SAMOA

May 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION —DEBT SUSTAINABILITY ANALYSIS

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

This Debt Sustainability Analysis (DSA) shows the risk rating for debt distress for Samoa has changed from high to moderate since the 2013 DSA, reflecting an increase in the discount rate to 5 percent,[2] and a rebasing of GDP.[3] Samoa faces a moderate risk of debt distress, based on an assessment of public external debt. This assessment does not change when remittances are added to the denominators of the relevant ratios. Samoa faces a heightened overall risk of public debt distress, reflecting contingent liabilities from government guarantees and on-lending to public enterprises in public financial institutions (PFIs) and state-owned enterprises (SOEs). These risks could materialize if the government does not follow through on its plans to reduce risks in PFIs and undertake a fiscal consolidation in the next few years.

[1] This DSA was prepared jointly with the World Bank, in accordance with the Debt Sustainability Framework for low-income countries approved by the Executive Boards of the IMF and the IDA. Samoa is rated as a strong performer for its policies and institutions for the purposes of the IMF-World Bank low-income country DSA framework. The DSA uses a 5 percent discount rate.

[2] The discount rate was set at 3 percent in the 2013 DSA assessment.

[3] GDP data have been rebased to 2009 prices (previously 2002), and coverage has been increased, with the nominal GDP for 2012/13 increasing from SAT1.6 billion to SAT1.8 billion reflecting a wider sectoral coverage through new censuses and surveys.

BACKGROUND

1. **Samoa's public debt has increased significantly over the past six years.** Overall public debt rose from around 30 percent of GDP at end-2007/08 to about 55 percent of GDP at end-2013/14, as a result of two natural disasters which required reconstruction and rehabilitation expenditures. Recently the government has signed a U.S. $51 million loan with China, which if disbursed over three years would bring the debt ratio to 56 percent of GDP in 2017. External debt makes up 98 percent of the total, with most being concessional. Multilateral creditors account for 58 percent of total external debt (including 25 percent owed to the World Bank, 31 percent to Asian Development Bank, and 2 percent to OPEC, IFAD and EIB). Bilateral creditors account for approximately 42 percent of the total external debt (35 percent owed to China and 6 percent to Japan). The grant element of external debt is 40 percent. There is no external private debt.

2. **The central government's net domestic debt is small, amounting to 2 percent of GDP, but domestic liabilities in public financial institutions and SOEs could add 24 percent of GDP to the debt ratio.** Much of the debt in public financial institutions enjoys an explicit government guarantee, and in addition, SOE liabilities (also implicitly guaranteed by the government) represent a fiscal risk (e.g. in 2013/14, the government took over the defaulted loan to the Pacific Forum Line of around SAT 16 million provided by the Unit Trust Of Samoa (UTOS) with a government guarantee). The government continues to support loss-making SOEs through soft loans or investments directed through the public financial institutions.

3. **Samoa's debt management, monitoring and reporting capacity is good relative to other Pacific Island countries.** Samoa has developed a medium-term debt management strategy (MTDS 2013-2015) which establishes the government's objectives, strategies and management of public debt, and it regularly reports and publishes information on public debt. The MTDS limits approval of external loans to those with a 35 percent grant element and a minimum positive economic return to cover interest and repayments. It also introduces mechanisms to monitor the risk of default from government guaranteed loans and monitor risks from the composition and maturity profile of public debt.

UNDERLYING ASSUMPTIONS

4. **The economy is recovering from the effects of cyclone Evan which hit in 2012/13.** Real GDP growth was around 2 percent in 2013/14 led by a recovery in agriculture, reconstruction and preparations for the United Nations Third International Conference on Small Island Developing States (SIDS). Real GDP growth is expected to be around 2½ percent in 2014/15, boosted by the hosting of the SIDS conference, the decline in oil prices and other one-off events. In the following two years, growth is expected to fall as the exit of Yazaki corporation's harness assembly plant, a major employer, affects overall activity. The current account deficit widened to around 8 percent of GDP in 2013/14 as recovery took hold, but is expected to narrow with the fall in oil prices and recovery of agriculture and tourism. Box 1 summarizes the medium-term macroeconomic framework underlying this DSA update.

EXTERNAL DSA

5. The baseline scenario indicates that all external debt ratios stay well below the indicative thresholds. Under the baseline, the present value (PV) of debt-to-GDP ratio remains below the thresholds over the projection period (Figure 1a). Samoa's public external debt service ratios are also relatively low, reflecting that most of its public external debt is highly concessional.

6. Stress tests show Samoa faces moderate risk of debt distress.[4] Under the most extreme shock scenario ("Non-debt flows shock"), a sharp decline in remittances or FDI would lead to a breach in the PV of debt to GDP ratio in the near term. Over time, however, the debt dynamics are projected to improve, as the one-off effects of the shocks wind down. Staff assumes the scenario is plausible, given uncertainty of remittances (e.g. potential slowdown in source countries and increasing costs related to anti-money laundering compliance requirements). Under an additional natural disaster shock scenario, which assumes a disaster occurs within the next five years that reduces real GDP growth by 4 percentage points and adds 10 percent of GDP to the public external debt (based on a synthetic control exercise) Samoa's external debt comes close to the indicative threshold in 2017, but falls steadily thereafter.

7. The results of this analysis do not change if remittances are added to the denominators of the relevant ratios (Figure 1b). Including remittances affords an additional buffer for the external debt indicators, but the relevant thresholds for the PV of debt-to-GDP and the PV of debt-to-exports are still breached in the case of a most extreme shock scenario.

PUBLIC DSA

8. The overall public debt dynamics are favorable, but there are risks stemming from the fiscal-financial linkages and a failure to consolidate the fiscal position. Taking into account that the government has assumed the defaulted loans of the SOEs in recent years, the baseline includes the SOE liabilities and government on-lending to the SOEs (through the PFIs), which adds 24 percentage points to the debt ratio in 2014. Explicit government guarantees (e.g. on-lending through the public financial institutions[5]) are estimated to amount to 7 percent of GDP at end-2014. SOE liabilities[6] are about 17 percent of GDP, excluding on-lent amounts (explicit guarantees) and inter-SOE loans. Under this baseline scenario, the public debt burden remains at a high level over the projection period, but still below the benchmark (Figure 2). However, a failure to consolidate the

[4] Under the historical scenario, debt ratios will decline faster relative to the baseline, reflecting a more favorable current account balance as well as capital grants. On the other hand, the historical scenario in the public DSA will lead to a protracted breach due to a larger primary deficit.

[5] For instance, the central bank has provided a credit line with government guarantees to the Development Bank of Samoa (DBS) of SAT 65 million and Samoa Housing Corporation (SHC) of 14 million. The rest of explicit government guarantees consists of loan to DBS (SAT 20 million) and Samoa Shipping Corporation (SAT 1.3 million) by the SNPF, share capital advance to UTOS (SAT 7.9 million) and Small Business Loan Guarantee Scheme (SAT 9.6 million).

[6] The SOEs debt stock is assumed to grow in line with nominal GDP.

fiscal position would lead to a protracted breach in the benchmark for the PV of debt-to-GDP ratio starting in 2019, as shown in the alternative scenario ("Fixed Primary Balance") for the public DSA. In addition, under the most extreme shock scenario ("one time 30 percent depreciation"), there is a protracted breach of the benchmark for the PV of debt-to-GDP ratio, however the debt ratio falls back below the benchmark in 2020.

AUTHORITIES' VIEWS

9. The authorities agreed with the DSA findings, noting that the current risk of debt distress is moderate, but fiscal consolidation is crucial for debt sustainability. They remain committed to achieving the debt target of 50 percent of GDP by 2020, and agree that a long-term debt target of 40 percent of GDP would be an appropriately safe level. In accordance with their current debt strategy, they are committed to not take on additional external debt in the near term. They will review their current strategy in the context of formulating their medium-term debt strategy for 2016-2019 over the next year.

