

Samoa: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion for Samoa

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Samoa, the following documents have been released and are included in this package:

- the staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 18, 2007, 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 4, 2007. 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; and
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 18, 2007 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

SAMOA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Samoa

Approved by Masahiko Takeda and Michael Hadjimichael

May 4, 2007

Discussions: Apia, March 8–20, 2007. The team met with Prime Minister Tuilaepa Malielegaoi, Minister of Finance Niko Lee Hang, Central Bank of Samoa Governor Papali'i Tommy Scanlan, and other senior government officials.

Team: Messrs. Semblat (head) and Porter, and Mses. Mineshima and Zhou (all APD). Mr. Momo (OED) joined the discussions.

Economic Setting: Despite a recent slowing, the current economic situation is sanguine. The slowdown almost entirely reflected the restructuring of an auto parts manufacturer, with other sectors remaining robust. Looking ahead, growth will rebound thanks to tourism and construction related to the South Pacific Games in September 2007.

Exchange rate: Samoa maintains an exchange rate arrangement pegged to a basket of currencies with undisclosed weights. Samoa has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

Outreach: Staff met with business leaders, donors, and representatives of the diplomatic corps. As in the past, the authorities intend to authorize the publication of the report.

Previous Fund Advice: Samoa has had a very good track record in implementing Fund advice: in line with previous Fund recommendations, the authorities have maintained fiscal prudence and deepened their agenda of structural reforms.

Statistical issues: Core economic data are updated regularly in a timely manner, which enhances surveillance. National accounts data have improved but are not on prepared on an expenditure bases. Balance of payments data are limited.

Contents	Page
Executive Summary	3
I. Success Story of the Pacific	4
II. Recent Economic Performance and Outlook	5
A. Recent Developments	5
B. Outlook and Risks	7
III. Policy Discussions: Sustaining the Strong Performance	8
A. Maintaining Fiscal Prudence	8
B. Improving the Effectiveness of Monetary Policy	11
C. Promoting the Economic Use of Land and Fostering Private Sector Development	13
D. Developing and Strengthening the Financial Sector	15
E. Further Integrating Samoa into the Global Economy	16
IV. Staff Appraisal	17
Box	
1. Private Sector Development	14
Tables	
1. Selected Economic and Financial Indicators	19
2. Financial Operations of the Central Government	20
3. Balance of Payments	21
4. Medium-Term Baseline Scenario	22
5. Vulnerability Indicators	23
Public Information Notice	24
Summary of Annexes	25

Executive Summary

Background

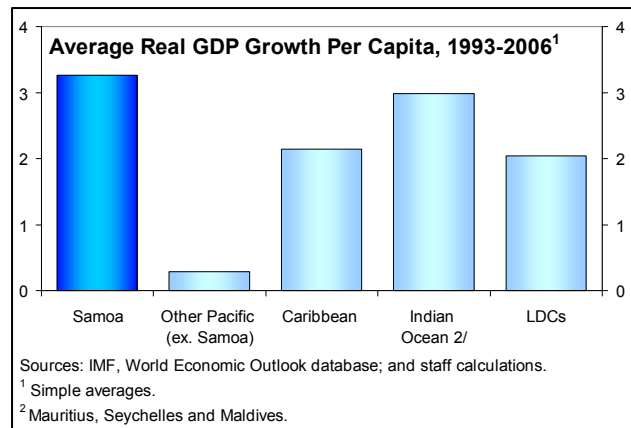
- **Samoa has achieved a major economic transformation over the last decade and a half.** Real per capita GDP has increased by over 3 percent per year on average, and external public debt has fallen below 40 percent of GDP. These achievements have entitled Samoa to graduate from LDC status.
- **Macroeconomic conditions remain good.** Despite a recent slowing in growth, real GDP growth is rebounding to its 3-3½ percent historical pace, boosted by the continued dynamism of the service sector and the rapid development of tourism. Inflation remains low and the external position, after some weakening in 2006, has recovered thanks to a tightening of fiscal and monetary policies.
- **Over the medium-term, steady real per capita growth is expected to continue.** Growth is expected to remain at around 3½ percent until 2010/11. The current account should improve gradually as net exports of services and remittances continue to grow and the reserve position is also expected to improve further. As growth remains strong and fiscal prudence continues, external debt is expected to decline to around 34 percent of GDP.

Key Policy Issues

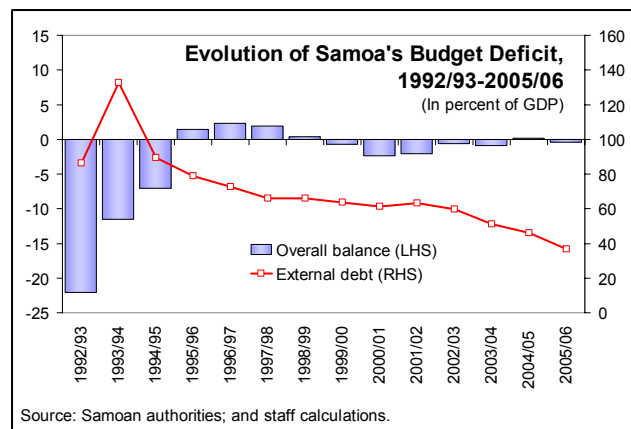
- **Sustaining the strong performance requires the continuation of prudent fiscal policies.** The authorities could face a series of fiscal pressures over the medium-term. To deal with these pressures, the authorities should restrain overall expenditure in conjunction with a higher prioritization of current spending toward health and education expenditures.
- **Improving the effectiveness of monetary policy would help better deal with possible shocks.** This could be done notably by developing money markets and enhancing the communication strategy of the Central Bank of Samoa (CBS).
- **Accelerating the program of structural reforms would boost growth further.** Removing impediments to the economic use of customary land would unlock an untapped potential, especially for tourism and intensive agricultural development. Promoting private sector development would require further privatization of SOEs, as well as improving the business climate and developing the financial sector. The successful restructuring of Polynesian Airlines and the recent fall in telecom tariffs following the introduction of competition in the sector have clearly demonstrated the benefits of the reforms.

I. SUCCESS STORY OF THE PACIFIC

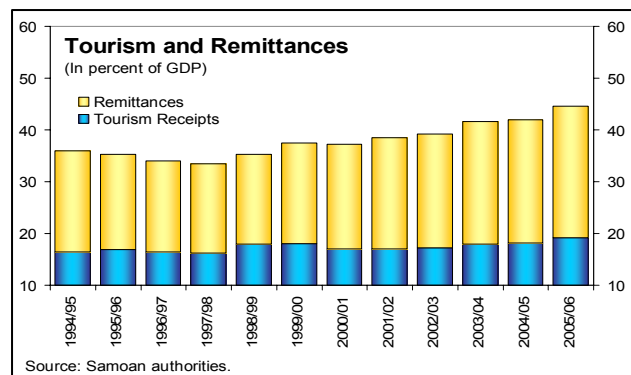
1. **Over the last decade and a half, Samoa has achieved a major economic transformation.** Real per capita GDP increased by over 3 percent per year on average, faster than that seen elsewhere in the Pacific as well as in other small island regions. This is a remarkable performance for a small and remote island. The transformation is reflected in the transition toward service activity, especially commerce and tourism.



2. **This performance owes to a broad-based reform program.** Since the early 1990s, Samoa has undertaken major reforms. Tax reforms, notably the introduction of a value added tax (VAT) in 1994, and civil service reform brought a sizable reduction in public debt. Structural reforms to foster competition and develop the private sector were undertaken: external tariffs were lowered and several State-owned Enterprises (SOEs) were privatized. The authorities also liberalized interest rates, eliminated credit ceilings, and moved to indirect monetary policy instruments. The success of these reforms was facilitated by Samoa's political stability: the Human Rights Protection Party (HRPP), in power for the past 25 years, was reelected following the March 2006 Parliamentary elections.



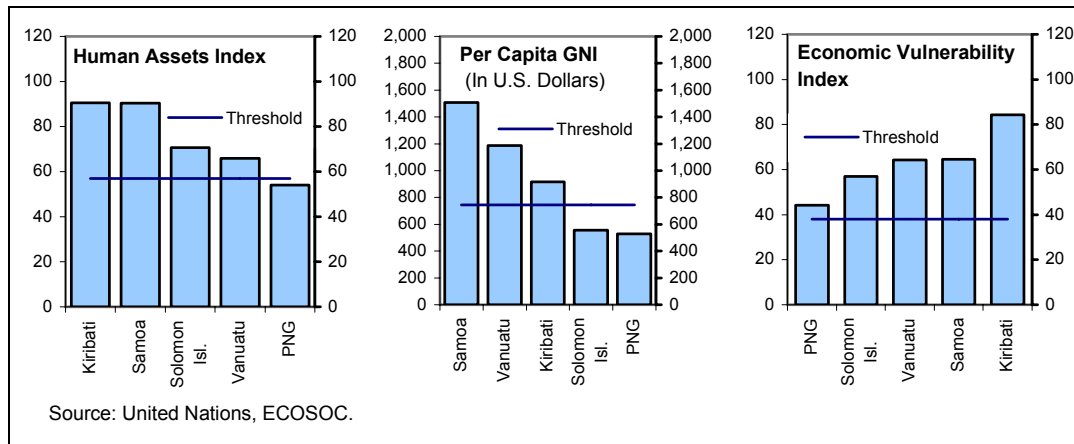
3. **The external position benefited from the rapid growth of remittances and tourism receipts.** A large and growing population of Samoans live in Australia, New Zealand and the United States.¹ Because of a culture that emphasizes respect for elders and attachment to land, expatriates send large remittances and visit



¹ The number of expatriate Samoans is estimated at around Samoa's current population of 179,000.

their homeland regularly. These visits have also helped kick-start the tourism industry, with Samoa now becoming a tourism destination for Australians and New Zealanders. Reflecting this, tourism is likely to contribute significantly to growth over coming years.

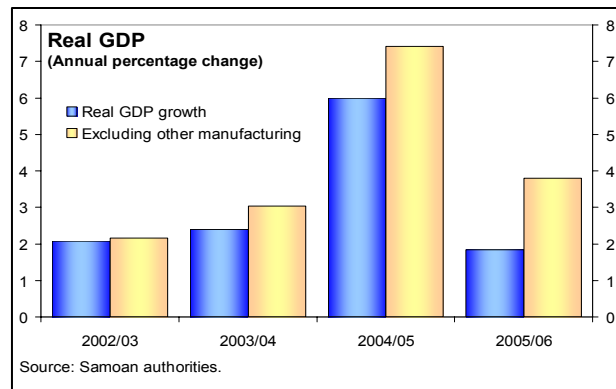
4. **These successes are enabling Samoa to graduate from LDC status.** Samoa exceeds two of the three LDC criteria set by the U.N., the Human Assets Index and the per capita Gross National Income Index, although Samoa's economic vulnerability still remain high. As a result, the U.N. committee on LDCs decided last year to remove Samoa from its list. Following a three year transition period, the country will officially graduate in 2009.



II. RECENT ECONOMIC PERFORMANCE AND OUTLOOK

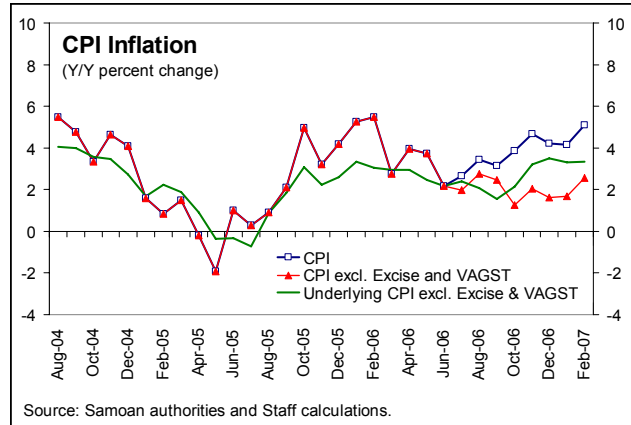
A. Recent Developments

5. **After a strong performance in 2004/05, growth decelerated to 1¾ percent in 2005/06.** This mainly reflected the decline in production of the only major manufacturer in the country as this subsidiary of a Japanese company restructures to better compete with other group subsidiaries in Asia.² The rest of the economy remained strong: growth reached 4 percent driven by the continuing dynamism of the service sector, notably the tourism and construction sectors, ahead of the South Pacific Games (SPG) in September 2007. The momentum is continuing in 2006/07.

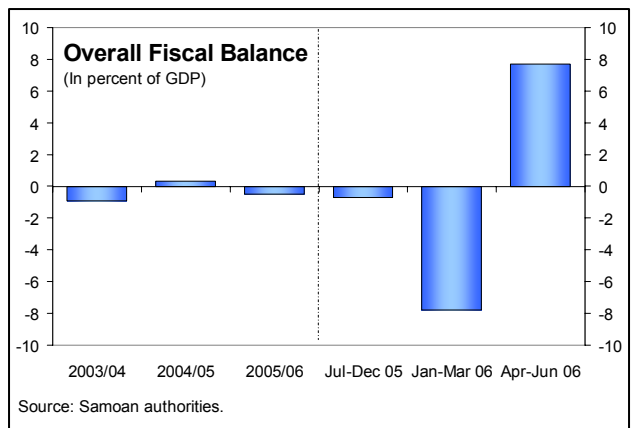


² The Samoan entity is specialized in automotive electrical systems, which are exported to Australia under concessional market-access arrangements.

