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QUARTERLY ECONOMIC REVIEW

This Quarterly Economic Review is published by the Economic Policy and Planning Division of the Ministry of Finance. The analysis is based on the latest available data on the main macroeconomic aggregates as collected by the Central Bank of Samoa and the Ministry of Finance, and is intended to provide Government officials, the business community and the general public with a better understanding of the economy.

This review summarizes the state of the economy during the first quarter 2007.

1. EXECUTIVE SUMMARY

Key Features of First Quarter 2007 Performance

- Real **GDP** of \$260.62 million in 1Q07, grew by 4.7% over the comparable 2006 period; (see section 2)
- **Employment** declined by 6.1% (1,320) over the comparable 2006 period; (see section 3)
- **Export** revenues valued at \$5.23 million in 1Q07, increased by 2.8% over the same 2006 period; (see section 4.1)
- **Imports** at \$133.44 million in 1Q07, declined by 0.7% over the comparable 2006 period; (see section 4.2)
- As a result, the **trade deficit** declined by \$1.08 million to stand at \$128.21 million in 1Q07 over 1Q06; (see section 4.5)
- **Foreign reserves** at the end of 1Q07 stood at \$187.56 million, equivalent to 4.0 months of import cover; (see section 5)
- The **Tala appreciated** against the USD and Yen whilst depreciated against the NZD, AUD, EURO and FJD for the March quarter over the comparable 2006 period (see section 6)
- The **budget out-turn** for the first nine months of FY 2006/07 improved to an overall deficit of \$11.90 million, from the deficit of \$27.30 million for July-March 2005/06. The current surplus improved to \$26.20 million from \$8.70 million recorded in the same period of the previous financial year; (see section 7.1)
- Official **government debt** outstanding at end 1Q07 stood at \$446.97 million; down by \$31.98 million over the corresponding 2006 period; (see section 7.2)
- **Money supply** valued at \$539.83 million at end March 2007, was up by \$48.91 million over the comparable 2006 quarter; (see section 8.1)
- **Domestic credit** expanded by \$88.70 million over 1Q07 to stand at \$504.88 million; (see section 8.2)
- The annual average **inflation rate** at end March 2007 stood at 4.1 percent, 2.5 percentage points higher than the rate at end March 2006; (see section 9)

2. GROSS DOMESTIC PRODUCT

The Gross Domestic Product is the building blocks for macroeconomic analysis. This measure estimates the country's gross value-added within the domestic economy. Compilation of the estimates uses an industry-value added approach; that is the values of output and input have been estimated separately for each industry, and value-added (gross product) derived as a net measure. For the agriculture and non-monetary sectors estimates have been derived from, inter alia, export data, the Fugalei Market Surveys and benchmark derived from the 2002 Household Income and Expenditure Survey. GDP estimates for Agriculture and Fishing have been revised to incorporate the 1999 Agriculture Census and the 2000 Fishing Survey. Other data sources and benchmarks have included the 1999 Business Activity Survey, and detailed trade statistics provided by the ASYCUDA system as well as employment data from NPF.

Figure 2.1: Quarterly GDP estimates at constant and current prices (\$ Million)

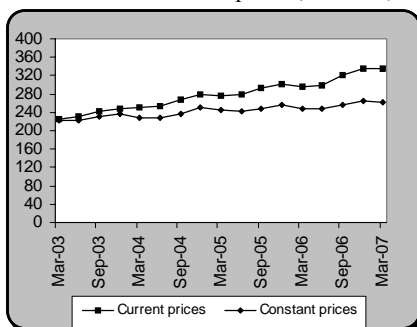
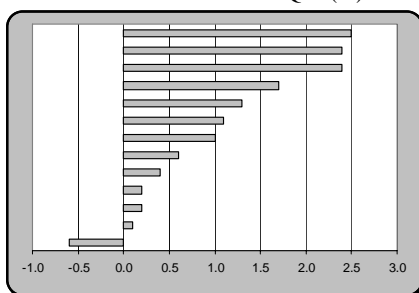


Figure 2.2: Contribution to Change in Total Real GDP for March 1Q07 (%)



Labeled from top to bottom

Finance and Business:	2.5
Other Manufacturing:	2.4
Commerce	2.4
Public Administration:	1.7
Construction:	1.3
Fishing:	1.1
Transport & communication:	1.0
Personal and other services:	0.6
Hotels & Restaurants:	0.4
Electricity & Water:	0.2
Ownership of dwellings:	0.2
Agriculture:	0.1
Food & beverages	-0.6

Overview

Gross Domestic Product in current prices over the twelve months ending March 2007 was \$1.29 billion. At this level, GDP per capita was equivalent to \$6,997 Tala. In constant 2002 prices, GDP was at \$1.03 billion Tala, an increase of 3.4% following growth rates of 2.6%, 2.2% and 2.5% in the past three comparable twelve month periods.

GDP in nominal terms for March 2007 was \$335.17 million Tala. This was a decline of 0.3% compared to the December 2006 quarter and when compared to the same period last year, it increased by 13.1 percent. Economic activities in March 2007 at constant 2002 prices, accelerated with an increase of 4.7% fuelled by the strong resurgence in the Other manufacturing industry, contributing 1.9 percentage point to the overall growth and continuing construction works for the upcoming South Pacific Games. Commerce and Transport and Communication sectors productivity also contributed significantly to this growth with a total combined contribution of 1.5 percentage point. Real GDP value for the period was \$260.62 million Tala.

Industry Performance

Primary Sector: Agriculture and Fisheries

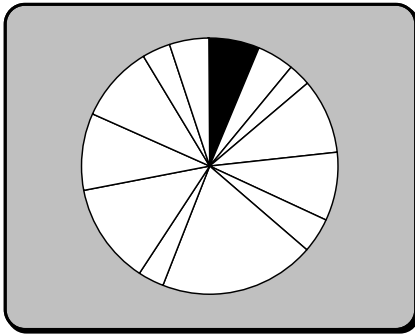
Agriculture real production for the March 2007 quarter recovered albeit low production throughout 2006 with an average negative growth rate of 6.4% when compared to the corresponding 2005 period. Total value added was \$17.30 million Tala, an increase of 1.2% compared to March quarter 2006 and a decline of 3.2% when compared to the December quarter of 2006.

Fishing industry rebounded strongly with a value added of \$11.92 million in March 2007, the third consecutive quarters of positive growth rates albeit a prolong recession in the past 5 years. When compared to the same period last year, Fishing value added increased by 4.6 percent. The recovery in the industry is expected to pick up strongly in the near future with its crucial role in supporting export earnings.

Secondary Sector: Manufacturing, Construction, Electricity and Water

In constant 2002 prices, **Food and Beverage Manufacturing** value added stood at \$7.45 million Tala. At this level, the industry registered a negative growth of 15.8% and an adverse contribution of 0.6 percentage points to the overall growth when compared to the same period last year.

