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CONFIDENTIAL

December 21, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Western Samoa - Staff Report for the 1983 Article IV Consultation  
and Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Western Samoa and a review under the stand-by arrangement. Draft decisions appear on page 24.

This subject will be brought to the agenda of the Executive Board for discussion on a date to be announced.

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

Att: (1)

INTERNATIONAL MONETARY FUND

WESTERN SAMOA

Staff Report for the 1983 Article IV Consultation  
and Review Under the Stand-by Arrangement

Prepared by the Staff Representatives for the 1983  
Article IV Consultation with Western Samoa

Approved by Tun Thin and Manuel Guitian

December 20, 1983

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## I. Introduction

The 1983 Article IV consultation discussions and review under the stand-by arrangement were held in Apia during October 20-November 1, 1983. The Western Samoan representatives included Mr. Alistair Hutchison, Financial Secretary; Mr. Kolone Vaai, Deputy Financial Secretary; and officials from the Departments of Treasury, Economic Development, Customs, Inland Revenue, Agriculture, and Statistics, and the public enterprises. Meetings were also held with the Prime Minister and Minister of Finance, Mr. Tofilau Eti, and Minister of Economic Development and Associate Minister of Finance, Mr. Tuilaepa Sailele. The staff team consisted of Mr. K. Al-Eyd (ASD, Head), Mr. W. Nahr (BUR), Ms. H. Bierman (FAD), Mrs. E. Gorgen (ASD), and Mrs. J. Ranasinghe (ASD).

Western Samoa continues to avail itself of the transitional arrangements of Article XIV. On June 27, 1983 the Executive Board approved a one-year stand-by arrangement for Western Samoa in the amount of SDR 3.375 million or 75 percent of quota (EBS/83/105, 5/25/83), and a purchase equivalent to SDR 1.15 million under the compensatory financing facility (EBS/83/106, 5/25/83). So far, two purchases have been effected under the stand-by arrangement in the amount of SDR 0.84 million each in June and August 1983. The phasing of the remaining purchases is shown in Table 1. As of October 31, 1983, outstanding use of Fund credit was equivalent to 132 percent of quota, or 58 percent of quota if purchases under the CFF are excluded.

Western Samoa has consented to the increase in its quota under the Eighth General Review of Quotas. A summary of Western Samoa's relations with the Fund is provided in Appendix II, and with the World Bank Group in Appendix III.

## II. Background

During 1980-82, Western Samoa experienced negative real economic growth combined with high rates of inflation and sizable external imbalances. Output was adversely affected by the weak performance of the agricultural sector which accounts for about half of GDP. The terms of trade deteriorated as the prices of major agricultural exports declined, while import prices rose. Despite a significant drop in the volume of imports, the external current account deficit averaged 23 percent of GDP annually, and external payments arrears accumulated. By the end of 1982, arrears had reached SDR 13 million, exceeding the value of exports for that year (Table 2).

The adjustment of domestic economic policies, in particular fiscal and exchange rate policies, to the deterioration in the external position was insufficient. Total government expenditure continued to increase, reflecting the sharp rise in the wage and salary bill as well as the

Table 1. Western Samoa: Schedule of Fund Purchases and Repurchases, 1983-84

(In thousands of SDRs)

	1983				1984
	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.	Jan.- Mar.
<b>Purchases</b>					
Stand-by arrangement	--	843.75	843.75	--	1,687.50 <sup>1/</sup>
CFF	--	1,150.00	--	--	--
<b>Repurchases</b>					
Credit tranches	17.43	90.63	90.63	90.63	90.63
CFF	156.25	156.25	156.25	156.25	--
Oil facility	9.80	--	--	--	--
Net purchases	-183.48	1,746.87	596.87	-246.88	1,596.87
(In percent of quota)					
Use of Fund credit (end of period)	79.3	118.2	131.4	125.9	161.4 <sup>2/</sup>
Credit tranches	24.6	41.4	58.1	56.1	91.6
CFF	54.7	76.8	73.3	69.8	69.8

Source: IMF, Treasurer's Department.

<sup>1/</sup> Composed of two equal purchases; the first to be based on observance of the September performance criteria and satisfactory completion of the present mid-term review of the program with the Fund, and the second to be based on observance of the December performance criteria.

<sup>2/</sup> Equivalent to 121.1 percent of proposed quota.

Table 2. Western Samoa: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982	1983		1984
				Program	Estimate	Projection
(Annual percentage changes)						
Output and prices						
GDP at constant prices	-6.1	-9.1	-1.0	--	0.5	3.0
Consumer prices	20.5	20.5	18.4	17.0	16.0	9.0
External sector						
Exports, f.o.b. (in SDRs)	13.5	9.5	11.9	12.9	15.9	17.9
Imports, c.i.f. (in SDRs)	47.8	47.9	45.0	42.0	45.7	46.3
Non-oil imports, c.i.f. (in SDRs)	41.1	39.6	39.9	34.3	40.7	...
Export volume	16.8	-20.8	5.4	15.0	12.9	5.1
Import volume	-19.2	-12.5	-10.0	-8.0	2.5	3.2
Terms of trade (deterioration -)	-20.9	-22.3	13.9	2.9	19.6	9.1
Effective exchange rate (depreciation -) 1/						
Nominal	-1.0	-5.3	-2.4	...	-18.8	...
Real	6.7	1.5	5.1	...	-7.0	...
Government budget						
Total revenue (excluding grants)	19.7	-2.4	16.5	24.3	31.1	17.5
Total expenditure	5.3	8.2	10.9	-6.4	-0.3	8.8
Money and credit						
Net domestic assets	38.1	54.9	35.3	10.9	-2.9 2/	...
Public sector (net)	(48.3)	(89.5)	(46.0)	(7.3)	(-15.3) 2/	...
Private sector	(5.6)	(5.8)	(18.2)	(18.6)	(20.4) 2/	...
Total liquidity	1.0	26.4	35.4	24.9	2.5 2/	...
Velocity (GDP/M2)	5.6	4.7	4.2	3.5	...	...
Interest rate (annual rate on one-year time deposit)	8	11	11	17	17	...
(In percent of GDP)						
Government budget deficit						
Excluding grants	-26.8	-29.8	-26.6	-16.5	-16.3	14.0
Including grants	-14.3	-16.2	-15.7	-5.5	-3.1	-2.4
Domestic bank financing	3.2	9.7	8.9	1.3	-0.9	-1.4
Foreign financing	7.0	5.7	3.5	3.1	2.6	3.8
External current account deficit (excluding grants)	-23.2	-27.2	-17.1	-13.2	-13.6	-10.9
External debt 3/	51.6	71.1	71.5	75.0	74.8	66.0
(In percent of exports of goods and services)						
Debt service ratio 4/						
Excluding IMF	13.9	19.7	19.6	24.0	37.4	39.0
Including IMF, and repayment of arrears	16.7	27.2	25.8	46.0	43.0	45.0
Interest payments (including IMF)	8.8	10.9	9.8	7.0	7.0	8.0
(In millions of SDRs)						
Overall balance of payments deficit (-)	-6.2	-7.2	-4.1	1.2	1.9	3.4
Gross international reserves	2.2	2.8	3.2	3.4	4.1	4.1
(In months of imports)	(0.6)	(0.7)	(0.9)	(1.0)	(1.1)	(1.1)
External payments arrears	1.2	8.8	13.0	10.1	6.8	4.5

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

1/ Change in the trade-weighted index between fourth quarters, except for 1983 which is the change between third quarters.

2/ As of end-September; the figures for 1983 are net of valuation adjustments arising from exchange rate changes during the year.

3/ Including IMF, external payments arrears, and rescheduled arrears.

4/ The ratios are based on actual debt service payments and do not reflect arrears on interest payments and principal repayments.

growth of extrabudgetary expenditures, due mainly to the poor financial performance of public enterprises. At the same time, the growth of government revenue was adversely affected by the shortage of foreign exchange which limited dutiable imports, and by the inadequacy of measures to broaden the tax base and strengthen collection procedures. Although foreign grants played a significant role in the funding of the budget--averaging close to 25 percent of total expenditure over the period--the government deficit, nevertheless, averaged 15 percent of GDP during 1980-82. Meanwhile, the consolidated deficit of public enterprises averaged close to 7 percent of GDP annually, reflecting poor management practices and, in certain instances, inadequate pricing policies.

Largely on account of the public sector's financing needs, domestic credit grew at an annual average rate of 40 percent during 1980-82 and total liquidity increased at an annual average rate of over 20 percent. Rapid monetary expansion, in conjunction with the reduced availability of imported goods, contributed to a high rate of inflation, averaging close to 20 percent annually since 1980. Interest rates became increasingly negative in real terms and large differentials emerged between domestic rates and those prevailing in neighboring countries.

