Fax: (+685) 21-312
E-mail: eppd@mof.gov.ws
Website: www.mof.gov.ws

MINISTRY OF FINANCE

ECONOMIC STATEMENT TO SUPPORT THE 2007/08 BUDGET

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Please note that the Samoan currency is used unless otherwise stated

Contact: Economic Policy and Planning Division, Ministry of Finance, Apia, SAMOA

Telephone: (+685) 34-333

1. EXECUTIVE SUMMARY

1.1 2006 Overview

The key features of **economic performance in 2006** are as follows:

- Overall **economic growth** as measured by the real Gross Domestic Product (GDP) registered a 2.6% in 2006, attributed mostly to the increase in retailing and wholesaling and Public Administration activities; (see section 2)

- **Export** revenues valued at $28.75 million in 2006, dropped by 11.5% largely due to declines in nonu products, beer and coconut oil exports despite the offsetting effect of fish exports; (see section 3.1)

- **Imports** totaled $596.02 million, an increase of 17.4% over the previous year. This increase was triggered mainly by increases in Government imports, private sector imports and petroleum products; (see section 3.2)

- The **trade deficit** expanded to $567.27 million, an increase of 19.4% from the previous year deficit. **Net Services** and **net transfers** recorded increases of $72.07 million and $10.92 million respectively. This results to a **current account** deficit widening to $73.06 million in 2006 from a current account deficit of $63.99 million in 2005; (see section 3.3 and 3.4)

- The drop in the **capital account** surplus by $11.82 million resulted in a decline of $20.89 million in the overall **balance of payment** surplus to stand at $13.13 million in 2006; (see section 3.4)

- **Net foreign reserves** amounted to $215.02 million at the end of 2006, a decline of 3.2% over 2005 and equivalent to 4.0 months of import cover; (see section 3.4)

- The **Tala** depreciated against all currencies in the basket whilst increased in value against the USD and YEN; (see section 4)

- The **2005/06 budget out-turn** resulted in an overall deficit of $4.53 million (0.5% of GDP), compared to the budgeted deficit of $44.30 million. The **first half of the fiscal year 2006/07** showed an overall deficit of $13.30 million, against a pro rata estimated budget deficit of $7.53 million. A current surplus of $9.58 million achieved in Jul-Dec 2006 was lower than the pro rata of $11.63 million anticipated; (see section 5.1)

- **Official government debt** outstanding was recorded at $448.38 million at the end of 2006, a decline of $13.21 million from the end of 2005; (see section 5.2)

- **Money supply** totalled $550.56 million, an increase of 13.7% over 2005. This accelerated rise was due mainly to the increase in Quasi Money followed by an increase in Narrow money; (see section 6.1)

- **Domestic credit to the private sector** amounted to $539.94 million, a rise of 22.2% over 2005. Government net deposits with the domestic financial system declined by $3.92 million; (see section 6.2)

- The annual average **inflation rate** at end of December 2006 stood at 3.8 percent, 2.0 percentage points higher than the rate at end of December 2005; (see section 7.1)

- The **tourism** industry increased strongly in 2006, a 9.1% increase in tourism earnings and a 12.0% increase in tourist arrivals. This strong growth has positive contributions to other sectors of the economy. (see section 8)

After an extremely high performance of 5.2% in 2005, the economy registered the second lowest performance in the last 5 years of 2.6% in 2006. Despite this result, the last half of 2006 showed signs of potential growth in all industries. This 2006 economic growth was fuelled mostly by the Commerce sector with 1.1 percentage points followed by the Public Administration sector with 1.0 percentage points. Commerce continues to maintain its upward movement and also identified as the largest industry. Increases in the level of remittances, tourism earnings, Salary & Wage and credit to the private sector strongly contributed to the rise in the Commerce sector. Agriculture shows fluctuation over the past five years as a result of unsettled weather (Cyclone Heta) and unpredictable commodity prices. The Fishing industry has been declining slowly over the past few years with a marginal drop of 0.4% over 2005. Other Manufacturing industry remains at a declining state. In 2006, the industry dropped by 9.8% after a 6.2% decline in 2005 mainly driven by the drop in the Yazaki exports. The growth in the Construction industry has largely been driven by construction works for the South Pacific Games. Transport and Communication grew by 3.1% over 2005 and contributed 0.4 percentage points to the overall growth in 2006. The positive contribution by the industry reflected the opening of Digicel which strongly underpinned growth for the industry. The continuing expansion of banking & professional services, money transfers and small financial services largely accelerated growth for the Finance and Business Services industry.

1.2 Economic Outlook

In the near term, economic activity is expected to remain strong in 2007 and 2008, taking real GDP growth at around 3 – 4 percent. Government has an annual growth rate target, which endeavours to enhance private sector development and is expected to translate the benefits into all sectors of the Samoan economy. The outlook is conditioned on continued growth in construction and tourism industries as well as the level of productivity in the Public Administration sector. Construction activities largely appear to be holding up in preparation for the South Pacific Games and Hotel developments. The expansion of the tourism industry will continue to have positive contributions on other sectors of the economy.

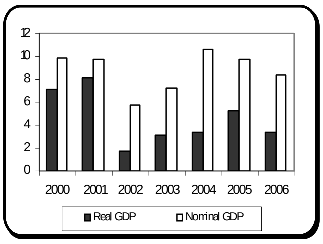
Despite spending pressures, the government has managed to preserve macroeconomic stability with policies intended to support and sustain the country's growth.

Exports will marginally increase as fishing exports improves and imports are expected to slowdown from its accelerated growth in the last two years. Moreover, continued inflow of private remittances and temporary boost in tourist arrivals and receipts due to the South Pacific Games will ease the pressure on the overall balance of payments. The tightening of monetary policy continued as more construction works and other costs required for the South Pacific Games. The inflation rate is estimated to be approximately 3 – 5% as the effects of VAGST and excise rates increases have been dissipated and realised, therefore it would be around the same rate as the previous year.

