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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.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 4, 2018

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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 consultation[1] 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 Assessment[2]

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

			Est.	Proj.					
	2014/15	2015/16	2016/17	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.

INTERNATIONAL MONETARY FUND

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
Paul Cashin (APD) and Yan Sun (SPR)

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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CONTEXT

1. Samoa has demonstrated resilience in the face of multiple external shocks. Real activity has recovered from the devastating impact of the 2009 tsunami and 2012 Cyclone Evan, which caused damages estimated at 22 percent and 29 percent of GDP, respectively, and the economy continues to perform well. While the damage from Cyclone Gita—which hit Samoa in February 2018—was limited, it was a reminder of the ever-present threat of natural disasters. Samoa also remains vulnerable to the partial withdrawal of correspondent banking relationships (CBRs) by global and regional banks, and was therefore selected as an IMF CBR pilot.

2. Policies have been largely in line with past Fund advice. As recommended by staff, the authorities have made efforts to reduce public debt through expenditure control and revenue mobilization. Similarly, the current accommodative monetary policy stance is consistent with staff advice. The authorities have implemented measures to mitigate spillovers from the partial withdrawal of CBRs, and are committed to continuing efforts in this area, in line with Fund advice. Progress has been made in implementing FSAP recommendations, and next steps should focus on reform of public financial institutions (PFIs). The authorities' structural reform efforts are in line with Fund advice and concentrate on improving Samoa's business environment, resilience to natural disasters, financial inclusion, and SOEs governance, while also exploring opportunities for privatization.

RECENT ECONOMIC DEVELOPMENTS

3. Growth has moderated after a temporary spike but remains robust. After peaking at above 7 percent in 2015/16, underpinned by temporary factors such as the completion of new hotels and two major sporting events, real GDP growth has normalized and is estimated at 2.5 percent for 2016/17.[1] Commerce, services and agriculture were the key drivers.

4. Other recent developments point to some pickup in inflation, moderating credit growth, and a narrowing of the current account deficit. Average inflation picked up to 1.3 percent in 2016/17, compared to close to zero in the previous year, but remains below the authorities' target of 3 percent. Credit growth moderated in line with slowing economic activity. The current account deficit narrowed to 2.3 percent of GDP in 2016/17 (compared to 4.7 percent of GDP in 2015/16) driven by temporary factors—one-off items in the service balance and some reduction in import growth related to the completion of large hotel projects in the previous year. The Tala appreciated against the U.S. dollar during 2016/17, although there was little change in nominal and real effective exchange rates.[2]

[1] The Samoan fiscal year runs from July 1 to June 30.

[2] The exchange rate of the Tala is pegged to a trade and payment weighted basket of currencies. The basket is a composite of the currencies of Samoa's most important trading partners and countries that are a major source of tourism revenue from abroad—New Zealand, Australia, the United States, and Euro countries. The pegged rate can be adjusted within a ± 2 percent band.

OUTLOOK AND RISKS

5. **Economic activity is expected to moderate further in 2017/18, but will rebound in subsequent years, boosted by infrastructure spending and preparation for Samoa's hosting of the Pacific Games (PG) in 2019**.[3] 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. The negative growth impact of February 2018's Cyclone Gita is estimated to be about 0.1 percentage point. The impact of Cyclone Gita was much more limited compared to that of Cyclone Evan which devastated the country in 2012, and mainly due to the temporary closure of a major hotel and some damage to roads and other infrastructure. Given the limited impact of Gita, the authorities decided against drawing available funds (grant and concessional loans) from the ADB-funded regional disaster resilience program. Growth is expected to rebound in 2018/19, as two new businesses scale up operations at the old Yazaki plant and several infrastructure projects, including new bridges, road extensions, and a new terminal at the international airport, are completed. In 2019/20, growth is projected to accelerate to 5 percent, driven by tourism related sectors as Samoa hosts the PG in July 2019, before settling at just above 2 percent in the medium term. Inflation is expected to continue to 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 PG and other large projects.

6. **The risks to the outlook are tilted to the downside** (Annex I). Samoa is highly vulnerable to natural disasters, which in the past have hit the country on average every five years, causing widespread damage and increasing public debt. Another major downside risk is related to spillovers from the partial withdrawal of CBRs by global and regional banks, which could disrupt the inflow of remittances to Samoa. The recent dengue fever outbreak could affect tourism, but this is a tail risk and is being mitigated by the authorities' efforts to raise dengue awareness.[4] On the upside, the impact on economic sentiment and growth of the hosting of the PG could be stronger than currently anticipated.

Authorities' Views

7. **The authorities broadly agreed with staff's assessment of the outlook and risks.** They shared the view that the current growth moderation is temporary and that growth is expected to rebound, peaking in the year of the PG. They highlighted that Samoa is a small island developing state with many challenges including the ever-present natural disaster risk. Other downside risks include greater loss of CBRs, and possible reduced access to concessional loans in the medium to

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[3] The Pacific Games is a multi-sport event for countries located in the South Pacific Ocean, and is held every four years.

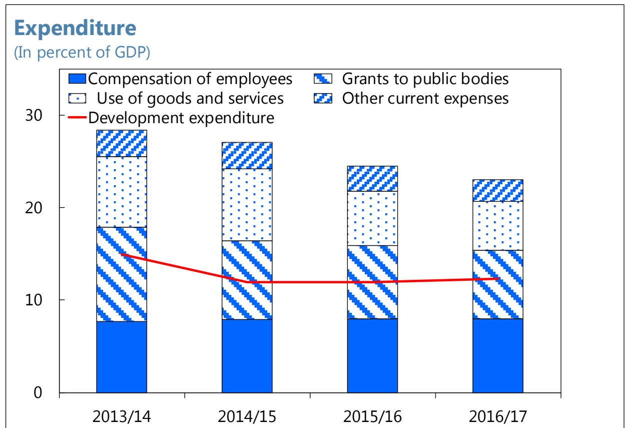
[4] Between August 2017 and February 2018, 3,199 dengue cases were reported, five of which were deaths. The authorities have taken control measures and the weekly number of cases has fallen steeply.

long term. On the upside, they emphasized the positive impact of the PG, a possible strong pickup in tourism, and a possible increase in export opportunities.

MACROECONOMIC AND FINANCIAL POLICIES

A. Strengthening the Fiscal Framework to Ensure Fiscal Sustainability

8. The authorities have made progress towards fiscal consolidation in recent years, but the fiscal deficit widened in 2016/17. Current expenditure fell from a high of 28.4 percent of GDP in 2013/14 to 23 percent of GDP in 2016/17, largely driven by across-the-board cuts in goods and services and a reduction in grants to public bodies. During the same period, total revenues (excluding grants) steadily increased, driven by improved compliance and increased collection of Value Added Goods and Services Tax (VAGST) and income and excise taxes. However, the fiscal deficit widened to 1.1 percent of GDP in 2016/17—from 0.4 percent of GDP achieved the previous year—due in part to additional spending on infrastructure.



Sources: Country authorities; and IMF staff calculations.

9. The fiscal position is projected to loosen further in the medium term. Despite the revenue reform measures being undertaken (Box 1), a projected rebound in current spending and increase in development expenditure is expected to widen the fiscal balance to 2 percent of GDP in 2017/18. A further deterioration of the fiscal position is anticipated in the medium term, with the deficit reaching 2.5 percent of GDP by 2021/22.

10. The impact of recently introduced revenue measures will largely depend on implementation and improved compliance. The government introduced various revenue-enhancing measures, including eliminating concessions, and raising selected taxes and charges (see Box 1). However, the overall impact of these measures will depend on implementation, and on improving tax and customs administration. The measures that have been factored into the staff's fiscal projections represent a cumulative increase of just above 1 percent of GDP in the fiscal balance over two years. Additional efforts to improve compliance and auditing and reporting processes could raise revenues by another 0.5 percent of GDP.

11. Total public debt has fallen below 50 percent of GDP, down from close to 58 percent of GDP in 2014/15, but is projected to rise again in the medium term. Samoa's debt management strategy is anchored on a target debt ratio of 50 percent of GDP (excluding contingent liabilities). However, the debt-to-GDP ratio is projected to start rising again in the medium term, and debt service requirements remain high. The debt sustainability analysis shows that Samoa remains

Box 1. Summary of Revenue Review Recommendations[1]

In 2016/17 the Government undertook a review of Samoa's taxation regime and procedures, with the objective of identifying measures to broaden the tax base and improve tax collection and enforcement. The recommendations of the review were finalized in early 2017, and have been approved by Cabinet and incorporated into the FY17/18 budget.

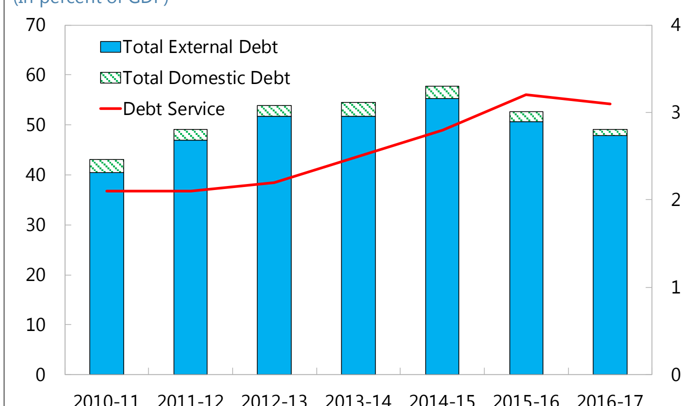
Measures include removing various tax concessions, such as the tourism tax credit scheme and import duty exemptions; phasing out the income exemptions for churches and pastors; increasing non-tax fees and charges on a one-off basis; and raising the excise duty on tobacco, alcoholic and sweetened beverages and petroleum fuels. The review also recommended lowering export taxes to support the competitiveness of Samoan businesses, and adjusting rates for lower paid employees. The government has subsequently introduced a tax deduction for businesses that export goods and services, and has raised the tax-free threshold from Samoan Tala (SAT) 12,000 to SAT 15,000 (about USD 4,700 to USD 5,900).

While the recommended reforms are expected to raise revenue, the impact will largely depend on implementation and improved compliance, and will be conditional on boosting the audit and compliance capacity of customs and revenue officials, increasing audit requirements, and improving the efficiency of tax administration. The revenue impact of the elimination of the tourism and tax credit scheme, which provided tax breaks for hotel developments, is likely to be limited given the lack of new projects, and the fact that recent developments will continue to benefit from a five-year tax holiday.

[1] Prepared by Analisa Ribeiro Bala.

at high risk of debt distress when the average annual effect of natural disasters is incorporated in medium-term projections. Contingent liabilities from government guarantees to SOEs stand at about 7 percent of GDP. The government also faces fiscal risks from on-lending to SOEs, at about 6 percent of GDP.[5]

Debt Service Requirements
(In percent of GDP)



Sources: Country authorities; and IMF staff calculations.

12. The authorities should strengthen the fiscal framework to solidify the gains from their previous consolidation efforts. A lower public debt target of 45 percent of GDP over the medium term, and 40 percent of GDP over the longer

[5] Since funds borrowed by the government for on-lending are already accounted for in external public debt, on-lending does not represent a contingent liability. However, on-lending entails a fiscal risk—the loss of an asset and of future stream of repayments for the government if the borrower defaults. On-lending is reflected under expenses (grants to SOEs) in the fiscal accounts of the central government.

term, would create fiscal space to respond to a natural disaster and bring Samoa's debt closer to the average for Pacific island countries (about 34 percent of GDP), while ensuring adequate funding for development priorities.[6] Achieving a lower debt target would also change Samoa's debt distress rating from high to moderate. The recommended lower debt targets exclude contingent liabilities, because the latter cannot be reduced through budgetary measures and need to be addressed through structural reforms. The authorities should also introduce a fiscal balance anchor by keeping the overall fiscal deficit under 2 percent of GDP on average over the medium term, which staff analysis shows to be consistent with achieving the 40 percent of GDP debt target in the long term. Achieving the new debt targets in the medium and long term is feasible, but will require additional fiscal consolidation efforts (e.g., through improved tax administration) by about 0.5 percentage point of GDP.

13. Public financial management (PFM) reforms would also help reduce fiscal risks. The authorities should strengthen existing procedures for issuing government guarantees and proceed with plans to develop a formal on-lending policy. In the longer term, the authorities could also consider creating a contingency fund—either from unexpected increases in revenue collection or from privatization of SOEs—to meet disaster related needs, or fiscal costs from contingent liabilities. Currently an annual appropriation not exceeding 1 percent of the total budget is allocated for unforeseen expenditure.[7] A more permanent fund into which an annual appropriation is made would increase buffers.

Authorities' Views

14. The authorities agreed with staff's advice on the need to strengthen the fiscal framework. They stressed the need to create fiscal space while being mindful of the country's development priorities**.** While the authorities remain committed to fiscal consolidation, additional spending on key priority areas is anticipated, in line with the objectives of the *Strategy for the Development of Samoa (SDS) 2016/17-2019/20*. The authorities agreed that keeping the fiscal deficit below 2 percent of GDP on average over the medium term is desirable and consistent with the objective of reducing the debt-to-GDP ratio to a more sustainable level. They stressed that the deficit had remained below the 2 percent of GDP benchmark in 2016/17, and that further prioritizing expenditure to improve outcomes, tax compliance and administration would help in adhering to the deficit benchmark in the medium term. They also intend to improve PFM by developing a formal on-lending policy.

B. Monetary and Exchange Rate Policies

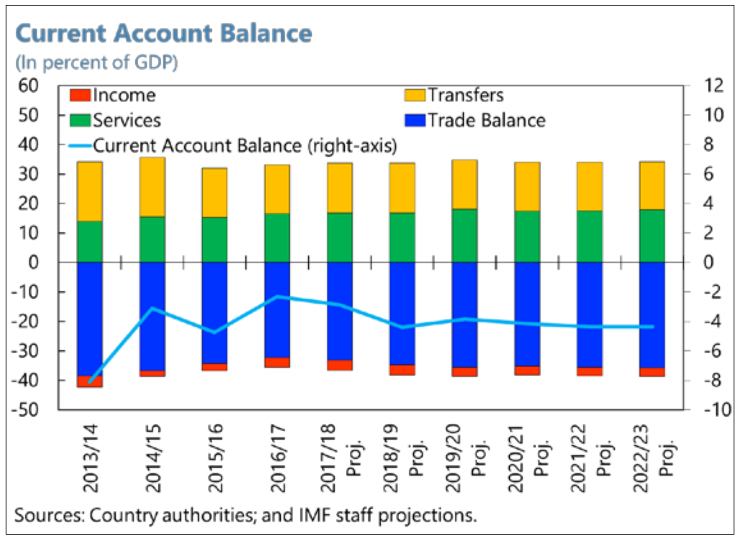
15. Monetary policy remains appropriately accommodative, but the transmission mechanism is weak. The policy rate has remained stable below 20 basis points in recent years,

[6] The 40-percent target is consistent with previous staff analysis on the appropriate debt target for Samoa to create a cushion for another natural disaster (see Box 1 on *Samoa: Effect of Recent Natural Disasters on Debt* in the 2015 Article IV Staff Report).

[7] This annual appropriation is incorporated in the fiscal baseline (Table 3).

which is appropriate given that inflation is projected to remain below the authorities' medium-term target of 3 percent. High excess reserves, a falling private credit-to-deposit ratio, and a still large interest rate spread reflect limited competition in the banking sector and conservative lending practices. Measures under discussion—creating a credit bureau and facilitating the use of customary land leases as collateral—could reduce banks' reluctance to lend, and improve both financial inclusion and the monetary transmission mechanism. Samoa's pegged exchange rate system provides a welcome nominal anchor in a context of weak monetary policy transmission.

16. The external position is assessed to be broadly in line with fundamentals and desirable policies (Annex II). Staff's analysis point to a current account gap in the 0.8-1.7 percent of GDP range. In order to reflect the fact that the current account improvement in 2016/17 was driven by temporary factors, adjustments were made to the underlying current account in applying the EBA-lite methodology. This resulted in an adjusted current account gap of 1.2 percent of GDP. The External Sustainability Approach, based on a target of public debt at 40 percent of GDP over the long term, gives a current account gap of 0.8 percent of GDP. In staff's judgment, the latter is the most informative methodology, since it takes into account Samoa's need to build a fiscal cushion against natural disasters. The external position is therefore assessed to be broadly in line with fundamentals and desirable policies. At 3.7 months of imports, the level of reserves is adequate according to the ARA metric for credit-constrained economies, but is below the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken in to account.



Sources: Country authorities; and IMF staff projections.

Authorities' Views

17. The authorities agreed with staff's assessment of the current monetary policy stance and of Samoa's external position. In the near term, the Central Bank of Samoa (CBS) sees a continuation of the current accommodative policy as appropriate, in light of fiscal tightening and inflation still well below the 3 percent target. In the medium term, the CBS will seek opportunities to reduce the degree of accommodation by "normalizing" (raising) the policy rate as the economy rebounds, thereby creating policy space to cut rates when a negative shock hits the economy. The authorities agreed with staff on the need to improve the transmission mechanism, including through measures aimed at reducing banks' reluctance to lend. They agreed with staff's assessment that the recent narrowing of the current account deficit is driven by temporary factors, and that the external position is broadly in line with fundamentals and desirable policies. They stressed that the reserves position has significantly improved since the last Article IV, but noted that reserves are below the lower bound of the ARA metric once Samoa's vulnerability to natural disasters is taken into account. They reiterated their intention to build additional reserves to increase resilience to external shocks.

C. Policies to Address Spillovers from the Withdrawal of Correspondent Banking Relationships

18. Samoa is vulnerable to the partial withdrawal of CBRs. CBRs, which facilitate global trade and economic activity, have been under pressure in several countries, as global and regional banks have selectively withdrawn from the business of correspondent banking since the global financial crisis. This withdrawal reflects global banks' assessment of the balance of profitability and risk of CBRs in a tighter regulatory landscape. [8] Although pressures on CBRs in Samoa have so far not affected trade and remittances, the country is vulnerable to the partial withdrawal of CBRs (see Box 2), and was selected by the IMF as a CBR pilot country.

19. Samoa's recent progress in implementing measures aimed at mitigating the risks from the withdrawal of CBRs is welcome, and the authorities should push ahead with further reforms in this area. Consistent with the technical assistance and policy advice received by Samoa in the context of the CBR pilot, efforts should focus on:

- **Reforming the AML/CFT framework.** The authorities have taken actions to address gaps in their AML/CFT framework, including progress with the implementation of the national AML/CFT strategy. The Samoa Financial Intelligence Unit (FIU) has trained all its staff on AML/CFT issues, introduced risk-based monitoring, and started holding quarterly compliance meetings with money transfer operators (MTOs) and financial institutions to provide feedback and training—including by explaining existing AML/CFT guidelines. Looking ahead, in addition to strengthening the legal framework to facilitate criminal prosecution of money laundering, improving the sanctioning powers of supervisory agencies for AML/CFT violations should also be a priority. Recent efforts to improve the availability and quality of CBR and remittance data should continue, and the data should be used to enable supervisory staff to perform system- and bank-level analyses.

