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SAMOA

July 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SAMOA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Samoa, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 1, 2015 consideration of the staff report that concluded the Article IV consultation with Samoa.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 1, 2015, following discussions that ended on March 6, 2015, 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 14, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the IDA.
- A **Statement by the Executive Director** for Samoa.

The documents listed below have been or will be separately released.

Financial Stability System Assessment

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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July 20, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with Samoa

The Executive Board of the International Monetary Fund (IMF) has concluded the 2015 Article IV consultation[1] with Samoa on June 1.

The Samoan economy is recovering from two natural disasters. A tsunami in September 2009 and a cyclone in December 2012 caused major destruction in agriculture and tourism, the mainstays of the economy, resulting in growth well below the average of the previous decade. The reconstruction effort is estimated to have cost about 40 percent of GDP, aided in part by grants and loans from development partners, including disbursements from the Rapid-Access Component of the IMF's Exogenous Shock Facility in 2010, and the Rapid Credit Facility in 2013.

Real GDP growth rebounded to around 2 percent in fiscal year 2013/14 (July to June), supported by a recovery in agriculture, construction and an expansion of commerce and transportation services. Consumer price inflation, which was negative for most of 2014, rose to around 6 percent towards the end of the year (yoy) on the back of higher domestic food prices, but underlying inflation (excluding food, transport and communication) remained stable at around 2 percent. The current account deficit, which had narrowed considerably as economic activity contracted after the cyclone, widened again to around 8 percent of GDP as imports recovered while exports lagged. Gross international reserves rose to 4 months of prospective imports of goods and services, an adequate level according to standard metrics, although low in comparison to other Pacific island countries.

The banking system and public financial institutions were affected by the natural disasters. Credit growth collapsed in 2012, but has recently recovered to around 6 percent as public financial institutions extended loans to aid in the recovery and banks positioned themselves for

[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.

the entrance of a large regional competitor into the market. A recent financial sector assessment program (FSAP) mission found that commercial banks are liquid and report high capitalization, but non-performing loans are rising, and part of the banking system may be vulnerable to further shocks. The mission also found that some public financial institutions are vulnerable to shocks due to low asset quality and weak loan portfolios.

Real GDP growth is expected to rise further to 2.6 percent in fiscal year 2014/15, supported by the hosting of the Third United Nations Conference on Small Island Developing States (SIDS) which took place in Apia in September 2014. The rebuilding of the national airport, and the decline in oil prices are also expected to support economic activity. Higher growth will support the government's efforts to begin to consolidate its fiscal position after years of reconstruction. Higher revenues and a gradual containment of current expenditure are expected to bring the fiscal deficit down to 3.6 percent of GDP from 5.3 percent of GDP in 2013/14. The current account deficit is expected to narrow again, mainly due to a recovery in tourism and lower oil import payments. A loose monetary policy has supported the recovery, and the nominal exchange rate has been stable.

In the medium-term, the economy is expected to grow at around 2 percent, supported by an expansion of agriculture and tourism. However, 2016/17 may see a contraction, as a major manufacturing employer plans to close its harness assembly operation. The government is expected to continue gradually reducing the fiscal deficit to around 0.5 percent of GDP, to bring the public debt down from its current level of 55 percent of GDP to the target of 50 percent of GDP by 2020. Fiscal consolidation and a pick-up in exports and tourism are expected to keep the current account deficit at around 5 percent of GDP. The main risk to this scenario is another natural disaster, but slower growth of Samoa's main trading partners could also materially affect the medium-term growth path. Failure to deal with vulnerabilities in public financial institutions and banks could also lead to financial distress, especially in the event of another natural disaster. Delays in implementing structural reforms could also lead to anemic growth in the medium term.

Executive Board Assessment[2]

Executive Directors commended the authorities for maintaining macroeconomic stability and rekindling growth in the aftermath of two large natural disasters. Directors noted, however, that growth is likely to remain moderate and subject to downside risks from Samoa's susceptibility to natural disasters and slower trading partner growth. Rising contingent liabilities in some public financial institutions (PFIs) also pose a risk to fiscal and debt sustainability. Directors underscored the need to bolster economic resilience and mitigate vulnerabilities by strengthening

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

the financial sector, boosting fiscal and external buffers, and implementing growth-enhancing structural reforms.

Directors welcomed the authorities' commitment to reduce the fiscal deficit, and called for decisive actions to achieve consolidation and reduce the public debt to a more sustainable level, in line with the target of 50 percent of GDP by 2020. They encouraged the authorities to restrain current expenditure and to sustain recent improvements in revenue administration, with care taken to safeguard priority health, social, and investment spending. Maintaining the reform momentum to improve the performance of PFIs and state-owned enterprises should also help to mitigate fiscal risks posed by sizeable contingent liabilities.

Directors considered the current monetary policy stance to be appropriate, but stressed that the central bank should stand ready to adopt a tightening stance, if warranted. They noted that the exchange rate is consistent with economic fundamentals, and that reserves appear to be adequate according to standard metrics, although lower than in peer countries. Directors advised that a higher reserve level would enhance economic resilience, achieved primarily through competitiveness-enhancing structural reforms.

Directors were encouraged by the ongoing implementation of the recommendations of the recent Financial Sector Assessment Program (FSAP), and supported the request for Fund technical assistance in this regard. Reforms aim to improve on-site supervision, prudential regulations and oversight, and bank resolution and crisis management. Efforts to strengthen the AML/CFT framework should also continue.

Directors acknowledged the important role played by PFIs in the economic recovery, but cautioned that past lending had compromised asset quality in some institutions, while also contributing to government contingent liabilities. They agreed that as the economy strengthens, the mandate of PFIs should more narrowly focus on key sectors of the economy, consistent with their existing mandates. The governance and transparency of PFI operations should also be improved to facilitate the development of private financial markets.

Directors emphasized that continued structural reforms would be vital to fostering private sector development and economic diversification, and lifting Samoa's growth potential. They welcomed the authorities' reform agenda, which focuses on developing agriculture, facilitating business activity and tourism, and improving access to finance. Directors noted the particular importance of making customary land more accessible for collateral use, and deepening financial intermediation.

Samoa: Selected Economic and Financial Indicators, 2011/12–2019/20

Population (2013): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2013/14): US$ 4,308
Quota: SDR 11.6 million

			Prel.	Proj.					
	2011/1	2012/1	2013/1	2014/1	2015/1	2016/1	2017/1	2018/1	2019/2
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.2	-1.1	1.9	2.6	1.6	-0.8	0.8	1.5	2.0
Nominal GDP	4.5	-0.6	0.7	5.0	3.8	1.1	3.4	4.5	5.0
Change in CPI (end period)	5.5	-1.7	0.2	3.0	2.1	2.0	3.0	3.0	3.0
Change in CPI (period average)	6.2	-0.2	-1.2	2.3	2.2	2.1	2.5	3.0	3.0
				(In percent of GDP)					
Central government budget									
Revenue and grants	30.1	33.9	38.5	35.5	30.3	29.8	29.8	29.8	29.8
Of which: grants	7.5	9.7	12.8	9.8	4.6	4.2	4.2	4.2	4.2
Expenditure and net lending	37.3	37.6	43.8	39.1	32.7	31.2	30.2	30.2	30.2
Of which: Development	12.5	11.5	15.1	12.3	6.9	6.0	5.4	5.4	5.4
Overall balance	-7.1	-3.8	-5.3	-3.6	-2.3	-1.5	-0.5	-0.5	-0.5
External financing	7.2	3.5	2.9	4.3	2.6	1.7	0.5	-1.0	0.3
Domestic financing	-0.1	0.3	2.5	-0.6	-0.2	-0.2	0.0	0.0	0.0
				(12-month percent change)					
Money and credit									
Broad money (M2)	-4.0	-0.8	18.7	17.6	8.5	1.1	3.4	4.5	5.0
Net foreign assets	-5.9	-21.8	70.1	287.7	15.9	29.5	...	...	...
Net domestic assets	-3.1	9.0	1.9	-17.2	3.8	-4.6	...	...	...
Private sector credit	2.8	1.1	3.4	5.7	3.8	1.0	3.0	3.5	5.0
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-70.3	-20.7	-65.8	-59.4	-48.8	-46.8	-45.5	-46.0	-41.9
(In percent of GDP)	-8.7	-2.6	-8.0	-6.9	-5.4	-5.1	-4.8	-4.7	-4.1
Merchandise exports, f.o.b. 1/	29.4	27.2	25.9	26.7	27.5	28.3	29.5	30.7	31.4
Merchandise imports, f.o.b.	-337.1	-305.8	-347.8	-347.1	-350.9	-357.9	-362.9	-370.2	-373.5
Services (net)	114.5	118.3	119.7	118.9	128.8	131.5	133.1	135.3	134.7
Income (net)	-36.9	-32.8	-26.1	-25.6	-26.5	-26.7	-27.9	-29.3	-30.2
Current transfers	159.8	172.4	162.5	167.6	172.3	178.0	182.7	187.5	195.6
External reserves and debt									
Gross official reserves	157.1	137.3	155.3	167.3	178.4	190.3	197.7	201.5	211.6
(In months of next year's imports of GNFS)	4.7	3.8	4.3	4.6	4.8	5.1	5.2	5.3	4.9
Public debt (in millions of tala) 2/	959.7	984.5	1,015.5	1,076.4	1,121.2	1,149.3	1,151.7	1,153.0	1,155.1
(In percent of GDP)	52.0	53.6	55.0	55.5	55.7	56.5	54.7	52.4	50.0
Exchange rates									
Market rate (tala/U.S. dollar, period average)	2.3	2.3	2.2	...	...	...	...	...	...
Market rate (tala/U.S. dollar, end period)	2.3	2.3	2.2	...	...	...	...	...	...
Nominal effective exchange rate (2010 = 100) 3/	100.9	104.0	106.5	...	...	...	...	...	...
Real effective exchange rate (2010 = 100) 3/	102.9	104.6	104.7	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in millions of tala)	1847	1835	1847	1940	2013	2036	2105	2200	2310

GDP per capita (U.S. dollars)	4,265	4,171	4,308	4,481	4,618	4,644	4,754	4,890	5,055

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

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

2/ Includes domestic and external public debt.

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

SAMOA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

May 14, 2015

KEY ISSUES

Outlook and risks. Growth is recovering gradually from natural disasters and inflation remains subdued. The current account deficit is expected to narrow on lower international oil prices and a planned fiscal consolidation. The main external risk is the occurrence of another natural disaster in the presence of already high public debt and vulnerabilities in financial institutions. The main domestic risks center around a delay in rebuilding macroeconomic buffers, in particular through fiscal consolidation, reforms of public financial institutions and financial oversight.

Improving financial resilience. A recent financial sector assessment program (FSAP) mission identified risks in some commercial banks and public financial institutions (PFIs). The role of PFIs needs to be refocused to reduce contingent liabilities for public finances and to support the development of private financial markets. Regulation and supervision of financial institutions needs to be improved to reduce the risk of an adverse feedback loop from banks and PFIs to the public finances in case of another external shock.

Rebuilding macroeconomic buffers. A gradual fiscal consolidation is planned to reduce public debt to the target of 50 percent of GDP by 2020, mainly through improvements in revenue and a reduction in current expenditure. While there is no significant evidence of misalignment, and reserves are adequate by standard metrics, a stronger external position with higher reserves would provide greater resilience.

Boosting growth. The authorities' structural reform initiatives emphasize a revitalization of agriculture and food processing, tourism, and an enabling environment for business. Reforms to SOE governance are beginning to bear fruit, but the government should stay the course in planned privatizations and amendments to legislation to reduce the burden of state-owned enterprises (SOEs) on the public finances. Improvements in financial infrastructure will improve the flow and allocation of credit.

Approved By
James Daniel and Masato Miyazaki

Discussions took place in Apia during February 23 - March 6, 2015. The staff team comprised Geoffrey Bannister (head), Kazuaki Washimi (both APD), Farid Talishli (STA), Erik Lundback (MCM) and Tubagus Feridhanusetyawan (Resident Representative). Mr. Choi (OED) and representatives from the World Bank and the ADB joined the discussions.

CONTENTS

CONTEXT 4

RECENT DEVELOPMENTS, OUTLOOK AND RISKS 4

A. Recent Developments 4

B. Outlook and Risks 8

POLICY DISCUSSIONS 9

A. Improving Financial Resilience 9

B. Rebuilding Macroeconomic Buffers 12

C. Boosting Growth 16

OTHER ISSUES 17

STAFF APPRAISAL 17

BOXES

1. Effect of Recent Natural Disasters on Debt 5
2. Contribution of Finance to Growth 7
3. Public Financial Institutions 10
4. Recent Social Developments and Challenges 14
5. External Sector Assessment 15

FIGURES

1. The economy is recovering with moderate inflation 19
2. The current account is widening but reserves remain adequate 20
3. Fiscal cost of reconstruction added to the public debt 21
4. Commercial bank credit growth is sluggish and PFIs have a growing role 22
5. Financial access is high relative to peers, but significant impediments remain 23

TABLES

1. Selected Economic and Financial Indicators, 2011/12-2019/20 24
2. Illustrative Medium-Term Baseline Scenario, 2011/12-2019/20 25
3. Balance of Payments, 2011/12-2019/20 26
4. Financial Operations of the Central Government, 2011/12-2019/20 27
5. Monetary Developments, 2010/11-2015/16 28
6. Financial Soundness Indicators, 2010-14 29
7. Financial Access Indicators, end of 2013 30
8. Status of Millennium Development Goals 31

APPENDICES

I. Risk Assessment Matrix 32
II. Key FSAP Recommendations 33

CONTEXT

1. Samoa is one of the most remote Pacific islands, subject to natural disasters. It is dependent on tourism, remittances and development aid. It has a strong record of macroeconomic management, and before the global financial crisis was one of the fastest growing Pacific island countries. A tsunami in September 2009 and cyclone Evan in December 2012 caused major destruction, and prompted the government to request disbursements under the Rapid-Access Component of the Exogenous Shock Facility in 2010 and the Rapid Credit Facility in 2013. Reconstruction is estimated to have cost 40 percent of GDP and added about 15 percent of GDP to Samoa's external debt (Box 1).

2. Macroeconomic stability has been maintained in the face of external shocks and growth is recovering, but risks have accumulated. Debt (mostly external) rose rapidly from 30 percent of GDP in 2008 to 55 percent in 2014, well above the authorities' medium-term target of 50 percent of GDP. In addition, a subsidized lending program through the public financial institutions (PFIs) and government guaranteed debt in the state-owned enterprises (SOEs) represent contingent liabilities for the public debt.

3. A recent financial sector assessment program (FSAP) mission identified vulnerabilities that could add to these risks. The mission found that commercial banks are liquid and report high capitalization, but non-performing loans are rising, and part of the banking system is vulnerable to further shocks. The mission also found that some PFIs are vulnerable to shocks due to low asset quality and weak loan portfolios. Any distress in local commercial banks could require public funds, further impacting the government debt.

