



GOVERNMENT OF SAMOA

FISCAL STRATEGY STATEMENT

BUDGET 2008/2009

MINISTRY OF FINANCE

30 MAY 2008



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FISCAL STRATEGY STATEMENT OF THE 2008/2009 BUDGET

REPORTING REQUIREMENTS

The Public Finance Management Act 2001 specifies principles of responsible fiscal management and sets out reporting requirements on the Minister of Finance and the Treasury. The reporting requirements on the Minister includes, 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 – the forward estimates; and 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 in the current economic and financial situation of the State and the information and intentions in the SDS, and 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 Reporting requirements of the Treasury include the publication of economic and fiscal forecast at the time of the Budget (the Fiscal Strategy Statement). The Treasury must also publish, a Statement of Economic Strategy (the SDS) no later than 31 May of the year the statement becomes effective, as well as an update Report (the Statement of Economic Strategy Update) no later than half way through the period covered by the SDS. At present, the SDS is for a period of four years.

FISCAL STRATEGY REPORT

1. INTRODUCTION

The Government's economic vision for the medium-term is to improve the quality of life for all premised on the goal of sustainable economic development and social progress that promotes sustained macroeconomic stability, private sector growth and employment, and improved education and health outcomes. This is the goal for the next four years as envisioned in the Government's Strategy for the Development of Samoa 2008-2012. Fiscal policy is a key driver to attaining this goal.

In this first Fiscal Strategy Statement, the Government confirms its long-term fiscal objectives including:

- (a) constraining aggregate current expenditures within the range of 35-38 percent of GDP over the forward estimates cycle to ensure there is sufficient liquidity in the economy to allow the private sector to grow and provide employment opportunities for the next generation;
- (b) keeping net public debt outstanding at less than 40 percent of GDP so as:
 - (i.) to constrain future growth in debt servicing that could preclude increasing the level of service delivery expenditures in the budget;
 - (ii.) not to dissipate the gains made by the Government in bringing the level of debt in Samoa from its previously high level to one that is the envy of most, if not all, of the countries in the Pacific region; and
- (c) constraining expenditures in relation to personnel costs to the range of 30-32 percent of total current expenditures in the year in question to ensure the intended efficiency dividend associated with the implementation of performance budgeting is directed to increased service delivery, rather than in an increase in the size of the ministries.

Additional to these long term objectives is the confirmation of the fiscal policy or target stipulated in the Strategy for the Development of Samoa (SDS) 2008-2012 as follows:

- (d) Budget balance maintained in the range of -3.5 percent and +3.5 percent of Gross Domestic Product (GDP).

The objectives within our fiscal strategy are consistent with the following principles of responsible fiscal management in the Public Finance Management Act:

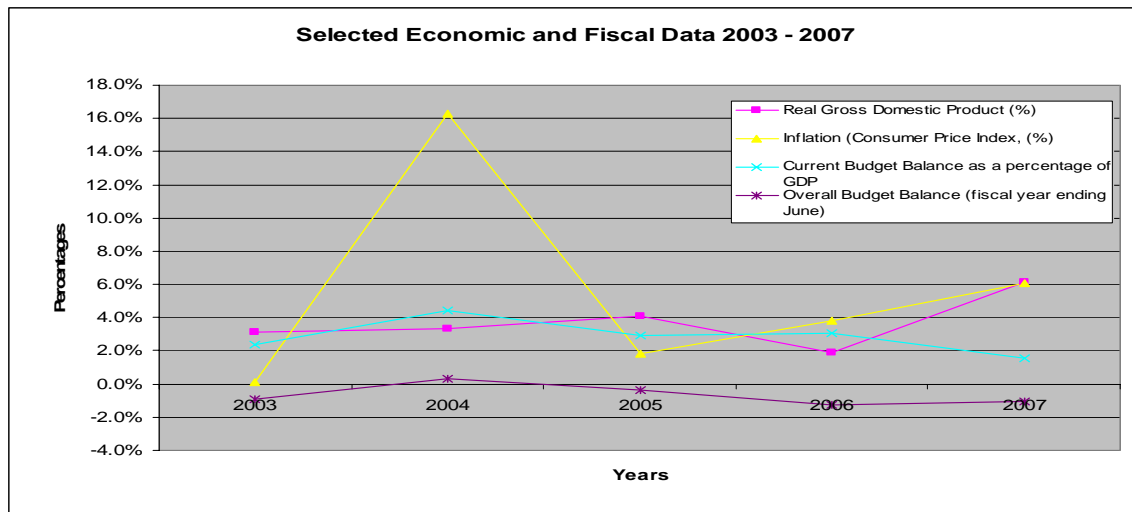
- a. Managing total State debt at prudent levels so as to provide a buffer against factors that may impact adversely on the future levels of the total State debt in the future;
- b. Ensuring that within any borrowing programme the total overall expenditures of the State in each financial year are not 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 ministries and government projects.

