FSM FY2016 Economic Brief

August, 2017

Recent Economic Performance: FY2016

After experiencing strong growth in FY2015 of 4.9 percent, the FSM economy remained flat in FY2016 and GDP fell by -0.1 percent. The component of FSM GDP resulting from domestic purse seine fishing operations adds considerably to the volatility of year-to-year growth rates. Excluding those domestic purse seine fishing operations, and despite continuing issues with the use of the Compact infrastructure grant, the FSM's domestic economy grew by a respectable 2.3 percent in FY2015 and 2.1 percent in FY2016.

During the first six years of the amended Compact, economic performance was weak in the FSM due to difficult adjustments to the new Compact. However, the following four years saw improvement, in large part resulting from the strong demand for infrastructure. The poor results in the following period (FY2012-FY2014), reflect management issues with the use of the Compact infrastructure grant. With agreement on construction management and procurement procedures in mid-2017, it is hoped that the large backlog of infrastructure funds remaining under the amended Compact will underpin a sustained higher growth trajectory.

1. Employment. After a period of stagnant employment conditions since FY2011, the improved conditions in the FSM's domestic economy led to employment growth of 1.7 percent in FY2016. Private sector employment was the driving force, which grew by 1.9 percent—although job prospects in the public sector also improved. Since the start of the amended Compact private sector employment has remained flat while that in the public sector has declined by 15 percent as the FSM governments have downsized reflecting reductions in the real value of Compact funding. Overall, jobs have fallen by 7 percent since FY2003.

2. Inflation: With the substantial declines in world oil prices continuing to filter through the FSM economy, inflation fell by 1.0 percent compared with the year earlier. Food and fuel prices, the main drivers of inflation in the FSM, declined helping to moderate the cost of living.

3. The Fiscal Outturn: the overall fiscal balance recorded a surplus in FY2016 of $24.1 million, or 7.4 percent of GDP. This was a significant reduction from the FY2015 levels of $32.7 million and 10.4 percent of GDP, despite an increase in domestic (non-grant) revenues. There was a significant expansion in public expenditures, arising from the recent increases in fiscal space, leading to the reduction in the size of the surplus.

However, the fiscal outturn differed significantly between the FSM national and state governments. The national government ran a surplus of $26.6 million, while all states recorded small deficits, amounting to $2.5 million. The FSM state governments, where service delivery occurs, have been constrained by the declining real value of Compact grants, while the national government has benefited from a boom in revenues from fishing fees and, to a lesser extent, the captive insurance market. While national revenues peaked in FY2014, they remain at a sustained high level.

4. Banking. The deposit base in the FSM banking system ($258 million in FY2016) has grown significantly reflecting a sound financial system. However, lending performance to the private sector has been weak and represents only 19 percent of the deposit base, one of the lowest in the region. The resulting surplus liquidity, now over $203 million, is invested offshore in low yielding assets. The low rate of domestic lending reflects the perceived high risk of lending in the FSM and "lack of bankable projects." Overall, the inability of businesses to prepare credible business plans and financial statements, lack of collateral, the limited ability to use land as security, and inadequate provisions to secure transactions have inhibited development of the financial sector. With limited opportunities, commercial banks have preferred to invest their assets offshore in less risky and more secure markets.

5. External Debt. The FSM's external debt, at 26 percent of GDP and 18 percent net of offsetting assets (sinking fund), is one of the lowest in the region. Debt service of 7 percent of national government domestic revenues remains well within the capacity of the national government to service, and does not present any threat of debt stress. A recent review by the FSM public auditor revealed many weaknesses in the FSM's external debt management. As a result, a debt management Bill has been drafted but has yet to be acted upon by the FSM Congress.

While our analysis indicates that the FSM is not at risk of debt stress, the standard IMF Debt Sustainability Analysis (DSA) places the FSM in an at-risk category. The DSA analysis assumes that large fiscal shortfalls projected post-FY2023 would be financed through (hypothetical) concessionary external borrowing. However, the FSM does not have access to the assumed persistent borrowing from donors, especially to maintain operational expenditures. While the IMF's assumptions may be unrealistic, the consequence of the DSA is that the FSM has been accorded "grant only" status for access to resources. Under the current round of World Bank IDA funding, the FSM is thus not eligible for loan finance, but does qualify for up to $25 million grants annually, a very large increase in external aid compared with historical levels.

Policy Issues

1. Domestic Fisheries. After a period in the early 1990s when the FSM invested heavily in the fishing industry, nearly all commercial ventures have either failed or are now under private management. There are two companies with local State government part or full ownership that operate 7 vessels, but under private management. There are a further 3 companies that operate 11 vessels that have been flagged in the FSM. Fishing in the region now effectively comes under the Parties to the Nauru Agreement (PNA); a cartel of 9 pacific island states including PNG, which has led to a remarkable and sustained increase in member country revenues from the sale of vessel days; a fivefold increase for the FSM since the start of the amended Compact. Daily fishing rates average over $10,000 per vessel day and the FSM received over $60 million of revenues in FY2016.

The "domestic" fishing fleet comes under a regional arrangement amongst Pacific nations known as the FSM arrangement, whereby the owners pay a reduced daily rate negotiated between the host nation and the respective operators. The FSM arrangement was established to encourage the development of the local fishing industry. However, it is debatable whether the 11 domestically flagged vessels make substantial incremental contributions to the economy as compared to 3rd country fishing vessels operating without a vessel-day discount. Our estimates indicate that the loss to the FSM economy may be as much as $10 million or 3% of GDP. This is a matter that requires careful evaluation of the benefits of domestic flagging of vessels, where the private owners make substantial gains at the cost of the local economy.

