



MINISTRY OF FINANCE

Issue No 24:
Oct - Dec 2003
April 2004

REVIEW TOPICS

- 1. EXECUTIVE SUMMARY
2. ASSESSMENT OF PERFORMANCE
2.1 GROSS DOMESTIC PRODUCT
2.2 FOREIGN TRADE AND BALANCE OF PAYMENTS
2.3 FOREIGN EXCHANGE RESERVE
2.4 EXCHANGE RATES
2.5 GOVERNMENT FINANCE
2.6 MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION
2.7 INFLATION
3. ECONOMIC OUTLOOK

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QUARTERLY ECONOMIC REVIEW

NEW & IMPROVED 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 includes recent improvements to the national accounts and summarises the state of the economy in 2003 as a whole and during the fourth quarter 2003. This review also introduces an occasional (4th quarter only) economic outlook section. Future editions of the Quarterly Economic Review will be expanded to include data on labor productivity and improvements in data on inflation.

1. EXECUTIVE SUMMARY

Key Features of 2003 Performance

- Real GDP grew by 3.5% in 2003 and by 2.3% in the fourth quarter of 2003 over the comparable 2002 period; (see section 2.1)
Export revenues declined by 4.4% in 2003 as a decline in fish exports more than offset a rise in garments exports. Export revenue in the fourth quarter of 2003 was down 18.3% on the comparable 2002 period; (see section 2.2.1)
Imports dropped by 10.4% in 2003 and by 0.8% in the fourth quarter of 2002 over the comparable 2002 period; (see section 2.2.2)
The trade deficit narrowed to \$362.7 million in 2003 and in the fourth quarter of 2003 was 1.1% larger than in the comparable 2002 period; (see section 2.2.5)
Foreign reserves at the end of 2003 rose to \$204.2 million, equivalent to 6.0 months of import cover, compared with \$178.9 million and 4.4 months of import cover at the end of 2002 ; (see section 2.3)
The budget out-turn showed an overall deficit of \$11.6 million for the first half of the fiscal year 2003-2004, compared with an overall surplus of \$3.6 million for the first half of fiscal year 2002-2003; (see section 2.5)
Money supply grew by 14% during 2003 as both domestic and net foreign assets increased; (see section 2.6.1)
Domestic credit to the private sector expanded by 8.1% during 2003; (see section 2.6.2)
The annual average inflation rate at end Dec 2003 stood at 0.1 percent, 1.8 and 8.0 percentage points lower than the rate at end September 2003 and end December of 2002 respectively; (see section 2.7)

The economic outlook for 2004 is for growth in the 2-3% range, with decline in the primary sector offset by rapid growth in construction and modest growth in most other sectors.

## 2. ASSESSMENT OF PERFORMANCE

### 2.1 GROSS DOMESTIC PRODUCT

*The Gross Domestic Product is the building block for macroeconomic analysis. This measure estimates the country's gross value-added within the domestic economy. Compilation of the estimates uses an industry-value-added approach; that is the values of output and input have been estimated separately for each industry, and value-added (gross product) derived as a net measure. For the agriculture and non-monetary sectors estimates have been derived from, inter alia, export data, the Fugalei Market Surveys and benchmarks derived from the 2002 Household Income and Expenditure Survey. GDP estimates 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.*

#### Overview

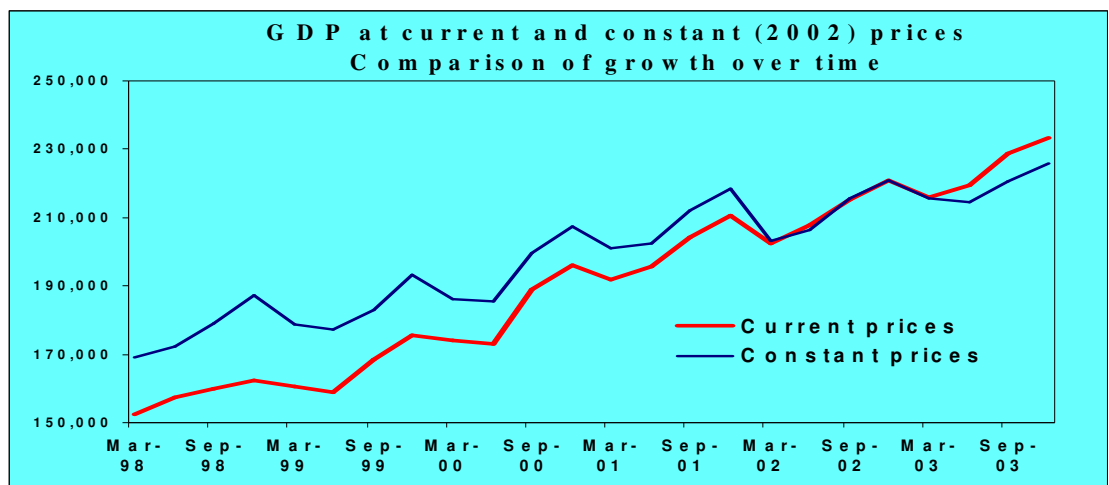
**Real Gross Domestic Product** was \$876.4 million in 2003, an increase of 3.5% on the 2002 level. This follows revised growth rates of 1.5% in 2002, 7.1% in 2001 and 6.3% in 2000. The average annual rate of real growth over the last five years is 4.4%. **Monetary** Sector production accounted for 87% of total production in 2003, growing by 4% on the 2002 level. Real output of the **Non-Monetary** Sector, principally consisting of subsistence agriculture, grew by 0.7% on the 2002 level.

Other manufacturing was the biggest contributor to growth in 2003, accounting for 1.4 percentage points. The impressive performance by the industry reflected a 23.5% increase in Yazaki exports to Australia, and a 200% increase in garment exports in 2003. Other industries making significant contributions were Transport and Communications, Finance and Business Services and Agriculture, each contributing 0.7 percentage points to the growth outcome.

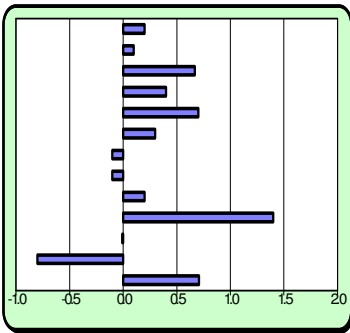
On the downside, Fishing continued to contract, making a negative contribution of 0.8 percentage points to growth. Commerce also recorded a negative contribution of 0.1 percentage points.