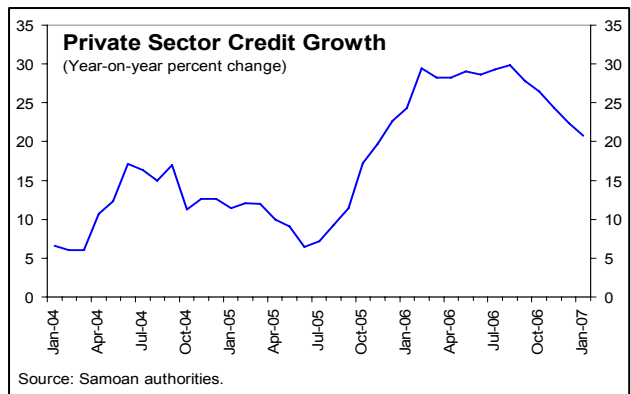
6. **Inflation remains low.** The recent pick-up in the headline and underlying measures of inflation mostly reflected changes to excise rates in July 2006 and a 2½ percentage point increase in the VAT in October. However, excluding those elements, inflation has remained muted, currently running at around 2½ percent (year-on-year).



7. **Fiscal policy was tightened following the March 2006 election.** Prior to the election, civil servants were granted a 42 percent general increase over 3 years, starting in July 2005. The first step increase, which cost 1¼ percent of GDP, contributed, in combination with the restructuring costs of Polynesian Airlines (estimated at 2½ percent of GDP), to the deterioration of the fiscal position in the first nine months of 2005/06 (July 05-March 06). After the elections, and in response to the weakening of the external position, the authorities tightened their fiscal stance. In the April-June 2006 period, the authorities ran a sizable fiscal surplus limiting the overall 2005/06 deficit to ½ percent of GDP, much lower than the 4¼ percent budget target.

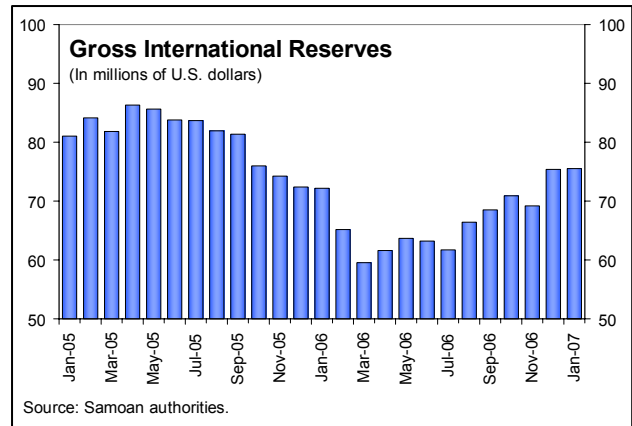
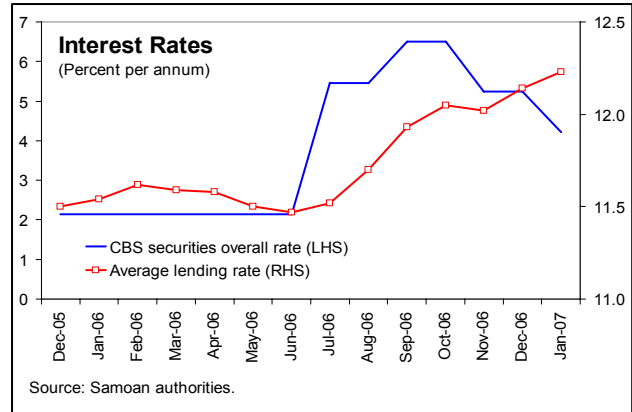


8. **Private sector credit growth was rapid in 2005/06, although it declined after some monetary tightening.** Fueled by a surge in lending for construction activities, notably in the tourism sector and in anticipation of the SPG, private sector credit growth accelerated sharply. To limit pressure on the external position, the central bank tightened monetary policy.



Rates on CBS securities—the CBS’s main instrument—rose from 2 to 6½ percent between June and October 2006.³ However, the rise in the lending rate was relatively small. To supplement the increase in policy rates, the central bank used moral suasion to curb lending.

9. **The external position has recovered since mid-2006.** The pre-election stimulus, private sector credit growth, and higher oil import bill, contributed to a 23 percent surge in imports in the first quarter of 2006. Even as tourism receipts and private remittances rose, the deterioration in the trade balance led to a fall in foreign reserves to below 3 months of imports in May 2006. Since the tightening of fiscal and monetary policies, the external position has improved, with reserves rising to about 3½ months of imports by January 2007.



B. Outlook and Risks

10. **Short-term prospects are good.** Growth is expected to rebound to 3 percent for 2006/07. Construction activity remains buoyant thanks to the SPG and ongoing donor projects. Combined with rising tourist arrivals, this should help boost 2007/08 growth to around 3½ percent. Reflecting the recent increases in the VAT rate and excise taxes, headline inflation should remain around 5¼ percent through 2006/07. Nonetheless, core inflation remains low and headline inflation is expected to revert to 3 percent in 2007/08. The balance of payments should continue to benefit from growing tourism, foreign investment, and remittances, while import growth decelerates given the policy tightening, allowing reserves to rise to almost 3¾ months of imports by mid-2008.

11. **Over the medium-term, steady real per capita growth is expected, with external debt declining.** Under the baseline scenario, staff expects annual per capita growth to remain at around 3-3½ percent until 2010/11, with continued emigration limiting population growth. The service sector is likely to be the key driver of growth, boosted by the strong performance

³ As Samoa maintains capital controls, the central bank has some influence over domestic interest rates.

of the tourism sector. The current account should improve to a surplus of 1½ percent of GDP in 2010/11 as net export of services and remittances continue to grow. Reserves are projected to reach 5 months of imports by 2010/11. Consequently, external debt should decline from around 40 percent of GDP to 34 percent in 2010/11. Moreover, with all external debt concessional, the net present value of debt is expected to decline to 20 percent of GDP.

12. **Nonetheless, given its size and remoteness, Samoa remains vulnerable to external shocks.** First among them are cyclones: Samoa has been hit by 3 major cyclones since 1990. Should a cyclone hit the islands again, destroying much of the agriculture crop and slowing tourism, the outlook would worsen with lower growth, higher inflation and a short-term deterioration in the balance of payments. Other shocks affecting regional tourism or remittances could also adversely impact the economy.

13. **Continued deepening of the reform program would yield a much higher real per capita growth.** While Samoa's growth performance has been impressive, the economy still faces impediments to growth. The restriction on leasing customary land for productive uses, notably for tourism and intensive agriculture, together with the cost of finance and some infrastructure services remain critical issues. Staff believes that a more forceful push to remove these impediments could raise average real per capita growth by ½ to 1 percentage point over the medium term, through additional tourism and investment activity.

III. POLICY DISCUSSIONS: SUSTAINING THE STRONG PERFORMANCE

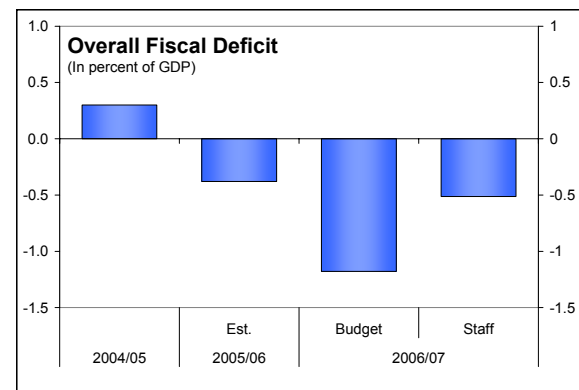
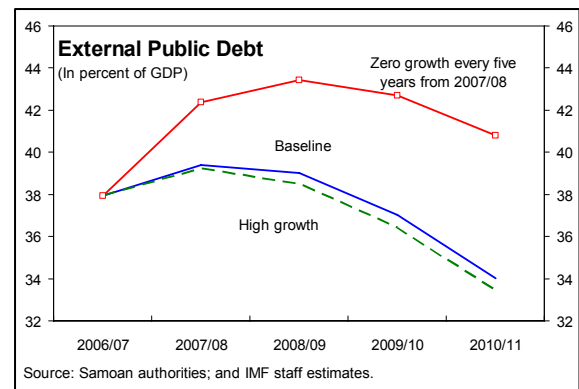
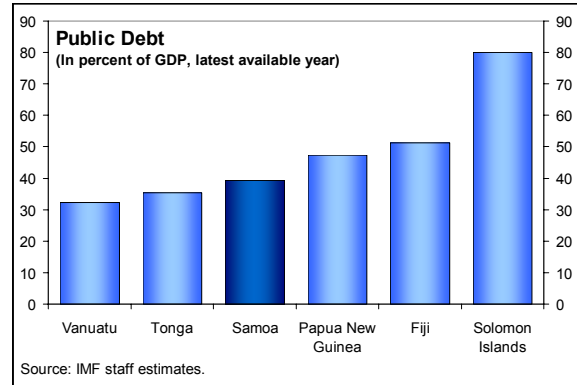
The discussions focused on ways to sustain rapid per capita income growth, while limiting Samoa's vulnerability to risks and pressures. Given Samoa's stable macro-economic situation, particular attention was placed on ways to deal with possible future fiscal challenges—aging of the population and lower donor assistance—while maintaining fiscal balance, and ways to strengthen the monetary policy framework in order to better deal with possible external shocks. In addition, the staff reinforced the importance of deepening structural reforms in order to accelerate per capita income growth, in line with the authorities' intentions.

A. Maintaining Fiscal Prudence

14. **The staff and authorities agreed that continued fiscal discipline, especially in the face of coming fiscal pressures, is crucial to sustaining Samoa's strong performance.** Moreover, given Samoa's basket peg regime and the significant impact of government operations on the balance of payments, the staff emphasized the need to maintain prudent fiscal policy. Indeed, as the episode of 2005/06 has shown, reserves can quickly evaporate if the fiscal situation deteriorates.

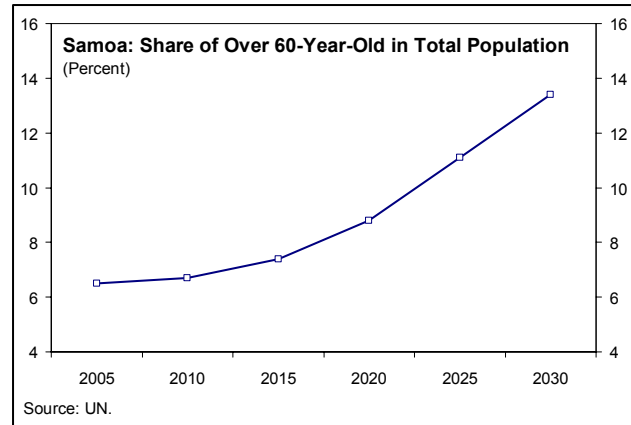
15. **The fiscal strategy is therefore designed to ensure the sustainability of Samoa’s public and external debt, and create some fiscal space to deal with possible shocks.** Currently, the public debt to GDP ratio in Samoa, at around 39 percent, is in line with other Pacific islands.⁴ Maintaining the overall fiscal position around balance over the medium-term would help reduce it to 34 percent by 2010/11. However, should a strong cyclone hit Samoa, public debt levels would rise again to more than 40 percent by 2010/11. If a series of unusually strong cyclones hit Samoa (as happened since 1990) Samoa’s debt profile would deteriorate further (see attached DSA annex).

16. **Staff argued that a broadly unchanged fiscal deficit from 2005/06—½ percent of GDP—was appropriate.** The authorities budgeted for a 1¼ percent of GDP deficit in FY2006/07, with revenue measures including a rise in some excises and in the VAT rate from 12½ percent to 15 percent. This also reflects a supplementary budget passed in December 2006 imposing cuts in Ministries’ operating budgets to finance additional SPG-related capital spending. Staff argued that maintaining a broadly unchanged deficit could be done by cutting an additional 3 percent of current spending. The staff also recommended a broadly balanced budget for FY2007/08.



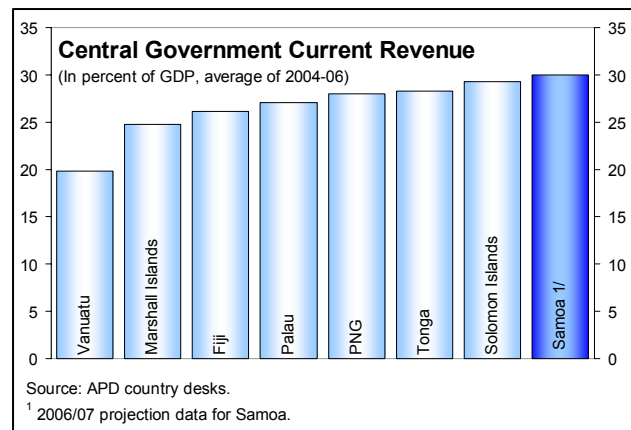
⁴ All of Samoa’s public debt is external.

