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Contact: Economic Policy and Planning Division,
Ministry of Finance,
Apia, SAMOA

Telephone: (+685) 34-333

Fax: (+685) 21-312

E-mail: eppd@mof.gov.ws

QUARTERLY ECONOMIC REVIEW

This Quarterly Economic Review is published by the Economic Policy and Planning Division of the Ministry of Finance. The analysis is based on the latest available data on the main macroeconomic aggregates as collected by the Central Bank of Samoa and the Ministry of Finance, and is intended to provide Government officials, the business community and the general public with a better understanding of the economy.

This review summarizes the state of the economy during the second quarter 2007.

1. EXECUTIVE SUMMARY

Key Features of Second Quarter 2007 Performance

- Real **GDP** of \$258.30 million in 2Q07, grew by 4.1% over the comparable 2006 period; (see section 2)
- **Employment** increased by 1.5% (314) over the comparable 2006 period; (see section 3)
- **Export** revenues valued at \$10.39 million in 2Q07, increased by 29.4% over the same 2006 period; (see section 4.1)
- **Imports** stood at \$148.32 million in 2Q07, increased by 17.1% over the comparable 2006 period; (see section 4.2)
- **Trade deficit** worsened by \$19.26 million to stand at \$137.93 million in 2Q07 over 2Q06; (see section 4.5)
- **Foreign reserves** at the end of 2Q07 stood at \$199.32 million, equivalent to 4.1 months of import cover; (see section 5)
- The **Tala appreciated** against the USD, EURO, FJD and Yen whilst depreciated against the NZD and AUD from the comparable 2006 period (see section 6)
- The **budget out-turn** showed an overall surplus of \$15.40 million, for the FY 2006/07. The current surplus improved to \$61.6 million from \$42.00 million recorded in the same period of the previous financial year; (see section 7.1)
- Official **government debt** outstanding at end 2Q07 stood at \$431.39 million; down by \$47.32 million over the corresponding 2006 period; (see section 7.2)
- **Money supply** valued at \$541.78 million at end June 2007, increased by \$43.23 million over the comparable 2006 quarter; (see section 8.1)
- **Domestic credit** expanded by \$73.45 million over 2Q07 to stand at \$503.56 million; (see section 8.2)
- The annual average **inflation rate** at end June 2007 stood at 4.9 percent, 1.7 percentage points higher than the rate at end June 2006; (see section 9)

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: Quarterly GDP estimates at constant and current prices (\$ Million)

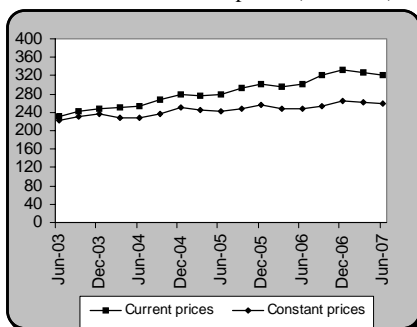
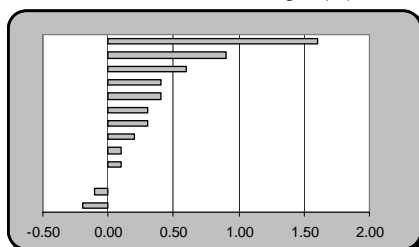


Figure 2.2: Contribution to Change in Total Real GDP for June 2Q07 (%)



Labeled from top to bottom

Construction:	1.6
Commerce:	0.9
Other Manufacturing:	0.6
Transport, Communication:	0.4
Agriculture:	0.4
Electricity & water:	0.3
Public Administration:	0.3
Finance & business services:	0.2
Fishing:	0.1
Ownership of dwellings:	0.1
Personal & other services:	0.0
Hotels & restaurants	-0.1
Food & Beverages manufacturing	-0.2

Overview

The economy in the June quarter recorded another strong growth (4.6%) following a notable achievement (5.0%) in the first quarter 2007 and the apparent recovery in the September and December quarters 2006 of 3.8% and 2.9% respectively. These positive performances accumulated a total real GDP of \$1.0 billion Tala, which translated into a twelve months (ending June 2007) real growth rate of 4.1% compared to the corresponding period ending June 2006. GDP at current market prices over the twelve months period stood at \$1.2 billion.

Aggregated GDP in the June quarter was \$320.6 million at current market prices and \$258.4 million Tala at constant 2002 prices. Real GDP was translated into a real increase of 4.6% compared to the June quarter 2006, 1.3 percentage points higher than the average quarterly growth rates in the past 2 years.

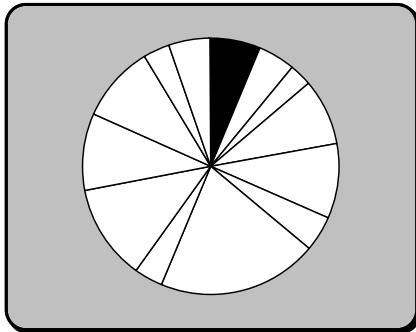
This 4.6% growth was expected with the expansion in the construction Sector, driven by the ongoing completion construction works in preparation for the South Pacific Games, contributing a 1.6 percentage points to the overall growth. Commerce, Other Manufacturing, Agriculture and Transport and Communication also made significant contributions of 0.9, 0.6, 0.5 and 0.4 percentage points respectively. Other industries made insignificant and positive contributions to growth except for the Food and Beverage Manufacturing and Hotels and Restaurants which registered negative contributions to growth of 0.2 and 0.1 percentage points, respectively.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture production in June 2007 quarter generated a total value added of \$16.6 million Tala, an increase of 6.6 percent when compared to the same quarter last year. The result was somewhat due to the low production in June 2006 which declined by 10.4% relative to the corresponding period in 2005. When compared to the previous period the industry's performance declined by 6.0 percent. The industry's performance is expected to improve in light Samoa's hosting of the South Pacific Games.