Figure 2.3: Real GDP by industry



Labeled commencing from the shaded area going clockwise

Agriculture:	6.6
Fishing:	4.6
Food and Beverages manufacturing:	2.9
Other manufacturing:	9.6
Construction	8.7
Electricity and water:	4.4
Commerce:	19.8
Hotels, restaurants:	3.3
Transport, Communication:	13.0
Public Administration:	9.8
Finance and business services:	9.9
Ownership of dwellings:	3.5
Personal and other services:	5.2

This decline was triggered by nonu juice that used to be one of the leading export earning product dropped by 35.3%, and coconut cream production declined by 9.0% (CBS Foreign Trade Report). These declines together with the decrease in other agro-processing manufacturing was assisted by the rise in beer production with its increase in exports by 4.7%.

Other Manufacturing started to rebound in December 2006 quarter and continued on with a notable increase of 23.5% in March 2007 to become the major contributor (1.9%) to the overall growth. This was after 12 consecutive quarters of negative growths. The industry's recovery was primarily due to an improvement in productivity by Yazaki reflected in its exports increasing by 20% compared to March 2006. Other manufacturers excluding Yazaki also contributed significantly to the change with its value added increased by 17.0% compared to the same period last year.

During the period under review, Construction value added was \$22.73 million, an increase of 11.4% when compared to March 2006. Ongoing infrastructure works like roads and bridges (Lepea, Vaimoso, Tuaefu, etc) and the construction of buildings and other related facilities for the South Pacific Games impacted on this performance. The sector performance was consistent with the fiscal deficit of \$11.90 with an excess expenditure of more than \$7.60 million Tala for the SPG preparations. This resulted with the industry's contribution of 0.9 percentage points to the overall growth.

At constant 2002 prices, **Electricity and Water** production continued to grow with the increasing demand from almost every sector of the economy. During March 2007 quarter, the industry generated a total value added of \$11.47 million. This was an increase of 2.2% compared to March 2006.

Tertiary Sector: *Commerce, Transport & Communication, Finance & Business Services, Personal Services and Hotels & Restaurant*

Commerce continued to expand with increasing money supply supported by remittances increased by 25%, the salary and wage also increased and additional income from the improved production in tourism related activities. Commerce in March 07 accumulated a total real value added of \$51.61 million and accounted for 19.8% of total GDP. This was an increase of 4.0% compared to the same period of 2006. When compared to the previous quarter (December 2006) production declined by 2.5 percent.

Transport and Communication during the period under review generated a total value added of \$33.9 million, to become the fourth largest contributor to the overall growth with a 0.6 percentage points. When compared to March 2006, production increased by \$4.3 percent, 0.8 percentage points over the average quarterly growth for the year 2006. Expansion in the telecommunication sector coverage with the introduction of new communication services impacted strongly on the industry performance.

Finance and Business Services in March 2007 generated a total value added of \$25.70 million in constant 2002 prices, an increase of 4.6% compared to March 2006 and accounted for 0.5% of the overall GDP.

Personal and other Services value added generated during the first

quarter of 2007 was \$13.49 million. This was an increase of 2.4% compared to March of 2006 and slightly above the December quarter 2006 by 1.2%.

Hotels and Restaurants slowed down in March 2007 after the continuing strong growth in the 2006. Throughout the first 3 months of 2007, the industry had generated a total value added of \$8.72 million tala. This was an increase of 2.4% when compared to the previous quarter (December 2006), with a slight decline of 1.5% when compared to March 2006. The industry is expected to grow stronger in the second half of 2007 with the expected increase in the inflow of tourists attending the South Pacific Games in the September quarter.

Government Sector

Public administration was the third largest industry in the Samoan economy. During March 2007 this industry's value added was \$25.51 million Tala, an increase of 1.9% compared to the same period in 2006, and contributed 0.2 percentage points to the overall growth.

	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07	% Change 1Q07 over	
At constant 2002 prices	(\$ Million)								1Q06	4Q06
Agriculture	63.30	73.13	68.28	17.10	15.59	17.72	17.87	17.30	1.2	-3.2
Fishing	52.78	48.50	48.33	11.40	11.91	12.40	12.62	11.92	4.6	-5.5
Food & Beverages Manufacturing	30.42	33.30	31.21	8.84	7.95	6.77	7.65	7.45	-15.8	-2.6
Other Manufacturing	106.61	100.00	89.34	20.19	20.17	23.66	25.32	24.93	23.5	-1.6
Construction	74.28	84.45	87.71	20.41	20.50	22.99	23.81	22.73	11.4	-4.6
Electricity and Water	43.09	44.68	46.65	11.23	11.57	11.84	12.02	11.47	2.2	-4.6
Commerce	182.13	192.04	202.57	49.64	49.59	50.72	52.61	51.61	4.0	-1.9
Hotels, Restaurant	24.15	26.49	34.34	8.86	9.72	7.25	8.51	8.72	-1.5	2.5
Transport, Communication	120.84	126.90	131.29	32.54	30.58	32.78	35.39	33.95	4.3	-4.1
Public Administration	78.89	90.45	100.52	25.04	25.01	25.12	25.34	25.51	1.9	0.7
Finance & Business Services	90.45	94.35	98.73	24.58	24.70	25.15	24.30	25.70	4.6	5.8
Less: Enterprise share of FISIM	-11.59	-12.04	-12.29	-3.08	-3.05	-3.10	-3.06	-3.26	5.9	6.8
Ownership of Dwellings	34.55	35.25	35.96	8.92	8.97	9.01	9.06	9.10	2.0	0.5
Personal & Other Services	53.04	53.43	53.62	13.18	13.33	13.77	13.34	13.50	2.4	1.2
Value added 2002 market prices	942.93	990.94	1016.25	248.84	246.55	256.08	264.78	260.62	4.7	-1.6
Implicit price deflator:	111.3	116.2	123.2	119.1	121.2	125.4	127.0	128.6	8.0	1.3
Selected measures of production:										
At constant 2002 prices										
Non-monetary	123.95	129.87	127.84	32.14	31.12	32.53	32.04	32.15	0.0	0.3
Monetary – total	818.98	861.06	888.41	216.70	215.43	223.55	232.74	228.48	5.4	-1.8
Monetary – restricted scope	743.66	793.81	831.21	204.18	202.83	208.49	215.71	212.26	4.0	-1.6
Memo items:										
Nominal GDP (current prices)	1,049.41	1,151.22	1,252.47	296.33	298.80	321.14	336.20	335.18	13.1	-0.3
GDP per capita	6173	6775	7,104	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Source: Ministry of Finance estimates										
na - not applicable										

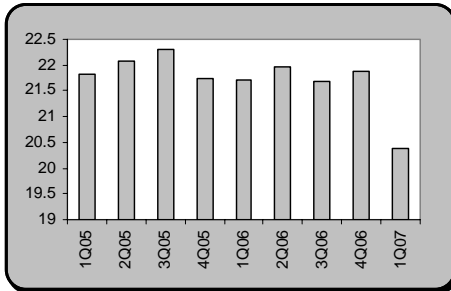
3. EMPLOYMENT

The Samoa National Provident Fund (NPF) produces formal paid employment figures on the basis of active members. This employment figure is a partial indicator given that the informal employment figures are not included

Active formal paid employment estimates totaled 20,396 at the end of first quarter 2007, a decline by 6.1% (1,320) over the comparable 2006 period. This was primarily due to the decline in all sectors, which include the

primary industry with a drop of 10.3% (40), secondary and tertiary industries with downward trends of 3.8% (170) and 6.6% (1,110) respectively.

