

IMF Executive Board Concludes 2012 Article IV Consultation with Samoa

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On June 15, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Samoa.¹

Background

The Samoan economy continues to recover, but the rebound has been weak. After two consecutive years of contraction, real GDP expanded by 2.0 percent in 2010/11, on account of fiscal and monetary stimulus as well as swift post-tsunami reconstruction. However, growth slowed considerably in the last quarter of 2011, to 0.8 percent, and is expected to remain subdued for the rest of the year as reconstruction activity continues to subside and the growth of external demand remains moderate.

Inflation has been rising in recent months largely as a result of drought conditions in late 2011 that have affected the supply of agricultural products. After peaking at 11.4 percent (4 percent excluding food) in December 2011, headline inflation fell back to 6.7 percent in April and is expected to be around 6 percent by end-June.

The fiscal deficit has fallen to 6½ of GDP in 2010/11 after increasing to 7½ of GDP in 2009/10 to support post-tsunami reconstruction. The implementation of the 2011/12 budget is broadly on target, but supplementary appropriations will likely result in a fiscal deficit of 6 percent of GDP, about ½ percent of GDP higher than originally budgeted and slightly lower than the level achieved last year. Increased deficits have been largely financed by external borrowings on concessional terms.

The current account deficit has widened sharply over the past

three years. This has resulted from increased imports for post-tsunami reconstruction, rising world food and fuel prices, and the slow recovery of remittances and tourism. As reconstruction activity winds down, however, the current account deficit is expected to trend downward (as percent of GDP). Foreign reserves have declined to about US\$151 million (about 4.3 months of next year's imports) at end March.

The Central Bank of Samoa has maintained an accommodative monetary policy to support economic activity since the global financial crisis. Banking sector liquidity has tightened considerably following recent dividend repatriation, outbound FDI, and large one-off imports. Banks are generally well capitalized and profitable, but non-performing loans are rising for some banks amid weak economic activity, particularly in the tourism industry.

Executive Board Assessment

Executive Directors commended the authorities' management of the shocks arising from the global financial crisis and the 2009 tsunami. They welcomed the continued economic recovery but noted that growth is likely to remain moderate and is subject to downside risks from global economic uncertainty. As a small island economy, Samoa will also remain vulnerable to exogenous shocks. Against this backdrop, Directors agreed that the focus should be on rebuilding fiscal and external buffers, while supporting the recovery and fostering sustainable growth over the longer term.

Directors welcomed the authorities' commitment to reduce the fiscal deficit, and stressed that decisive actions are needed to achieve consolidation goals and bring public debt to a more sustainable level. Given the fragile state of the recovery, Directors considered that consolidation should be measured and steady in the short run. They encouraged the authorities to restrain current expenditure and to prioritize development and infrastructure projects. Directors called for a credible medium term fiscal consolidation plan with a corresponding debt management strategy. They emphasized the importance of monitoring closely the debt incurred by public enterprises and minimizing fiscal risks.

Directors noted that the tala has appreciated substantially in real effective terms over the past decade and is assessed to be overvalued. Most Directors considered that a gradual realignment of the exchange rate could help prevent further reserve losses and strengthen export competitiveness. A few Directors, however, were not convinced of the benefits of such a move. Directors cautioned that the pace and timing of a realignment would need to be carefully managed, with due consideration to the potential impact on external debt and inflation. They stressed the need for further analytical work, supported by Fund technical assistance, in this area.

Directors agreed that monetary policy could remain accommodative at the current juncture given weak economic activity. The authorities should nevertheless be ready to tighten monetary policy in the event of an exchange rate

adjustment. Directors called for continued efforts to strengthen financial sector supervision, in particular by bringing the Unit Trust of Samoa under the oversight of the central bank.

Directors agreed that continued structural reforms would be vital to restoring Samoa's strong growth record. They encouraged the authorities to undertake bold reforms, focusing on increasing the efficiency of public enterprises, further improving public financial management, making customary land more accessible for productive use, and deepening financial intermediation.

