International Monetary Fund Assessment Letter: Samoa

For the Pacific Disaster Resilience Program

INTERNATIONAL MONETARY FUND

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SAMOA

May 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SAMOA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Samoa, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 1, 2017 consideration of the staff report that concluded the Article IV consultation with Samoa.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, 2017, following discussions that ended on February 17, 2017, with the officials of Samoa on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 13, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Samoa.

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May 15, 2017

International Monetary Fund
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IMF Executive Board Concludes 2017 Article IV Consultation with Samoa

On May 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Samoa.

Samoa's economy continues to perform well. Economic activity picked up during 2015/16 driven by tourism arrivals, lower fuel prices, and new fish processing facilities, further boosted by two major sporting events and infrastructure projects. Although the pace will moderate in 2017/18 and in 2018/19 with the closure of a large manufacturing plant, growth is expected to remain buoyant, with GDP growing at around 2 percent annually, driven by construction activity, infrastructure development and improvements in the business environment.

The outlook is moderately positive though subject to downside risks related to Samoa's vulnerability to natural disasters, elevated contingent liabilities, and withdrawal of correspondent banking relationships. Given Samoa's reliance on workers' remittances, the closure of bank accounts of money transfer operators (MTOs) heightens the risk of a disruption to remittance payments.

Inflation is subdued, but is expected to pick up with increasing commodity prices, and will remain close to 3.0 percent over the medium term. Although the trade balance improved, the current account deficit widened to 6.1 percent of GDP in 2015/2016 (from 3.0 percent). This reflects a deterioration of the services balance and lower remittances related to charities, which more than offset an improvement in tourism earnings. In the medium term, the current account deficit is expected to gradually narrow to about 4½ percent of GDP.

The exchange rate has remained stable and an accommodative monetary policy stance has supported private sector activity. Reserves recovered in December and January to 3.2 months of imports, reversing a gradual decline during 2016.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Financial stability indicators point to a generally sound banking system, though there are risks stemming from high loan concentration, the number of borrowers with a high loan-to-capital ratio, and the potential for a sharp deterioration in asset quality in the event of a natural disaster.

Executive Board Assessment[2]

Executive Directors agreed commended the authorities for their prudent policies which led to strong economic performance. However, they noted that the outlook is subject to significant downside risks given Samoa's susceptibility to natural disasters. Spillovers from the withdrawal of correspondent banking relationships also pose challenges. Directors underscored the need to rebuild buffers, increase resilience, and implement structural reforms to secure sustained growth.

Directors welcomed the measures being taken to mitigate the impact of the withdrawal of correspondent banking relationships on the remittance sector. They encouraged the authorities to strengthen the Anti-Money Laundering/Combating the Financing of Terrorism framework and to consider the establishment of a Know Your Customer utility to help prevent disruptions to remittances and lower their cost.

To reduce financial sector vulnerabilities, Directors encouraged further implementation of the recommendations of the 2015 Financial Sector Assessment Program. Directors agreed that reform of public financial institutions (PFIs) remains a high priority and will help reduce risks from contingent liabilities and prevent crowding-out of private financial institutions.

Directors welcomed recent fiscal consolidation efforts and highlighted the need for further measures to reduce public sector debt to a more sustainable level. They emphasized the importance of sustaining expenditure control and increasing revenues, including by broadening the tax base and improving compliance. Ongoing efforts to improve the performance of PFIs and state-owned enterprises would also help to mitigate fiscal risks posed by contingent liabilities.

Directors considered the current monetary policy stance appropriate, given low inflation and moderate growth prospects. Noting that reserves appear to be broadly adequate, they encouraged the authorities to monitor the situation and be ready to recalibrate both monetary and fiscal policy to ensure sufficient coverage.

Directors emphasized that accelerating the pace of structural reforms is necessary to meet Samoa's development goals. They welcomed the efforts being made to spur private sector activity and enhance the resilience of public infrastructure to natural disasters. Private sector activity could be further boosted by improving the business climate, increasing access to credit for small and medium-sized enterprises, and addressing skills mismatches and shortages.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Table 1. Samoa: Selected Economic and Financial Indicators, 2013/14–2021/22

Population (2015): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2015/16): US$ 4,035
Quota: SDR 11.6 million

			Est.	Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
					(12-month percent change)				
Output and inflation									
Real GDP growth	1.2	1.6	6.6	2.1	0.9	1.8	2.1	2.1	2.1
Nominal GDP	1.5	4.4	5.4	3.9	2.9	4.3	4.9	5.2	5.2
Consumer price index (end of period)	0.2	0.4	2.3	1.4	2.4	2.6	3.0	3.0	3.0
Consumer price index (period average)	-1.2	1.9	0.1	1.8	1.9	2.5	2.8	3.0	3.0
					(In percent of GDP)				
Central government budget									
Revenue and grants	38.0	35.1	33.5	33.7	35.8	32.3	32.1	32.0	31.8
Of which: grants	12.6	9.8	6.7	7.8	9.9	6.5	6.5	6.5	6.5
Expenditure and net lending	43.3	38.9	33.8	35.6	37.5	34.1	34.1	34.1	34.1
Of which: Development	15.0	11.9	9.3	10.2	12.2	8.8	8.8	8.8	8.8
Current balance	-3.0	-1.7	2.2	0.5	0.6	0.4	0.3	0.2	0.0
Overall balance	-5.3	-3.9	-0.4	-1.9	-1.7	-1.9	-2.0	-2.1	-2.3
External financing	2.8	2.3	-1.8	2.2	2.1	2.3	2.2	2.2	2.3
Domestic financing	2.4	1.6	2.2	-0.3	-0.4	-0.4	-0.3	-0.1	-0.1
					(12-month percent change)				
Macrofinancial variables									
Broad money (M2)	18.7	0.6	7.1	7.7	8.2	10.7	4.8	8.4	10.5
Net domestic assets	2.3	0.0	9.9	4.8	…	…	…	…	…
Private sector credit, commerical banks	3.5	12.7	12.8	7.4	5.1	6.0	5.0	5.0	5.0
Total loan growth, Commercial banks	1.3	8.0	7.7	...	…	...	…	...	…
Total loan growth, Public financial institutions	4.7	1.9	3.3	...	…	...	…	...	…
					(Ratio)				
Individual credit to GDP	28.7	28.6	27.9	...	…	...	…	...	…
Total capital to risk-weighted exposures	29.7	27.1	24.5	...	…	...	…	...	…
Non-performing loans	8.3	7.1	5.2	...	…	...	…	...	…
					(In millions of U.S. dollars)				
Balance of payments									
Current account balance	-65.1	-24.3	-47.7	-51.6	-51.2	-46.7	-44.1	-43.5	-43.1
(In percent of GDP)	-8.1	-3.0	-6.1	-6.1	-5.9	-5.2	-4.7	-4.5	-4.3
Merchandise exports, f.o.b. 1/	24.9	27.9	36.9	38.0	39.4	40.8	42.2	43.7	45.2
Merchandise imports, f.o.b.	-334.6	-322.8	-307.2	-325.4	-342.3	-355.6	-371.2	-388.5	-406.8
Services (net)	111.7	124.3	108.9	114.5	125.8	137.5	149.5	162.0	175.0
Income (net)	-29.8	-16.0	-18.5	-17.2	-17.7	-18.5	-19.4	-20.4	-21.5
Current transfers	162.7	162.3	132.1	138.4	143.6	149.1	154.8	159.8	165.0
External reserves and debt									
Gross official reserves	154.3	131.9	111.0	108.1	111.2	111.6	116.4	123.2	133.9
(In months of next year's imports of GNFS)	4.7	4.0	3.3	3.1	3.1	3.0	3.0	3.1	3.2
Public debt (in millions of tala) 2/	1,015.4	1,126.1	1,080.7	1,116.5	1,146.6	1,198.9	1,259.2	1,329.4	1,404.9
(In percent of GDP)	54.4	57.8	52.6	52.3	52.2	52.4	52.4	52.6	52.8
External debt (in percent of GDP)	51.8	55.3	50.7	50.8	51.1	51.7	52.0	52.3	52.6
Exchange rates									
Market rate (tala/U.S. dollar, period average) 3/ 4/	2.32	2.42	2.61	2.52	…	...	…	...	…
Market rate (tala/U.S. dollar, end period) 3/ 4/	2.27	2.56	2.55	2.52	…	...	…	...	…
Nominal effective exchange rate (2010 = 100) 3/ 4/	106.5	111.6	111.9	113.5	…	...	…	...	…
Real effective exchange rate (2010 = 100) 3/ 4/	104.7	109.4	109.8	108.7	…	...	…	...	…
Memorandum items:									
Nominal GDP (in millions of tala)	1,866	1,949	2,054	2,135	2,196	2,290	2,403	2,528	2,659
GDP per capita (U.S. dollars)	4,189	4,159	4,035	4,296	4,407	4,522	4,660	4,799	4,951

Sources: Data provided by the Samoan authorities; and IMF staff estimates.

1/ Includes re-export of fuel after 2009/10.

2/ Includes domestic and external public debt.

3/ IMF, Information Notice System (calendar year).

4/ Latest data available.

INTERNATIONAL MONETARY FUND

SAMOA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

April 13, 2017

KEY ISSUES

Context. The Samoan economy is performing well: growth is strong while inflation remains subdued. Nevertheless, there are sizeable downside risks to the outlook. Samoa is vulnerable to natural disasters, which has led to elevated public debt and financial sector vulnerabilities, including from public financial institutions (PFIs). High levels of remittances expose Samoa to spillovers from the withdrawal of correspondent banking services.

Main Policy Recommendations

Policies should focus on reducing vulnerabilities and securing sustained growth, by continuing to rebuild buffers, increasing resilience to natural disasters, and implementing structural reforms. Priority actions:

- Mitigate spillovers from the withdrawal of correspondent banking relationships by improving AML/CFT compliance, and consider the establishment of a Know Your Customer (KYC) utility to help prevent disruptions to remittances and lower their cost.

- Reduce financial sector vulnerabilities through continued implementation of Financial Sector Assessment Program (FSAP) recommendations and reform of public financial institutions (PFIs), by re-orienting them towards their original development mandate and improving governance.

- Ensure fiscal sustainability by maintaining expenditure control, broadening the tax base and improving compliance to increase revenues, and adhering to the medium-term debt strategy guidelines on borrowing terms.

- Recalibrate both monetary and fiscal policy if the reserve position deteriorates.

- Accelerate state-owned enterprises (SOE) privatization and reform, improve the business climate, upgrade skills, and facilitate access to finance for small and medium enterprises (SMEs).

Approved By
Odd Per Brekk and Bob Traa

Discussions were held in Apia February 8-17, 2017. The staff team comprised Niamh Sheridan (head-APD), Reshika Singh (RR-PIC), and Analisa Ribeiro Bala (SEC). Nancy Lelang (OED) joined the discussions. Nadine Dubost and Chau Ngoc Bao Nguyen assisted from HQ.

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ANNEXES

CONTEXT

1. **Among small states, Samoa is ranked most vulnerable to natural disasters.**[1] Although real sector activity has recovered from the devastating natural disasters in 2009 and 2012, their legacy includes elevated public sector debt and financial sector vulnerabilities. Samoa is reliant on workers' remittances and is thus vulnerable to the withdrawal of correspondent banking relationships by global banks. More positively, largely complete reconstruction from natural disasters and healthy economic growth are contributing to a renewed focus by the authorities on structural reforms and, in turn, greater private sector confidence.

2. **Policies are broadly in line with past Fund advice.** Fiscal policy consolidation is under way anchored by expenditure restraint and increased revenue collection efforts. The exchange rate has remained stable and an accommodative monetary policy stance has supported private sector activity. The Central Bank of Samoa (CBS) has made significant efforts to implement key Financial Sector Assessment Program (FSAP) recommendations, although ongoing technical assistance remains critical to continued progress. The authorities are implementing Fund advice to mitigate spillovers from the withdrawal of correspondent banking relationships, including upgrades to the AML/CFT framework and enforcement efforts. Continued progress is needed towards implementing structural reforms, including privatizing state-owned enterprises (SOE), and improving access to credit.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

3. **Economic activity picked up during 2015/16 driven by tourism arrivals, lower fuel prices, and new fish processing facilities, further boosted by two major sporting events and infrastructure projects.**[2] While it is clear that growth was strong, the measured growth rate of 6.6 percent could partially reflect improved value-added tax (VAGST) compliance (tax revenue data are an important input to national accounts statistics compilation). Measured growth could thus be potentially overstated by between 1 to 2 percentage points. Inflation, at 1.1 percent remains subdued.

4. **Although the trade balance improved, the current account deficit widened to 6.1 percent of GDP in 2015/2016 (from 3.0 percent).** This reflects a deterioration of the services balance and lower remittances related to charities, which more than offset an improvement in tourism earnings. The Tala was little changed in nominal and real effective terms during 2015/16. Reserves recovered in December and January reversing a gradual decline during the second half of last year, due to large one-off outflows and lower capital grant and FDI inflows. Reserves were 3.2 in months of prospective GNFS imports in January 2017.

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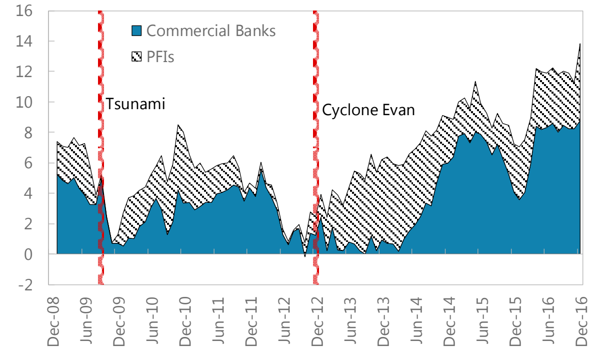
[1] See "Small States' Resilience to Natural Disasters and Climate Change: Role for the Fund", 2016, IMF Policy Paper.

[2] The fiscal year in Samoa is from July 1 through June 30.

5. Credit growth has accelerated, led by the commercial banks. This represents a shift compared with the natural disaster recovery period when PFIs were the main source of credit. PFIs account for about one-third of total credit to the economy but asset quality is weaker than in the commercial banks. Non-performing loan ratios in commercial banks have declined to 5.2 percent in June 2016 from 8.3 percent in June 2014 (the peak following the natural disasters). Deposit and lending rates declined slightly in FY2016 but remain high relative to the policy rate setting. Liquidity conditions have tightened and, although aggregate liquidity remains high, excess liquidity is concentrated in one bank and is associated with a large depositor.

Private Sector Credit Growth
(Year-on-year percent change)



Source: Central Bank of Samoa

6. The near-term growth outlook is moderately positive. Barring any natural disasters, GDP is expected to grow at around 2 percent per year. Growth will be driven by improvements in the business climate, tourism, and construction, including infrastructure projects. The tourism sector is currently held back by a mismatch between excess capacity in hotels and limited flight arrivals, putting downward pressure on pricing and contributing to financial sector vulnerabilities. However, there is potential for stronger growth in the medium term. The closure of the largest manufacturing employer (Yazaki Corporation automobile harness assembly plant) is estimated to reduce growth by about 0.9 percentage points for 2017/18 with a further reduction of about 0.1 percentage points in 2018/19. Average inflation is expected to pick up with increasing commodity prices but remain around 3.0 percent over the medium term. The current account deficit is expected to gradually narrow to about 4½ percent of GDP over the medium term.

7. The outlook is subject to significant downside risks (Annex I). These include:

- **Natural Disasters.** Samoa faces an elevated risk of natural disasters, which have historically been very destructive with annual average damage and losses estimated at over 12 percent of GDP, compared to an average of 2.3 percent for Pacific island countries.[3] Given the extent of the damage, natural disasters have been associated with increases in public debt and are driving the assessment of high risk of debt distress in the debt sustainability analysis. Current high levels of debt and financial sector vulnerabilities imply that policy space for future recovery efforts is limited which could hamper subsequent recovery efforts.
- **Spillovers from loss of correspondent banking relationships.** Strains in correspondent banking relationships are contributing to a reluctance by banks to provide financial services in the remittance sector. Money transfer operators (MTOs) in Samoa and their counterparts in

[3] Cabezon, and others (2015), Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific, WP/15/125.

Australia and New Zealand face closure of bank accounts and increased difficulty in obtaining access to financial services. With over 80 percent of Samoa's remittances channeled through MTOs, Samoa's remittance sector risks becoming increasingly fragile; the cost of remittances could further increase, and financial access could be undermined, given the role of MTOs in remote areas.

- **Contingent liabilities associated with PFIs and SOEs.** Low asset quality and strong linkages with underperforming SOEs increase the vulnerability of the PFIs. Explicit guarantees along with on-lending arrangements to SOEs amount to 18.8 percent of GDP; and there are additional implicit guarantees associated with the PFIs.

8. Downside risks for growth. There is significant uncertainty associated with the impact of the closure of the Yazaki Corporation assembly plant. The company is offering transitional support packages to prepare employees for alternative careers when the assembly plant closes at the end of 2017, which should help to mitigate the impact on employment and incomes in the near term. However, the spillovers to the rest of the macroeconomy remain uncertain. There is further downside risk from the potential closure of the tuna cannery in American Samoa where Samoan citizens make up much of the production workforce, potentially affecting remittances.

Authorities' views

9. The authorities broadly agreed with the staff's assessment of the outlook and risks, and highlighted that the economy remains vulnerable to natural disasters. They shared the view that despite strong growth in 2015/16, the outer years will be challenging. While they agreed that the economy will be hard-hit by the impact of the Yazaki corporation closure, they remain hopeful that the impact would be partially offset by the shift of Yazaki activity to other types of businesses. They also showed concerns about negative spillovers from the closure of Samoa's tuna cannery in American Samoa. On the upside, increased airline connectivity could support the tourism sector.

POLICY ISSUES

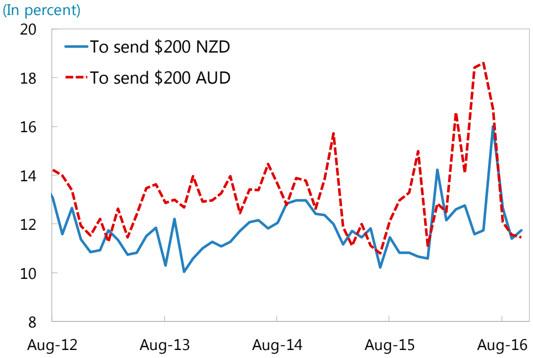
Current policy settings of fiscal restraint combined with accommodative monetary policy are appropriate. This policy mix helps support economic activity while rebuilding fiscal buffers to handle external shocks and natural disasters. Samoa is assessed to be at high risk of debt distress, taking into account extremely high vulnerability to natural disasters. High levels of external debt limit the scope for the exchange rate to smooth adjustment to external shocks, and with a weak monetary transmission mechanism, fiscal policy adjustments are the main lever to respond to shocks. This further emphasizes the importance of tighter fiscal policy during periods when not recovering from natural disasters. Policy efforts should focus on reducing vulnerabilities, rebuilding buffers, and implementing reforms to improve growth prospects.

A. Policies to Address Spillovers from the Loss of Correspondent Banking Relationships

10. Strains in correspondent banking relationships have increased the fragility of Samoa's remittance sector. Remittances stand at 18 percent of GDP of which about 80 percent is channeled through MTOs who are facing closure of bank accounts and increased challenges in accessing financial services. Some MTOs are continuing to operate but are using personal accounts or are physically transporting money overseas. Pressure from global correspondent banks are the main drivers for the closure of MTOs' bank accounts.[4] Continued reduction in access to banking services could contribute to higher costs and could ultimately affect the flow of remittances.

11. Staff have proposed a pilot project for Samoa which involves a comprehensive and coordinated set of measures. The pilot project is anchored on a commitment by the authorities to a comprehensive set of measures, which should serve as a catalyst for donor support. The measures, which should be implemented as soon as possible, are designed to alleviate the concerns of correspondent banks in the near term to help maintain financial services, while at the same time laying the foundations for fully AML/CFT compliant and efficient remittance system for the future.

Average Cost of Remittance
(In percent)



12. A main priority of the pilot project is to upgrade the effectiveness of the AML/CFT regime and recent progress in this regard is welcomed. Continued implementation of the recommendations outlined in the Mutual Evaluation Report by the Asia/Pacific Group on Money Laundering (APG) is needed (Annex III). Progress and further steps include:

- A key recommendation was the preparation and publication of a national strategy for AML/CFT, which was published by the authorities in February 2017. As a next step, a more detailed work plan that includes quantifiable implementation targets should be developed.
- APG recommended to considerably increase the number of AML/CFT specialists throughout the financial and legal system. Recent efforts to enhance capacities of staff of the Financial Intelligence Unit (FIU) and law enforcement agencies on financial investigations should continue.
- Ensure compliance by MTOs with AML/CFT requirements to help ease correspondent banks' concerns over MTO remittances. On-site inspections of MTOs are an important step to improve AML/CFT compliance in this sector and should continue.

[4] Further information is available in Alwazir, Jamaludin, Lee, Sheridan and Tumbarello (2017) "Challenges in Corresponding Banking in the Small States of the Pacific" IMF Working Paper No. 17/90.

- Further efforts are needed to address risks from the offshore sector by aligning laws governing the offshore sector with international AML/CFT standards and enhancing AML/CFT supervision, especially over international banks, insurance companies, trust companies and service providers.
- The authorities have worked with domestic banks to ensure compliance with Foreign Account Tax Compliance Act (FATCA), which has helped lower the risk of correspondent banking relationship withdrawal.
- Dissemination of a sanctions list by the central bank to all local financial institutions is welcomed and outreach should continue to ensure full compliance.

13. The authorities should explore the establishment of a national database—a Know Your Customer (KYC) utility—to help improve compliance screening procedures. The database could include KYC data on those sending and receiving remittances and could be hosted by the FIU, which would have the necessary legal authority to collect the data. By providing a readily available tool to verify bank customers' information, such a database may facilitate information sharing, enhance compliance, and reduce costs. However, compliance with customer due diligence requirements is broader than KYC and should remain with financial institutions and should be risk-based in line with international standards. Further IMF technical assistance could support the authorities' efforts in improving AML/CFT compliance. Developing such a database in tandem with a credit bureau could provide synergies.

Authorities' views

14. The authorities remain concerned about the financial stability risks from ongoing CBR withdrawals. They have made steadfast efforts to implement the IMF's recommendations, including increasing capacity of the FIU, efforts to increase AML/CFT awareness throughout the banking and business community, dissemination of a sanctions list, enhancing FATCA compliance of domestic banks, and on-site inspections of MTOs, but full implementation will take time and require additional resources. The authorities welcome further support from the IMF and other agencies to help identify and implement solutions. Additional donor support is needed to support further upgrades of the AML/CFT regime, including training. The authorities are fully committed to implementing a KYC utility, however, financial and technical assistance will be needed to develop and implement the KYC utility. Outreach and support are needed to reassure overseas banks to provide services to MTOs having improved AML/CFT.

B. Macro-Financial Policies

15. Financial stability indicators suggest a generally sound banking system. Commercial banks remain profitable and report high capitalization while non-performing loan ratios have declined. Although system-wide liquidity remains high, it is concentrated in one bank and is related to institutional deposits, and over recent months some banks have faced tighter liquidity conditions. The main risk to the financial system relates to the potential for a sharp deterioration in asset quality following natural disasters: the financial cycle in Samoa is driven largely by natural disasters and recovery periods tend to be associated with very weak credit growth, especially from the commercial banks, and increases in nonperforming loan ratios due to economic damages. Further risks stem from high loan concentration and the number of borrowers with a high loan-to-capital ratio.

16. Good progress has been made in implementing FSAP recommendations (Annex III). Supervision and regulation have been strengthened, staff capacity has been enhanced, on-site inspections have increased, and prudential standards have been strengthened. Further implementation of FSAP recommendations will continue to support financial sector stability, including amendments to the Financial Institutions Act; upgrades to guidance on prudential statements for banks; increasing financial supervision staffing; additional training for supervisory staff; and updating the framework for single borrowing limits. Good progress has been made with establishing a national payments system. However, capacity constraints have limited progress in strengthening financial stability analysis. Institutional arrangements for financial stability can be strengthened by establishing the terms of reference for and holding regular meetings of the Financial Stability Committee. Financial stability analysis can be further improved with continued efforts to increase data quality and coverage, developing stress testing analysis, and preparing and publishing short notes on financial stability.