2. REVIEW OF FISCAL & ECONOMIC PERFORMANCE IN THE LAST 5 YEARS

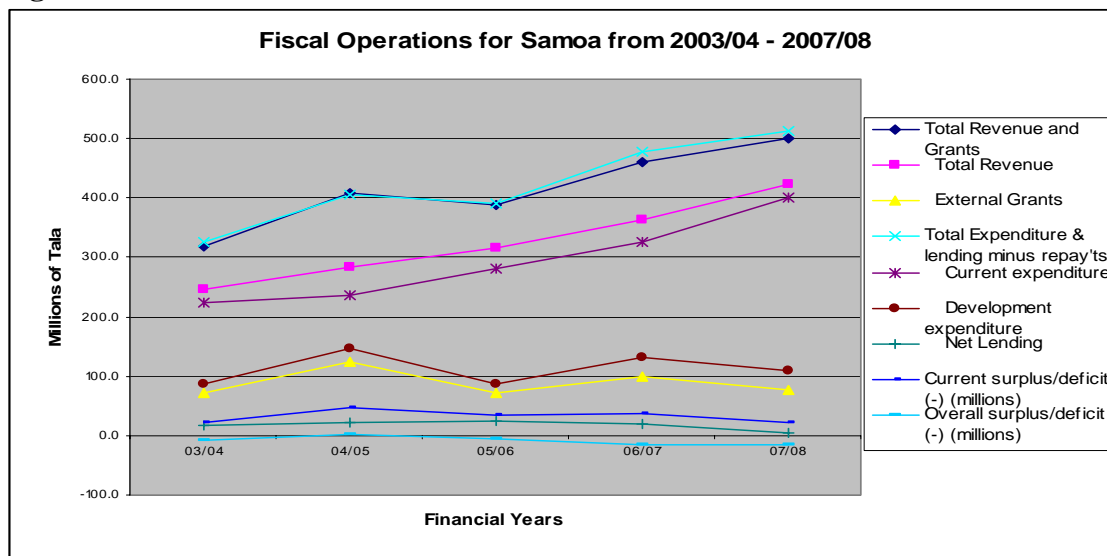
The past five years' economic and fiscal targets presented in **Figure 1** shows the achievement of growth exceeding the target rate of 3.0-4.0 percent per annum in 2005 and 2007, the overall budget balance well within the target range of 3.5 percent of GDP, and foreign reserves providing import cover in the target range of 4.0-6.0 months underpinning exchange rate stability. Some decline in import cover was evident during this period and was unavoidable given the high levels of capital investment commitments for the 2007 South Pacific Games and other key developments in priority areas such as education and health, as well as private sector projects. However, the average annual inflation rate was at its highest in 2004 with a 16.3 percent as a result from domestic agriculture food shortages caused by the effects of cyclone Heta before returning to below the inflation target of 3.0 percent, and then again moving higher in 2005–2007, exceeding the targeted inflation level of 3.0 percent in 2006 and 2007. This largely reflected the impact of higher import prices especially for food and oil (petrol prices increased from \$1.73 per litre in 2004 to \$2.33 in 2006 and \$2.40 in 2007). Strong economic growth in New Zealand and Australia, the two main sources of imports for Samoa, pushed up inflation as well as the currencies of those two countries, thereby driving up imported inflation in Samoa.

Figure 1: Selected Economic and Fiscal Data 2003 - 2007



In the last five years, total revenue and grants increased significantly from just above \$300.0 million in 2003/2004 to \$500.0 million in 2007/2008. This increase was attributed to the increase in both tax and non tax revenue, as grants remained relatively stable throughout. Despite these improvements in revenue collection, total expenditure and lending minus repayments more than neutralized these gains in revenues. This was a result of the increase in current expenditure which had nearly doubled within the last five years. Part of this substantial increase in current expenditure was associated with the preparations for the South Pacific Games. In light of this, the current account balance which had been in surplus for the last five years by at least \$20.0 million per annum was the highest in the financial year 2004/2005. The overall budget balance was positive only as well for 2004/2005 as all the other financial years had registered overall budget deficits. This result for 2004/2005 was only possible through improvement in collection of total revenues. All the other financial years registered overall budget deficits as development expenditures were not fully hedged by grants. However, these budget deficits were no more than 1.3 percent of GDP. This is illustrated in Figure 2 with details presented in Annex 1.

Figure 2: Fiscal Performance for Samoa from 2003/2004 - 2007/2008



3. FISCAL PERFORMANCE IN 2007

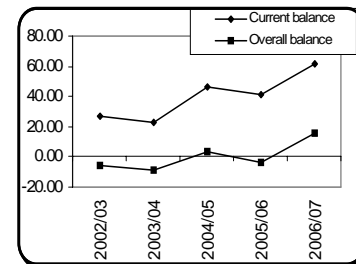
The **2006/2007 Budget** anticipated an overall deficit of \$16.0 million (1.4% of GDP) and a current surplus of \$37.9 million (3.4% of GDP). The major difference between the current surplus and the overall deficit was expected to derive from expenditure projected on a number of infrastructure projects, in particular final preparations of the facilities for the South Pacific Games.

Over the period however, the actual outturn recorded an overall surplus of \$15.4 million equivalent to 1.2 percent of GDP, which was in contrast to the budget estimate. This favourable result was primarily due to the very strong growth in revenue collection exceeding the budget estimate by 7.2% (\$26.1 million Tala). Nevertheless, it was also attributed to the positive effect of the 30% cut in the overall expenditure programme that

resulted in a slight increase of \$2.5 million in the current expenditure, despite notable increases of \$46.6 and \$25.8 million Tala respectively that were required for the South Pacific Games preparations, as reflected in the appropriations for the Ministry of Education and Ministry of Works and Infrastructure. The high level of construction activity was reflected in an average quarterly growth of GDP of 4.1% in the past four quarters, with growth rates of 5.0% and 4.6% in March and June quarters 2007 respectively with the construction sector contributing 0.9 and 1.6 percentage points in March and June 2007 quarters.

