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QUARTERLY ECONOMIC REVIEW

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

This review summarizes the state of the economy during the second quarter 2006.

1. EXECUTIVE SUMMARY

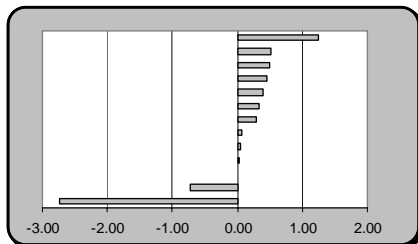
Key Features of Second Quarter 2006 Performance

- Real **GDP** of \$244.79 million in 2Q06 grew by 0.41% over the comparable 2005 period; (see section 2)
- **Export** revenues valued at \$8.03 million in 2Q06, decreased by 13.56% largely as a result of decreased in exports of most of the products compared to the corresponding 2005 period; (see section 3.1)
- **Imports** at \$138.00 million in 2Q06, increased by 0.14% over the comparable 2005 period; (see section 3.2)
- As a result the, **trade deficit** expanded by \$1.45 million to stand at \$138.00 million in 2Q06 over 2Q05; (see section 3.5)
- **Foreign reserves** at the end of 2Q06 stood at \$184.64 million, equivalent to 3.9 months of import cover. This compares with \$231.29 million at the end June 2005 whilst import cover declined from 2Q05 level; (see section 4)
- The **budget out-turn** for financial year 2005/06 showed an overall deficit of \$4.53 million, equivalent to 0.4% of GDP. At the current level a surplus of \$33.48 million was achieved; (see section 6.1)
- Official **government debt** outstanding at end 2Q06 stood at \$478.71 million; up by \$24.06 million over the corresponding 2005 period; (see section 6.2)
- **Money supply** valued at \$498.55 million at end June 2006, was up by \$57.33 million over the comparable 2005 quarter; (see section 7.1)
- **Domestic credit** expanded by \$139.02 million over 2Q05 to stand at \$432.09 million in 2Q06; (see section 7.2)
- The annual average **inflation rate** at end June 2006 stood at 3.2 percent, 4.6 percentage points lower than the rate at end June 2005; (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: Contribution to Change in Total GDP for June 2006 (%)



Labeled from top to bottom

Commerce:	1.25
Finance and business services:	0.52
Transport, Communication:	0.50
Public administration:	0.46
Construction:	0.39
Electricity and water:	0.33
Hotels, restaurants:	0.30
Ownership of dwellings:	0.07
Personal and other services:	0.04
Fishing:	0.02
Food and beverage manufacturing:	0.02
Agriculture:	-0.72
Other manufacturing:	-2.74

Overview

Gross Domestic Product in current prices for the twelve months ending June 2006 was \$1.19 billion. At this level, income per capita was equivalent to \$6,404 tala based on population estimates for 2006. In real constant 2002 prices, GDP was \$995.49 million an increase of 1.8% compared to the corresponding period ended June 2005.

On a quarterly basis overall production slowed down in the period ended June 2006 with real GDP increasing slightly by 0.4% compared to the same 2005 quarter. Compared to 1Q06 however, real GDP had declined by 1.8%.

Industries like Hotels and Restaurants, Electricity and Water, and Commerce value added showed increases of 9.9%, 7.5% and 6.3% in the respective order, with the Commerce industry recording the highest contribution to the overall growth in 2Q06 of 1.3%. Public Administration, Finance and Business Services and Construction industry also registered positive changes except for the Other Manufacturing and Agriculture industry which recorded notable declines of 25.9% and 10% in the respective order.

The Other manufacturing's notable decline had a negative contribution to the overall growth in 2Q06 of 2.7% and had largely offset great performances in the other industries. This was primarily due to some external demand difficulties faced by Yazaki, which led to the decline in its export of 43.9%. Furthermore, the decline in the production of local manufactured construction materials as published by CBS bulletin, (Industrial Production Index) in particular ready-mix cement, concrete blocks and local timber also contributed to the overall drop in the industry.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture activities generated a total value added of \$15.73 million, declined by 10.0% when compared to the June quarter 2005. When compared to March quarter 2006, agriculture had recorded a drop of 8.8%. The results were consistent with the findings from the Fugalei

Figure 2.2: Agriculture's percentage change over corresponding quarter

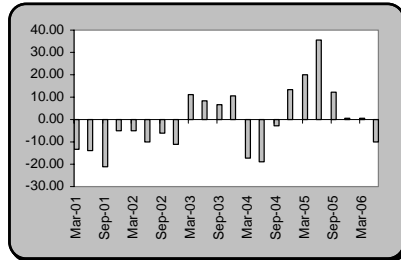
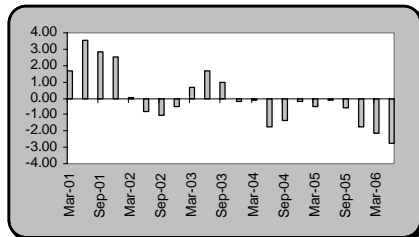


Figure 2.3: Other Manufacturing's contribution to change in GDP for June 2006 (%)



Market Survey published by the Central Bank of Samoa, which showed average shortfalls of 13.2% for quantity supplied of fresh produce to Fugalei Market compared to June 2005 and 15.1% over the previous quarter.

Fishing industry's value added at \$12.6 million, increased slightly by 0.4% over June quarter 2005, after the past 17 consecutive quarters of disappointing performance from March 2002. When compared to the previous quarter, value added increased by 3.7%. The good performance by the fishing industry is welcomed given its importance in terms of food security and export earnings. Consequently this good performance was also evidenced in the high level of fish exports during this period.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing industry generated a real value added of \$8.30 million in the reporting quarter, improved slightly by 0.5% over the same 2005 period. The high demand for beer led to the rise in production of more than 10% by Vailima Breweries, which offset the low production of soft drinks, nonu juice, cigarettes and coconut products.

