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Contact: Economic Policy and Planning Division,
Ministry of Finance,
Apia, SAMOA

Telephone: (+685) 34-333

Fax: (+685) 21-312

E-mail: eppd@mof.gov.ws

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 summarises the state of the economy during the third quarter 2005.

1. EXECUTIVE SUMMARY

Key Features of Third Quarter 2005 Performance

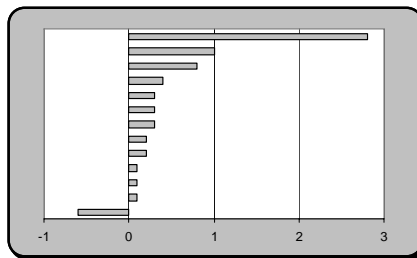
- ✓ Real **GDP** of \$253.09 million in 3Q05 had increased by 6.0% over the comparable 2004 period; (see section 2)
- ✓ **Export** revenues stood at \$8.08 million in 3Q05, down by 2.5% largely as a result of declines in fish, garments and taro exports over the comparable 2004 period; (see section 3.1)
- ✓ **Imports** valued at \$148.58 million in 3Q05, up by 16.9% over the comparable 2004 period; (see section 3.2)
- ✓ As a result, the **trade deficit** had increased by \$23.97 million to stand at \$140.50 million in 3Q05 over the same 2004 period; (see section 3.5)
- ✓ **Foreign reserves** at end September 2005 stood at \$234.04 million, equivalent to 5.5 months of import cover. This compares with \$193.28 million and 6.1 months import cover at end September 2004; (see section 4)
- ✓ The **budget out-turn** for the first three months of FY 2005/06 showed an overall surplus of \$3.14 million, recorded a decline of 54.5% over the comparable period in FY 2004/05. Current surplus of \$13.78 million achieved was \$10.40 million above budget pro rata estimates; (see section 6.1)
- ✓ Official **government debt** outstanding at end 2Q05 stood at \$454.66 million; down by \$1.39 million over the corresponding 2004 period; (see section 6.2)
- ✓ **Money supply** valued at \$451.88 million at end September 2005, up by \$51.37 million over the comparable 2004 quarter; (see section 7.1)
- ✓ **Domestic credit** expanded by \$15.94 million over the year to stand at \$303.10 million in 3Q05; (see section 7.2)
- ✓ The annual average **inflation rate** at end September 2005 stood at 4.7 percent, 7.0 percentage points lower than the rate at end September 2004; (see section 8)

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 Survey 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.

Overview

Figure 2.1: Contribution to Change in Total Real GDP in 3Q05 (%)



Labeled from top to bottom

Commerce:	2.8
Construction:	1.0
Agriculture:	0.8
Transport, Communication:	0.4
Finance and Business Services:	0.3
Public Administration:	0.3
Electricity and Water:	0.3
Food and Beverages Manufacturing:	0.2
Fishing:	0.2
Hotels, Restaurants:	0.1
Personal and Other Services:	0.1
Ownership of Dwellings:	0.1
Other Manufacturing:	-0.6

In real terms, the value of aggregate **GDP** for the year to September 2005 was \$992.88 million, maintaining its upward trend with an increase of 6.3% over the previous year. Gross Domestic Product at current market prices had increased by 9.4% from the previous year to stand at \$1,111.34 million at end September 2005. All industries registered growth during this period with construction leading with an increase of 20.7% followed by agriculture with an 18.2% increase.

For the reporting quarter (Jul-Sept 2005), GDP at constant prices was valued at \$253.09 million, an increase of 6.0% and 3.6% over the same 2004 period and the previous quarter respectively. The 6.0% increase over the corresponding 2004 quarter was mostly fuelled by the commerce industry with a rise of 14.5%. All other industries had positive contribution with the exception of Other Manufacturing which decreased by 4.7% over this period.

Monetary sector production for the Jul-Sept 2005 quarter recorded an increase of 9.8% over the comparable 2004 period and accounted for 85.5% of total production. The real aggregate output of the non-monetary sector also increased by 3.5% over the corresponding 2004 period.

Industry Performance

Primary Sector: Agriculture and Fisheries

The **Primary Sector** had contributed a share of 12.5% to total real GDP with a value of \$31.51 million in the reviewing quarter. Compared to 3Q04, the primary sector had increased by 8.0% with both industries (agriculture and fisheries) registering growth during this period.

Agricultural production in 3Q05 stood at \$17.97 million in real terms, up by 11.8% over the same 2004 period and contributed 0.8 percentage points to the overall real growth in the quarter. Agricultural production continued to surpass its 2004 level which was severely affected by Cyclone Heta early in the year albeit at a lower rate than in the previous quarter.

Figure 2.2: Agriculture industry's contribution to change in GDP (%)

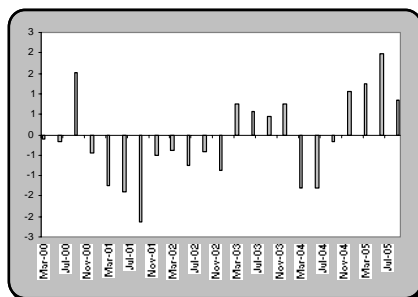


Figure 2.3: Construction industry's contribution to change in GDP (%)

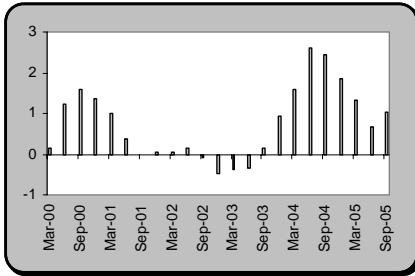


Figure 2.4: Commerce industry's contribution to change in GDP (%)