17. **Over the medium-term, Samoa could face several fiscal pressures:** first, among those, the pressure from an aging population: with Samoans' average life expectancy rising, so will public expenditures on health. Together with the authorities' intentions to increase spending on education, the likely increase in social spending will put pressure on overall expenditures.⁵

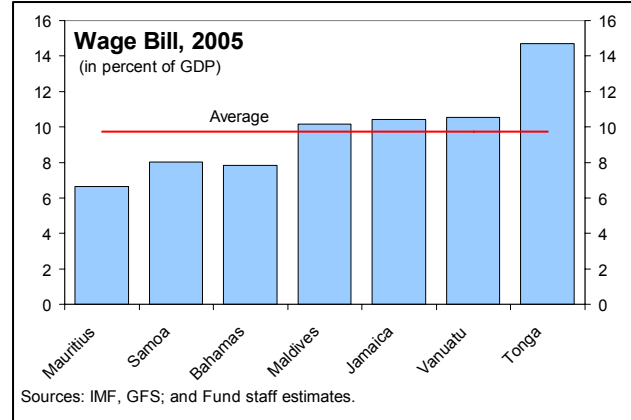


18. **Samoa's anticipated graduation could also put pressure on the fiscal accounts** by limiting both the external grants (which have averaged around 8 percent of GDP in recent years) as well as access to concessional financing for infrastructure projects. In discussions with staff, most donors did not link their assistance decisions to the LDC graduation decision, suggesting a relatively minimal impact on donors' assistance to Samoa. However, the authorities should prepare for lower levels of assistance.

19. **Reflecting these pressures, the staff argued for continued balanced budgets with overall expenditure restraint.** With revenue to GDP at around 30 percent—slightly above the average for tourism-based islands—the staff argued that fiscal pressures should be handled primarily through current expenditure restraint. For instance, a halving of grants by 2010/11 would require reducing current spending from around 25 percent of GDP to 23 percent so as to keep development expenditure constant.



20. **This also argues for restraining the growth of public wages.** The authorities noted that this was being dealt with by moving towards implementing a salary structure more closely aligned with



⁵ Health and education spending amount to around 40 percent of current expenditures.

performance over the next two years. Staff supported this initiative, noting that any general public wage increase should be consistent with budgetary constraints set by medium-term fiscal plans, and integrated with any civil service reform.

21. **Restraint on current spending, as well as additional social spending needs, also calls for cutting non priority spending.** This could be done by cutting subsidies and transfers for SOEs which have cost an average of 2½ percent of GDP per annum since 2000. These measures, together with the saving of any surpluses, would also create a cushion in case of unforeseen expenditure, such as after a natural disaster.

B. Improving the Effectiveness of Monetary Policy

22. **Staff and the authorities agreed that a pause in the recent monetary tightening was justified.** The tightening has succeeded in slowing private sector credit growth, but given such lingering risks to the external position as the final boost in construction for the SPG and the last step in the phased public wage increases in July 2007, monetary policy should remain on hold for the time being.

23. **Improving the resilience of the economy to external shocks requires a stronger monetary policy framework.** When reserves fell below their four-month import coverage target, the central bank tightened its stance. Lacking open-market like instruments to inject liquidity at a time when excess reserves were very low, the central bank had difficulties steering short-term interest rates. The central bank therefore relied on moral suasion which, combined with the lack of additional liquidity in the system, succeeded in slowing lending.

24. **The effectiveness of monetary policy could benefit from the development of the short-term money market.**⁶ The staff welcomed the recent development of an active inter-bank market, but, as agreed with the authorities, further development requires a more active involvement of the National Pension Fund (NPF) in the CBS securities auctions and the interbank market given its structurally long cash position. Such a development could improve the functioning of monetary policy but would also be an important step in fostering financial market development in Samoa. Further developments could include the issuance of government securities. However, should these instruments be insufficient, the CBS could also rely more on the Statutory Reserve Deposit (SRD) requirement rate.

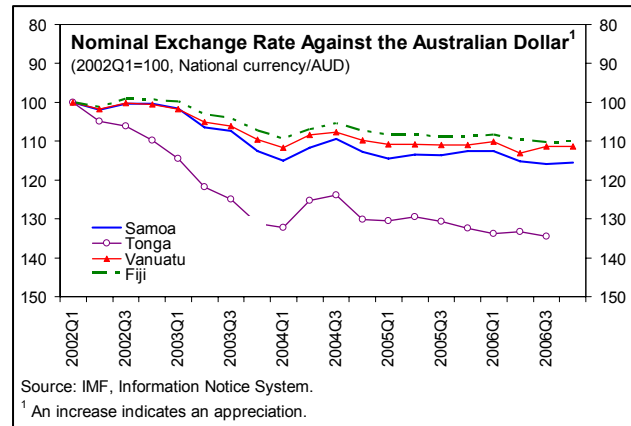
25. **The staff recommended that the CBS clarify its primary policy target, and enhance its dialogue with the private sector.** The staff argued that the ultimate objective is the maintenance of the exchange rate peg, which acts as a credible anchor, with the reserve-import coverage ratio as the intermediate target. Although the authorities noted that capital controls allow the CBS some influence over monetary conditions, the maintenance of the peg

⁶ See Chapter I of the accompanying Selected Issues Paper.

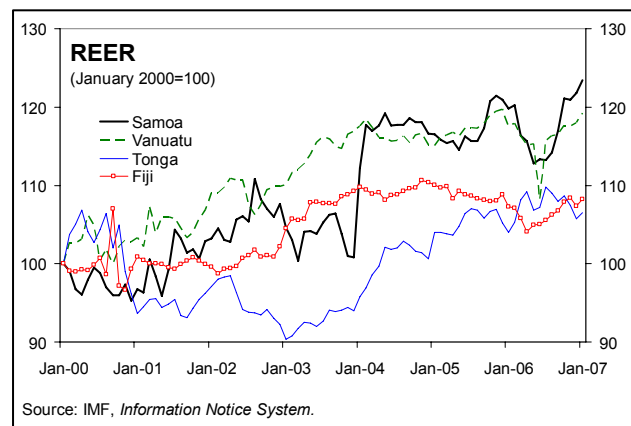
takes preference over the CBS's inflation goal. In the current framework, stable inflation is an outcome provided by the basket peg and its strong credibility. The staff also suggested more regular presentations from the central bank to enhance its communication with the private sector so as to guide market expectations on interest rates. The CBS noted that it already provides extensive information on its website, and that the bimonthly Cabinet Development Committee meeting provided a forum for conveying its views.

26. **The staff and the authorities agreed that raising the CBS's target import coverage ratio to five months would be desirable.** Samoa's vulnerability to shocks that can lead to a rapid erosion of reserves has been amply demonstrated in the recent past. Consequently, the staff argued that gradually raising the import coverage ratio over the medium-term to five months would provide an important additional buffer. Samoa's shallow markets and limited access to financial markets make this form of self-insurance particularly important.

27. **The current exchange rate regime remains appropriate and should be maintained.** The basket peg regime has provided a strong anchor against inflationary expectations. The basket is composed of six currencies, those of its main trading partners, and appropriately reflects tourism and remittance flows. Reflecting the recent strength of the Australian and New Zealand dollars, key currencies in the basket, the tala has appreciated vis-à-vis large Asian economies.

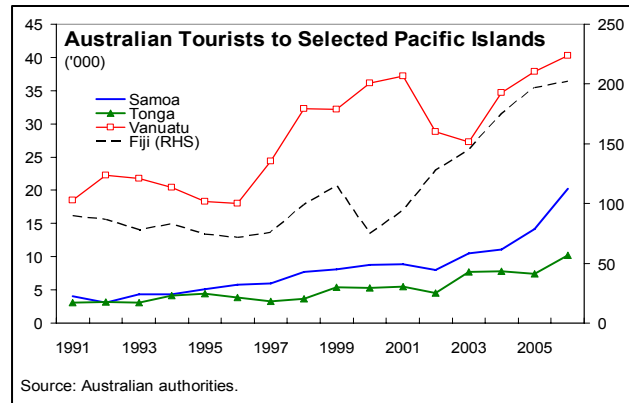


28. **Nonetheless, staff believes that the tala is appropriately valued.** In many sectors, especially tourism, Samoa's main competitors lie with its island peers in the Pacific region. In this regard, there are no indications that the tala has deviated from other regional currencies and Samoa's real effective exchange rate has remained relatively stable since the one-time jump of late 2003 consecutive to cyclone Heta. Moreover, given Samoa's impressive record of structural reforms and growth,



staff believes that the economy may have recorded faster productivity growth than its regional peers.

29. **The recent weak performance of merchandise exports has some specific non-price causes.** It is largely due to the effects of “El Nino” weather patterns on fishing, the main export industry. As El Nino effects are reversing and fishing harbor facilities in Apia are being modernized, fish exports are now rebounding. Moreover, given the improved access to Samoa and cheaper airfares following the restructuring of Polynesian Airlines, the tourism industry is expanding rapidly.



C. Promoting the Economic Use of Land and Fostering Private Sector Development

30. **Samoa’s performance over the past decade has been impressive, but much of its potential remains untapped.** The country is rich in fertile land, fishing resources, and attractive potential tourist locations. Samoa also has a relatively flexible labor market and high levels of investor protection. Past impediments that have inhibited Samoa reaching its potential relate to the economic use of customary land, and the pricing of some utility services.⁷

31. **The staff and the authorities agreed that long-term growth prospects depend on the economic use of customary land.** At present, 81 percent of the land in Samoa is customary, owned by extended families represented by their chiefs (“Matai”). Customary land cannot be sold, and while leases are legally possible, they are difficult and expensive to arrange. This is seen as a major impediment to further tourism development and intensive agriculture. Recognizing these constraints, the authorities intend to develop a reform plan, with the support of the AsDB, aimed at easing processes for leasing customary land and allowing the use of customary leases for collateral. Consultations with the public have already begun.

32. **Recent successes have demonstrated the importance of SOE reforms.** The restructuring of international services of the government-owned Polynesian Airlines into Polynesian Blue (through a joint venture with a foreign airline) has reduced airfares to Samoa by around half, resulting in a significant increase in tourist arrivals, and removed an average

⁷ See Box I and Chapter II of the accompanying Selected Issues Paper.

annual cost of one percent of GDP from the budget. Similarly, the deregulation of the mobile telecommunications sector has triggered a sizable fall in call costs. These gains have strengthened public support for further reforms. The authorities noted that remaining priorities include plans to reform the remaining domestic operations of Polynesian Airlines (which still generate losses), and a longer-term plan to reform the electricity sector, including through the introduction of competition. Further reforms should focus on removing cross-subsidies from utility prices, especially electricity.

Box 1. Samoa: Private Sector Development

Facilitating the economic use of land would boost private sector development. Customary land has a central place in Samoan culture and society. Its inalienable nature limits its transfer across uses, and prevents it from being used as collateral when borrowing for investment. Although leases are legally possible, they are time consuming, expensive to arrange, and considered difficult to enforce. Consequently, less than one-fifth of customary leases are for commercial purposes, with church leases far more significant. Although leases can legally be used as collateral, no bank currently accepts them as collateral. Streamlining the leasing process and making enforcement easier, should increase the availability of both land for projects and financing.

Progress in other areas would also reduce the cost of doing business and obtaining financing:

- *Public Services:* Increasing private provision and competition in public services, together with improved management of the remaining public bodies, should lower business costs. Samoa's infrastructure compares well with some in the region, but some public services remain costly. Increased competition such as in the telecom sector would help reduce costs.
- *New Businesses:* The processes for starting a business and foreign investment could be streamlined.
- *Financing Costs:* Streamlining the property registry and establishing a credit bureau would reduce the cost borrowing.

Selected Investment Climate Indicators, 2006

	Samoa	Selected Pacific ¹	Selected Indian Ocean ²	Selected Caribbean ³
Starting a Business (Number of days)	35	39	32	20
Cost of starting a business (% of GNI per capita)	46	32	13	14
Employment rigidity	10	20	15	18
Time to register property (Number of days)	147	115	210	108
Investor protection index	6.3	5.4	6.5	5.3
Registering property (Number of days)	147.0	114.7	122.0	108.0

Source: World Bank, *Doing Business Report* (2006).

¹ Average for Fiji, Vanuatu and Tonga.

² Average for Maldives, Mauritius and Seychelles.

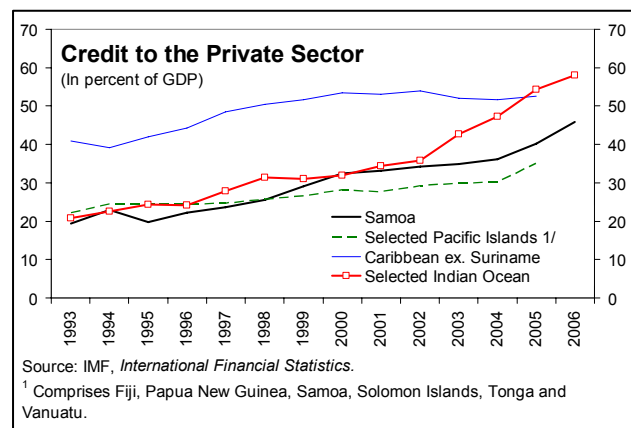
³ Average for Jamaica, Dominican Republic, and Trinidad and Tobago.