2. GROSS DOMESTIC PRODUCT

2.1 *Aggregate GDP*

Figure 1: GDP GROWTH AT MARKET PRICES (%)



Following an extremely high economic growth of 5.2% in 2005, economic activities slowed down to 2.6% in 2006. Gross Domestic Product at **current market prices** for the year was estimated at $1.25 billion, an increase of 8.5% compared to the nominal GDP in 2005. At this level, GDP per capita was $6,976 tala (US$2593).

Gross Domestic Product in constant 2002 prices increased by 2.6% in 2006, following the best performance in 2005 of the last 5 years of 5.2 percent. Real GDP approached $1.02 billion in 2006, following revised growth rates of 5.2%, 3.4% and 3.1% for 2005, 2004 and 2003, respectively. **Monetary Sector** production accounted for 87.4% of total production in 2006, growing by 3.2% from the 2005 level. Real output in the **Non-Monetary Sector**, principally subsistence agriculture, declined by 1.6% over the 2005 level.

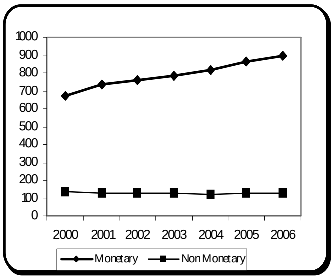
In 2006, Commerce contributed the most to overall growth with a share of 1.1 percentage points, which contributed the largest share of GDP (19.9% in 2006). The strong growth in Commerce was supported mainly through the increase of public service general salary and wages, increase of remittances by 25.0% as well as the rise of credit to the private sector by 22.2%.

The proliferation of wholesalers and retail stores supported through private sector credit and the Small Business Development Project co-funded by the Government and the Asian Development Bank, boosted this growth.

Other industries making significant contributions were Public Administration, Finance and Business Services, Transport and Communication, Construction and Hotels and Restaurants contributing 1.0%, 0.8%, 0.4%, 0.3% and 0.3% respectively. All other industries made positive contributions to growth with the exception of Other Manufacturing, Agriculture and Food and Beverage Manufacturing, with negative contributions of 1.0%, 0.5% and 0.2% respectively over the previous year.

2.2 Industry Analysis

Figure 2: REAL MONETARY AND NON-MONETARY GDP ($ Million)

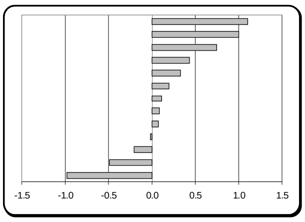


***Primary Sector:** Agriculture and Fisheries*

Agriculture production recorded a negative growth of -6.6% in 2006, after a notable achievement in 2005 that registered real growth of 15.5% compared to 2004. Agriculture industry real value added generated in 2006 stood at $68.3 million, which translated into a negative 0.5% contribution to overall growth. The industry's declining performance was somewhat indicative of its vulnerability to bad weather conditions as were experienced throughout 2006. The quantity of agricultural produce supplied to the Fugalei Market declined by 18.6% when compared to 2005.

Over the past 5 years, the **Fishing** industry experienced a recession, with an average annual negative growth of 5.6%, primarily due to bad weather conditions and the apparent out-migration of the tuna species from Samoa's Exclusive Economic Zone. During 2006 the industry has shown recovery with increases of 4.9% and 4.2% in the last two quarters when compared to the corresponding periods in 2005. This favourable result offset the low production in the March quarter, which declined by 9.7% compared to March 2005. In 2006, the Fishing industry accumulated a real value added of $48.3 million, a slight decline of 0.4% when compared to the previous year.

Figure 3: INDUSTRY CONTRIBUTION TO REAL GDP GROWTH 2006 (%)



Labelled from top to bottom

Commerce:	*1.1*
Public Administration:	*1.0*
Finance and Businesses	*0.8*
Transport, Communication:	*0.4*
Construction:	*0.3*
Hotels & Restaurants:	*0.3*
Electricity and water:	*0.2*
Personal and other services:	*0.1*
Ownership of dwellings:	*0.1*
Fishing:	*0.0*
Food and beverage manufacturing:	*-0.2*
Agriculture:	*-0.5*
Other Manufacturing:	*-1.0*

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

Food and Beverage Manufacturing value added, at constant 2002 prices, was $31.2 million, a reduction of 6.3% when compared to 2005 with a negative contribution of -0.2 percentage points to overall growth. This poor performance came after very strong growth of 9.5% in 2005. The declining performance was consistent with the low production in some of the export processing companies, namely the nonu juice, nonu fruit and the Vailima beer that registered declines of 52.4%, 43.6% and 27.9%, respectively, in their export values in 2006 compared to 2005.

Other Manufacturing slipped from the third largest industry to the fifth behind Commerce, Transport and Communication Finance Business Services and Public Administration in 2006, with a share of 8.9% in real terms. During the period under review, Other Manufacturing real value added again declined by 9.8%. This follows declines of 6.8% and 6.2% in 2004 and 2005 respectively. The continuous weak performance by the sector was primarily due to a slowdown in Yazaki's operations as evidenced by the 12.9% decline in their exports during 2006.

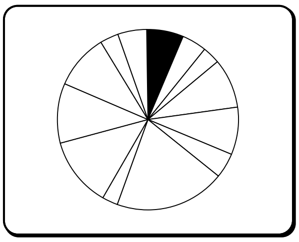
Construction activities in 2006 increased to an accumulated value added of $87.7 million at constant 2002 prices. At that level, it registered real growth of 3.9% compared to 2005, following notable achievements in 2004 and 2005 with increases of 35.6% and 13.7%, respectively. The growth in the industry was due mainly to construction works in preparation for the South Pacific Games.

In 2006, the **Electricity and Water Industry** generated a value added of $46.7 million in real terms, an increase of 4.4%, following the 3.7% growth in 2005. The outturn was expected considering the increasing demand for electricity for developments in most of the sectors in the economy, including ongoing construction works and the considerable number of new connections around the country and in particular the new settlement areas including Vaitele-Fou. Ongoing infrastructural and Institutional Strengthening works to improve water management and water quality throughout Samoa also assisted this growth.

