

EBS/84/130

CONFIDENTIAL

June 7, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Western Samoa - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Western Samoa for a stand-by arrangement equivalent to SDR 3.375 million. A draft decision appears on page 24.

It is proposed to bring this subject to the agenda for discussion on Monday, July 9, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Saito (ext. (5)7614).

Att: (1)

INTERNATIONAL MONETARY FUND

WESTERN SAMOA

Request for Stand-By Arrangement

Prepared by the Asian and the Exchange and
Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by P. R. Narvekar and Manuel Guitian

June 6, 1984

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I. Introduction

In the attached letter dated June 5, 1984, the Government of Western Samoa requests a one-year stand-by arrangement in support of an adjustment program for 1984 in an amount equivalent to SDR 3.375 million, representing 56 percent of Western Samoa's quota. Of the total amount requested, SDR 1.688 million would be from the Fund's ordinary resources and SDR 1.688 million from borrowed resources. Under the one-year stand-by arrangement for SDR 3.375 million approved by the Executive Board on June 26, 1983, Western Samoa met all performance criteria and drew the full amount available.

As of June 30, 1984, the Fund's total holdings of Western Samoa tala subject to repurchase were SDR 7.3 million, or 121 percent of quota, of which SDR 4.1 million pertained to purchases under credit tranches and SDR 3.2 million to purchases under the compensatory financing facility. If Western Samoa purchases the full amount requested under the proposed stand-by arrangement and makes repurchases as scheduled, the Fund's holdings of Western Samoa tala subject to repurchase would increase from 121 percent of quota to 155 percent of quota at the end of June 1985 (Table 1). A waiver of the limitation in Article V, Section 3((b)(iii)) of the Articles of Agreement will be required.

Staff discussions on the last Article IV consultation with Western Samoa and review under the 1983 stand-by arrangement were held in Apia during October 20-November 1, 1983, and the reports (EBS/83/271 and SM/84/2) were considered by the Executive Board on January 18, 1984. Discussions on possible use of Fund resources in support of the adjustment program for 1984 were held in Apia during March 22-April 4, 1984. ^{1/} A summary of Western Samoa's relations with the Fund is provided in Annex II, and with the World Bank Group in Annex III.

II. Recent Economic Developments and Performance Under the 1983 Stand-by Arrangement

1. Developments during 1980-82

During 1980-82, Western Samoa experienced negative growth combined with high rates of inflation and a weak external position (Table 2 and Chart 1). Agricultural production, which dominates economic activity, suffered from adverse weather and, in certain instances, insufficient price incentives to farmers. Industrial activity continued to be centered on the processing of a few agricultural products mostly for

^{1/} The staff team consisted of Mr. K. Saito (Head, ASD), Mrs. E. Gorgen, Mr. S. Shah (both ASD), Mr. J. Davis (INST), and Mrs. L. Duffield-Sorkowitz (ETRD, secretary).

Table 1. Western Samoa: Fund Position During Period of Arrangement, June 1984-June 1985

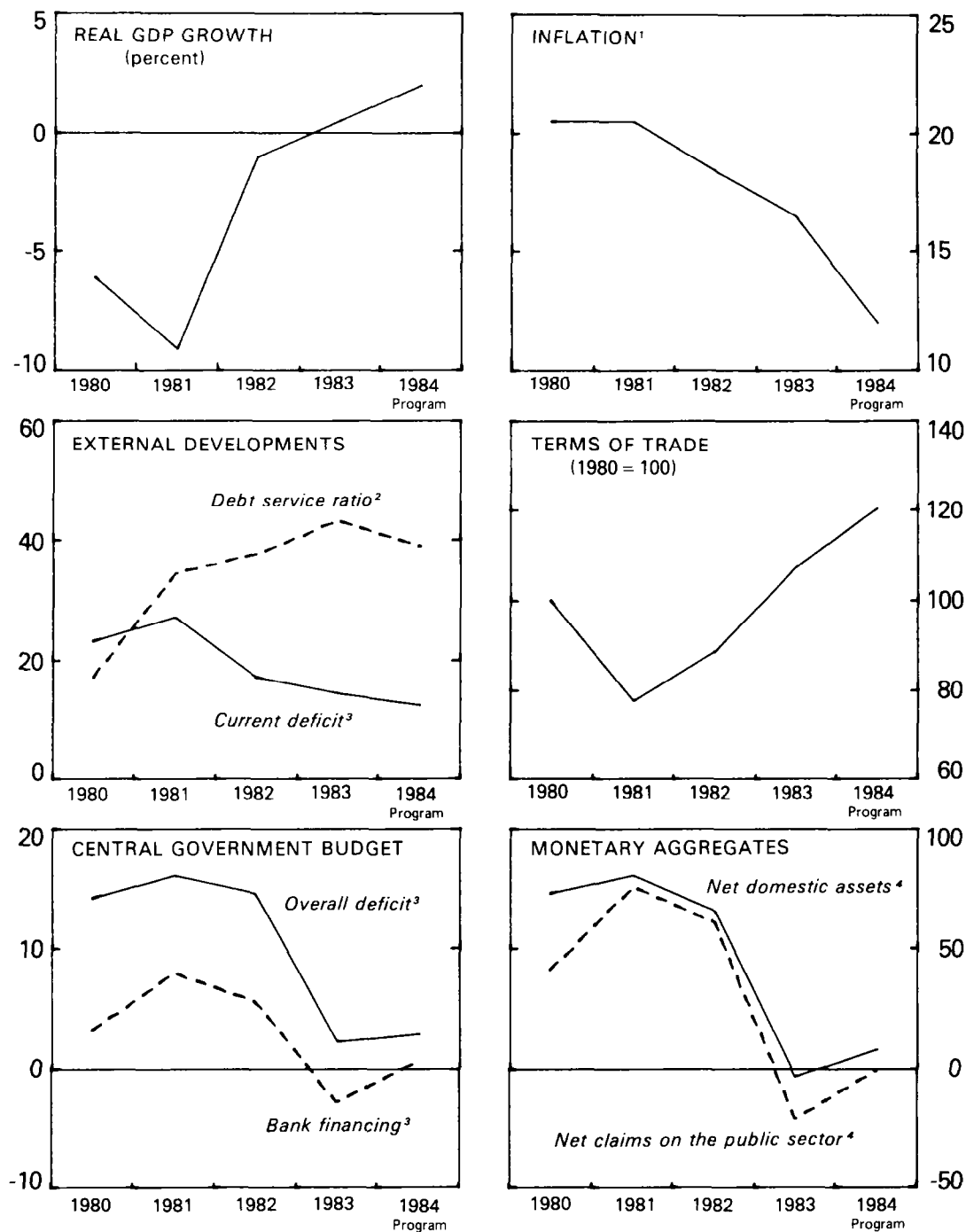
(In millions of SDRs)

	Outstanding at Beginning of Arrangement June 30, 1984	1984		1985	
		July-Sept.	Oct.-Dec.	Jan.-March	Apr.-June
Transactions under tranche policies (net)	...	<u>0.751</u>	<u>0.751</u>	<u>0.751</u>	<u>0.751</u>
Purchases	...	0.844	0.844	0.844	0.844
Ordinary resources	...	(0.422)	(0.422)	(0.422)	(0.422)
Enlarged access resources	...	(0.422)	(0.422)	(0.422)	(0.422)
Repurchases	...	-0.093	-0.093	-0.093	-0.093
Ordinary resources	...	(-0.093)	(-0.093)	(-0.093)	(-0.093)
Enlarged access resources	...	(--)	(--)	(--)	(--)
Transactions under special facilities <u>1/</u>	...	<u>-0.250</u>	<u>-0.250</u>	<u>-0.250</u>	<u>-0.250</u>
Purchases	...	--	--	--	--
Repurchases	...	-0.250	-0.250	-0.250	-0.250
Total Fund credit outstanding (end-of-period)	<u>7.268</u>	<u>7.769</u>	<u>8.270</u>	<u>8.771</u>	<u>9.272</u>
Under tranche policies	4.118	4.869	5.620	6.371	7.122
Under special facilities <u>1/</u>	3.150	2.900	2.650	2.400	2.150
(In percent of quota)					
Total Fund credit outstanding (end-of-period)	<u>121.1</u>	<u>129.5</u>	<u>137.8</u>	<u>146.2</u>	<u>154.5</u>
Under tranche policies	68.6	81.2	93.6	106.2	118.7
Under special facilities <u>1/</u>	52.5	48.3	44.2	40.0	35.8

Source: International Monetary Fund, Treasurer's Department.

1/ Compensatory Financing Facility.

CHART 1 WESTERN SAMOA SELECTED MACRO ECONOMIC INDICATORS



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

¹Percentage change in the consumer price index (period average).

²Including payments of arrears and Fund repurchases, in percent of exports of goods and services.

³In percent of GDP.

⁴Changes expressed in percent of stock of liquidity outstanding at end of previous year.

Table 2. Western Samoa: Selected Economic and Financial Indicators, 1981-84

	1981	1982	1983		1984
			Program	Actual	Program
(Annual percentage changes unless otherwise specified)					
Output and prices					
GDP at constant prices	-9.1	-1.0	--	0.5	2.0
Consumer prices	20.5	18.4	17.0	16.5	12.0
External sector					
Exports, f.o.b. (mn. SDRs)	9.5	11.9	12.9	16.6	20.0
Imports, c.i.f. (mn. SDRs)	47.9	45.0	42.0	48.4	50.6
Of which: non-oil imports	(39.6)	(39.9)	(34.3)	(41.2)	(...)
Export volume	-20.8	5.4	15.0	15.9	5.7
Import volume	-12.5	-10.0	-8.0	9.0	2.6
Terms of trade					
(deterioration -)	-22.4	13.9	2.9	21.7	11.7
Effective exchange rate <u>1/</u>					
Nominal	-6.0	-2.2	...	-17.9	-10.5
Real	-0.2	0.9	...	-2.5	3.6
Government budget					
Total revenue (excluding grants)	-2.4	16.5	24.3	44.2	26.0 <u>2/</u>
Total expenditure	8.2	8.6	-6.4	10.2	13.2 <u>2/</u>
Money and credit					
Net domestic assets	54.9	35.3	10.9	-1.7 <u>3/</u>	5.0
Public sector (net)	(89.5)	(46.0)	(7.3)	(-14.9) <u>3/</u>	-1.0
Private sector	(5.8)	(18.2)	(18.6)	(12.5)	18.0
Total liquidity	26.4	35.4	24.9	16.6	15.0
Velocity (GDP/M2) ratios	4.7	4.2	3.5	4.2	4.3
Interest rate (annual rate on one-year time deposit)	11	11	17	17	17
(In percent of GDP)					
Budget deficit (commitment basis)					
Excluding grants	-29.8	-25.6	-16.5	-17.6	-14.1
Including grants	-16.2	-14.6	-5.5	-2.2	-2.9
Domestic bank financing <u>4/</u>	7.9	5.5	1.3	-2.8	0.6
Foreign financing <u>5/</u>	5.7	3.0	3.1	3.9	1.9
External current account	-27.2	-17.1	-13.2	-14.3	-12.4
External debt <u>6/</u>	71.1	71.5	75.0	79.6	69.3
(In percent of exports of goods and services)					
Debt service ratio <u>7/</u>					
Excluding IMF	27.5	32.0	39.0	37.8	34.1
Including IMF	34.4	37.7	46.0	43.2	39.0
Interest payments (including IMF)	14.3	11.4	7.0	8.6	7.6
(In millions of SDRs)					
Overall balance of payments	-7.2	-4.1	1.2	7.3	1.5
Gross international reserves	2.8	3.2	3.4	6.9	6.6
(In months of imports, end-of-period)	(0.7)	(0.9)	(1.0)	(1.7)	(1.6)
External payments arrears <u>8/</u>					
(end-of-period)	8.8	13.1	10.1	2.6	1.5

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

^{1/} Change in the trade-weighted index between fourth quarters, except for 1984 which is the change between first quarters. Negative sign indicates depreciation.

^{2/} Including the effects on revenue and expenditure of government payment of import duties beginning in 1984.

^{3/} Net of valuation adjustments arising from exchange rate changes in conformity with the program definitions, net domestic assets and net credit to the public sector declined by 6 percent and 22 percent, respectively.

^{4/} Excluding net change in the counterentry to government external arrears and rescheduled government arrears.

^{5/} The figures for 1983 and 1984 exclude amounts corresponding to reductions in arrears largely due to rescheduling and conversion into investment in Western Samoa.

^{6/} Including IMF, external payments arrears, and rescheduled arrears.

^{7/} Including repayments of external payments arrears and rescheduled arrears in 1983-84.

^{8/} The amount projected for end-1984 is owed to a non-Fund member.

domestic consumption. Exports remained confined basically to the two traditional crops, copra and cocoa, and import dependency was strong, with oil products constituting approximately one fifth of the total. During 1980-82, international prices of copra and cocoa declined each year on average by 22 percent and 19 percent, respectively, while the import price of oil rose substantially. The sharp deterioration in the terms of trade, in conjunction with stagnant net earnings on services and inflows of nonmonetary capital, resulted in unsustainable external deficits. International reserves were drawn down to a critically low level, and by the end of 1982 accumulated external payments arrears exceeded the value of exports for that year.

Domestic financial conditions deteriorated during 1980-82. Government spending exceeded revenue substantially and, notwithstanding large foreign grants, the Central Government's overall deficit averaged 15 percent of GDP. Reflecting continued management weaknesses and unfavorable international price developments, the public enterprises incurred deficits, averaging close to 7 percent of GDP annually on a consolidated basis. To finance these deficits, bank credit to the public sector rose substantially and, despite the restraint on credit to the private sector, annual growth in domestic bank credit averaged 40 percent. Interest rates became increasingly negative in real terms and the tala appreciated steadily in real effective terms. The mobilization of domestic savings and the growth in remittances of funds by Samoans employed abroad remained relatively low.