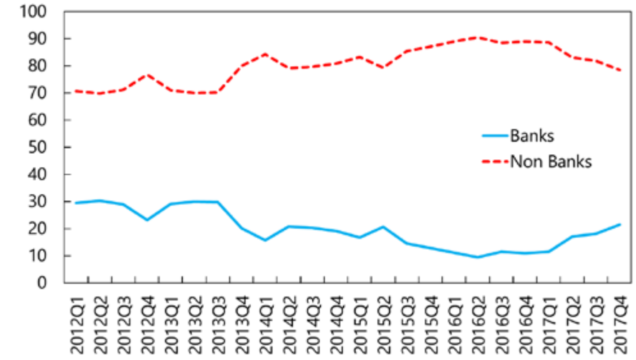
- **Establishing a database for customer identification and monitoring**. The authorities have encouraged MTOs to sign bilateral Memoranda of Understanding with the Samoa election commission (OEC), to verify the identity of their customers using the OEC's election database. To enable faster and cost-efficient processing, an IT solution should be developed to bridge the MTOs' targeted access to the OEC data. As a next step, other cost-effective technology solutions could be developed to enhance MTO compliance with other AML/CFT obligations (e.g., record keeping and suspicious transaction reporting) in line with their risk levels.

[8] See IMF Board Paper on *Recent Trends in Correspondent Banking Relationships—Further Considerations* (March 16, 2017) and IMF WP 17/90 *Challenges in Correspondent Banking in the Small States of the Pacific*, by Alwazir, Jamaludin, Lee, Sheridan, and Tumbarello.

Box 2. Impact of the Withdrawal of CBRs on MTOs[1]

Declines in profitability and concerns over reputational risk are prompting the closure of existing money transfer operator (MTO) accounts in Samoa—particularly U.S. dollar-based CBRs. Remittances to Samoa account for over 15 percent of GDP and are primarily channeled through MTOs. Although the risk of money laundering (ML) and financing of terrorism (FT) through remittance providers to Pacific Island countries (PICs) is generally considered low (as assessed, for example, in the Australian Transaction Reports and Analysis Centre 2017 report), weaknesses in supervision and comparable shortcomings in the implementation of AML/CFT compliance obligations are contributing to pressures from global correspondent banks to heighten scrutiny or even close the accounts of their MTO customers.

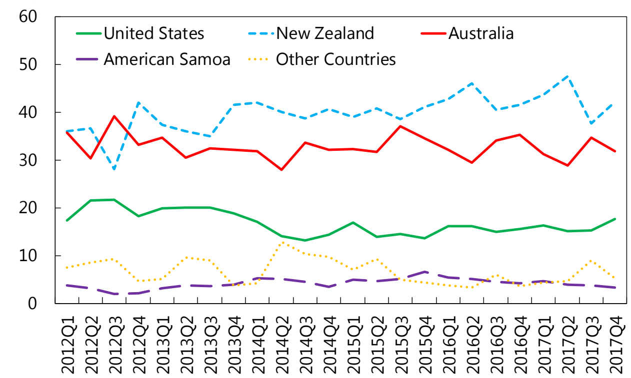
Share of Private Remittances, by Channel
(In percent)



Note: Non Banks include money transfer operators and foreign exchange dealers.
Sources: Central Bank of Samoa; and IMF staff calculations.

According to a recent survey sponsored by the Fund's Asia and Pacific Department, of the 12 licensed MTOs operating in Samoa, 9 have lost at least one CBR since 2013. Four have also had transaction limits imposed on their accounts. Although Samoa is still far from a complete loss of CBRs in the main remittance currencies (Australian and New Zealand dollars), currently only one MTO has access to CBRs in U.S. dollars, compared for example to seven MTOs with current access to CBRs in New Zealand dollars. Consequently, the U.S. dollar-denominated share of total remittances fell from a high of 21 percent in 2012 to a low of 13 percent by the third quarter of 2014, in part reflecting the withdrawal of U.S. dollar-based CBRs. However, the overall volume of remittances being channeled through MTOs has remained resilient, reflecting the fact that a substantial share of remittances come from New Zealand and Australia, where access by MTOs to the CBRs remains stable.

Share of Private Remittance, by Country of Origin
(In percent)



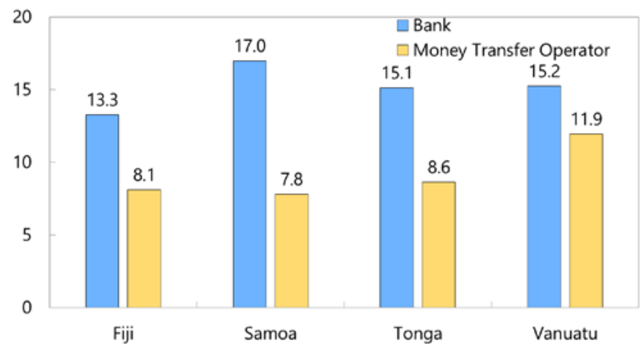
Sources: Central Bank of Samoa; and IMF staff calculations.

[1] Prepared by Analisa Ribeiro Bala and Chau Nguyen.

Box 2. Impact of the Withdrawal of CBRs on MTOs (concluded)

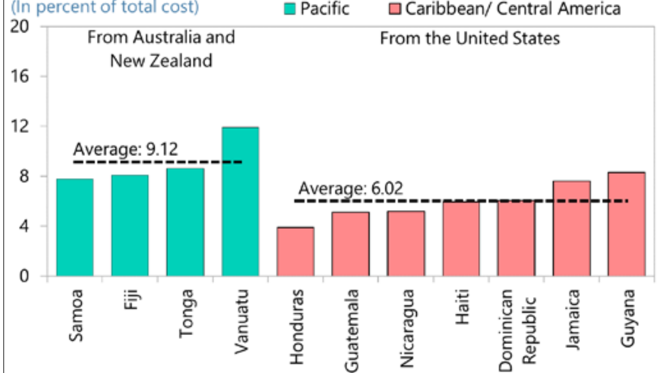
Loss of CBRs could prompt further MTO market consolidation, potentially increasing the cost to remit. A number of small-sized MTOs are either partnering with or being absorbed by larger, more established MTOs with CBRs. Although the costs of sending remittances are significantly lower through an MTO than a bank, by global standards, the average cost to remit remains high in Samoa — far above the Sustainable Development Goal (SDG) target of 3 percent (see chart comparing the average costs between the Pacific and Caribbean islands). The cost of regulatory compliance not only raises the cost of sending money, but also makes entry of new MTOs in the local market difficult. Given that about 85 percent of remittances are channeled through MTOs, the closure of MTOs' bank accounts and consolidation of the market could further raise the average cost of sending remittances. While MTO market consolidation could in principle entail some efficiency gains, the closure of smaller MTOs could also affect financial inclusion, given the financial reach of MTOs into the local community. Finally, there is a risk that an increasing share of remittances may be sent through unregulated channels, such as hand-carrying cash. Overall, the risk of a complete and abrupt loss of CBRs is very low for Samoa, particularly given the mitigation measures being undertaken by the Samoan authorities. However, Samoa does remain vulnerable to the further withdrawal of CBRs.

Average costs of sending $200 of national source currency from Australia and New Zealand to the Pacific, 2011Q1 - 2017Q3
(in percent of total cost)



Sources: Remittance Prices Worldwide, World Bank.

Pacific and Caribbean/ Central America: Average cost to send $200 of national source currency through MTOs
(In percent of total cost)



Source: Remittance Prices Worldwide, *World Bank*.

- **Addressing risks from the offshore sector by aligning the laws governing it with international AML/CFT standards.** The new Trustee Companies Act aims to enhance the legal framework for collection and sharing of accounting records and beneficial information. The Samoa International Finance Authority (SIFA) has also strengthened its supervisory capacity by increasing the number of staff and providing training, and has started conducting on-site visits. In order to address concerns of a potential conflict between its promotional and supervisory roles, SIFA created a separate division solely focused on promotion. Further efforts in this area should focus on bringing the overall legal framework in line with international AML/CFT standards (e.g., ensuring the authorities' timely access to accurate and up-to-date beneficial ownership information of legal entities). The offshore sector's business model and its sustainability should be re-assessed with the goal of lowering the country's overall risk profile.

20. The IMF will continue to support the authorities' efforts, including by promoting an industry-led and regional solution to the withdrawal of CBRs. Building on the dialogue between Pacific banks, MTOs and regulators, initiated at the Pacific Roundtable on CBRs and Remittances (held in Sydney and Auckland in early February 2018), progress on solutions will require concerted actions by all parties. Specific actions should include more intensive regional dialogue, including with Australian and New Zealand regulators; promoting information sharing; and greater transparency and communication by regulators, banks and MTOs—including development of best practice guidelines by banks for opening and maintaining CBRs. Better verification of MTOs' adherence to standards (e.g., independent and comprehensive AML/CFT audits) and training is also needed, and could be facilitated by establishing associations of MTOs. The authorities are encouraged to engage with all relevant stakeholders on these issues.

Authorities' Views

21. The Samoan authorities are committed to pushing ahead with further reforms to mitigate risks from the partial withdrawal of CBRs. They will continue to reform their AML/CFT framework to align it with international standards, and to hold regular on-site inspections and off-site monitoring to ensure adherence to AML/CFT legislation. They welcomed the support provided by the Fund, and are open towards promoting an industry-led and regional solution. They are committed to establish a centralized database for customer identification and monitoring, and stressed that they are working towards developing a mandatory national identification system and are exploring options for setting up a credit bureau, all of which would also help mitigate risks. The Samoan authorities expressed strong concerns about the European Union's decision to include Samoa in its list of non-cooperative tax jurisdictions. They see this listing as a unilateral decision not based on a proper investigative process and peer review, and one which undermines their efforts to address the loss of CBRs.

D. Financial Sector

22. The banking system remains sound. Financial soundness indicators highlight that commercial banks are well capitalized and that earnings, profitability, and liquidity indicators are within historical norms. Although banks' NPL ratio increased in the last quarter of 2017, preliminary numbers from more recent months point to a reduction in this ratio. Similarly, profitability indicators showed a dip in December 2017 but are expected to rebound as economic activity and lending pick up.

23. Samoa has made substantial progress in implementing the recommendations highlighted in the 2015 FSAP (Annex III). The CBS is producing FSIs for financial institutions—commercial banks and financial SOEs, also known as public financial institutions (PFIs)[9]—which are used for internal analysis; is conducting regular on-site inspections; and is gradually increasing the number of staff and providing training to improve its supervisory capacity. Looking ahead, the CBS should prioritize upgrading its regulatory and supervisory frameworks, including amending the Financial Institutions Act to support corrective actions and resolution. The recently created high-level committee on financial stability—comprising senior officials from the Ministry of Finance and the CBS—should hold regular meetings to discuss systemic financial stability issues.

24. Reform of public financial institutions (PFIs) remains a high priority. Some PFIs have expanded beyond their original mandates by engaging in lending activities that compete with commercial banks, generating public contingent liabilities. Risks from PFI activities, which could be compounded by CBR pressures, include weakening financial inclusion and increased unsupervised lending

25. In line with FSAP recommendations, the government should formulate a coherent framework for PFI governance and performance, including a clear definition of their mandates. The Development Bank of Samoa (DBS)—which currently accounts for about 80 percent of government guaranteed loans and has an NPL ratio of 12 percent—should continue its efforts to re-orient its focus back onto the agriculture sector and other development objectives for which it was originally created. The DBS should also continue working with debtors toward a resolution of the long-standing issue of poor-performing loans in the tourism sector. The Samoa National Provident Fund (SNPF) should develop a strategy to gradually reduce personal lending, including against members' contributions, in order to better align its activities to its original mandate of securing retirement income. The Unit Trust of Samoa (UTOS), which was originally created to enable small investors to participate in privatization of SOEs but later became a leveraged financing vehicle for SOEs, should continue to reduce its leverage, with the objective of operating as an unleveraged mutual fund in the medium term.

Authorities' Views

26. The authorities agreed with staff's assessment that the banking system remains sound and are committed to continuing implementation of FSAP-recommended reforms. They stated they are in the process of amending the Financial Institutions Act to support bank corrective actions and resolution. They acknowledged the need to strengthen PFI governance and re-orient their

[9] See Appendix IV for a list of SOEs, some of which can be characterized as PFIs due to the nature of their borrowing and lending operations.

mandates towards their original objectives, but also stressed that PFI supervision has been strengthened, and that their lending activities—which need to be seen in the context of a small island economy—have a positive role in bringing down lending rates in the context of limited bank competition.

MEDIUM-TERM CHALLENGES

27. Increasing resilience to natural disasters would boost growth by encouraging private sector activity, and should be prioritized within the authorities' structural reform agenda. The authorities should speedily implement measures aimed at strengthening disaster resilience, including those laid out in the SDS. The following measures should be prioritized within the authorities' strategy:

- Health and education facilities should be upgraded to be fully compliant with disaster and climate resilience plans;
- Key infrastructure should be upgraded to prevent flooding, including through implementation of the Green Climate project;
- Climate and disaster resilience should be mainstreamed and integrated into all sector plans, Ministry and implementing agencies' corporate plans, and into transport, ICT, energy, and utility planning and systems.

The above policies will need to be consistent with the authorities' fiscal strategy and should preferably be grant-financed.

28. Improving the business environment is key to boosting medium-term growth prospects. Efforts to create a conducive environment for private sector development include the recent completion of a submarine cable, which is expected to improve the quality and affordability of information technology services, and the rehabilitation of several hydro plants that were destroyed by Cyclone Evan in 2012, which will contribute to reducing the cost of electricity. The recent launch of a personal property online registry, together with plans to establish a credit bureau and facilitate the use of customary land leases as collateral[10], should improve access to finance for both households and SMEs.

29. Current efforts to strengthen governance of SOEs and explore privatization options would improve SOE performance, raise growth prospects, and reduce fiscal risks. A Performance Management Framework for Board and Board Directors, and a Director's Handbook outlining the roles and responsibilities of Directors and Boards of all public bodies, are under

[10] Approximately 80 percent of land in Samoa is governed under customary systems, which entail collective ownership by entire kinship groups. At present, banks do not accept leases on customary land as collateral for loans. Proposed reforms to the legal framework for land leases should help increase clarity about the rights of landowners, leaseholders and lending banks, and should help facilitate access to credit for leaseholders.

preparation. Option papers for the privatization of Samoa Post Limited (SPL), Public Trust Office (PTO) and Samoa Housing Corporation (SHC) have been prepared and approved by the government, and a review to identify further potential candidates for privatization is ongoing.

30. The authorities should push ahead with implementation of their financial inclusion strategy, which would help increase economic opportunities for all Samoans and reduce inequality. The National Financial Inclusion Strategy (NFIS) for Samoa 2017-2020 lays out a framework to improve financial inclusion, which is welcome given Samoa's relatively large unbanked population (49 percent of Samoan adults are excluded from the formal financial sector). The following NFIS measures should be prioritized:

- Expand financial services to underserved segments, especially Samoa's rural and low-income population, and women and youth, through appropriate products and delivery channels;
- Develop cost-effective, convenient and safe payment solutions for domestic and international payments, including by promoting digital financial services and institutional innovations (e.g., branchless banking and mobile money to increase access points in rural areas);
- Promote financial education through core curriculum in schools, and by integrating financial literacy into the product design and service delivery by financial sector providers.

Authorities' Views

31. The authorities agreed with staff recommendations on structural reform priorities. They agreed that increasing resilience to natural disasters would benefit growth, and that greater financial inclusion would reduce inequality and increase economic opportunities for all. They stressed that they are developing a Disaster Risk Financing Strategy, which would identify and quantify all resources available to respond to natural disasters, including domestic contingencies, regional catastrophe risk insurance policies, and credit lines with IFIs (see Table 8). The authorities also noted that their plans to develop a national SME policy framework—including a definition of SMEs which is currently lacking—would help policy efforts to support SMEs. They are committed to strengthening governance of SOEs and exploring privatization opportunities, but stressed that the positive economic role of SOEs also needs to be considered.

OTHER ISSUES

32. While broadly adequate for surveillance purposes, data quality remains a concern for some data (see Statistical Issues Appendix in the Informational Annex). Staff encouraged the authorities to seek further support from the Pacific Technical Assistance Center (PFTAC) on improvements to local technical capacity in data compilation and provision. Staff also recommends that the authorities ensure the allocation of adequate resources to prevent further delays in improving external sector statistics, including their quality.

33. The authorities are working towards improving GDP statistics and building capacity for data provision to the Fund. The Samoa Bureau of Statistics, with technical assistance from PFTAC, is working on: (i) rebasing GDP by production from base 2009 to base 2015; and (ii) developing a new measure of GDP by expenditure. Staff encourages the authorities to continue to move forward on these important initiatives.

34. Staff delivered a presentation to the authorities, at their request. The presentation catered to staff of the Ministry of Finance, the CBS, Samoa Bureau of Statistics, and Ministry of Revenue, and focused on an in-depth discussion of the conduct of debt sustainability analysis and external sector assessment.

Authorities' Views

35. The authorities appreciated assistance from the Fund in improving statistics. They mentioned that Samoa needs more time—at least two years—to build the capacity to provide full international investment position (IIP) data to the Fund, although partial IIP data (excluding the private sector) might be provided over a shorter time horizon. They also expressed appreciation for the presentation delivered by staff during the mission, and looked forward to further technical assistance from PFTAC.

STAFF APPRAISAL

36. Growth remains robust but it is expected to moderate before rebounding. After a temporary moderation largely reflecting the closure of the Yazaki manufacturing plant, growth is expected to rebound—supported by infrastructure spending and preparations for the 2019 Pacific Games—peaking at 2019/20, before settling just above 2 percent in the medium term. Risks to the outlook are tilted to the downside and stem from Samoa's vulnerability to natural disasters and partial loss of CBRs.

37. The fiscal framework should be strengthened to solidify gains from previous consolidation efforts. A lower debt-to-GDP target of 45 percent in the medium term and 40 percent over the longer term would increase fiscal space to respond to natural disasters. The new debt target should be complemented with a fiscal balance anchor aimed at keeping the overall fiscal deficit under 2 percent of GDP on average over the medium term. Public financial management reforms—including strengthening guidelines for government guarantees; developing a formal on-lending policy; and creating a contingency fund for natural disasters and other unexpected fiscal costs—would also help reduce contingent liabilities and other fiscal risks.

38. The monetary policy stance is appropriately accommodative but the transmission mechanism needs to be strengthened. The monetary stance is appropriate given moderating growth, inflation below the authorities' target, and fiscal consolidation needs. Pushing ahead with plans to create a credit bureau and facilitate the use of customary land leases as collateral could reduce banks' reluctance to lend, thus strengthening the monetary transmission mechanism.

39. The external position of Samoa is assessed to be broadly in line with fundamentals and desirable policies. Staff's assessment of the external position is based on an application of the external sustainability approach which takes into account Samoa's high vulnerability to natural disasters. The level of reserves coverage is adequate according to the ARA metric for credit-constrained economies, but is below the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken into account. Samoa's pegged exchange rate system provides a welcome nominal anchor in a context of weak monetary policy transmission. The exchange rate is estimated to be in line with fundamentals, with little sign of a deterioration in Samoa's competitiveness

40. Continued efforts are needed to mitigate Samoa's vulnerability to partial withdrawal of CBRs. The authorities should fully implement their AML/CFT strategy, including by amending the legal framework to facilitate criminal prosecution of money laundering and allowing supervisory agencies to impose proportionate dissuasive functions. Efforts to improve the availability and quality of CBRs and remittances data should continue, and supervisory staff should be better trained to perform data analysis. The authorities should leverage technology solutions for customer identification and monitoring, which could be done by building on the existing Memoranda of Understanding that several MTOs have already signed with the OEC. Enhancing entity transparency in line with international standards and reassessing the sustainability of the offshore business model should contribute to mitigating the risks from the sector. The authorities are encouraged to engage with all relevant stakeholders, including banks, MTOs and regulators in the region, to make progress towards an industry-led and regional solution to the withdrawal of CBRs.

