ECONOMIC & FISCAL UPDATE

2018

FSM Office of Budget & Economic Management,

Palikir, Pohnpei

Table of Contents

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 30th 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[1] annually since Fiscal Year (FY) 2008. However, the States continue to struggle fiscally, although Pohnpei, due to recent revenue reforms, recorded a strong surplus in FY2017 of $5 million. An overall fiscal surplus (consolidated 5 governments) of $40.7 million was recorded in FY2017 and a further surplus of $19.0 million forecast for FY2018. The projected surplus for the medium term is for continued surpluses of over $15 million per annum underpinned by the National Government fiscal strength.

For the second time in four years the National Government has seen a significant increase in revenue late in the fiscal year. Fishing license fees breached the $70 million level for the first time with a payment in the September quarter of $7 million for outstanding fees for 2015 and 2016. Tax benefited from a one-off capital gains deposit of $14 million in September 2017, lifting total taxes to $61.3 million, the highest level ever. Domestic tax revenue effort however, averaging 12 percent of GDP, continues to be low by international standards. The medium-term outlook for fishing fees is a steady $65 million per year and for underlying taxation to continue to grow by 2 percent per annum reflecting continued growth in the economy. It is not possible to forecast the capital gains from the corporate tax industry as these result from overseas companies realizing profits when selling down significant investments.

External grants continue to grow as the National Government implementation of the large World Bank projects in the Energy, Fisheries and Telecommunications sector. Grants reached $133.7 million in FYY2017 they are well below the FY2012 peak of $71.5 million. However, Compact sector grants continue to decline as the Department of Interior sets stricter guidelines on usage of small sector grants. The transfer of implementation of Compact infrastructure grants to the States is still to show any improvement in grant utilization with only $5 million expended in FY2017 of the annual available grant of $25 million.

Operational expenditure levels (consolidated 5 governments) 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 49.7 percent in FY2010 to 39.2 percent in FY2017. Expenditure on goods and services had not grown from FY2004 to FY2014. However, in the last three years expenditure on contractual services has grown in line with the increased drawdown of World Bank funds to support project implementation. Personnel costs peaked at $73.1 million in FY2014 and has been slightly lower in the last three years with $70.7 million expenditure in FY2017.

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 $11.0 million, which are a mix of infrastructure, economic, and social projects.

[1] The surpluses are recorded before repayment of debt principle & investments into the FSM Trust Fund

Surpluses have also allowed the National Government to make contributions into the FSM Trust Fund which has grown from $8 million at the beginning of FY2012 to $115 million at the end of FY2017.

In recent years the FSM has maintained a prudent external debt profile. The current external debt to GDP ratio is relatively low at 21.6 percent in FY2017, and the debt service to domestic revenue ratio is at a manageable rate of 5.0 percent.

1.2. Economic Setting Overview

The FSM is currently experiencing its second period of strong economic growth over the last ten years. FSM experienced three years of economic growth from FY2009 – FY2011 stimulated mainly by infrastructure projects linked to the FAA funded airport renovations and the Amended Compact infrastructure grant. 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 a close but also a JEMCO imposed suspension on any new Infrastructure Grant projects in August 2012 further restricted economic activity.

In FY2015 the economy once more entered a growth spurt which has continued through to FY2017, with growth averaging 3.4 percent for the three years. Unlike the previous period of growth, which was driven by infrastructure spending, the current growth has occurred across all sectors of the economy. GDP is forecast to continue strong growth in the medium term as the impact of the significant increase in multi-lateral funded projects enter the economy and the States begin drawdown of Compact infrastructure grants.

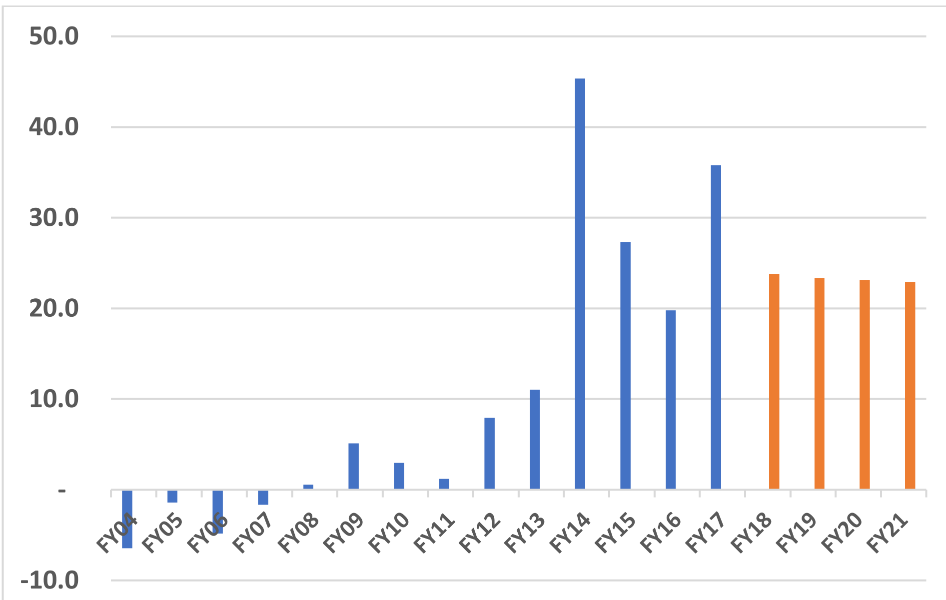
Inflation, as measured by the FSM Consumer Price Index (CPI), was 0.9 percent in FY2014 and this was followed by two years of deflation with the CPI falling by -0.3 and -1.0 percent In FY2015 and FY2016 respectively. Inflation returned to growth in FY2017, albeit at a modest 0.5 percent. The medium-term outlook is for an average 2 percent growth per annum reflecting the upwards projections for the United States under the current administration.

2. NATIONAL GOVERNMENT FISCAL UPDATE

2.1. Fiscal Outcome

The National Government, for the fourth consecutive year, showed a significant fiscal surplus of $35.8 million. Fishing license fees breached the $70 million level for the first time with a payment in the September quarter of $7 million for outstanding fees for 2015 and 2016. Tax benefited from a one-off capital gains deposit of $14 million in September 2017, lifting total taxes to $61.3 million, the highest level ever. Domestic tax revenue effort however, averaging 12 percent of GDP, continues to be low by international standards. The medium-term outlook for fishing fees is a steady $65 million per year and for underlying taxation to continue to grow by 2 percent per annum reflecting continued growth in the economy. It is not possible to forecast the capital gains from the corporate tax industry as these result from overseas companies realizing profits when selling down significant investments.

Figure 1: National Government Fiscal Balance ($ million)



Source: Audited Reports & Budget estimates

Fiscal surpluses have been managed prudently with the majority being invested in the FSM Trust Fund. Surpluses are forecast to be around $20 million per annum for the next 3 years based on stable fishing licence fees and 2 percent growth in tax revenue.

Government Revenue

National government revenue was at its highest level ever at $166.1 million in FY2017 (refer table 1 below), with both domestic revenue and external grants reached record levels. Currently, the FY2018 estimate will see a $9 million decline in revenue as taxes and fishing licence fees return to normal while offsetting this is continued growth in external grants.