2. Public Financial Management (PFM). With public expenditures and government payroll representing 55 and 23 percent of GDP, respectively, the FSM has one of the largest public sectors in the region, and would benefit significantly from efficiency gains with the expected reductions in resources post-FY2023. In 2016, the World Bank conducted a comprehensive public expenditure analysis recommending a series of ways to improve the efficiency and effectiveness of public service delivery. The analysis looked at budgeting, public expenditure management, inter-government relations between national and state governments, the revenue sharing formula, public investment management, education and health sector issues. Unfortunately, this valuable report remains under review by the FSM and is yet to be published in final form. The potential for further technical work by the Bank in this area is thereby also on hold.

3. Public Expenditure and Financial Accountability (PEFA). In 2010 the FSM conducted a PEFA self-assessment, a scored system of PFM established by the World Bank. After little action in the subsequent years, a renewed self-assessment was conducted in 2016 with the support of PFTAC, which led to development of a "Road Map". The Road Map provides a list of targets for reform against which progress can be monitored. Progress in this area is a standard condition of eligibility for budgetary support from some donors such as the EU. To be of value, the PEFA exercise should be rolled out with sufficient technical support to each of the FSM States, where most of the public expenditures take place.

4. Financial Management Information Systems. FMIS in the FSM is nearing the end of its effective life as the responsible software company is ceasing to support. With donor grant support from the World Bank, a replacement system is being pursued, but implementation will take place over a period of years. Enhanced reporting and chart of accounts should enable improved information for fiscal management and performance budgeting.

5. Public Sector Payroll. With public payroll representing a high proportion of GDP, 22 percent in FY2016, careful monitoring of trends is warranted with anticipation of declining resources post-FY2023. However, the proportion of public sector payroll has declined only slightly (from 24 percent of GDP) since the start of the amended Compact, despite substantial reductions in force in Chuuk and Kosrae. Since the start of the amended Compact in FY2003 through FY2016 the number of public servants has declined by 8 percent. However, the wage bill increased by 12 percent during this period, reflecting a 1.6 percent annual average increase in nominal wage rates. It is surprising that that the FSM has managed to sustain this rate of increase without further fiscal adjustment given the declining economy and the static nature of nominal Compact sector grants.

6. Tax Reform. In the mid-2000s the FSM embarked on a lengthy process of tax reforms, which after many years of donor support and hard work has not yet led to adoption. With a tax/GDP ratio of 13 percent, FSM revenue effort has been weak and presents an opportunity to adjust to future fiscal shocks and to create an efficient tax environment that supports private sector development. Two of the four FSM states (Chuuk and Kosrae) supported the tax reform initiative. Yap State, while expressing no objection to the reforms indicated that the proposal was unconstitutional, and thus declined to participate. There has been some renewed interest of late to reconsider in Pohnpei State, but it is too early to see if this will come to fruition (three supporting

states would be sufficient for introduction of the reforms).

7. FSM Domicile for Japanese Companies. In 2005 the FSM passed corporate tax legislation that enabled the creation of an overseas domicile for Japanese Companies. The law provides for a corporate tax rate of 21 percent, and through differential tax rates, the FSM host environment provides an attractive domicile for Japanese captive insurance companies and other corporations. The benefit of these arrangements has been a steadily growing stream of revenues to the National government reaching $6 million in FY2016. In FY2014 there was an unusually large receipt of $27.6 million, reflecting a large declaration of capital gains by one company. Such large payments are expected periodically.

A particular area of concern has been compliance with the Global Forum on Transparency and Exchange of Information for Tax Purposes. The Global forum is a group of 142 members that are working under guidance of the OECD to create a transparent environment among nations to share information in the tax area, but the FSM is not currently a member. As a result of the phase 1 first round of peer reviews in 2015 the FSM was deemed non-compliant. In June 2016, there was a front-page article in the Nikkei Shimbum reporting that Panama, Micronesia and Indonesia would be blacklisted by the Global Forum. The implications of being placed in the same group as Panama would be damaging to the FSM's reputation, and any inclusion on this list could potentially freeze, or even kill the FSM domicile and Captive Insurance Industry.

As a result of Global forum non-compliance, the FSM enhanced its efforts and passed legislation on transparency and exchange of tax information. In 2016 under a second round of peer reviews the Global Forum undertook a fast track process and countries were designated as compliant, largely compliant, partially compliant, or non-compliant. As a result of the review, the FSM was designated as largely compliant, thus alleviating the fears arising from the Nikkei Shimbum article. FSM needs to continue to work with GF over the next couple of years to maintain compliance and to ultimately sign the two international Conventions.

Additional risks to the industry have resulted from changes in Japanese Corporate law concerning tax haven status. In addition to requiring foreign jurisdictions to have an income tax burden in excess of 20 percent, foreign domiciled companies are required to display substantial business activity rather than paper or cash box type functions. The exact nature of displaying substantial business activity is not yet known, but it will require a physical office and an administrator for each Japanese subsidiary in the FSM. A further risk is the potential for FSM states to offer domicile to foreign entities. At present the industry resides in Pohnpei although corporate taxes generated from the FSM domicile are not treated as subject to FSM revenue sharing, and thus only generate revenue for the national government. However, should this be contested, and if states were to share in the arrangements, it could generate inter-state competition and loss of revenue.

