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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 third quarter 2007.

1. EXECUTIVE SUMMARY

Key Features of Third Quarter 2007 Performance

- **Real GDP** of \$273.75 million in 3Q07, grew by 10.6% over the comparable 2006 period; (see section 2)
- **Employment** increased by 0.7% (156) over the comparable 2006 period; (see section 3)
- **Export** revenues valued at \$11.19 million in 3Q07, increased by 47.4% over the same 2006 period; (see section 4.1)
- **Imports** stood at \$173.45 million in 3Q07, increased by 4.3% over the comparable 2006 period; (see section 4.2)
- **Trade deficit** worsened by \$3.60 million to stand at \$162.26 million in 3Q07; (see section 4.5)
- **Foreign reserves** at the end of 3Q07 stood at \$205.90 million, equivalent to 4.1 months of import cover; (see section 5)
- The **Tala appreciated** against USD, EURO and YEN whilst depreciated against the NZD, AUD and FJD from the comparable 2006 period (see section 6)
- The **budget out-turn** showed an overall deficit of \$39.3 million, for the Jul-Sep 2007 quarter, worsened from a deficit of \$14.90 million in Jul-Sep quarter of 2006. This was mainly due to the increase of approximately 36.1% (\$31.8 million) in current expenditure; (see section 7.1)
- Official external **government debt** outstanding at end 3Q07 stood at \$450.45 million; increased by \$6.26 million over the corresponding 2006 period; (see section 7.2)
- **Money supply** valued at \$586.89 million at end September 2007, increased by \$63.64 million over the comparable 2006 quarter; (see section 8.1)
- **Domestic credit** expanded by \$93.31 million over 3Q07 to stand at \$544.48 million; (see section 8.2)
- The annual average **inflation rate** at end September 2007 stood at 6.0 percent, 2.3 percentage points higher than the rate at end September 2006; (see section 9)

2. GROSS DOMESTIC PRODUCT

The Gross Domestic Product is the building blocks for macroeconomic analysis. This measure estimates the country's gross value-added within the domestic economy. Compilation of the estimates uses an industry-value added approach; that is the values of output and input have been estimated separately for each industry, and value-added (gross product) derived as a net measure. For the agriculture and non-monetary sectors estimates have been derived from, inter alia, export data, the Fugalei Market Surveys and benchmark derived from the 2002 Household Income and Expenditure Survey. GDP estimates for Agriculture and Fishing have been revised to incorporate the 1999 Agriculture Census and the 2000 Fishing Survey. Other data sources and benchmarks have included the 1999 Business Activity Survey, and detailed trade statistics provided by the ASYCUDA system as well as employment data from NPF.

Figure 2.1: Quarterly GDP estimates at constant and current prices (\$ Million)

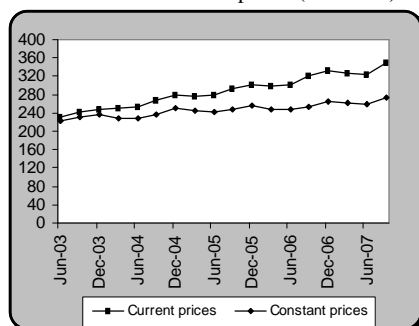
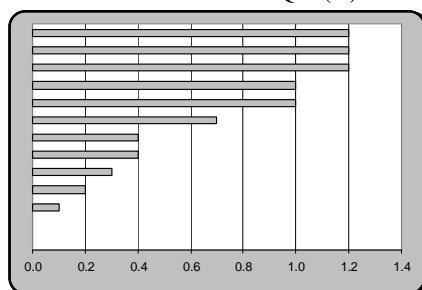


Figure 2.2: Contribution to Change in Total Real GDP for June 3Q07 (%)



Labeled from top to bottom

| | |
|---------------------------------|-----|
| Construction: | 1.2 |
| Commerce: | 1.2 |
| Hotels, restaurants: | 1.2 |
| Agriculture: | 1.0 |
| Transport, communication: | 1.0 |
| Other Manufacturing: | 0.7 |
| Fishing: | 0.4 |
| Public Administration: | 0.4 |
| Electricity & Water: | 0.3 |
| Finance & business services: | 0.2 |
| Ownership of dwellings: | 0.1 |
| Food & Beverages manufacturing: | 0.0 |
| Personal & other services: | 0.0 |

Overview

Economic activities expanded further in the September 2007 quarter to accumulate a total GDP of \$1.3 billion Tala in current prices for the twelve months ending September 2007. In constant 2002 prices, GDP was at \$1.06 billion Tala, a real increase of 5.2%, following strong growth rates of 3.3% and 4.0% for the 12 months ending March 2007 and June 2007 respectively. The notable performance was fueled by the boom in construction mainly for the preparation for the South Pacific Games, as well as a sharp increase in the growth of the tourism sector, a direct result for hosting the South Pacific Games.

September quarter 2007 economic activities were extraordinary. Latest GDP estimates in nominal terms stood at \$349.4 million Tala, 9.0% more than the corresponding period last year, and 7.9% higher than the level in June quarter. In constant 2002 prices, GDP increased by 7.6%, a 3.6 percentage points more than the average growth rate for the past 10 consecutive quarters of 4.0 percent. The apparently strong growth for the period was boosted by activities related to the South Pacific Games. Major contributors to growth were Hotels and Restaurants, Construction and Commerce industries all contributing 1.2 percentage points to the overall growth. Strong resurgence in the Agriculture sector generated a significant contribution of 1.0 percent. Simultaneously, Transport and Communication was robust and increased by 7.5% to contribute 1.0 percent. All other industries contributed positively to the growth except for Food and Beverage and Personal and Other services which registered zero growths for the period.

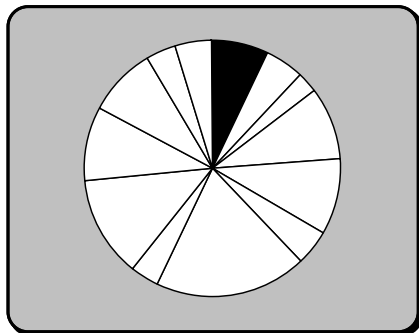
Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture real production for September 2007 quarter was promising albeit low production in 2006 with an average negative quarterly growth of 6.4% when compared to the corresponding period of 2005. Total value added was \$20.2 million Tala, an increase of 14.2% compared to September 2006, and contributed 1.0 percentage points to the overall growth. When compared to the previous quarter (June 2007) agriculture production increased by 21.9 percent.

Fishing industry generated a total value added of \$13.4 million Tala in the September quarter 2007, an increase of 8.2 percent compared to the same period last year. When compared to the previous quarter, Fishing value added increased by 9.3 percent. The moderate recovery in the

Figure 2.3: Real GDP by industry



Labeled commencing from the shaded area going clockwise

| | |
|-----------------------------------|------|
| Agriculture: | 7.4 |
| Fishing: | 4.9 |
| Food and Beverages manufacturing: | 2.5 |
| Other manufacturing: | 9.3 |
| Construction | 9.5 |
| Electricity and water: | 4.6 |
| Commerce: | 19.4 |
| Hotels, restaurants: | 3.7 |
| Transport, Communication: | 12.9 |
| Public Administration: | 9.5 |
| Finance and business services: | 9.2 |
| Ownership of dwellings: | 3.4 |
| Personal and other services: | 4.9 |

industry is encouraging, given the current declining trend in export earnings.

Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing has been in a weakening position in the past 6 quarters, declining at an average rate of 9.5 percent. Real value added for September 2007 quarter remained at the same level as was in September 2006, and increased slightly (1.4%) when compared to the previous quarter. Beer production accounted for most of the decrease with its exports of 25.1% compared to the corresponding period last year. This was more than offset by a substantial increase in the production of coconut cream of 300% when compared to the corresponding period in 2006.

Following strong growths in the preceding two quarters (March and June 07) of 21.6% and 20.9%, **Other Manufacturing** again increased at a decreasing rate of 8.0 percent compared to the same period last year. The industry generated a total value added of \$25.6 million and accounted for 0.7 percentage points of the total GDP growth over the period. The increase was due to Yazaki production increasing by 16.2% as a result of strong demand from overseas markets, hence exports increased 25.2% compared to September 2006. Construction boom which boosted demand for construction materials like ready-mix cement and building blocks up by 30% and 5% respectively.

Construction was one of the leading three contributors to the 7.6% overall growth with a contribution of 1.2 percentage points. During the period under review, total value added generated was \$26.1 million, an increase of 13.4% following strong growths of 11.3% and 13.8% for March and June 2007 quarters compared to the corresponding periods in 2006. The notable performance was fuelled by Government's commitment in providing adequate facilities for sports and other related construction works such as accommodations, roads and bridges etc. As a result, during the period under review fiscal balance was an overall deficit of \$39.3 million Tala. It is projected that the industry's performance will slow down during the upcoming quarters.

Electricity and Water total value added for the September 2007 quarter was \$12.5 million Tala, an increase of 5.9% compared to September 2006 to contribute 0.3 percentage points to the overall growth. Excess demand for both utilities during the period for infrastructure works and the South Pacific Games related activities were the primary factors that boosted electricity and water production.

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

Commerce real value added generated during the period was \$53.1 million Tala, an increase of 6.3% (\$3.2 million Tala) when compared to the corresponding quarter of 2006, and when compared to the previous quarter, it increased by 3.9 percent. Commerce with the largest share of 19.4% also contributed 1.2% to the total GDP growth. The growth in the industry was well supported by the expansionary Government spending during the period under review which increased by 23.0% compared to September 2006 and an outstanding growth in the Tourism industry with a recorded increase in tourism expenditure of 14%.

Hotels and Restaurants performance was extraordinary in the period under review to become one of the three leading contributors to the economic growth with a contribution of 1.2 percentage points. Total value added generated was \$10.2 million, an increase of 41.6% when compared to the same period last year. The apparent surge in the industry was anticipated in view of the influx of tourists, with a particular reference to the total arrivals of 14,096 people in the month of August where 70% - 80% were those participating in the South Pacific Games.

Transport and Communication continued to expand with improved infrastructure. Total value added generated \$35.3 million Tala, rose by 7.5% compared to the same period in 2006 to contribute 1.0 percentage points to the overall growth. Hence reflects the immense need for communication and transport services during the South Pacific Games. The transport industry is expected to slowdown in light of the rapid increase in oil prices that could somewhat offset increased production generated by communication service providers complimented by improvements in the infrastructure.

Finance and Business Services in September 2007 recorded value added at constant 2002 prices at \$25.2 million tala, a slight increase of 1.9% over the same quarter 2006 to contribute 0.2 percentage points to the overall growth. The industry's performance has been the lowest since March 2006, and reflects the limited resources financial institutions could attached to for financial intermediation.

During the September 2007 quarter, **Personal and other Services** value added was \$13.4 million. The industry's performance has been stagnant at an average level of \$13.0 million Tala for a period of over 10 consecutive quarters. During the period under review, production by the industry increased slightly by 0.5 percent.

Government Sector

Public Administration value added for the quarter was \$26.1 million Tala, up by 3.8% compared to September 2006 and contributed 0.4 percentage points to the overall growth. The increase reflects the anticipated increase in productivity as a result of the final additional payment of the Public Sector general salary increase that has been ongoing for the past three financial years.

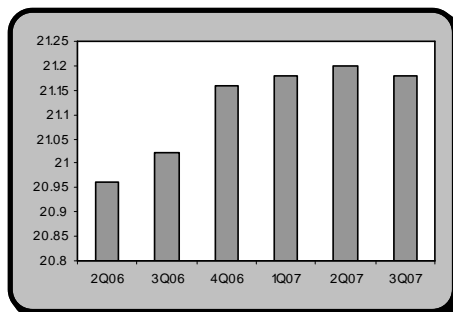
| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | % Change 3Q07 over | |
|---------------------------------|--------------|--------|--------|-------|-------|-------|-------|-------|-----------------------|------|
| At constant 2002 prices | (\$ Million) | | | | | | | | 3Q06 | 2Q07 |
| Agriculture | 63.30 | 73.13 | 68.28 | 17.72 | 17.87 | 17.51 | 16.58 | 20.23 | 14.2 | 22.0 |
| Fishing | 52.78 | 48.50 | 48.33 | 12.40 | 12.62 | 11.92 | 12.27 | 13.41 | 8.2 | 9.3 |
| Food & Beverages Manufacturing | 30.42 | 33.30 | 31.21 | 6.77 | 7.65 | 7.47 | 6.68 | 6.77 | 0.0 | 1.3 |
| Other Manufacturing | 106.61 | 100.00 | 89.32 | 23.66 | 25.30 | 24.54 | 24.38 | 25.56 | 8.0 | 4.8 |
| Construction | 74.28 | 84.45 | 87.71 | 22.99 | 23.82 | 22.72 | 23.32 | 26.07 | 13.4 | 11.8 |
| Electricity and Water | 43.09 | 44.46 | 46.49 | 11.77 | 11.93 | 11.54 | 12.18 | 12.47 | 5.9 | 2.4 |
| Commerce | 182.13 | 192.04 | 200.92 | 49.93 | 51.24 | 52.78 | 51.09 | 53.08 | 6.3 | 3.9 |
| Hotels, Restaurant | 24.15 | 26.49 | 34.10 | 7.22 | 8.80 | 9.10 | 8.84 | 10.23 | 41.6 | 15.7 |
| Transport, Communication | 120.84 | 126.90 | 132.06 | 32.86 | 35.45 | 33.80 | 32.46 | 35.32 | 7.5 | 8.8 |
| Public Administration | 78.89 | 90.45 | 100.52 | 25.12 | 25.34 | 25.35 | 25.79 | 26.08 | 3.8 | 1.1 |
| Finance & Business Services | 90.45 | 94.35 | 99.29 | 24.74 | 25.28 | 25.39 | 25.22 | 25.21 | 1.9 | -0.0 |
| Less: Enterprise share of FISIM | -11.59 | -12.04 | -12.27 | -3.09 | -3.06 | -3.26 | -3.31 | -3.29 | 6.4 | -0.6 |
| Ownership of Dwellings | 34.55 | 35.25 | 35.96 | 9.01 | 9.06 | 9.10 | 9.15 | 9.19 | 2.0 | 0.4 |
| Personal & Other Services | 53.04 | 53.43 | 53.49 | 13.35 | 13.47 | 13.59 | 13.50 | 13.42 | 0.6 | -0.6 |

