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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 first quarter 2008.

1. EXECUTIVE SUMMARY

Key Features of First Quarter 2008 Performance

- Real **GDP** in 1Q08 increased by 1.6% over the comparable 2007 period; (see section 2)
- **Employment** declined slightly by 0.8% (167) in March 08 compared to the same 2007 period; (see section 3)
- **Export** revenues declined by 19.3% over the same 2007 period; (see section 4.1)
- **Imports** increased by 6.3% over the comparable 2007 period; (see section 4.2)
- The **trade deficit** consequently expanded by \$9.40 million compared to the same quarter of 2007; (see section 4.5)
- **Foreign reserves** stood at \$246.63 million in 1Q08, sufficient to cover 5.0 months of imports; (see section 5)
- The **Tala appreciated** against the USD and depreciated against the Yen, NZD, AUD, EURO and FJD between the March quarters of 2007 and 2008 (see section 6)
- The **budget outturn** for the first nine months of FY 2007/08 was an overall deficit of \$30.5 million, compared with a deficit of \$5.1 million in the comparable period of FY 2006/07. The current balance turned around to a deficit of \$12.3 million from a surplus of \$33.0 million recorded in the same period of the previous financial year; (see section 7.1)
- Official **external debt** stood at \$481.86 million, or 34.8% of GDP (see section 7.2)
- **Money supply** in 1Q08 was up by 10.1% on the level of 1Q07; (see section 8.1)
- **Domestic credit** outstanding at end March 2008 increased by 8.4% over March 2007, with private sector credit rising by 4.0%. (see section 8.2)
- The **inflation rate** at end March 2008 stood at 6.2%, up by 2.3 percentage points from March 2007; and the petrol price was up by 28.8% (see section 9)

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 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)

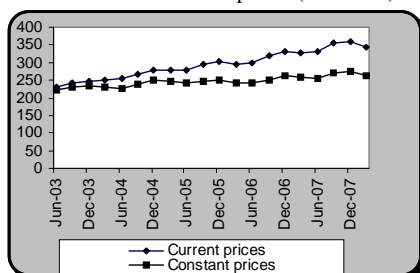
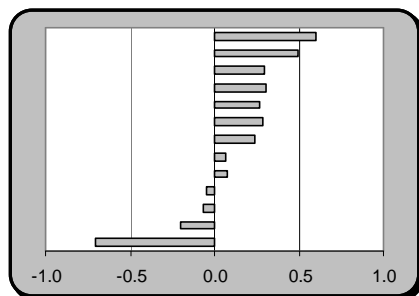


Figure 2.2: Industry contribution to overall growth in March 2008 (%)



Labeled from top to bottom

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

Overview

Gross Domestic Product in the March 2008 quarter was 1.6% above the level in the March quarter 2007. Hotels and restaurants and other manufacturing were the major contributors to this growth.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture declined by 0.7% when compared to the corresponding quarter of 2007, and fell by 14.6% when compared to the December quarter 2007. The supply of fresh produce to the Fugalei market registered notable declines in the quantity of bananas, coconut and cucumber of 20.9%, 37.1% and 6.9%, respectively.

Fishing recorded an increase of 5.0% compared to March 2007, but bad weather conditions at the end of 2007 and in the first two months of 2008 caused production to fall 7.9% from the December 2007 quarter level.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing deteriorated further, with its share of total GDP down to 2.1% from 2.9% for the same period last year. This poor performance was reflected in declining exports of manufactured goods like beer, coconut cream, nonu juice and soft drinks, which dropped by 22.2%, 14.3%, 32.6% and 11.1% respectively.

Other Manufacturing increased by 5.2% on the same period last year, to become the second major contributor to economic growth in the March quarter (Figure 2.2). This was fuelled mainly by the notable performance of the Yazaki Company, which increased exports by 68.2% when compared to March 2007.

After 17 consecutive quarters of strong growth, **construction** activities slowed down in the last quarter of 2007, recording growth of 0.8% when compared to the March quarter of 2007. The slowdown was expected with the completion of public sector projects related to the South Pacific Games. The industry contributed 0.1% to overall GDP growth (Figure 2.2).

Electricity and Water value added increased 5.4% compared to the March 2007 quarter. This growth reflected the increasing demand for electricity country wide, coupled with improved access to water services as part of the new infrastructural works under the Water Sector Support Programme Project funded by the European Union.

