

Samoa: 2005 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; 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 2005 Article IV consultation with Samoa, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 22, 2005, 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 May 13, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of June 17, 2005 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 17, 2005 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Samoa.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SAMOA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Samoa

Approved by Masahiko Takeda and Michael Hadjimichael

May 13, 2005

- The consultation discussions were held in Apia during March 9–22, 2005. The staff team comprised Mr. Leigh (Head), Messrs. Chamon and Semblat (all APD) and was assisted by Mr. Craig and Ms. Morant (Pacific Financial Technical Assistance Centre-PFTAC in Fiji). Ms. Adolph (OED) attended the policy discussions.
- The mission met Prime Minister Tuilaepa Malielegaoi, Minister of Revenue Anasii Leota, Financial Secretary Petana, the Governor of the Central Bank of Samoa (CBS) Scanlan, representatives of financial institutions, public enterprises, tourism and other private sector enterprises and major donors.
- In concluding the last Article IV consultation on June 2, 2003, Directors noted that Samoa's combination of sound economic management and structural reform had led to robust growth, low inflation, sound public finances, and a comfortable external position. Directors urged the authorities to maintain prudent macroeconomic policies and move ahead with structural reforms to improve public sector efficiency and reduce barriers to investment.
- Samoa accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1994 and maintains an exchange system free from restrictions on payments and transfers for current international transactions.
- The authorities have indicated their intention, as in the past, to publish the staff report and the background documents.

Contents

Executive Summary	4
I A Decade of Economic Transformation	5
II. Recent Economic Developments	8
III. Report on the Discussions.....	9
A. Overview	9
B. Outlook and Vulnerabilities	9
C. Fiscal Policy	11
D. Monetary and Exchange Rate Management	16
E. Financial Sector Issues	17
F. Structural Reform Policies.....	18
G. Other Issues.....	19
IV. Staff Appraisal	19
Boxes	
1. Recent Structural Reforms and Unfinished Agenda.....	7
2. Importance of Workers Remittances	12
3. Polynesian Airlines	15
Tables	
1. Selected Economic and Financial Indicators, 2000/01–2005/06	22
2. Balance of Payments, 2000/01–2005/06	23
3. Financial Operations of the Central Government, 2000/01–2005/06.....	24
4. Monetary Survey, 2000/01–2004/05	25
5. Medium-term Outlook, 2000/01–2009/10	26
6. Vulnerability Indicators, 2000/01–2003/04.....	27
Figures	
1. Regional Comparators (Averages 2000–2004)	28
2. Selected Economic Indicators, 1999/00–2004/05.....	29
3. External Sector Developments, 1999/00–2004/05	30
4. Monetary and Financial Indicators, 1999/00–2004/05	31
5. Regional Competitiveness Indicators, 1999–2005	32
6. Medium-Term Outlook, 2001/02–2009/10.....	33

Annexes

I.	Fund Relations	34
II.	Support from the Pacific Financial Technical Assistance Centre.....	35
III.	Relations with the World Bank Group.....	36
IV.	Relations with the Asian Development Bank	38
V.	Statistical Issues	39
VI.	Social and Demographic Indicators	42
VII.	Progress on Millennium Development Goals	43

EXECUTIVE SUMMARY

Economic Setting

- **Samoa's decade of economic reforms has yielded several years of strong performance, but the record in more recent years has been uneven.**
 - **Real GDP growth** has picked up (3½ percent in 2003/04 and 3 percent projected for 2004/05) driven largely by the boom in the construction sector, but remains below levels attained through 2000/01. Inflation rose significantly in 2004 but has slowed down in recent months. The trade deficit widened in 2003/04.
 - The government has made further progress on **structural reforms**. However, there are still substantial reforms which need to be tackled.
- **The near term outlook on growth is moderately favorable.** Overall growth is projected at 3 percent in 2005/06 underpinned by robust growth in the services and construction sectors. Agriculture is expected to slowly recover, while improvements in the fishing sector remain uncertain.
- **The authorities remain committed to macroeconomic stability and reform, but face a number of immediate domestic challenges to sustaining that positive record.**
 - There are strong calls for a large **public sector wage increase** ahead of the elections scheduled for early 2006. The costs of restructuring the loss-making Polynesian Airlines are also likely to impose a significant burden on the 2005/06 budget (to be presented to Parliament at end-May 2005).

Key Policy Issues

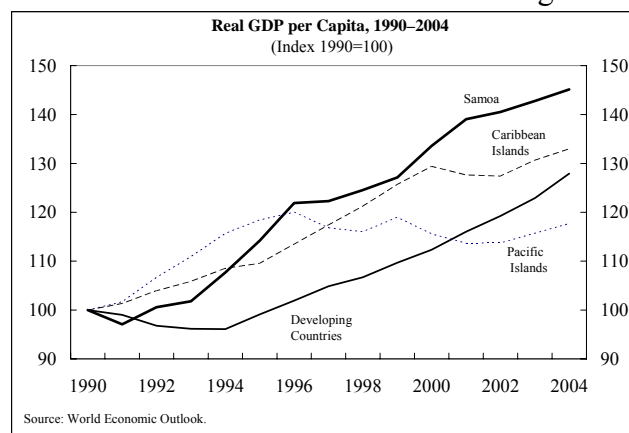
- **This year's consultation discussions focused on how to contain the immediate risks to macroeconomic stability and deepen structural reforms to rekindle growth.**
 - **On fiscal policy**, to limit the impact of any wage increase on the budget, wage policy should be developed in line with the ongoing civil service reform and the upward adjustment be phased in such that after the initial moderate increase subsequent wage increases be linked to performance. The government should also find ways to limit the burden of the restructuring costs of Polynesian airlines on the forthcoming 2005/06 budget.
 - **With regards to financial sector issues**, strengthening the National Provident Fund's (NPF's) investment guidelines and supervisory framework is recommended.
 - **On structural reform policies**, it is essential that Samoa continue to deepen its implementation of the state-owned enterprises (SOE) reform and tackle the other impediments to private sector development (including the functioning of the land market). The recent initiative taken by the government on land market reform (a politically sensitive issue) to facilitate the leasing of unused communal land represents a significant step on their reform agenda.

I. A DECADE OF ECONOMIC TRANSFORMATION

1. **Samoa embarked upon a remarkable economic transformation in the mid-1990s.** Prior to that, Samoa was one of the weakest performers among the Pacific Island countries. A history of economic mismanagement compounded by a number of major shocks in the early 1990s, including two cyclones, had led to recurrent episodes of acute macroeconomic imbalances and a prolonged period of stagnation. These challenges prompted a major review of economic policy, culminating in the introduction of a comprehensive reform program in 1995/96 starting with important reforms in the public and financial sectors and of the tax and tariff systems.

2. **With continued commitment to sound macroeconomic and reform policies, Samoa became one of the best managed economies in the Pacific Island region.** The economy registered solid growth, low inflation, improved public finances and international reserve levels, and outperformed comparator countries both within and outside the region.

The level of public debt (in relation to GDP) has steadily declined from over 90 percent to about 50 percent. Samoa also made progress toward the Millennium Development Goals (MDGs). Political stability, close consultation with stakeholders, and extensive efforts to foster a broad consensus for reform were integral to the program's steady implementation and success. The reforms, while developed and owned by the Samoan authorities, also reflected policies recommended by the Executive Board in the context of Article IV consultations. The authorities' concerted efforts at expenditure restraint, in particular the scaling back the level of public funding for major construction projects, is also consistent with staff advice during the 2003 Article IV consultation mission.



Gross Domestic Product (GDP) Per Capita and Human Development Index (HDI) in Samoa and Comparator Countries

	HDI Rank 1/	GDP Per Capita in US\$ (2003)	Real GDP Per Capita Annual Growth Average 1994-2003
Tonga	63	1609	1.1
Caribbean Average 2/	73	5614	1.8
Samoa	75	1672	3.6
Fiji	81	2088	2.1
Solomon Islands	124	498	-2.6
Vanuatu	129	1361	-0.8
Papua New Guinea	133	614	-2.6

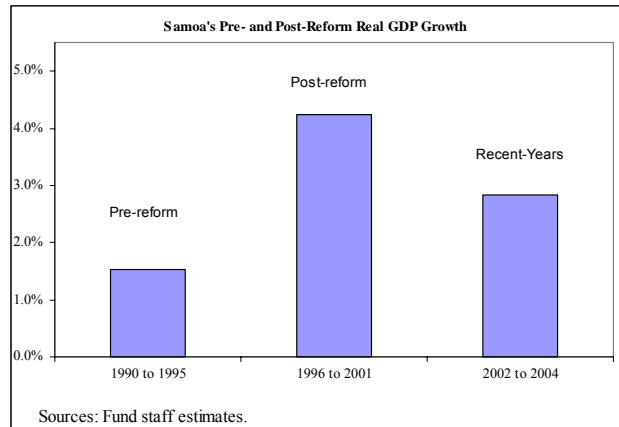
Sources: UN Human Development Report, 2004, and IMF.

1/ Rank out of 177 countries.

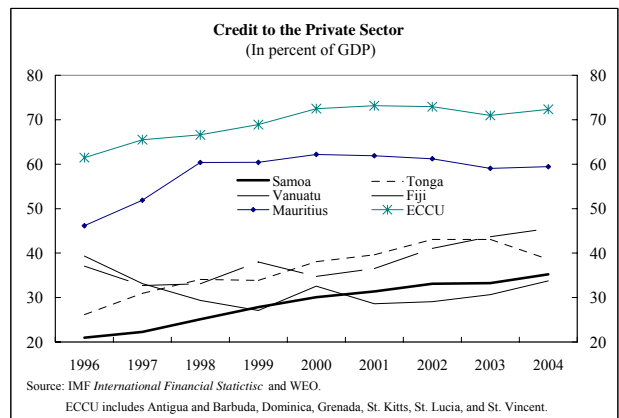
2/ Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

3. The 2005 Article IV consultation provides a good opportunity—at a time when Samoa has just launched the Strategy for the Development of Samoa (SDS-2005/07)—to take stock of the progress made in recent years and consider the challenges ahead.

➤ Despite the notable progress over the last decade, overall macroeconomic performance weakened in recent years, the export base remains narrow (mainly fish, automotive parts, and tourism), and the economy remains vulnerable to external shocks. Real GDP growth slowed suggesting that the efficiency gains from the reforms over the last decade were neither fully sufficient to sustain a higher growth nor did they adequately diversify the economy and substantially reduce its vulnerability to shocks. Inflation has also risen (and is now above the regional average—Figure 1). Preserving a sound macroeconomic framework will be critical to reducing Samoa’s vulnerabilities to shocks.



➤ Over the last decade, Samoa has successfully launched a wide-range of structural reforms (Box 1) that have laid the foundation for an enabling environment for private sector development. As a result, private sector activity has expanded at a faster pace than in other Pacific Island economies. Going forward, Samoa needs to tackle additional reforms (paragraphs 32–33) to consolidate the gains made over the last decade and boost long-term growth prospects.



4. The authorities remain committed to macroeconomic stability and reform that has earned them a good reputation within the region over the past decade, but also face a number of immediate domestic challenges to sustaining that strong record. The Remuneration Tribunal (which was appointed by the Prime Minister under the Remuneration Tribunal Act of 2003 and comprises of 2 former public servants and one official from the private sector) has recently called for a large wage increase (about 40 percent) for the public sector ahead of the elections scheduled for early 2006. The costs of restructuring Polynesian Airlines are also likely to impose a significant burden on the budget. Moreover, there have been calls for tax breaks to further stimulate private sector investment. Skillful economic management will be required to limit the impact of these domestic pressures on macroeconomic stability.

Box 1. Recent Structural Reforms and Unfinished Agenda

Recent Progress:

- **Public sector reform:** The authorities have made significant progress on civil service reforms—in particular, the substantial restructuring of Ministries and downsizing of some functions have taken place, most notably in the Ministry of Public Works. A gradual reduction in staffing levels has been achieved through natural attrition. A major review of the functions of each Ministry by the Public Service Commission is expected in the second half of 2005 with a view to refocusing them on their core functions.
- **Public enterprise reform:** The enactment of the Public Bodies Act in 2001 laid the groundwork for the SOE policy framework. Under this program, the government's priority is to divest its minority shareholdings in various enterprises and privatize enterprises that are of no strategic public interest. Thus, the government sold its minority holdings in three small companies in 2004 and announced the privatization of Samoa Shipping Services, Agriculture Store and Samoa Broadcasting Corporation. For enterprises that are of strategic public interest, the government will adopt a corporatization program which aims to give these SOEs a stronger commercial focus, strengthen their corporate governance and financial reporting. These SOEs would be expected run as efficiently as similar private sector businesses and should at least achieve cost recovery and eventual self-sufficiency within a defined period, as described by their corporate plans. A Telecom Bill that is expected to be approved by Parliament by end-June 2005 aims to create a more competitive telecommunications sector underpinned by an appropriate regulatory framework.
- **Tax and tariff reform:** These reforms have improved the efficiency of the tax system and liberalized the trade regime. In 1994, Samoa introduced a value-added tax on goods and services at 10 percent (this was raised to 12½ percent in 2002) and abolished most excise taxes. Since 1998, the maximum tariff rate has been reduced from 60 percent to 20 percent, the tariff schedule has been simplified to four rates and rates of 35–42 percent have been reduced in several steps to 8 percent. The mission's discussions with the private sector suggest that they welcomed the reduction in tariff rates, and tariff levels do not constitute a barrier to private investment in Samoa. There are no significant nontariff barriers.
- **Financial sector reform:** Supervision of the financial sector has been enhanced by bringing nonbanks and insurance companies under the supervisory framework of the central bank. The regulatory framework for offshore banks have also been tightened.

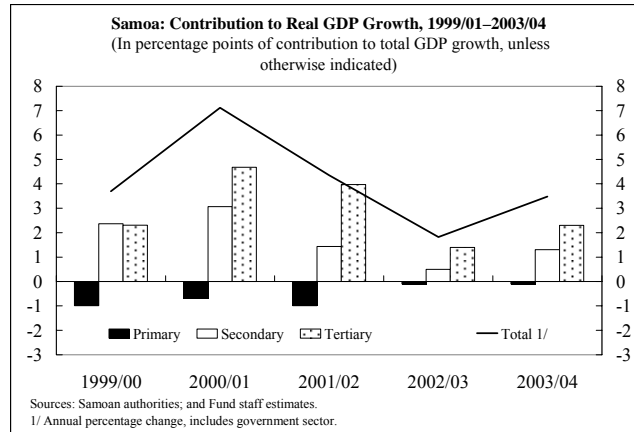
Unfinished agenda: Going forward, the SDS (2005–2007) emphasizes:

- **Deepening of SOE reform:** Over the medium term, there are plans to consider placing some SOEs under private sector operators with management contracts while retaining government ownership, as an additional avenue to improve the financial position of the large loss-making SOEs.
- **Reforming the Land market:** The government plans to look at the viability of the Land Leasing Committee to facilitate negotiations between owners of unused communal land and investors that are interested in leasing such land for commercial purposes.
- **Improving the investment climate:** This will require better infrastructure (including service delivery by energy, water and ports utilities) and easing the regulatory burden (by simplifying the number of procedures and the time it takes to establish a business).

II. RECENT ECONOMIC DEVELOPMENTS

5. Although growth has slowed from rates attained through 2000/01, economic activity has started to pick up.

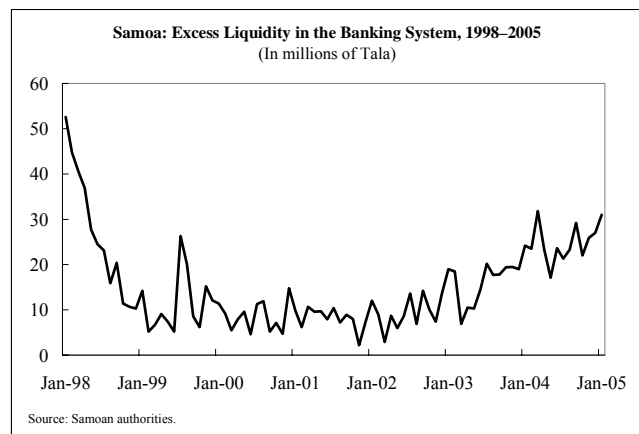
Real GDP growth increased to 3½ percent in 2003/04 from about 1¾ percent in 2002/03.¹ The slowdown in the manufacturing sector, poor performance of the fishing sector and cyclone Heta's damage in January 2004 (which hit hard the agriculture sector), was more than offset by the robust growth in the services and construction sectors. Based on data through end-December 2004, growth is projected to be 3 percent for 2004/05.