Other Manufacturing industry had an adverse effect on the overall economic performance in the June 2006 quarter with a negative contribution of 2.7%. The disappointing performance by the industry was due mainly to some external difficulties experienced by Yazaki Samoa which resulted in a decline of 43.9% in its production.

Construction activities grew at a decreasing rate in the first two quarters of 2006 following strong quarterly growths in 2004 and 2005. Value added generated \$21.0 million, increased by 4.7% and 0.2% over 2Q05 and 1Q06 respectively. The industry is expected to maintain its momentum with final construction works for the South Pacific Games and ongoing construction of the Development Bank of Samoa building, the Marina and new fish market.

Electricity and Water industry generated a total value added of \$11.6 million, increased by 7.5% and 2.9% over the corresponding 2005 quarter and 1Q06 respectively. The increase was partly contributed by the increasing demand for electricity from the construction industry and the business community. Water was also prominent with more and more companies engaged in the production and distribution of bottled mineral water. Moreover, improved access to clean water through the extension of the European Union funded project in the rural community also contributed to the rise.

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

Commerce remained the largest industry accounting for 21% of total GDP in 2Q06. Total value added stood at \$51.3 million, increased by 6.3% over June quarter 2005 whilst declined by 0.8% over 1Q06. At this level Commerce contributed the most to the overall growth with 1.3 percentage points. The continuous growth in the industry was fuelled by the increase of 7.6% in remittance during this period.

Transport and Communication industry valued at \$30.83 million in 2Q06, increased by 4.2% over the comparable 2005 period whilst declined by 5.6% when compared to the previous quarter. At this level the industry contributed 0.5 percentage points to the overall growth.

Finance and Business Services industry had grown consistently throughout the years. During the three months ending June 2006, the industry generated a total value added of \$24.7 million, an increase of 5.4% when compared to June quarter last year.

Personal and other Services generated a total value added of \$13.6 million and comprised of 5.6% of the total GDP. The industry value added had risen by 0.8% and 0.9% over the same 2005 period and the first quarter of 2006.

Hotels and Restaurants industry recorded a total value added of \$8.1 million at constant 2002 prices in 2Q06. This registered the biggest percentage increase when compared to June quarter 2005 of 9.9% and was consistent with the increased number of tourists visiting Samoa, up by 29.7% when compared to the same 2005 period. It is anticipated that this trend will be maintained in the third and fourth quarter with the annual Teuila Festival and festive season.

Government Sector

The industry during the June 2006 quarter continued to grow with a total value added of \$21.8 million, increased by 5.4% when compared to the same period of 2005. This increase contributed 0.5% to the overall growth in 2Q06. The favourable performance is expected to continue in the next few years with the implementation of the second and third phases of the general salary increase.

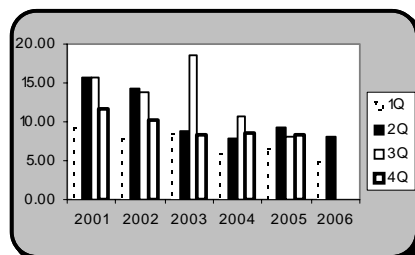
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06	% Change 2Q06 over	
At constant 2002 prices	(\$ Million)								2Q05	1Q06
Agriculture	67.47	63.50	73.13	17.48	18.24	20.22	17.25	15.73	-10.0	-8.8
Fishing	57.18	52.78	50.70	12.64	12.54	12.82	12.23	12.69	0.4	3.8
Food & Beverages Manufacturing	30.30	30.61	33.56	8.26	7.76	8.14	9.50	8.30	0.5	-12.6
Other Manufacturing	114.34	106.61	99.57	25.76	25.35	23.23	19.92	19.08	-25.9	-4.2
Construction	54.78	74.28	83.38	20.08	21.79	21.84	20.98	21.02	4.7	0.2
Electricity and Water	42.16	43.08	44.69	10.76	11.80	11.29	11.24	11.57	7.5	2.9
Commerce	177.77	182.13	198.11	48.25	49.68	50.79	51.68	51.30	6.3	-0.7
Hotels, Restaurant	23.47	24.56	28.86	7.41	6.98	7.67	7.94	8.14	9.9	2.5
Transport, Communication	113.26	120.83	124.62	29.60	29.75	33.16	32.65	30.83	4.2	-5.6
Public Administration	75.01	78.89	83.91	20.75	21.20	21.65	21.76	21.87	5.4	0.5
Finance & Business Services	82.74	90.38	94.34	23.48	23.53	23.67	24.78	24.75	5.4	-0.1
Less: Enterprise share of FISIM	-10.94	-11.59	-12.04	-2.99	-3.06	-3.01	-3.05	-3.09	3.3	1.3
Ownership of Dwellings	33.87	34.55	35.25	8.79	8.83	8.88	8.92	8.97	2.0	0.6
Personal & Other Services	51.24	53.35	53.90	13.53	13.31	13.30	13.50	13.63	0.7	1.0
Value added 2002 market price	912.64	943.98	991.98	243.79	247.71	253.68	249.31	244.79	0.4	-1.8
Implicit price deflator:	103.9	111.1	116.1	114.7	118.7	118.3	120.1	120.9	5.4	0.7
Selected measures of production:										
At constant 2002 prices										
Non-monetary	125.85	123.95	129.87	31.91	32.66	33.53	32.14	31.24	-2.1	-2.8
Monetary – total	786.79	820.02	862.11	211.88	215.05	220.16	217.16	213.55	0.8	-1.7
Monetary – restricted scope	701.78	744.71	795.24	194.44	198.16	205.46	205.01	202.03	3.9	-1.5
Memo items:										
Nominal GDP (current prices)	948.23	1,048.78	1,152.10	279.60	293.93	300.20	299.32	295.96	5.9	-1.1
GDP per capita	5353	5881	6143	n.a	n.a	n.a	n.a	n.a		
Source: Ministry of Finance estimates										
na - not applicable										

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

3.1 Exports

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

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



Exports were valued at \$8.03 million in the second quarter 2006. It fell by \$1.26 million from the corresponding quarter of 2005. All the export commodities had declined with the exception of fish which increased significantly in the reviewing quarter from 2Q05 by 23.5%.