Figure 3.1: Employment by Quarter ('000)



Employment recorded a drop of 6.7% (1,470) when compared to the previous quarter (4Q06). This is a result of declines in primary, secondary and tertiary industries by 10.3% (40), 11.8% (585) and 5.1% (850) respectively.

Table 3.1: TOTAL EMPLOYMENT NUMBERS ('000)

	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07	% Change in 1Q07 over	
									1Q06	4Q06
Primary	0.33	0.37	0.39	0.39	0.42	0.47	0.39	0.35	-10.3	-10.3
Secondary	4.64	4.63	4.91	4.50	4.78	4.80	4.91	4.33	-3.8	-11.8
Tertiary	15.83	16.75	16.57	16.83	16.75	16.40	16.57	15.72	-6.6	-5.1
TOTAL EMPLOYMENT	20.80	21.75	21.87	21.72	21.95	21.67	21.87	20.40	-6.1	-6.7

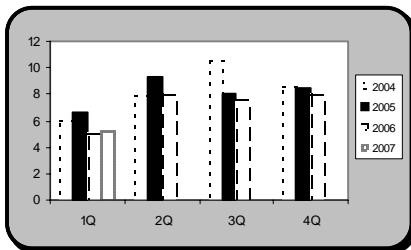
Source: Samoa National Provident Fund

4. FOREIGN TRADE AND BALANCE OF PAYMENTS

4.1 Exports

Exports are sales of primary commodities, manufactured or processed products valued "free on board" (fob).

Figure 4.1: Exports by Quarter Compared Annually (\$ Million)



For the first quarter of 2007, exports stood at \$5.23 million. This represented a slight increase of \$0.15 million (or 2.95%) from the same period of 2006. The rise was strongly supported by Other exports with an outstanding increase of 289.7% followed by nonu fruit and fish exports with increases of \$0.21 million and \$0.10 million respectively. Other exports group had largely risen as a result of increased in re-exports by \$0.80 million. Other commodities which recorded increases of \$0.04 million and \$0.03 million are beer and taro respectively. On the downward side, coconut cream and nonu juice fell by \$0.26 million and \$0.81 million respectively throughout this period.

Compared to the previous quarter, exports had declined by \$2.81 million. This was contributed mostly by fish exports with a drop of \$2.26 million. All other export commodities registered decreases over this period with the exception of taro and nonu fruit.

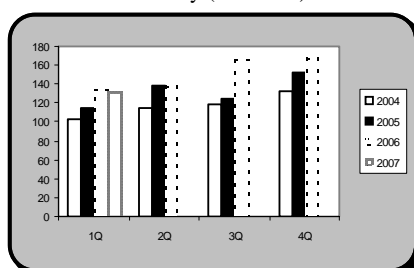
Table 4.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07	% Share			% Change in 1Q07 over	
	(\$ Million)								1Q06	4Q06	1Q07	1Q06	4Q06
	Fish	13.52	11.58	15.45	1.49	4.49	5.63	3.85	1.59	29.2	47.9	30.5	6.7
Coconut cream	2.56	2.28	2.39	0.69	0.70	0.46	0.54	0.43	13.5	6.7	8.3	-37.7	-20.4
Nonu fruit	1.47	1.54	0.87	0.07	0.25	0.30	0.24	0.28	1.4	3.0	5.4	300.0	16.7
Nonu juice	4.69	8.30	3.95	1.55	1.11	0.25	1.03	0.74	30.5	12.8	14.2	-52.3	-28.2
Beer	4.34	4.83	3.48	0.84	1.08	0.53	1.03	0.88	16.5	12.8	16.8	4.8	-14.6
Taro	1.97	0.85	0.60	0.15	0.16	0.13	0.16	0.18	3.0	2.0	3.3	20.0	12.5
Others	4.58	3.12	2.01	0.29	0.24	0.29	1.19	1.13	5.7	14.8	21.6	289.7	-5.0
TOTAL	33.13	32.49	28.75	5.08	8.03	7.59	8.04	5.23	100.0	100.0	100.0	2.8	-34.9

Source: Central Bank of Samoa

4.2 Imports

Imports are purchases from overseas of commodities, manufactured or processed products valued "cost plus insurance plus freight" (cif) landed in Samoa.

Figure 4.2: Imports by Quarter Compared Annually (\$ Million)

Imports were valued at \$133.44 million in the first quarter of 2007, down by \$0.92 million over the same period of 2006. Government and petroleum imports had increased by \$4.06 million and \$0.54 million respectively whilst non-petroleum private sector imports declined by \$5.53 million.

Imports normally decline following the festive season as shown by the \$35.26 million drop in total imports from the previous quarter. This was mainly driven by a drop of \$37.90 million in non-petroleum private sector imports followed by a decline of \$2.93 million in petroleum imports. Government imports increased by \$5.56 million as it continues with its public sector developments 1Q07.

Table 4.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

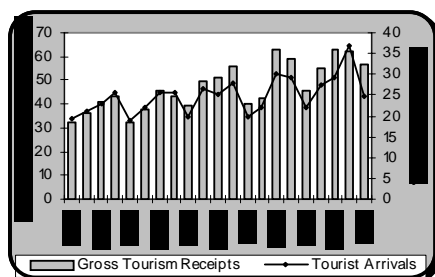
	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07	% Share			% Change 1Q07 over	
	(\$ Million)								1Q06	4Q06	1Q07	1Q06	4Q06
	Government ^a	1.77	4.42	15.67	4.77	1.00	6.63	3.27	8.83	2.9	1.9	6.6	85.1
Petroleum	78.02	94.99	102.69	26.92	24.52	32.65	30.39	27.46	16.2	18.0	20.6	2.0	-9.6
Other Product ^b	441.89	507.70	477.66	102.68	112.97	126.97	135.05	97.15	80.9	80.1	72.8	-5.4	-28.4
TOTAL	521.68	607.11	596.02	134.37	138.49	166.25	168.70	133.44	100.0	100.0	100.0	-0.69	-20.9

Source: Central Bank of Samoa

^a Includes import of stationeries for the Ministry of Education in 1Q06 and 1Q07 valued at \$1.0 million and \$0.8 million.^b Includes building materials for the Samoa Institute of Technology extension valued at \$2.6 million and telephonic switching apparatus and cables for the SamoaTel valued at \$4.7 million in 1Q06, also include aircraft parts for the Polynesian Airline (Inter-Island) valued at \$0.7 million and cables for the SamoaTel valued at \$0.6 million in 2Q06, also include coins for CBS valued at \$0.6 million and import of cellular mobile telephones (CMT) for Digicel valued at \$1.9 million and mixture of synthetic organic tanning substances for Samoa Breweries Ltd at \$0.7 million in 1Q07.

