

# ECONOMIC & FISCAL UPDATE

2017



FSM Office of Budget & Economic Management,

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## CURRENCY EQUIVALENTS

Currency Unit – FSM uses the United States Dollar

## ABBREVIATIONS

ADB	-	Asian Development Bank
AIP	-	Airport Improvement Program
COM-FSM	-	College of Micronesia
CPI	-	Consumer Price Index
DR&D	-	Department of Resource & Development
ESDP	-	Energy Sector Development Project
EU	-	European Union
FAA	-	Federal Aviation Administration
FSM	-	Federated States of Micronesia
FSMPC	-	FSM Petroleum Corporation
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
ICT	-	Information, Communications and Technology
IDP	-	Infrastructure Development Plan
JEMCO	-	Joint Economic Management Committee
JICA	-	Japan International Cooperation Agency
ODA	-	Overseas Development Assistance
PMO	-	Project Management Office
PMU	-	Project Management Unit
PPA	-	Pohnpei Port Authority
PROP	-	Pacific Regional Oceanscape Program
WB	-	World Bank

## NOTES

- (i) The Fiscal Year (FY) of the Government ends on 30<sup>th</sup> September.
- (ii) In this report, "\$" refers to United States dollars.

## 1. ECONOMIC & FISCAL UPDATE SUMMARY

### 1.1. Fiscal Setting Overview

Strong government domestic revenue in recent years has eased the pressure on the fiscal position of the National Government, with the budget in surplus<sup>1</sup> annually since Fiscal Year (FY) 2008. A strong fiscal surplus (pre-audit) is estimated at \$22.3 million in FY2016 and a further surplus is projected for FY2017.

The FY2017 National Budget was developed under reasonably unrestricted fiscal circumstances and reflects the key policy focus of the Government. Firstly, the need for continued fiscal discipline regarding the overall operations budget, with a moderate 1.2 percent increase over FY2016 levels. Secondly, it provides a balance between investing for the future and the need to stimulate the economy now.

After strong domestic revenue growth from 2011 – 2014 on the back of rising fishing licence fees, revenue has levelled off at \$100 million. Fishing license fees appear to have reached an equilibrium at \$60 million per annum for the last three years. Domestic tax revenue effort however, at 12 percent of GDP, continues to be low by international standards.

External grants grew for the first time since 2012 but at \$25.1 million in FY2016 they are well below the FY2012 peak of \$71.5 million. Following the update of the Infrastructure Development Plan (IDP) in FY2015 Compact infrastructure sector allocations were made available again in January 2016. With the repeal of Public Law 14-48, infrastructure grants from 2016 onwards will be passed down to the States, and thus National Government grant levels, in line with the fiscal sustainability achieved, are not expected to rise again to previous levels.

Operational expenditure levels have remained flat over the last five years and in real terms have declined. Expenditure on personnel as a percentage of domestic revenue has declined from a peak of 49.8 percent in FY2010 to 26.0 percent in FY2016. Expenditure on goods and services has only grown by an average 0.1 percent per annum since FY2004. This along with the 2.3 percent average annual growth in personnel costs suggest the National Government has been successful in keeping government operational expenditure under control since the beginning of the Amended Compact.

The National Government, through Congress, continues to support the States through revenue sharing initiatives, increasing from \$9.4 million in FY2012 to \$47.7 million in FY2017. FY2017 includes infrastructure allocations to the States of \$15.4 million and public projects of \$8.4 million, which are a mix of infrastructure, economic, and social projects.

Surpluses have allowed the National Government to make contributions into the FSM Trust Fund which has grown from \$8 million at the beginning of FY2012 to \$81.5 million at the end of FY2016. The medium-term outlook for National Government is for continued surpluses of around \$15 million, with at least \$10 million annually proposed for Trust Fund investment.

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<sup>1</sup> The surpluses are recorded before investments into the FSM Trust Fund

In recent years the FSM has maintained a prudent external debt profile. The current external debt to GDP ratio is relatively low at 23.4 percent in FY2016, and the debt service to domestic revenue ratio is at a manageable rate of 5.0 percent.

## 1.2. Economic Setting Overview

From the historical low of FY2008, FSM experienced two years of economic growth stimulated mainly by infrastructure projects linked to the Amended Compact grant and FAA funded airport renovations. During this period construction activity averaged 33.2 percent growth per annum. However, FY2012 - FY2014 saw a significant decline in construction activity and the economy went into recession. Not only were the FAA funded projects drawing to close but also a JEMCO imposed suspension on any new Infrastructure Grant projects in August 2012 further restricted economic activity.

Following three years of recession the FSM economy grew by 3.7 percent in FY2015. Further growth in the economy was experienced in FY2016 as the construction industry experienced strong growth, albeit from a low base, and all other sectors grew by varying degrees, contributing to overall growth of 3.8 percent.

Economic growth is forecast for the FSM in the medium term as construction activity once again drives the economy as State PMO's become fully operational and upscale the implementation of compact infrastructure projects.

Inflation, as measured by the FSM Consumer Price Index (CPI), was 0.9 percent in FY2014 following 2.5 percent growth in FY2013. For the last 2 years the FSM has experienced deflation with the CPI falling by -0.3 and -1.0 percent in FY2015 and FY2016 respectively. Inflation is forecast to return in the medium term reflecting the upwards projections for the United States under the new administration.

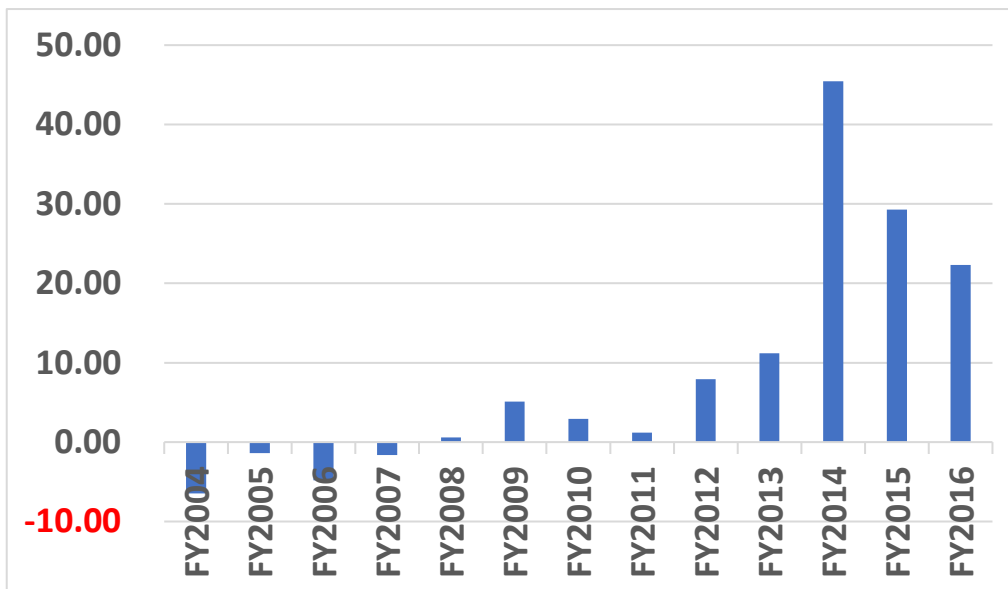
The FSM has not prospered since the beginning of the Amended Compact with real GDP growth averaging -0.2 percent per annum. Implementing a long-term sustainable growth strategy remains the Government's top priority.

## 2. NATIONAL GOVERNMENT FISCAL UPDATE

### 2.1. Fiscal Outcome

The first five years of the Amended Compact witnessed a difficult period of fiscal adjustment, as the nation was forced to adapt to the new fiscal procedure arrangements. At the start of the amended Compact in FY2004 the National Government recorded a deficit of \$6.4 million (refer figure 1), reflecting the National Governments restructuring of shifting from Compact grants to local revenue funding for many Departments that no longer qualified for Compact funding. In the subsequent three years much smaller deficits were incurred as continuing adjustments were made to efficiently utilize local revenues and by FY2008 the overall fiscal balance had turned positive, and has remained that way since.

**Figure 1: National Government Fiscal Balance<sup>2</sup> (\$ million)**



Source: Audited Reports & Budget estimates

In FY2013 the surplus rose above \$10 million for the first time as a result of the increasing fishing licence fee collections. FY2014 was an exceptional year for the FSM National Government with a further increase in fishing licence fees and a one-off \$22 million payment by a captive insurance company, resulting in a fiscal surplus of \$42.7 million. The fiscal surplus for FY2015 dropped to \$29.3 million and the National Government provisional fiscal balance is estimated to be \$22.3 million for FY2016 (pre audit) and forecast at \$14.2 million for FY2017.

<sup>2</sup> The surpluses are recorded before investments into the FM Trust Fund

Fiscal surpluses have been managed prudently with the majority being invested in the FSM Trust Fund. Surpluses are forecast to be around \$15 million per annum for the next 3 years based on stable fishing licence fees.

**Government Revenue**

Strong government domestic revenue growth in recent years has eased the pressure on the fiscal position of the National Government (refer table 1 below), although it appears that fishing licence fees have now reached their equilibrium.

**Table 1: National Government Revenue (\$ million)**

	<b>FY2013 Audit</b>	<b>FY2014 Audit</b>	<b>FY2015 Audit</b>	<b>FY2016 Estimate</b>	<b>FY2017 Budget</b>
<b>Domestic Revenue</b>	<b>56.4</b>	<b>91.2</b>	<b>83.7</b>	<b>78.3</b>	<b>78.9</b>
Tax revenue	17.3	40.0	16.8	10.9	11.1
Non-tax revenue	39.1	51.2	66.9	67.4	59.5
Fishing license fees	35.0	47.5	65.2	62.0	62.3
Other	4.0	3.7	1.7	5.4	5.5
<b>External Grants</b>	<b>43.8</b>	<b>26.2</b>	<b>20.3</b>	<b>25.7</b>	<b>16.7</b>
Compact Sector Grants	2.4	0.8	1.0	1.0	1.0
Supplemental Education	0.3	0.3	0.8	0.8	0.8
Federal & Other	9.9	11.1	8.4	13.6	10.3
Capital Grants	31.3	10.2	10.9	10.5	5.6
<b>Revenue</b>	<b>100.3</b>	<b>117.4</b>	<b>104.0</b>	<b>104.0</b>	<b>95.6</b>

Source: Audited Reports & Budget estimates

Tax revenue in the FSM is a relatively low proportion of domestic revenue. However, in FY2014 corporate tax showed a large gain of \$22 million. This income was related to a one-off payment by a captive insurance company. Corporate tax declined to \$4.0 million in FY2015 and grew to \$5.9 million in FY2016 as world markets recover from the negative returns of FY2015.

Public Law 18-107 in FY2015 amended the tax collection allocation to the States from 50 percent to 70 percent of net taxes collected for import taxes, income tax, and gross revenue tax. This was a welcome move towards assisting the States although it is more an investment for the future as by law this additional tax allocation is invested in the FSM Trust Fund on behalf of the States. The impact of this tax policy change sees a \$5.0 million decline in tax revenue for the National Government from FY2016 onwards.

A major part of fiscal adjustment for FY2023 will need to come from domestic revenue increases in order to avoid seriously jeopardizing State social service delivery. The FSM tax to GDP ratio of 12 percent is very low by international standards and well below other pacific island countries. Both our nearest neighbours, Palau and the Republic of Marshall Islands, have ratios of 17 percent. This very low revenue effort means there is little domestic resources to fund State government expenditures. Raising the FSM revenue effort to 16 percent of GDP in the medium term, through tax reforms, or other compliance and tax measures, is necessary to partially avert the fiscal crisis in FY2024.

Fishing licence income doubled between FY2012 and FY2015, reaching \$65.0 million. Fishing day license fees increased by 30 percent on 1 January 2015 but at the same time there was to be a reduction in days fished. Fishing fees dropped back to \$62.7 million in FY2016 and the FY2017 budget estimates fees of \$62.3 million for the year.

External grants have been declining in recent years. This reflects the National Congress amending the allocations for Compact Sector grant disbursement to the States, with Public Law 18-57 seeing the National Government allocation being zeroed out from FY2015 onwards. FY2017 sees Amended Compact funding for the College of Micronesia (COM-FSM) drop as per the 2011 JEMCO resolution to reduce COM-FSM support from \$3.8 million to \$1.0 million per annum by FY2017. This decline in Compact grant funding has been replaced by National Government local revenue funding, allowing the freed up Compact grants funding to be distributed to the States.