4. Policies are broadly in line with past Fund advice, although implementation was interrupted by cyclone Evan in 2013. A fiscal consolidation was initiated in 2012/13, but was delayed by a rise in expenditures related to reconstruction, and the public debt rose. The authorities have now retaken plans for a fiscal consolidation to reduce the public debt. The exchange rate has remained stable and monetary policy has supported the recovery. Structural reforms have moved forward in some areas, including in the management of public finances and SOE reforms, and some progress has been made towards laying the groundwork for the use of customary lands as collateral.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

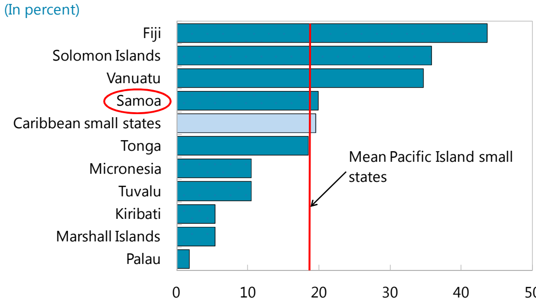
5. Growth is recovering and core inflation remains subdued. Real GDP expanded by around 2 percent in fiscal year 2013/14 (July to June), supported by reconstruction activities, a rapid expansion in commerce and transportation services related to preparations for the United Nations Small Island Developing States (SIDS) conference, which took place in September 2014, and a recovery in agriculture (Figure 1). Inflation rose recently on the back of higher food prices, but underlying inflation (excluding food, transport and communication) remains stable at around 2 percent.

Box 1. Samoa: Effect of Recent Natural Disasters on Debt[1]

Using a synthetic control approach indicates that the tsunami in 2009 was responsible for an increase in debt of 10 percent of GDP, while the recent cyclone in 2012 led to another 5 percent of GDP increase.

On average, Samoa has been hit by a major natural disaster once every five years.[2] Recent natural disasters in Samoa required reconstruction costs of 40 percent of GDP (23 percent of GDP for the tsunami in 2009 and 17 percent of GDP for cyclone Evan in 2012).

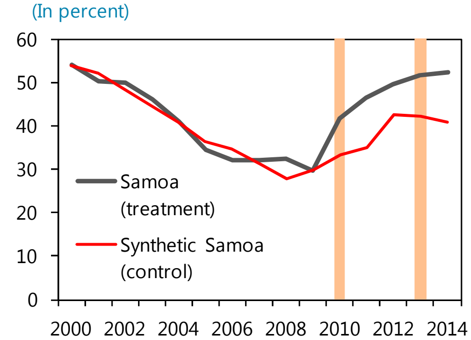
Frequency of Occurrence of Natural Disasters[1]
(In percent)



1/ Ratio of number of years with natural disaster to the number of years during 1960-2013.
Sources: Center for Research on Epidemiology for Disasters, International Disaster Database; IMF, staff estimates.

A synthetic control approach can evaluate the impact of these natural disasters on external debt.[3] This approach uses a panel of countries that have not been hit by natural disasters, but have similar observable characteristics, to create a synthetic comparator or control. By comparing changes in the external debt-to-GDP ratio between Samoa and the synthetic control, the methodology can assess the impact of natural disasters.

External Debt to GDP Ratio
(In percent)



Note: In fiscal year (July/June).

The results indicate the two natural disasters added about 15 percent of GDP to Samoa's external debt. The gap of the external debt–to-GDP ratio between Samoa and the synthetic control hovers around 10 percentage points after the tsunami in 2009 and widens to 15 percent after the cyclone. This suggests that, in order to create a cushion for another natural disaster, Samoa's debt target should aim at 40 percent of GDP over the longer term, given the authorities' medium-term debt ceiling of 50 percent of GDP.

---

1. Prepared by Kazuaki Washimi.

2. See Cabezon, Hunter, Tumbarello and Wu, "Strengthening Macro-Fiscal Resilience to Natural Disasters and Climate Change in the Small States of the Pacific," IMF Working Paper (forthcoming).

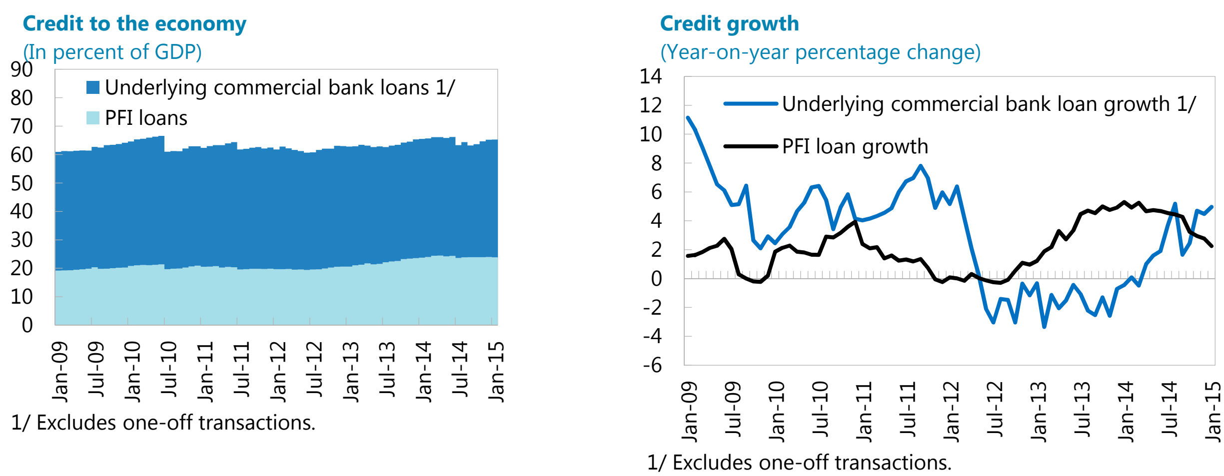
3 For the methodology, see Abadie et al (2007).

6. The external current account deficit widened as the economy recovered, but reserves remain adequate. Following cyclone Evan, the external current account widened to 8 percent of GDP in 2013/14 as imports rose while exports lagged following damage to infrastructure and crops from the cyclone (Figure 2). At the same time tourism and remittances remained largely flat (although they have begun to pick up recently). Foreign inflows of capital grants and direct investment helped boost reserves, which rose to 4 months of prospective imports of goods and non-factor services in 2014.

7. The authorities have run a very accommodative macroeconomic policy to cushion the effects of the global financial crisis and two natural disasters. The fiscal deficit deteriorated sharply after 2008 and has remained above 5 percent (except in 2012/13). For 2013/14, tax revenue increased by 1 percent of GDP thanks to improved administration, but expenditure remained above historical levels due to reconstruction efforts and preparations for the SIDS conference. As a result, the fiscal deficit reached 5.3 percent of GDP in 2013/14 (GFS 2001) (Figure 3). Monetary policy has also remained accommodative, with the policy rate at the zero lower bound since 2010. Samoa's exchange rate, which is pegged against a basket of major trading partner currencies, has remained broadly stable.

8. PFIs have become increasingly important suppliers of credit. Despite ample liquidity, commercial bank credit growth was negative throughout most of 2012-14, as banks were repairing their balance sheets after natural disasters. As a result, the government directed PFIs to refinance SOE loans with commercial banks. More recently, bank credit has recovered due to a number of large one-off transactions, but underlying growth remains anemic (Figure 4). PFIs have also supplied credit to the economy for reconstruction. They control about 40 percent of all credit to the economy and 42 percent of all assets in the financial system. While it is difficult to identify a relationship between growth and bank credit, when PFI credit is included there is evidence that overall credit has supported GDP growth in the period since the Global Financial Crisis (Box 2).

PFIs have a large and growing role

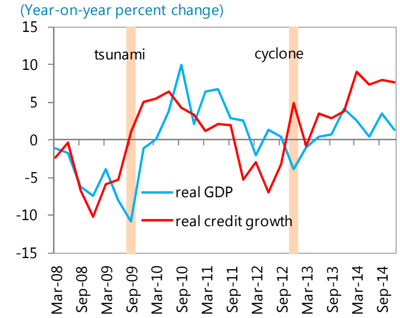


Box 2. Samoa: Contribution of Finance to Growth[1]

A vector auto- regression analysis including real credit and growth points to the importance of PFI credit in the recovery. A financial conditions index seems to perform as a leading indicator of real activity.

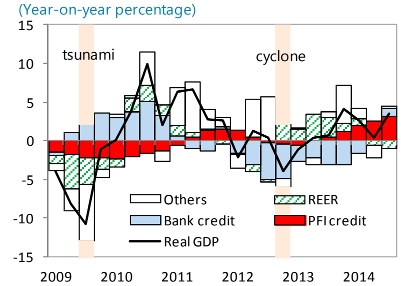
A vector auto-regression (VAR) analysis is estimated to disentangle the effects of each financial variable on growth. Casual empiricism suggests that there is a relationship between total credit growth (commercial banks and PFIs) and real GDP growth. To investigate this relationship further, this analysis estimates a VAR with bank credit, PFI credit (both in real terms) and real GDP and the real effective exchange rate (REER). All the variables are in terms of the year-on-year percent change.[2]

Total Credit Growth and Real GDP Growth
(Year-on-year percent change)



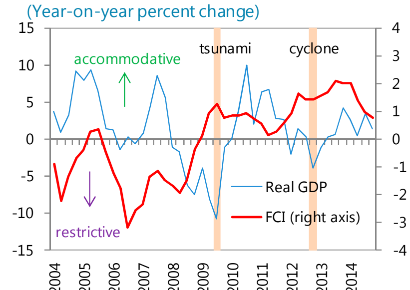
The VAR analysis suggests the PFI credit helped substitute for bank credit and support growth after a 2012 cyclone. The Granger causality test suggests both PFI credit and bank credit Granger-cause growth, while REER does not. Historical decomposition of growth indicates PFI credit has contributed to growth after Cyclone Evan, making up for weak bank credit growth.

Historical Decomposition of Growth
(Year-on-year percentage)



A second approach uses a financial conditions index (FCI) to examine the relationship between finance and real GDP growth. This analysis applies principal component analysis to identify an unobservable common factor from a group of financial indicators, including bank credit, PFI credit, interest rate spreads (lending rate minus policy rate), and the nominal effective exchange rate.[3] The estimated FCI clearly shows the loosening of financial conditions starting in 2008 in response to the global financial crisis and subsequent external shocks. It tracks well with GDP growth and has the largest correlation at a 6-month lead after 2006.

Financial Conditions Index
(Year-on-year percent change)



[1] Prepared by Kazuaki Washimi.

[2] The Cholesky ordering is REER, real GDP, PFI credit and bank credit with a lag of two quarters. The results do not change qualitatively with a different ordering. Real interest rate is not included, as the impulse response does not produce economically meaningful results.

[3] The choice of variables is based on Osorio et al. (IMF WP/11/170). Samoa does not have any stock market indices given there is no capital market.

B. Outlook and Risks

9. Near term growth will be supported by one-off events. Growth is expected to be 2½ percent for 2014/15, supported by the SIDS conference (which took place in the first quarter of the fiscal year), preparations for the Commonwealth Youth Games in September 2015, construction of a new airport terminal, and lower fuel prices. Lower oil prices will also contribute to benign inflation. The current account deficit is expected to narrow by about 1½ percentage points of GDP on the back of lower oil prices and a gradual rebound in agricultural exports and tourism. Consistent with this growth outlook, overall credit is expected to rise by 5½ percent, with commercial bank credit growth at 6 percent, as the entrance of a new regional bank (Bank of South Pacific - BSP) results in a drive to expand loan portfolios. PFIs are expected to continue expanding lending at around 5 percent, significantly lower than their historical growth rate, as lending resources have diminished.

10. Medium-term growth is expected to converge to 2 percent, supported by the expansion of agriculture and tourism. However, 2016/17 will see a decline as a major manufacturing employer, Yazaki corporation, closes its harness assembly operation following the exit of Toyota from auto production in Australia. Inflation is expected to remain between 2 and 3 percent as import prices remain stable and domestic agricultural supply continues to expand. A gradual fiscal consolidation and a pick-up in exports and tourism are expected to keep the current account deficit at around 5 percent of GDP. Medium-term credit growth is assumed to be in line with nominal GDP growth.

11. Risks to the outlook. The main external risk for Samoa is the occurrence of another natural disaster (Appendix I). Samoa also faces risks of slow growth in major trading partners (Australia, New Zealand and the US) and (indirectly) China. Domestic risks are centered around a delay in the policy response to vulnerabilities in the financial sector and rebuilding buffers. In particular, a delay in fiscal consolidation and further increases in public debt would reduce fiscal space to respond to natural disasters and further affect confidence and growth. Other domestic risks include financial distress in PFIs. While according to the FSAP the failure of a PFI would not have a systemic effect on banks, it would cause the public finances to deteriorate. At the same time, distress in local commercial banks could also require public funds. An external shock propagated through the financial system could thus have a large impact on public debt, undermining confidence and growth. Delays in implementing structural reforms, including policies to promote financial deepening, will result in anemic growth. The near-term outlook assumes a moderate pick-up in commercial bank credit growth, which could also constitute a downside risk to growth should it not materialize.

12. Authorities' views. The authorities broadly concurred with the outlook. They noted that the risk of a down-turn in 2016/17 could be mitigated by a shift of activity of Yazaki corporation to other types of business. They also saw an upside to growth from higher tourist arrivals after the completion of a new airport and the reconstruction of major hotels. The authorities were aware of the risks in PFIs and banks. They also recognize the level of public debt is high and their budget and multi-year fiscal framework calls for a gradual fiscal consolidation.

POLICY DISCUSSIONS

13. Discussions centered around the need to improve resilience to natural disasters and boost growth. Improving resilience requires addressing risks in PFIs and commercial banks, and rebuilding macroeconomic buffers by lowering public debt and increasing reserves. In the medium-term, structural reforms are necessary to boost growth, including to facilitate access to finance.

A. Improving Financial Resilience

Public Financial Institutions

14. Policies are needed to contain the risk of contingent liabilities to the public finances from PFIs, and to redesign their role to support private financial markets. The authorities have used PFIs to supply credit for reconstruction in the face of two major natural disasters. But in some cases PFIs compete directly with commercial banks in key sectors such as tourism, housing and consumer lending, inhibiting the development of local finance (Box 3). The asset quality of the Development Bank of Samoa (DBS) has deteriorated significantly in recent years, and failure of DBS could constitute an important risk for public debt, growth and financial stability. Staff analysis suggests that a failure of PFIs could add up to 7 percent of GDP to the public debt (mostly from liabilities in the DBS to the government or explicitly guaranteed by the government), and further defaults among SOEs could add another 17 percent of GDP, for a total of 24 percent of GDP. The FSAP identified the following recommendations to contain risks and enhance the role of PFIs (Appendix II):

- ***Formulate a coherent policy framework for the PFIs.*** The role of PFIs should be redesigned to provide development finance that is complementary to, rather than in competition with, commercial bank products. In the process, weaknesses in asset quality and performance should be addressed. In particular,
  - **Development Bank of Samoa (DBS)**. A large part of DBS' loan portfolio has been restructured, and the quality of assets is uncertain. To avoid further losses, new lending outside of its original mandate should be halted, and a comprehensive restructuring of the bank should be initiated. The current range and nature of operations should be narrowed in line with its original charter to finance agricultural production and SMEs. In addition, urgent reforms need to be put in place to address its operational inefficiencies and financial weakness, including improved credit and risk management, strengthening recovery procedures and accounting practices.
  - **Samoa National Provident Fund (SNPF)**. The risk of insolvency in the SNPF is low, as its lending is covered by member contributions. Nevertheless, the high level of borrowing by members depletes pension savings, which runs counter to the purpose of the fund. The fund should gradually reduce lending against contributions, and diversify its investment portfolio, including by increasing offshore investments. SNPF should also seek technical assistance to conduct a comprehensive review of its actuarial soundness, including the investment of its assets.