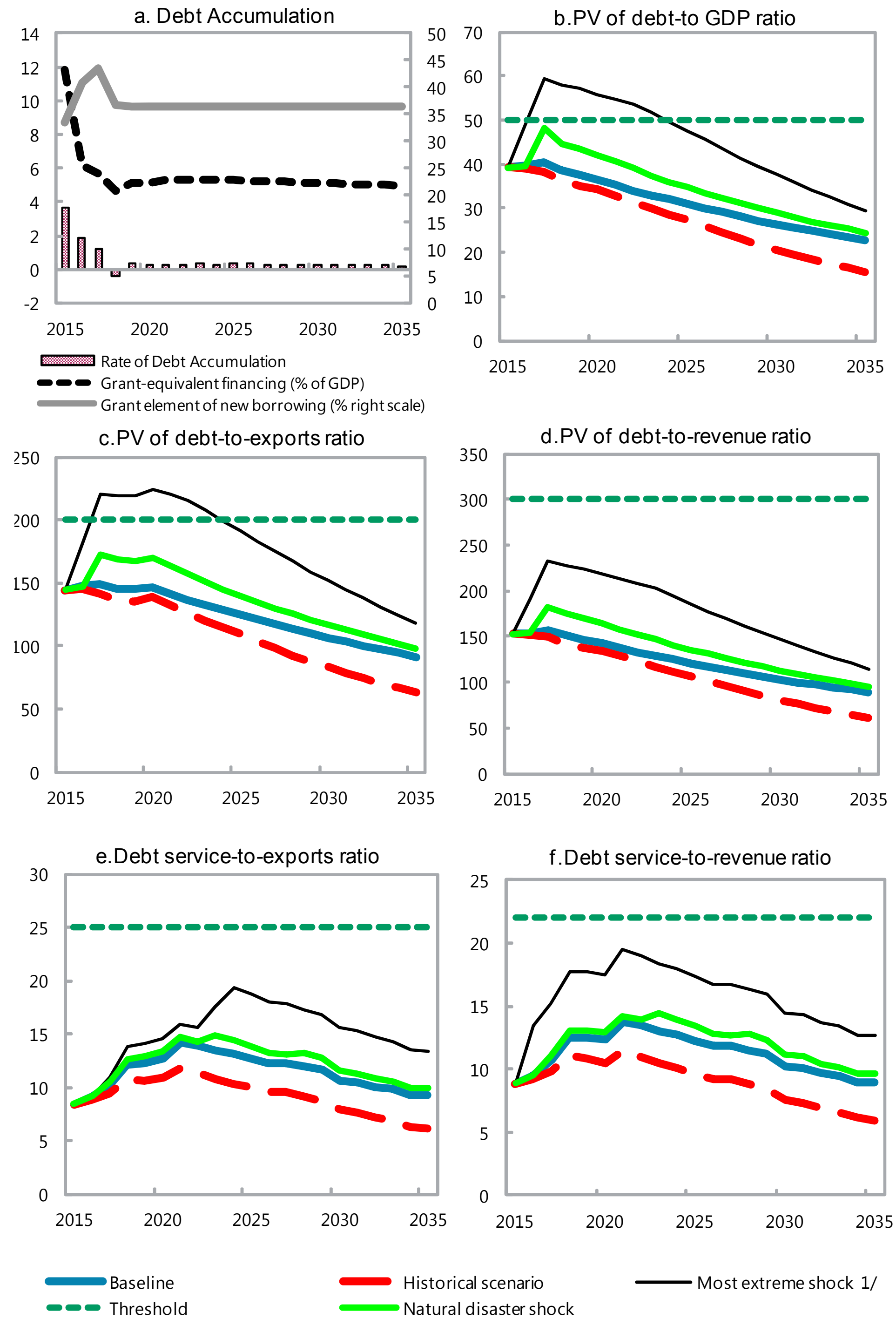
CONCLUSION

10. Samoa's Public and Publicly Guaranteed (PPG) external debt has moved from a high risk of debt distress to a moderate risk of debt distress. However, the overall risk of public debt distress is higher, due to contingent liabilities. Should contingent liabilities materialize and the authorities delay fiscal consolidation, this could result in unsustainable debt dynamics. Thus the government needs to adhere to its existing consolidation plans to reach its debt target by 2020, while safeguarding social spending and economic growth.

Box 1. Macroeconomic Assumptions Underlying the DSA Update

- **Real GDP growth** is projected at 1.5 percent on average over the medium term reflecting the negative effects from a recently reported exit plan of an automobile parts assembly plant, and to recover to 2 percent in the long run. Compared to the 2013 DSA, medium-term growth has been revised down by ½ percentage point, reflecting a planned exit from the country of Yazaki corporation's harness assembly plant.
- **Inflation** is expected to stabilize over the medium term at about 3 percent and is maintained at this level in the long run.
- **The current account** is projected to be around 5 percent of GDP on average over the medium term, and to stabilize at this level in the long run. Relative to the 2013 DSA, the medium-term current account deficit has narrowed by 7 percent of GDP due to lower commodity prices and the rebasing of GDP.
- **The grant element of loans** is expected to decline to around 35 percent over the medium term and then stabilize at this level in the long run. As recovery from the cyclone takes hold, the share of external financing provided on concessional terms is expected to decline to around 5 percent of GDP over the medium term and then stabilize at this level in the long run.
- **The primary fiscal balance** is estimated to be in balance on average in the medium term, in line with the medium term fiscal framework which targets a public debt-to-GDP ratio at 50 percent by 2020. After 2020, the primary fiscal balance is projected to be a surplus of around 0.4 percent of GDP during 2021-35.
- **Contingent liabilities** comprise explicit guarantees of around 7 percent of GDP in PFIs and implicit guarantees of around 17 percent of GDP in SOEs. The total amounts to approximately 24 percent of GDP at end-2014.

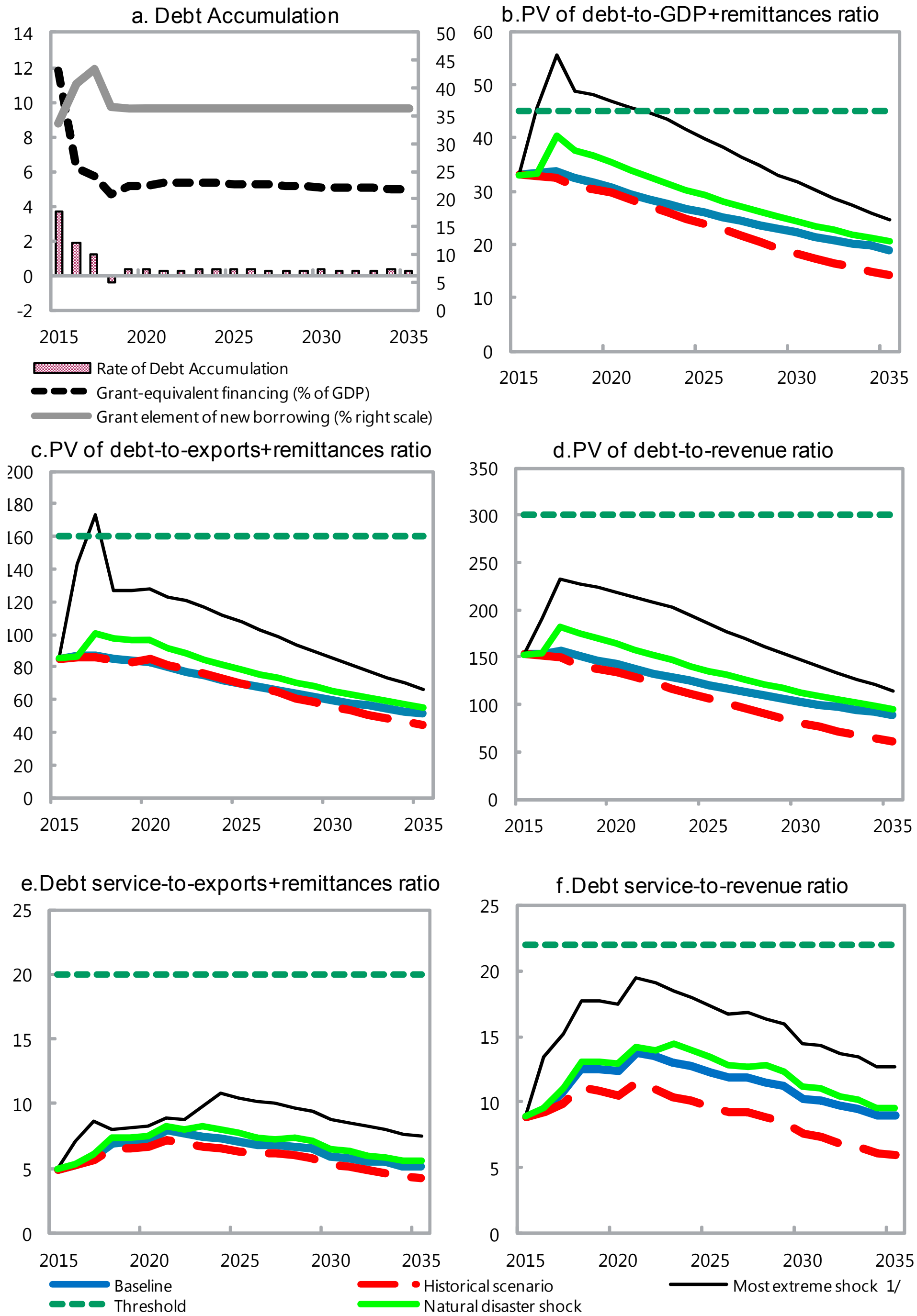
Figure 1a. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–2035, Excluding Remittances



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a non-debt flows shock; in c. to a non-debt flows shock; in d. to a non-debt flows shock; in e. to a non-debt flows shock and in figure f. to a one-time depreciation shock. Non-debt flows consist of remittances and net FDI.

