



Concluding Statement

Samoa—IMF Staff Visit, April 5-11, 2011

A staff team visited Apia during April 5-11, 2011 to assess recent economic developments and discuss near-term macroeconomic policies, focusing on post-tsunami reconstruction, the implementation of the 2010/11 budget, fiscal policy for 2011/12, and monetary policy in the context of rising world food and fuel prices. The team wishes to thank the Samoan authorities for their excellent cooperation and hospitality during the visit.

- 1. The Samoan economy is recovering well from the effects of the global financial crisis and the September 2009 tsunami.** Samoa was hit hard by the global crisis and the tsunami—gross domestic product (GDP) contracted by 5.1 percent in 2008/09 and fell by a further 0.2 percent in 2009/2010. Thanks to swift fiscal and monetary easing and admirable reconstruction efforts, GDP is expected to grow by 2½-3 percent in 2010/11, on account of post-tsunami rebuilding and a related upswing in transport and communication sectors. Growth has also been supported by a rebound in tourism, remittances and manufacturing activity. It is expected that GDP growth will slow down somewhat in 2011/12 as a result of the winding down of reconstruction, but should grow by about 2½ percent with continued recovery in tourism, remittances, and manufacturing.
- 2. Inflation has been rising in recent months largely as a result of increases in world food and fuel prices and poor harvests.** After a slight decline in 2009/10 following the retreat of world food and fuel prices in mid-2008, the consumer price index (CPI) has been increasing steadily, reaching 5.3 percent (year-on-year) in February 2011, driven largely by rising import prices and a shortfall of agricultural products as a result of excessive rains; prices for locally produced goods and services rose by 1.3 percent in February. Overall prices are expected to increase by about 6 percent by June (year-on-year), with an annual average increase of around 4 percent for 2010/11 and 2011/12. The continued increases in fuel and food prices pose significant risks to growth and inflation prospects, as do uncertainties associated with the global recovery and weather-related shocks.
- 3. The external position is well supported by development partner assistance and a steady recovery in remittances and tourism.** The current account deficit is expected to widen in 2010/11, as a result of increased imports for post-tsunami reconstruction and the surge in world commodity prices. However, the deficit is likely to narrow in 2011/12 as reconstruction-related imports decline (see below). Foreign reserves have declined in recent months, to about US\$160 million

(about 5 months of next year's imports), following the recent repatriation of profits by commercial banks, rising food and fuel prices, and strengthening currencies of trading partners (Australia and New Zealand). However, reserves are expected to remain at a comfortable level in 2011/12 on account of continued support from development partners and a lower current account deficit.

4. **The implementation of the 2010/11 budget (including supplementary appropriations) is broadly on target.** While development expenditure had exceeded projections by March, restraint on current expenditure has kept overall spending broadly on track, and post-tsunami reconstruction is ahead of schedule—a commendable achievement. Revenue collection at end-March 2011 was below projections as a result of lower-than-expected import levels. The annual revenue target remains achievable, but this will require stepped-up efforts, including strengthening compliance. Government cash flow is not a concern given that T171.5 million cash reserves were held at the end of February 2011.

5. **With post-tsunami reconstruction nearing completion, the mission advises that fiscal consolidation could start sooner than previously anticipated.** The fiscal deficit could be reduced to 5-6 percent of GDP in 2011/12, and move toward the medium-term target of no more than 3 percent of GDP by 2012/13. This will allow the government to stabilize public debt at its medium-term target of 40 percent of GDP and rebuild fiscal space to counter future shocks, such as worsening terms of trade and natural disasters. Furthermore, with a supportive monetary policy (see below) this will allow the private sector to take a lead role in driving economic growth. Preliminary assessments indicate that revenue is likely to remain steady as a percent of GDP and grants to trend downward over the next two years. While much of the required expenditure reduction would come from the winding down of reconstruction, a reduction in recurrent expenditure (including restraint on the wage bill) and a careful reprioritization of development projects in line with the Strategy for the Development of Samoa (SDS) will be needed to achieve the deficit targets.

6. **Monetary policy should continue supporting economic activity while standing ready to react to underlying inflation pressure.** The Central Bank of Samoa (CBS) has substantially reduced the policy rate and pursued other options to lower lending rates, such as on-lending at low rates to the Development Bank of Samoa and the Samoa Housing Corporation, which are required to lend at rates lower than offered by commercial banks to sectors such as agriculture, tourism, fishing, and manufacturing. These efforts have driven interest rates to the lowest levels since the financial liberalization in 1998. Together with the gradual return of business confidence, credit has ceased declining and rose by about 5 percent (yoy) in February 2011. With few signs of underlying inflation pressure and a comfortable level of foreign reserves, the current monetary stance should be maintained. However, given the ample liquidity in the banking system, CBS should stand ready to tighten the policy stance if signs of underlying inflation pressure emerge.

Moreover, CBS could use the exchange rate flexibility afforded by the current arrangements to absorb external shocks and manage aggregate demand.

7. **Structural Reforms are ongoing, and continued efforts will help return Samoa to the strong growth path prior to the recent slowdown.** The privatization of Samoa Tel in January 2011 is a major step forward and should foster development of the communication sector and improve services. The establishment of the Independent Selection Committee for state-owned enterprise (SOE) board directors is also a welcome step. Nevertheless, continued efforts will be needed to strengthen corporate governance and enforce hard budget constraints to improve the financial performance of SOEs. The mission welcomes the ongoing process to set up a Customary Land Advisory Commission to guide and promote the productive use of customary land. There is a need to strengthen efforts in surveying boundaries for customary land and facilitate transferable leasing arrangements so that more customary land can become available for productive use. Transferable leasing arrangements will allow land to be used as collateral for bank financing.

