

IMF Executive Board Approves US\$8.6 Million Disbursement Under Rapid Credit Facility for Samoa

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The Executive Board of the International Monetary Fund (IMF) yesterday approved a disbursement of an amount equivalent to SDR 5.8 million (about US\$8.6 million) under the Rapid Credit Facility (RCF) for Samoa to help the country manage the economic impact of Cyclone Evan. The Board's approval enables the immediate disbursement of the full amount, which represents 50 percent of Samoa's quota in the IMF.

The December 2012 cyclone inflicted damages and losses across the whole spectrum of economic activity on the main island of Upolu, home to 70 percent of the population. The total estimated cost of damages and production losses could amount to almost 30 percent of GDP. Though small relative to the overall impact of the cyclone on the budget and balance of payments, Fund assistance to Samoa under the RCF will help catalyze support from development partners.

The RCF provides rapid financial assistance with limited conditionality to low-income countries with an urgent balance of payments need. In this context, the economic policies of a member receiving RCF financing are expected to address the underlying balance of payments difficulties and support policy objectives including macroeconomic stability and poverty reduction. Financing under the RCF carries zero interest (until end 2014), has a grace period of 5 ½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

Following the Executive Board's discussion of Samoa's request for assistance under the RCF, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The macroeconomic impact of the tropical cyclone that struck Samoa in December 2012 has been especially significant coming just three years after the devastation caused by a tsunami. Economic growth will be adversely affected for some time, but there are encouraging signs of early recovery, and the authorities are to be commended for their swift response to the disaster.

"The main challenge in the short run is to secure sufficient

resources for reconstruction with minimal additional borrowing. Planned public expenditure should be reprioritized and grant financing from development partners should be sought. However, as soon as the recovery takes hold, fiscal consolidation anchored in a medium-term fiscal framework should resume to bring public debt to more sustainable levels.

"Given low inflation and the need to support activity in the period ahead, monetary policy should remain accommodative, although the Central Bank of Samoa should continue to monitor domestic liquidity closely. With the aftermath of the cyclone posing risks to bank balance sheets, heightened prudential oversight of the financial system is necessary.

"Continued efforts will be needed to improve Samoa's competitiveness and raise potential growth. The authorities are encouraged to build on their past successes and make further progress in improving the business environment, and in the areas of public enterprise reform, land use, and public financial management.

"The disbursement under the Fund's Rapid Credit Facility is intended to help Samoa cope with its immediate balance of payments needs as well as catalyze critical donor support for the recovery."

IMF COMMUNICATIONS DEPARTMENT

Public Affairs

Media Relations

E-mail: publicaffairs@imf.org

E-mail: media@imf.org

Fax: 202-623-6220

Phone: 202-623-7100