



## MINISTRY OF FINANCE

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### REVIEW TOPICS

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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 summarises the state of the economy during the third quarter 2004.*

*This review introduces improvements to data on inflation as indicated in the previous review. Future editions of the Quarterly Economic Review will be expanded to include data on labor productivity.*

## 1. EXECUTIVE SUMMARY

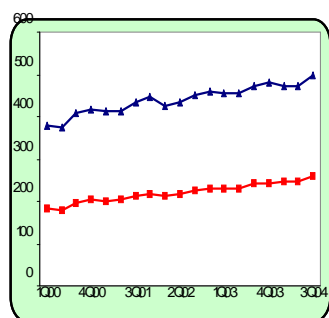
### Key Features of Third Quarter 2004 Performance

- 4 Real **GDP** of \$235.38 million in 3Q04 grew by 1.8% over the comparable 2003 period; (see section 2)
- 4 **Export** revenues stood at \$10.61 million in 3Q04, down by \$7.92 million over 3Q03; (see section 3.1)
- 4 **Imports** valued at \$118.81 million in 3Q04, up by \$17.89 million over the same 2003 quarter; (see section 3.2)
- 4 The **trade deficit** expanded by \$25.81 million over the comparable 2003 period to total \$108.20 million; (see section 3.5)
- 4 **Foreign reserves** at the end of 3Q04 stood at \$193.28 million, equivalent to 5.2 months of import cover. This compared with \$173.65 million at the end September 2003 whilst import cover remained at the same level; (see section 4)
- 4 The **budget out-turn** for the first three months of FY 2004/05 showed an overall surplus of \$6.91 million, a significant improvement of 168.1% over the comparable period in FY 2003/04. Current surplus of \$16.55 million achieved was \$7.62 million above budget pro rata estimates; (see section 6.1)
- 4 Official **government debt** outstanding at end 3Q04 stood at \$456.05 million; (see section 6.2)
- 4 **Money supply** valued at \$400.51 million at end September 2004, up by \$44.22 million over the comparable 2003 quarter; (see section 7.1)
- 4 **Domestic credit** expanded by \$38.35 million over 3Q03 to stand at \$287.26 million; (see section 7.2)
- 4 The annual average **inflation rate** at end September 2004 stood at 11.7 percent, 9.8 percentage points higher than the rate at end September 2003; (see section 8)

## 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 benchmarks 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)



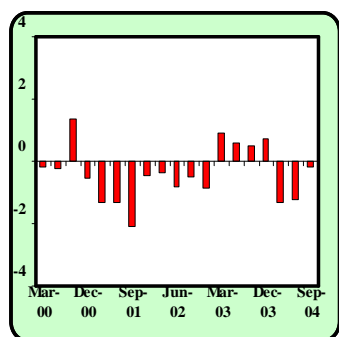
### Overview

The nominal **Gross Domestic Product** over the last twelve months ending September 2004 generated \$997.92 million. This was equivalent to a per capita income of \$5,547. The aggregated real Gross Domestic Product was \$922.57 million, an increase of 1.5% compared to the corresponding period last year.

In the September 2004 quarter, real gross domestic product was \$235.38 million, an increase of 1.8% over the September quarter 2003. Compared to the June 2004 quarter, real GDP was up 4.2%. Monetary sector production in the quarter accounted for 86.6% of total production, growing by 2.1% in comparison to 3Q03. The Non-monetary sector's real aggregate output, principally consisting of subsistence agriculture, declined by 0.2% over the September quarter last year.

The slow growth in the September 2004 quarter of 1.8% reflected the poor performance of **Other Manufacturing** largely a result of the drop in Yazaki production which coupled with continued high oil prices and the drought affecting production in the Electricity and Water industry dampened strong growth in Construction activities, Commerce and Hotels and Restaurant. Continued decline in the agriculture and fishing industries also slowed economic activity during the quarter.

Figure 2.2: Contribution to change in GDP (%): Agriculture



### Industry Performance

#### Primary Sector: Agriculture and Fisheries

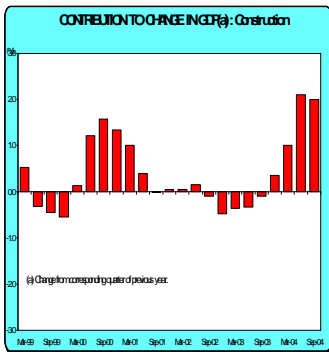
**Agriculture** production in the September 2004 quarter registered a real value added of \$16.31 million. Production was lower by 2.2% compared to the corresponding period of 2003, indicated by Figure 2.2. When compared to the June 2004 quarter, the industry had somehow recovered from the aftermath of Cyclone Heta with a 24.6% increase in production. This was supported by the Fugalei Market survey which recorded that the average quantity of fresh produce supplied had increased by 70% compared to the previous quarter.

**Secondary Sector: Manufacturing, Construction, Electricity & Water**

At constant 2002 prices, **Food and Beverage Manufacturing** generated a real value added of \$7.13 million, a decline of 1.4% compared to the September 2003 quarter. The decline in the industry's performance was a result of low production in some of the companies namely coconut cream and beer. Coconut cream's export earnings declined by 26.3% during this period. Over the June 2004 quarter, Food and Beverage Manufacturing production was also lower by 1.3%.

**Other Manufacturing** industry had another quarter of negative growth falling by 8.6% in constant prices following a 14.7% fall in the June quarter 2004, compared to the previous September and June quarters. The closure of the Garment factory for relocation and the drop in Yazaki Samoa's production were the main factors behind the decline. Production was higher however by 6.4% over the June 2004 quarter largely as a result of the re-opening of the garment factory during the September 2004 quarter.