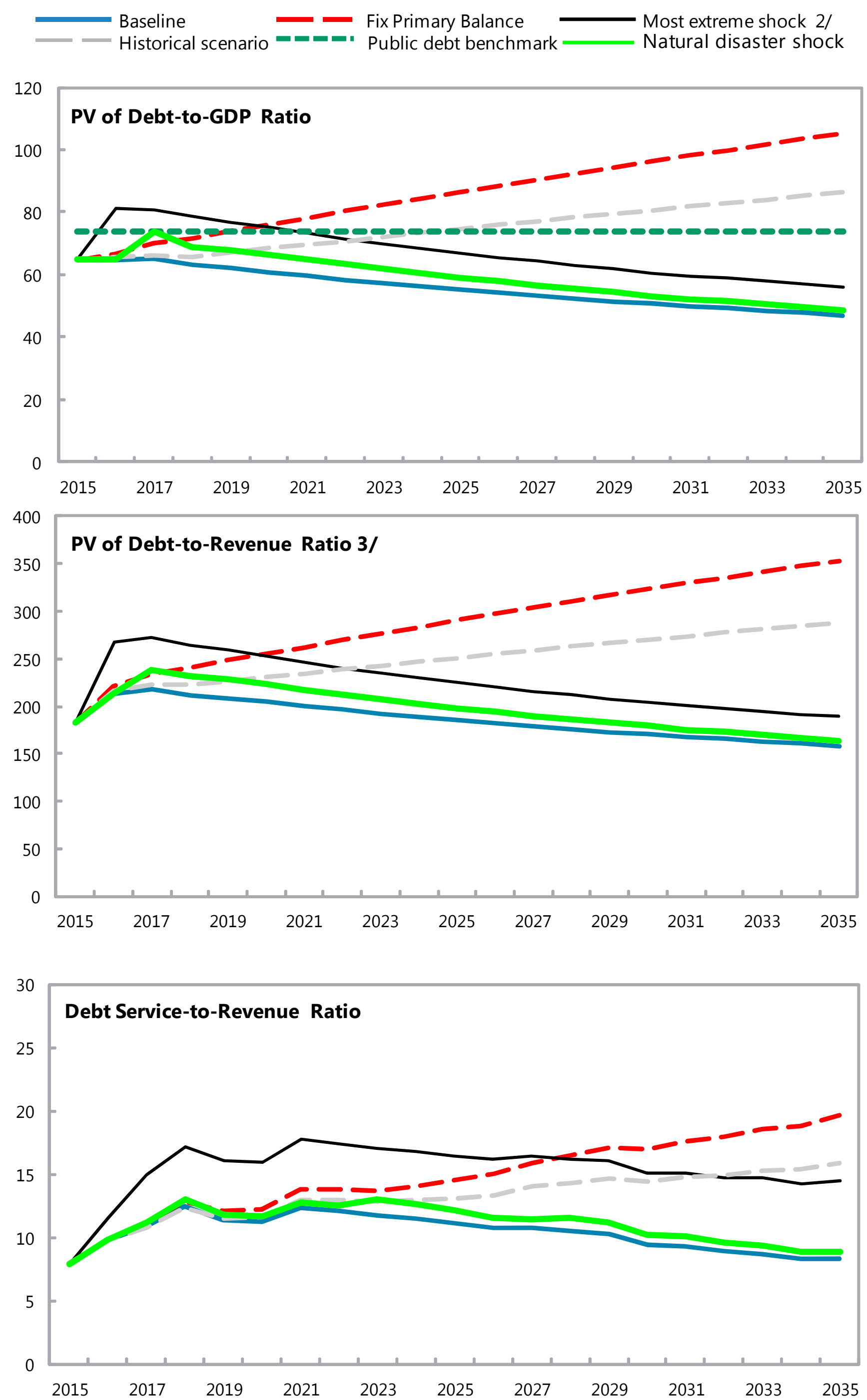
Figure 1b. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–2035, Including Remittances



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a non-debt flows shock; in c. to a non-debt flows shock; in d. to a non-debt flows shock; in e. to a non-debt flows shock and in figure f. to a one-time depreciation shock. Non-debt flows consist of remittances and net FDI.

Figure 2. Samoa: Indicators of Public Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ Includes 24 percent of GDP of contingent liabilities from PFIs and SOEs.

2/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

3/ Revenues are defined inclusive of grants.

Table 1a. Samoa: External Debt Sustainability Framework, Baseline Scenario, 2012–2035