6. Inflation rose in 2003/04 but has come down in recent months (Figure 2). Headline inflation (12 months average) rose to 8 percent in 2003/04, up from 4¼ percent in 2002/03 and reached double digits in 2004 following cyclone Heta's impact on food prices and the increase in import prices (including fuel prices). However, inflation has declined in recent months and is projected to be about 7½ percent (12 months average) in 2004/05.

7. The external trade deficit widened in 2003/04. This reflected sluggish export growth and higher import growth which was driven by the boom in the construction sector (largely externally financed). Structural weaknesses rather than exchange rate competitiveness, were the main factors behind the weak export performance (paragraph 26). The widening of the trade balance was more than offset by the increase in remittances in 2003/04 and as a result the external current account deficit narrowed. Based on data through end-December 2004, the current account deficit (excluding official transfers) is projected to widen to 12¾ percent of GDP in 2004/05 reflecting continued weak export growth and higher import growth related to the construction boom.

8. The Central Bank of Samoa (CBS) eased monetary policy in order to support economic activity following cyclone Heta in January 2004.² The CBS injected substantial liquidity into the banking system through open market



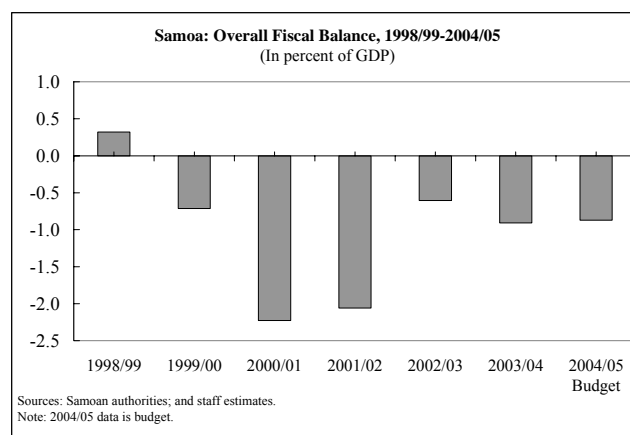
¹ Throughout this report, economic statistics are presented on a fiscal year basis unless otherwise stated. The fiscal year in Samoa begins on July 1.

² Monetary policy is conducted in the context of an adjustable peg exchange rate arrangement supported by capital controls with the tala linked to a transaction-weighted (trade, remittances and tourism receipts) basket of currencies.

operations in central bank securities. Broad money and credit to the private sector rose significantly as a result, growing by 13 percent and 17 percent respectively in the year to June 2004. In the second half of 2004, private sector credit growth weakened reflecting the slowdown in key export sectors such as fishing. As a result, the level of excess liquidity in the banking system rose.

9. **Fiscal performance has been broadly stable since 2002/03 reflecting continued**

expenditure restraint. The fiscal deficit outturn of 0.9 percent of GDP for 2003/04 was lower than budget (1½ percent of GDP). Although revenues were slightly below budget in 2003/04, this was more than offset by the continued expenditure restraint. The 2004/05 budget targets a deficit of 0.9 percent of GDP and its execution is broadly on track based on preliminary 2004/05 mid-year figures. Provided these estimates are confirmed, no additional measures will be needed to achieve the 2004/05 budget targets.



III. REPORT ON THE DISCUSSIONS

A. Overview

10. **Discussions focused on how to contain the immediate risks to macroeconomic stability as well as on the structural policy priorities needed to rekindle growth over the medium term.** The mission cautioned the authorities that the pursuit of an expansionary fiscal policy carries clear risks both to macroeconomic stability and the government's economic reform program. The authorities concurred with the thrust of the staff's assessment of the economic outlook, the risks and the challenges ahead. Thus, discussions focused correspondingly on how best to adapt the stance of macroeconomic policies given the risks and the immediate domestic challenges. The mission also discussed reform measures that are needed to achieve robust and sustainable private sector led growth over the medium term.

B. Outlook and Vulnerabilities

11. **The staff and the authorities project real GDP growth of 3 percent in 2005/06.** Growth in tourism and continued strong construction activity (largely driven by the projects for the 2007 South Pacific Games to be held in Samoa) will provide a boost to economic activity.³ Agriculture is expected to slowly recover, while improvements in the fishing sector remain uncertain.

³ A major tourist resort being built near Apia's international airport is expected to be opened in July 2005.

12. **Over the medium term**, like other Pacific Island countries, Samoa's remoteness, limited resource base and the high cost of transportation from key markets will continue to hamper growth. Thus, the mission noted that to encourage private sector led growth, it is essential to keep domestic costs low through continued macroeconomic stability and structural reforms. Deeper SOE and land market reforms are critical if the private sector is to serve as the engine of growth. The improvements in public sector efficiency associated with the SOE reform would raise total factor productivity and facilitate the economy's adjustment to shocks. Land market reform is also a potential source of growth particularly for the tourism sector (most of the target sites for tourism development are on communal land). The staff acknowledges the uncertainties regarding a sustainable medium-term growth for a small island economy like Samoa where economic activity is volatile and sensitive to various shocks (including natural disasters). This said, assuming that these reform efforts are successful, 3½ percent average growth over the medium term is achievable.

13. **There are, however, risks to this outlook.** On the upside, stronger-than-expected performance of the tourism sector could lead to higher growth. On the other hand, continued high oil prices and more generally the external economic environment could also influence the outcome. In particular, an economic slowdown in Australia, New Zealand and the United States, the home of the majority of émigré Samoans, could reduce the growth of remittances.

14. **Samoa also remains vulnerable to both external shocks and natural disasters.** In the absence of policy adjustment, these shocks could pose a threat to macroeconomic stability. Under a nonadjustment scenario developed by staff (in which fiscal policy is expansionary reflecting partly large public sector wage increases coupled with external shocks including continued high oil prices), the medium-term macroeconomic situation will worsen with lower growth, higher inflation, and a debt-to-GDP ratio close to 70 percent of GDP by 2009/10 (Table 5) This weaker macroeconomic position together with reduced capital inflows reflecting the stalling of structural reforms, would put a significant strain on the international reserves. The staff's debt sustainability analysis shows that while isolated shocks to the economy would not negatively impact the debt ratios, a combination of shocks (including zero growth, a 30 percent devaluation of the tala and a natural disaster such as a cyclone) under a nonadjustment scenario would raise the debt to GDP ratio close to 100 percent, broadly the level where it was before the macroeconomic stabilization program of the mid-1990s.⁴ Given its vulnerability to a number of shocks, the mission urged the authorities to consider raising the reserve target (from its current level of 4 months of import cover to about 5 months). This would help to mitigate the impact of external shocks and natural disasters on the economy.

⁴ At 48 ½ percent of GDP, Samoa's external debt-to-GDP ratio is higher than the regional average of about 40 percent but is significantly lower than those of heavily indebted low income countries. Moreover, almost all of the debt is contracted with multilaterals (Asian Development Bank and the World Bank) and bilateral donors on concessional terms and largely used to finance development spending in the budget. The accompanying selected issues paper discusses in detail medium-term debt sustainability.

15. **The authorities noted their efforts to promote the diversification of exports (including the Samoa Tourism Development plan) and to strengthen the resilience of the economy to external shocks.** They reiterated that remittances will continue to provide the most stable source of balance of payments inflows and that the continued stability of remittance flows will serve as an important buffer against adverse shocks (Box 2).⁵ They also consider the tourism sector as a promising engine for growth. This sector is very underdeveloped compared to some of the Pacific Island economies, suggesting that there is large scope for growth. They noted that a successful joint venture between Polynesian Airlines and Virgin Blue, which is expected to lower the high cost of air fares (one of the main impediments to tourism in Samoa) will boost prospects for the sector. The authorities also mentioned that Samoa and New Zealand have recently reached an agreement which will enhance Samoa's market access to the latter's economy for higher-value added goods (organic crops and processed food) and help to diversify its export base. This could also help fill the void left by garment exports.⁶ The authorities expressed their intention to review the reserve target given the economy's vulnerability to shocks.

C. Fiscal Policy

16. **The staff recommended that the deficit target should be about 0.9 percent of GDP in the 2005/06 budget.** The proposed target takes into account reasonable prospects for growth and the need to reduce the debt-to-GDP ratio to about 40 percent (the regional average) over the medium term (Figure 1). The deficit target also assumes that the 2005/06 budget will need to bear some of the restructuring costs of Polynesian Airlines (about ¾ percent of GDP) and therefore implies a modest fiscal tightening in 2005/06.

17. **The authorities indicated their intention to press for a prudent 2005/06 budget.** As a revenue measure, the staff proposed that the government consider the removal of the exemption on Value Added Goods and Services Tax (VAGST) on electricity consumption, except for low income households, which is expected to yield revenues of about ½ percent of GDP. The authorities noted that additional revenues to the budget could come from putting in place a revenue sharing arrangement on betting duties and enforcing the current dividend policy for SOEs.

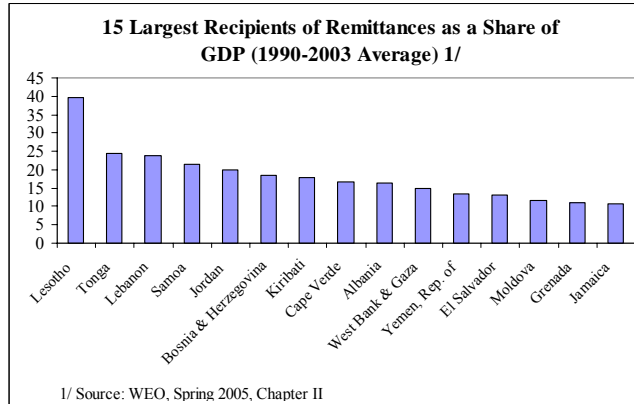
18. **The mission cautioned against granting tax breaks for the private sector since this risks eroding the revenue base.** The authorities have given some tax breaks to encourage private sponsorship of the 2007 South Pacific Games. Moreover, there have been calls for tax breaks to further stimulate private sector investment. Samoa's tax revenue

⁵ The accompanying selected issues paper discusses in detail the role of remittances in the Samoan economy and the economics of migration (drawing on the experience of other countries).

⁶ The garment factory closed down in early 2005 following the expiration of the multifiber agreement. Garments accounted for only about 4 percent of exports and Samoa is not among the countries considered to be vulnerable to the phasing out of the ATC quotas.

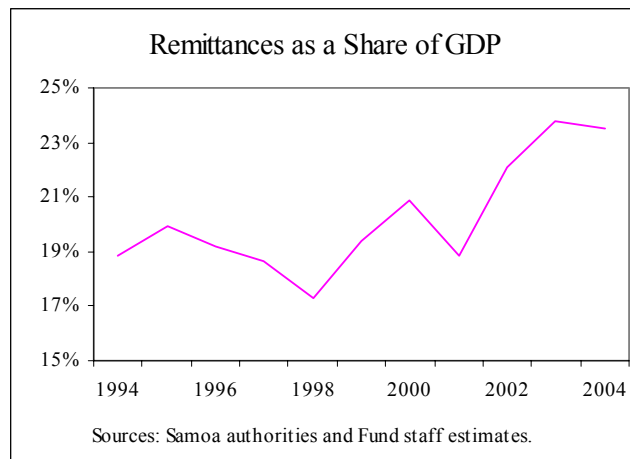
Box 2. Importance of Workers Remittances

- **Samoa is one of the highest recipients of remittances as a share of GDP.** Remittances amounted to about 24 percent of Samoa's GDP in 2004, and constitute a critical component of the balance of payments flows. Samoa's current account deficit would likely be unsustainable in the absence of remittances.



- **Remittance flows are relatively stable.** Due to particular aspects of Samoan culture, expatriates tend to maintain very strong ties with their families, villages and churches, even in the case of second generation migrants. These strong ties combined with the continuing flow of new migrants ensure the reliability of remittances.

- **Remittances affect households through a number of channels.** Remittances could have an adverse effect on the labor supply of recipients if used as a substitute for labor income. On the other hand, remittances may also complement labor if used for productive investments. Anecdotal evidence suggests that remittances in Samoa tend to finance consumption. Remittances also help households to provide schooling (education) for their children and cope with adverse shocks.



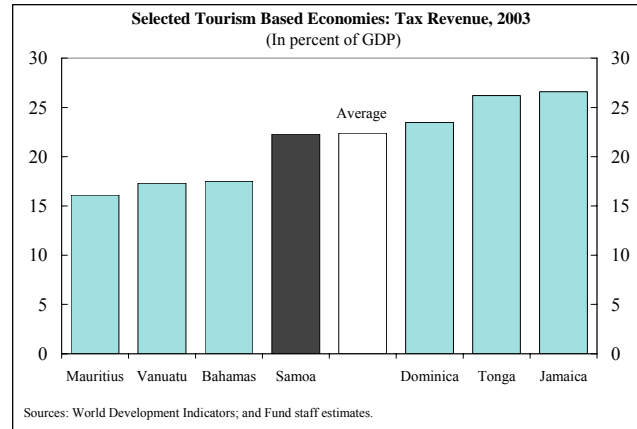
- **Migration of skilled workers can have a positive impact on the economy through its effects on remittances and trade networks.** It is likely that expatriate workers face higher skill-premia than those that remain in Samoa (for example, economies of scale may limit the opportunities for more skilled individuals in such a small economy). If so, additional education investments can translate into higher returns for the economy even if some of the more educated workers move abroad (through their remittances). "Exporting" human capital (as opposed to just raw labor) may well provide higher returns than investment in some of the traditional agricultural exports which are subject to terms of trade shocks and long-term cycles. High-skilled expatriates can also help build networks that facilitate international trade and investment in Samoa.

- **Efforts should be made to minimize transaction costs and encourage the use of the formal financial sector for channeling remittances** as some of the remittances are transferred through informal channels ("hawala-type"). This would contribute to financial development.

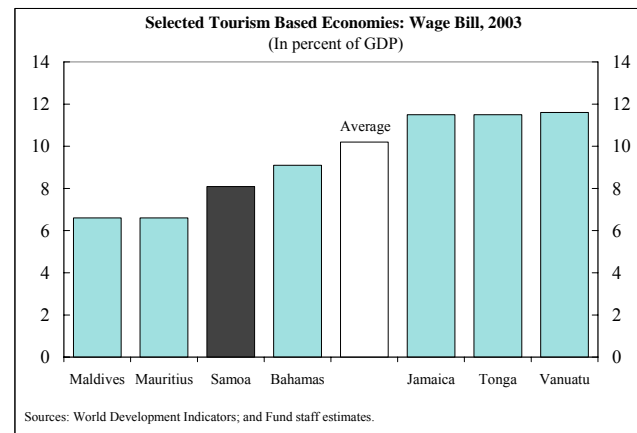
(about 22½ percent of GDP), which relies largely on indirect taxes, falls just below the average for selected tourism-based island economies.

19. Expenditure restraint—in particular on wage policy—is crucial for achieving the proposed deficit target for the 2005/06 budget.

➤ The authorities argued that Samoa’s wage bill is low compared to other Pacific Island countries. They mentioned that a review of public servants’ wages and salaries was last done in 1997 and public servants have not received a general wage increase since 2001. It was noted that given the political realities a sizable wage increase was inevitable. However, the authorities assured the mission that the wage increase recommended by the Remuneration Tribunal is unlikely to be supported by the government and that a more modest increase is likely to be approved.

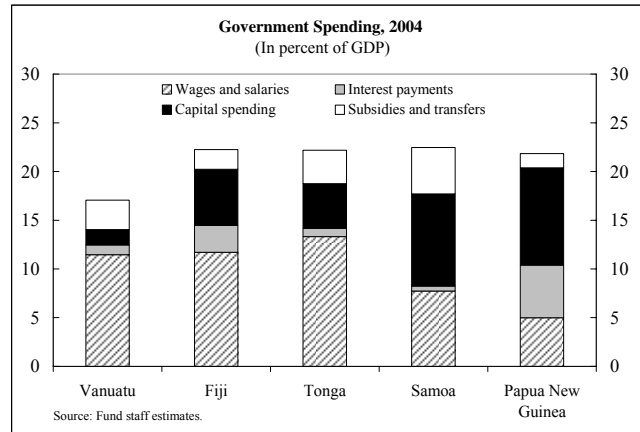


➤ The staff noted that although Samoa’s wage bill is lower than that of several other tourism-based island economies, a large wage increase is likely to have a significant demonstration effect on the private sector and would put pressures on both inflation and the balance of payments. Thus, the mission recommended that wage policy be developed in line with the ongoing civil service reform. To limit the impact of any wage increase on the budget, the mission recommended that the government put in place a moratorium on the filling of all vacancies other than essential positions. The staff noted that this could be complemented with phasing in the wage increase such that after the initial moderate increase subsequent wage increases be linked to performance.



