2013/14 on account of increased public expenditure for reconstruction. Inflation is likely to remain low for the year as a whole despite the initial surges in food prices in the immediate aftermath of the cyclone. Significant increases in the fiscal deficit are likely over the period 2012/13-2014/15, to the tune of 7-8 percent of GDP, as reconstruction takes place. This will result in higher current account deficits.

29. The fiscal strategy for recovery should aim at securing sufficient resources while minimizing borrowing. To achieve these dual objectives, the authorities should reprioritize its expenditure in the pipeline and seek grant financing as much as possible before resorting to borrowing. As soon as the recovery takes hold, a steady fiscal consolidation should be implemented, supported by a medium-term fiscal framework that guides annual budgets along a path of deficit reduction to bring public debt to more sustainable levels. Further improvements in debt management and a public expenditure review would help reduce debt risks and facilitate fiscal consolidation.

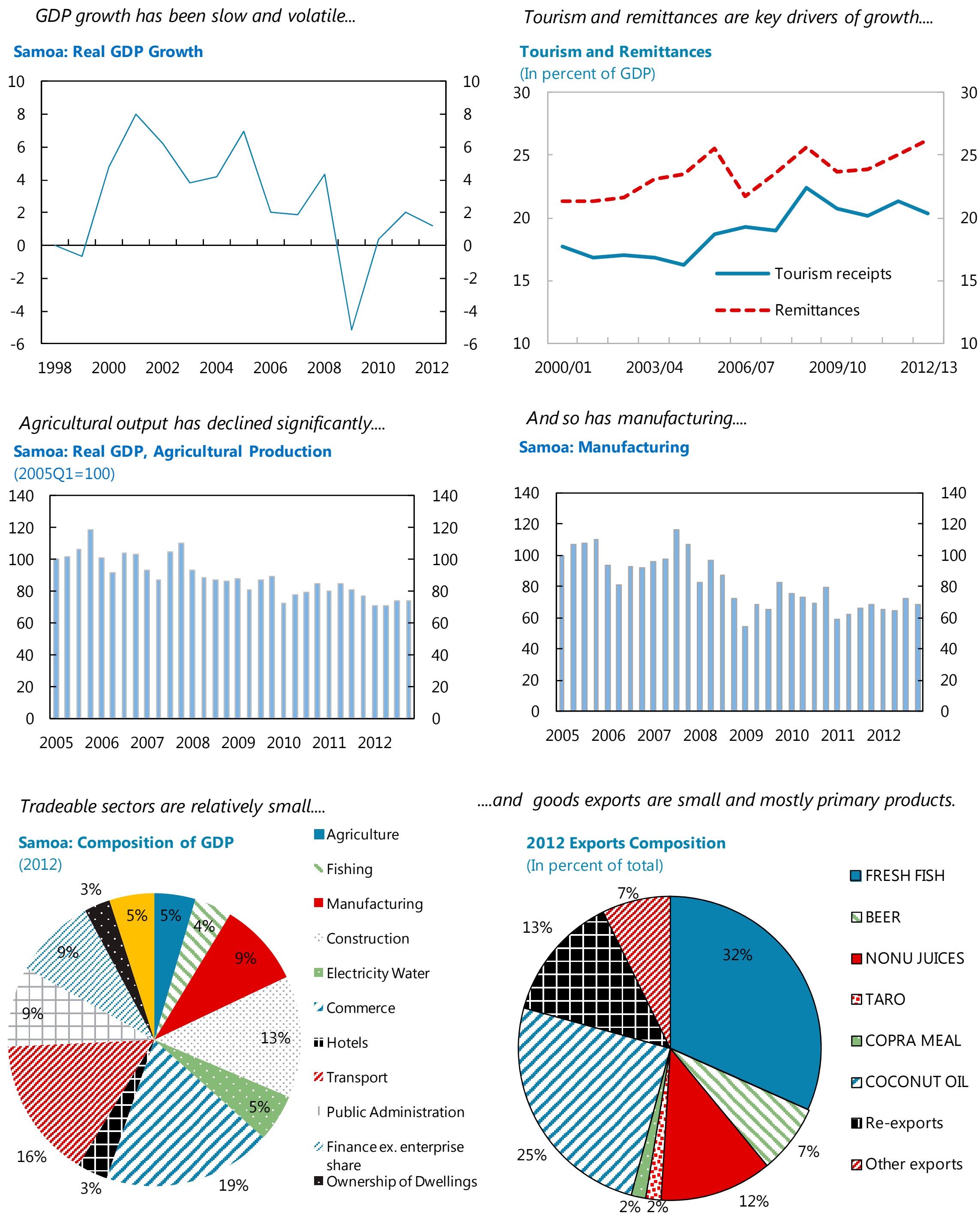
30. Given the subdued inflationary pressures and the need to support the recovery, monetary policy should remain accommodative. The CBS should continue to monitor liquidity developments and strengthen forecasting to guide its monetary operations and market participants in managing their liquidity. The CBS should encourage interbank lending to meet liquidity shortfalls in individual banks, and continue to provide liquidity support to banks through the discount window. Closer coordination with the Ministry of Finance on forecasting government financing needs would also be important.

31. Financial sector oversight should be further strengthened to maintain financial system stability. In light of the likely adverse impact of the cyclone on the asset quality of banks and other financial institutions, and given the high levels of non-performing loans in some financial institutions, enhanced financial sector supervision by the CBS, covering all financial institutions, will be important to prevent a build-up of systemic risk. As a policy priority, UTOS and SHC should be brought under CBS's oversight as soon as possible. Moreover, financial support to businesses affected by the cyclone should be provided through the budget, rather than financed by CBS, to increase transparency and minimize CBS's risk exposure.

32. Beyond the recovery, further efforts are needed to improve Samoa's competitiveness and raise the growth potential. Gradual adjustment of the exchange rate over time should be considered as soon as the recovery takes hold to improve competitiveness and preserve external stability. Samoa should build on the considerable progress it has made on structural reforms, including in the areas of public financial management, state-owned enterprises, and the investment climate. Further improvements would be important, particularly with regards to the use of customary land for productive purposes, contract enforcement, and insolvency resolution. Establishment of a credit bureau could further improve access to finance, particularly for small borrowers.

33. Staff supports the authorities' request for Fund financial assistance under the RCF. This assistance would help ease the pressure on fiscal resources and official foreign reserves, including through its catalytic role in garnering support from development partners.

Figure 1. Samoa: Economic Developments

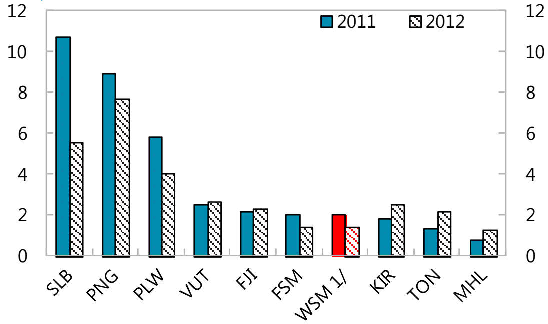


Sources: Samoan authorities and IMF staff calculations.
Samoa's data is in fiscal year July/June.

Figure 2. Samoa: Relative Performance

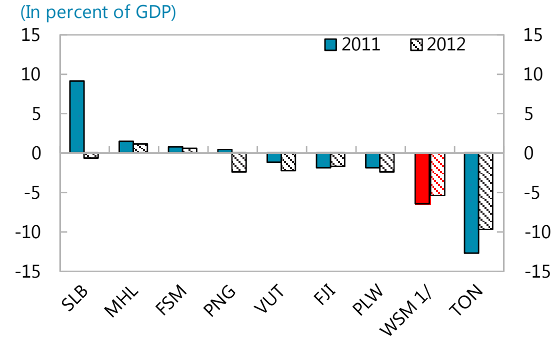
GDP growth is low compared to peers....

Real GDP Growth
(In percent)



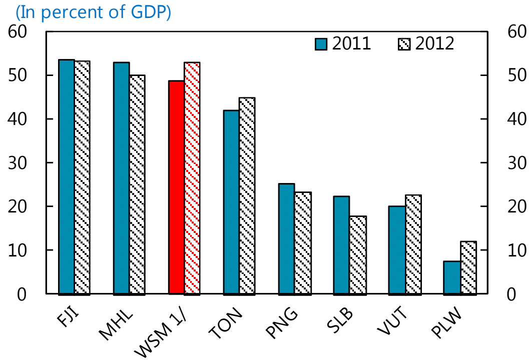
Fiscal deficit is relatively high....

Fiscal Balance
(In percent of GDP)



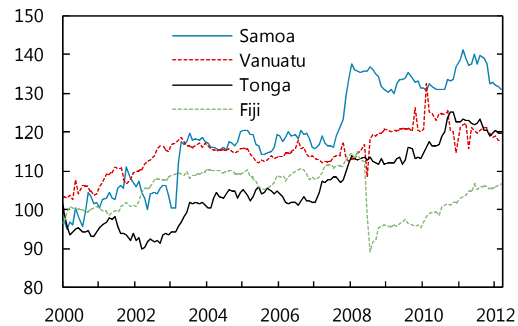
Debt level is high and rising....

Central Government Debt
(In percent of GDP)



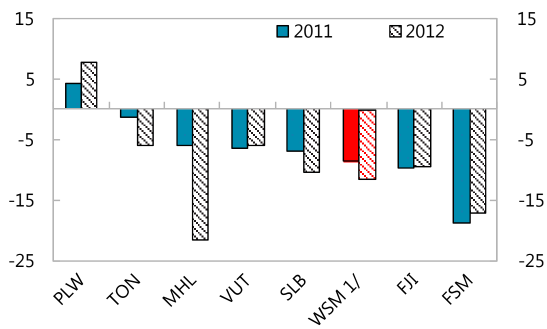
REER has appreciated substantially....

Real Effective Exchange Rates
(January 2000=100)



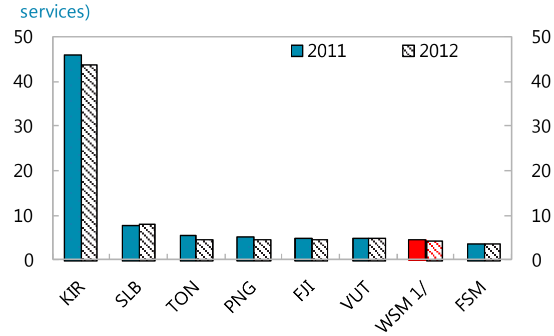
Current account deficit is rising....

Current Account Balance
(In percent of GDP)



.... and foreign reserves are declining.

Gross Official Reserves
(In months of next year's imports of goods and nonfactor services)



Sources: IMF's APD LISC and INS Databases.
Samoa's data is in fiscal year July/June.