At the current level, a \$61.6 million (4.7% of GDP) surplus was achieved. The \$61.6 million surplus recorded in the current balance was way over the budget estimate. This was indicative of adjustments made to taxes, VAGST (12.5% to 15%) and Income tax (29% to 27%) in particular, that recorded increases of \$6.5 million and \$3.2 million respectively. Receipts on import duty contributed significantly to the surplus with an increase of \$5.4 million Tala or 11.4 percent. The result was consistent with a huge jump in the import bill for the financial year by 14.7 percent.

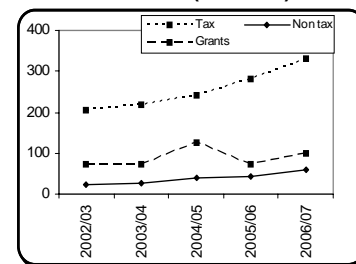
Figure 3: OVERALL AND CURRENT BALANCE (\$ Million)



Total Revenue and Grants for the fiscal year 2006/07 was \$487.6 million, which was \$26.1 million above the budgeted estimate. This revenue comprised \$389.2 million (79.8%) of current receipts and an estimated \$98.4 million (20.2%) of grants.

Tax Revenue at \$331.1 million exceeded the appropriated estimate by \$13.2 million equivalent to a 4.2% increase. When compared to the previous year 2005/06 tax, it had increased by 17.8%, and was the highest since the implementation of the tax reform. This was primarily a result of net increases of \$6.5 million, \$5.4 million and \$3.2 million from VAGST on imports, import duty and income tax respectively. These increases have more than offset shortfalls of \$4.3 million, \$1.0 million and \$0.9 million Tala in the collection of Import Excises and other taxes like petroleum levy, stamp duty and licenses. Consistent with increases of 11.4% and 8.1% in the import duty and import VAGST, import of goods jumped to \$616.7 million from \$537.7 million, an increase of 14.7% compared to the corresponding period.

Figure 4: GOVERNMENT REVENUE BY TYPE (\$ Million)



The strong growth in tax revenues growing at a trend rate of 7.3 percent is illustrated in Figure 4. This result reflects some of the revenue measures put in place by the government during the period coupled with strong economic performances in the past four years at an average annual growth rate of 3.5 percent.

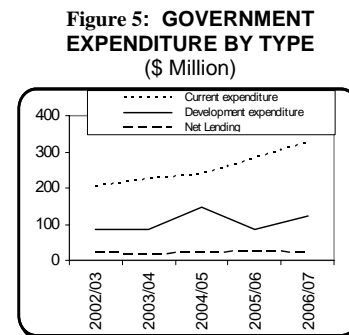
Non-tax revenue noted an increase of \$12.9 million over the budget estimate, as a result of some one-off payments that were not in the budget, like the sale of Polynesian spare

parts of \$8.4 million, \$5.1 million from the sale of Government shares in Telecom Samoa Cellular and a transfer to the budget of \$6.0 million from Samoa International Finance Authority. Cost recovery improved by 5% compared to the budget estimate. However there have been some shortfalls in the property and investment income, namely dividends from state-owned enterprises were down by \$3.9 million, in addition to a loss of \$0.7 million from air space royalties and land administration compared to the budgeted estimate.

The estimated level of external grants fluctuated quite widely during this period, being influenced by the incidence of major investment projects such as the Aquatic Centre in 2004/05.

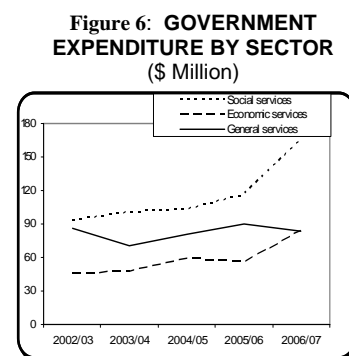
Total expenditure and Net Lending for the fiscal year stood at \$472.3 million Tala, 1.1% below the projected expenditure for the year. The lower level of total expenditure was mainly due to development expenditure being some \$8.1 million below the budgeted figures. Current expenditure at \$327.6 million was some \$2.5 million more than the budgeted estimate.

Figure 5 illustrates the nature of expenditures. Current expenditure expanded further to stand at \$327.6 million Tala (16.2%) in the fiscal year 2006/07 following another major increase of 19.2% in the financial year 2005/06. The huge increase in expenditure was mainly in Social and Economic Services registering increases of 43% and 48% compared to the previous year.



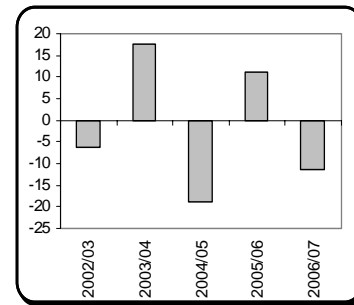
Underpinning the increase was Government’s commitment to hosting the South Pacific Games. This expenditure encompasses both current expenditure and development related projects funded under the government budget. Development expenditure for the fiscal year stood at \$123.7 million Tala, and was \$8.1 million lower than budgeted expenditure. The shortfall was due mainly to delays in the implementation of other loan funded projects planned for the year. Grant aid funded projects was on par.