33. **Staff welcomed the authorities' renewed efforts to accelerate the privatization program and improved SOE governance.** The authorities plan to privatize Samoa Broadcasting Corporation, Agriculture Store Corporation and Samoa Shipping Services this year. The staff noted that this should be followed the sale of the government's stake in other non-strategic SOEs, with SamoaTel mentioned by the authorities as a likely candidate. Staff also recommended that the list of strategic SOEs be reviewed regularly with the objective of gradually reducing public sector involvement in the economy over time. Although the creation (with the assistance of the AsDB) of the independent Institute of Directors has helped develop the skills of directors, the government continues to be heavily represented on the boards of major SOEs. Future efforts could aim to increase the number of independent directors, make managers more accountable for their performance, and more strictly enforce the 50 percent rule on dividend payments by profitable SOEs.

D. Developing and Strengthening the Financial Sector

34. **Despite the recent rapid growth in private sector credit, and a reduction in the interest margin, the banking system remains sound.** Non performing loans as a share of total loans have increased to around 4 percent, but remain relatively low and the level of provisioning is adequate. Bank profitability remains high, although tight liquidity witnessed over the past year has led to an increase in the cost of funds. Consequently, some decline in profits could be expected as the lending margin has declined and credit growth decelerates. Nonetheless, this possible deterioration should be manageable as all four banks, including two subsidiaries of major Australian banks, are adequately capitalized and the supervisory framework appears adequate to deal with these potential risks.

35. **Staff and the authorities agreed that improving credit information and facilitating the leasing of customary land would boost access to financing for entrepreneurs.** Streamlining the process by which customary land leases can be used as collateral would unlock significant funds for investment. Without a credit information bureau, banks rely on informal networks and customer relationships to inform their lending decisions. The recent establishment of a nascent credit information and debt collection firm is welcome. Future efforts should focus on a credit bureau reporting positive information.



36. **Staff welcomes the recent improvements in the management of the NPF.** The authorities stressed that overall lending guidelines have been strengthened, and thanks to the establishment of a debt management unit, the NPF has improved its management of non-performing assets. In addition, the Fund has started investing a portion of its assets in foreign

safe assets. Staff suggested that the NPF also invest in domestic risk-free assets such as CBS securities. More generally, the financing of consumption should not be the NPF's primary activity. Presently NPF members can borrow up to half of their accumulated funds for any purpose, with many taking up this opportunity. Staff recommends that the 50 percent borrowing cap gradually be lowered, and/or that this borrowing be restricted to housing, education or other investment projects.

37. Regulation and supervision of both the domestic and international (offshore) banking sectors have significantly improved since the offshore center assessment of 2002. An update concluded prior to the Article IV mission found that compliance with Basel Core Principles for domestic and international banking supervision has improved compared with the previous assessment.⁸ On-site examinations of two key areas—credit risk management and AML/CFT—have been conducted at all domestic banks. For the international banks, which remain small, supervisory arrangements were strengthened by the requirement that banks establish a physical presence in Samoa and maintain records there, and on-site inspection was introduced. The Samoa International Finance Authority (SIFA) was also established in 2005 as an autonomous supervisory agency for the offshore sector.

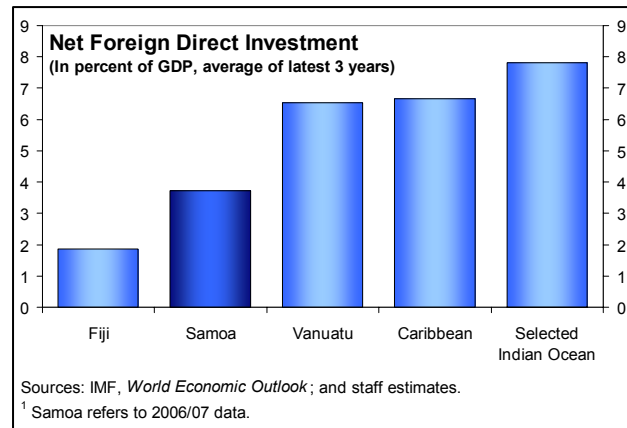
38. Nonetheless, areas for improvement remain. For the domestic sector, the supervision of banks' credit policies, connected lending, and large exposures could be strengthened, and the CBS still has to implement the new AML/CFT legislation. For international banks, SIFA's operational independence could be improved by transferring the Minister of Finance's remaining powers to SIFA and the supervisory system should be strengthened further through the introduction of prudential guidance on banks' lending and other risk taking activities.

E. Further Integrating Samoa into the Global Economy

39. Staff welcomes recent efforts to conclude negotiations on WTO accession. The mission believes that Samoa's integration into the global economy and a further opening up of its economy could yield significant benefits. Securing a rapid conclusion of the negotiations would be important, especially at a time when graduation from LDC status could affect Samoa's current preferential access treatment to some major markets. Discussions with the EU on an Economic Partnership Agreement (EPA) are ongoing, with the hope that negotiations will be completed early next year.

⁸ The update was undertaken by an MCM OFC mission that visited Samoa during February 27-March 8, 2007.

40. **Remaining barriers to foreign investment should be eased.** Despite some recent pick up, Samoa has traditionally received relatively little foreign direct investment compared with its peers in the Caribbean and the Indian Ocean. In addition to easing structural impediments to investment at home, the mission believes that the Samoan economy would benefit greatly by easing access for foreign investors to do business in Samoa.⁹ The coming review of the Foreign Investment Act of 2000 and Regulations of 2003 supported by the World Bank could lead to concrete measures.



IV. STAFF APPRAISAL

41. **Samoa's economic transformation over the past decade has been impressive.** This period has seen significant development of the service sector, and growth fast enough to make Samoa a middle-income country. While Samoa remains a small, isolated and vulnerable economy, its transformation clearly demonstrates the benefits of its broad-based and ongoing reform program, and sound macroeconomic policy, as well as its stable political environment.

42. **Near-term growth is set to rebound.** Following the manufacturing slowdown in 2005/06, growth is expected to accelerate over the near term reflecting increased activity in construction leading up to the SPG and associated tourism. Core inflation is expected to remain muted in the near term. Continued remittance flows and strong tourists arrivals should result in a further accumulation of reserves.

43. **Nonetheless, Samoa remains a vulnerable economy, highlighting the importance of prudent policy.** Natural disasters, such as cyclones, remain an ongoing risk, as do sudden swings in commodity prices. Moreover, given the aging of the population and prospective LDC graduation, Samoa is expected to face rising fiscal pressures over coming years.

44. **Continuation of prudent fiscal policy is essential.** With revenue collections already relatively high, expenditure restraint is the most appropriate way to deal with fiscal pressures. Spending restraint will sharpen the need for government to prioritize expenditure into areas

⁹ Among other measures, the authorities should ease work permits for foreign workers and managers.

that would boost growth opportunities (infrastructure and education), and address the needs of an aging population.

45. **Samoa's vulnerabilities also argue for additional reserves and a stronger framework for monetary policy instruments.** The episode of 2005/06 showed how quickly reserves can evaporate. Consequently, Samoa should aim to maintain reserves to cover around 5 months of imports over the medium-term. Moreover, deepening money markets would help enhance the effectiveness of monetary policy.

46. **The basket peg exchange rate regime remains appropriate.** This regime has provided a credible nominal anchor, and has contributed to low inflation. The basket weights are appropriately based on foreign trade, tourism and remittance flows. The recent weakness of merchandise exports reflects specific non-price factors.

47. **The benefits of structural reform have been clearly demonstrated.** The restructuring of air services has resulted in a sharp increase of tourists, and the introduction of competition in the telecommunications sector has generated a fall in call costs. Similar benefits are likely to result from reforms in other utility and infrastructure areas, such as electricity provision. Efforts to strengthen management and accountability of SOEs and promoting the transparency of SOE pricing are likely to significantly improve the business environment.

48. **Expected continuation of the wide-ranging structural reform efforts will be important to maintain high and sustainable medium-term growth.** In particular, making the leasing of customary land easier promises significantly higher growth as it remains the most binding constraint to further development. The government's reform process holds the promise of improving both the allocation of land as well as prospects for project financing if leases can be accepted as effective collateral.

49. **The quality of statistics is continuing to improve.** Fund staff, including PFTAC, will continue to assist in this area.

50. **It is recommended that the Article IV consultation with Samoa take place on a 24-month cycle.** The authorities would welcome an interim staff visit in early 2008.

Table 1. Samoa: Selected Economic and Financial Indicators, 2003/04-2007/08 1/

Population (2006): 179,186
 Main Exports: Tourism, Fish
 GDP per capita (2005/06): US\$ 2,301
 Quota: SDR 11.6 million

	2003/04	2004/05	2005/06 Est.	2006/07 Proj.	2007/08 Proj.
(12-month percent change)					
Output and inflation					
Real GDP growth	2.4	6.0	1.8	3.0	3.5
Nominal GDP	8.9	10.9	8.0	7.1	6.6
Change in CPI (end period)	17.2	1.0	2.2	5.3	2.9
Change in core CPI (end period) 2/	17.2	1.0	2.2	2.5	2.7
Change in CPI (period average)	7.9	7.8	3.3	4.4	4.1
(In percent of GDP)					
Central government budget					
Revenue and grants	31.9	47.5	32.5	37.7	37.1
Expenditure and net lending	32.8	47.2	32.8	38.2	37.3
Current balance	4.2	4.2	2.8	5.0	4.5
Overall balance	-0.9	0.3	-0.4	-0.5	-0.3
External financing	0.0	1.4	0.5	0.9	3.9
Domestic financing	0.9	-1.7	-0.1	-0.4	-3.6
(12 month percent change)					
Money and credit					
Broad money (M2)	12.7	15.0	13.0	16.9	10.2
Net foreign assets 3/	4.0	34.4	-20.2	25.2	4.1
Net domestic assets 3/	20.9	-0.7	49.5	12.0	14.2
Private sector credit	17.1	6.8	28.2	13.2	10.2
Three-month CBS rate (in percent)	4.9	4.3	2.5	5.0	4.5
(in millions of U.S. Dollars)					
Balance of payments					
Current account balance	-5.5	-18.7	-26.1	-36.8	-38.0
(In percent of GDP)	-1.6	-4.6	-6.1	-8.1	-7.8
Merchandise exports, f.o.b.	14.1	12.9	10.7	9.9	11.9
Merchandise imports, c.i.f.	137.3	170.6	198.8	225.1	260.7
Current transfers	75.9	103.2	102.4	108.7	120.0
External reserves and debt					
Gross official reserves	67.1	82.7	65.8	78.4	93.2
(In months of next year's imports of goods and NFS)	3.8	3.9	2.8	3.0	3.5
Public debt 4/	166.7	160.0	168.2	172.2	190.7
(In percent of GDP)	47.8	39.3	39.4	37.9	39.4
Public external debt-service ratio (in percent) 5/	7.8	10.5	11.1	6.5	4.1
Exchange rates					
Market rate (tala/U.S. dollar, period average)	2.9	2.7	2.8	...	...
Market rate (tala/U.S. dollar, end period)	2.8	2.7	2.8	...	...
Nominal effective exchange rate (1990 = 100) 6/	98.8	99.7	99.6	...	...
Real effective exchange rate (1990 = 100) 6/	112.8	109.6	111.3	...	...
<i>Memorandum items:</i>					
Nominal GDP (In millions of Tala)	996	1,105	1,193	1,278	1,363
GDP per capita (US\$)	1,935	2,227	2,301	2,410	2,532

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

1/ Fiscal year beginning July 1.

2/ Excluding the increase in VAGST, excise tax and fuel surcharge on electricity tariffs.

3/ Change in percent of beginning period broad money.

4/ Includes publicly guaranteed debt. The government took over Polynesian Airlines' debt in August 1994.

5/ In percent of exports of goods and services.

6/ IMF, Information Notice System.