Figure 2.3: Contribution to change in GDP (%): Construction



**Construction** value added in real terms in the September 2004 quarter amounted to \$17.93 million. The industry continued to dominate growth contributing the highest (2.0%) to the 1.8% growth in the September quarter, and the highest increase (34.9%) in production over the comparable 2003 period. The strong growth in the industry resulted from ongoing construction activities namely the LDS Temple, South Pacific Games facilities, Aggie Grey's Lagoon Beach, Resort and Spa, Samoa Tel headquarters and Pat Ah Him's Nia Mall. Construction activity was also 3.3% higher compared to the June 2004 quarter.

Figure 2.3 shows the continued quarter on quarter growth in the Construction industry in the last three consecutive quarters.

The Samoa Water Authority and Electric Power Corporation the two entities in the **Electricity and Water** Industry accounted for \$10.05 million of total real GDP in the September 2004 quarter, a 6.6% decline in relation to 3Q03. The continued high oil prices together with the drought during this period were the main reasons behind the decline in production.

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

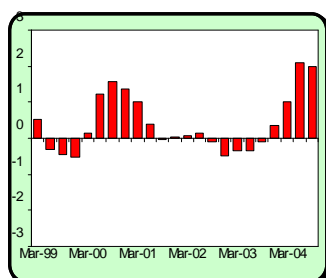
**Commerce** continued to maintain its status as the largest industry accounting for 18.5% of total GDP in 3Q04. The industry produced a real value added of \$46.46 million in the quarter, an increase of 4.9% in comparison to the same period last year. The favourable performance of the commerce industry is assisted largely by the 14.5% increase in remittances and strong growth in construction activities.

**Transport and Communication** produced \$28.26 million in real terms in 3Q04. Despite the various developments, in transport and communications the continued increase in oil prices impacted negatively on the industry's production resulting in a decline of 0.4% compared to 3Q03.

**Finance and Business Services** in 3Q04 accumulated a total real value added of \$22.82 million, a 2.2% increase in relation to 3Q03. The steady growth was assisted by the proliferation of other small financial services and money transfers.

**Personal and Other Services** accounted for \$12.74 million of total real GDP in the September 2004 quarter. The industry's real production increased by 0.1% over 3Q03, in line with the moderate growth in the economy during this period.

Figure 2.4: Contribution to change in GDP (%): Hotels and Restaurants



The numerous events during the September 2004 quarter, namely the historic visit by Seiuli 'The Rock', the Pacific Forum leaders meeting and the Teuila Festival boosted the **Hotels and Restaurants** industry during this period. The industry registered \$7.19 million in real terms, which accounted for the significant increase of 15.8% and 17.7% compared to 3Q03 and 2Q04 respectively. The industry's performance in the future will be viewed with keen interest, as employment opportunities are anticipated to increase with the opening of new hotels in 2005.

As shown in Figure 2.4, the Hotels and Restaurants contributed positively to GDP (quarter on quarter) in the last two quarters.

### Government Sector

The **Public Administration** accounted for \$18.47 million of GDP in constant 2002 prices in 3Q04, 1.0% higher than the same period of 2003.

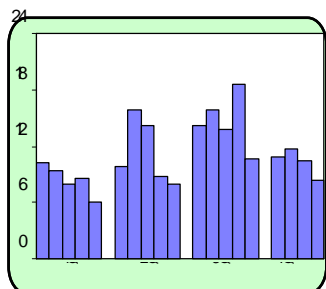
Table 2.1: ANNUAL & QUARTERLY REAL GDP

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04	% Change 3Q04 over	
At constant 2002 prices	(\$ Million)								3Q03	2Q04
Agriculture	67.18	61.70	67.69	16.69	17.66	14.48	13.09	16.32	-2.2	24.7
Fishing	71.21	68.02	61.19	14.80	15.29	14.38	14.26	14.46	-2.3	1.4
Food & Beverages Manufacturing	26.29	29.11	29.39	7.23	7.89	7.65	7.23	7.13	-1.4	-1.4
Other Manufacturing	112.32	107.76	119.09	31.07	28.84	27.50	26.69	28.41	-8.6	6.4
Construction	54.60	53.74	52.81	13.30	13.99	15.09	17.37	17.93	34.8	3.2
Electricity and Water	38.18	42.10	41.99	10.76	10.16	10.36	10.23	10.05	-6.6	-1.8
Commerce	161.18	176.28	179.84	44.29	45.56	45.34	45.16	46.46	4.9	2.9
Hotels, Restaurant	21.65	20.68	23.36	6.21	6.04	5.40	6.11	7.19	15.8	17.7
Transport, Communication	110.00	104.64	109.59	28.37	30.60	26.44	25.37	28.26	-0.39	11.4
Public Administration	67.58	71.01	74.24	18.28	18.76	18.85	18.34	18.47	1.0	0.7
Finance & Business Services	72.80	80.10	86.21	22.34	22.48	22.50	22.86	22.82	2.1	-0.17
Less: Enterprise share of FISIM	-11.44	-12.20	-13.09	-3.31	-3.34	-3.40	-3.38	-3.50	5.7	3.6
Ownership of Dwellings	32.54	33.20	33.87	8.49	8.53	8.57	8.62	8.66	2.0	0.5
Personal & Other Services	50.67	50.20	50.43	12.72	12.90	13.16	12.98	12.74	0.16	-1.8
<b>Value added 2002 market price</b>	<b>874.74</b>	<b>885.33</b>	<b>876.40</b>	<b>231.24</b>	<b>235.37</b>	<b>226.32</b>	<b>224.76</b>	<b>235.39</b>	<b>1.8</b>	<b>4.7</b>
Implicit price deflator:	95.3	100.0	102.4	104.8	103.9	108.3	109.8	110.7	5.6	0.8
<b>Selected measures of production:</b>										
At constant 2002 prices										
Non-monetary	129.13	124.50	125.547	33.84	31.55	31.74	29.87	31.43	-7.1	5.2
Monetary – total	745.60	760.84	791.074	208.44	200.01	196.45	196.45	203.95	-2.2	3.8
Monetary – restricted scope	661.34	681.82	701.93	183.28	176.67	182.35	176.92	183.36	0.0	3.6
<b>Memo items:</b>										
Nominal GDP (current prices)	834.03	885.33	944.57	242.27	241.73	244.63	245.15	260.67	-	-
GDP per capita	4719.8	4965.4	5250.4	na	na	na	na	na	-	-
<b>Source:</b> Ministry of Finance estimates na - not applicable										