GDP in current prices was \$897.7 million in 2003 or \$4,990 per capita.

Figure 2.1:



**Figure 2.2: CONTRIBUTION TO REAL GDP GROWTH IN 2003 (%)**



Labeled from top to bottom  
 Personal and other services - 0.2  
 Ownership of dwellings - 0.1  
 Finance and business services - 0.7  
 Public administration - 0.4  
 Transport, Communication - 0.7  
 Hotels, restaurants - 0.3  
 Commerce - 0.1  
 Electricity and water - 0.1  
 Construction - 0.2  
 Other manufacturing - 1.4  
 Food & Beverages manufacturing - 0.01  
 Fishing - 0.8  
 Agriculture - 0.7

## Industry Performance

### Primary Sector: Agriculture and Fisheries

**Agriculture** performance in real terms was remarkable in achieving a 9.7% increase in 2003, after two years of negative growth. Consistent with the notable performance by the industry, the Fugalei Market survey results recorded an increase of 24% in the average quantity of goods supplied to the market compared to 2002. This was translated into the 0.7 percentage point contribution to the overall growth rate.

The **Fishing** industry being the 5<sup>th</sup> largest industry, and providing over 60% of the total exports in the past two years, has played a substantial role in economic development. The results in real terms however worsened in 2003, declining by 10% compared to 2002, and contributing -0.8 percentage points to overall growth. The decline in real output was due to low catches, which were down by 39% as indicated by the export figures released by the Central Bank of Samoa.

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

At constant 2002 prices, value added generated by the **Food and Beverage Manufacturing** industry of \$29.0 million declined by 0.3%. The slight decline in the industry performance was a result of low production in some of the companies notably Vailima Breweries, Samoa Tropical Products and Dessico Samoa, whose exports registered declines of 4%, 18% and 43.9% respectively.

**Other Manufacturing** rebounded from the contraction in 2002, registering real growth of 11.3% and contributing 1.4 percentage points to overall growth. As noted Yazaki exports to Australia and Pacific Cashmere exports to the US both grew strongly.

**Construction** value added increased by 2.6 % in real terms in 2003, following a decline of 3.6% in 2002. The 2003 rebound reflected the Latter Day Saints new church building program in particular and the continuation of public sector infrastructure projects such as school buildings.

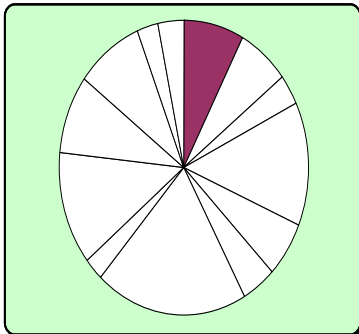
The **Electricity and Water** industry consists entirely of two public sector units, the Water Authority and the Electric Power Corporation. In 2003, real production of this sector contracted by 1.4%, making a negative contribution to overall growth of -0.1 percentage points.

### Tertiary Sector: Commerce, Transportation & Communication, Hotels & Restaurants, Finance & Business Services, Ownership of Dwellings and Personal & Other Services

**Commerce** maintained its status as the largest industry accounting for 20.2% of total GDP in 2003 though the industry value added declined by 0.7%. The decline was in line with a big drop in imports and partly reflected the continued contraction of the fishing industry.

**Transport and Communication** has continued to play a major role in the Samoan economy as the third largest industry (12.9% of GDP). Government's commitment to improving the road transport system, and the utilization of modern telecommunication mediums such as cellular phone and the internet contributed to a real growth rate of 5.6% in 2003. It is envisaged that this industry will continue to grow as more and more technological services are introduced into the economy.

**Figure 2.3: CONTRIBUTION TO TOTAL REAL GDP IN 2003 (%)**



Labeled clockwise commencing from the shaded area

Agriculture - 7.7
Fishing - 7.0
Food & Beverages manufacturing - 3.3
Other manufacturing - 13.7
Construction - 6.3
Electricity and water - 4.3
Commerce - 20.0
Hotels, restaurants - 2.6
Transport, Communication - 12.6
Public administration - 8.5
Finance and business services - 9.0
Ownership of dwellings - 2.7
Personal and other services - 3.3

**Finance and Business Services** grew by 8.2% in 2003, with marked increases in Banking and Insurance. Proliferation of money transfers and other small financial services assisted the industry performance. The industry's share of total GDP in nominal terms has increased from 7.0% in 1999 to 13.2% in 2003, which reflects the impact of the Financial Sector Liberalisation reform that was implemented from 1998.

**Personal and Other Services** grew by 6.9% in 2003, accounting for 3.4% of nominal GDP and contributing 0.2 percentage points to growth for the year. This industry has grown on an annual average rate of 2.3% in the past 5 years.

**Hotels and Restaurants** contributed positively to the economy in 2003, growing by 11.3% and contributing 0.3 percentage points to the overall growth. In 2003 the industry activities generated a total value added of \$24.2 million, equivalent to 2.6% of total GDP. The performance of this industry is viewed with keen interest because of its potential role in the creation of employment opportunities for the people of Samoa.

### Government

In 2003, **Public Administration** accounted for 8.1% of total GDP, and grew by 4.5% in real terms. The sector contributed 0.4% of overall growth in 2003.

