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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 second quarter 2008.

1. EXECUTIVE SUMMARY

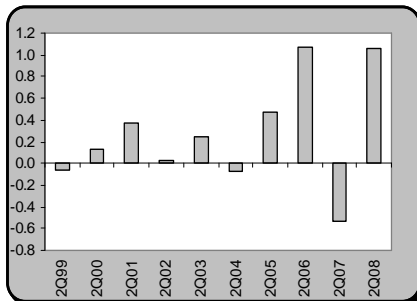
Key Features of Second Quarter 2008 Performance

- Real **GDP** of \$256.84 in 2Q08 grew by 1.9% from the corresponding 2007 period; (see section 2)
- **Employment** declined slightly by 0.3% (70) from June quarter 2007; (see section 3)
- **Export** revenues dropped by 30.8% over the same period last year; (see section 4.1)
- **Imports** declined by 5.8% over the comparable 2007 period; (see section 4.2)
- The **trade deficit** improved by \$5.37 million from the same quarter of 2007; (see section 4.5)
- **Foreign reserves** amounted to \$249.84 million in the reviewing quarter, sufficient to cover 5.1 months of imports; (see section 5)
- The **Tala appreciated** against the USD and depreciated against the Yen, NZD, AUD, EURO and FJD from the corresponding 2007 quarter; (see section 6)
- The **budget outturn** showed an overall deficit of \$46.61 million for FY 2007/08 compared with a surplus of \$15.36 million in the previous FY 2006/07. The current deficit at \$19.44 million compared to a surplus of \$61.61 million in FY 2006/07; (see section 7.1)
- Official **external debt** valued at \$490.01 million or 34.8% of GDP (see section 7.2)
- **Money supply** stood at \$607.57 million in 2Q08, increased by \$65.79 million from end June 2007; (see section 8.1)
- **Domestic credit** outstanding at end June 2008 totalled \$562.97 million, increased by \$60.01 million from the same period of 2007; (see section 8.2)
- The **inflation rate** at end June 2008 stood at 6.2%, increased by 1.3 percentage points from June 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: Hotels and Restaurants Contribution to Economic Growth in the Second Quarter of Each Year (%)



Overview

In the June quarter 2008, gross domestic product was \$256.84 million, an increase of 1.9% from June 2007 level. This rise in the June quarter reflects strong growth in hotels and restaurants followed by other manufacturing.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture activities recorded an increase of 4.0% from June quarter 2007 whilst dropped by 4.7% when compared to March quarter of 2008. According to the Central Bank's survey of the Fugalei market, the overall volume of agricultural supplies registered a surge of 7.3% compared to June 2007 quarter but declined by 17.8% from previous quarter.

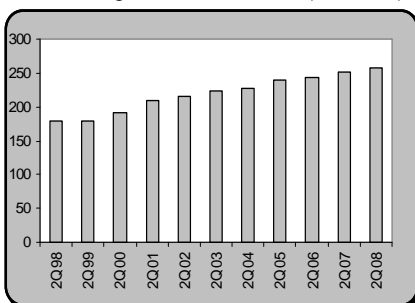
Fishing industry had dropped by 4.5% from the comparable 2007 period. This fall was consistent with the decline of \$2.71 million in the industry's export earnings during this period.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing continued to decline throughout the comparable four June quarters. The industry fell by 4.7% from June quarter of 2007 with a negative contribution of 0.1% to the overall quarterly growth of 1.9%. This unfavourable performance was consistent with the drop of \$0.18 million, \$0.16 million and \$0.04 million in coconut cream, nonu juice and nonu fruit export earnings respectively.

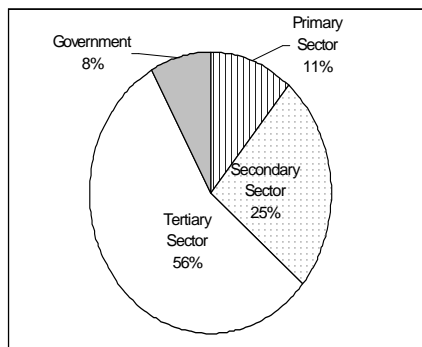
Other Manufacturing registered an upward trend of 7.1% over the same 2007 quarter. This translated into a positive contribution of 0.7% to economic growth of 1.9% and recorded as the second largest contributor throughout this period. The growth in this industry was driven strongly by the increase of 25.5% in other manufacturing excluding Yazaki during this period.