8. Social Security Sustainability. As of January 2014, an actuarial assessment of the FSM Social Security Fund indicated an unfunded liability of $259 million compared with assets of $49 million, an unfunded ratio of 84 percent similar to that in the RMI. However, unlike the RMI, the fund is not under imminent threat of collapse. Contributions to the fund in FY2016 were 92 percent of benefit payments and after investment earnings and a $1 million transfer from the national government were in surplus. However, long-run projections indicate benefits rising faster than contributions. Reforms to the fund will likely be needed. While the contribution from the national government is welcome, in the long-run the fund should achieve self-sufficiency without the need for government intervention.

9. SOE performance. The FSM has managed to operate the SOE sector without the need for large subsidies. However, weak pricing policies in the utility area have led to inefficient operations and lack of replacement of capital. While the supply of electricity in Chuuk is now 24 hours with an

improved sewer and water treatment system, Pohnpei suffers from load shedding and central components of its sewer system need rehabilitation. In Yap, the utility charges the government twice the normal price to maintain a positive cash flow. Moves are under way at Pohnpei Utility Corporation to reform the ailing utilities along the lines of the Chuuk initiative through a jointly financed reform program with the World Bank, Asian Development Bank, and U.S. (Compact) funding. Current indications are that the key parties in Pohnpei state are prepared to endorse and fully implement the comprehensive reforms and practices that resulted in success in Chuuk state.

10. World Bank ICT Reforms. The World Bank is supporting ICT reform, and providing necessary conditions are met, the FSM will be the beneficiary of $47.5 million to lay a fiber connection to Chuuk and Yap. The reforms required a new law permitting competition in the ICT market, the establishment of an independent regulator, and creation of an Open Access Entity (OAE) to own and operate the new fiber asset. These conditions have been met. However, the project has been fraught with issues and a lack of agreement on the terms of access or transfer of the existing HANTRU cable (providing access between Pohnpei and Guam) to the OAE. The National government has passed laws specifying that FSM Telecom would provide access to the OAE on the HANTRU cable free of charge as required by the World Bank conditions. However, the changes in law were not deemed sufficient by the World Bank, and the project is at high risk. The new cable connection to Yap is due to be laid in August, but without compliance with the conditions the release of funds will be withheld.

11. FSM PetroCorp and Coconut Products for Export. The FSM PetroCorp was created in 2007 to take over the operations of the departing supplier, Mobil. The transfer proceeded well and the PetroCorp has achieved an annual return on capital of 10 percent since its commencement and has now opened operations in Guam and Nauru. It is one of the rare cases of a well-run SOE. However, recent plans to open a coconut processing facility in Tonoas, Chuuk threaten to blemish the good record. The project has been well designed and researched. However, it falls more under the domain of venture capital and it must be questioned whether high risk projects are an appropriate use of public funds. For an industry that in the Pacific has been in decline for many years, with labor in short-supply in similar low wage activities, and a declining raw material supply (aging coconut trees), the odds are not favorable. While technology has changed with potential for processing the whole product and production of virgin oil, the market is dominated by the Philippines, which provides 70 percent of world supply at low cost.

12. Infrastructure and the Economy. Use of the infrastructure grants was slow in implementation at the start of the amended Compact due to capacity constraints to implement the projects. However, by FY2012 implementation issues had been overcome and expenditures exceeded the grant allocation of $22 million by $5 million. However, improved performance was short-lived and a series of issues plagued implementation with utilization falling to $7 million in FY2016. Out of a total allocation of $275 million since the start of the amended Compact, the FSM had only been able to use $119 million, leaving $157 million of unspent resources. Project management issues, lack of clear priorities, disputes between and national and state governments set back the process. By 2016 an Infrastructure Development Plan (IDP) was prepared to set priorities, but project management issues remained. After further delays, in June of 2017 a resolution between the U.S. and the FSM was reached to remove the suspension of the grant, the contractor managing the PMU was terminated, to be replaced for an interim period by the U.S. Army Corps of Engineers.

The failure to implement the infrastructure grant has been very costly to the FSM in lost opportunities and growth. GDP shrunk in the three years FY2013-FY2015 and the economy contracted by 7 percent. While much of the loss was due to the decline in the use of infrastructure grant funding, the earlier completion of large FAA airport improvement projects also depressed the economy. The large reservoir of unspent resources presents the opportunity to re-invigorate the FSM economy in the remaining years of the amended Compact. However, care should be taken to ensure the resources are spent evenly to prevent the boom and bust cycle that has afflicted the FSM recently.

13. Long-term Fiscal Planning at the National Government. The boom in national government revenues derived principally from fishing fees but also from the captive insurance market has led to the generation of a large fiscal surplus at the national government. In FY2015 national government domestic revenues were close to $90 million, a level sustained in FY2016. In FY2015 a fiscal surplus of $35 million or 11.1 percent of GDP was achieved, which fell to $27 million or 8 percent of GDP in FY2016. This erosion, despite sustained revenues, was due to increasing contractual, professional, transfers to other government agencies, and electoral district project expenditures. The latter had risen to $11 million a level not seen since the 1990s. In FY2016, the national government allocated $10 million of the surplus to the FSM Trust Fund and $6.3 million on behalf of the state governments. Using FY2015 as the base the national government has been running a structural surplus (including electoral district project expenditures and the expansion in contractual services) of $40 million or more. While the contributions to the FSM Trust Fund are welcome, there is considerable scope to increase the level of contribution on the order of $30 million per annum, and reduce the pending massive fiscal shortfall projected for the state governments of the FSM as early as FY2024 and thereafter.

