



SAMOA

June 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SAMOA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Samoa, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 7, 2018, consideration of the staff report that concluded the Article IV consultation with Samoa.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 7, 2018, following discussions that ended on March 5, 2018, with the officials of Samoa on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 20, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Samoa.

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IMF Executive Board Concludes 2018 Article IV Consultation with Samoa

On May 7, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV consultation¹ with Samoa.

Samoa's economy has shown resilience and continues to perform well. Growth remained robust at 2.5 percent in 2016/17, driven by commerce, services and agriculture. Inflation picked up to 1.3 percent in 2016/17, compared to close to zero in the previous year, but remains well below the authorities' target of 3 percent. The current account deficit narrowed to 2.3 percent, driven by temporary factors. The Samoan Tala appreciated against the U.S. dollar during 2016/17, although there was little change in the nominal and real effective exchange rates. Financial soundness indicators highlight that commercial banks are well capitalized and that earnings, profitability, and liquidity indicators are within historical norms.

Growth is projected to moderate to 1.8 percent in 2017/18, due to the negative impact of the closure of the Yazaki manufacturing plant in August 2017 and normalizing of fishing exports after two exceptionally good years, only partially offset by the impact of higher public infrastructure spending and Samoa's hosting of regional meetings. Growth is expected to rebound in 2018/19, as two new businesses scale up operations at the old Yazaki plant and several infrastructure projects are completed. In 2019/20, growth is projected to accelerate to 5 percent, driven by tourism related sectors as Samoa hosts the Pacific Games in July 2019, before settling at just above 2 percent in the medium term. Inflation is expected to continue to

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.

pick up to about 3 percent in the medium term. The current account deficit is expected to widen to just above 4 percent of GDP in the next few years, driven by a rebound in imports to support investment for the Pacific Games and other infrastructure projects.

Executive Board Assessment²

Executive Directors commended the authorities for Samoa's robust growth and resilience in the face of external shocks. However, the outlook is subject to downside risks, including from the country's high vulnerability to natural disasters and the partial withdrawal of correspondent banking relationships (CBRs). Looking forward, Directors underscored the need to build fiscal space, continue efforts to mitigate spillovers from the loss of CBRs, and implement structural reforms to secure sustained, inclusive growth.

Directors called for a strengthening of the fiscal framework to reduce public debt to a more sustainable level, including by considering the introduction of a lower public debt-to-GDP target, and a fiscal balance anchor consistent with the target. Efforts can be made to improve tax administration and compliance. Ongoing efforts to improve the performance of public financial institutions (PFIs) and state-owned enterprises and to strengthen public financial management would help mitigate fiscal risks.

Directors considered the current accommodative monetary policy stance to be appropriate, but noted the need to strengthen the monetary transmission mechanism. They considered the external position to be consistent with economic fundamentals. Directors noted that international reserves are broadly adequate, and emphasized that external donor and remittances flows remain an important source of financing to help address vulnerabilities to natural disasters.

Directors welcomed the measures being taken to mitigate vulnerability to a further withdrawal of CBRs. They encouraged the authorities to take additional measures to align the AML/CFT framework to international standards, and leverage technology solutions for customer

² 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. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

identification and monitoring. Directors encouraged engagement with relevant stakeholders to achieve an industry-led, regional solution to the withdrawal of CBRs.

Directors commended the authorities for the considerable progress made in implementing the 2015 Financial Sector Assessment Program recommendations. They emphasized that further progress should focus on upgrading the regulatory and supervisory framework to support corrective actions and resolution. They also agreed that formulating a coherent framework for governance and performance of PFIs, including a clear definition of their mandates, remains a key priority.

Directors encouraged the authorities to focus the structural reform agenda on broadening financial inclusion, enhancing resilience to natural disasters, and improving the business environment. In this context, they commended the adoption of a financial inclusion strategy and plans to upgrade infrastructure, and encouraged follow up on plans to introduce measures to improve access to finance for households and businesses.