Box 3. Samoa: Public Financial Institutions

PFIs have been growing rapidly and moving increasingly into areas where they compete with commercial banks. Asset quality has deteriorated and for some, liabilities are to government institutions (central bank) or government guaranteed.

Public Financial Institutions (PFIs) in Samoa have been growing rapidly and make up a substantial part of the financial sector. Among the PFIs, the Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS) are the largest in terms of assets but both Unit Trust of Samoa (UTOS) and the Samoa Housing Corporation (SHC) have been expanding rapidly.

Development Bank of Samoa (DBS). The DBS was established in 1974 to provide development assistance to agriculture and SMEs. The DBS on-lends funds from international institutions but has recently been funded through credit lines from the central bank to make loans for reconstruction, as a policy response to natural disasters. A large part of DBS' portfolio is concentrated in tourism, but it has loans in every sector. Most of these loans were extended with subsidized interest rates. The quality of DBS' portfolio seems substantially impaired, and it has offered a one year moratorium on interest and principal payments to a large proportion of its clients.

Samoa: Public Financial Institutions, FY 2014

	DBS	SHC	SNPF	UTOS
Total assets (% of GDP)	10.0	2.2	27.9	4.3
Share in financial system (%)	*8.7*	*2.0*	*24.4*	*3.7*
Gross loans&investments (% of GDP)	7.7	2.1	18.1	4.0
Borrowing (% of GDP)	6.3	0.7	-	2.5
CAR	27.3	65.3	-	-
Net profit 1/	-4.6	0.7	31.2	2.8
NPLs (% of total loans)	4.6	2.1	5.8	-
ROA (%) 2/	-2.5	1.7	6.1	3.6
Return of capital (%) 3/	-9.1	2.6	-	9.1

Source: Annual Reports of PFIs, FSAP questionnaire, and staff calculations

1/ For SNPF the net surplus from investment income is shown.
2/ Ratio of net profits to total assets.
3/ Ratio of net profits to capital and reserves.

Samoa National Provident Fund (SNPF). The SNPF was established in 1972 as a compulsory retirement savings scheme in which a minimum 5 percent contribution is paid both by employees and employers. Public employees and those in private formal employment contribute, covering 78 percent of the formally employed population. The SNPF concentrates on loans to its members, for which it has natural collateral in their contributions. These loans are provided for up to 50 percent of members' contributions. About 60 percent of its assets comprise loans to its members, and most members borrow up to the entire 50 percent allowed. The SNPF also lends to other PFIs.

Unit Trust of Samoa (UTOS). UTOS is an open-ended private unit trust established in 2010 to provide opportunities to small investors to participate in privatized SOEs, in particular the privatization of the state telecommunications monopoly. In the absence of further privatizations, UTOS' activities were diversified into a financing vehicle for SOEs: it issues capital notes to SOEs, who in turn borrow from the Trust, backed by a limited general government guarantee. By intermediating funds among SOEs and maintaining a leveraged position the Trust has generated high returns to unit holders.

Samoa Housing Corporation (SHC). The SHC was established in 1989 to facilitate access to housing and is also funded by the central bank with government guarantees.

This box is largely based on the FSAP Technical Note on Public Financial Institutions (forthcoming).

- **Unit Trust of Samoa (UTOS)**. In the near-term, the mandate of the Trust needs to be clarified and its increased risk to unit holders from leveraged positions needs to be fully disclosed. The government should decide whether to convert UTOS into a policy bank or deleverage it and continue as a conventional mutual fund. Going forward, credit risk management and accounting practices need to be improved.

- ***Enhancing the transparency and governance of the PFIs*** with improved accounting and disclosure practices. An important first step will be to strengthen accounting, reporting and disclosure standards making PFIs IFRS compliant.

- ***Incorporating the PFIs under the supervisory and regulatory framework of the central bank.*** All PFIs have recently come under the supervision of the Central Bank of Samoa (CBS), but prudential and regulatory guidelines need to be issued for UTOS and Samoa Housing Corporation (SHC), with UTOS being supervised as a bank. The CBS should improve the collection and verification of data from PFIs and deepen off-site analysis, including through stress-testing.

- ***Refraining from conducting further policy lending through PFIs not financed directly through the budget***. This would enhance transparency and reduce the risk for the balance sheet of the CBS.

15. Authorities' views. The authorities recognized the risks in the public financial institutions, but see them (particularly DBS and UTOS) as instruments to supply credit for reconstruction during crisis, and to lower interest rates. The authorities agreed with the need to reorient DBS' lending to the agricultural sector and SMEs. They also noted that there are plans to reduce the ratio of lending against contributions at the SNPF from 50 percent to 40 percent over the next two years, and to diversify its investments. The new Ministry of Public Enterprises, planned this year, will provide an opportunity to review governance and reporting of PFI operations. The CBS is moving quickly to improve financial oversight of PFIs, including through the issuance and revision of prudential regulations (particularly the SHC and UTOS) based on FSAP recommendations, and the conduct of on-site inspections this year.

Commercial Banks

16. Improving regulation and supervision of commercial banks would reduce the risk of an adverse feedback from another external shock. Banks have high and rising NPLs, and are vulnerable to shocks, according to stress-tests conducted by the FSAP. There is also significant uncertainty about the underlying data on asset quality and provisioning. These vulnerabilities could lead to a major credit squeeze on the economy and a bailout by government in the event of another natural disaster. Policies to address these vulnerabilities are thus critical for macro-financial stability. The FSAP found that financial oversight, including regulation and supervision, needs to be strengthened. The most important recommendations in this regard include (Appendix II):

- ***Improving capacity for banking supervision and regulation.*** The CBS should hire additional staff for financial oversight, as planned, and move to implement risk based supervision.

- ***Conducting regular on-site supervision.*** Priority should be given in the short-term to local banks. The CBS should conduct an asset quality review of potentially vulnerable banks, possibly through appointing an external assessor.

- ***Upgrading off-site supervision***. Improving the collection, verification and analysis of bank data for off-site supervision purposes.

17. Authorities' views. The authorities appreciate the FSAP, and are taking steps to implement its recommendations. They took concerns about potential weakness in the banking sector seriously and are planning to conduct on-site inspections this year. The CBS is also taking steps to modernize its legal and regulatory framework for banking supervision, and reform the banking resolution and crisis management framework. A review of the legal framework was completed and a technical assistance mission was fielded in April, 2015. The authorities have also requested technical assistance for on-site supervision, prudential data collection and verification, stress testing, bank resolution and crisis management, and a program of technical assistance in these areas is being designed in coordination with the Pacific Financial Technical Assistance Center (PFTAC).

B. Rebuilding Macroeconomic Buffers

Fiscal Policy

18. Samoa's fiscal framework is anchored on a target debt ratio of 50 percent of GDP specified in its medium-term debt management strategy. Given the vulnerabilities Samoa faces, staff proposed a lower long-term public debt target of 40 percent of GDP, but supported the authorities' stated goal of reducing public debt to 50 percent of GDP by 2020. An updated Debt Sustainability Analysis (Annex I) indicates that Samoa has moved from a high to a moderate risk of debt distress. However, including contingent liabilities from PFIs and SOEs of 24 percent of GDP mentioned above, the overall risk to public debt sustainability is higher.

19. The authorities' budget and medium-term fiscal framework includes a fiscal consolidation to reach their debt target. The approach is based on sustaining recent improvements in revenue administration and bringing current expenditure to pre-crisis levels, mainly through the containment of personnel costs (limited to 45 percent of current expenditure), while still keeping capital spending above its historical level to support growth. For 2014/15, current expenditures related to reconstruction (required to restore public health and education services after the cyclone) will be reduced as reconstruction is completed. A significant component of capital expenditure will be investments in rebuilding the airport, financed by a loan from China of about 6 percent of GDP, which is expected to be disbursed evenly over three years. Under this scenario, the overall fiscal deficit would fall from 3½ percent of GDP in 2014/15 to around 1½ percent of GDP in 2016/17 (GFS 2001 format), and then to around ½ percent of GDP in the medium term. This would be sufficient to bring the debt ratio to 50 percent of GDP by 2020. This is also consistent with a strategy of running primary surpluses in non-disaster years to finance periodic disaster costs. Implementing further reforms identified in the recent Public Expenditure and Financial Accountability (PEFA) assessment, including non-tax revenue reform, budgeting, accounting and reporting, and managing fiscal risks from SOEs, will be important to support the authorities' fiscal consolidation.

Samoa: Underlying Fiscal Balance, 2008/09–2016/17

							Budgeted		
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	(In percent of GDP)								
Revenue (net of grants)	23.0	24.6	22.6	22.6	24.2	25.7	25.7	25.8	25.6
Expenditure (net of grants)	26.6	30.4	27.9	29.7	28.0	31.0	29.3	28.1	27.1
Capital expenditure (net of grants)	4.3	4.6	8.2	7.6	4.4	6.8	6.7	6.4	5.9
Current expenditure (net of grants)	21.6	25.8	19.7	22.1	23.5	24.3	22.6	21.7	21.2
Overall balance (net of grants)	-3.6	-5.8	-5.3	-7.1	-3.8	-5.3	-3.6	-2.3	-1.5

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

20. Care should be taken to ensure that consolidation does not affect spending on social priorities. While extreme poverty is rare in Samoa, there are challenges related to basic needs poverty, non-communicable diseases and the quality of education (Box 4).

21. Authorities' views. The authorities concurred with the 40 percent of GDP long-term debt target and the intermediate goal of bringing debt to 50 percent of GDP by 2020 through a gradual fiscal consolidation. They pointed out that personnel expenditures were already below their medium term fiscal framework's target of 45 percent of current expenditure. Planned implementation of changes in non-tax revenue in 2015/16 (implementing fees for some public services) and a review of the VAT could also support revenue.

Monetary Policy and Exchange Rate

22. A supportive monetary policy is appropriate as long as underlying inflationary pressures are absent. The policy rate has been at the lower bound for over four years, and bank liquidity is high, but the transmission mechanism for monetary policy is weak due to a lack of competition in commercial banks, weakness in some bank balance sheets, and structural impediments to finance. As the economy recovers it will be important to improve the functioning of monetary policy by reforms in these areas, particularly improving bank regulation and supervision, and making customary lands more accessible for use as collateral (discussed below). It will also be important to mop up excess liquidity and raise interest rates.

23. Staff analysis and other indicators suggest no significant misalignment of the currency (Box 5). The current exchange rate peg against a basket of major trading partner currencies has served Samoa well, and reserves are adequate under the standard metric. There are signs that tourism and some agricultural exports are recovering, and the decline in oil and other commodity prices is expected to support the external position in the near term. Nevertheless, given Samoa's vulnerability to natural disasters, a strong external position with higher reserve buffers would

Box 4. Samoa: Recent Social Developments and Challenges

While extreme poverty is rare, basic needs poverty affects about one quarter of the population. Pressing social challenges include maintaining public services for the poor, addressing non-communicable diseases and improving the quality of education.

Samoa is in the process of updating its information on poverty. The latest estimates are from the 2008 household income and expenditure survey (HIES). The survey was updated in 2014, but the results are still in the process of being analyzed. While extreme poverty is rare, 26.7 percent of the population experienced basic needs poverty in 2008, with the incidence highest in the capital Apia and lowest in the less populated main island of Sava'i.

Samoa faces a number of important social challenges that need to be addressed to continue to reduce basic needs poverty and improve the inclusiveness of growth:

- **Promoting the quality and accessibility of public services to the poor.** The poorest 40 percent of Samoa's population rely heavily on publicly-funded health and education services, which account for about one-third of total government spending. Ensuring fiscal sustainability and rebuilding buffers will be important to ensure these social expenditures are insulated from future external shocks.

- **Addressing the growing prevalence of non-communicable diseases (NCDs).** NCDs (such as diabetes, heart disease and stroke) create significant social costs and account for 70 percent of all deaths in Samoa. An effective strategy to tackle NCDs will include reorienting public expenditure towards prevention, curtailing the consumption of food and drinks linked to obesity, and scaling up the Package of Essential Non-Communicable Disease Interventions for Primary Health Care in Low Resource Settings (PEN Package), which is currently being piloted in a sample of district hospitals.

- **Improving the quality of education.** Samoa has made significant gains in education. But, the government's Education Sector Plan notes that "at all levels, the quality of provision is the major problem". Improving the quality of education will require implementing professional standards, increasing training and on-going support to teachers, and providing incentive for teachers to improve qualifications.

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The information for this box was provided by the World Bank.

Box 5. Samoa: External Sector Assessment[1]

Staff's overall assessment is that there is no significant indication of a misalignment of the current exchange rate and reserves are adequate. Nevertheless, a higher level of reserves would provide a valuable cushion in the case of another natural disaster.

A CGER assessment for Samoa presents mixed results. While the macro balance approach indicates 18 percent undervaluation, other approaches show a range of 1- 19 percent overvaluation. The equilibrium exchange rate approach (ERER) suggests no significant misalignment.

Other indicators point to no significant misalignment. The medium-term current account deficit is expected to be close to 5 percent of GDP. Export growth and tourism are expected to recover as reconstruction is completed and investments in hotels and the airport mature. Samoa is a net importer of fuel and the recent decline in oil prices is expected to improve the trade balance by about 3½ percent of GDP. Capital grants associated with reconstruction will also decline in the medium-term, but foreign direct investment flows will remain at their current level.

Reserves are adequate by the standard metric. Reserves are slightly above the optimal level of 4 months of imports of goods and services estimated by the optimal reserve approach. The results depend on the long-term opportunity cost of holding reserves, which is assumed conservatively at 3.8 percent based on the long-term average real bank lending rate.

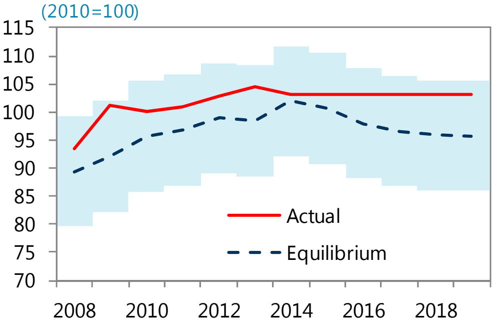
[1] This box was prepared by Farid Talishli.

Exchange Rate Assessment: Baseline Results 1/
(In percent)

	CA/GDP		REER
	Norm	Underlying 1/	Overvaluation
MB approach 2/	-7.6	-4.8	-17.5
ERER approach 3/	…	…	1.1
ES approach	…	…	18.8
PPP approach	…	…	16.7

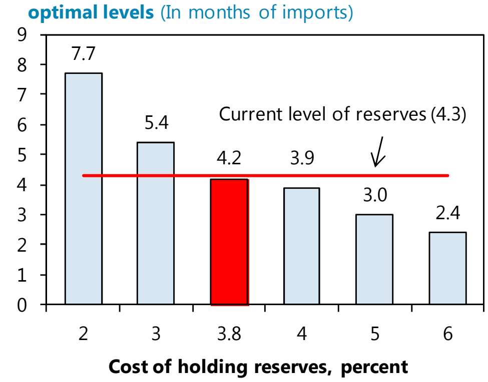
Source: Fund staff estimates.
1/ Staff projection over 2019
2/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.16. Underlying CA excludes imports related to grants.
3/ Overvaluation is assessed relative to 2014 Q3.