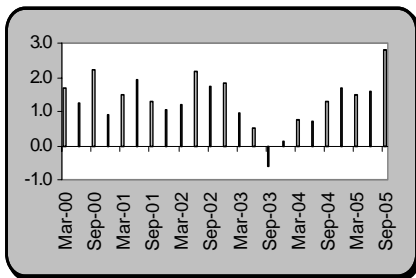
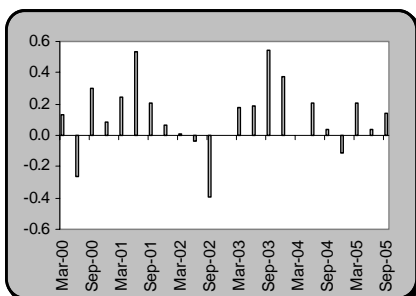


Figure 2.5: Hotels and Restaurants industry's contribution to change in GDP (%)



The **Fishing** industry was valued at \$13.54 million in constant 2002 prices in the reviewing quarter. This represents a 3.4% increase over the corresponding 2004 period and contributed 0.2% to the overall growth.

Secondary Sector: Manufacturing, Construction, Electricity & Water

The **Secondary Sector** was estimated at \$67.80 million, 26.8% of the total overall real GDP in 3Q05. Of this total, 51.0% was represented by Manufacturing followed by Construction with a contribution of 32.4%.

The **Food and Beverages Manufacturing** industry in real terms was estimated at \$7.84 million in the Jul-Sept 2005 quarter, up by 6.7% from the same 2004 period. The increase was largely a result of the favorable performance in nonu juice production.

The **Other Manufacturing** industry in the reviewing quarter totaled \$26.73 million, down by 4.7% from 3Q04 and had a negative contribution of 0.6 percentage points to the overall real growth in the quarter. Again a decline in Yazaki's production the main player in this industry resulted in the overall decline in the industry during this period.

The **Construction** industry was estimated at \$21.97 million in real terms in 3Q05, 12.6% higher than 3Q04 and contributed 1.0 percentage points to real growth in the reporting quarter. The ongoing public sector projects, construction of church and other private sector buildings continued to play a major role in the overall growth of the economy.

The real GDP value for the **Electricity and Water** industry stood at \$11.26 million in 3Q05, an increase of 5.6% over the corresponding 2004 period and contributed 0.3 percentage points to overall real growth.

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

Commerce industry valued at \$52.97 million in real terms in the September 2005 quarter increased by 14.5% over the comparable 2004 period. Commerce remained the biggest industry with a share of 20.9% of total GDP and was the largest contributor to the change in overall GDP in 3Q05 contributing 2.8%. The strong growth in commerce was aided by the continued increase in remittances and ongoing construction activities.

The **Transport and Communication** industry was valued in constant prices at \$31.27 million in 3Q05 and represents a 3.3% increase over the same 2004 period and contributed a share of 12.4% to total real GDP.

The **Finance and Business Services** industry stood at \$23.94 million in 3Q05 in real terms, an increase of 3.1% over 3Q04 and was the third largest contributor to total real GDP with a 9.5% share.

The **Personal and Other Services** industry amounted to \$13.07 million in constant prices in the September 2005 quarter, a 2.2% increase over 3Q04.

The **Hotels and Restaurants** industry recorded \$6.77 million in real prices in the reviewing quarter, up by 5.3% from the corresponding 2004 quarter. The strong performance by hotels and restaurants was aided by

the continued growth in the tourism industry largely as a result of the opening of the new Aggie Grey's Lagoon, Beach Resort and Spa at Mulifanua and the Mormon Temple during this period.

Government Sector

The **Public Administration** valued at \$20.52 million in the reporting quarter was 3.2% higher than the comparable 2004 period.

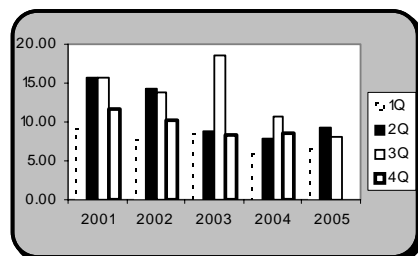
	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05	% Change 3Q05 over	
At constant 2002 prices	(\$ Million)								3Q04	2Q05
Agriculture	61.15	66.71	62.82	16.07	19.89	16.95	17.25	17.97	11.8	4.2
Fishing	67.71	57.18	52.78	13.10	13.33	12.99	13.48	13.54	3.4	0.4
Food & Beverages Manufacturing	29.65	30.30	30.62	7.35	7.84	9.40	8.26	7.84	6.7	-5.1
Other Manufacturing	106.76	117.76	110.27	28.05	28.20	25.35	26.29	26.73	-4.7	1.7
Construction	53.74	54.72	74.07	19.52	19.67	19.46	20.01	21.97	12.6	9.8
Electricity and Water	42.10	42.00	42.26	10.66	10.95	10.36	10.37	11.26	5.6	8.6
Commerce	176.26	178.27	188.55	46.27	50.08	49.67	49.59	52.97	14.5	6.8
Hotels, Restaurant	20.68	23.57	23.84	6.43	5.99	5.92	6.08	6.77	5.3	11.3
Transport, Communication	104.64	112.54	119.47	30.27	32.90	31.16	30.86	31.27	3.3	1.3
Public Administration	71.01	75.01	78.89	19.88	20.21	20.31	20.41	20.52	3.2	0.5
Finance & Business Services	80.10	85.42	92.78	23.23	24.21	24.61	23.68	23.94	3.1	1.1
Less: Enterprise share of FISIM	-12.20	-13.09	-13.94	-3.53	-3.47	-3.61	-3.65	-3.60	2.0	-1.4
Ownership of Dwellings	33.20	33.87	34.55	8.66	8.70	8.75	8.79	8.83	2.0	0.5
Personal & Other Services	50.20	50.29	21.28	12.78	12.69	13.02	12.86	13.07	2.2	1.6
Value added 2002 market price	885.01	914.54	948.22	238.75	251.19	244.34	244.27	253.08	6.0	3.6
Implicit price deflator:	100.0	103.6	110.0	111.1	109.5	110.7	112.1	114.5	3.1	2.1
Selected measures of production:										
At constant 2002 prices										
Non-monetary	124.24	125.30	123.42	31.43	33.46	31.64	31.78	32.53	3.5	2.4
Monetary – total	760.76	789.29	824.67	207.32	217.73	212.70	212.49	220.55	6.4	3.8
Monetary – restricted scope	681.75	700.14	745.53	186.78	197.92	194.29	194.45	202.35	8.3	4.1
Memo items:										
Nominal GDP (current prices)	885.00	947.87	1,043.26	265.14	275.07	270.56	275.81	289.89	9.3	5.1
GDP per capita	5003	5353	5881	na	na	na	na	na	-	-
Source: Ministry of Finance estimates na - not applicable										