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

Commerce activities in the March quarter 2008 declined by 0.3% compared to March 2007, after a number of consecutive quarters of strong growth (averaging 5.0% in the 10 quarters beginning September 2005). The shortfall in the industry performance partly reflected the tapering off in the demand stimulus from the booming construction activities and the general increase in public service wages and salaries.

Hotels and Restaurants increased 17.2% compared to March 2007, and was the major contributor to overall growth with a share of 0.6% (Figure 2.2). The industry's notable performance made it the tenth largest industry, with a share of 4% of GDP.

Transport and Communication in March 2008 was 2.3% up on March 2007, contributing 0.3% to overall GDP growth. Improved telephone and other communication services coupled with expansion of land transport and improved air transport contributed to the favourable performance.

Finance and Business Services activities in the quarter under review increased by 2.5%, and contributed 0.3 percentage points to the overall growth.

Personal and Other Services fell 3.9% compared to the first quarter of 2007.

Government Sector

Public Administration increased 3.9% compared to March 2007, with government employees increasing by 1.8% from the comparable quarter of 2007.

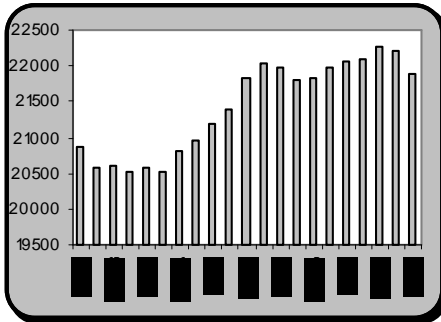
	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08	% Change 1Q08 over	
	(\$ Million)								1Q07	4Q07
At constant 2002 prices										
Agriculture	73.13	68.28	74.45	17.51	16.46	20.14	20.35	17.38	-0.7	-14.6
Fishing	48.50	48.33	55.82	12.88	13.42	14.76	14.76	13.59	5.5	-7.9
Food & Beverages Manufacturing	33.30	31.21	28.12	7.47	6.68	6.77	7.20	5.65	-24.3	-21.5
Other Manufacturing	100.00	89.30	104.87	24.73	24.50	27.52	28.12	26.02	5.2	-7.5
Construction	84.48	91.46	98.84	24.28	24.08	25.36	25.12	24.47	0.8	-2.6
Electricity and Water	44.46	46.48	47.76	11.35	11.99	12.20	12.22	11.96	5.4	-2.1
Commerce	192.04	202.25	212.36	52.91	50.80	53.59	55.07	52.74	-0.3	-4.2
Hotels, Restaurant	26.51	32.66	37.25	9.01	8.66	9.92	9.66	10.56	17.2	9.3
Transport, Communication	126.90	132.04	138.15	33.80	32.48	35.18	36.70	34.56	2.3	-5.8
Public Administration	81.07	81.92	84.19	20.66	21.02	21.18	21.33	21.46	3.9	0.6
Finance & Business Services	94.35	99.09	101.52	25.17	25.17	25.54	25.64	25.92	3.0	1.1
Less: Enterprise share of FISIM	-12.04	-12.27	-12.67	-3.14	-3.17	-3.20	-3.17	-3.22	2.5	1.6
Ownership of Dwellings	35.25	35.96	36.69	9.10	9.15	9.19	9.24	9.29	2.0	0.5
Personal & Other Services	53.43	53.05	53.65	13.37	13.41	13.45	13.42	12.82	-3.9	-4.5
Value added 2002 market price	981.38	999.77	1,061.02	259.08	254.64	271.60	275.66	263.20	1.6	-4.6
Implicit price deflator:	117.3	125.0	129.3	127.1	129.6	130.2	130.2	130.5	2.7	0.2
At constant 2002 prices										
Non-monetary	129.87	127.84	129.64	32.15	31.19	33.03	33.28	31.82	-1.0	-4.4
Monetary – total	851.51	871.93	931.37	226.97	223.45	238.58	242.38	231.37	2.6	-4.5
Monetary – restricted scope	784.26	814.71	859.17	210.72	206.87	219.12	222.46	213.26	1.2	-4.1
Memo items:										
Nominal GDP (current prices)	1,151.25	1,249.84	1,372.05	329.28	330.12	353.68	358.97	343.54	4.3	-4.3
GDP per capita	6,310	6,915	7,557	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)



The level of formal paid employment totalled 21,885 at end March quarter 2008, down slightly by 0.8% (167) from the corresponding quarter of 2007. This drop was driven by the decline of 15.0% and 4.8% in the primary and secondary sectors whilst tertiary and public administration increased by 0.3% and 1.8% respectively.