Table 1: National Government Revenue ($ million)

	FY2013 Audit	FY2014 Audit	FY2015 Audit	FY2016 Audit	FY2017 Audit	FY2018 Estimate
Domestic Revenue	**56.4**	**91.1**	**83.7**	**88.4**	**110.3**	**92.2**
Tax revenue	17.3	39.9	16.8	19.6	37.7	24.2
Non-tax revenue	39.1	51.2	66.9	68.8	75.3	68.0
Fishing license fees	35.0	47.5	65.2	63.4	72.6	65.0
Other	4.0	3.7	1.7	5.4	2.7	3.0
External Grants	**43.8**	**26.2**	**20.9**	**38.5**	**55.8**	**65.2**
Compact Sector Grants	2.4	0.8	1.3	0.9	1.1	1.1
Supplemental Education	0.3	0.3	0.3	0.4	1.1	1.1
Federal & Other	9.9	11.1	8.4	15.6	31.1	38.0
Capital Grants	31.3	10.2	10.9	21.6	22.5	25.0
Revenue	**100.3**	**117.3**	**104.6**	**126.9**	**166.1**	**157.4**

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 capital gains tax payment by a major corporation. Corporate tax returned to normal levels in FY2015 and FY2016 but experienced a second large capital gains tax payment in FY2017.

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 through 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.

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 $63.4 million in FY2016 and in FY2017 the underlying fees were $65.6 million with an additional $7 million coming from arrears from 2015 and 2016.

External grants continued to grow in FY2017 reflecting the National Government implementation of the large World Bank projects in the Energy, Fisheries and Telecommunications sector. Grants reached $55.8 million in FYY2017. FY2017 sees Amended Compact funding for the College of Micronesia (COM-FSM) drop to $1 million 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.

Government Expenditure

National Government expenditure has increased significantly in FY2016 and FY2017, mainly reflecting the increased implementation of major World Bank capital projects. Current expenditure levels have also increased for the same reason as considerable technical and other support has been contracted to support project implementation (refer table 2 below).

Table 2: National Government Expenditure ($ million)

Item	FY013 Audit	FY2014 Audit	FY2015 Audit	FY2016 Audit	FY2017 Audit	FY2018 Estimate
Wages and Salaries	18.2	17.6	16.7	19.3	18.9	19.1
Goods and Services	30.3	33.0	38.0	48.5	50.6	51.1
Interest Payments	0.7	0.7	2.5	2.0	2.6	2.6
Subsidies	0.3	0.3	0.3	3.4	3.2	3.2
Transfer	1.3	2.1	1.1	2.8	1.5	1.5
Current Expenditure	**50.8**	**53.6**	**58.6**	**76.0**	**76.8**	**77.6**
Capital Expenditure	38.5	18.3	18.7	31.1	53.5	56.0
Total Expenditure	**89.2**	**71.9**	**77.3**	**107.1**	**130.3**	**133.6**

Source: Audited Reports & Budget estimates

Following two years of declines personnel costs 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. Expenditure on personnel as a percentage of domestic revenue has declined from a peak of 49.8 percent in FY2010 to 17.1 percent in FY2017, reflecting the National government ensuring that revenue windfalls in recent years are not converted into unsustainable growth in personnel.

Expenditure on goods and services grew significantly in FY2016, mainly reflecting increased contractual services. This increase reflects World Bank project funds flowing through the government accounts.

Capital expenditure funded from grants was very strong from FY2009 – FY2012, peaking at $61.5 million in FY2012. This was the impetus for the main period of strong economic growth so far during the Amended Compact era. With the recent rise in capital expenditure FSM is once again experiencing a period of economic growth.

2.2. Fiscal Strategy

Table 3 below presents some fiscal responsibility ratios for the FSM consolidated accounts. Tax revenue-to-GDP remains low by international standards at 12 percent, although there was a significant increase to 18 percent in FY2014 and 17 percent in FY2017 due to one-off capital gains tax receipts. Increases in compliance in FY2019 associated with improved collection methods through World Bank technical assistance and further gains in FY2020 as the new automated Revenue Management System comes on stream will see an increase in the tax revenue to GDP ratio.

The FSM debt to GDP ratio remains well within IMF guidelines for a Small Island State and with no planned borrowing in the medium term is set to go below 15 percent by FY2021. However, as noted by IMF the fiscal risk remains high post 2023 and FSM will require a period of borrowing at this time to avoid the fiscal shock that will result from an under-funded Compact Trust Fund.

The government share of GDP continues to decline reflecting the continual structural shift in the economy towards the private sector. This trend is forecast to continue in the medium term.

Table 3: Fiscal Responsibility Ratios

Item	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
FSM ratios							
Tax revenue-to-GDP	11.6%	11.8%	17.3%	12.0%	12.5%	13.0%	13.0%
External Debt-to-GDP	25.2%	23.5%	21.5%	19.4%	17.0%	15.1%	13.4%
Government share of GDP	22.2%	20.5%	19.9%	19.5%	18.6%	18.1%	17.5%
National Government ratios							
Personnel costs-to-revenue	20.0%	21.8%	17.1%	20.7%	20.8%	20.9%	21.0%
Net operating balance-to-GDP	8.7%	6.0%	10.1%	6.4%	5.9%	5.6%	5.3%

Source: FSM Budget & Economic Management Division

The National Government continues to keep a tight rein on employment with the personnel costs to domestic revenue ratio remaining around 21 percent. This ratio is not forecast to rise in the medium term.

Net operating balance-to-GDP was a healthy surplus of 10.1 percent in FY2017. Over the medium term this ratio is expected to remain healthy allowing for continued investment in the FSM Trust Fund.

2.3. 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 4). This amounted to $9.4 million in support in FY2012 and has risen to $45.7 million in FY2017. Over the same period the National Government has also invested over $85 million in the FSM Trust Fund. In fact, when combining annual Trust Fund contributions with the contributions to States below the total exceeds the fishing license fees received each year.

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.

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.

Table 4: National Government Revenue Sharing ($ million)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Amended Compact Grant			4.0	8.0	8.0	8.0	8.0
Education	2.3	3.0	4.0	5.9	7.1	7.2	7.0
Infrastructure	3.4	3.6	7.6	15.0	16.0	15.9	18.2
Congress Projects	3.4	9.7	10.0	8.4	9.3	11.3	11.5
Judiciary	0.6	0.6	0.6	0.6	0.6	0.6	0.7
State Tourism Dev.				0.2	1.9	2.0	0.1
Change in tax formula					4.8	5.0	5.0
Other	0.2	1.2	0.5	0.6	2.7	1.8	3.0
Total	**9.7**	**18.3**	**22.7**	**30.8**	**42.4**	**43.8**	**45.7**

Source: FSM Budget & Economic Management Office

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.

The National Government continues to inject funds for priority infrastructure projects in the States to offset the continued difficulties in accessing Compact infrastructure grants. .

Expenditure by the National Congress on Public Projects has risen from $3.4 million in FY2012 to $11.5 million in FY2017. Public projects are a mix of infrastructure, economic, and social projects at the State and municipal

The other category includes $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.

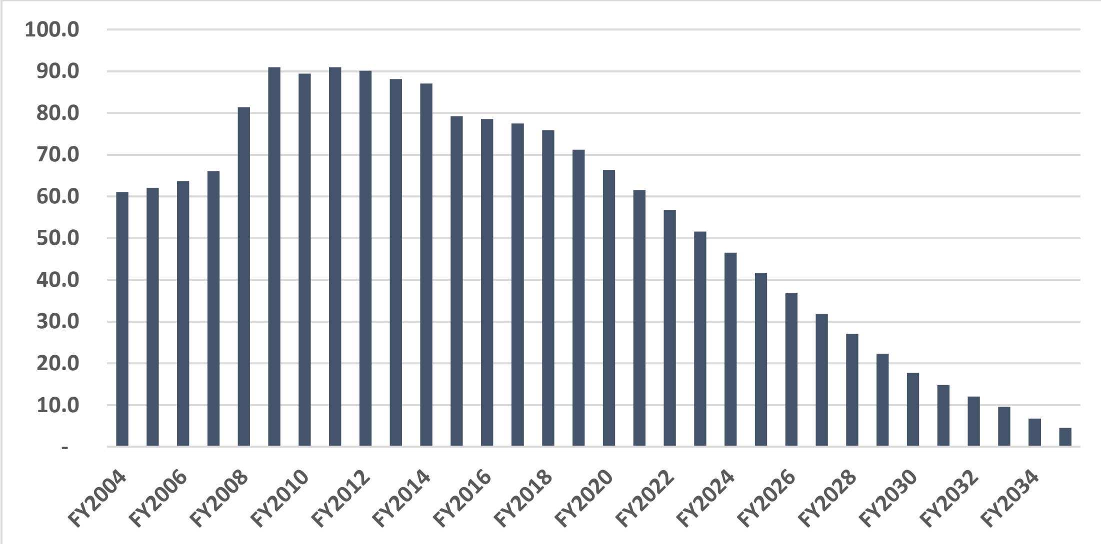
2.4. Government Debt

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 is low by developing country levels at 21.8 percent in FY2017. Debt service ratios also remain very favourable 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 FY2017 of $77.5 million.