The de facto pegging of the tala to the New Zealand dollar resulted in a progressive nominal depreciation of the tala vis-a-vis the currencies of other major trading partners in recent years. However, reflecting the differential between the domestic inflation rate and inflation rates prevailing in trading partners, an index of the real effective exchange rate of the tala showed a significant appreciation during 1979-82.

### III. Performance Under the 1983 Stand-By Arrangement

The major objective of the Government's stabilization program for 1983 supported by the current stand-by arrangement was to bring about an improvement in the balance of payments through fiscal discipline, cautious monetary policy, and flexible exchange rate management. <sup>1/</sup> Since the program focused on external adjustment, including a substantial depreciation of the tala, progress in reducing inflation was expected to be modest, and real economic growth was not expected to occur in 1983. The program was intended to reduce the external current account deficit to 13 percent of GDP; realize an overall balance of payments surplus of SDR 1.2 million; bring about a net reduction of SDR 2.9 million in external payments arrears; and achieve a moderation in the rate of inflation by the final quarter of 1983. <sup>2/</sup> Toward

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<sup>1/</sup> For a detailed description of the 1983 program, see Western Samoa: Request for Stand-By Arrangement (EBS/83/105, 5/25/83).

<sup>2/</sup> Some ratios to GDP as well as some growth rates may differ from those presented in EBS/83/105 due to the revisions of the 1982 data and the GDP series.

these ends, the Government presented a budget for 1983 which envisaged a sharp reduction in the deficit to 5.5 percent of GDP, from 15.7 percent in the previous year, through tight expenditure controls and discretionary revenue measures. The Government also introduced measures to strengthen the financial position of public enterprises and implemented flexible exchange rate and interest rate policies. The adjustment effort was to be supported by a tight credit program, with the growth in net domestic assets of the banking system limited to 11 percent, and the increase in net credit to the public sector to 7 percent, while monetary expansion was to be contained at 25 percent.<sup>1/</sup> So far, the program has been effectively implemented and the targets set for 1983 have been achieved. In addition, considerable progress has been made during the year in the compilation of statistical data, including in particular, monetary and national income data. The timely reporting of essential data to policymakers has facilitated the monitoring of the policies envisaged in the program.

#### 1. Fiscal developments

Fiscal policy in 1983 was aimed at achieving a substantial increase in government revenues, as well as a cutback in expenditures. Revenues were programmed to increase by 24 percent (1.2 percent of GDP), largely on account of discretionary tax increases yielding WSS5.9 million (about 4 percent of GDP), including a change in the basis of assessment of customs duties, a doubling in the primage duty, and increases in excise taxes, and in government fees and charges. Grant receipts, which have traditionally been an important revenue source, were expected to increase by 8.4 percent. Total expenditures were programmed to fall by 11 percent of GDP to 41.4 percent of GDP in 1983. This was to be achieved mainly by limiting public sector employment and salary increases, and cutting back domestically-financed development expenditures by 21 percent through the postponement of less urgent projects and the transfer of others to the private sector, as well as through increased foreign participation in the financing of the domestic costs. The programmed reduction in the Central Government's deficit was expected to result in a reduction in the domestic bank financing of the budget from 8.9 percent of GDP in 1982 to 1.3 percent of GDP in 1983.

Except for the transfer of some minor public sector operations to the private sector, all the budgetary measures envisaged for 1983 were implemented. The measures adopted were accompanied by improvements in fiscal administration with the assistance of three Australian experts attached to the Treasury; work in this area will continue in 1984. The Central Government's deficit for the year is presently estimated at WSS4.8 million (3.1 percent of GDP), well below the targeted deficit of WSS7.8 million (Table 3 and Chart 1). However, this better than anticipated performance of the Central Government is due

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<sup>1/</sup> The programmed growth in net domestic assets and in net credit to the public sector correspond to 20 percent and 10 percent, respectively, of the stock of liquidity outstanding at the end of 1982.



Table 3. Western Samoa: Financial Operations of the Central Government, 1980-84

(In millions of tala)

	1980	1981	1982	1983		1984
				Program	Estimate	Budget
Total revenue and grants	37.8	39.2	42.6	50.7	58.0	64.0
Total revenue	24.9	24.3	28.3	35.2	37.1	43.6
External grants	12.9	14.9	14.3	15.5	20.8	20.4
Total expenditure, commitment basis	52.5	56.8	63.0	58.5	62.8	68.3
Current expenditure <u>1/</u>	21.1	25.1	31.7	28.9	30.2	30.9
Development expenditure	26.5	26.9	27.2	28.4	31.8	36.6
Of which:						
Domestically financed	(7.6)	(8.3)	(8.9)	(7.0)	(7.2)	(8.3)
Net Treasury advances	4.0	0.4	2.7	2.5	0.8	0.8
Capital accounts <u>2/</u>	0.9	4.3	1.4	1.2	--	--
Overall deficit (-), commitment basis	-14.7	-17.6	-20.4	-7.8	-4.8	-4.3
Net change in arrears (increase +) <u>3/</u>	0.1	1.7	4.3	1.3	1.3	-2.4
Overall deficit, cash basis	-14.6	-15.9	-16.1	-6.5	-3.5	-6.7
External financing (net)	7.2	6.2	4.5	3.8	4.0	6.7
Domestic financing (net)	7.4	9.7	11.6	2.7	-0.5	--
Banking system <u>3/</u>	(3.3)	(8.9)	(7.4)	(0.5)	(-2.7)	(--)
Other	(4.1)	(0.8)	(4.2)	(2.2)	(2.2)	(--)
(Annual percentage changes)						
Total revenue and grants	-1.8	3.7	8.7	16.8	36.2	10.3
Total expenditure, commitment basis	7.8	8.2	10.9	-6.4	-0.3	8.8
(Percent of GDP)						
Overall deficit, cash basis	-14.2	-14.6	-12.3	-4.6	-2.2	-3.8
Overall deficit, commitment basis	-14.3	-16.2	-15.7	-5.5	-3.1	-2.4
Of which: Change in arrears plus bank financing	3.2	9.7	8.9	1.3	-0.9	-1.4

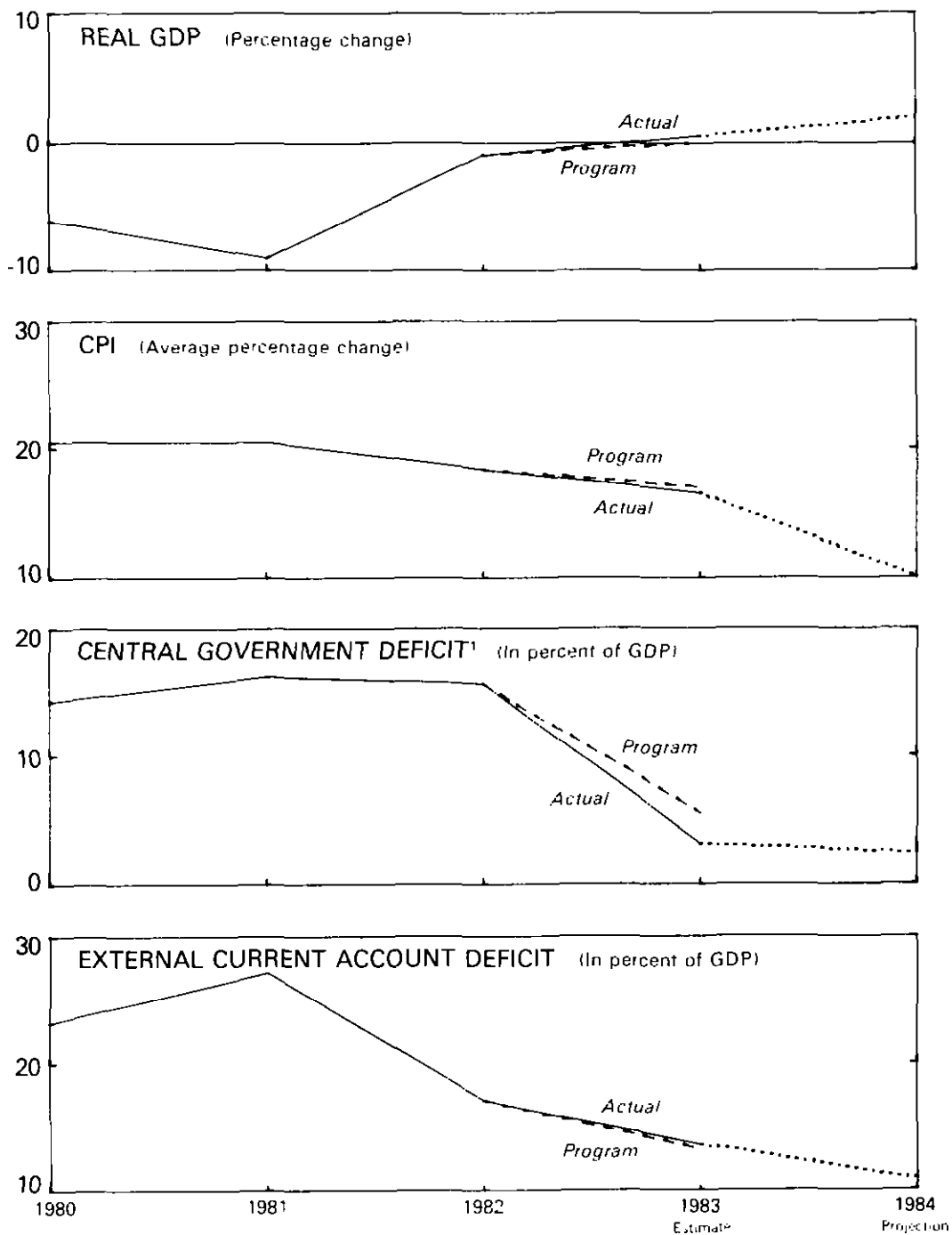
Source: Treasury Department of Western Samoa.

