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SAMOA

May 2019

2019 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 2019 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 8, 2019 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 8, 2019, following discussions that ended on March 5, 2019, 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 March 27, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- 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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FOR IMMEDIATE RELEASE
May 17, 2019

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IMF Executive Board Concludes 2019 Article IV Consultation with Samoa

On May 8, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Samoa.

Samoa's economy faces several challenges but continues to show resilience. Growth reached a five-year low at 0.9 percent in 2017/18, due to the Yazaki manufacturing plant closure in August 2017 and the impact of cyclone Gita in February 2018. Inflation picked up to 3.7 percent in 2017/18, compared to 1.3 percent in the previous year, driven by the impact of Gita on local food prices, a one-time increase in education fees, and higher price of imported fuel. The current account recorded a surplus of 2.3 percent of GDP in 2017/18, compared to a deficit of 1.8 percent of GDP in the previous year, largely due to a temporary increase in transfers in the wake of Gita. The Samoan Tala depreciated against the U.S. dollar and in nominal effective terms but appreciated in real effective terms due to Samoa's relatively high inflation. Financial soundness indicators highlight that commercial banks' capital adequacy and liquidity indicators are trending upwards. Banks' profitability and earnings are subdued amidst a lending slowdown.

Growth is projected to rebound to 3.4 percent in 2018/19, driven by commerce, infrastructure spending, and development of the transport and communication sector. Growth is expected to peak at 4.4 percent in 2019/20, with an uptick in 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 be back below the central bank target of 3 percent in 2018/19 as temporary inflationary pressures recede. The current account is projected to revert to a deficit of 0.5 percent of GDP in 2018/19 as transfers normalize.

[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.

Executive Board Assessment[2]

Executive Directors commended the authorities for Samoa's resilience in the face of external shocks and welcomed the expected rebound in growth. However, they noted that the risks to the outlook are tilted to the downside, largely due to the country's high vulnerability to natural disasters and the withdrawal of correspondent banking relationships (CBR). In this context, Directors highlighted the need to build fiscal buffers and continue with efforts to mitigate risks from CBR pressures, while implementing structural reforms targeted at boosting potential growth and making growth more inclusive.

Considering Samoa's vulnerability to natural disasters and high risk of debt distress, Directors called for embarking on a comprehensive fiscal strategy to ensure fiscal sustainability. They called for improving the tax administration, strengthening public financial management, lowering of the long-term debt-to-GDP target, and ensuring that newly contracted loans are consistent with the Medium-Term Debt Strategy. Directors also stressed the need to make progress in monitoring and disclosing fiscal risks, including from state-owned enterprises.

Directors considered the current accommodative monetary policy stance appropriate, but noted the need to strengthen the monetary transmission mechanism, including by improving liquidity management, re-establishing a credit bureau and implementing measures to reduce credit risk and promote lending.

Directors noted that financial sector policies should focus on completing the implementation of the 2015 Financial Sector Assessment Program recommendations. They called for upgrading the regulatory and supervisory framework, improving systemic financial stability risk monitoring and continued efforts to improve access to finance, while managing risks, including from crypto-assets. Directors welcomed the measures taken to mitigate risks from CBR pressures. They saw the need for further efforts aimed at enhancing the effectiveness of the AML/CFT regime and continued engagement with relevant stakeholders, including on tax cooperation issues. Directors encouraged establishing IT solutions for customer identification and monitoring, and reducing the risk profile of the offshore center. They also called for continued engagement with relevant stakeholders and regulators to make progress toward a regional solution to address CBR pressures.

Directors noted that the authorities' structural reform agenda should focus on building resilience to natural disasters and enhancing the business environment. They stressed that measures should include upgrading infrastructure, strengthening insolvency resolution, promoting financial inclusion, and improving the trade facilitation framework. Directors also advocated for more coordination among TA providers.

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[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.

Table 1. Samoa: Selected Economic and Financial Indicators, 2015/16-2023/24

			Est.	Proj.					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
					(12-month percent change)				
Output and inflation									
Real GDP growth	7.2	2.7	0.9	3.4	4.4	2.2	2.2	2.2	2.2
Nominal GDP	5.5	3.8	3.8	6.3	7.2	4.9	5.1	5.2	5.1
Consumer price index (end of period)	2.3	1.0	5.8	4.0	2.9	2.6	2.8	2.9	2.8
Consumer price index (period average)	0.1	1.3	3.7	2.9	2.7	2.6	2.8	2.9	2.8
					(In percent of GDP)				
Central government budget									
Revenue and grants	36.1	34.2	34.3	34.0	33.8	33.6	33.5	33.5	33.3
Of which: grants	9.3	7.2	7.9	7.0	6.6	6.2	6.2	6.2	6.0
Expenditure	36.5	35.3	34.2	35.2	35.7	36.0	36.1	36.3	36.1
Of which: Expense	24.5	23.0	23.3	23.5	23.8	23.9	23.9	24.0	24.0
Of which: Net acquisition of non-financial assets	4.9	7.0	5.8	7.0	7.4	7.6	7.9	8.0	8.0
Net operating balance excl. grants	2.2	4.0	3.1	3.5	3.5	3.6	3.5	3.4	3.4
Overall fiscal balance	-0.4	-1.1	0.1	-1.2	-1.8	-2.3	-2.5	-2.7	-2.7
Overall fiscal balance excl. grants	-9.7	-8.3	-7.8	-8.2	-8.4	-8.5	-8.7	-8.9	-8.7
Public debt	52.6	49.1	50.3	49.3	48.9	49.8	50.8	51.6	53.7
					(12-month percent change)				
Macrofinancial variables									
Broad money (M2)	7.1	7.8	3.8	6.3	4.7	4.9	5.1	5.2	5.2
Net domestic assets	19.2	-0.7	-3.8	...	...	...	...	...	...
Private sector credit, Commercial banks	13.6	7.2	6.0	7.4	7.5	6.9	7.0	6.5	6.5
Total loan growth, Commercial banks	7.7	4.8	1.7	...	...	...	...	...	...
Total loan growth, Public financial institutions	3.3	4.4	6.0	...	...	...	...	...	...
					(Ratio)				
Individual credit to GDP	27.8	29.1	31.2	..	...	..	...	...	
Total capital to risk-weighted exposures	24.5	25.1	27.3	...	...	...	...	...	...
Non-performing loans	5.2	4.1	4.3	...	...	...	...	...	...
					(In millions of U.S. dollars)				
Balance of payments									
Current account balance	-37.3	-14.7	19.9	-4.2	-8.1	-6.9	-8.4	-9.4	-12.3
(In percent of GDP)	-4.7	-1.8	2.3	-0.5	-0.8	-0.7	-0.8	-0.9	-1.1
Merchandise exports, f.o.b. 2/	36.9	38.0	35.6	42.9	43.3	44.2	45.1	46.0	46.9
Merchandise imports, f.o.b.	307.2	308.6	322.6	353.1	380.9	396.8	414.0	432.7	455.3
Services (net)	119.6	142.0	162.1	157.9	171.9	180.1	187.4	197.9	208.8
Income (net)	-18.6	-26.8	-28.9	-35.0	-29.1	-30.7	-30.1	-30.8	-31.1
Current transfers	132.0	140.7	173.8	183.1	186.6	196.3	203.2	210.2	218.5
External reserves and debt									
Gross official reserves	111.4	122.3	163.0	177.3	170.0	169.1	170.7	167.2	158.9
(In months of next year's imports of GNFS)	3.4	3.6	4.5	4.6	4.2	4.0	3.9	3.7	3.6
Public debt (in millions of tala) 3/	1,080.7	1,047.4	1,113.8	1,160.2	1,234.6	1,317.8	1,411.2	1,509.6	1,651.9
(In percent of GDP)	52.6	49.1	50.3	49.3	48.9	49.8	50.8	51.6	53.7
External debt (in percent of GDP)	50.7	47.7	49.4	48.7	48.6	49.6	50.5	51.4	53.5
Exchange rates									
Market rate (tala/U.S. dollar, period average) 4/ 5/	2.61	2.54	2.57	...	...	...	...	...	...
Market rate (tala/U.S. dollar, end period) 4/ 5/	2.55	2.51	2.57	...	...	...	...	...	...
Nominal effective exchange rate (2010 = 100) 4/ 5/	111.8	110.6	109.8	...	...	...	...	...	...
Real effective exchange rate (2010 = 100) 4/ 5/	109.8	108.4	110.4	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	2,055	2,133	2,213	2,354	2,523	2,646	2,781	2,924	3,074
GDP per capita (U.S. dollars)	4,015	4,258	4,323	4,501	4,735	4,874	5,027	5,188	5,353

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

1/ Fiscal year beginning July.

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

3/ Includes domestic and external public debt.

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

5/ Latest data available.

SAMOA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

March 26, 2019

KEY ISSUES

Outlook and Risks. Samoa faces several economic challenges but continues to show resilience and a high level of engagement with the Fund. Growth is expected to rebound after reaching a five-year low. Price pressures driven by temporary factors are receding and inflation is projected to return to below the authorities' target of 3 percent. One-off factors implied a marginally positive fiscal balance in 2017/18, but the fiscal position is projected to loosen, and Samoa remains at high risk of debt distress. Samoa remains vulnerable to natural disasters and correspondent banking relationship (CBR) pressures. The authorities have made progress in implementing measures to mitigate these risks.

Main Policy Recommendations

Policies should focus on tightening fiscal policy to ensure sustainability while achieving progress towards development goals; mitigating risks from CBR pressures; improving the monetary policy transmission mechanism; and implementing structural reforms to boost potential growth and make it more inclusive. Priority actions are:

- Tighten fiscal policy compared to the baseline. Embark on a comprehensive fiscal strategy, including strengthening tax administration and public financial management, and lowering the long-term public debt-to-GDP target from 50 to 40 percent by implementing a one percent of GDP deficit rule in normal years.

- Continue efforts to mitigate risks from CBR pressures including enhancing the effectiveness of the AML/CFT regime; establishing IT solutions for better customer identification; and reducing the risk profile of the offshore center.

- Improve the monetary policy transmission mechanism and continue to implement Financial Sector Assessment Program (FSAP) recommendations.

- Focus structural reforms on building resilience to natural disasters, enhancing the business environment, encouraging female labor participation, and improving the trade facilitation framework.

Approved By
Paul Cashin (APD) and Yan Sun (SPR)

Discussions were held in Apia during February 20 – March 5, 2019. The staff team comprised Giovanni Ganelli (head - APD), Sonja Davidovic (KMU), Magali Pinat (ICD), Jonathan Pampolina (LEG), and Leni Hunter (Resident Representative - Fiji). Gemma Preston (OED) joined the discussions. Nigel Ray (Executive Director for Samoa) joined the concluding meeting. The mission met with Minister of Finance Sili Epa Tuioti, Chief Executive Officer of the Ministry of Finance Leasiosiofaasisina Galumalemana Oscar Malielegaoi, the Governor of the Central Bank of Samoa Maiava Atalina Ainuu-Enari, senior government officials, representatives of the private sector, trade unions, employers' associations, and academics. Chau Nguyen (APD) and Nadine Dubost (APD) provided able assistance from Headquarters.

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ANNEXES

CONTEXT

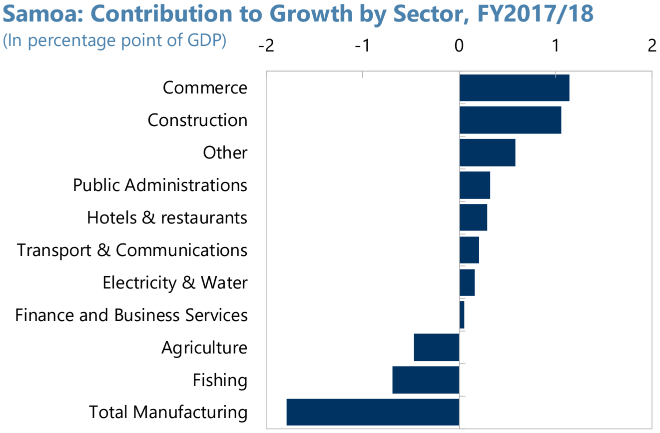
1. **Samoa faces several economic challenges but continues to show resilience and a high level of engagement with the Fund.** In common with most Pacific island countries, Samoa is vulnerable to natural disasters and to the withdrawal of correspondent banking relationships (CBRs), and displays low and volatile growth. Despite these challenges, the economy has shown resilience, rebounding in the face of multiple shocks. The authorities are highly engaged with the Fund and other development partners, and given its dependence on remittances, Samoa was selected by Fund staff as a CBR pilot country.

2. **Policies have been largely consistent with past Fund advice.** In line with Fund Article IV recommendations, the authorities have implemented measures aimed at improving revenue collection. The authorities have also implemented measures to mitigate risks from CBR pressures, and are committed to continuing their efforts in this area, in line with Fund advice. The current accommodative monetary policy stance is consistent with staff advice. The authorities' financial sector policies, including the focus on updating the supervisory and regulatory framework and improving access to credit, are largely in line with FSAP recommendations. Structural reforms, including enhancing the business environment, are in line with Fund advice.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

3. **Growth reached a five-year low in 2017/18.**[1] Growth is estimated to have dropped to 0.9 percent in 2017/18, from 2.7 percent in 2016/17, mainly due to the Yazaki manufacturing plant closure in August 2017, and the impact of cyclone Gita in February 2018. The agriculture and transport sectors had mixed outcomes, while the decrease in the fishing sector was largely due to the impact of climate change on fish migration. Commerce (including retail) was boosted by tourism and remittances. Construction was a key driver of growth.

Samoa: Contribution to Growth by Sector, FY2017/18
(In percentage point of GDP)



Sources: Samoan authorities; and IMF staff calculations.

4. **Recent developments point to a pickup in inflation and a reversal of the current account position.** Average inflation picked up to 3.7 percent in 2017/18 (compared to 1.3 percent in the previous year), exceeding the authorities' target of 3 percent, driven by the impact of Gita on local food prices, a one-time increase in education fees, and higher price of imported fuel. In 2017/18, the current account recorded a surplus of 2.3 percent of GDP, compared to a deficit of

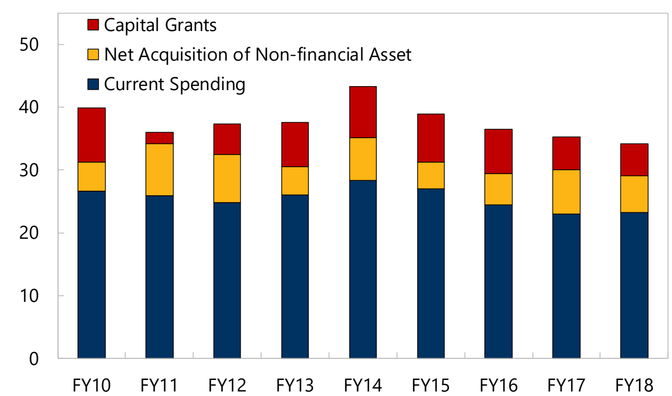
[1] The fiscal year runs from July 1 to June 30. For example, FY18 denotes 2017/18.

1.8 percent of GDP in the previous year, supported by a temporary increase in transfers in the wake of Gita. The Samoan tala depreciated against the U.S. dollar and in nominal effective terms but appreciated in real effective terms due to Samoa's relatively higher rate of inflation.[2]

5. **Growth is expected to recover in 2018/19 and spike in 2019/20 as Samoa hosts the 2019 Pacific Games in July.**[3] Growth is projected to rebound to 3.4 percent in 2018/19, driven by commerce, infrastructure spending, and the development of the transport and communication sector. Growth in 2019/20 is expected to spike to 4.4 percent due to PG-related tourism, before normalizing at about 2.2 percent in the medium term. Inflation is expected to be back below the central bank target of 3 percent in 2018/19 as temporary inflationary pressures recede. The medium-term current account is projected to revert to a deficit as transfers normalize.

6. **One-off factors implied a marginally positive fiscal balance, but the fiscal position is projected to loosen.** The fiscal balance reached a surplus of 0.1 percent of GDP in 2017/18 (from a 1.1 percent of GDP deficit in 2016/17), driven by a temporary increase in budget-support grants, and by a drop in capital spending due to the completion of large infrastructure projects in the previous fiscal year. The inclusion of the National Health Service into the central government budget in January 2018 largely accounted for the reduction in grant spending and the increase in other spending (compensation of employees and goods and services). The latter also increased due to various events held in Samoa. The tax revenue-to-GDP ratio slightly dropped, suggesting that recent tax policy measures—the 2017 Revenue Review aimed at broadening the tax base and increasing selected excises—have not yet been supported by progress in tax administration. Given recently-legislated increases in public servant wages for cost of living adjustment, the projected reduction in budget support grants and the need to scale up infrastructure projects, staff projects a 1.2 percent of GDP deficit in 2018/19, which will widen to close to 3 percent of GDP over the medium term. Staff's baseline fiscal projections incorporate tax collection gains of 1 percent of GDP over the next three years, which could be larger with more decisive reforms.

Samoa: Total Expenditure
(In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

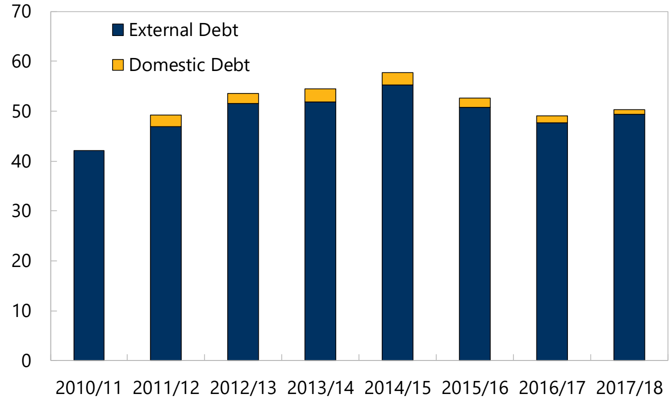
7. **Public debt slightly exceeded the authorities' ceiling of 50 percent to GDP in FY2017/18 and is projected to keep growing in the medium term.** Total public debt reached 50.3 percent of GDP in 2017/18, compared to 49.1 percent of GDP in the previous year, on account

[2] The tala is pegged to a basket of Samoa's trading partners and sources of tourism revenue, with a ±2 percent band.

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

of a depreciating tala, continuous disbursements of external loans, and low growth. Under the staff's baseline scenario, debt is projected to reach 54 percent of GDP in 2023/24. In staff's assessment, Samoa remains at high-risk of debt distress, particularly given its heightened vulnerability to natural disasters.

Samoa: Public Debt
(In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

8. Risks to the outlook are tilted to the downside (Annex I). Samoa is highly vulnerable to natural disasters and to the withdrawal of CBRs by global banks, both of which would adversely affect growth. The impact of rising protectionism on Samoa has thus far been negligible, but could increase if global and regional trade tensions continue. Commodity price volatility could result in higher and more volatile inflation, with negative consequences on economic sentiment and growth. On the upside, the growth impact of the PG could be stronger than currently anticipated.

Authorities' Views

9. The authorities broadly agreed with staff's assessment of the outlook and risks. They shared staff's expectation that growth will rebound in 2018/19 and peak in 2019/20, due to the PG. However, the authorities estimate Samoa's medium-term potential growth to be above staff's estimate of 2.2 percent, even in the absence of structural reforms. They agreed with staff that Samoa is highly vulnerable to natural disaster risk and climate change. Other downside risks include tightening global financial conditions, protectionism, and high and volatile inflation due to volatile commodity prices. On the upside, the growth impact of the PG, the positive tourism impact from expanded Samoa Airways operations, and efficiency gains from the new submarine cable, could be stronger than currently anticipated.

MACROECONOMIC AND FINANCIAL POLICIES

A. Financing Development Needs While Ensuring Fiscal Sustainability

10. Fiscal policy needs to be tightened compared to the baseline. Samoa needs to build fiscal resilience and buffers against natural disasters and achieve progress towards its development goals. At the same time, Samoa needs to ensure fiscal sustainability and use fiscal policy as the principal instrument of macroeconomic management in the face of external shocks, given the exchange rate peg and the weak monetary policy transmission mechanism. Consistent with these objectives, the mission advised the authorities to target a fiscal deficit of 1 percent of GDP in 2019/20, compared to a projected deficit of 1.8 percent of GDP in the unchanged (baseline) policy scenario, and to keep the medium-term deficit close to 1 percent of GDP in normal times (when growth is at or about potential). The needed adjustment can be achieved by improving tax administration and controlling current spending.

11. The mission has advised the authorities to embark on a comprehensive fiscal strategy based on four pillars to support the needed consolidation:

- Implementing vigorous tax administration reforms to fully reap the benefits of the 2017 Revenue Review, including strengthening audit capacity, encouraging voluntary compliance, and improving arrears management.

- Strengthening Public Financial Management (PFM) reforms by improving forecast capacity and introducing multi-year budgeting; enhancing the monitoring and the disclosure of fiscal risks; and monitoring spending outcomes to enhance efficiency through expenditure impact analysis and independent audit.

- Reducing the long-term debt target to 40 percent of GDP to reduce the risk of debt distress and create fiscal buffers to respond to natural disasters while ensuring adequate funding for development priorities.[4] To achieve this debt target, the mission advised the authorities to target in normal times (when growth is about potential) a deficit of 1 percent of GDP, with a 2 percent of GDP deficit ceiling (Annex II).

- Continuing to ensure that newly-contracted loans are consistent with the Medium-Term Debt Strategy (MTDS 2016-2020), with new lending on concessional terms to the extent possible (grant element above the MTDS minimum of 35 percent), and that projects being financed are properly vetted as high quality and economically viable.

12. Samoa needs to make progress in monitoring and disclosing fiscal risks from state-owned enterprises (SOEs). The coverage of public debt should be widened to include debt from SOEs, which should be properly collected, and associated fiscal risks should be estimated and noted in budget documents. Existing procedures for issuing guarantees to SOEs should be strengthened, and a formal on-lending policy should be put in place.

Authorities' Views

13. The authorities agreed with staff's advice on fiscal policy and underscored their progress in this area. They expect the benefits of the 2017 Revenue Review to materialize in the next fiscal year. They are working on removing tax exemptions, developing an electronic system to pay taxes online, and raising taxpayers' awareness. Efforts to encourage voluntary compliance have already shown some results. An internal review of public expenditure and financial accountability, which will increase spending efficiency, is about to be finalized. The authorities expressed their commitment to a public debt-to-GDP target of 45 percent in the medium term and 40 percent in

[4] The debt target of 40 percent of GDP is consistent with staff analysis on the appropriate debt level for Samoa to create a cushion against natural disasters (see Box 1 in the 2015 Samoa Article IV Staff Report).

the long term, to build buffers against natural disasters, and agreed with staff's suggestions to implement an operational fiscal deficit target. They stressed that the planned creation of a new Debt Management Unit within the Ministry of Finance will help improve debt management and monitoring of fiscal risks. A formal on-lending policy, drafted with the assistance of the World Bank, is currently under government review.

B. Monetary and Exchange Rate Policies

14. Monetary policy remains appropriately accommodative, but the transmission mechanism needs improvement. The official interest rate, which refers to the average annual yield of Central Bank of Samoa's (CBS) securities, has remained stable at below 20 basis points for the past five years. This level is appropriate given low growth and receding inflationary pressures. High bank liquidity reflects conservative lending practices and self-insurance against liquidity squeezes, given the weak lending environment and limited interbank market activity. Limited financial literacy remains a key contributor to structural deficiencies in credit access. The mission stressed the importance of measures to increase financial inclusion as recommended by the 2015 FSAP such as re-establishing a credit bureau—for which the Asian Development Bank (ADB) recently completed a diagnostic assessment—and facilitating the use of customary land leases as collateral.[5] These measures would reduce banks' reluctance to lend by increasing available collateral and facilitating credit risk assessment. The mission advised that improving central bank liquidity management, including by better forecasting FX needs, would contribute to improving the transmission mechanism.