At the Sector level, Figure 6 indicates the Government’s commitment to promote the Social Services, with Health and Education being targeted as priority sectors in the SDS. Furthermore, the huge shift in expenditure level as shown reflects the appropriated funds of \$40.7 million allocated for the South Pacific Games under the Ministry of Education. Completion of the South Pacific Games 2007 would ensure some savings in the near future. Expenditures on Economic Services also shifted from an average of \$50 million in the past 4 years to equal General services at \$83 million Tala in the period under review. This increase was attributed to an 87% increase arising from some adjustments made to the structure of outputs and an additional \$11.9 million Tala required for new roads and bridges as part of the South Pacific Games preparations. General Services flattened out relative to the 2005/06 level.



The Government's financial resources with the banking system at the end of the 2006/07 financial year increased by \$11.2 million compared to end 2005/06. This was primarily due to a huge increase in revenue collection that more than offset huge expenditure commitments by the Government during the period for the South Pacific Games preparations.

Figure 7: CHANGE IN GOVERNMENT'S BANKING POSITION (\$ Million)



Given the Government's role in providing liquidity to the domestic financial system, great emphasis should be given in monitoring its resource requirements to ensure that there is sufficient financial resource available in the banking system for private sector credit.

3.1 First Six Months 2007/2008 Budget Outturn

The fiscal year 2007/2008 projected an overall deficit of SAT\$14.5 million (1.0% of GDP) following three consecutive years, 2004/2005 to 2006/2007 with overall budgeted deficits of \$8.5 million, \$44.3 million and \$16.1 million respectively. These deficit balances were anticipated in light of the Government's commitment to providing the best facilities for the South Pacific Games 2007. Also implemented during this period was the public sector general salary increase of 42% which was phased over the three years effective from 2004/2005. The high level of construction activity contributing to these budget deficits was reflected in the real average annual growth rate of 16.4% in the Construction sector for the past four years from 2004 to 2007. On the other hand, results recorded were overall surpluses of \$3.0 million, \$3.3 million and \$15.4 million tala. These favourable results were attributed to strong growth in revenue collection increasing at an average growth of 5% in three years.

However, fiscal operations for the first half of the financial year 2007/2008, generated an overall deficit of \$39.6 million Tala, \$25.1 million more than the fiscal deficit anticipated for the year. This was equivalent to 5.6% of GDP, being more than the fiscal target of the fiscal year 2007/2008 of no more than 3% of GDP. Current balance for the first time in the past ten comparable six month periods recorded a deficit of \$24.07 million tala. The deficit balances recorded were somewhat a result of the huge shortfall in revenue collection, down by \$25.1 million compared to the pro-rata estimate for the July-December 2007/2008 period, coupled with expenditure commitments made for the implementation of some of the final preparations for the South Pacific Games 2007, like sports fields, gyms, roads and bridges and the actual cost of running the games.

The current and overall balances at their downward trend, resulted from the expansionary stance of the budget due to the South Pacific Games and huge shortfall in revenues expected in part from receipts relating to the games for the first six months of 2007/2008. These unfavourable balances caused a drawdown of \$28.5 million in the Government's financial resources in the banking system. In this regard, Government's domestic position should be monitored on a frequent basis to avoid crowding out of the private sector.

Total Revenue and Grants collected for the six months from July to December 2007/2008 amounted to \$224.6 million, comprised of \$186.0 million (82.9%) current receipts and \$38.5 million (17.1%) external grants. This represents a shortfall of 11.2% or \$25.1 million compared to the pro-rata estimate. The shortfall was primarily due to the shortfall of non tax revenues, down by \$16.2 million coupled with the \$9.0 million shortfall in tax revenues.

Tax revenue collection for the period under review was \$170.4 million, was \$8.9 million below pro-rata estimate and contributed 4.0 percentage points to the overall decline in revenue. The underperformance was due mainly to notable losses in import duty and VAGST on imports recording shortfalls of \$6.7 million and \$2.8 million coupled with domestic excise tax down by \$4.3 million tala compared to the pro-rata estimate. Underpinning the shortfall was the drop in the value of imports for the period under review, down by 6.9% compared to the corresponding period last year. Other taxes with significant contributions to the shortfall were income tax, stamp duty, business licenses and petroleum levy with shortfalls of \$0.7 million, \$0.5 million, \$0.5 million and SAT\$0.3 million in their respective order. Slight shortfalls were recorded in other taxes except for import excise that exceeded the estimate by SAT\$2.6 million, boosted by the demand for petroleum products.

Non-tax collection was SAT\$15.7 million, comprised of SAT\$8.6 million from cost recoveries and SAT\$7.1 million of property income. When compared to the pro-rata estimate non-tax revenue was short by SAT\$16.2 million, contributing to the poor performance of 7.2 percentage points. The notable underperformance was attributed to the loss of SAT\$8.3 million anticipated from the South Pacific Games, and the late disbursement of the SAT\$7.5 million in receipts expected from the Samoa International Finance Authority. Cost recoveries were very low during the period, short by \$2.1 million Tala.

Although revenue collection was down compared to the pro-rata estimate for the period under review, receipts from taxes have continued to increase over the years at the trend growth rate of over 10.0%. This is indicative of the positive implications of revenue measures implemented throughout the years and improved compliance. **External grants** were on par.