**Table 2.1: ANNUAL & QUARTERLY REAL GDP**

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03	% Change 4Q03 over	
At constant 2002 prices	(\$ Million)								4Q02	3Q03
Agriculture	67.12	61.70	67.69	15.97	17.47	15.87	16.69	17.66	10.5	5.8
Fishing	71.21	68.02	61.19	17.23	15.83	15.19	14.87	15.29	-11.2	2.8
Food & Beverages Manufacturing	26.29	29.11	29.01	7.88	7.29	6.98	7.23	7.52	-4.6	-3.9
Other Manufacturing	111.84	107.75	119.96	28.72	27.97	30.46	30.54	30.99	7.9	1.5
Construction	55.77	53.75	55.14	13.44	13.27	13.22	13.96	14.69	9.3	5.2
Electricity and Water	37.59	38.60	38.06	9.77	9.06	9.87	9.22	9.91	1.4	7.5
Commerce	159.37	176.28	175.07	46.02	45.23	44.70	43.22	41.92	-8.9	-3.0
Hotels, Restaurant	21.36	20.68	23.03	5.41	5.60	5.51	6.04	5.88	8.5	-2.7
Transport, Communication	108.35	104.64	110.51	29.03	26.72	24.04	28.39	31.36	8.0	10.4
Public Administration	67.58	71.01	74.24	18.19	18.28	18.49	18.71	18.76	3.1	0.3
Finance & Business Services	64.97	72.57	78.49	18.46	18.09	19.18	20.41	20.81	12.8	2.0
Less: Enterprise share of FISIM	-7.97	-8.24	-8.92	-2.09	-2.13	-2.20	-2.27	-2.32	11.2	2.4
Ownership of Dwellings	22.99	23.45	23.92	5.91	5.94	5.97	6.00	6.03	2.0	0.5
Personal & Other Services	27.22	27.15	29.02	7.01	6.94	7.18	7.38	7.52	7.2	1.8
<b>Value added 2002 market prices</b>	<b>833.72</b>	<b>846.46</b>	<b>876.40</b>	<b>220.96</b>	<b>215.54</b>	<b>214.46</b>	<b>220.39</b>	<b>226.00</b>	<b>2.3</b>	<b>2.6</b>
Implicit price deflator:	96.2	100.0	102.4	100.0	100.2	102.4	103.8	103.3	3.3	-0.5
<b>Selected measures of production:</b>										
At constant 2002 prices										
Non-monetary	120.21	115.36	116.21	28.82	28.90	28.71	29.21	29.39	2.0	0.6
Monetary - total	713.51	731.10	760.20	192.14	186.64	185.75	191.19	196.62	2.3	2.8
Monetary - restricted scope	630.35	652.08	671.37	170.85	165.91	163.22	168.69	173.55	1.6	2.9
<b>Memo items:</b>										
Nominal GDP (current prices)	802.18	846.46	897.68	220.95	216.06	219.55	228.67	233.40	5.6	2.1
GDP per capita	4,540	4,747	4,990	na	na	na	na	na	na	na

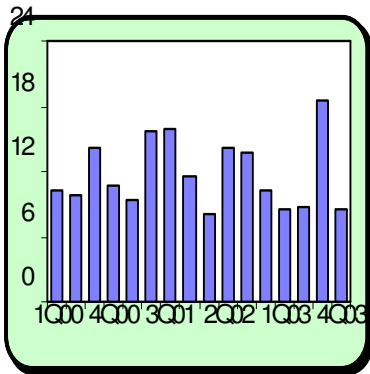
Source: Ministry of Finance estimates  
na - not applicable

**NOTE:** The new estimates of GDP presented in this quarterly report have been rebased to 2002. The updated numbers provide a more accurate observation of the current workings of the economy reflecting the structural changes that have taken place and changes in prices. The methodology behind the rebasing is detailed in the National Accounts Report for 2003, which will be published in June 2004. This report also introduces seasonally adjusted national accounts data.

## 2.2

## FOREIGN TRADE AND BALANCE OF PAYMENTS

Figure 2.4: TOTAL EXPORTS  
(\$ Million)



## 2.2.1 Exports

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

Export data presented in Table 2.2 show that in 2003, total export earnings were valued at \$44.27 million, down by \$2.02 million from 2002. The decline largely reflected a 46% drop in fresh fish exports, which in turn was the result of reduced catches due primarily to climatic conditions and the weakening of the US currency. This decline saw fish exports accounting for 35.6% of total exports in 2003 compared to 62.7% in 2002. Other commodities which recorded declines were coconut cream, beer and desiccated coconuts. The rejection of a container of desiccated coconut in the first quarter of the year as a result of the detection of metal in the product resulted in the decline in desiccated coconuts export level.

On a more positive note, continued efforts by the government and the private sector to diversify agricultural commodities led to improved nonu products and taro export levels, and garment exports increased by a remarkable 299% as a result of an upward trend in demand due mainly to the rise in the number of customers in America, Japan, UK, Canada and New Zealand.

In 4Q03, exports were valued at \$8.45 million, a huge decline of \$10.08 million from the previous quarter. The leading contributor to this drop was garments with an outstanding fall of \$11.23 million followed by slight declines in coconut cream and desiccated coconut. Garment exports came back down from the extraordinary level recorded in September 2003. The decrease was also further amplified by the disruption in production as a result of the relocation of Pacific Cashmere to their new premises at Vaitele. This led to the temporary taking over of their supply by their branches in Bangladesh and China. Garments which made up 61.8% of total exports in 3Q03 accounted for a mere 2.6% of total exports in the reviewing quarter.

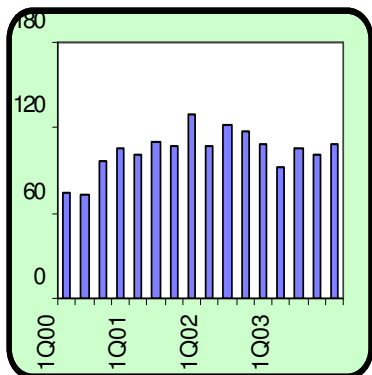
Exports in 4Q03 declined by 18.3% on the 4Q02 level. This drop was seen in all commodities except nonu juice, nonu fruit and garments.

Quarterly export data is shown in Table 2.2.

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03	% share			% Change in 4Q03 over	
	(\$ Million)								4Q02	3Q03	4Q03	4Q02	3Q03
Fish	36.00	29.03	15.76	6.07	3.69	3.86	3.67	4.54	58.7	19.8	53.7	-25.2	23.7
Coconut Cream	3.38	3.11	3.01	0.94	0.74	0.78	0.76	0.73	9.1	4.1	8.6	-22.3	-3.9
Nonu fruit	0.35	0.45	0.51	0.14	0.08	0.14	0.11	0.19	1.4	0.6	2.2	35.7	72.7
Nonu juice	0.55	0.91	2.04	0.19	0.26	0.40	0.66	0.73	1.8	3.5	8.6	284.2	10.6
Beer	2.93	3.92	3.81	1.07	0.70	1.07	1.01	1.04	10.3	5.5	12.3	-2.8	3.0
Taro	0.81	1.01	1.31	0.34	0.32	0.39	0.27	0.33	3.3	1.5	3.9	-2.9	22.2
Garments	5.49	4.45	13.32	0.01	0.03	1.62	11.45	0.22	0.1	61.8	2.6	2,100.0	-1,123.0
Desiccated Coconut	0.10	1.35	0.76	0.67	0.36	0.11	0.19	0.10	6.5	1.0	1.2	-85.1	-47.4
Others	2.96	2.06	3.75	0.91	2.34	0.41	0.41	0.57	8.8	2.2	6.7	-37.4	39.0
<b>TOTAL</b>	<b>52.57</b>	<b>46.29</b>	<b>44.27</b>	<b>10.34</b>	<b>8.52</b>	<b>8.78</b>	<b>18.53</b>	<b>8.45</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-18.3</b>	<b>-54.4</b>

Source: Central Bank of Samoa

**Figure 2.5: TOTAL IMPORTS (\$ Million)**



**2.2.2 Imports**

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

In the twelve months to December 2003, total imports stood at \$406.96 million, a decline of \$47.27 million or 10.4% over the previous year. A drop in non petroleum private sector imports was the main reason for this decline. Government imports also fell whilst petroleum imports recorded an increase of 3.7%.

