



GOVERNMENT OF SAMOA

2009/2010 BUDGET ADDRESS

**HON. NIKO LEE HANG
MINISTER OF FINANCE**

29 MAY 2009



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2009/2010 BUDGET ADDRESS

Mr Speaker

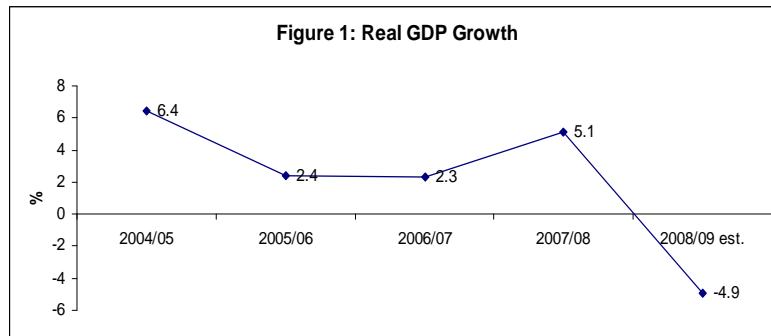
As required under Standing Order 124, I wish to present on behalf of Government, the statement on the Estimates for the 2009/2010 fiscal year.

I. BUDGET SETTING

The 2009/10 budget is framed against a background of great economic uncertainty. The global financial crisis has reached unprecedented levels and has now transmitted to the real economy across the US, Europe, Japan, Asia and our neighbouring markets; Australia and New Zealand. The crisis is having a devastating impact on the daily lives of millions of people around the world. It is also proving to be a real threat to the achievement of the Millennium Development Goals for many low income countries. For small Pacific states like Samoa, we cannot avoid being affected given our highly open economy and weak fiscal resilience which combined, leaves us with little protection to cushion the impact of an economic downturn.

These are difficult times – where responsible governments need to make bold decisions to navigate its way out of an economic downturn of devastating proportions as we are now experiencing. These are times where governments could easily risk their medium to long term objectives in the interest of short term solutions and where “*living within our means*” may be the best strategic response.

There is no doubt the global financial crisis has now impacted on the Samoan economy. As shown in Graph 1 below, after growing strongly with a 4% annual average growth rate in the past four years, Gross Domestic Product (GDP) has shown signs of contraction for the first time in over a 10-year period. GDP in the first six months of 2008/09 dropped by 7.6% when compared to the same period in the previous year. Imports have slowed down resulting in a 15% downward revision of revenues expected for 2009/10. Private remittances expanded 4% and tourist receipts rose 15% in the first nine months of 2008/09 compared to the corresponding period a year earlier. However, both are expected to decline as a result of the financial crisis on the travel industry and loss in incomes from increasing unemployment in those countries such as Australia, New Zealand and the US where much of our remittances and travel receipts originate. Inflation remains a key concern which now hovers around 13% but indications are that it is beginning to gradually subside.



It is worth noting however that Samoa is fortunate the devastating impact of the crisis seen in other countries is not being felt strongly as yet. The existence of informal social protection mechanisms and the strength of the subsistence economy has provided to some extent, a cushioning effect on the direct impact of the crisis on the economy. Without this, I believe the inter-play between the key drivers of the economy would have been unmanageable by now, if our macroeconomic framework was in disarray.

Mr Speaker and Honorable Members

I want to emphasize this point. The strength of sound economic policy fundamentals and macroeconomic stability that the government has maintained over the years have provided a firm platform to ease and slow down the pace of the shock from this global financial calamity. This underscores the significance of maintaining fiscal discipline and macroeconomic stability, which is what this government has done over the past fifteen years. The enabling environment built for the private sector to develop and grow, strengthening Government institutions, reforming state-owned enterprises (SOEs), raising service delivery standards, increased partnership with the community, as well as continuing the development agenda promised in the SDS, have combined to moderate the impact of the crisis.

No doubt the crisis is expected to impact on the business community, the government and the wider community, especially the disadvantaged in varying degrees. I would point out however, that in times of an economic downturn of this magnitude, Government revenues follow a similar trend which unfortunately limits policy options the Government can effectively adopt to stimulate economic activity.

At a time when the economy is expected to continue contracting over the medium term, the obvious way to boost GDP is to increase government spending. Unfortunately the 2009/10 budget cannot achieve these objectives without additional revenue. At the same time the ability of the government to raise revenue through tax increases is limiting given the depressed economic conditions. The optimal policy option therefore is to look to the donor community to provide some form of budget support to assist us in meeting the gap in receipts, to ensure our people's needs can be met, while also investing in capital projects that will help stimulate growth, especially in the construction sector. Such external assistance will have the positive dual impact of mitigating the effects of the

recession on GDP without putting undue pressure on the balance of payments or fuelling inflation.

Mr Speaker and Honorable Members

I am pleased to inform honourable members that we have received positive feedback from the donor community who are ready to lend support. This is an enviable position not enjoyed by other countries desperate for donor support. This in fact, is the result of good macroeconomic management over the years as donors realize Samoa has a solid framework in place to absorb and effectively utilize their assistance.

I would stress however that as we strive to find short term solutions to the crisis, we can not afford to lose sight of our medium term objectives. Responsible fiscal management and macroeconomic stability must form the core of the 2009/10 budget strategy.

II. BUDGET STRATEGY

Mr Speaker and Honorable Members

The 2009/10 budget year is an abnormal year. We are in a very difficult financial position and in designing the fiscal strategy for the period ahead, we have to be cognizant of the medium term macroeconomic targets that underpin economic stability clearly set out in the 2008-12 Strategy for the Development of Samoa.

In view of expected economic contraction over the medium term and the need to maintain economic stability, it is inevitable that the 2009/10 budget is expansionary. In preparing this budget, the government has been extremely careful in prioritizing expenditures to ensure the priorities stated in the SDS are not overly compromised. At the same time, the government has no intention of raising additional revenue through tax increases as that will further disadvantage businesses and consumers alike.