The major decline in grants comes from capital grants which peaked at \$57.6 million in FY2012 and dropped to just over \$10 million per annum from FY2014 to FY2016. Following the Infrastructure Development Plan update and PMU institutional Review completed in 2015 the Compact infrastructure grants are expected to be made available again from FY2016 onwards.

### Government Expenditure

Since FY2012 National Government expenditure has been declining, mainly reflecting the slowdown in capital grants. Current expenditure levels have remained flat over the last 5 years and in real terms have declined (refer table 2 below).

**Table 2: National Government Expenditure (\$ million)**

Item	FY013 Audit	FY2014 Audit	FY2015 Audit	FY2016 Estimate	FY2017 Budget
Wages and Salaries	18.2	17.6	16.7	20.8	21.3
Goods and Services	29.3	33.0	38.0	37.1	37.8
Interest Payments	0.7	0.7	0.7	0.7	0.7
Subsidies	0.3	0.3	0.3	0.3	0.3
Transfer	1.0	2.1	1.1	2.8	2.0
<b>Current Expenditure</b>	<b>49.5</b>	<b>53.7</b>	<b>56.8</b>	<b>61.7</b>	<b>62.1</b>
Capital Expenditure	39.5	10.3	11.1	21.2	10.6
<b>Total Expenditure</b>	<b>89.1</b>	<b>64.0</b>	<b>67.9</b>	<b>82.9</b>	<b>72.7</b>

Source: Audited Reports & Budget estimates

Personnel costs declined from \$18.5 million in FY2012 to \$16.7 million in FY2015 but have begun to grow again in the last two years. Public Law 18-114 introduced the Cost of Living Adjustment which took effect on 1 July 2015 with a \$40 per fortnight contribution for all government employees. The average growth rate from 2004 has been 2.3 percent, almost half the average annual inflation rate of 4.4 percent for the same period. Expenditure on personnel as a percentage of domestic revenue has declined from a peak of 49.8 percent in FY2010 to 26.0 percent in FY2016.

Expenditure on goods and services has only grown by an average 0.1 percent per annual since FY2004 up until FY2014. This along with the personnel cost average annual growth rates suggest



the National Government has been successful in keeping government current expenditure under control since the beginning of the Amended Compact.

Capital expenditure funded from grants was very strong from FY2009 – FY2012, peaking at \$61.5 million in FY2012. This was the impetus for the only period of strong economic growth so far during the Amended Compact era. Over the last three years’ external grants have declined as FAA projects were completed and JEMCO suspended Compact infrastructure grants in 2012. Following the update of the Infrastructure Development Plan (IDP) in FY2015 Compact infrastructure sector allocations were made available again in January 2016.

## 2.2. National Government Assistance to States

The National Government, through Congress, continues to support the States with a number of initiatives in recent times which have seen an increase in the share of revenue to the States (refer table 3). This amounted to \$9.4 million in support in FY2012 and has risen to \$42.4 million in FY2016 before dropping back to \$37.0 million in FY2017. Over the same period the National Government has also invested over \$60 million in the FSM Trust Fund.

The most significant initiative has been Public Law 18-57 which has seen a change in calculation of the division formula for Compact Grant funds. From FY2015 onwards, the National Government allocation is zero. This has seen an additional \$8.0 million in grants being available for the States annually.

**Table 3: National Government Revenue Sharing (\$ million)**

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Amended Compact Grant			4.0	8.0	8.0	8.0
Education	2.3	3.0	4.0	5.9	7.1	7.2
Infrastructure	3.4	3.6	1.3	14.5	16.0	15.4
Congress Projects	3.4	6.5	10.0	8.4	9.3	5.5
Judiciary	0.3	0.3	0.3	0.3	0.3	0.3
State Tourism Development					1.9	2.0
Change in tax formula					4.8	4.8
Other	0.1	0.4	0.4	0.8	4.6	3.5
<b>Total</b>	<b>9.4</b>	<b>13.7</b>	<b>20.0</b>	<b>38.0</b>	<b>42.4</b>	<b>37.0</b>

Source: FSM Budget & Economic Management Office

There have also been cases of forced revenue sharing under the Amended Compact, for example in 2011 JEMCO resolved that the allocation to COM-FSM would be reduced by \$700,000 per annum (an amount greater than the annual decrement), until it reached \$1 million in FY2017. The National Government stepped in and replaced the grant funding to COM-FSM allowing the additional \$700,000 grant to be distributed among the States. A similar decision was made by JEMCO with regards to scholarships and this funding was also picked up by National Government allowing more grants directly to the States.

Public Law 18-107 in FY2015 amended the tax collection allocation to the States from 50 percent to 70 percent of net taxes collected for import taxes, income tax, and gross revenue tax. The impact of this tax policy change sees a \$4.8 million decline in tax revenue for the National

Government from FY2016 onwards. This revenue has not been passed directly to the States but by law is invested in the FSM Trust Fund on their behalf. It is estimated that \$40 million will be invested in the Trust Fund on behalf of the States by 2023.

In addition to the \$10 million domestic funding of infrastructure grants to the States in FY2015 and FY2016 the National Government continued to provide funding for outer island airstrips. A \$2.3 million allocation was also made in FY2016 for AIP matching funds for the Chuuk runway. In FY2017 the National Government has allocated \$15 million for infrastructure projects.

Expenditure by the National Congress on Public Projects rose from \$6.8 million in FY2013 to \$10 million in FY2014 and dropped back to \$8.4 million for FY2015 and FY2016. Public projects are a mix of infrastructure, economic, and social projects at the State and municipal

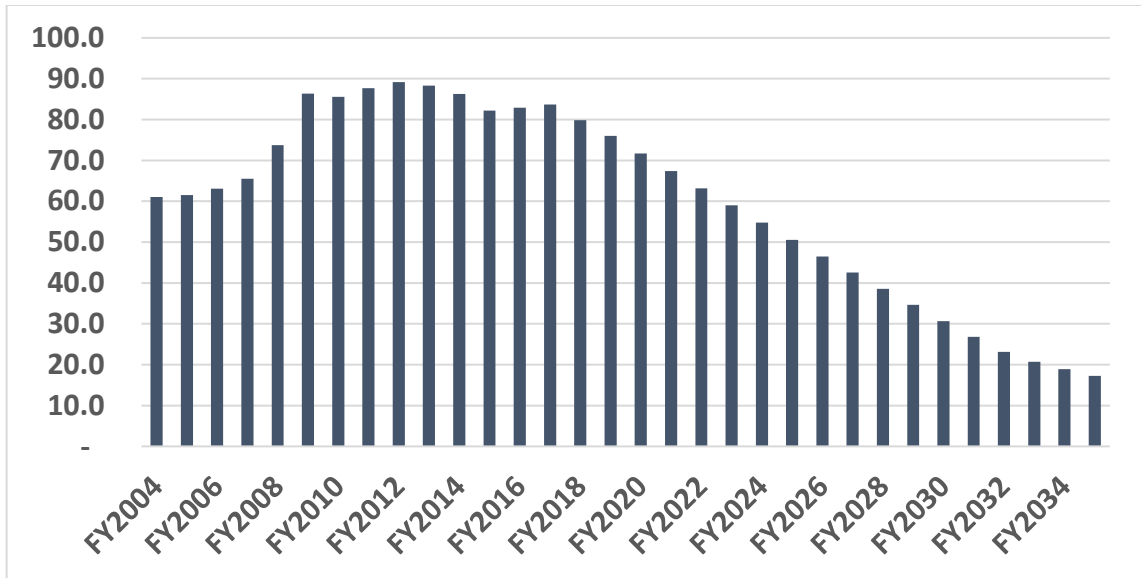
The other category includes \$1.9 million and \$2.0 million in FY2016 and FY2017 respectively in tourism funding and \$1.6 million in budget support in FY2016 to the States, mainly to fund personnel whose jobs were to be lost due to JEMCO cuts in small grant funding.

### 2.3. Government Debt

After a period of sizeable borrowing in the early 1990s, to finance development projects, external debt has fallen significantly, and in more recent times the FSM has maintained a prudent external debt profile. The external Debt-to-GDP ratio has halved from 54 percent in FY1995 to 23.4 percent in FY2016. Debt service ratios also remain very favorable by international standards, reflecting the concessionary nature of the outstanding debt.

Substantial borrowing occurred in FY2008 and FY2009 that raised the level of debt by more than \$20 million from the FY2007 level of \$65 million (refer figure 2). Debt levels have been declining since the peak of \$89.2 million in FY2012 with external debt of the FSM at the end of FY2016 of \$80.3 million. FY2017 will see a slight rise in external debt as the Yap Renewable Energy loan comes on stream but without further borrowing debt will continue to decline in the medium to long term.

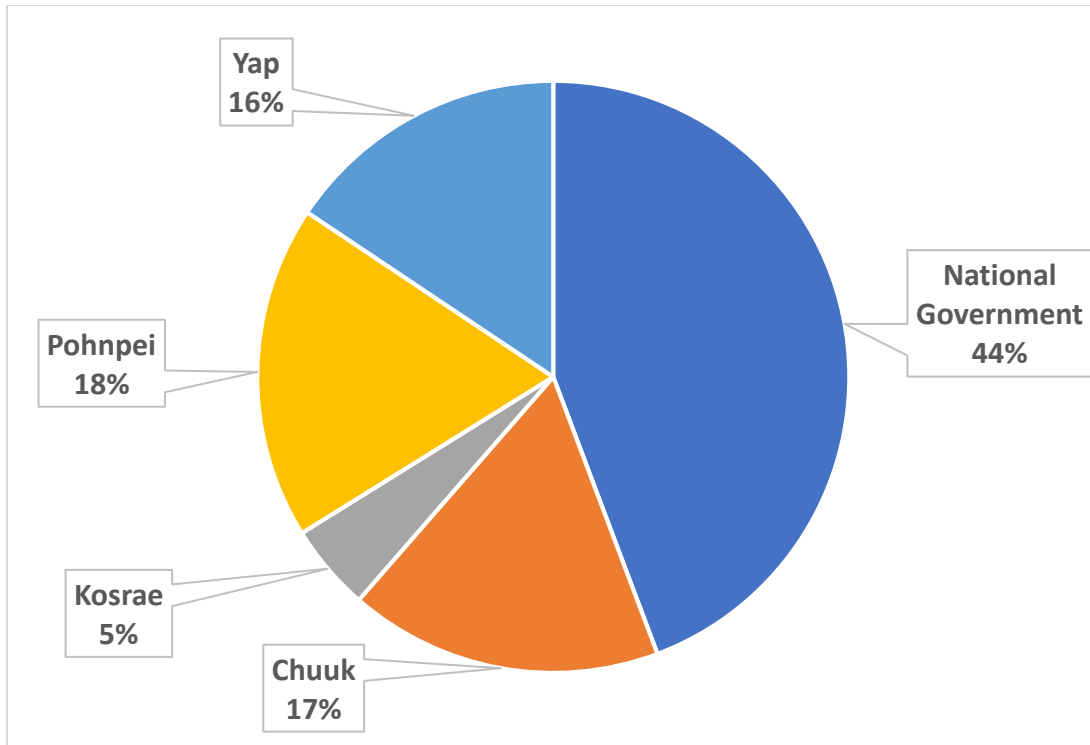
**Figure 2: External Debt (\$ million)**



The bulk of the public external debt, \$48.7 million (64.7 percent), is owed to the Asian Development Bank. Of the debt, 34.9 percent is publicly guaranteed debt, mainly FSM Telecom debt owed to the United States Rural Utilities Services, and 1.3 percent is debt owed by the FSM Development Bank to the European Investment Bank.

By government, the largest share (44.3 percent) of total external debt is owed by the National Government and component units, 18.2 percent by Pohnpei, 17.1 percent by Chuuk, 15.6 percent by Yap, and 4.7 percent by Kosrae (refer figure 3).

**Figure 3: External Debt by National & State (% share)**



In the past, it has been ADB’s policy to lend only to the FSM National Government and not directly to the FSM States. As the National Government obtained the loans to finance the implementation of FSM-wide projects including those in the states, a significant portion of the loans were on-lent to the States and/or to public enterprises. For the on-lent loans, the on lending agreement between the national government and the state government specifies the terms and conditions as the same as the ADB loan agreement signed between the National Government and ADB.

FSM’s external debt service has increased steadily from just \$2.0 million in FY2006 to a peak of \$7.9 million in FY2013, as some maturing debts required increased principal payments. As a share of domestic revenues, debt service has been declining since FY2011 and was at 5.0 percent in FY2016.