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

Commerce remained the largest industry in the economy with a share of GDP of 19.9%. During 2006, the industry generated a total value added of $202.5 million in constant 2002 prices, an increase of 5.4% when compared to 2005. Commerce was the largest contributor to growth, with a contribution of 1.1 percentage points. This strong growth in Commerce was fuelled by the increased incomes received from the general salary and wage increase, the increase in remittances of 25% and the increase in the credit to the private sector.

Figure 4: INDUSTRY SHARE OF TOTAL REAL GDP IN 2006 (%)



Labelled clockwise commencing from the shaded area

Agriculture:	*6.7*
Fishing:	*4.8*
Food and Beverages manufacturing:	*3.1*
Other manufacturing:	*8.9*
Construction	*8.6*
Electricity and water:	*4.6*
Commerce:	*19.9*
Hotels, restaurants:	*2.9*
Transport, Communication:	*12.9*
Public Administration:	*9.9*
Finance and business services:	*10.1*
Ownership of dwellings:	*3.5*
Personal and other services:	*5.4*

The **Transport and Communication** industry remained the second largest industry behind Commerce, with a share of 12.9 percent. During 2006, the industry generated a total value added of $130.8 million, an increase of 3.1% compared to the corresponding year 2005. The expansion in coverage and continuous utilization of modern telecommunication mediums through the launching of Digicel enhanced growth in Communication. Improved infrastructure supporting Sea transport and the increased demand for both scheduled and non-scheduled land transport for ongoing public sector investment projects, and continuous increases in tourism related activities, complemented the growth in the industry.

The **Finance and Business Services** industry is considered the most consistent and fastest growing industry in the Samoan economy, recording an average annual growth rate in the past 5 years of 8.4 percent. In 2006, this industry generated a total value added in constant 2002 prices of $102.7 million, rose by 8.3% compared to 2005, and contributed 0.8 percentage points to overall GDP growth. This prominent growth is indicative of the emerging demand for credit in the banking system, complemented by the high value added professional services such as legal and accountancy firms, business management consultancy, architectural and engineering, real estate and many other professional services.

Personal and Other Services has continued to contribute significantly to the Samoan economy as a result of economic structural changes, together with the change in peoples' lifestyle. In constant 2002 prices, the Personal and Other Services industry grew by 1.6%, accounting for 5.4% of real GDP and contributing 0.1 percentage points to overall growth in the year 2006. This industry has grown at an annual average rate of 1.9% over the past 5 years.

Hotels and Restaurants economic activities improved further in 2006 following a marked increase of 9.7% in 2005, which was driven by social and cultural activities such as the official opening of the Latter Days Saints (LDS) Temple, church conferences, regional meetings and the opening of the Aggie Grey's Resort and Spa at Mulifanua.

The industry, in constant 2002 prices, generated a total value added of $29.7 million, up by 12.3% when compared to the previous year. Despite being small with a share of only 2.7%, Hotels and Restaurants dynamism is seen as having the potential to generate employment benefits for the rural areas, as well generating benefits that could filter down to other sectors of the economy, and the community at large.

Government Sector

Latest estimates for the **Public Administration** value added showed improvement in the industry to become the fourth largest and the second highest contributor to overall growth of 1.0 percentage points. Value added generated by the industry in 2006 was $104.4 million, an increase of 21.5% compared to 2005.

Table 1: REAL GDP 2002 – 2006 ($ Million)

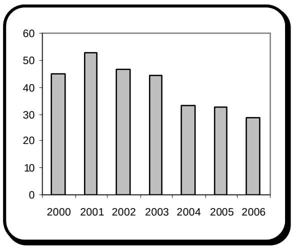
At constant 2002 prices	2002	2003	2004	2005	2006	% Share 2005	% Share 2006	% Change over 2005
Agriculture	62.05	67.52	63.30	73.13	68.28	7.4	6.7	-6.6
Fishing	67.71	57.18	52.78	48.50	48.33	4.9	4.8	-0.4
Food & Beverages Manufacturing	29.65	30.17	30.42	33.30	31.21	3.4	3.1	-6.3
Other Manufacturing	107.65	114.34	106.61	100.00	90.24	10.1	8.9	-9.8
Construction	53.75	54.78	74.28	84.45	87.74	8.5	8.6	3.9
Electricity and Water	42.10	42.16	43.09	44.68	46.67	4.5	4.6	4.4
Commerce	176.26	177.77	182.13	192.04	202.48	19.4	19.9	5.4
Hotels, Restaurant	20.68	23.47	24.15	26.49	29.75	2.7	2.7	12.3
Transport, Communication	104.64	113.26	120.84	126.90	130.82	12.8	12.9	3.1
Public Administration	71.01	75.01	78.89	90.45	100.52	9.1	9.9	11.1
Finance & Business Services	76.29	82.74	90.45	94.79	102.70	9.6	10.1	8.3
Less: Enterprise share of FISIM	-10.20	-10.94	-11.59	-12.04	-12.29	-1.2	-1.2	2.1
Ownership of Dwellings	33.20	33.87	34.55	35.25	35.96	3.6	3.5	2.0
Personal & Other Services	50.20	51.24	53.37	53.90	54.77	5.4	5.4	1.6
Value added 2002 market prices	**885.00**	**912.56**	**943.26**	**991.84**	**1017.17**	100.0	100.0	2.6
Implicit price deflator:	100.0	104.0	111.3	116.1	122.8			5.7
Selected measures of production:								
Non-monetary	124.80	125.85	123.95	129.87	127.84	13.1	13.0	-1.6
Monetary – total	760.20	786.72	819.30	861.97	887.16	86.9	87.0	3.2
Monetary – restricted scope	681.18	701.71	743.99	794.72	829.03	80.1	80.8	4.6
Memo items:								
Nominal GDP (current prices)	884.99	949.23	1,049.41	1,151.71	1,248.75	na	na	8.43
GDP per capita	5205	5583	6173	6775	6976	na	na	2.97