Figure 2.3: Real GDP by industry



Labeled commencing from the shaded area going clockwise

Agriculture:	6.4
Fishing:	4.7
Food and Beverages manufacturing:	2.9
Other manufacturing:	8.4
Construction	9.5
Electricity and water:	4.7
Commerce:	20.2
Hotels, restaurants:	3.5
Transport, Communication:	12.4
Public Administration:	10.0
Finance and business services:	9.7
Ownership of dwellings:	3.5
Personal and other services:	5.2

Fishing industry continued to register positive growths in the past four quarters with an average growth rate of 4.2%. During the quarter under review, the Fishing industry generated a total value added of \$12.3 million, an increase of 3.0% when compared to June 2006. Strong growth in the Commercial fishing reflected in the export earnings increased by 29.4% was the main force driving the industry's performance. Based on the export trend, it is expected that the industry will grow at the same rate in the next quarter.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Overall production in the **Food and Beverage Manufacturing** again declined (-5.6%), but at a slower rate in the June quarter compared to the negative 15.6 percent growth in March 2007 relative to the same periods last year. Total value added in real terms was \$7.5 million Tala, \$0.2 million lower than June 2006. The decline in performance was attributed to the low production of beer which declined by 6 percent that more than offsets the slight increases in the production of the nonu juice and coconut cream. These exports increased by 3.6% and 4.0 percent respectively.

Other Manufacturing generated a total value added of \$21.6 million Tala during the June quarter, an increase of 7.0% when compared to the same time last year. Underpinning the favourable result was predominantly the improved production of the Yazaki company with its estimated value added increasing by 19.7%, increased production of locally produced construction materials such as ready-mix cement, concrete blocks and roofing iron that all increased by 21%, 7% and 3 percent respectively.

Construction provided the stimulus to the economy during the June quarter, with a contribution of 1.6 percentage points to the overall GDP growth. Over the period, construction activities generated a total value added of \$24.4 million Tala, an increase of 19.1% when compared to the same period last year. The strong growth was fuelled with the final preparations of sports facilities for the South Pacific Games coupled with other related works like roads and bridges. The industry is projected to slow down in the last two quarters of this year.

Electricity and Water generated a total value added at constant 2002 prices of \$12.2 million, an increase of 5.8% compared to June 2006. High demand from almost all industries for both electricity and water relatively boosted production despite the increased in petroleum prices. This industry contributed a 0.3 percentage points to the overall growth.

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

Commerce value added for the June quarter at constant 2002 prices stood at \$52.1 million Tala, an increase of 4.3% compared to June 2006, with a 0.9 percentage points to the overall growth. The 4.3% increase in the Commerce industry's performance was fueled by the excess funds generated from the construction activities, improved fishing and the ongoing public sector general salary and wages increase.

The total real value added for **Transport and Communications** was \$32.0 million. When compared to June 2006, production increased by 3.5% or \$1.1 million more. It comprises of 12.4% of the overall GDP and contributed 0.4 percentage points to the GDP growth for the second

quarter. Improved communication services coupled with strong demand for the non-scheduled land transport for the ongoing construction and tourism activities boosted the industry's performance.

Finance and Business Services slowed down in June 2007, and was indicative of the low liquidity available to the banking sector in particular their lending services. Value added generated was \$25.2 million in constant 2002 prices, an increase of 1.9% compared to June 2006. This contributed only 0.2 percentage points to the overall growth.

Personal and other Services value added generated during the second quarter was \$13.4 million. This represents an increase of 0.2% if compared to the previous twelve months. The industry share to the overall GDP remained at 5.2 percent.

Hotels and Restaurants value added was \$9.2 million tala, declined by 2.4% compared to the same period of 2006, with a negative contribution of 0.1 percentage points to the overall GDP growth. The shortfall was attributed to the slight decline in the holiday tourist market by half a percent and the increasing cost of imported goods due to increases in the values of the New Zealand and Australian currencies during the period.

Government Sector

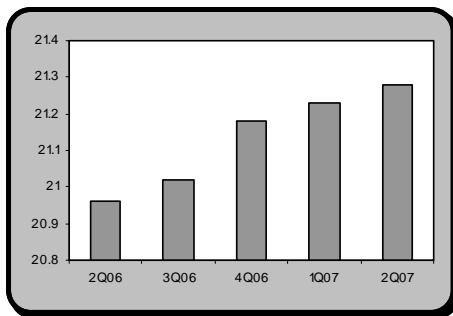
Public Administration is the third largest industry in the Samoan economy with a share of 9.9 percent. During the period under review, this industry generated a total value added of \$25.8 million Tala, an increase of 3.1% when compared to June 2006. This increase reflected the improvement in productivity as a result of better public sector salary and wages.

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07	% Change 2Q07 over	
At constant 2002 prices	(\$ Million)								2Q06	1Q07
Agriculture	63.30	73.13	68.28	15.59	17.72	17.87	17.66	16.62	6.6	-5.9
Fishing	52.78	48.50	48.33	11.91	12.40	12.62	11.92	12.27	3.0	2.9
Food & Beverages Manufacturing	30.42	33.30	31.21	7.95	6.77	7.65	7.47	7.50	-5.6	0.4
Other Manufacturing	106.61	100.00	89.33	20.17	23.66	25.31	24.64	21.58	7.0	-12.4
Construction	74.28	84.45	87.71	20.50	22.99	23.82	22.71	24.42	19.1	7.5
Electricity and Water	43.09	44.46	46.51	11.56	11.78	11.95	11.53	12.23	5.8	6.1
Commerce	182.13	192.04	201.05	49.93	49.93	51.37	52.74	52.08	4.3	-1.3
Hotels, Restaurant	24.15	26.49	34.09	9.39	7.22	8.80	9.17	9.17	-2.4	0.0
Transport, Communication	120.84	126.90	132.18	30.92	32.90	35.53	33.64	32.00	3.5	-4.9
Public Administration	78.89	90.45	100.52	25.01	25.12	25.34	25.35	25.78	3.1	1.7
Finance & Business Services	90.45	94.35	99.64	24.69	24.93	25.44	25.37	25.16	1.9	-0.8
Less: Enterprise share of FISIM	-11.59	-12.04	-12.27	-3.05	-3.09	-3.06	-3.12	-3.09	1.5	-1.0
Ownership of Dwellings	34.55	35.25	35.96	8.97	9.01	9.06	9.10	9.15	2.0	0.5
Personal & Other Services	53.04	53.43	53.56	13.40	13.38	13.50	13.61	13.43	0.2	-1.3
Value added 2002 market prices	942.93	990.72	1016.09	246.95	254.72	265.19	261.79	258.30	4.6	-1.3
Implicit price deflator:	111.3	116.2	122.9	121.5	125.8	125.0	124.7	124.4	2.4	-0.2
Selected measures of production:										
At constant 2002 prices										
Non-monetary	123.95	129.87	127.84	31.12	32.53	32.04	32.15	31.35	0.7	-2.5
Monetary – total	818.98	860.85	888.26	215.83	222.18	233.16	229.64	226.95	5.2	-1.2
Monetary – restricted scope	743.66	793.60	831.02	202.23	207.13	216.09	213.42	211.86	4.2	-0.7
Memo items:										
Nominal GDP (current prices)	1,049.41	1,151.20	1,249.18	300.15	320.38	331.44	326.54	321.43	7.1	-1.6
GDP per capita	6173	6775	7,104	n.a	n.a	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)



Active formal paid employment estimates totaled 21,277 at the end of second quarter 2007, increased by 1.5% (314) over the comparable 2006 period. This was primarily due to increases in the number of employees in the primary sector of 40 (10.2%) and secondary sector of 279 (7.3%) respectively, whilst tertiary sector declined by 0.5% (54).