### 3. FOREIGN TRADE AND BALANCE OF PAYMENTS

#### 3.1 Exports

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



Labeled on a Quarterly Basis from Left to Right - 2000 - 2004

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

Total exports amounted to \$10.61 million in the reporting quarter, down by \$7.92 million over the corresponding 2003 period. The decline was largely dominated by garment with a drop of \$10.28 million followed by coconut cream down by \$0.2 million and Others \$0.07 million. These offset increases in fish exports of \$1.49 million, nonu products of \$0.82 million, taro \$0.25 million and beer \$0.06 million.

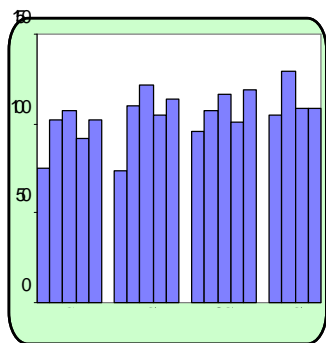
Compared to the previous quarter, exports increased by \$2.76 million. The rise was underpinned mainly by an increase of \$2.08 million in fish exports followed by garments and nonu fruits with increases of \$1.17 million and \$0.06 million respectively. All other products showed negative contributions over this period.

Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04	% Share			% Change in 3Q04 over		
	(\$ Million)									3Q03	2Q04	3Q04	3Q03	2Q04
	Fish	36.00	29.03	15.76	3.67	4.54	1.67	3.08	5.16	19.8	39.3	48.6	40.6	67.5
Coconut cream	3.38	3.11	3.01	0.76	0.73	0.69	0.75	0.56	4.1	9.5	5.3	-26.3	-25.3	
Nonu fruit	0.35	0.45	0.51	0.11	0.19	0.20	0.38	0.44	0.6	4.9	4.1	300.0	15.8	
Nonu juice	0.55	0.91	2.04	0.66	0.73	1.02	1.30	1.15	3.6	16.5	10.8	74.2	-11.5	
Beer	2.93	3.92	3.81	1.01	1.04	1.05	1.09	1.07	5.5	13.9	10.1	5.9	-1.8	
Taro	0.81	1.01	1.31	0.27	0.33	0.47	0.72	0.52	1.5	9.1	4.9	92.6	-27.8	
Garments	5.49	4.44	13.32	11.45	0.22	0.00	0.00	1.17	61.8	0.00	11.0	-89.8	-	
Others	3.18	3.42	4.51	0.61	0.67	0.93	0.53	0.54	3.3	6.8	5.1	-11.5	1.9	
<b>TOTAL</b>	<b>52.69</b>	<b>46.29</b>	<b>44.27</b>	<b>18.53</b>	<b>8.45</b>	<b>6.02</b>	<b>7.85</b>	<b>10.61</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-42.7</b>	<b>35.2</b>	

Source: Central Bank of Samoa

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



Labeled on a Quarterly Basis from Left to Right - 2000 - 2004

The re-opening of the Garment factory during the September 2004 quarter and the expected re-opening of Desico (desiccated coconut) in early 2005 is expected to boost exports in the following quarters.

#### 3.2 Imports

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

Imports stood at \$118.81 million in 3Q04, up by \$17.89 million over the same 2003 period. Private sector imports continued to dominate the increase with a rise of \$16.92 million followed by petroleum imports, up by \$1.18 million whilst government imports registered a



Compared to the previous quarter, imports had increased by \$5.03 million. Private sector imports remained the leading contributor with a rise of \$4.16 million followed by increases of \$0.21 million and \$0.65 million in Petroleum and Government imports respectively.

**Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS**

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04	% Share			% Change 3Q04 over	
	(\$ Million)									3Q03	2Q04	3Q04	3Q03
Government <sup>a</sup>	24.92	11.29	7.54	1.02	0.12	0.46	0.16	0.81	1.0	0.1	0.7	-20.6	406.3
Petroleum	55.78	54.88	56.91	15.13	13.98	19.33	16.10	16.31	15.0	14.2.0	13.7	7.8	1.3
Other Product <sup>b</sup>	368.10	388.06	342.52	84.77	94.25	82.44	97.53	101.69	84.0	85.7	85.6	20.0	4.3
<b>TOTAL</b>	<b>448.8</b>	<b>454.23</b>	<b>406.97</b>	<b>100.92</b>	<b>108.35</b>	<b>102.23</b>	<b>113.78</b>	<b>118.81</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>17.7</b>	<b>4.4</b>

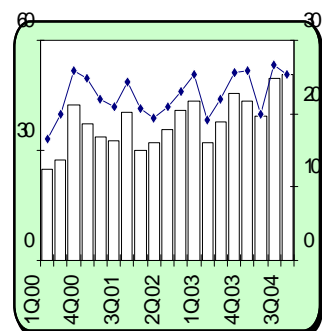
**Source:** Central Bank of Samoa

<sup>a/</sup> Includes the import of the Asphalt Plant Machine valued at \$0.5 million for the Ministry of Works in 3Q03.

<sup>b/</sup> Includes the import of a vessel for the Samoa Shipping Corporation valued at \$3.2 million in 2Q04, 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 \$0.6 million and bituminous mixtures for Ott Transport at \$0.2 million in 3Q04.

### 3.3 Tourism Receipts

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



Revenues – Left Hand Axis

Arrivals – Right Hand Axis

Bar Column – Gross Tourism Receipts

Line – Tourist Arrivals

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.