ERER Approach Real Effective Exchange Rate 1/
(2010=100)



1/ The shaded area represents the 90 percent confidence interval of the equilibrium real exchange rate estimate.

Samoa's reserves are slightly above estimated optimal levels (In months of imports)



provide greater resilience. A first line of action is to support cost competitiveness in tradable goods and tourism through comprehensive structural reforms. Staff also discussed the possibility of exchange rate devaluation in case of an additional external shock, but noted this would have to take place in the context of strong domestic policies and a robust financial system. While a devaluation would improve price competitiveness, it could have adverse effects on debt sustainability, since over 90 percent of the public debt is in foreign currency.

24. Authorities' views. The authorities consider that current monetary policy is broadly appropriate, and stand ready to adjust interest rates and liquidity as necessary. They broadly agreed that structural impediments to finance affected the transmission of monetary policy, but noted that high concentration in banking posed a particular challenge. They viewed the current level of reserves as adequate, and noted the countercyclical role of grants and remittances during past crises. They were willing to consider adjustments in the exchange rate if conditions warranted, but agreed that a devaluation could have adverse effects on debt sustainability.

C. Boosting Growth

25. The government's structural reform agenda appropriately emphasizes agriculture and tourism, revitalized exports and an enabling environment for business. In agriculture, the government should continue to move forward with the World Bank to introduce import substituting varieties of fruits and vegetables and light agricultural processing, as has been done in the coconut industry. In tourism, efforts to negotiate new flights are welcome, but the government also needs to concentrate on reforms to lower the cost of doing business, particularly the very high cost of electricity. Reforms to SOE governance are beginning to bear fruit in the form of better performance and oversight, but the government should stay the course in planned privatizations and amendments to the Public Bodies Act.

26. Structural improvements in the financial sector will also be important to support private sector development, financial inclusion and growth. Samoa has a high level of access to financial services by individuals and lower interest margins than most Pacific Island countries (Figure 5). Nevertheless, its remoteness and small scale lead to a lack of competition and a high cost of financial services, particularly for small and medium-sized enterprises. Financing to SMEs is provided by commercial banks and the DBS. There is also one microfinance institution which is beginning to make loans to SMEs and a government guarantee scheme for SME loans (with funds of 0.4 percent of GDP). However, the high level of collateralization of loans, and the large share of customary land that cannot be used as collateral are the main obstacle to credit, including for SMEs. The absence of a credit bureau or movable collateral registry, and the absence of standard accounting practices among SMEs, are also significant impediments. While recent data is limited, the latest enterprise survey from 2009, and a SME market assessment from 2012, confirm that a majority of SMEs experience financing constraints. It will thus be important to address these constraints to credit to allow better financial access for SMEs and to support growth.

27. Authorities' views. The authorities noted that they are pursuing diversification of agricultural production and processing for export with the help of development partners, including for niche markets (for example organic certification or gluten free products) where Samoa's lack of scale economies is less of a disadvantage. They also noted that there are solar and wind energy investments poised to come on line which would help lower the cost of electricity. The authorities agreed that development of essential financial infrastructure is a priority. While they see the establishment of a credit bureau as a private sector investment, they noted that personal property registry legislation is in place and implementation will be forthcoming, and agreed that the lack of financial literacy among SMEs is an obstacle to credit.

28. The authorities have been working with the Asian Development Bank (ADB) to make customary land more accessible for business transactions. A policy framework will be discussed in Cabinet in the first half of 2015, with the aim of revising legislation before 2016 (after consultation with major stakeholders) so that leases of customary lands can be used more easily and securely as collateral for loans, while safeguarding the rights of customary land holders.

OTHER ISSUES

29. Samoa's economic statistics are broadly adequate for surveillance. Core macroeconomic data are regularly reported to the IMF and published on official websites, including monthly and quarterly statistics not often available in small island countries. The authorities recently rebased their GDP series to 2009 (from 2002) and introduced public accounting on a GFSM 2001 basis. Nevertheless there are shortcomings in national accounts, financial sector indicators and external statistics. There is an ongoing program of technical assistance to improve statistics in these areas.

STAFF APPRAISAL

30. The authorities should be commended for maintaining macroeconomic stability and restoring growth in the face of multiple external shocks, but risks have accumulated. For the current fiscal year, growth is expected at around 2½ percent, boosted by reconstruction and the hosting of a major conference. But it is expected to decline in the medium-term as the effects of one-off events dissipate and a major manufacturing plant closes. The external current account deficit is expected to narrow on lower oil prices and the recovery of agricultural exports and tourism. The main external risks to this outlook come from another natural disaster. On the domestic side, with high public debt and the accumulation of contingent liabilities in PFIs and SOEs, another external shock could result in pressures on debt sustainability. At the same time, the FSAP identified potential weaknesses in the banking sector that could also lead to an increase in public debt should another external shock materialize.

31. In the face of these vulnerabilities, Samoa needs to improve the resilience of its economy. This requires addressing weaknesses in the financial sector, rebuilding macroeconomic buffers, and pursuing structural reforms to increase growth.

32. The role of PFIs needs to be reviewed. PFI credit has played a role in the economic recovery, but at the expense of higher contingent liabilities for the government. In addition, subsidized credit from PFIs has crowded out private credit and inhibited the development of local financial markets. While the role of PFIs in providing credit is justified in times of crisis, as the economy recovers they should be brought back to their original mandates, and governance and transparency of their operations improved. In particular, DBS should not provide any further policy lending outside of its original mandate and a comprehensive restructuring should be initiated.

33. Minimizing risks in the financial sector will also improve resilience. The CBS is cognizant of the risks identified in the recent FSAP, and is moving to improve banking supervision and regulation in line with recommendations. The CBS is also working to improve the legal framework for the financial sector, and banking resolution and crisis management with technical assistance from the IMF and PFTAC.

34. The authorities recognize that rising public debt has to be addressed. Their budget for 2014/15 and their multiyear fiscal framework envisage a gradual consolidation consistent with the goal of reducing the debt to GDP ratio to 50 percent by 2020. They plan to maintain recent gains in tax revenue administration and improve non-tax revenue, while limiting current expenditure mainly by containing personnel costs. Maintaining reform momentum on public financial management in areas identified in the recent PEFA assessment will be important to support fiscal consolidation. In addition, safeguarding public expenditures to maintain public services for the poorest of the population, addressing the epidemic of non-communicable diseases, and improving the quality of education, will be important for equitable and inclusive growth.

35. Monetary and exchange rate policies are broadly appropriate, but foreign reserves, while adequate, could be higher to enhance resilience. The authorities should stand ready to tighten monetary policy if inflation begins to accelerate or external conditions weaken. CGER-type analysis suggests no significant misalignment of the exchange rate, and reserves are adequate by standard metrics. Nevertheless, they are low compared to many of Samoa's peers, and a higher level would enhance resilience against natural disasters. The first line of action should be aggressive structural reforms. A managed adjustment of the exchange rate could help strengthen the external position further.

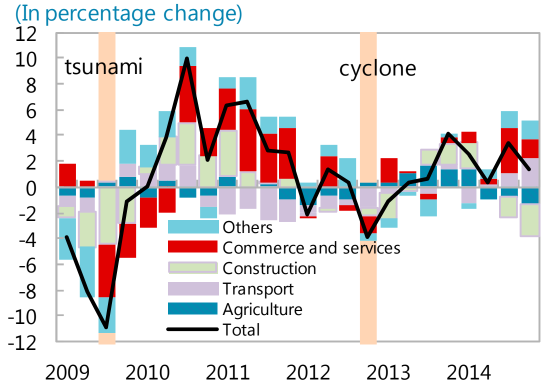
36. Decisively moving to implement structural reforms will help boost medium-term growth. For Samoa to recover its growth potential will require concentrating on reforms in agriculture, facilitating business activity, particularly in tourism, and improving access to finance. The authorities are well aware of these constraints and are moving to address them. The inability to use customary lands as collateral for business loans is a long-standing impediment to financial deepening in Samoa, and the authorities should concentrate on reforms in this area.

37. It is recommended that the next Article IV consultation take place on the current 24-month cycle.

Figure 1. The economy is recovering with moderate inflation

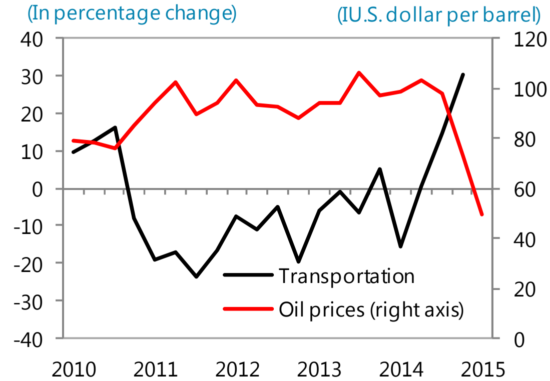
Recent economic activity is boosted by transportation, commerce and services …

Real GDP Growth by Sector
(In percentage change)



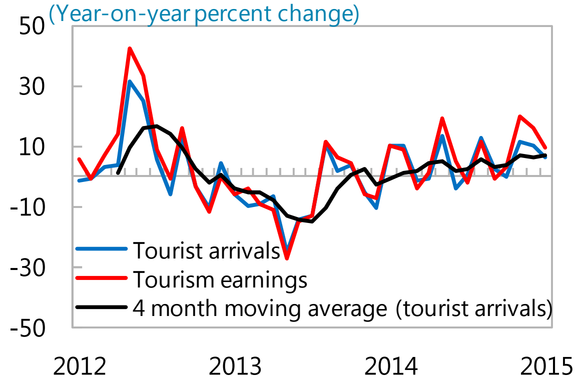
… with transport picking up on the back of lower oil prices…

Real GDP Growth for Transportation and Oil Prices
(In percentage change) (IU.S. dollar per barrel)



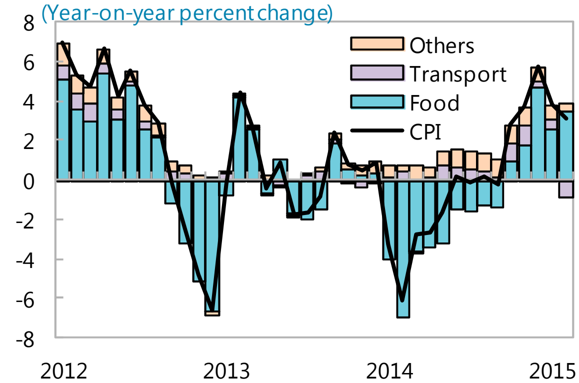
… and a rise in tourist arrivals supporting commerce and services.

Tourism
(Year-on-year percent change)



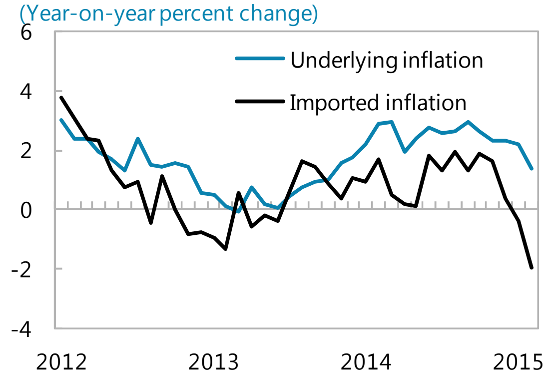
Inflation has picked up due to a rise in food prices …

Contribution to Inflation
(Year-on-year percent change)



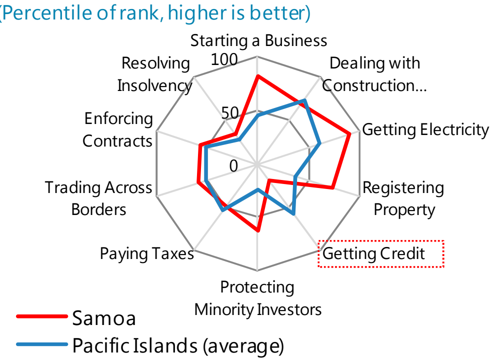
… but underlying inflation is stable, helped by lower import prices.

Underlying inflation
(Year-on-year percent change)



Structural reforms are crucial to boost productivity, particularly the supply of credit.

Doing Business Categories, 2015
(Percentile of rank, higher is better)

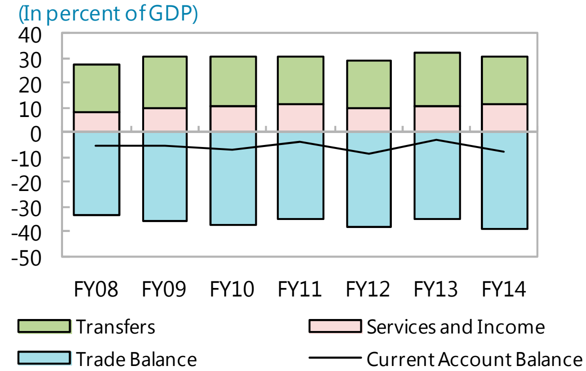


Sources: Country authorities; World bank *Doing Business 2015*; and IMF staff estimates and projections.

Figure 2. The current account is widening but reserves remain adequate

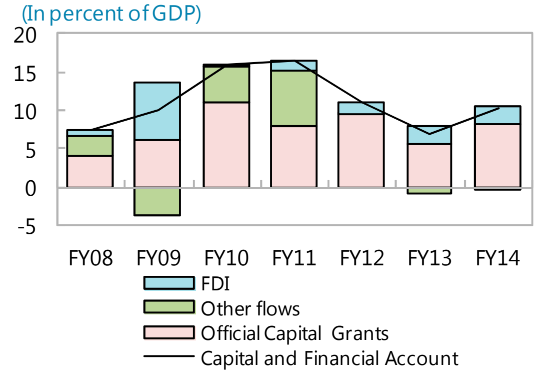
The current account deficit has widened as recovery takes hold.

Current Account Balance
(In percent of GDP)



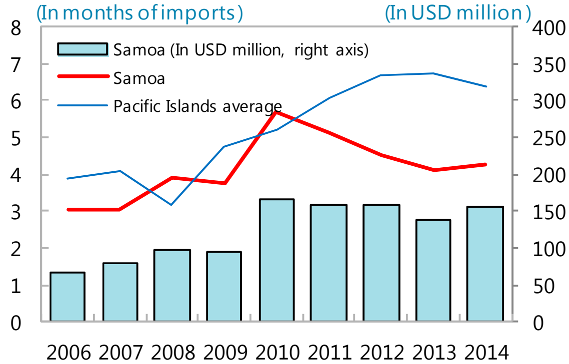
The capital and financial account is dominated by official grants.

