

Samoa: Selected Economic and Financial Indicators, 2000/01–2005/06 1/

	2000/01	2001/02	2002/03	2003/04	2004/05 Proj.	2005/06 Proj.
(12-month percent change)						
Output and inflation						
Real GDP	7.1	4.4	1.8	3.5	3.0	3.0
Change in CPI (end period)	1.1	9.8	1.6	17.2	-2.9	2.0
Change in CPI (period average)	1.9	7.4	4.3	7.9	7.5	3.0
(In percent of GDP)						
Central government budget						
Revenue and grants	31.9	33.8	32.8	32.5	40.1	37.9
Expenditure and net lending	34.3	35.9	33.4	33.4	41.0	38.8
Overall balance	-2.3	-2.1	-0.6	-0.9	-0.9	-0.9
External financing	0.5	1.4	0.5	0.0	0.5	0.6
Domestic financing	1.7	0.7	0.1	0.9	0.4	0.3
(12-month percent change)						
Money and credit						
Broad money (M2)	20.1	3.6	6.6	12.7	10.5	8.8
Net foreign assets 2/	0.7	1.3	-9.2	4.0	10.4	3.2
Net domestic assets 2/	64.5	6.8	27.7	20.9	10.5	13.3
Private sector credit	21.0	9.9	11.4	17.1	8.6	9.0
Three-month CBS rate	5.7	5.8	5.2	5.2	5.2	5.2
(In millions of U.S. dollars)						
Balance of payments						
Exports, f.o.b.	14.5	14.4	12.9	14.1	12.7	12.3
Imports, c.i.f	120.4	134.3	132.9	149.5	174.8	188.4
Current transfers (net)	64.0	72.9	79.6	98.8	125.2	110.9
Current account balance	0.1	-1.6	8.3	15.2	8.7	-7.0
(In percent of GDP)	0.1	-0.6	2.9	4.4	2.2	-1.6
Current account balance excluding official transfers	-20.7	-23.8	-13.4	-9.6	-49.9	-54.6
(In percent of GDP)	-8.8	-9.6	-4.7	-2.8	-12.7	-12.9
Overall balance	1.5	4.2	-5.7	2.2	9.6	1.1
External reserves and debt						
Official reserves (gross) 3/	45.7	54.4	51.5	66.8	76.4	77.5
(In months of next year's imports of goods and services)	3.6	4.2	3.4	3.6	3.9	4.0
External Public debt 4/	143.5	153.4	169.1	177.3	190.4	198.8
(In percent of GDP)	61.4	62.0	59.6	51.5	48.5	46.9
External debt-service ratio (in percent) 5/	8.8	9.1	8.7	7.9	6.0	5.3
Exchange rates						
Market rate (tala/U.S. dollar, end period)	3.5	3.3	3.0	2.9
Market rate (tala/U.S. dollar, period average)	3.4	3.5	3.2	2.9
Nominal effective exchange rate (1990 = 100) 6/	100.9	99.7	98.4	98.8
Real effective exchange rate (1990 = 100) 6/	93.9	99.7	97.5	112.8
Memorandum items:						
Nominal GDP (in millions of Tala)	804.2	858.2	913.8	989.0	1059.4	1118.5

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

1/ Fiscal year beginning July 1.

2/ Change in percent of beginning period broad money.

3/ Excludes reserve accumulation by commercial banks

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; end of period.

**Statement by Jong Nam Oh, Executive Director for Samoa
and Evelyn Adolph, Advisor to Executive Director
June 17, 2005**

Key Points

- Owing to the comprehensive reform program launched in the 1990s, Samoa's economic development compares very favorably with its peer Pacific island countries.
- Macroeconomic performance remains sound and the medium-term outlook favorable.
- The macroeconomic risks to the medium-term outlook, including the 2005 budget, are manageable. The DSA shows that absent a combination of extreme shocks, the debt outlook is sustainable. The authorities recognize, however, that vulnerabilities associated with being a small island economy requires a safer debt position.
- The one-off cost to the 2005 budget of restructuring Polynesian Airlines will end annual budgetary subsidies and transfers to the airline (averaging 1 percent of GDP over the last few years). More significantly, it represents an important structural reform achievement that could serve as an example for the region.
- Their intention to tighten monetary policy to contain the balance of payments pressures associated with this higher budget deficit is also in line with staff's advice.
- The authorities are committed to implementing their ambitious structural reform agenda spelled out in the Strategy for the Development of Samoa (SDS), which addresses key outstanding structural reform measures identified by staff.
- Samoa's financial system is sound and well-supervised. Consistent with staff's recommendations, the authorities are interested in strengthening the investment guidelines of the National Provident Fund to enhance its financial soundness.
- The authorities value the objective and quality assessment of their policies provided in the context of the Fund's Article IV consultations process. They expressed strong interest in a staff interim visit.

