

FOR  
AGENDA

EBS/83/105

CONFIDENTIAL

May 25, 1983

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. Draft decisions appear on page 23.

This subject, together with Western Samoa's request for a purchase under the compensatory financing facility (EBS/83/106, 5/25/83), will be brought to the agenda 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. 74977.

Att: (1)

## INTERNATIONAL MONETARY FUND

## WESTERN SAMOA

Request for Stand-by Arrangement

Prepared by the Asian and Exchange and Trade Relations Departments

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

Approved by P.R. Narvekar and Manuel Guitian

May 24 , 1983

|      | <u>Contents</u>                                  | <u>Page</u> |
|------|--|-------------|
| I.   | Introduction                                     | 1           |
| II.  | Economic Background                              | 1           |
| III. | The program for 1983                             | 4           |
|      | 1. Major objectives                              | 4           |
|      | 2. Domestic financial policies                   | 5           |
|      | a. Fiscal policy                                 | 5           |
|      | b. Monetary policy                               | 10          |
|      | 3. External policies                             | 14          |
|      | 4. Production and pricing policies               | 16          |
|      | 5. Performance criteria and phasing of purchases | 18          |
| IV.  | Medium-Term Outlook                              | 18          |
| V.   | Staff Appraisal and Proposed Decisions           | 21          |

Text Tables

|    |  |    |
|----|--|----|
| 1. | Schedule of Proposed Purchases and Repurchases, 1983-84                      | 2  |
| 2. | Selected Program Indicators, 1980-83   | 6  |
| 3. | Financial Operations of the Government, 1980-83                              | 7  |
| 4. | Estimated Revenue Impact of Discretionary Tax Measures<br>in the 1983 Budget | 8  |
| 5. | Monetary Survey, 1980-83   | 12 |
| 6. | Interest Rates, 1980-83  | 13 |
| 7. | Summary Balance of Payments, 1980-84   | 15 |
| 8. | Quantitative Performance Criteria, 1983                                      | 19 |

| <u>Contents</u>  | <u>Page</u> |
|--|-------------|
| <u>Charts</u>  |             |
| 1. Selected Macroeconomic Indicators                           | 2a          |
| 2. Indices of Effective Exchange Rates                         | 4a          |
| <u>Appendix Tables</u>   |             |
| I. Expenditure of the Government, 1980-83                      | 24          |
| II. Revenue and Grants of the Government, 1980-83              | 25          |
| III. Financing of the Government Budget Deficit, 1980-83       | 26          |
| IV. Financial Operations of the Public Enterprises, 1980-83    | 27          |
| V. Exchange Rates, 1978-83                                     | 28          |
| VI. Monetary Survey, 1979-83                                   | 29          |
| VII. Indicators of Agricultural and Industrial Output, 1980-83 | 30          |
| VIII. Energy Statistics, 1980-83                               | 31          |
| IX. External Debt Projections, 1982-88                         | 32          |
| <u>Annexes</u>   |             |
| I. Basic Data  | 33-34       |
| II. Fund Relations with Western Samoa                          | 35          |
| III. World Bank Group Operations in Western Samoa              | 36          |
| IV. Summary of the 1983 Program                                | 37-39       |
| <u>Attachments</u>   |             |
| I. Stand-By Arrangement  | 40-42       |
| II. Letter of Intent   | 43-51       |

## I. Introduction

In the attached letter dated May 24, 1983, the Government of Western Samoa requests a one-year stand-by arrangement in an amount of SDR 3.375 million, or 75 per cent of quota in support of its stabilization program for 1983. The total amount requested under the stand-by arrangement is to be financed from the Fund's ordinary resources. A waiver of the limitations in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

Western Samoa will shortly request a purchase under the compensatory financing facility in an amount equivalent to SDR 1.15 million, or 25.6 per cent of quota, which will raise outstanding drawings under the CFF to 81 per cent of quota (EBS/83/106, 5/25/83). Purchases scheduled under the stand-by arrangement and the CFF request, together with repurchases scheduled during the program period are given in Table 1. As of April 30, 1983, the Fund's holdings of Western Samoan tala amounted to SDR 8.08 million, or 179.5 per cent of quota. If Western Samoa makes the requested CFF purchase, draws the full amount requested under the stand-by arrangement, and makes repurchases as scheduled, the Fund's holdings of tala would increase to SDR 11.8 million, or 261.6 per cent of the present quota at the end of March 1984. Western Samoa's new quota will be SDR 6 million.

Article IV consultation discussions with Western Samoa were held in Apia during October 12-26, 1982, and the reports (SM/82/245 and SM/83/5) were considered by the Executive Board on January 26, 1983. Discussions on a possible use of Fund resources in support of a stabilization program were held in Apia during March 27-April 9, 1983.<sup>1/</sup> 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. Economic Background

In recent years, output has been adversely affected by the weak performance of the agricultural sector which accounts for about half of GDP and 90 per cent of export earnings, and negative real economic growth rates have been recorded since 1980. The production of the two major export crops, copra and cocoa, has been constrained by the old age of most trees, which, in conjunction with variable and sometimes adverse weather conditions, has resulted in sharp fluctuations in output from year to year. Since 1979, export prices of copra, cocoa, and other commodities have decreased sharply, while import prices of oil and other goods have increased; overall, the terms of trade deteriorated by about 45 per cent (Chart 1). With only a modest increase in workers' remittances

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<sup>1/</sup> The staff team consisted of Mr. K. Al-Eyd, (Head), Mrs. E. Gorgen, Mr. R. DiCalogero (all ASD), Mr. P. Sukachevin (ETR), and Ms. M. Haldeman (secretary, RES). The mission's work was assisted by Mr. W. Nahr of the Bureau of Statistics.

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

(In thousands of SDRs)

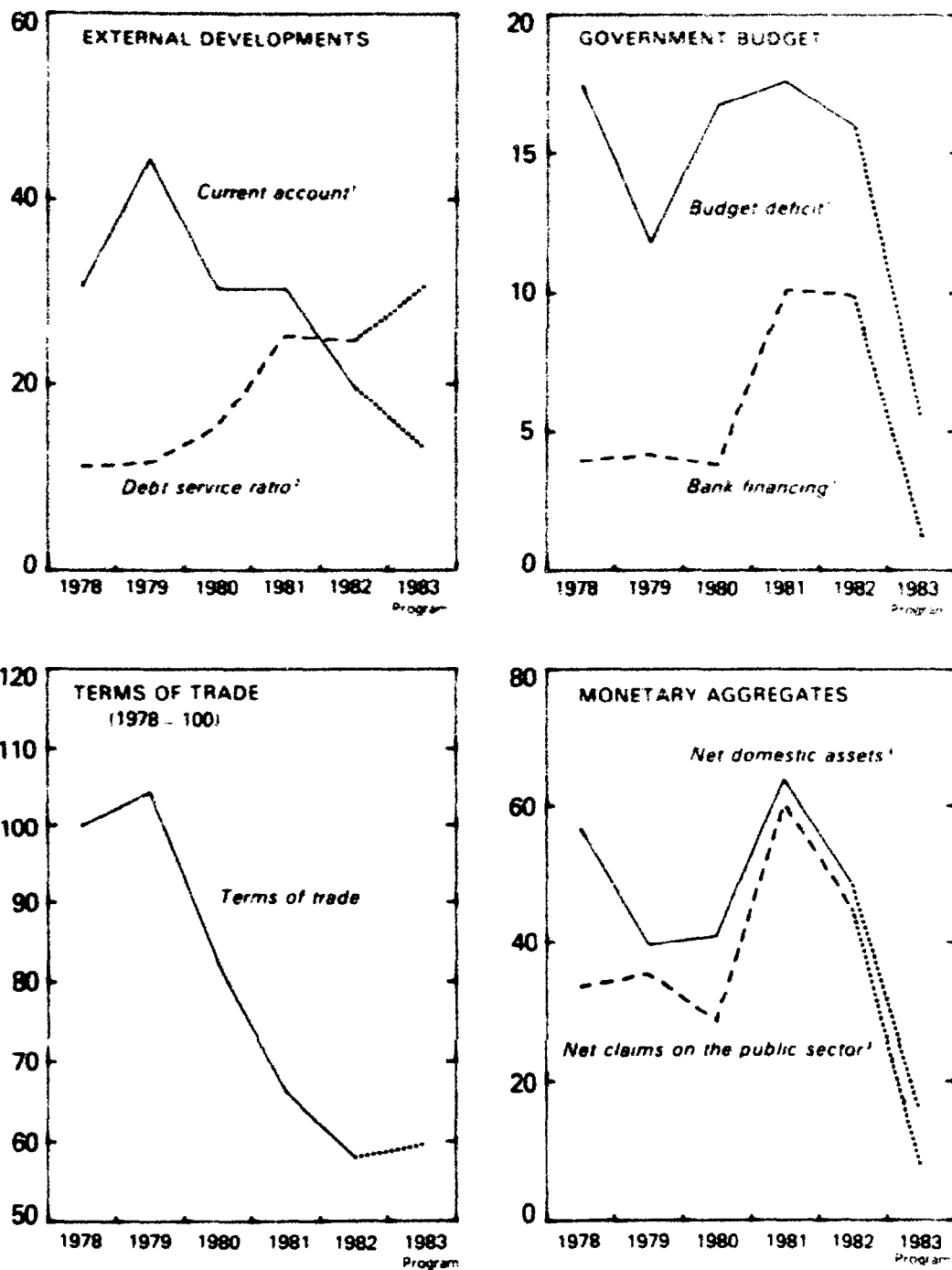
|   | 1983          |               |                |               | 1984                   |
|---|---------------|---------------|----------------|---------------|------------------------|
|   | Jan.-<br>Mar. | Apr.-<br>June | July-<br>Sept. | Oct.-<br>Dec. | Jan.-<br>Mar.          |
| <b>Purchases</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               |
| Total Fund holdings<br>of Western Samoan tala <sup>2/</sup> | 8,076.2       | 9,823.1       | 10,420.0       | 10,173.1      | 11,770.0               |
| As per cent of  |               |               |                |               |                        |
| Present quota   | 179.5         | 218.3         | 231.6          | 226.1         | 261.6                  |
| Proposed quota under<br>Eighth Review                       | --            | --            | --             | --            | 196.2                  |

Source: IMF, Treasurer's Department.

<sup>1/</sup> Composed of two equal purchases; the first will be based on observance of the September performance criteria and satisfactory completion of the mid-term review of the program with the Fund by early January 1984, and the second purchase will be based on observance of the December performance criteria.

<sup>2/</sup> Cumulative as of end of period.

CHART 1  
WESTERN SAMOA  
SELECTED MACRO ECONOMIC INDICATORS, 1978-83



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

<sup>1</sup>In per cent of GDP.

<sup>2</sup>Actual debt service payments (including the Fund) in per cent of exports of goods and services.

<sup>3</sup>Changes expressed in per cent of stock of liquidity outstanding at end of previous year.

from abroad, the external current account deficit, excluding official grants, has averaged about 27 per cent of GDP. This level of deficit has clearly been unsustainable and has resulted in the accumulation of external payments arrears, including those on the servicing of government and government guaranteed debt, which totaled SDR 13.6 million at the end of 1982. Also, since 1979, gross official reserves have been below minimum safe levels.

The adjustment of domestic economic policies, in particular fiscal and exchange rate policies, to the sharp deterioration of the external economic environment was insufficient until 1983. Total government expenditures continued to increase with the rapid expansion of current expenditures and of extrabudgetary expenditures (Advance and Capital Accounts). The major factor underlying the growth of current expenditure was the 76 per cent increase in the wage and salary bill from 1978 through 1982, while the growth of extrabudgetary expenditures reflected, in part, the poor financial performance of the public enterprises which necessitated transfers from the Treasury (Appendix Tables I and IV). At the same time, revenue growth was adversely affected by the shortage of foreign exchange which constrained dutiable imports, as well as by a three-month civil service strike in 1981 which hampered revenue collection; also, tax rates were not increased and government fees and charges were not adequately adjusted to reflect increased costs (Appendix Table II). As a result, the government budget deficit averaged over 16 per cent of GDP during 1980-82, and bank financing of the deficit about 8 per cent of GDP (Chart 1 and Appendix Table III). Moreover, the financial losses of public enterprises rose from about 3 per cent of GDP in 1979 to over 6 per cent in 1981; these losses were reduced to about 3 per cent of GDP in 1982 following the adoption of cost-cutting measures and improved management practices.

Domestic credit expanded at an annual average rate of 40 per cent during 1980-82, largely on account of the public sector. Credit to the private sector grew by an annual average rate of only 10 per cent over this period, reflecting reduced demand for credit for trade financing associated with the low level of imports and the increased availability of credit from other sources, particularly the Development Bank of Western Samoa and the National Provident Fund. The limited scope for an effective monetary policy--due, in part, to the lack of an independent monetary authority--coupled with negative real interest rates, contributed to the growth of credit during this period. As a result, total liquidity grew by an average annual rate of 21 per cent which, in conjunction with the decline in import availabilities, contributed to a high rate of inflation averaging close to 20 per cent annually since 1980.

The de facto pegging of the tala to the New Zealand dollar since July 1979 has led to a progressive nominal depreciation of the tala vis-à-vis the currencies of other major trading partners (Chart 2 and Appendix Table V). However, given the differential between the domestic inflation rate and inflation rates prevailing in trading partners, there has

been an appreciation of the real effective exchange rate. In the three-year period from the third quarter of 1979 through the third quarter of 1982, the real effective exchange rate of the tala appreciated by about 17 per cent, thereby worsening the impact of the declining terms of trade on the profitability of the export sector; the real appreciation has been virtually eliminated as a result of subsequent exchange rate adjustments through mid-May, 1983.

### III. The Program for 1983

#### 1. Major objectives

The economic and financial program for 1983 is considered to be the first stage in a medium-term adjustment process to achieve a sustainable balance of payments position, moderate the rate of inflation, and promote economic growth. The focus of the program on external adjustment rules out significant improvements in inflation and growth performance in 1983. Tight fiscal and monetary policies and wage restraint throughout 1983 will curb the growth in aggregate demand and help control inflation, but recent exchange rate actions and continued exchange rate flexibility will inevitably have repercussions on domestic prices, given the open nature of the economy and the large weight of imported items in consumer prices. The average rate of inflation, therefore, is projected to decline only slightly from 18.4 per cent in 1982 to approximately 17 per cent in 1983; but it is to slow down to around 10 per cent on an annual basis by the final quarter of the year. Price developments projected for 1983 imply a significant change in relative prices to help reallocate resources toward production of exports and import substitutes.