Table 3.1: TOTAL EMPLOYMENT NUMBERS

	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08	% Change in 1Q08 over	
									1Q07	4Q07
Primary	342	409	363	411	397	381	363	348	-15.3	-4.1
Secondary	4,975	4,798	4,740	4,838	4,793	4,765	4,740	4,605	-4.8	-2.8
Tertiary	11,749	11,826	12,095	11,845	11,922	12,152	12,095	11,883	0.3	-1.8
Public Administration	4,969	4,948	5,006	4,958	4,969	4,963	5,006	5,049	1.8	0.9
TOTAL EMPLOYMENT	22,035	21,981	22,204	22,052	22,081	22,261	22,204	21,885	-0.8	-1.4

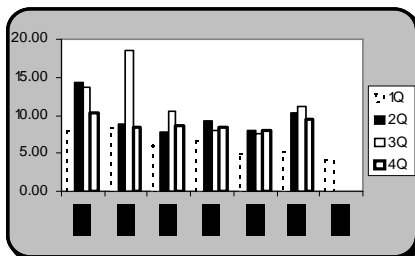
Source: Samoa National Provident Fund

4. FOREIGN TRADE AND BALANCE OF PAYMENTS

4.1 Exports

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

Figure 4.1.1: Exports by Quarter Compared Annually (\$ Million)



Export revenue for the first quarter of 2008 registered earnings of only \$4.21 million, declining by \$1.01 million from the comparable 2007 period. This was the result of the decline in all commodity exports throughout this period.

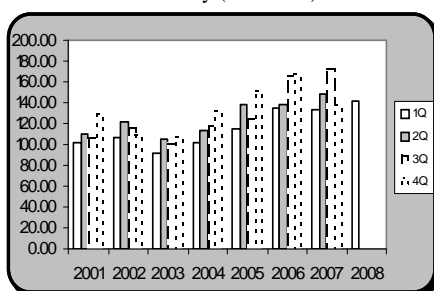
	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08	% Share			% Change in 1Q08 over	
	(\$ Million)								1Q07	4Q07	1Q08	1Q07	4Q07
	Fish	11.58	15.45	20.00	1.59	5.81	7.54	5.06	1.05	30.5	53.9	24.9	-34.0
Coconut cream	2.28	2.38	2.34	0.43	0.73	0.49	0.69	0.37	8.2	7.4	8.8	-14.0	-46.4
Nonu fruit	1.54	0.87	0.70	0.28	0.06	0.21	0.15	0.04	5.4	1.6	1.0	-85.7	-73.3
Nonu juice	8.29	3.95	3.82	0.74	1.16	0.91	1.01	0.50	14.2	10.8	11.9	-32.4	-50.5
Beer	4.83	3.48	3.12	0.88	0.74	0.64	0.86	0.68	16.8	9.2	16.2	-22.7	-20.9
Taro	0.85	0.59	0.62	0.18	0.19	0.12	0.14	0.16	3.4	1.5	3.8	-11.1	14.3
Others	3.12	2.03	5.59	1.12	1.71	1.28	1.47	1.41	21.5	15.7	33.5	25.9	-4.08
TOTAL	32.49	28.75	36.19	5.22	10.40	11.19	9.38	4.21	100.0	100.0	100.0	-19.3	-55.1

Source: Central Bank of Samoa

4.2 Imports

Imports are purchases from overseas of commodities, manufactured or processed products valued “free on board” (fob).

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



Imports were \$141.83 million in the first quarter of 2008, an increase of \$8.39 million from the same period of 2007. The rise was mainly driven by petroleum, which in turn largely reflected a tremendous rise in world oil prices. Government and private sector imports declined by \$4.36 million and \$2.15 million, respectively.

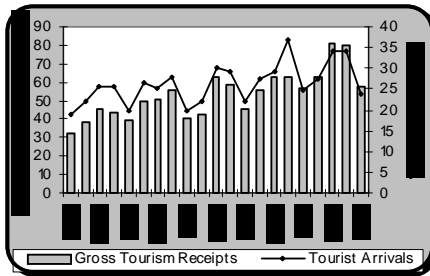
	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08	% Share			% Change 1Q08 over	
	(\$ Million)								1Q07	4Q07	1Q08	1Q07	4Q07
	Government	4.43	15.67	30.36	8.83	9.99	9.32	2.22	4.47	6.62	1.6	3.2	-49.4
Petroleum	94.99	114.48	122.51	27.46	32.22	35.73	27.10	42.36	20.6	19.6	29.9	57.9	56.3
Other Product	408.30	477.66	440.77	97.15	106.12	128.39	109.11	95.00	72.8	78.8	67.0	-2.2	-12.9
TOTAL	507.71	607.81	593.64	133.44	148.33	173.44	138.43	141.83	100.0	100.0	100.0	6.3	2.5

Source: Central Bank of Samoa

4.3 Tourism Receipts

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

Figure 4.3.1: Gross Tourism Receipts (\$ Million) & Visitor Arrivals ('000)



Gross tourism receipts were valued at \$57.33 million in 1Q08, increasing by \$1.87 million over 1Q07, whilst the number of tourist arrivals dropped by 709.