Table 2. Samoa: Financial Operations of the Central Government, 2003/04-2007/08

	2003/04	2004/05	2005/06	2006/07		2007/08
				Budget	Proj.	Proj.
(In millions of tala)						
Total revenue and grants	317.7	524.4	387.2	481.8	481.8	505.2
Total revenue	246.5	283.0	315.4	383.3	383.3	409.8
Tax revenue	219.7	242.2	273.1	325.9	325.9	352.8
Nontax revenue	26.8	40.9	42.2	57.5	57.5	56.9
External grants	71.2	241.4	71.8	98.5	98.5	95.4
Total expenditure and net lending	326.6	521.4	391.7	496.9	488.4	508.7
Current expenditure	204.5	236.6	281.9	329.8	319.3	348.4
Development expenditure	86.6	263.8	86.1	162.0	164.0	155.2
Net lending	35.5	21.0	23.7	5.1	5.1	5.1
Current balance	42.0	46.5	33.5	53.6	64.1	61.4
Overall fiscal balance	-8.9	3.1	-4.5	-15.1	-6.6	-3.5
Financing	8.9	-3.1	4.5	15.1	6.6	3.5
External financing, net	0.3	15.8	6.2	17.8	11.4	53.0
Disbursement	12.1	27.6	19.2	33.3	25.4	67.7
Amortization	11.9	11.8	13.0	15.5	14.0	14.7
Domestic financing, net	8.6	-18.9	-1.6	-2.7	-4.9	-49.5
Banking system	17.6	18.7	-11.0	-2.2	-3.9	-39.6
Other	-9.0	-0.2	-12.6	-0.5	-1.0	-9.9
(In percent of GDP)						
Total revenue and grants	31.9	47.5	32.5	37.7	37.7	37.1
Total revenue	24.8	25.6	26.4	30.0	30.0	30.1
Tax revenue	22.1	21.9	22.9	25.5	25.5	25.9
Nontax revenue	2.7	3.7	3.5	4.5	4.5	4.2
External grants	7.1	21.9	6.0	7.7	7.7	7.0
Total expenditure and net lending	32.8	47.2	32.8	38.9	38.2	37.3
Current expenditure	20.5	21.4	23.6	25.8	25.0	25.6
Development expenditure	8.7	23.9	7.2	12.7	12.8	11.4
Net lending	3.6	1.9	2.0	0.4	0.4	0.4
Current balance	4.2	4.2	2.8	4.2	5.0	4.5
Overall fiscal balance	-0.9	0.3	-0.4	-1.2	-0.5	-0.3
Overall balance (excluding grants)	-8.0	-21.6	-6.4	-8.9	-8.2	-7.3
Financing	0.9	-0.3	0.4	1.2	0.5	0.3
External financing, net	0.0	1.4	0.5	1.4	0.9	3.9
Disbursement	1.2	2.5	1.6	2.6	2.0	5.0
Amortization	1.2	1.1	1.1	1.2	1.1	1.1
Domestic financing, net	0.9	-1.7	-0.1	-0.2	-0.4	-3.6
Banking system	1.8	1.7	-0.9	-0.2	-0.3	-2.9
Other	-0.9	0.0	-1.1	0.0	-0.1	-0.7
<i>Memorandum items:</i>						
Nominal GDP (in millions of Tala)	996	1,105	1,193	1,278	1,278	1,363

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

Table 3: Samoa: Balance of Payments, 2003/08
(In million of U.S. dollars, unless otherwise indicated)

	2003/04	2004/05	2005/06	2006/07	2007/08
	Actual		Estimates	Proj.	
Current Account	-5.5	-18.7	-26.1	-36.8	-38.0
Trade balance	-123.1	-157.7	-188.1	-215.2	-248.8
Exports, fob	14.1	12.9	10.7	9.9	11.9
Fish	4.5	5.0	4.6	5.3	5.9
Other	9.6	7.9	6.1	4.6	6.0
Imports, cif	-137.3	-170.6	-198.8	-225.1	-260.7
Oil	-22.6	-31.1	-37.8	-42.4	-44.1
Non-oil	-114.6	-139.5	-161.0	-182.7	-216.6
Services and Income	41.8	35.9	59.6	69.7	90.8
Export Processing	9.1	10.4	9.8	10.7	10.0
Travel	57.9	63.6	73.2	89.9	114.2
Other services	-18.5	-15.5	-18.5	-25.0	-30.0
Investment Income	-6.8	-22.7	-5.0	-5.9	-3.4
Current transfers	75.9	103.2	102.4	108.7	120.0
Official transfers	2.9	14.2	1.5	4.8	7.0
Private transfers	73.0	89.0	100.9	103.9	113.0
Capital Account	15.9	61.1	28.7	31.0	17.0
Official	18.5	57.5	26.0	29.0	15.0
Private	-2.6	3.6	2.7	2.0	2.0
Financial Account	2.4	-17.1	-13.3	18.4	24.3
Direct Investment	2.6	-1.9	-4.0	14.4	11.2
Portfolio Investment	-0.5	0.3	0.0	0.0	0.0
Other Investment	0.3	-15.5	-9.3	4.0	13.1
Net Errors and Omissions	-0.3	-12.2	-6.2	0.0	0.0
Overall Balance	12.5	13.2	-16.9	12.6	3.3
Financing:					
Change in Gross Official Reserves	18.4	13.3	-17.9	12.6	3.3
Memorandum Items:					
Gross official reserves (in million U.S. dollars)	67.1	82.7	65.8	78.4	93.2
(in months of prospective imports of goods and NF services)	3.8	3.9	2.8	3.0	3.5
Exports (annual percentage change)	9.8	11.1	-8.3	15.8	20.7
Imports (annual percentage change)	10.5	24.3	16.5	13.2	15.8
Current Account Balance (in percent of GDP)	-1.6	-4.6	-6.1	-8.1	-7.8

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

Table 4. Samoa: Medium-Term Baseline Scenario, 2003/04-2010/11

	2003/04	2004/05	2005/06	Projections				
				2006/07	2007/08	2008/09	2009/10	2010/11
Growth and inflation								
Real GDP growth	2.4	6.0	1.8	3.0	3.5	3.0	3.5	3.5
CPI inflation (period average)	7.9	7.8	3.3	4.4	4.1	3.0	3.0	3.0
(In percent of GDP)								
Fiscal accounts								
Total revenue and grants	31.9	47.5	32.5	37.7	37.1	36.7	36.2	35.6
Total revenue	24.8	25.6	26.4	30.0	30.1	30.2	30.4	30.7
External grants	7.1	21.9	6.0	7.7	7.0	6.5	5.8	4.9
Total expenditure and net lending	32.8	47.2	32.8	38.2	37.3	36.5	36.1	35.7
Overall balance (including grants)	-0.9	0.2	-0.4	-0.5	-0.3	0.2	0.1	-0.1
External financing, net	0.0	1.4	0.5	0.9	3.9	1.9	0.4	-0.8
Domestic financing, net	0.9	-1.7	-0.1	-0.4	-3.6	-2.2	-0.5	0.9
(Annual percentage change)								
Monetary survey								
Broad money	12.7	15.0	13.0	16.9	10.2	6.1	11.4	13.4
Private sector credit 1/	17.1	6.8	28.2	13.2	10.2	9.9	10.9	10.9
(In millions of U.S. dollars)								
Balance of payments								
Current account	-5.5	-18.7	-26.1	-36.8	-38.0	-34.8	-9.4	8.5
(In percent of GDP)	-1.6	-4.6	-6.1	-8.1	-7.8	-6.8	-1.7	1.5
Merchandise trade balance	-123.1	-157.7	-188.1	-215.2	-248.8	-253.6	-246.6	-243.8
Exports, f.o.b.	14.1	12.9	10.7	9.9	11.9	12.1	12.2	12.3
(annual percent change)	9.7	-8.6	-16.9	-7.7	20.7	1.0	1.0	1.0
Imports, c.i.f. 2/	137.3	170.6	198.8	225.1	260.7	265.7	258.8	256.1
(annual percent change)	10.5	24.3	16.5	13.2	15.8	1.9	-2.6	-1.0
Services and income, net	41.8	35.9	59.6	69.7	90.8	91.5	99.5	107.5
Current transfers, net	75.9	103.2	102.4	108.7	120.0	127.3	137.7	144.9
Of which : Private transfers, net	73.0	89.0	100.9	103.9	113.0	122.3	133.0	140.4
Capital account, net	15.9	61.1	28.7	31.0	17.0	12.0	7.0	2.0
Financial Account, Net	2.4	-17.1	-13.3	18.4	24.3	17.2	5.5	-2.1
Overall balance	12.5	13.2	-16.9	12.6	3.3	-5.6	3.1	8.5
External debt and reserves								
Gross external public debt (percent of GDP) 3/	47.8	39.3	39.4	37.9	39.4	39.0	37.0	34.0
External debt-service ratio 4/	7.8	10.5	11.1	6.5	4.1	4.2	4.6	4.9
Gross official reserves (US\$ millions) 5/	67.1	82.7	65.8	78.4	93.2	92.6	100.7	110.7
(In months of next year's merchandise imports)	4.7	5.0	3.5	3.6	4.2	4.3	4.7	5.0
(In months of next year's imports of goods and NF services)	3.8	3.9	2.8	3.0	3.5	3.5	3.8	4.0

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

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

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

3/ Includes publicly guaranteed debt.

4/ In percent of GNFS exports.

5/ Official reserves only (CBS and Treasury).

Table 5. Samoa: Vulnerability Indicators, 2002/03–2005/06
(In percent of GDP, unless otherwise indicated)

	2002/03	2003/04	2004/05	2005/06
Financial sector risk indicators				
External Public and publicly guaranteed debt	50.9	47.8	39.3	39.4
Broad money (percent change, 12-month basis)	6.6	12.7	15.0	13.0
Private sector credit (percent change, 12-month basis)	11.4	17.1	6.8	28.2
Share of deposits in broad money (percent) 1/	92.3	92.6	93.0	92.6
Share of foreign currency deposits in total deposits (percent) 1/	5.2	3.4	3.2	4.2
Non-performing loans of the banking system (in percent of total loans) 1/	5.6	4.6	5.2	4.4
Capital adequacy ratio of the banking system 1/	18.4	18.0	16.7	16.7
External indicators				
Exports (percent change, year average basis in U.S. dollars)	-10.5	9.7	-8.6	-16.9
Imports (percent change, year average basis in U.S. dollars)	-8.4	10.5	24.3	16.5
Terms of trade (percent change, year average basis) 2/	4.9	1.2	2.0	2.9
Current account balance	-1.3	-1.6	-4.6	-6.1
Capital and financial account balance	6.2	5.3	10.8	3.6
Gross official reserves (in millions of U.S. dollars)	52.2	67.1	82.7	65.8
Gross official reserves (in months of next year's GNFS imports)	2.6	3.8	3.9	2.9
Gross official reserves (percent of broad money)	45.6	49.8	50.4	37.2
Debt-service ratio (percent of exports of goods and services)	8.7	7.8	10.5	11.1
External interest payments (percent of exports of goods and services)	1.5	1.2	6.5	7.5
Exchange rate (tala per U.S. dollar, end of period)	3.0	2.8	2.7	2.8

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

1/ End of period.

2/ Goods and services.

INTERNATIONAL MONETARY FUND

Samoa

Annexes to the 2007 Article IV Consultation—Informational Annex

Prepared by Asian and Pacific Department

May 4, 2007

	Contents	Page
I.	Medium-Term Debt Sustainability Analysis	2
II.	Fund Relations	7
III.	Support from the Pacific Financial Technical Assistance Centre.....	9
IV.	Relations with the World Bank Group.....	10
V.	Relations with the Asian Development Bank	12
VI.	Statistical Issues	13
VII.	Social and Demographic Indicators	17

ANNEX I: SAMOA—MEDIUM-TERM DEBT SUSTAINABILITY ANALYSIS¹

The baseline and scenario analysis suggest that Samoa is at low risk of debt distress.

A. Baseline Scenario

Assumptions: The baseline scenario, described in Table 4, has medium-term growth expected at around 3½ percent a year, equal to that seen over the past decade. The continued growth reflects an anticipated step-up in tourism and foreign investment activities as recent economic reforms filter through to the rest of the economy. Despite impressive growth in recent years, foreign investment in Samoa has historically been well below that elsewhere in the Pacific, and extremely low compared with foreign investment in island economies elsewhere. Further structural reforms, including to increase the use of customary land, are expected to lead to increased foreign investment. With spending restraint generating a broadly balanced fiscal position, and supporting both domestic and external positions, the current account is expected to improve to around 1½ percent of GDP by 2010/11, and foreign reserves are expected to gradually rise to around 5 months of imports.

Debt Dynamics:² *Under this baseline, public debt and debt service indicators are all well below the levels typically associated with stress for countries with strong institutions and governance.*³ Nominal public debt is expected to rise slightly to 39½ percent of GDP in FY2007/08 reflecting planned infrastructure spending, and then gradually fall to 34 percent of GDP by FY2010/11. With all public debt concessional, the NPV of external debt was less than 30 percent of GDP at end FY2005/06, and is expected to decline monotonically to around 22 percent of GDP by FY2010/11.⁴

¹ Prepared jointly with World Bank staff.

² Only an external DSA has been prepared for Samoa. Domestic debt issuance has been minimal, with the authorities reporting domestic bond issues of around SAT 2 million (less than 0.2 percent of GDP). Given the highly shallow nature of Samoa's bond markets, the extent of domestic borrowing will likely remain very low for some time.

³ Thresholds associated with international evidence of historical debt distress episodes in countries with strong institutions and governance are for the NPV of debt to: GDP above 50 percent; exports above 200 percent; revenue above 300 percent. For debt service, indicative ratios are for debt service to: exports above 25 percent; and revenue above 35 percent.

⁴ Note that reflecting the importance of capital transfers, as well as the deficiency in Samoa's balance of payments data, there has been very large historical "residual" debt accumulation. Projected residual financing is smaller than historical patterns.

B. Sensitivity Analysis

Scenarios and bound tests do not suggest significant risks to Samoa's debt sustainability. Most scenarios and stress tests result in, at most, a temporary rise in the debt burden.⁵ Under all standard stress (bound) test, the debt burden is below its FY2006/07 level within a decade. A permanent shock in which growth, inflation, the current account, and net FDI inflows permanently equal their average values over the past eight years (a "historical" scenario), would see a rising debt burden over time. This entirely reflects the high average non-interest current account deficit (3.5 percent of GDP), and low average FDI inflows (0.2 percent of GDP) over the past eight years. Indeed, endogenous debt dynamic under the historical scenario tend to reduce debt even faster than under the baseline scenario.⁶ The importance of the large assumed current account deficit is demonstrated by an adjusted historical scenario where the current account and net FDI inflows are assumed to lie between the historical average and their baseline values. In this adjusted scenario, the debt burden declines generally over the horizon (Figure I-1). However, even in the unadjusted historical scenario the indicators of debt burden remain below the levels typically associated with debt distress in countries with strong institutions and governance.

