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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 in 2007 as a whole and during the fourth quarter 2007.

1. EXECUTIVE SUMMARY

Key Features of 2007 Performance

- Real **GDP** increased by 13.9% in the reviewing quarter over the comparable 2006 period; (see section 2)
- **Employment** totalled 22,204 in December 2007, increased by 1.0% from December 2006; (see section 3)
- **Export** revenues had risen by \$1.34 million over the comparable 2006 quarter to stand at \$9.38 million in the reviewing quarter; (see section 3.1)
- **Imports** amounted to \$138.43 million in 4Q07, fell by \$30.27 million from the same period of 2006; (see section 3.2)
- As a result the **trade deficit** improved by \$31.61 million from the corresponding 2006 period; (see section 3.5)
- **Foreign reserves** stood at \$231.12 million in December 2007, equivalent to 4.7 months of import cover compared with \$215.65 million and 4.0 months of import cover at end December 2006; (see section 4)
- The **tala fell** against the NZD, AUD, EURO, FJD and YEN with the exception of the USD
- The **budget out-turn** for the first half of FY 2007/08 showed an overall deficit of \$39.61 million, increased by \$26.31 million over Jul-Dec 2006. The current deficit of \$24.07 million was recorded in the first six months of FY 2007/08 compared to the surplus of \$9.58 million in Jul-Dec 2006; (see section 6.1)
- **Official government debt** outstanding at end December 2007 valued at \$477.15 million, recorded a rise of \$28.77 million from end of 2006; (see section 6.2)
- **Money supply** stood at \$611.08 million at end of 2007, increasing by \$60.52 million from the preceding year; (see section 7.1)
- **Domestic credit** at end December 2007 stood at \$549.16 million, rising by \$75.11 million over December 2006 ; (see section 7.2)
- The annual average **inflation rate** at end December 2007 stood at 6.1 percent, 2.3 percentage points higher than the rate at end December 2006; (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 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: Real GDP - % Change over the corresponding period of the previous year 2003-2007

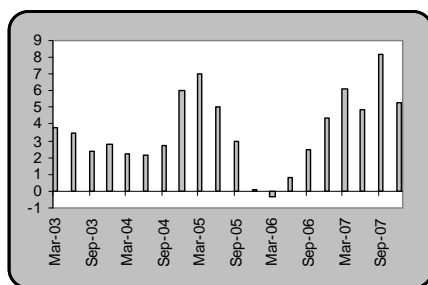
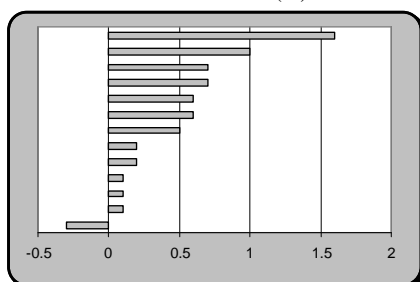


Figure 2.2: Contribution to Change in Total GDP for 2007 (%)



Labeled from top to bottom

Other Manufacturing:	1.6
Commerce:	1.0
Fishing:	0.7
Construction:	0.7
Agriculture:	0.6
Transport & communication:	0.6
Hotels & Restaurants:	0.5
Finance & business services:	0.2
Public Administration:	0.2
Electricity and Water:	0.1
Ownership of dwellings:	0.1
Personal and other services:	0.1
Food and beverage manufacturing	-0.3

Overview

Following the slowdown in economic activity in the early 2006, economic performance improved notably in the late 2006 through to 2007, which resulted in a healthy 6.1% real growth for 2007. The strong growth was fuelled by the strong resurgence in other manufacturing, construction activities, recovery in the agriculture and fishing industries and the strong growth in commerce, hotels and restaurants and transport and communication industries due to the demands relating to the South Pacific Games 2007.

It is clearly illustrated in Figure 2.1 the pattern of the underlying growth (quarter on quarter growth) in the economy recovering at the end of 2006 to continue on to 2007 after a slowdown in late 2005 and early 2006. The recovery in growth in 2007 was expected as a result of extra activities relating to the South Pacific Games.

GDP Level

Gross Domestic Product at current market prices for the year was estimated at \$1.4 billion, an increase of 9.8% compared to the revised nominal GDP of \$1.3 million in 2006. At this level, GDP per capita in 2007 was slightly above \$7,000 tala.

GDP Growth

Real GDP reached \$1.06 billion in 2007, an increase of 6.1% with the latest data showing revised growth rates¹ of 3.3%, 4.1% and 1.9% for 2004, 2005 and 2006 respectively. Monetary Sector production accounted for 87.8% of total production in 2007, grew by 6.8% from the 2006 level. Real output in the Non-Monetary Sector, principally subsistence agriculture, increased by 1.4% over the 2006 level.

The low production recorded for other manufacturing in 2006 led to a notable increase of 17.4% in 2007 to become the major contributor to the overall growth with a 1.6 percentage points. The growth was primarily due to the strong recovery in Yazaki activities and exports which increased by 25.5% in 2007. This was supplemented by the widespread resurgence in commerce, construction, agriculture, transport and communication and hotels and restaurants, stimulated by the activities relating to the South Pacific Games 2007, with contributions to growth of 1.0, 0.7, 0.6, 0.6 and 0.5 percentage points respectively.

¹Growth figures were revised downwards as a result of the change in methodology in measuring Public Administration

Nevertheless fishing industry that has been declining for over 3 years showed a promising sign in 2007 to contribute 0.7 percentage points to the overall growth.

As illustrated in Figure 2.2, all the other industries contributed a collective 0.7% to growth in 2007 except for food and beverage manufacturing that registered a negative growth of 0.3% for the year under review.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture production recovered to register an increase of 8.1% in nominal terms despite a decline of 10.6% in 2006. Value added generated was \$74.45 million, its share of GDP increased from 6.8% in 2006 to 7.0% in 2007. The growth reflects an increase in the quantity of agricultural produce supplied to the Fugalei Market – increasing by 19.3% in 2007 compared to a drop of 6.3% in 2006.

In real terms Agriculture production rebounded from a negative growth of 6.6% in 2006 to record an increase of 9.0% in 2007. This promising turnaround was translated into a positive 0.6% contribution to overall growth. The substantial increase in agricultural production was encouraging and consistent with Government's efforts of promoting agricultural food security as stipulated in the SDS 2005-2007.

However, the vulnerability of the industry to unfavourable weather conditions as depicted by the pattern in Figure 2.3, with its growth rates being unstable. Therefore, this situation does not provide assurance for favourable future prospects.

Fishing industry remained the leading exporter, comprising of 62% of domestic exports and contributed 16.3% to the overall increase of 15.2% in exports for 2007. In 2007, the industry generated a total value added of \$74.5 million, a share of 5.4% of total GDP.

As illustrated in Figure 2.4, the recent recovery of the industry with quarter on quarter growth rates of 4.9% and 4.2% in the September and December 2006 continue to notable surge in 2007 at an average quarterly growth of 15.4%. This strong performance was translated into an annual growth rate of 15.5%, contributing 0.7% to the overall growth.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing value added in current prices for 2007 was \$36.6 million, declined by 9.6% from 2006. The decline in performance was translated into its share to GDP dropped from an average of 3.4% in the past 5 years to 2.7% in 2007.

In constant 2002 prices, Food and Beverage Manufacturing accumulated a value added of \$28.1 million, declined by 9.9% from 2006 and contribute a negative 0.3% to the overall growth. This unfavourable outcome was somewhat consistent with the export of some of the processed goods namely beer, nonu fruit and nonu juice all recording negative changes of 10.4%, 18.6% and 3.3% over 2006.

