INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/110

SAMOA

March 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2023 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 March 8, 2023, 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 March 8, 2023, following discussions that ended on January 27, 2023, 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 February 21, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by IMF and World Bank Staff.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/84

IMF Executive Board Concludes 2023 Article IV Consultation with Samoa

FOR IMMEDIATE RELEASE

Washington, DC – March 20, 2023: On March 8 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Samoa.

The Samoan economy has begun recovering after a three-year recession driven by the Covid-19 pandemic. A rebound in economic activity has followed the lifting of domestic Covid-19 restrictions in July and the pickup in visitor inflows when borders reopened in August. This has also been supported by rising remittances and increased public investment. As a result, real GDP grew by 4.7 percent y/y in Q3-2022 and is projected to increase by 5.0 percent in FY2023.[2] However, there are downside risks from uncertainties to the global outlook, which could stifle the recovery in tourism and economic activity. Inflation was driven to over 15 percent y/y in August-September 2022, mainly due to a surge in import prices. However, lower food and energy prices in recent months have brought down inflation to 7.5 percent y/y in December, and inflation is projected to ease further in 2023.

Economic growth is projected to remain above trend in FY2024 and FY2025 as tourism inflows and the domestic economy normalize. Higher tourism receipts and resilient remittances are also projected to narrow the current account deficit. Reserve coverage, which was over 8 months of imports in FY2022, is projected to remain above adequate levels in the medium term, with coverage of about 7 months of imports.

The central government has maintained surpluses despite the pandemic, helped by buoyant tax revenue—including due to improvements in tax administration—and grant inflows. However, under-execution of public investment was a headwind to growth. In FY2022 the central government run a surplus of 5.4 percent of GDP and lowered public debt to 43.7 percent of GDP.

Credit growth has slowed after accelerating early in the pandemic, with lending to businesses declining and modest growth in household borrowing driven by the lending of public financial institutions. Private sector leverage has increased in recent years, with financial system credit to the private sector reaching 94.6 percent of GDP. While the economic downturn has raised non-performing loans, they remain within historical averages. Furthermore, high provisioning levels have been maintained and capital ratios remain well above prudential norms.

[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.

[2] Samoa's fiscal years end in June.

Executive Board Assessment[3]

Executive Directors commended the authorities for Samoa's resilience to the COVID-19 pandemic, and after a three-year recession, welcomed the ongoing economic recovery supported by the reopening of tourism. Looking ahead, Directors noted the elevated risks from potentially slower global growth or higher commodity prices, as well as the country's vulnerability to natural disasters. In this context, they emphasized the importance of close coordination between fiscal and monetary policies, strengthening the financial sector, and advancing structural reforms to promote inclusive growth.

Directors agreed that an expansionary fiscal policy focused on growth-enhancing expenditure would help support the recovery. They encouraged vigilant monitoring of the new District Development Program to ensure high expenditure quality and growth impact. While acknowledging that utility tariff reductions buffered the impact on households of recent macroeconomic shocks, Directors encouraged steps to begin restoring tariffs to cost recovery levels. They also encouraged the authorities to build on recent efforts to improve revenue administration and policies governing the finances of state-owned enterprises. Over the medium term, Directors agreed that a revenue-driven fiscal consolidation would contribute to fiscal sustainability and provide space to raise spending on social needs and climate-resilient infrastructure.

Directors encouraged the authorities to begin normalizing monetary policy immediately, given the high levels of private sector credit and inflation, and the tightening domestic labor market. They viewed that a gradual removal of accommodation based on the pace of the recovery would likely be sufficient to contain private leverage and prevent high inflation from becoming entrenched.

Directors were encouraged by the resilience of Samoa's financial system. They noted the increased systemic risks brought by the pandemic and emphasized the need to strengthen the emergency liquidity assistance framework and bank resolution regime. Directors welcomed efforts to reinforce the financial position of the Development Bank of Samoa and limit risks from public financial institutions, while pointing to the need to review prudential regulations governing these institutions. They emphasized the need for continued efforts to deepen financial development, assess AML/CFT risks, which would help mitigate correspondent banking relationship pressures, as well as implement previous FSAP recommendations. Directors supported the authorities' efforts to foster diverse, inclusive growth. They encouraged reforms to improve the quality of education and expand access to training programs to enhance human capital and domestic labor opportunities, strengthen the business environment, and enhance climate resilience.

[3] 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[1/]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Projections					
Output and Inflation			(12-month percent change)						
Real GDP	-3.1	-7.1	-6.0	5.0	3.6	3.4	3.0	2.6	2.3
Nominal GDP	-2.1	-7.3	0.0	13.4	6.7	7.0	6.1	5.7	5.3
Consumer price index (end of period)	-3.3	4.1	10.9	5.5	4.5	3.0	3.0	3.0	3.0
Consumer price index (period average)	1.5	-3.0	8.7	10.0	5.0	4.0	3.0	3.0	3.0
Central Government Finances				(In percent of GDP)					
Revenue and grants	36.0	36.5	38.5	34.6	34.4	34.4	34.6	34.6	34.6
Of which: Grants	8.7	6.8	9.4	5.9	5.9	6.0	6.0	6.0	6.0
Expenditure	30.6	34.7	33.1	36.7	36.8	36.8	37.1	37.1	37.1
Of which: Expense	27.3	31.3	32.3	33.3	31.3	31.3	31.1	31.1	31.1
Of which: Net acquisition of non-financial assets	3.3	3.4	0.9	3.4	5.5	5.5	6.0	6.0	6.0
Overall balance	5.4	1.7	5.4	-2.0	-2.4	-2.5	-2.5	-2.5	-2.5
Gross debt outstanding	43.3	46.3	43.7	38.5	39.3	39.7	40.2	40.8	41.2
Money and Credit Aggregates			(12-month percent change)						
Broad money (M2)	-0.9	8.1	2.2	12.0	7.5	6.5	6.0	6.0	6.0
Private sector credit, commercial banks	5.9	1.5	0.2	3.0	5.0	5.0	5.0	5.0	5.0
Private sector credit, other financial corporations	9.9	-0.9	4.9	…	…	…	…	…	…
Private sector credit, total financial system	7.5	0.4	2.2	…	…	…	…	…	…
Private Sector Credit				(In percent of GDP)					
Commercial banks	48.5	53.1	53.2	…	…	…	…	…	…
Total financial system	85.5	92.6	94.6	…	…	…	…	…	…
Bank Financial Soundness									
Regulatory capital to risk-weighted assets, ratio	28.7	28.1	28.8	…	…	…	…	…	…
Non-performing loans to total gross loans, ratio	2.9	3.7	4.6	…	…	…	…	…	…
Balance of Payments				(In percent of GDP)					
Current account balance	0.2	-14.6	-11.6	-3.3	-4.0	-3.8	-3.4	-2.3	-1.2
Merchandise exports, f.o.b.	5.2	4.1	3.8	4.7	4.6	4.6	4.5	4.5	4.5
Merchandise imports, f.o.b.	36.5	37.8	41.4	45.3	44.4	43.3	42.6	41.8	41.0
Services (net)	13.2	-3.9	-2.9	8.4	8.6	10.4	12.2	13.1	14.1
Of which: Tourism receipts	16.0	0.0	0.0	10.8	11.5	14.0	16.1	17.0	18.0
Income (net)	-3.5	-1.8	-2.9	-3.0	-2.8	-2.8	-2.8	-2.8	-2.7
Current transfers (net)	21.8	24.8	31.8	31.9	29.9	27.4	25.3	24.8	24.0
External Reserves and Debt									
Gross official reserves (million U.S. dollars) 2/	222.3	288.5	303.2	323.2	320.3	317.8	311.1	315.8	333.6
(in months of next year's imports)	6.4	7.9	7.2	7.4	7.1	6.8	6.4	6.3	6.3
External debt (in percent of GDP)	42.9	46.1	43.7	36.4	37.4	38.0	38.6	39.4	40.0
Exchange Rates									
Market rate (tala/U.S. dollar, period average)	2.70	2.57	2.61	…	…	…	…	…	…
Real effective exchange rate (12-month percent change) 3/	-4.1	-1.0	3.7	…	…	…	…	…	…
Memorandum items:									
Nominal GDP (million tala)	2,340	2,169	2,169	2,460	2,625	2,810	2,981	3,151	3,318
GDP per capita (U.S. dollars)	4,372	4,225	4,140	4,437	4,602	4,823	5,050	5,266	5,517

Sources: Data provided by the Samoan authorities; and IMF staff estimates and projections.
1/ Fiscal years July-June.

2/ Incorporates August 2021 SDR allocation.

3/ Increase signifies appreciation.

INTERNATIONAL MONETARY FUND

SAMOA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

February 21, 2023

KEY ISSUES

Context: After a three-year recession triggered by the COVID-19 pandemic, the economy is recovering, boosted by the reopening of tourism. However, higher global commodity prices briefly raised inflation to double-digit rates. Disciplined fiscal policies, buoyant revenue and remittances, and donor support have contributed to fiscal and external stability. The banking system has remained resilient to the economic downturn, although there has been some deterioration in asset quality. Pressures on correspondent banking relationships continue. With the pandemic-driven decline in investment, as well as rising numbers of seasonal workers abroad, output is projected to remain well below pre-pandemic trends.

Main policy recommendations: After two years of under-spending, an expansionary fiscal stance is needed to support the recovery and avoid long-term scarring through increased public investment and other growth-enhancing expenditure. Given high inflation, this can be partially counterbalanced by the Central Bank of Samoa immediately but gradually unwinding the accommodative monetary stance. If the economic recovery stalls—including if the fiscal expansion doesn't materialize as planned—monetary tightening could proceed at a slower pace. Support to households provided by state-owned enterprises (SOEs) via low utility tariffs should be channeled through the budget to make the costs transparent and preserve their capacity to make needed investments. Sustainable growth and diversification can be complemented by ramping up training programs to build a pipeline of skilled labor and improving the broader business environment to take greater advantage of regional trade and economic integration agreements.

With long-term risks of debt distress remaining high, gradual fiscal consolidation is appropriate. This should be through raising revenue, which would also create space for the needed strengthening of social safety nets and higher investment in climate resilience. Recent efforts to contain fiscal risks at SOEs are welcome and should be continued. For public financial institutions, their mandates need to be reviewed, and regulation and supervision should be stepped up. Financial sector reforms are advancing—including the national digital ID, credit registry, and Know-Your Customer utility—and their prompt implementation would help facilitate credit intermediation, increase financial inclusion, and sustain access to the international payments system.

Approved By
Cheng Hoon Lim and Geremia Palomba

Discussions took place in Apia during January 16-27, 2023. The closing meeting was held virtually on February 1. The IMF team comprised Andrew Swiston (head), Arpitha Bykere (both APD), Daniela Alcantara (SEC), and Jonathan Pampolina (LEG), was joined by Igam Moaniba (OED), and was supported by Shikha Rao and Stella Tam (both APD). The report also reflects contributions from previous team members Munesh Deo and Kazuhide Ishiwaka.

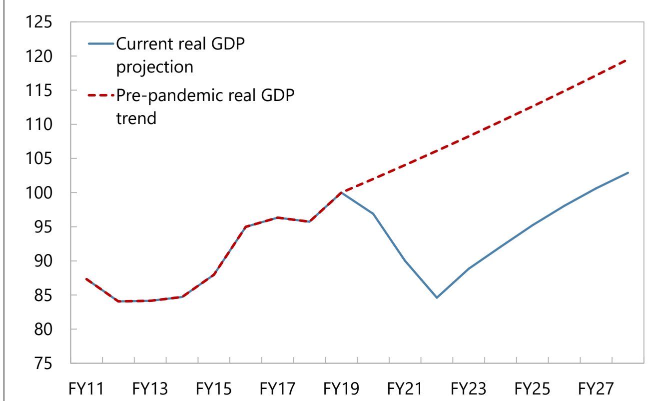
CONTENTS

ANNEXES

CONTEXT

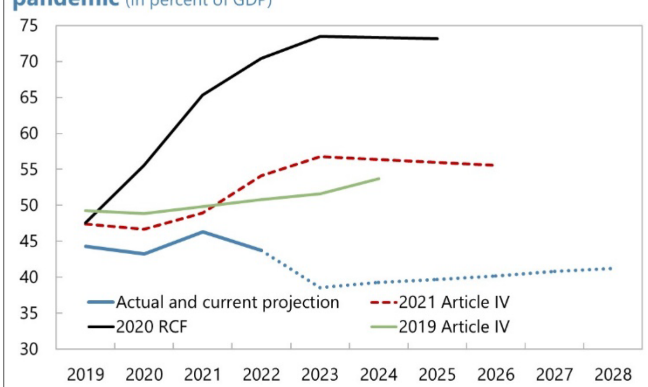
1. **The Samoan economy experienced a pandemic-driven three-year recession**. During fiscal years 2020-2022, real GDP endured a cumulative 15 percent decline, leaving standards of living over 20 percent behind pre-pandemic projections.[1] This was triggered by the border closure and loss of tourism receipts (which accounted for over 20 percent of GDP pre-pandemic), which spilled over to other sectors of the economy. In 2022, a domestic COVID-19 outbreak and associated lockdowns prompted another decline in activity. With the outbreak abating and the border reopened to travelers, a recovery is underway.

Permanent Output Loss from Pandemic (Index, 2019=100)



Sources: Samoan authorities; and IMF staff calculations.

Central government debt has been contained despite the pandemic (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

2. **Policies have been largely in line with past IMF advice, contributing to macroeconomic and financial stability (Annex I)**. Samoa has made strides in revenue mobilization and public financial management (Annex II)—including with the benefit of substantial IMF capacity development (CD)—while progress on growth-enhancing structural reforms has been slower. In response to the pandemic, Samoa accessed Rapid Credit Facility (RCF) financing in April 2020 for 100 percent of quota (about US$22 million). Several stimulus measures were implemented to buffer the pandemic's economic impact, but their temporary nature, along with under-execution of spending—especially for public investment—helped contain the effects on the underlying fiscal position. Similarly, the RCF and donor financing helped buffer the pandemic's impact and sustain international reserves. The current administration, which is from the FAST party, won elections in 2021 and remains in office until 2026, and emphasizes community participation and local development.

3. **Structural vulnerabilities continue to pose challenges**. Samoa's small size and remoteness limit its potential for economic diversification and integration into global value chains, and there is a sizable diaspora that has pursued economic opportunities abroad. The economy thus depends heavily on tourism, official aid, and remittances. As elsewhere in the region, it has experienced pressures on correspondent banking relationships (CBRs) which are vital for remittance

[1] Fiscal years end in June.

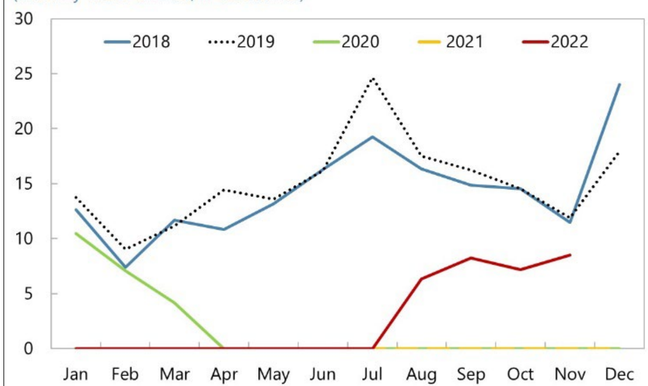
inflows. It is also highly exposed to natural disasters, accessing RCFs after an earthquake and tsunami in 2009 and a cyclone in 2012.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

4. The reopening is lifting economic activity after a sharp decline in FY2022. The continued border closure and domestic COVID-19-related restrictions weighed on activity, resulting in GDP contracting 6.0 percent in FY2022 (Figure 1). Private consumption moderated following strong growth in recent years, while gross fixed capital formation declined sharply. However, the economy is recovering in FY2023, aided by the lifting of COVID-19 restrictions in July and the pickup in tourism upon reopening of borders in August 2022.

Tourism has rebounded quickly upon border reopening
(Monthly visitor arrivals, in thousands)

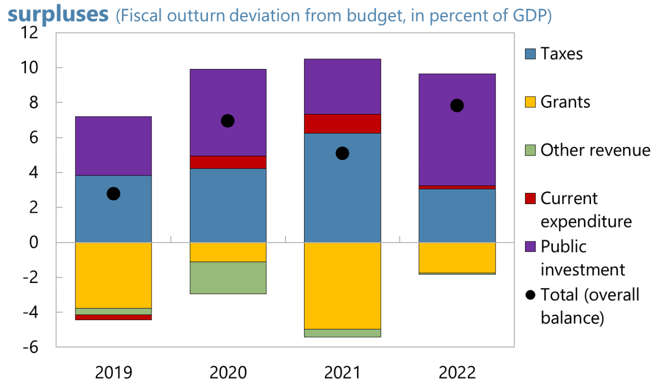


Source: Central Bank of Samoa

5. Inflation spiked mainly due to a surge in import prices, with a smaller contribution from domestic products. Headline inflation reached 7.5 percent y/y in December, as prices in Samoa quickly reflected both higher global energy and food prices driven by Russia's war in Ukraine in early 2022 and their subsequent moderation (Figure 2; Annex III). Local inflation has risen as domestic food prices have increased and energy prices have passed through to transportation costs, even as utility tariffs were reduced.[2] However, underlying domestic inflation (excluding food and transport) has remained contained at 5.5 percent y/y. Moreover, there are signs of easing inflationary pressures, as prices experienced outright declines during October-December.

6. Fiscal policy was a headwind to growth, as the central government remained in surplus in FY2022. Tax revenue was buoyant, sustained by resilient consumption and formal sector wages, as well as higher import prices (Figure 3).

Buoyant revenue and expenditure shortfalls drove fiscal surpluses (Fiscal outturn deviation from budget, in percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.
Note: A positive difference on spending indicates under-execution of the budget.

---

[2] Price controls were introduced on a limited number of imported food items in March 2020, with price ceilings subsequently revised to account for movements in international prices. The controls were lifted in July 2022. Staff analysis suggests that the impact on aggregate inflation has been modest.

Grants also remained above pre-pandemic levels. Primary current expenditure increased due to the response to the local COVID-19 outbreak, but overall expenditure declined, driven by a sharp drop in capital expenditure. As a result, the central government surplus was 5.4 percent of GDP, compared to a budgeted deficit of 2.5 percent of GDP. This reduced gross debt to 43.7 percent of GDP.

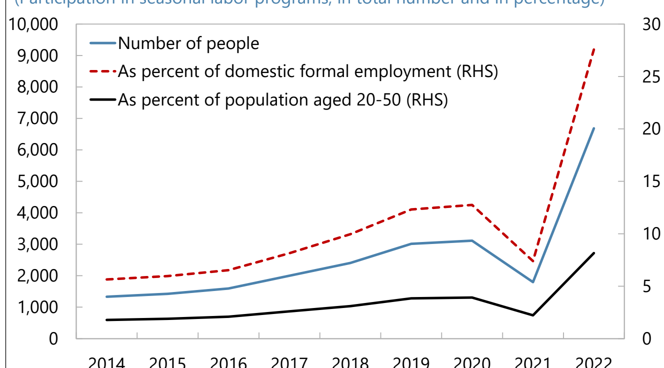
7. **Overall credit growth remains modest, with corporate borrowing declining and household borrowing rising**. Lending to businesses declined in FY2022, given weak loan demand, and high credit risk and indebtedness among businesses (Figure 4). However, commercial bank and Public Financial Institution (PFI) lending to households continued increasing amidst ample bank liquidity and rising PFI assets under management. This contributed to higher leverage, with financial system credit to the private sector reaching 94.6 percent of GDP. Deposit rates leveled off in 2022 after declining steadily during 2021 following the implementation of deposit rate caps, while lending rates have continued to edge down.[3]

8. **Financial soundness indicators have been resilient**. The downturn has raised non-performing loans (NPLs)—especially among the tourism and construction sectors—though they remain near historical averages and high provisioning levels have been maintained (Figure 5). During the pandemic, banks assisted borrowers through postponing repayments and restructuring loans. While these policies have been normalized since the reopening, they could have masked weaknesses in repayment capacity among some borrowers and deterioration in asset quality. The banking system remains liquid (though with liquidity distributed unevenly), with capital ratios well above prudential norms.

9. **Despite the absence of tourism, the current account deficit narrowed and reserves remained ample**. The current account balance narrowed to -11.6 percent of GDP in FY2022 (-14.6 percent in FY2021), principally because of surging remittances, which were partially offset by higher imports. Samoa's external position in FY2022 is assessed as moderately stronger than medium-term fundamentals and desirable policy settings, though there is a wide confidence interval given the volatility of Samoa's external accounts and uncertainty surrounding the medium-term path of tourism and remittances (Annex IV). Gross international reserves remained more than adequate, at 8.3 months of imports, with contributions from higher grants and the August 2021 SDR allocation, which has been held in reserves and used to repay IMF credit.

Surging overseas workers are boosting remittances

(Participation in seasonal labor programs, in total number and in percentage)

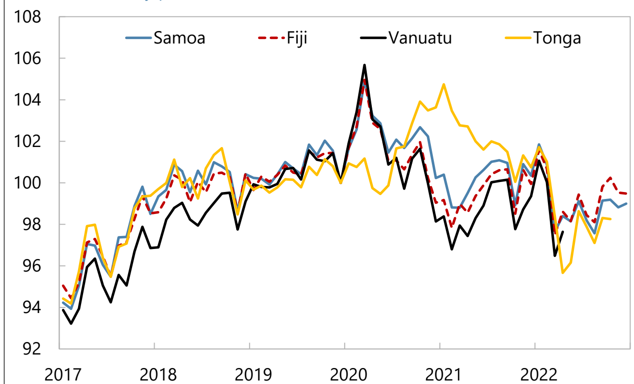


Sources: National authorities; UN World Population Prospects 2022; and IMF staff calculations.

[3] Commercial banks established a rate cap of 3 percent on new deposits in December 2020 for a period of 12 months. The rate cap was later extended through December 2022.

10. Tourism is recovering rapidly and remittances continue to grow. Visitor arrivals already exceed half of pre-pandemic levels, driven by some one-off events and pent-up demand (Annex V). However, some facilities have been unable to reopen due to investment needs and some skilled workers have moved to other sectors or abroad, limiting capacity. Tourism receipts are thus projected at 10.8 percent of GDP in FY2023. Remittances are growing rapidly driven by rising numbers of seasonal workers abroad, though some normalization in the medium term is expected from recent exceptional levels (Figure 7). The tourism recovery and remittances growth, along with still-high commodity prices, are expected to sustain high imports. The tala weakened by 3.5 percent year-over-year against the U.S. dollar in December 2022, owing to the dollar's strength against the other currencies in the basket (Australian dollar, euro, and New Zealand dollar), but has appreciated by 4 percent in nominal effective terms and 5 percent in real effective terms.[4] Overall, the current account deficit is forecast to narrow to 3.3 percent of GDP in FY2023.

The exchange rate has moved in line with Pacific peers
(National currency per SDR, Dec 2019=100)



Sources: Haver Analytics; and IMF, International Financial Statistics.

B. Outlook and Risks

11. The ongoing recovery should translate to above-trend GDP growth. Real GDP rebounded by 4.7 percent in Q1-FY2023 and is projected to grow by 5.0 percent in FY2023, with the reopening of tourism spilling over to other sectors, household consumption supported by strong remittances, the large increase in public investment, and the border reopening reviving other construction activity. These factors are expected to continue supporting the economy in FY2024 and FY2025, keeping GDP growth over 3 percent. Inflation is projected to average 10.0 percent during FY2023 and gradually ease to 5.5 percent by fiscal year-end given the moderation in global commodity prices, partly counterbalanced by tight labor market conditions—in part due to the outflow of seasonal workers (Annex III). As in previous global supply shocks, the currency basket regime provides a credible nominal anchor in the context of a closed capital account. This framework should help inflation gradually converge to around 3 percent, the Central Bank of Samoa's (CBS) indicative target, as inflation in trading partners moderates.[5]

12. Global developments continue to pose downside risks. Several factors could potentially generate weaker-than-expected global growth and stifle Samoa's recovery in tourism and economic activity (Annex VI). Continued under-execution of fiscal spending could also lead to weaker-than-expected growth. Commodity prices pose another key downside risk, and could contribute to

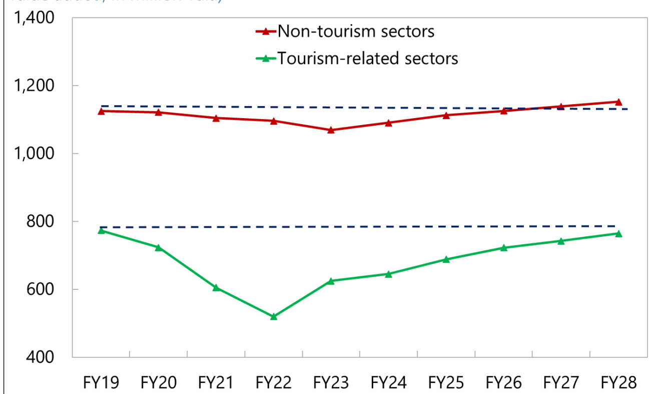
[4] The basket weights are not disclosed.

[5] The CBS determines its indicative inflation target in relation to inflation in trading partners.

inflation persistence, weighing on household purchasing power and local production costs. These price pressures together with domestic labor shortages and reduced capacity could also hurt tourism sector competitiveness. To the extent any of these risks materialized, they could raise the current account deficit and reduce reserves. However, staff analysis suggests that under a downside scenario with substantially lower tourism receipts, the economy would still grow and reserve coverage would remain more than adequate (Annex V). Samoa also faces the ever-present vulnerability to natural disasters. On the upside, a rapid recovery in tourist inflows could lend greater support to economic activity and employment, though also adding to inflationary pressures.

13. Current projections imply significant post-pandemic scarring. With the economy projected to return in the medium term to its historical average growth of 2.0-2.5 percent, output would remain 14 percent below the pre-pandemic trend. The sharp contraction in investment and increase in the number of seasonal workers abroad (if sustained) will weigh on productive potential, especially in tourism-related sector where these issues are more pronounced.

The pandemic has scarred tourism-related sectors (Real gross value added, in million Tala)



Sources: Samoan authorities; and IMF staff calculations.

14. Authorities' views: The authorities broadly agree with the outlook for a recovery. The baseline projection for real GDP growth is somewhat lower than staff's—albeit with potential upside—due to a deceleration expected in H2-FY2023 as pent-up demand wears off, and with constraints in the tourism sector holding growth around trend in FY2024. They agree that inflation will continue to ease, but is likely to remain above 3 percent for some time due to elevated inflation in trading partners. The authorities concurred on the main risks to growth and inflation, including global monetary tightening, renewed acceleration in commodity prices, and continued supply chain disruptions.

NEAR-TERM POLICIES

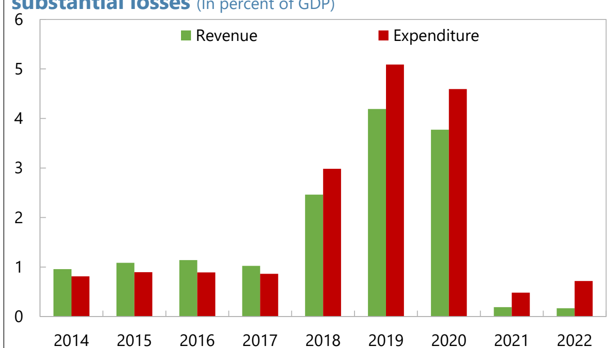
The risks to the recovery and large pandemic-related scarring justify an expansionary fiscal stance, provided it is used to boost productive capacity through increased public investment and other growth-enhancing expenditure. Given high inflation and the economic recovery, the Central Bank of Samoa should start unwinding its highly accommodative monetary stance, which would also contain a further buildup of private sector leverage. In the event of a slower economic recovery—including if the fiscal expansion doesn't materialize as planned—monetary tightening could proceed at a slower pace.

A. Fiscal Policy

15. The FY2023 budget plans for an expansionary fiscal stance driven by a new local development program and higher public investment. The budget aims for a deficit of 3.5 percent of GDP, to be financed mainly by deposits. An increase in excise taxes on unhealthy foods takes effect in January 2023, with a full-year impact of 0.2-0.3 percent of GDP. The main new expenditure initiative is a district development program (DDP) for 2.3 percent of GDP, which aims to facilitate inclusive growth by empowering the 51 local districts within Samoa to execute their own community development projects. Capital expenditure is budgeted at 4.5 percent of GDP, below pre-pandemic levels but higher than recent outturns. Grants are expected to decline as pandemic-related support diminishes.

16. Recent data suggests the deficit will be narrower than budgeted even including transfers to Samoa Airways. Central government guarantees on liabilities of Samoa Airways have been called, amounting to 2.2 percent of GDP. Offsetting this, tax revenue is still performing better than expected, driven by buoyant activity and imports, and higher prices. Fully executing budgeted expenditure will also present challenges. For the DDP, execution may lag while the policy framework is being put in place, capacity at the district level is formed, and projects are identified and approved. Public investment will benefit from greater availability of materials and human resources as borders reopen but ramping up execution will take time.

Samoa Airways has scaled back operations in the wake of substantial losses (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.
Note: 2022 data is June-March.

17. The projected expansionary fiscal stance is appropriate to assist the economic recovery, provided there is an increase in public investment. While the budget planned a larger expansion, staff projects a smaller deficit of 2.0 percent of GDP—still an expansionary stance given the FY2022 surplus—and with risks of a higher balance and thus smaller fiscal impulse.[6] To maximize the positive impulse to growth, priority needs to be given to the timely execution of public investment. The DDP could provide a boost in this area, though it brings risks to expenditure quality given its decentralized nature. However, the central government is implementing thorough evaluation and monitoring frameworks to mitigate these risks.[7]

[6] The staff projection includes the Samoa Airways guarantee. Netting this payment and calculating the fiscal impulse as the overall balance excluding grants results in an impulse of 1.8 percent of GDP, smaller than the projected increase in public investment.

[7] Release of the district's budgeted allotment for a given year is contingent on a satisfactory auditing of the previous year's expenditure as well as approval of planned expenditure by a steering committee at the ministerial level. Technical experts are available to districts to assist in project planning and proposals.

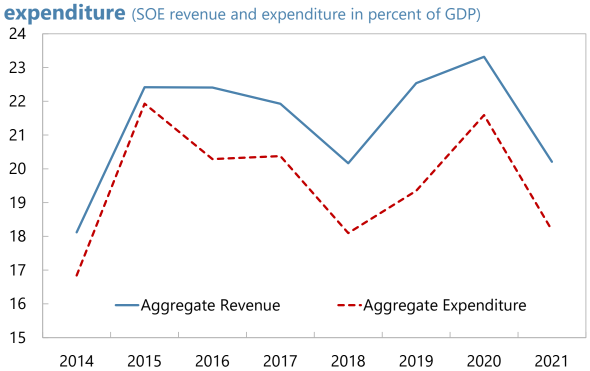
18. The finances of state-owned enterprises (SOEs) continue to pose challenges. Samoa Airways has limited its operations to ground handling and propeller routes, which reduced its operational losses in 2021-22. The 20 percent reduction in electricity and water tariffs (along with other government fees and charges) enacted in 2021 remains in effect, at an annual cost of over one percent of GDP, which has been reflected in a deterioration in the operational balance of the electricity company. These measures are currently funded by the relevant SOEs, not through the central government.

Largest SOEs by Total Assets
(In percent of GDP; FY2021)

SOEs	Assets
Electric Power Corporation (EPC)	22
Samoa Ports Authority (SPA)	12
Samoa Water Authority (SWA)	9
Samoa Airport Authority (SAA)	7
Samoa Land Corporation (SLC)	5
Samoa Airways Limited (SA) 1/	5

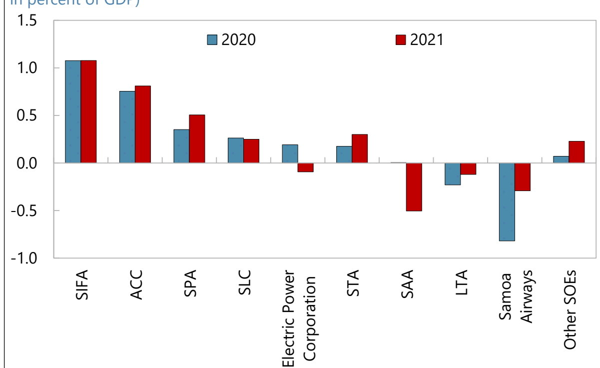
Sources: Samoa Public Accounts; and IMF staff calculations.
1/ 2019 information.

The SOE sector is large, and aggregate revenue exceeds expenditure (SOE revenue and expenditure in percent of GDP)



Source: Ministry of Public Enterprises.

With the pandemic pushing some into losses (SOE net revenue, in percent of GDP)



Source: Ministry of Public Enterprises.

19. Utility tariffs should be made commensurate with costs, with support to households channeled through the budget. Reducing tariffs has buffered the impact of higher commodity prices on households and helped to contain inflation. However, the benefits are not well targeted, and the policy fails to allow higher prices from international commodity markets to pass through into lower demand. A normalization of tariffs over 2-3 years—especially as household incomes recover and inflationary pressures recede—could strike a balance between buffering the macroeconomic impact of recent shocks and preserving SOE finances. Supporting households through a direct, per person transfer (as was executed during the pandemic) would be more transparent and more progressive. It would also preserve the financial position and investment capacity of the power company. As an alternative, the utility tariff measures should be funded by annual budgetary appropriations.