17. Reform of PFIs remains a high priority (Annex IV). PFIs' activities should be restored to their original mandates to reduce risks from contingent liabilities and prevent crowding-out of private financial institutions. The Development Bank of Samoa (DBS) is appropriately re-orienting its focus to the agriculture sector but long-standing issues with poorly performing tourism-related loans will continue to pose a risk for some time. Costs associated with policy lending decisions should be clearly articulated. The Samoa National Provident Fund (SNPF) should gradually reduce its personal lending, including against members' contributions. Subsidized lending by the Unit Trust of Samoa (UTOS) to underperforming SOEs increases the contingent liability risks and crowds out private sector financial institutions. In line with FSAP recommendations, UTOS could be transformed into an unleveraged mutual fund or a policy-lending bank.

Samoa: Public Financial Institutions, FY 2016

	DBS	SHC	SNPF	UTOS
Total assets (% of GDP)	14.2	3.8	31.4	7.5
Share in financial system (%)	*9.0*	*2.1*	*24.0*	*4.8*
Gross loans&investments (% of GDP)	7.8	2.1	17.3	4.2
Borrowing (% of GDP) 1/	6.3	0.6	-	-
Net profit 2/	-0.6	2.2	32.3	1.0
ROA (%) 3/	-0.2	2.9	5.0	0.6
Return of capital (%) 1/ 4/	-1.2	7.6	-	-
NPLs (% of total loans) 5/	4.6	2.1	5.8	-

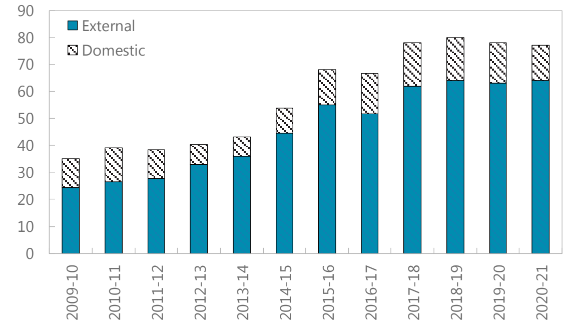
Sources: Authorities, Annual Reports of PFIs, and IMF staff calculations.
1/ FY 2015 for DBS
2/ For Samoa National Provident Fund (SNPF) the net surplus from investment income is shown.
3/ Ratio of net profits to total assets.
4/ Ratio of net profits to capital and reserves.
5/ Latest data FY 2014

Authorities' views

18. The authorities appreciate IMF technical assistance and are committed to implement FSAP recommendations. They acknowledged PFI-related risks and underscored that they remain vigilant on this front. The CBS has stepped up supervision of the PFIs and is ensuring that PFIs adhere to reporting guidelines. The authorities emphasized that UTOS has played an important role in facilitating access to financing for SOEs and do not share staff's concerns with its operations as UTOS fully meets the supervisory requirements of the CBS.

C. Ensuring Fiscal Sustainability

Debt Service Requirements
(In millions of Tala)



Sources: Samoa Ministry of Finance - *Medium Term Debt Management Strategy 2016-2020*; and IMF staff estimates.

19. Expenditure rationalization and revenue collection efforts reduced the deficit to 0.4 percent of GDP during FY2015/16 from 3.9 percent in 2014/15. Reductions in operating expenditure contributed about 2.5 percentage points to the improved fiscal position. This was achieved by targeting 10 percent expenditure reductions for most ministries, apart from health and education expenditures. Revenues were buoyant and additional revenues, including from improved compliance and increased collection efforts, were saved, amounting to about 1.5 percent of GDP. These efforts to consolidate the fiscal position were appropriate, given strong growth and largely complete reconstruction from natural disasters. For 2016/17, the deficit is expected to widen to 1.9 percent of GDP largely reflecting higher expenditure (partly associated with new ministries) and less buoyant revenue projections. The public debt to GDP ratio is high at 52.5 percent of GDP and debt service requirements will increase in 2017/18 to 2.7 percent of GDP.

Samoa. Fiscal Policy: Baseline Scenario and Scenario with Revenue Measures

			Est.			Proj.		
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	In percent of GDP							
Baseline scenario								
Tax Revenue	22.7	24.2	23.3	23.2	23.1	22.9	22.8	22.6
Overall Balance	-3.9	-0.4	-1.9	-1.7	-1.9	-2.0	-2.1	-2.3
Public Debt	57.8	52.6	52.3	52.2	52.4	52.4	52.6	52.8
Fiscal Scenario with revenue measures 1/								
Tax Revenue	22.7	24.2	23.3	23.4	23.7	23.7	23.7	23.7
Overall Balance	-3.9	-0.4	-1.9	-1.5	-1.3	-1.2	-1.2	-1.1
Public Debt	57.8	52.6	52.3	52.0	51.6	50.8	50.2	49.4

1/ Measures include broadening the tax base by reducing GST exemptions and streamlining tax credits and concessions.

20. Continued fiscal efforts will be needed to reduce public sector debt to 50 percent of GDP, as targeted in the medium-term fiscal framework and to reduce risk of debt distress. Reducing the fiscal deficit through a sustained increase in revenues by 0.4 percentage points relative to 2016/17 along with expenditure restraint can help achieve this goal by 2020/21 (text table). However, a projected downward trend in revenues as percent of GDP implies that additional measures are needed to meet this goal. The main elements of the fiscal strategy should include:

- Broadening the tax base by removing exemptions, including VAGST exemptions, and continuing efforts to enhance compliance. Concessions and tax credits should be reviewed and streamlined.

Consideration could also be given to increasing excise taxes and user fee charges. SOE reforms should continue, including completion of audits of annual reports, in order to facilitate collection of dividends. Furthermore, any windfall revenues such as upside surprises to revenue collection or from privatization should be saved.

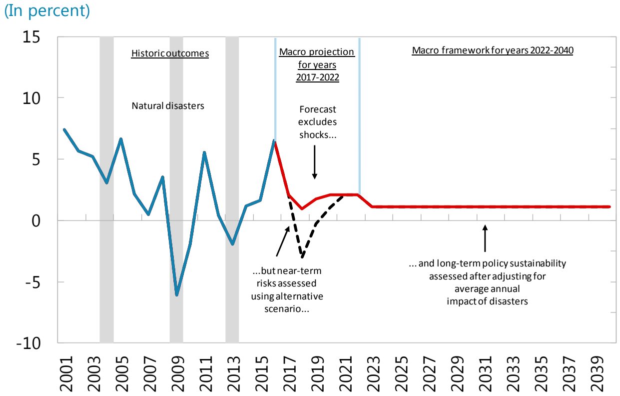
- Solidify recent improvements in expenditure control and maintain expenditure restraint. The scope for further reductions in the near term is limited, following the expenditure reductions during 2015/16. Expenditure on health, education and climate-resilient infrastructure should remain priorities and planned expenditure reviews can help improve the efficiency of expenditure in these priority areas. Looking ahead, rolling expenditure reviews should be considered to help identify further scope for improvements in efficiency and expenditure cuts, which may be needed if revenue measures are not sufficient.

- Adherence to the authorities' medium-term debt strategy will also support fiscal sustainability. The key elements include ensuring a minimum 35 percent grant element for new borrowing; implementation of the procedures and guidelines for contracting new loans and issuance of guarantees approved by Cabinet in 2014; annual reporting on medium-term debt strategy; implementation and debt management operations of Government; and setting of strategic indicators and targets to monitor the costs and risk exposure of the public debt portfolio, including reducing currency risk by diversifying currencies where possible.

21. **The debt sustainability analysis for Samoa indicates a high risk of debt distress, taking into account the vulnerability to natural disasters.** The change in rating compared with the 2015 Staff Report is driven by a methodological change that adjusts for the average impact of natural disasters on growth, the current account and, fiscal balance over the medium term. Aiming to meet the 50 percent debt target earlier than 2020/21 and targeting a public debt to GDP ratio of 40 percent over the longer term would reduce the risk of debt distress and increase space for a strong fiscal response to natural disasters. This can be achieved by sustaining a tight fiscal policy stance during periods when not recovering from natural disasters. Contingency planning in the form of pre-negotiated borrowing from multilateral lenders can also serve as a buffer to natural disasters but should be evaluated in the context of the government's overall debt management strategy.

22. **Samoa faces sizeable fiscal risks.** Historically, natural disasters have led to increased public sector debt (with the 2009 Tsunami adding 10 percent of GDP and 2012 Cyclone Evan adding a further 5 percent). The debt sustainability analysis (DSA) highlights that Samoa faces a high risk of debt distress, taking into account the average impact of natural disasters ongrowth rates and the fiscal and current account balances. There is a heightened overall risk of public debt distress, reflecting Samoa's sizeable contingent

Growth Projections with Disaster Impacts for DSA Analysis
(In percent)



Sources: Country authorities; and IMF staff calculations.

liabilities. Public debt is denominated in foreign currency, which limits the role of adjustments in the exchange rate to facilitate the adjustment of the economy to external shocks. Contingent liabilities related to SOEs and PFIs present a significant fiscal risk. The government issues guarantees to its SOEs and has several on-lending arrangements with PFIs. Costs of policy related lending initiatives or forbearance should be clearly articulated and continued reforms of PFIs should help limit the risk of contingent liabilities.

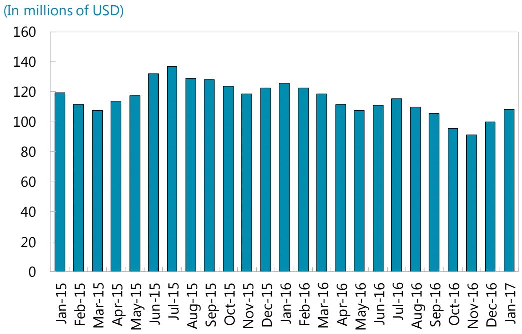
Authorities' views

23. The authorities recognize the risks posed by high debt levels and are committed to pressing ahead with fiscal consolidation to achieve the government's medium-term fiscal deficit targets. The authorities agreed with the DSA findings and noted the risk to debt sustainability from natural disasters and the importance of ensuring any newly contracted debt has a minimum 35 percent concessional component. They intend to broaden the tax base and continue with more vigorous compliance measures. They emphasized the need for expenditure restraint, noting that recent efforts have set a new base, and are conducting expenditure reviews in health and education to improve efficiency.

D. Monetary and Exchange Rate Policy

24. The external position is broadly in line with fundamentals. The current level of the exchange rate is assessed to be appropriate. International reserves (in U.S. dollar terms) declined towards the end of 2016 but improved in December and January to 3.2 months of prospective GNFS imports. Careful monitoring is needed to ensure sufficient coverage. Over the medium term, the current account deficit will need to narrow further, driven by fiscal consolidation to ensure debt sustainability. The IMF's reserve adequacy metric for credit constrained economies suggests an optimal level of reserves for Samoa between 2.7 to 4 months of imports of goods and non-factor services, depending on the assumed long-run opportunity cost of holding reserves.

Samoa: Gross reserves
(In millions of USD)



Sources: Central Bank of Samoa; IFS; and IMF Staff calculations.

25. The current monetary policy stance is appropriate given low inflation and moderate growth prospects. The need to build fiscal buffers has increased the urgency of fiscal efforts and in this context, monetary policy can remain accommodative to support private sector activity. However, if the reserve position deteriorates, macroeconomic policies will need to be adjusted. A tighter monetary policy stance would be appropriate; however, the monetary transmission mechanism is weak and therefore fiscal policy would bear most of the burden of adjustment.

Authorities' views

26. The authorities consider the current monetary policy stance to be broadly appropriate. The authorities noted that the recent decline in reserves reflected one-off factors, but also the ending of a period of substantial grant inflows. They anticipate reserves to continue to recover but monetary policy could be tightened, if reserves were to continue to decline. However, the monetary transmission mechanism is weak and, in addition to raising the interest rate of CBS securities, the CBS would rely on moral suasion which has previously been effective. In addition, the authorities indicated that they could also consider recalling overseas investments for some institutions, if needed.

E. Structural Policies for Sustained and Inclusive Growth

27. Improving resilience to natural disasters is a high priority. This can be facilitated by continuing to focus development expenditure on increasing the resilience of infrastructure to climate change and natural disasters. This includes construction of new infrastructure to climate resilient standards and adequate maintenance of existing infrastructure. For example, a Green Climate funded project, announced in December 2016, will upgrade key infrastructure in Apia, the capital city, to prevent flooding, a main source of damage during previous natural disasters. Greater economic diversification would also improve resilience to natural disasters.

28. Better performance of SOEs would raise growth prospects, reduce drain on the budget, and alleviate financial sector vulnerabilities. SOEs control a large share of physical assets in Samoa, yet their contribution to GDP is estimated at 3 percent (Annex IV). Between 2010-2014, returns on equity and assets were negative and average government transfers to SOEs, not including subsidized loans by UTOS, amounted to 0.9 percent of GDP.[5] Recent steps to improve SOE performance, accountability, and governance are appropriate and include establishment of the new Ministry of Public Enterprises, implementation of provisions of the SOE Act, and appointment of independent directors. The authorities should proceed with efforts to privatize selected SOEs over the medium-term. More broadly, improvements to SOE governance should continue in order to increase their efficiency and contribution to the economy.

29. Sustained efforts will improve the business climate and support private sector growth. Impediments to funding for SMEs continues to constrain private sector activity, however, the implementation of the Personal Properties Securities Act (amended January 2015) in February 2017 is expected to improve access to finance, as will the eventual implementation of the credit bureau. Proposed reforms to the legal framework for land leases would also facilitate access to credit. Skills shortages remain a significant impediment for businesses. Targeted efforts to improve vocational skills and accreditation could help ease these shortages, while also better preparing workers to take advantage of overseas opportunities. There is scope for further development of the tourism sector, including through improved flight availability and an enhanced tourist experience. Completion of a

[5] From ADB (2016) "Finding Balance 2016: Benchmarking the Performance of State-owned Enterprises in Island Countries".

submarine cable in 2017 is expected to improve the quality and reduce costs of information technology services.

30. Further efforts are needed to reform and upgrade the agricultural sector, which absorbs as much as two-thirds of the potential labor force. However, productivity is low and output is projected to continue to decline. The sector is constrained by access to land and inability to use land for collateral to finance agricultural development. A more productive agriculture sector can help deliver sustainable growth and will help meet the Sustainable Development Goals (SDG).

31. Extreme poverty is rare in Samoa and the incidence of food and basic needs poverty has declined since 2002. However, there has been only a modest decrease in the share of the population that is either poor or vulnerable; and income inequality has increased. The uptick in basic needs poverty in 2008 highlights Samoa's vulnerability to food price shocks. The incidence of poverty is highest amongst those with the lowest level of education attainment. Samoa has achieved the Millennium Development Goals (MDG) with respect to universal primary education. Continued efforts to improve educational access will help support achieving the SDGs.

Poverty and Inequality Indicators

	2002	2008	2013/14
Food Poverty (Share of Population)	10.6	4.9	4.3
Basic Needs Poverty (Share of Population)	22.9	26.9	18.8
Poverty Gap Index	6.6	6.6	4.9
Gini Coefficient (Households)	0.43	0.47	0.56

Source: Samoa Hardship and Poverty Report 2016

32. The Strategy for Development of Samoa 2016/17-2019/20 (SDS) was recently published. The SDS highlights the government's priorities (Table 7) and outlines the actions put in place to achieve the key outcomes. The SDS aims to ensure increased opportunities and improved access to services and infrastructure. The government has also committed to link the annual and multiyear budgets to the strategic outcomes of the SDS, ensuring that what they commit to each year in the budget process keeps them on the path towards reaching the SDS outcomes.

Authorities' views

33. The authorities are committed to achieving the SDGs. The authorities agree that improving the resiliency of infrastructure to natural disasters is important but noted the additional upfront costs and associated trade-offs. Efforts are ongoing to improve the operations and governance of SOEs and the authorities are committed to privatization, but progress is dependent on investor availability and interest. The authorities recognize the potential from greater access to land but are committed to protecting the rights of landowners.

F. Other Issues

34. Samoa's economic statistics are broadly adequate for surveillance. Core macroeconomic data are regularly reported to the IMF and published on official websites. Some statistical issues were raised during the mission, including potential bias in the recent national accounts data. Staff urges timely implementation of recommendations from the PFTAC national accounts mission in December 2016 to ensure appropriate transformation of VAGST data; further analysis of the household expenditure survey to estimate the informal sector; and to upgrade deflation methodology. The Samoa Bureau of Statistics (SBS) is encouraged to develop a revisions policy. Additional technical assistance with Government Finance Statistics (GFS) is also needed. The SBS has recently increased their statistical capacity and are expected to provide IIP data to the Fund during 2017.

35. **Data dissemination will be enhanced through the implementation of the enhanced General Data Dissemination System (e-GDDS) (Box 1).** An STA e-GDDS mission overlapped with the Article IV mission to assist the authorities in developing a national "data hub"— the National Summary Data Page (NSDP)— that features data dissemination in both human readable and machine readable SDMX formats. Implementation of the e-GDDS represents a key structural reform in statistical developments and will promote transparency and help create strong synergies between data dissemination and surveillance.

Authorities' views

36. **The authorities welcomed technical assistance to implement the eGDDS.** Technical assistance is needed to improve the national accounts statistics; technical assistance and training are needed to upgrade GFS.

STAFF APPRAISAL

37. **The Samoan economy has performed well in recent years.** Economic growth was strong in 2015/16 and, although the pace will moderate somewhat, is expected to remain buoyant this year. Closure of the largest manufacturing plant will drag on growth in 2017/18 and in 2018/19. Nevertheless, economic activity will continue to be supported by renewed reform momentum and increased business confidence. Growth is expected to average close to 2 percent, in the absence of natural disasters. Inflation is subdued and is expected to be close to 3 percent over the medium term. The current account widened in 2015/16 despite an improve trade balance due to lower charitable remittances and a deterioration in the services account. Over the medium term, the current account is expected to remain in deficit of about 4.5 percent of GDP.

38. **The loss of correspondent relationships has increased the fragility of the remittance sector in Samoa.** Some MTOs are operating without bank accounts. increasing the risk of a disruption to remittance payments on which Samoa is heavily reliant. An IMF pilot project is supporting a coordinated and comprehensive set of measures needed to address these risks. Ongoing efforts by the authorities have improved the AML/CFT framework but additional technical assistance is needed to strengthen the legislative framework and increase its effectiveness. The authorities are also encouraged to consider developing a KYC utility that may contribute to reduced costs and improve the AML/CFT compliance in the remittance sector.

39. Financial stability indicators point to a generally sound banking system, although vulnerabilities persist in the PFIs. Good progress has been made in implementing FSAP recommendations and continued efforts will support financial sector stability, including amendments to the Financial Institutions Act, upgrades to prudential statements, increased capacity, and updating the framework for single borrower limits. Enhanced data quality and coverage along with the development of stress testing analysis and preparation of notes on financial stability will sharpen financial stability analysis and help build capacity to address risks.

40. Continued efforts are needed to reduce the public sector debt to mitigate the vulnerabilities from natural disasters. Recent improvement in expenditure control should be sustained and expenditure reviews in health and education can support improved efficiency. Revenue mobilization efforts are needed to address a projected downward trend in revenues as a percent of GDP and should focus on broadening the tax base, improving compliance, and streamlining tax concessions and credits. Adherence to the medium-term debt strategy, including a minimum 35 percent concessional component for new borrowing, will support fiscal sustainability. Ongoing efforts to manage contingent liabilities, including reform of SOEs and PFIs, will reduce Samoa's fiscal risks.

41. The monetary policy stance is appropriate and the exchange rate is broadly in line with fundamentals. However, international reserves trended downwards during 2016 and although this trend reversed in recent months, reserve developments merits close monitoring. Macroeconomic policies should be adjusted if the reserve position deteriorates, however, the weak monetary transmission mechanism implies that fiscal policy would bear most of the burden of adjustment.

42. Accelerated structural reforms will help Samoa meet its development goals, as outlined in the SDS. Continued efforts to enhance the resilience of public infrastructure to natural disasters will support sustainable growth, by reducing the costs of natural disasters and encouraging private sector activity. Private sector activity can be further boosted by sustained efforts to improve the business climate, increasing access to credit, and addressing skill mismatches and shortages. Reform of SOEs would raise growth prospects, reduce drain on the budget, and alleviate financial sector vulnerabilities.

43. The staff recommends that the Article IV consultation with Samoa be held on the standard 12-month cycle.

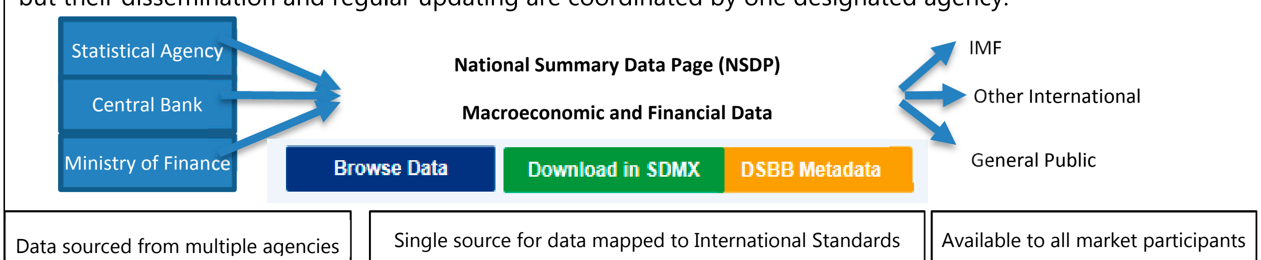
Box 1. Implementing the Enhanced General Data Dissemination System (eGDDS)

Samoa is to be the first country in the Asia and Pacific region to implement the e-GDDS. The Samoan authorities have committed to publish in April 2017 key macroeconomic data in a new national summary data page (NSDP) under e-GDDS to support surveillance and improve data transparency.

A renewed data initiative. Introduction of new features to the General Data Dissemination System resulted in the establishment of the e-GDDS in May 2015. The e-GDDS refocuses on data dissemination to support transparency, encourage statistical development, and help create strong synergies between data dissemination and surveillance. It is designed to assist participants in improving data transparency and governance through release of key macroeconomic and financial data in a standardized format and disciplined manner. Implementation of the e-GDDS would lead to structural change in countries' statistical system. Staff analysis has shown that data transparency reforms reduce borrowing costs and enhance resilience of the economy (Choi and Hashimoto, 2017).

A focus on dissemination of data for surveillance. The e-GDDS recommends dissemination of 15 data categories that are considered essential for the analysis and monitoring of macroeconomic and financial conditions. In particular, these data categories are aligned with those as listed in the Table of Common Indictors Required for Surveillance (TCIRS). Such alignment helps to integrate and leverage e-GDDS and data provision for TCIRS and create synergies given the central role of TCIRS in surveillance activities. The Samoan authorities committed to publish 13 of the 15 core e-GDDS data categories in April 2017. The remaining two core data categories (external debt and international investment position) will be published later in 2017. The authorities have also opted to disseminate supplementary datasets, including direction of trade, labor market, population, financial soundness indicators (FSIs), sectoral financial statements for FSIs, and financial access survey.

NSDP's features and benefits. The NSDP is a national "data portal" that assembles links for e-GDDS recommended data categories and supplementary datasets for a country. The links provide access to time series in formats readable by humans and computers. These data are usually compiled by multiple agencies, but their dissemination and regular updating are coordinated by one designated agency.



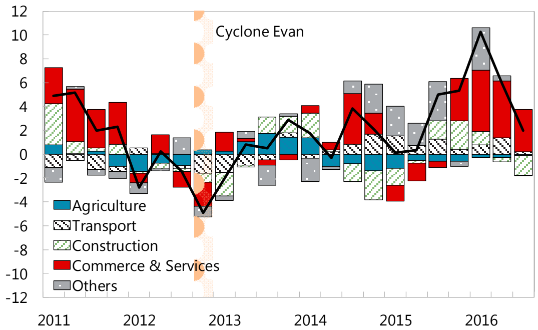
- The NSDP lets data users: (i) ***browse data*** via link to online datasets that can be easily viewed in time series format or as graphics; (ii) ***download data in SDMX***, a format used for machine-to-machine data sharing; and (iii) ***access metadata***, which describes a country's practice for data compilation and dissemination.

