

**Statement by Christine Barron, Alternate Executive Director for Samoa  
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As an open, tourism-based economy, Samoa is highly susceptible to external economic shocks. The regularity of natural disasters, most recently cyclone Gita in February 2018, continuing concerns regarding the threat of withdrawal of Correspondent Banking Relationships (CBRs) and the geographic dispersion of the population across four islands, add to Samoa's development challenges over the longer term, including the ability to close key infrastructure gaps.

**Authorities broadly agree with the staff's outlook for growth, although they are slightly more conservative in the near term, while noting several upside risks.** Economic growth has been robust in recent years, driven by tourism, remittances, construction, agriculture, and fisheries. Authorities expect growth to slow to 1.3 percent of GDP in 2017-18, driven by a sharp decline in fishing exports and by the closure of the large Yazaki manufacturing plant that was a significant source of employment. In 2018-19, authorities expect growth to rebound to around 3.3 percent, driven by preparations for hosting the South Pacific Games and the continuation of several large infrastructure projects. In the medium term, authorities expect growth to return to around trend growth of around 3.0 percent. The authorities see upside risks to the outlook from an increase in tourism due to new accommodation and flight connections, the potential for newly established manufacturing businesses to increase production and for economic diversification strategies to deliver growth through the reinvigoration of the agricultural sector and development of alternative markets for excess primary products. On the downside, further exacerbation of the loss of correspondent banking relationships and high vulnerability to natural disasters are ongoing risks to growth.

**Authorities agree that the current accommodative monetary policy stance remains appropriate, in light of current economic conditions, including the closure of the Yazaki manufacturing plant and the recovery efforts associated with cyclone Gita.** Despite a pickup in inflation more recently, driven by an increase in the price of locally produced food due to cyclone Gita, inflation risks in the near term are low and inflation expectations are stable. Authorities are actively taking steps to further strengthen the monetary policy transmission mechanism. The Central Bank's credit line facilities as well as regular quarterly meetings with commercial banks have been effective, ensuring the Central Bank's monetary policy stance and actions are understood. Authorities have also recently received technical assistance aimed at strengthening the monetary policy transmission mechanism to better manage future liquidity issues and support monetary policy operations. Authorities note staff's assessment that the external position is broadly in line with fundamentals and that the level of reserves is considered adequate. Authorities will continue to closely monitor the reserves position which has continued to strengthen in recent months, being mindful that reserve adequacy is an important policy tool for natural disaster response.

**Authorities are focused on rebuilding fiscal buffers to increase resilience to natural disasters and ensure fiscal sustainability.** Samoa has made substantial efforts to consolidate the fiscal position since the last significant natural disaster in 2012, reducing the deficit from around 7 percent of GDP in 2011-12 to 1.1 percent in 2016-17. The fiscal balance, while loosening slightly in 2016-17, remains firmly within staff's recommended range of 'less than 2 percent of GDP' to ensure debt is on a sustainable path. Debt to GDP has decreased from 58 percent in 2014-15 to 49 percent in 2016-17 and debt levels are now lower than the target of 50 percent in the Medium Term Debt Strategy. Authorities have also implemented a fiscal rule that any new financing received must at a minimum have a concessional component of 35 percent. Authorities will carefully consider staff's recommendation to bring the debt-to-GDP target in the Medium Term Debt Strategy down to 40 percent. Authorities are fully aware of the fiscal risks associated with non-performing public financial institutions and state owned enterprises, and are continuing with reforms. Cabinet recently agreed to strengthen procedures for issuing government guarantees to state owned enterprises and an on-lending policy is being developed by the Ministry of Finance.