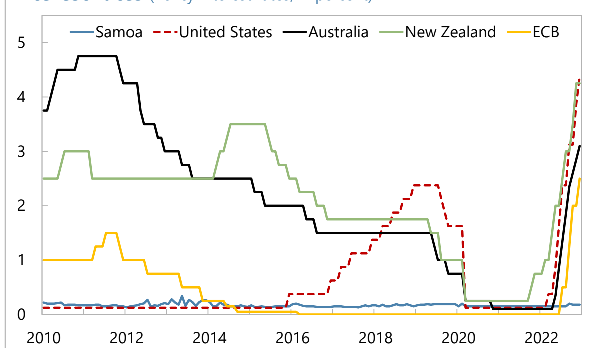
20. Authorities' views: The authorities aim to fully execute budgeted expenditure including public investment and projects inclusive of District Development Programs, which should contribute to the economic recovery and community development. With the downsizing of operations at Samoa Airways, the company is expected to be profitable going forward. Lower utility tariffs are providing a key source of support to households suffering from the impact of the food and energy price shock. While the need to preserve the finances of the power company is recognized, the high level of inflation does not currently permit an increase in the tariff rate.

B. Monetary and Exchange Rate Policies

21. The CBS aims to maintain an accommodative policy stance in FY2023 to support demand. The CBS has initiated open market operations (OMO) after a gap of two years and discontinued the Standby Credit Facility introduced during the pandemic. However, OMOs have been small and interest rates remain near the 0.15 percent policy rate. Furthermore, financial system liquidity is structurally high, owing both to excess reserves of commercial banks and high levels of liquidity at PFIs, which poses challenges to monetary transmission.[8]

22. The economic recovery and high inflation rates call for monetary policy normalization to begin immediately. With lending rates at historic lows and ample systemic liquidity, some accommodation can be removed without unduly tightening overall financial conditions. This would contribute to financial stability by containing further increases in household leverage. The resultant reduction in demand would, in turn, lower imports and improve external balances, while also helping ensure the inflation pass-through from import prices is only transitory. Normalizing the policy rate during the rebound in activity would build up policy space to respond to future shocks. Complementing policy rate hikes with larger OMO would help absorb excess liquidity in the system. This, together with the end of deposit rate caps in December 2022, will facilitate the transmission of the tighter stance.

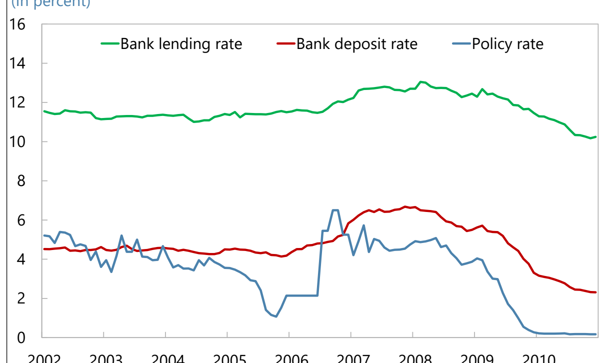
Samoa's closed capital account permits divergence in interest rates (Policy interest rates, in percent)



Sources: Haver Analytics; and IMF, International Financial Statistics.

23. Removal of monetary accommodation could be gradual, with the pace dependent on the strength of the recovery. In past cycles, the monetary policy rate hovered around the 3-5 percent range and influenced domestic interest rates. However, with the neutral rate and strength of transmission uncertain after a long period of near-zero rates, a gradual approach would allow calibration of the pace of tightening and terminal rate based on the ongoing effects. Interest rate hikes could be slowed if the recovery loses steam. While normalization would adversely impact

In the past, the policy rate influenced other interest rates (In percent)



Source: Samoan authorities.

[8] Banks do not receive interest on required or excess reserves.

household and corporate debt repayment capacity against the backdrop of high leverage, rising incomes will buffer the effects. Gradual tightening is also appropriate since pressures from global commodity prices are expected to ease going forward.

24. Authorities' views: The authorities highlighted that while the economic recovery paves the way for gradual normalization of monetary policy, the stance should remain accommodative given low credit growth and the potential impact of higher interest rates on borrowers' repayment capacity. Looking ahead, any tightening of the stance would need to be accompanied by active communication with banks and PFIs to guide expectations, and transmission would be facilitated by the expiration of the deposit rate caps. The authorities affirmed their satisfaction with the functioning of the currency basket peg and concurred with staff's assessment regarding the adequacy of reserves coverage.

C. Financial Sector Risks, Vulnerabilities and Policies

25. Given the deterioration in asset quality and risks to repayment capacity, banks have increased capital buffers and provisioning, helping to maintain systemic resilience. While systemic financial risks increased early in the pandemic, the system has remained resilient, and risks are abating as the economic recovery raises borrower cash flows. However, in the context of high leverage, policy rate normalization could strain private sector repayment capacity and balance sheets of commercial banks and PFIs. Vigilant monitoring of asset quality and financial soundness thus remains necessary to identify and address emerging vulnerabilities. This should include updating stress tests, ensuring consistent application of loan classification standards, maintaining loss-absorbing capital ratios, and developing and monitoring indicators of the debt servicing capacity of borrowers such as debt-to-income and debt service-to-income ratios.[9] To contain or prepare to deal with systemic risks, the authorities should also enact reforms as previously recommended by IMF TA, including: implementing a rules-based progressive enforcement program of bank supervision, including early intervention; and improving the bank resolution framework and emergency liquidity assistance framework.

Financial Linkages between Sectors

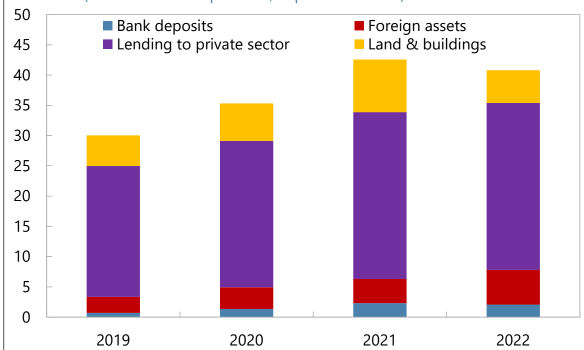
(In percent of GDP, end-FY2022)

		Assets			
	Sector	Commercial Banks*	NBFIs incl.PFIs*	CBS*	SOEs
Liabilities	NBFIs incl. PFIs	0.4	1.4	3.6	0
	SOEs	0.3	2.9 (0.7^)	0	0
	Households	24.5	23.2	0.1	0
	Businesses	28.8	18.1	0	0
	Commercial Banks	0	3.6	2.1	13.1

Source: Samoan authorities; and IMF staff calculations.
Note: NBFIs are non-bank financial institutions which include Public Financial Institutions (PFIs) -
*PFI lending to SOEs and other PFIs, and CBS lending to PFIs are backed by govt. guarantees.
^Excluding PFI lending to Samoa Airways with govt. guarantee that has been called.

[9] According to the prudential guidelines for commercial banks, a loan should be classified as non-performing when payments of interest and/or principal are past due by 90 days or more, or if payments must be capitalized, refinanced, or delayed by agreement, due to inability to repay.

SNPF assets are growing rapidly, with rising holdings abroad (SNPF investment portfolio, in percent of GDP)



Source: Samoan authorities; and IMF staff calculations.

26. SNPF and Unit Trust of Samoa (UTOS) are experiencing rapid growth in assets under management. SNPF's portfolio reached 48 percent of GDP in FY2022, fueled by a phased rise in the employee contribution rate, from 5 percent in FY2015 to 10 percent in FY2022. SNPF and UTOS are increasingly investing their assets overseas, which enables them to increase the rate of return but raises their vulnerability to exchange rate and other risks, and could raise domestic exposure to external shocks. SNPF is also a competitor with banks in lending to the private sector, through lending to participants. While credit risks are low given the lending is collateralized against participants' contributions, the associated rise in household borrowing could increase financial stability risks. The lending of these PFIs to SOEs and other PFIs, with government guarantees, has diminished in recent years.

27. While efforts have been made to clean up the balance sheet of the Development Bank of Samoa (DBS), more progress is needed. Some longstanding NPLs are being resolved, the government has made capital infusions of $10.6 million tala through the FY2020-2023 annual budgets, and DBS is making progress on repaying its credit lines with CBS. In contrast with past unfunded mandates, a new program to help restart operations at pandemic-affected small businesses has been directly funded by the government. However, DBS is still making net losses, and with large tourism-related NPLs still on its balance sheet, asset quality and cash flow remain weak.

28. Given the systemic importance of the PFIs, the FSAP recommendations to improve the governance and transparency of the PFIs and revise their prudential regulations should be implemented. New polices on government guarantees and on-lending, which aim to improve transparency in the approval and management of guarantees based on credit risk assessments and ensuring sufficient financial returns, should help contain risks from lending to SOEs and other PFIs. The shift of DBS to focus on SMEs (for whom collateral issues often limit their borrowing from commercial banks) will help limit overlap with commercial banks. The lending mandates of other PFIs should also be reviewed with an aim to achieve specific socio-economic objectives while minimizing financial system distortions, including the crowding out of commercial banks. Prudential regulations should be revised to ensure sound classification and reporting of NPLs, and align capital requirements with those of financial intermediaries elsewhere with similar operations. Regulation and supervision should be stepped up with respect to overseas investments. For SNPF, with lump sum withdrawals chosen by almost all eligible participants, the actuarial incentives should also be revisited with a view to providing greater income security during retirement.

29. Authorities' views: The authorities emphasized the financial system had weathered the pandemic well, with banks remaining well capitalized and NPLs manageable due to ample provisioning and sufficient collateral. They nevertheless agreed that leverage was high and credit risks remained elevated despite the economic recovery. They recognized the risks of higher overseas investment by PFIs, while noting this was mitigated by a ceiling on the overseas portfolio and requirements for some holdings to remain in liquid form. They see risks of PFI-SOE linkages being contained by strengthened policies on government guarantees and on-lending. The authorities pointed to progress in strengthening DBS through capital injections, directly funding its business restart program, and shifting its mandate to focus on SMEs. They affirmed that reforms to limit financial system risks would continue, including developing stress testing capacity, establishing an emergency liquidity assistance framework, and reviewing the PFI prudential guidelines.

MEDIUM-TERM POLICIES

As the economy recovers, policies should shift to preserving medium-term stability and facilitating inclusive growth through pursuing the objectives laid out in the authorities' Pathway for the Development of Samoa (PDS) five-year plan and the Sustainable Development Goals (SDGs). Key priorities are:

- *Spurring growth to recover the pre-pandemic level of output and raise standards of living.*
- *Bolstering fiscal sustainability, while making the necessary investments in climate resilience and the social safety net.*
- *Deepening financial development and ensuring sustained, robust access to the international payments system.*

A. Higher, More Inclusive Growth

30. The authorities are undertaking structural reforms to achieve the SDGs and pursue sustainable growth and diversification. Long-standing structural bottlenecks include low accumulation of human capital, food insecurity, high concentration of activity in tourism, and a sizable informal labor market.[10] Reforms are required to improve the quality of education and health coverage, enhance digitalization and connectivity, and further accumulate human capital. The PDS identifies five key strategic outcomes and explicitly links to the SDGs. Within this framework, the authorities have advanced measures to boost inclusive growth:

- The *National Employment Policy* aims to raise employment in locally-producing firms, upskill/reskill workers, introduce online and on-the-job training, increase youth and female employment, and formalize workers in the informal sector.

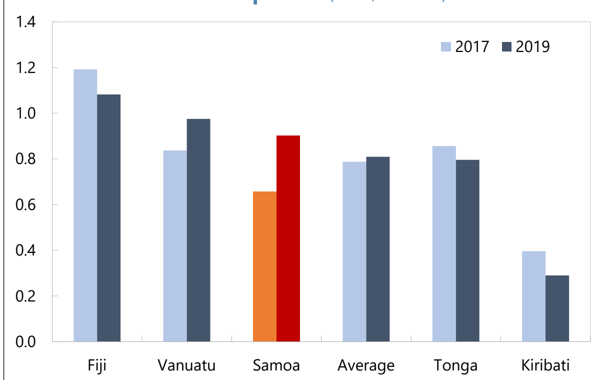
- The *Labour and Employment Relations Act* is being amended to improve labor protections and working conditions by strengthening redundancy and termination procedures, and enhancing provisions for discrimination, harassment, and grievances.

[10] See Samoa 2021 Article IV Consultation Report, Annex VI, "Structural Reforms to Support an Inclusive Economic Recovery and Achieve SDGs in the Post-Pandemic Future".

Text Table: Pathways for Development of Samoa (PDS) and the SDGs

PDS Key Priority Area	Sustainable Development Goals (SDG)
1. Improved Social Development	
1: Alleviating Hardship 2: Improved Public Health 3: Quality Education 4: People Empowerment 5: Skilled Workforce	1 No Poverty; 2 Zero Hunger; 3 Good Health and Well-Being; 4 Quality Education; 5 Gender Equality; 8 Decent Work and Economic Growth; 10 Reduced Inequalities
2. Diversified and Sustainable Economy	
6: Community Development 7: Agriculture, Fisheries and Aquaculture Productivity 8: Tourism Revitalisation 9: Business Innovation and Growth 10: Increased Labour Mobility 11: Macroeconomic Stability	2 Zero Hunger; 8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure; 10 Reduced Inequalities
3. Security and Trusted Governance	
12: Empowered Legislation 13: Improved Accountability 14: Dynamic Global Relations and Partnerships	16 Peace, Justice and Strong Institutions; 17 Partnerships for the Goals
4. Secured Environment and Climate Change	
15: Build Climate Resilience 16: Effective Environmental Protection and Management Frameworks 17: Enhanced Conservation and Sustainable Use of Natural Resources 18: Sustainable Energy Development Enhanced	7 Affordable and Clean Energy; 9 Industry, Innovation and Infrastructure; 12 Responsible Consumption and Production; 13 Climate Action; 14 Life Below Water; 15 Life on Land
5. Structured Public Works and Infrastructure	
19: Responsive Public Utility Services 20: Innovative Information, Communication and Technology Use 21: Consolidated Infrastructure Management	6 Clean Water and Sanitation; 7 Affordable and Clean Energy; 9 Industry, Innovation and Infrastructure; 11 Sustainable Cities and Communities

- The *National Industry Development Policy* aims to accelerate transformation of priority industries where Samoa has potential comparative advantage. The plan includes measures to support innovation and entrepreneurship, improve enabling infrastructure—especially in transportation and information and communication technology, and work with the private sector to provide appropriate training and skills upgrading.



Source: OECD - Trade Facilitation Indicators, IMF staff calculations.

- The DDP noted above also aims at increasing economic opportunities with projects focused on local infrastructure, small business creation and support, and training and skill development.

31. Further developing human capital and improving the business environment remain priorities. Training programs should be expanded to rebuild skilled labor supply, especially among the high share of youth who are not in education, employment or training. Samoa can also take greater advantage of the PACER-Plus agreement covering trade within the region (including Australia and New Zealand) to diversify exports by upgrading the business environment and further reducing trade facilitation costs.[11]

32. Authorities' views: The authorities underscored the role of structural reforms and community development to spur inclusive growth. In this context, enhancing human capital is a priority, through training and reskilling programs—particularly in the tourism sector, as well as through investments in health and education. They see benefits from seasonal workers schemes through employment opportunities and remittances, while noting they constrain the domestic labor supply. They also emphasized the need to make better use of the skills acquired by seasonal workers abroad.

B. Fiscal Sustainability, Climate Resilience, and Social Safety Net

33. The high risks of debt distress over the long term, in part due to climate vulnerability, call for gradual fiscal consolidation and spending reallocation toward climate mitigation policies. The Debt Sustainability Analysis (DSA) indicates high risks of debt distress, though only at a long-term horizon (see DSA Annex). The importance of building fiscal buffers against shocks, including natural disasters, is highlighted by stress tests that result in breaches of the indicative debt thresholds, though the preponderance of concessional loans in public debt mitigates debt service risks. Given the risks are flagged mainly in the outer years of the projection horizon, the fiscal consolidation necessary to safeguard sustainability can be gradual. Bringing the deficit below

[11] According to the OECD trade facilitation index, Samoa's average score across subcomponents improved to 0.90 in 2019, from 0.66 in 2017, on a range of 0 (lowest) to 2 (best practice).

2 percent of GDP within three years would keep debt below 40 percent of GDP, in line with previous staff recommendations, safeguarding debt dynamics.[12]

34. Revenue measures should take priority given social spending needs and the estimated revenue loss from the gradual reduction of tariffs associated with the PACER-Plus agreement (1.2-1.6 percent of GDP over 25 years). While VAGST revenue is already comparatively high and excises have been raised, other policy measures recommended by previous IMF TA remain relevant, including: 1) widen the VAGST base by taxing imported services and scaling down zero-rating and exemptions; 2) reduce corporate income tax holidays and other exemptions; and 3) review and reduce import duty exemptions. These base-broadening measures should be pursued ahead of raising tax rates given their lower multiplier impact on growth and the already-high tax rates in Samoa relative to regional peers (Annex II).

35. Some revenue measures recommended by the Climate Macroeconomic Assessment Program (CMAP) would also assist with climate mitigation goals (Annex VII). Increasing excise taxes on kerosene and LPG and adjusting them in line with inflation would internalize some of their negative environmental externalities. Similarly, electricity should be taxed at the standard VAGST rate. The revenue raised could be redistributed to vulnerable groups by strengthening the social safety net.

36. Revenue gains are also possible through further improvements to administration. As noted, Samoa has made significant strides in revenue administration, including the rollout of electronic fiscal devices in 2020 which boosted both VAGST and corporate income tax revenue (Annex II). Further priorities identified by IMF TA include: 1) better enforcement of transfer pricing and thin capitalization rules; 2) improving the information technology system; 3) moving towards a full self-assessment system to reduce the resource-intensive checking of returns; and 4) deepening segmentation to better tailor services.

37. There is also room to strengthen public financial management to improve the effectiveness of spending and strengthen social safety nets. To create space for investment, the current expenditure-GDP ratio should be normalized after its transitory, pandemic-driven increase. Within that envelope, finalizing the national digital ID would facilitate the delivery of health and education services and complement the authorities' ongoing efforts to expand the social safety net. Relevant recommendations from previous IMF assessments include: strengthening budget planning through greater scrutiny of budget proposals and outcomes, improving the credibility of revenue projections, and reinforcing execution with closer monitoring of development projects and corrective actions in case of implementation delays.[13] Execution of capital expenditure could be raised through strengthened project planning incorporating longer, more realistic timelines. Maintenance expenditure also needs to be adequately budgeted, which would improve resilience to natural disasters.

---

[12] See IMF Country Report 19/138 and IMF Country Report 18/145.

[13] R. Neves, et al, *Samoa: Public Expenditure Financial Accountability Assessment*, July 2019.

38. A scaling up of investment is necessary to meet climate adaptation needs and should be pursued through increased grant financing given limited fiscal space. The CMAP estimated additional financing of 6 percent of GDP per year would be necessary to fully fund total climate spending needs.[14] Debt-investment-growth modeling illustrated that ex-ante funding of climate-resilient infrastructure would be more cost effective both for Samoa and donors than ex-post reconstruction after disasters, boost medium-term growth potential, and help preserve fiscal sustainability, presenting a strong rationale for higher grants from the international community.[15]

39. The government has taken steps to improve governance and contain fiscal risks from SOEs, including PFIs. Recent advances include the approval of policies on government guarantees and on-lending, and the tightening of oversight of direct SOE borrowing under the revised Medium-Term Debt Management Strategy. These measures will help limit risks from contingent liabilities. Other recommendations of recent IMF TA and the FSAP that should be implemented include funding in the budget any costs associated with social obligations or policy lending, better targeting policy lending, and investigating and clarifying any guarantees the government may need to provide on the assets of PFIs.

40. Authorities' views: The authorities agreed that there are long-term fiscal risks from climate change and natural disasters. These concerns are driving stepped-up efforts to fund climate-resilient investment with grants rather than borrowing. Efforts to improve revenue administration are currently taking priority and bearing fruit. New tax policy measures are not under consideration after the recent increase in excise taxes for unhealthy products. The authorities emphasized recent substantial progress in strengthening public financial management—including policies governing SOEs—and plan to continue to build on this progress with CD from the IMF and other partners.

C. Financial Development and International Payments Systems

41. Reforms to facilitate credit intermediation and financial inclusion are advancing, though the pandemic has pushed back the timeline. The authorities are finalizing an updated national financial inclusion strategy centered on the national digital ID and credit registry projects. The strategy also maps out steps to facilitate the deployment of digital financial services through improvements to the regulatory framework and technological infrastructure, as well as efforts to bolster financial literacy and consumer protection. Progress has been made against many of the 2015 FSAP recommendations, though some items remain pending (Annex VIII). The authorities are also working to approve a regulatory framework for money lenders, credit unions, and microfinance institutions, and with the support of IMF TA they are elaborating amendments to insurance laws.

42. Safeguards assessment: An updated safeguards assessment was completed in May 2021, and progress on the implementation of its recommendations has subsequently been mixed. The

---

[14] The RST, with an access ceiling of 3.6 percent of Samoa's GDP, could play a role in filling this gap, though given it would add to debt service obligations, it would also need to catalyze larger amounts of grant financing.

[15] Y. Kinoshita et al, *Samoa: Climate Macroeconomic Assessment Program*, March 2022.

assessment found that legal reforms in 2015 enhanced the CBS' autonomy and strengthened its governance, and that financial reporting is sound, in line with International Financial Reporting Standards. Since the assessment, progress has been made in strengthening controls in operational areas, and the CBS has sought IMF technical assistance in strengthening risk management. However, a recommendation for the appointment of a reputable external auditor experienced in auditing central banks has not been implemented. Staff continues to follow up on this and other outstanding recommendations.

43. Pressures on CBRs continue for domestic financial institutions. In 2021, the two domestic banks had their U.S. dollar CBRs terminated by their Australian correspondent bank (their Australian and New Zealand dollar CBRs remain active). The banks secured more expensive alternative arrangements, but they continue to pursue new CBRs with other correspondent banks. While larger money transfer operators have access to bank accounts, smaller ones have struggled to maintain them in remittance-sending countries. Key factors in CBR pressures include low profitability, risks from weaknesses in AML/CFT supervision, and reputational risks arising from Samoa's offshore sector. The latter includes Samoa's presence on the EU list of non-cooperative tax jurisdictions because of the preferential tax treatment of offshore companies with little or no economic substance in Samoa. Notwithstanding these developments, the costs of sending/receiving remittances to/from Samoa has declined, while the share of non-bank versus bank flows has remained stable (Figure 7).

44. The authorities should continue to pursue a multi-pronged approach to mitigating CBR pressures at the national and regional levels. The authorities are conducting an updated national AML/CFT risk assessment and elaborating a national AML/CFT strategy. Augmented staffing resources and continuous training would also contribute to enhancing risk-based AML/CFT supervision. Risks from the offshore sector should be mitigated with improved supervision of licensed trust and company service providers and greater transparency of beneficial ownership information through a central registry and effective verification mechanisms, which are being worked on. With assistance from the ADB, the Know-Your-Customer (KYC) utility project will facilitate customer identification for cross-border transactions (particularly remittances). The authorities are prioritizing removal from the EU tax list and are engaging with the relevant authorities on the issue. In 2021, Samoa joined the OECD/G20 Inclusive Framework on BEPS, demonstrating their commitment to transparency and equitable treatment under their tax system.

45. Authorities' views: The authorities reiterated their commitment to developing the financial system and highlighted progress on establishing a national digital ID and credit registry, implementing a national automated payments system, expanding the CBS supervisory perimeter, updating insurance regulations, and strengthening CBS risk management. They emphasized their efforts to strengthen AML/CFT supervision, and in their judgment AML/CFT compliance among financial institutions is high and risks are low. They expect further benefits from finalizing the KYC utility, and underscored efforts to ensure beneficial ownership transparency and equitable taxation in the offshore sector.

STAFF APPRAISAL

46. After a three-year, pandemic-driven recession, the Samoan economy is recovering, boosted by the reopening of borders. Tourism inflows are raising activity more broadly, with growth projected at 5 percent in FY2023. Inflation is subsiding as food and fuel prices stabilize, though pressures remain due to constraints in the local labor supply. The sharp contraction in investment and reduction in the domestic labor force will likely weigh on medium-term potential growth.

47. An expansionary fiscal policy is appropriate provided there is an increase in investment and other growth-enhancing expenditure. Higher public investment and community-level development expenditure should attenuate pandemic-related scarring and boost growth potential. Vigilant monitoring and evaluation of the DDP should ensure high expenditure quality and maximize the program's growth impact. Meanwhile, utility tariffs should be restored to cost-recovery levels, with rate increases phased over 2-3 years to mitigate the impact on households. This is critical to preserving the investment capacity of the power company, with support to households best channeled through the budget.

48. With economic recovery underway, monetary policy normalization should begin immediately. This would contain leverage as the economy picks up, while preventing inflation from becoming entrenched domestically. Removal of accommodation could be gradual, with the pace dependent on the speed of recovery. The currency basket peg has served Samoa well in maintaining external stability, and reserve coverage is adequate.

49. The financial system has remained resilient despite the economic downturn. Systemic risks increased during the pandemic but are declining with the border reopening, and banks are well capitalized with ample provisioning. This illustrates the need to implement longstanding recommendations to strengthen the emergency liquidity assistance framework and bank resolution regime. Efforts to reinforce the financial position of DBS are welcome and should be continued. While recent government policies limit risk from PFI-SOE linkages, PFI regulations should be reviewed to ensure sound credit quality is maintained.

50. Structural reforms are necessary to address long-standing bottlenecks and minimize the negative effects of the pandemic. Implementing the key priorities of the *Pathway for the Development of Samoa* would foster inclusive growth, particularly reforms geared toward improving the quality of education and health care and enhancing digital capabilities. In the tourism sector, expanding training programs and providing greater access to credit for facility renovations could help restore capacity.

51. A gradual, revenue-driven fiscal consolidation is necessary in the medium term. While recent budget surpluses have lowered public debt, risks of debt distress remain high in the long term due to Samoa's vulnerability to climate events. There has been welcome strengthening of revenue administration and public financial management, including to contain fiscal risks from SOEs.

Continuing efforts in these areas would provide space to reallocate spending toward social needs and investment in climate-resilient infrastructure.

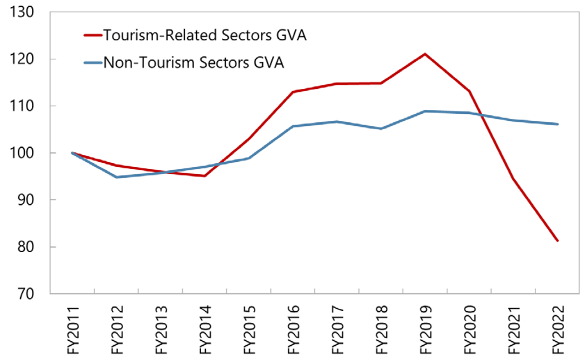
52. Deepening financial development and ensuring access to the international payments system remain priorities. Once finalized, the national digital ID and credit registry should facilitate financial intermediation and inclusion. With pressures on CBRs continuing, welcome progress has been made in assessing AML/CFT risks, and efforts to strengthen AML/CFT supervision and establish the KYC utility should facilitate cross-border transactions.

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

Figure 1. Economic Activity and Employment

The pandemic led to sharp declines in tourism-related sectors…

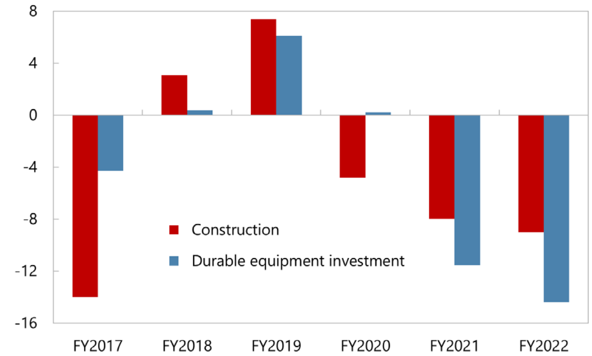
Tourism and Non-Tourism GVA (Index, FY2011=100)



Sources: Samoan authorities; and IMF staff calculations.

…and investment.

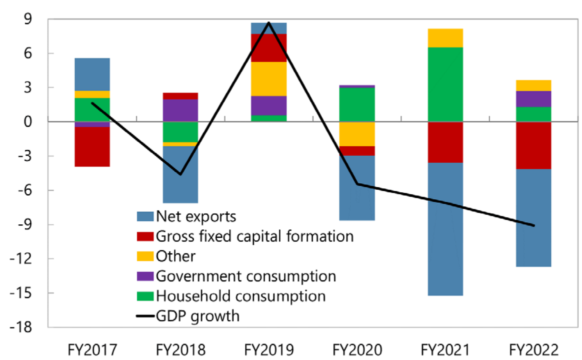
Gross Fixed Capital Formation (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

By contrast, consumption remained resilient…

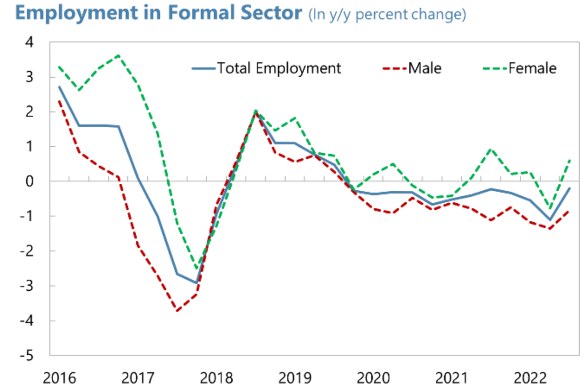
Contribution to GDP Growth (In percentage points)



Sources: Samoan authorities; and IMF staff calculations.

…as did formal sector employment.

Employment in Formal Sector (In y/y percent change)



Source: Samoan authorities.

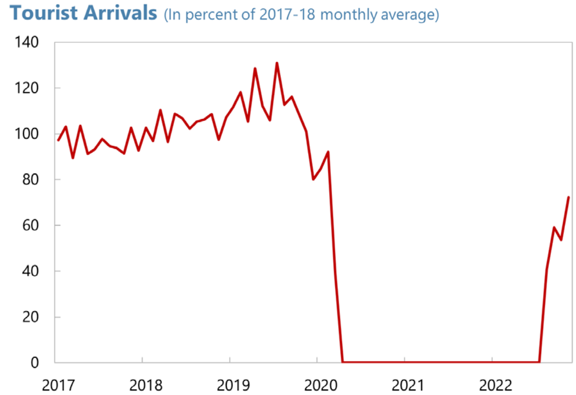
The border reopening starting in Q3-2022 is reviving activity…

Quarterly GDP Growth (In y/y percent change)

Sources: Samoan authorities; and IMF staff calculations.

…and tourism.

Tourist Arrivals (In percent of 2017-18 monthly average)

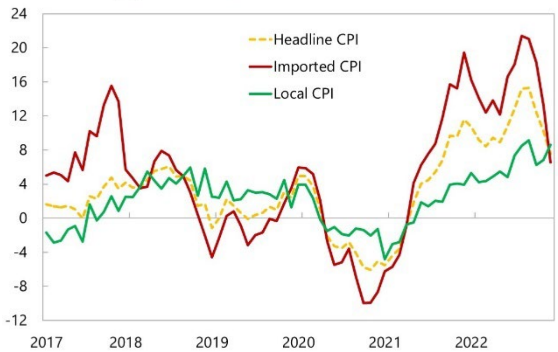


Sources: Samoan authorities, and IMF staff calculations.

Figure 2. Inflation Developments

Inflation spiked due to import prices but has declined recently.

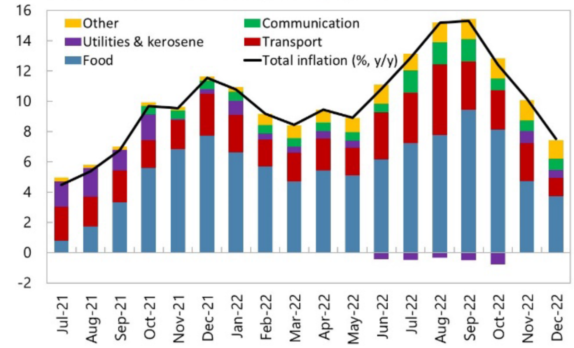
Inflation (In y/y percent change)



Source: Samoan authorities.

The ups and downs have been mainly driven by food and energy prices.

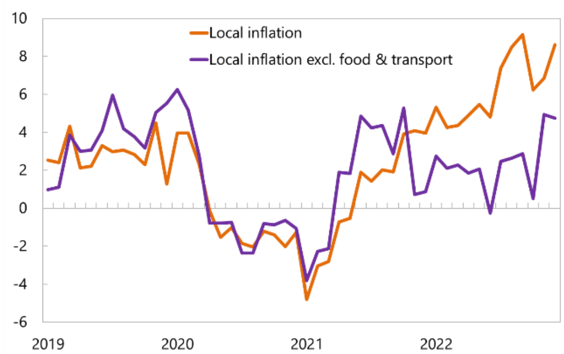
Contibution to Inflation (In percentage points)



Sources: Samoan authorities; and IMF staff calculations.

However, prices of local items remain somewhat elevated…

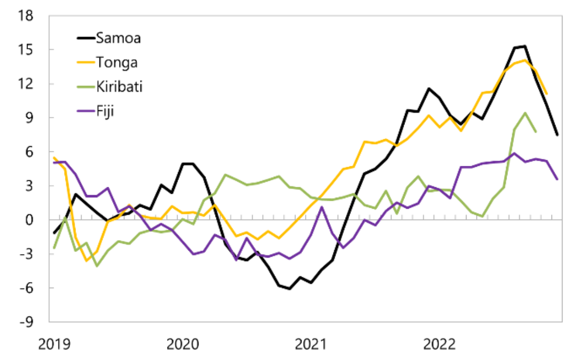
Local Inflation (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

…and inflation has been higher than elsewhere in the region.

