



GOVERNMENT OF SAMOA

FISCAL STRATEGY STATEMENT BUDGET 2011/2012

MINISTRY OF FINANCE

31 MAY 2011

TABLE OF CONTENTS

REPORTING REQUIREMENTS.....	3
ECONOMIC AND FISCAL OBJECTIVES.....	3
REVIEW OF FISCAL AND ECONOMIC PERFORMANCE IN THE LAST 5 YEARS, 2006/07 TO 2010/11.....	4
FISCAL PERFORMANCE IN THE FIRST SIX MONTHS (JUL-DEC) OF 2010/11.....	8
ECONOMIC AND FISCAL OUTLOOK.....	11

FISCAL STRATEGY STATEMENT BUDGET 2011/12-2013/14

REPORTING REQUIREMENTS

The Public Finance Management Act 2001 specifies principles of responsible fiscal management and sets out reporting requirements for the Minister of Finance and the Ministry of Finance. The reporting requirements include, under Section 18, the budget address, and a statement of the projection of estimated revenues and expenditures for the budget year and the two following years – forward estimates. The reporting requirements also include, under Section 19, the Fiscal Strategy Statement to be submitted to the Legislative Assembly as part of the budget address.

The Fiscal Strategy Statement includes an assessment of the extent to which the budget statement is consistent with the Statement of Economic Strategy (SES), now called “Strategy for the Development of Samoa” (SDS), an explanation of the reasons for any significant differences between the current economic and financial situation of the State and the information and intentions in the SDS, projections of movements in economic and fiscal data which demonstrate intended progress towards achieving the SDS objectives, and the significant assumptions on which the projections are based.

The SDS must be published no later than 31 May of the year the statement becomes effective, and an update report (the SDS Update) must be published no later than half way through the period covered by the SDS. At present, the SDS is for a period of four years – *Strategy for the Development of Samoa, 2008/09-2011/12: Ensuring Sustainable Economic and Social Progress*.

ECONOMIC AND FISCAL OBJECTIVES

The latest International Monetary Fund report released following a visit in April 2011 confirmed that Samoa is recovering slowly from the impact of the global financial crisis and the tsunami catastrophe in September 2009. GDP is expected to grow by 3.0% in 2010/2011 following a contraction of 5.1% in 2008/2009 and fell by a further 0.2% in 2009/2010. The positive growth rate expected for 2010/2011 is a result of post tsunami reconstruction work and a rebound of several sectors activities namely transport, communication, tourism, remittances and manufacturing.

Whilst the Samoan economy has gradually recovered from the recession in 2008 and the tsunami in 2009, the return of food and fuel crises and the devastation wrought by the recent earthquake and tsunami in Japan provides new challenges for 2011. These challenges pose downside risks for Samoa such as imports becoming more expensive and rising domestic inflation. To ensure these challenges do not pose significant risks on our path to recovery, the composition of government’s policy mix in the medium term is important to ensure macroeconomic stability.

The Tsunami Recovery Plan is now in its second year of implementation, most sectors have completed immediate actions under the plan utilizing 72% of the allocated funds. The financial year 2011/2012 and two forward budget years will see the integration of the remaining activities in the recovery plan under the respective sectors/ministries budgets.

The level of disbursed outstanding debt is anticipated to increase for the next fiscal year as more concessional financing is available to finance ongoing and new development projects. The implementation of Samoa's Debt Strategy will gradually minimize the cost of debt consistent with the government's tolerance for financial risk and one of the specific objectives is to reduce the level of public debt to the current fiscal target of 40% of GDP in the medium term.

The financial year 2011/2012 will see the full disclosure of all development partner assistances to Samoa as reflected in the upgraded budget template. Another new development of the 2011/2012 budget is the replacement of the old 'Outputs and Performance Measures' section of the Estimates by the new 'Performance Framework' for each ministry or public body. This new Performance Framework will reflect clearly how each ministry and public body contributes to the higher level sector and SDS goals.

This very important initiative is to improve the reporting and ensure the closer linkage of policy and planning documents with budget allocations set out in the approved estimates. The adoption of the new "Performance Framework" by ministries and public bodies will further improve the strategic links with other planning and budget frameworks now in place namely the Medium Term Expenditure Framework (MTEF) which will improve more strategic allocation of resources to sector priorities leading to the achievement of the Strategy for the Development of Samoa 2008-2012 objectives over the medium term.

To ensure macroeconomic stability is achieved in the medium to long term, Government will continue to uphold the achievement of the following fiscal targets and objectives:

- a) Aggregate current expenditure to be maintained within a range of 35 – 38% of GDP over the forward estimate cycle, to ensure liquidity in the economy is sufficient to foster private sector growth and employment;
- b) Net Public Debt outstanding at less than 40% of GDP;
- c) Personnel costs as a percentage of total expenditure to be constrained to a range of 30 - 32% so as to reflect government's commitment to improve service delivery associated with the implementation of performance budgeting;
- d) Budget Balance to be maintain at a rate not below -3.5% of GDP.

