

**EXECUTIVE
BOARD
MEETING**

EBS/20/68
Correction 1

April 28, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Samoa—Request for Disbursement Under the Rapid Credit Facility**

Board Action:

The attached corrections to EBS/20/68 (4/20/20) have been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

Pages 1, 4, 8, 10, 13, 18

Questions:

Mr. Kashiwase, APD (ext. 34722)
Ms. Lee, APD (ext. 37094)



SAMOA

April 20, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Samoa, with a population of around 0.2 million, suffered from a severe measles outbreak in late-2019 (claimed 83 lives and resulted in over 5,700 cases), which led to a much larger economic contraction than that of past episodes of natural disasters. The global pandemic of COVID-19 has exacerbated the downturn and will devastate the Samoan economy as it heavily depends on now-banned inbound tourism. Staff supports the authorities' planned policy measures to help the private sector. The Fund's support for Samoa's balance of payment (BOP) needs (US\$ 22.2 million or 100 percent of quota) will provide a significant short-term buffer.

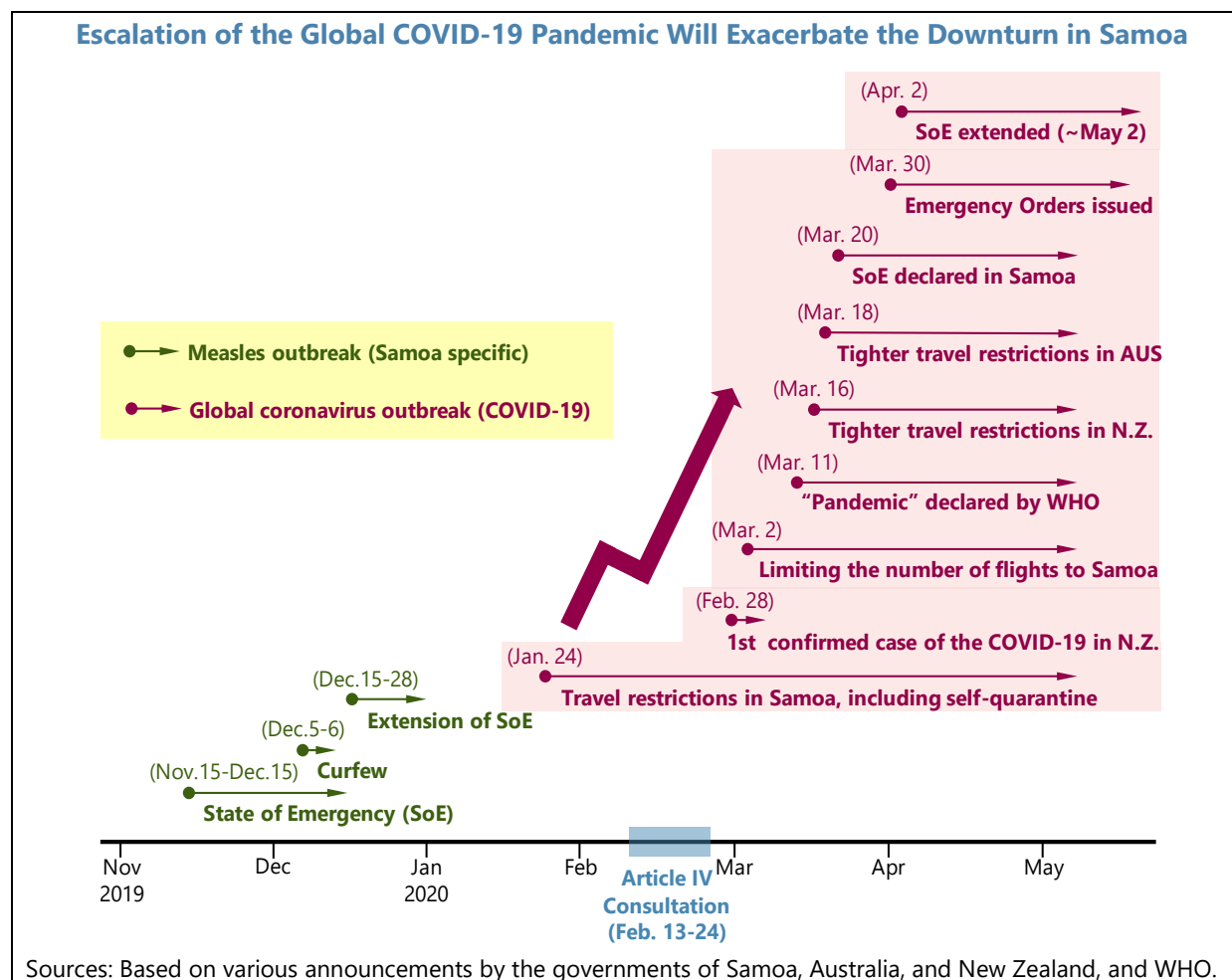
Request for Fund support. The authorities requested Fund emergency assistance under the Rapid Credit Facility (RCF) to address the urgent BOP needs caused by the measles outbreak of late-2019 and the global COVID-19 pandemic of early-2020. The authorities requested a disbursement of SDR16.2 million, equivalent to 100 percent of quota, with the full amount to become available upon Board approval of the request. Staff supports the request. Fund assistance would help ease the pressure on the urgent BOP needs and help catalyze assistance from development partners, and will assist implementation of planned economic and fiscal measures by the Government of Samoa.