Inflation in Pacific Island Countries (In y/y percent change)



Sources: Country authorities; and IMF staff calculations.

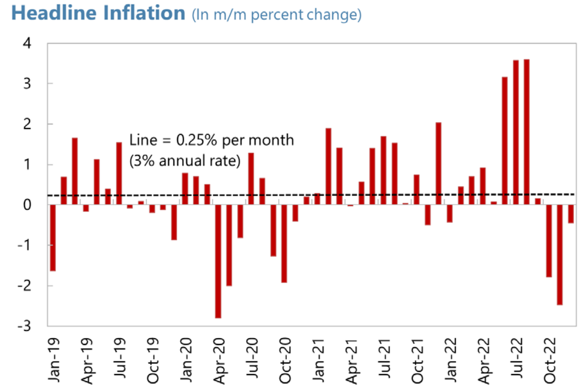
Inflation has quickly normalized after previous supply-driven spikes…

Historical Inflation (In y/y percent change)

Source: Samoan authorities.

…and prices have recently fallen in absolute terms.

Headline Inflation (In m/m percent change)

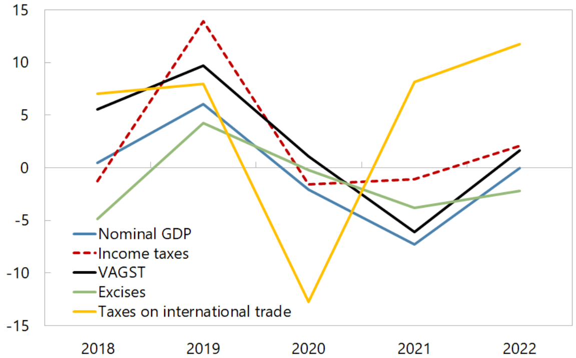


Source: Samoan authorities.

Figure 3. Fiscal Sector Developments

Tax revenue was buoyant despite the economic downturn…

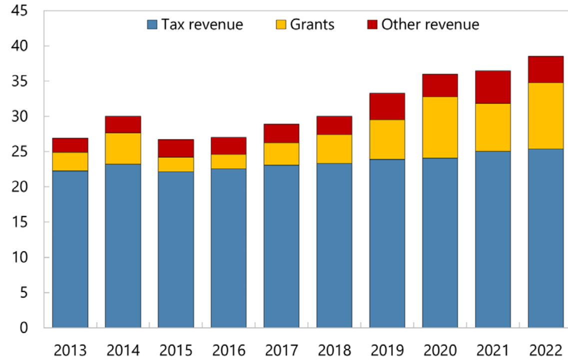
Tax Revenue (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

…continuing a trend of strong domestic revenue mobilization.

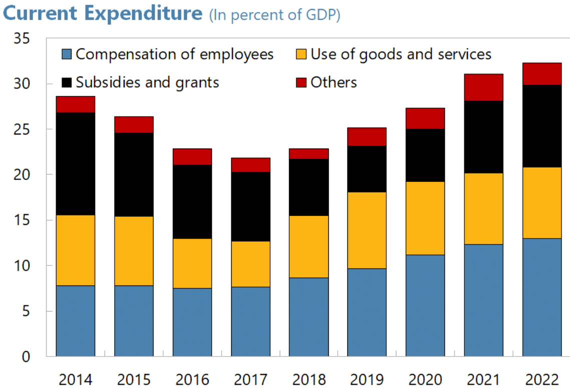
Central Government Revenue (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

Current expenditure was boosted in part for pandemic response.

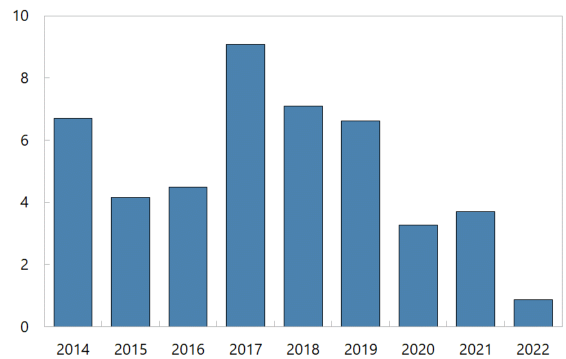
Current Expenditure (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

The border closure constrained public investment.

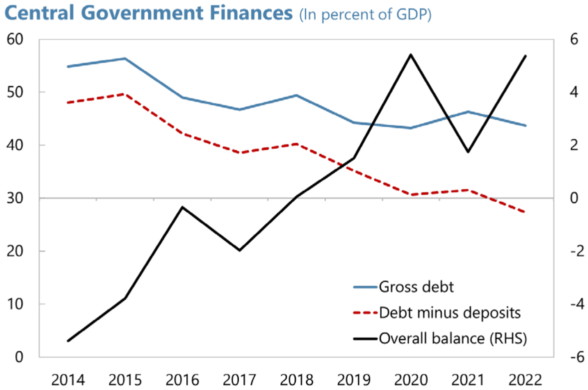
Net Acquisition of Non-Financial Assets (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

Another surplus helped reduce debt further…

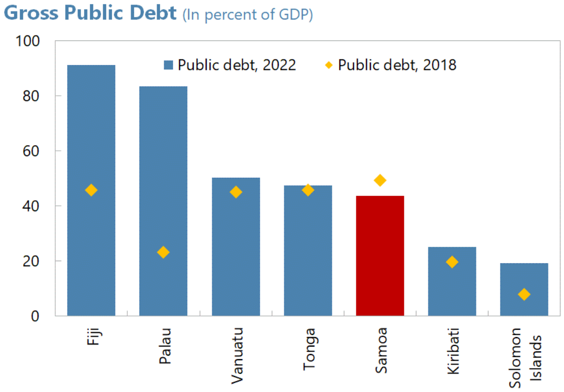
Central Government Finances (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

…contrary to developments in most PICs.

Gross Public Debt (In percent of GDP)



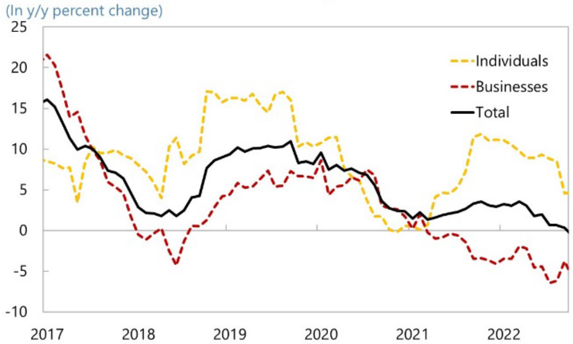
Sources: National authorities; and IMF staff calculations.

Figure 4. Monetary Sector Developments

Household borrowing increased, while corporate credit contracted.

Commercial Bank and PFI Lending to Private Sector

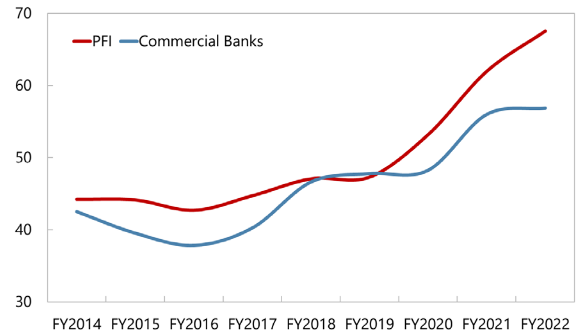
(In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.
Note: PFIs include DBS, SHC and SNPF.

Credit growth was driven by PFIs, whose assets are larger than the banking system's...

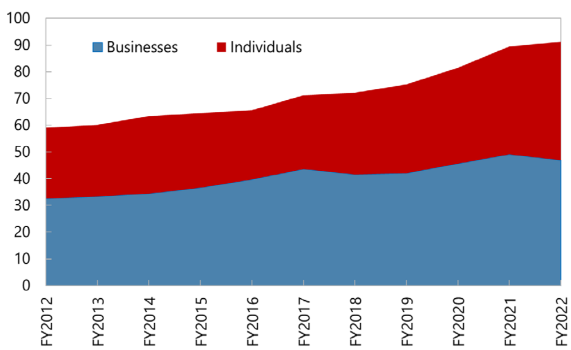
Financial Sector Assets (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.
Note: PFIs include DBS, SHC, UTOS and SNPF.

...contributing to high levels of private sector leverage.

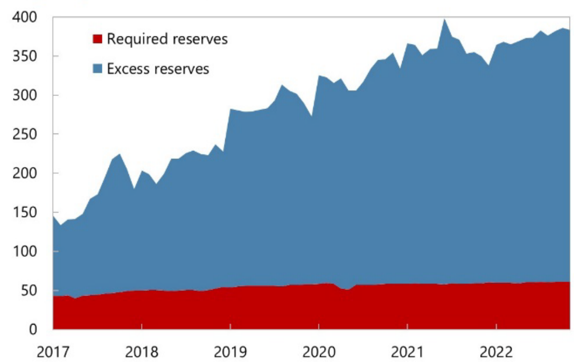
Private Sector Debt (In percent of GDP; includes bank and PFI credit only)



Sources: Samoan authorities; and IMF staff calculations.
Note: Debt includes bank and PFI credit only. PFIs include DBS, SHC and SNPF.

With deposits growing, bank liquidity remains high...

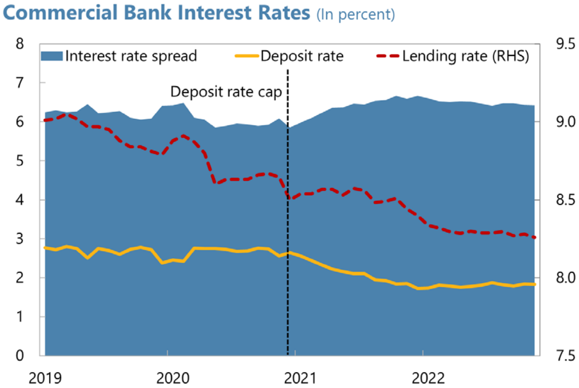
Liquidity (In millions Tala)



Source: Samoan authorities.

...placing downward pressure on interest rates.

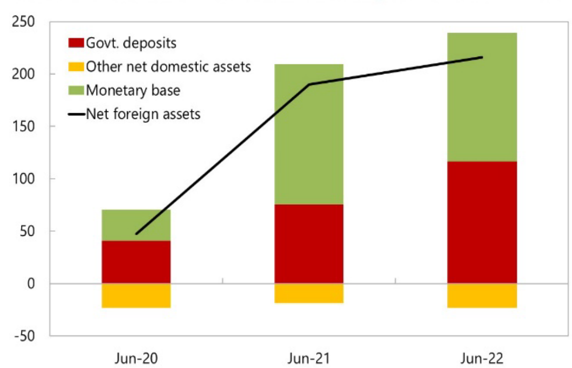
Commercial Bank Interest Rates (In percent)



Source: Samoan authorities.

The central bank balance sheet has expanded, driven by government deposits and bank reserves.

Central Bank Balance Sheet (Cumulative change since June 2019 in millions Tala)

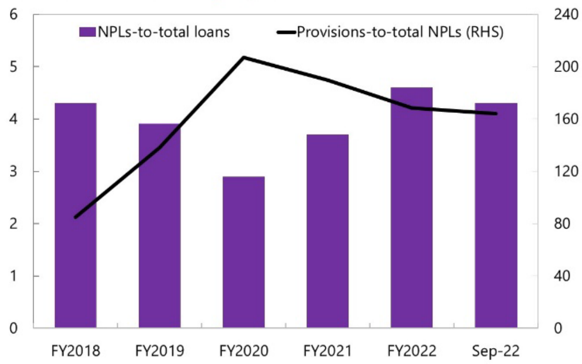


Sources: Samoan authorities; and IMF staff calculations.

Figure 5. Financial Sector Developments

The pandemic has increased NPLs, while provisions have been boosted significantly.

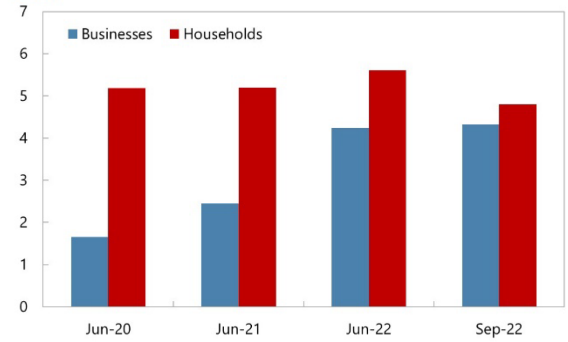
NPLs and Provisioning (In percent)



Source: Samoan authorities.

Loan performance has deteriorated among businesses…

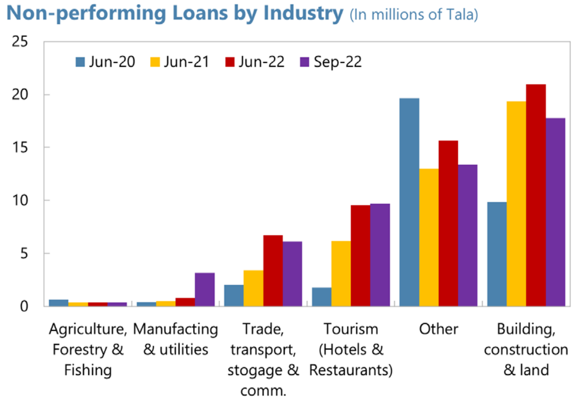
Non-performing Loans by Sector (In percent of total loans to the sector)



Source: Samoan authorities.

…especially in construction and tourism-related industries.

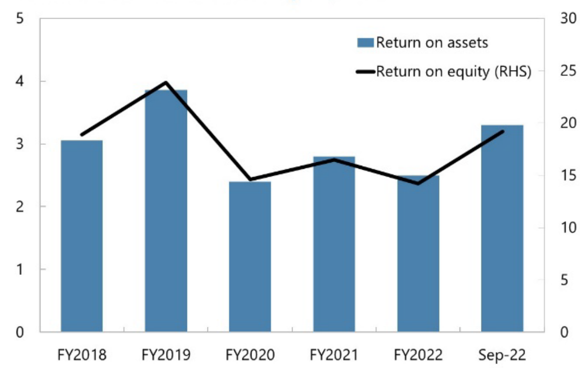
Non-performing Loans by Industry (In millions of Tala)



Source: Samoan authorities.

The banking system has remained profitable…

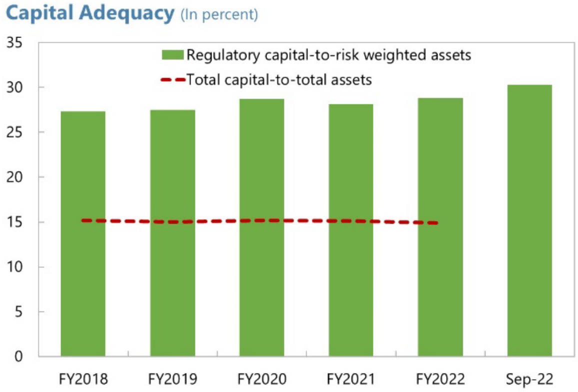
Commercial Bank Profitability (In percent)



Source: Samoan authorities.

…banks are well-capitalized…

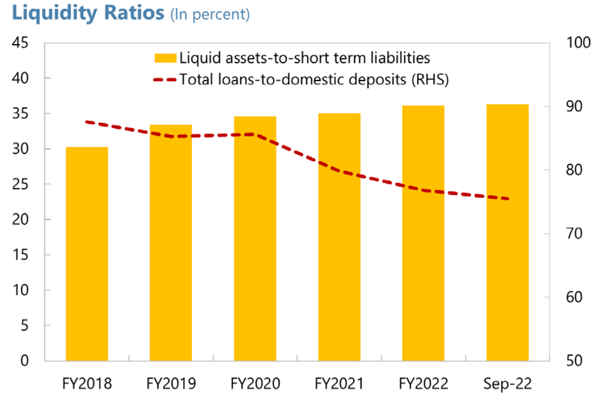
Capital Adequacy (In percent)



Source: Samoan authorities.

…and—with lending lagging deposit growth—liquid.

Liquidity Ratios (In percent)



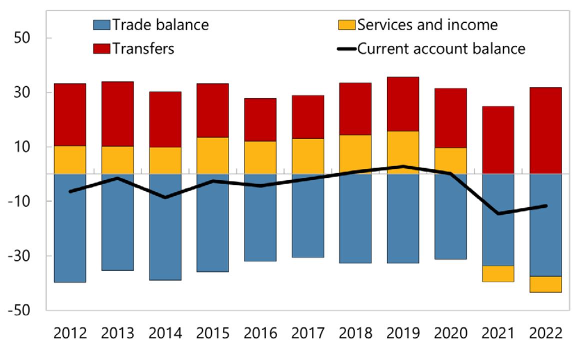
Source: Samoan authorities.

Figure 6. External Sector Developments

With the prolonged halt in tourism, the current account deficit hit 11.6 percent of GDP in FY2022.

Current Account Balance

(In percent of GDP)

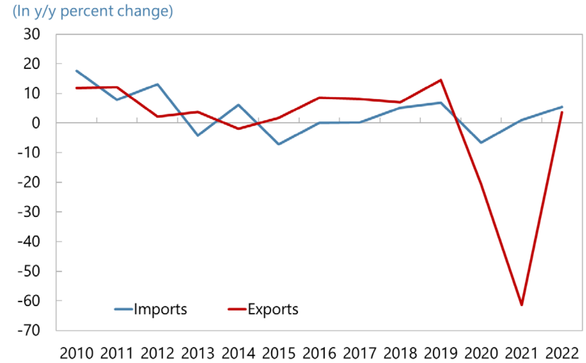


Sources: Samoan authorities and IMF staff calculations

Imports proved resilient, while exports remained at low levels due to the continued border closure.

Import and Exports of Goods and Services

(In y/y percent change)

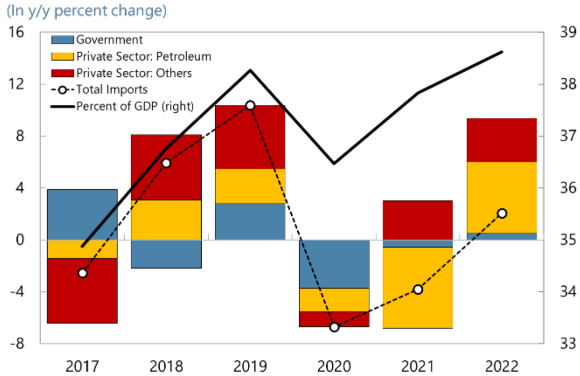


Source: Samoan authorities and IMF staff calculations.

The hike in international oil prices contributed to the increase in imports.

Imports: Contribution by Public and Private Sectors

(In y/y percent change)

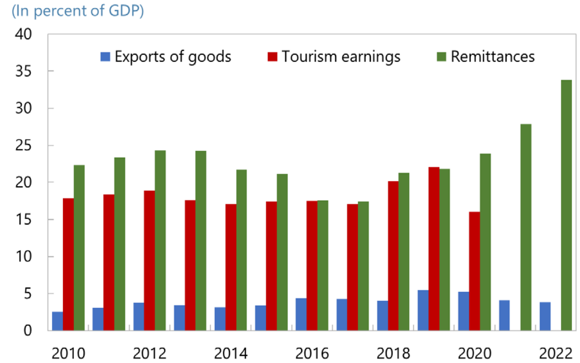


Sources: Samoan authorities and IMF staff calculations

Remittances remained strong and reached over 30 percent of GDP.

Exports, Remittances, and Tourism Earnings

(In percent of GDP)

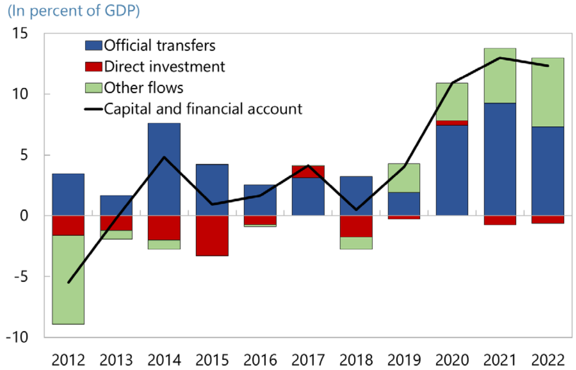


Sources: Samoan authorities and IMF staff calculations.

Higher official transfers also helped finance the current account deficit.

Capital and Financial Accounts

(In percent of GDP)

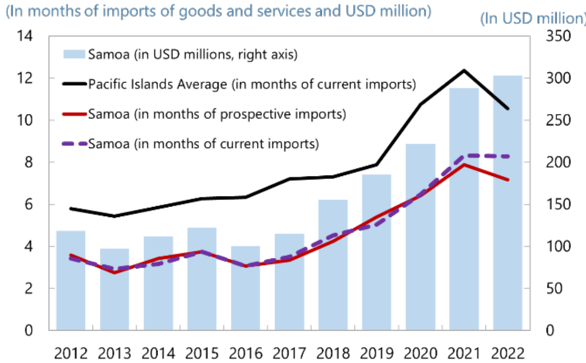


Sources: Samoan authorities and IMF staff calculations

Samoa's reserves increased and coverage remained adequate at over 8 months of current imports of goods and services.

Reserves

(In months of imports of goods and services and USD million)

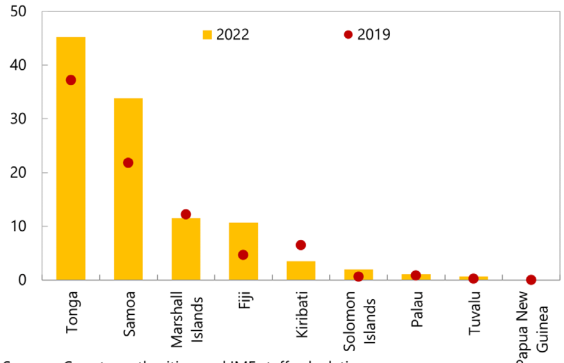


Sources: World Economic Outlook and IMF staff calculations

Figure 7. The Role of Remittances

Remittances have surged and now exceed 30 percent of GDP…

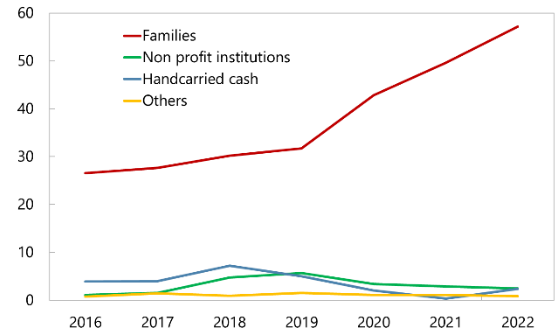
Remittances in Pacific Island Countries (In percent of GDP)



Sources: Country authorities; and IMF staff calculations.

…providing a critical source of income to households…

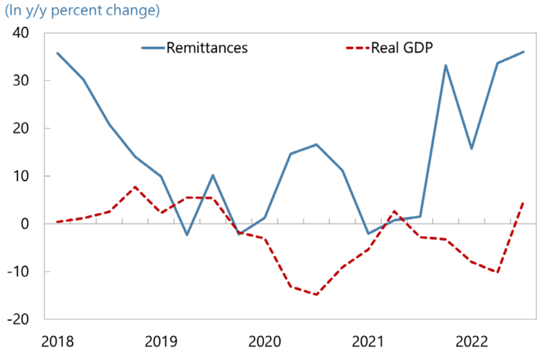
Remittances by Recipients
(In tala million, annual averages)



Sources: Samoan authorities and IMF staff calculations.

…and playing a counter-cyclical role during the economic slowdown.

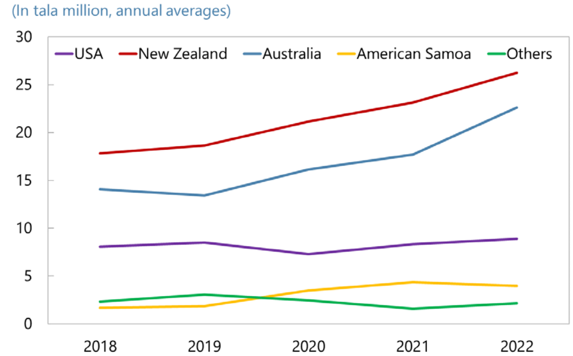
Remittances and Economic Activity
(In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

Australia and New Zealand continue as the two main source countries.

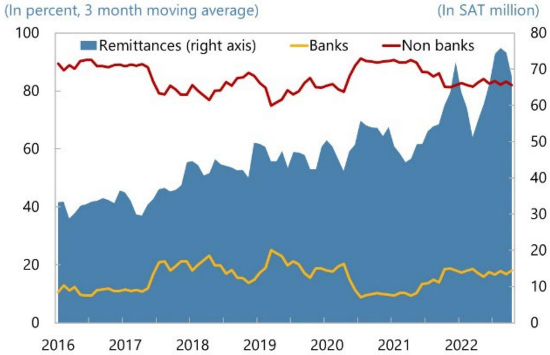
Remittances by Country of Origin
(In tala million, annual averages)



Sources: Samoan authorities and IMF staff calculations.

Remittances are primarily sent through non-banks.

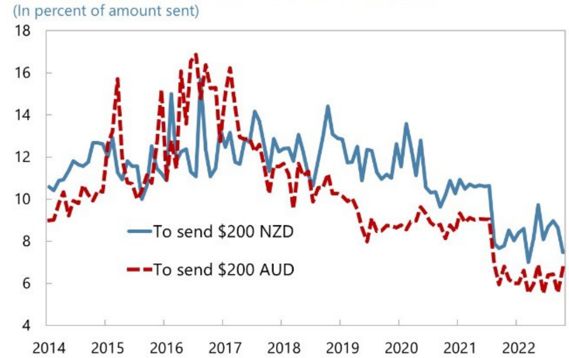
Remittances by Share
(In percent, 3 month moving average) (In SAT million)



Sources: Samoan authorities and IMF staff calculations.

The average cost of transfers has been falling but remains above the G20 objective of 5 percent.

Average Cost of Remittances Across Channels
(In percent of amount sent)



Sources: Samoan authorities and IMF staff calculations.

Table 1. Samoa: Selected Economic and Financial Indicators 1/

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Projections					
Output and Inflation				(12-month percent change)					
Real GDP	-3.1	-7.1	-6.0	5.0	3.6	3.4	3.0	2.6	2.3
Nominal GDP	-2.1	-7.3	0.0	13.4	6.7	7.0	6.1	5.7	5.3
Consumer price index (end of period)	-3.3	4.1	10.9	5.5	4.5	3.0	3.0	3.0	3.0
Consumer price index (period average)	1.5	-3.0	8.7	10.0	5.0	4.0	3.0	3.0	3.0
Central Government Finances				(In percent of GDP)					
Revenue and grants	36.0	36.5	38.5	34.6	34.4	34.4	34.6	34.6	34.6
Of which: Grants	8.7	6.8	9.4	5.9	5.9	6.0	6.0	6.0	6.0
Expenditure	30.6	34.7	33.1	36.7	36.8	36.8	37.1	37.1	37.1
Of which: Expense	27.3	31.3	32.3	33.3	31.3	31.3	31.1	31.1	31.1
Of which: Net acquisition of non-financial assets	3.3	3.4	0.9	3.4	5.5	5.5	6.0	6.0	6.0
Overall balance	5.4	1.7	5.4	-2.0	-2.4	-2.5	-2.5	-2.5	-2.5
Gross debt outstanding	43.3	46.3	43.7	38.5	39.3	39.7	40.2	40.8	41.2
Money and Credit Aggregates				(12-month percent change)					
Broad money (M2)	-0.9	8.1	2.2	12.0	7.5	6.5	6.0	6.0	6.0
Private sector credit, commercial banks	5.9	1.5	0.2	3.0	5.0	5.0	5.0	5.0	5.0
Private sector credit, other financial corporations	9.9	-0.9	4.9	...	...	...	...	...	...
Private sector credit, total financial system	7.5	0.4	2.2	...	...	...	...	...	...
Private Sector Credit				(In percent of GDP)					
Commercial banks	48.5	53.1	53.2	...	...	...	...	...	...
Total financial system	85.5	92.6	94.6	...	...	...	...	...	...
Bank Financial Soundness									
Regulatory capital to risk-weighted assets, ratio	28.7	28.1	28.8	...	...	...	...	...	...
Non-performing loans to total gross loans, ratio	2.9	3.7	4.6	...	...	...	...	...	...
Balance of Payments				(In percent of GDP)					
Current account balance	0.2	-14.6	-11.6	-3.3	-4.0	-3.8	-3.4	-2.3	-1.2
Merchandise exports, f.o.b.	5.2	4.1	3.8	4.7	4.6	4.6	4.5	4.5	4.5
Merchandise imports, f.o.b.	36.5	37.8	41.4	45.3	44.4	43.3	42.6	41.8	41.0
Services (net)	13.2	-3.9	-2.9	8.4	8.6	10.4	12.2	13.1	14.1
Of which: Tourism receipts	16.0	0.0	0.0	10.8	11.5	14.0	16.1	17.0	18.0
Income (net)	-3.5	-1.8	-2.9	-3.0	-2.8	-2.8	-2.8	-2.8	-2.7
Current transfers (net)	21.8	24.8	31.8	31.9	29.9	27.4	25.3	24.8	24.0
External Reserves and Debt									
Gross official reserves (million U.S. dollars) 2/	222.3	288.5	303.2	323.2	320.3	317.8	311.1	315.8	333.6
(in months of next year's imports)	6.4	7.9	7.2	7.4	7.1	6.8	6.4	6.3	6.3
External debt (in percent of GDP)	42.9	46.1	43.7	36.4	37.4	38.0	38.6	39.4	40.0
Exchange Rates									
Market rate (tala/U.S. dollar, period average)	2.70	2.57	2.61	...	...	...	...	...	...
Real effective exchange rate (12-month percent change) 3/	-4.1	-1.0	3.7	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (million tala)	2,340	2,169	2,169	2,460	2,625	2,810	2,981	3,151	3,318
GDP per capita (U.S. dollars)	4,372	4,225	4,140	4,437	4,602	4,823	5,050	5,266	5,517

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

1/ Fiscal years July-June.

2/ Incorporates August 2021 SDR allocation.

3/ Increase signifies appreciation.

Table 2. Samoa: Balance of Payments[1/]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Projections					
	(In millions of U.S. Dollars)								
Current account balance	1.5	-123.3	-96.8	-29.8	-37.8	-37.9	-35.3	-25.0	-13.5
Trade balance	-271.0	-284.4	-312.6	-364.7	-372.7	-383.0	-397.1	-408.5	-421.4
Exports, fob	45.3	34.8	31.8	41.9	43.3	45.5	46.9	49.3	52.0
Imports, fob	316.3	319.2	344.4	406.6	416.0	428.6	444.0	457.8	473.4
Services balance, net	114.1	-33.2	-24.3	75.1	80.6	102.4	126.7	142.9	162.2
Services credits	209.8	63.8	70.4	176.1	186.1	213.7	244.0	266.0	292.1
Of which: Tourism receipts	139.1	0.0	0.0	97.0	107.8	138.5	167.9	186.1	207.8
Services debits	95.7	97.0	94.7	101.0	105.4	111.3	117.3	123.2	129.9
Primary income, net	-30.5	-15.4	-24.3	-26.9	-26.1	-28.0	-28.8	-30.4	-30.9
Secondary income, net	188.9	209.7	264.4	286.7	280.3	270.7	263.9	271.1	276.6
Official transfers, net	3.0	-0.2	-0.3	0.3	0.2	0.3	0.2	0.2	0.3
Private transfers, net	185.9	209.9	264.7	286.5	280.0	270.5	263.7	270.8	276.4
Capital account balance	67.6	77.2	99.5	70.9	55.4	58.5	61.6	64.7	68.2
Official	64.4	57.6	78.1	53.9	46.9	49.5	52.1	54.7	57.7
Private	3.3	19.6	21.4	17.0	8.5	9.0	9.5	10.0	10.5
Financial account balance 2/	26.9	21.7	19.4	21.1	20.5	23.1	33.0	35.0	36.9
Direct investment, net	3.3	-6.5	-5.3	-10.8	-4.9	-4.9	-5.2	-5.4	-5.7
Portfolio investment, net	16.7	-15.0	36.9	26.9	21.6	22.8	20.9	21.9	23.1
Other investment, net	7.0	43.2	-12.1	4.9	3.8	5.2	17.3	18.6	19.6
Errors and omissions	-3.4	97.1	36.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	38.7	29.2	19.7	20.0	-2.9	-2.5	-6.6	4.7	17.8
Financing	-38.7	-29.2	-19.7	-20.0	2.9	2.5	6.6	-4.7	-17.8
Change in gross official reserves (- is increase)	-38.7	-29.2	-19.7	-20.0	2.9	2.5	6.6	-4.7	-17.8
Net use of credit	20.6	-1.7	-1.7	-0.9	-0.1	-2.3	-4.5	-4.5	0.0
Of which: IMF disbursements (+)	22.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF (-)	-1.6	-1.7	-1.7	-0.9	-0.1	-2.3	-4.5	-4.5	0.0
Exceptional financing	0.0	0.0	0.0	-1.0	-0.6	-0.6	-0.6	-0.6	-0.6
	(In percent of GDP)								
Current account balance	0.2	-14.6	-11.6	-3.3	-4.0	-3.8	-3.4	-2.3	-1.2
Trade balance	-31.2	-33.7	-37.6	-40.6	-39.7	-38.7	-38.1	-37.3	-36.5
Exports, fob	5.2	4.1	3.8	4.7	4.6	4.6	4.5	4.5	4.5
Imports, fob	36.5	37.8	41.4	45.3	44.4	43.3	42.6	41.8	41.0
Services balance, net	13.2	-3.9	-2.9	8.4	8.6	10.4	12.2	13.1	14.1
Services credit	24.2	7.6	8.5	19.6	19.8	21.6	23.4	24.3	25.3
Of which: Tourism receipts	16.0	0.0	0.0	10.8	11.5	14.0	16.1	17.0	18.0
Services debit	11.0	11.5	11.4	11.3	11.2	11.3	11.3	11.3	11.3
Primary income, net	-3.5	-1.8	-2.9	-3.0	-2.8	-2.8	-2.8	-2.8	-2.7
Secondary income, net	21.8	24.8	31.8	31.9	29.9	27.4	25.3	24.8	24.0
Official transfers, net	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers, net	21.4	24.9	31.8	31.9	29.9	27.3	25.3	24.7	23.9
Capital account balance	7.8	9.1	12.0	7.9	5.9	5.9	5.9	5.9	5.9
Official	7.4	6.8	9.4	6.0	5.0	5.0	5.0	5.0	5.0
Private	0.4	2.3	2.6	1.9	0.9	0.9	0.9	0.9	0.9
Financial account balance 2/	3.1	2.6	2.3	2.3	2.2	2.3	3.2	3.2	3.2
Direct investment, net	0.4	-0.8	-0.6	-1.2	-0.5	-0.5	-0.5	-0.5	-0.5
Portfolio investment, net	1.9	-1.8	4.4	3.0	2.3	2.3	2.0	2.0	2.0
Other investment, net	0.8	5.1	-1.5	0.5	0.4	0.5	1.7	1.7	1.7
Errors and omissions	-0.4	11.5	4.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.5	3.5	2.4	2.2	-0.3	-0.3	-0.6	0.4	1.7
Financing	-4.5	-3.5	-2.4	-2.2	0.3	0.3	0.6	-0.4	-1.7
Change in gross official reserves (- is increase)	-4.5	-3.5	-2.4	-2.2	0.3	0.3	0.6	-0.4	-1.7
Net use of credit	2.4	-0.2	-0.2	-0.1	0.0	-0.2	-0.4	-0.4	0.0
Exceptional financing	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

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

1/ The presentation follows the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6).