| | | | | | | | | | | |
|--|----------|----------|----------|--------|--------|--------|--------|--------|-----|-----|
| Value added 2002 market prices | 942.93 | 990.72 | 1015.38 | 254.44 | 264.76 | 261.55 | 258.15 | 273.75 | 7.6 | 6.0 |
| Implicit price deflator: | 111.3 | 116.2 | 123.0 | 125.9 | 125.1 | 124.8 | 125.4 | 127.6 | 1.4 | 1.8 |
| Selected measures of production: | | | | | | | | | | |
| At constant 2002 prices | | | | | | | | | | |
| Non-monetary | 123.95 | 129.87 | 127.84 | 32.53 | 32.04 | 32.15 | 31.23 | 33.06 | 1.6 | 5.9 |
| Monetary – total | 818.98 | 860.85 | 887.55 | 221.91 | 232.72 | 229.41 | 226.92 | 240.69 | 8.5 | 6.1 |
| Monetary – restricted scope | 743.66 | 793.60 | 830.32 | 206.85 | 215.67 | 213.25 | 210.44 | 223.20 | 7.9 | 6.1 |
| Memo items: | | | | | | | | | | |
| Nominal GDP (current prices) | 1,049.41 | 1,151.20 | 1,249.08 | 320.40 | 331.31 | 326.52 | 323.69 | 349.37 | 8.7 | 7.9 |
| GDP per capita | 6173 | 6775 | 7,104 | 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 estimates totaled 21,176 at the end of third quarter 2007, increased by 0.7% (156) over the comparable 2006 period. This outcome was a result of the increases in the number of employees in the secondary sector and tertiary sector by 1.6% (63) and 0.7% (118) whilst primary sector dropped by 6.5% (26) respectively.

When compared to the previous quarter (2Q07), total employment recorded a rise of 0.1% (10). This increase was driven mainly by the rise in the tertiary sector of 80 (0.5%) which managed to offset the decline in both the primary and secondary sector of 6.1% and 1.2% respectively.

Table 3.1: TOTAL EMPLOYMENT NUMBERS ('000)

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | % Change in 3Q07 over | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------|--------------|
| | | | | | | | | | 3Q06 | 2Q07 |
| Primary | 0.37 | 0.33 | 0.39 | 0.40 | 0.41 | 0.41 | 0.40 | 0.37 | -7.5 | -7.5 |
| Secondary | 3.80 | 3.92 | 3.86 | 3.84 | 3.98 | 3.99 | 3.95 | 3.90 | 1.6 | -1.3 |
| Tertiary | 15.70 | 16.34 | 16.79 | 16.78 | 16.77 | 16.77 | 16.82 | 16.90 | 0.7 | 0.5 |
| TOTAL EMPLOYMENT | 19.87 | 20.60 | 21.04 | 21.02 | 21.16 | 21.17 | 21.17 | 21.18 | 0.8 | -0.05 |

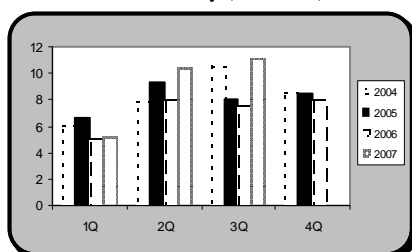
Source: Samoa National Provident Fund

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).

Export revenues were valued at \$11.19 million in the reviewing quarter, increased by \$3.60 million (47.4%) over 3Q06. The rise was largely attributed to an increase of \$1.91 million in fish products. All other products showed increases with the exception of nonu fruit and taro with

Figure 4.1: Exports by Quarter Compared Annually (\$ Million)

declines of \$0.09 million (29.9%) and \$0.01 million (9.4%) respectively.

In comparison with the previous quarter (2Q07), exports had registered an increase of 7.7%. Fish exports had strongly driven this increase with an outstanding rise of \$1.73 million, impacted by favourable weather for albacore. Only fish and other products recorded increases whilst beer, coconut cream, nonu fruit, nonu juice along with taro declined respectively throughout this period.

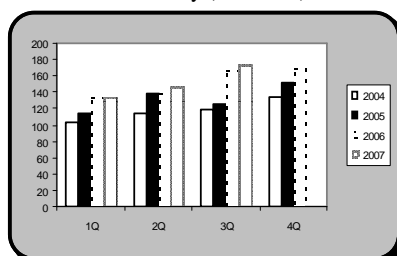
Table 4.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 | % Share | | | % Change in 3Q07 over | |
|---------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|-----------------------|------------|
| | (\$ Million) | | | | | | | | 3Q06 | 2Q07 | 3Q07 | 3Q06 | 2Q07 |
| | | | | | | | | | | | | | |
| Fish | 13.52 | 11.58 | 15.45 | 5.63 | 3.85 | 1.59 | 5.81 | 7.54 | 74.1 | 55.9 | 67.4 | 34.1 | 29.9 |
| Coconut cream | 2.56 | 2.28 | 2.39 | 0.46 | 0.54 | 0.43 | 0.73 | 0.49 | 6.0 | 7.0 | 4.3 | 6.8 | -33.1 |
| Nonu fruit | 1.47 | 1.54 | 0.87 | 0.30 | 0.24 | 0.28 | 0.82 | 0.21 | 4.0 | 7.9 | 2.0 | -29.9 | -73.9 |
| Nonu juice | 4.69 | 8.30 | 3.95 | 0.25 | 1.03 | 0.74 | 1.16 | 0.91 | 3.3 | 11.1 | 8.1 | 263.9 | -21.7 |
| Beer | 4.34 | 4.83 | 3.48 | 0.53 | 1.03 | 0.88 | 0.74 | 0.64 | 7.0 | 7.1 | 5.7 | 19.9 | -13.5 |
| Taro | 1.97 | 0.85 | 0.60 | 0.13 | 0.16 | 0.18 | 0.19 | 0.12 | 1.7 | 1.9 | 1.0 | -9.4 | -40.7 |
| Others | 4.58 | 3.12 | 2.01 | 0.29 | 1.19 | 1.13 | 0.95 | 1.29 | 3.9 | 9.1 | 11.5 | 334.12 | 35.3 |
| TOTAL | 33.13 | 32.50 | 28.75 | 7.59 | 8.04 | 5.23 | 10.39 | 11.20 | 100.0 | 100.0 | 100.0 | 47.4 | 7.7 |

Source: Central Bank of Samoa

4.2 Imports

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

Figure 4.2: Imports by Quarter Compared Annually (\$ Million)

The total value of imports in the third quarter of 2007 was \$173.44 million, increased by \$7.19 million over the same period of 2006. Government imports, petroleum imports and non-petroleum private sector imports all had increased by \$2.69 million, \$3.08 million and \$1.42 million respectively.