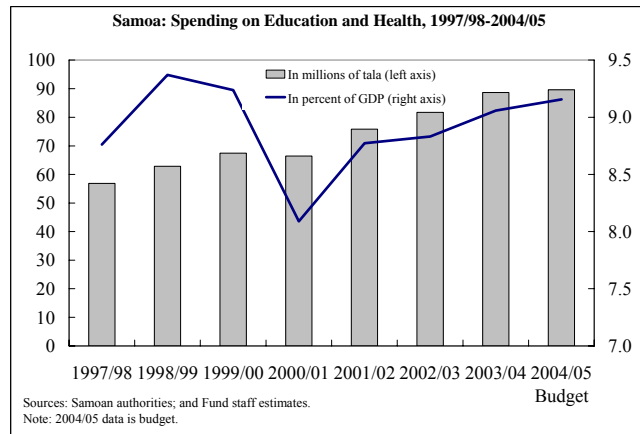
➤ The authorities and the staff agreed that expenditure restraint will also require adequate control of subsidies and transfers to SOEs. Thus, the mission welcomed the progress made by the government toward a comprehensive restructuring of Polynesian Airlines (with IFC assistance). The mission advised the government to find ways to limit the burden on the 2005/06 budget including by spreading out the

costs over time. The authorities noted that additional expenditure savings could be made by allowing the Electricity Power Corporation (EPC) to adjust tariffs in line with fuel prices. The cabinet subsequently approved a 15 percent increase of electricity tariffs to take effect May 2005, which will go toward reducing the need for a government subsidy to EPC.



20. **The authorities noted that the cost of restructuring Polynesian Airlines remains uncertain at this stage.** Preliminary estimates prepared by experts put the likely cost in the range of 1½–4 percent of GDP, although the government considers that this may be too high and plans to conduct an independent review. The estimated cost includes the required capital injection into the planned airline joint-venture, the penalty cost of an early termination of the Polynesian Airlines jet lease and the cost of taking over the airline’s debts which are government guaranteed (Box 3).

21. **Over the medium term, there is a need to strengthen tax administration, reduce less productive spending and reorient expenditures toward social and infrastructure sectors.** The authorities noted that the amalgamation of the Inland Revenue and Customs into a new Ministry is expected to facilitate a more efficient tax administration and improve tax compliance. The staff expressed its support for the authorities’ commitment to the establishment of a Large Taxpayer Unit (LTU) and the introduction of a single Tax Identification Number in line with the 2003 Fiscal ROSC. The mission also recommended this be used as an opportunity to review and modernize the 1974 income tax legislation. The authorities concurred that the areas identified by the mission for strengthening tax administration are broadly consistent with their own priority needs for technical assistance.⁷



The authorities also noted that greater rationalization of expenditures would enable reorienting spending toward social sectors (education and health) and infrastructure which are important for long-term growth.

⁷ They indicated their intentions to seek technical assistance from PFTAC in the above mentioned areas.

Box 3. Polynesian Airlines

- **Despite some recovery in the mid-1990s, government-owned Polynesian Airlines has for a long time been experiencing financial difficulties.** In 1994 following an ill-designed expansion, Polynesian Airlines became technically insolvent. In response, the government embarked on a restructuring of the airline, with a new management team brought in, and the government taking over the debt (about 16 percent of 1994/95 GDP). This plan succeeded in turning the airline around. However, following another ill-devised expansion and the decline in regional tourism after the September 11, 2001 terrorist attacks, the airline is once again experiencing financial difficulties.
- **Problems at Polynesian Airlines have been a persistent burden to the budget.** During the second half of the 1990s, excessive budgetary burden by Polynesian Airlines led the government to cut back on the much needed spending on education and health. To keep the airline operating, about 3 percent of GDP was allocated in the 2001/04 budgets and 0.9 percent of GDP are provisioned in the 2004/05 budget. In addition, the government has had, in the past, to take over the airline's debt, (current debt to banks and obligations for aircraft leasing are government guaranteed).
- **A plan for the restructuring of Polynesian Airlines was announced on December 22, 2004 and was recently approved by the Cabinet.** An advisory committee supported by the IFC, recommended to the Cabinet that Virgin Blue be chosen as the preferred partner for a new joint-venture airline to be set up with the government. The contractual document for the joint-venture is expected to be signed by end-June 2005 and if successful, the new airline is expected to become operational in the latter part of 2005. Virgin Blue's interest in Polynesian Airlines stems from its regional ambition in the South Pacific and its strategy of expanding its network, following similar deals in Fiji.
- **Under the proposed plan, Polynesian Airlines is expected to become profitable.** Under this plan, the current operations of Polynesian airlines would be divided into two entities: the joint venture would take over the long-haul operations while the short-haul and ground handling operations would remain with Polynesian airlines. With the joint venture operating within a "low-cost airline," the long-haul operations, which had been traditionally the loss-making side of Polynesian airlines, are expected to become profitable. At the same time, short-haul and ground operations could benefit from the synergies with the joint venture and the increased activity that the joint venture would bring in.
- **The restructuring of Polynesian Airlines could entail sizable costs to the budget.** Under the proposed plan, the government is expected to inject ½ percent of GDP as capital into the joint-venture. In addition, it may have to bear the penalty cost of early termination of the lease of the jet it currently operates, and the costs of assuming the airline's debts which are government guaranteed. Some of these costs will have to be borne by the 2005/06 budget, but some spreading-out of the penalty costs for the early termination of the jet lease over a few years is currently envisaged. In 2001 when Polynesian Airlines returned one of their jets prior to the expiration of the lease, they managed to spread out the penalty costs over a few years.

22. **The mission encouraged the authorities to draw up a credible medium-term fiscal consolidation plan in the forthcoming 2005/06 budget.** At present, annual budgets do not include medium-term fiscal forecasts and there is no explicit discussion of fiscal sustainability. The government's budget rule consists of a ceiling on the overall deficit of 3½ percent of GDP. Given that a full-fledged Medium-Term Budget Framework (MTBF) will take time to develop, the mission recommended that the 2005/06 budget signal the government's intention to move toward a MTBF by laying out the broad parameters of the government's medium-term fiscal strategy. The authorities agreed to include a simplified MTBF in the 2005/06 budget and present a more detailed program in the 2006/07 budget.⁸

D. Monetary and Exchange Rate Management

23. **Monetary policy needs to be less accommodating in the near term given reasonable prospects for growth and the need to support the peg.** If the risks to the forthcoming 2005/06 budget were to materialize and balance of payments pressures emerge, the authorities should stand ready to tighten monetary policy. The staff noted that the ability of the government to contain the fiscal position would be a critical factor in determining whether such a tightening would be necessary. The CBS concurred noting that this advice was broadly in line with their own thinking on monetary policy stance for 2005/06. The CBS is expected to outline its monetary policy framework for the coming fiscal year once the 2005/06 budget is announced at end-May 2005.

24. **The authorities noted that the current pegged exchange rate regime has served well as a nominal anchor.** They emphasized that the policy of periodically making adjustments in the value of the tala within a ±2 percent band by the CBS, appears to have struck an appropriate balance between maintaining external competitiveness, and preserving the exchange rate peg's role as an anchor for inflation. The peg to a basket of currencies has also helped to avoid sharp movements in the nominal effective exchange rate of the tala.

25. **The mission noted that the stalling of export growth is of some concern.** Fishing remains the largest export industry but this sector has not performed well in recent years in part due to unfavorable weather conditions. Despite successful shifts toward new export crops, improvements in the agricultural sector are likely to be gradual. The staff noted that regional competitiveness indicators including export market share (Figure 5), do not signal an overvaluation of the tala nor do they suggest that Samoa has lost its competitiveness within the region. The recent appreciation of Samoa's real effective exchange rate mainly reflects the surge in food prices in early 2004 (following cyclone Heta); underlying nonfood prices and costs have not risen significantly relative to major trading partners.

26. **The authorities (and the private sector) agreed with the staff that the underlying structural weaknesses in the economy have contributed to the stalling of export volume growth.** Structural problems include periodic power outages in some parts of the country, poor infrastructure including inefficient landing and docking facilities at the ports (which has

⁸ An AsDB funded consultant is assisting the authorities on the sectoral strategy of the MTBF. PFTAC also plans to assist the authorities on the MTBF based on the staff's medium-term macroeconomic framework.

Other Regional Competitiveness Indicators 1/				
	Fiji	Samoa	Tonga	Vanuatu
Paved roads (in percent of total roads) (1999)	49	42	27	24
Cost of a three minutes local call (in U.S. dollars) (2002)	0.05	0.03	0.05	0.22
Government wage bill (in percent of total expenditure)	39.9	21.7	44.0	53.5
Prevailing import tariff rates (in percent) (2003) 2/	0-27	0-20	0-45	0-55
Number of days to start a business	45	73	39	39
Cost of starting a business, US\$	873	380	227	1,899

Sources: World Bank, *World Development Indicators, 2004*; UNDP, *Human Development Report, 2004*; *World Tourism Organization and South Pacific Tourism Organization, World Bank: Doing Business in 2004: Understanding Regulation*, and Fund staff estimates.

1/ Data for 2004, unless otherwise indicated.
2/ Excludes effective rates from specific import duties and ad valorem rates on selected luxury items.

affected fish exports), obstacles to leasing communal land and using such land as collateral for loans and the lengthy review process for foreign investments and for starting a business. Thus, the staff noted that addressing the structural weaknesses is critical to reinvigorating and diversifying the export base. The authorities responded that the SDS (2005–2007) has laid out several initiatives to tackle these structural weaknesses and improve the investment climate. In particular, they noted that the restructuring of energy, water and ports utilities, if successful, would improve the quality of the service delivery to the private sector and help revitalize key export industries such as fishing. They also plan to establish a “one-stop shop” for starting businesses and for foreign investors.

E. Financial Sector Issues

27. **The financial sector remains sound and significant progress has been made in strengthening the supervisory framework.** The four commercial banks are adequately capitalized and are in compliance with the 15 percent capital adequacy requirement. The CBS stated that the current practice of conducting its examinations through external auditors and extensive off-site monitoring, along the lines of the New Zealand model, remains effective. They also noted that the information sharing between the CBS, external auditors and the foreign banks (whose parent banks maintain strong internal controls on their subsidiaries) remains useful and reduces the need for extensive on-site monitoring.⁹

28. **Samoa continues to make progress on the tightening of the regulatory requirements for offshore banks and strengthening the framework for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).** The international banking bill was approved by Parliament in April 2005 and includes the provision to require all offshore banks to establish a real physical presence in Samoa and to set up an International Financial Authority as the new supervisory agency for the offshore banks. In March 2005, an AML/CFT bill was submitted to the Attorney General’s Office for review

⁹ Two of the four existing banks (ANZ and Westpac) are subsidiaries of major Australian banks. They have a joint market share of over 75 percent of banking system’s assets.

and certification before tabling for Parliamentary approval. This bill is expected to go toward making Samoa compliant with the AML/CFT requirements and the 40 + 8 recommendations of the Financial Action Task Force (FATF).

29. **The mission recommended a review of both the National Provident Fund's (NPF's) role in the economy and its investment guidelines.** The NPF's nonperforming loans are high, reflecting increasing activity in its noncore functions. Its assets are skewed in favor of short-term loans to members and various public sector related projects.¹⁰ The staff noted that investment policies of National Provident Funds are designed to confine the pension fund's exposure to risk-free assets, and are therefore constrained by tight investment guidelines. The staff also urged the CBS to strengthen the NPF's supervisory framework..

30. **The authorities concurred that it was timely to review the NPF's investment guidelines.** They agreed with the staff's view that the significant exposure of NPF's assets to members' borrowings, most of which is used to finance consumption, was less than desirable. They noted that the NPF's investment framework is constrained by the lack of long-term investment opportunities in the domestic market. Thus, the government has recently given the NPF the authority to invest abroad 16 million tala (1½ percent of GDP or 7 percent of NPF's total assets) and to date about 2 million tala has been invested overseas. The authorities expressed their interest in receiving technical assistance to strengthen the NPF's risk management and investment framework and enhance its financial soundness.

F. Structural Reform Policies

31. **Public sector reform:** The mission commended the authorities for the progress made on civil service reform in recent years (Box 1). The staff expressed its support for the plans by the Public Service Commission to review the functions of each Ministry by the end of 2005 with a view to refocusing them on their core functions.

32. **Public enterprise reform:** The public sector still dominates the economy with the state accounting for about 40 percent of both GDP and total employment. The mission expressed its support for the general thrust of the government's SOE policy framework, which focuses on the corporatization of all SOEs, in particular those that are of strategic public interest (power, ports and water), and privatization of enterprises in the nonstrategic sectors (Box 1). The mission encouraged the government to accelerate the enactment and the implementation of the Companies Act in line with the Public Bodies Act which requires SOEs to be run on strict commercial principles. The authorities agreed and noted that supporting legislation for the Companies Act (which includes bankruptcy and litigation provisions) is being developed. The staff welcomed the progress made by the authorities toward the introduction of more competition in the telecom sector supported by an appropriate regulatory framework.¹¹

¹⁰ Members of the provident fund can borrow from the NPF an equivalent of about 50 percent of their outstanding balances (using their balances as collateral).

¹¹ The World Bank is assisting the authorities on developing the regulatory framework.

33. **Land market reform:** The authorities and the staff agreed that land market reform is important for private sector development. The staff emphasized the need to find ways to build an institutional and legal framework capable of sustaining an efficient lease market, which safeguards the interests of the local community while ensuring protection to the investor. The authorities expressed their intentions to explore the possibility of facilitating the leasing of some unused communal land for private investment purposes after extensive public consultations. However, they noted that the constitution bars the sale of communal land for commercial purposes. Therefore, they would need to proceed cautiously on land market reform given the political sensitivity.

34. **Trade liberalization:** The mission commended the authorities for the progress made on trade reform as well as toward WTO accession which is expected to be concluded by the end of 2005. Samoa is a founding member of the Pacific Island Countries Trade Agreement (PICTA), which aims to eliminate all intra-regional tariffs by 2012. Samoa is also a participant in the negotiations currently under way for new access to the European Union (EU) market through reciprocal Economic Partnership Agreements (EPAs) under the Cotonou Agreement, expected to take effect in 2008. The authorities noted that Samoa stands to benefit from EPAs although it may face supply constraints and challenges in meeting the strict EU standards. They also argued that given the very low level of imports from the EU to Samoa (about 1 percent), the impact of the EPA on tax revenues is expected to be minimal.

G. Other Issues

35. **While Samoa has made important progress in strengthening the reporting of economic statistics, further improvements in their timeliness and quality would allow for more comprehensive economic analysis and surveillance.** Samoa formally adopted the Fund's General Data Dissemination Standards (GDDS) in November 2003. The national accounts and the consumer price index were rebased in 2003 based on the 2002 household income and expenditure survey (HIES). The CBS is expected to complete its transition to Balance of Payments Manual 5 by end-June 2005. Further improvements are needed in other areas, notably the fiscal accounts to address weaknesses in terms of the quality and timeliness of available data. Thus, the mission supported the authorities' request to PFTAC for technical assistance in the migration to the Fund's Government Financial Statistics Manual (GFSM) 2001. Improved budget disclosure of medium-term forecasts and assumptions, tax expenditures, fiscal risks and contingent liabilities would also be beneficial.

IV. STAFF APPRAISAL

36. **Over the last decade, Samoa has transformed itself into one of the best managed economies in the Pacific Island region.** The economy has registered solid growth with low inflation, public finances have improved significantly and official reserves have been raised to more comfortable levels. Human development indicators are also amongst the highest in the region. The authorities deserve to be commended for good macroeconomic management.

37. **Despite this notable progress, the record in more recent years has been uneven and the authorities also face immediate challenges to sustaining that strong record.** Decisive action is needed to limit the large domestic pressures on the 2005/06 budget and

prevent the emerging risks to macroeconomic stability which could threaten the hard-won gains made over the last decade. Skillful economic management will be required to limit the impact of these pressures on macroeconomic stability.

38. **Prudent fiscal policy stance should be continued in the forthcoming 2005/06 budget.** The fiscal deficit should be limited to about 0.9 percent of GDP given the need to reduce the debt level. Prudent wage policy is crucial to achieving this deficit target. To limit the impact of any wage increase on the budget, a moratorium on the filling of all vacancies other than essential positions will be required and any wage increase phased in. Further progress needs to be made by the government toward a comprehensive restructuring of Polynesian Airlines. Given that the restructuring costs are likely to be large, ways should be found to limit the burden on the 2005/06 budget including by spreading out the costs over time. The granting of large scale tax breaks for the private sector which would erode the revenue base should be avoided.