2/ Excluding reserve assets.

Table 3a. Samoa: Budgetary Central Government Operations

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Projections					
				(In millions of tala)					
Total Revenue	842	791	835	852	903	966	1,031	1,090	1,148
Revenue (excluding grants)	639	643	632	706	748	798	852	901	949
Tax revenue	563	543	550	617	659	702	748	791	833
Taxes on income, profits & cap. gains	130	129	131	138	152	160	170	179	189
Taxes on property	0	0	0	1	1	1	1	1	1
Taxes on goods & services	379	354	352	402	426	458	489	517	544
Value added tax	232	218	221	254	264	286	306	324	341
Excises	132	127	125	137	151	161	171	181	191
Others	14	9	6	10	10	10	11	12	12
Taxes on int. trade & transactions	55	60	67	76	81	84	89	94	99
Grants	203	148	203	146	155	169	179	189	199
Other revenue	75	101	82	89	89	95	104	110	116
Total Expenditure	715	753	719	902	967	1,035	1,106	1,169	1,232
Expense	639	679	700	818	823	881	928	980	1,033
Compensation of employees	262	268	281	310	321	344	365	385	406
Use of goods and services	189	170	170	187	200	214	227	240	252
Interest	16	7	11	14	18	19	20	21	23
External	15	6	10	14	14	16	17	18	20
Domestic	1	0	0	0	4	4	3	3	3
Subsidies 1/	9	17	16	24	25	26	28	29	31
Grants 2/	124	159	179	233	205	220	227	239	252
Social benefits 3/	23	28	34	38	40	43	46	48	51
Other expense 4/	15	30	8	13	14	15	16	17	18
Transactions in nonfinancial assets	77	74	19	84	144	155	179	189	199
Gross operating balance	203	112	135	34	80	85	104	109	115
Overall balance	127	38	117	-50	-64	-69	-75	-80	-84
Overall balance excluding grants	-76	-110	-87	-196	-219	-238	-254	-269	-283
Primary balance	143	45	127	-36	-46	-50	-55	-58	-61
Financing	134	38	117	-50	-64	-69	-75	-80	-84
Net acquisition of financial assets	89	13	61	-60	0	0	0	0	0
Domestic currency and deposits	89	13	61	-60	0	0	0	0	0
Net incurrence of liabilities	-45	-25	-56	-10	64	69	75	80	84
External loans (net)	-38	-22	-53	-62	67	72	78	82	87
Disbursement	37	2	0	21	153	153	154	159	154
Amortization	75	24	53	83	86	82	76	77	67
Domestic loans (net)	-7	-3	-3	52	-3	-3	-3	-3	-3
Statistical discrepancy	-8	0	0	0	0	0	0	0	0
Memorandum items:									
Nominal GDP	2,340	2,169	2,169	2,460	2,625	2,810	2,981	3,151	3,318
Total central government debt	1,012	1,004	948	948	1,032	1,115	1,198	1,285	1,367
Domestic debt	8	5	2	54	51	49	46	43	41
External debt	1,005	1,000	947	894	981	1,067	1,152	1,242	1,327
Stock of government deposits	295	321	356	296	296	296	296	296	296

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

1/ Primarily to subsidize the cost of production for public corporations.
2/ Grants paid to extra budgetary units of the central government. Includes calls on central government guarantees.
3/ To meet the direct cost of social assistance related spending that are not covered by a social security fund or provident fund.
4/ Includes current and capital transfers to meet the cost of operation for state owned enterprises, which are not part of subsidies.

Table 3b. Samoa: Budgetary Central Government Operations

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Projections					
				(In percent of GDP)					
Total Revenue	36.0	36.5	38.5	34.6	34.4	34.4	34.6	34.6	34.6
Revenue (excluding grants)	27.3	29.6	29.1	28.7	28.5	28.4	28.6	28.6	28.6
Tax revenue	24.1	25.0	25.4	25.1	25.1	25.0	25.1	25.1	25.1
Taxes on income, profits & cap. gains	5.5	6.0	6.0	5.6	5.8	5.7	5.7	5.7	5.7
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	16.2	16.3	16.2	16.3	16.2	16.3	16.4	16.4	16.4
Value added tax	9.9	10.0	10.2	10.3	10.1	10.2	10.3	10.3	10.3
Excises	5.7	5.9	5.7	5.6	5.7	5.7	5.7	5.7	5.7
Others	0.6	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Taxes on int. trade & transactions	2.4	2.8	3.1	3.1	3.1	3.0	3.0	3.0	3.0
Grants	8.7	6.8	9.4	5.9	5.9	6.0	6.0	6.0	6.0
Other revenue	3.2	4.6	3.8	3.6	3.4	3.4	3.5	3.5	3.5
Total Expenditure	30.6	34.7	33.1	36.7	36.8	36.8	37.1	37.1	37.1
Expense	27.3	31.3	32.3	33.3	31.3	31.3	31.1	31.1	31.1
Compensation of employees	11.2	12.3	13.0	12.6	12.2	12.2	12.2	12.2	12.2
Use of goods and services	8.1	7.8	7.8	7.6	7.6	7.6	7.6	7.6	7.6
Interest	0.7	0.3	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Subsidies 1/	0.4	0.8	0.7	1.0	0.9	0.9	0.9	0.9	0.9
Grants 2/	5.3	7.3	8.3	9.5	7.8	7.8	7.6	7.6	7.6
Social benefits 3/	1.0	1.3	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Other expense 4/	0.6	1.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Transactions in nonfinancial assets	3.3	3.4	0.9	3.4	5.5	5.5	6.0	6.0	6.0
Gross operating balance	8.7	5.2	6.2	1.4	3.1	3.0	3.5	3.5	3.5
Overall balance	5.4	1.7	5.4	-2.0	-2.4	-2.5	-2.5	-2.5	-2.5
Overall balance excluding grants	-3.3	-5.1	-4.0	-8.0	-8.3	-8.5	-8.5	-8.5	-8.5
Primary balance	6.1	2.1	5.9	-1.5	-1.8	-1.8	-1.8	-1.8	-1.8
Financing	5.7	1.7	5.4	-2.0	-2.4	-2.5	-2.5	-2.5	-2.5
Net acquisition of financial assets	3.8	0.6	2.8	-2.4	0.0	0.0	0.0	0.0	0.0
Domestic currency and deposits	3.8	0.6	2.8	-2.4	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-1.9	-1.2	-2.6	-0.4	2.4	2.5	2.5	2.5	2.5
External loans	-1.6	-1.0	-2.4	-2.5	2.5	2.6	2.6	2.6	2.6
Disbursement	1.6	0.1	0.0	0.9	5.8	5.5	5.2	5.1	4.6
Amortization	3.2	1.1	2.4	3.4	3.3	2.9	2.6	2.4	2.0
Domestic loans	-0.3	-0.1	-0.1	2.1	-0.1	-0.1	-0.1	-0.1	-0.1
Statistical discrepancy	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in millions of tala)	2,340.1	2,169.3	2,168.8	2,459.9	2,624.9	2,809.9	2,981.2	3,150.7	3,318.2
Total central government debt	43.3	46.3	43.7	38.5	39.3	39.7	40.2	40.8	41.2
Domestic debt	0.3	0.2	0.1	2.2	2.0	1.7	1.5	1.4	1.2
External debt	42.9	46.1	43.7	36.4	37.4	38.0	38.6	39.4	40.0
Stock of government deposits	12.6	14.8	16.4	12.0	11.3	10.5	9.9	9.4	8.9

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

1/ Primarily to subsidize the cost of production for public corporations.

2/ Grants paid to extra budgetary units of the central government. Includes calls on central government guarantees.

3/ To meet the direct cost of social assistance related spending that are not covered by a social security fund or provident fund.

4/ Includes current and capital transfers to meet the cost of operation for state owned enterprises, which are not part of subsidies.

Table 4. Samoa: Central Bank and Commercial Bank Balance Sheets

	2017/18	2018/19	2019/20	2020/21	2021/22
	(In millions of Tala; end of period)				
Central Bank					
Net foreign assets	346	449	496	639	665
Net domestic assets	-25	-41	-59	-98	-134
Net credit to central government	-142	-151	-191	-226	-267
Net credit to financial corporations 1/	116	114	137	130	125
Other items (net)	1	-4	-5	-1	8
Monetary base	320	408	437	541	530
Other Depository Corporations					
Net foreign assets	30	25	7	15	45
Net domestic assets	1,022	1,118	1,123	1,201	1,189
Net credit to central government	-55	-62	-89	-94	-67
Net credit to public nonfinancial corporations 1/	12	10	9	10	7
Credit to private sector	1,010	1,073	1,136	1,153	1,155
Net claims on central bank and other financial corporations 1/	267	334	314	396	370
Other items (net)	-212	-237	-246	-264	-276
Deposits and other liabilities	1,052	1,143	1,130	1,216	1,234
Transferable deposits	424	469	419	486	501
Other deposits	625	670	709	726	730
Depository Corporations, Consolidated					
Net foreign assets	376	474	503	653	710
Net domestic assets	749	763	722	672	645
Broad money	1,124	1,236	1,225	1,325	1,355
	(In percent of GDP; end of period)				
Central Bank					
Net foreign assets	15.3	18.8	21.2	29.5	30.6
Net domestic assets	-1.1	-1.7	-2.5	-4.5	-6.2
Monetary base	14.2	17.1	18.7	24.9	24.4
Other Depository Corporations					
Net foreign assets	1.3	1.0	0.3	0.7	2.1
Net domestic assets	45.3	46.8	48.0	55.4	54.8
Of which: Credit to private sector	44.8	44.9	48.5	53.1	53.2
Deposits	46.7	47.8	48.3	56.0	56.9
Depository Corporations, Consolidated					
Net foreign assets	16.7	19.8	21.5	30.1	32.7
Net domestic assets	33.2	31.9	30.9	31.0	29.7
Broad money	49.9	51.7	52.4	61.1	62.5
	(12-month percent change)				
Monetary and Credit Aggregates					
Monetary base	24.9	27.2	7.3	23.8	-2.0
Broad money	16.5	9.9	-0.9	8.1	2.2
Credit to private sector, commercial banks	-0.7	6.2	5.9	1.5	0.2

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

1/ Net credit is net of liquid liabilities.

Table 5. Samoa: Financial System Balance Sheet

	2017/18	2018/19	2019/20	2020/21	2021/22
	(In millions of Tala; end of period)				
Other Financial Corporations 1/					
Net foreign assets	42	71	87	100	174
Net domestic assets	1,063	1,091	1,195	1,234	1,275
Net credit to central government	45	38	39	46	51
Net credit to public nonfinancial corporations	30	40	49	40	63
Credit to private sector	739	784	861	853	895
Net credit to depository corporations	150	123	121	132	88
Other items (net)	99	107	124	163	177
Liabilities and equity	1,105	1,162	1,282	1,334	1,449
Loans	125	122	100	95	92
Technical reserves	749	797	887	912	992
Shares and other equity	232	244	296	327	364
Financial Corporations Survey 2/					
Net foreign assets	418	544	590	753	883
Net domestic assets	1,644	1,735	1,817	1,785	1,840
Net credit to central government	-153	-174	-241	-274	-283
Net credit to public nonfinancial corporations	43	49	58	50	70
Credit to private sector	1,754	1,860	2,000	2,009	2,053
	(In percent of GDP; end of period)				
Other Financial Corporations 1/					
Net foreign assets	1.9	3.0	3.7	4.6	8.0
Net domestic assets	47.2	45.7	51.1	56.9	58.8
Liabilities and equity	49.0	48.6	54.8	61.5	66.8
Financial Corporations Survey 2/					
Net foreign assets	18.5	22.8	25.2	34.7	40.7
Net domestic assets	72.9	72.6	77.6	82.3	84.9
Net credit to central government	-6.8	-7.3	-10.3	-12.6	-13.0
Net credit to public nonfinancial corporations	1.9	2.1	2.5	2.3	3.2
Credit to private sector	77.8	77.8	85.5	92.6	94.6
	(12-month percent change)				
Financial System Aggregates					
Credit to private sector, other financial corporations	8.4	6.0	9.9	-0.9	4.9
Credit to private sector, total financial system	2.9	6.1	7.5	0.4	2.2

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

1/ Other Financial Corporations include DBS, SNPF, SHC, UTOS, Samoa Life Assurance Corporation, and four General Insurance Companies.

2/ Financial Corporations Survey consolidates the accounts of Depository Corporations (Central Bank and Other Depository Corporations) and Other Financial Corporations.

Table 6. Samoa: Commercial Bank Financial Soundness Indicators

	2017/18	2018/19	2019/20	2020/21	2021/22	Sep-22
Capital Adequacy						
Regulatory capital to risk-weighted assets, ratio	27.3	27.5	28.7	28.1	28.8	30.3
Regulatory tier 1 capital to risk-weighted assets, ratio	22.7	22.4	24.5	23.7	24.7	24.3
Total capital to total assets, ratio	15.2	15.0	15.2	15.1	14.9	..
Asset Quality						
Non-performing loans to total gross loans, ratio	4.3	3.9	2.9	3.7	4.6	4.3
Provisions to non-performing loans	85.1	138.3	207.2	189.6	168.3	164.3
Non-performing loans net of provisions to capital, ratio	2.8	2.3	-1.7	0.2	0.6	-0.7
Large exposures to capital, ratio	68.5	51.6	49.2	53.2	38.2	47.1
Earnings and Profitability						
Return on assets, ratio	3.1	3.9	2.4	2.8	2.6	3.3
Return on equity, ratio	18.9	23.9	14.6	16.5	15.1	19.2
Net interest margin, percent	3.5	3.6	3.6	3.4	3.7	5.5
Exchange Rate Risk						
Net open position in foreign exchange to capital, ratio	25.1	19.4	23.8	-6.5	-2.1	-3.2
FX loans to total loans, ratio	4.1	3.6	4.2	1.9	1.5	1.6
FX liabilities to total liabilities, ratio	11.4	9.7	9.6	10.5	14.6	15.7
Liquidity Ratios						
Liquid assets to total assets, ratio	13.8	16.3	16.8	19.9	17.7	18.4
Liquid assets to short-term liabilities, ratio	30.3	33.4	34.6	35.0	36.1	36.3
Total loans to total domestic deposits	87.6	85.3	85.6	79.8	76.8	75.5

Sources: Central Bank of Samoa; IMF Financial Soundness Indicators database.

Table 7. Samoa: Integration Matrix of Surveillance and Capacity Building

Areas	IMF			World Bank		Asian Development Bank	
	Before 2022	2022 1/	Planned/ ongoing	2022 1/	Planned/ ongoing	2022 1/	Planned/ ongoing
Fiscal Sector							
Public Financial Management	✓	✓	✓	✓	✓	✓	✓
Expenditure framework	✓		✓				✓
Revenue policy and administration	✓	✓	✓				✓
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 measures						✓	✓
Macroeconomic statistics and analysis							
Economic statistics	✓	✓	✓				
Macro frameworks and modeling	✓	✓	✓				✓

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

1/ Calendar year.

Annex I. Implementation of Previous IMF Recommendations

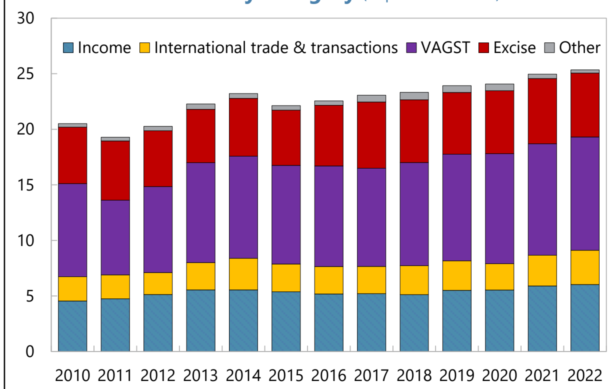
Previous IMF Recommendations	Main Policy Measures
Fiscal policy	
Maintain accommodative policy until a sustained economic recovery is attained, including by extending social protection measures and funding the stimulus measures of SOEs.	• The FY2022 budget increased the basic pension from \$160 to \$200 per month and introduced a disability benefit scheme. The FY2023 budget maintained an accommodative fiscal stance with a budgeted deficit of 3.5 percent of GDP.
Undertake medium-term fiscal consolidation to build fiscal buffers and ensure debt sustainability.	• The authorities have implemented a "zero-borrowing strategy" aiming to utilize accumulated cash deposits and to finance investment going forward through grants and concessional loans.
Improve revenue mobilization by broadening the VAGST base, raising excises, and strengthening tax administration through the rollout of TIMS.	• The FY2022/23 budget increased excise taxes on selected fatty food items, sugary products, liquor, and tobacco, effective January 2023. • TIMS was implemented for the largest firms beginning in 2020 and for all firms above the reporting threshold in January 2023.
Public financial management: improve budget predictability, enhance cash management and execution controls, and strengthen procurement efficiency and SOEs performance.	• A new Automatic Transaction System is being implemented to facilitate automatic payments for all government transactions, a key prerequisite for enabling the transition to a Treasury Single Account. • An e-tendering portal is being used to manage the tenders process, however information relating to awarded tenders has not been posted on the website. • A medium-term debt management strategy was approved, with the definition of public debt extended to include all SOE debt. Policies governing on-lending and government guarantees have also been approved.
Monetary and financial policy	
Maintain accommodative policy, while strengthening the transmission mechanism.	• Accommodative policy has been maintained; however, transmission remains weak.
Build reserve buffers to at least five months of imports in the long term.	• International reserves ended FY2022 at 7.9 months of imports, supported by the August 2021 SDR allocation, among other assistance.

Previous IMF Recommendations	Main Policy Measures
Establish a credit bureau to reduce credit risk and promote financial inclusion.	• Work is in progress on the online credit registry legislation.
Strengthen risk-based AML/CFT supervision and enhance compliance with customer due diligence and suspicious transaction reporting obligations by banks and MTOs.	• On-site AML/CFT inspections were completed in 2021 and 2022. • An updated national AML/CFT risk assessment is in progress and is expected to be followed by a national strategy to implement the recommendations. • Work on the Know-Your-Customer facility is in progress.
Improve credit intermediation and reduce fiscal risks by strengthening the DBS balance sheet and reorienting its operations.	• The government has made capital injections in each of the last four years. While properties underlying some NPLs have been foreclosed, others remain on the balance sheet. Operations are being reoriented from large tourism projects toward small businesses and agriculture.
Structural reforms and climate change	
Pursue economic diversification and job creation by developing agriculture, fishery, and MSMEs.	• This is a key priority in the latest five-year development plan, and a National Industry Development Policy is being developed to pursue these objectives.
Upskill and reskill the labor force and boost human capital to reduce skill mismatch and help increase female and youth labor force participation.	• The *Labor and Employment Relations Act* is being amended to formalize employment, improve worker protection and working conditions, adjust minimum wages every two years, and strengthen provisions against gender discrimination. • The authorities' priorities laid out in *Pathway for the Development of Samoa for FY2021/22-FY2025/26* include labor programs and apprenticeship skills prioritizing women and youth; better targeted skill development and training programs; improving ICT skills; upskilling and training in the tourism sector; and improving labor mobility.
Enhance climate resilience by upgrading physical infrastructure and mainstreaming resilience into all sector plans.	• Infrastructure investment has been significantly below budgeted levels, in part due to the border closure. A Disaster Risk Financing Policy and a Multi-Hazard Early Warning System Policy were approved. The authorities undertook the IMF's Climate Macroeconomic Assessment Program to further assess policies in these areas (see Annex VII).

Annex II. Revenue Mobilization Performance and Options[1]

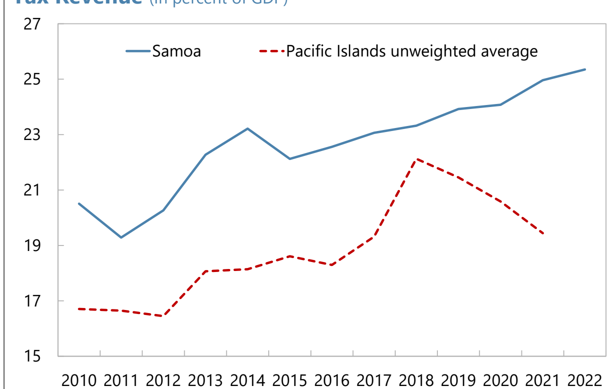
1. **Samoa has made significant strides in domestic revenue mobilization over the last decade**. Tax revenue has increased from 20 percent of GDP in 2010 to over 25 percent of GDP in 2022. Tax policy changes to increase revenue have included an increase in the VAGST (Value Added on Goods and Services Tax) rate in 2011 to 15 percent (from the previous 10 percent), increases in various excise taxes beginning in 2017, reduction in personal income tax (PIT) exemptions, and winding down of a tax credit for investment in hotels since 2018. Samoa has also made revenue administration improvements, strengthening core tax administration functions such as filing and payments, and building risk-based compliance capability—with substantial technical assistance (TA) from the IMF and other development partners.

Samoa: Tax Revenue by Category (In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

Tax Revenue (In percent of GDP)



Sources: National sources; and Sy and others (2022).

2. **There has been little discernible impact of the pandemic on the revenue-GDP ratio**. Factors underlying the buoyant revenue performance include that Samoa refrained from widespread discretionary tax cuts in response to the pandemic, taking only small, targeted, temporary measures; the rollout of electronic fiscal devices under the TIMS (Tax Invoicing and Monitoring System) starting in 2020, which boosted both VAGST and corporate income tax revenue; and buoyant remittances that supported revenue from taxes based on consumption and imports.

Tax Revenue: Samoa and Other Pacific Islands
(In percent of GDP, 2021)

	Samoa	Other PICs
Total tax revenue	25.0	19.3
Taxes on income	5.9	6.6
Taxes on goods and services	16.3	8.3
Taxes on international trade	2.8	3.5
Other	0.0	1.0

Sources: National authorities; and Sy and others (2022).

3. **Samoa has high tax revenue compared to other Pacific Island economies and a relatively high VAGST rate**. The tax revenue-GDP ratio is well above the simple average of 19.3 percent among other PICs. The main differences are substantially higher collection of

[1] Prepared by Andrew Swiston. This draws from Sy and others, 2022, "Fund the Future: Tax Revenue Mobilization in the Pacific Island Countries," IMF Departmental Paper, available at: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/09/09/Funding-the-Future-Tax-Revenue-Mobilization-in-the-Pacific-Island-Countries-522181, as well as various IMF technical assistance reports.

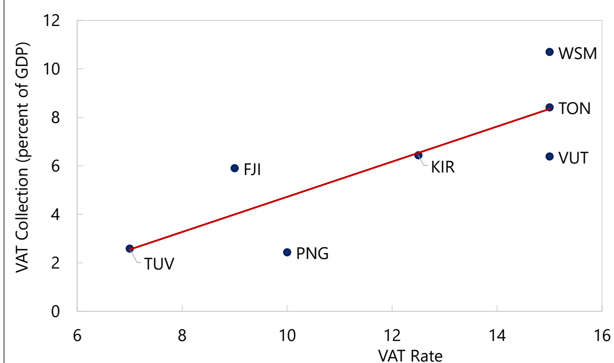
taxes on goods and services—the VAGST and excise taxes—both of which are the highest in the region. The VAGST rate is tied for the highest in the region, and relatively high for a country of Samoa's per capita income. VAGST revenue-GDP is also the highest in the region, as Samoa scores well on measures of C-efficiency. This suggests a low scope for additional gains to the VAGST by broadening the base and is consistent with the findings of Sy and others (2022), who find that Samoa's revenue collection is already near its tax potential given the fundamental features of its economy.

VAT Rates

	Percent
Samoa	15
Other Pacific Islands	12
World	16

Source: Sy and others (2022).

VAT Rates and VAT Collection



Note: For comparability, data pertain to 2020.
Source: Sy and others (2022).

4. Some tax policy measures noted by previous TA could yield modest revenue gains. A recommended first step in identifying potential revenue gains is to develop a regular tax expenditure statement, which could quantify the potential yield of various measures. Additionally:

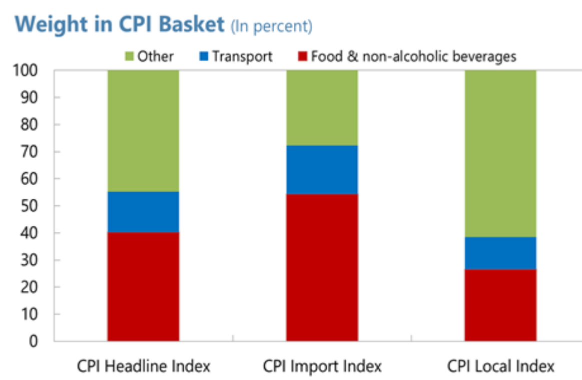
- The increase in excise taxes coming into effect in 2023 is in line with previous recommendations. For import duties, exemptions could be reviewed and reduced.
- Previous TA has noted the potentially regressive impact of raising the VAGST rate but has recommended reducing VAGST zero-rating and exemptions, in particular for water and electricity, as well as making some zero-rated items exempt, such as medical and educational supplies.
- Similarly, previous TA saw risks that raising the corporate income tax (CIT) rate could induce income-shifting given the already-high rate and that most major businesses are foreign owned. Alternatively, measures such as limiting the time period on carrying forward tax losses and phasing out CIT holidays have been recommended. Introducing a withholding tax of 10 to 15 percent on dividend payments to non-residents could also ensure a greater contribution of corporate profits to tax revenue.

5. Further strengthening revenue administration would also help bolster revenue. Samoa has opted to raise business license fees instead of implementing a small business tax regime given the administrative challenges of taxing small businesses. Other steps recommended by previous TA include: 1) enforcement of transfer pricing and thin capitalization rules to strengthen compliance among large firms; 2) improving the information technology system to facilitate strengthened compliance management; 3) moving towards a full self-assessment system, which would reduce the resource-intensive physical assessment and checking of returns; and 4) deepening segmentation to better tailor services across different taxpayer types.

Annex III. Impact of Global Commodity Price Shocks on Samoa's Inflation[1]

1. Geographical remoteness, small economic size, and a narrow production base make Samoa heavily reliant on imports, especially for food and oil, which account for 48 percent of overall imports. Likewise, imported items account for 49 percent of the CPI basket. Taken together, the '*food*' and '*transport*' components account for 55 percent of the CPI basket and 72 percent of the CPI import basket, implying a high exposure of domestic inflation to global food and oil prices. Geographical isolation also increases transportation costs. Given that fuel is a large component of shipping costs, global oil price shocks raise the landed cost of products, broadening the impact on inflation.

Source: *Resilience and Growth in the Small States of the Pacific*, IMF, August 2016.



Source: Samoan authorities.

2. After remaining in negative territory for parts of 2020-21, inflation began to gather pace in the latter half of 2021 due a pickup in global oil and food prices. The spike in global food and oil prices in early 2022 began to impact Samoa's inflation within a few months, with inflation surging into double-digits by June 2022. Following the sharp rise in import prices, local inflation also gained momentum.

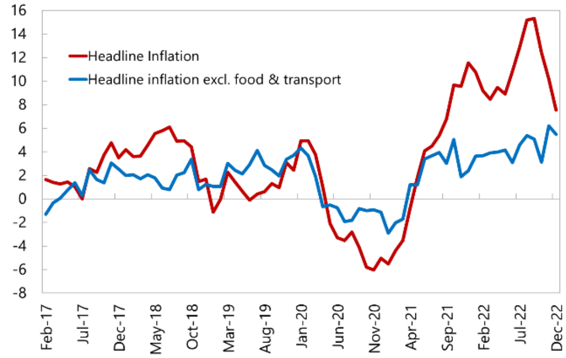
3. Food followed by fuel and transport have been the key drivers of import and local inflation in 2022. Local food inflation accelerated into double-digits, due to weather-related factors. The commodity price shock has also affected prices beyond food and fuel. The prices of imported construction materials and manufactured goods have risen due to higher shipping costs. The surge in food and fuel prices has driven up the prices for airfares and restaurants.

[1] Prepared by Arpitha Bykere.

Figure 1. Drivers of Headline, Import and Local Inflation

Inflation is driven by commodity prices while core inflation remains relatively contained.

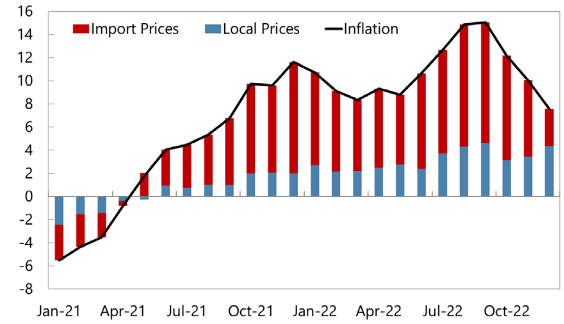
Headline and Core Inflation (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

Inflation is led by import price but local prices have also climbed.

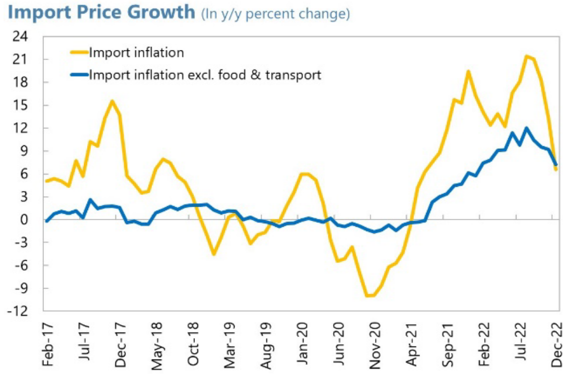
Import Prices and Local Prices (Contribution to headline inflation in percentage points)



Sources: Samoan authorities; and IMF staff calculations.

Import price pressures are more broad-based.

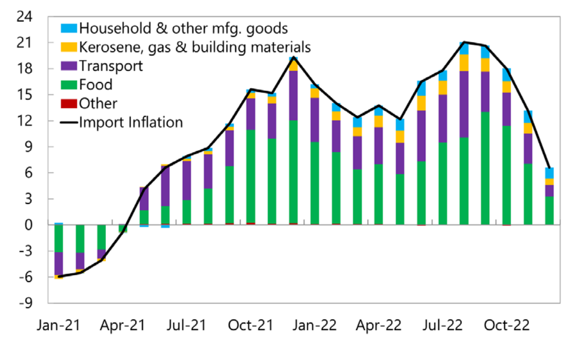
Import Price Growth (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

Food and transport are key drivers of import inflation.

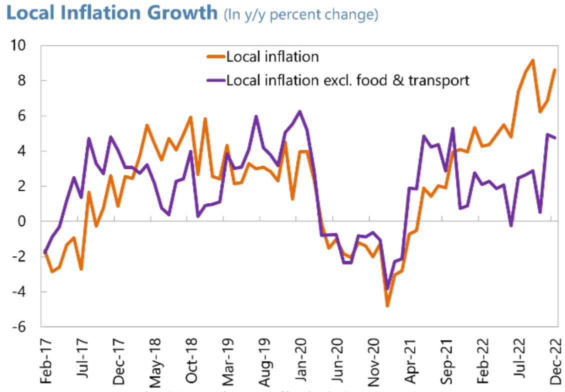
Drivers of Import Inflation (Contribution in percentage points)



Sources: Samoan authorities; and IMF staff calculations.