1/ Including expenditure commitments covered by the net change in arrears.

2/ Acquisition of shares by the Government.

3/ The program definition of banking system financing includes net change in arrears which are excluded here.

CHART 1  
WESTERN SAMOA  
DEVELOPMENTS IN MAJOR PROGRAM INDICATORS,  
1980-84



Source: Data provided by the Western Samoan authorities, and staff estimates.  
<sup>1</sup>On commitment basis and including grants.



mainly to receipts of unprogrammed grants of WSS\$5.3 million. Also, there was an above-program increase in revenues of WSS\$1.9 million, which was partly offset by an overrun of WSS\$4.3 million in total expenditure. Although excise tax receipts dropped with the decline in domestic demand for beer and the temporary curtailment of domestic cigarette production due to lack of imported raw materials, total revenue is projected to rise by 31 percent compared with the program target of 24 percent. This improvement reflects largely the success in collecting income tax arrears. In contrast, total expenditure will fall only marginally against a programmed decline of 7 percent. Current expenditure is expected to be approximately WSS\$1 million above projections, owing to a revision in the original budget calculations of the cost of regrading teachers' pay scales. An increase of WSS\$3.5 million in development expenditure over the targeted amount reflects the larger than programmed inflow of project-related grants.

The stabilization program was also designed to improve the overall financial position of the nonfinancial public enterprises and reduce their demand on the resources of both the Central Government and the domestic banking system. The adjustment required of the nonfinancial public enterprises appears to have been much larger than previously thought, as their combined deficit for 1982 is now estimated at 5 percent of GDP rather than the earlier figure of 3 percent. Nonetheless, it appears that the overall deficit of these enterprises in 1983 will be close to the targeted 1 percent of GDP, with an operating surplus of close to WSS\$2 million following an average annual deficit of over WSS\$4 million in the preceeding two years (Table 4). This turnaround reflects an improvement in management practices, the adoption of expenditure control measures, more realistic pricing policies (e.g., the 22 percent increase in electricity tariffs), sales of fixed assets, and favorable external factors. The Copra and Cocoa Marketing Boards' operations have benefited from higher than anticipated export prices in 1983, while the operations of Western Samoa Trust Estates Corporation (WSTEC) have resulted in a small overall surplus--following a substantial deficit--largely on account of sales of land holdings unsuited for agricultural development. The Special Projects Development Corporation (SPDC) is expected to record a small overall surplus in 1983 as a result of management reorganization and fuller utilization of capital and labor resources. In contrast, notwithstanding significant receipts of capital grants, the Electric Power Corporation (EPC) is expected to record an increase in its overall deficit due largely to a strong growth in capital expenditure. The performance of public enterprises in 1983 is expected to reduce their net indebtedness to the domestic banking system by 0.3 percent of GDP, in contrast to 1982 when their net use of bank resources was equivalent to 1.7 percent of GDP.

## 2. Monetary developments

The improvement in public sector finances resulted in a 15 percent reduction in net domestic bank credit to the public sector during the first three quarters of 1983, compared with a programmed increase

Table 4. Western Samoa: Summary Accounts of Nonfinancial Public Enterprises, 1981-83

(In millions of tala)

	1981	1982	1983 Estimate
Selected public enterprises <u>1/</u>			
Operating revenue	27.1	29.1	36.6
Operating expenditure	31.8	33.1	35.0
Operating surplus/deficit (-)	<u>-4.7</u>	<u>-4.0</u>	<u>1.7</u>
Other current expenditure, net	1.3	0.7	1.5
Capital revenue	2.2	2.1	10.0
Capital expenditure	5.3	4.9	11.4
Overall deficit	<u>-9.1</u>	<u>-7.5</u>	<u>-1.3</u>
Financing	<u>9.1</u>	<u>7.5</u>	<u>1.3</u>
Domestic bank financing	<u>3.7</u>	<u>3.2</u>	<u>-1.0</u>
Domestic nonbank financing (net)	5.4	4.3	2.3
Of which: Central Government <u>2/</u>	(4.2)	(3.4)	(4.2)
Total nonfinancial public enterprises and statutory bodies			
Total deficit	<u>-9.3</u>	<u>-6.5</u>	<u>-1.7</u>
Financing	<u>9.3</u>	<u>6.5</u>	<u>1.7</u>
Domestic bank financing	<u>3.9</u>	<u>2.2</u>	<u>-0.6</u>
Domestic nonbank financing	5.4	4.3	2.3
(In percent of GDP)			
Total deficit	<u>-8.5</u>	<u>-5.0</u>	<u>-1.1</u>
Financing	<u>8.5</u>	<u>5.0</u>	<u>1.1</u>
Domestic bank financing	<u>3.6</u>	<u>1.7</u>	<u>-0.4</u>
Domestic nonbank financing	5.0	3.3	1.5

Sources: Public enterprises and the Treasury Department.

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

2/ Includes Treasury lending through the advance and capital accounts.

of 7 percent. The growth in credit to the private sector, on the other hand, was stronger than anticipated, largely on account of increased trade financing. Private credit grew by 20 percent during the first three quarters of 1983, exceeding the program target of 14 percent through September. However, due to the significant improvement in the public sector's financial position, net domestic assets of the banking system declined by about 3 percent through September 1983, compared with a programmed increase of close to 8 percent during this period (Table 5). <sup>1/</sup>

Given the contraction in domestic credit, the growth in liquidity was modest at under 3 percent during the first three quarters of 1983, against a program target of 12 percent growth over this period. This disparity between the projected and actual growth of liquidity in the face of a GDP growth rate close to projection may be explained by the above-program level of imports, which were financed, in part, by a drawdown of private sector deposits with the banking system. Data through September 1983 indicate that quantitative performance criteria on net domestic assets and net credit to public sector have so far been met and, based on the above projections, are likely to be met through the remainder of the program period (Table 6).

As part of the Government's stabilization program, effective February 7, 1983, bank deposit rates were raised by 5-6 percentage points, and bank lending rates, by an average of 4 percentage points. 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. Interest rates have thus become mostly positive in real terms, and the large differentials between domestic rates and those prevailing in neighboring countries have been eliminated. The adjustment in interest rates has so far not resulted in a significant mobilization of domestic resources or the repatriation of funds held abroad; there has, however, been a shift into deposits with longer maturities.

### 3. External developments

Under the stabilization program for 1983, the current account deficit of the balance of payments was projected to decline to 13 percent of GDP, largely through a sharp improvement in the trade account resulting from a stronger growth in exports, as well as a continued decline in imports. The projected fall in official transfers was expected to be offset by an increase in net capital inflows. An overall balance of payments surplus of SDR 1.2 million was envisaged for 1983,

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<sup>1/</sup> In addition to commercial banks, nonbank financial institutions, in particular the Development Bank of Western Samoa and the National Provident Fund, continued to play a significant role in 1983 in meeting the medium- and long-term credit needs of the economy.

Table 5. Western Samoa: Monetary Survey, 1980-83

(In thousands of tala; end of period)

	1980	1981	1982	1983 1/		
				September Program	Actual	December Program
Net foreign assets	-8,981	-19,109	-25,850	-26,400	-23,389	-24,300
Net domestic assets	27,224	42,168	57,067	61,500	55,397	63,300
Credit to the public sector (net)	15,799	29,945	43,722	46,800	37,045	46,900
Credit to the private sector	11,333	11,986	14,166	16,200	17,055	16,800
Other assets (net)	92	237	-821	-1,500	1,297	-400
Total liquidity	18,243	23,059	31,217	35,100	32,008	39,000
(Annual percentage changes)						
Net domestic assets	38.1	54.9	35.3	7.8	-2.9	10.9
Credit to the public sector (net)	48.3	89.5	46.0	7.0	-15.3	7.3
Credit to the private sector	5.6	5.8	18.2	14.4	20.4	18.6
Total liquidity	1.0	26.4	35.4	12.4	2.5	24.9

Source: Data provided by the Western Samoan authorities.