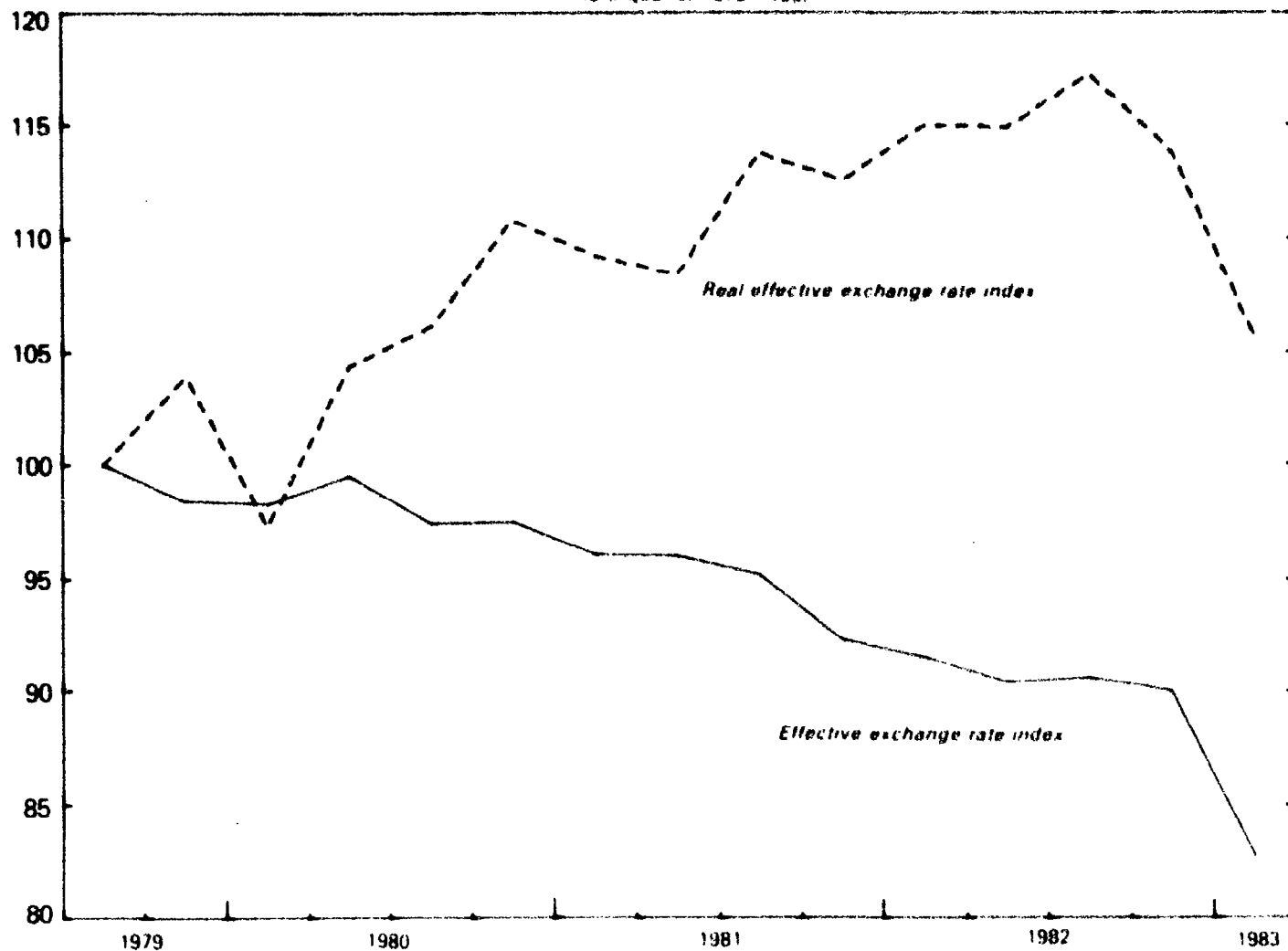
The major objective of the program is to bring about a substantial improvement in the balance of payments. The current account deficit is to decline from 20 per cent of GDP in 1982 to 13 per cent in 1983, and the overall balance of payments to record a surplus for the first time in several years, which will allow a reduction in external payments arrears. The balance of payments adjustment will come about largely on the strength of enhanced fiscal discipline, cautious monetary policy, and flexible exchange rate management. In view of the prospective trends in the volume of exports, the terms of trade, foreign aid flows, and external debt service obligations, the balance of payments objective will entail a continued decline in the volume of imports in 1983. Indeed, medium-term balance of payments projections indicate that external financing constraints will continue to exert pressure on imports and a balance of payments need will persist for several years to come.<sup>1/</sup> However, the adverse impact on economic growth will not be as severe as might be implied by import developments, since the cuts will be concentrated in imports of oil--due mainly to the coming into operation of hydropower plants--and in consumption goods which accounted for about a third of

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<sup>1/</sup> See Section IV below.



CHART 2  
 WESTERN SAMOA  
 TRADE WEIGHTED EFFECTIVE EXCHANGE RATE INDICES<sup>1</sup>  
 (3rd quarter 1979 = 100)



Source: Staff calculations.

<sup>1</sup> An increase represents an effective depreciation.

non-oil imports in 1982. Nevertheless, no real GDP growth is expected in 1983. The major macroeconomic targets, assumptions and projections for 1983 are summarized in table 2 and Annex IV.

## 2. Domestic financial policies

### a. Fiscal policy

#### (i) Government budget <sup>1/</sup>

The objective of fiscal policy in 1983 is a major reduction in the overall budget deficit from 16 per cent to 6 per cent of GDP, with bank financing reduced from 10 per cent to about 1 per cent of GDP (Table 3). This is to be achieved through a substantial increase in revenues, as well as a reduction in expenditures. The estimated budget outcome for 1983 foresees an increase in total revenues of 24 per cent, reflecting discretionary tax increases of about WSS5.9 million, or about 4 per cent of GDP (Table 4). In line with the recommendations of the 1981 FAD mission, the basis of assessment of customs duties (import and primage) has been changed from c.d.v. (current domestic value) to c.i.f., which will facilitate revenue collection by simplifying valuation procedures and increase revenue yield by about WSS1.5 million. Other major revenue measures include a doubling of primage duty (import surcharge), increases in excise taxes on beer and cigarettes, and increases in government fees and charges to reflect higher operating costs. Despite the substantial devaluation of the tala, external grants are expected to increase by only 3.3 per cent in tala terms in 1983, because their SDR value is estimated to decline by about 10 per cent as no STABEX grant is envisaged for the year.

The significant revenue effort in the 1983 budget represents only the first step in a longer-term process of tax reform aimed at broadening the tax base and increasing the elasticity of the tax system. To achieve these objectives, the authorities are examining other measures contained in the above-mentioned FAD report with the intention of incorporating additional tax proposals in the 1984 budget. In particular, the authorities are considering ways to reformulate the tariff structure to remove inconsistencies and make it more conducive to the creation of efficient and internationally competitive industries. Also, a reformulation of the tariff structure will provide an opportunity to remove the primage duty without adversely affecting total revenues. These changes will permit a streamlining of the Enterprise Incentives Act which is now used to provide tariff relief for industries. In addition, the authorities are considering expanding the coverage of excise taxes and levying them on an ad valorem rather than specific basis. At a later stage the enactment of a general sales tax should be feasible.

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<sup>1/</sup> For a description of the institutional structure of the public sector in Western Samoa, see Western Samoa: Recent Economic Developments, (SM/83/5), pp. 16-17.

Table 2. Western Samoa: Selected Program Indicators, 1980-83

|  | 1980    | 1981    | 1982    | 1983<br>Program |
|--|---------|---------|---------|-----------------|
| <u>(In millions of SDRs)</u>   |         |         |         |                 |
| <b>Main targets</b>  |         |         |         |                 |
| Balance of payments  |         |         |         |                 |
| Current account (excluding grants)                                       | -22.2   | -24.7   | -17.6   | -12.1           |
| In per cent of GDP   | (-30.3) | (-30.2) | (-19.7) | (-13.2)         |
| Overall balance  | -6.2    | -7.2    | -4.1    | 1.2             |
| In per cent of GDP   | (-8.5)  | (-8.8)  | (-4.6)  | (1.3)           |
| External payments arrears<br>(end of period)                             | 1.2     | 8.8     | 13.0    | 10.1            |
| CPI (annual average percentage<br>change)                                | 20.5    | 20.5    | 18.4    | 17.0            |
| <u>(In millions of tala)</u>   |         |         |         |                 |
| <b>Policy indicators</b>   |         |         |         |                 |
| Government budget  |         |         |         |                 |
| Revenue (including grants)   | 37.8    | 39.2    | 43.4    | 50.7            |
| Expenditure  | 52.5    | 56.8    | 62.5    | 58.5            |
| Budget deficit   | -14.7   | -17.6   | -19.1   | -7.8            |
| In per cent of GDP   | (-16.8) | (-17.6) | (-16.0) | (-5.5)          |
| Domestic bank financing  | 3.3     | 10.1    | 11.8    | 1.8             |
| In per cent of GDP   | (3.8)   | (10.0)  | (9.9)   | (1.3)           |
| <u>(Percentage changes)</u>  |         |         |         |                 |
| Bank credit (end of period)  |         |         |         |                 |
| Net domestic assets <u>1/</u>  | 37.7    | 54.0    | 36.0    | 10.9            |
| Net credit to the public sector <u>1/</u>                                | 49.3    | 87.8    | 47.1    | 7.3             |
| Exchange rate (depreciation -)   |         |         |         |                 |
| NEER <u>2/</u>   | -1.0    | -5.3    | -2.4    | -9.6            |
| REER <u>2/</u>   | 6.7     | 1.5     | 5.1     | -8.2            |
| <b>Assumptions and projections</b>                                       |         |         |         |                 |
| Real GDP   | -1.6    | -1.2    | -1.7    | --              |
| Total liquidity  | 1.0     | 26.3    | 35.4    | 24.9            |
| Terms of trade (deterioration -)   | -21.3   | -19.3   | -12.7   | 2.9             |
| Debt service (in per cent of<br>exports of goods and services) <u>3/</u> | 15.4    | 25.2    | 24.6    | 46.0            |
| Gross official reserves (end of<br>period; in months of imports)         | 0.6     | 0.9     | 1.0     | 1.1             |

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

1/ For annual changes expressed as per cent of total liquidity outstanding at the end of the previous period see Appendix Table VI.

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

3/ Including the Fund; repayments of external payments arrears are included in 1983. The ratios are based on actual debt service payments and do not reflect arrears on interest payments and principal repayments.

Table 3. Western Samoa: Financial Operations of the Government, 1980-82

(In millions of tala)

|                                 | 1980<br>Actual | 1981<br>Actual | 1982<br>Provi-<br>sional | 1983        |             |
|---------------------------------|----------------|----------------|--------------------------|-------------|-------------|
|                                 |                |                |                          | Budget      | Program 1/  |
| Total revenue and grants        | <u>37.8</u>    | <u>39.2</u>    | <u>43.4</u>              | <u>49.4</u> | <u>50.7</u> |
| Total revenue                   | 24.9           | 24.3           | 28.3                     | 34.2        | 35.2        |
| External grants                 | 12.9           | 14.9           | 15.0                     | 15.2        | 15.5        |
| Total expenditure               | <u>52.5</u>    | <u>56.8</u>    | <u>62.5</u>              | <u>56.1</u> | <u>58.5</u> |
| Current expenditure             | 21.1           | 24.0           | 27.1                     | 26.6        | 27.6        |
| Development expenditure         | 26.5           | 26.9           | 26.5                     | 29.5        | 28.4        |
| Of which:                       |                |                |                          |             |             |
| Domestically financed           | (7.6)          | (8.3)          | (8.7)                    | (6.9)       | (7.0)       |
| Net Treasury advances           | 4.0            | 1.6            | 7.5                      | —           | 2.5         |
| Capital accounts 2/             | 0.9            | 4.3            | 1.4                      | —           | —           |
| Overall deficit (-)             | <u>-14.7</u>   | <u>-17.6</u>   | <u>-19.1</u>             | <u>-6.7</u> | <u>-7.8</u> |
| External financing (net)        | 7.2            | 6.2            | 4.3                      | 3.9         | 3.8         |
| Domestic financing (net)        | 7.5            | 11.4           | 14.8                     | 2.8         | 4.0         |
| Banking system                  | (3.3)          | (10.1)         | (11.8)                   | (...)       | (1.8)       |
| Other                           | (4.2)          | (1.3)          | (3.0)                    | (...)       | (2.2)       |
| <u>Annual percentage change</u> |                |                |                          |             |             |
| Memorandum items:               |                |                |                          |             |             |
| Total revenue and grants        | -1.8           | 3.7            | 10.7                     | 13.8        | 16.8        |
| Total expenditure               | 7.8            | 8.2            | 10.0                     | -10.2       | -6.4        |
| <u>(Per cent of GDP)</u>        |                |                |                          |             |             |
| Overall deficit                 | 16.8           | 17.6           | 16.0                     | 4.7         | 5.5         |
| Of which: bank financed         | (3.8)          | (10.1)         | (9.9)                    | (...)       | (1.3)       |

Source: Data provided by the Western Samoan authorities.

1/ Estimated budget outcome, including the impact of exchange rate adjustments.

2/ Acquisition of shares by the Government.

Table 4. Western Samoa: Estimated Revenue Impact of Discretionary Tax Measures in the 1983 Budget

(In thousands of tala)

| Tax Measure   | Revenue Impact <u>1/</u> |
|---|--------------------------|
| Increase in prime duty from 4 per cent of c.d.v. to 8 per cent of c.i.f.  | 1,496.00                 |
| Change in the basis of assessment of import duty from c.d.v. to c.i.f.  | 1,462.00                 |
| Increases in excise taxes on cigarettes (50 per cent) and beer (43 per cent)  | 1,338.00                 |
| Increases in government fees and charges  | 857.00                   |
| Amendment of the Electric Power Corporation Act to require EPC to pay import duty on petroleum products                                 | 457.00                   |
| Amendment to the depreciation schedule of the Income Tax Act, introduction of a tourist tax, and increases in the airport departure tax | <u>290.00</u>            |
| Total<br>(As per cent of GDP)   | 5,900.00<br>(4.2)        |

Source: Data provided by the Western Samoan authorities.

1/ Revised estimates, including the impact of exchange rate changes.