41. Financial sector policies should focus on completing the implementation of FSAP measures, including reform of public financial institutions (PFIs). The Central Bank of Samoa should prioritize upgrading its regulatory and supervisory framework to modern standards, including by amending the Financial Institutions Act to support corrective actions and resolutions. The recently created high-level committee on financial stability should meet regularly to discuss systemic financial stability issues. Formulating a coherent framework for PFI governance and performance, including a clear definition of their mandates, remains a key priority to avoid crowding out private financial institutions and minimize contingent liabilities and other fiscal risks stemming from PFI activities.

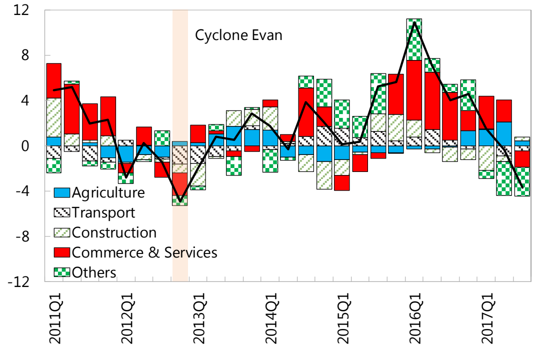
42. Structural reforms should concentrate on improving resilience to natural disasters, and enhancing financial inclusion and the business environment. Speedy implementation of the climate resilience measures included in the authorities' strategy—aimed at mainstreaming disaster reliance plans and upgrading infrastructures—would boost growth and private sector activity. Pushing ahead with implementation of the authorities' financial inclusion strategy would help increase economic opportunities for all Samoans and reduce inequality. The authorities should follow up on their plans to establish a credit bureau and facilitate the use of customary land leases as collateral, which should improve access to finance for households and SMEs.

43. It is recommended that the next Article IV consultation with Samoa take place on the standard 12-month cycle.

Figure 1. Samoa: Real Sector Developments

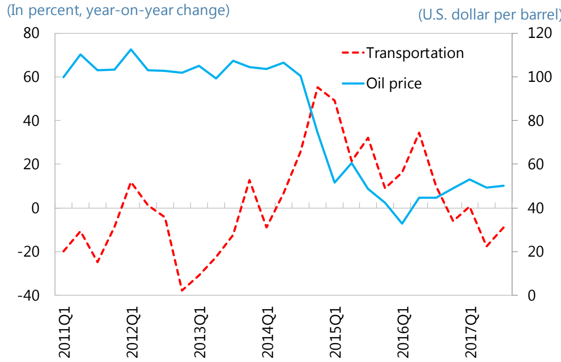
Growth has moderated after a temporary spike but remains robust, driven by commerce, services, and agriculture….

Real GDP Growth by Sector
(In percentage change)



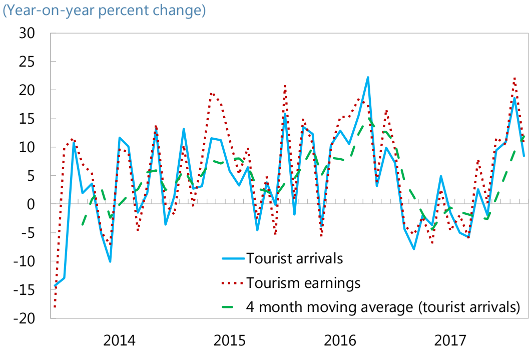
A rebound in oil prices is weighing on transportation sector growth.

Transportation Growth and Oil Price
(In percent, year-on-year change)



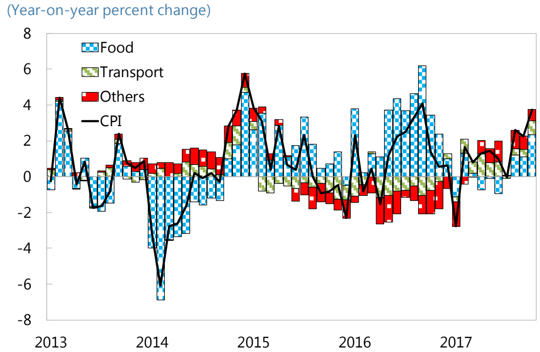
Tourism arrivals and earnings have rebounded.

Tourism
(Year-on-year percent change)



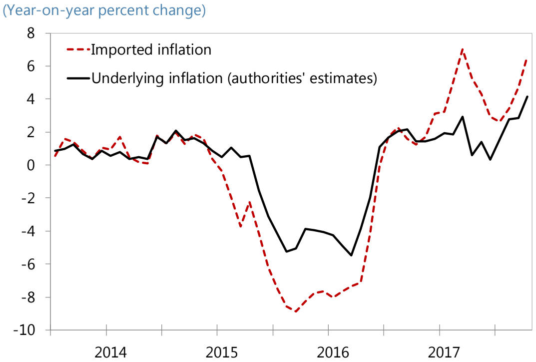
Inflation is picking up but remains below the authorities' target of 3 percent.

Contribution to Inflation
(Year-on-year percent change)



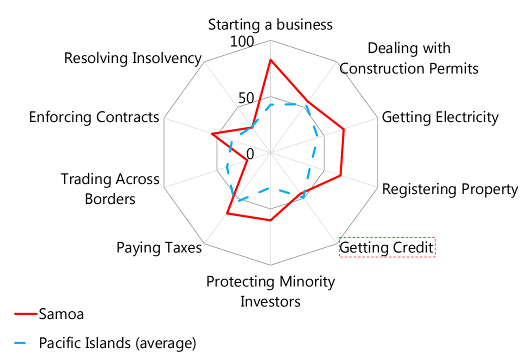
Both imported and underlying inflation are on the rise.

Inflation indicators
(Year-on-year percent change)



Samoa fares well in most doing business categories compared to the Pacific island average.

Doing Business Categories, 2018
(Percentile of rank, higher is better)



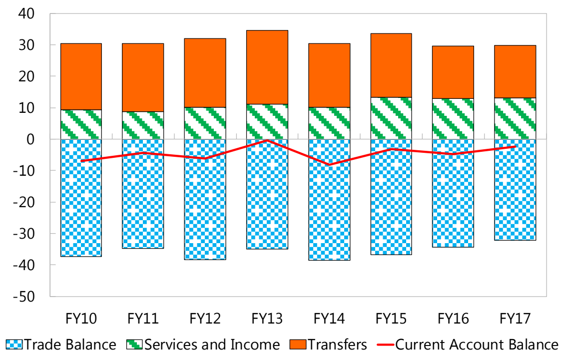
Sources: Samoan authorities; The World Bank – *Doing Business (2018);* and IMF staff calculations.

Figure 2. Samoa: External Sector Developments

The current account deficit has narrowed, driven by services and a smaller trade deficit.

Current Account Balance

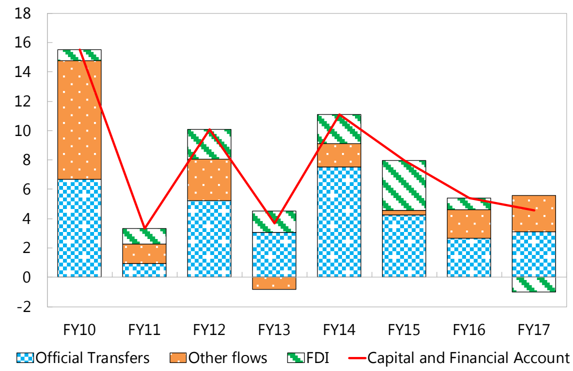
(In percent of GDP)



The capital and financial account surplus narrowed as FDI flows turned negative after years of increases.

Capital and Financial Account

(In percent of GDP)

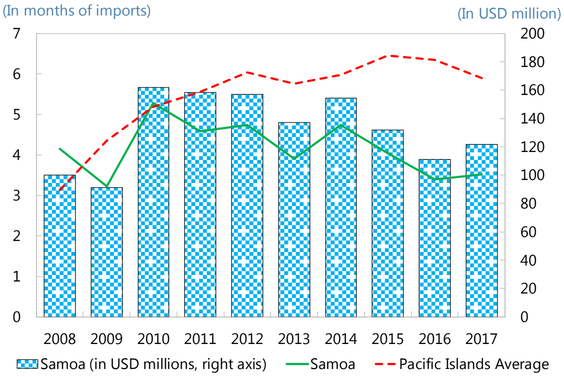


Reserves have increased, in contrast with a gradual decline in the Pacific island average.

Reserves

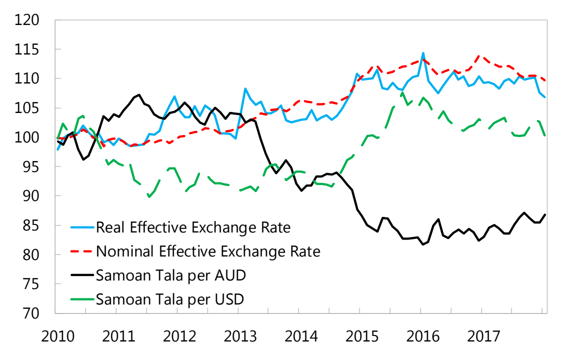
(In months of imports)

(In USD million)



The REER has remained broadly stable in the last few years

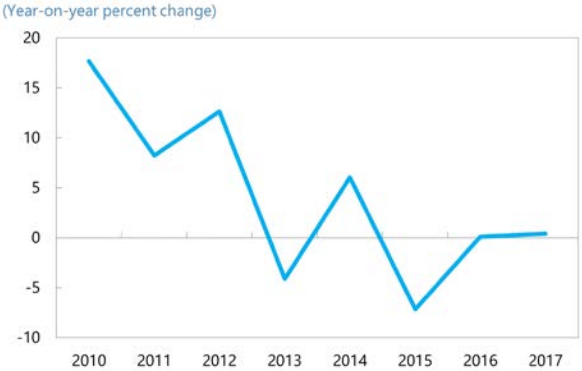
Exchange Rates (2010=100)



Import growth is flat…

Import Growth

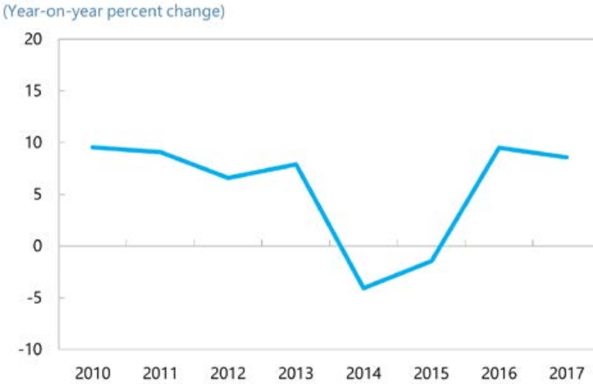
(Year-on-year percent change)



…but exports continue to grow.

Export Growth

(Year-on-year percent change)

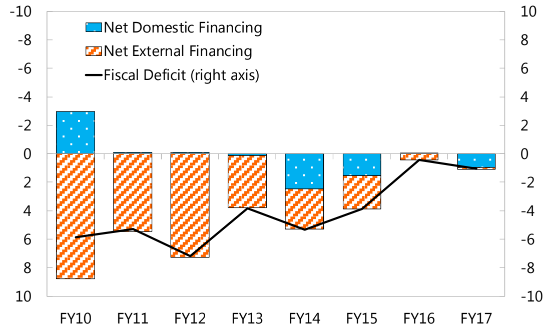


Sources: Samoan authorities; and IMF staff calculations.

Figure 3. Samoa: Fiscal Sector Developments

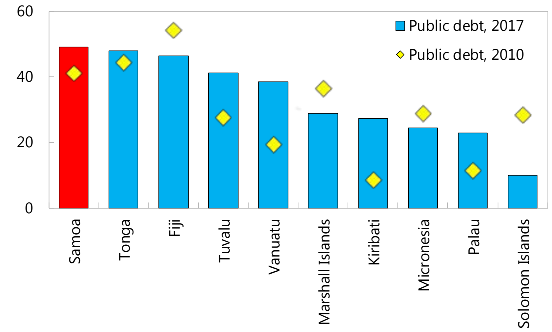
The fiscal deficit has widened….

Fiscal Deficit and Financing
(In percent of GDP)



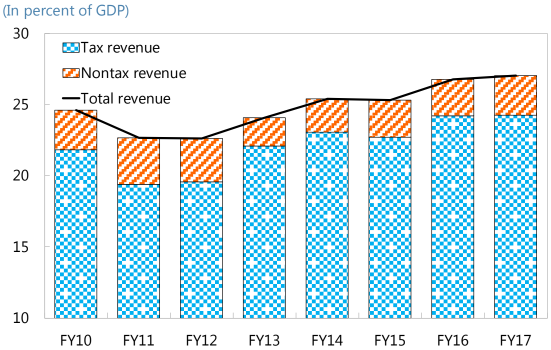
…and public-sector debt remains high.

Gross Public Debt, 2017
(In percent of GDP)



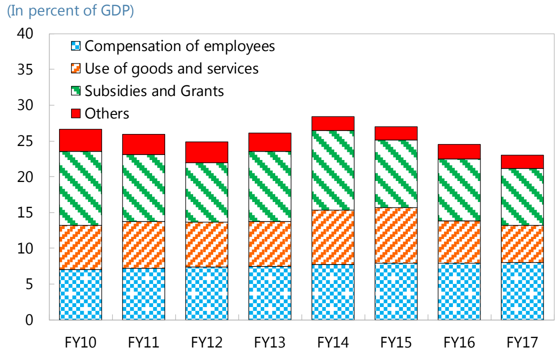
Revenue gains have been sustained…

Revenues (excluding grants)
(In percent of GDP)



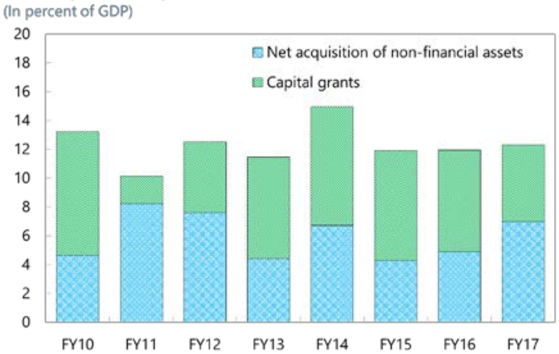
…while current expenditure has been cut further.

Current Expenditures
(In percent of GDP)



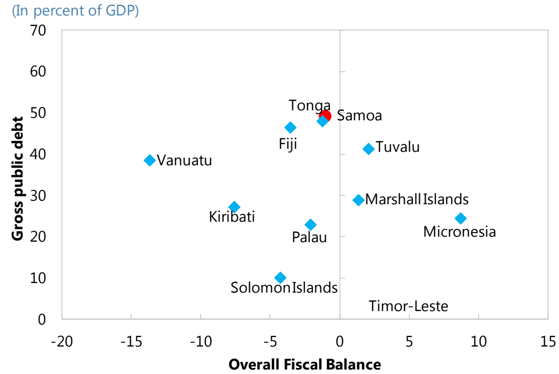
Development expenditure is on the rise.

Development Expenditures
(In percent of GDP)



Samoa has limited fiscal space compared to other Pacific islands, given its large debt ratio.

Fiscal Space, 2017
(In percent of GDP)



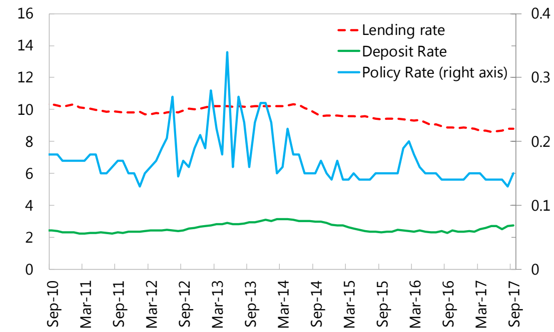
Sources: Samoan authorities; and IMF staff calculations.

Figure 4. Samoa: Monetary and Financial Sector Developments

The policy rate is close to the zero lower bound, but the monetary transmission mechanism is weak.

Policy rate

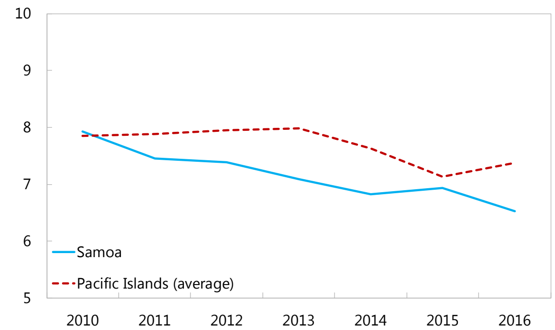
(In percent)



The interest spread is narrowing but still high in Samoa.

Interest Spreads: Lending Minus Deposit Rates

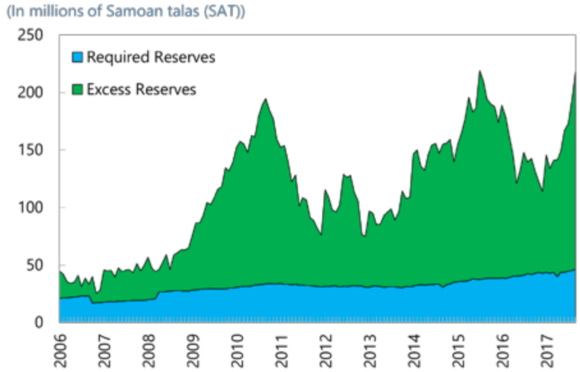
(In percent)



Excess reserves have rebounded.

Liquidity

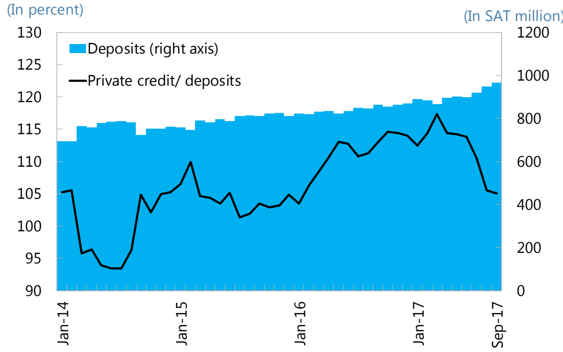
(In millions of Samoan talas (SAT))



The private credit-to-deposit ratio is on a downward trend.

Underlying credit to deposit ratio

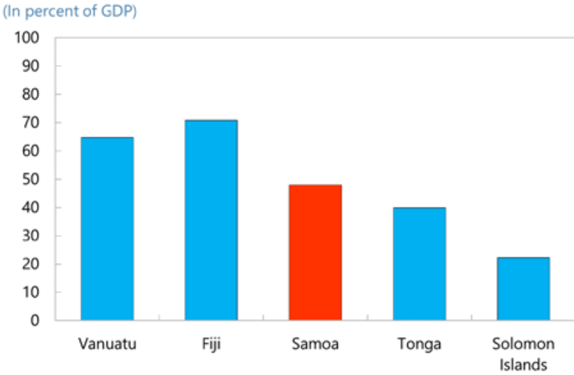
(In percent)



Credit to the economy is lower than in some regional peers.