When compared to the previous quarter exports increased by \$2.95 million. The expansion in total exports during the review quarter was mainly due to a remarkable increase in fresh fish exports which increased by \$3.01 million (202.2%), as well as increases in all of the export products with the exception of nonu juice which declined by 28.3% from 1Q06.

The enormous rise in fish exports was largely a result of good climatic conditions during this period.

Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

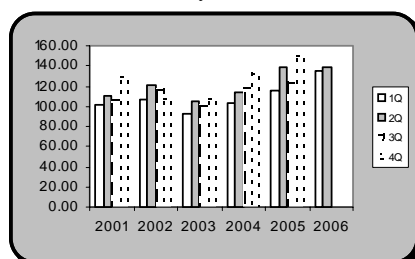
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06	% Share			% Change in 2Q06 over	
	(\$ Million)								2Q05	1Q06	2Q06	2Q05	1Q06
Fish	15.76	13.52	11.58	3.63	3.54	3.17	1.48	4.49	39.1	29.2	55.9	23.5	202.2
Coconut cream	3.01	2.56	2.28	0.74	0.41	0.46	0.69	0.70	8.0	13.5	8.7	-5.1	1.9
Nonu fruit	0.51	1.47	1.54	0.40	0.32	0.30	0.07	0.25	4.3	1.4	3.2	-36.0	262.9
Nonu juice	2.04	4.69	8.29	2.25	2.11	2.47	1.55	1.11	24.3	30.5	13.9	-50.6	-28.3
Beer	3.81	4.34	4.83	1.55	0.92	1.50	0.84	1.08	16.7	16.5	13.4	-30.4	28.5
Taro	1.31	1.97	0.85	0.25	0.18	0.18	0.14	0.16	2.7	2.9	2.0	-34.7	11.7
Coconut Oil	1.90	0.74	1.20	0.00	-	-	-	-	0	-	-	-	-
Garments	13.32	1.98	0.35	-	0.20	0.09	-	-	-	-	-	-	-
Others	0.33	0.54	0.32	0.09	0.06	0.08	0.03	0.04	1.0	0.6	0.5	-52.7	57.1
TOTAL	44.27	33.13	32.49	9.29	8.08	8.43	5.08	8.03	100.0	100.0	100.0	-13.5	58.1

Source: Central Bank of Samoa

3.2 Imports

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

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



Total imports stood at \$138.00 million in the second quarter of 2006 it increased by \$0.19 million (or 0.14%) from the corresponding quarter 2005. This was the result of an increase in non-petroleum private sector imports by 5.4%. Government and Petroleum imports however recorded decreases of \$1.99 million and \$3.64 million respectively.

When compared to the previous quarter (1Q06), total imports went up by \$3.63 million. The rise was largely a result of increased imports by the private sector of \$10.29 million whilst government and petroleum imports declined by \$4.26 million and \$2.40 million respectively.

Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06	% Share			% Change 2Q06 over	
	(\$ Million)								2Q05	1Q06	2Q06	2Q05	1Q06
Government ^a	7.54	1.77	4.43	2.50	0.35	1.12	4.77	0.51	1.8	3.5	0.37	-79.6	-89.3
Petroleum	56.91	78.02	94.99	28.16	22.94	30.12	26.92	24.52	20.4	20.0	17.77	-12.9	-8.9
Other Product ^b	378.97	362.11	408.30	107.15	102.00	120.12	102.68	112.97	77.7	76.4	81.86	5.4	7.1
TOTAL	443.42	441.89	507.71	137.81	125.29	151.36	134.37	138.00	100.0	100.0	100.0	0.14	2.70

Source: Central Bank of Samoa

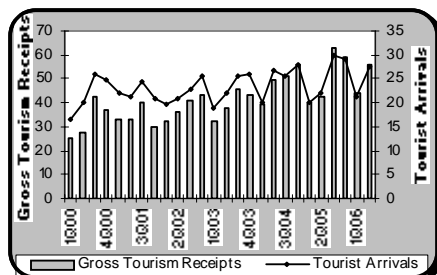
^a Include medication for MOH valued at \$0.17 million and stationeries for the Ministry of Education valued at \$1.5 million in 2Q05, and import of GPS Surveying equipments for Natural Resources and Environment valued at \$0.23 million, Gym equipment for SPG 2007 valued at \$0.09 million and building materials for the Aquatic Centre valued at \$6.5 million in 4Q05.

^b Includes soft drink concentrate (beverage based) for Samoa Breweries Ltd valued at \$0.5 million, telephonic switching apparatus for Samoa Tel valued at \$4.7 million in 1Q06, cables valued at \$0.6 million in 2Q06, building materials for Maota Industrial Supplies valued at \$0.5 million, motor vehicles for Qong Motors Ltd valued at \$0.5 million, a mechanical digger for SWEL valued at \$0.3 million, building materials for the Mormon Church valued at \$0.5 million and an Audio Visual valued at \$1.3 million in 3Q06 and currency notes for the Central Bank of Samoa valued at \$2.7 million, artwork and glass windows for the Mormon Church valued at \$1.1 million, tank (supply into parts) for Samoa Breweries Ltd valued at \$0.5 million and steel bar for Samoa Polytechnic valued at \$0.5 million in 2Q06.