Figure 2.3: Agriculture value added – growth rates, 2003-2007 (%)

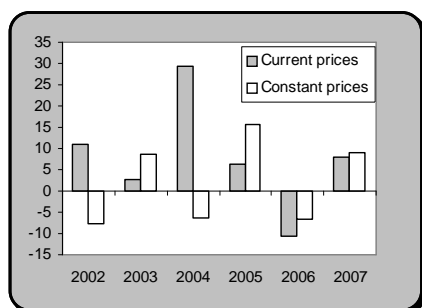


Figure 2.4: Fishing value added – % change from same quarter of previous year

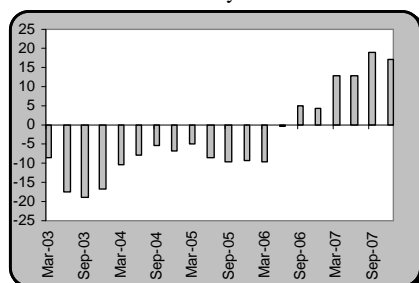


Figure 2.5: Food and Beverage Manufacturing value added – % change from same quarter of previous year

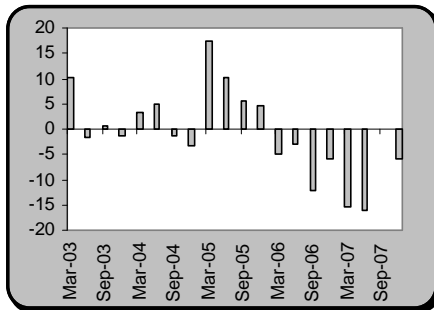


Figure 2.6: Other manufacturing value added – growth rates, 2003-2007 (%)

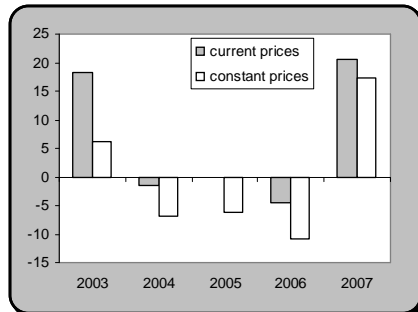
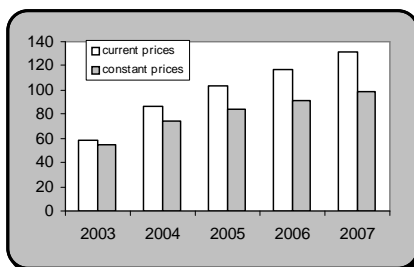


Figure 2.7: Construction value added at current and constant 2002 market prices (\$ million)



As shown in Figure 2.5, declines in the performance of the industry, with negative growth rates over the past two years, in June and September 2007 recorded a marked decline of 16% compared to the corresponding periods.

Other Manufacturing bounced back strongly in 2007 after declining for 3 years. The industry remained the third largest industry, despite its share of GDP declining significantly from 13.4% as in 2003 to 10.5% in 2007, with a total nominal value added of \$144.1 million, 20.5% higher than 2006.

This turnaround was evidenced by the positive value at constant 2002 prices of Other Manufacturing increased by 17.4% in 2007. It also became the major contributor to growth with a contribution of 1.6 percentage points to the overall growth, following declines of 10.7% and 6.2% in 2006 and 2005 respectively as in Figure 2.6. Underpinning the notable performance was predominantly the very high production of the Yazaki company with its estimated value added increasing by 26.2%, together with a slight increase of 1.8% in the other segments of Non-food and beverage manufacturing.

Construction remained at a high level in early 2007 until activities tailored off in the second half. In current market prices, construction value added generated \$131.9 million with its share of total GDP of 9.6% in 2007.

Figure 2.7 clearly shows the huge shift in the levels from an average level of \$58 million in 2002 and 2003 to over \$130 million in 2007. This significant increase in value added was translated into the ranking of construction going from being eighth in 2002 to being the fourth largest industry in 2007.

In real terms, construction sector accumulated a total value added of \$98.8 million, a real increase of 8.1% compared to the revised 2006 figure of \$91.5 million, following notable achievements in 2004 and 2005 with increases of 35.6% and 13.7% respectively. The growth in the industry has been stimulated by the ongoing public sector construction works in preparation for the South Pacific Games, coupled by church and private constructions. The sector is expected to slowdown in 2008 with the completion of these major works.

Despite being one of the smaller industries in size with a share of 4.7% of GDP, **Electricity and Water** Industry plays a crucial role in accelerating production in almost every industry. In 2007 value added at current prices was \$64.9 million.

During 2007, the Electricity and Water Industry real value added stood at \$47.8 million, an increase of 2.7%. This outturn was lower than the previous 4.5% in 2006 as evidenced by the completion of most major construction works that demanded a lot of electricity and water services in the first half 2007. Ongoing and pipeline infrastructural and Institutional Strengthening works to improve electricity and water management will fuel the development of this industry in the near future.

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

Commerce in nominal terms expanded at an average annual rate of 9.9% in the past 5 years, reflecting the increasing monetarisation of the Samoan economy. During 2007, the industry accumulated a total value added of \$281.5 million in current market prices, an increase of 5.7% from 2006 and thus represents a share of 20.5% of total GDP.

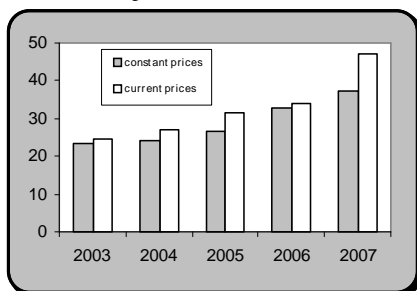
In real terms, Commerce sector continued its pattern of steady growth with an increase of 5.0% in 2007 and a major share of 20.0% of GDP. Commerce was the second largest contributor to the overall growth, adding a 1.0 percentage points. This strong growth in Commerce was fuelled by increases in consumer incomes triggered by the general public sector salary and wage increases, activities relating to the South Pacific Games, tourism and remittances.

Transport and Communication activities had been and will continue to provide significant support to all sectors of the economy through the provision of information and technology, communication and transportation services. With this important role, the industry generated a nominal value added of \$168.9 million in 2007. Transport and Communication was the second largest industry behind Commerce, with a share of 12.3%.

In real terms, Transport and Communication total production was \$138.2 million, an increase of 4.6% over 2006 and contributing 0.6 percentage points to the overall growth. Of the quarters in 2007, September was the highest recording a quarter on quarter increase of 7.1%, as a result of increased demand during the South Pacific Games.

Hotels and Restaurants economic activity expanded further in 2007. As seen in Figure 2.8 hotels and restaurants value added has shifted from \$34.0 million in 2006 to \$47.0 million in 2007 with its share rising from 2.7% to 3.4%. The shift was primarily due to a notable increase in the September quarter increasing by 43.8% compared to the corresponding quarter last year, evidenced by the record numbers of athletes and sports activities offered during the South Pacific Games.

Figure 2.8: Hotels and Restaurants value added at current and constant 2002 market prices (\$ million)



Hotels and Restaurants total production in real terms stood at \$37.3 million in 2007, up by 14.1% compared to the previous year. Despite being small, this strong growth in Hotels and Restaurants contributed 0.5 percentage points to the overall growth and has considerable potential to generate employment benefits for the rural areas, as well as generating benefits that could filter down to other sectors of the economy.