The estimated budget outcome envisages a 6 per cent reduction in total expenditures through a lowering of domestically financed development expenditures and expenditures on advance accounts; the latter reflects, in part, the anticipated improvement in the financial position of the public enterprises. Current expenditures are expected to increase by less than 2 per cent, due to the implementation of a number of cost-cutting measures, including a reduction by more than half in the maximum overtime limit; in addition, no provision is made for salary increases beyond normal increments associated with regular promotions. Also, the budget eliminates funding for most existing vacancies in line with the "sinking lid" policy aimed at gradually reducing the size of the public sector; the current budget provides for an 8 per cent reduction in the number of public sector positions compared with the 1982 budget. Although total development expenditures are expected to increase by 7 per cent, domestically financed development expenditures are scheduled to decline by nearly 20 per cent, due to the postponement of less urgent projects and the transfer of others to the private sector and increased foreign participation in financing the domestic costs of development projects.

To ensure that budgeted expenditures are not exceeded and revenue targets are met, the Treasury will undertake quarterly reviews of each department's expenditures and revenues. To assist the Treasury in conducting these reviews, each department will provide forecasts for revenue and expenditures on a quarterly basis, updated as soon as possible after the end of each quarter. Each review will include a report to Cabinet on trends in departmental operations and department heads will be called before Cabinet to explain overexpenditures. Moreover, the quarterly format will permit subsequent adjustments to appropriations to bring departmental budgets back on track.

(ii) Financial operations of public enterprises

In 1982, the financial position of the public enterprises improved with the adoption of better management practices and the elimination of some unprofitable operations; overall, both the operating deficit and bank borrowing of these enterprises were halved, compared to 1981, to 3 per cent and 2 per cent of GDP, respectively. Further strengthening of the financial position of these enterprises is expected in 1983 through realistic pricing policies, the impact of exchange rate adjustments on the profitability of the export boards, continued improvements in management practices, and further elimination of unprofitable operations. As a result of these measures the operating deficit of the public enterprises is expected to decline to about 1 per cent of GDP in 1983.

In terms of specific public enterprises, a marked improvement in the operations of the Western Samoa Trust Estates Corporation (WSTEC) was recorded in 1982, when the operating deficit was more than halved, through sharp reductions in staff size. Losses of WSTEC are expected to be reduced further in 1983 through continued cost-cutting measures, including the sale of some unprofitable operations <sup>1/</sup> and the sale and/or exchange of

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<sup>1/</sup> Such as the dairy and wood by-products factories.

land unfit for agricultural development; it is estimated that the sale of land will yield WS\$0.5-1.0 million. In the medium-term, WSTEC intends to acquire and develop suitable land to expand its acreage under high quality cocoa.

The Special Projects Development Corporation (SPDC) also recorded a marked improvement in financial performance in 1982 as a result of management reorganization and consolidation. In 1983, the SPDC is extending its operations to other islands in the region to fully utilize its capital equipment and labor resources.

The Government is planning to rationalize the operations of the marketing boards (Copra, Cocoa, Banana, and the Produce Marketing Division) to increase efficiency and make them more effective instruments of export promotion. Moreover, increased domestic currency prices of copra and cocoa due to the depreciation of the tala and some recovery in world market prices are expected to substantially reduce the combined losses of the Copra and Cocoa Marketing Boards.<sup>1/</sup> The Electric Power Corporation (EPC) has increased electricity rates by 44 per cent to 33 sene per kilowatt hour, to be effective June 1, to offset the impact of the depreciation of the tala and the introduction of an import duty on its diesel fuel imports; rates will remain under review and will be further increased, if necessary.

#### b. Monetary policy

Monetary policy during the program period will be aimed at supporting the external adjustment effort through a tight credit policy and an interest rate policy that will keep key interest rates positive in real terms. There will be a significant deceleration in the growth of domestic bank credit, in particular to the public sector, and in the growth of total liquidity. To promote the adoption of a more active monetary policy, legislation has been drafted and will be submitted to Parliament before the end of the year in order to transform the Monetary Board, which is presently a division within the Treasury, into an independent Monetary Authority by January 1, 1984.

##### (i) Domestic credit program

The credit program for 1983 has been drawn up on the assumption of no real growth in GDP, an 18 per cent increase in the GDP deflator, an overall surplus in the balance of payments of SDR 1.2 million, and the maintenance of key interest rates positive in real terms. On the basis of recent GDP estimates, the velocity of broad money (M2) has shown a declining trend over the years, possibly a reflection of increased monetization, which has been accentuated during periods of interest rate adjustment. The velocity of M2 is projected to decline again in 1983, largely in response to the increase in interest rates in February, which is expected to result in the growth of savings held in the form of bank deposits.

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<sup>1/</sup> Since January 1982 a price stabilization scheme has been in effect for copra and cocoa producer prices (see Section III. 4 below).

On this basis, the growth in total liquidity is estimated at 25 per cent in 1983, compared with 35 per cent in the previous year (Table 5). In line with the external adjustment targets and the assumed demand for liquidity, the growth in net domestic assets of the banking system during 1983 will be limited to 11 per cent, a sharp reduction from the 36 per cent expansion in the previous year. The demand for bank credit is likely to be weak in view of the continued sluggishness in economic activity, the projected decline in imports, and increased availability of funds from nonbank financial institutions.

The projected improvement in public sector finances will sharply reduce public sector recourse to the banking system, which had grown to significant proportions in recent years, accounting for 75 per cent of total bank credit at the end of 1982 (Appendix Table VI). The increase in net credit to the public sector will be limited to 7 per cent, compared to 47 per cent in the preceding year. In the absence of a central monetary authority, credit controls will be implemented through the establishment of limits on credit to major state enterprises and advances to the Treasury; these limits will be monitored by the commercial banks, in particular the Bank of Western Samoa, in cooperation with the Treasury. As a result of tight expenditure control and additional revenue generated through discretionary tax measures, bank financing of the budget deficit will decline sharply from 10 per cent of GDP in 1981-82 to under 2 per cent of GDP in 1983. The continued reduction in the overall losses of the public enterprises will curtail the growth in their demand for bank credit in 1983. As a result, net credit to the public sector will decline by about 9 per cent in real terms. Credit to the private sector is projected to increase by about 19 per cent, compared with 18 per cent in the previous year.

Taking into account developments in the budgetary aggregates projected in the program for 1983 and seasonal credit needs of the public and private sectors, quarterly ceilings have been set on the level of the banking system's net domestic assets and on net credit to the public sector.

#### (ii) Interest rates

Bank deposit and lending rates, which had last been adjusted in 1981, remained negative in real terms in 1982. Moreover, large differentials had emerged between domestic rates and those in neighboring countries, particularly in New Zealand. To overcome the adverse effects of the level of interest rates on domestic resource mobilization, repatriation of workers' remittances, and the efficient allocation of resources, 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 per cent per annum for deposits with maturities of three months to 24 months, while lending rates range from 14-20 per cent on different categories of commercial bank loans (Table 6). As a result, the differentials between deposit rates



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

(In thousands of tala; end of period)

|                                   | 1980                           | 1981           | 1982           | 1983<br>Program |
|-----------------------------------|--------------------------------|----------------|----------------|-----------------|
| Net foreign assets                | <u>-8,978</u>                  | <u>-18,896</u> | <u>-25,850</u> | <u>-24,300</u>  |
| Net domestic assets               | <u>27,235</u>                  | <u>41,954</u>  | <u>57,067</u>  | <u>63,300</u>   |
| Credit to the public sector (net) | 15,828                         | 29,727         | 43,722         | 46,900          |
| Credit to the private sector      | 11,334                         | 11,986         | 14,166         | 16,800          |
| Other assets (net)                | 73                             | 241            | -821           | -400            |
| Total liquidity                   | <u>18,257</u>                  | <u>23,058</u>  | <u>31,217</u>  | <u>39,000</u>   |
|                                   | (Annual percentage changes) 1/ |                |                |                 |
| Net domestic assets               | 37.7                           | 54.0           | 36.0           | 10.9            |
| Credit to the public sector (net) | 49.3                           | 87.8           | 47.1           | 7.3             |
| Credit to the private sector      | 5.6                            | 5.8            | 18.2           | 18.6            |
| Total liquidity                   | 1.0                            | 26.3           | 35.4           | 24.9            |

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

1/ For annual changes expressed in relation to the stock of liquidity outstanding at the end of the preceding year see Appendix Table VI.

Table 6. Western Samoa: Interest Rates, 1980-83

(In per cent per annum)

|   | 1980<br>July 1 | 1981<br>Feb. 1        | 1981<br>Dec. 1 | 1983<br>Feb. 7 |
|---|----------------|-----------------------|----------------|----------------|
| <b>Commercial bank deposit rates</b>                              |                |                       |                |                |
| Savings deposits  | 4.0            | 5.0                   | 6.0            | 8.0            |
| Time deposits   |                |                       |                |                |
| 3 months  | 6.5            | 8.5                   | 9.0            | 14.0           |
| 6 months  | 7.0            | 9.0                   | 10.0           | 15.0           |
| 12 months   | 8.0            | 10.0                  | 11.0           | 17.0           |
| 24 months   | 8.5            | 10.5                  | 11.5           | 17.0           |
| <b>Commercial bank lending rates</b>                              |                |                       |                |                |
| Government 1/   | 9.0            | Maximum               | 12.5           | 16.0           |
| Agriculture   | 10.0           | of 15                 | 12.0           | 14.0           |
| Manufacturing   | 11.5-13.0      |                       | 12.5-13.5      | 16.0           |
| Commerce  | 11.9-13.0      |                       | 12.5-15.0      | 18.0           |
| Personal  | 10.0-12.5      |                       | 14.0-16.0      | 20.0           |
| (Amounts outstanding at end-December 1982<br>in millions of tala) |                |                       |                |                |
| <b>Memorandum items:</b>  |                |                       |                |                |
| Commercial bank deposits  | 43.0           | Commercial bank loans | 38.3           |                |
| Demand deposits   | 15.9           | Government            | 11.4           | 2/             |
| Savings deposits  | 4.7            | Public enterprises    | 12.7           |                |
| Time deposits   | 22.4           | Private sector        | 14.2           |                |

Source: Data provided by the Western Samoan authorities.

1/ Includes lending to public enterprises.

2/ Excluding government securities held by banks.

in Western Samoa and New Zealand (where most remittances come from) have largely been eliminated; positive real rates of interest have been established on deposits with maturities of 12 months and longer, and on commercial and personal bank loans. Rates for priority sectors have been set at 14 per cent for agriculture and 16 per cent for manufacturing, while loans to the public sector carry an interest rate of 16 per cent. The initial response to the adjustment in interest rates has been a shift into deposits with longer maturities, and an increase in deposits of business firms which had previously held funds abroad.

The authorities intend to monitor interest rates in light of domestic price movements and developments in interest rates abroad, with the objective of maintaining key interest rates positive in real terms and avoiding the re-emergence of adverse interest rate differentials with neighboring countries. Interest rate policy is to be reassessed at the time of the mid-term review.

### 3. External policies

The authorities will rely on flexible exchange rate management in conjunction with tight fiscal and monetary policies to achieve the targeted reduction in the external current account deficit and realize a moderate overall balance of payments surplus.

In 1983, exports are projected to increase by 22 per cent in SDR terms, reflecting the recovery in both volume and commodity prices, as well as the change in the composition of exports (Table 7). Cocoa exports will more than double, largely as a result of the sharp increase in output in 1982. The share of coconut oil and coconut meal exports will continue to increase, while the share of copra will decline. Furthermore, the beneficial impact on producer prices of the copra and cocoa price stabilization schemes introduced in 1982 will be enhanced by the exchange rate adjustments and the anticipated rise in export prices.

The decline in imports which began in 1980 is expected to continue in 1983. Imports are projected to decline by more than 8 per cent in real terms, with most of the decline accounted for by the substantial decrease in the oil import bill. In addition, the authorities plan to effect some reduction in imports of consumption goods and tighten controls to minimize the flow of unauthorized imports.<sup>1/</sup> More importantly, to bring about an improvement in the trade deficit, the authorities are counting on the contractionary policies already in place, the devaluation of the tala, the change in valuation from c.d.v. to c.i.f., and the doubling of the primage duty to limit the demand for imports to the envisaged level of foreign exchange allocations.

The current account deficit is projected to decrease from its 1982 level of SDR 17.6 million (20 per cent of GDP) to SDR 12.1 million (13 per

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<sup>1/</sup> Imports subject to the foreign exchange allocation system, but for which no prior allocation of foreign exchange has been made.

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

(In millions of SDRs)

|   | 1980         | 1981         | 1982<br>Prov. | 1983<br>Prog. | 1984<br>Proj. |
|---|--------------|--------------|---------------|---------------|---------------|
| Exports, f.o.b                                  | 13.1         | 8.9          | 10.6          | 12.9          | 14.2          |
| Of which:                                       |              |              |               |               |               |
| Copra and products                              | (7.0)        | (3.5)        | (5.3)         | (6.0)         | (6.8)         |
| Cocoa   | (2.5)        | (1.0)        | (0.6)         | (2.0)         | (2.1)         |
| Imports, c.i.f.                                 | -49.9        | -47.9        | -44.4         | -42.0         | -43.0         |
| Of which: oil                                   | (-9.9)       | (-10.1)      | (-9.9)        | (-7.7)        | (-7.5)        |
| Trade balance                                   | <u>-36.8</u> | <u>-39.0</u> | <u>-33.8</u>  | <u>-29.1</u>  | <u>-28.8</u>  |
| Services (net)                                  | 0.2          | -1.4         | -0.7          | 0.4           | 0.9           |
| Of which: interest payments                     | (-1.9)       | (-2.2)       | (-1.9)        | (-1.8)        | (-1.9)        |
| Private transfers (net)                         | 14.4         | 15.7         | 16.9          | 16.6          | 16.0          |
| Current account                                 | <u>-22.2</u> | <u>-24.7</u> | <u>-17.6</u>  | <u>-12.1</u>  | <u>-11.9</u>  |
| Government transfers                            | 10.8         | 12.2         | 11.2          | 10.1          | 10.5          |
| Nonmonetary capital (net)                       | 4.9          | 5.0          | 2.3           | 3.2           | 4.0           |
| Government (net)                                | 5.8          | 5.0          | 3.1           | 2.5           | 4.2           |
| Government guaranteed (net)                     | -0.6         | -0.8         | -2.1          | 0.7           | -0.2          |
| Other <sup>1/</sup>                             | -0.3         | 0.8          | 1.3           | --            | --            |
| 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>2.6</u>    |
| Financing                                       | 6.2          | 7.2          | 4.1           | -1.2          | -2.6          |
| Foreign assets (increase -)                     | 1.7          | -1.0         | -0.1          | -0.2          | --            |
| Foreign liabilities (increase +)                | 4.5          | 8.2          | 4.2           | -1.0          | -2.6          |
| Of which:                                       |              |              |               |               |               |
| Use of Fund resources (net)                     | (-0.7)       | (1.9)        | (-0.7)        | (1.9)         | (0.9)         |
| Exceptional financing (arrears)                 | (1.2)        | (7.6)        | (4.2)         | (-2.9)        | (-3.5)        |
| Memorandum items:                               |              |              |               |               |               |
| Current account/GDP (per cent)                  | 30.3         | 30.2         | 19.7          | 13.2          | 11.4          |
| Gross international reserves<br>(end of period) |              |              |               |               |               |
| In millions of SDRs                             | 2.6          | 3.6          | 3.7           | 3.9           | 3.9           |
| In months of imports                            | (0.6)        | (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.

cent of GDP) in 1983. The decline in official transfers is expected to be offset by the anticipated increase in net capital inflows, and an overall balance of payments surplus of SDR 1.2 million is envisaged for 1983, which, together with the net use of Fund resources of SDR 1.9 million, will be used to reduce outstanding external payments arrears. The authorities are confident that the remaining arrears will be eliminated by the end of the year through rescheduling.<sup>1/</sup> In any event, a path for the orderly elimination of those arrears over 1984-87 has been established by the authorities. Considering the negative impact of arrears on the country's capacity to attract capital and to service its debt, the authorities will make every effort to repay the remaining arrears as quickly as possible.

