

ECONOMIC & FISCAL UPDATE

2022



FSM Department of Finance and Administration
Budget & Economic Management Division
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CURRENCY EQUIVALENTS

Currency Unit – FSM uses the United States Dollar

ABBREVIATIONS

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

The economy had performed well prior to the COVID-19 outbreak. Real GDP is estimated to increase by 1.0 percent in FY2019, driven by strong rebound in construction activity, particularly in public investment projects linking to donor projects.

The containment measures have strained the economy. On the health front, the government has been successful on the vaccination rollout, reaching herd immunity and minimal hospitalization during the initial outbreak. However, the economic impact of Covid-19 pandemic has been severe, as elsewhere. Domestic services such as hospitality sector, transportation, and construction have contracted sharply. Planned large investment projects have been stalled due to limited movement of personnel and materials into the country. As a result, DoFA estimated that GDP declined by 3.2 percent in FY2020 and further contracted by 1.2 percent in FY2021.

While the economy is expected to continue to decline in FY2022 with phased out stimulus programs, a rebound in economic activity is projected in FY2023, benefiting from the border reopening and resumption of key activities including construction. While the outlook is still subject to heightened uncertainty, successful recovery and opening of our borders already have significant support for the economy.

Inflation remains subdued in FY2019 due to low energy and food prices. In FY2020 the annual inflation rate is -0.3% a decrease of 1.6 percentage points compared to the same quarter of the previous year as result of a decrease in prices in the transport division. In FY2021 there was an increase of 5.7 percentage points as a result of increase price of food, fuel and the transport services. The near term outlook is 4 percent growth per annum in line with projections for the United States.

1.2. Fiscal Setting Overview

Significant domestic revenue in recent years has eased the pressure on the fiscal position of the National Government, with the budget in surplus¹ annually since Fiscal Year (FY) 2008. The States on the other hand continue to experience mixed results with only Pohnpei having a surplus in FY2018 (\$1.9 million) as a result of increase in compliance associated with improved collections methods through technical assistance and . An overall fiscal surplus (consolidated 5 governments) of \$90.2 million was recorded in FY2018 and a further surplus of \$70.4 million in FY2019. In FY2020 there is also a surplus of 21.1 million followed by 14.8 million in FY2021. There is uncertainty around the near term fiscal outlook due to ongoing negotiations of the Compact Agreements with the United States.

The last 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 fourth time with NORMA selling significant amount of fishing days. Tax benefited from a one-off capital gains deposit of \$77 million in September 2018 and 48 million in September 2019, lifting total taxes to breach above 100 million in two consecutive years, the highest level ever. Domestic tax revenue

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

reached its highest level since 2004 with an average of 35.3 percent of GDP in FY2021, mainly from the one off corporate tax payment. The medium-term outlook for fishing fees is a steady \$50 million per year. 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 (WB) projects in the Energy, Fisheries and Telecommunications sector. Grants reached its highest peak at \$74.2million in FY2017, slightly higher than FY2012 with an amount of \$71.5 million. The external grants declines to \$62.5 million in FY2018 and increase to \$70.0 million in FY2019. In FY2020 external grant declines to \$63.0 million followed by an increase of 69million in FY2021. 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 still slow due to lack of capacity as a result the total estimated allocation of over \$300.0 million since the start of the amended compact , FSM was only able to use approximately around \$130.0 million leaving around \$250.0 million(61 percent of GDP) of unspent infrastructure funds.

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 current expenditures has declined from a peak of 49.7 percent in FY2010 to 41.2 percent in FY2021. Expenditure on goods and services has shown little growth from FY2004 to FY2014 with an average of 20.1 percentage of GDP. However, in the last 6 years expenditure on contractual services has grown with an average of 30.0 percent in line with the increased drawdown of World Bank and ADB funds and other donor's to support project implementation.

The National Government, through Congress, continues to support the States through revenue sharing initiatives, increasing from \$49.2 million in FY2015 to \$122.4 million in FY2021. FY2021 includes infrastructure allocations to the States of \$12.2 million, and public projects at their highest level of \$9.8 million, which comprise of a mix of infrastructure, economic, and social projects.

