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QUARTERLY ECONOMIC REVIEW

This Quarterly Economic Review is published by the Economic Policy and Planning Division of the Ministry of Finance. The analysis is based on the latest available data on the main macroeconomic aggregates as collected by the Central Bank of Samoa and the Ministry of Finance, and is intended to provide Government officials, the business community and the general public with a better understanding of the economy. This review summarises the state of the economy during the first quarter 2004.

This review introduces improvements to data on inflation as indicated in the previous review. Future editions of the Quarterly Economic Review will be expanded to include data on labor productivity.

1. EXECUTIVE SUMMARY

Key Features of First Quarter 2004 Performance

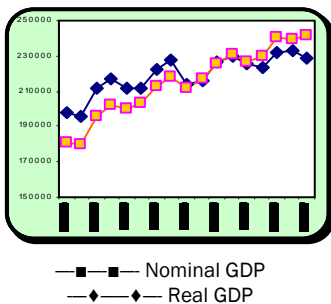
- ✓ Real **GDP** totaled \$228.3 million in 1Q04, up by 1.3% over 1Q03; (see section 2)
- ✓ **Export** revenues at \$6.02 million in 1Q04, declined by \$2.50 million over 1Q03; (see section 3.1)
- ✓ **Imports** valued at \$102.23 million in 1Q04 was up by \$9.80 million over the comparable 2003 quarter; (see section 3.2)
- ✓ As a result the **trade deficit** worsened by \$12.30 million over the comparable 2003 period; (see section 3.5)
- ✓ **Foreign reserves** at end March 2004 rose to \$207.63 million, equivalent to 6.0 months of import cover, compared with \$164.90 million at end March 2003 and 4.9 months of import cover; (see section 4)
- ✓ The **budget out-turn** showed an overall deficit of \$9.39 million for the first nine months of the fiscal year 2003-2004, compared with an overall surplus of \$3.14 million for the first nine months of fiscal year 2002-2003; (see section 6.1)
- ✓ **Money supply** at end March 2004 grew by 13.0% over the end March 2003 level as both domestic and net foreign assets increased; (see section 7.1)
- ✓ **Domestic credit to the private sector** in 1Q04 expanded by 6.1% over the 1Q03 level; (see section 7.2)
- ✓ The annual average **inflation** rate at end March 2004 stood at 4 percent, 2.3 percentage points lower than the rate at end March 2003 but was 3.9% higher than the inflation rate at end December 2003; (see section 8)

2. GROSS DOMESTIC PRODUCT

The Gross Domestic Product is the building block for macroeconomic analysis. This measure estimates the country's gross value-added within the domestic economy. Compilation of the estimates uses an industry-value-added approach; that is the values of output and input have been estimated separately for each industry, and value-added (gross product) derived as a net measure. For the agriculture and non-monetary sectors estimates have been derived from, inter alia, export data, the Fugalei Market Surveys and benchmarks derived from the 2002 Household Income and Expenditure Survey. GDP estimates have been rebased to year 2002. The updated numbers provide a more accurate observation of the current workings of the economy reflecting the structural changes that have taken place and changes in prices.

Overview

Figure 2.1: QUARTERLY GROWTH AT MARKET PRICES (\$Million)



Nominal **gross domestic product** for the twelve months ending March 2004 was \$950.68 million. This was equivalent to a per capita income of \$5,375.69. The aggregated real GDP was \$916.48 million for the twelve months period ending March 2004, an increase of 2.2% compared to the corresponding period last year.

In the March quarter 2004, real gross domestic product was \$228.27 million, an increase of 1.3% on the March 2003 level, and a decline of 2.2% when compared to December last year. Monetary sector production in real terms was up 2.2% compared to 1Q03. Real output of the non-monetary sector, consisting principally of subsistence agriculture, declined by 4.3% over March last year.

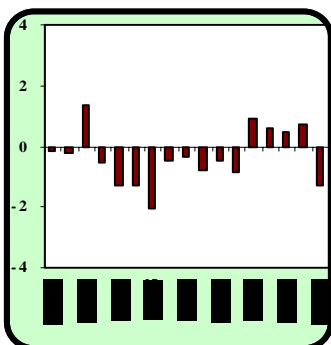
The slight increase in real GDP in the March quarter reflects strong growth in transport and communications, finance and business services and construction activities. These offset the dampening effect of cyclone Heta on agriculture production, the continuing decline in fishing and the temporary close down of some manufacturing industries.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture activities reversed in the March quarter 2004 after a noticeable performance in 2003 to produce a real value added of \$14.48 million. When compared to March 2003, production declined by 17.1% and contributed a negative 1.3% to real GDP growth in the quarter. The significant decline in the industry's value added was primarily due to the devastating impact of cyclone Heta on agriculture production. This was evidenced also by the huge decline in the average quantity of fresh produce supplied to the Fugalei market, down by 32% compared to 1Q03. This shortage in local food supply led to higher prices.