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2015-2020			2021-2035
	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2025	2035	Average
External debt (nominal) 1/	**49.8**	**51.7**	**52.3**			**54.4**	**55.0**	**56.1**	**54.7**	**52.4**	**50.0**		**42.8**	**32.2**	
of which: public and publicly guaranteed (PPG)	49.8	51.7	52.3			54.4	55.0	56.1	54.7	52.4	50.0		42.8	32.2	
Change in external debt	3.3	1.9	0.6			2.1	0.6	1.1	-1.4	-2.3	-2.4		-1.3	-1.0	
Identified net debt-creating flows	4.7	1.1	3.6			3.3	2.3	3.3	2.1	1.6	0.9		2.1	2.6	
Non-interest current account deficit	**8.2**	**2.0**	**7.5**	**5.2**	**4.1**	**6.1**	**4.6**	**4.2**	**3.8**	**3.7**	**3.1**		**4.3**	**4.8**	4.7
Deficit in balance of goods and services	-79.2	-80.9	-81.5			-77.7	-75.4	-75.7	-74.4	-73.0	-70.1		-70.1	-70.1	
Exports	27.6	30.4	28.5			27.2	26.9	27.0	26.6	26.1	24.9		24.9	24.9	
Imports	-51.6	-50.6	-53.0			-50.5	-48.5	-48.7	-47.8	-47.0	-45.3		-45.3	-45.3	
Net current transfers (negative = inflow)	-19.8	-21.7	-19.7	-15.8	8.4	-19.3	-19.1	-19.5	-19.4	-19.2	-19.2		-19.7	-19.5	-19.6
of which: official	0.0	-0.5	-0.3			-0.3	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	107.3	104.7	108.7			103.2	99.1	99.4	97.6	96.0	92.4		94.1	94.5	
Net FDI (negative = inflow)	**-1.6**	**-2.2**	**-2.4**	**-2.1**	**2.5**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.2**		**-1.9**	**-2.1**	-2.0
Endogenous debt dynamics 2/	**-1.9**	**1.3**	**-1.5**			**-0.5**	**0.0**	**1.4**	**0.6**	**0.2**	**0.1**		**-0.3**	**-0.1**	
Contribution from nominal interest rate	0.6	0.6	0.5			0.7	0.8	1.0	1.0	1.0	1.1		0.5	0.5	
Contribution from real GDP growth	-2.7	-0.6	-0.4			-1.3	-0.8	0.5	-0.5	-0.8	-1.0		-0.8	-0.6	
Contribution from price and exchange rate changes	0.2	1.3	-1.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.4**	**0.7**	**-2.9**			**-1.2**	**-1.7**	**-2.2**	**-3.5**	**-4.0**	**-3.3**		**-3.4**	**-3.6**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.1		0.0	0.0	
PV of external debt 4/	...	...	37.6			39.3	39.7	40.3	38.7	37.7	36.5		31.0	22.7	
In percent of exports	...	...	131.6			144.5	147.6	149.4	145.6	144.6	146.7		124.7	91.3	
PV of PPG external debt	**...**	**...**	**37.6**			**39.3**	**39.7**	**40.3**	**38.7**	**37.7**	**36.5**		**31.0**	**22.7**	
In percent of exports	**...**	**...**	**131.6**			**144.5**	**147.6**	**149.4**	**145.6**	**144.6**	**146.7**		**124.7**	**91.3**	
In percent of government revenues	**...**	**...**	**146.2**			**153.1**	**154.1**	**157.5**	**151.0**	**147.1**	**142.3**		**121.0**	**88.6**	
Debt service-to-exports ratio (in percent)	**5.5**	**5.9**	**6.8**			**8.4**	**9.1**	**10.2**	**12.1**	**12.3**	**12.7**		**12.7**	**9.3**	
PPG debt service-to-exports ratio (in percent)	**5.4**	**5.9**	**6.8**			**8.4**	**9.1**	**10.2**	**12.1**	**12.3**	**12.7**		**12.6**	**9.3**	
PPG debt service-to-revenue ratio (in percent)	**6.7**	**7.4**	**7.6**			**8.9**	**9.5**	**10.7**	**12.5**	**12.5**	**12.3**		**12.3**	**9.0**	
Total gross financing need (Millions of U.S. dollars)	65.4	12.6	58.0			53.2	43.2	42.6	44.5	44.9	40.8		69.6	95.7	
Non-interest current account deficit that stabilizes debt ratio	4.9	0.1	6.8			4.1	4.0	3.1	5.2	6.0	5.5		5.6	5.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.2	1.2	0.8	1.6	3.9	2.6	1.6	-0.8	0.8	1.5	2.0	1.3	2.0	2.0	2.0
GDP deflator in US dollar terms (change in percent)	-0.5	-2.6	3.2	5.5	8.9	2.2	2.2	2.2	2.3	2.2	2.1	2.2	2.1	2.2	2.2
Effective interest rate (percent) 5/	1.3	1.2	1.0	1.2	0.1	1.5	1.5	1.8	1.9	1.9	2.1	1.8	1.3	1.6	1.5
Growth of exports of G&S (US dollar terms, in percent)	1.8	8.4	-2.2	5.0	5.9	0.0	2.6	1.8	1.5	1.7	-0.6	1.2	4.2	4.2	4.2
Growth of imports of G&S (US dollar terms, in percent)	12.1	-3.4	9.1	5.2	7.6	-0.2	-0.2	1.8	1.3	1.8	0.3	0.8	4.2	4.2	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.6	40.8	43.5	36.7	36.4	36.4	37.9	36.4	36.4	36.4
Government revenues (excluding grants, in percent of GDP)	22.6	24.2	25.7			25.7	25.8	25.6	25.6	25.6	25.6		25.6	25.6	25.6
Aid flows (in Millions of US dollars) 7/	61.0	77.2	105.7			96.2	56.8	53.0	45.4	49.8	51.5		65.4	92.6	
of which: Grants	60.8	77.0	105.5			85.0	41.1	38.0	39.2	40.6	42.3		52.0	78.4	
of which: Concessional loans	0.2	0.2	0.2			11.3	15.7	15.0	6.2	9.1	9.2		13.4	14.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			11.8	6.2	5.7	4.6	5.1	5.1		5.3	5.0	5.2
Grant-equivalent financing (in percent of external financing)	...	...	...			75.0	72.3	74.2	84.8	75.1	75.7		73.1	78.3	74.8
Memorandum items:															
Nominal GDP (Millions of US dollars)	805.6	794.1	826.5			866.6	900.1	912.2	941.1	975.6	1016.4		1248.3	1882.6	
Nominal dollar GDP growth	5.7	-1.4	4.1			4.8	3.9	1.3	3.2	3.7	4.2	3.5	4.2	4.2	4.2
PV of PPG external debt (in Millions of US dollars)			310.4			340.8	357.1	368.0	364.1	367.7	370.6		387.0	427.4	
(PVt-PVt-1)/GDPt-1 (in percent)						3.7	1.9	1.2	-0.4	0.4	0.3	1.2	0.4	0.2	0.3
Gross workers' remittances (Millions of US dollars)	159.8	168.2	159.7			164.9	169.6	175.4	180.1	184.9	193.0		242.9	365.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	31.5			33.0	33.4	33.8	32.5	31.7	30.6		26.0	19.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	78.5			85.0	86.8	87.3	84.7	83.7	83.2		69.9	51.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.1			4.9	5.4	5.9	7.0	7.1	7.2		7.1	5.2	

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

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

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

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

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

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

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

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	39	40	40	39	38	36	**31**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	39	39	38	36	35	34	**27**	16
A2. New public sector loans on less favorable terms in 2015-2035 2	39	41	43	41	41	40	**39**	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	39	41	43	41	40	38	**33**	24
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	39	40	42	40	39	38	**32**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	39	42	45	43	42	41	**35**	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	39	49	60	58	57	56	**48**	29
B5. Combination of B1-B4 using one-half standard deviation shocks	39	47	55	53	52	51	**44**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	39	56	57	55	53	52	**44**	32
PV of debt-to-exports ratio								
Baseline	144	148	149	146	145	147	**125**	91
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	144	145	142	137	135	139	**110**	63
A2. New public sector loans on less favorable terms in 2015-2035 2	144	152	158	155	157	162	**156**	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	144	148	149	146	145	147	**125**	91
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	144	155	165	162	161	163	**139**	100
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	144	148	149	146	145	147	**125**	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	144	182	220	218	219	225	**191**	118
B5. Combination of B1-B4 using one-half standard deviation shocks	144	171	197	194	194	199	**169**	109
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	144	148	149	146	145	147	**125**	91
PV of debt-to-revenue ratio								
Baseline	153	154	157	151	147	142	**121**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	153	151	149	142	137	134	**106**	61
A2. New public sector loans on less favorable terms in 2015-2035 2	153	159	166	161	160	157	**151**	142
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	153	160	166	160	155	150	**128**	94
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	153	156	164	158	154	149	**126**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	153	163	176	169	164	159	**135**	99
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	153	190	232	227	223	218	**185**	115
B5. Combination of B1-B4 using one-half standard deviation shocks	153	184	215	209	205	200	**170**	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	153	218	223	214	208	201	**171**	125

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 (concluded)

(In percent)

			Debt service-to-exports ratio					
Baseline	8	9	10	12	12	13	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	8	9	9	11	11	11	**10**	6
A2. New public sector loans on less favorable terms in 2015-2035 2	8	9	10	12	12	13	**13**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	8	9	10	12	12	13	**13**	9
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	8	9	11	13	13	14	**14**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	8	9	10	12	12	13	**13**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	8	9	11	14	14	15	**19**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	8	9	11	13	13	14	**17**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	8	9	10	12	12	13	**13**	9
			Debt service-to-revenue ratio					
Baseline	9	10	11	13	12	12	**12**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	9	9	10	11	11	11	**10**	6
A2. New public sector loans on less favorable terms in 2015-2035 2	9	10	11	13	13	13	**13**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	10	11	13	13	13	**13**	10
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	9	10	11	13	13	12	**13**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	10	12	14	14	14	**14**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	9	10	12	14	14	14	**18**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	12	14	14	14	**17**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	9	13	15	18	18	17	**17**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	35	35	35	35	35	35	**35**	35

Sources: Country authorities; and staff estimates and projections.