The environment on which the fiscal strategy is framed is as follows:

Real GDP is forecast to fall by 0.8% in 2009/10 as lower private consumption, private investment and exports outweigh a rise in government spending. Consumption is forecast to drop by 4.1% due to falls in earned incomes including a drop in remittances resulting from the closure of the tuna cannery in American Samoa in September 2009, and weak employment in New Zealand and Australia. Private investment is forecast to be 5.0% lower as the global financial crisis makes it harder to borrow overseas, with business confidence falling from depressed conditions, and construction returns to previous average levels. Government spending will be 12.7% higher as development expenditure stays at high levels with recurrent expenditure also increasing slightly. Exports are forecast to fall by 2.5% from the impact of the world recession on export demand. Tourism receipts will also be affected similarly.

Inflation is forecast to drop to 1½% in 2009/10 and to rise to 4% in the following two years. World oil prices are expected to stabilise at levels far below the peak price of \$US140 a barrel. Food prices have fallen from the 2008 peak and are forecast to remain at lower levels, while prices for other commodities and services are forecast to grow at about 4%.

In essence, the 2009/10 budget is expected to realize a deficit that is equivalent to 11% of GDP, gradually declining to 9% in 2010/11 and to 8% in 2011/12. This exceeds the SDS target range of +3.5 to -3.5% and presents a challenging situation where both current expenditures and development expenditures are expected to peak in 2009/10 and then reduce thereafter. Total current revenue is also expected to reduce by 2% and will remain at that level as external grants peak and then reduce thereafter. This situation is expected to continue given the implications of the global recession on remittances, tourism receipts and imports. It presents a challenging scenario in the medium term for more funding to support the budget which underscores the need to prioritize and reduce current expenditures, or raise more revenue in the medium term.

Financing the deficit is sourced largely from a highly concessional loan from the Asian Development Bank and grant funding from our traditional development partners. Domestic financing remains an option in view of the excess liquidity in the banking system. In this regard crowding out the private sector should the government resort to borrowing from the banking system will not be a concern.

III. BUDGET MEASURES

Mr Speaker and Honorable Members

The situation explained above translates to the main aggregates of the 2009/2010 budget as follows:

<u>Revenues</u>		\$ 551,731,389
Ordinary Revenues	398,930,675	
External Grants	152,800,714	
<u>Expenditures</u>		\$ 741,163,437
Statutory Expenditures	75,345,217	
Expenditure Programs	383,125,598	
Development Expenditures	271,198,854	
Unforeseen Expenditures	11,493,768	
<u>Overall Budget Deficit</u>		\$ 189,432,048
Financed by:		
Soft Term Financing	171,998,140	
<u>Cash Surplus/(Deficit) after Borrowing</u>		(\$17,433,908)

The 2009/10 budget is projected to realize an overall deficit of \$189.4m which is equivalent to 11% of GDP when expressed in Government Finance Statistics format. As discussed earlier, the deficit is financed largely by highly concessional borrowings and grant funding from our development partners. Whilst the deficit may seem high, this is inevitable given the global recession, however, it is still within a responsible framework that is expected to realize macroeconomic stability over the medium term.

IV. REVENUE MEASURES

The expected economic downturn in 2009/10 and 2010/11 severely limits growth in Government revenue and places undue pressure to increasing spending from the 2008/09 levels in order to boost economic activity. This means it is not possible to responsibly finance large increases in spending from domestic sources particularly when tax revenue is expected to fall further in 2009/10.

Having said that, I am pleased to inform Members that the government does not propose any revenue raising measures through increased taxes. As a responsible government, we have carefully considered this policy stance and we are convinced that any increased taxes at this point in time will be detrimental to businesses with devastating effect on consumers.

Instead we look for budget support from highly concessional loans and grants to bridge the revenue gap. As has been said before, this has the dual advantage of mitigating the effects of the world recession on GDP without putting undue pressure on the balance of payments or fuelling inflation. This we believe forms the basis for gradual achievement of macroeconomic stability over the medium term.

Total ordinary revenues projected for 2009/10 is \$398.9 m which represents a drop of 15% when compared to 2008/09. On the other hand external grants is projected to increase to \$152 m representing a rise of 37% over 2008/09.

V. EXPENDITURE PRIORITIES

The proposed total expenditure amounts to \$741,163,437 representing an 8% increase over 2008/09. In determining the proposed expenditure program, government undertook a re-prioritization exercise which means cutting down on some operating expenditures in order to allow for priority developments identified in the SDS.

I will now highlight the proposed expenditure program for 2009/10.

Education Sector

The Government will commit **\$65.35 million** excluding sporting events provisions as part of its investment in the sector. The reduction of 11% percent compared to the FY2008/2009 allocation of **\$72.32 million** is a reflection of the winding down of several

major one-off initiatives. This reduction in the total allocation has not in any way hindered the provision of core initiatives as follows:

- \$5.0m tala provided as grants to non-government schools, an additional \$1.0m compared to the FY2008/2009;
- \$2.6m tala provided for the supply of village school stationery;
- \$3.0m tala is to support the Government Scholarship Scheme, whilst \$0.80m is provided for sponsoring new and continuing students to attend NUS's School of Education.
- \$9.88m to be granted to the National University of Samoa
- \$1.39m is provided to support the Samoa Qualifications Authority
- \$0.28m is set aside to assist in the provision of resources for schools in the areas of Agriculture Science, Food & Textiles and Design technology.

In addition to other assistance to the Education sector program, Government with the joint support of AusAID and NZAID, will implement a targeted scheme focusing on the vulnerable groups to meet the cost of primary school fees over the medium term.

This immediate initiative by Government will not only aid in alleviating the hardships now made more pronounced as an impact of the global recession we are experiencing, but will also be a measure to underpin our continuous commitment to achieving the MDG Universal Primary Education goal by the year 2015.

We would like to acknowledge the joint financial assistance of the Australian and New Zealand Governments to implement this initiative

Health Sector

A total allocation of **\$59.0 million** is earmarked for the Health Sector for the 2009/2010 budget. The following major provisions are included to support the ongoing initiatives of this sector.

- \$48.9m for the operation of the Samoa National Health Services
- \$6.2m to support the ongoing regulatory function of the Ministry of Health
- \$4.4m is earmarked for the National Kidney Foundation of Samoa
- \$0.4m has been provided for the preparatory work of the Swine Flu outbreak
- \$8.05m is provided to cover the cost of overseas medical scheme.
- \$0.33m to support the Sleep Apnoea initiative.
- \$0.02m is provided to support the Diabetes Association Clinic.

