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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 2005.

1. EXECUTIVE SUMMARY

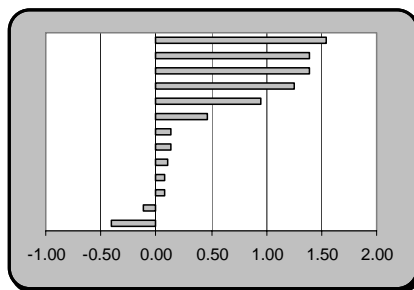
Key Features of First Quarter 2005 Performance

- ✓ Real **GDP** of \$246.29 million in 1Q05 grew by 7.0% over the comparable 2004 period; (see section 2)
- ✓ **Export** revenues valued at \$6.65 million in 1Q05, increased by 10.5% largely as a result of increases in coconut oil, nonu fruit and nonu juice over the corresponding 2004 period; (see section 3.1)
- ✓ **Imports** at \$107.47 million in 1Q05, declined by 6.8% over the comparable 2004 period; (see section 3.2)
- ✓ As a result the, **trade deficit** was reduced by \$8.52 million to stand at \$100.82 million in 1Q05 over 1Q04; (see section 3.5)
- ✓ **Foreign reserves** at the end of 1Q05 stood at \$218.62 million, equivalent to 5.9 months of import cover. This compares with \$205.12 million at the end March 2004 whilst import cover remained at the same level; (see section 4)
- ✓ The **budget out-turn** for the first nine months of FY 2004/05 showed an overall surplus of \$11.09 million, an improvement over the \$9.39 million deficit in Jul-Mar 2003/04. The current surplus of \$40.06 million was more than the \$29.41 million recorded in the same period of the previous financial year; (see section 6.1)
- ✓ Official **government debt** outstanding at end 1Q05 stood at \$457.18 million; up by \$4.07 million over the corresponding 2004 period; (see section 6.2)
- ✓ **Money supply** valued at \$424.12 million at end March 2005, was up by \$37.99 million over the comparable 2004 quarter; (see section 7.1)
- ✓ **Domestic credit** expanded by \$24.45 million over 1Q04 to stand at \$284.42 million in 1Q05; (see section 7.2)
- ✓ The annual average **inflation rate** at end March 2005 stood at 12.4 percent, 8.4 percentage points higher than the rate at end March 2004; (see section 8)

2. GROSS DOMESTIC PRODUCT

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

Figure 2.1: Contribution to Change in Total Real GDP in 1Q05 (%)



Labeled from top to bottom

Transport, Communication:	1.55
Construction:	1.40
Commerce:	1.39
Agriculture:	1.25
Finance and Business services:	0.94
Public Administration:	0.47
Hotels & Restaurants:	0.14
Personal and other services:	0.13
Electricity & Water:	0.11
Food & Manufacturing:	0.08
Ownership of Dwellings:	0.08
Fishing:	-0.12
Other manufacturing:	-0.41

Overview

Nominal Gross Domestic Product for the twelve months ending March 2005 again exceeded the billion mark with \$1.06 billion. This was equivalent to a per capita income of \$5,682. In constant 2002 prices, GDP was \$963.5 million, an increase of 4.5% compared to the corresponding period ending March 2004.

From Jan to March 2005, economic activities generated an aggregated gross domestic product of \$246.3 million, a real increase of 7.0% compared to the same 2004 period and was slightly short by 2.1% when compared to the December 2004 quarter. Monetary Sector production accounted for 85.1% of total production and increased by 8.5% compared to the 2004 level. Real output of the Non-Monetary Sector, principally consisting of subsistence agriculture had shown recovery with an increase of 6.2% over March quarter last year.

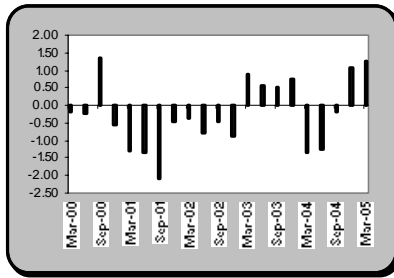
Strong performances by Transport and Communication, Construction and Commerce industries led to the remarkable growth in the period under review. This was supplemented by the recovery in Agriculture from cyclone Heta. This was led to the remarkable growth in the period under review. On the downside however, Other Manufacturing and Fishing industries declined over the March 2004 quarter.

Industry Performance

Primary Sector: Agriculture and Fisheries

Agriculture activities rebounded in March 2005 to produce an aggregated real value added of \$17.37 million, an increase of 19.9% over 1Q04. This followed an increase of 13.6% in the December 2004 quarter over 4Q03. When compared to the previous quarter, production declined by 13.4% in 1Q05. The results were consistent with the Fugalei Market Survey, which showed an average increase of 45% in quantity supplied compared to March 2004 and a decline of 27.4% relative to the previous quarter. The industry contributed 1.3% to the overall growth, the highest in five years.

Figure 2.2: Agriculture industry's contribution to change in GDP (%)



Fishing industry continued to decline in 1Q05 with a real value added of \$13.31 million, a 2.0% drop relative to 1Q04 and a 4.7% decline compared to the previous quarter. The industry continued to be affected by adverse climatic conditions.