Source: Ministry of Finance estimates
na - not applicable

3. EXTERNAL ACCOUNT

3.1 Exports

Figure 5: TOTAL EXPORTS ($ Million)



In 2006, total export earnings were valued at $28.75 million registering a drop of $3.74 million when compared to 2005. The decline reflected decreases in most of the export commodities. On the contrary, fish exports registered an incredible surge of $3.87 million (or 33.4%) followed by a slight increase of $0.10 million in coconut cream. The remarkable rise in fish exports was the result of an end of period favourable weather conditions for the tuna species. Nonu products recorded a sharp decline of $5.01 million resulting from the drop in demand as well as competition from Indonesia, Philippines, China, South American countries and the Pacific neighbouring countries. The significant drop in coconut oil exports by $1.15 million had largely been driven by the closure of the Coconut Oil Product factory (COPs) at Vaitele. Beer exports also declined by $1.35 million as a result of the drop in overseas demand. Garment registered no export due to the closure of the Pacific Cashmere factory.

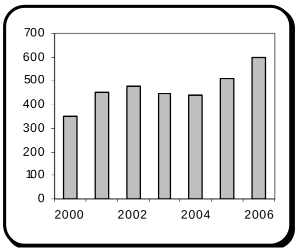
Table 2: EXPORT COMMODITIES 2002 – 2006 ($ Million)

	2002	2003	2004	2005	2006	% Share 2005	% Share 2006	% Change over 2005
Fish	29.03	15.76	13.52	11.58	15.45	35.6	53.7	33.4
Coconut cream	3.11	3.01	2.56	2.28	2.39	7.0	8.3	4.8
Nonu fruit	0.45	0.51	1.47	1.54	0.87	4.7	3.0	-43.5
Nonu juice	0.91	2.04	4.69	8.29	3.95	25.5	13.7	-52.4
Beer	3.92	3.81	4.34	4.83	3.48	14.9	12.1	-28.0
Taro	1.01	1.31	1.97	0.85	0.59	2.6	2.1	-30.6
Coconut Oil	0.22	1.90	0.74	1.20	0.05	3.7	0.2	-95.8
Garments	4.45	13.32	1.98	0.35	0.00	1.1	0.0	-100.0
Others	3.19	2.61	1.86	1.57	1.97	4.8	6.9	26.3
TOTAL	46.28	44.27	33.13	32.49	28.75	100.0	100.0	-11.5

Source: Central Bank of Samoa

3.2 Imports

Figure 6: TOTAL IMPORTS ($ Million)



In the twelve months to December 2006, total imports stood at $596.02 million, an increase of $88.31 million or 17.39% over the previous year. This was largely a result of an increase in non-petroleum private sector imports of $69.36 million. Government imports as well as Petroleum imports also increased by $11.24 million and $7.70 million respectively. The high level of imports in 2006 clearly exhibits the increase in financial operations, construction and commerce activities.

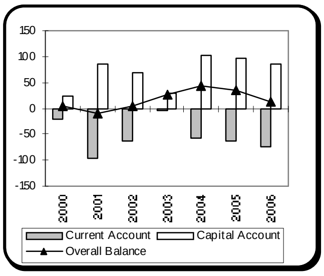
Table 3: IMPORT COMPONENTS 2002 – 2006 ($ Million)

	2002	2003	2004	2005	2006	% Share 2005	% Share 2006	% Change over 2005
Government	11.29	7.54	1.77	4.43	15.67	0.7	2.6	253.7
Petroleum	54.88	56.91	78.02	94.99	102.69	15.6	17.2	8.1
Other Products	410.83	378.97	362.11	408.30	477.66	83.6	80.1	17.0
TOTAL	477.00	443.42	441.89(a)	507.71(a)	596.02 (a)	100.0	100.0	17.4

Source: Central Bank of Samoa
(a) CBS revisions

3.3 Net Income and Services and Net Private Transfers

Figure 7: BALANCE OF PAYMENTS ACCOUNT ($ Million)



Net services and income estimated a total value of $206.67 million for the year 2006, an increase of $72.07 million from the previous year. **Net private transfers** increased in 2005 by 3.9% to stand at $287.54 million.

3.4 Balance of Payments and Foreign Exchange Reserves

With import payments increasing by $88.31 million and export revenue decreasing by $3.75 million, the merchandise **trade deficit** continued to rise by $92.06 million in 2006 from the previous year. The **current account** deficit showed expansion of $9.07 million in 2006 despite the increases in net services and net transfers of $72.07 million and $10.92 million respectively during this period. The drop in the **capital account** by $11.82 million in 2006 resulted in a decline of $20.89 million in the overall balance of payment throughout this period.

On a year on year basis, **foreign exchange reserves** decreased by $6.80 million to stand at $215.02 million at end December 2006. This decline was largely supported by a drop of

$11.95 million in Central Bank foreign holdings whilst Ministry of Finance and Commercial Banks holdings recorded upward trends of $2.48 million and $2.67 million respectively.

Net foreign assets were sufficient to cover 4.0 months of imports at end December 2006 compared to 5.1 months at end December 2005.

Table 4: COMPARATIVE TRADE DATA 2002– 2006* ($ Million)

	2002	2003	2004	2005	2006
1. EXPORTS (fob)	46.28	44.27	33.13	32.49	28.75
2. IMPORTS (cif)	477.00	443.42	441.89	507.71	596.02
3. TRADE BALANCE	**-430.72**	**-399.15**	**-408.76**	**-475.22**	**-567.27**
4. NET SERVICES	155.5	167.21	139.71	134.60	206.67
5. NET TRANSFERS	188.06	190.48	210.48	276.62	287.54
6. CURRENT ACCOUNT BALANCE	**-87.16**	**-41.46**	**-58.57**	**-64.00**	**-73.06**
7. CAPITAL ACCOUNT (Net)	**68.41**	**30.35**	**101.47**	**98.01**	**86.19**
8. OVERALL BALANCE*	**-18.75**	**-11.11**	**42.90**	**34.01**	**13.13**
9. TRADE BALANCE AS % GDP	-48.7	-42.0	-39.0	-41.3	-45.4
10. CURRENT ACCOUNT BALANCE AS % GDP	-9.8	-4.4	-5.6	-5.6	-5.9

*From 2004 shifted to the BOP Manual 5, the balance of payments surplus/deficit is now defined as the change in official gross reserve assets excluding commercial bank reserves

4. EXCHANGE RATES

At the end of December 2006, the Tala depreciated against all the currencies with the exception of USD and YEN over the comparable 2005 period.