The NSDP (i) reduces reporting burden for ***data reporters*** to multiple agencies via posting data in one data portal in a standardized format that can be accessed by different agencies; (ii) allows ***data managers*** to control data updating processes; (iii) makes processing easier for ***international/regional organizations*** and other institutional data users due to data dissemination in machine readable format; and (iv) provides links to data in a format that ***the general public*** can easily browse as time series, view as graphs, or download.

Figure 1. Samoa: Real Sector Developments

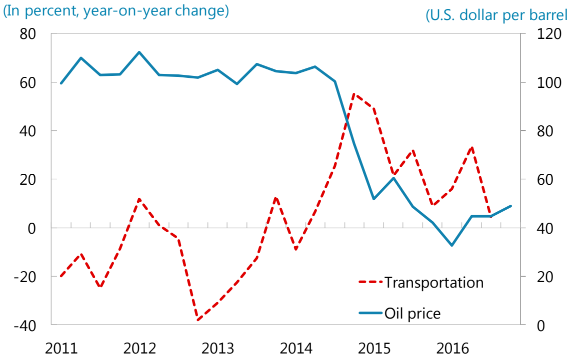
Growth has accelerated led by commerce and services.

Real GDP Growth by Sector
(In percentage change)



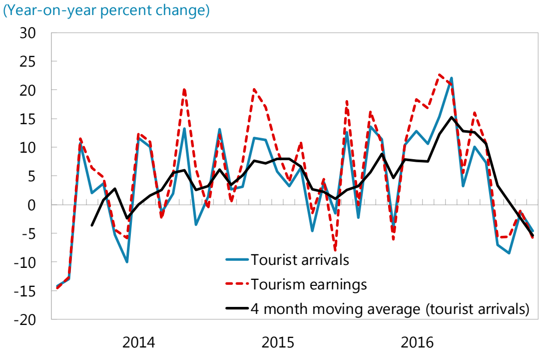
Lower oil prices boosted transportation sector growth.

Transportation Growth and Oil Price
(In percent, year-on-year change)
(U.S. dollar per barrel)



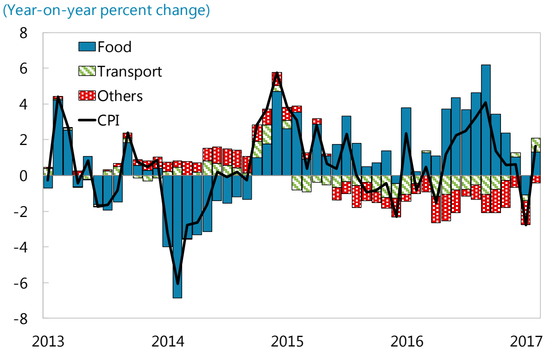
Tourism arrivals grew strongly during 2015/16 but have since declined.

Tourism
(Year-on-year percent change)



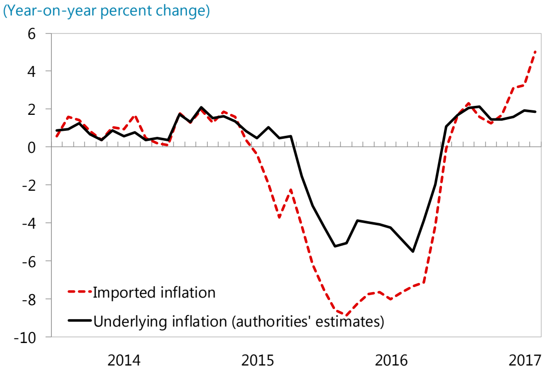
Higher food prices pushed up inflation in early 2016 but inflationary pressures have since subsided.

Contribution to Inflation
(Year-on-year percent change)



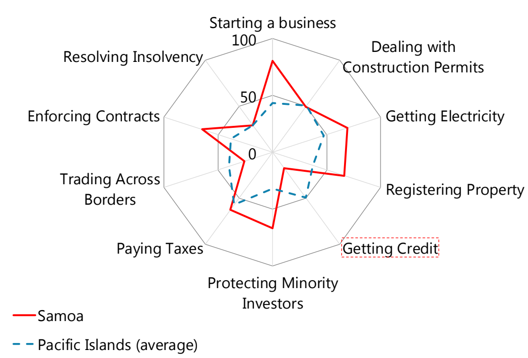
Underlying inflation indicators turned positive in early 2016 and underlying inflation has increased.

Inflation indicators
(Year-on-year percent change)



Samoa's business climate compares favorably with the Pacific island average, with the exception of access to credit.

Doing Business Categories, 2017
(Percentile of rank, higher is better)

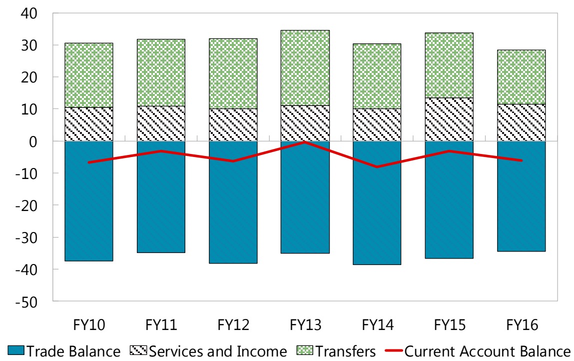


Sources: Country authorities; World Bank Doing Business; and IMF staff calculations.

Figure 2. Samoa: External Sector Developments

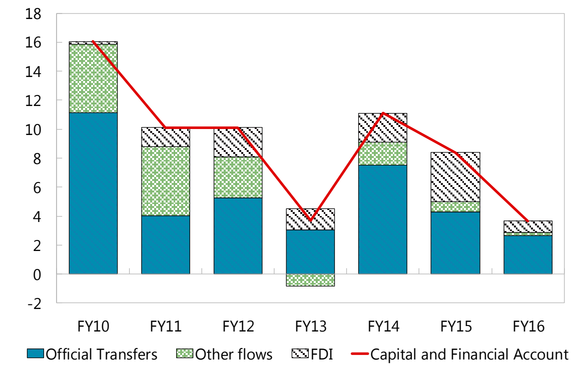
The current account balance widened in 2015/16, reflecting a decline in transfers.

Current Account Balance
(In percent of GDP)



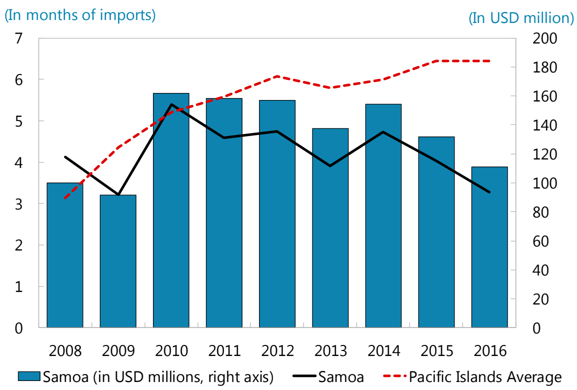
The capital and financial account narrowed as FDI flows declined following a large increase in FY15.

Capital and Financial Account
(In percent of GDP)



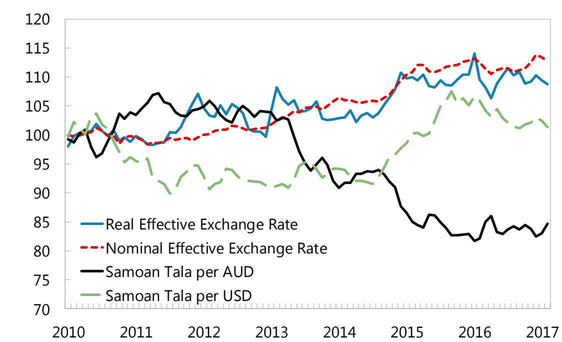
Reserves have declined, in contrast with the gradual increase in pacific island average reserves.

Reserves
(In months of imports)



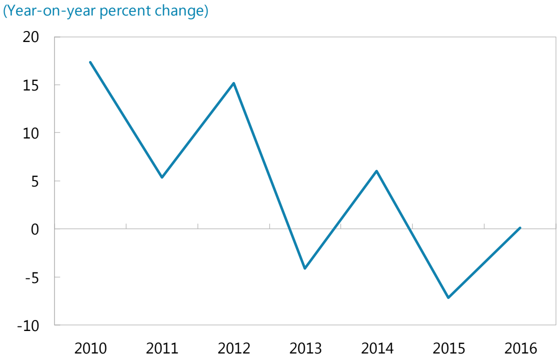
The real and nominal effective exchange rates have been largely unchanged during 2016.

Exchange Rates (2010=100)



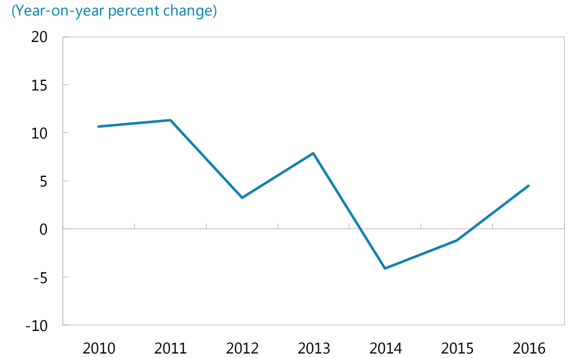
Import growth is flat…

Growth rate of Imports
(Year-on-year percent change)



… but exports continue to grow.

Growth rate of Exports
(Year-on-year percent change)

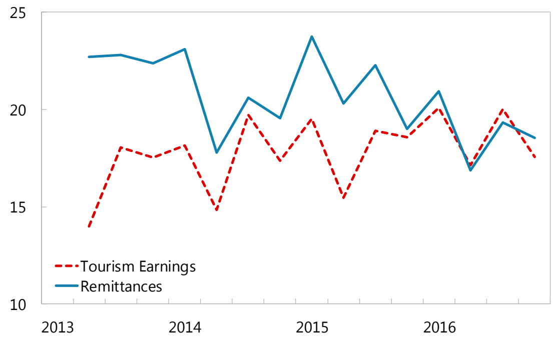


Sources: Country authorities; and IMF staff calculations.

Figure 3. Samoa: The Role of Remittances

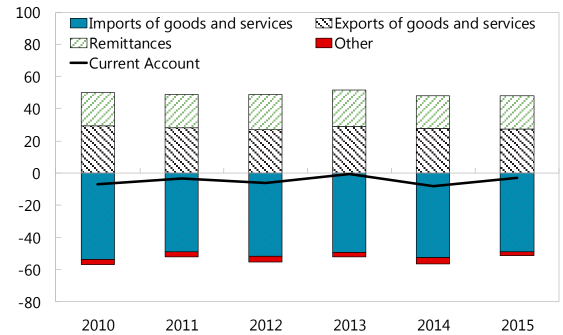
Remittances stand at 18 percent of GDP…

Tourism and Remittances
(Percent of GDP)



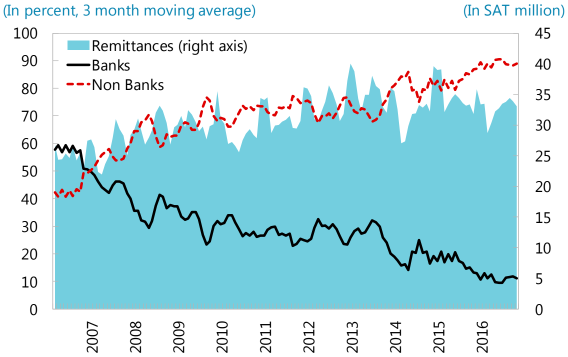
…helping to narrow the current account deficit and support imports.

Current Account Balance
(In percent of GDP)



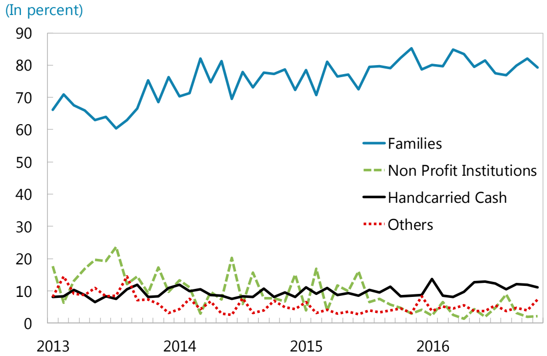
Remittances are primarily channeled by non-banks, including money transfer operators ….

Remittances by Share
(In percent, 3 month moving average) (In SAT million)



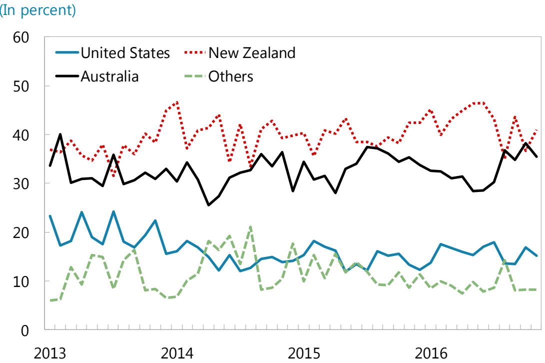
… and are mainly for families.

Remittances by Recipients
(In percent)



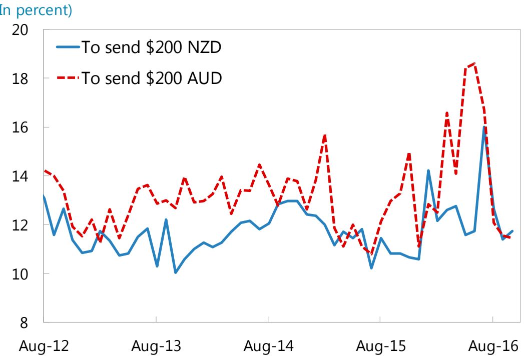
Australia and New Zealand are the main source of remittances.

Remittances by Country of Origin
(In percent)



The average remittance cost is high, well above the G20 objective of 5 percent, and has become increasingly volatile.

Average Cost of Remittance
(In percent)

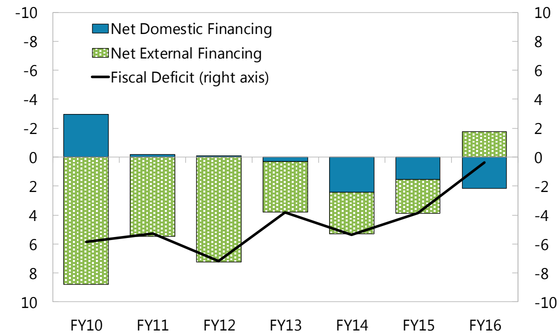


Sources: Country authorities; SendMoneyPacific; and IMF staff calculations.

Figure 4. Samoa: Fiscal Sector Developments

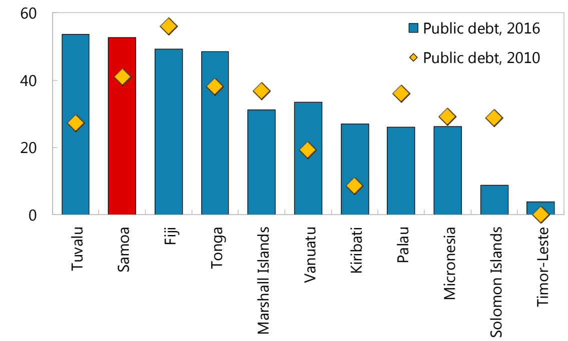
The fiscal deficit has declined…

Fiscal Deficit and Financing
(In percent of GDP)



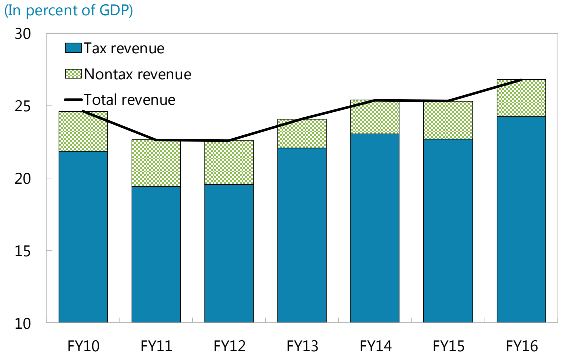
…but public sector debt remains high.

Gross Public Debt, 2016
(In percent of GDP)



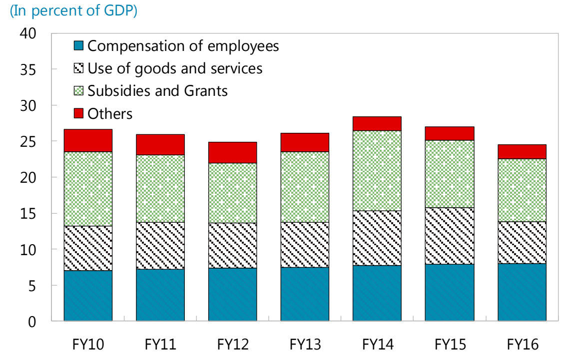
Revenues increased in FY2016 reflecting collection efforts.

Revenues (excluding grants)
(In percent of GDP)



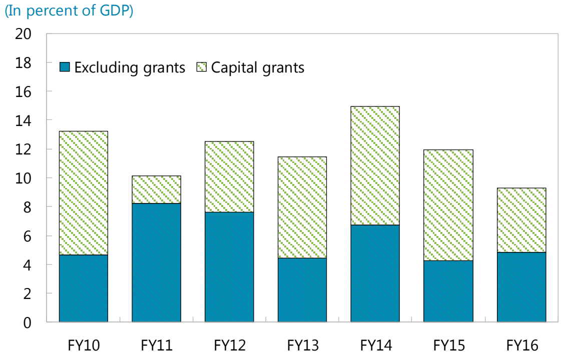
Current expenditure is trending downward, with a marked decline in expenditure on goods and services in FY16.

Current Expenditures
(In percent of GDP)



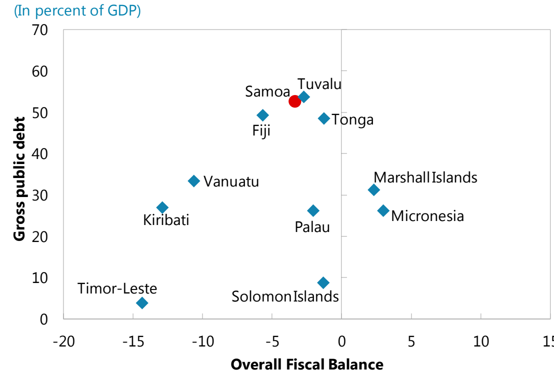
A decline in capital grants has contributed to a decline in development expenditure.

Development Expenditures
(In percent of GDP)



Samoa has less fiscal space than other pacific islands with a higher debt ratio but the deficit is smaller.

Fiscal Space, 2016
(In percent of GDP)

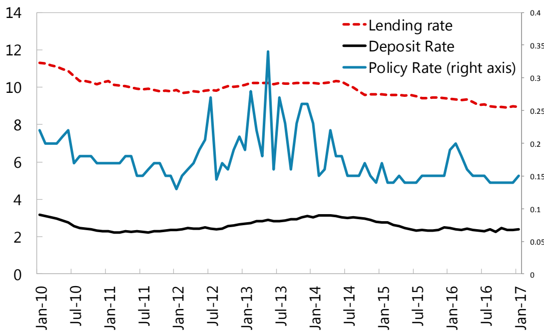


Sources: Country authorities; and IMF staff calculations.

Figure 5. Samoa: Monetary and Financial Sector Developments

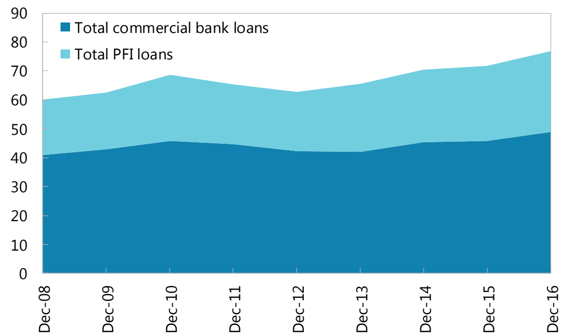
The policy rate is at the lower bound but the monetary transmission mechanism is weak.

Policy rate
(In percent)



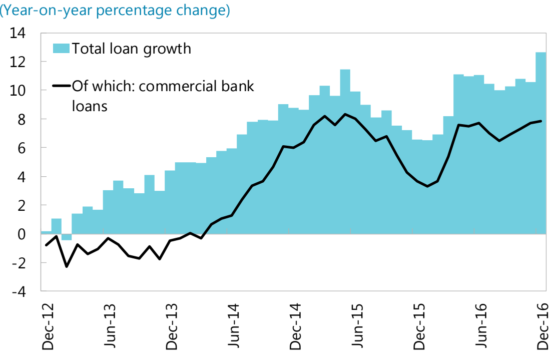
About two-thirds of credit is from the commercial banks and public financial institutions supply the remainder.

Credit to economy
(Percent of GDP)



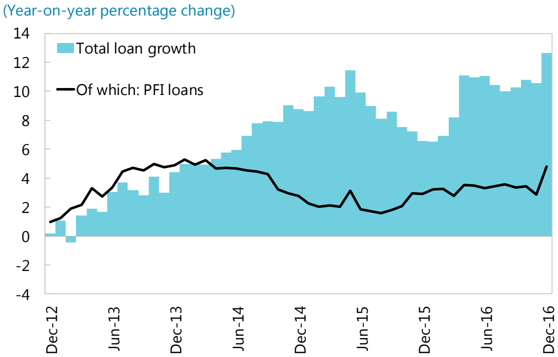
Credit growth has picked up, led by commercial banks…

Credit to economy
(Year-on-year percentage change)



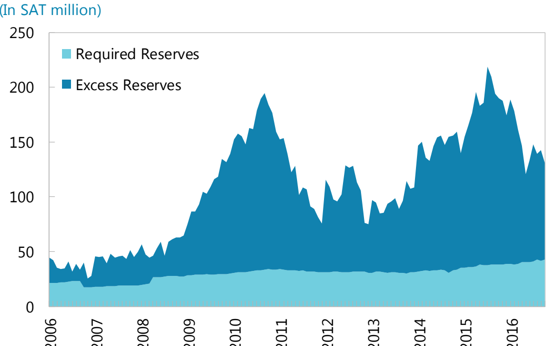
… with a reduced contribution from the PFIs.

Credit to economy
(Year-on-year percentage change)



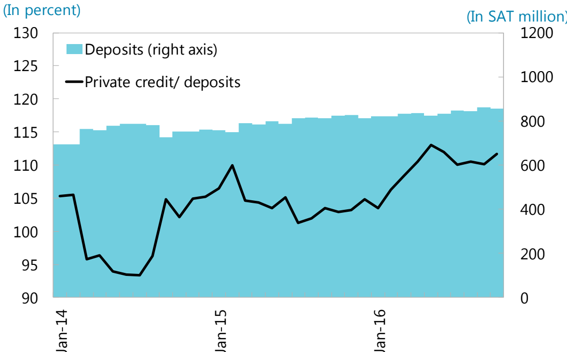
Excess reserves have declined since 2015 and are concentrated in one bank.

Liquidity
(In SAT million)



The loan-to-deposit ratio has increased.

Underlying credit to deposit ratio
(In percent)



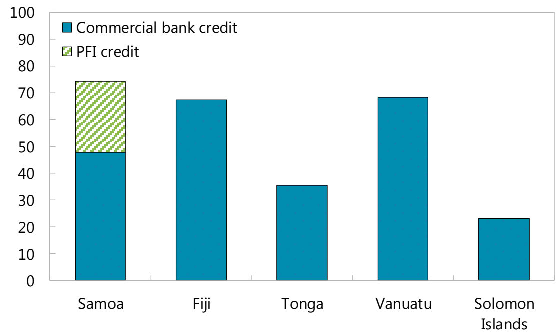
Sources: Country authorities; and IMF staff calculations.

Figure 6. Samoa: Financial Access

Credit to the economy is in line with pacific island peers.

Credit to the economy, October 2016

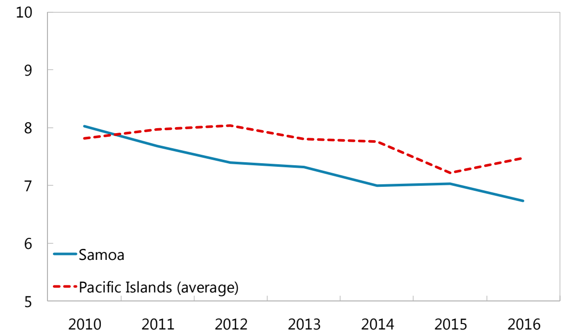
(In percent of GDP)



Interest rate spreads are high across the pacific.