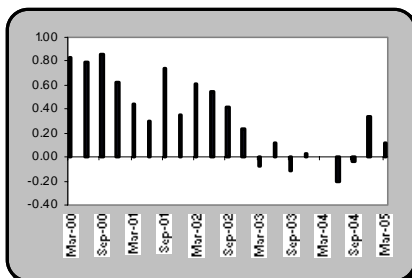
Secondary Sector: Manufacturing, Construction, Electricity & Water

Food and Beverage Manufacturing industry bounced back from a disappointing decline in the previous quarter to a 2.5% growth in the March quarter 2005 compared to the same period last year and a 3.1% increase relative to the previous quarter. The improved performance by the industry was a result of a strong growth in coconut production with coconut cream exports increasing by 16.6% during this period and the resumption of coconut oil production.

In constant 2002 prices, **Other Manufacturing** industry continued its downward trend falling by 3.5% in the March quarter 2005 following a 6.7% decline in the December quarter 2004, compared to the previous March and December quarters. The disappointing performance was largely a result of the continuing slow down in Yazaki production.

The surge in **construction** activities spread over to the March 2005 quarter with an increase of 19.6% in real terms compared to 1Q04 to a total value added of \$19.60 million. Compared to the busy Oct-Dec 2004 period however construction activities in 1Q05 were lowered by 0.2%.

Figure 2.3: Electricity and Water industry's contribution to change in GDP (%)



The Samoa Water Authority and Electric Power Corporation accounted for the \$10.63 million real value added in the **Electricity and Water Industry** for the March 2005 quarter. The industry grew by 2.5% when compared to the same period last year but declined by 2.9% over the previous quarter. Electricity and Water contributed 0.1% to the overall real GDP growth in 1Q05.

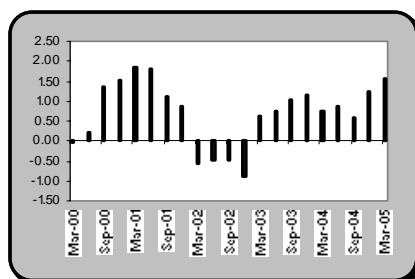
Tertiary Sector: Commerce, Transport & Communication, Finance & Business Services, Personal Services and Hotels & Restaurant

Commerce industry in current market prices continued to maintain its status as the largest industry accounting for 19.1% of total GDP and produced a total value added of \$52.03 million in the March quarter 2005. Value added for the industry in constant prices increased by 6.9% compared to 1Q04 and by 4.1% compared to 4Q04. The continuing growth in commerce was fuelled by an increase of 29.5% in remittances and excess income generated from the ongoing construction activities during this period.

Various developments in the **Transport and Communications** industry supplemented by the Government's commitment to providing good infrastructure resulted in the industry leading contribution to real growth in 1Q05 with 1.5%. Transport and Communication generated a real value added of \$32.28 million, which translated to an increase of 12.4% when compared to March 2004.

Finance and Business Services in the March quarter 2005 increased production by 9.7% compared to 1Q04 and contributed 0.9% to the overall change in real GDP growth. Growth in the industry had been consistent throughout the last 10 consecutive quarters with an average quarterly growth rate of 7.3%.

Figure 2.4: Contribution to change in GDP (Transport and Communication industries) (%)



Personal and other Services generated a \$13.42 million real value added in the March quarter 2005, an increase of 2.2% when compared to the March quarter 2004. Growth in the industry in the past five quarters was largely a result of increased income generated from the strong growth in the economy.

Hotels and Restaurants industry during the quarter produced a total real value added of \$5.76 million. This was an increase of 5.9% when compared to the March quarter 2004.

Government Sector

The **Public Administration** industry amounted to \$20.31 million accounting for 8.2% of total real GDP. The industry grew by 0.5% in real terms relative to the last quarter of 2004 and by 5.6% compared to the same quarter last year.

Table 2.1: ANNUAL & QUARTERLY REAL GDP

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05	% Change 1Q05 over	
At constant 2002 prices	(\$ Million)								1Q04	4Q04
Agriculture	61.70	67.69	63.93	14.48	13.08	16.32	20.05	17.37	19.9	-13.4
Fishing	67.71	57.18	54.84	13.59	13.54	13.75	13.97	13.31	-2.0	-4.7
Food & Beverages Manufacturing	29.11	29.39	29.59	7.65	7.21	7.14	7.60	7.84	2.5	3.1
Other Manufacturing	106.76	117.76	110.25	27.24	26.78	28.05	28.18	26.30	-3.5	-6.7
Construction	53.74	54.72	74.04	16.39	18.49	19.52	19.64	19.60	19.6	-0.2
Electricity and Water	42.10	42.00	42.27	10.38	10.27	10.66	10.96	10.63	2.5	-2.9
Commerce	176.26	178.27	182.40	46.49	45.85	42.36	47.70	49.68	6.9	4.1
Hotels, Restaurant	20.68	23.57	25.19	5.44	5.98	7.06	6.71	5.76	5.9	-14.2
Transport, Communication	104.64	112.54	120.47	28.72	27.05	30.58	34.11	32.29	12.4	-5.3
Public Administration	71.01	75.01	78.89	19.24	19.56	19.88	20.21	20.31	5.6	0.5
Finance & Business Services	80.10	85.42	92.72	22.42	22.92	23.25	24.13	24.59	9.7	1.9
Less: Enterprise share of FISIM	-12.20	-13.09	-13.94	-3.45	-3.49	-3.53	-3.47	-3.55	3.1	2.4
Ownership of Dwellings	33.20	33.87	34.55	8.57	8.62	8.66	8.70	8.75	2.0	0.6
Personal & Other Services	50.20	50.29	52.31	13.13	13.12	12.98	13.08	13.42	2.2	2.6
Value added 2002 market price	885.01	914.59	947.51	230.28	228.98	236.68	251.57	246.29	7.0	-2.1
Implicit price deflator:	100.0	103.6	109.6	108.6	110.1	110.7	109.1	110.4	1.7	1.2
Selected measures of production:										
At constant 2002 prices										
Non-monetary	124.24	125.30	123.42	29.81	28.71	31.43	33.46	31.64	6.1	-5.4
Monetary – total	760.76	789.29	824.09	200.47	200.27	205.25	218.11	214.65	7.1	-1.6
Monetary – restricted scope	681.75	700.14	744.97	180.80	181.14	184.70	198.32	195.37	8.1	-1.5
Memo items:										
Nominal GDP (current prices)	885.00	947.87	1,038.70	250.09	252.04	265.57	274.63	271.84	8.7	-1.0
GDP per capita	5003	5353	5881	na	na	na	na	na	-	-