Figure 2.2: AGRICULTURE CONTRIBUTION TO CHANGE IN GDP (%)
Change from corresponding quarter of previous year



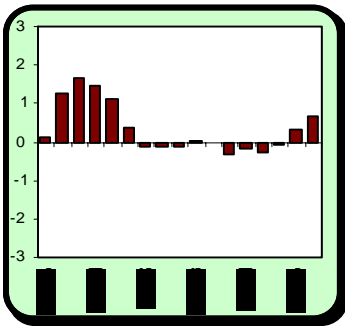
The **fishing** industry continued to decline with a real value added of \$14.38 million, down 9.2% over 1Q03. It contributed a negative 0.6% to real GDP growth of 1.3% in the quarter. The industry's continuing disappointed performance is reflected also in the low level of fish exports during this period largely the effect of changing weather patterns and the weakening US dollar.

Secondary Sector: *Manufacturing, Construction and Electricity & Water*

At constant 2002 prices, **food and beverage manufacturing** generated a value added of \$6.97 million, a decline of 4.4% compared to March 2003. The decline in the industry's performance reflects in part the temporary cessation of production for Dessico Samoa as new premises are being constructed. This has resulted also in nil exports recorded for desiccated coconuts in the quarter.

Other manufacturing industry had another quarter of negative growth falling by -6.1% in real prices compared to the previous March quarter. This translated into a negative contribution of 0.7% to the overall quarterly growth of 1.3%. The disappointing performance here also reflects in part the temporary cessation of production for Pacific Cashmere as new premises are being constructed. This has resulted in nil exports recorded for garments in the quarter.

Figure 2.3: CONSTRUCTION CONTRIBUTION TO CHANGE IN GDP (%)
Change from corresponding quarter of previous year



Personal and other services industry accounted for \$13.41 million in 2002 constant prices of the total GDP in 1Q04. This industry continued to perform well increasing by 7.2% from the same quarter last year and contributed 0.4% to real GDP growth.

The **hotels and restaurants** industry has been contributing positively to the economy despite its relative small size. The industry registered a \$5.82 million production in real terms in 1Q04, which amounted to an increase of 3.7% when compared to the same quarter last year. New proposed investments in tourism is expected to further enhance this industry's performance in the future.

Government

The **public administration** production amounted to \$18.85 million in 2002 constant prices in 1Q04. The industry grew by 3.1% in real terms relative to the same quarter in 2003.

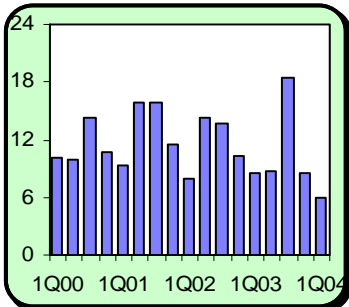
Table 2.1: ANNUAL & QUARTERLY REAL GDP										
	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04	% Change 1Q04 over	
At constant 2002 prices	(\$ Million)								1Q03	4Q03
Agriculture	67.12	61.70	67.69	17.47	15.87	16.69	17.66	14.48	-17.1	-18.0
Fishing	71.21	68.02	61.19	15.83	15.19	14.87	15.29	14.38	-9.2	-6.0
Food & Beverages Manufacturing	26.29	29.11	29.01	7.29	6.98	7.23	7.89	6.97	-4.4	-11.7
Other Manufacturing	111.84	107.75	119.96	27.66	30.02	30.54	27.54	25.97	-6.1	-5.7
Construction	55.77	53.75	55.14	13.00	13.22	13.96	14.15	14.47	11.3	2.3
Electricity and Water	37.59	38.60	38.06	10.49	9.87	9.22	10.33	11.51	9.7	11.4
Commerce	159.37	176.28	175.07	45.28	44.70	43.22	43.38	45.03	-0.6	3.8
Hotels, Restaurant	21.36	20.68	23.03	5.61	5.51	6.04	6.11	5.82	3.7	-4.7
Transport, Communication	108.35	104.64	110.51	26.60	24.04	28.39	30.86	29.49	10.9	-4.4
Public Administration	67.58	71.01	74.24	18.28	18.49	18.71	18.76	18.85	3.1	0.5
Finance & Business Services	64.97	72.57	78.49	20.16	19.18	20.41	22.88	22.63	12.3	-1.1
Less: Enterprise share of FISIM	-7.97	-8.24	-8.92	-3.21	-2.20	-2.27	-3.36	-3.30	2.8	-1.8
Ownership of Dwellings	22.99	23.45	23.92	8.41	5.97	6.00	8.53	8.57	1.9	0.5
Personal & Other Services	27.22	27.15	29.02	12.51	7.18	7.38	13.29	13.41	7.2	0.9
Value added 2002 market prices	833.72	846.46	876.40	225.36	214.46	220.39	233.30	228.27	1.3	-2.2
Implicit price deflator:	96.2	100.0	102.4	100.5	102.4	103.8	102.6	105.9	5.4	3.2
Selected measures of production:										
At constant 2002 prices										
Non-monetary	120.21	115.36	116.21	31.20	28.71	29.21	29.39	29.85	-4.3	1.6
Monetary – total	713.51	731.10	760.20	194.17	185.75	191.19	196.62	198.42	2.2	0.9
Monetary – restricted scope	630.35	652.08	671.37	173.40	163.22	168.69	173.55	179.87	3.7	3.6
Memo items:										
Nominal GDP (current prices)	802.18	846.46	897.68	226.59	229.56	240.02	239.42	241.68	6.7	0.9
GDP per capita	4,540	4,747	4,990	na	na	na	na	na	na	na
Source: Ministry of Finance estimates na - not applicable										