Policy recommendations. The authorities' responses to the COVID-19 pandemic have been timely, scaling up health care spending and putting in place measures to contain the outbreak. The authorities have also responded with a combination of appropriate fiscal, monetary, and prudential measures that seek to minimize its economic impact. The fiscal policy response should focus on carefully designed spending reductions, especially in terms of the past ambitious public investment plans, and a reallocation of resources towards healthcare spending and other measures that provide temporary support for vulnerable households and businesses most affected by the crisis. The authorities' efforts are also suitably focused on ensuring adequate liquidity to the banking system, and supporting access to credit. Beyond this immediate response, the authorities remain committed to promote inclusive growth through implementation of their structural reform agenda, while preserving financial-sector and external stability, as well as fiscal sustainability.

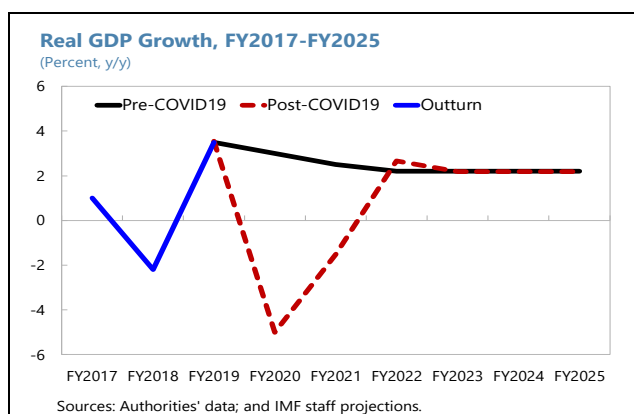
INTRODUCTION: MACROECONOMICS OF HEALTH

1. The impact of the global COVID-19 pandemic on economic activity has triggered the urgent balance of payment (BOP) needs in Samoa. The Samoan and other governments' travel restrictions to contain the pandemic, their impact on the global economy, as well as the heightened global risk aversion to flying are expected to dramatically cut tourism receipts for the FY2020 season by around 10.6 percent of GDP relative to pre-pandemic projections. In addition, the measures (e.g., social distancing) taken under a State of Emergency and related uncertainty are also affecting economic activity although no confirmed cases are yet reported in Samoa as of April 15, 2020. The impact of the shocks on the balance of payments, offset in part by lower global fuel prices and associated lower imports from the fall in tourism and construction, is substantive, and subject to further downside risks. A BOP financing gap is now estimated to amount to US\$34.13 million.