Source: Ministry of Finance estimates
na - not applicable

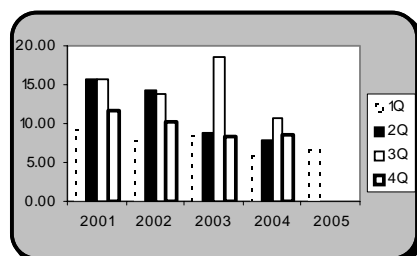
3. FOREIGN TRADE AND BALANCE OF PAYMENTS

3.1 Exports

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

For the first quarter of 2005, exports stood at \$6.65 million. This represented an increase of \$0.62 million (or 10.4%) from the same period of 2004. The main contributor to this rise was nonu fruits, which increased by 166.7% followed by increases in coconut oil of 100.7% and nonu juice of 43.0% whilst fish, coconut cream, beer and taro declined by

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



\$0.43 million, \$0.02 million, \$0.19 million and \$0.24 million respectively.

Exports declined by \$2.00 million from the previous quarter. This drop was largely driven by fish exports with a fall of \$2.37 million followed by declines of \$0.75 million, \$0.27 million, \$0.17 million and \$0.05 million in garments, beers, others and taro whilst coconut oil, nonu juice, coconut cream and nonu fruit had increased by \$1.20 million, \$0.24 million, \$0.10 million and \$0.07 million respectively.

Table 3.1: ANNUAL AND QUARTERLY EXPORT COMMODITIES

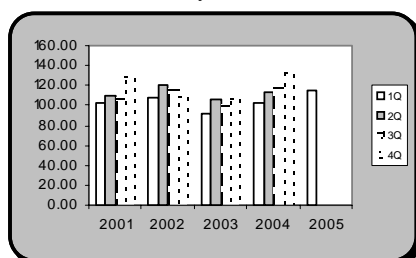
	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05	% Share			% Change in 1Q05 over	
	(\$ Million)								1Q04	4Q04	1Q05	1Q04	4Q04
Fish	29.03	15.76	13.52	1.67	3.08	5.16	3.61	1.24	27.7	41.8	18.7	-25.6	-65.6
Coconut cream	3.11	3.01	2.56	0.69	0.75	0.56	0.57	0.67	11.4	6.6	10.0	-2.8	16.6
Nonu fruit	0.45	0.51	1.47	0.20	0.38	0.44	0.46	0.53	3.3	5.3	7.9	166.7	15.8
Nonu juice	0.91	2.04	4.69	1.02	1.30	1.15	1.22	1.46	17.0	14.1	7.0	43.0	19.9
Beer	3.92	3.81	4.34	1.05	1.09	1.07	1.13	0.86	17.5	13.0	12.9	-18.6	-23.9
Taro	1.01	1.31	1.97	0.47	0.72	0.52	0.28	0.23	7.7	3.2	3.5	-49.8	-15.5
Coconut Oil	0.21	1.91		0.60	0.14	0.00	0.00	1.20	9.9	0.0	18.0	100.7	-
Garments	4.44	13.32	1.98	0.00	0.00	1.17	0.82	0.07	0.0	9.4	1.0	0.0	-91.7
Others	0.31	2.60	0.54	0.33	0.39	0.57	0.56	0.39	5.5	6.5	5.9	18.5	-30.9
TOTAL	46.29	44.27	33.13	6.02	7.85	10.61	8.65	6.65	100.0	100.0	100.0	10.4	-23.1

Source: Central Bank of Samoa

3.2 Imports

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

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



Imports were valued at \$107.47 million in the first quarter of 2005, down by \$7.88 million over the same period of 2004. Non-petroleum private sector imports totalled \$93.25 million, down by \$2.37 million from 1Q04. Government imports stood at \$0.45 million, an increase of \$0.02 million whilst petroleum imports valued at \$13.77 million, represented a decline of \$5.54 million over 1Q04. The increase in government imports was driven mainly by equipment imported for the new Dialysis Unit.

Imports normally decline in the first quarter following the festive season. For 1Q05, this was largely dominated by a drop of \$30.49 million in Non-petroleum private sector imports followed by decreases of \$12.57 million in petroleum imports and \$0.13 million in government imports over 4Q04.