Interest spreads

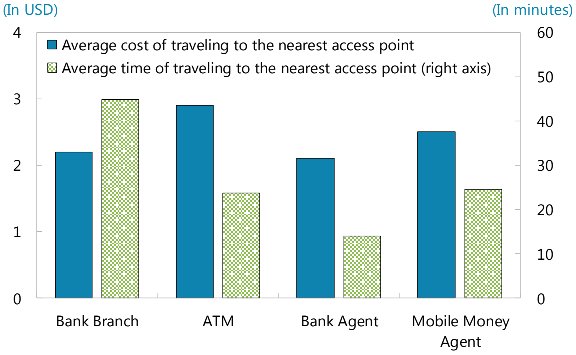
(In percent, lending rate minus deposit rate)



Financial access indicators

Financial access, June 2016

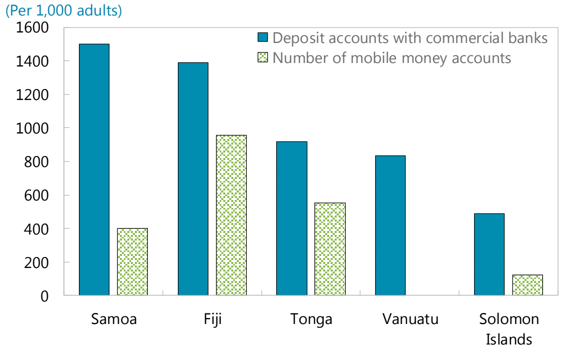
(In USD) (In minutes)



The number of adults with deposit accounts is higher than in other pacific islands.

Financial inclusion, 2015

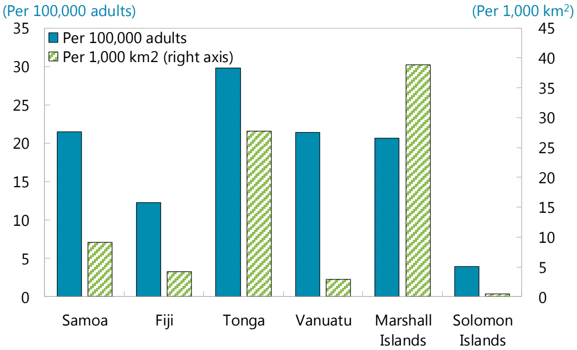
(Per 1,000 adults)



Other financial access indicators, such as the number of commercial bank branches…

Number of commercial bank branches, 2015

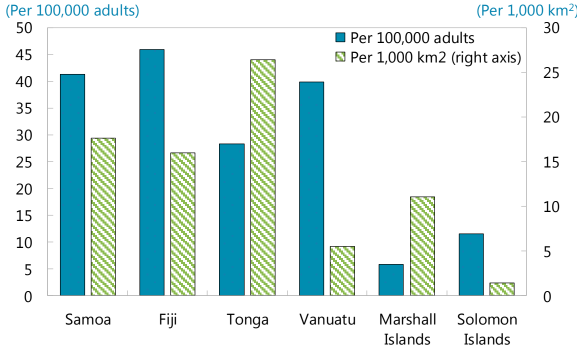
(Per 100,000 adults) (Per 1,000 km^2)



…and the number of ATMs suggest levels of financial access that are in line with peers.

Number of ATMs, 2015

(Per 100,000 adults) (Per 1,000 km^2)



Sources: Country authorities; IMF Financial Access Survey; and IMF staff calculations.

Table 1. Samoa: Selected Economic and Financial Indicators, 2013/14-2021/22

Population (2015): 0.19 million
Main Exports: Tourism, Fish
GDP per capita (2015/16): US$ 4,035
Quota: SDR 11.6 million

			Est.	Proj.					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				(12-month percent change)					
Output and inflation									
Real GDP growth	1.2	1.6	6.6	2.1	0.9	1.8	2.1	2.1	2.1
Nominal GDP	1.5	4.4	5.4	3.9	2.9	4.3	4.9	5.2	5.2
Consumer price index (end of period)	0.2	0.4	2.3	1.4	2.4	2.6	3.0	3.0	3.0
Consumer price index (period average)	-1.2	1.9	0.1	1.8	1.9	2.5	2.8	3.0	3.0
				(In percent of GDP)					
Central government budget									
Revenue and grants	38.0	35.1	33.5	33.7	35.8	32.3	32.1	32.0	31.8
Of which: grants	12.6	9.8	6.7	7.8	9.9	6.5	6.5	6.5	6.5
Expenditure and net lending	43.3	38.9	33.8	35.6	37.5	34.1	34.1	34.1	34.1
Of which: Development	15.0	11.9	9.3	10.2	12.2	8.8	8.8	8.8	8.8
Current balance	-3.0	-1.7	2.2	0.5	0.6	0.4	0.3	0.2	0.0
Overall balance	-5.3	-3.9	-0.4	-1.9	-1.7	-1.9	-2.0	-2.1	-2.3
External financing	2.8	2.3	-1.8	2.2	2.1	2.3	2.2	2.2	2.3
Domestic financing	2.4	1.6	2.2	-0.3	-0.4	-0.4	-0.3	-0.1	-0.1
				(12-month percent change)					
Macrofinancial variables									
Broad money (M2)	18.7	0.6	7.1	7.7	8.2	10.7	4.8	8.4	10.5
Net domestic assets	2.3	0.0	9.9	4.8	…	…	…	…	…
Private sector credit, commerical banks	3.5	12.7	12.8	7.4	5.1	6.0	5.0	5.0	5.0
Total loan growth, Commercial banks	1.3	8.0	7.7	..	…	..	…	..	…
Total loan growth, Public financial institutions	4.7	1.9	3.3	..	…	..	…	..	…
				(Ratio)					
Individual credit to GDP	28.7	28.6	27.9	..	…	..	…	..	…
Total capital to risk-weighted exposures	29.7	27.1	24.5	..	…	..	…	..	…
Non-performing loans	8.3	7.1	5.2	..	…	..	…	..	…
				(In millions of U.S. dollars)					
Balance of payments									
Current account balance	-65.1	-24.3	-47.7	-51.6	-51.2	-46.7	-44.1	-43.5	-43.1
(In percent of GDP)	-8.1	-3.0	-6.1	-6.1	-5.9	-5.2	-4.7	-4.5	-4.3
Merchandise exports, f.o.b. 1/	24.9	27.9	36.9	38.0	39.4	40.8	42.2	43.7	45.2
Merchandise imports, f.o.b.	-334.6	-322.8	-307.2	-325.4	-342.3	-355.6	-371.2	-388.5	-406.8
Services (net)	111.7	124.3	108.9	114.5	125.8	137.5	149.5	162.0	175.0
Income (net)	-29.8	-16.0	-18.5	-17.2	-17.7	-18.5	-19.4	-20.4	-21.5
Current transfers	162.7	162.3	132.1	138.4	143.6	149.1	154.8	159.8	165.0
External reserves and debt									
Gross official reserves	154.3	131.9	111.0	108.1	111.2	111.6	116.4	123.2	133.9
(In months of next year's imports of GNFS)	4.7	4.0	3.3	3.1	3.1	3.0	3.0	3.1	3.2
Public debt (in millions of tala) 2/	1,015.4	1,126.1	1,080.7	1,116.5	1,146.6	1,198.9	1,259.2	1,329.4	1,404.9
(In percent of GDP)	54.4	57.8	52.6	52.3	52.2	52.4	52.4	52.6	52.8
External debt (in percent of GDP)	51.8	55.3	50.7	50.8	51.1	51.7	52.0	52.3	52.6
Exchange rates									
Market rate (tala/U.S. dollar, period average) 3/ 4/	2.32	2.42	2.61	2.52	…	..	…	..	…
Market rate (tala/U.S. dollar, end period) 3/ 4/	2.27	2.56	2.55	2.52	…	..	…	..	…
Nominal effective exchange rate (2010 = 100) 3/ 4/	106.5	111.6	111.9	113.5	…	..	…	..	…
Real effective exchange rate (2010 = 100) 3/ 4/	104.7	109.4	109.8	108.7	…	..	…	..	…
Memorandum items:									
Nominal GDP (in millions of tala)	1,866	1,949	2,054	2,135	2,196	2,290	2,403	2,528	2,659
GDP per capita (U.S. dollars)	4,189	4,159	4,035	4,296	4,407	4,522	4,660	4,799	4,951

Sources: Data provided by the Samoan authorities; and IMF staff estimates.

1/ Includes re-export of fuel after 2009/10.
2/ Includes domestic and external public debt.
3/ IMF, Information Notice System (calendar year).
4/ Latest data available.

Table 2. Samoa: Balance of Payments, 2013/14-2021/22
(In millions of U.S. dollars, unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
			Est.			Proj.			
Current account balance	-65.1	-24.3	-47.7	-51.6	-51.2	-46.7	-44.1	-43.5	-43.1
Trade balance	-309.7	-294.9	-270.3	-287.4	-302.9	-314.9	-329.1	-344.9	-361.6
Exports, fob 1/	24.9	27.9	36.9	38.0	39.4	40.8	42.2	43.7	45.2
Imports, fob	-334.6	-322.8	-307.2	-325.4	-342.3	-355.6	-371.2	-388.5	-406.8
Services, net	111.7	124.3	108.9	114.5	125.8	137.5	149.5	162.0	175.0
Investment income, net	-29.8	-16.0	-18.5	-17.2	-17.7	-18.5	-19.4	-20.4	-21.5
Current transfers	162.7	162.3	132.1	138.4	143.6	149.1	154.8	159.8	165.0
Official transfers	2.7	1.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Private transfers	160.0	160.9	131.7	138.1	143.3	148.8	154.4	159.4	164.6
Capital and financial account balance	89.3	67.4	28.8	48.7	54.3	47.2	48.9	50.3	53.8
Capital account	67.2	39.2	27.2	28.2	35.4	25.7	26.4	27.3	28.1
Official	60.5	34.3	20.9	23.1	30.3	20.5	21.3	22.1	23.0
Private	6.7	4.9	6.3	5.1	5.1	5.1	5.1	5.1	5.1
Financial account	22.1	28.2	1.6	20.5	18.9	21.5	22.4	23.1	25.7
Direct investment	16.0	27.2	6.1	6.4	6.5	6.8	7.2	7.5	7.9
Portfolio investment	-0.4	-8.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other investment	6.5	9.5	-4.3	14.4	12.6	14.9	15.5	15.8	18.0
Assets	-43.7	-17.1	-6.2	-9.8	-9.7	-9.6	-9.5	-9.4	-9.3
Liabilities	50.2	26.6	1.9	24.2	22.2	24.5	25.0	25.2	27.3
Errors and omissions	-40.6	-17.7	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	24.2	43.1	-18.9	-2.9	3.1	0.5	4.8	6.8	10.7
Financing	-24.2	-43.1	18.9	2.9	-3.1	-0.5	-4.8	-6.8	-10.7
Change in gross official reserves	16.4	-25.4	16.7	2.9	-3.1	-0.5	-4.8	-6.8	-10.7
Memorandum Items:									
Current account balance (in percent of GDP)	-8.1	-3.0	-6.1	-6.1	-5.9	-5.2	-4.7	-4.5	-4.3
Gross official reserves (in million of U.S. dollars)	154.3	131.9	111.0	108.1	111.2	111.6	116.4	123.2	133.9
(In months of prospective imports of GNFS)	4.7	4.0	3.3	3.1	3.1	3.0	3.0	3.1	3.2
Exports of goods (annual percentage change)	-9.4	12.2	32.3	3.0	3.5	3.5	3.5	3.5	3.5
Imports of goods (annual percentage change)	8.2	-3.5	-4.8	5.9	5.2	3.9	4.4	4.7	4.7
Remittances (in percent of GDP) 2/	19.9	20.0	16.8	16.4	16.4	16.5	16.5	16.4	16.3
Tourism earnings (in percent of GDP) 3/	17.4	17.5	17.2	16.7	17.0	17.4	17.6	17.9	18.2

Sources: Data provided by the Samoan authorities; and IMF staff estimates.

1/ Including re-export of fuel after 2009/10.
2/ Including other current transfers.
3/ Including other service credits.

Table 3. Samoa: Financial Operations of the Central Government, 2013/14-2021/22

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				Est.	Staff Projections				
					(In millions of tala)				
Revenue and grants	709.2	683.4	687.2	720.2	786.7	738.7	771.5	807.7	845.6
Total revenue	473.5	493.2	550.1	553.3	568.6	589.5	615.0	643.1	672.4
Taxes	430.3	442.0	497.5	498.1	510.2	528.6	551.1	575.8	601.7
Taxes on income, profits and capital gains	103.3	107.4	114.3	112.2	115.4	119.2	123.9	129.0	134.4
Taxes on property	3.0	2.5	2.9	2.1	2.2	2.3	2.4	2.5	2.6
Taxes on goods and services	271.3	282.1	325.9	328.8	336.0	348.1	362.9	379.2	396.2
Taxes on international trade and transactions	52.7	50.1	54.4	55.0	56.6	59.0	61.9	65.1	68.5
Other revenue	43.2	51.2	52.6	55.2	58.4	60.9	63.9	67.3	70.7
Grants	235.7	190.3	137.1	166.9	218.1	149.1	156.5	164.6	173.1
Expenditure	809.0	758.8	695.0	760.2	824.1	781.5	819.2	861.0	905.4
Expense	529.9	526.5	504.0	541.6	555.4	579.6	607.4	638.2	671.1
Compensation of employees	143.9	154.6	163.4	175.0	180.0	187.7	197.0	207.2	217.9
Use of goods and services	142.7	151.7	120.3	137.4	141.3	147.4	141.6	162.7	171.1
Development expenditure	279.1	232.3	191.0	218.5	268.6	201.8	211.8	222.7	234.3
Current balance	-56.3	-33.3	46.1	11.7	13.1	9.9	7.6	4.8	1.3
Overall fiscal balance	-99.8	-75.4	-7.8	-40.0	-37.3	-42.8	-47.7	-53.3	-59.8
Financing	98.7	75.4	7.8	40.0	37.3	42.8	47.7	53.3	59.8
External financing, net	53.1	45.1	-36.4	46.0	46.0	52.1	54.0	55.1	61.4
Domestic financing, net	45.6	30.3	44.2	-6.0	-8.6	-9.3	-6.3	-1.8	-1.6
					(In percent of GDP)				
Revenue and grants	38.0	35.1	33.5	33.7	35.8	32.3	32.1	32.0	31.8
Total revenue	25.4	25.3	26.8	25.9	25.9	25.7	25.6	25.4	25.3
Tax revenue	23.1	22.7	24.2	23.3	23.2	23.1	22.9	22.8	22.6
Other revenue	2.3	2.6	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Grants	12.6	9.8	6.7	7.8	9.9	6.5	6.5	6.5	6.5
Expenditure	43.3	38.9	33.8	35.6	37.5	34.1	34.1	34.1	34.1
Expense	28.4	27.0	24.5	25.4	25.3	25.3	25.3	25.3	25.2
Compensation of employees	7.7	7.9	8.0	8.2	8.2	8.2	8.2	8.2	8.2
Use of goods and services	7.6	7.8	5.9	6.4	6.4	6.4	6.4	6.4	6.4
Development expenditure	15.0	11.9	9.3	10.2	12.2	8.8	8.8	8.8	8.8
Current balance	-3.0	-1.7	2.2	0.5	0.6	0.4	0.3	0.2	0.0
Overall fiscal balance	-5.3	-3.9	-0.4	-1.9	-1.7	-1.9	-2.0	-2.1	-2.3
Overall balance (excluding grants)	-18.0	-13.6	-7.1	-9.7	-11.6	-8.4	-8.5	-8.6	-8.8
Financing	5.3	3.9	0.4	1.9	1.7	1.9	2.0	2.1	2.3
External financing, net	2.8	2.3	-1.8	2.2	2.1	2.3	2.2	2.2	2.3
Domestic financing, net	2.4	1.6	2.2	-0.3	-0.4	-0.4	-0.3	-0.1	-0.1
Memorandum items:									
Public Debt Nominal Values	1015.4	1126.1	1080.7	1116.5	1146.6	1198.9	1259.2	1329.4	1404.9
External Debt	966.2	1078.2	1041.8	1083.6	1122.3	1184.0	1250.6	1322.6	1399.6
Nominal GDP (in millions of Tala)	1866.4	1948.9	2054.2	2134.9	2196.0	2290.1	2403.1	2527.6	2658.6
Debt/GDP Ratio (in percent)	54.4	57.8	52.6	52.3	52.2	52.4	52.4	52.6	52.8
External Debt/GDP Ratio (in percent)	51.8	55.3	50.7	50.8	51.1	51.7	52.0	52.3	52.6

Sources: Data provided by the Samoan authorities; and IMF staff estimates.

Table 4. Samoa: Monetary Developments, 2011/12-January 2017

	2011/12	2012/13	2013/14	2014/15	2015/16	Jan-17
	(In millions of Tala)					
Depository Corporations						
Net foreign assets	247	219	340	214	190	209
Gross reserves	277	228	255	270	215	212
Other foreign assets	71	69	252	149	179	144
Foreign liabilities	102	78	167	205	204	146
Net domestic assets	459	482	493	625	706	753
Net credit to central government	-108	-96	-101	-116	-133	-130
Net credit to public nonfinancial corporations	55	38	35	36	37	21
Credit to private sector	702	709	734	827	933	976
Other items (net)	-189	-169	-175	-122	-131	-115
Broad money	706	700	832	836	895	961
Narrow money	247	259	380	356	394	440
Currency outside banks	59	61	46	49	61	62
Transferable deposits	188	199	334	307	333	379
Other deposits	459	441	451	480	501	521
Central Bank						
Net foreign assets	288	239	266	277	229	224
Gross reserves	277	228	255	270	215	212
Other foreign assets	14	14	14	12	14	12
Foreign liabilities	3	3	3	5	0	0
Net domestic assets	-84	-65	-44	-15	-13	9
Net credit to central government	-74	-59	-64	-88	-103	-95
Net credit to financial corporations	19	34	70	102	130	130
Other items (net)	-29	-40	-49	-29	-39	-26
Monetary Base	205	174	222	262	216	233
Currency in circulation	76	78	68	76	83	87
Other liabilities to deposit money banks	129	96	154	186	133	146
Other Depository Corporations						
Net foreign assets	-42	-20	74	-63	-39	-15
Foreign assets	57	54	238	137	165	131
Foreign liabilities	98	75	164	200	204	146
Net domestic assets	689	660	712	850	873	914
Net credit to central government	-35	-37	-37	-28	-30	-35
Net credit to public nonfinancial corporations	55	38	35	36	37	21
Credit to private sector	698	707	748	820	927	971
Net credit to financial corporation	158	127	193	220	135	157
Other items (net)	-188	-174	-228	-198	-197	-200
Deposits	647	640	785	787	834	899
Transferable deposits	188	199	334	307	333	379
Other deposits	459	441	451	480	501	521
	(In percent, unless otherwise indicated)					
Money velocity 1/	2.6	2.6	2.5	2.3	2.3	2.2
Money multiplier 2/	3.4	4.0	3.7	3.2	4.1	4.1
Private credit/GDP 3/	38.1	38.6	39.3	42.4	45.4	45.7
Private credit/deposits 3/	108.4	110.9	93.5	105.1	112.0	108.6
Annual broad money growth	-4.0	-0.8	18.7	0.6	7.1	8.8
Annual reserve money growth	23.2	-15.0	27.5	18.2	-17.6	-13.9
Annual private credit growth 3/	2.0	1.1	3.5	12.7	12.8	14.7
Lending rate 4/	9.8	10.2	10.2	9.6	9.4	8.9
Deposit rate 4/	2.4	2.8	3.1	2.6	2.4	2.4

Sources: Central Bank of Samoa; and IMF staff estimates.

1/ Ratio of GDP to broad money.

2/ Ratio of broad money to monetary base.

3/ Includes commercial bank credit only.

4/ Weighted average.

Table 5. Samoa: Financial Soundness Indicators, 2013/14-September 2016

	2013/14	2014/15	2015/16	Sep-16
Capital Adequacy				
Regulatory Capital to Risk-Weighted Assets, Ratio	29.7	27.1	24.5	24.4
Regulatory Tier 1 Capital to Risk-Weighted Assets, Ratio	25.4	22.9	19.9	19.0
Non-performing Loans Net of Provisions to Capital, Ratio	…	…	9.0	6.6
Capital to Assets, Ratio	17.1	15.9	16.2	16.2
Asset Quality				
Non-performing Loans to Total Gross Loans, Ratio	8.3	7.1	5.2	4.6
Provisions to non-performing loans	53.5	50.8	64.4	71.0
Large Exposures to Capital, Ratio	…	…	98.2	104.9
Earnings and Profitability				
Return on Assets, Ratio 1/	1.9	1.8	4.2	3.7
Return on Equity, Ratio 1/	10.5	11.0	25.9	22.9
Liquidity Ratios				
Liquid Assets to Total Assets (Liquid Asset Ratio), Ratio	13.1	14.5	8.1	9.1
Liquid Assets to Short Term Liabilities, Ratio	…	…	23.3	25.9
Total loans to total domestic deposits	89.0	116.0	130.6	124.1
Sensitivity to Market Risk				
Net Open Position in Foreign Exchange to Capital, Ratio	7.3	12.8	8.1	19.0
Distribution of Total Loans	…	…	0.0	0.0
Sectoral Distribution of Total Loans: Deposit-takers, Ratio	…	…	0.0	0.0
Sectoral Distribution of Total Loans: General Government, Ratio	…	…	1.5	1.1
Sectoral Distribution of Total Loans: Nonfinancial Corporations , Ratio	…	…	62.1	62.2
Sectoral Distribution of Total Loans: Nonresidents, Ratio	…	…	0.1	0.1
Sectoral Distribution of Total Loans: Other Domestic Sectors, Ratio	…	…	35.3	35.5
Sectoral Distribution of Total Loans: Other Financial Corporations , Ratio	…	…	1.1	1.1
Foreign-Currency-Denominated Loans to Total Loans, Ratio	…	…	13.2	13.9
Commercial Real Estate Loans to Total Loans, Ratio	…	…	42.9	40.2
Residential Real Estate Loans to Total Loans, Ratio	…	…	29.3	30.8
Other Indicators				
Assets to Total Financial System Assets, Ratio	48.4	44.8	46.3	45.6
Assets to Gross Domestic Product (GDP), Ratio	…	…	68.6	66.3

Sources: CBS, Financial Soundness Indicators database, and IMF staff calculations.
Note: For fiscal year ending in June.
1/ Change in methodology in 2015/16.

Table 6. Samoa: Status of Millennium Development Goals

Progress on Millennium Development Goals	(as of August 2013)	(as of September 2015)
Goal 1: Eradicate extreme poverty and hunger	Mixed	Mixed
Goal 2: Achieve universal primary education	On track	Achieved
Goal 3: Promote gender equality and empower women	Mixed	Mixed
Goal 4: Reduce child mortality	On track	Achieved
Goal 5: Improve maternal health	Mixed	Mixed
Goal 6: Combat HIV/AIDS, malaria and other diseases	Mixed	Mixed
Goal 7: Ensure environmental sustainability	On track	Achieved
Goal 8: Develop a global partnership for development	Not assessed	Not assessed

Sources: Pacific Islands Forum Secretariat, and 2013 and 2015 Pacific Regional MDGs Tracking Reports.