1/ The figures for 1983 are net of valuation adjustments arising from exchange rate changes during the year and, for this reason, are not strictly comparable with the figures for earlier years. In accordance with the program definition, the contra-entry for arrears on government and government-guaranteed debt is included in net credit to the public sector. The contra-entry for private arrears is included in other assets (net).

Table 6. Western Samoa: Quantitative Performance  
Criteria and Actual Developments Under the 1983  
Stand-By Arrangement

	1983		
	June 29	Sept. 30	Dec. 28
(In thousands of tala)			
Net domestic assets <u>1/</u>			
Ceiling	64,050	61,500	63,500
Actual	58,040	55,397	
Net credit to the public sector <u>2/</u>			
Ceiling	47,800	46,800	46,900
Actual	40,382	37,045	
(In millions of U.S. dollars)			
Contracting of public and publicly guaranteed external debt			
Up to and including 12 years			
Ceiling	4.0	4.0	4.0
Actual	--	--	--
Of which:			
Up to and including 5 years			
Ceiling	2.5	2.5	2.5
Actual	--	--	--
(In millions of SDRs)			
External payments arrears			
Net repayments			
Minimum required		1.60	2.90
Actual <u>3/</u>		2.00	

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

1/ Defined as total liquidity less net foreign assets.

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

3/ Including repayments on rescheduled arrears.



which, together with the net use of Fund resources, would allow for a net reduction of SDR 2.9 million in external payments arrears.

The latest estimates for 1983 indicate that most external sector targets are also likely to be achieved. Export earnings were favorably influenced by the stronger than anticipated recovery in world market prices for copra, coconut oil, and cocoa, and by a significant increase in cocoa production. Higher export earnings have allowed for a larger increase in imports, which are now projected to rise slightly in 1983, instead of declining by 7 percent as earlier envisaged. The trade deficit, however, is expected to be roughly on target at SDR 29.8 million. Net inflows under services and private transfers will also approximate initial estimates. The current account deficit for 1983 is expected to reach SDR 12.9 million (13.6 percent of GDP) against a program target of SDR 12.1 million (13.2 percent of GDP). The smaller than anticipated net inflows of nonmonetary capital will be more than offset by larger disbursements of official grants, so that an overall balance of payments surplus of SDR 1.9 million will be recorded, compared with a program target of SDR 1.2 million (Table 7).

Substantial progress has been made in reducing external payments arrears which stood at WS\$17.9 million at end-1982, of which WS\$6.2 million represented arrears on government and government-guaranteed debt. Net repayments totaled WS\$3.4 million through September, and are expected to reach the target for the year as a whole. Furthermore, all remaining commercial arrears have been rescheduled to be repaid over the 1984-86 period, while negotiations are well underway for the rescheduling of arrears on government and government-guaranteed debt. Except for a small amount, all arrears on government and government-guaranteed debt pertain to a country that is not a member of the Fund. So far in 1983, no new public and publicly-guaranteed external debt with maturity ranges of up to 5 years and up to 12 years has been contracted.

With the objective of promoting external adjustment, the authorities implemented a number of exchange rate actions which resulted in a depreciation of the tala by about 17.5 percent on a trade-weighted basis between February 7 and May 13, 1983. The tala was devalued by 10 percent in terms of the New Zealand dollar on February 7, and by a further 5 percent, in steps, during April 8-May 13, 1983. Moreover, the maintenance of the tala/New Zealand dollar rate unchanged following the devaluation of the New Zealand dollar on March 8, 1983 resulted in a depreciation of the tala on a trade-weighted basis by about 2.5 percent. These developments reversed the real appreciation of the tala recorded since the third quarter of 1979 and helped enhance export profitability. While tight fiscal and monetary policies and wage restraint were influential in moderating the increase in prices during the first half of 1983, the exchange rate actions and drought-induced supply shortages led to a sharp acceleration in inflation in the third quarter of the year, which resulted in some real appreciation of the tala on a

Table 7. Western Samoa: Summary Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982	1983		1984
				Program	Estimate	Proj.
Exports, f.o.b.	13.5	9.5	11.9	12.9	15.9	17.9
Of which:						
Copra and products	(7.0)	(3.5)	(5.3)	(6.0)	(7.4)	(8.2)
Cocoa	(2.5)	(1.1)	(0.6)	(2.0)	(2.3)	(2.1)
Imports, c.i.f.	-47.8	-47.9	-45.0	-42.0	-45.7	-46.3
Of which: Oil	(-6.7)	(-8.3)	(-5.1)	(-7.7)	(-5.0)	(...)
Trade balance	<u>-34.3</u>	<u>-38.4</u>	<u>-33.1</u>	<u>-29.1</u>	<u>-29.8</u>	<u>-28.4</u>
Services (net)	-0.1	-1.5	-0.5	0.4	0.3	-0.2
Of which:						
Interest payments	(-2.0)	(-2.2)	(-1.9)	(-1.8)	(-2.1)	(-1.9)
Private transfers (net)	14.4	15.7	16.9	16.6	16.6	17.0
Current account	<u>-20.0</u>	<u>-24.2</u>	<u>-16.7</u>	<u>-12.1</u>	<u>-12.9</u>	<u>-11.6</u>
Government transfers	10.8	12.2	10.7	10.1	12.5	12.3
Nom monetary capital (net)	<u>2.7</u>	<u>4.5</u>	<u>1.9</u>	<u>3.2</u>	<u>2.3</u>	<u>2.7</u>
Government (net)	<u>5.7</u>	<u>5.3</u>	<u>3.3</u>	<u>2.5</u>	<u>2.3</u>	<u>2.6</u>
Government-guaranteed (net)	-0.6	-0.9	-2.3	0.7	--	0.1
Other <sup>1/</sup>	-2.4	0.1	-0.9	--	--	--
Allocation of SDRs	0.3	0.3	--	--	--	--
Overall balance	<u>-6.2</u>	<u>-7.2</u>	<u>-4.1</u>	<u>1.2</u>	<u>1.9</u>	<u>3.4</u>
Financing	<u>6.2</u>	<u>7.2</u>	<u>4.1</u>	<u>-1.2</u>	<u>-1.9</u>	<u>-3.4</u>
Foreign assets (increase -)	<u>1.7</u>	<u>-1.0</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.9</u>	<u>--</u>
Foreign liabilities (increase +)	4.5	8.2	4.2	-1.0	-1.0	-3.4
Of which:						
Use of Fund resources (net)	(-0.7)	(1.9)	(-0.7)	(1.9)	(1.9)	(0.9)
Exceptional financing (arrears)	(1.2)	(7.6)	(4.2)	(-2.9)	(-6.2)	(-2.3)
Rescheduled arrears	(--)	(--)	(--)	(--)	(3.3)	(-2.0)
Memorandum items:						
Current account/GDP (in percent)	-23.2	-27.2	-17.1	-13.2	-13.6	-10.9
Gross international reserves (end of period)						
In millions of SDRs	2.2	2.8	3.2	3.4	4.1	4.1
In months of imports	(0.6)	(0.7)	(0.9)	(1.0)	(1.1)	(1.1)

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

<sup>1/</sup> Includes private capital flows, and errors and omissions.