Gross tourism receipts totaled \$50.94 million in the reviewing quarter, up by \$7.20 million over the comparable 2003 quarter whilst tourist arrivals dropped slightly by 266 to stand at 25,370 tourist arrivals. The rise in revenues was strongly impacted by the Pacific Forum leaders meeting held in Apia and the historic visit by Seiuli “The Rock” in August 2004. The strong growth in the Hotels and Restaurants industry (see Section 2) is evident of the increased tourism revenue during this period.

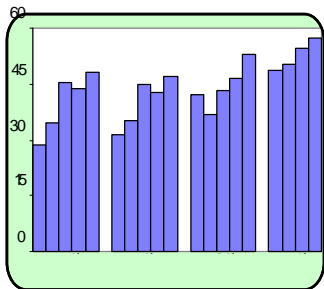
**Table 3.3: GROSS TOURISM RECEIPTS (\$ Million) AND TOURIST ARRIVALS ('000)**

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
<b>Gross Tourism Revenues</b>	139.58	152.58	158.85	43.74	43.68	39.15	49.61	50.94
<b>Tourist Arrivals</b>	88.26	88.96	92.44	25.65	25.79	20.00	24.40	25.37

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

Over the previous quarter, gross tourism revenues had increased by \$1.33 million whilst tourist arrivals recorded a downward trend of 964 arrivals.

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



Labeled on a Quarterly Basis from Left to Right - 2000 - 2004

### 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.

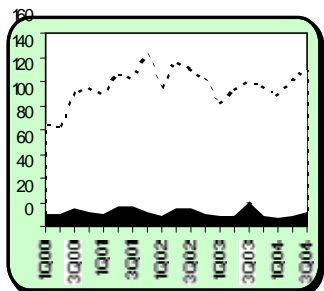
Total remittances stood at \$53.24 million in the reporting quarter, up by \$6.75 million over

Table 3.4: GROSS REMITTANCES (\$ Million)								
	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
<b>Remittances</b>	147.85	188.06	190.48	46.49	57.3	48.13	47.2	53.24
<b>Remittances as % GDP</b>	17.7	21.2	20.2	19.2	23.4	22.9	19.1	20.4

Source: Central Bank of Samoa

the corresponding 2003 period. The increased remittances assisted the strong growth in the Commerce industry (see Section 2) during this period. When compared to 2Q04, private remittances increased by \$6.04 million.

Figure 3.5: Quarterly Trade Balance (\$Million)

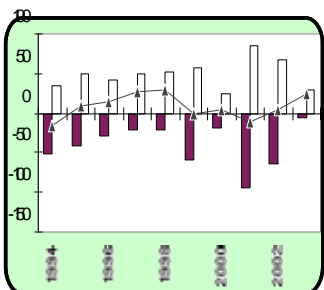


Black - exports  
White - trade balance  
Dotted line - imports

### 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 3.6: Annual Overall Balance (\$ Million)



-▲- Overall Balance  
□ Capital Account  
■ Current Account

The trade deficit valued at \$108.20 million in 3Q04, expanded by \$25.81 million from the same period of 2003. Compared to the previous quarter, the trade deficit increased by \$2.27 million.

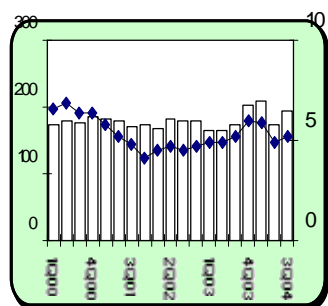
Net services and income estimated at \$37.78 million and net transfers of \$45.86 million led to a current account deficit of \$24.57 million in the reviewing quarter. The comparison of the 3Q04 current account balance to the comparable 2003 period showed a decline of \$32.42 million from a current account surplus of \$7.85 million in 3Q03. Compared to 2Q04, net services had increased by \$1.00 million whilst net transfers decreased by \$4.58 million resulting in an increase of \$5.85 million in the current account deficit in 3Q04 over 2Q04.

**Table 3.5: COMPARATIVE TRADE DATA 2001–2004 (\$ Million)**

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
1. EXPORTS (fob)	52.56	46.29	44.26	18.52	8.45	6.02	7.84	10.61
2. IMPORTS (cif)	448.80	454.23	406.96	100.91	108.35	102.23	113.78	118.81
<b>3. TRADE BALANCE</b>	<b>-396.24</b>	<b>-407.94</b>	<b>-362.7</b>	<b>-82.39</b>	<b>-99.90</b>	<b>-96.21</b>	<b>-105.94</b>	<b>-108.20</b>
4. NET SERVICES	152.9	155.5	167.21	43.75	46.90	24.33	36.78	37.78
5. NET TRANSFERS	147.85	188.06	190.48	46.49	57.30	55.86	50.44	45.86
<b>6. CURRENT ACCOUNT BALANCE</b>	<b>-95.49</b>	<b>-64.38</b>	<b>-5.00</b>	<b>7.85</b>	<b>4.30</b>	<b>-16.02</b>	<b>-18.72</b>	<b>-24.56</b>
<b>7. CAPITAL ACCOUNT (Net)</b>	<b>84.36</b>	<b>68.41</b>	<b>30.35</b>	<b>0.34</b>	<b>26.26</b>	<b>16.93</b>	<b>-14.27</b>	<b>45.72</b>
<b>8. OVERALL BALANCE (Change in NFA)</b>	<b>-11.13</b>	<b>4.03</b>	<b>25.35</b>	<b>8.19</b>	<b>30.56</b>	<b>0.91</b>	<b>-32.99</b>	<b>21.16</b>
9. TRADE BALANCE AS % GDP	-47.5	-46.1	-38.4	-34.1	-40.8	-39.2	-42.9	-41.5
10. CURRENT ACCOUNT BALANCE AS % GDP	-11.4	-7.3	-0.5	32	1.8	-6.5	-8.0	-9.4