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 \$370 million at the end of FY2021. The impact of covid-19 and war in Ukraine has significant impact on the international market as a result, the FSM trust fund is already experiencing a negative returns during this reporting period.

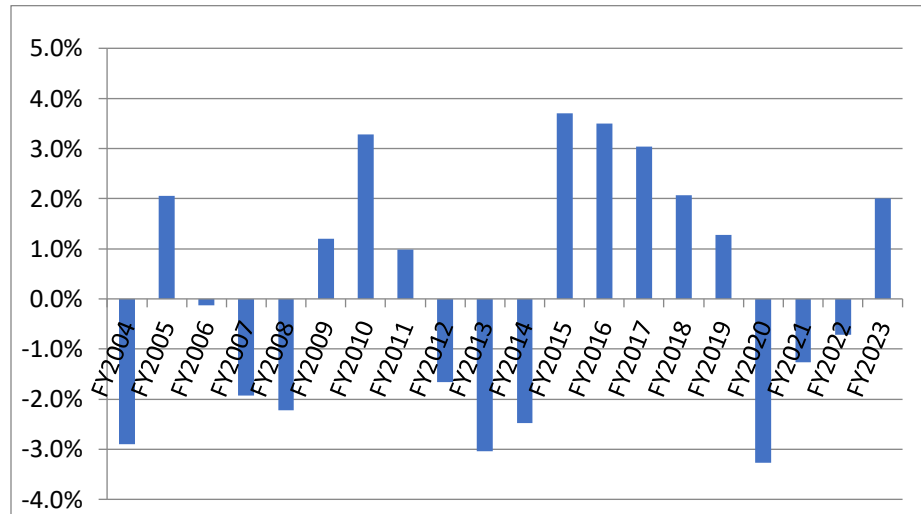
In recent years the FSM has maintained a prudent external debt profile. The current external debt to GDP ratio is relatively low at 17.0 percent in FY2021, and the debt service to domestic revenue ratio is at a manageable rate of 4.0 percent.

2. ECONOMIC UPDATE

2.1. 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 1) with average real GDP growth of 3 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. In addition, the FSM Government is currently negotiating an extension of the economic assistance under the compact as it is becoming clear that the size of the Compact Trust Fund is not sufficient to support undisrupted transition.

Figure 1: Real GDP Growth Rates



Source: FSM Statistics Office & BEM Estimate

After three years of recession the FSM economy finally returned to growth in FY2015, with a healthy 3.4 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. Followed by a 3.7 percent growth in FY2016, the major contributor to growth was the construction sector, transportation, whole sale and retail trade sectors while education sector declined as teachers were laid off due to pressure from JEMCO to accelerate the teacher degree policy. In FY17 the economic growth continued with a 2.9 percent growth reflecting construction and whole sale and retail trade and tourism industry.

In FY2018 the major contributor to growth was 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.

Table 1: Real GDP Growth by Major Sector (annual percentage change)

	FY2017	FY2018	FY2019	FY2020	FY2021
Agriculture	1.2	1.1	0.8	-8.5	-8.8
Fisheries	-3.6	12.9	9.9	-8.2	4.2
Construction	11.1	-49.0	20.0	-35.1	-2.1
Wholesale & Retail Trade	8.5	-6.3	1.1	3.5	3.9
Hotels & Restaurants	8.9	1.8	-1.6	-23.8	-25.8
Transport & Communications	0.4	-5.0	-5.7	-1.4	-12.9
Real Estate, & Business Activities	3.3	8.2	-4.8	2.0	-1.9
Government	1.1	0.0	1.83	-1.0	1.7
Total GDP	2.8	0.2	1.1	-3.3	-1.2