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

3.1 Exports

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

Figure 3.1: TOTAL EXPORTS
(\$ Million)



Exports were valued at \$6.02 million in 1Q04, down by 29.3% from the corresponding 2003 period. The leading contributor to this decline was fresh fish with a drop of \$2.02 million followed by a slight decline in coconut cream of \$0.05 million. Garments and desiccated coconuts recorded nil exports in the quarter. This was a result of the temporary close down of operations as new premises to house the products are being constructed. However, on a more positive note, the nonu products performed extremely well in the quarter with increases of more than a 100% for both nonu fruit and nonu juice over 1Q03.

Compared to the previous quarter, total exports was down by \$2.43 million. The drop was also strongly dominated by a fall of \$2.87 million in fresh fish exports and nil exports recorded for garments and desiccated coconut.

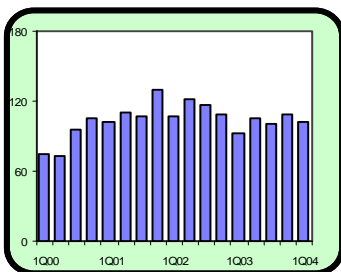
Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04	% Share			% Change in 1Q04 over	
	(\$ Million)								1Q03	4Q03	1Q04	1Q03	4Q03
	Fish	36.00	29.03	15.76	3.69	3.86	3.67	4.54	1.67	43.3	53.7	27.7	-54.7
Coconut Cream	3.38	3.11	3.01	0.74	0.78	0.76	0.73	0.69	8.7	8.6	11.5	-6.8	-5.5
Nonu fruit	0.35	0.45	0.51	0.08	0.14	0.11	0.19	0.20	0.9	2.2	3.3	150.0	5.3
Nonu juice	0.55	0.91	2.04	0.26	0.40	0.66	0.73	1.02	3.1	8.6	16.9	292.3	39.7
Beer	2.93	3.92	3.81	0.70	1.07	1.01	1.04	1.05	8.2	12.3	17.4	50.0	1.0
Taro	0.81	1.01	1.31	0.32	0.39	0.27	0.33	0.47	3.7	3.9	7.8	46.9	42.4
Garments	5.49	4.45	13.32	0.03	1.62	11.45	0.22	0.00	0.4	2.6	0.0	-100.0	-100.0
Desiccated Coconut	0.10	1.35	0.76	0.36	0.11	0.19	0.10	0.00	4.2	1.2	0.0	-100.0	-100.0
Others	2.96	2.06	3.75	2.34	0.41	0.41	0.57	0.92	27.5	6.7	15.3	-60.7	61.4
TOTAL	52.57	46.29	44.27	8.52	8.78	18.53	8.45	6.02	100.0	100.0	100.0	-29.3	-28.8

Source: Central Bank of Samoa

3.2 Imports

Figure 3.2: TOTAL IMPORTS
(\$ Million)



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

Imports at \$102.23 million in 1Q04, increased by \$9.80 million over the comparable 2003 quarter. All three components of imports recorded increases in this period, reflecting the surge in imports following cyclone Heta and the on-going construction works in both the public and private sectors.

Compared to 4Q03, imports dropped by 5.6%, driven mainly by non petroleum private sector imports which declined by 12.5%, whilst government and petroleum imports increased by 279.3% and 38.2% respectively. This is a usual reflection of the slow down in private sector activities following the festive season.

Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04	% Share			% Change 1Q04 over										
									(\$ Million)									1Q03	4Q03	1Q04	1Q03	4Q03
									1Q03	4Q03	1Q04	1Q03	4Q03									
Government ^a	24.92	11.29	7.54	0.19	6.21	1.02	0.12	0.46	0.2	0.1	0.5	142.1	283.3									
Petroleum	55.78	54.88	56.90	14.33	13.47	15.13	13.97	19.33	15.5	12.9	18.9	34.9	38.4									
Other Product ^b	368.10	388.06	342.52	77.91	85.59	84.77	94.25	82.44	84.3	87.0	80.6	5.8	-12.5									
TOTAL	448.8	454.23	406.96	92.43	105.28	100.92	108.34	102.23	100.0	100.0	100.0	10.6	-5.6									

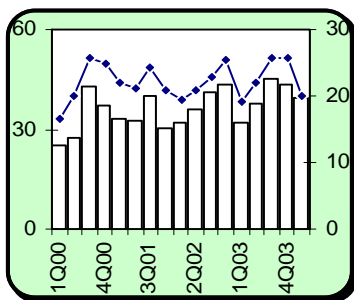
Source: Central Bank of Samoa

^{a/} Includes the import of the Birdon Dredge valued at \$3.3 million and building materials valued at \$1.2 million for the Samoa Port Authority in 2Q03, the Asphalt Plant Machine valued at \$0.5 million for the Ministry of Works in 3Q03

^{b/} Includes the import of four fishing vessels valued at \$4.1 million in 2Q02, a private owned passenger vessel valued at \$0.8 million and a generator for the Electric Power Corporation valued at \$3.5 million in 3Q02 and a telecommunication equipment for Samoa Tel valued at \$1.0 million in 1Q03.

3.3 Tourism Receipts

Figure 3.3: GROSS TOURISM RECEIPTS (Million) & TOURIST ARRIVALS ('000)



Revenues - Left Hand Axis
Arrivals - Right Hand Axis

□ Gross Tourism Receipts
◆ Tourist Arrivals

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

Both tourism revenues and arrivals were higher by 22.6% and 4.9% respectively over the comparable 2003 period, to stand at \$39.15 million tourism receipts and 20,000 tourist arrivals in the reviewing quarter.

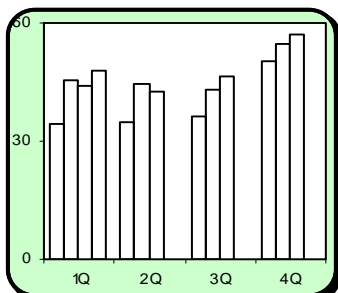
Compared to the preceding quarter however, which was the peak festive season, both tourist arrivals and revenues dropped by 22.5% and 9.9% respectively.

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

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
Gross Tourism Revenues	139.58	152.58	158.63	31.94	37.97	45.26	43.46	39.15
Tourist Arrivals	88.26	88.96	92.44	19.07	21.94	25.64	25.79	20.00

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

Figure 3.4: GROSS REMITTANCES BY QUARTER COMPARED ANNUALLY



Labeled on a Quarterly Basis from Left to Right - 2001 to 2004

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.

At \$48.13 million remittances in 1Q04 were 9.4% higher than the same 2003 quarter. This was largely a result of increased assistance provided to help families after cyclone Heta.

Compared to 4Q03 however, the net inflow of private remittances declined by 16.0%.

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
Remittances	147.85	188.06	190.48	44.01	42.68	46.49	57.3	48.13
Remittances as % GDP	18.4	22.2	21.2	20.4	19.4	20.3	24.6	19.9

Source: Central Bank of Samoa

Figure 3.5: QUARTERLY TRADE BALANCE (\$ Million)

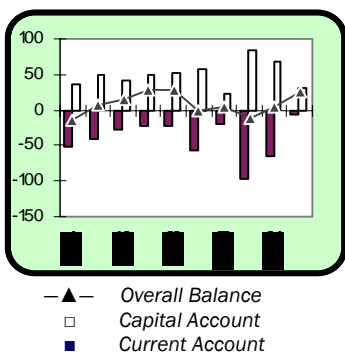


3.5 Balance of Payments

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.

The **trade deficit** expanded by \$12.30 million to stand at \$96.21 million in the reporting quarter compared to the corresponding 2003 quarter. Compared to the previous quarter (4Q03) however, the trade deficit recorded an improvement of \$3.69 million.

Figure 3.6: ANNUAL OVERALL BALANCE (\$ Million)



Net services and net transfers increased in the reviewing quarter resulting in an improvement of \$2.18 million in the **current account** deficit compared to March 2003. When compared to the preceding quarter (4Q03), net services and net transfers declined leading to a deterioration of \$7.93 million in the current account deficit.

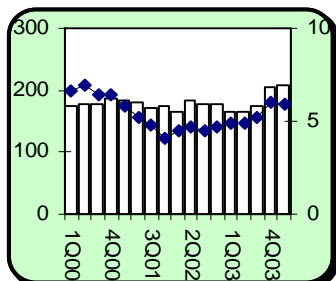
The **capital account** surplus estimated at \$7.27 million in 1Q04 resulted in an overall balance of payments surplus of \$3.42 million. This compares with an overall deficit of \$13.96 million and an overall surplus of \$30.56 million in 1Q03 and 4Q03 respectively.