1. Samoa suffers from physical and economic characteristics that restrict economic development. These include smallness in size and population, geographic remoteness and isolation, narrow productive sectors, vulnerability to terms of trade fluctuations, and susceptibility to natural disasters. Nevertheless, implementation of structural reforms and a history of prudent economic and financial management since the 1990's have enabled economic development in Samoa, which compares very favorably with its peer Pacific island countries. More importantly, the authorities remain committed to maintaining their track record of prudent economic policies to ensure macroeconomic stability and growth. Furthermore they intend to build on the achievements to date on the structural reform front by addressing key outstanding issues.

2. GDP growth increased to 3½ percent in 2004 from 1¾ percent in 2003. Inflation also stabilized in recent months, after having picked up in early 2004 - reflecting increased import and food prices following cyclone Heta. The current account balance is estimated to have deteriorated by end-December 2004, reflecting strong imports for the construction sector and continued weak export growth. Staff and authorities agree on a favorable outlook of 3 percent growth in 2005/06.

Commitment to macroeconomic stability

3. Noting the risks to this favorable outlook, the authorities remain committed to the continued implementation of sound economic management to ensure macroeconomic stability and growth.

4. Reflecting fiscal restraint and continued strong revenue performance, fiscal performance up to 2004 has been encouraging as the overall deficit declined to less than 1 percent of GDP since 2002/03. Public debt also declined from 60 percent of GDP in 2001 to 48.5 percent in 2004/05. The administration's budget submitted to the parliament, while representing an increase in the target fiscal deficit, is in our authorities' view manageable. The wage increase and the cost of restructuring Polynesian Airlines will result in a slightly higher debt-to-GDP ratio, but will not lead to an unsustainable debt outlook. However, the authorities are also aware that the vulnerabilities of a small island economy requires a safer debt outlook.

5. The one-off cost to the 2005 budget of restructuring Polynesian Airlines will end costly budgetary subsidies and transfers to the airline, which have averaged 1 percent of GDP over the last few years.

6. The authorities have requested a wage increase of 35 percent in the 2005/06 budget (instead of 40 percent recommended by the Remuneration Tribunal). Consistent with their discussions with staff, this will be phased in over three years to minimize the impact in one given year. The authorities view the wage increase as long overdue, with public sector wages having remained the same since 2001. Moreover, Samoa's public wage bill as a share of GDP is significantly lower than the regional average. The authorities are considering staff's advice to develop a performance-based system, which would see future wage increases based on productivity.

Monetary policy and financial sector soundness

7. The reserve position is expected to remain at comfortable levels, even taking into account the impact of the higher budgetary deficit for 2005/06. The monetary authorities signaled their intention to tighten monetary policy to contain the budgetary risks to macroeconomic performance.

8. Samoa's financial system is sound and well-supervised. Consistent with staff's recommendations, the authorities are interested in strengthening the investment guidelines of the National Provident Fund. Nevertheless, Samoa is a good illustration of how market size and remoteness make sound policies insufficient for attracting private foreign capital. In such cases, securing sufficient capital for supporting productive activities is a real concern.

Structural reforms to strengthen private sector-led growth

9. The reform program launched in the early 1990's has laid much of the ground work for economic development. The authorities now face the challenge of enhancing the environment for private sector-led growth, as outlined in the SDS 2005-07. In particular, the SDS outlines the need to promote the investment climate, improve the availability of land for private investment, and the deepening reform of state-owned enterprises.

10. Programs are already underway to help improve the investment climate (such as a reform of key utilities and improving the regulatory regime). The establishment of a one-stop shop facility is also viewed as important.

11. The authorities also recognize the importance of land reform aimed at improving the capacity to use land for collateral and investment. The government's recent initiative to facilitate the leasing of unused communal land for productive uses is an important progress in this regard.

12. The government has made significant progress in public enterprise reform in the context of its SOE policy framework. These include the divestment of the government's minority interest in a number of enterprises, and the announcement of the privatization of the Samoa Shipping Services, the Agriculture Store, and the Samoa Broadcasting Corporation. Enterprises of strategic public interest will be subjected to the corporatization program to give them a stronger commercial focus. The authorities will continue with their efforts to further improve the operations of the remaining SOEs, including by contracting private operators for management of the remaining SOEs.

13. Due to the remoteness of Pacific island countries, high transport costs represent one of the most important obstacles to their development. Highly subsidized state-owned airlines are thus very common in the Pacific. For Samoa, subsidies and transfers to Polynesian Airlines averaged 1 percent of GDP over the last few years. The joint venture with Virgin Blue holds promise of improving the operations and finances of Polynesian Airlines. Samoa's success in addressing this problem could serve as an example for parts of the region where transport bottlenecks remain and subsidies to state-owned airlines still burden the budget. The recent push to shift to a more regional approach for coordination in addressing the chronic problems of transport could benefit from this model.

14. The tourism sector is viewed as offering great potential, especially as a means of providing employment. The authorities' efforts to develop the tourism sector are bearing fruit, which is evident in the growth of the sector's share of GDP from 4 percent in 2001 to 17 percent in 2003.

Conclusion

15. Finally, the authorities value the objective and quality assessment of their policies provided in the context of the Fund's Article IV consultations process. They expressed strong interest in a staff interim visit, as the next Article IV is not expected to take place until 2007.