In support of this priority sector, **\$12.4 million** tala is anticipated to be disbursed in financial year 2009/2010 for the Health Sector Wide Approach Program financed from the pooled resources of the donors and Government.

Agriculture Sector

The Agriculture Sector is allocated a budget of **\$11.11 million Tala**. At this time of uncertainty in the global economy this sector should be providing a buffer to withstand adversities to the economy and the following provisions will assist in achieving their proposed initiatives:

- \$0.2 m for the purchase of cattle as breeding stock.
- \$0.3 m provided to support the Talomua Agriculture showcase.
- \$0.15m to assist with the agriculture census in collaboration with the Bureau of Statistics.
- \$0.20m provided for government's contribution to the Agriculture Project.

The Government is also consulting closely with the World Bank on a substantial investment of US \$18.0 million to revitalize this important sector. In addition to this major support, we are also working closely with our other development partners to prioritize resources that can further support private sector participation and growth in this sector. In this connection also, AusAID is funding the implementation of the agriculture census.

Infrastructure

Electricity

The Government will commit **\$2.25m million Tala** to cover the cost of rural electrification as part of the community service obligation arrangement with EPC. Furthermore, **\$7.84 million Tala** is provided as a subsidy to EPC for paying VAGST on diesel fuel.

A total of **\$5.0 million Tala** is expected to be disbursed within the next financial year for the Power Improvement Sector Project now in its second year of implementation.

Water

The budget of **\$4.24 million Tala** will be provided to cover the costs to Samoa Water Authority, relating to community service obligations. A provision of \$7.02 million is committed as counterpart funds to the ADB funded Drainage and Sanitation Project now nearing completion of the first phase. AusAID is providing additional assistance of \$1.52 million through the Pacific Regional Infrastructure Facility.

During the next financial year, \$16.5 million Tala will be disbursed from the EU financed Water Sector Support Programme (WaSSP) which will see the rehabilitation and upgrade of rural water schemes in Upolu and Savaii. Approximately 70 villages will benefit with improved water supplies from this investment. An additional \$1.7 million tala will go into supporting the rehabilitation and upgrade of independent community-managed water schemes with another \$2.4m to be invested in improving sanitation facilities for over 100 primary schools in both Upolu and Savaii.

The next year will be the final year of implementation of the WaSSP program following which the EU has agreed to providing funding for the sector through direct budget support.

Roads & Bridges

The budget allocation of **\$8.5 million Tala** will support the regulatory role of the Ministry of Works, Transport and Infrastructure.

The next financial year will see the official separation of the Land Transport Authority from the Ministry of Works, with Government investing **\$46.4 million Tala** in support of the operations, in addition to infrastructure developments that will be overseen by the new Authority.

In support of the ongoing development projects, a budget of **\$11.4 million Tala** is allocated as counterpart cost for the Vaitele Street widening project now underway as part of the Samoa Infrastructure Asset Management Phase II (SIAMP II) project.

A provision has also been made of **\$0.61 million Tala** for developing access roads within government land subdivisions available for leasing by the Government Land Board.

An additional **\$6.3 million Tala** is provided for road alterations and safety awareness campaigns in preparation for the switch to drive on the right hand side of the road which will come into effect in September 2009.

Airlines

A provision of **\$1.0 million Tala** is included as capital injection from Government to Polynesian Airlines. This will assist the airline with servicing the debt with Westpac Bank for the purchase of the Twin Otter.

Telecommunications

The Telecommunication Sector will be provided with a budget of **\$4.3 million Tala**. A total appropriation of \$2.9 million Tala will be provided for the Ministry of Communication and Information Technology to cover the following costs:

- \$0.78 million Tala is provided for counterpart costs to the World Bank funded Telecommunications & Postal Sector Reform Project
- \$0.24 million Tala is to support the work of the Information, Communication & Technology Secretariat
- \$0.20 million Tala for church services as an ongoing community service obligation.

Furthermore, the introduction of the ASH Cable this year is a landmark as this development will assist in improving international access and connectivity at affordable prices.

Tourism Sector

To ensure the ongoing development of the tourism sector, Government has set aside \$7.5million Tala. The bulk of this budget will go into implementing smart marketing strategies that are cost effective, and potential destinations to be targeted come the new financial year include North America, Europe and Germany.

I would also like to make mention that Samoa has been fortunate to have secured the host nation bid for the Survivor Reality Show this year, which adds extra stimulus to the local economy at a time when the tourism industry in other countries are at a downturn because of the crisis. The Survivor reality show is a popular 14 episode TV programme that is shown throughout America on CBS and in 154 countries around the world. The short term economic benefits of our hosting this reality show is estimated, over the period April to September 2009, is US\$6 million (SAT\$17.4m) spent locally on direct production costs; an estimated 200 job opportunities for our people over the 6-month period, and an injection of about US\$1 million “tourist spend” by the 220 international crew that would be based in Samoa for the production period. In addition, while it is difficult to estimate the promotional value that the reality show offers Samoa, the potential long term benefits are considered significant.

Hotel Development

The government has been working closely with a number of overseas investors who have expressed interest in investing in the hotel industry. These additional rooms together with new hotel investments and other small scale accommodation projects by our local entrepreneurs will further support the steady growth in the tourism industry, and provide a mixed choice in accommodation to offer our overseas visitors. The most recent of these new developments are :

- The Government has signed recently with the Reddy Group which owns the Tanoa Hotels franchise in Fiji, a lease of the government lands on which the Kitano Tusitala Hotel stands, in support of the Reddy Group’s purchase of the hotel which they will renovate to international standards at a cost in excess of \$20.0 million Tala. They are also committed to building another resort at Pilot Point in the next phase of their investment in Samoa. The Warwick Group has committed to building a new resort at Vavau.
- Aggie Greys Resort Hotel is committed to building an additional 36 rooms.
- Sinalei resort will be investing further funds of around \$0.5 million to develop new rooms for their resort.

These new developments will provide much needed assistance to the industry while also providing the necessary stimulus to boost our economy further.