2. Performance under the 1983 program ^{1/}

The major objectives of the Government's stabilization program for 1983 were to arrest the decline in real GDP, moderate inflation, and strengthen the balance of payments. To help achieve these objectives, the budget for 1983 envisaged a sharp reduction in the overall deficit and recourse to the banking system. The overall financial position of public enterprises was also expected to improve significantly through a number of corrective measures, including price adjustments. The fiscal effort was accompanied by a tight credit program, a 4-7 percent-age point increase in interest rates, and a 15 percent devaluation of the tala vis-a-vis the New Zealand dollar.

The economic program for 1983 was effectively implemented, aided by a sharp improvement in the terms of trade and stronger-than-anticipated inflows of official transfers and concessional loans. All performance criteria under the stand-by arrangement were observed, and the macro-economic targets were largely achieved. Real GDP growth was resumed at

^{1/} For a detailed description of the 1983 program, see Western Samoa: Request for Stand-by Arrangement (EBS/83/105, 5/25/83); for the mid-term review under the 1983 program, see Western Samoa: Staff Report for the 1983 Article IV Consultation and Review Under the Stand-by Arrangement (EBS/83/271, 12/21/83).

0.5 percent, after three consecutive years of negative growth; inflation, measured by the average increase in the CPI, was reduced to 16.5 percent from 18.4 percent in 1982; and the external current account deficit declined to 14.3 percent of GDP from 17.1 percent in 1982, with a large overall balance of payments surplus following deficits in the preceding two years.

The recovery in real GDP growth in 1983 was attributable mainly to the strong increase in industrial production. The output of coconut products rose substantially, as the copra crushing mill became fully operational. Processing of timber and tropical fruits using newly completed facilities also contributed to the increased industrial output. Construction activity and electricity production benefited from additions to hydroelectric generating capacity. In agriculture, output of copra and taro suffered from the severe drought experienced during the year, while the output of cocoa and tropical fruits rose sharply.

The slowdown in inflation in 1983 occurred mostly in the final quarter. During the first three quarters, inflation remained high reflecting the devaluation of the tala; upward adjustments in a number of administered prices, excise taxes, and import duties (including a change in the basis of assessment of import duties); the drought-induced shortages of domestic food items; and demand pressures generated by the South Pacific games held in Apia in September. However, in the final quarter of 1983 the upward trend in prices was arrested as food supplies improved with increased rainfall, and tight fiscal and monetary policies and wage restraint helped contain the growth in aggregate demand.

The Central Government's overall deficit (including grants and on a commitment basis) declined to 2.2 percent of GDP in 1983 against a program target of 5.5 percent. Its outstanding net borrowing from the domestic banking system declined substantially. This improvement resulted from exceptionally high disbursements of external grants, a 44 percent increase in revenue, and containment of expenditure growth to 10 percent. Excluding grants the overall deficit declined from 26 percent to 18 percent of GDP in 1983. The strong revenue performance was attributable to new tax measures yielding the equivalent of close to 4 percent of GDP; accelerated collections of income tax arrears and debt owed to departmental enterprises also helped. Expenditure restraint was achieved mainly by limiting public sector employment and salary increases and cutting back domestically financed development expenditure. The turnaround in the budgetary situation was complemented by a substantial improvement in the overall position of nonfinancial public enterprises during 1983, with their consolidated deficit declining to 2.2 percent of GDP and their outstanding borrowing from domestic banks falling. This improvement reflected the impact of high export prices and land sales, as well as better management practices, employment and wage restraint, and more flexible pricing policies (e.g., electricity tariffs were raised by 22 percent in mid-1983).

Monetary expansion slowed to 17 percent, compared with 35 percent in 1982 and a program target of 25 percent. Net domestic assets of the banking system declined by 2 percent, as net credit to the public sector fell by 15 percent, while credit to the private sector rose by 13 percent. In February 1983, bank deposit rates were raised by 5-6 percentage points to a range of 14-17 percent per annum, and bank lending rates by an average of 4 percentage points to a range of 14-20 percent. As a result, interest rates became mostly positive in real terms, and the large differentials between domestic rates and those prevailing in neighboring countries were eliminated. The adjustment in interest rates contributed to a shift into deposits with longer maturities and an increase in workers' remittances from abroad.

The tala was devalued by 10 percent in terms of the New Zealand dollar in February 1983 and by a further 5 percent to WS\$1.06 = NZ\$1 during April-May. This largely reversed the real appreciation of the tala on a trade-weighted basis that had occurred since the third quarter of 1979. However, with the acceleration in inflation, there was some real appreciation in the effective exchange rate index during the second half of 1983.

The external current account deficit declined from SDR 16.7 million (17 percent of GDP) in 1982 to SDR 13.2 million (14 percent of GDP) in 1983. This improvement occurred largely on the strength of exports, which rose by close to 40 percent, reflecting the strong recovery in world market prices of copra and cocoa and increases in the volume of coconut oil, cocoa, and banana exports. Higher export earnings led to an improvement in the trade balance, while allowing for a resumption in the growth of imports which had stagnated in the preceding two years. There was also a strong surge in private transfer receipts in the latter part of the year, largely in response to the exchange and interest rate adjustments.

The improvement in the current account was accompanied by large disbursements of official grants and concessional loans. As a result, the overall balance of payments moved into a surplus of SDR 7.3 million, far in excess of the surplus envisaged under the program (SDR 1.2 million). This allowed for a doubling of gross international reserves to SDR 6.9 million (equivalent to 1.7 months of imports) at the end of 1983 and for a sharper reduction in external payments arrears than earlier foreseen; net repayments amounted to SDR 3.9 million, considerably above the performance criterion under the program of SDR 2.9 million.

At the end of 1982, external payments arrears stood at SDR 13 million, of which SDR 8.5 million constituted commercial arrears, incurred mostly on account of oil imports, and SDR 4.5 million represented arrears on interest payments and principal repayments on government and

government-guaranteed debt. ^{1/} Commercial arrears were partly repaid in June 1983, and the remaining amount was rescheduled in agreement with the major creditors to be repaid in monthly/quarterly installments over a three-year period beginning in mid-1983. Arrears on government and government-guaranteed debt increased slightly during the first half of 1983, as anticipated at the beginning of the year and allowed for under the program. However, in the second half of the year, these arrears were reduced by close to SDR 2 million through rescheduling and investment in Western Samoa by the creditor government concerned. Thus, at the end of 1983, external payments arrears stood at SDR 2.6 million, all of which represented arrears owed to a non-Fund member government. The stock of rescheduled arrears stood at SDR 4.1 million, most of which was rescheduled commercial arrears.

Partly reflecting repayments related to external payments arrears, debt service payments in 1983 amounted to about 43 percent of exports of goods and services; excluding such repayments, the debt service ratio was 22 percent. External debt outstanding, which is mostly concessional, is estimated at about 80 percent of GDP at the end of 1983 (including arrears and IMF credit). There was no contracting of new government and government-guaranteed external debt with maturity ranges of up to 5 years and up to 12 years in 1983.

III. The Economic and Financial Program for 1984

1. Major objectives

The 1984 program represents the second phase of a medium-term effort to promote growth with a lower rate of inflation and a viable balance of payments. The program aims at consolidating the gains achieved in 1983 in attaining economic and financial stability. It also focuses on correcting certain structural weaknesses through improved resource allocation, more efficient use of imports, expansion of the export base, and increased mobilization of domestic savings. These objectives are to be realized through flexible exchange and interest rate management; dismantling of the foreign exchange allocation system for imports; further rationalization of the tax system; and continued tight fiscal and monetary policies.

The macroeconomic targets for 1984 include real GDP growth of 2 percent and a further reduction in the annual average rate of inflation to 12 percent. The external current account deficit is expected to decline to 12 percent of GDP. Exports are projected to benefit from continued increases in international commodity prices, while import growth is expected to reflect mainly the flow of raw materials and capital goods needed to support the faster growth in

^{1/} For a more detailed discussion of external payments arrears, see Western Samoa: Recent Economic Developments (SM/84/2, 1/5/84), p. 41.

output. An overall balance of payments surplus of SDR 1.5 million is projected for 1984 (for a summary of the 1984 program, see Annex IV).

2. External policies

a. External trade and exchange rate policies

A key element of the 1984 program will be the dismantling of the foreign exchange allocation system for imports. In recent years, this system has applied primarily to private sector imports, but also covered a few public sector imports; foreign aid financed imports have been excluded. The amounts of quarterly allocations have been determined within the framework of an overall annual foreign exchange budget. Additional allocations have occasionally been granted within certain limits and for specified goods; unutilized allocations have been carried forward to the following quarter, but not beyond the end of the year.

The authorities consider that the dismantling of the foreign exchange allocation system is necessary to overcome the arbitrariness and administrative inefficiencies of the present arrangement and to encourage greater price competition among importers. Toward this end, the allocation system has already been modified since late 1982 to include the tendering of basic food items, under which foreign exchange is allocated to importers who obtain the lowest prices. ^{1/} Since April 1, 1984, no limit has been set on the foreign exchange allocation for imports of these items. This will be followed, effective July 1, 1984, by the abolition of the foreign exchange allocation system on all imported goods, with the exception of motor vehicles, certain capital equipment, and selected domestically manufactured products, imports of which will require approval (possibly in the form of import licenses) by the Central Bank. The reasons for the exceptions are to phase the dismantling process; control imports of luxury consumer goods; monitor major capital goods imports; and provide additional protection to newly established domestic industries.

In order to ensure the orderly dismantling of the allocation system and avoid the depletion of foreign exchange reserves, a number of supporting measures will be implemented. Imports in excess of a certain minimum amount in value will be made subject to letters of credit; banks will be instructed to collect interest penalties on lending in excess of overdraft limits; and a stricter documentation of exports, which is already partly in place, will be required to promote repatriation of export receipts. These measures, in conjunction with flexible exchange rate management and tight monetary policies, are expected to ensure a smooth transition to the new system, while at the same time keeping

^{1/} In late 1983, the authorities ceased to be involved in the operation of the tender system which was taken over by the Chamber of Commerce and was maintained for basic items such as rice, butter, salt, flour, mutton, chicken backs, etc., and a few construction materials.

import demand under control. Progress made in the dismantling of the foreign exchange allocation system for imports and measures for further action in this area will be examined at the time of the program review.

The authorities remain committed to a flexible exchange rate policy, which has gained added importance in view of the contemplated import liberalization outlined above. Further to the successive devaluations during February-May 1983, the tala was devalued by 4.3 percent and 3.9 percent in terms of the New Zealand dollar, effective May 7 and May 31, 1984, respectively, to WS\$1.152 = NZ\$1. These actions were taken to help restore international competitiveness which eroded during the second half of 1983 (Chart 2), to strengthen export profitability, and to promote import substitution. The authorities are prepared to take further corrective action if required; exchange rate policy will be a focus of the mid-term review.

b. Balance of payments outlook and financing requirements

The balance of payments will continue to benefit from a further improvement in the terms of trade in 1984. Export earnings are projected to rise by 20 percent to SDR 20 million, with export prices increasing by 14 percent, largely on account of higher prices of coconut oil and cocoa (Table 3). The volume of exports is expected to increase for most agricultural products with the major exception of cocoa, exports of which had reached a very high level in 1983. The recent upward trend in manufactured goods exports (beer, coconut cream, fruit juices, and veneer) is also expected to continue. Import growth is expected to be limited to 5 percent in terms of SDRs, or to approximately 3 percent in real terms. In view of the continued tight financial policies and the replenishment of inventories that took place in late 1983, the dismantling of the foreign exchange allocation system is not expected to result in a significant surge in imports in 1984. The trade deficit is projected to decline slightly, but with a roughly unchanged balance on net services and a more moderate inflow of private transfers, the current account deficit is expected to remain at about SDR 13 million, representing a fall from 14 percent of GDP in 1983 to 12 percent in 1984 (Chart 1).

Inflows of official grants and concessional loans are expected to decline in 1984. The projected inflows allow for initial disbursements for the airport extension project, but are considerably less than the large disbursements in 1983 which were related mostly to special factors such as expenditure on the Sauniatu hydropower project and purchases of transportation equipment, including the acquisition of a small passenger aircraft under Australian aid. Nevertheless, an overall balance of payments surplus of SDR 1.5 million is envisaged for 1984 which, in conjunction with the net use of Fund resources, will help maintain gross international reserves at approximately 1.6 months of imports.

