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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 second quarter 2005.

1. EXECUTIVE SUMMARY

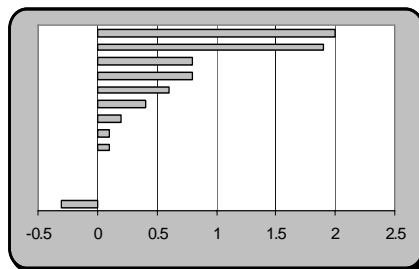
Key Features of Second Quarter 2005 Performance

- ✓ Real **GDP** of \$242.73 million in 2Q05 grew by 6.5% over the comparable 2004 period; (see section 2)
- ✓ **Export** revenues valued at \$9.29 million in 2Q05, increased by 18.3% largely as a result of increases in nonu juice, beer and fish exports over the comparable 2004 period; (see section 3.1)
- ✓ **Imports** at \$168.47 million in 2Q05 was up by 42.5% over the comparable 2004 period; (see section 3.2)
- ✓ As a result, the **trade deficit** had increased by \$53.25 million to stand at \$159.19 million in 2Q05 over the same 2004 period; (see section 3.5)
- ✓ **Foreign reserves** at end June 2005 stood at \$231.59 million, equivalent to 5.9 months of import cover. This compares with \$172.13 million and 4.9 months import cover at end June 2004; (see section 4)
- ✓ The **budget out-turn** showed an overall surplus of \$3.06 million for financial year 2004/05, an improvement of \$11.94 million from the 2003/04 out-turn. The current surplus of \$46.46 million achieved in 2004/05 was more than the \$42.03 million surplus recorded in the previous financial year; (see section 6.1)
- ✓ Official **government debt** outstanding at end 2Q05 stood at \$455.65 million; down by \$17.33 million over the corresponding 2004 period; (see section 6.2)
- ✓ **Money supply** valued at \$441.22 million at end June 2005, was up by \$57.63 million over the comparable 2004 quarter; (see section 7.1)
- ✓ **Domestic credit** expanded by \$2.42 million over the year to stand at \$292.77 million in 2Q05; (see section 7.2)
- ✓ The annual average **inflation rate** at end June 2005 stood at 7.8 percent, 0.1 percentage points lower than the rate at end June 2004; (see section 8)

2. GROSS DOMESTIC PRODUCT

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

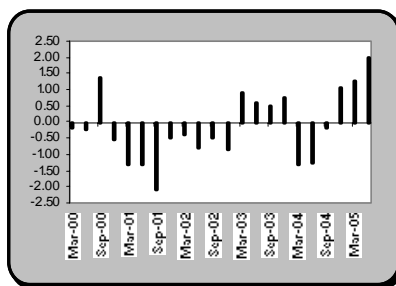
Figure 2.1: Contribution to Change in Total Real GDP 2Q05 (%)



Labeled from top to bottom

Agriculture:	2.0
Transport, Communication:	1.9
Commerce:	0.8
Finance and Business services:	0.8
Construction:	0.6
Public Administration:	0.4
Fishing:	0.2
Hotels & Restaurants:	0.1
Ownership of Dwellings:	0.1
Electricity & Water:	0.0
Personal and other services:	0.0
Food & Manufacturing:	0.0
Other manufacturing:	-0.3

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



Overview

The year to June 2005 saw a continuation of strong growth from the previous year with real Gross Domestic Product (GDP) increasing by 5.6%. Nominal GDP valued at \$1,081.98 million registered a growth of 9.0% over the previous year. The construction industry continued to be the driving force behind the outstanding performance with an increase of 29.0% in nominal terms at year end June 2005. All other industries recorded positive contributions except for Food and Beverage Manufacturing and Other Manufacturing which declined by 2.9% and 1.2% respectively.

For the reviewing quarter (Apr-Jun 2005), the real value of aggregate GDP was estimated at \$242.73 million, 6.5% above Apr-Jun 2004 but was 0.3% less than the Jan-Mar 2005 period. The higher growth over the comparable 2004 quarter was driven mainly by the agriculture industry with an increase of 34.5% due largely to the recovery of the sector from cyclone Heta. All other industries had significant contributions with the exception of Other Manufacturing which declined by 2.6% over this period.

Monetary sector production in 2Q05 had increased by 8.1% over the same 2004 period and accounted for 85.3% of total production. The real aggregate output of the non-monetary sector in 2Q05 recorded an increase of 10.7% over the corresponding 2004 period.

Industry Performance

Primary Sector: Agriculture and Fisheries

The **Primary Sector** accounted for 12.8% of real GDP with a total production of \$31.06 million in the reporting quarter. Agriculture contributed 56.6% whilst fishing accounted for 43.4% of this amount. Compared to 2Q04, the primary sector had increased by 18.8% due largely to a huge surge in agricultural production of 34.5% and a comeback in fishing of 3.2%.

Agricultural production in 2Q05 was estimated at \$17.59 million in constant terms, up by 34.5% over the same 2004 period and contributed 2.0 percentage points to the overall real growth in the quarter. The strong

performance by the industry reflected recovery from cyclone Heta and assisted by successful efforts by the farmers to diversify and promote niche agricultural products.

The **Fishing** industry generated a total of \$13.48 million in constant 2002 prices from April to June 2005, an increase of 3.1% from the corresponding 2004 period and contributed 0.2% to overall growth in 2Q05. This was the first positive contribution since the Dec quarter 2001. It is encouraging to note that this industry once a major player in the economy is slowly starting to pick up again.

Secondary Sector: Manufacturing, Construction, Electricity & Water

The **Secondary Sector** was estimated at \$63.54 million and contributed 26.2% to overall real GDP. Of this total more than 40% was represented by Other Manufacturing followed by Construction with a contribution of 31.2%.