Table 3.2: ANNUAL AND QUARTERLY IMPORT COMPONENTS

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05	% Share			% Change 1Q05 over	
	(\$ Million)								1Q04	4Q04	1Q05	1Q04	4Q04
Government ^a	11.29	7.54	1.77	0.43	0.15	0.61	0.58	0.45	0.4	0.4	0.4	5.6	-21.5
Petroleum	54.88	56.91	78.02	19.31	16.06	16.31	26.34	13.77	16.7	17.5	12.8	-28.7	-47.7
Other Product ^b	388.06	342.52	431.63	95.62	102.05	110.22	123.74	93.25	82.9	82.1	86.8	-2.5	-24.6
TOTAL	454.23	406.97	511.4	115.36	118.26	127.14	150.66	107.47	100.0	100.0	100.0	-6.8	-28.7

Source: Central Bank of Samoa

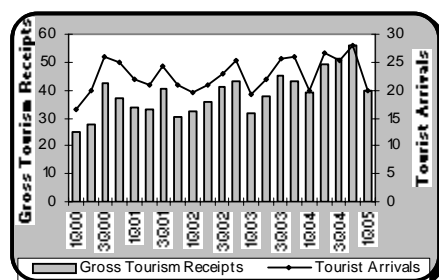
^a Includes equipment for the new Dialysis Unit valued at \$0.19 million in 1Q05

^b Includes vessel for the Samoa Shipping Corporation valued at \$3.2 million in 2Q04, building materials for Maota Industrial Supplies at \$0.5 million, motor vehicles for Wong Motors Ltd at \$0.5 million, a mechanical digger for SWEL at \$0.3 million, building materials for the Mormon Church at \$0.6 million and bituminous mixtures for Ott Transport at \$0.2 million in 3Q04 and soft drink concentrate (beverage based) for Samoa Breweries Ltd valued at \$0.5 million, communication cables for Samoa Tel valued at \$0.3 million, life rafts for Samoa Shipping Corporation valued at \$0.3 million, currency notes for Central Bank of Samoa valued at \$0.3 million, cellular phones for Telecom Cellular valued at \$0.2 million, office furniture for Samoa Tel Ltd at \$0.4 million, power poles for EPC valued at \$0.3 million and building materials for Aggie Grey's Hotel valued at \$0.2 million in 4Q04.

3.3 Tourism Receipts

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

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



Gross tourism receipts were valued at \$41.12 million in the reviewing quarter, up by \$1.97 million (or 5.0%) whilst tourist arrivals of 20,430 declined by 430 over the same 2004 period.

Gross tourism revenue and tourist arrivals usually drop in the first quarter after the festive season and in 1Q05 recorded declines of \$11.55 million and 5,810 arrivals over the previous quarter respectively.

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

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
Gross Tourism Revenues	152.20	154.32	197.18	39.15	49.61	50.94	52.67	41.12
Tourist Arrivals	88.96	91.90	98.72	20.00	24.40	25.37	26.24	20.43

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

3.4 Remittances

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

Remittances were valued at \$62.36 million in 1Q05, up by \$14.23 million (or 29.6%) over the first quarter of 2004 and a slight increase of \$0.36 million (or 0.6%) over 4Q04.

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

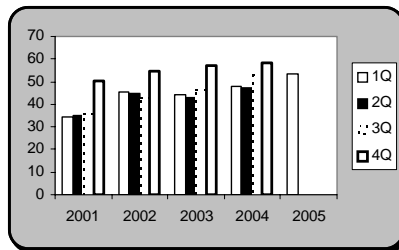


Table 3.4: GROSS REMITTANCES (\$ Million)

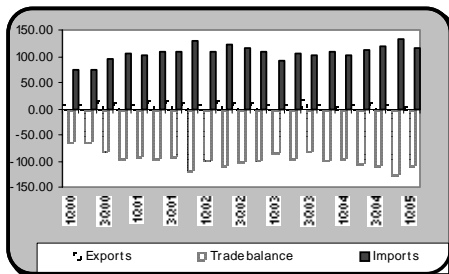
	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
Remittances	193.19	188.20	201.17	48.13	46.6	44.5	62.00	62.36
Remittances as % GDP	21.8	19.9	19.3	19.2	18.5	17.0	22.6	22.94

Source: Central Bank of Samoa

3.5 Balance of Payments

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

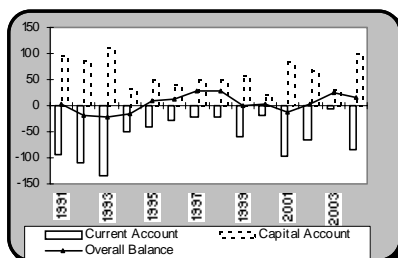
Figure 3.5: Quarterly Trade Balance (\$ Million)



The trade deficit contracted by \$8.52 million to stand at \$100.83 million in the reporting quarter compared to the same quarter of 2004. This reduction in the deficit was mainly due to the drop in imports of \$7.89 million. Compared to the previous quarter (4Q04), the trade deficit improved by \$41.19 million.

Net services and income estimated at \$9.77 million in the reporting quarter, declined by \$6.09 million over the comparable 2004 period. Net transfers were valued at \$62.36 million in the current quarter, up by \$14.23 million over 1Q04. This resulted in a current account deficit of \$28.69 million in the reviewing quarter, an improvement of \$16.66 million over the corresponding 2004 period. When compared to the previous quarter, Net services and income recorded a decline of \$10.76 million whilst Net transfers had slightly increased by \$0.36 million. The improvement in the trade deficit during this period led to a decline of \$30.79 million in the current account deficit over 4Q04.

Figure 3.6: Annual Overall Balance (\$ Million)



The **capital account** surplus was estimated at \$27.25 million in 1Q05, a decline of \$19.01 million over 1Q04. This led to an overall balance of payments deficit of \$1.44 million compared to a surplus of \$0.91 million in 1Q04.

Compared to 4Q04, the capital account had fallen by \$59.01 million, which led to a deterioration in the overall balance of payments of \$28.22 million.