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
1. EXPORTS (fob)	52.56	46.29	44.26	8.52	8.78	18.53	8.45	6.02
2. IMPORTS (cif)	448.80	454.23	406.98	92.43	105.28	100.92	108.35	102.23
3. TRADE BALANCE	-396.24	-407.94	-362.7	-83.91	-96.50	-82.39	-99.90	-96.21
4. NET SERVICES	152.9	155.5	166.99	33.87	42.69	43.75	46.68	44.23
5. NET TRANSFERS	147.85	188.06	190.48	44.01	42.68	46.49	57.30	48.13
6. CURRENT ACCOUNT BALANCE	-95.49	-64.38	-5.22	-6.03	-11.13	7.85	4.08	-3.85
7. CAPITAL ACCOUNT (Net)	84.36	68.41	30.57	-7.94	11.69	0.34	26.48	7.27
8. OVERALL BALANCE (Change in NFA)	-11.13	4.03	25.35	-13.96	0.56	8.19	30.56	3.42
9. TRADE BALANCE AS % GDP	-49.4	-48.2	-40.4	-38.8	-44.0	-36.0	-42.8	-39.8
10. CURRENT ACCOUNT BALANCE AS % GDP	-11.9	-7.6	-0.6	-2.8	-5.1	3.4	1.7	-1.6

Source: Central Bank of Samoa and Ministry of Finance estimates. All data provisional

4. FOREIGN EXCHANGE RESERVES

Figure 4.1: NET FOREIGN ASSET (\$ Million) & IMPORT COVER (Months) BY QUARTER



NFA - Left Hand Axis
Import Cover - Right Hand Axis

□ Net Foreign Assets
—◆— Month Import Cover

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.

Foreign exchange reserves at end March 2004, increased by 25.9% from end March 2003 to stand at \$207.63 million. This rise was largely contributed by Central Bank with an increase of \$34.31 million followed by increases of \$4.98 million and \$3.44 million in Treasury and Commercial Banks holdings. Compared to 4Q03, foreign exchange reserves expanded by 1.7%.

At this level, net foreign assets maintained its end December 2003 import coverage sufficient to cover 6.0 months of imports. This compares with 4.9 months at end March 2003.

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

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
Net Foreign Assets	174.83	178.86	204.21	164.90	165.46	173.65	204.21	207.63
Import Cover	4.7	4.7	6.0	4.9	4.9	5.2	6.0	6.0

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 end March 2004, the Tala depreciated against all currencies with the exception of the USD over end March 2003. Compared to December 2003 however, the Tala depreciated against the NZD, AUD and YEN whilst strengthening against the USD, EURO and FJD.

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

	2003				2004	% Appreciation(+)/Depreciation(-) of TALA between Mar 04 and	
	Mar	Jun	Sep	Dec	Mar	Dec 03	Mar 03
USD	0.3221	0.3367	0.3367	0.3600	0.3624	0.6	12.5
NZD	0.5806	0.5731	0.5716	0.5469	0.5447	-0.4	-6.2
AUD	0.5326	0.5009	0.5011	0.4756	0.4749	-0.1	-10.8
EURO	0.2953	0.2929	0.2938	0.2866	0.2950	2.9	-0.1
FJD	0.6383	0.6323	0.6261	0.6112	0.6241	2.1	-2.2
YEN	38.046	40.313	40.150	38.270	37.8300	-1.1	-0.6

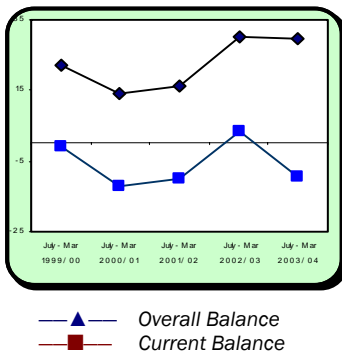
Source: Central Bank of Samoa

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.

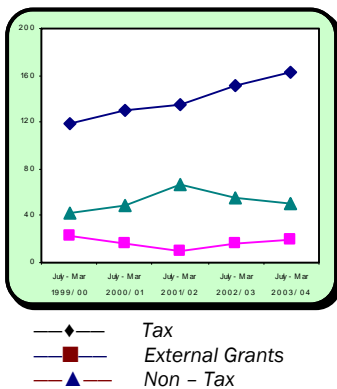
Figure 6.1: OVERALL & CURRENT BALANCE AS A PERCENT OF GDP



The 2003/04 budget anticipated an overall deficit of \$14.08 million and a current surplus of \$43.33 million. The actual outturn for the first nine months July 03 – March 04 period was an **overall deficit** of \$9.39 million, equivalent to 1.4% of GDP. **Current balance** registered a surplus of \$29.41 million, equivalent to 4.4% of GDP. The overall fiscal outturn was below the pro-rata estimate by \$1.17 million. This was attributed mainly to current expenditures being well maintained and the late implementation of some loan funded expenditure projects.