The bulk of the public external debt, $53.6 million (69.2 percent), is owed to the Asian Development Bank, $22.7 million (29.3 percent) is owed to the United States Rural Utilities Services,, mainly FSM Telecom debt, and $1.0 million (1.3 percent) is debt owed by the FSM Development Bank to the European Investment Bank.

Figure 2: External Debt ($ million)



Source: FSM Budget & Economic Management Office

By government, the largest share, 42.3 percent, of total external debt is owed by the National Government and component units, 16.5 percent by Pohnpei, 17.2 percent by Chuuk, 18.2 percent by Yap, and 5.7 percent by Kosrae (refer figure 3).

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 $2.5 million in FY2004 to a peak of $7.6 million in FY2013, as some maturing debts required increased principal payments and has since dropped to $6.0 million in FY2017. As a share of domestic revenues, debt service peaked at 10.4 percent in FY2011, and has been declining since to 4.1 percent in FY2017.

2.5. FSM Trust Fund

The FSM Trust Fund was established through Public Law 10-150 in April 1999 and Public Law 13-48, September 2004, gave the President the authority to transfer the appropriated balance of $7,015,000 in the FSM Trust Fund to the Compact Trust Fund as the National Government's contribution to the Fund. This transfer took place on September 30, 2004, reducing the Fund balance to zero.

The current status of the FSM Trust Fund is shown in table 6 below. 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.

Table 6: FSM Trust Fund Balance ($ millions)

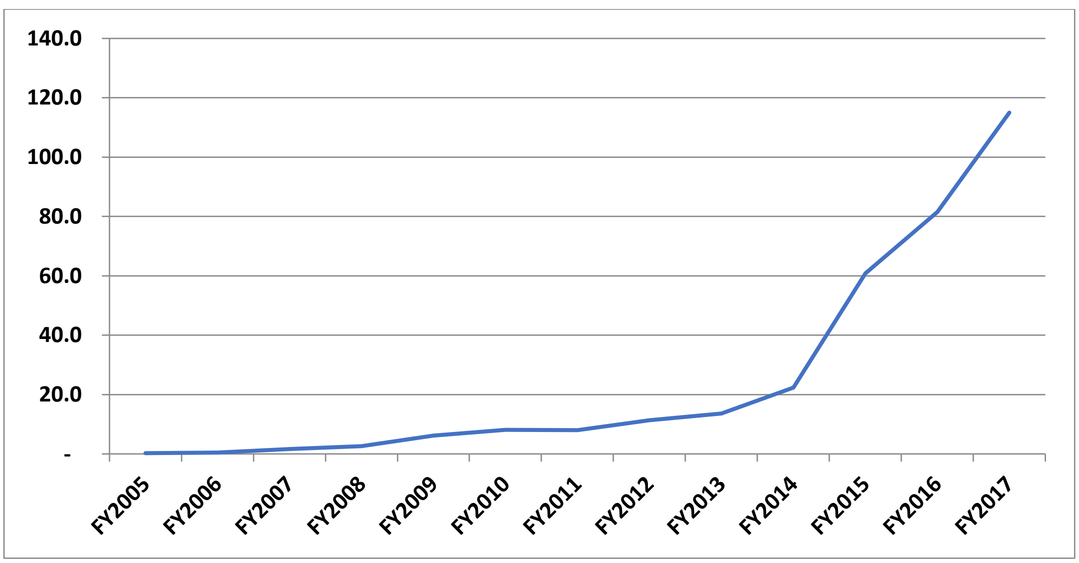
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Net Assets, Beginning	8,2	8.0	11.3	13.6	22.4	60.9	81.5
Appropriations		1.8	1.0	7.0	38.0	15.2	22.0
Investment income:	-0.2	1.5	1.3	1.8	0.4	5.5	11.5
Net Assets, Ending	8.0	11.3	13.6	22.4	60.9	81.5	115.0

Source: FSM Department of Finance & Administration

From FY2016, through Public Law 18-107, the National Congress has committed $5 million of tax revenue annually to the Trust Fund on behalf of the States. The 2023 Action Plan proposes a further $10 million per annum from National Government surpluses be invested into the Trust Fund with a target Fund value of $250 million by FY2023, providing around $10 million in annual contribution to the expected $40 million deficit from FY2024 onwards.

The FY2017 budget appropriation allowed for a further $17 million investment into the Trust Fund and the Trust Fund balance increased to $115.0 million as at September 30, 2017.

Figure 4: FSM Trust Fund Balance ($ million)



Source: FSM Budget & Economic Management Office

2.6. 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)

Item	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Agriculture	0.2	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	1.0
Tourism	0.3	0.2			1.0	1.0	0.0
Energy	6.0	7.5	9.6	13.1	20.4	15.0	20.0
ICT	0.5	1.0	2.0	20.0	35.0	20.0	10.0
Infrastructure	5.0	16.2	5.0	5.0	10.0	15.0	30.0
Environment	0.1	0.5	0.4	0.4	0.4	0.4	0.4
Government	0.6	0.2	0.1	1.2	3.7	7.7	2.0
Total	**14.4**	**27.1**	**18.6**	**40.9**	**71.7**	**60.3**	**63.6**

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 an 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.

2.7. Compact Trust Fund

The summary highlights of the Compact Trust Fund for FY2017 were:

- The Fund's total net position value increased 21.0 percent to $565.0 million in FY2017 from $466.9 million in FY2016. The increase was primarily due to interest, dividend, and realized and unrealized gains from investment of $69.3 million and a contribution from the United States government of $29.5 million.

- The Fund had a weighted annual rate of return of 13.8 percent, for FY2017 following a return of 9.7 percent for FY2016. On a performance basis, net of fees, the Fund gained 13.4 percent.

- Given the significant return, an allocation of $38.8 million was made to the "C" account for FY2017, making the total balance of the account $132.7 million.