39. **Strengthening tax administration and reorienting expenditures toward social and infrastructure sectors remain a policy priority over the medium term.** The authorities' commitment to strengthening tax administration especially the establishment of a Large Taxpayer Unit should be pursued and it would be desirable to modernize the 1974 income tax legislation. Greater rationalization of expenditures would enable reorienting spending toward education, health and infrastructure sectors which are important for medium-term growth. The intention to include a simplified medium-term budget framework in the 2005/06 budget is welcome.

40. **Monetary policy needs to be less accommodating in the near term.** If the risks to the 2005/06 budget were to materialize and balance of payments pressures emerge, the authorities should stand ready to tighten monetary policy. The ability of the government to contain the fiscal position would be a critical factor in determining whether such a tightening would be necessary.

41. **The current pegged exchange rate regime has served well as a nominal anchor.** The policy of periodically making small adjustments in the value of the tala appears to have struck an appropriate balance between maintaining external competitiveness, while preserving the exchange rate peg's role as an anchor for inflation. Structural weaknesses such as poor infrastructure services by key utilities, rather than exchange rate competitiveness appear to have largely contributed to the weak export performance. Addressing these structural weaknesses is critical to reinvigorating and diversifying the export base.

42. **The Central Bank is commended for recent measures taken to strengthen the supervision framework.** The approval of the international banking bill which includes a provision to require all offshore banks to establish a real physical presence in Samoa and to set up an International Financial Authority as the new supervisory agency for offshore banks is helpful. The progress made in strengthening the AML/CFT framework is also welcome.

43. **The National Provident Fund's role in the economy and its investment guidelines should be reviewed.** Given its high level of nonperforming loans, reflecting increasing activity in its noncore functions, there is a need to review its investment guidelines as well

strengthen its supervisory framework. A financially-sound pension fund will be needed for dealing with the fiscal pressures which can arise when the population ages.

44. **It is important that Samoa continues to carry forward its public sector reforms and move ahead to tackle the other impediments to private sector development.** The authorities are commended for the progress made on civil service reform in recent years. Progress toward the creation of a more competitive telecommunications sector underpinned by an appropriate regulatory framework, and WTO accession which is expected to be concluded by the end of 2005, is commendable. Deeper SOE and land reform are critical for private sector development. Thus, the government should accelerate the enactment and implementation of the Companies Act and of the supporting legislations which will strengthen the corporatization program for SOEs. The government should engage in consultations with the public in order to find ways to build an institutional and legal framework capable of sustaining an efficient lease market for unused communal land, which safeguards the interests of the local community while ensuring protection to the investor.

45. **While data provision for surveillance purposes is still adequate overall, staff's analysis was affected by shortcomings in certain areas.** Samoa's formal adoption of the IMF's General Data Dissemination Standards (GDDS) is welcome. Improved quality and timeliness of fiscal data and disclosure of medium-term budget forecasts and assumptions and fiscal risks are encouraged.

46. **It is recommended that the next Article IV consultation with Samoa take place on a 24-month cycle.** The authorities welcomed the possibility of an interim staff visit, which could focus on the 2006/07 budget and the medium-term budget framework.

Table 1. Samoa: Selected Economic and Financial Indicators, 2000/01–2005/06 1/

Population (2003): 179,058
 GDP per capita (2001): US\$1,672
 Quota: SDR 11.6 million

	2000/01	2001/02	2002/03	2003/04	2004/05 Proj.	2005/06 Proj.
	(12-month percent change)					
Output and inflation						
Real GDP	7.1	4.4	1.8	3.5	3.0	3.0
Change in CPI (end period)	1.1	9.8	1.6	17.2	-2.9	2.0
Change in CPI (period average)	1.9	7.4	4.3	7.9	7.5	3.0
	(In percent of GDP)					
Central government budget						
Revenue and grants	31.9	33.8	32.8	32.5	40.1	37.9
Expenditure and net lending	34.3	35.9	33.4	33.4	41.0	38.8
Overall balance	-2.3	-2.1	-0.6	-0.9	-0.9	-0.9
External financing	0.5	1.4	0.5	0.0	0.5	0.6
Domestic financing	1.7	0.7	0.1	0.9	0.4	0.3
	(12-month percent change)					
Money and credit						
Broad money (M2)	20.1	3.6	6.6	12.7	10.5	8.8
Net foreign assets 2/	0.7	1.3	-9.2	4.0	10.4	3.2
Net domestic assets 2/	64.5	6.8	27.7	20.9	10.5	13.3
Private sector credit	21.0	9.9	11.4	17.1	8.6	9.0
Three-month CBS rate	5.7	5.8	5.2	5.2	5.2	5.2
	(In millions of U.S. dollars)					
Balance of payments						
Exports, f.o.b.	14.5	14.4	12.9	14.1	12.7	12.3
Imports, c.i.f	120.4	134.3	132.9	149.5	174.8	188.4
Current transfers (net)	64.0	72.9	79.6	98.8	125.2	110.9
Current account balance	0.1	-1.6	8.3	15.2	8.7	-7.0
(In percent of GDP)	0.1	-0.6	2.9	4.4	2.2	-1.6
Current account balance excluding official transfers	-20.7	-23.8	-13.4	-9.6	-49.9	-54.6
(In percent of GDP)	-8.8	-9.6	-4.7	-2.8	-12.7	-12.9
Overall balance	1.5	4.2	-5.7	2.2	9.6	1.1
External reserves and debt						
Official reserves (gross) 3/	45.7	54.4	51.5	66.8	76.4	77.5
(In months of next year's imports of goods and services)	3.6	4.2	3.4	3.6	3.9	4.0
External Public debt 4/	143.5	153.4	169.1	177.3	190.4	198.8
(In percent of GDP)	61.4	62.0	59.6	51.5	48.5	46.9
External debt-service ratio (in percent) 5/	8.8	9.1	8.7	7.9	6.0	5.3
Exchange rates						
Market rate (tala/U.S. dollar, end period)	3.5	3.3	3.0	2.9	...	...
Market rate (tala/U.S. dollar, period average)	3.4	3.5	3.2	2.9	...	...
Nominal effective exchange rate (1990 = 100) 6/	100.9	99.7	98.4	98.8	...	...
Real effective exchange rate (1990 = 100) 6/	93.4	99.7	97.5	112.8	...	...
Memorandum items:						
Nominal GDP (in millions of Tala)	804.2	858.2	913.8	989.0	1059.4	1118.5

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

1/ Fiscal year beginning July 1.

2/ Change in percent of beginning period broad money.

3/ Excludes reserve accumulation by commercial banks

4/ Includes publicly guaranteed debt. The government took over Polynesian Airlines debt in August 1994.

5/ In percent of exports of goods and services.

6/ IMF, Information Notice System Index; end of period.

Table 2. Samoa: Balance of Payments, 2000/01–2005/06
(In millions of U.S. dollars, unless otherwise noted)

	2000/01	2001/02	2002/03	2003/04	2004/05 Proj.	2005/06 Proj.
Current account balance	0.1	-1.6	8.3	15.2	8.7	-7.0
(In percent of GDP)	0.1	-0.6	2.9	4.4	2.2	-1.6
Merchandise trade balance 1/	-105.9	-119.9	-120.0	-135.4	-162.1	-176.1
Exports, fob	14.5	14.4	12.9	14.1	12.7	12.3
Imports, cif 2/	120.4	134.3	132.9	149.5	174.8	188.4
Services and income balance	42.1	45.5	48.7	51.8	45.6	58.2
Services, net	44.7	45.8	52.2	52.3	52.4	64.6
Travel, net	38.2	39.7	45.3	58.5	62.3	66.9
Other services, net	6.5	6.1	6.9	-6.2	-9.9	-2.3
Investment income, net	-2.6	-0.3	-3.5	-0.5	-6.7	-6.4
Current transfers, net	64.0	72.9	79.6	98.8	125.2	110.9
Official transfers, net	20.8	22.3	21.7	24.8	58.6	47.7
Private transfers, net	43.2	50.6	57.9	74.0	66.6	63.2
Financial and capital account, net	1.4	5.8	-14.0	-13.0	0.9	8.1
Official loans, net	1.2	3.6	1.7	-3.9	1.9	1.9
Disbursements	3.8	7.3	5.8	0.1	7.0	0.0
Repayments	2.5	3.7	4.2	4.0	4.5	5.3
Government guaranteed loans, net	-2.9	-2.5	-2.3	-1.2	-1.1	0.0
Private sector capital (including errors and omissions)	3.1	4.7	-13.3	-8.0	0.0	7.0
Overall balance	1.5	4.2	-5.7	2.2	9.6	1.1
Memorandum items:						
Gross official reserves 3/	45.7	54.4	51.5	66.8	76.4	77.5
(In months of next year's imports of goods and services)	3.6	4.2	3.4	3.6	3.9	4.0
Current account balance (excluding official transfers)	-20.7	-23.8	-13.4	-9.6	-49.9	-54.6
(In percent of GDP)	-8.8	-9.6	-4.7	-2.8	-12.7	-12.9
External debt 4/	143.5	153.4	169.1	177.3	190.4	198.8
(In percent of GDP)	61.4	62.0	59.6	51.5	48.5	46.9
External debt-service ratio 5/	8.8	9.1	8.7	7.9	6.0	5.3
Nominal GDP (in millions of U.S. dollars)	233.8	247.3	283.8	344.6	392.4	423.7

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

1/ Excludes trade data for Yasaki Samoa Limited and imports by foreign diplomatic missions located in Samoa.

2/ Imports in 2001/02 include exceptional capital imports (8 shipping vessels and machinery for the extension of the port) amounting to \$8.6 million.

3/ Excludes reserve accumulation by commercial banks.

4/ Estimated on the basis of calendar-year data.

5/ As a percent of exports of goods and nonfactor services.

Table 3. Samoa: Financial Operations of the Central Government, 2000/01–2005/06

	2000/01	2001/02	2002/03	2003/04		2004/05		2005/06
				Budget	Actual	Budget	Proj.	Proj.
(In millions of tala)								
Total revenue and grants	262.4	290.8	303.5	318.4	317.7	426.3	425.3	424.4
Total revenue	197.4	198.7	229.3	251.4	246.5	268.0	267.0	298.6
Tax revenue	174.8	182.7	206.5	224.1	219.7	239.5	237.6	267.2
Nontax revenue	22.5	16.0	22.8	27.3	26.8	28.5	29.3	31.3
External grants 1/	65.1	92.1	74.2	67.0	71.2	158.3	158.3	125.8
Total expenditure and net lending	281.7	308.6	309.1	332.4	326.6	434.8	434.8	434.4
Current expenditure	164.6	183.3	202.2	208.0	204.5	232.2	232.2	252.8
Development expenditure 1/	103.1	104.2	86.9	93.5	86.6	176.4	176.4	155.8
Net lending	13.9	21.1	20.0	30.9	35.5	26.2	26.2	25.8
Current balance	32.7	15.4	27.1	43.3	42.0	35.7	34.7	45.7
Overall balance	-19.2	-17.8	-5.6	-14.1	-8.9	-8.5	-9.5	-10.1
Financing	18.3	17.8	5.6	14.1	8.9	8.5	9.5	10.1
External financing, net	4.3	11.8	4.7	13.1	0.3	5.1	5.1	6.7
Disbursement	13.3	23.9	16.6	26.5	12.1	18.1	18.1	20.1
Amortization	8.9	12.1	11.9	13.4	11.9	13.0	13.0	13.4
Domestic financing, net	14.0	6.0	0.9	1.0	8.6	3.5	4.5	3.4
Banking system	12.0	-3.5	-6.2	0.0	17.6	0.0	0.0	3.4
Nonbanks and others	2.0	9.5	7.0	1.0	-9.0	3.5	4.5	0.0
(In percent of GDP)								
Total revenue and grants	31.9	33.8	32.8	32.7	32.5	43.6	40.1	37.9
Total revenue	24.0	23.1	24.8	25.8	25.2	27.4	25.2	26.7
Tax revenue	21.3	21.2	22.3	23.0	22.4	24.5	22.4	23.9
Nontax revenue	2.7	1.9	2.5	2.8	2.7	2.9	2.8	2.8
External grants	7.9	10.7	8.0	6.9	7.3	16.2	14.9	11.2
Total expenditure and net lending	34.3	35.9	33.4	34.2	33.4	44.4	41.0	38.8
Current expenditure	20.0	21.3	21.9	21.4	20.9	23.7	21.9	22.6
Development expenditure	12.6	12.1	9.4	9.6	8.9	18.0	16.6	13.9
Net lending	1.7	2.5	2.2	3.2	3.6	2.7	2.5	2.3
Overall balance	-2.3	-2.1	-0.6	-1.4	-0.9	-0.9	-0.9	-0.9
Financing	2.2	2.1	0.6	1.4	0.9	0.9	0.9	0.9
External financing, net	0.5	1.4	0.5	1.3	0.0	0.5	0.5	0.6
Disbursement	1.6	2.8	1.8	2.7	1.2	1.8	1.7	1.8
Amortization	1.1	1.4	1.3	1.4	1.2	1.3	1.2	1.2
Domestic financing, net	1.7	0.7	0.1	0.1	0.9	0.4	0.4	0.3
Banking system	1.5	-0.4	-0.7	0.0	1.8	0.0	0.0	0.0
Nonbanks and others	0.2	1.1	0.8	0.1	-0.9	0.4	0.4	0.3

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

1/ The jump in external grants in 2004/05 is attributed to several projects in connection with the organization of the 2007 South Pacific Games.

Table 4. Samoa: Monetary Survey, 2000/01–2004/05

End of Period:	2000/01	2001/02	2002/03	2003/04	2004/05			
	Actual	Actual	Actual	Actual	Sep	Dec	Mar	Jun
					Actual	Proj.		
(In millions of tala; unless indicated otherwise)								
Net foreign assets	179.9	182.2	165.5	172.1	193.3	220.1	205.0	190.0
Monetary authorities 1/	157.2	175.7	151.9	186.2	202.6	213.6	205.0	190.0
Commercial banks	22.7	6.5	13.6	-14.0	-9.4	6.5	0.0	0.0
Net domestic assets	128.3	137.0	175.0	211.5	207.2	198.4	219.0	233.8
Domestic credit	178.2	197.0	237.1	290.4	287.2	279.8	301.9	317.7
Government (net)	-89.5	-93.0	-99.2	-81.6	-89.2	-81.6	-81.6	-81.6
Nonfinancial public enterprises	17.7	15.1	29.3	13.4	12.6	10.0	10.0	10.0
Nonmonetary financial institutions	0.1	0.1	0.9	0.0	0.0	0.0	0.0	0.0
Claims on private sector	249.9	274.7	306.1	358.5	363.8	351.4	373.5	389.3
Other items (net)	-49.9	-59.9	-62.1	-78.9	-79.9	-81.4	-82.9	-83.9
Broad money	308.3	319.2	340.4	383.6	400.5	418.5	424.0	423.8
Narrow money	88.7	92.3	93.8	112.6	116.6	124.9	122.3	124.6
Currency outside banks	23.3	26.1	26.2	28.4	29.8	38.9	34.2	31.5
Demand deposits	65.3	66.2	67.6	84.2	86.8	86.0	88.1	93.2
Quasi-money	219.6	226.9	246.6	271.0	284.0	293.6	301.7	299.1
Savings deposits	40.4	45.5	45.5	49.4	53.8	51.5	55.7	54.5
Time deposits	156.6	171.4	184.8	209.4	220.0	232.4	246.0	244.6
Foreign currency deposits	22.7	10.1	16.3	12.2	10.2	9.8	21.7	14.3
Memorandum items:								
Growth of monetary aggregates (percent per annum) 2/								
Broad money	20.1	3.6	6.6	12.7	12.4	17.5	10.6	10.5
Narrow money	10.0	4.1	1.7	20.0	14.8	23.0	5.8	10.7
Private sector credit	21.0	9.9	11.4	17.1	17.0	13.0	14.6	8.6
Contribution to broad money growth (in percent) 2/								
Net foreign assets	0.5	0.7	-5.2	2.0	5.5	6.7	11.6	4.7
Net domestic assets	19.6	2.8	11.9	10.7	-1.1	-2.2	12.9	5.8
Velocity								
Broad money	2.7	2.7	2.7	2.6	0.0	0.0	2.5	2.5
Narrow money	9.3	9.4	9.7	8.8	0.0	0.0	8.5	8.5

Source: Central Bank of Samoa.

1/ Includes Treasury's monetary accounts.

2/ For quarterly data, the annual change is calculated relative to the respective quarter of the previous year.