Imports rose by \$25.13 million when compared to the previous quarter (2Q07). This was due mainly to an enormous increase of \$22.27 million in non-petroleum private sector imports followed by a rise of \$3.51 million in petroleum imports whilst government imports declined by \$0.67 million. This remarkable increase in non-petroleum private sector imports was mainly caused by a strong rise in consumer goods, such as food and drinks and the importation of construction materials.

Table 4.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q06 | 2Q07 | 3Q07 | % Share | | | % Change 3Q07 over | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------------|-------------|
| | (\$ Million) | | | | | | | | 3Q06 | 2Q07 | 3Q07 | 3Q06 | 2Q07 |
| | | | | | | | | | | | | | |
| Government ^a | 1.77 | 4.42 | 15.67 | 6.63 | 3.27 | 8.83 | 9.99 | 9.32 | 4.0 | 6.7 | 5.4 | 40.7 | -6.7 |
| Petroleum | 78.02 | 94.99 | 102.69 | 32.65 | 30.39 | 27.46 | 32.22 | 35.73 | 19.6 | 21.7 | 20.6 | 9.4 | 10.9 |
| Other Product ^b | 441.89 | 507.70 | 477.66 | 126.97 | 135.05 | 97.15 | 106.12 | 128.39 | 76.4 | 71.6 | 74.0 | 1.1 | 21.0 |
| TOTAL | 521.68 | 607.11 | 596.02 | 166.25 | 168.71 | 133.44 | 148.33 | 173.44 | 100.0 | 100.0 | 100.0 | 4.3 | 16.9 |

Source: Central Bank of Samoa

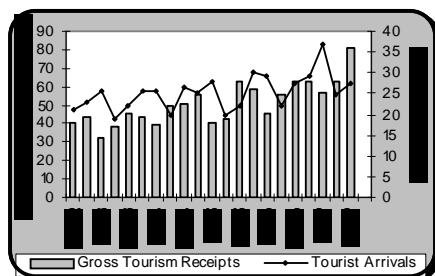
^a Includes import of stationeries for the Ministry of Education in 1Q06 and 1Q07 valued at \$1.0 million and \$0.8 million.

^b Includes building materials for the Samoa Institute of Technology extension valued at \$2.6 million and telephonic switching apparatus and cables for the SamoaTel valued at \$4.7 million in 1Q06, also include aircraft parts for the Polynesian Airline (Inter-Island) valued at \$0.7 million and cables for the SamoaTel valued at \$0.6 million in 2Q06, also include coins for CBS valued at \$0.6 million and import of cellular mobile telephones (CMT) for Digicel valued at \$1.9 million and mixture of synthetic organic tanning substances for Samoa Breweries Ltd at \$0.7 million in 1Q07.

4.3 Tourism Receipts

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

Figure 4.3: Gross Tourism Receipts (\$ Million) & Tourist Arrivals ('000)



Gross tourism receipts and tourist arrivals stood at \$80.97 million and 33,940 in the reporting quarter, increased by \$17.97 million (or 28.5%) and 3,714 from the corresponding period of 2006 respectively. Tourist on holiday category contributed the highest share of 39.8% to the total number of arrivals followed by tourists on business of 27.8%, sports (14.8%), visiting friends and relatives (12.4%) and others (5.2%). Most of the tourists were from New Zealand (40.9%), American Samoa with 17.1%, 15.4% from Australia, 8.4% from other Pacific Islands and 5.9% from the USA.

When compared to the previous quarter (2Q07), tourist arrivals and gross tourism revenue rose by 4,890 and \$17.95 million respectively.

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

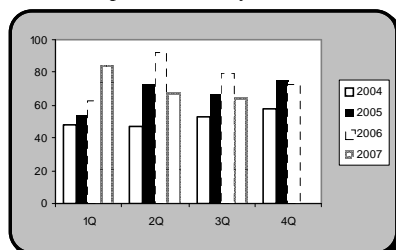
| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|------------------------|--------|--------|--------|-------|-------|-------|-------|-------|
| Gross Tourism Revenues | 198.03 | 207.37 | 226.20 | 63.00 | 62.27 | 55.46 | 63.02 | 80.97 |
| Tourist Arrivals | 98.16 | 101.10 | 109.50 | 30.23 | 30.69 | 24.66 | 29.05 | 33.94 |

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

4.4 Remittances

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

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



The total value of remittances in 3Q07 was \$64.29 million, dropped by \$15.58 million (or 19.5%) and \$3.72 million (or 5.5%) over 3Q06 and 2Q07 respectively. The highest remitting country by total amount for the period was USA with 40.7% followed by New Zealand, Australia and American Samoa accounting for 27.6%, 16.6% and 7.6% respectively.

The mainstream of remittances were from private individuals which contributed a share of 68.6%, funds for churches and non government schools with a contribution of 20.0% and funds for charitable organizations in Samoa with a share of 1.6%.

Table 4.4: GROSS REMITTANCES (\$ Million)

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|----------------------|--------|--------|--------|-------|-------|-------|-------|-------|
| Remittances | 199.83 | 246.24 | 307.75 | 79.87 | 72.58 | 84.12 | 68.01 | 64.29 |
| Remittances as % GDP | 19.0 | 21.4 | 24.6 | 26.8 | 22.6 | 25.0 | 20.3 | 20.0 |

Source: Central Bank of Samoa

4.5 Balance of Payments

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

Figure 4.5: Quarterly Trade Balance (\$ Million)

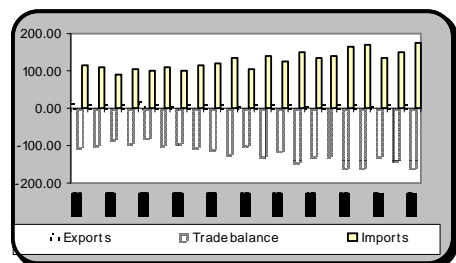
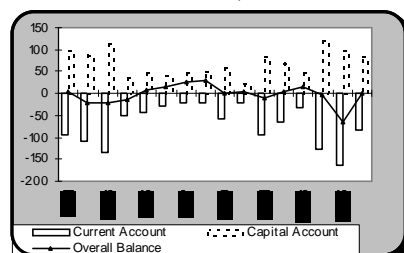


Figure 4.6: Annual Overall Balance (\$ Million)



The trade deficit worsened by \$3.60 million for the same 2006 period to stand at \$162.26 million. This was due to a rise of \$7.20 million in imports which more than offsetted the increase of \$3.60 million in exports over the corresponding quarter. Compared to 2Q07, the trade deficit also increased by \$24.33 million.