Table 1. Samoa: Selected Economic and Financial Indicators, 2007/08–2014/15 /1

Population (2011): 0.188 million
Main Exports: Tourism, Fish
GDP per capita (2011/12): US$ 3,727
Quota: SDR 11.6 million

						Proj.					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	
						Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone
						(12-month percent change)					
Output and inflation											
Real GDP growth	4.3	-5.1	0.4	2.0	1.2	2.0	0.9	2.2	3.1	2.3	2.6
Nominal GDP	9.7	-2.3	1.9	4.3	2.9	-0.1	2.8	5.3	4.6	6.4	6.6
Change in CPI (end period)	8.9	10.0	-0.3	2.9	5.5	-2.0	4.5	4.0	-2.0	4.0	4.0
Change in CPI (period average)	6.3	14.6	-0.2	2.9	6.2	-2.0	2.0	3.0	1.5	4.0	4.0
						(In percent of GDP)					
Central government budget											
Revenue and grants	31.2	34.5	36.2	37.5	37.5	40.7	40.5	38.4	42.7	37.5	41.4
Of which: grants	5.3	7.8	10.5	9.5	8.9	10.8	12.2	9.9	13.4	9.0	12.1
Expenditure and net lending	32.7	38.8	43.6	43.9	43.1	45.4	47.4	42.4	50.9	40.6	48.3
Of which: Development	6.6	12.8	18.9	18.0	13.7	15.5	15.7	14.6	20.0	14.0	18.8
Overall balance	-1.5	-4.2	-7.5	-6.4	-5.6	-4.8	-6.9	-4.0	-8.2	-3.0	-6.9
External financing	0.9	3.1	10.0	5.5	6.9	5.1	5.0	4.0	6.1	3.0	4.3
Domestic financing	0.6	1.1	-2.5	1.0	-1.3	-0.3	0.0	0.0	0.0	0.0	0.0
(12-month percent change)						(12-month percent change)					
Money and credit											
Broad money (M2)	14.5	7.7	10.9	-0.8	-4.0	…	…	…	…	…	…
Net foreign assets	14.4	9.2	32.7	-11.6	-5.9	…	…	…	…	…	…
Net domestic assets	14.5	7.1	1.5	5.3	-3.1	…	…	…	…	…	…
Private sector credit	6.7	6.5	4.0	6.4	2.8	…	…	…	…	…	…
(In millions of U.S. dollars)						(In millions of U.S. dollars)					
Balance of payments											
Current account balance	-32.0	-35.4	-47.1	-28.9	-68.2	-76.6	-92.1	-76.9	-119.8	-77.8	-121.1
(In percent of GDP)	-6.4	-6.2	-7.6	-4.5	-10.0	-10.8	-13.1	-10.3	-16.2	-10.0	-15.6
Merchandise exports, f.o.b. 2/	11.2	12.1	18.6	23.4	32.5	30.3	28.4	32.1	31.8	34.4	33.6
Merchandise imports, c.i.f.	-204.3	-251.1	-278.2	-282.9	-338.8	-341.3	-350.6	-348.1	-382.5	-357.7	-391.9
Services (net)	85.8	100.4	92.7	111.1	113.3	107.0	103.8	110.1	102.8	114.3	107.1
Income (net)	-38.0	-35.0	-19.9	-26.8	-36.7	-36.7	-37.8	-38.7	-39.5	-41.1	-42.2
Current transfers	113.4	138.2	139.8	146.3	161.5	164.1	164.1	167.6	167.6	172.3	172.3
External reserves and debt											
Gross official reserves	87.6	104.4	175.8	158.4	157.5	157.4	162.9	156.8	161.4	154.9	151.6
(In months of next year's imports of GNFS)	3.2	3.4	5.8	4.5	4.5	4.4	4.2	4.3	4.0	4.1	3.8
Public debt 3/	513.2	695.1	775.8	807.3	906.4	943.7	1025.5	1018.2	1147.2	1081.4	1282.5
(In percent of GDP)	35.2	48.8	53.4	53.3	58.2	60.6	64.0	62.1	68.4	62.0	71.8
Exchange rates											
Market rate (tala/U.S. dollar, period average)	2.6	2.7	2.3	2.3	2.3	…	…	…	…	…	…
Market rate (tala/U.S. dollar, end period)	2.9	2.5	2.4	2.3	2.3	…	…	…	…	…	…
Nominal effective exchange rate (2000 = 100) 4/	94.9	97.6	97.9	98.0	97.7	…	…	…	…	…	…
Real effective exchange rate (2000 = 100) 4/	105.6	116.1	111.6	112.5	120.6	…	…	…	…	…	…
Memorandum items:											
Nominal GDP (in millions of tala)	1,458.9	1,425.7	1,452.2	1,514.6	1,558.5	1,557.7	1,602.4	1,639.5	1,676.1	1,743.7	1,787.5
Nominal GDP (in millions of U.S. dollars)	502.3	571.7	617.5	642.1	683.3	712.1	703.2	743.5	740.7	777.2	776.4
GDP per capita (U.S. dollars)	2,778.2	3,151.2	3,414.0	3,520.2	3,727.1	3,870.8	3,729.1	4,027.8	4,057.7	4,196.1	4,238.7

Sources: Data provided by the Samoan authorities and IMF staff estimates.

1/ Fiscal year beginning July 1.
2/ Includes re-export of fuel after 2009/10.
3/ Excludes SOE debt.
4/ IMF, Information Notice System (calendar year).

Table 2. Samoa: Illustrative Medium Term Baseline Scenario, 2007/08-2017/18

	2007/08	2008/09	2009/10	2010/11	2011/12	Projections											
						2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
					Est.	Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone
Growth and inflation																	
Real GDP growth	4.3	-5.1	0.4	2.0	1.2	2.0	0.9	2.2	3.1	2.3	2.6	2.5	2.5	2.5	2.5	2.5	2.5
CPI inflation (period average)	6.3	14.6	-0.2	2.9	6.2	-2.0	2.0	3.0	1.5	4.0	4.0	4.0	4.0	3.0	4.0	3.0	3.0
	(In percent of GDP)																
Fiscal accounts																	
Total revenue and grants	31.2	34.5	36.2	37.5	37.5	40.7	40.5	38.4	42.7	37.5	41.4	37.5	40.4	37.5	38.0	37.5	38.8
Total revenue	25.9	26.7	25.6	28.0	28.5	29.9	28.3	28.5	29.3	28.5	29.3	28.5	29.3	28.5	29.3	28.5	29.3
External grants	5.3	7.8	10.5	9.5	8.9	10.8	12.2	9.9	13.4	9.0	12.1	9.0	11.1	9.0	8.7	9.0	9.5
Total expenditure and net lending	32.7	38.8	43.6	43.9	43.1	45.4	47.4	42.4	50.9	40.6	48.3	40.0	43.9	40.0	40.5	40.0	40.8
Overall balance (including grants)	-1.5	-4.2	-7.5	-6.4	-5.6	-4.8	-6.9	-4.0	-8.2	-3.0	-6.9	-2.5	-3.5	-2.5	-2.5	-2.5	-2.0
	(Annual percentage change)																
Monetary survey																	
Broad money	14.5	7.7	10.9	-0.8	-4.0	...	...	...	...	...	...	...	...	...	...	...	...
Private sector credit 1/	6.7	6.5	4.0	6.4	2.8	...	...	...	...	...	...	...	...	...	...	...	...
	(In millions of U.S. dollars)																
Balance of payments																	
Current account	-32.0	-35.4	-47.1	-28.9	-68.2	-76.6	-92.1	-76.9	-119.8	-77.8	-121.1	-81.2	-112.6	-86.6	-100.7	-93.8	-96.6
(In percent of GDP)	-6.4	-6.2	-7.6	-4.5	-10.0	-10.8	-13.1	-10.3	-16.2	-10.0	-15.6	-10.0	-13.8	-10.2	-11.8	-10.5	-10.8
Merchandise trade balance	-193.2	-238.9	-259.7	-259.5	-306.3	-311.0	-322.2	-316.0	-350.7	-323.3	-358.3	-333.3	-358.3	-344.6	-356.3	-357.4	-359.7
Exports, f.o.b.	11.2	12.1	18.6	23.4	32.5	30.3	28.4	32.1	31.8	34.4	33.6	36.9	35.6	39.7	37.9	42.9	40.4
(Annual percent change)	-8.7	8.8	53.0	26.2	38.7	-6.7	-12.6	5.9	11.9	7.1	5.8	7.4	6.1	7.7	6.3	8.0	6.5
Imports, c.i.f.	-204.3	-251.1	-278.2	-282.9	-338.8	-341.3	-350.6	-348.1	-382.5	-357.7	-391.9	-370.2	-393.9	-384.4	-394.2	-400.3	-400.0
(Annual percent change)	-15.2	22.9	10.8	1.7	19.8	0.7	3.5	2.0	9.1	2.7	2.5	3.5	0.5	3.8	0.1	4.2	1.5
Services	85.8	100.4	92.7	111.1	113.3	107.0	103.8	110.1	102.8	114.3	107.1	118.3	113.0	121.2	119.5	123.9	124.0
Current transfers, net	113.4	138.2	139.8	146.3	161.5	164.1	164.1	167.6	167.6	172.3	172.3	177.6	177.6	183.0	184.0	188.5	189.6
External debt and reserves																	
Gross external public debt (percent of GDP)	30.6	44.4	49.5	50.1	55.5	58.3	61.8	60.4	66.8	60.8	70.6	60.1	70.9	59.1	70.2	58.6	69.0
Gross official reserves (millions of U.S. dollars)	87.6	104.4	175.8	158.4	157.5	157.4	162.9	156.8	161.4	154.9	151.6	150.7	139.9	146.3	134.6	145.9	131.9
(In months of next year's imports of GNFS)	3.2	3.4	5.8	4.5	4.5	4.4	4.2	4.3	4.0	4.1	3.8	3.8	3.5	3.6	3.3	3.4	3.1

Sources: Data provided by the Samoan authorities and IMF staff projections.

1/ Total credit growth (including credit extended by nonbank financial institutions).