Business Development

To maintain some of the ongoing services in support of the development of small businesses, the following provisions have been incorporated in the budget:

- (i) A total budget allocation of \$3.4 million tala will be provided to the Development Bank of Samoa in the next financial year. The provision of \$2.4 million tala is to service the debt with ANZ Bank for the next financial year, with the additional \$1.0 million tala to go towards micro-financing for small businesses as a response to the call for assistance to help develop and expand small businesses. This will further aid the call for financial stimulus of a small but often disadvantaged sector whose access to financial resources are often denied because of the usual security requirements of the financial institutions that are often beyond the means of our people.
- (ii) The annual grant of \$0.2 million tala is provided to assist the Small Business Enterprise Centre (SBEC) with its operations. NZAID has also doubled its support for SBEC operations this year of \$900,000 tala.
- (iii) A provision of \$40,000 tala is once again provided as a direct contribution from Government to the development of the Private Sector.
- (iv) A further provision of \$50,000 is Government's contribution to the Private Sector Support Facility, a pooled resource, which is largely funded by New Zealand and Australia to assist our local entrepreneurs in the development of their businesses. It is expected that the PSSF will see an increase in resources with the contributions of new donors.
- (v) A grant of \$0.05 million will go towards meeting the cost of certification of organic enterprises in close collaboration with Women in Business Development.

Sports Development

The Government will support the following sporting events and activities for the next financial year:

- \$500,000 for international and national sports which has increased by \$250,000 compared to the FY2008/2009.
- \$350,000 for the Samoa Rugby Union to support the development of rugby in the country.
- \$100,000 to support the Paralympics.
- \$700,000 to support the hosting of the Judo Championships.
- \$300,000 to support Samoa's participation to the Mini Games.

Senior Citizens Pension Scheme

The provision for the Senior Citizens Pension Scheme has increased by \$0.1m from its current provision to \$15.4m to cover the increasing number of pensioners as well as running costs incurred by SNPF for administering the scheme.

Foreign Relations

The newly established embassies in Japan and China will be allocated a budget of \$3.3 million Tala for their operations.

Additional external assistance following the finalization of a Partnership agreement between Samoa and Australia in August 2008, will look at further investment to develop the implementation of essential strategies in the priority sectors in the SDS as follows:

- Private Sector Growth and Employment which through Agriculture and fisheries as the intervention sector
- Improved education services
- Improved health outcomes
- Improved Governance which covers Law & Justice and enhanced capacity development particularly in Public Finance Management, Statistics, and Public administration.
- Climate Change

This agreement translates into additional funds of at least \$15 million Australian dollars over the next three years, in addition to Australia's regular bilateral assistance program.

Salaries and Wages

The Government will be examining a report by the Salary Review Tribunal for implementation in the next financial year. This review of salaries and wages of the public sector has been delayed as a result of the current depressed state of the economy, but also to allow the Government to examine carefully the impact of any such increases on the private sector to ensure this will be sustainable, and not translate to additional cost to the economy overall with ramifications for the rest of the country.

VI. UNFORESEEN EXPENDITURES

The provision of **\$11.5 million Tala** has been incorporated to cover unforeseen expenditures that may arise during the financial year. This provision has been increased by \$7.4 million Tala compared to the FY2008/2009 as a result of the amendment to the Constitution now passed by Parliament, to increase the provision from 1% to 3% of the total expenditure program allocation.

With the increasing intensity and frequency in changing climate conditions in the region and worldwide, the availability of such an allocation ensures Government has available resources that may be required to manage the effects of any natural disaster that may affect our country during the year.

VII. SECOND SUPPLEMENTARY ESTIMATES 2008/2009

The Government is also proposing to table together with the Main Estimates 2009/2010 a Second Supplementary Budget for this financial year. This supplementary budget includes a total of \$7.7 million of additional unforeseen expenditures and commitments. These are financed by reallocation of resources within and between Ministries' budgets of \$4.6 million and additional revenue of \$3.0 million Tala from SIFA. With these

additional expenditures, the overall deficit has increased slightly to \$6.5 million from \$6.4 million after the First Supplementary Budget.

VIII. FORWARD ESTIMATES

Mr Speaker and Honourable Members

Last year the government presented the Statement on Forward Estimates for the first time as required under the Public Finance Management Act 2001. At the time these estimates were determined, there were already signs of considerable uncertainty unfolding in the global economy, with external pressures from the high prices of fuel and foodstuffs impacting on the local economy. These were taken into account in the preparation of the first forward estimates, however what has changed since is that the strong performance of the economy weakened relatively rapidly as a result of the impact of the global financial crisis, which at the time, could not be determined in scope and extent and is still unfolding. The exact magnitude of the impact of the weak economy on the fiscal position, and the extent to which it represents a long-lasting structural change remain uncertain.

The forward estimates for the next three years without adjustment to policy settings, show that the projected increases in debt and declines in the State's net worth, are outside of the range considered prudent in the medium term. Additionally, the accumulation of cash deficits, whilst necessary in the short term to boost economic activity, will put macroeconomic stability at risk if not managed prudently over the medium term. In this context, while managing our way through the economic turmoil at present, the government will vigilantly monitor the fiscal risks that exist and where appropriate, adjust its policy settings. Over the medium term, the Government's focus remain on taking policy actions to strengthen the economy, limiting expenditure growth and continue to ensure that its assets are managed as effectively as possible.

IX. CONCLUSION

Mr Speaker and Honourable Members

The next three years will be extremely challenging for the government and the people of Samoa. We are uncertain as to whether the global recession has bottomed out or will continue to have second and third round effects on small economies like ours. Against this background of uncertainty, the government believes the framework on which the 2009/10 budget is based, is a sound one that is necessary to help us recover from the effects of the current economic downturn, and gradually get back to a modest recovery that will strengthen in the medium term, provided the global economy will respond quickly to the various financial and economic initiatives that the major economies are putting into effect to support early recovery, given the wider implication of these efforts for the rest of the world.

In our case, we have not resorted to increased taxes to stimulate economic activity. Instead we have solicited the support of the external community to help us. The government believes this is the optimal policy option in the context of these difficult times.