Net services and net transfers recorded increases of \$15.04 million and \$26.57 million respectively compared to the corresponding 2006 quarter. This resulted in a decline in the current account deficit of \$11.00 million in 3Q07 from a deficit of \$49.41 million in the same period of 2006. When compared to the previous quarter, Net services and income recorded a decline of \$15.52 million whilst Net transfers registered an increase of \$16.97 million.

The **capital account** surplus was estimated at \$16.70 million in 3Q07, decreased by \$52.64 million over 3Q06. This led to an overall balance of payments surplus of \$5.70 million, which declined by \$14.23 million over the comparable 2006 period.

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

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q06 | 2Q07 | 3Q07 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1. EXPORTS (fob) | 33.13 | 32.49 | 28.75 | 7.59 | 8.04 | 5.23 | 10.39 | 11.19 |
| 2. IMPORTS (cif) | 441.89 | 507.7 | 596.02 | 166.25 | 168.70 | 133.44 | 148.32 | 173.45 |
| 3. TRADE BALANCE | -408.76 | -475.21 | -567.27 | -158.66 | -160.66 | -128.21 | -137.93 | -162.26 |
| 4. NET SERVICES | 139.71 | 134.60 | 206.67 | 51.62 | 68.67 | 38.16 | 82.18 | 66.66 |
| 5. NET TRANSFERS | 210.48 | 276.62 | 287.54 | 58.03 | 65.38 | 60.18 | 67.63 | 84.60 |
| 6. CURRENT ACCOUNT BALANCE | -58.57 | -63.99 | -73.06 | -49.41 | -26.61 | -29.87 | 11.88 | -11.00 |
| 7. CAPITAL ACCOUNT (Net) | 101.47 | 98.01 | 86.19 | 69.34 | 23.01 | 22.59 | 22.78 | 16.70 |
| 8. OVERALL BALANCE* | 42.90 | 34.02 | 13.13 | 19.93 | -3.60 | -7.28 | 34.66 | 5.70 |
| 9. TRADE BALANCE AS % GDP | -39.0 | -48.0 | -55.8 | -62.0 | -60.7 | -49.2 | -53.4 | -59.3 |
| 10. CURRENT ACCOUNT BALANCE AS % GDP | -5.6 | -6.5 | -7.2 | -19.3 | -10.0 | -11.5 | 4.6 | -4.0 |

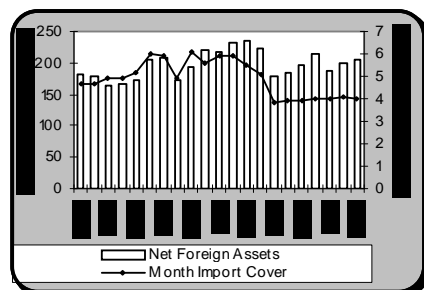
*Following the shift to the BOP Manual 5, the balance of payments surplus/deficit is now defined as the change in official gross reserve assets excluding commercial bank reserves

5. FOREIGN EXCHANGE RESERVES

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

exchange reserves equivalent to approximately four-months worth of imports.

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



Foreign Exchange Reserves were valued at \$205.90 million in September 2007, registered an increase of \$9.69 million from September 2006. This rise was strongly driven by an increase of \$18.2 million in Central Bank holdings followed by a rise of \$2.86 million in the Ministry of Finance holdings. Commercial Banks holdings declined by \$11.37 million during the period under review.

Compared to the previous quarter, foreign exchange reserves were up by \$6.78 million. This rise had resulted from increases of \$1.74 million, \$2.52 million and \$2.52 million in Central Bank holdings, Commercial Bank's reserves and foreign holding of the Ministry of Finance respectively.

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

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

| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Foreign Assets | 220.06 | 221.82 | 215.65 | 196.21 | 215.65 | 187.56 | 199.32 | 205.90 |
| Import Cover | 5.6 | 5.1 | 4.0 | 3.9 | 4.0 | 4.0 | 4.1 | 4.1 |

Source: Central Bank of Samoa

6. EXCHANGE RATES

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

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

When compared to the previous quarter, the Tala appreciated against the USD and YEN whilst depreciated in value against all other currencies.

Table 6.1: CBS EXCHANGE RATES (Foreign Currency per Tala: end month midrates)

| | 2006 | | 2007 | | | % Appreciation(+)/Depreciation (-) of TALA between Sep 07 and | |
|------|---------|---------|---------|---------|---------|---|--------|
| | Sep | Dec | Mar | Jun | Sep | Sep 06 | Jun 07 |
| | | | | | | | |
| USD | 0.3599 | 0.3724 | 0.3761 | 0.3877 | 0.3926 | 9.1 | 1.3 |
| NZD | 0.5501 | 0.5285 | 0.5250 | 0.5054 | 0.5002 | -9.1 | -1.0 |
| AUD | 0.4829 | 0.4720 | 0.4661 | 0.4588 | 0.4531 | -6.2 | -1.2 |
| EURO | 0.2841 | 0.2822 | 0.2811 | 0.2870 | 0.2863 | 0.8 | -0.2 |
| FJD | 0.6218 | 0.6197 | 0.6190 | 0.6204 | 0.6158 | -1.0 | -0.7 |
| YEN | 42.4362 | 44.3177 | 44.3729 | 47.5606 | 47.6959 | 12.4 | 0.3 |

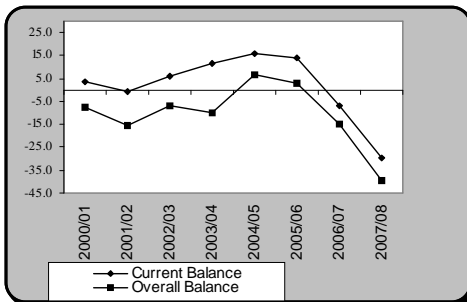
Source: Central Bank of Samoa

7. GOVERNMENT FINANCE

7.1 Government Finance Statistics

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

Figure 7.1: Overall and Current Balance July-Sep 2000/01-2007/08 (\$ Million)

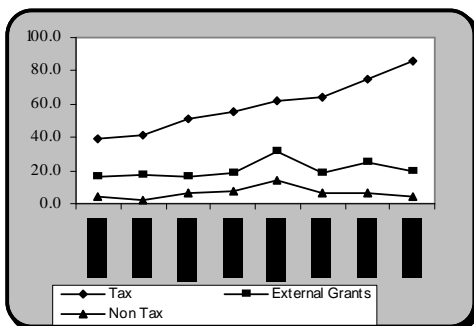


Overall Performance

Fiscal operation during the first quarter for the year 2007/08 was expansionary. The extraordinary expenditure increase was in line with Government's commitment in providing adequate sports facilities and all the necessary services for the South Pacific Games 2007. The current expenditure for the first quarter was at \$120.0 million, 16.5% over the pro-rata estimate. Revenue at the same time was very low with a shortfall of 14.8% compared to the pro-rata. These unfavourable conditions generated a **current balance deficit** of \$29.8 million Tala and an **overall deficit** of \$39.3 million Tala. As illustrated in Figure 7.1 both balances deteriorated further following a similar adverse performance in the same period last year (2006/07). The current and overall balances were translated into 8.5% and 11.5% of GDP respectively, being higher than the fiscal target of no more than 3.0% deficit envisaged for the 2007/08 financial year. The deficits have resulted in a drawdown of \$33.9 million of the government resources with the banking system as reported by the Central Bank of Samoa at the end of September 2007.

