

Samoa: Main Statistical Indicators
(As of May 1, 2003)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of Latest Observation	03/03	02/03	02/03	02/03	02/03	02/03	12/02	11/02	06/02	2000/01	09/02	2001
Date Received	4/16/03	4/16/03	4/16/03	4/16/03	4/16/03	4/16/03	02/03	01/03	11/02	05/02	12/02	11/02
Frequency of Data	M	M	M	M	M	M	M	M	Q	Q	Q	Q
Frequency of Reporting	M	M	M	M	M	M	M	M	Q	A	A	A
Source of Data	Central Bank of Samoa	Central Bank of Samoa	Central Bank of Samoa	Central Bank of Samoa	Central Bank of Samoa	Central Bank of Samoa	Preliminary Estimates from Treasury Department	Preliminary Estimates from Treasury Department	Central Bank of Samoa			
Mode of Reporting	Fax (IFS report forms)	Fax (IFS report forms)	Fax (IFS report forms)	Fax (IFS report forms)	Fax (IFS report forms)	Quarterly Bulletin	Fax and Mission	Mission	Quarterly Bulletin			
Frequency of Publication	M	M	M	M	M	M	M	M	Q	Q	Q	Q
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted

Explanation of codes is as follows:
M – monthly; Q – quarterly; A – annually

**Statement by the IMF Staff Representative
June 2, 2003**

1. **This statement describes the 2003/04 budget which was presented to Parliament on Friday, May 30. The staff appraisal remains valid.**

2. **The staff's preliminary assessment is that the 2003/04 budget, overall, is stronger than the provisional budget framework presented to the mission in March. The key features of the announced budget are as follows:**
 - The budget targets a deficit of 1½ percent of GDP, compared with 2 percent in the provisional budget framework. Domestic financing is expected to be limited to only 0.1 percent of GDP, well within the ceiling discussed with the authorities during the mission.
 - The revenue projections are broadly in line with the estimates presented in the staff report. As expected, no new revenue initiatives were announced in the budget. The authorities remain committed to the tax reform agenda under their program which focuses on broadening the tax base and strengthening tax administration.
 - The more ambitious budget targets reflect largely efforts to curb recurrent expenditure, following a thorough review of the operational budgets of Ministries. Development expenditure is also lower than expected, reflecting primarily lower grant-financed outlays.
 - Net lending is in line with expectations, with the budget containing an allocation equivalent to 2 percent of GDP for Polynesian Airlines (half of which is to be used to repay a government-guaranteed bridging loan extended to the airline in April).
 - Public funding for the major capital projects has been sharply reduced. No budget funds have been allocated for the hotel project (although the National Provident Fund is still expected to provide around 1 percent of GDP to the project this year) and the project to construct new headquarters for the Development Bank has been deferred.
 - The authorities announced in the budget that they are considering a range of fiscal incentives for the tourism industry, although no details were provided. The budget also included a special tax incentive to encourage private sponsorship of the 2007 South Pacific Games.

3. **The authorities have agreed to the publication of the Staff Report, the Selected Issues papers, and the Statistical Appendix.**



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
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Public Information Notice (PIN) No. 03/80
FOR IMMEDIATE RELEASE
June 30, 2003

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

IMF Concludes 2003 Article IV Consultation with Samoa

On June 2, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Samoa.¹

Background

During the last decade, Samoa has experienced an impressive turnaround in its economic performance. A wide-ranging economic reform strategy, launched in 1993, resulted in macroeconomic stabilization and comprehensive structural reforms, which contributed to rapid economic growth in the second half of the 1990s. More recently, following economic growth of 4.4 percent and 8.6 percent in 1999/00 and 2000/01, respectively, GDP growth slowed to 1.9 percent in 2001/02. This slowdown reflected mainly a steep decline in agriculture (due to unfavorable weather conditions) and a sharp contraction in construction activity (following the completion of a number of public works projects). Although underlying inflation has remained low, headline inflation accelerated in this period, rising from 1.1 percent in 2000/01 to 9.8 percent in 2001/02 as a result of food supply shortages. With food prices easing, inflation has fallen back sharply.

Samoa's external trade deficit widened during the recent economic expansion, reaching 30 percent of GDP in 2001/02, although this reflected largely a number of exceptional capital imports. Buoyant remittances and higher capital inflows in 2001/02 have helped to maintain

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

reserves at around 4½ months of imports. External debt, at roughly 55 percent of GDP at end-2002, remains relatively high compared to other countries in the region. However, Samoa's debt is primarily concessional, and has been used to finance development projects.

External competitiveness has been maintained, with the real exchange rate broadly stable over the last 3–4 years. A small devaluation of the tala (by 1½ percent) against its currency basket was undertaken in November 2001, in response to the tala's appreciation against the Australian and New Zealand dollars.

Following a period of expansionary fiscal policy between 1997/98 and 2000/01, the budget deficit moderated to 2.1 percent of GDP (compared to the budgeted 2.7 percent of GDP), with higher spending on recurrent outlays and net lending offset by lower development expenditure. The 2002/03 budget targets a further reduction in the deficit to 1.9 percent of GDP. The budget features several tax measures to achieve the target, including an increase in the rate of value-added tax on goods and services from 10 to 12½ percent, a widening of the income tax base to include commercial fishing, and an increase in excise taxes and fees.