Local core inflation is well-contained.

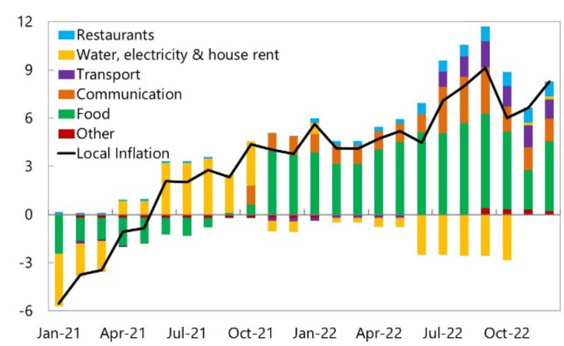
Local Inflation Growth (In y/y percent change)



Sources: Samoan authorities; and IMF staff calculations.

Food prices are the main drivers of local inflation.

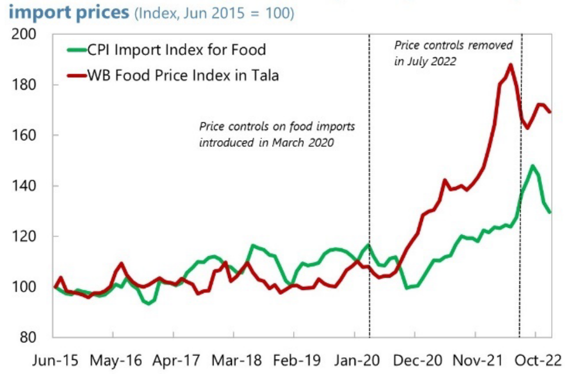
Drivers of Local Inflation (Contribution in percentage points)



Sources: Samoan authorities; and IMF staff calculations.

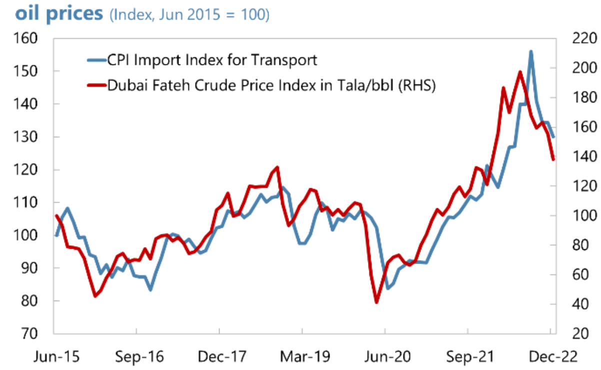
4. Changes in global food prices are reflected in Samoa's *'CPI import index for food'* component with a few months lag. At the onset of the pandemic in March 2020, the government introduced price controls on the wholesale and retail prices of selected imported food products, which helped contain the increase in imported food prices, though they covered only a small share of the consumption basket. The price ceilings were subsequently revised (in June 2020, December 2020 and December 2021) to partially account for movements in global food prices. The price controls were removed in July 2022, which have led to upward pressure on some imported food products. However, the overall impact on imported food inflation has been mitigated by the stabilization in global food prices in H2 2022.

Price controls have mitigated the impact of global food prices on import prices (Index, Jun 2015 = 100)



Sources: Samoan authorities; and IMF staff calculations.

Fuel import prices have closely followed the rise in global oil prices (Index, Jun 2015 = 100)



Sources: Samoan authorities; and IMF staff calculations.

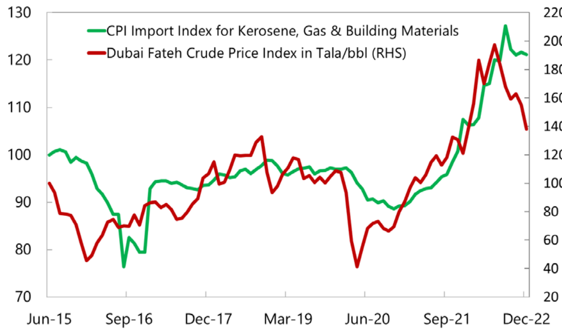
5. Samoa has full pass-through from global oil prices to domestic fuel prices, with the government policy to adjust domestic prices with a two-month lag. With global oil prices peaking in June 2022, the 'CPI import index for transport' component and 'CPI import index for kerosene, cooking gas & building materials' peaked in August 2022. The 'CPI local index for utilities & house rent' component has also been influenced by changes in global oil prices in the past. In April 2020, utility tariffs were temporarily lowered as part of the pandemic support measures, in line with the decline in oil prices. However, in efforts to continue to support households, the water and electricity tariffs were reduced again in November 2021 and remained unchanged even as global oil prices jumped in 2022. This has led to persistent downward pressure on utility prices and a divergence between tariffs and input prices.

6. Inflation trends during the 2008 and 2011 global commodity shocks suggest that there is quick pass-through from global commodity prices to import prices and headline inflation. This also feeds into higher local prices. However, as global food and fuel prices normalize, import inflation tends to subside quickly, which also gradually brings down local inflation.

7. In order to estimate the impact of global commodity price shocks on Samoa's inflation over a 12-month period, an analysis is undertaken using the Local Projection Method by Jorda

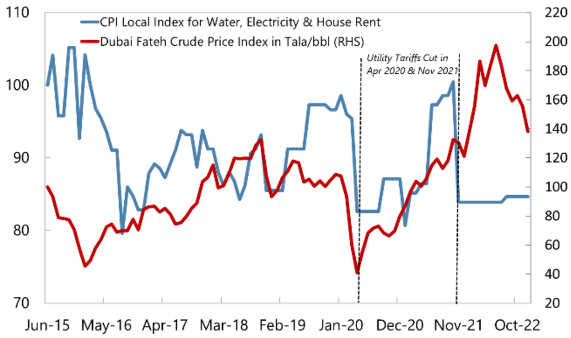
(2005). The local projection equation regresses global commodity prices, NEER (control variable) and their respective lags on Samoa's inflation over a 12-month forecast horizon, using OLS.[2]

Other commodity import prices have followed the rise in global oil prices (Index, Jun 2015 = 100)



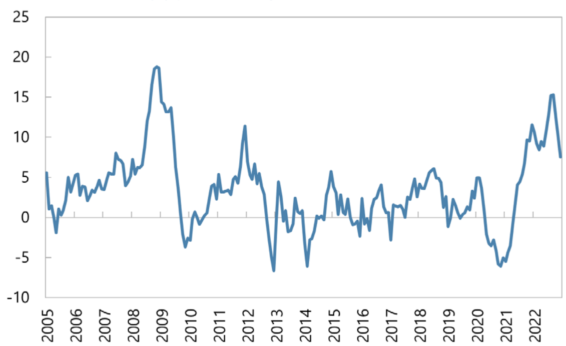
Sources: Samoan authorities; and IMF staff calculations.

Tariff cuts have muted the impact of global oil prices on utility prices (Index, Jun 2015 = 100)



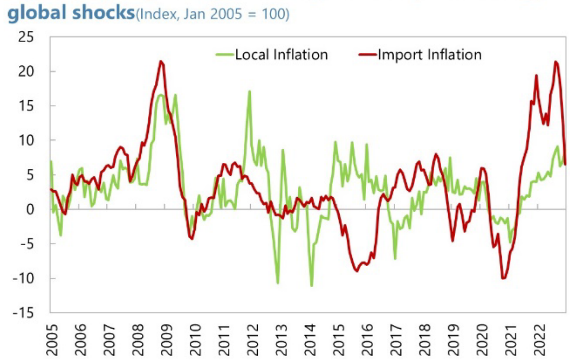
Sources: Samoan authorities; and IMF staff calculations.

Global price shocks lead to a transitory jump in inflation
(Headline inflation in y/y percent change)



Source: Samoan authorities.

Higher import prices pass through to local prices during global shocks(Index, Jan 2005 = 100)



Sources: Samoan authorities; and IMF staff calculations.

8. **To assess the extent of pass-through from global commodity prices, the analysis is undertaken for three types of inflation – CPI headline inflation, CPI import inflation and CPI local inflation**. The impact is estimated separately for global food prices and global oil prices.

$$Ln(CPI_{t+h}) - Ln(CPI_{t-1}) = \alpha_h + \sum_{i=1}^{k} \beta_i \, \Delta Ln(CPI_{t-i}) + \sum_{j=0}^{k} \theta_j \Delta Ln(global\ commodity\ prices_{t-j}) +$$

$$\sum_{j=0}^{k} \psi_j \Delta Ln(NEER_{t-j}) + \sum_{p=1}^{h} \partial_p \, \Delta Ln(global\ commodity\ prices_{t+p}) + \sum_{p=1}^{h} \gamma_p \, \Delta Ln(NEER_{t+p}) + \varepsilon_{t+h}$$

Where,
CPI: Monthly headline CPI index, CPI import index, or CPI local index.
Global commodity prices: World Bank food price index in USD, and Dubai Fateh crude price in USD

[2] Using the methodology by Teulings and Zubanov (2014), the local projection equation is augmented with the leads of the independent variables (global commodity prices and NEER) between forecast horizon 't' and 't+h' in order to correct for the downward bias of the coefficient estimates.

NEER: Nominal effective exchange rate
h: 0, 1, ….,12 – Number of months of forecast horizon
k: Number of lags for inflation, global commodity prices and NEER. The lag selection is based on the AIC criteria.

The results obtained for the local projection coefficient θ_0 for the forecast horizon (t, t+1, ….., t+h) are presented in the impulse response functions, showing the cumulative impact of a 10 percent change in food prices or oil prices on Samoan prices over a 12-month period.[3]

9. The results show that changes in global food and oil prices significantly affect both headline and import prices with a 1-3 month lag, with the impact peaking at about 11-12 months and stabilizing thereafter. The lagged impact of oil prices on inflation is consistent with the government's policy to adjust domestic fuel prices to changes in global oil prices with a two-month lag. The impact of global food prices on headline prices is more than twice that of global oil prices, consistent with the larger weight of imported food in the CPI basket.

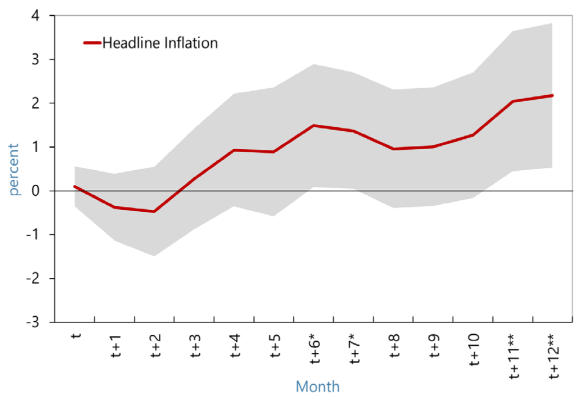
10. In addition, the impact of commodity price shocks on import inflation is relatively higher than on headline inflation, given the relatively larger weight of food and oil in the CPI import basket. On the other hand, the impact of global price shocks on local inflation, particularly oil prices, is small and uneven, suggesting that the pass-through from global commodity prices to local goods and services inflation has been historically low.

11. Global commodity prices began to ease somewhat starting July 2022 and are expected to continue moderating into 2023, particularly oil prices. Based on the above local projection estimates, the softening of global food and oil prices since 2022Q3 is expected to begin subtracting from headline inflation in m/m terms starting from 2022Q4 and reduce m/m inflation by about 4.0 percentage points by June 2023, relative to 2022Q3.

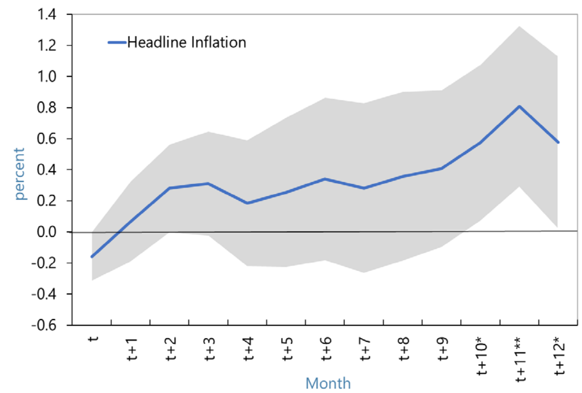
[3] The instantaneous coefficient θ_0 at each forecast horizon 't+h' is the local projection coefficient for that horizon, showing the cumulative response of a global commodity price shock in time 't' on inflation in time 't+h'. The coefficient for each forecast horizon is plotted to construct the impulse response function from time 't' to 't+h'.

Figure 2. Impact of Global Shocks on Samoan Prices

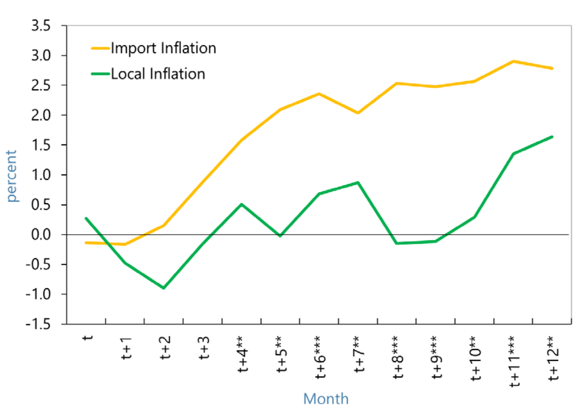
Response of Samoa Inflation to increase in global food prices



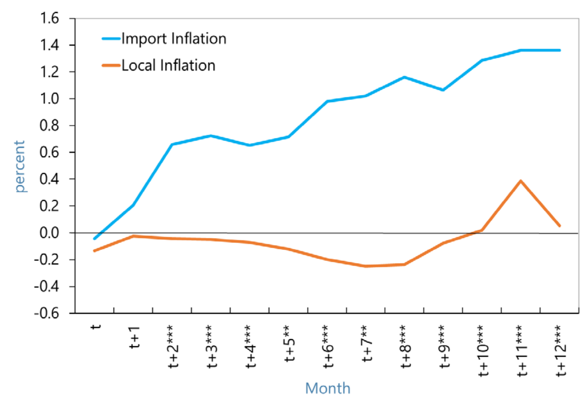
Response of Samoa Inflation to increase in global oil prices



Response of Samoa Inflation to increase in global food prices



Response of Samoa Inflation to increase in global oil prices



Note: Charts show the cumulative impulse-responses of monthly inflation to a 10 percent rise in global food and oil prices in time 't'. Impulse-responses of headline inflation are shown with their 90 percent confidence intervals using Huber-White standard errors. Coefficients for headline and import inflation are significant at: *** 1% level, ** 5% level, and * 10% level. Coefficients for local inflation are not significant.

Source: IMF staff calculations.

References

Jorda, O. (2005). "Estimation and Inference of Impulse Responses by Local Projections." The American Economic Review, Vol. 95, No. 1.

Teulings, C. and Zubanov, N. (2014). "Is Economic Recovery a Myth? Robust Estimation of Impulse Responses." Journal of Applied Econometrics, 29: 497-514.

Kpodar, K. and Liu, B. (2021). "The Distributional Implications of the Impact of Fuel price Increases on Inflation." *IMF Working Paper* WP/21/271.

Choi, S., Furceri, D., Loungani, P., Mishra, S. and Poplawski-Ribeiro, M. (2017). "Oil Prices and Inflation Dynamics: Evidence from Advanced and Developing Economies." *IMF Working Paper* WP/17/196.

Annex IV. External Sector Assessment[1]

Overall Assessment: *The external position of Samoa in FY2022 was moderately stronger than the level implied by fundamentals and desirable policies. The current account (CA) deficit narrowed from -14.6 to -11.6 percent of GDP in FY2022, reflecting the continued impacts of the global COVID-19 pandemic including the absence of tourism earnings, while strong remittances and resilient grants provided some offset. Samoa's international reserves are assessed as adequate according to the ARA metric for credit-constrained economies. These assessments, however, are subject to a high level of uncertainty given large errors and omissions in the balance of payments, as well as uncertainty around the future path of the current account.*

Potential Policy Responses: *With the impact of the pandemic expected to linger, Samoa needs to raise capacity and boost competitiveness through further developing human capital—especially skilled labor for the tourism sector, upgrading the businesses environment, and reducing trade facilitation costs.*

Foreign Assets and Liabilities: Position and Trajectory

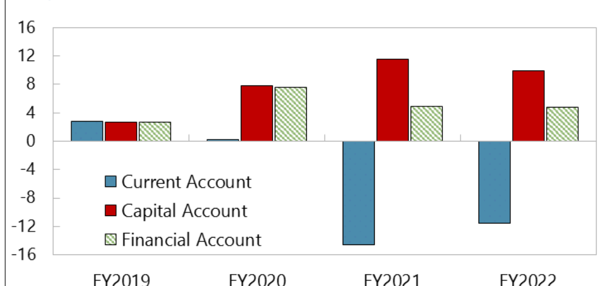
Data quality on net international investment position (NIIP) hampers the assessment of the position and trajectory of foreign assets and liabilities. While Samoa has made progress, supported by IMF technical assistance, the authorities currently do not publish a full set of IIP data. However, gross international reserves are assessed as adequate (see below) and external government debt is considered sustainable albeit with high risks in the long term (see Debt Sustainability Analysis).

Additionally, foreign assets held by Samoan residents have grown in recent years as the Samoan National Provident Fund (SNPF) and Unit Trust Organization of Samoa (UTOS) have invested growing amounts overseas. Their total foreign assets rose to 8.5 percent of GDP in FY2022, from 3.3 percent in FY2019.

Current Account

The pandemic and the consequent prolonged tourism standstill resulted in large CA deficits in FY2021 and FY2022. The CA balance shifted from a 0.2 percent of GDP surplus in FY2020 to a deficit of 14.6 percent of GDP in FY2021, narrowing in FY2022 to 11.6 percent of GDP. In FY2021, the CA deteriorated significantly, mainly because of the tourism halt. Meanwhile imports were resilient, supported by increased inflows of remittances, which are a key source of foreign exchange inflows given Samoa's large stock of outward migration. In FY2022, the current account narrowed despite the ongoing commodity price shock and increase in imports, as remittances inflows reached 33.8 percent of GDP in FY2022 (23.9 percent in FY2020).

Balance of Payments Components
(In percent of GDP)



Sources: Samoan authorities; and IMF staff calculations.

[1] Prepared by Daniela Alcantara.

The EBA-Lite current account approach assesses Samoa's external position in FY2022 as moderately stronger than fundamentals. Staff estimates a CA gap of 1.9 percent of GDP based on a norm of -9.1 percent of GDP, assessed against a cyclically adjusted CA of -7.2 percent of GDP, and a policy gap of 3.0 percent of GDP. The main structural contributors to Samoa's CA norm are the high ratio of nationals living overseas relative to the resident population and the low level of income relative to the global frontier. Fiscal policy constitutes the main contributor to the policy gap.

Samoa: EBA-lite Model Results, 2022

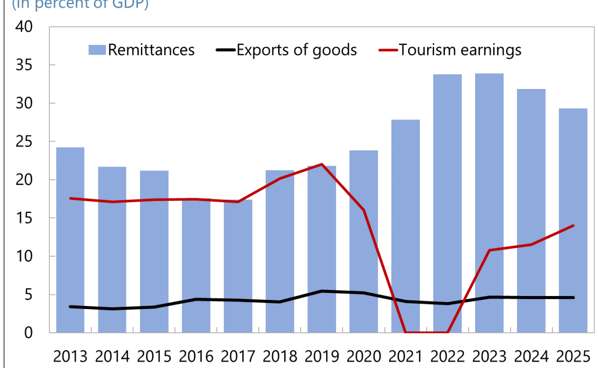
(in percent of GDP)	**CA model** 1/
CA-Actual	**-11.6**
Cyclical contributions (from model) (-)	1.4
COVID-19 adjustors (-) 2/	-5.8
Natural disasters and conflicts (-)	0.0
Adjusted CA	**-7.2**
CA Norm (from model) 3/	**-9.1**
Adjusted CA Norm	**-9.1**
CA Gap	**1.9**
o/w Relative policy gap	5.1
Elasticity	-0.2
REER Gap (in percent)	**-7.9**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (-7.2 percent of GDP) and remittances (1.4 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

The COVID-19 crisis significantly affected countries' external positions, particularly those with high tourism and remittance dependency such as Samoa. The EBA-lite model has incorporated special adjustments to consider the transitory components related to the pandemic–the model adds an additional cyclical adjustment of -5.8 percent of GDP (-7.2 percent for tourism and +1.4 percent for remittances, respectively). This is the difference in the temporary elements of the decline in tourism and the increase in remittances in Samoa, with standard coefficients then applied (0.5 and 0.35, respectively) to translate those into effects on the current account, confirming the impact of the tourism halt and the countercyclical role of remittances. Large errors and omissions inflows, amounting 6.5 percent of GDP in FY2022, as well as uncertainty around the future path of current account, add a significant element of uncertainty to the assessment.

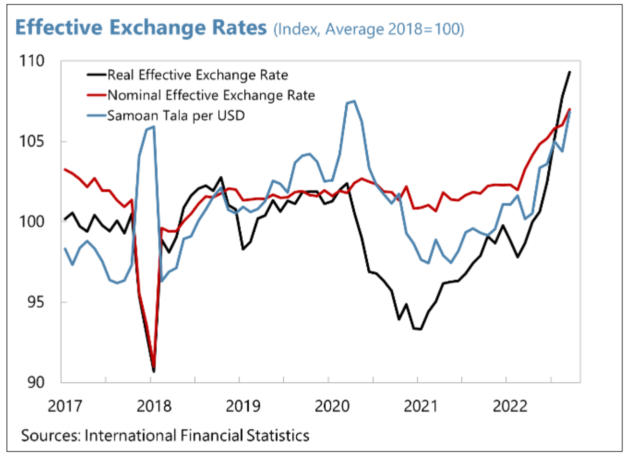
In the baseline scenario, the CA deficit is projected to narrow to 3.4 percent of GDP in FY2023. The main driver is the nascent tourism recovery, as tourism receipts are expected to recover to over half of pre-pandemic levels in FY2023 and FY2024 (10.8 and 11.0 percent of GDP, respectively). However, they are projected to remain below their pre-pandemic share of GDP in the medium term due to scarring effects from the pandemic. Remittances, which remain well above their pre-pandemic share of GDP, are expected to remain above 30 percent of GDP through FY2024 before declining thereafter. However, they are projected to remain above pre-pandemic levels given an increase in the number of seasonal workers abroad.

Exports, Remittances, and Tourism Earnings
(In percent of GDP)



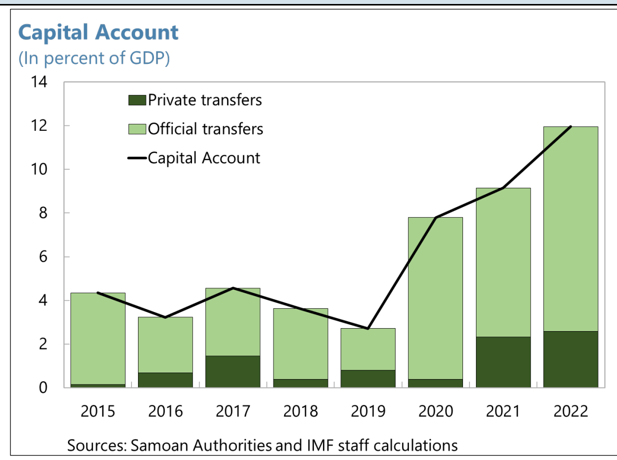
Sources: Samoan authorities and IMF staff calculations.

-Real Exchange Rate



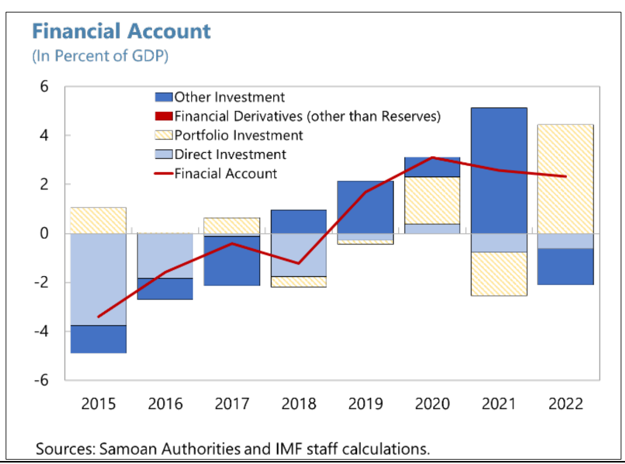
The exchange arrangement in Samoa is a conventional peg against a basket of currencies. The basket is comprised by the Australian dollar (AUD), the New Zealand dollar (NZD), the U.S. dollar (USD), and the Euro (EUR), with the weights determined by trade, tourism, and other external flows. The Samoan Tala fluctuates with the movement of the currencies in the basket. Samoa's effective exchange rates remained broadly stable over the past few years. In FY2022, the Tala depreciated against the U.S. dollar but appreciated against the other currencies in the basket, leading the nominal effective exchange rate to appreciate by 4 percent year-over-year in 2022. That, combined with inflation reaching double-digit levels, led to an appreciation in the real effective exchange rate of 5 percent year-over-year in 2022. Data limitations preclude application of the Index Real Effective Exchange Rate (IREER) approach to assessing the Tala's competitiveness.

Capital and Financial Accounts: Flows and Policy Measures



Samoa's large positive capital account balance helped offset the financing needs implied by the current account deficit. The capital account reached 12.0 percent of GDP in FY2022, driven by official transfers (9.4 percent of GDP).

The main financial flows are related to government financing or the accumulation of assets abroad by some Public Financial Institutions (PFIs). Net direct investment in Samoa has been modest, with small inflows in FY2021 (0.8 percent of GDP) and FY2022 (0.6 percent of GDP), while portfolio investment noted an increase in outflows as PFIs purchased ownership stakes in companies abroad. It is important to note that Samoa maintains a closed financial account, with capital transfers and payments requiring CBS approval. With most external liabilities in the form of concessional debt owed by the government, with long repayment schedules, financing requirements are low.

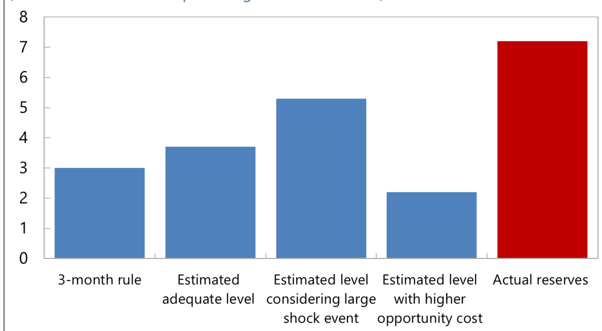


FX Intervention and Reserves Level

Reserve coverage in FY2022 remained more than adequate. Reserves remained at 8.3 months of current imports of goods and services cover in FY2022, or 7.2 percent of prospective imports, reflecting resilient remittances, higher grants, and the SDR allocation, among other factors. Staff project reserves to remain around 8 months of imports during FY2023-FY2025. Current coverage is considered adequate according to the ARA metric for credit constrained economies, and it remains adequate even when higher costs of reserves and Samoa's vulnerability to natural disasters is considered. The ARA metric for credit-constrained economies suggests an optimal level of reserves of between 2.2 and 3.7 months of current imports, depending on the assumed opportunity cost of holding reserves (6.2 or 4.0 percent, respectively). Once Samoa's higher natural disaster vulnerability is incorporated into the assessment (by raising the probability of a large shock to 70 percent from the sample average of 50 percent), the optimal reserve level range moves up to between 3.3 and 5.3 months of imports.

Reserve Adequacy Level

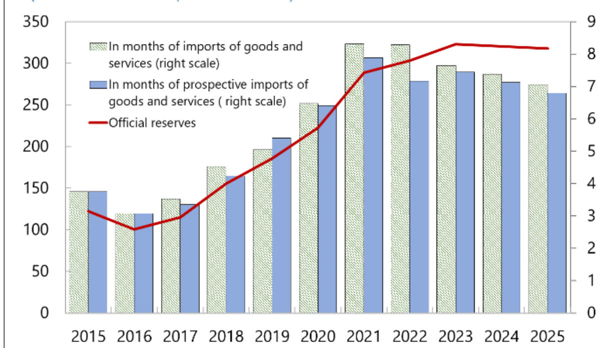
(In months of current imports of goods and services)



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

Gross Official Reserves

(In million U.S. dollar, and in months)



Sources: Samoan Authorities and IMF staff calculations.

Over the medium term, staff projects the coverage will remain at around 7.2 months of current imports, given the projected CA balance, including the expected recovery of tourism and expected normalization in grants and remittances. Shocks to commodity prices, a slower tourism recovery, or a large natural disaster could put added pressure on international reserves. However, a downside scenario elaborated by staff suggests reserve coverage in the near term would remain more than adequate (Annex V).

Annex V. Tourism Reopening Experience[1]

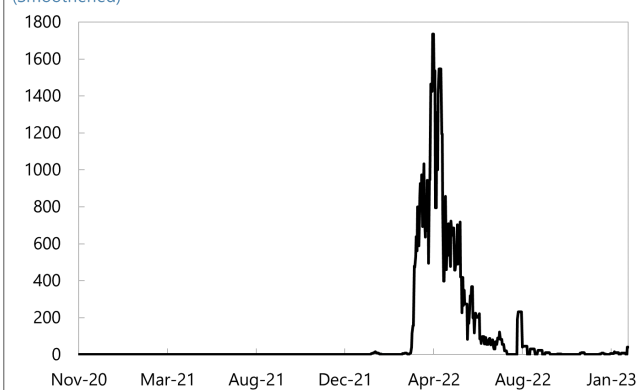
The prolonged border closure policy has saved lives and livelihoods from the COVID-19 pandemic, but also has brought economic challenges to Samoa's tourism-reliant economy. The protracted vaccination rollout and the uncertainty about the path of the pandemic delayed the reopening of borders until August 2022. This annex discusses Samoa's initial reopening experience and projects tourism earnings based on the experience of other small island developing countries.

1. **A strict border closure was imposed in March 2020 to insulate Samoa from the coronavirus and was lifted in August 2022**. Samoa implemented strict border controls in January 2020 when two suspected cases of COVID-19 were detected, followed up by more stringent measures and full closure of the border from March 2020 to August 2022.[2] Since then, the authorities frequently reassessed measures in lieu of new local and international data, keeping borders largely closed until August 2022.

- Until January 2023, Samoa has registered around 16,087 confirmed cases of COVID-19 with 29 deaths. The first deaths were registered only in April 2022.[3]

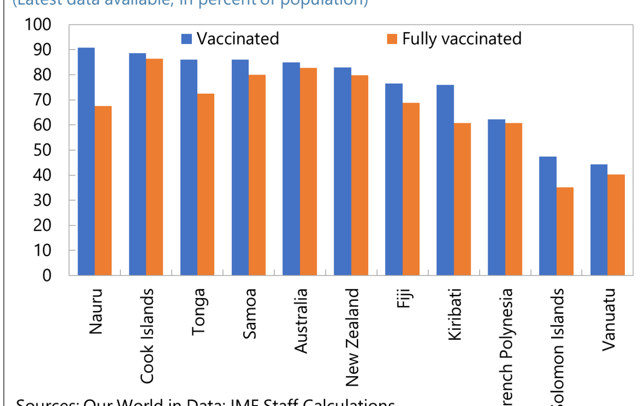
- In March 2020, after reporting the first suspected cases, Samoa declared a State of Emergency (SOE) imposing a strict border closure and other measures, including public gathering limitations. The authorities adjusted the SOE measures according to changes in local and international conditions, gradually lifting local gathering measures or imposing more strict limitations and short-duration national lockdowns as conditions warranted, but borders remained largely closed.

New COVID Cases Per Million People
(Smoothened)



Sources: Our World in Data; IMF Staff Calculations.

Vaccination Rate
(Latest data available, in percent of population)



Sources: Our World in Data; IMF Staff Calculations.

---

[1] Prepared by Daniela Alcantara and Stella Tam.

[2] The COVID-19 State of Emergency orders are part of the National Disaster Management Plan. Both the SOE orders and the COVID-19 Health Travel Advisories are available on the Government website.

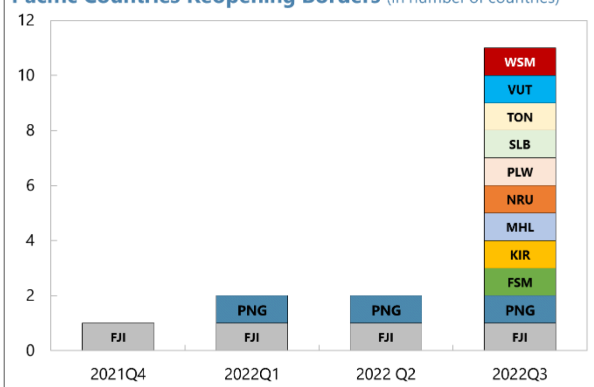
[3] World Health Organization (2023). Samoa COVID-19 Dashboard.

- Vaccine rollout started in April 2021 and authorities implemented measures to boost uptake, including a 48-hour lockdown with health teams administering door-to-door vaccines. As of January 2023, more than 96 percent of Samoa's population has received at least one dose and 89 percent has been fully vaccinated.

- On August 1st, 2022, Samoa's government ended the two-year SOE and lifted the border closure, permitting foreign nationals to enter the country. Remaining requirements were lifted on September 22nd, 2022—vaccination certificates or pre-departure testing for COVID-19 passengers are no longer required; upon arrival, passengers are advised to wear face masks and continue to take preventative measures.