The **Food and Beverages Manufacturing** industry stood at \$7.24 million in the reviewing quarter, up by 0.4% from the June quarter 2004. The positive performance by the industry was a result of continued expansion in nonu fruit and nonu juice production.

The **Other Manufacturing** industry in 2Q05 registered another drop in real terms of 2.6% compared to the same 2004 quarter and as a result had a negative contribution of 0.3 percentage points to the overall real growth in the quarter. The poor performance by the industry was largely driven by a decline in Yazaki Samoa’s production.

The **Construction** industry was estimated at \$19.85 million in real terms in 2Q05, 7.3% higher than 2Q04 and contributed 0.6 percentage points to real growth in the reporting quarter. This was a result of the continuation and completion of major construction projects in both the private and public sector, namely the new Aggie Grey’s Hotel, LDS Temple and South Pacific Games facilities.

The real GDP value for the **Electricity and Water** industry stood at \$10.37 million in 2Q05. This represented an increase of 1.0% over the comparable 2004 quarter and because of its small size accounting for only 4.3% of total real GDP, contributed a mere 0.04 percentage points to overall real growth in the quarter.

Figure 2.3: Electricity and Water industry’s contribution to change in GDP (%)

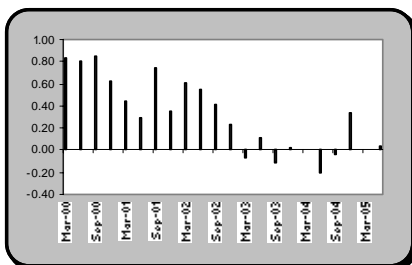
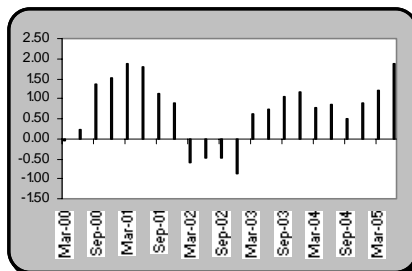


Figure 2.4: Contribution to change in GDP (Transport and Communication industries) (%)



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

The **Commerce** industry valued at \$47.39 million in real terms in the June 2005 quarter continued to maintain its status as the biggest industry with a share of 19.5% of total GDP. In comparison to the same period last year, the industry had increased by 4.2% in real terms assisted by the continuing increase in remittances, and the strong growth in the construction activity.

The **Transport and Communication** industry valued at \$31.30 million in 2Q05 in constant terms went up by 15.7% over the same 2004 period and was the second largest contributor with 1.9 percentage points to the

overall real growth in the quarter. Several developments were associated with the increase such as new investment in road transport and modern telecommunication services.

The **Finance and Business Services** industry amounted to \$24.74 million in 2Q05 in real terms, a rise of 7.9% over the June quarter 2004 and was the third largest contributor to overall real growth with 0.8 percentage points. The favourable performance by the industry reflected the continued strong growth in the financial sector aided by the increasing monetisation of the economy and continuing growth in remittances.

The **Personal and Other Services** industry estimated at \$12.89 million in constant prices for the June 2005 quarter achieved a 0.3% increase over the same 2004 quarter.

The **Hotels and Restaurants** industry recorded \$6.19 million in real prices in the reviewing quarter, up by 3.5% from the comparable 2004 quarter.

Government Sector

The **Public Administration** valued at \$20.41 million in the reporting quarter was 4.4% higher in comparison to the corresponding 2004 quarter.

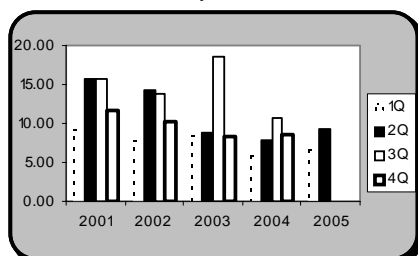
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05	% Change 2Q05 over	
At constant 2002 prices	(\$ Million)								2Q04	1Q05
Agriculture	61.70	67.69	63.93	13.08	16.32	20.05	17.37	17.59	34.5	1.3
Fishing	67.71	57.18	52.78	13.07	13.10	13.33	12.99	13.48	3.1	3.7
Food & Beverages Manufacturing	29.11	29.39	29.59	7.21	7.14	7.60	7.84	7.24	0.4	-7.6
Other Manufacturing	106.76	117.76	110.27	26.78	28.05	28.20	25.46	26.08	-2.6	2.4
Construction	53.74	54.72	74.04	18.49	19.52	19.64	19.61	19.85	7.3	1.2
Electricity and Water	42.10	42.00	42.27	10.27	10.66	10.96	10.40	10.37	1.0	-0.2
Commerce	176.26	178.27	187.14	45.50	45.81	49.54	49.35	47.39	4.2	-4.0
Hotels, Restaurant	20.68	23.57	25.03	5.98	7.01	6.60	5.85	6.19	3.5	5.8
Transport, Communication	104.64	112.54	119.44	27.05	30.38	33.29	31.50	31.30	15.7	-0.6
Public Administration	71.01	75.01	78.89	19.56	19.88	20.21	20.31	20.41	4.4	0.5
Finance & Business Services	80.10	85.42	92.80	22.92	23.25	24.22	24.68	24.74	7.9	0.2
Less: Enterprise share of FISIM	-12.20	-13.09	-13.94	-3.49	-3.53	-3.47	-3.61	-3.58	2.6	-0.7
Ownership of Dwellings	33.20	33.87	34.55	8.62	8.66	8.70	8.75	8.79	2.0	0.5
Personal & Other Services	50.20	50.29	51.29	12.85	12.78	12.70	12.98	12.89	0.3	-0.7
Value added 2002 market price	885.01	914.59	948.09	227.89	239.05	251.56	243.49	242.73	6.5	-0.3
Implicit price deflator:	100.0	103.6	109.6	110.1	110.7	109.1	110.6	112.1	1.7	1.4
Selected measures of production:										
At constant 2002 prices										
Non-monetary	124.24	125.30	123.42	28.71	31.43	33.46	31.64	31.78	10.7	0.4
Monetary – total	760.76	789.29	824.67	199.17	207.62	218.09	211.84	210.95	5.9	-0.4
Monetary – restricted scope	681.75	700.14	745.53	180.04	187.08	198.29	193.39	192.79	7.1	-0.3
Memo items:										
Nominal GDP (current prices)	885.00	947.87	1,038.70	251.40	265.18	275.40	269.19	272.21	8.3	1.1
GDP per capita	5003	5353	5881	na	na	na	na	na	-	-
Source: Ministry of Finance estimates na - not applicable										