15. The external position is in line with fundamentals and desirable policy settings. The 2017/2018 current account surplus of 2.3 percent of GDP was adjusted to correct for the exceptionally high level of transfers in the wake of cyclone Gita, resulting in a 0.7 percent of GDP cyclically adjusted deficit (Annex III). Based on the revised EBA-Lite approach, the cyclically-adjusted norm for Samoa's current account is a deficit of 1.7 percent of GDP. Since the gap between the cyclically-adjusted current account balance and the cyclically-adjusted norm is 1 percent, staff assess the external position to be in line with fundamentals (Annex III). In staff's view, the deficit of 1.7 percent of GDP as a current account (CA) norm is more realistic for Samoa than the norm based on the previous EBA-Lite approach. For example, the present CA norm can be compared to the CA norm of a 6.6 percent of GDP deficit in the 2018 Article IV Staff Report, which underscores that the revised EBA-Lite approach fits Samoa better. Reserves are projected to increase from 4.5 to about 4.6 months of import cover in 2018/19. This level of reserves is adequate according to the Assessing Reserve Adequacy metric for credit-constrained economies, but is close to the lower bound of adequacy once Samoa's heightened vulnerability to natural disasters is taken into account. Samoa's

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

pegged exchange rate continues to serve the country well and provides a welcome nominal anchor in the context of weak monetary policy transmission.

Authorities' Views

16. The authorities agreed with staff's assessment of the current monetary policy and of Samoa's external position and reserve adequacy. The Central Bank of Samoa (CBS) regards the current accommodative monetary policy stance as appropriate in the short term, particularly in the context of fiscal tightening. Going forward, the CBS intends to explore opportunities to reduce the degree of accommodation by "normalizing" the policy rate as the economy rebounds, thus creating policy space to cut rates when a negative shock hits the economy. In doing so, the CBS will maintain communication with the banks to ensure that the normalization does not translate into higher lending rates. The authorities agreed with staff on the need to improve the monetary policy transmission mechanism, including through measures that would enhance liquidity management, improve forecasting FX needs of the economy, and reduce banks' reluctance to lend. The authorities concurred with staff that the external position is in line with fundamentals and desirable policy settings once the current account surplus is adjusted for the temporary spike in private remittances in the wake of cyclone Gita. They appreciated staff's advice on being mindful of Samoa's heightened vulnerability to natural disasters when assessing reserve adequacy.

C. Financial Sector, Crypto-Assets and Fintech

17. The financial sector remains healthy. Capital adequacy and liquidity ratios are trending upwards, with the liquid asset ratio exceeding its five-year average. Profitability and earnings indicators are subdued amidst a lending slowdown, but are expected to recover as economic activity picks up. NPLs have increased by 20 basis points to 4.3 percent of total loans, but remain well below their five-year average and banks are well-provisioned.

18. Financial sector policies should focus on completing the implementation of the 2015 FSAP recommendations (Annex IV). A swift approval of the amended Financial Institutions Act to support corrective actions and resolutions would help upgrade the regulatory and supervisory framework to modern standards. Developing in-house stress testing capacity and holding regular meetings of the high-level committee on financial stability would help monitor and address financial stability risks. Formulating a coherent public financial institutions (PFI) governance framework would help mitigate contingent liability risks from PFIs. Re-establishing a credit bureau, which could be supplemented with fintech solutions in the future (Box 1), would help financial inclusion.

19. Managing new risks from crypto-assets is also a priority. Private companies have been promoting investment in crypto-assets in Samoa and have requested approval from the CBS for their businesses and products. To protect consumers, the CBS banned all trade in one prominent crypto-asset in May 2018. The CBS also issued a general warning against the risks of investing in crypto-assets in August 2018, and advised that entities promoting crypto-assets are considered financial institutions, which requires them to hold a business license and follow CBS reporting requirements. The mission supported the authorities' cautious stance and encouraged them to consider FATF's recommendation on oversight of crypto-assets, which are expected to be released in June 2019.

20. Financial inclusion reforms could leverage fintech solutions. The mission stressed that implementing the authorities' financial inclusion strategy (NFIS) is important to reduce inequality, including gender inequality, and increase opportunities for all Samoans. The authorities could continue supporting private sector initiatives for mobile money and payment systems given the large number of Samoans without access to formal financial services. The authorities are encouraged to continue improving the effectiveness of financial education programs through the Small Business Enterprise Center (SBEC), the Development Bank of Samoa (DBS), and commercial banks. The NFIS could be amended to promote digital and financial literacy, including awareness of risks from crypto-assets, and the potential of fintech solutions for financial inclusion.

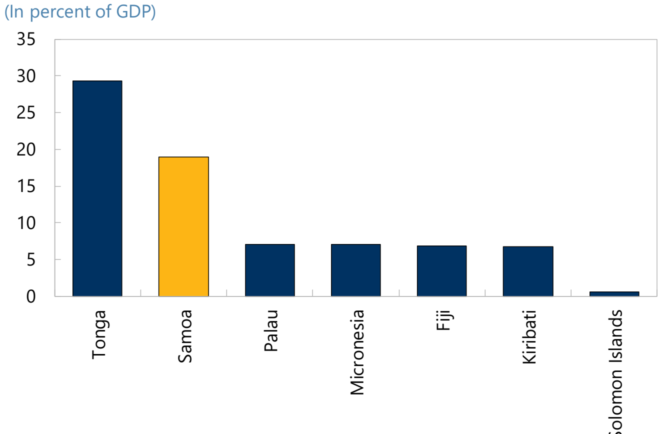
Authorities' Views

21. The authorities concurred with staff's financial sector assessment and are working on the remaining 2015 FSAP recommendations, while managing new risks associated with crypto-assets. The authorities are working towards implementing the remaining FSAP recommendations, including re-establishing a credit bureau, harmonizing human resource policies and compensation across PFIs, and conducting regular onsite inspections of commercial and public sector financial institutions and insurance companies. However, they stressed that developing a unified strategy for the governance and mandate definition of all PFIs would be challenging. They argued that developing stress test analysis capacity is a prerequisite for holding regular meetings of the high-level committee on financial stability. The authorities look forward to the June 2019 FATF recommendations for the oversight of crypto-assets. They continue to explore the role of fintech solutions for financial inclusion, while building trust and confidence in these solutions among the population.

WITHDRAWAL OF CORRESPONDENT BANKING RELATIONSHIPS

22. Samoa remains vulnerable to the withdrawal of Correspondent Banking Relationships (CBRs). CBRs play a key role in facilitating trade and providing access to finance for households. As global and regional banks withdraw their CBRs against the backdrop of a tighter regulatory landscape, the remittances sector in Pacific island countries has come under stress. The Samoan authorities have made progress in implementing key regulatory reforms.

Remittances in Selected Pacific Island Countries, 2017
(In percent of GDP)



Sources: Country authorities; and IMF staff calculations.

However, vulnerabilities remain, given the country's dependence on remittances, the prominent role of money transfer operators (MTOs) in the sector, and the high cost of remittances. Some lessons relevant to other Pacific island countries can be drawn from Samoa's experience in this area (Box 2).

23. While Samoan banks and larger MTOs have maintained and even regained CBRs, smaller MTOs have faced bank account closures. Remittance flows have been resilient, partly because they are largely denominated in Australian and New Zealand dollars (e.g., around 72 percent of incoming remittances in 2018), for which CBRs are less difficult for MTOs to maintain compared to U.S. dollar-denominated remittances. Domestic banks rely on Australian and New Zealand regional banks for their US dollar CBRs as well. Three of the bigger MTOs have successfully re-opened one bank account each with the regional banks after upgrading their AML/CFT programs and undertaking independent compliance audits. However, several of the smaller MTOs have reported termination of their Australian dollar and New Zealand dollar denominated bank accounts—without any explanation or follow up—despite investment in IT infrastructure upgrades and hiring additional compliance staff. Samoa's recent inclusion on a draft European Union (EU) AML list (aside from its existing inclusion on the EU list of non-cooperative tax jurisdictions) could further aggravate these CBR pressures.

24. To mitigate CBR pressures and address risks, measures to strengthen the effectiveness of the AML/CFT regime should continue. The mission recommends:

- *Enhance AML/CFT effectiveness*. The authorities continue to address the deficiencies identified in the 2015 Asia Pacific Group (APG) mutual evaluation report, where Samoa was rated low or moderately compliant in 10 of the 11 effectiveness criteria (including on supervision, financial intelligence and money laundering (ML) investigations), and non-compliant or partially compliant in 23 of the 40 technical recommendations. In a 2018 follow up report from the APG, Samoa was positively re-rated on 3 recommendations, and progress on 8 other recommendations was noted and the required expedited follow-up reporting was shifted from twelve to six months. The 2018 amendments to the Money Laundering Prevention Act (MLPA) now requires reporting entities to verify their customer's beneficial owner and increased the imprisonment penalties for ML offenses to 15 years. In addition to updating the 2014 National Risk Assessment (NRA) to guide risk-based AML/CFT supervision, the inspections of reporting entities for AML/CFT compliance should be improved (including enforcement actions and sanctions). Further resources (including staff and IT systems) should be devoted to the Samoan Financial Intelligence Unit (FIU) to enable effective analysis of suspicious transaction reports and conduct of AML/CFT supervision of reporting entities. The MLPA should be amended to cover high-risk domestic politically exposed persons (PEPs), their family members and close associates. Establishing a comprehensive asset declaration system for high-risk public officials and aligning the anti-corruption framework with the UN Convention against Corruption should contribute to improving customer due diligence in this area.

- *Establish IT solutions for customer identification and monitoring*. MTOs face challenges with customer identification, owing to differences in the use of names in various government-issued identifications. A few MTOs have an agreement with the Office of the Electoral Commissioner

(OEC) to validate customer's identities with the voter database that includes biometric information, upon the payment of a fee (Annex V). In the short term, the authorities should adopt a simple IT solution to enable MTOs and financial institutions to quickly validate their customers identity electronically against the OEC database, thereby reducing costs. In the long term, IT solutions could be developed to enhance MTO compliance with other AML/CFT obligations (e.g., customer verification, record keeping and suspicious transaction reporting). The authorities should exploit synergies with plans to establish a national digital identity system and a credit bureau (Box 1). In this respect, the authorities are receiving support from the ADB for the development of a customer identification database, which will incorporate the simple IT solution mentioned above, and could also be expanded to include other customer financial information, subject to data privacy principles.

- *Reduce the offshore financial center's (OFC) risk profile*. Although the OFC does not affect the domestic financial sector directly, it causes reputational spillovers as it contributes substantially to increasing the country's overall risk profile. The 2014 NRA identified trust and company service providers (TCSPs) that operate in the OFC to be of high risk, owing to the potential for misuse of Samoan international business companies (IBCs). Identifying the beneficial owner of these IBCs is also challenging, since Samoan TCSPs rely heavily on foreign intermediaries to conduct customer due diligence. Further efforts are needed to ensure that basic and beneficial ownership information of IBCs is accurate, up-to-date and available to competent authorities. AML/CFT supervision over TCSPs needs to be enhanced to ensure compliance with record keeping and suspicious transaction reporting requirements. In this regard, it is strongly recommended that the authorities only allow reliance on third party intermediaries under the conditions listed in FATF Recommendation 17.

- *Continue International Engagement*. The mission encouraged the authorities to continue to work with all stakeholders towards developing regional solutions to address CBR pressures, including considering the potential benefits, costs and privacy requirements of a regional Know-Your-Customer facility. The mission also encouraged the authorities to continue engagement with the EU with regard to tax and AML issues. With respect to the EU AML list, the authorities are coordinating with the APG to clarify the EU's underlying AML concerns that prompted Samoa's inclusion on the list.

Authorities' Views

25. **The Samoan authorities are committed to mitigating CBR pressures and strengthening the AML/CFT regime.** They are engaging with the APG to ensure compliance with the FATF standards. They broadly agree with staff advice on measures to mitigate CBR pressures, but stressed that implementing enhanced due diligence measures on domestic PEPs is difficult in Samoa, given the perception that in a small country like Samoa almost the entire population might be related or associated to PEPs. The authorities remain engaged with the EU to find ways to be removed from their non-compliance lists. They raised concerns about the EU's methodology for the listing, the lack of EU-Samoa consultation and transparency regarding the listing process, and the inconsistency of the EU assessment with the existing APG assessment. To enhance identification of customers,

especially of MTOs, the authorities are working with the ADB on developing a decentralized platform using biometric identity data from the OEC.

STRUCTURAL REFORMS

26. Structural reforms should focus on boosting potential growth and making it more inclusive. This can occur by building resilience to natural disasters; enhancing the business environment, especially for SMEs; encouraging female labor participation; and improving the trade facilitation framework. Concrete measures should include:

- Upgrading physical infrastructures to make them fully resilient to natural disasters and mainstream climate resilience into all sector plans.

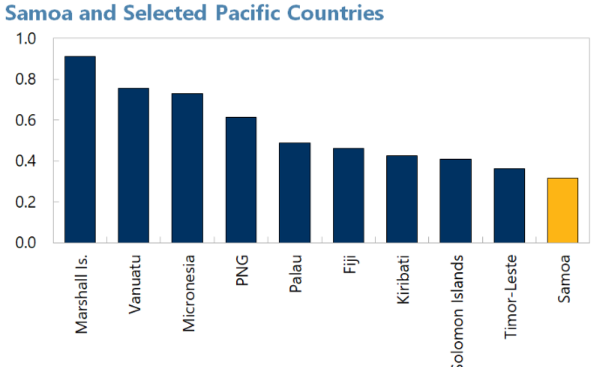
- Enhancing the business environment, especially for SMEs, by promoting access to credit and strengthening insolvency resolution. The SBEC guarantee scheme could be improved through a larger stake by commercial banks in lending projects, expansion of coverage to more SMEs, and use of mobile payment systems for lending activities. These reforms would also generate synergies with helping formalization of the economy and increasing labor force participation in the formal labor market.

- Encouraging female labor participation by providing access to affordable childcare facilities.

- Improving the trade facilitation framework, including by pursuing efforts to comply with international standards conventions; reducing the time and documents needed to export; and developing a one-stop shop for exporters.

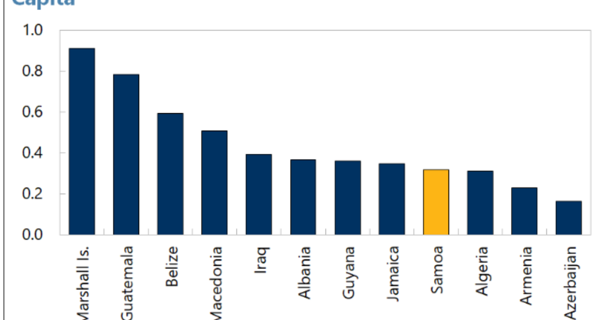
27. Plans to increase the minimum wage should be balanced. Tri-partite consultations are ongoing between the government, the private sector and labor unions to increase the minimum wage. At less than US$1 per hour, the Samoan minimum wage is low compared to Pacific peers. The mission advised that the increase would need to balance the positive effect on income and inclusion with limiting adverse effects on labor market outcomes (Annex VI).

Ratio of Minimum Wage to Value Added per Worker in Samoa and Selected Pacific Countries



Source: World Bank, *Doing Business 2019.*

Ratio of Minimum Wage to Value Added per Worker in Samoa and Selected Countries with Comparable GNI per Capita



Source: World Bank, *Doing Business 2019.*

Authorities' Views

28. The authorities agreed that the structural reforms recommended by staff would boost potential growth. They noted that all new construction projects are now climate change and natural disaster resilient and existing infrastructure is being upgraded. In this context, the authorities expressed interest in undertaking a Climate Change Policy Assessment. SME support is a high priority, including through the recently expanded SBEC guarantee scheme, the DBS financial inclusion program, and private sector development initiatives. The authorities are committed to improving the trade facilitation framework.

CAPACITY BUILDING AND STATISTICAL ISSUES

29. Samoa continues to rely on capacity building to support reforms and policy implementation. With support from the Pacific Financial Technical Assistance Centre (PFTAC) Samoa has made progress on public financial management (PFM) reforms including on budget documentation, audit, and cash management. Samoa also completed the full in-country Public Expenditure and Financial Accountability (PEFA) exercise. Further PFM capacity building support from PFTAC will focus on continuous improvement of financial reporting and the monitoring of SOE risk. On the revenue side, a full review of tax administration audit programs, structure, staffing arrangements, management practices, risk analysis and case selection systems to underpin a new audit plan is underway. PFTAC also continues to assist Samoa in finalizing insurance regulatory drafts and support stakeholder consultation. As a CBR pilot country, Samoa relies on HQ-led TA missions, round tables and desk review of legislation. The IMF Capacity Development Office in Thailand (CDOT) is providing TA to help improve external sector statistics.

30. The authorities are advancing their efforts to produce and disseminate International Investment Position (IIP) data and improve GDP statistics. The authorities will receive technical assistance for the compilation of IIP data in July 2019. Once the direct investment position data of the non-financial sector becomes available through the International Investment Survey (IIS), the authorities should be able to finalize the IIP before the end of 2019. Data for offshore entities remains a major data gap in the IIP. The Samoa Bureau of Statistics is working on rebasing GDP by production and developing a new measure of GDP by expenditure.

Authorities' Views

31. The authorities expressed appreciation for ongoing IMF capacity building efforts. The authorities appreciate the current capacity building support by PFTAC, CDOT and IMF Headquarters, and reiterated their commitments to push ahead with reforms supported by capacity building, especially on PFM, tax administration, mitigating CBR pressures, and improving statistics.

Text Table 1. Samoa: Integration Matrix of Surveillance Issues and Capacity Building

Surveillance Issues	IMF			World Bank		Asian Development Bank	
	Past	2018 1/	Planned/ ongoing	Past	Planned/ ongoing	Past	Planned/ ongoing
Fiscal Sector							
Public Financial Management	✓	✓	✓	✓		✓	✓
Expenditure framework	✓	✓		✓	✓		
Revenue framework	✓	✓	✓	✓			
Macro-Financial Issues							
Financial supervision and regulation	✓		✓	✓	✓		
Financial market development	✓	✓	✓	✓	✓	✓	
Correspondent Banking Relationships		✓	✓				✓
Macro-structural issues							
Infrastructure				✓	✓	✓	✓
Private sector development				✓	✓	✓	✓
Governance issues				✓		✓	
Poverty/Gender/ Inequality				✓	✓	✓	✓
Climate change			✓	✓	✓	✓	✓
Natural Disaster Management				✓	✓	✓	✓
Financial inclusion						✓	✓
Statistics							
Data Enhancement	✓	✓	✓			✓	

Sources: IMF; World Bank; Asian Development Bank (ADB).

1/ IMF fiscal year.

STAFF APPRAISAL

32. Growth is expected to rebound. After reaching a five-year low due to the Yazaki manufacturing plant closure and the impact of Cyclone Gita, growth is expected to rebound—supported by infrastructure spending, development of the communication sector, and the impact of the Pacific Games. Growth will peak in 2019/20, before settling at the potential rate of 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 CBR pressures.

33. The authorities should tighten fiscal policy compared to the baseline and embark on a comprehensive fiscal strategy to ensure fiscal sustainability, build fiscal buffers against natural disasters, and achieve progress towards development goals. The authorities should target a fiscal deficit of 1 percent of GDP in 2019/20 and keep the medium-term deficit close to 1 percent of GDP in normal times (when growth is at or about potential). Samoa needs to increase fiscal buffers to respond to natural disasters while ensuring funding of development priorities. This can be achieved by implementing vigorous tax administration reforms to fully reap the benefits of the 2017 Revenue Review, strengthening public financial management reforms to improve multi-year budget planning and improve efficiency of spending, and reducing the long-term debt-to-GDP target to 40 percent. The new debt target should be complemented by a fiscal balance anchor aimed at keeping the overall fiscal deficit close to 1 percent in normal times with a 2 percent of GDP deficit ceiling. Newly contracted loans should be on concessional terms to the extent possible. Samoa needs to make progress in monitoring and disclosing fiscal risks, including from state-owned enterprises.

34. The monetary policy stance is appropriately accommodative but the transmission mechanism needs improvement. The monetary stance is appropriate given low growth and receding inflationary pressures. The authorities should seek to improve the transmission mechanism by increasing credit access and reducing banks' reluctance to lend. Measures to achieve this should include raising financial literacy, re-establishing a credit bureau, facilitating the use of customary land leases as collateral, and improving central bank liquidity management.

35. The external position of Samoa is assessed to be broadly in line with fundamentals and desired policy settings. Based on the revised EBA-Lite methodology and taking into account the exceptionally large transfers received in the aftermath of Cyclone Gita, staff assess the external position of Samoa to be in line with fundamentals and desired policy settings. The level of reserves coverage is adequate according to the ARA metric for credit-constrained economies, but is close to the lower bound of adequacy once Samoa's heightened 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.

36. The authorities should continue to implement reforms to mitigate risks from the correspondent banking relationship (CBR) pressures. Risk-based AML/CFT inspections of key reporting entities (such as banks, MTOs and TCSPs) should be improved and further resources could be allocated to the Financial Intelligence Unit. IT solutions should be adopted to enable speedier and cost-effective customer identification in the short term and enhance MTO compliance with other AML obligations (e.g., record keeping and suspicious transaction reporting) in the long term. To reduce the risk from the offshore financial center, further efforts are needed to ensure that ownership information of Samoan international business corporations is accurate, up-to-date and available to the competent authorities. The authorities are encouraged to continue to work with all relevant stakeholders towards developing regional solutions to address CBR pressures, and to continue engagement with the EU with regard to the EU list of non-cooperative tax jurisdictions.

37. Financial sector policies should focus on completing the implementation of FSAP measures, especially with regards to the regulatory and supervisory framework, systemic financial stability risk monitoring, and public financial institutions (PFI) governance. Legislation should be approved to upgrade the regulatory and supervisory framework to modern standards. Stress testing capacity should be strengthened and the high-level committee on financial stability should become operational. Formulating a coherent PFI governance framework would help mitigate contingent liability risks. The authorities should also continue their efforts to improve access to finance, for which fintech solutions could be explored. The authorities' cautious stance on cryptocurrencies and crypto-assets is appropriate.

38. Structural reforms should focus on boosting potential growth and making it more inclusive by building resilience to natural disasters, enhancing the business environment, and improving the trade facilitation framework. Concrete measures should focus on upgrading infrastructure for full resilience to natural disasters and mainstreaming climate resilience into all sector plans. The business environment could be supported by strengthening insolvency resolution, promoting SMEs access to credit, and improving the trade facilitation framework. The framework would benefit from streamlining export requirements, and developing a one-stop shop for exporters. The planned increase in the private sector minimum wage would need to balance the positive effect on income and inclusion against adverse effects on labor market outcomes.

39. Strengthening capacity will facilitate the implementation of needed policies and reforms. Priority should be given to reforms to improve tax administration and public financial management (PFM) systems, mitigate CBR pressures, and improve statistics. The IMF stands ready to provide further TA and training to assist the authorities.

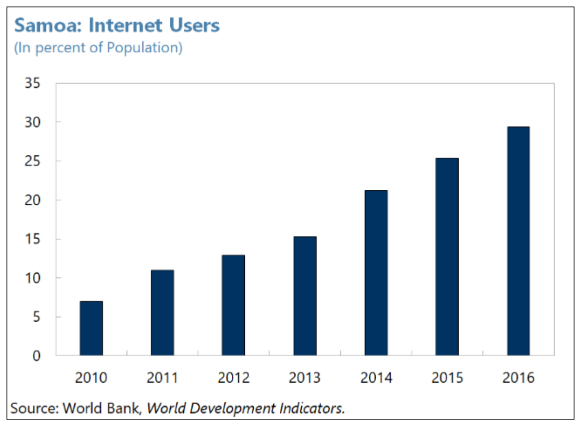
40. It is recommended that the next Article IV consultation with Samoa take place on the standard 12-month cycle.

Box 1. Technology-Enabled Financial Access Solutions[1]

In most Pacific island countries (PICs), public credit registries are either absent or underdeveloped. For most PICs, data on the total number of adults covered by public or private credit registries and bureaus is unavailable. Financed by the International Finance Corporation (IFC) and managed by the Fiji Data Bureau, Samoa established a credit bureau in 2015 to promote greater transparency and efficiency in the money lending market. However, the credit bureau was closed by the Fijian authorities for domestic reasons in 2016. Despite the limited success of this project, a credit bureau is important for reducing the cost of lending and broadening access to finance. In Samoa, around 50 percent of the population have no access to formal finance.