The tight fiscal situation means Ministries may find it difficult to improve let alone maintain the current levels of service delivery. However, the current situation calls for special effort by all, both public and private, to work together to rebuild our economy using the resources we have available, and the gifts God has granted to each and everyone of us. Your Government seeks your patience and understanding in the years ahead as we struggle together to face the adversities that have been brought about by a global recession of unprecedented proportion. May God's grace be upon us to help sustain us during these challenging times.

Mr Speaker,

I commend the 2009/2010 Budget to the House.

May God bless Samoa and her people.

Soifua

STATEMENT ON THE FORWARD ESTIMATES BUDGET 2009/2010 – 2011/2012

As a reporting requirement under Section 18 of the Public Finance Management Act 2001 the Minister is also required to present a statement of the projection of estimated revenues and expenditures for the budget year and the two following years – the forward estimates. The preparation of these forward estimates is intended to support and steer the medium term budgetary and resource allocation decision making processes in Samoa to improve:

- (a) economic stability;
- (b) budget sustainability;
- (c) prioritization of resource allocations by the government; and
- (d) medium-term planning by ministries.

This section of the Budget Statement focuses on three issues. First, it analyses the economic impact of the interaction of the budget and forward estimates of revenues and expenses on the rest of the economy. Second, it summarises the budget allocations and forward estimates of expenditure proposed by the government to each ministry to meet its various responsibilities, as well as the estimated collections of receipts in the budget and forward estimates years by each of these ministries. Finally, this section provides a reconciliation of the differences between estimates of receipts and revenues as well as estimates of total payments and expenses.

For many years, the government's budget has been significantly constrained by the level of revenues it can collect in that year. The level of economic activity in both the domestic market and global economies have been the primary influence on actual revenue collections achieved. A small economy means less tax for the government and without any tax policy change, increases in tax revenue are highly dependent on economic development in the country and overseas, as well as efforts to improve compliance.

On the expenditure side of the budget, the government's tight fiscal policies again, have been designed to ensure borrowings are applied to high yielding capital development projects, rather than simply to boost recurrent expenditure. A larger capital allowance is planned to boost infrastructure spending in road projects, buildings and school property and provide the necessary stimulus to much needed productive investment to stimulate economic activity and raise the country's capital stock. On the other hand, greater scrutiny has gone into public sector base spending to ensure the government gets value for the money it currently spends, and find efficiencies and savings where possible.

Overall, the cash deficit is expected to peak in 2009/10 at \$189.4 million and improve thereafter as development payments for both loan and grant financed projects reduce significantly. This will also be supported by total receipts and grants reducing by 5.1% in 2009/10 but recovered to growth at less than 2% per annual for the next two years while total current payments remained relatively stable. As expected with the soft term loan from the Asian Development Bank to support the 2009/10 budget, the deterioration of the cash balance is inevitable as presented in Table 1.

Budget Accountability Reporting Table

Table 1 - Summary Payments and Receipts (\$m)

	2008-09	2009-10	2010-11	2011-12
RECEIPTS				
Ordinary Receipts	466.7	398.9	421.0	436.7
External Grants	110.7	152.8	139.3	130.2
Total Receipts and Grants	577.4	551.7	560.3	566.9
<i>less</i>				
CURRENT PAYMENTS				
Statutory Payments	60.1	75.3	90.7	92.1
Expenditure Programs	409.0	383.1	368.0	366.3
Ministry Outputs	205.4	141.2	147.2	144.8
Third Party Outputs	69.6	150.1	138.5	138.3
Transactions on behalf of the State	134.0	91.8	82.3	83.2
Unforeseen Payments	4.0	11.5	11.0	11.0
Total Current Payments	473.1	470.0	469.7	469.4
<i>less</i>				
DEVELOPMENT PAYMENTS				
Loan financed project payments	105.4	118.4	22.0	20.0
Grant financed project payments	110.7	152.8	139.3	130.2
Total Development Payments	216.1	271.2	161.3	150.2
Cash (Deficit)/Surplus	(111.8)	(189.4)	(70.7)	(52.8)
Financed by				
Soft Term Financing	105.4	172.0	22.0	20.0
Movement in Cash Balances	(6.45)	(17.43)	(48.71)	(32.76)

Overall Net Lending Borrowing Requirement

In the Appropriation Bill, the estimates are classified on an accounting basis. In disclosing the forward estimates, the primary basis of classifying these estimates will be on a Government Finance Statistics (GFSM2001) basis. Presenting estimates on that basis facilitates the analysis of government operations and of its impact on the economy as a whole, including particular segments of the economy. As the GFSM2001 system of classifying government transactions is used in most countries, the budget estimates in that form will also allow readily, international comparison.

Budget GFS Reporting Table

Table 2 Statement of Government Operations (\$m)

TRANSACTIONS AFFECTING NET WORTH	2008-09	2009-10	2010-11	2011-12
REVENUE	498.2	510.4	513.5	519.7
Taxes	334.9	317.6	339.6	356.5
Taxes on income, profits, and capital gains	81.2	68.8	79.5	84.7
Taxes on property	1.5	1.5	1.5	1.5
Taxes on goods and services	205.5	213.7	212.0	220.9
<i>VAGST</i>	115.2	132.6	146.6	156.5
<i>Excises*</i>	89.1	78.2	63.5	62.9
<i>Taxes on specific services</i>	1.0	2.9	1.7	1.4
<i>Taxes on use of goods, permission to use goods</i>	0.1	0.04	0.2	0.1
Taxes on international trade and transactions	46.7	33.5	46.7	49.4
Grants	110.7	152.8	139.3	130.2
Other revenue	52.7	40.0	34.5	33.0
Property income	12.6	7.7	5.0	4.1
Sales of goods and services	15.7	18.4	15.5	15.0
Fines, penalties, and forfeits	15.2	6.1	5.9	6.1
Miscellaneous and unidentified receipts	9.2	7.8	8.2	7.8
EXPENSE	386.1	412.6	414.5	412.2
Compensation of employees	141.9	117.8	120.4	118.6
Use of goods and services	140.8	108.9	118.5	117.0
Interest	9.0	11.3	12.4	13.3
Subsidies	19.7	15.7	15.7	15.7
Grants	38.8	130.0	118.5	118.3
Social benefits	26.6	18.7	18.7	18.7
Other expense	9.4	10.3	10.3	10.6
GROSS OPERATING BALANCE	112.1	97.8	99.0	107.5
NET ACQUISITION OF NONFINANCIAL ASSETS	218.0	255.6	151.5	141.5
Fixed assets	210.2	246.2	147.2	137.1
Nonproduced assets	7.8	9.4	4.3	4.3
NET LENDING/BORROWING REQUIREMENT	-105.9	-157.8	-52.5	-34.0
NET ACQUISITION OF FINANCIAL ASSETS AND LIABILITIES (FINANCING)	-105.9	-157.8	-52.5	-34.0
NET ACQUISITION OF FINANCIAL ASSETS	-20.7	-16.1	-59.1	-43.1
Domestic	-20.7	-16.1	-59.1	-43.1
NET INCURRENCE OF LIABILITIES	85.2	141.7	-6.6	-9.1
Domestic	-4.8	-7.9	-4.9	-4.9
Foreign	90.0	149.6	-1.6	-4.2