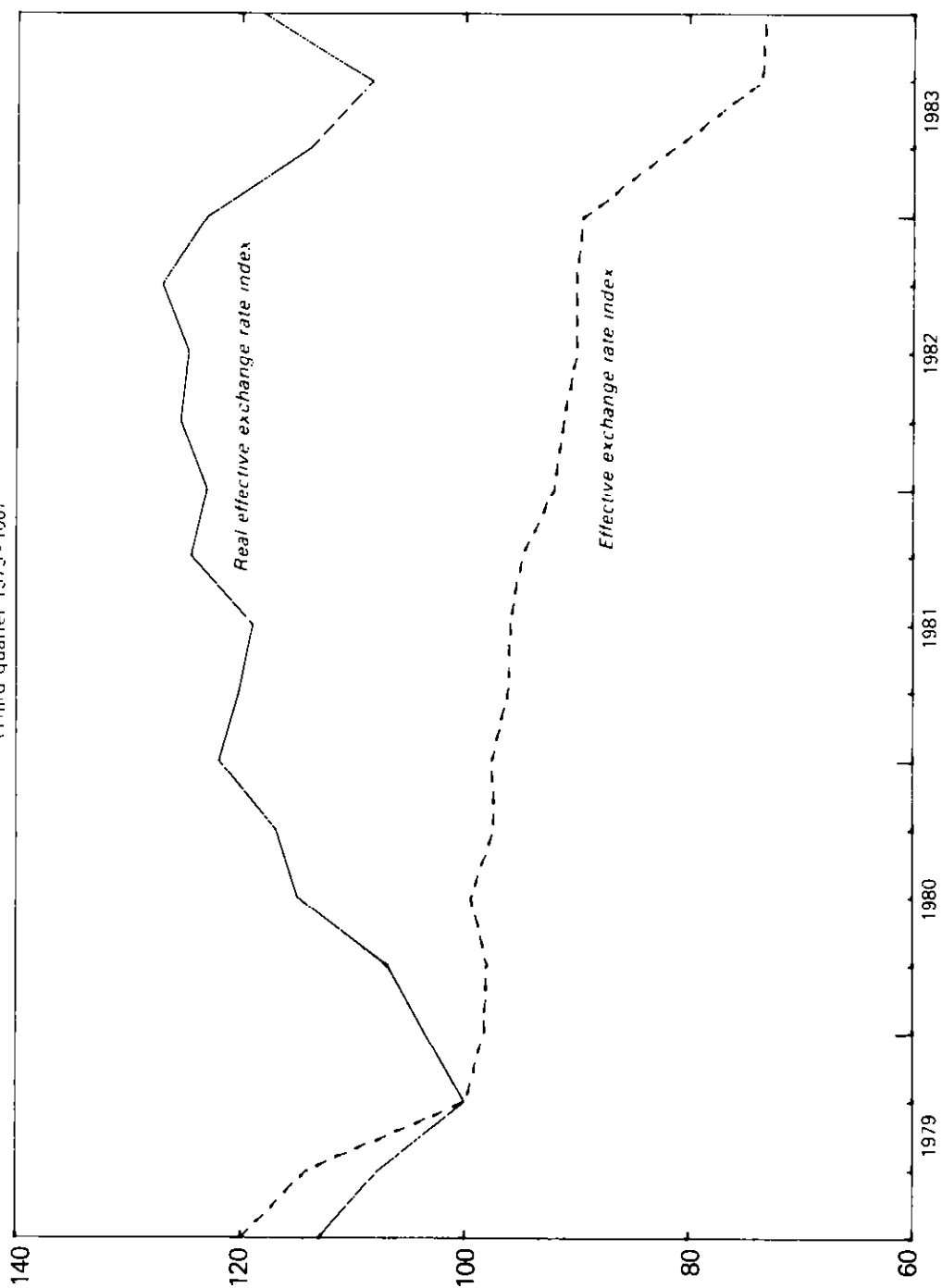
trade-weighted basis (Chart 2). The authorities reiterated their commitment to pursuing a flexible exchange rate policy. They felt confident that the rate of inflation would come down in the final quarter of the year after the impact of the exchange rate moves had been absorbed, and considered the real appreciation of the tala, which took place in the third quarter of 1983, to be temporary.

#### 4. Developments in output and prices

Real growth in GDP was not envisaged in 1983. Output of the public sector was expected to decline as a result of the programmed reduction of employment, while the general retrenchment of domestic demand was expected to limit growth prospects, notably in construction and services. The performance of export-oriented industries was influenced by a severe drought which resulted in a decline in the production of a number of major crops such as copra and taro. However, output of other agricultural crops, notably cocoa and tropical fruits, rose sharply. The main stimulus to growth was the strong increase in manufacturing output, as the copra crushing mill, which began operations in 1982, attained full capacity utilization. The processing of timber and tropical fruit also contributed to the strong growth performance in manufacturing in 1983. The recent exchange rate adjustments have helped promote the production of import substitutes, while electricity production benefited from increased hydroelectric generating capacity. As a result, GDP grew by close to 1 percent in real terms in 1983 compared with a 1 percent decline in the preceding year and the zero growth envisaged under the program.

Price developments were influenced by four major factors in 1983, especially during the third quarter: (i) devaluation of the tala which raised prices of imported goods; (ii) adjustments in a number of administered prices, excise taxes and import duties, including a change in the basis of assessment of import duties; (iii) drought induced supply shortages of major food items; and (iv) domestic demand pressures generated by the South Pacific games which were held in Apia in September, 1983. The upward trend in prices is expected to be reversed in the final quarter of 1983; already in October, consumer prices declined by 1 percent over September (Chart 3). The average increase in consumer prices during the first ten months of 1983 over the comparable period of 1982 was 14.7 percent; on the assumption that they remain largely unchanged in the last two months of the year, the average rate of inflation for 1983 as a whole can be expected to reach 16.0 percent. This would imply a substantial deceleration in inflation in the final quarter of 1983 to about 8 percent on an annual basis, which would reflect: (i) the contraction in domestic demand resulting from restrictive fiscal and monetary policies; (ii) completion of the pass-through effect on prices of the devaluations undertaken earlier in the year; and (iii) improvement in domestic supplies of food items.

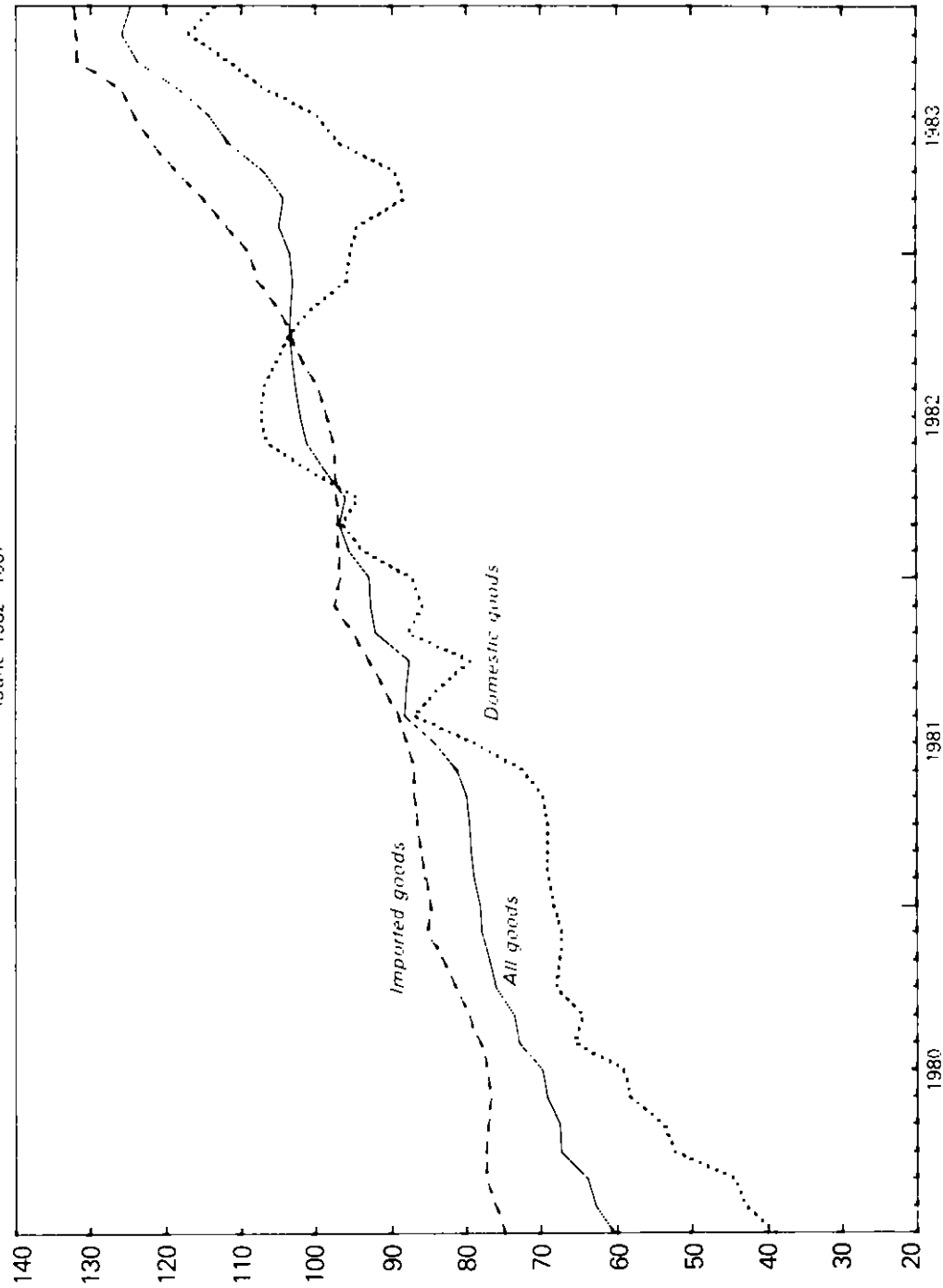
CHART 2  
 WESTERN SAMOA  
 TRADE-WEIGHTED EFFECTIVE EXCHANGE RATE INDICES<sup>1</sup>  
 (Third quarter 1979 = 100)



Source: Staff calculations.  
<sup>1</sup>An index of 100 represents an effective appreciation.