Table 1. Samoa: Selected Economic and Financial Indicators, 2014/15–2022/23

Population (2016): 195,843 thousands

Main Exports: Tourism, fish, taro

Key Export Markets: American Samoa, New Zealand, Australia

GDP per capita (2016/17): US\$ 4,255

IMF Quota: SDR 16.2 million

| | 2014/15 | 2015/16 | Est. 2016/17 | Proj. | | | | | |
|---|-------------------------------|---------|-----------------|---------|---------|---------|---------|---------|---------|
| | | | | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| | (12-month percent change) | | | | | | | | |
| Output and inflation | | | | | | | | | |
| Real GDP growth | 1.6 | 7.1 | 2.5 | 1.8 | 3.2 | 5.0 | 2.2 | 2.2 | 2.2 |
| Nominal GDP | 4.4 | 5.5 | 3.8 | 4.8 | 5.8 | 7.7 | 5.0 | 5.3 | 5.3 |
| Consumer price index (end of period) | 0.4 | 2.3 | 1.0 | 2.6 | 2.5 | 2.7 | 2.8 | 3.0 | 3.0 |
| Consumer price index (period average) | 1.9 | 0.1 | 1.3 | 2.9 | 2.6 | 2.6 | 2.8 | 3.0 | 3.0 |
| | (In percent of GDP) | | | | | | | | |
| Central government budget | | | | | | | | | |
| Revenue and grants | 35.1 | 36.1 | 34.2 | 35.7 | 35.7 | 35.6 | 35.6 | 34.9 | 34.9 |
| Of which: grants | 9.8 | 9.3 | 7.2 | 8.1 | 7.5 | 7.4 | 7.4 | 6.7 | 6.7 |
| Expenditure and net lending | 38.9 | 36.5 | 35.3 | 37.7 | 38.0 | 38.0 | 38.0 | 37.4 | 37.4 |
| Of which: Development | 11.9 | 12.0 | 12.3 | 12.4 | 12.5 | 12.5 | 12.5 | 11.9 | 11.9 |
| Current balance | -1.7 | 2.2 | 4.0 | 2.3 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Overall balance | -3.9 | -0.4 | -1.1 | -2.0 | -2.3 | -2.4 | -2.4 | -2.5 | -2.5 |
| External financing | 2.3 | 0.4 | 0.1 | 2.3 | 2.7 | 2.6 | 2.4 | 2.5 | 2.5 |
| Domestic financing | 1.6 | 0.0 | 1.0 | -0.4 | -0.4 | -0.2 | -0.1 | -0.1 | 0.0 |
| | (12-month percent change) | | | | | | | | |
| Macrofinancial variables | | | | | | | | | |
| Broad money (M2) | 0.6 | 7.1 | 7.8 | 4.8 | 5.8 | 5.2 | 5.0 | 5.3 | 5.3 |
| Net domestic assets | -0.7 | 19.2 | -7.3 | ... | ... | ... | ... | ... | ... |
| Private sector credit, Commercial banks | 12.7 | 13.6 | 7.2 | 7.0 | 7.4 | 7.5 | 6.9 | 7.0 | 6.5 |
| Total loan growth, Commercial banks | 8.0 | 7.7 | 4.8 | ... | ... | ... | ... | ... | ... |
| Total loan growth, Public financial institutions | 1.9 | 3.3 | 4.4 | ... | ... | ... | ... | ... | ... |
| | (Ratio) | | | | | | | | |
| Individual credit to GDP | 28.6 | 27.8 | 29.1 | ... | ... | ... | ... | ... | ... |
| Total capital to risk-weighted exposures | 27.1 | 24.5 | 25.1 | ... | ... | ... | ... | ... | ... |
| Non-performing loans | 7.1 | 5.2 | 4.1 | ... | ... | ... | ... | ... | ... |
| | (In millions of U.S. dollars) | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -24.9 | -37.3 | -19.5 | -25.1 | -40.6 | -37.7 | -42.4 | -46.4 | -48.1 |
| (In percent of GDP) | -3.1 | -4.7 | -2.3 | -2.9 | -4.4 | -3.8 | -4.2 | -4.4 | -4.3 |
| Merchandise exports, f.o.b. ^{1/} | 27.9 | 36.9 | 38.0 | 39.1 | 40.5 | 41.9 | 43.2 | 44.6 | 45.9 |
| Merchandise imports, f.o.b. | -322.8 | -307.2 | -308.4 | -330.2 | -360.0 | -390.1 | -402.2 | -421.5 | -441.8 |
| Services (net) | 123.7 | 119.6 | 138.9 | 147.9 | 155.6 | 177.9 | 177.6 | 186.6 | 197.3 |
| Income (net) | -16.1 | -18.6 | -28.4 | -29.8 | -31.5 | -31.5 | -30.9 | -31.5 | -31.8 |
| Current transfers | 162.3 | 132.0 | 140.5 | 147.9 | 154.8 | 164.1 | 169.9 | 175.4 | 182.2 |
| External reserves and debt | | | | | | | | | |
| Gross official reserves | 131.9 | 111.0 | 121.6 | 143.0 | 144.2 | 164.1 | 166.4 | 164.6 | 174.5 |
| (In months of next year's imports of GNFS) | 4.0 | 3.4 | 3.5 | 3.8 | 3.6 | 4.0 | 3.9 | 3.7 | 3.6 |
| Public debt (in millions of tala) ^{2/} | 1,126.1 | 1,080.7 | 1,047.4 | 1,120.7 | 1,187.6 | 1,262.3 | 1,340.1 | 1,427.5 | 1,518.9 |
| (In percent of GDP) | 57.8 | 52.6 | 49.1 | 50.1 | 50.2 | 49.6 | 50.1 | 50.7 | 51.2 |
| External debt (in percent of GDP) | 55.3 | 50.7 | 47.7 | 49.1 | 49.6 | 49.0 | 49.8 | 50.5 | 51.1 |
| Exchange rates | | | | | | | | | |
| Market rate (tala/U.S. dollar, period average) ^{3/ 4/} | 2.42 | 2.61 | 2.49 | ... | ... | ... | ... | ... | ... |
| Market rate (tala/U.S. dollar, end period) ^{3/ 4/} | 2.56 | 2.55 | 2.46 | ... | ... | ... | ... | ... | ... |
| Nominal effective exchange rate (2010 = 100) ^{3/ 4/} | 111.6 | 111.8 | 111.5 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (2010 = 100) ^{3/ 4/} | 109.5 | 109.9 | 109.0 | ... | ... | ... | ... | ... | ... |
| Memorandum items: | | | | | | | | | |
| Nominal GDP (in millions of tala) | 1,949 | 2,055 | 2,133 | 2,235 | 2,364 | 2,545 | 2,673 | 2,815 | 2,965 |
| GDP per capita (U.S. dollars) | 4,149 | 4,015 | 4,255 | 4,405 | 4,578 | 4,845 | 4,990 | 5,150 | 5,321 |