Commercial Bank Credit to the Economy, December 2017

(In percent of GDP)

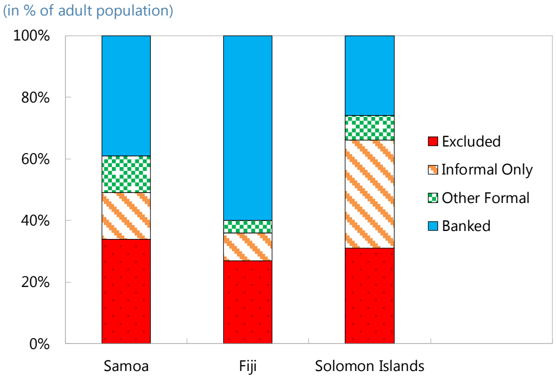


Note: September 2017 data for Solomon Islands.

Samoa has the region's largest number of adults excluded from both formal and informal financial services.

Financial Inclusion strands

(in % of adult population)

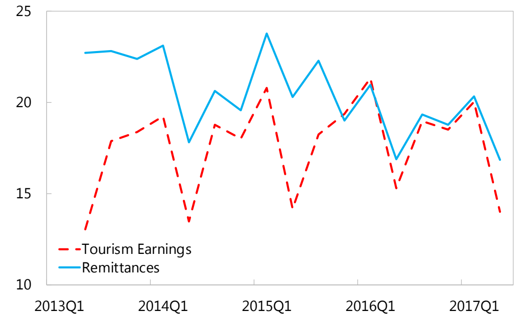


Sources: Samoan authorities; and IMF staff calculations.

Figure 5. Samoa: The Role of Remittances

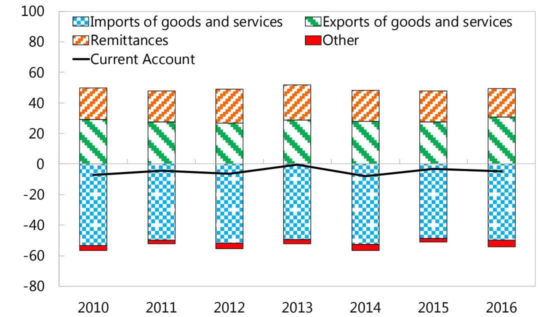
Remittances are large at about 16 percent of GDP...

Tourism and Remittances
(Percent of GDP)



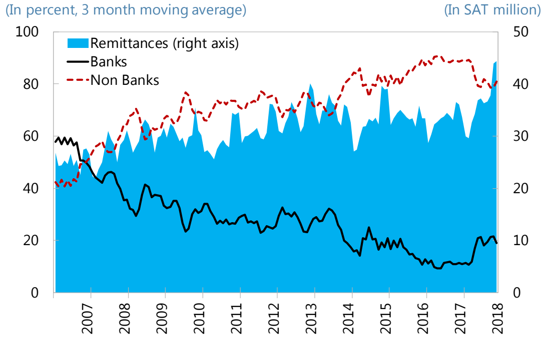
...helping to narrow the current account deficit and support imports.

Current Account Balance
(In percent of GDP)



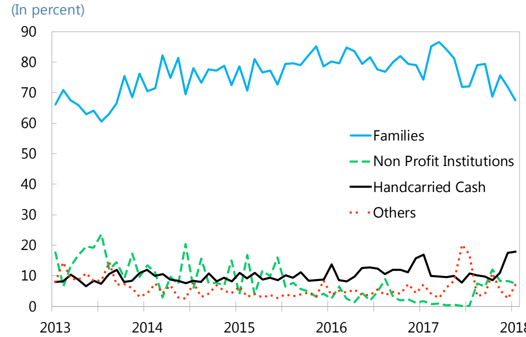
Remittances are primarily channeled by non-banks, including money transfer operators ....

Remittances by Share
(In percent, 3 month moving average) (In SAT million)



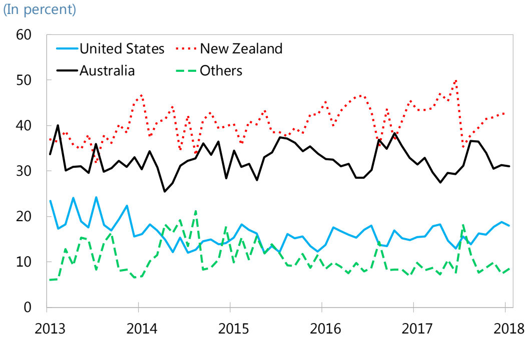
... and are mainly for families.

Remittances by Recipients
(In percent)



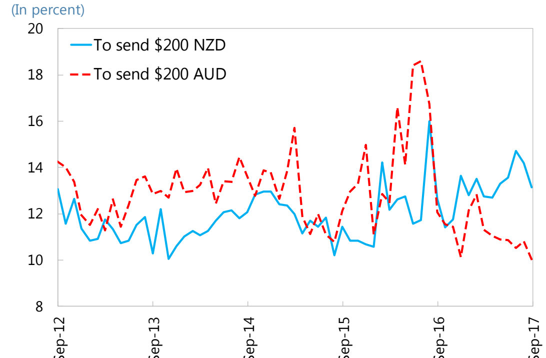
Australia and New Zealand are the main source of remittances.

Remittances by Country of Origin
(In percent)



The average cost of remittance transfers has fallen but remains well above the G20 objective of 5 percent.

Average Cost of Remittance
(In percent)



Sources: Samoan authorities; SendMoneyPacific; and IMF staff calculations.

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

			Est.	Proj.					
	2014/15	2015/16	2016/17	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

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

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.

Table 2. Samoa: Balance of Payments, 2014/15 – 2022/23

(In millions of U.S. dollars, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Est.			Proj.			
Current account balance	-24.9	-37.3	-19.5	-25.1	-40.6	-37.7	-42.4	-46.4	-48.1
Trade balance	-294.9	-270.3	-270.4	-291.1	-319.5	-348.3	-359.0	-376.9	-395.9
Exports, fob 1/	27.9	36.9	38.0	39.1	40.5	41.9	43.2	44.6	45.9
Imports, fob	-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
Investment 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
Official transfers	1.5	0.4	4.8	4.8	4.7	4.7	4.6	4.6	4.8
Private transfers	160.9	131.6	135.7	143.1	150.1	159.5	165.3	170.8	177.4
Capital and financial account balance	64.0	42.4	38.3	46.6	41.7	57.6	44.7	44.6	58.0
Capital account	35.8	27.2	43.2	33.3	32.5	33.8	34.8	33.3	34.4
Official	34.3	20.9	26.0	24.9	24.2	25.5	26.5	25.0	26.1
Private	1.5	6.3	17.2	8.3	8.3	8.3	8.3	8.3	8.3
Financial account	28.2	15.2	-4.8	13.3	9.2	23.8	9.9	11.3	23.6
Direct investment	27.2	6.2	-8.5	8.5	8.0	11.6	11.6	11.3	11.7
Portfolio investment	-8.5	-0.2	-5.6	-5.6	-8.0	-6.0	-6.5	-6.5	-6.5
Other investment	9.5	9.2	9.3	10.5	9.2	18.2	4.8	6.5	18.4
Assets	-17.1	7.3	19.1	18.9	20.8	20.6	25.0	24.8	24.8
Liabilities	26.6	1.9	-9.8	-8.4	-11.6	-2.4	-20.2	-18.3	-6.3
Errors and omissions	-13.7	-21.4	-8.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	39.1	5.1	18.8	21.5	1.2	19.9	2.4	-1.8	9.9
Financing	-39.1	-5.1	-18.8	-21.5	-1.2	-19.9	-2.4	1.8	-9.9
Change in gross official reserves	-25.4	16.3	-10.5	-21.5	-1.2	-19.9	-2.4	1.8	-9.9
Memorandum Items:									
Current account balance (in percent of GDP)	-3.1	-4.7	-2.3	-2.9	-4.4	-3.8	-4.2	-4.4	-4.3
Gross official reserves (in million of U.S. dollars)	131.9	111.0	121.6	143.0	144.2	164.1	166.4	164.6	174.5
(In months of prospective imports of GNFS)	4.0	3.4	3.5	3.8	3.6	4.0	3.9	3.7	3.6
Exports of goods (annual percentage change)	12.2	32.3	2.8	3.0	3.5	3.5	3.2	3.2	3.0
Imports of goods (annual percentage change)	-3.5	-4.8	0.4	7.1	9.0	8.4	3.1	4.8	4.8
Remittances (in percent of GDP) 2/	20.0	16.7	16.1	16.3	16.3	16.2	16.2	16.1	16.0
Tourism earnings (in percent of GDP) 3/	17.4	18.5	17.9	18.0	18.1	19.0	18.1	18.2	18.2

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

1/ Including re-export of fuel after 2009/10.
2/ Including other current transfers.
3/ Including other service credits.

Table 3. Samoa: Financial Operations of the Central Government, 2014/15 – 2022/23

			Est.	Staff Projections					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
				(In millions of tala)					
Revenue and grants	683.4	741.2	730.6	799.0	845.2	907.4	952.9	983.8	1036.1
Total revenue	493.2	550.1	576.6	617.5	667.4	718.5	754.6	794.7	836.9
Tax revenue	442.0	497.5	517.5	553.4	597.2	642.9	675.2	711.0	748.9
Nontax revenue	51.2	52.6	59.1	64.2	70.2	75.6	79.4	83.6	88.1
Grants	190.3	191.1	154.0	181.5	177.8	188.9	198.3	189.2	199.2
Expenditure	758.8	749.7	753.2	842.8	898.6	967.4	1016.0	1053.0	1109.1
Current	526.5	503.9	490.5	565.3	602.7	648.9	681.4	717.6	755.8
Of which Compensation of employees	154.6	163.5	170.0	204.9	219.2	235.9	247.8	260.9	274.8
Of which Use of goods and services	151.7	120.3	112.7	131.5	141.5	152.3	159.9	168.4	177.4
Development expenditure	232.3	245.8	262.7	277.5	295.9	318.5	334.5	335.4	353.2
Of which Net acquisition of nonfinancial assets	83.3	100.1	149.5	163.3	184.6	201.3	198.0	186.0	190.0
Net lending	0.0	0.0	18.1	19.0	20.1	21.6	22.7	23.9	25.2
Current balance (excl. grants)	-33.3	46.2	86.1	52.2	64.7	69.6	73.1	77.0	81.1
Overall fiscal balance	-75.4	-8.5	-22.6	-43.8	-53.4	-60.1	-63.1	-69.2	-72.9
Financing	75.6	8.5	23.6	43.8	53.4	60.1	63.1	69.2	72.9
External financing, net	45.3	9.1	2.8	52.4	62.8	66.4	64.9	70.8	74.0
Domestic financing, net	30.3	-0.6	20.8	-8.6	-9.3	-6.3	-1.8	-1.6	-1.1
				(In percent of GDP)					
Revenue and grants	35.1	36.1	34.2	35.7	35.7	35.6	35.6	34.9	34.9
Total revenue	25.3	26.8	27.0	27.6	28.2	28.2	28.2	28.2	28.2
Tax revenue	22.7	24.2	24.3	24.8	25.3	25.3	25.3	25.3	25.3
Nontax revenue	2.6	2.6	2.8	2.9	3.0	3.0	3.0	3.0	3.0
Grants	9.8	9.3	7.2	8.1	7.5	7.4	7.4	6.7	6.7
Expenditure	38.9	36.5	35.3	37.7	38.0	38.0	38.0	37.4	37.4
Current	27.0	24.5	23.0	25.3	25.5	25.5	25.5	25.5	25.5
Of which Compensation of employees	7.9	8.0	8.0	9.2	9.3	9.3	9.3	9.3	9.3
Of which Use of goods and services	7.8	5.9	5.3	5.9	6.0	6.0	6.0	6.0	6.0
Development expenditure	11.9	12.0	12.3	12.4	12.5	12.5	12.5	11.9	11.9
Of which Net acquisition of nonfinancial assets	4.3	4.9	7.0	7.3	7.8	7.9	7.4	6.6	6.4
Current balance (excl. grants)	-1.7	2.2	4.0	2.3	2.7	2.7	2.7	2.7	2.7
Overall fiscal balance	-3.9	-0.4	-1.1	-2.0	-2.3	-2.4	-2.4	-2.5	-2.5
Overall balance (excl. grants)	-13.6	-9.7	-8.3	-10.1	-9.8	-9.8	-9.8	-9.2	-9.2
Financing	3.9	0.4	1.1	2.0	2.3	2.4	2.4	2.5	2.5
External financing, net	2.3	0.4	0.1	2.3	2.7	2.6	2.4	2.5	2.5
Domestic financing, net	1.6	0.0	1.0	-0.4	-0.4	-0.2	-0.1	-0.1	0.0
Memorandum items:									
Public Debt Nominal Values	1126.1	1080.7	1047.4	1120.7	1187.6	1262.3	1340.1	1427.5	1518.9
External Debt	1078.2	1041.8	1018.0	1096.5	1172.7	1247.3	1331.5	1420.7	1513.6
Nominal GDP (in millions of Tala)	1948.9	2055.3	2133.2	2235.1	2364.3	2545.3	2673.1	2815.0	2964.7
Debt/GDP Ratio (in percent)	57.8	52.6	49.1	50.1	50.2	49.6	50.1	50.7	51.2
External Debt/GDP Ratio (in percent)	55.3	50.7	47.7	49.1	49.6	49.0	49.8	50.5	51.1

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

Table 4. Samoa: Monetary Developments, 2011/12 – December 2017

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Dec-17
	(In millions of Tala; end of period)						
Depository Corporations							
Net foreign assets	229	180	301	181	150	199	293
Gross reserves	277	228	255	311	256	290	312
Other foreign assets	71	69	252	149	173	175	223
Foreign liabilities	120	117	205	279	278.5	266	241
Net domestic assets	477	521	532	659	746	769	800
Net credit to central government	-108	-96	-101	-116	-133	-199	-157
Net credit to public nonfinancial corporations	55	38	35	36	37	15	15
Credit to private sector	702	709	734	827	940	1,022	1,023
Other items (net)	-171	-130	-137	-89	-98	-69	-81
Broad money	706	700	832	836	895	965	1,092
Narrow money	247	259	380	356	394	406	496
Currency outside banks	59	61	46	49	61	67	87
Transferable deposits	188	199	334	307	333	338	409
Other deposits	459	441	451	480	501	560	596
Central Bank							
Net foreign assets	270	200	227	243	195	236	258
Gross reserves	277	228	255	311	256	290	312
Other foreign assets	14	14	14	12	14	15	15
Foreign liabilities	21	42	41	80	75	69	69
Net domestic assets	-65	-26	-5	19	20	20	45
Net credit to central government	-74	-59	-64	-88	-103	-125	-107
Net credit to financial corporations	19	34	70	102	130	139	149
Other items (net)	-10	-1	-11	4	-6	6	3
Monetary Base	205	174	222	262	216	257	303
Currency in circulation	76	78	68	76	83	90	123
Other liabilities to deposit money banks	129	96	154	186	133	167	180
Other Depository Corporations							
Net foreign assets	-42	-20	74	-63	-45	-37	35
Foreign assets	57	54	238	137	159	160	208
Foreign liabilities	98	75	164	200	204	197	172
Net domestic assets	689	661	713	853	880	938	971
Net credit to central government	-35	-37	-37	-28	-30	-74	-50
Net credit to public nonfinancial corporations	55	38	35	36	37	15	15
Credit to private sector	698	707	748	820	934	1,017	1,018
Net credit to financial corporation	158	127	193	220	135	191	205
Other items (net)	-188	-174	-227	-195	-196	-211	-217
Deposits	647	640	785	787	834	898	1,005
Transferable deposits	188	199	334	307	333	338	409
Other deposits	459	441	451	480	501	560	596
	(In percent, unless otherwise indicated)						
Money velocity 1/	2.6	2.6	2.5	2.3	2.3	2.2	2.0
Money multiplier 2/	3.4	4.0	3.7	3.2	4.1	3.8	3.6
Private credit/GDP 3/	38.1	38.6	39.3	42.4	45.7	47.9	45.8
Private credit/deposits 3/	108.4	110.9	93.5	105.1	112.7	113.8	101.8
Annual broad money growth	-4.0	-0.8	18.7	0.6	7.1	7.8	19.1
Annual reserve money growth	23.2	-15.0	27.5	18.2	-17.6	18.8	37.9
Annual private credit growth 3/	2.0	1.1	3.5	12.7	13.6	8.7	4.2
Lending rate 4/	9.8	10.2	10.2	9.6	9.4	8.7	8.9
Deposit rate 4/	2.4	2.8	3.1	2.6	2.4	2.6	2.6

Sources: Central Bank of Samoa; and IMF staff estimates and projections.

1/ Ratio of GDP to broad money.

2/ Ratio of broad money to monetary base.

3/ Includes commercial bank credit only.

4/ Weighted average.

Table 5. Samoa: Financial Soundness Indicators, 2013/14 – December 2017

	2013/14	2014/15	2015/16	2016/17	Sep 17	Dec 17
Capital Adequacy						
Regulatory Capital to Risk-Weighted Assets, Ratio	29.7	27.1	24.5	25.1	26.6	26.3
Regulatory Tier 1 Capital to Risk-Weighted Assets, Ratio	25.4	22.9	19.9	20.4	20.4	21.6
Non-performing Loans Net of Provisions to Capital, Ratio	…	…	9.0	4.5	5.8	8.9
Capital to Assets, Ratio	17.1	15.9	16.2	15.8	14.8	14.4
Asset Quality						
Non-performing Loans to Total Gross Loans, Ratio	8.3	7.1	5.2	4.1	4.5	5.3
Provisions to non-performing loans	53.5	50.8	64.4	77.9	72.3	64.7
Large Exposures to Capital, Ratio	…	…	98.2	110.8	95.8	95.4
Earnings and Profitability						
Return on Assets, Ratio 1/	1.9	1.8	4.2	4.2	5.7	2.3
Return on Equity, Ratio 1/	10.5	11.0	25.9	25.9	23.5	10.9
Liquidity Ratios						
Liquid Assets to Total Assets (Liquid Asset Ratio), Ratio	13.1	14.5	8.1	9.7	12.7	10.8
Liquid Assets to Short Term Liabilities, Ratio	…	…	23.3	25.5	18.7	15.7
Total loans to total domestic deposits	89.0	116.0	130.6	117.9	91.6	93.6
Sensitivity to Market Risk						
Net Open Position in Foreign Exchange to Capital, Ratio	7.3	12.8	8.1	28.4	30.2	28.6
Distribution of Total Loans						
Sectoral Distribution of Total Loans: Deposit-takers, Ratio	…	…	0.0	0.0	…	…
Sectoral Distribution of Total Loans: General Government, Ratio	…	…	1.5	1.1	…	…
Sectoral Distribution of Total Loans: Nonfinancial Corporations , Ratio	…	…	62.1	57.2	…	…
Sectoral Distribution of Total Loans: Nonresidents, Ratio	…	…	4.1	4.3	…	…
Sectoral Distribution of Total Loans: Other Domestic Sectors, Ratio	…	…	35.3	36.0	…	…
Sectoral Distribution of Total Loans: Other Financial Corporations , Ratio	…	…	1.1	1.4	…	…
Foreign-Currency-Denominated Loans to Total Loans, Ratio	…	…	13.2	13.8	…	…
Commercial Real Estate Loans to Total Loans, Ratio	…	…	42.9	35.5	…	…
Residential Real Estate Loans to Total Loans, Ratio	…	…	29.3	33.6	…	…
Other Indicators						
Assets to Total Financial System Assets, Ratio	48.4	44.8	46.3	45.6	…	…
Assets to Gross Domestic Product (GDP), Ratio	…	…	43.8	46.8	…	…

Sources: Central Bank of Samoa; Financial Soundness Indicators database; and IMF staff calculations.
Note: For fiscal year ending in June.
1/ Change in methodology in 2015/16.