Total Expenditure and Net Lending for the first half of 2007/08 amounted to \$264.2 million, a \$7.2 million or 2.8% increase compared to the pro-rata estimate. When compared to the same period last financial year, expenditure had increased by 11.9%. Of the excess \$7.2 million, current expenditure contributed 3.5 percentage points to the overall increase of 2.8%. Current expenditure, coupled with net lending exceeding the pro-rata estimate by \$3.3 million, more than offset the shortfall of \$5.5 million in development expenditure.

Current expenditure for the period under review stood at \$210.2 million tala, that was 4.6% over the pro-rata estimate. When compared to the corresponding period last year expenditure rose by 28.2%. The surge in current expenditure was evidence of the Government's commitment in hosting the 2007 South Pacific Games, reflected in the notable increases of \$12.6 million and \$9.8 million respectively in the Ministry of

Education, Sports and Culture (MESC) and Ministry of Works, Transport and Infrastructure (MWTI) overall expenditures relative to their pro-rata estimates.

Development Expenditure was \$48.6 million, \$5.5 million below the pro-rata estimate. The shortfall is evident of delays in the implementation of public sector investment projects like the ADB-Sanitation & Drainage Project (due to some impediments with land issues), delayed procurement in the Education Sector Project II, and the OPEC project mobilisation postponed to after the South Pacific Games.

Net lending for the first six months was \$3.3 million over the pro-rata estimate.

A big shift in current expenditure levels for the comparable six months in 2004/2005, 2006/2007 and 2007/2008 from \$129.3 million, to \$164.0 million and \$210.2 million, reflects an average growth of 27.5%. This growth rate overstates current expenditure growth in as much as it includes some capital expenditures, namely capital works for the South Pacific Games, appropriated under the MESC and the MWTI with significant increases of \$12.6 million and \$9.8 million respectively.

The first six months for FY2007/2008 recorded an overall deficit of \$39.6 million, slightly over the outturn of \$39.3million for the first 3 months. The expansionary government spending for the period continued to exert pressure on the Government's financial resources in the banking system, leading to a drawdown of \$28.5 million as reported by the Central Bank of Samoa's monetary survey.

Given the Government's crucial role as a depositor in the domestic monetary system, and the commitment to promoting private sector led economic growth stipulated in the SDS 2008-2012, measures to ensure fiscal discipline are essential in order to prevent crowding out of the private sector in the credit market. In this regard, Government's domestic position should be monitored on a frequent basis, ensuring resources with the banking system are replenished timely.

Table 7: GOVERNMENT FINANCE 2003/2004 – Dec 2007^a (\$ Million)						
	Provisional Actual				Budget	Provisional
	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	Jul-Dec 2007
Revenues and Grants	317.70	524.41	387.19	487.6	499.5	224.60
Revenues	246.52	283.03	315.37	389.2	422.6	186.13
External Grants	71.16	241.38	71.82	98.5	76.9	38.46
Expenditure	326.57	521.35	391.72	472.3	514.0	264.21
Current ^b	204.49	236.57	281.89	327.6	401.7	210.20
Development ^c	86.62	263.77	86.11	123.7	108.2	48.60
Other (capital & net lending)	35.46	21.02	23.72	21.1	4.1	5.42
Current Balance	42.03	46.46	33.48	61.6	20.9	-24.07
Overall Balance	-8.88	3.06	-4.53	15.4	-14.5	-39.61
Financing						
Net external borrowing	0.25	15.82	6.18	7.6	17.7	9.87
Domestic	8.63	-18.88	-1.65	-22.9	3.7	29.75
Overall Balance as % of GDP	-0.9	0.3	-0.4	1.2	-1.0	5.56
Total Expenditure as % of GDP	33.8	524.41	387.19	36.0	36.8	37.07

Source: Ministry of Finance estimates
^{a/} Provisional Actual 2003/04 – 2006/07, Jul - Dec 07 and Budget 2007/08
^{b/} Includes domestically financed development plans
^{c/} Financed from external grants and loans

4. ECONOMIC AND FISCAL OUTLOOK

The real GDP growth for Samoa is estimated at 3.3 percent, 2.5 percent and 3.3 percent for the years 2008, 2009 and 2010 respectively. The growth in 2009 is expected to slowdown due to the effects of food and oil prices increases. The inflation rate is also expected to remain above the target rate of 3.0 percent at 6.5 percent in 2008 and reducing to 5.2 percent and 4.5 percent in 2009 and 2010 respectively as the impact of oil and food prices are regularized. Formal employment¹ is expected to increase at 2.5 percent per annum to register formal employment of 16,910 employees in 2008, 17,333 employees in 2009 and 17,767 employees in 2010. Import cover in months are expected to improve further to 5.1 in 2008 and will remain at 5.0 months in 2009 and 2010 as the confidence in procuring right hand drive vehicles gain momentum.

In terms of fiscal forecasts, total revenue is expected to fluctuate as the increases in tax revenue cancels the reductions in grants. Total expenditures for the subsequent forward estimates will increase based on 2008/2009 levels. Current budget surpluses of approximately \$100.0 million are expected.

¹ Total formal employment less employment in public administration, electricity and water and assuming that Yazaki and Tuna Canneries in American Samoa will continue to operate.

