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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 third quarter 2008.

1. EXECUTIVE SUMMARY

Key Features of Third Quarter 2008 Performance

- Real **GDP** stood at \$257.69 in 3Q08, declined by 4.6% from the comparable 2007 period; (see section 2)
- **Employment** declined by 3.4% (763) from the corresponding period of 2007; (see section 3)
- **Export** revenues fell by 30.3% from September quarter of 2007; (see section 4.1)
- **Imports** increased by 14.3% over the same period of 2007; (see section 4.2)
- The **trade deficit** increased by \$28.15 million from the same 2007 quarter; (see section 4.5)
- **Gross foreign reserves** amounted to \$238.05 million, sufficient to cover 4.7 months of imports; (see section 5)
- The **Tala appreciated** against the NZD and depreciated against the Yen, USD, AUD, EURO and FJD from the comparable 2007 period; (see section 6)
- The **budget outturn** showed an overall deficit of \$13.38 million for July to September period of FY 2008/09, declined by \$26.00 million from the deficit of \$39.38 million in the corresponding period of FY 2007/08. The current deficit at \$3.97 million compared to a deficit of \$29.89 million in FY 2007/08; (see section 7.1)
- Official **external debt** amounted \$518.63 million or 37.0% of GDP (see section 7.2)
- **Money supply** stood at \$627.28 million in 3Q08, increased by \$40.39 million from end September 2007; (see section 8.1)
- **Domestic credit** outstanding at end September 2008 totalled \$581.15 million, increased by 6.7% from the same period of 2007; (see section 8.2)
- The **inflation rate** at end September 2008 stood at 7.6%, increased by 1.6 percentage points from September 2007. (see section 9)

2. GROSS DOMESTIC PRODUCT

The Gross Domestic Product is the building block 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: Other Manufacturing's Contribution to Economic Growth in the Third Quarter of Each Year (%)

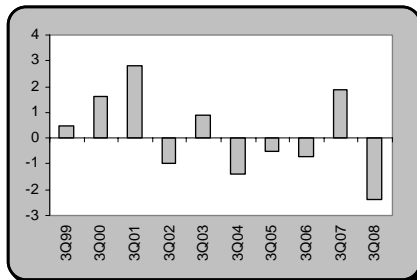
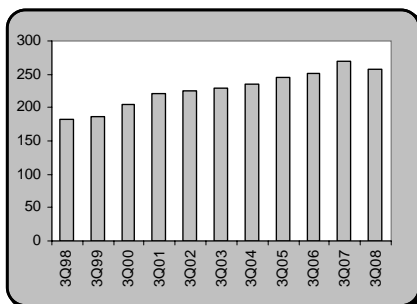


Figure 2.2: GDP at Constant Prices in the Third Quarter of Each Year (\$ Million)



Overview

Gross domestic product valued at \$257.69 million in the September quarter of 2008, recorded a downward trend of 4.6% from the comparable 2007 period. Other manufacturing industry was the leading contributor to this overall economic decline with a drop of 2.4% followed by construction, agriculture, fishing and food and beverages manufacturing with contributions of 1.1%, 1.0%, 0.6% and 0.5% respectively. The overall GDP for the period of January to September 2008 declined by 0.6% from the comparable 2007 period.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture production stood at \$16.60 million in the reviewing period, declined by 14.6% over the same 2007 period and contributed 1.0% to the overall decline for the quarter. The Fugalei market survey by the Central Bank showed that the overall volume of agricultural produces had declined by 42.0% in the reporting quarter when compared to September quarter of 2007. This fall was partly caused by the increase in agricultural supplies catered for the South Pacific Games demand in 2007.

Fishing industry was valued at \$13.02 million in the reviewing quarter. This represented a decline of 11.8% and contributed 0.6% to the overall economic decline over the corresponding 2007 period. This decline was consistent with the drop of 46.6% in fish export earnings during this period.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverages Manufacturing industry was estimated at \$5.32 million in the July to September 2008 quarter, declined by 21.4% and contributed 0.5% to the overall economic decline of 4.6% from September quarter of the previous year. The decline in performance reflected in the drop of 51.8% in nonu export products.

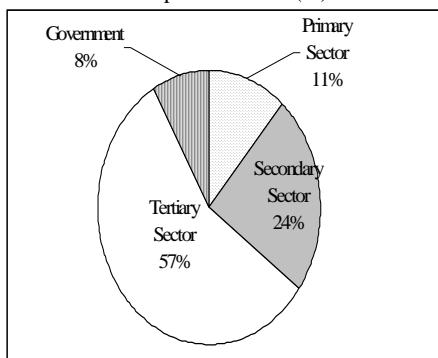
Other Manufacturing generated a total value added of \$22.17 million in the reporting quarter, declined by 22.3% and contributed the highest share of 2.4% to the overall economic decline of 4.6% from September quarter of 2007. The cease in operation of the Holden Car Manufacturing in Australia partly caused the decline of 28.9% in Yazaki's production, which is the leading player in this industry.

Construction industry was estimated at \$22.43 million in 3Q08, 11.3% lower than 3Q07 and contributed 1.1% to the overall economic decline throughout this period. This decline was mainly driven by the completion of work activities relating to the South Pacific Games in 2007.

The real GDP value for the **Electricity and Water** industry stood at \$11.87 million in 3Q08, a decline of 1.5% over the corresponding 2007 period and contributed 0.1% to overall economic decline. This drop was partly attributed to the decrease in demand for water and electricity compared to the September quarter of 2007 (South Pacific Games).