14. Sovereign Wealth Management. In 2012, the then President of the FSM initiated an exercise to plan for transition to the post amended Compact era after FY2023, known as the 2023 Action Plan. The Plan, while focusing on the post-2023 era also addressed the use of the emerging national government structural fiscal surplus, and proposed allocating $10 million to the CTF. However, with a new administration since March 2015, the 2023 planning effort and issue of sovereign wealth management is no longer actively on the policy agenda. Rather, in an attempt to address the growing disparities between national and state government revenues, the allocation of surplus resources has dissolved into an ad hoc process of funding priority state infrastructure projects, state sub accounts in the FSM trust fund, and ballooning legislative projects. Clearly, there is a need for a rational approach to the emergence of significant sovereign resources. The former 2023 Plan established a sound framework for resource allocation, and the FSM would be well advised to revisit the approach, if not the precise content, to ensure the best use of the funds to address CTF shortfalls.

15. Private Sector Development. The World Bank's "Doing Business" survey paints a discouraging view of the environment for private sector development. Out of 190 countries the FSM currently scores 151, 79% down the list indicating that there is much room for improvement. The FSM fares worse than Palau and the RMI, which are ranked 131st and 143rd, respectively, but is substantially below most of the South Pacific nations. Tonga is ranked 85th, Samoa 89th, Vanuatu 93rd, Fiji 97th, and Papua New Guinea 119th. Overall, the FSM's scores are generally weak. Registering property, protecting investors, and enforcing contracts all score between 183-187 some of the worst scores of all countries surveyed by the World Bank. Slightly higher up the list the FSM registers its best score with 57 for trading across borders and 75 for obtaining credit.

16. Foreign Direct Investment. The existing Foreign Direct Investment (FDI) regime in the FSM, established as part of a set of reforms sponsored by the ADB in the late 90s, provides for a two-part system that provides jurisdiction for investments that are of a national character to the national government and all others to the state governments. However, the system is cumbersome and does not provide a simple licensing process. In 2016 further reforms were introduced into the FSM Congress to modify the 1997 FDI Act bringing all foreign investment under the jurisdiction of the national government. The reforms effectively claim that all foreign investment is by its very nature of a national character. While the current reforms would streamline the FDI process, and should be supported, they have so far failed to pass through Congressional committee and become law. Overcoming reluctance to conceded jurisdiction in an area formerly under state control will take considerable effort.

17. The FSM Compact Trust Fund. The FSM CTF experienced market gains during FY2015 of 9.5 percent; together with a scheduled contribution from the U.S. of $28.3 million at the outset of the fiscal year, those gains enabled the fund to grow in size by $69.6 million to an end of FY2016 balance of $466.9 million. During the period of investment since the outset of FY2007, the annualized rate of return has been 5.91percent.

The fund would need to grow at 14.9 percent annually from FY2017-2023 to achieve a level sufficient to provide a smooth transition to CTF distributions from FY2024 onward at the real value of FY2023 sector grants ($81 million). Such an unlikely result is all the more unlikely as this "simple" sustainability estimate relies upon performance during the distribution period at a 5.0 percent real rate of return and does not allow for market volatility. In the presence of market volatility, the Graduate School has modelled outcomes under the CTF distribution rules. The model results for the FSM indicate a high probability of periodic fiscal shocks, including years in which zero dollars are legally available for distribution.

No distribution rules would simultaneously allow for (i) protecting the real value of the CTF corpus, (ii) ensuring distributions at or near the real value of the FY2023 grants, and (iii) avoiding year-to-year volatility of distributions. However, recent independent studies have shown that technical improvements to the existing rules could provide objectively better results at no extra cost. A key finding is that once market volatility is accounted for, the size of the CTF would need to be approximately 1.5 times larger than estimated using a simple fixed rate of return with no market volatility. Making substantial improvements to the terms of the CTF Agreement would require mutual agreement by the original parties, which for the U.S. entails both executive and congressional approval.

18. Statistical Issues. In former Gradual School reviews of the FSM, statistical availability has been accorded a high score. Since the start of the amended Compact the FSM has developed a full range of statistics on which to monitor economic performance. However, in a recent IMF Article IV staff review the Fund indicated that "data provision has serious shortcomings that significantly hamper surveillance". While the ranking of statistical adequacy in the IMF reviews is not transparent, it appears timing and frequency are the major areas of concern. The FSM set of economic statistics is prepared 11 months after the end of the fiscal year. No quarterly estimates are prepared, which are now becoming standard. Coverage does not seem to be an issue. The annual statistical update in the FSM is timed to coincide with the release of the government audits and in time for the JEMCO meeting. More frequent estimates, such as quarterly, would not seem essential in an economy such as the FSM where trends are slow moving. However, availability of provisional estimates earlier in the year to coincide with budget preparation would be a priority.