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



The downward trend of 11.4% in **construction** activities from the same period last year was consistent with the completion of major construction works for the South Pacific Games. This was evidenced with a negative contribution of 1.1% to overall growth during the reviewing period compared to the positive contribution of 1.2% to economic growth in June 2007 quarter.

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



Electricity and Water in the reporting quarter had risen by 2.4% from the corresponding period of 2007 and increased by 1.9% over March quarter of 2008. The industry has been growing steadily due to the expansion of services around the island.

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

Commerce continued to maintain as the largest industry accounting for 20.1% of total GDP and the third largest contributor to the overall economic growth. In comparison to the same period last year, the industry rose by 1.9% partly reflected in the rise of 5.0% and 1.8% in tourism earnings and remittances respectively during this period.

Hotels and Restaurants industry recorded a rise of 34.6% compared to the same period of 2007, with a leading contribution of 1.1% to the overall GDP growth. This was reflected in the increase of tourism earnings by 5.0% throughout this period.

Transport and Communication increased by 2.4% over the comparable 2007 period. At this level the industry contributed a share of 0.3% to the overall growth. Transport and Communication was the second largest industry with a share of 12.7% to total GDP. Promoting the use of modern telecommunication services has largely driven the growth in this industry.

Finance and Business Services in the reporting quarter increased by 4.5% from the corresponding 2007 quarter and contributed a share of 0.4% to the overall economic growth. It was the third largest industry with a share of 10.2% of the overall GDP.

Personal and Other Services in the reviewing period dropped by 3.0% from the same 2007 period. This represented a negative contribution of 0.2% to the overall growth, with a share of 5.0% of the total GDP.

Government Sector

Public Administration registered a rise of 3.8% when compared to the same 2007 quarter. This increase contributed a share of 0.3% to the overall growth of 1.9% in the period under review.

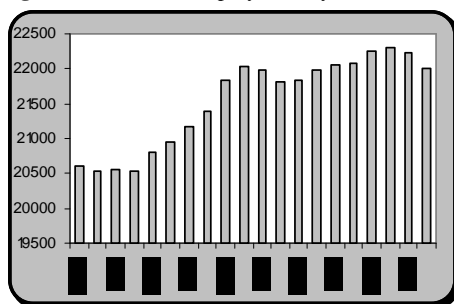
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08	% Change 2Q08 over	
At constant 2002 prices	(\$ Million)								2Q07	1Q08
Agriculture	73.13	68.28	71.77	15.85	19.43	19.64	17.30	16.48	4.0	-4.7
Fishing	48.50	48.33	55.82	13.42	14.76	14.76	13.52	12.81	-4.5	-5.3
Food & Beverages Manufacturing	33.30	31.21	27.84	6.41	6.77	7.20	5.65	6.11	-4.7	8.1
Other Manufacturing	100.00	89.30	106.44	24.50	28.36	28.85	26.02	26.23	7.1	0.8
Construction	84.48	91.46	98.93	23.98	25.26	25.42	22.69	21.24	-11.4	-6.4
Electricity and Water	44.46	46.48	47.28	11.89	12.03	12.04	11.94	12.17	2.4	1.9
Commerce	192.04	202.25	212.09	50.80	53.59	54.79	52.91	51.75	1.9	2.2
Hotels, Restaurant	25.90	32.27	34.32	7.72	9.12	9.12	10.50	10.39	34.6	-1.0
Transport, Communication	126.90	132.04	136.44	31.98	34.52	36.30	34.96	32.75	2.4	-6.3
Public Administration	81.07	81.92	84.20	21.02	21.18	21.33	21.46	21.83	3.8	1.7
Finance & Business Services	94.35	99.09	101.71	25.17	25.56	25.81	26.23	26.30	4.5	0.3
Less: Enterprise share of FISIM	-12.04	-12.27	-12.67	-3.17	-3.20	-3.17	-3.39	-3.41	7.6	0.6
Ownership of Dwellings	35.25	35.96	36.69	9.15	9.19	9.24	9.29	9.33	2.0	0.4
Personal & Other Services	53.43	53.05	53.05	13.25	13.21	13.25	12.86	12.86	-3.0	0.0
Value added 2002 market price	980.78	999.37	1,053.90	251.97	269.80	274.57	261.94	256.84	1.9	-1.9
Implicit price deflator:	117.4	125.1	130.7	131.2	131.9	131.5	132.8	134.3	2.4	1.1
At constant 2002 prices										
Non-monetary	129.87	127.84	126.93	30.58	32.31	32.56	31.18	30.68	0.3	-1.6
Monetary – total	850.91	871.54	926.97	221.39	237.49	242.01	230.77	226.16	2.2	-2.0
Monetary – restricted scope	783.66	814.32	854.51	204.81	218.04	221.83	212.66	209.42	2.3	-1.5
Memo items:										
Nominal GDP (current prices)	1,151.25	1,249.84	1,376.99	330.48	355.93	361.03	347.91	345.01	4.4	-0.8
GDP per capita	6,310	6,915	7,557	n.a	n.a	n.a	n.a	n.a	n.a	n.a