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

Figure 2.3: Sector contribution to total GDP in September 2008 (%)



Commerce industry valued at \$53.57 million in the September quarter of 2008, remained on par when compared to the corresponding 2007 period. Commerce remained the biggest industry with a share of 20.8% of total GDP.

Transport and Communication industry was valued in constant prices at \$35.30 million in 3Q08, increased by 1.9% and recorded a positive contribution of 0.2% to the overall economic decline over the comparable 2007 period. The rise in this industry was evidenced with the improvement in communication and the increase of imported right hand drive vehicles. Transport and Communication was the second largest industry with a share of 13.7% to total GDP.

Hotels and Restaurants industry recorded \$10.34 million in the reviewing quarter, increased by 13.4% and with a positive contribution of 0.5% to overall GDP decline from the corresponding 2007 quarter. The strong performance by hotels and restaurants was reflected in the increase of tourism earnings by 3.1% during this period.

Finance and Business Services industry stood at \$26.06 million in 3Q08, increased by 1.9% and recorded a positive contribution of 0.2% to the overall economic decline of 4.6% over the same period of 2007. This industry was the third largest with a share of 10.1% to total GDP.

Personal and other Services value added generated during the third quarter of 2008 amounted to \$13.33 million. This represented an increase of 0.6% from the same period of 2007. The industry contributed a share of 5.2% to overall GDP and with no contribution to growth.

Government Sector

Public Administration is the sixth largest industry with a share of 8.4% to overall GDP. During the period under review, this industry generated a total value added of \$21.77 million, an increase of 2.7% when compared to September quarter of 2007. This rise registered a positive contribution of 0.2% to the overall economic decline.

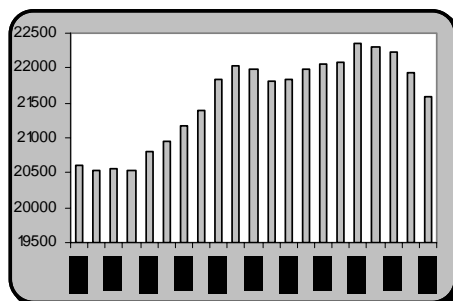
| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | % Change 3Q08 over | |
|---------------------------------------|---------------|---------------|-----------------|---------------|---------------|---------------|---------------|---------------|--------------------|------------|
| At constant 2002 prices | (\$ Million) | | | | | | | | 3Q07 | 2Q08 |
| Agriculture | 73.13 | 68.28 | 71.76 | 19.43 | 19.63 | 17.30 | 16.48 | 16.60 | -14.6 | 0.0 |
| Fishing | 48.50 | 48.33 | 55.82 | 14.76 | 14.76 | 13.52 | 12.81 | 13.02 | -11.8 | -4.5 |
| Food & Beverages Manufacturing | 33.30 | 31.21 | 27.84 | 6.77 | 7.20 | 5.65 | 5.32 | 5.32 | -21.4 | -17.0 |
| Other Manufacturing | 100.00 | 89.30 | 106.70 | 28.54 | 28.81 | 25.46 | 24.14 | 22.17 | -22.3 | -2.0 |
| Construction | 84.48 | 91.46 | 98.94 | 25.29 | 25.39 | 22.65 | 21.34 | 22.43 | -11.3 | -11.0 |
| Electricity and Water | 44.46 | 46.48 | 47.32 | 12.05 | 12.05 | 11.95 | 11.98 | 11.87 | -1.5 | 0.7 |
| Commerce | 192.04 | 202.25 | 212.13 | 53.59 | 54.83 | 53.71 | 52.58 | 53.57 | 0.0 | 3.5 |
| Hotels, Restaurant | 25.90 | 32.27 | 34.31 | 9.12 | 9.11 | 9.88 | 10.55 | 10.34 | 13.4 | 36.7 |
| Transport, Communication | 126.90 | 132.04 | 136.65 | 34.64 | 36.38 | 35.32 | 32.94 | 35.30 | 1.9 | 2.9 |
| Public Administration | 81.07 | 81.92 | 84.20 | 21.18 | 21.33 | 21.46 | 21.83 | 21.77 | 2.7 | 3.8 |
| Finance & Business Services | 94.35 | 99.09 | 101.72 | 25.57 | 25.78 | 26.08 | 26.45 | 26.06 | 1.9 | 5.0 |
| Less: Enterprise share of FISIM | -12.04 | -12.27 | -12.67 | -3.20 | -3.17 | -3.39 | -3.45 | -3.46 | 8.3 | 9.0 |
| Ownership of Dwellings | 35.25 | 35.96 | 36.69 | 9.19 | 9.24 | 9.29 | 9.33 | 9.38 | 2.0 | 2.0 |
| Personal & Other Services | 53.43 | 53.05 | 53.12 | 13.25 | 13.28 | 12.97 | 13.45 | 13.33 | 0.6 | 1.4 |
| Value added 2002 market prices | 980.78 | 999.37 | 1,054.51 | 270.19 | 274.62 | 261.88 | 255.11 | 257.69 | -4.6 | 1.2 |
| Implicit price deflator: | 117.4 | 125.1 | 130.5 | 131.6 | 131.3 | 133.0 | 133.5 | 136.6 | 3.8 | 1.9 |
| At constant 2002 prices | | | | | | | | | | |
| Non-monetary | 129.87 | 127.84 | 126.93 | 32.31 | 32.56 | 31.18 | 30.44 | 30.39 | -5.9 | -0.5 |
| Monetary – total | 850.91 | 871.53 | 927.58 | 237.88 | 242.06 | 230.70 | 224.67 | 227.30 | -4.4 | 1.4 |
| Monetary – restricted scope | 783.66 | 814.32 | 854.92 | 218.27 | 221.95 | 213.18 | 210.18 | 213.36 | -2.2 | 2.6 |
| Memo items: | | | | | | | | | | |
| Nominal GDP (current prices) | 1,151.25 | 1,249.84 | 1,376.12 | 355.66 | 360.50 | 348.20 | 340.67 | 351.93 | -1.0 | 3.1 |
| GDP per capita | 6,310 | 6,915 | 7,557 | n.a | n.a | n.a | n.a | n.a | na | na |