CHART 3  
WESTERN SAMOA  
DEVELOPMENTS IN CONSUMER PRICES  
(June 1982 = 100)



Source: Data provided by the Western Samoan authorities (MSE data base) and staff estimates.



#### IV. Economic Policies in 1984

The authorities regard the 1983 program as an important phase of a medium-term effort to achieve an improved balance between domestic demand and available financial resources, a lower rate of inflation, and a viable balance of payments position. Accordingly, fiscal and monetary policies will remain tight in 1984 and exchange rate policy will continue to play a crucial role in the adjustment process. Moreover, demand management policies will be accompanied by far-reaching structural reforms. Even with the implementation of adjustment policies, Western Samoa's external position will continue to be weak. The balance of payments outlook points to a slowdown in the growth of exports, due mainly to less favorable developments in export prices. Import growth will continue to be constrained by foreign exchange availabilities. With net receipts from services and private transfers stabilizing at their 1983 level, the current account deficit is expected to decline further to about 11 percent of GDP. The projected overall surplus of SDR 3.4 million will be used to further reduce external payments arrears and rescheduled debt.

The growth of output in 1984 will be favorably influenced by a recovery in the production of copra, taro, and other cash crops. Other expected favorable developments include a strong growth in industrial output, a higher level of construction activity, and a revival of trade with increased availability of credit to the private sector. Nevertheless, economic recovery will be moderate because of the cautious demand management policies to be pursued, with real GDP projected to grow by about 3 percent.

The rate of inflation is expected to come down markedly in 1984, with the average increase in consumer prices falling to about 9 percent, compared with 16 percent in 1983. Moreover, the increase in prices during the year (December 1984 over December 1983) is expected to be significantly lower than 9 percent. Increased availability of domestic food supplies in line with the projected upturn in agricultural production, coupled with continued financial restraint, is likely to depress prices of domestic goods in 1984, while prices of imported items are also expected to decline slightly. The authorities will continue to ensure adequate financial incentives for the production of export crops through the price stabilization schemes under which producer prices for major crops are adjusted frequently to take into account movements in international commodity prices.

##### 1. Structural reforms

In 1983, corrective action was taken in the areas of exchange rate, interest rates, and public finances. As the first step in the implementation of a medium-term fiscal reform, the basis for valuation of customs duties was switched from a current domestic value basis (c.d.v.) to a c.i.f. basis. In 1984, the authorities plan to introduce



a number of significant changes in the tax system. The tax reform, which will become effective together with the 1984 budget, will broaden the tax base and improve tax elasticities. It will encompass the tariff system, the primage duty (import surcharge), the excise tax system, and the incentives legislation. Inconsistencies in the tariff system will be eliminated, while the rate structure will be simplified through the abolition of existing duty exemptions and amalgamation of the primage duty with the basic rate structure. Excises will be shifted from specific to ad valorem rates and the coverage will be expanded to a broader range of luxury goods, both domestic and imported. Finally, amendments to the Enterprise Incentives Act will remove present provisions for customs duty exemptions, replacing them with reduced excise tax rates for approved enterprises, and will grant income tax exemptions under certain conditions for new enterprises. The estimated tax yield of the reform in 1984 is 1.4 percent of GDP; the tax base of import duties will expand in succeeding years as existing concessions are phased out, thus enhancing future revenue growth. Moreover, the new tax system is expected to improve domestic resource mobilization and promote a more efficient allocation of resources in the medium term.

A foreign exchange allocation system for private sector imports has been in existence since the early 1960s. Allocations, which presently apply to all private sector imports, except raw sugar and oil, are determined by the Monetary Board and announced quarterly. This system is inefficient and has resulted in the misallocation of scarce foreign exchange resources, and authorities intend to eliminate it during 1984 either all at once or in steps. While commending the authorities for considering this move, the staff cautioned that the successful implementation of such a measure would require complementary fiscal and monetary policies to restrain demand, as well as some accumulation of foreign exchange reserves. The authorities agreed with these observations and reiterated their intention to continue the corrective fiscal and monetary policy stance initiated in 1983, as well as their commitment to pursue a flexible exchange rate policy.

## 2. Financial policies

### a. The 1984 budget and public enterprises

The 1984 budget was presented to Parliament on November 15, 1983. Revenue growth is estimated at 17 percent, almost all of which will come from excise taxes and import duties. Discretionary increases in fees and charges will be virtually offset by the absolute decline in income tax collections following the exceptional increase in 1983 due to the successful collection of income tax arrears. Expenditures are budgeted to rise by 9 percent, mostly as a result of a projected 15 percent rise in domestically-financed development expenditure, but also due to a 10 percent salary increase. The budget for 1984 is projected to yield an overall deficit (on commitment basis and including grants) of WSS\$4.3 million, or 2.4 percent of estimated GDP. In addition, the

Government plans to pay off WSS2.4 million of its external payments arrears outstanding at the end of 1983. In the absence of further revenue measures, the deficit for 1984 on a cash basis would thus rise to WSS6.7 million, all of which would be externally financed (Table 3). The draft 1984 budget appears to be consistent with the adjustment objectives envisaged by the authorities in 1984 and the overall fiscal targets appear to be attainable.

While the overall financial position of nonfinancial public enterprises improved considerably in 1983, this was largely attributable, to favorable external developments and to sales of fixed assets which are not likely to be repeated in 1984. In recognition of this, and with a view to monitoring more closely the operations of public enterprises, a National Economic Council (NEC) was recently established. The Council, which is composed of the Ministries of Agriculture and Economic Affairs under the chairmanship of the Prime Minister, meets quarterly to review overall economic trends and, in particular, the performance of public enterprises. Major public enterprises report on their activities to the Council on a monthly basis. Through the supervision of the NEC, the authorities expect to achieve increased coordination among various public enterprise activities and to maintain better control over their finances.

b. Monetary policy

Monetary policy in 1984 will aim at reducing the rate of inflation and facilitating continued external adjustment and domestic resource mobilization. Public sector recourse to the banking system is not presently envisaged, while the growth in credit to the private sector is expected to accelerate, mainly to finance agricultural production. The authorities expressed the view that a slightly stronger growth in credit to the private sector to finance productive activities would be desirable, since it would be directed primarily to domestic spending and, therefore, would not put undue pressure on the balance of payments. This would not be expected to lead to an acceleration in monetary expansion provided that the public sector continues to improve its position with the banking system. The authorities also repeated their commitment to a flexible interest rate policy. Although interest rates are likely to remain positive in real terms with the anticipated further slowing of inflation, the staff emphasized the need to continue monitoring interest rates in light of domestic price movements and developments in interest rates in neighboring countries.

A major institutional change planned for 1984 is the establishment of an independent Central Bank. This move, which is also viewed favorably by commercial banks, is expected to enhance the effectiveness of monetary policy. Legislation has already been submitted to Parliament

in order to transform the Monetary Board, which is presently a division of the Treasury, into an independent Central Bank early in the year. 1/

### 3. Investment priorities

A comprehensive agricultural sector study is to be undertaken by the Asian Development Bank in early 1984 to explore means of increasing productivity in agriculture, diversifying into new crops, and establishing new agro-based industries. The study will also examine WSTEC, which controls 30,000 acres of prime land, with a view to improving the organization of its activities. The Government will continue to promote replanting schemes for coconut and cocoa through subsidized inputs and preferential credit, and move forward with the forestry program. It is also planned to expand the acreage under banana cultivation from 350 acres to 1,500 acres within the next few years, and to promote the production of tropical fruits, particularly passion fruit, the acreage under which has grown sharply, supported by loans from the Development Bank of Western Samoa. Some progress has been made in the fisheries sector, and shrimp farming for local consumption is already underway. The canning of local fish is under consideration, while fresh fish exports are expected to commence with the expansion of the airport.

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. Small-scale industrial projects currently underway include the setting up of a coconut paste production plant, and a beef cannery--part of the import substitution effort--which is expected to come into operation within the next 18 months. Western Samoa has also adopted a comprehensive energy program under which two hydropower plants have become operational and a third is scheduled to be completed in late 1984, which will raise the share of energy generated from this source to about 70 percent. A new project for power generation from wood waste is underway and expected to be completed in two years. The project, which is partly funded by Saudi Arabia and Kuwait, will supplement hydroelectric power stations in the dry season and almost eliminate the need for diesel fuel imports for electricity generation.