Imports at \$108.35 million in 4Q03, increased by \$7.42 million from the preceding quarter. Non petroleum private sector imports had driven this rise, increasing by 11.2%, whilst government and petroleum imports recorded declines. This is the usual trend in private sector imports with businesses stocking up for the festive season shopping spree. Over 4Q02, imports however declined slightly by \$0.83 million in 4Q03. Government and non petroleum private sector imports had increased whilst petroleum imports recorded a decline.

**Table 2.3: ANNUAL AND QUARTERLY IMPORT COMPONENTS**

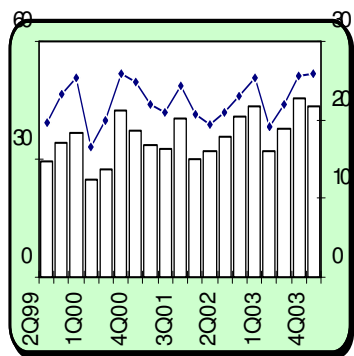
	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03	% Share			% Change 4Q03 over	
	(\$ Million)								4Q02	3Q03	4Q03	4Q02	3Q03
Government <sup>a</sup>	24.92	11.29	7.54	0.002	0.19	6.21	1.02	0.12	0.0	1.0	0.1	5,900.0	-88.2
Petroleum	55.78	54.88	56.90	17.05	14.33	13.47	15.13	13.97	15.6	15.0	12.9	-18.0	-7.6
Other Product <sup>b</sup>	368.10	388.06	342.52	92.12	77.91	85.59	84.77	94.25	84.4	84.0	87.0	2.3	11.2
<b>TOTAL</b>	<b>448.8</b>	<b>454.23</b>	<b>406.96</b>	<b>109.17</b>	<b>92.43</b>	<b>105.28</b>	<b>100.92</b>	<b>108.34</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.8</b>	<b>7.4</b>

Source: Central Bank of Samoa

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

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

**Figure 2.6: GROSS TOURISM RECEIPTS (Million) & TOURIST ARRIVALS ('000)**



**2.2.3 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*

In 2003, total tourism earnings amounted to \$158.63 million, up by 4.0% over 2002. Tourist arrivals had also increased by 3.9% to stand at 92,440 in 2003.

Tourism earnings in 4Q03 were valued at \$43.46 million, a decline of 3.9% from 3Q03. Tourist arrivals however increased by 150 to stand at 25,790. When compared to 4Q02, revenue increased slightly by \$0.03 million whilst arrivals declined

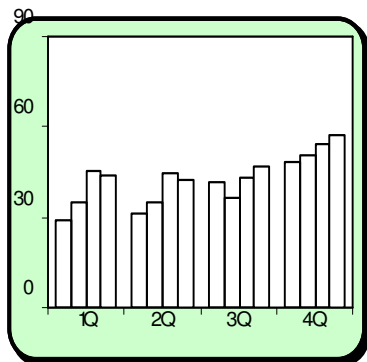
Revenues - Left Hand Axis  
Arrivals - Right Hand Axis

□ Gross Tourism Receipts  
◆ Tourist Arrivals

**Table 2.4: GROSS TOURISM RECEIPTS (\$ Million) AND TOURIST ARRIVALS ('000)**

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
<b>Gross Tourism Revenues</b>	139.58	152.58	158.63	43.43	31.94	37.97	45.26	43.46
<b>Tourist Arrivals</b>	88.26	88.96	92.44	25.43	19.07	21.94	25.64	25.79

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

**Figure 2.7: GROSS REMITTANCES BY QUARTER COMPARED ANNUALLY**

Labeled on a Quarterly Basis from Left to Right - 2000 to 2003

## 2.2.4

## 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.*

On an annual basis, remittances were valued at \$190.48 million, \$2.42 million (or 1.3%) above 2002.

Total remittances had increased by \$10.81 million from 3Q03 to 4Q03. This rise largely reflected the high level of family *faalavelave* as is usual during the festive season. When compared to the corresponding quarter in 2002, remittances recorded an increase of 5.0%.

The pattern of remittance receipts over the last twenty six quarters is illustrated in Figure

**Table 2.5: GROSS REMITTANCES (\$ Million)**

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
<b>Remittances</b>	147.85	188.06	190.48	54.55	44.01	42.68	46.49	57.3
<b>Remittances as % GDP</b>	18.4	22.2	21.2	24.7	20.4	19.4	20.3	24.6

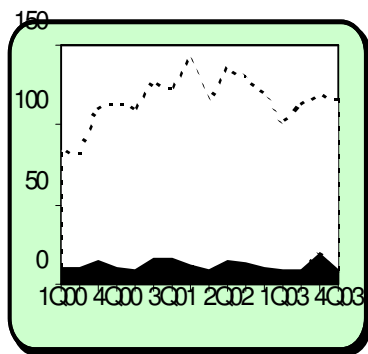
**Source:** Central Bank of Samoa

2.7 and the recent annual and quarterly data is given in Table 2.5.

## 2.2.5

## 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 2.8: QUARTERLY TRADE BALANCE (\$ Million)**

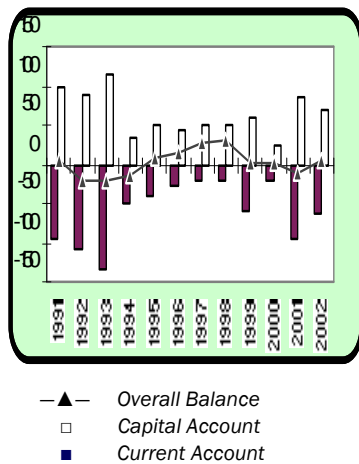
■ Exports  
□ Trade Balance  
--- Imports

The current account deficit dropped to 0.6% of GDP because of the reduced trade deficit in 2003. Although the capital account surplus more than halved, overall BoP surplus increased by \$21.32 million largely as a result of the improvement in the trade account.