3.3 Tourism Receipts

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

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



Tourist arrivals and revenues both recorded increases of 25.4% and 29.7% from the second quarter of 2005. When compared to the previous quarter, tourist arrivals and revenues increased by 6,250 and \$10.02 million to stand at 27,420 and \$55.46 million in the reporting quarter. Visiting friends and relatives category had contributed the highest share of 34.8% to the total number of arrivals in 2Q06 followed by tourists on holiday (34.4%), others (17.3%), business (12.0%) and sports (1.5%). The independence celebration, Congregational Christian Church and Methodist Church annual conferences, international sporting events such as the Pacific Rim Weightlifting Competition and family reunions held during this period were some of the activities that contributed to the rise in tourist activity during this period.

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

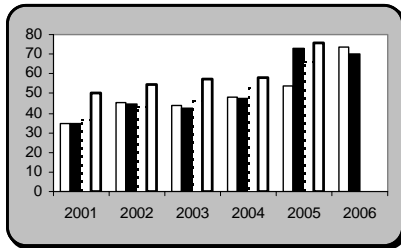
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
Gross Tourism Revenues	154.32	198.03	207.37	42.77	63.09	60.09	45.44	55.46
Tourist Arrivals	92.49	98.16	101.10	21.86	30.13	29.09	21.17	27.42

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

3.4 Remittances

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

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



Total Remittances for the reviewing quarter decreased by \$3.02 million over the corresponding quarter. When compared to the previous quarter it also went down by \$3.45 million to stand at \$69.96 million.

Table 3.4: GROSS REMITTANCES (\$ Million)

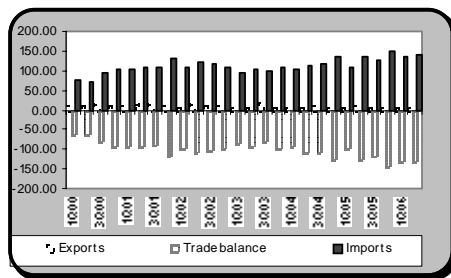
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
Remittances	188.20	199.83	246.24	72.98	66.57	75.61	73.41	69.96
Remittances as % GDP	19.8	18.8	21.5	26.10	22.65	25.19	24.52	23.64

Source: Central Bank of Samoa

3.5 Balance of Payments

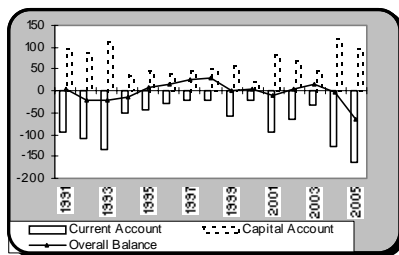
Trade balance is the difference in export receipts (fob) and import payments (cif). Balance of payments is the trade balance plus net receipts from services, transfers and capital account flows. The capital account covers receipts and payments relating to aid, loans and private sector investment.

Figure 3.5: Quarterly Trade Balance (\$ Million)



The trade deficit expanded by \$1.45 million to stand at \$138.00 million in the reviewing quarter compared to the same quarter of 2005. The increase in the deficit was mainly due to the rise in imports of \$0.19 million.

Figure 3.6: Annual Overall Balance (\$ Million)



Net services and income estimated at \$51.31 million in the reviewing quarter was up by \$17.80 million over the corresponding quarter 2005. Net transfers were valued at \$70.27 million, down by \$3.92 million over 2Q05. This resulted in a current account deficit of \$8.39 million in the reporting quarter compared to a deficit of \$20.82 million recorded in the comparable quarter of 2005.

The **capital account** surplus was estimated at \$21.80 million in 2Q06, declined by \$19.77 million from the corresponding quarter 2005. The decrease in the capital account balance resulted in a decline in the overall balance of payments of \$7.34 million over 2Q05 to stand at a surplus of \$13.41 million in the reporting quarter.

Table 3.5: COMPARATIVE TRADE DATA 2003– 2006 (\$ Million)

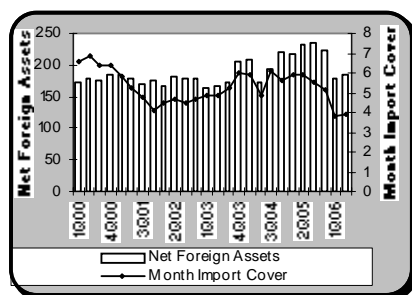
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
1. EXPORTS (fob)	44.26	33.13	32.50	9.29	8.08	8.43	5.08	8.03
2. IMPORTS (cif)	443.42	441.89	507.70	137.81	125.29	151.36	134.37	138.00
3. TRADE BALANCE	-399.16	-408.76	-475.20	-128.52	-117.21	-142.93	-129.29	-129.97
4. NET SERVICES	167.21	139.71	134.60	33.51	45.25	40.60	25.67	51.31
5. NET TRANSFERS	190.48	210.48	276.62	74.19	68.13	75.24	73.28	70.27
6. CURRENT ACCOUNT BALANCE	-41.47	-58.57	-63.98	-20.82	-3.83	-27.09	-30.34	-8.39
7. CAPITAL ACCOUNT (Net)	30.35	101.47	98.01	41.57	22.77	17.14	17.64	21.80
8. OVERALL BALANCE*	-11.12	42.90	34.03	20.75	18.94	-9.95	-12.70	13.41
9. TRADE BALANCE AS % GDP	-42.10	-38.97	-41.25	-45.96	-39.88	-47.61	-43.19	-43.91
10. CURRENT ACCOUNT BALANCE AS % GDP	-4.37	-5.58	-5.55	-7.45	-1.30	-9.02	-10.14	-2.83

*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

4. FOREIGN EXCHANGE RESERVES

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

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



Foreign exchange reserves stood at \$184.64 million at end June 2006, decreased by \$46.65 million from end June 2005. This deterioration was largely a result of the decline in the Central Bank's reserves of \$51.98 million which offset increases in the Ministry of Finance and Commercial Banks reserves of \$1.08 million and \$4.25 million respectively.