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

3.1 Exports

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

Figure 3.1: Exports by Quarter Compared Annually (\$ Million)



For the third quarter of 2005, total exports recorded was \$8.08 million, a decline of \$2.53 million from the same quarter of 2004. All export commodities deteriorated with the exception of nonu juice which went up by \$0.96 million and was the second largest contributor to total exports with a share of 26.1%. Fish exports remained the number one export earner in 3Q05 earning \$3.54 million and accounting for 43.8% of total exports despite declining by 31.4% over the same 2004 period.

Compared to the previous quarter, exports had decreased by \$1.21 million. All export components declined during this period with the exception of garment for which Pacific Cashmere had resumed exporting with a shipment of \$0.20 million in the reviewing quarter.

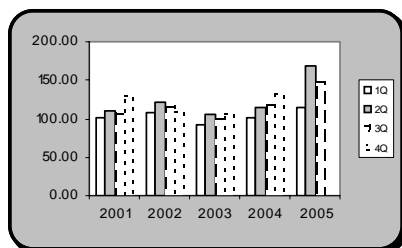
Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05	% Share			% Change in 3Q05 over	
	(\$ Million)								3Q04	2Q05	3Q05	3Q04	2Q05
	Fish	29.03	15.76	13.52	5.16	3.61	1.24	3.63	3.54	48.6	39.1	43.8	-31.4
Coconut cream	3.11	3.01	2.56	0.55	0.57	0.67	0.74	0.41	5.2	8.0	5.1	-26.3	-44.7
Nonu fruit	0.45	0.51	1.47	0.44	0.46	0.53	0.40	0.32	4.1	4.3	4.0	-26.6	19.4
Nonu juice	0.91	2.04	4.69	1.15	1.22	1.46	2.25	2.11	10.8	24.3	26.1	83.6	-6.4
Beer	3.92	3.81	4.34	1.07	1.13	0.86	1.55	0.92	10.1	16.7	11.3	-14.3	-40.9
Taro	1.01	1.31	1.97	0.52	0.28	0.23	0.25	0.18	4.9	2.7	2.3	-64.7	-26.6
Coconut Oil	0.22	1.90	0.74	0.00	0.00	1.20	0.00	-	0.00	-	-	-	-
Garments	4.44	13.32	1.98	1.17	0.82	0.07	-	0.20	11.0	-	2.5	-83.0	0.0
Others	0.52	0.33	0.54	0.26	0.14	0.08	0.09	0.05	2.4	1.0	0.7	-77.1	-36.6
TOTAL	46.28	44.27	33.13	10.61	8.65	6.70	9.29	8.08	100.0	100.0	100.0	-23.9	-13.0

Source: Central Bank of Samoa

3.2 Imports

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

Figure 3.2: Imports by Quarter Compared Annually (\$ Million)

Imports were valued at \$148.58 million in 3Q05, up by \$21.44 million over the corresponding 2004 period. This was largely the result of private sector imports up by \$15.07 million and petroleum exports up by \$6.63 million from 3Q04. Government imports of \$0.35 million however had declined by \$0.26 million over 3Q04. The increase in private sector imports was mainly for construction materials and to support the strong growth in commerce (see Section 2).

When compared to the previous quarter total imports had declined by \$19.89 million. All import components declined with private sector imports deteriorating by \$12.52 million, government imports by \$2.15 million and petroleum imports by \$5.22 million.

Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05	% Share			% Change 3Q05 over	
	(\$ Million)								3Q04	2Q05	3Q05	3Q04	2Q05
	Government ^a	11.29	7.54	1.77	0.61	0.58	0.45	2.50	0.35	0.5	1.5	0.2	-42.6
Petroleum	54.88	56.91	78.02	16.31	26.34	13.77	28.16	22.94	12.8	16.7	15.4	40.6	-18.5
Other Product ^b	388.06	342.52	431.63	110.22	123.74	93.25	137.81	125.29	86.7	81.8	84.3	13.7	-9.1
TOTAL	454.23	406.97	511.41	127.14	150.66	107.47	168.48	148.58	100.0	100.0	100.0	16.9	-11.8

Source: Central Bank of Samoa

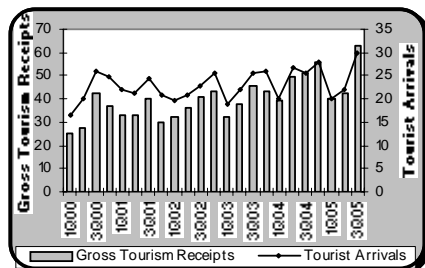
^a Includes equipment for the new Dialysis Unit valued at \$0.19 million in 1Q05 and stationeries for the Ministry of Education at \$1.5 million in 2Q05.