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 total number of formal paid employment stood at 22,011 in June quarter of 2008, declined by 0.3% (70) from the comparable quarter of 2007. This fall was dominated by the decline of 7.8% in the primary industry and 6.9% in the secondary sector whilst tertiary and public administration sectors recorded increases of 1.3% and 2.8% respectively.

	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08	% Change 2Q08 over	
									2Q07	1Q08
Primary	342	409	363	397	381	363	364	366	-7.8	0.5
Secondary	4,975	4,798	4,740	4,793	4,765	4,740	4,648	4,461	-6.9	-4.0
Tertiary	11,749	11,826	12,095	11,922	12,152	12,128	12,143	12,074	1.3	-0.6
Public Administration	4,969	4,948	5,006	4,969	4,963	5,063	5,086	5,110	2.8	0.5
TOTAL EMPLOYMENT	22,035	21,981	22,204	22,081	22,261	22,294	22,241	22,011	-0.3	-1.0

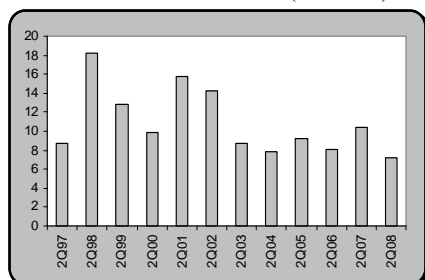
Source: Samoa National Provident Fund

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 Second Quarter of Each Year (\$ Million)



The total value of exports in the second quarter of 2008 stood at \$7.20 million. This represented a drop of \$3.20 million from the same period of 2007. The main contributor to this fall was fish exports, which declined by \$2.70 million, followed by declines in nonu juice (\$0.16 million), other export commodities (\$0.30 million), coconut cream (\$0.18 million) and nonu fruit (\$0.04 million) whilst beer increased by \$0.18 million.

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

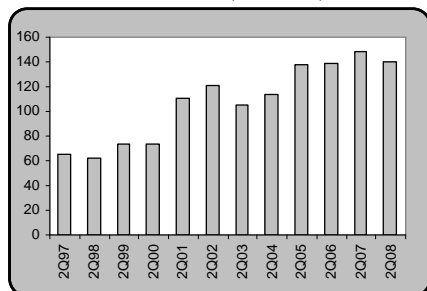
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08	% Share			% Change 2Q08 over	
	(\$ Million)								2Q07	1Q08	2Q08	2Q07	1Q08
Fish	11.58	15.45	20.00	5.81	7.54	5.06	1.05	3.11	30.5	24.9	43.2	-46.5	196.2
Coconut cream	2.28	2.38	2.34	0.73	0.49	0.69	0.47	0.55	8.2	11.2	7.6	-24.7	16.8
Nonu fruit	1.54	0.87	0.70	0.06	0.21	0.15	0.04	0.02	5.4	1.0	0.2	-66.7	-57.5
Nonu juice	8.29	3.95	3.82	1.16	0.91	1.01	0.50	1.00	14.2	11.9	13.9	-13.8	100.4
Beer	4.83	3.48	3.12	0.74	0.64	0.86	0.68	0.92	16.8	16.2	12.8	24.3	34.7
Taro	0.85	0.59	0.62	0.19	0.12	0.14	0.16	0.19	3.4	3.8	2.6	0	18.1
Others	3.12	2.03	5.59	1.71	1.28	1.47	1.31	1.41	21.5	31.1	19.6	-17.5	7.6
TOTAL	32.49	28.75	36.19	10.40	11.19	9.38	4.21	7.20	100.0	100.0	100.0	-30.8	7.4

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 Second Quarter of Each Year (\$ Million)



Imports were valued at \$139.77 million in the reviewing quarter, declined by \$8.56 million from the corresponding 2007 period. All components of imports recorded declines throughout this period. Government imports had dropped by \$5.08 million followed by declines in petroleum imports and non-petroleum private sector imports of \$2.20 million and \$1.28 million respectively. The petroleum import volume (litres) recorded a decline of 29.0% when compared to June 2007 quarter.