Source: Samoa Bureau of Statistics 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

Figure 3.1: Formal Employment by Quarter ('000)



The number of recorded paid employment for the quarter of September 2008 stood at 21,588, 3.4% (763) below the total number of paid employment in the corresponding quarter of 2007. This decline was mainly driven by the drop of 14.5% in the secondary sector. Employment in the primary and tertiary sectors also recorded downward trends of 7.6% and 1.3% respectively whilst the public administration industry had increased by 2.4%.

| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | % Change 3Q08 over | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|-------------|
| | | | | | | | | | 3Q07 | 2Q08 |
| Primary | 342 | 409 | 363 | 381 | 363 | 364 | 361 | 352 | -7.6 | -2.5 |
| Secondary | 5,001 | 4,798 | 4,740 | 4,765 | 4,740 | 4,648 | 4,412 | 4,072 | -14.5 | -7.7 |
| Tertiary | 11,815 | 11,826 | 12,128 | 12,185 | 12,128 | 12,144 | 12,028 | 12,022 | -1.3 | -0.04 |
| Public Administration | 4,963 | 4,948 | 5,063 | 5,020 | 5,063 | 5,086 | 5,123 | 5,142 | 2.4 | 0.4 |
| TOTAL EMPLOYMENT | 22,121 | 21,981 | 22,294 | 22,351 | 22,294 | 22,241 | 21,924 | 21,588 | -3.4 | -1.5 |

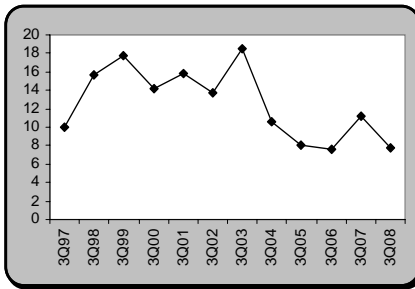
Source: Samoa National Provident Fund

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 4.1.1: Exports in the Third Quarter of Each Year (\$ Million)



Exports were valued at \$7.80 million in 3Q08, declining by \$3.39 million from the same 2007 period. This decline was fuelled mainly by fresh fish exports with a drop of \$3.47 million.

Table 4.1.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES (\$ million)

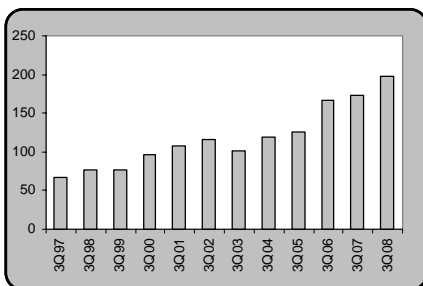
| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | % Share | | | % Change 3Q08 over | |
|---------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------------|------------|
| | (\$ Million) | | | | | | | | 3Q07 | 2Q08 | 3Q08 | 3Q07 | 2Q08 |
| | | | | | | | | | | | | | |
| Fish | 11.58 | 15.45 | 20.00 | 7.54 | 5.06 | 1.05 | 3.11 | 4.03 | 67.4 | 43.2 | 51.6 | -46.6 | 29.6 |
| Coconut cream | 2.28 | 2.38 | 2.34 | 0.49 | 0.69 | 0.47 | 0.55 | 0.55 | 4.3 | 7.6 | 7.0 | 12.2 | 0.0 |
| Nonu fruit | 1.54 | 0.87 | 0.70 | 0.21 | 0.15 | 0.04 | 0.02 | 0.02 | 1.9 | 0.2 | 0.2 | -90.5 | 0.0 |
| Nonu juice | 8.29 | 3.95 | 3.82 | 0.91 | 1.01 | 0.50 | 1.00 | 0.52 | 8.1 | 13.9 | 6.7 | -42.9 | -48.0 |
| Beer | 4.83 | 3.48 | 3.12 | 0.64 | 0.86 | 0.68 | 0.92 | 0.65 | 5.7 | 12.8 | 8.3 | 1.6 | -29.4 |
| Taro | 0.85 | 0.59 | 0.62 | 0.12 | 0.14 | 0.16 | 0.19 | 0.25 | 1.0 | 2.6 | 3.2 | 108.3 | 31.6 |
| Others | 3.12 | 2.03 | 5.59 | 1.28 | 1.47 | 1.31 | 1.41 | 1.78 | 11.6 | 19.6 | 22.8 | 39.1 | 26.2 |
| TOTAL | 32.49 | 28.75 | 36.19 | 11.19 | 9.38 | 4.21 | 7.20 | 7.80 | 100.0 | 100.0 | 100.0 | -30.3 | 8.3 |

Source: Central Bank of Samoa

4.2 Imports

Imports are purchases from overseas of commodities, manufactured or processed products valued “free on board” (fob).