This trend needs to be stringently monitored to ensure that these short term events do not affect the overall fiscal 2007/08 target of no more than 3.0% of GDP.

Figure 7.2: Revenue by Type, July-Sep 2000/01-2007/08 (\$ Million)



Revenue

Total Revenue for the first three months of 2007/08 fiscal year was \$109.4 million, which comprised of \$90.2 million (82.4%) of current receipts and \$19.26 million (17.6%) of external grants. At this level it was \$15.6 million below the pro-rata estimate for the quarter under review. The shortfall in revenue was attributed to the shortfall of \$11.5 million in non-tax revenue and \$4.1 million Tala in tax revenues compared to the pro-rata estimate.

Tax revenue was at SAT\$85.5 million, a \$4.1 million below the pro rata estimate. The drop in collection was attributed to shortfalls of \$3.2 million Tala and \$2.1million Tala in domestic excise and import duty respectively. Major taxes like VAGST and Income tax both increased slightly more than the pro-rata. Despite the shortfall, Figure 7.2 depicts the trend of tax revenue in the past 8 years increasing at a trend rate of 11.7% and notable increases of 18.8% and 13.2% in 2006/07 and 2007/08 respectively. This provides evidences that the tax adjustments and refinements have been responsive.

Non-tax revenue collection was very low during the period to record a \$4.6 million, \$11.5 million below par. The shortfall however was due to the nature of some of the property and investment income like the receipts from the Offshore, Central Bank and dividend from other Public Bodies being paid towards the end of the financial year. Aid and Grant were on par with expectation.

Figure 7.3: Expenditure by Type, July-Sep 2000/01-2007/08 (\$ Million)

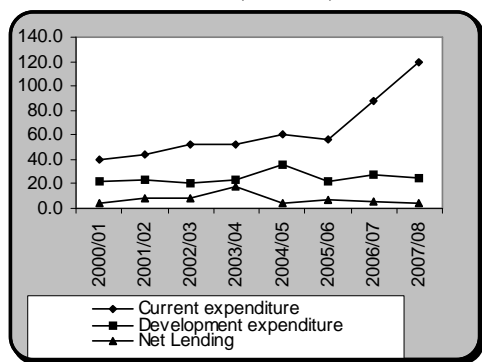
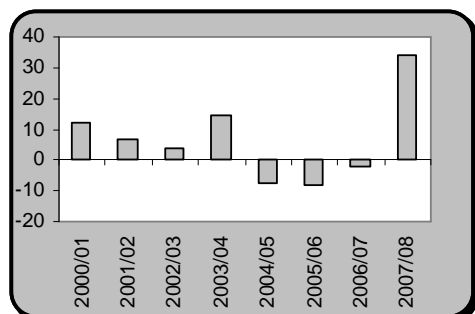


Figure 7.4: Government position with the banking system, July-Sep 2000/01-2007/08 (\$ Million)



Expenditure

Total expenditure and Net Lending for the first quarter 2007/08 was \$148.7 million, a \$20.2 million more than the pro-rata estimate. Shown in Figure 7.3 are the three types of expenditure with current expenditure being shifted from an average level of \$55.0 million in four years (2002/03 - 2005/06) to almost \$90.0 million in 2006/07 and \$120 million in 2007/08 for the comparable periods. The surge in current expenditure apparently evidenced government's commitment in hosting the 2007 South Pacific Games. This notable government spending consequently put a lot of pressure on inflation and in turn raised to 6.0% as at the end of September.

Development expenditure was slightly (\$2.1 million) below the pro-rata estimate, due to delays encountered in a number of loan funded projects namely the Samoa Infrastructure Asset Management Project Phase II and Tank Farm Project Phase III.

Position with the Financial System

The expansionary government expenditure in the first three months of the 2007/08 exerted pressure on the Government financial resources to drawdown \$33.9 million tala from the banking system. Given the dominant role Government plays in the domestic monetary system, it is vital that Government imposes prudent fiscal measures in the remaining quarters of the financial year to tighten up expenditure. This will ensure that additional revenue generated during the period will be accumulated to replenish the depleted resources, to minimize excess pressure on credit cost and credit availability to the private sector.

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

| | Provisional Actual | | | Budget | Provisional | | |
|--------------------------------------|--------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | July-Sep 06 | Apr-Jun 07 | July-Sep 07 |
| Revenues and Grants | 408.4 | 395.1 | 487.6 | 500.1 | 106.21 | 145.64 | 109.39 |
| Revenues | 283.0 | 323.2 | 389.2 | 423.1 | 81.59 | 121.02 | 90.16 |
| External Grants | 125.4 | 71.8 | 98.5 | 76.9 | 24.62 | 24.62 | 19.23 |
| Expenditure | 405.4 | 391.7 | 472.3 | 514.0 | 121.15 | 125.15 | 148.71 |
| Current ^b | 236.6 | 281.9 | 372.6 | 401.7 | 88.17 | 92.44 | 120.00 |
| Development ^c | 147.8 | 86.1 | 123.7 | 108.2 | 27.56 | 34.04 | 24.92 |
| Other (capital & net lending) | 21.0 | 23.7 | 21.1 | 4.1 | 5.42 | -1.33 | 3.80 |
| Current Balance | 46.5 | 41.4 | 61.6 | 21.4 | -6.59 | 28.58 | -29.84 |
| Overall Balance | 3.1 | 3.3 | 15.4 | -14.0 | -14.94 | 20.48 | -39.32 |
| Financing | | | | | | | |
| Net external borrowing | 15.8 | 6.2 | 7.6 | 17.7 | 8.50 | 1.12 | 3.62 |
| Domestic | -18.9 | -9.5 | -22.9 | 3.7 | 6.45 | -21.60 | 35.70 |
| Overall Balance as % of GDP | 0.3 | 0.3 | 1.2 | -1.0 | -4.66 | 6.33 | -11.25 |
| Total Expenditure as % of GDP | 37.7 | 32.9 | 36.4 | 36.8 | 37.81 | 38.66 | 42.57 |

Source: Ministry of Finance estimates

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

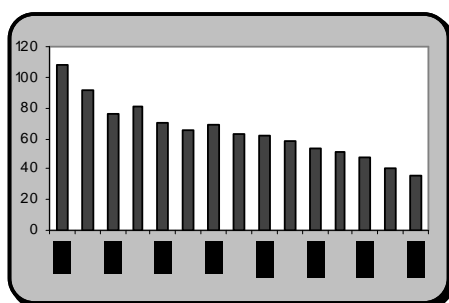
^{b/} Includes domestically financed development plans

^{c/} Financed from external grants and loans

7.2 External Debt

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

Figure 7.5: Official Government Debt as % of GDP



Official external government debt outstanding at end September 2007 amounted to \$450.45 million, increased by \$6.25 million and \$19.06 million from the corresponding period of 2006 and the second quarter of 2007 respectively. This amount is equivalent to approximately 34.3% of GDP.