When compared to the corresponding 2005 period, foreign exchange reserves had increased by \$6.35 million. This rise was largely contributed by Central Bank with an increase of \$6.89 million, followed by a rise in MOF's reserves of \$1.05 million whilst Commercial bank's reserves declined by \$1.57 million.

Net foreign assets were sufficient to cover 3.9 months of imports at end June 2006. At this level it was lower than the 5.9 months coverage at end June 2005 but slightly higher than the level in the previous quarter of 3.8 months of imports.

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

	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
Net Foreign Assets	204.21	220.06	221.82	231.29	234.04	221.82	178.29	184.64
Import Cover	6.0	5.6	5.1	5.9	5.5	5.1	3.8	3.9

Source: Central Bank of Samoa

5. EXCHANGE RATES

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

At the end of June 2006, the Tala appreciated against the NZD whilst depreciated against the USD, AUD, EURO, FJD and YEN over the same 2005 period.

When compared to the previous quarter, the Tala appreciated against the USD and NZD whilst depreciated against AUS, EURO, FJD and YEN.

	2005			2006		% Appreciation(+)/Depreciation (-) of TALA between Jun 06 and	
	Jun	Sep	Dec	Mar	Jun	Jun 05	Mar 06
	USD	0.3669	0.3675	0.3618	0.3495	0.3531	-3.76
NZD	0.5288	0.5294	0.5317	0.5717	0.5791	9.51	1.29
AUD	0.4837	0.4805	0.4944	0.4901	0.4751	-1.78	-3.06
EURO	0.3036	0.3052	0.3064	0.2881	0.2759	-9.12	-4.23
FJD	0.6265	0.6282	0.6312	0.6317	0.6188	-1.23	-2.04
YEN	40.5966	41.7169	40.7753	40.9622	40.5963	-0.00	-0.89

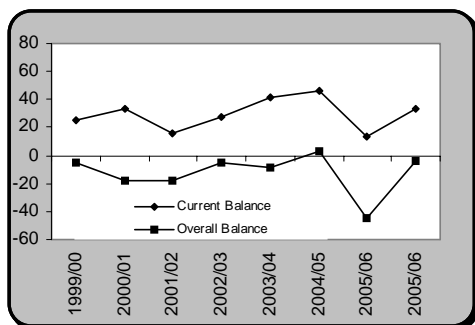
Source: Central Bank of Samoa

6. GOVERNMENT FINANCE

6.1 Government Finance Statistics

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

Figure 6.1: Overall and Current Balance
July-June 1999/00-2005/06 (\$ Million)



Overall Performance

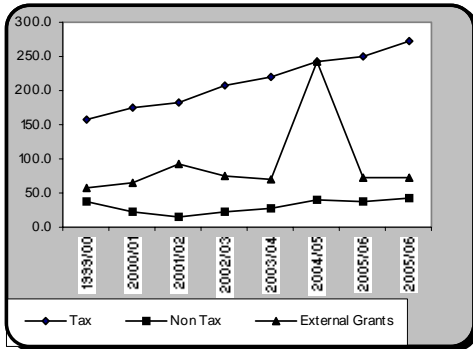
The **Budget** for fiscal year **2005/2006** anticipated an overall deficit of \$44.3 million, equivalent to 4.3% of GDP and a current surplus of \$13.5 million or 1.3% of GDP.

During the financial year 2005/06, fiscal operations of Government was promising with the overall balance recording a deficit of \$4.53 million, almost \$40 million below budget estimates and equivalent to 0.4% of GDP. At the current level, a surplus of \$33.5 million or 2.8% of GDP was achieved, almost \$20 million more than the budgeted estimate for the year.

Revenue

Total Revenue and Grants collected during the 2005/06 fiscal year amounted to \$387.19 million, an increase of \$29.08 million when

Figure 6.2: Revenue by Type, July-June 1999/00-2005/06 (\$ Million)



compared to the budgeted amount. This comprised of \$315.37 million (81%) of current receipts and \$71.82 million (19%) of grants both cash and commodity aid.

Tax Revenue at \$273.14 million exceeded the budget estimate of \$249.68 million by \$23.46 million, or 9.4%. This resulted from net increases in some of the major revenue items like Income tax by \$4.14 million, International Trade by \$2.45 million, VAGST on Imports by \$17.17 million, Domestic Excise by \$4.84 million and Other Taxes by \$0.4 million. Import Excise collected however was short by \$0.31 million compared to the budget amount.

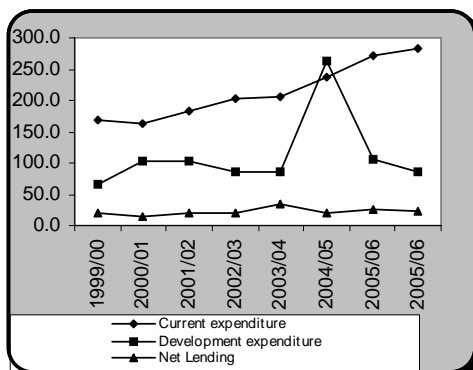
Property and Investment Income and Cost Recoveries were the two main contributors to the increase of \$5.62 million in **Non Tax Revenue** compared to budget estimates with increases of \$6.77 million and \$0.34 million respectively.