The estimates in Table 2 above indicate the net lending/borrowing requirement, contrary to forecast provided last year now increases to a peak of \$157.8 million in 2009/2010, to improve thereafter to to \$52.5 million in 2010/2011 and \$34.0 million in 2011/12 .

The GFSM2001 definition of net lending/borrowing of government provides a widely used reference point for fiscal policy analysis. It aims to identify those transactions of government that result in net borrowing from other economic sectors, and provides a focus for analysis of the sources of financing. The overall net lending/borrowing provides an indication of the

impact of fiscal policy on aggregate demand, while the components of net acquisition of financial assets and liabilities can indicate more specific consequences of fiscal policy (e.g., the impact of borrowing from the Central Bank on money supply and inflation and the impact of domestic borrowing on interest rates, investment, and growth).

Revenue

Table 3 provides an outline of the breakdown of estimated revenue collection into its component economic categories. Total revenue projected for Government is estimated to increase moderately in 2009/2010 as a result of the increase in grants and to remain around this level for the next two financial years.

Table 3 GFS REVENUE (\$m)

	2008-09	2009-10	2010-11	2011-12
REVENUE	498.2	510.4	513.5	519.7
Taxes	334.9	317.6	339.6	356.5
Taxes on income, profits, and capital gains	81.2	68.8	79.5	84.7
Payable by individuals	38.0	38.4	40.2	42.6
Payable by corporations and other enterprises*	43.2	30.5	39.3	42.0
Taxes on property	1.5	1.5	1.5	1.5
Taxes on financial and capital transactions	1.5	1.5	1.5	1.5
Taxes on goods and services	205.5	213.7	212.0	220.9
General taxes on goods and services*	115.2	132.6	146.6	156.5
Value-added taxes	115.2	132.6	146.6	156.5
Excises	89.1	78.2	63.5	62.9
Taxes on specific services	1.0	2.9	1.7	1.4
Taxes on use of goods, permission to use goods	0.1	0.04	0.2	0.1
Taxes on international trade and transactions	46.7	33.5	46.7	49.4
Customs and other import duties	46.7	33.5	46.7	49.4
Grants	110.7	152.8	139.3	130.2
From foreign governments	110.7	152.8	139.3	130.2
Current	11.1	15.3	13.9	13.0
Capital	99.6	137.5	125.4	117.2
Other revenue	52.7	40.0	34.5	33.0
Property income	12.6	7.7	5.0	4.1
Interest	2.5	1.8	1.4	1.2
Dividends*	9.6	5.4	3.7	3.5
Rent*	0.5	0.5	-0.2	-0.5
Sales of goods and services	15.7	18.4	15.5	15.0
Sales of market establishments*	0.4	0.4	0.4	0.4
Administrative fees	14.0	16.7	13.7	13.3
Incidental sales by nonmarket establishments	1.3	1.3	1.3	1.3
Fines, penalties, and forfeits	15.2	6.1	5.9	6.1
Miscellaneous and unidentified receipts	9.2	7.8	8.2	7.8

* Variance in FY2008-09 GFS revenues includes First Supplementary Estimates

Tax Revenue

It is anticipated that a slight reduction of less than 2.0% in tax revenue is expected for 2009/10 as significant reductions in taxes from income, profits and capital gains and tax on

international trade as national aggregate demand decline and businesses struggle from the adverse effects of the global crisis.. It is anticipated that additional revenue from taxes on goods and services will partially offset reductions in these revenue categories .

By 2010/2011 as the economy rebounds from the financial crisis, it is estimated that tax revenues are expected to grow at least 5% and continue to increase slightly in 2011/2012.

Grants

Financial resources estimated to be available to the government from grants, particularly those from our overseas donor partners, are expected to peak in 2009/10 and reduce to a level higher than that of 2008/09. The strong growth in funding from grants for 2009/10 reflects the willingness of Government to work together with development partners to direct public sector investment on economic infrastructure to help stimulate the economy and minimize the impact of the financial crisis on Samoa.

In addition to direct grants to the budget from our development partners, the government has successfully negotiated a significant loan on concessionary terms as budget support to finance infrastructure investment requirements and provide the much needed boost to economic activity during these difficult times. In GFS terms, the proceeds of this loan is classified as a financing transaction.

Other Revenue

The primary reason for the decline in the estimates for other revenues over the forward estimates period when compared to the 2008/09 estimate are the consistent reductions in property income given the current economic climate and reductions in fines, penalties and forfeits as a result of the efforts to effectively and efficiently resolve disputes.

Expenses

Reflecting the difficulties faced by Government and its long term commitment to: -

- (a) living within its means; and,
- (b) prioritising its resources on building infrastructure to meet the needs of future generations,

only a moderate provision has been made for an increase in 2009/10 on ministry expenses as recorded in Table 4 below. The finalization of treatment of funding for the Land Transport Authority and the National Health Services and how these are recorded have affected the movements in subsidies, grants and social benefits components.

The forward estimates on total expenses for 2010/11 and 2012 show slight reductions as the public services are expected to be effective and efficient in these forward years.