Table 6. Samoa: Status of Millennium Development Goals

Progress on Millennium Development Goals	(as of August 2013)	(as of September 2015)
Goal 1: Eradicate extreme poverty and hunger	Mixed	Mixed
Goal 2: Achieve universal primary education	On track	Achieved
Goal 3: Promote gender equality and empower women	Mixed	Mixed
Goal 4: Reduce child mortality	On track	Achieved
Goal 5: Improve maternal health	Mixed	Mixed
Goal 6: Combat HIV/AIDS, malaria and other diseases	Mixed	Mixed
Goal 7: Ensure environmental sustainability	On track	Achieved
Goal 8: Develop a global partnership for development	Not assessed	Not assessed

Sources: Pacific Islands Forum Secretariat, and 2013 and 2015 Pacific Regional MDGs Tracking Reports.

Table 7. Samoa: Strategy for the Development of Samoa and Sustainable Development Goals

Priority Areas	Key Samoan Outcomes	Corresponding SDGs	
1. Economic	1. Macroeconomic resilience increased and sustained	1. No Poverty	8. Decent Work & Economic Growth
		17. Partnership for the Goals	
	2. Agriculture and fisheries productivity increased	2. Zero Hunger	
	3. Exports products increased	9. Industry, Innovation, and Infrastructure	
	4. Tourism development and performance improved	8. Decent Work & Economic Growth	
	5. Participation of private sector in development enhanced	12. Responsible Consumption and Production	
2. Social	6. A healthy Samoa and well-being promoted	3. Good Health and Well-being	
	7. Quality education and training improved	4. Quality Education	
	8. Social institutions strengthened	5. Gender Equality	10. Reduced Inequalities
		16. Peace, Justice, and Strong Institutions	
3. Infrastructure	9. Access to clean water and sanitation sustained	6. Clean Water and Sanitation	
	10. Transport systems and networks improved	9. Industry, Innovation, and Infrastructure	11. Sustainable Cities and Communities
	11. Improved and affordable country wide ICT connectivity	9. Industry, Innovation, and Infrastructure	
	12. Quality energy supply	7. Affordable and clean energy	
4. Environment	13. Environmental resilience improved	14. Life Below Water	15. Life on Land
	14. Climate and disaster resilience	13. Climate Action	

Source: Strategy for the Sustainable Development of Samoa.

Table 8. Samoa: Post-Disaster Finance Sources

	Time-frame for access*
Ex-ante financing measures in place	
Parametric insurance (PCRAFI, based on event trigger) 1/	Short-term
Traditional insurance (based on damages/losses)	Medium/long term
Contingent-debt financing facility (ADB & WB, based on event trigger)	Short/medium term
Ex-post financing measures in place or available	
Unforeseen expenditure budget line (PFMA2001 S29)	Short/medium term
In-year budget reallocation (PFMA2002 S26 & S29)	Short/medium term
Development partners and international agency assistance and relief	Short/medium term
Domestic credit from banking system	Medium/long term
External credit from international agencies (including the IMF RCF)	Medium/long term
Capital budget realignment (domestic and external funds)	Medium/long term
Development partner assistance (reconstruction)	Medium/long term
Tax and other revenue measures	Medium/long term

Source: Secretariat of the Pacific Community (2015) and CBS

*Short-term: within one month; Medium-term: within two-to-four months; Long-term: beyond four months

1/ Pacific Catastrophe Risk Assessment and Financing Initiative.

Annex I. Risk Assessment Matrix (RAM)[1]

Potential Deviations from Baseline

Source of Risks	Overall Level of Concern		Policy Recommendations
	Likelihood of Severe Realization of Risk in the Next one–three Years (high, medium or low)	**Expected Impact if Risk is Realized** (high, medium or low)	
Natural disasters	**High** On average, Samoa has been hit by a major natural disaster once every five years.	**High** In addition to widespread damage, natural disasters have historically increased public debt.	Build fiscal buffers. Increase resilience to natural disasters by implementing policies under the Strategy for the Development of Samoa (SDS) 2016/17-2019/20.
Reduced financial services by global/regional banks	**High** Spillovers from the partial withdrawal of correspondent bank services by global banks could have a sizeable impact on Samoa. In the absence of policy measures, the closure of bank accounts of MTOs is likely to continue and would disrupt the remittance channel.	**High** Closure or MTO banks accounts could increase the hand-carry of cash undermining efforts to increase AML/CFT compliance. The impact of lower remittances is likely to lead to lower consumption but could also widen the current account deficit. Higher cost of remittances would also have a negative impact on more vulnerable segments of the population.	Strengthen the AML/CFT regime in line with APG/FATF recommendations; establish a database for customer identification and monitoring; address the risks from the offshore sector by aligning the laws governing it with international AML/CFT standards.
Weaker-than-expected global growth	**High** Structurally weak growth in key advanced economies (particularly the U.S., euro area and Japan), could reduce export and tourism receipts, impacting GDP growth.	**Medium/High** A sharp decline in exports, tourism earnings, and remittances could worsen the current account balance and reduce fiscal revenues.	Improve the business environment and connectivity to create a conducive environment for private sector development; improve financial inclusion to help cushion the most vulnerable population segments against negative shocks.
Financial stress in Public Financial Institutions (PFIs).	**Medium** PFIs play an important part in the financial system, but asset quality is poor.	**High** Financial spillovers will have limited effects on banks, but would significantly deteriorate public finances and eliminate an important source of credit to the economy.	Strengthen the financial operations of the PFIs; enhance the transparency and governance of the PFIs; reform PFIs to restore them to their original mandate.

[1] The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment[1]

The external position is assessed as broadly in line with fundamentals and desirable policies. Staff's analysis point to a current account gap in the 0.8-1.7 percent of GDP range. Although the level of reserves is adequate according to the ARA metric for credit-constrained economies, it is below the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken into account. Building additional external buffers would help increase resilience.

Current Account Developments

The current account deficit narrowed to 2.3 percent of GDP in 2016/17, an improvement of about 2.4 percentage points of GDP compared to 2015/16**.** The improvement was driven by a smaller trade imbalance by 2.2 percent of GDP, underpinned by import compression of 2.4 percent of GDP. Staff expects this improvement to be temporary. In the baseline scenario, and under the assumption of no natural disasters, the current account deficit is expected to gradually widen to just over 4 percent of GDP over the medium term, as imports rebound to support investment for infrastructure projects.

For the EBA-lite current account equation, the following adjustments were made:

- The underlying current account was adjusted by -1. 2 percent of GDP for one-off flows related to (i) payments from Virgin Australia and (ii) a popular U.S. television series shot in Samoa. These payments are not expected to be repeated in subsequent years because (i) was related to the end of Virgin Australia's partnership with Samoa Airways and (ii) is not expected to be shot in Samoa again.
- The underlying current account was further adjusted by -2.1 percent of GDP for a temporary reduction in imports (in percent of GDP) due to completion of some large projects. The reduced infrastructure activity in 2016/17 is unusual for Samoa, and imports are expected to rebound given the large planned infrastructure projects over the medium term. The -2.1 percent of GDP adjustment is the difference between the unusually low level of the import-to-GDP ratio observed in 2016/17 (36.7 percent) and the twenty-year historical average of the same ratio (38.8 percent).

Samoa: EBA-Lite CA Analysis	
CA-Actual	**-2.3%**
Cyclical Contributions (from model)	-0.2%
additional temporary/statistical factors	3.3%
Cyclically adjusted CA	-5.4%
CA-Norm	**-6.8%**
additional adjustments to the norm	
Cyclically adjusted CA Norm	**-6.6%**
CA-Gap	1.2%
o/w Policy gap	0.6%
Elasticity	-0.27
REER Gap	-4.5%

Given these adjustments, **the cyclically adjusted underlying current account** is estimated at -5.4 percent of GDP compared to the estimated current account norm of -6.6 percent of GDP, resulting in a CA gap of 1.2 percent of GDP. However, the EBA-Lite does not always capture fully the characteristics of small states, hence there is significant uncertainty surrounding these estimates.

[1] Prepared by Reshika Singh.

For the external sustainability approach, maintaining net foreign assets at the 2016 level suggests a current account gap of 1.7 percent of GDP. However, based on a targeted reduction in the debt-to-GDP ratio and Net International Investment Position (NIIP) to 40 percent (which is consistent with the need to build a fiscal cushion against natural disasters and reduce external sustainability concerns for Samoa, given a current NIIP of -52.5 percent of GDP), the external sustainability approach yields a current account norm of -6.2 percent and a current account gap of 0.8 percent. Staff therefore assesses Samoa's external position as broadly in line with fundamentals and desirable policies.

External Sustainability and IREER Approach

	CA/GDP			REER
	Norm 4/	Actual	Gap	Misalignment
	(In percent of GDP)			
External sustainability approach 1/	-7.1	-5.4	1.7	-6.0
External sustainability approach 2/	-6.2	-5.4	0.8	-2.8
EBA-lite Real exchange rate equation 3/	...	...	...	5.2

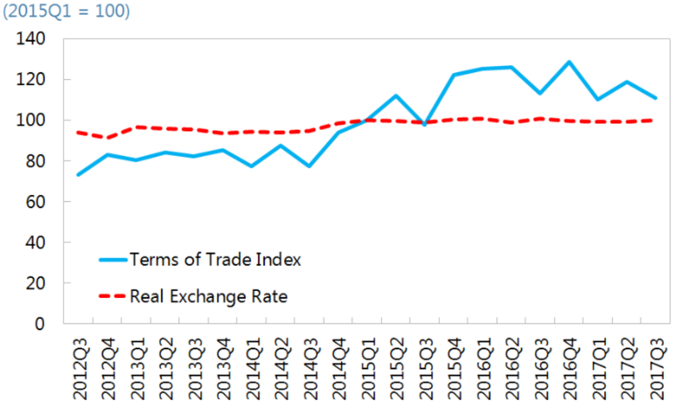
1/ From EBA October 2017. Based on maintaining NFA at the 2016 level.
2/ Based on maintaining public external debt at 40 percent.
3/ Misalignment based on October 2017 EBA-lite.
4/ Aid and capital transfers estimates are based on periods when economy is not recovering from natural disasters.

Keeping in mind Samoa's high vulnerability to natural disasters, in staff's assessment the external sustainability approach based on maintaining a target of 40 percent of GDP for public external debt is the more informative methodology.

Exchange Rate Assessment

Although the EBA-Lite REER equation suggests that the REER is moderately overvalued, the REER generally remained flat in recent years despite improvements in a tourism-based terms-of-trade index, and the appreciation of the Tala against the U.S. dollar in 2017. As such, staff assess the level of Samoa's exchange rate to be broadly in line with fundamentals and desirable policies.

Tourism Terms of Trade Index, 2012 Q3 to 2017 Q3 1/
(2015Q1 = 100)

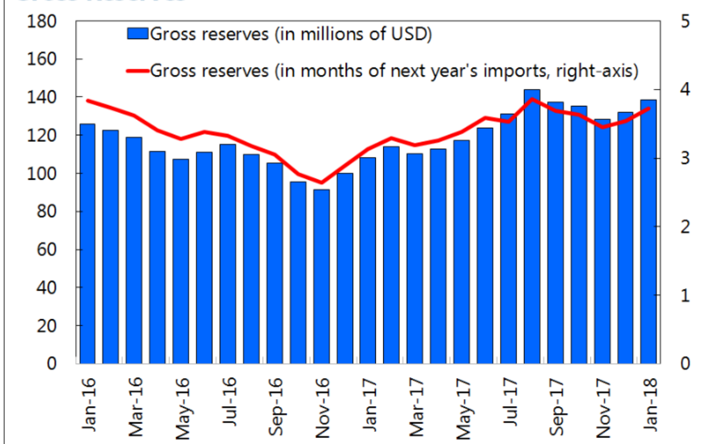


Sources: Country authorities; and IMF staff calculations.
1/ Defined as average earnings from tourism relative to price of imports.

Reserve Adequacy

The level of reserves at 3.7 months of imports is adequate according to the ARA metric for credit constrained economies, but falls below the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken into account. Reserves have risen from a low of 2.6 months of import cover in late 2016 to 3.6 months in June 2017 and 3.7 months in January 2018. Applying the staff's ARA metric for credit constrained economies suggests an optimal level of reserves between 2.8 to 4.2 months of imports, depending on the assumed long-run opportunity cost of holding reserves. Once natural disaster vulnerability is incorporated into the assessment[2], the optimal reserve level range moves up to between 4.2 to 6.0 months of imports, depending on the assumed opportunity cost of holding reserves.

Gross Reserves



Sources: Central Bank of Samoa; IFS; and IMF Staff calculations.

[2] Assuming a higher probability of a large shock event (70 percent) compared to the sample average (50 percent).

Annex III. Key 2015 FSAP Recommendations

Recommendation	Action Taken
Cross-cutting	
Improve the quality and coverage of data. CBS to collect granular data on banks, PFIs, insurers, and other financial intermediaries for prudential and financial stability analysis.	Still work in progress. FSIs are now been produced for the commercial banks in line with IMF requirements. FSIs for the other financial institutions are also being produced
Upgrade the regulatory and supervisory frameworks to modern standards, including amending the Financial Institutions Act and Central Bank Act to support corrective actions and resolution.	The CBS Act 2015 totally repealed the CBS Act 1984. TA's have worked already on the amendments to the Financial Institutions Act 1996 which took in to consideration resolution options, governors discretion etc. The authorities are targeting these amendments to be tabled in parliament before end-2018.
CBS should raise capacity and hire additional staff for financial oversight, and over time assume supervision and regulation of all financial intermediaries.	The number of staff is gradually being increased but cost remains an issue.
Banking supervision and regulation	
Conduct regular on-site inspections, and in-depth assessments of financial statements (including asset quality reviews, of potentially vulnerable banks).	Regular onsite inspections of financial institutions both PFIs and commercial banks are ongoing. In depth offsite surveillance of financial statements is also conducted on a monthly and quarterly basis as well as constant liaison with the industry when there is an urgent need.
Upgrade supervisory guidance to banks, especially regarding risk management and NPL write-offs.	This is currently in progress. The authorities expect to finalize the review of prudential statements before the end of this year.
PFIs - supervision and regulation	
CBS to produce periodic financial soundness indicators for PFIs and ensure proper IFRS accounting, especially for loan classification, NPLs, and provisioning.	Done
CBS to issue and upgrade prudential regulations for PFIs.	In progress.
CBS to start on-site inspections of PFIs.	Done
Off shore bank regulation and supervision	
Enhance operational independence of Samoa International Finance Authority (SIFA) to supervise international banks and remove potential for conflict between SIFA's promotional and supervisory roles.	In October 2016, SIFA created a separate division, Invest Samoa, focusing solely on promotion.

Recommendation	Action Taken
PFIs – governance	
Government to reform mandates and governance of PFIs for defined policy objectives based on cost-benefit assessments, and to ensure efficient operations.	The authorities acknowledged the need to strengthen PFI governance and re-orient their mandates towards their original objectives, but also stressed that PFI supervision has been strengthened, and that their lending activities—which need to be seen in the context of a small island economy—have a positive role in bringing down lending rates in a context of limited bank competition.
Crisis preparedness	
Adopt a full set of enforcement and resolution instruments.	The FI Act 1996 is currently under review. Resolution and enforcement have been the priority areas and relevant provision has been drafted already.
Create an appropriate scheme and operational framework for Emergency Liquidity Assistance.	The authorities are developing a Disaster Risk Financing Strategy, which would identify and quantify all resources available to respond to natural disasters, including domestic contingencies, regional catastrophe risk insurance policies, and credit lines with IFIs
Systemic financial stability	
CBS and Ministry of Finance to create financial stability and contingency planning committees.	The financial stability committee has been created but regular meetings are yet to commence.
CBS to analyze systemic risks, including stress testing and macro-financial mapping.	Preliminary and unofficial stress testing exercises were conducted in-house by CBS staff during the year.
Central bank policies and operations	
CBS to unwind lending to DBS and SHC.	Last approved CBS CLF to these institutions were in November 2015.
Access to finance	
Focus on indirect measures to enhance access to finance, including credit bureau, economic use of customary land, and complete setting up a personal property registry.	A diagnostic assessment of issues relevant to the establishment of a credit bureau in Samoa is planned for March 2018, and considerations for this exercise includes: • Discussion of the cost-effectiveness of different operating models; • The necessary regulatory framework for a bureau in addition to the legal underpinnings, • Potential integration of a credit bureau with the personal securities registry (administered by MCIL) • Potential integration of a AML utility providing information on bank customers with credit bureau information. Personal property registry was launched in early 2017.

Recommendation	Action Taken
Insurance	
CBS to develop insurance supervisory strategy and capacity building plans.	The authorities have requested TA in this area.
Payment system and financial market infrastructure	
CBS to implement the new National Payment Systems.	The World Bank continues to provide assistance to the CBS in this area. • The procurement of the Automatic Transfer System is being conducted through the World Bank procurement processes and currently the Request for Proposal is being drafted. The target is for finalization of the contract with the successful vendor by end June 2018, thus implementation is expected to be underway in the second half of 2018. • The authorities are in the final stages of consultation on the Oversight Regulation. The request for comments from stakeholders is completed and only the face to face consultation is left to be conducted, before it moves to Cabinet for their consideration. • Discussions are ongoing with the World Bank in regard to the best functional set up within the Bank to operationalize and conduct oversight of payments area • Consultations with the implementers of the NPS continue to ensure they are well-versed with their expected roles and responsibilities.