For 4Q03, an improved overall balance over 3Q03 resulted from the huge increase in the capital account of \$26.14 million. Likewise over 4Q02, the capital account increase was the main reason behind the \$30.11 million improvement in the overall balance.

A summary of the trade and payments, current and capital account position is given in Table 2.6.

**Figure 2.9: ANNUAL OVERALL BALANCE (\$ Million)**



**Table 2.6: COMPARATIVE TRADE DATA 1999–2002 (\$ Million)**

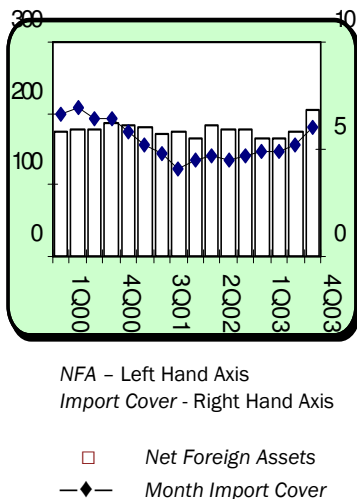
	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
1. EXPORTS (fcb)	52.56	46.25	44.26	10.35	8.52	8.78	18.53	8.45
2. IMPORTS (cif)	448.80	454.23	406.98	109.18	92.43	105.28	100.92	108.35
3. TRADE BALANCE	-396.24	-407.94	-362.7	-98.83	-83.91	-96.50	-82.39	-99.90
4. NET SERVICES	152.9	155.5	166.99	41.98	33.87	42.69	43.75	46.68
5. NET TRANSFERS	147.85	188.06	190.48	54.55	44.01	42.68	46.49	57.30
6. CURRENT ACCOUNT BALANCE	-95.49	-64.38	-5.22	-2.30	-6.03	-11.13	7.85	4.08
7. CAPITAL ACCOUNT (Net)	84.36	68.41	30.57	2.75	-7.94	11.69	0.34	26.48
8. OVERALL BALANCE (Change in NFA)	-11.13	4.08	25.35	0.45	-13.96	0.56	8.19	30.56
9. TRADE BALANCE AS % GDP	-49.4	-48.2	-40.4	-44.7	-38.8	-44.0	-36.0	-42.8
10. CURRENT ACCOUNT BALANCE AS % GDP	-11.9	-7.6	-0.6	-1.0	-2.8	-5.1	3.4	1.7

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

## 2.3

## FOREIGN EXCHANGE RESERVES

**Figure 2.10: NET FOREIGN ASSET (\$ Million) & IMPORT COVER (Months) BY QUARTER**



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.

On a year on year basis, foreign exchange reserves increased by \$25.35 million in December 2003 to total \$204.21 million. Central Bank accounted for \$20.58 million of this increase followed by Commercial Banks with \$4.61 million and the Ministry of Finance with \$0.16 million.

Over September 2003, foreign exchange reserves was up \$30.56 million. This improvement was mainly driven by increases in Central Banks (\$26.17 million) and Commercial Banks (\$5.96 million) foreign holdings whilst foreign assets with the Ministry of Finance registered a decline of \$1.57 million.

The improvement in foreign exchange reserves at end December 2003 which coupled with the huge decline in import levels in 2003 increased net foreign assets import coverage to 6.0 months. At this level it was higher than the 5.2 and 4.7 months coverage at end September 2003 and the same period of 2002 respectively and well above the 4 months target.

**Table 2.7: NET FOREIGN ASSETS (\$ Million) & IMPORT COVER (Months)**

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
Net Foreign Assets	174.83	178.86	204.21	178.86	164.90	165.46	173.65	204.21
Import Cover	4.7	4.7	6.0	4.7	4.9	4.9	5.2	6.0

Source: Central Bank of Samoa



## 2.4

## 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.*

In the full year to December 2003 with Tala appreciated against the USD and YEN and declined in value against the NZD, AUS, EURO and FJD.

Between end September 2003 and end December 2003, the Tala declined in value against

	2002		2003			% Appreciation(+)/Depreciation(-) of TALA between Dec 03 and	
	Sep	Dec	Jun	Sep	Dec	Dec 02	Sep 03
<b>USD</b>	0.2983	0.3109	0.3367	0.3367	0.3600	15.8	6.9
<b>NZD</b>	0.6317	0.5904	0.5731	0.5716	0.5469	-7.4	-4.3
<b>AUD</b>	0.5482	0.5520	0.5009	0.5011	0.4756	-13.7	-5.1
<b>EURO</b>	0.3015	0.2957	0.2929	0.2938	0.2866	-3.1	-2.5
<b>FJD</b>	0.6350	0.6372	0.6323	0.6261	0.6112	-4.1	-2.4
<b>YEN</b>	36.200	36.770	40.313	40.150	38.270	4.1	-4.7

**Source:** Central Bank of Samoa

the NZD, AUD, EURO and FJD and risen against the YEN and USD.

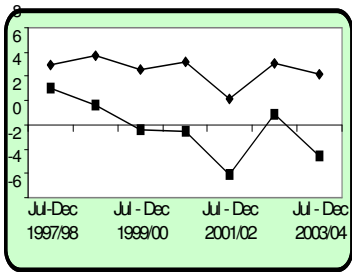
## 2.5 GOVERNMENT FINANCE

## 2.5.1 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.*

The 2003/2004 financial year budgeted an overall deficit of \$14.1 million and a current surplus of \$43.3 million. The overall budgeted deficit is indicative of Government's commitment to the development of the Social sector, through the implementation of infrastructure projects in Education and Health accounting for 62% of loan funded and 29% of grant-funded expenditures.

**Figure 2.11: OVERALL & CURRENT BALANCE AS A PERCENT OF GDP**



—▲— Overall Balance  
—■— Current Balance

The overall fiscal outturn for the first half of financial year 2003/04, was a deficit of \$11.6 million, a further deterioration from a deficit of \$10.2 million in the first quarter. This is equivalent to 2.5% of GDP. At this level the overall fiscal balance was \$4.6 million higher than the pro-rata estimate. The higher deficit was primarily due to on-lending expenditures being \$8.8 million above the appropriated amount. The Current balance remained in surplus at \$19.5 million, although there was a shortfall of \$2.2 million when compared to pro-rata estimates. A shortfall of \$2.3 million in tax and non tax revenue collection contributed to this.