#### 4. FOREIGN EXCHANGE RESERVES

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



NFA - Left Hand Axis  
Import Cover - Right Hand Axis

□ Net Foreign Assets  
—◆— Month Import Cover

*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.*

*Foreign exchange reserves amounted to \$193.28 million at end September 2004, up by \$19.63 million from end September 2003. This rise was largely supported by an increase of \$45.77 million in the Central Bank's foreign holdings whilst Ministry of Finance and Commercial Bank holdings recorded downward trends of \$10.40 million and \$15.74 million respectively.*

*Over the previous quarter, foreign exchange reserves had increased by \$21.15 million. This increase was strongly underpinned by a rise of \$21.28 million in the Central Bank's foreign holdings.*

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

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
<b>Net Foreign Assets</b>	174.83	178.86	204.21	173.65	204.21	205.12	172.13	193.28
<b>Import Cover</b>	4.7	4.7	6.0	5.2	6.0	5.9	4.9	5.2
<b>Source:</b> Central Bank of Samoa								

*Net foreign assets were sufficient to cover 5.2 months of imports at end September 2004. At*



## 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.

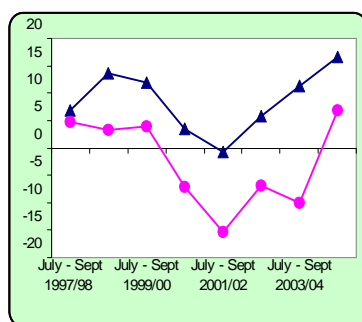
The Tala weakened at end September 2004 against the NZD (6.6%), AUD (0.5%) and EURO (0.2%) whilst it strengthened against the USD (6.5%), FJD (1.2%) and YEN (5.1%) over end September 2003.

	2003		2004			% Appreciation(+)/Depreciation(-) of TALA between Sep 04 and	
	Sep	Dec	Mar	Jun	Sep	Sep 03	Jun 04
<b>USD</b>	0.3393	0.3600	0.3624	0.3513	0.3613	6.5	2.8
<b>NZD</b>	0.5707	0.5469	0.5447	0.5521	0.5329	-6.6	-3.5
<b>AUD</b>	0.4988	0.4756	0.4749	0.5028	0.4964	-0.5	-1.3
<b>EURO</b>	0.2912	0.2866	0.2950	0.2878	0.2905	-0.2	0.9
<b>FJD</b>	0.6252	0.6112	0.6241	0.6317	0.6327	1.2	0.2
<b>YEN</b>	37.8330	38.270	37.8300	38.2462	39.7471	5.1	3.9

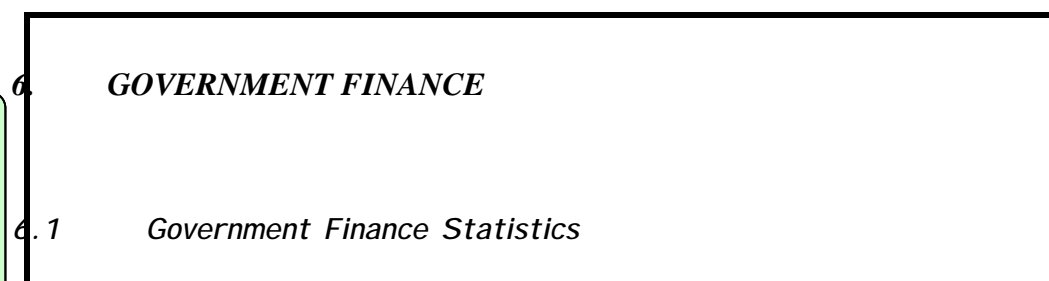
**Source:** Central Bank of Samoa

Over the previous quarter, the Tala had increased in value against the USD (2.8%), EURO (0.9%), FJD (0.2%) and YEN (3.9%) whilst depreciated against the NZD (3.5%) and AUD (1.3%).

Figure 6.1: Overall and Current Balance: July-Sept period (\$ Million)



—●— Overall Balance  
—▲— Current Balance

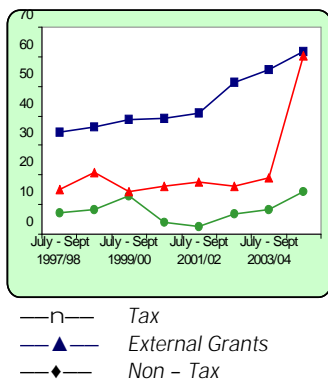


The basis for calculating Government Finance Statistics (GFS) is set by the IMF to provide a consistent framework for inter-country comparisons of budget/fiscal performance. GFS data differs from the budget appropriation data primarily as a result of the method of treating: i) departmental enterprise revenue and expenditure, ii) Treasury advances and repayments, for which only net figures are included in

The outturn for the first three months of the financial year showed an overall surplus of \$6.91 million and a current surplus of \$16.55 million. The overall balance recorded a significant improvement of 168.1% when compared to the outturn of the first three months of FY 2003/04. This improvement was largely assisted by the huge increase in external grants up by 219.2% over the July-Sept 2003 level. The current balance was also higher by 44.9% when compared to the comparable period in FY 2003/04. This was a result of increased revenue collection offsetting the increase in current expenditure in the July-Sept 2004 period over July-Sept 2003. Both the current and overall balances in the first three months of FY 2004/05 were higher than pro-rata estimates by \$7.62 million and \$9.04 million respectively. This favorable performance was attributed mainly to increased revenue and external grants during this period.

Figure 6.1 shows the overall and current balances for the first quarter of the current and last seven financial years. As shown, the overall balance in July-Sept 2004 had improved significantly, showing a surplus for the first time in five years.