The Government of Western Samoa recognizes that an active exchange rate policy is needed to promote external adjustment. The objectives of exchange rate policy are to improve the profitability of the export sector and to raise the prices of imported goods by reversing the real appreciation of the tala recorded since the third quarter of 1979. To achieve these objectives the tala has been depreciated by about 17.5 per cent on a trade-weighted basis between February 7 and May 13, 1983. The tala was devalued by 10 per cent in terms of the New Zealand dollar on February 7, 1983, and, in steps, by a further 5 per cent during the period 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 of about 2.5 per cent. The authorities intend to pursue a flexible exchange rate policy to maintain competitiveness; exchange rate policy will be reassessed at the time of the mid-term review.

#### 4. Production and pricing policies

To foster the growth of major export crops the Government has been operating commercial plantations under the aegis of the Western Samoa Trust Estates Corporation (WSTEC)--a statutory government body which controls about 30,000 acres of prime land--and encouraging the replanting of cocoa and coconut trees on traditional land holdings through the provision of subsidized inputs and preferential credit. To stimulate coconut production, a replanting program has been established using locally developed high-yielding hybrid seeds; the program will reach its peak in 1986 when enough seed nuts will be available to plant 2,500 acres annually. In 1982 four Cocoa Field Extension teams were established to assist farmers with the identification of suitable land and the provision of seed nuts; sufficient seed nuts were distributed to plant 300 acres in 1982, and this effort is expected to be doubled in 1983.

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<sup>1/</sup> Discussions for rescheduling are underway with the seven major creditors.

The Government recognizes that the provision of adequate financial incentives is also necessary to encourage the production of export crops. In 1982, a price stabilization scheme for cocoa and copra producers was established, which, through the provision of a subsidy, attenuated the impact of declining world market prices on growers' income.<sup>1/</sup> By the end of the first quarter of 1983 the depreciation of the tala and some recovery in world market prices had increased the domestic currency price of copra and cocoa exports and eliminated the subsidy element in producer prices which, so far, have been maintained at their 1982 levels. The authorities are reviewing producer prices for copra and cocoa on a monthly basis with the aim of passing on the benefits of the depreciation to producers as soon and as fully as possible. Since there are no price stabilization schemes for banana and taro, the impact of the depreciation of the tala on producer prices has been felt more directly.

The Government has also encouraged the processing of agricultural commodities to increase the domestic value added of exports. In 1982, a government-owned copra crushing mill was established to produce coconut oil and coconut meal for export. Also in 1982 a veneer mill was established, which is expected to double the value of wood product exports in 1983. In addition, the Government has encouraged foreign participation in various manufacturing enterprises geared to import substitution through the Enterprise Incentives Act. Production of import-substituting goods, such as beer and cigarettes, has increased steadily, and moderate amounts of both are now being exported (Appendix Table VII). The Government's policy is to continue to promote foreign investment, and a review of the Enterprise Incentives Act is underway, with the aim of increasing the efficiency of incentives while limiting the overall impact on the budget.

Western Samoa has adopted a comprehensive energy policy which stresses domestic production of energy through the generation of electricity from hydropower and conservation through realistic energy pricing policies. During 1982 two new hydropower plants were completed, which increased the share of electricity generated from this source from an average of around 20 per cent in earlier years to about 48 per cent in 1983 (Appendix Table VIII). A third and larger hydropower plant is scheduled to be completed in late 1984, which will raise the share of electricity generated from this source to about 70 per cent. The increased use of hydropower has resulted in a sharp decline in diesel fuel imports for electricity generation from 1.6 million gallons in 1980 to a projected 1 million gallons in 1983. In line with the Government's policy that the selling prices of petroleum products fully reflect increases in import costs, these prices were raised by 17 per cent to 21 per cent effective April 8, 1983, to adjust for the impact of exchange rate and customs valuation changes. As mentioned earlier, electricity charges have also been raised.

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<sup>1/</sup> For details on the operation of the price stabilization scheme, see SM/83/5, pp. 3-4.

5. Performance criteria and phasing of purchases

The program for 1983 includes the following quantified performance criteria which are set out in Table 8:

- (i) Quarterly ceilings on net domestic assets of the banking system;
- (ii) Quarterly ceilings on net credit of the banking system to the public sector;
- (iii) Ceilings on the contracting of public and publicly guaranteed external debt with maturity ranges of up to 12 years and up to 5 years; and
- (iv) Minimum repayment of external payments arrears.

In addition to the above quantitative performance criteria, the usual performance criteria relating to multiple currency practices, 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 comprehensive 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 financial positions of the public enterprises; credit and pricing policies; and progress in repayment and rescheduling of external payments arrears. The mid-term review will constitute a performance criterion, so that the purchase based on the September ceilings will not be made available until the conclusion of the mid-term review. Purchases under the stand-by arrangement have been phased in such a manner that total purchases will not exceed SDR 1.69 million until consultations initiated in connection with the mid-term review have been concluded and new understandings, if necessary, have been reached.

IV. Medium-Term Outlook

Illustrative medium-term balance of payments projections indicate that Western Samoa will face an external financing constraint for several years to come. While policies to promote export profitability and the resulting shift of resources to the external sector will help broaden the export base and develop some import substitutes, a significant surge in export growth cannot be expected in the immediate future. Exports will continue to be mostly of agricultural products and to be influenced to a large extent by the age and productivity of plantations, adequacy of fertilizer use and harvesting techniques, disease control, as well as improvements in processing, storage, and marketing facilities. Receipts from services are not likely to constitute an important source of foreign exchange in the near future, and despite the increased flexibility of exchange and interest rate policies, the growth in private remittances

Table 8. Western Samoa: Quantitative Performance Criteria, 1983

|  | 1983, up to                          |          |         |
|--|--------------------------------------|----------|---------|
|  | June 29                              | Sept. 28 | Dec. 28 |
| <hr/>  |                                      |          |         |
|  | <u>(In thousands of tala)</u>        |          |         |
| Ceilings   |                                      |          |         |
| Net domestic assets of the banking system (stock) <u>1/</u>              | 64,050                               | 61,500   | 63,300  |
| Of which: net credit to the public sector (stock) <u>2/</u>              | 47,800                               | 46,800   | 46,900  |
|  | <u>(In millions of U.S. dollars)</u> |          |         |
| Contracting of external debt <u>3/</u> during the year with maturity of: |                                      |          |         |
| Up to and including 12 years   |                                      |          | 4.0     |
| Up to and including 5 years  |                                      |          | 2.5     |
|  | <u>(In millions of SDRs)</u>         |          |         |
| Minimum repayment of external payments arrears                           |                                      | 1.6      | 2.9     |

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.



will be constrained by employment opportunities abroad. External assistance in the form of concessional loans is likely to be limited by budgetary constraints in donor countries, while balance of payments financing on commercial terms will not be advisable given the heavy debt service burden. External adjustment, therefore, will necessitate continued restraint on imports, which have declined in real terms for several consecutive years. Given the projected trends in exports and the assumption of some continued improvement in the terms of trade during 1984-88, the projected debt service payments and net capital flows, import growth will have to be very modest in order to allow for the generation of balance of payments surpluses needed each year to meet repurchase obligations to the Fund, eliminate external payments arrears, and reconstitute gross official reserves to normal levels. Under this scenario, the current account deficit will, on average, be limited to approximately SDR 13 million annually during 1984-88, compared with an average of about SDR 20 million during 1980-83 (Appendix Table IX).

The medium-term prospects for growth, which will continue to be agriculture-led, are not likely to be severely impaired by the constraint on imports. Given the relatively large share of nonessential consumption goods in total imports and the possibilities for developing import substitutes, there appears to be scope for limiting the adverse impact of the adjustment effort on the growth of nonagricultural output. Moreover, oil imports, which constitute the single largest import item outside consumption goods, will continue to decline with the increased use of hydropower for electricity generation as new plants come into operation. Finally, there are strong prospects for increasing foreign participation in a number of industries geared to import substitution in view of the declared intention of the authorities to promote foreign investment in Western Samoa.

Western Samoa's external debt outstanding, including net drawings from the Fund and external payments arrears, is estimated at 75 per cent of GDP at the end of 1983; with continued repayment of outstanding arrears in the following years and no further use of Fund resources beyond 1984, external debt is projected to decline to 45 per cent of GDP by the end of 1988. Given the magnitude of external arrears outstanding at the end of 1982, their elimination through cash payments, or if rescheduled, the terms of rescheduling will of course influence significantly the debt service profile in the medium term. With approximately equal annual payments during 1984-87, the debt service ratio will decline from a peak of 46 per cent of exports of goods and services in 1983 to 22 per cent in 1988. Excluding the repayment of arrears, the debt service ratio is substantially lower and is projected to decline from 31 per cent to 22 per cent of goods and services over the same period.

## V. Staff Appraisal and Proposed Decisions

Since 1980, Western Samoa has experienced negative real rates of economic growth, high rates of inflation, and sizable balance of payments deficits that were financed mainly by the accumulation of external payments arrears. A combination of factors contributed to these difficulties, most notably the sharp deterioration in the terms of trade as well as successive poor harvests of major export commodities and substantial increases in the public sector deficit that were financed by heavy use of domestic bank credit.

To deal with these problems, the Government, which took office on December 30, 1982, adopted a program for 1983 aimed at reducing the current account deficit of the balance of payments to 13 per cent of GDP, compared with an average of 27 per cent in 1980-82, and achieving a significant deceleration in the underlying rate of inflation following an initial increase in the price level in the middle of the year as pricing adjustments take place in line with exchange rate and duty adjustments. The Government regards the economic and financial policies to be implemented in 1983 as the first phase of a medium-term program designed to promote sound and broadly-based economic growth, achieve a viable balance of payments position, and maintain a low inflation rate.

The program is broadly based and aims at bringing domestic demand closely into line with financial availabilities. The adjustment will entail sacrifices, but these are recognized as unavoidable if the foundation for future growth and stability is to be established. No real economic growth is envisaged in 1983, and despite the projected healthy increase in exports, imports are projected to decline further in real terms.

A key to the adjustment is the substantial contraction in the public sector deficit relative to GDP. New tax measures are expected to yield additional revenue in excess of 4 per cent of GDP. The authorities are currently considering proposals to reform the tax system with a view to incorporating some of these proposals in the 1984 budget. The staff believes that the timely replacement of the primage duty, in conjunction with the reformulation of the tariff structure to reduce reliance on trade taxes, would be crucial in ensuring the achievement of efficient import substitution. The staff also considers some extension of the coverage of excise taxes and a change in the method of assessment to an ad valorem basis as the first steps necessary to expand the tax base and improve the revenue structure; looking to the future, the enactment of a general sales tax should be feasible. While the fiscal adjustment in 1983 will rely heavily on revenue raising measures, the budgeted reduction in expenditures, especially Treasury advances, is perhaps even more significant as it reflects the anticipated improvement in the financial position of public enterprises, as well as the determination of the Government to impose strict controls on public spending and promote the role of the private sector.

Monetary policy will be strict in 1983 as the expansion of the banking system's net domestic assets and its net credit to the public sector will be constrained by tight quarterly ceilings. The achievement of the fiscal objectives and the reduced claims of the public sector on financial resources will ease the pressure on the balance of payments while permitting the necessary flow of bank credit to the private sector, and promoting a more balanced allocation of resources. The decision to raise interest rates substantially will also contribute to internal and external adjustment by encouraging private financial savings and bolstering the inflow of workers' remittances. In this regard, the authorities are committed to monitoring interest rates during the program period and to undertake prompt adjustments in light of changes in interest rates in neighboring countries and/or in domestic inflation.

A sustainable balance of payments position in the medium term will require the revitalization of the export sector and the development of the import-competing sector. In pursuit of balance of payments viability, demand management policies have been combined with exchange rate adjustments that have virtually eliminated the effective appreciation of the tala recorded since 1979. A flexible exchange rate policy will be pursued in the future to maintain export competitiveness and foster a reallocation of resources to the export- and import-competing sectors. The task of external adjustment, which will need to extend beyond 1983, is rendered more difficult due to the existence of external payments arrears. In 1983, the authorities will effect a sizable reduction in these arrears through cash payments and make every effort to negotiate a schedule for the orderly elimination of the remaining amounts. In any event, a schedule for the elimination of the arrears, if necessary through continued cash payments, has been established by the authorities. In the circumstances, the staff recommends Fund approval for the restriction involved in the maintenance of payments arrears. Most of Western Samoa's external debt is long-term and concessionary, but the debt service burden will remain heavy in the next few years, mainly on account of the repayment of arrears and Fund repurchases.

Western Samoa is a small island economy with a very limited economic base, which restricts strictly its capacity to cope with adverse external developments and requires a strong adjustment effort. At the same time, the rising expectations of the population for a higher standard of living have significant social and political implications which must be considered in the formulation of adjustment strategies. Against this background the staff believes that Western Samoa's program for 1983 represents an appropriate reorientation of economic policies to address the severe economic and financial problems created by the lack of timely domestic adaptations in the past to the worsening external situation. Success in this endeavor is by no means certain. However, every effort should be made to fully implement the 1983 program and to prevent hard-won gains from being quickly dissipated. The provision for a mid-term review, and the authorities' readiness to take any further measures necessary to achieve the objectives of the program underscore their strong determination to carry through the adjustment effort. Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

I. Stand-by Arrangement

1. The Government of Western Samoa has requested a stand-by arrangement for a period of one year from to in an amount equivalent to SDR 3.375 million.
2. The Fund approves the stand-by arrangement attached to EBS/83/105.
3. The Fund waives the limitation of Article V, Section 3(b) (iii).