For the reviewing quarter, most of the tourists were from New Zealand (38.3%) followed by American Samoa with 19.0%, 18.4% from Australia, 9.5% from USA, other countries with 8.7%, other Pacific Islands with 3.6% and 2.5% from Fiji. The visiting friends and relatives category contributed the highest share of 45.3% to the total number of arrivals in 1Q08, followed by tourists on holiday (38.6%) and business, sports and others with a contribution of 16.1%.

Table 4.3.1: VISITOR ARRIVALS AND TOURISM RECEIPTS (\$ Million)

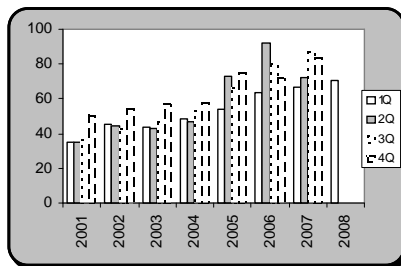
	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
Gross Tourism Revenues	207.37	226.20	279.74	55.46	63.02	80.97	80.29	57.33
Visitor Arrivals	101,804	115,882	122,250	24,663	29,049	34,231	34,307	23,954

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

4.4 Remittances

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

Figure 4.4.1: Remittances by Quarter Compared Annually (\$ Million)



In March quarter 2008, remittances increased by 5.3% from the corresponding quarter of 2007. This increase was contributed largely by remittances from the USA, with a rise of \$23.56 million. Funds for Samoan individuals contributed the highest share of 65.5%, followed by funds for churches and non-government schools (11.2%).

Table 4.4.1: GROSS REMITTANCES (\$ Million)

	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
Remittances	296.1	297.2	313.60	66.86	72.07	87.49	84.16	70.38
Remittances as % GDP	25.7	23.8	22.9	19.9	20.3	21.8	24.7	23.4

Source: Central Bank of Samoa

4.5 Balance of Payments

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

Figure 4.5.1: Quarterly Trade Balance (\$ Million)

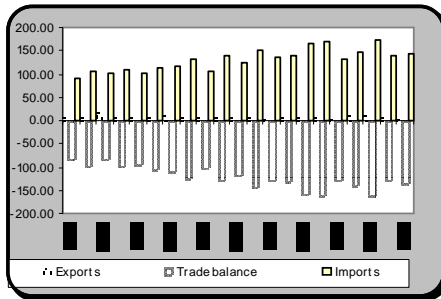
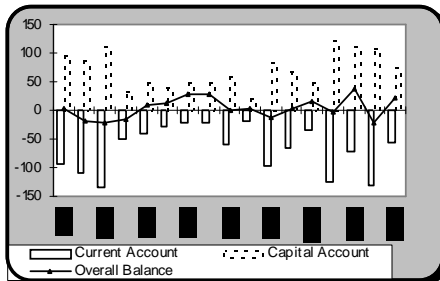


Figure 4.5.2: Annual Overall Balance (\$ Million)



The **trade deficit** expanded by \$9.40 million in the reporting quarter compared to the same quarter of 2007. This rise in the deficit was due to the rise in imports by \$8.39 million and the drop of \$1.01 million in exports.

Net services and income increased by \$3.35 million over the comparable 2007 period.

Net current transfers recorded a rise of \$5.10 million over 1Q07. This resulted in a **current account deficit** of \$28.26 million in the reviewing quarter, a slight increase of \$0.95 million over the corresponding 2007 period.

The **capital account** surplus was estimated at \$16.96 million in 1Q08, a decline of \$1.72 million over 1Q07. The overall balance of payments deficit expanded by \$2.67 million from 1Q07.