Figure 4.2.1: Imports in the Third Quarter of Each Year (\$ Million)



Imports totalled \$198.20 million in the third quarter of 2008 with an upward trend of \$24.76 million from the corresponding period of 2007. Non petroleum private sector imports recorded an increase of \$3.69 million from 3Q07 to stand at \$132.08 million. Petroleum imports were valued at \$56.75 million, \$21.02 million higher than 3Q07. The rise in petroleum imports were primarily due to the increase in oil prices. Government imports were recorded at \$9.37 million, increased by \$0.05 million from 3Q07.

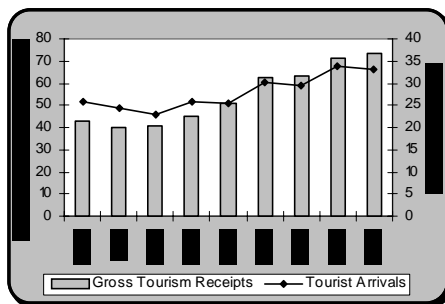
| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | % Share | | | % Change 3Q08 over | |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------------|-------------|
| | (\$ Million) | | | | | | | | | 3Q07 | 2Q08 | 3Q08 | 3Q07 |
| Government | 4.43 | 15.67 | 30.36 | 9.32 | 2.22 | 4.47 | 4.91 | 9.37 | 5.4 | 3.5 | 4.7 | 0.5 | 90.8 |
| Petroleum | 94.99 | 114.48 | 122.51 | 35.73 | 27.10 | 42.36 | 30.02 | 56.75 | 20.6 | 21.5 | 28.6 | 58.8 | 89.0 |
| Other Product | 408.30 | 477.66 | 440.77 | 128.39 | 109.11 | 95.00 | 104.84 | 132.08 | 74.0 | 75.0 | 66.6 | 2.9 | 25.98 |
| TOTAL | 507.71 | 607.81 | 593.64 | 173.44 | 138.43 | 141.83 | 139.77 | 198.20 | 100.0 | 100.0 | 100.0 | 14.3 | 41.8 |

Source: Central Bank of Samoa

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 4.3.1: Gross Tourism Receipts (\$ Million) & Visitor Arrivals ('000) in the Second Quarter of Each Year



Tourist arrivals declined in the reporting quarter to 32,949, 3.7% (1,282) lower than the corresponding 2007 period. Tourism generated gross receipts of \$73.60 million, \$2.19 million higher than 3Q07.

According to the Samoa Tourism Authority, New Zealand contributed a majority share of 44.3% to the tourist market, followed by Australia, American Samoa, Other countries, U.S.A, Other Pacific Island countries and Fiji with shares of 17.1%, 16.9%, 8.3%, 6.6%, 5.0% and 1.8% respectively in the reviewing quarter. The majority of tourists are grouped under Holiday with a share of 49.6% followed by tourists on Visiting Friends and Relatives (VFR), Business, Others and Sports with shares of 30.4%, 10.4%, 8.8% and 0.8% respectively in the current quarter. Compared to the same period of 2007, tourists on Holiday and Visiting Friends and Families had increased by 22.1% and 151.0% whilst tourists on Business and Others fell by 62.9% and 62.0% respectively.

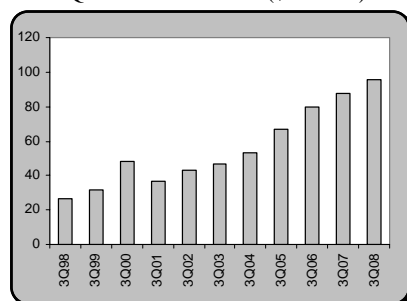
| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|------------------------|---------|---------|---------|--------|--------|--------|--------|--------|
| Gross Tourism Revenues | 207.37 | 226.20 | 279.74 | 71.41 | 71.41 | 57.33 | 66.15 | 73.60 |
| Visitor Arrivals | 101,804 | 115,882 | 122,250 | 34,231 | 34,307 | 23,954 | 28,979 | 32,949 |

Source: Central Bank of Samoa & 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 the primary component of net transfers in the balance of payments.

Remittances were valued at \$95.47 million in 3Q08, increased by \$7.98 million over the third quarter of 2007. The highest remitting country for the period was New Zealand with 32.0% followed by USA, Australia,

Figure 4.4.1: Remittances in the Third Quarter of Each Year (\$ Million)

Fiji, American Samoa and Others accounting for 26.8%, 23.6%, 11.2%, 3.6% and 2.8% of the total amount of remittances respectively.

The majority of remittances is for the Samoan individuals which contributed a share of 69.9%, funds for churches and non government schools with a contribution of 18.0%, funds for charitable organisations with a share of 3.9% and funds for expatriates in Samoa recorded a 0.1%.

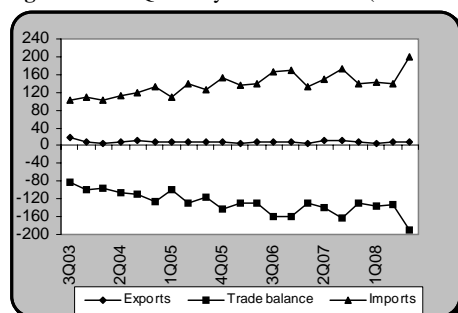
Table 4.4.1: GROSS REMITTANCES

| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|---------------------------------|-------|-------|--------|-------|-------|-------|-------|-------|
| Remittances (\$ Million) | 296.1 | 297.2 | 313.60 | 87.49 | 84.16 | 70.38 | 73.37 | 95.47 |
| Remittances as % GDP | 25.7 | 23.8 | 22.7 | 24.6 | 23.3 | 20.2 | 21.3 | 27.1 |

Source: Central Bank of Samoa

4.5 Balance of Payments

Trade balance is the difference in export receipts (fob) and import payments (fob). 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 4.5.1: Quarterly Trade Balance (\$ Million)

The **trade deficit** stood at \$190.40 million in the current quarter, having deteriorated by \$28.15 million from the same period last year. Higher imports stimulated the deficit by contributing an increase of \$24.76 million.