II. Approval of Exchange Restriction

1. The Fund notes that Western Samoa maintains external payments arrears as described in EBS/83/105 and the intention of the authorities regarding their early elimination.
2. The Fund approves the retention by Western Samoa of the exchange restriction involved in the maintenance of external payments arrears until January 31, 1984, or the completion of the mid-term review under the stand-by arrangement, whichever is the earlier.

Table I. Western Samoa: Expenditure of the Government, 1980-83

(In millions of tala)

|   | 1980        | 1981        | 1982<br>Provisional<br>Actual | 1983        |                   |
|---|-------------|-------------|-------------------------------|-------------|-------------------|
|   |             |             |                               | Budget      | Program <u>1/</u> |
| Current expenditure                                 | <u>21.1</u> | <u>24.0</u> | <u>27.1</u>                   | <u>26.6</u> | <u>27.6</u>       |
| Salaries and wages                                  | 10.9        | 12.9        | 14.1                          | 14.9        | 14.9              |
| Interest payments <u>2/</u>                         | 2.4         | 3.1         | 3.4                           | 4.0         | 4.6               |
| Other <u>3/</u>                                     | 7.8         | 8.0         | 9.6                           | 7.7         | 8.1               |
| Development expenditure                             | <u>26.5</u> | <u>26.9</u> | <u>26.5</u>                   | <u>29.5</u> | <u>28.4</u>       |
| Domestically financed<br>development expenditures   | 7.6         | 8.3         | 8.7                           | 6.9         | 7.0               |
| Salaries and wages                                  | (1.3)       | (1.0)       | (1.7)                         | (1.7)       | (1.7)             |
| Subsidies   | (0.5)       | (1.3)       | (0.9)                         | (0.7)       | (0.7)             |
| Capital transfers                                   | (0.8)       | (2.2)       | (1.8)                         | (0.6)       | (0.6)             |
| Other <u>3/</u>                                     | (5.0)       | (3.8)       | (4.3)                         | (3.9)       | (4.0)             |
| Project loan financed                               | 6.3         | 6.5         | 4.2                           | 7.4         | 5.9               |
| Project grant financed                              | 12.6        | 12.1        | 13.6                          | 15.2        | 15.5              |
| Net Treasury advances                               | <u>4.0</u>  | <u>1.6</u>  | <u>7.5</u>                    | --          | <u>2.5</u>        |
| Industry  | 0.9         | 0.2         | 1.4                           | ...         | ...               |
| Statutory bodies                                    | 1.6         | 0.5         | 2.6                           | ...         | ...               |
| Recoverable under aid                               | 1.3         | -0.3        | -0.5                          | ...         | ...               |
| Arrears on government-<br>guaranteed debt <u>4/</u> | --          | 1.2         | 4.0                           | ...         | ...               |
| Capital accounts (purchase<br>of shares)            | <u>0.9</u>  | <u>4.3</u>  | <u>1.4</u>                    | --          | --                |
| Total expenditure                                   | <u>52.5</u> | <u>56.8</u> | <u>62.5</u>                   | <u>56.1</u> | <u>58.5</u>       |
| <u>Memorandum item:</u>                             |             |             |                               |             |                   |
| Total salaries and wages                            | 12.2        | 13.9        | 15.8                          | 16.6        | 16.6              |

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

1/ Incorporates budget revisions and the impact of exchange rate adjustments.

2/ Adjusted upwards by WS\$100,000 in 1980, WS\$100,000 in 1981, and WS\$200,000 in 1982 to reflect default on interest payments on government external debt.

Claims of the Monetary Board on the Treasury have been adjusted accordingly.

3/ Derived as a residual. Includes mostly purchases of goods and services.

4/ Claims of the Monetary Board on the Treasury have been adjusted accordingly.

Table II. Western Samoa: Revenue and Grants of the Government, 1980-83

(In thousands of tala)

|  | 1980          | 1981          | 1982<br>Provisional<br>Actual | 1983          |                   |
|--|---------------|---------------|-------------------------------|---------------|-------------------|
|  |               |               |                               | Budget        | Program <u>1/</u> |
| Tax revenue                                      | <u>20,445</u> | <u>20,251</u> | <u>24,077</u>                 | <u>28,498</u> | <u>29,749</u>     |
| Taxes on income                                  | 6,014         | 6,617         | 8,308                         | 8,000         | 8,000             |
| Companies  | (2,668)       | (2,886)       | (4,052)                       | (...)         | (...)             |
| Salaries and wages                               | (3,038)       | (3,190)       | (4,139)                       | (...)         | (...)             |
| Other  | (634)         | (627)         | (999)                         | (...)         | (...)             |
| Less: refund                                     | (-326)        | (-86)         | (-882)                        | (...)         | (...)             |
| Excise duties                                    | 2,822         | 2,622         | 3,530                         | 4,846         | 4,738             |
| Taxes on international trade                     | 11,282        | 10,896        | 11,949                        | 14,684        | 16,043            |
| Import duties                                    | (10,095)      | (10,148)      | (11,155)                      | (13,934)      | (15,190)          |
| Of which: primage duty                           | (--)          | (--)          | (1,257)                       | (2,476)       | (2,818)           |
| Export surcharge                                 | (558)         | (218)         | (167)                         | (100)         | (118)             |
| Foreign exchange levy                            | (629)         | (218)         | (167)                         | (650)         | (118)             |
| Other taxes                                      | 327           | 116           | 290                           | 968           | 968               |
| Business licenses                                | (45)          | (37)          | (41)                          | (50)          | (50)              |
| Airport departure tax                            | (64)          | (61)          | (175)                         | (368)         | (368)             |
| Other <u>2/</u>                                  | (218)         | (18)          | (74)                          | (550)         | (550)             |
| Nontax revenue                                   | <u>4,458</u>  | <u>4,018</u>  | <u>4,231</u>                  | <u>5,642</u>  | <u>5,443</u>      |
| Fees, service charges, etc.                      | 1,512         | 1,521         | 1,763                         | 2,412         | 2,560             |
| Operating surplus of<br>departmental enterprises | 1,199         | 962           | 566                           | 1,251         | 810               |
| Rents, royalties, interest                       | 1,009         | 1,238         | 1,391                         | 1,324         | 1,418             |
| Sale of government supplies                      | 114           | 103           | 169                           | 199           | 199               |
| Sale of government shares                        | 418           | --            | 188                           | 300           | 300               |
| Other  | 206           | 194           | 154                           | 156           | 156               |
| Total revenue                                    | <u>24,903</u> | <u>24,269</u> | <u>28,308</u>                 | <u>34,140</u> | <u>35,192</u>     |
| Total grants                                     | <u>12,909</u> | <u>14,924</u> | <u>15,043</u>                 | <u>15,250</u> | <u>15,550</u>     |
| Cash and commodity grants                        | 309           | 2,824         | 1,443                         | 50            | 50                |
| STABEX   |               | 2,088)        | (1,409)                       | (--)          | (--)              |
| Other  | (309)         | (736)         | (34)                          | (50)          | (50)              |
| Project aid grants                               | 12,600        | 12,100        | 13,600                        | 15,200        | 15,500            |
| Total revenue and grants                         | <u>37,812</u> | <u>39,193</u> | <u>43,351</u>                 | <u>49,390</u> | <u>50,742</u>     |

Source: Data provided by the Western Samoan authorities.

1/ Incorporates adjustments for exchange rate movements and, where necessary, other revisions to the budget estimates.2/ Includes estate and gift taxes.

Table III. Western Samoa: Financing of the Government Budget Deficit, 1980-83  
(In thousands of tala)

|  | 1980          | 1981          | 1982<br>Provisional<br>Actual | 1983<br>Budget Program <u>1/</u> |              |
|--|---------------|---------------|-------------------------------|----------------------------------|--------------|
| Overall deficit  | <u>14,700</u> | <u>17,602</u> | <u>19,096</u>                 | <u>6,700</u>                     | <u>7,800</u> |
| External financing   | <u>7,227</u>  | <u>6,159</u>  | <u>4,276</u>                  | <u>3,900</u>                     | <u>3,800</u> |
| Project loans  | 6,273         | 6,508         | 4,218                         | 7,400                            | 5,900        |
| Other loans  | 1,302         | 1,049         | 1,211                         | ...                              | 1,500        |
| Repayment (adjusted for default<br>on government debt) <u>2/</u> | -588          | -1,398        | -1,153                        | -3,500                           | -3,600       |
| Sinking funds abroad   | 240           | --            | --                            | --                               | ...          |
| Domestic financing   | <u>7,473</u>  | <u>11,443</u> | <u>14,820</u>                 | <u>2,800</u>                     | <u>4,000</u> |
| Banking system   | <u>3,319</u>  | <u>10,108</u> | <u>11,792</u>                 | ...                              | <u>1,800</u> |
| Banks (net)  | 1,590         | 3,321         | 5,978                         | ...                              | ...          |
| Net IMF position   | -884          | 2,661         | -574                          | ...                              | ...          |
| Treasury foreign overdraft                                       | 10            | 234           | -156                          | ...                              | ...          |
| Monetary Board of Western Samoa<br>(net)                         | 1,986         | 3,714         | 6,168                         | ...                              | ...          |
| Other (net)  | 617           | 178           | 376                           | ...                              | ...          |
| Other domestic (net)   | <u>4,154</u>  | <u>1,335</u>  | <u>3,028</u>                  | ...                              | <u>2,200</u> |
| Government securities  | 1,380         | 1,000         | 1,510                         | ...                              | ...          |
| Call deposits at Treasury  | 1,159         | 1,552         | -104                          | ...                              | ...          |
| Other  | 1,615         | -1,217        | 1,622                         | ...                              | ...          |

Source: Data provided by the Western Samoan authorities.

1/ Incorporates adjustments for exchange rate movements and, where necessary, other revisions to the budget estimates.

2/ Default on principal amounted to WS\$400,000 in 1981 and WS\$100,000 in 1982. Claims of the Monetary Board on the Treasury have been adjusted accordingly.

Table IV. Western Samoa: Financial Operations of the  
Public Enterprises, 1980-83

(In millions of tala)

|                           |                     | 1980 | 1981 | 1982 | 1983<br>Projection |
|---------------------------|---------------------|------|------|------|--------------------|
| EPC                       | Surplus/deficit (-) | -0.7 | -0.9 | -0.3 | -0.3               |
|                           | Bank borrowing      | 0.7  | -0.5 | -0.2 | 0.1                |
| SPDC                      | Surplus/deficit (-) | -1.1 | -1.7 | -0.4 | 0.3                |
|                           | Bank borrowing      | 0.2  | 0.2  | -0.1 | -0.1               |
| Copra Board               | Surplus/deficit (-) | -0.3 | 0.3  | -0.7 | -0.1               |
|                           | Bank borrowing      | --   | 1.0  | 2.1  | 0.1                |
| Cocoa Board               | Surplus/deficit (-) | -0.1 | -0.2 | -0.6 | -0.8               |
|                           | Bank borrowing      | -0.8 | 0.4  | 0.8  | 0.3                |
| WSTEC                     | Surplus/deficit (-) | -0.6 | -2.2 | -0.8 | -0.5               |
|                           | Bank borrowing      | 1.3  | 2.0  | 0.8  | 0.5                |
| PAL                       | Surplus/deficit (-) | -0.8 | -1.2 | -0.2 | --                 |
|                           | Bank borrowing      | 0.1  | 0.2  | -0.5 | --                 |
| Other                     | Surplus/deficit (-) | -0.6 | -0.5 | -0.5 | -0.3               |
|                           | Bank borrowing      | 0.4  | 0.6  | -0.7 | 0.4                |
| Total                     | Surplus/deficit (-) | -4.2 | -6.4 | -3.5 | -1.7               |
|                           | Bank borrowing      | 1.9  | 3.9  | 2.2  | 1.3                |
| (Per cent of GDP)         |                     |      |      |      |                    |
| Memorandum items:         |                     |      |      |      |                    |
| Total surplus/deficit (-) |                     | -4.8 | -6.4 | -2.9 | -1.2               |
| Bank borrowing            |                     | 2.2  | 3.9  | 1.8  | 0.9                |

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



Table V. Western Samoa: Exchange Rates, 1978-83

(Tala per unit of foreign exchange)

|                | New Zealand<br>Dollar | U.S.<br>Dollar | SDR    |
|----------------|-----------------------|----------------|--------|
| End of period  |                       |                |        |
| 1978           | 0.7637                | 0.7160         | 0.9308 |
| 1979           | 0.8942                | 0.9067         | 1.2002 |
| 1980           | 0.8942                | 0.9292         | 1.1851 |
| 1981           | 0.9062                | 1.0992         | 1.2794 |
| 1982           | 0.9062                | 1.2371         | 1.3647 |
| Period average |                       |                |        |
| 1978           | 0.7637                | 0.7361         | 0.9216 |
| 1979           | 0.8380                | 0.8193         | 1.0585 |
| 1980           | 0.8942                | 0.9194         | 1.1966 |
| 1981           | 0.8955                | 1.0293         | 1.2137 |
| 1982           | 0.9062                | 1.2077         | 1.3321 |
| I              | 0.9062                | 1.1394         | 1.2950 |
| II             | 0.9062                | 1.1888         | 1.3339 |
| III            | 0.9062                | 1.2392         | 1.3382 |
| IV             | 0.9062                | 1.2635         | 1.3612 |
| 1983           |                       |                |        |
| I              | 0.9733                | 1.3589         | 1.4837 |

Sources: Data provided by the Western Samoan authorities; and IMF, International Financial Statistics.