Table 4 GFS EXPENSE (\$m)

GFS EXPENSE (\$m)	2008-09	2009-10	2010-11	2011-12
EXPENSE	386.1	412.6	414.5	412.2
Compensation of employees	141.9	117.8	120.4	118.6
Wages and salaries	141.9	117.8	120.4	118.6
Wages and salaries in cash	141.9	117.7	120.3	118.6
Wages and salaries in kind	0.04	0.04	0.04	0.04
Use of goods and services	140.8	108.9	118.5	117.0
Interest	9.0	11.3	12.4	13.3
To nonresidents	4.5	6.9	8.0	8.9
To residents other than general government	4.4	4.3	4.3	4.3
Subsidies	19.7	15.7	15.7	15.7
To public corporations	18.4	14.3	14.3	14.3
To private enterprises	1.3	1.4	1.4	1.4
Grants	38.8	130.0	118.5	118.3
To international organizations	0.1	0.1	0.1	0.1
To other general government units*	38.7	129.9	118.4	118.2
Current	38.7	129.9	118.4	118.2
Social benefits	26.6	18.7	18.7	18.7
Social security benefits	15.3	15.4	15.4	15.4
Social assistance benefits**	11.1	3.0	3.0	3.0
Employer social benefits	0.3	0.3	0.3	0.3
Other expense	9.4	10.3	10.3	10.6
Miscellaneous other expense	9.4	10.3	10.3	10.6

* Substantial increase in grants a result of the LTA and NHS budgets now reflected as grants

** Reduction in Social Assistance Benefits by \$8.0 million reflected in NHS budget now classified as a grant

In Table 5 below, the change in net worth of Government is expected to decline by 12.8% in 2009/10 and picks up slightly in subsequent forward estimates years but still below the 2008/09 levels. Given the large public sector investments which are ongoing and are expected to be undertaken in 2009/10 and thereafter, buildings and structures predominate the growth in fixed assets for next year and forward years.

Table 5 Transactions in Assets and Liabilities (\$m)

TRANSACTIONS IN ASSETS AND LIABILITIES	2008-09	2009-10	2010-11	2011-12
CHANGE IN NET WORTH: TRANSACTIONS	112.1	97.8	99.0	107.5
Net acquisition of nonfinancial assets	218.0	255.6	151.5	141.5
Fixed assets	210.2	246.2	147.2	137.1
Buildings and structures	206.0	244.8	145.9	135.9
Machinery and equipment	4.0	1.3	1.1	1.1
Other fixed assets	0.2	0.2	0.2	0.2
Nonproduced assets	7.8	9.4	4.3	4.3
Land	7.8	9.4	4.3	4.3
Net acquisition of financial assets	-20.7	-16.1	-59.1	-43.1
Currency and deposits	-6.4	-17.4	-48.7	-32.8
Loans	-15.5	-3.6	-11.7	-11.7
Shares and other equity	1.3	5.0	1.4	1.4
Domestic	-20.7	-16.1	-59.1	-43.1
Currency and deposits	-6.4	-17.4	-48.7	-32.8
Loans	-15.5	-3.6	-11.7	-11.7
Shares and other equity	1.3	5.0	1.4	1.4
Net incurrence of liabilities	85.2	141.7	-6.6	-9.1
Domestic	-4.8	-7.9	-4.9	-4.9
Foreign	90.0	149.6	-1.6	-4.2

Alternate Classification of Financial Transactions

Traditionally, the estimates of receipts and payments in the Appropriation Bill are predicated on the cash basis of accounting – that is, as funds flow into, within, and out of the government’s bank accounts. Receipts are brought to account in the period in which they are received and payments are accounted for when the actual disbursement is made from those bank accounts. The presentation of the government’s accounts in this form is predominantly concerned with ensuring money is legally able to be spent and is spent on the purpose for which it was provided. That system of classifying the government’s financial transaction also forms the basis for effective cash planning and management.

However, since the general framework of government accounting practices was formalized, there have been substantial developments both in economic thinking and in the role of government in the economy; and with these developments has come a demand for new uses of statistics on the government’s financial transaction.

The Government Finance Statistics (GFS) system of classification was designed to facilitate the study of macro-economic impact of government’s financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives. It does so by recording separately “below the line” those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in government revenues. The GFS system of classification also records inflows to government associated with the repayment of loans made by the government as net lending, rather than as a revenue of the government. Furthermore, by bringing together expenditures directed towards like purposes, the GFS system of classification also facilitates presentation of information on the total resources devoted by the government to those purposes and allows international comparisons independently of local administrative structures. It is for these reasons that the primary presentation of budget estimates in the Budget Statement is now on a GFS basis.

The following table provides a reconciliation between the cash inflow estimates of the government and the estimates of revenues classified on a GFS basis. The major difference of receipts in Table 6 and Table 3 is the netting out of transfer payments made by one agency of Government to another as shown in Table 6 under Payments Classified as Offsets to Revenue.

Budget Reconciliation - Both Tables 3 and 4)

Table 6 - Reconciliation between Total Government Receipts and GFS Revenues (\$m)

	2008-09	2009-10	2010-11	2011-12
Receipts				
Ordinary Receipts	466.7	398.9	421.0	436.7
External Grants	110.7	152.8	139.3	130.2
Total Receipts and Grants (as per Tables 1)	577.4	551.7	560.3	566.9
<i>Less</i>				
Receipts Classified as Offsets to Expenses				
Rent Paid by the Ministries to the Government	2.2	2.2	2.6	2.9
	2.2	2.2	2.6	2.9
Payments Classified as Offsets to Revenue				
Income Tax Refunds	6.0	8.0	6.0	6.0
Duty Refunds and Duty Paid by Government Agencies	5.6	6.5	4.7	4.7
VAGST Refunds and VAGST Paid by Government Agencies	49.9	21.0	21.8	21.8
	61.5	35.5	32.5	32.6
Receipts Classified as the Net Acquisition of Financial Assets				
Loans - On-lending Repayments	15.5	3.6	11.7	11.7
	15.5	3.6	11.7	11.7
TOTAL ESTIMATED GFSM2001 REVENUE (as per Table 3)	498.2	510.4	513.5	519.7

The next table provides a reconciliation between the appropriations of the government outflows and the estimates of expenditure classified on a GFS basis. The significant difference in Government expenses is due to the netting out of transfer payments by factoring out payments classified as offsets to revenue, receipts classified as offsets to expenses and the net acquisition of non financial assets.

