



Office Memorandum

To: Members of the Executive Board

June 26, 2014

From: The Secretary

Subject: **Samoa—Assessment Letter for the World Bank**

Attached for the **information** of Executive Directors is the Fund's assessment letter on the macroeconomic conditions in Samoa which was requested by the World Bank.

If the authorities of Samoa consent to the publication of this assessment, it may be published by the World Bank.

Questions may be referred to Mr. Bannister, APD (ext. 35975).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

FO/DIS/14/97

Samoa – Assessment Letter for the World Bank
June 24, 2014

1. **The Samoan economy is recovering from the effects of Cyclone Evan.** Growth is expected at 1½ percent in fiscal year 2013/14, led by strong recovery in agriculture, reconstruction and preparations for the United Nations Third International Conference on Small Island Developing States (SIDS). Inflation was in negative territory in 2012/13, and plentiful agricultural supply and a stable exchange rate have kept it below 1 percent in recent months. The external current account deficit is expected to widen to 6 percent of GDP as the recovery takes hold, but tourism investments, remittances and aid flows are expected to keep reserves at 4½ months of imports.
2. **The authorities have managed reconstruction costs while moving towards medium-term fiscal consolidation.** A supplementary budget was introduced in 2013/14 to accommodate higher reconstruction spending and preparations for the SIDS conference. However, a strong rebound in tax revenues (due to improved administration) and higher grants are expected to allow for a reduction in the overall deficit to 3 percent of GDP. The medium-term fiscal framework targets a deficit of 1½ percent of GDP by 2015/16, and a gradual reduction of debt to 50 percent of GDP by 2020. This consolidation is feasible, but will depend on maintaining the revenue effort and bringing total expenditure as a percent of GDP back to pre-crisis levels.
3. **There has been progress in strengthening financial sector oversight, but risks remain.** The Unit Trust of Samoa and the Samoa Housing Corporation have been brought under the supervision of the central bank. However the Development Bank of Samoa has seen rising NPLs related to the slow pace of reconstruction in the tourism sector. A joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission is expected in October 2014.
4. **The authorities are committed to maintain the tala exchange-rate basket peg, which has provided a credible nominal anchor in the face of external shocks.** An updated assessment of the exchange rate suggests that the degree of overvaluation of the tala has been attenuated by recent deflation. Nevertheless, some adjustment could improve competitiveness and preserve external stability, but this would have to be gradual given the high proportion of foreign currency denominated public debt.
5. **Continued efforts on structural reforms, including on SOEs, the use of customary lands, improvements to the business climate and public financial management, will be key to support a robust recovery of growth.**
6. **On May 16, 2013 the IMF disbursed SDR 5.8 million (about US\$8.6 million) under the Rapid Credit Facility (RCF) to help the country manage the economic impact of Cyclone Evan.** The next Article IV consultation discussion is scheduled for March 2015 to allow for the authorities' preparation to host the Third International SIDS Conference in September 2014 and for the joint IMF-World Bank Financial Sector Assessment Program to finish its work in the second half of 2014.

Table 1. Samoa: Selected Economic and Financial Indicators, 2008/09–2015/16 ^{1/}

Population (2012): 0.19 million
 Main Exports: Tourism, Fish
 GDP per capita (2012/13): US\$ 3,732
 Quota: SDR 11.6 million

	2008/09	2009/10	2010/11	2011/12	2012/13	Proj.		
						2013/14	2014/15	2015/16
(12-month percent change)								
Output and inflation								
Real GDP growth	-5.1	0.5	1.4	2.9	-0.4	2.2	2.1	2.0
Nominal GDP	-2.2	2.0	3.7	4.4	0.8	1.1	5.7	5.1
Change in CPI (end period)	10.0	-0.3	2.9	5.5	-1.7	1.0	3.5	3.0
Change in CPI (period average)	14.6	-0.2	2.9	6.2	-0.2	-1.1	3.5	3.0
(In percent of GDP)								
Central government budget								
Revenue and grants	34.5	37.9	36.0	33.9	38.3	44.5	34.7	31.8
Of which: grants	7.8	10.5	9.5	8.8	11.2	14.7	5.3	3.8
Expenditure and net lending	38.7	44.4	42.2	42.2	43.0	47.5	36.8	33.5
Of which: Development	12.8	14.7	11.9	13.2	12.6	12.6	8.0	5.1
Overall balance	-4.2	-6.5	-6.2	-8.4	-4.6	-3.0	-2.2	-1.7
External financing	3.1	9.8	6.4	8.5	4.2	5.7	4.7	1.9
Domestic financing	1.1	-3.3	-0.1	-0.1	0.1	-2.7	-2.6	-0.2
(12-month percent change)								
Money and credit								
Broad money (M2)	7.7	10.9	-0.8	-4.0	-0.8	...	...	...
Net foreign assets	9.2	32.7	-11.6	-5.9	-21.8	...	...	...
Net domestic assets	7.1	1.5	5.3	-3.1	8.9	...	...	...
Private sector credit	6.5	4.0	6.4	2.8	1.1	...	...	...
(In millions of U.S. dollars)								
Balance of payments								
Current account balance	-32.3	-44.3	-26.4	-62.9	-15.6	-44.0	-44.5	-44.7
(In percent of GDP)	-6.2	-7.6	-4.1	-9.2	-2.3	-6.1	-5.9	-5.7
Merchandise exports, f.o.b. ^{2/}	11.1	17.5	23.8	29.4	27.2	25.9	26.3	26.3
Merchandise imports, f.o.b.	-229.3	-261.6	-287.5	-337.1	-305.8	-332.5	-338.0	-343.4
Services (net)	91.7	87.2	112.9	114.5	122.7	118.9	119.9	121.2
Income (net)	-32.0	-18.7	-27.2	-36.9	-29.0	-29.2	-30.6	-32.1
Current transfers	126.2	131.4	151.6	167.2	169.3	173.0	177.8	183.3
External reserves and debt								
Gross official reserves	95.3	165.3	158.4	157.1	137.3	165.9	162.0	149.1
(In months of next year's imports of GNFS)	3.3	5.4	4.6	4.7	3.8	4.5	4.4	4.0
Public debt ^{3/}	647.2	752.4	786.5	906.4	983.3	1031.3	1068.0	1098.4
(In percent of GDP)	45.4	51.7	52.1	57.6	62.0	64.3	63.0	61.7
Exchange rates								
Market rate (tala/U.S. dollar, period average)	2.7	2.5	2.3	2.3	2.3	...	...	...
Market rate (tala/U.S. dollar, end period)	2.5	2.3	2.4	2.3	2.3	...	...	...
Nominal effective exchange rate (2000 = 100) ^{4/}	97.7	97.9	98.2	99.0	98.5	...	...	...
Real effective exchange rate (2000 = 100) ^{4/}	116.2	111.6	112.4	114.4	113.7	...	...	...
<i>Memorandum items:</i>								
Nominal GDP (in millions of tala)	1,426	1,454	1508	1575	1587	1603	1695	1781
Nominal GDP (in millions of U.S. dollars)	522	585	651	687	687	717	749	782
GDP per capita (U.S. dollars)	2,879	3,214	3,563	3,747	3,732	3,887	4,045	4,207

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

1/ Fiscal year beginning July 1.

2/ Includes re-export of fuel after 2009/10.

3/ Includes domestic and external public debt.

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