Contents

## EXECUTIVE SUMMARY

### Economic Setting

- **After several years of strong performance, the Samoan economy faces a more difficult outlook in the period ahead.** Although the economy is starting to recover from a slowdown in 2001/02 and inflation remains low, the outlook is clouded by renewed financial difficulties at Polynesian Airlines and rising political pressures on the government to play a more interventionist role in promoting investment (plans are in train to launch a number of major publicly funded construction projects). An uncertain global outlook has added to the challenges confronting the authorities.

- **The authorities remain committed to macroeconomic stability and reform**. After a period of rising deficits, the budget deficit has stabilized at around 2 percent of GDP. However, monetary policy eased considerably towards the end of 2002, as the stance of monetary policy turned towards supporting a recovery in economic activity. The government is moving ahead with structural reforms. Plans under development include a major restructuring of the civil service, the launch of a comprehensive privatization program, and a fundamental reform of the communal land management system.

### Key policy issues

- **The immediate challenge is to contain emerging risks to macroeconomic stability**. The strategy to contain these risks rests on limiting the budget deficit to no more than 2 percent of GDP in 2002/03 and 2003/04. The recent decision by the central bank to reverse its recent accommodative monetary stance will also be central to maintaining macroeconomic stability.

- **Polynesian Airlines needs to be placed on a financially viable footing as soon as possible.** While recent public financial support to keep the airline operational was unavoidable, no new capital should be committed until a forthcoming IFC-assisted review of the airline's future is completed.

- **The planned expansion of publicly funded capital construction projects needs to be reviewed.** These projects will place unsustainable pressure on the budget and balance of payments and could expose the National Provident Fund to heightened credit risk. The merits of a joint venture to construct a hotel should be considered carefully, as it appears inconsistent with the government's commitment to private sector-led growth.

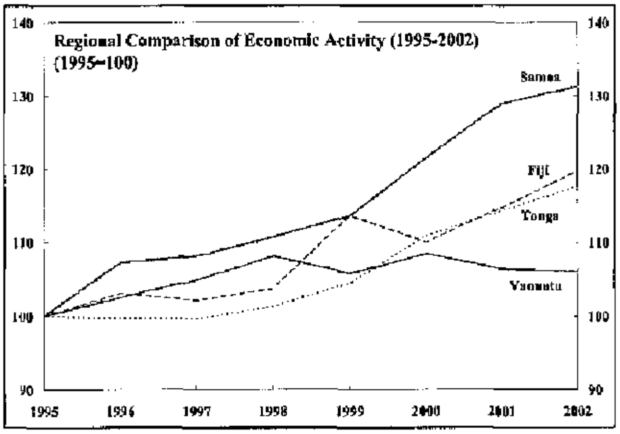
- **The authorities should press ahead with reforms to improve public sector efficiency and remove impediments to trade and investment.** These reforms will be critical to securing the increased investment required to realize Samoa's economic potential.

## I. INTRODUCTION

1. **During the 1970s and 1980s, Samoa was one of the weakest performers among the Pacific island economies**. A history of economic mismanagement had led to recurrent episodes of macroeconomic imbalances and a prolonged period of economic stagnation. These problems were compounded in the early 1990s by a number of major shocks, including two cyclones, which devastated the economy's infrastructure, a blight that destroyed taro, Samoa's primary agricultural crop, and a financial crisis in the publicly-owned Polynesian Airlines. These shocks resulted in a substantial decline in output and foreign reserves, as well as an increase in public debt to over 90 percent of GDP (Figures 1 and 2).

2. **These challenges prompted a major review of economic policy, culminating in the introduction of a comprehensive economic reform program in 1996**. The program, which has been renewed through biennial statements of economic strategy, emphasized sound macroeconomic management and launched important reforms in the public and financial sectors and of the tax and tariff systems (Box 1). Strong (and stable) political leadership, close consultation with stakeholders, and extensive efforts to foster a broad consensus for reform have been integral to the program's success.

3. **The impact of the reform program has been impressive**, with the country transforming itself into one of the region's best-managed economies. Public finances have been restored to broad balance, international reserves have been raised to more comfortable levels and external debt has been steadily reduced. The economy has performed well as a result, enjoying robust growth with low inflation (Text Figure).




4. **Nevertheless, Samoa still faces many of the challenges confronted by small island economies**. Although its social indicators compare favorably with other countries in the region (Annex I), the economy remains heavily dependent on private remittances and foreign aid. Despite extensive reform, private investment, especially foreign direct investment, remains low, and Samoa has yet to build the export base upon which its longer term development depends. (Samoa's export base remains narrow, comprising mainly fish, automotive parts, and tourism.)

5. **The authorities also face a number of more immediate challenges to the country's strong economic record**. In addition to a weaker external environment, the national airline (Polynesian Airlines), which is wholly publicly owned, is in considerable financial difficulties. Moreover concern about the low level of private investment is giving rise to political pressure on the government to boost economic activity through launching a number of publicly funded construction projects, whose return may be questionable.

### Box 1. Recent Structural Reforms

- **Samoa has adopted a wide-ranging public sector reform program with the aim of creating a more efficient and accountable government.** Reform in the public sector has included the privatization of several large public enterprises (including the Agricultural Stores Corporation, Samoa Coconut Oil and Products Limited, and Samoa Breweries), and the corporatization of the Post and Telecommunications Department. Performance of public enterprises should also improve following passage of the Public Bodies Act (2001), which increased the accountability of officers in public enterprises. Budget reforms (including the introduction of performance budgeting, increased autonomy of line departments, and the regular preparation of a Public Sector Investment Program) have led to greater fiscal discipline. The Public Finance Management Act (2001) should further strengthen progress in this regard. Recently progress has also been made to further the civil service reform agenda. The Public Works Department has been restructured and the Ministerial and Departmental Act was revised in January 2003, paving the way for a significant restructuring of the civil service more generally (Box 4).

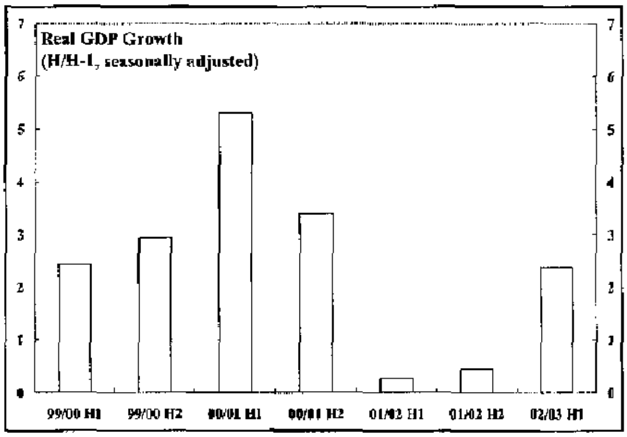
- **Tax and tariff reform have improved the efficiency of the taxation system and liberalized the trade regime.** In 1994, Samoa introduced a value-added tax on goods and services, and abolished most excise taxes. The income tax base has also been progressively broadened by lifting earlier exemptions on churches (1998) and commercial fishing (2003). Since 1998, the maximum tariff rate has been reduced from 60 to 20 percent, and rates of 35–42 percent have been reduced in several steps to 8 percent.

- **Financial sector reform has included a major liberalization and progressive improvements in supervision and regulation.** Direct controls on monetary operations (credit ceilings and interest rate controls) were lifted in January 1998 and replaced by market-based monetary policy instruments, most notably the newly-introduced central bank securities. Supervision of the financial sector has been enhanced by bringing nonbank financial institutions and insurance companies under the supervisory framework of the central bank. Samoa has also tightened regulatory controls on offshore banks (physical presence will be required for banks by the new International Banking Act) and has moved forcefully towards establishing an effective anti-money laundering framework.

- **Strides have also been made in improving the business and investment climate.** The availability of land for investment purposes and the utilization of customary land as collateral have been improved, thus lessening somewhat an otherwise significant impediment to investment. Samoa has also undertaken considerable public investment to improve its infrastructure, most notably in the areas of road construction, telecommunications, and port development. Reforms related to Samoa's accession to the WTO are improving compliance with WTO rules and regulations.

## II. Recent Developments

6. **Economic activity weakened in 2001/02, but has since started to recover** (Table 1).[1] After a period of rapid expansion in 1999/00 and 2000/01, GDP growth slowed to 1.9 percent in 2001/02, mainly reflecting a steep decline in agricultural production, due to unfavorable weather conditions, and a sharp slowdown in construction activity, coinciding with the completion of a number of major public works projects.[2] Private construction activity, which had accelerated markedly in recent years, also slowed significantly in 2001/02. In spite of some weakness in manufacturing and fishing, economic activity has started to recover and growth should amount to 3–3½ percent in 2002/03, driven mainly by continued buoyancy in commerce and services (Text Figure).




7. **Underlying inflation has remained low**. Although headline inflation rose to 10 percent in 2001/02 (from 1 percent the previous year), the increase reflected mainly short supply of food staples and the pass through of higher international oil prices. With food prices easing, inflation has fallen back sharply (to under 1 percent in March 2003).

8. **The external trade deficit, which had risen significantly during the recent economic expansion, has begun to narrow, as import demand has started to ease** (Table 2). The external deficit on goods and services widened to 30 percent of GDP in 2001/02, but this reflected largely the impact of a number of exceptional capital imports.[3] Underlying growth in imports slowed to 5 percent, from close to 20 percent in 2000/01, as the release of pent-up import demand following the financial sector liberalization and tariff reforms in the late 1990s, reached its end (Text Figure). Import volume growth has remained

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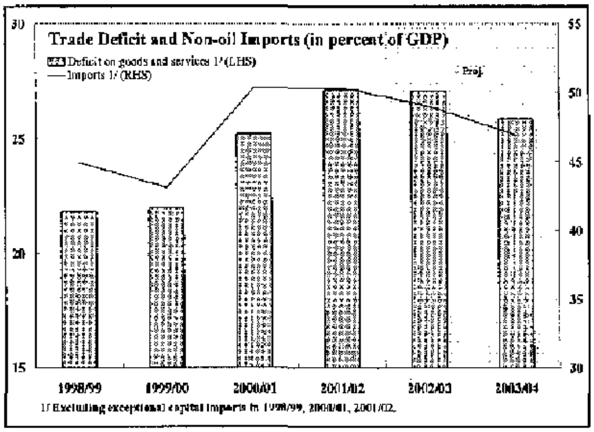
[1] Throughout this report, economic statistics are presented on a fiscal year basis unless otherwise noted. The fiscal year begins July 1.

[2] These included donor funded projects to renovate the international airport, upgrade roads and bridges, and improve water and electricity infrastructure, as well as a number of large building projects such as the South Pacific Regional Environment Program headquarters and the Australian High Commission chancery.

[3] These imports included 8 shipping vessels and capital machinery for the Apia port extension.

subdued in the first half of 2002/03, and despite higher oil prices and continued weakness in exports, the trade deficit narrowed to around 27 percent of GDP. Buoyant remittances (and capital inflows in 2001/02) have helped maintain external reserves at around \$50–55 million (4½ months of imports).[4]




9. **The real exchange rate has been broadly stable over the past 3–4 years** (Figure 3). The exchange rate peg has remained unchanged since a small devaluation of the tala (1½ percent) against its currency basket in November 2001, which was undertaken in response to the appreciation of the tala against the Australian and New Zealand dollars.[5] (Although the central bank has periodically made small adjustments to the exchange rate, there has not been a major devaluation since 1985.) The recent poor performance of exports has been due largely to low fish prices (and depressed catch rates) and a decline in coconut oil production following the temporary closure (for refurbishment) of processing facilities. Tourism has performed reasonably well, although the sector remains small compared to other economies in the region.

10. **Monetary policy was eased in late 2002 in response to the economic slowdown in 2001/02.** After several years of rapid expansion, money and credit growth fell sharply in 2001/02, as economic activity slowed (Table 4).[6] With underlying inflation remaining low and external reserves above their target level (four months of imports), the focus of monetary policy turned toward supporting a recovery in economic activity in 2002/03. Monetary conditions were eased aggressively in the first half of the fiscal year, as the central bank injected substantial liquidity into the banking system through open market operations in central bank securities. Base money expanded rapidly as a result, growing by 30 percent in the year to end-January 2003. The expansionary effects have so far been muted, with the bulk of the increase remaining in bank reserves. However credit growth has started to pick up again, as commercial banks lowered interest rates in response to the excess liquidity in the banking system.