Table 7. Samoa: Strategy for the Development of Samoa and Sustainable Development Goals

Priority Areas	Key Outcomes	Corresponding SDGs	
1. Economic	1. Macroeconomic resilience increased and sustained	1. No Poverty	8. Decent Work & Economic Growth
		17. Partnership for the Goals	
	2. Agriculture and fisheries productivity increased	2. Zero Hunger	
	3. Exports products increased	9. Industry, Innovation, and Infrastructure	
	4. Tourism development and performance improved	8. Decent Work & Economic Growth	
	5. Participation of private sector in development enhanced	12. Responsible Consumption and Production	
2. Social	6. A healthy Samoa and well-being promoted	3. Good Health and Well-being	
	7. Quality education and training improved	4. Quality Education	
	8. Social institutions strengthened	5. Gender Equality	10. Reduced Inequalities
		16. Peace, Justice, and Strong Institutions	
3. Infrastructure	9. Access to clean water and sanitation sustained	6. Clean Water and Sanitation	
	10. Transport systems and networks improved	9. Industry, Innovation, and Infrastructure	11. Sustainable Cities and Communities
	11. Improved and affordable country wide ICT connectivity	9. Industry, Innovation, and Infrastructure	
	12. Quality energy supply	7. Affordable and clean energy	
4. Environment	13. Environmental resilience improved	14. Life Below Water	15. Life on Land
	14. Climate and disaster resilience	13. Climate Action	

Source: Strategy for the Sustainable Development of Samoa.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood of Realization of Risk	Expected Impact of Risk	Policy Recommendations
Natural disasters	**High** Samoa faces an overall heightened risk of natural disasters. The probability of Samoa being struck by a natural disaster is about 25 percent each year. However, the annual average damage and losses are estimated at over 12 percent of GDP.	**High** In addition to widespread damage, natural disasters have historically increased public debt. The 2009 tsunami is estimated to have added 10 percent of GDP to debt and the 2012 cyclone added an additional 5 percent of GDP. Currently there is limited fiscal space which, along with financial sector vulnerabilities, could limit policy space to support the subsequent recovery.	A growth friendly fiscal consolidation will help replenish buffers. Financial sector vulnerabilities should be addressed through enhanced supervision and regulation. Reform of the PFIs and SOEs will reduce risks from contingent liabilities.
Reduced financial services by correspondent banks	**High** Spillovers from the withdrawal of correspondent banks services by global banks could have a sizeable impact on Samoa. In the absence of policy measures, the withdrawal of financial services to MTOs is likely to continue, increasing the fragility of the remittance sector, and could lead to a disruption in remittances.	**High** The impact of lower remittances is likely to lead to lower consumption but could also widen the current account deficit. Higher cost of remittances would also have a negative impact on more vulnerable segments of the population. Closure of MTO banks accounts could increase the hand-carry of cash undermining efforts to increase AML/CFT compliance.	Upgrade the effectiveness of the AML/CFT regime, including by implementing and strengthening the national strategy for AML/CFT regime; increase AML/CFT capacity through additional training and technical assistance; increase on-site inspections of MTOs; consider the establishment of a KYC utility; address risks from the offshore financial sector.
Weaker-than-expected global growth	**High/Medium** Low productivity growth in advanced economies, particularly Japan and the U.S., and key emerging markets would reduce export tourism receipts and have a negative impact on GDP growth.	**Medium/High** A decline in exports, tourism earnings, and remittances would worsen the current account balance. It could also reduce fiscal revenue and weaken the reserves buffer.	Implement a growth friendly fiscal consolidation to replenish buffers to cope with adverse shocks; accelerate structural reforms to support private sector development and diversify economic activity.
Financial stress in public financial institutions (PFIs)	**Medium** PFIs play an important part in the financial system, but asset quality is poor. A natural disaster increases the probability of financial stress in the PFIs.	**High** Financial spillovers to banks is expected to be limited. Public finances would deteriorate; and an important source of credit to the economy is impeded.	Strengthen the financial operations of the PFIs; enhance the transparency and governance of the PFIs. Any policy lending by the PFIs should be fully costed.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. Anti-Money Laundering and Counter-Terrorist Financing Measures[1]

Overview. Samoa has significantly improved its AML/CFT framework since the 2006 assessment, including through the Money Laundering Prevent Act 2007 and subsequent regulations in 2009. These better align Samoa's framework with the FATF's recommendations under the third round of mutual evaluations. The FATF recommendations were revised for the fourth round in 2012 and, in 2015, Samoa's AML/CFT regime was assessed by the Asia Pacific Group on Money Laundering (APG) under the revised 2012 FATF standard. APG assessors found significant shortcomings in Samoa's AML/CFT regime, rating it low or moderately effective in 10 out of 11 immediate outcomes assessing effectiveness, and non-compliant or partially compliant with more than half of the 40 FATF Recommendations. Hence, the authorities were encouraged to work toward substantial improvements of the AML/CFT framework, both on the strategic and operational level.

Money laundering risks. Samoa faces a range of money laundering risks but terrorist financing risks appear relatively low. Money laundering risks are related mainly to its international (offshore) sector, although domestic risks include the large remittance sector, cross-border movement of cash, and the domestic banking sector.

- **The international (offshore) sector presents the main money laundering risk**, given its relative anonymity, concerns regarding transparency of ownership and control information, complexity, and tax-exempt status. At the end of 2014, there were 34,000 international business companies (IBCs), along with 155 international trusts and 7 international banks. Samoan IBCs are created only through Samoan trust and company service providers (TCSPs), which capture beneficial ownership information when the IBC is created. The international trusts are domiciled in Asia, including Hong Kong SAR, China, and Singapore, primarily for asset protection and tax advantages. Samoa's TCSPs have limited ability to detect and report suspicious transactions and supervision of TCSPs is limited in depth and scope. Information on beneficial ownership is not publicly available, except with the permission of the client. While there is little evidence of the proceeds for foreign predicate crimes being laundered through Samoa or its offshore sector, lack of evidence may be reflective of a system unable to detect money laundering, rather than the absence of money laundering itself. Steps have been taken to mitigate risks; strengthened provisions implemented at the end of 2015 should significantly increase the capacity of TCSPs to conduct ongoing due diligence.
- **The MTO sector is largely responsible for channeling remittances, which, from a global perspective, are generally viewed as a high-risk area for money laundering and terrorism financing.** Nevertheless, the MTO sector is reasonably aware of money laundering/terrorist financing risks. Large MTOs have implemented reasonably robust measures to identify and verify customer identity, obtain originator and beneficiary information, and scrutinize transactions. The level of suspicious-transaction-reporting is lower than expected given the size of the sector. The

[1] This annex summarizes the key findings of the Asia Pacific Group on Anti-Money Laundering Mutual Evaluation Report on Anti-Money Laundering and Counter-terrorist Financing Measures, September 2015.

government does not require financial institutions to include full beneficiary information with cross-border wire transfer messages; ordering financial institutions are however, required to obtain and retain the originator information with the wire transfer.

- **Cross-border movement of cash has also been identified as an area of risk**. Customs is primarily responsible for enforcing the border declaration regime, which is broadly sound in technical terms. The FIU, Customs, and Immigration coordinate on border currency reports (BCRs) but further coordination—including with police—would improve monitoring and the ability to investigate and prosecute predicate crimes and money laundering.
- **Money laundering risks associated with the domestic banking system arise mainly because of its materiality.** Domestic proceeds-generating crimes appear to be low.

The high-priority recommended actions include:

1. *Offshore Sector*. Amend International Companies Act, Trust Act, Companies Act, Money Laundering Prevention Act and regulations to address the technical deficiencies and issue additional, updated guidance; Increase the scope and intensity of AML/CFT supervision of the offshore sector, including international banks and insurance companies and TCSPs; Enhance the accuracy and timeliness of beneficial ownership information held by TCSPs for IBCs.

2. *AML/CFT Supervision*. Ensure that AML/CFT supervision of financial institutions (i.e., banks and MTOs) and DNFBPs is based on risk; Strengthen the frequency and intensity of on-site inspections of key financial sectors; Increase engagement by supervisors with financial institutions and Designated Non-Financial Business Professions (DNFBP)s.

3. *Enhanced Implementation*. Strengthen resources of the CBS and FIU to undertake AML/CFT supervision; Pursue ML investigations as a matter of policy and pursue confiscation action in more serious/complex cases; Improve the effectiveness of the cross-border declaration system.

Annex III. Implementation of Key FSAP Recommendations

Cross-cutting
Improve the quality and coverage of data. CBS to collect granular data on banks, PFIs, insurers, and other financial intermediaries for prudential and financial stability analysis. *Ongoing work. The CBS compiles Financial Soundness Indicators for the commercial banks and since 2016 Q1 has submitted to the IMF's International Financial Statistics database. CBS is also compiling FSIs for PFIs and other financial institutions.*
Upgrade the regulatory and supervisory frameworks to modern standards, including amending the Financial Institutions Act and Central Bank Act to support corrective actions and resolution. *Ongoing. The CBS has received TA in this area. Draft legislation is expected to be finalized by end-2017.*
CBS should raise capacity and hire additional staff for financial oversight, and over time assume supervision and regulation of all financial intermediaries. *Efforts to upgrade regulatory and supervision had been focused on capacity building of supervisors, to equip the CBS with the relevant tools to perform on-site supervision of financial institutions. Budgetary constraints limit hiring of new staff.*
Banking supervision and regulation
Conduct regular on-site inspections, and in-depth assessments of financial statements (including asset quality reviews, of potentially vulnerable banks). *The CBS has prioritized in-depth assessments and on-site inspections since 2015 covering banks and PFIs with technical assistance from the IMF. Another round of inspection is scheduled to start in March 2017.*
Upgrade supervisory guidance to banks, especially regarding risk management and NPL write-offs. *Ongoing. PFTAC Technical assistance mission is scheduled for April 2017 to assist with upgrading supervisory guidance.*
PFIs - supervision and regulation
CBS to produce periodic financial soundness indicators for PFIs and ensure proper IFRS accounting, especially for loan classification, NPLs, and provisioning. *CBS produces FSIs for PFIs. There has been continuous dialogue with the PFIs particularly during on-site inspections in terms of loan classification, NPLs and provisioning. Ongoing discussion is needed in harmonizing IFRS accounting in contrast to supervisory requirements.*
CBS to issue and upgrade prudential regulations for PFIs. *Ongoing. PFTAC Technical assistance mission is scheduled for April 2017 to assist with upgrading supervisory guidance. Prudential guidelines regarding UTOS were issued in January 2015.*
CBS to start on-site inspections of PFIs. *CBS has completed on-site inspection of the Development Bank of Samoa (in 2015) and Unit Trusts of Samoa and Samoa National Provident Fund during 2016. Another round of inspections is scheduled to start in the second half of 2018.*
Off shore bank regulation and supervision
Enhance operational independence of Samoa International Finance Authority (SIFA) to supervise international banks and remove potential for conflict between SIFA's promotional and supervisory roles. *Ongoing. An internal restructuring is planned to isolate marketing and promotion activities from the compliance and registration divisions. SIFA has begun to use a new brand for promotion.*
PFIs - governance
Government to reform mandates and governance of PFIs for defined policy objectives based on cost-benefit assessments, and to ensure efficient operations. *The Central Bank as the supervisor and regulator has been encouraging the Development Bank and other PFIs to clearly calculate and articulate any costs associated with a Government-sponsored policy change.*

Crisis preparedness
Adopt a full set of enforcement and resolution instruments. *The Financial Institutions Act (FIA) 1996 is currently under review. Resolution and enforcement have been the priority area and relevant provisions have been drafted. Sections in the settlement of borrowings as well as fees and charges are being considered to ensure that regulations are clear and transparent for the public.*
Create an appropriate scheme and operational framework for Emergency Liquidity Assistance. *No substantial changes have been made to CBS facilities since the FSAP, and a review of the framework is pending.*
Systemic financial stability
CBS and Ministry of Finance to create financial stability and contingency planning committees. *Ongoing. Technical assistance from the IMF has supported CBS to outline and propose a structure of a financial stability report for Samoa, including review of existing datasets and systems. Once the reporting is operational, CBS will then liaise with MOF on recalibrating existing committees to cater for this role of financial stability and contingency planning.*
CBS to analyze systemic risks, including stress testing and macro-financial mapping. *Ongoing. CBS is currently seeking technical assistance from the IMF/PFTAC for the establishment of a stress testing framework consistent with Samoa's size and scale.*
Central bank policies and operations
CBS to unwind lending to DBS and SHC. *The last credit line facility lending approved by CBS Board was in November 2015. The current policy of the CBS is not to approve further credit lines.*
Access to finance
Focus on indirect measures to enhance access to finance, including credit bureau, economic use of customary land, and complete setting up a personal property registry. *The CBS intends to combine establishment of a credit bureau with development of a KYC utility, to be operated by the CBS and that is less costly to the financial system. In terms of economic use of customary land, work is ongoing with the Asian Development Bank (ADB) project to ensure its sustainability and protection of rights of landowners, leasees, and banks. The Personal Property Registry (PPR) has been implemented and the registry administered by the Ministry of Commerce, Industry and Labour became operational in March 2017.*
Insurance
CBS to develop insurance supervisory strategy and capacity building plans. *There have been a few insurance-related workshops staff has been participating, however there is still a greater need for technical assistance on the insurance sector to assist with developing guidelines and on-site inspections. The CBS has requested technical assistance from the IMF.*
Payment system and financial market infrastructure
CBS to implement the new National Payment Systems. *CBS is currently implementing the National Payment System (NPS). The NPS Act was approved in 2015 and two of four corresponding regulations have been drafted and submitted to the Attorney General's office for finalization. These are Oversight Regulations 2016 (still in draft form but in AG process); Agents Regulation 2016 (still in draft form but in AG process); Draft Guidelines on Retail Payment Instruments; Draft Guidelines on Directives for EFT (Electronic Fund Transfers). As part of the World Bank project, the Automated Transfer System has been procured and should be installed with the commercial banks within the first half of 2017. Consultations are ongoing to ensure that the implementers of the national payments system are familiar with their expected roles and responsibilities.*

Annex IV. Public Financial Institutions

Following the natural disasters in 2009 and 2012, Samoa's PFIs grew rapidly and moved increasingly into areas where they compete with commercial banks. Asset quality deteriorated and, in some cases, liabilities are government guaranteed or are to government institutions, including the central bank.

Public Financial Institutions (PFIs) make up a substantial part of the financial sector. Among the PFIs, the Samoa National Provident Fund (SNPF) and Development Bank of Samoa (DBS) are the largest in terms of assets but both Unit Trust of Samoa (UTOS) and the Samoa Housing Corporation (SHC) have been expanding rapidly.

PFIs' asset quality deteriorated following the natural disasters in 2009 and 2012 and has not yet fully recovered. Lending by the PFIs was concentrated in the tourism sector, which was hard hit by the natural disasters, however, policy directed lending likely contributed to a further deterioration in asset quality.

Samoa National Provident Fund (SNPF). The SNPF was established in 1972 as a compulsory retirement savings scheme in which a minimum 5 percent contribution is paid both by employees and employers. Public employees and those in private formal employment contribute, covering 78 percent of the formally employed population, however, most Samoans do not contribute to the scheme. The SNPF concentrates on loans to its members, for which it has natural collateral in their contributions, but in addition offers other commercial and community loans, including to other PFIs. Less than five percent of investments are overseas. About 60 percent of its assets comprise loans to its members. Loans to members are provided for up to 50 percent of contributions with most members borrowing their full entitlement.

Development Bank of Samoa (DBS). The DBS was established in 1974 to provide development assistance to agriculture and SMEs. The DBS on-lends funds from international institutions and as part of the policy response to natural disasters availed of credit lines from the central bank. The on-lending of concessional loans is a signification portion of its loans portfolio, which is also heavily concentrated in tourism. The quality of DBS' portfolio seems substantially impaired.

Unit Trust of Samoa (UTOS). UTOS is an open-ended private unit trust established in 2010 to provide opportunities to small investors to participate in privatized SOEs, in particular, the privatization of the state telecommunications monopoly. In the absence of further privatizations, UTOS' activities were diversified into a financing vehicle for SOEs: it issues capital notes to SOEs that borrow from the Trust, backed by a limited general government guarantee. Profitable SOEs invest surplus funds in UTOS in the form of convertible notes. By intermediating funds among SOEs and maintaining a leveraged position the Trust has generated high returns to unit holders.

Samoa Housing Corporation (SHC). The SHC was established in 1989 to facilitate access to housing for those on modest income. It is funded by the central bank and guaranteed by the government.

Direct linkages between the commercial banks and the public financial institutions appear to be relatively low helping to limit financial sector systemic risks. In some cases, commercial banks receive sizeable deposits from the PFIs, but on the other hand there is limited lending to the PFIs.

Fiscal and macroeconomic linkages are likely to be more important. Although PFI credit growth has slowed down, PFIs remain an important source of credit to households and SOEs. Any disruption could have a negative impact of the availability of credit to these sectors. Explicit government guarantees along with on-lending arrangements amount to 18.8 percent of GDP imply that fiscal risks associated with the PFIs are large.

Policies should focus on reducing the contingent liability risks associated with PFIs and in addition, redesign their role to support private financial markets. In particular,

- The Development Bank of Samoa (DBS) should continue efforts to re-orient its focus to the agriculture sector and development objectives. Looking ahead, costs associated with policy lending decisions should be clearly articulated.
- The Samoa National Provident Fund (SNPF) should gradually reduce its personal lending, including against members' contributions.
- In line with FSAP recommendations, UTOS could be transformed into an unleveraged mutual fund or a policy-lending bank.

Annex V. External Sector Assessment

The external position is assessed to be broadly in line with fundamentals and desirable policy settings. However, fiscal consolidation measures to reduce Samoa's risk of debt distress can be expected to narrow the current account over the medium-term. Reserves are adequate, however, given the high risk of natural disasters, additional reserves could help increase resilience.

Current account developments. In the baseline scenario, and under the assumption of no natural disasters, the current account deficit is expected to gradually narrow to about 4.5 percent over the medium term. Natural disasters can be expected to widen the deficit but would also increase aid and capital transfers: this implies a larger current account deficit norm during disaster recovery periods. Using the EBA-lite current account equation, the norm for Samoa is estimated to be -7.4 percent, wider than the projected current account deficit of -6.1 percent for 2016/17, however, much of the misalignment in the EBA-lite current account equation reflects the unexplained residual and overall this equation does not fit Samoa very well. The external sustainability approach, based on maintaining net foreign assets at the 2015 level, does not suggest a current account gap. However, the DSA indicates that Samoa is at high risk of debt distress which implies that the current account deficit will need to narrow further to help ensure debt sustainability. Based on a targeted reduction in the debt-to-GDP ratio to 40 percent, the external sustainability approach yields a current account norm of -3.9 percent and a current account gap of -0.6 percent.

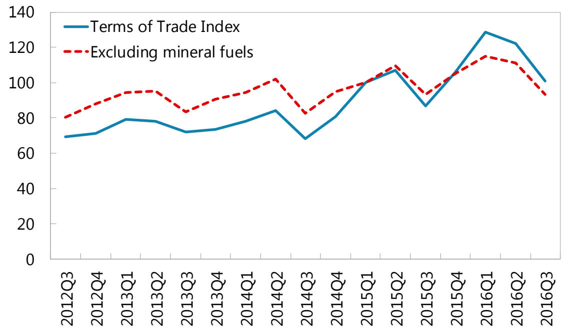
External Balance Assessment Results

	CA/GDP			REER
	Norm 6/	Projection	Gap	Misalignment
	(In percent of GDP)			
EBA-lite current account 1/	-7.4	-6.1	1.3	-7.6
Of which: Policy gaps 2/	...	...	-0.2	
Unexplained residual	...	...	1.5	
External sustainability approach 3/	-4.2	-4.5	-0.2	1.4
External sustainability approach 4/	-3.9	-4.5	-0.6	3.6
EBA-lite Real exchange rate equation 5/	...	...	...	1.2

1/ Staff's estimate of the multilaterally consistent cyclically adjusted norm for 2016, based on October 2016 EBA-lite. Assumed Elasticity is -0.2.
2/ Policy gaps refers to policy distortions that can arise either from domestic policies or as a result of the policies of other countries.
3/ From EBA October 2016. Based on maintaining NFA at the 2015 level.
4/ Based on maintaining public external debt at 40 percent.
5/ Misalignment based on October 2016 EBA-lite.
6/ Aid and capital transfers estimates are based on periods when economy is not recovering from natural disasters.

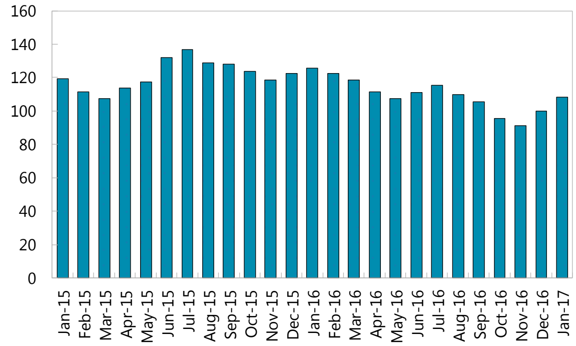
Exchange rate assessment. The EBA-lite REER equation suggests that the REER is broadly in line with fundamentals. The Tala appreciated against the U.S. dollar during 2016, reversing the depreciation in the previous year. The nominal and real effective exchange rates depreciated slightly during 2016. A tourism-based index suggests that the terms of trade improved gradually since 2012 (including when adjusting for changes in the price of imported fuels), however, this trend reversed during 2016.

Tourism Terms of Trade Index, 2012 Q3 to 2016 Q3 1/
(2015Q1 = 100)



Sources: Country authorities; and IMF staff calculations.
1/ Defined as average earnings from tourism relative to price of imports.

Samoa: Gross Reserves
(In millions of USD)



Sources: Central Bank of Samoa; IFS; and IMF Staff calculations.

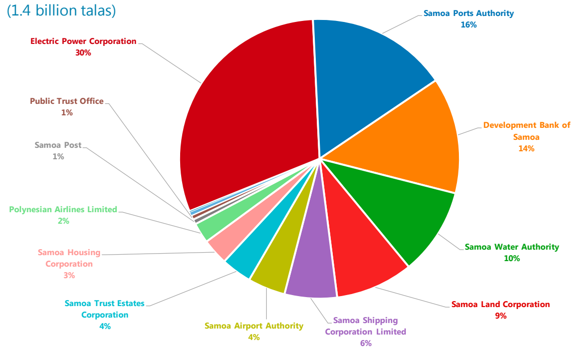
Reserve adequacy. Since mid-2015 reserves have been declining, however reserves increased in December 2016 and in January and at end-January 2017, reserves were US$108million or about 3.2 in months of prospective imports. The ARA metric for credit constrained economies suggests an optimal level of reserves between 2.7 to 4 months of imports, depending on the assumed long-run opportunity cost of holding reserves. Contingency planning in the form of pre-negotiated borrowing from multilateral donors can also serve as a buffer to natural disasters but should be evaluated in the context of an overall debt management strategy.

Annex VI. State-Owned Enterprises[1]

Background

The portfolio of Samoa's state-owned enterprises is sizeble, with assets esimated at ST1.37 billion or approximately 60 percent of GDP. Many are poorly performing and in 2014 their estimated contribution to GDP was just 3 percent on aggregate. There are 15 SOEs engaged in a diverse range of activities, including transport, utilities, subsidized housing, postal services, banking, land development, and trustee services. A comprehensive SOE Act was adopted in 2001[2] and there is an overarching reform and divestment strategy calling for privatization of all nonstrategic SOEs.[3]

Samoa State-Owned Enterprise Portfolio Assets, FY2014
(1.4 billion talas)



Sources: Government of Samoa, State-Owned Enterprise Monitoring Unit, Ministry of Finance.

SOE Portfolio ROA and ROE, FY2002 - FY2014
(In percent)

Sources: Government of Samoa, State-Owned Enterprise Monitoring Unit, Ministry of Finance.

Performance

There is little sign of improvement in performance of SOEs in recent years. Despite access to subsidized credit and cumulative government transfers of $112 million since 2003, average return-on-equity (ROE) and return-on-assets (ROA) from 2002 to2014 were 0.1 percent and 0 percent respectively. This compares poorly with other Pacific island countries. The ROE and ROA for Tonga for the same period was 5.5 percent and 3.3. percent respectively, while in Papa New Guinea it was 5 percent and 6.7 percent, respectively. Of the five largest SOEs, only Electric Power Corporation generated a positive average ROE over that period.

Poor performance of the SOEs has fiscal implications, directly and indirectly through the accumulation of contingent liabilities. Average government transfers to SOEs during 2010–2014 were equivalent to 0.9% of GDP. The social and economic costs of subsidizing these underperforming SOEs is significant—government transfers between 2010 and 2014 equate to

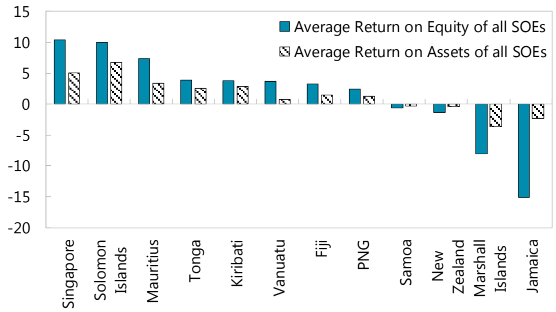
[1] This annex was contributed by the ADB and is based on ADB (2016), "Finding Balance 2016. Benchmarking the Performance of State-owned enterprises in Island Countries"

[2] The Public Bodies (Performance and Accountabilities) Act was adopted in 2001.