Table 5. Samoa: Medium-Term Outlook, 2000/01–2009/10

	2000/01	2001/02	2002/03	2003/04	Projections					
					2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
(Annual percentage change)										
Growth and inflation										
Real GDP growth	7.1	4.4	1.8	3.5	3.0	3.0	3.5	3.5	3.5	3.5
CPI inflation (period average)	1.9	7.4	4.3	7.9	7.5	3.0	3.0	3.0	3.0	3.0
(In percent of GDP)										
Fiscal accounts										
Total revenue and grants	31.9	33.9	32.8	32.5	40.1	37.9	33.9	33.8	33.7	33.6
Revenue	24.0	23.2	25.2	25.2	25.2	26.7	26.7	26.7	26.7	26.7
Grants	7.9	10.7	8.0	7.3	14.9	11.2	7.2	7.1	7.0	6.9
Total expenditure and net lending	34.3	36.0	33.4	33.4	41.0	38.8	34.2	33.8	33.4	33.1
Overall balance (including grants)	-2.3	-2.1	-0.6	-0.9	-0.9	-0.9	-0.3	0.0	0.3	0.5
(Annual percentage change)										
Monetary survey										
Broad money	20.1	3.6	6.6	12.7	10.5	8.8	7.9	7.9	7.9	7.9
Private credit	21.1	9.9	11.4	17.1	8.6	9.0	8.5	8.5	8.5	8.5
(In millions of U.S. dollars)										
Balance of payments 1/										
Current account (excluding official transfers)	-20.7	-23.8	-13.4	-9.6	-49.9	-54.6	-39.2	-31.5	-28.3	-25.6
(In percent of GDP)	-8.8	-9.6	-4.7	-2.8	-12.7	-12.9	-8.9	-6.7	-5.7	-4.9
Merchandise trade balance	-105.9	-119.9	-120.0	-135.4	-162.1	-176.1	-185.2	-189.6	-196.4	-202.7
Exports, fob	14.5	14.4	12.9	14.1	12.7	12.3	13.4	17.3	20.8	21.6
Imports, fob 2/	120.4	134.3	132.9	149.5	174.8	188.4	198.6	206.8	217.1	224.3
Services and income, net	42.1	45.5	48.7	51.8	45.6	58.2	81.0	88.1	96.1	102.1
Current transfers, net	64.0	72.9	79.6	98.8	125.2	110.9	96.9	103.1	109.7	116.8
Of which: Official transfers, net	20.8	22.3	21.7	24.8	58.6	47.7	31.9	33.1	37.7	41.8
Financial and capital account, net	1.4	5.8	-14.0	-13.0	0.9	8.1	13.9	5.0	0.5	-4.5
Of which: Government loans, net	-1.7	1.0	-0.7	-5.1	0.9	1.1	1.9	0.0	1.5	1.5
Overall balance	1.5	4.2	-5.7	2.2	9.6	1.1	6.6	6.6	10.0	11.6
External debt and reserves										
Gross external public debt (percent of GDP) 3/	61.4	62.0	59.6	51.5	48.5	46.9	44.6	42.4	39.7	36.9
External debt-service ratio 4/	8.8	9.1	8.7	7.9	6.0	5.3	5.0	4.6	4.1	3.9
Gross official reserves (in millions of U.S. dollars)	45.7	54.4	51.5	66.8	76.4	77.5	84.1	90.8	100.7	112.4
(In months of next year's imports of goods and NF services)	3.6	4.2	4.3	4.0	3.9	4.0	4.1	4.2	4.5	5.0
Memorandum items:										
Non-adjustment/external shocks scenario:										
Real GDP growth	7.1	4.4	1.8	3.5	3.0	2.0	1.0	1.0	1.0	1.0
CPI inflation (period average)	1.9	7.4	4.3	7.9	7.5	11.0	8.0	8.0	5.5	5.5
(in percent of GDP):										
Overall fiscal balance (including grants)	-2.3	-2.1	-0.6	-0.9	-0.9	-4.0	-3.1	-4.2	-5.5	-6.8
Current account (excluding official transfers)	-8.8	-9.6	-4.7	-2.8	-12.7	-13.4	-9.6	-7.5	-6.5	-5.7
Reserves (in months of imports)	3.6	4.2	4.3	4.0	3.9	3.6	3.2	3.0	2.6	2.3
External Public Debt	61.4	62.0	59.6	51.5	48.5	48.4	51.6	55.6	60.7	66.8

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

1/ Baseline projections include the cost of settling Polynesian Airlines' external obligations which are government guaranteed.

2/ Excludes the import of a ferry in January 1999 (US\$11.5 million), and the import of an airplane in November 2000.

3/ Includes publicly guaranteed debt. The reduction in the debt-toGDP ratio from 2005/06 to 2009/10 is almost entirely driven by the higher nominal GDP.

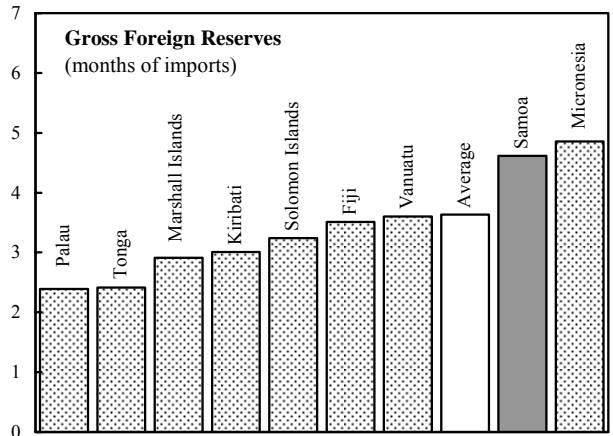
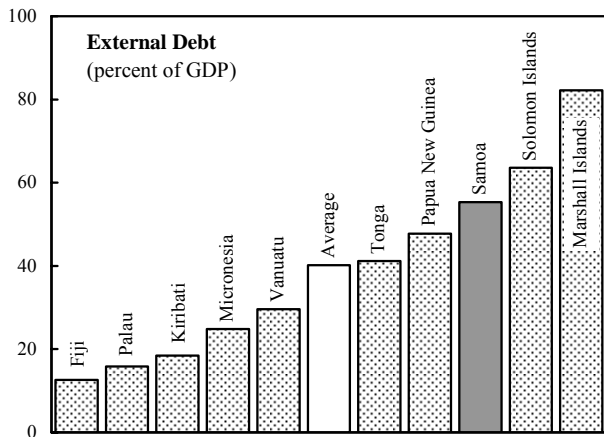
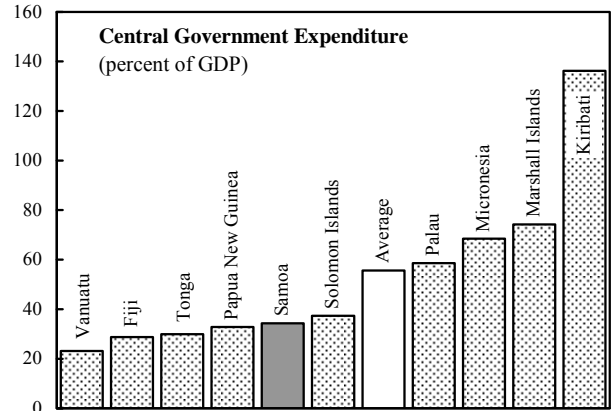
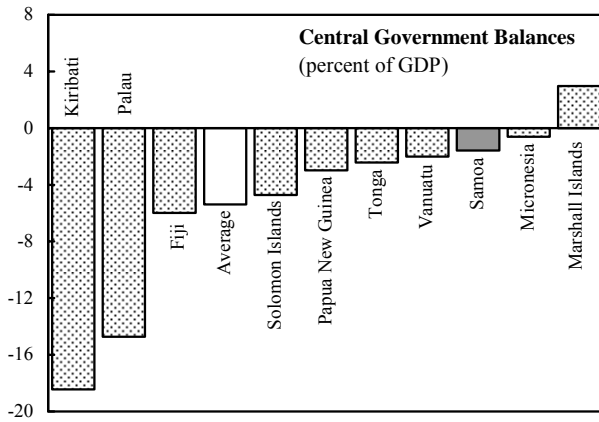
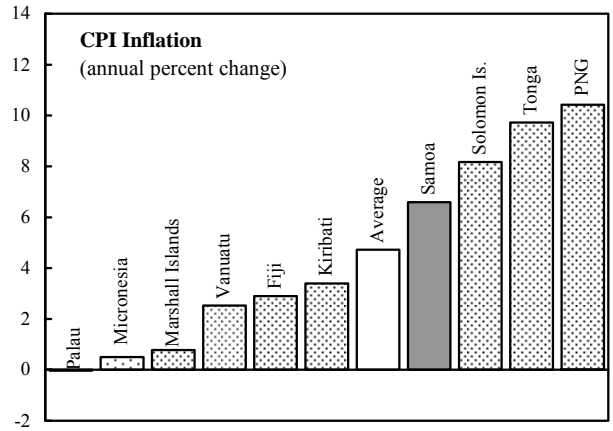
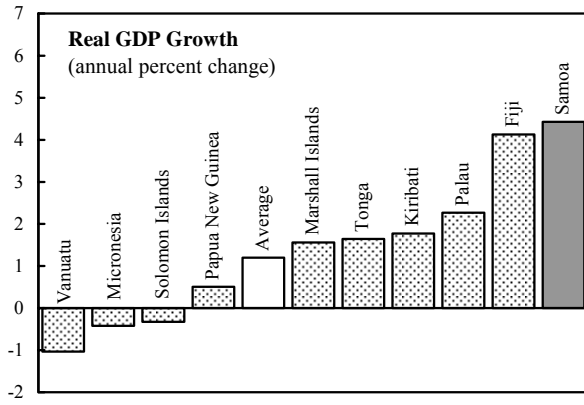
4/ In percent of GNFS exports.

Table 6. Samoa: Vulnerability Indicators, 2000/01–2003/04
(In percent of GDP, unless otherwise indicated)

	2000/01	2001/02	2002/03	2003/04
Financial sector risk indicators				
External Public and publicly guaranteed debt	61.4	62.0	59.6	51.5
Broad money (percent change, 12-month basis)	20.1	3.6	6.6	12.7
Private sector credit (percent change, 12-month basis)	21.1	9.9	11.4	17.1
Share of deposits in broad money (percent)	85.1	88.7	87.5	89.4
Share of foreign currency deposits in total deposits (percent)	8.0	3.4	5.2	3.4
Non-performing loans of the banking system (in percent of total loans)	0.2	1.8	2.2	3.5
Capital adequacy ratio of the banking system	24.8	22.5	26.4	26.0
External indicators				
Exports (percent change, 12-month basis in U.S. dollars)	-15.5	-0.8	-10.3	9.4
Imports (percent change, 12-month basis in U.S. dollars)	19.2	11.6	-1.0	12.5
Terms of trade (percent change, 12-month basis)	-2.9	-3.4	0.3	0.8
Current account balance	-0.1	-1.1	2.9	4.4
Capital and financial account balance	0.0	0.0	0.0	0.0
Gross official reserves (in millions of U.S. dollars)	45.7	54.4	51.5	66.8
Gross official reserves (in months of next year's GNFS imports)	3.6	4.2	3.4	3.6
Gross official reserves (percent of broad money)	14.8	17.1	15.1	17.4
Debt-service ratio (percent of exports of goods and services)	8.8	9.1	8.7	7.9
External interest payments (percent of exports of goods and services)	1.6	2.2	2.0	2.0
External amortization payments (percent of exports of goods and services)	8.9	7.8	8.4	8.4
Exchange rate (tala per U.S. dollar, end of period)	3.5	3.3	3.0	2.9

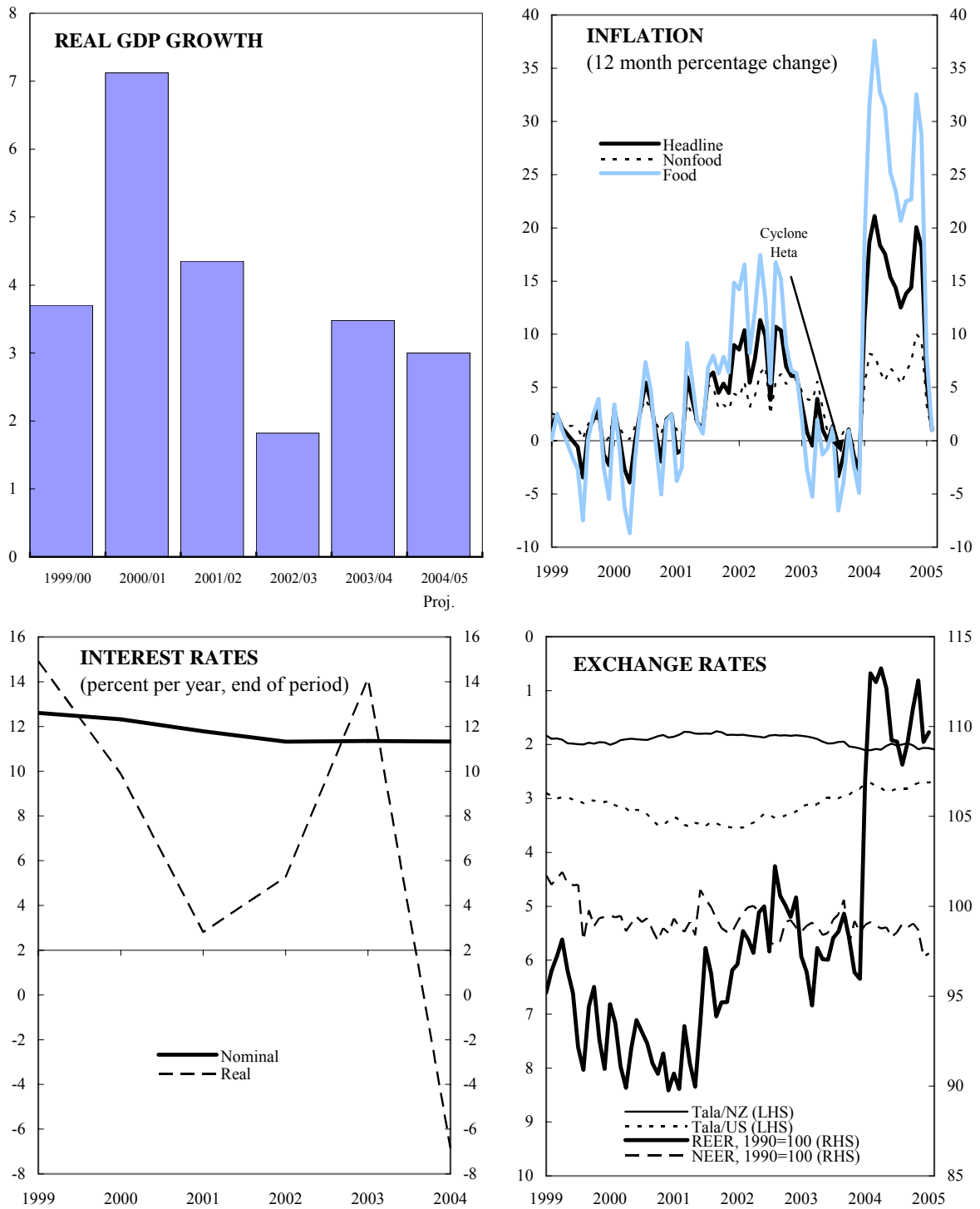
Sources: Data provided by the Samoan authorities; and Fund staff estimates.