Table 3. Samoa: Balance of Payments, 2007/08–2014/15

(In millions of U.S. dollars, unless otherwise indicated)

						Staff Projections					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	
						Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone
Current account	-32.0	-35.4	-47.1	-28.9	-68.2	-76.6	-92.1	-76.9	-119.8	-77.8	-121.1
Trade balance	-193.2	-238.9	-259.7	-259.5	-306.3	-311.0	-322.2	-316.0	-350.7	-323.3	-358.3
Exports, fob 1/	11.2	12.1	18.6	23.4	32.5	30.3	28.4	32.1	31.8	34.4	33.6
Imports, cif	-204.3	-251.1	-278.2	-282.9	-338.8	-341.3	-350.6	-348.1	-382.5	-357.7	-391.9
Services (net)	85.8	100.4	92.7	111.1	113.3	107.0	103.8	110.1	102.8	114.3	107.1
of which tourism earnings	95.4	128.0	128.9	129.8	145.7	139.6	138.0	143.5	142.5	148.9	148.0
Investment income (net)	-38.0	-35.0	-19.9	-26.8	-36.7	-36.7	-37.8	-38.7	-39.5	-41.1	-42.2
Current transfers	113.4	138.2	139.8	146.3	161.5	164.1	164.1	167.6	167.6	172.3	172.3
Official transfers	2.2	4.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers	111.2	134.1	139.8	146.5	161.5	164.1	164.1	167.6	167.6	172.3	172.3
Capital account	21.0	40.2	86.8	61.3	75.5	72.0	84.0	69.7	96.4	66.0	91.0
Official	23.4	40.8	77.4	60.7	77.1	71.9	83.8	69.5	96.2	65.9	90.9
Private	-2.4	-0.6	9.4	0.6	-1.6	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	21.7	26.9	24.5	-22.8	6.8	4.5	4.7	6.7	22.0	10.4	20.8
Direct investment	4.0	50.7	1.3	7.6	9.7	13.1	13.1	9.1	9.1	9.7	9.7
Portfolio investment	-0.2	0.4	-0.9	-2.0	-0.5	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Other investment	17.8	-24.2	24.1	-28.4	-2.4	-7.9	-7.6	-1.7	13.7	1.5	11.9
Assets	0.1	-55.1	-54.2	-25.1	-57.5	-40.4	-40.4	-28.3	-28.3	-19.2	-19.2
Liabilities	17.7	30.9	78.4	-3.3	55.1	32.5	32.8	26.6	41.9	20.7	31.1
Net errors and omissions	5.7	-28.9	0.2	-32.5	-9.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	16.5	2.8	64.4	-22.9	4.4	-0.1	-3.4	-0.6	-1.5	-1.3	-9.3
Financing	-16.5	-2.8	-55.4	22.9	-4.4	0.1	3.4	0.6	1.5	1.3	9.3
Change in gross official reserves	-16.5	-2.8	-64.4	22.9	-4.4	0.1	-5.4	0.6	1.5	1.9	9.9
Fund financing	0.0	0.0	9.0	0.0	0.0	0.0	8.8	0.0	0.0	-0.6	-0.6
Memorandum Items:											
Current account balance (in percent of GDP)	-6.4	-6.2	-7.6	-4.5	-10.0	-10.8	-13.1	-10.3	-16.2	-10.0	-15.6
Gross official reserves (in million of U.S. dollars)	87.6	104.4	175.8	158.4	157.5	157.4	162.9	156.8	161.4	154.9	151.6
(In months of prospective imports of GNFS)	3.2	3.4	5.8	4.5	4.5	4.4	4.2	4.3	4.0	4.1	3.8
Exports (annual percentage change)	-8.7	8.8	53.0	26.2	38.7	-6.7	-12.6	5.9	11.9	7.1	5.8
Remittances (in percent of GDP) 2/	22.1	23.5	22.5	22.8	23.6	23.0	23.3	22.5	22.6	22.2	22.2
Tourism earnings (in percent of GDP) 3/	19.0	22.4	20.7	20.2	21.3	19.6	19.6	19.3	19.2	19.2	19.1
Visitor Arrivals (thousands)	121.9	126.8	128.2	129.1	134.0	130.2	125.2	131.1	127.9	132.3	129.1
Imports (annual percentage change)	-15.2	22.9	10.8	1.7	19.8	0.7	3.5	2.0	9.1	2.7	2.5

Sources: Data provided by the Samoan authorities and IMF staff estimates.

1/ Including re-export of fuel after 2010.

2/ Including other current transfers.

3/ Including other service credits.

Table 4. Samoa: Financial Operations of the Central Government, 2007/08–2014/15

						Staff Projections					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13		2013/14		2014/15	
				Est.		Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone
						(In millions of tala)					
Total revenue and grants	454.9	492.0	525.2	567.2	584.0	633.3	649.7	630.1	715.8	654.5	740.4
Total revenue	378.0	381.4	372.4	423.8	444.7	465.2	453.6	467.8	491.3	497.5	523.9
Tax revenue	330.2	324.7	324.8	346.0	368.1	402.5	390.9	387.2	408.9	411.8	436.1
Nontax revenue	47.8	56.7	47.6	77.8	76.6	62.7	62.7	80.6	82.4	85.7	87.9
External grants	76.9	110.7	152.8	143.4	139.3	168.1	196.1	162.3	224.6	156.9	216.5
Privatisation Receipts									2.0		
Total expenditure and net lending	476.5	552.5	633.8	664.6	671.7	707.6	760.1	695.9	853.3	707.5	863.2
Current expenditure	372.4	358.8	349.1	374.8	458.4	465.8	508.8	456.5	518.8	463.4	526.6
Development expenditure	96.2	182.1	273.8	272.9	213.3	241.8	251.3	239.4	334.5	244.2	336.7
Net lending	7.8	11.7	10.9	16.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-21.6	-60.5	-108.7	-97.4	-87.7	-74.3	-110.4	-65.7	-137.5	-53.0	-122.9
Financing	21.6	60.5	108.6	97.4	87.7	74.3	79.6	65.7	101.5	53.0	77.7
External financing, net	12.5	44.6	144.8	82.7	107.4	79.6	79.6	65.7	101.5	53.0	77.7
Disbursements	28.5	60.4	160.1	100.6	125.8	111.7	111.7	102.7	136.7	82.0	116.0
Amortization	16.0	15.8	15.3	17.9	18.4	32.1	32.1	37.0	35.2	29.0	38.3
Domestic financing, net	9.1	15.9	-36.2	14.7	-19.7	-5.3	0.0	0.0	0.0	0.0	0.0
Banking system	11.9	2.2	-82.9	10.3	-14.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.8	13.7	46.8	4.4	-5.6	-5.3	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	30.2	0.0	34.0	0.0	45.2
						(In percent of GDP)					
Total revenue and grants	31.2	34.5	36.2	37.5	37.5	40.7	40.5	38.4	42.7	37.5	41.4
Total revenue	25.9	26.7	25.6	28.0	28.5	29.9	28.3	28.5	29.3	28.5	29.3
Tax revenue	22.6	22.8	22.4	22.8	23.6	25.8	24.4	23.6	24.4	23.6	24.4
Nontax revenue	3.3	4.0	3.3	5.1	4.9	4.0	3.9	4.9	4.9	4.9	4.9
External grants	5.3	7.8	10.5	9.5	8.9	10.8	12.2	9.9	13.4	9.0	12.1
Total expenditure and net lending	32.7	38.8	43.6	43.9	43.1	45.4	47.4	42.4	50.9	40.6	48.3
Current expenditure	25.5	25.2	24.0	24.7	29.4	29.9	31.8	27.8	31.0	26.6	29.5
Development expenditure	6.6	12.8	18.9	18.0	13.7	15.5	15.7	14.6	20.0	14.0	18.8
Net lending	0.5	0.8	0.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-1.5	-4.2	-7.5	-6.4	-5.6	-4.8	-6.9	-4.0	-8.2	-3.0	-6.9
Overall balance (excluding grants)	-6.8	-12.0	-18.0	-15.9	-14.6	-15.6	-19.1	-13.9	-21.6	-12.0	-19.0
Financing	1.5	4.2	7.5	6.4	5.6	4.8	6.9	4.0	8.2	3.0	6.9
External financing, net	0.9	3.1	10.0	5.5	6.9	5.1	5.0	4.0	6.1	3.0	4.3
Disbursement	2.0	4.2	11.0	6.6	8.1	7.2	7.0	6.3	8.2	4.7	6.5
Amortization	1.1	1.1	1.1	1.2	1.2	2.1	2.0	2.3	2.1	1.7	2.1
Domestic financing, net	0.6	1.1	-2.5	1.0	-1.3	-0.3	0.0	0.0	0.0	0.0	0.0
Banking system	0.8	0.2	-5.7	0.7	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.2	1.0	3.2	0.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	2.0	0.0	2.5
Memorandum items:											
External Debt	446.3	633.2	718.8	758.5	864.6	908.7	990.5	990.2	1119.2	1060.4	1261.5
Nominal GDP (in millions of Tala)	1458.9	1425.7	1452.2	1514.6	1558.5	1557.7	1602.4	1639.5	1676.1	1743.7	1787.5
External Debt/GDP	30.6	44.4	49.5	50.1	55.5	58.3	61.8	60.4	66.8	60.8	70.6

Sources: Data provided by the Samoan authorities and IMF staff estimates.

Table 5. Samoa: Financial Soundness Indicators, 2008-12 1/

	2008	2009	2010	2011	2012
	(in percent)				
Loans to deposit ratio	104.5	96.4	96.3	105.8	104.7
Capital adequacy ratio	28.0	30.2	28.4	28.3	27.8
Return on assets	4.1	3.2	3.5	3.2	2.3
Non-performing loans ratio	8.8	9.7	10.9	8.2	5.6
Net interest margins	7.5	7.2	8.0	7.8	6.9
Liquid assets to short-term liabilities	19.0	26.4	33.0	16.3	18.9
Bank provisions to non-performing loans	48.0	54.8	34.2	50.5	98.6

Source: Central Bank of Samoa.

1/ For commercial banks.

Table 6. Samoa: Indicators of Capacity to Repay the Fund, 2011/12–2022/23

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Projections										
Fund obligations based on existing credit												
(In millions of SDRs)												
Principal	0.0	0.0	0.0	0.6	1.2	1.2	1.2	1.2	0.6	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit 1/												
(In millions of SDRs)												
Principal	0.0	0.0	0.0	0.6	1.2	1.2	1.7	2.3	1.7	1.1	1.1	0.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit 1/												
In millions of SDRs	0.0	0.0	0.0	0.6	1.2	1.2	1.7	2.3	1.7	1.1	1.1	0.6
In millions of U.S. dollars	0.0	0.0	0.0	0.9	1.8	1.8	2.7	3.5	2.6	1.7	1.7	0.9
In percent of gross international reserves	0.0	0.0	0.0	0.6	1.2	1.3	2.0	2.7	2.1	1.5	1.7	1.0
In percent of government revenue	0.0	0.0	0.0	0.4	0.8	0.7	1.0	1.3	0.9	0.6	0.6	0.3
In percent of exports of goods and services	0.0	0.0	0.0	0.4	0.8	0.8	1.1	1.4	1.0	0.6	0.6	0.3
In percent of debt service 2/	0.0	0.0	0.0	5.3	9.1	8.0	11.1	13.9	8.3	4.8	4.4	2.2
In percent of GDP	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.4	0.3	0.2	0.2	0.1
In percent of quota	0.0	0.0	0.0	5.1	10.2	10.2	15.1	19.9	14.9	9.9	9.8	4.9
Outstanding Fund credit 1/												
In millions of SDRs	5.8	11.6	11.6	11.0	9.9	8.7	7.0	4.7	3.0	1.8	0.7	0.1
In millions of U.S. dollars	8.9	17.6	17.6	16.7	15.0	13.2	10.6	7.1	4.5	2.7	1.0	0.2
In percent of gross international reserves	5.6	11.2	10.8	10.4	9.9	9.4	8.0	5.5	3.5	2.4	1.0	0.2
In percent of government revenue	4.6	8.8	8.1	7.4	6.3	5.3	4.0	2.6	1.6	0.9	0.3	0.0
In percent of exports of goods and services	4.1	7.8	8.3	7.5	6.5	5.6	4.3	2.8	1.7	0.9	0.3	0.0
In percent of debt service 2/	115.7	175.7	122.7	97.7	75.9	58.9	44.5	28.1	14.1	7.6	2.6	0.4
In percent of GDP	1.3	2.5	2.4	2.2	1.8	1.6	1.2	0.8	0.5	0.3	0.1	0.0
In percent of quota	50.0	100.0	100.0	95.0	85.0	75.0	60.1	40.3	25.4	15.6	5.8	0.9
Net use of Fund credit (millions of SDRs) 1/	0.0	5.8	0.0	-0.6	-1.2	-1.2	-1.7	-2.3	-1.7	-1.1	-1.1	-0.6
Disbursements	0.0	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.0	0.6	1.2	1.2	1.7	2.3	1.7	1.1	1.1	0.6
Memorandum items:												
Nominal GDP (in millions of U.S. dollars)	683	703	741	776	813	852	892	934	978	1,024	1,072	1,123
Exports of goods and services (in millions of U.S. dollars)	215	225	213	222	230	238	247	255	267	292	305	320
Gross International Reserves (in millions of U.S. dollars)	158	157	163	161	152	140	132	130	127	114	102	90
Government revenue (in millions of U.S. dollars)	194	199	218	228	238	250	262	274	287	300	314	329
Debt service (in millions of U.S. dollars) 2/	7.7	10.0	14.4	17.1	19.7	22.4	23.8	25.2	31.8	36.0	39.1	39.4
U.S. dollars/SDR (period average)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Sources: Fund staff estimates and projections.