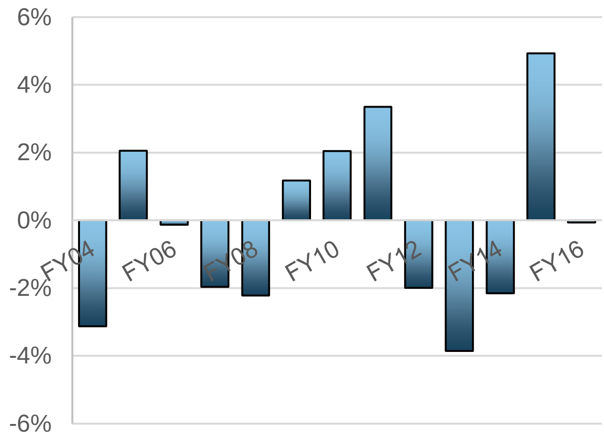
Of more concern has been the recent action by the FSM Department of Finance to cease sharing tax information with the national Statistics Office despite the existence of an MOU prepared in 2004 providing a framework to support collaboration and to protect confidentiality. It appears a favorable result can be achieved with tax officials taking on an added role in industry classification and quality control. Technical assistance in this transition would likely be timely and would avoid the loss of reporting of national accounts (GDP) and balance of payments estimates at industry level. It is hoped that a solution can be agreed so that the FSM does not fall behind in an area where much progress has been achieved.

Economic Outlook during the remainder of the Amended Compact and Beyond:

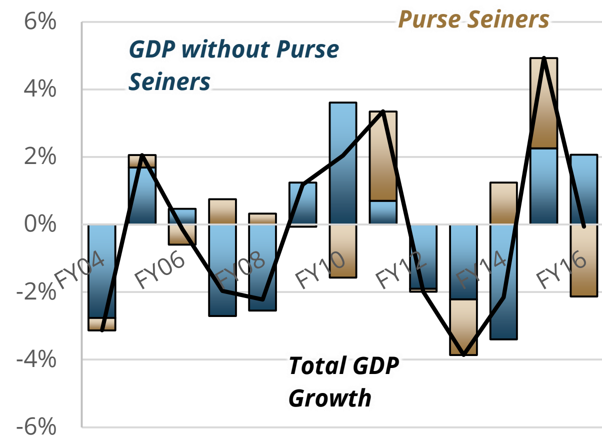
Projections of the FSM economy during the remainder of the amended Compact suggest an improved performance compared with the first 13 years with a projected average growth of 1 percent annually. Expansion in the fishing sector and lifting of the suspension in the use of the infrastructure grant should see the recent improvement in economic performance continue over the next few years. Implementation of the final phase of the state level Long-Term Fiscal Frameworks (LTFF), will depress output in FY2020. Growth in the final years of the amended Compact is projected to be minimal. Fiscal balance is projected to be maintained at the state level and the national government should continue to run large structural surpluses.

Post FY2023, the projected $30 million sustainable drawdown from the CTF, a massive reduction from the current $80 million annual grant allocations, will require significant support from the national government. The national government is projected be able to meet the operational needs of the state governments, through transfer of the majority of the projected structural fiscal surplus, and sustainable drawdown from the FSM Trust Fund. However, the assumptions do not include national government support for infrastructure, and while public service delivery can be maintained, construction output will fall. The simulations suggest the FSM should be able to maintain fiscal stability without the need for external assistance. However, the revenue projections assume that fishing fee receipts, captive insurance tax collections, and market returns on investments perform at historical rates. Any one of these assumptions is subject to varying degrees of risk and suggest the outcome is uncertain.

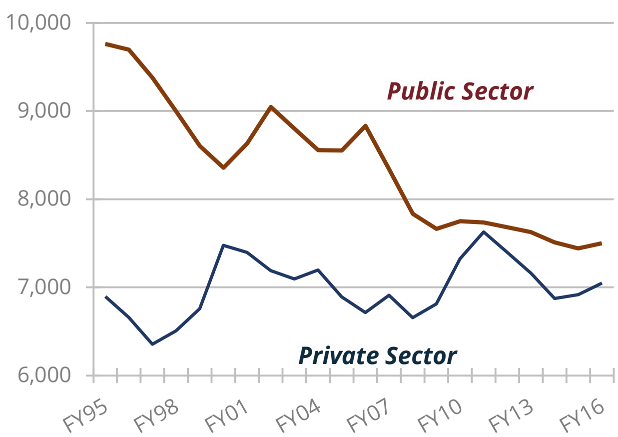
The FSM experienced volatile ***GDP Growth*** *during the Amended Compact Period.*



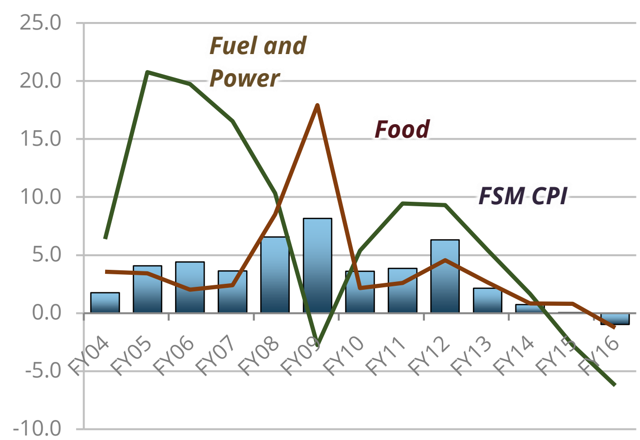
Contributions to GDP: off shore purse seine fisheries add significantly to ***volatility in economic performance****.*