Figure 6.2: Revenue by Type:  
July - Sept period (\$ Million)

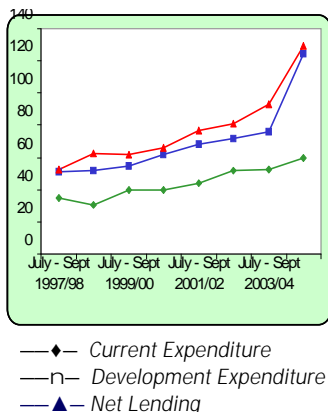


### Revenue

Total revenue and grants, comprised of Tax and Non-Tax and External Grants, collected \$136.25 million in the first quarter of FY 2004/05. Compared to the budgeted pro rata level, total revenue and grants were higher by \$8.91 million and represented an increase of 64.5% over the first quarter of FY 2003/04.

Total revenue collected of \$75.90 million in the first three months of FY 2004/05 comprised of \$61.57 million in tax and \$14.33 million in non-tax revenue. Total revenue was 13.3% above pro-rata estimates and 18.8% higher than the same period of the previous year. Tax revenue in the first three months of FY 2004/05 was above the pro rata estimates by \$1.70 million or 2.8%. The higher than pro rata level was mainly driven by income tax, import VAGST, import excise and stamp duty which were higher by 2.7%, 8.7%, 21.7% and 37.8% respectively. These offset domestic VAGST and import duty, which were below pro rata estimates for the period. Non tax revenue was also higher than pro rata estimates by \$7.20 million and was 76.5% higher than the same quarter of the previous financial year.

Figure 6.3: Expenditure by  
Type: July - Sept period  
(\$ Million)



Grants of \$60.35 million were on par with pro rata estimates and was \$41.44 million higher than the July-Sept 2003 level. The high level of external grants reflected the on-going grant funded projects, namely facilities for the 2007 South Pacific Games, the Rural Water Supply Project and the Police Institutional Strengthening Project. This was also reflected in the strong growth in construction activities (see Section 2) during this period.

Figure 6.2 illustrates the continued positive trend in tax revenue in the July-Sept period since FY 2002/03 with an annual average increase of approximately 14.7%.

### Expenditure

Total Expenditure and Net Lending in the first three months of FY 2004/05 of \$129.34 million were on par with pro rata estimates.

(181.5%) when compared to the same period of the previous year. The huge increase in development expenditure coincides with the increase in grants mentioned above, for the on-going grant funded projects such as the 2007 SPG facilities, Rural Water Supply Project and Police ISP which was reflected also in the strong growth in construction activities.

Net lending of \$4.67 million in the first three months of FY 2004/05 was \$1.88 million (or 28.7%) below the pro rata estimate. The drop in net lending was a result of slow disbursement in capital injections compared to budget appropriations.

Figure 6.4: Government Position with the Banking System: July – Sept period (\$ Million)

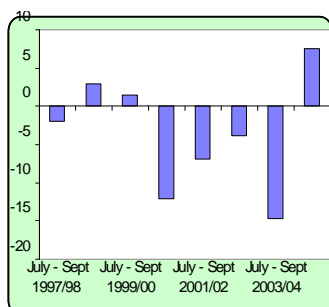


Figure 6.3 illustrates the three components of expenditure for the July-Sept period since FY 1997/98. As shown, current expenditure had increased steadily at a conservative rate of 12% since 1998/99.

#### Position with the Financial System

Government's financial position looks promising in the first three months of the current financial year. As shown by Figure 6.4, this is the first time in 5 years government has increased its position with the banking system in the July-Sept period. The additional credit of \$7.59 million deposited by government in the banking system reflected improved revenue collection in the first quarter of FY 2004/05 as well as delayed disbursements of capital injections. This will allow ample credit for the private sector leading into Christmas.

**Table 6.1: GOVERNMENT FINANCE 2001/02– September 04<sup>a</sup> (\$ Million)**

	Actual			Budget	Actuals		
	01/02	02/03	03/04	04/05	Jul-Sep03	Apr-Jun04	Jul-Sep04
<b>Revenues and Grants</b>	<b>290.80</b>	<b>303.53</b>	<b>317.7</b>	<b>509.36</b>	<b>74.0</b>	<b>84.89</b>	<b>82.8</b>
Revenues	198.67	229.37	246.52	267.98	57.9	64.53	63.9
External Grants	92.13	74.17	71.16	241.38	16.1	19.95	18.9
<b>Expenditure</b>	<b>308.56</b>	<b>309.07</b>	<b>326.57</b>	<b>517.89</b>	<b>80.8</b>	<b>83.98</b>	<b>93.0</b>
Current <sup>b</sup>	183.25	202.19	204.49	232.24	52.0	51.91	52.5
Development <sup>c</sup>	104.21	86.89	86.62	259.48	20.0	24.47	23.2
Other (capital & net lending)	21.10	19.99	35.46	26.17	8.8	7.59	17.3
<b>Current Balance</b>	<b>15.42</b>	<b>27.17</b>	<b>42.03</b>	<b>35.74</b>	<b>5.9</b>	<b>12.62</b>	<b>11.4</b>
<b>Overall Balance</b>	<b>-17.76</b>	<b>-5.54</b>	<b>-8.88</b>	<b>-8.53</b>	<b>-6.8</b>	<b>0.51</b>	<b>-10.2</b>
<b>Financing</b>							
Net external borrowing	11.80	4.69	0.25	5.05	-1.1	1.84	-0.7
Domestic	5.96	0.85	8.63	3.48	4.1	-2.35	10.8
<b>Overall Balance as % of GDP</b>	<b>-2.1</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-2.8</b>	<b>0.2</b>	<b>-3.9</b>
<b>Total Expenditure as % of GDP</b>	<b>37.4</b>	<b>35.5</b>	<b>33.8</b>	<b>52.9</b>	<b>33.4</b>	<b>34.03</b>	<b>35.7</b>

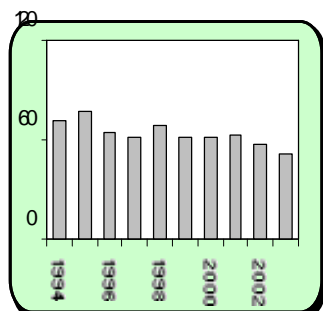
Source: Ministry of Finance estimates

<sup>a/</sup> Provisional Actual 01/02 – 03/04, Budget 2004/05

<sup>b/</sup> Includes domestically financed development plans

<sup>c/</sup> Financed from external grants and loans

Figure 6.5: Overall Government Debt as % of GDP



## 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.*

Official government debt outstanding at end September 2004 stood at \$456.05 million, down by \$16.93 million and \$19.46 million over the same period of 2003 and the previous quarter respectively. This amount is equivalent to approximately 45.7% of GDP.