## 2.4. FSM Trust Fund

The FSM Trust Fund was established through Public Law 10-150 in April 1999. The current status of the FSM Trust Fund is shown in table 6 below.

**Table 6: FSM Trust Fund Balance (\$ millions)**

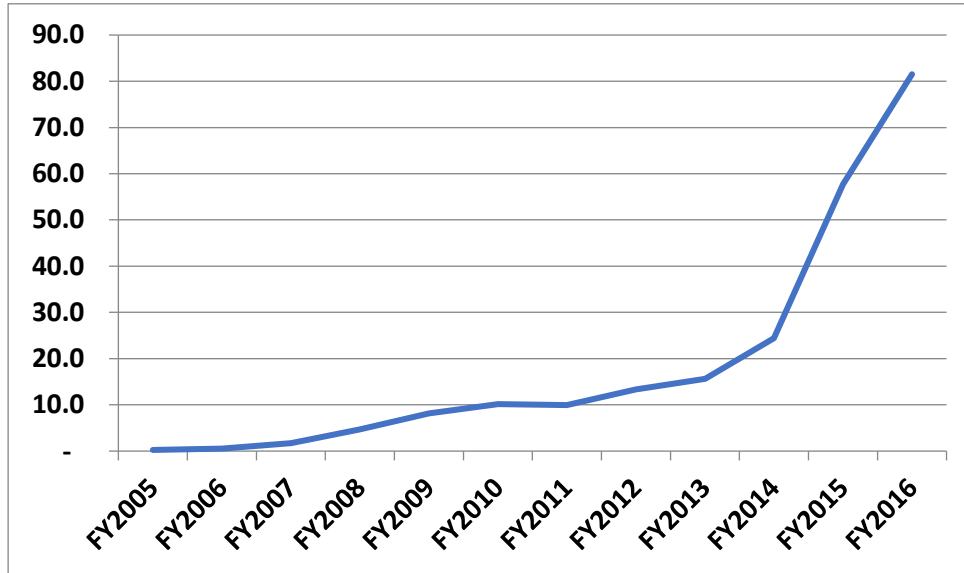
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Net Assets, Beginning</b>	8.2	8.0	11.3	13.6	22.4	60.9
Appropriations		1.8	1.0	7.0	38.0	10.0
State Tax allocations						5.5
Net Investment income	-0.2	1.5	1.3	1.8	0.5	5.4

<b>Net Assets, Ending</b>	8.0	11.3	13.6	22.4	60.9	81.8
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Source: FSM Department of Finance & Administration

From FY2007 to FY2013 the National Government invested \$11 million into the Trust Fund (refer figure 4 below). Additional deposits to the Trust Fund were made by Congress Resolutions 15-88 (FY2008) and 16-97 (FY2010) sourced from Chinese Grants of \$1 million each. The National Congress made a considerable deposit into the Fund of \$7 million in FY2014 and this has been further increased with a \$38 million investment in FY2015.

**Figure 4: FSM Trust Fund Balance**



Source: FSM Budget & Economic Management Office

The FY2016 budget appropriation allowed for a further \$10 million investment into the Trust Fund and through Public Law 18-107, the National Congress has committed over \$5 million of tax revenue annually to the Trust Fund on behalf of the States from FY2016 onwards.

Strong investment earnings were experienced in FY2016 following a poor result in FY2015, reflecting a return in growth of international investment markets. Also during 2016 the Public Law 19-67 was enacted which created State sub-accounts and specifically limited any drawdowns from the Fund until 2024.

The current government policy as outlined in the 2023 Action Plan proposes \$10 million per annum from National Government surpluses be invested into the Trust Fund with a target Fund value of \$250 million by FY2023. This should provide around \$10 million in annual contribution to the expected \$40 million deficit from FY2024 onwards.

## 2.5. Overseas Development Assistance

The FSM is dependent upon support from the international development community and the depth and diversity of challenges facing the country means that it will remain dependent on assistance for the foreseeable future. In December 2013, the FSM adopted a Policy for Overseas Development Assistance (ODA) with the aim of maximizing the benefits of development assistance for all stakeholders. ODA priorities will be set on a 3-year cycle and these will be used

to direct allocations to those activities that are deemed most urgent and crucial. Alignment between the process for identifying official ODA requests and the budget cycle will help to ensure that ODA resourcing is met with adequate local implementation capacity.

Table 5 below provides a summary of ODA activity by key sector (excluding Compact and Federal grant funding). The table is not complete, but an estimate based on information available to date. In particular, donor allocations work on 3-4-year cycles so in some cases the program and data is not available for the later years.

Budget support as a delivery modality is a stated goal of the FSM and, as agreed in 2011 in Busan, the preferred modality of many development partners. This form of support affords the FSM the flexibility to align external resourcing with domestic priorities, including 2023 Action Plan strategies.

The Energy Policy targets by 2020, the share of renewable energy sources will be at least 30 percent of total electricity production, while energy efficiency, including a reduction in energy loss, will increase by 50 percent. Total fossil fuel usage by the four State utilities was \$23 million in FY2013 and thus a reduction of 30 percent for renewable energy would see foreign exchange savings of around \$7 million per annum.

**Table 5: ODA Activity by Key Growth Sector (\$million)**

<b>Item</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
Agriculture	0.2	0.2	0.2	0.2	0.2	0.2
Fishing	1.3	1.3	1.3	1.0	1.0	1.0
Tourism	0.3	0.2			1.0	1.0
Energy	6.0	7.5	9.6	13.1	20.4	15.0
ICT	0.5	1.0	2.0	20.0	35.0	20.0
Infrastructure	5.0	16.2	5.0	5.0	10.0	15.0
Environment	0.1	0.5	0.4	0.4	0.4	0.4
Government	0.6	0.2	0.1	1.2	3.7	7.7
<b>Total</b>	<b>14.4</b>	<b>27.1</b>	<b>18.6</b>	<b>40.9</b>	<b>71.7</b>	<b>60.3</b>

Source: Estimates based on latest available donor information

The Yap Renewable Energy Development project (\$9.0 million) aims to reduce fossil fuel dependency in the State through the development of renewable energy and improved supply side energy efficiency of the current grid. The project will include construction of 1.4MW wind power, 300kW grid-connected solar power, and installation of a 1.8MW diesel generator to improve the efficiency of the current grid.

Together with the World Bank Group, the governments of FSM and Palau are undertaking an FSM-Palau ICT Regional Connectivity Project which will finance investments in key telecommunications infrastructure to provide enhanced connectivity in FSM and to strengthen the regulatory environment. Subsequent to this project getting underway, funding has been obtained for a cable that will connect Kosrae to the cable system.

The WB IDA18 increase in funding to \$60 million is tentatively allocated across the energy, ICT, maritime, transport and government sectors.

The next round of funding for ADB beginning in July 2017 includes and ADB education grant of \$6.5 million supplemented by \$1.8 million from Australia. This regional project will focus on Integrated Quality Basic Education. An additional \$4 million in funds will be utilised for renewable energy to leverage over \$50 million in GCF funding and balance of ADB funding is tentatively allocated to completing the water project in Kosrae.

JICA has recently approved a \$10 million energy project for Kosrae.

## 2.6. Compact Trust Fund

The summary highlights of the Compact Trust Fund for FY2016 were:

- The Fund's total net position value increased 17.5 percent to \$466.9 million in FY2016 from \$397.3 million in FY2015. The increase was primarily due to interest, dividend, and realized and unrealized gains from investment of \$42.1 million and a contribution from the United States government of \$28.3 million.
- The Fund had a weighted annual rate of return of 9.7 percent, for FY2016 following a decline of -2.6 percent for FY2015. On a performance basis, net of fees, the Fund gained 9.5 percent in FY2016
- A transfer was made to the C account for fiscal year 2016 in the amount of \$15.8 million given that annual income was earned over the 6 percent threshold. The C account amounts to \$94.0 million as of the end of FY2016.

Recent performance of the Compact Trust Fund is shown in table 6 below.

The Trust Fund Committee members have the responsibility to manage and administer the monies in the Trust Fund per the Trust Fund Agreement. It is necessary for the Committee, and/or the Committee's government members, to have a proactive role in planning toward the transition between the build-up period and the distribution period.

The Funston Review in 2015 provided an objective and unbiased external evaluation of the Fund, which addressed fund performance, and effectiveness of the management structure and tools utilized by the Committee members. Most of the recommendations in the Review have now been implemented.

**Table 6: Statement of Changes in Net Assets (\$ million)**

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Restricted Net Assets, Beginning	177.2	198.5	257.4	323.1	380.3	405.1
United States contributions	22.4	23.6	25.0	26.1	27.0	28.3
Net investment income	-1.0	35.5	40.9	32.0	-1.3	33.6
Less Administrative expenses	0.1	0.2	0.2	0.9	0.9	0.9

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<b>Restricted Net Assets, Ending</b>	<b>198.5</b>	<b>257.3</b>	<b>323.1</b>	<b>380.3</b>	<b>405.1</b>	<b>466.1</b>
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Source: FY2015 CTF Annual Report and Preliminary FY2016 CTF Report

Projections based upon actual performance demonstrate that continuing on its current trajectory, the CTF will be well underfunded by FY2023. Even if the FSM economy enters a period of sustained growth through the remainder of the Amended Compact period, boosting local revenues, the under-funding of the CTF will lead to severe fiscal stress in the States. The CTF would significantly benefit from additional contributions since only so much can be expected from the current contribution schedule and potential returns to FY2023.

The major concern for the FSM is there have been 4 years of negative returns in the first 10 years of the CTF. This does not bode well for post 2023 under the current structure and distribution formula in the CTF. The review of the distribution policy post-2023 is the main outstanding recommendation from the Funston Review

The current value of the Fund as at March 31 2017 was \$524.7 million. Taking into account the US Government deposit of \$29.4 million in the first week of October, and the opening balance of \$466.1 million, the Fund has performed well so far in FY2017.

## 2.7. Public Projects

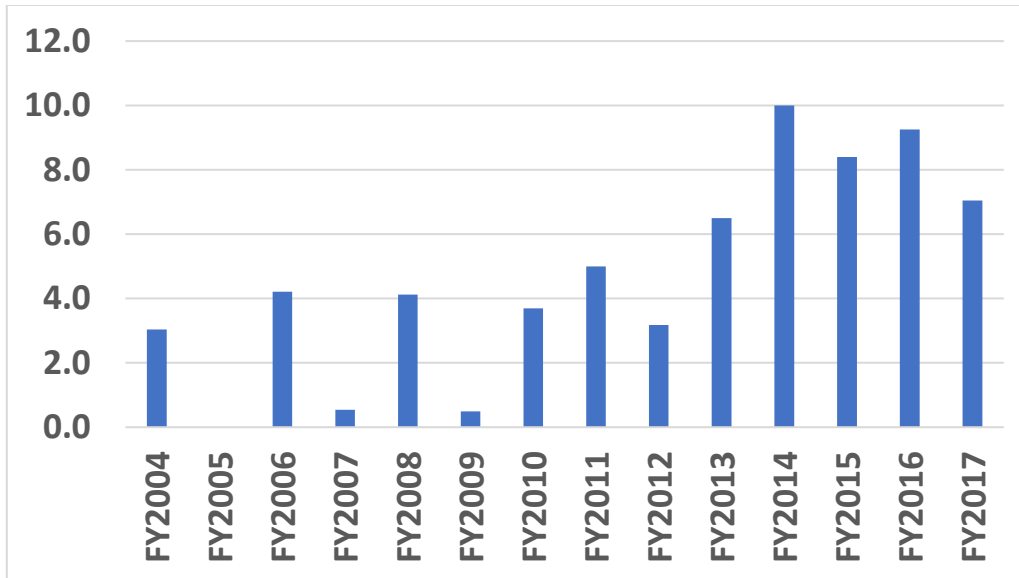
Since the beginning of the Amended Compact \$58.4 million has been appropriated on public projects up to the end of FY2016. Of this amount, Chuuk has received \$24.1 million, Pohnpei \$18.3 million, and Kosrae and Yap \$8 million each.

Prior to FY2013 annual public project appropriations had not exceeded \$5 million. In FY2014 public projects expenditure doubled with two appropriations to the value of \$4.9 million and \$5.1 million (refer figure 4 below). In FY2015 there has been three appropriations totalling of \$8.4 million for the year and a further three in FY2016 totalling \$9.2 million while for the first six months of FY2017 appropriations have totalled \$7.1 million.