Revenue

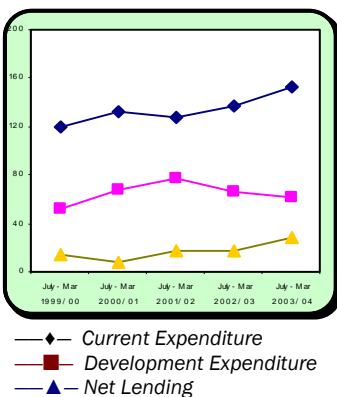
Figure 6.2: REVENUE BY TYPE (\$ Million)



Total revenue and grants for the first nine months of the 2003/04 fiscal year was \$233.20 million, \$5.57 million below the pro-rata estimate. Total revenue and grants comprises of tax and non-tax revenue and external grants which contributed 78% and 22% respectively.

Total revenue collected was \$181.99 million, down by \$6.55 million when compared to pro rata estimate. Tax revenue collection for the period was \$162.30 million, 89.2% of total revenue. VAGST, import duty, import excise, domestic excise and income tax, were below their pro rata estimates by \$6.03 million, \$2.41 million \$3.24 million, \$1.33 million and \$0.38 million respectively. Stamp duty and business licenses however registered slight increases of \$0.49 million and \$0.16 million respectively. Non-tax revenue collected \$19.69 million, \$0.37 million above the appropriated pro rata estimate.

Figure 6.3: EXPENDITURE BY TYPE (\$ Million)



External grants received was estimated at \$51.21 million for the nine month period, which was slightly higher than the pro rata estimate by \$0.95 million.

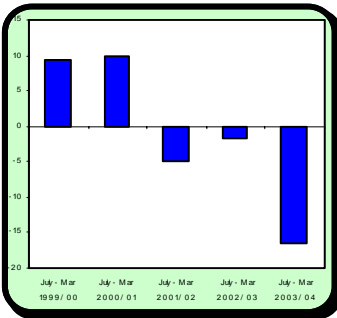
Expenditure

Total expenditure and net lending for the first nine months of 2003/04 was \$242.59 million. This was \$6.74 million below the appropriated pro rata estimate for the period.

The \$152.58 million recorded for current expenditures was \$3.46 million below the appropriated pro-rata estimate. This reflects prudent financial management to control expenditure. Development expenditure of \$62.15 million recorded in the first nine months was

below the pro rata estimate. This expenditure comprises of loan expenditure of 17.2% and grant funded expenditure of 82.8%.

Figure 6.4: GOVERNMENT POSITION WITH THE BANKING SYSTEM (\$ Million)



Net Lending of \$27.86 million exceeded the pro rata estimate by \$4.68 million. This was attributed to the advanced full payment of the \$19.50 million appropriated for Polyneesian Airlines.

Position with the Financial System

In the first nine months of the financial year 2003/04, government's financial position deteriorated by \$16.40 million. This was the biggest draw-down following draw-downs of \$1.65 million in 2002/03 and \$5.00 million in 2001/02.

Table 6.1: GOVERNMENT FINANCE 2001/02– Mar 04^a (\$ Million)

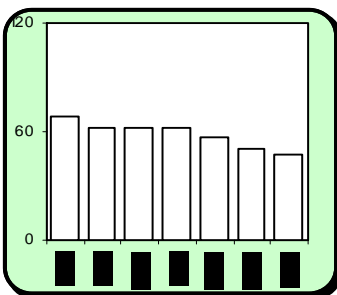
	Provisional Actual		Budget		Provisional		
	01/02	02/03	03/04	04/05	Jul-Sep03	Oct-Dec03	Jan-Mar04
Revenues and Grants	290.80	303.53	318.36	508.15	82.82	79.04	71.34
Revenues	198.67	229.37	251.38	267.92	63.92	59.46	58.61
External Grants	92.13	74.17	66.98	239.45	18.91	19.56	12.74
Expenditure	308.56	309.07	332.43	516.70	92.97	80.59	69.03
Current ^b	183.25	202.19	208.05	230.53	52.50	51.40	48.68
Development ^c	104.21	86.89	93.48	258.32	23.20	22.25	16.70
Other (capital & net lending)	21.10	19.99	30.91	27.85	17.27	6.94	3.65
Current Balance	15.42	27.17	43.33	37.40	11.42	8.07	9.92
Overall Balance	-17.76	-5.54	-14.08	-8.55	-10.14	-1.53	2.31
Financing							
Net external borrowing	11.80	4.69	13.05	5.05	-0.70	-1.48	0.59
Domestic	5.96	0.85	1.02	3.50	10.85	3.04	-2.91
Overall Balance as % of GDP	-2.1	-0.6	-1.5	-0.9	-4.2	-0.6	1.0
Total Expenditure as % of GDP	35.7	33.4	34.2	50.0	38.7	33.7	28.6