Table 3. Western Samoa: Summary Balance of Payments, 1981-85

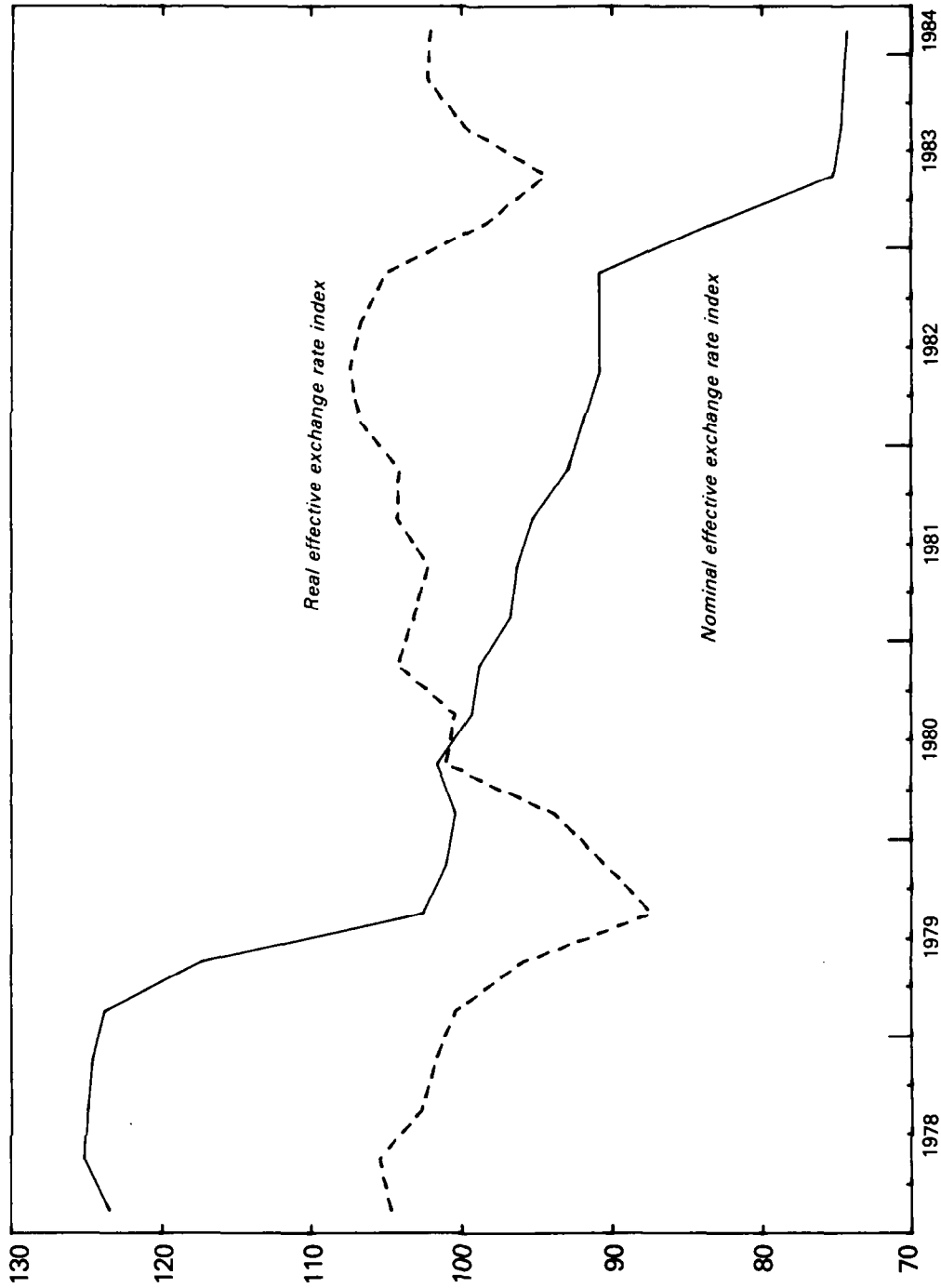
(In millions of SDRs)

	1981	1982	1983	1984 Prog.	1985 Proj.
Exports, f.o.b.	9.5	11.9	16.6	20.0	20.6
Of which: Copra and products	(3.5)	(5.3)	(7.9)	(11.2)	(10.7)
Cocoa	(1.1)	(0.6)	(2.5)	(1.9)	(2.1)
Imports, c.i.f.	-47.9	-45.0	-48.4	-50.6	-51.2
Of which: Oil	(-8.3)	(-6.8)	(-7.2)	(...)	(...)
Trade balance	<u>-38.4</u>	<u>-33.1</u>	<u>-31.8</u>	<u>-30.6</u>	<u>-30.6</u>
Services (net)	-1.5	-0.5	-0.4	-0.6	-0.3
Of which: Interest payments	(-2.2)	(-1.9)	(-1.9)	(-1.9)	(-2.1)
Private transfers (net)	15.6	16.9	19.0	18.0	18.1
Current account	<u>-24.3</u>	<u>-16.7</u>	<u>-13.2</u>	<u>-13.2</u>	<u>-12.8</u>
Official transfers	12.2	10.7	14.3	11.3	10.1
Nonmonetary capital (net)	<u>4.6</u>	<u>1.9</u>	<u>6.2</u>	<u>3.4</u>	<u>3.2</u>
Government (net)	<u>5.1</u>	<u>2.9</u>	<u>3.6</u>	<u>2.0</u>	<u>2.6</u>
Government guaranteed (net)	-0.8	-2.1	0.1	-0.4	-0.6
Other ^{1/}	0.3	1.1	2.5	1.8	1.2
Allocation of SDRs	0.3	--	--	--	--
Overall balance	<u>-7.2</u>	<u>-4.1</u>	<u>7.3</u>	<u>1.5</u>	<u>0.5</u>
Financing	<u>7.2</u>	<u>4.1</u>	<u>-7.3</u>	<u>-1.5</u>	<u>-0.5</u>
Foreign assets (increase -)	-1.0	-0.1	-3.5	0.3	0.2
Foreign liabilities (increase +)	8.2	4.2	-3.8	-1.8	-0.7
Of which:					
Use of Fund resources (net)	(1.9)	(-0.7)	(1.9)	(2.6)	(0.3)
Arrears (net)	(7.6)	(4.2)	(-10.5)	(-1.1)	(-1.0)
Rescheduled arrears (net)	(--)	(--)	(4.1)	(-3.2)	(-0.5)
Memorandum items:					
Current account deficit/GDP (percent)	-27.2	-17.1	-14.3	-12.4	-10.9
Gross international reserves (end-of-period)					
In millions of SDRs	2.8	3.2	6.9	6.6	6.4
In months of imports	(0.7)	(0.9)	(1.7)	(1.6)	(1.5)

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

^{1/} Includes private capital flows, errors and omissions, and counterentry to valuation changes in foreign assets and liabilities.

CHART 2
WESTERN SAMOA
TRADE-WEIGHTED EFFECTIVE EXCHANGE RATE INDICES¹
(1980 = 100)



Source: International Monetary Fund, Research Department.
1 An increase represents an effective appreciation.



External payments arrears are expected to be reduced from SDR 2.6 million to SDR 1.5 million by the end of 1984; SDR 0.2 million was rescheduled in February 1984, and negotiations are underway for the conversion of the remainder into investment in Western Samoa by the non-Fund member government concerned. External payments arrears rescheduled during 1983, which amounted to SDR 4.1 million at the end of December, are expected to be reduced to SDR 0.9 million by the end of 1984; repayments on rescheduled commercial arrears were accelerated during the early months of 1984, resulting in complete elimination of such liabilities by the end of March.

Partly due to continued repayments of arrears (including re-scheduled amounts), the debt service ratio is expected to remain at about 39 percent of exports of goods and services in 1984; excluding servicing of arrears, the debt service ratio will be 23 percent. With the reduction in external payments arrears, external debt outstanding (including Fund credit) is projected to decline from close to 80 percent of GDP at the end of 1983 to 69 percent at the end of 1984. The Government's contracting or guaranteeing of new external loans with maturity ranges of up to 5 years and up to 12 years will be limited to US\$3 million and US\$5.5 million, respectively, during 1984.

3. Domestic financial policies

a. Fiscal policy

(i) The 1984 Central Government Budget

The 1984 budget seeks to reduce the overall deficit (excluding external grants) to 14.1 percent of GDP (Table 4). External grants, however, are expected to remain below the exceptionally high level attained in 1983, resulting in a rise in the overall deficit including grants from 2.2 percent of GDP in the previous year to 2.9 percent in 1984. The budget deficit is to be financed largely from external and nonbank sources, with recourse to the banking system limited to 0.6 percent of GDP (Chart 1).

A major feature of fiscal policy in 1984 is the introduction of tax measures aimed at improving resource allocation, broadening the tax base, and increasing the elasticity of the tax system. ^{1/} Specific measures include revisions in customs tariffs, excise duties, and tax incentives. The revised customs tariff involves a simplified rate structure that allows most industries effective rates of protection in

^{1/} The measures introduced in 1984 represent part of a medium-term tax reform that follows closely the recommendations outlined in a 1981 Fiscal Affairs Department report. Tax reform measures introduced in 1983 are detailed in "Western Samoa: Recent Economic Developments" (SM/84/2, 1/5/84), p. 23.

Table 4. Western Samoa: Financial Operations of the Central Government, 1981-84

	1981	1982	1983 Provisional	1984 1/ Program
(In millions of tala)				
Total revenue and grants	39.2	42.6	64.6	71.7
Total revenue	24.3	28.3	40.8	51.4
External grants	14.9	14.3	23.8	20.3
Total expenditure, commitment basis	56.8	61.7	68.0	77.0
Current expenditure 2/	25.1	31.7	30.6	33.5
Development expenditure	26.9	27.2	36.3	41.7
Of which:				
Domestically financed	(8.3)	(8.9)	(6.9)	(13.8)
Net Treasury advances	0.4	1.4	1.1	1.8
Capital accounts 3/	4.3	1.4	--	--
Overall deficit, commitment basis	-17.6	-19.1	-3.4	-5.3
Net change in arrears	1.7	4.3	-1.8	-1.9
Overall deficit, cash basis	-15.9	-14.8	-5.2	-7.2
External financing (net) 4/	6.2	3.9	9.1	5.4
Domestic financing (net)	9.7	10.9	-3.9	1.8
Banking system	(8.6)	(7.2)	(-4.4)	(1.1)
Other	(1.1)	(3.7)	(0.5)	(0.7)
(In per cent of GDP)				
Total revenue	22.3	21.7	26.4	28.4
Total expenditure	52.1	47.3	44.0	42.5
Overall deficit, commitment basis				
Excluding grants	-29.8	-25.6	-17.6	-14.1
Including grants	-16.2	-14.6	-2.2	-2.9

Sources: Treasury Department of Western Samoa; and staff estimates.

1/ Includes the effects on revenue and expenditure of government payment of import duties from 1984.

2/ Expenditure commitments covered by an increase in arrears are included in expenditure with a counterentry under "net change in arrears;" increases in arrears (and rescheduled arrears) are not shown in bank financing, though these are included in the program definition of banking system finance in Table 6.

3/ Acquisition of shares by the Government.

4/ Includes amounts corresponding to reductions in arrears largely due to rescheduling and conversion into investment in Western Samoa, amounting to WS \$3.1 million and WS \$1.9 million in 1983 and 1984, respectively.

the range of 60-80 percent. 1/ Provision of fairly uniform levels of effective protection is intended to encourage efficient resource allocation within the import competing sector. The revised tariff system also requires payments of import duties by the Government and public enterprises beginning in 1984. Although government payment of import duties does not affect the net budgetary position, the measure should contribute to more efficient resource allocation and appropriate government purchasing decisions. Revisions in excise duties involve a shift from specific to ad valorem rates and an extension of the coverage to include wine, soft drinks, and luxury items. Under the revised enterprise incentive legislation, new enterprises may be granted exemption, for limited periods, from excise and income taxes, but new exemptions from import duties will not be granted. The revised incentive legislation, together with the changes in the customs tariff, should allow more effective and rational incentives for new industries. Consideration is, however, being given to the formulation of additional legislation to provide special incentives for large scale foreign investment. A review of the implementation of the new customs and excise taxes is also planned in order to address any minor anomalies that may arise without modifying the basic thrust of the reform.

Revenue growth is projected at 15 percent in 1984, with the new tax measures and changes in fees and charges estimated to increase revenue by the equivalent of 1.7 percent of GDP (Appendix Table 8). 2/ Tax revenue is projected to rise by nearly 17 percent, with the increase essentially reflecting larger receipts of excise and import duties resulting, in part, from the impact of the devaluation of the tala on the tax base. Income tax receipts are projected to decline in 1984, following the exceptional increase in 1983 due to the successful collection of income tax arrears. Nontax revenue growth is constrained by the projected small decline in the operating surplus of departmental enterprises following the collection of overdue accounts receivable.

Total government expenditure is estimated to increase by 7 percent in 1984, with both current and development expenditure projected to rise at approximately the same rates (Appendix Table 10). The increase in

1/ The effective rate of protection measures the proportional increase in value added allowed by the tariff structure. It depends on the rates of duty on output and inputs and on the proportion of value added to output. Under the revised tariff structure nominal rates of protection range from 5 percent to 60 percent. The ratio of value added to output in the protected sector is estimated to range from 15 percent to 70 percent.

2/ Revenue and expenditure growth rates in this section exclude the impact of government payment of import duties as of 1984. Including such payments, total revenue and expenditure are estimated to rise by 26 percent and 13 percent, respectively. The revenue impact of the new tax measures, including government payment of import duties, is estimated at 4 percent of GDP.

current expenditure allows for a wage increase of 10 percent (5 percent cost of living and 5 percent regrading), and assumes limitations on overtime payments and a continuation of the policy of reducing government employment by filling only essential vacancies. Despite the wage increase, current spending is projected to decline in real terms. Increases in development expenditure reflect higher domestically financed spending, largely resulting from the need to commit local counterpart funds following the exceptional rise in external loans and grants in 1983. The major new project affecting development spending in 1984 is the extension of Apia's international airport.^{1/} In order to facilitate the monitoring and control of expenditure, the Treasury has been reviewing departmental spending on a quarterly basis; as in 1983, departments exceeding their expenditure targets in a particular quarter are required to scale down their spending for the remainder of the year.

(ii) Public enterprises

In 1984, the overall deficit of the nonfinancial public enterprises is projected to decline to 0.8 percent of GDP with limited recourse to bank credit (Table 5). As in 1983, strengthening of the financial situation of the public enterprises partly reflects strong export prices. The Copra Board is expected to show a large surplus in 1984, while the Cocoa Board is projected to maintain the improved position achieved in 1983 (Appendix Table 11). Further reductions in employment should help eliminate the recent operating deficits of the Western Samoa Trust Estates Corporation (WSTEC), with sales of land contributing to a small overall surplus in 1984. Receipts for past construction work are expected to contribute to a doubling of the Special Projects Development Corporation's (SPDC) operating surplus in 1984 and the emergence of an overall surplus. The SPDC's profitability in future years should be aided by construction activity related to the airport extension. A small operating surplus is projected for the Electric Power Corporation (EPC) in 1984, with the authorities remaining committed to a flexible pricing policy. Capital expenditure associated with ongoing construction of a hydropower plant is, however, expected to lead to a large overall deficit for the EPC this year which is to be financed mainly from external sources.