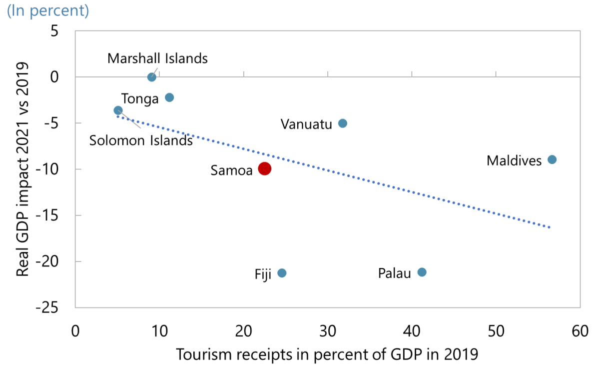
2. The prolonged tourism halt successfully contained the local spread of the virus, but not without economic costs. Past episodes and challenges in health system coverage partially spurred the authorities' careful approach to reopening the border.[4] Nevertheless, as tourism-related sectors underpin Samoa's economy and tourism receipts amounted to about 20 percent of GDP pre-pandemic, the closed borders dealt a significant blow to the tourism-related sectors, with sizable spillovers to other sectors. This was the main driver in the cumulative decline of 15 percent in real GDP over FY2020-FY2022.

Pacific Countries Reopening Borders (In number of countries)



Source: IMF APD country desk survey.

Tourism Dependence and Real GDP Impact from COVID
(In percent)



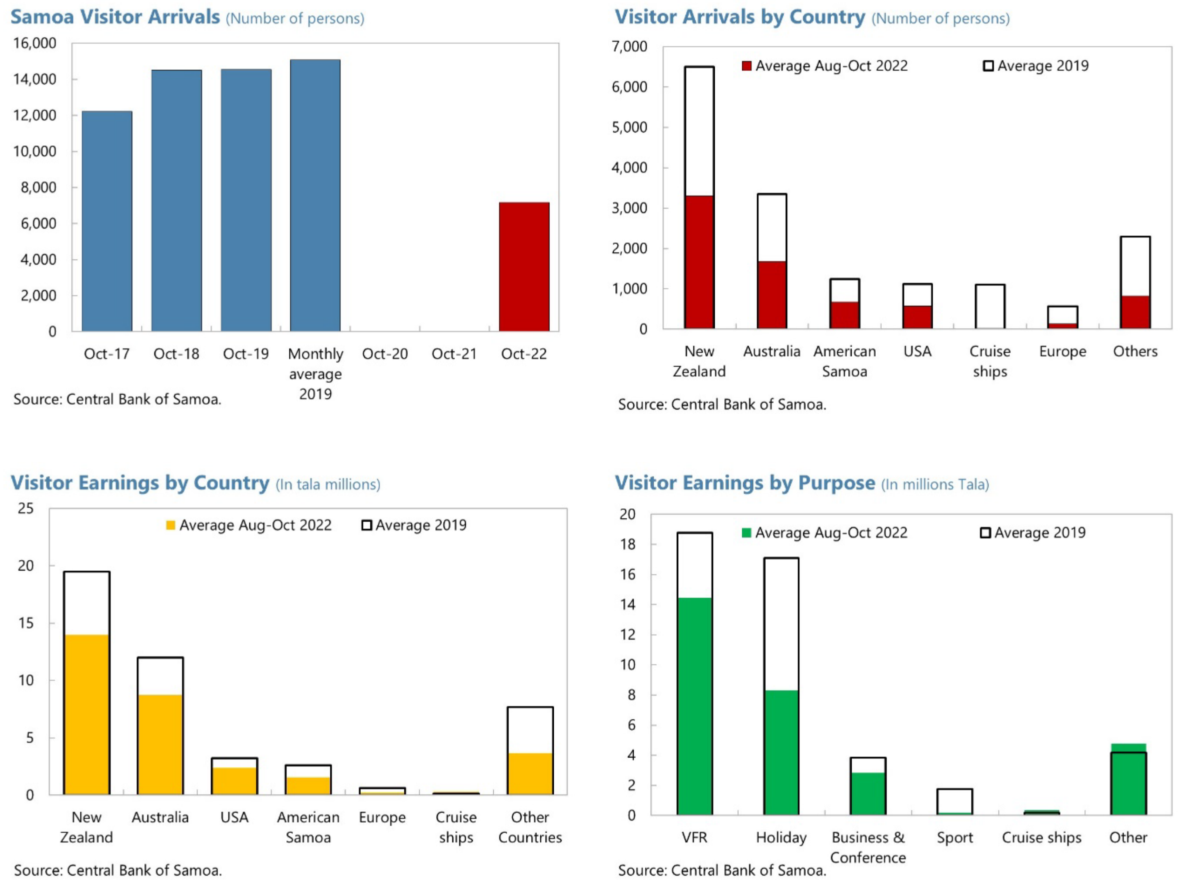
Sources: World Economic Outlook; and World Development Indicator.
Note: 2018 tourism receipts data was used for Palau and Marshall Islands.

3. Tourism earnings have increased rapidly since the reopening of border. Tourist arrivals and tourism earnings both saw rapid recoveries to over 40 percent of pre-COVID levels. In September 2022, the highest shares of tourists are from New Zealand (45 percent), Australia (24 percent) and American Samoa (10 percent), with American Samoan tourists recovering the most compared to pre-pandemic levels (to 56 percent of previous arrivals and 64 percent of tourist earnings). In terms of purpose of visit, family visits and holidays brought the highest percentage of arrivals and earnings, but business

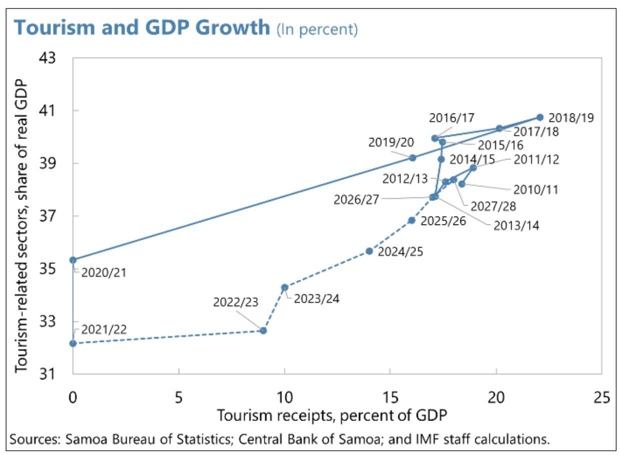
[4] The 1918 influenza pandemic was brought inland by a cargo ship and infected around 90 percent of the population with an estimated death toll of 25 percent of the population (Tomkins, 1992). The 2019 measles outbreak killed 83 people, 87% under five-years of age, and highlighted limitations in the country health system, including the overall low levels of immunization (WHO/UNICEF, 2020).

and conference travel recovered the most compared to pre-pandemic level (61 percent of previous arrivals and 68 percent of tourist earnings).

Figure 1. Samoa: Visitor arrivals and earnings upon reopening

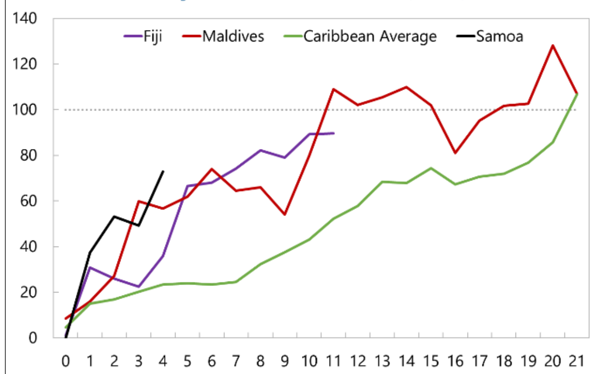


4. **The tourism halt's negative effects on the tourism and hospitality sector could linger, hampering full recovery**. The closure of some facilities, including some upscale resorts and hotels, has reduced capacity, while those facilities in operation have needed to invest to update the infrastructure as maintenance was limited during the pandemic. Additionally, although the authorities promoted some training opportunities in early 2020, the impact of the prolonged border closure on employment in tourism resulted in a loss of human capital as workers migrated to other sectors, including through the seasonal workers employment schemes. The degree of success in addressing these challenges will affect the timeline and magnitude of recovery.



5. To forecast Samoa's tourism recovery trajectory, the experience from reopening in other countries is studied. While many Caribbean countries reopened earlier, Samoa and many other Pacific Islands reopened their borders in mid-2022. Most of the Caribbean countries reopened their borders in mid-2020, before widespread vaccination had occurred, which in some cases led to severe local outbreaks. Partly as a result, arrivals to Caribbean tourism destinations took around a year and a half, on average, to fully recover to pre-pandemic levels. In the Pacific region, Maldives also reopened in 2020, and took 11 months to reach its pre-pandemic arrivals level. Fiji followed a similar path, but it will likely reach pre-pandemic levels slightly later.

Tourism Recovery (In percent of 2018-19 monthly average)



Sources: IMF Staff Calculations.

6. In staff's baseline scenario, a gradual tourism recovery is conservatively assumed. Cross-country experience and Samoa's first few months of reopening suggest tourism could recover within a two-year time frame. However, pent up travel demand and in Samoa's case some one-off events (such as the celebration of the 60th anniversary of its independence) may have led to an initial surge in arrivals. Given the projected global economic weakness and remaining pandemic risks, staff's baseline scenario estimates that Samoa recovers around half of pre-pandemic tourism receipts in FY2023 and FY2024, with arrivals continuing to climb thereafter. In this scenario, real GDP growth is projected at 5.0 percent and 3.6 percent in FY2023 and FY2024 respectively.

Baseline and Illustrative Downside Scenario for Tourism

		FY2018-20 Average	FY2023	FY2024
Tourism receipts	Baseline	19.4	10.8	11.5
(In percent of GDP)	Downside		8.0	8.0
Real GDP	Baseline	0.2	5.0	3.6
(In y/y percent change)	Downside		1.9	3.0
Reserves	Baseline	5.3	7.4	7.1
(In months of imports)	Downside		7.3	6.7

Source: IMF staff calculations.

7. In a downside scenario, while the impact of lower tourism flows would likely be substantial, growth would remain positive and reserve coverage would decline only modestly. The downside scenario assumes a slower recovery in tourism receipts to only about a third of pre-pandemic levels, explained by a combination of stricter travel restrictions in source countries, higher travel costs, and a global economic downturn. In such circumstances, the impact on Samoa's economy would be substantial, both directly through reduced tourism and indirectly through spillovers to other sectors. While this scenario would reduce economic activity, real GDP growth would remain positive at 1.9 percent in FY2023 and 3 percent in FY2024, according to historical elasticities between tourist inflows and GDP, and between tourism-related and other sectors. Using the EBA-lite coefficient of 0.5 for the impact of a tourism shock on the current account, reserve coverage would decline modestly, reaching 6.7 months of import cover in FY2024, still above adequate levels.

Samoa: Selected COVID-19 milestones	
Jan 27, 2020	Samoa implemented travel restrictions due to the international outbreak of COVID-19, including requirements to travelers to self-quarantine for at least 14 days
Mar 18, 2020	Samoa reported the first suspected case of COVID-19 for an entering person
Mar 20, 2020	Samoa declared a State of Emergency (SOE) in response to the pandemic prohibiting all international travelers from entering Samoa and limiting public gatherings
Apr 11, 2020	The government announced a US$23.6 million package to help the country's hotel sector
May 20, 2020	The government issued an amendment to the COVID-19 State of Emergency Orders lifting domestic lockdown restrictions but maintaining the border closure
Aug 6, 2020	Emergency Order 24 was issued ceasing all international travel to and from Samoa except for returning residents, prohibiting access to boats and ships except for trade and fishing, and limiting public gatherings
Apr 9, 2021	Samoa received its first doses of COVID-19 vaccines through the COVAX facility
May 8, 2021	The government confirmed that borders would reopen once 98 percent of the population had been vaccinated
Aug 11, 2021	Samoa launched a country-wide door-to-door vaccination campaign
Sep 23, 2021	Start of a two-day lockdown to boost COVID-19 vaccination coverage
Nov 8, 2021	New Zealand commenced one-way quarantine free travel from Samoa
Jan 22, 2022	A 48-hour nationwide lockdown was imposed after 15 COVID-19 cases were confirmed
Jan 25, 2022	The nationwide lockdown was extended until 27 January after frontline nurses tested positive for COVID-19, however there was no further community transmission
Feb 16, 2022	The Ministry of Health issued a Special Travel Advice for travelers from American Samoa, including that only Samoa residents/citizens would be allowed to enter Samoa
March-May, 2022	A domestic outbreak occurred, prompting tight mobility restrictions. The first community transmission of COVID-19 was detected on March 17. Over 15,000 cases have been detected to date, mostly between March and May before the pace slowed significantly. However, with more than 92 percent of adults being fully vaccinated, most cases resulted in mild symptoms and the death rate has been low (29 deaths were registered).
Jul 27, 2022	With cases diminishing substantially, the State of Emergency was lifted
Aug 1, 2022	Samoa's border reopened to international travel, albeit with strict vaccination and testing requirements
Sep 22, 2022	All travel restrictions for COVID-19 were lifted
Sources: Samoan Authorities; and World Health Organization Coronavirus Dashboard.	

References

Government of Samoa (2020). Second Voluntary National Review on the Implementation of the Sustainable Development Goals. SDG Taskforce - Ministry of Foreign Affairs and Trade (MFAT).

Tomkins, S. M. (1992). The Influenza Epidemic of 1918-19 in Western Samoa. The Journal of Pacific History. Vol. 27, No. 2 (Dec.1992), pp. 181-197. Published By: Taylor & Francis, Ltd.

World Health Organization (2023). Samoa COVID-19 Dashboard.

World Health Organization - UNICEF (2020). Measle Outbreak in the Pacific – Situation Report No. 11. Joint WHO/UNICEF Measle Outbreak Response and Preparedness in the Pacific (Jan. 22, 2020).

Annex VI. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact	Policy Recommendations
Domestic risks			
Natural disasters related to climate change	**Medium:** On average, Samoa has been hit by a major natural disaster once every five years.	**High:** Widespread damage to infrastructure; disruption to supply chains, tourism and other activities; reconstruction costs that raise public debt.	Build fiscal and external buffers. Increase investment in climate-resilient infrastructure. Strengthen natural disaster preparedness and response capacities.
Loss of Correspondent Banking Relationships (CBRs)	**High:** The global regulatory landscape could result in continued pressures on CBRs, as correspondent banks face penalties over breaching AML laws, which could limit correspondent banking services.	**Medium:** Closure of correspondent bank accounts held by MTOs and the Samoan local banks could limit flows of U.S. dollars, hampering international payments. Foreign banks in Samoa could provide some offset.	Strengthen the AML/CFT regime in line with APG/FATF recommendations. Implement the KYC utility for customer due diligence. Pursue agreements on "safe corridors" for remittance-related transfers.
External risks			
Abrupt global slowdown or recession **Local COVID-19 outbreaks**	**Medium:** Synchronized global slowdown and recession in some economies lead to trade and financial spillovers. **Medium:** Emergence of more contagious variants lead to new lockdowns or inhibit commerce, causing extended supply chain disruptions and slower growth.	**High:** Downturn in tourism and broader economic activity, with negative spillovers on the financial sector. Lower tourism earnings and exports could weigh on the current account.	Implement targeted fiscal measures to cushion households and businesses. Seek concessional loans and grants for external and budget support.
De-anchoring of inflation expectations and stagflation	**Medium:** Higher core inflation and wage-price spiral prompt larger-than-expected monetary tightening, leading to weaker global demand, tighter financial conditions and the onset of stagflation.	**Medium:** Weaker global activity and higher inflation could reduce tourism inflows and raise import costs, worsening the current account deficit. Low financial integration limits the potential impact via private capital flows.	Assist tourism sector in restoring and maintaining capacity, while supporting vulnerable households and businesses through targeted fiscal measures.
Systemic social unrest	**High:** Social unrest and political instability due to rising inflation, declining incomes, and worsening inequality, leading to weaker growth and populist policies.	**Medium:** Beyond immediate economic disruption and adverse confidence effects, the resulting political polarization could complicate implementation of sound policies needed for sustained economic recovery.	Continue to support vulnerable households and businesses via targeted fiscal measures. Ramp up efforts to attain SDGs with structural reforms and support from the international community.
Commodity price shocks **Intensifying spillovers from Russia's war in Ukraine**	**High:** Continued supply chain disruptions and negative demand shocks lead to recurrent commodity price volatility, and social and economic instability. **High:** Trade and financial disruptions and commodity price volatility.	**High:** Import price pressures could deteriorate the current account, raise domestic inflation, reduce household purchasing power, and increase local production costs.	Provide targeted fiscal support to affected households. Enact reforms to improve efficiency of state-owned enterprises, ensuring production costs are reflected in charges for services. Pursue increased domestic agriculture production.
Deepening geo-economic fragmentation and geopolitical tensions	**High:** Intensified conflicts and reduced international cooperation result in deglobalization via reconfiguration of trade, technological fragmentation, and fracturing of international monetary and financial system.	**Medium:** Increased geopolitical risks and global fragmentation could constrain the tourism recovery, reduce remittances, raise import costs and exacerbate CBR withdrawal, adversely affecting the current account.	Improve business environment and connectivity to create a conducive environment for private sector development and export diversification.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the most likely scenario 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 10-30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on source of risks and overall level of concern as of the time of discussions with the authors. Non-mutually exclusive risks may interact and materialize jointly.

Annex VII. Key 2022 CMAP Recommendations[1]

National Climate Strategy
Adaptation plans that include costs of adaptation investment, should be included in the Public Sector Investment Plan (PSIP) or other suitable document
Formalize a disaster risk financing strategy consistent with National Disaster Management Plan, improving availability of information on damages and losses
Keep national and sectoral plans updated
Mitigation
Increase excise taxes on kerosene and LPG and adjust these excise taxes in line with annual inflation
Tax electricity at the standard VAT rate of 15% and **ensure the electricity tariff covers cost of provision**
Consider recycling tax revenue from mitigation measures to strengthen the social safety net
Use feebates to encourage the uptake of fuel-efficient vehicles and energy efficient appliances
Disaster Risk Management
Develop and maintain a centralized registry of public fixed assets
Include disaster and climate risks in budget documents for a comprehensive contingent liability framework
Strengthen social protection for vulnerable households in disaster response and by introducing digital ID
Adaptation
Strengthen planning through risk zoning, resource mapping, and risk monitoring
Conduct climate risk assessment consistently as part of adaptation planning, particularly at the sector level
Use a common methodology for the cost-benefit analysis of adaptation projects, obtaining information from consistent project monitoring & evaluation
Incentivize adaptation in the private sector by enforcing regulations and improving financial inclusion for farmers and small businesses
Financing Climate Policies
Scale up ex-ante investments in climate adaptation by pursuing additional grant financing
Take a strategic view in matching climate project proposals to those financing sources that can be accessed with reasonable effort and at acceptable cost
Complete costing of adaptation and mitigation policies to enable accurate estimation and communication of financing gaps
Public Investment and Financial Management
Update project preparation and Environmental Impact Assessments guidelines to include explicit requirements for climate impact analysis and define standard methodologies for this analysis
Improve transparency of climate-related spending by including PSIP in budget documents, defining climate-related selection criteria in prioritizing projects. Develop climate tagging over time.
Strengthen climate-sensitive budgeting, through an updated budget circular, appropriate maintenance allocations, rigorous project monitoring, climate spending reviews and systematic ex-post audit and review of climate investment

[1] Highest-priority recommendations are in bold text.

Annex VIII. Key 2015 FSAP Recommendations

Recommendation	Actions Taken
Overarching issues	
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.	Complete. Financial Soundness Indicators are being produced for commercial banks and PFIs in line with international standards.
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 (1984) was amended in 2015 and commercial bank prudential guidelines were revised in January 2021. Draft amendments to the Financial Institutions Act (1996), which incorporate corrective actions, resolution options, enforcement, governor's discretion, etc., are being prepared.
CBS should raise capacity and hire additional staff for financial oversight, and over time assume supervision and regulation of all financial intermediaries.	This is a continuous process. The number of staff has increased gradually but capacity remains 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).	This is a continuous process. Regular on-site inspections and assessment of financial statements of commercial banks is being conducted.
Upgrade supervisory guidance to banks, especially regarding risk management and NPL write-offs.	Completed. The revised commercial bank prudential guidelines were issued in January 2021.
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.	This is a continuous process. Financial Soundness Indicators are being produced for all PFIs, and the CBS analyzes their financial statements on a quarterly basis.
CBS to issue and upgrade prudential regulations for PFIs.	The CBS issued prudential regulations for insurance companies and SHC in 2020. Prudential guidelines for DBS and SNPF have not been revised.
CBS to start on-site inspections of PFIs.	This is a continuous process. On-site inspection of PFIs is scheduled to be conducted every two years.
Offshore 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, the SIFA created a separate division, Invest Samoa, focusing solely on promotion. In December 2020, the Cabinet approved establishing a separate company solely responsible for promotion and marketing, which will allow the SIFA to focus on its supervisory role.

Recommendation	Actions Taken
PFIs – governance	
Government to reform mandates and governance of PFIs for defined policy objectives based on cost-benefit assessments, and to ensure efficient operations.	There have been no reforms to the mandates of PFIs.
Crisis preparedness	
Adopt a full set of enforcement and resolution instruments.	Draft amendment to the Financial Institutions Act (1996), which incorporates corrective actions, resolution options, enforcement, governor's discretion, etc., is being prepared.
Create an appropriate scheme and operational framework for Emergency Liquidity Assistance.	The Emergency Liquidity Assistance (ELA) framework and revisions to the guidelines for other CBS credit facilities are being prepared.
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.	An in-house preliminary and unofficial stress testing exercise was conducted by CBS staff in 2018. Macro-financial mapping has not been undertaken thus far.
Central bank policies and operations	
CBS to unwind lending to Development Bank of Samoa (DBS) and Samoa Housing Corporation (SHC).	There has been no new lending to DBS and SHC via the credit line facility (CLF) since May 2018. DBS and SHC are making repayments on previous CLF loans.
Access to finance	
Focus on indirect measures to enhance access to finance, including credit bureau, economic use of customary land, and complete setting up a personal property registry.	A draft bill for establishing an online Credit Registry is being prepared.
Insurance	
CBS to develop insurance supervisory strategy and capacity building plans.	Largely complete. The CBS has implemented several measures to establish a risk-based system of supervision. Draft amendments to the Insurance Act (2007) covering supervisory issues remain pending.
Payment system and financial market infrastructure	
CBS to implement the new National Payment Systems.	Establishing the Automatic Transfer System (ATS) and Central Securities Depository (CSD) is in the pipeline for 2023.

INTERNATIONAL MONETARY FUND

SAMOA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 21, 2023

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of January 31, 2022)

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	26.62	100.00
Holdings	15.84	59.52

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RCF Loans	16.78	103.58

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	7/9/1984	7/8/1985	3.38	3.38
Stand-by	6/27/1983	6/26/1984	3.38	3.38
Stand-by	8/17/1979	8/16/1980	0.75	0.00

Outright Loans

Type	Date of Commitment	Date Drawn	Amount Approved (SDR million)	Amount Drawn (SDR million)
RCF	4/24/2020	4/28/2020	16.20	16.20
RCF	5/15/2013	5/24/2013	5.80	5.80

Overdue Obligations and Projected Payments to Fund[1]

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

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	0.58	0.00	1.62	3.24	3.24
Charges/interest	0.34	0.35	0.35	0.35	0.35
Total	**0.92**	**0.35**	**1.97**	**3.59**	**3.59**

[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

Samoa's exchange rate arrangement is a conventional peg to a trade and payments weighted basket of currencies. The pegged rate can be adjusted within a ±2 percent band. The currencies in the Samoan tala basket include Samoa's most important trading partners and countries that are major sources of tourism revenue from abroad––New Zealand, Australia, the United States, and countries using the euro. Samoa has accepted the obligations of Article VIII, Sections 2,3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Article IV Consultations

Samoa is on a 12-month consultation cycle. The 2021 consultation was concluded by the Executive Board on March 18, 2021 (IMF Country Report No. 2021/056).

Safeguards Assessments

An update safeguards assessment was completed in May 2021. The assessment found an autonomous central bank that has strong governance arrangements, and financial reporting practices that are anchored in International Financial Reporting Standards. Since then, the CBS has sought IMF technical assistance to establish a risk management function and work is progressing in this area. Nonetheless, a recommendation for the appointment of a reputable external auditor experienced in auditing central banks has not been implemented. The CBS Board should appoint an international reputable auditor to jointly work with the local audit firm for the completion of the audit for FY 2023 to ensure that the audit is conducted in accordance with International Standards on Auditing (ISA), and benefits from experts with experience in auditing central banks.

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 and implemented the 2016-2020 national AML/CFT strategy. Amendments to the Money Laundering Prevention Act were passed in 2018, while the Trustee Companies Amendment Act and Foundations Amendment Act were enacted in 2019. In its 2020 follow-up report, Samoa reported on its continuing work to rectify deficiencies in the MER, and remains under the APG's enhanced follow-up process. The CBS has been coordinating with an AML consultant to prepare the APG follow-up assessment.

Capacity Development

Samoa has been an intensive user of IMF Capacity Development (CD) in recent years. Much of this has been delivered through the Pacific Financial Technical Assistance Centre (PFTAC) in the following areas: public financial management (PFM), revenue administration, macroeconomic programming and analysis, real sector statistics, government finance statistics, and financial sector supervision. The Capacity Development Office of Thailand has provided CD on external sectors statistics. The CBS is participating in a multiyear program of ICD to develop its capacity in macroeconomic frameworks. In 2021 MCM provided technical assistance on central bank risk management and on the financial safety net and crisis management. FAD provided a diagnostic of tax reforms in Pacific Islands, in which Samoa was included. Also in 2021, Samoa participated in the Climate Macroeconomic Assessment Program, which was led by FAD with participation of RES and APD.

Resident Representative

The Regional Resident Representative Office for Pacific Island countries including Samoa is based in Suva, Fiji and was opened on September 13, 2010. Mr. Neil Saker 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.html

STATISTICAL ISSUES

(As of February 2023)

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 provided 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 accounts statistics have improved during the last three years. GDP by production at current and constant prices is compiled quarterly, predominantly using value-added tax data. Rebased GDP at 2013 prices was first published in April 2019. PFTAC is assisting in developing quarterly GDP by expenditure and reducing the statistics discrepancy between annual GDP by production and by expenditure.
Price Statistics: The CPI is compiled monthly with a one-month lag. The current weights are derived from the 2018 Household Income and Expenditure Survey (HIES). A quarterly import price index with 2018 weights is also published with a lag of about six weeks.
Government Finance Statistics (GFS): Samoa compiles GFS for the general government, and reports data to the IMF's annual GFS database. The latest submission includes data for FY2021. The authorities intend to expand the coverage for GFS and public sector 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 through standardized report forms (SRF). The coverage of data for OFCs could be further improved. Samoa reports data on several series and indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: Samoa has been reporting Financial Soundness Indicators (FSIs) to the IMF since March 2016. The authorities report 13 core FSIs for deposit takers and one core FSI for real estate markets, as well as 6 additional FSIs for deposit takers, two FSIs for other financial corporations, two for insurance corporations, and three FSIs for real estate markets, with quarterly frequency.
External sector statistics (ESS): The Central Bank of Samoa (CBS) compiles and reports quarterly balance of payments data. The source of data on exports and imports of goods has been changed to Customs data, and the 2018 International Visitors Survey has been incorporated. The CBS also made progress in advancing the quarterly compilation of international investment position (IIP) and participating in the coordinated direct investment survey (CDIS). Further enhancements are necessary, including developing new data sources, improving validation procedures, addressing institutional issues such as inter-institutional data sharing and knowledge transfer procedures, and developing source data from non-financial corporations as well as offshore financial/non-financial companies. Developing the compilation of external debt statistics is ongoing.
II. Data Standards and Quality
Samoa was the first country in the region to implement the enhanced General Data Dissemination System (e-GDDS) in 2017, starting to disseminate key macroeconomic and financial statistics through a web-based National Summary Data Page according to an advance release calendar. No data module ROSC has been conducted in Samoa.

Samoa – Table of Common Indicators Required for Surveillance (As of February 2023)					
	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of Publication[4]
Exchange Rates	2/6/23	2/7/23	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	12/23	1/31/23	M	M	M
Reserve/Base Money	12/23	1/31/23	M	M	M
Broad Money	12/23	1/31/23	M	M	M
Central Bank Balance Sheet	12/23	1/31/23	M	M	M
Consolidated Balance Sheet of the Banking System[1]	12/23	1/31/23	M	M	M
Interest Rates[2]	12/23	1/31/23	M	M	M
Consumer Price Index	12/23	1/18/23	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3] – Central Budgetary Government	2022: Q3	12/8/22	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt	2022: Q3	12/8/22	Q	Q	N/A
External Current Account Balance	2022: Q3	12/31/22	Q	Q	Q
Exports and Imports of Goods and Services	2022: M11	1/14/23	M	M	M
GDP	2022: Q3	12/22/22	Q	Q	Q
Gross External Debt	2022: Q3	12/8/22	Q	Q	Q
International Investment Position (IIP)	N/A	N/A	N/A	N/A	N/A

[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).

SAMOA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 21, 2023

Approved By
Cheng Hoon Lim and Geremia Palomba (IMF), and Manuela Francisco and Hassan Zaman (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. Expected long-term effects of natural disaster and climate change-related events were considered in arriving at the bottom-line risk assessment.

Samoa remains at high risk of external and overall debt distress, unchanged from the previous DSA published in March 2021. Consistent with previous DSAs, judgment was applied to extend the projection horizon to 20 years as opposed to the standard 10 years, given that the mechanical external and overall risk rating from the model was assessed as moderate. This allows for the inclusion of the average long-term effects of natural disasters and climate change by incorporating their impacts on economic growth, the fiscal position, and the current account balance in the baseline scenario over the long term (FY2029-2043).[2] These factors result in breaches of the thresholds for the present value (PV) of the external public and publicly guaranteed (PPG) debt-to-GDP ratio from FY2042 onwards in the baseline. As a result, Samoa's external and overall risk ratings are assessed as high. In the stress test scenarios, thresholds for the PV of external PPG debt-to-GDP and PV of public debt to GDP are breached from FY2034 and FY2029, respectively. A tailored natural disaster shock, similar in scale to the median impact of natural disasters in Samoa's history and assumed to strike in FY2024, also leads to breaches of the debt-to-GDP thresholds. The debt service-to-revenue ratio does not breach its indicative target because of the preponderance of concessional loans in external debt. Given Samoa's vulnerability to natural disasters and external shocks, reforms to raise revenues, improve the quality of spending, and attain higher, more diversified economic growth will be vital to building fiscal and external buffers and minimizing risks to debt sustainability. While domestic debt remains small, government-guaranteed debt accounted for 7.6 percent of GDP in FY2022.

[1] This DSA has been prepared jointly by the IMF and World Bank, following *Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries* (2018).

[2] Samoa's fiscal year runs from July 1 to June 30.

PUBLIC DEBT COVERAGE

1. **This Debt Sustainability Analysis (DSA) covers central government and central government-guaranteed debts (Text Table 1)**. There is no sub-national government structure in Samoa. The Central Bank of Samoa (CBS) is not allowed to contract debt on behalf of the government and State-Owned Enterprises (SOEs) must seek government approval for all new loans.[3] Non-guaranteed debt of non-financial SOEs stood at 0.6 percent of GDP in FY2022. Given the lack of consolidated, timely data on SOE revenue and expenditures, SOEs are not included in the baseline debt sustainability analysis but are captured in the contingent liability stress test.[4] The definition of external and domestic debt is based on residency.[5]

Text Table 1. Samoa: Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	Not applicable
3	Other elements in the general government	
4	o/w: Social security fund	Not applicable
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)	Not applicable
8	Non-guaranteed SOE debt	

2. **The stress test capturing combined contingent liabilities accounts for implicit liabilities and a potential financial market shock (Text Table 2)**. This stress test reflects the possible consequences for the path of public debt of a shock that requires the government to cover some contingent liabilities—including liabilities which are incurred only after the assumed shock. The test incorporates contingent liabilities amounting to 7 percent of GDP, which comprises 2 percent of GDP of non-guaranteed SOE debt and 5 percent of GDP resulting from a financial market shock.[6]

[3] Therefore, credit to the central bank under the IMF's Rapid Credit Facility is not included in public debt.

[4] SOE non-guaranteed debt has not been reported in the FY2023 budget as suggested in the previous DSA. However, it is published on an ongoing basis as part of the government's quarterly debt bulletin.

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

[6] Contingent liabilities arising from government guarantees are already included in the baseline definition of public debt.

Text Table 2. Samoa: Combined Contingent Liability Shock

1	**The country's coverage of public debt**	The central government plus government-guaranteed debt	
		Default	**Used for the analysis**
2	**Other elements of the general government not captured in 1.**	0 percent of GDP	0
3	**SOE debt (not guaranteed by the government) 1/**	2 percent of GDP	2
4	**PPP**	35 percent of PPP stock	0
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		7

1/ The default shock of 2% of GDP was used in order to capture fiscal risks from a shock to SOE revenue or expenditure requiring infusion of government funds beyond existing liabilities (which amount to only 0.6 percent of GDP).

BACKGROUND ON DEBT

3. **Central government debt (referred to hereafter as public debt) was 43.7 percent of GDP in FY2022, a decrease of 2.6 percentage points of GDP from FY2021**. Stronger-than-expected tax revenues and grants, and under-execution of capital expenditure (CAPEX) due to implementation delays, led to an overall fiscal surplus of 5.4 percent of GDP in FY2022 compared to a surplus of 1.7 percent of GDP in FY2021. The surplus helped ensure continued timely repayments of external debt, thereby contributing to the reduction in debt-to-GDP ratio.