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

3.1 Exports

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

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



Fish exports has again regained its status as the number one export earner earning \$3.63 million and accounting for 39.1% of total exports in 2Q05, followed by nonu juice with 24.2%. For the second quarter of 2005, total exports stood at \$9.29 million. This represented an increase of \$1.44 million (or 18.3%) from the same period of 2004. The main contributor to this rise was nonu juice, which increased by 73.8% (\$0.95 million), followed by increases in Others of 43.0% (0.14 million), beer of 42.2% (\$0.46 million), fish of 17.8% (\$0.55 million) and nonu fruit of 4.0% (\$0.02 million) whilst coconut cream, taro and coconut oil declined by \$0.1 million, \$0.47 million and \$0.14 million respectively.

Compared to the previous quarter, exports increased by \$2.59 million. The rise was underpinned mainly by an increase of \$2.39 million in fish exports followed by nonu juice, beer, coconut cream, taro and others with increases of \$0.79 million, \$0.69 million, \$0.07 million, \$0.02 million and \$0.08 million respectively whilst nonu fruit and coconut oil showed negative contributions over this period (see Table 3.1).

Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05	% Share			% Change in 2Q05 over	
	(\$ Million)								2Q04	1Q05	2Q05	2Q04	1Q05
Fish	29.03	15.76	13.52	3.08	5.16	3.61	1.24	3.63	39.3	18.5	39.1	17.8	192.5
Coconut cream	3.11	3.01	2.56	0.75	0.56	0.57	0.67	0.74	9.5	10.0	8.0	-1.1	10.8
Nonu fruit	0.45	0.51	1.47	0.38	0.44	0.46	0.53	0.40	4.9	7.9	4.3	4.0	-24.8
Nonu juice	0.91	2.04	4.69	1.30	1.15	1.22	1.46	2.25	16.5	21.8	24.2	73.8	54.2
Beer	3.92	3.81	4.34	1.09	1.07	1.13	0.86	1.55	13.9	12.8	16.7	42.2	81.2
Taro	1.01	1.31	1.97	0.72	0.52	0.28	0.23	0.25	9.1	3.5	2.7	-65.4	6.0
Coconut Oil	0.21	1.91	0.14	0.14	0.00	0.00	1.20	0.00	1.8	17.9	0.0	-100.0	-100.0
Garments	4.44	13.32	1.98	0.00	1.17	0.82	0.07	-	0.0	1.0	-	-	-
Others	0.31	2.60	0.54	0.32	0.53	0.46	0.38	0.46	4.1	5.6	5.0	43.0	22.5
TOTAL	46.29	44.27	33.13	7.85	10.61	8.65	6.70	9.29	100.0	100.0	100.0	18.3	38.7

Source: Central Bank of Samoa

3.2 Imports

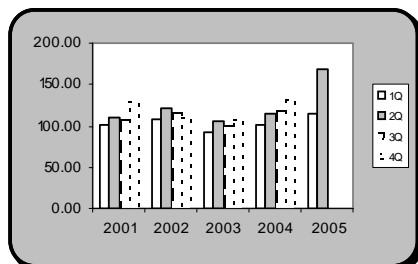
Imports are purchases from overseas of commodities, manufactured or processed products valued "cost plus insurance plus freight" (cif) landed in Samoa.

Imports were valued at \$168.48 million in 2Q05, up by \$50.21 million over the corresponding 2004 period. This was largely the result of Private sector imports up by \$35.76 million from 2Q04 to total \$137.81 million in 2Q05.

The significant rise was largely driven by the importation of artwork and

glass windows for the LDS temple valued at \$1.1 million, tanks (supply into parts) for Samoa Breweries Ltd valued at \$0.5 million, steel bar for Samoa Polytechnic valued at \$0.5 million and \$2.7 million for the import of currency notes by the Central Bank of Samoa. These transactions all took place in the second quarter of 2005.

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



Government imports stood at \$2.50 million, an increase of \$2.35 million and Petroleum imports also increased by \$12.1 million from 2Q04 to stand at \$28.16 million in 2Q05. The increase in Government imports was driven mainly by stationeries imported for the Ministry of Education valued at \$1.5 million.

When compared to the previous quarter total imports had increased by \$61 million. All import components increased with private sector imports dominating the rise with an increase of \$44.56 million. Private sector non-petroleum imports accounted for 81.8% of total imports in 2Q05.

Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05	% Share			% Change 2Q05 over	
									2Q04	1Q05	2Q05	2Q04	1Q05
(\$ Million)													
Government ^a	11.29	7.54	1.77	0.15	0.61	0.58	0.45	2.50	0.1	0.4	1.5	1525.3	452.5
Petroleum	54.88	56.91	78.02	16.06	16.31	26.34	13.77	28.16	13.6	12.8	16.7	75.3	104.6
Other Product ^b	388.06	342.52	431.63	102.05	110.22	123.74	93.25	137.81	86.3	86.8	81.8	35.0	47.8
TOTAL	454.23	406.97	511.4	118.26	127.14	150.66	107.48	168.48	100.0	100.0	100.0	42.5	56.8

Source: Central Bank of Samoa

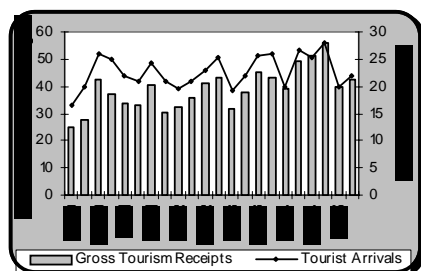
^a Includes equipment for the new Dialysis Unit valued at \$0.19 million in 1Q05 and stationeries for the Ministry of Education at \$1.5 million in 2Q05.

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

3.3 Tourism Receipts

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

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



Gross tourism receipts were valued at \$42.77 million in the reviewing quarter, down by \$6.84 million from 2Q04. The drop in revenue was largely a result of the decline in the number of tourist arrivals which amounted to 21,860 in 2Q05, down by 2,540 from the corresponding quarter of 2004.

Tourism activity is usually at its low in the first half of the year with no major activities during this period. Compared to 1Q05 however, 2Q05 was slightly better with the hosting of the 43rd Independence celebrations in June. As a result both tourism revenue and tourist arrivals were higher by 3.3% and 7% respectively in 2Q05 over 1Q05.

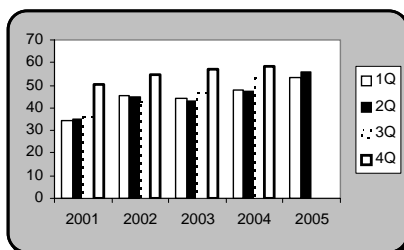
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
Gross Tourism Revenues	152.20	154.32	197.18	49.61	52.67	55.75	41.42	42.77
Tourist Arrivals	88.96	91.90	98.72	24.40	26.24	28.07	20.43	21.86

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

3.4 Remittances

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

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



Remittances were valued at \$55.58 million in 2Q05, up by \$5.31 million (10.6%) over the second quarter of 2004 but was down by \$6.78 million (10.9%) over the previous quarter. At this level it was equivalent to 20.4% of GDP.

Remittances had been increasing continuously for the past three years and remain to be a significant contributor to the Samoa economy.

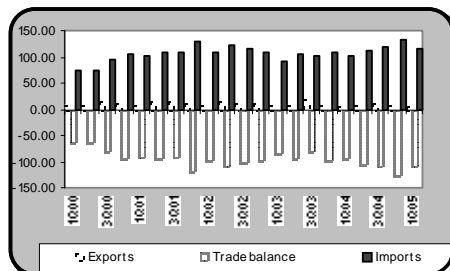
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
Remittances	193.19	188.20	201.17	50.27	44.5	62.00	62.36	55.58
Remittances as % GDP	21.8	19.9	19.3	18.5	16.8	22.5	23.2	20.4

Source: Central Bank of Samoa

3.5 Balance of Payments

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

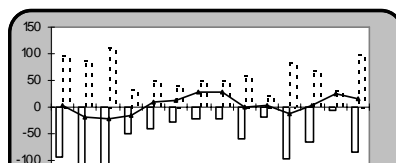
Figure 3.5: Quarterly Trade Balance (\$ Million)



The trade deficit expanded by \$48.77 million over 2Q04 to stand at \$159.19 million in the second quarter of 2005. The deterioration in trade deficit was mainly due to the huge increase in imports of \$50.22 million. Compared to the previous quarter (1Q05), the trade deficit worsened by \$58.36 million.

Net services and income estimated at \$27.09 million in 2Q05, declined by \$9.69 million over the comparable 2004 period. Net transfers valued at \$55.58 million in the current quarter was up by \$5.31 million over 2Q04. This resulted in a current account deficit of \$34.95 million compared to a deficit of \$27.75 million in 2Q04.

Figure 3.6: Annual Overall Balance (\$ Million)



The **capital account** surplus was estimated at \$47.92 million in 2Q05, an improvement of \$53.16 million over the comparable 2004 period. This led to an overall balance of payments surplus of \$12.97 million compared to a deficit of \$32.99 million in 2Q04.

Compared to 1Q05, the capital account had increased by \$20.67 million, which led to an improvement in the overall balance of payments of \$14.41 million.

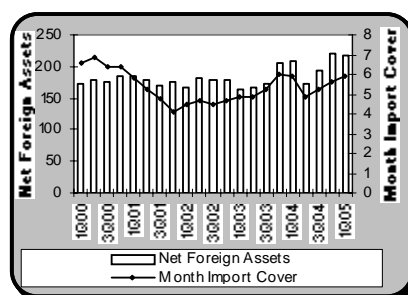
Table 3.5: COMPARATIVE TRADE DATA 2002– 2004 (\$ Million)