The **Finance and Business Services** sector has been the most consistent and fastest growing industry in the Samoan economy, recording an average annual growth rate in the past 5 years of 11.7%. In 2007 the industry generated a total value added of \$122.8 million, an increase of 6.2% compared to 2006.

In constant 2002 prices, Finance and Business Services increased by 2.5% compared to 2006 after being growing at an annual average growth rate of 7.6% in the past 5 years. Value added generated by the industry during the period added up to \$101.5 million. The relatively lower growth in 2007 compared to the past years was due mainly to financial intermediation services being low attributing to the limited liquidity in the banking system during the period under review.

Personal and Other Services have continued to contribute significantly to the Samoan economy with an average share to GDP of 5.4% over the years. Value added generated by the industry in 2007 added up to \$68.0 million, and comprised a share to GDP of 5.0 percent.

In constant 2002 prices, the Personal and Other Services industry grew by 1.1% and contributing 0.1 percentage points to overall growth in the year 2007 following a decline in 2006. The trend in the performance of this industry was somewhat dictated by events of other sector activities. Therefore, this industry has grown and will continue to grow as our lifestyle changes.

Government Sector

Public Administration remained the 6th largest industry in the economy. In 2007, general government value added pertaining to the increase in performance from total public service salary and wages and other forms of remuneration added up to \$113.4 million, to represent a share of 8.3% of GDP at current prices.

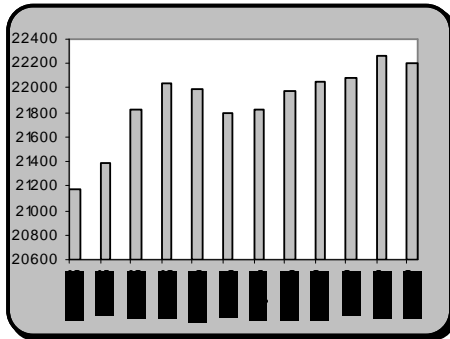
In constant 2002 prices, value added by public administration was \$84.20 million in 2007, leading to a positive contribution of 0.2 percentage points to GDP growth.

	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07	% Change 4Q07 over	
At constant 2002 prices	(\$ Million)								4Q06	3Q07
Agriculture	73.13	68.28	74.45	17.87	17.51	16.46	20.14	20.35	13.9	1.0
Fishing	48.50	48.33	55.82	12.62	12.88	13.42	14.76	14.76	17.0	0.0
Food & Beverages Manufacturing	33.30	31.21	28.12	7.65	7.47	6.68	6.77	7.20	-5.9	6.4
Other Manufacturing	100.00	89.30	104.87	25.29	24.73	24.50	27.52	28.12	11.2	2.2
Construction	84.48	91.46	98.84	25.46	24.28	24.08	25.36	25.12	-1.3	-0.9
Electricity and Water	44.46	46.48	47.76	11.93	11.35	11.99	12.20	12.22	2.4	0.2
Commerce	192.04	202.25	212.36	52.06	52.91	50.80	53.59	55.07	5.8	2.8
Hotels, Restaurant	26.51	32.66	37.25	8.62	9.01	8.66	9.92	9.66	12.1	-2.6
Transport, Communication	126.90	132.04	138.15	35.43	33.80	32.48	35.18	36.70	3.6	4.3
Public Administration	81.07	81.92	84.19	20.66	20.66	21.02	21.18	21.33	3.2	0.7
Finance & Business Services	94.35	99.09	101.52	25.08	25.17	25.17	25.54	25.64	2.2	0.4
Less: Enterprise share of FISIM	-12.04	-12.27	-12.67	-3.06	-3.14	-3.17	-3.20	-3.17	3.6	-0.9
Ownership of Dwellings	35.25	35.96	36.69	9.06	9.10	9.15	9.19	9.24	2.0	0.5
Personal & Other Services	53.43	53.05	53.65	13.22	13.37	13.41	13.45	13.42	1.5	-0.2
Value added 2002 market price	981.38	999.77	1,061.02	261.87	259.11	254.64	271.60	275.66	5.3	1.5
Implicit price deflator:	117.3	125.0	129.3	126.9	127.1	129.6	130.2	130.2	2.6	0.0
At constant 2002 prices										
Non-monetary	129.87	127.84	129.64	32.04	32.15	31.19	33.03	33.28	3.9	0.8
Monetary – total	851.51	871.93	931.37	229.83	226.97	223.45	238.58	242.38	5.5	1.6
Monetary – restricted scope	784.26	814.71	859.17	212.79	210.72	206.87	219.12	222.46	4.5	1.5
Memo items:										
Nominal GDP (current prices)	1,151.25	1,249.84	1,372.05	332.35	329.28	330.12	353.68	358.97	8.0	1.5
GDP per capita	6,310	6,915	7,557	n.a	n.a	n.a	n.a	n.a		
Source: Ministry of Finance 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: Employment by Quarter ('000)



The estimated level of formal paid employment totalled 22,204 at end December 2007, increased by 1.0% (223) from end December 2006. This outcome was a result of the increase in the number of employees in the tertiary sector and public administration sector whilst primary sector and secondary sector dropped throughout this period.

In comparison with the previous quarter (3Q07), all sectors recorded declines with the exception of the public administration sector increasing by 0.9% during this period.

Table 3.1: TOTAL EMPLOYMENT NUMBERS

	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07	% Change in 4Q07 over	
									4Q06	3Q07
Primary	342	409	363	409	411	397	381	363	-11.2	-4.7
Secondary	4,975	4,798	4,740	4,798	4,838	4,793	4,765	4,740	-1.2	-0.5
Tertiary	11,749	11,826	12,095	11,826	11,845	11,922	12,152	12,095	2.3	-0.5
Public Administration	4,969	4,948	5,006	4,948	4,958	4,969	4,963	5,006	1.2	0.9
TOTAL EMPLOYMENT	22,035	21,981	22,204	21,981	22,052	22,081	22,261	22,204	1.0	-0.3

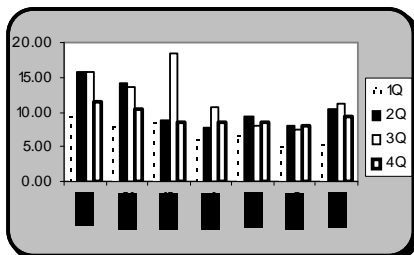
Source: Samoa National Provident Fund

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 by Quarter Compared Annually (\$ Million)



Export revenue for 2007 stood at \$36.19 million, \$7.44 million higher than the previous year because of a sharp rise in fresh fish exports, followed by increases in other export products, nonu fruit and taro. The surge in fish exports was driven mainly by the improvement in the climate condition for the albacore. Offsetting this increase are registered declines of \$0.04 million, \$0.13 million and \$0.36 million in coconut cream, nonu juice and beer respectively.

Exports totalled \$9.38 million in 4Q07, increased by \$1.34 million from 4Q06. This surge largely reflected a rise of \$1.21 million in fish exports followed by a slight increase of \$0.15 million in coconut cream. All other export commodities recorded declines. Exports dropped by \$1.81 million compared to the preceding quarter.