Table VI. Western Samoa: Monetary Survey, 1979-83

(In thousands of tala)

|  | 1979    | 1980     | 1981      | 1982      |           |           |          | 1983                |
|--|---------|----------|-----------|-----------|-----------|-----------|----------|---------------------|
|  | Dec.    | Dec.     | Dec.      | Mar.      | June      | Sept.     | Dec.     | Mar.<br>Provisional |
| Net foreign assets                     | -1,700  | -8,978   | -18,896   | -24,677   | -27,535   | -28,968   | -25,850  | -32,009             |
| Assets                                 | 5,167   | 3,105    | 4,618     | 3,589     | 4,403     | 4,703     | 5,023    | 3,735               |
| Liabilities                            | -6,867  | -12,083  | -23,514   | -28,266   | -31,938   | -33,671   | -30,873  | -35,744             |
| Of which: external<br>payments arrears | (--)    | (-1,545) | (-11,462) | (-15,746) | (-17,449) | (-19,213) | (17,897) | (-18,183)           |
| Net domestic assets                    | 19,777  | 27,235   | 41,954    | 47,807    | 53,680    | 54,587    | 57,067   | 61,348              |
| Domestic credit                        | 21,335  | 27,162   | 41,713    | 48,739    | 53,397    | 54,554    | 57,888   | 59,987              |
| Credit to the public<br>sector         | 10,604  | 15,828   | 29,727    | 35,592    | 39,415    | 40,334    | 43,722   | 44,709              |
| Government (net)                       | (6,251) | (9,570)  | (19,678)  | (24,267)  | (25,897)  | (28,257)  | (31,470) | (32,848)            |
| Public enterprises                     | (4,353) | (6,258)  | (10,049)  | (11,325)  | (13,518)  | (12,077)  | (12,252) | (11,861)            |
| Credit to the private<br>sector        | 10,731  | 11,334   | 11,986    | 13,147    | 13,982    | 14,220    | 14,166   | 15,278              |
| Other assets (net)                     | -1,558  | 73       | 241       | -932      | 283       | 33        | -821     | 1,361               |
| Total liquidity                        | 18,077  | 18,257   | 23,058    | 23,130    | 26,145    | 25,619    | 31,217   | 29,339              |
| Money                                  | 9,065   | 9,198    | 13,991    | 14,598    | 16,440    | 14,316    | 16,529   | 14,327              |
| Quasi-money                            | 9,012   | 9,059    | 9,067     | 8,532     | 9,705     | 11,303    | 14,688   | 15,012              |
| (Annual percentage changes) 1/         |         |          |           |           |           |           |          |                     |
| Net domestic assets                    | 56.5    | 41.3     | 80.6      | 89.7      | 86.5      | 56.1      | 65.5     | 58.5                |
| Credit to the public sector            | 50.6    | 28.9     | 76.1      | 63.6      | 70.0      | 52.0      | 60.7     | 39.4                |
| Credit to the private sector           | 7.5     | 3.3      | 3.6       | 15.7      | 14.4      | 7.0       | 9.5      | 9.2                 |
| Total liquidity                        | 43.3    | 1.0      | 26.3      | 19.2      | 26.7      | 8.3       | 35.4     | 26.8                |

Source: Data provided by the Western Samoan authorities.

1/ In relation to the stock of liquidity outstanding on corresponding date in the previous year.

Table VII. Western Samoa: Indicators of Agricultural and Industrial Output, 1980-83

|         | Volume and Price for Major Crops |       |          |       |            |       |         |       |
|---------|----------------------------------|-------|----------|-------|------------|-------|---------|-------|
|         | Copra 1/                         |       | Cocoa 1/ |       | Bananas 2/ |       | Taro 3/ |       |
|         | Volume                           | Price | Volume   | Price | Volume     | Price | Volume  | Price |
| 1980    | 30.1                             | 217   | 853      | 1,186 | 130.6      | 3.4   | 83.9    | 15.7  |
| 1981    | 23.1                             | 185   | 778      | 983   | 99.6       | 3.7   | 166.0   | 13.0  |
| 1982    | 30.0                             | 280   | 1,150    | 1,626 | 71.6       | 5.3   | 158.8   | 14.0  |
| 1983 4/ | 29.2                             | 280   | 1,280    | 1,626 | 80.0       | 5.7   | 110.0   | 17.0  |

|         | Indicators of Industrial Output |            |              |             |            |       |           |
|---------|---------------------------------|------------|--------------|-------------|------------|-------|-----------|
|         | Beer                            | Cigarettes | Timber       | Coconut Oil | Copra Meal | Soap  | Matches   |
|         | ('000 hl)                       | ('000's)   | ('000 bd ft) | (mt)        | (mt)       | (mt)  | (cartons) |
| 1980    | 45.7                            | 141,855    | 8,984        | --          | --         | 898   | 2,604     |
| 1981    | 42.5                            | 131,320    | 8,198        | --          | --         | 807   | 1,967     |
| 1982    | 50.6                            | 157,004    | 8,667        | 8,679       | 4,577      | 923   | 4,477     |
| 1983 4/ | 50.0                            | 159,000    | 9,134        | 12,250      | 7,500      | 1,045 | 4,500     |

Source: Data provided by the Western Samoan authorities.

1/ Volume of purchases by the marketing boards in thousands of long tons and producer price in tala per ton.

2/ Volume of purchases by the marketing board in thousands of cartons and price in tala per carton.

3/ Volume of purchases by the marketing board in thousands of cases and price in tala per case.

4/ Projections.

Table VIII. Western Samoa: Energy Statistics, 1980-83

|   | 1980                                | 1981   | 1982   | 1983<br>Estimate |
|---|-------------------------------------|--------|--------|------------------|
| <hr/>                                   |                                     |        |        |                  |
|   | (In Kilowatts)                      |        |        |                  |
| Electricity <u>1/</u>                   |                                     |        |        |                  |
| Generating capacity <u>2/</u>           | 11,399                              | 11,335 | 14,535 | 14,535           |
| Hydro                                   | 1,294                               | 1,230  | 4,430  | 4,430            |
| Diesel                                  | 10,105                              | 10,105 | 10,105 | 10,105           |
| <hr/>                                   |                                     |        |        |                  |
|   | (In millions of kilowatt hours)     |        |        |                  |
| Production                              | 31.69                               | 30.59  | 30.72  | 31.20            |
| Hydro                                   | 6.77                                | 7.31   | 12.29  | 15.00            |
| Diesel                                  | 24.91                               | 23.27  | 18.43  | 16.20            |
| Consumption                             | 31.69                               | 30.59  | 30.72  | 31.20            |
| Sales                                   | 24.28                               | 25.20  | 25.26  | 25.70            |
| Transmission and<br>distribution losses | 7.41                                | 5.39   | 5.46   | 5.50             |
| <hr/>                                   |                                     |        |        |                  |
|   | (In millions of gallons)            |        |        |                  |
| Petroleum imports                       |                                     |        |        |                  |
| For electricity generation              | 1.6                                 | 1.5    | 1.2    | 1.0              |
| For other uses                          | 5.7                                 | 7.6    | 6.9    | 6.7              |
| Total                                   | 7.3                                 | 9.1    | 8.1    | 7.7              |
| <hr/>                                   |                                     |        |        |                  |
|   | (In tala per unit at end of period) |        |        |                  |
| Energy prices                           |                                     |        |        |                  |
| Petroleum (gallon)                      | 2.32                                | 3.30   | 3.30   | 3.87 <u>3/</u>   |
| Kerosene (gallon)                       | 1.84                                | 2.74   | 2.74   | 3.31 <u>3/</u>   |
| Electricity (kilowatt hour)             | 0.19                                | 0.23   | 0.23   | ...              |

Sources: Data provided by the Western Samoan authorities; the Electric Power Corporation of Western Samoa; and staff estimates.

1/ Figures only relate to government-owned electric power plants. Village lighting schemes and other private plants are not included

2/ Generating Capacity is based on nameplate ratings of the generators. Some machines due to age and cooling problems cannot reach full rated output.

3/ As at April 8, 1983.

Table IX. Western Samoa: External Debt: Projections, 1982-88

|   | 1982<br>Actual <u>1/</u> | 1983<br>Program | 1984  | 1985  | 1986  | 1987  | 1988  |
|---|--------------------------|-----------------|-------|-------|-------|-------|-------|
|   | Projections              |                 |       |       |       |       |       |
| (In millions of SDRs)                                     |                          |                 |       |       |       |       |       |
| External debt outstanding <u>2/</u>                       | 53.8                     | 58.9            | 63.8  | 67.0  | 70.6  | 74.4  | 78.2  |
| Of which: IMF <u>3/</u>                                   | (3.8)                    | (5.7)           | (6.6) | (5.2) | (3.9) | (1.8) | (0.1) |
| Loan disbursements  | 4.8                      | 9.2             | 8.9   | 8.0   | 8.0   | 7.8   | 7.5   |
| Of which: IMF   | (--)                     | (2.8)           | (1.7) | (--)  | (--)  | (--)  | (--)  |
| Amortization  | 2.5                      | 4.1             | 4.0   | 4.8   | 4.4   | 4.0   | 3.7   |
| Of which: IMF   | (0.7)                    | (0.9)           | (0.8) | (1.4) | (1.3) | (2.1) | (1.7) |
| Interest payments   | 1.6                      | 1.8             | 1.9   | 1.9   | 1.9   | 1.9   | 1.9   |
| Of which: IMF   | (0.3)                    | (0.3)           | (0.5) | (0.4) | (0.3) | (0.2) | (0.1) |
| (In per cent of GDP)                                      |                          |                 |       |       |       |       |       |
| External debt outstanding                                 |                          |                 |       |       |       |       |       |
| Excluding IMF   | 56                       | 58              | 55    | 52    | 50    | 48    | 45    |
| Including IMF   | 60                       | 64              | 61    | 57    | 53    | 49    | 45    |
| Including IMF and external payments arrears               | 75                       | 75              | 68    | 61    | 55    | 49    | 45    |
| (In per cent of exports of goods and services)            |                          |                 |       |       |       |       |       |
| Debt service payments                                     |                          |                 |       |       |       |       |       |
| Excluding IMF   | 19                       | 24              | 22    | 22    | 20    | 15    | 15    |
| Including IMF   | 25                       | 31              | 28    | 30    | 27    | 24    | 22    |
| Including IMF and repayments of external payments arrears | 25                       | 46              | 44    | 40    | 36    | 33    | 22    |
| Interest payments   |                          |                 |       |       |       |       |       |
| Excluding IMF   | 8                        | 8               | 7     | 7     | 7     | 7     | 7     |
| Including IMF   | 10                       | 9               | 9     | 8     | 8     | 8     | 7     |
| Memorandum items:   | (In millions of SDRs)    |                 |       |       |       |       |       |
| Exports of goods <u>4/</u>                                | 10.6                     | 12.9            | 14.2  | 15.1  | 16.0  | 17.0  | 18.0  |
| Imports of goods <u>5/</u>                                | -44.4                    | -42.0           | -43.0 | -44.6 | -46.4 | -48.0 | -51.0 |
| Net services and private transfers                        | 16.2                     | 17.0            | 16.9  | 17.5  | 17.8  | 18.0  | 18.5  |
| Current account balance                                   | -17.6                    | -12.1           | -11.9 | -12.0 | -12.6 | -13.0 | -14.5 |
| Official transfers and capital flows (net)                | 13.5                     | 13.3            | 14.5  | 15.6  | 16.1  | 17.3  | 18.0  |
| Overall balance   | -4.1                     | 1.2             | 2.6   | 3.6   | 3.5   | 4.3   | 3.5   |
| Net use of Fund resources                                 | -0.7                     | 1.9             | 0.9   | -1.4  | -1.3  | -2.1  | -1.7  |
| Repayment of arrears <u>6/</u>                            | --                       | -2.9            | -3.5  | -2.2  | -2.2  | -2.2  | --    |
| Stock of arrears outstanding                              | 13.0                     | 10.1            | 6.6   | 4.4   | 2.2   | --    | --    |

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

1/ Amortization and interest payments in 1982 reflect actual payments excluding arrears on external debt servicing; debt service ratios for 1982 are calculated accordingly on the basis of actual payments.

2/ Including public, publicly guaranteed external debt, and use of Fund credit; end of period.

3/ Use of Fund credit outstanding at end-period; no further drawings from the Fund are assumed for the period 1983-88 beyond the requested stand-by and CFF purchases.

4/ Export volume is assumed to grow by about 2 per cent annually between 1984-88.

5/ Imports are derived as a residual; the implied volume growth is just over 1 per cent annually between 1984-87, and about 3 per cent in 1988.

6/ Illustrative schedule for the repayment of external payments arrears during 1984-87.

WESTERN SAMOA

Basic Data

|   |                       |
|---|-----------------------|
| Area:                                     | 1,097 square miles    |
| Population (1981):                        | 158,000               |
| Population growth rate:                   | 2.8 per cent annually |
| Population growth rate, net of migration: | 0.8 per cent annually |
| GDP per capita (1982 estimate)            | SDR 560               |

|   | <u>1979</u>                       | <u>1980</u> | <u>1981</u> | <u>1982</u><br><u>Prov.</u> |
|---|-----------------------------------|-------------|-------------|-----------------------------|
|   | <u>(Annual percentage change)</u> |             |             |                             |
| <u>Selected economic indicators</u>                         |                                   |             |             |                             |
| GDP at constant prices                                      | 10.7                              | -1.6        | -1.2        | -1.7                        |
| Consumer price index  | 21.7                              | 20.5        | 20.5        | 18.4                        |
| Government revenue <u>1/</u>                                | 14.3                              | 19.7        | -2.5        | 16.6                        |
| Government expenditure                                      | 24.0                              | 5.3         | 8.2         | 10.0                        |
| Total domestic credit                                       | 52.3                              | 27.3        | 53.6        | 38.8                        |
| Total liquidity   | 43.3                              | 1.0         | 26.3        | 35.4                        |
| Merchandise exports, f.o.b.                                 | 51.8                              | -4.7        | -32.1       | 19.1                        |
| Merchandise imports, c.i.f. <u>2/</u>                       | 13.4                              | 5.0         | -4.0        | -7.3                        |
| Export volume   | 28.9                              | 9.0         | -26.0       | 35.8                        |
| Import volume <u>2/</u>                                     | 0.7                               | -5.5        | -15.5       | -7.7                        |
| Terms of trade (deterioration -)                            | 4.4                               | -21.3       | -19.3       | -12.7                       |
| Effective exchange rate index<br>(depreciation -) <u>3/</u> |                                   |             |             |                             |
| Nominal   | -19.5                             | -1.0        | -5.3        | -2.4                        |
| Real  | -1.3                              | 6.7         | 1.5         | 5.1                         |

|   |                             |      |      |      |
|---|-----------------------------|------|------|------|
|   | <u>(In per cent of GDP)</u> |      |      |      |
| <u>Selected financial ratios</u>        |                             |      |      |      |
| Government revenue <u>1/</u>            | 26.1                        | 28.4 | 24.3 | 23.7 |
| Government expenditure                  | 60.1                        | 59.9 | 56.9 | 52.3 |
| Budget deficit                          | 11.8                        | 16.8 | 17.6 | 16.0 |
| Domestic bank budgetary financing       | 4.1                         | 3.8  | 10.1 | 9.9  |
| External budgetary financing            | 8.2                         | 8.2  | 6.2  | 3.6  |
| Total liquidity                         | 22.7                        | 20.8 | 23.1 | 26.1 |
| External current account deficit        | 44.2                        | 30.3 | 30.2 | 19.7 |
| Oil imports (per cent of total imports) | 11.2                        | 19.8 | 21.1 | 22.3 |
| External public debt <u>4/</u>          |                             |      |      |      |
| Excluding IMF                           | 45.9                        | 57.2 | 66.3 | 70.5 |
| Including IMF                           | 50.3                        | 60.7 | 71.9 | 74.7 |

WESTERN SAMOA

Basic Data (Concluded)

|   | <u>1979</u>                                | <u>1980</u> | <u>1981</u> | <u>1982</u><br><u>Prov.</u> |
|---|--|-------------|-------------|-----------------------------|
|   | <u>(In per cent of goods and services)</u> |             |             |                             |
| <u>External debt service ratios 5/</u>          |  |             |             |                             |
| Debt service, excluding IMF                     | 10.1                                       | 12.8        | 18.1        | 18.6                        |
| Debt service, including IMF                     | 11.5                                       | 15.4        | 25.2        | 24.6                        |
| Interest payments, excluding IMF                | 5.1  | 7.1         | 8.4         | 7.8                         |
| Interest payments, including IMF                | 6.0  | 7.9         | 9.7         | 9.6                         |
|   | <u>(In millions of SDRs)</u>               |             |             |                             |
| <u>External payments data</u>                   |  |             |             |                             |
| Overall balance of payments (deficit -)         | -1.2                                       | -6.2        | -7.2        | -4.1                        |
| Gross international reserves<br>(end of period) | 4.3  | 2.6         | 3.6         | 3.7                         |
| In months of imports                            | (1.1)                                      | (0.6)       | (0.9)       | (1.0)                       |
| External payments arrears (end of<br>period)    | —  | 1.2         | 7.3         | 13.0                        |

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

1/ Excluding external grants; 1981 figures are affected by a public service strike.