Table 1: Economic and Fiscal Forecasts for 2008, 2009 and 2010

Economic and Fiscal Forecasts			
Economic Forecasts	2008	2009	2010
Gross Domestic Product (millions)	1.4255	1.4754	1.5270
Real Gross Domestic Product (millions)	1.1183	1.1574	1.1960
Real Gross Domestic Product Growth Rates	3.30%	2.50%	3.30%
Consumer Prices	6.50%	5.20%	4.50%
Formal Employment Growth (a)	2.50%	2.50%	2.50%
Employment Levels	16,910	17,333	17,767
Balance of Payments	n/a	n/a	n/a
Import Cover in months	5.1	5.0	5.0
Fiscal Forecasts (SAT\$ millions)	2008/09	2009/10	2010/11
Total Revenue and Grants	486.3000	483.9000	493.5000
Taxes	325.9000	345.4000	369.9000
Grants	110.7000	91.4000	73.8000
Other Revenue	49.7000	47.1000	49.8000
Total Current Expenditure	384.5000	390.7000	387.2000
Gross Operating Balance	101.8000	93.2000	106.3000
Net Acquisition of Non Financial Assets	214.9000	201.6000	91.1000
Fixed Assets	209.8000	196.5000	86.0000
Non produced Assets	5.1000	5.1000	5.1000
Net Lending/Borrowing Requirement	-113.1000	-108.4000	15.2000
Net Acquisition of Financial Assets and Liabilities	-113.1000	-108.4000	15.2000
Net Acquisition of Financial Assets	-28.0000	-11.7000	3.7000
Domestic	-28.0000	-11.7000	3.7000
Foreign	0.0000	0.0000	0.0000
Net Incurrence of Liabilities	85.1000	96.6000	-11.5000
Domestic	-4.9000	-4.9000	-4.9000
Foreign	90.0000	101.5000	-6.6000
<i>Source: Ministry of Finance and NPF estimates</i>			

The assumptions used in this exercise are given in Annex 3

5. CONSISTENCY OF THE BUDGET 2008/2009 TARGETS WITH THE SDS GOALS

Through the Budget 2008/2009 we intend to progress with our long term budget objectives and targets as elaborated in Table 2 below, while continuing to target priority areas and goals in the SDS 2008-2012.

Table 2: Budget Policies and Targets for 2008/2009, 2009/2010 and 2010/2011

BUDGET POLICIES AND TARGETS	2008/2009	2009/2010	2010/2011
Policy: Budget balance maintained in range of -3.5 percent and 3.5 percent of GDP			
<i>Budget Balance as a percentage of GDP</i>	6.0%		
<p>The overall budget balance for 2008/09 is 6.0 percent of GDP, well above the 3.5 percent of GDP as per policy level. However, it is attributed to the substantial increase in development expenditure (Power Sector Programme and the Sanitation and Drainage Project), where these economic infrastructure are crucial for our development. The grants and loans financing these developments are concessional in terms and conditions, therefore Samoa should maximise on this short term window of opportunity to finance developments before the graduation of Samoa from a Least Developed Country status to a Developing Country status in 2010.</p>			
Policy: Constraining Aggregate Current Expenditures within the range of 35 percent and 38 percent of GDP			
<i>Total Current Expenditure as a percentage of GDP</i>	27.0%	26.5%	25.4%
<i>Total Current Expenditure (GFS Format) as a percentage of GDP</i>	32.9%	31.7%	31.4%
<p>The current expenditure policy of maintaining its level within 35.0 percent and 38.0 percent of GDP is within reach using the Government Finance Statistics format for 2008/09. However, the forward estimates show a decline to 31.0 percent.</p>			
Policy: Disbursed Outstanding Debt to be less than 40 percent of GDP			
<i>Disbursed Outstanding Debt as a percentage of GDP</i>	33.0%	32.2%	31.5%
<p>The disbursed outstanding debt is well below the 40.0 percent of GDP for 2008/09 and the two subsequent forward estimates</p>			
Policy: Constraining Expenditures in relation to Personnel Costs to the range of 30-32 percent of Total Expenditure			
<i>Personnel Cost Expenditure as a percentage of Total Expenditure</i>	31.8%	30.8%	31.0%
<i>Personnel Cost Expenditure as a percentage of Total Expenditure (GFS Expense Format)</i>	26.1%	25.7%	25.0%
<p>The personnel cost expenditure for 2008/09 is achieved and also the two subsequent forward estimates. However, in GFS expense format, it is well below at the 25.0 percent level;</p>			
<i>Source: Central Bank of Samoa Bullentins and Ministry of Finance Estimates</i>			

As such, we intend to invest \$143.74 million in 2008/2009 as in the three priority areas and goals in the SDS 2008-2012 as presented in Table 3 below.