2. The authorities have requested Fund assistance under the Rapid Credit Facility (RCF) to address the urgent BOP needs posed by the COVID-19 pandemic. The financing provided by the Fund is expected to catalyze support from other development partners (details below) through additional grants and concessional loans.



of around 7¼ percent of GDP in FY2020 and 9¾ percent of GDP in FY2021. Likewise, the current account deficit is projected to widen, reaching around 7 percent of GDP in FY2020-FY2021. The rapid and sizable deterioration of the current account balance led to precipitous falls in reserve coverage and generated urgent BOP financing needs, amounting to US\$34.3-1 million for FY2020 alone.



FINANCING NEEDS: PAVING THE WAY FORWARD

7. The resulting BOP financing need is assessed to be SDR 25.1 million (154¾ percent of quota), or 4.1 percent of GDP (about US\$34.31 million, see Text Table 2). The global pandemic of COVID-19 has created material damage to the Samoan economy, which is assessed to be larger than the physical damage caused by two episodes (2009 and 2012) of natural disasters. Staff projects the current account deficit to widen to around 7 percent of GDP in FY2020-21, and gross international reserves to decline to 4.1 months and 2.8 months of import coverage in FY2020 and FY2021, respectively, if the total financing gap is left unmet. The sizable financing gap, if not addressed immediately, will cause Samoa to face severe economic disruptions, given the country's high dependence on imports. In addition, Samoa faces high vulnerability to natural disasters, and needs reserve coverage equivalent to at least 5 months of prospective imports (GNFS) based on the ARA metric.¹ With access of 100 percent of quota under the RCF, the drawdown of reserves would be limited. This assumes that Samoa finds additional sources of financing to meet the residual BOP financing gap of around US\$12 million (54¾ percent of quota).

Text Table 2. Preliminary Assessment of Balance of Payments Needs

	Est.	Projections					
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
(Millions of U.S. dollar)							
Current account balance 1/	19.4	-58.7	-58.0	-23.0	-22.4	-20.7	-13.2
(In percent of GDP)	2.3	-7.1	-7.0	-2.6	-2.5	-2.2	-1.3
Capital and financial account	8.8	15.7	15.2	38.2	34.4	34.0	29.7
(In percent of GDP)	1.0	1.9	1.8	4.4	3.8	3.6	3.0
Overall balance (+ surplus)	1.1	-43.0	-42.8	15.2	11.9	13.4	16.5
(In percent of GDP)	0.1	-5.2	-5.2	1.8	1.3	1.4	1.7
Financing	1.1	-43.0	-42.8	15.2	11.9	13.4	16.5
Change in gross official reserves (+ increase)	-2.1	-10.5	-44.5	13.6	11.1	13.3	14.2
Net use of credit	-3.3	20.4	-1.7	-1.7	-0.9	-0.1	-2.3
o/w: IMF disbursements (+) 2/ (A)	0.0	22.0	0.0	0.0	0.0	0.0	0.0
o/w: Repayments to the IMF (-) 3/ (B)	-3.3	-1.6	-1.7	-1.7	-0.9	-0.1	-2.3
Financing gap (net of IMF disbursement)	0.0	12.1	0.0	0.0	0.0	0.0	0.0
Total financing gap (A+B)	0.0	34.1	0.0	0.0	0.0	0.0	0.0
Gross reserves 1/ 2/	192.8	182.3	137.8	151.4	162.5	175.7	189.9
(In months of prospective GNFS imports)	5.1	5.0	3.8	3.9	3.9	4.0	4.2
Memorandum items:							
Nominal GDP	850.8	828.6	829.7	869.6	907.9	948.1	989.9
USD/SDR (period average)	1.4	1.4	1.4	1.4	1.4	1.4	1.4

Sources: Authorities' data; and IMF staff estimates and projections.