Employment compared to the previous quarter (1Q07) recorded an increase of 0.2% (48). This is a result of improvement in the primary and secondary industries by 0.9% (4) and 1.0% (40) except for the tertiary sector which recorded a decline of 0.22% (26) respectively.

Table 3.1: TOTAL EMPLOYMENT NUMBERS ('000)

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07	% Change in 2Q07 over	
									2Q06	1Q07
Primary	0.35	0.34	0.42	0.39	0.40	0.42	0.43	0.43	10.2	0.9
Secondary	3.75	3.93	3.99	3.81	3.84	3.99	4.05	4.09	7.3	1.0
Tertiary	10.95	11.75	11.83	11.82	11.84	11.83	11.79	11.77	-0.5	-0.2
TOTAL EMPLOYMENT	20.06	20.99	21.18	20.96	21.02	21.18	21.23	21.28	1.5	0.2

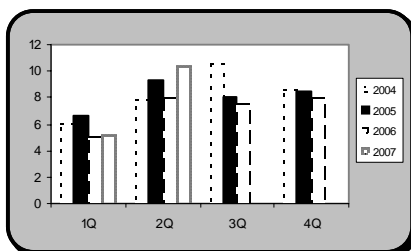
Source: Samoa National Provident Fund

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: Exports by Quarter Compared Annually (\$ Million)



Total export revenues in 2Q07 were \$10.39 million, increased by \$2.36 million (29.4%) over 2Q06. The main contributor to the rise was fish with an increase of \$1.32 million. All other products showed increases with the exception of beer with a decline of \$0.34 million (31.5%).

Compared to the previous quarter, exports had increased remarkably by 98.9%. This was mainly the result of an increase in the number of fish catches due to the favourable climatic conditions. Fish exports had the largest percentage share of 56.0% to total export receipts. All other products recorded increases whilst beer and 'others' dropped by \$0.14 million and \$0.18 million respectively throughout this period.

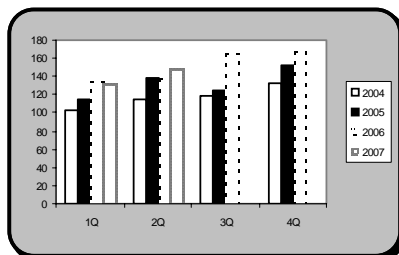
Table 4.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07	% Share			% Change in 2Q07 over	
	(\$ Million)								2Q06	1Q07	2Q07	2Q06	1Q07
	Fish	13.52	11.58	15.45	4.49	5.63	3.85	1.59	5.81	55.9	30.5	56.0	29.4
Coconut cream	2.56	2.28	2.39	0.70	0.46	0.54	0.43	0.73	8.7	8.3	7.0	3.6	67.7
Nonu fruit	1.47	1.54	0.87	0.25	0.30	0.24	0.28	0.82	3.2	5.4	7.9	221.3	190.4
Nonu juice	4.69	8.30	3.95	1.11	0.25	1.03	0.74	1.16	13.9	14.2	11.1	3.9	56.4
Beer	4.34	4.83	3.48	1.08	0.53	1.03	0.88	0.74	13.4	16.8	7.1	-31.5	-15.8
Taro	1.97	0.85	0.60	0.16	0.13	0.16	0.18	0.19	2.0	3.3	1.9	19.7	10.9
Others	4.58	3.12	2.01	0.24	0.29	1.19	1.13	0.95	2.9	21.5	9.1	304.26	-15.5
TOTAL	33.13	32.49	28.75	8.03	7.59	8.04	5.23	10.39	100.0	100.0	100.0	29.4	98.9

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: Imports by Quarter Compared Annually (\$ Million)

Imports were valued at \$148.32 million in the second quarter of 2007, up by \$21.62 million over the same period of 2006. Government and petroleum imports had increased by \$8.99 million and \$19.49 million whilst non-petroleum private sector imports declined by \$6.85 million.

When compared to the previous quarter, imports went up by \$14.88 million. This was due mainly to an increase in all the three categories of imports. Government, petroleum and non-petroleum private sector imports all registered increases of \$1.16 million (13.1%), \$4.76 million (17.3%) and \$8.97 million (9.2%) respectively.

Table 4.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

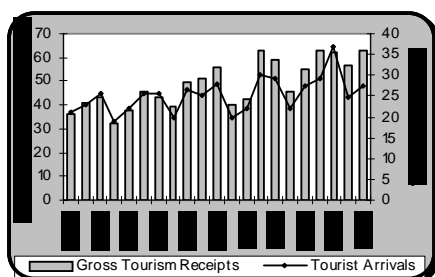
	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07	% Share			% Change 2Q07 over	
	(\$ Million)								2Q06	1Q07	2Q07	2Q06	1Q07
	Government ^a	1.77	4.42	15.67	1.00	6.63	3.27	8.83	9.99	0.8	6.6	6.7	895.5
Petroleum	78.02	94.99	102.69	12.73	32.65	30.39	27.46	32.22	10.1	20.6	21.7	153.1	17.3
Other Product ^b	441.89	507.70	477.66	112.97	126.97	135.05	97.15	106.12	82.2	72.8	71.6	-6.1	9.2
TOTAL	521.68	607.11	596.02	126.70	166.25	168.70	133.44	148.32	100.0	100.0	100.0	17.06	11.15