1/ Assuming a disbursement of the entire amount of requested Fund financing (SDR 5.8 million; 50 percent of quota), in 2012/13.
2/ Total debt service includes IMF repurchases and repayments.

Table 7. Samoa: External Financing Requirements and Sources, 2007/08–2014/15

(In millions of U.S. dollars)

	2007/08	2008/09	2009/10	2010/11	2011/12	Staff Projections					
						2012/13		2013/14		2014/15	
						Baseline	Post-cyclone	Baseline	Post-cyclone	Baseline	Post-cyclone
Gross financing requirements	**71.1**	**49.2**	**119.8**	**5.3**	**82.0**	**89.6**	**110.8**	**91.4**	**132.9**	**87.8**	**127.2**
Current account	32.0	35.4	47.1	28.9	68.2	76.6	92.1	76.9	119.8	77.8	121.1
Amortization	22.7	10.9	8.3	-0.7	9.4	13.1	13.2	15.0	14.6	11.9	15.9
Official											
Trade balance											
Change in gross reserves (increase = +)	16.5	2.8	64.4	-22.9	4.4	-0.1	5.4	-0.6	-1.5	-1.9	-9.9
Available financing	**71.1**	**49.2**	**119.8**	**5.3**	**82.0**	**89.6**	**110.8**	**91.4**	**132.9**	**87.8**	**127.2**
Official grants	23.4	40.8	77.4	60.7	77.1	71.9	83.8	69.5	96.2	65.9	90.9
Foreign direct investment (net)	4.0	50.7	1.3	7.6	9.7	13.1	13.1	9.1	9.1	9.7	9.7
Portfolio investment (net)	-0.2	0.4	-0.9	-2.0	-0.5	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Debt financing	40.5	41.8	86.6	-4.0	64.6	45.6	46.0	41.6	56.5	32.1	46.4
Fund financing	0.0	0.0	9.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
Other	3.4	-84.6	-53.6	-57.0	-68.9	-40.2	-40.2	-28.1	-28.1	-19.0	-19.0

Appendix. Letter of Intent

April 26, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431, USA

Dear Ms. Lagarde:

On the 13th of December 2012, a powerful tropical cyclone, Evan, hit Samoa, resulting in the loss of at least five lives and inflicting extensive damages to infrastructure, agriculture, and properties. The cyclone also displaced several thousand people and severely affected the provision of essential services such as water, electricity, and telecommunication.

The Damage and Loss Assessment completed in January puts the total value of the damages to properties at SAT251 million or US$110 million. Together with estimated production losses of SAT229 million, or US$100 million, the total estimated cost of the cyclone disaster amounts to SAT480 million, or US$210 million, equivalent to almost 30 percent of our GDP.

The cyclone disaster has set back our efforts for sustained growth following the devastating 2009 tsunami. The tourism sector has been hit hard with a couple of key hotels still closed for rehabilitation. We expect economic growth to slow to about 1 percent in 2012/13, significantly slower than anticipated prior to the cyclone. The total fiscal cost will amount to SAT393 million, or about 24½ percent of GDP over the period 2012/13-2014/15, which poses an increasing risk to debt sustainability over the medium term. Furthermore, the current account deficit is expected to widen considerably with foreign reserves falling as a result of shortfalls in tourism and other export earnings and increases in reconstruction-related imports.

In mobilizing fiscal resources for recovery and reconstruction, we will seek external grants as much as possible before resorting to concessional loans or domestic borrowing. So far, we have secured indicative support of about SAT160 million for reconstruction from development partners for the period 2012/13-2014/15. We intend to review development projects that had been in the pipeline before the cyclone and reprioritize them to exploit synergies with reconstruction projects. We expect about one-fifth of the pre-cyclone projects to be redeployed. Despite these efforts and some insurance payments, we still have a fiscal financing gap of about SAT109 million, or about 6½ percent of GDP, over the period 2012/13-2014/15. Strong support from development partners will allow us to maintain official foreign reserves at about 4 months of imports in 2012/13, which will give us a comfortable buffer.

While significant increases in fiscal deficits and public debt are inevitable as we rebuild our economy, we remain committed to reducing public debt to more sustainable levels over time. We will embark on fiscal consolidation as soon as economic recovery takes hold and aim to reduce our overall fiscal deficit and bring public debt back to levels consistent with a "moderate" and eventually with a "low" risk of debt distress rating. To this end, we will be revising our medium-term fiscal framework to set more prudent fiscal targets for our annual budgets. Moreover, with technical assistance from the World Bank, we will undertake a public expenditure review and enhance our debt management framework in order to lower borrowing costs and minimize debt risks.

We intend to maintain an accommodative monetary policy stance to support private sector activity. With expected declines in world commodity prices and a steady recovery of agricultural production, inflation pressure will continue to ease in the coming months. Nevertheless, we will closely monitor the situation and take necessary actions to prevent second-round effects of cyclone-induced price increases.

We will maintain the current exchange rate regime of pegging the tala to the currencies of our key trading partners. This arrangement has served Samoa well in minimizing market volatility given our small economy and shallow foreign exchange markets. We are well aware of the recent assessment by Fund staff that suggests the tala is overvalued. With continued technical assistance from PFTAC, we will strengthen our monitoring and analysis of exchange rate developments and take necessary actions to maintain external stability and other structural measures to improve our competitiveness. Given the current fragile state of the economy, we believe it is prudent to consider realigning the exchange rate only when economic recovery has taken hold.

We are making efforts to strengthen financial regulation and supervision. In particular, we are in the process of bringing the Unit Trust of Samoa (UTOS) and the Samoa Housing Corporation (SHC) under the oversight of the Central Bank of Samoa (CBS). We recognize the potential risk to the CBS balance sheet when it extended credit lines to the Development Bank of Samoa (DBS) and SHC in the wake of the tsunami and the cyclone. For this reason, the government has provided guarantees for the CBS credit lines. A more transparent way of providing such support is through fiscal operations by explicitly allocating budgetary resources and setting a timeframe for the support. CBS is committed to maintaining the soundness of our financial institutions, including the DBS, UTOS, SHC, and the Samoa National Provident Fund (SNPF), and will closely monitor their asset quality and take necessary measures to minimize cyclone-induced risks to the financial system.

Samoa has reaped large benefits from past structural reforms and we will continue to pursue such reforms. Over the past few years, considerable progress has been made. For example, we have established an Independent Selection Committee to choose board directors for state-owned enterprises. In early 2011, we successfully privatized Samoa Tel, our former telecommunication monopoly. We are now in the process of privatizing two more state-owned enterprises and restructuring one. The Parliament has recently passed the Personal Property Securities Act, and we are tackling the difficult issues surrounding customary land with a view of making land leases suitable for collateral for bank loans. With support from development partners, we are also making steady improvements in our public financial management and Doing Business indicators. In sum, we are determined to restore Samoa's strong growth performance through continued structural reforms.

Against this background, the Government of Samoa would like to request financial assistance from the International Monetary Fund under its Rapid Credit Facility to ease the pressure on our fiscal resources and official foreign reserves. We have been holding extensive discussions with our key development partners on possible financial support and we expect that Fund assistance would help catalyze additional inflows of external resources.

The Government of Samoa values its cooperation with the IMF and takes its obligations seriously. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. Furthermore, we are committed to undergo an update of the safeguards assessment made by the Fund in 2010 in connection with Samoa's request for assistance under the Exogenous Shocks Facility. We have already authorized the external auditor of the Central Bank of Samoa to share relevant documents and hold discussions with Fund staff. The Central Bank of Samoa will publish soon on its website the audited financial statements for the year ended June 30, 2012.

Sincerely yours,

/s/

The Hon. Faumuina Tiatia Liuga
Minister of Finance
Government of Samoa

/s/

Atalina Ainuu Enari
Governor
Central Bank of Samoa

INTERNATIONAL MONETARY FUND

SAMOA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

May 1, 2013

Approved By
Hoe Ee Khor and Masato Miyazaki (IMF) and Jeffrey D. Lewis and Sudhir Shetty (World Bank)

Prepared by
The International Monetary Fund
The International Development Association

This joint IMF-WB debt sustainability analysis (DSA) shows that Samoa has shifted from moderate to high risk of debt distress. This conclusion is based on the finding of a large and protracted breach of the present value (PV) of debt to GDP threshold in the baseline scenario. This elevated debt risk largely reflects the expected high levels of fiscal deficits during the post-cyclone reconstruction period and a lower discount rate used in calculating the present value of debt compared to the previous DSA (see the 2012 IMF Article IV Staff Report). The cyclone-related expenditures come on top of large fiscal outlays necessitated by the tsunami of 2009. Forceful fiscal consolidation in the post-reconstruction period and policies to raise growth will be needed to reduce Samoa's debt to more sustainable levels.

BACKGROUND

1. **Samoa is faced with lower growth in 2012/13 as a result of the impact of tropical cyclone Evan.** After more than two years of steady recovery from the devastating effect of the 2009 tsunami and the global financial crisis, GDP growth is likely to slow to about 1 percent in 2012/13, about one percentage point lower than the pre-cyclone forecast. The cyclone has caused wide-spread losses of output, most significantly in agriculture and tourism. Ensuing reconstruction activity is expected to boost growth in the next two years, but medium- and longer-term growth is likely to be moderate, at around 2½ percent.

2. **Samoa is in need of external assistance to meet the resource requirements for reconstruction.** Total resource requirements for reconstruction over the period

2012/13-2014/15 (July/June) are estimated at SAT 393 million, or 24½ percent of GDP. Preliminary estimates indicate that development partners may contribute an amount equivalent to 10 percent of GDP over the period, while expenditure reprioritization could create a fiscal space equivalent to 7½ percent of GDP, and insurance payments about 1½ percent of GDP. Taking into account the estimated losses of revenue of about ¾ percent of GDP, this leaves a financing gap of about 6½ percent of GDP. These additional resource requirements follow a period of high fiscal outlays necessitated by an earlier natural disaster, the tsunami of 2009, which had resulted in elevated debt levels.