4.3 Tourism Receipts

The number for tourist arrivals represents all visitors including holiday/vacation, official, business/conference, sporting activities and visiting friends and relatives. Gross tourism revenues represent an estimate of the amount spent by all visitors to Samoa whilst in the country and the proportion of international travel credited to Samoan based carriers. Average expenditure per visitor is estimated from visitor surveys adjusted annually for inflation. Tourism receipts are the major component of net service income in the balance of payments. Tourism Earnings are estimated by the Central Bank of Samoa

Figure 4.3: Gross Tourism Receipts (\$ Million) & Tourist Arrivals ('000)

Gross tourism receipts were valued at \$56.39 million in 1Q07, up by \$10.95 million (or 24.1%) over 1Q06 and the number of tourist arrivals also increased by 2,518 during this period. Visiting friends and relatives category had contributed the highest share of 43.1% to the total number of arrivals in 1Q07 followed by tourists on holiday (33.0%), others (13.6%), business (8.8%) and sports (1.5%). Most of the tourists are from New Zealand (36.3%), American Samoa with 23.0%, 17.6% from Australia, 14.8% from other countries and 8.2% from the USA. People visiting their families and friends during New Year holiday and family faalavelave. Others came for conferences, workshops and trainings that were hosted by government and the private sector. These activities contributed to the rise in tourist activities during this period.

Following the busy festive season (4Q06) however, tourist arrivals and gross tourism revenue were lower by 12,291 arrivals and \$5.88 million respectively in 1Q07.

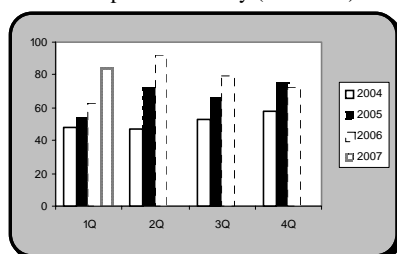
Table 4.3: GROSS TOURISM RECEIPTS (\$ Million) AND TOURIST ARRIVALS ('000)

	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
Gross Tourism Revenues	198.03	207.37	226.20	45.44	55.25	63.00	62.27	56.39
Tourist Arrivals	98.16	101.80	115.88	22.15	27.42	29.37	36.95	24.66

Source: Central Bank of Samoa, Ministry of Finance and Samoa Tourism Authority estimates

4.4 Remittances

Remittances, officially defined as “unrequited transfers”, represent money gifts and other financial donations from non-residents for which no service or return transaction is expected. It should exclude earnings remitted by residents working on short-term contracts overseas (these would be included as “factor income”). Remittances are currently the primary component of net transfers in the balance of payments.

Figure 4.4: Remittances by Quarter Compared Annually (\$ Million)

Remittances were valued at \$84.12 million in 1Q07, up by \$20.98 million (or 33.2%) and \$11.54 million (or 15.9%) over the first quarter of 2006 and 4Q06 respectively. The highest remitting country for the period was New Zealand with 30.1% followed by USA, Australia and American Samoa accounting for 26.7%, 17.7% and 12.2% of total amount of remittances.

The majority of remittances is for the Samoan individuals which contributed a share of 67.9%, funds for churches and non government schools with a contribution of 6.5%, remittances for charitable organisation with a share of 5.6% and for personal funds for expatriates in Samoa accounted for 0.9%.

Table 4.4: GROSS REMITTANCES (\$ Million)

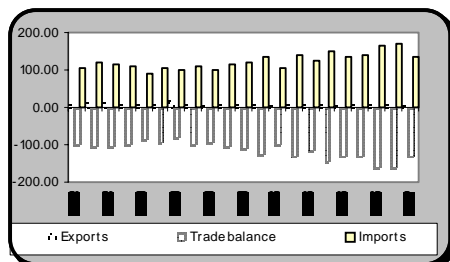
	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
Remittances	199.83	246.24	307.75	63.14	92.16	79.87	72.58	84.12
Remittances as % GDP	19.0	21.4	24.6	20.9	31.0	26.8	22.6	25.3

Source: Central Bank of Samoa

4.5 Balance of Payments

Trade balance is the difference in export receipts (fob) and import payments (cif). Balance of payments is the trade balance plus net receipts from services, transfers and capital account flows. The capital account covers receipts and payments relating to aid, loans and private sector investment.

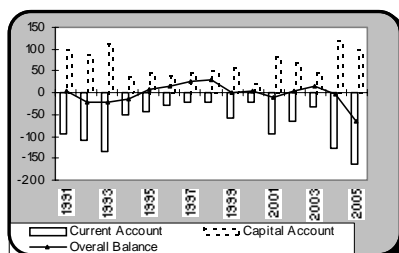
Figure 4.5: Quarterly Trade Balance (\$ Million)



The trade deficit declined by \$1.08 million to stand at \$128.21 million compared to the same quarter of 2006. This decline in the deficit was due to a decrease in imports of \$0.93 million and a slight increase in exports of \$0.15 million over the corresponding quarter. Compared to 4Q06, the trade deficit had largely declined by \$32.45 million.

Net services recorded an increase of \$11.83 million whilst net transfers had declined by \$14.46 million compared to the corresponding 2006 quarter. This resulted in a current account deficit of \$29.87 million in 1Q07, increased by \$1.55 million over the corresponding 2006 period. When compared to the previous quarter, Net services and income and Net transfers recorded declines of \$30.51 million and \$5.20 million respectively.

Figure 4.6: Annual Overall Balance (\$ Million)



The **capital account** surplus was estimated at \$22.59 million in 1Q07, an increase of \$4.95 million over 1Q06. This led to an overall balance of payments deficit of \$7.28 million compared to a deficit of \$10.68 million in 1Q06.