Source: Central Bank of Samoa

^a Includes import of stationeries for the Ministry of Education in 1Q06 and 1Q07 valued at \$1.0 million and \$0.8 million.^b Includes building materials for the Samoa Institute of Technology extension valued at \$2.6 million and telephonic switching apparatus and cables for the SamoaTel valued at \$4.7 million in 1Q06, also include aircraft parts for the Polynesian Airline (Inter-Island) valued at \$0.7 million and cables for the SamoaTel valued at \$0.6 million in 2Q06, also include coins for CBS valued at \$0.6 million and import of cellular mobile telephones (CMT) for Digicel valued at \$1.9 million and mixture 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: Gross Tourism Receipts (\$ Million) & Tourist Arrivals ('000)

Gross tourism receipts were valued at \$63.02 million in 2Q07, up by \$7.77 million (or 14.1%) over 2Q06 and the number of tourist arrivals also increased by 1,633 during this period. Visiting friends and relatives category had contributed the highest share of 40.6% to the total number of arrivals followed by tourists on holiday (32.7%), others (12.8%), business (11.8%) and sports (2.1%). Most of the tourists are from New Zealand (41.1%), American Samoa with 20.6%, 17.9% from Australia, 13.1% from other countries and 7.2% from the USA.

When compared to the previous quarter (1Q07) tourist arrivals and gross tourism revenue were up by 4,386 arrivals and \$7.56 million respectively in 2Q07.

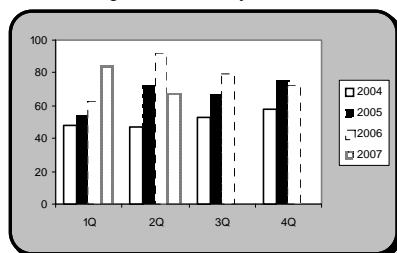
Table 4.3: GROSS TOURISM RECEIPTS (\$ Million) AND TOURIST ARRIVALS ('000)

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
Gross Tourism Revenues	198.03	207.37	226.20	55.25	63.00	62.27	55.46	63.02
Tourist Arrivals	98.16	101.10	109.50	27.42	30.23	30.69	24.66	29.05

Source: Central Bank of Samoa, Ministry of Finance and 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 currently the primary component of net transfers in the balance of payments.

Figure 4.4: Remittances by Quarter Compared Annually (\$ Million)

Remittances were valued at \$68.01 million in 2Q07, down by \$24.15 million (or 26.2%) and \$16.11 million (or 19.2%) over the second quarter of 2006 and 1Q07 respectively. The highest remitting country for the period was New Zealand with 29.3% followed by USA, Australia and Fiji accounting for 23.0%, 20.0% and 17.2% respectively of total amount of remittances.

The majority of remittances is for the private individuals which contributed a share of 59.4%, funds for churches and non government schools with a contribution of 19.3%, funds for expatriates in Samoa with a share of 4.3% and funds brought in by immigrants and funds received from sale of properties overseas recorded a 1.1%.

Table 4.4: GROSS REMITTANCES (\$ Million)

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
Remittances	199.83	246.24	307.75	92.16	79.87	72.58	84.12	68.01
Remittances as % GDP	19.0	21.4	24.6	31.0	26.8	22.6	25.3	20.3

Source: Central Bank of Samoa

4.5 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 4.5: Quarterly Trade Balance (\$ Million)

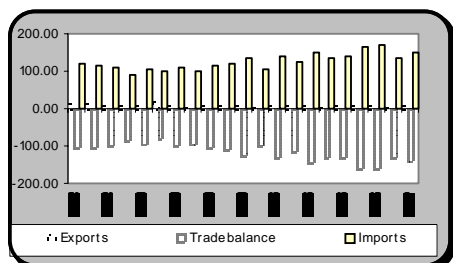
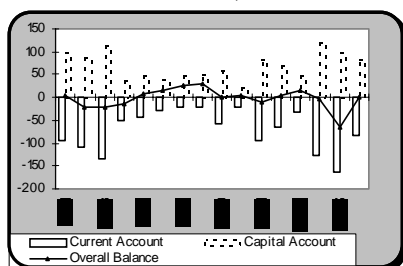


Figure 4.6: Annual Overall Balance (\$ Million)



The trade deficit worsened by \$19.26 million from the same 2006 period to stand at \$137.93 million. This was due to a rise of \$21.62 million in imports which more than offsets the increase of \$2.36 million in exports over the corresponding quarter. Compared to 1Q07, the trade deficit had also increased by \$9.72 million.

Net services and net transfers recorded increases of \$15.98 million and \$2.93 million respectively compared to the corresponding 2006 quarter. This resulted in a current account surplus of \$11.88 million in 2Q07, declined by \$0.35 million from a surplus of \$12.23 million in the same period of 2006. When compared to the previous quarter, Net services and income and Net transfers registered significant increases of \$44.02 million and \$7.45 million respectively.

The **capital account** surplus was estimated at \$22.78 million in 2Q07, an increase of \$4.96 million over 2Q06. This led to an overall balance of payments surplus of \$34.66 million, which increased by \$4.61 million over the comparable 2006 period.

Table 4.5: COMPARATIVE TRADE DATA 2003–2005 (\$ Million)

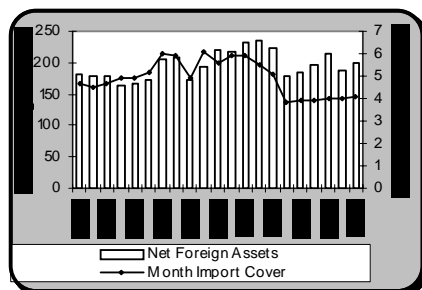
	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
1. EXPORTS (fob)	33.13	32.49	28.75	8.03	7.59	8.04	5.23	10.39
2. IMPORTS (cif)	441.89	507.7	596.02	126.70	166.25	168.70	133.44	148.32
3. TRADE BALANCE	-408.76	-475.21	-567.27	-118.67	-158.66	-160.66	-128.21	-137.93
4. NET SERVICES	139.71	134.60	206.67	66.20	51.62	68.67	38.16	82.18
5. NET TRANSFERS	210.48	276.62	287.54	64.70	58.03	65.38	60.18	67.63
6. CURRENT ACCOUNT BALANCE	-58.57	-63.99	-73.06	12.23	-49.41	-26.61	-29.87	11.88
7. CAPITAL ACCOUNT (Net)	101.47	98.01	86.19	17.82	69.34	23.01	22.59	22.78
8. OVERALL BALANCE*	42.90	34.02	13.13	30.05	19.93	-3.60	-7.28	34.66
9. TRADE BALANCE AS % GDP	-39.0	-48.0	-55.8	-48.1	-62.0	-60.7	-49.2	-53.4
10. CURRENT ACCOUNT BALANCE AS % GDP	-5.6	-6.5	-7.2	5.0	-19.3	-10.0	-11.5	4.6

*Following the shift to the BOP Manual 5, the balance of payments surplus/deficit is now defined as the change in official gross reserve assets excluding commercial bank reserves

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



The total value of foreign exchange reserves amounted to \$199.32 million in June 2007, registered an increase of \$14.68 million from June 2006. This rise was strongly driven by an increase of \$27.36 million in Central Bank holdings followed by a slight rise of \$0.88 million in the Ministry of Finance holdings whilst Commercial Banks holdings declined by \$13.56 million.