Nonetheless, Samoa remains vulnerable to natural disasters. A scenario assuming a "cyclone" every five years starting from 2007/08,⁷ which reduces GDP growth to zero and export growth to 60 percent of its baseline value, results in a relatively flat path for the NPV of debt indicators (with the NPV of debt rising very slightly relative to exports and falling very slightly relative to GDP). Debt service relative to exports rises over time. However, all indicators remain below the level associated with debt distress.

The analysis suggest that Samoa is at low risk of debt distress. This follows from standard debt indicators remaining well below the thresholds typically associated with potential distress, even under standard stress tests, throughout the period until FY2026/27.

⁵ Additional financing required under any of these scenarios or stress tests is assumed to be on concessional terms.

⁶ Endogenous debt dynamics are those driven mechanically by movements in GDP growth, interest rates, inflation and the exchange rate.

⁷ Samoa had three major cyclones between 1990 and 2005.

Table I-1. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2006/07-2026/27 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Projections												2012-26 Average
	2003/04	2004/05	2005/06	Historical		2006-11										
				Average 6/	Standard Deviation 6/	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average		2026/27		
External debt (nominal) 1/	47.8	39.3	39.4			37.9	39.4	39.0	37.0	34.0	30.9	30.9		16.2	2.5	
o/w public and publicly guaranteed (PPG)	47.8	39.3	39.4			37.9	39.4	39.0	37.0	34.0	30.9	30.9		16.2	2.5	
Change in external debt	-2.8	-8.5	0.1			-1.5	1.5	-0.4	-2.0	-3.0	-3.1	-3.1		-2.5	-0.7	
Identified net debt-creating flows	-8.2	-1.8	5.2			3.8	4.3	3.5	-0.8	-3.9	-3.6	-3.6		-2.8	-2.1	
Non-interest current account deficit	1.6	2.7	3.8	3.5	2.4	7.3	7.6	6.5	1.5	-1.7	-1.4	-1.4		-1.1	-0.6	
Deficit in balance of goods and services	21.4	24.4	28.9			32.1	32.6	31.6	26.9	23.4	22.7	22.7		19.6	17.7	
Exports	28.1	28.3	31.3			30.1	32.7	31.2	30.9	30.6	30.4	30.4		28.9	22.9	
Imports	49.5	52.7	60.2			62.1	65.3	62.8	57.8	54.0	53.0	53.0		48.5	40.7	
Net current transfers (negative = inflow)	-21.8	-25.3	-24.0	-21.1	2.7	-24.0	-24.8	-24.8	-25.2	-24.8	-24.5	-23.0		-23.0	-20.6	
Other current account flows (negative = net inflow)	1.9	3.7	-1.2			-0.8	-0.3	-0.2	-0.2	0.4	0.4	0.4		2.4	2.2	
Net FDI (negative = inflow)	-0.7	0.5	0.9	0.2	0.5	-3.2	-2.3	-2.2	-1.3	-1.2	-1.2	-1.2		-1.3	-1.4	
Endogenous debt dynamics 2/	-9.0	-5.0	0.5			-0.3	-1.0	-0.9	-1.0	-1.0	-0.9	-0.9		-0.5	-0.1	
Contribution from nominal interest rate	0.0	1.9	2.3			0.8	0.3	0.3	0.2	0.2	0.2	0.2		0.1	0.0	
Contribution from real GDP growth	-1.0	-2.5	-0.7			-1.1	-1.2	-1.1	-1.3	-1.2	-1.1	-1.1		-0.6	-0.1	
Contribution from price and exchange rate changes	-8.1	-4.4	-1.1			...	...	...	...	...	...	...		...	...
Residual (3-4) 3/	5.4	-6.7	-5.1			-4.1	-1.7	-2.7	0.0	2.0	1.5	1.5		0.3	1.4	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	28.9			26.8	26.4	25.8	24.3	22.4	20.6	20.6		11.8	2.2
In percent of exports	...	...	92.5			89.3	80.8	82.8	78.6	73.2	67.8	67.8		41.0	9.4
NPV of PPG external debt	...	...	28.9			26.8	26.4	25.8	24.3	22.4	20.6	20.6		11.8	2.2
In percent of exports	...	...	92.5			89.3	80.8	82.8	78.6	73.2	67.8	67.8		41.0	9.4
In percent of revenue	...	...	109.4			89.5	87.8	85.4	80.0	73.0	66.5	66.5		38.3	7.0
Debt service-to-exports ratio (in percent)	...	...	10.5			6.5	4.1	4.2	4.6	4.9	4.7	4.7		3.7	1.7
PPG debt service-to-exports ratio (in percent)	...	...	10.5			6.5	4.1	4.2	4.6	4.9	4.7	4.7		3.7	1.7
PPG debt service-to-revenue ratio (in percent)	...	...	11.6			6.5	4.4	4.3	4.7	4.9	4.6	4.6		3.4	1.2
Total gross financing need (billions of U.S. dollars)	2.9	25.1	34.9			27.4	31.9	29.0	8.9	-8.1	-7.7	-7.7		-11.0	-32.2	
Non-interest current account deficit that stabilizes debt ratio	4.4	11.3	3.7			8.7	6.1	6.9	3.5	1.3	1.7	1.7		1.5	0.1	
Key macroeconomic assumptions																
Real GDP growth (in percent)	2.4	6.0	1.8	4.4	2.4	3.0	3.5	3.0	3.5	3.5	3.5	3.5		3.5	3.5	
GDP deflator in US dollar terms (change in percent)	18.9	10.2	3.0	5.5	8.8	3.2	3.0	3.0	3.0	3.0	3.0	3.0		4.9	4.4	
Effective interest rate (percent) 5/	0.0	4.5	6.2	1.8	2.8	2.3	0.8	0.7	0.6	0.6	0.6	0.6		0.7	0.6	
Growth of exports of G&S (US dollar terms, in percent)	15.3	17.7	15.8	8.8	8.0	2.2	15.9	1.3	5.7	5.4	5.8	6.0		6.0	6.0	
Growth of imports of G&S (US dollar terms, in percent)	14.3	24.3	19.8	12.3	7.4	9.7	12.1	1.9	-1.8	-0.5	4.7	4.4		6.7	6.1	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	25.8	25.8	25.8	25.8	25.8	25.8	25.8		25.8	25.8
<i>Memorandum Item:</i>																
Nominal GDP (millions of US dollars)	348.4	407.1	427.0			453.9	483.9	513.4	547.3	583.5	621.8	621.8		868.4	1976.8	

Sources: Samoan authorities and Fund staff estimates.

- 1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - r(1+g)] / (1+g+r-gr)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV 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 derived over the past 8 years.

Table I-2. Samoa: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006/07-26/27
(In percent)

	Projections							
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2016/17		2026/27
NPV of debt-to-GDP ratio								
Baseline	27	26	26	24	22	21	12	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	27	24	23	23	26	28	35	38
A2. New public sector loans on less favorable terms in 2007-26 2/	27	27	26	25	23	21	12	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	27	27	26	25	23	21	12	2
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	27	30	32	30	28	26	15	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	27	28	29	28	25	23	13	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4	27	33	40	38	36	33	20	3
B5. Combination of B1-B4 using one-half standard deviation shocks	27	33	39	38	35	33	19	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	27	37	36	34	32	29	17	3
B7. "Cyclone" scenario 6/	27	29	29	29	28	29	28	27
NPV of debt-to-exports ratio								
Baseline	89	81	83	79	73	68	41	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	89	75	73	75	84	91	121	164
A2. New public sector loans on less favorable terms in 2007-26 2/	89	82	84	81	75	70	43	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	89	81	83	79	73	68	41	9
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	89	104	118	113	107	100	61	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	89	81	83	79	73	68	41	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4	89	102	127	122	116	110	68	13
B5. Combination of B1-B4 using one-half standard deviation shocks	89	111	129	125	118	112	69	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	89	81	83	79	73	68	41	9
B7. "Cyclone" scenario 6/	89	90	96	96	95	97	96	116
Debt service ratio								
Baseline	6	4	4	5	5	5	4	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	7	4	4	4	5	5	7	13
A2. New public sector loans on less favorable terms in 2007-26 2/	7	4	4	5	5	5	4	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	7	4	4	5	5	5	4	2
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	7	5	5	6	6	6	7	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	7	4	4	5	5	5	4	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4	7	4	5	6	6	6	8	4
B5. Combination of B1-B4 using one-half standard deviation shocks	7	5	5	6	6	6	8	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	7	4	4	5	5	5	4	2
B7. "Cyclone" scenario 6/	7	4	5	5	6	5	6	8
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 7/	26	26	26	26	26	26	26	26

Sources: Samoan authorities and Fund staff estimates.

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).

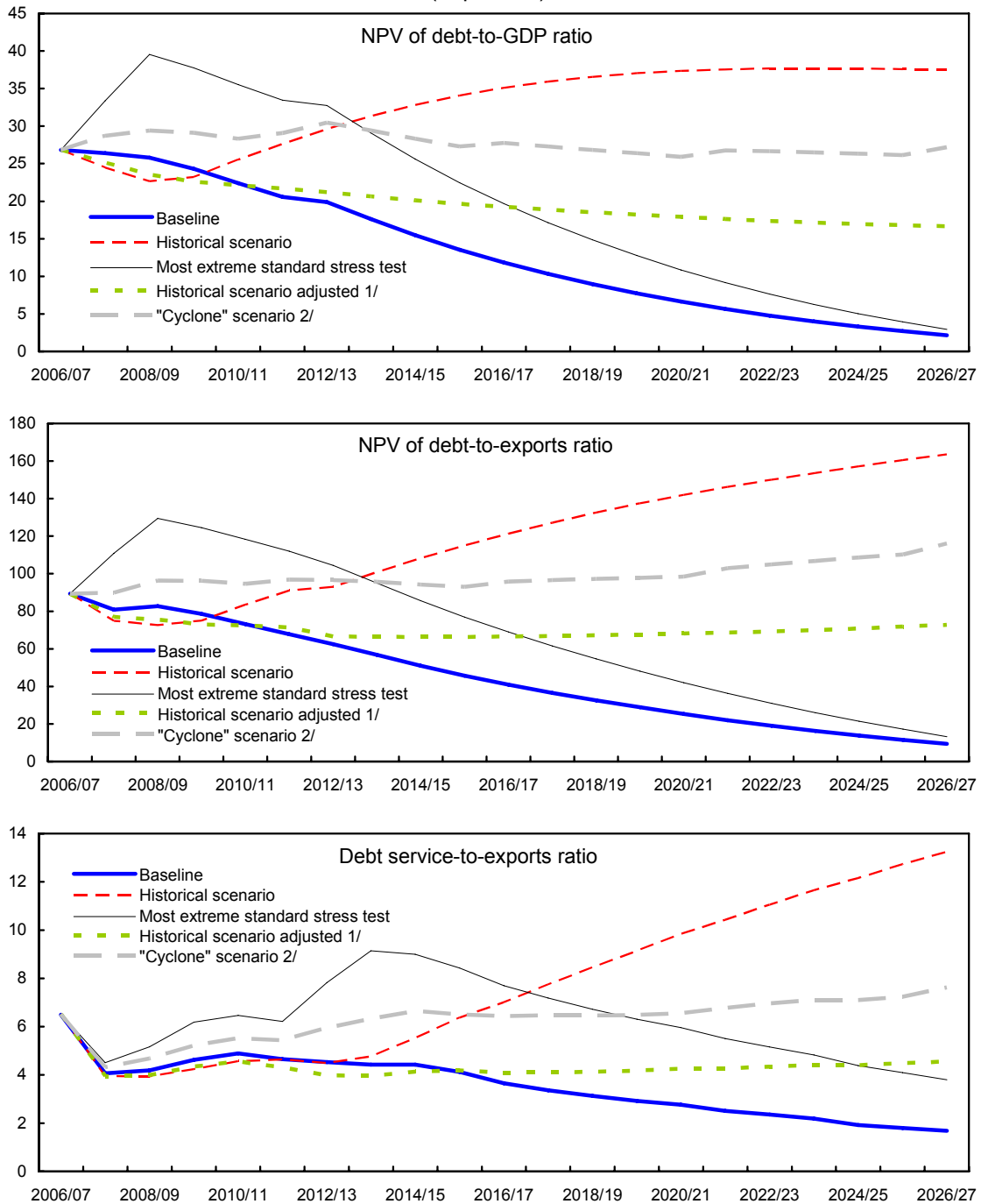
4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Baseline with a five-yearly "cyclone" that reduces GDP growth to zero and export growth by 40 percent.

7/ 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 I-1. Samoa: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006/07-2026/27
(In percent)



Source: Samoan Authorities and staff estimates.

1/ Historical scenario, except the current account and FDI flows are assumed to be an average of the past eight years average (historical scenario), and the baseline values.

2/ Baseline with a five-yearly "cyclone" that reduces GDP growth to zero and export growth by 40 percent.