Table 4.5: COMPARATIVE TRADE DATA 2003–2005 (\$ Million)

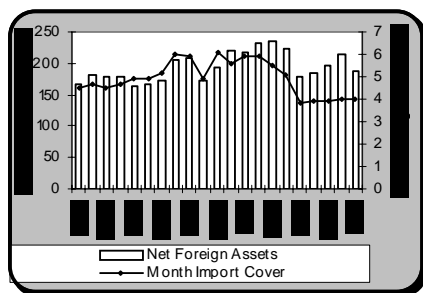
	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
1. EXPORTS (fob)	33.13	32.49	28.75	5.08	8.03	7.59	8.04	5.23
2. IMPORTS (cif)	441.89	507.7	596.02	134.37	126.70	166.25	168.70	133.44
3. TRADE BALANCE	-408.76	-475.21	-567.27	-129.29	-118.67	-158.66	-160.66	-128.21
4. NET SERVICES	139.71	134.60	206.67	26.33	66.20	51.62	68.67	38.16
5. NET TRANSFERS	210.48	276.62	287.54	74.64	64.70	58.03	65.38	60.18
6. CURRENT ACCOUNT BALANCE	-58.57	-63.99	-73.06	-28.32	12.23	-49.41	-26.61	-29.87
7. CAPITAL ACCOUNT (Net)	101.47	98.01	86.19	17.64	17.82	69.34	23.01	22.59
8. OVERALL BALANCE*	42.90	34.02	13.13	-10.68	30.05	19.93	-3.60	-7.28
9. TRADE BALANCE AS % GDP	-39.0	-48.0	-55.8	-52.0	-48.1	-62.0	-60.7	-49.2
10. CURRENT ACCOUNT BALANCE AS % GDP	-5.6	-6.5	-7.2	-11.4	5.0	-19.3	-10.0	-11.5

*Following the shift to the BOP Manual 5, the balance of payments surplus/deficit is now defined as the change in official gross reserve assets excluding commercial bank reserves

5. FOREIGN EXCHANGE RESERVES

Foreign exchange reserves are the country's holdings of foreign currencies and other financial assets. Reserves are held for three primary reasons: i) as national "working capital" to finance the nation's trade; ii) to provide funds to cover a balance of payments deficit; and iii) to provide a cushion against the impact of external shocks. The Central Bank has a monetary policy target of maintaining foreign exchange reserves equivalent to approximately four-months worth of imports.

Figure 5.1: Net Foreign Assets (\$ Million) & Import Cover (Months) by Quarter



The total value of foreign exchange reserves amounted to \$187.56 million in March 2007, increased by \$9.27 million over March 2006. This increase was caused mainly by an increase of \$28.40 million in Central Bank holdings and \$2.03 million in the Ministry of Finance holdings whilst Commercial Banks declined its foreign holdings by \$21.21 million.

Compared to the previous quarter, foreign exchange reserves had dropped by \$28.09 million from end December 2006. This decline was largely contributed by Commercial Bank's reserves with a drop of \$25.90 million followed by a fall of \$2.42 million in the Central Bank's holdings whilst the Ministry of Finance recorded an increase of \$0.23 million in its holdings.

At end March 2007, net foreign assets were sufficient to cover 4.0 months of imports, compared to 3.8 in March 2006 and remained at the same level as at the end of December 2006.

Table 5.1: NET FOREIGN ASSETS (\$ Million) & IMPORT COVER (Months)

	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
Net Foreign Assets	220.06	221.82	215.65	178.29	184.64	196.21	215.65	187.56
Import Cover	5.6	5.1	4.0	3.8	3.9	3.9	4.0	4.0

Source: Central Bank of Samoa

6. EXCHANGE RATES

The exchange rate is a key economic price. It represents the price of the SAT against other currencies and reflects the relative prices of traded goods and services in Samoa and overseas. That is the cost/price relationship of our imports and exports and our domestic production. If domestic costs/prices rise relative to those in the international markets then the value of the domestic currency needs to fall to maintain equilibrium. If the domestic currency rises (appreciates) against other currencies then import costs fall and exports become less competitive, if the currency falls in value (depreciates) then import costs rise but exports become more competitive. Samoa maintains a pegged exchange rate regime.

At the end of March 2007, the Tala depreciated against the NZD, AUD, EURO and FJD whilst strengthening against the USD and YEN over the same 2006 period.

When compared to the previous quarter, the Tala again appreciated against the USD and YEN whilst decreased in value against the NZD, AUD EURO and FJD.

Table 6.1: CBS EXCHANGE RATES (Foreign Currency per Tala: end month midrates)

	2006				2007	% Appreciation(+)/Depreciation (-) of TALA between Mar 07 and	
	Mar	Jun	Sep	Dec	Mar	Mar 06	Dec 06
	USD	0.3495	0.3531	0.3599	0.3724	0.3761	7.6
NZD	0.5717	0.5791	0.5501	0.5285	0.5250	-8.2	-0.7
AUD	0.4901	0.4751	0.4829	0.4720	0.4661	-4.9	-1.3
EURO	0.2881	0.2759	0.2841	0.2822	0.2811	-2.4	-0.4
FJD	0.6317	0.6188	0.6218	0.6197	0.6190	-2.0	-0.1
YEN	40.9622	40.5963	42.4362	44.3177	44.3729	8.3	0.1

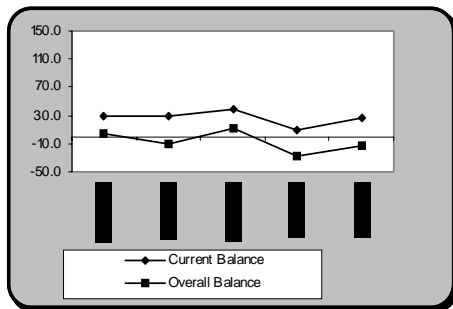
Source: Central Bank of Samoa

7. GOVERNMENT FINANCE

7.1 Government Finance Statistics

The basis for calculating Government Finance Statistics (GFS) is set by the IMF to provide a consistent framework for inter-country comparisons of budget/fiscal performance. GFS data differs from the budget appropriation data primarily as a result of the method of treating: i) departmental enterprise revenue and expenditure, ii) Treasury advances and repayments, for which only net figures are included in GFS; and iii) through the exclusion from GFS data of inter-departmental transfers relating to duty and VAGST on government and aid expenditure. Current balance is the difference in government revenues excluding aid & grants and expenditures excluding grant & loan expenditures.

Figure 7.1: Overall and Current Balance
July-Mar 2002/03-2006/07 (\$ Million)



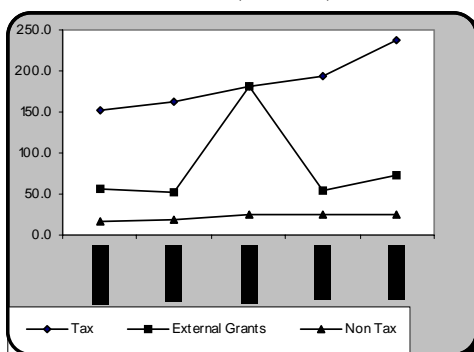
Overall Performance

The 2006/07 Budget anticipated a current surplus of \$37.9 million (3.4% of the estimated GDP) and an overall deficit of \$16.0 million (1.4% of GDP). The difference between the current surplus and the overall deficit reflects Government commitment in building a strong infrastructure that provides for the development of all sectors in the economy, especially the priority areas as stipulated in the Strategy for the Development of Samoa, and the preparation for the upcoming South Pacific Games 2007.

Fiscal operations for the period under review, (July – March 06/07) generated an **overall deficit** of \$11.9 million, slightly below the pro-rata estimate of \$12.0 million Tala. This was equivalent to a 1.2% of GDP, well below the targeted deficit of 3.0% acknowledged in the Budget Address. The outturn was promising in light of Government expenditure commitments for the upcoming South Pacific Games 2007, and the ongoing realignments in the public sector. This favourable outturn was attributed mainly to current expenditures being well retained below the pro-rata estimate by \$8.7 million Tala, coupled with a shortfall of \$9.2 million in loan funded development project expenditures.