REVIEW OF FISCAL AND ECONOMIC PERFORMANCE IN THE LAST 5 YEARS, 2006/07 TO 2010/11

In the two years prior to the onset of the global financial crisis in 2008, the Samoan economy enjoyed positive growth rates of 2.3% and 4.9% per annum. This strong performance was led by rapid growth in construction activities, tourism, transportation and telecommunications, as well as general commerce activities such as wholesale and

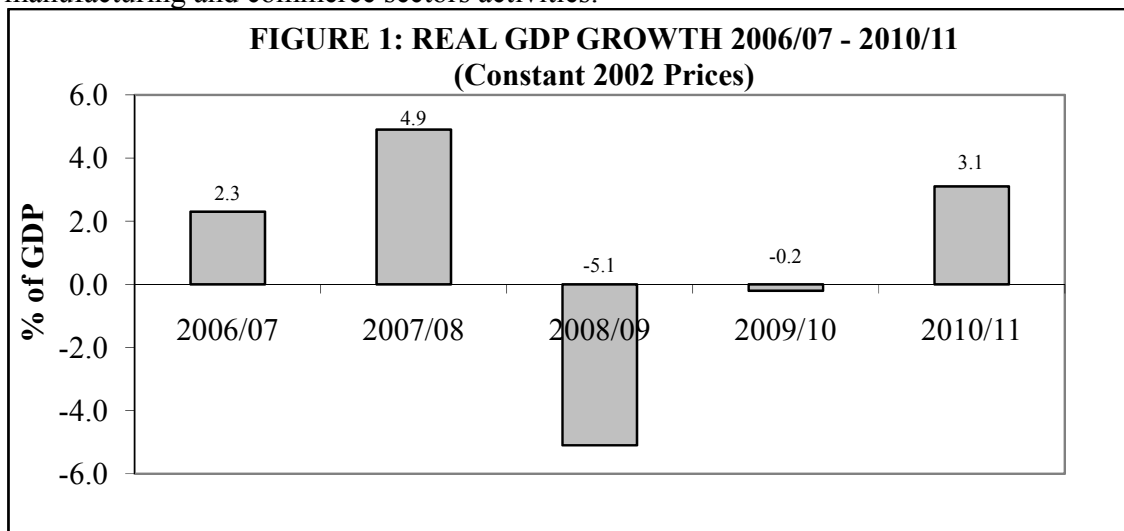
retail businesses. Preparations for the 2007 South Pacific Games played a prominent role in driving growth in the period up to the financial year 2007/08.

However, the global financial crisis saw real GDP in 2008/09 contract by 5.1 percent, largely through the downsizing of Yazaki production and reduced consumer demand, which led to lower manufacturing and commerce activities. In addition, tourism receipts and private remittances declined as the impact of the crisis were being felt by our main source markets of New Zealand, Australia and the USA.

Samoa's economy for 2009/10 was further impacted when a devastating tsunami struck in September 2009 which affected homes, major public infrastructure and most of all the loss of 143 lives. The disaster was on a scale that affected Samoa very severely, and led to the Government initiating a recovery program to support the affected areas. The increase of government spending in 2009/10 was to stimulate the economy through the implementation of large construction projects namely coastal roads, power lines, water supply, telecommunication facilities and residential homes damaged by the tsunami resulting in growth improving by 4.9 percentage points, to negative 0.2%.

The Other Manufacturing industry performance contributed to the overall economic growth as was evidenced by the increase of Yazaki production by 5.4% from year 2008/09 to 2009/10 as the global financial crisis faded away. The construction industry also recorded a positive performance strongly fuelled by the construction works relating to the widening of roads, a new government building, new buildings for ministry of education and ministry of health as well as the tsunami rehabilitation works.