Net services and income valued at \$47.53 million in 3Q08, declined by \$0.38 million from the corresponding period of 2007. Net transfers stood at \$90.92 million, increased by \$9.50 million over the comparable period of 2007. Albeit this increase, huge expansion in trade deficit led to a rise in current account deficit of \$19.03 million to stand at \$51.95 million.

The **capital account** amounted to \$21.14 million for the reviewing quarter, recorded an increase of \$6.84 million from the corresponding 2007 period. This led to an overall balance of payments deficit of \$30.81 million for the reporting period, expanded by \$12.19 million from September quarter of 2007.

Table 4.5.1: COMPARATIVE TRADE DATA 2005– 2007 (\$ Million)

| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| 1. EXPORTS (fob) | 32.50 | 28.75 | 36.19 | 11.19 | 9.38 | 4.21 | 7.20 | 7.80 |
| 2. IMPORTS (fob) | 507.71 | 607.81 | 593.64 | 173.44 | 138.43 | 141.83 | 139.77 | 198.20 |
| 3. TRADE BALANCE | -475.21 | -579.06 | -557.45 | -162.25 | -129.05 | -137.63 | -132.57 | -190.4 |
| 4. NET SERVICES AND INCOME | 132.23 | 188.99 | 208.13 | 47.91 | 61.54 | 39.74 | 39.10 | 47.53 |
| 5. NET CURRENT TRANSFERS | 289.44 | 265.74 | 289.73 | 81.42 | 76.83 | 84.73 | 85.60 | 90.92 |
| 6. CURRENT ACCOUNT BALANCE | -53.44 | -124.33 | -59.59 | -32.92 | 9.32 | -13.16 | -7.87 | -51.95 |
| 7. CAPITAL ACCOUNT (Net) | 106.36 | 110.54 | 72.47 | 14.30 | 13.27 | 17.14 | 15.06 | 21.14 |
| 8. OVERALL BALANCE | 52.92 | -13.79 | 12.88 | -18.62 | 22.59 | 3.98 | 7.19 | -30.81 |
| 9. TRADE BALANCE AS % GDP | -41.3 | -46.3 | -40.5 | -45.6 | -35.8 | -39.5 | -38.9 | 54.1 |
| 10. CURRENT ACCOUNT BALANCE AS % GDP | -4.6 | -9.9 | -4.3 | -9.3 | 2.6 | -3.8 | -2.3 | -14.8 |

Source: Central Bank of Samoa and Ministry of Finance

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.

The gross official foreign reserves amounted to \$238.05 million in the reporting quarter, increased by \$31.53 million from the comparable period of 2007. This rise was driven strongly by the increase in the Central Bank foreign holdings of \$26.30 million followed by the Commercial Bank and the Ministry of Finance with increases in foreign holdings of \$13.99 million and \$5.23 million respectively. Import cover for the reviewing period was at 4.7 months, higher than the import cover of 4.1 months in the September 2007 quarter.

| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross Official Foreign Reserves | 208.16 | 199.32 | 226.30 | 206.52 | 226.30 | 247.46 | 249.84 | 238.05 |
| Import Cover | 5.1 | 4.0 | 4.7 | 4.1 | 4.7 | 5.0 | 5.1 | 4.7 |

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 September 2008, the Tala had depreciated against all foreign currencies with the exception of the NZD when compared to September quarter of 2007.

| | 2007 | | 2008 | | | % Appreciation(+)/Depreciation (-) of TALA between Sep 08 and | |
|-------------|------------|--------|--------|--------|--------|---|--------|
| | Sep | Dec | Mar | Jun | Sep | Sep 07 | Jun 08 |
| | USD | 0.3843 | 0.3919 | 0.3981 | 0.3996 | 0.3834 | -0.2 |
| NZD | 0.5181 | 0.513 | 0.504 | 0.5153 | 0.538 | 3.8 | 4.4 |
| AUD | 0.4538 | 0.4413 | 0.4394 | 0.4233 | 0.4331 | -4.4 | 2.3 |
| EURO | 0.2796 | 0.2704 | 0.2656 | 0.2557 | 0.2552 | -8.7 | -0.2 |
| FJD | 0.6146 | 0.6077 | 0.604 | 0.5973 | 0.5995 | -2.5 | 0.4 |
| YEN | 45.25 | 44.29 | 41.87 | 41.84 | 41.26 | -8.8 | -1.4 |

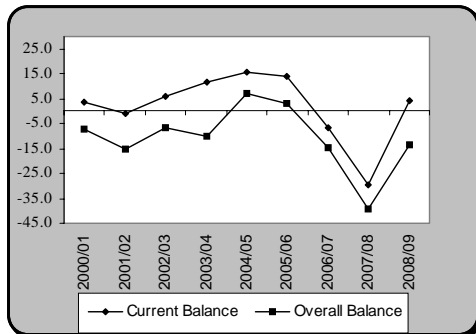
Source: Central Bank of Samoa

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 7.1.1: Overall and Current Balance
Jul-Sep 2001/02-2008/09 (\$ Million)



Overall Performance

The 2008/2009 Budget anticipated a current surplus of \$21.77 million and an overall deficit of \$83.99 million.