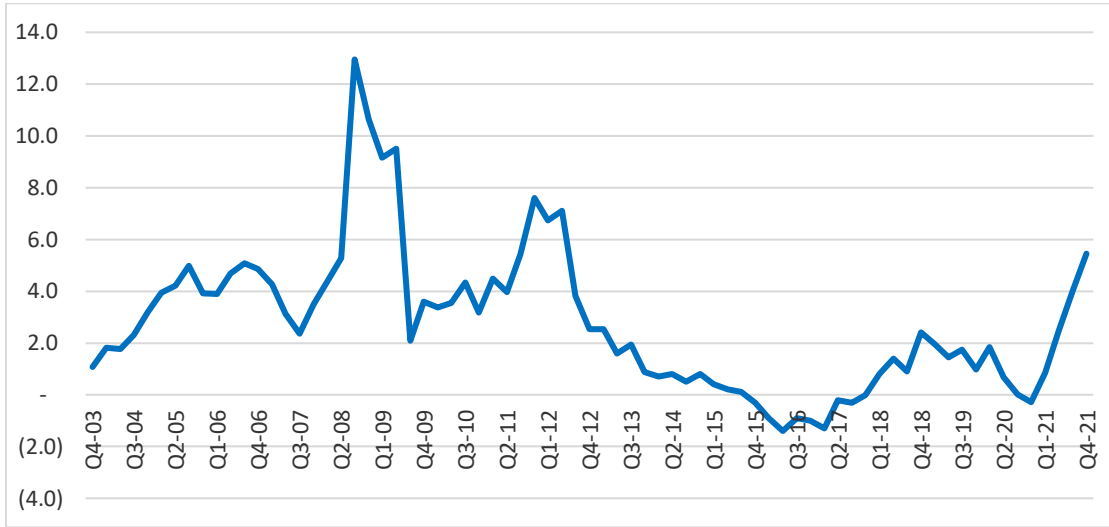
Source: FSM Statistics Office & BEM estimates 2020&2021

FY2019 saw economic growth with 1.1 percent, with the major contributor to growth being construction and the fisheries sector, with a large fishing volume from Yap diving Seagull and Caroline Fisheries Corporation is scaled up significantly. Strong growth was also experienced real estate and business activities, while construction industry declines as a result of two major projects wound up in 2018, which is the compact funded Weno road and FAA funded Chuuk airport apron resealing.

The COVID-19 containment measures impacted growth directly through contraction in services including transshipment, restaurant, and hotel services, transportation, and other business activities. Planned large investment projects were delayed because of restrictions on the movement of personnel and materials. Strict containment measures, disruptions in supply chain, and lower external demand led to a drop in fishing revenue although the newly added fishing capacity has helped cushion the fallout. As a result, GDP has contracted by -3.3 percent in FY2020 and by another -1.2 percent in FY2021.

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 2 below). Over the last 12 years there have been two periods of significant inflation.

Figure 2: Quarterly CPI (percent change over same period previous year)



Source: FSM Statistics Office

Sizeable increases in world food prices, in particular rice which is a 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.

In FY2015 the annual inflationary rate 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 FSM inflation rate in FY2017 further declines to -0.02 percent deflation rate, mainly to a decrease in price of rice, gasoline, and kerosene followed by albeit of 2.0 percent in FY2018. In FY2019 the inflation rate was at 1.3% which reflected in lower energy and food prices.

The 4th quarter of FY2020 the annual inflation rate is -0.3% a decrease of 1.6 percentage points compared to the same quarter of the previous year as result of a decrease in prices in the transport division. In FY2021 there was an increase of 5.7 percentage points as a result of increase in price of food, energy and the transport services.

2.1. Macro-economic Forecasts

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

Table 2: Macroeconomic Assumptions

Item	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Constant price GDP	1.0%	-3.2%	-1.2%	-0.7%	2.0%	3.2%	4.0%
Fiscal Balance to GDP	19.7%	6.1%	3.0%	9.5%	19.6 %	9.7%	6.7%
Consumer Price Index	2.0%	2.0%	5.9%	6.9%	4.0%	3.0%	2.0%
Commercial loan interest rates	9.0%	7.0%	7.6%	4.7%	5.6%	5.6%	5.6%
Debt to GDP	20.7%	20.6%	17.4%	16.5%	14.7%	12.7%	10.8%

Source: FSM Budget & Economic Management Division

While the economy is expected to continue to decline in FY2022 with phased out stimulus programs, the near-term growth outlook is expected to rebound somewhat faster than previously envisaged, benefiting from the border reopening and resumption of key activities including infrastructure investment projects from World Bank and ADB.