^b Includes building materials for Maota Industrial Supplies at \$0.5 million, motor vehicles for Wong Motors Ltd at \$0.5 million, a mechanical digger for SWEL at \$0.3 million, building materials for the Mormon Church at \$0.5 million, and bituminous mixtures for Ott Transport at \$0.2 million in 3Q04, soft drink concentrate (beverage based) for Samoa Breweries Ltd valued at \$0.5 million, communication cables for Samoa Tel valued at \$0.3, life rafts for Samoa Shipping Corporation valued at \$0.3 million, currency notes for Central Bank of Samoa valued at \$0.3 million, cellular phones for Telecom Cellular valued at \$0.2 million, office furniture for Samoa Tel Ltd valued at \$0.4 million, power poles for EPC valued at \$0.3 million and building materials for Aggie Grey's Hotel valued at \$0.2 million in 4Q04, petroleum valued at \$13.7 million in 1Q05, and currency notes for the Central Bank of Samoa valued at \$2.7 million, artwork and glass windows for the Mormon Church valued at \$1.1 million, tank (supply into parts) for Samoa Breweries Ltd valued at \$0.5 million and steel bar for Samoa Polytechnic valued at \$0.5 million in 2Q05.

3.3 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 3.3: Gross Tourism Receipts (\$ million) & Tourist Arrivals ('000)



Tourism activity during the September 2005 quarter was buoyant with the opening of the new Mormon Temple and the new Aggie Grey's Lagoon, Beach Resort and Spa. Gross tourism receipts valued at \$62.79 million in the reviewing quarter was up by \$9.27 million from 3Q04 and tourist arrivals which amounted to 30,010 in 3Q05 was up by 3,770 from the corresponding quarter of 2004.

Compared to the previous quarter (2Q05), both tourism revenue and tourist arrivals were also higher by 46.8% and 37.3% respectively. The favorable performance reflected in part also the impact of the annual Teuila Festival held in September.

Table 3.3: GROSS TOURISM RECEIPTS (\$ Million) AND TOURIST ARRIVALS ('000)

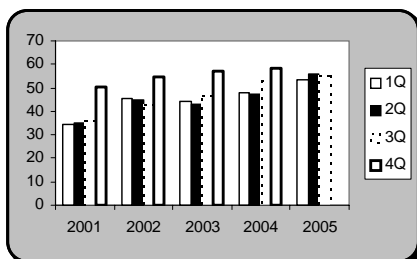
	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
Gross Tourism Revenues	152.20	154.32	197.18	53.52	55.75	41.42	42.77	62.79
Tourist Arrivals	88.97	92.49	98.72	26.24	28.07	20.43	21.86	30.01

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

3.4 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 the primary component of net transfers in the balance of payments.

Figure 3.4: Remittances by Quarter Compared Annually (\$ Million)



Remittances were valued at \$55.21 million in 3Q05, up by \$10.71 million (or 24.1%) over the third quarter of 2004 but was down by \$0.37 million (0.7%) over the previous quarter. At this level it was equivalent to 19.0% of GDP. Remittances had been increasing continuously for the past three years and remained a significant contributor to the Samoa economy.

Table 3.4: GROSS REMITTANCES (\$ Million)

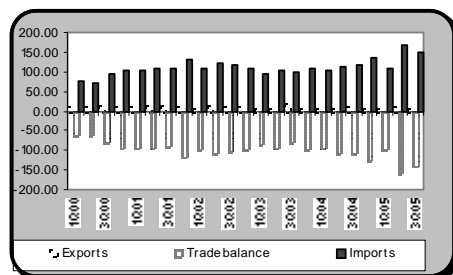
	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
Remittances	193.19	188.20	201.17	44.5	62.00	62.36	55.58	55.21
Remittances as % GDP	21.8	19.9	19.2	16.3	22.5	23.0	20.2	19.0

Source: Central Bank of Samoa

3.5 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.

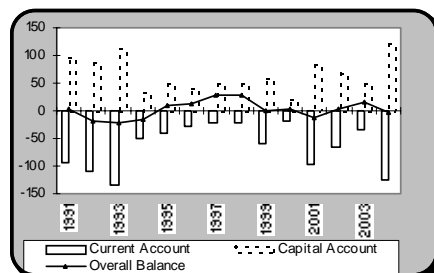
Figure 3.5: Quarterly Trade Balance (\$ Million)



The trade deficit expanded by \$23.97 million over 3Q04 to stand at \$140.50 million in the third quarter of 2005. The deterioration in the trade deficit was due to an increase in imports of \$21.44 million. Compared to the previous quarter (2Q05), the trade deficit had declined by \$18.69 million.

Net services and income was estimated at \$50.72 million in 3Q05, a \$17.98 million increase over the comparable 2004 period. Net transfers was valued at \$68.62 million in the current quarter was up by \$9.01 million over 3Q04. This resulted in a current account deficit of \$21.16 million compared to a deficit of \$24.18 million in 3Q04.

Figure 3.6: Annual Overall Balance (\$ Million)



The **capital account** surplus was estimated at \$16.17 million in 3Q05, declined by \$30.89 million over the comparable 2004 period. This led to an overall balance of payments deficit of \$4.99 million compared to a surplus of \$22.88 million in 3Q04. Compared to 2Q05, the capital account had declined by \$21.68 million.