At end of the first three months (July – September 2008/09) period, the actual outcome was an **overall deficit** of \$13.38 million. This was equivalent to 3.8% of GDP, being higher than the fiscal target of no more than 3.5% stipulated for the financial year 2008/09 and recorded a \$7.62 million below the budget estimates. This improvement in the overall deficit was attributed mainly to the delay in the implementation of some of the major public loan funded project of \$21.50 million for the reviewing period. When compared to the corresponding 2007/08 period, overall deficit had declined by \$26.00 million. This favourable outcome was strongly driven by increases in non tax category (\$6.20 million) and external grants (\$8.50 million) as well as the decline of \$19.59 million in total current expenditure. **Current balance** had recorded a deficit of \$3.97 million, registered a turnaround of \$9.42 million from the pro-rata surplus of \$5.45 million for the reviewing quarter. This result was caused by the shortfall of \$3.55 million in total revenue and an increase of \$5.87 million in total current expenditure. Current deficit had improved by \$25.92 million from the comparable period of 2007/08. This was a result of an increase in total revenue by \$6.33 million and a reduction of \$19.59 million in current expenditure.

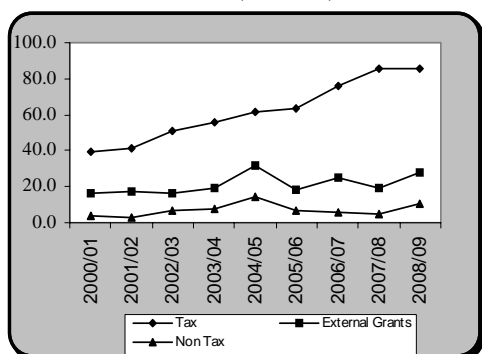
Figure 7.1.1 depicts downward trends from 2004/05 to 2007/08 (Jul-Sep) for both current and overall balances and recorded upward trends in 2008/09.

Revenue

Total Revenue collected for the first three months of the 2008/09 fiscal year stood at \$124.16 million, which consisted of \$96.49 million of current receipts and \$27.67 million of external grants. At this level it was \$3.55 million below the pro-rata estimate for the reviewing period. This result was mainly due to the shortfall of \$4.10 million in non-tax revenue.

Tax revenue collected throughout the period of July to September of 2008/09 fiscal year amounted to \$85.69 million, \$0.55 million above the pro rata estimate. This result was driven strongly by the net increase of \$5.00 million in Taxes on Goods and Services followed by the net increase in Other Taxes of \$0.20 million whilst Taxes on

Figure 7.1.2: Revenue by Type, Jul-Sep 2001/02-2007/08 (\$ Million)

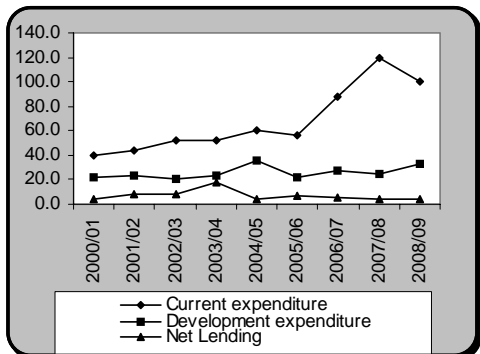


Income and Taxes on International Trade registered net declines of \$2.20 million and \$2.40 million respectively.

Non-tax revenue collected during the reviewing quarter were valued at \$10.80 million. At this level, it was \$4.10 million below the budgeted amount. The unfavourable outcome was mainly driven by the shortfall of \$2.40 million in Property and Investment Income category. Cost recoveries, licences and fines also recorded a \$1.80 million below the pro-rata estimate.

Figure 7.1.2 illustrates revenue performance in the first three months (Jul-Sep) of the last nine fiscal years.

Figure 7.1.3: Expenditure by Type, Jul-Sep 2001/02-2008/09 (\$ Million)



Expenditure

Total expenditure and Net Lending for July to September of 2008/09 was \$137.54 million, recorded a total of \$11.16 million below the pro-rata estimate. This was caused largely by the delay of \$21.50 million in some of the loan funded public investment projects.

Current expenditure for the period stood at \$100.46 million, \$5.87 million higher than the budget estimate. This result was due mainly to the decline of \$4.70 million in VAGST payable by Government Departments deducted from current expenditure category as well as the rise of \$2.50 million in Economic Services expenditure group.

Development expenditure was \$21.50 million below the pro rata estimate reflecting the delay in some of the loan funded public sector projects. This shortfall was strongly underpinned by the slow implementation of some of the loan funded public sector projects that include the sanitation and drainage project and the widening of roads under the Samoa Infrastructure Asset Management Phase II.

Net Lending recorded a \$4.47 million above the pro-rata estimate.