Although there has been substantial improvement in the performance of public enterprises in recent years, there remains further scope for more efficient management and rationalization of their activities. A number of measures have been adopted to help achieve these objectives and to monitor regularly the activities of public enterprises. First, a National Economic Council consisting of key economic ministers was established in late 1983 to monitor and supervise the operations of major public enterprises more closely. Second, the Government has

^{1/} The budgetary projections for 1984 allow WS\$1.7 million for domestically financed and WS\$6 million for grant financed expenditure on the airport extension project.

Table 5. Western Samoa: Summary Accounts of Nonfinancial Public Enterprises, 1981-84

	1981	1982	1983	1984
			Provisional Actuals	Estimates
(In millions of tala)				
Selected public enterprises <u>1/</u>				
Operating revenue	27.1	29.1	38.0	48.9
Operating expenditure	31.8	33.1	37.2	45.2
Operating surplus/deficit (-)	<u>-4.7</u>	<u>-4.0</u>	<u>0.8</u>	<u>3.7</u>
Other current expenditure, net	1.3	0.7	1.8	2.8
Capital revenue	2.2	2.1	10.0	5.4
Capital expenditure	5.3	4.9	11.8	7.7
Overall deficit	<u>-9.1</u>	<u>-7.5</u>	<u>-2.8</u>	<u>-1.4</u>
Financing	<u>9.1</u>	<u>7.5</u>	<u>2.8</u>	<u>1.4</u>
Domestic bank financing	3.0	3.4	-2.8	0.2
Domestic nonbank financing (net)	6.1	4.1	5.6	1.2
Total nonfinancial public enterprises and statutory bodies				
Total deficit	<u>-9.3</u>	<u>-6.5</u>	<u>-3.4</u>	<u>-1.4</u>
Financing	<u>9.3</u>	<u>6.5</u>	<u>3.4</u>	<u>1.4</u>
Domestic bank financing	3.8	2.2	-2.1	0.9
Domestic nonbank financing	5.5	4.3	5.5	0.5
(In percent of GDP)				
Total deficit	-8.5	-5.0	-2.2	-0.8
Domestic bank financing	3.5	1.7	-1.4	0.3

Sources: Public enterprises, Treasury Department of Western Samoa; and staff estimates.

1/ Includes Electric Power Corporation (EPC), Special Projects Development Corporation (SPDC), Copra Board, Cocoa Board, and Western Samoa Trust Estates Corporation (WSTEC).

recently initiated comprehensive surveys of the agricultural and energy sectors, which are expected to provide an opportunity for an in-depth study of the operations and investment practices of the public enterprises concerned, in particular, those of WSTEC and the EPC. Since 1983, the operations of WSTEC have also been reviewed at semi-annual meetings of major donors. Third, progress is being made in turning over appropriate public sector operations to the private sector, as indicated by the recent sales of land by WSTEC and privatization of some public enterprises.

b. Monetary and credit policies

Monetary policy in 1984 is aimed at promoting continued external adjustment and realizing a further moderation in inflation, while supporting the envisaged recovery in output growth. The credit program will play a crucial role in achieving these goals, in particular, by ensuring that import demand is kept under control when the foreign exchange allocation system for imports is modified. The program is also designed to continue channelling increased funds to the private sector as in 1983, in contrast to earlier years when the growing financing needs of the public sector limited bank credit available to the rest of the economy.

The credit program for 1984 is based on a projected real GDP growth of 2 percent, an average inflation rate of 12 percent, and an overall balance of payments surplus of SDR 1.5 million. On the assumption of an approximately stable income velocity, total liquidity is projected to increase by 15 percent in 1984, compared with 17 percent in 1983 (Table 6). Taking into account the envisaged improvement in net foreign assets of the banking system, net domestic assets are expected to increase by 5 percent during 1984. Net credit to the public sector is expected to decline slightly, largely on account of the reduction in government arrears; excluding these arrears, net credit to the public sector is expected to rise slightly (Table 6). Credit to the private sector is projected to increase by 18 percent. The growth of credit to the private sector picked up in the first quarter of the year, but is expected to slow during the rest of the year (Appendix Table 12); the programed increase in credit to the private sector is expected to allow for adequate financing of productive private sector activity. Taking into account seasonal and other prospective developments during the year, ceilings have been established on the outstanding level of the banking system's net domestic assets and on net bank credit to the public sector for the end of June, September, and December 1984. Interest rates are expected to become increasingly positive in real terms in view of the envisaged decline in the rate of inflation during 1984. The authorities continue to monitor interest rate developments closely in light of domestic price movements and interest rate developments abroad. Interest rate policy will be reassessed during the mid-term review.

Table 6. Western Samoa: Monetary Survey, 1981-84 1/

	1981	1982	1983	1984 Program
(In thousands of tala; end of period)				
Net foreign assets	<u>-19,109</u>	<u>-25,850</u>	<u>-19,712</u>	<u>-17,200</u>
Net domestic assets	<u>42,168</u>	<u>57,067</u>	<u>56,095</u>	<u>59,000</u>
Credit to the public sector (net) <u>2/</u>	29,945	43,722	37,188	36,950
Government (net) <u>2/</u>	(19,896)	(31,470)	(27,061)	(25,900)
Public enterprises	(10,049)	(12,252)	(10,127)	(11,050)
Credit to the private sector	11,986	14,166	15,938	18,800
Other assets (net)	237	-821	2,969	3,250
Total liquidity	<u>23,059</u>	<u>31,217</u>	<u>36,383</u>	<u>41,800</u>
(Annual percentage changes)				
Net domestic assets	55	35	-2	5
Credit to the public sector (net)	90	46	-15	-1
Government (net)	(108)	(58)	(-14)	(-4)
Public enterprises	(62)	(22)	(-17)	(9)
Credit to the private sector	6	18	13	18
Total liquidity	26	35	17	15

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

1/ For further details of the monetary survey, and for annual changes expressed in relation to the stock of liquidity outstanding at the end of the preceding year, see Appendix Table 12.

2/ Includes counterentries to government external arrears and rescheduled government arrears which are excluded in the budget definition of bank credit to the government.

The Central Bank of Samoa began operations on May 1, 1984, and will gradually take over the central banking functions which were being performed by the Treasury, the Monetary Board, and the Bank of Western Samoa. At the initial stage, the Bank is expected to help promote the effectiveness of monetary policy in Western Samoa mainly through its close monitoring of commercial bank activities. It will also play a crucial role in overseeing the orderly dismantling of the foreign exchange allocation system for imports.

4. Production and investment policies

Western Samoa's limited resource base and the concentration of production on a few agricultural commodities and their processing has been a major constraint on economic growth (Appendix Table 13). To ease this constraint, the Government has recently adopted a number of measures. A "suspensory loan scheme" for planting cocoa was launched in 1983, under which 60 percent of the loan is to be converted into a grant, provided that a minimum output level is achieved within 5-6 years, the maturity period of cocoa trees. The scheme became operational in 1984 with funding through the Development Bank of Western Samoa and is initially expected to finance cocoa replanting on 350 acres of land. A similar scheme is also being prepared for replanting coconuts, with the replanting target for 1984 set at 1,550 acres, double the acreage replanted in 1983; coconut nurseries have already been set up in several areas, with an emphasis on hybrid, high-yielding varieties. Regarding diversification into other crops, efforts are underway to increase production of tropical fruits and vegetables, mainly for export markets. In this connection, the Government has initiated an agricultural sector survey with the support of the Asian Development Bank, which will provide guidance in the formulation of a comprehensive agricultural sector strategy, including measures to improve productivity on 30,000 acres of prime land managed by WSTEC.

Price stabilization schemes for copra and cocoa came into operation in 1982 to ensure stable prices to producers. Under the schemes, a floor price is set based on an average of export prices over the preceding 4 years and an estimate for the current year. In 1982, export prices of copra and cocoa were considerably below the floor prices, resulting in subsidy payments to growers. Since the beginning of 1983, however, export prices have risen sharply enabling the Copra and Cocoa Boards to raise procurement prices substantially in excess of floor prices and, at the same time, to recover their earlier losses and accumulate reserves for use in future price support operations.

Development of the fisheries and forestry sectors depends significantly on the completion of major transportation projects (the airport extension project, the Savaii road project, and expansion of harbor and wharf facilities). In particular, increased air freight capacity resulting from the extension of the runway will facilitate exports of fresh fish. Efforts are also underway to increase production of hardwood, as well as fuelwood to be used by the wood fuel power station.

In the industrial sector, policies are geared toward increasing the value added of primary exports and promoting efficient import-substitution. A copra crushing mill was established in 1982, resulting by 1984 in complete substitution of copra exports by exports of copra products, mainly coconut oil and copra meal. Also, a veneer plant came into operation in 1982 which substantially reduced exports of unprocessed timber. The Food Processing Laboratory has rapidly increased its capacity to process tropical fruits, especially passion fruit, the production of which rose from 200 tons in 1981 to over 1,000 tons in 1983; a further increase in passion fruit processing capacity is planned for 1984. Beer and cigarette production have increased considerably in recent years, substantially reducing imports of these products and contributing to exports. The Government is planning to establish a number of joint ventures in the near future, including a coconut mill to produce activated carbon from coconut shells, a second plywood plant, a dairy processing and packaging facility and, among important import-substituting industries, a corned-beef and fish canning facility.

Western Samoa's tourism potential has not been sufficiently developed due partly to the inadequacy of airport facilities. The shortage of airfreight capacity has also limited exports of perishable products. These difficulties are expected to ease with the completion of the Apia airport extension project in 1986. The project, which is estimated to cost approximately WS\$19 million, will be financed largely through foreign grants. A major new hotel is also being constructed.

Import substitution in the energy sector has progressed rapidly in recent years, with the share of imported diesel oil in electricity generation declining from close to 80 percent in 1980 to about 60 percent in 1983 (Appendix Table 14). With the coming on stream of a new hydroelectricity plant later in 1984, the share of diesel oil is expected to decline to around 40 percent. The use of diesel oil in electricity generation will decline further with the completion of a wood-based electricity plant in 1987.

5. Performance criteria and mid-term review

The program for 1984 contains the following quantitative performance criteria which are set out in Table 7.

- (1) Ceilings on net domestic assets of the banking system;
- (2) Ceilings on net credit of the banking system to the public sector;
- (3) Ceilings on the contracting of government and government-guaranteed external debt with maturity ranges of up to 5 years and up to 12 years.

In addition to the above quantitative performance criteria, the usual performance criteria relating to multiple currency practices,

Table 7. Western Samoa: Quantitative Performance
Criteria, 1984

	1983 Dec. 28 (Actual)	1984		
		June 27	Sept. 26	Dec. 26
<hr/>				
		<u>(In thousands of tala)</u>		
Ceilings				
Net domestic assets of the banking system <u>1/</u>	56,095	59,700	59,100	59,000
Of which: Net credit to the public sector <u>2/</u>	37,188	40,500	38,900	36,950
 Contracting of external debt in 1984 <u>3/</u>				
		<u>(In millions of U.S. dollars)</u>		
With maturity of:				
Up to and including 12 years		5.5		
Up to and including 5 years		3.0		

1/ Defined as total liquidity less net foreign assets.

2/ Defined as net credit to the Government and gross credit to public enterprises.

3/ Public and publicly-guaranteed external debt.

restrictions on payments and transfers for current international transactions, bilateral payments agreements with Fund members, and import restrictions for balance of payments purposes will apply.

There will be a mid-term review of economic policies, in particular, exchange rate and interest rate policies. Other topics of the review will include assessment of budgetary performance and the financial position of public enterprises; credit and pricing policies; and progress made in the dismantling of the foreign exchange allocation system for imports. Performance criteria for end-March 1985 will be established during the mid-term review.

Purchases under the stand-by arrangement will be made as follows: SDR 0.422 million upon Executive Board approval of the stand-by request; SDR 0.422 million upon observance of end-June performance criteria; and SDR 0.844 million each upon observance of end-September, end-December 1984, and end-March 1985 performance criteria. Since the mid-term review will constitute a performance criterion, the purchase based on the end-December 1984 ceilings will not be made available until the conclusion of the mid-term review.

IV. Medium-Term Balance of Payments and External Debt Outlook

An illustrative medium-term balance of payments scenario suggests that the current account deficit can be expected to remain at about SDR 12 million, which would imply a reduction in terms of GDP from 14 percent in 1983 to 6 percent in 1989. Export earnings are projected to increase by 5-6 percent per annum during 1985-89 on account of both traditional and new exports. Export volume is projected to benefit from the recent improvements in producer incentives and processing facilities, while export prices are assumed to rise only moderately from their present levels. Imports are assumed to grow by about 4-5 percent annually over the same period. This will allow for a small increase in volume, compared with declines during 1980-83. Assuming moderate increases in import prices, the terms of trade are projected to remain approximately stable. Services and travel receipts are projected to show steady increases, especially after the completion of the airport extension. However, private transfers, which have been a major and reliable source of foreign exchange in recent years, are projected to increase only moderately over the medium term due to stricter immigration regulations in recipient countries. Official transfers and loans are assumed to continue rising at the recent trend rate. In all, a small overall balance of payments surplus is projected over the medium term, which will allow for repayments of remaining arrears, net repurchases from the Fund, and a modest increase in reserves. There are two critical assumptions in this scenario. First, the growth of imports is to be limited to a relatively low rate. Second, official grants are to continue rising at the recent trend rate. To realize the former will require effective domestic demand management and promotion of import-substituting sectors through appropriate policy measures. Even with

such measures in place, maintaining a viable external position will depend significantly on the continuing inflow of external grants.