Source: Ministry of Finance estimates
^{a/} Provisional Actual 2001/02 – 2002/03, Jul 2003-Mar 2004; Budget 2003/04 – 2004/05
^{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: OVERALL GOVERNMENT DEBT AS % OF GDP



Official government debt outstanding at end March 2004 amounted to \$453.11 million, down by \$23.75 million and \$2.99 million over 1Q03 and 4Q03 respectively. This amount is equivalent to approximately 47.7% of GDP.

Multilateral and bilateral loans accounted for 92% (\$417.87 million) and 8% (\$35.23 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded \$3.85 million in March 2004, down by \$1.23 million over the comparable 2003 quarter, whilst recorded an increase of \$0.16 million from end December 2003.

Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 63.9% and 1.9% respectively.

Year End	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
Total External Debt	503.20	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	500.33	481.18	456.10	476.86	463.08	475.51	456.10	453.11
Official Government Debt as % of GDP	62.4	56.8	50.8	53.1	51.6	53.0	50.8	47.7

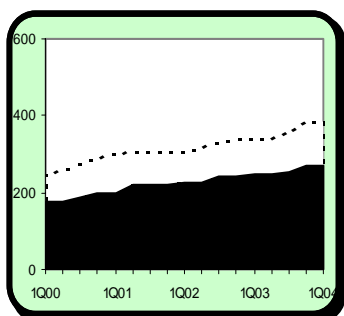
Source: Central Bank of Samoa and Ministry of Finance

7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

7.1 Money Supply

*The Money Supply (generally known as M2) is defined as:
Currency in circulation + Demand deposits + Savings deposits + Time deposits with the commercial banks.
Growth in money supply is regarded as an indicator of the level of economic activity and can be a lead indicator of likely future inflationary pressures*

Figure 7.1: NARROW MONEY, QUASI MONEY & TOTAL MONEY SUPPLY BY QUARTER (\$ Million)



■ Quasi Money
□ Narrow Money
--- Total Money Supply

Money Supply

Money supply increased by 12.9% over the twelve month period to total \$386.13 million at end March 2004. Narrow money and quasi money both contributed to the rise. Compared to end December 2003 however, money supply decreased by 0.06%.

Net Foreign Assets and Net Domestic Assets

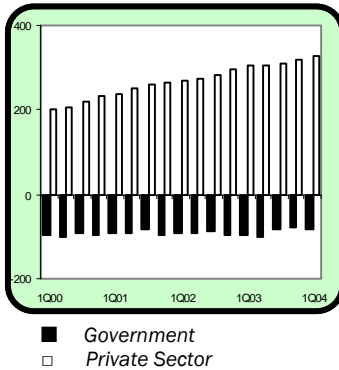
At end March 2004, both NFA and NDA recorded increases of \$42.73 million and \$1.60 million respectively over the twelve month period. Over 4Q03, NFA increased by 1.6% whilst NDA recorded a downward trend of 2.0%.

CBS Securities

The total face value of securities maturing in March 2004 amounted to \$24.50 million. The value of new securities issued totaled \$20.00 million made up of \$4.50 million for 14 days, \$5.50 million for 28 days, \$4.50 million for 56 days and \$5.50 million for 91 days. When compared to March 2003 the total face value of securities maturing increased by 68.9%, whilst new securities issued was lower by 21.2%.

7.2 Domestic Credit Expansion

Figure 7.2: GOVERNMENT & PRIVATE SECTOR DOMESTIC CREDIT BY QUARTERS (\$ Million)



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 so that domestic credit expansion has focused primarily on the private sector

Total domestic credit outstanding in 1Q04 recorded an increase of \$25.23 million from March 2003. Credit to the private sector increased and government also drew-down its deposits with the banking system during this period. Claims on non-financial public enterprises and non-monetary financial institutions however recorded a decline of \$5.23 million. Compared to 4Q03, the total amount of domestic credit outstanding was up by \$3.38 million.