[3] The SOEs considered strategic include the Electric Power Corporation, Samoa Airport Authority, Samoa Ports Authority, Samoa Shipping Corporation, and Samoa Water Authority.

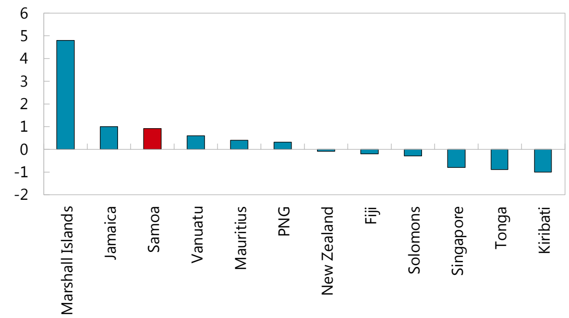
24.9% of total government spending on health. These estimates do not include government support to SOEs through on-lending and guarantees, or investments by PFIs.[4] Total Government guarantees outstanding at the end of June 2015 was SAT170.5million. Most of these were to the Development Bank of Samoa (DBS), the Samoa Land Corporation (SLC), the Samoa Housing Corporation (SHC) and the Unit Trust of Samoa (UTOS). Much of UTOS lending portfolio is to SOEs and these are guaranteed by the government.[5]

SOE Profitability, FY2010 - FY2014
(In percent)



Sources: ADB (2016), *Finding Balance 2016. Benchmarking the Performance of State-owned enterprises in Island Countries*

Average Government Transfers to SOEs, FY2010 - FY2014
(In percent of GDP)



Sources: ADB (2016), *Finding Balance 2016. Benchmarking the Performance of State-owned enterprises in Island Countries*

Reforms

Reform momentum has slowly increased since 2008. Samoa Broadcasting Corporation was privatized in 2008, followed by Samoatel in 2010. That year also saw the establishment of an independent SOE director selection panel and, in 2012, the passage of the Composition Act, removing all ministers from SOE boards, resulting in the appointment of 180 new directors. In January 2015, the cabinet approved a new SOE Ownership, Performance and Divestment Policy, committing to privatizing commercial SOEs, apart from those that lacked effective competition or regulation. The cabinet directed that three SOEs should be sold by December 2015 although progress on these transactions has been slow.[6]

The appointment of a SOE minister should help to improve the performance of public bodies. Instead of operating solely as independent commercial enterprises, SOEs were also tasked by line or sector ministers with achieving policy outcomes. To address these concerns, the government appointed a SOE minister in 2014. This appointment was confirmed in a 2015 amendment to the 2001 SOE Act, making the SOE minister solely responsible for SOEs, consistent with international good practice. In July 2015 an SOE Ministry was established to support the new minister.[7]

[4] The government had to inject ST63 million to support Samoa Port Authority and Agricultural Stores Corporation in 2012. The Public Trust Office and the Samoan Shipping Services are either technically insolvent or have negative shareholders' equity.

[5] UTOS was formed in 2010 by the government and is managed by UTOS (Management) Limited, a SOE. Total loans to SOEs and government-controlled entities were ST76.5 million in 2016, representing 84 percent of total liquid financial assets. Loans to SOEs are guaranteed by the government.

[6] Samoa Housing Corporation, Public Trust Office, and Samoa Post Limited.

[7] The SOE Monitoring Division within the Ministry of Finance previously performed the SOE ownership-monitoring role.

Responsibilities include managing the recruitment and selection process of Board Directors as well as evaluating their performance; monitoring performance and adherence to corporate plans, ensuring regular financial reporting, and reviewing government grants.

The enactment of the Competition and Consumer Act in 2016 could have more of an impact. The framework requires ministers to consider the competitive impact of their decisions on the provision of goods and services by SOEs. It will encourage the competitive tendering of government contracts for CSOs, restrict subsidies to SOEs, and deter anticompetitive collusion and abuse of market power. Building on the reforms already introduced this should have a strong positive impact on SOE performance.

SAMOA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

April 13, 2017

Prepared By

The Asia and Pacific Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2017)

Membership Status

Joined: December 28, 1971; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	16.20	100.00
Fund holdings of currency	14.37	88.69
Reserve position in Fund	1.84	11.38

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	11.09	100.00
Holdings	9.18	82.75

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RFC Loans	5.80	35.80
ESF RAC loan	3.48	21.48

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	7/9/1984	7/8/85	3.38	3.38
Stand-by	6/27/1983	6/26/1984	3.38	3.38

Overdue Obligations and Projected Payments to Fund[1]

(SDR million; based on existing use of resources and present holding of SDRs):

	Forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal	1.16	1.74	2.32	1.16	1.16
Charges/interest	0.00	0.01	0.01	0.01	0.01
Total	**1.16**	**1.75**	**2.33**	**1.17**	**1.17**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement

The exchange rate of the tala is pegged to a trade and payments weighted basket of currencies. The pegged rate can be adjusted within a ±2 percent band. The basket is a composite of the currencies of Samoa's most important trading partners and countries that are major sources of tourism revenue from abroad—New Zealand, Australia, the United States, and Euro countries. The exchange rate regime is free of restrictions and multiple currency practices.

Article IV Consultations

The 2015 Article IV consultation discussions were held during February 23-March 6, 2015. It was concluded by the Executive Board on June 1, 2015 (IMF Country Report No. 15/191). Samoa has been on the 24–month cycle and it is proposed that the next consultation take place on a 12–month cycle.

Technical Assistance from Headquarters

The Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on budgetary management, tax administration, and financial sector supervision. MCM has provided assistance on monetary policy operations, banking, and insurance supervision and other central banking issues. STA has provided help with government finance statistics and balance of payments statistics, and FAD with tax administration and LEG with central bank law. Following FSAP recommendations, MCM and PFTAC plan to provide assistance on bank supervision and regulations, and STA will provide assistance on monetary and financial statistics.

Safeguards Assessments

An update safeguards assessment of the CBS was completed in June 2014. The assessment found some safeguards elements in place, but concerns over CBS autonomy and governance, audit quality, and staff capacity need to be addressed. The CBS has taken steps to address these, including improving its governance and autonomy through enactment of a new central bank law in 2015. In line with the safeguards policy, the CBS should accelerate efforts to strengthen the quality of the external audit. The CBS should also take further steps to enhance oversight of audit functions.

AML/CFT

Samoa has improved its AML/CFT framework since the 2006 assessment, including through the Money Laundering Prevent Act 2007 and subsequent regulations in 2009. These better align Samoa's framework with the FATF's recommendations under the third round of mutual evaluations. The FATF recommendations were revised for the fourth round in 2012 and, in 2015, Samoa's AML/CFT regime was assessed by the Asia Pacific Group on Money Laundering (APG) under the revised 2012 FATF standard. APG assessors found significant shortcomings in Samoa's AML/CFT regime, rating it low or moderately effective in 10 out of 11 immediate outcomes assessing effectiveness, and non-compliant or partially compliant with more than half of the 40 FATF recommendations. Hence, the authorities were encouraged to work toward substantial improvements of the AML/CFT framework, both on strategic and operational levels.

Resident Representative

The Regional Resident Representative Office for Pacific Island Countries based in Suva, Fiji was opened on September 13, 2010 and the office covers Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Tubagus Feridhanusetyawan is the current resident representative.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

(As of March 2017)

Background

PFTAC has provided moderate technical assistance (TA) to Samoa in recent years mainly on macro-fiscal planning and analysis, revenue administration, and statistics. In FY2018, the volume of TA planned for Samoa will nearly triple from FY2017 (up from 77 to 245 field days), constituting 9.5 percent of PFTAC resources. In recent years, PFM support by PFTAC was focused on facilitating PEFA assessments and implementation of Samoa's PFM Roadmap. PFTAC TA was instrumental in the development of quarterly national accounts in Samoa, with recent TA on statistics focused on increasing the range, frequency, and accuracy of GDP estimates. Recent TA in the macroeconomic area has focused on revenue forecasting and enhancing the Samoa Economic and Forecasting (SERF) model; a macroeconomic programming framework to assist in budget development and undertake debt sustainability and external vulnerability assessments. Support has also been provided in the modernization of Samoa's income tax legislation.

Strategy 2015–2018

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for PFTAC's funding cycle.[1]

PFTAC TA aims to support the authorities to sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to focus on building macroeconomic analysis capacity and delivering specific technical inputs in the context of larger ISPs.

In the **Public Financial Management** area, PFTAC will continue to support the Ministry of Finance's PFM reform plan (1.2). Since 2015, PFTAC has been providing TA to Samoa on improving cash management (1.7), accounting, and reporting (1.8), and fiscal oversight of state-owned enterprises (1.8). PFTAC is available in the coming years to provide follow-up support to strengthen the medium-term budgeting system (1.5).

Assistance in the **macroeconomic** area will continue to be instrumental to the success of budget reforms. PFTAC will continue working with Ministry for Revenue staff to enhance tax revenue forecasting. The focus is on complementing the Ministry of Finance's top-down revenue forecasts based on economic projections with bottom-up forecasts that make use of the internal knowledge on tax trends, including on compliance improvement and risk management activities, by the tax

[1] The specific result in the framework that activities target to achieve is identified by a code in parenthesis, for example, 1.7 is the code for PFM cash management activities.

administration and greater use of individual taxpayer data. PFTAC will also continue assisting staff at the Ministry of Finance to improve GDP forecasting methodology (5.1) and to build capacity to produce their own debt sustainability analyses and external vulnerability assessments (5.2). This work continues to support building stronger links among all relevant macro fiscal entities to analyze the country's economic and fiscal outlook (5.3)

In the **revenue** area, Samoa's Ministry for Revenue continues to make good progress as evidenced by a strong legal framework and development of improved functions and processes. A Compliance Improvement Plan (1.5) introduced in 2016 to target the most significant tax risks has been strengthened through the introduction of a Compliance Risk Management Committee and the creation of a data analytics team. The design of an Industry Partnership initiative, facilitated by PFTAC, to target high risk cash economy sectors will be rolled out in FY2018. In a significant scaling-up in FY2018, other TA planned and agreed with the authorities is geared to further improve performance across core tax functions.

In **statistics**, Samoa continues to be one of the most advanced nations in the Pacific region. Based on earlier PFTAC advice, for several years Samoa has produced quarterly National Accounts (12.1) alongside several income indicators. In 2016, PFTAC assisted with a rebase of GDP by production (4.1), which will bring methods closer into line with the 2008 SNA; and also in developing a new measure of GDP by expenditure (5.2). Both projects are expected to be completed in 2017. Balance of payments (BoP) and government finance statistics (GFS) standards were improved (4.1) via missions funded by the JSA project that concluded in September 2015. The appointment of a resident GFS advisor at PFTAC in March 2017 will see GFS TA resume in FY18, while annual BP TA missions are also expected to recommence, subject to PFTAC and/or alternate regional funding.

In **financial sector supervision**, PFTAC commenced an on-site examination program (3.3) for the Central Bank of Samoa in August 2015. A Short-Term Expert was engaged to assist the Central Bank in performing three on-site examinations of local banks. Three mission were undertaken – August 2015; November 2015; and May 2016. The missions included the delivery of workshops prior to each examination on a topic relevant to the examination process, and the provision of technical assistance and guidance in all aspects of the on-site examination process.

In April 2017, PFTAC will undertake a mission to the Central Bank of Samoa to provide guidance and assistance in reviewing and updating their suite of prudential standards for banks (3.3).

RELATIONS WITH THE WORLD BANK

(As of March 21, 2017)

The World Bank Group's engagement with Samoa as outlined in the February 2017 Regional Partnership Framework (RPF) for nine Pacific Island Countries focuses on supporting Government efforts to: i) fully exploit available economic opportunities, including in agriculture and tourism; ii) enhance access to employment opportunities, including through labor mobility and improved education outcomes; iii) protect incomes and livelihoods, including by strengthening resilience against natural disasters and climate change; and iv) strengthen the enablers of growth, including macroeconomic management and infrastructure. The RPF is closely aligned with the Government's Strategy for the Development of Samoa 2017-2020. The Bank's currently active portfolio consists of 9 projects with a total commitment of US$139 million.

Samoa: IDA Lending Operations (as of March 2017)

	Year of Approval (FY)	Original Amount	Undisbursed Balance
		(In millions of US dollars)	
Current projects (IDA)			
Agriculture Competitiveness Enhancement Project	2012	8.0	3.2
Enhancing the Climate Resilience of West Coast Road	2013	14.8	13.6
Agriculture and Fisheries Cyclone Response	2014	5.0	0.5
Enhanced Road Access Project	2014	20.0	7.3
Enhancing the Climate Resilience of Coastal Resources & Communities	2014	14.6	11.1
Aviation Investment Project	2014	41.6	35.9
Pacific Resilience Program	2015	13.8	12.1
Pacific Regional Connectivity Program: Phase 3 - Samoa	2015	16.0	13.9
Second Fiscal & Economic Reform Operation	2017	5.0	5.0
Total		138.8	102.6

The Bank's current activities in Samoa are in the following areas:

1) Post-disaster recovery projects

Enhanced Road Access Project: Aims to restore key road sector assets damaged by Cyclone Evan and enhance the climate resilience of critical roads and bridges in Samoa.

Agriculture and Fisheries Cyclone Response Project: Provides recovery assistance to cyclone-affected farmers and fishers through vouchers and grants, with the aim of restoring their lost production capacity, while improving the ability of the agricultural sector to respond to future disasters.

2) Budget support

Second Fiscal & Economic Reform Operation: Supports the Government of Samoa's efforts to improve fiscal management, establish the conditions for more robust private sector growth over the medium term, and strengthen the monitoring, reporting and coordination of climate resilience activities in Samoa, including through reforms in the areas of debt management, procurement, revenue, payments systems and remittances, tourism sector policy, and PPPs policy.

3) Climate Resilience

Enhancing the Climate Resilience of West Coast Road: Focuses on 'climate-proofing' the West Coast Road from the airport to Apia.

Enhancing the Climate Resilience of Coastal Resources & Communities: Provides training and support in targeted communities to update and implement local Coastal Infrastructure Plans, and supports activities that increase the resilience of coastlines, near-shore areas, and coral reefs. The project will also help improve national climate information services and hazard mapping.

Pacific Resilience Program: Aims to strengthen early warning systems, promote resilient investments, and strengthen the financial resilience of Samoa by facilitating access to immediate liquidity after a natural disaster.

4) ICT Sector

Pacific Regional Connectivity Program – Phase 3: Aims to reduce the cost and increase the availability of internet services in Samoa. The project encompasses construction of a submarine cable connecting Samoa to Fiji; the establishment of the Samoa Submarine Cable Company (SSCC), a public-private partnership; and the provision of technical assistance to review, development and implement ICT regulation in Samoa.

5) Agriculture Sector

Agriculture Competitiveness Enhancement Project: Aims to support fruit and vegetable growers and livestock producers to improve their productivity and take greater advantage of market opportunities. The project covers three components – (i) livestock production and marketing, (ii) fruit and vegetable production and marketing, and (iii) institutional strengthening.

6) Aviation sector

Samoa Aviation Investment Project: Aims to improve operational safety and oversight of international air transport and associated infrastructure, including through improvements to runways, facilities, and navigation aids at the main international airport.

The IFC has also been active in Samoa, particularly in the telecoms sector. The IFC has invested substantially in Digicel, with market liberalization and increased competition helping to increase mobile access in Samoa to over 80 per cent of the population. The IFC has also provided assistance to the tourism sector, and has helped with the expansion of banking services to allow small and medium entrepreneurs find capital to start and run their businesses.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 15, 2017)

The Asian Development Bank operations in Samoa started in 1966: As at year-end 2016, $186.19 million in loans, $127.97 million in grants, and $32.16 million in technical assistance (TA) have been provided to Samoa. One loan, 6 grants, and 1 TA projects are active.

ADB's country operations business plan (COBP) 2017-2019, adopts a harmonized approach to donor assistance with other development partners and maintaining the focus of its Pacific Approach targeting improvement of growth prospects and living standards, especially for disadvantaged members of the community. The COBP is closely aligned with the Strategy for the Development of Samoa (SDS).

Samoa has received support from the Pacific Infrastructure Advisory Center (PIAC) for infrastructure master planning and has also participated in the PIAC initiative for strengthening of power and water utilities. Samoa has received ADB regional technical assistance for economic management for development results, energy efficiency, statistics and private sector development (including SOE reforms and secured transactions). ADB continues to include Samoa in new regional TA activities. ADB has also committed to provide technical assistance for the development of the private sector.

In November 2015, the Samoa Submarine Cable Project ($25 million grant) was approved with co-financing from Government of Australia ($1.5 million grant) and World Bank ($16 million grant). The project will improve broadband connectivity by building a submarine cable system connecting Samoa to regional and global communications infrastructure. The cable system will allow other countries in the region to connect to the network. Another component will support e-health solutions.

In 2016, ADB helped complete a master plan for Samoa's ports while a project to develop the Apia port will be considered in 2018.

In December 2016, the Fiscal Resilience Improvement Program (Subprogram 1) was approved for ($5 million grant). ADB will also continue to support reforms to promote economic use of customary land, build sustainable capacity for sound economic and public sector management and implement state-owned enterprises reforms.

ADB will assist Samoa through the Renewable Energy and Power Sector Rehabilitation Project that are nearing completion.

ADB loans to Samoa, 2011–16

	2011	2012	2013	2014	2015	2016
Loan Approvals	10.82	0	0	0	0	0
Loan Disbursements	9.8	17.9	4.3	2.03	1.1	0.0
Cumulative loan amount available	167.09	177.51	177.45	177.24	176.37	176.34
Cumulative disbursements	149.9	167.8	172.1	174.13	175.21	175.25
Net loan amount undisbursed	17.1	9.7	5.3	3.1	2.0	2.0

STATISTICAL ISSUES

SAMOA—STATISTICAL ISSUES APPENDIX (As of March 2017)	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings but is broadly adequate for surveillance. Core macroeconomic and monetary data are regularly reported to the IMF and published on official websites. However, there are weaknesses in national accounts, monetary and financial, and external sector statistics.	
National Accounts: National account statistics has been improved during the last three years. GDP is compiled quarterly, predominantly using the VAGST data. GDP was recently rebased from 2002 to 2009 constant prices. However, one third of GDP is "non-monetary," and difficult to measure with any precision (both levels and growth rates). The experimental estimate of GDP by expenditure is being refined and hasn't been released yet.	
Price Statistics: The CPI is compiled monthly (February 2016=100). A quarterly import price index is also published coverage being limited to chapters 01-27 of the Harmonized System.	
Government Finance Statistics: Samoa has participated in the JSA-funded regional 3-year GFS capacity development project since April 2012. Assisted by the technical assistance provided under this project, the authorities migrated their GFS data from GFS 86 to the GFSM 2001 format. Additionally, the Samoa Bureau of Statistics (SBS) worked to improved data quality by: identifying and incorporating new data sources and statistical estimation techniques in its GFS compilation processes; as well as increased data confrontation with other macro-economic data sets. The authorities began publishing the improved data in 2013 and, for the first time, submitting data for inclusion in IMF publications. Gaps remain in coverage (general government is not yet compiled or published), instrument detail, and consistency across the macro-framework; work is ongoing in Samoa to address these remaining deficiencies.	
Monetary and Financial Statistics: Samoa reports monetary data to the IMF on a regular basis. Monetary data for the Central Bank and other depository corporations are submitted in Standardized Report Form (SRF) format. Samoa does not report data on other financial corporations (OFCs). In November 2014, authorities requested technical assistance from STA to compile SRFs for OFCs.	
Financial Sector Surveillance: Samoa began reports Financial Soundness Indicators to the IMF in March 2016.	
External sector statistics: The quality of ESS is overall poor, mostly hindered by the frail data collection framework; access to source data for the compilation of some of the most relevant ESS components is limited. ESS coverage overall presents important limitations due to the omission of cross-border transactions and positions of offshore enterprises. As a reference on the relevance of offshore centers in Samoa, Samoan non-bank enterprises hold at least US$ 4.6 billion according to the BIS (Locational Banking Statistics database). The CBS produces and disseminates the balance of payments of Samoa on a quarterly basis, following the BPM6, but restricted to main aggregates and with poor coverage. The IIP is not currently disseminated but the SBS is expected to provide IIP data to the Fund during 2017.	
II. Data Standards and Quality	
Samoa is a participant in the GDDS since September 2012 and eGDDS will launch in April 2017.	No data module ROSC has so far been conducted in Samoa.

Samoa—Table of Common Indicators Required for Surveillance (As of March 2017)							
	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of Publication[4]	Memo Items:	
						Data Quality – Methodological soundness	Data Quality – Accuracy and reliability
Exchange Rates	03/21/17	03/21/17	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	01/17	03/20/17	M	M	M		
Reserve/Base Money	12/16	02/17/17	M	M	M		
Broad Money	12/16	02/17/17	M	M	M		
Central Bank Balance Sheet	12/16	02/17/17	M	M	N/A		
Consolidated Balance Sheet of the Banking System[1]	12/16	02/17/17	M	M	N/A		
Interest Rates[2]	12/16	02/17/17	M	M	M		
Consumer Price Index	2/17	03/21/17	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q3 2016	03/15/17	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt	Q3 2016	03/15/17	Q	Q	N/A		
External Current Account Balance	Q3 2016	02/17/17	Q	Q	Q		
Exports and Imports of Goods and Services	Q3 2016	02/17/17	M	M	M		
GDP	Q3 2016	02/17/17	Q	Q	Q		
Gross External Debt	Q3 2016	03/15/17	Q	Q	Q		
International Investment Position[5]							

[1]Data obtained directly from the Central Bank of Samoa.
[2]Officially-determined rates (yields on central bank securities) and commercial banks' deposit and lending rates.
[3]Domestic and external financing.
[4]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[5]Samoa does not provide International Investment Position data due to capacity constraints.

SAMOA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 13, 2017

Approved By
Odd Per Brekk (IMF), and John Panzer (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

The update of the DSA shows that under current policies Samoa faces a high risk of debt distress, based on an assessment of public external debt. In the 2015 Article IV report, Samoa was assessed as moderate risk of debt distress. The change in the assessment is driven by a change in methodology to take into account the impact of natural disasters both in the near term and over the medium-to-long term. In the near term, the impact of a natural disaster shock is assessed. The change in methodology is to incorporate the average annual impacts of natural disasters on growth and on fiscal and external debt. The impact of natural disasters has a significant impact of debt dynamics, emphasizing that the government will need to maintain its medium-term and long-term fiscal debt targets (of 50 percent of GDP and 40 percent of GDP respectively) to keep its debt burden manageable. Samoa faces a heightened overall risk of public debt distress, reflecting contingent liabilities from government guarantees and on-lending to public enterprises from public financial institutions (PFIs). Structural reforms to reduce the impact of natural disasters on average growth rates can also contribute to debt sustainability.

[1] This DSA was prepared jointly with the World Bank, in accordance with the Debt Sustainability Framework for low-income countries approved by the Executive Boards of the IMF and the IDA. Samoa is rated as a strong performer for its policies and institutions for the purposes of the IMF-World Bank low-income country DSA framework. The DSA uses a 5 percent discount rate.

BACKGROUND

1. **Rapid fiscal expansion and borrowing following the global financial crisis and natural disasters in 2009 and 2012 have left Samoa with a large stock of debt.** The 2015/16 fiscal deficit outturn of 0.4 percent of GDP has helped alleviate risks from elevated debt, however, Samoa's vulnerability to natural disasters entails significant costs. The recovery efforts and reconstruction required after the 2009 tsunami and 2012 cyclone were largely financed by borrowing and total public debt increased to 57.8 percent of GDP at end-2015 which was well above the government's threshold of 50 percent.

2. **The risk rating is increased to high, reflecting the potential impact of natural disasters on Samoa's fiscal position over the medium term.** Following the methodology outlined in the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change" the medium-term projections are adjusted to account for the average impact of natural disasters on growth and the fiscal and current account deficits. These adjustments have a significant impact on the debt-dynamics.