Table 3.5: COMPARATIVE TRADE DATA 2002– 2004 (\$ Million)

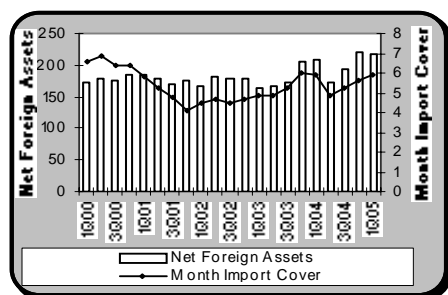
	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
1. EXPORTS (fob)	46.29	44.27	33.13	10.61	8.65	6.70	9.29	8.08
2. IMPORTS (cif)	454.23	406.97	511.4	127.14	150.66	107.48	168.47	148.58
3. TRADE BALANCE	-407.94	-362.71	-478.27	116.53	-142.01	-100.78	-159.18	-140.50
4. NET SERVICES	154.20	134.47	99.50	32.74	25.21	13.75	21.08	50.72
5. NET TRANSFERS	188.06	194.18	252.52	59.61	79.56	60.68	81.72	68.62
6. CURRENT ACCOUNT BALANCE	-65.68	-34.06	-126.25	-24.18	-37.24	-26.35	-56.38	-21.16
7. CAPITAL ACCOUNT (Net)	69.71	48.90	122.32	47.06	49.66	22.87	37.85	16.17
8. OVERALL BALANCE	4.03	14.84	-3.93	22.88	12.42	-3.48	-18.53	-4.99
9. TRADE BALANCE AS % GDP	-46.1	-38.4	-45.7	-41.5	-51.7	-37.1	-65.5	-55.5
10. CURRENT ACCOUNT BALANCE AS % GDP	-7.4	-3.7	-13.3	-10.1	-14.8	-10.8	-23.1	-8.4

4. 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.

The total value of foreign exchange reserves amounted to \$234.04 million at end September 2005, up by \$40.76 million compared to end September 2004. The rise was caused mainly by an increase of \$15.73 million in Central Bank holdings followed by an increase in Commercial Banks holdings of \$6.42 million whilst foreign holdings with the Ministry of Finance declined by \$0.09 million.

Figure 4.1: Net Foreign Assets (\$ Million) & Import Cover (Months) by Quarter



Compared to end June 2005 level, foreign exchange reserves had increased by \$2.75 million. The rise was largely contributed by Commercial Banks holdings with an increase of \$9.95 million, whilst Ministry of Finance and Central Bank reserves both declined by \$1.13 million and \$6.07 million respectively.

At this level, net foreign assets were sufficient to cover 5.5 months of imports. This was lower compared with 6.1 months of import cover at end September 2004 and 5.9 months of import cover at end June 2005.

Table 4.1: NET FOREIGN ASSETS (\$ Million) & IMPORT COVER (Months)

	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
Net Foreign Assets	177.86	204.21	220.06	193.28	220.06	218.86	231.29	234.04
Import Cover	4.7	6.0	5.6	6.1	5.6	5.9	5.9	5.5

Source: Central Bank of Samoa

5. 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.

The Tala depreciated against the NZD, AUD and FJD whilst strengthening against the USD, EURO and YEN between September 2005 and September 2004.

When compared to end June 2005, the Tala appreciated against all currencies with the exception of the AUD.

Table 5.1: CBS EXCHANGE RATES (Foreign Currency per Tala: end month midrates)

	2004		2005			% Appreciation(+)/Depreciation (-) of TALA between Sep 05 and	
	Sep	Dec	Mar	Jun	Sep	Sep04	Jun 05
USD	0.3613	0.3741	0.3722	0.3669	0.3675	1.72	0.16
NZD	0.5347	0.5205	0.5221	0.5235	0.5294	-0.66	1.13
AUD	0.4993	0.4799	0.4813	0.4837	0.4805	-3.20	-0.66
EURO	0.2901	0.2766	0.2871	0.3036	0.3052	5.06	0.53
FJD	0.6224	0.6053	0.6225	0.6265	0.6282	-0.71	0.27
YEN	39.3800	38.0600	39.8961	40.5966	41.7169	4.96	2.76

Source: Central Bank of Samoa

6. GOVERNMENT FINANCE

6.1 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 6.1: Overall and Current Balance
Jul-Sep 1999/00-2005/06 (\$ Million)

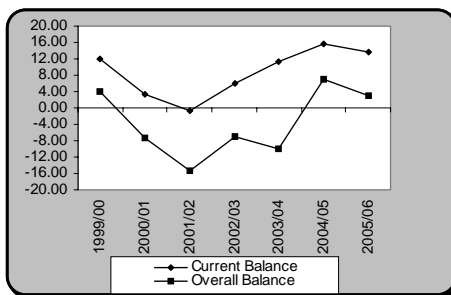
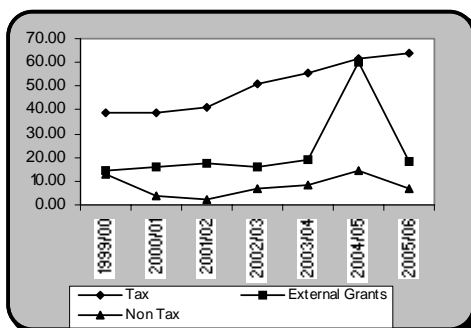


Figure 6.2: Revenue by Type, Jul-Sep 1999/00-2005/06 (\$ Million)



Overall Performance

Government fiscal operations during the first three months (July – September) aggregated to an overall surplus of \$3.2 million and a current surplus of \$13.8 million tala. The outturn was unexpected in view of the expansionary budget projected for the 2005/06 financial year with an overall deficit of \$44.3 million and a current surplus of \$13.5 million.