Multilateral and bilateral loans accounted for 92.4% (\$436.7 million) and 7.6% (\$34.87 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing was \$4.70 million in September 2004, up by \$0.26 million and \$1.00 million over the comparable 2003 quarter and 2Q04 respectively.

Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 44.3% and 2.4% respectively.

**Table 6.2: EXTERNAL DEBT (\$ Million)**

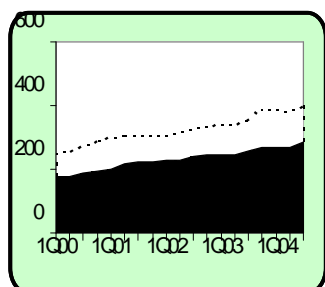
Year End	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
<b>Total External Debt</b>	503.20	n.a	n.a	n.a	n.a	n.a	na	na
Official Government Debt	500.33	481.18	456.10	475.51	456.10	453.11	472.98	456.05
Official Government Debt as % of GDP	62.4	56.8	50.8	51.1	48.3	47.1	48.3	45.7

**Source:** Central Bank of Samoa and Ministry of Finance

## 7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

### 7.1 Money Supply

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



■ Quasi Money  
 □ Narrow Money  
 --- Total 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*

#### Money Supply

Money supply valued at \$400.51 million at end September 2004, was up by \$44.22 million from end September 2003. This was a result of increases in Narrow money (M1) and Quasi money by \$14.99 million and \$29.23 million respectively. The components of Narrow money (M1), Currencies outside banks and Demand deposits had risen by \$2.96 million and \$12.03 million. The rise in Quasi money was strongly underpinned by an increase of \$26.58 million in Time deposits followed by Savings deposits with a rise of \$3.45 million

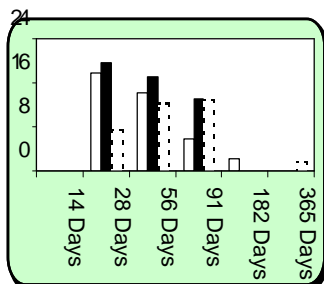
whilst Foreign currency deposits of residents had declined by \$0.80 million.

Over the previous quarter, Money supply had risen by \$16.92 million. This upward trend was again due to increases in Narrow money and Quasi money by \$3.92 million and \$13.00 million respectively. The two components of Narrow money, which are Currencies outside banks and Demand deposits had increased by \$1.32 million and \$2.60 million respectively. The three components of Quasi money, which include Time deposits and Savings deposits had increased by \$10.68 million and \$4.37 million whilst Foreign currency deposits of residents recorded a decline of \$2.05 million.

### Net Foreign Assets and Net Domestic Assets

Net foreign assets and net domestic assets were valued at \$193.28 million and \$207.23 million respectively at end September 2004, up by \$19.63 million and \$24.59 million over end September 2003. The rise in NFA was mainly underpinned by an increase of \$45.77 million in Central Bank's foreign holdings. Credit to the private sector was the leading contributor to the rise in NDA with an increase of \$52.77 million whilst claims on non-financial public enterprises recorded a downward trend of \$8.25 million.

Figure 7.2: Value of Central Bank Securities (\$ Million)



- Issued (2004)
- Matured (2004)
- - Out Standing (end Jun 04)

When compared to the previous quarter, NFA had increased by \$21.15 million whilst NDA dropped by \$4.23 million.

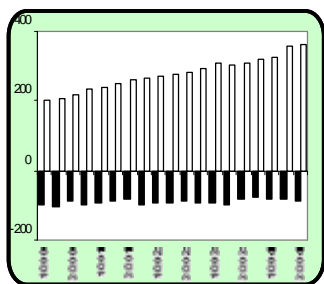
### CBS Securities

The total face value of securities matured stood at \$21.20 million at end September 2004, increased by \$10.70 million over the comparable 2003 quarter whilst recorded a downward trend of \$3.05 million from the previous quarter.

## 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.

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



- Government
- Private Sector

The total amount of domestic credit outstanding in the reporting quarter amounted to \$287.16 million, up by \$38.35 million from the same 2003 quarter. The rise was mainly driven by an increase of \$52.77 million in credit to the private sector, which more than offset the drop in claims on non-financial public enterprises and claims on non-monetary financial institutions of \$8.25 million and the increase in Government deposits of \$6.19 million with the banking system.

Over the previous quarter total domestic credit outstanding however had declined by \$3.19 million. This drop was largely underpinned by the improvement in government's finances of \$7.59 million along with a decline of \$0.84 million in total claims on non-financial public enterprises and non-monetary financial institutions. Credit to the private sector however had increased by \$5.25 million from end June 2004.