Compared to the previous quarter, foreign exchange reserves were up by \$11.76 million. This increase resulted from a rise of \$5.83 million in Central Bank holdings and Commercial Bank's reserves with an increase of \$6.08 million whilst holdings of the Ministry of Finance dropped by \$1.16 million.

At end June 2007, net foreign assets were sufficient to cover 4.1 months of imports, compared to 3.9 in June 2006 and 4.0 months coverage at the end of March 2007.

Table 5.1: NET FOREIGN ASSETS (\$ Million) & IMPORT COVER (Months)

	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
Net Foreign Assets	220.06	221.82	215.65	184.64	196.21	215.65	187.56	199.32
Import Cover	5.6	5.1	4.0	3.9	3.9	4.0	4.0	4.1

Source: Central Bank of Samoa

6. EXCHANGE RATES

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

At the end of June 2007, the Tala depreciated against the NZD and AUD whilst strengthening against the USD, EURO, FJD and YEN over the same 2006 period.

When compared to the previous quarter, the Tala again appreciated against the USD, EURO, FJD and YEN whilst decreased in value against the NZD and AUD.

Table 5.1: CBS EXCHANGE RATES (Foreign Currency per Tala: end month midrates)

	2006			2007		% Appreciation(+)/Depreciation (-) of TALA between Jun 07 and	
	Jun	Sep	Dec	Mar	Jun	Jun 06	Mar 07
USD	0.3531	0.3599	0.3724	0.3761	0.3877	9.80	3.08
NZD	0.5791	0.5501	0.5285	0.5250	0.5054	-12.73	-3.73
AUD	0.4751	0.4829	0.4720	0.4661	0.4588	-3.43	-1.57
EURO	0.2759	0.2841	0.2822	0.2811	0.2870	4.02	2.10
FJD	0.6188	0.6218	0.6197	0.6190	0.6204	0.26	0.23
YEN	40.5963	42.4362	44.3177	44.3729	47.5606	17.16	7.18

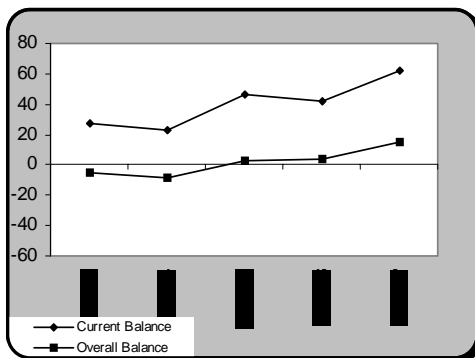
Source: Central Bank of Samoa

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: Overall and Current Balance
July-Jun 2002/03-2006/07 (\$ Million)



Overall Performance

The **2006/2007 Budget** anticipated an overall deficit of \$16.0 million (1.4% of GDP) and a current surplus of \$37.9 (3.4% of GDP) million. The major difference between the current surplus and the overall deficit was expected to arise from the forecast expenditure on a number of infrastructure projects, South Pacific Games facilities final preparation in particular.

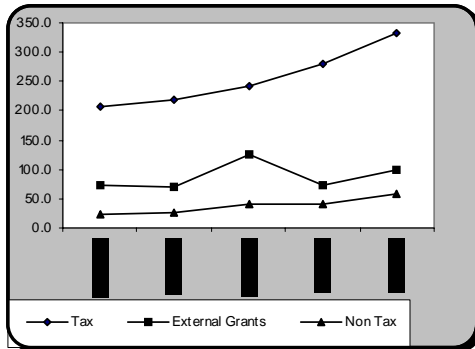
Over the period however, the actual outturn was in contrast compared to the budget estimate, recording an overall surplus of \$15.4 million, equivalent to 1.2 per cent of GDP. The favourable result was primarily due to the very strong growth in revenue collection exceeding the budget estimate by 7.2% (\$26.1 million Tala). Nevertheless was the positive effect of the 30% cut in the overall expenditure programme that resulted in a slight increase of \$2.5 million in the current expenditure, despite notable increases of \$46.6 and \$25.8 million Tala that were in part required for the South Pacific Games preparations, as reflected in the appropriations for the Ministry of Education and Ministry of Works and Infrastructure. The high level of construction activity was reflected in an average quarterly growth of GDP of 4.1% in the past four quarters, with growth rates of 5.0% and 4.6% in March and June quarters 2007. The construction sector contributed 0.9 and 1.6 percentage points in March and June 2007 quarters respectively. This outturn was encouraging in light of the expansionary expenditure program projected for the period and the unstable level of liquidity available in the banking sector.

At the current level, \$61.6 million (4.7% of GDP) surplus was achieved. The \$61.6 million surplus recorded in the current balance was way over the budget estimates. This was indicative of adjustments made to taxes, VAGST (12.5% to 15%) and Income tax (29% to 27%) in particular that recorded increases of \$6.5 million and \$3.2 million respectively. Receipts on import duty contributed significantly to the surplus with an increase of \$5.4 million Tala or 11.4 percent. The result was consistent with a huge jump in the import bill for the financial year by 14.7 percent.

Revenue

Total Revenue and Grants for the fiscal year 2006/07 was \$487.6 million, which was \$26.1 million above the budgeted estimate. This

Figure 7.2: Revenue by Type, July-Jun 2002/03-2006/07 (\$ Million)



revenue comprised \$389.2 million (79.8%) of current receipts and an estimated \$98.4 million (20.2%) of grants.