Tax revenue continued to show positive results with great improvements in compliance and continued growth in the economy as a whole. Further revenue adjustments proposed in the next fiscal year is expected to generate more revenue and ease the pressure on the South Pacific Games expenditure commitment. Non-tax revenue also showed great potential with government using a user pay approach for most of its services rendered.

Aid and Grant was on par compared to budget figures but was lower compared to previous financial year numbers. These funds were used on development projects such as the Institutional Strengthening for the Ministry of Police and Prison and the Immigration Division of the Ministry of the Prime Minister & Cabinet and other public sector development projects such as the Sports facilities in Tuanaimato, the Polytechnic Campus and the fisheries wharf and office building.

Expenditure

Figure 6.3: Expenditure by Type, July-June 1999/00-2005/06 (\$ Million)

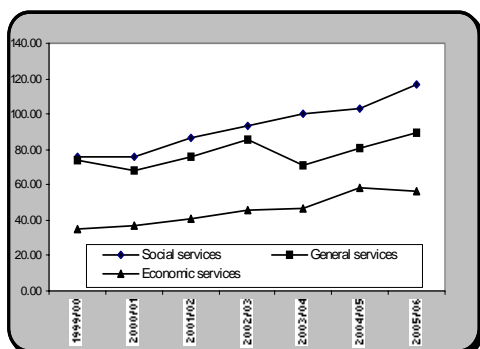


Total expenditure and Net Lending for fiscal year 2005/06 stood at \$391.72 million. This comprised of current expenditure of 72.0%, development expenditure of 22.0% and net lending of 6.0%. At this level it was 2.7% below the budgeted estimate and 24.9% lower when compared to the previous financial year results.

Current expenditure at \$281.9 million was \$9.1 million more than the budget estimate, reflecting government's continuous commitment to Education, Health, Infrastructure Development and General Administration. These sectors accounted for 19.6%, 16.8%, 10.5% and 24.6% of the total current expenditure respectively.

Development expenditure with an aggregated amount of \$86.1 million was \$18.6 million below the pro rata for fiscal year 2005/06. This outturn was primarily due to some of the loan funded development projects being delayed. These development projects include the Sanitation and Drainage project and the Samoa Infrastructure Asset Management II to name a few.

Figure 6.4: Expenditure by Sector, July-June 1999/00-2005/06 (\$ Million)



Net Lending recorded was \$1.3 million below the budgeted estimate. This indicated an improvement in on-lending repayments from government corporations.

Expenditure by Sector

Consistent with the Government's priorities as stipulated in the SDS 2005 – 2007, social services expenditure recorded an increase of 12.5%, that being largely due to the health expenditure which rose by \$12.2 million over budget. This increase was an adjustment made to finance the re-alignment of the Health Ministry to provide effective and efficient health services to the public. Economic services was also \$3 million higher than the budget estimate. This was due to some capital project variation costs incurred throughout the year. Expenditure on General Services was also above the budgeted estimate by \$1.4 million.

Table 6.1: GOVERNMENT FINANCE 2002/03 – Dec 05^a (\$ Million)

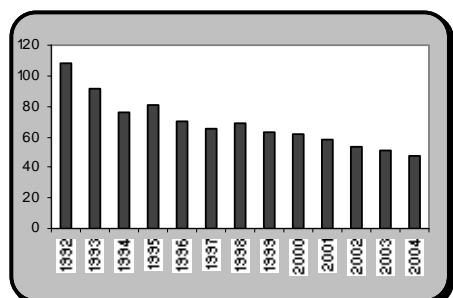
	Provisional Actual			Budget	Provisional		
	2003/04	2004/05	2005/06	2006/07	Apr-Jun 05	Jan-Mar 06	Apr-Jun 06
Revenues and Grants	317.70	524.41	387.19	461.51	137.42	88.79	114.64
Revenues	246.52	283.03	315.37	363.03	77.07	70.84	96.69
External Grants	71.16	241.38	71.82	98.47	60.35	17.95	17.95
Expenditure	326.57	521.35	391.72	476.57	145.44	112.08	91.89
Current ^b	204.49	236.57	281.89	339.78	70.66	80.69	71.92
Development ^c	86.62	263.77	86.11	131.73	67.38	21.45	22.26
Other (capital & net lending)	35.46	21.02	23.72	5.05	7.40	9.94	-2.29
Current Balance	42.03	46.46	33.48	23.25	6.41	-9.85	24.77
Overall Balance	-8.88	3.06	-4.53	-15.06	-8.02	-23.29	22.75
Financing							
Net external borrowing	0.25	15.82	6.18	17.78	12.15	3.14	0.88
Domestic	8.63	18.88	-1.65	-2.72	-4.12	-20.15	23.64
Overall Balance as % of GDP	-0.9	0.28	-0.5	-1.3	-2.87	-7.8	7.7
Total Expenditure as % of GDP	33.8	47.63	39.35	42.9	59.7	45.0	37.5

Source: Ministry of Finance estimates
^{a/} Provisional Actual 2003/04 – 2005/06, Apr-Jun 05, Jan-Mar 06, Apr-Jun 06 and Budget 2006/07
^{b/} Includes domestically financed development plans
^{c/} Financed from external grants and loans

6.2 External Debt

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

Figure 6.5: Official Government Debt as % of GDP



amounted to \$478.71 million, up by \$23.06 million over 2Q05 but declined by \$0.24 million from the previous quarter. This amount was equivalent to approximately 40.2% of GDP.

Multilateral loans contributed a share of 92.6% (\$443.06 million) and bilateral loans recorded a share of 7.4% (\$35.65 million) to total disbursed outstanding debt (DOD) in the reviewing period.