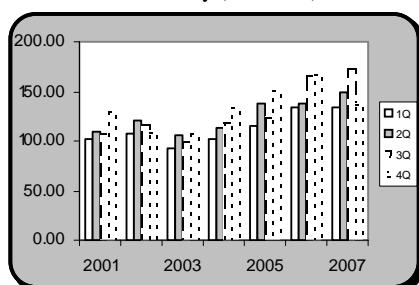
	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07	% Share			% Change in 4Q07 over	
	(\$ Million)								4Q06	3Q07	4Q07	4Q06	3Q07
Fish	11.58	15.45	20.00	3.85	1.59	5.81	7.54	5.06	47.9	67.3	53.9	31.4	-32.9
Coconut cream	2.28	2.38	2.34	0.54	0.43	0.73	0.49	0.69	6.7	4.4	7.4	27.8	40.8
Nonu fruit	1.54	0.87	0.70	0.24	0.28	0.06	0.21	0.15	3.0	1.9	1.6	-37.5	-28.6
Nonu juice	8.29	3.95	3.82	1.03	0.74	1.16	0.91	1.01	12.8	8.1	10.8	-1.9	11.0
Beer	4.83	3.48	3.12	1.03	0.88	0.74	0.64	0.86	12.8	5.7	9.2	-16.5	34.4
Taro	0.85	0.59	0.62	0.16	0.18	0.19	0.12	0.14	2.0	1.1	1.5	-12.5	16.7
Others	3.12	2.03	5.59	1.19	1.12	1.71	1.28	1.47	14.8	11.5	15.7	23.5	14.8
TOTAL	32.49	28.75	36.19	8.04	5.22	10.40	11.19	9.38	100.0	100.0	100.0	16.7	-16.2

Source: Central Bank of Samoa

4.2 Imports

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

Figure 4.2.1: Imports by Quarter Compared Annually (\$ Million)



Imports in 2007 totalled \$593.64 million, \$14.17 million lower than 2006. This was driven mainly by a drop of \$36.89 million in non-petroleum private sector imports whilst government imports and petroleum imports increased by \$14.69 million and \$8.03 million respectively. The main reasons for the decline in non-petroleum private sector imports were the completion of major construction works for the South Pacific Games (SPG) and a drop in imported left hand drive cars.

Imports in the reviewing quarter (4Q07) amounted to \$138.43 million, declined by \$30.27 million from the comparable 2006 period. All import components in 4Q07 had dropped from 4Q06. Compared to the previous quarter, imports also declined by \$35.01 million.

	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07	% Share			% Change 4Q07 over	
	(\$ Million)								4Q06	3Q07	4Q07	4Q06	3Q07
Government ^a	4.43	15.67	30.36	3.27	8.83	9.99	9.32	2.22	1.9	5.4	1.6	-32.1	-76.2
Petroleum	94.99	114.48	122.51	30.39	27.46	32.22	35.73	27.10	18.0	20.6	19.6	-10.8	-24.2
Other Product ^b	408.30	477.66	440.77	135.05	97.15	106.12	128.39	109.11	80.1	74.0	78.8	-19.2	-15.0
TOTAL	507.71	607.81	593.64	168.70	133.44	148.33	173.44	138.43	100.0	100.0	100.0	-17.9	-20.2

Source: Central Bank of Samoa

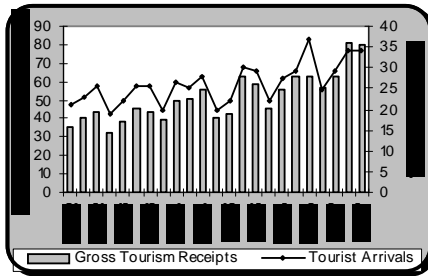
^a Include building materials for the Samoa Polytechnic extension at \$2.6 million and stationeries for MESC at \$1.0 in 1Q06. Include stationeries for MESC at \$0.8 million and coins for CBS at \$0.6 million in 1Q07. Includes Tug Boat & floating structures for SPA at \$2.3 million in 3Q07.

^b Include telephonic switching apparatus & cables for the SamoaTel at \$4.7 million in 1Q06. Include aircraft parts for the Polynesian Airline (inter-island) at \$0.7 million and cables for the SamoaTel at \$0.6 million in 2Q06. Include cellular mobile telephones (CMT) for Digicel at \$1.9 million and mixtures of synthetic organic tanning substances for Samoa Breweries Ltd at \$0.7 million in 1Q07.

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) & Tourist Arrivals ('000)



Tourism earnings totalled \$279.74 million in 2007 with an increase of \$53.54 million from 2006. Tourist numbers stood at 122,250, 5.5% above the preceding year. This rise partly resulted from the South Pacific Games (SPG) and the World Weight Lifting Championship. The group with the highest share to the total number of arrivals is tourists on holiday category with a contribution of 35.6%. The second largest group is visiting friends and relatives category with a share of 31.2%. Tourists on business contributed a share of 18.3% and tourists on other purpose recorded a share of 14.9%. New Zealand contributed the highest number of tourists with a share of 41.1% followed by American Samoa (19.7%), Australia (18.1%), Other countries (14.5%) and United States (6.6%).

For the reviewing quarter tourism earnings recorded an upward trend of \$18.02 million over 4Q06 to stand at \$80.29 million. Tourist arrivals stood at 34,307 in 4Q07 with a drop of 2,647 from the comparable 2006 period. Tourists on holiday category contributed a share of 36.3% followed by visiting friends and relatives (34.2%), business (21.9%) and others (7.5%). Most tourists are from New Zealand with a contribution of 44.8% followed by Australia (21.2%), American Samoa (19.2%), Other countries (9.3%) and United States (5.5%). When compared to the previous quarter, tourism revenue declined by \$0.68 million whilst tourist numbers increased by 76.

Table 4.3.1: GROSS TOURISM RECEIPTS (\$ Million)

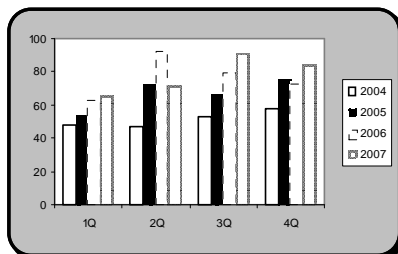
	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
Gross Tourism Revenues	207.37	226.20	279.74	62.27	55.46	63.02	80.97	80.29
Tourist Arrivals	101,804	115,882	122,250	36,954	24,663	29,049	34,231	34,307

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 by Quarter Compared Annually (\$ Million)



In 2007, remittances were valued at \$313.60 million, increased by \$16.40 million from 2006. This rise was strongly influenced by a surge of \$27.17 million in funds for Samoan individuals, which contributed the highest share of 70.0% (or \$219.52 million) to total remittances in 2007. This was followed by a rise of \$1.58 million in funds for charitable organisations whilst funds for churches & non government schools, banknotes, personal funds for expatriates in Samoa and Others (include funds brought in by immigrants and funds received from sale of a property overseas) recorded declines of \$6.39 million, \$5.32 million, \$0.25 million and \$0.18 million respectively.

In terms of remitting countries, New Zealand contributed the highest share of \$107.88 million (or 34.4%) to total remittances with an increase of \$23.75 million from the previous year. United States is the second largest contributor with a share of \$70.56 million (or 22.5%) and declined by \$9.11 million from 2006. Australia is the third remitting country with

a decline of \$3.08 million from the preceding year and a contribution of \$55.19 million (or 17.6%). Other countries accounted for \$43.90

million (14.0%), followed by Fiji, American Samoa and Hawaii with contributions of \$26.97 million (8.6%), \$8.15 million (2.6%) and \$1.25 million respectively.