Capital and Financial Account
(In percent of GDP)



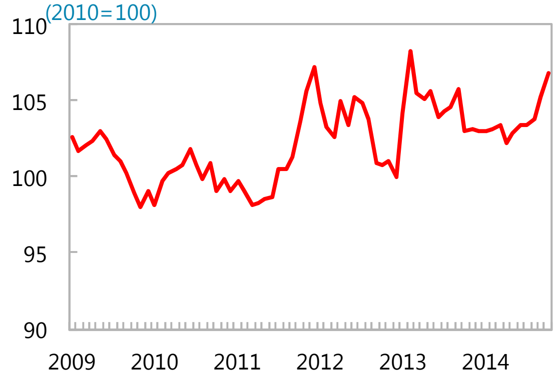
Reserves are adequate, but low compared to other Pacific Island Countries.

Reserves
(In months of imports) (In USD million)



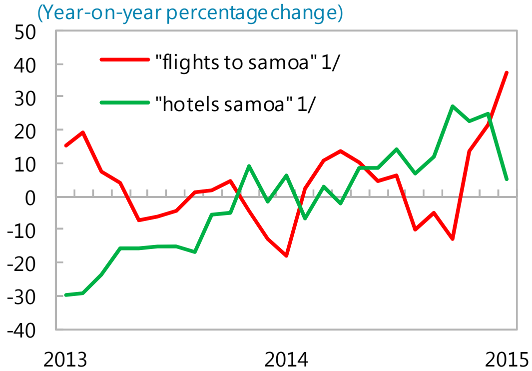
The real effective exchange rate has remained stable in recent years due to lower inflation.

Real Effective Exchange Rate
(2010=100)



Interest in Samoa as a tourist destination seems to be picking up.

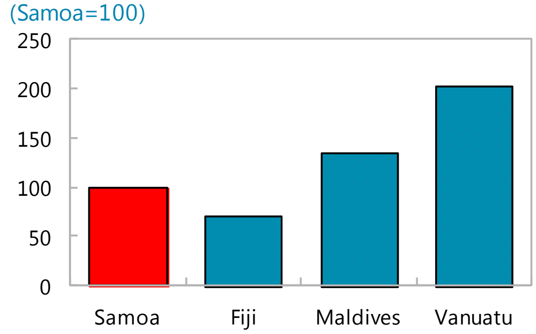
Google Search Volume
(Year-on-year percentage change)



1/ Three month moving average.

Samoa is an intermediate cost tourist destination.

Week at the beach index[1]
(Samoa=100)



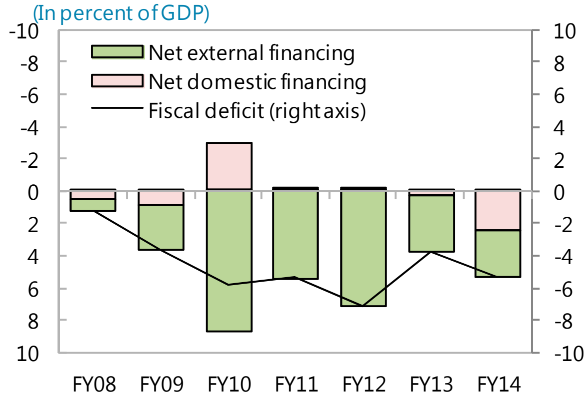
1/ The index is based on Laframboise et al. (2014), consisting of hotel rate, taxi fare, and food and beverage costs.

Note: Samoa's data is in fiscal year (July/June).
Sources: Country authorities; Google; Numbeo; Worldcabfares; UN; and IMF staff calculations.

Figure 3. Fiscal costs of reconstruction added to the public debt

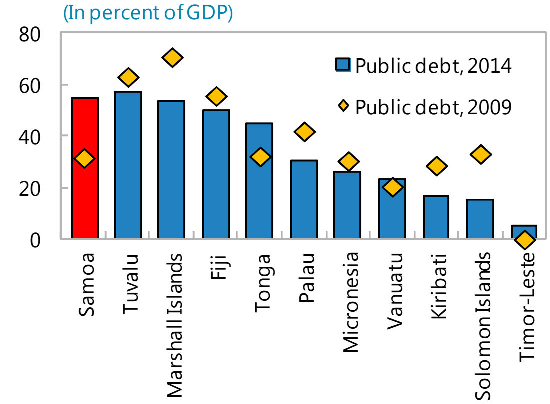
The fiscal balance deteriorated due to two natural disasters, mostly financed by external debt.

Fiscal Deficit and Financing
(In percent of GDP)



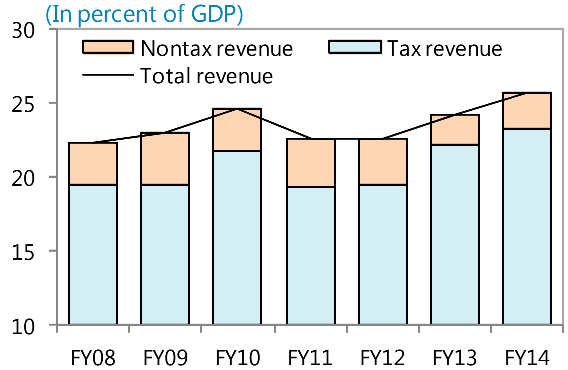
As a result, public debt has risen rapidly to among the highest for Pacific Island Countries.

Gross Public Debt, 2014
(In percent of GDP)



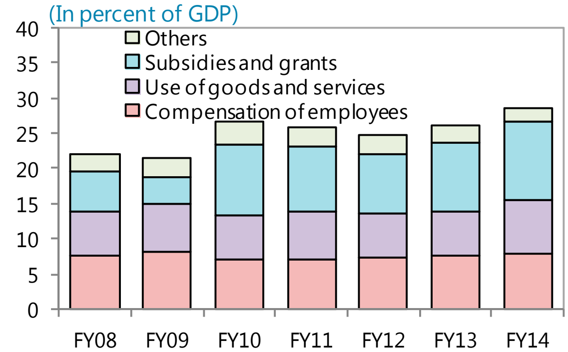
Recent efforts to improve tax administration have yielded positive results …

Revenues (excluding grants)
(In percent of GDP)



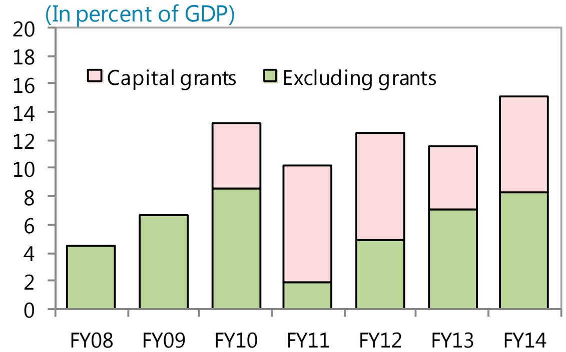
… while current expenditure has increased, partly due to subsidies and grants related to disaster recovery.

Current Expenditures
(In percent of GDP)



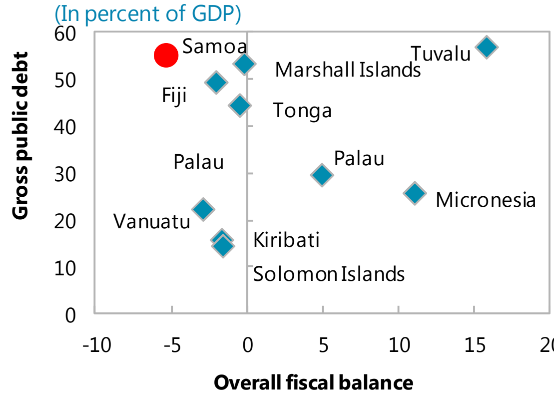
Capital expenditure has risen with reconstruction, boosted by capital grants.

Capital Expenditures
(In percent of GDP)



Fiscal consolidation is needed to restore fiscal space.

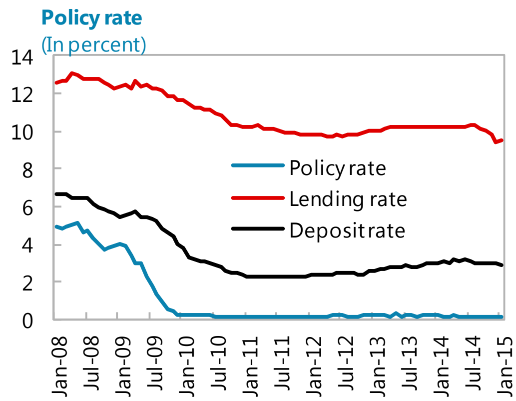
Fiscal Space, 2014
(In percent of GDP)



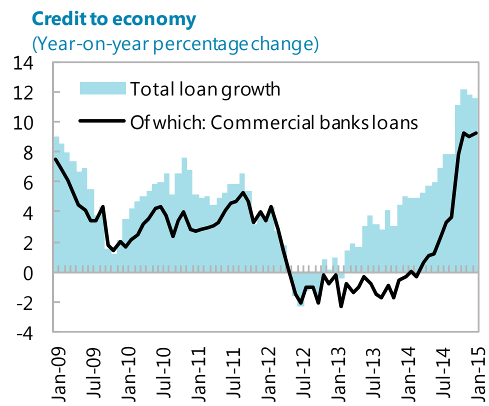
Note: Samoa's data is in fiscal year (July/June).
Sources: Country authorities; and IMF staff calculations.

Figure 4. Commercial bank credit growth is sluggish and PFIs have a growing role

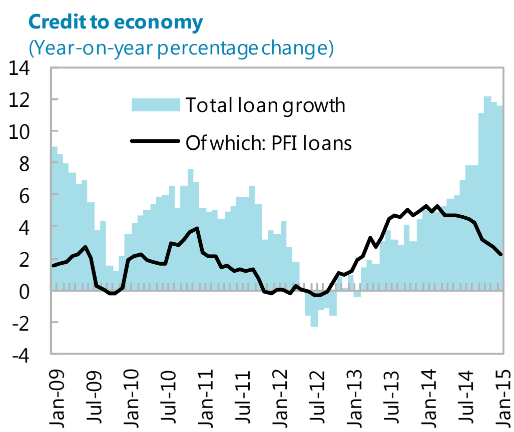
Policy rates have been low for an extended period but lending rates and spreads remain stable.



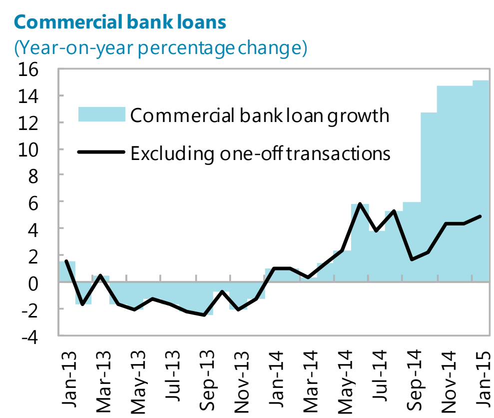
Commercial bank credit growth collapsed in mid-2012 as SOEs refinanced their loans with PFIs …



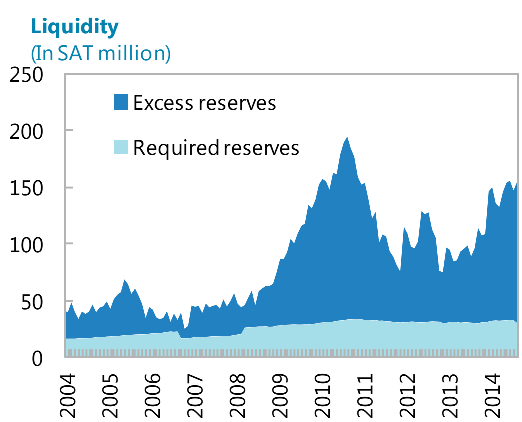
… and PFIs also took over some of the lending to the private sector.



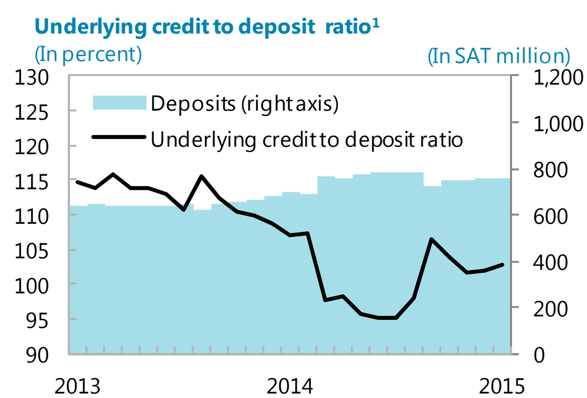
The recent pick-up in commercial bank credit is related to lumpy one-off transactions (among which the purchase of an airplane and a ship).



Commercial banks have ample liquidity and large excess reserves in the central bank.



Nevertheless, the credit to deposit ratio remains below that of previous years.

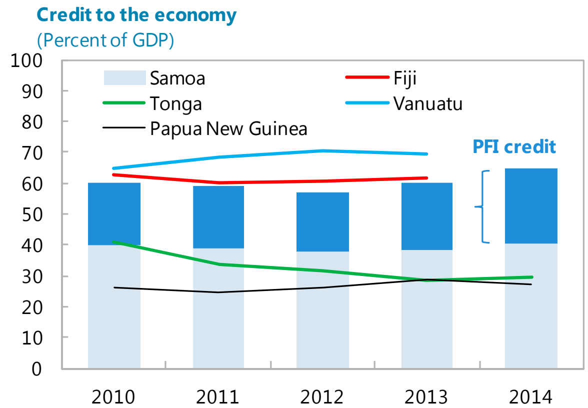


1/ Excludes one-off transactions.

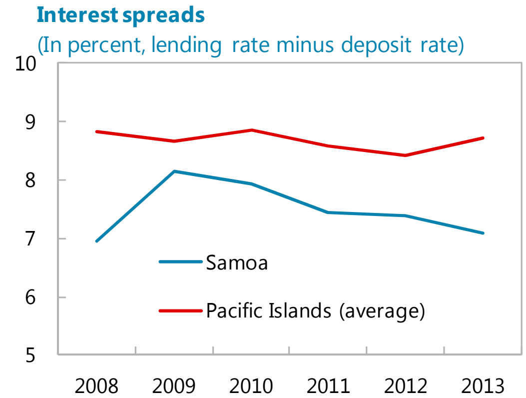
Sources: Country authorities and IMF staff estimates and projections.

Figure 5. Financial access is high relative to peers, but significant impediments remain

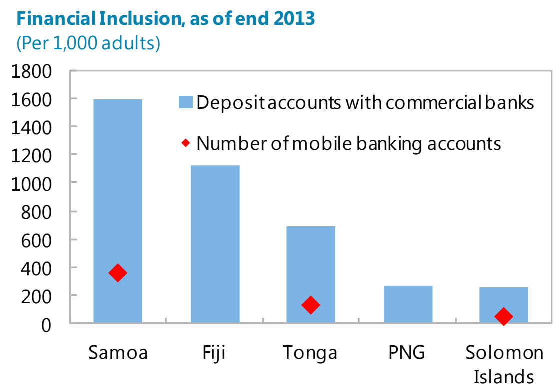
Overall credit is in line with other Pacific Island Countries (PICs).