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

Table 2a. Samoa: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–2035
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	73.7	78.0	79.3			79.7	79.6	80.3	77.3	75.9	74.3		67.2	56.5	
of which: foreign-currency denominated	49.8	51.7	52.3			54.4	55.0	56.1	54.7	52.4	50.0		42.8	32.2	
Change in public sector debt	2.4	4.3	1.3			0.4	-0.1	0.6	-2.9	-1.4	-1.6		-1.3	-1.0	
Identified debt-creating flows	2.5	5.6	2.4			-0.1	-0.6	0.5	-2.0	-2.4	-2.8		-2.5	-2.0	
Primary deficit	6.4	3.0	4.7	2.8	2.4	2.7	1.4	0.3	-0.7	-0.7	-0.8	0.4	-0.3	-0.2	-0.3
Revenue and grants	30.1	33.9	38.5			35.5	30.3	29.8	29.8	29.8	29.8		29.8	29.8	
of which: grants	7.5	9.7	12.8			9.8	4.6	4.2	4.2	4.2	4.2		4.2	4.2	
Primary (noninterest) expenditure	36.5	36.9	43.1			38.2	31.7	30.1	29.1	29.1	29.0		29.5	29.6	
Automatic debt dynamics	-3.8	2.6	-2.2			-2.8	-2.0	0.1	-1.3	-1.7	-2.0		-2.2	-1.8	
Contribution from interest rate/growth differential	-3.8	-0.4	-0.8			-2.6	-1.8	0.2	-1.1	-1.6	-1.9		-2.1	-1.7	
of which: contribution from average real interest rate	0.3	0.4	-0.1			-0.6	-0.5	-0.5	-0.4	-0.5	-0.4		-0.8	-0.6	
of which: contribution from real GDP growth	-4.1	-0.9	-0.6			-2.0	-1.3	0.7	-0.7	-1.1	-1.5		-1.3	-1.1	
Contribution from real exchange rate depreciation	0.0	3.0	-1.5			-0.2	-0.2	-0.1	-0.2	-0.1	-0.1		...	...	
Other identified debt-creating flows	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.1	-1.3	-1.1			0.5	0.5	0.2	-0.9	1.0	1.1		1.2	1.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	64.5			64.7	64.7	65.0	63.0	62.0	60.8		55.3	47.0	
of which: foreign-currency denominated	...	...	37.6			39.3	39.7	40.3	38.7	37.7	36.5		31.0	22.7	
of which: external	...	...	37.6			39.3	39.7	40.3	38.7	37.7	36.5		31.0	22.7	
PV of contingent liabilities (not included in public sector deb	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.5	5.2	7.0			5.6	4.3	3.6	3.0	2.7	2.6		3.1	2.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	167.9			182.4	213.4	218.3	211.6	208.2	204.1		185.8	157.9	
PV of public sector debt-to-revenue ratio (in percent)	…	…	251.2			252.0	251.3	253.8	246.0	242.1	237.3		216.0	183.6	
of which: external 3/	…	…	146.2			153.1	154.1	157.5	151.0	147.1	142.3		121.0	88.6	
Debt service-to-revenue and grants ratio (in percent) 4/	6.9	6.5	6.1			7.9	9.8	10.9	12.4	11.3	11.2		11.1	8.3	
Debt service-to-revenue ratio (in percent) 4/	9.2	9.1	9.2			10.9	11.5	12.7	14.5	13.1	13.0		12.9	9.7	
Primary deficit that stabilizes the debt-to-GDP ratio	4.0	-1.3	3.4			2.4	1.4	-0.3	2.2	0.7	0.9		1.1	0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.2	1.2	0.8	1.6	3.9	2.6	1.6	-0.8	0.8	1.5	2.0	1.3	2.0	2.0	2.0
Average nominal interest rate on forex debt (in percent)	1.3	1.2	1.0	1.2	0.1	1.5	1.5	1.8	1.9	1.9	2.1	1.8	1.3	1.6	1.5
Average real interest rate on domestic debt (in percent)	2.3	2.5	0.8	-0.9	5.6	-1.7	-1.4	-1.3	-1.8	-2.2	-2.2	-1.8	-2.2	-2.1	-2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	0.1	6.2	-2.9	-2.5	5.7	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-1.5	-1.8	-0.2	3.0	5.5	2.4	2.1	2.0	2.5	3.0	2.9	2.5	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	10.0	2.1	17.9	3.0	6.1	-9.1	-15.8	-5.7	-2.8	1.6	1.8	-5.0	2.3	2.0	2.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	33.6	40.8	43.5	36.7	36.4	36.4	37.9	36.4	36.4	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector debt and 24 percent of GDP of contingent liabilities from PFIs and SOEs. Gross debt is used.

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

3/ Revenues excluding grants.

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

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

Table 2b. Samoa: Sensitivity Analysis for Key Indicators of Public Debt 2015–2035

		Projections						
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	65	65	65	63	62	61	55	47
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	65	66	66	66	67	68	75	86
A2. Primary balance is unchanged from 2015	65	67	70	71	74	76	87	105
A3. Permanently lower GDP growth 1/	65	65	67	66	66	66	68	87
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	65	68	70	69	69	69	67	67
B2. Primary balance is at historical average minus one standard deviations in 2016-201	65	67	71	69	68	67	61	51
B3. Combination of B1-B2 using one half standard deviation shocks	65	68	70	68	68	67	62	55
B4. One-time 30 percent real depreciation in 2016	65	81	81	79	77	75	67	56
B5. 10 percent of GDP increase in other debt-creating flows in 2016	65	71	72	70	69	67	62	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	182	213	218	212	208	204	186	158
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	182	217	222	222	226	231	251	288
A2. Primary balance is unchanged from 2015	182	220	235	240	248	255	291	353
A3. Permanently lower GDP growth 1/	182	215	223	219	219	219	226	285
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	182	223	234	230	230	229	225	222
B2. Primary balance is at historical average minus one standard deviations in 2016-201	182	222	237	231	227	223	204	173
B3. Combination of B1-B2 using one half standard deviation shocks	182	223	235	229	226	223	208	185
B4. One-time 30 percent real depreciation in 2016	182	267	272	264	259	252	225	189
B5. 10 percent of GDP increase in other debt-creating flows in 2016	182	235	240	234	230	226	207	175
Debt Service-to-Revenue Ratio 2/								
Baseline	8	10	11	12	11	11	11	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	10	11	12	11	12	13	16
A2. Primary balance is unchanged from 2015	8	10	11	13	12	12	14	20
A3. Permanently lower GDP growth 1/	8	10	11	13	12	12	13	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	8	10	12	13	12	12	13	12
B2. Primary balance is at historical average minus one standard deviations in 2016-201	8	10	11	13	12	12	13	10
B3. Combination of B1-B2 using one half standard deviation shocks	8	10	11	13	12	12	13	10
B4. One-time 30 percent real depreciation in 2016	8	12	15	17	16	16	16	14
B5. 10 percent of GDP increase in other debt-creating flows in 2016	8	10	12	13	12	12	13	10

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SAMOA

May 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of April 30, 2015)

Membership Status
Joined: December 28, 1971; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	11.60	100.00
Fund holdings of currency	10.92	94.12
Reserve position in Fund	0.69	5.98

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	11.09	100.00
Holdings	12.65	114.04

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RFC Loans	5.8	50.00
ESF RAC loan	5.8	50.00

Latest Financial Arrangements

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

Projected Payments to Fund[1]
(SDR million; based on existing use of resources and present holding of SDRs):

	Forthcoming				
	2015	**2016**	**2017**	**2018**	**2019**
Principal	1.16	1.16	1.16	1.74	2.32
Charges/interest	0.00	0.00	0.01	0.01	0.01
Total	**1.16**	**1.16**	**1.17**	**1.75**	**2.33**

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

Exchange Rate Arrangement

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

Article IV Consultations

The 2012 Article IV consultation discussions were held during April 10–20, 2012. It was concluded by the Executive Board on June 15, 2012 (IMF Country Report No. 12/250). Samoa is on the 24–month cycle.

Technical Assistance from Headquarters

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, and financial sector supervision. MCM has provided assistance on monetary policy operations, banking, and insurance supervision and other central banking issues. STA has provided help with government finance statistics and balance of payments statistics, and FAD with tax administration and LEG with central bank law. Following FSAP recommendations, MCM and PFTAC plan to provide assistance on bank supervision and regulations, and STA will provide assistance on monetary and financial statistics.

Safeguards Assessments

An update safeguards assessment of the CBS was completed in June 2014. The assessment found some safeguards elements in place, but concerns over CBS autonomy and governance, audit quality, and staff capacity need to be addressed. The bank has taken steps to improve its governance structure and autonomy, including through legislative measures. However, implementation of the assessment's recommendations has been slow. In addition, the CBS has not published its audited financial statements for the year ended June 30, 2014, as required under the safeguards policy.

Resident Representative

The Regional Resident Representative Office for Pacific Island Countries based in Suva, Fiji was opened on September 13, 2010 and the office covers Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Tubagus Feridhanusetyawan is the current resident representative.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

(As of March 2015)

Background

Samoa has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. This was exacerbated by a devastating tsunami in mid-2009. Samoa responded with a substantial fiscal stimulus financed by domestic and external debt accumulation and also with monetary stimulus including central bank lending to nonbank financial institutions. Growth has however been slow to pick up and with fiscal deficits still relatively high and debt levels elevated, the authorities will continue to face macroeconomic management challenges. Fortunately, with strong policy frameworks, good donor dialogue and coordination and a number of large institutional strengthening projects (ISP) already in place, Samoa is well placed to meet these challenges.