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

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Restricted Net Assets, Beginning	198.5	257.4	323.1	380.3	405.1	466.9
United States contributions	23.6	25.0	26.1	27.0	28.3	29.5
Net investment income	35.5	40.9	32.0	-1.3	34.4	69.3
Less Administrative expenses	0.2	0.2	0.9	0.9	0.9	0.7
Restricted Net Assets, Ending	**257.3**	**323.1**	**380.3**	**405.1**	**466.9**	**565.0**

Source: FY2015 CTF Annual Report and Preliminary FY2016 CTF Report

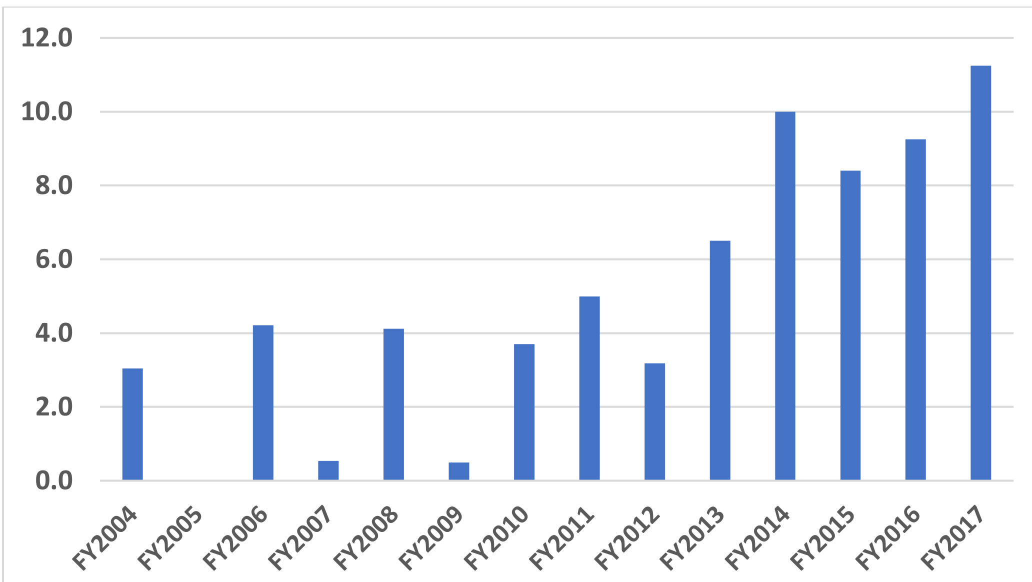
Projections based upon actual performance demonstrate that continuing on its current trajectory, the CTF will have a value of $1.0 billion. Assuming average future returns of 6.9 percent per annum then to maintain the corpus of the Fund post 2023 the FSM could draw down 5 percent or $50 million in 2024. This amount would be sufficient to replace the operational grants for health and education. However, if the markets experience a recession at any time during the period 2023 – 2028 the corpus could be eroded, and this may undermine future returns. A further 5-10 years contributions to the Fund post 2023 by the US would stabilize the early years of withdrawals and by 2028 the Fund would be large enough to finance both operational and capital expenditure for health and education.

2.8. Public Projects

Since the beginning of the Amended Compact $86.1 million has been appropriated on public projects up to the end of FY2017. Of this amount, Chuuk has received $34.4 million, Pohnpei $26.0 million, and Kosrae $13.3 million and Yap $10.4 million.

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 FY2017 there was a further jump in appropriations to $11.3 million.

Figure 4: Public Projects Appropriations ($ million)



Source: FSM Congress Public Laws

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.

As can be seen below, on average 45 percent of public projects are spent on what would be classed as projects that foster economic growth (economic development plus infrastructure). Infrastructure spend is mainly for secondary and rural roads, and village water supply projects.

Table 7: Public Projects Expenditure by Category (percent)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Economic Development	10.3	6.5	11.2	6.5	5.7	11.4
Infrastructure	40.1	27.1	37.0	33.3	45.3	29.6
Social Development	23.0	15.0	23.7	21.6	16.2	31.1
Government	23.2	39.0	20.3	30.1	25.9	18.2
Other	3.5	37.5	7.8	12.5	8.6	9.7
Total	100	100	100	100	100	100

Source: Budget & Economic Management Analysis

Table 8 below gives a breakdown of FY2017 public projects by State and by category. Pohnpei and Yap have the highest portion on infrastructure reflecting road improvement projects.

Table 8: Public Projects by State by Category, FY2017 (percent)

	Chuuk	Kosrae	Pohnpei	Yap	Total
Economic Development	12.1	23.7	3.1	8.1	11.4
Infrastructure	23.9	13.8	45.7	42.1	29.6
Social Development	30.1	42.1	21.5	39.0	31.1
Government	24.7	14.4	14.9	4.5	18.2
Other	9.2	6.1	14.8	6.3	9.7
Total	100	100	100	100	100

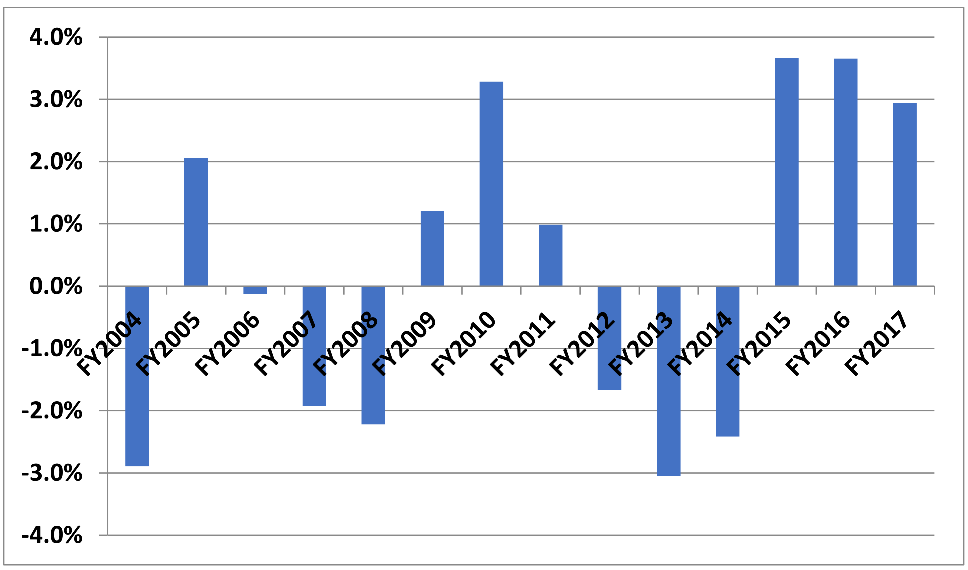
Source: Budget & Economic Management Analysis

3. ECONOMIC UPDATE

3.1. Gross Domestic Product

The FSM economy, in the last three years, has seen consistent growth for the first time since the beginning of the Amended Compact (refer figure 5) with average real GDP growth for the last three years of 3.4 percent per annum. The key challenge for FSM will be to maintain this growth in the long term to offset the looming fiscal challenge of FY2024. This 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 medium term. Since the Action Plan was endorsed in the first quarter of 2015 FSM has seen promising results.

Figure 5: Real GDP Growth Rates



Source: FSM Statistics Office & BEM Estimate

FSM first experienced three years of economic growth from FY2009 – FY2011 stimulated mainly by infrastructure projects linked to the FAA funded airport renovations and the Amended Compact infrastructure grant. 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.

In FY2013 the economy experienced a significant 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 growth rate. Although the construction industry hit an all-time low in FY2015, strong growth in fisheries, trade, and the tourism industries drove the economy upwards.

In FY2016 the economic growth continued with strong 3.7 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, and whole sale and retail trade sectors while the education sector declined as teachers were laid off due to pressure from JEMCO to accelerate the teacher degree policy.

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

	2011	2012	2013	2014	2015	2016	2017
Agriculture	0.9	-0.4	0.6	2.6	1.0	0.0	1.2
Fisheries	1.9	0.2	-8.3	8.8	14.1	2.7	-3.6
Construction	18.1	-2.5	-26.1	-39.7	-12.9	46.4	11.1
Wholesale & Retail Trade	-1.5	-6.2	-3.3	-2.3	4.3	7.1	8.5
Hotels & Restaurants	-1.3	-0.8	-4.0	-4.1	9.2	4.1	8.9
Transport & Communications	-0.8	-0.6	3.4	-10.3	0.2	13.1	0.4
Real Estate, & Business Activities	1.1	-1.2	0.3	1.4	2.4	5.9	3.3
Government	-0.3	-1.1	-1.3	-1.5	0.6	-2.6	1.1
Total GDP	**1.0**	**-1.7**	**-3.0**	**-2.4**	**3.7**	**3.7**	**2.9**

Source: FSM Statistics Office & BEM estimates 2016 & 2017

FY2017 saw economic growth of 2.9 percent with once again the major contributor to growth being the construction sector, on the back of a large FAA project in Chuuk and World Bank projects as multi-lateral infrastructure funding is scaled up significantly. Strong growth was also experienced whole sale and retail trade, and hotels and restaurants, while one domestic fishing company had considerably lower catch volumes resulting in the decline in this industry.