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[4] Official reserves dipped below \$50 million in 2001/02 because of delays in reimbursements on a number of donor-funded projects.

[5] The authorities maintain a peg against the currencies of five major trading partners. The central bank has discretion to adjust the rate by +/- 2 percent.

[6] The slowdown in credit growth also reflected a tightening of internal credit procedures by banks and nonbank financial institutions.

11. **The budget deficit has stabilized at around 2 percent of GDP** (Table 3). After a period of expansionary fiscal policy between 1997/98–2000/01, the budget deficit fell slightly to 2.1 percent of GDP in 2001/02, with higher spending on recurrent outlays and net lending offset by lower development expenditure.[7] The 2002/03 budget targets a further decline in the deficit to 1.9 percent of GDP. This was to be achieved through a combination of higher revenues and lower net lending to public enterprises. The budget featured a broad package of tax reforms to strengthen the revenue base (Box 2) and continued to emphasize education, health, agriculture, and infrastructure in its expenditure allocations. An increase in concessional external financing has enabled the government to pare back its domestic financing requirement. However, net external borrowing has remained modest and with the recent depreciation of the U.S. dollar against the tala, the stock of public (and publicly guaranteed) debt has fallen to roughly 55 percent of GDP at end-2002.[8]

**Box 2. Major Tax Measures in the 2002/03 Budget**

- Increase in the rate of VAGST from 10 to 12.5 percent (effective October 2002).
- Reduction of the 10 percent tariff rate to 8 percent (and to 5 percent for fishing boats and fishing gear) (effective October 2002).
- Extension of the income tax to the commercial fishing sector (effective January 2003).
- Increase of excise taxes on various products including soft drinks and alcoholic beverages (by 10 percent), petroleum products, and tobacco products (by 15 percent) (effective July 2002).
- Increase in motor registration and license fees (by 10 percent) (effective July 2002).

12. **However, risks to the budget have emerged from the significant deterioration in the financial position of Polynesian Airlines.** After a period of profitability following a major restructuring in the mid-1990s, the airline is again in financial difficulties, following an unsuccessful attempt to expand its operations (Box 3). Despite the injection by the government of significant additional capital in the last two years, the airline has continued to run significant losses. Steps are being taken to reduce the airline's excess capacity, through

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[7] The overall fiscal balance (including grants) moved from a surplus of 2.0 percent of GDP in 1997/98 to a deficit of 2.3 percent of GDP in 2000/01.

[8] The government assumed around $30 million of Polynesian Airlines' external debt in the mid-1990s. Debt service on these loans is included in net lending in the budget.

seeking early termination of the lease on one of its aircraft, but the airline's management estimate that it will need approximately SAT 30 million (3 percent of GDP) over the next two years to restructure the airline. (The government approved an immediate capital injection of SAT 10 million in April to keep the airline operational.)

**Box 3. Polynesian Airlines**

**Polynesian Airlines experienced significant financial problems in the early 1990s**. The airline had for many years been run on a profitable basis. However, in 1992, following a change of management,[1] the airline launched a major expansion purchasing two new aircraft leases (for a B737–300 and a B767). Over the next two years the airline amassed debt of over SAT 100 million, leaving the company technically insolvent. The government launched a major restructuring of the airline in 1994. A new management team was brought in and the government assumed all of the airline's liabilities, which amounted to SAT 80 million (16 percent of 1994/95 GDP) after debt restructuring agreements were reached with creditors.

**While the airline operated profitably during 1995–1999, accumulating significant cash reserves, financial problems began to develop again in the late 1990s**. Based on the anticipation of a significant expansion of tourism to Samoa, Polynesian exchanged its existing B737–300 for a bigger (B737–800) aircraft in late 2000 and bought an additional B737–800 in September the following year. Both aircraft were purchased through long-term leases. However, demand for Polynesian's services did not materialize as expected, especially following the September 11 terrorist attacks. Although one of the new aircraft was subsequently subleased to Qantas, reducing Polynesian's excess capacity, the airline still made losses of roughly SAT 60 million during the 1999–2001 financial years. The airline's problems were compounded in March this year when the Qantas sublease expired.

**Polynesian's financial problems have already placed a significant burden on government finances.** In addition to the servicing of the airlines' original debt, now fully paid off, the government has had to allocate SAT 23 million in the last two budgets (2001/02 and 2002/03) to provide additional capital to the airline. In order to cut costs, the airline is in negotiations with the aircraft lessor to terminate the lease of one of its aircraft early (although even if early termination was agreed, it would likely involve substantial fines). The airline's management has estimated the cost of restructuring the airline at around 3 percent of GDP. Given the severity of the situation, the government has approached the IFC to assist it with an urgent review of the potential options for the airline.

[1] The airline had previously been managed by the Australian airline Ansett.

13. **The public sector deficit could expand rapidly in the next six months if the government proceeds with plans to launch several major publicly funded construction projects**. The projects include a new headquarters for the development bank (estimated cost

of 3 percent of GDP) and a joint venture with private investors to build a major new hotel (3–4 percent of GDP). The proposals assume that the new projects would be financed partly from the budget (2 percent of GDP) and partly from the National Provident Fund (4–5 percent of GDP). These projects would be in addition to a recently launched rehabilitation of the offices of the telecommunications utility SamoaTel (1½ percent of GDP), that would be financed from a drawdown of the utility's domestic bank deposits.

14. **The government is moving ahead with structural reform**. The most notable reforms include a major restructuring of the civil service, the launch of a comprehensive privatization program, proposals for a fundamental reform of the communal land management system, and the development of a comprehensive strategy for the tourism sector. These initiatives are intended to complement ongoing efforts to upgrade Samoa's infrastructure (particularly roads, telecommunications, electricity, and water).

## III. Policy Discussions

15. **The mission noted that the policy challenges currently faced by the authorities have changed somewhat from those discussed in the 2001 Article IV consultation**. At that time, against the backdrop of rapid economic growth, the staff had focused its recommendations on tightening fiscal and monetary policies so as to avert overheating. It had also emphasized the importance of further structural reforms to enhance the economic potential of Samoa. In the event, the economy slowed down faster than expected, thus easing the need for a tightening of macroeconomic policies (although the authorities did make progress on fiscal consolidation by reversing expansionary fiscal policy). With regards to structural reforms, the mission commended the authorities for continuing to press ahead with a wide-ranging reform program that had become an example for other countries in the region.

16. **The mission's discussions consequently focused largely on the short-term economic outlook and the challenge of containing emerging risks to macroeconomic stability from Polynesian Airlines and the plans to launch major public construction projects.** The discussions also considered the strategy for realizing Samoa's economic potential over the medium term through export-led growth. This will require sustaining efforts to reform the public sector and improve the investment climate.

### A. Economic Outlook and Vulnerabilities

17. **The mission agreed with the authorities that the short-term outlook for growth and inflation is relatively favorable.** With some recovery in construction activity, as a number of donor-financed construction projects come on stream, growth should be sustained at around 3–3½ percent in 2003/04. (These projects include a World Bank financed road upgrading project delayed from 2002/03, and the initiation of a hydro-electric scheme financed by JICA.) While this growth outlook is more modest than that of the recent past (and below the government's growth objective of 4–5 percent) it compares favorably with

that of most of the island economies in the region. Provided that there are no further food supply shocks, inflation should remain below the central bank's target of 3 percent.

18. **However, the balance of payments position is likely to tighten relative to 2001/02.** With import volume growth slowing and international oil prices subsiding, the trade deficit is expected to continue to narrow (as a percent of GDP) in 2002/03 and 2003/04. However, growth in remittances is expected to slow (following an exceptional surge in 2001/02) and official and private capital flows are expected to ease from their 2001/02 levels. The overall balance of payments surplus is consequently expected to narrow considerably in the period ahead. With the cost of settling Polynesian Airlines' external obligations included, balance of payments deficits are projected for 2002/03 and 2003/04 that would lower Samoa's external reserves to 4 months of imports (the bottom of the central bank's range for an acceptable level of external reserve cover).[9]

19. **There are, moreover, significant risks to this outlook.** In particular, the scenario presented by the staff assumes that the authorities will be able to maintain a sound macroeconomic framework in the face of a potentially significant increase in public sector outlays in the period ahead. The scenario assumes that the global economy will strengthen in the second half of 2003 and that any effects from SARS are modest. The downside risks associated with this global outlook, however, were considered likely to be of second order, as exports account for only 6–7 percent of GDP and a large share of tourists to Samoa are visiting family and friends from the region. The impact could be more significant if a slowdown in Australia and New Zealand, the home of the majority of émigré Samoans, resulted in a reduction in remittances. The high dependence on official transfers and private remittances does not pose an immediate source of external vulnerability, as both are expected to remain fairly stable over the medium term.[10]

## B. Macroeconomic Policies

20. The authorities broadly concurred with the staff's assessment of the economic outlook, and the discussions focused correspondingly on how best to adapt the stance of macroeconomic policies in light of the risks outlined above.

### Fiscal policy

21. **The center-piece of the strategy proposed by the staff would be to contain the budget deficit to around 2 percent of GDP in 2002/03 and 2003/04.** Under the current

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[9] These costs relate primarily to penalties associated with the early termination of the lease on Polynesian's surplus aircraft.

[10] Samoa's strong track record of implementing structural reforms augurs well for future external grants. Key donors include the EU, Australia, New Zealand, and Japan.

outlook for (concessional) external financing, this would limit the budget's domestic financing requirement to around 1–1½ percent of GDP.[11] Such an outcome would enable private sector credit growth to be maintained at around 5–6 percent, thereby providing some support to economic activity without putting additional pressure on reserves. With the additional capital outlays for Polynesian approved in April, the strategy implied that the original targets for the 2002/03 budget (zero domestic financing) would need to be met. Given the uncertainty surrounding the outlook for 2003/04, a more conservative approach was required to ensure that the budget was well positioned to absorb additional outlays for Polynesian Airlines, should they be necessary.

22. **The mission noted that some corrective action would be needed to contain domestic financing of the budget in 2002/03.** Tax revenues were performing well and are expected to come in above target. However, nontax revenues are running below budget, as efforts to enhance collections of fees and charges are lagging expectations, and there are likely to be overruns in net lending (from shortfalls in loan repayments by public enterprises). Development expenditure was expected to come in below budget, owing to delays in initiating some donor-financed projects, but with the additional outlays for Polynesian Airlines domestic financing was projected to be some SAT 18 million (1.8 percent of GDP) higher than budgeted.

23. **The authorities broadly agreed with this assessment and proposed to scale back outlays on nonessential domestic projects in the remainder of the year.** Potential savings of around SAT 6 million (0.6 percent of GDP) were identified, the majority of which were to come from the deferral of domestically funded capital projects.[12] The authorities also noted a number of contingency measures that could be adopted if necessary to contain any domestic financing overruns (e.g., accelerating dividend payments from public bodies).

24. ***The authorities presented a provisional budget framework for 2003/04 that* would maintain the budget deficit at around 2 percent of GDP.** The framework, which incorporates a contingency of 2 percent of GDP to cover potential outlays for Polynesian (under net lending), aims to limit domestic financing to a maximum of 1¼ percent of GDP. To achieve this target, the emphasis will be on curbing expenditure growth, although revenues are projected to rise (reflecting the full-year effects of the tax changes introduced in the 2002/03 budget). The mission considered this emphasis appropriate in light of the sharp rise in current expenditure in the last two years (over 20 percent) and the desirability of avoiding a further round of tax hikes in 2003/04. Given the likelihood of unanticipated

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[11] The strategy focused in particular on the budget's domestic financing requirement as Samoa's external borrowing is restricted to concessional project aid financing.

[12] These are reported under current expenditures, as the development budget refers only to foreign financed development outlays.

expenditure demands before the budget is finalized in May, the mission endorsed the authorities' proposal to limit departmental expenditure allocations to their 2002/03 budget levels (in nominal terms). The mission also welcomed the prospect of savings in the wage bill from the reorganization of the Public Works Department (Box 4), but urged the authorities to make further progress in reducing the substantial support still being extended to loss-making public enterprises.