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

	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
1. EXPORTS (fob)	32.50	28.75	36.19	5.22	10.40	11.19	9.38	4.21
2. IMPORTS (fob)	507.71	607.81	593.64	133.44	148.33	173.44	138.43	141.83
3. TRADE BALANCE	-475.21	-579.06	-557.45	-128.22	-137.94	-162.25	-129.05	-137.62
4. NET SERVICES AND INCOME	113.04	180.87	222.31	38.50	61.88	55.42	66.51	41.85
5. NET CURRENT TRANSFERS	289.44	265.73	289.72	62.41	69.06	81.42	76.83	67.51
6. CURRENT ACCOUNT BALANCE	-72.73	-132.46	-45.42	-27.31	-7.00	-25.41	14.29	-28.26
7. CAPITAL ACCOUNT (Net)	111.07	110.54	75.47	18.68	26.22	14.30	16.27	16.96
8. OVERALL BALANCE	38.34	-21.92	30.05	-8.63	19.22	-11.11	30.56	-11.30
9. TRADE BALANCE AS % GDP	-41.3	-46.3	-40.6	-38.9	-41.8	-45.9	-36.0	-40.1
10. CURRENT ACCOUNT BALANCE AS % GDP	-6.3	-10.6	-3.3	-8.3	-2.1	-7.2	4.0	-8.2

Source: Central Bank of Samoa and Ministry of Finance

5. FOREIGN EXCHANGE RESERVES

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

The total value of foreign exchange reserves stood at \$246.63 million in March 2008, increasing by \$49.50 million over March 2007. These reserves were sufficient to cover 5.0 months of imports, compared to 4.0 in March 2007.

Table 5.1: GROSS OFFICIAL FOREIGN RESERVES (\$ Million) & IMPORT COVER (Months)

	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
Gross Official Foreign Reserves	208.16	199.32	226.06	197.13	202.61	206.87	226.06	246.63
Import Cover	5.1	4.0	4.7	4.0	4.1	4.1	4.7	5.0

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 March 2008, the Tala had depreciated against all foreign currencies, with the exception of the USD, from the comparable 2007 period.

	2007				2008	% Appreciation(+)/Depreciation (-) of TALA between Mar 08 and	
	Mar	Jun	Sep	Dec	Mar	Mar 07	Dec 07
USD	0.3706	0.3825	0.3843	0.3919	0.3981	7.4	1.6
NZD	0.5329	0.5160	0.5181	0.5130	0.5040	-5.4	-1.8
AUD	0.4716	0.4602	0.4538	0.4413	0.4394	-6.8	-0.4
EURO	0.2829	0.2838	0.2796	0.2704	0.2656	-6.1	-1.8
FJD	0.6192	0.6171	0.6146	0.6077	0.6040	-2.5	-0.6
YEN	44.28	46.18	45.25	44.29	41.87	-5.5	-5.5

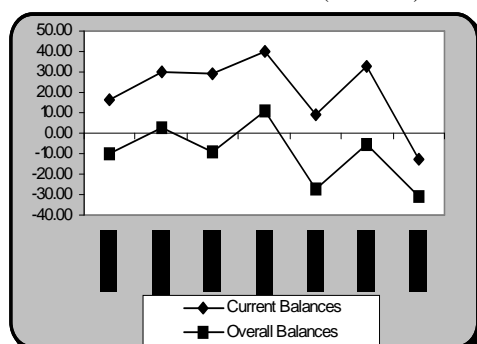
Source: Central Bank of Samoa

7. GOVERNMENT FINANCE

7.1 Government Finance Statistics

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

Figure 7.1.1: Overall and Current Balance
Jul-Mar 2001/02-2007/08 (\$ Million)



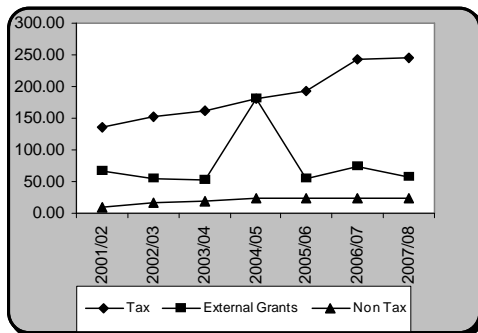
Overall Performance

The fiscal year 2007/2008 projected an overall deficit of SAT\$14.5 million, equivalent to 1.0% of the estimated GDP for the year. The lower deficit for the year compared to the past two years 2005/06 and 2006/07 reflected the tailoring off of some of the major construction activities for the South Pacific Games 2007, and increased revenue projections as a result of improved tax compliance.