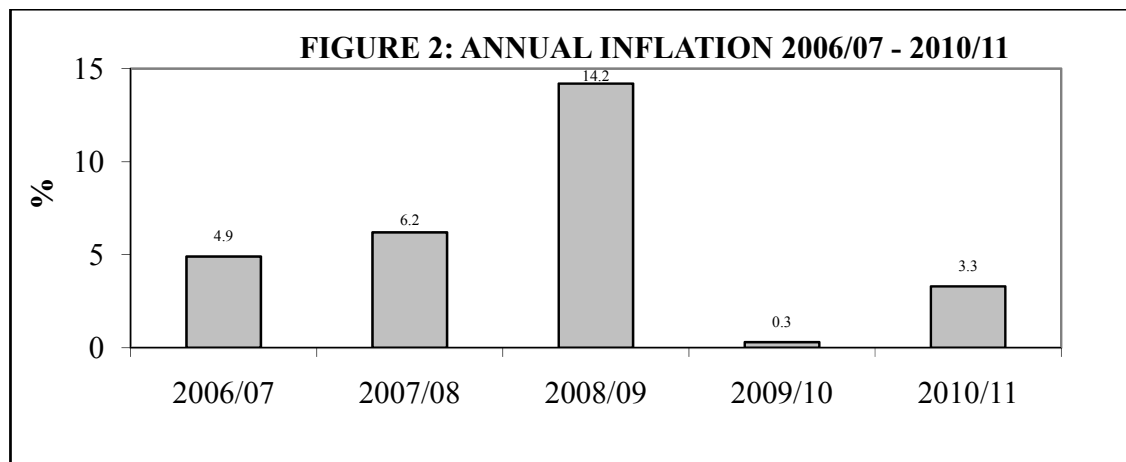
The projected growth of 3.1% in 2010/11 resulted in the continuation of the government reconstruction efforts of post tsunami rebuilding in relation to the 'construction', 'transport and communication', 'electricity and water' as well as the 'hotels and restaurants' sectors. The growth is also supported by rebound in tourism, remittances, manufacturing and commerce sectors activities.



Source: Ministry of Finance and Samoa Bureau of Statistics

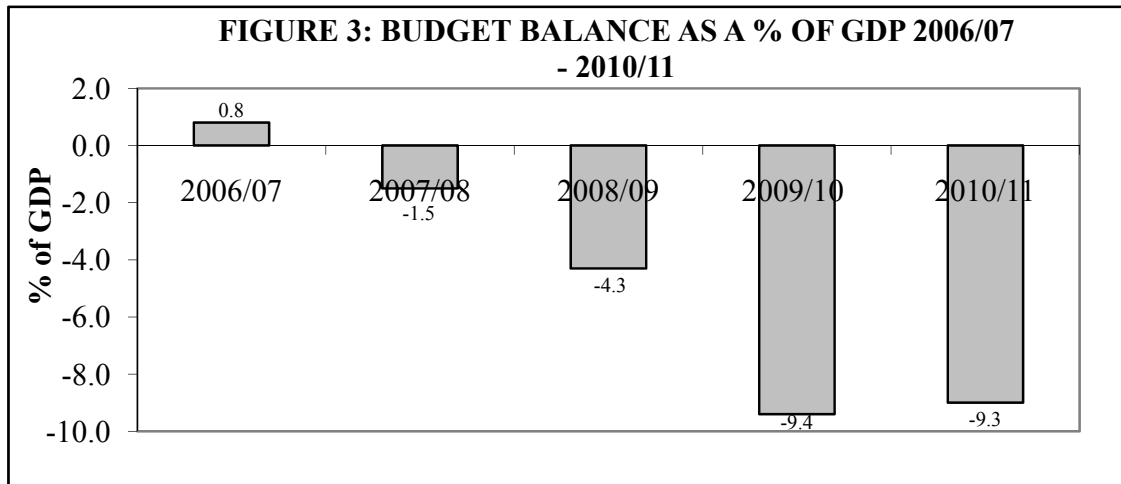
The annual inflation rates from 2006/07 – 2008/09 had exceeded the target inflation rates of 3 – 4% due to high oil prices and rising imported food prices, which also caused local food prices to increase.

The inflation rate eased to 0.3% in 2009/10, declined by 13.9 percentage points from 2008/09. The overall result has shown that food prices had largely driven the decline of 13.9 percentage points in the inflation rate throughout this period. This outcome was reflected in the decline of world food prices, which also caused local food prices to drop. Inflation, however, has gradually picked up in the first nine months of the current financial year, with the headline inflation rate registering at 2.0 percent in March 2011 and is forecast to increase to 3.3% in 2010/11, largely reflecting the rising fuel prices, considerable uncertainties regarding the global recovery and unpredictable weather conditions.