Current expenditure was well contained at 4% the below pro-rata budgeted estimates. Development expenditures was low as a result in delays in the implementation in certain loan funded public sector investment projects with only 10% utilization. Total revenue and grants were on par and combined with low expenditures resulted in this favorable result.

Figure 6.1 has shown positive implications of well contained expenditures with both current and overall differences registering a surplus balances. The overall surplus was 1.1% of GDP and was far below the targeted deficit of no more than 4.2% set out in the 2005/06 Budget Address.

Revenue

Total revenue and grants collected for the period was on par when compared to the pro-rata with a total amount of \$88.0 million. This comprises of \$70.1 million (79.6%) of tax and non-tax receipts and \$17.95 million of aid and grants. When compared to the same period last year, it declined by 35%. This was due mainly to the construction of major grant funded projects such as the Aquatic Center funded by the Chinese government last year.

Total revenue of \$70.1 million comprised of \$63.55 million taxes and \$6.52 million non-taxes. Revenue collection from taxes at \$63.5 million was in line with the budgeted pro rata estimates. However, when compared to the same period last year it shows an increase of 3.2 percent. This was below the average quarterly growth rate of 10.0% in government revenues over the past 5 years.

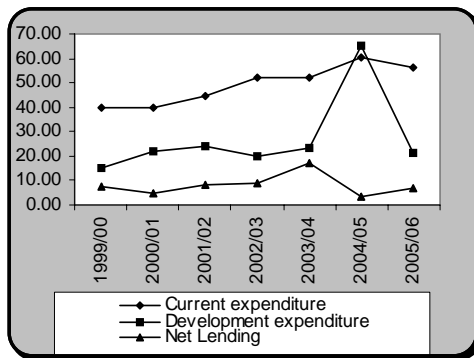
VAGST on both imports and sales exceeded the pro-rata estimate by \$1.6 million and \$0.95 million and was \$1.5 million and \$1.7 million above the same period last year. Income tax was slightly above the pro-rata estimate by 1.2% to stand at \$14.3 million, and

was \$2.2 million higher than the same period last year. Other revenues like Domestic Excise and stamp duty registered slight increases of \$0.7 and \$0.2 million tala. These increases were offset due to shortfalls in Import excises and import duties both declining by \$1.6 million and \$0.5 million tala respectively.

Figure 6.2 illustrates the continuous positive trend in revenue since 2002/03 with an average annual increase of just over 10 percent. This is a positive indication of prudent revenue measures implemented during this period.

Non-tax revenue of \$6.5 million was \$2.6 million below pro-rata budget estimates. This was expected as most of the property and investment income such as dividends from Central Bank, Offshore and other cost recoveries such as business licensing are collected in the December and the June quarter.

Figure 6.3: Expenditure by Type, Jul-Sep 1999/00-2005/06 (\$ Million)



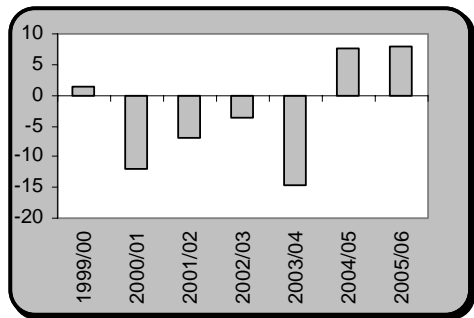
Grants was on par compared to the pro-rata estimate but declined by 54.4% when compared to the same period last year. Completion of certain major grant funded projects including the Aqua-center, wharf extensions and other Institutional Projects culminated in this decline.

Expenditure

Total Expenditure and Net Lending for the first three months of 2005/06 was \$84.9 million tala. At this level, it was 15.6% (\$15.7 million tala) below the pro-rata estimate. This was due mainly in current expenditures being well retained at \$56.3 million, \$11.9 million lower than the \$68.2 million budgeted for the period. Delays in the implementation of public sector loan funded projects, Sanitation and Drainage and Small Business Development in particular has resulted in development expenditure being very low.

Current expenditure added up to \$56.3 million tala, 17.4% lower than the pro-rata estimate and 6.7% below than last year’s expenditure amount. This was primarily attributed to Government Ministries spending being well monitored.

Figure 6.4: Government position with the banking system, Jul-Sep 1999/00-2005/06 (\$ Million)



Position with the Financial System

Government financial position with the banking system at the end September quarter accumulate an additional \$8.05 million tala. This was \$0.46 million tala more above the surplus achieved during the same period last year. This fiscal position is considered healthy in view of the public sector general salary increase that was implemented during this time.

Table 6.1: GOVERNMENT FINANCE 2001/02 – Mar 05^a (\$ Million)

	Provisional Actual			Budget	Provisional		
	2002/03	2003/04	2004/05	2005/06	Jul-Sep 04	Apr-Jun 05	Jul-Sep 05
Revenues and Grants	303.53	317.70	524.41	358.10	136.20	137.42	88.02
Revenues	229.37	246.52	283.03	286.28	75.90	77.07	70.07
External Grants	74.17	71.16	241.38	71.82	60.30	60.35	17.95
Expenditure	309.07	326.57	521.35	402.41	129.30	145.44	84.88
Current ^b	202.19	204.49	236.57	272.76	60.30	70.66	56.29
Development ^c	86.89	86.62	263.77	24.99	65.30	67.38	21.40
Other (capital & net lending)	19.99	35.46	21.02	24.99	3.70	7.40	7.19
Current Balance	27.17	42.03	46.46	13.53	15.60	6.41	13.78
Overall Balance	-5.54	-8.88	3.06	-44.31	6.90	-8.02	3.14
Financing							
Net external borrowing	4.69	0.25	15.82	19.50	4.80	12.15	-0.21
Domestic	0.85	8.63	-18.88	24.81	-11.71	-4.12	2.95
Overall Balance as % of GDP	-0.6	-0.9	0.3	-18.25	2.6	-2.9	1.1
Total Expenditure as % of GDP	35.5	33.8	52.9	38.7	48.8	52.7	29.3