ANNEX II: SAMOA—FUND RELATIONS

(As of March 31, 2007)

I. Membership Status: Joined: 12/28/1971; Article VIII

II. General Resources Account:	<u>SDR Million</u>	<u>%Quota</u>
Quota	11.60	100.0
Fund Holdings of Currency	10.92	94.12
Reserve position in Fund	0.69	5.98

III. SDR Department:	<u>SDR Million</u>	<u>%Allocation</u>
Net cumulative allocation	1.14	100.00
Holdings	2.53	221.64

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
Stand-by	07/09/1984	07/08/1985	3.38	3.38
Stand-by	06/27/1983	06/26/1984	3.38	3.38

VI. Projected Obligations to Fund: None

VII. Exchange Rate Arrangement:

The exchange rate of the tala is pegged to a trade and payments weighted basket of currencies formally within a ± 2 percent band. The basket is a composite of the currencies of Samoa's most important trading partners and countries that are major sources of private transfers from abroad—New Zealand, Australia, the United States, Fiji, and Euro countries. The period average exchange rate for March 2007 was SAT 1.00 = US\$0.37.

VIII Article IV Consultation:

The 2005 Article IV consultation discussions were held in Apia during March 9–22, 2005. The Executive Board discussed the staff report (SM/05/169) and concluded the consultation on June 17, 2005.

IX. Technical Assistance:

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, financial sector supervision and balance of

payments statistics. MCM has provided assistance on monetary policy operations, foreign reserves management, banking and insurance supervision and other central banking issues. STA has provided help with national accounts statistics, and FAD with tax administration.

X. Resident Representative: None

ANNEX III: SAMOA—SUPPORT FROM THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE⁸

The Centre's assistance to Samoa since 1998 has included 29 advisory missions. Samoa also sent 31 officials to regional seminars and workshops.

Public Financial Management

Samoa sent participants to the PFTAC workshop in Nadi in November 2006 on Medium-Term Financial Framework and to the second PIFMA meeting in March 2007. PFTAC has in place a peripatetic consultant to help establish a forward estimates project over two budget cycles.

Tax Administration and Policy

In early 2002, the advisor undertook an introductory visit to Samoa to discuss tax policy and administration related issues with the authorities. In June 2005, the adviser traveled to Samoa for providing advice on issues associated with the possible establishment of a large taxpayer unit and introduction of a single tax identification number. Samoa is an inaugural member of the Pacific Islands Tax Administrators Association (PITAA) and hosted the second annual meeting on October 2005.

Financial Sector Regulation and Supervision

The PFTAC advisor visited the CBS and SIFA in June 2005. The mission provided training to bank supervisors in both the domestic and offshore banking sectors in the areas of AML/CFT and the Basel Core Principles for Effective Bank Supervision. The mission also recommended the need for the CBS to strengthen supervision of the pension fund. The mission also advised SIFA on the need to strengthen supervision of the trust and company service provider sector.

Economic and Financial Statistics

The CBS started working on a BPM5 basis for Balance of Payments estimates in 2003. In June 2004, the PFTAC Statistics advisor visited to review the implementation progress, and in April 2005 the CBS BOP compiler attended a regional training course in Fiji. A short term expert mission was arranged in December 2005 to improve monetary statistics (jointly with Solomon Islands and Fiji). In April 2006, the PFTAC advisor visited to assess TA needs in all sectors, and arranged a short-term expert mission to continue progress on BOP implementation.

⁸ Prepared by the staff at the Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji. PFTAC is a multi-donor technical assistance institution, financed by IMF, ADB, AusAID and NZAID, with the IMF as Executing Agency. The Centre's aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

ANNEX IV: SAMOA—RELATIONS WITH THE WORLD BANK GROUP⁹
(As of April 2007)

Since Samoa became a Bank member in June 1974, 15 IDA credits totaling US\$87.8 million have been made covering the agriculture, power, telecommunication, finance, transport, and health sectors. Samoa is eligible for an IDA 14 allocation of SDR 7 million (indicative only) over FY2006–08. The IDA allocation for FY07 is SDR 6.4 million (with carryover from FY06), with 45 percent on a grant-financed basis.

The Bank's assistance to Samoa is guided by the Government's own development priorities as articulated in the *Strategy for the Development of Samoa* (2005–07), and the Bank's broader *Pacific Regional Strategy FY2006–09* which has a focus on (1) strengthening government capabilities, and (2) improving incentives for the private sector. The Bank's current activities in Samoa are in the following areas:

Strengthening Government Capabilities

- **Health Sector.** Through the Health Sector Management project (approved 14/09/2000, IDA US\$5 million), the Bank is supporting Government's reform program aimed at ensuring equitable access to a modern, effective, efficient, and environmentally friendly health service, delivered in close collaboration with the private sector and NGOs. Implementation is within a sector coordination framework involving other donors (AusAID).
- **Infrastructure Asset Management Phase 2.** The objective of this second-phase program (approved 29/12/2003, US\$12.8 million) to be carried out over a period of eight years is to enhance the economic, environmental and social sustainability of transport and coastal infrastructure assets, and to manage these assets, natural resources and disaster risks through an effective partnership with private sector stakeholders. Additional finance of approximately US\$8.2 million is currently being finalized to help cover shortfall in project costs.
- **Infrastructure Emergency Recovery.** The Cyclone Emergency Recovery Project (approved 29/4/2004, US\$4.5 million) is assisting Samoa to recover from the damage caused by Cyclone Heta and reduce the vulnerability of its people to prevailing natural hazards through: (a) Recovery of coastal resilience to erosion, flooding, and landslide hazards (b) Nurturing the recovery of fragile coastal ecosystems through sustainable practices; and (c) Rehabilitation of damaged land transport communications.
- **Procurement Reforms and Capacity Development.** Based on the Operational Procurement Review and, with funds from an IDF grant (signed 06/10/2004, US\$176,000) the Government of Samoa has selected a consultant to review and revise their Procurement Guidelines. After the Procurement Guidelines are revised, consultants

⁹ Prepared by the World Bank staff.

will prepare the Procurement Manuals and Standard Bidding Documents, and then provide training.

Improving Incentives for the Private Sector

- **Telecommunications and Postal Sector Reform.** Through the project, the Bank (approved 17/12/2002, US\$4.48 million) is assisting Samoa to improve the performance of its telecommunications and postal sectors by increasing competition and private sector participation; strengthening institutional and regulatory capacities; and enhancing the provision of telecommunications and postal services, particularly in rural areas. Effective competition in GSM mobile services, achieved through the project, produced spectacular results. The number of overall customers (GSM and fixed line) exceeds 60,000, which is a four-fold increase from the beginning of the project.
- **Private Sector Development.** FIAS is currently undertaking a review of Samoa's Foreign Investment Act, its associated draft regulations, and related legislation. The in-country consultative mission for this process was recently carried out, and a final report is expected to be presented to Government within the next few weeks. The Private Enterprise Partnership (PEP) is providing assistance to the Samoa Hotel Association (SHA) including implementation of Worldhotel-link booking engine for SME hotels and capacity building and strengthening of SHA. The IFC is assisting the Samoa Venture Capital Facility, with support of US\$400,000.

Samoa: IDA Lending Operations (as of April 3, 2007)

	Year of Approval	Original amount	Undisbursed Balance
(In millions of U.S. dollar equivalent)			
Completed projects (IDA)			
First highway	1975	4.4	0
Agricultural development	1979	8.0	0
Second agricultural development	1980	2.0	0
Development Bank	1985	2.0	0
Multiproject	1986	2.5	0
Afulilo hydroelectric dam (ADB)	1987	3.0	0
Telecommunications (ADB)	1989	4.6	0
Emergency road rehabilitation	1990	14.0	0
Afulilo hydroelectric dam supplement (ADB)	1993	1.0	0
Emergency road rehabilitation supplement	1993	5.1	0
Infrastructure asset management	1999	14.4	0
Current projects (IDA)			
Health sector management	2000	5.0	0.635
Telecommunications and Postal Reform	2002	4.5	3.6
Second Infrastructure Asset Mgmt.	2003	12.8	5.7
Cyclone ERP	2004	4.5	2.5
Total		87.8	12.4

ANNEX V: SAMOA—RELATIONS WITH THE ASIAN DEVELOPMENT BANK¹⁰

The Asian Development Bank (AsDB) operations in Samoa started in 1969. Up to 2006, 32 loans totaling \$131.0 million for 29 projects and technical assistance totaling \$23.427 million for 82 projects have been provided.

The previous Country Strategy and Program Update (CSPU) 2005–06 for Samoa aimed to enhance access to, and quality of, basic social services by (i) improving access to, and quality of, education; (ii) enhancing the environment and public health of Apia (water and sanitation); and (iii) meeting the growing power demand with improved efficiency, viability, and reliability. Second, the strategy aimed to improve the environment for the private sector by (i) ensuring sound fiscal and macroeconomic policies; (ii) rationalizing state-owned enterprises (SOEs), and enhancing their efficiency and effectiveness; and (iii) improving the institutional and policy framework for the private sector.

An Education Sector Project II was approved in 2005 with AusAID and NZAID co-financing for a total amount of \$30 million. ADB's approved ADF lending for this project is \$8.06 million. Four TA grants were approved from 2005 for a total of US\$1.8 million, including the latest for preparing the power sector expansion program for US\$0.75 million, approved in May 2006.

Samoa: AsDB Loan Approvals and Disbursements, 2000–2006
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Loan approvals	10.5	6.0	0.0	8.0	0.0	8.1	0.0
Loan disbursements	0.3	3.6	0.8	1.9	2.8	2.7	1.6
Cumulative loan amount available ¹¹	104.4	109.8	111.0	120.8	121.6	120.0	122.8
Cumulative disbursements	90.9	94.5	95.3	97.2	100.0	102.7	104.3
Net loan amount undisbursed	13.5	15.3	15.7	23.6	21.0	17.3	18.5

¹⁰ Prepared by the Asian Development Bank (AsDB) staff.

¹¹ Balance as of December 2006, cumulative since operations began with Samoa in 1969.

ANNEX VI: SAMOA—STATISTICAL ISSUES

A number of significant improvements have been made in the compilation of basic macroeconomic data in recent years with technical assistance from the Fund, including through the Pacific Financial Technical Assistance Centre (PFTAC), the Secretariat for the Pacific Community (SPC) and the Asian Development Bank (AsDB). These improvements, as well as the timely release of core data, make statistical coverage broadly adequate for surveillance purposes. Statistics in Samoa compare well with those available in other Pacific Island countries. National accounts and government finance statistics (GFS) are the responsibility of a special statistics unit within the Treasury, while balance of payments and financial statistics are the responsibility of the Central Bank. The Statistics Department compiles the CPI and monthly merchandise trade statistics based on Customs records. However, there is a possibility that national accounts and GFS statistics may move to an independent Statistics Department in the near future. Samoa has not yet participated in General Data Dissemination System (GDDS). However, the first draft GDDS metadata was compiled in 2006 with the technical assistance of PFTAC.

Real sector

Real sector data reported to STA for publication in the *International Finance Statistics (IFS)* include CPI, values of exports and imports, an index of manufacturing production and GDP volume at 1995 prices. The CPI was rebased in 2005 based on the results of the 2002 Household Income and Expenditure Survey. Both Headline and underlying CPI are released monthly.

Quarterly and annual GDP estimates are prepared on a production basis (broken down by the standard industrial classification (SIC)) and are compiled in both nominal and real terms. Estimates are available around three months after the end of each quarter. Sources of agricultural and trade data have all improved following the 2002 Agricultural Survey and the use of Customs data to estimate exports and imports. However, there remains an inconsistency in the treatment of the activity of the automotive parts plant between the national accounts and the balance of payments which is still unsolved. National accounts are not currently compiled on an expenditure basis, but the authorities expressed their intention to report expenditure-side estimates within the next two years.

Quarterly employment and average earnings statistics are compiled and published annually, utilizing National Provident Fund (the compulsory pension fund) records, although the authorities intend to publish employment on a more frequent basis in the near future.

Government finance statistics

Government finance statistics (GFS) based on the 1986 GFS manual are published quarterly. Data quality is hampered by difficulties in the misclassification of accounts, particularly net

lending and external grants, and current and development expenditure. The underlying budgetary system is not coded to GFS headings. The authorities are planning, with the assistance of PFTAC, to move to *GFSM 2001* (but on a cash basis) over the next two years. Samoa does not report government finance statistics to STA for publication in the *IFS* or the *GFS Yearbook*.

Monetary and financial statistics

Comprehensive monetary sector data are published monthly in the *Selected Economic Indicators* and quarterly in the *Central Bank of Samoa Bulletin*. Data for the accounts of the Central Bank of Samoa (CBS) and deposit money banks along with interest rates are reported to STA for publication in the *IFS* on a regular and timely basis. A transition plan to move to the standardized report form (SRF) has been developed with technical assistance from PFTAC. The initial report in SRF was expected in November 2006, but has been delayed. An expert from PFTAC is expected to visit Samoa within a year to provide technical assistance on monetary statistics.

Monthly data are published on the lending activities of other credit institutions. No data on offshore financial institutions, supervised by the Samoan International Finance Authority, are published.