2/ Excluding a ship imported for SDR 10 million in 1979.

3/ Change between fourth quarters.

4/ Including external payments arrears.

5/ Based on actual debt service payments for 1980-82, i.e., does not reflect arrears on interest payments and principal repayments.

**Fund Relations with Western Samoa**  
**As of April 30, 1983**

**Date of membership:** December 28, 1971

**Status:** Article XIV

**Quota:** SDR 4.5 million

**Fund holdings of currency:** SDR 8.08 million (179.47 per cent of quota), of which SDR 2.47 million under CFF (54.86 per cent 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 66,857

**Trust Fund:** First period: SDR 0.83 million.  
Second period: SDR 1.13 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\$1.56.

**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:** Staff discussions were held in October 1982. The Executive Board discussed the Staff Report (SM/82/245 and SM/83/5) on January 26, 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.



World Bank Group Operations in Western Samoa

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

| <u>Credit Number</u> | <u>Date of Approval</u> | <u>Purpose</u>              | <u>Commitment</u> | <u>Undisbursed</u> |
|----------------------|-------------------------|-----------------------------|-------------------|--------------------|
|                      |                         |                             | <u>(US\$ mn.)</u> |                    |
| 535                  | March 1975              | Highways                    | 4.4               | --                 |
| 951                  | November 1979           | Agricultural<br>Development | 8.0               | 3.9                |
| 1080                 | November 1980           | Agricultural<br>Development | 2.0               | 1.97               |

The 1979 credit was for the initial phase of the long-term agricultural development program under the Western Samoa Trust Estates Corporation, aimed primarily at increasing productivity, production and exports of cocoa, coconuts, coffee, and other crops; implementation difficulties were encountered during 1982. An interagency meeting of donors (IDA, UNDP, AsDB, and the Australian Development Assistance Bureau) was held in Apia at which a six-month action program for redressing these problems was discussed with the authorities. In February 1983, IDA representatives visited Apia to assess progress made under this program. They found that certain impasses on managerial questions had been resolved, but that implementation problems remained; another interagency meeting was held in April 1983 to deal with these problems. Disbursements of the 1980 credit, which is co-financed by the AsDB and the Australian Development Assistance Bureau, have so far been small.

Western Samoa: Summary of the 1983 Program

I. Targets

1. A reduction in the average rate of inflation from 18 per cent in 1982 to around 10 per cent on an annual basis by the final quarter of 1983.
2. Achievement of an overall balance of payments surplus of SDR 1.2 million in 1983, following an overall deficit of SDR 4 million in 1982; reduction in the current account deficit (excluding grants) from SDR 17.6 million (19.7 per cent of GDP) in 1982 to SDR 12.1 million (13.2 per cent of GDP) in 1983.

II. Major Assumptions

1. No real economic growth is expected in 1983.
2. The velocity of total liquidity with respect to nominal GDP, which has shown a declining trend in recent years, is projected to decline further in 1983 in view of the substantial increase in interest rates.
3. The terms of trade are projected to improve by close to 3.0 per cent in 1983, reflecting a 6.2 per cent increase in export prices and a 3.3 per cent increase in import prices. Export volume is expected to increase by close to 15 per cent, while import volume is projected to decline by over 8 per cent.
4. The exchange rate of the tala has been depreciated by 17.5 per cent on a trade-weighted basis. In terms of the New Zealand dollar, it was devalued by 15 per cent; 10 per cent on February 7, 1983 and an additional 5 per cent during April-May, 1983. Moreover, the New Zealand dollar was devalued by 6 per cent on March 8, 1983, which, given the unchanged peg of the tala to the New Zealand dollar, resulted in a further depreciation of the tala by about 2.5 per cent on a trade-weighted basis.

III. Principal Elements of the Program

Fiscal policy

1. The Government budget deficit (including grants) will be reduced from 16 per cent of GDP in 1982 to 6 per cent of GDP in 1983.
2. Domestic bank financing of the government budget deficit is projected to decline from WS\$11.8 million (about 10 per cent of GDP) in 1982 to under WS\$2 million (1.3 per cent of GDP) in 1983.

3. Total government revenue is projected to increase by 24 per cent in 1983, with new tax measures expected to yield additional revenue equivalent to approximately 4 per cent of GDP. The new tax measures include a change in the basis for customs valuation from c.d.v. to c.i.f., an increase in primage duty from 4 per cent to 8 per cent, increases in excise taxes, and increases in government fees and charges.
4. Total government expenditure is budgeted to decline by 6 per cent in 1983 (implying a real decline of about 23 per cent), reflecting the impact of the expected sharp reduction in expenditures on Treasury advances (mostly transfers to state enterprises). Other measures that will contribute to the overall decline in expenditure include reducing the number of public sector employees, limiting wage adjustments and overtime payments, discontinuing certain government services or transferring them to the private sector, and curtailing domestically financed development expenditures.
5. In conjunction with projected developments in the government budget, the public enterprises will scale down current spending, concentrate development expenditures on high-priority, ongoing projects, and generate additional resources through price adjustments and sale of assets, including land. With improved management and efficiency of operations, it is expected that the overall losses of public enterprises will fall from 3 per cent of GDP in 1982 to 1 per cent of GDP in 1983, and their recourse to domestic bank financing will be kept under control.

#### Monetary policy

1. The expansion in net domestic assets of the banking system will be limited to WS\$6.2 million, or 20 per cent of the stock of liquidity outstanding at the end of 1982, down sharply from the expansion of WS\$15.1 million in the preceding year. The net domestic assets of the banking system are subject to quarterly ceilings as performance criteria.
2. A subceiling has been set on net bank credit to the public sector, which allows for bank financing of the public sector deficit by WS\$3.2 million, or 10 per cent of end-1982 liquidity stock, compared with 61 per cent in 1982.
3. Credit to the private sector is projected to increase by WS\$2.6 million in 1983, or 8 per cent of end-1982 liquidity stock, compared with 9 per cent in 1982.
4. On February 7, 1983, bank deposit rates were raised by 5 to 6 percentage points, and lending rates, by an average of 4 percentage points. During the program period, interest rates will be monitored with a view to maintaining key interest rates positive in real terms and avoiding the re-emergence of unfavorable interest differentials with neighboring countries.

External policies

1. A flexible exchange rate policy will be pursued with the aim of restoring and maintaining the international competitiveness of Western Samoa and bringing about a reallocation of resources to the export and import-competing sectors.
2. The contracting of new public or publicly guaranteed external debt of up to 12 years maturity will be limited to an overall ceiling of US\$4 million, with debt of up to five years maturity subject to a subceiling of US\$2.5 million. The observance of these limits constitutes performance criteria under the program.
3. External payments arrears will be reduced through cash payments by at least SDR 2.9 million on a net basis in 1983, and efforts will be made to establish a schedule for the orderly elimination of the remaining amount. The minimum net reduction in outstanding external payments arrears in 1983 constitutes a performance criterion under the 1983 program.
4. As a performance criterion, the authorities will not intensify or introduce restrictions on payments and transfers for current international transactions.

Stand-By Arrangement--Western Samoa

Attached hereto is a letter with annexed memorandum dated May . 1983 from the Prime Minister and Minister of Finance of the Government of Western Samoa requesting a stand-by arrangement and setting forth the objectives, policies and measures that the authorities of Western Samoa intend to pursue for the period of this stand-by arrangement.

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 June .., 1983 to June .., 1984, 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, and 4 below, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 0.844 million until July 31, 1983, the equivalent of SDR 1.69 million until the completion of the review referred to in paragraph 3(b) below, and the equivalent of SDR 2.532 million until January 31, 1984.

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 per cent of quota.

3. 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 per cent of quota:

a. during any period in which the data at the end of the preceding period indicate that:

- (i) 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 referred to in paragraph 15 of the Memorandum of the Government of Western Samoa on Certain Aspects of its Economic Policy annexed to the attached letter, is not observed; or
- (ii) the cumulative limit on the authorization of contracting of new public and publicly guaranteed external debt in the maturity ranges of up to 12 years and up to 5 years, described in paragraph 18 of the Memorandum of the Government of Western Samoa on Certain Aspects of its Economic Policy annexed to the attached letter is not observed; or

- (iii) the intention to provide foreign exchange for payments in arrears in the amounts specified in paragraph 19 of the Memorandum of the Government of Western Samoa on Certain Aspects of its Economic Policy, annexed to the attached letter, is not carried out; or
- b. during any period after October 31, 1983 if the review contemplated in paragraph 2 of the attached letter, has not been completed, or if any performance clauses having been established pursuant to the review are not observed; or
- c. if Western Samoa:
  - (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
  - (ii) introduces or modifies 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.

When Western Samoa is prevented from purchasing under this arrangement because of this paragraph 3, 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.

4. 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 of a decision to consider a proposal is given pursuant to this paragraph 4, 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.

5. 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.

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

7. 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.

8. 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 annexed Memorandum.

9. In accordance with paragraph 2 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 3 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

May 24, 1983

Dear Mr. de Larosiere:

1. Attached is a memorandum setting forth major elements of Western Samoa's economic program for 1983. The objectives of the program are to effect a better balance between domestic spending and available local and foreign resources, to lower the rate of inflation, to achieve an overall balance of payments surplus, and to lay the groundwork for achieving a sustainable external current account position over the medium term. In support of these objectives, and in view of the expected 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.

2. The Government of Western Samoa believes that the policies set out in the annexed 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 with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultations. Moreover, the Government will conduct with the Fund a mid-term review of policies, including interest rate and exchange rate policies, before the end of October 1983, and in the course of that review will reach understandings with the Fund in accordance with paragraphs 16 and 17 of the attached Memorandum.

Sincerely yours,

Tofilau Eti Alensana  
Prime Minister and  
Minister of Finance

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

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



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

1. The economy of Western Samoa has been operating well below its potential, with negative real economic growth since 1980. This unsatisfactory economic performance has been due mostly to depressed conditions in the agricultural sector which accounts for about half of GDP and about 90 per cent of exports. The production of the two major export crops, copra and cocoa, has been constrained by the old age of most trees; moreover, variations in weather conditions have resulted in sharp fluctuations in output. In the period from 1980-82 the export prices of copra, cocoa, and other commodities fell sharply, while import prices of oil and other goods increased. Overall, the terms of trade deteriorated by about 45 per cent. With only a modest increase in workers' remittances from abroad, the external current account deficit, excluding foreign grants, has averaged about 27 per cent of GDP during this period. Such large external deficits were clearly unsustainable and resulted in the steady accumulation of external payments arrears, including those on government and government-guaranteed debt, which totaled SDR 13.0 million at the end of December 1982. The Government of Western Samoa adopted a financial program for the 12-month period ended February 1982 aimed at creating a more favorable climate for an improvement in the balance of payments over the medium term; the program was supported by a first credit tranche drawing from the Fund. The objectives and targets of that program were not realized, due, in part, to the conditions outlined above; in part, to the adverse impact of a three-month civil service strike in 1981 that disrupted financial and economic activity; but also, to insufficient domestic policy response.

2. The adjustment of economic policies to the deterioration in the external environment has so far been limited, in particular with respect to the public sector. Total government expenditure continued to increase, largely reflecting the growth of current expenditure; the major element was an increase in the wage and salary bill by 76 per cent between 1978 and 1982. The growth of revenues was constrained by the shortage of foreign exchange which limited the growth of dutiable imports, by the impact of a three-month civil service strike in 1981 which hampered revenue collection, and also by the fact that tax rates remained unchanged and government fees and charges were not adjusted to fully reflect increased costs. As a result, the Government budget deficit averaged over 16 per cent of GDP during 1980-82, and banking system financing of the deficit, about 8 per cent of GDP. Moreover, the overall financial position of the public enterprises weakened markedly as a result of unrealistic pricing policies and inefficient operation; the losses of these enterprises were equivalent to about 6 per cent of GDP in 1980-81 and about 3 per cent of GDP in 1982. The increased recourse to domestic bank financing by the public sector resulted in an excessive growth of total liquidity, which, in conjunction with the decline in import availabilities, contributed to the high rate of inflation, averaging close to 20 per cent annually since 1979.

3. The close link maintained between the exchange rate of the Western Samoan tala and the New Zealand dollar since 1979 has led to a progressive nominal depreciation of the tala vis-a-vis the currencies of other major trading partners. However, given the differential in inflation rates between Western Samoa and its trading partner countries, there has been an appreciation of the real effective exchange rate by about 17 per cent from the third quarter of 1979 through the third quarter of 1982, a development that has adversely affected the profitability of the export sector.

4. The achievement of a satisfactory rate of growth with the restoration of a sustainable external current account position and price stability will require a fundamental redirection of economic policies. Therefore, the stabilization measures discussed below have been prepared within a three-year framework aimed at effecting a better balance between domestic spending and available resources and laying the foundation for achieving a sustainable external current account position over the medium term. In 1983, the major objectives of economic policy are to sharply reduce the external current account deficit by about 7 percentage points in relation to GDP, to generate an overall balance of payments surplus equivalent to SDR 1.2 million, or 1 per cent of GDP, and to lower the rate of inflation to about 10 per cent on an annual basis by the final quarter of 1983. These objectives are to be achieved through the adoption of restrictive fiscal and monetary policies and an exchange rate policy geared to restoring the competitiveness of the export sector. The concentration of major policy efforts on achieving external adjustment will, of necessity, rule out real growth in 1983.