4. **Public external debt was US$349 million (43.7 percent of GDP) at the end of FY2022, a decrease of 2.4 percentage points of GDP compared to FY2021**. Just over half (51.3 percent) of the outstanding public external debt at the end of FY2022 was from multilateral creditors, including the IDA and Asian Development Bank (ADB), and 48.7 percent was from bilateral creditors China and Japan (Text Table 3). Domestic debt has been declining gradually and at end-FY2022 remained below 1 percent of GDP (Text Table 4). All domestic public debt is issued in local currency.

Text Table 3. Samoa: Evolution of Public Debt

	FY2019	FY2020	FY2021	FY2022	FY2019	FY2020	FY2021	FY2022
	(In millions of SAT)				(In percent of external debt)			
Total public debt	1058.6	1012.3	1004.4	948.4	...	...	...	...
External	1043.7	1004.6	999.9	946.8	100.0	100.0	100.0	100.0
Multilateral	544.3	540.6	515.7	485.4	52.2	53.8	51.6	51.3
IDA	279.4	294.9	290.8	279.6	26.8	29.4	29.1	29.5
ADB	235.5	218.3	201.4	184.9	22.6	21.7	20.1	19.5
OPEC	22.6	20.9	17.5	15.6	2.2	2.1	1.8	1.6
Other	6.8	6.5	6.0	5.3	0.7	0.6	0.6	0.6
Bilateral	499.4	463.9	484.2	461.4	47.8	46.2	48.4	48.7
Exim Bank (China)	409.5	377.3	403.1	394.0	39.2	37.6	40.3	41.6
Japan	89.9	86.7	81.1	67.3	8.6	8.6	8.1	7.1
Domestic	14.9	7.8	4.5	1.6	...	...	...	...
Memorandum items:								
Nominal GDP (millions of SAT)	2390.1	2340.1	2169.3	2168.8				
Market rate (tala/U.S. dollar, end period)	2.6	2.7	2.6	2.7				

Sources: Samoan authorities; and staff estimates.

Text Table 4. Samoa: Public Debt Stock, FY2022

	Share of total debt	In percent of GDP
Total public debt	100.0	43.7
External	99.8	43.7
Multilateral	51.2	22.4
IDA	29.5	12.9
ADB	19.5	8.5
OPEC	1.6	0.7
Other	0.6	0.2
Bilateral	48.7	21.3
Exim Bank (China)	41.5	18.2
Japan	7.1	3.1
Domestic	0.2	0.1
Memorandum items:		
Nominal GDP (millions of SAT)		
Market rate (tala/U.S. dollar, end period)		

Sources: Samoan authorities; and staff estimates.

5. **Public and publicly guaranteed (PPG) debt totaled 51.3 percent of GDP in FY2022, of which guarantees were 7.6 percent of GDP**. Government-guaranteed debt declined by 2.2 percentage points of GDP to 7.6 percent of GDP (Text Table 5). The decrease was driven mainly by a reduction of guarantees on liabilities of Samoa Airways, as an aircraft lease backed by the guarantee was cancelled, with an early cancellation fee paid by the airline.

Text Table 5. Samoa. Government Guarantees.

	FY2019	FY2020	FY2021	FY2022
By Creditor		In millions of Tala		
Unit Trust of Samoa	25.6	37.4	45.1	67.6
Bank South Pacific	4.4	4.0	3.3	2.6
Central Bank of Samoa	95.7	86.6	85.1	79.7
Accident Compensation Corporation	10.0	10.0	10.0	0.0
European Investment Bank	11.3	8.2	4.5	2.5
Samoa National Provident Fund	15.4	14.3	14.1	13.0
FAHE Ltd	0.0	0.0	51.2	0.0
Total	162.5	160.5	213.3	165.3
By Borrower		In millions of Tala		
Samoa Shipping Services	1.2	1.1	1.1	1.0
Samoa Housing Corporation	11.5	10.1	11.6	10.0
Samoa Airways	24.3	35.8	91.1	53.0
Development Bank of Samoa	115.5	103.4	99.4	92.3
Unit Trust of Samoa	10.0	10.0	10.0	0.0
Samoa Airport Authority	0.0	0.0	0.0	9.0
Total	162.5	160.5	213.3	165.3

Source: Samoan authorities.

BACKGROUND ON MACRO ASSUMPTIONS

6. **The Samoan economy experienced a pandemic-driven three-year recession**. Real GDP endured a cumulative 16 percent decline over FY2020-22, which represents a significant decline in disposable income given gross national income per capita of just over US$4,000.[7] Furthermore, the largest effects were on the poorest and most vulnerable households, as formal sector employment declined by less than 1 percent during the recession. Remittances—which are a source of income for eighty percent of households—have provided significant support to household incomes, rising to over 33 percent of GDP in FY2022, from 24 percent of GDP in FY2020.

Text Table 6. Samoa. Baseline Macroeconomic Assumptions

(in percent of GDP, unless otherwise noted)

	Current DSA (2023 Article IV)				Previous DSA (2021 Article IV)			
	FY2023-28	FY2029-33	FY2034-43	FY2029-43	FY2021-26	FY2027-31	FY2032-41	FY2027-41
Real GDP growth (in percent change)	3.3	1.0	1.0	1.0	0.8	0.7	1.2	1.0
Inflation (in percent change)	4.7	3.0	3.0	3.0	1.7	2.6	2.8	2.7
Current account deficit	3.0	2.7	4.6	4.0	5.0	5.5	6.2	6.0
Overall fiscal deficit	2.4	4.1	6.4	5.6	3.7	4.8	6.3	5.8

Sources: Samoan authorities; and staff projections.

7. **The baseline assumptions broadly follow those in the March 2021 DSA (Text Table 6)**. They are consistent with the macroeconomic framework based on updated data provided by the authorities and estimates by staff. The discount rate used to calculate the net present value of external debt is 5 percent. Given Samoa's vulnerability to natural disasters and the effects of climate change, the baseline scenario incorporates the assumed effects of these factors, consistent with previous cross-country analysis.[8] Specifically, it lowers GDP growth by 1.3 percentage points to 1.0 percent per year, raises the current account deficit by 3.5 percent of GDP, and increases the fiscal deficit by 3.5 percent of GDP on average each year during FY2029-43.[9] No major disasters are assumed in the baseline during FY2023–28 to simplify the policy discussion of the medium-term outlook. The other main assumptions are:

- **The economy is expected to recover due to the post-Covid resumption of tourism**. Border restrictions from FY2020 onward led to a sharp contraction in tourism and related industries and hindered construction activity. In late FY2022, a local outbreak of Covid-19 prompted domestic mobility restrictions for several weeks. On account of these developments, real GDP contracted by -6.0 percent in FY2022, following a -7.1 percent decline in FY2021. Real GDP is projected to

[7] While most households enjoy relatively good access to electricity, safe drinking water, and sanitation, when measured against a "cost of basic needs" poverty line, the incidence of poverty in FY2013/14 (the latest available data) remained high at 20.3 percent of the population.

[8] See Samoa Article IV consultations for 2017, 2019, and 2021. See also the IMF Board Paper *Small States' Resilience to Natural Disasters and Climate Change*. The baseline scenario is premised on a business-as-usual scenario for emissions and increase in world temperature.

[9] The deficits were increased by 0.5 percent of GDP each year from FY2029 to FY2035 from their FY2028 values to account for the impact of natural disasters and climate change gradually deteriorating macroeconomic outcomes. FY2028 was chosen instead of a period average, as the macroeconomic framework incorporates some recovery from the COVID-19 pandemic over the first several years of the forecast horizon.

recover by 5.0 percent in FY2023, with additional years of above-trend growth expected thereafter as the economy normalizes. The recovery is expected to be driven by the rebound in tourism activity and public investment with spillovers to other sectors.[10] Near-term risks are broadly balanced. The main upside risk is the possibility of the rapid recovery in tourism inflows spilling over into greater overall economic momentum. Downside risks are centered around the possibility of a slowdown in global economic activity and thus weaker tourism demand. A renewed acceleration in global food and energy prices could also weigh on household purchasing power. Finally, Samoa faces the ever-present risk of a natural disaster. Real GDP growth projections for FY2023 and FY2024 are higher than the growth path projected by the realism tool, which is based on the projected fiscal adjustment and a typical fiscal multiplier in a LIC of about 0.4 (Figure 4). However, the tool does not account for the effects of the pandemic on real growth in FY2022 or the projected post-reopening rebound. Over the medium term, growth is projected to return to its steady-state rate of 2-2.5 percent, driven by the still-growing population and slow productivity growth.[11]

- **Inflation has spiked, due mainly to exogenous factors**. Headline inflation increased to over 15 percent in y/y terms in 2022 before declining back to single digits, largely driven by rising import prices. Inflation of local items also gathered momentum, with producers passing through higher input prices onto domestic goods and services, amidst supply constraints and rising wage demands. High inflation is projected to persist into FY2024 before gradually normalizing to the Central Bank of Samoa's indicative target rate of 3.0 percent.[12] As in past episodes of inflation driven by external shocks, this would be anchored by the exchange rate basket regime.

- **The resumption of tourism should also help bolster the external position**. The current account balance was a deficit of 11.6 percent of GDP in FY2022 largely due to the absence of tourism inflows, while imports were resilient. These were partially offset by an increase in remittances to over 33 percent of GDP (from 24 percent in FY2020). External debt-GDP has been stable in recent years and is projected to decline in FY2023 despite large current account deficits, with the residual in recent years driven by capital account inflows and positive errors and omissions. Staff projects the current account deficit to narrow to 3.3 percent of GDP in FY2023 driven by a resumption of tourism inflows amounting to over 10 percent of GDP, reflecting data since reopening and cross-country experience. More narrowing is projected in the medium term as tourism normalizes—albeit remaining below its pre-pandemic share of the economy due to capacity constraints—partially offset by a decline in remittances from their

[10] The projected medium-term level of public investment was revised to 6 percent of GDP compared to 8 percent in the previous DSA. The current assumption is in line with historical outturns. However, in the near term there is an increase from the low outturn in FY2022 (0.9 percent of GDP).

[11] The medium-term (FY2023-28) average is higher than in the previous DSA because that round included the contraction in FY2021 in the projection period, while in the current vintage FY2021 is part of the historical sample, and the medium term is boosted by the recovery expected as tourism inflows are restored.

[12] The Central Bank of Samoa (CBS) relates Samoa's inflation rate to its major trading partners' annual average inflation rate—this determines the target that the CBS seeks to maintain each year—to pursue price stability. The indicative target rate has been 3 percent in recent years.

recent exceptional levels (though staying above pre-pandemic levels). This would sustain reserve coverage at over 6 months, which is above levels assessed to be adequate to buffer external shocks.

- **The central government recorded a surplus of 5.4 percent of GDP in FY2022**. This compares with a budgeted deficit of 2.5 percent of GDP, as capital expenditure was under-executed and tax revenue and grants were stronger than expected. The FY2023 budget plans a deficit of 3.5 percent of GDP, compared to a staff projection of a 2.0 percent of GDP deficit based on robust VAGST (value-added on goods and services tax) receipts and assuming a slower recovery in capital and other expenditure execution. The deficit in FY2023 is assumed to be financed by deposits accumulated through previous surpluses.[13] In the medium term, tax revenue is assumed to grow in line with the economy while expenditure would increase modestly due to a normalization of investment. Other primary expenditure is projected to decline modestly from the elevated levels experienced during the pandemic but remain above pre-pandemic levels. The average deficit would thus be 2.5 percent of GDP for FY2024 to FY2028, compared to an average deficit of 0.9 percent of GDP in the five pre-pandemic years.

- **To finance the fiscal deficit in the forecast period, the financing mix is assumed to be largely in line with the current debt profile**. The planned new financing needs identified in the DSA are consistent with public gross financing needs in the baseline macroeconomic framework. Most financing is external, with financing amounts by each institution or bilateral lender in line with the current shares and the financing terms also reflecting prevailing policies. The grant element of all new loans is 47 percent on average. It is assumed that borrowing from both MDBs and bilateral partners is on full credit terms.[14] Domestic debt—which entirely stems from including liabilities from government guarantees in the debt stock—is assumed to be rolled over at prevailing domestic interest rates.[15]

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. Samoa's debt-carrying capacity remains strong (Text Table 7). The Composite Indicator (CI) index, which has been calculated based on the October 2022 WEO and the World Bank's 2021 Country Policy and Institutional Assessment (CPIA), is 3.28, indicating that the country's debt-carrying capacity remains strong in the LIC-DSA framework. The CI index was 3.22 in the March 2021 DSA.

[13] Fluctuations in government deposits have been the main driver of past residuals in government debt accumulation.

[14] Consistent with the 2017 LIC DSF guidance note, firmly committed financing is assumed as grants and projected new financing from IDA and ADB is assumed at regular credit terms. 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.

[15] It is assumed that the liabilities of Samoa Airways to UTOS (Text Table 5) are financed entirely by domestic debt of the central government in FY2023.

Text Table 7. Samoa: Composite Indicator Rating

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.969	1.53	47%
Real growth rate (in percent)	2.719	0.567	0.02	0%
Import coverage of reserves (in percent)	4.052	51.077	2.07	63%
Import coverage of reserves^2 (in percent)	-3.990	26.089	-1.04	-32%
Remittances (in percent)	2.022	15.494	0.31	10%
World economic growth (in percent)	13.520	2.898	0.39	12%
CI Score			3.28	100%
CI rating			Strong	

9. **Based on the CI rating, Samoa's debt is assessed against a high debt carrying capacity (Text Table 8)**. The relevant indicative thresholds for countries with a strong CI rating are 55 percent for the PV of PPG external debt-to-GDP ratio, 240 percent for the PV of PPG external debt-to-exports ratio, 21 percent for the PPG external debt service-to-exports ratio, and 23 percent for the external debt service- to-revenue ratio. The benchmark for the PV of total public debt under strong capacity is 70 percent.

Text Table 8. Samoa: Debt Thresholds

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

10. **There are six standardized stress tests in the DSF, each applied to both the external and the public DSA**. These standard stress tests capture shocks to real GDP growth, the primary fiscal balance, exports, other external flows (includes official and private transfers and FDI), exchange rate depreciation, and a combination of these shocks. In standardized stress tests, a variable is subject to a shock, and the post-shock values of the stressed variables are set to the baseline projection minus one standard deviation. However, if the historical average is less favorable than the baseline projection, then the post-shock values are instead set to the historical average minus one standard deviation.[16]

11. **Given the frequency and severity of natural disasters in Samoa, a tailored stress test for a natural disaster shock in the medium term was also conducted**. The natural disaster shock is implemented through one-off shocks to public debt, GDP, and exports. The default setting

[16] See 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries.

(10 percent of GDP increase in debt stock, 1.5 percent decline in real GDP growth, and 3 percent decline in exports growth) was modified so that the stress test captures Samoa's historical experience, based on staff research.[17] The tailored stress test assumes that new debt contracted to finance damages increases the public debt-to-GDP ratio by 21 percent in FY2024, the median size of damages caused by natural disasters in the past.[18] Real GDP and exports decline by 3 percent and 6 percent in FY2024, respectively, relative to the baseline.

DEBT SUSTAINABILITY

12. Risks to debt sustainability in Samoa are assessed to be high. While Samoa's mechanical risk rating based on a ten-year horizon is moderate for both external and overall debt, judgment was applied by incorporating the expected long-term effects of natural disaster and climate change-related events in line with the empirical work cited above, with breaches in years 11-20 used to arrive at the bottom-line risk assessment.[19] External debt breaches its threshold under the baseline while public debt remains slightly below the threshold in the long run. Stress test scenarios generally push both external and public debt above their relevant thresholds, in some cases by a significant margin. Given that most scenarios flag high risks and with Samoa's high exposure to shocks such as natural disasters, staff's judgment is that there is a high enough probability of large and protracted breaches of the thresholds in the long run to assign final ratings of a high risk of external and overall debt distress.

External Debt Sustainability Analysis

13. Under the baseline scenario, Samoa's external debt breaches the indicative threshold in 2041 (Figure 1). The PV of the external debt-to-GDP ratio is expected to increase gradually from 30 percent of GDP in FY2022 to 59 percent of GDP in FY2043, on account of increased external borrowing to meet fiscal financing needs.[20] Given the large share of concessional loans in external debt, the debt service-to-revenue ratio does not breach the indicative threshold.

---

[17] See the IMF Working Paper 18/108, "The Economic Impact of Natural Disasters 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).

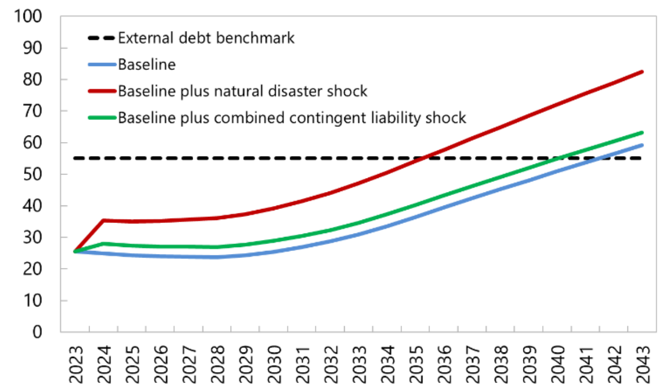
[18] The maximum damage Samoa has suffered from natural disasters is 161.8 percent of GDP while average damage amounted to 47.7 percent of GDP (Lee et al, 2018). This is the highest in the sample of 12 Pacific island countries using data from 1980-2016. The research also highlights that although the probability that at least one disaster occurs in a given year is relatively low compared to the sample, the probability for Samoa being exposed to a severe natural disaster per year is second highest in the sample.

[19] The application of judgment is in line with paragraph 87 of the 2018 Guidance Note, which states that threshold breaches in years 11-20 may provide a rationale to change the risk rating when: (i) breaches are expected to be large and persistent, thus resulting in significant differences relative to historical averages; and (ii) occur with a high probability despite occurring in the distant future. It envisages such situations potentially arising from trends that are not easily influenced by policy interventions, such as climate change leading to an increased frequency and/or severity of natural disasters (as in Samoa's case).

[20] The historical scenario results in a higher debt path than the baseline by incorporating the pandemic-driven economic decline in FY2020-22 into the historical data. This results in an assumption of almost zero economic growth, despite the assumed resumption of tourism inflows.

14. Stress tests confirm the vulnerability of external debt dynamics to shocks (Text Figure 1). All standard stress tests breach the threshold for the PV of the external debt-GDP-ratio, with the combination shock causing the earliest breach (starting in FY2034). For the tailored shocks, a natural disaster has the largest negative impact on the debt trajectory, causing a large, protracted breach to the PV of the external debt-to-GDP ratio commencing in FY2036 (Text Figure 1). The contingent liability shock breaches the PV of the external debt-to GDP ratio threshold from FY2041 (Table 3).

Text Figure 1. PV of External Debt-to-GDP Ratio
(Percent of GDP)

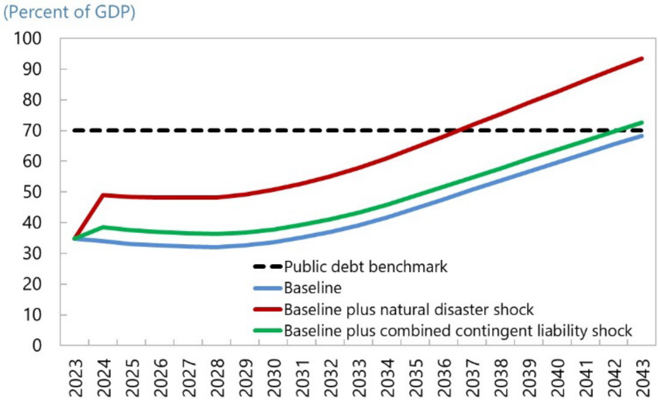


Source: Staff estimates.

Public Sector Debt Sustainability Analysis

15. The projected path of public sector debt broadly parallels that of external debt (Text Figure 2). Under the baseline scenario, the PV of the public debt-to-GDP ratio remains slightly below the benchmark (Figure 2). However, most of the standard stress tests exceed the benchmark in the final years of the forecast horizon. They also show signs of instability in the debt dynamics before breaching the threshold. The real GDP growth stress test finds a sizable breach from FY2029 onward, as a result of the severity of the shock—a two-year contraction of 9 percent. In addition, the natural disaster shock results in a threshold breach in FY2037 that grows substantially thereafter (Table 4).

Text Figure 2. PV of Public Debt-to-GDP Ratio
(Percent of GDP)



Source: Staff estimates.

16. The primary deficits and real economic growth projected in the baseline are expected to return to being the main drivers of debt dynamics. The external and public debt trajectory in the current DSA is lower than that of the March 2021 DSA (Figure 3), with the difference over the medium term largely explained by a lower starting point for debt as a result of sizable fiscal surpluses in FY2021 and FY2022, and the projected use of accumulated government deposits for financing in FY2023. Among the drivers of external debt dynamics, economic growth is projected to hold down the debt ratio as the economy recovers. The less negative projected contribution for the current account is driven by the recovery of tourism. For public debt, the projected easing of the primary balance would add to the debt ratio but be partially offset by the return to positive economic growth.

RISK RATING AND VULNERABILITIES

17. Samoa's debt sustainability carries high risks due to its long-term vulnerability to natural disasters and climate change. Under the baseline assumptions, external debt is expected to breach the indicative threshold while public debt would remain slightly below its threshold. However, tests incorporating a natural disaster result in large, persistent breaches. The other stress tests also result in breaches. This underscores that another occurrence of a major natural disaster, or any of a wide range of macroeconomic shocks, could substantially worsen the debt level and generate unfavorable debt dynamics. The bottom-line finding is thus that Samoa's risk of debt distress remains high.

18. However, debt is assessed as sustainable, given its favorable profile and supported by recent and ongoing policy measures. With almost all debt on concessional terms, debt service indicators generally remain below their relevant thresholds, suggesting cash flow pressures could remain manageable even in scenarios where debt levels become high. Samoa has also accumulated sizeable cash reserves (reaching 16.4 percent of GDP in FY2022), acting as a buffer for future shocks. The government has adopted a *Medium-Term Debt Management Strategy FY2021/22-FY2025/26* (MTDS), which outlines policies that would contribute to debt sustainability, including a commitment to refrain from any non-concessional borrowing.[21] Samoa has also implemented reforms to better manage risks from contingent liabilities as part of a programmatic reform agenda under the SDFP.[22] In addition, the government has embarked on a strong structural reform agenda as laid out in its five-year plan *Pathway for the Development of Samoa FY2021/22-FY205-26*. Given that the high risks to debt sustainability are predominantly driven by the impacts of natural disasters and climate change, the government is also focused on building resilience, with the help of development partners. This has included the recent approval of a multi-hazard early warning system policy and a disaster risk financing policy, use of contingent financing facilities from the World Bank and Asian Development Bank, and participation in assessments of climate-related aspects of public financial management and overall macroeconomic policy.[23]

19. In view of Samoa's debt risks, building fiscal and external buffers, enhancing resilience to natural disasters and climate change, and boosting long-term inclusive growth will be critical to ensure long-term sustainability. Given that the breaches of debt thresholds generally occur in the outer years of the projection horizon, the fiscal consolidation and other policies necessary to safeguard fiscal sustainability can be implemented gradually. Revenue mobilization will be critical in this regard, given the

[21] The government has complied with the World Bank's Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPAs), including no new non-concessional borrowing, which has been in place since FY21—ensuring compliance with the MTDS.

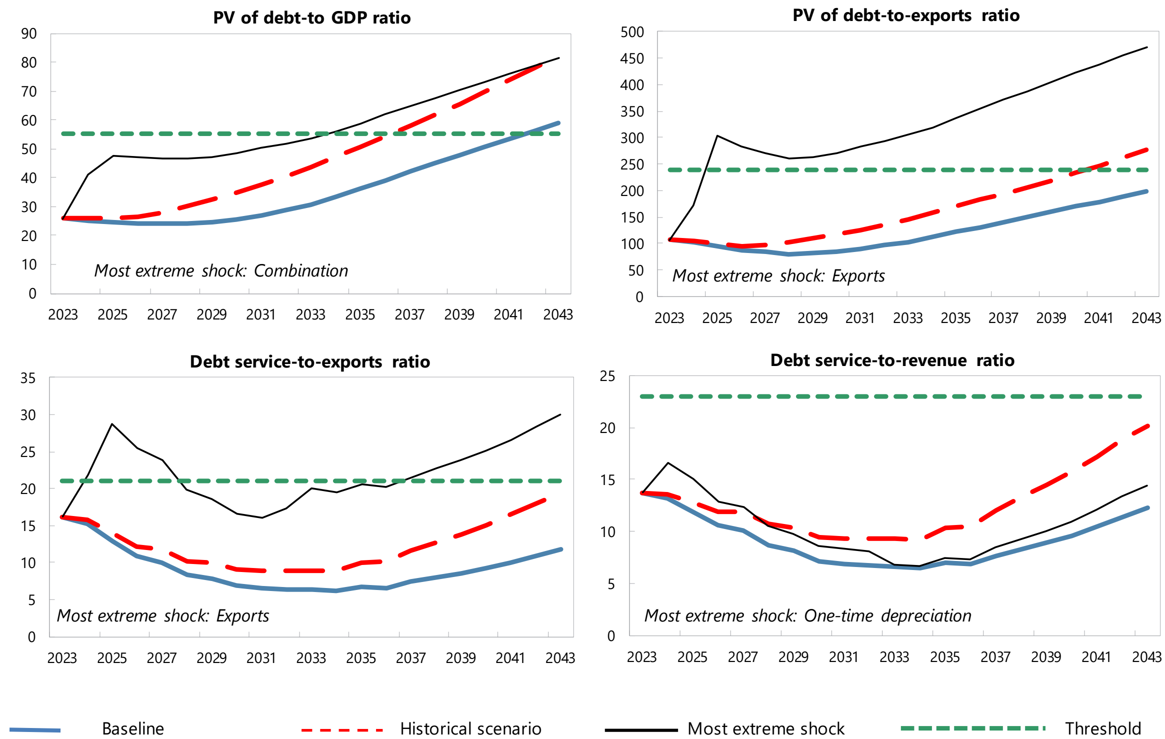
[22] The World Bank supported the government of Samoa in preparing on-lending and government guarantee policies, which were approved by the Cabinet in 2020 and 2022, respectively. For FY2023, to improve the monitoring and management of existing government guarantees and enhance transparency, the Ministry of Finance will be applying the credit risk assessment framework from the government guarantee policy to Samoa Airways and Development Bank of Samoa (the two largest beneficiaries of government guarantees) and presenting the outcomes and recommendations to Cabinet. The Ministry of Finance will also expand the reporting of government guarantees by presenting detailed breakdowns, including by creditor and borrower (SOE) in the December Quarter Debt Bulletin.

[23] See G. Brule, et al, *Samoa: PEFA Assessment of Climate Responsive Public Financial Management*, 2021, and Y. Kinoshita, et al, *Samoa: Climate Macroeconomic Assessment Program (CMAP)*, 2022.

continued needs for expenditure on climate-resilient infrastructure and strengthening the social safety net. Strengthened public financial management—including improved governance and controls at SOEs—is also essential to help contain fiscal risks. The authorities will need to pursue sufficient financing on highly concessional terms to meet the financing needs projected in the baseline scenario while ramping up climate adaptation investment. The recovery of tourism and robust remittances (staying above pre-pandemic levels) will contribute to the preservation of external buffers. Experience during the pandemic has also illustrated the importance of structural reforms to boost economic growth and diversification, through upgrading the skills of the work force, improving the business environment, and improving trade facilitation to reduce costs. Related efforts to reach the Sustainable Development Goals and raise medium-term growth and employment would also help boost debt carrying capacity.

20. Authorities' views. The authorities agreed with staff's assessment that debt is sustainable but that there are high risks of debt distress due to the anticipated effects of climate change and natural disasters on macroeconomic and fiscal outcomes. Indeed, these risks have been a key driver of the "zero borrowing policy" followed since 2021 in which no new external loans (including non-concessional ones) have been contracted and amortizations have been paid using accumulated deposits. In their view, this also underscores the importance of stepped-up grant financing from the international community to fund climate-resilient infrastructure projects. The authorities are also committed to the other policies necessary to safeguard debt sustainability. Specifically, priorities include a gradual fiscal consolidation primarily through improved revenue administration and reallocation of expenditure to priority areas; strengthened public financial management, including at SOEs; and structural reforms to boost inclusive growth by upgrading the skills of the workforce and improving the overall business environment.

Figure 1. Samoa: Indicators of Public and Publicly-Guaranteed External Debt under Alternative Scenarios, 2023-2043 1/



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	Yes	Yes
Commodity price	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.

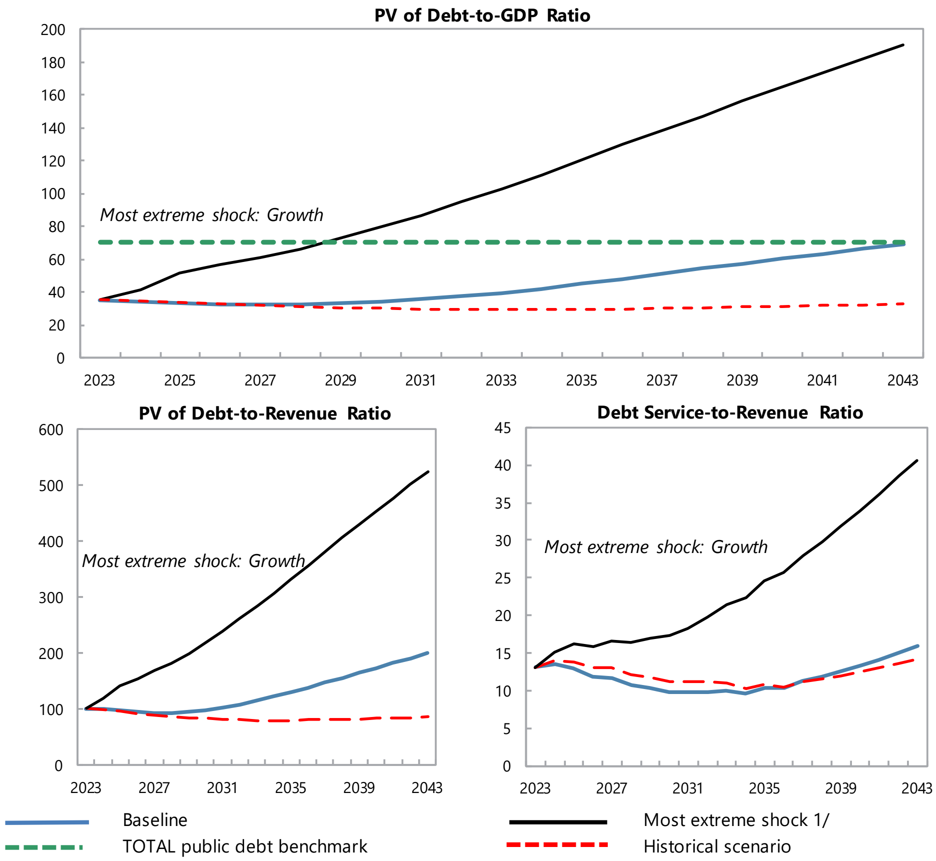
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7

* 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 2033. 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.

Figure 2. Samoa: Indicators of Public Debt Under Alternative Scenarios, 2023-2043



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	79%	79%
Domestic medium and long-term	21%	21%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	10	10
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* 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.

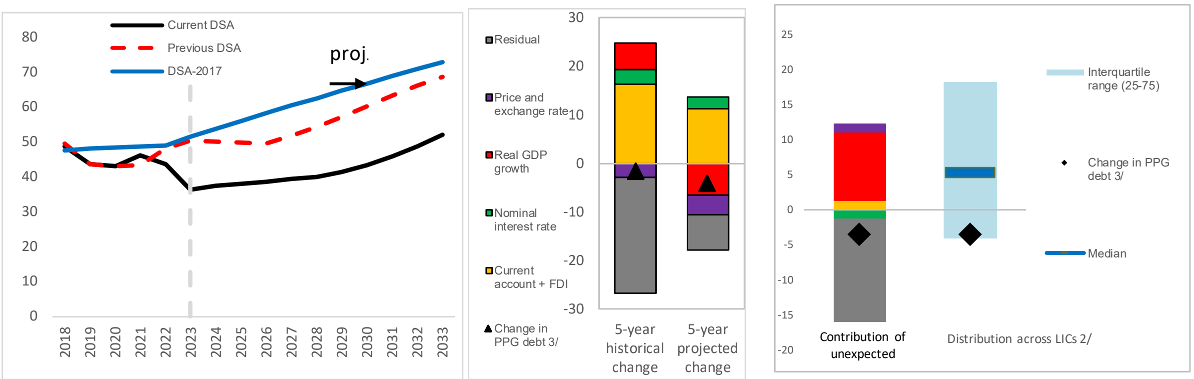
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

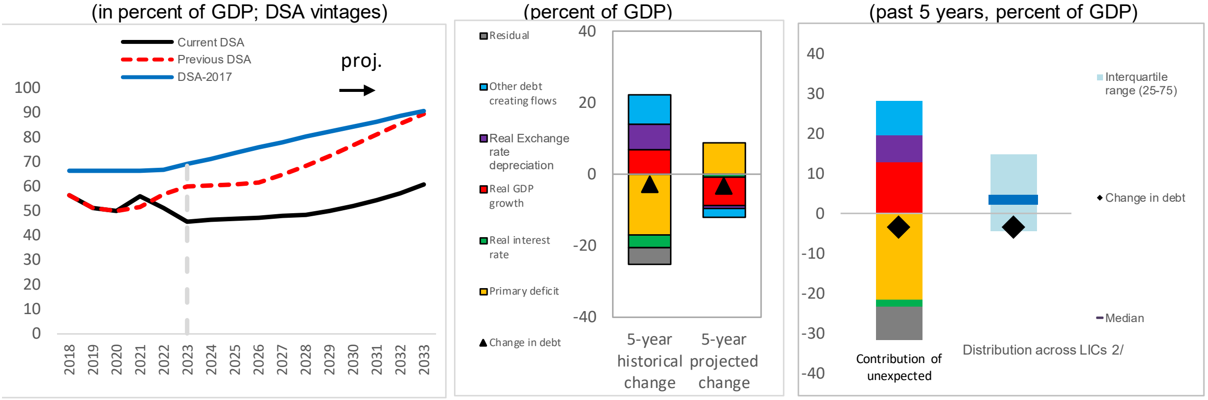


Public Debt

Gross Nominal Public Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



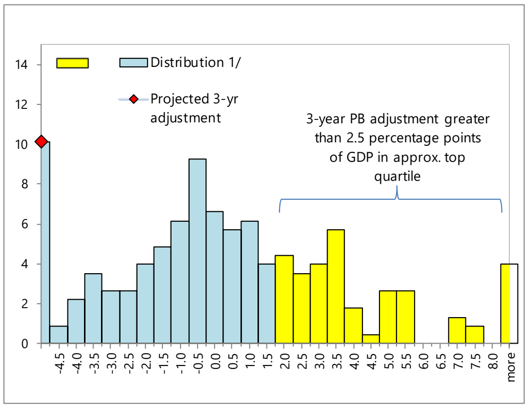
1/ Difference between anticipated and actual contributions on debt ratios.