Current balance as at the end of the July – March was a surplus of \$26.21 million, \$2.20 million Tala below the pro rata estimate. The shortfall was due mainly to a shortfall in the revenue collection of \$10.9 million (4.0%) which offsets the current expenditure shortfall of \$8.7 million from the pro rata.

Figure 7.2: Revenue by Type, July-Mar 2002/03-2006/07 (\$ Million)



Shown in Figure 6.1, are the overall and current balances on the comparable nine-month period for the last seven years. It is clearly illustrated that both balances improved slightly compared to the same period last year, and should be closely monitored to ensure that the fiscal target stipulated in the Budget Address is achieved.

Revenue

Total Revenue and Grants for the period ending March for FY06/07 was \$335.2 million. This comprised of \$261.3 million (78%) of current receipts and \$73.9 million (22%) of external grants. Total revenue and grants at this level registered a shortfall of 3.2% (\$10.9 million)

compared to the pro-rata estimate. Non tax revenues contributed 3.5% to the change (\$9.4 million) coupled with a shortfall of \$1.5 million in tax revenues.

Tax revenue collected \$236.90 million during the 9 months ending March 2007, this was \$1.50 million below the pro-rata estimate. The shortfall to VAGST collection of \$6.00 million, attributed mostly to a shortfall of \$10.20 domestic VAGST despite an increase of \$5.60 million in import VAGST which will eventually be reduced from domestic VAGST. Excise tax collection on imports also contributed negatively (2.1%) to the overall collection with the \$4.90 million Tala shortfall.

Income tax and Import duty on the other hand generated an extra \$25.20 million on revenue outturn, with a \$10 million and \$15.2 million from Income tax and Import duties respectively. Business license and other taxes registered positive growths compared to the pro-rata estimate.

Non-tax revenue for the period was \$24.5 million, was 27.8% below the pro-rata estimate. This was due to Property and Investment income recording a \$10.5 million Tala lower than the pro-rata estimate, with dividends from State Owned Enterprises and Samoa International Finance Authority (SIFA) due to be paid at the end of the financial year. Cost recoveries collected were \$16.1 million Tala, was \$1.7 million (11.5%) higher than the pro-rata estimate and \$2.8 million above the same period of the last financial year.

As clearly illustrated in Figure 6.2, tax revenue continued to grow steadily at an annual trend rate of 11.3% over the past 5 years for the comparable July – March quarter. This increasing growth trend is crucial in light of the increasing ongoing government expenditure commitments and a positive indicator for the revenue measure put in place throughout the period, underpinning improvements in the level of compliance especially in the Income tax, Import duty and Domestic Excise. Non tax remained at an average level between \$20.00 million and \$25.00 million Tala. External Grants was consistent with the pro-rata estimate.

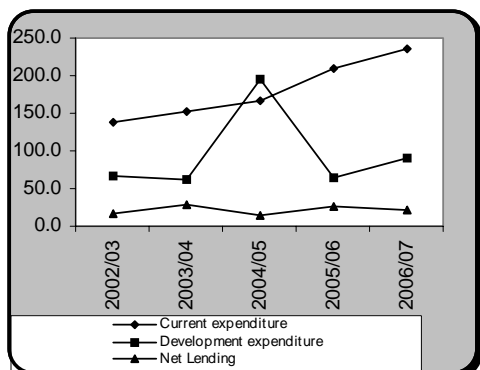
Expenditure

The overall expenditure at \$347.1 million was lower than the pro-rata estimate by \$11.1 million Tala (3.2%) with current and development expenditures being the key attributes. When compared to the same period last year, it registered an increase of 15.8 percent, that being higher than the annual trend growth of 11.9% in the past 5 years. Current expenditure was 3.6% lower compared to the pro-rata estimate. Expenditures on loan funded public sector projects of \$15.8 million was well below the pro-rata estimate by 36.8% which accounted for 2.7% of the overall change.

Figure 6.3 illustrates the continuous growth in the Current expenditure at a trend rate of 11.0% for the comparable nine months period in the past 7 years.

Current expenditure for the period stood at \$235.12 million, was

Figure 7.3: Expenditure by Type, July-Mar 2002/03-2006/07 (\$ Million)



\$8.7 million (3.6%) lower than the pro rata estimate. The result was due mainly to an aggregated savings of \$13.1 million generated from the appropriated expenditures for General Administration and Law and Order for the July-March 2006/07 period that more than offsets the excess expenditure of \$7.6 million on the Economic and the Social Services. The expansion in expenditures for both economic and social services was expected with the Ministry of Works, Transport and Infrastructure involvement in the construction of roads and bridges, and the Education expenditures being appropriated for the South Pacific Games preparations. When compared to the corresponding period in the last financial year, current expenditure increased by 12.0%.

The delays in some loan funded development projects including, the Tank Farm and Samoa Telecommunication in particular have resulted in **development expenditures** being \$9.2 million lower than the pro-rata estimate. Utilisation of grants was on par with the pro-rata estimate for the period under review.

On-lending repayment compared to the advances made to the SOE's was relatively low, with an excess on on-lending of \$6.8 million tala.

Position with the Financial System

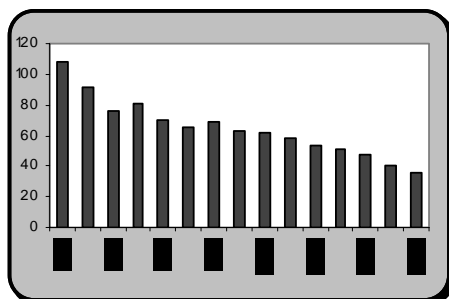
The expansion in government expenditure with shortfalls in revenue collections continued to exert pressure on the banking system. During the period under review Government drawdown a total amount of \$6.5 million tala. This was consistent with the required resources to finance the deficit of \$11.9 million Tala being partly financed by the loan disbursement of \$6.5 million Tala with the remainder withdrawn from the available resources at the Banking system.