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 its original levels at 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 FY2016, 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. Work has begun on the Tanoa's site which will house the processing factory and a new storage facility is being built on Pohnpei.

Following three years of fisheries growth FY2013 saw a decline 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. Fisheries returned to growth from FY2014 – FY2016 before experiencing a 3.6 percent decline in FY2017.

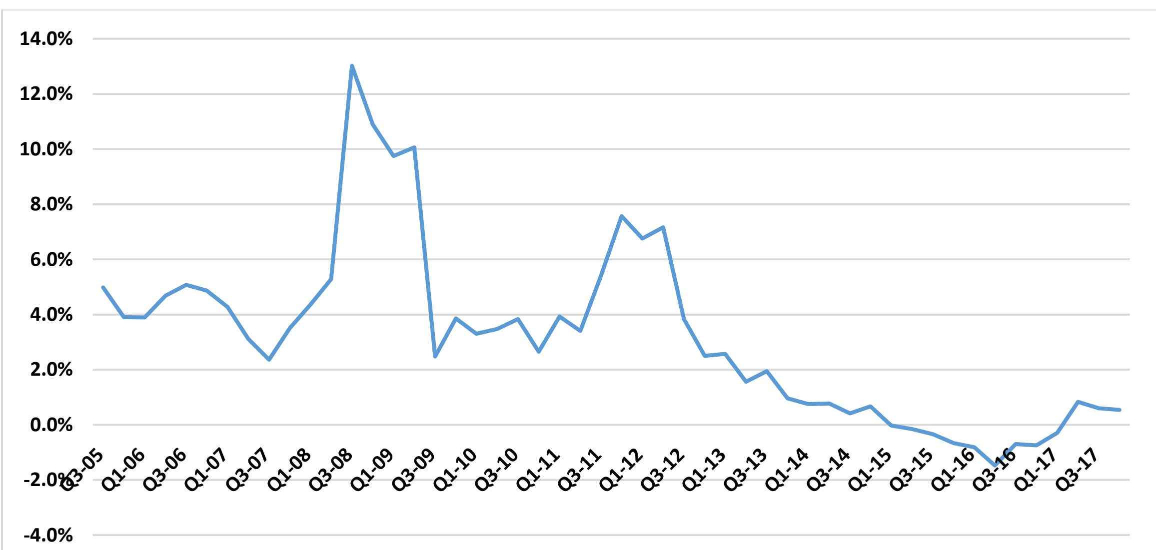
The key issue with oceanic fisheries in FSM is the failure to date to fully realize the potential benefits associated with the exploitation of available resources. While FSM has enjoyed an increasing return from receipt of fisheries access fees, attempts to promote returns through infrastructure investment, trans-shipment, domestic fishing, and value-added processing and vessel servicing have essentially failed to add significant value or return on investment. There have been some encouraging developments in this area in the past 18 months.

Hotels and restaurants, following 4 years of decline, has entered a period of three years of strong growth, averaging 7.4 percent per annum for the latest 3 years. This is a welcome result after six of the last seven years had seen negative growth in the industry. Pohnpei in particular, is increasingly experiencing periods where demand for rooms exceeds supply.

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.

Figure 7: Quarterly CPI (percent change over same period previous year)



Source: FSM Statistics Office

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. The inflation rate turned positive again in FY2017 with a 0.5 percent increase.

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

3.1. Macro-economic Forecasts

The table below provides some fiscal responsibility ratios and medium-term forecasts for the FSM.

Table 3: Fiscal Responsibility Ratios

Item	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Constant price GDP	3.7%	3.7%	2.9%	3.0%	5.0%	3.0%	2.0%
Consumer Price Index	-0.3%	-1.0%	0.5%	2.0%	2.5%	2.0%	2.0%
Commercial loan interest rates	6.8%	7.8%	13.4%	10.0%	9.0%	9.0%	9.0%
Debt to GDP	25.2%	23.8%	21.8%	20.5%	18.0%	16.0%	14.1%

Source: FSM Budget & Economic Management Division

Constant price GDP is forecast to continue to grow from FY2018 onwards in FSM. FY2018 will see continued infrastructure investment associated with FAA and World Bank projects while Yap will initially benefit from construction activity and then the hosting of the micro games. Pohnpei tourism will benefit from a number of large international gatherings during the year including the GCF Structured Dialogue for the Pacific.

From FY2019 onwards all states should see considerable benefits from increased Compact infrastructure activity as issues around grant implementation dating back to 2012 are finally resolved. Significant investment from multi-lateral partner programs will also be showing results from FY2019 onwards as cables come online and energy projects gear up.

The CPI is forecast to take a slight upwards adjustment in FY2019 as it realigns following a couple years of deflation but the current world outlook is relatively stable in the medium term and FSM can expect to follow a similar trend.

Commercial loan interest rates are very high in FSM, despite the fact that there is plenty of spare cash in the system to lend. It is expected that rates will drop into single figures by FY2019 and remain stable thereafter.

The FSM is currently rated as high debt distress by the WB and ADB. Although the FSM currently maintains a prudent debt policy the risk is based around the uncertainty of 2023 at which time grant funding from the US Compact will cease and be replaced by investment income from the Compact Trust Fund. This will result in a significant decline in funds from the US Government in FY2024 to around 60 percent of the FY2023 funding.

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 around $40 million for the past four years. These surpluses are driven by the National Government and the profile is somewhat mixed at the State level.

Consolidated government revenues increased in FY2017 as both non-tax revenue and grants increased. The increase in tax revenue reflects underlying growth in the economy as well as a one-off capital gains tax payment late in the Fiscal year. Non-tax revenue also increased but this was also subject to a late payment of outstanding prior year fishing licence fees. Grant revenue increased significantly in FY2017 as major projects funded by the World Bank increased their implementation schedule and the FAA financed Chuuk runway surfacing project was being completed.

Table 10: Consolidated Government Finances ($million)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	**215.2**	**196.1**	**217.3**	**218.2**	**241.5**	**280.6**
Tax revenue	38.0	38.2	60.8	36.5	40.3	61.3
Non-tax revenue	36.6	46.1	58.8	71.7	74.4	85.6
Grants	140.6	111.7	97.7	110.0	126.8	156.7
Expenditure	**211.5**	**186.7**	**179.0**	**182.0**	**201.0**	**239.8**
Wages & salaries	68.3	69.7	67.2	69.3	71.2	70.7
Other goods and services	69.2	68.3	68.1	82.8	95.7	100.1
Interest, subsidies, & grants	6.7	6.0	8.3	4.1	9.5	7.4
Capital expenditure	67.3	42.7	35.4	13.4	24.7	48.4
Overall fiscal balance	**3.7**	**9.4**	**38.3**	**39.2**	**40.5**	**40.7**

Source: FSM Annual Audit Reports& FY2017 audited

Consolidated government expenditure increased by $31.8 million in FY2017 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 FY2017 with contractual services being the main component to increase as expenses associated with implementation of capital projects rose.