However, fiscal operations during the financial year 2007/2008 have been adversely affected by an unexpected shortfall in revenue collection coupled with a surge in current expenditure partly related to South Pacific Games expenditures in the first and second quarter of the financial year. As at the end of the first nine months of 2007/08, the Government fiscal operations outturn was an overall deficit of \$30.5 million. Quarterly deficits fell from September through to the March quarters, mainly because of lower levels of current expenditure.

Figure 7.1.1 illustrates downward trends for both current and overall balances, with the current balance in deficit for the first time for the comparable 8 years.

Figure 7.1.2: Revenue by Type, Jul-Mar 2001/02-2007/08 (\$ Million)



Revenue

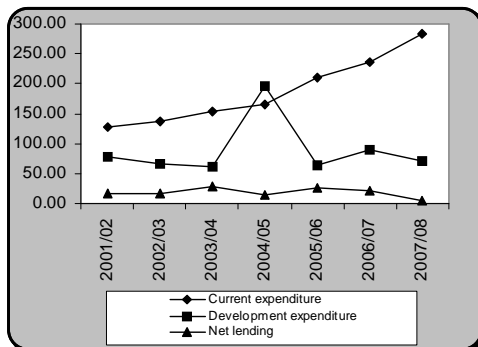
Total Revenue and Grants for July-March 2007/2008 stood at \$327.9 million, 14.3% below the pro-rata estimate. Both tax and non-tax revenues fell short of expectations.

Total Tax Revenue collection was 8.4% below the estimated pro-rata. This poor performance was attributable to notable declines in import duties, VAGST on imports, income tax and domestic excise.

Non-tax revenue collected was 49.7% below the pro-rate estimate. The notable underperformance was attributed to the loss of SAT\$12.5 million anticipated from the South Pacific Games, the delayed disbursement of the SAT\$6.5 million in receipts expected from the Samoa International Finance Authority, and a total of \$4.5 million expected from the privatisation of SOE's and Central Bank reserves. Cost recoveries were very low during the period.

Depicted in Figure 7.1.2 is the revenue performance for the comparable 9 months over the past 7 years. The figure shows continuous growth in the tax revenue over the past 6 years until it flattened in 2007/08 financial year. Non tax revenue remained at an average level of \$20 million.

Figure 7.1.3: Expenditure by Type, Jul-Mar 2001/02-2007/08 (\$ Million)



Expenditure

Total Expenditure and Net Lending for the first nine months of 2007/08 was 7.1% below the pro-rata estimate.

Current expenditure was 6.2% below the pro-rata estimate. This largely reflected increases of SAT\$22.4 million in ministerial South Pacific Games-related expenditure relative to the pro-rata estimate of the six months period. When compared to the corresponding period last year, expenditure rose by 20.2%.

Development Expenditure was \$70.2 million, SAT\$11.0 million below the pro-rata estimate. The shortfall resulted from delays in the implementation of public sector investment projects like the ADB-Sanitation & Drainage Project (due to some impediments with land issues), the Education Sector Project II being delayed in procurement and the postponement of an OPEC project until after the South Pacific Games.

Net lending for the first six months was \$2.6 million over the pro-rata estimate.

Fig 7.1.3 shows a big shift in current expenditure levels for the comparable nine months in 2004/05–2007/08 from SAT\$165.9 million to \$282.5 million, or an average annual growth of 16.9%.

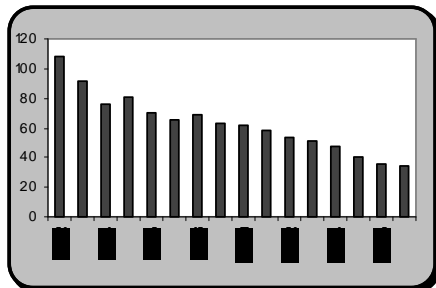
Table 7.1.1: GOVERNMENT FINANCE 2005/06 – 2007/08^a (\$ Million)							
	Provisional Actual			Budget	Provisional		
	2004/05	2005/06	2006/07	2007/08	Jul 06-Mar 07	Pro rata	Jul 07-Mar 08
Revenues and Grants	524.41	387.19	487.6	499.5	342.0	374.6	327.9
Revenues	283.03	315.37	389.2	422.6	268.1	316.9	270.2
External Grants	241.38	71.82	98.5	76.9	73.9	57.7	57.7
Expenditure	521.35	391.72	472.3	514.0	347.1	385.5	358.3
Current ^b	236.57	281.89	327.6	401.7	235.1	301.3	282.5
Development ^c	263.77	86.11	123.7	108.2	89.6	81.2	70.2
Other (capital & net lending)	21.02	23.72	21.1	4.1	22.4	3.1	5.7
Current Balance	46.46	33.48	61.6	20.9	33.0	15.6	-12.3
Overall Balance	3.06	-4.53	15.4	-14.5	-5.1	-10.9	-30.5
Financing							
Net external borrowing	15.82	6.18	7.6	17.7	6.5	13.3	7.6
Domestic	18.88	-1.65	-22.9	3.7	1.3	2.8	-22.9
Overall Balance as % of GDP	0.28	-0.5	1.2	-1.0	-0.5	-1.0	-2.9
Total Expenditure as % of GDP	47.63	39.35	36.0	36.8	32.9	36.5	33.9