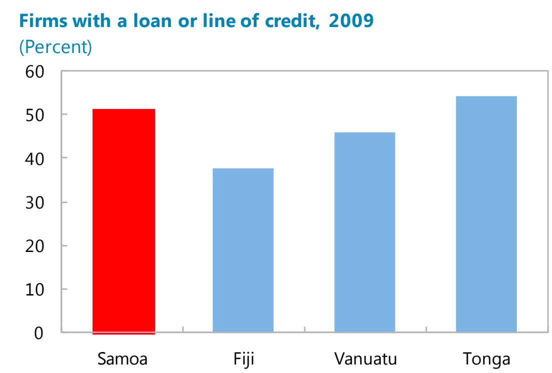
Interest spreads are relatively high, but below the average for PICs.



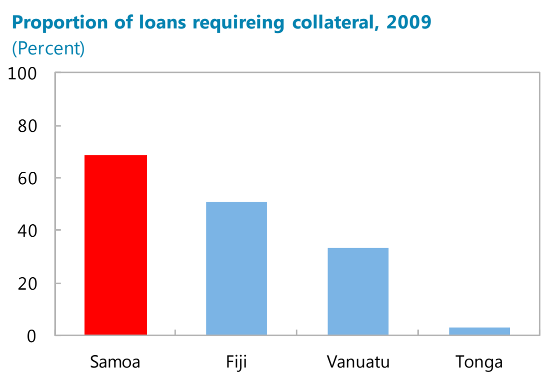
Samoa does well in financial inclusion ...



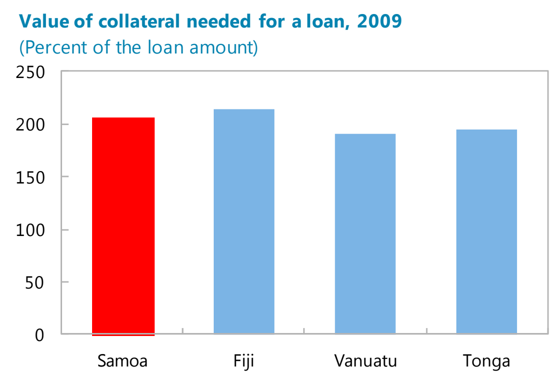
... and has a relatively high level of penetration of business loans.



However, most loans require collateral ...



... of around 200 percent of the loan amount.



Note: Samoa's data is in fiscal year (July/June).
Sources: Country authorities; World Bank *Enterprise Surveys 2009*; World Bank *FinStat*; and IMF staff calculations.

Table 1. Samoa: Selected Economic and Financial Indicators, 2011/12-2019/20

Population (2013): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2013/14): US$ 4,308
Quota: SDR 11.6 million

			Prel.	Proj.					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.2	-1.1	1.9	2.6	1.6	-0.8	0.8	1.5	2.0
Nominal GDP	4.5	-0.6	0.7	5.0	3.8	1.1	3.4	4.5	5.0
Change in CPI (end period)	5.5	-1.7	0.2	3.0	2.1	2.0	3.0	3.0	3.0
Change in CPI (period average)	6.2	-0.2	-1.2	2.3	2.2	2.1	2.5	3.0	3.0
				(In percent of GDP)					
Central government budget									
Revenue and grants	30.1	33.9	38.5	35.5	30.3	29.8	29.8	29.8	29.8
Of which: grants	7.5	9.7	12.8	9.8	4.6	4.2	4.2	4.2	4.2
Expenditure and net lending	37.3	37.6	43.8	39.1	32.7	31.2	30.2	30.2	30.2
Of which: Development	12.5	11.5	15.1	12.3	6.9	6.0	5.4	5.4	5.4
Overall balance	-7.1	-3.8	-5.3	-3.6	-2.3	-1.5	-0.5	-0.5	-0.5
External financing	7.2	3.5	2.9	4.3	2.6	1.7	0.5	-1.0	0.3
Domestic financing	-0.1	0.3	2.5	-0.6	-0.2	-0.2	0.0	0.0	0.0
				(12-month percent change)					
Money and credit									
Broad money (M2)	-4.0	-0.8	18.7	17.6	8.5	1.1	3.4	4.5	5.0
Net foreign assets	-5.9	-21.8	70.1	287.7	15.9	29.5	…	…	…
Net domestic assets	-3.1	9.0	1.9	-17.2	3.8	-4.6	…	…	…
Private sector credit	2.8	1.1	3.4	5.7	3.8	1.0	3.0	3.5	5.0
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-70.3	-20.7	-65.8	-59.4	-48.8	-46.8	-45.5	-46.0	-41.9
(In percent of GDP)	-8.7	-2.6	-8.0	-6.9	-5.4	-5.1	-4.8	-4.7	-4.1
Merchandise exports, f.o.b. 1/	29.4	27.2	25.9	26.7	27.5	28.3	29.5	30.7	31.4
Merchandise imports, f.o.b.	-337.1	-305.8	-347.8	-347.1	-350.9	-357.9	-362.9	-370.2	-373.5
Services (net)	114.5	118.3	119.7	118.9	128.8	131.5	133.1	135.3	134.7
Income (net)	-36.9	-32.8	-26.1	-25.6	-26.5	-26.7	-27.9	-29.3	-30.2
Current transfers	159.8	172.4	162.5	167.6	172.3	178.0	182.7	187.5	195.6
External reserves and debt									
Gross official reserves	157.1	137.3	155.3	167.3	178.4	190.3	197.7	201.5	211.6
(In months of next year's imports of GNFS)	4.7	3.8	4.3	4.6	4.8	5.1	5.2	5.3	4.9
Public debt (in millions of tala) 2/	959.7	984.5	1,015.5	1,076.4	1,121.2	1,149.3	1,151.7	1,153.0	1,155.1
(In percent of GDP)	52.0	53.6	55.0	55.5	55.7	56.5	54.7	52.4	50.0
Exchange rates									
Market rate (tala/U.S. dollar, period average)	2.3	2.3	2.2	…	…	…	…	…	…
Market rate (tala/U.S. dollar, end period)	2.3	2.3	2.2	…	…	…	…	…	…
Nominal effective exchange rate (2010 = 100) 3/	100.9	104.0	106.5	…	…	…	…	…	…
Real effective exchange rate (2010 = 100) 3/	102.9	104.6	104.7	…	…	…	…	…	…
Memorandum items:									
Nominal GDP (in millions of tala)	1847	1835	1847	1940	2013	2036	2105	2200	2310
GDP per capita (U.S. dollars)	4,265	4,171	4,308	4,481	4,618	4,644	4,754	4,890	5,055

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

1/ Includes re-export of fuel after 2009/10.
2/ Includes domestic and external public debt.
3/ IMF, Information Notice System (calendar year).

Table 2. Samoa: Illustrative Medium-Term Baseline Scenario, 2011/12-2019/20

			Prel.	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Growth and inflation									
Real GDP growth	1.2	-1.1	1.9	2.6	1.6	-0.8	0.8	1.5	2.0
CPI inflation (period average)	6.2	-0.2	-1.2	2.3	2.2	2.1	2.5	3.0	3.0
				(In percent of GDP)					
Fiscal accounts									
Total revenue and grants	30.1	33.9	38.5	35.5	30.3	29.8	29.8	29.8	29.8
Total revenue	22.6	24.2	25.7	25.7	25.8	25.6	25.6	25.6	25.6
External grants	7.5	9.7	12.8	9.8	4.6	4.2	4.2	4.2	4.2
Total expenditure and net lending	37.3	37.6	43.8	39.1	32.7	31.2	30.2	30.2	30.2
Overall balance (including grants)	-7.1	-3.8	-5.3	-3.6	-2.3	-1.5	-0.5	-0.5	-0.5
				(Annual percentage change)					
Monetary survey									
Broad money	-4.0	-0.8	18.7	17.6	8.5	1.1	3.4	4.5	5.0
Private sector credit	2.8	1.1	3.4	5.7	3.8	1.0	3.0	3.5	5.0
				(In millions of U.S. dollars)					
Balance of payments									
Current account	-70.3	-20.7	-65.8	-59.4	-48.8	-46.8	-45.5	-46.0	-41.9
(In percent of GDP)	-8.7	-2.6	-8.0	-6.9	-5.4	-5.1	-4.8	-4.7	-4.1
Merchandise trade balance	-307.8	-278.6	-321.9	-320.4	-323.4	-329.6	-333.4	-339.5	-342.1
Exports, f.o.b.	29.4	27.2	25.9	26.7	27.5	28.3	29.5	30.7	31.4
(Annual percent change)	23.4	-7.6	-4.8	3.1	3.3	2.8	4.2	4.0	2.5
Imports, f.o.b.	-337.1	-305.8	-347.8	-347.1	-350.9	-357.9	-362.9	-370.2	-373.5
(Annual percent change)	16.7	-9.3	13.7	-0.2	1.1	2.0	1.4	2.0	0.9
Services	114.5	118.3	119.7	118.9	128.8	131.5	133.1	135.3	134.7
Current transfers, net	159.8	172.4	162.5	167.6	172.3	178.0	182.7	187.5	195.6
External debt and reserves									
Gross public debt (percent of GDP)	52.0	53.6	55.0	55.5	55.7	56.5	54.7	52.4	50.0
Gross external public debt (percent of GDP)	49.8	51.7	52.3	54.4	55.0	56.1	54.7	52.4	50.0
Gross official reserves (millions of U.S. dollars)	157.1	137.3	155.3	167.3	178.4	190.3	197.7	201.5	252.4
(In months of next year's imports of GNFS)	4.7	3.8	4.3	4.6	4.8	5.1	5.2	5.3	5.8

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

Table 3. Samoa: Balance of Payments, 2011/12-2019/20

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

			Prel.	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Current account balance	-70.3	-20.7	-65.8	-59.4	-48.8	-46.8	-45.5	-46.0	-41.9
Trade balance	-307.8	-278.6	-321.9	-320.4	-323.4	-329.6	-333.4	-339.5	-342.1
Exports, fob 1/	29.4	27.2	25.9	26.7	27.5	28.3	29.5	30.7	31.4
Imports, fob	-337.1	-305.8	-347.8	-347.1	-350.9	-357.9	-362.9	-370.2	-373.5
Services, net	114.5	118.3	119.7	118.9	128.8	131.5	133.1	135.3	134.7
Investment income, net	-36.9	-32.8	-26.1	-25.6	-26.5	-26.7	-27.9	-29.3	-30.2
Current transfers	159.8	172.4	162.5	167.6	172.3	178.0	182.7	187.5	195.6
Official transfers	0.0	4.2	2.8	2.7	2.7	2.6	2.6	2.6	2.6
Private transfers	159.8	168.2	159.7	164.9	169.6	175.4	180.1	184.9	193.0
Capital and financial account balance	89.4	55.6	83.8	71.4	59.9	58.7	52.9	61.2	52.5
Capital account	67.9	44.9	68.0	80.4	38.4	41.8	35.7	36.9	42.3
Official	76.7	45.3	67.5	79.8	37.9	41.3	35.2	36.4	41.8
Private	-8.8	-0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Financial account	21.5	10.7	15.8	-8.9	21.5	16.9	17.2	24.2	10.2
Direct investment	12.7	17.5	19.7	19.7	20.4	20.6	21.6	22.6	22.6
Portfolio investment	-0.5	-10.7	29.5	16.9	15.7	13.5	11.7	10.2	10.6
Other investment	9.3	3.9	-33.4	-45.6	-14.6	-17.3	-16.1	-8.7	-23.1
Assets	-54.6	-21.5	-46.1	-56.0	-33.0	-24.7	-23.6	-22.7	-27.7
Liabilities	63.9	25.4	12.7	10.4	18.4	7.4	7.4	14.0	4.6
Errors and omissions	-14.8	-54.3	-5.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	19.1	34.9	18.0	12.0	11.1	11.9	7.4	3.8	10.1
Financing	-19.1	-34.9	-18.0	-12.0	-11.1	-11.9	-7.4	-3.8	-10.1
Change in gross official reserves	-19.1	-34.9	-18.0	-12.0	-11.1	-11.9	-7.4	-3.8	-10.1
Fund financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:									
Current account balance (in percent of GDP)	-8.7	-2.6	-8.0	-6.9	-5.4	-5.1	-4.8	-4.7	-4.1
Gross official reserves (in million of U.S. dollars)	157.1	137.3	155.3	167.3	178.4	190.3	197.7	201.5	211.6
(In months of prospective imports of GNFS)	4.7	3.8	4.3	4.6	4.8	5.1	5.2	5.3	4.9
Exports (annual percentage change)	23.4	-7.6	-4.8	3.1	3.3	2.8	4.2	4.0	2.5
Imports (annual percentage change)	16.7	-9.3	13.7	-0.2	1.1	2.0	1.4	2.0	0.9
Remittances (in percent of GDP) 2/	19.8	21.2	19.3	19.0	18.8	19.2	19.1	19.0	19.0
Tourism earnings (in percent of GDP) 3/	18.2	17.3	17.5	16.6	16.4	16.5	16.2	15.9	14.9

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

1/ Including re-export of fuel after 2010.
2/ Including other current transfers.
3/ Including other service credits.

Table 4. Samoa: Financial Operations of the Central Government, 2011/12-2019/20

				Budgeted		Staff Projections			
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
				(In millions of tala)					
Revenue	556.1	621.3	710.3	688.6	610.4	606.3	626.8	655.3	688.1
Total revenue	416.8	443.4	474.6	498.3	518.5	521.5	539.1	563.6	591.8
Tax revenue	360.5	406.0	430.4	451.8	470.2	473.0	489.0	511.2	536.8
Nontax revenue	56.3	37.4	44.3	46.5	48.2	48.5	50.1	52.4	55.0
External grants	139.3	177.9	235.7	190.3	91.9	84.8	87.7	91.7	96.3
Total expenditure and net lending	688.0	690.9	809.0	759.3	657.5	636.0	636.4	665.4	698.6
Current expenditure	457.5	479.9	529.9	520.0	517.8	513.2	523.2	547.0	574.4
Development expenditure	230.6	211.0	279.1	239.3	139.8	122.7	113.2	118.4	124.3
Current balance	-40.7	-36.4	-55.2	-21.7	0.7	8.2	15.9	16.6	17.4
Overall fiscal balance	-131.9	-69.6	-98.7	-70.8	-47.2	-29.7	-9.6	-10.1	-10.6
Financing	131.9	69.6	98.7	70.8	47.1	29.7	9.6	10.1	10.6
External financing, net	133.8	63.6	53.1	83.3	51.6	34.0	9.6	10.1	10.6
Disbursements	152.2	88.5	83.1	116.6	88.3	79.8	64.6	71.1	85.9
Amortization	18.4	24.9	30.0	33.3	36.7	45.8	54.9	61.1	75.3
Domestic financing, net	-1.9	5.9	45.6	-12.5	-4.5	-4.3	0.0	0.0	0.0
Banking system	5.5	-13.5	10.4	-3.5	4.5	4.7	0.0	0.0	0.0
Other	-7.5	19.5	35.2	-9.0	-9.0	-9.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)					
Total revenue and grants	30.1	33.9	38.5	35.5	30.3	29.8	29.8	29.8	29.8
Total revenue	22.6	24.2	25.7	25.7	25.8	25.6	25.6	25.6	25.6
Tax revenue	19.5	22.1	23.3	23.3	23.4	23.2	23.2	23.2	23.2
Nontax revenue	3.0	2.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
External grants	7.5	9.7	12.8	9.8	4.6	4.2	4.2	4.2	4.2
Total expenditure and net lending	37.3	37.6	43.8	39.1	32.7	31.2	30.2	30.2	30.2
Current expenditure	24.8	26.1	28.7	26.8	25.7	25.2	24.9	24.9	24.9
Development expenditure	12.5	11.5	15.1	12.3	6.9	6.0	5.4	5.4	5.4
Current balance	-2.2	-2.0	-3.0	-1.1	0.0	0.4	0.8	0.8	0.8
Overall fiscal balance	-7.1	-3.8	-5.3	-3.6	-2.3	-1.5	-0.5	-0.5	-0.5
Overall balance (excluding grants)	-14.7	-13.5	-18.1	-13.5	-6.9	-5.6	-4.6	-4.6	-4.6
Financing	7.1	3.8	5.3	3.6	2.3	1.5	0.5	0.5	0.5
External financing, net	7.2	3.5	2.9	4.3	2.6	1.7	0.5	-1.0	0.3
Disbursement	8.2	4.8	4.5	6.0	4.4	3.9	3.1	1.8	3.60
Amortization	1.0	1.4	1.6	1.7	1.8	2.3	2.6	2.8	3.3
Domestic financing, net	-0.1	0.3	2.5	-0.6	-0.2	-0.2	0.0	0.0	0.0
Banking system	0.3	-0.7	0.6	-0.2	0.2	0.2	0.0	0.0	0.0
Other	-0.4	1.1	1.9	-0.5	-0.4	-0.4	0.0	0.0	0.0
Financing discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Public Debt Nominal Values	960	985	1,015	1,076	1,121	1,149	1152	1153	1155
External Debt	920	948	966	1,055	1,107	1,142	1152	1153	1155
Nominal GDP (in millions of Tala)	1,847	1,835	1,847	1,940	2,013	2,036	2,105	2,200	2,310
Debt/GDP Ratio (in percent)	52.0	53.6	55.0	55.5	55.7	56.5	54.7	52.4	50.0
External Debt/GDP Ratio (in percent)	49.8	51.7	52.3	54.4	55.0	56.1	54.7	52.4	50.0