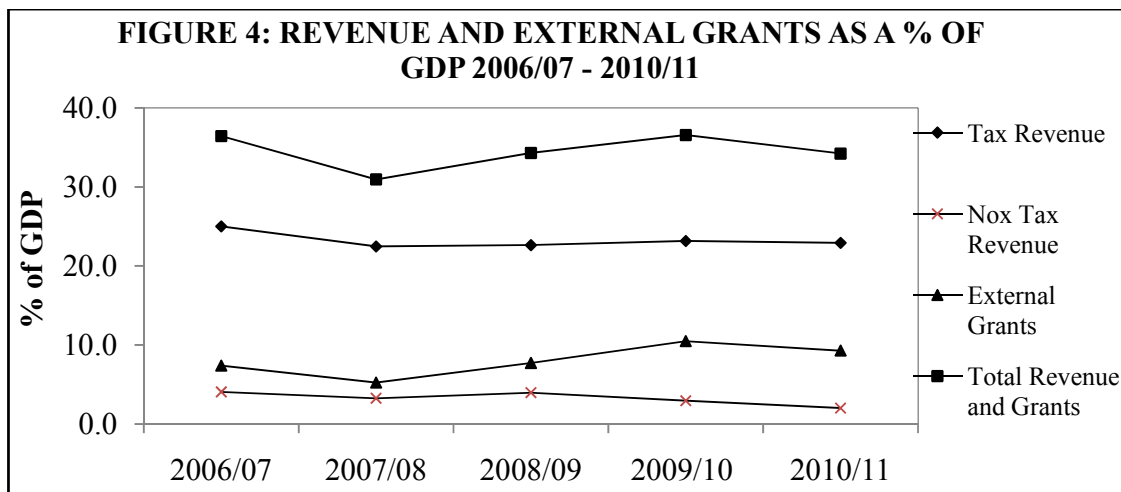
Source: Ministry of Finance and Samoa Bureau of Statistics

The overall budget balance remained within the target range of -3.5% and +3.5% of GDP from 2006/07 to 2007/08 whilst budget balance for 2008/09 fell slightly outside of this range to stand at -4.3%. In 2009/10 and 2010/11, overall budget deficits had expanded to -9.4% and -9.3% respectively largely reflecting the tsunami rehabilitation works and a fall in the growth of own source receipts.



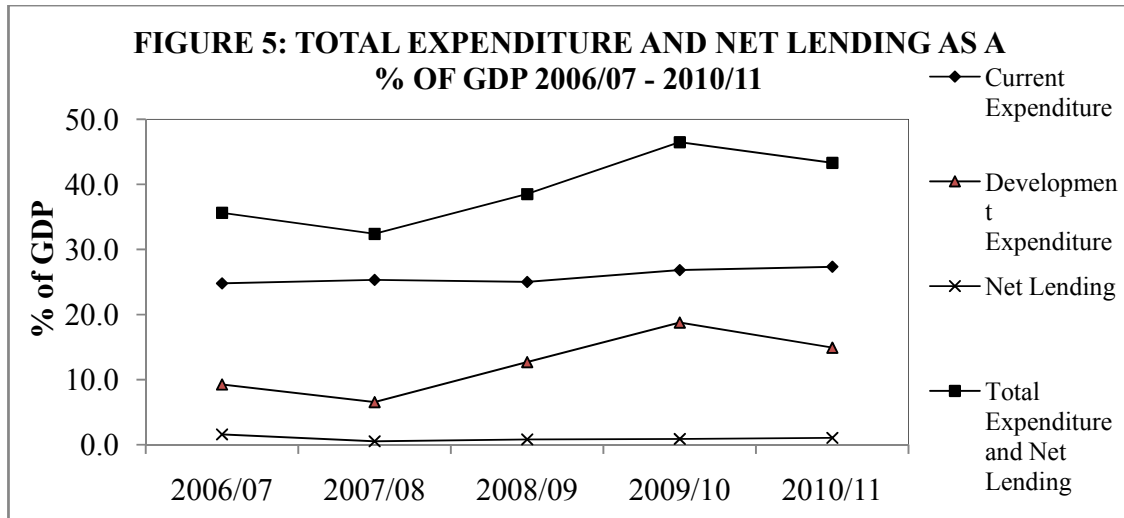
Source: Ministry of Finance and Samoa Bureau of Statistics

Tax Revenue as a percentage of GDP had declined slightly in 2007/08 then remained fairly stable up to 2010/11. Non Tax Revenue as a percentage of GDP showed a stable trend from 2006/07 to 2008/09 then declined steadily to 2010/11. External grants had varied from 2006/07 to 2010/11. External grants had increased in 2009/10 largely reflecting donor support for the reconstruction works for tsunami devastation. Donor assistance for earthquake and tsunami rescue, relief and reconstruction was massive and unprecedented in the history of our small island nation