Table 7.1.1: GOVERNMENT FINANCE 2005/06 – 2008/09^a (\$ Million)

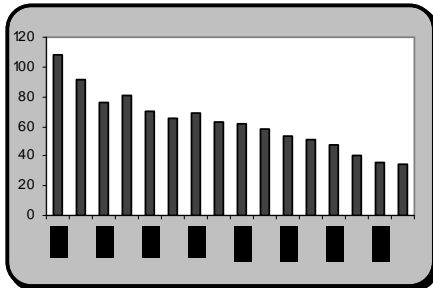
| | Provisional Actual | | | Budget | (Pro-rata estimates) | Provisional | |
|--------------------------------------|--------------------|--------------|---------------|---------------|----------------------|---------------|---------------|
| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | Jul-Sep 08 | Jul-Sep 07 | Jul-Sep 08 |
| Revenues and Grants | 387.19 | 487.6 | 441.10 | 510.83 | 127.71 | 109.39 | 124.16 |
| Revenues | 315.37 | 389.2 | 364.17 | 400.14 | 100.04 | 90.16 | 96.49 |
| External Grants | 71.82 | 98.5 | 76.93 | 110.69 | 27.67 | 19.23 | 27.67 |
| Expenditure | 391.72 | 472.3 | 487.70 | 594.82 | 148.71 | 148.77 | 137.54 |
| Current ^b | 281.89 | 327.6 | 383.61 | 378.37 | 94.59 | 120.05 | 100.46 |
| Development ^c | 86.11 | 123.7 | 96.24 | 216.09 | 54.02 | 24.92 | 32.52 |
| Other (capital & net lending) | 23.72 | 21.1 | 7.85 | 1.36 | 0.29 | 3.80 | 4.56 |
| Current Balance | 33.48 | 61.6 | -19.44 | 21.77 | 5.45 | -29.89 | -3.97 |
| Overall Balance | -4.53 | 15.4 | -46.60 | -83.99 | -21.0 | -39.38 | -13.38 |
| Financing | | | | | | | |
| Net external borrowing | 6.18 | 7.6 | 11.78 | 91.49 | 22.87 | 3.62 | 3.14 |
| Domestic | -1.65 | -22.9 | 34.83 | -7.51 | -1.88 | 35.75 | 10.24 |
| Overall Balance as % of GDP | -0.4 | 1.2 | -3.3 | -5.79 | -6.0 | -11.1 | -3.8 |
| Total Expenditure as % of GDP | 32.85 | 36.0 | 34.7 | 40.9 | 42.3 | 41.8 | 39.1 |

Source: Samoa Bureau of Statistics estimates
^a Provisional Actual 2005/06 – 2007/08, Budget 2008/09
^b Includes domestically financed development plans
^c Financed from external grants and loans

7.2 External Debt

Government's 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 7.2.1: Official External Debt as % of GDP



Official external debt outstanding at end September 2008 stood at \$518.63 million, equivalent to 37.0% of GDP.

Multilateral and bilateral loans accounted for 92.0% (\$478.85 million) and 8.0% (\$39.78 million) of disbursed outstanding debt respectively.

Total debt servicing recorded \$4.60 million in September 2008, declined by \$0.02 million from September 2007 period, equivalent to 5.7% of exports of goods and services.

Table 7.2.1: EXTERNAL DEBT

| Year End | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Official External Debt (\$ Million) | 461.59 | 448.38 | 477.15 | 450.45 | 477.15 | 481.86 | 490.01 | 518.63 |
| Official External Debt as % of GDP | 40.1 | 35.9 | 34.7 | 33.4 | 34.7 | 34.5 | 34.9 | 37.0 |

Source: Ministry of Finance and Samoa Bureau of Statistics estimates

Table 7.2.2: TOTAL DEBT SERVICING AS % OF MERCHANDISE EXPORTS AND SERVICES

| Year End | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|--|-------|-------|-------|------|------|------|------|------|
| Total Debt Servicing (\$ Million) | 16.72 | 17.82 | 20.12 | 4.62 | 5.99 | 5.49 | 5.32 | 4.60 |
| As % of Merchandise exports plus services exports ^a | 6.8 | 6.4 | 6.4 | 5.5 | 6.7 | 8.3 | 6.9 | 5.7 |

Source: Central Bank of Samoa and Ministry of Finance
^a Merchandise exports and services are dominated by travel

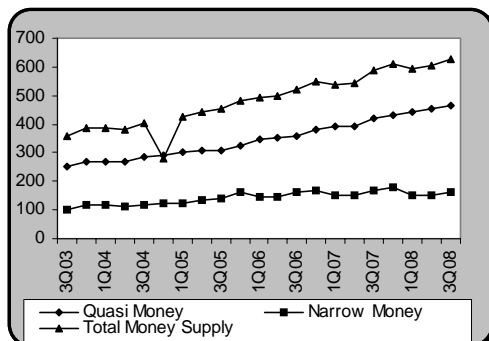
8. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

8.1 Money Supply

The Money Supply (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 future inflationary pressures

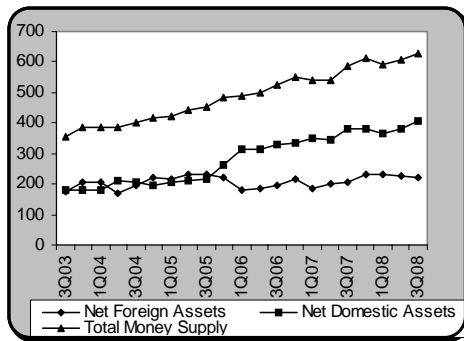
Figure 8.1.1: Narrow Money, Quasi Money & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply in September 2008 stood at \$627.28 million, increased by \$40.39 million from the corresponding period of 2007. This rise was driven by the increase of \$46.64 million in Quasi Money whilst Narrow Money declined by \$6.26 million. Time deposits was the main driver for the rise in Quasi Money with an increase of \$43.35 million followed by increases of \$2.29 million and \$1.00 million in foreign currency deposits of residents and savings deposits respectively. For the components of narrow money, both currency outside banks and demand deposits had declined by \$5.21 million and \$1.05 million respectively.