25. **The mission regretted the renewed financial difficulties of Polynesian Airlines, and urged the authorities to place the airline on a financially viable footing as soon as possible.** While near-term support to the airline appeared unavoidable, the mission recommended that no new capital be committed (beyond the short-term funds already pledged to keep the airline operational) until the government, as the owner, had developed a clear strategic view of the airline's future. The authorities echoed the mission's concerns regarding the contingent liabilities stemming from Polynesian Airlines, and in this context indicated their intention to undertake a comprehensive review of the options for the airline with the assistance of the IFC.

26. **The mission also counseled against proceeding with current initiatives to launch a major expansion of publicly funded capital construction projects.** (At the time of the mission, these projects had not yet been incorporated into the treasury's plans for 2003/04.) The mission indicated that these initiatives raised a number of concerns. First, the combined scale of the projects (8 percent of GDP) would put unsustainable pressure on the budget and balance of payments at a time when public funding might also be needed to restructure Polynesian Airlines. Second, the accelerated timetable envisaged for these projects risked undermining the standard appraisal procedures, exposing the major funding institution, the National Provident Fund, to heightened credit risk. Moreover, the proposed joint venture to construct a hotel would appear inconsistent with the government's commitment to private sector-led growth.

27. **The authorities acknowledged the risks of expanding the public investment program too rapidly.** They assured the mission that the macroeconomic risks posed by the projects would be contained (by rephasing the timing of the projects, if necessary). Furthermore financing for all the projects would conform to existing appraisal guidelines and procedures for major capital projects undertaken by the government and the National Provident Fund. However, the government signaled a strong commitment to the hotel joint venture, as they considered it central to the development of the tourism industry.

28. **Over the medium term, fiscal policy would need to be geared toward reducing public debt**, which at roughly 55 percent of GDP is still relatively high (Annex II). The staff provided the authorities with a scenario that aimed to bring the level of public debt down to around 40 percent of GDP over the medium term, a level broadly comparable to other island

economies in the region.[13] The scenario assumes that the budget would be brought into broad balance over the medium term, with the consolidation coming largely from a substantial decline in net lending, once the large exceptional financing for Polynesian Airlines is completed. With additional savings from reform of other loss-making public enterprises and improvements in expenditure efficiency through reducing low-priority expenditures in the current budget, the scenario envisaged sufficient scope to maintain a healthy expansion of expenditures on key social and development programs. The authorities broadly agreed with the thrust of the proposed strategy, noting that it was consistent with their own strategy (prior to the recent problems with Polynesian) to gradually reduce the fiscal deficit.

**Monetary and exchange rate policy**

29. **The mission urged the authorities to reverse the recent easing of monetary conditions.** The authorities concurred with this view and indicated that they had recently decided to expand sales of central bank securities to secure a significant reduction in the level of excess reserves in the banking system. These open-market operations are expected to bring base-money growth back to around 8–9 percent by the end of the financial year. At this stage, the authorities expect to be able to mop up the excess liquidity, without placing undue upward pressure on interest rates. Nevertheless, they would be ready to move more aggressively to tighten monetary policy if balance of payments pressures emerged in the period ahead. The ability of the government to contain the fiscal position would be a critical factor in determining whether such tightening would be necessary.

30. **The current pegged exchange rate regime has served well as a nominal anchor in Samoa.** The mission concurred with the central bank that adjustment in monetary and fiscal policies (predominantly the latter) should be the primary means of protecting the external position. While a depreciation of the exchange rate could help contain imports if external reserves came under pressure, the mission agreed with the authorities that this did not appear warranted at present. More generally, the central bank's policy of periodically making small adjustments in the value of the tala was viewed as striking an appropriate balance between maintaining external competitiveness, while preserving the exchange rate peg's role as an anchor for inflation. Although the slow growth in exports in recent years has been of some concern, it was agreed that the successful implementation of ongoing reforms should attract investment into the export sector, thus reducing risks to longer-term competitiveness.[14]

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[13] A full-scale debt sustainability analysis has not been possible at this time due to data limitations, but preliminary calculations suggest that the projected public debt path is reasonably robust to more adverse assumptions.

[14] This view is supported by recent analysis of regional competitiveness (see SM/02/350), which showed that Samoa compared reasonably well in this regard to other economies in the region.

**Financial sector issues**

31. **Available indicators suggest that Samoa's banking system is in sound financial condition.** Two of the three existing banks are subsidiaries of major Australian banks.[15] They have a joint market share of over 90 percent and are well capitalized and profitable. The remaining domestically owned bank is also profitable and in compliance with Samoa's stringent 15 percent capital adequacy requirement.[16] Although nonperforming loans have risen in recent years, they remain low (3½ percent of total loans). A fourth banking license was granted to a consortium of domestic investors in late 2002 and the bank is expected to commence operations later this year.

32. **There is also a wide array of nonbank financial institutions, whose financial condition is somewhat weaker.** The two largest institutions, the National Provident Fund and the Development Bank of Samoa, account for about one third of the financial system assets, and have reported weaker profits and higher levels of problem loans than the banking institutions.[17] (Both institutions have reported nonperforming loan ratios of around 10 percent.) The nonbank financial sector also includes four insurance companies, and a large number of credit unions and money changers (although these institutions are relatively small).

33. **The recent emphasis of financial sector policy has been on extending the coverage of central bank supervision to nonbank financial institutions.** The amendment of the Financial Institutions Act in 2001 had provided the legal basis for bringing all nonbank institutions under the supervisory regime of the central bank. Since then, the priority has been on developing the guidelines that will govern the supervision of these institutions and strengthening the central bank's capacity to undertake its expanded supervisory responsibilities. New legislation is also being prepared, with the assistance of the AsDB, to strengthen the supervisory framework for the insurance industry. The mission welcomed the steps being taken to strengthen oversight of nonbank institutions, but urged the authorities to expedite the finalization of the prudential guidelines for the provident fund and the development bank, so as to enable the central bank to commence supervising these two major institutions.

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[15] Although there is no formal "memorandum for information sharing" with the Australian authorities on the supervision of these subsidiaries, informal coordination allows for a necessary exchange of information.

[16] This bank was established in 1995 by the sale of the postal savings bank to a group of private investors.

[17] The provident fund is the country's only pension fund (participation is compulsory for all formal sector employees). The development bank is a wholly government-owned bank providing development finance to priority sectors (e.g., agriculture).

34. **The mission also encouraged the authorities to take steps to further strengthen supervision of commercial banks**, along the lines recommended in a recent assessment of the supervisory regime undertaken by MFD. (That assessment had concluded that while off-site supervision was reasonably robust, gaps remained in the regulatory framework, such as in the area of connected lending and interest rate exposures, and that the central bank had yet to commence on-site examinations of banks.) The authorities noted that they were looking to strengthen a number of relevant regulations, notably those related to connected lending. The authorities acknowledged that they were still developing their capacity to undertake on-site inspections of banks. Further assistance is expected to be provided through PFTAC.

35. **The mission welcomed the government's plans to further strengthen its oversight of the offshore banking system**. Following the amendment of the Offshore Banking Act in 1998, which had led to a significant tightening of the regulatory regime, the number of offshore banks declined sharply (from 25 to 8). The new International Banking Bill, which will be presented to Parliament shortly, will strengthen the regulatory regime further by (inter alia) requiring offshore banks to establish a real physical presence in Samoa. The mission also welcomed the recent progress in developing an effective AML/CFT framework through strengthening the capabilities of the financial intelligence unit. The authorities are also in the process of amending relevant legislation. In addition to the new International Banking Bill, which will address the issue of real presence of offshore banks, the authorities indicated that amendments to the Mutual Assistance in Criminal Matters Act, the Proceeds of Crime Act, and the Extradition Act are expected to be adopted this year.[18]

36. **Samoa was removed from the OECD's list of uncooperative tax havens in April 2002**, following a commitment by the government to establish an effective exchange of information on tax matters with OECD countries by end-2003 (for criminal tax matters) and by end-2005 (for civil tax matters). This commitment was undertaken by all participants under the OECD's Harmful Tax Practices Initiative on the understanding that it would apply equally to all offshore jurisdictions (including those in OECD countries). The authorities indicated that the recent EU Savings Tax Directive (issued in January 2003) had raised fundamental issues about the existence of a "level playing field" under the OECD initiative, as the directive exempts a number of European countries (including OECD members) from the core tax information exchange requirements. The authorities shared the view of many of their non-OECD partners that an urgent review of the future of the initiative was now needed in light of these developments, to harmonize the information exchange requirements under the OECD initiative with that of the EU Savings Tax Directive.

[18] Samoa is not on the FATF list of noncooperating countries and territories.

**Medium-term outlook and structural reform**

37. **Over the medium term, staff expects growth to be sustained at around 3 percent** (Annex II). While a significant pipeline of donor-funded infrastructure projects are expected to continue to support economic activity over the medium term, such a scenario would imply an increasing ability to generate sustained export growth. This will require progress to be maintained on several fronts. Continued macroeconomic stability, with low inflation and sufficient reserves to guard against external shocks, will be essential for providing a solid foundation for private sector growth. A restrained fiscal policy will be central in this regard. The momentum of structural reforms will also need to be maintained. Further progress in public sector reform (to improve efficiency and service delivery) and the removal of impediments to trade and investment will be needed to strengthen the conditions for private sector development and encourage a sustained investment in Samoa's export base.

38. **Public sector reform**. The authorities emphasized that improving the efficiency of the public sector remained at the heart of the government's development strategy. The government's Institutional Strengthening Program (ISP), which launched a detailed review of the government's core functions across the public sector, has been central to efforts to restructure the public service. The mission welcomed the recent progress that had been made in this area. It noted that the intensive review launched under the ISP appeared to be beginning to yield fruit. The recent restructuring of the Public Works Department was expected to significantly improve efficiency, and the streamlining of government departments that was to commence in 2003/04 was also a significant step forward (Box 4). The latter, if implemented successfully, should enhance the allocation of scarce resources (both human and financial) within the public sector. The mission noted, however, that the reorganization appeared to have generated a measure of uncertainty within the civil service. To avoid any deterioration of efficiency in the transition period, it encouraged the authorities to finalize (and disseminate) the detailed plans for the implementation of the reorganization as soon as possible.

39. **Public enterprise reform.** The mission welcomed the government's policy discussion paper on public enterprise reform and privatization. It noted that by setting out clear principles for government involvement in the public enterprise sector, and by establishing a concrete time-table for divesting noncore public enterprises, the paper has the potential to provide new momentum to a privatization program. The mission encouraged the authorities to ensure that the paper receives early Cabinet endorsement, so that the process of divestment can commence in 2003/04. Further efforts will be needed to improve the performance of public enterprises not slated for privatization, especially the electricity utility EPC and the water authority. Inefficiencies in major public enterprises not only represent a major drain on the budget resources but are also a significant impediment to improving the investment climate. The mission agreed with the authorities that the progress that has been made in improving the accountability of public enterprises, following the passage of the Public Bodies Act, was an important step toward improving the overall performance of the public enterprise sector.

**Box 4. Public Sector Reform**

**Samoa has recently undertaken two major initiatives to improve public sector performance, the reform of the Public Works Department (PWD) and a major reorganization of government departments.**

**The first initiative, launched in May 2001, aims to improve the quality and cost efficiency of public works management.** In the past, the PWD (renamed the Ministry of Works) had been responsible for designing and building government roads and buildings. The reform has focused the ministry's responsibilities on policy advice and management of new public works projects. All other noncore functions, such as designing and building roads, are now being contracted out to the private sector. Some of the previous PWD units carrying out these functions have been transformed into private sector "business units".

**To expedite the downsizing of PWD's staff, employees were given several options, including an attractive redundancy package.** The government offered guaranteed employment for up to two years, at conditions at least as favorable as those previously provided by the PWD, either in another department of the civil service, or in one of the new business units set up by the Ministry of Works. Given that many PWD employment contracts were relatively casual in nature, the downsizing of staff has been fairly successful to date.

**The second initiative, launched in January 2003, focuses on achieving broader improvements to public sector efficiency by reorganizing government departments.** The principal goals of the initiative are to improve service delivery, eliminate duplication amongst departments, and make better use of the public sector's relatively scarce skilled labor. Key features of the reform include the reduction in the number of government departments from 18 to 14, and the introduction of fixed-term appointments, open to broad competition, for department head positions. Although the reform does not envisage any reduction in lower-level employees (apart from those resulting from the reform of the PWD), it appears that cost savings may not be possible without staff cuts. Given this expectation, and the favorable experience to date achieving voluntary staff reductions in the PWD, the government may need to elaborate a more detailed strategy for rationalizing employment in other public sector departments.