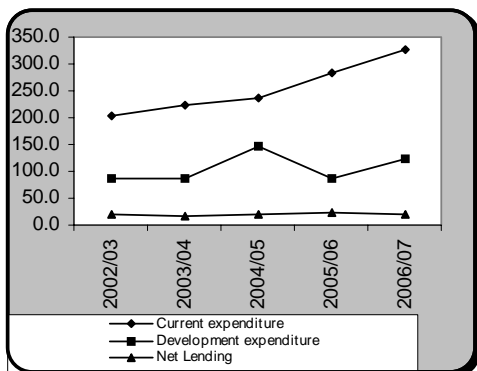
Tax Revenue at \$331.1 million exceeded the appropriated estimate by \$13.2 million equivalent to a 4.2% increase. When compared to the previous year 2005/06 tax, it had increased by 17.8%, and was the highest since the implementation of the tax reform. This was primarily a result of net increases of \$6.5 million, \$5.4 million and \$3.2 million from VAGST on imports, import duty and Income tax in the respective order. These increases have more than offset shortfalls of \$4.3 million, \$1.0 million and a sum of \$0.9 million Tala in the collection of Import Excises and other taxes like petroleum levy, stamp duty and licenses. Consistent with increases of 11.4% and 8.1% in the import duty and import vagst, import of goods jumped to \$616.7 million from \$537.7 million, an increase of 14.7% compared to the corresponding period.

As illustrated in figure 7.2, is the strong growth in tax revenues growing at a trend rate of 7.3 percent. This result reflects some of the revenue measures put in place by the government during the period coupled with strong economic performances in the past four years growing at an average annual growth rate of 3.5 percent.

Non-tax revenue was notable with a \$12.9 million over the budget estimate, hence a result of some one-off payments that were not in the budget, like the sale of Polynesian spare parts of \$8.4 million and the \$5.1 million for the sale of Government shares with the Telecom Samoa Cellular and an excess \$6.0 million from the Samoa International Finance Authority. Cost recovery improved by 5% compared to the budget estimate. However there have been some shortfalls in the property and investment income, namely the dividends from the State Owned Enterprises down by \$3.9 million and a loss of \$0.7 million form the air space royalty and land administration compared to the budgeted estimate.

The estimated level of external grants fluctuated quite widely being influenced by the incidence of major investment projects e.g Aquatic Centre in 2004/05

Figure 7.3: Expenditure by Type, July-Jun 2002/03-2006/07 (\$ Million)



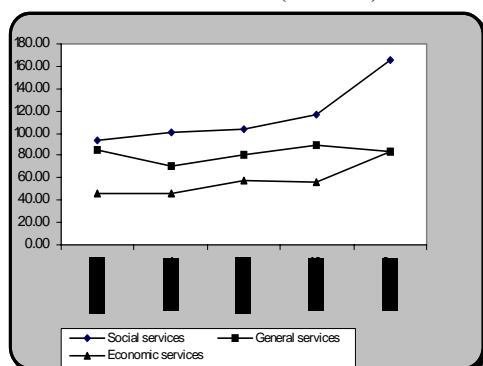
Expenditure

Total expenditure and Net Lending for the fiscal year stood at \$472.3 million Tala, 1.1% below the projected expenditure for the year. The lower level of total expenditure was mainly due to development expenditure being some \$8.1 million below the budgeted figures. Current expenditure stood at \$327.6 million was some \$2.5 million more than the budgeted estimates.

Figure 7.3 illustrates the nature of expenditures. Current expenditure expanded further to stand at \$327.6 million Tala (16.2%) in the fiscal year 2006/07 following another major increase of 19.2% in the financial year 2005/06. The huge increase in expenditure was more concentrated in the Social and Economic Services registering increases of 43% and 48% compared to the previous year.

Underpinning the increase was Government's commitment in hosting the XIII South Pacific Games. This expenditure encompasses both

Figure 7.4: Expenditure by Sector, July-Jun 2002/03-2006/07 (\$ Million)

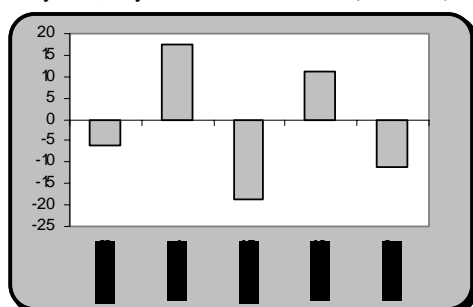


current expenditure and development related projects funded under the government budget.

Development expenditure for the fiscal year stood at \$123.7 million Tala, was \$8.1 million lower than the budgeted expenditure. The shortfall was due mainly to delays in the implementation of other loan funded projects planned for the year. Aid funded projects was on par.

At the Sector level, Figure 7.4 indicates the Government's commitment to promote the Social services, Health and Education in particular as priority sectors stipulated in the SDS. Furthermore, the huge shift in the expenditure level as shown in Figure 7.4 reflects the appropriated funds of \$40.7 million allocated for the South Pacific Games under the Ministry of Education. Completion of the South Pacific Games 2007 would ensure some savings in the near future. Expenditures on Economic Services also shifted from an average of \$50 million in the past 4 years to equal the General services at \$83 million Tala in the period under review. This increase was attributed to an 87% increase arising from some adjustments made to the structure of outputs and an additional \$11.9 million Tala required for the new roads and bridges as part of the South Pacific Games preparations. General Services flattened out relative to the 2005/06 level.

Figure 7.5: Government position with the banking system, July-Jun 2002/03-2006/07 (\$ Million)



Position with the Financial System

The Government's financial resources with the banking system at the end of the 2006/07 financial year increased by \$11.2 million compared to end 2005/06. This was primarily due to a huge increase in the revenue collection, that more than offsets huge expenditure commitments by the Government during the period for the South Pacific Games preparations.

Given the Government's role in providing liquidity to the domestic financial system, a great emphasis should be given in monitoring its resources to ensure that there is sufficient financial resource available in the banking system for private sector credit.