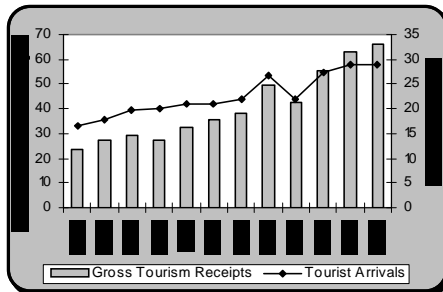
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08	% Share			% Change 2Q08 over	
	(\$ Million)								2Q07	1Q08	2Q08	2Q07	1Q08
Government	4.43	15.67	30.36	9.99	9.32	2.22	4.47	4.91	6.62	1.6	3.5	-50.9	9.8
Petroleum	94.99	114.48	122.51	32.22	35.73	27.10	42.36	30.02	20.6	19.6	21.5	-6.8	-29.1
Other Product	408.30	477.66	440.77	106.12	128.39	109.11	95.00	104.84	72.8	78.8	75.0	-1.2	10.4
TOTAL	507.71	607.81	593.64	148.33	173.44	138.43	141.83	139.77	100.0	100.0	100.0	-5.77	-1.5

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



Gross tourism receipts stood at \$66.15 million in the reporting quarter, rising by \$3.13 million from the comparable 2007 period, whilst the number of tourist arrivals declined by 70.

Tourists on holiday had contributed the highest share of 44.3% to the total number of arrivals followed by visiting friends and relatives category (41.0%) and business and others with a contribution of 14.7%. Most of the tourists are from New Zealand (42.3%), American Samoa (21.7%), Australia (17.2%), USA (6.3%), other countries (7.8%), Other Pacific Island countries (2.8%) and Fiji (1.9%).

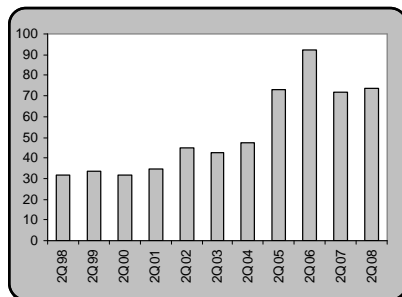
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
Gross Tourism Revenues	207.37	226.20	279.74	63.02	80.97	80.29	57.33	66.15
Visitor Arrivals	101,804	115,882	122,250	29,049	34,231	34,307	23,954	28,979

Source: Central Bank of Samoa, Ministry of Finance & 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.

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



Remittances for June quarter showed an increase of \$1.30 million in comparison to the same period of 2007. Australia had the highest share to this rise with an increase of \$4.47 million followed by the United States and New Zealand with upward trends of \$3.12 million and \$1.36 million respectively. In terms of recipients, funds for Samoan individuals category contributed mainly with a rise of \$3.27 million to the overall increase of \$1.30 million throughout this period. Offsetting this increase are recorded declines of \$1.69 million and \$0.46 million in funds for churches and non government schools and funds for charitable organizations respectively.

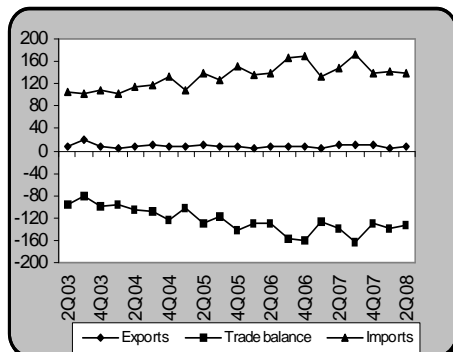
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
Remittances (\$ Million)	296.1	297.2	313.60	72.07	87.49	84.16	70.38	73.37
Remittances as % GDP	25.7	23.8	22.7	21.8	24.6	23.3	20.2	21.3

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** improved by \$5.37 million from the comparable quarter of 2007 to stand at \$132.57 million in the reviewing period. This was primarily due to a decline in imports by \$8.56 million.

The **Current account deficit** expanded by \$10.71 million from the second quarter of 2007. This increase was driven mainly by the drop of \$18.62 million in **net services and income** whilst **net current transfers** increased by \$2.54 million.

