FOR AGENDA

SM/86/25
Supplement 1

CONTAINS CONFIDENTIAL INFORMATION

February 27, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Western Samoa - Staff Report for the 1985 Article IV Consultation

The attached supplement to the staff report for the 1985 Article IV consultation with Western Samoa has been prepared on the basis of additional information. Also attached is an information notice on the real effective exchange rate of the Western Samoa tala.

Mr. Saito (ext. 7365) or Mr. In-Su Kim (ext. 7319) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Monday, March 3, 1986.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

WESTERN SAMOA

Staff Report for the 1985 Article IV Consultation
Supplementary Information and Information Notice

Prepared by the Asian and Exchange and Trade
Relations Departments

Approved by P.R. Narvekar and Eduard Brau

February 27, 1986

This paper presents information that has become available since the Staff Report for the 1985 Article IV Consultation with Western Samoa (SM/86/25, 2/10/86) was issued. The additional information does not alter the thrust of the staff appraisal contained in that report.

1. The Budget for 1986

As noted in the Staff Report, the draft budget for 1986 that was presented in the Report was not approved as the Cabinet changed. Subsequently, the new Cabinet prepared another draft budget, which is currently being reviewed by the Parliament.

The new budget retains the cautious policy stance embodied in the earlier draft budget. As before, domestic revenue appears to be conservatively estimated and is expected to decline slightly in 1986. Consequently, despite larger external grants now estimated, total domestic revenue and grants are expected to rise by only 4 percent. Total expenditure is budgeted to decline by about 4 percent in 1986 on account of a fall in domestically-financed development expenditure, which rose sharply in the past two years; externally-financed development expenditure and current expenditure are budgeted to rise moderately. In all, the overall budgetary position is expected to shift from a deficit of 1.4 percent of GDP to a surplus of 2.1 percent (Table 1).

The overall surplus of 2.1 percent of GDP now envisaged compares with a surplus of 0.3 percent shown in the Staff Report. The increased surplus is attributable primarily to a larger estimate of external grants and a lower estimate of current expenditure. The improvement in

the overall position is expected to be accompanied by a larger reduction in outstanding net government borrowing from the domestic banking system than originally envisaged. Net repayment to the nonbank sector is estimated to be slightly lower, because of anticipated larger borrowing primarily from the National Provident Fund.

Total revenue and grants are now estimated to be WS$2.6 million higher than that shown in the Staff Report mainly on account of larger external grants. External grants are projected to be WS$26.2 million, instead of WS$24 million envisaged earlier; the difference between the two projections reflects higher anticipated inflows of commodity aid. Total domestic revenue is budgeted at almost the same as the earlier estimate, which envisages a slight decline from 1985 to 1986. No new tax measures are incorporated in the 1986 budget.

Total expenditure for 1986 is now budgeted to be WS$1.4 million lower than the earlier estimate. Current expenditure is estimated to be WS$2.5 million lower, mainly reflecting a smaller allocation for contingency funds. However, the reduction in current expenditure is partly offset by higher domestically-financed development expenditure (by WS$1 million) due to additional appropriation for a communication project; even with this addition, domestically-financed development expenditure is budgeted to decline substantially from the 1985 level. Externally-financed development expenditure is kept unchanged from the earlier estimate, and shows a small increase over 1985.

In presenting the 1986 budget to the Parliament in late January 1986, the Minister of Finance expressed the Government's determination to continue with policies designed to lower inflation and promote production and exports. He also announced the Government's plan to review tax and import policies.

2. Recent exchange rate developments

After depreciating by about 8 percent between March and November 1985, the real effective exchange rate of the tala (as measured by the standard index developed in connection with the Information Notice System) depreciated by about 3 percent in December. This latter depreciation reflected in part the sharp depreciation of the New Zealand dollar (the currency of Western Samoa's key trading partner) vis-a-vis the U.S. dollar as well as the continuing depreciation of the U.S. dollar vis-a-vis other major currencies. 1/

1/ As indicated in the Staff Report, the exchange rate for the tala is flexibly determined so as to maintain competitiveness, largely by reference to a basket of currencies of five major trading partners (New Zealand, Australia, the United States, Japan, and Germany).