#### Production policies

5. Agricultural policies have aimed at developing commercial plantations under the aegis of the Western Samoa Trust Estates Corporation (WSTEC), a statutory government body which controls about 30,000 acres of prime land. In addition, the Government has attempted to raise the productivity of traditional agricultural holdings and encourage crop diversification through the provision of subsidized inputs and preferential credit. The output of the major export crops, copra and cocoa, has been adversely affected by the old age of many trees and the impact of disease; replanting programs initiated in the 1970s have been only partly effective. Moreover, production by WSTEC has been substantially below potential, due to operating difficulties and weaknesses in management practices. In order to stimulate copra production a replanting program has been established using hybrid seed nuts developed locally. By 1986-87 enough seed nuts will be available to plant 2,500 acres annually, or about 2 per cent of total acreage under coconut. Cocoa farmers have been assisted through the establishment of four Cocoa Field Extension Teams during 1982. Farmers participating in the cocoa planting scheme were distributed sufficient Amelonado cocoa seed nuts to plant 300 acres in 1982, and it is estimated that sufficient seeds will be available to plant 600 acres in 1983.

6. Increased production of agricultural export crops also requires the provision of adequate financial incentives to producers. The sharp fluctuations in world market prices of copra and cocoa have been reflected in producer prices, and the resulting uncertainty of growers' incomes has adversely affected output and investment. To attenuate fluctuations in growers' incomes arising from price movements, producer price stabilization schemes were established for copra and cocoa at the beginning of 1982. These schemes helped moderate the impact of the sharp decline in world market prices during 1982, and are expected to provide a basis for renewed investment in these industries over the medium term.

7. The Government has also sought to increase the value added of domestic exports and expand the export base. In 1982, a government-owned copra crushing mill was established which is expected to substantially increase the value added of copra exports through the processing of copra into coconut oil and coconut meal; although operating at full capacity for only part of the year, the mill increased the value of copra exports by 16 per cent in 1982. Similarly, the recent completion of a veneer mill is expected to double the value of wood products exports. Also, a program is in operation to re-establish bananas as a major export item through the development and operation of a 250-acre commercial banana plantation at Tanumalala and improved marketing arrangements.

8. Since the late 1970s, various manufacturing enterprises geared to import substitution have been established with foreign participation. These enterprises have been encouraged through the Enterprise Incentives Act, which provides for tax relief for up to five years and exemptions from customs duties on most imported inputs. Production of most goods, in particular beer and cigarettes, has increased steadily, and moderate amounts of both beer and cigarettes are now being exported. The Government's policy is to continue to promote foreign investment, and a review of the Enterprise Incentives Act is underway, with the aim of increasing the efficiency of incentives while limiting the overall budgetary cost.

9. Western Samoa has adopted a comprehensive energy policy which includes the production of energy from hydropower. During 1982 two new hydropower plants were completed, increasing the share of electricity generated by this source from 20 per cent to 48 per cent. A third plant is expected to be in operation by late 1984, which should increase the share of electricity generated by hydropower to 70 per cent. The increased use of hydropower has been reflected in a decline in oil imports, as diesel fuel used by the Electric Power Corporation fell from 1.6 million gallons in 1980 to an estimated 1.0 million gallons in 1983; further reductions will be realized upon the completion of the third hydropower plant. In line with our standing policy of ensuring that selling prices of all petroleum products fully reflect the imported costs, prices of petroleum products were raised by 17-21 per cent effective April 8, 1983. These prices have been adjusted to reflect the impact of recent exchange rate and customs valuation changes. Furthermore, it is not proposed to adjust the prices of petroleum products during the program period to reflect possible downward movements in the international prices of oil and oil products.

Fiscal policies

10. Government revenue in 1982 fell well below budget estimates, largely because of lower than expected import duties due to the impact of the tight external resource constraint on imports, a shortfall in collections of fees and charges, and a further deterioration of the overall net financial position of departmental enterprises. Although development expenditures were substantially below original budget estimates, total expenditures were higher, reflecting increased expenditures on advance accounts. As a result, the overall budget deficit rose to WSS19.1 million, and domestic bank financing of the deficit, to WSS11.8 million, from WSS17.6 million and WSS10.1 million, respectively, in the previous year. Fiscal policy in 1983 aims at a very significant reduction in the overall budget deficit, from 16 per cent to about 6 per cent of GDP, to be achieved by a substantial increase in revenues and strict expenditure controls. Consequently, recourse to the domestic banking system is expected to be sharply reduced compared with the previous year.

11. The 1983 budget outlook calls for an increase in total revenues of about 24 per cent, including new revenue measures intended to yield WSS5.9 million, or about 4 per cent of GDP. Of the new revenues, more than half will be derived from increased customs revenue. In line with the recommendations of the 1981 FAD mission on Tax Reform, the basis of assessment of customs duties (import and primage) was changed from current domestic value (c.d.v) to cost including insurance and freight (c.i.f.); this change will facilitate customs collection and is estimated to raise WSS1.5 million in new revenues. In addition, primage duty (import surcharge) was increased from 4 per cent of c.d.v. to 8 per cent of c.i.f., which is estimated to yield an additional WSS1.5 million in revenue. Also, the Electric Power Corporation Act was amended to require the EPC to pay import duty on petroleum products; this measure is expected to raise an additional WSS0.5 million in 1983. Excise taxes on cigarettes and beer were increased by 50 per cent and 43 per cent, respectively, which, combined, are estimated to yield an additional WSS1.3 million in revenue. Government fees and charges, which have not kept pace with increased costs, have been raised in the 1983 budget and will yield WSS0.8 million. Other revenue measures include the introduction of a tourist tax and an increase in the airport departure tax, which, together, are expected to provide an additional WSS0.2 million. Also, the depreciation schedules under the Income Tax Act were amended to yield an additional WSS0.1 million.

12. While the tax measures described above will substantially increase the Government's revenue effort in the short run, they represent only a first step in a longer-term process of tax reform aimed at broadening the tax base and reversing the eroding revenue elasticity of the tax system. Other measures detailed in the above-mentioned FAD report are now under study with the aim of incorporating some of these measures in the 1984 Budget. These measures include revisions in the tariff structure to remove inconsistencies and provide incentives for present and potential industries; an extension of the excise tax and a change in the basis

of valuation from specific to ad valorem; and the introduction of a general sales tax. The status of these measures will be discussed during the mid-term review of policies in October.

13. The 1983 budget envisages a 6 per cent decline in total expenditures to be achieved by a decline in domestically-financed development expenditures and a sharp reduction in expenditures on advance accounts, the latter reflecting, in part, the anticipated improvement in the financial position of the public enterprises. Current expenditures are budgeted to increase by less than 2 per cent, due to the implementation of a number of expenditure-saving measures. These measures include a reduction in the maximum overtime limit from 33.5 per cent to 15.0 per cent of salary, the elimination of funding for most existing vacancies in Government departments, a significant reduction in the number of wage earners in the Education Department, and the limiting of recruitment by the Education Department to returning overseas scholarship holders and graduates of the Teachers' College, and a reduction in wage earners in the Public Works Department. The reduction in domestically-financed development expenditures reflects a consolidation of the development effort as well as increased foreign participation in financing the domestic costs of development projects. To ensure that outlays do not exceed appropriations, expenditures will be closely monitored through quarterly reviews of departmental budgets; those departments exceeding their targeted expenditures in a particular quarter will be required to explain the overexpenditure to Cabinet, and adjustments to expenditure targets for the remainder of the year will be made to bring the department's budget back on track.

14. It is the Government's intention to strengthen the financial position of the public enterprises in order to lessen their claims on the budget and on bank credit. To achieve this result, more realistic pricing policies, particularly the adjustment of prices to reflect the impact of exchange rate and customs valuation changes on operating costs, as well as improved management practices, have been adopted. These policies will permit a reduction of public enterprise losses from about 3 per cent of GDP in 1982 to about 1 per cent in 1983, and include specifically:

a. The Western Samoa Trust Estates Corporation (WSTEC) will sell and/or exchange land holdings unfit for agricultural development and close down some unprofitable operations. In the latter half of 1982 substantial reductions in costs were realized through a sharp cutback in staff size, and further reductions in staff will occur in 1983. As a result of these measures the financial position of WSTEC should improve in 1983.

b. The Government intends to rationalize the operations of the marketing boards (Copra, Cocoa, Banana, and the Produce Marketing Division) in order to increase efficiency and make them more effective instruments of export promotion.

c. The Electric Power Corporation (EPC) has increased electricity rates by 44 per cent to 33 sene per kilowatt hour, to be effective June 1, to reflect the impact of exchange rate adjustments and the introduction of customs duty on its diesel fuel imports. Charges will remain under review and will be increased if necessary.

d. The Special Projects Development Corporation (SPDC) has reduced its operating deficit through improved management practices and better utilization of resources. In 1983 the SPDC plans to extend its operations through construction contracts on neighboring islands.

#### Money and credit policies

15. The increased recourse to domestic bank credit to finance public sector deficits has resulted in an excessive growth of total liquidity, which averaged over 30 per cent in 1981-82. The projected improvement in public sector finances is expected to contribute to a slowing down in monetary expansion in 1983. The demand for bank credit is likely to be weak in view of the expected stagnation in economic activity, the decline in import financing, and the increased availability of resources from nonbank financial institutions including the Development Bank of Western Samoa, the National Provident Fund, and the Samoa Public Trust. Credit to the private sector is projected to grow slightly in real terms, while there will be a real decline in net credit to the public sector. The credit program for 1983 is predicated on virtually no growth of real output, an increase in average consumer prices of 17 per cent, and an expansion in total liquidity of 25 per cent. Taking into account projected changes in net foreign assets of the banking system, net domestic assets can be expected to increase by about 11 per cent, compared with 36 per cent in the previous year. Accordingly, taking into account the projected credit needs of the public and private sectors and the relevant seasonal patterns of credit demand, quarterly ceilings have been set on the outstanding level of net domestic assets of the banking system and on net credit to the public sector as shown in the attached table.

16. Interest rates in Western Samoa have remained substantially negative in real terms for the past several years, which has had an adverse impact on domestic resource mobilization and the efficient use of credit. Moreover, the large differentials between domestic rates and those in neighboring countries, particularly New Zealand, have impeded the flow of remittances from Western Samoans living abroad. Accordingly, effective February 7, 1983, most bank deposit rates were increased by 5-6 percentage points, and average lending rates were raised by about 4 percentage points. As a result, the differentials between New Zealand and Western Samoan deposit rates have largely been eliminated, thereby removing the disincentives for the repatriation of funds. Also, positive real interest rates have been established on deposits with maturities of 12 months and longer, and lending rates for personal and business loans have become positive in real terms. The Government will closely monitor interest rates in light of domestic price movements and developments in interest rates abroad, and will maintain key interest rates positive in

real terms and avoid the re-emergence of significant adverse interest rate differentials with neighboring countries. Interest rate policy will be reassessed at the time of the mid-term review in October 1983, and further adjustments in interest rates, if required, will be implemented.

External policies

17. The Government recognizes that an active exchange rate policy is needed to promote external adjustment. The objective of exchange rate policy in 1983 is to improve profitability of the export sector and raise the prices of imported goods to realistic levels by reversing the real appreciation of the tala recorded since the third quarter of 1979. To achieve this objective, the tala has been depreciated by about 17.5 per cent on a trade-weighted basis. The tala was devalued by 10 per cent in terms of the New Zealand dollar on February 7, 1983. Moreover, the rate between the tala and the New Zealand dollar was maintained unchanged following the devaluation of the New Zealand dollar by 6 per cent on March 8, 1983; the latter resulted in a further depreciation of the tala on a trade-weighted basis of 2.5 per cent. The tala was again devalued in steps by a total of 5 per cent against the New Zealand dollar during the period April 8-May 13, 1983. We intend to pursue a flexible exchange rate policy in order to maintain competitiveness, and exchange rate policy will be reassessed at the time of the mid-term review in October.

18. Western Samoa has relied, in large part, on concessional external assistance to finance its external current account deficit. Nevertheless, the external debt service burden has become considerable and is projected to remain heavy over the medium term. Moreover, the schedule adopted for the elimination of external payments arrears will have a crucial bearing on the debt service profile. During the program period, the contracting or guaranteeing of new external loans by the public sector with an original maturity of up to 12 years will not exceed US\$4 million. In view of the already considerable external debt service burden, the contracting of new loans with an original maturity of up to five years will not exceed US\$2.5 million during the program period. These amounts are net of any rescheduling of external payments arrears outstanding at the end of 1982.

19. Beginning in 1980 Western Samoa incurred external payments arrears, of which SDR 13.0 million remained outstanding at the end of 1982. Our policy will be to effect a reduction through cash payments of SDR 2.9 million in these arrears in 1983, including a reduction of SDR 1.6 million by the time of the mid-term review in October 1983. Furthermore, it is our intention to establish a schedule for the orderly elimination of all payments arrears. In this connection, the ongoing negotiations with our seven major creditors to reschedule outstanding arrears are expected to be successfully concluded in the near future.

Attachment

Apia, Western Samoa  
May 24, 1983

Western Samoa: Limits on Selected Financial Aggregates

|  | As of Dec. 29<br>1982         | June 29,<br>1983 | Up To<br>Sept. 28,<br>1983 | Dec. 28<br>1983 |
|--|-------------------------------|------------------|----------------------------|-----------------|
| <hr/>  |                               |                  |                            |                 |
|  | (In thousands of tala)        |                  |                            |                 |
| Net domestics assets of the<br>banking system (stock) <u>1/</u>  | 57,067                        | 64,050           | 61,500                     | 63,300          |
| Credit to public sector<br>(stock) <u>1/</u>   | 43,722                        | 47,800           | 46,800                     | 46,900          |
|  | (In millions of U.S. dollars) |                  |                            |                 |
| Contracting of public and<br>publicly guaranteed<br>external debt during the<br>year with maturity of: |                               |                  |                            |                 |
| Up to and including<br>12 years <u>1/</u>  |                               |                  |                            | 4.0             |
| Up to and including<br>5 years <u>1/</u>   |                               |                  |                            | 2.5             |
|  | (In millions of SDRs)         |                  |                            |                 |
| Minimum repayments in<br>external payments arrears   |                               |                  | 1.6                        | 2.9             |

1/ As defined in the Memorandum of Understanding.