The decline in **net services and income** was mainly driven by the expansion of net decline in **net income** by \$13.76 million followed by a reduction of \$4.88 million in net services. The deteriorating net income was strongly contributed by the increase of net decline in net compensation of employees by \$6.89 million and the turnaround of net investment income from a net increase of \$2.01 million in June 2007 quarter to a net decline of \$4.85 million in June 2008 quarter. The drop in the **net services** component was strongly caused by the decline of \$7.07 million in net other services and the expansion of the net decline in net transport by \$2.62 million throughout this period.

The **capital account** surplus amounted to \$17.30 million in the reporting quarter, decreased by \$8.92 million from 2Q07. The **overall balance of payments surplus** stood at \$2.54 million, a decline of \$19.63 million from the same 2007 period. This drop was contributed largely by the decline of \$18.62 million in net services and income during this period.

	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
1. EXPORTS (fob)	32.50	28.75	36.19	10.40	11.19	9.38	4.21	7.20
2. IMPORTS (fob)	507.71	607.81	593.64	148.33	173.44	138.43	141.83	139.77
3. TRADE BALANCE	-475.21	-579.06	-557.45	-137.94	-162.25	-129.05	-137.63	-132.57
4. NET SERVICES AND INCOME	113.04	180.87	222.31	64.83	47.33	62.13	43.41	46.21
5. NET CURRENT TRANSFERS	289.44	265.73	289.72	69.06	81.42	76.83	67.51	71.60
6. CURRENT ACCOUNT BALANCE	-72.73	-132.46	-45.42	-4.05	-33.50	9.91	-26.71	-14.76
7. CAPITAL ACCOUNT (Net)	111.07	110.54	75.47	26.22	14.30	16.27	16.96	17.30
8. OVERALL BALANCE	38.34	-21.92	30.05	22.17	-19.20	26.18	-9.75	2.54
9. TRADE BALANCE AS % GDP	-41.3	-46.3	-40.5	-41.7	-45.6	-35.7	-39.6	-38.4
10. CURRENT ACCOUNT BALANCE AS % GDP	-6.3	-10.6	-3.3	-1.2	-9.4	2.7	-7.7	-4.3

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 stood at \$249.84 million in June 2008, increased by \$47.23 million over the corresponding 2007 period. This improvement was mainly dominated by the increase of \$41.38 million in Central Bank foreign holdings followed by Commercial Banks (\$18.53 million) and the Ministry of Finance (\$5.85 million) holdings. The increase in foreign reserves as well as the decline in imports throughout this period led to an increase in foreign assets import coverage to 5.1 months. At this level, it was higher than the 4.1 months coverage at end June 2007.

	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
Gross Official Foreign Reserves	208.16	199.32	226.06	202.61	206.87	226.06	246.63	249.84
Import Cover	5.1	4.0	4.7	4.1	4.1	4.7	5.0	5.1

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 June 2008, the Tala had declined in value against all foreign currencies, with the exception of the USD, from June 2007 quarter.

	2007			2008		% Appreciation(+)/Depreciation (-) of TALA between Jun 08 and	
	Jun	Sep	Dec	Mar	Jun	Jun 07	Mar 08
USD	0.3825	0.3843	0.3919	0.3981	0.3996	4.5	0.4
NZD	0.516	0.5181	0.513	0.504	0.5153	-0.1	2.2
AUD	0.4602	0.4538	0.4413	0.4394	0.4233	-8.0	-3.7
EURO	0.2838	0.2796	0.2704	0.2656	0.2557	-9.9	-3.7
FJD	0.6171	0.6146	0.6077	0.604	0.5973	-3.2	-1.1
YEN	46.18	45.25	44.29	41.87	41.84	-9.4	-0.1

Source: Central Bank of Samoa

7. GOVERNMENT FINANCE

7.1 Government Finance Statistics

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

Figure 7.1.1: Overall and Current Balance
Jul-Jun 2001/02-2007/08 (\$ Million)

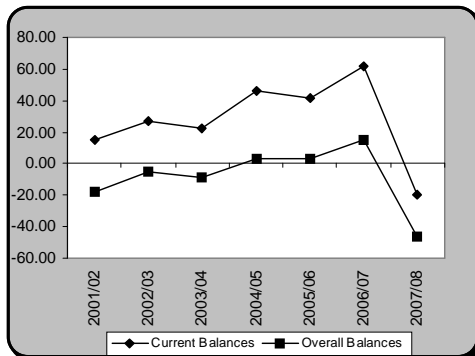
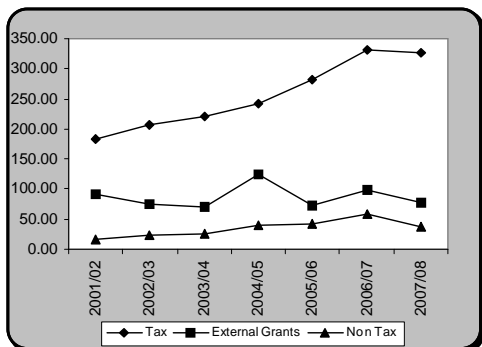