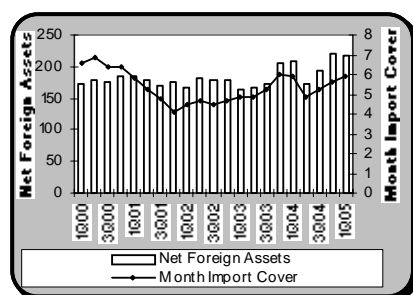
Table 3.5: COMPARATIVE TRADE DATA 2002–2004 (\$ Million)

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
1. EXPORTS (fob)	46.29	44.26	33.13	6.02	7.84	10.61	8.65	6.65
2. IMPORTS (cif)	454.23	406.96	468.27	115.36	113.78	118.81	150.66	107.47
3. TRADE BALANCE	-407.94	-362.70	-435.14	-109.34	-105.94	-108.20	-142.01	-100.82
4. NET SERVICES	155.5	167.21	139.71	15.86	36.78	24.61	20.53	9.77
5. NET TRANSFERS	188.06	190.48	210.48	48.13	50.44	45.86	62.00	62.36
6. CURRENT ACCOUNT BALANCE	-64.38	-31.87	-116.38	-45.35	-27.75	-37.73	-59.48	-28.69
7. CAPITAL ACCOUNT (Net)	68.41	57.22	132.88	46.26	-5.24	58.88	86.26	27.25
8. OVERALL BALANCE (Change in NFA)	4.03	25.35	16.50	0.91	-32.99	21.15	26.78	-1.44
9. TRADE BALANCE AS % GDP	-46.1	-38.4	-45.7	-43.7	-42.9	-41.5	-51.7	-37.1
10. CURRENT ACCOUNT BALANCE AS % GDP	-7.3	-0.5	-8.9	-18.1	-8.0	-9.4	-21.7	-10.6

4. FOREIGN EXCHANGE RESERVES

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

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



The total value of foreign exchange reserves amounted to \$218.62 million in March 2005, up by \$13.50 million over March 2004. This rise was caused mainly by an increase of \$31.15 million in Central Bank holdings whilst foreign holdings with the Ministry of Finance and Commercial Banks declined by \$4.49 million and \$13.16 million respectively.

At this level, foreign exchange reserves dropped by \$1.44 million from end December 2004. This decline was largely contributed by Commercial Banks with a drop of \$4.10 million followed by a fall of \$1.44 million in Ministry of Finance reserves whilst Central Bank recorded an increase of \$3.37 million.

At end March 2005, net foreign assets were sufficient to cover 5.9 months of imports, the same level as March 2004 but higher than the 5.6 months coverage at end December 2004.

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

	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
Net Foreign Assets	177.88	204.21	220.06	205.12	172.13	193.28	220.06	218.62
Import Cover	4.7	6.0	5.6	5.9	4.9	5.2	5.6	5.9

Source: Central Bank of Samoa

5. EXCHANGE RATES

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

At the end of March 2005, the Tala depreciated against the NZD and EURO whilst strengthening against the USD, AUD, FJD and YEN over the same 2004 period.

When compared to the previous quarter, the Tala appreciated against all currencies with the exception of the USD.

	2004				2005	% Appreciation(+)/Depreciation (-) of TALA between Mar 05 and	
	Mar	Jun	Sep	Dec	Mar	Mar 04	Dec 04
	USD	0.3624	0.3513	0.3613	0.3741	0.3722	2.7
NZD	0.5444	0.5544	0.5347	0.5205	0.5221	-4.1	0.3
AUD	0.4755	0.5059	0.4993	0.4799	0.4813	1.2	0.3
EURO	0.2952	0.2887	0.2901	0.2766	0.2871	-2.7	2.8
FJD	0.6109	0.6110	0.6224	0.6053	0.6225	1.9	1.1
YEN	37.3300	37.5900	39.3800	38.0600	39.8961	6.9	4.8

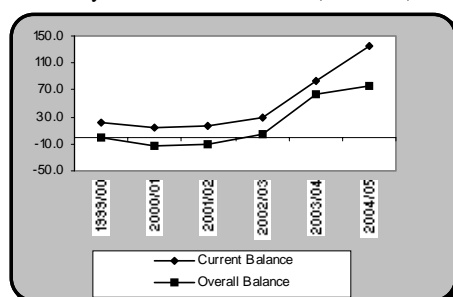
Source: Central Bank of Samoa

6. GOVERNMENT FINANCE

6.1 Government Finance Statistics

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

Figure 6.1: Overall and Current Balance
July-Mar 1999/00-2004/05 (\$ Million)



Overall Performance

Latest Government Finance Statistics estimates for the first nine months July 04 – March 05 period registered an overall surplus of \$11.1 million equivalent to 1.4% of GDP. Current balance registered a surplus of \$40.1 million equivalent to 5.2% of GDP. Fiscal outturn at this level was far below the pro-rata estimate and consistent with the SDS targets of no more than 3.5% of GDP in the overall deficit and a current surplus of no less than 3.5% of the GDP.

The favourable results was attributed mainly to current expenditure being well retained below pro rata by \$15.0 million, and from the \$4.9 million increase in revenue.