	Provisional Actual			Budget	Provisional		
	2003/04	2004/05	2005/06	2006/07	Jul 04-Mar 05	Jul 05-Mar 06	Jul 06-Mar 07
Revenues and Grants	317.7	524.4	387.2	461.5	387.0	272.5	335.2
Revenues	246.5	283.0	315.4	363.0	206.0	218.7	261.3
External Grants	71.2	241.4	71.8	98.5	181.0	53.9	73.9
Expenditure	326.6	521.3	391.7	477.6	375.9	299.8	347.1
Current ^b	224.0	236.6	281.9	325.1	165.9	210.0	235.1
Development ^c	86.6	263.8	86.1	131.7	196.4	63.8	89.6
Other (capital & net lending)	16.0	21.0	23.7	20.7	13.6	26.0	22.4
Current Balance	22.5	46.5	33.5	37.9	40.1	8.7	26.2
Overall Balance	-8.9	3.1	-4.5	-16.1	11.1	-27.3	-11.9
Financing							
Net external borrowing	0.3	15.8	6.2	17.8	3.7	5.3	6.5
Domestic	8.6	-18.9	-1.6	-1.7	-14.8	22.0	-5.5
Overall Balance as % of GDP	-0.9	0.3	-0.4	-1.4	1.3	-3.0	-1.2
Total Expenditure as % of GDP	33.5	48.4	32.9	43.0	45.6	33.5	35.0
Source: Ministry of Finance estimates							
^a Provisional Actual 2003/04 – 2005/06, July -Mar 06, July -March 07 and Budget 2006/07							
^b Includes domestically financed development plans							
^c Financed from external grants and loans							

7.2 External Debt

Government's official external debt has been incurred for capital investment and infrastructure development purposes. This is in line with the so-called "Golden Rule" that over the "economic cycle": (i) public sector borrowing should not exceed the level of public investment; and (ii) the public sector debt to GDP ratio should not be allowed to increase in the absence of natural disaster.

Figure 7.5: Official Government Debt as % of GDP



Official government debt outstanding at end March 2007 amounted to \$446.97 million, down by \$31.98 million and \$1.79 million from the corresponding period of 2006 and the fourth quarter of 2006 respectively. This amount is equivalent to approximately 35.7% of GDP.

Multilateral and bilateral loans accounted for 99.9% (\$446.59 million) and 0.1% (\$0.39 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded \$5.31 million in March 2007, up by \$0.22 million and \$1.04 million from the same 2006 period and end December 2006 respectively.

Servicing costs as a percent of merchandise exports and total foreign exchange reserves were equivalent to 101.5% and 2.8% respectively.

The outstanding surge in servicing costs as a percentage of merchandise exports has due largely to the increase in total debt servicing by 24.4%, which is more than export value and the decline in exports by 35.0% from the previous quarter.

Year End	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	455.62	461.59	448.38	478.95	478.71	444.20	448.38	446.97
Official Government Debt as % of GDP	47.9	40.7	35.8	40.8	40.2	36.6	35.8	35.7

Source: Central Bank of Samoa and Ministry of Finance

Year End	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
Total Debt Servicing	16.12	16.72	17.82	5.09	4.06	4.40	4.27	5.31
As % of Merchandise exports	48.7	51.5	62.0	100.2	50.6	58.0	53.1	101.5
As % of Foreign exchange reserves	7.3	7.5	8.3	2.9	2.2	2.2	2.0	2.8

Source: Central Bank of Samoa and Ministry of Finance

8. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

8.1 Money Supply

The Money Supply (generally known as M2) is defined as:

Currency in circulation + Demand deposits + Savings deposits + Time deposits with the commercial banks.

Growth in money supply is regarded as an indicator of the level of economic activity and can be a lead indicator of likely future inflationary pressures

Figure 8.1: Narrow Money, Quasi Money & Total Money Supply by Quarter (\$ Million)

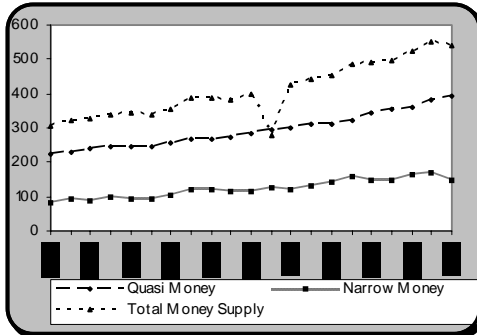
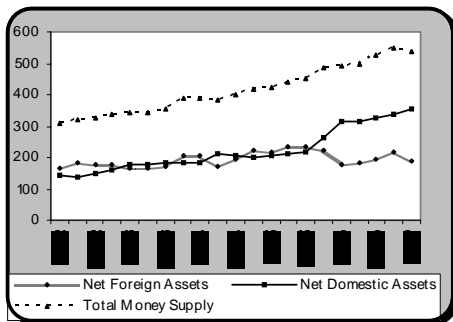


Figure 8.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply valued at \$539.83 million at end March 2007, increased by \$48.91 million from end March 2006. This rise was mainly due to an increase of \$46.43 million in Quasi money followed by a rise in Narrow money (M1) of \$2.48 million. The increase in Quasi money was mainly contributed by Time deposits with a rise of \$31.30 million followed by an increase of \$4.01 million and \$8.99 million in Savings deposits whilst Foreign currency deposit by residents recorded a decline of \$8.69 million. For the components of Narrow money (M1), Demand deposits and Currencies outside banks had increased by \$1.01 million and \$1.47 million respectively.

Money supply had decreased by \$10.73 million over 4Q06. This decline was driven mostly by the decrease of \$21.34 million in Narrow Money (M1) whilst Quasi Money increased by \$10.61 million. The rise in Quasi money was largely contributed by the increase of \$19.81 million in Time deposits whilst Savings deposits and Foreign currency deposits of residents recorded declines of \$2.29 million and \$6.91 million respectively. For Narrow money, Currency outside banks and Demand deposits recorded declines of \$12.22 million and \$9.12 million respectively.

Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$187.56 million whilst Net Domestic Assets recorded \$352.27 million in 1Q07. NDA and NFA both registered increases of \$39.69 million and \$9.22 million over March 2006.

The increase in NDA and NFA led to a rise in money supply of \$48.91 million over the period under review. The rise in NDA was driven largely by the \$88.91 million increase in domestic credit to the private sector.

NFA declined by \$28.09 million whilst NDA recorded an increase of \$17.36 million over December 2006.

CBS Securities

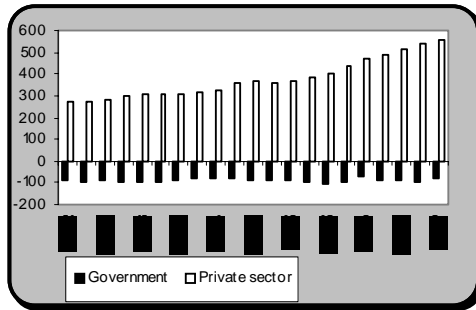
The total face value of securities outstanding at the end of March 2007, stood at \$9.5 million, up by \$9.00 million and \$8.50 million from the comparable 2006 period, and end December 2006 respectively.

8.2 Domestic Credit Expansion

Domestic credit expansion, (or lending by commercial banks) is one of the primary factors in driving money supply and in stimulating private sector growth. It comprises primarily of two components, commercial bank lending to government and to the private sector. Until fiscal year 1999/00, Government has been a net depositor with the banking system whereby domestic credit expansion has focused primarily on the private sector.

Domestic credit outstanding had increased by \$88.70 million over the comparable 2006 quarter to stand at \$504.88 million in the reporting quarter. The rise was largely driven by an increase of \$83.88 million in credit to the private sector and \$13.98 million in claims on non-financial public enterprises and non-monetary financial institutions. Domestic

Figure 8.3: Government & Private Sector Credit by Quarter (\$ Million)



assets with Ministry of Finance, Commercial Banks and the Central Bank all registered declines of \$2.03, \$3.96 and \$3.12 million respectively. This resulted in an increase of \$9.16 million in government's net position to stand at \$82.41 million.