An analysis of these projects by expenditure category are given in table 7 below. The ‘Other’ category is projects which are not deemed to be in the “public interest” or do not meet any economic or social development criteria. The majority of “government” projects are funding of municipalities and offices. These are appropriated every year and should not be funded under public projects but be appropriated through the annual budget process.

**Figure 4: Public Projects Appropriations (\$ million)**





Source: FSM Congress Public Laws

As can be seen above, over 50 percent of public projects are spent on what would be classed as projects that foster economic growth (economic development plus infrastructure). Infrastructure spend is consistently around 40 percent per annum and is mainly for secondary and rural roads, and village water supply projects.

**Table 7: Public Projects Expenditure by Category (percent)**

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Economic Development	13.9	10.3	6.5	11.2	6.5	5.7
Infrastructure	39.9	40.1	27.1	37.0	33.3	45.3
Social Development	23.0	23.0	15.0	23.7	21.6	16.2
Government	19.0	23.2	39.0	20.3	30.1	25.9
Other	6.8	3.5	37.5	7.8	12.5	8.6
Total	100	100	100	100	100	100

Source: Budget & Economic Management Analysis

Table 8 below gives a breakdown of FY2016 public projects by State and by category. Chuuk has the highest portion on economic projects reflecting the importance of fishing projects for the State. For both Pohnpei and Yap over 50 percent of their public projects are on infrastructure.

**Table 8: Public Projects by State by Category, FY2016 (percent)**

	Chuuk	Kosrae	Pohnpei	Yap	Total
Economic Development	9.9	9.3	1.4	10.7	5.7
Infrastructure	18.1	19.3	73.8	21.7	45.3
Social Development	24.6	24.5	7.9	11.2	16.2
Government	40.0	41.5	7.2	0.0	23.6
Emergency/Disaster Relief	1.5	0.0	0.0	0.0	0.5
Other	6.0	5.4	9.7	56.2	8.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

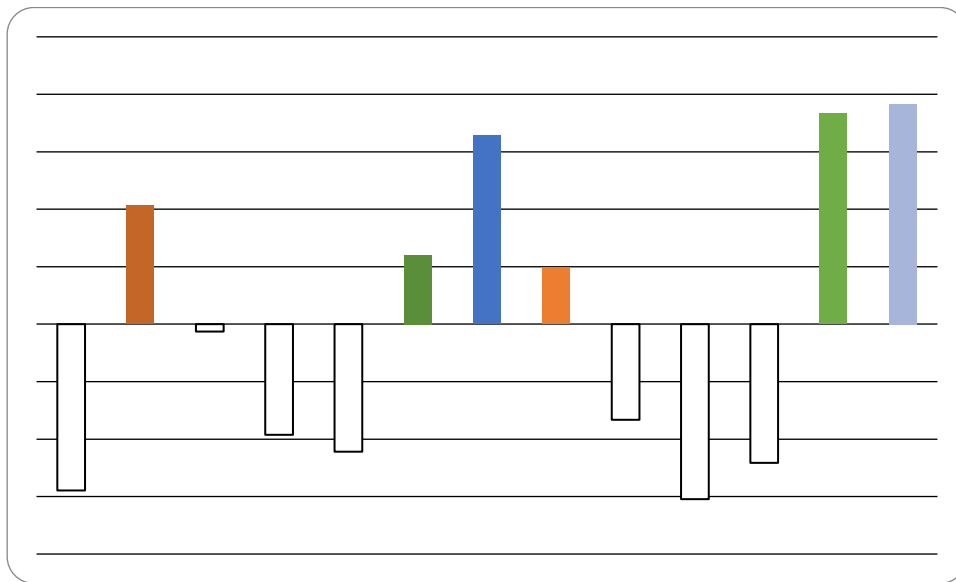
Source: Budget & Economic Management Analysis

### 3. ECONOMIC UPDATE

#### 3.1. Gross Domestic Product

The FSM economy continues to underperform in the Amended Compact period (refer figure 5) with average real GDP growth over the Amended Compact period to date of -0.2 percent per annum. The key challenge for FSM is to dramatically alter the economic landscape. Without sustained economic growth the fiscal challenge of FY2024 cannot be met. The economic challenge is being addressed through the 2023 Action Plan where key areas of failure have been identified and strategies for growth are outlined for the next three years.

**Figure 5: Real GDP Growth Rates**



Source: FSM Statistics Office & BEM Estimate

In FY2013 the economy experienced a 3.0 percent decline in real GDP (refer table 1 below). The main contributors to the decline were the fishing and construction industries. FY2013 saw a major decline in construction activity by 25.9 percent. In addition to Federal Aviation Authority (FAA) funded projects drawing to a close, the economy felt the adverse impact of JEMCO’s resolution to suspend any new Infrastructure Grant projects at the March 2012 JEMCO meeting.

FY2014 saw a further contraction in the economy of 2.4 percent as construction activity retrenched by 40.1 percent and other key sectors of wholesale/retail, transport, and business services felt the flow on effects of the major recession in the construction industry.

After three years of recession the FSM economy finally returned to growth in FY2015, with a healthy 3.7 percent. The construction industry hit an all-time low in FY2015 while most other industries were able to sustain mild growth.

In FY2016 the economic momentum was maintained with 3.8 percent growth. The major contributor to growth was the construction sector, albeit it was from the lowest level in 20 years.

Strong growth was also experienced in the transportation, whole sale and retail, and fisheries sectors.

**Table 9: Real GDP Growth by Major Sector (annual percentage change)**

	2011	2012	2013	2014	2015	2016
Agriculture	0.9	-0.4	0.6	2.6	1.0	0.4
Fisheries	1.9	0.2	-8.3	8.8	14.1	4.3
Construction	18.1	-2.5	-26.1	-39.7	-12.9	58.0
Wholesale & Retail Trade	-1.5	-6.2	-3.3	-2.3	4.3	5.9
Hotels & Restaurants	-1.3	-0.8	-4.0	-4.1	9.2	0.8
Transport & Communications	-0.8	-0.6	3.4	-10.3	0.2	13.5
Real Estate, & Business Activities	1.1	-1.2	0.3	1.4	2.4	2.1
Government	-0.3	-1.1	-1.3	-1.5	0.6	0.2
<b>Total GDP</b>	<b>1.0</b>	<b>-1.7</b>	<b>-3.0</b>	<b>-2.4</b>	<b>3.7</b>	<b>3.8</b>

Source: FSM Statistics Office & BEM estimates 2016

Historically, the government sector has dominated the FSM economy. The Education sector, following growth in the early years of the Amended Compact, has declined by over 10 percent since its peak in FY2009, and has now returned to the levels of the beginning of the Amended Compact. The Health sector on the other hand has grown by over 40 percent since FY2004, mainly through private sector investment.

Despite being a priority sector for economic development, the agriculture sector's contribution to GDP growth remains minimal. Agriculture has grown steadily from FY2009 to FY2015, a reflection of subsistence and informal activity rather than any major cash based activity. In FY2012 FSM endorsed its Agriculture Policy 2012 – 2016, which provides the basis for action by both public and private sectors to invigorate sustainable agriculture growth.

Coconuts are one agriculture commodity that is in abundance in FSM. It is a resource that almost every household has access to and PetroCorp has been given the mandate to revitalize this industry.

Following three years of fisheries growth FY2013 and FY2014 saw declines in the fishing industry. During this period both the Yap Diving Seagull and the Caroline Fisheries Corporation had vessels in dry dock which affected their catch and bottom line results, as high maintenance costs reduced operating surpluses.

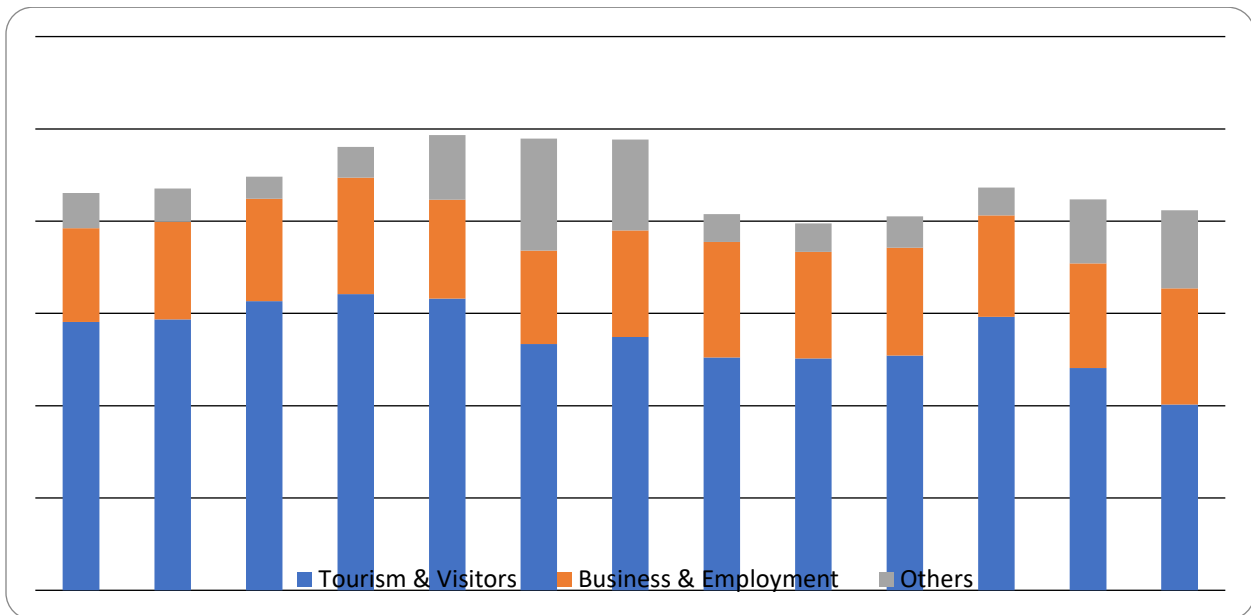
The key issue with oceanic fisheries in FSM is the failure to date to fully realize the potential benefits associated with the exploitation of available resources. While FSM has enjoyed an increasing return from receipt of fisheries access fees, attempts to promote returns through infrastructure investment, trans-shipment, domestic fishing, and value added processing and vessel servicing have essentially failed to add significant value or return on investment.

Hotels and restaurants, following 4 years of decline, grew by 1.6 percent in FY2015. This is a welcome result after sixth of the last seven years had seen negative growth in the industry.

Visitor arrivals to the FSM dropped significantly in FY2011 to around 20,000 and have stayed around this level ever since (refer figure 6 below). FY2014 showed growth of 7.8 percent and underlying this was a 16.5 percent increase in tourism numbers. This increase resulted from FSM hosting the Micronesian games in Pohnpei in July 2014 with Pacific island and US visitors increasing significantly, reflecting the countries and US territories participation in the games.

However, visitor arrivals dipped again in FY2015 and FY2016, with tourists and visitors at an historical low since the beginning of the Amended Compact. Visitor arrivals declined by 16.0 percent from 12,038 in FY2015 to 10,062 in FY2016. Almost all countries and regions showed a decline in FY2016 in visitor arrivals, with the largest decline in US visitors.

**Figure 6: Visitor Arrivals by Purpose of Visit**



Source: FSM Statistics Office

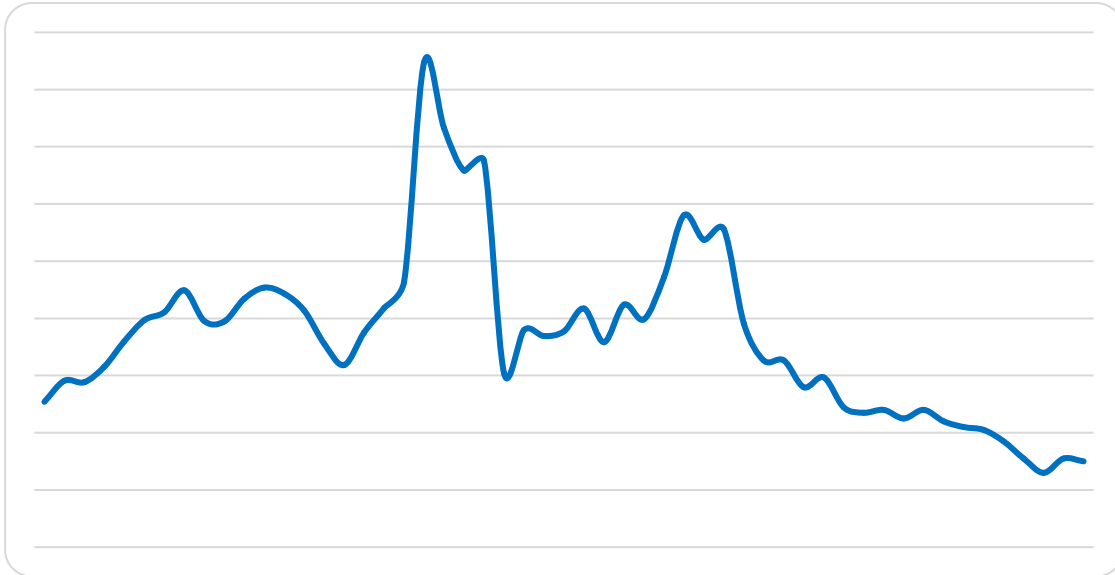
### 3.2. Consumer Price Index

Inflation in the FSM has generally followed international trends, although at higher levels than its developed trading partners, due to high transportation costs (refer figure 7 below). Over the last 12 years there have been two periods of significant inflation.