The growth of the tourism industry has been hampered by the inadequacy of the present airport which is considered to be hazardous in wet weather conditions and does not allow for the operation of wide bodied jets. The authorities are, therefore, considering an extension of the airport in two stages. The first stage involves runway expansion at a cost of WSS10.6 million, while the second stage will concentrate on the upgrading of airport facilities at a cost of WSS3.4 million. The financing of the project, the prime contractor for which will be the SPDC, is

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1/ The Central Banking Department of the Fund is providing assistance in the drawing up of the necessary legislation and the staffing of the new Central Bank.

expected to come from Australia, New Zealand, and in the second stage, from Japan as well. The new runway will accommodate DC 10s and a larger volume of tourist traffic, as well as providing urgently needed airfreight capacity. The construction of a major new hotel will be undertaken in conjunction with the extension of the airport, at an estimated cost of WSS\$15 million, of which WSS\$6 million has already been spent on land development.

#### V. Medium-Term Outlook

Western Samoa will continue to face an external financing constraint in the medium term. While policies to promote export profitability and diversification, and develop import substitutes will help ease pressures on the balance of payments, the debt service burden will remain heavy in the coming years. Official and private transfers and concessional foreign loans, which constitute important sources of foreign exchange, are not expected to grow significantly. Moreover, official transfers on which the Government relies heavily, are not expected to grow in real terms. External adjustment, therefore, will necessitate continued restraint in the volume of imports which has been on a declining trend in recent years. Given the limited export base, an upsurge in exports cannot be expected. Based on the assumption of roughly stable terms of trade beyond 1984, some improvement in net travel receipts resulting from the extension of the airport, and no real deterioration in net inflows of transfers and nonmonetary capital, only a modest annual growth in imports can be expected if debt service payments (including the continued elimination of external payments arrears) are to be met (Table 8). The impact on growth of the constraint on imports will depend on the extent to which supplies of imported raw materials and capital goods are kept up, while imports of nonessential consumption goods are reduced through import substitution. Oil imports, which have accounted for close to 14 percent of total imports in recent years, can be expected to decline as the various energy projects become operational.

Western Samoa's external debt outstanding, including net drawings from the Fund and external payments arrears, is estimated at 75 percent of GDP at the end of 1983. External debt is projected to decline to 49 percent of GDP by the end of 1988 on the assumption of no further use of Fund resources beyond 1984 and continued repayment of outstanding and rescheduled arrears. After the complete elimination of external payments arrears (including rescheduled amounts), the debt service ratio will decline from a peak of 45 percent of exports of goods and services in 1984 to 17 percent in 1988. If private transfers, which have been a stable source of foreign exchange, are taken into account together with exports of goods and services, the debt service ratio is much lower, and will drop to around 11 percent by 1988.

Table 8. Western Samoa: External Debt and  
Debt Service Projections, 1983-88

	1983 Estimate	1984	1985	1986	1987	1988
		Projections				
(in millions of SDRs)						
External debt outstanding <u>1/</u>	56.8	61.0	64.6	65.7	68.1	71.8
Of which: IMF <u>2/</u>	(3.8)	(5.7)	(6.6)	(5.2)	(3.9)	(1.8)
Loan disbursements	8.3	7.7	6.0	7.0	7.6	8.0
Of which: IMF	(2.8)	(1.7)	(--)	(--)	(--)	(--)
Amortization	-4.1	-4.1	-4.9	-4.6	-3.9	-3.4
Of which: IMF	(-0.9)	(-0.8)	(-1.4)	(-1.3)	(-2.1)	(-1.7)
Interest payments	-2.1	-1.9	-1.8	-1.8	-1.8	-1.8
Of which: IMF	(-0.3)	(-0.5)	(-0.4)	(-0.3)	(-0.2)	(-0.1)
(In percent of GDP)						
External debt outstanding (end of period)	75	66	59	53	51	49
Of which:						
IMF	6	6	4	3	1	--
External payments arrears and rescheduled arrears	11	5	2	--	--	--
(In percent of exports of goods and services)						
Debt service payments	43	45	42	32	20	17
Of which:						
IMF	6	6	7	6	8	7
Repayments of arrears and rescheduled arrears	19	19	15	8	--	--
Interest payments	7	8	7	7	6	6
(In millions of SDRs)						
Memorandum items:						
Exports of goods <u>3/</u>	15.9	17.9	19.2	20.5	22.0	23.5
Imports of goods <u>4/</u>	-45.7	-46.3	-46.1	-49.8	-53.5	-57.5
Net services and private transfers	16.9	16.8	17.2	17.5	18.5	19.5
Current account balance	-12.9	-11.6	-9.7	-11.8	-13.0	-14.5
Official transfers and capital flows (net)	14.8	15.0	14.7	15.3	16.0	16.5
Overall balance	1.9	3.4	5.0	3.5	3.0	2.0
Net use of Fund resources	1.9	0.9	-1.4	-1.3	-2.1	-1.7
Change in arrears <u>5/</u>	-6.2	-2.3	-2.3	-2.2	--	--
Stock of arrears outstanding (end of period)	6.8	4.5	2.2	--	--	--

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

<sup>1/</sup> Including public, publicly guaranteed external debt, and use of Fund credit; beginning of period.

<sup>2/</sup> No further drawings from the Fund are assumed for the period 1984-88 beyond the present stand-by purchases.

<sup>3/</sup> Export volume is assumed to grow by 5 percent in 1984, and at an annual average rate of about 2 percent thereafter.

<sup>4/</sup> Imports are derived as a residual; the implied volume change is an average annual growth of about 3 percent, except for 1985 when imports are likely to decline in real terms.

<sup>5/</sup> Reduction due to repayment and rescheduling in 1983; illustrative schedule for the repayment of external payments arrears during 1984-86.

## VI. Staff Appraisal

Western Samoa effectively implemented adjustment policies in 1983, thus containing inflationary pressures and setting the grounds for restoring economic growth and balance of payments viability. Revenue measures involving substantial increases in tariffs, excise taxes, and government fees and charges were incorporated in the 1983 budget in conjunction with cost-cutting measures designed, in particular, to reduce transfers to public enterprises, limit the number of public sector employees, and curtail domestically-financed development expenditures. These policies resulted in a sharp reduction in the overall deficit of the public sector and reduced recourse to domestic bank financing. Credit policy was tightened and interest rates were raised by substantial margins. The domestic resource mobilization effort was supported by an active exchange rate policy.

Following several years of negative growth, real output increased modestly, largely on the strength of export performance and the coming into full production of new manufacturing industries. As anticipated, inflation accelerated during the second and third quarters of the year, partly in response to the substantial devaluation of the tala and partly due to reduced domestic supplies caused by the drought which prevailed during most of the year. Inflation, however, has moderated in recent months on the strength of financial restraint and a gradual easing of the adverse factors influencing price developments.

The adjustment policies undertaken in 1983 have substantially strengthened the financial position of the Central Government and nonfinancial public enterprises. As a result, net bank credit to the public sector has been reduced, making it possible to accommodate private sector credit requirements while limiting the growth of total liquidity. The redistribution of domestic credit has helped promote the role of the private sector in line with the Government's aim of restructuring the economy toward increased private sector activity. Another welcome development has been the noticeable shift to term deposits due mainly to the upward adjustment in interest rates, which, in light of recent price developments, continue to be positive in real terms.

Reflecting the impact of the adjustment effort and favorable international price developments, Western Samoa's external position improved considerably. The current account deficit declined and an overall balance of payments surplus was recorded for the first time in several years. External payments arrears were reduced significantly through cash payments and rescheduling; negotiations for rescheduling the remaining arrears on government and government-guaranteed debt--which mostly pertain to a non-Fund member--are in an advanced stage. Against this background, the staff recommends Fund approval for the restriction involved in the maintenance of the remaining payments arrears.

Notwithstanding the substantial progress made in 1983, Western Samoa's external position remains weak, and its exports continue to be narrowly based. Debt service obligations, including those on rescheduled arrears, claim a large proportion of Western Samoa's scarce foreign exchange resources. Further correction of structural problems in the fiscal field, encompassing the operations of both the Central Government and public enterprises, are needed in order to consolidate the gains achieved in 1983.

The authorities are committed to continuing the adjustment policies initiated in 1983. The staff welcomes the intentions of the authorities to keep government spending under tight control and to further reduce the budget deficit. The thrust of fiscal policy in 1984 will be reflected in a wide-ranging tax reform which involves significant changes in the present tariff system. In addition to improving the financial position of the Government in the medium-term, the reform package is designed to simplify the tariff structure, provide uniform effective rates of protection to import-competing industries, and eliminate the need for additional tariff concessions and--over time--nontariff import restrictions. The staff is of the view that an equally far-reaching reform will be necessary to increase the efficiency of public enterprises and keep their finances under control.