Annex IV. List of Public Enterprises[1]

17 Public Trading Bodies	Development Bank of Samoa* Electric Power Corporation Gambling Control Authority Land Transport Authority Polynesian Airline Ltd Public Trust Office Samoa Airport Authority Samoa Housing Corporation* Samoa International Finance Authority Samoa Land Corporation Samoa Ports Authority Samoa Post Limited Samoa Shipping Corporation Samoa Shipping Services Samoa Trust Estates Corporation Samoa Water Authority Unit Trust of Samoa*
3 Public Mutual Bodies	Accident Compensation Corporation Samoa Life Assurance Corporation Samoa National Provident Fund*
8 Public Beneficial Bodies	National Health Services National Kidney Foundation National University of Samoa Samoa Fire & Emergencies Services Samoa Qualification Authority Samoa Sports Facilities Authority Samoa Tourism Authority Scientific Research Organisation

[1] Asterisks denote PFIs

INTERNATIONAL MONETARY FUND

SAMOA

April 16, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Asia and Pacific Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

Membership Status

Joined: December 28, 1971; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	16.20	100.00
Fund holdings of currency	14.37	88.69
Reserve position in Fund	1.84	11.38

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	11.09	100.00
Holdings	8.01	72.23

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RFC Loans	5.80	35.80
ESF RAC loan	2.32	14.32

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	7/9/1984	7/8/85	3.38	3.38
Stand-by	6/27/1983	6/26/1984	3.38	3.38

Overdue Obligations and Projected Payments to Fund[1]

(SDR million; based on existing use of resources and present holding of SDRs):

	Forthcoming				
	2018	**2019**	**2020**	**2021**	**2022**
Principal	1.74	2.32	1.16	1.16	1.16
Charges/interest	0.02	0.03	0.03	0.03	0.03
Total	**1.76**	**2.35**	**1.19**	**1.19**	**1.19**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement

The exchange rate of the tala is pegged to a trade and payments weighted basket of currencies. The pegged rate can be adjusted within a ±2 percent band. The basket is a composite of the currencies of Samoa's most important trading partners and countries that are major sources of tourism revenue from abroad—New Zealand, Australia, the United States, and Euro countries. The exchange rate regime is free of restrictions and multiple currency practices.

Article IV Consultations

Samoa is on a 12-month consultation cycle. The previous Article IV consultation discussions were held during February 8-17, 2017. The consultation was concluded by the Executive Board on May 1, 2017 (IMF Country Report No. 17/112).

Safeguards Assessments

An update safeguards assessment of the Central Bank of Samoa (CBS) was completed in June 2014. The assessment found some safeguards elements in place, but concerns over CBS autonomy and governance, audit quality, and staff capacity need to be addressed. The CBS has taken steps to address these, including improving its governance and autonomy through enactment of a new central bank law in 2015. In line with the safeguards policy, the CBS should accelerate efforts to strengthen the quality of the external audit. The CBS should also take further steps to enhance oversight of audit functions.

AML/CFT

Samoa has improved its AML/CFT framework since the 2006 assessment, including through the Money Laundering Prevent Act 2007 and subsequent regulations in 2009. These better align Samoa's framework with the FATF's recommendations under the third round of mutual evaluations. The FATF recommendations were revised for the fourth round in 2012 and, in 2015, Samoa's AML/CFT regime was assessed by the Asia Pacific Group on Money Laundering (APG) under the revised 2012 FATF standard. APG assessors found significant shortcomings in Samoa's AML/CFT regime, rating it low or moderately effective in 10 out of 11 immediate outcomes assessing effectiveness, and non-compliant or partially compliant with more than half of the 40 FATF recommendations. Following the APG assessment, the authorities developed a national AML/CFT strategy, and are making progress towards its implementation.

Technical Assistance from Headquarters

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, and financial sector supervision. MCM has provided assistance on monetary policy operations, banking, and insurance supervision and other central banking issues. STA has provided help with government finance statistics and balance of payments statistics, and FAD with tax administration and LEG with central bank law. Samoa is an IMF pilot on Correspondent Banking Relationships (CBR), on which it has received technical assistance from LEG and MCM.

FY 2017	Strengthen the Audit Function	PFTAC
	On-site examination Program	PFTAC
	Assist updating prudential standards for banks	PFTAC
	Financial Stability Analysis	MCMTA
	e-GDDS Implementation (JSA APD)	STASR
	National Accounts	PFTAC
	Attend Compliance Improvement Strategy Launch	PFTAC
	Develop Accounting Policy	PFTAC
	On-site examination Program	PFTAC
	Improve cash management	PFTAC
FY 2016	Revenue Administration Mission	PFTAC
	Review overall reform progress	PFTAC
	Strengthen accounting and reporting frameworks	PFTAC
	Capacity Building Supervisory Oversight and sector financial reporting	PFTAC
	Strengthen accounting and reporting frameworks and attend PFTAC Steering Committee Meeting	PFTAC
	GDDS: Follow Up (JSA)	STASR
	Strengthen Arrears and Returns Management	PFTAC
	On-site examination of a commercial Bank	PFTAC
	Improve cash management	PFTAC
	Compliance Risk Management	PFTAC
	Develop strategy on fiscal oversight for state-owned enterprises	PFTAC
	Monetary and Financial Statistics	STAFI
	Develop strategy on fiscal oversight for state-owned enterprises	PFTAC
	On-site examination of a commercial Bank	PFTAC
	Balance of Payments Statistics	STABP
	Strengthening Supervisory and Regulatory Framework	MCMTA

Resident Representative

The Regional Resident Representative Office for Pacific Island countries based in Suva, Fiji was opened on September 13, 2010 and the office covers Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Ms. Leni Hunter is the current Resident Representative.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)

(As of March 2018)

Background

PFTAC has provided important and impactful technical assistance (TA) to Samoa in recent years on macro-fiscal planning and analysis, public financial management (PFM), revenue administration, and statistics. In FY18 Samoa will have received approximately 7 percent of PFTAC resources, comprising 12 missions delivered by experts over 138 days in the field plus 39 days of remote support from PFTAC. Fiscal missions predominated (4 revenue administration mission and 3 PFM), as well statistics (2 real sector and 1 GFS) as macroeconomic programming (2 missions). TA delivery is expected to increase around 40 percent in FY19 with 17 missions planned over 222 field days, again with a fiscal emphasis (8 PFM mission and 3 revenue), 3 macroeconomic programming missions and one each in real sector statistics, GFS, and financial sector supervision.

PFTAC TA aims to support the authorities to sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to focus on building macroeconomic analysis capacity and delivering specific technical inputs.

In the **Public Financial Management** area, PFTAC will continue to support the Ministry of Finance's PFM reform plan with a PEFA scheduled to be undertaken during 2018. Since 2015, PFTAC has been providing TA to Samoa on improving cash management, accounting, and reporting, and fiscal oversight of state-owned enterprises. PFTAC is available in the coming years to provide follow-up support to strengthen the medium-term budgeting system.

Assistance in the **macroeconomic** area will continue to support improvements to GDP forecasting. A Macroeconomic Committee comprising members from the Central Bank of Samoa, the Ministry of Finance, the Ministry for Revenue, and the Samoa Bureau of Statistics (advisory role) was established in 2016. The Committee aims to produce and publish official economic forecasts for the next three years which are needed for fiscal projections. PFTAC will also continue assisting staff at the Ministry of Finance to enhance the SERF Model and to build capacity to produce their own debt sustainability analyses and external vulnerability assessments. This work continues to support building stronger links among all relevant macro fiscal entities to analyze the country's economic and fiscal outlook. A key priority is to increase the understanding of the SERF Model, outside of the Ministry of Finance Economic Policy and Planning Division, to strengthen institutional structures for macroeconomic policymaking.

In the **revenue** area, Samoa's Ministry for Revenue (MfR) continues to make good progress as evidenced through a strong legal framework and continued efforts with PFTAC assistance to strengthen core tax functions which included missions to: (a) improve on-time payment and filing of tax returns; (b) improve tax audit capability; and (c) strengthen the roll out of an industry partnership initiative introduced to improve tax compliance in cash economy sectors. MfR participates in all PFTAC regional training activities including a workshop to raise regional audit skills which was successfully co-facilitated by a senior MfR auditor who previously participated in a PFTAC Train-the-Trainer program.

In **statistics**, Samoa continues to be one of the most advanced nations in the Pacific region. Based on earlier PFTAC advice, for several years Samoa has produced quarterly National Accounts alongside several income indicators. In 2016 and 2017, PFTAC assisted with a rebase of GDP by production, which will bring methods closer into line with the 2008 SNA once published (expected April 2018); and also in developing a new measure of GDP by expenditure, which should come to fruition before end FY2019. The statistics office also produces quarterly and annual employment statistics, a rarity for the region. A two-week national accounts mission is expected to take place in the first half of FY2019

Balance of payments (BoP) and **government finance statistics** (GFS) standards were improved via missions funded by the Japan Administered Account (JSA1) project that concluded in September 2015. The September 2017 GFS mission assisted the statistics office to reconcile grants and transfer data for budgetary central government (BCG) and completed general government consolidation for the fiscal year 2016. A two-week GFS mission in expected to take place in November 2018 with a focus on expanding GFS coverage and compiling and reviewing public sector debt statistics. Since May 2017, Samoa have been eligible to request funding through the IMF's Technical Assistance Office for Laos and Myanmar (TAOLAM) for BoP TA.

In **financial sector supervision**, in April 2017 PFTAC assisted the Central Bank of Samoa in reviewing and redrafting their suite of prudential standards for banks. The revised prudential statements are currently the subject of an industry consultation process, with all revised prudential statements due to finalized and issued by the end of 2018. This is an important achievement for the Central Bank of Samoa in enhancing its regulatory framework.

RELATIONS WITH THE WORLD BANK

(As of March 9, 2018)

The World Bank Group's engagement with Samoa as outlined in the February 2017 Regional Partnership Framework (RPF) for nine Pacific Island Countries focuses on supporting Government efforts to: i) fully exploit available economic opportunities, including in agriculture and tourism; ii) enhance access to employment opportunities, including through labor mobility and improved education outcomes; iii) protect incomes and livelihoods, including by strengthening resilience against natural disasters and climate change; and iv) strengthen the enablers of growth, including macroeconomic management and infrastructure. The RPF is closely aligned with the Government's Strategy for the Development of Samoa 2017-2020. The Bank's currently active portfolio consists of 8 projects with a total commitment of US$147 million.

Samoa: IDA Lending Operations (as of March 2018)

	Year of Approval (FY)	Original Amount	Undisbursed Balance
		(In millions of US dollars)	
Current projects (IDA plus trust fund contributions)			
Agriculture Competitiveness Enhancement Project	2012	13.0	1.4
Enhancing the Climate Resilience of West Coast Road	2013	14.8	13.0
Enhanced Road Access Project	2014	26.4	7.8
Enhancing the Climate Resilience of Coastal Resources & Communities	2014	14.6	9.2
Aviation Investment Project	2014	41.9	35.1
Pacific Resilience Program	2015	13.8	12.0
Pacific Regional Connectivity Project	2015	17.5	8.5
First Resilience Development Policy Operation	2018	5.0	0.0
Total		147.0	87.0

The Bank's current activities in Samoa are in the following areas:

1) Post-disaster recovery projects

Enhanced Road Access Project: Aims to restore key road sector assets damaged by Cyclone Evan and enhance the climate resilience of critical roads and bridges in Samoa.

2) Budget support

First Resilience Development Policy Operation: Supports the Government of Samoa's efforts to strengthen macroeconomic and financial resilience and increase Samoa's resilience to the effects of climate change, natural disasters, and non-communicable diseases, including through reforms in the areas of revenue, AML/CFT, access to finance, building codes and standards, infrastructure asset management, pharmaceutical procurement, and taxation of unhealthy products.

3) Climate Resilience

Enhancing the Climate Resilience of West Coast Road: Focuses on 'climate-proofing' the West Coast Road from the airport to Apia.

Enhancing the Climate Resilience of Coastal Resources & Communities: Provides training and support in targeted communities to update and implement local Coastal Infrastructure Plans, and supports activities that increase the resilience of coastlines, near-shore areas, and coral reefs. The project will also help improve national climate information services and hazard mapping.

Pacific Resilience Program: Aims to strengthen early warning systems, promote resilient investments, and strengthen the financial resilience of Samoa by facilitating access to immediate liquidity after a natural disaster.

4) ICT Sector

Pacific Regional Connectivity Project: Aims to reduce the cost and increase the availability of internet services in Samoa. The project encompasses construction of a submarine cable connecting Samoa to Fiji; the establishment of the Samoa Submarine Cable Company (SSCC), a public-private partnership; and the provision of technical assistance to review, development and implement ICT regulation in Samoa.

5) Agriculture Sector

Agriculture Competitiveness Enhancement Project: Aims to support fruit and vegetable growers and livestock producers to improve their productivity and take greater advantage of market opportunities. The project covers three components – (i) livestock production and marketing, (ii) fruit and vegetable production and marketing, and (iii) institutional strengthening.

6) Aviation sector

Samoa Aviation Investment Project: Aims to improve operational safety and oversight of international air transport and associated infrastructure, including through improvements to runways, facilities, and navigation aids at the main international airport.

The IFC has also been active in Samoa, particularly in the telecoms sector. The IFC has invested substantially in Digicel, with market liberalization and increased competition helping to increase mobile access in Samoa to over 80 per cent of the population. The IFC has also provided assistance to the tourism sector, and has helped with the expansion of banking services to allow small and medium entrepreneurs find capital to start and run their businesses.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 9, 2018)

Asian Development Bank (ADB) operations in Samoa started in 1966: as at year-end 2017, $189.3 million in loans, $130.87 million in grants, and $32.16 million in technical assistance (TA) have been provided to Samoa. ADB's active portfolio of 6 projects in Samoa at end of 2017 was $164.5 million, including $96 million in ADB financing, and $68.5 million in administered cofinancing.

ADB's operations adopt a harmonized approach for development coordination and maintaining the focus of its Pacific Approach 2016-2020, targeting improvement of growth prospects and living standards, especially for disadvantaged members of the community. The Country Operations Business Plan is closely aligned with the Strategy for the Development of Samoa (SDS).

Samoa has received ADB regional technical assistance for economic management, energy efficiency, statistics and private sector development (including SOE reforms, land reforms and secured transactions reforms). ADB continues to include Samoa in new regional TA activities. ADB has also committed to provide technical assistance for the development of the private sector.

ADB has been the lead partner in the energy sector. Over 20 years, ADB has financed almost two thirds of the generation capacity in Samoa. The power sector expansion project mobilized $100 million in financing of which $57 million was in cofinancing. A further $27 million financing was mobilized for renewable energy rehabilitation and development. Other areas of focus include ICT connectivity - the Tui Samoa cable was successfully landed in February 2018, on time and significantly under budget; support for agribusiness financing, and policy reforms supported by a series of policy-based operations.

The ADB-funded Pacific regional disaster resilience program was approved in December 2017. Under this program Samoa has access to $6 million in contingent financing. While Cyclone Gita in February 2018 caused extensive flooding in Apia, the government decided against drawing down the funds available.

The TA supported development of a legal framework for leasing of customary land and in doing so afford all relevant parties necessary protection of rights that would normally be available under a commercial lease. The proposed legal framework has been endorsed by the Government of Samoa.

ADB is supporting a project to upgrade the Apia port by extending the breakwater to the north side of Apia harbor, widening the shipping channel, reconfiguring the ports area. The project will also procure a mobile x-ray scanner for the Ministry for Revenue to enhance border security and tax compliance. ADB will provide $39.78 million in ADF grants in 2018.

ADB loans to Samoa, 2012–17 (in millions of USD)

	2012	2013	2014	2015	2016	2017
Loan Approvals	0	0	0	0	0	3.1
Loan Disbursements	17.9	4.3	2.03	1.1	0.0	0.0
Cumulative loan amount available	177.51	177.45	177.24	176.37	176.34	179.44
Cumulative disbursements	167.8	172.1	174.13	175.21	175.25	175.32
Net loan amount undisbursed	9.7	5.3	3.1	2.0	2.0	4.1

STATISTICAL ISSUES

(As of March 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Core macroeconomic and monetary data are regularly reported to the IMF and published on official websites. However, there are weaknesses in national accounts, monetary and financial, and external sector statistics.
National Accounts: National account statistics has been improved during the last three years. GDP is compiled quarterly, predominantly using the VAGST data. GDP by production is in the process of being rebased from 2009 to 2013, which is expected to be published in April 2018; parallel development work on an experimental estimate of GDP by expenditure will be resumed after that and is tentatively expected for release by end-FY19.
Price Statistics: The CPI is compiled monthly (February 2016=100; though weights largely derived from the 2013-14 Household Income and Expenditure Survey). A quarterly import price index (March 2009 = 100) is also published coverage being limited to chapters 01-27 of the Harmonized System.
Government Finance Statistics: Samoa has participated in the Japan Administered Account for Selected IMF Activities (JSA)-funded project through to September 2015. Since the completion of the JSA-funded project the authorities began publishing and submitting data for inclusion in IMF publications. The statistics office also started to increase coverage by compiling high frequency GFS (quarterly). The last mission in September 2017 produced GFS for the general government (FY16). The MoF, Debt Management Unit started to compile and publish the quarterly debt report for the general government. Improving GFS data, debt statistics and expanding coverage is the focus of the next mission planned for November 2018.
Monetary and Financial Statistics (MFS): Samoa reports monetary data to the IMF for the central bank, other depository corporations and other financial corporations (OFC) on a regular basis and through standardized report forms (SRF). Following up on the recommendations of the MFS TA mission conducted in 2015, data for OFCs, including its coverage, could be further improved.
Financial Sector Surveillance: Samoa began reports of Financial Soundness Indicators to the IMF in March 2016.
External sector statistics (ESS): The quality of ESS is overall poor, mostly hindered by the frail data collection framework; access to source data for the compilation of some of the most relevant ESS components is limited. The Central Bank of Samoa (CBS) produces and disseminates the balance of payments of Samoa on a quarterly basis, following BPM6, but restricted to main aggregates. Improved coverage and accuracy of trade in goods, travel, and remittances was achieved as part of the previous JSA ESS project completed in February 2016, but important gaps remain. Access to offshore enterprise source data, a major component of Samoa's ESS, was obtained. The non-offshore data collection framework has been developed, and some steps have been taken towards effective implementation. They authorities need more time—at least two years—to build the capacity to provide full IIP data to the Fund, although partial IIP data (excluding the private sector) might be provided over a shorter time horizon.

II. Data Standards and Quality	
Samoa is a participant in the GDDS since September 2012 and eGDDS was launched in April 2017.	No data module ROSC has so far been conducted in Samoa.

Samoa – Table of Common Indicators Required for Surveillance (As of March 2018)					
	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of Publication[4]
Exchange Rates	03/12/18	03/12/18	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	01/18	02/19/18	M	M	M
Reserve/Base Money	12/17	02/19/18	M	M	M
Broad Money	10/17	01/10/18	M	M	M
Central Bank Balance Sheet	12/17	02/19/18	M	M	N/A
Consolidated Balance Sheet of the Banking System[1]	12/17	02/19/18	M	M	N/A
Interest Rates[2]	12/17	02/19/18	M	M	M
Consumer Price Index	12/17	02/19/18	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q3 2017	02/19/18	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt	Q3 2017	02/19/18	Q	Q	N/A
External Current Account Balance	Q3 2017	02/19/18	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2017	02/19/18	M	M	M
GDP	Q3 2017	02/19/18	Q	Q	Q
Gross External Debt	Q3 2017	02/19/18	Q	Q	Q
International Investment Position[5]					

[1]Data obtained directly from the Central Bank of Samoa.
[2]Officially-determined rates (yields on central bank securities) and commercial banks' deposit and lending rates.
[3]Domestic and external financing.
[4]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[5]Samoa does not provide International Investment Position data due to capacity constraints.

INTERNATIONAL MONETARY FUND

SAMOA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 16, 2018

Approved By
Paul Cashin (IMF) and John Panzer (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

The results of this update of the debt sustainability analysis (DSA) show that Samoa remains at high risk of external debt distress. Consistent with the methodology introduced in the previous DSA, the average long-term costs of natural disasters are incorporated into the DSA to assess the impact on Samoa's economic growth, fiscal position and external debt sustainability. The result is a breach of the threshold under the baseline scenario for the present value of the public-and publicly guaranteed (PPG) external debt-to-GDP ratio. Given Samoa's vulnerability to natural disasters, strategies to strengthen Samoa's resilience to economic shocks should continue to be implemented.