Table 11: Chuuk State Finances ($million)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	**34.3**	**34.1**	**35.6**	**37.8**	**40.1**	**39.2**
Tax revenue	6.7	6.6	6.4	5.6	6.5	7.0
Non-tax revenue	1.6	1.2	2.4	1.2	1.5	1.5
Grants	26.0	26.4	26.8	31.0	32.1	30.7
Expenditure	**33.9**	**33.6**	**39.2**	**37.4**	**37.8**	**39.1**
Wages & salaries	17.2	18.4	22.1	19.1	18.4	18.6
Other goods and services	14.8	13.2	12.6	15.6	16.8	18.0
Interest, subsidies, & grants	0.8	0.5	0.2	0.4	0.8	0.2
Capital expenditure	1.2	1.6	4.3	2.2	1.9	1.9
Overall fiscal balance	**0.4**	**0.5**	**-3.6**	**0.3**	**2.2**	**0.1**

Source: Chuuk Annual Audit Reports

Table 12: Kosrae State Finances ($million)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	**10.8**	**10.8**	**11.1**	**10.8**	**12.3**	**11.9**
Tax revenue	1.9	1.5	1.8	1.4	2.6	1.6
Non-tax revenue	0.6	0.7	0.5	0.3	1.5	0.5
Grants	8.3	8.6	9.3	9.9	9.7	9.8
Expenditure	**10.5**	**10.6**	**11.5**	**12.0**	**13.4**	**12.0**
Wages & salaries	5.3	5.7	5.9	5.9	6.0	6.0
Other goods and services	4.4	4.4	4.2	5.8	6.2	5.5
Interest, subsidies, & grants	0.1	0.1	0.1	0.1	0.8	0.1
Capital expenditure	0.7	0.4	1.3	0.3	0.4	0.4
Overall fiscal balance	**0.3**	**0.2**	**-0.4**	**-0.4**	**-1.1**	**-0.1**

Source: Kosrae Annual Audit Reports

Table 13: Pohnpei State Finances ($million)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	**32.4**	**30.9**	**32.6**	**34.6**	**31.6**	**39.7**
Tax revenue	9.9	9.3	9.1	9.5	9.3	10.9
Non-tax revenue	1.1	1.8	3.0	1.6	1.9	5.5
Grants	21.4	19.8	20.5	23.5	20.4	23.3
Expenditure	**34.0**	**32.3**	**35.7**	**32.6**	**33.0**	**34.6**
Wages & salaries	18.4	18.5	18.5	18.6	18.5	18.2
Other goods and services	11.7	10.4	11.4	12.9	12.7	13.2
Interest, subsidies, & grants	2.9	2.9	3.0	0.1	0.8	0.9
Capital expenditure	1.0	0.5	2.8	1.1	1.0	2.3
Overall fiscal balance	**-1.6**	**-1.4**	**-3.2**	**2.0**	**-1.4**	**5.1**

Source: Pohnpei Annual Audit Reports

Table 14: Yap State Finances ($million)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	**19.6**	**21.9**	**20.0**	**19.8**	**19.8**	**21.4**
Tax revenue	3.5	3.5	3.4	3.2	3.4	4.1
Non-tax revenue	1.9	3.4	1.7	1.2	1.2	2.7
Grants	14.3	15.0	14.9	15.4	15.2	14.4
Expenditure	**22.7**	**23.1**	**23.4**	**20.9**	**20.1**	**23.9**
Wages & salaries	8.9	9.0	9.0	9.0	9.0	9.0
Other goods and services	9.6	11.1	8.7	10.6	9.6	12.8
Interest, subsidies, & grants	0.7	0.5	1.5	0.8	0.9	0.7
Capital expenditure	3.5	2.5	4.2	0.5	0.6	1.4
Overall fiscal balance	**-3.1**	**-1.1**	**-3.4**	**-1.1**	**-0.3**	**-2.5**

Source: Yap Annual Audit Reports

APPENDIX 1: 2023 Action Plan Matrix Update

The following is an update of the 2023 Action Plan Matrix, outlining achievements for FY2017 and policy direction of the new Executive.

	Action	Responsibility	Status
1.	**Infrastructure**		
1.3	Compact Infrastructure Arrears Implementation Plan	PMU & PMO's	Following a further suspension of infrastructure grants in April 2017 the FSM restructured the PMU and the States began an engagement with the Army Corp of Engineers. These actions are still to be finalized and are
1.4	Contracting Manual	TC&I	The PMU have reviewed the DTC&I contracting and procedures manual's and updated and sent to the States for comment. Still to be finalized.
2.	**Tourism**		
2.1	Develop a National Tourism Policy in accord with Sustainable Tourism principles	DR&D	Endorsed by Congress
2.2	Implementation of State Tourism Investment Plans	DR&D & STO's	DR&D are working on implementing projects with State Governments. 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.
2.4	Establish a National Tourism Authority	DR&D	Await Policy Approval
2.5	Conduct an Annual Tourism Conference	DR&D	R&D conference scheduled for 2018
2.6	Develop a branding strategy for FSM tourism	DR&D	
2.7	Strengthen and expand hospitality & tourism management training	DR&D, DOE & COM	
2.8	Develop an accreditation system for hotels, commercial tourism operators & tour guides	DR&D	
	Agriculture		
3.3	Establish a National Agriculture Research Center in partnership with COM-FSM	DR&D/COM-FSM	
3.5	Build Quarantine, treatment and processing facilities	DR&D, States	Financing required

	Action	Responsibility	Status
3.7	Establish feed mills for processing local materials for poultry, pig and aquaculture feeds	DR&D, States,	Financing required
3.9	Increase extension services to equip farmers associations and cooperatives with appropriate technology	DR&D	Unfortunately, Compact are cutting small sector grants so little chance of States being able to implement this Action
	Fishing		
4.1	Develop a comprehensive national overarching plan covering inshore fisheries	DR&D	Underway with WB assistance
4.2	Competent Authority established to facilitate EU fish exports	DHSA/DR&D	Progressing but behind target due to stringent requirements
4.3	Establish National Over-arching Aquaculture Development Framework	DR&D-MRU	Draft circulated for comment
4.5	Undertake training for packaging, storage, and marketing fisheries products		New Pohnpei fish market opened
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
	Energy		
5.1	Increase share of renewable energy sources in total energy production to 30 percent by 2020	DR&D	Projects include the Yap Renewable Energy Project with solar and wind generation financed through a $9.6 million ADB loan. The expansion of the Polanghas solar farm in Pohnpei
5.2	Develop relevant legislation to regulate the energy sector	R&D	Part of WB/ADB technical assistance for IDA18
5.3	Increase private participation in the	R&D	Part of WB/ADB technical assistance for IDA18

	Action	Responsibility	Status
	energy sector to improve efficiency		
5.4	Develop State Energy Action Plans	R&D/States	State Energy Masterplans completed in 2017
	Energy		
6.1	Advance submarine cable to Yap/Chuuk	TC&I	Completed in 2017
6.2	Introduce telecommunication competition	TC&I	Tonga Regulatory Authority being established to oversee de-regulated market
7	**Fiscal Reform**		
7.1	Update Financial Management Act and internal procedures	DoFA	Financial Management Regulations revised in 2017
7.4	Tax Reform implemented	DoFA	**Policy change**
7.8	Revise pay structure and staff grading in the National Government	President's Office	Being reviewed, Bill drafted
8	**Enabling Environment**		
8.3	Develop Legal Framework for Protection of FSM genetic resources and associated traditional knowledge	DoJ/R&D	
8.4	Complete land survey and boundary identification in the States for sites suitable for commercial development	TC&I	Financing required
8.6	Intellectual property rights regime review	R&D	
8.7	Develop Legal Framework for Deep Sea Mining of FSM non-living resources	DoJ/R&D	Draft Bill with Congress