Figure 7.1.2: Revenue by Type, Jul-Jun 2001/02-2007/08 (\$ Million)



Overall Performance

The fiscal year 2007/2008 anticipated an overall deficit of \$14.53 million (1.0% of GDP) and a current surplus of \$20.87 million (1.5% of GDP).

Throughout the reviewing period, the actual outturn registered an overall balance deficit of \$46.61 million, \$32.08 million above budget estimate and equivalent to 3.3% of GDP. This result is consistent with the SDS target of no more than 3.5% of GDP. At the current level, a deficit of \$19.44 million or 1.4% of GDP was recorded, which represented a \$40.31 million turnaround from the budget surplus estimate of \$20.87 million for the financial year. Both balances had turned around from overall and current surpluses of \$15.36 million and \$61.61 million in 2006/07 to overall and current deficits of \$46.61 million and \$19.44 million respectively in 2007/08.

The expansion of the overall deficit (outturn) was strongly caused by the shortfall of \$58.42 million in total revenue, which is more than double the reduction in total expenditure (\$26.30 million) when compared to the budget estimates for the whole fiscal year (2007/08). The increase in revenue anticipated for the period was a result of improvement in tax compliance over the years. However this wasn't achieved in the current fiscal year partly reflected in the overall decline of imports by \$23.13 million when compared to the previous financial year.

Figure 7.1.1 depicts downward trends from 2006/07 to 2007/08 for both current and overall balances, with the current balance in deficit for the first time in seven fiscal years.

Revenue

Total Revenue and Grants collected throughout the 2007/08 fiscal year amounted to \$441.10 million, a shortfall of 13.2% (\$58.42 million) when compared to the budgeted amount. Tax revenue and Non-tax revenue both have driven this decline.

Tax Revenue stood at \$325.49 million, below the budget estimate of \$358.66 million by \$33.17 million or 9.3%. This shortfall was strongly underpinned by net declines in the major revenue components such as Taxes on Income (\$3.54 million), Taxes on International trade (\$18.87 million) and Taxes on Goods and Services (\$11.2 million) whilst Other Taxes category recorded a net increase of \$0.44 million.

Non-tax revenue amounted to \$38.68 million, \$25.25 million or 40.0% below the budget estimate. The unfavourable outcome was a result of a shortfall of revenue expected to collect from Samoa International Finance Authority (\$5.00 million), Central Bank (\$3.00 million) and SOE's (\$2.00 million) during the year somewhat due to

the maturity dates of their investment portfolio. Also, the \$16.70 million expected to be collected from the South Pacific Games, only fetched \$2.50 million.

Figure 7.1.2 illustrates revenue performance over the last seven fiscal years. The graph shows an upward trend in the tax revenue over the past six years and then declined in 2007/08 financial year.

Expenditure

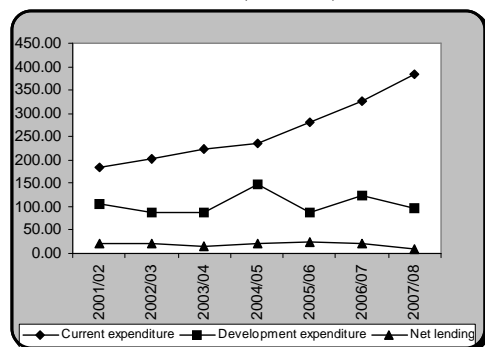
Total expenditure and Net Lending for fiscal year 2007/08 stood at \$487.70 million. At this level it was 5.1% below the budget estimate and 3.3% higher when compared to the previous financial year results.

Current expenditure at \$383.61 million, \$18.11 million (4.5%) lower than the budget estimate, reflecting the decline of expenditure for the general services (6.0%), social services (5.0%) and economic services (3.3%).

Development expenditure was \$96.24 million, \$11.94 million below the pro rata for fiscal year 2007/08. This outcome was mainly due to some of the loan funded development projects being delayed.

Net Lending was \$3.70 million above the budget estimate.