Table 5: EXCHANGE RATES (Foreign Currency per Tala: end Dec mid-rates)

	2002	2003	2004	2005	2006	% (+) / (-) over Dec 05
USD	0.3109	0.3600	0.3741	0.3618	0.3724	2.9
NZD	0.5904	0.5493	0.5221	0.5317	0.5285	-0.6
AUD	0.5520	0.4781	0.4799	0.4944	0.4720	-4.5
EURO	0.2957	0.2862	0.2766	0.3064	0.2822	-7.9
FJD	0.6372	0.6199	0.6155	0.6312	0.6197	-1.8
YEN	36.770	38.6599	38.4219	42.7753	44.3177	8.7

Source: Central Bank of Samoa

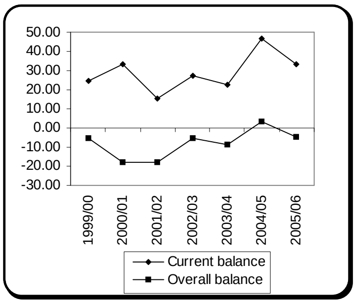
5. GOVERNMENT'S FISCAL POSITION

5.1 Government Finance Statistics

2005/06 Budget Outturn

The **Budget** for fiscal year **2005/2006** anticipated an overall deficit of $44.3 million, equivalent to 4.3% of GDP and a current surplus of $13.5 million or 1.3% of GDP.

Figure 8: OVERALL AND CURRENT BALANCE ($ Million)



During the financial year 2005/06, fiscal operations of Government improved with the overall balance recording a deficit of $4.53 million, almost $40 million below budget estimates and equivalent to 0.4% of GDP. At the current level, a surplus of $33.5 million or 2.8% of GDP was achieved, almost $20 million more than the budgeted estimate for the year.

Total Revenue and Grants collected during the 2005/06 fiscal year amounted to $387.19 million, an increase of $29.08 million when compared to the budgeted amount. This comprised of $315.37 million (81%) of current receipts and $71.82 million (19%) of grants both cash and commodity aid.

Figure 9: GOVERNMENT REVENUE BY TYPE ($ Million)

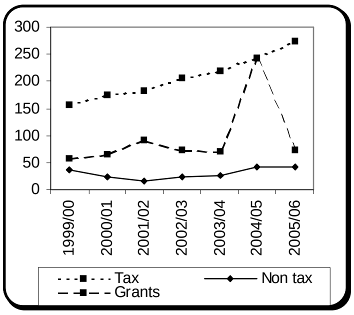


Figure 10: GOVERNMENT EXPENDITURE BY TYPE ($ Million)

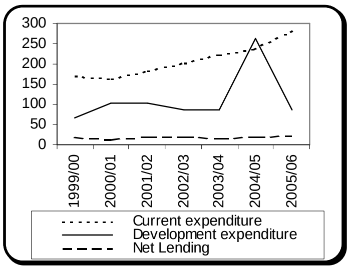


Figure 11: GOVERNMENT EXPENDITURE BY SECTOR ($ Million)

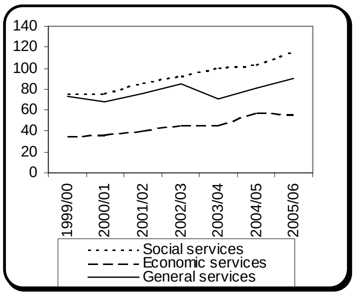
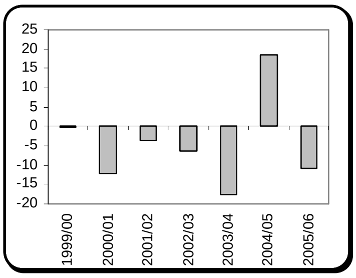


Figure 12: CHANGE IN GOVERNMENT'S BANKING POSITION ($ Million)



Tax Revenue at $273.14 million exceeded the budget estimate of $249.68 million by $23.46 million, or 9.4%. This resulted from net increases in some of the major revenue items like Income tax by $4.14 million, International Trade by $2.45 million, VAGST on Imports by $17.17 million, Domestic Excise by $4.84 million and Other Taxes by $0.4 million. Import Excise collected was however short by $0.31 million when compared to the budget amount.

Property and Investment Income and Cost Recoveries were the two main contributors to the increase of $5.62 million in **Non Tax Revenue** compared to budget estimates with increases of $6.77 million and $0.34 million respectively.

Tax revenue continued to show positive results with great improvements in compliance and continued growth in the economy as a whole. Further consolidation of revenue in the next fiscal year is expected to generate more revenue and ease the pressure on the South Pacific Games expenditure commitment. Non-tax revenue also showed great potential with government using a cost recovery user pay approach for most of its services rendered.

Aid and Grant was on par compared to budget figures but was lower compared to previous financial year numbers. These funds were used on development projects such as the Institutional Strengthening for the Ministry of Police and Prison and the Immigration Division of the Ministry of the Prime Minister and Cabinet and other public sector development projects such as the Sports facilities in Tuanaimato, the Polytechnic Campus and the fisheries wharf and office building.

Total expenditure and Net Lending for fiscal year 2005/06 stood at $391.72 million. This comprised of current expenditure of 72.0%, development expenditure of 22.0% and net lending of 6.0%. At this level it was 2.7% below the budgeted estimate and 24.9% lower when compared to the previous financial year results.

Current expenditure at $281.9 million was $9.1 million more than the budget estimate, reflecting government's continuous commitment to Education, Health, Infrastructure Development and General Administration. These sectors accounted for 19.6%, 16.8%, 10.5% and 24.6% of the total current expenditure respectively.