Sizeable increases in world food prices, in particular rice which is the main staple food in FSM, coupled with rising fuel prices, during the second half of 2008 resulted in a rapid rise of the FSM's traditionally low inflationary profile with inflation peaking at 13 percent in the third quarter 2008. Reductions in fuel and a levelling of food prices resulted in inflation moderation towards the end of FY2009. However, further increases in fuel and utility prices reasserted themselves in FY2011 and together with a resurgence of food prices towards the year-end once again put upward pressure on inflation with the CPI peaking at 7.6 percent in the fourth quarter 2011. Since quarter two 2012 inflation has dropped dramatically to the levels experienced prior to the Amended Compact.

The FSM experienced deflation for the first time in FY2015 as world oil prices continued to drop and these flowed through into lower transport and utility costs. The FSM annual inflation rate for FY2015 was -0.3 percent which reflected the slowdown in fuel, light and water, and clothing and footwear group's prices. In FY2016 the FSM experienced further declines in prices with a -1.0 percent inflation rate deflation, with a -0.7 percent decline in overall prices as all CPI groups recorded declines.

**Figure 7: Annual CPI (percent change)**



Source: FSM Statistics Office

The inflation outlook for FSM for FY2017 and in the medium term is for prices to rise and stabilize around 2 percent in line with forecasted inflation for the US.

## 4. CONSOLIDATED ACCOUNTS OF THE NATION

In recent years, consolidated government revenues have been growing faster than consolidated government expenses (refer Table 10 below). This has resulted in fiscal surpluses of \$38.3 million and \$32.7 million in FY2014 and FY2015 respectively and a preliminary surplus of \$27.0 million in FFY2016. These surpluses are driven by the National Government and the profile is somewhat mixed at the State level.

Consolidated government revenues increased in FY2016 as both non-tax revenue and grants increased. The decline in tax revenue reflects the introduction changes in Gross Revenue Taxes which allowed for deductions for telecommunications and utilities expenses from taxation. Grant revenue increased for first time in three years FY2016 saw an increase in Compact Grant infrastructure drawdowns and the Chuuk runway surfacing project getting underway.

**Table 10: Consolidated Government Finances (\$ million)**

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Revenue</b>	<b>201.0</b>	<b>215.2</b>	<b>196.1</b>	<b>217.3</b>	<b>203.7</b>	<b>210.4</b>
Tax revenue	37.3	38.0	38.2	60.8	39.1	36.5
Non-tax revenue	26.8	36.6	46.1	58.8	71.8	74.7
Grants	136.8	140.6	111.7	97.7	92.8	99.2
<b>Expenditure</b>	<b>200.9</b>	<b>211.5</b>	<b>186.7</b>	<b>179.0</b>	<b>171.0</b>	<b>183.4</b>
Wages & salaries	68.0	68.3	69.7	67.2	71.1	72.2
Other goods and services	63.7	69.2	68.3	68.1	83.8	77.8
Interest, subsidies, & grants	7.4	6.7	6.0	8.3	3.1	8.7
Capital expenditure	61.7	67.3	42.7	35.4	13.0	24.7
<b>Overall fiscal balance</b>	<b>0.1</b>	<b>3.7</b>	<b>9.4</b>	<b>38.3</b>	<b>32.7</b>	<b>27.0</b>

Source: FSM Annual Audit Reports & FY2016 Unaudited

Consolidated government expenditure increased by \$12.4 million in FY2016 mainly due to an increase in capital expenditure funded through grants. Wages and salaries have remained relatively constant for the last 6 years, while other goods and services experienced a jump in expenditure in FY2015 but have declined by \$6 million in FY2016.

**Table 11: Chuuk State Finances (\$million)**

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Revenue</b>	<b>36.9</b>	<b>34.3</b>	<b>34.1</b>	<b>35.6</b>	<b>37.1</b>	<b>37.7</b>
Tax revenue	6.5	6.7	6.6	6.4	8.2	6.4
Non-tax revenue	1.9	1.6	1.2	2.4	2.5	3.0
Grants	28.5	26.0	26.4	26.8	26.4	28.3
<b>Expenditure</b>	<b>34.0</b>	<b>33.9</b>	<b>33.6</b>	<b>34.9</b>	<b>36.5</b>	<b>36.7</b>
Wages & salaries	17.9	17.2	18.4	18.2	21.3	18.4
Other goods and services	12.1	14.8	13.2	14.9	15.2	16.2
Interest, subsidies, & grants	2.2	0.8	0.5	0.5	0.4	0.7
Capital expenditure	1.8	1.2	1.6	1.3	0.4	1.4
<b>Overall fiscal balance</b>	<b>3.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>	<b>1.0</b>

Source: Chuuk Annual Audit Reports &amp; FY2016 Unaudited

**Table 12: Kosrae State Finances (\$ million)**

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Revenue</b>	<b>10.1</b>	<b>10.8</b>	<b>10.8</b>	<b>11.7</b>	<b>10.8</b>	<b>13.0</b>
Tax revenue	1.6	1.9	1.5	1.9	1.4	1.5
Non-tax revenue	0.7	0.6	0.7	0.5	0.3	0.8
Grants	7.8	8.3	8.6	9.3	10.1	10.7
<b>Expenditure</b>	<b>10.4</b>	<b>10.5</b>	<b>10.6</b>	<b>11.5</b>	<b>12.2</b>	<b>12.2</b>
Wages & salaries	5.1	5.3	5.7	5.9	5.9	6.0
Other goods and services	4.6	4.4	4.4	4.2	6.1	4.9
Interest, subsidies, & grants	0.1	0.2	0.2	0.1	0.2	1.0
Capital expenditure	0.6	0.7	0.4	1.3	0.0	0.3
<b>Overall fiscal balance</b>	<b>-0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>-1.4</b>	<b>0.8</b>

Source: Kosrae Annual Audit Reports &amp; FY2016 Unaudited



**Table 13: Pohnpei State Finances (\$ million)**

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Revenue</b>	<b>31.0</b>	<b>32.4</b>	<b>30.9</b>	<b>32.6</b>	<b>31.8</b>	<b>32.0</b>
Tax revenue	10.1	9.9	9.3	9.1	9.5	9.7
Non-tax revenue	1.0	1.1	1.8	3.0	0.6	1.9
Grants	19.9	21.4	19.8	20.5	20.6	20.4
<b>Expenditure</b>	<b>33.3</b>	<b>34.0</b>	<b>32.3</b>	<b>35.7</b>	<b>32.6</b>	<b>32.4</b>
Wages & salaries	18.2	18.4	18.5	18.1	18.2	18.0
Other goods and services	11.5	11.7	10.4	10.7	13.1	10.5
Interest, subsidies, & grants	2.7	2.9	2.9	3.0	0.1	2.7
Capital expenditure	0.9	1.0	0.5	2.8	1.1	1.2
<b>Overall fiscal balance</b>	<b>-2.3</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-2.0</b>	<b>-0.8</b>	<b>0.4</b>

Source: Pohnpei Annual Audit Reports &amp; FY2016 Unaudited

**Table 14: Yap State Finances (\$ million)**

Item	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Revenue</b>	<b>20.7</b>	<b>19.6</b>	<b>21.9</b>	<b>20.0</b>	<b>20.1</b>	<b>18.9</b>
Tax revenue	3.6	3.5	3.5	3.4	3.2	3.2
Non-tax revenue	1.3	1.9	3.4	1.7	1.5	1.6
Grants	15.8	14.3	15.0	14.9	15.4	14.1
<b>Expenditure</b>	<b>22.3</b>	<b>22.7</b>	<b>23.1</b>	<b>23.4</b>	<b>20.7</b>	<b>19.2</b>
Wages & salaries	9.0	8.9	9.0	9.0	9.0	9.0
Other goods and services	11.8	9.6	11.1	8.7	11.4	9.1
Interest, subsidies, & grants	0.2	0.7	0.5	1.5	0.3	0.5
Capital expenditure	1.3	3.5	2.5	4.2	0.4	0.6
<b>Overall fiscal balance</b>	<b>-1.6</b>	<b>-3.1</b>	<b>-1.1</b>	<b>-3.4</b>	<b>-1.0</b>	<b>-0.3</b>

Source: Yap Annual Audit Reports &amp; FY2016 Unaudited

## 5. APPENDIX 1: 2023 Action Plan Matrix update

The 2023 Planning Committee noted the expected fund shortage and its impact at the State level. The Committee noted that growth through economic structural reforms, revenue mobilization (tax reforms), and expenditure contraction (through public administration reforms) are medium-term reforms needed to create fiscal space and to move towards fiscal self-sufficiency.

At the 2013 meeting the Committee members further agreed to dissect the nation’s Strategic Development Plan into 3-5 year plans with clear targets backed by appropriate resources for implementation. In light of this the Action Plan focuses on activities to be undertaken in the period 2015 – 2017. It also focuses on the productive sectors as it is only through growing the economy, and hence the tax base, that FSM can obtain the revenue to fund domestically social services from FY2024 and beyond.

The following is an update of the 2023 Action Plan Matrix, outlining achievements to date and policy direction of the new Executive.

### 5.1. Infrastructure

	Action	Responsibility	Status
<b>1.</b>	<b>Infrastructure</b>		
1.1	Infrastructure Development Plan updated	TC&I	<b>Complete 2015</b>
1.2	PMU enhancement plan implemented	PMU	<b>PMU setup complete</b> Kosrae & Pohnpei State PMO’s operational, other 2 being set up
1.3	Infrastructure Arrears Implementation Plan		
	\$20 million arrears	PMU	<b>Allocated by JEMCO February 2016</b>
	\$35 million arrears	PMU	<b>Allocated by JEMCO February 2016</b>
	\$41 million arrears	PMU	<b>Allocated by JEMCO August 2016</b>
	\$30 million arrears	PMU	<b>Allocated by JEMCO August 2016</b>
1.4	Contracting Manual	TC&I	<b>Draft Complete 2016</b>
1.5	Implement Procurement Plan	PMU & PMO’s	ongoing

The FSM publicly released its updated Infrastructure Development Plan (IDP) FY2016 – FY2025, on October 20, 2015. The Plan replaced the original IDP 2004-2023 and was developed in response to the need to provide overseas development partners with an update of the State and National governments infrastructure priorities.

The Plan was transmitted to the Joint Economic Management Committee (JEMCO) to unlock the \$66.5 million requested from the Amended Compact infrastructure grant to fund the FSM priority

projects as outlined in the Annual Infrastructure Implementation Plan FY2016. In response, JEMCO allocated the remaining \$119 million in arrears and approved an initial 18 projects in January 2016. Thus the target for fund release for FY2017 – FY2019 were met through this resolution and what remains is for the States to implement the projects.

In conjunction with the IDP update the Action Plan Matrix included revised infrastructure implementation arrangements. The repeal of Public Law 14-48 in September 2015 saw a change in authority for project implementation. The Law had previously mandated that all infrastructure projects be managed and implemented at the National level, but due to many issues around the program, this responsibility has now been passed down to the States. The updated IDP had anticipated this change in authority and had recommended a State based implementation model with the National PMU having an oversight role and four State Project Management Offices (PMO) being set up to manage the project implementation.

The PMU have reviewed the DTC&I contracting and procedures manual's and noted that these were not developed with Compact regulations in mind. As such they have amended the manuals developed for the FAA Federal programs as these are more in line with US regulations. The draft is completed and with States to finalize and adopt.