3. **At the end of 2011/2012, the face value of public external debt was estimated at SAT 864.6 million (55.5 percent of GDP).** Multilateral creditors account for 63 percent of total external debt (including 27 percent owed to the World Bank, 34 percent to ADB, and 3 percent to OPEC, IFAD, EEC and EIB). Bilateral creditors account for approximately 37 percent of the total (China 30 and Japan 7). The non-concessional loans from OPEC attract interest rates ranging from 2.75 to 4.5 percent while other loans have interest rates ranging from 0.45 to 2.5 percent.

4. **As most of Samoa's external debt is concessional, the overall grant element of its debt stock is relatively high and the debt service burden is relatively low.** However, with the recent reduction of the Commercial Interest Reference Rate (CIRR) from 4 percent to 3 percent, the grant element of Samoa's debt stock has fallen significantly. This has led to a higher present value of future debt repayment streams.

5. **The central government's net domestic debt is small, totaling about SAT 42 million (2.7 percent of GDP)**. Treasury bonds outstanding are worth only SAT 0.4 million with interest rates ranging from 5 to 7 percent. The government has assumed responsibility for servicing a number of state-owned enterprise (SOE) loans that are in default with an outstanding balance of SAT 41.8 million at the end of 2011/12. SOE liabilities, although backed by their assets, represent a fiscal risk to the government. Total current liabilities are reported to be about SAT 100 million at the end of 2009/10 and non-current liabilities at SAT 270 million. Not all SOE balance sheets were available as of end-2010/11.

METHODOLOGY AND ASSUMPTIONS

6. **Debt sustainability is assessed in relation to policy-dependent debt burden thresholds**. Samoa is considered to have had strong governance in place and a strong policy reform environment since the mid-1990s;[1] therefore the country is assessed against a higher threshold compared to countries that have weaker governance and policy environment.[2]

[1] Three-year average CPIA rating for Samoa is 4.10.

[2] According to the 2012 review of the Debt Sustainability Framework for Low Income Countries, the thresholds for "strong performers" are: 50 percent for PV of debt to GDP; 200 percent for PV of debt to exports; 300 percent for PV of debt to revenues; 25 percent debt service to exports; and 22 percent debt service to revenues.

7. This DSA is based on updated data provided by the authorities and estimates by the staffs. The DSA uses non-reconciled debt data and a single discount rate of 3 percent, reduced recently from 4 percent based on global interest rate developments.

8. Key assumptions underlying the baseline DSA are consistent with the macroeconomic framework developed for the post-cyclone scenario during the 2013 mission. These assumptions are as follows:

- Annual real GDP growth is projected at 0.9 percent for 2012/13 and 3.1 percent for 2013/14. Growth is expected to decline to about 2½ in 2014/15 and remain at that level over the medium and longer term. This is considered to be the potential growth rate for Samoa, which is higher than the average GDP growth rate of 1.0 percent for 2005/06-2011/12, but lower than the average growth rate of 4.8 percent during the period 1997/98-2004/05. The lower potential growth rate reflects the adverse impact of a series of shocks over the past few years and the current policy environment.

- Average inflation of about 2.0 percent is projected for 2012/13 taking into account the high inflation of 6.2 percent in 2011/12. Price increases are expected to remain low, at about 1.5 percent, in 2013/14. Over the medium term, inflation is assumed to move back to the trend level of 4 percent before falling to 3 percent over the longer term, in line with the target of the Central Bank of Samoa.[3]

- The real exchange rate is assumed to remain unchanged, with exchange rate shocks taken into account in stress tests.

- Annual growth of goods and services exports is assumed to be broadly in line with GDP growth. The external non-interest current account deficit is projected to remain at around 12 percent of GDP over time.

- Fiscal projections are in line with the government's targets, which include fiscal consolidation over the medium term. Revenues and grants are assumed to remain constant as a share of GDP at about 39 percent, and development expenditure is expected to fall back to about 13 percent of GDP over the medium and long term, financed primarily by grants and concessional loans. Current expenditure is assumed to level off at about 26 percent of GDP over the medium term, following a gradual decline from 32 percent of GDP in 2012/13. The fiscal deficit is projected at about 7-8 percent of GDP over the period 2012/13-2014/15 and then gradually decline to 2 percent of GDP over the medium term and decline further to 1 percent of GDP over the long run.

[3] Historically inflation has averaged more than 4 percent. The authorities are targeting inflation of 3 percent over the longer term.

- New external borrowings to finance fiscal deficits are assumed to be mostly on concessional terms. These borrowings include possible budget support from multilateral development partners, which are preferred over other sources of less concessional borrowings. SOE borrowings are assumed to be on commercial terms.

- It is assumed that ADB and IDA financing will include a combination of grants and concessional loans.

- A constant level of nominal debt (in percent of GDP) is assumed for SOEs for the projection period.

EXTERNAL DEBT SUSTAINABILITY

9. Based on these assumptions, Samoa is assessed to have shifted from moderate to high risk of debt distress. The PV of Samoa's external debt is projected to exceed the policy-dependent threshold of 50 percent of GDP for a period of 9 years (Figure 1; Tables 1a and 1b). The PV of debt to GDP ratio is likely to breach the threshold in the current fiscal year and remain above the threshold for the next 8 years, with a peak value of over 58 percent in 2015/16. This is a qualitative departure from the result of the last DSA, which showed a breach of the threshold only in an exchange rate shock scenario. In addition to the effect of the reduction in the discount rate in calculating the PV of debt, this elevated debt risk reflects the additional borrowings required to finance post-cyclone reconstruction plans.

10. A "historical" scenario, which replicates the past performance of key economic variables, yields debt ratios that are below the baseline projections (Figure 1). Samoa has historically had sound macroeconomic policies supported by an array of structural reforms that had resulted in a period of strong growth and low fiscal deficits. However, there was a significant decline in economic growth in years just preceding the global financial crisis. Samoa also suffered major setbacks on growth and public finance when a tsunami hit in 2009, followed by the recent cyclone.

11. Samoa's PV of debt to GDP ratio is vulnerable to exogenous shocks. The most extreme stress test scenario of a 30 percent exchange rate depreciation, leads to the 50 percent threshold being breached for the entire forecast period.

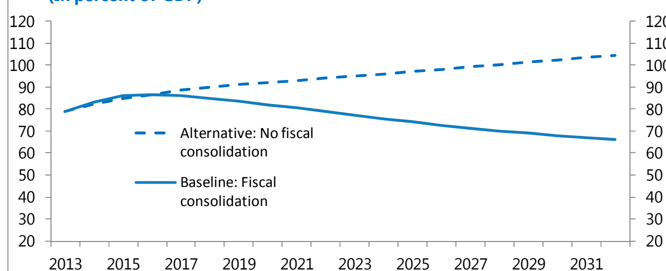
12. Measured by the PV of debt to exports ratio, Samoa's debt burden has also increased significantly. Even in the baseline scenario, this ratio is projected to approach the policy-dependent threshold of 200 percent over the medium term. If loan terms and conditions are unfavorable to Samoa during the forecast period, the ratio could well exceed the threshold for a protracted period of time. A similar increase in the debt burden is observed when measured by the PV of debt to revenue ratio, although there is no breach of the threshold even in the shock scenarios. Samoa's strong performance in revenue collection makes it more resilient in this respect.

13. Samoa's debt service burden is expected to remain relatively low. As shown in Figure 1, even in the shock scenarios, Samoa remains well below the debt service to exports and debt service to revenue thresholds. This clearly reflects the benefits of Samoa's strategy of minimizing non-concessional borrowings and its strong revenue efforts and the importance of the tourism industry in generating foreign exchange earnings. Samoa's debt service capacity is further supported by large inflows of remittances, which have been shown to be counter-cyclical.

PUBLIC SECTOR DSA

14. The public sector debt analysis supports the conclusions drawn from the external debt analysis (Figure 2; Tables 2a and 2b). The nominal value of public sector debt stock is estimated at 84 percent of GDP in 2011/12 (73 percent of GDP in PV terms) and is expected to rise to 99 percent of GDP (87 percent of GDP in PV terms) by 2015/16.[4] This rising burden of public debt is not surprising given that Samoa's public debt is dominated by external loans. Nevertheless, this assessment again highlights the central role of fiscal policy in determining Samoa's overall debt burden. Should Samoa fail to consolidate its fiscal position, as shown in the text graph above, public debt would increase rapidly and become unsustainable. Recent efforts to privatize some SOEs and to make all public enterprises more accountable for their financial performance are encouraging, but much more remains to be done.

NPV of Public Sector Debt under Different Alternatives
(In percent of GDP)



Source: IMF staff calculations.

CONCLUSION AND STAFF ASSESSMENT

15. Samoa is now faced with a high level of debt distress risk as a result of the sharp increases in external borrowings to deal with exogenous shocks. This underlines the importance of prudent borrowing even on concessional terms as well as the need to strengthen resilience to exogenous shocks. Samoa's experience also highlights the importance of building policy buffers in good times. The country's debt situation would have been much worse if it had not substantially reduced its debt prior to the recent shocks.

16. Samoa will need to develop a credible deficit-reduction strategy to bring its public debt to more sustainable levels over time. Central to this strategy is a commitment to a medium-term fiscal framework that spells out a path of declining fiscal deficits over time, supported by rigorous implementation of corresponding fiscal targets, including external borrowing targets, through the annual budgets. Further improvements in debt management will help minimize

[4] Public sector debt includes all external debt of the central government, including on-lent amounts, domestic debt of the central government, defaulted loans of SOEs and SOE current and non-current liabilities excluding government on-lent amounts and inter-SOE loans.