Table 7.1: GOVERNMENT FINANCE 2004/05 – Jun 07^a (\$ Million)

	Provisional Actual			Budget	Provisional		
	2004/05	2005/06	2006/07	2007/08	Apr-Jun 06	Jan-Mar 07	Apr-Jun 07
Revenues and Grants	401.0	395.1	487.6	500.1	122.5	119.2	145.6
Revenues	283.0	323.2	389.2	423.1	104.6	94.6	121.02
External Grants	118.0	71.8	98.5	76.90	17.9	24.6	24.6
Expenditure	398.0	391.7	472.3	514.04	91.9	111.01	125.2
Current ^b	236.6	281.9	327.6	401.5	71.9	71.13	92.4
Development ^c	140.4	86.1	123.7	108.2	22.3	31.5	34.04
Other (capital & net lending)	21.0	23.7	21.1	4.4	-2.29	8.41	-1.33
Current Balance	46.5	41.4	61.6	21.7	32.7	23.5	28.6
Overall Balance	3.1	3.3	15.4	-13.98	30.6	8.2	20.5
Financing							
Net external borrowing	15.8	6.2	7.6	17.7	0.88	-0.92	1.12
Domestic	-18.9	-9.5	-22.9	3.7	-31.5	-7.27	-21.6
Overall Balance as % of GDP	0.3	0.3	1.2	1.0	12.4	3.13	7.93
Total Expenditure as % of GDP	37.0	32.9	36.4	36.8	37.2	42.41	48.5

Source: Ministry of Finance estimates

^{a/} Provisional Actual 2004/05 – 2006/07, Apr-Jun 06, Jan-Mar 07, Apr-Jun 07 and Budget 2007/08

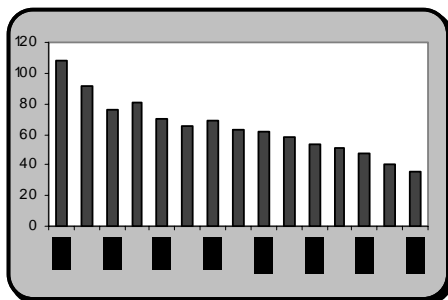
^{b/} Includes domestically financed development plans

^{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 7.5: Official Government Debt as % of GDP



Official government debt outstanding at end June 2007 amounted to \$431.39 million, down by \$47.32 million and \$15.58 million from the corresponding period of 2006 and the first quarter of 2007 respectively. This amount is equivalent to approximately 59.9% of GDP.

Multilateral and bilateral loans accounted for 99.0% (\$431.05 million) and 1.0% (\$0.34 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded \$4.20 million in June 2007, up by \$0.14 million from the same 2006 period whilst declined by \$1.11 million from the previous quarter.

Servicing costs as a percent of merchandise exports and total foreign exchange reserves were equivalent to 40.4% and 2.1% respectively.

The remarkable drop in servicing costs as a percentage of merchandise exports from the previous quarter was a result of an enormous increase of 98.7% in exports and a decline in total debt servicing by 20.9%.

Year End	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	455.62	461.59	448.38	478.71	444.20	448.38	446.97	431.39
Official Government Debt as % of GDP	47.9	40.7	35.8	40.2	36.6	35.8	35.7	59.9

Source: Central Bank of Samoa and Ministry of Finance

Year End	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
Total Debt Servicing	16.12	16.72	17.82	4.06	4.40	4.27	5.31	4.20
As % of Merchandise exports	48.7	51.5	62.0	50.6	58.0	53.1	101.5	40.4
As % of Foreign exchange reserves	7.3	7.5	8.3	2.2	2.2	2.0	2.8	2.1

Source: Central Bank of Samoa and Ministry of Finance

8. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

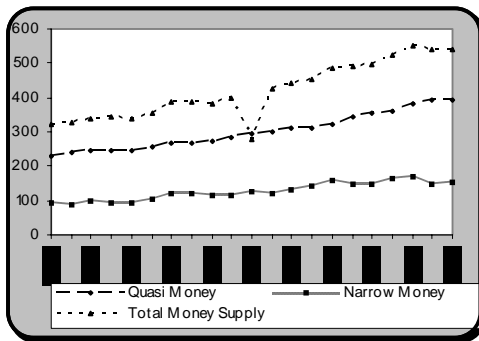
8.1 Money Supply

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

Figure 8.1: Narrow Money, Quasi Money & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply valued at \$541.78 million at end June 2007, increased by \$43.23 million from end June 2006. This rise was mainly due to an increase of \$37.43 million in Quasi money followed by a rise of \$5.80 million in Narrow money (M1). The increase in Quasi money was mainly contributed by Time deposits with a rise of \$40.50 million followed by an increase in savings deposits of \$6.89 million whilst Foreign currency deposit by residents recorded a decline of \$9.96 million. For the components of Narrow money (M1), Demand deposits and Currencies outside banks had increased by \$0.40 million and \$5.40 million respectively.

Money supply had increased by \$1.95 million over 1Q07. This has been driven by the increase of \$2.21 million in Narrow Money (M1) whilst Quasi Money declined by \$0.26 million. The rise in Narrow money (M1) was strongly contributed by the increase of \$2.25 million in Currencies outside banks whilst demand deposits dropped by \$0.04 million. For Quasi Money, savings deposits increased by \$7.07 million whilst Time deposits and Foreign currency deposits of residents recorded declines of \$6.44 million and \$0.89 million respectively.

Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$199.32 million whilst Net Domestic Assets stood at \$342.46 million in 2Q07. NDA and NFA both registered increases of \$28.55 million and \$14.68 million respectively over June 2006.

The increases in NDA and NFA led to a rise of \$43.23 million in money supply from the comparable 2006 period. The rise in NDA was driven largely by the \$81.57 million increase in domestic credit to the private sector.

NDA declined by \$8.80 million whilst NFA recorded an increase of \$10.75 million over March 2007.

CBS Securities

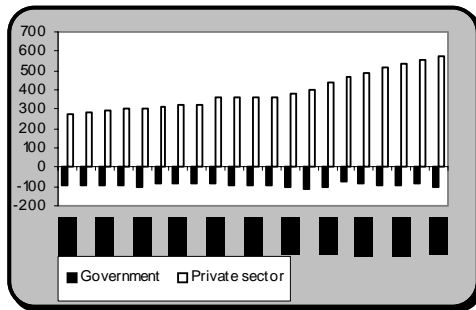
The total face value of securities outstanding at the end of June 2007 stood at \$11.50 million, up by \$11.50 million and \$9.00 million from the comparable 2006 period and end of March 2007 respectively.

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.