Source: Ministry of Finance estimates
^a Provisional Actual 2004/05 – 2006/07, Jul-Mar 07, Jul-Mar 08 and Budget 2007/08
^b Includes domestically financed development plans
^c Financed from external grants and loans

7.2 External Debt

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

Figure 7.2.1: Official External Debt as % of GDP



Official external debt outstanding at end March 2008 stood at \$481.86 million, equivalent to 34.8% of GDP and down from 35.7% of GDP in March 2007..

Multilateral and bilateral loans accounted for 94.0% (\$455.21 million) and 6.0% (\$26.66 million) of disbursed outstanding debt, respectively.

Total debt servicing recorded \$4.56 million in March 2008, dropped by \$0.75 million from March 2007 period, equivalent to 6.9% of exports of goods and services.

Table 7.2.1: EXTERNAL DEBT (\$ Million)								
Year End	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
Official External Debt	461.59	448.38	477.15	446.97	431.39	450.45	477.15	481.86
Official External Debt as % of GDP	44.8	35.8	34.8	35.7	32.9	34.3	34.8	34.8

Source: Ministry of Finance

Table 7.2.2: TOTAL DEBT SERVICING AS % OF MERCHANDISE EXPORTS AND SERVICES								
Year End	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
Total Debt Servicing	16.72	17.82	20.12	5.31	4.20	4.62	5.99	4.56
As % of Merchandise exports plus services exports ^a	6.8	6.4	6.1	7.6	8.6	5.0	6.7	6.9

Source: Central Bank of Samoa and Ministry of Finance
^a Merchandise exports and services are dominated by travel

8. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

8.1 Money Supply

The Money Supply (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 future inflationary pressures

Figure 8.1.1: Narrow Money, Quasi Money & Total Money Supply by Quarter (\$ Million)

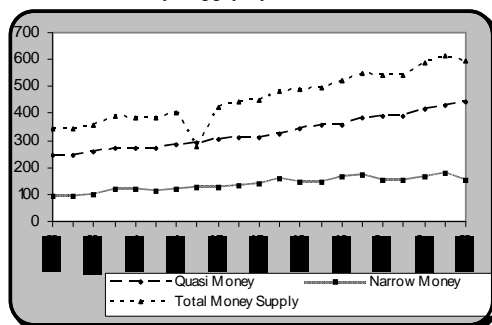
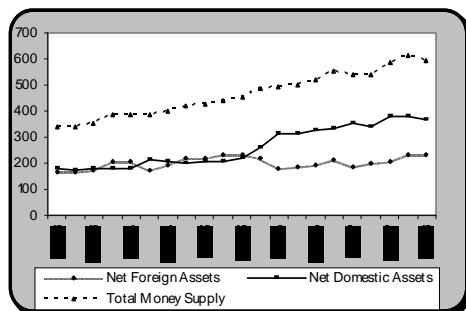


Figure 8.1.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply increased by \$54.64 million or 10.1% compared to the first quarter of 2007. This rise was made up of an increase of \$53.51 million in Quasi Money and a rise in Narrow Money of \$1.13 million. The increase in Quasi Money was driven largely by time deposits with a rise of \$45.39 million. For the components of Narrow Money (M1), demand deposits increased by \$1.82 million whilst currency outside banks dropped by \$0.69 million.

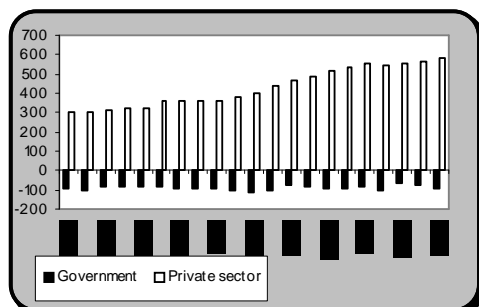
Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$230.28 million whilst Net Domestic Assets stood at \$364.19 million in 1Q08. NFA and NDA registered increases of \$42.72 million and \$11.92 million over March 2007.