Total domestic credit outstanding was up by \$31.46 million over December 2006.

Table 8.1: MONETARY SURVEY (\$ Million)

	2006				2007		% Change in Mar 07 over			
	2004	2005	2006	Mar	Jun	Sep	Dec	Mar 06	Dec 06	
Net Foreign Assets	220.06	221.82	215.02	178.29	184.64	196.21	215.02	187.56	5.2	-12.8
Net Domestic Assets	198.46	262.19	335.54	312.63	313.91	327.04	335.54	352.27	12.7	5.0
Money Supply (M2)	418.52	484.01	550.56	490.92	498.55	523.25	550.56	539.83	10.0	-2.0
Money (M1)	124.93	160.74	170.13	146.31	145.20	163.51	170.13	145.26	-0.7	-14.6
Currencies outside banks	38.94	48.50	52.33	38.64	36.96	40.61	52.33	40.11	3.8	-14.6
Demand deposit	85.99	112.24	117.80	107.67	108.24	122.90	117.80	108.68	0.9	-7.7
Quasi Money	293.59	323.27	380.43	344.61	353.35	359.74	380.43	391.04	13.5	2.8
Savings deposits	51.48	63.97	66.43	60.13	64.32	68.04	66.43	64.14	6.7	-3.5
Time deposit	232.35	242.39	296.49	265.19	269.36	272.72	296.49	316.30	19.3	-27.1
FCDR ^a	9.76	16.91	17.51	19.29	19.67	18.98	17.51	10.60	-45.1	-39.5
Domestic Credit	280.37	355.27	474.05	416.18	430.11	453.17	473.42	504.88	21.3	6.7
Government (net)	-88.98	-98.75	-93.84	-73.25	-89.32	-91.35	-93.84	-82.41	12.5	-12.2
Private sector	358.74	438.81	539.94	474.57	490.89	517.92	539.94	558.45	17.7	3.4
Claims ^b	10.61	15.21	27.95	14.86	28.54	26.60	27.95	28.84	94.1	3.2

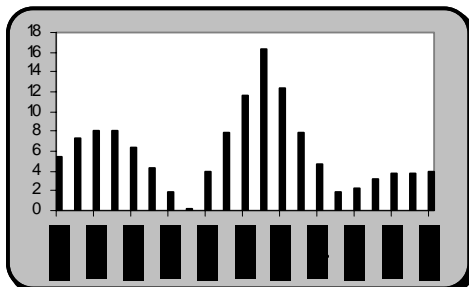
Source: Central Bank of Samoa

9. INFLATION

Inflation, as measured by the Consumer Price Index (CPI), provides an indication of the movement in the cost of living, or conversely, the change in the purchasing power of money. The CPI is based on a basket of consumer goods and services and includes both imports (52%) and domestic items (48%).

9.1 Consumer Price Index

Figure 9.1: CPI All Groups Annual Average Rate End 1Q07 (%)



The annual average rate of inflation at end March 2007 stood at 3.9%, up by 1.6 percentage points from March 2006. Both the import and local components of the CPI recorded increases of 2.3 and 0.9 percentage points respectively over the corresponding 2006 period. Alcohol/Tobacco had increased by 7.1 percentage points followed by clothing/footwear, miscellaneous and food with increases of 5.0, 2.0 and 4.2 percentage points whilst transport/communication and house/household showed downward trends of 7.3 and 4.9 percentage points respectively in all categories of goods.

For the import component, alcohol/tobacco had largely driven the increase with a rise of 10.2 percentage points followed by increases of 5.7, 5.0 and

3.1 percentage points in miscellaneous, clothing/footwear and food whilst transport/communication and house/household declined by 5.3 and 4.5 percentage points respectively. Alcohol/tobacco and local food components of the local category showed increases of 6.7 and 5.7 percentage points whilst all the other components registered declines. The overall results indicated that alcohol and tobacco had driven the increase in inflation during this period.

When compared to end December 2006, the annual average rate of inflation recorded an increase of 0.1 percentage points. In all items of the CPI, food, clothing/footwear, alcohol/tobacco and miscellaneous components showed increases of 0.7, 1.0, 3.3 and 0.77 percentage points whilst transport/communication and house/household recorded declines of 3.7 and 0.7 percentage points respectively.

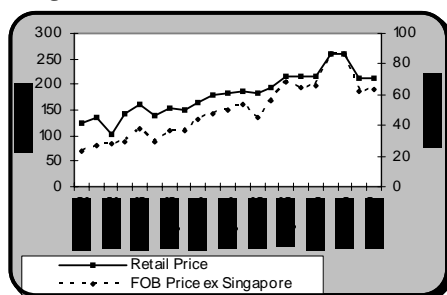
	2004	2005	2006	1Q06	2Q06	3Q06	4Q06	1Q07
All Item Index	16.3	1.8	3.8	2.3	3.2	3.7	3.8	3.9
Imported Good Index	4.1	2.2	4.5	2.6	3.5	4.1	4.5	4.9
Local Good Index	34.0	1.6	3.1	2.2	3.2	3.6	3.1	3.1

Source: Ministry of Finance

9.2 Petroleum Prices

Petroleum products considered in the analysis are kerosene, diesel and petrol. Changes in the prices of petroleum products is important as it affects electricity and transportation costs for all sectors of the economy. Local retail prices for petroleum products are derived directly from international market prices without subsidy.

Figure 9.2: End Quarter Petroleum Prices



The international price (US currency) for petrol was 63.13 cents per litre in March 2007, an increase of 3.02 cents over March 2006. International prices (US currency) for Diesel and Kerosene stood at 69.01 cents and 70.59 cents per litre, recorded an increase of 0.84 cents for diesel and a decline of 6.84 cents for Kerosene from March 2006. Domestic retail prices for petrol and kerosene were recorded at 211.3 sene and 206.5 sene per litre, decreased by 5.4 sene and 13.4 sene whilst diesel registered an increase of 1.6 sene from March 2006 respectively.

When compared to end December 2006, international price for petrol was up by 1.14 cents whilst international prices for kerosene and diesel were down by 2.94 cents and 1.64 cents respectively. Domestic retail prices for all petroleum products (petrol, kerosene and diesel) showed a downward trend of 9.3 sene, 9.4 sene and 6.7 sene respectively.

	2006								2007	
	March		June		September		December		March	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	216.7	66.15	258.3	86.52	258.60	86.25	212.00	61.99	211.3	63.13
Kerosene	219.9	77.43	241.9	88.07	246.50	89.56	215.90	73.53	206.5	70.59
Diesel	219.7	68.17	255.7	85.86	258.70	87.03	228.00	70.65	221.3	69.01

Source: Ministry of Finance

