

# **IMF Reaches Staff-Level Agreement with Samoa on Economic Recovery Program to be Supported under Rapid Credit Facility**

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A staff team from the International Monetary Fund (IMF) led by Yongzheng Yang visited Apia during March 13-22 to hold discussions on the recovery plans in the aftermath of the tropical cyclone Evan that caused many deaths and extensive damage to the country's infrastructure and productive capacity. The team met with Prime Minister Tuilaepa Aiono Sailele Malielegaoi, Finance Minister Faumuina Tiatia Faaolatane Liuga, Ministry of Finance CEO Tupa'imatuna Iulai Lavea, and Central Bank Governor Atalina Ainuu Enari, as well as other senior officials, representatives of the private sector, development partners, and civil society leaders.

At the conclusion of the visit, Mr. Yang made the following statement:

"The IMF team would like to extend our heartfelt sympathies to the people of Samoa for the losses and damages caused by the tropical cyclone Evan. The disaster caused a significant disruption to economic activity, which had just recovered following the devastating effects of the 2009 earthquake and tsunami. We welcome the measures taken by the authorities to address the needs for recovery and reconstruction, and support their request for IMF emergency assistance of about 20 million talas (about US\$8.7 million) under the Rapid Credit Facility (RCF). <sup>1</sup>

"As a small and open island economy, Samoa faces significant challenges posed by its remoteness, small size, high fixed costs in providing public services, and propensity to natural disasters. These factors combined increase its vulnerability to external shocks, including to those prompted by the effects of the climate change.

"The immediate focus of macroeconomic policies is to support the recovery and reconstruction efforts, particularly in the tourism and agricultural sectors that suffered badly from the cyclone. Fiscal spending should be reprioritized and geared towards projects that can provide a boost to the recovery and

reduce economic hardship. Spending for recovery and reconstruction is necessary, but will cause the fiscal deficit to be higher than planned before the cyclone. Given the high level of public debt—although most of it is concessional, the authorities should aim to secure grant financing as much as possible before resorting to external loans and domestic borrowing. In this regard, IMF support will also have a catalytic role in securing financial assistance from development partners.

“As soon as the recovery takes hold, the budget deficit should be reduced to bring public debt to more sustainable levels over time. Public spending should be guided by a medium-term fiscal plan that takes into account the need to reduce the high level of debt and the moderate economic growth outlook over the medium term.

“A swift recovery of the private sector is critical to mitigating the hardship of the Samoan people who have suffered from the cyclone. In light of the adverse impact of the cyclone on business activity, it is necessary to lend support to the private sector. However, the costs of subsidized lending should ideally be allocated in the budget rather than borne by the Central Bank of Samoa (CBS) or financial institutions that provide the subsidized lending. In addition, to strengthen financial sector stability, and given the rising trend in levels of non-performing loans, enhanced financial sector supervision by the CBS, covering all financial institutions, will be important to minimize a potential build up of risk in the financial system.

“Continued structural reforms will help raise economic growth and enhance macroeconomic and financial stability. Considerable progress has been made in public financial management, reforms of state-owned enterprises, and many other areas. Continued improvements would be important, particularly with regards to access to land for productive purposes, contract enforcement, and insolvency resolution. The mission welcomes the efforts in these areas and looks forward to continued progress.”

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<sup>1</sup> The RCF provides rapid concessional financial assistance to low-income countries facing an urgent balance of payments need. It can provide flexible support in a wide variety of circumstances, including shocks, natural disasters, and emergencies resulting from fragility. Fund support under the RCF is provided as an outright disbursement without explicit program-based conditionality or reviews. Financing under the RCF carries a zero interest rate, has a grace period of 5½ years, and a final maturity of 10 years.

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