APPENDIX 2: Statistical Tables

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Agriculture, Hunting & Forestry	35.5	35.7	36.6	37.0	37.0	34.4
Fisheries	24.4	22.4	24.3	27.8	28.5	27.5
Manufacturing	0.9	0.8	0.8	0.9	1.1	1.3
Electricity, Gas & Water Supply	4.3	4.4	4.2	4.1	4.3	4.3
Construction	15.2	11.2	6.7	5.9	8.6	9.6
Wholesale & Retail Trade & Repairs	23.8	23.0	22.5	23.5	25.1	27.3
Hotels & Restaurants	3.9	3.8	3.6	4.0	4.1	4.5
Transport, Storage & Communications	13.1	13.6	12.2	12.2	13.8	13.8
Financial Intermediation	6.5	6.6	7.3	8.6	10.7	11.4
Real Estate & Business Activities	29.0	29.1	29.5	30.2	32.0	33.0
Public Administration	26.8	26.8	26.1	27.0	26.9	27.0
Education	31.5	30.6	29.9	29.7	28.8	28.4
Health & Social Work	12.4	12.4	12.7	12.5	12.3	12.7
Other Community & Personal Services	2.9	3.0	3.2	3.3	3.3	3.5
less intermediate FISIM	-3.2	-3.1	-3.1	-3.3	-3.9	-4.2
Plus Net Indirect Taxes	17.9	17.3	15.2	16.9	16.7	18.5
GDP at purchaser's prices	**244.1**	**236.6**	**230.9**	**239.4**	**248.2**	**255.5**

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2017)

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Agriculture, Hunting & Forestry	-0.4%	0.6%	2.6%	1.0%	0.0%	1.2%
Fisheries	0.2%	-8.3%	8.8%	14.1%	2.7%	-3.6%
Manufacturing	-7.9%	-11.8%	-0.7%	10.8%	28.7%	10.7%
Electricity, Gas & Water Supply	5.1%	2.1%	-4.7%	-2.2%	5.9%	0.7%
Construction	-2.5%	-26.1%	-39.7%	-12.9%	46.4%	11.7%
Wholesale & Retail Trade & Repairs	-6.2%	-3.3%	-2.3%	4.3%	7.1%	8.5%
Hotels & Restaurants	-0.8%	-4.0%	-4.1%	9.2%	4.1%	8.9%
Transport, Storage & Communications	-0.6%	3.4%	-10.3%	0.2%	13.1%	0.4%
Financial Intermediation	7.3%	1.4%	10.4%	18.2%	24.4%	7.0%
Real Estate, & Business Activities	-1.2%	0.3%	1.4%	2.4%	5.9%	3.3%
Public Administration	-0.3%	0.0%	-2.7%	3.5%	-0.5%	0.5%
Education	-3.4%	-3.1%	-2.1%	-0.8%	-4.8%	0.7%
Health & Social Work	3.4%	0.5%	2.4%	-1.8%	-1.8%	3.4%
Other Community & Personal Services	-8.0%	1.2%	7.5%	3.3%	1.4%	5.4%
GDP at purchaser's prices	**--1.7%**	**-3.0%**	**-2.4%**	**3.7%**	**3.7%**	**2.9%**

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2017)

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Agriculture, Hunting & Forestry	45.1	46.2	47.9	48.7	48.4	49.5
Fisheries	46.4	36.9	30.8	33.5	38.6	44.9
Manufacturing	1.3	1.2	1.2	1.3	1.7	1.8
Electricity, Gas & Water Supply	4.8	6.2	8.4	9.6	10.3	10.1
Construction	21.2	16.0	9.6	8.3	12.3	13.8
Wholesale & Retail Trade & Repairs	37.1	36.5	35.9	37.4	36.8	38.4
Hotels & Restaurants	5.6	5.5	5.3	5.8	6.0	6.6
Transport, Storage & Communications	17.8	19.0	17.1	17.2	19.4	19.6
Financial Intermediation	9.3	10.4	26.2	11.9	14.7	15.8
Real Estate, & Business Activities	32.4	32.6	33.7	34.7	36.8	38.4
Public Administration	32.2	33.1	32.6	33.7	33.3	34.6
Education	33.8	33.1	33.1	33.7	33.6	34.5
Health & Social Work	14.6	14.8	15.3	15.0	14.5	15.3
Other Community & Personal Services	4.1	4.2	4.8	5.0	5.2	5.6
less intermediate FISIM	-4.6	-4.5	-4.6	-4.8	-5.6	-6.2
Plus Net Indirect Taxes	26.6	26.2	23.1	25.7	25.1	27.9
GDP at purchaser's prices	**326.5**	**316.3**	**318.1**	**315.0**	**326.6**	**352.9**

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2016)

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Agriculture, Hunting & Forestry	0.6%	2.5%	3.7%	1.5%	-0.4%	2.2%
Fisheries	25.5%	-20.5%	-16.6%	8.7%	15.3%	16.2%
Manufacturing	-2.0%	-9.6%	0.0%	10.3%	28.0%	11.3%
Electricity, Gas & Water Supply	43.1%	30.1%	35.2%	14.5%	7.4%	-2.1%
Construction	2.6%	-24.6%	-39.6%	-13.6%	47.2%	12.6%
Wholesale & Retail Trade & Repairs	-0.3%	-1.8%	-1.6%	4.3%	4.8%	6.9%
Hotels & Restaurants	4.7%	-1.5%	-3.4%	8.8%	3.5%	9.5%
Transport, Storage & Communications	4.2%	6.5%	-10.0%	0.8%	12.4%	0.9%
Financial Intermediation	14.9%	11.3%	152.5%	-54.7%	23.7%	7.6%
Real Estate, & Business Activities	0.0%	3.4%	3.4%	2.9%	6.1%	4.4%
Public Administration	1.0%	3.0%	-1.6%	3.5%	-1.4%	3.9%
Education	2.8%	-2.1%	-0.1%	1.9%	-0.3%	2.6%
Health & Social Work	3.4%	1.1%	3.6%	-2.0%	-3.7%	5.7%
Other Community & Personal Services	-6.4%	4.1%	12.3%	4.5%	5.3%	7.0%
GDP at purchaser's prices	**5.0%**	**-3.1%**	**0.6%**	**-1.0%**	**5.3%**	**6.2%**

Source: FSM Statistics Office, Budget & Economic Management estimate (FY2016)

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Food	4.5	2.6	1.3	0.3	-1.6	
Tobacco & Alcohol	10.8	-0.4	1.2	0.6	3.2	
Clothing & Footwear	6.0	0.6	-0.1	1.4	-0.4	
Housing	3.4	1.0	1.5	2.4	0.9	
Fuel, Light & Water	9.2	5.5	-0.2	-0.6	-3.5	
Services	8.9	1.2	0.8	-1.3	-3.8	
Miscellaneous	3.5	2.6	0.5	-0.7	0.7	
Total All Groups	**6.3**	**2.1**	**0.9**	**-0.3**	**-1.0**	**0.5**

Source: FSM Statistics Office

Table 6: Visitor Arrivals by Purpose

	FY2012	FY2013	FY2014	FY2015	FY2016
By purpose					
Tourism & visitors	12,563	12,714	14,811	12,038	10,062
Business & employment	5,770	5,852	5,509	5,672	6,304
Volunteer, religious, etc.	681	663	743	867	787
Seamen & crew	838	1,009	740	606	708
Not specified	2,757	2,527	2,368	2,418	2727
Total	**22,609**	**22,765**	**24,171**	**21,602**	**20,588**