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.

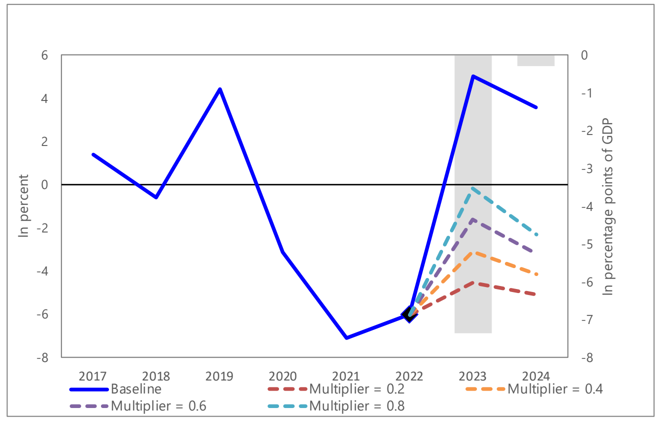
Figure 4. Samoa: Realism Tools

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



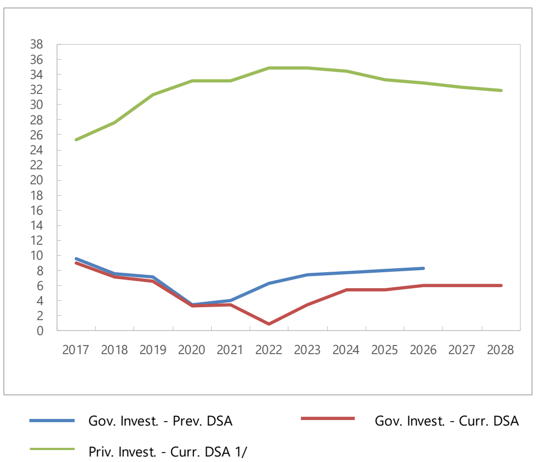
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(percent of GDP)



1/ Private investment was published for the first time after the previous DSA.

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

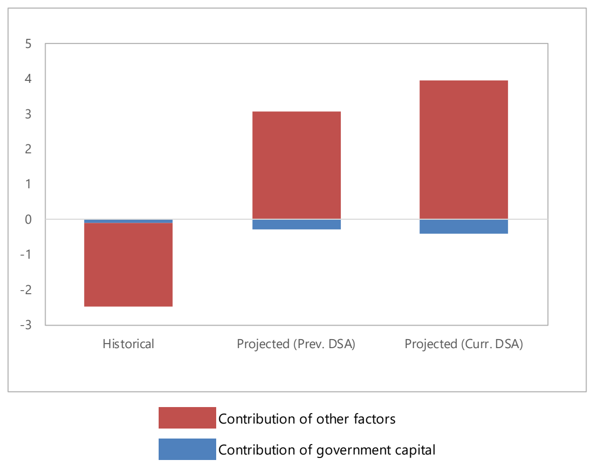
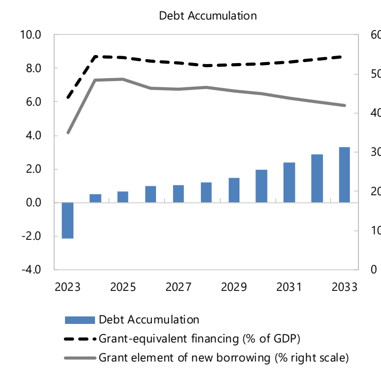


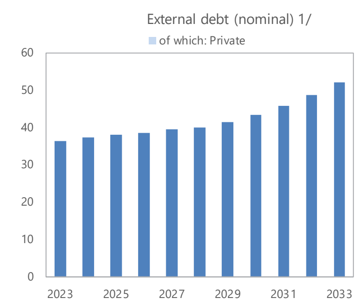
Table 1. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2020-2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**42.9**	**46.1**	**43.7**	**36.4**	**37.4**	**38.0**	**38.6**	**39.4**	**40.0**	**52.0**	**90.2**	**47.6**	**41.9**
of which: public and publicly guaranteed (PPG)	**42.9**	**46.1**	**43.7**	**36.4**	**37.4**	**38.0**	**38.6**	**39.4**	**40.0**	**52.0**	**90.2**	**47.6**	**41.9**
Change in external debt	-0.7	3.2	-2.4	-7.3	1.0	0.6	0.7	0.8	0.6	3.3	3.6		
Identified net debt-creating flows	**2.5**	**15.0**	**11.6**	**0.1**	**2.3**	**2.1**	**1.8**	**0.8**	**-0.2**	**2.7**	**3.5**	**2.8**	**1.4**
Non-interest current account deficit	**-0.8**	**14.0**	**11.1**	**2.8**	**3.6**	**3.4**	**2.9**	**1.8**	**0.7**	**3.1**	**3.5**	**3.5**	**2.4**
Deficit in balance of goods and services	18.1	37.6	40.5	32.2	31.1	28.4	25.9	24.3	22.5	25.0	26.0	**22.4**	**25.8**
Exports	29.4	11.7	12.3	24.3	24.5	26.2	27.9	28.8	29.8	29.8	29.8		
Imports	47.5	49.3	52.7	56.5	55.6	54.6	53.8	53.1	52.3	54.8	55.8		
Net current transfers (negative = inflow)	-21.8	-24.8	-31.8	-31.9	-29.9	-27.4	-25.3	-24.8	-24.0	-24.0	-24.0	**-21.3**	**-25.7**
of which: official	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	2.9	1.2	2.4	2.4	2.3	2.4	2.3	2.3	2.2	2.1	1.5	**2.3**	**2.3**
Net FDI (negative = inflow)	**0.4**	**-0.8**	**-0.6**	**-1.2**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.4**	**-0.9**	**-0.6**
Endogenous debt dynamics 2/	**2.9**	**1.8**	**1.2**	**-1.5**	**-0.8**	**-0.7**	**-0.6**	**-0.5**	**-0.4**	**0.1**	**0.3**		
Contribution from nominal interest rate	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.6	1.2		
Contribution from real GDP growth	1.4	3.1	2.8	-2.0	-1.3	-1.2	-1.1	-1.0	-0.8	-0.5	-0.8		
Contribution from price and exchange rate changes	0.9	-1.9	-2.2	...	...	...	...	...	...	...	...		
Residual 3/	**-3.2**	**-11.9**	**-14.1**	**-7.4**	**-1.2**	**-1.5**	**-1.1**	**0.0**	**0.7**	**0.6**	**0.1**	**-3.3**	**-0.7**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**30.0**	**25.8**	**25.2**	**24.5**	**24.2**	**24.0**	**23.9**	**30.8**	**59.0**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**244.5**	**106.4**	**103.1**	**93.7**	**86.8**	**83.5**	**80.3**	**103.5**	**197.9**		
PPG debt service-to-exports ratio	**13.0**	**14.4**	**24.2**	**16.2**	**15.3**	**12.9**	**10.8**	**10.0**	**8.3**	**6.3**	**11.7**		
PPG debt service-to-revenue ratio	**14.0**	**5.7**	**10.2**	**13.7**	**13.2**	**11.9**	**10.5**	**10.1**	**8.7**	**6.6**	**12.2**		
Gross external financing need (Million of U.S. dollars)	29.6	126.1	111.7	49.4	63.6	61.7	56.8	46.2	31.3	62.2	133.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-3.1	-7.1	-6.0	5.0	3.6	3.4	3.0	2.6	2.3	1.0	1.0	**0.2**	**2.3**
GDP deflator in US dollar terms (change in percent)	-1.9	4.7	5.0	2.7	0.8	2.0	2.3	2.3	3.1	2.7	2.7	**0.7**	**2.5**
Effective interest rate (percent) 4/	1.3	1.3	1.2	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.4	**1.3**	**1.3**
Growth of exports of G&S (US dollar terms, in percent)	-20.6	-61.3	3.6	113.4	5.2	13.0	12.2	8.4	9.1	3.8	3.8	**-3.7**	**16.4**
Growth of imports of G&S (US dollar terms, in percent)	-6.6	1.0	5.5	15.6	2.7	3.5	4.0	3.5	3.8	4.7	3.8	**0.7**	**5.2**
Grant element of new public sector borrowing (in percent)	...	...	...	34.9	48.4	48.5	46.4	46.1	46.5	41.9	38.3	**...**	**44.5**
Government revenues (excluding grants, in percent of GDP)	27.3	29.6	29.1	28.7	28.5	28.4	28.6	28.6	28.6	28.6	28.6	**26.5**	**28.6**
Aid flows (in Million of US dollars) 5/	89.0	58.3	78.1	56.4	94.1	97.9	98.4	102.1	105.0	133.0	207.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	6.2	8.7	8.7	8.4	8.3	8.2	8.7	9.5	**...**	**8.2**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	91.8	74.4	75.5	75.2	75.4	76.7	70.1	62.9	**...**	**75.9**
Nominal GDP (Million of US dollars)	867	844	832	898	938	989	1,043	1,095	1,155	1,389	2,011		
Nominal dollar GDP growth	-5.0	-2.7	-1.4	7.9	4.4	5.5	5.4	5.0	5.5	3.8	3.8	**0.8**	**4.8**
Memorandum items:													
PV of external debt 7/	...	...	30.0	25.8	25.2	24.5	24.2	24.0	23.9	30.8	59.0		
In percent of exports	...	...	244.5	106.4	103.1	93.7	86.8	83.5	80.3	103.5	197.9		
Total external debt service-to-exports ratio	13.0	14.4	24.2	16.2	15.3	12.9	10.8	10.0	8.3	6.3	11.7		
PV of PPG external debt (in Million of US dollars)			249.8	231.9	236.5	242.8	252.4	263.2	276.3	428.3	1185.7		
(PVt-PVt-1)/GDPt-1 (in percent)				-2.1	0.5	0.7	1.0	1.0	1.2	3.3	5.0		
Non-interest current account deficit that stabilizes debt ratio	0.0	10.9	13.5	10.1	2.5	2.8	2.3	1.1	0.1	-0.2	-0.1		

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.

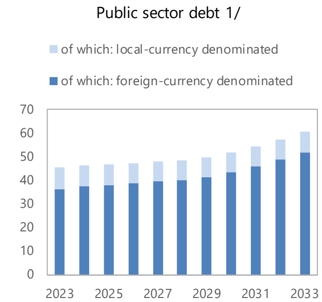
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

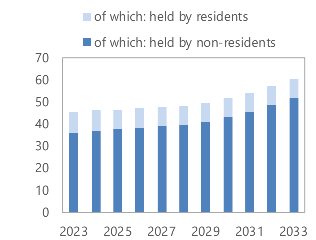
Table 2. Samoa: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**50.1**	**56.1**	**51.3**	**45.6**	**46.4**	**46.8**	**47.3**	**47.9**	**48.4**	**60.7**	**100.3**	**56.7**	**50.6**
of which: external debt	**42.9**	**46.1**	**43.7**	**36.4**	**37.4**	**38.0**	**38.6**	**39.4**	**40.0**	**52.0**	**90.2**	**47.6**	**41.9**
Change in public sector debt	-1.0	6.0	-4.8	-5.7	0.8	0.4	0.5	0.7	0.5	3.4	3.7		
Identified debt-creating flows	**0.6**	**1.4**	**0.7**	**-4.7**	**0.3**	**0.4**	**0.6**	**0.8**	**0.9**	**3.7**	**4.4**	**0.4**	**1.1**
Primary deficit	**-6.1**	**-2.1**	**-5.9**	**1.5**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**	**4.3**	**5.3**	**-0.6**	**2.5**
Revenue and grants	36.0	36.5	38.5	34.6	34.4	34.4	34.6	34.6	34.6	34.6	34.6	**31.4**	**34.6**
of which: grants	8.7	6.8	9.4	5.9	5.9	6.0	6.0	6.0	6.0	6.0	6.0		
Primary (noninterest) expenditure	29.9	34.4	32.7	36.1	36.2	36.2	36.4	36.4	36.4	38.9	39.9	**30.8**	**37.0**
Automatic debt dynamics	**2.9**	**2.9**	**3.8**	**-3.7**	**-1.5**	**-1.4**	**-1.2**	**-1.1**	**-0.9**	**-0.5**	**-0.9**		
Contribution from interest rate/growth differential	2.0	2.8	0.8	-3.7	-1.5	-1.4	-1.2	-1.1	-0.9	-0.5	-0.9		
of which: contribution from average real interest rate	0.3	-1.0	-2.8	-1.3	0.1	0.1	0.2	0.1	0.1	0.1	0.1		
of which: contribution from real GDP growth	1.6	3.8	3.6	-2.5	-1.6	-1.5	-1.4	-1.2	-1.1	-0.6	-1.0		
Contribution from real exchange rate depreciation	0.9	0.1	3.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**3.8**	**0.6**	**2.8**	**-2.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**0.4**	**-0.3**
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)	3.8	0.6	2.8	-2.4	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1		
Residual	**-1.6**	**4.6**	**-5.5**	**-1.1**	**0.5**	**0.0**	**-0.1**	**-0.1**	**-0.4**	**-0.4**	**-0.7**	**-1.3**	**-0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**38.9**	**35.1**	**34.3**	**33.3**	**32.8**	**32.5**	**32.3**	**39.6**	**69.1**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**101.1**	**101.3**	**99.6**	**97.0**	**94.9**	**94.1**	**93.5**	**114.4**	**199.7**		
Debt service-to-revenue and grants ratio 3/	**12.8**	**6.1**	**15.0**	**13.1**	**13.5**	**13.0**	**12.0**	**11.7**	**10.7**	**10.1**	**15.9**		
Gross financing need 4/	2.3	0.7	2.7	3.6	6.4	6.2	6.0	5.9	5.5	7.7	10.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-3.1	-7.1	-6.0	5.0	3.6	3.4	3.0	2.6	2.3	1.0	1.0	**0.2**	**2.3**
Average nominal interest rate on external debt (in percent)	1.3	1.3	1.2	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.4	**1.3**	**1.3**
Average real interest rate on domestic debt (in percent)	4.1	5.3	-1.3	-2.7	4.7	4.3	4.8	4.8	4.9	5.0	5.3	**2.7**	**4.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.1	0.2	6.5	...	...	...	...	...	...	...	...	**2.1**	**...**
Inflation rate (GDP deflator, in percent)	1.0	-0.2	6.4	8.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0	**2.0**	**3.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.8	7.1	-10.9	16.2	3.7	3.4	3.8	2.6	2.3	2.3	1.0	**0.5**	**4.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-5.1	-8.1	-1.1	7.2	1.0	1.4	1.3	1.2	1.4	1.0	1.6	**-4.8**	**1.6**
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**





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, 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.

Table 3. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Dept, 2023-2043

(In percent)

	Projections 1/																				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
PV of debt-to GDP ratio																					
Baseline	26	25	25	24	24	24	24	25	27	29	31	33	36	39	42	45	48	51	53	**56**	**59**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	26	26	26	27	28	30	32	35	38	41	44	47	51	54	**58**	**62**	**66**	**69**	**74**	**78**	**82**
B. Bound Tests																					
B1. Real GDP growth	26	29	32	31	31	31	32	33	35	37	40	43	47	51	54	**58**	**62**	**66**	**69**	**73**	**76**
B2. Primary balance	26	27	28	28	27	27	28	29	31	33	35	37	40	43	46	49	51	54	**57**	**60**	**62**
B3. Exports	26	31	40	40	39	39	40	41	42	44	46	48	50	53	**56**	**58**	**61**	**63**	**66**	**68**	**71**
B4. Other flows 3/	26	34	40	39	39	39	39	40	42	43	44	46	48	51	53	**55**	**57**	**59**	**62**	**64**	**66**
B5. Depreciation	26	32	25	25	25	25	25	26	28	30	33	37	41	45	49	53	**57**	**60**	**64**	**68**	**72**
B6. Combination of B1-B5	26	41	48	47	47	46	47	48	50	52	54	**56**	**59**	**62**	**65**	**67**	**70**	**73**	**76**	**79**	**81**
C. Tailored Tests																					
C1. Combined contingent liabilities	26	28	28	27	27	27	28	29	31	32	35	37	40	43	46	49	52	55	**58**	**60**	**63**
C2. Natural disaster	26	36	36	36	36	37	38	40	42	45	48	51	55	**58**	**62**	**66**	**69**	**73**	**76**	**80**	**83**
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	103	94	87	83	80	82	85	90	96	103	112	122	131	141	151	160	170	179	189	198
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	106	105	99	95	97	101	109	117	126	136	147	158	170	182	194	207	220	233	**247**	**261**	**276**
B. Bound Tests																					
B1. Real GDP growth	106	103	94	87	83	80	82	85	90	96	103	112	122	131	141	151	160	170	179	189	198
B2. Primary balance	106	110	106	99	95	92	94	98	103	109	116	125	135	144	154	163	173	182	191	200	209
B3. Exports	106	171	**305**	**282**	**271**	**260**	**264**	**272**	**283**	**294**	**306**	**320**	**336**	**354**	**371**	**388**	**405**	**422**	**438**	**455**	**471**
B4. Other flows 3/	106	137	151	140	135	129	131	135	140	145	149	155	163	170	177	185	192	200	207	214	221
B5. Depreciation	106	103	76	70	68	65	67	70	75	81	89	98	109	119	130	140	150	161	171	180	190
B6. Combination of B1-B5	106	181	146	222	213	204	207	213	222	229	237	**247**	**259**	**272**	**284**	**297**	**309**	**322**	**334**	**346**	**359**
C. Tailored Tests																					
C1. Combined contingent liabilities	106	116	106	98	95	92	94	97	103	109	116	125	135	145	155	165	174	184	194	203	212
C2. Natural disaster	106	151	140	132	130	127	131	138	145	154	165	176	189	201	214	226	239	**251**	**263**	**275**	**287**
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	16	15	13	11	10	8	8	7	7	6	6	6	7	7	7	8	9	9	10	11	12
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	16	16	14	12	12	10	10	9	9	9	9	9	10	10	12	13	14	15	16	18	19
B. Bound Tests																					
B1. Real GDP growth	16	15	13	11	10	8	8	7	7	6	6	6	7	7	7	8	9	9	10	11	12
B2. Primary balance	16	15	13	11	10	9	8	7	7	7	7	7	8	7	8	9	9	10	11	12	13
B3. Exports	16	**22**	**29**	**26**	**24**	20	19	17	16	17	20	20	21	20	**22**	**23**	**24**	**25**	**27**	**28**	**30**
B4. Other flows 3/	16	15	14	12	11	9	9	8	8	9	10	10	10	10	11	11	12	12	13	14	14
B5. Depreciation	16	15	13	10	10	8	7	7	6	6	5	5	6	6	6	7	8	8	9	10	11
B6. Combination of B1-B5	16	19	**23**	19	18	15	14	13	12	15	16	15	16	16	17	18	18	19	20	**22**	**23**
C. Tailored Tests																					
C1. Combined contingent liabilities	16	15	13	11	10	9	8	7	7	7	7	6	7	7	8	8	9	9	10	11	12
C2. Natural disaster	16	16	15	12	11	10	9	8	8	8	8	8	8	8	9	10	10	11	12	13	14
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	14	13	12	11	10	9	8	7	7	7	7	6	7	7	8	8	9	10	10	11	12
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	14	14	13	12	12	11	10	9	9	9	9	9	10	11	12	13	14	16	17	19	20
B. Bound Tests																					
B1. Real GDP growth	14	15	15	14	13	11	10	9	9	9	9	8	9	9	10	11	12	12	14	15	16
B2. Primary balance	14	13	12	11	10	9	8	7	7	7	7	7	8	8	9	9	10	11	11	12	13
B3. Exports	14	14	13	13	12	10	10	9	8	9	11	10	11	11	11	12	12	13	14	15	16
B4. Other flows 3/	14	13	13	12	11	10	9	8	8	9	10	10	11	10	11	11	12	13	13	14	15
B5. Depreciation	14	17	15	13	12	11	10	9	8	8	7	7	7	7	8	9	10	11	12	13	14
B6. Combination of B1-B5	14	15	16	14	14	12	11	10	10	12	12	12	13	12	13	14	15	15	16	17	18
C. Tailored Tests																					
C1. Combined contingent liabilities	14	13	12	11	10	9	8	7	7	7	7	7	7	7	8	9	9	10	11	12	12
C2. Natural disaster	14	13	13	11	11	10	9	8	8	8	8	7	8	8	9	9	10	11	12	13	13
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 Dept, 2023-2043

	Projections 1/																				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
PV of Debt-to-GDP Ratio																					
Baseline	35	34	33	33	33	32	33	34	35	37	40	42	45	48	51	54	57	60	63	66	69
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	35	34	34	33	32	31	31	30	30	30	29	29	30	30	30	30	31	31	32	32	33
B. Bound Tests																					
B1. Real GDP growth	35	42	52	56	61	66	**73**	**80**	**87**	**95**	**103**	**112**	**121**	**130**	**139**	**147**	**156**	**165**	**174**	**182**	**190**
B2. Primary balance	35	37	38	38	37	37	37	39	40	42	44	47	49	52	55	58	61	64	67	**70**	**73**
B3. Exports	35	38	46	45	44	44	45	46	47	49	51	53	55	58	60	62	65	67	70	**72**	**75**
B4. Other flows 3/	35	43	48	48	47	47	48	49	50	52	53	55	57	60	62	64	67	69	**71**	**74**	**76**
B5. Depreciation	35	39	35	32	30	28	26	26	25	25	25	26	27	28	29	31	32	33	35	36	37
B6. Combination of B1-B5	35	37	37	37	37	38	39	40	42	44	47	50	53	57	60	63	66	70	**73**	**76**	**79**
C. Tailored Tests																					
C1. Combined contingent liabilities	35	39	38	37	37	37	37	38	40	42	44	46	49	52	55	58	62	65	68	**71**	**73**
C2. Natural disaster	35	50	49	49	49	49	50	52	54	56	59	62	66	70	**73**	**77**	**81**	**84**	**88**	**92**	**95**
TOTAL 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	101	100	97	95	94	94	95	98	103	108	114	122	131	139	148	157	165	174	183	191	200
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	101	99	96	93	90	87	85	83	82	81	80	80	80	81	81	82	82	83	84	85	86
B. Bound Tests																					
B1. Real GDP growth	101	118	143	155	169	183	200	219	239	261	283	307	332	357	381	406	430	454	477	501	524
B2. Primary balance	101	107	111	109	108	107	108	111	116	121	127	134	143	151	160	169	177	186	194	202	211
B3. Exports	101	112	132	130	129	128	129	132	137	142	147	152	159	166	173	181	188	195	202	209	216
B4. Other flows 3/	101	124	141	138	137	136	137	141	145	149	154	159	166	172	179	186	193	200	206	213	220
B5. Depreciation	101	114	104	95	88	82	77	75	74	74	74	76	79	83	86	90	94	97	101	105	109
B6. Combination of B1-B5	101	106	108	107	107	108	110	115	120	127	134	143	152	162	171	180	190	199	208	218	227
C. Tailored Tests																					
C1. Combined contingent liabilities	101	113	110	108	107	106	108	111	115	120	127	134	143	152	160	169	178	187	195	204	212
C2. Natural disaster	101	144	142	141	141	141	144	149	155	162	170	179	189	200	211	221	232	243	253	264	274
Debt Service-to-Revenue Ratio																					
Baseline	13	14	13	12	12	11	10	10	10	10	10	10	10	10	11	12	13	13	14	15	16
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2023-2033 2/	13	14	14	13	13	12	12	11	11	11	11	10	11	11	11	12	12	12	13	14	14
B. Bound Tests																					
B1. Real GDP growth	13	15	16	16	17	16	17	17	18	20	21	22	25	26	28	30	32	34	36	38	41
B2. Primary balance	13	14	13	13	13	12	11	11	11	11	11	11	12	11	12	13	14	14	15	16	17
B3. Exports	13	14	13	13	12	11	11	10	10	11	13	12	13	13	13	14	15	15	16	17	18
B4. Other flows 3/	13	14	14	13	13	12	11	11	11	12	13	13	13	13	14	15	15	16	17	17	18
B5. Depreciation	13	15	16	14	14	12	12	11	11	10	10	10	10	10	11	11	12	13	13	14	15
B6. Combination of B1-B5	13	14	14	13	13	12	12	11	11	12	12	12	13	13	14	14	15	16	17	18	19
C. Tailored Tests																					
C1. Combined contingent liabilities	13	14	14	13	13	12	11	11	11	11	11	10	11	11	12	12	13	14	14	15	16
C2. Natural disaster	13	14	15	15	15	14	14	13	13	13	13	13	13	13	14	14	15	16	17	18	19

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.

Statement by Mr. Robert Nicholl, Executive Director for Asia & Pacific and Mr. Igam Moaniba, Adviser to Executive Director for Asia & Pacific

Our Samoan authorities wish to express their gratitude to the IMF Executive Board, management, and staff for their continued support. They would also like to thank the Article IV mission team led, by Mr. Andrew Swiston, for the productive discussions underpinning this report. Fund's policy advice and technical assistance is highly valued.

Recent Developments and Outlook

The Samoan economy was hit hard by two consecutive disease outbreaks in 2019 and 2020 respectively—an unprecedented epidemic of measles, followed by the Covid-19 pandemic. In response, the authorities introduced swift measures, including border closures between 2020 and 2022. While deemed necessary from a public health perspective, these closures came at significant economic cost given Samoa's heavy reliance on cross-border trade, most notably tourism earnings (normally about 20 percent of GDP). A severe reduction in the flow of tourists into Samoa and shipment disruptions resulted in significant delays in major construction projects. As a result, Samoa experienced a sharp and appreciable decline in economic growth.

Remittances, which normally contribute about 20 percent of GDP, slowed during the early stage of the Covid-19 pandemic but started to recover soon afterwards. The authorities believe that this occurred as Samoan nationals working abroad, mainly in New Zealand and Australia, focused on supporting families in Samoa during the pandemic.

A new government came into office in 2021 with a vision for growth that involves broad community inclusion and improving labor force skills, while laying foundations for Samoa to adapt to increasingly elevated climate change risks. The Government's 'Pathway for the Development of Samoa' (PDS) 2021/22-2025/26 document outlines five areas of focus to achieve this. These are: pursuing improved social development; a diversified and sustainable economy; security and trusted governance; a secure environment and climate change; and structured public works and infrastructure.

The border re-opening in August 2022 facilitated a much-needed pickup in domestic economic activity. A gradual resumption in tourism provided spillovers to the domestic sector generally, but in particular supported the service sector. Border opening also paved the way for a resumption of, and increased activities in, capital projects. The authorities generally concur with staff's outlook projections, including the main risks to growth from possible further supply chain disruptions, another uplift in commodity prices, and the prospect of a globally tighter environment that could impact Samoa's main trading partners and in turn hinder the performance of key economic activities in Samoa. They agree that a recovery to a pre-pandemic level will take several years; this being due to a number of factors; however, the authorities believe that continued structural reforms will provide noticeable support for the recovery.

Like many Pacific Island Countries, Samoa's remoteness from the major international markets, its limited resources and small population continue to hinder its efforts to advance growth and diversify production.

Fiscal Policy

In response to three consecutive fiscal years of contraction, with the sharpest in 2020-2021 at 7.1 percent, the authorities implemented expansionary fiscal policies to stimulate the economy and support vulnerable communities.

The 2022-2023 budget is centered on expanding capital development, and supporting the private sector and communities (through local development projects). These projects will highlight the authorities' commitment to implementing PDS priorities while exercising appropriate restraint through pursuing fiscal sustainability. Budget targets include limiting the deficit to not more than 3.5 percent of GDP and maintaining the ratio of ordinary receipts (spending) to total current payments to at least 70 percent. Furthermore, personnel costs are targeted to remain under 35 percent of total current expenditure, and debt servicing costs to ordinary receipts will be at 20 percent or lower; this will be achieved while maintaining public debt within 50 percent of GDP

Among the priority areas in the budget is the $51 million (Samoan currency) for community developments in 51 electoral constituencies. The authorities remain committed to a general strengthening of public financial management and undertaking reforms to reinforce the underlying Budget position and restore the flexibility required to manage future challenges.

Reduced utility tariffs are acknowledged as adding indirectly to current Budget pressures (through reduced revenue); however, the authorities believe it is too soon to remove this form of support while cost of living pressures are elevated for households and operational expenses are a source of pressure for recovering businesses. Opportunities to restore tariffs in line with utility costs will be closely monitored.

Monetary and Financial Sector Policies

Monetary policy continues to supplement fiscal policy in supporting the economic recovery. However, the Central Bank of Samoa (CBS) has been closely monitoring inflation and its interaction with the current policy stance. Inflation reached over 15 percent in the third quarter of 2022, mainly due to import prices. This high cost of living has now started to ease and something the CBS is carefully monitoring, as are global developments that could trigger further increases in inflation, mostly through commodity prices.

For the outlook, the authorities indicated that persistent inflation could force the CBS to resort to a tightening monetary stance. However, the greater concern at present is low levels of private business credit growth (to support the recovery) and undue pressure that would be brought to bear on current loans outstanding. The CBS is monitoring the situation closely to identify an appropriate point at which to begin the process of rate normalization; it is clear as to how this process can be managed smoothly. CBS's forecasts highlight that current monetary policy settings should boost growth to a 1.0 percent increase in real GDP, whereas tightening monetary policy at this stage could lead to a decline of -3 percent. Given this wide margin (and the downside risk to tightening too soon) the CBS believes current settings, but under close scrutiny, offer the most prudent path to supporting the recovery underway

. The CBS is also mindful that as a small open economy, monetary policy rates in Samoa are less likely to influence its inflation experience. That said, the CBS can implement increased volumes of securities tendered to commercial banks to reduce local liquidity (though OMOs) if required.

The authorities highlighted that the banking and financial sectors have remained broadly stable during the pandemic. The number of NPLs remain within manageable levels and banks are well capitalized.

Structural Reforms

The authorities emphasized the importance of a sound structural reform policy to facilitate growth and enhance Samoa's development opportunities. Developing human capital through skill training and experience (including looking for ways to leverage the experience brought back by workers from other economies) are priorities. There will be a focus on uplifting local skills in the hotel and tourism-related industry, healthcare services and education. The trend for seasonal employment schemes in New Zealand and Australia to provide job opportunities for Samoans, which started in the agricultural sector and expanded to other sectors including hospitality, healthcare and ICT (information and communication technology), has emerged as a challenge—having reduced the local labor pool of semi-skilled workers. It is something that will need to be managed carefully given the reliance on remittances while facing the need for a larger and better trained local workforce.

The authorities introduced the Samoa National Employment Policy 2021-22 – 2025-26 (SNEP) in November of 2022. The policy outlines key areas of improvement in enhancing participation from women, youth, and people with disabilities. Furthermore, improvements in public sector financial management underpinned by IMF CD programs and other development partners has led to better monitoring and management of SOEs.

Climate change continues to be a major threat and climate-related events further exacerbated the economic challenges the authorities faced during the time of the pandemic. Some resilience focused infrastructure projects are underway, but authorities encountered substantial delays due to the border closure. Mainstreaming climate change resilience (through adaption and mitigation measures) into sector plans includes incorporating climate change into school curriculums. The authorities also introduced new policies on Disaster Risk Financing and Multi-Hazard Early Warning System (especially regarding the tsunami threat). Due to constrained fiscal space, the authorities have been relying on grants from development partners to finance their climate-resilient projects. The Climate Macroeconomic Assessment Program (CMAP) from the IMF has helped the authorities identify policy areas of improvement.

Conclusion

Finally, the Samoan authorities remain committed to implementing IMF recommendations where practical. They thank development partners for continued support and look forward to further constructive engagements with the IMF. The authorities broadly agree with the staff team's assessment and therefore support the publication of the 2023 Samoa Article IV Consultation reports.