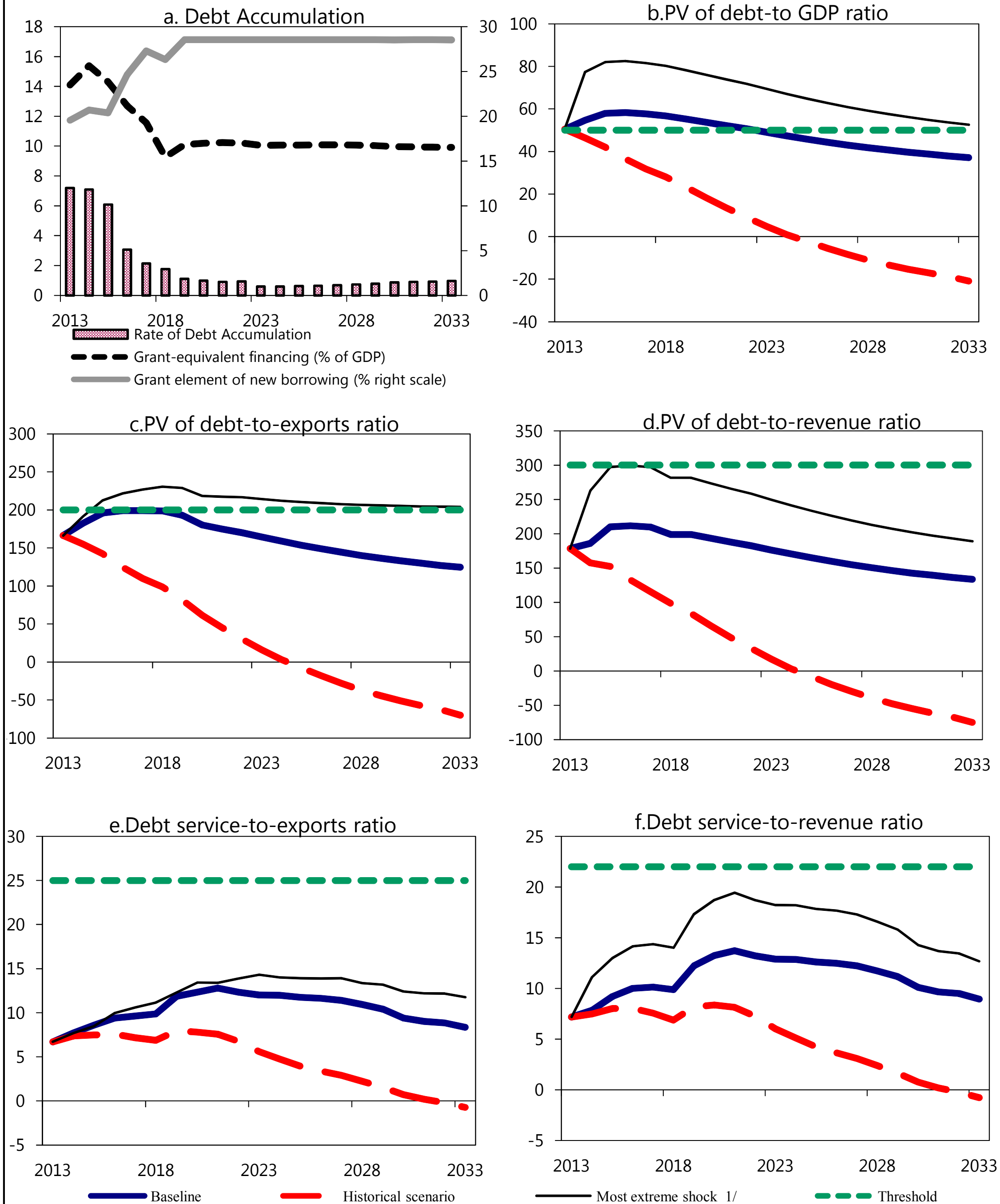
borrowing costs and reduce debt risks, as well as support fiscal consolidation by providing timely information on the country’s debt burden.

17. Continued structural reforms will be important to reducing the debt burden. Faster economic growth based on a strong reform agenda should be part of the overall strategy to reduce public debt as well as to raise living standards and reduce poverty. In this regards, SOE reforms are particularly important, as they help reduce contingent liabilities, strengthen the government’s fiscal position by generating more revenue and reducing subsidies, and release more resources for private sector development.

AUTHORITIES' VIEWS

18. The authorities recognize the risks posed by the high and rising level of public debt and are committed to bringing it down to more sustainable levels. They agreed that it is critical to formulate and implement a credible fiscal consolidation plan and to strengthen debt management. The authorities also attach great importance to structural reforms, and have agreed on a matrix of policy actions with key development partners toward this end.

Figure 1. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Post - Cyclone Scenario, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Table 1a. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	49.5	50.1	55.5			61.8	66.8	70.6	70.9	70.2	69.0		61.1	48.7	
o/w public and publicly guaranteed (PPG)	49.5	50.1	55.5			61.8	66.8	70.6	70.9	70.2	69.0		61.1	48.7	
Change in external debt	11.4	0.6	5.4			6.3	5.0	3.8	0.3	-0.7	-1.2		-1.8	-0.9	
Identified net debt-creating flows	4.4	1.7	5.6			10.8	13.1	12.7	10.9	9.2	7.8		10.0	11.4	
Non-interest current account deficit	6.8	3.3	8.5	8.3	3.3	12.4	15.4	14.7	12.9	11.2	9.8		11.7	12.0	11.8
Deficit in balance of goods and services	26.9	23.1	28.2			31.1	33.5	32.4	30.2	28.2	26.3		28.1	28.1	
Exports	32.8	33.5	32.9			30.4	29.9	29.6	29.3	29.0	28.6		29.8	29.8	
Imports	59.7	56.5	61.2			61.4	63.4	61.9	59.4	57.1	54.8		57.9	57.9	
Net current transfers (negative = inflow)	-22.5	-22.8	-23.6	-22.4	1.4	-23.3	-22.6	-22.2	-21.8	-21.6	-21.2		-21.1	-21.1	-21.1
o/w official	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	2.4	3.0	3.9			4.7	4.5	4.5	4.6	4.7	4.7		4.8	5.0	
Net FDI (negative = inflow)	-0.2	-1.2	-1.4	-2.2	2.9	-1.9	-1.2	-1.3	-1.3	-1.3	-1.3		-1.1	0.0	-1.0
Endogenous debt dynamics 2/	-2.2	-0.4	-1.5			0.3	-1.0	-0.7	-0.7	-0.7	-0.7		-0.7	-0.6	
Contribution from nominal interest rate	0.8	1.3	1.4			0.7	0.8	0.9	0.9	1.0	0.9		0.8	0.6	
Contribution from real GDP growth	-0.1	-1.0	-0.6			-0.5	-1.8	-1.6	-1.7	-1.7	-1.6		-1.5	-1.2	
Contribution from price and exchange rate changes	-2.9	-0.7	-2.4			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	7.0	-1.2	-0.2			-4.4	-8.2	-8.9	-10.6	-9.9	-9.0		-11.8	-12.3	
o/w exceptional financing	-1.4	0.0	0.0			-1.3	0.0	0.1	0.1	0.1	0.2		0.0	0.0	
PV of external debt 4/	...	...	45.0			50.5	54.7	58.0	58.3	57.7	56.7		49.0	37.1	
In percent of exports	...	...	136.8			166.4	182.7	196.0	199.2	199.1	198.7		164.4	124.5	
PV of PPG external debt	...	...	45.0			50.5	54.7	58.0	58.3	57.7	56.7		49.0	37.1	
In percent of exports	...	...	136.7			166.4	182.7	196.0	199.2	199.1	198.7		164.4	124.5	
In percent of government revenues	...	...	157.7			178.4	185.8	210.1	211.8	209.7	199.0		176.4	133.6	
Debt service-to-exports ratio (in percent)	2.3	3.6	4.5			6.7	7.7	8.6	9.4	9.6	9.9		12.0	8.4	
PPG debt service-to-exports ratio (in percent)	2.3	3.5	4.4			6.7	7.7	8.6	9.4	9.6	9.9		12.0	8.4	
PPG debt service-to-revenue ratio (in percent)	3.0	4.2	5.1			7.2	7.8	9.2	10.0	10.1	9.9		12.9	9.0	
Total gross financing need (Millions of U.S. dollars)	45.8	21.3	58.6			88.3	121.8	124.1	116.9	108.4	100.7		159.8	257.3	
Non-interest current account deficit that stabilizes debt ratio	-4.6	2.7	3.1			6.1	10.4	10.9	12.6	11.9	11.0		13.6	12.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.4	2.0	1.2	2.2	3.2	0.9	3.1	2.6	2.5	2.5	2.5	2.3	2.5	2.5	2.5
GDP deflator in US dollar terms (change in percent)	8.3	1.4	5.0	7.9	8.4	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Effective interest rate (percent) 5/	2.4	2.7	3.1	2.7	0.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	5.3	5.5	4.5	10.9	10.6	-5.1	3.9	3.6	3.6	3.7	3.3	2.2	4.7	4.7	5.0
Growth of imports of G&S (US dollar terms, in percent)	11.7	-2.0	14.9	10.4	11.6	3.3	8.7	2.4	0.5	0.7	0.6	2.7	4.7	4.7	5.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	19.5	20.7	20.4	24.7	27.3	26.3	23.2	28.6	28.5	28.6
Government revenues (excluding grants, in percent of GDP)	25.6	28.0	28.5			28.3	29.4	27.6	27.5	27.5	28.5		27.8	27.8	27.8
Aid flows (in Millions of US dollars) 7/	65.4	60.9	61.1			94.3	113.2	108.8	108.0	103.3	86.0		117.7	182.6	
o/w Grants	65.4	60.9	61.1			86.1	99.2	97.5	92.5	88.3	73.5		100.8	159.5	
o/w Concessional loans	0.0	0.0	0.0			8.3	14.0	11.3	15.5	15.0	12.5		16.9	23.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			14.1	15.4	14.3	12.7	11.6	9.3		10.1	9.9	10.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.8	66.9	67.8	76.0	78.5	76.5		78.9	81.0	78.8
Memorandum items:															
Nominal GDP (Millions of US dollars)	621.5	643.1	683.3			703.2	740.7	776.4	813.1	851.7	892.2		1122.7	1777.0	
Nominal dollar GDP growth	8.7	3.5	6.2			2.9	5.3	4.8	4.7	4.8	4.8	4.6	4.7	4.7	4.7
PV of PPG external debt (in Millions of US dollars)			306.0			355.2	405.0	450.1	473.9	491.2	506.3		550.3	659.7	
(PVt-PVt-1)/GDPt-1 (in percent)						7.2	7.1	6.1	3.1	2.1	1.8	4.6	0.6	1.0	0.8
Gross workers' remittances (Millions of US dollars)	139.8	146.5	161.5			164.1	167.6	172.3	177.6	184.0	189.6		237.0	375.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	36.4			41.0	44.6	47.4	47.8	47.4	46.8		40.5	30.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	79.6			94.1	104.0	112.0	114.0	114.0	113.9		96.2	72.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.6			3.8	4.4	4.9	5.4	5.5	5.7		7.0	4.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. The residual includes development partners' capital grant flows.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	51	55	58	58	58	57	**49**	37
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	51	46	42	37	32	28	**5**	-21
A2. New public sector loans on less favorable terms in 2013-2033 2	51	57	63	65	66	66	**64**	61
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	51	55	58	58	58	57	**49**	37
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	51	55	60	60	60	59	**51**	38
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	51	56	61	62	61	60	**52**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	51	57	63	63	63	62	**53**	39
B5. Combination of B1-B4 using one-half standard deviation shocks	51	56	60	60	60	59	**51**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	51	77	82	82	82	80	**69**	53
PV of debt-to-exports ratio								
Baseline	166	183	196	199	199	199	**164**	125
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	166	155	142	125	110	99	**16**	-70
A2. New public sector loans on less favorable terms in 2013-2033 2	166	192	213	222	227	231	**214**	204
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	166	183	196	199	199	199	**164**	125
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	166	192	218	221	221	220	**182**	136
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	166	183	196	199	199	199	**164**	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	166	192	213	216	216	215	**179**	131
B5. Combination of B1-B4 using one-half standard deviation shocks	166	183	193	196	195	195	**161**	121
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	166	183	196	199	199	199	**164**	125
PV of debt-to-revenue ratio								
Baseline	178	186	210	212	210	199	**176**	134
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	178	158	152	133	116	99	**17**	-75
A2. New public sector loans on less favorable terms in 2013-2033 2	178	195	228	236	239	231	**230**	219
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	178	186	210	212	210	199	**176**	134
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	178	188	218	220	217	206	**183**	137
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	178	191	222	224	221	210	**186**	141
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	178	195	229	230	227	216	**192**	140
B5. Combination of B1-B4 using one-half standard deviation shocks	178	191	218	219	217	206	**182**	137
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	178	263	297	300	297	282	**250**	189