3. **The 2015 DSA lowered the risk rating for debt distress for Samoa from high to moderate, reflecting an increase in the discount rate and rebasing of GDP.[2]** The assessment of moderate debt distress was based on the external debt assessment. However, the overall risk of public debt distress was found to be higher, due to contingent liabilities. The conclusions emphasized the importance for the authorities to adhere to consolidation plans to reach their debt target.

4. **Although Samoa's debt service is low relative to projected foreign reserves and government revenue, debt service requirements have increased significantly in recent years**. Much of Samoa's debt is long-term and concessional, with approximately 60 percent owed to multilateral agencies and 40 percent to bilateral partners. Total debt service requirements are projected to increase over the next few years to about 2.7 percent of GDP, due largely to increasing principal repayments.

5. **The central government's net domestic debt is small, but domestic liabilities in SOEs pose a potential risk.** The government issues guarantees to its SOEs, and has five on-lending arrangements active with the Electric Power Corporation (EPC), Development Bank of Samoa (DBS) and Unit Trust of Samoa (UTOS) as of end-2015, posing some risk for the government, given the relatively poor financial performance of many of Samoa's SOEs.

METHODOLOGY AND ASSUMPTIONS

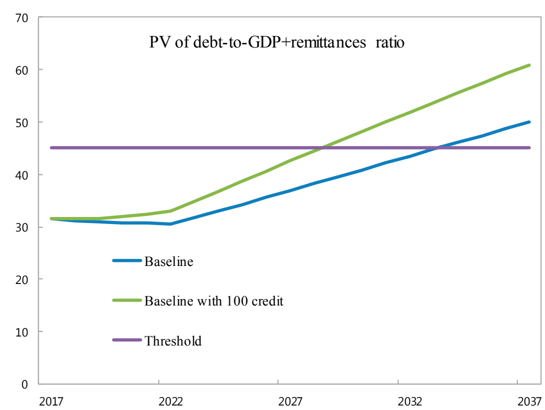
6. **Debt sustainability is assessed in relation to indicative group-specific debt burden thresholds that depend on the quality of policies and institutions**. Having established a strong track record of sound macroeconomic management, Samoa has one of the highest Country Policy and

[2] GDP data were revised to 2009 prices (previously 2002) and the coverage widened through new censuses and surveys, increasing nominal GDP from SAT1.6billion to SAT1.8billion in 2012/13.

Institutional Assessment (CPIA) ratings among the Bank's Pacific Island member states. Samoa's debt is therefore assessed against higher thresholds.[3]

7. The underlying assumptions are consistent with the macroeconomic framework, based on updated data provided by the authorities, and estimates by staff:[4]

- **Real GDP growth** is projected at 2.1 percent on average over 2017-2022, in the baseline scenario, which assumes no natural disasters. To account for the average impact of natural disasters, the growth rate is lowered by 1.3 percentage points after 2022.
- **Inflation** remains subdued and is expected to stabilize at around 3 percent over the medium term.
- **The current account** widened to -6.1 percent in FY2015/2016 due to a deterioration of the income account and lower charitable remittances but the deficit is projected to remain below 5 percent of GDP between 2017-2022, in the baseline scenario. To account for the average annual impact of natural disasters, the deficit is widened by 1.5 percentage points after 2022.
- **The primary fiscal balance** is estimated to be in balance between 2017-2022 but widens by 1.5 percentage points after 2022 to account for the average annual impact of natural disasters.
- **New external borrowing will be required to finance the fiscal deficit.** Continued eligibility for concessional borrowing from multilateral development partners is assumed for the forecast period. The grant element of new loans is 40 percent on average. Alternatively, if it is assumed that borrowing from the World Bank is at full credit terms, then the breach in the threshold occurs about 5 years earlier in 2028. (see text chart).



- **Contingent liabilities related to SOEs and PFIS** are estimated at 18.8 percent of GDP (government guarantees of 8.8 percent and on-lending to SOEs of 10 percent).

[3] Samoa's CPIA rating for 2015 is 4.0.

[4] The 5 percent discount rate used to calculate the net present value (NPV) of external debt.

INCORPORATING THE IMPACT OF NATURAL DISASTERS

8. **Samoa is ranked as the most vulnerable to natural disasters among small states in the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change"** The probability of Samoa being struck by a natural disaster is about average for Pacific island countries with a probability of about 25 percent each year.[5] However, the annual average damage and losses (**estimated** at over 12 percent of GDP) are by far the highest in the region. Cyclone Evan, the most recent Category 5 cyclone to hit Samoa, caused total damage and losses of approximately US$210 million (about 30 percent of annual GDP). The combination of both high frequency and extreme impact leads to Samoa's ranking as the most vulnerable small state.

Samoa: Vulnerability to Natural Disasters

	1990-2014		**1950-2014**
	Probability of Disaster in a Year	Average Annual Damage	Ranking by Vulnerability 1/
	(in percent)	(in percent of GDP)	
Samoa	**24.4**	**12.36**	**1**
Vanuatu	64.7	0.12	4
Tonga	30.2	1.62	11
Solomon Is	53.2	0.08	14
Fiji	66.0	0.67	19
Micronesia Fed States	24.4	0.01	20

1/ IMF staff calculations, combining rankings on the frequency of disasters and effects of those disasters.
Source: IMF Board Paper 2016 "Small States' Resilience to Natural Disasters and Climate Change: Role for the

9. **The findings of the substantial literature on the macroeconomic impact of natural disasters findings are mixed.**[6] There is a clear temporary negative impact on growth although estimates vary. Laframboise and Boileau (2012) estimate that a country's growth drops by an average 0.7 percent in the first year after a disaster, with a cumulative output loss three years after the disaster of about 1.5 percent over and above the immediate direct losses, and a drop in per capita real GDP of 1 percent on average in low-income countries.[7] Lee et al (2017) estimated that on average for the pacific islands, the growth rate declines by 4 percent in the disaster year, with a further decline of 0.5 percent in the following year.[8] Cabezon *et al* found that for the Pacific islands, trend growth over 1980-2014 was 0.7 percentage point

[5] The probability of a natural disaster averages around 24 percent for Pacific island countries. For details, refer to Cabezon *et al,* 2015, "Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific" WP/15/125.

[6] See 2016 Board paper for further discussion.

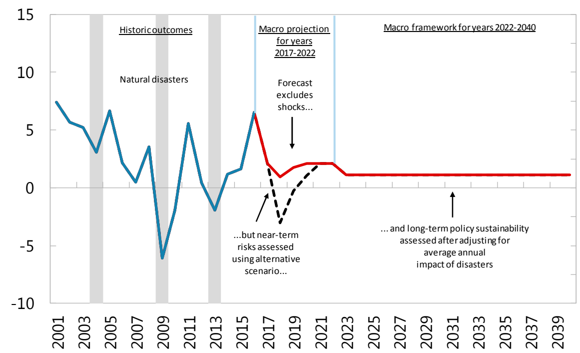
[7] Laframboise and Boileau, 2012, "Natural Disasters: Mitigating Impact, Managing Risks," WP 12/245.

[8] Lee, Dongyeol, Patrizia Tumbarello, Kazuaki Washimi and Tlek Zeinullayev, 2017, "Mind the Gap: Public Investment, Growth and Natural Disaster Risk in the Small States of the Pacific", IMF Working Paper, forthcoming.

lower than it would have been in the absence of natural disasters. Fiscal balances are also adversely affected. Lee et al estimate that natural disasters increase public debt by 14.4 percent on average in the disaster year. Synthetic control analysis suggests that the 2009 tsunami increased Samoa's public debt by 10 percent of GDP and the 2012 cyclone increased debt by a further 5 percent.[9]

10. These major long-term costs and risks are incorporated into the DSA to assess how they impact a countries' fiscal position and external debt sustainability. Accordingly, the baseline scenario considers the impact of future natural disasters, in line with the 2016 Board Paper on Small States' Resilience to Natural Disasters and Climate Change. From 2016-2022, staff's projections assume no natural disasters. This ensures that adjustments for natural disasters do not complicate the near-term policy discussions. However, this is not a realistic assumption over a longer horizon. Therefore, the baseline projections after 2022 take into account the average annual impact of natural disasters by adjusting downwards the average growth rate and increasing the current account and fiscal deficits. This approach is illustrated in the text figure. Given the high frequency and severity of natural disasters in Samoa, the average growth rate was adjusted down by 1.3 percent (to 0.8 percent compared with a non-disaster potential growth rate of 2.1 percent and the historical average of 0.9 percent) and the current account and fiscal deficits are estimated to widen by 1.5 percentage points.

Growth Projections with Disaster Impacts for DSA Analysis
(In percent)



Sources: Country authorities; and IMF staff calculations.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

11. In the baseline scenario the external debt-to-GDP+remittances ratio increases to over 46 percent by 2034, breaching the indicative threshold. By the end of the sample is 11.1 by 2037 percentage points above the threshold. In the baseline scenario, the average growth rate is 0.8 percent after 2022, compared with an historical average of 0.9 percent. On average, growth is expected to be lower than historically due to the expected increased severity of natural disasters. The deviation of the baseline from the historical scenario primarily reflects a lower projected change in the GDP deflator in U.S. dollar terms.[10] Though Samoa has historically implemented sound macroeconomic policies and reforms that have resulted in strong growth, the effects of natural disasters have reduced Samoa's economic growth and contributed to a weaker fiscal position.

12. Stress tests show Samoa's PV of debt-to-GDP and debt service-to-revenue ratios are vulnerable to exogenous shocks. There is a protracted and significant breach of the PV of debt to GDP

[9] IMF Samoa 2015 Article IV Staff Report.

[10] The historical scenario generates a new path of debt by freezing key macroeconomic variables at their 10-year historical average.

following a one-time depreciation shock (the most extreme shock scenario). Similarly, a severe natural disaster shock in 2018 leads to a breach of the PV of debt-to-GDP ratio after 2024

13. Measured by Samoa's debt service to revenue and debt service to exports ratios, Samoa's debt service burden increases significantly when the average impact of natural disasters is incorporated into the baseline. Samoa's debt service capacity is supported by foreign exchange earnings from the tourism industry, large inflows of remittances and revenue collection efforts. However, under the most extreme shock scenario, the threshold for both the debt service to exports is breached starting in 2027 and debt service to revenue ratio is breaches towards the end of the projection period. The debt service to revenue ratio also breaches the threshold following a one-time depreciation shock, but at the end of the projection horizon.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

14. Public sector debt rises in the baseline scenario but is stable in the historical scenario. An extreme shock drives up the PV of debt to GDP and debt service to revenue ratios. The baseline includes government guarantees and on-lending to SOEs, of about 8.8 percent and 10 percent as a share of GDP respectively and these are added to the debt-to-GDP ratio in 2016. The extreme shock scenario leads to a sustained breach of the PV of debt-to-GDP ratio and a protracted elevation of the debt service to revenue ratio.

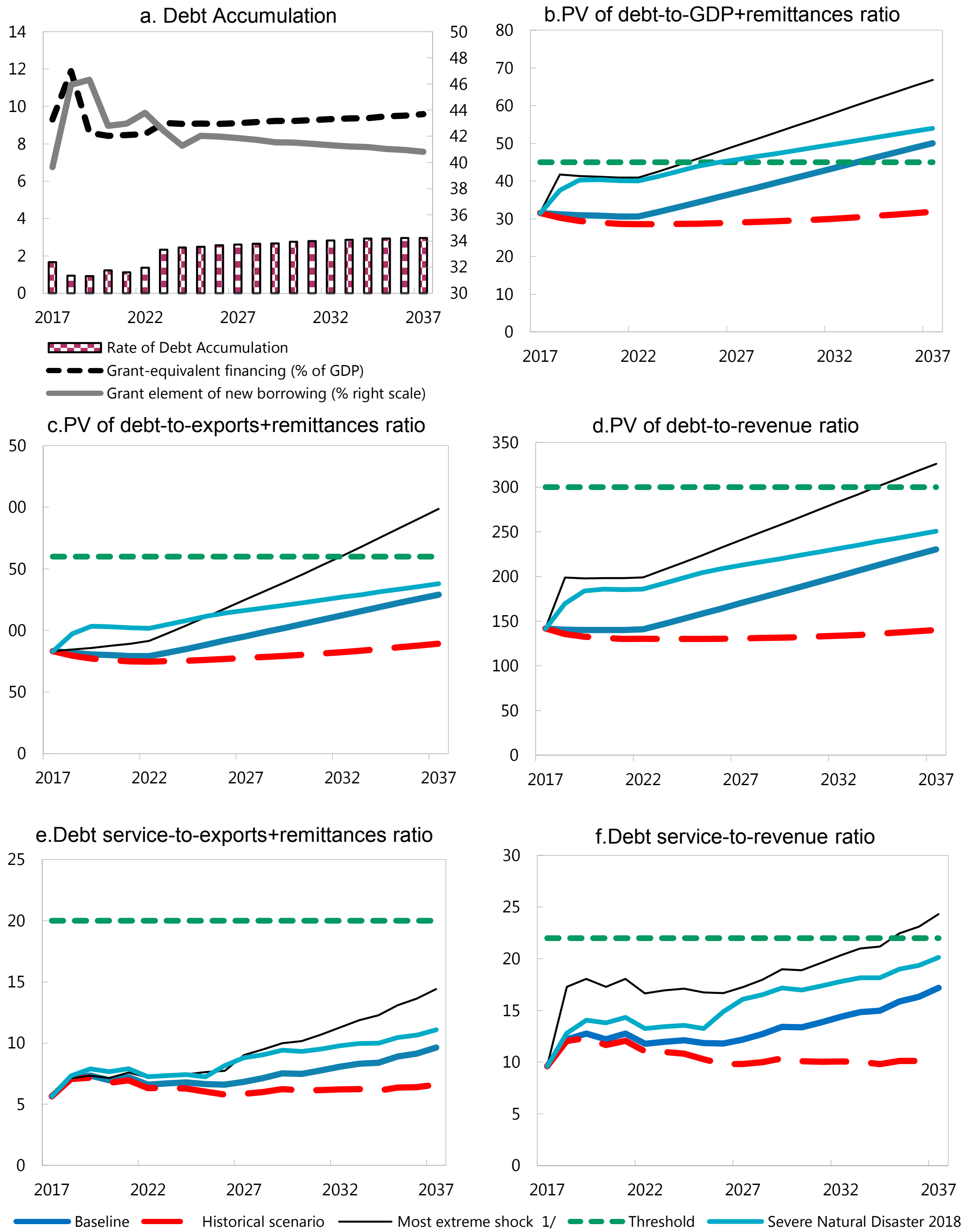
CONCLUSION

15. The DSA highlights the central role of fiscal policy. With the public debt portfolio dominated by external loans, exposure to foreign currency risk remains high. Moreover, should Samoa fail to consolidate its fiscal position and experience natural disasters, public debt would increase rapidly and become unsustainable, leading to a breach in the PV of debt-to-GDP ratio. Future external borrowing should be limited to loans with at least a 35 percent grant element, and that support projects with a return sufficient to cover the interest and repayment costs. Improving resilience to natural disasters and reform of SOEs can help reduce Samoa's debt burden and should be part of the overall debt management strategy.

Authorities' Views

16. The authorities recognize the risks posed by high debt levels and are committed to achieving their medium-term fiscal deficit targets to keep Samoa's debt burden manageable. With debt repayments rising, the government has put in place a credible fiscal consolidation plan and is committed to meeting the objectives of Samoa's medium-term debt management strategy by: i) restricting the level of public debt to less than 50 percent of GDP; ii) ensuring that loans contracted are highly concessional, with a grant element of at least 35 percent; and iii) effectively managing SOEs guarantees.

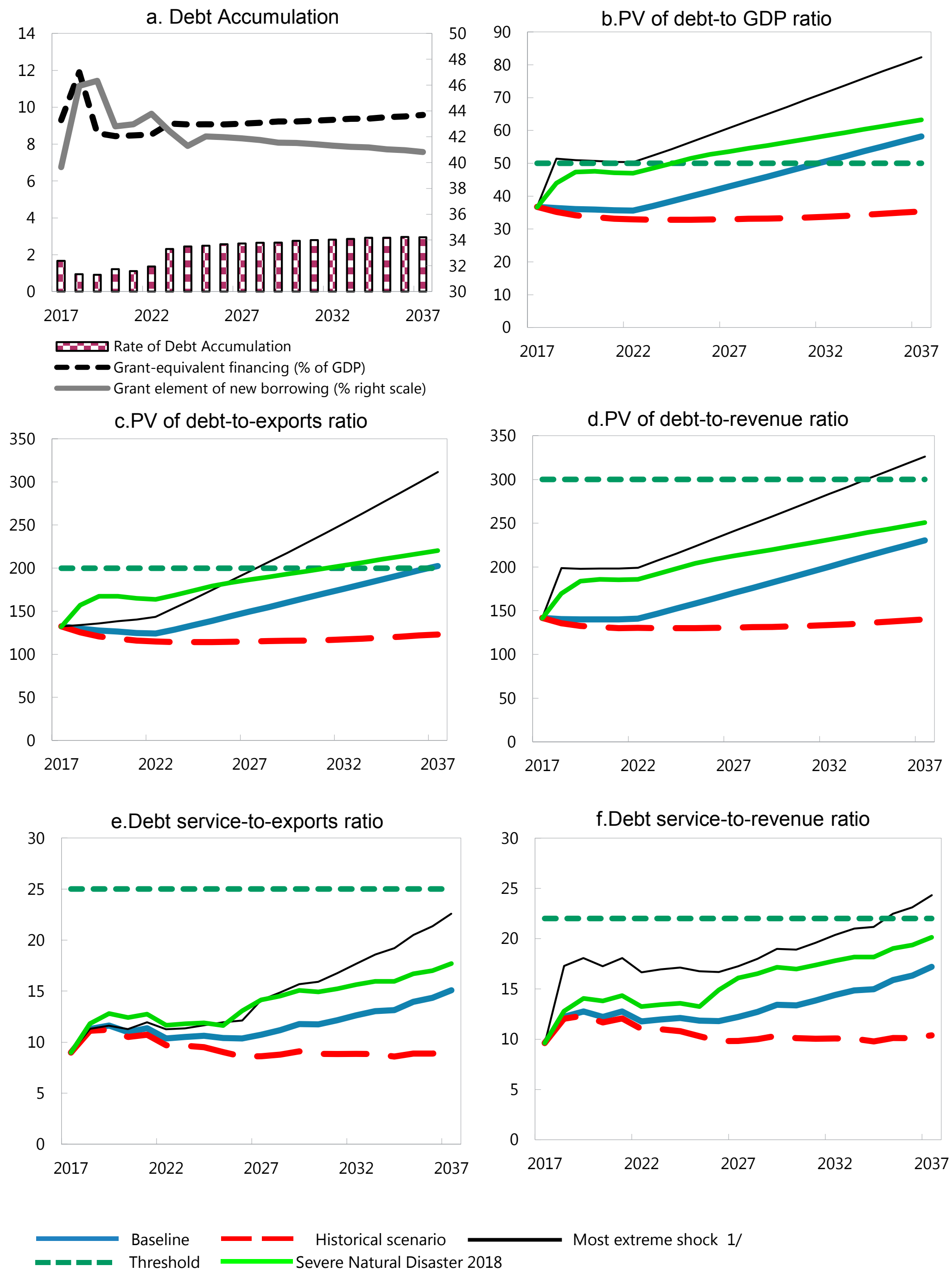
Figure 1a. Samoa: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

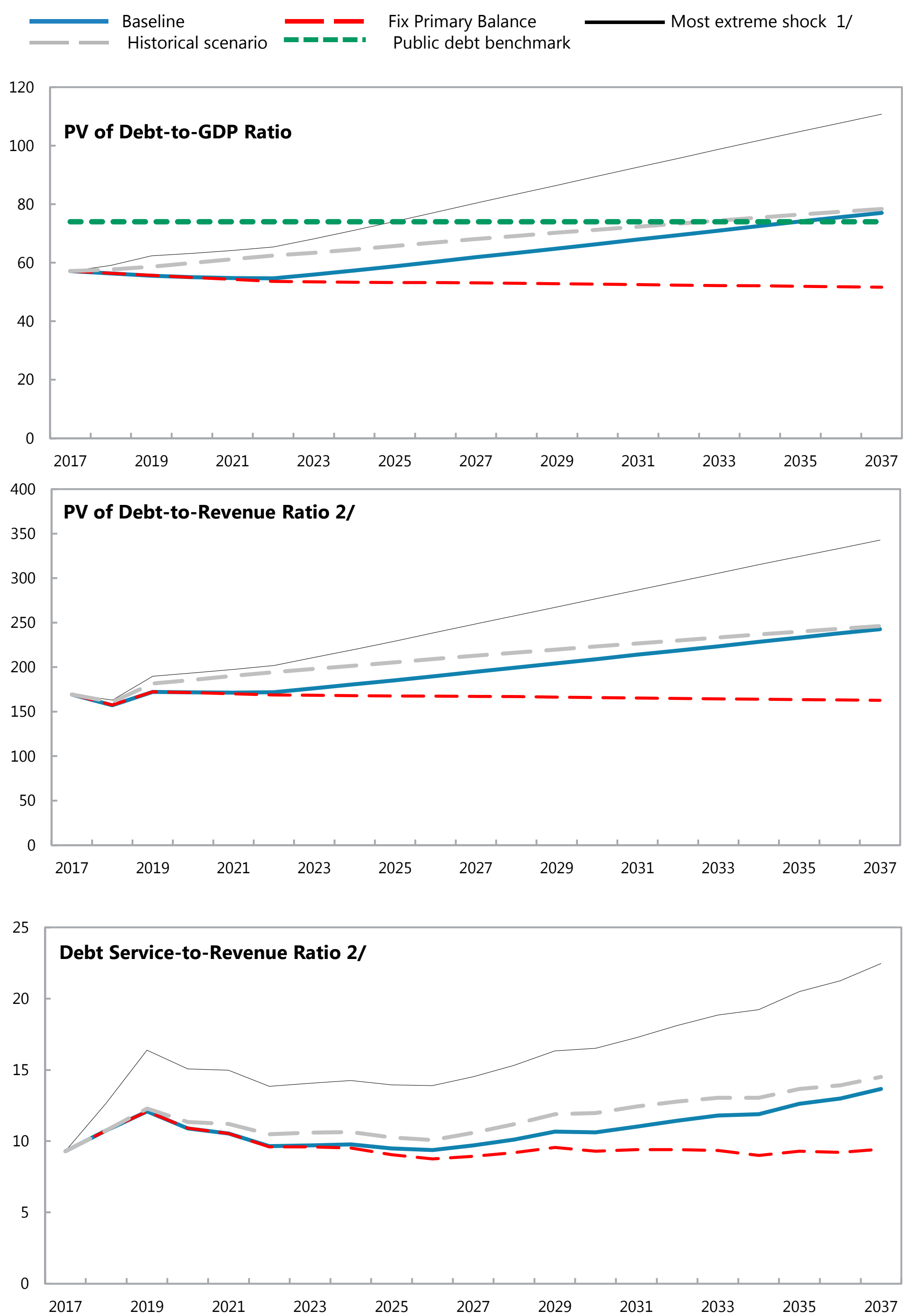
Figure 1b. Samoa: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, Excluding Remittances 2017-20317 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2. Samoa: Indicators of Public Debt under Alternative Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table. 1a. Samoa: External Debt Sustainability Framework Baseline Scenario, 2014-2037 1/