The credit bureau should be built on a secure data information system accompanied by robust data governance and risk management frameworks, which would help address privacy concerns. The information system should be robust and secure to shield collected data from breaches and misuse, while at the same time facilitating access to digital financial profiles and credit information by banks and MTOs. It is important to establish a governance framework on how data is stored, protected and utilized. A comprehensive risk management framework should comprise risk mitigation measures that ensure operational resilience in case of outages and cyber-attacks. These measures include business continuity plans, contingency arrangements, and industry-wide cyber-security standards.

Leveraging technology to establish financial profiles and assess credit worthiness can support the credit bureau function, once a robust data governance and risk management framework are operational. In cases where traditional identity and credit information is scarce, customer data from various sources can be consolidated to provide digital financial profiles and assess borrowers' credit worthiness. These data sources can serve as a starting point for building a credit bureau function or they can be integrated into the credit bureau once it becomes operational. The rising number of internet users in Samoa will provide more online data, especially given the completion of the Tui Samoa cable in early 2018. Data from mobile phones, utility and invoice payments, online merchant activity, and tax or corporate registries can be pulled into a centralized database and used for credit modelling purposes. Payment history data generated through mobile money solutions such as Digicel Mobile Money or the M-Tala and lending history through the micro-lending programs of the Small Business Enterprise Centre (SBEC) and the South Pacific Business Development can also be included.



International and regional collaboration could help the authorities devise effective regulation and build capacity. Samoa should leverage its membership in regional and international bodies to help devise effective regulation. Sharing experience and best practices with other member countries in regional fora can also support capacity building efforts. In this context, the 2018 Bali Fintech Agenda is a useful reference document for policymakers as it highlights policies aimed at enabling countries to harness the potential of fintech, while managing the inherent risks.

[1]Prepared by Sonja Davidovic.

Box 2. Lessons from Samoa's Experience With Risk of CBR Withdrawal[1]

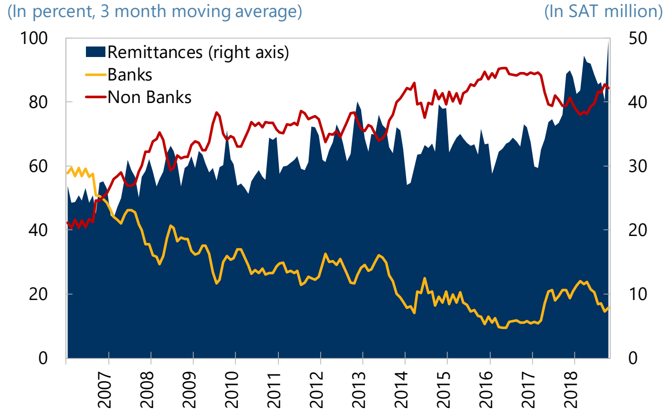
Samoa's vulnerability to CBR withdrawal reflects factors which are common to other Pacific island countries—high dependence on remittances, and heavy use of money transfer operators (MTOs). Despite CBR pressures, Samoa's remittance flows have thus far shown resilience. This box sets out key lessons from Samoa's resilience and ongoing CBR-related challenges.

The authorities' efforts to strengthen the AML/CFT framework and improve its effectiveness are key factors in mitigating CBR pressures. The authorities are working with APG to strengthen the AML/CFT framework. They are also working with MTOs and ADB to establish a customer identification facility. They remain highly engaged with the Fund in the context of the CBR pilot, and with other stakeholders in the region in search of a regional solution.

Samoa's risk of CBR loss is mitigated by the banking system. Banks account for only 20 percent of remittance flows (see Figure 5), and have been a higher cost option for remittances. However, the foreign banks in particular help to reduce the risk of CBR loss to the country, though also increasing Samoa's vulnerability to the operational decisions of those banks.

Samoa: Remittances by Share

(In percent, 3 month moving average) (In SAT million)



Sources: Samoan authorities, and IMF staff calculations.

MTOs remain macro-critical in Samoa, but face a difficult and changing environment. MTOs remain dominant in remittance transfers and have provided a tailored and often lower-cost service to their customers, assisting financial inclusion. MTOs have decreased in number from about 30 five years ago, to 12 today. Increased compliance costs and reduced market share in smaller MTOs will continue to pose challenges for the sector.

MTOs with more stable CBRs attribute CBR retention to heavy investment in compliance and long-standing bank relationships. However, some MTOs expressed concern that they lacked sufficient clarity from correspondent banks on compliance needs, complicating their business decisions.

Samoa is seeing increased technology-based options for remittance flows, but these may take time to gain popularity. Internet-based and mobile-based transfer options are available, and will help to lower remittance costs. However, customers may need time to change practices and gain familiarity with these options.

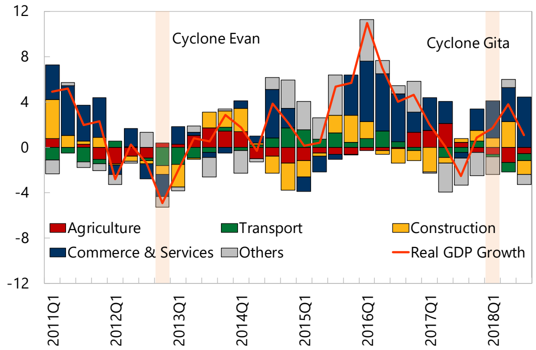
[1] Prepared by Leni Hunter.

Figure 1. Samoa: Real Sector Developments

Growth dropped in FY2017/18 due to the Yazaki plant closure and Cyclone Gita.

Real GDP Growth by Sector

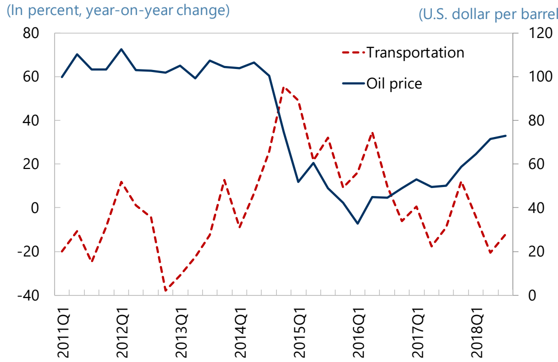
(In percentage change)



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

Transportation Growth and Oil Price

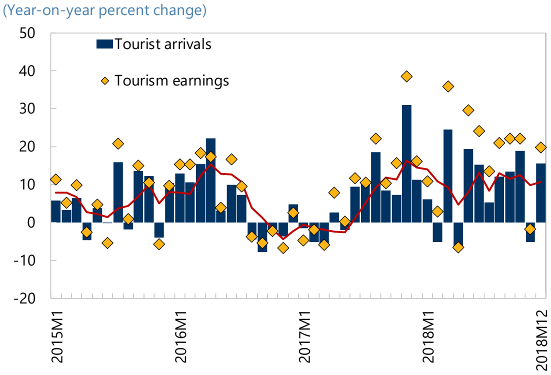
(In percent, year-on-year change) (U.S. dollar per barrel)



Tourism arrivals and earnings remain robust.

Tourism

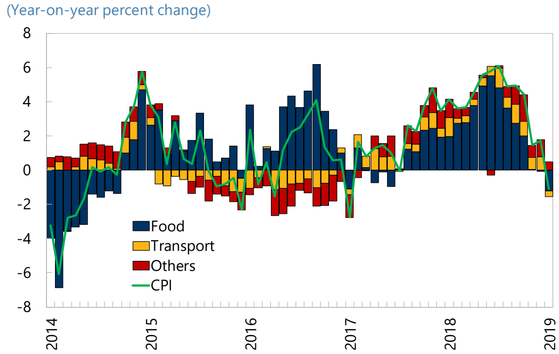
(Year-on-year percent change)



Inflation rose temporarily on the cost of imported products and the impact of Cyclone Gita on locally produced food.

Contribution to Inflation

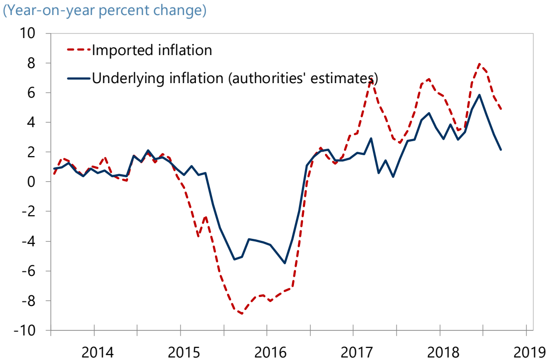
(Year-on-year percent change)



Imported inflation trend is also upward.

Inflation indicators

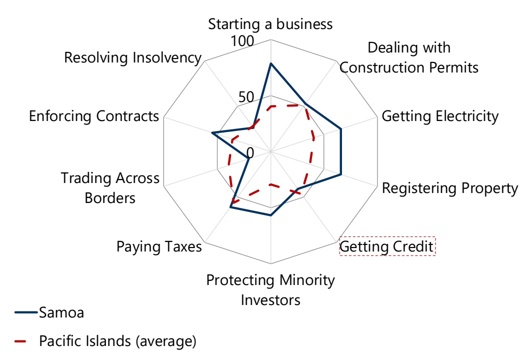
(Year-on-year percent change)



Samoa fares well in doing business categories compared to the PIC average, except for trading across borders.

Doing Business Categories, 2019

(Percentile of rank, higher is better)

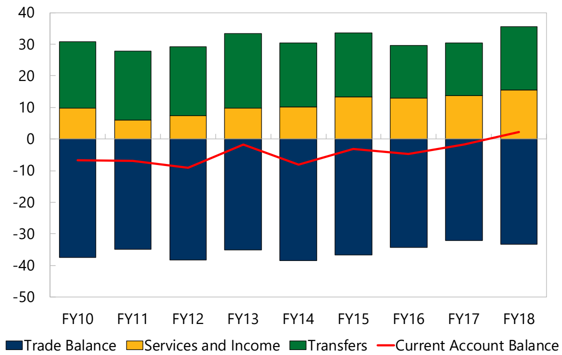


Sources: Samoan authorities; World Bank, *Doing Business 2019;* and IMF staff calculations.

Figure 2. Samoa: External Sector Developments

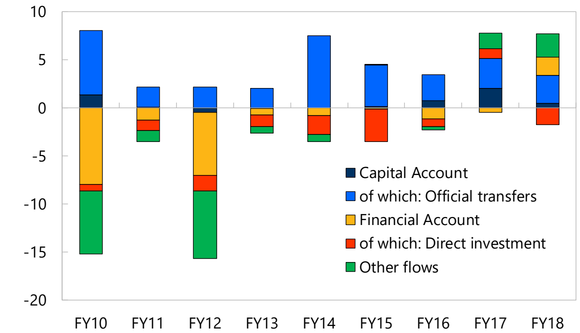
In FY 2017/18, the current account turned into a temporary surplus, driven by tourism receipts and an increase in current transfers.

Current Account Balance
(In percent of GDP)



The capital and financial account surplus narrowed due to large investments by non-residents in domestic financial assets.

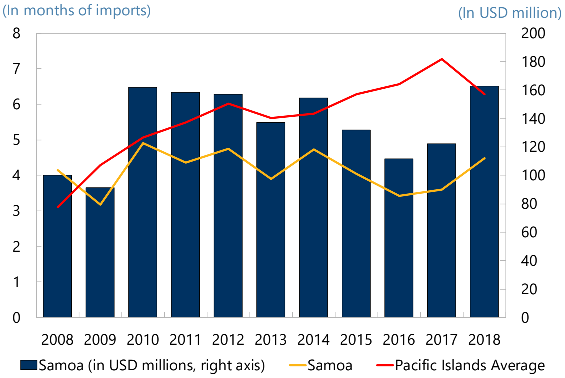
Capital and Financial Accounts
(In percent of GDP)



Note: Presentation in line with BPM6.

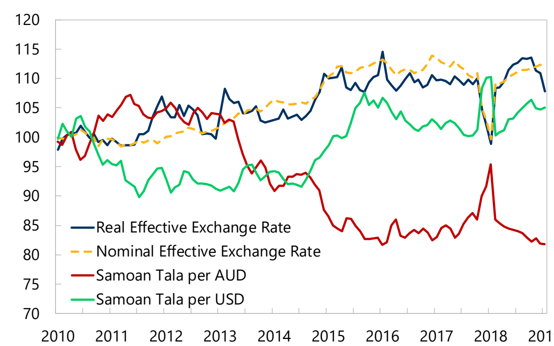
Reserves show a temporary increase but remain below the PICs average.

Reserves
(In months of imports)



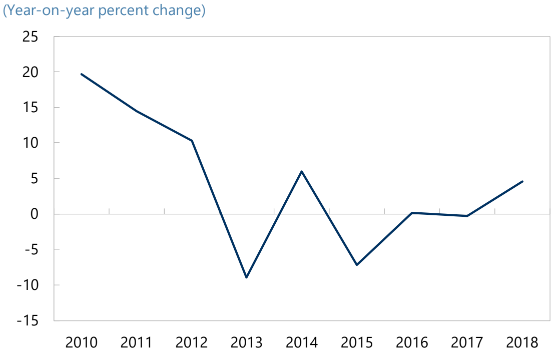
The REER has remained stable in the last few years

Exchange Rates (2010=100)



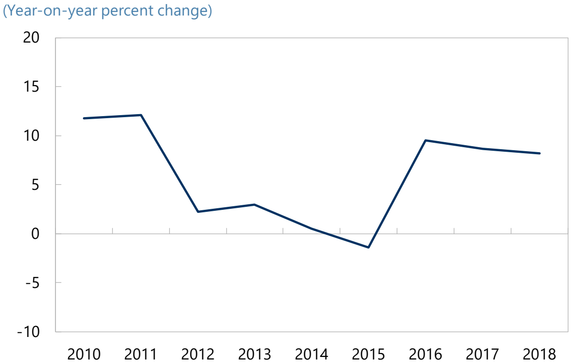
Import growth has been close to zero but is trending upwards.

Import Growth
(Year-on-year percent change)



Export growth has been strong but it is trending down.

Export Growth
(Year-on-year percent change)

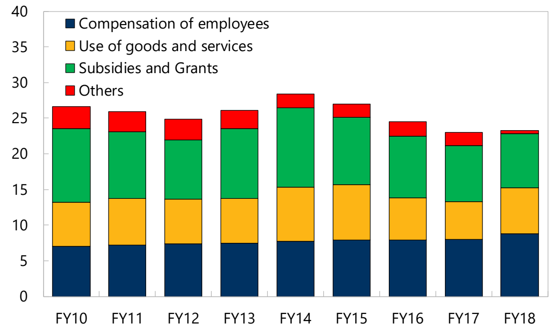


Sources: Samoan authorities; and IMF staff calculations.

Figure 3. Samoa: Fiscal Sector Developments

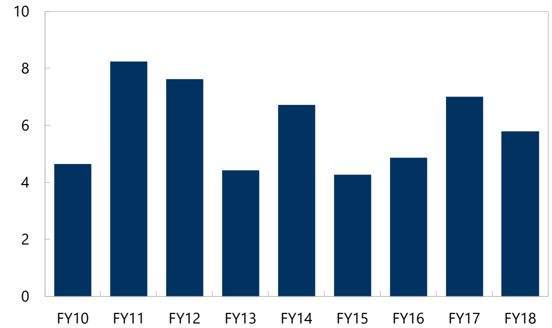
Current spending slightly increased in FY18….

Current Spending
(in percent of GDP)



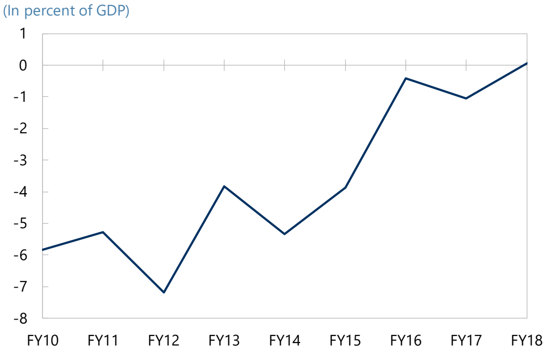
… while net acquisition of non-financial assets dropped….

Net Acquisition of Non-financial Asset
(In percent of GDP)



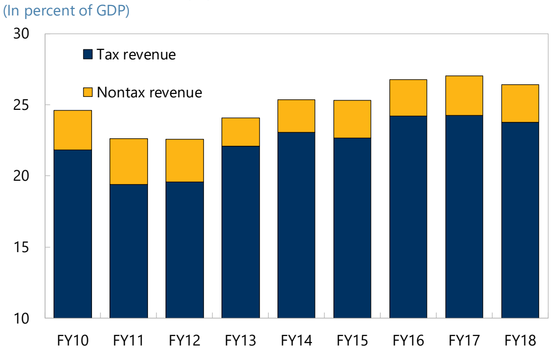
… which led to a small overall surplus…

Overall Balance
(In percent of GDP)



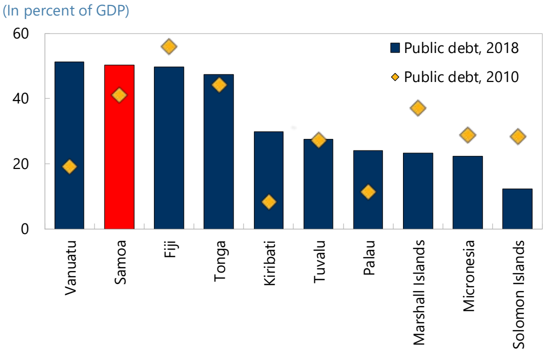
…despite the drop in revenue.

Revenues (excluding grants)
(In percent of GDP)



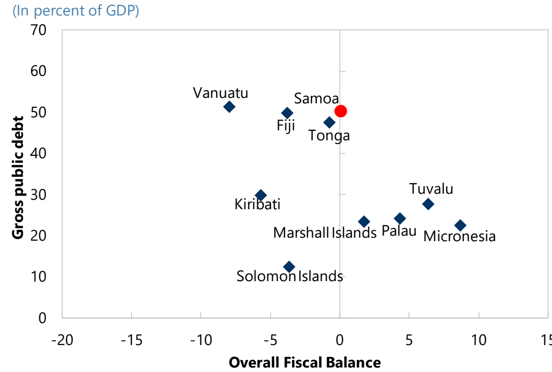
Public debt remains high by regional standards.

Gross Public Debt, 2018
(In percent of GDP)



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

Fiscal Space, 2018
(In percent of GDP)

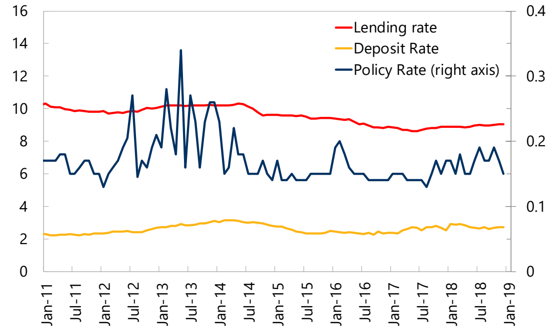


Sources: Samoan authorities; WEO; and IMF staff calculations.

Figure 4. Samoa: Monetary and Financial Sector Developments

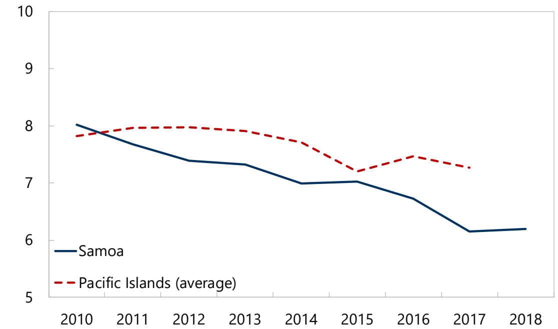
The policy rate is close to the zero lower bound, but the monetary transmission mechanism is weak.

Policy Rate
(In percent)



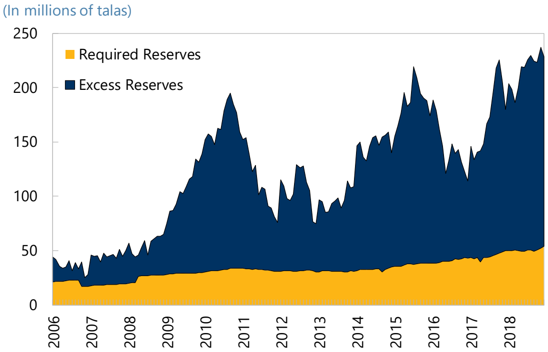
Interest spreads are still high but narrowing.

Interest Spreads: Lending Minus Deposit Rates
(In percent)



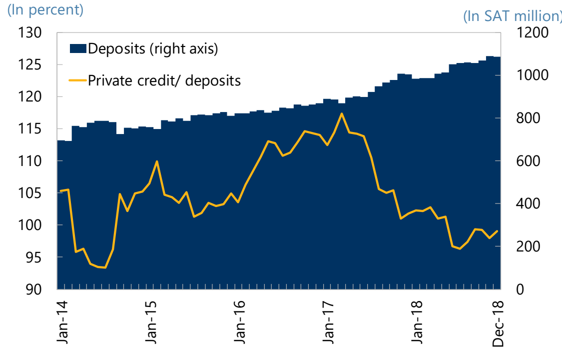
Excess reserves have increased due to higher tourism earnings and remittance.

Liquidity
(In millions of talas)



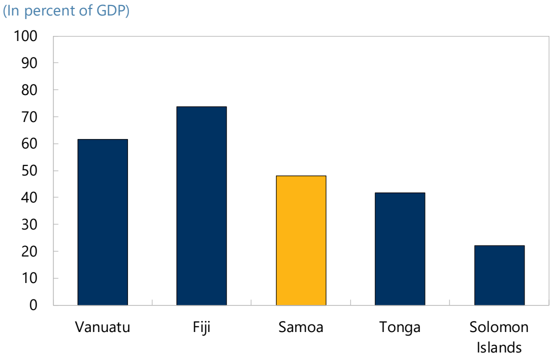
The private credit-to-deposit ratio is on a downward trend.

Underlying Credit to Deposit Ratio
(In percent)



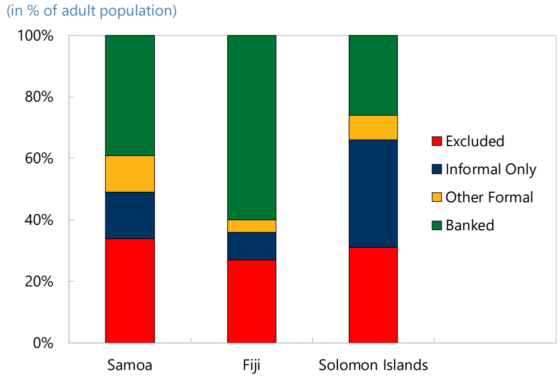
Credit to the economy is in line with regional peers.

Commercial Bank Credit to the Economy, November 2018
(In percent of GDP)



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

Financial Inclusion
(in % of adult population)

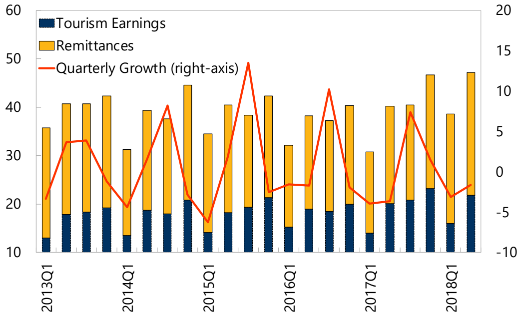


Sources: Country authorities; and IMF staff calculations.

Figure 5. Samoa: The Role of Remittances

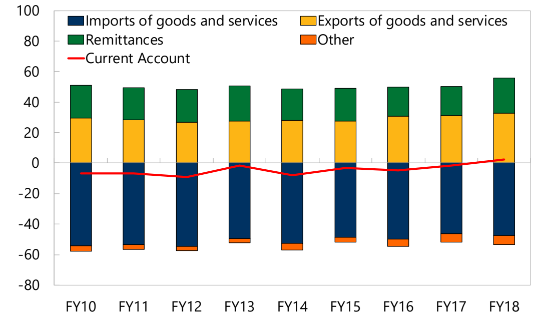
Remittances and tourism account for nearly 50 percent of GDP...