1/ Include external financial assistance by multilateral and bilateral donors to support policies to address impacts of the global COVID-19 pandemic.

2/ Include SDR\$16.2 million (100 percent of quota) under the Rapid Credit Facility (RCF) in FY2020.

3/ Include the outstanding credit under the RCF, approved in 2013.

Sources: Authorities' data; and IMF staff estimates and projections.

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3/ Include the outstanding credit under the RCF, approved in 2013.

¹ The ARA metric gives adequacy of reserve coverage to be in a range of 4.1-6.2 months of prospective imports (including goods and nonfactor services, GNFS) when Samoa's high vulnerability to natural disasters is considered.

POLICY ISSUES: TURNING ADVERSITY INTO OPPORTUNITY

Samoa confronted the measles outbreak of late-2019 and put together the 1st supplementary budget (approved in December 2019), which helped pave the way to improving the country's health care system. Following the early-2020 global pandemic of COVID-19, the 2nd supplementary budget, designed to protect lives of the people and preserve macroeconomic stability, was approved in early April. Beyond its short-term objectives, the government needs to seize the opportunity for reforms, and remain committed to its medium-term strategy, yielding more sustained and inclusive growth, while ensuring debt sustainability.

A. Health Policy: Safeguarding Human Capital

9. Nearly one-third of the resources under the April 7 second supplementary budget will be devoted to strengthening the health sector to protect the health and wellbeing of the Samoan people. Supported by external donors (Table 5), the authorities allocated SAT22.2 million (1 percent of GDP) for health care sector, with the aim of ~~increasing-enhancing~~ the country's preparedness to handle the ~~domestic-outbreak~~ impact of COVID-19. The authorities' policy response meets the objectives of the Samoa Health System Strengthening Program, designed jointly with the World Bank, which provides funding for each year through 2025 to help improve the quality and efficiency of the Samoan health care system.

B. Fiscal Policy: Improving the Equity and Efficiency of Spending

10. The Samoan authorities' multipronged strategy to support businesses and households amounts to SAT46 million (2.1 percent of GDP). The second supplementary budget aims to help affected businesses (SAT12.5 million) and households (SAT27.5 million), ensure food security (SAT3.5 million), and provide support to the sectors (SAT2.5 million) that provide essential services to the country, including police, education, communication, and community outreach. The strategy targets groups of vulnerable businesses and households, and provides time-bound free rent, subsidies for expenditure on utilities (electricity and water), and a moratorium on pension contributions for the hospitality sector. Revenue measures to support the private sector will cost the government SAT9.8 million (½ of one percent of GDP). They comprise waiver on bus and taxi registration fees, a temporary exemption on import duties on most commonly bought food items for households, and duty concessions on selected agricultural and fishing materials.

11. The immediate priority is to deliver the support to the most needy through social safety nets, while improving the equity, coverage, and efficiency of budget spending in due course. Provision of a subsidy on utility bills, for example, could apply a means-testing approach. Developing such a mechanism, however, takes time. Based on this experience, the authorities could set up an appropriate mechanism when possible and seek ways to address equity concerns of the subsidy, as well as broadening the coverage of social safety nets to reach households in the informal

capacity can also provide support for this effort. Strengthening the public financial management (PFM) is paramount, which helps monitor and disclose fiscal risks, while increasing the capacity of the AID Coordination and Debt Management Unit. To strike an appropriate balance with the country's development objectives, the government needs to continue promoting agriculture and micro, small and medium enterprises (MSMEs) to achieve more inclusive growth, as they constitute a significant proportion of employment in both formal and informal sectors. The pilot projects successfully implemented (e.g. Inclusive Development Projects and Anchor Businesses for agricultural products) by the DBS can be expanded in scope and range of products for exports. Further enhancing the business environment and promoting exports with enhanced trade facilitation will provide important synergies. In addition, the authorities should aim to mitigate corresponding banking relationship (CBR) pressures and safeguard remittances inflows by enhancing AML/CFT effectiveness and reducing risks from the offshore sector. The authorities will also need to continue with the planned rollout of a Know-Your-Customer (KYC) utility for money transfer operators, designed to address customer identification concerns.