1/ Includes re-export of fuel after 2009/10.

2/ Includes domestic and external public debt.

3/ IMF, Information Notice System (calendar year).

4/ Latest data available.



SAMOA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

April 16, 2018

KEY ISSUES

Outlook and Risks. Samoa has demonstrated resilience in the face of multiple external shocks. Growth remains robust, but is expected to temporarily moderate before rebounding. Inflation has picked up but remains below the authorities' target of 3 percent. The authorities have made efforts towards fiscal consolidation in recent years, but the fiscal position loosened in 2016/17 and Samoa remains at high risk of debt distress. Samoa remains vulnerable to natural disasters and to the partial withdrawal of correspondent banking relationships (CBRs). The authorities are implementing mitigation measures to address these risks.

Main Policy Recommendations

Policies should focus on strengthening the fiscal framework to ensure debt sustainability; mitigating risks from the loss of CBRs; and implementing structural reforms to improve financial inclusion, resilience to natural disasters, and the business environment. Priority actions are:

- Introduce a lower public debt target (45 percent of GDP in the medium term and 40 percent of GDP in the longer term), and a fiscal balance anchor consistent with the debt target. Further reduce fiscal risks by strengthening public financial management (PFM).
- Maintain an accommodative monetary policy stance while implementing policies to reduce banks' reluctance to lend and strengthen the transmission mechanism.
- Continue efforts to mitigate spillovers from the loss of CBRs by bringing the AML/CFT framework in line with international standards, and establishing a database for customer identification and monitoring.
- Enhance financial stability by continuing to implement the recommendations of the Financial Sector Assessment Program (FSAP), including reform of the governance and mandates of public financial institutions (PFIs).
- Focus structural reform efforts on improving financial inclusion, resilience to natural disasters, and the business environment.

Approved By
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Discussions were held in Apia during February 21-March 5, 2018. The staff team comprised Giovanni Ganelli (head-APD), Reshika Singh (RR-PIC), Analisa Ribeiro Bala (SEC), and Chau Ngoc Bao Nguyen (APD). Gemma Preston (OED) joined the discussions. The mission met with Minister of Finance Sili Epa Tuioti, Chief Executive Officer of Ministry of Finance Lavea Tupa'imatuna Iulai Lavea, the Governor of the Central Bank of Samoa Maiava Atalina Ainuu-Enari, senior government officials, and representatives of the private sector. Nadine Dubost assisted in preparing this report.

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