**While undertaking fiscal consolidation, authorities are prioritizing high quality spending on infrastructure, health and education, while enhancing domestic revenue mobilization and strengthening revenue administration.** Samoan authorities are taking steps to reduce bottlenecks to infrastructure investment by improving design and procurement capacity. They also consider that the centralization of the Project Management Office within the Ministry of Finance will help to deal with technical implementation constraints and simplify procurement processes. Authorities are reviewing the efficiency and effectiveness of health and education expenditure to ensure a focus on quality outcomes. On the revenue side, the government announced a range of measures to improve domestic revenue mobilization. This includes removing various tax concessions, removing income tax exemptions for heads of states and ministers of religion and increasing excises including on tobacco. The government has increased revenue collections through enhanced tax compliance, including by improving community education of tax obligations, providing additional training opportunities for staff and increasing enforcement through more regular audits. New scanning technology at customs will help improve the declaration process and collection of import duties.

**Samoa has a multi-pronged strategy for building resilience to natural disasters and climate change.** This includes rebuilding reserves and fiscal policy buffers, including an annual contingency reserve as an expenditure item in the Budget, re-building infrastructure that is climate proof and putting in place a multilayered contingent financing strategy that identifies financing that can be sourced from development partners and drawn upon quickly in the event of a natural disaster. Samoan authorities note staff's suggestion to establish a contingency fund for natural disasters but they would prefer to use any additional funds to further reduce debt levels. Samoan authorities look forward to the upcoming 2018 LIC Facilities Review which will assess the adequacy of the Fund's lending instruments for member countries impacted by frequent natural disasters.

**Staff's assessment is that Samoa is still far from losing access to CBRs. But the situation remains volatile. As authorities spend significant resources to continue to strengthen AML/CFT frameworks, Money Transfer Operators report that they continue to have their bank accounts closed without warning and significant remittance costs threaten financial inclusion.** Authorities thank the IMF for the convening role they have played to elevate the status of this issue and greatly appreciate recent initiatives like the Pacific Roundtable. While the impact of derisking has not yet had a visible impact on the overall flows of remittances, authorities remain extremely concerned with the uncertainty of the situation and the implications for financial inclusion as branches in local villages on remote islands close and the cost of remittances increase. A centralized database to facilitate KYC requirements remains an expensive prospect that does not ensure CBRs remain intact. The authorities remain open to a regional solution which has been successful in the Caribbean and urge the IMF to continue to consider all options.

**Samoa is a committed and active member of a number of international standard bodies associated with tax, money laundering and terrorism financing and continues to modernise its legislation, incorporating sensible and appropriate protections to meet international standards.** Samoa has committed to, and is due to complete, the 'Automatic Exchange of Information for Tax Purposes', in September 2018. Samoa amended its tax legislation to align with international standards as well as other international finance legislation in 2013, 2014, 2015, 2016 and 2017. Samoa has also recently incorporated the new standard for the regulation of trust company service providers into the Trustee Companies Act 2017. This also incorporates the necessary provisions to reflect the new standard set by the OECD's Global Forum on transparency and Exchange of Information for Tax Purposes. Samoa successfully completed a review in 2014-2015 by the Asia Pacific Group (APG) on Anti-Money Laundering and Counter Terrorism Financing against the 2012 FATF standards. Samoa does not appear on any OECD, or FATF (APG), or GIFCS black lists.

**Disappointingly Samoa has been included on the European Union black list of noncooperative tax jurisdictions.** Samoa actively responded and cooperated with the EU and their process, meeting the mid-year and November 2017 deadlines for response; while at the same time meeting its obligations under the international standards of the OECD and G20, FATF, and GIFCS. Samoa has also given the EU assurances and indications of the Independent State of Samoa's commitment to maintain its endeavours to remain internationally responsible, and compliant. Since the listing, Samoa has maintained an open dialogue with the EU Council's Code of Conduct Group and hopes to find a constructive way forward where the EU can reconsider Samoa's inclusion on the list of non-cooperative tax jurisdictions.

Finally, the Samoan authorities would like to thank development partners for their continued support and the mission team, led by Mr. Giovanni Ganelli, for the candid and constructive discussions they have had during the Article IV consultation. They value highly the advice and technical assistance received from the Fund and look forward to further constructive engagement in future.