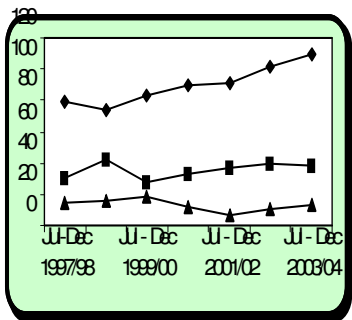
Figure 2.11 shows the downturn in the overall balance in the first six months compared to the surplus balance of \$3.6 million for the same period last financial year.

### Revenue

Total Revenue & Grants received in the first six months of 2003/04 was \$161.9 million, \$2.7 million above the pro rata estimates. This aggregated amount comprises of Tax & Non Tax (receipts) and External Grants contributing 76.2 % and 23.8% respectively.

Tax Revenue collection stood at \$110.1 million, down by \$2.7 million when compared to the pro-rata estimate. With the exception of Income Tax Receipts, all Tax Revenue items declined. Notable shortfalls were seen in Import Excise, Import Duties and VAGST with collection down by \$2.1 million, \$1.1 million and \$1.3 million respectively. The low revenue collected from imports reflects the huge decline in imports during this period. Petroleum Levy, Business License, income from Vehicle Registration and Licenses and Domestic Excise also dropped by \$0.4 million, \$0.3 million, \$0.4 million and \$0.3 million respectively. However, most of the above revenue items which were short of collection are due in the third quarter of the financial year. Net Income Tax collection of \$23.3 million was above pro-rata by \$2.1 million. Stamp Duty was slightly above the expected result by \$0.3 million.

**Figure 2.12: REVENUE BY TYPE (\$ Million)**



—◆— Tax  
—■— External Grants  
—▲— Non - Tax

For non-tax revenue it exceeded pro-rata estimates by \$13.3 million. This figure however included the deferred payment of \$3.5 million that was appropriated in the 2002/03 budget from the Offshore Center.

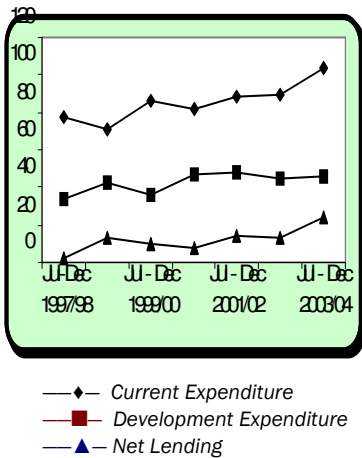
External Grants stood at \$38.5 million for the first half of fiscal year 2003/04 exceeding the pro rata estimate by 14.9%. In comparison with the same period of the previous year, grants declined by \$1.7 million.

Figure 2.12 illustrates Revenue by Type and showed the trend throughout the past 7 years. Tax revenue continued its positive trend since 1998/99 whilst non-tax revenue increased at a moderate rate during this period.

### Expenditure

Total Expenditure and Net Lending for the first six months of 2003/04 was \$173.6 million, an increase of 4.4% or \$7.3 million compared to the pro-rata estimate. When compared to the first six months of the last financial year, overall expenditure increased by 18% (\$26.8 million).

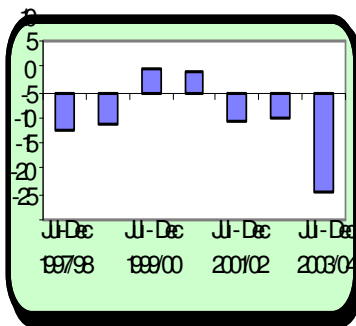
Current expenditure of \$103.9 million was on par with the pro-rata estimate. Looking at the previous 5-year pattern, current expenditure showed a trend growth of 4.8%. This illustrates considerable effort by the government to control its spending levels.

**Figure 2.13: EXPENDITURE BY TYPE (\$ Million)**

Development expenditure comprises of Loan and Grant funded expenditures. This amounted to \$45.5 million in the first half of the fiscal year 2003/04. Aggregated expenditure for the period was 2.8% below the pro rata estimate, equivalent to \$1.3 million. Grant funded expenditure of \$37.7 million (83%) exceeded the pro-rata estimate by \$4.2 million. Loan funded expenditure of \$7.8 million was far below the expected spending for the period. The delay in implementation of Public Sector loan funded projects namely the Education and the Health Infrastructure projects was the principal reason for this drop in expenditure.

On lending expenditure of \$24.2 million on the other hand, registered a marked increase of \$8.8 million compared to pro-rata estimate. When compared to the same period last financial year, on-lending expenditure almost doubled. This marked difference was due primarily to the full payment to Polynesian Airlines of the \$19.6 million appropriated in the budget.

Figure 2.13 illustrates the trend of major Expenditures by Type. Current expenditure has been increasing steadily whilst Development expenditure has remained between the \$45 million and \$50 million range in the last 4 years.

**Figure 2.14: GOVERNMENT POSITION WITH THE BANKING SYSTEM (\$ Million)*****Position with the Financial System***

As a result of the marked increase in on-lending, Government's financial position deteriorated by \$19.8 million during the review period. This was the third consecutive year where Government's position with the financial system had deteriorated. However, the 2003/04 six monthly outturn showed the biggest drawdown by far since the GFS quarterly accounts were compiled. With government being a dominant player in the financial system, this is discouraging in light of its commitment to providing adequate credit for private sector development. It is envisaged however that the banking position of government will improve in the latter half of the financial year, with the bulk payment to Polynesian Airlines already paid out in the first half of the financial year.