40. **Investment climate.** The authorities informed the mission of several initiatives underway to improve the investment climate and enhance exports. They attached greatest importance to the reform of communal land management, as the latter is widely regarded as a major obstacle to the development of commercial agriculture and tourism. (These obstacles stem primarily from the difficulty of enforcing contracts related to land leases on communal land.) To address this problem, government intends to expand its role as a direct intermediary between investors and communal land-owners, by taking on the head lease on communal land and subleasing it to potential investors. The mission welcomed the priority attached by the government to this issue, particularly as most of the target sites for tourism development are on customary land (98 percent of coastal land is customary land). The mission considered the recently appointed tourism task force another important initiative. By seeking to clearly define

Samoa's comparative advantage, and tailoring a strategy for the sector accordingly, the potential for overcoming the longstanding obstacles to the development of this sector will be greatly enhanced. The mission encouraged the authorities to adopt a similar approach for the agriculture sector, where a wide array of ongoing initiatives appears to lack a strategic focus.[19] The mission emphasized that in both sectors a clear definition of the role that government can play to facilitate the development of private sector activities will be critical.

41. **Tariff reform**. The mission welcomed the recent reduction in tariffs (which reduced the average tariff further to 11 percent), but noted that the forward strategy for tariff reform remained unclear.[20] It noted that greater specificity of the government's plans for meeting the Pacific Island Countries Trade Agreement (PICTA) goal of free trade by 2012 would provide more clarity to potential investors about the investment environment in Samoa. The recent progress in Samoa's application to join the WTO was also welcome, but the mission encouraged the authorities to give some consideration to using the tariff bindings associated with the application to chart Samoa's forward intentions for tariff reform.

**Economic statistics**

42. **While economic statistics in Samoa compare well with other countries in the region, further improvements are needed in a number of areas**. In particular, priority should be given to strengthening the data for the balance of payments, especially for the financial account as available data are limited to official transactions and partial data from bank transactions. Further strengthening of government finance statistics would also be welcome, as data quality remains hampered by difficulties in the classification of accounts (deriving in part from the fact that the underlying accounts are not coded to *GFS* headings). More generally, improvements in the quality and accuracy of all economic statistics will depend on close coordination between the CBS, the Statistics Department, and the Treasury. Effective use of available technical assistance (including PFTAC) would also help address the remaining statistical weaknesses. The mission encouraged the authorities to subscribe to the General Data Dissemination Standards (GDDS).

## IV. Staff Appraisal

43. **Samoa's past record is impressive.** In the space of little over a decade, Samoa has been transformed from one of the region's weakest economic performers into one of its best-managed economies. A combination of sound economic management and structural reform,

[19] These initiatives include the development of an abattoir, to develop the local beef industry, and a heat treatment plant to facilitate export of agricultural products.

[20] Samoa's overall trade restrictiveness rating is 5 (on a scale from 1 to 10, with a higher rating denoting a more restrictive system).

framed within a comprehensive reform program, has led to robust growth, low inflation, sound public finances, and a comfortable external position.

44. **The authorities face a number of challenges to sustaining this positive economic record.** Although Samoa's vulnerability to the recent weakening of the global economy is relatively modest, there are a number of domestic risks that could cloud the short-term economic outlook, if they are not managed carefully. These risks stem most immediately from the financial difficulties of Polynesian Airlines and plans in train to launch a number of major publicly funded construction projects.

45. **The authorities will need to act decisively to contain the emerging risks to macroeconomic stability.** This will require in particular containment of the public sector deficit. The corrective actions proposed to limit potential overruns in the domestic financing requirement in 2002/03, through deferring outlays on nonessential projects, are appropriate and should leave the budget better placed to absorb the additional outlays pledged to Polynesian Airlines this year. Given the continued uncertainties about the budget outlook, a conservative framework is clearly needed for the 2003/04 budget. The proposal to limit the budget deficit to 2 percent of GDP is appropriate, as is the proposed emphasis on curbing current outlays, as these have risen sharply in recent years.

46. **The future of Polynesian Airlines needs to be resolved as soon as possible.** While the pledge of near-term budgetary support to keep the airline operational was unavoidable, staff recommends that no new capital be committed to the airline, until a strategic decision has been made on the airline's future. The staff welcomes the intention of the government to undertake a comprehensive review of the options for the airline, with the assistance of the IFC.

47. **There is also a need to review the planned expansion of publicly funded capital construction projects.** These projects will place unsustainable pressure on the budget and balance of payments and could expose the major funding institution, the National Provident Fund, to heightened credit risk. The merits of entering a joint venture to construct a hotel should be considered carefully as the project would appear inconsistent with the government's commitment to private sector led-growth.

48. **The recent decision by the Central Bank to reverse its recent expansionary monetary stance is appropriate.** The decision to expand sales of central bank securities is timely and should secure a significant reduction in the level of excess liquidity in the banking system. While the authorities should be able to absorb the excess liquidity without raising interest rates, they should stand ready to raise interest rates if balance of payments pressures emerge in the period ahead.

49. **The current pegged exchange rate regime has served well as a nominal anchor for the economy.** Monetary and fiscal policies should be the primary means of protecting the external position. Furthermore there is no reason for an exchange rate adjustment now on competitiveness grounds. While the slow growth in exports in recent years has been a concern,

it partially reflected temporary factors. Looking forward, a successful implementation of structural reforms will be needed to promote a competitive export sector.

50. **The staff recognizes the authorities' concern about the lack of a private sector investment response to Samoa's extensive reform effort.** However, rather than expanding public investment to stimulate growth, staff encourages the authorities to press ahead with the government's structural reform program. Sustaining the efforts to improve public sector efficiency and removing impediments to trade and investment will be critical to securing the increased investment required to realize Samoa's economic potential. In this regard the staff attaches particular importance to the plans in train to restructure the civil service, launch a comprehensive privatization program, reform the communal land management system, and develop comprehensive strategies to promote key export sectors such as tourism.

51. **The recent emphasis on strengthening the oversight of nonbank financial institutions has been appropriate.** The amendment of the Financial Institutions Act extending central bank supervision to nonbank institutions has been particularly important in that regard. However, further steps are needed to strengthen the regulatory framework in key areas, notably with regard to connected lending, and to enhance the central bank's capacity to undertake its supervisory responsibilities effectively. Priority also needs to be given to finalizing the prudential guidelines that will govern the supervision of nonbank institutions.

52. **Timely steps to strengthen the oversight of the offshore banking system are underway.** In this regard the staff attaches particular importance to the proposed amendment of the International Banking Act, requiring offshore banks to establish a real physical presence in Samoa. The staff welcomes the progress made in developing an effective AML/CFT framework and encourages the authorities to work closely with its partners to develop a robust and equitable system for the exchange of tax information.

53. **The quality of economic statistics in Samoa compares well with those of other countries in the region, but significant weaknesses remain.** The authorities are encouraged to improve the quality of statistics further, especially for the balance of payments and government finance, and to make effective use of available technical assistance (including through PFTAC). The staff encourages the authorities to subscribe to the General Data Dissemination Standards (GDDS).

54. **It is proposed that Samoa continue on a 24-month cycle for the next Article IV consultation.**

Table 1. Samoa: Selected Economic and Financial Indicators, 1998/99–2003/04 1/

| | 1998/99 | 1999/00 | 2000/01 | 2001/02 | Proj. 2002/03 | Proj. 2003/04 |
|---|---|---|---|---|---|---|
| | (12-month percent change) | | | | | |
| Output and inflation | | | | | | |
| Real GDP | 2.1 | 4.4 | 8.6 | 1.9 | 3.1 | 3.2 |
| Nominal GDP | 3.3 | 8.9 | 12.5 | 4.7 | 7.8 | 6.8 |
| Change in CPI (end period) | -0.6 | 2.7 | 1.1 | 9.8 | 2.5 | 2.5 |
| Change in CPI (period average) | 0.8 | -0.2 | 1.9 | 7.4 | 5.9 | 2.5 |
| | (In percent of GDP) | | | | | |
| Central government budget | | | | | | |
| Revenue and grants | 40.0 | 37.9 | 32.9 | 31.4 | 32.7 | 33.1 |
| Expenditure and net lending | 39.6 | 38.6 | 35.2 | 33.5 | 34.7 | 35.3 |
| Overall balance | 0.3 | -0.7 | -2.3 | -2.1 | -2.1 | -2.1 |
| External financing | 0.5 | 0.2 | 0.2 | 1.4 | 0.7 | 0.9 |
| Domestic financing | -0.9 | 0.5 | 2.1 | 0.7 | 1.4 | 1.2 |
| | (12-month percent change) | | | | | |
| Money and credit | | | | | | |
| Broad money (M2) | 15.0 | 13.4 | 20.1 | 3.6 | 12.0 | 6.9 |
| Net foreign assets 2/ | 3.7 | 0.6 | 0.5 | 0.7 | -3.7 | -1.4 |
| Net domestic assets 2/ | 11.3 | 12.8 | 19.6 | 2.8 | 14.6 | 6.3 |
| Private sector credit 3/ | 15.0 | 11.3 | 13.4 | 5.0 | 3.4 | 5.1 |
| Three-month CBS rate | 5.9 | 5.8 | 5.7 | 5.8 | ... | ... |
| | (In millions of U.S. dollars) | | | | | |
| Balance of payments | | | | | | |
| Exports, f.o.b. | 15.9 | 17.2 | 14.5 | 14.3 | 14.3 | 15.7 |
| Imports, c.i.f | 115.5 | 101.0 | 120.4 | 134.0 | 139.4 | 144.4 |
| Goods and services balance | -64.1 | -51.7 | -61.1 | -75.3 | -77.0 | -79.6 |
| (In percent of GDP) | -28.9 | -22.0 | -25.5 | -30.4 | -27.1 | -25.9 |
| Current transfers (net) | 68.7 | 55.5 | 64.0 | 72.7 | 74.1 | 76.7 |
| Current account balance | 4.5 | 2.3 | 0.3 | -2.3 | -6.5 | -4.7 |
| (In percent of GDP) | 2.0 | 1.0 | 0.1 | -0.9 | -2.3 | -1.5 |
| Overall balance | 0.6 | -0.7 | -6.6 | 8.8 | -3.3 | -1.4 |
| External reserves and debt | | | | | | |
| Official reserves (gross) | 52.8 | 52.3 | 45.7 | 54.5 | 51.2 | 49.8 |
| (In months of next year's merchandise imports) | 6.3 | 5.2 | 4.1 | 4.7 | 4.3 | 4.0 |
| Public debt 4/ | 146.5 | 148.0 | 143.6 | 153.7 | 153.3 | 154.4 |
| (In percent of GDP) | 66.1 | 63.0 | 60.0 | 62.0 | 53.9 | 50.2 |
| External debt-service ratio (in percent) 5/ | 9.4 | 10.0 | 8.8 | 9.2 | 7.2 | 9.0 |
| Exchange rates | | | | | | |
| Market rate (tala/U.S. dollar, end period) | 3.02 | 3.21 | 3.52 | 3.29 | 3.22 | ... |
| Market rate (tala/U.S. dollar, period average) | 3.02 | 3.11 | 3.44 | 3.47 | 3.26 | ... |
| Nominal effective exchange rate (1990 = 100) 6/ | 101.2 | 99.4 | 100.9 | 99.7 | ... | ... |
| Real effective exchange rate (1990 = 100) 6/ | 95.0 | 93.6 | 93.4 | 99.7 | ... | ... |
| Memorandum items: | | | | | | |
| Nominal GDP (in millions of tala) | 670.6 | 730.0 | 821.5 | 860.1 | 927.0 | 990.1 |

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

1/ Fiscal year beginning July 1.
2/ Change in percent of beginning period broad money.
3/ Includes private sector credit provided by nonbank financial institutions.
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 Index.