MODALITIES, ACCESS, CAPACITY TO REPAY, AND SAFEGUARDS

16. Staff estimates that a single disbursement of around 100 percent of quota (SDR 16.2 million or about US\$ 22.2 million) under the RCF is urgently needed to address COVID-19 economic effects. Although the amount represents only 65 percent of the total BOP financing gap (US\$34.3 million or 154¾ percent of quota), the macroeconomic framework provided by the Fund would help the authorities identify financing needs and reach out to other donors to fill remaining financing needs. The positive effects of RCF disbursement will be magnified by the catalytic role of Fund assistance in helping mobilize resources from multilateral and bilateral donors.

17. Samoa faces urgent BOP needs, which, if not addressed, would result in immediate and severe economic disruption due to its high dependence on imports. Given the urgent BOP needs, and the country's high dependence on substantial imports of food, health related products, and other materials, it is not feasible to implement a UCT-quality Fund-supported program.

18. Samoa has a strong track record. The authorities maintain a good relationship with the Fund with a high level of engagement, and implement sound economic policies. The country is among the largest recipients of capacity development provided by the Pacific Financial Technical Assistance Centre (PFTAC) and follow through on key recommendations arising from the various technical assistance. Staff has confidence that the authorities will continue to cooperate with the Fund and will pursue economic policies appropriate to addressing the impacts of COVID-19.

19. Capacity to repay the Fund under such an access would remain adequate (see Table 7). In May 2019, the authorities made the last payment on the outstanding purchase in 2009 under the Rapid Access Component of the Exogenous Shocks Facility (ESF). Separately, Samoa has credit outstanding under a previous RCF disbursement approved on May 15, 2013, with an access level of