Development expenditure with an aggregated amount of $86.1 million was $18.6 million below the pro rata for fiscal year 2005/06. This outturn was primarily due to some of the loan funded development projects being delayed. These development projects included the Sanitation and Drainage project and the Samoa Infrastructure Asset Management II to name a few.

Net Lending was $1.3 million below the budgeted estimate. This indicated an improvement in on-lending repayments from government corporations.

Consistent with the Government's priorities as stipulated in the SDS 2005 – 2007, **social services** expenditure recorded an increase of 12.5%, that being largely due to the health expenditure which rose by $12.2 million more than the budget. This increase was an adjustment made to finance the re-alignment of the Health Ministry to provide more effective and efficient health services to the public. **Economic services** was also $3 million higher than the budget estimate. This was due to some capital project variation costs incurred throughout the year. Expenditure on **General Services** was also above the budgeted estimate by $1.4 million.

First six months 2006/2007 Budget Outturn

The 2006/07 Budget anticipated a [1]current surplus of $37.9 million (3.4% of GDP) and an overall deficit of $16.0 million (1.3% of GDP). The difference between the current surplus and the overall deficit was attributed mainly to some of the loan funded public sector investment projects expected to be implemented during the financial year.

As at end of the first six months (July – December) period, the actual out-turn was an **overall deficit** of $13.3 million. This was equivalent to a 2.4% of the estimated GDP, about 6 percentage point below the fiscal target of no more than 3.0% for the financial year 2006/07.

Current balance was $9.6 million and in contrast with the pro-rata estimate ($18.9million surplus), with a shortfall of $9.4 million in the period. The outturn was primarily a result of shortfall in the revenue collection down by $6.3 million (3.5%) compared to the pro-rata estimate, coupled with net increases of $3.1 million and $3.6 million in current expenditure and net lending respectively. This has more than offset the adverse effect of the delay in implementation of loan funded development projects ($7.7 million) compared to the pro-rata estimate.

Overall balance deficit in the first six months of 2006/07 financial year exceeded the level of deficit in the comparable period of the past three years. This trend needs to be monitored carefully as we approached the last six months of this financial year and must take action if necessary to ensure that the end year outturn meets the fiscal target (no more than 3.0% of GDP) as stipulated in the 2006/07 Budget Speech.

As expected, the disbursement of loans net of amortisation of $7.3 million assisted in financing more than 50% of the overall deficit, leaving a $5.9 million to be financed domestically. Consistently, Government domestic resources with the Commercial Banks at the end of December also recorded a drawdown of $6.6 million (CBS December Monetary Survey).

Total Revenue and Grants for the period ending December 2006 for FY06/07 was $224.5 million. This comprises of $175.3 million (78.11%) from current receipts and $49.2 million (21.91%) of external grants. Total revenue at this level registered a shortfall of 3.5% ($6.3 million) compared to the pro-rata estimate with tax revenues contributing 2.5% to the change ($4.4 million) coupled by the $1.8 million in non-tax revenues.

Tax revenue stood at $154.5 million, which was $4.4 million below the pro rata estimate. Despite the additional 2.5% increase in the VAGST which commenced in October, the aggregated collection was short by $4.6 million, attributing mainly to a shortfall of $7.4 million in the collection of domestic VAGST which more than offsets the increase of $2.8 million in the Import VAGST. Excise taxes on both import and domestic also registered significant contributions to the underperformance with shortfalls of $4.6 million and $4.1 million respectively. Income from Communication, Business licenses and Petroleum levy collections were lower than the pro-rata estimates with $0.6 million, $0.5 million and $0.1 million respectively.

Income tax and Import duty on the other hand were favourable and generated an extra $10 million above the estimated revenue outturn, with a $5.1 million from duty on imports and $5.0 million from Income tax.

[1] Current balance is the differences in government revenues excluding external grants and expenditures net of development expenditures and net lending.

Non-tax receipts collected for the period under review was $20.8 million tala, that being 8.1% ($1.8 million) below the pro-rata levels. The shortfall was due to the nature of some of the property and investment income from the Samoa International Finance Authority (SIFA), dividends from Public Bodies and the Upper Airspace being paid in the last half of the financial year. This has resulted in a negative contribution of $0.8 million tala. Recoveries together with the enterprises income also contributed negatively to the revenues with $0.3 million and $0.6 million respectively.

Tax revenue has continued to grow steadily over the years for the July-December period. This trend is indicative of the prudent measures implemented throughout the period underpinning improvements in the level of compliance especially in the Income tax and the Import duty. Nevertheless, it is noticeable however that the overall performance does not depict the unfavourable results in the VAGST collection and domestic VAGST in particular as discussed earlier.

Total expenditure and Net Lending at $237.8 million and was slightly below the pro-rata estimate for the first six months of the financial year 2006/07 by $1.0 million. The implementation delays of some of the loan funded public sector projects of $7.7 million shortfall was dominant enough to offset notable increase in current expenditure of $3.0m and the shortfall in repayments of principal and interest for the advances made to the Public bodies during the period of $3.6 million.

Current expenditure for the period stood at $165.69 million, a 1.9% increase on the pro-rata basis. The increase (3.1million) was due mainly to a substantial expenditure commitment of $14.7 million in the Social Services Sector mainly for the Health Services realignment and ongoing preparation for the coming South Pacific Games. General Administration and Economic Services Sector also recorded overspending of $5.0 million and $2.8 million respectively on the pro-rata basis during the period under review.

When compared to the corresponding period in the last financial year, current expenditure increased by 28.2%, way over the average increase in current expenditure in the past 5 financial years of 9.8 percent. This was expected with Governments commitment to host the 2007 South Pacific Games and the ongoing cost of the reform program including the general salary and wages increase in the Public sector. Consistently, Government accounts with Commercial banks declined by $6.6 million as at the end of December 2006 when compared to June 2006.