Source: Ministry of Finance estimates

^a Provisional Actual 2002/03 – 2004/05 and Budget 2005/06

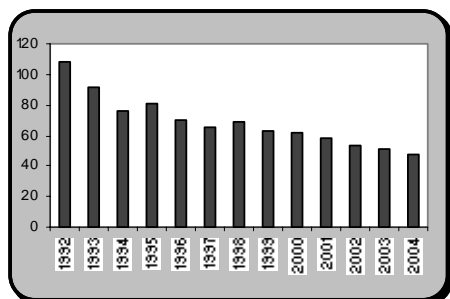
^b Includes domestically financed development plans

^c Financed from external grants and loans

6.2 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 6.5: Official Government Debt as % of GDP



Official government debt outstanding at end September 2005 amounted to \$454.66 million, down by \$1.39 million and \$0.99 million from the corresponding period of 2004 and the second quarter of 2005 respectively. This amount was equivalent to approximately 40.9% of GDP.

Multilateral and bilateral loans accounted for 92.5% (\$420.62 million) and 7.5% (\$34.03 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded was \$3.93 million in September 2005, down by \$0.44 million and \$0.15 million from the same 2004 period and from end of June 2005. Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 48.6% and 1.7% respectively.

Table 6.2: EXTERNAL DEBT (\$ Million)

Year End	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	481.18	456.10	455.62	456.05	455.62	457.18	455.65	454.66
Official Government Debt as % of GDP	56.8	50.8	47.9	45.7	47.9	43.1	43.7	40.9

Source: CBS and Ministry of Finance

7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

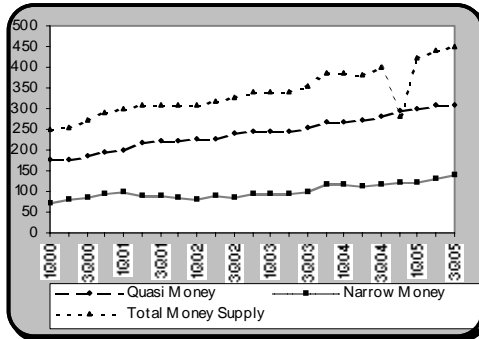
7.1 Money Supply

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.

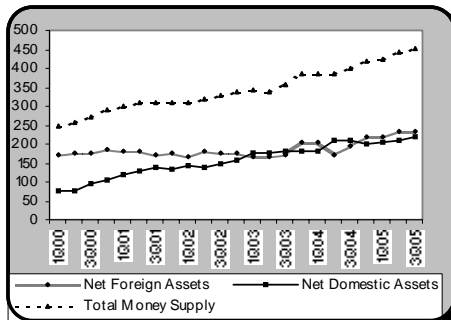
Figure 7.1: Narrow Money, Quasi Money & Total Money Supply by Quarter (\$ Million)



Money supply amounted to \$451.88 million at end September 2005. This represents an increase of \$51.37 million over end September 2004. The rise was due to increases in both Quasi and Narrow money of \$26.72 million and \$24.65 million respectively. The increase in Quasi money was mainly contributed by time deposits with an increase of \$12.22 million followed by increases of \$8.00 million and \$6.50 million in Savings deposits and Foreign currency deposits of residents respectively. For the components of Narrow money (M1), Currencies outside banks had increased by \$5.44 million and Demand deposits by a significant \$19.21 million.

Money supply had also increased by \$10.66 million over 2Q05. The rise was driven by an increase of \$8.41 million in Narrow money (M1) and Quasi money of \$2.25 million. The rise in Narrow money was contributed by increases in Demand deposits and Currencies outside banks of \$3.96 million and \$4.45 million respectively. For Quasi money components, Time deposits recorded a decline of \$7.23 million whilst Savings deposits and Foreign currency deposits of residents recorded increases of \$5.93 million and \$3.55 million respectively.

Figure 7.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$234.04 million whilst net domestic assets recorded \$217.84 million in 3Q05. NFA and NDA both registered increases of \$40.76 million and \$10.61 million over September 2004, resulting in the rise in money supply of \$51.37 million over this period.

Compared to end June 2005, NFA and NDA both recorded increases of \$2.75 million and \$7.91 million respectively.

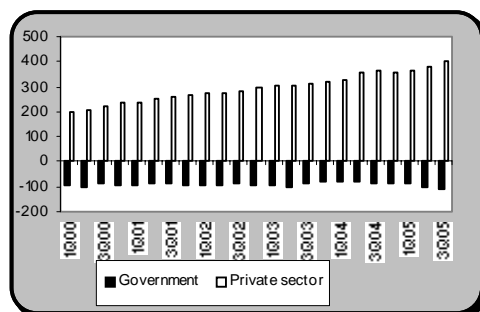
CBS Securities

The total face value of securities outstanding at end September 2005 stood at \$27.00 million, down by \$19.70 million and \$11.40 million from end September 2004 and end June 2005 respectively.

7.2 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.

Figure 7.3: Government & Private Sector Credit by Quarter (\$ Million)



Domestic credit outstanding had increased by \$15.94 million over the comparable 2004 quarter to stand at \$303.10 million in the third quarter 2005. The rise was largely caused by an increase of \$36.38 million in credit to the private sector whilst total claims on non-financial public enterprises and non-monetary financial institutions had declined by \$1.28 million and the government increased its net deposits by \$19.14 million.