On a quarterly basis, total value of remittances was \$84.70 million in 4Q07, increased by \$5.80 million over 4Q06. This increase was mainly contributed by funds for Samoan individuals with a surge of \$4.60 million and a share of \$59.04 million (69.7%). This was followed by funds for churches & non government schools, which rose by \$3.06 million and recorded a share of \$14.74 million (17.4%).

Compared to the previous quarter, total remittances had dropped by \$6.60 million.

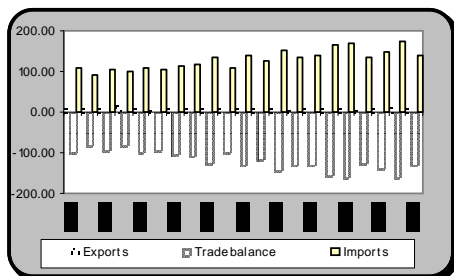
	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
Remittances	296.1	297.2	313.60	78.90	65.6	72.00	91.30	84.70
Remittances as % GDP	25.7	23.8	22.9	23.7	19.9	21.8	25.8	23.6

Source: Central Bank of Samoa

4.5 Balance of Payments

Trade balance is the difference in export receipts (job) 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.

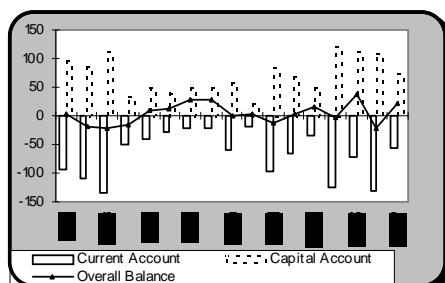
Figure 4.5.1: Quarterly Trade Balance (\$ Million)



The **trade deficit** stood at \$557.44 million in 2007, a decline of \$21.62 million from 2006. This improvement in the deficit was mainly due to the rise of \$7.45 million in exports and the drop in imports by \$14.17 million.

The deficit in the **current account** showed an improvement by narrowing to \$55.03 million in 2007, which represented a substantial decline of \$77.41 million from the preceding year. This drop was due largely to a strong increase of net services and income and net current transfers by \$33.07 million and \$22.72 million respectively. The **capital account** stood at \$75.47 million with a drop of \$35.07 million from 2006. In spite of this decline, the **overall balance of payments** was in surplus at \$20.44 million with a significant rise of \$42.34 million from the previous year deficit of \$21.90 million.

Figure 4.5.2: Annual Overall Balance (\$ Million)



On a quarterly basis, trade deficit stood at \$129.05 million in the reviewing period, improved by \$31.61 million from 4Q06. This improvement was mainly due to a huge fall of \$30.27 million in imports and a rise in exports by \$1.34 million. The reduction in the trade deficit and the increase of \$10.48 million and \$5.74 million in net current transfers and net services and income resulted in a turnaround in the **current account** balance from the deficit of \$36.95 million to a surplus of \$10.88 million in the fourth quarter of 2007. Although **capital**

account had declined by \$6.92 million throughout this period, **overall balance of payments** had a surplus of \$27.15 million in 4Q07 compared to a deficit of \$13.76 million in 4Q06. This significant improvement in the overall balance of payments had fuelled mainly by a tremendous decline in trade deficit and the turnaround of current account balance from a deficit to a surplus during this period.

Compared to the previous quarter, the trade deficit also improved by \$33.19 million. Lower imports improved the deficit by contributing a fall of \$35.01 million whilst exports declined by \$1.82 million. Despite the drop in net current transfers, current account had a surplus of \$10.88 million from a deficit of \$25.46 million as a result of the declining in trade deficit. This led to an improvement of \$38.31 million in the overall balance of payments.

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

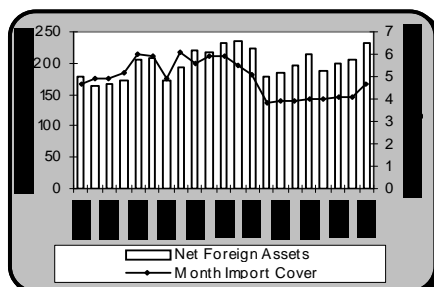
	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
1. EXPORTS (fob)	32.50	28.75	36.19	8.04	5.22	10.40	11.19	9.38
2. IMPORTS (cif)	507.71	607.81	593.64	168.70	133.44	148.33	173.44	138.43
3. TRADE BALANCE	-475.21	-579.06	-557.45	-160.66	-128.22	-137.94	-162.25	-129.05
4. NET SERVICES AND INCOME	113.04	180.88	213.95	57.36	34.80	60.70	55.36	63.10
5. NET CURRENT TRANSFERS	289.44	265.74	288.46	66.35	61.14	69.06	81.42	76.83
6. CURRENT ACCOUNT BALANCE	-72.73	-132.44	-55.04	-36.95	-32.28	-8.18	-25.47	10.88
7. CAPITAL ACCOUNT (Net)	111.07	110.54	75.47	23.19	18.68	26.22	14.30	16.27
8. OVERALL BALANCE	38.34	-21.90	20.43	-13.76	-13.60	18.04	-11.17	27.15
9. TRADE BALANCE AS % GDP	-41.3	-46.3	-40.6	-48.3	-38.9	-41.8	-45.9	-36.0
10. CURRENT ACCOUNT BALANCE AS % GDP	-6.3	-10.6	-4.0	-11.1	-9.8	-2.5	-7.2	3.0

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.

Figure 5.1: Net Foreign Assets (\$ Million) & Import Cover (Months) by Quarter



In the twelve months to December 2007, foreign exchange reserves increased by \$15.47 million from the preceding year to stand at \$231.12 million. Central Bank accounted for \$22.92 million of this increase followed by the Ministry of Finance with \$4.00 million whilst Commercial Banks declined by \$11.27 million.

Foreign exchange reserves had risen by \$25.22 million over the previous quarter (3Q07). This improvement was mainly dominated by Central Bank (\$17.97 million) followed by Commercial Banks (\$6.03 million) and the Ministry of Finance (\$1.22 million) foreign holdings.

The improvement in foreign exchange reserves at end December 2007 with the drop in imports led to an increase in net foreign assets import coverage to 4.7 months. At this level it was higher than the 4.0 months coverage at end December 2006.

	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
Net Foreign Assets	221.82	215.65	231.12	215.65	187.56	199.12	205.90	231.12
Import Cover	5.1	4.0	4.7	4.0	4.0	4.1	4.1	4.7

Source: Central Bank of Samoa

6. EXCHANGE RATES

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

At the end of December 2007, the Tala fell against all the currencies with the exception of the USD from the same 2006 period.

Compared to the preceding quarter, the Tala also declined in value against all the currencies with the exception of the USD and YEN.