**Table 2.9: GOVERNMENT FINANCE 1999/00– Jun 03<sup>a</sup> (\$ Million)**

	Provisional Actual				Budget	Provisional		
	00/01	01/02	02/03	03/04	03/04	Oct-Dec02	Jul-Sep03	Oct-Dec03
<b>Revenues and Grants</b>	<b>262.45</b>	<b>290.8</b>	<b>303.6</b>	<b>318.4</b>		<b>76.4</b>	<b>82.8</b>	<b>79.1</b>
Revenues	197.36	198.7	229.4	251.4		53.6	63.9	59.5
External Grants	65.09	92.1	74.2	67.0		22.8	18.9	19.6
<b>Expenditure</b>	<b>281.67</b>	<b>308.5</b>	<b>309.1</b>	<b>332.4</b>		<b>65.9</b>	<b>93.0</b>	<b>80.5</b>
Current <sup>b</sup>	164.63	183.3	202.2	208.0		37.1	52.5	51.4
Development <sup>c</sup>	103.11	104.2	86.9	93.5		25.0	23.2	22.2
Other (capital & net lending)	13.93	12.3	20.0	30.9		3.8	17.3	6.9
<b>Current Balance</b>	<b>32.72</b>	<b>15.4</b>	<b>27.2</b>	<b>43.3</b>		<b>16.5</b>	<b>11.4</b>	<b>8.1</b>
<b>Overall Balance</b>	<b>-19.23</b>	<b>-17.7</b>	<b>-5.5</b>	<b>-14.1</b>		<b>10.5</b>	<b>-10.2</b>	<b>-1.4</b>
<b>Financing</b>								
Net external borrowing	1.67	11.8	4.7	13.1		0.8	-0.7	-1.5
Domestic	-17.57	-5.9	0.8	1.0		11.2	-10.8	3.0
<b>Overall Balance as % of GDP</b>	<b>-2.5</b>	<b>2.1</b>	<b>-0.6</b>	<b>-1.5</b>		<b>4.8</b>	<b>-4.5</b>	<b>-0.6</b>
<b>Total Expenditure as % of GDP</b>	<b>36.5</b>	<b>37.4</b>	<b>35.5</b>	<b>35.9</b>		<b>29.8</b>	<b>40.7</b>	<b>34.5</b>

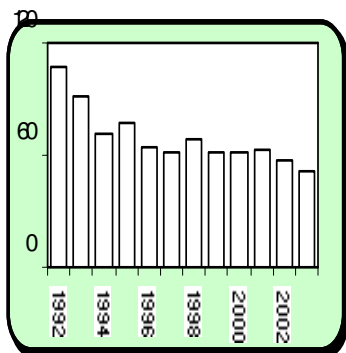
Source: Ministry of Finance estimates

<sup>a/</sup> Provisional Actual 00/01 – 02/03, Budget 2003/04

<sup>b/</sup> Includes domestically financed development plans

<sup>c/</sup> Financed from external grants and loans

**Figure 2.15: OVERALL GOVERNMENT DEBT AS % OF GDP**



## 2.5.2 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*

At end December 2003, official government debt outstanding stood at \$456.10 million, a decline of 4.1% from end September 2003 and 5.2% from end December 2002. This amount is equivalent to approximately 50.8% of GDP.

Multilateral loans had accounted for a share of 92.0% (\$420.25 million) whilst bilateral loans contributed a share of 8.0% (\$35.85 million) of disbursed outstanding debt (DOD).

Total debt servicing was valued at \$3.69 million in December 2003, down by \$0.75 million from end June 2003. Servicing costs as a percent of merchandise exports and total foreign exchange revenues were equivalent to 43.7% and 1.8% respectively.

**Table 2.10: EXTERNAL DEBT (\$ Million)**

Year End	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
<b>Total External Debt</b>	503.20	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Official Government Debt	500.33	481.18	456.10	481.18	476.86	463.08	475.51	456.10
Official Government Debt as % of GDP	62.4	56.8	50.8	56.8	53.1	51.6	53.0	50.8

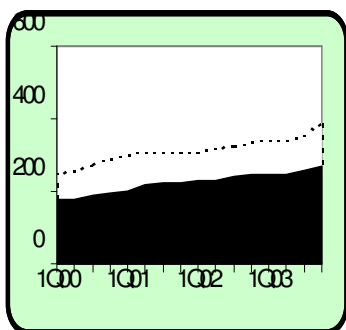
**Source:** Central Bank of Samoa and Ministry of Finance

## 2.6 MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

### 2.6.1 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 2.16: NARROW MONEY, QUASI MONEY & TOTAL MONEY SUPPLY BY QUARTER (\$ Million)**



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

#### Money Supply

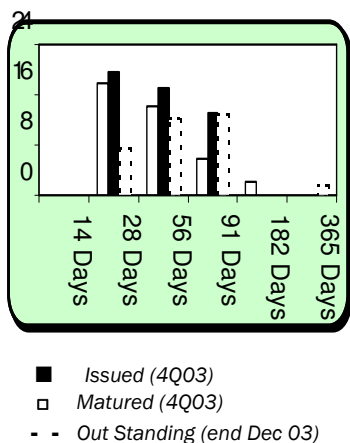
Money supply increased by 14% between December 2002 and December 2003, with all components of the money supply increasing as shown in Table 2.11.

In 4Q03, money supply had risen by \$30.08 million from September 2003, reflecting increases in all components of the money supply except Savings deposits which was down by \$4.74 million.

#### Net Foreign Assets and Net Domestic Assets

In the twelve months to December 2003, net foreign assets and net domestic assets had risen by \$25.35 million and \$21.98 million respectively. The rise in net foreign assets was fueled by the improvement in the trade account and the rise in net domestic assets was strongly underpinned by the increase in credit to the private sector.

**Figure 2:17** VALUE OF CENTRAL BANK SECURITIES (\$ Million)



Over 3Q03, net foreign assets had increased by \$30.56 million whilst net domestic assets recorded a downward trend of \$0.48 million.

### CBS Securities

The monetary policy stance in 2003 was accommodative, with securities issued in 2003 down by \$3.71 million over the 2002 level. The decline was largely in short term security bills, namely 182, 91 and 14 day bills.

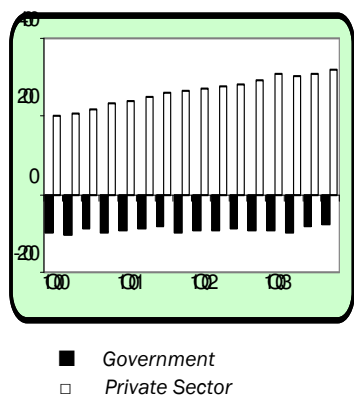
In 4Q03 however, Central Bank Securities issued increased by \$23.17 million over 3Q03 and by \$10.97 million over 4Q02.

## 2.6.2

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

**Figure 2.18:** GOVERNMENT & PRIVATE SECTOR DOMESTIC CREDIT BY QUARTERS



Total domestic credit outstanding recorded an increase of \$35.06 million from December 2002. Credit to the private sector increased and government also drew-down its deposits with the banking system during this period. Claims on non-financial public enterprises and non-monetary financial institutions however recorded a decline of \$3.26 million.

In 4Q03, the total amount of domestic credit outstanding was up by \$5.27 million from the third quarter of 2003, underpinned by an increase in credit to the private sector along with the draw-down of government's net position.