Inflation in FY2022 is revised upward 6.9 percent, from 5.9 percent FY2021, as a result of an increase in transport services. In the medium term inflation is expected to be in line with the U.S inflation outlook. An improvement in current account and fiscal balances reflects better than expected outturns in recent years.

Uncertainty around the economic outlook remains elevated and risks are tilted to the downside. The war in Ukraine continues to pose uncertainty for the impact of commodity price shock. The uncertainty related to the expiration of financial and public services support under the compact agreement continues to weigh significantly on the medium-term economic prospects. Domestic fuel price stabilizing mechanisms that are in place is expected to help alleviate domestic inflationary pressures and burden on household.

Commercial loan interest rates are very high in FSM prior to COVID-19, despite the fact that there is plenty of spare cash in the system to lend. Now the rates drop into single figures by FY2023 and remain stable thereafter.

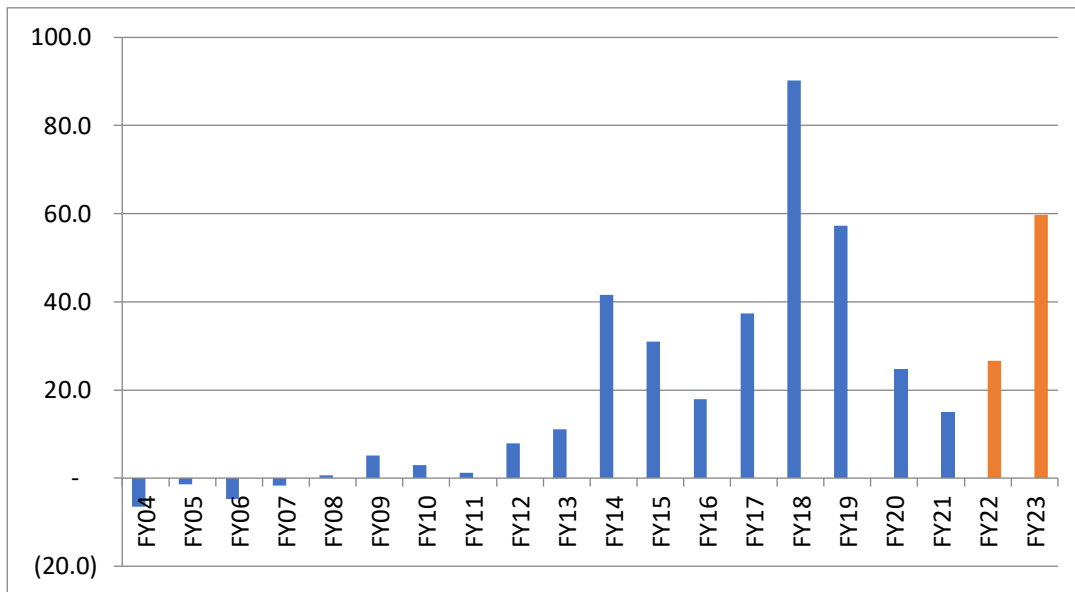
The FSM is currently rated as high debt distress by the WB and ADB. Although the FSM currently maintains a prudent debt policy the risk is based around the uncertainty of 2023 at which time grant funding from the US Compact will cease and be replaced by investment income from the Compact Trust Fund. This will result in a significant decline in funds from the US Government in FY2024 to around 60 percent of the FY2023 funding. Although the negotiations of extension are progressing positively, FSM remains unsure of the timeliness and course of action that will be taken by U.S. Congress regarding the package.

3. NATIONAL GOVERNMENT FISCAL UPDATE

3.1. Fiscal Outcome

The National Government, for the last five consecutive years, showed significant fiscal surpluses with a peak over \$90 million in FY2018. Tax benefited from a one-off capital gains deposit of \$77 million in September 2018, lifting total taxes to \$99.4 million, the highest level ever. Fishing fee revenue has stabilized in recent years and the medium-term outlook is \$70 million per year while underlying taxation is forecast to grow by 2 percent per annum reflecting continued growth in the economy.

Figure 3: 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. The estimate for FY2020 is about \$24.0 million followed by \$14.9 million in FY2021. Surpluses are estimated to be around \$26.6million in FY2022 as a result of further increase in fishing fees and customs and tax collection reaching its highest peak for the last decade. In FY2023 surplus is forecasted to be around 60 million due to a recent payment of corporate tax following our CTA’s internal audit inquiries on corporate tax returns of one client firm, where filings error was verified and corrected payment followed.