## 5.2. Tourism

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
2.1	Develop a National Tourism Policy in accord with Sustainable Tourism principles	R&D	<b>With Congress</b>
2.2	Implementation of State Tourism Investment Plans	R&D & STO's	<b>Congress approved \$3.9m financing Compact Grant FY2017 \$1.9m</b>
2.3	Upgrade and improve access to historic and tourist sites, including addressing land issues for tourism sties	R&D & STO's	Projects: Nan Madol – World Heritage Site Sokehs Rock Yap WWII sites
2.4	Establish a National Tourism Authority	R&D	Await Policy Approval
2.5	Conduct an Annual Tourism Conference	R&D	2016
2.6	Develop a branding strategy for FSM tourism	R&D	2016
2.7	Strengthen and expand hospitality & tourism management training	R&D, DOE & COM	2016
2.8	Develop an accreditation system for hotels, commercial tourism operators & tour guides	R&D	2017
2.9	Improve & expand tourism statistics	R&D	<b>Visitor expenditure survey conducted in 2015</b>

In the tourism sector the Department of Resource & Development (DR&D), in consultation with the States, has completed the National Tourism Policy in accord with sustainable tourism principles, and submitted to Congress. In conjunction with this draft Policy, four State Tourism Investment Plans were completed and in FY2016 Congress appropriated \$1.9 million in initial financing for these plans. This was followed by a further appropriation of \$2 million in FY2017.

Pohnpei state is taking on the flag ship hotel project where they are currently conducting a feasibility study for an Eco Lodge investment of up to 200 rooms. HVS, out of Hong Kong, have been awarded this contract. Pohnpei State are also upgrading three waterfall sites where they will construct look outs, resting places, shower and toilet facilities, and car parking.

Chuuk state is working on a second world war memorial project while Yap state has approved the building of a structure to house historical artifacts and where tours of historical sites will start from. The building structure will be at the Living History Museum in Colonia.

A National Congress funded public project is being developed for Sokehs Ridge to rehabilitate historical WWII sites on the ridge and solar lighting on the tracks.

In July 2016, the World Heritage Committee listed Micronesia’s artificial islets of Nan Madol as a World Heritage Site and simultaneously placed it on the List of World Heritage in Danger. Nan Madol is a series of 99 artificial islets off the south-east coast of Pohnpei that were constructed with walls of basalt and coral boulders. These islets harbour the remains of stone palaces, temples, tombs and residential domains built during the Saudeleur dynasty between 1200 and 1500 CE.

A project is being developed to upgrade both the site and access routes, as the key tourist attraction in Pohnpei.

A visitor expenditure survey was conducted in 2015 to provide baseline information for the industry. A new arrival card has been developed and will be introduced to improve the quality of statistics collected at the border.

### 5.3. Agriculture

	Action	Responsibility	Status
3.1	Develop Agriculture Sector State Action Plans – Yap & Chuuk	R&D, States	Dec 2014
3.2	Food Security & Coconut Rehabilitation Project	States/R&D	2015-2017
3.3	Establish a National Agriculture Research Center in partnership with COM-FSM	R&D/COM-FSM	Mar 2015
3.4	Establish export protocols with U.S.	R&D, T&I	Dec 2015
3.5	Build Quarantine, treatment and processing facilities	R&D, States	2017
3.6	Establish quality compliance centers and build producers capacity to meet Sanitary and Phyto Sanitary standards	R&D	<b>Bio-security bill with Congress</b>

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
3.7	Establish feed mills for processing local materials for poultry, pig and aquaculture feeds	R&D, States,	2016
3.8	Establish Central Markets in each State;	R&D T&I, States	Dec 2015
3.9	Increase extension services to equip farmers associations and cooperatives with appropriate technology	R&D	2017

The Statistics Office is currently undertaking an Agriculture census for 2016 to update information on this key sector of the economy. The Integrated Agriculture Census is the first collection of basic agricultural statistics in FSM for decades. It will provide basic statistical information for agricultural policy purposes, as well as for research, business and other statistical uses.

The FSM Agriculture Census will include not only crop and livestock production activities, but also forestry and fisheries activities, and other food and agriculture-related activities. It will cover all agricultural activity carried out by households. The inclusion of small holdings is important to ensure all food production is covered, and to reflect women’s participation in agricultural economy.

Vital has been executing a mandate from the Executive and Congress to develop the coconut sector in the FSM into a long-term sustainable economic activity. Beyond the production of coconut "diesel", Vital has plans to develop a processing facility on the Tanoas in Chuuk that can produce food grade coconut products ranging from coconut flour, virgin coconut oils and more recently coconut water. Targeted markets would include Hawaii, Guam, mainland US, and Japan. Vital estimates that the appropriate facility would require:

- 55,000 Coconuts a Day supply;
- 100 Full Time Equivalent Permanent Jobs;
- 200 Full Time Equivalent jobs in the informal sector for collection and post harvest handling;
- Generate \$6.0 MM per annum in export of Dry Virgin Coconut Oil;
- Generate \$1.2 MM per annum in export of High Fibre Coconut Flour;
- Generate \$1.0 MM per annum in export of Concentrate Coconut Water;
- Generate \$0.15 MM per annum in import substitution for Diesel Fuel;

Vital is also providing an economic engine to the outer islands. Coconuts are presently sourced from Pakin, Sapwafik, Nukuoro, and Kapingamarangi.

An amendment to title 22 of the Code of the Federated States of Micronesia creates a new chapter 4 thereof entitled “Biosecurity”, to prevent animal and plant pests and diseases from entering the FSM, to regulate the movement of animals and plants and their products, to control the establishment and spread of animal and plant pests and diseases that enter the FSM, and to facilitate international cooperation in respect of animal and plant diseases.

## 5.4. Fishing

The fisheries sector is one of the few revenue sources available to FSM and, if managed sustainably, could increase the public revenues and provide the government with additional resources to invest in social services.

	Action	Responsibility	Status
4.1	Develop a comprehensive national overarching plan covering inshore fisheries	FSM R&D	Underway with WB assistance
4.2	Competent Authority established to facilitate EU fish exports	DoH&SA/R&D	Completion date 2018
4.3	Establish National Over-arching Aquaculture Development Framework	R&D-MRU	drafting
4.4	Promote small-scale community managed aquaculture projects	R&D	2015-2017
4.5	Undertake training for packaging, storage, and marketing fisheries products		2016 - 2017
4.6	Complete management plan for key inshore resources (commercial marine invertebrates: trochus, clams and sea cucumber)	R&D-MRU	Underway with WB assistance
4.7	Establish National coastal fisheries monitoring teams	R&D-MRU & OEEM	Team is undertaking scoping survey
4.8	Deployment of FADs	R&D/OEEM	2016
4.9	Develop National Aquatic Animal Health Strategy	R&D-MRU	2015

Congress amended title 24 of the Code of the Federated States of Micronesia, by inserting a new section 505, that declares as a closed area, the twelve-mile area seaward of the territorial sea, not to extend beyond twenty-four nautical miles from the baseline from which the breadth of the territorial sea is measured, prohibiting fishing and exploitation of natural resources thereon.

A second public law created a new subtitle II of title 24 of the Code to establish the National Seabed Resources Authority of the FSM, provide for the powers, duties, and responsibilities of the Authority, set out the standards of sustainable management of seabed resources, require the promulgation of regulation governing permits and licenses relevant to marine scientific research, prospecting, exploration and mining activities, and to prescribe the penalty for violation of this Act.

A National Fisheries Seminar was held in Pohnpei in May 2016. At this meeting, progress on the setting up of the Competent Authority for fish exports to the EU, discussed. FSM is still some 2 years away from meeting all the criteria to meet EU standards.

The Pacific Regional Oceanscape Program (PROP) project funded by the World Bank aims to help participating countries sustainably increase the benefits from FSM's ocean resources by financing activities at both regional and country levels to:

- better manage the tuna resources to double access revenues;

- work with communities and link coastal fisheries to markets, aiming to sustainably increase catch per unit effort; and
- develop sustainable financing models for some of the large marine protected areas that help support these fisheries.

The project was approved in December 2014 - \$US5.5 million (US\$4m regional IDA). implemented by NORMA and DR&D (Coastal Fisheries component).

A nation-wide coastal fisheries assessment commissioned to guide the planning and development of a potential coastal fisheries project. The survey will be carried out over a period of one year, and will include at a minimum, the following activities:

- A biological and socio-economic assessment of FSM's coastal fisheries
- Identification of the coastal fishery value chains in each state targeted for support, and selection of initial sites:
- Identification of the activities (or types of activities eligible) to be financed in a coastal fisheries project across the sites identified.

## 5.5. Energy

In its FSM National Energy Policy of 2010, the FSM established the goals of utilizing and providing sustainable power services that are reliable, safe, and cost effective toward socioeconomic development in the country. In order to achieve the overarching goal of 30 percent renewable energy by 2020, a number of initiatives are underway.

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
5.1	Increase share of renewable energy sources in total energy production to 30 percent by 2020	R&D	2020
5.2	Develop relevant legislation to regulate the energy sector	R&D	2015
5.3	Increase private participation in the energy sector to improve efficiency	R&D	2015 - 2017
5.4	Develop State Energy Action Plans	R&D/States	<b>WB technical assistance in-country</b>

The WB is supporting the Energy Masterplan and State Energy Action Plans through the Energy Sector Development Project (ESDP). Financed through a \$14.4 million grant the ESDP replaced old and inefficient diesel generation units in Yap, Kosrae, and Pohnpei, and solar generating units and efficient street lighting in Chuuk. The project will improve the available power generation capacity through more efficient operations and hence decrease the dependency on imported fuel.

The Yap Renewable Energy Project includes solar and wind generation and is financed through a \$9.6 million ADB loan.

In 2017, the Japan International Cooperation Agency (JICA) signed a grant agreement with the FSM to provide \$10 million for assistance for the Power Sector Improvement for the State of Kosrae. The project will provide diesel power generators and related equipment to ensure an efficient and stable supply of power.

## 5.6. ICT

Global data demonstrate that enhanced connectivity can improve the delivery of health and education services to remote communities (where the poor are often located), strengthen private sector development and reduce transaction costs for businesses, create new income generating opportunities, enhance governance and promote tourism.

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
6.1	Advance submarine cable to Yap/Chuuk	TC&I	2017
6.2	Introduce telecommunication competition	TC&I	Law amended in 2014 to allow for competition

The FSM Telecommunications Sector Reform Project became effective on March 11, 2015. The project includes Technical Assistance for restructuring of existing state owned telecommunications operator, FSM Telecommunications Corporation (FSMTC) for a liberalized telecommunications market; the establishment of an Open Access Entity (OAE) to own and manage the international connectivity assets purchased under the project; and the establishment of an independent telecommunications sector regulator.

On April 22, 2016, FSM contracted with Telin and NEC for an end-to-end undersea cable system to Guam at a cost of approximately \$13.5 not including add-ons or terrestrial installation and facilities, which are estimated at another \$2.65 million.

During the negotiations for the Yap cable, MicroPal agreed that NEC and FSM could seek to include in the procurement a component for Chuuk that would be at the same unit prices as hardware for SEA-US and possibly also offer reduced marine costs through tying it to the installation of the SEA-US system.

For Kosrae, the World Bank notified the FSM in August 2016 that additional regional funding has been secured for the Kosrae cable project linking in with connections to Kiribati and Nauru

Work on the regulatory component has begun with the establishment and operationalizing of the OAE.

The Project was approved December 2014 with a total grant of \$47.5 million (\$12.8 million national IDA & \$34.6m regional IDA). The Kosrae cable project involves a further \$17 million in grant funding.

Currently, FSMTC is implementing a 4G project in Chuuk for Weno and surrounding islands funded by National Government.



In Pohnpei, a number of public projects have enabled free internet access at certain points for the public.

### 5.7. Fiscal Reform

<b>7</b>	<b>Fiscal Reform</b>		
7.1	Update Financial Management Act and internal procedures	DoFA	2015
7.2	Publish Annual Economic & Fiscal Update (includes monitoring and updating of the Action Plan)	BEM	<b>Complete</b>
7.3	Unified Revenue Authority operational	DoFA	<b>Policy change</b>
7.4	Tax Reform implemented	DoFA	<b>Policy change</b>
7.5	Debt policy endorsed, including fiscal responsibility ratios	Debt Management Advisory Committee	<b>Complete</b>
7.6	Annual FSM Trust Fund contributions \$10M up to 2023	DoFA	<b>Target revised to \$15m with the tax change</b>
7.7	Complete organizational, functional, and staffing review of the public administration system	President's Office	Dec 2014
7.8	Revise pay structure and staff grading in the National Government	President's Office	Mar 2015
7.8	Formulate incentive-compatible revenue sharing arrangement between the National Government and the States	SBOC DoFA	Mar 2015

The 2015 and 2016 Economic & Fiscal Updates were published by April 1 (includes monitoring and updating of the 2023 Action Plan). Key components of the reports are latest year GDP estimates, forecasts, and commentary, fiscal information for the five governments plus consolidated accounts, debt information, public projects expenditure, and trust fund updates for the Compact and FSM funds.