Domestic credit outstanding had increased by \$73.45 million over the comparable 2006 quarter to stand at \$503.56 million in the reporting quarter. The rise was largely driven by an increase of \$81.57 million in credit to the private sector followed by a rise of \$3.09 million in claims

Figure 8.3: Government & Private Sector Credit by Quarter (\$ Million)



on non-financial public enterprises and non-monetary financial institutions. Domestic assets with the Central Bank declined by \$2.57 million whilst domestic credit with the Ministry of Finance and Commercial Banks registered increases of \$0.88 million and \$12.90 million respectively. This led to a rise of \$11.21 million in government's net position to stand at \$100.53 million.

Total domestic credit outstanding dropped by \$0.31 million over March 2007.

Table 8.1: MONETARY SURVEY (\$ Million)

				2006			2007		% Change in Jun 07 over	
	2004	2005	2006	Jun	Sep	Dec	Mar	Jun	Jun 06	Mar 07
Net Foreign Assets	220.06	221.82	215.02	184.64	196.21	215.65	188.57	199.32	8.0	6.3
Net Domestic Assets	198.46	262.19	335.54	313.91	327.04	334.91	351.26	342.46	9.1	-2.8
Money Supply (M2)	418.52	484.01	550.56	498.55	523.25	550.56	539.83	541.78	8.7	0.4
Money (M1)	124.93	160.74	170.13	145.20	163.51	170.13	148.79	151.00	4.0	4.0
Currencies outside banks	38.94	48.50	52.33	36.96	40.61	52.33	40.11	42.36	14.6	5.6
Demand deposit	85.99	112.24	117.80	108.24	122.90	117.80	108.68	108.64	0.4	-0.0
Quasi Money	293.59	323.27	380.43	353.35	359.74	380.43	391.04	390.78	10.6	-0.1
Savings deposits	51.48	63.97	66.43	64.32	68.04	66.43	64.14	71.21	10.7	11.0
Time deposit	232.35	242.39	296.49	269.36	272.72	296.49	316.30	309.86	15.0	-2.0
FCDR ^a	9.76	16.91	17.51	19.67	18.98	17.51	10.60	9.71	-50.6	-84
Domestic Credit	280.37	355.27	473.42	430.11	453.17	473.42	504.88	503.56	17.1	-0.3
Government (net)	-88.98	-98.75	-94.47	-89.32	-91.35	-94.47	-82.41	-100.53	12.6	22.0
Private sector	358.74	438.81	539.94	490.89	517.92	539.94	558.45	572.46	16.6	2.5
Claims ^b	10.61	15.21	27.95	28.54	26.60	27.95	28.84	31.63	10.8	9.7

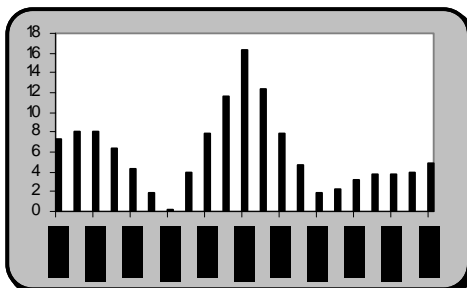
Source: Central Bank of Samoa

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: CPI All Groups Annual Average Rate End 2Q07 (%)



The annual average rate of inflation at end June 2007 stood at 4.9%, up by 1.7 percentage points from June 2006. Both the import and local components of the CPI recorded increases of 2.5 and 0.6 percentage points respectively over the corresponding 2006 period. Alcohol/Tobacco had increased by 9.9 percentage points followed by food, cloth/foot, and miscellaneous with increases of 4.3, 4.0 and 2.8 percentage points whilst transport/communication and house/household showed downward trends of 11.1 and 3.7 percentage points respectively in all categories of goods.

For the import component, alcohol/tobacco had largely driven the increase

with a rise of 11.9 percentage points followed by increases of 7.7, 4.0 and 4.0 percentage points in miscellaneous, clothing/footwear and food whilst transport/communication and house/household declined by 11.4 and 4.1 percentage points respectively. Alcohol/tobacco and food components of the local category showed increases of 9.7 and 4.7 percentage points whilst all the other components registered declines. The overall results indicated that alcohol and tobacco had driven the increase in inflation throughout this period.

When compared to end March 2007, the annual average rate of inflation recorded an increase of 1.0 percentage points. In all items of the CPI, food, house/h/hold, alcohol/tobacco and miscellaneous components showed increases of 1.7, 0.4, 3.3 and 0.7 percentage points whilst transport/communication declined by 2.8 percentage points.

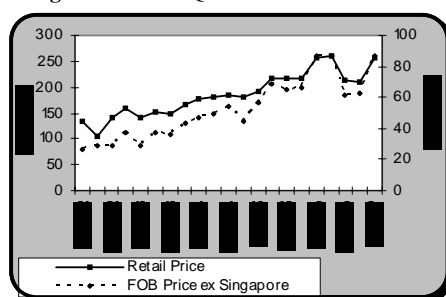
	2004	2005	2006	2Q06	3Q06	4Q06	1Q07	2Q07
All Item Index	16.3	1.8	3.8	3.2	3.7	3.8	3.9	4.9
Imported Good Index	4.1	2.2	4.5	3.5	4.1	4.5	4.9	6.0
Local Good Index	34.0	1.6	3.1	3.2	3.6	3.1	3.1	3.8

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: End Quarter Petroleum Prices



The international price (US currency) for petroleum was 86.65 cents per litre in June 2007, an increase of 0.13 cents over June 2006. International prices (US currency) for Diesel and Kerosene stood at 81.31 cents and 81.83 cents per litre, recorded decreases of 4.55 cents and 6.24 cents respectively from June 2006. Domestic retail prices for petroleum, diesel and kerosene were recorded at 255.1 sene, 243.5 and 226.5 sene per litre, decreased by 3.2 sene, 12.2 sene and 15.4 sene over the comparable 2006 period.

When compared to end March 2007, international prices for petrol, kerosene and petroleum were up by 23.5 cents, 11.2 cents and 12.3 cents respectively. Domestic retail prices for all petroleum products (petrol, kerosene and diesel) showed upward trends of 43.8 sene, 20.0 sene and 22.2 sene respectively.

	2006				2007					
	June		September		December		March		June	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	258.3	86.52	258.60	86.25	212.00	61.99	211.3	63.13	255.1	86.65
Kerosene	241.9	88.07	246.50	89.56	215.90	73.53	206.5	70.59	226.5	81.83
Diesel	255.7	85.86	258.70	87.03	228.00	70.65	221.3	69.01	243.5	81.31

Source: Ministry of Finance