Table 7 - Reconciliation between Total Government Payments and GFS Expenses (\$m)

	2008-09	2009-10	2010-11	2011-12
Current Payments				
Statutory Payments	60.1	75.3	90.7	92.1
Expenditure Programs				
Ministry Outputs	205.4	141.2	147.2	144.8
Third Party Outputs	69.6	150.1	138.5	138.3
Transactions on behalf of the State	134.0	91.8	82.3	83.2
Unforeseen Payments	4.0	11.5	11.0	11.0
Total Current Payments (as per Table 1)	473.1	470.0	469.7	469.4
Development Payments				
Loan financed project payments	105.4	118.4	22.0	20.0
Grant financed project payments	110.7	152.8	139.3	130.2
Total Development Payments (as per Table 1)	216.1	271.2	161.3	150.2
AGGREGATE PAYMENTS	689.2	741.2	631.0	619.6
<i>Less</i>				
Payments Classified as Offsets to Revenue				
Income Tax Refunds	6.0	8.0	6.0	6.0
Duty Refunds and Duty Paid by Government Agencies	5.6	6.5	4.7	4.7
VAGST Refunds and VAGST Paid by Government Agencies	49.9	21.0	21.8	21.8
	61.5	35.5	32.5	32.6
Receipts Classified as Offsets to Expenses				
Rent Paid by the Ministries to the Government	2.2	2.2	2.6	2.9
	2.2	2.2	2.6	2.9
Payments Classified as Net Acquisition of Nonfinancial Assets				
Fixed Assets				
Buildings and structures	206.0	244.8	145.9	135.9
Machinery and equipment	4.0	1.3	1.1	1.1
Other fixed assets	0.2	0.2	0.2	0.2
	210.2	246.2	147.2	137.1
Nonproduced assets				
Land	7.8	9.4	4.3	4.3
	218.0	255.6	151.5	141.5
Payments Classified as the Acquisition of Financial Assets and Liabilities				
Net Acquisition of Financial Assets	1.3	5.0	1.4	1.4
	1.3	5.0	1.4	1.4
Net incurrence of liabilities				
Domestic Loan Repayments	4.8	7.9	4.9	4.9
Foreign Loan Repayments	15.4	22.4	23.6	24.2
	20.2	30.3	28.6	29.1
TOTAL ESTIMATED GFS EXPENSES (as per Table 4)	386.1	412.6	414.5	412.2

Summary of Payments and Receipts of Government

Table 8 provides a summary of all the ministries receipts and payments for 2009/10 and the forward estimates for the next two years.

Total receipts of the Government are estimated to drop by about 14% in 2009/10 and then grow by an average 4% over the following two years. Total expenditures of government are estimated to decline by 4% on average over the three years. This is in line with the medium term strategy to contain current spending over this forward year cycle.

Budget Ministry Reporting Table

Table 8 Summary of Ministry Receipts and Payments (\$m)

Ministry/Department	2008-09		2009-10		2010-11		2011-12	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
Ministry of Agriculture & Fisheries	0.5	12.4	0.5	11.2	0.4	11.1	0.4	11.0
Ministry of Commerce, Industry and Labour	0.3	13.1	0.3	12.6	0.3	12.7	0.2	12.7
Ministry of Communication & Information Technology	2.8	4.8	2.8	4.3	2.4	3.5	1.9	3.5
Ministry of Education, Sports & Culture	0.4	75.6	0.3	68.6	0.3	71.9	0.3	72.3
Ministry of Finance	48.4	55.7	34.4	60.0	36.1	51.1	34.5	51.0
Ministry of Foreign Affairs & Trade	0.6	19.4	0.6	18.7	0.7	17.8	0.8	17.7
Ministry of Health	2.7	70.1	0.0	59.0	0.0	59.6	0.0	59.5
Ministry of Justice & Courts Administration	0.7	8.4	0.7	7.4	0.7	7.4	0.8	7.4
Ministry of Natural Resources & Environment	0.9	22.1	1.3	16.9	1.3	16.8	1.3	16.7
Ministry of Police and Prisons	0.2	19.8	0.2	17.8	0.2	17.3	0.2	17.2
Ministry of the Prime Minister	3.8	7.7	3.9	6.5	4.3	6.0	4.5	6.1
Ministry for Revenue	396.2	8.9	351.1	8.2	371.2	8.6	388.8	8.8
Ministry of Women, Community and Social Development	0.7	8.3	0.7	7.3	0.8	9.1	0.8	8.9
Ministry of Works, Transport & Infrastructure	8.0	65.8	1.4	69.3	1.4	56.7	1.4	56.7
Office of the Attorney General	0.0	3.3	0.0	2.9	0.0	2.9	0.0	2.9
Office of the Controller and Chief Auditor	0.3	2.6	0.3	2.5	0.3	2.4	0.3	2.4
Office of the Electoral Commissioner	0.0	1.3	0.0	1.3	0.1	3.7	0.1	1.4
Legislative Assembly	0.0	3.1	0.1	3.0	0.1	3.0	0.1	3.0
Ombudsman's Office	-	0.4	-	0.4	-	0.4	-	0.4
Public Service Commission	-	3.0	-	2.6	-	3.5	-	4.1
Bureau of Statistics	0.4	3.4	0.4	2.8	0.4	2.7	0.4	2.7
Total	466.7	409.0	398.9	383.1	421.0	368.0	436.7	366.3

Statement of Fiscal Responsibility

The proposed Budget 2009/10 and forward estimates for 2010/11 and 2011/2012 were prepared and have been premised on the following principles as stipulated in the Public Finance Management Act 2001:

- a. Managing total State debt at prudent levels so as to provide a buffer against factors that may impact adversely on the future levels of the total State debt in the future;
- b. Ensuring within any borrowing programme the total overall expenditures of the State in each financial year are not more than its total overall receipts (inclusive of borrowings) in that financial year;
- c. Achieving and maintaining levels of the State's net worth that will provide a buffer against factors that may impact adversely on the future of the State's net worth;
- d. Managing prudently the fiscal risks facing the State;
- e. Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of the tax rate for future years.
- f. That the policies stipulated in the SDS 2008-2012 and those fiscal policies approved by Cabinet are in agreement with the fiscal limit that will be applied to the current and future expenditures on departments and government projects.