Table 3: Development Expenditure for Budget 2008/2009 with SDS 2008-2012 Framework

Development Expenditure for Budget 2008/09 in SDS 2008-2012 Framework		
Priority Area 1: Economic Policies	SAT\$ millions	Percentages
<i>Goal 1: Sustained Macroeconomic Stability</i>	0.00	0.0%
<i>Goal 2: Private sector led Economic growth and Employment creation</i>	52.93	100.0%
Economic Policies	52.93	36.8%
Priority Area 2: Social Policies		
<i>Goal 3: Improved Education Outcomes</i>	22.83	30.3%
<i>Goal 4: Improved Health Outcomes</i>	20.86	27.7%
<i>Goal 5: Community Development: Improved Economic and Social Wellbeing and Improved Village Governance</i>	31.70	42.0%
Social Policies	75.39	52.4%
Priority Area 3: Public Sector Management and Environmental Sustainability		
<i>Goal 6: Improved Governance</i>	6.92	44.9%
<i>Goal 7: Environment Sustainability and Disaster Risk Reduction</i>	8.50	55.1%
Public Sector Management and Environmental Sustainability	15.42	10.7%
Total Development Expenditure	143.74	100.0%
<i>Source: Ministry of Finance Estimates</i>		

Social Policies priority area which has traditionally been the priority area (education, health and community development) has more than half of the development resources provision. Economic Policies priority area has the second largest share of the budget provision and it is a pivotal area in terms of the provision of a conducive environment for sustained economic growth (economic infrastructure, business legal and regulatory environment and financial sector development). The Public Sector Management and Environment Sustainability priority area has been allocated with more than 10.0 percent of the development resources and will address critical governance and environmental sustainability and disaster mitigation and adaptation issues. A detailed breakdown of these costs in priority areas and goals are in Annex 4.

6. CONCLUSION

The Budget 2008/2009 will be guided by our long term fiscal objectives and the implementation of the SDS 2008-2012 to achieve the seven national goals incorporated in the SDS. As to the achievement of the SDS 2008-2012 vision “improve the quality of life for all” and the theme “ensuring sustainable economic and social progress”, it is vital that Government uses the SDS 2008-2012 as the major guide for its development efforts.

In the pursuit of these development efforts, long term fiscal objectives should be promoted and maintained to ensure that Samoa can respond prudently and timely to development challenges and opportunities in the medium term.

7. ANNEXES

7.1 Financial Operations of the Central Government

Financial Operations of the Central Government					
In millions of Tala	03/04	04/05	05/06	06/07	07/08
Total Revenue and Grants	317.7	408.4	387.2	461.5	499.5
Total Revenue	246.5	283.0	315.4	363.0	422.6
Tax	219.7	242.2	273.1	317.9	358.7
Non Tax	26.8	40.9	42.2	45.2	63.9
External Grants	71.2	125.4	71.8	98.5	76.9
Total Expenditure & lending minus repay'ts.	326.6	405.4	391.7	477.6	514.0
Current expenditure	224.0	236.6	281.9	325.1	401.7
Development expenditure	86.6	147.8	86.1	131.7	108.2
Net Lending	16.0	21.0	23.7	20.7	4.1
Current surplus/deficit (-) (millions)	22.5	46.5	33.5	37.9	20.9
Overall surplus/deficit (-) (millions)	-8.9	3.0	-4.5	-16.1	-14.5
Current surplus/deficit (-) as a percentage of GDP	2.4%	4.4%	2.9%	3.0%	1.5%
Overall surplus/deficit (-) as a percentage of GDP	-0.9%	0.3%	-0.4%	-1.3%	-1.1%
Financing.	8.9	-3.1	4.5	16.1	14.5
External financing (net)	0.3	15.8	6.2	17.8	17.7
Disbursement	12.1	27.6	19.2	33.3	31.2
Amortization	11.9	11.8	13.0	15.5	13.5
Domestic financing (net)	8.6	-18.9	-1.6	-1.7	3.7
Banking System	-17.6	18.7	-11.0	0.0	0.0
Nonbanks and others	-9.0	-0.2	-12.6	-1.7	-3.7
<i>Source: Ministry of Finance</i>					

7.2 Projection Assumptions and Risks

Gross Domestic Product

- (a) Real GDP will slowdown from the decelerating effects of high prices in oil and food commodities;**
- (b) Construction to slowdown after the South Pacific Games;**
- (c) Commerce to remain at current growth level;**
- (d) Recoveries from agriculture, fisheries and other manufacturing;**
- (e) Hotels and restaurants improve with increased numbers of tourists;**

Inflation

- (a) Petroleum prices will continue to increase;**
- (b) Agricultural food prices will also continue to increase;**
- (c) Expansionary budget will put pressure on inflation;**

Employment

- (a) Formal employment will grow at 2.5 percent as economic activities pick up in 2008;**

Import Cover

- (a) Increase in months of import cover continues its upward trend and maintaining at 5.0 months;**

7.3 DEVELOPMENT PROGRAMME UNDER SDS 2008 - 2012

PRIORITY AREAS AND GOALS

Priority Area 1 – Economic Policies

Goal 1: Sustained Macroeconomic Stability;

Goal 2: Private Sector Led Growth and Employment;

Private Sector Assistance

Small Business Enterprises Centre	SAT\$0.20 million;
Contribution to the Private Sector	SAT\$0.40 million;

Infrastructure Development

School Access Roads Programme	SAT\$0.50 million;
Road Routine Maintenance Programme (Upolu and Savaii)	SAT\$11.10 million;
Infrastructure General Maintenance (Upolu and Savaii)	SAT\$3.80 million;
Capital – Road resealing/construction (Upolu and Savaii)	SAT\$5.00 million;
Land compensation resettlement	SAT\$4.00 million;
Land Transport Authority	SAT\$1.30 million;
Renovations for the Head of State Residences (portion)	SAT\$1.00 million;
Preparation for the Right Hand Drive Switch	SAT\$3.50 million;