Considering the temporary nature of the factors behind much of the improvement in the financial position of the public enterprises in 1983, the staff notes the need for these enterprises to continue to rationalize their operations in 1984. Although complete information on the enterprises' budgets for 1984 is not available, a further improvement is expected in their overall financial position. Based on the 1984 budget proposal and on the anticipated improvement in the combined financial position of public enterprises, net use of commercial bank credit by the public sector is not expected in 1984. Nevertheless, the growth in domestic credit, including credit extended by nonbank financial institutions, needs to be monitored closely in order to contain inflationary pressures. In this connection, the staff welcomes the intention of the authorities to keep interest rate policy under review and promote domestic resource mobilization. The proposed establishment of the Central Bank of Western Samoa should also go far in enhancing the effectiveness of monetary policy.

Sustained economic growth with balance of payments viability in the medium term will require continued implementation of policies designed to revitalize and diversify exports, develop import substitution, and promote other sources of foreign exchange earnings such as tourism. The flexible exchange rate policy adopted under the 1983 program has restored some of the competitiveness lost in recent years and should be continued in order to achieve these aims. Policy resolve is made even more necessary to support another important reform under consideration by the authorities, namely, the elimination of the foreign exchange allocation system which has resulted in the misallocation of scarce foreign exchange resources. The staff welcomes the authorities'

desire to phase out this system in 1984, and notes that such a step will require strengthened fiscal and monetary policies to avoid a surge in import demand.

Western Samoa's progress in 1983 has been substantial and clearly reflects the willingness of the authorities to implement adjustment policies in close cooperation with the Fund. However, considering the magnitude of the required adjustment, it will be necessary to undertake additional measures in 1984 and beyond. The authorities recognize that perseverance in this endeavor is essential in order to resume economic growth and achieve balance of payments viability.

It is recommended that the next Article IV consultation with Western Samoa be held on the standard 12-month cycle.



## VII. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

### A. 1983 Consultation

1. The Fund takes this decision in concluding the 1983 Article IV consultation with Western Samoa, in the light of the 1983 Article IV consultation with Western Samoa concluded under Decision No. 5392- (77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

### B. Review of Stand-By Arrangement

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.

WESTERN SAMOA

Basic Data

Area:	1,097 square miles
Population (1983):	159,000
Population growth rate (1968-83; net of migration):	0.9 percent annually
GDP per capita (1982 estimate)	SDR 597

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> <u>Est.</u>
	<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	16.0
Government revenue <u>1/</u>	19.7	-2.4	16.5	31.1
Government expenditure	5.3	8.2	10.9	-0.3
Total domestic credit	26.9	54.5	38.1	-6.5 <u>2/</u>
Total liquidity	1.0	26.3	35.4	2.5 <u>2/</u>
Merchandise exports, f.o.b.	-4.9	-29.6	25.3	33.6
Merchandise imports, c.i.f.	0.6	0.2	-6.1	1.6
Export volume	16.8	-20.8	5.4	12.9
Import volume	-19.2	-12.5	-10.0	2.5
Terms of trade (deterioration -)	-20.9	-22.3	-13.9	19.6
Effective exchange rate index (dépreciation -) <u>3/</u>				
Nominal	-1.0	-5.3	-2.4	-18.8
Real	6.7	1.5	5.1	7.0

(In percent of GDP)

<u>Selected financial ratios</u>				
Government revenue <u>1/</u>	24.2	22.3	21.7	23.6
Government expenditure (commitment basis)	51.0	52.2	48.3	40.0
Budget deficit (commitment basis)	-14.2	-16.2	-15.6	-3.1
Domestic bank budgetary financing <u>4/</u>	3.2	9.3	9.1	-0.9
External budgetary financing	7.0	5.7	3.2	2.6
Total liquidity	17.7	21.2	24.0	20.0 <u>2/</u>
External current account deficit	-23.2	-27.2	-17.1	-13.6
Oil imports (percent of total imports)	14.0	17.3	11.3	10.9
External debt <u>5/</u>				
Excluding IMF	47.7	68.1	67.6	68.8
Including IMF	51.6	71.1	71.5	74.8

WESTERN SAMOA

Basic Data (Concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> <u>Est.</u>
	<u>(In percent of exports of goods and services)</u>			
<u>External debt service ratios 6/</u>				
Debt service, excluding IMF	13.9	19.7	19.6	37.4
Debt service, including IMF	16.7	27.2	25.8	43.0
Interest payments, excluding IMF	7.9	9.5	8.0	5.6
Interest payments, including IMF	8.8	10.9	9.8	7.0
	<u>(In millions of SDRs)</u>			
<u>External payments data</u>				
Overall balance of payments (deficit -)	-6.2	-7.2	-4.1	1.9
Gross international reserves (end of period)	2.2	2.8	3.2	4.1
In months of imports	(0.6)	(0.7)	(0.9)	(1.1)
External payments arrears (end of period)	1.2	7.3	13.0	6.8

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

1/ Excluding external grants.

2/ As of end-September.

3/ Change between fourth quarters, except for 1983 which is change between third quarters.

4/ Including the contra-entry to net changes in external payments arrears on government debt.

5/ Including external payments arrears.

6/ Based on actual debt service payments for 1980-83, i.e., does not reflect arrears on interest payments and principal repayments.

Fund Relations with Western Samoa  
As of October 31, 1983

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Date of membership:	December 28, 1971
Status:	Article XIV
Quota:	SDR 4.5 million (Proposed Quota: SDR 6 million).
Fund holdings of currency:	SDR 10.422 million (231.60 percent of quota), of which SDR 3.306 million under CFF (73.47 percent of quota). SDR 1.87 million under stand by facility (41.56 percent of quota) and SDR 0.74 million under credit tranche (16.50 percent of quota).
Direct distribution of profits from gold sales:	US\$0.33 million.
Gold distribution (fine ounces):	1,711.788
SDR position:	Cumulative allocation: SDR 1.14 million. Present holdings: SDR 311,519
Trust Fund:	Total loans outstanding SDR 1.88 million.
Exchange rate system:	The exchange rate of the tala is determined with reference to a composite of currencies. Under Rule 0.2, the mid-point between the Bank of Western Samoa's buying and selling rates for the U.S. dollar was established with the Fund on August 18, 1975 as the representative rate for the tala.
Representative rate:	US\$1 = WS\$1.599.
Exchange and trade restrictions:	A foreign exchange allocation system for imports has been maintained since Western Samoa became a member of the Fund.
Last Article IV consultation and stand-by arrangement:	Staff discussions were held in October 1982 and during March-April, 1983. The Executive Board discussed the Staff Reports (SM/82/245 and SM/83/5) on January 26, 1983, and request for a stand-by arrangement and a CFF drawing (EBS/83/105 and EBS/83/106) on June 27, 1983.

Technical assistance:

An FAD mission reported on possibilities for tax reform in June 1981, and a staff member from the Bureau of Statistics updated and revised money and banking statistics in March 1983. In November 1983, a CBD mission visited Apia and provided assistance in the drawing up of the necessary legislation of the proposed Central Bank of Western Samoa.

World Bank Group Operations in Western Samoa

Statement of IDA credit (as of October 31, 1983)

<u>Credit Number</u>	<u>Date of Approval</u>	<u>Purpose</u>	<u>Commitment</u>	<u>Undisbursed</u>
			(US\$ mn.)	
535	March 1975	Highways	4.4	--
951	November 1979	Agricultural Development	8.0	3.8
1080	November 1980	Agricultural Development	2.0	1.5

Credit No. 915 consists of investment in development of nurseries and importation of improved planting materials; roads, and field development of cocoa, coffee, coconuts and other crops in land managed by the Western Samoa Trust Estates Corporation (WSTEC), a parastatal entity, and village lands on Savai'i; technical assistance; project administration; monitoring/evaluation; surveys; studies and preparation of 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 poor liquidity position and frequent changes in management in 1981. WSTEC's management has since improved with the appointment of a General Manager, Deputy Project Manager, Financial Controller and Plantation Manager. Steps have been taken to improve WSTEC's financial situation with the sale of some of its urban land. The Association recently agreed to a revised planting program and to increased disbursements in order to help achieve that program.

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.

The Asian Development Bank has overall responsibility for this project. Since the appointment of the General Manager, Deputy Project Manager and Plantation Manager, about 1,400 acres of coconut estates have been fertilized, two miles of major roads have been graded and two miles of new fencing have been erected for Part A. Hybrid coconut plantings will commence in 1984. Part B is progressing satisfactorily: consultants have been recruited, the National Extension Center is under construction and five Field Extension Centers have been identified.