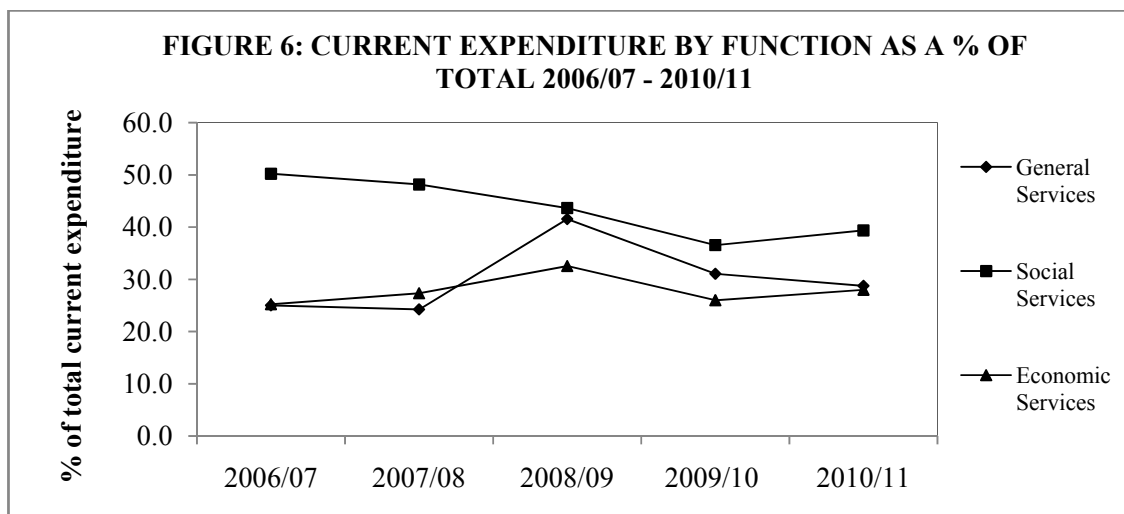
Source: Ministry of Finance and Samoa Bureau of Statistics

Current expenditure had steadily increased while net lending decline in 2007/08 then remain steadily up to 2010/11. The rise in development expenditure in 2008/09 was mainly due to the increase of planned investment expenditure. Development expenditure continued to rise in 2009/10 because of the increase in tsunami reconstruction works.



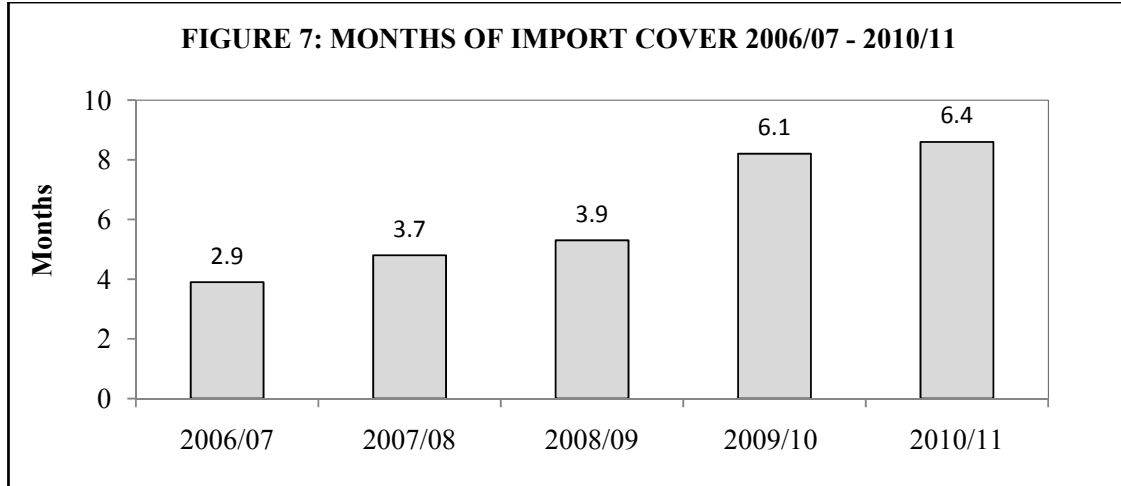
Source: Ministry of Finance and Samoa Bureau of Statistics

Current expenditure by function showed that social services have declined from 2006/07 to 2009/10 then anticipated an increase in 2010/11. Economic and general services have varied throughout the period depicted in Figure 6.



Source: Ministry of Finance and Samoa Bureau of Statistics

On the external balance, international reserves are below the target range of 4.0 to 6.0 months of import cover from 2006/07 to 2008/09. Import cover exceeded the range of 4.0 to 6.0 months in 2009/10 and anticipated to further exceed this range in 2010/11. The high level of reserves was largely driven by an increasing amount of grants and loans on concessional terms for global economic crisis and tsunami rehabilitation.



Source: Ministry of Finance and Samoa Bureau of Statistics

FISCAL PERFORMANCE IN THE FIRST SIX MONTHS (JUL-DEC) OF 2010/11

At the end of the first six months (July – December 2010/11) period, the overall fiscal outturn recorded an overall deficit of \$95.63 million - \$23.37 million above pro-rata estimates. The Current balance also recorded a deficit of \$14.25 million, a decline of \$4.37 million from the budget deficit estimate of \$18.62 million.