Table 2. Samoa: Balance of Payments, 1998/99–2003/04

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

| | 1998/99 | 1999/00 | 2000/01 | 2001/02 | Proj. 2002/03 | Proj. 2003/04 |
|---|---|---|---|---|---|---|
| Current account balance | 4.5 | 2.3 | 0.3 | -2.3 | -6.5 | -4.7 |
| (In percent of GDP) | 2.0 | 1.0 | 0.1 | -0.9 | -2.3 | -1.5 |
| Merchandise trade balance 1/ | -99.6 | -83.9 | -105.9 | -119.6 | -125.1 | -128.7 |
| Exports, fob | 15.9 | 17.2 | 14.5 | 14.3 | 14.3 | 15.7 |
| Fish | 9.5 | 10.1 | 9.2 | 9.6 | 8.3 | 8.7 |
| Other | 6.5 | 7.0 | 5.3 | 4.8 | 6.1 | 7.0 |
| Imports, cif | 115.5 | 101.0 | 120.4 | 134.0 | 139.4 | 144.4 |
| Oil | 12.5 | 13.1 | 17.9 | 13.7 | 21.2 | 19.2 |
| Non-oil 2/ | 103.0 | 88.0 | 102.6 | 120.3 | 118.2 | 125.2 |
| Services and income balance | 35.3 | 30.7 | 42.3 | 44.6 | 44.5 | 47.3 |
| Services, net | 35.5 | 32.2 | 44.8 | 44.4 | 48.1 | 49.1 |
| Travel, net | 36.0 | 37.6 | 38.2 | 39.7 | 44.3 | 47.2 |
| Export processing, net 3/ | 4.9 | 3.9 | 4.3 | 4.0 | 5.1 | 4.2 |
| Other services, net | -5.4 | -9.4 | 2.4 | 0.7 | -1.3 | -2.3 |
| Investment income, net | -0.1 | -1.5 | -2.6 | 0.2 | -3.7 | -1.8 |
| Current transfers, net | 68.7 | 55.5 | 64.0 | 72.7 | 74.1 | 76.7 |
| Official transfers, net | 31.4 | 12.9 | 20.8 | 22.2 | 23.0 | 24.6 |
| Private transfers, net | 37.3 | 42.6 | 43.2 | 50.5 | 51.2 | 52.2 |
| Financial and capital account | -3.9 | -3.0 | -6.9 | 11.1 | 3.2 | 3.3 |
| Official loans | 1.2 | 0.5 | 0.5 | 3.6 | 2.1 | 3.1 |
| Disbursements | 3.6 | 3.2 | 3.8 | 7.3 | 6.2 | 8.3 |
| Repayments | 2.4 | 2.8 | 3.3 | 3.7 | 4.2 | 5.2 |
| Government guaranteed loans | -3.4 | -3.3 | -2.9 | -2.5 | -2.4 | -2.0 |
| Commercial banks 4/ | -3.4 | 2.2 | -2.0 | 4.5 | 0.6 | 0.0 |
| Other (incl. errors and omissions) | 1.7 | -2.5 | -2.4 | 5.5 | 3.0 | 2.2 |
| Overall balance 5/ | 0.6 | -0.7 | -6.6 | 8.8 | -3.3 | -1.4 |
| *Memorandum items:* | | | | | | |
| Gross official reserves | 52.8 | 52.3 | 45.7 | 54.5 | 51.2 | 49.8 |
| (In months of next year's merchandise imports) | 6.3 | 5.2 | 4.1 | 4.7 | 4.3 | 4.0 |
| Balance of goods and services | -64.1 | -51.7 | -61.1 | -75.3 | -77.0 | -79.6 |
| (In percent of GDP) | -28.9 | -22.0 | -25.5 | -30.4 | -27.1 | -25.9 |
| Current account balance (excluding official transfers) | -26.9 | -10.6 | -20.5 | -24.5 | -29.5 | -29.3 |
| (In percent of GDP) | -12.1 | -4.5 | -8.6 | -9.9 | -10.4 | -9.5 |
| External debt | 146.5 | 148.0 | 143.6 | 153.7 | 153.3 | 154.4 |
| (In percent of GDP) | 66.1 | 63.0 | 60.0 | 62.0 | 53.9 | 50.2 |
| External debt-service ratio 6/ | 9.4 | 10.0 | 8.8 | 9.2 | 7.2 | 9.0 |
| Nominal GDP (in millions of U.S. dollars) | 221.8 | 234.8 | 239.1 | 247.8 | 284.4 | 307.8 |

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

1/ Excludes trade data for Yazaki Samoa Limited and imports by foreign diplomatic missions located in Samoa.
2/ Imports in 2001/02 include exceptional capital imports (8 shipping vessels and machinery for the extension of the port) amounting to $8.6 million.
3/ Represents net exports by Yazaki Samoa Limited.
4/ Equals change in net foreign assets of the banking system (including valuation effects).
5/ Equals change in net foreign assets of the monetary authorities (including valuation effects).
6/ As a percent of exports of goods and nonfactor services.

Table 3. Samoa: Financial Operations of the Central Government, 1998/99–2003/04

| | 1998/99 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 Budget | 2002/03 Proj. | 2003/04 Proj. |
|---|---|---|---|---|---|---|---|
| | | | | (In millions of tala) | | | |
| Total revenue and grants | 267.9 | 276.9 | 270.3 | 270.3 | 305.3 | 302.7 | 328.1 |
| Total revenue | 183.8 | 194.5 | 197.3 | 198.7 | 231.2 | 228.7 | 249.1 |
| Tax revenue | 146.4 | 156.8 | 174.8 | 182.8 | 206.6 | 207.2 | 224.4 |
| Nontax revenue | 37.3 | 37.7 | 22.5 | 16.0 | 24.6 | 21.5 | 24.7 |
| External grants | 84.1 | 82.4 | 73.0 | 71.6 | 74.2 | 74.0 | 79.0 |
| Total expenditure and net lending | 265.8 | 282.0 | 289.6 | 288.1 | 322.8 | 321.8 | 349.2 |
| Current expenditure | 164.0 | 169.7 | 164.6 | 183.3 | 207.3 | 201.1 | 214.1 |
| Development expenditure 1/ | 85.2 | 92.9 | 111.0 | 83.7 | 103.8 | 94.0 | 105.7 |
| Net lending 2/ | 16.6 | 19.4 | 13.9 | 21.1 | 11.7 | 26.7 | 29.4 |
| Current balance | 19.8 | 24.8 | 32.7 | 15.5 | 23.9 | 27.6 | 35.0 |
| Overall balance | 2.1 | -5.1 | -19.3 | -17.7 | -17.5 | -19.1 | -21.1 |
| Financing | -2.1 | 5.2 | 19.2 | 17.8 | 17.5 | 19.1 | 21.1 |
| External financing, net | 3.6 | 1.5 | 1.7 | 11.8 | 16.1 | 6.4 | 8.9 |
| Disbursement | 11.0 | 10.4 | 13.3 | 23.9 | 29.6 | 20.0 | 26.7 |
| Amortization | 7.4 | 8.9 | 11.6 | 12.1 | 13.6 | 13.6 | 17.8 |
| Domestic financing, net | -5.8 | 3.7 | 17.6 | 6.0 | 1.4 | 12.7 | 12.2 |
| Banking system 3/ | -4.8 | 0.1 | 12.0 | -3.5 | 0.0 | 12.7 | 12.2 |
| Others 4/ | -1.0 | 3.6 | 5.6 | 9.5 | 1.4 | 0.0 | 0.0 |
| | | | | (In percent of GDP) | | | |
| Total revenue and grants | 40.0 | 37.9 | 32.9 | 31.4 | 32.4 | 32.7 | 33.1 |
| Total revenue | 27.4 | 26.6 | 24.0 | 23.1 | 24.5 | 24.7 | 25.2 |
| Tax revenue | 21.8 | 21.5 | 21.3 | 21.2 | 21.9 | 22.4 | 22.7 |
| Nontax revenue | 5.6 | 5.2 | 2.7 | 1.9 | 2.6 | 2.3 | 2.5 |
| External grants | 12.5 | 11.3 | 8.9 | 8.3 | 7.9 | 8.0 | 8.0 |
| Total expenditure and net lending | 39.6 | 38.6 | 35.2 | 33.5 | 34.3 | 34.7 | 35.3 |
| Current expenditure | 24.4 | 23.2 | 20.0 | 21.3 | 22.0 | 21.7 | 21.6 |
| Development expenditure 1/ | 12.7 | 12.7 | 13.5 | 9.7 | 11.0 | 10.1 | 10.7 |
| Net lending 2/ | 2.5 | 2.7 | 1.7 | 2.5 | 1.2 | 2.9 | 3.0 |
| Current balance | 3.0 | 3.4 | 4.0 | 1.8 | 2.5 | 3.0 | 3.5 |
| Overall balance | 0.3 | -0.7 | -2.3 | -2.1 | -1.9 | -2.1 | -2.1 |
| Financing | -0.3 | 0.7 | 2.3 | 2.1 | 1.9 | 2.1 | 2.1 |
| External financing, net | 0.5 | 0.2 | 0.2 | 1.4 | 1.7 | 0.7 | 0.9 |
| Disbursement | 1.6 | 1.4 | 1.6 | 2.8 | 3.1 | 2.2 | 2.7 |
| Amortization | 1.1 | 1.2 | 1.4 | 1.4 | 1.4 | 1.5 | 1.8 |
| Domestic financing, net | -0.9 | 0.5 | 2.1 | 0.7 | 0.2 | 1.4 | 1.2 |
| Banking system 3/ | -0.7 | 0.0 | 1.5 | -0.4 | 0.0 | 1.4 | 1.2 |
| Others 4/ | -0.2 | 0.5 | 0.7 | 1.1 | 0.2 | 0.0 | 0.0 |

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

1/ Represents foreign-financed development expenditure.
2/ In 2002/03, includes government-guaranteed bank bridging loan to Polynesian Airlines of SAT 10 million.
3/ Net change in government's position vis-à-vis the banking system, including revaluation of the Treasury's foreign assets.
4/ Includes errors and omissions.

Table 4. Samoa: Monetary Survey, 1999/00–2002/03

| End of Period: | 1999/00 | 2000/01 | 2001/02 | 2002/03 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Sep. Act. | Dec. Act. | Jan. Act. | Jun. Proj. |
| | (In millions of tala; unless indicated otherwise) | | | | | | |
| Net foreign assets | 178.6 | 179.9 | 182.1 | 178.3 | 175.8 | 186.4 | 170.3 |
| Monetary authorities 1/ | 164.3 | 157.2 | 175.6 | 172.7 | 171.1 | 175.1 | 161.6 |
| Commercial banks | 14.3 | 22.7 | 6.5 | 5.6 | 4.7 | 11.3 | 8.7 |
| Net domestic assets | 78.0 | 128.3 | 137.0 | 149.8 | 160.2 | 162.5 | 183.7 |
| Domestic credit | 116.9 | 178.2 | 197.0 | 206.5 | 219.0 | 220.5 | 235.7 |
| Government (net) | -101.5 | -89.5 | -93.0 | -89.3 | -94.3 | -99.3 | -80.3 |
| Nonfinancial public enterprises | 11.9 | 17.7 | 15.1 | 14.6 | 18.3 | 19.0 | 29.0 |
| Nonmonetary financial institutions | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 |
| Claims on private sector | 206.5 | 249.9 | 274.7 | 281.1 | 294.7 | 300.7 | 286.9 |
| Other items (net) | -38.8 | -49.9 | -59.9 | -56.7 | -58.8 | -58.0 | -52.0 |
| Broad money (M2) | 256.6 | 308.3 | 319.2 | 328.2 | 336.0 | 348.4 | 353.9 |
| Currency outside banks | 22.6 | 23.3 | 26.1 | 23.6 | 32.6 | 29.5 | 27.9 |
| Local currency deposits | 218.6 | 262.3 | 283.1 | 292.3 | 292.4 | 301.6 | 310.7 |
| Foreign currency deposits | 15.4 | 22.7 | 10.1 | 12.3 | 11.1 | 17.3 | 15.4 |
| Memorandum items: | | | | | | | |
| Growth of monetary aggregates (percent per annum) 2/ | | | | | | | |
| *Broad money* | 13.4 | 20.1 | 3.6 | 5.6 | 9.2 | 15.3 | 12.0 |
| Tala broad money | 12.3 | 18.4 | 8.2 | 11.5 | 14.0 | 17.6 | 9.5 |
| Reserve money | 11.6 | 16.7 | 11.0 | 15.4 | 20.4 | 27.6 | 7.3 |
| Private sector credit 3/ | 11.3 | 13.4 | 5.0 | 6.0 | ... | ... | 3.4 |
| *Contribution to broad money growth (in percent) 2/* | | | | | | | |
| Net foreign assets | 0.6 | 0.5 | 0.7 | 2.6 | 0.3 | 4.8 | -3.7 |
| Net domestic assets | 12.8 | 19.6 | 2.8 | 3.1 | 8.9 | 10.4 | 14.6 |
| Velocity | | | | | | | |
| Broad money | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 | ... | 2.7 |
| Reserve money | 17.3 | 16.7 | 15.7 | 15.0 | 12.4 | ... | 15.7 |
| Nonbank financial institutions | | | | | | | |
| Deposits | 42.3 | 51.7 | 60.9 | 61.8 | ... | ... | ... |
| Private sector credit | 197.6 | 208.3 | 206.4 | 206.4 | ... | ... | ... |

Source: Central Bank of Samoa.