Samoa: Selected Economic and Financial Indicators, 2006/07–2012/13 ^{/1}

Population (2008): 0.18 million

Main Exports: Tourism, Fish

GDP per capita (2010/11): US\$ 3,472

Quota: SDR 11.6 million

Proj.

2006/07 2007/08 2008/09 2009/10 2010/11 2011/12 2012/13
Est.

(12-month percent change)

Output and inflation

Real GDP growth	1.8	4.3	-5.1	0.4	2.0	1.5	1.9
Nominal GDP	9.0	9.7	-2.3	1.9	4.3	8.1	3.9
Change in CPI (end period)	8.0	8.9	10.0	-0.3	2.9	6.0	4.0
Change in CPI (period average)	4.7	6.3	14.6	-0.2	2.9	6.5	2.0

(In percent of GDP)

Central government budget

Revenue and grants	36.6	31.2	34.5	36.2	37.5	33.0	31.9
Of which: grants	7.4	5.3	7.8	10.5	9.5	8.1	7.1
Expenditure and net lending	36.0	32.7	38.8	43.6	43.9	39.0	37.0
Of which: Development	9.3	6.6	12.8	18.9	18.0	13.4	12.9

Current balance	4.1	0.4	1.6	1.6	3.2	-0.3	1.6
Overall balance	0.6	-1.5	-4.2	-7.5	-6.4	-6.0	-5.0
External financing	-1.1	0.9	3.1	10.0	5.5	6.8	5.5
Domestic financing	0.4	0.6	1.1	-2.5	1.0	-0.8	-0.5

(12-month percent change)

Money and credit

Broad money (M2)	8.7	14.5	7.7	10.9	-0.8	-2.4	...
Net foreign assets	9.0	14.4	9.2	32.7	-11.6	-7.6	...
Net domestic assets	8.5	14.5	7.1	1.5	5.3	0.1	...
Private sector credit	12.7	6.7	6.5	4.0	6.4	6.2	...

(In millions of U.S. dollars)

Balance of payments

Current account balance	-80.6	-32.6	-18.0	-45.0	-54.7	-81.5	-87.8
(In percent of GDP)	-15.5	-6.5	-3.1	-7.2	-8.6	-11.4	-11.8
Merchandise exports, f.o.b.	12.2	11.2	11.3	13.2	11.8	12.5	12.9
Merchandise imports, c.i.f.	-241.1	-204.3	-251.1	-278.2	-279.1	-331.9	-339.4
Services (net)	81.9	85.8	101.6	100.0	95.1	110.3	104.6
Income (net)	-37.5	-38.0	-19.0	-19.7	-30.1	-28.0	-29.0
Current transfers	103.9	112.8	139.3	139.8	147.7	155.7	163.2

External reserves and debt

Gross official reserves	80.9	87.6	104.4	175.8	157.6	151.5	146.8
(In months of next year's imports of GNFS)	3.6	3.2	3.4	5.7	4.5	4.2	4.0
External debt (in percent of GDP)	37.1	30.3	45.3	53.6	49.3	53.2	57.1
Public external debt-service ratio (in percent of exports)	5.2	3.9	5.1	2.4	3.8	4.5	7.0

Exchange rates

Market rate (tala/U.S. dollar, period average)	2.6	2.6	2.7	2.3	2.3
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Market rate (tala/U.S. dollar, end period)	2.6	2.9	2.5	2.4	2.3
Nominal effective exchange rate (2000 = 100) ^{2/}	97.3	94.9	97.6	97.9	98.0
Real effective exchange rate (2000 = 100) ^{2/}	101.0	105.6	116.1	111.6	112.5

Memorandum items:

Nominal GDP (in millions of tala)	1,330	1,459	1,426	1,452	1514	1637	1701
Nominal GDP (in millions of U.S. dollars)	520	502	572	618	633	714	744
GDP per capita (U.S. dollars)	2,888	2,778	3,151	3,414	3,472	3,893	4,044

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

1/ Fiscal year beginning July 1.

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

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

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