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
1. EXPORTS (fob)	46.29	44.26	33.13	7.84	10.61	8.65	6.65	9.29
2. IMPORTS (cif)	454.23	406.97	511.4	118.26	127.14	150.66	107.48	168.48
3. TRADE BALANCE	-407.94	-362.71	-478.27	-110.42	-116.53	-142.01	-100.83	-159.19
4. NET SERVICES	155.5	167.21	139.71	36.78	24.61	20.53	9.77	27.09
5. NET TRANSFERS	188.06	190.48	210.48	50.44	45.86	62.00	62.36	55.58
6. CURRENT ACCOUNT BALANCE	-64.38	-31.87	-116.38	-27.75	-37.73	-59.48	-28.69	-34.95
7. CAPITAL ACCOUNT (Net)	68.41	57.22	132.88	-5.24	58.88	86.26	27.25	47.92
8. OVERALL BALANCE (Change in NFA)	4.03	25.35	16.50	-32.99	21.15	26.78	-1.44	12.97
9. TRADE BALANCE AS % GDP	-46.1	-38.4	-45.7	-42.9	-41.5	-51.7	-37.1	-65.58
10. CURRENT ACCOUNT BALANCE AS % GDP	-7.3	-0.5	-8.9	-8.0	-9.4	-21.7	-10.6	-14.40

4. FOREIGN EXCHANGE RESERVES

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

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



The total value of foreign exchange reserves amounted to \$231.59 million in June 2005, up by \$59.46 million over June 2004. The rise was caused mainly by an increase of \$43.08 million in Central Bank holdings followed by an increase in Commercial Banks holding of \$19.84 million whilst foreign holdings with the Ministry of Finance declined by \$3.46 million.

At this level, foreign exchange reserves had increased by \$12.97 million from end March 2005. The rise was largely contributed by Central Bank with an increase of \$9.71 million, followed by an increase of \$3.44 million in Commercial Banks holdings whilst the Ministry of Finance reserves recorded a fall of \$0.42 million.

At end June 2005, net foreign assets were sufficient to cover 5.9 months of imports. At this level it was higher compared to 4.9 months of imports at end June 2004 but was the same as the end March 2005 level.

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

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
Net Foreign Assets	177.88	204.21	220.06	172.13	193.28	220.06	218.62	231.59
Import Cover	4.7	6.0	5.6	4.9	5.2	5.6	5.9	5.9

Source: Central Bank of Samoa

5. EXCHANGE RATES

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

At the end of June 2005, the Tala depreciated against the NZD and AUD whilst strengthening against the USD, EURO, FJD and YEN over the same 2004 period.

When compared to the previous quarter, the Tala appreciated against all currencies with the exception of the USD.

	2004		2005			% Appreciation(+)/Depreciation (-) of TALA between Jun 05 and	
	Jun	Sep	Dec	Mar	Jun	Jun 04	Mar 05
	USD	0.3513	0.3613	0.3741	0.3722	0.3669	4.4
NZD	0.5544	0.5347	0.5205	0.5221	0.5235	-5.6	0.3
AUD	0.5059	0.4993	0.4799	0.4813	0.4837	-4.4	0.5
EURO	0.2887	0.2901	0.2766	0.2871	0.3036	5.2	5.7
FJD	0.6110	0.6224	0.6053	0.6225	0.6265	2.5	0.6
YEN	37.5900	39.3800	38.0600	39.8961	40.5966	8.0	1.8

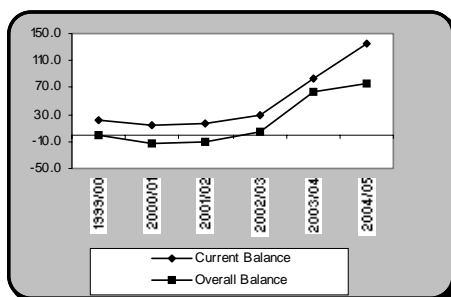
Source: Central Bank of Samoa

6. GOVERNMENT FINANCE

6.1 Government Finance Statistics

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

Figure 6.1: Overall and Current Balance
July-Mar 1999/00-2004/05 (\$ Million)



Overall Performance

The 2004/2005 Budget anticipated a current surplus of \$26.74 million (2.7% of GDP) an overall deficit of \$8.53 million (0.9% of GDP). Over the period, fiscal operation generated an overall surplus of \$3.06 million and a current surplus of \$46.46 million.

The overall balance of \$3.06 million was equivalent to 0.3% of GDP. The outcome was far better than budgeted estimates and well within the fiscal target of a deficit of no more than 3.5% of GDP stipulated in the 2005 – 2007 SDS. The favorable outcome was primarily due to receipts of \$11.5 million from the sale of government shares in Samoa

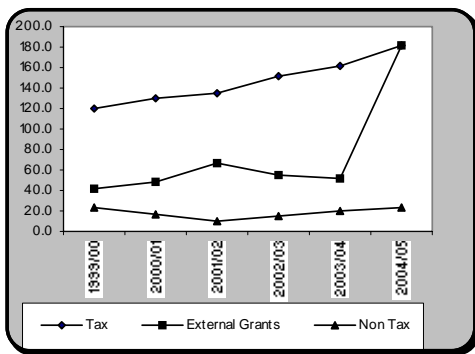
Breweries Limited, Computer Services Limited and National Pacific Insurance. This was all part of Government's ongoing commitment to promoting and encouraging the private sector as the engine of growth.

The current balance achieved of \$46.46 million (5.0% of GDP) was almost \$20 million more than the budgeted estimate for the year. This was largely due to the significant surge in non-tax revenue of 43.2% compared to budget estimates supplemented by a reduction in current expenditure of 1.9%.

Revenue

Total Revenue and Grants collected during fiscal year 2004/05 was \$524.41 million, an increase of \$15.05 million over budget estimates. This comprised of current receipts of \$283.03 million (54.0%) and an estimated \$241.38 million (46%) in grants. Grants include both cash and commodity aid.