Counterpart Costs to Development Projects

ADB/Small Business Development Project	SAT\$0.50 million;
IDA/Infrastructure Asset Management Project	SAT\$7.05 million;
(FI – SAT\$0.3m + MNRE – SAT\$0.74 m + MWTI – SAT\$6.0 m)	
IDA/Telecom Sector Reform Project	SAT\$0.70 million;
OPEC/Petroleum Tank Project – Phase III	SAT\$2.60 million;

SOE - Grants

Research and Development Institute	SAT\$3.67 million;
Telecom Regulator	SAT\$1.70 million;

Sports Development

Construction of Sports Fields	SAT\$0.10 million;
Provision of Sports Equipment	SAT\$0.04 million;
Provision for International/National Games	SAT\$0.20 million;
Samoa Rugby Union	SAT\$0.35 million;
Provision for Samoa Games	SAT\$0.10 million;
Samoa Sports Facility Authority	SAT\$2.50 million;

Agriculture Development

Agricultural Show (Talomua)	SAT\$0.38 million;
Coconut Replanting	SAT\$0.09 million;
Purchasing Breeding Cattle	SAT\$0.10 million;

Tourism Development**SOE - Grants**

Samoa Tourism Authority

SAT\$7.70 million;

Goal 2**SAT\$52.57 million****Priority Area 1****SAT\$52.57 million****Priority Area 2 – Social Policies**

Goal 3: Improved Education Outcomes;

Counterpart costs to Development Projects

ADB/Education Sector Project – Phase II

SAT\$1.50 million;

Education Sector Development

Village schools stationery supply

SAT\$2.60 million;

Government's Scholarship Scheme

SAT\$3.00 million;

NUS Sponsored students

SAT\$0.99 million;

Grants to missions and private schools

SAT\$4.00 million;

Setup costs for Aele Primary School

SAT\$0.23 million;

SOE - Grants

National University of Samoa

SAT\$10.00 million;

Samoa Qualifications Authority

SAT\$1.50 million;

Goal 3**SAT\$23.83 million**

Goal 4: Improved Health Outcomes;

Counterpart costs to Development Projects

Health Sector Management Project

SAT\$0.50 million;

Health Sector Development

Overseas medical scheme (fees and fares)

SAT\$8.00 million;

Sleep Apnoea subsidy

SAT\$0.266 million;

Vehicle lease for NHS (9 vehicles)

SAT\$0.38 million;

Returning graduates (Doctors/Nurses)

SAT\$0.32 million;

Pharmaceutical Supplies (Drugs)

SAT\$4.00 million;

Separation of electricity supply

SAT\$1.80 million;

Tuition fees for NUS students (Nurses)

SAT\$0.29 million;

SOE - Grants

National Kidney Foundation

SAT\$5.30 million;

Goal 4**SAT\$20.86 million**

Goal 5: Community Development: Improved Economic and Social Wellbeing and Improved Village Governance;

Community Service Obligations

Samoa Water Authority	SAT\$3.68 million;
Samoa Port Authority	SAT\$0.40 million;
Electric Power Corporation	SAT\$11.60 million;

Social Obligations/Developments

Pension Scheme	SAT\$15.30 million;
10 th Pacific Arts Festival (Pago Pago)	SAT\$0.32 million;

Commemorative Days/Events

Independence Celebrations	SAT\$0.25 million;
American Samoa Flag Day	SAT\$0.06 million;
International Customs Day	SAT\$0.01 million;
Mothers Day of Samoa	SAT\$0.01 million;
Fathers Day of Samoa	SAT\$0.01 million;
Fuataga o Ie o le Malo	SAT\$0.12 million;
Youth Week	SAT\$0.04 million;
Prayer and Fasting Week	SAT\$0.0087 million;

Goal 5	SAT\$31.70 million
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Priority Area 2**SAT\$76.39 million*****Priority Area 3 – Public Sector Management and Environmental Sustainability***

Goal 6: Improved Governance;

Security Support

Transnational Crime Unit	SAT\$0.061 million;
Overseas Peacekeeping Missions	SAT\$0.20 million;

Foreign Relations

Establishment costs for the Samoa Embassy in Japan	SAT\$1.69 million;
Establishment costs for the Samoa Embassy in China	SAT\$1.41 million;

Counterpart costs to Development Projects

Procurement Reforms Project	SAT\$0.05 million;
Chinese Project (Convention Centre)	SAT\$0.25 million;

Regional Meetings to be Hosted by Samoa

23 rd Session of Pacific Tsunami	SAT\$0.05 million;
Pacific Island Chief of Police Conference	SAT\$0.10 million;
UNEP Policy Dialogue Meeting	SAT\$0.40 million;
Commonwealth Meeting Pacific Point of Contact	SAT\$0.008 million;

SOE - Grants

Samoa Fire Services	SAT\$2.70 million;
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Goal 6	SAT\$6.92 million
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Goal 7: Environmental Sustainability and Disaster Risk Reduction;

Waste Management

Solid waste management programme (rural/urban services) SAT\$2.50 million;

Counterpart costs to Development Projects

ADB/Sanitation and Drainage Project SAT\$5.80 million;

IDA/Cyclone Emergency Project SAT\$0.20 million;

Goal 7	SAT\$8.50 million
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Priority Area 3	SAT\$15.42 million
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