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

Table 5. Samoa: Monetary Developments, 2010/11-2015/16

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
					Projections	
			(In millions of Tala)			
Depository Corporations						
Net foreign assets	**236**	**222**	**174**	**296**	**380**	**441**
Gross reserves	318	324	276	302	375	429
Other foreign assets	69	57	54	238	248	256
Foreign liabilities	151	159	156	244	243	244
Net domestic assets	**499**	**484**	**527**	**537**	**598**	**620**
Net credit to central government	-97	-108	-96	-101	-101	-101
Net credit to public nonfinancial corporations	67	55	38	35	37	32
Credit to private sector	696	716	723	748	791	821
Other items (net)	-167	-179	-138	-145	-130	-132
Broad money	**735**	**706**	**700**	**832**	**978**	**1,061**
Narrow money	250	247	259	380	450	528
Currency outside banks	51	59	61	46	49	51
Transferable deposits	199	188	199	334	401	477
Other deposits	485	459	441	451	528	533
Central Bank						
Net foreign assets	**256**	**264**	**194**	**222**	**295**	**349**
Gross reserves	318	324	276	302	375	429
Foreign liabilities	62	61	82	80	80	80
Net domestic assets	**-90**	**-59**	**-20**	**0**	**-48**	**-80**
Net credit to central government	-78	-74	-59	-64	-80	-96
Net credit to financial corporations	-2	19	34	70	45	33
Other items (net)	-10	-4	5	-5	-13	-17
Monetary Base	**166**	**205**	**174**	**222**	**248**	**269**
Currency in circulation	65	76	78	68	72	74
Other liabilities to deposit money banks	101	129	96	154	176	194
Other Depository Corporations						
Net foreign assets	**-20**	**-42**	**-20**	**74**	**85**	**92**
Foreign assets	69	57	54	238	248	256
Foreign liabilities	90	98	75	164	163	164
Net domestic assets	**705**	**689**	**660**	**712**	**844**	**919**
Net credit to central government	-20	-35	-37	-37	-37	-33
Net credit to public nonfinancial corporations	67	55	38	35	37	41
Credit to private sector	685	698	707	748	785	864
Net credit to financial corporation	155	158	127	193	191	159
Other items (net)	-183	-188	-174	-228	-133	-112
Deposits	**684**	**647**	**640**	**785**	**929**	**1,010**
Transferable deposits	199	188	199	334	401	477
Other deposits	485	459	441	451	528	533
			(In percent, unless otherwise indicated)			
Money velocity 1/	2.3	2.6	2.6	2.4	2.0	1.9
Money multiplier 2/	4.4	3.4	4.0	3.7	3.9	3.9
Private credit/GDP 3/	39.4	38.8	39.4	40.5	40.5	40.5
Private credit/deposits 3/	101.7	110.6	113.1	95.2	85.1	81.2
Annual broad money growth	-0.8	-4.0	-0.8	18.7	17.6	8.5
Annual reserve money growth	-22.1	23.2	-15.0	27.5	11.6	8.5
Annual private credit growth 3/	6.4	2.8	1.1	3.4	5.7	3.8
Annual private credit growth from PFIs	9.2	-0.4	10.4	13.6	5.0	4.8
Lending rate 4/	10.1	9.8	10.2	10.2	10.2	10.2
Deposit rate 4/	2.3	2.4	2.8	3.1	3.1	3.1

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

1/ Ratio of GDP to broad money.
2/ Ratio of broad money to monetary base.
3/ Includes commercial bank credit only.
4/ Weighted average.

Table 6. Samoa: Financial Soundness Indicators, 2010-14 1/

	2010	2011	2012	2013	2014
			(in percent)		
Loans to deposit ratio	104.6	113.4	115.2	118.1	105.4
Capital Adequacy Ratio	27.2	27.1	30.0	27.4	28.9
Tier 1 Capital Ratio	22.8	22.3	25.4	23.6	24.6
Return on assets	2.0	2.2	2.0	1.6	1.8
Return on equity	11.7	13.3	11.5	9.3	10.8
Non-performing loans to total loans	6.1	4.4	4.7	7.5	8.3
Net interest margins	3.5	3.4	3.4	3.5	2.9
Liquid assets to short-term liabilities	33.0	16.3	19.2	18.6	31.3
Bank provisions to non-performing loans	65.8	89.2	93.3	75.9	77.3

Source: Central Bank of Samoa.

1/ For commercial banks.

Table 7. Samoa: Financial Access Indicators, end of 2013

	Samoa	Fiji	Papua New Guinea	Solomon Islands	Tonga	Vanuatu
Deposit accounts with commercial banks per 1,000 adults	1,592	1,127	269	258	688	n/a
Number of registered mobile money accounts per 1000 adults	356	n/a	n/a	46	128	n/a
ATMs per 100,000 adults	36	42	8	12	27	37
Commercial bank branches per 100,000 adults	23	11	2	7	21	23
Commercial banks: Number of Branches	23	64	79	20	10	30
Number of loan accounts in commercial banks	14,923	87,624	180,978	12,126	8,664	n/a
o/w: SME loan accounts in commercial banks	2,089	2,296	n/a	n/a	n/a	n/a
o/w: household loan accounts	12,573	79,934	n/a	n/a	n/a	n/a

Source: IMF FAS database.

Table 8. Samoa: Status of Millennium Development Goals

Progress on Millennium Development Goals (as of August 2013)	
Goal 1: Eradicate extreme poverty and hunger	Mixed
Goal 2: Achieve universal primary education	On track
Goal 3: Promote gender equality and empower women	Mixed
Goal 4: Reduce child mortality	On track
Goal 5: Improve maternal health	Mixed
Goal 6: Combat HIV/AIDS, malaria and other diseases	Mixed
Goal 7: Ensure environmental sustainability	On track
Goal 8: Develop a global partnership for development	Not assessed

Sources: Pacific Islands Forum Secretariat, and 2013 Pacific Regional MDGs Tracking Reports.

Appendix I. Samoa: Risk Assessment Matrix[1/]

Potential Deviations from Baseline

Source of Risks	Overall Level of Concern: Likelihood of Severe Realization of Risk in the Next one–three Years (high, medium or low)	Overall Level of Concern: Expected Impact if Risk is Realized (high, medium or low)	Policy Recommendations
1. Natural disasters	**High** On average, Samoa has been hit by a major natural disaster once every five years.	**High** Natural disasters can cause widespread damage to agriculture and infrastructure, possibly leading to a further reduction in fiscal space.	A growth friendly fiscal consolidation is necessary to replenish buffers to face future natural disasters.
2. Protracted period of slower growth in advanced and emerging economies	**High/Medium** Prolonged slow growth in advanced economies and emerging markets would reduce exports and GDP growth.	**Medium/High** A sharp decline in exports, tourism earnings and remittances would worsen the current account balance. It would also reduce fiscal revenue and weaken the reserves buffer.	Implement a growth friendly fiscal consolidation to replenish buffers to cope with adverse shocks; accelerate structural reforms to improve competiveness.
3. Financial Stress in Public Financial Institutions	**Medium** PFIs play an important part in the financial system, but asset quality has deteriorated sharply in the wake of recent natural disasters.	**High** Financial spillovers will have limited effects on banks, but would significantly deteriorate public finances and eliminate an important source of credit to the economy.	Strengthen the financial operations of the PFIs by incorporating them under the supervisory and regulatory framework of the CBS; enhance the transparency and governance of the PFIs.
4. Delay in fiscal consolidation	**Medium** The authorities need fiscal consolidation to bring the debt down to a more sustainable level.	**Medium/High** Delay in fiscal consolidation would undermine confidence in public finances with higher interest rates and lower growth.	Implement a growth friendly fiscal consolidation that maintains improvements in tax administration and current expenditure at pre-crisis levels.
5. Delay in implementing structural reforms	**Medium** There is a strong need to move more quickly on implementing domestic structural reforms to improve growth.	**Medium** In particular, reforms to improve the functioning of the financial system and access to credit are critical for private sector growth and exports.	Develop the institutional framework for the finance sector; unleash economic potential in customary lands; lower the cost of remittances.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix II. Samoa: Key FSAP Recommendations

Recommendation	Timing*
Cross-cutting	
Improve the quality and coverage of data. CBS to collect granular data on banks, PFIs, insurers, and other financial intermediaries for prudential and financial stability analysis.	ST
Upgrade the regulatory and supervisory frameworks to modern standards, including amending the Financial Institutions Act and Central Bank Act to support corrective actions and resolution.	MT/ST
CBS should raise capacity and hire additional staff for financial oversight, and over time assume supervision and regulation of all financial intermediaries.	MT/ST
Banking supervision and regulation	
Conduct regular on-site inspections, and in-depth assessments of financial statements (including asset quality reviews, of potentially vulnerable banks).	ST
Upgrade supervisory guidance to banks, especially regarding risk management and NPL write-offs.	MT
PFIs - supervision and regulation	
CBS to produce periodic financial soundness indicators for PFIs and ensure proper IFRS accounting, especially for loan classification, NPLs, and provisioning.	ST/MT
CBS to issue and upgrade prudential regulations for PFIs.	ST
CBS to start on-site inspections of PFIs.	ST
Off shore bank regulation and supervision	
Enhance operational independence of Samoa International Finance Authority (SIFA) to supervise international banks and remove potential for conflict between SIFA's promotional and supervisory roles.	MT/ST
PFIs - governance	
Government to reform mandates and governance of PFIs for defined policy objectives based on cost-benefit assessments, and to ensure efficient operations.	MT
Crisis preparedness	
Adopt a full set of enforcement and resolution instruments.	ST
Create an appropriate scheme and operational framework for Emergency Liquidity Assistance.	ST
Systemic financial stability	
CBS and Ministry of Finance to create financial stability and contingency planning committees.	MT/ST
CBS to analyze systemic risks, including stress testing and macro-financial mapping.	MT
Central bank policies and operations	
CBS to unwind lending to DBS and SHC.	MT
Access to finance	
Focus on indirect measures to enhance access to finance, including credit bureau, economic use of customary land, and complete setting up a personal property registry.	MT
Insurance	
CBS to develop insurance supervisory strategy and capacity building plans.	MT
Payment system and financial market infrastructure	
CBS to implement the new National Payment Systems.	MT

*/ Short-term (ST), Medium-term (MT)

INTERNATIONAL MONETARY FUND

SAMOA

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

May 14, 2015

Approved By
Hoe Ee Khor and Masato Miyazaki (IMF), Satu Kristiina Kahkonen (IDA)

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

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

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

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

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

BACKGROUND

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

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

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

UNDERLYING ASSUMPTIONS

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

EXTERNAL DSA

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

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

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

PUBLIC DSA

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

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

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

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

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

AUTHORITIES' VIEWS

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

CONCLUSION

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

Box 1. Macroeconomic Assumptions Underlying the DSA Update

- **Real GDP growth** is projected at 1.5 percent on average over the medium term reflecting the negative effects from a recently reported exit plan of an automobile parts assembly plant, and to recover to 2 percent in the long run. Compared to the 2013 DSA, medium-term growth has been revised down by ½ percentage point, reflecting a planned exit from the country of Yazaki corporation's harness assembly plant.

- **Inflation** is expected to stabilize over the medium term at about 3 percent and is maintained at this level in the long run.