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. Government has been a net depositor with the banking system, so that domestic credit expansion has focused primarily on the private sector.

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



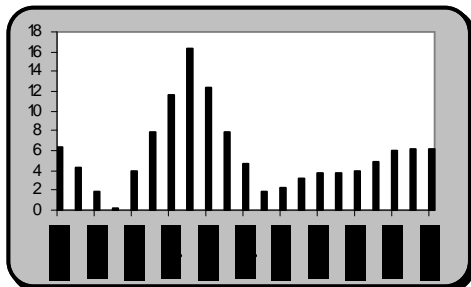
The total amount of domestic credit outstanding at end March 2008 stood at \$546.05 million, an increased of 8.2% over March 2007. This increase was strongly fuelled by a rise in claims on non-financial public enterprises & non-monetary financial institutions, followed by modest growth in credit to the private sector. Government increased its deposits with the banking system by \$9.61 million to stand at \$92.02 million at end March 2008

9. INFLATION

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

9.1 Consumer Price Index

Figure 9.1.1: CPI All Groups Annual Average Rate End Quarter (%)



The rate of inflation in March 2008 was 6.2%, an increase of 2.3 percentage points from March 2007. The twelve months moving average for the local component of the CPI rose by 2.2 percentage points over the comparable period of 2007. This rise was strongly determined by an increase of 5.7 percentage points in the house/household category, followed by upward trends of 2.5, 2.3 and 1.6 percentage points in miscellaneous, alcohol/tobacco and local food groups, respectively. The import component of the CPI increased by 2.5 percentage points due mainly to the rise in food prices and house/household operations by 3.8 and 2.0 percentage points, respectively.

The house/household category was the main contributor to the growth in all items (local and import components) of the CPI with an increase of 4.2 percentage points, followed by food with a rise of 2.9 percentage points. The overall results indicate that the rise in oil prices and world food prices had strongly determined the increase in inflation during this period. The high oil prices have filtered through the electricity costs for household consumption and the rise in world food prices has driven the increase in imported food prices.

Table 9.1.1: ANNUAL INFLATION (%)

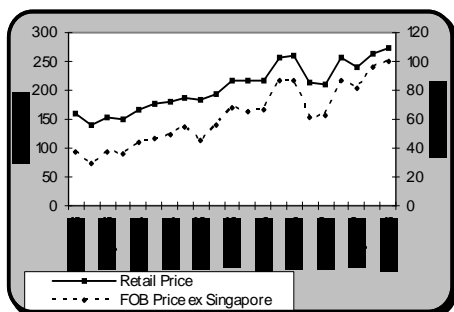
	2005	2006	2007	1Q07	2Q07	3Q07	4Q07	1Q08
All Item Index	1.8	3.8	6.1	3.9	4.9	6.0	6.1	6.2
Imported Good Index	2.2	4.5	6.9	4.9	6.0	7.2	6.9	7.4
Local Good Index	1.6	3.1	5.4	3.1	3.8	4.9	5.4	5.3

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 are important as they affect electricity and transportation costs for all sectors of the economy. Local retail prices for petroleum products are derived directly from international market prices without subsidy.

Figure 9.2.1: End Quarter Petroleum Prices



International prices (US currency) for petrol, kerosene and diesel at end March 2008 were 99.77 cents, 105.31 cents and 105.16 cents per liter respectively. Petrol, kerosene and diesel prices had increased by 36.64 cents, 34.72 cents and 36.15 cents over the first quarter 2007. Domestic retail prices for petrol, kerosene and diesel were recorded at 272.2 sene, 261.5 sene and 280.2 sene per litre, respectively, increasing by 60.9 sene, 55.0 sene and 58.9 sene from 1Q07.

Domestic retail prices for petrol, diesel and kerosene thus increased by 28.8%, 26.6% and 26.6%, respectively.

Table 9.2.1: END QUARTERLY PETROLEUM PRICES (retail price in sene/ltr & FOB Price ex Singapore in USD/bbl)										
	2007								2008	
	March		June		September		December		March	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	211.3	63.13	255.1	86.65	240.6	81.31	262.5	95.89	272.2	99.77
Kerosene	206.5	70.59	226.5	81.83	231.0	87.00	271.8	106.13	261.5	105.31
Diesel	221.3	69.01	243.5	81.31	247.0	85.52	260.8	102.06	280.2	105.16

Source: Ministry of Finance