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

SAMOA: 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:

1. 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.
2. 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.
3. 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.
4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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,

/sd/

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

/sd/

Atalina Ainuu Enari
Governor
Central Bank of Samoa