Figure 6.2: Revenue by Type, July-Mar 1999/00-2004/05 (\$ Million)



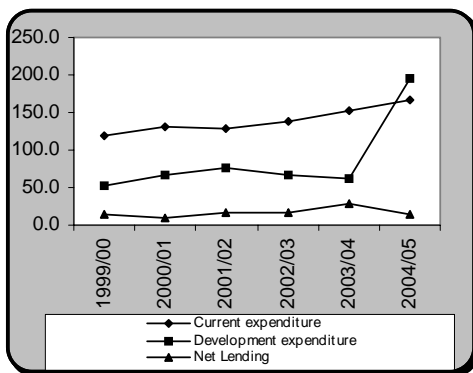
Tax Revenue of \$242.2 million exceeded the budget estimate by \$2.7 million (or 1.1%). This was a result of increases in VAGST on imports, income tax, excise taxes and other taxes by \$9.6 million, \$3.1 million, \$2.8 million, and \$1.0 million respectively. On the other hand, VAGST on sales recorded a shortfall of \$8.5 million in comparison to the budgeted estimates.

Non-Tax Revenue collected of \$40.9 million was at its highest for the past 5 years. At this level, it was 52% more than the 2003/04 level and \$13.2 million higher than budgeted estimates. This was primarily due to the huge increase in Property and Investment Income which reflected the one-off receipt from the sale of government shares in a number of companies. Cost recovery also assisted this with an increase of \$2.2 million compared to the budget estimate.

Expenditure

Total Expenditure and Net Lending for the fiscal year stood at \$521.3 million, \$3.5 million above the budgeted estimate. This comprised of current expenditure (45.4%), development expenditure (50.6%) and net lending (4.0%) compared to financial year 2003/04, expenditure had increased by 59.6%.

Figure 6.3: Expenditure by Type, July-Mar 2000/01-2004/05 (\$ Million)



Development expenditure of \$263.77 million was 1.7% more than the pro-rata. The higher level of expenditure was mainly due to the advancement of some of the public sector loan funded projects particularly the sports facilities for the 2007 South Pacific Games. When compared to financial year 2003/04, development expenditure had more than doubled which is evidence of the large number of aid funded projects on-going during the review period.

Current Expenditure of \$236.57 million was short by \$4.7 million according to budget numbers. Tight fiscal stance exercised in view of the shortfall in some of the revenue items early in the year assisted the 1.9% decline. Despite being lower than the pro-rata, current expenditure as shown in Figure 6.3 continued to increase. This was expected in light of Government's continuing commitment to ensuring

adequate resources are available to achieve its Vision which is to improve the quality of life for all Samoan.

These priorities include infrastructure development up by 28%, Education and Health up by 2.9% and 4.7% respectively and general government services up 17 percent over 2003/04.

Net lending recorded in 2004/05 was \$3.8 million more than the pro-rata.

Expenditure by Sector

At the sector level, the Social Services sector continues to be the major component utilizing 43.7% of total current expenditure. This is in line with Government's commitment to improving the quality of life for all Samoans through better Health and Education services. Expenditure on General Services was above the budget estimate by \$1.8 million, reflecting increased counterpart costs for on-going Institutional Strengthening Projects. The Economic sector on the other hand spent below the budget estimate but was \$11.8 million higher than the 2003/04 outturn. Agriculture and Infrastructure registered increases of 4.0% and 28.4% respectively over 2003/04, the huge increase in the latter specifically for on-going construction works for the 2007 South Pacific Games.

Position with the Financial System

During the financial year 2004/05, government accumulated \$18.98 million with the banking system. This is the second time government had accrued more resources since the late 1990's. This is considered appropriate in light of the enormous increase in the public sector's salary bill and other pressing commitments in the 2005/06 financial year.

Figure 6.4: Government position with the banking system, July-Mar 2000/01-2004/05 (\$ Million)

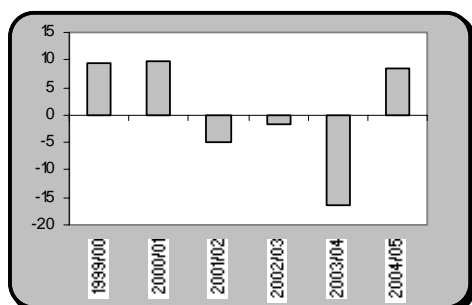


Table 6.1: GOVERNMENT FINANCE 2001/02 – Mar 05^a (\$ Million)

	Provisional Actual			Budget	Provisional		
	2002/03	2003/04	2004/05	2005/06	Apr-Jun 04	Jan-Mar 05	Apr-Jun 05
Revenues and Grants	303.53	317.70	524.41	358.10	84.49	133.43	137.41
Revenues	229.37	246.52	283.03	286.28	64.52	66.62	77.03
External Grants	74.17	71.16	241.38	71.82	19.96	66.81	60.38
Expenditure	309.07	326.57	521.35	402.41	83.97	166.27	145.45
Current ^b	202.19	204.49	236.57	272.76	51.89	39.66	70.67
Development ^c	86.89	86.62		24.99	24.42	72.37	67.37
Other (capital & net lending)	19.99	35.46	21.02	24.99	7.56	4.24	7.42
Current Balance	27.17	42.03	46.46	13.53	12.63	26.96	6.36
Overall Balance	-5.54	-8.88	3.06	-44.31	0.52	17.16	-8.04
Financing							
Net external borrowing	4.69	0.25	15.82	19.50	1.85	4.33	12.12
Domestic	0.85	8.63	-18.88	24.81	-2.37	-21.49	-4.08
Overall Balance as % of GDP	-0.6	-0.9	-0.9	-18.25	0.23	7.05	-3.31
Total Expenditure as % of GDP	35.5	33.8	52.9	38.7	36.85	68.29	59.92