PFTAC has provided moderate technical assistance (TA) to Samoa in recent years mainly on macro-fiscal planning and analysis and statistics. PFTAC TA was instrumental in setting up a medium-term budgeting system and the development of quarterly national accounts in Samoa, both of which are now supported by ISPs. Recent TA has been primarily in the macroeconomic area and is focused on developing a more reliable macroeconomic framework for the budget. Support has also been provided in Samoa's modernization of its income tax legislation.

Strategy 2012–2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for PFTAC's funding cycle.[1]

PFTAC TA aims to support the authorities to sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to focus on building macroeconomic analysis capacity and delivering specific technical inputs in the context of larger ISPs. One instance of this is expected to be support to assessing revenue potential.

In the **Public Financial Management** area, inputs are expected to be relatively small given the large project-based support available to support the Ministry of Finance's PFM reform plan. PFTAC will be available to provide follow-up support to previous work to strengthen the medium-term budgeting system (1.5). PFTAC is also assisting the authorities to implement a follow-up PEFA assessment (1.1).

Assistance in the **macroeconomics** will continue to be instrumental to the success of budget reforms. PFTAC will continue assisting the Ministry of Finance to improve the accuracy and

[1] The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (1.6), where 1.6 is the code in the result framework in the program document.

sophistication of its revenue and GDP forecasting (5.1, 5.3) and to build capacity to produce its own debt sustainability analyses (5.4). This work will continue to aim to build stronger links with the Central Bank of Samoa (CBS)

In the **revenue** area, Samoa continues to make good reform progress with continued support through PFTAC. Recently PFTAC provided technical assistance to the Samoa Ministry of Revenue which included: (a) redrafting the Income Tax Act and Tax Administration Act (2.2); (b) a review of the existing VAGST legislation (2.2); and (c) drafting legislation for a presumptive tax (2.2). To strengthen overall compliance management PFTAC assisted in the development of a new Compliance Improvement Strategy which adopts a more integrated functional approach to address top compliance risks (2.5).

In **statistics**, Samoa is relatively well advanced against the overall results framework; based on PFTAC advice, it produces quarterly National Accounts on two independent measures (4.1) with production of a range of income indicators (4.3). Balance of payments statistics are now being developed according to BPM6 standards (4.9). PFTAC is expected to resume TA in national accounts as support from the International Strengthening Program has been phased-out. The IMF HQ projects on balance of payments and government finance statistics are expected to wind down during financial year 2016.

In **financial sector supervision**, PFTAC's Resident Technical Advisor developed an on-site examination program for Samoa. A Short Term Expert was engaged to assist the Central Bank in performing two on-site examinations of local banks during the FY15. The program will include the delivery of a workshop prior to each examination on a topic relevant to the examination process. Representatives from the Central Bank of Samoa will also attend the annual meeting of the Association of Financial Supervisors of Pacific Countries and associated workshops, sponsored by PFTAC. Samoa will receive technical assistance with the oversight of Credit Unions, including the drafting of a new Credit Union Act.

RELATIONS WITH THE WORLD BANK

(As of March 31, 2015)

The World Bank Group's engagement with Samoa as outlined in the March 2012 Country Partnership Strategy (CPS) focuses on supporting Government efforts to: i) rebuild macroeconomic resilience and encourage inclusive growth; ii) generate opportunities from global and regional integration; and iii) strengthen resilience against natural disasters and climate change. The CPS is closely aligned with the Government's Strategy for the Development of Samoa 2012-2016. The Bank's currently active portfolio consists of 10 projects with a total commitment of US$125.9 million. Samoa has an IDA-17 (FY15–FY17) allocation of $24.5 million.

Samoa: IDA Lending Operations (as of March 2015)

	Year of Approval	Original Amount	Undisbursed Balance
		(In millions of US dollars)	
Current projects (IDA)			
Health Sector Management	2008	6.0	1.0
Post Tsunami Reconstruction Project	2010	10.0	5.1
Agriculture Competitiveness Enhancement Project	2012	8.0	7.9
Enhancing the Climate Resilience of West Coast Road	2013	14.8	14.3
Development Policy Operation	2013	15.0	0.0
Enhancing the Climate Resilience of Coastal Resources & Communities	2013	14.6	13.6
Agriculture and Fisheries Cyclone Response	2013	5.0	1.6
Enhanced Road Access Project	2013	20.0	17.9
Aviation Investment Project	2014	25.0	24.6
First Fiscal & Economic Reform Operation	2014	7.5	7.5
Total		125.9	93.3

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

1) Post-disaster recovery projects

Post Tsunami Reconstruction Project: Assists the Government of Samoa in its efforts to support the relocation and rehabilitation of communities living on the island of Upolu affected by the tsunami of September 2009, through the provision of improved infrastructure access to relocation sites, enhanced transport infrastructure and assistance to local communities to address future natural disasters.

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

Agriculture and Fisheries Cyclone Response Project: Provides recovery assistance to cyclone-affected farmers and fishers through vouchers and grants, with the aim of restoring their lost production capacity, while improving the ability of the agricultural sector to respond to future disasters.

Development Policy Operation: Provided budget support to assist Samoa’s recovery from the immediate impact of Cyclone Evan, and to help Samoa build resilience against such shocks in the future. The operation included reforms to enhance recovery and resilience in disaster management, infrastructure and housing, as well as public finance management reforms that supported improved management and transparency around the use of public funds.

2) Budget support

First Fiscal & Economic Reform Operation: Supports the Government of Samoa's efforts to strengthen public financial management and establish the conditions for more robust private sector growth over the medium term, including through reforms in the areas of debt management, procurement, revenue, payments systems and remittances, tourism sector policy, and PPPs policy.

3) Climate Resilience

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

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

4) Health Sector

Health Sector Management Program: Supports the Government’s reform program aimed at promoting preventative healthcare, and ensuring equitable access to a modern, effective, efficient health service, delivered in close collaboration with the private sector. Implementation uses a sector-wide approach, with co-financing and close coordination with other health sector development partners.

5) Agriculture Sector

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

6) Aviation sector

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

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

In support of a significantly scaled up program, the Bank in November 2009 opened a joint liaison office in Samoa, in conjunction with the Asian Development Bank.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 31, 2015)

The Asian Development Bank operations in Samoa started in 1966: As at year-end 2014, 35 loans ($186.19 million), 14 ADF grants ($90.42 million), and 93 TA projects for $30.43 million have been provided to Samoa. Two loans ($75.15 million), 6 ADF grants ($58.50 million), and 1 TA project ($0.40 million) are active.

ADB's country operations business plan (COBP) 2015-2017, adopts a harmonized approach to donor assistance with other development partners and maintaining the focus of its Pacific Approach targeting improvement of growth prospects and living standards, especially for disadvantaged members of the community. The COBP is closely aligned with the Strategy for the Development of Samoa (SDS).

Samoa has received support from the Pacific Infrastructure Advisory Center (PIAC) for infrastructure master planning and has also participated in the PIAC initiative for strengthening of power and water utilities. Samoa has received ADB regional technical assistance for economic management for development results, energy efficiency, statistics and private sector development (including SOE reforms and secured transactions). ADB continues to include Samoa in new regional TA activities. ADB has also committed to provide technical assistance for the development of a masterplan for the ports and implementation of new Competition law.

In December 2013 the Public Sector Financial Management Program (totaling US$14 million) was approved for release in two tranches (US$10 million and US$4 million). ADB will also continue to support reforms to promote economic use of customary land, build sustainable capacity for sound economic and public sector management and implement state-owned enterprises reforms.

The Samoa AgriBusiness Support Project was approved in June 2014. The Project intends to facilitate credit to agri-businesses by assisting with equity inputs (up to 25%) and credit guarantees (up to 25%) that may equate up to 50% of total project costs. A facility manager has already been appointed but no projects have been funded as yet. The ANZ Bank, Westpac and Samoa Commercial Bank have signed subsidiary financing agreements with the government.

ADB will assist Samoa in the development of its ICT sector through joint financing of the Samoa Submarine Cable and continue with the implementation of the Renewable Energy and Power Sector Rehabilitation Project along with a Community Sanitation Project and Education Sector Project that are nearing completion.