Total debt servicing was valued at \$4.06 million in June 2006, declined by \$0.02 million and \$1.03 million over the corresponding quarter of 2005 and the previous quarter respectively. Servicing costs as a percent

of merchandise exports and total foreign exchange revenue were equivalent to 50.6% and 2.2% respectively.

Year End	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	456.10	455.62	461.59	455.65	454.66	461.59	478.95	478.71
Official Government Debt as % of GDP	48.1	43.4	40.1	41.3	40.2	40.1	40.8	40.2
Source: CBS and MOF								

7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

7.1 Money Supply

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

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

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

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

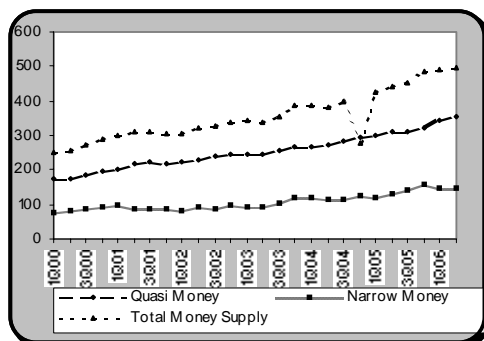
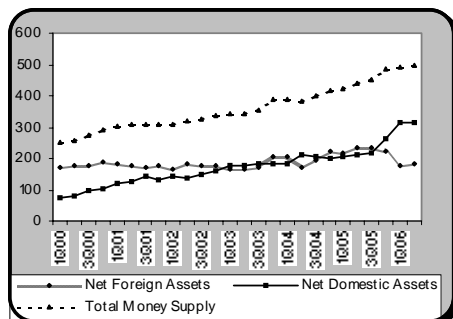


Figure 7.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply valued at \$498.55 million at end of June 2006, went up by \$57.33 million from end June 2005. This rise was a result of Quasi money and Narrow money having increased by \$44.92 million and \$12.41 million respectively. The increase in Quasi money was mainly put in by Time deposits with a rise of \$29.88 million, followed by an increase in Savings deposits and Foreign currency deposits of residents of \$8.50 million and \$6.54 million respectively. The components of Narrow money, Demand deposits and Currencies outside banks had also risen by \$6.24 million and \$6.22 million respectively.

When compared to the previous quarter, Money supply had increased by \$7.63 million. Quasi money was the main contributor to this rise, with an increase of \$8.74 million whilst Narrow money (M1) declined by \$1.11 million. All three components of Quasi money which are, Savings deposits, Time deposits and Foreign currency deposits of the residents had increased by \$4.19 million, \$4.17 million and \$0.38 million respectively. For Narrow money (M1), Demand deposits increased by \$0.57 million whilst Currencies outside banks declined by \$1.68 million.

Net Foreign Assets and Net Domestic Assets

Net foreign assets recorded at \$184.64 million in 2Q06 was down by \$46.65 million over 2Q05 whilst Net domestic assets amounted to \$313.91 million, up by \$103.98 million over June 2005. The increase in NDA which was more than the decline in NFA led to a rise in the Money supply of \$57.33 million. The increase in NDA was largely put in by an increase in domestic assets to the Private sector of \$107.85 million.

NFA and NDA both increased by \$6.35 million and \$1.33 million over March 2006 respectively.

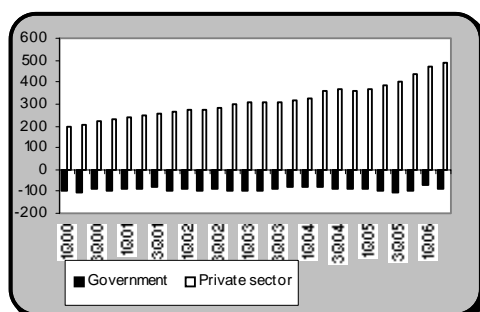
CBS Securities

The total face value of securities outstanding at the end of June 2006 was nil down by \$34.83 million from the comparable 2005 period. Securities outstanding in March 2006 also amounted to zero. The zero outstanding balances was because all securities had matured within March 2006 and there were no new issues of securities within the period ending June 2006.

7.2 Domestic Credit Expansion

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

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



The total amount of domestic credit outstanding in the reviewing period stood at \$432.09 million, up by \$139.02 million (or 47.4%) from the corresponding quarter. An increase of \$107.85 million in credit to the Private sector was the main contributor to the rise as well as total claims on non-financial public enterprises and non-monetary financial institutions which recorded a rise of \$18.23 million, whilst Government (net) declined by 12.9%. This decline resulted from the decline in domestic credit with Commercial banks of \$17.96 million, which offset increases in credit with the Central Bank and Ministry of Finance of \$3.94 million and \$1.08 million.

When compared to the previous quarter, total domestic credit outstanding had increased by \$119.46 million. This rise was strongly dominated by an increase of \$21.35 million in credit to the private sector along with an upward trend of \$8.65 million in total claims on non-financial public enterprises and non-monetary financial institutions. Ministry of Finance and Central bank's domestic assets have increased by \$1.05 million and 1.43 million whilst domestic assets with Commercial banks declined by \$10.29 million respectively. This resulted in a fall of \$12.94 million in government's net position to stand at \$87.34 million in 2Q06.