Figure 6.2: Revenue by Type, July-Mar 1999/00-2004/05 (\$ Million)

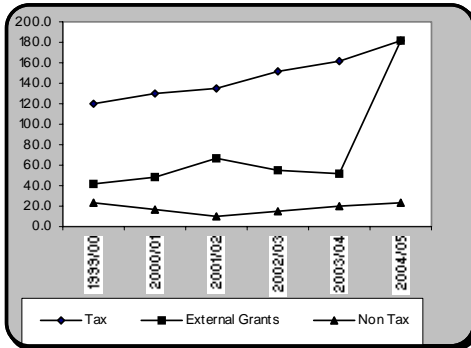


Figure 6.3: Expenditure by Type, July-Mar 2000/01-2004/05 (\$ Million)

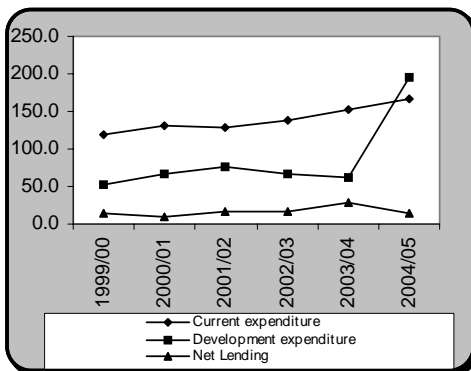
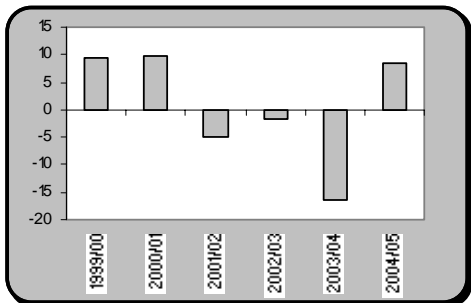


Figure 6.4: Government position with the banking system, July-Mar 2000/01-2004/05 (\$ Million)



Revenue

Total Revenue and grants for the first nine months of the 2004/05 fiscal year was \$387.00 million, \$4.98 million more than the pro-rata estimate. Total revenue and grants comprising of Tax and Non-tax and External grants contributed \$205.9 million (53%) and \$181.0 million (47%) respectively.

Total revenue collection stood at \$205.96 million and exceeded the pro-rata estimate by \$4.98 million. Tax revenue collection for the period was \$181.9 million and comprised of 88.3% of the total revenue. Increased VAGST collection of \$5.2 million was more than enough to offset slight shortfalls of \$1.00 million, \$1.50 million and \$0.60 million in income tax, import duty and domestic excise respectively. Other taxes such as Stamp duty and Business licenses registered slight increases of \$1.60 million and \$0.20 million respectively.

Non-tax revenue collection stood at \$24.00 million and was slightly above the appropriated estimate by \$2.60 million. This amount however was inflated by the one-off receipt of \$9.9 million received from the sale of Government equities in some of the companies namely Vailima Breweries, CSL and others early in the financial year.

Grants recorded in Jul-Mar 05 totalled \$181.04 million on par with pro rata estimates but was a massive \$129.83 million higher than the corresponding period of 2003/2004.

Expenditure

Total expenditure and Net Lending for the first nine months of 2004/05 was \$375.9 million. This was \$12.51 million below the appropriated estimate for the period.

The \$165.91 million recorded for current expenditures was \$15.0 million below the appropriated estimate for the period. The low utilisation of current expenditure reflected prudent fiscal policies implemented to control expenditure in view of an expansionary budget in the next financial year.

Development expenditure of \$196.38 million recorded in the first nine months was \$1.77 million above the pro rata estimate. This expenditure comprised of Loan expenditure of \$15.3 million and Grant funded expenditure of \$181.1 million.

Net Lending of \$13.62 million exceeded the pro rata estimate by \$0.7 million.

Position with the Financial System

In the first nine months of the financial year 2004/05, government increased its financial resources with the banking system by \$8.6 million. This is encouraging when compared to the large draw-down of \$16.4 million in the same period last year, and in view of the expected increase in expenditure in the coming financial year. This again is indicative of prudent fiscal policies imposed by Government to control expenditure during the 2004/05 financial year.

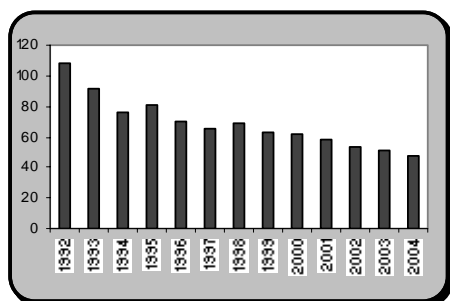
	Provisional Actual			Budget	Provisional		
	2001/02	2002/03	2003/04	2004/05	Jul-Mar 03	Jul-Mar 04	Jul-Mar 05
Revenues and Grants	290.8	303.53	317.70	509.36	222.78	233.20	387.00
Revenues	198.7	229.37	246.52	267.98	167.15	181.99	205.96
External Grants	92.1	74.17	71.16	241.38	55.62	51.21	181.04
Expenditure	308.5	309.07	326.57	517.89	219.64	242.59	375.91
Current ^b	183.3	202.19	204.49	241.24	137.03	152.58	165.91
Development ^c	104.2	86.89	86.62	259.48	65.91	62.15	196.38
Other (capital & net lending)	12.3	19.99	35.46	17.17	16.69	27.86	13.62
Current Balance	15.4	27.17	42.03	26.74	30.12	29.41	40.06
Overall Balance	-17.7	-5.54	-8.88	-8.53	3.14	-9.39	11.09
Financing							
Net external borrowing	11.8	4.69	0.25	5.05	-0.40	1.59	3.67
Domestic	-5.9	0.85	8.63	3.48	-2.7	11.0	-14.8
Overall Balance as % of GDP	-2.1	-0.6	-0.9	-0.9	0.36	-1.29	1.37
Total Expenditure as % of GDP	37.4	35.5	33.8	52.9	25.4	33.4	46.5

Source: Ministry of Finance estimates
^{a/} Provisional Actual 2001/02 – 2003/04 and Budget 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: Official Government Debt as % of GDP



Official government debt outstanding at end March 2005 amounted to \$457.18 million, up by \$4.07 million and \$1.56 million from the corresponding period of 2004 and the fourth quarter of 2004 respectively. This amount is equivalent to approximately 43.1% of GDP.