Table 2. Samoa: Balance of Payments, 2016/17 – 2024/25 1/

	Estimates				Projections				
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
In millions of US dollars									
Current Account Balance	-16.6	6.8	19.4	-58.7	-58.0	-23.0	-22.4	-20.7	-13.2
Exports of goods 2/	38.0	36.3	50.0	44.9	45.4	47.2	49.3	51.5	53.8
Imports of goods	308.6	328.9	349.4	349.9	343.6	347.1	370.8	401.0	424.8
Services credit	224.5	249.8	266.4	197.2	185.2	216.3	234.5	254.1	275.0
Tourism earnings	151.3	180.3	196.4	134.5	121.9	152.3	169.3	187.6	207.1
Services Debit	83.8	91.3	91.6	99.8	90.1	93.5	97.7	102.1	106.6
Primary income credit	7.4	5.3	6.5	8.0	3.9	6.2	6.0	6.1	6.0
Primary income debit	34.0	35.3	43.8	44.9	38.2	36.6	39.9	37.9	38.2
Secondary income credit	159.1	194.1	205.3	207.6	202.2	207.5	218.7	231.4	244.2
Private transfers credit 3/	154.1	190.1	199.1	181.2	187.7	197.0	208.0	220.3	233.1
Official transfers credit	5.0	4.0	6.1	26.4	14.5	10.5	10.7	11.1	11.1
Secondary income debit	19.1	23.0	24.0	21.8	22.9	22.9	22.6	22.8	22.8
Private transfers debit	18.4	22.8	23.7	21.6	22.7	22.7	22.4	22.6	22.5
Official transfers debit	0.7	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Capital Account Balance	43.2	32.4	26.8	30.6	30.8	31.0	31.8	32.0	32.3
Credit	44.7	33.1	27.1	31.4	31.4	31.6	32.5	32.7	32.9
Debit	1.5	0.7	0.3	0.8	0.6	0.6	0.7	0.6	0.6
Financial Account Balance (excludes reserve assets)	5.0	-16.1	18.1	14.9	15.6	-7.2	-2.6	-2.0	2.5
Direct Investment	8.5	-15.7	-2.6	-13.0	-7.3	-1.8	-6.5	-1.2	-4.0
Abroad (Assets)	9.6	0.1	3.4	2.6	1.2	1.4	1.7	3.7	2.1
In Samoa (Liabilities)	1.0	15.9	6.0	15.6	8.5	3.2	8.2	4.9	6.1
Portfolio Investment	5.6	-3.7	-1.5	1.0	3.3	2.9	7.2	0.3	0.3
Abroad (Assets)	5.6	-3.7	-0.8	1.7	4.0	3.6	7.2	0.3	0.3
In Samoa (Liabilities)	0.0	0.0	0.7	0.7	0.7	0.7	0.0	0.0	0.0
Other Investment	-9.2	3.4	22.1	26.9	19.5	-8.3	-3.3	-1.1	6.2
Abroad (Assets)	-19.0	-20.4	-6.0	-5.0	-5.1	-5.1	-5.2	-5.2	-5.3
In Samoa (Liabilities)	-9.8	-23.7	-28.1	-31.9	-24.6	3.2	-1.8	-4.1	-11.5
Errors and Omissions	-12.8	-15.6	-27.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-8.9	-39.8	-1.1	43.0	42.8	-15.2	-11.9	-13.4	-16.5
Financing	8.9	39.8	1.1	-43.0	-42.8	15.2	11.9	13.4	16.5
Reserve Assets	7.3	37.3	-2.1	-10.3	-44.5	13.6	11.1	13.3	14.2
Net use of IMF Credit	-1.6	-2.5	-3.3	20.4	-1.7	-1.7	-0.9	-0.1	-2.3
Of which: IMF disbursements 4/	0.0	0.0	0.0	22.0	0.0	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF	-1.6	-2.5	-3.3	-1.6	-1.7	-1.7	-0.9	-0.1	-2.3
Financing gap (net of IMF credit) 5/	0.0	0.0	0.0	12.1	0.0	0.0	0.0	0.0	0.0
Total Financing gap 4/ 5/	0.0	0.0	0.0	34.1	0.0	0.0	0.0	0.0	0.0
Memorandum Items:									
Nominal GDP (in millions of USD)	831.9	835.8	850.8	828.6	829.7	869.6	907.9	948.1	989.9
Current account balance (in percent of GDP)	-2.0	0.8	2.3	-7.1	-7.0	-2.6	-2.5	-2.2	-1.3
Gross official reserves (in million of U.S. dollars)	122.3	163.1	192.8	182.4	137.9	151.5	162.6	175.9	190.1
(In months of prospective imports of GNFS)	3.5	4.4	5.1	5.0	3.8	3.9	3.9	4.0	4.2
Total Financing gap (in percent of GDP) 4/ 5/	0.0	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0
Exports of goods (annual percentage change)	2.9	-4.6	37.9	-10.2	1.0	4.1	4.4	4.5	4.5
Imports of goods (annual percentage change)	0.5	6.6	6.2	0.2	-1.8	1.0	6.8	8.2	5.9
Remittances (in percent of GDP) 6/	18.5	22.7	23.4	21.9	22.6	22.7	22.9	23.2	23.5
Tourism earnings (in percent of GDP)	18.2	21.6	23.1	16.2	14.7	17.5	18.6	19.8	20.9

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

1/ The presentation follows the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6).

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

3/ Excluding reserve assets.

4/ Including the IMF disbursement of SDR16.2 million (100 percent of quota) under the Rapid Credit Facility (RCF). The World Bank has recently approved the US\$5.1 million in funding through the International Development Association (IDA), under the Catastrophe-Deferred Drawdown Option (Cat DDO).

5/ Including financing by other external donors (not yet identified).

6/ Including other current transfers.