Source: FSM Statistics Office

Table 7: Tourists & Visitor Arrivals by Origin

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

Source: FSM Statistics Office

Table 8: FSM Commercial Banking Survey ($ million)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Total Assets	**228.1**	**237.7**	**270.4**	**263.3**	**313.9**	**333.9**
Total Liquid Assets	163.6	176.2	202.1	204.7	230.8	254.3
Cash & Due from Local banks	4.1	3.8	2.8	5.7	4.0	4.9
Foreign Assets - Due from Banks Abroad	159.5	172.4	199.3	198.9	226.8	249.3
Total Loans	56.8	54.0	60.9	68.9	75.4	71.6
Commercial Loans	31.5	29.4	33.5	37.8	42.6	37.5
Consumer Loans	25.3	24.6	27.4	30.9	32.8	34.1
Other Assets	7.7	7.5	7.4	7.6	7.7	7.9
Total Liabilities & Capital	**228.1**	**237.7**	**270.4**	**281.1**	**313.9**	**333.9**
Total Deposits:	204.3	213.2	243.9	253.0	283.8	298.3
Demand	55.6	45.7	64.3	68.0	79.8	91.7
Savings	120.8	137.2	147.0	153.2	179.5	175.6
Time	27.3	29.6	31.9	30.9	24.4	24.1
Other	0.7	0.8	0.8	0.9	0.2	6.6
Other Liabilities & Capital	23.7	24.5	26.5	28.1	30.1	35.9
Memorandum Items:						
Loan/Deposit Ratio	28	25	25	27	27	24
Commercial Loan Share of Total Loans (%)	57	54	55	55	56	48
Consumer Loan Share of Total Loans (%)	21	46	45	45	44	52
Deposits Annual Rate of Change (%)	22.9	4.3	14.4	3.7	12.2	5.1
Loans Annual Rate of Change (%)	2.9	-4.8	12.8	13.1	-3.9	-5.0
Commercial Loans Annual Rate of Change (%)	-4.5	-6.6	13.9	12.7	8.0	-12.0
Consumer Loans Annual Rate of Change (%)	13.8	2.6	11.4	13.6	-15.9	4.0

Source: FSM Statistics Office

Table 9: Interest rates of domestic money banks

(percent)	FY2012	FY2013	FY2014	FY2014	FY2015	FY2016	FY2017
Deposit rates							
Savings deposits	0.9	0.6	0.5	0.5	0.2	0.2	0.6
CDs	0.4	0.4	0.5	0.5	0.6	0.4	0.3
Time Deposits	0.7	0.8	0.6	0.6	0.6	0.3	0.1
Other Deposits	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Loan rates							
Consumer loans	14.3	15.7	15.8	15.8	15.9	15.7	14.7
Commercial loans	6.4	7.1	6.8	6.8	6.8	7.8	13.4

Source: FSM Statistics Office

Table 10: FSM Balance of Payments ($ million)

	FY2012	FY2013	FY2014	FY2015	FY2016
Current account balance	***-41.2***	***-31.6***	***4.1***	***9.4***	***12.9***
Goods and services balance	*-167.7*	*-170.1*	*-150.5*	*-161.4*	*-151.0*
Goods balance	*-125.7*	*-131.1*	*-117.5*	*-127.9*	*-110.3*
Exports of goods	57.6	47.8	38.2	39.9	49.7
Fish	39.7	28.3	21.2	22.5	33.3
Other	18.0	21.9	17.0	17.4	16.5
Imports of goods f.o.b.	183.2	178.9	155.7	167.7	160.0
Services balance	*--43.0*	*-37.4*	*-33.0*	*-33.5*	*-40.8*
Exports of services	38.3	43.5	45.2	42.9	38.1
Travel	22.3	26.8	28.7	25.3	23.5
Other	15.9	16.6	16.2	17.7	14.6
Imports of services	81.3	81.0	78.0	76.5	78.9
Transport	47.0	44.7	42.1	42.4	44.5
of which: Passenger services	17.2	16.8	16.7	17.4	18.2
of which: Freight and postal services	29.7	27.8	25.4	24.9	26.3
Construction services	7.3	8.1	8.2	8.1	7.7
Other	25.9	26.7	27.7	26.0	26.6
Primary income balance	*16.2*	*27.4*	*25.4*	*59.4*	*54.3*
Receipts	31.4	39.9	52.9	73.2	72.1
Fishing licence fees	26.3	34.9	47.4	65.1	63.2
Other (mainly dividends and interest)	5.1	5.0	5.4	8.1	8.9
Payments	15.2	12.5	27.5	13.8	17.8
Secondary income balance	*110.3*	*111.1*	*129.2*	*111.5*	*109.6*
Receipts	126.7	127.2	144.7	128.1	126.3
Budget grants	81.7	79.7	78.4	78.9	76.8
Off-budget grants	5.2	4.3	3.3	8.9	5.1
College of Micronesia	13.7	12.8	11.5	11.3	12.3
Other (mainly households)	26.2	23.1	23.8	24.8	26.0
Payments (mainly households)	16.4	16.0	15.5	16.6	16.7

Table 10: FSM Balance of Payments ($ million)

	FY2012	FY2013	FY2014	FY2015	FY2016
Capital account balance	***68.3***	***42.2***	***21.2***	***30.9***	***32.2***
Compact capital grants	28.5	16.5	4.9	7.3	7.2
Other	39.8	25.7	16.3	23.6	25.0
Net lending/Borrowing (Curr + Cap)	***27.2***	***10.6***	***25.3***	***40.3***	***45.1***
Financial account balance	***-34.4***	***-15.8***	***-27.4***	***-47.4***	***-26.7***
Direct investment	*1.0*	*0.8*	*0.3*	*0.2*	*0.2*
Portfolio investment (increase in assets: -)	-1.0	-3.6	-7.1	-40.7	3.3
Assets	-0.4	-4.7	-7.0	-42.5	2.9
Liabilities	-0.6	1.1	0	1.8	0.4
Other investment (increase in assets: -)	-34.5	-13.0	-20.6	-6.9	-30.1
Assets (mainly bank deposits)	-35.2	-13.0	-21.6	--4.9	-26.08
Liabilities (public sector loans)	0.7	-0.1	0.9	-1.9	-3.3
Errors and omissions	***-7.3***	***-5.2***	***-2.1***	***-7.1***	***18.4***
Memorandum item					
Exports by FSM incorporated, non-resident fishing vessels	30.7	20.4	21.0	35.4	8.4

Source: FSM Statistics Office

Table 11: FSM external debt (million)

(US$ millions)	FY2012	FY2013	FY2014	FY2015	FY2016
External Debt Total (US$ millions)					
New	3.2	3.1	3.4	2.2	3.5
Amortization	3.3	4.0	4.2	3.8	4.4
Interest	2.1	2.3	2.3	2.2	2.0
Principal balance	87.8	87.1	84.8	81.0	80.3
External debt as % of GDP	27%	28%	28%	26%	25%
Debt service as % domestic revenue	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
(Number of persons)					
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
Males	*9,081*	*903*	*4,644*	*3,359*	*175*
Females	*7,577*	*1,503*	*3,273*	*2,641*	*160*
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
(Rates, % of labour force)					
Labor force participation rate	57.3	67.3	53.2	60.2	53.3
Males	*66.1*	*69.1*	*62.7*	*70.3*	*62.9*
Females	*48.4*	*65.7*	*43.3*	*49.9*	*43.6*
Employment rate	83.8	94.0	75.4	91.0	77.0
Males	*84.5*	*92.6*	*76.3*	*92.4*	*79.3*
Females	*83.0*	*95.4*	*74.0*	*89.0*	*73.7*
Unemployment rate	16.2	6.0	24.6	9.0	23.0
Males	*15.5*	*7.4*	*23.7*	*7.6*	*20.7*
Females	*17.0*	*4.6*	*26.0*	*11.0*	*26.3*

Source: FSM Statistics Office