After several years of rapid expansion, money and credit growth fell sharply in 2001/02 as economic activity slowed. Monetary conditions were eased aggressively in late 2002, as the central bank injected substantial liquidity through open market operations. 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.

Supervision in the financial sector has been enhanced by bringing all nonbank institutions under the supervisory regime of the central bank, and guidelines governing the supervision of these institutions are currently being developed. New legislation is also being prepared to strengthen the supervisory framework of the insurance sector. With regards to enhancing commercial bank supervision, the authorities are looking to strengthen a number of relevant regulations, notably those related to connected lending.

Samoa's oversight of the offshore banking system has improved in recent years. Since the tightening of the regulatory regime in 1998, the number of offshore banks has 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 requiring offshore banks to establish a real physical presence in Samoa. The development of an effective Anti-Moneylaundering/Combating the Financing of Terrorism framework is also being enhanced through strengthening the capabilities of the financial intelligence unit.

Good progress continues to be made on public sector reform. The Public Works Department was recently restructured, and a broader streamlining of government departments is to commence in 2003/04. These efforts are expected to result in efficiency gains in the public sector. With regards to public enterprises, the government has strengthened the accountability of employees in these enterprises through the Public Bodies Act, which increases reporting and oversight requirements.

A number of initiatives are underway to improve Samoa's trade and investment climate. To increase the supply of land for investment purposes (particularly commercial agriculture and tourism), the government intends to expand its role as an intermediary, by taking on the principal lease on communal land and subleasing it to investors. The government has also recently appointed a tourism task force, whose work should greatly enhance the potential for overcoming longstanding obstacles to the development of this sector.

Executive Board Assessment

The Executive Directors commended the authorities for their commitment to sound economic management and structural reform, which had led to robust growth, low inflation, sound public finances, and a comfortable external position. Several Directors considered that Samoa's policies and performance could be emulated by other small island economies. Although economic growth had slowed in the recent period, owing in part to unfavorable weather conditions and the completion of several major public works projects, economic activity had already begun to recover. Directors were of the view that over the medium term, Samoa's economic prospects remained favorable, provided that macroeconomic stability was maintained.

Directors cautioned, however, that it was essential not to let this generally positive outlook be marred by the ongoing difficult financial situation of Polynesian Airlines and the plans to launch several major publicly-funded construction projects, which could result in a significant expansion of the public sector deficit.

Against this backdrop, Directors commended the government's commitment to reduce the fiscal deficit, and welcomed the government's budget for 2003/04, announced on May 30, which sets out a deficit target of 1½ percent of GDP. Directors endorsed the government's aim of fiscal balance over the medium term, so as to allow public debt—which remains relatively high by regional standards—to decline as a share of GDP. Expenditure consolidation and moving forward with the tax reforms envisaged by the authorities would be important in this regard.

Directors supported the government's intention to undertake a comprehensive, International Finance Corp.-assisted review of Polynesian Airlines' future options. While Directors accepted that keeping the airline operational in the near term would likely require budgetary support, they were of the view that no further capital should be injected until the airline's strategic future had been decided. Directors welcomed the recent intention of the government to scale back the level of public funding for major construction projects, as these would have placed significant pressure on the budget and the balance of payments.

On monetary policy, Directors welcomed the Central Bank of Samoa's decision to absorb the excess liquidity that had accumulated in the system. They urged the central bank to stand ready to raise interest rates, if balance of payments pressures arose in the period ahead. Increasing the clarity in establishing monetary targets would enhance transparency and encourage financial saving.

Directors were of the view that Samoa's exchange rate regime continues to serve the economy well as a nominal anchor. With the real effective exchange rate remaining broadly stable and external reserves at a comfortable level, Directors considered that the peg was presently appropriate.

Directors shared the government's concerns regarding the slow response of private investment to Samoa's extensive structural reform program. In order to catalyze private sector activity, Directors underscored the importance of continuing to follow a strategy focused on improving public sector efficiency and removing impediments to trade and investment. Ongoing efforts to restructure the civil service, push ahead with privatization, and improve compliance with World Trade Organization rules and regulations were considered particularly important for improving prospects for export-led growth. Directors also viewed ongoing efforts to increase the availability of land for investment purposes as important for stimulating the development of commercial agriculture and tourism.

Directors encouraged the government to press ahead with efforts to enhance the financial sector's supervisory and regulatory framework. With central bank supervision having been extended to nonbank financial institutions in 2001, the priority now is to finalize the guidelines governing this supervision. Further steps are also needed to strengthen the regulatory framework for commercial banks, notably with regard to connected lending. Appropriate technical assistance would help build the needed supervisory capacities.

Directors took note of further progress in strengthening oversight of the offshore banking system and welcomed recent progress in strengthening the capabilities of the financial intelligence unit. They also encouraged the government to work closely with partner countries to develop a robust and equitable system for the exchange of tax information.

Directors noted that the quality of Samoa's economic statistics compares well with that of other countries in the region. Nevertheless, they encouraged the government to continue its efforts to address remaining weaknesses in the quality of their statistics, particularly in the areas of government finance and the balance of payments. The authorities were urged to subscribe to the General Data Dissemination System.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Samoa is also available.