Multilateral and bilateral loans accounted for 97.0% (\$435.10 million) and 3.0% (\$15.35 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded \$4.62 million in September 2007, increased by \$0.22 million and \$0.42 million for the same 2006 period and the previous quarter respectively.

Servicing costs as a percent of total merchandise exports and total foreign exchange reserves were equivalent to 41.3% and 2.2% respectively.

The drop in servicing costs as a percentage of merchandise exports for the comparable 2006 period was a result of a tremendous rise of 47.4% in exports.

| Year End | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total External Debt | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| Official Government Debt | 455.62 | 461.59 | 448.38 | 444.20 | 448.38 | 446.97 | 431.39 | 450.45 |
| Official Government Debt as % of GDP | 47.9 | 40.7 | 35.8 | 36.6 | 35.8 | 35.7 | 59.9 | 34.3 |

Source: Central Bank of Samoa and Ministry of Finance

| Year End | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|-----------------------------------|-------|-------|-------|------|------|-------|------|------|
| Total Debt Servicing | 16.12 | 16.72 | 17.82 | 4.40 | 4.27 | 5.31 | 4.20 | 4.62 |
| As % of Merchandise exports | 48.7 | 51.5 | 62.0 | 58.0 | 53.1 | 101.5 | 40.4 | 41.3 |
| As % of Foreign exchange reserves | 7.3 | 7.5 | 8.3 | 2.2 | 2.0 | 2.8 | 2.1 | 2.2 |

Source: Central Bank of Samoa and Ministry of Finance

8. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

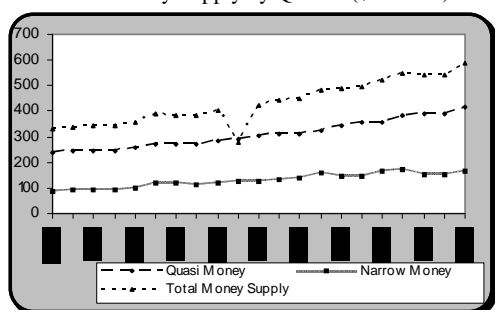
8.1 Money Supply

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

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

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

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

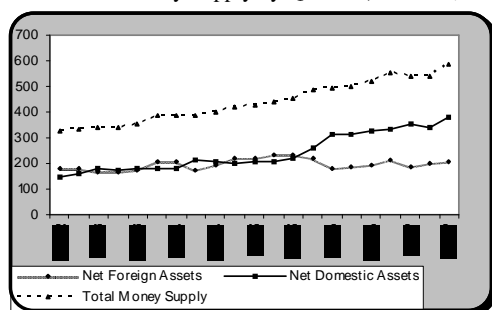


Money Supply

Money supply valued at \$586.89 million at end September 2007, increased by \$63.64 million from end September 2006. This rise was mainly due to an increase of \$58.83 million in Quasi money followed by a rise of \$4.81 million in Narrow money (M1). The increase in Quasi money was mainly attributed to a rise of \$49.17 million in Time deposits followed by an increase in savings deposits of \$9.44 million and Foreign currency deposit by residents of \$0.22 million respectively. For the components of Narrow money (M1), Demand deposits declined by \$1.93 million whilst Currencies outside banks increased by \$6.74 million.

Money supply increased by \$45.11 million over 2Q07. This has been a result of increases of \$27.79 million in Quasi money and Narrow money (M1) of \$17.32 million. The rise in Quasi money was strongly attributed to the increase of \$12.03 million in Time deposits followed by increases of \$9.49 million and \$6.27 million in FCDR and Savings deposits. For Narrow money, both Demand deposits and Currencies outside banks increased by \$12.33 million and \$4.99 million respectively.

Figure 8.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$205.90 million whilst Net Domestic Assets stood at \$380.99 million in 3Q07. NDA and NFA both registered increases of \$9.69 million and \$53.95 million respectively over September 2006.

The increases in NDA and NFA led to a rise of \$63.64 million in money supply from the comparable 2006 period. The rise in NDA was driven largely by the increase in domestic credit to the private sector of \$39.12 million.

NDA and NFA both recorded increases of \$38.33 million and \$6.78 million over June 2007.

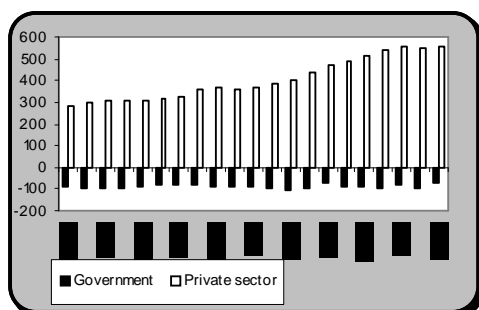
CBS Securities

The total face value of securities outstanding at the end of September 2007 stood at \$16.00 million, up by \$15.00 million and \$4.50 million from the comparable 2006 period and end of June 2007 respectively.

8.2 Domestic Credit Expansion

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

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



Domestic credit outstanding increased by \$91.31 million over the comparable 2006 quarter to stand at \$544.48 million in the quarter under review. The rise was largely driven by an increase of \$39.12 million in credit to the private sector followed by a rise of \$27.53 million in claims on non-financial public enterprises and non-monetary financial institutions. Domestic assets with the Ministry of Finance declined by \$2.86 million whilst domestic credit with the Central Bank and Commercial Banks both registered increases of \$21.21 million and \$6.31 million respectively. This led to a rise of \$24.66 million in government's net position to stand at \$66.69 million

Total domestic credit outstanding increased further by \$41.52 million over June 2007.