The total amount of external debt, including use of Fund credit and external payments arrears, stood at SDR 74 million at the end of 1983; The balance of payments scenario described above indicates only a small increase in outstanding debt through 1989, since new borrowing will largely be offset by the repayments of external arrears and repurchases from the Fund. With the absolute amount largely unchanged, the ratio of external debt to GDP is projected to decline from about 80 percent in 1983 to 45 percent in 1989 (Appendix Table 15). The debt service ratio, which peaked at 43 percent in 1983, is projected to remain high in 1984 and 1985, reflecting repayments on rescheduled arrears. With the completion of these repayments, however, the ratio is expected to decline to about 25 percent in 1986, and further to 20 percent by 1989.

V. Staff Appraisal and Proposed Decision

Western Samoa experienced serious economic and financial difficulties during 1980-82. Output stagnated, inflation was high, and external deficits were unsustainable. While these developments were partly due to adverse external factors, they also reflected an inadequate policy response to deteriorating economic conditions.

In 1983, the authorities successfully implemented a comprehensive adjustment program, supported by one-year stand-by arrangement from the Fund. There was a significant turnaround in the overall financial position of the public sector through measures to broaden the revenue base, contain expenditure growth, and improve management practices. Monetary expansion was curtailed, and active interest rate and exchange rate policies were pursued. Tight demand management policies, in conjunction with a sharp improvement in the terms of trade and increased external assistance, helped ease pressures on the balance of payments. The current account deficit declined, and an overall balance of payments surplus was recorded. External payments arrears were reduced significantly through repayments and rescheduling, and only a small amount owed to a non-Fund member Government remains. Inflation was brought under control, and the foundation was laid for the resumption of steady economic growth. The authorities' resolve to monitor economic developments closely and to take corrective action as needed was also reflected in a major effort to improve the statistical data base and to ensure more timely reporting of economic data.

Under the proposed program for 1984, the authorities intend to consolidate the gains achieved in 1983 and to continue their efforts to realize a fundamental improvement in the economy through correction of structural weaknesses. The program is designed to sustain the improvement in the external position, reduce inflation further, and promote economic growth. While continuing tight demand management policies, emphasis will also be placed on improving growth prospects to ensure

balance of payments viability in the medium term, primarily through promotion of nontraditional exports and import substitutes.

An important feature of the 1984 program is the dismantling of the foreign exchange allocation system for imports, effective July 1, 1984. This move, which is being supported by demand management policies, is expected to overcome some of the anomalies under the present system and to improve resource allocation in the longer run. The authorities remain committed to a flexible exchange rate policy, and have recently adjusted the exchange rate to eliminate the real effective appreciation of the tala recorded since mid-1983. Exchange rate developments will continue to be monitored closely with a view to maintaining competitiveness in the export and import substituting sectors. Firm implementation of these policies is crucial to reducing further the current account deficit to a level commensurate with steady inflows of official grants and loans and maintaining adequate international reserves over the medium term.

The budget for 1984 envisages continued expenditure restraint and the introduction of a number of new tax measures. These measures, which represent another important stage in the medium-term program of tax reform, should help achieve a more efficient use of resources in the import-competing sector and provide a much needed broadening of the tax base. In view of the major impact that the activities of public enterprises have on production, exports, and financial developments in Western Samoa, a continued effort is being made to increase their efficiency and rationalize the scope of their activities. In this context, importance is being attached to the monitoring and control activities of the National Economic Council and to the planned review of some major public enterprises in the context of the agricultural and energy sector surveys which are taking place this year.

Monetary policy entails limited recourse to bank credit by the public sector and allows for increased availability of financial resources to the private sector. Interest rates are expected to remain positive in real terms as the anticipated slowing of inflation takes place. The establishment of the Central Bank of Samoa will help keep interest rate and other monetary developments under close review and promote the efficiency of monetary management.

Western Samoa's progress in 1983 in restoring financial viability has been considerable and has reflected the authorities' willingness to implement corrective measures in close cooperation with the Fund. Despite the recent strengthening in Western Samoa's external position, the overall financing need remains relatively large due partly to the further reduction in external arrears and the need to maintain the import coverage of international reserves. In the staff's view the amount of the proposed stand-by arrangement is warranted by the adjustment policies and measures outlined above which represent a major effort toward consolidating the gains achieved in 1983 and paving the way for economic growth with a strengthened external position in the medium

term. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Western Samoa has requested a stand-by arrangement for a period of one year from July , 1984 to July , 1985 in an amount equivalent to SDR 3.375 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/130 , and waives the limitation in Article V, Section 3((b)(iii)).

Table 8. Western Samoa: Estimated Revenue Impact of
Discretionary Measures in the 1984 Budget

(In thousands of tala)

Measure	Budget Statement	Estimated Impact in 1984
Levy of import duties on bodies currently exempt by statute	400	370
Revision of exemptions and concessions under the Customs Tariff Act	700	670
Amendments of Enterprise Incentive Act	1,000	1,000
Increase in tariff rate on movie film	180	180
Excise duties on additional categories of domestic production	336	314
Reductions in import duties	--	-400
Total new net tax	<u>2,616</u>	<u>2,134</u>
Fees and charges	930	930
Port charges	(500)	(500)
Telephone and telex charges	(400)	(400)
Land and survey market fees	(30)	(30)
Total new net revenue (In per cent of GDP)	<u>3,546</u>	<u>3,064</u> (1.7)
Payment of customs duties by Government	4,254	4,254
Total new revenue (In per cent of GDP)	<u>7,800</u>	<u>7,318</u> (4.0)

Sources: The 1984 Budget Statement, November 15, 1983; and data provided by
the Western Samoan authorities.

Table 9. Western Samoa: Central Government Revenue and Grants, 1981-84

(In thousands of tala)

	1981	1982	1983	1984 1/	
			Provisional Actuals	Budget	Program
Tax revenue	<u>20,251</u>	<u>23,878</u>	<u>34,059</u>	<u>41,089</u>	<u>44,146</u>
Taxes on income	<u>6,617</u>	<u>8,308</u>	<u>10,656</u>	<u>9,250</u>	<u>9,850</u>
Companies	(2,886)	(4,052)	(...)	(...)	(...)
Salaries and wages	(3,190)	(4,139)	(...)	(...)	(...)
Other	(627)	(999)	(...)	(...)	(...)
Less: refund	(-86)	(-882)	(...)	(...)	(...)
Excise taxes	2,622	3,530	3,896	6,368	6,638
Taxes on international trade	10,896	11,750	18,843	24,881	27,068
Import duties	(10,148)	(10,956)	(17,757)	(23,941)	(26,077)
Export surcharge	(218)	(167)	(257)	(200)	(211)
Foreign exchange levy	(530)	(627)	(829)	(740)	(780)
Other taxes	116	290	664	590	590
Business licenses	(37)	(41)	(53)	(55)	(55)
Airport departure tax	(61)	(175)	(550)	(450)	(450)
Other 2/	(18)	(74)	(61)	(85)	(85)
Nontax revenue	<u>4,018</u>	<u>4,431</u>	<u>6,686</u>	<u>6,170</u>	<u>7,270</u>
Fees, service charges, etc.	<u>1,521</u>	<u>1,789</u>	<u>1,911</u>	<u>2,344</u>	<u>2,344</u>
Operating surplus of departmental enterprises	962	503	2,760	1,585	2,485
Rents, royalties, interest	1,238	1,487	1,580	1,943	1,943
Sale of government supplies	103	169	154	193	193
Sale of government shares	--	166	--	--	200
Other 3/	194	317	281	105	105
Total revenue	<u>24,269</u>	<u>28,309</u>	<u>40,745</u>	<u>47,259</u>	<u>51,416</u>
Total grants 4/	<u>14,924</u>	<u>14,330</u>	<u>23,800</u>	<u>19,300</u>	<u>20,300</u>
Cash and commodity grants	<u>2,824</u>	<u>743</u>	<u>2,000</u>	<u>50</u>	<u>...</u>
STABEX	(2,088)	(710)	(2,000)	(--)	(...)
Other	(736)	(33)	(--)	(50)	(...)
Project aid grants	12,100	13,587	21,800	19,250	...

Sources: Treasury Department of Western Samoa; and staff estimates.

1/ Includes government payment of import duties.

2/ Includes estate and gift duties.

3/ Includes Western Samoa Trust Estates Corporation grants.

4/ Excluding expenditure abroad.

Table 10. Western Samoa: Central Government Expenditure, 1981-84

(In millions of tala)

	1981	1982	1983 Provisional	1984	
				Budget	Program
Current expenditure	25.1	31.7	30.6	31.0	33.5
Salaries and wages	12.9	13.3	14.8	15.4	15.9
Interest payments	2.9	3.0	4.4	4.3	4.4
Other <u>1/</u> <u>2/</u>	9.3	15.4	11.4	11.3	13.2
Development expenditure	26.9	27.2	36.3	39.8	41.7
Domestically financed	8.3	8.9	6.9	12.3	13.8
Salaries and wages	(1.0)	(1.7)	(1.5)	(1.9)	(1.9)
Subsidies	(1.3)	(0.9)	(0.8)	(1.1)	(1.1)
Capital transfers	(2.2)	(1.8)	(0.6)	(1.3)	(1.3)
Other <u>1/</u>	(3.8)	(4.5)	(4.0)	(8.0)	(9.5)
Project loan financed	6.5	5.2	7.6	8.2	7.6
Project grant financed	12.1	13.1	21.8	19.3	20.3
Net Treasury advances	0.4	1.4	1.1	--	1.8
To industry	0.2	0.6	1.0	--	...
To statutory bodies	0.5	1.6	0.1	--	...
Recoverable under aid	-0.3	-0.8	--	--	...
Capital accounts	4.3	1.4	--	--	--
Total expenditure	56.8	61.7	68.0	70.8	77.0
Memorandum item:					
Total salaries and wages	13.9	15.0	16.3	17.3	17.8

Sources: Treasury Department of Western Samoa; and staff estimates.

1/ Derived as a residual. Includes mostly purchases of goods and services. Data for 1984 include government payments of import duties.

2/ Includes expenditure commitments covered by an increase in arrears.

Table 11. Western Samoa: Operating and Overall Balance and Bank Financing of Selected Public Enterprises, 1981-84

(In millions of tala)

	1981	1982	1983 Provisional Actuals	1984 Estimates
Operating surplus or deficit (-)	-4.7	-4.0	0.8	3.7
Electric Power Corporation	0.1	-0.2	-0.7	0.4
Western Samoa Trust Estates Corp.	-2.9	-1.4	-0.4	--
Special Projects Development Corp.	-1.2	-0.4	0.7	1.5
Copra Board	-0.3	-1.5	1.1	1.7
Cocoa Board	-0.3	-0.6	0.1	0.1
Overall surplus or deficit (-)	-9.1	-7.5	-2.8	-1.4
Electric Power Corporation	-3.6	-1.7	-4.1	-4.8
Western Samoa Trust Estates Corp.	-3.4	-3.3	0.2	0.6
Special Projects Development Corp.	-1.1	-0.4	-0.1	1.0
Copra Board	-0.9	-1.5	1.1	1.7
Cocoa Board	-0.2	-0.6	0.1	0.1
Bank financing	3.0	3.4	-2.8	0.2
Electric Power Corporation	-0.5	0.1	0.4	0.4
Western Samoa Trust Estates Corp.	2.0	0.8	-1.1	--
Special Projects Development Corp.	0.2	-0.2	-0.1	0.4
Copra Board	1.0	1.8	-1.0	-0.6
Cocoa Board	0.3	0.9	-1.0	--

Sources: Public enterprises, Treasury Department of Western Samoa; and staff estimates.

Table 12. Western Samoa: Monetary Survey,
December 1981-March 1984

	1981 Dec.	1982 Dec.	1983				1984 March
			March	June	Sept.	Dec.	
(In thousands of tala)							
Net foreign assets	-19,109	-25,850	-30,381	-29,707	-27,330	-19,712	-18,435
Assets	4,164	5,023	4,437	7,031	7,504	12,327	10,338
Liabilities	-23,273	-30,873	-34,818	-36,738	-34,834	-32,039	-28,773
Of which: external payments arrears ^{1/}	(-11,462)	(-17,897)	(-18,183)	(-6,824)	(-7,215)	(-4,417)	(-4,006)
Net domestic assets	42,168	57,067	59,572	62,021	59,338	56,095	56,024
Domestic credit	41,931	57,888	59,209	59,405	57,440	53,126	54,998
Credit to the public sector (net) ^{2/}	29,945	43,722	43,931	43,466	40,385	37,188	36,946
Government (net) ^{2/}	(19,896)	(31,470)	(32,011)	(32,405)	(29,183)	(27,061)	(27,682)
Public enterprises	(10,049)	(12,252)	(11,920)	(11,061)	(11,202)	(10,127)	(9,264)
Credit to the private sector	11,986	14,166	15,278	15,939	17,055	15,938	18,052
Other assets (net)	237	-821	363	2,616	1,898	2,969	1,026
Total liquidity	23,059	31,217	29,191	32,314	32,008	36,383	37,589
Money	13,992	16,529	14,422	14,130	13,286	16,491	17,317
Quasi-money	9,067	14,688	14,769	18,184	18,722	19,892	20,272
(Annual percentage changes) ^{3/}							
Net domestic assets	82	65	46	35	24	-3	-12
Credit to the public sector	78	60	36	15	--	-21	-24
Credit to the private sector	4	9	9	7	11	6	10
Total liquidity	26	35	26	24	25	17	29

Source: Data provided by the Western Samoan authorities.

^{1/} Excluding rescheduled amounts.