Tourism and Remittances
(Percent of GDP)



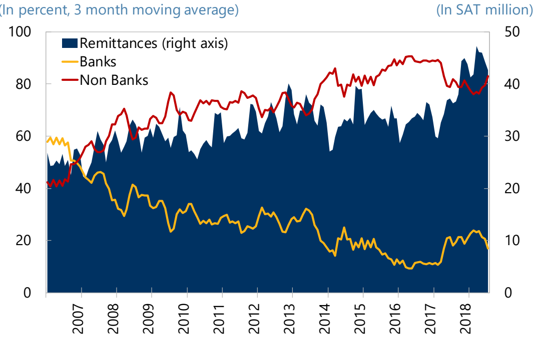
...driving the current account surplus,

Current Account Balance
(In percent of GDP)



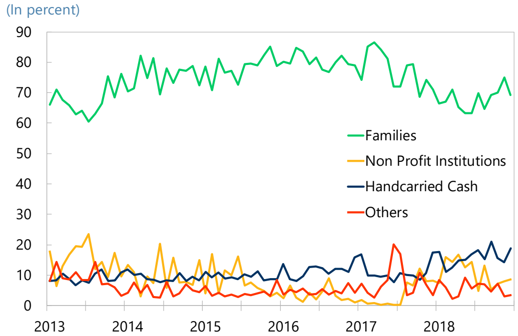
Remittances are primarily channeled by non-banks, including money transfer operators ....

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



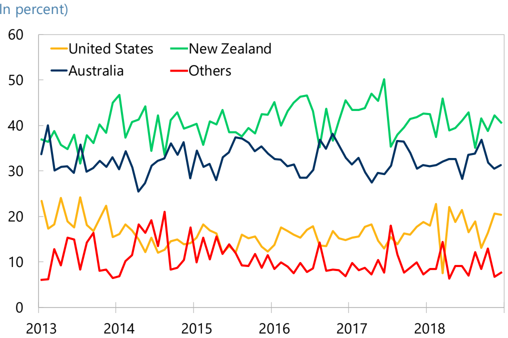
... and the main beneficiaries are families.

Remittances by Recipients
(In percent)



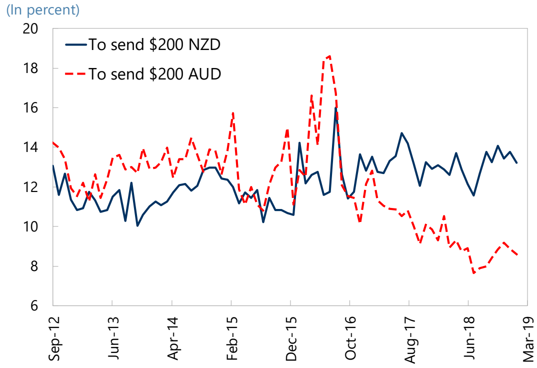
Australia and New Zealand are the main sources of remittances.

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; World Bank, *Remittance Prices Worldwide* ; and IMF staff calculations.

Table 1. Samoa: Selected Economic and Financial Indicators, 2015/16 – 2023/24[1/]

			Est.	Proj.					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
					(12-month percent change)				
Output and inflation									
Real GDP growth	7.2	2.7	0.9	3.4	4.4	2.2	2.2	2.2	2.2
Nominal GDP	5.5	3.8	3.8	6.3	7.2	4.9	5.1	5.2	5.1
Consumer price index (end of period)	2.3	1.0	5.8	4.0	2.9	2.6	2.8	2.9	2.8
Consumer price index (period average)	0.1	1.3	3.7	2.9	2.7	2.6	2.8	2.9	2.8
					(In percent of GDP)				
Central government budget									
Revenue and grants	36.1	34.2	34.3	34.0	33.8	33.6	33.5	33.5	33.3
Of which: grants	9.3	7.2	7.9	7.0	6.6	6.2	6.2	6.2	6.0
Expenditure	36.5	35.3	34.2	35.2	35.7	36.0	36.1	36.3	36.1
Of which: Expense	24.5	23.0	23.3	23.5	23.8	23.9	23.9	24.0	24.0
Of which: Net acquisition of non-financial assets	4.9	7.0	5.8	7.0	7.4	7.6	7.9	8.0	8.0
Net operating balance excl. grants	2.2	4.0	3.1	3.5	3.5	3.6	3.5	3.4	3.4
Overall fiscal balance	-0.4	-1.1	0.1	-1.2	-1.8	-2.3	-2.5	-2.7	-2.7
Overall fiscal balance excl. grants	-9.7	-8.3	-7.8	-8.2	-8.4	-8.5	-8.7	-8.9	-8.7
Public debt	52.6	49.1	50.3	49.3	48.9	49.8	50.8	51.6	53.7
					(12-month percent change)				
Macrofinancial variables									
Broad money (M2)	7.1	7.8	3.8	6.3	4.7	4.9	5.1	5.2	5.2
Net domestic assets	19.2	-0.7	-3.8	...	...	...	...	...	...
Private sector credit, Commercial banks	13.6	7.2	6.0	7.4	7.5	6.9	7.0	6.5	6.5
Total loan growth, Commercial banks	7.7	4.8	1.7	...	...	...	...	...	...
Total loan growth, Public financial institutions	3.3	4.4	6.0	...	...	...	...	...	...
					(Ratio)				
Individual credit to GDP	27.8	29.1	31.2	..	...	..	...	...	
Total capital to risk-weighted exposures	24.5	25.1	27.3	...	...	...	...	...	...
Non-performing loans	5.2	4.1	4.3	...	...	...	...	...	...
					(In millions of U.S. dollars)				
Balance of payments									
Current account balance	-37.3	-14.7	19.9	-4.2	-8.1	-6.9	-8.4	-9.4	-12.3
(In percent of GDP)	-4.7	-1.8	2.3	-0.5	-0.8	-0.7	-0.8	-0.9	-1.1
Merchandise exports, f.o.b. [2/]	36.9	38.0	35.6	42.9	43.3	44.2	45.1	46.0	46.9
Merchandise imports, f.o.b.	307.2	308.6	322.6	353.1	380.9	396.8	414.0	432.7	455.3
Services (net)	119.6	142.0	162.1	157.9	171.9	180.1	187.4	197.9	208.8
Income (net)	-18.6	-26.8	-28.9	-35.0	-29.1	-30.7	-30.1	-30.8	-31.1
Current transfers	132.0	140.7	173.8	183.1	186.6	196.3	203.2	210.2	218.5
External reserves and debt									
Gross official reserves	111.4	122.3	163.0	177.3	170.0	169.1	170.7	167.2	158.9
(In months of next year's imports of GNFS)	3.4	3.6	4.5	4.6	4.2	4.0	3.9	3.7	3.6
Public debt (in millions of tala) [3/]	1,080.7	1,047.4	1,113.8	1,160.2	1,234.6	1,317.8	1,411.2	1,509.6	1,651.9
(In percent of GDP)	52.6	49.1	50.3	49.3	48.9	49.8	50.8	51.6	53.7
External debt (in percent of GDP)	50.7	47.7	49.4	48.7	48.6	49.6	50.5	51.4	53.5
Exchange rates									
Market rate (tala/U.S. dollar, period average) [4/ 5/]	2.61	2.54	2.57	...	...	...	...	...	...
Market rate (tala/U.S. dollar, end period) [4/ 5/]	2.55	2.51	2.57	...	...	...	...	...	...
Nominal effective exchange rate (2010 = 100) [4/ 5/]	111.8	110.6	109.8	...	...	...	...	...	...
Real effective exchange rate (2010 = 100) [4/ 5/]	109.8	108.4	110.4	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	2,055	2,133	2,213	2,354	2,523	2,646	2,781	2,924	3,074
GDP per capita (U.S. dollars)	4,015	4,258	4,323	4,501	4,735	4,874	5,027	5,188	5,353

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

1/ Fiscal year beginning July.
2/ Includes re-export of fuel after 2009/10.
3/ Includes domestic and external public debt.
4/ IMF, Information Notice System (calendar year).
5/ Latest data available.

Table 2. Samoa: Balance of Payments, 2015/16 – 2023/24

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
				Proj.					
Current account balance	-37.3	-14.7	19.9	-4.2	-8.1	-6.9	-8.4	-9.4	-12.3
Goods balance	-270.3	-270.6	-287.1	-310.2	-337.6	-352.6	-368.9	-386.8	-408.4
Exports, fob 1/	36.9	38.0	35.6	42.9	43.3	44.2	45.1	46.0	46.9
Imports, fob	307.2	308.6	322.6	353.1	380.9	396.8	414.0	432.7	455.3
Services balance, net	119.6	142.0	162.1	157.9	171.9	180.1	187.4	197.9	208.8
o/w Tourism earnings	145.7	151.0	176.6	191.8	214.8	223.4	231.2	239.3	247.6
Primary income, net	-18.6	-26.8	-28.9	-35.0	-29.1	-30.7	-30.1	-30.8	-31.1
Secondary income, net	132.0	140.7	173.8	183.1	186.6	196.3	203.2	210.2	218.5
Official transfers, net	0.4	4.7	8.5	3.8	3.7	3.9	4.1	4.2	4.4
Private transfers, net	131.6	136.0	165.3	179.3	182.9	192.4	199.1	206.0	214.1
Capital account, net	27.2	43.2	29.2	31.2	22.2	21.7	22.6	23.5	23.7
Official	20.9	26.0	25.1	31.2	22.2	21.6	22.5	23.4	23.6
Private	6.3	17.2	4.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account, net 2/	-15.2	5.0	1.6	41.3	6.9	13.9	15.7	10.6	3.1
Direct investment, net	-6.2	8.5	-14.9	9.8	-13.0	-7.3	-0.3	-4.6	-1.2
Portfolio investment, net	0.2	5.6	0.4	4.8	1.7	9.6	3.6	7.2	0.3
Other investment	-9.2	-9.2	16.1	26.7	18.2	11.6	12.4	8.0	4.0
Assets	-7.3	-19.0	-19.9	16.0	-5.0	-5.1	-5.1	-5.2	-5.2
Liabilities	1.9	-9.8	-36.0	-10.8	-23.2	-16.7	-17.5	-13.2	-9.2
Errors and omissions	-21.4	-13.0	-5.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.1	23.5	47.6	-14.3	7.2	0.9	-1.6	3.5	8.3
Financing	-5.1	-23.5	-47.6	14.3	-7.2	-0.9	1.6	-3.5	-8.3
Change in gross official reserves	-16.3	10.5	41.6	-14.3	7.2	0.9	-1.6	3.5	8.3
Memorandum Items:									
Current account balance (in percent of GDP)	-4.7	-1.8	2.3	-0.5	-0.8	-0.7	-0.8	-0.9	-1.1
Gross official reserves (in million of U.S. dollars)	111.4	122.3	163.0	177.3	170.0	169.1	170.7	167.2	158.9
(In months of prospective imports of GNFS)	3.4	3.6	4.5	4.6	4.2	4.0	3.9	3.7	3.6
Exports of goods (annual percentage change)	32.3	2.9	-6.4	20.6	1.0	2.0	2.0	2.0	2.0
Imports of goods (annual percentage change)	-4.8	0.5	4.5	9.4	7.9	4.2	4.3	4.5	5.2
Remittances (in percent of GDP) 3/	16.7	16.2	19.2	19.8	19.0	19.3	19.2	19.1	19.0
Tourism earnings (in percent of GDP) 4/	18.5	17.9	20.5	21.2	22.4	22.4	22.3	22.1	22.0

Sources: Data provided by the Samoan authorities; and IMF staff estimates and projections.
Note: Presentation in line with BPM6.
1/ Including re-export of fuel after 2009/10.
2/ Excluding reserve assets
3/ Including other current transfers.
4/ Including other service credits.

Table 3. Samoa: Financial Operations of the Central Government, 2015/16 – 2023/24

			Est.	Staff Projections					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(In millions of tala)								
Total revenue	741.2	730.6	758.2	800.6	853.2	889.5	931.9	980.1	1024.2
Taxes	497.5	517.4	525.8	571.4	617.5	652.9	683.3	718.7	755.5
Other revenue	52.6	59.2	58.4	64.5	69.1	72.5	76.2	80.1	84.2
Grants	191.1	154.0	173.9	164.8	166.5	164.1	172.4	181.3	184.5
Expenditure	749.7	753.1	756.7	828.6	899.6	951.4	1002.6	1060.2	1108.5
Of which Expense	503.9	490.5	515.5	553.2	599.4	631.2	663.3	700.5	736.5
Compensation of employees	163.4	170.0	194.4	216.5	235.9	250.1	262.8	276.3	290.5
Use of goods and services	120.3	112.7	141.9	153.3	166.8	175.0	183.8	196.3	206.4
Interest payment	18.4	17.1	17.3	18.4	19.7	20.7	21.7	22.8	24.0
Other expense	201.8	190.7	161.8	165.0	176.9	185.5	195.0	205.0	215.6
Of which Net acquisition of non-financial asset	100.1	149.5	128.4	164.8	186.7	201.1	219.7	234.0	246.0
Net operating balance excl. grants	46.2	86.1	68.7	82.6	87.3	94.2	96.2	98.3	103.3
Overall fiscal balance	-8.5	-22.5	1.5	-28.0	-46.4	-61.9	-70.6	-80.1	-84.3
Overall fiscal balance excl. grants	-199.6	-176.5	-172.5	-192.8	-213.0	-226.0	-243.0	-261.5	-268.7
Net acquisition of financial asset	-35.3	-9.3	-29.9	9.0	-10.8	-12.0	-4.9	-2.6	-0.3
Net incurrence of liabilities	-0.8	-6.7	17.8	33.6	52.6	64.6	72.1	80.5	84.3
Domestic	-9.9	-9.5	-9.8	-5.6	-6.2	-2.6	-1.5	-0.3	0.0
Foreign	9.1	2.8	27.6	39.2	58.8	67.2	73.6	80.8	84.3
	(In percent of GDP)								
Total revenue	36.1	34.2	34.3	34.0	33.8	33.6	33.5	33.5	33.3
Taxes	24.2	24.3	23.8	24.3	24.5	24.7	24.6	24.6	24.6
Other revenue	2.6	2.8	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Grants	9.3	7.2	7.9	7.0	6.6	6.2	6.2	6.2	6.0
Expenditure	36.5	35.3	34.2	35.2	35.7	36.0	36.1	36.3	36.1
Of which Expense	24.5	23.0	23.3	23.5	23.8	23.9	23.9	24.0	24.0
Compensation of employees	8.0	8.0	8.8	9.2	9.4	9.5	9.5	9.5	9.5
Use of goods and services	5.9	5.3	6.4	6.5	6.6	6.6	6.6	6.7	6.7
Interest payment	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other expense	9.8	8.9	7.3	7.0	7.0	7.0	7.0	7.0	7.0
Of which Net acquisition of non-financial asset	4.9	7.0	5.8	7.0	7.4	7.6	7.9	8.0	8.0
Net operating balance excl. grants 1/	2.2	4.0	3.1	3.5	3.5	3.6	3.5	3.4	3.4
Overall fiscal balance 2/	-0.4	-1.1	0.1	-1.2	-1.8	-2.3	-2.5	-2.7	-2.7
Overall fiscal balance excl. grants 3/	-9.7	-8.3	-7.8	-8.2	-8.4	-8.5	-8.7	-8.9	-8.7
Net acquisition of financial asset	-1.7	-0.4	-1.4	0.4	-0.4	-0.5	-0.2	-0.1	0.0
Net incurrence of liabilities	0.0	-0.3	0.8	1.4	2.1	2.4	2.6	2.8	2.7
Domestic	-0.5	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Foreign	0.4	0.1	1.2	1.7	2.3	2.5	2.6	2.8	2.7
Memorandum items:									
Central government public debt	52.6	49.1	50.3	49.3	48.9	49.8	50.8	51.6	53.7
Domestic	1.9	1.4	0.9	0.6	0.4	0.2	0.2	0.2	0.2
External	50.7	47.7	49.4	48.7	48.6	49.6	50.5	51.4	53.5
Nominal GDP (millions of tala)	2055.3	2133.2	2213.5	2353.7	2523.1	2646.1	2780.6	2924.3	3074.4

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

1/ Net operating balance excluding grants corresponds to the difference between Revenue excluding grants and Expenses.

2/ Overall fiscal balance corresponds to the difference between Total Revenue and Expenditure.

3/ Overall fiscal balance excluding grants corresponds to the difference between Total Revenue excluding Grants and Expenditure.

Table 4. Samoa: Monetary Developments, 2012/13 – December 2018

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Dec. 2018
	(In millions of Tala; end of period)						
Depository Corporations							
Net foreign assets	180	301	181	150	199	376	422
Gross reserves	228	255	311	256	290	399	426
Other foreign assets	69	252	149	173	175	125	112
Foreign liabilities	117	205	279	278.5	266	149	117
Net domestic assets	521	532	659	746	769	751	770
Net credit to central government	-96	-101	-116	-133	-199	-197	-224
Net credit to public nonfinancial corporations	38	35	36	37	15	12	10
Credit to private sector	709	734	827	940	1,022	1,015	1,074
Other items (net)	-130	-137	-89	-98	-69	-78	-90
Broad money	700	832	836	895	965	1,124	1,188
Narrow money	259	380	356	394	406	499	526
Currency outside banks	61	46	49	61	67	75	103
Transferable deposits	199	334	307	333	338	424	423
Other deposits	441	451	480	501	560	625	662
Central Bank							
Net foreign assets	200	227	243	195	236	346	378
Gross reserves	228	255	311	256	290	399	426
Other foreign assets	14	14	12	14	15	15	16
Foreign liabilities	42	41	80	75	69	68	64
Net domestic assets	-26	-5	19	20	20	-25	-7
Net credit to central government	-59	-64	-88	-103	-125	-142	-131
Net credit to financial corporations	34	70	102	130	139	116	116
Other items (net)	-1	-11	4	-6	6	1	8
Monetary Base	174	222	262	216	257	320	371
Currency in circulation	78	68	76	83	90	102	143
Other liabilities to deposit money banks	96	154	186	133	167	219	228
Other Depository Corporations							
Net foreign assets	-20	74	-63	-45	-37	30	44
Foreign assets	54	238	137	159	160	111	97
Foreign liabilities	75	164	200	204	197	80	53
Net domestic assets	661	713	853	880	938	1,022	1,045
Net credit to central government	-37	-37	-28	-30	-74	-55	-93
Net credit to public nonfinancial corporations	38	35	36	37	15	12	10
Credit to private sector	707	748	820	934	1,017	1,010	1,070
Net credit to financial corporation	127	193	220	135	191	264	289
Other items (net)	-174	-227	-195	-196	-211	-209	-232
Deposits	640	785	787	834	898	1,049	1,085
Transferable deposits	199	334	307	333	338	424	423
Other deposits	441	451	480	501	560	625	662
	(In percent, unless otherwise indicated)						
Money velocity 1/	2.6	2.5	2.3	2.3	2.2	2.0	2.0
Money multiplier 2/	4.0	3.7	3.2	4.1	3.8	3.5	3.2
Private credit/GDP 3/	38.6	39.3	42.4	45.7	47.9	45.8	48.5
Private credit/deposits 3/	110.9	93.5	105.1	112.7	113.8	96.7	99.0
Annual broad money growth	-0.8	18.7	0.6	7.1	7.8	16.5	8.8
Annual reserve money growth	-15.0	27.5	18.2	-17.6	18.8	24.9	22.3
Annual private credit growth 3/	1.1	3.5	12.7	13.6	8.7	-0.7	5.0
Lending rate 4/	10.2	10.2	9.6	9.4	8.7	8.9	9.0
Deposit rate 4/	2.8	3.1	2.6	2.4	2.6	2.8	2.7

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 – 2017/18

	2013/14	2014/15	2015/16	2016/17	2017/18
Capital Adequacy					
Regulatory Capital to Risk-Weighted Assets, Ratio	29.7	27.1	24.5	25.1	27.3
Regulatory Tier 1 Capital to Risk-Weighted Assets, Ratio	25.4	22.9	19.9	20.4	22.7
Non-performing Loans Net of Provisions to Capital, Ratio	…	…	9.0	4.5	2.8
Capital to Assets, Ratio	17.1	15.9	16.2	15.8	16.7
Asset Quality					
Non-performing Loans to Total Gross Loans, Ratio	8.3	7.1	5.2	4.1	4.3
Provisions to non-performing loans	53.5	50.8	64.4	77.9	85.1
Large Exposures to Capital, Ratio	…	…	98.2	110.8	110.8
Earnings and Profitability					
Return on Assets, Ratio 1/	1.9	1.8	4.2	4.2	3.1
Return on Equity, Ratio 1/	10.5	11.0	25.9	25.9	18.9
Liquidity Ratios					
Liquid Assets to Total Assets (Liquid Asset Ratio), Ratio	13.1	14.5	8.1	9.7	13.8
Liquid Assets to Short Term Liabilities, Ratio	…	…	23.3	25.5	30.3
Total loans to total domestic deposits	89.0	116.0	130.6	118.0	108.9
Sensitivity to Market Risk					
Net Open Position in Foreign Exchange to Capital, Ratio	7.3	12.8	14.5	28.4	25.1
Distribution of Total Loans					
Sectoral Distribution of Total Loans: Deposit-takers, Ratio	…	…	0.0	0.0	0.0
Sectoral Distribution of Total Loans: General Government, Ratio	…	…	1.5	1.1	0.9
Sectoral Distribution of Total Loans: Nonfinancial Corporations , Ratio	…	…	58.0	57.2	53.8
Sectoral Distribution of Total Loans: Nonresidents, Ratio	…	…	4.1	4.3	0.2
Sectoral Distribution of Total Loans: Other Domestic Sectors, Ratio	…	…	35.3	36.0	41.2
Sectoral Distribution of Total Loans: Other Financial Corporations , Ratio	…	…	1.1	1.4	4.0
Foreign-Currency-Denominated Loans to Total Loans, Ratio	…	…	13.2	13.8	4.1
Commercial Real Estate Loans to Total Loans, Ratio	…	…	42.9	35.5	35.9
Residential Real Estate Loans to Total Loans, Ratio	…	…	29.3	33.6	37.7
Other Indicators					
Assets to Total Financial System Assets, Ratio	48.4	44.8	46.3	49.2	44.9
Assets to Gross Domestic Product (GDP), Ratio	…	…	43.8	46.8	47.1

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: Strategy for Development 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.

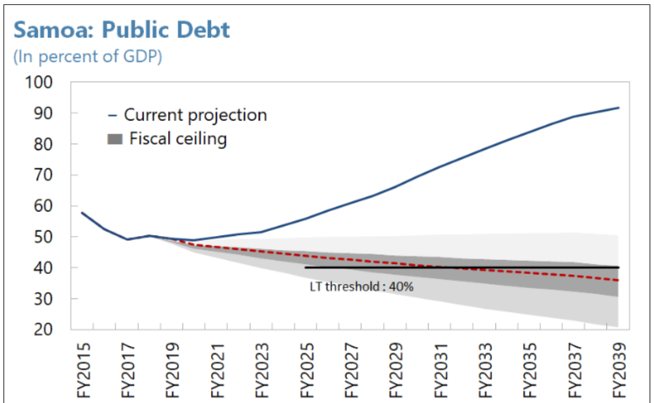
Annex I. Risk Assessment Matrix[1]

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)	
Domestic			
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.
Loss of CBRs	**High** The tight global regulatory landscape, which could be exacerbated by a tightening of global financial conditions, could result in withdrawal of CBRs. In the absence of progress in reforms, the closure of bank accounts of money transfer operators (MTOs) is likely to continue and could 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 could lead to lower consumption but 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 simple IT solution to verify customers' identity electronically against the OEC database; address the risks from the offshore sector by aligning the pertinent legislation with FATF standards. Strengthen digital and financial literacy to facilitate use of mobile cross border payments.
External			
Large swings in energy prices	**Medium** Uncertainty surrounding demand and supply shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings.	**Medium/High** Sharp swings in inflation could cause a slowdown in lending activity and output. Rising commodity prices would result in higher imports that would widen the trade balance, drain the economy of FX reserves, and dampen consumption and investment.	Expand efforts to deepen and develop the financial sector, improve the monetary transmission mechanism, and improve FX liquidity forecasting. Diversify the export base.
Rising protectionism and retreat from multilateralism	**High** Escalating and sustained trade actions threaten the global trade system, regional integration, as well as global and regional collaboration. Additional barriers and the threat of new actions reduce growth both directly and indirectly.	**Medium** Weaker global and regional growth resulting from protectionism could lead to a sharp decline in exports, tourism earnings, and remittances. This could worsen the current account balance, reduce fiscal revenues, and inhibit growth. Global financial market volatility could exacerbate CBR withdrawal.	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, use of technology to reduce the price of remittances, explore opportunities for broadening the export base.