Table 1b. (continued) Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

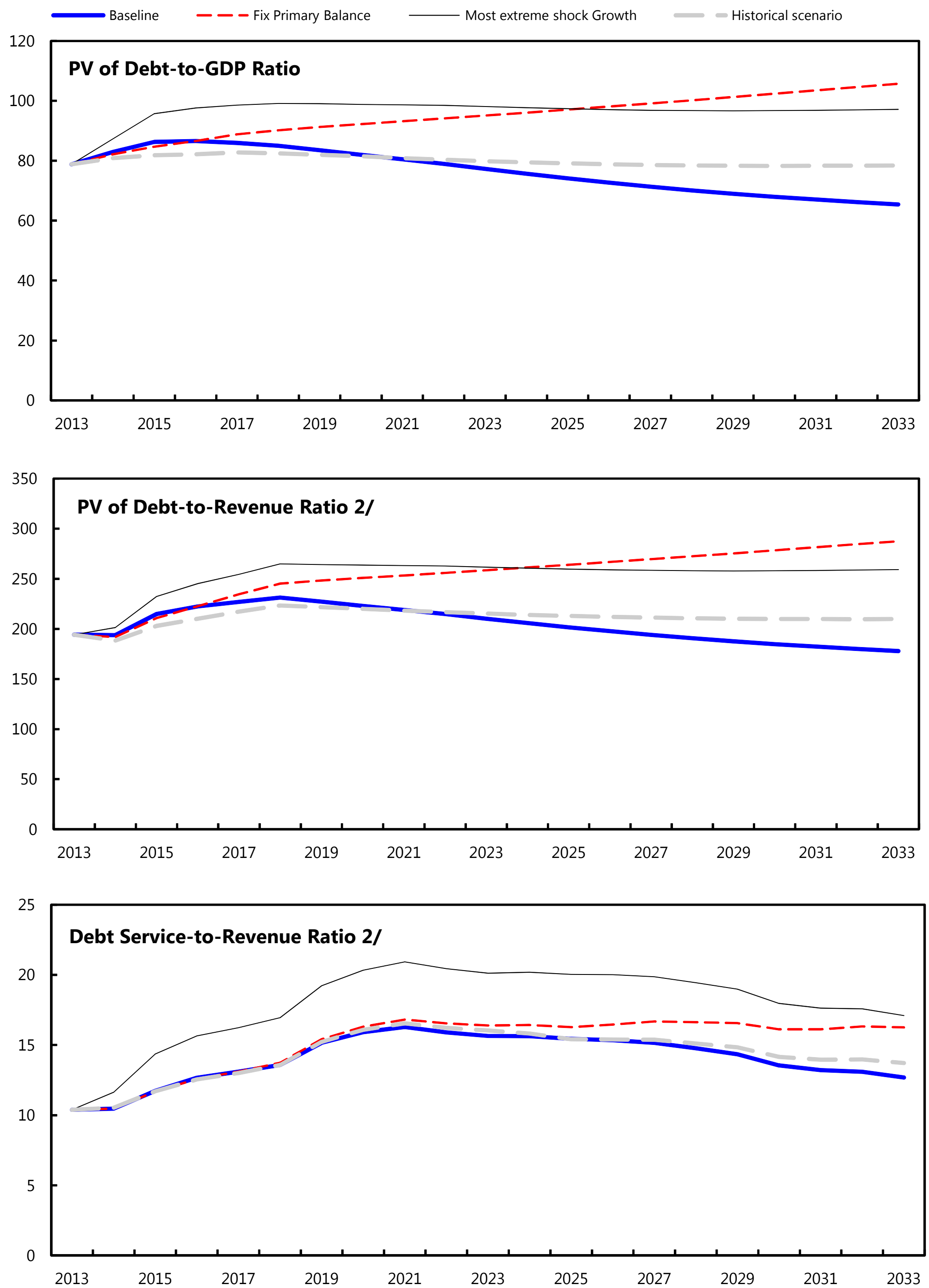
(In percent)

Debt service-to-exports ratio								
Baseline	7	8	9	9	10	10	**12**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	7	7	7	8	7	7	**6**	-1
A2. New public sector loans on less favorable terms in 2013-2033 2	7	8	8	10	11	11	**14**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	7	8	9	9	10	10	**12**	8
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	7	8	9	10	10	11	**13**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	7	8	9	9	10	10	**12**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	7	8	9	10	10	10	**13**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	8	9	9	10	**12**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	7	8	9	9	10	10	**12**	8
Debt service-to-revenue ratio								
Baseline	7	8	9	10	10	10	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	7	7	8	8	8	7	**6**	-1
A2. New public sector loans on less favorable terms in 2013-2033 2	7	8	9	11	11	11	**15**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	7	8	9	10	10	10	**13**	9
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	7	8	9	10	10	10	**13**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	7	8	10	11	11	10	**14**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	7	8	9	10	10	10	**14**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	9	10	10	10	**13**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	7	11	13	14	14	14	**18**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2. Samoa: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 2a. Samoa: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	78.8	78.9	83.8			90.1	95.1	98.9	99.2	98.5	97.3		89.4	77.0	
o/w foreign-currency denominated	49.5	50.1	55.5			61.8	66.8	70.6	70.9	70.2	69.0		61.1	48.7	
Change in public sector debt	10.1	0.1	4.9			6.3	5.0	3.8	0.3	-0.7	-1.2		-1.8	-0.9	
Identified debt-creating flows	3.0	0.0	2.9			4.3	3.7	3.3	0.1	-1.6	-0.7		-1.3	-0.7	
Primary deficit	4.7	3.1	2.5	1.4	1.6	4.0	5.1	5.1	1.9	0.3	0.9	2.9	0.0	0.3	0.2
Revenue and grants	36.2	37.5	37.5			40.5	42.8	40.2	38.9	37.9	36.8		36.8	36.8	
of which: grants	10.5	9.5	8.9			12.2	13.4	12.6	11.4	10.4	8.2		9.0	9.0	
Primary (noninterest) expenditure	40.8	40.5	40.0			44.6	47.9	45.2	40.8	38.2	37.7		36.8	37.0	
Automatic debt dynamics	-1.8	-3.1	0.3			0.3	-1.4	-1.8	-1.8	-1.8	-1.5		-1.3	-0.9	
Contribution from interest rate/growth differential	1.7	0.2	0.8			0.8	-1.0	-1.6	-1.7	-1.8	-1.5		-1.3	-0.9	
of which: contribution from average real interest rate	2.0	1.8	1.8			1.5	1.7	0.8	0.7	0.6	0.8		0.9	0.9	
of which: contribution from real GDP growth	-0.3	-1.6	-0.9			-0.7	-2.7	-2.4	-2.4	-2.4	-2.4		-2.2	-1.9	
Contribution from real exchange rate depreciation	-3.5	-3.3	-0.5			-0.5	-0.4	-0.2	-0.1	-0.1	0.0		...	...	
Other identified debt-creating flows	0.1	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.1	0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	7.0	0.1	2.0			2.1	1.2	0.5	0.3	0.8	-0.5		-0.5	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	73.3			78.8	83.0	86.3	86.6	86.0	85.0		77.3	65.4	
o/w foreign-currency denominated	...	...	45.0			50.5	54.7	58.0	58.3	57.7	56.7		49.0	37.1	
o/w external	...	...	45.0			50.5	54.7	58.0	58.3	57.7	56.7		49.0	37.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	13.9	13.1	12.0			14.6	15.9	16.0	13.0	11.5	12.2		12.0	11.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	195.7			194.4	193.8	214.8	222.6	227.0	231.4		210.3	178.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	256.9			278.4	282.0	312.7	314.6	312.6	298.3		278.2	235.4	
o/w external 3/	...	...	157.7			178.4	185.8	210.1	211.8	209.7	199.0		176.4	133.6	
Debt service-to-revenue and grants ratio (in percent) 4/	7.8	9.0	8.2			10.4	10.5	11.7	12.7	13.1	13.6		15.7	12.7	
Debt service-to-revenue ratio (in percent) 4/	11.0	12.0	10.8			14.9	15.2	17.1	17.9	18.1	17.5		20.7	16.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.4	3.0	-2.3			-2.3	0.1	1.3	1.5	1.0	2.1		1.8	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.4	2.0	1.2	2.2	3.2	0.9	3.1	2.6	2.5	2.5	2.5	2.3	2.5	2.5	2.5
Average nominal interest rate on forex debt (in percent)	2.4	2.7	3.1	2.7	0.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.3
Average real interest rate on domestic debt (in percent)	5.2	5.4	4.0	4.9	0.8	5.8	6.4	4.0	4.1	4.0	5.0	4.9	5.0	5.0	5.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.1	-6.8	-1.0	-6.6	5.7	-1.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.5	2.2	1.7	3.9	2.0	1.9	1.5	4.0	3.9	4.0	3.0	3.0	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	19.5	20.7	20.4	24.7	27.3	26.3	23.2	28.6	28.5	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Samoa: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	79	83	86	87	86	85	77	65
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	79	81	82	82	83	83	80	78
A2. Primary balance is unchanged from 2013	79	82	85	87	89	90	95	106
A3. Permanently lower GDP growth 1/	79	84	88	89	90	90	91	104
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	79	87	96	98	99	99	98	97
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	79	81	83	84	83	82	75	64
B3. Combination of B1-B2 using one half standard deviation shocks	79	83	86	87	87	87	84	80
B4. One-time 30 percent real depreciation in 2014	79	103	105	105	103	102	91	75
B5. 10 percent of GDP increase in other debt-creating flows in 2014	79	91	94	94	93	92	84	70
PV of Debt-to-Revenue Ratio 2/								
Baseline	194	194	215	223	227	231	210	178
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	194	188	203	210	217	223	215	210
A2. Primary balance is unchanged from 2013	194	192	211	223	235	245	259	288
A3. Permanently lower GDP growth 1/	194	195	218	228	235	243	242	273
A4. Alternative Scenario :[Costumize, enter title]	194	681	658	613	585	522	544	477
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	194	201	233	245	255	265	262	259
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	194	190	207	215	219	224	203	173
B3. Combination of B1-B2 using one half standard deviation shocks	194	192	210	221	228	235	226	215
B4. One-time 30 percent real depreciation in 2014	194	241	262	269	273	277	247	205
B5. 10 percent of GDP increase in other debt-creating flows in 2014	194	211	233	241	246	250	227	190
Debt Service-to-Revenue Ratio 2/								
Baseline	10	10	12	13	13	14	16	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	11	12	13	13	14	16	14
A2. Primary balance is unchanged from 2013	10	10	12	13	13	14	16	16
A3. Permanently lower GDP growth 1/	10	11	12	13	13	14	17	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	10	11	12	13	14	15	17	16
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	10	10	12	13	13	13	16	12
B3. Combination of B1-B2 using one half standard deviation shocks	10	11	12	13	13	14	16	14
B4. One-time 30 percent real depreciation in 2014	10	12	14	16	16	17	20	17
B5. 10 percent of GDP increase in other debt-creating flows in 2014	10	10	12	13	13	14	16	13

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

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FOR IMMEDIATE RELEASE
May 16, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$8.6 Million Disbursement Under Rapid Credit Facility for Samoa

The Executive Board of the International Monetary Fund (IMF) yesterday approved a disbursement of an amount equivalent to SDR 5.8 million (about US$8.6 million) under the Rapid Credit Facility (RCF) for Samoa to help the country manage the economic impact of Cyclone Evan. The Board's approval enables the immediate disbursement of the full amount, which represents 50 percent of Samoa's quota in the IMF.