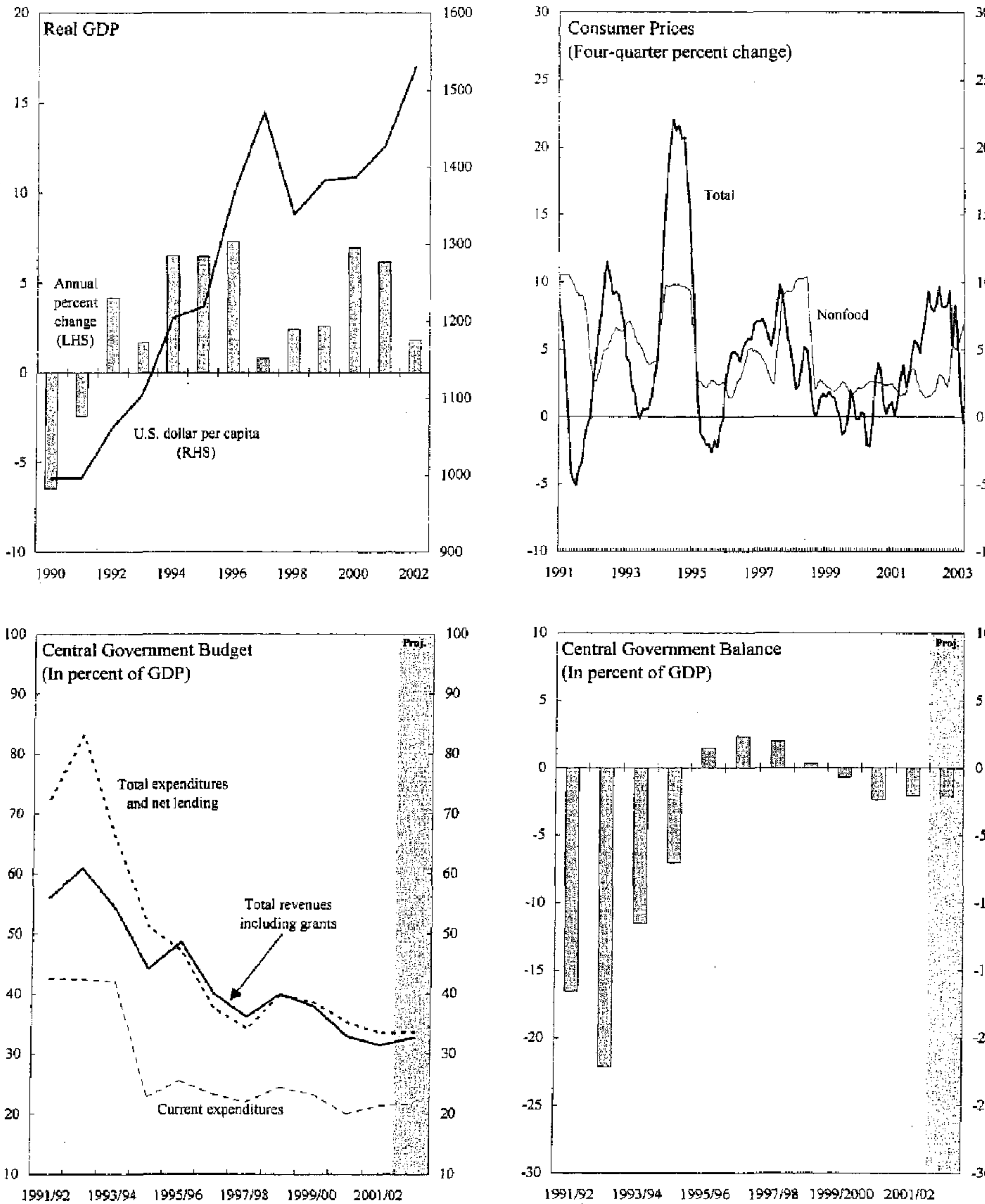
1/ Includes Treasury's monetary accounts.
2/ For quarterly data, the annual change is calculated relative to the respective quarter of the previous year.
3/ Includes credit extended by nonbank financial institutions.

Table 5. Samoa: Vulnerability Indicators, 1998/99–2001/02
(In percent of GDP, unless otherwise indicated)

| | 1998/99 | 1999/00 | 2000/01 | 2001/02 |
|---|---|---|---|---|
| Financial sector risk indicators | | | | |
| Public and publicly guaranteed debt | 66.1 | 63.0 | 60.0 | 62.0 |
| Broad money (percent change, 12-month basis) | 15.0 | 13.4 | 20.1 | 3.6 |
| Private sector credit (percent change, 12-month basis) | 15.0 | 11.3 | 13.4 | 5.0 |
| Share of deposits in broad money (percent) | 91.4 | 91.2 | 92.4 | 91.8 |
| Share of foreign currency deposits in total deposits (percent) | 5.9 | 6.6 | 8.0 | 3.4 |
| External indicators | | | | |
| Exports (percent change, 12-month basis in U.S. dollars) | -10.8 | 7.7 | -15.5 | -1.0 |
| Imports (percent change, 12-month basis in U.S. dollars) | 26.5 | -12.5 | 19.2 | 11.3 |
| Terms of trade (percent change, 12-month basis) | 23.5 | 15.3 | -2.9 | n.a. |
| Current account balance | 4.5 | 2.3 | 0.3 | -2.3 |
| Capital and financial account balance | -3.9 | -3.0 | -6.9 | 11.1 |
| Gross official reserves (in millions of U.S. dollars) | 52.8 | 52.3 | 45.7 | 54.5 |
| Gross official reserves (in months of next year's merchandise imports) | 6.3 | 5.2 | 4.1 | 4.7 |
| Gross official reserves (percent of broad money) | 70.4 | 65.3 | 52.2 | 56.1 |
| Debt-service ratio (percent of exports of goods and services) | 9.4 | 10.0 | 8.8 | 9.2 |
| External interest payments (percent of exports of goods and services) | 1.7 | 1.8 | 1.6 | 1.5 |
| External amortization payments (percent of exports of goods and services) | 7.7 | 8.2 | 7.2 | 7.7 |
| Exchange rate (tala per U.S. dollar, end of period) | 3.02 | 3.21 | 3.52 | 3.29 |

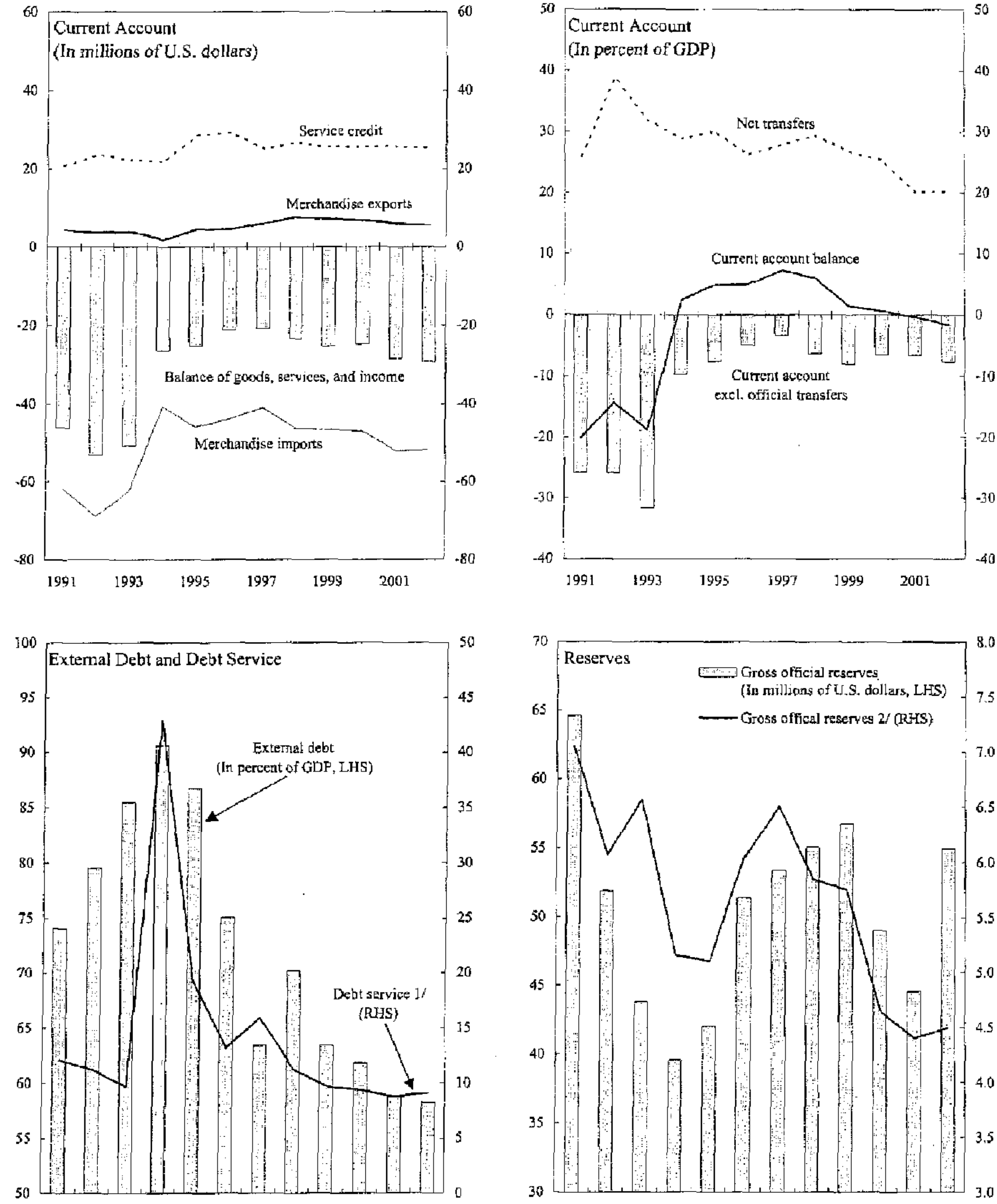
Sources: Data provided by the Samoan authorities; and Fund staff estimates.

**Figure 1. Samoa: Output, Prices, and Government Finance**




Sources: Data provided by the Samoa authorities; World Bank, and Fund staff estimates.