Balance of payments statistics

Annual and quarterly balance of payments data are regularly published in the quarterly *CBS Bulletin* and annual data are reported for publication by the Fund in the *IFS* and *Balance of Payments Statistics Yearbook*. The transition to the BPM5 methodology was finalized in 2005 with the assistance from PFTAC. While most current account estimates are fairly comprehensive, service exports classified as export processing (principally automotive parts manufactures) is considered under-reported. The data published for direct investment may also be under-reported, although the authorities are implementing a direct investment survey to address this. Official reserves have, since 2005, been compiled in a standard manner.

Cooperation

In recent years, PFTAC has provided technical assistance in order to improve the quality of statistics; the latest mission was in 2006. An expert from PFTAC is expected to visit Samoa within the next year to provide technical assistance in monetary statistics. Also, PFTAC plans several missions on the GFS, balance of payments statistics and or the national account statistics in 2008. The SPC and AsDB have also provided assistance with surveys, national accounts and the CPI. Fund and PFTAC staff have recommended closer coordination between the CBS, the Statistics Department and the Treasury Department (the agency responsible for compiling external debt statistics, grant aid, and other international transactions of the government) to improve the overall quality of economic data.

SAMOA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF APRIL 10, 2007

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	03/07	04/07	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	-	-	-	-	-
Reserve/Base Money	02/07	04/07	M	M	M
Broad Money	02/07	04/07	M	M	M
Central Bank Balance Sheet	02/07	04/07	M	M	M
Consolidated Balance Sheet of the Banking System	02/07	04/07	M	M	M
Interest Rates ²	03/07	04/07	M	M	M
Consumer Price Index	02/07	04/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	-	-	-	-	-
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	09/06	02/07	Q	A	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	-	-	-	-	-
External Current Account Balance	09/06	01/07	Q	Q	Q
Exports and Imports of Goods and Services	09/06	01/07	Q	Q	Q
GDP/GNP	09/06	02/07	Q	A	Q
Gross External Debt	09/06	02/07	Q	A	Q

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

ANNEX VII: SAMOA: SOCIAL AND DEMOGRAPHIC INDICATORS

	1985	1997	2005 1/	Same region/income group 2005 1/	
				East Asia & Pacific	Lower Middle income
Population					
Total population, mid-year (millions)	0.16	0.17	0.18	1,885	2,474
Growth rate (percent annual average)	0.0	0.6	0.67	0.85	0.97
Urban population (percent of population)	21.1	21.9	22.4	41.46	49.53
Total fertility rate (births per woman)	5.2	4.5	4.0	2.0	2.2
Income					
GNI per capita (US\$)	660	1,390	2,090	1,627	1,918
Consumer price index (2000 =100)	49.2	96.6	133.1	127.1	129.6
Public expenditure					
Health (percent of GDP)	..	4.0	5.4	1.9	2.6
Education (percent of GDP)	3.2	..	4.5	3.2	4.0
Gross primary school enrollment rate (percent of school-age population)					
Total		100	99.9	114.9	113.6
Male		101	104	115.6	114.6
Female		100	99.5	114.1	112.7
Access to safe water (percent of population)					
	80	..	88	78.5	81.6
Immunization rate (percent aged 12-23 months)					
Measles	81	99	25	82	85
DPT	89	96	68	86	87
Life expectancy at birth (years)					
Total	63.9	68.6	70.3	70.3	70.2
Male	62.6	65.4	66.5	67.7	67.1
Female	65.2	71.9	67.3	68.4	68.1
Mortality					
Infant (per thousand live births)	..	22	25	29	33
Adult (15-59)					
Male (per 1,000 population)	..	237	211	169	184
Female (per 1,000 population)	..	143	125	111	117

Source: 2006 World Development Indicators, World Bank.

1/ Data corresponds to 2005 or to the latest year for which it is available.

SAMOA: PROGRESS ON MILLENNIUM DEVELOPMENT GOALS

	1990	1995	Latest Data 2001-05	Target 2015
Goal 1: Eradicate Extreme Poverty and Hunger				
Prevalence of child malnutrition (percent of children under 5)	6	17	4.2	1/
Goal 2: Achieve Universal Primary Education				
Net primary enrollment ratio (percent of relevant age group)	112.3	97.0	90.4	100.0
Goal 3: Promote Gender Equality				
Ratio of girls to boys in primary and secondary education (percent)	112.5	106.9	105.0	100.0
Proportion of seats held by women in national parliament (percent)	0.0	4.1	6.1	...
Goal 4: Reduce Child Mortality				
Under 5 mortality rate (per 1,000)	62.0	41.0	30.0	14.0
Infant mortality rate (per 1,000 live births)	40.0	33.0	24.8	11.0
Goal 5: Improve Maternal Health				
Maternal mortality ratio (per 100,000 live births)	35.0	15.0	30.0	2/
Births attended by skilled health staff (percent of live births)	76.0	95.0	100.0	...
Goal 6: Combat HIV/AIDs, Malaria, and Other Diseases				
HIV prevalence rate among 15–24 old pregnant women	...	...	0.0	3/
Incidence of tuberculosis (per 100,000 people)	...	52.0	28.4	3/
Goal 7: Ensure Environmental Sustainability				
Forest area (percent of total land area)	45.9	...	60.4	4/
Nationally protected areas (percent of total land area)	...	4.0	4.1	4/
CO2 emissions (metric tons per capita)	0.8	0.8	0.8	4/
Access to an improved water source (percent of population)	...	91.0	88.0	4/
Access to improved sanitation (percent of population)	...	98.0	100.0	4/
Goal 8: Develop a Global Partnership for Development				
Fixed line and mobile telephones (per 1,000 people)	25.4	46.4	130.4	...
Personal computers (per 1,000 people)	...	0.6	6.6	...

Source: World Bank; World Development Indicators Database, April 2006.

1/ Goal is to have 1990 rate.

2/ Goal is to reduce 1990 ratio by three-quarters.

3/ Goal is to have it halted by 2015 and begun to reverse.

4/ Goal is to reverse the loss of environmental resources.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
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Public Information Notice (PIN) No. 07/62
FOR IMMEDIATE RELEASE
June 1, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Samoa

On May 18, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the 2007 Article IV consultation with Samoa.¹

Background

Samoa has achieved a major economic transformation over the last decade and a half. Real per capita GDP has increased by over 3 percent per year on average, and external public debt has fallen below 40 percent of GDP. The external position benefited from the rapid growth of remittances and tourism receipts. This performance owes to a broad-based reform program initiated in the early 1990s. These achievements have entitled Samoa to graduate from Less Developed Country (LDC) status.

Macroeconomic conditions continue to be good. After a strong performance in 2004/05, real GDP growth decelerated to 1¾ percent in 2005/06 on account of a slowdown in the manufacturing sector. The rest of the economy, especially tourism and commerce activities, have however remained vibrant. For 2006/07, real GDP growth is expected to accelerate to 3 percent. Inflationary pressures, despite a recent pick up in headline inflation reflecting increases in tax rates, remain muted.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The external position remains strong. In 2005/06, Samoa's balance of payments came under pressure as the fiscal situation deteriorated following a raise in civil servants wages and spending related to the restructuring of the national airline, and private sector credit growth accelerated. However, given the subsequent tightening of fiscal and monetary policies, the external position has recovered, with reserves rising to about 3½ months of imports.

Since 2005, there has been important achievements in the program of structural reforms. The international operations of government-owned Polynesian Airlines have been restructured into a joint venture with a foreign airline. This has helped reduce airfares to Samoa by around half, resulting in a significant increase in tourist arrivals, and removed a financial burden to the budget. Similarly, the deregulation of the mobile telecommunications sector has triggered a sizable fall in calling costs.

At the same time, progress has been made in other areas. Governance of public enterprises has been strengthened, thanks in part to the introduction of business plans. The operations of the national pension fund have also improved following a strengthening of the lending guidelines. Finally, consultations with the public in order to promote the economic use of customary land have begun.

Executive Board Assessment

Executive Directors congratulated the authorities on Samoa's impressive growth performance and economic transformation over the past decade, with Samoa now set to graduate from least developed country status. Nonetheless, they cautioned that Samoa remains a small, remote, and vulnerable economy, and welcomed the authorities' intentions to address these vulnerabilities by maintaining macroeconomic stability and promoting further structural reforms in the years ahead.

Directors urged the authorities to maintain their prudent fiscal policy stance. With revenue collection already relatively high, they suggested that expenditure restraint would be most effective in dealing with potential fiscal pressures, including from natural disasters, the aging population, or possible reductions in aid flows as Samoa graduates from LDC status. Directors emphasized that spending restraint will place a sharper focus on the need to prioritize expenditure for education, health, and infrastructure.

Directors supported efforts toward a stronger monetary policy framework. While recognizing the constraints of the small size of the financial sector, they observed that the medium-term development of interbank markets would help the central bank in its conduct of monetary policy, as well as advance financial sector development.

Directors supported Samoa's current basket peg exchange rate regime. They noted that the regime has provided a credible nominal anchor and contributed to low inflation. Directors agreed with the recommendation that increased reserve holdings would help cushion the economy against external shocks.

Directors welcomed the recent reforms of the public enterprise sector. The restructuring of Polynesian Airline's international services has resulted in a large fall in air fares and boosted visitor arrivals. Similarly, the introduction of competition into the mobile telecommunication sector has brought about a significant fall in calling costs. Directors noted that additional benefits are likely to follow also reforms in other utility and infrastructure areas, such as electricity provision.

Directors noted that continuing the wide-ranging reform effort is important for maintaining high and sustainable medium-term growth. They were encouraged by the government's plans to make the leasing of customary land easier, accelerate their privatization program, improve further the business climate, and strengthen the management and accountability of public enterprises.

Directors welcomed significant improvements in the supervision of both domestic and offshore banking sectors. All offshore banks have now established a physical presence, and on-site examinations of credit risk management and assessments of anti-money laundering and combating the financing of terrorism (AML/CFT) have been conducted at domestic banks. They looked forward to the further strengthening of the AML/CFT framework under the new legislation.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The [staff report](#) (use the free [Adobe Acrobat Reader](#) to view this pdf file) for the 2007 Article IV Consultation with Samoa is also available.

Samoa: Selected Economic and Financial Indicators, 2003/04-2007/08 1/

	2003/04	2004/05	2005/06 Est.	2006/07 Proj.	2007/08 Proj.
	(12-month percent change)				
Output and inflation					
Real GDP growth	2.4	6.0	1.8	3.0	3.5
Change in CPI (end period)	17.2	1.0	2.2	5.3	2.9
Change in core CPI (end period) 2/	17.2	1.0	2.2	2.5	2.7
Change in CPI (period average)	7.9	7.8	3.3	4.4	4.1
	(In percent of GDP)				
Central government budget					
Revenue and grants	31.9	47.5	32.5	37.7	37.1
Expenditure and net lending	32.8	47.2	32.8	38.2	37.3
Overall balance	-0.9	0.3	-0.4	-0.5	-0.3
External financing	0.0	1.4	0.5	0.9	3.9
Domestic financing	0.9	-1.7	-0.1	-0.4	-3.6
	(12 month percent change)				
Money and credit					
Broad money (M2)	12.7	15.0	13.0	16.9	10.2
Net foreign assets 3/	4.0	34.4	-20.2	25.2	4.1
Net domestic assets 3/	20.9	-0.7	49.5	12.0	14.2
Private sector credit	17.1	6.8	28.2	13.2	10.2
Three-month CBS rate (in percent)	4.9	4.3	2.5	5.0	4.5
	(in millions of U.S. dollars)				
Balance of payments					
Current account balance	-5.5	-18.7	-26.1	-36.8	-38.0
(In percent of GDP)	-1.6	-4.6	-6.1	-8.1	-7.8
Merchandise exports, f.o.b.	14.1	12.9	10.7	9.9	11.9
Merchandise imports, c.i.f.	137.3	170.6	198.8	225.1	260.7
Current transfers	75.9	103.2	102.4	108.7	120.0
Overall balance	12.5	13.2	-16.9	12.6	3.3
External reserves and debt					
Gross official reserves	67.1	82.7	65.8	78.4	93.2
(In months of next year's imports of goods and NFS)	3.8	3.9	2.8	3.0	3.5
External Public debt 4/	166.7	160.0	168.2	172.2	190.7
(In percent of GDP)	47.8	39.3	39.4	37.9	39.4
External Public debt-service ratio (in percent) 5/	7.8	10.5	11.1	6.5	4.1
Exchange rates					
Market rate (tala/U.S. dollar, period average)	2.9	2.7	2.8	...	...
Market rate (tala/U.S. dollar, end period)	2.8	2.7	2.8	...	...
Nominal effective exchange rate (1990 = 100) 6/	98.8	99.7	99.6	...	...
Real effective exchange rate (1990 = 100) 6/	112.8	109.6	111.3	...	...
<i>Memorandum items:</i>					
Nominal GDP (In millions of tala)	996	1,105	1,193	1,278	1,363
GDP per capita (US\$)	1,935	2,227	2,301	2,410	2,532

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

1/ Fiscal year beginning July 1.

2/ Excluding the increase in VAGST, excise tax, and fuel surcharge on electricity tariffs.

3/ Change in percent of beginning period broad money.

4/ Includes publicly guaranteed debt.

5/ In percent of exports of goods and services.

6/ IMF, Information Notice System; end of period.