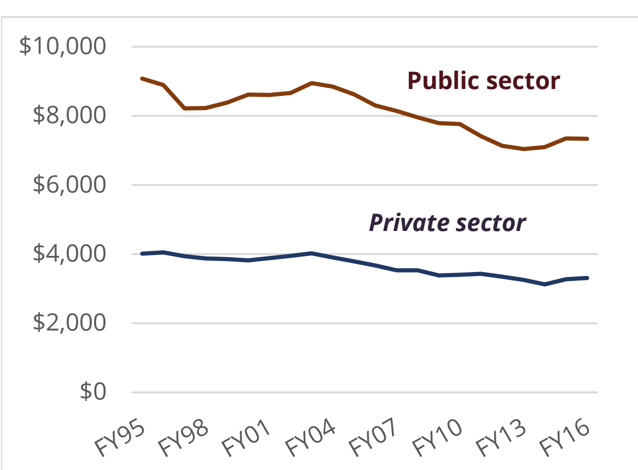
Large decline in ***Public Sector Employment.***



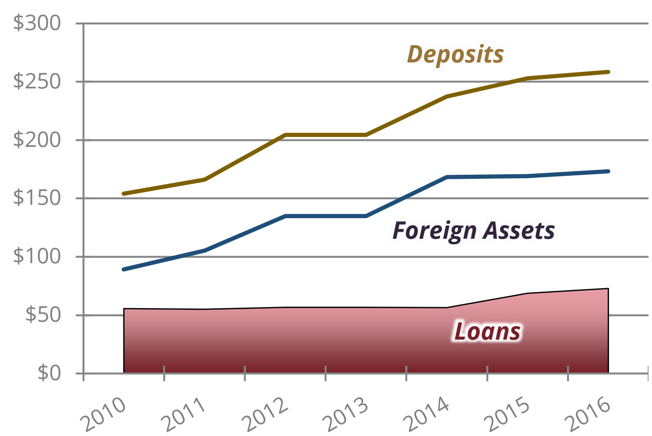
Inflation *turns negative in FY15 and FY16*



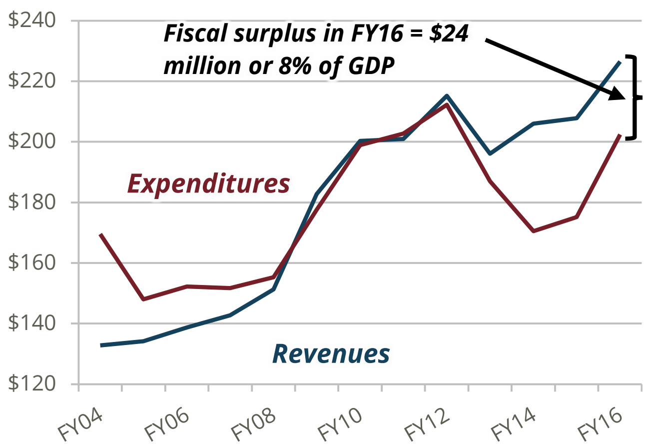
Real Wages *decline; public/private sector wage differential remains large.*



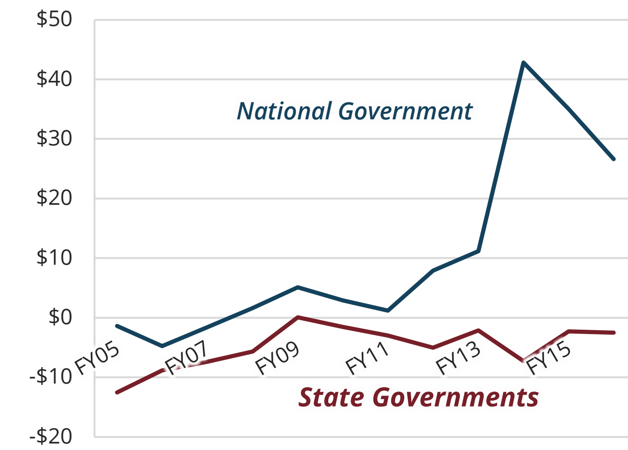
Commercial bank lending *remains weak; funds invested offshore*



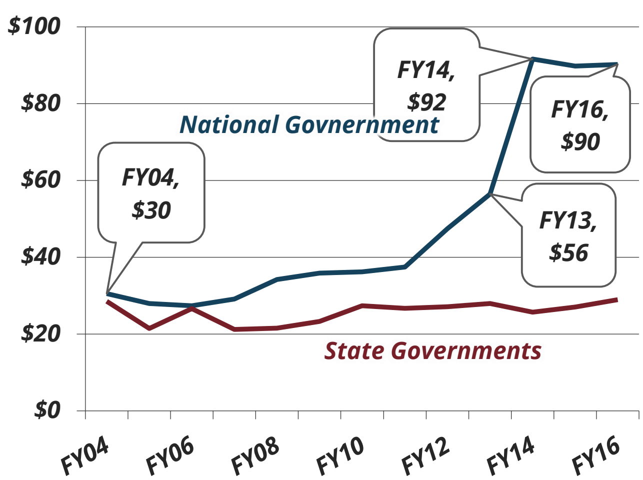
*FSM generates **large fiscal surpluses** after FY14 with rising fishing Fee revenues*