^{2/} Includes counterentries to government external arrears and rescheduled government arrears which are excluded in the budget definition of bank credit to the Government.

^{3/} In relation to the stock of liquidity outstanding on corresponding date in the previous year.

Table 13. Western Samoa: Indicators of Agricultural and Industrial Production, 1980-84

Volume and Producer Prices of Major Crops								
Copra 1/		Cocoa 1/		Bananas 2/		Taro 3/		
Volume	Price	Volume	Price	Volume	Price	Volume	Price	
1980	23.3	217	.853	1,186	104.2	4.20	83.2	15.70
1981	16.5	185	.778	983	83.3	4.40	166.0	13.00
1982	24.1	280	1.150	1,626	66.0	5.60	133.6	17.40
1983	20.4	322	1.500	1,704	92.5	7.00	93.8	31.00
1984 4/	22.0	475	1.600	1,850	95.0	7.75	140.0	27.00

Volume of Industrial Output							
Beer ('000hl)	Cigarettes (millions)	Timber ('000 bd ft)	Coconut oil (MT)	Copra Meal (MT)	Soap (MT)	Matches (Cartons)	
1980	45.7	141.9	8,984	--	--	898	2,604
1981	42.5	131.3	8,198	--	--	807	1,967
1982	50.6	157.0	8,667	8,679	4,577	923	4,477
1983	43.2	129.6	10,538	12,252	5,574	713	3,251
1984 4/	45.0	145.0	10,900	12,800	6,000	725	3,800

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

1/ Volume purchased by the Marketing Boards in thousands of long tons, and producer prices in tala per ton.

2/ Volume purchased by the Marketing Board in thousands of cartons, and export prices in tala per carton.

3/ Volume purchased by the Marketing Board in thousands of cases, and export prices in tala per case.

4/ Projections.

Table 14. Western Samoa: Energy Statistics, 1980-84

	1980	1981	1982	1983	1984 Estimate
(In kilowatts)					
Electricity <u>1/</u>					
Generating capacity <u>2/</u>	11,399	11,335	14,535	14,855	18,355
Hydro	(1,294)	(1,230)	(4,430)	(4,630)	(8,130)
Diesel	(10,105)	(10,105)	(10,105)	(10,225)	(10,225)
(In millions of kilowatt hours)					
Production	31.68	30.58	30.72	31.99	32.59
Hydro	(6.77)	(7.31)	(12.29)	(12.13)	(20.21)
Diesel	(24.91)	(23.27)	(18.43)	(19.86)	(12.38)
Consumption	31.69	30.59	30.72	31.99	32.59
Sales	(24.28)	(25.20)	(25.26)	(26.24)	(26.72)
Transmission and distribution losses	(7.41)	(5.39)	(5.46)	(5.75)	(5.87)
(In millions of gallons)					
Petroleum imports	7.3	9.1	8.1	7.2	8.0
For electricity generation	(1.6)	(1.5)	(1.3)	(1.3)	(0.8)
For other uses	(5.7)	(7.6)	(6.8)	(5.5)	(7.2)
(In tala per unit at end of period)					
Energy prices					
Petroleum (gallon)	2.32	3.30	3.30	3.87	4.23 <u>3/</u>
Kerosene (gallon)	1.84	2.74	2.74	3.31	3.64 <u>3/</u>
Electricity (kilowatt hour)	0.19	0.23	0.23	0.28	0.31 <u>3/</u>

Source: Data provided by the Western Samoan authorities.

1/ Government-owned facilities; end of period.

2/ Based on factory ratings of the generators; operational capacity is somewhat lower.

3/ End-March.

Table 15. Western Samoa: External Debt and Debt Service Projections, 1983-89

	1983 Actual	1984 Program	Projections				
			1985	1986	1987	1988	1989
(In millions of SDRs)							
External debt outstanding ^{1/}	74.0	73.9	74.8	75.0	75.5	75.4	77.2
Of which: IMF ^{2/}	(5.7)	(8.3)	(8.6)	(7.3)	(5.1)	(2.2)	(0.9)
Arrears	(2.6)	(1.5)	(0.5)	(--)	(--)	(--)	(--)
Rescheduled arrears	(4.1)	(0.9)	(0.4)	(--)	(--)	(--)	(--)
Loan disbursements	8.4	8.3	7.3	5.9	6.4	6.8	7.4
Of which: IMF	(2.8)	(3.4)	(1.7)	(--)	(--)	(--)	(--)
Amortization ^{3/}	-7.6	-8.3	-6.4	-5.7	-5.9	-6.9	-5.6
Of which: IMF	(-0.9)	(-0.8)	(-1.4)	(-1.3)	(-2.2)	(-2.9)	(-1.3)
Interest payments	-1.9	-2.0	-2.1	-1.8	-1.9	-1.8	-1.7
Of which: IMF	(-0.3)	(-0.5)	(-0.7)	(-0.6)	(-0.5)	(-0.3)	(-0.1)
(In percent of GDP)							
External debt outstanding	79.6	69.3	63.8	58.1	53.2	48.3	44.9
Of which: IMF	(6.1)	(7.8)	(7.3)	(5.7)	(3.6)	(1.4)	(0.5)
Arrears	(2.8)	(1.4)	(0.4)	(--)	(--)	(--)	(--)
Rescheduled arrears	(4.4)	(0.8)	(0.3)	(--)	(--)	(--)	(--)
(In percent of exports of goods and services)							
Debt service payments	43.2	39.0	31.0	25.9	25.2	26.3	20.8
Of which: IMF	(5.4)	(4.9)	(7.7)	(6.6)	(8.9)	(9.7)	(4.0)
Arrears, including rescheduled	(21.6)	(16.5)	(5.3)	(1.4)	(--)	(--)	(--)
Interest payments	8.6	7.6	7.7	6.2	6.2	5.4	4.8
Of which: IMF	(1.4)	(1.9)	(2.6)	(2.1)	(1.6)	(0.9)	(0.3)
Memorandum items:	(In millions of SDRs)						
Current account balance	-13.2	-13.2	-12.8	-11.6	-11.8	-12.1	-12.1
Exports of goods	16.6	20.0	20.6	21.8	23.3	24.7	26.2
Imports of goods	-48.4	-50.6	-51.1	-52.3	-54.7	-57.4	-59.7
Net services and private transfers	18.6	17.4	17.7	18.9	19.6	20.6	21.4
Official transfers and capital flows (net)	20.5	14.7	13.3	13.5	14.1	14.8	15.7
Overall balance	7.3	1.5	0.5	1.9	2.3	2.7	3.6
Of which:							
Net use of Fund resources	(1.9)	(2.6)	(0.3)	(-1.3)	(-2.2)	(-2.9)	(-1.3)
Net change in arrears ^{4/}	(-10.5)	(-1.1)	(-1.0)	(-0.5)	(--)	(--)	(--)

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

^{1/} Including public, publicly guaranteed external debt, use of Fund credit and outstanding arrears, including rescheduled amounts; end of period.

^{2/} Use of Fund credit outstanding at end-period; no drawings from the Fund are assumed for the period 1985-89 beyond purchases under the proposed stand-by arrangement.

^{3/} Including repayments of external payments arrears and rescheduled arrears in 1983-86.

^{4/} Including reductions due to rescheduling.

WESTERN SAMOA

Basic Data

Area:	1,097 square miles
Population (1983):	160,000
Population growth rate (1968-83)	0.9 percent annually
GDP per capita (1983 estimate)	SDR 585

	1980	1981	1982	1983
	<u>(Annual percentage change)</u>			
<u>Selected economic indicators</u>				
GDP at constant prices	-6.1	-9.1	-1.0	0.5
Consumer price index	20.5	20.5	18.4	16.5
Government revenue (excluding grants)	19.7	-2.4	16.5	44.2
Government expenditure	5.3	8.2	8.6	10.2
Net domestic assets	38.1	54.9	35.3	-1.7
Total liquidity	1.0	26.4	35.4	16.6
Merchandise exports, f.o.b.	-4.9	-29.6	25.3	39.5
Merchandise imports, c.i.f.	0.6	0.2	-6.0	7.6
Export volume	16.8	-20.8	5.4	15.9
Import volume	-19.2	-12.5	-10.0	9.0
Terms of trade (deterioration -)	-20.9	-22.4	13.9	21.7
Effective exchange rate index (depreciation -) <u>1/</u>				
Nominal	-2.3	-6.0	-2.2	-17.9
Real	15.3	-0.2	0.9	-2.5
	<u>(In percent of GDP)</u>			
<u>Selected financial ratios</u>				
Government revenue	24.2	22.3	21.7	26.4
Tax revenue	19.8	18.6	18.3	22.1
Government expenditure (commitment basis)	51.0	52.1	47.3	44.0
Budget deficit (commitment basis)	-14.3	-16.2	-14.6	-2.2
Domestic bank financing <u>2/</u>	3.2	7.9	5.5	-2.8
Foreign financing	7.0	5.7	3.0	3.9 <u>3/</u>
Total liquidity	17.7	21.2	24.0	23.6
External current account deficit	-23.2	-27.2	-17.1	-14.3
Imports (c.i.f.)	55.5	53.7	46.0	52.1
Oil imports (percent of total imports)	16.8	21.4	15.1	14.9
External debt <u>4/</u>				
Including IMF	51.6	71.1	71.5	79.6
Excluding IMF	47.7	68.1	67.6	73.3

WESTERN SAMOA

Basic Data (Concluded)

	1980	1981	1982	1983
(In percent of exports of goods and services)				
<u>External debt service ratios 5/</u>				
Debt service, including IMF	17.1	34.4	37.7	43.2
Debt service, excluding IMF	13.4	27.5	32.0	37.8
Interest payments, including IMF	8.6	14.3	11.4	8.6
Interest payments, excluding IMF	7.7	12.9	9.6	7.2
(In millions of SDRs)				
<u>External payments data</u>				
Overall balance of payments (deficit -)	-6.2	-7.2	-4.1	7.3
Gross international reserves (end of period)	2.2	2.8	3.2	6.9
In months of imports	(0.6)	(0.7)	(0.9)	(1.7)
External payments arrears (end of period)	1.2	8.8	13.1	2.6

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

1/ Change between fourth quarters; 1984 data refer to March quarter.

2/ Excluding net changes in the counterentries to external government arrears and rescheduled government arrears.

3/ Excludes amounts corresponding to reductions in arrears largely due to rescheduling and investment in Western Samoa.

4/ Including external payments arrears.

5/ 1983 data include cash repayments of arrears.

Western Samoa - Fund Relations
(As of April 30, 1984)

I. Membership Status

- (a) Date of Membership: December 28, 1971
- (b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 6.0 million (previously SDR 4.5 million)
- (b) Total Fund holdings of currency:
SDR 13.268 million (221.1 percent of quota)
Fund credit: SDR 7.268 million (121.1 percent of quota)
Of which:
CFF SDR 3.15 million (52.5 percent)
Credit tranche SDR 4.118 million (68.6 percent)
- (d) Reserve tranche position: None
- (e) Current Operational Budget: Not included
- (f) Lending to the Fund: None

III. Current Stand-by or Extended Arrangement and
Special Facilities

- (a) Current stand-by
 - (i) Duration: June 27, 1983- June 26, 1984
 - (ii) Amount: SDR 3.375
 - (iii) Utilization SDR 3.375
 - (iv) Undrawn balance: None
- (b) Stand-by and extended arrangements in last 10 years:
 - Stand-by 1975 November SDR 0.5 million (25 percent
of quota)
 - Stand-by 1977 January SDR 0.59 million
(29.5 percent)
 - Stand-by 1978 February SDR 0.725 million
(36.25 percent)
 - Stand-by 1979 August SDR 0.75 million
(25 percent)
 - First tranche: 1981 March SDR 0.745 million
(16.56 percent)
- (c) Special facilities in the past two years
CFF: 1983 May, SDR 1.15 million (25 percent)

IV. SDR Department

- (a) Net cumulative allocations: SDR 1.14 million
- (b) Holdings: SDR 199,960 (17.5 percent of net
cumulative allocation)
- (c) Current Designation Plan: Not included

V. Administered Accounts

- (a) Trust Fund Loans
 - (i) Disbursed SDR 1.955 million
 - (ii) Outstanding SDR 1.81 million
- (b) SFF Subsidy Account: None

VI. Overdue Obligations to the Fund None

B. Nonfinancial Relations

VII. Exchange rate arrangement

The exchange rate of tala in terms of New Zealand dollar is determined by reference to a basket of currencies. Exchange rates for other currencies are set on the basis of the rate vis-a-vis the New Zealand dollar and the daily cross rates between these currencies and the New Zealand dollar.

VIII. Last Article IV consultation and stand-by review

The Executive Board reviewed EBS/83/271 (12/21/83) on January 18, 1984, and adopted the following decision (excluding the first paragraph):

The Fund notes with satisfaction that Western Samoa has made substantial progress in eliminating outstanding external payment arrears. The Fund approves retention by Western Samoa of the exchange restriction involved in the maintenance of external payments arrears until June 26, 1984.

The Fund and Western Samoa have completed the review required under paragraph 3 (b) of the stand-by arrangement for Western Samoa (EBS/83/105, Supplement 1) of Western Samoa's adjustment policies, including interest rate and exchange rate policies. The Fund finds that no new understandings are necessary regarding circumstances in which purchases may be made by Western Samoa under the stand-by arrangement.

(It was proposed to hold the next Article IV consultation on the standard 12-month cycle.)