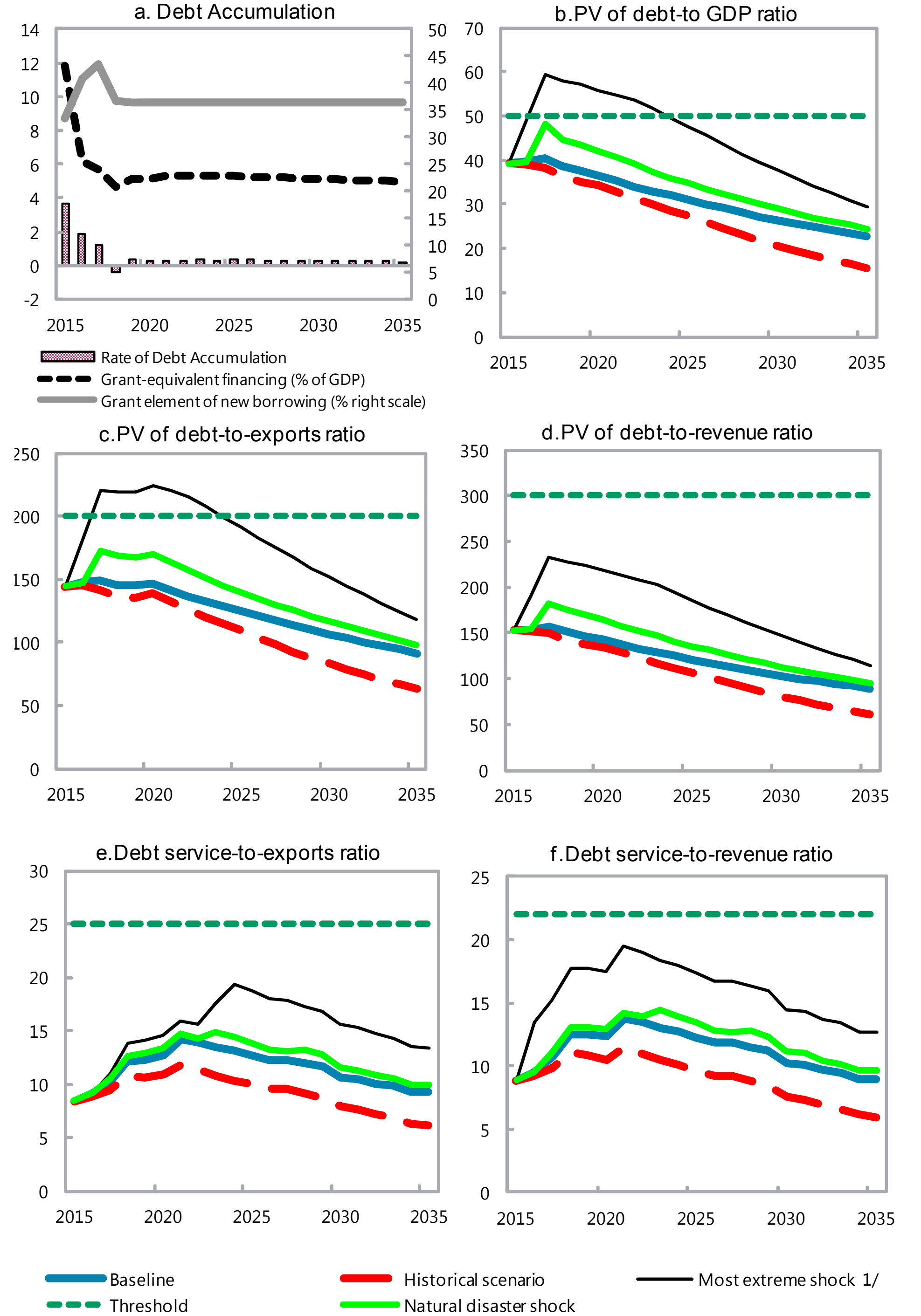
- **The current account** is projected to be around 5 percent of GDP on average over the medium term, and to stabilize at this level in the long run. Relative to the 2013 DSA, the medium-term current account deficit has narrowed by 7 percent of GDP due to lower commodity prices and the rebasing of GDP.

- **The grant element of loans** is expected to decline to around 35 percent over the medium term and then stabilize at this level in the long run. As recovery from the cyclone takes hold, the share of external financing provided on concessional terms is expected to decline to around 5 percent of GDP over the medium term and then stabilize at this level in the long run.

- **The primary fiscal balance** is estimated to be in balance on average in the medium term, in line with the medium term fiscal framework which targets a public debt-to-GDP ratio at 50 percent by 2020. After 2020, the primary fiscal balance is projected to be a surplus of around 0.4 percent of GDP during 2021-35.

- **Contingent liabilities** comprise explicit guarantees of around 7 percent of GDP in PFIs and implicit guarantees of around 17 percent of GDP in SOEs. The total amounts to approximately 24 percent of GDP at end-2014.

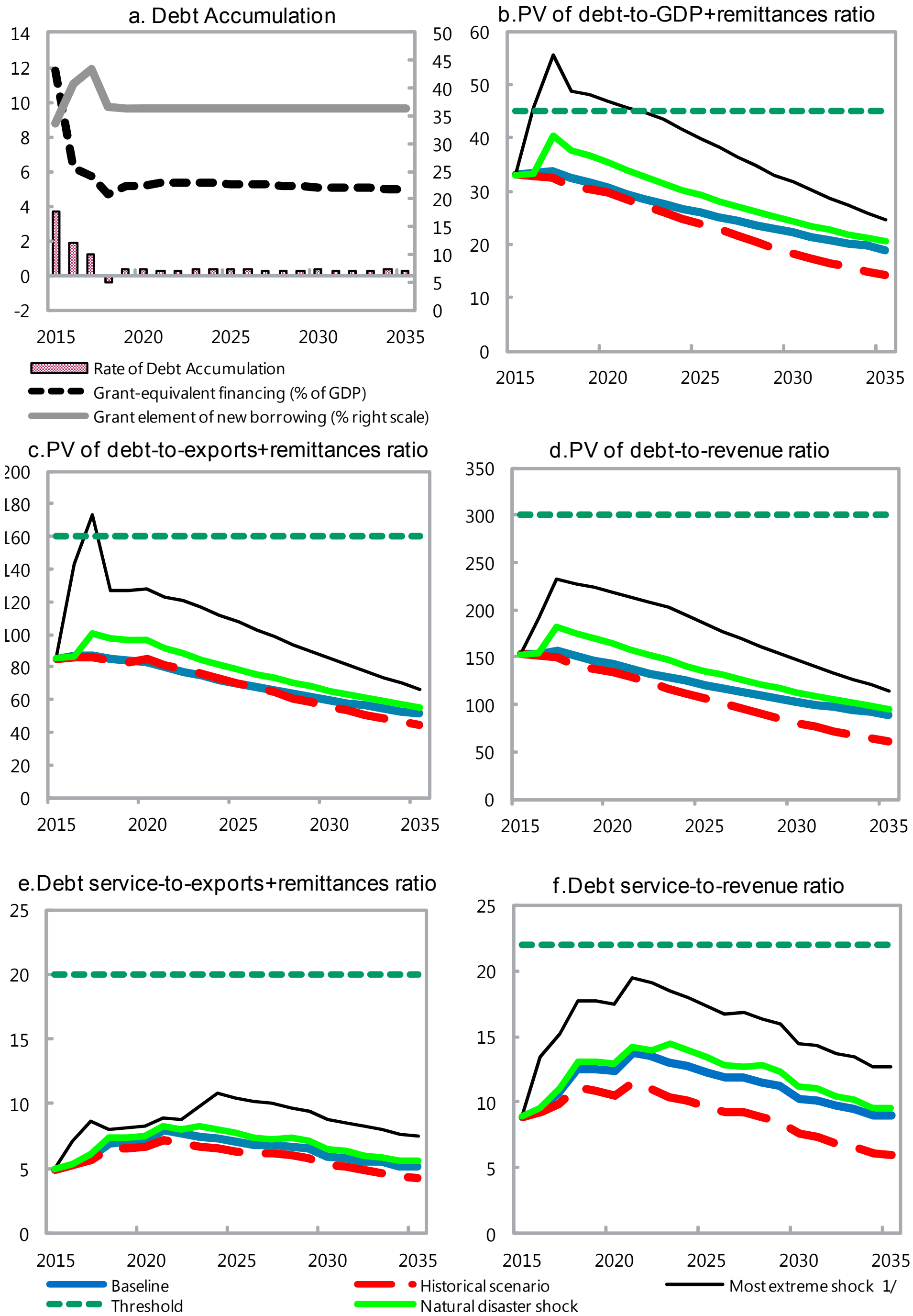
Figure 1a. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–2035, Excluding Remittances



Sources: Country authorities; and staff estimates and projections.

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

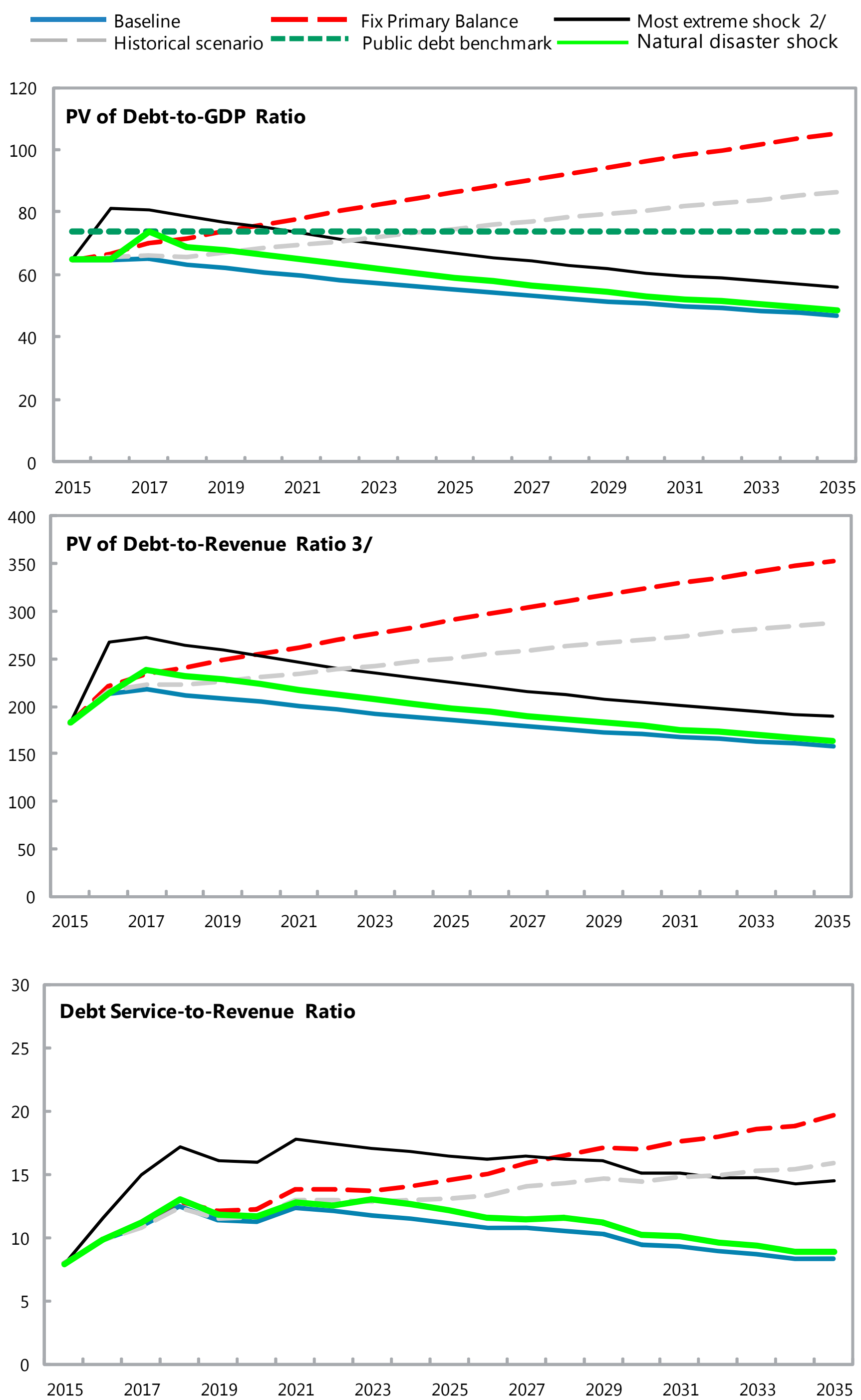
Figure 1b. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–2035, Including Remittances



Sources: Country authorities; and staff estimates and projections.

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

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



Sources: Country authorities; and staff estimates and projections.
1/ Includes 24 percent of GDP of contingent liabilities from PFIs and SOEs.
2/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
3/ Revenues are defined inclusive of grants.

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

(In percent)

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

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

(In percent)

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

Sources: Country authorities; and staff estimates and projections.

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

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

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

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

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

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SAMOA

May 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS 2

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE 4

RELATIONS WITH THE WORLD BANK 6

RELATIONS WITH THE ASIAN DEVELOPMENT BANK 8

STATISTICAL ISSUES 9

FUND RELATIONS

(As of April 30, 2015)

Membership Status

Joined: December 28, 1971; Article VIII

General Resources Account

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

SDR Department

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

Outstanding Purchases and Loans

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

Latest Financial Arrangements

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

Projected Payments to Fund[1]

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

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

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

Exchange Rate Arrangement

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

Article IV Consultations

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

Technical Assistance from Headquarters

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

Safeguards Assessments

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

Resident Representative

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

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

(As of March 2015)

Background

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

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

Strategy 2012–2014

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

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

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

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

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

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

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

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

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

RELATIONS WITH THE WORLD BANK

(As of March 31, 2015)

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

Samoa: IDA Lending Operations (as of March 2015)

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

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

1) Post-disaster recovery projects

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

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

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

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

2) Budget support

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

3) Climate Resilience

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

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

4) Health Sector

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

5) Agriculture Sector

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

6) Aviation sector

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

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

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

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 31, 2015)

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

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

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

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

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

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

ADB loans to Samoa, 2009–14

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

STATISTICAL ISSUES

SAMOA—STATISTICAL ISSUES APPENDIX (As of April 2015)	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings but is broadly adequate for surveillance. Core macroeconomic and monetary data are regularly reported to the IMF and published on official websites. However, there are weaknesses in national accounts, monetary and financial, and external sector statistics.	
National Accounts: National account statistics has been improved during the last three years. GDP is compiled quarterly, predominantly using the VAT data. GDP was recently rebased from 2002 to 2009 constant prices. However, one third of GDP is "non-monetary," and difficult to measure with any precision (both levels and growth rates). The experimental estimate of GDP by expenditure is being refined and hasn't been released yet.	
Price Statistics: The CPI is compiled monthly (August 2010=100). A quarterly import price index is also published, coverage being limited to chapters 01-27 of the Harmonized System.	
Government Finance Statistics: Samoa has participated in the JSA-funded regional 3-year GFS capacity development project since April 2012. Assisted by the technical assistance provided under this project, the authorities migrated their GFS data from GFS 86 to the GFSM 2001 format. Additionally, the Samoa Bureau of Statistics (SBS) worked to improved data quality by: identifying and incorporating new data sources and statistical estimation techniques in its GFS compilation processes; as well as increased data confrontation with other macro-economic data sets. The authorities began publishing the improved data in 2013 and, for the first time, submitting data for inclusion in IMF publications. Gaps remain in coverage (general government is not yet compiled or published), instrument detail, and consistency across the macro-framework; work is ongoing in Samoa to address these remaining deficiencies. Funding for the regional project expires at the end of FY 15.	
Monetary and Financial Statistics: Samoa reports monetary data to the IMF on a regular basis. Monetary data for the Central Bank and other depository corporations are submitted in Standardized Report Form (SRF) format. Samoa does not report data on other financial corporations (OFCs). In November 2014, authorities requested technical assistance from STA to compile SRFs for OFCs. **Financial Sector Surveillance:** Samoa does not report data on financial sector indicators.	
External sector statistics: The quality of ESS is overall poor, mostly hindered by the frail data collection framework; access to source data for the compilation of some of the most relevant ESS components is limited.ESS coverage overall presents important limitations due to the omission of cross-border transactions and positions of offshore enterprises. As a reference on the relevance of offshore centers in Samoa, Samoan non-bank enterprises hold at least US$ 4.6 billion according to the BIS (Locational Banking Statistics database). The CBS produces and disseminates the balance of payments of Samoa on a quarterly basis, following the BPM6, but restricted to main aggregates and with poor coverage. The IIP is not disseminated by the CBS. The CBS participated in the IMF's Coordinated Direct Investment Survey (CDIS) lastly in 2011, but reported data were highly underestimated.	
II. Data Standards and Quality	
Samoa is a participant in the GDDS since September 2012.	No data module ROSC has so far been conducted in Samoa.

Samoa—Table of Common Indicators Required for Surveillance
(As of April 2015)

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

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

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

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

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

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

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

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

Recent developments and outlook

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

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

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

Fiscal policy

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

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

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

Monetary policy and the exchange rate

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

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

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

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

Financial sector

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

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

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

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

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

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

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

Structural reforms

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

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