[1]The Risk Assessment Matrix (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. A Possible Fiscal Path for Samoa[1]

1. **The proposed 40 percent of GDP debt target can be reached by keeping the fiscal deficit below 2 percent of GDP.** In Samoa, an overall fiscal deficit ceiling of 2 percent of GDP would allow the debt-to-GDP ratio to converge towards 40 percent in the long term, due to favorable debt dynamics. This would provide a straightforward short-term operational guidance for the annual budget to ensure long-term debt sustainability. Implementing the deficit ceiling during the transition period to a strengthened PFM framework could also serve as a practical test for a potential future implementation of a more rule-based framework.



Note: The fan chart depicts the projected public debt as a function of different overall balance deficit. The upper boundary corresponds to an overall balance deficit constantly equal to 2 percent of GDP; each band below corresponds to an overall balance lowered by 0.5pp.

2. **In normal times, automatic stabilizers could help Samoa to stay on the debt stabilizing path.** The text table provides an illustrative example of how shocks to growth within the 25th-75th percentile of the historical distribution (implying growth between 0.5 and 5.3 percent) could influence the overall fiscal balance. Letting the automatic stabilizers operate would imply that the overall balance remains within the -1.9 to 0.5 percent of GDP range. The example also illustrates that when the economy is at its medium-term potential growth rate of 2.2 percent (based on historical averages), that the fiscal deficit would be at about 1 percent of GDP.

Illustrative Example of Automatic Stabilizers

Real GDP growth (In percent)	Expected Overall Fiscal Balance (In percent of GDP)
0.5	-1.9
1.0	-1.6
2.0	-1.1
2.2	-1.0
3.0	-0.6
4.0	-0.1
5.3	0.5

Source: IMF staff calculations.

[1] Prepared by Magali Pinat.

Annex III. External Sector Assessment[1]

The external balance assessment suggests that the external position is in line with fundamentals and desirable policy settings. Staff's analysis point to a current account gap of around 1 percent of GDP. Although the level of reserves is adequate according to the ARA metric for credit constrained economies, it is close to the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken in to account. Building additional external buffers would help increase resilience.

1. **Current account developments.** The current account (CA) recorded a surplus of 2.3 percent of GDP in 2017/18, an increase of about 4 percentage points of GDP compared to 2016/17. The stronger than expected current account balance was driven by higher than average secondary income credits, primarily in the form of tourism receipts as well as official and private transfers (remittances). In staff's judgement, the improved current account surplus is temporary. Tourism receipts are projected to remain strong in anticipation of the Pacific Games in FY 2019/20 but to return to the average annual growth rate of about 4 percent afterwards. Private transfer spiked in the aftermath of Cyclone Gita and are expected to return to a level below 20 percent of GDP. The trade balance is expected to widen due to an increase of imports ahead of the Pacific Games in 2018/19 before stabilizing in 2020/21. In the baseline scenario, and under the assumption of no natural disasters, the current account deficit is expected to gradually widen to about 1 percent of GDP over the medium term.

2. **The revised EBA-Lite current account approach suggests that Samoa's external position is in line with fundamentals.** Staff adjusted the current account to correct for the exceptionally large transfers by lowering them to their ten-year historical average. This resulted in a cyclically adjusted CA balance of -0.7 percent of GDP and an estimated current account gap of around 1 percent of GDP. On this basis, staff assess the external position to be in line with fundamentals.

Revised EBA-Lite CA Template
(In percent of GDP)

CA-Actual	2.3
Cyclical Contributions (from model)	0.0
Adjustment for Temporary Factors 1/	3.0
Cyclically adjusted CA	-0.7
CA-Norm 2/	-2.3
Cyclically adjusted CA Norm	-2.3
Multilaterally Consistent Cyclically adjusted CA Norm	-1.7
CA-Gap	1.0
of/which Policy gap	-2.8
Elasticity	-0.28
REER Gap	-3.8
CA-Fitted	-3.7
Residual	6.0
Natural Disasters and Conflicts 3/	1.4

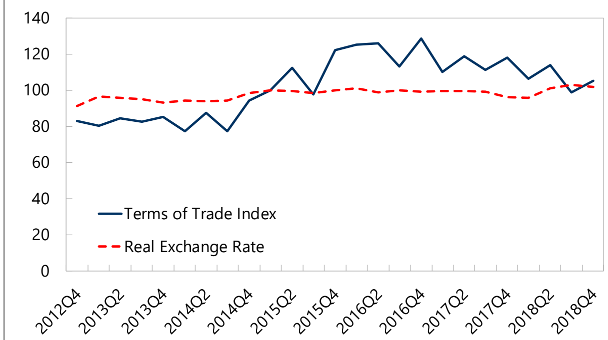
1/ Current transfers adjusted to bring the total amount in line with the ten-year average.
2/ Data on net migration and output per worker changed to align with recent data.
3/ Includes natural disaster dummy to account for the effects of Cyclone Gita.

[1] Prepared by Sonja Davidovic.

3. Data gaps and quality considerations hamper the application of the external sustainability and the Index Real Effective Exchange Rate (IREER) approach to assess the external position. The external sustainability approach requires IIP data, which the authorities do not produce currently. The IREER approach has only limited usefulness for Samoa given the limited quality of the longer time series data required for the model. Moreover, current transfers, as the main contributors to the current account, are less sensitive to exchange rate developments. Tourism receipts are also largely driven by expansion of airway and hotel capacity rather than price considerations.

4. Exchange rate assessment. The CA model suggests that the Samoan Tala is undervalued, whereas the IREER model points to an overvaluation. In 2017/18, the Tala appreciated against three of the basket currencies (Australian dollar, New Zealand dollar, and Euro) but depreciated against the US dollar partly due to the ongoing trade disputes between China and the United States and the tightening of U.S. monetary policy throughout 2018. Despite the contradictory conclusions of the two external sector assessment models, the REER generally remained flat over the past several years notwithstanding the improvements in a tourism-based terms-of-trade index over the past five years. On this basis, staff assess the REER to be broadly in line with fundamentals.

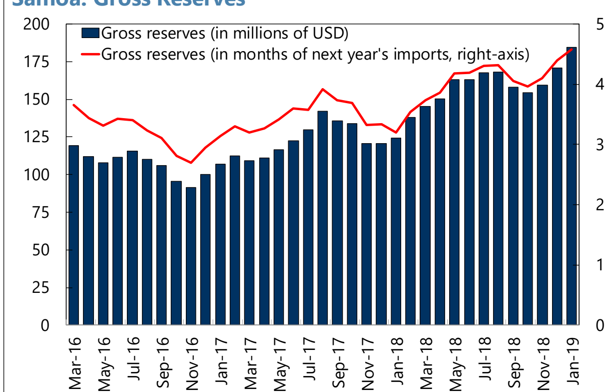
Samoa: Tourism Terms of Trade Index, 2012 Q4 to 2018 Q4 1/
(2015Q1 = 100)



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

5. Reserve adequacy. At about 4 months of imports, the level of reserves is adequate according to the ARA metric for credit constrained economies but close to the lower bound of the desirable range once Samoa's vulnerability to natural disasters is taken in to account. Reserves have risen from 3.6 months of import cover at the end of the 2016/17 fiscal year to 4.5 months in the same period 2017/18 and are projected to reach 4.6 months at the end of fiscal year 2018/19. Applying the ARA metric for credit constrained economies suggests an optimal level of reserves between 2.9 to 4.7 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 6.5 months of imports, depending on the assumed opportunity cost of holding reserves.

Samoa: 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 IV. 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 and other financial institutions in line with IMF requirements, but data reporting requires overhaul. Lack of data impedes a comprehensive financial stability assessment. The authorities explained that internal capacity constraints need to be resolved before TA can be received.
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 repealed the CBS Act 1984. TA work has been undertaken on the amendments to the 1996 Financial Institutions Act (FIA) which takes into consideration corrective actions and resolution options, governors discretion etc. The amendment is with the Attorney General awaiting submission to Parliament for approval in 2019.
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 has gradually increased. Additional two staff are expected to join the supervision department, but capacity and cost remain a challenge.
Banking supervision and regulation	
Conduct regular on-site inspections, and in-depth assessments of financial statements (including asset quality reviews, of potentially vulnerable banks).	The CBS conducted regular onsite inspections of financial institutions, both PFIs and commercial banks. 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.	The authorities issued all prudential standards. The standards have been opened for industry consultation in early 2019. The CBS is expected to receive final comments from commercial banks in March and finalize the standards in April 2019.
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.	Publication of FSIs mandatory for all PFIs. CBS produces quarterly reports based on consolidated FSIs for all PFIs.
CBS to issue and upgrade prudential regulations for PFIs.	The CBS received comments from industry consultations and will finalize the prudential regulations for the insurance and housing sectors by June 2019.
CBS to start on-site inspections of PFIs.	On-site inspections of the Samoa National Provident Fund, Development Bank of Samoa, and the Unit Trust of Samoa conducted in 2018. Supervision expanded to all PFIs with on-site inspections conducted every other year

Recommendation	Action Taken
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.
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 Minister for Public Enterprises signed off on the Director's Handbook in December 2018. The Compensation Review for Public Body Boards is expected to be submitted to Cabinet by the end of March 2019. Amendments to the Public Bodies Act and the Recruitment and Selection Guidelines and Performance Management Framework for CEOs of Public Body is in progress. Both are expected to be submitted to Parliament for approval by June 2019. There have been no reforms to the mandates of PFIs.
Crisis preparedness	
Adopt a full set of enforcement and resolution instruments.	Amendments to the 1996 FIA have been finalized and submitted to the Attorney General. The amendments are expected to be approved by Parliament in 2019. Resolution and enforcement have been priority areas and relevant provisions have 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. The draft document is expected to be finalized by mid-June pending the review of terms and conditions of World Bank and ADB emergency funding facilities.
Systemic financial stability	
CBS and Ministry of Finance to create financial stability and contingency planning committees.	The financial stability committee has been created but only one meeting has taken place. Regular meetings are contingent on additional stress test results.
CBS to analyze systemic risks, including stress testing and macro-financial mapping.	A preliminary and unofficial stress testing exercise was conducted in-house by CBS staff during in 2018. Staff understands that the most recent stress test revealed that the banking sector is vulnerable to natural disasters and changes in tourism receipts. The authorities explored stress test templates of regional peers but have yet to begin using them. Macro-financial mapping has not been undertaken thus far.

Recommendation	Action Taken
Central bank policies and operations	
CBS to unwind lending to Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC).	The authorities approved a credit line facility (CLF) to the DBS in the amount of 10 million tala in May 2018 in the aftermath of cyclone Gita. The DBS extended only 5 million tala to SMEs in the agriculture and other small business services sectors. The authorities explained that the CLF is only extended in the event of natural disasters that affect economic development.
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.	The ADB diagnostic assessment for the establishment of a credit bureau was completed in November 2018. The ADB is expected to continue providing the authorities with TA to set up a credit bureau. The mission discussed alternative approaches to credit scoring and credit sharing (Box 4).
Insurance	
CBS to develop insurance supervisory strategy and capacity building plans.	The authorities - Issued eight Insurance Supervision Prudential Standards (ISPS) that were forwarded to the industry for consultation. - Held bilateral discussion with insurance companies regarding their financial performance and reporting and the revised ISPS. - Commenced enforcement of revised report forms in September 2018. - Compiled reports for the insurance industry that are linked to the CBS annual reports. - First onsite inspections of the insurance sector to begin in April 2019. The authorities require additional training or TA to carry out that supervision task. Three PFTC TA missions on the amendment of the 2007 Insurance Act are planned in 2019/20.
Payment system and financial market infrastructure	
CBS to implement the new National Payment Systems.	The World Bank procurement process has been completed in January 2019. Implementation will begin with a scoping mission in early March 2019.

Annex V. Enhancing Customer Identification of MTOs[1]

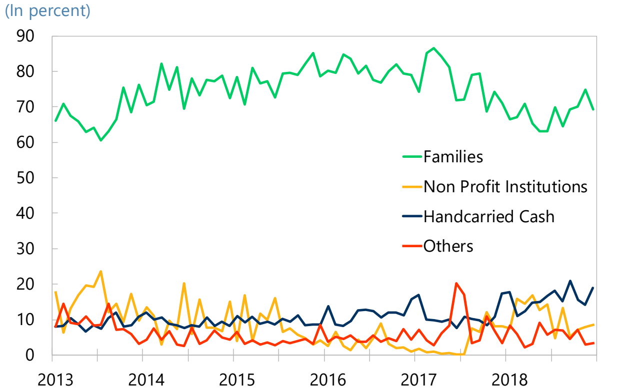
1. **Customer identification poses a challenge to MTOs.** Samoans throughout their lifetime may acquire additional names according to tradition and custom. Lack of uniformity in the use of names in government-issued identification (i.e., birth certificate, passport, driver's license, National Provident Fund ID) could lead to confusion in sending and receiving remittances. For example, the sender from Australia and New Zealand may have used one name, but the receiver in Samoa uses a government-ID with a different name when requesting the payout at the local MTO. While there are plans to create a national digital ID system, its establishment is not foreseen in the near future.

2. **The database of the Office of the Electoral Commissioner (OEC) is comprehensive and includes biometric information.** Almost 80 percent of eligible Samoan voters (ages 21 and above) are covered in the OEC database. The system captures the registered voter's photo, fingerprint, signature, residence and date of birth.

3. **Three of the largest domestic MTOs have entered into an agreement with the OEC for purposes of customer identification.** MTO customers who do not have an acceptable ID are asked to register with the OEC. The OEC captures the customer's biometric information and issues a paper certificate with its stamp and validating signature. After paying a 10-tala fee, the customer presents the OEC certificate to the MTO. The MTO then calls a direct OEC line to confirm the details in the certificate. Once confirmed, the MTO keeps the certificate in its records and consider it a valid customer identification for a period of 12 months only. This arrangement is beneficial to the MTO (allowing them a reliable source of customer identification) and the OEC (voter information is expanded and kept up to date).

4. **IT solutions should be implemented in the short term to speed up the customer identification process and reduce the costs to the customers.** Instead of the securing a paper certificate, the OEC could provide MTOs limited access to the OEC database to verify a customer's voter profile. A customer could provide critical information including a finger print, that the MTO could electronically verify against the OEC database. If the customer's voter profile is current, the MTO verification could be instantaneous. This would also obviate the need for the customer to pay a fee to get the paper certificate or renew the OEC certificate every 12 months. The authorities are working in this direction with support by the ADB.

Samoa: Remittances by Recipients
(In percent)



Sources: Samoan authorities; and IMF staff calculations.

[1] Prepared by Jonathan Pampolina.

Annex VI. The Minimum Wage in Samoa[1]

1. Samoa's current official minimum wage in the private sector is below the average in comparable countries. The recent increase of civil servant salaries to match the increase in the cost of living, fostered a discussion on a potential increase of the minimum wage in the private sector. Since 2012, the minimum wage in the private sector is 2.3 Samoan tala per hour, corresponding to less than one U.S. dollar per hour. Compared to PICs and countries with similar living standards, this level appears to be on the lower side of the distribution, in particular when the measure is adjusted for differences in worker productivity.[2] In this case, the minimum wage in Samoa is the lowest among PICs.

2. The appropriate level of minimum wage should provide a "decent wage floor" without affecting firm productivity and employment. As a general principle, the minimum wage should be set such as both the needs of workers and their families are met without affecting economic factors such as productivity or the level of employment. Factors to take into consideration when setting the level minimum wage include:

- **Wage distribution.** As a rule of thumb, the minimum wage should not exceed 40 percent of the average wage[3]. In Samoa, the current minimum wage of 2.3 Samoan tala per hour accounts for 31 percent of the average wage. In 2016, 20 percent of the employees in the private sector, mainly in retail activities, were earning the minimum wage.

- **Employment rates.** The impact of a hike in minimum wage on employment is expected to be positive if the minimum wage is low with respect to the median wage, as unemployed and people outside of the labor force have more incentive to search for a job. However, the impact is expected to be negative when the minimum wage is high, as it may increase unemployment and push formal workers to the informal sector. The negative effect is particularly important if a large share of the population is young or low-skilled. In Samoa, the unemployment rate was 14.5 percent in 2017 and reached 31.9 percent for the group of 15-24 years old. Labor force participation is also relatively low compared to other countries, accounting for only 43.3 percent of the working age population in 2017.

- **Informality and law enforcement.** Raising the minimum wage is expected to reduce poverty and inequality in most developing countries, but the impact is limited to the workers in the formal sector. The larger the informal sector, the smaller the expected impact. In Samoa, the informal employment rate is estimated to be 37.3 percent, with most of these informal workers employed in the agricultural sector. Closely linked with the level of informality, the compliance

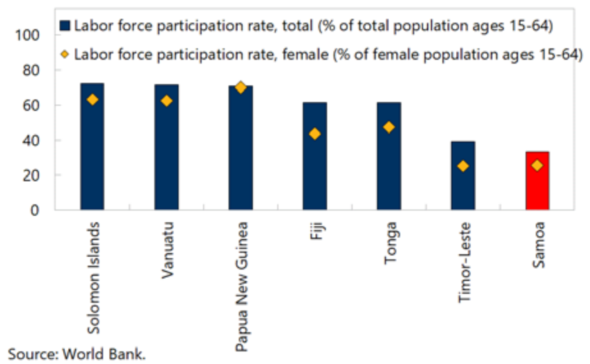
[1] Prepared by Magali Pinat.

[2] The ratio of the minimum wage to the average value added per worker is a proxy of the productivity per worker. This measure should be interpreted with caution as *average* worker, and not necessarily of the worker paid at the minimum wage.

[3] For further details, see the IMF Selected Issue Paper 16/151 "Cross-country Report on Minimum Wages"; and "The Minimum Wage: Curse of Cure?", Human Development Economics, Europe and Central Asia Region, The World Bank, by Jan Rutkowski (2003).

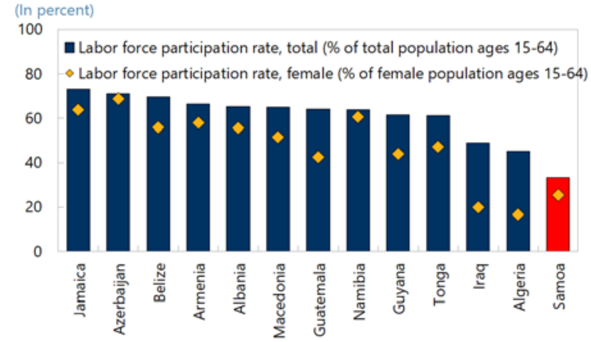
rate is another important measure to assess the potential impact of an increase in the minimum wage. In the private sector, 6.5 percent of the workers were paid below the minimum wage in 2016, setting the compliance rate to 93.5 percent.

Labor Force Participation in Selected Pacific Countries, 2018
(In percent)



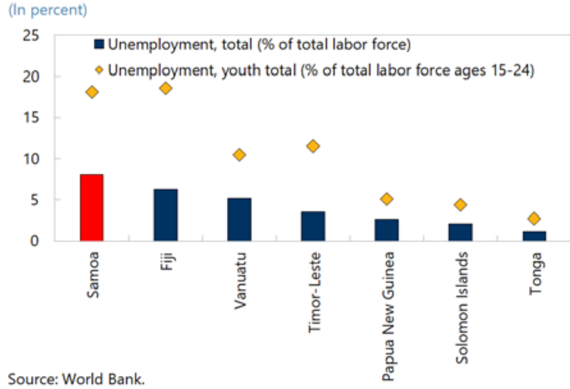
Source: World Bank.

Labor Force Participation - Samoa and Selected Countries with Comparable GNI Per Capita, 2018
(In percent)



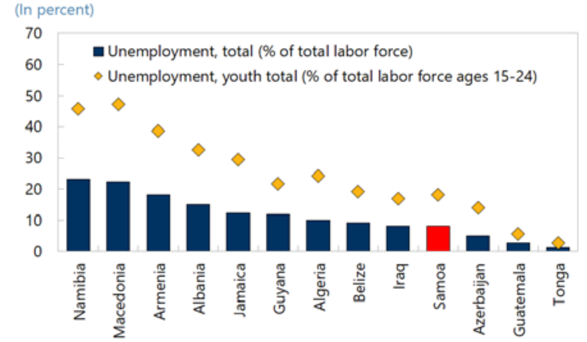
Sources: World Bank.

Unemployment in Selected Pacific Island Countries, 2018
(In percent)



Source: World Bank.

Unemployment - Samoa and Selected Countries with Comparable GNI Per Capita, 2018
(In percent)



Source: World Bank.

3. **An increase of the minimum wage to a level situated close to 3 Samoan tala per hour could be broadly appropriate**[4]. Considering the low level of the current minimum wage with comparable countries but also the high level of unemployment, particularly for youth and low-skilled worker, and the large number of informal workers, increasing the minimum wage in the private sector to a level close to 3 Samoan tala per hour could be appropriate. Negotiations on the level of the minimum wage will have to involve all social partners, including small entrepreneurs, to avoid reduction of competition by excluding small business[5]. Scheduling regular revisions of the minimum wage would also help to match the evolution of the cost of living.

[4] The note is based on data from the Labor Market Survey (2016) and the Labor Force Survey (2016). The closure of Yazaki in 2017 might have impacted the estimation of unemployment, labor force, and informality. A structural change in those estimates would necessarily impact the analysis.

[5] For further details, see "Employment and Wage Effects of Extending Collective Wage Bargaining Agreements" IZA World of Labor No. 136, by Ernesto Villanueva (2015).

INTERNATIONAL MONETARY FUND

SAMOA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 26, 2019

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of February 28, 2019)

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	6.25	56.34

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RFC Loans	5.22	32.22
ESF RAC loan	1.16	7.16

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				
	2019	**2020**	**2021**	**2022**	**2023**
Principal	2.32	1.16	1.16	1.16	0.58
Charges/interest	0.04	0.06	0.06	0.06	0.06
Total	**2.36**	**1.22**	**1.22**	**1.22**	**0.64**

[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. Samoa has accepted the obligations of Article VIII, Sections 2,3, and 4 and maintains an exchange system free of restrictions on the making and payments for current international transactions 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 21-March 5, 2018. The consultation was concluded by the Executive Board on May 7, 2018 (IMF Country Report No. 18/145).

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 addition, the financial statements (FS) and the management letter are made available timely within three months of the FY year-end and the FS are also published. However, the CBS should take further steps to enhance oversight of audit functions.

AML/CFT

Samoa's AML/CFT regime was assessed in 2015 by the Asia Pacific Group on Money Laundering (APG) under the revised 2012 FATF standard. In the mutual evaluation report (MER), the APG found significant shortcomings in Samoa's AML/CFT regime, rating it low or moderately effective in 10 out of the 11 immediate outcomes on effectiveness, and non-compliant or partially compliant in 23 of the 40 technical recommendations. Following the APG assessment, the authorities developed the 2016-2020 national AML/CFT strategy and are making progress towards its implementation. Further amendments to the Money Laundering Prevention Act were passed in 2018. In the 2018 follow-up report, the APG re-rated Samoa from partially to largely compliant for three of the 40 FATF technical recommendations. Owing to overall progress in addressing technical compliance deficiencies, Samoa was moved from (expedited) enhanced follow-up to enhanced follow-up monitoring. APG will conduct its five-year follow-up on-site assessment in 2020 to review the progress made on the priority actions in the MER and other areas where Samoa had significant deficiencies.

Technical Assistance

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, and financial sector supervision (see table). From Headquarters: 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; FAD with tax administration; LEG with the central bank law. Samoa is an IMF pilot on Correspondent Banking Relationships (CBR), on which it has received technical assistance from LEG and MCM in 2017 and follow-up assistance from LEG during the 2019 Article IV mission. APD also organized, together with the Asian Development Bank (ADB), high level roundtables in Sydney on February 5 and Auckland on February 7-8, 2018 to identify practical solutions to address the costs and risks of transferring remittances to Pacific countries and difficulties in undertaking cross-border transactions. The events were financially supported by the governments of Australia and New Zealand.