IX. Technical Assistance:

- (a) CBD: Advisory mission on general banking legislation (November 1983). A member of the CBD's panel of outside experts has been assigned Manager of the Central Bank Samoa. A second expert is being recruited to fill the position of Manager of the Research and Statistics Department
- (b) Fiscal: Mission on tax reform (June 1981)
- (c) Legal: A staff visit (November 1983) to help draft tax legislation

X. Resident Representative/Advisor: None since 1980.

World Bank Group Operations in Western Samoa

IDA credit (in millions of U S. dollars as of March 31, 1984)

<u>Credit Number</u>	<u>Date of Approval</u>	<u>Purpose</u>	<u>Commitment</u>	<u>Undisbursed</u>
535	March 1975	Highways	4.4	--
951	November 1979	Agricultural Development	8.0	3.5
1080	November 1980	Agricultural Development	2.0	1.4

Credit No. 951 consists of investment in development of nurseries and importation of improved planting materials; development of roads and fields for cocoa, coffee, coconuts and other crops in land managed by WSTEC and in village lands on Savaii; technical assistance; and studies in preparation for a second development stage. Funds are also being provided by EEC, Japan and Australia. Construction of roads has progressed well but the agricultural development component is more than a year behind schedule due to WSTEC's weak management and financial position. WSTEC's position has since improved with the appointment of new senior officials and the sale of some of its urban land. The planting program was revised in 1983 and disbursements were increased in order to help achieve that program. Shortage of planting materials caused by the drought in 1983 may result in achieving only about 75 percent of the 1984 planting targets.

Credit No. 1080 comprises Part A: assistance to WSTEC for rehabilitation and development of seven of its estates, expansion of processing facilities, and improvement of its management system and technical capabilities; and Part B: assistance to the Department of Agriculture for provision of facilities and expertise to strengthen its research and extension capabilities. Under part A, about 2,500 acres of coconut estates have been fertilized, six miles of major roads have been upgraded and three miles of new fencing have been erected. Hybrid coconut plantings have commenced on about 50 acres. Part B is progressing satisfactorily: consultants have been recruited, the National Extension Center is under construction, and five Field Extension Centers have been identified.

Western Samoa: Summary of the 1984 Program

I. Targets

1. Achievement of real GDP growth of 2 percent.
2. Reduction in the average rate of inflation (measured by the CPI) from 16.5 percent in 1983 to 12 percent in 1984.
3. Achievement of an overall balance of payments surplus of SDR 1.5 million, and the stabilization of the current account deficit (excluding grants) at approximately SDR 13 million, or 12 percent of GDP in 1984, compared with 14 percent in 1983.

II. Major Assumptions

1. Export volume is projected to increase by close to 6 percent and import volume by about 3 percent.
2. The terms of trade are projected to improve by 12 percent, reflecting a 14 percent increase in export prices (in terms of SDRs) and a 2 percent increase in import prices.
3. The velocity of total liquidity with respect to nominal GDP is expected to remain approximately stable in 1984.

III. Principal Elements of the Program

1. Fiscal policy

a. The Central Government budget deficit excluding grants (commitment basis) is projected to decline from 18 percent of GDP in 1983 to 14 percent of GDP in 1984; including grants, the budget deficit is estimated at just under 3 percent of GDP in 1984. Domestic bank financing of the budget deficit will be limited to WS\$1.1 million, or 0.6 percent of GDP.

b. Total government revenue (excluding grants) is projected to increase by 15 percent, with discretionary measures estimated to increase revenue by 1.7 percent of GDP. ^{1/} These measures reflect a major reform of the customs tariff and enterprise incentives legislation, and a broadening of the coverage of the excise tax.

c. Total government expenditure is budgeted to increase by 7 percent, reflecting wage and employment restraint.

d. The overall deficit of public enterprises is estimated to

^{1/} Growth rates of government revenue and expenditure exclude the effects of government payment of import duties beginning in 1984.

decline further in 1984 to the equivalent of 0.8 percent of GDP, reflecting continued favorable international price developments, improved management practices, and close supervision of enterprise activities by the National Economic Council established in late 1983.

2. Monetary policy

a. The expansion in net domestic assets of the banking system will be limited to WS\$2.9 million, or a 5 percent increase over 1983. The net domestic assets of the banking system are subject to ceilings as performance criteria.

b. A subceiling has been set on net bank credit to the public sector, which foresees a further slight reduction in recourse by the public sector to the banking system. This will allow for sufficient credit expansion to the private sector to finance expected resumption in investment and production activity. Credit to the private sector is projected to increase by WS\$2.8 million, or by 18 percent over 1983.

c. Interest rates, which continue to be positive in real terms, will be monitored in light of domestic price movements and developments in interest rates in neighboring countries.

d. The Central Bank of Samoa began operations on May 1, 1984, and will gradually assume the central banking functions of the Treasury, the Monetary Board, and the Bank of Western Samoa.

3. External policies

a. The foreign exchange allocation system, which applies mostly to private sector imports, will be gradually dismantled. This move will be accompanied by tight monetary and flexible exchange rate policies.

b. The Western Samoa tala was devalued in terms of the New Zealand dollar by 4.3 percent and 3.9 percent on May 7 and May 31, 1984, respectively. A flexible exchange rate policy will be pursued with the aim of maintaining international competitiveness of Western Samoa and bringing about a reallocation of resources to the export and import-competing sectors.

c. During 1984, the contracting of new government and government-guaranteed external debt of up to 12 years maturity will be limited to an overall ceiling of US\$5.5 million, with debt of up to 5 years maturity subject to a subceiling of US\$3.0 million. The observance of these limits constitutes performance criteria under the program.

d. External payments arrears of SDR 2.6 million outstanding at the end of 1983 pertain to debt owed to a non-Fund member government. Negotiations will be undertaken to convert during 1984 about SDR 1 million of this amount to investment in Western Samoa by the government concerned.

e. As a performance criterion, the authorities will not intensify or introduce restrictions on payments and transfers for current international transactions.

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Western Samoa--Stand-By Arrangement

Attached hereto is a letter with annexed memorandum dated June 5, 1984 from the Minister of Finance of the Government of Western Samoa requesting a stand-by arrangement for Western Samoa and setting forth the objectives, policies and measures that the authorities of Western Samoa intend to pursue for the period of the stand-by arrangement, and the understanding of Western Samoa with the Fund regarding a review that will be made of progress in realizing the objectives of the program.

To support these objectives, policies and measures, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from July , 1984 to July , 1985, Western Samoa will have the right to make purchases from the Fund in an amount equivalent to SDR 3.375 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without consent of the Fund, exceed the equivalent of: SDR 0.422 million until July 31, 1984; SDR 0.844 million until October 31, 1984; SDR 1.688 million until January 31, 1985; and SDR 2.532 until April 30, 1985.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Western Samoa's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchase under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Western Samoa will not make purchases under this stand-by arrangement, that would increase the Fund's holdings of Western Samoa's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

a. during any period in which the data at the end of the preceding period indicate that the limit on net domestic assets of the banking system, or the limit on net credit from the banking system to the public sector, as specified in paragraph 15 of the memorandum annexed to the attached letter dated June 5, 1984, is not observed; or

b. if the cumulative limit on the contracting or guaranteeing of external debt in the maturity ranges of up to 5 years and up to 12 years, respectively, as specified in paragraph 9 of the memorandum annexed to the attached letter dated June 5, 1984, are not observed; or

c. during any period after November 30, 1984, until the review with the Fund as contemplated in paragraph 4 of the attached letter has been completed and suitable performance criteria have been established in consultation with the Fund, or after such performance criteria have been established, while they are not being observed; or

d. during the entire period of this arrangement while Western Samoa has any overdue financial obligation to the Fund, or if Western Samoa:

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
- (ii) introduces multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies import restrictions for balance of payments reasons, other than in accordance with paragraph 6 of the memorandum annexed to the attached letter dated June 5, 1984.

When Western Samoa is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Western Samoa and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Western Samoa's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility; or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Western Samoa. When notice of a decision of formal ineligibility or a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Western Samoa and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Western Samoa, the Fund agrees to provide them at the time of the purchase.

7. The value date for purchases under this arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Western Samoa will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

8. Western Samoa shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. a. Western Samoa shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Western Samoa's balance of payments and reserve position improves.

b. Any reduction in Western Samoa's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will normally be either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed no later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Western Samoa shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Western Samoa or of representatives of Western Samoa to the Fund. Western Samoa shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Western Samoa in achieving the objectives and policies set forth in the attached letter and the memorandum annexed thereto.

11. In accordance with paragraph 3 of the attached letter, Western Samoa will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Western Samoa has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Western Samoa's balance of payments policies.

Apia
Western Samoa
June 5, 1984

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. Western Samoa adopted an economic and financial program for 1983 which was supported by the International Monetary Fund with a one-year stand-by arrangement in an amount of SDR 3.375 million. The program was implemented successfully, and the full amount that became available under the stand-by arrangement was drawn. While favorable external developments, in particular, the sharp improvement in the terms of trade, were instrumental in achieving the targets, the economic improvement in 1983 was also largely attributable to the strength of fiscal discipline, monetary restraint, and flexible exchange rate management.

2. Attached is a memorandum setting forth the major elements of Western Samoa's program for 1984 which represents the second phase of a medium-term effort to promote growth with a lower rate of inflation and a sustainable balance of payments position. The focus of the program is on the consolidation of the significant gains realized so far in attaining financial stability, together with a correction of certain structural weaknesses in the economy and an improvement in resource allocation. These objectives are to be achieved through continued fiscal and monetary restraint, tax reform, flexible exchange rate management, and the dismantling of the foreign exchange allocation system for imports. In support of this program, and in view of Western Samoa's balance of payments need, we request a one-year stand-by arrangement from the International Monetary Fund in an amount equivalent to SDR 3.375 million.

3. The Government of Western Samoa believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. The Government will consult the Fund, in accordance with the policies of the Fund on such consultation, on the adoption of any measures that may be appropriate.

4. Moreover, the Government will conduct a mid-term review of economic and financial policies with the Fund in order to review progress by Western Samoa in implementing its program, and will reach understandings with the Fund on policies and measures contemplated in

paragraphs 6, 7, 15, and 16 of the attached memorandum for the remaining period. The mid-term review will be held in Apia before October 31, 1984.

Sincerely yours,

Tuilaepa Sailele Malielegaoi
Minister of Finance

Attachment

Memorandum of the Government of Western Samoa on
Certain Aspects of its Economic Policy

I. Background and Policy Response in 1983

1. Western Samoa's limited resource base and its dependence on the production and exports of a few agricultural commodities contributed to the economic and financial imbalances experienced during 1980-82. Real economic growth was negative in each of these years, due mostly to the weak performance of agriculture which is a key sector accounting for about half of GDP and 90 percent of exports. Output of the two major crops, copra and cocoa, continued to stagnate due to the old age of trees, while diversification into new crops was not realized on a large scale. At the same time, there was a sizeable deterioration in the terms of trade, reflecting the decline in international prices of copra and cocoa, and higher prices of oil and other imported goods during this period. Despite a significant drop in the volume of imports, the external current account deficit (excluding official grants) averaged 23 percent of GDP, and large overall balance of payments deficits were recorded. The unsustainable external deficits resulted in a decline in international reserves to critically low levels, and the accumulation of external payments arrears amounting to SDR 13 million by the end of 1982.

2. The adjustment of domestic economic policies, in particular fiscal and exchange rate policies, to the deterioration in the external position was insufficient during 1980-82. Despite substantial inflows of foreign grants, the overall central government deficit averaged 15 percent of GDP, reflecting liberal employment and incomes policies, large transfers to public enterprises, and inadequate measures to broaden the tax base and strengthen collection procedures. The overall deficit of the public enterprises averaged close to 7 percent of GDP during this period, due largely to inefficient management practices and, in certain instances, inappropriate pricing policies. Reflecting mainly the expanded financing needs of the public sector, monetary growth averaged 20 percent annually. Excessive liquidity growth, in conjunction with the decline in import availabilities and higher import prices, contributed to annual average rates of inflation in excess of 20 percent. Real interest rates became increasingly negative, with large differentials emerging between domestic rates and those prevailing abroad, and the real effective exchange rate of the tala showed a significant appreciation beginning in the fourth quarter of 1979.

3. It was against this background that a comprehensive stabilization program was adopted in the first half of 1983. The Government's program was intended to reduce the external current account deficit to 13 percent of GDP in 1983, and realize a small overall balance of payments surplus; reduce external payments arrears by at least SDR 2.9 million by the end of the year, while at the same time undertaking

negotiations for the rescheduling of the remainder; halt the decline in real output; and bring about a moderation in the rate of inflation by the last quarter of 1983. The Central Government budget for 1983 incorporated new revenue measures (to yield additional revenue equivalent to 4 percent of GDP) and expenditure cuts in order to realize a reduction in the deficit to 6 percent of GDP. Measures were also introduced to improve the financial positions of public enterprises and reduce their combined deficit to 1 percent of GDP. Credit policies were tightened considerably, while bank deposit rates were raised by 5-6 percentage points and lending rates by an average of 4 percentage points. Between February 7 and May 13, 1983, the tala was depreciated, in steps, against the New Zealand dollar by 15 percent.

4. The stabilization program for 1983 was effectively implemented and the macroeconomic targets set were mostly achieved. Real GDP growth was resumed; inflation was reduced to 16.5 percent, despite the successive devaluations of the tala and adjustments in taxes and administered prices; the Central Government deficit and the overall deficit of the public enterprises both declined to approximately 2 percent of GDP; the external current account deficit was reduced to 14 percent of GDP, reflecting partly the sharp improvement in the terms of trade, and a large overall balance of payments surplus was recorded. External payments arrears were reduced to SDR 2.6 million by the end of 1983 through repayments, rescheduling, and investment by a creditor in Western Samoa. Monetary expansion was reduced to 17 percent, with a drop in net domestic assets of the banking system reflecting largely the sharp reduction in net bank credit to the public sector.