**Table 7.1: QUARTERLY MONETARY SURVEY (\$ Million)**

				2003		2004			% Change in Sep 04 over	
	2001	2002	2003	Sep	Dec	Mar	Jun	Sep	Jun 04	Sep 03
<b>Net Foreign Assets</b>	<b>174.83</b>	<b>178.86</b>	<b>204.21</b>	<b>173.65</b>	<b>204.21</b>	<b>205.12</b>	<b>172.13</b>	<b>193.28</b>	<b>12.3</b>	<b>11.3</b>
<b>Net Domestic Assets</b>	<b>132.79</b>	<b>160.18</b>	<b>182.16</b>	<b>182.64</b>	<b>182.16</b>	<b>181.01</b>	<b>211.46</b>	<b>207.23</b>	<b>-2.0</b>	<b>13.5</b>
<b>Money Supply (M2)</b>	<b>307.62</b>	<b>339.04</b>	<b>386.37</b>	<b>356.29</b>	<b>386.37</b>	<b>386.13</b>	<b>383.59</b>	<b>400.51</b>	<b>4.4</b>	<b>12.4</b>
<b>Money (M1)</b>	<b>86.84</b>	<b>95.61</b>	<b>118.21</b>	<b>101.56</b>	<b>118.21</b>	<b>118.26</b>	<b>112.63</b>	<b>116.55</b>	<b>3.5</b>	<b>14.8</b>
Currencies outside banks	29.97	32.57	35.73	26.79	35.73	28.52	28.43	29.75	4.6	11.0
Demand deposit	56.87	63.04	82.48	74.77	82.48	89.74	84.20	86.80	3.1	16.1
<b>Quasi Money</b>	<b>220.78</b>	<b>243.43</b>	<b>268.16</b>	<b>254.73</b>	<b>268.16</b>	<b>267.87</b>	<b>270.96</b>	<b>283.96</b>	<b>4.8</b>	<b>11.5</b>
Savings deposits	40.25	44.87	45.56	50.30	45.56	48.16	49.38	53.75	8.8	6.9
Time deposit	160.54	184.45	206.99	193.45	206.99	205.09	209.35	220.03	5.1	13.7
FCDR <sup>b</sup>	19.99	14.11	15.61	10.98	15.61	14.62	12.23	10.18	-16.8	-7.3
<b>Domestic Credit</b>	<b>186.68</b>	<b>219.02</b>	<b>254.08</b>	<b>248.81</b>	<b>254.08</b>	<b>259.97</b>	<b>290.35</b>	<b>287.16</b>	<b>-1.1</b>	<b>15.4</b>
Government (net)	-96.68	-94.27	-79.44	-83.00	-79.44	-80.30	-81.60	-89.19	9.3	7.5
Private sector	266.59	294.70	318.47	310.99	318.47	325.87	358.51	363.76	1.5	17.0
Claims <sup>a</sup>	17.72	18.59	15.05	20.82	15.05	14.37	13.41	12.57	-6.3	-39.6

Source: Central Bank of Samoa

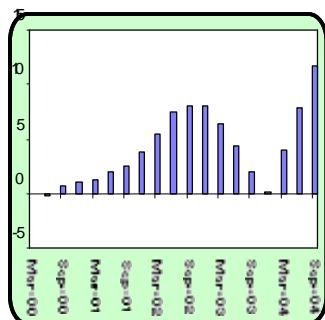
<sup>a/</sup>Include claims on non-financial public enterprises and non-monetary financial institutions

<sup>b/</sup>Foreign Currency Deposits of Residents

## 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%).*

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



The annual average rate of inflation in September 2004 was 11.7 percent, up by 9.8 percentage points from September 2003. The twelve months moving average for the local component of the CPI had increased by 41.1 percentage points over this period. This rise was strongly dominated by increases in local food, transport/communication and miscellaneous prices. The import component of the CPI had risen by 4.4 percentage points due mainly to increases of 4.7, 4.4 and 7.3 percentage points in food, household and transport/communication prices respectively. Food prices had largely driven the increase in all items (local and import components) of the CPI with a rise of 29.2 percentage points followed by transport/communication prices over the comparable 2003 period.

When compared to end June 2004, the annual average rate of inflation had increased by 3.8 percentage points. Both the imported and local component had increased by 0.5 and 2.1 percentage points during this period respectively.

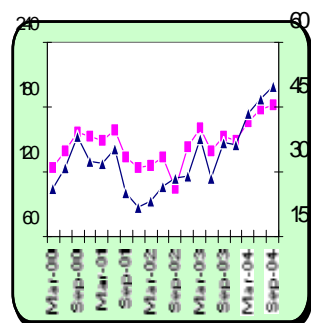
**Table 8.1: ANNUAL INFLATION (%)**

	2001	2002	2003	3Q03	4Q03	1Q04	2Q04	3Q04
All Item Index	3.8	8.1	0.1	1.9	0.1	4.0	7.9	11.7
Imported Good Index	3.7	1.3	-0.1	0.1	-0.1	0.2	1.2	2.7
Local Good Index	4.0	13.8	0.3	3.3	0.3	9.1	20.9	26.8

Source: Ministry of Finance

Figure 8.2: End Quarter Petroleum Prices

## 8.2 Petroleum Prices



USD/bbl – Left Hand Axis  
Sene/ltr – Right Hand Axis

—▲— FOB Price ex Singapore  
—■— Retail Price

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.

The international price (US currency) for petrol, kerosene and diesel at end September 2004 were 49.67 cents, 50.68 cents and 48.80 cents per litre, up by 12.89 cents, 18.26 cents and 17.47 cents from end September 2003 respectively. Domestic retail prices for petrol, kerosene and diesel at end September 2004 were valued at 181.6 sene, 167.0 sene and 179.0 sene per litre, up by 28.5 sene, 39.0 sene and 39.2 sene from the comparable 2003 period respectively.

Table 8.2: END QUARTERLY PETROLEUM PRICES

(retail price in sene/ltr &amp; FOB Price ex Singapore in USD/bbl)

	2003				2004					
	September		December		March		June		September	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
<b>Petrol</b>	153.1	36.78	149.3	36.23	165.5	43.70	177.6	46.99	181.6	49.67
<b>Kerosene</b>	128.0	32.42	131.6	35.24	139.0	38.17	158.0	45.09	167.0	50.68
<b>Diesel</b>	139.8	31.33	142.2	33.54	155.2	38.80	167.2	42.09	179.0	48.80

Source: Ministry of Finance

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