ADB loans to Samoa, 2009–14

	2009	2010	2011	2012	2013	2014
Loan Approvals	0.0	14.0	5.4	0	0	0
Loan Disbursements	6.3	25.6	9.8	27.6	7.6	4.3
Cumulative loan amount available	152.1	166.9	167.09	177.51	177.45	177.24
Cumulative disbursements	114.6	140.2	149.9	167.8	172.1	174.13
Net loan amount undisbursed	37.5	26.7	17.1	9.6	5.3	3.1

STATISTICAL ISSUES

SAMOA—STATISTICAL ISSUES APPENDIX

(As of April 2015)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance. Core macroeconomic and monetary data are regularly reported to the IMF and published on official websites. However, there are weaknesses in national accounts, monetary and financial, and external sector statistics.

National Accounts: National account statistics has been improved during the last three years. GDP is compiled quarterly, predominantly using the VAT data. GDP was recently rebased from 2002 to 2009 constant prices. However, one third of GDP is "non-monetary," and difficult to measure with any precision (both levels and growth rates). The experimental estimate of GDP by expenditure is being refined and hasn't been released yet.

Price Statistics: The CPI is compiled monthly (August 2010=100). A quarterly import price index is also published, coverage being limited to chapters 01-27 of the Harmonized System.

Government Finance Statistics: Samoa has participated in the JSA-funded regional 3-year GFS capacity development project since April 2012. Assisted by the technical assistance provided under this project, the authorities migrated their GFS data from GFS 86 to the GFSM 2001 format. Additionally, the Samoa Bureau of Statistics (SBS) worked to improved data quality by: identifying and incorporating new data sources and statistical estimation techniques in its GFS compilation processes; as well as increased data confrontation with other macro-economic data sets. The authorities began publishing the improved data in 2013 and, for the first time, submitting data for inclusion in IMF publications. Gaps remain in coverage (general government is not yet compiled or published), instrument detail, and consistency across the macro-framework; work is ongoing in Samoa to address these remaining deficiencies. Funding for the regional project expires at the end of FY 15.

Monetary and Financial Statistics: Samoa reports monetary data to the IMF on a regular basis. Monetary data for the Central Bank and other depository corporations are submitted in Standardized Report Form (SRF) format. Samoa does not report data on other financial corporations (OFCs). In November 2014, authorities requested technical assistance from STA to compile SRFs for OFCs.

Financial Sector Surveillance: Samoa does not report data on financial sector indicators.

External sector statistics: The quality of ESS is overall poor, mostly hindered by the frail data collection framework; access to source data for the compilation of some of the most relevant ESS components is limited.ESS coverage overall presents important limitations due to the omission of cross-border transactions and positions of offshore enterprises. As a reference on the relevance of offshore centers in Samoa, Samoan non-bank enterprises hold at least US$ 4.6 billion according to the BIS (Locational Banking Statistics database). The CBS produces and disseminates the balance of payments of Samoa on a quarterly basis, following the BPM6, but restricted to main aggregates and with poor coverage. The IIP is not disseminated by the CBS. The CBS participated in the IMF's Coordinated Direct Investment Survey (CDIS) lastly in 2011, but reported data were highly underestimated.

II. Data Standards and Quality

Samoa is a participant in the GDDS since September 2012.	No data module ROSC has so far been conducted in Samoa.

Samoa—Table of Common Indicators Required for Surveillance

(As of April 2015)

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of Publication[4]	Memo Items:	
						Data Quality – Methodological soundness	Data Quality – Accuracy and reliability
Exchange Rates	02/12	04/3/12	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	11/14	1/4/15	M	M	M		
Reserve/Base Money	2/15	4/13/154	M	M	M		
Broad Money	2/15	4/13/15	M	M	M		
Central Bank Balance Sheet	2/15	4/13/15	M	M	N/A		
Consolidated Balance Sheet of the Banking System[1]	2/15	4/13/15	M	M	N/A		
Interest Rates[2]	2/15	4/13/15	M	M	M		
Consumer Price Index	3/15	4/13/15	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q2 2011	04/12	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt	Q3 2011	04/12	Q	Q	N/A		
External Current Account Balance	Q2 2014	10/14	Q	Q	Q		
Exports and Imports of Goods and Services	Q3 2014	10/22/14	M	M	M		
GDP	Q4 2011	04/12	Q	Q	Q		
Gross External Debt	Q2 2014	10/14	Q	Q	Q		
International Investment Position[5]							

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

Statement by Vicki Plater, Alternate Executive Director for Samoa and Wonjin Choi, Advisor to Executive Director
June 1, 2015

Samoa is gradually recovering from two successive natural disasters with a cumulative reconstruction cost of 40% of GDP. A small state of 190,000 people and vulnerable to natural disasters, Samoa has been able to carefully manage through the consequences of the 2009 tsunami and 2012 cyclone Evan, containing the increase in public debt to a peak at about 56% of GDP. Underpinned by the authorities' reconstruction efforts, and supported by the Fund's Rapid Credit Facility, economic growth has been solid for the last two years and inflation subdued. Such a solid recovery was largely possible due to the ample policy headroom provided by the strong track record of prudent economic management. The authorities have exerted considerable effort to overcome the crisis through a well articulated recovery framework, including an expansionary monetary stance, various fiscal programs to support recovery, and credit provision to the private sector through the public financial institutions (PFI).

The authorities recognize that vulnerabilities have increased in certain areas including as a consequence of the needed government intervention to support reconstruction. The public debt-to-GDP ratio has increased due to widened fiscal deficits. The current account deficit has worsened with reconstruction increasing demand for imported inputs. Asset quality in both PFIs and commercial banks has deteriorated. These vulnerabilities expose the economy to increased risks. The authorities remain vigilant and are developing policies to contain and reduce these vulnerabilities over time.

Against this backdrop, the authorities consider the FSAP as well as the pilot application of deeper macro-financial analysis[1] in Samoa as timely and relevant. The Samoan authorities appreciate the Fund extending professional expertise and resources to Samoa for risk appraisal and policy advice at this important juncture. As a small developing state it is extremely helpful to have access to the Fund's expertise through the FSAP, particularly given the challenges of limited competition and shallow financial markets hampering financial inclusion. The FSAP and macro-financial analysis have helped Samoa identify vulnerabilities and develop policy responses to address weaknesses.

Staff's assessment and advice are broadly aligned with the authorities' appraisal and policy direction. With this in mind we offer the following updates and elaboration.

[1] Samoa is one of the pilot countries for incorporating greater macro financial analysis in the Article IV, following the recommendations of the 2014 Triennial Surveillance Review.

Recent developments and outlook

Economic growth is expected to remain solid through 2015/16 before weakening somewhat and then returning back to potential of around 2 percent over the medium term. The authorities expect real GDP growth to strengthen by 2.6% in 2014/15, up from 1.9% in 2013/14, supported by the recovery in tourism and remittances and the infrastructure investment for reconstruction and in preparation for several major international events, the UN Small Islands Developing State (SIDS) Conference in September 2014 and the Commonwealth Youth Games in September 2015. Growth is expected to reach around 2.4% in 2015/16 and then fall back in 2016/17 following the completion of investment for the international events and as production at the Yazaki plant - a significant private employer - winds down towards July 2016 (as its key Australian automotive production market closes). The authorities have a more optimistic assessment than Staff of the impact of the Yazaki close-down on 2016/17 growth primarily reflecting Yazaki's efforts to identify and explore potential investment opportunities in other commercial sectors in Samoa, which are expected to mitigate the impact of the closure of Yazaki's harness manufacturing operations.

Inflation is expected to rise as economic growth takes hold, but will remain below the CBS' target - 3 percent - over the medium term, benefitting from subdued imported inflation. The authorities expect headline inflation to rise to 1.8 percent for 2014/15, from 0.8 percent the previous year, mainly reflecting higher domestic inflation as imported inflation is expected to be a subdued 0.7 percent (given the sharp decline in oil prices). For 2015/16 and later, headline inflation is expected to edge up to around 2.5 percent in the wake of stronger economic activity.

While the current account balance has widened the authorities expect a gradual rebalancing to a deficit of around 5 percent of GDP over the medium term as tourism and agricultural exports strengthen. Recent developments have shown positive signs in this direction: total exports of goods in the first six months of 2014/15 increased by 21.5 percent relative to the same period last year while total imports were down by 10.1 percent; and total exports of services in the same period of time was 2.5 percent higher reflecting a 7.9 percent increase in tourism as well as gains in telecommunications services. A strengthening of growth in Australia should further support this.