Source: Ministry of Finance estimates

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

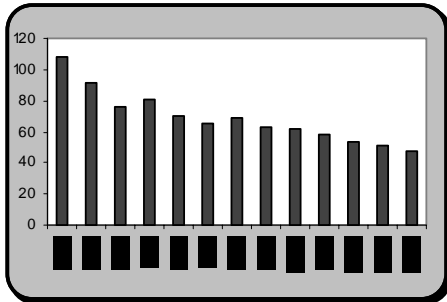
^b Includes domestically financed development plans

^c Financed from external grants and loans

6.2 External Debt

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

Figure 6.5: Official Government Debt as % of GDP



Official government debt outstanding at end June 2005 amounted to \$455.65 million, down by \$17.33 million and \$1.53 million from the corresponding period of 2004 and the first quarter of 2005 respectively. This amount was equivalent to approximately 43.7% of GDP.

Multilateral and bilateral loans accounted for 92.6% (\$421.85 million) and 7.4% (\$33.80 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded was \$4.08 million in June 2005, up by \$0.38 million from the same 2004 period but down by \$0.85 million from the end of March 2005. Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 43.9% and 1.8% respectively.

Year End	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	481.18	456.10	455.62	472.98	456.05	455.62	457.18	455.65
Official Government Debt as % of GDP	56.8	50.8	47.9	48.3	45.7	47.9	43.1	43.7

Source: CBS and Ministry of Finance

7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

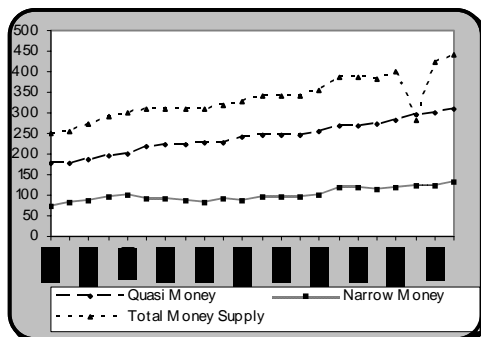
7.1 Money Supply

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

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

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

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



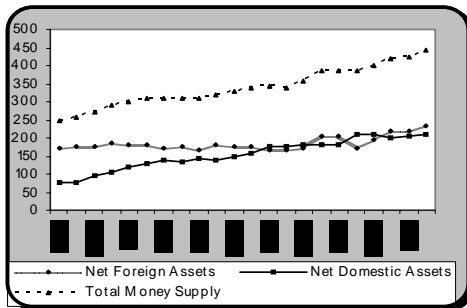
Money supply valued at \$441.22 million at end June 2005, increased by \$57.63 million from end June 2004. The rise was mainly due to an increase of \$37.47 million in Quasi money followed by a rise in Narrow money (M1) of \$20.16 million. The increase in Quasi money was mainly contributed by time deposits with an increase of \$30.13 million followed by increases of \$6.44 million and \$0.9 million in Savings deposits and Foreign currency deposits of residents respectively. For the components of Narrow money (M1), Currencies outside banks had increased by \$2.31 million and Demand deposits by a significant \$17.85 million.

Money supply had also increased by \$12.73 million over 1Q05. The rise was driven by an increase of \$10.49 million in Narrow Money (M1) and

Quasi money of \$6.61 million. The rise in Narrow Money was largely contributed by an increase of \$10.64 million in Demand deposits whilst currency outside banks recorded a decline of \$0.15 million.

For Quasi Money components, Time deposits recorded a decline of \$2.24 million whilst Savings deposits and foreign currency deposits of residents recorded increases of \$4.68 million and \$4.17 million respectively.

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



Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$231.59 million whilst Net domestic assets recorded \$209.26 million in 2Q05. NFA registered an increase of \$59.46 million whilst NDA recorded a decline of \$1.83 million over June 2004, resulting in a rise in money supply of \$57.63 million over this period.

NFA and NDA both recorded increases of \$12.73 million and \$4.37 million respectively over March 2005.

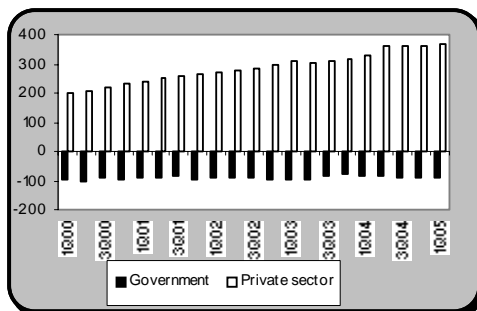
CBS Securities

The total face value of securities outstanding at end June 2005 stood at \$34.8 million, down by \$5.2 Million and \$10.2 million from the comparable 2004 period and end March 2005 respectively.

7.2 Domestic Credit Expansion

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

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



Domestic credit outstanding had increased by \$2.42 million over the comparable 2004 quarter to stand at \$292.77 million in the second quarter 2005. The rise was largely caused by an increase of \$24.53 million in credit to the private sector whilst total claims on non-financial public enterprises and non-monetary financial institutions had declined by \$3.13 million. Domestic assets with the Central Bank and Commercial Banks registered increases of \$13.23 million and \$9.21 million whilst domestic assets with the Ministry of Finance recorded a decline of \$3.46 million. This resulted in a rise of \$18.98 million in government's net position to stand at \$100.58 million.

Total domestic credit outstanding was up by \$8.59 million over March 2005. This expansion was a result of an increase in credit to the private sector and total claims on non-financial public enterprises and non-monetary financial institutions of \$18.02 million and \$0.75 million respectively. Domestic assets with the Ministry of Finance and Central Bank had declined by \$0.42 million and \$1.95 million whilst domestic assets with Commercial Banks increased by \$12.55 million respectively over March 2005. This resulted in a growth of \$10.18 million in government's net position.