The December 2012 cyclone inflicted damages and losses across the whole spectrum of economic activity on the main island of Upolu, home to 70 percent of the population. The total estimated cost of damages and production losses could amount to almost 30 percent of GDP. Though small relative to the overall impact of the cyclone on the budget and balance of payments, Fund assistance to Samoa under the RCF will help catalyze support from development partners.

The RCF provides rapid financial assistance with limited conditionality to low-income countries with an urgent balance of payments need. In this context, the economic policies of a member receiving RCF financing are expected to address the underlying balance of payments difficulties and support policy objectives including macroeconomic stability and poverty reduction. Financing under the RCF carries zero interest (until end 2014), has a grace period of 5 ½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

Following the Executive Board's discussion of Samoa's request for assistance under the RCF, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The macroeconomic impact of the tropical cyclone that struck Samoa in December 2012 has been especially significant coming just three years after the devastation caused by a tsunami. Economic growth will be adversely affected for some time, but there are encouraging signs of early recovery, and the authorities are to be commended for their swift response to the disaster.

“The main challenge in the short run is to secure sufficient resources for reconstruction with minimal additional borrowing. Planned public expenditure should be reprioritized and grant financing from development partners should be sought. However, as soon as the recovery takes hold, fiscal consolidation anchored in a medium-term fiscal framework should resume to bring public debt to more sustainable levels.

“Given low inflation and the need to support activity in the period ahead, monetary policy should remain accommodative, although the Central Bank of Samoa should continue to monitor domestic liquidity closely. With the aftermath of the cyclone posing risks to bank balance sheets, heightened prudential oversight of the financial system is necessary.

“Continued efforts will be needed to improve Samoa’s competitiveness and raise potential growth. The authorities are encouraged to build on their past successes and make further progress in improving the business environment, and in the areas of public enterprise reform, land use, and public financial management.

“The disbursement under the Fund’s Rapid Credit Facility is intended to help Samoa cope with its immediate balance of payments needs as well as catalyze critical donor support for the recovery.”

Statement by Jong-Won Yoon, Executive Director for Samoa
and Craig Fookes, Advisor
May 15, 2013

Cyclone Evan comes just three years after the tragic 2009 tsunami and was the largest cyclone to strike Samoa in twenty two years with an economic damage assessment equivalent to almost 30 percent of GDP. The cyclone created significant economic disruption and affected most parts of the economy on the main island, which is home to 70 percent of the population. GDP growth is expected to decline to 0.9 percent over 2012/13.

A strong track record of prudent economic management provided policy headroom, but successive crises have unwound ten years of prudent macroeconomic management. Samoa was widely viewed as a model economy with a strong track record of careful economic management. A period of structural reforms, beginning 1996, was supported by prudent fiscal management aimed at building resilience over time. Public debt declined from 66 percent of GDP in the late nineties to around 35 percent of GDP in 2007/08. The advent of the financial crisis and the cost of relief for the 2009 tsunami created a significant setback for the authorities. Debt rose to nearly 60 percent of GDP by 2011/12, leaving government finances vulnerable to further shocks.

The arrival of Cyclone Evan and its associated costs have pushed the economy over into a high risk of debt distress under the joint IMF/WB debt sustainability analysis. The RCF will be used to ease immediate cyclone related pressures on fiscal resources and foreign reserves, given current projections suggest debt, which is largely concessional, could reach 70 percent of GDP by 2014/15. In addition to providing such financial assistance and advising on macroeconomic frameworks, the Fund involvement will help catalyze support from development partners.

Over the medium term, our authorities have highlighted their continued commitment to implementing sound macro policy aimed at rebuilding resilience through stronger growth and macroeconomic stability. The post-crisis response was proactive and utilized a range of innovative and unconventional policy tools to provide immediate policy support within Samoa's shallow domestic markets. The rapid response has reduced economic disruption, but the authorities are now looking to normalize policy to guide the economy back to growth. The intention is to return debt to a more prudent level given an ongoing exposure to economic shocks and further natural disaster.

Monetary policy

The Central Bank of Samoa's (CBS) will retain its accommodative monetary policy stance, which will support stronger growth of around 3 percent through 2013/14. To maintain the real value of the fixed peg, the authorities aim to keep inflation on par with inflation rates observed in key trading partners, such as Australia. The inflation outlook remains benign with headline inflation expected to average 2 percent through 2012/13, falling to 1.5 percent alongside projected declines in global commodity prices.

Past Article IV reports have highlighted the weak pass-through from changes in monetary policy. Samoan banks remain constrained in their ability to lend and tend to suffer from excess cash reserves. The most recent monetary policy statement noted that banks' excess reserves remain at over three times the monthly minimum excess levels of WST 20.5 million. The CBS has reintroduced credit facilities for commercial banks' use and are working to encourage an active interbank market as liquidity returns to more desirable levels. The authorities highlighted that the Central Bank credit lines provided to the Development Bank remain temporary and were only used twice in the wake of the tsunami and Cyclone Evan. The loans served a similar purpose to the quantitative easing in advanced economies, in that they aimed to overcome structural impediments creating a blockage in the credit channel for monetary policy. The CBS credit lines funded emergency loans to solvent businesses facing a temporary loss of income. The authorities remain conscious of the risks to the central bank balance sheet and have issued a government guarantee to protect the CBS from loss.

Fiscal Policy

Reconstruction expenditure will remain elevated over the next couple of years, but should moderate as crisis-related spending starts to tail away. Reconstruction and social spending will provide stimulus over the short-term, although debt will need to be lowered over the medium term given that the 2012/13 deficit will rise to 6.4 percent of GDP. Grant funding and a reprioritization of planned development projects will help minimize the projected increase in debt. To further aid consolidation, a joint working group has been formed to improve policy coordination between the CBS and Ministry of Finance and the medium-term fiscal framework will be revised. The World Bank will provide assistance through a review of expenditure and debt management policy.

Notwithstanding this, Samoa continues to face significant pressures for investment to support future growth. The Government has a stated policy to "build back better". Improvements will have a nominal upfront cost. However, the authorities expect that stronger building standards will help reduce crisis-related expenditures should further natural disasters occur over the medium term. New building projects should come under increased scrutiny and, as the staff noted, would ideally be grant funded.

Financial Sector

Samoa's financial sector is profitable, but markets remain shallow and relatively underdeveloped. Four registered banks provide basic financial services. The two largest banks are foreign owned, but are limited in the lending opportunities they can purse given a need to comply with their parent banks' prudential guidelines. Thus, even in the wake of the cyclone, banks report excess reserves and a lack of lending opportunities given difficulties around the use of collateral. The CBS is responsible for supervision and is monitoring non-performing loans in the wake of Cyclone Evan.

Our Samoan authorities are investigating ways to encourage financial deepening by addressing issues such as an inability to use land as collateral, which has acted as brake on investment. Box 4 discusses the new Customary Land Advisory Commission (CLAC).

Communal ownership has complicated the sale, lease, or development of nearly 80 percent of the country's land. CLAC will identify ways to encourage land use within traditional ownership structures. Clearer land rights and an ability to post collateral under the recently passed *Personal Property Security Act* should facilitate financial deepening and a more efficient pass through from changes in monetary policy.

The Government has also sought to expand access to financial services as a way to encourage saving. The National Provident Fund provides a retirement savings vehicle and the Unit Trust of Samoa (UTOS) provides access to a broader and more diversified investment portfolio than simple bank deposits. The decision to invest savings abroad has contributed to a reduction in excess liquidity, but the situation will need to be carefully monitored. In light of the developments, the authorities are fully supportive of undertaking an FSAP update. UTOS is relatively new (2008), while other financial entities are undergoing change through product redesign or evolutionary amendments to their mandate. An FSAP update could highlight the implications that these changes have had and identify ways to encourage development in private markets. Public financial entities are currently supervised by the SOE unit in the Ministry of Finance. However, the authorities agree that supervision could be streamlined through increased involvement from the Central Bank. An FSAP update could facilitate this transition and the Central Bank currently has staff seconded at the Bank of Fiji to develop specialist experience in the regulation of unit trusts.

External Sector

The authorities are monitoring reserves and are committed to maintaining external stability. Samoa has limited short-term debt as banks are funded by domestic deposits and most external debt is public debt owed to the ADB and WB. The current account deficit will increase for the time being, but will remain predominantly funded by official flows and remittances. IMF projections suggest that reserves will increase to around 4 months import cover, provided that donor support plays out as expected. While reserves are expected to exceed the standard 3 month reserve adequacy guideline, they do start to decline to around 3.8 months in 2014/15. Our authorities are aware of the risks of allowing reserves to dwindle and will act to prevent any depletion that could risk a more disruptive devaluation down the track. To prevent drains on CBS reserves, the authorities have highlighted the need for development partners to target funding towards boosting domestic activity through grant financing (upfront rather than on a reimbursable basis).

Our authorities have requested technical assistance (TA) to strengthen monitoring and analysis of exchange rate developments. They do not consider a devaluation at this point in time as desirable. Large uncertainties around equilibrium exchange rate levels would suggest a need for caution in interpreting the estimation results. The pace of post-cyclone recovery in Samoa remains uncertain and there is significant concern as to how a devaluation would affect the poor at the current juncture. Samoa is still adjusting to higher food prices as result of global food price inflation, the local drought, and the loss of agricultural production through Cyclone Evan. For these reasons, the authorities share the staff advice that an exchange rate devaluation be delayed until after the recovery starts to take hold.

The ongoing Fund technical assistance will provide useful input to guide future decisions by the Central Bank. The decision to devalue would need to carefully consider the effectiveness of monetary policy and its ability to control the pass through to inflation. A more gradual process of adjustment would allow monetary policy time to respond. Given that Samoa's debt is mainly denominated in foreign currency, the Samoan authorities remain concerned about an increase in debt at a time when the country has just been placed at high risk of debt distress.

Finally, our Samoan authorities would like to express their gratitude to Management and the mission team for their swift response to our request for the RCF and their dedication in helping Samoa overcome the tremendous hardships caused by the cyclone.