Fiscal policy

The authorities' fiscal stance is geared at gradual consolidation to slowly lower debt and maintain a budget deficit in the medium-term of not more than 3.5% of GDP. The authorities well recognize the risks from the currently diminished fiscal policy room and heightened fiscal vulnerabilities, including fiscal-financial linkages from government guarantee to PFIs. The authorities' long-standing commitment to prudent fiscal management remains and with the completion of all major infrastructure reconstruction works following the recent natural disasters, there is now the opportunity to adopt a tighter fiscal stance.

The authorities note that the long-term debt target of 40 percent of GDP proposed by staff is well aligned with the authorities' stated goal of reducing public debt to 50 percent of GDP by 2020. To help bring down the debt-to-GDP ratio to 50 percent, the authorities are continuing to implement the debt management strategy, the procedures for contracting new loans and issuing new guarantees, and the improved legal framework through, inter alia, amendments to the Public Finance Management Act to explicitly include the government's borrowing purposes and debt management objectives, along with reporting requirements to Parliament.

The authorities are pushing ahead with further SOE reform in light of SOEs' potential impact on fiscal sustainability. Parliament has recently approved amendments to the Public Bodies Act 2001 to establish the Ministry of Public Enterprises, charged with responsibility to ensure the performance and accountability of SOEs. Performance evaluations of boards of directors of SOEs will be concluded this year, underpinned by TA by ADB. The manual for directors is being revised to reflect the establishment of the new Ministry. Privatizations of SOEs that have already been approved by Cabinet, including the Agriculture Store Corporation, Polynesian Airlines Limited and Samoa Shipping Services, are proceeding as planned.

Monetary policy and the exchange rate

The Central Bank of Samoa (CBS) will maintain its current monetary policy stance to support economic growth but will remain vigilant to any risks to inflation. Given the low inflation pressures, the CBS sees little need to tighten monetary policy in the foreseeable future. However, should there be a shock that drives up inflation for a prolonged period of time, the CBS stands ready to review and adopt a tightening stance to control inflation.

The CBS' policy priority is improving the effectiveness of monetary policy and its transmission mechanism. The monetary policy transmission mechanism through the interest rate channel is limited and the CBS believes market rates could be lower given current monetary policy settings. The CBS considers that moral suasion, through the quarterly meetings with the CEOs of the four commercial banks, has been a more effective means to communicate the monetary policy stance, and is encouraging commercial banks to lend to the private and public sector and thus support the economic recovery. Improving the functioning of the monetary policy transmission mechanism is a key area for further work. The CBS is encouraging inter-bank market activity to strengthen the domestic financial market.

The CBS' exchange rate policy strives to achieve a good balance between maintaining Samoa's export competitiveness and minimizing imported inflation. The REER has declined from the high levels seen in 2009 and 2011, generally reflecting the low inflationary pressures and improvements in Samoa's terms of trade. Compared to its main trading partners, Samoa's inflation has been lower in 2014, which helped drive the REER downward, aside from the last quarter of the year.

The CBS considers the current level of the tala exchange rate appropriate. The authorities' own assessment found the REER to be only very modestly misaligned with its equilibrium rate (by 2 percent) in the June quarter of 2014, without any indication of any persistent deviation of the REER from its equilibrium level, which is consistent with the Staff's view.

Financial sector

The financial sector in Samoa remains generally well capitalized, profitable and liquid, although risks and vulnerabilities have built up in certain areas. Capital adequacy ratios and ROE in the banking sector were generally comfortable at 28.7 percent and 7.1 percent respectively at the end of 2014. However, non-performing loans edged up to around 7 percent. The FSAP has been a timely exercise as it has helped identify key areas that need strengthening, especially with regards to financial sector supervision and regulation in order to attain macro-financial stability and a sound external position.

The authorities welcome the recommendations from the FSAP and will work concertedly to implement the recommendations; steps are already being taken in some areas. The authorities are putting in place better coordination between the Ministry of Finance (MOF) and the CBS as a foremost priority at both a strategic and at an operational level. Key MoUs have been signed between the CBS and MOF. Coordinated contingency plans have been drafted covering both the system as a whole and for individual systemic institutions. Revisions to the CBS Act to reform governance and safeguards are well advanced, and are consistent with IMF recommendations. Technical assistance will be important to support the Samoan authorities implement the range of FSAP recommendations in a way that is meaningful in the Samoan context.

International financial regulation and its sensible implementation also matters. Given the significance of remittances to the Samoan economy (19 percent of GDP), it is also important not to lose sight of the need for ongoing international efforts to reduce the cost of sending remittances. The Samoan authorities are continuing to strengthen its anti-money laundering and counter terrorism financing (AML-CFT) monitoring and supervision to minimize and deter these illegal activities. The authorities also urge commercial banks abroad to assess AML-CFT on a case by case basis, and not on a wholesale closure of money transfer operators' agents bank accounts abroad.

Total credit to the private sector increased significantly over the year to end December 2014, with commercial banks' credit growth finally turning positive. Credit growth reflected the preparations for the SIDS conference in September 2014 as well as a sharp increase in foreign currency loans to the business sector. Annual average credit growth rose to 5.9 percent at end December 2014 from 1.2 percent at end 2013, driven by growth in credit to businesses (up 16.4 percent) and individuals (up 12.2 percent). Private sector credit is expected to continue to increase in the last six months of 2014/15 but at a more moderate pace.

We welcome staff's assessment that overall credit growth, including credit from Public Financial Institutions (PFIs), supported GDP growth in Samoa in the period since the Global Financial Crisis. The authorities believe that CBS's Credit Line Facility (CLF) to stimulate the economy (particularly since 2013) has been the most effective of the CBS' efforts to support growth by directly extending credit to the private sector. The CLF provided relief financing to the priority sectors (tourism, manufacturing, agriculture and housing) and has provided much needed competition to drive down commercial bank interest rates. Total credit growth has increased as a result in recent months mainly stemming from credit extended by PFIs while bank credit has been slow in comparison.

The authorities intend to closely review credit provision through PFIs and ensure that PFIs' operations return to their mandated roles over time. The authorities have a keen interest to see the private financial sector playing an effective role as a facilitator of credit. The credit guarantee support provided via PFIs to strengthen finance to the public and business community is considered to be only a temporary measure given the special circumstances, and is complementary to credit from commercial banks. As reconstruction activities broadly wrap up and credit issued by commercial banks shows stable growth, the authorities envisage that PFIs will withdraw from providing credit to the private sector outside of their legislated role. The authorities are mindful of the need to limit any further buildup in risks and exposures from PFIs. The CBS is strengthening its financial oversight of PFIs, with revised prudential regulations planned, based on recommendations from the FSAP. The PFIs will come under the auspices of the new Ministry of Public Enterprises, which will further support transparency and accountability of these organizations.

One of the main constraints to private sector credit is the lack of acceptable collateral available to many SMEs. In this regard, the use of customary land leases as acceptable collateral is being developed. Also, a personal property security act is now in place to allow individuals and business to use their moveable assets as collateral for loans. A centralized asset registry is still being developed at the moment to bring this into effect. Further analysis is underway of the relatively high lending rates, which are a deterrent to potential businesses and those that are looking to improve and expand their domestic operations, to determine if this is an issue for which a policy response would be appropriate.

Structural reforms

The authorities welcome the staff's positive evaluation of the authorities' structural reform agenda and endorsement of the authorities' policy direction. Lifting medium-term growth remains a key challenge. The authorities are reviewing various options to promote diversification of the economy, such as promoting processed food exports though the establishment of plants for fish/cannery/virgin coconut oil processing. Enhancing the business environment remains critical to this challenge. Given the importance of financial inclusion for private sector development, research is underway on how to strengthen financial access of SMEs including the possibility of introducing SME lending regulations and a credit bureau. To help support tourism development, the authorities are examining issues of market access such as increased airfares, the reduction of flights from a key source market, and the lack of inter-connecting airline links from long haul and secondary source markets.

On behalf of the Samoan authorities, we thank the staff for their constructive policy dialogue with the authorities in both the Article IV and the productive FSAP discussions. The authorities are also highly appreciative of the Fund's technical assistance from HQ and PFTAC, and places high priority on further technical assistance to support capacity building of key officials and implementation of the FSAP recommendations.