The increase in the overall deficit was attributed mainly to the increase of \$20.34 million in total expenditure, which is more than double the shortfall in total revenue and grants of \$5.04 million when compared to the pro rata estimates of the first six months (July-December) of 2010/11 financial year. On the other hand, the decline in current deficit was largely driven by a decline of \$9.40 million in current expenditure when compared to the budget estimates of July to December (2010/11) period. In addition, though non tax category had increased by \$6.43 million, tax revenue category recorded a shortfall of \$11.46 million, which led to the overall shortfall of current receipts to \$5.03 million for the period.

When compared to July-December of 2009/10 financial year, overall deficit had expanded by \$64.45 million. This result was mainly driven by the increases of \$32.50 million and \$21.31 million in current expenditure and development expenditure and a decline of \$9.98 million in total revenue and grants respectively. Current balance had turned around from a surplus of \$23.55 million in the first six months of 2009/10 fiscal year to a deficit of \$14.25 million in the reviewing period. This outcome was largely caused by the increase of \$32.50 in current expenditure and the decline of \$5.30 million in revenue.

Total Revenue and grants collected for the first six months of the 2010/11 fiscal year stood at \$259.32 million, which consisted of \$187.60 million of current receipts and \$71.72 million of external grants. At this level it was \$5.04 million below the pro-rata estimate for the reviewing period. This result was mainly due to the shortfall of \$11.46

million in tax revenue. On the other hand, non tax revenue increased by \$6.43 million. In comparison to the same 2009/10 period, total revenue and grants had declined by \$9.98 million. This drop was largely driven by a decline of \$5.30 million in current receipts followed by a fall of \$4.68 million in external grants. The categories of current receipts are tax revenue and non tax revenue, which both recorded declines of \$0.94 million and \$4.36 million respectively from the comparable 2009/10 period.

Tax revenue collected throughout the period of July to December of 2010/11 fiscal year stood at \$165.59 million, \$11.46 million below the pro rata estimate. This result was driven strongly by the net decline of \$15.52 million in Taxes on Goods and Services followed by the net decline in Taxes on International Trade of \$4.07 million whilst Taxes on Income and All Other Taxes registered net increases of \$7.85 million and \$0.28 million respectively.

Non-tax revenue collected during the reviewing period was \$22.01 million. At this level, it was \$6.43 million above the budgeted amount. The favorable outcome was mainly driven by the increase of \$4.84 million in Property and Investment Income category. Cost recoveries, licenses and fines also recorded a \$2.18 million above the pro-rata estimate.

Total expenditure and Net Lending for July to December of 2010/11 was \$354.96 million, recorded a total of \$20.34 million above the pro-rata estimate. This was caused largely by the increase of \$30.33 million in development expenditure whilst current expenditure and net lending recorded declines of \$9.40 million and \$0.59 million respectively. When compared to the corresponding 2009/10 period, Total expenditure and Net lending had registered an upward trend of \$54.48 million. This was strongly driven by the rise of \$32.50 million in current expenditure followed by increases of \$21.31 million and \$0.66 million in development expenditure and net lending respectively.

Current expenditure for the period stood at \$201.85 million, \$9.40 million below the budget estimate. This result was due mainly to the fall of \$6.80 million in salaries and wages followed by the declines of \$1.41 million and \$1.20 million in spending on goods and services and interest payments on external and domestic debts respectively. At the sector level, economic services recorded an increase of \$13.74 million from pro-rata estimate as well as a rise of \$5.18 million in general administration and law and order. Opposing these increases was a decline of \$0.83 million from budgeted amount in social services.

Development expenditure at \$145.54 million was \$30.33 million above the pro rata estimate reflecting some of the public sector projects, including the sanitation and drainage project, the widening of roads under the Samoa Infrastructure Asset Management Phase II, the tsunami rehabilitation work, new government building and the health and education projects. Net Lending recorded a \$0.59 million below the pro-rata estimate.

Table 1: Government Finance (2004/05 – 2009/10)

	Provisional Actual					Budget	Provisional	Pro-rata
	2006/07	2007/08	2008/09	2009/10	Jul-Dec 2009/10	2010/11	Jul-Dec 2010/11	Jul-Dec 2010/11
Revenue and Grants	486.7	454.9	492.0	533.3	269.3	528.7	259.3	264.4
Total revenue	388.3	378.0	381.4	380.0	192.9	385.3	187.6	192.6
Tax	334.1	330.2	324.7	337.6	166.5	354.1	165.6	177.0
Non Tax	54.2	47.8	56.7	42.9	26.4	31.2	22.0	15.5
External Grants	98.5	76.9	110.7	152.8	76.4	143.4	71.7	71.7
Expenditure	478.3	481.9	551.0	677.9	319.5	669.2	355.0	334.6
Current expenditure	333.6	377.8	356.7	391.3	188.4	422.5	201.9	211.3
Development expenditure	123.7	96.2	182.1	273.8	124.2	230.4	145.5	115.2
Other (capital and net lending)	21.1	7.8	12.3	12.9	6.9	16.3	7.6	8.1
Current balance	54.6	0.2	24.7	-11.3	4.5	-37.2	-14.3	-18.6
Overall balance	8.4	-27.0	-59.0	-144.6	-50.2	-140.5	-95.6	-70.3
Financing:								
Net External Borrowing	7.7	12.5	44.6	160.1	30.4	136.8	72.2	68.4
Domestic	-16.1	14.5	14.4	-15.5	0.8	3.7	23.4	1.8
Overall Balance as % of GDP	0.6	-1.8	-4.1	-9.9	-6.9	-9.3	-12.6	-9.0
Nominal GDP	1335.9	1470.4	1434.8	1458.2	729.5	1545.0	760.73	782.5