Figure 7.1.3: Expenditure by Type, Jul-Jun 2001/02-2007/08 (\$ Million)



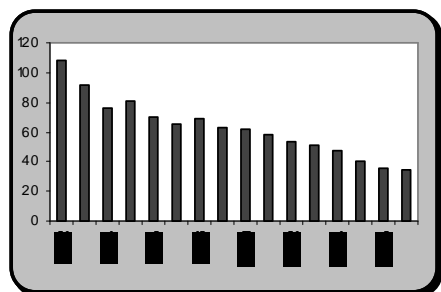
	Provisional Actual			Budget	Budget
	2005/06	2006/07	2007/08	2007/08	2008/09
Revenues and Grants	387.19	487.6	441.10	499.52	510.63
Revenues	315.37	389.2	364.17	422.59	399.94
External Grants	71.82	98.5	76.93	76.93	110.69
Expenditure	391.72	472.3	487.70	514.05	594.80
Current ^b	281.89	327.6	383.61	401.72	378.35
Development ^c	86.11	123.7	96.24	108.18	216.09
Other (capital & net lending)	23.72	21.1	7.85	4.15	0.36
Current Balance	33.48	61.6	-19.44	20.87	21.59
Overall Balance	-4.53	15.4	-46.61	-14.53	-84.17
Financing					
Net external borrowing	6.18	7.6	11.78	17.71	91.49
Domestic	-1.65	-22.9	22.91	-3.19	-7.33
Overall Balance as % of GDP	-0.5	1.2	-3.3	-1.04	-5.79
Total Expenditure as % of GDP	39.35	36.0	34.6	36.8	40.9

Source: Samoa Bureau of Statistics estimates
^a Provisional Actual 2005/06 – 2007/08, Budget 2007/08 and 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 June 2008 stood at \$490.01 million, equivalent to 34.8% of GDP.

Multilateral and bilateral loans accounted for 94.0% (\$459.44 million) and 6.0% (\$30.57 million) of disbursed outstanding debt, respectively.

Total debt servicing recorded \$5.32 million in June 2008, increased by

\$1.12 million from June 2007 period, equivalent to 6.9% of exports of goods and services.

Table 7.2.1: EXTERNAL DEBT

Year End	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
Official External Debt (\$ Million)	461.59	448.38	477.15	431.39	450.45	477.15	481.86	490.01
Official External Debt as % of GDP	44.8	35.8	34.8	32.9	34.3	34.8	34.8	34.8

Source: Ministry of Finance

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

Year End	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
Total Debt Servicing (\$ Million)	16.72	17.82	20.12	4.20	4.62	5.99	5.49	5.32
As % of Merchandise exports plus services exports	6.8	6.4	6.4	5.5	5.5	6.7	8.3	6.9

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)

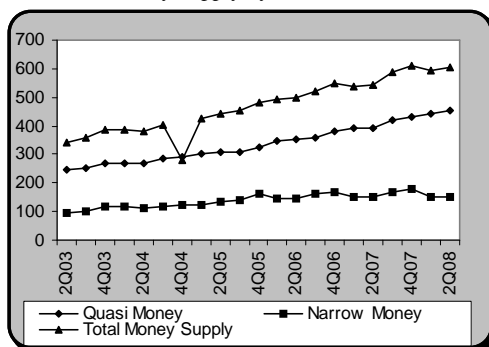
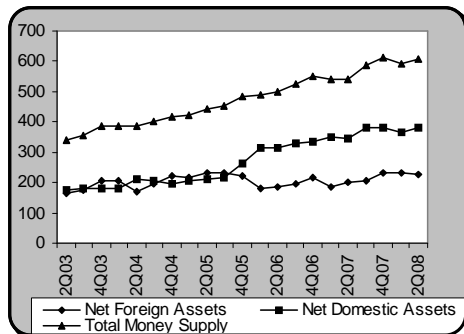


Figure 8.1.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply stood at \$607.57 million in June 2008, increased by \$65.79 million from the comparable 2007 period. This growth was fuelled largely by Quasi Money with an increase of \$63.92 million followed by a rise of \$1.87 million in Narrow Money. Time deposits was the main driver for the rise in quasi money with an increase of \$50.23 million followed by increases of \$11.12 million and \$2.57 million in foreign currency deposits of residents and savings deposits respectively. For the elements of narrow money, demand deposits showed a rise of \$3.93 million whilst currency outside banks declined by \$2.06 million.