Figure 8.1.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



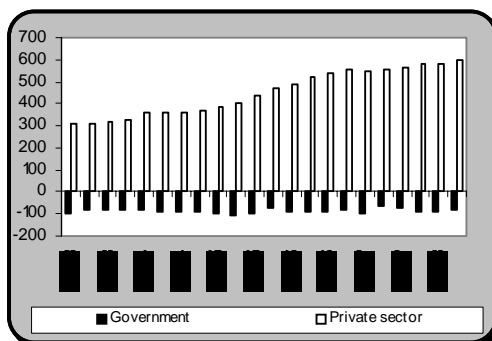
Net Foreign Assets and Net Domestic Assets

Net foreign assets and net domestic assets were valued at \$223.09 million and \$404.19 million in September 2008 respectively. Both NFA and NDA recorded increases of \$17.19 million and \$23.20 million respectively compared to September 2007.

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. Government has been a net depositor with the banking system, so that domestic credit expansion has focused primarily on the private sector.

Figure 8.2.1: Government & Private Sector Credit by Quarter (\$ Million)



Domestic credit outstanding in the reporting quarter stood at \$581.15 million, 6.7% higher than the comparable 2007 period. This increase was fuelled mainly by credit to the private sector with a rise of \$40.31 million followed by an increase of \$11.81 million in non-financial public enterprises and non-monetary financial institutions. Government deposits with the banking system had declined by \$15.80 million to stand at \$82.14 million at end September 2008.

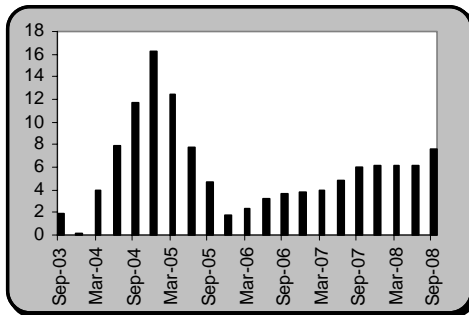
9. INFLATION

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

The annual average rate of inflation at end September 2008 stood at 7.6%, 1.6 percentage points above the twelve months moving average for September 2007. The increase in this period was strongly influenced by a rise in import goods of 3.0 percentage points followed by local component increased by 0.6 percentage points. Transport/communication group has strongly underpinned the growth in the import component with an increase of 30.7 percentage points followed by upward trends in

Figure 9.1.1: CPI All Groups Annual Average Rate End Quarter (%)



housing/household and clothing/footwear of 9.6 and 3.8 percentage points whilst food was on par. Alcohol/tobacco and micellaneous goods of the import component recorded declines of 8.6 and 3.2 percentage points over the period. Micellaneous category has largely driven the upward trend in the local component of the CPI, with an increase of 6.4 percentage points followed by increases of 2.4, 1.9 and 1.5 percentage points in housing/household, transport/communication and local food whilst alcohol/tobacco declined by 8.2 percentage points respectively.

In all items of the CPI, transport/communication group had largely driven the increase during this period with a rise of 9.4 percentage points followed by an increase of 5.7 percentage points in housing/household category. These results indicated that high oil prices have largely determined the inflation rate throughout this period.

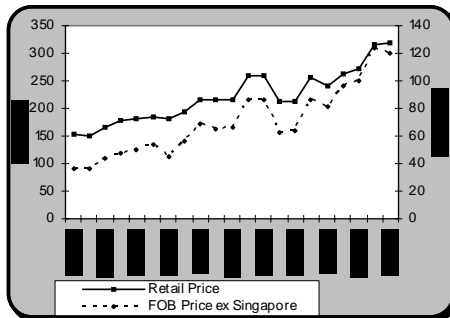
| | 2005 | 2006 | 2007 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 |
|---------------------|------|------|------|------|------|------|------|------|
| All Item Index | 1.8 | 3.8 | 6.1 | 6.0 | 6.1 | 6.2 | 6.2 | 7.6 |
| Imported Good Index | 2.2 | 4.5 | 6.9 | 7.2 | 6.9 | 7.4 | 8.0 | 10.2 |
| Local Good Index | 1.6 | 3.1 | 5.4 | 4.9 | 5.4 | 5.3 | 4.7 | 5.5 |

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 are important as they affect 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 9.2.1: End Quarter Petroleum Prices



International prices for petrol was 120.35 cents per litre in September 2008, an increase of 39.04 cents over the same 2007 period. International prices for kerosene and diesel were recorded at 138.67 cents and 128.91 cents per litre, increased by 51.67 cents and 43.39 cents over 3Q07 respectively. The variation in international prices are in line with domestic retail prices increasing by 79.70 sene, 121.80 sene and 116.90 sene for petrol, kerosene and diesel respectively.

| | 2007 | | | | 2008 | | | | | |
|-----------------|-----------|-----------|----------|-----------|--------|-----------|--------|-----------|-----------|-----------|
| | September | | December | | March | | June | | September | |
| | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price |
| Petrol | 240.6 | 81.31 | 262.5 | 95.89 | 272.2 | 99.77 | 315.2 | 120.35 | 320.3 | 120.35 |
| Kerosene | 231.0 | 87.00 | 271.8 | 106.13 | 261.5 | 105.31 | 336.9 | 138.67 | 352.8 | 138.67 |
| Diesel | 247.0 | 85.52 | 260.8 | 102.06 | 280.2 | 105.16 | 356.1 | 128.91 | 363.9 | 128.91 |

Source: Ministry of Finance