Total domestic credit outstanding was also up by \$10.03 million over end June 2005. This expansion was a result of an increase in credit to the private sector and total claims on non-financial public enterprises and non-monetary financial institutions of \$17.10 million and \$0.98 million respectively. The government's net position had also increased by \$7.75 million to stand at \$108.33 million.

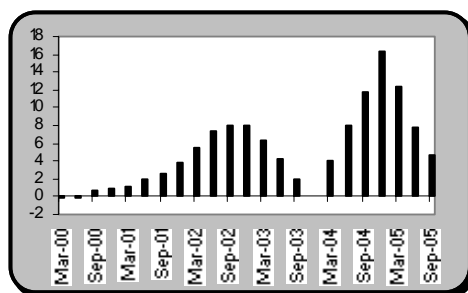
	2002	2003	2004	2004		2005			% Change in Sep 05 over	
				Sep	Dec	Mar	Jun	Sep	Sep 04	Jun 05
Net Foreign Assets	177.88	204.21	220.06	193.28	220.06	218.86	231.29	234.04	21.1	1.2
Net Domestic Assets	158.11	182.16	198.46	207.23	198.46	205.26	209.93	217.84	5.1	3.8
Money Supply (M2)	333.12	386.37	418.52	400.51	418.52	424.12	441.22	451.88	12.8	2.4
Money (M1)	95.61	118.21	124.93	116.55	124.93	122.30	132.79	141.20	21.1	6.3
Currencies outside banks	32.57	35.73	38.94	29.75	38.94	30.89	30.74	35.19	18.3	14.5
Demand deposit	63.04	82.48	85.99	86.80	85.99	91.41	102.05	106.01	22.1	3.9
Quasi Money	240.38	268.16	293.59	283.96	293.59	301.82	308.43	310.68	9.4	0.7
Savings deposits	44.87	45.56	51.48	53.75	51.48	51.14	55.82	61.75	14.9	10.6
Time deposit	184.45	206.99	232.35	220.03	232.35	241.72	239.48	232.25	5.6	-3.0
FCDR ^a	11.06	15.61	9.76	10.18	9.76	8.96	13.13	16.68	63.9	27.0
Domestic Credit	219.02	254.08	280.37	287.16	280.37	284.18	293.07	303.10	5.6	3.4
Government (net)	-96.34	-79.44	-88.98	-89.19	-88.98	-90.40	-100.28	-108.33	21.5	8.0
Private sector	294.70	318.47	358.74	363.76	358.74	365.02	383.04	400.14	10.0	4.5
Claims ^b	18.59	15.05	10.61	12.59	10.61	9.56	10.31	11.29	-10.3	9.5

8. 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%).

8.1 Consumer Price Index

Figure 8.1: CPI All Groups Annual Average Rate End Quarter (%)



The annual rate of inflation in September 2005 was 4.7 percent, down by 7.0 percentage points from September 2004. The twelve months moving average for the local component of the CPI had declined by 20.9 percentage points over this period. This fall was strongly dominated by decreases in Miscellaneous, local food prices and alcohol/tobacco of 14.7, 7.5 and 1.3 percentage points whilst transport/communication and Household increased by 0.12 and 0.58 percentage points respectively.

The Import component of the CPI had also declined by 0.3 percentage points due to decreases of 5.1, 1.6 and 0.7 percentage points in cloth/foot, food prices and alcohol/tobacco respectively.

by 1.2 and 4.2 percentage points during this

When compared to end of June 2005, the annual average rate of inflation

had declined by 3.1 percentage points. Both the Imported and Local components had declined

period respectively.

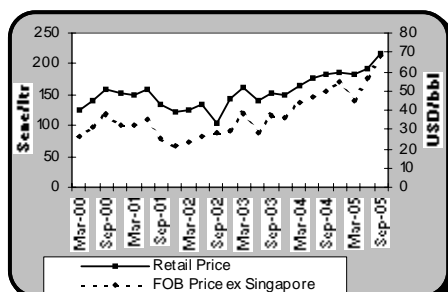
	2002	2003	2004	3Q04	4Q04	1Q05	2Q05	3Q05
All Item Index	8.1	0.2	16.3	11.7	16.3	12.4	7.8	4.7
Imported Good Index	1.3	-0.1	4.1	2.7	4.1	4.5	3.6	2.4
Local Good Index	13.8	-6.4	34.0	26.8	34.0	20.1	10.1	5.9

Source: Ministry of Finance

8.2 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 8.2: End Quarter Petroleum Prices



The international price (US currency) for petrol, kerosene and diesel in September 2005 were 68.34 cents, 71.87 cents and 68.84 cents per litre, up by 18.67 cents, 21.19 cents and 20.04 cents from September 2004 respectively. Domestic retail prices for petrol, kerosene and diesel were valued at 215.7 sene, 205.8 sene and 215.4 sene per litre, up by 34.1 sene, 38.8 sene and 36.4 sene from the same period last year respectively.

Over the previous quarter (2Q05), international price for petrol, kerosene and diesel had increased by 12.12 cents, 6.64 cents and 6.08 cents respectively and was mirrored also in domestic retail prices which had increased by 22.5 sene, 9.5 sene and 16.5 sene in the respective order. The continuing rise in the price of crude oil continues to filter through our domestic fuel prices.

	2004				2005					
	September		December		March		June		September	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	181.6	49.67	185.8	54.25	182.0	45.03	193.2	56.22	215.7	68.34

Kerosene	167.0	50.68	181.7	60.89	168.9	50.18	196.3	65.23	205.8	71.87
Diesel	179.0	48.80	190.4	57.21	181.5	49.29	198.9	62.76	215.4	68.84

Source: Ministry of Finance