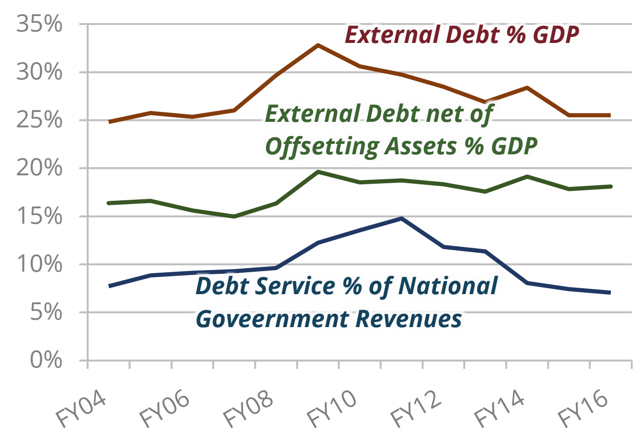
*National and State **fiscal balance***



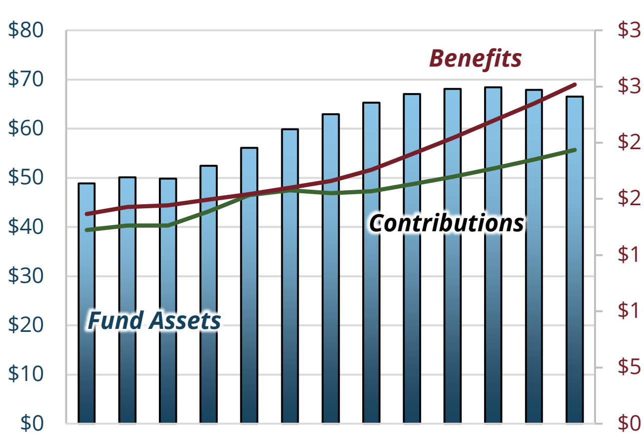
*State government domestic revenues stagnate **as National Revenues Boom***



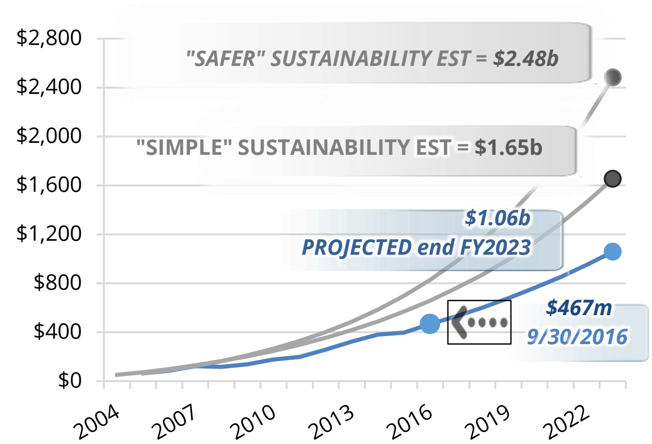
***External Debt** low as % of GDP and sustainable*



***FSM Social Security** funds sustainable but benefits projected to outstrip contributions in the long-term*



***Trust Fund** unlikely to achieve a size sufficient to replace FY2023 sector grant level*



FSM summary economic indicators, FY2010-FY2016

	FY2016		Population	GDP per capita
GDP current prices, $ million	*329.9*	Chuuk	46,688	*1,994*
Population	102,453	Kosrae	6,227	*3,376*
GDP per capita $	*3,220*	Pohnpei	37,893	*4,313*
GNI per capita $	*3,715*	Yap	11,645	*4,495*
GNDI per capita $	*4,785*			

FY2016 GDP estimates are "Interim" until administrative data on business gross revenues becomes available.