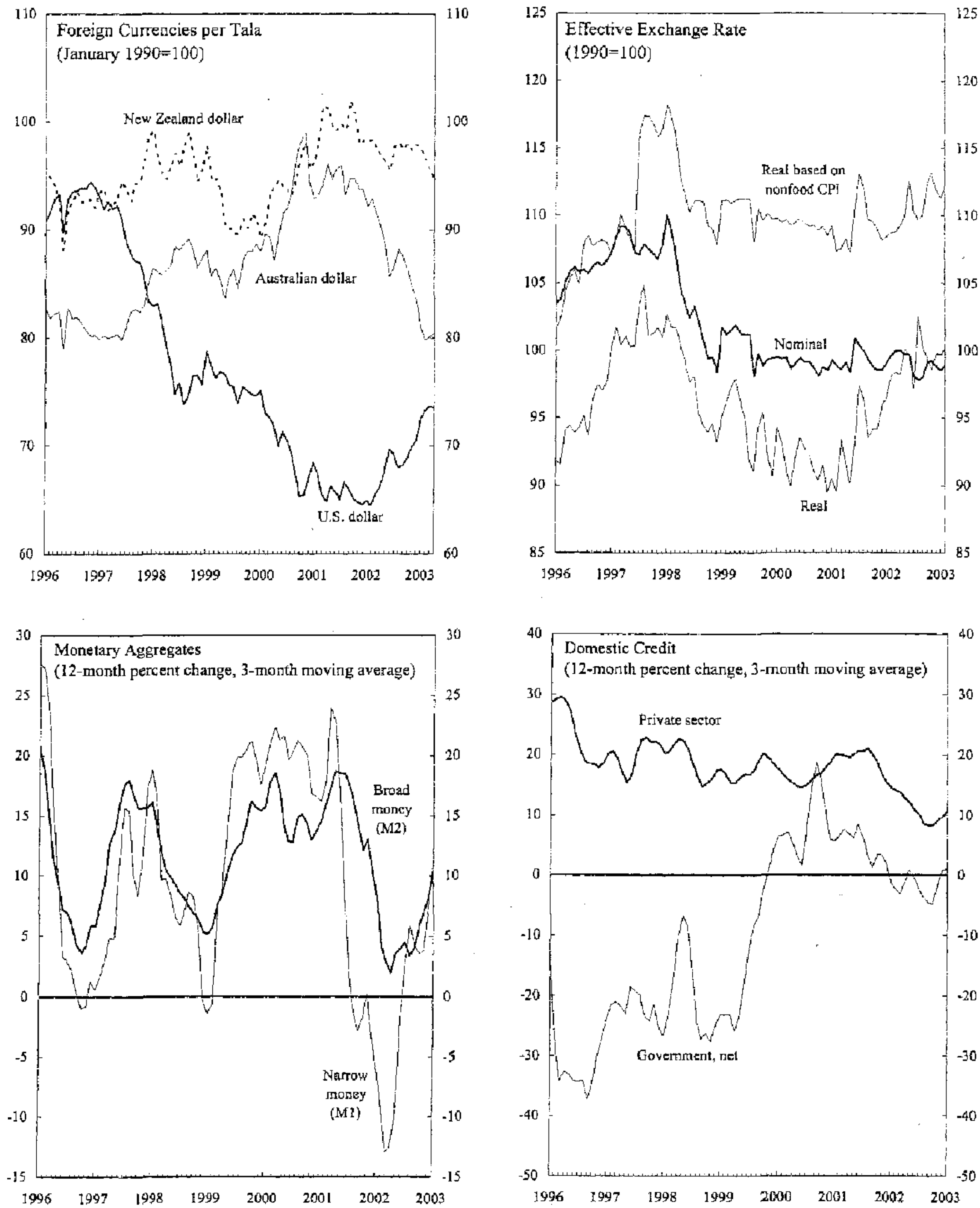
# Figure 2. Samoa: External Developments




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

1/ In percent of exports of goods and services.
2/ In months of next year's imports of goods.

**Figure 3. Samoa: Exchange Rate and Monetary Developments**




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

## SAMOA: SOCIAL AND DEMOGRAPHIC INDICATORS

| | 1985 | 1997 | 2001 | Same Region/Income Group 2001: East Asia and Pacific | Same Region/Income Group 2001: Lower Middle Income |
|---|---|---|---|---|---|
| **Population** | | | | | |
| Total population, mid-year (millions) | 0.16 | 0.17 | 0.17 | 1,800 | 5,200 |
| Growth rate (percent annual average) | 0.03 | 0.6 | 0.6 | 1.0 | 1.4 |
| Urban population (percent of population) | 21.1 | 21.2 | 22.3 | 37.3 | 41.6 |
| Total fertility rate (births per woman) | 5.2 | 4.5 | 4.3 | 2.1[e] | 2.8[e] |
| **Income** | | | | | |
| GNI per capita (U.S. dollars) | 660 | 1,350 | 1,520 | 900 | 1,160 |
| Consumer price index (1995=100) | 57 | 113 | 117[e] | 135[e] | 141[e] |
| **Public expenditure** | | | | | |
| Health (in percent of GDP) | ... | 3.6 | 4.8[d] | 2.0[d] | |
| Education (in percent of GDP) | 3.2[a] | ... | ... | 2.9[b] | 4.1[c] |
| **Gross primary school enrollment rate (In percent of school-age population)** | | | | | |
| Total | ... | 100 | 102[e] | 107[e] | 106[e] |
| Male | ... | 101 | 101[e] | 106[e] | 106[e] |
| Female | ... | 100 | 102[e] | 108[c] | 107[c] |
| **Access to safe water (In percent of population)** | 80 | ... | 99[e] | 75[e] | 79[c] |
| **Immunization rate (Percent under 12 months)** | | | | | |
| Measles | 81 | ... | ... | 85[d] | 71[d] |
| DPT | 89 | ... | ... | 85[d] | 70[d] |
| **Life expectancy at birth (Years)** | | | | | |
| Total | 64 | 69 | 69[c] | 69[c] | 64[e] |
| Male | 63 | 65 | 66[c] | 67[c] | 63[c] |
| Female | 65 | 72 | 72[c] | 71[e] | 66[e] |
| **Mortality** | | | | | |
| Infant (per thousand live births) | ... | 22 | 22[e] | 36[c] | 58[e] |
| Adult (15–59) | | | | | |
| Male (per 1,000 population) | ... | 235 | ... | 183[e] | 242[c] |
| Female (per 1,000 population) | ... | 170 | ... | 132[c] | 187[c] |

Source: *2002 World Development Indicators*, World Bank.

[a] 1990, [b] 1996, [c] 1998, [d] 1999, [e] 2000.

## SAMOA: ILLUSTRATIVE MEDIUM-TERM SCENARIO, 2002/03–2007/08

**Under an illustrative reform scenario and assuming no major shocks, real GDP growth in Samoa is envisaged to remain at roughly 3 percent over the medium term** (Table).

- Growth would be export-led (mainly by agriculture-related products), and based on productivity gains resulting from the deepening of structural reforms and increased private investment. With population growth projected to remain modest at 2 percent per annum, GDP per capita (in U.S. dollar terms) would increase from $1,400 in 2002 to $1,980 by 2008.

- Monetary policy would be geared to maintaining gross reserve coverage near its current level of 4.3 months of prospective imports. This would entail a modest tightening of monetary conditions, so as to limit the spillover of domestic demand into imports. Under such monetary conditions and with declining oil prices, inflation should fall to just over 2 percent, consistent with the inflation in Samoa's major trading partners.

- Fiscal policy would be geared to reducing Samoa's public debt (which at 55 percent of GDP is relatively high compared to other regional economies), while maintaining expenditure on key social and development programs. Consolidation would come from a roughly 2 percentage points of GDP decline in expenditure, based mostly on a decline in net lending following the large exceptional financing for Polynesian Airlines in 2002–2004. Revenue would remain relatively flat as a share of GDP, with a modest decline in external grants offset by an increase in other revenue resulting from tax administration gains. Development expenditure would remain at roughly 10 percent of GDP.

- Samoa's external position would be in surplus over the medium term, based on an improvement in the current account and a strengthening of private capital inflows as the investment climate improves. Export growth would average 8.5 percent per annum, with fish exports increasing gradually and nonfish exports expanding more rapidly as investment improves export capacity. Import growth is expected to be moderate at roughly 5 percent in the medium term, in line with the overall pace of economic growth. In the capital account, official financing would gradually diminish to about 0.5 percent of GDP, while private capital flows would average between 0.5–1 percent of GDP.

**The main downside risk to this scenario is slower growth.** If private investment does not increase as expected, export growth would also be more sluggish. This would put some pressure on Samoa's external position, although import growth may also slow in response to lower domestic demand growth.

Table. Samoa: Medium-Term Scenario, 1999/00–2007/08

| | 1999/00 | 2000/01 | 2001/02 | Projections 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Annual percentage change) | | | | | |
| Growth and inflation | | | | | | | | | |
| Real GDP growth | 4.4 | 8.6 | 1.9 | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 |
| CPI inflation (period average) | -0.2 | 1.9 | 7.4 | 5.9 | 3.4 | 2.8 | 2.3 | 2.3 | 2.3 |
| | | | | (In percent of GDP) | | | | | |
| Fiscal accounts | | | | | | | | | |
| Total revenue and grants | 37.9 | 32.9 | 31.4 | 32.7 | 33.1 | 33.2 | 33.2 | 33.1 | 33.0 |
| Total expenditure and net lending | 38.6 | 35.2 | 33.5 | 33.6 | 36.3 | 33.9 | 33.6 | 33.3 | 33.0 |
| Overall balance (including grants) | -0.7 | -2.3 | -2.1 | -1.0 | -3.1 | -0.7 | -0.4 | -0.2 | 0.0 |
| External financing, net | 0.2 | 0.2 | 1.4 | 0.7 | 0.9 | 1.0 | 0.7 | 0.6 | 0.5 |
| Domestic financing, net | 0.5 | 2.1 | 0.7 | 0.3 | 2.2 | -0.3 | -0.3 | -0.4 | -0.5 |
| | | | | (Annual percentage change) | | | | | |
| Monetary survey | | | | | | | | | |
| Broad money | 13.4 | 20.1 | 3.6 | 12.0 | 6.9 | 6.2 | 6.1 | 6.0 | 6.0 |
| Private credit 1/ | 11.3 | 13.4 | 5.0 | 5.5 | 5.1 | 7.7 | 5.6 | 5.7 | 5.7 |
| | | | | (In millions of U.S. dollars) | | | | | |
| Balance of payments | | | | | | | | | |
| Current account | 2.3 | 0.3 | -2.3 | -6.5 | -5.7 | -2.7 | -0.1 | 0.2 | 0.0 |
| (In percent of GDP) | 1.0 | 0.1 | -0.9 | -2.3 | -1.9 | -0.8 | 0.0 | 0.0 | 0.0 |
| Merchandise trade balance | -83.9 | -105.9 | -119.6 | -125.1 | -128.7 | -132.3 | -136.8 | -143.1 | -150.2 |
| Exports, fob | 17.2 | 14.5 | 14.3 | 14.3 | 15.7 | 17.2 | 18.6 | 20.2 | 22.0 |
| Imports, fob 2/ | 101.0 | 120.4 | 134.0 | 139.4 | 144.4 | 149.5 | 155.4 | 163.4 | 172.2 |
| Services and income, net | 30.7 | 42.3 | 44.6 | 44.5 | 47.3 | 50.9 | 54.6 | 58.1 | 61.9 |
| Current transfers, net | 55.5 | 64.0 | 72.7 | 74.1 | 75.7 | 78.7 | 82.1 | 85.1 | 88.3 |
| Of which: Private transfers, net | 42.6 | 43.2 | 50.5 | 51.2 | 51.2 | 53.3 | 55.9 | 58.6 | 61.4 |
| Financial and capital account, net | -3.0 | -6.9 | 11.1 | 3.2 | 4.3 | 4.6 | 3.5 | 4.0 | 3.7 |
| Of which: Government loans, net | -2.8 | -2.5 | 1.0 | -0.4 | 1.1 | 2.3 | 1.6 | 2.3 | 2.1 |
| Overall balance | -0.7 | -6.6 | 8.8 | -3.3 | -1.4 | 1.9 | 3.4 | 4.2 | 3.7 |
| External debt and reserves | | | | | | | | | |
| Gross external public debt (percent of GDP) 3/ | 63.0 | 60.0 | 62.0 | 53.9 | 50.2 | 48.0 | 45.9 | 44.2 | 42.4 |
| External debt-service ratio 4/ | 10.0 | 8.8 | 9.2 | 7.2 | 9.0 | 7.5 | 6.7 | 6.3 | 5.9 |
| Gross official reserves (US$ millions) 5/ | 52.3 | 45.7 | 54.5 | 51.2 | 49.8 | 51.7 | 55.1 | 59.3 | 63.0 |
| (In months of next year's merchandise imports) | 5.2 | 4.1 | 4.7 | 4.3 | 4.0 | 4.0 | 4.0 | 4.1 | 4.1 |

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

1/ Total credit growth (including credit extended by nonbank financial institutions).
2/ Excludes the import of an airplane in November 2000.
3/ Includes publicly guaranteed debt.
3/ In percent of exports of goods and nonfactor services and private transfers.
4/ In percent of GNFS exports.
5/ Official reserves only (CBS and Treasury).

