

The contents of this document are preliminary and subject to change.

GRAY/23/4015

March 6, 2023

**Statement by Ms. Lim and Ms. Wongwaisiriwat on Samoa
(Preliminary)
Executive Board Meeting
March 8, 2023**

We thank staff for a comprehensive report, as well as Mr. Nicholl and Mr. Moaniba for their informative Buff statement. We broadly agree with staff's appraisal and recommendations and offer the following comments for emphasis.

We welcome the recovery of the Samoan economy after a three-year recession driven by the pandemic. As tourism earnings represent a significant share in GDP, the lifting of COVID-19 restrictions and the resulting pickup in tourism since borders re-opened in August 2022 are key to reviving the Samoan economy. Demand conditions have become more favorable, and we encourage Samoan authorities to ensure sufficient investments on the supply side to reap full benefits of the situation and prevent significant post-pandemic scarring. In this regard, we concur with staff that expansionary fiscal stance, especially a timely execution of public investment, is appropriate as it should help unlock stronger growth momentum and get the economy closer to its pre-pandemic trend. We note from staff report and Annex V that some tourist facilities have been unable to reopen due to investment needs and some skilled workers have moved to other sectors or abroad, limiting capacity. *What is the latest development, and to what extent does this issue affect the timeline and magnitude of tourism recovery and GDP growth in the baseline scenario?*

Given high inflation rates and continued economic recovery, we agree with staff that the accommodative monetary stance should be gradually unwound. However, we note the CBS' analysis in the Buff statement that tightening monetary policy too soon could have a significant adverse effect on growth and that as a small open economy, monetary policy

rates in Samoa are less likely to influence its inflation experience. We encourage staff to closely monitor the inflation passthrough in Samoa, as well as further analyze the transmission from monetary policy in consultation with the authorities, to ensure the robustness and practicality of the policy recommendations. Against a backdrop of high household and corporate leverage, we also share authorities' concern on the potential impact of higher interest rates on borrowers' repayment capacity. We therefore agree with staff on the need to develop and monitor indicators of the debt servicing capacity of borrowers such as debt-to-income and debt service-to-income ratios. Such indicators should be forward-looking and based on regularly updated database, to identify early any sources of systemic vulnerability.

Finally, we welcome the Climate Macroeconomic Assessment Program (CMAP) which has helped the authorities identify policy priorities as well as financing needs. We

positively note that the funding gap for 2022-2026 has been significantly narrowed from 17 percent of GDP per year to 6 percent of GDP per year thanks to donor support. Nevertheless, scaling up public investments to implement all projects over the next five years could be challenging. Immediate priority should be given to better project management to yield financially viable project portfolios and address the issue of slow disbursement rates. We therefore agree with staff's recommendation in March 2022 CMAP report that the government needs to be strategic in matching its climate project pipeline to those financing sources that provide a positive balance of administrative costs and total funding access. Regarding the residual financing gap, we note staff's assessment that the RST, with an access ceiling of 3.6 percent of Samoa's GDP, could play a role in filling this gap. *Given that Samoa has already accessed several global and regional concessional climate financing sources, can staff elaborate on the extent to which a potential access to RSF can help catalyze further grant financing?*