Table 7.1: QUARTERLY MONETARY SURVEY (\$ Million)

				2003				2004	% Change in Mar 04 over	
	2001	2002	2003	Mar	Jun	Sep	Dec	Mar	Dec 03	Mar 03
Net Foreign Assets	174.83	178.86	204.21	164.90	165.46	173.65	204.21	207.63	16.7	25.9
Net Domestic Assets	132.79	160.18	182.16	176.90	174.97	182.64	182.16	178.50	-2.0	0.9
Money Supply (M2)	307.62	339.04	386.37	341.80	340.43	356.29	386.37	386.13	-0.1	13.0
Money (M1)	86.84	95.61	118.21	94.44	93.83	101.56	118.21	118.26	0.0	25.2
Currencies outside banks	29.97	32.57	35.73	25.56	26.21	26.79	35.73	28.52	-20.2	11.6
Demand deposit	56.87	63.04	82.48	68.88	67.62	74.77	82.48	89.74	8.8	30.3
Quasi Money	220.78	243.43	268.16	247.36	246.60	254.73	268.16	267.87	-0.1	8.3
Savings deposits	40.25	44.87	45.56	44.58	45.51	50.30	45.56	48.16	5.7	8.0
Time deposit	160.54	184.45	206.99	183.15	184.76	193.45	206.99	205.09	-0.9	12.0
FCDR ^b	19.99	14.11	15.61	19.63	16.33	10.98	15.61	14.62	-6.3	-25.5
Domestic Credit	186.68	219.02	254.08	232.23	237.11	248.81	254.08	257.46	1.3	10.9
Government (net)	-96.68	-94.27	-79.44	-94.67	-99.21	-83.00	-79.44	-82.81	4.2	-12.5
Private sector	266.59	294.70	318.47	307.27	306.10	310.99	318.47	325.87	2.3	6.1
Claims ^a	17.72	18.59	15.05	19.63	30.22	20.82	15.05	14.40	-4.3	-26.6

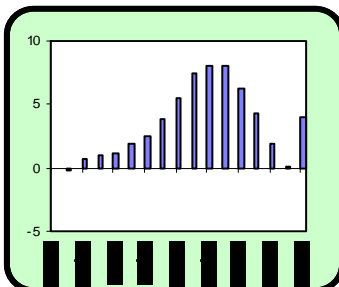
Source: Central Bank of Samoa

^{a/} Include claims on non-financial public enterprises and non-monetary financial institutions

^{b/} Foreign Currency Deposits of Residents

8. INFLATION

Figure 8.1 CPI ALL GROUPS ANNUAL AVERAGE RATE END QUARTER (%)



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%).

The annual average rate of inflation at end March 2004 stood at 4.0%. This compares with 6.3% at end March 2003. Over December 2003 however, the inflation rate was higher by 3.9 percentage points largely a result of the shortage in agriculture produce supplied to the Fugalei market following cyclone Heta.

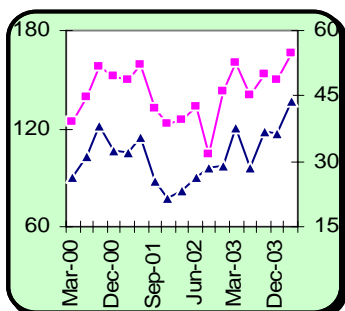
	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	1Q04
All Item Index	3.8	8.1	0.1	6.3	4.3	1.9	0.1	4.0
Imported Good Index	3.7	1.3	-0.1	0.3	0.0	0.1	-0.1	0.2
Local Good Index	4.0	13.8	0.3	11.4	7.8	3.3	0.3	9.1

Source: Ministry of Finance

8.1 Petroleum Prices

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

Figure 8.2: END QUARTER PETROLEUM PRICES



USD/bbl - Left Hand Axis
Sene/ltr - Right Hand Axis

—▲— FOB Price ex Singapore
—■— Retail Price

The international price (US currency) for petrol was 43.70 cents per litre in March 2004, up by US 5.94 cents over the comparable 2003 period. International prices (US currency) for diesel and kerosene were recorded at 38.80 cents and 38.17 cents per litre, increased by US 2.48 cents and US 0.88 cents respectively. Domestic retail prices for petrol, kerosene and diesel were recorded at 165.5 sene, 139.0 sene and 155.2 sene per litre respectively. The retail prices for petrol showed an upward trend of 5.20 sene, kerosene a downward trend of 5.10 sene whilst diesel remained the same.

When compared to December 2003, international prices for petrol, kerosene and diesel were up by US 7.47 cents, US 2.93 cents and US 5.26 cents respectively. Domestic retail prices for all three petroleum products had also increased during this period.

Table 8.2: END QUARTERLY PETROLEUM PRICES

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

	2003								2004	
	March		June		September		December		March	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	160.3	37.76	140.2	28.70	153.1	36.78	149.3	36.23	165.5	43.70
Kerosene	144.1	37.29	125.9	29.06	128.0	32.42	131.6	35.24	139.0	38.17
Diesel	155.2	36.32	139.9	29.29	139.8	31.33	142.2	33.54	155.2	38.80

Source: Ministry of Finance