Reflecting these developments, as of December 1985, the tala depreciated by 11.4 percent in real effective terms since the last occasion on which developments in Western Samoa's exchange rates were brought to the attention of the Executive Board--the Article IV consultation in February 1985. The recent evolution of Western Samoa's real effective exchange rate is set out in Chart 1 and Table 2.

Table 1. Western Samoa: Financial Operations of the Central Government, 1985-86

	1985 Est.	1986 Staff Report	1986 New Budget
	(In millions of tala)		
Total revenue and grants	89.9	90.7	93.3
Total domestic revenue	67.9	66.7	67.1
External grants	22.0	24.0	26.2
Total expenditure, commitment basis	92.6	90.1	88.7
Current expenditure	42.2	45.8	43.3
Development expenditure	46.1	42.1	43.2
Of which: domestically financed	(18.8)	(11.9)	(12.9)
Net lending	4.3	2.2	2.2
Overall balance, commitment basis	-2.7	0.6	4.6
Net change in arrears (reduction -)	-1.5	--	--
Overall balance, cash basis	-4.2	0.6	4.6
External financing (net)	1.7	2.8	3.0
Domestic financing (net)	2.5	-3.4	-7.6
Banking system	(3.3)	(-0.5)	(-5.2)
Other	(-0.8)	(-2.9)	(-2.4)
	(In percent of GDP)		
Total domestic revenue	34.4	31.0	31.1
Total expenditure	46.9	41.9	41.2
Overall balance			
Commitment basis	-1.4	0.3	2.1
Cash basis	-2.1	0.3	2.1
Financing			
External	0.9	1.3	1.4
Domestic banking system	1.7	-0.2	-2.4

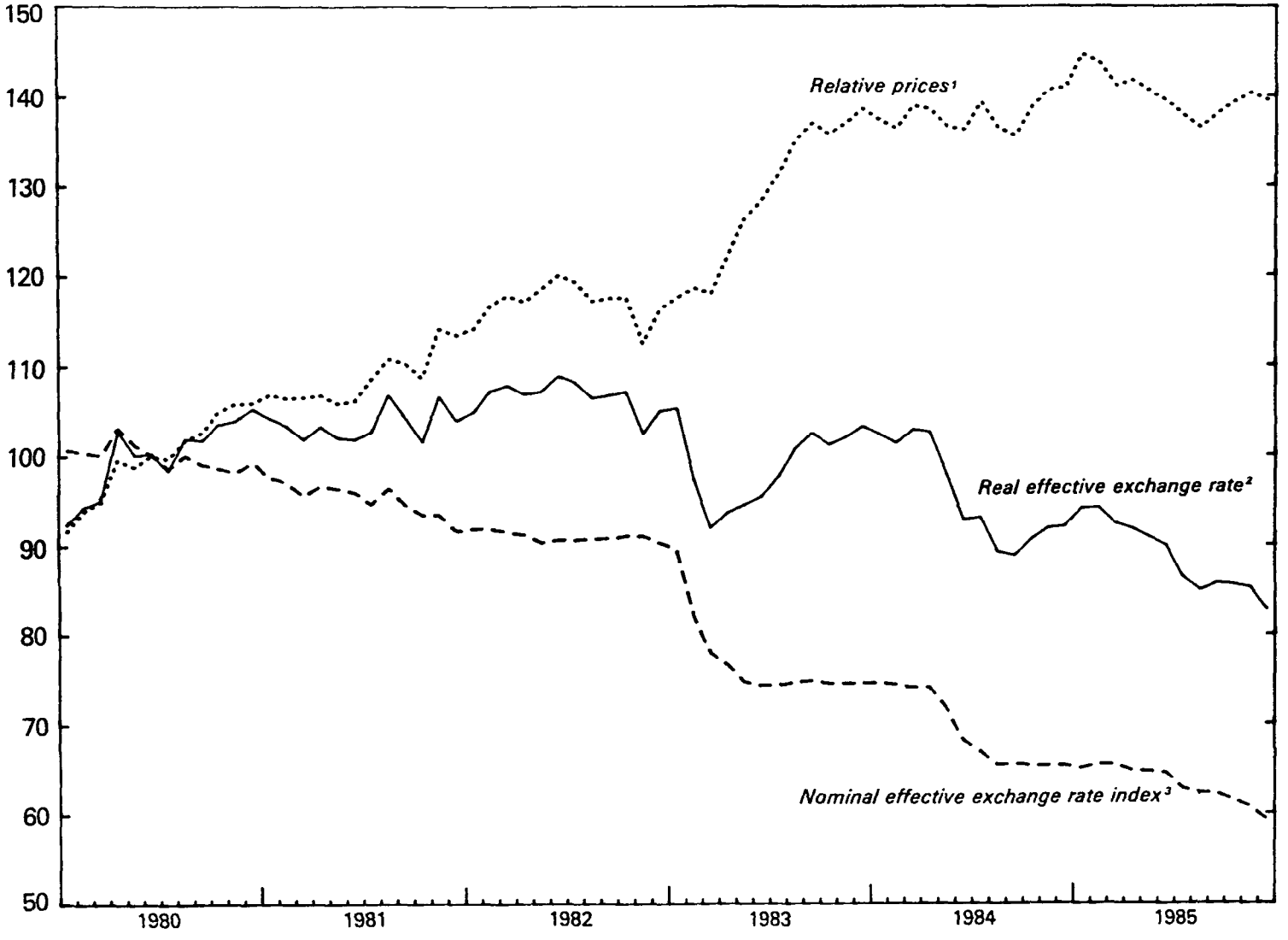
Sources: Treasury Department of Western Samoa; and Fund staff estimates.