Multilateral and bilateral loans accounted for 92% (\$423.75 million) and 8% (\$33.43 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing recorded \$4.62 million in March 2005, up by \$0.82 million and \$0.70 million from the same 2004 period and end December 2004 respectively. Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 69.5% and 2.1% respectively.

Table 6.2: EXTERNAL DEBT (\$ Million)

Year End	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
Total External Debt	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	481.18	456.10	455.62	453.11	472.98	456.05	455.62	457.18
Official Government Debt as % of GDP	56.8	50.8	47.9	47.1	48.3	45.7	47.9	43.1

Source: CBS and Treasury

7. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

7.1 Money Supply

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

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

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

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

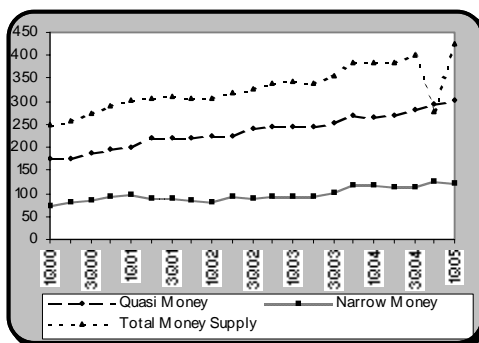
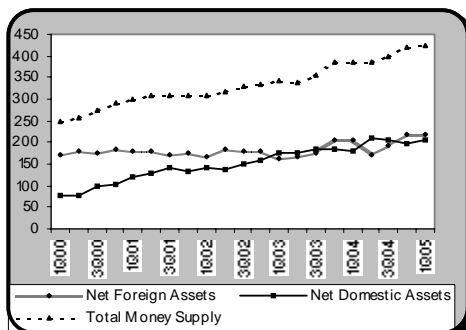


Figure 7.2: Net Foreign Assets, Net Domestic Assets & Total Money Supply by Quarter (\$ Million)



Money Supply

Money supply valued at \$424.12 million at end March 2005, increased by \$37.99 million from end March 2004. This rise was mainly due to an increase of \$33.95 million in Quasi money followed by a rise in Narrow money (M1) of \$4.04 million. The increase in Quasi money was mainly contributed by Time deposits with a rise of \$36.63 million followed by an increase of \$2.98 million in Savings deposits whilst Foreign currency deposits of residents recorded a decline of \$5.66 million. For the components of Narrow money (M1), Currencies outside banks and Demand deposits had increased by \$2.37 million and \$1.67 million respectively.

Money supply increased by \$5.60 million over 4Q04. This rise was driven mostly by an increase of \$8.23 million in Quasi money whilst Narrow money had declined by \$2.63 million. The rise in Quasi money was largely contributed by an increase of \$9.37 million in Time deposits whilst Foreign currency deposits of residents and Savings deposits recorded declines of \$0.80 million and \$0.34 million respectively. For the Narrow money components, Currency outside banks recorded a decline of \$8.05 million whilst Demand deposits had increased by \$5.42 million.

Net Foreign Assets and Net Domestic Assets

Net foreign assets were valued at \$218.62 million whilst Net Domestic Assets recorded \$205.50 million in 1Q05. NFA and NDA registered increases of \$13.50 million and \$24.49 million respectively over March 2004. The increases in NFA and NDA led to the rise in money supply of \$37.99 million over the corresponding 2004 period. The rise in NDA was driven largely by the \$39.15 million increase in domestic credit to the private sector.

NFA declined by \$1.44 million whilst NDA recorded an increase of \$7.04 million over December 2004.

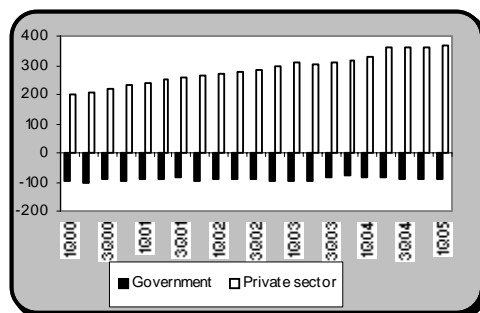
CBS Securities

The total face value of securities outstanding at the end of March 2005 stood at \$45.00 million, up by \$13.00 million and \$3.50 million from the comparable 2004 period and end December 2004 respectively.

7.2 Domestic Credit Expansion

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

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



Domestic credit outstanding had increased by \$24.45 million over the comparable 2004 quarter to stand at \$284.42 million in the reporting quarter. The rise was largely caused by an increase of \$39.15 million in credit to the private sector whilst total claims on non-financial public enterprises and non-monetary financial institutions had declined by \$4.87 million. Domestic assets with Ministry of Finance and Commercial Banks registered declines of \$4.49 million and \$0.49 million whilst domestic assets with the Central Bank recorded an increase of \$14.84 million. This resulted in a rise of \$9.86 million in government's net position to stand at \$90.16 million.