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
National accounts							
GDP, at constant prices $ million, FY2004 prices	242.2	250.3	245.3	235.9	230.8	242.2	*242.0*
GDP, % growth	2.0	3.3	-2.0	-3.9	-2.2	4.9	*-0.1*
GDP, % growth (excluding purse seine fishing boats)	3.6	0.7	-1.9	-2.2	-3.4	2.3	*2.1*
FY2016 GDP estimates are "Interim" until administrative data on business gross revenues becomes available.							
Prices (annual percent change)							
Consumer price index	3.6	3.9	6.3	2.1	0.7	0.0	-1.0
CPI Domestic items	5.7	5.1	9.5	3.6	1.3	0.3	-0.1
CPI Imported items	3.0	3.5	5.3	1.7	0.5	0.0	-1.3
Employment and Wages							
Number of employees	15,702	16,018	15,731	15,466	15,088	15,085	15,339
% change	4.1	2.0	-1.8	-1.7	-2.4	0.0	1.7
Private sedctor	7,326	7,630	7,398	7,160	6,872	6,916	7,046
% change	7.5	4.2	-3.0	-3.2	-4.0	0.6	1.9
Public sector	8,309	8,288	8,229	8,185	8,071	8,007	8,078
% change	1.3	-0.3	-0.7	-0.5	-1.4	-0.8	0.9
Average annual wage	7,704	7,715	7,966	8,031	8,100	8,377	8,299
% change	2.5	0.1	3.2	0.8	0.9	3.4	-0.9
Private sector	4,919	5,120	5,304	5,275	5,134	5,353	5,376
% change	4.2	4.1	3.6	-0.5	-2.7	4.3	0.4
Public sector	10,138	10,072	10,320	10,404	10,563	10,933	10,816
% change	3.2	-0.7	2.5	0.8	1.5	3.5	-1.1
Average annual real wage (less inflation)	5,728	5,523	5,365	5,296	5,303	5,482	5,067
% change	-1.1	-3.6	-2.9	-1.3	0.1	3.4	-7.6
Government Finance Statistics, $ millions							
Revenue	200.3	201.0	215.2	196.1	206.0	207.9	226.6
Tax revenue	35.6	37.3	38.0	38.2	60.3	39.0	42.7
Grants	136.7	136.8	140.6	111.7	88.8	91.1	107.5
Other revenue	28.0	26.8	36.6	46.1	57.0	77.8	76.4
Expense	-135.8	-135.7	-142.2	-141.7	-147.9	-153.4	-163.3
Compensation of Employees	-68.0	-68.0	-67.7	-69.1	-69.8	-69.8	-69.8
Use of goods and services	-54.5	-52.4	-58.8	-53.7	-62.3	-67.8	-75.6
Other expense	-13.3	-15.4	-15.7	-18.9	-15.8	-15.8	-17.9
Net Worth and its Changes	-62.4	-64.6	-71.9	-54.4	-58.1	-54.5	-63.2
Nonfinancial assets	-63.2	-67.1	-70.1	-45.3	-22.6	-21.7	-39.1
Financial assets	2.3	-4.1	-8.8	-3.2	-30.7	-42.2	-31.5
Financial liabilities	-1.5	6.6	6.9	-5.9	-4.8	9.5	7.4
Overall fiscal balance	1.4	-1.8	2.9	9.1	35.5	32.7	24.1
(In percent of GDP)							
Revenue	82.7	80.3	87.7	83.1	89.3	85.8	93.6
Taxes	14.7	14.9	15.5	16.2	26.1	16.1	17.7
Domestic revenues	26.2	25.6	30.4	35.8	50.8	48.2	49.2
Grants	56.5	54.7	57.3	47.4	38.5	37.6	44.4
Expense	-56.1	-54.2	-58.0	-60.1	-64.1	-63.3	-67.5
Compensation of Employees	-28.1	-27.2	-27.6	-29.3	-30.2	-28.8	-28.9
Use of goods and services	-22.5	-20.9	-24.0	-22.7	-27.0	-28.0	-31.3
Non Financial Assets	-26.1	-26.8	-28.6	-19.2	-9.8	-9.0	-16.2
Overall fiscal balance	0.6	-0.7	1.2	3.9	15.4	13.5	10.0

FSM summary economic indicators, FY2010-FY2016, continued							
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Money and Banking ($ million)							
Assets	178.4	190.1	228.1	237.7	270.4	281.1	263.3
Foreign assets	111.8	124.3	159.5	172.4	199.3	198.9	173.6
Loans	55.7	55.2	56.8	54.0	60.9	68.9	78.4
Commercial loans	34.0	33.0	31.5	29.4	33.5	37.8	41.3
Consumer loans	21.7	22.2	25.3	24.6	27.4	31.1	37.2
Other assets	10.9	10.6	11.8	11.3	10.2	13.3	11.3
Liabilities	178.4	190.1	228.1	237.7	270.4	281.1	263.3
Deposits	154.1	166.2	204.3	213.2	243.9	253.0	234.2
Capital	24.3	23.8	23.7	24.5	26.5	28.1	29.1
Loans to deposit ratio, %	19.3	-0.9	2.9	-4.8	12.7	13.1	27.6
Balance of Payments $ million							
Trade balance	-128.4	-134.0	-125.4	-128.8	-117.5	-127.9	-110.3
Service balance	-42.1	-44.7	-43.4	-38.2	-33.0	-33.5	-40.8
Primary Income balance	10.6	9.6	15.4	25.5	25.4	56.7	50.7
Secondary Income balance	113.4	109.8	109.0	108.7	129.2	111.5	109.6
Current Account, balance	-46.5	-59.3	-44.5	-32.8	4.1	6.8	9.3
Capital Account, balance	64.2	62.0	68.3	42.2	21.2	30.9	32.2
Financial account balance	17.7	2.7	23.8	9.4	25.3	37.6	41.5
International Investment position (IIP), $ million							
Total stocks, net	182.6	185.1	225.3	263.8	302.7	338.5	383.8
Direct investment, net	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portfolio investment, net	153.7	146.3	151.3	174.3	192.1	213.0	228.0
Other investment, net	26.7	36.6	71.9	85.7	106.8	120.0	150.0
memo: COFA Trust Fund	177.2	198.5	257.3	323.1	380.9	397.3	467.1
External Debt, $ million							
Gross External Debt Total	85.6	88.2	88.4	87.7	89.7	81.1	80.4
External Debt Net of Offsetting Assets	51.9	55.6	56.9	57.3	60.5	56.7	57.1
Gross External debt as % of GDP	30.6	29.7	28.5	26.9	28.4	25.5	25.5
Net External debt as % of GDP	18.5	18.7	18.3	17.6	19.1	17.8	18.1
Debt Service	4.9	5.5	5.6	6.4	7.4	6.7	6.4
Debt service as % of national goverenment revenues	13.5	14.8	11.8	11.3	8.1	7.4	7.1