CHART 1

WESTERN SAMOA

INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE

(1980 = 100)



Source Information Notice System.

[1]Trade-weighted index of nominal exchange rates, upward movement indicates appreciation

[2]Seasonally adjusted

[3]Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative prices, upward movement

Table 2. Western Samoa: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

Quarterly	Real Effective Exchange Rate 1/ 2/	Nominal Effective Exchange Rate 1/	Relative Consumer Prices (Local Currencies)	Exchange Rate in terms of U.S. Dollars 1/	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
1981						
I	103.2	96.7	106.7	95.2	113.4	112.8
II	102.4	96.3	106.3	90.0	116.1	114.9
III	104.6	95.2	109.9	85.2	123.2	124.4
IV	104.1	92.8	112.1	84.5	129.1	130.0
1982						
I	106.8	91.8	116.3	80.7	136.9	136.2
II	107.7	90.8	118.6	77.3	143.0	141.3
III	107.2	90.8	118.1	74.3	145.5	147.0
IV	105.0	90.8	115.5	72.8	144.9	145.8
1983						
I	98.2	83.1	118.1	67.1	149.8	149.2
II	94.5	75.2	125.7	58.0	160.9	159.0
III	100.3	74.6	134.4	56.7	173.7	175.6
IV	102.2	74.5	137.1	57.1	179.3	180.4
1984						
I	102.2	74.3	137.5	57.1	181.7	181.0
II	97.7	71.3	137.1	54.3	182.9	180.6
III	90.4	65.9	137.1	44.8	185.5	187.5
IV	91.5	65.3	140.1	43.1	192.7	193.9
1985						
I	93.5	65.3	143.2	40.5	201.5	200.7
II	90.8	64.6	140.6	39.7	202.4	199.9
III	85.7	62.4	137.5	41.3	200.8	202.9
IV	84.5	60.5	139.7	42.3	206.0	207.2
Monthly						
1985						
Feb. 3/	94.1	65.5	143.8	40.2	202.2	201.6
Mar.	92.4	65.4	141.1	39.7	200.3	198.8
Apr.	91.8	64.7	141.7	39.7	202.7	198.9
May	90.8	64.6	140.5	39.7	202.5	200.1
June	89.9	64.5	139.4	39.8	202.1	200.6
July	86.5	62.7	137.8	40.7	200.7	201.0
Aug.	85.0	62.2	136.5	41.9	199.5	202.3
Sep.	85.8	62.1	138.0	41.4	202.2	205.4
Oct.	85.6	61.4	139.3	43.1	204.7	206.3
Nov	85.3	60.7	140.3	42.8	206.8	208.0
Dec.	82.7	59.3	139.5	40.9	206.5	207.3
Percentage change						
Feb. 1985- Dec. 1985	-11.4	-9.5	-2.9	1.7	2.1	2.8

Source: Information Notice System.

1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.