FY 2018		
	National Accounts	PFTAC
	Government Finance Statistics	PFTAC
	Balance of Payments Statistics	STA
	Expand the Use and Functionality of the Samoa Economic and Forecasting (SERF) Model	PFTAC
	Strengthening Arrears and Returns Management	PFTAC
	Introducing an industry partnership approach to improve tax compliance in cash economy sectors	PFTAC
	Improving Accounting and Reporting Frameworks	PFTAC
	Improving Fiscal Oversight of the financial and non-commercial SOEs	PFTAC
	Medium -term Expenditure Planning for National Sustainable Development (PFM/ Macro)	PFTAC and UN/ESCAP
	Senior Managers Workshop (Revenue)	PFTAC and PITAA
	FY18-20 Multi-Topic TA	MCM
	PTFAC Reg. TA Center	OTM
	Monetary and Financial Statistics	STA
	Correspondent Banking Relationships	MCM and LEG
FY 2017	Strengthen the Audit Function	PFTAC
	On-site examination Program	PFTAC
	Assist updating prudential standards for banks	PFTAC
	Financial Stability Analysis	MCM
	e-GDDS Implementation (JSA APD)	STA
	National Accounts	PFTAC
	Attend Compliance Improvement Strategy Launch	PFTAC
	Develop Accounting Policy	PFTAC
	On-site examination Program	PFTAC
	Improve cash management	PFTAC

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 OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other IFIs in Samoa can be found at:

- World Bank Group:
  http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=WS
- Asian Development Bank:
  https://www.adb.org/countries/samoa/main
- Pacific Financial Technical Assistance Center:
  https://www.pftac.org/content/PFTAC/en1/reports11.html#tab_5

STATISTICAL ISSUES

(As of March 2019)

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 have been improved during the last three years. GDP is compiled by production on a quarterly basis, predominantly using value added tax data. GDP by production is in the process of being rebased from 2009 to 2013, which is expected to be published in 2019 H1. Parallel development work on an experimental estimate of GDP by expenditure will be resumed after rebasing.
Price Statistics: The CPI is compiled monthly with a less than one-month lag (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 with a lag of around six weeks, with coverage limited to chapters 01-27 of the Harmonized System.
Government Finance Statistics: Samoa compiles GFS and report data to the IMF's annual GFS database. The latest submission included general government data (the statement of sources and uses of cash) for FY2013-17, the first dissemination by Samoa of general government GFS. The Bureau of Statistics also compiles quarterly GFS for the budgetary central government, and the Ministry of Finance produces central government debt data; these data are disseminated through Samoa's e-GDDS National Summary Data Page. The authorities intend to expand the coverage for GFS and debt statistics beyond general government to include the rest of the public sector.
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 reporting Financial Soundness Indicators (FSIs) to the IMF in March 2016. The authorities report all 12 core and 7 encouraged FSIs for deposit takers, two FSIs for other financial corporations, and two FSIs for real estate markets, with quarterly frequency.
External sector statistics (ESS): the Central Bank of Samoa compiles quarterly balance of payments. As part of the Project to Improve ESS in the Asia–Pacific Region, funded by the Government of Japan and managed by the STA and the IMF Capacity Development Office in Thailand (CDOT), Samoa should continue developing source data mainly from non-financial corporations to compile international investment data. The Dissemination of initial estimates of the IIP depends on the availability of the results of the international investment survey. The source of data on exports of goods needs to be changed to the International Merchandise Trade Statistics, instead of the exchange control records currently used. Human resources are limited as the two economists in charge of compiling ESS also have responsibility for real sector statistics. The offshore financial and non-financial companies are not currently included in Samoa's balance of payments statement due to insufficient data provided by the regulator. Moreover, incorporating 2018 international visitors survey final results would improve travel as well as remittances estimates.

II. Data Standards and Quality	
Samoa participated in the General Data Dissemination System in 2012, which was superseded by the enhanced General Data Dissemination System (e-GDDS) in 2015. Beginning from April 2017, Samoa disseminates key macroeconomic and financial statistics through a web-based National Summary Data Page.	No data module ROSC has so far been conducted in Samoa.

Samoa – Table of Common Indicators Required for Surveillance

(As of March 2019)

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of Publication[4]
Exchange Rates	03/05/19	03/05/19	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	1/19	03/05/19	M	M	M
Reserve/Base Money	12/18	03/05/19	M	M	M
Broad Money	12/18	03/05/19	M	M	M
Central Bank Balance Sheet	12/18	03/05/19	M	M	N/A
Consolidated Balance Sheet of the Banking System[1]	12/18	03/05/19	M	M	N/A
Interest Rates[2]	12/18	03/05/19	M	M	M
Consumer Price Index	02/19	03/05/19	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Budgetary Government	Q2 2018	03/05/19	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt	Q2 2018	03/05/19	Q	Q	N/A
External Current Account Balance	Q3 2018	03/05/19	Q	Q	Q
Exports and Imports of Goods and Services	Q4 2018	03/05/19	M	M	M
GDP	Q3 2018	03/05/19	Q	Q	Q
Gross External Debt	Q2 2018	03/05/19	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. Samoa produces quarterly data for the budgetary central government only and produces annual data for the central government.
[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 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

March 26, 2019

Approved By
Paul Cashin (IMF) and Lalita Moorty (IDA)

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

Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*Yes: high probability of a large and persistent breach of the threshold from 2034*

Samoa remains at high-risk of external debt distress under the revised Debt Sustainability Framework (DSF) introduced in July 2018. Consistent with previous analyses, the average long-term costs of natural disasters and climate change are incorporated into the baseline scenario to consider their impact on economic growth, the fiscal position and current account balance. The result is a breach of the threshold under the baseline scenario for the present value of the external public-and publicly guaranteed (PPG) debt-to-GDP ratio from 2036. Stress tests confirm the vulnerability of the debt position to plausible shocks. A tailored natural disaster shock, similar in scale to the median impact of natural disasters in Samoa's history, causes a large and significant deterioration in debt sustainability in the aftermath of the event. A contingent liability shock would also worsen debt sustainability. Given Samoa's vulnerability to natural disasters, strategies to strengthen Samoa's resilience to economic shocks should continue to be implemented. A 'mechanical' application of the new DSF would imply that the risk of debt distress in Samoa is moderate.[2] *However, staff judgement has been applied to arrive at a high-risk assessment as there is a high probability the threshold will be largely and persistently breached in the long-run due to Samoa's exposure to climate change despite government efforts to mitigate its impacts. While domestic debt remains small, domestic guaranteed debt accounts for 7 percent of GDP in 2017/18.*

[1] This DSA has been prepared jointly by the IMF and World Bank, following the revised LIC-DSF Framework and Guidance Note (2017) in effect as of July 1, 2018. Samoa's debt carrying capacity is classified as strong, based on its Composite Indicator (CI) value of 3.31, based on the October 2018 WEO and updates to the CPIA index through 2017.Thresholds for debt burden indicators are those established in the revised framework.

[2] This is due to a shortening of the period for analysis to a 10-year forecast horizon (from 20 years) under the revised LIC-DSF (Staff Guidance Note).

PUBLIC DEBT COVERAGE

1. Central government and central government-guaranteed debts are covered in this report. Public and Publicly Guaranteed debt accounted for 57.2 percent of GDP in FY2017/18, allocated between central government debt (50.3 percent of GDP) and central government-guaranteed debt (6.9 percent of GDP). The government-guaranteed debt includes SOE debt, which is explicitly guaranteed by central government. The Samoa National Provident Fund, a social security fund, does not owe debt. There is no sub-national government structure in Samoa, nor extra budgetary funds. The Central Bank of Samoa is not allowed to contract debt on behalf of the government. Non-guaranteed SOE debt estimates are not available and cannot be included in PPG debt. The definition of external and domestic debt is based on residency[3]. The authorities are currently working towards strengthening the monitoring and disclosing of fiscal risks from the SOEs with the assistance of PFTAC. The creation of a debt management unit would also improve debt data coverage.

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

1	**The country's coverage of public debt**	The general government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

2. Public debt increased to 50.3 percent of GDP in 2017/18, from 49.1 percent in FY2016/17. The depreciation of the Tala against the main loan currencies, the continuous disbursements of external loans and limited increase in GDP contributed to the increase of the debt-to-GDP ratio.

3. Public external debt was US$421 million at the end of FY2017/18, increasing by 3.6 percent with respect to FY2016/17. The outstanding public external debt at the end of FY2017/18 was SAT1.09 billion, 51 percent from multilateral creditors – including IDA and ADB – and 49 percent from bilateral creditors – including China and Japan. The increase in public external debt and in debt service was driven by the loss of access to exclusive grant funding from IDA and ADB in 2015 and 2016, and on further disbursements of previously contracted loans from bilateral creditors for large infrastructure projects.

[3] Since all the domestic debt is in tala and all the external debt is in foreign currency or SDRs, the residency-based classification is equivalent to the currency-based classification in the case of Samoa.

Samoa: Evolution of Public Debt, FY 2015/16 – FY 2017/18

	FY2015/16	FY2016/17	FY2017/18	FY2015/16	FY2016/17	FY2017/18
	In millions of SAT	In millions of SAT	In millions of SAT	In percent of external debt	In percent of external debt	In percent of external debt
Total public debt	1080.8	1047.3	1113.8	--	--	--
External	1041.8	1018.0	1094.3	100.0%	100.0%	100.0%
Multilateral	546.9	534.5	563.0	52.5%	52.5%	51.5%
IDA	247.3	247.2	280.8	23.7%	24.3%	25.7%
ADB	270.2	256.1	250.6	25.9%	25.2%	22.9%
OPEC	20.7	23.2	24.0	2.0%	2.3%	2.2%
Other	8.7	8.0	7.6	0.8%	0.8%	0.7%
Bilateral	495.0	483.5	531.3	47.5%	47.5%	48.5%
EXIM Bank (China)	413.7	410.0	440.1	39.7%	40.3%	40.2%
Japan	81.3	73.5	91.2	7.8%	7.2%	8.3%
Domestic	38.9	29.4	19.5	--	--	--
Memorandum items:						
Nominal GDP	2055.3	2133.2	2213.5			
Market rate (tala/U.S. dollar, end period)	2.6	2.5	2.6			

Sources: Samoan authorities; and IMF staff estimates.

4. **Domestic debt remains below 1 percent of GDP.** All domestic public debt is held by domestic creditors and issued in local currency. It is mainly composed by government loans provided by the central government to public entities.

Samoa: Stock of Public Debt at the End of FY 2017/18

	In millions of SAT	In millions of US dollars	As a share of total debt	In percent of GDP
Total public debt	1113.8	433.6	100.0%	50.3%
External	1094.3	426.0	98.2%	49.4%
Multilateral	563.0	219.2	50.5%	25.4%
IDA	280.8	109.3	25.2%	12.7%
ADB	250.6	97.5	22.5%	11.3%
OPEC	24.0	9.4	2.2%	1.1%
Other	7.6	3.0	0.7%	0.3%
Bilateral	531.3	206.8	47.7%	24.0%
EXIM Bank (China)	440.1	171.3	39.5%	19.9%
Japan	91.2	35.5	8.2%	4.1%
Domestic	19.5	7.6	1.8%	0.9%
Memorandum items:				
Nominal GDP	2213.5			
Market rate (tala/U.S. dollar, end period)	2.6			

Sources: Samoan authorities; and IMF staff estimates.

5. **Guarantees accounted for 6.9 percent of GDP in FY2017/18, with public and publicly guaranteed (PPG) debt totaling 57.2 percent of GDP.** Government-guaranteed debt is held by domestic creditors and accounted for 6.9 percent of GDP in 2017/18, from 7.9 percent in 2016/17.

METHODOLOGY AND ASSUMPTIONS

6. **The underlying assumptions are consistent with the macroeconomic framework, based on updated data provided by the authorities and estimates by staff.** The baseline scenario incorporates the effects of natural disasters and climate change over the longer term. The years 2019–24 are assumed to be disaster free to simplify the policy discussion of the near-term outlook. From 2025 onwards, the baseline incorporates the average long-term effects of natural disasters and climate change by lowering GDP growth by 1.3 percentage points (pp) annually, raising the current account deficit by 1.5 pp and increasing the fiscal deficit by 1.5 pp vis-à-vis disaster-free projections to reflect the country's historical experience. These are consistent with the findings of staff's analysis on the impact of natural disasters.[4] The discount rate used to calculate the net present value of external debt is 5 percent. The main assumptions are:

- **Real GDP growth** is projected to rebound to 3.4 percent in FY2018/19 driven by commerce, infrastructure spending, and the development of the transport and communication sector. Growth in FY2019/20 is expected to spike to 4.4 percent driven by tourism related to Samoa hosting the Pacific Games (PG) in July 2019, before normalizing at about and 2.2 percent in the medium-term. To account for the average impact of natural disasters, the growth rate is lowered by 1.3 percentage points after 2024.

- After a temporary increase driven by the impact of cyclone Gita on local food prices, a one-time increase in education fees, and higher price on imported fuel, **inflation** is expected to stabilize at around 2.8 percent over the medium term.

- **The current account deficit** is projected to remain below 1 percent of GDP between 2019-2024. The current account recorded a temporary surplus of 2.3 percent of GDP in 2017/18 driven by higher than average remittances, on the aftermath of Cyclone Gita, and tourism receipts. Remittances are expected to normalize from 2018/19, but tourism receipts are projected to remain strong in anticipation of the PG. To account for the average impact of natural disasters, the deficit is widened by 1.5 percentage points after 2024.

Samoa: Baseline Macroeconomic Assumptions
(In percent of GDP, unless otherwise noted)

	2018 DSA		2017 DSA	
	2019-2024	2025-2039	2018-2023	2024-2038
Real GDP growth (in percent change)	2.8	0.9	2.8	0.9
Inflation (change in percent)	2.8	2.8	2.5	3.0
Current account deficit	0.8	5.1	3.7	6.3
Overall fiscal balance deficit	2.2	5.1	2.3	5.0

- **The overall fiscal balance** is projected to return to deficit from FY2017/18. Given recently-legislated increases in public servant wages for cost of living adjustment, the projected reduction in budget support grants and the need to scale up infrastructure projects, staff

[4] See Samoa Article IV consultation, 2017.

projects a 1.2 percent of GDP deficit in 2018/19, which will widen to 2.7 percent in 2023/24. To account for the average impact of natural disasters, the deficit is widened by 1.5 percentage points after 2024.

- **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. It is assumed that borrowing from the IDA and the Asian Development Bank is on full credit terms[5].

7. The new realism tools suggest that the projections are reasonable. Both external and public PPG debt projections are in line with last year DSA (Figure 3). At the same time factors contributing to debt dynamics remain broadly in line with historical contribution, with the exception of the impact of current account balance and price that is due to temporary factors. The primary balance is expected to be -2.4 percent of GDP in 2020/2021. This belongs to the middle of the distribution of other countries experience. Forecasted real growth in 2019 and 2020 is higher than paths obtained based on plausible fiscal multiplier effects. This is due to the exceptionally low GDP growth in 2017/18, the basis year to calculate the growth path, and to the projection of additional and temporary expected growth in FY2018/19 and FY2019/20 due to the Pacific Games. Public investment has declined in FY2017/18 due to the completion of large infrastructure projects in the previous fiscal year but is expected to rebound in FY2019/20. Public capital stock is expected to contribute to about one third of the GDP growth, in line with historical data and previous DSA (Figure 4).

COUNTRY CLASSIFICATION

8. The country's debt-carrying capacity remains strong, though the indicator has declined. Samoa's Composite Indicator (CI) index, which has been calculated based on the October 2018 WEO and 2017 CPIA, is 3.31, indicating that the country's debt-carrying capacity is high in the revised LIC-Debt Sustainability Framework. The CI is lower than during the previous version of the DSA, but remains associated with a strong rating. The rating is the highest among the Pacific island countries (PICs), and debt is therefore assessed against a higher threshold compared to other PICs.

9. The relevant indicative thresholds for the countries with a strong CI rating are 55 percent for the PV of debt-to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports ratio, and 23 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed (PPG) external debt. The benchmark for the PV of total public debt under strong capacity is 70 percent.

[5] 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.

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.995	1.54	46%
Real growth rate *(in percent)*	2.719	2.566	0.07	2%
Import coverage of reserves *(in percent)*	4.052	32.791	1.33	40%
Import coverage of reserves^2 *(in percent)*	-3.990	10.753	-0.43	-13%
Remittances *(in percent of GDP)*	2.022	15.494	0.31	9%
World economic growth *(in percent)*	13.520	3.660	0.49	15%
CI Score			3.31	100%
CI rating			Strong	

Debt carrying capacity (CI classification)	PV of PPG external debt in percent of		PPG external debt service in percent of		PV of total public debt
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

DETERMINATION OF SCENARIO STRESS TESTS

10. **Given the severity and frequency of natural disasters in Samoa, a tailored stress test for a natural disaster shock was conducted.** Parameters for this test were based on staff research[6] and assume a one-off shock of 21 percent to the debt-GDP ratio in 2019, corresponding to the impact of the median natural disaster shock in the country history, and a reduction of real GDP growth and exports by 3 percent and 6 percent respectively.

11. **The stress test for the combined contingent liabilities accounts for implicit liabilities and a potential financial market shock.** Default settings of the contingent liability test were used to reflect the likely consequences of a contingent liability shock on the debt path in Samoa. The stress test for contingent liabilities amounts 7 percent of GDP, comprising 2 percent of GDP of non-guaranteed SOE debt and 5 percent of GDP of financial market shock.

[6] Detail in the IMF Working Paper 18/108, "The Economic Impact of Natural Disaster in Pacific Island Countries" (https://www.imf.org/en/Publications/WP/Issues/2018/05/10/The-Economic-Impact-of-Natural-Disasters-in-Pacific-Island-Countries-Adaptation-and-45826).

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

12. Under the baseline scenario, Samoa's external debt path is projected to breach the indicative benchmark from 2036 and onward (Figure 1). The PV of debt-to-GDP ratio is expected to increase gradually from 33.4 in 2019 to 39.1 in 2029 and to reach 60.3 in 2039, on the increase of external borrowing to finance construction of infrastructure. The PV of external debt-to-GDP ratio breaches the indicative threshold of 55 percent in 2036. The ratio of the PV of external-debt-to-exports ratio also breaches the threshold of 240 percent in 2036. As a large share of the external debt remains on concessional terms, debt service remains limited and does not breach the indicative threshold.

13. Stress tests confirm the vulnerability of debt dynamics to natural disasters and contingent liabilities. A natural disaster shock has the largest negative impact on the debt trajectory, causing a breach of the threshold for the PV of debt-to-GDP ratio from 2030 (Figure 3). There is a protracted and significant breach of the PV of debt-to-GDP and PV of debt-to-exports after a severe natural disaster shock but also after the contingent liability shock (from 2035 and onward, Table 3).

B. Public Sector Debt Sustainability Analysis

14. Total public debt follows a similar dynamic as the external debt. Under the baseline scenario, the PV of public debt-to-GDP ratio breach the benchmark in 2034 (Table 2). The natural disaster and contingent liability shocks result in a sharper deterioration in debt sustainability. The threshold is breached from 2027 and 2032, respectively (Figure 2).

RISK RATING AND VULNERABILITIES

15. The debt outlook for Samoa is subject to several risks. PPG debt is expected to grow in the medium-term. The external debt-to-GDP ratio is expected to decrease in the short-term on the positive overall fiscal balance registered in FY2017/18 and the expected higher growth in FY2018/19 and FY19/20 due to the Pacific Games. After FY2020/21, the debt ratio is expected to increase again, driven by the negative primary balance. Samoa's external debt breaches the high-risk threshold when the average annual impact of natural disasters and climate change on the medium-term growth, current account, and fiscal balance projections is included in the DSA baseline.

16. Samoa remains at high-risk of debt distress. Another major natural disaster or a materialization of implicit guarantees shock could substantially worsen the debt dynamics. While a mechanical assessment based on the output of the new DSF template would have resulted in a moderate risk assessment, staff's judgement has been applied to conclude on a high-risk assessment as there is a high probability the threshold will be substantially and persistently breached in the long-run due to Samoa's exposure to climate change despite government efforts to mitigate its impacts. The government should continue with recent efforts to consolidate and boost revenue collection, and build fiscal buffers to be prepared to respond to a future economic shock or natural disaster. Introducing a lower public debt-to-GDP target of

40 percent over the long term, associated with operational guidance on the overall deficit, would allow to reduce the level of risk in Samoa. The authorities should also make efforts to widen the coverage of debt data by producing and disseminating aggregate data on general government and public-sector debt (including non-guaranteed SOE debt).

AUTHORITIES' VIEWS

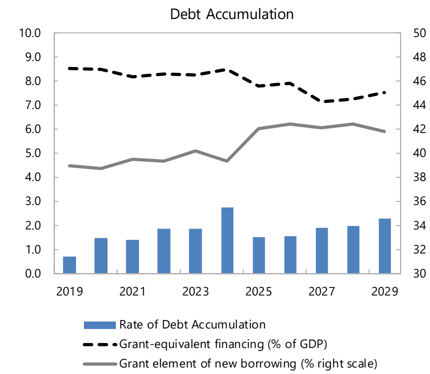
17. The authorities broadly agreed with the DSA assessment and expressed their commitment to reduce the long-term debt target to 40 percent of GDP. The authorities agreed that a lower long-term debt target of 40 percent of GDP (compared to the current target of 50 percent of GDP) is desirable, and would allow them to build fiscal buffers to respond to a large natural disaster, while ensuring adequate funding of development priorities. Consistent with the Medium-Term Debt Strategy, the authorities aim to fund development needs with grants and concessional loans to the extent possible. The authorities are currently working towards strengthening the monitoring and disclosing of fiscal risks from the SOEs with the assistance of PFTAC.