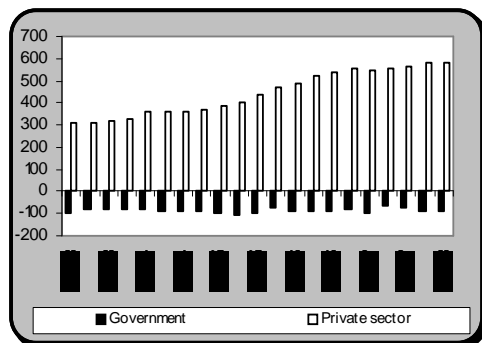
Net Foreign Assets and Net Domestic Assets

Net foreign assets amounted to \$227.82 million whilst net domestic assets valued at \$379.75 million in 2Q08. Both NFA and NDA recorded increases of \$28.70 million and \$37.09 million respectively from June 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)



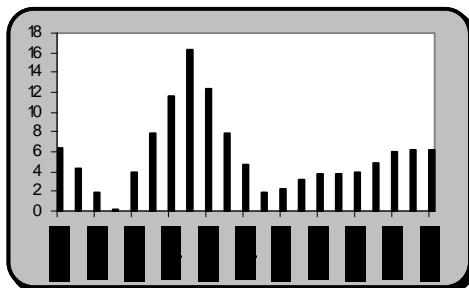
Domestic credit outstanding amounted to \$562.97 at end June 2008, an increase of \$60.01 million over June 2007. This rise was strongly influenced by a rise of \$35.79 million in credit to the private sector followed by an increase of \$12.30 million in claims on non-financial public enterprises and non-monetary financial institutions. Government dropped its deposits with the banking system by \$11.92 million to stand at \$88.70 million in the reviewing quarter.

9. INFLATION

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

9.1 Consumer Price Index

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



Inflation rate stood at 6.2% in June 2008, increased by 1.3 percentage point from the same 2007 period. The average local component of the CPI rose by 0.9 percentage points over this period. The main driver for this rise was miscellaneous group, which soared by 4.6 percentage points followed by increases of 3.5, 2.4 and 0.1 percentage points in house/household, transport/communication and local food categories respectively. The import component of the CPI increased by 2 percentage points due mainly to the rise in transport/communication and house/household by 13.3 and 5.5 percentage points respectively.

In all items of the CPI, transport/communication category had driven the growth throughout this period with an increase of 5.3 percentage points, followed by house/household with a rise of 4.5 percentage points. These results showed that the rise was driven by high oil prices which filtered through to high transport/communication costs and to high electricity costs for household consumption.

Table 9.1.1: ANNUAL INFLATION (%)

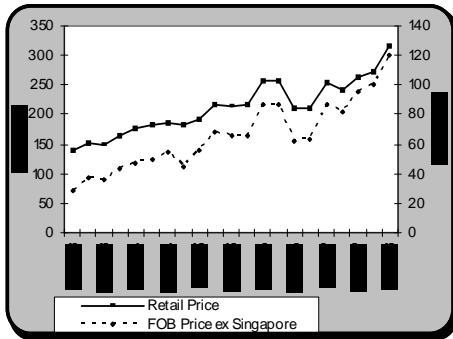
	2005	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
All Item Index	1.8	3.8	6.1	4.9	6.0	6.1	6.2	6.2
Imported Good Index	2.2	4.5	6.9	6.0	7.2	6.9	7.4	8.0
Local Good Index	1.6	3.1	5.4	3.8	4.9	5.4	5.3	4.7

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



In June 2008, international prices (US currency) for petrol, kerosene and diesel were 120.35 cents, 138.67 cents and 128.91 cents per liter respectively. Petrol increased by 33.70 cents, kerosene by 56.84 cents and diesel by 47.60 cents from the corresponding 2007 period.

Domestic retail prices at end June 2008 for petrol at 315.2 sene increased by 60.10 sene, kerosene at 336.90 sene has risen by 110.40 sene and diesel which stood at 356.10 sene, a surge of 112.60 sene over June 2007.

Table 9.2.1: END QUARTERLY PETROLEUM PRICES
(retail price in sene/ltr & FOB Price ex Singapore in USD/bbl)

	2007						2008			
	June		September		December		March		June	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	255.1	86.65	240.6	81.31	262.5	95.89	272.2	99.77	315.2	120.35
Kerosene	226.5	81.83	231.0	87.00	271.8	106.13	261.5	105.31	336.9	138.67
Diesel	243.5	81.31	247.0	85.52	260.8	102.06	280.2	105.16	356.1	128.91

Source: Ministry of Finance