Development expenditures on the other hand were lower when compared to the pro rata estimate and was indicative of delays in some of the loan funded public sector projects, including the World Bank and the OPEC Loan funded projects, in particular Samoa Infrastructure Asset Management Project Phase II, the Post and Telecommunication Reforms and the Tank Farm Project Phase III.

The non payment by SOE's of on-lending repayments resulted in a deficit of $3.6 million. This in turn contributed 1.5 percentage points to the overall expenditure shortfall of 3.5%.

The expansion in government expenditure with the overall balance deficit of $13.3 million during the six month review exerted pressure on the **banking system**. Published in the CBS Monetary Survey, **Government** account balance with the Commercial banks was an overdraft of $5.94 million at the end of December 2006. The unfavourable condition has put pressure on the overall liquidity problem and resulted on the overall weighted lending rates to rise from 11.54 in January 2006 to 12.14 percent in December 2006. Given the dominant role Government plays in the domestic monetary system, and in light of the Government's expected expenditure commitment in the current financial year, it is important that Government's fiscal position be closely monitored in the remaining quarters of the fiscal year, to avoid additional pressure on the cost of credit and credit availability to the private sector.

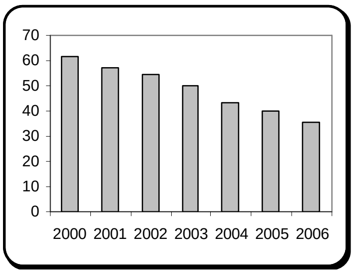
Table 6: GOVERNMENT FINANCE 2002/03 – Dec 06[a] ($ Million)

	Provisional Actual				Budget	Provisional
	2002/03	2003/04	2004/05	2005/06	2006/07	Jul-Dec 06
Revenues and Grants	**303.53**	**317.70**	**524.41**	**387.19**	**461.51**	**224.51**
Revenues	229.37	246.52	283.03	315.37	363.03	175.27
External Grants	74.17	71.16	241.38	71.82	98.47	49.24
Expenditure	**309.07**	**326.57**	**521.35**	**391.72**	**477.57**	**237.81**
Current[b]	202.19	204.49	236.57	281.89	325.09	165.69
Development[c]	86.89	86.62	263.77	86.11	131.73	58.14
Other (capital & net lending)	19.99	35.46	21.02	23.72	20.75	13.98
Current Balance	**27.17**	**42.03**	**46.46**	**33.48**	**37.94**	**9.58**
Overall Balance	**-5.54**	**-8.88**	**3.06**	**-4.53**	**-16.06**	**-13.30**
Financing						
Net external borrowing	4.69	0.25	15.82	6.18	17.78	7.38
Domestic	0.85	8.63	-18.88	-1.65	-2.72	5.93
Overall Balance as % of GDP	**-0.6**	**-0.9**	**0.3**	**-0.4**	**-1.4**	**-2.0**
Total Expenditure as % of GDP	**35.5**	**33.8**	**53.2**	**39.35**	**42.9**	**36.3**

Source: Ministry of Finance estimates
[a/] Provisional Actual 2002/03 – 2005/06, Jul - Dec 06 and Budget 2006/07
[b/] Includes domestically financed development plans
[c/] Financed from external grants and loans

5.2 External Debt

Figure 13: OFFICIAL GOVERNMENT DEBT AS % OF GDP



Official government debt outstanding was recorded at SAT$448.38 million at end December 2006, declined by SAT$13.21 million from end December 2005. This amount was equivalent to approximately 35.8% of GDP.

Multilateral and bilateral loans make up 99.0% (SAT$447.95 million) and 1.0% (SAT$0.43 million) of disbursed outstanding debt (DOD) respectively.

Total debt servicing registered SAT$4.27 million at end December 2006, which is an increase of SAT$0.18 million from end December 2005.

Servicing costs as a percent of merchandise exports and total foreign exchange revenues are equivalent to 14.9% and 2.0% respectively.

Table 7: EXTERNAL DEBT 2002 – 2006 (SAT$ Million)

Year End	**2002**	**2003**	**2004**	**2005**	**2006**
Total External Debt	n.a	n.a	n.a	n.a	n.a
Official Government Debt	481.18	456.10	455.62	461.59	448.38
Official Government Debt as % of GDP	54.4	48.1	43.4	40.1	35.9

Source: CBS and Ministry of Finance
na – not available

6. MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION

6.1 Money Supply

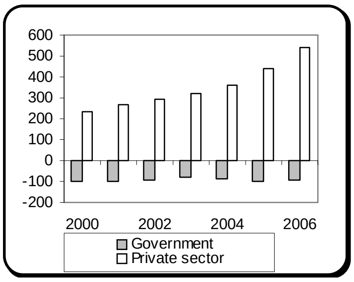
Money supply at end December 2006 valued at $550.56 million, increased by $66.55 million over December 2005. This accelerated rise was due mainly to the increase in Quasi Money by $57.16 million followed by an increase of $9.39 million in Narrow money.

Both the components of Narrow money (M1), Currency outside banks and Demand deposits increased by $3.83 million and $5.56 million respectively over the comparable 2005 period. The three components of Quasi money, saw Savings deposits, Time deposit and Foreign currency deposits of residents all increased by $2.46 million, $54.10 million and $0.60 million respectively.

In terms of net foreign and domestic assets, Net Foreign Assets stood at $215.02 million whilst Net Domestic Assets recorded at $335.54 million. Net Foreign Assets registered a decline of $6.80 million whilst Net Domestic Assets recorded a sharp upturn of $73.35 million over December 2005. When compared to September 2006, Net Foreign Assets and Net Domestic Assets were both higher by $18.81 million and $8.52 million respectively.

6.2 Domestic Credit Expansion

Figure 14: GOVERNMENT AND PRIVATE SECTOR CREDIT ($ Million)



Total Domestic credit outstanding at end December 2006 amounted to $474.05 million, higher than 2005 by $118.78 million. This tremendous rise was driven mainly by credit to the private sector with a rise of $98.00 million followed by an increase of $12.74 million by total claims on non-financial public enterprises and non-monetary financial institutions. Domestic assets with the Ministry of Finance and Central Bank increased by $2.48 million and $8.89 million respectively. However, tremendous decline of $15.29 million by domestic assets with Commercial banks led to a drop in Government assets of $3.92 million over the corresponding 2005 period.