Figure 1. Samoa: Regional Comparators
(Averages, 2000-2004)



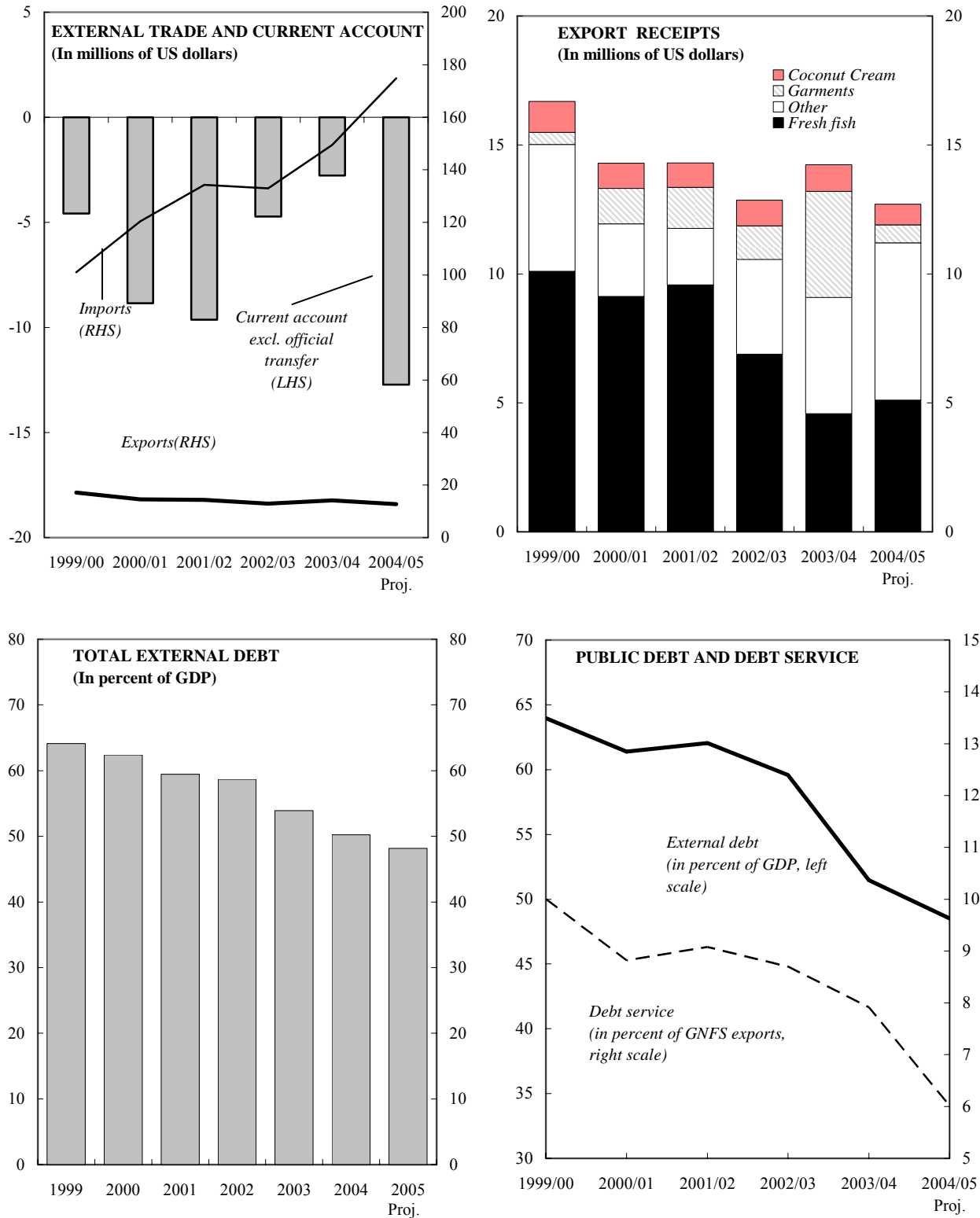
Sources: Samoa authorities; and Fund staff estimates.

Figure 2. Samoa: Selected Economic Indicators, 1999/00-2004/05



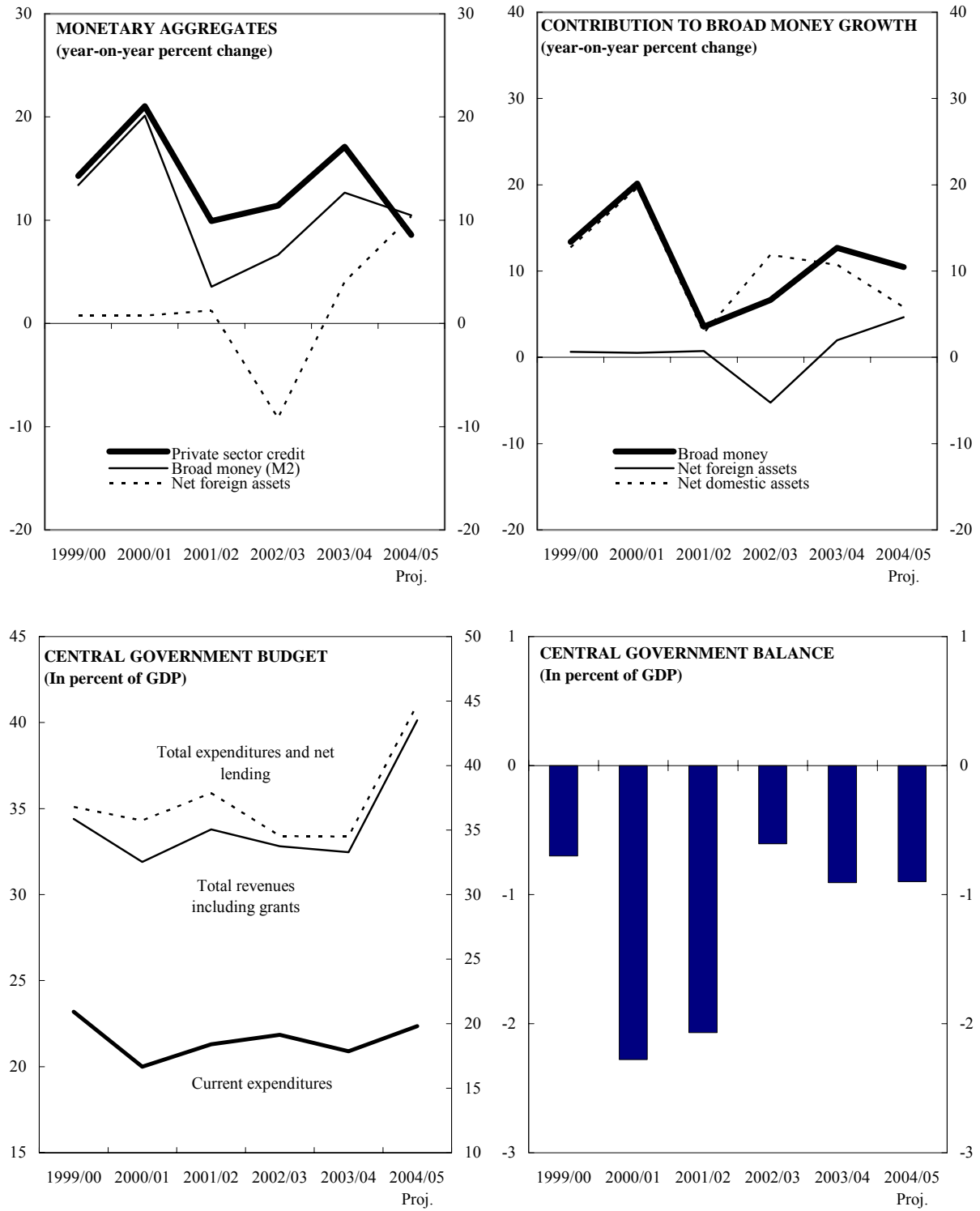
Source: Samoa Authorities and Fund staff estimates.

Figure 3. Samoa: External Sector Developments, 1999/00-2004/05



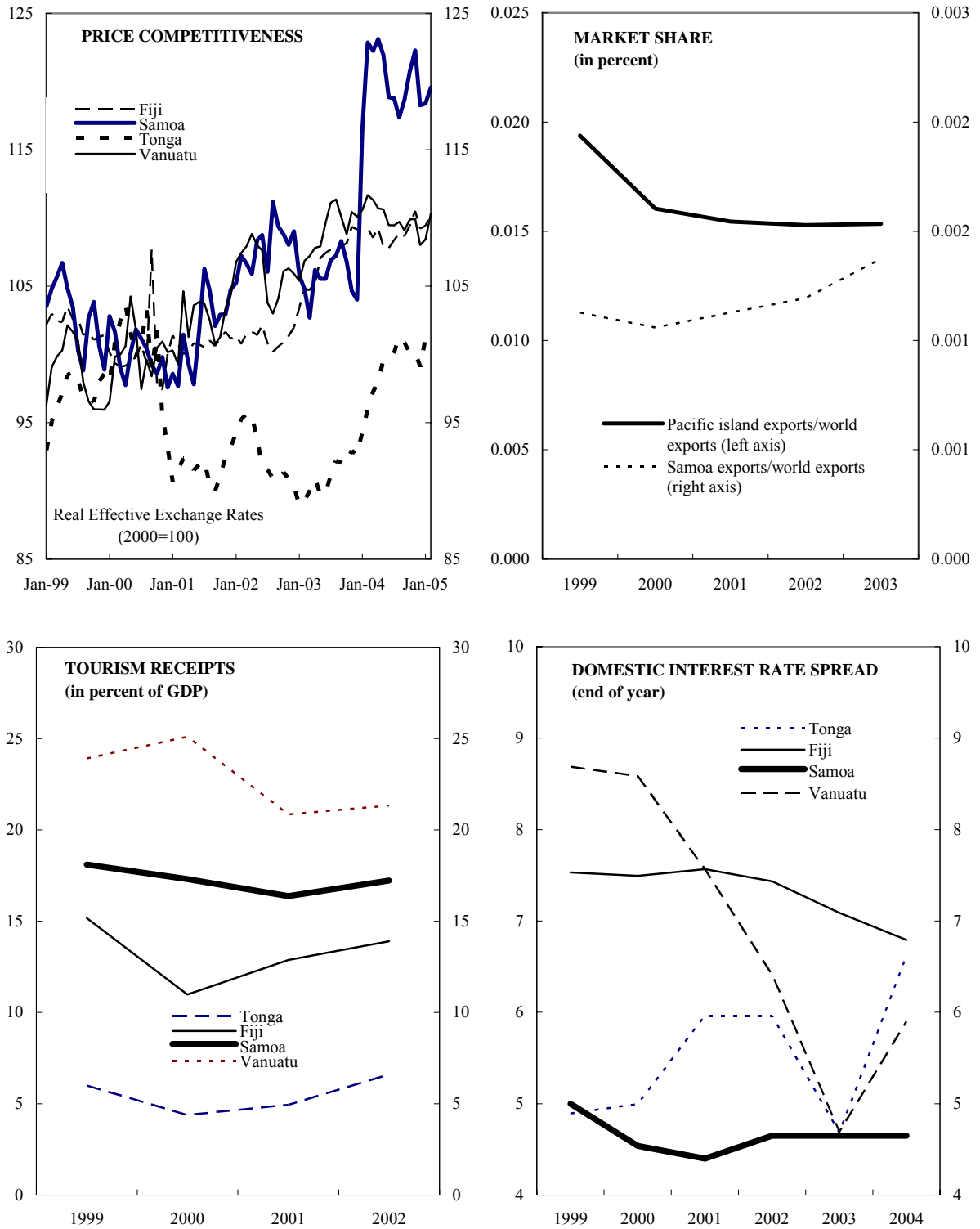
Sources: Samoa authorities, and Fund staff estimates.

Figure 4. Samoa: Monetary and Fiscal Indicators, 1999/00-2004/05



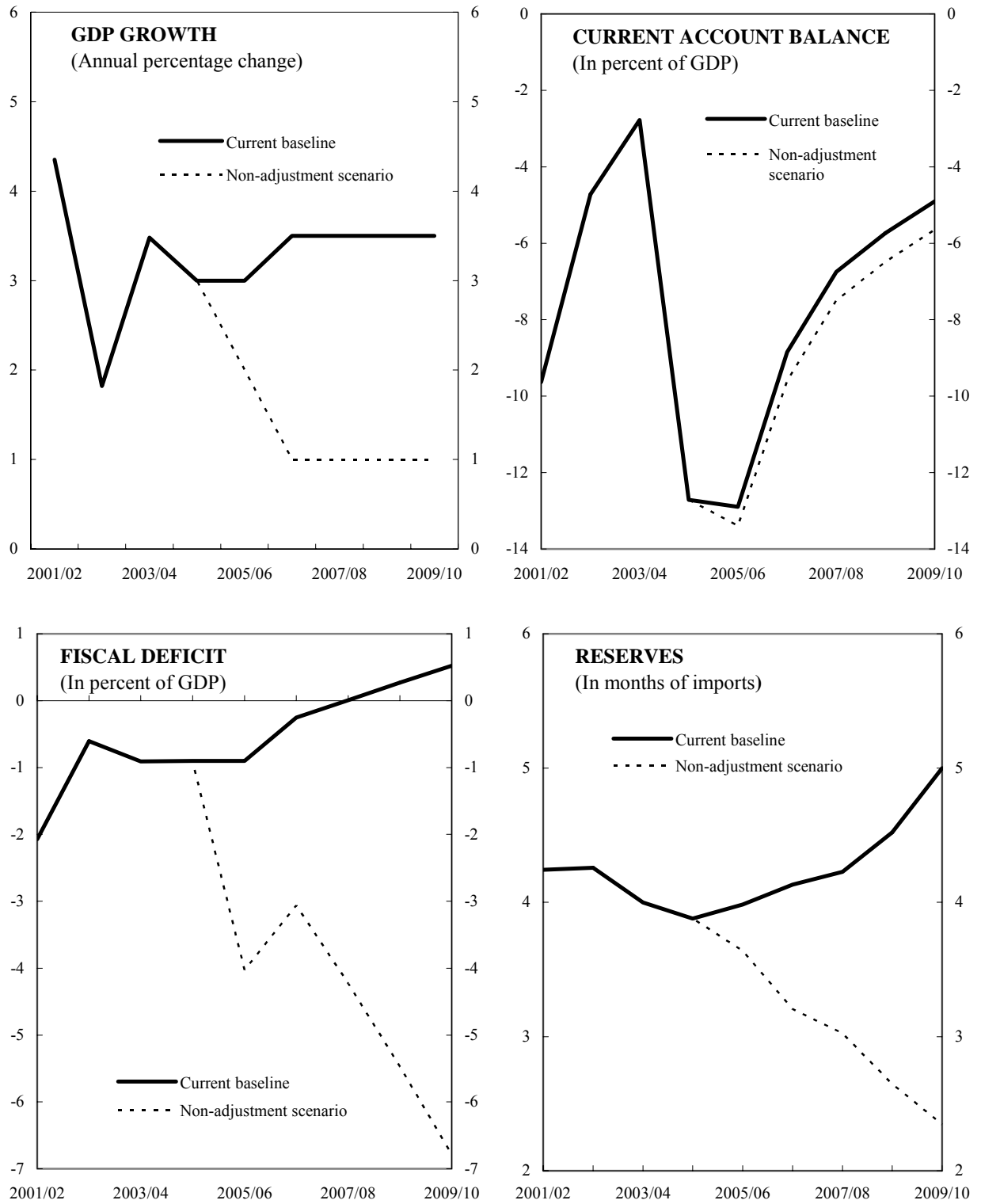
Source: Samoa Authorities; World Bank; and Fund staff estimates.

Figure 5. Samoa: Regional Competitiveness Indicators, 1999-2005



Source: Samoa authorities, and Fund staff estimates.

Figure 6. Samoa: Medium-Term Outlook, 2001/02-2009/10



Source: Samoa Authorities and Fund staff estimates.

SAMOA—FUND RELATIONS

(As of March 31, 2005)

I. Membership Status: Joined: 12/28/1971; Article VIII

II. General Resources Account:	<u>SDR Million</u>	<u>%Quota</u>
Quota	11.60	100.0
Fund Holdings of Currency	10.92	94.12
Reserve position in Fund	0.69	5.98

III. SDR Department:	<u>SDR Million</u>	<u>%Allocation</u>
Net cumulative allocation	1.14	100.00
Holdings	2.43	213.11

IV. Outstanding Purchases and Loans: None**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
Stand-by	07/09/1984	07/08/1985	3.38	3.38
Stand-by	06/27/1983	06/26/1984	3.38	3.38
Stand-by	08/17/1979	08/16/1980	0.75	0.00

VI. Projected Obligations to Fund: None**VII. Exchange Rate Arrangement:**

The exchange rate of the tala is pegged to a trade and payments weighted basket of currencies formally 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 private transfers from abroad—New Zealand, Australia, the United States, Fiji, and Euro countries. The period average exchange rate for March 2005 was SAT 1.00 = US\$0.374.

VIII Article IV Consultation:

The 2003 Article IV consultation discussions were held in Apia during March 3–17, 2003. The Executive Board discussed the staff report (IMF Country Report No. 03/195) and concluded the consultation on June 2, 2003.

IX. Technical Assistance:

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, banking supervision and balance of payments statistics. MFD has provided assistance on monetary policy operations, foreign reserves management, banking and insurance supervision and other central banking issues. MFD arranged a regional seminar in Fiji in March 2005 on indirect monetary management approach in countries with shallow bond markets to identify the common concerns and issues in the Pacific Island region. The conclusions from this seminar will serve as the basis for further technical assistance to the region (including Samoa). STA has provided help with national accounts statistics, and FAD with tax administration.

X. Resident Representative: None

SAMOA—SUPPORT FROM THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE¹

The Centre's assistance to Samoa since 1998 has included 24 advisory missions. Samoa also sent 24 officials to regional seminars and workshops. PFTAC organized 5 attachments.

Public Financial Management

A Report on the Observance of Standards and Codes (ROSC) against the Fund's Code of Good Practice on Fiscal Transparency was completed in consultation with the authorities in May 2004 and published on the Fund Website. In November 2004, PFTAC sponsored a week long delegation of three officials from the Samoa Ministry of Finance, together with officials from Fiji and Tonga, to the Australian Commonwealth Government Departments of Finance and Treasury. The purpose of the delegation was to hold discussions on the public financial management framework and practices, as well as providing an opportunity to establish ongoing professional contacts between officials of all participating countries.

