re-directing some development spending under existing plans to tsunami-related infrastructure rehabilitation is encouraging.

“Reflecting prudent fiscal policies, the authorities achieved a low level of public debt in recent years. It will be important that public debt be stabilized at comfortable levels once tsunami-related reconstruction is completed as Samoa remains susceptible to severe external shocks. Any remaining tsunami-related financing needs should be met primarily through grants and concessional borrowing.

“The authorities’ commitment to the exchange-rate basket peg has proved an effective anchor of sound macroeconomic policies. Further structural reform is key to enhancing prospects for private-sector led growth, including by building on recent progress in state-owned enterprise reform, and financial sector development,” Mr. Kato stated.

Statement by Hi-Su Lee, Executive Director for Samoa

On behalf of the Samoan authorities, we would like to thank staff for their quick response following the tsunami, and for their hard work and their willingness to help.

Samoa has a strong track record of prudent fiscal management and public debt management. The authorities have made effective use of the policy advice and technical assistance provided over the years by international institutions including the Fund, and in doing so have implemented a good framework for economic development, and a programme for the continued enhancement of domestic policy and regulation. The effects of the tsunami in September remind us that, even with robust economic management over a sustained period, small island states remain vulnerable to these large, exogenous events.

Against that background, the authorities request access to 50 per cent of quota – SDR 5.8 million, or around USD 9 million – under the ESF-RAC. That facility would help meet the Balance of Payments need. At the same time, it would help to catalyze budget support from other partners to give the authorities the fiscal space to leverage financing of the recovery work in the near term without compromising the pursuit of their medium- and longer-term objectives of sustained growth and sustainable debt management.

Background

Samoa has been a strong performer throughout the decade-and-a-half leading up to the current global downturn. Economic growth was strong and the authorities put in place a framework for managing public finances and debt prudently. Structural reform, including in the public sector, was an important part of that framework.

More recently, the global recession hit export demand, leading among other things to the downsizing of a large manufacturing operation in Samoa. International food and fuel prices caused a pick-up in inflation, though that is expected to gradually abate over the second half of 2009. At the same time, tourism receipts and remittances held up reasonably well in the face of the global slowdown, allowing the external position to remain sound.

The tsunami in September 2009 inflicted large-scale damage. While Samoa is making good progress on recovery, it will take several years to restore, and develop new, infrastructure to support the relocation of people upland so they can lead normal lives.

Economic stimulus was already coming from a programme of development spending in fiscal year 2009/10, consistent with objectives set out in the *Strategy for the Development of Samoa 2008 - 2012* (SDS), and from monetary easing of around 3 percentage points since August 2008.

Effects of the tsunami on activity

Not forgetting the human cost of the tsunami, the near-term prospect for economic recovery has been dented. Earnings – primarily in the tourism and related sectors – will, according to staff estimates, be around 1½ –3½ per cent of GDP lower in FY2009/10 than would have been the case in the absence of the tsunami. There is also likely to be an impact on tourism in FY2010/11, with the sector expected to return to full capacity from late 2011.

Over the longer-term, the loss in GDP might be as much as five percentage points. This takes account of the fact that recovery spending will provide a significant boost to economic activity, counteracting some of the loss in earnings. Staff expect GDP to fall around 3 per cent in the current fiscal year before growing at around 3 per cent in FY2010/11, and then stabilizing to 2.2 to 3 per cent over the following three years.

Work commenced quickly after the tsunami to identify how best to respond over the medium term. This involved the authorities working with assessment teams from the Asian Development Bank, World Bank, UNDP and other development partners.

Fiscal situation

Public expenditure on recovery will total around USD 100 million or 18 per cent of GDP over the next 3 fiscal years. The fiscal deficit after grants will be 11.7 per cent of GDP this year and just under 9 per cent in 2010/11. It will then ease back towards 2 ½ per cent by 2013/14, a level in line with the authorities' targets under their Public Debt Management Strategy. It is the strong performance over recent years that puts the authorities in a position that allows temporary fiscal expansion while maintaining a comfortable debt-servicing profile.

The authorities aim to complete the urgent recovery work in the current fiscal year and are tabling a supplementary budget in the first half of December to clear all the recovery costs. That budget will set out the spending level required to complete the reconstruction costs in addition to the ongoing program already provided in the 2009/10 main estimates.

When the recovery work is combined with the development spending already planned over the coming years under the SDS, the authorities recognize that this makes for a large investment programme. Should administrative pressures arise, they have the option to adjust the timing of their expenditure to ensure that effective implementation of the work.

The authorities have secured external concessional financing and grants to meet around 60 per cent of the total estimated recovery spending, from the World Bank, Asian Development Bank, European Union, Australia, New Zealand and other bilateral partners. As staff note in their report, the intention is to seek financing on similar terms to meet the remainder of the spending need. The publication of the staff report and any associated IMF financial support will further enhance the prospects of further concessional financing.

Balance of Payments

The financing under the ESF-RAC would support reserves, allowing Samoa to meet its external obligations through the early part of the reconstruction period.