Total domestic credit outstanding was up by \$4.05 million over December 2004. This expansion was a result of an increase of \$6.28 million in credit to the private sector whilst total claims on non-financial public enterprises and non-monetary financial institutions have declined by \$1.05 million. Domestic assets with Commercial Banks and the Ministry of Finance have declined by \$8.02 million and \$0.71 million whilst domestic assets with the Central Bank increased by \$9.91 million respectively.

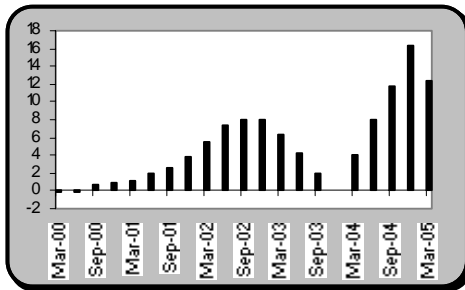
	2002	2003	2004	2004				2005	% Change in Mar 05 over	
				Mar	Jun	Sep	Dec	Mar	Mar 04	Dec 04
Net Foreign Assets	177.86	204.21	220.71	205.12	172.13	193.28	220.71	218.62	6.6	-0.9
Net Domestic Assets	160.18	182.16	197.81	181.01	211.46	207.23	197.81	205.50	13.5	3.9
Money Supply (M2)	339.04	386.37	418.52	386.13	383.59	400.51	418.52	424.12	9.8	1.3
Money (M1)	95.61	118.21	124.93	118.26	112.63	116.55	124.93	122.30	3.4	-2.1
Currencies outside banks	32.57	35.73	38.94	28.52	28.43	29.75	38.94	30.89	8.3	-20.7
Demand deposit	63.04	82.48	85.99	89.74	84.20	86.80	85.99	91.41	1.9	6.3
Quasi Money	243.43	268.16	293.59	267.87	270.96	283.96	293.59	301.82	12.7	2.8
Savings deposits	44.87	45.56	51.48	48.16	49.38	53.75	51.48	51.14	6.2	-0.7
Time deposit	184.45	206.99	232.35	205.09	209.35	220.03	232.35	241.72	17.9	4.0
FCDR ^a	14.11	15.61	9.76	14.62	12.23	10.18	9.76	8.96	-38.7	-8.2
Domestic Credit	219.02	254.08	279.72	259.97	290.35	287.16	279.72	284.42	9.4	1.7
Government (net)	-94.27	-79.44	-89.63	-80.30	-81.60	-89.19	-89.63	-90.16	12.3	0.6
Private sector	294.70	318.47	358.74	325.87	358.51	363.76	358.74	365.02	12.0	1.8
Claims ^b	18.59	15.05	10.61	14.37	13.41	12.57	10.61	9.56	-33.5	-9.9

8. INFLATION

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

8.1 Consumer Price Index

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



The annual average rate of inflation at end March 2005 stood at 12.4%, up by 8.4 percentage points from March 2004. Food had largely increased by 17.0 percentage points followed by miscellaneous with a rise of 0.5 percentage points whilst housing /household, transport/communication and alcohol/tobacco showed downward trends of 1.4, 2.3 and 5.0 percentage points respectively in the local component. This resulted in a rise of 11.0 percentage points in the local component of the CPI. The overall results indicated that local food prices had largely dominated the rise during this period.

When compared to end December 2004, the annual average rate of inflation recorded a decline of 3.9 percentage points. All categories of the local component have showed decreases with the exception of food. This resulted in a decline of 13.9 percentage points in the annual inflation of the local component of the CPI.

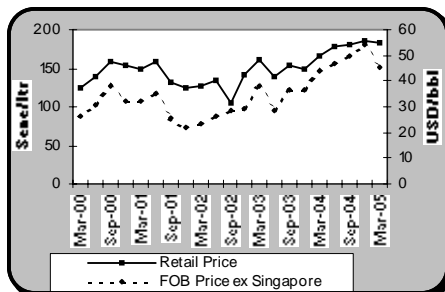
	2002	2003	2004	1Q04	2Q04	3Q04	4Q04	1Q05
All Item Index	8.1	0.1	16.3	4.0	7.9	11.7	16.3	12.4
Imported Good Index	1.3	-0.1	4.3	0.2	1.2	2.7	4.3	4.5
Local Good Index	13.8	0.3	34.0	9.1	20.9	26.8	34.0	20.1

Source: Ministry of Finance

8.2 Petroleum Prices

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

Figure 8.2: End Quarter Petroleum Prices



The international price (US currency) for petrol was 45.03 cents per litre in March 2005, an increase of 1.33 cents over March 2004. International prices (US currency) for Diesel and Kerosene were recorded at 49.29 cents and 50.18 cents per litre, increased by 10.49 cents and 12.01 cents from March 2004 respectively. Domestic retail prices for petrol, kerosene and diesel were recorded at 182.0 sene, 168.9 sene and 181.5 sene per litre, increased by 16.5 sene, 12.01 sene and 26.3 sene from March 2004 respectively.

When compared to end December 2004, international prices were down by 9.22 cents for petrol, 10.71 cents for kerosene and 7.92 cents for diesel. Domestic retail prices for all petroleum products (petrol, kerosene and diesel) also showed a downward trend of 3.80 sene, 12.80 sene and 8.90 sene respectively.

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

	2004								2005	
	March		June		September		December		March	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
Petrol	165.5	43.70	177.6	46.99	181.6	49.67	185.8	54.25	182.0	45.03
Kerosene	139.0	38.17	158.0	45.09	167.0	50.68	181.7	60.89	168.9	50.18
Diesel	155.2	38.80	167.2	42.09	179.0	48.80	190.4	57.21	181.5	49.29

Source: Ministry of Finance