## Samoa—Fund Relations

(As of March 31, 2003)

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

| II. **General Resources Account:** | SDR Million | %Quota |
|---|---|---|
| Quota | 11.60 | 100.0 |
| Fund Holdings of Currency | 10.92 | 94.12 |
| Reserve position in Fund | 0.69 | 5.98 |

| III. **SDR Department**: | SDR Million | %Allocation |
|---|---|---|
| Net cumulative allocation | 1.14 | 100.00 |
| Holdings | 2.38 | 208.06 |

IV. **Outstanding Purchases and Loans**: None

V. **Latest Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| Stand-by | 07/09/1984 | 07/08/1985 | 3.38 | 3.38 |
| Stand-by | 06/27/1983 | 06/26/1984 | 3.38 | 3.38 |
| Stand-by | 08/17/1979 | 08/16/1980 | 0.75 | 0.00 |

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 April 2003 was SAT 1.00 = US$0.322.

VIII. **Article IV Consultation**:

The 2001 Article IV consultation discussions were held in Apia during January 16–29, 2001. The Executive Board discussed the staff report (SM/01/133) and concluded the consultation on May 9, 2001.

IX. **Technical Assistance**:

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, banking supervision, and balance of payments statistics. MAE has provided assistance on monetary policy operations, foreign reserves management, and other central banking issues. STA has provided help with national accounts statistics, and FAD with tax administration.

X. **Resident Representative**: None

## SAMOA—SUPPORT FROM THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE[1]

The Centre's assistance to Samoa since 1996 has included 21 advisory missions, mostly in the area of bank supervision. Samoa also sent 11 officials to regional seminars and workshops. PFTAC organized 5 attachments.

**Public Financial Management**
The structure of the current budget is adequate for the sustainable implementation of performance/output budgeting. Recent assistance focused on assessing current practices in fiscal transparency against the Fund's Code of Good Practices. Fiscal transparency and accountability are adequate to support sound fiscal policies. Priorities for reforms include: a better medium term framework; additional information to be presented in the annual budget; greater disclosure of information on budget execution; implementation of a stronger transparency and accountability framework for PFIs and NFPEs; and strengthening the role of the national auditor.

**Tax Administration and Policy**
TA mostly focused on VAT (preparation, audit, threshold) and customs control. PFTAC also helped obtain funding for a modern computerized Revenue Management System and helped the IT section at customs design a program to choose taxpayers for audits (an audit service at customs was created in 2001). The first Internal Auditor was recently attached by PFTAC to the Australian Customs Service. Most TA took place in 1998 and, at this stage, there is a need for an in-depth review of tax administration (training, audit, procedures, organization, staffing) and policy.

**Financial Sector Regulation and Supervision**
The involvement focused mostly on training: attendance of the Deputy Governor to a seminar for senior supervisors in DC; one attachment to the RBF; and four participants in the recent PFTAC workshop for supervisors. PFTAC also took part in the Basel Core Principles assessment of the domestic banking sector (part of the 2001 MFD's off-shore assessment). Samoa is part of the newly created Association of Financial Supervisors of Pacific Countries (AFSPC) that has been registered with the Basel Committee on Banking Supervision (BCBS).

**Economic and Financial Statistics**
Samoa is considering moving to the GDDS (but did not do so during the recent GDDS workshop in Suva where eight countries joined) and has one of the best economic statistics in the region. A recent mission (September 2002) reviewed statistics in the Treasury and the Central Bank and prepared an action plan which awaits endorsement by the authorities. Follow-up visit is expected in early 2003. ADB provides assistance with analysis of HIES from a poverty perspective.

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[1] The Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji 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.

## SAMOA—RELATIONS WITH THE WORLD BANK GROUP

Since Samoa became a Bank member in June 1974, 13 IDA credits totaling US$70.5 million have been made covering the agriculture, power, telecommunication, finance, transport, and health sectors. Lending operations currently underway include: the Infrastructure Asset Management Project, a joint project with the Australian aid agency (AusAID), supports the Government of Samoa in the management and cost–effective maintenance of basic infrastructure and assists its public sector reform efforts through strengthening the capacities of key agencies in the sector; the Health Sector Management project helps strengthen the capacity of the Department of Health to develop and implement appropriate health policies, legislation and regulation, and to improve the functional and technical quality of health facilities. The project operates within the framework of the Government's health sector reform strategy. A Telecommunications and Postal Sector Reform project was approved in December 2002.

The Bank's operations in Samoa are guided by the Bank's broader *Pacific Regional Strategy* (May 2000) which, in keeping with the Bank's mission of poverty alleviation, identifies as a priority the provision of targeted development financing in sectors where the Bank has a proven track record and where there is a clear link to an explicit policy reform agenda. The other objective of the Bank's Pacific Regional Strategy, the identification of best-practice approaches and solutions to the development problems in the Pacific, has been carried forward through both country-specific and regional economic and sector work. Recent regional and country work includes "Pacific Islands Stakeholder Participation in Development: Samoa," Pacific Islands Discussion Paper No. 3, February 1998; "Samoa Health Sector Review: Meeting the Challenges of Development," June 1998; "Voices from the Village: A Comparative Study of Coastal Resource Management in the Pacific Islands," Pacific Islands Discussion Paper No. 10, 1999; and the Bank's Pacific Regional Economic Reports, *Embarking on a Global Voyage: Trade Liberalization and Complementary Reforms in the Pacific (2002), Cities, Seas, and Storms—Managing Change in Pacific Island Economies (2000)* and *Enhancing the Role of Government in the Pacific Island Economies (1998).*

Table 1. Samoa: IBRD/IDA Lending Operations

| | Year of Approval | Value | Available Balance 1/ |
|---|---|---|---|
| | (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 | 1987 | 3.0 | 0 |
| Telecommunications | 1989 | 4.6 | 0 |
| Emergency road rehabilitation | 1990 | 14.0 | 0 |
| Afulilo hydroelectric dam supplement | 1993 | 1.0 | 0 |
| Emergency road rehabilitation supplement | 1993 | 5.1 | 0 |
| Projects underway (IDA) | | | |
| Infrastructure asset management | 1999 | 14.4 | 3.9 |
| Health sector management | 2000 | 5.0 | 4.8 |
| Telecommunications and Post Reform | 2002 | 4.5 | 4.6 |
| **Total** | | 70.5 | 13.3 |
| Total debt outstanding | | 51.4 | |

Source: Data provided by the World Bank.

1/ As of December 31, 2002.

## SAMOA—RELATIONS WITH THE ASIAN DEVELOPMENT BANK

The Asian Development Bank (AsDB) operations in Samoa started in 1969. Up to 2002, 29 loans totaling US$113.9 million for 26 projects and technical assistance totaling US$19.6 million for 74 projects have been provided. The AsDB has been the largest source of loans to the country and almost half of Samoa's outstanding public external debt is accounted for by AsDB loans.

AsDB's operational strategy for Samoa is three-pronged: First, to support initiatives that foster good governance through a program of assistance to build capacity for sound economic and public sector management, support financial reforms, and facilitate privatization and performance improvement of public bodies. Second, to help the Government improve living standards and reduce income disparity through improved equity and access to quality education for all Samoans. And third, to promote private sector growth and generating employment opportunities through (i) assistance in the establishment of a sound policy framework to create an enabling environment for private sector development; (ii) supporting infrastructure improvement projects and programs in support of private sector growth; and (iii) assistance geared directly at the development of micro-, small and medium-sized enterprises.

One loan was approved in 2001 for the energy sector amounting to US$6.0 million and three TA grants were approved in the same year for a total of US$800,000. No loan was approved in 2002. However, three TA grants were approved in 2002 in the areas of social infrastructure and energy, for a total of $1.0 million.

Samoa: AsDB Loan Approvals and Disbursements, 1997–02
(In millions of U.S. dollars)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| Loan approvals | 0.0 | 7.5 | -- | 10.5 | 6.0 | -- |
| Loan disbursements | 0.9 | 4.3 | -- | 0.2 | 3.6 | 0.8 |
| Cumulative loan amount available 1/ | 89.9 | 97.4 | 97.4 | 107.9 | 113.9 | 113.9 |
| Cumulative disbursements 1/ | 89.6 | 90.7 | 90.7 | 90.9 | 94.5 | 95.3 |
| Net loan amount undisbursed | 0.3 | 6.7 | 6.7 | 17.0 | 19.4 | 18.6 |

1/ Balance at year–end, cumulative since operations began with Samoa in 1969.

## SAMOA: STATISTICAL ISSUES

A number of significant improvements in the compilation of basic macroeconomic data have been made 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). Statistics in Samoa compares well with those available in other Pacific island countries. National accounts and 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 will soon start publishing monthly merchandise trade statistics based on Customs records (they are currently published by the Central Bank on a non-standard basis).

**Real sector**

The real sector data reported for publication in *IFS* are the consumer price index (CPI) and the values of exports and imports. In addition, *IFS* publishes the index of manufacturing production and GDP volume at 1995 prices.

Quarterly and annual GDP estimates have been developed on a production basis (broken down by the standard industrial classification (SIC)) and are compiled at both current and constant prices. Estimates are available within two to three months after the end of each quarter. During the last few years a number of initiatives have contributed to an improvement in the quality and reliability of national accounts statistics. The 2002 Household Income and Expenditure Survey (HIES) has been successfully completed. An annual agriculture census was initiated in 2002 and the results will be utilized to revise estimates of production. The authorities have also expressed their intention to report GDP by expenditure category within the next two years and some experimental estimates of gross capital formation are already available.

Ongoing efforts, however, are needed to further improve the consistency and coverage of the accounts. In particular, merchandise trade data are inconsistent with data on fish production and the activities of the automotive parts plant. Also, there are delays in the publication of visitor statistics.

The CPI was rebased using the results of the 1997 HIES and will be rebased again in early 2003. In addition to revised weights, some expenditure items were deleted and new items added in order to better reflect current consumption patterns. The Alcohol and Tobacco component of the index was separated from the Miscellaneous component to enable better tracking. Furthermore, the CPI is now released monthly rather than quarterly. Work is continuing on the computation of an underlying inflation index, excluding local food and other items with erratic price movements.

Quarterly employment statistics and average earnings from 1994 onwards are compiled and published annually utilizing data collected by the National Provident Fund (the compulsory

pension fund, which collects contributions from employees and all employers on behalf of workers in the formal sector). More work is needed to ensure consistency with the national accounts classification.

**Government finance**

Government finance statistics (GFS) based on the 1986 Manual are published quarterly within three months of the proceeding quarter by the Treasury Statistics Unit. Considerable improvements have been made to the system in recent years but data quality remains hampered by difficulties in misclassification of accounts, particularly net lending and external grants, and current and development expenditures. The underlying budgetary system is not coded to GFS headings. A transition plan for moving to GFSM2001 over the next two years (but on a cash basis) has been developed with assistance from PFTAC. Further technical assistance and training in GFS compilation is needed to ensure that this is achieved.

**Monetary statistics**

Comprehensive data on the monetary sector are published monthly in *Selected Economic Indicators* and quarterly in *Central Bank of Samoa Bulletin*. Data for the accounts of the Central Bank of Samoa (CBS) and the deposit money banks and interest rates are reported to the Fund for publication in *IFS* on a regular and timely basis. Recently the broad monetary aggregate has been extended to include foreign currency deposits held by residents, which have risen rapidly in recent years, due to relaxation of exchange control regulations.

Monthly data are also collected and published on the lending activities of other credit institutions. However, there are no published data at present on offshore financial institutions which are supervised at arms length by the CBS. The staff encourages the CBS to start reporting the banking survey data to the Fund as soon as technically possible.

**Balance of payments**

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 old BPM4 standards are broadly followed. In general, data reported for the current account are fairly comprehensive, although exports are thought to be under-estimated, duty free imports are excluded and the activities of a major automotive parts plant are reported net under services. Direct investment income flows are excluded and official grants are all included as capital transfers, while cash transfers of the private sector and transfers in kind comprise current transfers. A new tourism expenditure survey is in progress.

The data published for the financial account are limited to elements of Other Investment liabilities (loan liabilities of the government and monetary authorities), and incomplete data on bank transactions and repayments on long–term loans received by the private sector. No