**Table 2.11:** QUARTERLY MONETARY SURVEY (\$ Million)

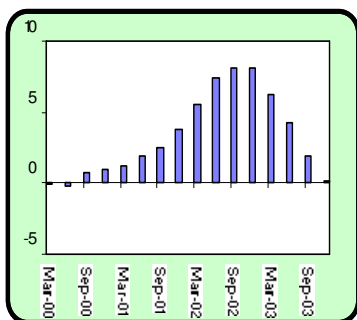
									% Change in Dec 03 over	
	2001	2002	2003	Dec	Mar	Jun	Sep	Dec	Dec 02	Sep 03
<b>Net Foreign Assets</b>	174.83	178.86	204.21	178.86	164.9	165.46	173.65	204.21	14.2	17.6
<b>Net Domestic Assets</b>	132.79	160.18	182.16	160.18	176.90	174.97	182.64	182.16	13.7	-0.3
<b>Money Supply (M2)</b>	307.62	339.04	386.37	339.04	341.80	340.43	356.29	386.37	14.0	8.4
<b>Money (M1)</b>	86.84	95.61	118.21	95.61	94.44	93.83	101.56	118.21	23.6	16.4
Currencies outside banks	29.97	32.57	35.73	32.57	25.56	26.21	26.79	35.73	9.7	33.4
Demand deposit	56.87	63.04	82.48	63.04	68.88	67.62	74.77	82.48	30.8	10.3
<b>Quasi Money</b>	220.78	243.43	268.16	243.43	247.36	246.60	254.73	268.16	10.2	5.3
Savings deposits	40.25	44.87	45.56	44.87	44.58	45.51	50.30	45.56	1.5	-9.4
Time deposit	160.54	184.45	206.99	184.45	183.15	184.76	193.45	206.99	12.2	7.0
FCDR <sup>b</sup>	19.99	14.11	15.61	14.11	19.63	16.33	10.98	15.61	10.9	42.5
<b>Domestic Credit</b>	186.68	219.02	254.08	219.02	232.23	237.11	248.81	254.08	16.0	2.1
Government (net)	-96.68	-94.27	-79.44	-94.27	-94.67	-99.21	-83.00	-79.44	-15.7	-4.3
Private sector	266.59	294.70	318.47	294.70	307.27	306.10	310.99	318.47	8.1	2.4
Claims <sup>a</sup>	17.72	18.59	15.05	18.59	19.63	30.22	20.82	15.05	-19.0	-27.7

Source: Central Bank of Samoa

<sup>a/</sup> Include claims on non-financial public enterprises and non-monetary financial institutions

<sup>b/</sup> Foreign Currency Deposits of Residents

**Figure 2.19: CPI ALL GROUPS ANNUAL AVERAGE RATE END QUARTER (%)**



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

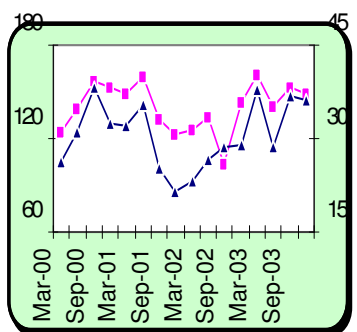
The annual average rate of inflation in December 2003 was 0.1 percent, compared to 8.1% in December 2002. This decline was largely driven by the local component of the CPI, namely falling food prices. Over 3Q03, it was down by 1.8 percentage points with falling local food prices and local alcohol/tobacco prices influencing the drop in the annual average rate of inflation.

**Table 2.12: ANNUAL INFLATION (%)**

	2001	2002	2003	4Q02	1Q03	2Q03	3Q03	4Q03
<b>All Item Index</b>	<b>3.8</b>	<b>8.1</b>	<b>0.1</b>	<b>8.1</b>	<b>6.3</b>	<b>4.3</b>	<b>1.9</b>	<b>0.1</b>
Imported Good Index	3.7	1.3	-0.1	1.3	0.3	0.0	0.1	-0.1
Local Good Index	4.0	13.8	0.3	13.8	11.4	7.8	3.3	0.3

Source: Ministry of Finance

**Figure 2.20: END QUARTER PETROLEUM PRICES**



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

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

### 2.7.1 Petroleum Prices

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

In December 2003, international prices (US currency) for petrol, kerosene and diesel were 36.23 cents, 35.24 cents and 33.54 cents per litre respectively. Kerosene increased by 2.82 cents and diesel by 2.21 cents whilst petrol was down by 0.55 cents from September 2003. Domestic retail prices for kerosene at 131.6 sene was up 3.6 sene, diesel at 142.2 sene increased by 2.4 sene whilst petrol declined by 3.8 sene to stand at 149.3 sene.

When compared to the same period of 2002, international prices for petrol, kerosene and diesel had recorded increases of 7.27 cents, 4.39 cents and 2.23 cents respectively. Domestic retail prices for petrol mirrored the increase in international prices by 6.7 sene whilst kerosene and diesel showed declines of 0.6 sene and 3.9 sene respectively.

**Table 2.13: END QUARTERLY PETROLEUM PRICES**

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

	2002		2003							
	December		March		June		September		December	
	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price	Retail	FOB Price
<b>Petrol</b>	142.6	28.96	160.3	37.76	140.2	28.70	153.1	36.78	149.3	36.23
<b>Kerosene</b>	132.2	30.85	144.1	37.29	125.9	29.06	128.0	32.42	131.6	35.24
<b>Diesel</b>	146.1	31.31	155.2	36.32	139.9	29.29	139.8	31.33	142.2	33.54

Source: Ministry of Finance

### 3. OUTLOOK

On 5 January 2004, Samoa's two main islands were hit by tropical cyclone Heta, which generated winds up to 170 kilometers per hour. The agriculture sector suffered the most damage, with consequent shortages of local food supplies and increased reliance on imported food. There was minor damage to physical infrastructure. This external event is expected to cause a decline in agricultural production in 2004.

For the calendar year 2004, economic growth in the range of 2-3% is expected, provided the economy is not subject to further and substantial external shocks. In the primary sector, agriculture's decline is likely to be matched by a further contraction in fishing. In the industry sector, construction will register strong growth as a number of private and public sector projects are begun or completed, while manufacturing is expected to grow at a modest rate. In the services sector, modest growth in commerce will be underpinned by some growth in private remittance flows and tourism, with continued strength in the Australian and New Zealand economies. Transport and communications, finance and business services and public administration are all anticipated to grow at modest rates of about 2%. Inflation is forecast to accelerate to over 3.0% as import prices, especially of petroleum, rise and local food and construction goods prices increase.