	2006	2007				% Appreciation(+)/Depreciation (-) of TALA between Dec 07 and	
		Mar	Jun	Sep	Dec	Dec 06	Sep 07
USD	0.3724	0.3761	0.3877	0.3807	0.3911	5.0	2.7
NZD	0.5285	0.5250	0.5054	0.5298	0.5093	-3.6	-3.9
AUD	0.4720	0.4661	0.4588	0.4495	0.4491	-4.9	-0.1
EURO	0.2822	0.2811	0.2870	0.2737	0.2687	-4.8	-1.8
FJD	0.6197	0.6910	0.6204	0.6129	0.6106	-1.5	-0.4
YEN	44.32	44.37	47.56	43.77	43.90	-0.9	0.3

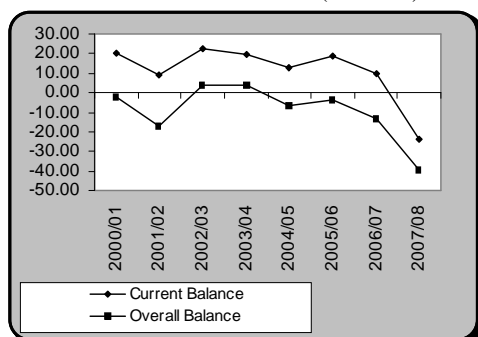
Source: Central Bank of Samoa

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-Dec 2000/01-2007/08 (\$ Million)



Overall Performance

The fiscal year 2007/2008 projected an overall deficit of SAT\$14.5 million (1.0% of GDP) following three consecutive years, 2004/05 to 2006/07 with overall budgeted deficits of SAT\$8.5 million, SAT\$44.3 million and SAT\$16.1 million respectively. These deficit balances were anticipated in light of the Government's commitment in providing the best facilities for the South Pacific Games 2007 and the public sector general salary increase of 42% implemented within the

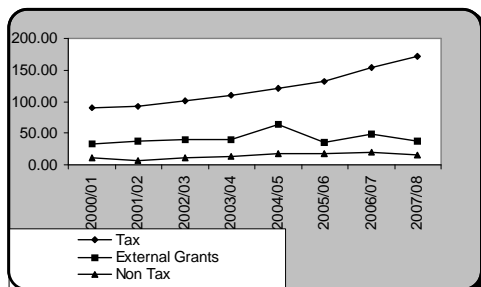
period of three years. The high level of construction activity contributing to budget deficits was reflected in the real average annual growth rate of 16.4% in the Construction sector for the past four years from 2004 to 2007. On the other hand, results recorded were overall

surpluses of SAT\$3.0 million, SAT\$3.3 million and SAT\$15.4 million tala. These favourable results were attributed to strong growth in revenue collection increasing at an average growth of 5% in three years.

However, fiscal operations for the first half of the financial year 2007/2008, generated an overall deficit of SAT\$39.6 million Tala, SAT\$25.1 million more than the fiscal deficit anticipated for the year. This was equivalent to 5.6% of GDP, being more than the fiscal target of the fiscal year 2007/08 of no more than 3% of GDP. Current balance for the first time in the past 10 comparable six months recorded a deficit of SAT\$24.07 million tala. The deficit balances recorded were somewhat a result of the huge loss in the revenue collection, down by SAT\$25.1 million compared to the pro-rata estimate for the July-December 2007/08 period, coupled with expenditure commitment made for the implementation of some of the final preparations for the South Pacific Games 2007, like sports fields, gyms, roads and bridges and the actual cost of running the games.

Shown in Figure 7.1.1 are the current and overall balances at their downward trend, resulting from the expansionary expenditure due to the South Pacific Games and huge loss in revenues for the first six months of 2007/08. These unfavourable balances caused a drawdown of SAT\$28.5 million in the Government's financial resources in the banking system. In this regard, Government's domestic position should be monitored on a frequent basis to avoid crowding out of the private sector.

Figure 7.1.2: Revenue by Type, Jul-Dec 2000/01-2007/08 (\$ Million)



Revenue

Total Revenue and Grants collected for the six months from July to December 2007/08 amounted to SAT\$224.6 million, comprised of \$186.0 million (82.9%) current receipts and SAT\$38.5 million (17.1%) external grants. This represents a shortfall of 11.2% or SAT\$25.1 million compared to the pro-rata estimate. The shortfall was primarily due to the loss of non tax revenues, down by SAT\$16.2 million coupled with the SAT\$9.0 million shortfall in tax revenues.

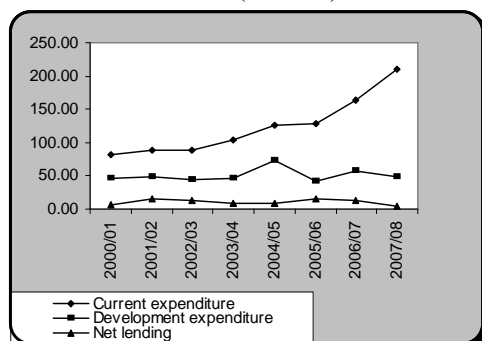
Tax revenue collection for the period under review was \$170.4 million, was \$8.9 million below pro-rata estimate and contributed 4.0 percentage points to the overall decline in revenue. The underperformance was due mainly to notable losses in import duty and VAGST on imports recording shortfalls of SAT\$6.7 million and SAT\$2.8 million coupled with domestic excise tax down by SAT\$4.3 million tala compared to the pro-rata estimate. Underpinning the shortfall was the drop in the value of imports for the period under review, down by 6.9% compared to the corresponding period last year. Other taxes with significant contributions to the shortfall were income tax, stamp duty, business licenses and petroleum levy with shortfalls of SAT\$0.7 million, SAT\$0.5 million, SAT\$0.5 million and SAT\$0.3 million in the respective order. Slight shortfalls were recorded in other

taxes except for the import excise that exceeded the estimate by SAT\$2.6 million, boosted by the demand for petroleum products.

Non-tax collection was SAT\$15.7 million, comprised of SAT\$8.6 million from cost recoveries and SAT\$7.1 million of property income. When compared to the pro-rata estimate non-tax was short by SAT\$16.2 million, with a percentage contribution to the poor performance of 7.2 percentage points. The notable underperformance was attributed to the loss of SAT\$8.3 million anticipated from the South Pacific Games, and the late disbursement of the SAT\$7.5 million in receipts expected from the Samoa International Finance Authority. Cost recoveries were very low during the period, short by SAT\$2.1 million Tala.

Figure 7.1.2 illustrates the revenue performance by type in the past comparable six months for the years 2002/03 to 2007/08 financial years. Although the revenue collection was poor compared to the pro-rata estimate for the period under review, it is depicted in the graph that receipts from taxes have continued to increase over the years at the trend growth of over 10.0%. This is indicative of the positive implications of revenue measures implemented throughout the years and improved compliance. External grants was on par.

Figure 7.1.3: Expenditure by Type, Jul-Dec 2000/01-2007/08 (\$ Million)



Expenditure

Total Expenditure and Net Lending for the first half of 2007/08 amounted to \$264.2 million, a SAT\$7.2 million or 2.8% increase compared to the pro-rata. When compared to the same period last financial year, expenditure increased by 11.9%. Of the excess SAT\$7.2 million, current expenditure contributed 3.5 percentage points to the overall increase of 2.8%. Current expenditure, coupled with net lending exceeding the pro-rata estimate by SAT\$3.3 million, more than offset the shortfall of SAT\$5.5 million in development expenditure.

Current expenditure for the period under review stood at SAT\$210.2 million tala, that was 4.6% over the pro-rata estimate. When compared to the corresponding period last year expenditure rose by 28.2%. The surge in current expenditure was evidence of the Government's commitment in hosting the 2007 South Pacific Games, that was clearly indicated by notable increases of SAT\$12.6 million and SAT\$9.8 million in the MESC and MWTI overall expenditure relative to the pro-rata estimate.