The debt management policy was approved by the Executive and the Debt Management Bill sent to Congress in 2016.

The National Government and Congress commitment to the FSM Trust Fund remains above target as the recent change in tax law has seen this contribution rise to \$15 million per annum with the additional \$5 million being invested in State sub-accounts. Over \$50 million has been invested in the FSM Trust Fund over the last three years.

The National Government is in the process of updating its Financial Management Regulations.

The FSM National Government completed a Public Expenditure & Financial Accountability (PEFA) Self-Assessment in November 2016. This reveals a significant improvement in Public

Financial Management (PFM) systems since 2011 and staff have prepared a draft PFM Roadmap for the period 2017 - 2020.

### 5.8. Enabling environment

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
8.1	Replicate the State of Kosrae’s dispute resolutions system in Chuuk, Pohnpei, and Yap	DoJ	<b>Completed</b>
8.2	Establish time standards for State Courts based on FSM Supreme Court	FSM Supreme Court	<b>Completed</b>
8.3	Develop Legal Framework for Protection of FSM genetic resources and associated traditional knowledge	DoJ/R&D	2015
8.4	Complete land survey and boundary identification in the States for sites suitable for commercial development	TC&I	2015 - 2017
8.5	Establish the Registrar of Corporations, including legislation amendments	Department of Justice	<b>Completed</b>
8.6	Intellectual property rights regime review	R&D	2015
8.7	Develop Legal Framework for Deep Sea Mining of FSM non-living resources	DoJ/R&D	<b>Draft Bill with Congress</b>
8.8	Assess and upskill the capacity of existing SBDCs to deliver private sector support	R&D	<b>Ongoing, Target 2016</b>
8.9	Diversify trading partners and seeking preferential market access opportunities	R&D	2015-2017

The two judicial reform projects have been completed.

The DR&D has launched its new website which includes information on Trade and investment policy and foreign investment laws

The National Trade Facilitation Committee has been negotiating with development partners on the PacerPlus agreement. A workshop was held in 2016 to update States on the status of the negotiations with a key component being access to employment opportunities which have been available to the south Pacific for many years.

A pilot program supported by Pacific Financial and Technical Assistance Center to improve tax compliance has resulted in significant increase in collections. Under this pilot, national cigarette tax collection has, for example, increased by over 100 percent in FY2015 compared to the previous calendar year.

A draft bill for Deep Sea Mining of FSM non-living resources is with Congress

All State SBDC’s have been visited and draft peer review reports prepared on capacity

A Bill has been introduced to Congress to create a new chapter 1 of Title 36 of the Code of the FSM, for the purpose of creating a new FSM national corporations law

## 5.9. Financing the Action Plan

	<b>Action</b>	<b>Responsibility</b>	<b>Status</b>
9.1	2023 Investment Development Fund Act	DoJ	<b>Policy change</b>
9.2	IDF institutional set-up	SBOC	<b>Policy change</b>
9.3	Foreign Investment Law Review	R&D	Dec 2015
9.4	Enhance the existing online information system on investment within the FSM	R&D	<b>Complete, R&amp;D website established</b>
9.5	Establish Investment Promotion Agency at the national level to act as a One-Stop-Shop to handle foreign investment	R&D	<b>Part of new Foreign Investment Bill with Congress</b>
9.6	Development Partner Forum to align ODA programs with FSM development priorities	SBOC	<b>Delayed until 2017 due to PIF</b>
9.7	FSM Development Bank policy review <ul style="list-style-type: none"> <li>- Reevaluate lending policies to small businesses</li> <li>- Strengthen entrepreneurs capacity to formulate fundable business projects</li> </ul>	FSM Development Bank	<b>ongoing</b>

In 2015, with a new Executive and Congress in place there has been a policy shift away from the proposed IDF.

The IFC has provided support to strengthen and improve the business climate by a review of the foreign investment law (assessing the scope for harmonization of State and National regulation and assisting FSM to reflect international best practice in investment law) and a regulatory review of the fisheries sector to map current State and National processes and assess areas where reform is needed.

Initially, the investment law reform project set out to harmonize the four state investment laws with the National law. However, as part of the review a policy change was deemed appropriate and the focus now is to centralize Foreign Investment as a National Government responsibility.

The Department of R&D and the Development Bank are working on the details of a private sector revolving fund for the tourism industry.

## 6. APPENDIX 2: Statistical Tables

**Table 1: FSM Constant Price GDP by Industry (\$ million)**

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Agriculture, Hunting & Forestry	35.6	35.5	35.7	36.6	37.2	37.1
Fisheries	25.7	28.5	25.3	24.8	24.8	28.9
Manufacturing	1.0	0.9	0.8	0.8	0.7	1.1
Electricity, Gas & Water Supply	4.1	4.3	4.4	4.2	4.1	4.3
Construction	15.5	15.1	11.0	6.6	5.5	9.3
Wholesale & Retail Trade & Repairs	25.3	23.7	22.9	22.3	22.5	24.9
Hotels & Restaurants	3.9	3.9	3.7	3.4	3.5	4.0
Transport, Storage & Communications	13.2	13.1	13.6	12.2	12.3	13.8
Financial Intermediation	5.1	5.6	5.7	6.2	6.2	9.4
Real Estate & Business Activities	29.3	29.0	29.2	29.9	30.1	30.8
Public Administration	26.9	26.8	26.8	26.1	26.1	27.0
Education	32.6	31.5	30.6	29.9	29.9	29.7
Health & Social Work	12.0	12.4	12.4	12.7	12.7	12.6
Other Community & Personal Services	3.2	2.9	3.0	3.1	3.1	3.4
<i>less intermediate FISIM</i>	-3.4	-3.2	-3.1	-3.1	-3.2	-3.9
<i>Plus Net Indirect Taxes</i>	18.8	17.7	16.6	14.8	18.5	16.7
<b>GDP at purchaser's prices</b>	<b>249.0</b>	<b>247.7</b>	<b>239.0</b>	<b>230.8</b>	<b>234.0</b>	<b>248.6</b>

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2015)

**Table 2: Constant price GDP by industry sector (annual percent change)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Agriculture, Hunting & Forestry	0.9%	-0.4%	0.6%	2.6%	1.0%	0.4%
Fisheries	6.5%	10.8%	-11.4%	-1.8%	14.1%	4.3%
Manufacturing	2.3%	-10.9%	-13.8%	1.8%	10.8%	24.7%
Electricity, Gas & Water Supply	-5.4%	5.1%	2.1%	-4.6%	-2.2%	5.9%
Construction	18.1%	-2.7%	-27.2%	-40.1%	--12.9%	58.0%
Wholesale & Retail Trade & Repairs	-1.5%	-6.3%	-3.5%	-2.6%	4.3%	5.9%
Hotels & Restaurants	-1.3%	-0.9%	-4.5%	-7.6%	9.2%	0.8%
Transport, Storage & Communications	-0.8%	-0.7%	3.5%	-9.9%	0.2%	13.5%
Financial Intermediation	16.1%	9.1%	1.1%	9.2%	20.0%	9.1%
Real Estate, & Business Activities	1.0%	-1.1%	0.8%	2.2%	2.4%	2.1%
Public Administration	1.5%	-0.3%	0.0%	-2.5%	3.5%	0.2%
Education	-2.4%	-3.4%	-3.1%	-2.0%	-0.8%	0.0%
Health & Social Work	1.7%	3.3%	0.5%	2.5%	-1.8%	0.5%
Other Community & Personal Services	-0.5%	-8.1%	2.2%	4.9%	-3.3%	2.6%
<b>GDP at purchaser's prices</b>	<b>1.8%</b>	<b>-0.5%</b>	<b>-3.5%</b>	<b>-3.4%</b>	<b>3.7%</b>	<b>3.8%</b>

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2015)

**Table 3: FSM Current price GDP by industry (\$ million)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Agriculture, Hunting & Forestry	44.8	45.1	46.2	47.9	48.6	48.1
Fisheries	37.2	46.5	37.3	31.8	35.7	40.1
Manufacturing	1.3	1.3	1.1	1.1	1.0	1.6
Electricity, Gas & Water Supply	3.3	4.8	6.2	7.9	8.2	10.3
Construction	20.6	21.1	15.7	9.4	7.7	13.2
Wholesale & Retail Trade & Repairs	37.1	37.0	36.3	35.6	36.0	38.9
Hotels & Restaurants	5.3	5.5	5.4	5.0	5.1	5.8
Transport, Storage & Communications	17.1	17.8	19.0	17.2	17.2	19.4
Financial Intermediation	6.9	8.1	9.0	9.6	9.6	12.8
Real Estate, & Business Activities	32.4	32.4	32.9	34.3	34.6	35.0
Public Administration	31.9	32.2	33.1	32.6	32.8	32.0

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Education	32.9	33.8	33.1	33.1	33.3	33.3
Health & Social Work	14.1	14.6	14.8	15.3	15.3	14.6
Other Community & Personal Services	4.3	4.0	4.3	4.7	5.3	3.8
<i>less intermediate FISIM</i>	-4.5	-4.6	-4.6	-4.6	-4.6	-5.6
<i>Plus Net Indirect Taxes</i>	25.8	26.3	26.0	22.2	27.3	25.1
<b>GDP at purchaser's prices</b>	<b>310.4</b>	<b>325.8</b>	<b>315.7</b>	<b>303.0</b>	<b>313.1</b>	<b>326.6</b>

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Source: FSM Statistics Office, Budget & Economic Management estimate (FY2015)

**Table 4: Current GDP by Industry (annual percent change)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Agriculture, Hunting & Forestry	4.0%	0.6%	2.5%	3.7%	1.5%	-1.2%
Fisheries	20.9%	25.2%	-19.8%	-14.7%	12.2%	19.7%
Manufacturing	6.3%	-6.0%	-11.6%	2.6%	-10.1%	23.5%
Electricity, Gas & Water Supply	-0.2%	43.1%	30.1%	27.5%	3.5%	7.1%
Construction	22.8%	2.3%	-25.8%	-40.0%	-18.0%	58.8%
Wholesale & Retail Trade & Repairs	1.4%	-0.4%	-1.9%	-1.9%	1.3%	3.9
Hotels & Restaurants	2.6%	4.6%	-2.0%	-6.9%	1.1%	-0.3%
Transport, Storage & Communications	2.5%	4.2%	6.5%	-9.5%	0.1%	12.0%
Financial Intermediation	21.3%	17.1%	12.2%	5.8%	0.1%	8.0%
Real Estate, & Business Activities	2.1%	0.2%	1.4%	4.4%	0.8%	0.9%
Public Administration	2.1%	0.9%	3.0%	-1.6%	0.8%	-5.0%
Education	-4.5%	2.8%	-2.0%	-0.1%	0.5%	-1.3%
Health & Social Work	2.7%	3.4%	1.1%	3.6%	0.2%	-2.9%
Other Community & Personal Services	3.3%	-6.7%	6.1%	9.3%	14.1%	-24.3%
<b>GDP at purchaser's prices</b>	<b>5.0%</b>	<b>5.0%</b>	<b>-3.1%</b>	<b>-4.0%</b>	<b>3.3%</b>	<b>3.7%</b>

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2015)

**Table 5: CPI by Major Group (annual percent change)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Food	2.6	4.5	2.6	1.3	0.3	-1.6
Tobacco & Alcohol	5.1	10.8	-0.4	1.2	0.6	3.2
Clothing & Footwear	1.5	6.0	0.6	-0.1	1.4	-0.4
Housing	1.2	3.4	1.0	1.5	2.4	0.9
Fuel, Light & Water	14.5	9.2	5.5	-0.2	-0.6	-3.5
Services	4.5	8.9	1.2	0.8	-1.3	-3.8
Miscellaneous	3.7	3.5	2.6	0.5	-0.7	0.7
<b>Total All Groups</b>	<b>4.3</b>	<b>6.3</b>	<b>2.1</b>	<b>0.9</b>	<b>-0.3</b>	<b>-1.0</b>

Source: FSM Statistics Office



**Table 6: Visitor Arrivals by Purpose**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
By purpose						
Tourism & visitors	12,622	12,563	12,714	14,811	12,038	10,062
Business & employment	6,247	5,770	5,852	5,509	5,672	6,304
Volunteer, religious, etc.	622	681	663	743	867	787
Seamen & crew	866	838	1,009	740	606	708
Not specified	3,012	2,757	2,527	2,368	2,418	2,727
<b>Total</b>	<b>23,369</b>	<b>22,609</b>	<b>22,765</b>	<b>24,171</b>	<b>21,602</b>	<b>20,588</b>