(In percent of GPD, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**51.8**	**55.3**	**50.7**			**50.8**	**51.1**	**51.7**	**52.0**	**52.3**	**52.6**		**64.8**	**86.8**	
of which: public and publicly guaranteed (PPG)	51.8	55.3	50.7			50.8	51.1	51.7	52.0	52.3	52.6		64.8	86.8	
Change in external debt	0.2	3.6	-4.6			0.0	0.3	0.6	0.3	0.3	0.3		2.4	2.1	
Identified net debt-creating flows	6.2	-0.4	6.6			4.3	4.7	3.6	2.9	2.6	2.4		4.5	4.4	
Non-interest current account deficit	**7.4**	**2.3**	**5.3**	**5.5**	**2.6**	**5.2**	**4.9**	**4.1**	**3.8**	**3.6**	**3.6**		**5.0**	**4.8**	4.9
Deficit in balance of goods and services	24.6	21.2	20.5			20.5	20.3	19.7	19.2	18.8	18.5		20.0	20.0	
Exports	27.8	27.5	29.4			27.8	28.0	28.3	28.4	28.6	28.7		28.7	28.7	
Imports	52.5	48.7	49.9			48.3	48.3	48.0	47.6	47.4	47.2		48.7	48.7	
Net current transfers (negative = inflow)	-20.2	-20.2	-16.8	-20.1	1.9	-16.4	-16.5	-16.5	-16.5	-16.5	-16.3		-16.3	-16.3	-16.3
of which: official	-0.3	-0.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	3.1	1.3	1.6			1.1	1.0	1.0	1.2	1.2	1.4		1.3	1.1	
Net FDI (negative = inflow)	**-2.0**	**-3.4**	**-0.8**	**-2.5**	**2.3**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.8**		**-0.8**	**-0.8**	-0.8
Endogenous debt dynamics 2/	**0.8**	**0.7**	**2.1**			**-0.1**	**0.5**	**0.2**	**-0.1**	**-0.2**	**-0.4**		**0.3**	**0.4**	
Contribution from nominal interest rate	0.7	0.7	0.8			0.9	1.0	1.1	0.9	0.9	0.7		0.8	1.0	
Contribution from real GDP growth	-0.6	-0.8	-3.7			-1.0	-0.5	-0.9	-1.0	-1.1	-1.1		-0.5	-0.6	
Contribution from price and exchange rate changes	0.7	0.8	5.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-6.0**	**4.0**	**-11.2**			**-4.3**	**-4.3**	**-3.0**	**-2.6**	**-2.4**	**-2.1**		**-2.2**	**-2.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.7			36.7	36.4	36.1	35.9	35.7	35.6		43.0	58.2	
In percent of exports	...	...	125.0			132.3	129.8	127.5	126.2	124.7	124.0		149.5	202.4	
PV of PPG external debt	**...**	**...**	**36.7**			**36.7**	**36.4**	**36.1**	**35.9**	**35.7**	**35.6**		**43.0**	**58.2**	
In percent of exports	**...**	**...**	**125.0**			**132.3**	**129.8**	**127.5**	**126.2**	**124.7**	**124.0**		**149.5**	**202.4**	
In percent of government revenues	**...**	**...**	**137.0**			**141.7**	**140.5**	**140.1**	**140.3**	**140.2**	**140.8**		**170.2**	**230.5**	
Debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.6**			**9.0**	**11.3**	**11.6**	**11.0**	**11.4**	**10.4**		**10.7**	**15.1**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.6**			**9.0**	**11.3**	**11.6**	**11.0**	**11.4**	**10.4**		**10.7**	**15.1**	
PPG debt service-to-revenue ratio (in percent)	**2.6**	**2.8**	**2.9**			**9.6**	**12.2**	**12.8**	**12.2**	**12.8**	**11.8**		**12.2**	**17.2**	
Total gross financing need (Millions of U.S. dollars)	49.1	-2.9	41.6			58.6	63.5	59.8	57.9	58.9	58.2		83.5	122.7	
Non-interest current account deficit that stabilizes debt ratio	7.2	-1.2	9.9			5.2	4.5	3.5	3.5	3.3	3.2		2.6	2.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.2	1.6	6.6	0.9	3.7	2.1	0.9	1.8	2.1	2.1	2.1	1.9	0.8	0.8	0.8
GDP deflator in US dollar terms (change in percent)	-1.3	-1.6	-8.3	4.0	8.2	5.1	2.4	1.6	1.7	1.6	1.8	2.4	1.8	1.8	1.8
Effective interest rate (percent) 5/	1.3	1.3	1.4	1.2	0.5	1.9	2.0	2.2	1.8	1.8	1.4	1.8	1.3	1.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	-4.1	-1.2	4.5	4.6	7.4	1.4	4.3	4.4	4.4	4.4	4.4	3.9	2.5	2.5	2.6
Growth of imports of G&S (US dollar terms, in percent)	6.0	-7.1	0.1	4.2	8.8	3.8	3.6	2.6	3.1	3.4	3.5	3.3	2.5	2.5	2.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.6	45.9	46.3	42.8	43.0	43.8	43.6	41.9	40.8	41.5
Government revenues (excluding grants, in percent of GDP)	25.4	25.3	26.8			25.9	25.9	25.7	25.6	25.4	25.3		25.2	25.2	25.2
Aid flows (in Millions of US dollars) 7/	101.5	78.5	52.5			65.9	86.6	58.7	60.9	63.2	65.7		74.6	96.0	
of which: Grants	101.5	78.5	52.5			65.9	86.6	58.7	60.9	63.2	65.7		74.6	96.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.3	11.9	8.6	8.4	8.5	8.5		9.1	9.6	9.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			80.5	83.8	78.1	76.7	76.5	76.8		71.6	68.3	70.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	803.6	804.0	785.9			843.2	871.5	901.2	935.7	971.0	1009.4		1145.5	1473.5	
Nominal dollar GDP growth	-0.2	0.0	-2.2			7.3	3.4	3.4	3.8	3.8	4.0	4.3	2.5	2.5	2.6
PV of PPG external debt (in Millions of US dollars)			296.0			309.1	317.0	324.9	335.9	346.3	359.6		492.0	857.0	
(PVt-PVt-1)/GDPt-1 (in percent)						1.7	0.9	0.9	1.2	1.1	1.4	1.2	2.6	3.0	2.7
Gross workers' remittances (Millions of US dollars)	160.0	160.9	131.7			138.1	143.3	148.8	154.4	159.4	164.6		186.8	240.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	31.4			31.6	31.2	30.9	30.8	30.6	30.6		36.9	50.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	79.6			83.2	81.8	80.5	79.9	79.2	79.1		95.3	129.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.7			5.6	7.1	7.3	7.0	7.2	6.6		6.8	9.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	32	31	31	31	31	31	**37**	50
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	32	30	29	29	29	29	**29**	32
A2. New public sector loans on less favorable terms in 2017-2037 2	32	32	33	34	35	35	**48**	77
A3. Alternative Scenario: Severe Natural Disaster in 2018	31	38	40	40	40	40	**46**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	32	32	33	33	33	33	**40**	54
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	32	32	34	34	34	34	**40**	51
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	32	33	34	34	34	34	**41**	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	32	30	29	30	29	29	**36**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	32	31	32	32	32	32	**39**	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	32	42	41	41	41	41	**49**	67
PV of debt-to-exports+remittances ratio								
Baseline	83	82	80	80	79	79	**95**	129
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	83	80	77	76	75	75	**78**	89
A2. New public sector loans on less favorable terms in 2017-2037 2	83	84	86	87	89	92	**125**	199
A3. Alternative Scenario: Severe Natural Disaster in 2018	83	97	103	103	102	102	116	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	83	82	80	80	79	79	**95**	129
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	83	88	96	95	95	95	**112**	145
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	83	82	80	80	79	79	**95**	129
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	83	77	75	77	76	76	**92**	128
B5. Combination of B1-B4 using one-half standard deviation shocks	83	77	78	79	78	78	**95**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	83	82	80	80	79	79	**95**	129
PV of debt-to-revenue ratio								
Baseline	142	140	140	140	140	141	**170**	231
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	142	136	133	131	130	130	**131**	140
A2. New public sector loans on less favorable terms in 2017-2037 2	142	145	149	154	158	163	**223**	355
A3. Alternative Scenario: Severe Natural Disaster in 2018	141	170	184	186	185	186	**212**	251
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	142	146	152	152	152	153	**185**	251
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	142	145	153	153	153	154	**184**	237
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	142	150	159	159	159	160	**193**	262
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	142	138	135	135	135	136	**165**	228
B5. Combination of B1-B4 using one-half standard deviation shocks	142	143	150	150	150	151	**183**	251
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	142	199	198	198	198	199	**241**	326

Table 1b. Samoa: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037 (concluded)

(In percent)

				Debt service-to-exports+remittances ratio				
Baseline	6	7	7	7	7	7	**7**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	6	7	7	7	7	6	**6**	7
A2. New public sector loans on less favorable terms in 2017-2037 2	6	7	7	7	8	7	**9**	14
A3. Alternative Scenario: Severe Natural Disaster in 2018	6	7	8	8	8	7	**9**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	6	7	7	7	7	7	**7**	10
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	6	7	8	8	8	7	**8**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	6	7	7	7	7	7	**7**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	6	7	7	7	7	7	**7**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	7	7	7	7	**7**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	6	7	7	7	7	7	**7**	10
				Debt service-to-revenue ratio				
Baseline	10	12	13	12	13	12	**12**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	10	12	12	12	12	11	**10**	10
A2. New public sector loans on less favorable terms in 2017-2037 2	10	12	13	13	13	13	**16**	26
A3. Alternative Scenario: Severe Natural Disaster in 2018	10	13	14	14	14	13	**16**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	10	13	14	13	14	13	**13**	19
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	10	12	13	12	13	12	**13**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	10	13	14	14	14	13	**14**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	10	12	13	12	13	12	**12**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	10	13	14	13	14	13	**13**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	10	17	18	17	18	17	**17**	24
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Samoa: Public Sector Debt Sustainability Framework Baseline Scenario, 2014-2037

(In percent of GDP, unless otherwise indicated))

	Actual					Estimate					Projections				
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	74.0	76.6	71.4			71.1	71.0	71.2	71.2	71.4	71.7		83.7	105.7	
of which: foreign-currency denominated	51.8	55.3	50.7			50.8	51.1	51.7	52.0	52.3	52.6		64.8	86.8	
Change in public sector debt	0.5	2.5	-5.2			-0.3	-0.1	0.1	0.0	0.2	0.2		2.4	2.1	
Identified debt-creating flows	2.0	7.3	-3.9			-1.0	-0.6	-0.6	-0.8	-0.7	-0.7		1.7	1.4	
Primary deficit	4.4	2.6	-0.9	2.7	2.4	0.6	0.4	0.6	1.0	1.2	1.5	0.9	3.1	3.2	3.1
Revenue and grants	38.0	35.1	33.5			33.7	35.8	32.3	32.1	32.0	31.8		31.7	31.7	
of which: grants	12.6	9.8	6.7			7.8	9.9	6.5	6.5	6.5	6.5		6.5	6.5	
Primary (noninterest) expenditure	42.4	37.7	32.6			34.3	36.2	32.8	33.1	33.1	33.3		34.9	34.9	
Automatic debt dynamics	-2.3	4.7	-3.1			-1.6	-1.0	-1.2	-1.8	-1.9	-2.2		-1.5	-1.8	
Contribution from interest rate/growth differential	-1.5	-2.1	-4.6			-1.3	-0.7	-1.4	-1.9	-2.0	-2.2		-1.5	-1.9	
of which: contribution from average real interest rate	-0.7	-0.9	0.1			0.1	0.0	-0.1	-0.4	-0.6	-0.8		-0.9	-1.1	
of which: contribution from real GDP growth	-0.9	-1.2	-4.7			-1.5	-0.7	-1.2	-1.5	-1.5	-1.5		-0.6	-0.8	
Contribution from real exchange rate depreciation	-0.8	6.8	1.5			-0.3	-0.3	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.5	-4.8	-1.3			0.7	0.5	0.8	0.9	0.9	0.9		0.7	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	57.4			57.1	56.3	55.5	55.1	54.7	54.6		61.8	77.0	
of which: foreign-currency denominated	...	...	36.7			36.7	36.4	36.1	35.9	35.7	35.6		43.0	58.2	
of which: external	...	...	36.7			36.7	36.4	36.1	35.9	35.7	35.6		43.0	58.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.3	3.9	0.8			3.7	4.3	4.5	4.5	4.5	4.6		6.2	7.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	171.6			169.2	157.1	172.1	171.5	171.3	171.8		194.8	242.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	214.4			220.2	217.4	215.7	215.2	215.2	216.0		245.1	305.3	
of which: external 3/	...	...	137.0			141.7	140.5	140.1	140.3	140.2	140.8		170.2	230.5	
Debt service-to-revenue and grants ratio (in percent) 4/	2.6	3.6	4.9			9.3	10.8	12.1	10.9	10.5	9.7		9.7	13.7	
Debt service-to-revenue ratio (in percent) 4/	3.9	4.9	6.1			12.1	14.9	15.1	13.7	13.2	12.1		12.2	17.2	
Primary deficit that stabilizes the debt-to-GDP ratio	3.9	0.1	4.3			0.9	0.5	0.4	0.9	1.0	1.3		0.8	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.2	1.6	6.6	0.9	3.7	2.1	0.9	1.8	2.1	2.1	2.1	1.9	0.8	0.8	0.8
Average nominal interest rate on forex debt (in percent)	1.3	1.3	1.4	1.2	0.5	1.9	2.0	2.2	1.8	1.8	1.4	1.8	1.3	1.2	1.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	13.6	3.0	-1.4	8.9	-0.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.3	2.7	-1.1	3.1	3.4	1.8	1.9	2.5	2.8	3.0	3.0	2.5	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	17.4	-9.6	-7.8	0.0	7.1	7.6	6.5	-7.8	2.8	2.3	2.7	2.4	0.8	0.8	1.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.6	45.9	46.3	42.8	43.0	43.8	43.6	41.9	40.8	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector debt and 18.8 percent of GDP contingent liabilities from PFIs and SOEs. Gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Samoa: Sensitivity Analysis for Key Indicators of Public Debt 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	57	56	56	55	55	55	62	77
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	57	58	59	60	61	62	68	78
A2. Primary balance is unchanged from 2017	57	56	56	55	54	54	53	52
A3. Permanently lower GDP growth 1/	57	57	57	57	58	59	74	121
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	57	59	62	63	64	65	80	111
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	57	59	61	61	60	60	68	82
B3. Combination of B1-B2 using one half standard deviation shocks	57	59	62	62	63	63	75	98
B4. One-time 30 percent real depreciation in 2018	57	71	69	68	67	66	69	82
B5. 10 percent of GDP increase in other debt-creating flows in 2018	57	62	62	61	61	61	68	83
PV of Debt-to-Revenue Ratio 2/								
Baseline	169	157	172	172	171	172	195	243
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	169	161	181	186	190	194	213	246
A2. Primary balance is unchanged from 2017	169	157	172	171	170	169	167	163
A3. Permanently lower GDP growth 1/	169	158	176	177	180	183	230	368
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	169	163	190	193	197	202	249	343
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	169	165	189	189	189	189	213	259
B3. Combination of B1-B2 using one half standard deviation shocks	169	165	191	193	195	198	234	306
B4. One-time 30 percent real depreciation in 2018	169	199	215	211	208	206	218	257
B5. 10 percent of GDP increase in other debt-creating flows in 2018	169	174	191	190	190	191	215	261
Debt Service-to-Revenue Ratio 2/								
Baseline	9	11	12	11	11	10	10	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	11	12	11	11	10	11	15
A2. Primary balance is unchanged from 2017	9	11	12	11	11	10	9	9
A3. Permanently lower GDP growth 1/	9	11	12	11	11	10	11	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	9	11	13	12	12	11	12	20
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	9	11	12	11	11	10	11	15
B3. Combination of B1-B2 using one half standard deviation shocks	9	11	13	12	11	11	11	18
B4. One-time 30 percent real depreciation in 2018	9	13	16	15	15	14	15	22
B5. 10 percent of GDP increase in other debt-creating flows in 2018	9	11	13	12	11	10	11	15

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Statement by Heenam Choi, Executive Director for Samoa and Nancy Lelang, Advisor to Executive Director May 1, 2017

On behalf of our Samoan authorities, we welcome staff's 2017 Article IV Consultation reports and thank the mission team for their productive engagement and sound policy advice. Our authorities agree in general with the staff assessment of the Samoan economy, risks facing the country and the policy package needed to sustain growth and build resilience against potential financial stability risks and natural disasters.

In the longer term, our authorities recognize the need to undertake deeper reforms to reinforce resilience and secure Samoa's growth path. As such, our authorities remain committed to reducing financial sector vulnerabilities; mitigating spillovers of the withdrawal of correspondent banking relationships and ensuring fiscal sustainability. Importance is placed on addressing AML/CFT concerns, establishing a know your customer database, strengthening state owned enterprises, abiding by the government's fiscal and debt framework, as well as, accomplishing the Sustainable Development Goals (SDG) to improve the business environment to support Samoa's growth over the longer term.

Our authorities also thank the Fund for the ongoing technical assistance and special project missions to Samoa. Special thanks to Madame Lagarde for her timely and enormous support including stewardship in recognizing the economic challenges faced in Samoa. Madame Largarde's intervention has brought more frequent and much-needed technical assistance to the country.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The authorities agree with staff's assessment of the Samoan economy. In 2016/17, economic growth will moderate to 2.1 percent. Spillovers from the closure of a fish cannery in American Samoa and the closure of the largest manufacturing plant in Samoa will both be drags on growth in 2017/18 and 2018/19, before returning to the potential growth level of around 2 percent in the medium term, and in the absence of natural disasters. Average inflation, on the other hand, is subdued at 1.8 percent and is expected to climb close to 3 percent over the medium term.

The authorities share staff's view on the country's trade position which is in line with economic fundamentals. Samoa's current account is expected to remain steady in 2016/17, before narrowing over the medium term. The country's international reserves level (in US dollar terms) has recently improved and remains comfortable at 3.0 months of import of goods and non-factor services cover; consistent with Samoa's optimal level of reserves between 2.7 to 4.0 months of import of goods and non-factor services cover and in terms of the opportunity cost of holding it. Samoa's local currency (Tala) is also assessed to reflect economic fundamentals.

FISCAL POLICY

The authorities' fiscal policy stance is to tighten general spending and impose quality spending in priority areas whilst maintaining budget deficits not more than 2.0 percent of GDP over the medium term. The authorities commenced their expenditure rationalization and revenue collection efforts with the passing of the 2015/16 Budget, which resulted in the fiscal deficit dropping to 0.4 percent of GDP from 3.9 percent in 2014/15. The authorities also launched the country's new development policy document "Strategy for the Development of Samoa 2016/2020" in late 2016, which will guide Government over the next 4 years. The strategy sets new and tighter medium term fiscal targets and aims to affordably improve the country's education and health services and build climate change resilient infrastructures. In addition, authorities continue to secure international development partners' assistance to address issues relating to vulnerable groups like youth and gender, as well as, to partner with authorities to maintain and construct new infrastructure to climate change resilience standards (an example is the Green Project Fund).

The authorities are pressing on with reforms on its Public Financial Institutions and State Owned Enterprises to avoiding burdening the country's budget. Authorities are fully aware of the adverse impact on the budget of non-performing public financial institutions and state owned enterprises, hence, are continuing with reforms. All public financial institutions are now under a new Ministry of Public Enterprises, which will further support transparency and accountability of these organizations. The authorities intend to continue to implement the State-Owned Enterprise (SOE) Act, appoint independent directors, as well as, privatize selected SOEs over the medium term. The Development Bank of Samoa (DBS) has appropriately re-oriented its focus to providing credit to the agriculture sector, in accordance with its mandate. The Samoa National Provident Fund (SNPF) closely monitors and manages its personal lending against members' contributions, and to date operates as usual without any threat of bankruptcy. The Unit Trust of Samoa (UTOS) complies with all the requirements of the Central Bank of Samoa and its operations are transparent.

The authorities remain committed to promoting a fair and efficient Samoan tax system to enhance revenue collections. The authorities are carefully considering compliance measures to ensure everyone is paying a fair share of tax and to ensure that the tax burden remains as low as possible whilst raising revenue. The authorities are reviewing the tax exemptions and concessions that are in place in the current tax arrangement to ensure these are justified and that they are not being used to unfairly avoid paying tax. They are also vigorously pursuing payment of back taxes where there are arrears and will impose penalties where there is no justification for these arrears. The authorities are also reviewing the current tax credit arrangement allowed to larger companies with a view that the tax credit is spent in line with national priorities. Authorities also intend that State Owned Enterprises which generate revenue and earn profits pay dividend to the consolidated revenue. In the 2015/16 budget, the authorities have increased the excise duty on tobacco and alcohol products and introduced excise on sugar items and some salt products.

Reducing public debt to 50 percent of GDP over the medium term remains a priority. Samoa's debt strategy is to ensure that the financing needs of the State are always met on a timely basis and that its borrowing costs are as low as possible over the medium term. Whilst considering the debt objective, the authorities aim to ensure that the debt to GDP ratio will decline in the medium term to 50 percent of GDP while its growth priorities are adequately met.

MONETARY POLICY & THE FINANCIAL SECTOR

Monetary policy stance is to support economic growth given the low inflation environment and moderate growth prospects. Inflation (year average) is expected at 1.8 percent in 2016/17 and is projected to remain no more than 3.0 percent over the medium term. Given the low inflation environment, the accommodative monetary policy stance balances the authorities' desire to support economic activity whilst rebuilding fiscal buffers to mitigate possible external shocks and prepare for unanticipated natural disasters. The authorities are also aware that monetary policy transmission mechanism via open market operations tends to be sluggish during periods of low interest rates in Samoa. As such, the authorities are intending to review its monetary policy framework with consideration towards the setting of an official policy rate by the Central Bank of Samoa like the Reserve Bank of New Zealand's overnight Cash Rate. Other monetary instrument options available to Samoa include reserve requirements, repurchase and rediscount facilities and moral suasion through quarterly meetings with the commercial banks which have worked well for Samoa.

The financial sector remains well capitalized, liquid and profitable whilst authorities significantly progress the implementation of the FSAP recommendations. Samoa's capital adequacy ratio remains comfortable at 24.0 percent and non-performing loans (NPL) ratio has declined over the past year. The improvement in NPL is largely due to increased efforts by the commercial banks in collecting outstanding arrears from financial institutions. At the same time, authorities have increased on-site inspections of commercial banks, as well as, strengthening its supervisory and regulatory framework. They are also committed to continuing work to include amendments to the Financial Institutions Act; upgrading the guidelines on prudential statements for commercial banks; increasing financial supervision staff numbers; increasing training for supervisory staff and updating the framework for single borrowing limits. The authorities are grateful for the recent Financial Stability Analysis mission to Samoa, which no doubt will help enhance further financial stability analysis of Samoa, including development of a framework for analysis of risks.

Of significant concern, correspondent banking relationships withdrawal is ongoing. Remittances account for 18 percent of GDP in Samoa, of which about 80 percent is channeled through small Money Transfer Operators (MTOs). MTOs continue to face closure of their bank accounts without explanation from correspondent banks and are also prevented from reopening business accounts in other correspondent banks. For a small island state like Samoa, there is the potential that ongoing correspondent banking relationship withdrawal could create financial stability risks, undermine financial inclusion and rocket the cost of remittances. Other consequences include increasing movement of cash-handling across borders.

Authorities are vigorously pressing on with reforms to comply with the international AML/CFT standards. The authorities have published Samoa's AML/CFT national strategy, as recommended by the Asia/Pacific Group on Money Laundering. Recent efforts include two financial intelligence unit (FIU) staff attaining certification from the Association of Certified Anti-Money Laundering Specialist (ACAMS) and training for police recruits as well as the judiciary. Authorities have also continued with on-site inspections of MTOs to improve AML/CFT compliance.

Collaborated participation of the Australian and New Zealand regulators including World Bank, Asian Development Bank and the IMF are critical in restoring confidence in the financial system of the Pacific region. Samoa is committed to establishing a national "Know Your Customer" database, as recommended by the Fund. The database will contain information on senders and receivers of remittances and provide readily available information to verify the senders and receivers of remittances. The database will be housed in Samoa at the Central Bank, which will have the necessary legal authority to collect data. Participation of the Australian and New Zealand regulators remain critical to ensuring standards of these countries are met in the database to prevent further correspondent banking relationships withdrawal and create confidence in Samoa's financial system. The Samoan authorities had also led a very fruitful and promising engagement through a roundtable meeting between the Central Bank Pacific Governors and the US authorities (US Federal Reserve and Treasury) that could certainly ensure accountability and transparency in addressing the de-risking issue.

STRUCTURAL REFORMS

Finally, authorities remain supportive of private sector growth and improvements in statistics. Authorities are continuing with reforms to the legal land leases framework, as well as, implementing the Personal Properties Securities Act (amended January 2015) which is expected to improve access to finances by small to medium enterprises. Efforts to improve vocational skills and education accreditation to ease shortage of skilled workers or to take advantage of overseas opportunities is also ongoing. Upon the completion of the submarine cable, quality and cost opportunities of information technical services should improve. Authorities are also enhancing data dissemination through the implementation of the enhanced General Data Dissemination System (e-GDDS) with the technical assistance from the Fund.