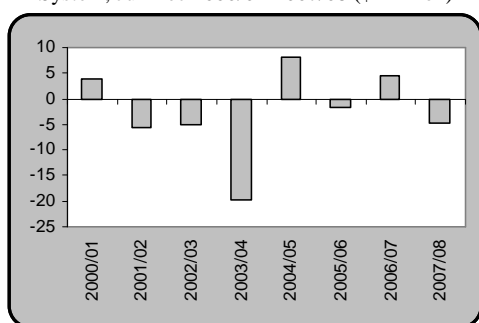
Development Expenditure was \$48.6 million, SAT\$5.5 million below the pro-rata estimate. The shortfall is evident of delays in the implementation of public sector investment projects like the ADB-Sanitation & Drainage Project (due to some impediments with land issues), the Education Sector Project II being delayed in procurement and the OPEC project mobilisation postponed after the South Pacific Games.

Net lending for the first six months was \$3.3 million over the pro-rata estimate.

Shown in Figure 7.1.3 is a big shift in current expenditure levels for the comparable six months in 2004/05, 2006/07 and 2007/08 from

SAT\$129.3 million, to SAT\$164.0 million and SAT\$210.2 million, an average growth of 27.5%. This growth rate overstates current expenditure growth in as much as it includes some capital expenditures, namely capital works for the South Pacific Games, appropriated under the Ministry of Education and the Ministry of Works with significant increases of SAT\$12.6 million and \$9.8 million respectively.

Figure 7.1.4: Government position with the Banking System, Jul-Dec 2000/01-2007/08 (\$ Million)



Position with the Financial System

The first six months for FY07/08 recorded an overall deficit of \$39.6 million, slightly over the outturn of SAT\$39.3million for the first 3 months. The expansionary government expenditure for the period continued to exert pressure on the Government financial resources in the banking system, leading to a drawdown of SAT\$28.5 million as reported by the Central Bank of Samoa monetary survey.

Given the Government's crucial role as a depositor in the domestic monetary system, and the commitment to promoting private sector led economic growth stipulated in the SDS 2008-2012, measures to ensure fiscal discipline are essential in order to prevent crowding out of the private sector in the credit market. In this regard, Government's domestic position should be monitored on a frequent basis, ensuring resources with the banking system are replenished.

Table 7.1.1: GOVERNMENT FINANCE 2004/05 – 2007/08^a (\$ Million)

	Provisional Actual			Budget	Provisional		
	2004/05	2005/06	2006/07	2007/08	Jul-Dec 06	Pro rata	Jul-Dec 07
Revenues and Grants	524.41	387.19	487.6	499.5	222.80	168.45	224.60
Revenues	283.03	315.37	389.2	422.6	173.56	139.60	186.13
External Grants	241.38	71.82	98.5	76.9	49.24	28.85	38.46
Expenditure	521.35	391.72	472.3	514.0	236.11	198.16	264.21
Current ^b	236.57	281.89	327.6	401.7	163.99	157.65	210.20
Development ^c	263.77	86.11	123.7	108.2	58.14	36.45	48.60
Other (capital & net lending)	21.02	23.72	21.1	4.1	13.98	4.06	5.42
Current Balance	46.46	33.48	61.6	20.9	9.58	-18.05	-24.07
Overall Balance	3.06	-4.53	15.4	-14.5	-13.31	-29.71	-39.61
Financing							
Net external borrowing	15.82	6.18	7.6	17.7	7.38	7.40	9.87
Domestic	18.88	-1.65	-22.9	3.7	5.93	22.31	29.75
Overall Balance as % of GDP	0.28	-0.5	1.2	-1.0	2.04	4.17	5.56
Total Expenditure as % of GDP	47.63	39.35	36.0	36.8	36.16	27.81	37.07

Source: Ministry of Finance estimates

^a Provisional Actual 2004/05 – 2006/07, Jul-Dec 06, Jul-Dec 07 and Budget 2007/08

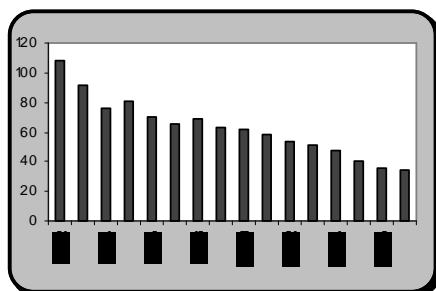
^b Includes domestically financed development plans

^c Financed from external grants and loans

7.2 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 7.2.1: Official Government Debt as % of GDP



Official government debt outstanding at end December 2007 amounted to \$477.15 million, recorded increases of \$28.77 million and \$26.70 million from end December 2006 and the third quarter of 2007 respectively. This amount is equivalent to approximately 34.8% of GDP.

Multilateral loans account for 95% (435.56 million) and Bilateral loans make up 5.0% (\$23.59 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing stood at \$20.12 million in 2007, rising by \$2.30 million from 2006. The total servicing costs as a percentage of total merchandise exports plus services (credit) is equivalent to 4.6%.

On a quarterly basis, total external debt servicing recorded \$5.99 million in December 2007, increased by \$1.72 million and \$1.37 million over the same 2006 period and the previous quarter respectively. The total servicing costs as a percentage of total merchandise exports plus services (credit) is equivalent to 5.1%.

Year End	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
Official Government Debt	461.59	448.38	477.15	448.38	446.97	431.39	450.45	477.15
Official Government Debt as % of GDP	44.8	35.8	34.8	35.8	35.7	59.9	34.3	34.8

Source: Ministry of Finance

Year End	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
Total Debt Servicing	16.72	17.82	20.12	4.27	5.31	4.20	4.62	5.99
As % of Merchandise exports plus services exports ^a	5.0	4.5	4.6	3.8	6.0	3.7	3.8	5.1

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

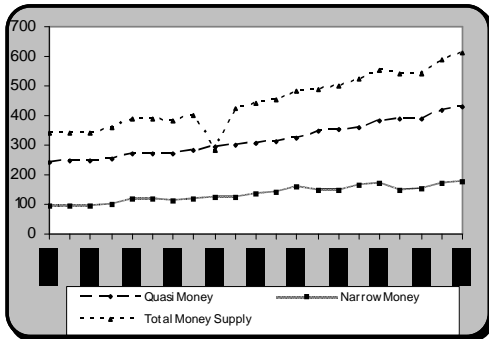
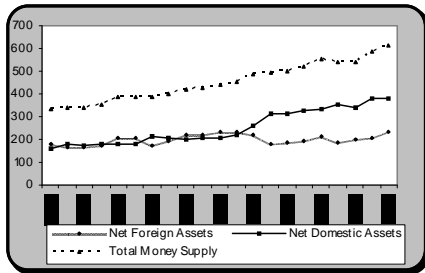
The Money Supply (generally known as M2) is defined as:

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 stood at \$611.08 million at end December 2007, rose by \$60.52 million from end December 2006. This increase was fuelled largely by Quasi Money with a rise of \$51.52 million followed by a rise of \$9.00 million in Narrow money. Elements of narrow money (M1), which are currency outside banks and demand deposits had registered increases of \$2.54 million and \$6.46 million from the previous year respectively. Time deposits was the main driver of the rise in quasi

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 with an increase of \$48.30 million followed by a surge of \$7.64 million in savings deposits whilst foreign currency deposits of residents dropped by \$4.42 million.

Money supply had increased by \$24.19 million from the preceding quarter (3Q07). Narrow money (M1) and quasi money had caused this surge with increases of \$10.81 million and \$13.38 million respectively. Both currencies outside banks and demand deposits recorded increases of \$7.52 million and \$3.29 million respectively. Quasi money components, savings deposits and foreign currency deposits of residents showed decreases of \$3.41 million and \$6.11 million respectively, whilst time deposits increased by \$22.90 million.