Source: FSM Statistics Office

**Table 7: Tourists & Visitor Arrivals by Origin**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Asia	674	635	690	767	522	338
Australia	867	991	907	847	734	338
Canada	217	202	205	341	160	162
China	220	347	246	303	364	400
Europe	1,543	1,709	1,893	1,893	1,515	1,334
Japan	2,467	2,567	2,544	2,535	2,257	1,721
New Zealand	127	120	119	129	107	73
Pacific Islands	1,192	1,048	1,108	1,578	1,500	1,397
Philippines	268	226	246	280	239	220
USA	4,944	4,550	4,601	5,946	4,500	3,984
Other	106	168	155	192	139	97
<b>Total</b>	<b>12,622</b>	<b>12,563</b>	<b>12,714</b>	<b>14,811</b>	<b>12,038</b>	<b>10,062</b>

Source: FSM Statistics Office

**Table 8: FSM Commercial Banking Survey (\$ million)**

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Total Assets</b>	<b>190.1</b>	<b>228.1</b>	<b>237.7</b>	<b>270.4</b>	<b>263.3</b>	<b>313.9</b>
Total Liquid Assets	127.1	163.6	176.2	202.1	204.7	230.8
Cash & Due from Local banks	2.8	4.1	3.8	2.8	5.7	4.0
Foreign Assets - Due from Banks Abroad	124.3	159.5	172.4	199.3	198.9	226.8
Total Loans	55.2	56.8	54.0	60.9	68.9	75.4
Commercial Loans	33.0	31.5	29.4	33.5	37.8	42.6
Consumer Loans	22.2	25.3	24.6	27.4	30.9	32.8
Other Assets	7.7	7.7	7.5	7.4	7.6	7.7
<b>Total Liabilities &amp; Capital</b>	<b>190.1</b>	<b>228.1</b>	<b>237.7</b>	<b>270.4</b>	<b>281.1</b>	<b>313.9</b>
Total Deposits:	166.2	204.3	213.2	243.9	253.0	283.8
Demand	37.6	55.6	45.7	64.3	68.0	79.8
Savings	98.0	120.8	137.2	147.0	153.2	179.5
Time	28.6	27.3	29.6	31.9	30.9	24.4
Other	2.1	0.7	0.8	0.8	0.9	0.2
Other Liabilities & Capital	23.8	23.7	24.5	26.5	28.1	30.1
Memorandum Items:						
Loan/Deposit Ratio	33	28	25	25	27	27
Commercial Loan Share of Total Loans (%)	60	57	54	55	55	56
Consumer Loan Share of Total Loans (%)	40	21	46	45	45	44
Deposits Annual Rate of Change (%)	7.8	22.9	4.3	14.4	3.7	12.2
Loans Annual Rate of Change (%)	-0.9	2.9	-4.8	12.8	13.1	-3.9
Commercial Loans Annual Rate of Change (%)	-3.1	-4.5	-6.6	13.9	12.7	8.0
Consumer Loans Annual Rate of Change (%)	2.6	13.8	2.6	11.4	13.6	-15.9

Source: FSM Statistics Office

**Table 9: Interest rates of domestic money banks**

(percent)	FY2011	FY2012	FY2013	FY2014	FY2014	FY2015	FY2016
<b>Deposit rates</b>							
Savings deposits	1.0	0.9	0.6	0.5	0.5	0.2	0.2
CDs	0.6	0.4	0.4	0.5	0.5	0.6	0.4
Time Deposits	0.8	0.7	0.8	0.6	0.6	0.6	0.3
Other Deposits	0.0	0.1	0.0	0.0	0.0	0.1	0.0
<b>Loan rates</b>							
Consumer loans	14.4	14.3	15.7	15.8	15.8	15.9	15.7
Commercial loans	6.6	6.4	7.1	6.8	6.8	6.8	7.8

Source: FSM Statistics Office

**Table 10: FSM Balance of Payments (\$ million)**

	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
<b><i>Current account balance</i></b>	<b>-55.3</b>	<b>-41.2</b>	<b>-31.6</b>	<b>3.7</b>	<b>13.2</b>
<i>Goods and services balance</i>	-177.3	-167.7	-170.1	-149.6	-154.1
<i>Goods balance</i>	-134.0	-125.7	-131.1	-117.5	-127.9
Exports of goods	40.4	57.6	47.8	38.2	39.9
Fish	27.7	39.7	28.3	21.2	22.5
Other	12.7	18.0	21.9	17.0	17.4
Imports of goods f.o.b.	174.4	183.2	178.9	155.7	167.7
<i>Services balance</i>	-44.3	--43.0	-37.4	-32.1	-26.3
Exports of services	35.0	38.3	43.5	45.2	43.6
Travel	21.8	22.3	26.8	28.7	25.3
Other	13.1	15.9	16.6	16.5	18.2
Imports of services	79.3	81.3	81.0	77.4	69.8
Transport	43.9	47.0	44.7	42.1	42.4
of which: Passenger services	15.4	17.2	16.8	16.7	17.4
of which: Freight and postal services	28.4	29.7	27.8	25.4	24.9
Construction services	7.1	7.3	8.1	8.2	4.2
Other	27.3	25.9	26.7	25.4	24.9
<i>Primary income balance</i>	10.8	16.2	27.4	24.2	55.8
Receipts	23.7	31.4	39.9	52.9	70.5
Fishing licence fees	18.7	26.3	34.9	47.4	65.1
Other (mainly dividends and interest)	5.0	5.1	5.0	5.1	
Payments	12.9	15.2	12.5	28.6	14.7
<i>Secondary income balance</i>	111.2	110.3	111.1	129.1	111.6
Receipts	126.9	126.7	127.2	144.7	128.1
Budget grants	83.7	81.7	79.7	78.4	78.9
Off-budget grants	5.8	5.2	4.3	3.3	8.9
College of Micronesia	13.4	13.7	12.8	11.5	11.3
Other (mainly households)	24.0	26.2	23.1	22.1	23.1
Payments (mainly households)	15.7	16.4	16.0	15.5	16.6

**Table 10: FSM Balance of Payments (\$ million)**

	FY2011	FY2012	FY2013	FY2014	FY2015
<b>Capital account balance</b>	<b>62.0</b>	<b>68.3</b>	<b>42.2</b>	<b>21.2</b>	<b>22.9</b>
Compact capital grants	19.2	28.5	16.5	4.9	7.3
Other	42.7	39.8	25.7	16.3	15.6
<b>Net lending/Borrowing (Curr + Cap)</b>	<b>6.7</b>	<b>27.2</b>	<b>10.6</b>	<b>25.0</b>	<b>36.1</b>
<b>Financial account balance</b>	<b>-8.1</b>	<b>-34.4</b>	<b>-15.8</b>	<b>-27.4</b>	<b>-47.7</b>
Direct investment	0.8	1.0	0.8	0.3	0.2
Portfolio investment (increase in assets: -)	0.2	-1.0	-3.6	-7.1	-41.0
Assets	1.4	-0.4	-4.7	-7.0	-42.8
Liabilities	-1.2	-0.6	1.1	-0.0	1.8
Other investment (increase in assets: -)	-9.1	-34.5	-13.0	-20.6	-6.9
Assets (mainly bank deposits)	-12.5	-35.2	-13.0	-21.6	-4.9
Liabilities (public sector loans)	3.4	0.7	-0.1	0.9	-1.9
<b>Errors and omissions</b>	<b>-1.5</b>	<b>-7.3</b>	<b>-5.2</b>	<b>-2.5</b>	<b>-11.6</b>
<i>Memorandum item</i>					
Exports by FSM incorporated, non-resident fishing vessels	18.3	30.7	20.4	21.0	40.2

Source: FSM Statistics Office

**Table 11: FSM external debt (million)**

<b>(US\$ millions)</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
External Debt Total (US\$ millions)						
New	5.5	3.2	3.1	3.4	2.2	3.5
Amortization	3.1	3.3	4.0	4.2	3.8	4.4
Interest	2.3	2.1	2.3	2.3	2.2	2.0
Principal balance	87.9	87.8	87.1	84.8	81.0	80.3
External debt as % of GDP	28%	27%	28%	28%	26%	25%
Debt service as % domestic revenue	8.5%	7.3%	7.5%	6.7	5.9	7%

Source: FSM Statistics Office

**Table 12: Population by state, 1980 to 2010**

	FSM	Yap	Chuuk	Pohnpei	Kosrae
1973	61,992	7,867	31,596	19,263	3,266
1980	73,155	8,100	37,488	22,081	5,486
1994	105,506	11,178	53,319	33,692	7,317
2000	107,008	11,241	53,595	34,486	7,686
2010	102,843	11,377	48,654	36,196	6,616
Annual Growth rate %					
1973-1980	2.37	0.42	2.44	1.95	7.41
1980-1994	2.62	2.30	2.52	3.02	2.06
1994-2000	0.26	0.10	0.09	0.42	0.89
2000-2010	-0.40	0.12	-0.97	0.48	-1.50

Source: FSM Statistics Office

**Table 13: Age and sex distribution, and households, by state and outer islands, 2010**

	FSM	Yap	Chuuk	Pohnpei	Kosrae
Age groups					
0-14	36,697	3,681	17,795	12,807	2,414
15-24	21,349	2,004	10,515	7,550	1,280
25-34	14,239	1,591	6,845	5,002	801
35-59	24,957	3,282	11,045	8,970	1,660
60+	5,601	819	2,454	1,867	461
Sum, all ages	102,843	11,377	48,654	36,196	6,616
Median age	21.5	25.0	20.7	21.7	21.5
Dependency ratios (%) = dependent age population/working age population (15-64)					
Youth (0-14 years)	60.6	53.5	62.6	59.5	64.5
Aged (65+ years)	9.3	11.9	8.6	8.7	12.3
Total	69.9	65.4	71.3	68.2	76.9
Sex and Sex ratio					
Males	52,193	5,635	24,835	18,371	3,352
Females	50,650	5,742	23,819	17,825	3,264
Sex ratio (males per 100 females)	103.0	98.1	104.3	103.1	102.7
Number of households	16,767	2,311	7,024	6,289	1,143

Source: FSM Statistics Office

**Table 14: Labour force indicators, by state and outer islands, 2010**

	FSM	Yap	Chuuk	Pohnpei	Kosrae
<i>(Number of persons)</i>					
Labour Force (Persons aged 15+)	66,146	7,696	30,859	23,389	4,202
Labor force	37,919	5,181	16,416	14,082	2,240
Employed population	31,789	4,871	12,373	12,820	1,725
Males	18,647	2,392	7,526	7,673	1,056
Females	13,142	2,479	4,847	5,147	669
Subsistence workers	16,658	2,406	7,917	6,000	335
<i>Males</i>	<i>9,081</i>	<i>903</i>	<i>4,644</i>	<i>3,359</i>	<i>175</i>
<i>Females</i>	<i>7,577</i>	<i>1,503</i>	<i>3,273</i>	<i>2,641</i>	<i>160</i>
Unemployed	6,130	310	4,043	1,262	515
Males	3,429	190	2,336	627	276
Females	2,701	120	1,707	635	239
<i>(Rates, % of labour force)</i>					
Labor force participation rate	57.3	67.3	53.2	60.2	53.3
<i>Males</i>	<i>66.1</i>	<i>69.1</i>	<i>62.7</i>	<i>70.3</i>	<i>62.9</i>
<i>Females</i>	<i>48.4</i>	<i>65.7</i>	<i>43.3</i>	<i>49.9</i>	<i>43.6</i>
Employment rate	83.8	94.0	75.4	91.0	77.0
<i>Males</i>	<i>84.5</i>	<i>92.6</i>	<i>76.3</i>	<i>92.4</i>	<i>79.3</i>
<i>Females</i>	<i>83.0</i>	<i>95.4</i>	<i>74.0</i>	<i>89.0</i>	<i>73.7</i>
Unemployment rate	16.2	6.0	24.6	9.0	23.0
<i>Males</i>	<i>15.5</i>	<i>7.4</i>	<i>23.7</i>	<i>7.6</i>	<i>20.7</i>
<i>Females</i>	<i>17.0</i>	<i>4.6</i>	<i>26.0</i>	<i>11.0</i>	<i>26.3</i>

Source: FSM Statistics Office