Source: Ministry of Finance and Samoa Bureau of Statistics

External Debt

Official external debt as a percentage of GDP had increased in 2009/10 and is expected to continue to rise in the medium-term as a result of new loans taken in 2009/10 and 2011/12. There has been a significant increase in loans from China. Current debt figure has resulted in a more favourable out-turn than expected mainly as a result of favourable movements in the exchange rate in Samoa's favour, in particular the Euro and the US dollar. However, an increasing proportion of the loan portfolio is now held in the Chinese currency (one 3rd of the value of external loans), which may not move in our favour in future. The official external debt as a percentage of GDP for 2009/10 and 2010/11 had exceeded the target of not more than 40% of GDP. This is due to the Recovery Plan in place for the tsunami reconstruction works.

Table 2: Official External Debts

Years	2006/07	2007/08	2008/09	2009/10	2010/11
Official External Debts (Million Tala)	432.2	492.6	585.3	671.0	736.0
Total Debt Servicing	12.8	13.8	15.8	29.3	20.9
Official External Debts as % of GDP	32	34	41	43	47

Source: Ministry of Finance and Samoa Bureau of Statistics

ECONOMIC AND FISCAL OUTLOOK

While the external outlook remains somewhat uncertain, the expectation is that global economic activity will continue to recover at a reasonably solid pace in the coming years. The International Monetary Fund (IMF) projections in April 2011 anticipated the world economy to grow at about 4.5% a year in both 2011 and 2012, down modestly from 5.0% in 2010. Real Gross Domestic Product (GDP) in advanced economies and emerging and developing economies is expected to expand by about 2.5% and 6.5% respectively. International Monetary Fund (IMF) stated that for the recovery to be sustained, advanced economies must achieve fiscal consolidation. To do this at the same time maintaining growth, advanced economies need to rely more on external demand while emerging market economies must rely less on external demand and more on domestic demand. Appreciation of emerging market economies' currencies relative to those of advanced economies is an important key to this global adjustment.

The major trading partners of Samoa are New Zealand, Australia and the United States. New Zealand's economic recovery is expected to continue to be gradual, slightly under 3.0%, with growth weighed down by subdued domestic demand. Australia's GDP is projected to grow at its trend rate of around 3.0% per annum. In the United States, moderate growth at around 2.5% is expected for the two future years.

The Samoan economy is expected to grow at a moderate rate over the forecast horizon after negative growths of 5.1% and 0.2% in 2008/09 and 2009/10 respectively. Real Gross Domestic Product (GDP) is forecast to grow by 3.1% in 2010/11 before easing to 2.3%, 2.4% and 2.0% in 2011/12, 2012/13 and 2013/14 respectively. The moderate growth in the economy has reflected in the Recovery Plan in place to counter for the global financial crisis and tsunami devastation in September 2009 together with the fiscal consolidation currently predicted for the medium term.

Consumption is forecast to increase by 5.9% in 2010/11 reflecting the impact of the rise in general wages and salaries for the public services, the increases in pension, private remittances and earnings from the tourism industry before slowing to 3.3% in 2011/12, 2.5% in 2012/13 and 2.1% in 2013/14. Remittances are a key factor for the sustained economic recovery in Samoa in light of the planned fiscal consolidation.

In terms of private investment, it is projected to rise to 55.6% in 2010/11 then anticipated to level off to around 2.0% – 3.0% growth from 2011/12 to 2013/14. The high rise in private investment for 2010/11 was largely reflecting the reconstruction of family houses and tourism resorts that were affected by the tsunami in September 2009.

Exports are expected to recover to a rise of 9.7% in 2010/11 following a decline of 5.1% in 2009/10. This was largely reflecting the rehabilitation work in the tourism industry through the duty concession scheme to promote the industry and the reconstruction of the infrastructural system that were affected by the tsunami. In terms of commodity exports, the ongoing joint effort by the government and the business community has led to additional export products like Samoa water and coconut oil to European countries for

food and cosmetic purposes. Exports are further projected to slow to approximately 2% - 3% growth in 2011/12 to 2013/14.