				2005			2006		% Change in Jun 06 over	
	2003	2004	2005	Jun	Sep	Dec	Mar	Jun	Jun 05	Mar 06
Net Foreign Assets	204.21	220.06	221.82	231.29	234.04	221.82	178.29	184.64	-20.2	3.6
Net Domestic Assets	182.16	197.81	262.19	209.93	217.84	262.19	312.58	313.91	49.5	0.4
Money Supply (M2)	386.37	418.52	484.01	441.22	451.88	484.01	490.92	498.55	13.0	1.6
Money (M1)	118.21	124.93	160.74	132.79	141.20	160.74	146.31	145.20	9.3	-0.8
Currencies outside banks	35.73	38.94	48.50	30.74	35.19	48.50	38.64	36.96	20.2	-4.3
Demand deposit	82.48	85.99	112.24	102.00	106.01	112.24	107.67	108.24	6.1	0.5
Quasi Money	268.16	293.59	323.27	308.43	310.68	323.27	344.61	353.35	14.6	2.5
Savings deposits	45.56	51.48	63.97	55.82	61.75	63.97	60.13	64.32	15.2	7.0
Time deposit	206.99	232.35	242.39	239.48	232.25	242.39	265.19	269.36	12.5	1.6
FCDR ^a	15.61	9.76	16.91	13.13	16.68	16.91	19.29	19.67	49.8	2.0
Domestic Credit	254.08	279.72	355.27	293.07	303.10	355.27	416.13	432.09	47.4	3.8
Government (net)	-79.44	-89.63	-98.75	-100.28	-108.33	-98.75	-73.30	-87.34	-12.9	19.2
Private sector	318.47	358.74	438.81	383.04	400.14	438.81	469.54	490.89	28.2	4.5
Claims ^b	15.05	10.61	15.21	10.31	11.29	15.21	19.89	28.54	176.8	43.5

Source: CBS

^aInclude claims on non-financial public enterprises and non-monetary financial institutions

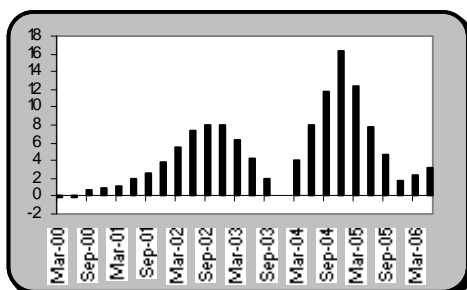
^bForeign Currency Deposits of Residents

8. INFLATION

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

8.1 Consumer Price Index

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



The annual average rate of inflation in June 2006 was 3.2%, down from 7.8% in June 2005. The twelve months moving average for the local component of the CPI had fallen by 6.9 percentage points over the corresponding period. This drop was contributed by a huge decline of 12.9 percentage points in local food. In contrast, housing/household, transport/communication and alcohol/tobacco had increased by 6.5, 7.1 and 1.4 percentage points respectively. In the import component, food, clothing/footwear, housing/household and miscellaneous recorded declines of 0.1, 1.0, 2.9 and 0.7 percentage points whilst transport/communication and alcohol/tobacco had risen by 3.9 and 0.3 percentage points. This led to a decline of 0.1 percentage points in the twelve months moving average of the CPI for the import component.

In all items of the CPI, food, clothing/footwear and miscellaneous decreased by 8.7, 1.0 and 0.3 percentage points whilst housing/household, transport/communication and alcohol/tobacco recorded increases of 2.3, 6.2 and 1.3 percentage points. The above results show that local food prices was the leading contributor to the decline in the annual average rate of inflation from end June 2005 to end June 2006.

When compared to the previous quarter the annual average rate of inflation recorded an increase of 0.9 percentage points. All categories of the local component showed increases, with the exception of housing/household which declined by 0.6 percentage points and miscellaneous which remained at the same level. This resulted in an increase of 1.0 percentage points in the annual inflation of the local component of the CPI.

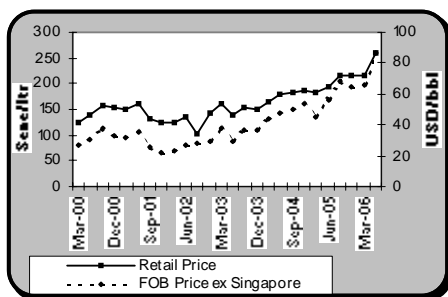
	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	2Q06
All Item Index	0.1	16.3	1.8	7.8	4.7	1.8	2.3	3.2
Imported Good Index	-0.1	4.1	2.2	3.6	2.4	2.2	2.6	3.5
Local Good Index	0.3	34.0	1.6	10.1	5.9	1.6	2.2	3.2

Source: Ministry of Finance

8.2 Petroleum Prices

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

The international price (US currency) for petrol was 86.52 cents per litre in June 2006, an increase of 30.30 cents over June 2005. International

Figure 8.2: End Quarter Petroleum Prices

prices (US currency) for Diesel and Kerosene were recorded at 85.86 cents and 88.07 cents per litre, increased by 23.10 and 22.84 cents from June 2005 respectively. Domestic retail prices for petrol, kerosene and diesel were recorded at 258.3 sene, 241.9 sene and 255.7 sene per litre, increased by 65.1 sene, 45.6 sene and 56.8 sene from June 2005 respectively.

When compared to end March 2006, international prices were up by 20.37 cents for petrol, 10.64 cents for kerosene and 17.69 cents for diesel. Domestic retail prices for all petroleum products (petrol, kerosene and diesel) also showed an upward trend of 41.6 sene, 22.0 sene and 36.0 sene respectively. The continuing increase in oil prices will have long term inflationary impact on the economy.

Table 8.2: END QUARTERLY PETROLEUM PRICES
(retail price in sene/ltr & FOB Price ex Singapore in USD/bbl)

	2005						2006			
	June		September		December		March		June	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	193.2	56.22	215.7	68.34	215.2	65.23	216.7	66.15	258.3	86.52
Kerosene	196.3	65.23	205.8	71.87	204.4	69.53	219.9	77.43	241.9	88.07
Diesel	198.9	62.76	215.4	68.84	217.8	67.07	219.7	68.17	255.7	85.86

Source: Ministry of Finance