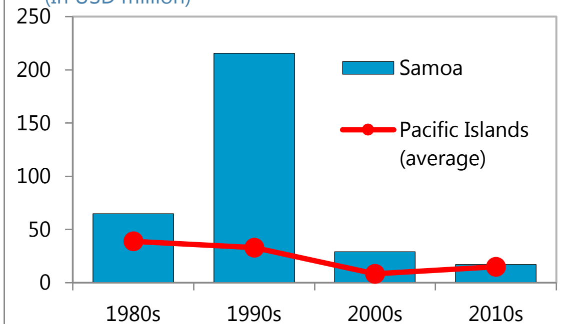
[1] The DSA was prepared jointly, in accordance with the Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework (DSF) for Low-Income Countries (November 5, 2013). For the purposes of defining debt burden thresholds under the DSF, Samoa is classified as a strong policy performer, with an average Country Policy and Institutional Assessment (CPIA) rating of 4.0 over the last three years (2014-2017)—the highest rating among Pacific Island countries (PICs). Debt is therefore assessed against higher thresholds compared to other PICs. The corresponding external debt burden thresholds (including remittances) are: i) 45 percent for the present value (PV) of debt-to-GDP ratio; 160 percent for the PV of debt-to-exports ratio; 300 percent for the PV of debt-to-revenue ratio; 22 percent for the debt service-to-revenue ratio; and 20 percent for the debt service-to-exports ratio.

BACKGROUND

1. **Samoa's rating for risk of debt distress was revised from moderate to high in the 2017 Article IV Staff Report, due to a change in methodology incorporating the average annual effects of natural disasters on medium-term growth, fiscal and current account balance projections.** The long run assumption for the baseline average growth rate was adjusted down to 0.8 percent—compared with a non-disaster potential growth rate of 2.1 percent—and the current account deficit was widened by 1.5 percentage points. These adjustments were based on the historical experience in Samoa, as well as the literature on the macroeconomic impact of natural disasters in the PICs.

2. **Historically the annual average damage and losses incurred after a natural disaster in Samoa have been the highest in the region.** The recovery efforts and reconstruction required after the 2009 tsunami and 2012 Cyclone Evan were largely financed by borrowing, pushing total public debt close to 58 percent of GDP in FY2014/15—well above the government's threshold target of 50 percent.

Natural Disaster Costs
(In USD million)



Source: EM-DAT

3. **Borrowing costs and the government's risk exposure have increased.** Much of Samoa's debt is long-term and concessional, however, total debt service requirements have increased from a historical average of around 50 million Samoan Tala (SAT) to above SAT 60 million. The proportion of total public debt denominated in foreign currency is also high, limiting the potential role for exchange rate movements to facilitate the adjustment of the economy to external shocks.

METHODOLOGY AND ASSUMPTIONS

4. **The underlying assumptions in the DSA are consistent with the macroeconomic framework, based on updated data provided by the authorities and estimates by staff**. The impact of natural disasters is incorporated using the methodology introduced in the 2017 AIV Staff Report,[2] in line with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change."

- **Real GDP growth** normalized at 2.5 percent for 2016/17—after peaking at 7 percent in 2015/16—and is projected at 2.2 percent on average between 2018-2023. To account for the average impact of natural disasters and climate change, the growth rate is lowered by 1.3 percentage points after 2023.

[2] A full DSA was prepared for the 2017 AIV Staff Report elaborating on the change in methodology. As the external risk rating remains unchanged, this is a light update only.

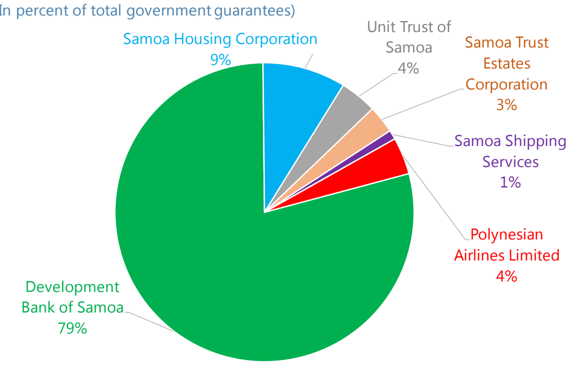
- **Average inflation** picked up from close to zero in 2015/16 to 1.3 percent in 2016/17, and is expected to stabilize at around 3 percent over the medium term.

- **The current account deficit** narrowed to 2.3 percent of GDP in 2016/17 and is projected to remain below 5 percent of GDP between 2018-2023. To account for the average impact of natural disasters and climate change, the deficit is widened by 1.5 percentage points annually after 2023.

- **The fiscal deficit** widened to 1.1 percent of GDP in 2016/17 from 0.4 percent of GDP in 2015/16, and is projected to widen further after 2023 to account for the average annual impact of natural disasters and climate change.

- **Contingent liabilities from government guarantees to state-owned enterprises (SOEs)** have fallen from around 8.8 percent of GDP in 2015/15 to an estimated 7.2 percent of GDP in 2016/17, and are included in the baseline in the public DSA. The guarantees outstanding are mostly with the Development Bank of Samoa (DBS)—79 percent of total guarantees— for a credit line facility channeled from the Central Bank of Samoa (CBS) through the DBS for rehabilitation and recovery efforts post-Cyclone Evan. The CBS extended another facility to the DBS in 2013/14 in preparation for the 2014 International Conference on Small Island Developing States (SIDS).

Government Guarantees Outstanding by SOE, end-Sep 2017
(In percent of total government guarantees)



Source: Samoa Ministry of Finance, Quarterly Public Debt Bulletin *(September 2017)*.

- **Continued eligibility for concessional borrowing from MDBs** is assumed for the forecast period to finance the fiscal deficit. The grant element of new loans is 40 percent on average. However, it is assumed that borrowing from the World Bank is on full credit terms.[3]

- **Remittances are included as they account for over 15 percent of GDP**. Following the staff guidance note remittances are presented as the base case, as they are both greater than 10 percent of GDP and 20 percent of exports of goods and services.[4]

[3] With respect to projected new borrowing from IDA and ADB, DSAs always assume terms that would prevail if the country was at low risk of debt distress, independent of current actual terms (which can change on a year to year basis). This is done to avoid a circular situation where the assumption that future commitments will be on grant terms would yield actual commitments on credit terms.

[4] Both ratios are measured on a backward-looking, three-year average basis.

EXTERNAL DSA

5. **Under the baseline scenario, the PV of the PPG debt-to-GDP+remittances ratio (Figure 1a. chart b) breaches the indicative threshold from 2034 onwards.** The losses in production and higher expenditures related to mitigation of the effects of natural disasters have historically reduced growth. Consistent with the historical average, the average growth rate under the baseline scenario is reduced after 2027 to 0.9 percent of GDP.

6. **Stress tests confirm Samoa's vulnerability to exogenous shocks.** There is a significant breach of the PV of the PPG debt-to-GDP ratio threshold (Figure 1a. chart b.) following an extreme shock and a severe natural disaster shock and of the PV of PPG debt-to-exports threshold (Figure 1a. chart c.) following an extreme shock.[5]

PUBLIC DSA

7. **Under the baseline scenario, total public sector debt rises but remains below the benchmark over the projection period (Figure 2).** However, under the extreme shock scenario-a markdown of real GDP growth by a full standard deviation-there is a large and substantial breach of the PV of public debt-to-GDP benchmark from 2028 onwards, and by the end of the projection period is at more than double prudent levels. The public DSA baseline includes government guarantees to SOEs of 7.2 percent of GDP.

CONCLUSION

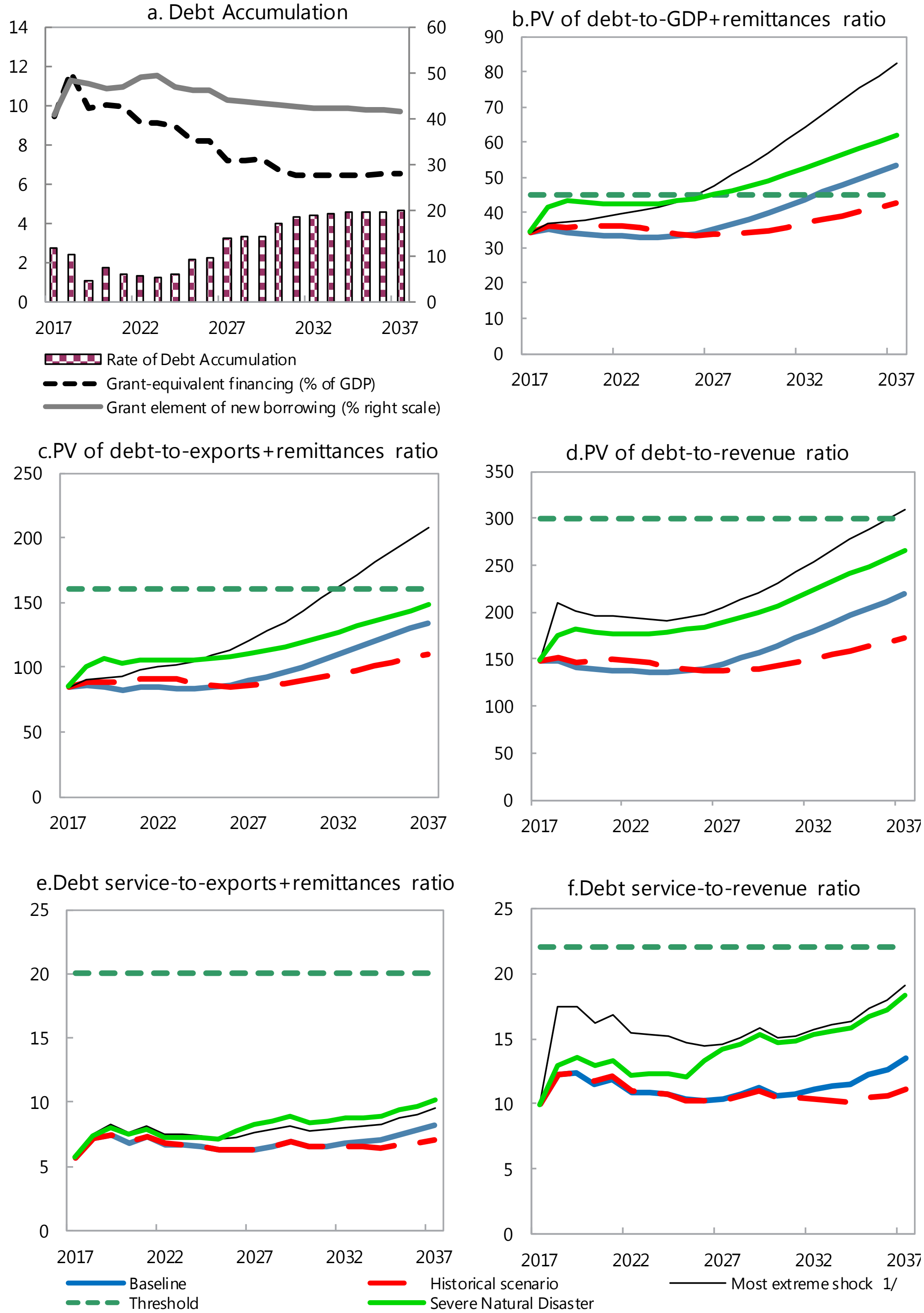
8. **The updated DSA suggests that Samoa remains at high risk of debt distress**. Samoa's external debt breaches the threshold when the average impact of natural disasters is incorporated into medium-term projections. The government should continue with efforts to boost revenue collection and consolidate public finances, to be better prepared to respond to a future economic shock or natural disaster. Introducing a lower public debt-to-GDP target of 45 percent in the medium term and 40 percent over the longer term would increase fiscal space available to respond to a natural disaster.

AUTHORITIES' VIEWS

9. **The authorities agreed with the DSA findings and remain committed to reducing total public debt**. With debt just below the government's target of 50 percent of GDP, the Samoan authorities were open to lowering the debt target further to 45 percent of GDP in the medium-term, and 40 percent of GDP in the longer term, to build fiscal buffers for responding to natural disasters and other shocks.

[5] The most extreme stress tests for the debt indicators noted are "combination shocks", which assess effects on the baseline indicator of a markdown to GDP growth, inflation, exports and non-debt creating capital flows by half a standard deviation of the 10-year average for these series. Shocks are enabled for the first two years of the forecast. For Samoa this is suggestive of high exposure to developments in both the domestic and external environments.

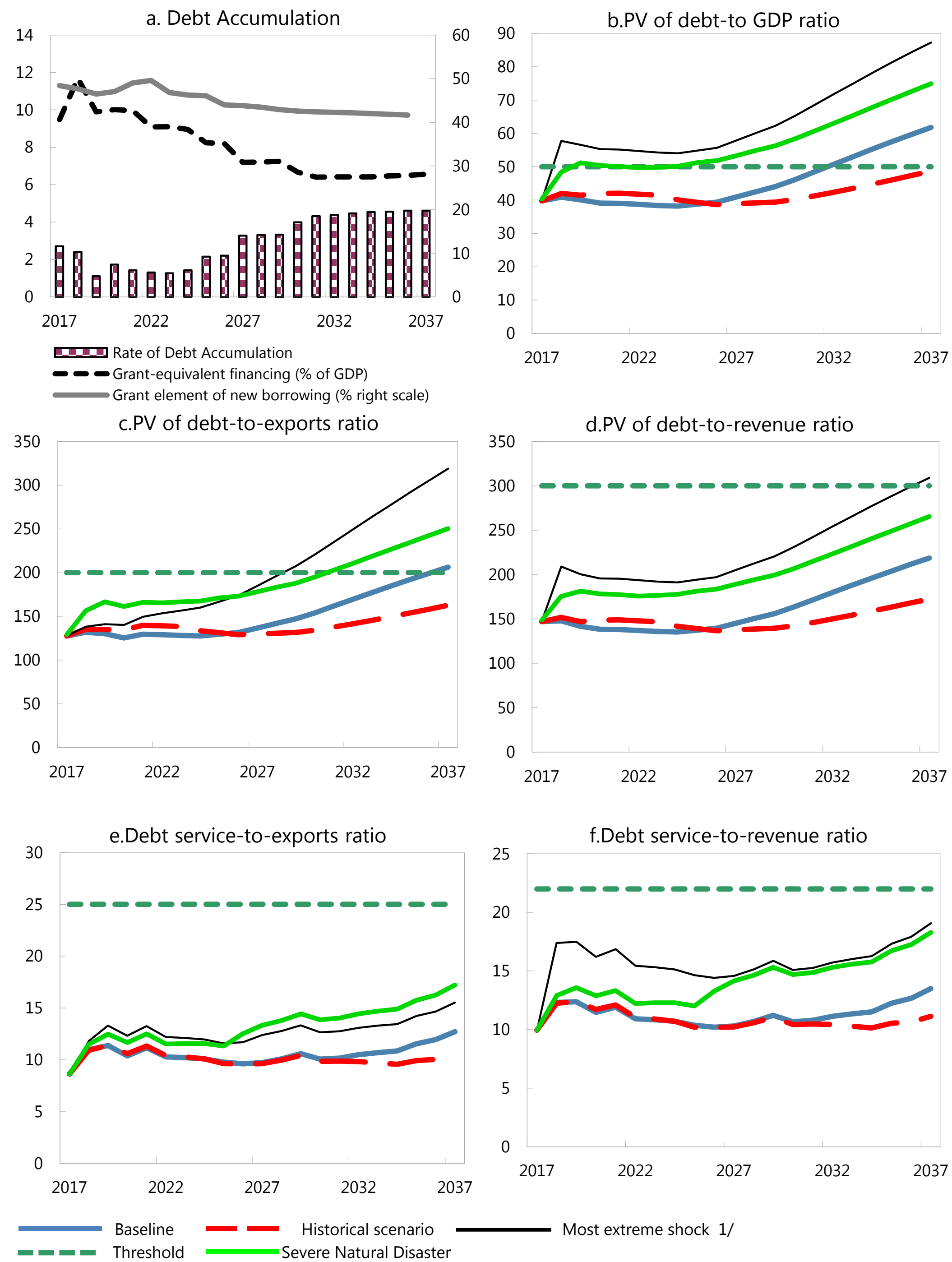
Figure 1a. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

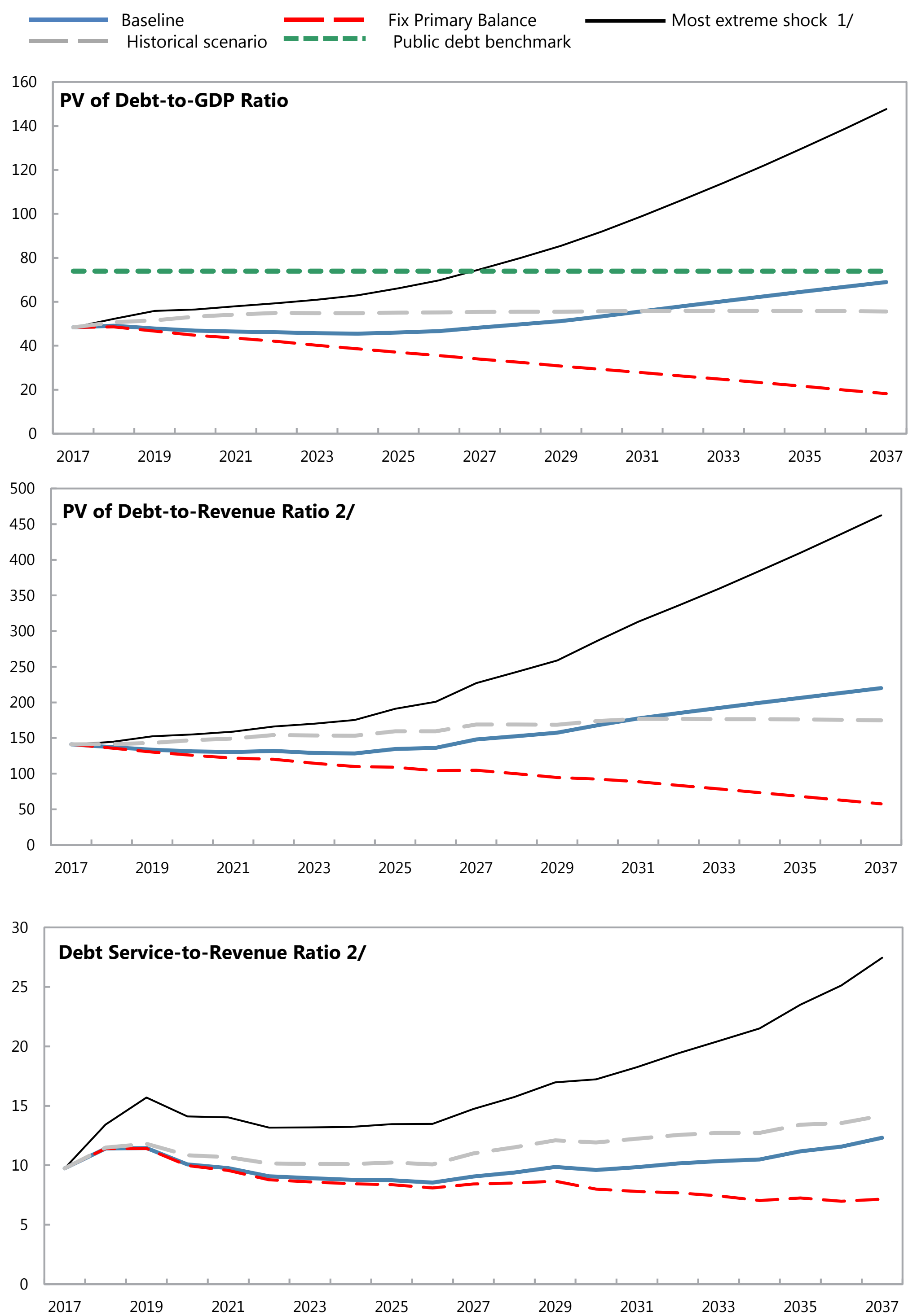
Figure 1b. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, Excluding Remittances 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Combination shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Samoa: Indicators of Public Debt Under Alternative Scenarios, 2017-2037