CBS Securities

There were no new securities issued in December 2006, when compared to December 2005, the weighted average yields for the 28-day, 56-day and 91-day were 2.16%, 2.16% and 2.35%, there were no 182-day securities issued in December 2005. However there were maturities during December 2006 for 28-day of $1.0 million and the 91-day of $0.5 million papers.

Table 8: MONETARY SURVEY 2002 - 2006 (SAT$ Million)

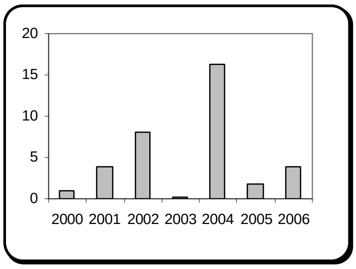
	2002	2003	2004	2005	2006
Net Foreign Assets	**178.86**	**204.21**	**220.71**	**221.82**	**215.02**
NFA Months Import Cover	**4.7**	**6.0**	**5.6**	**5.1**	**4.0**
Net Domestic Assets	**160.18**	**182.16**	**198.46**	**262.19**	**335.54**
Money Supply (M2)	**339.04**	**386.37**	**418.52**	**484.01**	**550.56**
Money (M1)	**95.61**	**118.21**	**124.93**	**160.74**	**170.13**
Currencies outside banks	32.57	35.73	38.94	48.50	52.33
Demand deposit	63.04	82.48	85.99	112.24	117.80
Quasi Money	**243.43**	**268.16**	**293.59**	**323.27**	**380.43**
Savings deposits	44.87	45.56	51.48	63.97	66.43
Time deposit	184.45	206.99	232.35	242.39	296.49
FCDR[a]	14.11	15.61	9.76	16.91	17.51
Domestic Credit	**219.02**	**254.08**	**280.37**	**355.27**	**474.05**
Government (net)	-94.27	-79.44	-88.98	-98.75	-93.84
Private sector	294.70	318.47	358.74	438.81	539.94
Claims[b]	18.59	15.05	10.61	15.21	27.95

Source: Central Bank of Samoa
a/ Foreign Currency Deposits of Residents
b/ Include claims on non-financial public enterprises and non-monetary financial institutions

7. INFLATION

7.1 Consumer Price Index

Figure 15: ANNUAL AVERAGE RATE OF INFLATION (%)



The annual average rate of inflation at end December 2006 stood at 3.8%, 2.0 percentage points above the twelve months moving average for December 2005.

The rise in this period was strongly influenced by an increase in import goods of 2.3 percentage points whilst local component increased by 1.5 percentage points. Housing/household group is the only good of the component with a decline whilst the rest of import goods increased over the period. All categories of goods in the local component of the CPI have increased in this period whilst transport/communication and housing/household items declined over the comparable period.

In all items of the CPI, housing/household and transport/communication showed decreases whilst all other goods recorded increases from December 2005 to December 2006.

Food, clothing/footwear and alcohol/tobacco prices have increased from the end of 2005. These results indicated that the increase of VAGST by 2.5% and the rise of excise rates for alcoholic beverages and tobacco products have largely driven the inflation rate throughout this period.

Table 9: ANNUAL INFLATION 2002 – 2006 (%)

	2002	2003	2004	2005	2006
All Item Index	**8.1**	**0.1**	**16.3**	**1.8**	**3.8**
Imported Good Index	1.3	-0.1	4.3	2.2	4.5
Local Good Index	13.8	0.3	34.0	1.6	3.1

Source: Ministry of Finance

7.2 Petroleum Prices

International prices for Petrol was USD$61.99 cents per litre in December 2006, a decline of 3.24 cents from 2005. International prices for Kerosene and Diesel were recorded at USD$73.53 cents and USD$70.65 cents per litre, increased by 4.00 cents and 3.58 cents respectively.

The variation in international prices is in line with domestic retail prices with a decrease of 3.20 sene in petrol whilst kerosene and diesel had increased by 11.50 sene and 10.20 sene respectively.

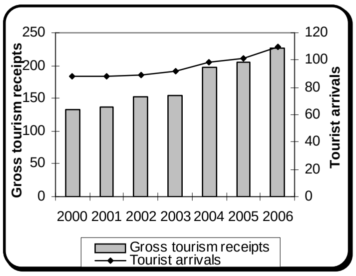
Table 10: PETROLEUM PRICES 2002 – 2006
(retail price in SATsene/ltr & FOB Price ex Singapore in USD/bbl)

	2002		**2003**		**2004**		**2005**		**2006**	
	Retail	**FOB**	**Retail**	**FOB**	**Retail**	**FOB**	**Retail**	**FOB**	**Retail**	**FOB**
Petrol	153.10	36.78	149.3	36.23	185.8	54.25	215.2	65.23	212.00	61.99
Kerosene	128.00	32.42	131.6	35.24	181.7	60.89	204.4	69.53	215.90	73.53
Diesel	139.80	31.33	142.2	33.54	190.4	57.21	217.8	67.07	228.00	70.65

Source: Ministry of Finance

8. TOURISM

Figure 16: GROSS TOURISM RECEPTS (SAT$ Million) & TOURIST ARRIVALS ('000)



In 2006, total tourism earnings amounted to $226.20 million, up by 9.1% over 2005. Tourist arrivals had also increased by 8.3% to stand at 109,495 in 2006. This increase was partly contributed to Samoa being the preferred meeting place as well as the increase in the frequency in social and cultural activities (faalavelave, church openings, church conferences, weddings, etc).

Table 11: GROSS TOURISM RECEIPTS (SAT$ Million) AND TOURIST ARRIVALS ('000) 2002 – 2006

	2002	2003	2004	2005	2006
Gross Tourism Revenues	152.58	154.32	197.18	205.95	226.20
Tourist Arrivals	88.96	91.90	98.72	101.39	109.49

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