II. The Adjustment Program for 1984

5. The economic and financial program for 1984 represents the second phase of a medium-term effort to promote growth in the context of a lower rate of inflation and a viable balance of payments position. The program focuses on correcting structural weaknesses, improving resource allocation, and promoting export-led growth, while at the same time consolidating the significant gains achieved in 1983 in attaining financial stability. The major economic targets for 1984 are to realize real GDP growth of 2 percent; to bring about a further slowing down in the rate of inflation to 12 percent on an average basis; to achieve a reduction in the external current account deficit to 12 percent of GDP and realize an overall balance of payments surplus of SDR 1.5 million, or 1 percent of GDP. These objectives and targets are to be achieved through flexible exchange rate management, improvements in the exchange and payments system, further rationalization of the tax system, and continued tight fiscal and monetary policies.

6. A key element of the 1984 program is the gradual dismantling of the existing foreign exchange allocation system which applies mostly to private sector imports. Effective April 1, 1984, the upper limits on the allocation of foreign exchange on certain basic food items and

construction materials has been lifted. The foreign exchange allocation system will be dismantled effective July 1, 1984, with the exception of imports of motor vehicles, certain capital equipment, and a few locally manufactured goods which will require approval (possibly in the form of import licenses) by the Central Bank. In order to ensure the orderly dismantling of the allocation system and avoid the depletion of foreign exchange reserves a number of supporting measures will be taken. All imports exceeding a certain minimum amount in value will be made subject to letters of credit. A stricter documentation of exports will be required in order to ensure repatriation of export receipts. Given the significant turnaround in the balance of payments in 1983 and the continued strong foreign exchange position, the Government feels that the timing of the proposed move is appropriate, and that the envisaged gradual dismantling of the allocation system will contribute to the removal of administrative inefficiencies and inequities in the present payments system without putting undue pressure on the balance of payments. The gradual dismantling of the allocation system will be supported by flexible exchange rate management and tight monetary policies outlined below. The tax reform undertaken in 1984 and the ensuing generally uniform effective rate of protection should also contribute to the efficient use of imports. The dismantling of the foreign exchange allocation system for imports and the accompanying movements in foreign exchange reserves will be examined at the time of the mid-term review; progress made by Western Samoa in this area will be an important element in the successful completion of the review with the Fund.

7. The Government remains committed to a flexible exchange rate policy. Exchange rate actions during the first half of 1983 contributed to restoring the international competitiveness lost since late 1979. However, the gains from the devaluation were mostly eroded in the latter part of the year due to the rapid increase in domestic prices which was partly attributable to such special factors as drought-induced domestic supply shortages and demand pressures generated by the South Pacific games held in Apia in September. Although inflation moderated during the first quarter of 1984, there remained a need to restore competitiveness lost since mid-1983. In view of this, and in order to bring about a change in relative prices aimed at reducing import dependency and promoting export growth, the tala was devalued by 4.3 percent and 3.9 percent in terms of the New Zealand dollar on May 7 and May 31, 1984, respectively. The exchange rate will continue to be monitored closely and further corrective action will be taken if indicated. The benefit from the devaluation will be passed on fully to producers. Exchange rate policy will be a major element of the mid-term review with the Fund.

8. External payments arrears were reduced from SDR 13 million at the end of 1982 to SDR 2.6 million at the end of 1983 through cash payments and rescheduling. Commercial arrears, which constituted over 60 percent of the total stock of arrears outstanding at the end of 1982, were repaid or rescheduled over a three-year period. Repayments on the

amounts rescheduled were accelerated during the early months of 1984 resulting in complete elimination of rescheduled commercial arrears by the end of March 1984. Arrears on government and government guaranteed debt were partly repaid and rescheduled during 1983. Of the amount outstanding at the end of 1983, SDR 0.2 million was rescheduled in February 1984, and negotiations are underway for the conversion of the remaining amount into investment in Western Samoa by the non-Fund member government concerned. New external payments arrears will not be incurred during the program period.

9. Although external assistance has so far been largely concessional, the external debt service burden has increased sharply in recent years and is projected to remain heavy in 1984. Since this reflects largely the repayment of external payments arrears (including payments on rescheduled amounts), the debt service burden can be expected to ease considerably after such repayments have been completed. The Government did not contract or guarantee new short- and medium-term debt during 1983. In view of the existing large external debt service obligations, the contracting or guaranteeing by the Government of external loans with an original maturity of up to five years will not exceed US\$3 million during the program period; the contracting or guaranteeing by the Government of external loans with an original maturity of up to 12 years will not exceed US\$5.5 million over the same period.

10. In order to support the external adjustment effort, and to rationalize domestic production incentives, a major revision in the customs, excise, and enterprise incentive legislation was implemented in February 1984. This tax package, which follows closely the recommendations outlined in a 1981 Fiscal Affairs Department report on tax reform in Western Samoa, provides for a generally uniform level of effective protection, a broader tax base, and a more efficient system for granting tax incentives to new industries. The structure of import duties has been substantially simplified, providing an effective rate of protection for most industries of between 60-80 percent. Excise taxes have been shifted from specific to ad valorem rates and the coverage extended to additional products including wine, soft drinks, and luxury items. Exemptions from income and excise taxes for new private sector enterprises, granted over a limited period of time, will largely replace exemptions from import duties. Beginning in early 1984, government imports are subject to import duties. Although this measure has offsetting effects on government revenue and expenditure, it is important in encouraging efficient resource allocation and appropriate government purchasing decisions. A review of the tax system is being planned to correct certain minor anomalies in the new system without modifying the basic thrust of the reform. Consideration is also being given to the adoption of new legislation to provide special incentives for large-scale foreign investment in Western Samoa.

11. The 1984 Central Government budget projections indicate a consolidation of the very strong improvement in the Government's financial position that occurred in 1983. An overall deficit (commitment basis and including grants) equivalent to 2.9 percent of GDP is

estimated for 1984, with limited recourse to the banking system; excluding grants, the overall deficit is projected to decline to 14 percent of GDP. Total revenue (excluding grants) and total expenditure are estimated to rise by 15 percent and 7 percent, respectively. These growth rates exclude the offsetting impact on revenue and expenditure of government payment of import duties from 1984. The recent tax reform, and increases in fees and charges are expected to yield additional revenue in 1984 equivalent to 4 percent of GDP including receipts from government payment of import duties, or to 1.7 percent of GDP excluding such receipts. Revenue growth in 1984, however, is constrained by the decline in income tax receipts following the exceptional effort to collect income tax arrears in 1983, and by the slower growth in imports. Current expenditure is expected to rise moderately, with wages rising by 10 percent (5 percent cost-of-living and 5 percent regrading) and a continued reduction of government employment through the funding only of essential vacancies. A moderate increase is also projected for development spending, with much of the growth related to the planned expansion of Apia's international airport. Developments in government expenditure during the year will continue to be closely monitored through quarterly reviews of departmental budgets; departments exceeding their targeted expenditure in a particular quarter will be required to scale down their spending for the remainder of the year. In the event that developments during the year suggest a significantly higher budget deficit than presently envisaged, additional measures will be taken to raise revenue and/or curtail expenditure.

12. In 1984, the overall deficit of the public enterprises is estimated to decline substantially to the equivalent of 0.8 percent of GDP. The major contributor to this improved overall position will be the Copra Board which continues to benefit from high world market prices for its products. Moderate improvements are also indicated in the financial positions of the Western Samoa Trust Estates Corporation (WSTEC) and the Special Projects Development Corporation (SPDC). WSTEC should benefit in 1984 from further sales of land and better management practices. Payments for ongoing projects and commencement of construction work on Apia's international airport are expected to strengthen the financial position of the SPDC. The Electric Power Corporation (EPC) will continue to follow a flexible pricing policy in 1984 and seek to avoid operating losses. There will be further large scale investment by the EPC this year in increasing hydroelectric capacity. With a view to further improving public enterprise finances and monitoring more closely the operations of public enterprises, a National Economic Council (NEC) was established in late 1983. The Council, which includes the Ministers of Finance, Agriculture, and Economic Affairs, and is chaired by the Prime Minister, meets quarterly to review the performance of public enterprises. Major public enterprises are required to report on their activities to the NEC on a monthly basis. Through the supervision of the NEC and timely adoption of corrective measures, it is the Government's intention to achieve a better coordination among various public enterprise activities and to improve the efficiency of their operations. The Government is also continuing its efforts to turn over,

where it might be appropriate, public sector activities to the private sector.

13. A cost-of-living adjustment for government employees has been provided for in the 1984 budget for the first time in two years. The 5 percent adjustment only partially compensates for the increase in the domestic component of the CPI in 1983. The Government will take steps to ensure that wage increases in the public enterprises and the private sector during 1984 do not exceed the increase budgeted for government employees. The importance of wage restraint in the adjustment effort is fully recognized and will be taken into account in the preparation of the 1985 budget.

14. In support of the fiscal and incomes policies described above, monetary and credit policies are aimed at limiting the increase in net domestic assets of the banking system to 5 percent in 1984. Given the balance of payments objectives for 1984, this increase would be consistent with containing the growth of total liquidity at 15 percent in 1984 compared with 17 percent in 1983. In view of the reduced recourse by the public sector to net bank credit, the envisaged increase in net domestic assets would allow for sufficient expansion of credit to the private sector to finance the expected resumption in investment and production activity. As in the past year, credit policy will be directed toward channeling increased resources to the private sector. However, credit policy will be sufficiently tight to ensure that credit expansion does not put undue pressure on the balance of payments in view of the additional import demand that is likely to be generated with the dismantling of the allocation system.

15. Taking into account the projected credit needs of the public and private sectors and the relevant seasonal patterns of credit demand, ceilings for end-June, end-September, and end-December 1984 have been set on the outstanding levels of net domestic assets of the banking system, and on net bank credit to the public sector as shown in the attached table. Appropriate credit ceilings will be established for end-March 1985 during the mid-term review of the program with the Fund.

16. As part of the Government's stabilization program, interest rates were adjusted in February 1983 with a view to establishing positive real rates of interest and eliminating differentials with interest rates abroad. Time deposit rates currently range from 14-17 percent per annum on deposits with maturities of 3 months to 24 months, while lending rates range from 14-20 percent on different categories of commercial bank loans. The adjustment in interest rates has resulted in a shift from cash and demand deposits into time deposits, helped moderate the demand for credit, and provided incentives for the repatriation of funds held abroad. Interest rates are expected to become increasingly positive in real terms in view of the anticipated further slowing down in inflation. The Government remains committed to a flexible interest rate policy and will continue to monitor interest rates in light of domestic price movements and developments in interest

rates in neighboring countries. Interest rate policy will be reassessed at the time of the mid-term review with the Fund.

17. The legislation for the establishment of the Central Bank was approved by the Parliament in early 1984. The Central Bank of Samoa began operations on May 1, 1984, and will gradually take over the central banking functions presently performed by the Treasury, the Monetary Board, and the Bank of Western Samoa. The establishment of an independent Central Bank is expected to enhance the effectiveness of monetary policy in Western Samoa.

18. The adjustment policies adopted during 1983-84 need to be placed in the context of a medium-term program aimed at promoting growth. Agriculture, including forestry and fisheries, will continue to be the most important sector of the economy. In recognition of this, a major agricultural sector study is being undertaken in Western Samoa by the Asian Development Bank during 1984. The objective of the study is to examine the existing problems in the agricultural sector, identify potential areas of development, and determine strategies for promotion of economic activity in these areas. The study covers crops, livestock, fisheries, forestry, agroindustries and related activities.

19. Under the existing programs to promote growth of agricultural output, cocoa planting is being supported by a suspensory loan scheme under which 60 percent of the loan granted to the grower is turned into a grant provided a certain level of production is attained within 5-6 years. It is planned to expand this scheme to cover coconut production and to introduce intercropping with cocoa. To increase copra production, improvements are also being made in the collection, transportation, and the processing of nuts. Larger scale, commercial production of tropical fruits and vegetables continue to be promoted with a view to increasing exports of these items.

20. There has been a substantial expansion of the industrial base in recent years with the establishment of the brewery and cigarette factories, the copra crushing mill, the veneer mill, and the fruit processing plant. Several joint ventures with foreign firms are expected to be established in the near future; these include plywood production, processing and packaging of dairy, meat, and fish products, processing of passion fruit, and production of activated carbon from coconut shells. Western Samoa has also adopted a comprehensive energy program under which two hydroplants have become operational and another is scheduled to be completed in late 1984, which will raise the share of energy generated from this source to about 70 percent. A project for power generation from wood waste is underway and is expected to be completed in 1987. This new source of energy will supplement hydro-electric power stations in the dry season and virtually eliminate the need for diesel fuel imports for electricity generation by 1988. Energy prices, which were adjusted by 17-21 percent in June 1983 to reflect increased costs of imported petroleum products, will continue to be adjusted to reflect changes in costs.

21. The growth of the tourism industry has been hampered by the inadequacy of the existing airport. A project is underway for the extension of the airport in two stages over the period 1984-88. The first stage involves runway expansion while the second stage will cover the upgrading of airport facilities. The financing of the project, which is estimated at WS\$19 million, will come largely from external sources. The new airport will allow for a larger volume of tourist traffic, as well as providing air freight capacity needed to promote exports of perishable products (fresh fish, fruits, etc.). The construction of a major new hotel is being undertaken in conjunction with the extension of the airport.

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Western Samoa: Limits on Selected Financial Aggregates

	As of Dec. 28, 1983	June 27, 1984	On Sept. 26, 1984	Dec. 26, 1984
<u>(Outstanding amounts in thousands of tala)</u>				
Net domestic assets of banking system <u>1/</u>	56,095	59,700	59,100	59,000
Credit to public sector <u>1/</u>	37,188	40,500	38,900	36,950

Contracting of external public debt in 1984 1/
(In millions of U.S. dollars)

With maturity of:

Up to and including 12 years	5.5
Up to and including 5 years	3.0

1/ As defined in the Memorandum of Understanding.