

**Statement by Heenam Choi, Executive Director for Samoa  
and Nancy Lelang, Advisor to Executive Director  
May 1, 2017**

On behalf of our Samoan authorities, we welcome staff's 2017 Article IV Consultation reports and thank the mission team for their productive engagement and sound policy advice. Our authorities agree in general with the staff assessment of the Samoan economy, risks facing the country and the policy package needed to sustain growth and build resilience against potential financial stability risks and natural disasters.

In the longer term, our authorities recognize the need to undertake deeper reforms to reinforce resilience and secure Samoa's growth path. As such, our authorities remain committed to reducing financial sector vulnerabilities; mitigating spillovers of the withdrawal of correspondent banking relationships and ensuring fiscal sustainability. Importance is placed on addressing AML/CFT concerns, establishing a know your customer database, strengthening state owned enterprises, abiding by the government's fiscal and debt framework, as well as, accomplishing the Sustainable Development Goals (SDG) to improve the business environment to support Samoa's growth over the longer term.

Our authorities also thank the Fund for the ongoing technical assistance and special project missions to Samoa. Special thanks to Madame Lagarde for her timely and enormous support including stewardship in recognizing the economic challenges faced in Samoa. Madame Largarde's intervention has brought more frequent and much-needed technical assistance to the country.

## **RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

**The authorities agree with staff's assessment of the Samoan economy.** In 2016/17, economic growth will moderate to 2.1 percent. Spillovers from the closure of a fish cannery in American Samoa and the closure of the largest manufacturing plant in Samoa will both be drags on growth in 2017/18 and 2018/19, before returning to the potential growth level of around 2 percent in the medium term, and in the absence of natural disasters. Average inflation, on the other hand, is subdued at 1.8 percent and is expected to climb close to 3 percent over the medium term.

**The authorities share staff's view on the country's trade position which is in line with economic fundamentals.** Samoa's current account is expected to remain steady in 2016/17, before narrowing over the medium term. The country's international reserves level (in US dollar terms) has recently improved and remains comfortable at 3.0 months of import of goods and non-factor services cover; consistent with Samoa's optimal level of reserves between 2.7 to 4.0 months of import of goods and non-factor services cover and in terms of the opportunity

cost of holding it. Samoa's local currency (Tala) is also assessed to reflect economic fundamentals.

## **FISCAL POLICY**

**The authorities' fiscal policy stance is to tighten general spending and impose quality spending in priority areas whilst maintaining budget deficits not more than 2.0 percent of GDP over the medium term.** The authorities commenced their expenditure rationalization and revenue collection efforts with the passing of the 2015/16 Budget, which resulted in the fiscal deficit dropping to 0.4 percent of GDP from 3.9 percent in 2014/15. The authorities also launched the country's new development policy document "Strategy for the Development of Samoa 2016/2020" in late 2016, which will guide Government over the next 4 years. The strategy sets new and tighter medium term fiscal targets and aims to affordably improve the country's education and health services and build climate change resilient infrastructures. In addition, authorities continue to secure international development partners' assistance to address issues relating to vulnerable groups like youth and gender, as well as, to partner with authorities to maintain and construct new infrastructure to climate change resilience standards (an example is the Green Project Fund).

**The authorities are pressing on with reforms on its Public Financial Institutions and State Owned Enterprises to avoid burdening the country's budget.** Authorities are fully aware of the adverse impact on the budget of non-performing public financial institutions and state owned enterprises, hence, are continuing with reforms. All public financial institutions are now under a new Ministry of Public Enterprises, which will further support transparency and accountability of these organizations. The authorities intend to continue to implement the State-Owned Enterprise (SOE) Act, appoint independent directors, as well as, privatize selected SOEs over the medium term. The Development Bank of Samoa (DBS) has appropriately re-oriented its focus to providing credit to the agriculture sector, in accordance with its mandate. The Samoa National Provident Fund (SNPF) closely monitors and manages its personal lending against members' contributions, and to date operates as usual without any threat of bankruptcy. The Unit Trust of Samoa (UTOS) complies with all the requirements of the Central Bank of Samoa and its operations are transparent.

**The authorities remain committed to promoting a fair and efficient Samoan tax system to enhance revenue collections.** The authorities are carefully considering compliance measures to ensure everyone is paying a fair share of tax and to ensure that the tax burden remains as low as possible whilst raising revenue. The authorities are reviewing the tax exemptions and concessions that are in place in the current tax arrangement to ensure these are justified and that they are not being used to unfairly avoid paying tax. They are also vigorously pursuing payment of back taxes where there are arrears and will impose penalties where there is no justification for these arrears. The authorities are also reviewing the current tax credit arrangement allowed to larger companies with a view that the tax credit is spent in line with

national priorities. Authorities also intend that State Owned Enterprises which generate revenue and earn profits pay dividend to the consolidated revenue. In the 2015/16 budget, the authorities have increased the excise duty on tobacco and alcohol products and introduced excise on sugar items and some salt products.