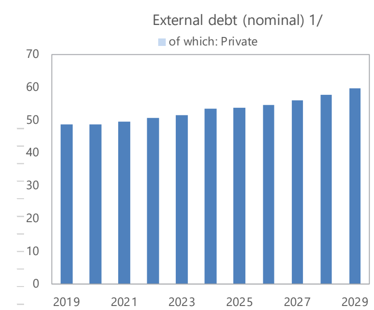
Table 1. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2016-39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**50.7**	**47.7**	**49.4**	**48.7**	**48.6**	**49.6**	**50.5**	**51.4**	**53.5**	**59.7**	**87.9**	**46.9**	**53.1**
of which: public and publicly guaranteed (PPG)	**50.7**	**47.7**	**49.4**	**48.7**	**48.6**	**49.6**	**50.5**	**51.4**	**53.5**	**59.7**	**87.9**	**46.9**	**53.1**
Change in external debt	-4.6	-3.0	1.7	-0.7	-0.2	1.0	1.0	0.9	2.1	2.1	1.1		
Identified net debt-creating flows	**5.2**	**-0.5**	**-5.2**	**0.4**	**-2.5**	**-1.1**	**-0.2**	**-0.6**	**-0.1**	**4.2**	**4.1**	**1.5**	**1.5**
Non-interest current account deficit	**4.7**	**1.8**	**-4.0**	**-0.6**	**-0.1**	**-0.3**	**0.2**	**0.2**	**0.5**	**4.2**	**4.1**	**4.3**	**1.9**
Deficit in balance of goods and services	19.2	15.3	14.5	16.8	17.2	17.3	17.5	17.5	17.8	22.0	23.4	**21.4**	**19.4**
Exports	30.7	31.2	32.9	31.3	31.4	31.2	30.9	30.8	30.7	24.3	23.0		
Imports	49.8	46.4	47.4	48.1	48.7	48.5	48.4	48.3	48.5	46.3	46.4		
Net current transfers (negative = inflow)	-16.8	-16.7	-20.2	-20.2	-19.4	-19.7	-19.6	-19.5	-19.4	-20.1	-21.4	**-20.3**	**-19.7**
of which: official	0.0	-0.6	-1.0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4		
Other current account flows (negative = net inflow)	2.4	3.2	1.7	2.8	2.1	2.1	2.3	2.2	2.1	2.3	2.0	**3.2**	**2.2**
Net FDI (negative = inflow)	**-0.8**	**1.0**	**-1.7**	**1.5**	**-1.4**	**-0.7**	**0.0**	**-0.3**	**-0.1**	**-0.1**	**-0.1**	**-1.9**	**-0.1**
Endogenous debt dynamics 2/	**1.2**	**-3.3**	**0.6**	**-0.5**	**-1.1**	**0.0**	**-0.4**	**-0.5**	**-0.5**	**0.1**	**0.1**		
Contribution from nominal interest rate	0.0	0.0	1.7	1.1	0.9	1.0	0.6	0.6	0.6	0.6	0.9		
Contribution from real GDP growth	-4.1	-1.3	-0.4	-1.6	-2.0	-1.0	-1.1	-1.1	-1.1	-0.5	-0.8		
Contribution from price and exchange rate changes	5.3	-2.0	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	**-9.8**	**-2.4**	**6.9**	**-1.1**	**2.4**	**2.1**	**1.2**	**1.4**	**2.2**	**-2.1**	**-3.0**	**0.6**	**-0.6**
of which: exceptional financing	2.1	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**34.4**	**33.4**	**32.9**	**33.0**	**33.5**	**34.0**	**35.3**	**39.1**	**60.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**104.4**	**106.8**	**104.7**	**105.7**	**108.5**	**110.3**	**114.9**	**160.6**	**261.7**		
PPG debt service-to-exports ratio	**...**	**15.2**	**22.3**	**10.6**	**10.1**	**10.5**	**9.7**	**9.4**	**9.2**	**13.3**	**19.1**		
PPG debt service-to-revenue ratio	**...**	**17.5**	**27.7**	**12.3**	**11.6**	**11.9**	**10.9**	**10.6**	**10.3**	**11.7**	**15.9**		
Gross external financing need (Million of U.S. dollars)	31.1	63.2	13.7	38.2	16.4	22.0	33.6	30.4	35.7	95.4	145.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.2	2.7	0.9	3.4	4.4	2.2	2.2	2.2	2.2	0.9	0.9	**1.0**	**2.1**
GDP deflator in US dollar terms (change in percent)	-8.7	4.2	1.5	1.6	1.7	1.6	1.8	1.9	1.8	1.8	2.8	**1.9**	**1.7**
Effective interest rate (percent) 4/	0.0	0.0	3.6	2.3	2.1	2.2	1.3	1.3	1.3	1.1	1.0	**0.4**	**1.5**
Growth of exports of G&S (US dollar terms, in percent)	9.5	8.7	8.2	-0.1	6.6	3.3	2.9	3.8	3.8	2.7	3.8	**4.5**	**1.2**
Growth of imports of G&S (US dollar terms, in percent)	0.1	-0.3	4.5	6.6	7.3	3.6	3.7	3.9	4.5	2.8	3.8	**3.3**	**3.6**
Grant element of new public sector borrowing (in percent)	...	...	...	39.0	38.7	39.5	39.3	40.2	39.4	41.8	35.4	**...**	**40.6**
Government revenues (excluding grants, in percent of GDP)	26.8	27.0	26.4	27.0	27.2	27.4	27.3	27.3	27.3	27.6	27.6	**24.8**	**27.4**
Aid flows (in Million of US dollars) 5/	73.1	60.7	67.7	68.8	70.2	70.8	73.8	78.6	79.8	86.7	64.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	8.5	8.5	8.2	8.3	8.3	8.5	7.5	6.4	**...**	**8.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	78.2	73.9	72.9	72.1	72.8	68.9	67.4	56.3	**...**	**72.4**
Nominal GDP (Million of US dollars)	786	841	862	905	960	997	1,038	1,080	1,125	1,302	1,738		
Nominal dollar GDP growth	-2.2	7.0	2.4	5.0	6.1	3.8	4.0	4.1	4.1	2.7	3.8	**2.9**	**3.8**
Memorandum items:													
PV of external debt 7/	...	...	34.4	33.4	32.9	33.0	33.5	34.0	35.3	39.1	60.3		
In percent of exports	...	...	104.4	106.8	104.7	105.7	108.5	110.3	114.9	160.6	261.7		
Total external debt service-to-exports ratio	0.0	15.2	22.3	10.6	10.1	10.5	9.7	9.4	9.2	13.3	19.1		
PV of PPG external debt (in Million of US dollars)			296.0	302.3	315.7	329.3	348.0	367.4	397.2	508.6	1047.2		
(PVt-PVt-1)/GDPt-1 (in percent)				0.7	1.5	1.4	1.9	1.9	2.8	2.3	3.6		
Non-interest current account deficit that stabilizes debt ratio	9.4	4.7	-5.7	0.1	0.1	-1.3	-0.8	-0.6	-1.7	2.1	3.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

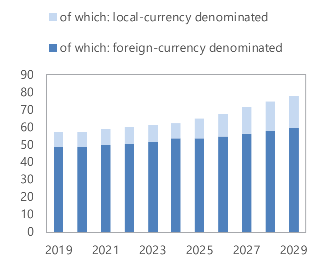
Table 2. Samoa: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-39

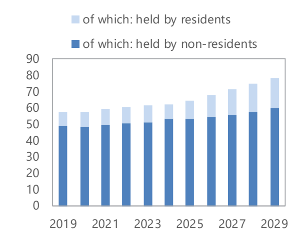
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**61.3**	**57.0**	**57.2**	**57.5**	**57.6**	**59.2**	**60.3**	**61.4**	**62.5**	**78.2**	**115.9**	**54.1**	**65.0**
of which: external debt	**50.7**	**47.7**	**49.4**	**48.7**	**48.6**	**49.6**	**50.5**	**51.4**	**53.5**	**59.7**	**87.9**	**46.9**	**53.1**
Change in public sector debt	-5.2	-4.4	0.3	0.2	0.1	1.6	1.1	1.1	1.1	3.4	2.9		
Identified debt-creating flows	**-1.5**	**-0.3**	**1.5**	**0.2**	**0.1**	**1.6**	**1.1**	**1.1**	**1.1**	**3.4**	**2.9**	**3.1**	**1.9**
Primary deficit	**0.4**	**1.1**	**-0.1**	**1.2**	**1.8**	**2.3**	**2.5**	**2.7**	**2.7**	**4.5**	**5.5**	**3.6**	**3.2**
Revenue and grants	36.1	34.2	34.3	34.0	33.8	33.6	33.5	33.5	33.3	32.5	31.3	**33.6**	**33.3**
of which: grants	9.3	7.2	7.9	7.0	6.6	6.2	6.2	6.2	6.0	4.9	3.7		
Primary (noninterest) expenditure	36.5	35.3	34.2	35.2	35.7	36.0	36.1	36.3	36.1	37.1	36.9	**37.2**	**36.5**
Automatic debt dynamics	**-1.9**	**-1.4**	**1.6**	**-0.9**	**-1.8**	**-0.7**	**-1.4**	**-1.6**	**-1.6**	**-1.1**	**-2.6**		
Contribution from interest rate/growth differential	-3.0	-1.0	0.7	-1.3	-1.9	-0.9	-1.5	-1.7	-1.7	-1.2	-0.3		
of which: contribution from average real interest rate	1.5	0.6	1.2	0.6	0.5	0.3	-0.2	-0.3	-0.4	-0.5	0.8		
of which: contribution from real GDP growth	-4.5	-1.6	-0.5	-1.9	-2.4	-1.2	-1.3	-1.3	-1.3	-0.7	-1.0		
Contribution from real exchange rate depreciation	1.0	-0.4	0.9	...	...	...	...	...	...	...	...		
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**	**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 contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-3.7**	**-4.0**	**-1.3**	**0.3**	**0.1**	**0.1**	**0.0**	**0.0**	**0.1**	**0.1**	**-2.4**	**-0.3**	**0.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**42.2**	**42.2**	**41.9**	**42.6**	**43.3**	**44.0**	**44.3**	**57.5**	**88.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**123.2**	**124.0**	**123.9**	**126.8**	**129.1**	**131.2**	**132.9**	**176.8**	**281.7**		
Debt service-to-revenue and grants ratio 3/	**...**	**18.8**	**28.3**	**17.0**	**17.6**	**15.9**	**13.4**	**11.9**	**11.1**	**13.0**	**16.5**		
Gross financing need 4/	0.4	6.6	9.6	7.0	7.8	7.7	7.0	6.7	6.4	8.8	10.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.2	2.7	0.9	3.4	4.4	2.2	2.2	2.2	2.2	0.9	0.9	**1.0**	**2.1**
Average nominal interest rate on external debt (in percent)	0.0	0.0	3.6	2.3	2.1	2.2	1.3	1.3	1.3	1.1	1.0	**0.4**	**1.5**
Average real interest rate on domestic debt (in percent)	11.3	7.5	6.5	7.7	5.7	2.5	0.8	-0.3	-0.3	-0.4	-0.5	**1.7**	**1.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.0	-0.7	1.9	...	...	...	...	...	...	...	...	**0.2**	**...**
Inflation rate (GDP deflator, in percent)	-1.6	1.1	2.9	2.9	2.7	2.6	2.8	2.9	2.8	2.8	2.8	**1.8**	**2.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	-0.6	-2.3	6.4	5.7	3.0	2.5	2.8	1.7	0.9	0.9	**3.1**	**2.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	5.6	5.4	-0.3	0.9	1.8	0.7	1.4	1.6	1.6	1.1	2.6	**3.6**	**1.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The general government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

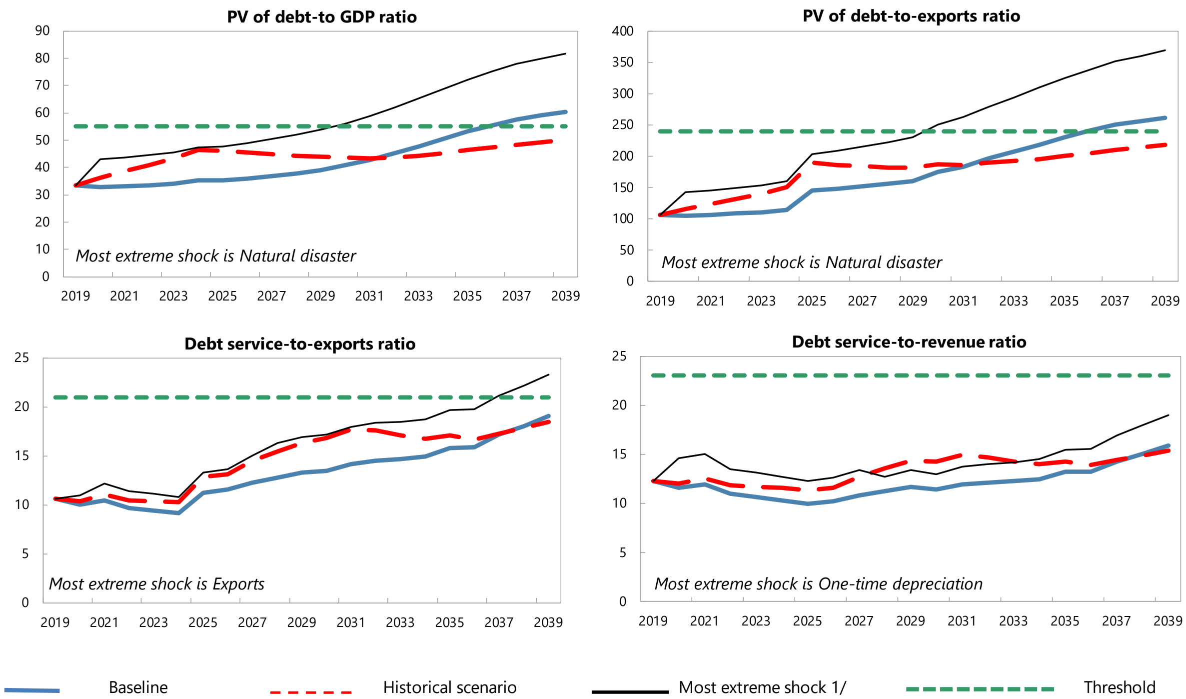
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019-39 1/



Customization of Default Settings		
	Size	Interactions
Standardized Tests	Yes	
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	Yes
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	6	6

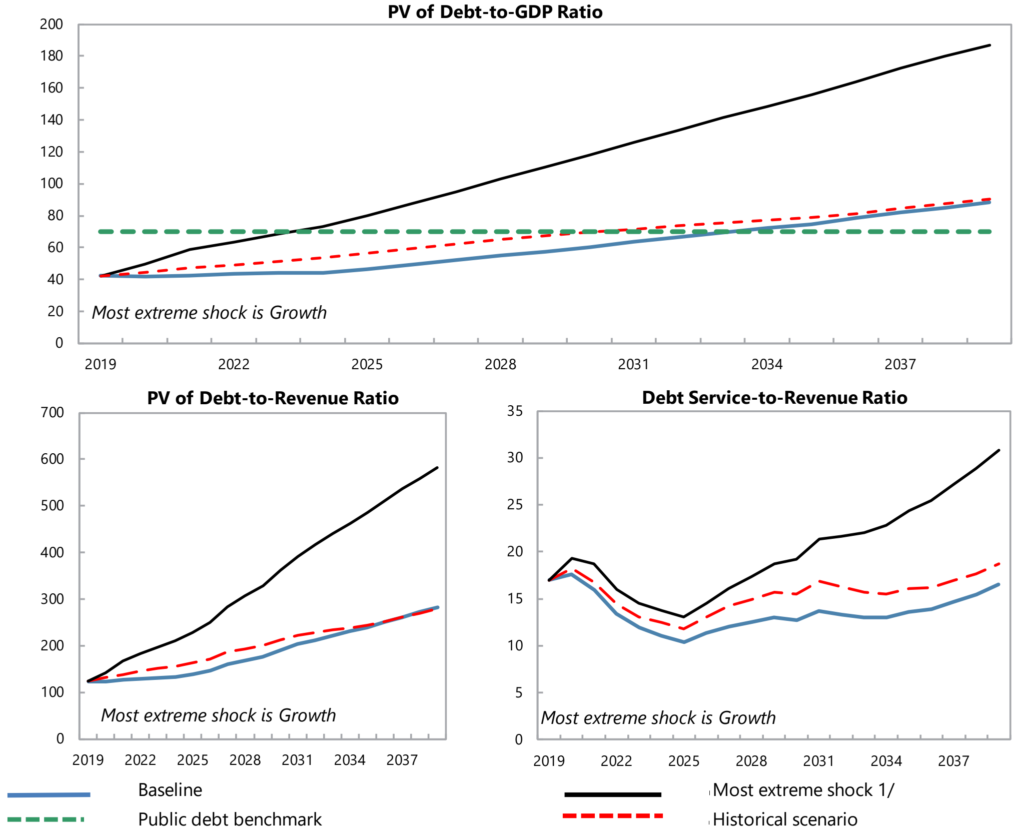
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Samoa: Indicators of Public Debt under Alternative Scenarios, 2019-39 1/



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	71%	71%
Domestic medium and long-term	29%	29%
Domestic short-term	4%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	-0.7%	-0.7%
Avg. maturity (incl. grace period)	40	40
Avg. grace period	30	30
Domestic short-term debt		
Avg. real interest rate	-2%	-2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-39

										Projections 1/											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
PV of debt-to GDP ratio																					
Baseline	33.4	32.9	33.0	33.5	34.0	35.3	35.4	36.0	36.9	37.8	39.1	40.8	42.8	45.2	47.7	50.4	53.1	**55.4**	**57.6**	**58.9**	**60.3**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	33.4	36.2	38.7	40.9	43.3	46.3	46.1	45.4	44.9	44.3	44.1	43.5	43.4	43.7	44.2	45.1	46.3	47.2	48.3	49.2	50.1
B. Bound Tests																					
B1. Real GDP growth	33.4	36.9	40.2	40.8	41.4	43.0	43.1	43.8	44.9	46.0	47.5	49.6	52.1	55.0	**58.0**	**61.3**	**64.6**	**67.4**	**70.1**	**71.7**	**73.3**
B2. Primary balance	33.4	34.7	36.4	36.9	37.4	38.8	38.9	39.5	40.4	41.3	42.5	44.1	46.1	48.4	50.9	53.5	**56.2**	**58.4**	**60.5**	**61.7**	**62.9**
B3. Exports	33.4	34.6	37.5	38.0	38.5	39.8	39.9	40.6	41.4	42.2	43.2	44.7	46.5	48.7	51.0	53.5	**56.1**	**58.1**	**60.1**	**61.3**	**62.4**
B4. Other flows 3/	33.4	35.6	38.4	38.9	39.4	40.7	40.8	41.5	42.3	42.9	43.9	45.3	47.0	49.1	51.3	53.7	**56.2**	**58.2**	**60.1**	**61.1**	**62.1**
B5. Depreciation	33.4	41.4	37.2	37.9	38.4	40.1	40.2	40.9	41.9	43.4	45.1	47.5	50.3	53.6	**57.0**	**60.6**	**64.3**	**67.4**	**70.4**	**72.4**	**74.3**
B6. Combination of B1-B5	33.4	37.8	39.9	40.5	41.0	42.5	42.7	43.4	44.3	45.2	46.5	48.3	50.5	53.1	**55.9**	**58.8**	**61.8**	**64.3**	**66.6**	**68.1**	**69.4**
C. Tailored Tests																					
C1. Combined contingent liabilities	33.4	35.9	36.0	36.6	37.0	38.4	38.5	39.1	40.1	41.1	42.3	44.1	46.2	48.6	51.2	54.0	**56.8**	**59.2**	**61.4**	**62.8**	**64.1**
C2. Natural disaster	33.4	43.1	43.7	44.6	45.5	47.2	47.7	48.9	50.4	51.9	53.7	**56.1**	**58.8**	**61.9**	**65.1**	**68.5**	**72.0**	**75.0**	**77.9**	**79.8**	**81.7**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio																					
Baseline	106.8	104.7	105.7	108.5	110.3	114.9	145.6	148.0	151.7	155.5	160.6	174.8	183.5	196.2	207.2	218.8	230.8	**240.7**	**250.2**	**256.0**	**261.7**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	106.8	115.2	123.9	132.4	140.6	150.7	189.5	186.5	184.5	182.2	181.1	186.6	186.2	189.6	192.1	195.9	201.3	205.1	209.8	213.7	217.8
B. Bound Tests																					
B1. Real GDP growth	106.8	104.7	105.7	108.5	110.3	114.9	145.6	148.0	151.7	155.5	160.6	174.8	183.5	196.2	207.2	218.8	230.8	**240.7**	**250.2**	**256.0**	**261.7**
B2. Primary balance	106.8	110.4	116.5	119.5	121.4	126.1	159.9	162.6	166.3	169.8	174.6	189.2	197.6	210.2	220.9	232.3	**243.9**	**253.5**	**262.6**	**268.0**	**273.2**
B3. Exports	106.8	119.5	136.7	140.1	142.3	147.7	187.1	190.2	194.3	197.6	202.4	218.4	227.3	**241.1**	**252.7**	**264.9**	**277.6**	**288.0**	**297.8**	**303.3**	**308.8**
B4. Other flows 3/	106.8	113.2	122.9	125.9	127.8	132.5	167.9	170.7	173.9	176.5	180.4	194.2	201.6	213.3	223.0	233.4	**244.1**	**252.8**	**261.0**	**265.5**	**269.9**
B5. Depreciation	106.8	104.7	94.5	97.2	99.0	103.5	131.1	133.3	136.8	141.4	147.3	161.8	171.3	184.7	196.5	208.9	221.7	232.4	**242.7**	**249.4**	**256.0**
B6. Combination of B1-B5	106.8	116.8	112.0	123.7	125.7	130.6	165.5	168.3	171.8	175.4	180.4	195.5	204.4	217.7	229.0	**241.0**	**253.4**	**263.6**	**273.3**	**279.0**	**284.7**
C. Tailored Tests																					
C1. Combined contingent liabilities	106.8	114.2	115.3	118.2	120.1	124.8	158.2	160.8	164.7	168.8	174.1	189.2	198.1	211.3	222.6	234.5	**246.7**	**256.9**	**266.7**	**272.7**	**278.6**
C2. Natural disaster	106.8	142.8	145.4	150.0	153.4	159.7	204.0	208.9	215.3	221.9	229.7	**250.1**	**262.1**	**279.4**	**294.0**	**309.3**	**325.1**	**338.7**	**351.9**	**360.5**	**368.9**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio																					
Baseline	10.6	10.1	10.5	9.7	9.4	9.2	11.3	11.6	12.3	12.7	13.3	13.5	14.1	14.5	14.7	15.0	15.8	15.9	17.2	18.1	19.1
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	10.6	10.4	11.0	10.4	10.4	10.3	12.9	13.1	14.5	15.4	16.3	16.8	17.7	17.6	17.1	16.8	17.1	16.7	17.3	17.8	18.4
B. Bound Tests																					
B1. Real GDP growth	10.6	10.1	10.5	9.7	9.4	9.2	11.3	11.6	12.3	12.7	13.3	13.5	14.1	14.5	14.7	15.0	15.8	15.9	17.2	18.1	19.1
B2. Primary balance	10.6	10.1	10.6	9.9	9.6	9.4	11.5	11.8	13.0	14.0	14.5	14.7	15.4	15.8	15.9	16.2	17.1	17.1	18.4	19.3	20.3
B3. Exports	10.6	11.0	12.2	11.4	11.1	10.8	13.3	13.7	15.0	16.4	17.0	17.2	17.9	18.3	18.5	18.8	19.7	19.8	**21.2**	**22.2**	**23.3**
B4. Other flows 3/	10.6	10.1	10.6	10.0	9.7	9.5	11.6	11.9	13.4	14.7	15.2	15.4	16.0	16.4	16.5	16.7	17.5	17.6	18.8	19.6	20.5
B5. Depreciation	10.6	10.1	10.5	9.5	9.2	9.0	11.0	11.4	12.1	11.5	12.1	12.2	12.9	13.3	13.5	13.8	14.7	14.8	16.1	17.1	18.1
B6. Combination of B1-B5	10.6	10.6	11.4	10.5	10.2	10.0	12.3	12.6	14.0	14.5	15.0	15.3	15.9	16.4	16.5	16.8	17.7	17.8	19.1	20.1	**21.1**
C. Tailored Tests																					
C1. Combined contingent liabilities	10.6	10.1	10.6	9.8	9.6	9.3	11.5	11.8	12.5	12.9	13.5	13.7	14.3	14.7	14.9	15.2	16.0	16.1	17.3	18.3	19.2
C2. Natural disaster	10.6	10.8	11.8	10.9	10.7	10.4	12.8	13.2	13.9	14.4	15.1	15.3	16.0	16.5	16.7	17.0	17.9	18.0	19.4	20.4	**21.4**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio																					
Baseline	12.3	11.6	11.9	10.9	10.6	10.3	9.9	10.2	10.8	11.2	11.7	11.4	11.9	12.1	12.2	12.5	13.2	13.3	14.3	15.1	15.9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	12.3	12.0	12.6	11.8	11.7	11.6	11.3	11.6	12.7	13.6	14.3	14.2	14.9	14.7	14.3	14.0	14.3	13.9	14.4	14.9	15.4
B. Bound Tests																					
B1. Real GDP growth	12.3	13.0	14.5	13.3	12.9	12.6	12.1	12.4	13.2	13.7	14.3	13.9	14.5	14.7	14.9	15.2	16.1	16.1	17.4	18.3	19.3
B2. Primary balance	12.3	11.6	12.0	11.2	10.8	10.5	10.1	10.4	11.5	12.3	12.8	12.4	13.0	13.1	13.2	13.5	14.2	14.3	15.3	16.1	16.9
B3. Exports	12.3	11.7	12.2	11.3	11.0	10.7	10.3	10.6	11.6	12.6	13.1	12.7	13.3	13.4	13.5	13.7	14.4	14.5	15.5	16.2	17.0
B4. Other flows 3/	12.3	11.6	12.1	11.3	11.0	10.7	10.2	10.5	11.8	12.9	13.4	13.0	13.5	13.6	13.7	13.9	14.6	14.6	15.6	16.4	17.1
B5. Depreciation	12.3	14.6	15.0	13.5	13.1	12.7	12.2	12.6	13.4	12.7	13.4	13.0	13.7	14.0	14.2	14.5	15.4	15.6	16.9	17.9	19.0
B6. Combination of B1-B5	12.3	12.6	13.7	12.6	12.3	11.9	11.4	11.8	13.0	13.5	14.0	13.6	14.3	14.4	14.6	14.8	15.6	15.7	16.9	17.7	18.6
C. Tailored Tests																					
C1. Combined contingent liabilities	12.3	11.6	12.1	11.1	10.8	10.5	10.1	10.4	11.0	11.4	11.9	11.6	12.1	12.3	12.4	12.6	13.4	13.4	14.4	15.2	16.0
C2. Natural disaster	12.3	11.6	12.5	11.6	11.2	10.9	10.5	10.8	11.5	11.9	12.4	12.1	12.6	12.8	13.0	13.2	14.0	14.0	15.1	15.9	16.7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Samoa: Sensitivity Analysis for Key Indicators of Public Debt, 2019-39