Tax Administration and Policy

In early 2002, the advisor undertook an introductory visit to Samoa to discuss tax policy and administration related issues with the authorities. The authorities recently expressed interest in PFTAC providing advice on issues associated with the possible establishment of a large taxpayer unit and introduction of a single tax identification number. The adviser will travel to Samoa in June 2005 for this purpose. Samoa is an inaugural member of the Pacific Islands Tax Administrators Association (PITAA) and will host the second annual meeting scheduled for October 2005.

Financial Sector Regulation and Supervision

The PFTAC advisor and a legal consultant from the Fund's Legal Department visited the Central Bank of Samoa (CBS) in September 2003 to follow up on matters arising from the Offshore Financial Center assessment conducted in 2002. The mission reviewed proposed legislation affecting financial institutions, including a new Insurance Act. An MFD expert visited the CBS in November 2004 to review draft insurance prudential statements and provide training in financial analysis of insurance operations. An MFD consultant also visited the International Companies Office in late 2003 to assist with implementing anti-money laundering measures.

Economic and Financial Statistics

The CBS started working on a BPM5 basis for Balance of Payments estimates in 2003. In June 2004, the PFTAC Statistics advisor visited to review the implementation progress, and assisted with the pilot testing of business surveys. More work is required to compile the international investment position but transition to BPM5 by end 2005 is on target. Samoa joined the GDDS Project in November 2004. Plans are also afoot to move Government Finance Statistics, produced by the Ministry of Finance, towards GFSM2001 in early 2005.

¹ Prepared by the staff at the Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji. PFTAC is a multi-donor technical assistance institution, financed by IMF, ADB, AusAID and NZAID, with the IMF as Executing Agency. The Centre's aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

SAMOA—RELATIONS WITH THE WORLD BANK GROUP¹

Since Samoa became a Bank member in June 1974, 13 IDA credits totaling US\$70.5 million have been made covering the agriculture, power, telecommunication, finance, transport, and health sectors.

The Bank's operations in Samoa are guided by the Bank's broader *Pacific Regional Strategy*, currently under development, which has a focus on two main pillars: public expenditure management (in the social sectors, infrastructure and natural hazard management) and private sector development.

The Bank's current lending activities in Samoa are as follows:

Health Sector Management. The Bank is supporting the government's reform program aimed at ensuring equitable access to a modern, effective, efficient, and environmentally friendly health service, delivered in close collaboration with the private sector and NGOs. Implementation is within a sector coordination framework involving other donors (AusAID).

Infrastructure Asset Management Phase 2. The objective of the program—to be carried out in two phases over a period of eight years—is to assist Samoa in achieving transport and coastal infrastructure assets that are economically, environmentally, and socially sustainable and managed by an effective partnership of all stakeholders.

Infrastructure Emergency Recovery The Bank is assisting Samoa to recover from the damage caused by Cyclone Heta and reduce the vulnerability of its people to prevailing natural hazards through: (a) Recovery of coastal resilience to erosion, flooding, and landslide hazards (b) Nurturing the recovery of fragile coastal ecosystems through sustainable practices; and (c) Rehabilitation of damaged land transport communications.

Telecommunications and Postal Sector Reform. The Bank is assisting Samoa to improve the performance of its telecommunications and postal sectors by increasing competition and private sector participation; strengthening institutional and regulatory capacities; and enhancing the provision of telecommunications and postal services, particularly in rural areas.

In addition the Bank is developing a broader program of assistance in **private sector development**. The Bank has held initial discussions on the dissemination and potential follow-up to the 'Costs of Doing Business' report. The Government has requested support to implement regulatory reform to promote private sector development. The Bank is in the process of mobilizing this assistance.

¹ Prepared by the World Bank staff.

Table 1. Samoa: IBRD/IDA Lending Operations

	Year of Approval	Value	Available Balance
(In millions of U.S. dollar equivalent)			
Completed projects (IDA)			
First highway	1975	4.4	0
Agricultural development	1979	8.0	0
Second agricultural development	1980	2.0	0
Development Bank	1985	2.0	0
Multiproject	1986	2.5	0
Afulilo hydroelectric dam (ADB)	1987	3.0	0
Telecommunications (ADB)	1989	4.6	0
Emergency road rehabilitation	1990	14.0	0
Afulilo hydroelectric dam supplement (ADB)	1993	1.0	0
Emergency road rehabilitation supplement	1993	5.1	0
Infrastructure asset management	1999	14.4	0
Projects underway (IDA)			
Health sector management	2000	5.0	4.8
Telecommunications and Post Reform	2002	4.5	4.6
Second Infrastructure Asset Mgmt.	2004	12.8	13.7
Cyclone ERP	2004	4.5	4.5
Total		87.8	27.6
Total debt outstanding		61.7	

Source: Data provided by the World Bank.

SAMOA—RELATIONS WITH THE ASIAN DEVELOPMENT BANK ¹

The Asian Development Bank (AsDB) operations in Samoa started in 1969. Up to 2004, 30 loans totaling US\$120.9 million for 27 projects and technical assistance totaling US\$22.0 million for 79 projects have been provided.

AsDB's operational strategy for Samoa directly supports the Government's Strategy for the Development of Samoa (SDS) 2003-2005. It contributes to AsDB's overarching goal of poverty reduction, and is consistent with AsDB's Poverty Reduction Strategy, as well as AsDB's new Pacific Strategy. First, the AsDB strategy for Samoa aims to enhance access to, and quality of, basic social services by (i) improving access to, and quality of, education; (ii) enhancing the environment and public health of Apia (water and sanitation); and (iii) meeting the growing power demand with improved efficiency, viability, and reliability. Second, the strategy aims to improve the environment for the private sector by (i) ensuring sound fiscal and macroeconomic policies; (ii) rationalizing state-owned enterprises (SOEs), and enhancing their efficiency and effectiveness; and (iii) improving the institutional and policy framework for the private sector.

One loan was approved in 2003 for the Sanitation and Drainage Project amounting to US\$8.0 million. Four TA grants were approved in the same year for a total of US\$1.725 million. No loan was planned for 2004. However, three TA grants were processed in 2004 in the areas of privatization support, preparation of an education policy and strategy for 2006–2013, and strengthening SOEs corporate governance, for a total of US\$700,000.

Samoa: AsDB Loan Approvals and Disbursements, 2000–2005
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	Mar-2005
Loan approvals	10.5	6.0	0.0	8.0	0.0	0.0
Loan disbursements	0.3	3.6	0.8	1.9	2.8	0.09
Cumulative loan amount available ²	104.4	109.8	111.0	120.8	121.6	121.1
Cumulative disbursements ²	90.9	94.5	95.3	97.2	100.0	100.09
Net loan amount undisbursed	13.5	15.3	15.7	23.6	21.0	21.01

¹ Prepared by the Asian Development Bank (AsDB) staff.

² Balance as of March 2005, cumulative since operations began with Samoa in 1969.

SAMOA: STATISTICAL ISSUES

A number of significant improvements in the compilation of basic macroeconomic data have been made in recent years with technical assistance from the Fund, including through the Pacific Financial Technical Assistance Centre (PFTAC), the Secretariat for the Pacific Community and the Asian Development Bank. Statistics in Samoa compare well with those available in other Pacific Island countries. National accounts and government finance statistics (GFS) are the responsibility of a special statistics unit within the Treasury, while balance of payments and financial statistics are the responsibility of the Central Bank. The Statistics Department compiles the CPI and will soon start publishing monthly merchandise trade statistics based on Customs records (they are currently published by the Central Bank on a nonstandard basis).

Real sector

The real sector data reported for publication in *IFS* are the consumer price index (CPI) and the values of exports and imports. In addition, *IFS* publishes the index of manufacturing production and GDP volume at 1995 prices.

Quarterly and annual GDP estimates have been developed on a production basis (broken down by the standard industrial classification (SIC)) and are compiled in both nominal and real terms. Estimates are available within two to three months after the end of each quarter. During the last few years a number of initiatives have contributed to an improvement in the quality and reliability of national accounts statistics. The 2002 Household Income and Expenditure Survey (HIES) has been successfully completed. An annual Agriculture Census was initiated in 2002 and the results will be utilized to revise estimates of agriculture production. The authorities have also expressed their intention to report expenditure-side national accounts within the next two years and some experimental estimates of gross capital formation are already available.

Ongoing efforts, however, are needed to further improve the quality and coverage of accounts. In particular, data available on the activities of the automotive parts plant and merchandise trade (especially fishing exports) are inconsistent between data sources.

The CPI was rebased in 2003 on the results of the 2002 HIES. The CPI is now released monthly rather than quarterly. Work is in progress on establishing an underlying inflation index excluding local food and other erratic items.

Quarterly employment statistics and average earnings from 1994 onwards are compiled and published annually, utilizing data collected by the National Provident Fund (the compulsory pension fund, which collects contributions from employees and all employers on behalf of workers in the formal sector). More work is needed to ensure consistency with the national accounts classification.

Government finance

Government finance statistics (GFS) based on the 1986 Manual are published quarterly within three months by the Treasury Statistics Unit. Considerable improvements have been made to the system in recent years; however, data quality remains hampered by difficulties in misclassification of accounts, particularly net lending and external grants, and current and development expenditure. The underlying budgetary system is not coded to GFS headings. A transition plan for moving to *GFSM 2001* over the next two years (but on a cash basis) has been developed with assistance from PFTAC. Further technical assistance and training in GFS compilation is needed to ensure that this is achieved. Samoa does not report government finance data to either the *GFS Yearbook* or the *International Finance Statistics (IFS)*.

Monetary statistics

Comprehensive data on the monetary sector are published monthly in the *Selected Economic Indicators* and quarterly in the *Central Bank of Samoa Bulletin*. Data for the accounts of the Central Bank of Samoa (CBS) and the deposit money banks and interest rates are reported to the Fund for publication in *IFS* on a regular and timely basis. Recently the broad monetary aggregate has been extended to include foreign currency deposits held by residents, which have risen rapidly in recent years, due to the relaxation of exchange control regulations.

Monthly data are also collected and published on the lending activities of other credit institutions. There are no published data at present on offshore financial institutions, which are supervised at arms length by the Central Bank. The staff encourages the CBS to start reporting the banking survey data to the Fund as soon as technically possible.

Balance of payments

Annual and quarterly balance of payments data are regularly published in the quarterly *CBS Bulletin* and annual data are reported for publication by the Fund in the *IFS* and *Balance of Payments Statistics Yearbook*. The old BPM4 standards are broadly followed. In general, data reported for the current account are fairly comprehensive, although exports are thought to be underestimated; duty free imports are excluded; and the activities of a major automotive parts plant are reported net under services. Direct investment income flows are excluded and official grants are not included under current transfers.

The data published for the financial account are limited to elements of Other Investment (loan liabilities of the government and monetary authorities), and incomplete data on bank transactions and repayments on long-term loans received by the private sector. No data are published on Direct Investment, Portfolio Investment, and other private sector financial transactions.

The CBS has made significant progress in its transition plan to move to *BPM5* standards with the help of PFTAC and the move is expected to be completed by June 2005. Among the modifications expected are the change of the classification of official grants from the capital account to the current account, and the transition to the international standard for merchandise trade statistics, based on Customs data.

The **official reserves** in Samoa are defined in a nonstandard manner as net foreign assets of the central bank, the Treasury and commercial banks. The authorities are urged to consider switching to a more standard definition comprising the gross foreign assets of the central bank and the Treasury.

Cooperation

In recent years, PFTAC has provided technical assistance in order to improve the quality of statistics; the latest mission was in June 2004. The SPC and ADB have also provided assistance with surveys, national accounts and CPI. The staff and PFTAC have recommended closer coordination between the CBS, the Statistics Department and the Treasury Department (the agency responsible for compiling external debt statistics, grant aid, and other international transactions of the government) to improve the quality and accuracy of all economic statistics.

Samoa: Table of Common Indicators Required for Surveillance

(As of May 4, 2005)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	02/05	03/05	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹					
Reserve/Base Money	02/05	04/05	M	M	M
Broad Money	02/05	04/05	M	M	M
Central Bank Balance Sheet	02/05	04/05	M	M	M
Consolidated Balance Sheet of the Banking System					
Interest Rates ²	03/05	04/05	M	M	M
Consumer Price Index	01/05	03/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴					
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt ⁵					
External Current Account Balance	9/04	01/05	Q	Q	Q
Exports and Imports of Goods and Services					
GDP/GNP	12/04	03/05	Q	A	Q
Gross External Debt	2004	03/05	Q	A	Q

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

SAMOA: SOCIAL AND DEMOGRAPHIC INDICATORS

	1985	1997	2003 1/	Same region/income group 2003 1/	
				East Asia & Pacific	Lower Middle income
Population					
Total population, mid-year (millions)	0.16	0.17	0.18	1,855	2,655
Growth rate (percent annual average)	0.0	0.6	1.1	1.0	0.9
Urban population (percent of population)	21.1	21.9	22.3	37.9	49.7
Total fertility rate (births per woman)	5.2	4.5	4.0	2.1	2.1
Income					
GNI per capita (US\$)	660	1,390	1,600	1,080	1,480
Consumer price index (1995=100)	57	113	131	..	..
Public expenditure					
Health (percent of GDP)	..	4.0	4.8	1.9	2.6
Education (percent of GDP)	3.2	..	4.5	3.2	4.0
Gross primary school enrollment rate (percent of school-age population)					
Total		100	103	111	112
Male		101	104	112	113
Female		100	101	111	111
Access to safe water (percent of population)					
	80	..	99	76	81
Immunization rate (percent aged 12-23 months)					
Measles	81	99	99	70	78
DPT	89	96	96	78	84
Life expectancy at birth (years)					
Total	63.9	68.6	69.4	69.4	69.3
Male	62.6	65.4	66.5	67.7	67.1
Female	65.2	71.9	72.5	71.3	71.7
Mortality					
Infant (per thousand live births)	..	22	20	32	32
Adult (15-59)					
Male (per 1,000 population)	..	235	242	184	214
Female (per 1,000 population)	..	170	151	129	135

Source: 2004 World Development Indicators, World Bank.

1/ Data corresponds to 2003 or to the latest year for which it is available.

SAMOA: PROGRESS ON MILLENNIUM DEVELOPMENT GOALS

	1990	1995	Latest Data 2001-03	Target 2015
Goal 1: Eradicate Extreme Poverty and Hunger Prevalence of child malnutrition (percent of children under 5)	6	17	4.2	1/
Goal 2: Achieve Universal Primary Education Net primary enrollment ratio (percent of relevant age group)	112.3	97.0	94.9	100.0
Goal 3: Promote Gender Equality Ratio of girls to boys in primary and secondary education (percent)	112.5	106.9	103.6	100.0
Proportion of seats held by women in national parliament (percent)	0.0	4.1	6.1	...
Goal 4: Reduce Child Mortality Under 5 mortality rate (per 1,000)	42.0	29.0	24.0	14.0
Infant mortality rate (per 1,000 live births)	33.0	24.0	19.0	11.0
Goal 5: Improve Maternal Health Maternal mortality ratio (per 100,000 live births)	35.0	15.0	30.0	2/
Births attended by skilled health staff (percent of live births)	76.0	95.0	100	...
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases HIV prevalence rate among 15-24 old pregnant women	...	...	0.0	3/
Incidence of tuberculosis (per 100,000 people)	...	42	30.4	3/
Goal 7: Ensure Environmental Sustainability Forest area (percent of total land area)	46.1	3.5	37.1	4/
Nationally protected areas (percent of total land area)	...	4.0	4.1	4/
CO2 emissions (metric tons per capita)	0.8	0.8	0.8	4/
Access to an improved water source (percent of population)	...	90.0	99.0	4/
Access to improved sanitation (percent of population)	...	97.0	99.0	4/
Goal 8: Develop a Global Partnership for Development Fixed line and mobile telephones (per 1,000 people)	25.6	46.4	130.5	...
Personal computers (per 1,000 people)	...	0.6	6.7	...

Source: World Bank; World Development Indicators Database, April 2004.

1/ Goal is to halve 1990 rate.

2/ Goal is to reduce 1990 ratio by three-quarters.

3/ Goal is to have it halted by 2015 and begun to reverse.

4/ Goal is to reverse the loss of environmental resources.

**Statement by the IMF Staff Representative
June 17, 2005**

1. **This statement describes the 2005/06 budget which was presented to Parliament on May 31, 2005 after the staff report was circulated to the Executive Board on May 16, 2005.** The proposed deficit target (4 percent of GDP) for 2005/06 turned out to be much larger than the staff's recommendation (0.9 percent of GDP), which reinforces the concerns expressed in the staff appraisal.