8. **The planned second phase of public financial management reforms would help consolidate and sustain improvements made during the first phase.** The mission welcomes the government's strategy to target priority areas of reform identified in the 2010 Public Expenditure and Financial Accountability (PEFA) assessment. At the same time, efforts could be devoted to measures that can produce quick pay-offs, such as the publication of government budgets and fiscal outturns using the same Government Finance Statistics (GFS) system. Currently, budget information and actual outturns are presented using different formats. The separation of operating and capital expenditure, including those financed through domestic revenue, grants, and loans will assist in reviewing the progress and effectiveness of public sector investment programs.

9. **Stepped-up efforts will be needed to spread the benefits of economic growth.** The recent Millennium Development Goals Report has highlighted rising poverty and income disparities, though these are by no means unique to Samoa. This calls for continued efforts to strengthen social protection, especially in the current environment of rising global food and fuel prices and economic uncertainty. More fundamentally, addressing these challenges will require broad-based, private sector-led growth and job creation, including through the revival of the agricultural sector, which remains the livelihood for most poor people. Continued macroeconomic stability and structural reforms will be critical to achieving such inclusive growth, but in the short to medium term, Samoa could also explore how to take advantage of increasing demand for construction-related workers in the region, including in Australia, New Zealand, Papua New Guinea, and Guam.

Table 1. Samoa: Selected Economic and Financial Indicators, 2004/05–2011/12 ^{1/}

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 ^{2/}	Proj.	
							2010/11	2011/12
Population (2010 est.): 0.187 million								
Main Exports: Tourism, Fish								
GDP per capita (2009/10): US\$ 2,889								
Quota: SDR 11.6 million								
(12-month percentage change)								
Output and inflation								
Real GDP growth	7.0	2.1	2.3	4.9	-5.1	-0.2	2.8	2.5
Nominal GDP	11.2	8.6	9.4	10.1	-2.4	1.6	7.0	6.6
Change in CPI (end period)	1.0	2.2	8.0	8.8	10.0	-0.3	6.0	4.0
Change in CPI (period average)	7.8	3.2	4.5	6.2	14.6	-0.2	4.0	4.0
(In percent of GDP)								
Central government budget								
Revenue and grants	36.3	31.8	36.4	30.9	34.3	39.7	35.1	34.0
Expenditure and net lending	36.1	32.3	35.8	32.8	38.4	50.9	43.2	39.5
Of which: Development	13.1	7.1	9.3	6.5	12.7	17.6	16.1	14.6
Overall balance	0.3	-0.5	0.6	-1.8	-4.1	-11.3	-8.1	-5.5
External financing	1.4	0.5	-1.1	0.8	3.1	12.0	8.2	6.0
Domestic financing	-1.7	0.0	0.4	1.0	1.0	-0.7	-0.1	-0.5
(12-month percentage change)								
Money and credit								
Broad money (M2)	15.0	13.0	8.7	12.3	7.6	11.1	...	...
Net foreign assets	34.4	-20.2	7.8	14.4	9.0	46.9	...	...
Net domestic assets	-0.7	79.8	-0.5	1.3	6.7	-9.0	...	...
Private sector credit	6.8	28.2	11.7	6.5	5.2	5.1	...	...
(In millions of U.S. dollars)								
Balance of payments								
Current account balance	-39.1	-50.3	-83.1	-29.1	-14.7	-45.7	-83.3	-63.8
(In percent of GDP)	-9.6	-11.1	-15.9	-5.7	-2.9	-8.2	-14.7	-10.6
Merchandise exports, f.o.b.	12.8	11.0	12.2	11.2	10.2	15.7	12.6	12.8
Merchandise imports, c.i.f.	-168.2	-204.6	-241.1	-204.3	-227.6	-236.4	-299.3	-284.4
Services (net)	59.7	69.9	79.3	89.3	92.1	92.1	95.5	101.8
Income (net)	-34.1	-36.2	-37.5	-38.0	-17.2	-17.2	-20.4	-26.5
Current transfers	90.8	109.6	103.9	112.8	126.5	126.1	128.3	132.4
External reserves and debt								
Gross official reserves	84.2	64.4	80.9	87.6	96.6	154.7	159.6	178.0
(In months of next year's imports of GNFS)	3.7	2.4	3.6	3.5	3.7	5.4	5.2	5.0
External debt (in percent of GDP)	39.5	40.1	37.1	30.3	38.1	49.5	54.4	57.0
Public external debt-service ratio (in percent)	9.3	9.8	5.2	3.9	5.1	9.2	3.4	8.0
Exchange rates								
Market rate (tala/U.S. dollar, period average)	2.7	2.8	2.6	2.6	2.8	2.8	...	...
Market rate (tala/U.S. dollar, end period)	2.8	2.7	2.6	2.9	2.8	2.8	...	...
Nominal effective exchange rate (2000 = 100) ^{3/}	100.0	98.9	97.3	94.9	97.6	98.1	...	...
Real effective exchange rate (2000 = 100) ^{3/}	100.0	99.6	101.0	105.5	116.1	111.5	...	...
<i>Memorandum items:</i>								
Nominal GDP (in millions of tala)	1,124	1,221	1,336	1,470	1,435	1,458	1561	1663
Nominal GDP (in millions of U.S. dollars)	407	455	522	506	522	526	568	605
GDP per capita (U.S. dollars)	2,276	2,537	2,901	2,800	2,876	2,889	3,107	3,299

Sources: Data provided by the Samoan authorities and Fund staff estimates.

1/ Fiscal year beginning July 1.

2/ The fiscal data used in the table is in GFS reporting format for 2009/10 fiscal year and onwards.

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