**Reducing public debt to 50 percent of GDP over the medium term remains a priority.**

Samoa's debt strategy is to ensure that the financing needs of the State are always met on a timely basis and that its borrowing costs are as low as possible over the medium term. Whilst considering the debt objective, the authorities aim to ensure that the debt to GDP ratio will decline in the medium term to 50 percent of GDP while its growth priorities are adequately met.

## **MONETARY POLICY & THE FINANCIAL SECTOR**

**Monetary policy stance is to support economic growth given the low inflation environment and moderate growth prospects.** Inflation (year average) is expected at 1.8 percent in 2016/17 and is projected to remain no more than 3.0 percent over the medium term. Given the low inflation environment, the accommodative monetary policy stance balances the authorities' desire to support economic activity whilst rebuilding fiscal buffers to mitigate possible external shocks and prepare for unanticipated natural disasters. The authorities are also aware that monetary policy transmission mechanism via open market operations tends to be sluggish during periods of low interest rates in Samoa. As such, the authorities are intending to review its monetary policy framework with consideration towards the setting of an official policy rate by the Central Bank of Samoa like the Reserve Bank of New Zealand's overnight Cash Rate. Other monetary instrument options available to Samoa include reserve requirements, repurchase and rediscount facilities and moral suasion through quarterly meetings with the commercial banks which have worked well for Samoa.

**The financial sector remains well capitalized, liquid and profitable whilst authorities significantly progress the implementation of the FSAP recommendations.** Samoa's capital adequacy ratio remains comfortable at 24.0 percent and non-performing loans (NPL) ratio has declined over the past year. The improvement in NPL is largely due to increased efforts by the commercial banks in collecting outstanding arrears from financial institutions. At the same time, authorities have increased on-site inspections of commercial banks, as well as, strengthening its supervisory and regulatory framework. They are also committed to continuing work to include amendments to the Financial Institutions Act; upgrading the guidelines on prudential statements for commercial banks; increasing financial supervision staff numbers; increasing training for supervisory staff and updating the framework for single borrowing limits. The authorities are grateful for the recent Financial Stability Analysis mission to Samoa, which no doubt will help enhance further financial stability analysis of Samoa, including development of a framework for analysis of risks.

**Of significant concern, correspondent banking relationships withdrawal is ongoing.** Remittances account for 18 percent of GDP in Samoa, of which about 80 percent is channeled through small Money Transfer Operators (MTOs). MTOs continue to face closure of their bank accounts without explanation from correspondent banks and are also prevented from reopening business accounts in other correspondent banks. For a small island state like Samoa, there is the potential that ongoing correspondent banking relationship withdrawal could create financial stability risks, undermine financial inclusion and rocket the cost of remittances. Other consequences include increasing movement of cash-handling across borders.

**Authorities are vigorously pressing on with reforms to comply with the international AML/CFT standards.** The authorities have published Samoa's AML/CFT national strategy, as recommended by the Asia/Pacific Group on Money Laundering. Recent efforts include two financial intelligence unit (FIU) staff attaining certification from the Association of Certified Anti-Money Laundering Specialist (ACAMS) and training for police recruits as well as the judiciary. Authorities have also continued with on-site inspections of MTOs to improve AML/CFT compliance.

**Collaborated participation of the Australian and New Zealand regulators including World Bank, Asian Development Bank and the IMF are critical in restoring confidence in the financial system of the Pacific region.** Samoa is committed to establishing a national "Know Your Customer" database, as recommended by the Fund. The database will contain information on senders and receivers of remittances and provide readily available information to verify the senders and receivers of remittances. The database will be housed in Samoa at the Central Bank, which will have the necessary legal authority to collect data. Participation of the Australian and New Zealand regulators remain critical to ensuring standards of these countries are met in the database to prevent further correspondent banking relationships withdrawal and create confidence in Samoa's financial system. The Samoan authorities had also led a very fruitful and promising engagement through a roundtable meeting between the Central Bank Pacific Governors and the US authorities (US Federal Reserve and Treasury) that could certainly ensure accountability and transparency in addressing the de-risking issue.

## **STRUCTURAL REFORMS**

**Finally, authorities remain supportive of private sector growth and improvements in statistics.** Authorities are continuing with reforms to the legal land leases framework, as well as, implementing the Personal Properties Securities Act (amended January 2015) which is expected to improve access to finances by small to medium enterprises. Efforts to improve vocational skills and education accreditation to ease shortage of skilled workers or to take advantage of overseas opportunities is also ongoing. Upon the completion of the submarine cable, quality and cost opportunities of information technical services should improve. Authorities are also enhancing data dissemination through the implementation of the enhanced General Data Dissemination System (e-GDDS) with the technical assistance from the Fund.