With imports rising by an estimated 17.0% in 2010/11, a modestly positive real GDP growth rate of around 3.0% is expected for this year. Imports are projected to increase by 2.0% in 2011/12, 2.3% in 2012/13 and 1.4% in 2013/14. The projection for a rise of imports by 17.0% in 2010/11 partly reflecting the importation of building materials for family houses, tourism resorts and the infrastructure that were destroyed by the tsunami.

Government spending is projected to decline by 9.0% in 2010/11 after a peak of 15.2% growth in 2009/10. Although the projection in 2010/11 has declined, in real terms it is second only to 2009/10 in the last decade. The drop in projection for 2010/11 was the result of the full completion of widening of roads for the switch in 2009/10, the completion of major government buildings, as well as the partial completion of the tsunami rehabilitation works. Government spending is forecast to decline further by 2.0% in 2011/12, increase by 1.6% in 2012/13 then estimated with a drop of 0.2% in 2013/14. These forecasts indicate the fiscal consolidation envisioned for the medium-term fiscal framework.

Inflation is projected to increase to 3.3% in 2010/11 due to the rise in fuel prices, unfavorable weather conditions and uncertainties with the global recovery. Inflation is forecast to remain between 3 – 4% from 2011/12 to 2013/14.

Table 3: Growth of GDP Expenditure Components (constant 2002 prices)

	2010/11	2011/12	2012/13	2013/14
Consumption	5.9%	3.3%	2.5%	2.1%
Private Investment	55.6%	2.9%	2.7%	2.7%
Government	-9.1%	-2.0%	1.6%	-0.2%
Exports	9.7%	2.9%	2.7%	2.4%
Imports	17.0%	2.0%	2.3%	1.4%
Gross Domestic Product	3.1%	2.3%	2.4%	2.0%

Source: Ministry of Finance

It is currently anticipated that initial disbursements of grant and loan financed programs will commence in 2011/2012, these include the Asian Development Bank (ADB) Program II budget support loan of \$23.5 million, World Bank loan of \$17.76 million for the agriculture sector and the Pilot Project Climate Resilience (PPCR) grant estimate of \$22.2 million.

These expenditure priorities are in line with government's priorities in the Strategy for the Development of Samoa 2008-2011.

The macroeconomic target rates and its implications are as follows:

- 1) Budget balance as a percentage of Gross Domestic Product in 2011/12 has exceeded the target rate due to the tsunami recovery plan and spending on focal

areas highlighted in the Strategy for the Development of Samoa 2008-2012 (SDS).;

- 2) Current expenditure as a percentage of Gross Domestic Product is forecasted to be below the target rate as a result of reduced expenditure programs of ministries and corporations not only for 2011/2012 but also for the two forward years, this is in line with the aim to reduce budget balance deficit to below 3% of GDP;
- 3) Personnel costs as a percentage of total current expenditure has exceeded the target range due to the recent salary adjustment and classification, the trend in future years is expected to be consistent at 40% - 41%.
- 4) The Net Public Debt ratio has risen over the 40% of GDP target level due to the increase in concessional loans over the past two years, which were required to maintain Government expenditures levels during the global economic crisis thus stimulating the economy and to cover the costs of the Tsunami Recovery Programme. The current debt ratio level is at 47% of GDP and is expected to rise to over 53% of GDP by June 2012. The Government debt strategy aims to constrain new borrowing in the medium to reduce debt to a sustainable level.

Table 4: Macroeconomic Framework 2010/11-2013/14

	Target	2010/11	2011/12	2012/13	2013/14
Real GDP (% change)	3.0%-4.0%	3.1%	2.3%	2.4%	2.0%
Inflation (%)	3.0%-4.0%	3.3%	3.3%	3.3%	3.3%
Budget Balance (% of GDP)	In range of: -3.5%-+3.5%	-9.3%	-6.5%	-6.4%	-6.1%
Current Expenditure (% of GDP)	35%-38%	27.2%	25.6%	28.8%	27.3%
Personnel Costs (% of current expenditure)	30%-32%	30%	38.8%²	40.2%	40%
Disbursed Outstanding Debt (% of GDP) ¹	Less than 40%	47%	53%	53%	55%
Current Account Balance (% of GDP)		-9.6%	-8.6%	-8.3%	-7.7%
Import Cover (months)	4.0-6.0	6.4	7.4	8.2	9.2
Nominal GDP (\$ million)	1,616.2	1,544.9	1,630.2	1,725.0	1,817.9

Source: Ministry of Finance

1. This debt consists entirely of concessional loans that are mostly financed by the Asian Development Bank, World Bank and China.

2. Personnel costs as a % of current expenditure include wages and salaries of all ministries and public beneficiary bodies, previously reflected as part of grants to SOEs in FY2010/2011.