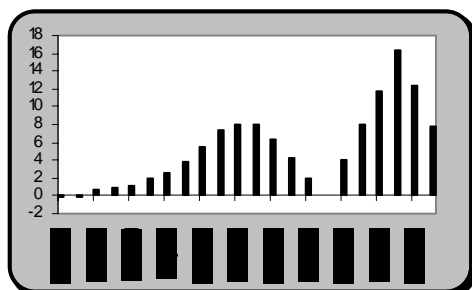
	2002	2003	2004	2004			2005		% Change in Jun 05 over	
				Jun	Sep	Dec	Mar	Jun	Jun 04	Mar 05
Net Foreign Assets	177.86	204.21	220.71	172.13	193.28	220.71	218.62	231.59	34.5	5.8
Net Domestic Assets	160.18	182.16	197.81	211.46	207.23	197.81	205.50	209.63	-0.9	2.1
Money Supply (M2)	339.04	386.37	418.52	383.59	400.51	418.52	424.12	441.22	15.0	4.0
Money (M1)	95.61	118.21	124.93	112.63	116.55	124.93	122.30	132.79	17.9	8.6
Currencies outside banks	32.57	35.73	38.94	28.43	29.75	38.94	30.89	30.74	8.1	-0.5
Demand deposit	63.04	82.48	85.99	84.20	86.80	85.99	91.41	102.05	21.2	11.6
Quasi Money	243.43	268.16	293.59	270.96	283.96	293.59	301.82	308.43	13.8	2.2
Savings deposits	44.87	45.56	51.48	49.38	53.75	51.48	51.14	55.82	13.0	9.2
Time deposit	184.45	206.99	232.35	209.35	220.03	232.35	241.72	239.48	14.4	-0.9
FCDR ^a	14.11	15.61	9.76	12.23	10.18	9.76	8.96	13.13	7.4	46.5
Domestic Credit	219.02	254.08	279.72	290.35	287.16	279.72	284.42	292.77	0.8	3.0
Government (net)	-94.27	-79.44	-89.63	-81.60	-89.19	-89.63	-90.16	-100.58	23.3	11.3
Private sector	294.70	318.47	358.74	358.51	363.76	358.74	365.02	383.04	6.8	4.9
Claims ^b	18.59	15.05	10.61	13.41	12.57	10.61	9.56	10.31	-23.1	7.8

8. INFLATION

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

8.1 Consumer Price Index

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



The annual average rate of inflation in June 2005 was 7.8 percent, down by 0.1 percentage points from June 2004. The twelve months moving average for the local component of the CPI had declined by 10.8 percentage points over this period. This fall was strongly dominated by decreases in miscellaneous, alcohol/tobacco and transport/communication prices which is more than offset the increase of 14.3 percentage points in local food prices. The import component of the CPI had risen by 2.4 percentage points due mainly to increases of 10.9, 6.2 and 1.8 percentage points in transport/communication, household and food prices respectively. Alcohol/tobacco prices had largely driven the decline in all items (local and import components) with a drop of 2.8 percentage points followed by food prices over the comparable 2004 period.

When compared to end March 2005, the annual average rate of inflation had declined by 4.6 percentage points. Both the imported and local component had declined by 0.9 and 10.0 percentage points during this period respectively.

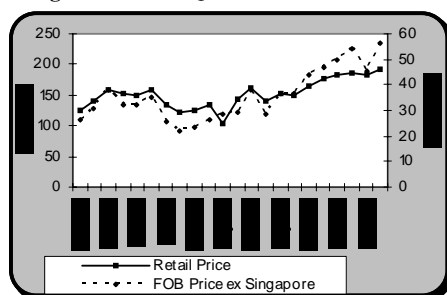
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	2Q05
All Item Index	8.1	0.2	16.3	7.9	11.7	16.3	12.4	7.8
Imported Good Index	1.3	-0.1	4.2	1.2	2.7	4.1	4.5	3.6
Local Good Index	13.8	-6.4	34.0	20.9	26.8	34.0	20.1	10.1

Source: Ministry of Finance

8.2 Petroleum Prices

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

Figure 8.2: End Quarter Petroleum Prices



The international price (US currency) for petrol, kerosene and diesel in June 2005 were 56.22 cents, 65.23 cents and 62.76 cents litre, up by 9.23 cents, 20.14 cents and 20.67 cents from June 2004 respectively. Domestic retail prices for petrol, kerosene and diesel were valued at 193.2 sene, 196.3 sene and 198.9 sene per litre, up by 15.6 sene, 38.3 sene and 31.7 sene from the same period last year respectively.

International price for petrol, kerosene and diesel had increased by 11.19 cents, 15.05 cents and 13.47 cents from the previous quarter (1Q05) respectively. Petrol, kerosene and diesel prices had also risen by 11.2 sene, 27.4 sene and 17.4 sene in domestic retail prices over 1Q05. The continuing rise in the price of crude oil continues to filter through our domestic fuel prices.

Table 8.2: END QUARTERLY PETROLEUM PRICES (retail price in sene/ltr & FOB Price ex Singapore in USD/bbl)										
	2004						2005			
	June		September		December		March		June	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	177.6	46.99	181.6	49.67	185.8	54.25	182.0	45.03	193.2	56.22
Kerosene	158.0	45.09	167.0	50.68	181.7	60.89	168.9	50.18	196.3	65.23
Diesel	167.2	42.09	179.0	48.80	190.4	57.21	181.5	49.29	198.9	62.76

Source: Ministry of Finance