Table 8.1: MONETARY SURVEY (\$ Million)

| | | | | 2006 | | | | | 2007 | | % Change in Sep 07 over | |
|----------------------------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|-------------------------|--|
| | 2004 | 2005 | 2006 | Sep | Dec | Mar | Jun | Sep | Sep 06 | Jun 07 | | |
| Net Foreign Assets | 220.71 | 221.82 | 215.65 | 196.21 | 215.65 | 188.57 | 199.12 | 205.90 | 4.9 | 3.4 | | |
| Net Domestic Assets | 197.81 | 262.19 | 334.91 | 327.04 | 334.91 | 351.26 | 342.66 | 380.99 | 16.5 | 11.2 | | |
| Money Supply (M2) | 418.52 | 484.01 | 550.56 | 523.25 | 550.56 | 539.83 | 541.78 | 586.89 | 12.2 | 8.3 | | |
| Money (M1) | 124.93 | 160.74 | 170.13 | 163.51 | 170.13 | 148.79 | 151.00 | 168.32 | 3.5 | 11.5 | | |
| Currencies outside banks | 38.94 | 48.50 | 52.33 | 40.61 | 52.33 | 40.11 | 42.36 | 47.35 | 16.6 | 11.8 | | |
| Demand deposit | 85.99 | 112.24 | 117.80 | 122.90 | 117.80 | 108.68 | 108.64 | 120.97 | -1.6 | 11.3 | | |
| Quasi Money | 293.59 | 323.27 | 380.43 | 359.74 | 380.43 | 391.04 | 390.78 | 418.57 | 16.4 | 7.1 | | |
| Savings deposits | 51.48 | 63.97 | 66.43 | 68.04 | 66.43 | 64.14 | 71.21 | 77.48 | 13.9 | 8.8 | | |
| Time deposit | 232.35 | 242.39 | 296.49 | 272.72 | 296.49 | 316.30 | 309.86 | 321.89 | 18.0 | 3.9 | | |
| FCDR ^a | 9.76 | 16.91 | 17.51 | 18.98 | 17.51 | 10.60 | 9.71 | 19.20 | 1.2 | 97.7 | | |
| Domestic Credit | 279.72 | 360.04 | 473.42 | 453.17 | 473.42 | 503.87 | 502.96 | 544.48 | 20.1 | 8.3 | | |
| Government (net) | -89.63 | -97.76 | -94.47 | -91.35 | -94.47 | -83.42 | -100.62 | -66.69 | -27.0 | -33.7 | | |
| Private sector | 358.74 | 441.94 | 539.94 | 517.92 | 539.94 | 558.42 | 548.29 | 557.04 | 7.6 | 1.6 | | |
| Claims ^b | 10.61 | 15.86 | 27.95 | 26.60 | 27.95 | 28.84 | 55.29 | 54.13 | 103.5 | -2.1 | | |

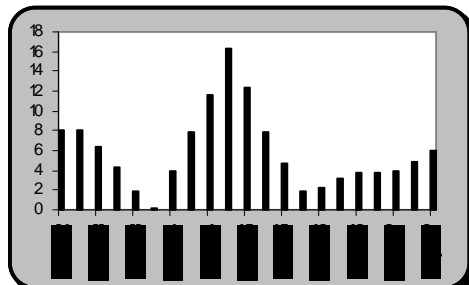
Source: Central Bank of Samoa
a Foreign currency deposits of residents
b Claims on non-financial public enterprises and Claims on non-monetary financial institutions

9. INFLATION

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

9.1 Consumer Price Index

Figure 9.1: CPI All Groups Annual Average Rate End 3Q07 (%)



The annual average rate of inflation at end September 2007 stood at 6.0%, up by 2.3 percentage points from September 2006. Both the import and local components of the CPI both recorded increases of 3.1 and 1.3 percentage points respectively over the corresponding 2006 period. Alcohol/Tobacco increased by 11.1 percentage points followed by food, miscellaneous and cloth/foot with increases of 5.0, 3.2 and 2.5 percentage points whilst transport/communication and house/household showed downward trends of 12.2 and 0.9 percentage points respectively in all categories.

For the import component, alcohol/tobacco had largely driven the increase with a rise of 11.9 percentage points followed by increases of 8.7, 5.6 and 2.5 percentage points in miscellaneous, food and clothing/footwear respectively. Transport/communication and house/household declined by 18.7 and 3.2 percentage points respectively. Alcohol/tobacco, food and miscellaneous components of the local category all showed increases of 11.1, 4.2 and 0.2 percentage points except the transport/communication component that registered a decline of 10.4 percentage points. The overall result indicated that alcohol and tobacco had driven the increase in inflation throughout this period.

When compared to end June 2007, the annual average rate of inflation recorded an increase of 1.1 percentage points. In all items of the CPI, food, house/household, alcohol/tobacco and miscellaneous components showed increases of 1.7, 1.2, 2.1 and 0.6 percentage points whilst transport/communication and cloth/foot declined by 1.1 and 0.1 percentage points respectively.

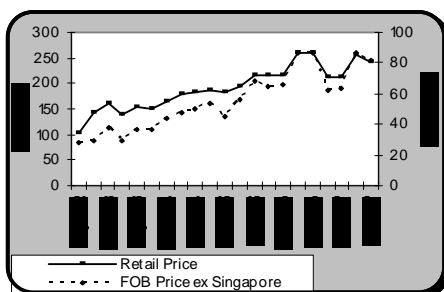
| | 2004 | 2005 | 2006 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|---------------------|------|------|------|------|------|------|------|------|
| All Item Index | 16.3 | 1.8 | 3.8 | 3.7 | 3.8 | 3.9 | 4.9 | 6.0 |
| Imported Good Index | 4.1 | 2.2 | 4.5 | 4.1 | 4.5 | 4.9 | 6.0 | 7.2 |
| Local Good Index | 34.0 | 1.6 | 3.1 | 3.6 | 3.1 | 3.1 | 3.8 | 4.9 |

Source: Ministry of Finance

9.2 Petroleum Prices

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

The international price (US currency) for petroleum was 81.31 cents per litre in September 2007, a decline of 4.94 cents over September 2006. International prices (US currency) for Diesel and Kerosene stood at 85.52 cents and 87.00 cents per litre, recorded decreases of 1.51 cents and 2.56 cents respectively from September 2006. Domestic retail prices for petroleum, diesel and kerosene recorded at 240.6 sene, 247.0 and 231.0

Figure 9.2: End Quarter Petroleum Prices

sene per litre, decreases of 18.0 sene, 11.7 sene and 15.5 sene over the comparable 2006 period.

When compared to end June 2007, international prices for petrol declined by 5.34 cents whilst kerosene and diesel increased by 5.17 cents, 4.21 cents respectively. Domestic retail price for petrol declined by 14.5 sene whilst kerosene and diesel rose by 4.5 sene and 3.5 sene respectively.

Table 9.2: END QUARTERLY PETROLEUM PRICES
(retail price in sene/ltr & FOB Price ex Singapore in USD/bbl)

| | 2006 | | | | 2007 | | | | | |
|-----------------|-----------|-----------|----------|-----------|--------|-----------|--------|-----------|--------|-----------|
| | September | | December | | March | | June | | Sep | |
| | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price | Retail | FOB Price |
| Petrol | 258.60 | 86.25 | 212.00 | 61.99 | 211.3 | 63.13 | 255.1 | 86.65 | 240.6 | 81.31 |
| Kerosene | 246.50 | 89.56 | 215.90 | 73.53 | 206.5 | 70.59 | 226.5 | 81.83 | 231.0 | 87.00 |
| Diesel | 258.70 | 87.03 | 228.00 | 70.65 | 221.3 | 69.01 | 243.5 | 81.31 | 247.0 | 85.52 |

Source: Ministry of Finance