2. **The higher deficit target reflects the large costs of restructuring the loss-making Polynesian Airlines and the public sector wage increase approved by the government, and to a lesser extent the increase in pension benefits.**

- Of the 2½ percent of GDP that has been allocated for the restructuring costs of Polynesian Airlines, about ½ percent of GDP is for the capital costs of the new joint venture with Virgin Blue to be paid upfront, and 2 percent of GDP is for the penalties to be imposed for the early return of the airline's jet to the leasing company. The budget assumes that the authorities will make the full bullet payment for these penalties in 2005 instead of spreading out the costs over time. The inaugural flight of the airline for the new joint venture is expected to take place around September 2005.
- The government has approved an average wage increase of about 35 percent for public servants to be phased in over a period of three years (this compares to the increase of about 40 percent recommended by the Remuneration Tribunal for 2005/06). The wage increase will cost the 2005/06 budget about 1¼ percent of GDP and about 1 percent of GDP each for the 2006/07 and 2007/08 budgets.
- The government has also approved an increase of monthly pensions for senior citizens from 100 tala to 125 tala to take effect July 1, 2005 which is expected to cost the 2005/06 budget about ¼ percent of GDP.

3. **The budget contained some offsetting measures:**

- The government will enforce the 50 percent dividend policy for all state-owned enterprises in 2005/06 which is expected to yield revenues of about ¼ percent of GDP. There were no other new revenue measures announced in the budget.
- A number of cost-cutting measures were announced in the budget mainly targeted at reducing operational costs of government departments, including the removal of all vacancies and new positions except where appointments are pending, reduction of travel costs for public servants, enforcement of the policy on the use of government vehicles, and standardization of allowances for board members in public bodies. These measures could yield savings of about ¼ percent of GDP.

4. **Although the impact of the 2005/06 budget on reserves and interest rates is likely to be manageable, the expanded deficit should have a non-negligible macroeconomic impact on the economy, especially on the balance of payments.**

- If the full payments for the restructuring of Polynesian Airlines are made in 2005, this will lower gross reserves from the current level of 4 months of imports to about 3½ months of imports. Thus, the reserve level at end-2005 would stay broadly unchanged from the end-2004 level. While a higher reserve coverage ratio is desirable, the payments do not significantly undermine Samoa's reserve position.
- The budget also announced that about 2½ percent of GDP of the deficit target would be financed domestically (through issuance of treasury bonds of 5, 10 and 15 year maturities). However, given the level of excess liquidity in the banking system as discussed in the staff report (paragraph 8), which currently stands at about 4 percent of GDP, the impact of this on interest rates is likely to be minimal.
- Excluding the reform costs for the restructuring of Polynesian Airlines, the 2005/06 budget deficit target becomes 1½ percent of GDP. This compares with about ¼ percent of GDP recommended by the staff (excluding restructuring costs for the airline the staff tentatively included in its recommendation). The inflation and growth impact of the higher deficit (about 1 percent of GDP) is likely to be small, especially if a significant part of the wage increase leaks into imports. However, this implies that there would be a non-negligible impact on the balance of payments, reinforcing the staff's concerns and strengthening the case for monetary tightening as recommended in the staff appraisal (paragraph 40).



INTERNATIONAL MONETARY FUND

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FOR IMMEDIATE RELEASE
June 27, 2005

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with Samoa

On June 17, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Samoa.¹

Background

Samoa embarked upon a remarkable economic transformation in the mid-1990s and has transformed itself into one of the best managed economies in the Pacific Island region over the last decade. The economy registered solid growth, low inflation, improved public finances and international reserve levels, and outperformed comparator countries both within and outside the region. Samoa also made significant progress toward the Millennium Development Goals (MDG). Political stability, close consultation with stakeholders, and extensive efforts to foster a broad consensus for reform have been integral to the program's steady implementation and success.

Despite this notable progress, overall macroeconomic performance weakened in recent years, the export base remains narrow (mainly fish, automotive parts, and tourism), and the economy remains vulnerable to external shocks. There are still substantial reforms which need to be tackled to consolidate the gains made over the last decade and boost Samoa's long-term growth prospects.

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. 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.

Although growth has slowed down from levels attained through 2000/01, economic activity has started to pick up. Real GDP growth increased to 3½ percent in 2003/04 from about 1¾ percent in 2002/03. The slowdown in the manufacturing sector, poor performance of the fishing sector and cyclone Heta's damages in January 2004 (which hit hard the agriculture sector), was more than offset by the robust growth in the services and construction sectors. Growth is projected to be 3 percent for 2004/05. Inflation (year-on-year) rose to double digits in 2004 following cyclone Heta's impact on food prices, but has declined in recent months and is expected to turn negative by the end of 2004/05. Inflation (12 months average) is projected to be about 7½ percent in 2004/05. The trade deficit widened in both 2003/04 and 2004/05 reflecting sluggish export growth, and high import growth which was driven by the boom in the construction sector. Structural weaknesses rather than exchange rate competitiveness, have led to the weak export performance.

Real GDP growth is projected at 3 percent in 2005/06 underpinned by robust growth in the services and construction sectors. Agriculture is expected to recover slowly, while improvements in the fishing sector remain uncertain. Headline inflation (12 months average) is projected to decline to 3 percent in 2005/06. The current account deficit (excluding official transfers) is projected at about 13 percent of GDP in 2005/06 due to continued weak export growth and the increase in construction-related imports.

The fiscal deficit outturn of 0.9 percent of GDP for 2003/04 was lower than budget (1½ percent of GDP). Although revenues were slightly below budget in 2003/04, this was more than offset by continued expenditure restraint. The 2004/05 budget targets a deficit of 0.9 percent of GDP. At end December 2004, the government's fiscal position recorded a deficit of about ½ percent of GDP based on preliminary 2004/05 mid-year figures. The forthcoming 2005/06 budget is likely to face a number of domestic pressures most notably the strong calls for a large wage increase in the public sector. The costs of restructuring Polynesian Airlines are also likely to impose a significant burden on the forthcoming 2005/06 budget. The staff proposes that the fiscal deficit be contained at 0.9 percent of GDP for the forthcoming 2005/06 budget given the need to gradually reduce the debt level. Prudent wage policy is crucial to achieving this deficit target.

Executive Board Assessment

Executive Directors commended the authorities for good macroeconomic management and for continued efforts to undertake structural reforms. They welcomed the recent pickup in growth and the decline in inflation following a significant increase in 2004 that largely reflected the impact of cyclone Heta on food prices. Directors considered that over the medium term, Samoa's economic prospects remain favorable, provided that macroeconomic stability is maintained and structural reforms are deepened to facilitate private sector development.

Directors emphasized that maintaining fiscal discipline will be essential to further reducing public indebtedness and enhancing Samoa's flexibility to respond to external shocks. In this regard, Directors expressed concern about the increased deficit target in the 2005/06 budget to about 4 percent of GDP from about 0.9 percent of GDP in 2004/05. The increase reflects to a large extent the costs allocated for the restructuring of Polynesian Airlines, but also a large

public sector wage increase. Directors welcomed the progress made toward the restructuring of Polynesian Airlines, and stressed that further progress needs to be made toward its comprehensive restructuring. With regard to the wage increase, they noted risks for both macroeconomic stability and the government's economic reform program, and urged the authorities to follow a prudent wage policy in future budgets. They welcomed the planned phase in of the wage increase over three years, and the authorities' consideration of a performance-based system in lieu of automatic wage increases in the future. Directors emphasized that expenditure restraint would allow the public debt to GDP ratio—which remains high by regional standards—to decline gradually over the medium term.

Directors encouraged the authorities to continue their efforts toward strengthening tax administration, and in particular to establish a Large Taxpayer Unit and to modernize the 1974 income tax legislation. Directors also noted that a better rationalization of expenditures would enable a reorientation of spending toward the education, health, and infrastructure sectors, which are crucial for medium-term growth. Directors welcomed the authorities' plans to include a medium-term budget framework in the 2006/07 budget.

Directors considered that Samoa's adjustable peg exchange rate regime has served well as a nominal anchor. They agreed that the policy of periodically making small adjustments in the value of the tala has struck an appropriate balance between maintaining competitiveness and preserving the exchange rate peg's role as an anchor for inflation. Directors also welcomed the authorities' intention to tighten monetary policy in view of the potential balance of payments pressures that could arise from the large budget deficit in 2005/06.

Directors commended the Central Bank of Samoa for the recent measures taken to strengthen the supervision framework. They noted that the approval of the international banking bill, which requires all offshore banks to establish a physical presence in Samoa, will enhance the development of the financial sector. Directors welcomed the progress made in strengthening Samoa's framework for Anti-Money Laundering and Combating the Financing of Terrorism. Directors commended the authorities' interest in improving the investment guidelines of the National Provident Fund (NPF). They noted that given its high level of nonperforming loans, which reflects increasing activity in non-core functions, there is a need to strengthen the NPF's supervisory framework. Directors noted that a financially-sound pension fund will be needed to deal with the fiscal pressures that can arise when the population ages.

Directors acknowledged the progress made in a number of key areas of structural reform, such as civil service reform, telecommunications sector liberalization, and WTO accession talks. They welcomed the authorities' commitment to implement the reforms outlined in the Strategy for the Development of Samoa. They emphasized that it is important for Samoa to continue to move forward its public sector reform agenda and tackle impediments to private sector development. In particular, they noted that deeper reforms of state-owned enterprises and land reform are important to enhance private sector development. This will require enacting and implementing the Companies Act and its supporting legislation, and engaging in consultations with the public to build an institutional framework for an efficient lease market for communal

land. Directors commended the authorities' plan to encourage investment in tourism, where Samoa has a comparative advantage.

Directors noted that Samoa has made important progress in strengthening the reporting of economic statistics, and welcomed its adoption of the IMF's General Data Dissemination System (GDDS). Nevertheless, they encouraged the authorities to improve the quality and timeliness of fiscal data and the disclosure of assumptions and risks in the annual budget.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

**Statement by Jong Nam Oh, Executive Director for Samoa
and Evelyn Adolph, Advisor to Executive Director
June 17, 2005**

Key Points

- Owing to the comprehensive reform program launched in the 1990s, Samoa's economic development compares very favorably with its peer Pacific island countries.
- Macroeconomic performance remains sound and the medium-term outlook favorable.
- The macroeconomic risks to the medium-term outlook, including the 2005 budget, are manageable. The DSA shows that absent a combination of extreme shocks, the debt outlook is sustainable. The authorities recognize, however, that vulnerabilities associated with being a small island economy requires a safer debt position.
- The one-off cost to the 2005 budget of restructuring Polynesian Airlines will end annual budgetary subsidies and transfers to the airline (averaging 1 percent of GDP over the last few years). More significantly, it represents an important structural reform achievement that could serve as an example for the region.
- Their intention to tighten monetary policy to contain the balance of payments pressures associated with this higher budget deficit is also in line with staff's advice.
- The authorities are committed to implementing their ambitious structural reform agenda spelled out in the Strategy for the Development of Samoa (SDS), which addresses key outstanding structural reform measures identified by staff.
- Samoa's financial system is sound and well-supervised. Consistent with staff's recommendations, the authorities are interested in strengthening the investment guidelines of the National Provident Fund to enhance its financial soundness.
- The authorities value the objective and quality assessment of their policies provided in the context of the Fund's Article IV consultations process. They expressed strong interest in a staff interim visit.

1. Samoa suffers from physical and economic characteristics that restrict economic development. These include smallness in size and population, geographic remoteness and isolation, narrow productive sectors, vulnerability to terms of trade fluctuations, and susceptibility to natural disasters. Nevertheless, implementation of structural reforms and a history of prudent economic and financial management since the 1990's have enabled economic development in Samoa, which compares very favorably with its peer Pacific island countries. More importantly, the authorities remain committed to maintaining their track record of prudent economic policies to ensure macroeconomic stability and growth. Furthermore they intend to build on the achievements to date on the structural reform front by addressing key outstanding issues.

2. GDP growth increased to 3½ percent in 2004 from 1¾ percent in 2003. Inflation also stabilized in recent months, after having picked up in early 2004 - reflecting increased import and food prices following cyclone Heta. The current account balance is estimated to have deteriorated by end-December 2004, reflecting strong imports for the construction sector and continued weak export growth. Staff and authorities agree on a favorable outlook of 3 percent growth in 2005/06.

Commitment to macroeconomic stability

3. Noting the risks to this favorable outlook, the authorities remain committed to the continued implementation of sound economic management to ensure macroeconomic stability and growth.

4. Reflecting fiscal restraint and continued strong revenue performance, fiscal performance up to 2004 has been encouraging as the overall deficit declined to less than 1 percent of GDP since 2002/03. Public debt also declined from 60 percent of GDP in 2001 to 48.5 percent in 2004/05. The administration's budget submitted to the parliament, while representing an increase in the target fiscal deficit, is in our authorities' view manageable. The wage increase and the cost of restructuring Polynesian Airlines will result in a slightly higher debt-to-GDP ratio, but will not lead to an unsustainable debt outlook. However, the authorities are also aware that the vulnerabilities of a small island economy requires a safer debt outlook.

5. The one-off cost to the 2005 budget of restructuring Polynesian Airlines will end costly budgetary subsidies and transfers to the airline, which have averaged 1 percent of GDP over the last few years.

6. The authorities have requested a wage increase of 35 percent in the 2005/06 budget (instead of 40 percent recommended by the Remuneration Tribunal). Consistent with their discussions with staff, this will be phased in over three years to minimize the impact in one given year. The authorities view the wage increase as long overdue, with public sector wages having remained the same since 2001. Moreover, Samoa's public wage bill as a share of GDP is significantly lower than the regional average. The authorities are considering staff's advice to develop a performance-based system, which would see future wage increases based on productivity.

Monetary policy and financial sector soundness

7. The reserve position is expected to remain at comfortable levels, even taking into account the impact of the higher budgetary deficit for 2005/06. The monetary authorities signaled their intention to tighten monetary policy to contain the budgetary risks to macroeconomic performance.

8. Samoa's financial system is sound and well-supervised. Consistent with staff's recommendations, the authorities are interested in strengthening the investment guidelines of the National Provident Fund. Nevertheless, Samoa is a good illustration of how market size and remoteness make sound policies insufficient for attracting private foreign capital. In such cases, securing sufficient capital for supporting productive activities is a real concern.

Structural reforms to strengthen private sector-led growth

9. The reform program launched in the early 1990's has laid much of the ground work for economic development. The authorities now face the challenge of enhancing the environment for private sector-led growth, as outlined in the SDS 2005-07. In particular, the SDS outlines the need to promote the investment climate, improve the availability of land for private investment, and the deepening reform of state-owned enterprises.

10. Programs are already underway to help improve the investment climate (such as a reform of key utilities and improving the regulatory regime). The establishment of a one-stop shop facility is also viewed as important.

11. The authorities also recognize the importance of land reform aimed at improving the capacity to use land for collateral and investment. The government's recent initiative to facilitate the leasing of unused communal land for productive uses is an important progress in this regard.

12. The government has made significant progress in public enterprise reform in the context of its SOE policy framework. These include the divestment of the government's minority interest in a number of enterprises, and the announcement of the privatization of the Samoa Shipping Services, the Agriculture Store, and the Samoa Broadcasting Corporation. Enterprises of strategic public interest will be subjected to the corporatization program to give them a stronger commercial focus. The authorities will continue with their efforts to further improve the operations of the remaining SOEs, including by contracting private operators for management of the remaining SOEs.

13. Due to the remoteness of Pacific island countries, high transport costs represent one of the most important obstacles to their development. Highly subsidized state-owned airlines are thus very common in the Pacific. For Samoa, subsidies and transfers to Polynesian Airlines averaged 1 percent of GDP over the last few years. The joint venture with Virgin Blue holds promise of improving the operations and finances of Polynesian Airlines. Samoa's success in addressing this problem could serve as an example for parts of the region where transport bottlenecks remain and subsidies to state-owned airlines still burden the budget. The recent push to shift to a more regional approach for coordination in addressing the chronic problems of transport could benefit from this model.

14. The tourism sector is viewed as offering great potential, especially as a means of providing employment. The authorities' efforts to develop the tourism sector are bearing fruit, which is evident in the growth of the sector's share of GDP from 4 percent in 2001 to 17 percent in 2003.

Conclusion

15. Finally, the authorities value the objective and quality assessment of their policies provided in the context of the Fund's Article IV consultations process. They expressed strong interest in a staff interim visit, as the next Article IV is not expected to take place until 2007.

16. On behalf of our Pacific Island authorities, we would like to thank staff for the interesting paper on Pacific Island Regional Issues. The paper covers many important issues. In our view, the paper merits substantive consideration by the Executive Board in the context of efforts to strengthen regional surveillance.