	Projections 1/																				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
PV of Debt-to-GDP Ratio																					
Baseline	42.2	41.9	42.6	43.3	44.0	44.3	46.5	49.2	52.2	54.9	57.5	60.4	63.5	66.5	69.3	**72.1**	**74.8**	**78.3**	**81.8**	**85.1**	**88.2**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	42	45	47	49	52	53	56	59	62	65	67	69	**72**	**73**	**75**	**77**	**79**	**81**	**85**	**88**	**91**
B. Bound Tests																					
B1. Real GDP growth	42	49	59	64	68	**73**	**80**	**87**	**95**	**103**	**110**	**118**	**126**	**134**	**141**	**149**	**156**	**164**	**172**	**180**	**187**
B2. Primary balance	42	45	48	49	50	50	52	55	58	60	63	66	69	**72**	**75**	**77**	**80**	**83**	**87**	**90**	**93**
B3. Exports	42	43	47	47	48	48	51	53	56	59	61	64	67	69	**72**	**75**	**77**	**80**	**84**	**87**	**90**
B4. Other flows 3/	42	45	48	49	49	50	52	55	58	60	62	65	68	**70**	**73**	**75**	**78**	**81**	**84**	**87**	**90**
B5. Depreciation	42	49	48	46	45	43	43	44	44	45	45	46	47	48	49	49	50	52	54	55	57
B6. Combination of B1-B5	42	47	49	50	51	52	55	59	63	66	70	**74**	**77**	**81**	**85**	**88**	**92**	**96**	**100**	**104**	**108**
C. Tailored Tests																					
C1. Combined contingent liabilities	42	47	48	48	49	49	51	54	57	60	62	65	68	**71**	**74**	**77**	**80**	**83**	**87**	**90**	**93**
C2. Natural disaster	42	59	60	61	62	63	66	69	**73**	**76**	**80**	**83**	**87**	**91**	**95**	**98**	**102**	**106**	**110**	**114**	**118**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio																					
Baseline	124.0	123.9	126.8	129.1	131.2	132.9	138.4	146.4	160.4	169.0	176.8	190.5	202.9	212.3	221.4	230.3	238.8	250.1	261.4	271.7	281.7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	124	131	138	145	151	156	163	171	186	194	200	213	222	228	233	238	243	251	261	270	279
B. Bound Tests																					
B1. Real GDP growth	124	143	168	182	197	211	228	250	284	306	328	362	392	416	440	463	485	511	537	559	582
B2. Primary balance	124	133	144	146	148	149	155	163	177	186	193	207	220	229	238	247	255	266	278	288	297
B3. Exports	124	128	139	141	143	145	151	159	173	181	188	201	213	222	230	238	246	257	267	277	286
B4. Other flows 3/	124	132	143	145	147	149	155	163	177	185	192	205	216	225	233	241	249	259	269	279	288
B5. Depreciation	124	148	144	139	135	130	130	132	138	140	142	147	152	154	157	159	161	167	173	179	184
B6. Combination of B1-B5	124	138	142	147	151	155	163	173	191	202	212	229	245	256	268	279	290	303	317	329	341
C. Tailored Tests																					
C1. Combined contingent liabilities	124	139	142	144	146	147	153	161	175	184	192	206	219	228	237	246	255	266	278	288	298
C2. Natural disaster	124	173	177	181	184	188	194	204	223	233	244	261	277	289	301	312	323	337	351	364	376
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	17.0	17.6	15.9	13.4	11.9	11.1	10.3	11.4	12.1	12.5	13.0	12.7	13.7	13.3	13.0	13.0	13.6	13.9	14.7	15.4	16.5
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2019-2039 2/	17	18	17	14	13	12	12	13	14	15	16	16	17	16	16	16	16	16	17	18	19
B. Bound Tests																					
B1. Real GDP growth	17	19	19	16	15	14	13	15	16	17	19	19	21	22	22	23	24	25	27	29	31
B2. Primary balance	17	18	16	14	12	11	11	12	13	14	14	14	15	14	14	14	15	15	16	17	18
B3. Exports	17	18	16	14	12	11	11	12	13	14	14	14	15	14	14	14	15	15	16	16	17
B4. Other flows 3/	17	18	16	14	12	11	11	12	13	14	14	14	15	15	14	14	15	15	16	17	18
B5. Depreciation	17	18	18	16	14	13	12	14	14	14	15	14	15	14	14	14	14	14	15	16	17
B6. Combination of B1-B5	17	18	17	14	13	12	11	12	13	14	14	14	15	15	14	15	15	16	16	17	18
C. Tailored Tests																					
C1. Combined contingent liabilities	17	18	16	14	12	11	11	12	12	13	13	13	14	14	13	13	14	14	15	16	17
C2. Natural disaster	17	18	17	15	13	12	11	13	13	14	14	14	15	15	14	14	15	15	16	17	18
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

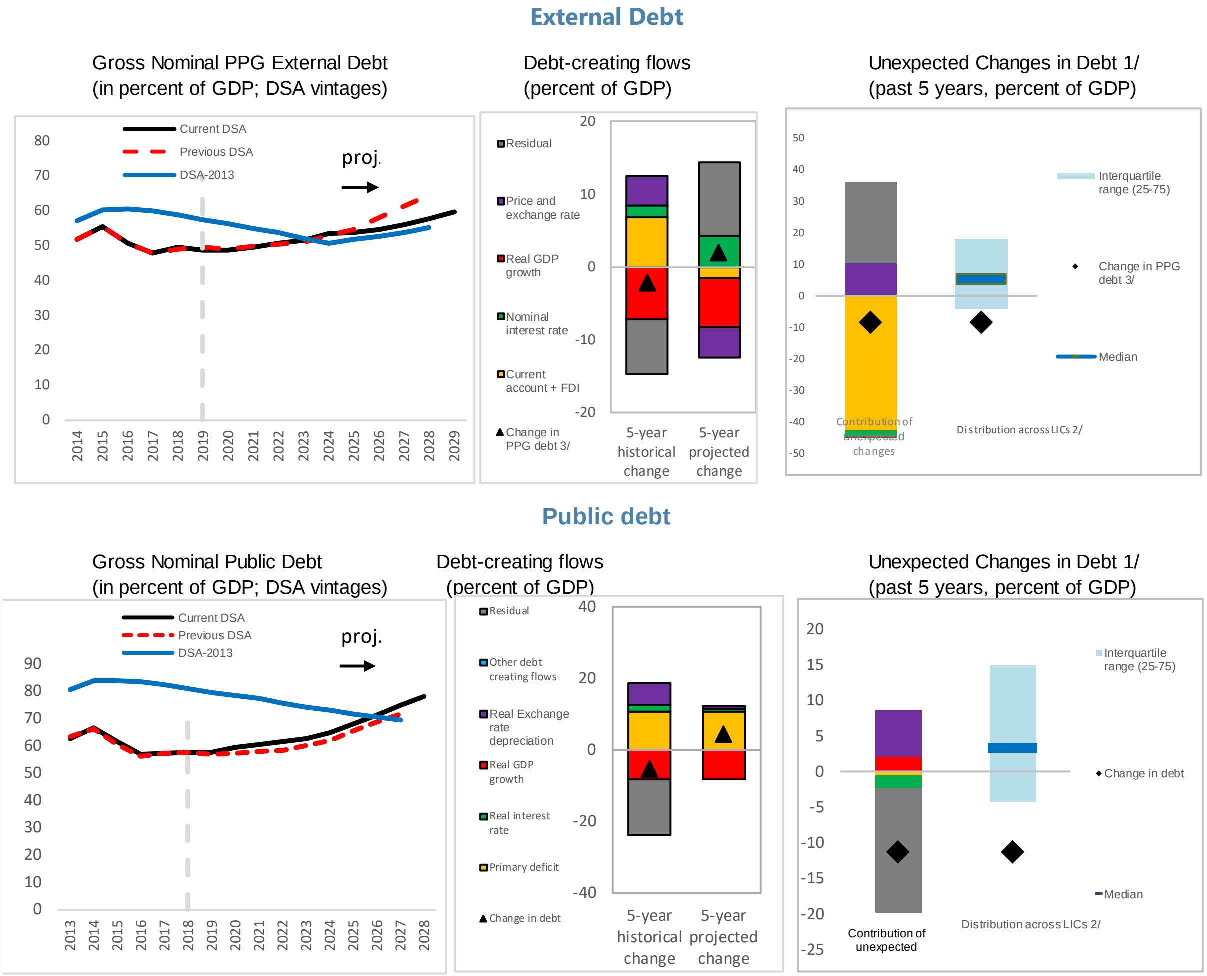
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Samoa: Drivers of Debt Dynamics – Baseline Scenario



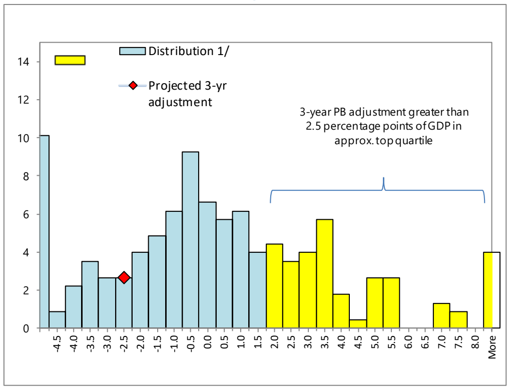
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

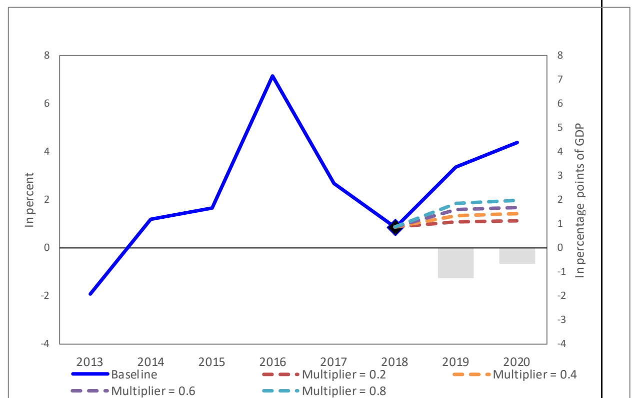
Figure 4. Samoa: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



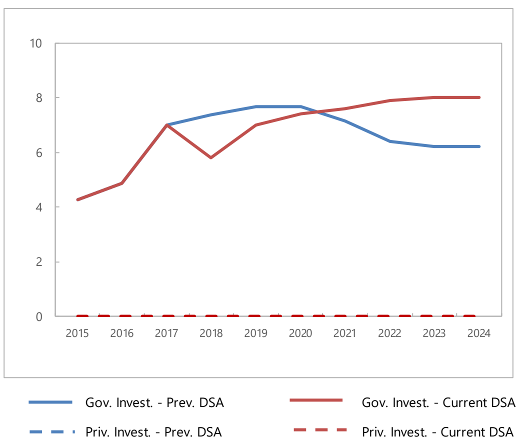
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

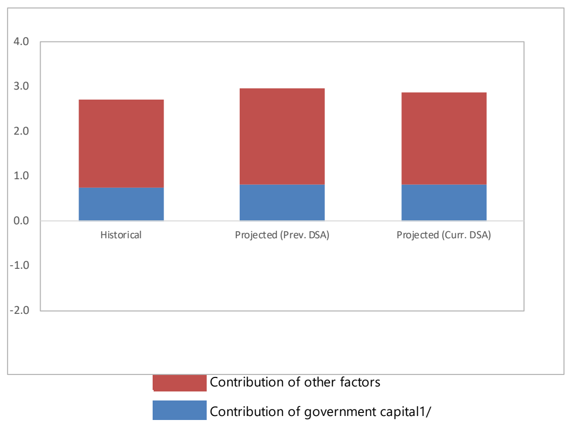


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



1/ Capital stock in 2010 corresponds to PFTAC estimates. Later data are obtained by using the net acquisition of non-financial asset growth.

Statement by the IMF Staff Representative on Samoa
May 8, 2019

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.

1. On April 1, Samoa's Bureau of Statistics published revised GDP statistics, reflecting rebasing and an improved methodology. Under the revision, nominal GDP levels and real GDP growth are lower for recent fiscal years, reflecting in part a downward revision of GDP contribution from the manufacturing sector. As with the previous real GDP series, the revised real GDP series indicates slowing growth in recent years. The revision improves the quality of GDP statistics through the adoption of the System of National Accounts 2008, a change in the base year from 2009 to 2013, and an upgrade of the UN International Standard Industrial Classification from Revision 3.1 to Revision 4. The revised methodology also relies more on data from the Value Added Goods and Service Tax system, and incorporates the latest benchmarks from the 2013 Household Income and Expenditure Survey, the 2013 Business Activity Survey, and the 2016 Population Census.

Samoa: Revisions to Nominal GDP and Real GDP Growth
(In millions of tala or percent)

	2015/16	2016/17	2017/18
Nominal GDP (new)	2089.3	2109.4	2105.7
Nominal GDP (old)	2055.3	2133.2	2213.5
Real GDP growth (new)	8.1	1.0	-2.2
Real GDP growth (old)	7.2	2.7	0.9

Source: IMF, SBS

2. Recent data releases indicate a pickup in real GDP growth and inflation. Under the revised GDP, real GDP grew by 6 percent in the quarter ending December 2018, compared to the same quarter in 2017. This follows real GDP growth of 2.5 percent in the quarter ending September 2018. The pickup was driven by the commerce, communication, and construction sectors. The average CPI inflation rate for the year ending March 2019 was 3.4 percent, compared with 2.7 percent in March 2018, partly reflecting an increase in prices of electricity, local foods, and telephone calls.

3. Net exports and international reserves continue to expand. Preliminary trade data for February 2019 show a decrease in imports by about 10 percent and an increase in exports by about 30 percent, when compared to February 2018. As a result, international reserves increased to US$186.3 million (about 4.8 months of next year's imports of goods and services) in February 2019, up from 4.7 months of next year's imports in January 2019. Capital inflows to Samoa in 2018 were mostly official capital transfers, which reached US$25 million (equivalent to about 3 percent of GDP). The Samoan tala remains near its January 2019 levels, at about 2.6 tala to the U.S. dollar, while there has been no change in the real effective exchange rate thus far in 2019.

Statement by Nigel Ray, Executive Director for Samoa and Gemma Preston, Senior Advisor to Executive Director May 8, 2019

Samoa is one of the most vulnerable countries in the world to natural disasters and the effects of climate change. Samoa's remoteness, narrow economic base and small population dispersed across four islands, adds to its development challenges and ability to fully integrate into the region. With the intensity and frequency of natural disasters increasing, the Samoan authorities face difficult trade-offs. The authorities are seeking to strike the right balance between much needed investment to deliver on Samoa's development goals and increasing fiscal buffers to build resilience to natural disasters. Continuing concerns regarding the threat of withdrawal of Correspondent Banking Relationships (CBRs) only add to Samoa's vulnerability and challenge financial inclusion objectives.

Authorities broadly agree with the staff's assessment of the outlook and risks, although are slightly more optimistic on the outlook and see risks as more balanced. The economy is rebounding from a slowdown due to the closure of the Yazaki manufacturing plant and lower than expected growth in agriculture and fishing both from the impact of Cyclone Gita and changing weather patterns. Looking ahead, the authorities expect growth to be driven by some large construction projects and the effects of hosting the Pacific Games. On the upside the authorities see potential for the newly completed undersea cable to promote the IT/communications sector. The authorities also consider that new businesses have the potential to re-establish manufacturing in Samoa.

Authorities agree that the current accommodative monetary policy stance is appropriate in light of the fiscal consolidation plans. Inflation risks in the near term are low and inflation expectations are stable. Authorities are actively taking further steps to strengthen the monetary policy transmission mechanism. The Central Bank's credit line facilities, as well as regular quarterly meetings with commercial banks, have been effective in ensuring the Central Bank's monetary policy stance and actions are understood. Authorities have also recently received technical assistance from the Reserve Bank of Australia to help strengthen the monetary policy transmission mechanism and better manage liquidity. Looking ahead, the authorities would welcome more granular advice on how to further improve the transmission of monetary policy as well as an assessment as to whether current efforts by the Central Bank are working.

Authorities note staff's assessment that the external position is broadly in line with fundamentals and that the level of reserves is considered adequate. Samoa's pegged exchange rate remains appropriate and provides a welcome nominal anchor. 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 committed to rebuilding fiscal buffers, making progress on development objectives and ensuring 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 a surplus of 0.1 percent in 2017-18. Efforts to maintain a fiscally responsible stance will continue and the authorities will carefully consider the measures proposed by staff in the 2019-20 Budget context. Staff's recommended range for the fiscal balance in last year's staff report was 'less than 2.0 percent of GDP' to ensure debt is on a sustainable path. Staff's current baseline projection is a deficit of 1.8 percent. In this year's staff report the mission advised the authorities to target a fiscal deficit of 1.0 percent of GDP. Authorities note the increased precision of staff's advice.

Debt to GDP has decreased from 58 percent in 2014-15 to 50.3 percent in 2017-18, slightly above the target of 50 percent in the Medium-Term Debt Strategy. Debt is transparently reported, with the Ministry of Finance publishing government debt statistics on its website every quarter. This report covers the currency and creditor composition of government debt and the lending terms. Authorities agree with staff's recommendation to bring the debt-to-GDP target in the Medium-Term Debt Strategy down to 45 percent in the medium term given the risk of natural disasters and the need to ensure government finances remain on a sustainable footing.

Authorities are fully aware of the fiscal risks associated with public financial institutions and are continuing with reforms, including the establishment of a Debt Management Unit to help better manage fiscal risks. Cabinet recently agreed to strengthen procedures for issuing government guarantees to state owned enterprises and an on-lending policy is currently under review.

Samoa has a multi-pronged strategy for building resilience to natural disasters and climate change. This includes ensuring an adequate level of international reserves, building fiscal policy buffers and a contingency reserve as an expenditure item in the Budget. Further, the authorities are focusing on building infrastructure 'back better' such that it is more resilient to natural disasters and putting in place a multilayered contingent financing strategy. The financing strategy identifies financing available from international financial institutions and development partners, access conditions and the speed of disbursement to ensure that the authorities can respond swiftly in the event of a natural disaster. Samoan authorities are keen to see how a Climate Change Policy Assessment (CCPA) could further support their efforts to build resilience to natural disasters and seek the Board's support.

Samoan authorities look forward to the completion of the LIC Facilities Review and urge the membership to consider increases to access limits for the Fund's facilities that help members respond to natural disaster related shocks. Staff assess that major natural disasters hit Samoa on average every 5 years. The last major disaster was in 2012 and Samoa drew on the IMF's Rapid Credit Facility (RCF) at that time. While the authorities continue to make the required repayments, given the frequency with which Samoa experiences natural disasters, Samoa would only be able to access around 35 percent of quota given current cumulative access limits. Samoan authorities also encourage Staff to explore ways to increase the speed of disbursements available under the RCF. The recent experience in Mozambique sets a new benchmark in this regard.

Staff's assessment is that Samoa is still far from losing access to CBRs. But this assessment risks understating the fragility of the situation and the impact that losing remittance channels would have on social structures, financial inclusion and responsiveness to natural disasters. More Samoans live in Australia and New Zealand than in Samoa – so it is no surprise that the Samoan economy is heavily reliant on the flow of remittances. Remittances comprise 20 percent of GDP. Sons and daughters remit part of their income back to Samoa to support family structures. Given both the limited interaction that most Samoans have with the formal financial sector and the cost of transfers through traditional banking channels, flows of remittances tend to be received through Money Transfer Operators (MTOs). Remittance flows increase rapidly in response to a natural disaster and are often the first form of financial assistance that Samoans receive.

As the Samoan 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. The closure of Money Transfer Operators (MTOs) remains a risk to low-cost remittances in the Pacific and significant remittance costs threatens financial inclusion. While the withdrawal of CBRs 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 MTOs in local villages on remote islands close. Fees charged for remittances in the Pacific are already some of the highest in the world and well above the G20 objective of 5 percent. A centralized database to facilitate customer identification requirements remains an expensive prospect that does not ensure CBRs remain intact. The authorities remain open to a regional solution and urge the IMF to continue to consider all options. Authorities' thank the IMF for the convening role they have played to elevate the status of this issue and greatly appreciate recent initiatives such as the Pacific Roundtable.

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.

Staff note the high-risk rating of the offshore financial centre (OFC) in the 2014 National Risk Assessment. Actions have been taken since 2014 to reduce the risk profile of the offshore centre and to align to international standards. Samoa amended its tax legislation to align with international standards as well as other international finance legislation in 2013, 2014, 2015, 2016 and 2017. These changes also incorporate 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 completed the ‘Automatic Exchange of Information for Tax Purposes’ in 2018.

Samoa has also recently incorporated the new standard for the regulation of trust company service providers into the Trustee Companies Act 2017 and introduced a new quarterly on-site supervision program to mitigate risks. More specifically the *Trustee Companies Act 2017* (TCA) reinforces AML requirements on Trust Company Service Providers (TCSPs) including identification, verification and beneficial ownership information for International Business Corporations (IBCs). The current compliance rate for the provision of Beneficial Ownership (BO) information by the 6.0 percent of IBCs already covered by onsite supervision is 98.0 percent. Further, the TCA Act requires relationships with third parties to be in-line with current AML legislation that adheres to FATF standards. The Samoan authorities believe that the statement in the report *“since Samoa TCSPs rely heavily on foreign intermediaries to conduct customer due diligence”* needs to be qualified.

Samoa has always been a willing member in the global fight against money laundering and terrorism financing, including adopting the global standards to combat them. Samoa is a member of the Asia Pacific Group on Money Laundering (APG), the regional arm of FATF responsible for ensuring compliance by countries in the Asia Pacific region. The FATF develops a list of high-risk jurisdictions with AML/CFT deficiencies as part of a careful and comprehensive process. Because of the FATF’s work, virtually all countries around the world are subject to a rigorous peer-review methodology that examines the legal frameworks to counter illicit finance as well as how effectively countries implement them. These reviews are an intensive process involving careful review of the legal framework, extensive fact-gathering, and onsite visits in which assessors engage in robust, iterative dialogues with assessed countries. Samoa as an APG member actively engages in this process.

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 recently amended its Anti-Money laundering legislation last year to improve its compliance with the FATF standards. As a result, in the APG Annual Plenary in July 2018, Samoa was given upgrades on 3 key recommendations and was placed in the category of countries that requires reporting to APG every 12 months instead of every 6 months. Samoa does not appear on any OECD or FATF black lists.

Samoa is disappointed it has recently been included on a draft European Union AML list, alongside its inclusion on the European Union black list of non-cooperative tax jurisdictions. In regard to the EU blacklist for non-cooperative tax jurisdictions, Samoa actively responded and cooperated with the EU while continuing to meet its obligations under the international standards. Samoa has also given the EU assurances of Samoa’s commitment to maintain its endeavours to remain internationally responsible, and compliant. Regarding the recent draft AML list**,** Samoa is disappointed that they have not been provided with any detailed reasons for their inclusion on the blacklist, that they were provided notification that they would be included on the list only days before it was issued and that they were not provided a meaningful opportunity to challenge their inclusion, or otherwise address the issues identified. Since the listings, Samoa has maintained an open dialogue with the EU and hopes to find a constructive way forward to addressing and resolving this listing.

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. The authorities regret the high frequency of Mission Chief turnover that they experience, especially given that their particular risks, vulnerabilities and unique operating context takes some time to navigate. Nonetheless, the authorities value highly the advice and technical assistance received from the Fund and look forward to further constructive engagement in future.