Net Foreign Assets and Net Domestic Assets

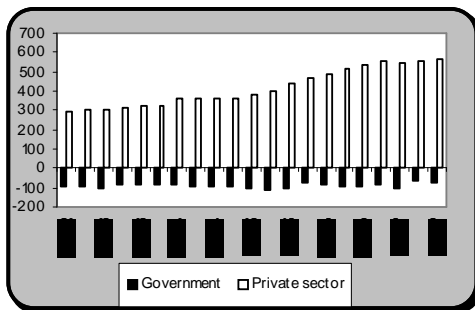
In terms of net foreign and domestic assets, NFA stood at \$231.12 million whilst NDA recorded at \$379.96 million. Both NFA and NDA registered increases of \$15.47 million and \$45.05 million respectively from December 2006. When compared to September 2007, NFA increased by \$25.45 million whilst NDA declined by \$1.38 million.

CBS Securities

The amount of securities outstanding at end of December 2007 stood at \$14.0 million, a huge increase when compared to only \$1.00 million in December 2006.

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

Domestic credit at end December 2007 stood at \$549.16 million, rose by \$75.74 million over December 2006. This rise was strongly influenced by increases of \$26.98 million and \$26.40 million in total claims on non-financial public enterprises & non-monetary financial institutions and credit to the private sector respectively. Government dropped its deposits with the banking system by \$21.73 million to stand at \$72.11 million at end December 2007. This was strongly underpinned by a decline of \$18.13 million in domestic assets with the Central Bank.

Compared to end September 2007, the total amount of domestic credit outstanding increased by \$4.68 million. The main driver for this rise was credit to the private sector with a surge of \$9.30 million.

Table 8.2.1: MONETARY SURVEY (\$ Million)

	2005		2006		2007				% Change in Dec 07 over	
					Dec	Mar	Jun	Sep	Dec	
Net Foreign Assets	221.82	215.65	231.12	215.65	187.56	199.12	205.90	231.12	7.2	12.2
Net Domestic Assets	262.19	334.91	379.96	334.91	352.27	342.66	380.99	379.96	13.2	-0.3

Money Supply (M2)	484.01	550.56	611.08	550.56	539.83	541.78	586.89	611.08	11.0	4.1
Money (M1)	160.74	170.13	179.13	170.13	148.79	151.00	168.32	179.13	5.3	6.4
Currencies outside banks	48.50	52.33	54.87	52.33	40.11	42.36	47.35	54.87	4.9	15.9
Demand deposit	112.24	117.80	124.26	117.80	108.68	108.64	120.97	124.26	5.5	2.7
Quasi Money	323.27	380.43	431.95	380.43	391.04	390.78	418.57	431.95	13.5	3.2
Savings deposits	63.97	66.43	74.07	66.43	64.14	71.21	77.48	74.07	11.5	-4.4
Time deposit	242.39	296.49	344.79	296.49	316.30	309.86	321.89	344.79	16.3	7.1
FCDR ^b	16.91	17.51	13.09	17.51	10.60	9.71	19.20	13.09	-25.2	-31.8
Domestic Credit	360.04	474.05	549.16	474.05	503.84	502.96	544.48	549.16	15.8	0.9
Government (net)	-97.76	-93.84	-72.11	-93.84	-83.42	-100.62	-66.69	-72.11	-23.2	8.1
Private sector	441.94	539.94	566.34	539.94	558.42	548.29	557.04	566.34	4.9	1.7
Claims ^a	15.86	27.95	54.93	27.95	28.84	55.29	54.13	54.93	96.5	1.5

Source: CBS

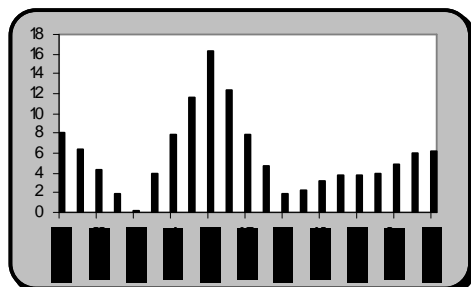
^a Include claims on non-financial public enterprises and non-monetary financial institutions^b Foreign Currency Deposits of Residents

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 (%)



The annual average rate of inflation in December 2007 was 6.1 percent, increased by 2.3 percentage points from December 2006. The twelve months moving average for the local component of the CPI had increased by 2.3 percentage points over this period. This rise was strongly dominated by increases in alcohol/tobacco and housing/household prices. The import component of the CPI had increased by 2.4 percentage points due mainly to rises of 4.8, 4.0, 1.1 and 0.9 percentage points in food, alcohol/tobacco, clothing/footwear and miscellaneous prices respectively.

Alcohol and tobacco prices had mainly fuelled the growth in all items (local and import components) of the CPI with an increase of 7.5 percentage points followed by food and housing/household prices whilst transport/communication declined during this period. The rise in house/household category was partly contributed by an increase in electricity costs whilst a drop in transport/communication group has been partially influenced by the decline in local and international call prices.

The annual average rate of inflation had increased by 0.1 percentage points when compared to end September 2007. In all items of the CPI transport/communication, housing/household and clothing/footwear groups showed increases whilst miscellaneous, alcohol/tobacco and food prices registered declines throughout this period.

Table 9.1.1: ANNUAL INFLATION (%)

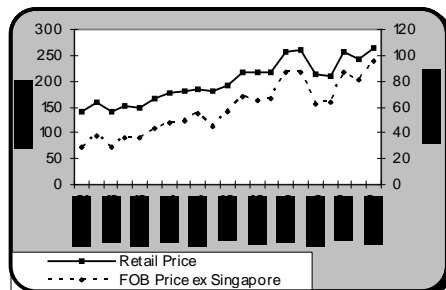
	2005	2006	2007	4Q06	1Q07	2Q07	3Q07	4Q07
All Item Index	1.8	3.8	6.1	3.8	3.9	4.9	6.0	6.1
Imported Good Index	2.2	4.5	6.9	4.5	4.9	6.0	7.2	6.9
Local Good Index	1.6	3.1	5.4	3.1	3.1	3.8	4.9	5.4

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 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 9.2.1: End Quarter Petroleum Prices



In December 2007, international prices (US currency) for petrol, kerosene and diesel were 95.89 cents, 106.13 cents and 102.06 cents per litre respectively. Petrol increased by 33.90 cents, kerosene by 32.60 cents and diesel by 31.41 cents from December 2006. Domestic retail prices at end December 2007 for petrol at 262.50 sene has risen by 50.50 sene, kerosene at 271.80 sene increased by 55.90 sene and diesel which stood at 260.80 sene has surged by 48.2 sene over December 2006. The accelerated rise in petroleum prices has been caused by strong demand, especially from China and India and supply disruptions.

When compared to the preceding quarter, international prices for petrol, kerosene and diesel increased by 14.58 cents, 19.13 cents and 16.54 cents respectively. Domestic retail price for petrol, kerosene and diesel had also showed upward trend by 21.9 sene, 55.9 sene and 13.8 sene respectively.

Table 9.2.1: END QUARTERLY PETROLEUM PRICES

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

	2006		2007							
	December		March		June		September		December	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	212.00	61.99	211.3	63.13	255.1	86.65	240.6	81.31	262.5	95.89
Kerosene	215.90	73.53	206.5	70.59	226.5	81.83	231.0	87.00	271.8	106.13
Diesel	228.00	70.65	221.3	69.01	243.5	81.31	247.0	85.52	260.8	102.06

Source: Energy Unit, Ministry of Finance