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 1a. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/

(In percent of GDP, unless otherwise indicated)

Table 1a .Samoa: External Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**51.8**	**55.3**	**50.7**			**47.7**	**49.1**	**49.6**	**49.0**	**49.8**	**50.5**		**61.3**	**96.9**	
of which: public and publicly guaranteed (PPG)	51.8	55.3	50.7			47.7	49.1	49.6	49.0	49.8	50.5		61.3	96.9	
Change in external debt	0.2	3.6	-4.6			-3.0	1.3	0.5	-0.6	0.8	0.7		3.3	3.1	
Identified net debt-creating flows	6.2	-0.3	5.2			2.1	1.1	2.1	0.4	2.0	2.2		4.2	3.2	
Non-interest current account deficit	**7.4**	**2.4**	**4.0**	**5.5**	**2.5**	**1.3**	**1.8**	**3.2**	**2.9**	**3.2**	**3.6**		**5.8**	**5.3**	5.5
Deficit in balance of goods and services	24.6	21.3	19.2			15.6	16.3	17.8	17.3	17.8	17.9		20.1	19.9	
Exports	27.8	27.4	30.7			31.2	31.0	30.7	31.2	30.1	30.0		29.9	29.9	
Imports	52.5	48.7	49.8			46.8	47.3	48.5	48.5	47.9	47.9		50.0	49.8	
Net current transfers (negative = inflow)	-20.2	-20.2	-16.8	-20.3	1.9	-16.7	-16.8	-16.8	-16.7	-16.6	-16.5		-16.5	-16.5	-16.5
of which: official	-0.3	-0.2	0.0			-0.6	-0.5	-0.5	-0.5	-0.5	-0.4		-0.4	-0.4	
Other current account flows (negative = net inflow)	3.1	1.3	1.6			2.4	2.3	2.2	2.2	2.1	2.2		2.2	1.9	
Net FDI (negative = inflow)	**-2.0**	**-3.4**	**-0.8**	**-2.4**	**2.3**	**1.0**	**-1.0**	**-0.9**	**-1.2**	**-1.1**	**-1.1**		**-1.1**	**-1.1**	-1.1
Endogenous debt dynamics 2/	**0.8**	**0.7**	**2.1**			**-0.2**	**0.3**	**-0.3**	**-1.3**	**-0.1**	**-0.3**		**-0.5**	**-1.0**	
Contribution from nominal interest rate	0.7	0.7	0.8			1.0	1.1	1.2	1.0	0.9	0.8		0.7	1.1	
Contribution from real GDP growth	-0.6	-0.8	-4.0			-1.2	-0.8	-1.5	-2.3	-1.0	-1.1		-1.3	-2.0	
Contribution from price and exchange rate changes	0.7	0.8	5.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-6.0**	**3.9**	**-9.9**			**-5.1**	**0.3**	**-1.5**	**-1.0**	**-1.2**	**-1.6**		**-1.0**	**-0.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	39.3			39.8	40.8	40.0	39.1	39.0	38.7		41.0	61.8	
In percent of exports	...	...	128.1			127.7	131.8	130.2	125.3	129.5	129.1		136.8	206.2	
PV of PPG external debt	**...**	**...**	**39.3**			**39.8**	**40.8**	**40.0**	**39.1**	**39.0**	**38.7**		**41.0**	**61.8**	
In percent of exports	**...**	**...**	**128.1**			**127.7**	**131.8**	**130.2**	**125.3**	**129.5**	**129.1**		**136.8**	**206.2**	
In percent of government revenues	**...**	**...**	**146.8**			**147.1**	**147.8**	**141.8**	**138.5**	**138.2**	**137.2**		**145.1**	**218.8**	
Debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.5**			**8.6**	**11.0**	**11.4**	**10.4**	**11.2**	**10.3**		**9.7**	**12.7**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.5**			**8.6**	**11.0**	**11.4**	**10.4**	**11.2**	**10.3**		**9.7**	**12.7**	
PPG debt service-to-revenue ratio (in percent)	**2.6**	**2.8**	**2.9**			**9.9**	**12.3**	**12.4**	**11.5**	**11.9**	**10.9**		**10.3**	**13.5**	
Total gross financing need (Millions of U.S. dollars)	49.1	-2.4	31.1			42.3	36.9	53.9	48.6	55.4	59.7		99.5	156.2	
Non-interest current account deficit that stabilizes debt ratio	7.2	-1.2	8.6			4.3	0.4	2.7	3.5	2.4	2.9		2.5	2.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.2	1.6	7.1	1.0	3.8	2.5	1.8	3.2	5.0	2.2	2.2	2.8	0.9	0.9	0.9
GDP deflator in US dollar terms (change in percent)	-1.3	-1.6	-8.7	3.9	8.3	4.3	2.6	1.6	1.7	1.7	1.8	2.3	1.8	1.8	1.8
Effective interest rate (percent) 5/	1.3	1.3	1.4	1.2	0.5	2.0	2.4	2.5	2.1	2.0	1.6	2.1	1.3	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	-4.1	-1.4	9.5	5.2	8.8	8.6	3.9	4.0	8.4	0.3	3.7	4.8	4.1	4.1	4.1
Growth of imports of G&S (US dollar terms, in percent)	6.0	-7.1	0.1	4.2	8.6	0.4	5.5	7.6	6.8	2.5	4.1	4.5	4.0	4.1	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.8	48.4	47.7	46.5	47.0	49.0	46.6	44.0	41.7	43.8
Government revenues (excluding grants, in percent of GDP)	25.4	25.3	26.8			27.0	27.6	28.2	28.2	28.2	28.2		28.2	28.2	28.2
Aid flows (in Millions of US dollars) 7/	101.5	78.5	73.1			60.7	71.3	69.2	72.9	75.8	71.4		51.0	53.0	
of which: Grants	101.5	78.5	73.1			60.7	71.3	69.2	72.9	75.8	71.4		51.0	53.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.5	11.7	9.9	10.0	10.0	9.1		7.2	6.6	7.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			74.2	75.5	79.2	77.0	77.7	78.7		63.3	54.9	62.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	803.6	804.0	786.4			840.7	878.0	920.4	982.7	1021.1	1063.2		1301.4	1947.6	
Nominal dollar GDP growth	-0.2	0.0	-2.2			6.9	4.4	4.8	6.8	3.9	4.1	5.2	4.1	4.1	4.1
PV of PPG external debt (in Millions of US dollars)			317.1			338.4	358.6	368.3	384.3	398.3	411.6		533.2	1202.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	2.4	1.1	1.7	1.4	1.3	1.8	3.3	4.6	3.5
Gross workers' remittances (Millions of US dollars)	160.0	160.9	131.6			135.7	143.1	150.1	159.5	165.3	170.8		209.0	312.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	33.7			34.2	35.1	34.4	33.6	33.6	33.4		35.3	53.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	82.9			84.1	86.4	85.1	82.5	84.2	84.1		89.1	134.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.6			5.7	7.2	7.4	6.8	7.3	6.7		6.3	8.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. The financial years ends June.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	34	35	34	34	34	33	**35**	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	34	36	36	36	36	36	**34**	43
A2. New public sector loans on less favorable terms in 2017-2037 2	34	37	37	38	39	40	**48**	82
A3. Alternative Scenario: Severe Natural Disaster in 2018	35	41	44	43	43	42	**45**	62
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	34	37	38	37	37	37	**39**	58
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	34	36	38	37	37	36	**38**	54
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	34	37	38	38	38	37	**39**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	34	34	33	33	33	33	**35**	53
B5. Combination of B1-B4 using one-half standard deviation shocks	34	36	37	37	37	36	**38**	58
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	34	47	46	45	45	45	**47**	71
PV of debt-to-exports+remittances ratio								
Baseline	84	86	85	82	84	84	**89**	134
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	84	89	88	88	91	91	**86**	110
A2. New public sector loans on less favorable terms in 2017-2037 2	84	91	92	92	97	100	**120**	208
A3. Alternative Scenario: Severe Natural Disaster in 2018	85	101	106	104	105	105	111	148
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	84	86	85	82	84	84	**89**	134
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	84	93	102	99	101	101	**106**	151
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	84	86	85	82	84	84	**89**	134
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	84	83	81	81	83	82	**87**	134
B5. Combination of B1-B4 using one-half standard deviation shocks	84	83	85	83	84	84	**89**	134
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	84	86	85	82	84	84	**89**	134
PV of debt-to-revenue ratio								
Baseline	147	148	142	139	138	137	**145**	219
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	147	152	147	149	149	148	**138**	172
A2. New public sector loans on less favorable terms in 2017-2037 2	147	155	154	155	160	163	**196**	338
A3. Alternative Scenario: Severe Natural Disaster in 2018	149	175	181	178	177	176	**189**	265
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	147	155	158	154	154	153	**162**	243
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	147	152	155	151	151	150	**157**	224
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	147	159	162	158	158	156	**165**	249
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	147	147	139	136	135	134	**143**	218
B5. Combination of B1-B4 using one-half standard deviation shocks	147	155	160	156	156	155	**164**	246
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	147	209	200	196	195	194	**205**	309

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037 (concluded)

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports+remittances ratio								
Baseline	6	7	7	7	7	7	**6**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	6	7	7	7	7	7	**6**	7
A2. New public sector loans on less favorable terms in 2017-2037 2	6	7	7	7	8	7	**8**	13
A3. Alternative Scenario: Severe Natural Disaster in 2018	6	7	8	7	8	7	**8**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	6	7	7	7	7	7	**6**	8
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	6	8	8	8	8	8	**8**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	6	7	7	7	7	7	**6**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	6	7	7	7	7	7	**6**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	7	7	7	7	**6**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	6	7	7	7	7	7	**6**	8
Debt service-to-revenue ratio								
Baseline	10	12	12	11	12	11	**10**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	10	12	12	12	12	11	**10**	11
A2. New public sector loans on less favorable terms in 2017-2037 2	10	12	12	12	13	12	**13**	21
A3. Alternative Scenario: Severe Natural Disaster in 2018	10	13	14	13	13	12	**14**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	10	13	14	13	13	12	**11**	15
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	10	12	12	12	12	11	**11**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	10	13	14	13	14	12	**12**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	10	12	12	11	12	11	**10**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	10	13	14	13	13	12	**12**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	10	17	17	16	17	15	**15**	19
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43	**43**	43

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Samoa: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	63.1	66.1	60.5			56.3	57.3	57.4	56.8	57.3	57.9		68.5	104.1	
of which: foreign-currency denominated	51.8	55.3	50.7			47.7	49.1	49.6	49.0	49.8	50.5		61.3	96.9	
Change in public sector debt	0.7	3.0	-5.6			-4.3	1.0	0.1	-0.6	0.5	0.6		3.2	3.1	
Identified debt-creating flows	2.2	7.8	-3.4			-1.9	0.1	-0.5	-1.3	0.1	0.1		3.5	3.7	
Primary deficit	4.4	2.6	-0.8	2.7	2.4	-0.3	0.6	0.9	1.3	1.4	1.7	0.9	4.5	5.4	4.4
Revenue and grants	38.0	35.1	36.1			34.2	35.7	35.7	35.6	35.6	34.9		32.1	30.9	
of which: grants	12.6	9.8	9.3			7.2	8.1	7.5	7.4	7.4	6.7		3.9	2.7	
Primary (noninterest) expenditure	42.4	37.7	35.2			34.0	36.3	36.6	36.9	37.0	36.6		36.7	36.4	
Automatic debt dynamics	-2.2	5.1	-2.6			-1.6	-0.5	-1.3	-2.6	-1.2	-1.5		-1.1	-1.7	
Contribution from interest rate/growth differential	-1.4	-1.7	-4.3			-1.0	-0.7	-1.5	-2.7	-1.3	-1.6		-1.1	-1.8	
of which: contribution from average real interest rate	-0.6	-0.7	0.1			0.5	0.3	0.3	0.0	-0.1	-0.3		-0.5	-0.9	
of which: contribution from real GDP growth	-0.7	-1.0	-4.4			-1.5	-1.0	-1.8	-2.7	-1.2	-1.3		-0.6	-0.9	
Contribution from real exchange rate depreciation	-0.8	6.8	1.8			-0.6	0.3	0.1	0.1	0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.5	-4.8	-2.3			-2.3	1.0	0.5	0.7	0.4	0.5		-0.2	-0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	49.1			48.3	49.1	47.8	46.9	46.5	46.1		48.2	69.0	
of which: foreign-currency denominated	...	...	39.3			39.8	40.8	40.0	39.1	39.0	38.7		41.0	61.8	
of which: external	...	...	39.3			39.8	40.8	40.0	39.1	39.0	38.7		41.0	61.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.3	3.9	0.8			3.0	4.6	5.0	4.9	4.8	4.8		7.4	9.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	136.2			141.1	137.3	133.7	131.4	130.4	132.0		149.9	222.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	183.5			178.7	177.7	169.4	166.0	164.7	163.4		170.8	244.3	
of which: external 3/	...	...	146.8			147.1	147.8	141.8	138.5	138.2	137.2		145.1	218.8	
Debt service-to-revenue and grants ratio (in percent) 4/	2.6	3.6	4.6			9.7	11.4	11.4	10.1	9.8	9.1		9.1	12.3	
Debt service-to-revenue ratio (in percent) 4/	3.9	4.9	6.1			12.4	14.8	14.5	12.7	12.3	11.2		10.3	13.5	
Primary deficit that stabilizes the debt-to-GDP ratio	3.7	-0.4	4.8			4.0	-0.5	0.8	1.9	0.8	1.1		1.3	2.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.2	1.6	7.1	1.0	3.8	2.5	1.8	3.2	5.0	2.2	2.2	2.8	0.9	0.9	0.9
Average nominal interest rate on forex debt (in percent)	1.3	1.3	1.4	1.2	0.5	2.0	2.4	2.5	2.1	2.0	1.6	2.1	1.3	1.2	1.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	13.6	3.5	-1.4	8.9	-1.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.3	2.7	-1.6	3.1	3.4	1.3	2.9	2.5	2.6	2.8	3.0	2.5	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	17.4	-9.6	0.2	0.8	6.6	-1.3	8.9	4.0	5.9	2.4	1.1	3.5	2.2	2.1	2.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	40.8	48.4	47.7	46.5	47.0	49.0	46.6	44.0	41.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector debt and government guarantees of 7.2 percent of GDP. Gross debt is used. The financial year ends June

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Samoa: Sensitivity Analysis for Key Indicators of Public Debt, 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	48	49	48	47	46	46	48	69
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	51	52	53	54	55	55	56
A2. Primary balance is unchanged from 2017	48	49	47	45	43	42	34	18
A3. Permanently lower GDP growth 1/	48	50	49	49	49	50	63	151
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-19	48	52	56	57	58	59	75	148
B2. Primary balance is at historical average minus one standard deviation in 2018-19	48	52	53	52	51	51	56	104
B3. Combination of B1-B2 using one half standard deviation shocks	48	52	55	55	56	56	68	131
B4. One-time 30 percent real depreciation in 2018	48	66	63	61	59	58	57	97
B5. 10 percent of GDP increase in other debt-creating flows in 2018	48	55	54	52	52	52	57	105
PV of Debt-to-Revenue Ratio 2/								
Baseline	141	137	134	131	130	132	148	220
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	141	142	143	147	149	154	169	175
A2. Primary balance is unchanged from 2017	141	136	130	126	122	120	105	58
A3. Permanently lower GDP growth 1/	141	139	137	136	138	142	194	469
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-19	141	144	153	155	159	166	227	463
B2. Primary balance is at historical average minus one standard deviation in 2018-19	141	145	148	145	144	146	173	330
B3. Combination of B1-B2 using one half standard deviation shocks	141	146	151	152	154	159	207	413
B4. One-time 30 percent real depreciation in 2018	141	185	177	171	166	165	175	307
B5. 10 percent of GDP increase in other debt-creating flows in 2018	141	153	150	147	146	148	175	332
Debt Service-to-Revenue Ratio 2/								
Baseline	10	11	11	10	10	9	9	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	11	12	11	11	10	11	14
A2. Primary balance is unchanged from 2017	10	11	11	10	10	9	8	7
A3. Permanently lower GDP growth 1/	10	11	12	10	10	10	11	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2018-19	10	12	12	11	11	10	12	26
B2. Primary balance is at historical average minus one standard deviation in 2018-19	10	11	12	11	10	10	11	19
B3. Combination of B1-B2 using one half standard deviation shocks	10	12	12	11	11	10	12	24
B4. One-time 30 percent real depreciation in 2018	10	13	16	14	14	13	15	27
B5. 10 percent of GDP increase in other debt-creating flows in 2018	10	11	12	11	10	10	11	20

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative
May 7, 2018

This statement contains information that has become available since the staff report was circulated to the Executive Board. This information does not alter the thrust of the staff appraisal.

Most recent data releases indicate a pickup in growth and inflation. Real GDP grew by 0.1 percent in the quarter ending December 2017, compared to the same quarter in 2016. This follows a growth rate of -2.6 percent in the quarter ending September 2017, compared to the same quarter in 2016. The pickup was driven by the commerce, construction, and communications sectors. The average annual CPI inflation rate for the year ending March 2018 was at 2.7 percent, compared to 2.3 percent in January 2018, partly reflecting an increase in prices of locally-produced food and beverages, the supply of which has been adversely affected by February's Cyclone Gita.

International reserves continue to expand, standing at US$ 140 million as of February 2018. The current account deficit came in at US$ 19.5 million in 2017, while the capital account surplus reached US$43.2 million for 2017. As a result, international reserves rose further to 3.8 months of next year's imports of goods and services in February 2018 (compared to 3.7 months of imports in January 2018). Capital inflows to Samoa in 2017 were mostly aid flows, which reached US$26 million (equivalent to 3.1 percent of GDP) in 2017. The Samoan tala remains near its end-December 2017 levels, at about 2.5 tala to the U.S. dollar, while there has been little change in nominal and real effective exchange rates thus far in 2018. Although export growth recovered to 7 percent (month-on-month) in December from -2 percent in November, a decline in import growth to -25.2 percent in December from 16.8 percent in November points to subdued domestic demand.

Statement by Christine Barron, Alternate Executive Director for Samoa
and Gemma Preston, Senior Advisor to Executive Director
May 7, 2018

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 Banks'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.