Government Revenue

National government revenue was at its highest level ever at \$201 million in FY2018 (refer table 2 below), as domestic revenue reached record levels. InFY2019 the domestic revenue has increase by \$48.0 million compare to FY2017. In FY2020 and FY2021 the revenue remains stable an average of 25.2 percentage points.

Tax revenue in the FSM is a relatively low proportion of domestic revenue. However, income was related to one-off capital gains tax payments by major corporations. Underlying tax revenue

has been increasing over the last five years reflecting growth in the economy and increased compliance. Fishing licence has been stable for the last four years peaking at about 70 million per annum.

Table 2: National Government Revenue (\$ million)

	FY2017	FY2018	FY2019	FY2020	FY2021
	Audit	Audit	Audit	Audit	Estimate
Domestic Revenue	109.1	174.4	158.2	112.7	109.7
Tax revenue	36.5	99.4	78.3	26.1	24.5
Non-tax revenue	75.3	75.3	79.9	86.6	85.4
Fishing license fees	72.6	72.3	72.7	70.2	69.0
Other	2.7	3.0	7.2	16.4	16.4
External Grants	55.8	26.5	29.2	27.0	25.4
Compact Sector Grants	1.1	0.5	1.0	0.4	1.0
Supplemental Education	1.1	0.7	1.0	0.5	0.5
Federal & Other	10.0	9.4	15.6	23.7	23.7
Capital Grants	45.6	15.9	11.6	2.7	0.2
Revenue	164.9	201.2	187.4	140.0	135.1

Source: Audited Reports & Revenue Forecasts

External grants declined in FY2018 reflecting completion of two major infrastructure projects, the Compact funded Weno road and the FAA funded Chuuk Airport apron resealing. External grants remain stable at an average of \$27.0 million for the last three years.

Government Expenditure

National Government expenditure has increased significantly in FY2019 mainly reflecting the increased implementation of major World Bank capital projects. In FY2020 and FY2021 respectively, the impact of COVID-19 restrictions has led to a slow down on World Bank 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 3: National Government Expenditure (\$ million)

Item	FY2017	FY2018	FY2019	FY2020	FY2021
	Audit	Audit	Audit	Audit	Estimate
Wages and Salaries	18.9	19.5	21.5	20.6	21.0
Goods and Services	56.7	42.6	40.9	45.6	46.5
Interest Payments	2.6	2.7	3.7	3.7	3.7
Subsidies	3.2	3.2	3.6	10.5	10.5
Transfer	1.5	1.5	7.5	3.5	3.5
Current Expenditure	82.9	69.5	77.2	83.9	85.2
Capital Expenditure	47.4	41.5	42.2	31.2	36.0
Total Expenditure	130.3	111.0	119.4	115.1	120.2

Source: Audited Reports & Budget estimates

Expenditure on personnel as a percentage of domestic revenue has declined from its peak level since 2010, 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 FY2020, mainly reflecting increased contractual service. This increase reflects World Bank project funds flowing through the government accounts. In FY2021, good and services expenditures also increase significantly as a result of Covid-19 relief and response programs.

Capital expenditure funded from grants remains stable around \$40 million for the last three years linking to donor projects. In FY2020 and FY2021 respectively, capital expenditures declined due to the impact of Covid-19 pandemic on planned large investment projects. It is expected to increase in the near term due to larger infrastructure projects resuming when the border re-opens for inflow of engineers and constructions materials.

3.2. Fiscal Strategy

Table 4 below presents fiscal responsibility ratios for the FSM consolidated accounts and for the National Government. Underlying tax revenue-to-GDP remains low by international standards at 12 percent, although there have been significant increases in recent years with 17.4 percent in FY2017 associated with improved collection methods through technical assistance and further gains from corporate tax. In FY2018 and FY2019 the tax revenue to GDP remains strong as 35.6 percent and 29.1 percent respectively as a result of capital gains from corporate income tax payments. The FSM remains below 16.0 percent in FY2020 and FY2021 and further increase to 17.4% in FY 2022 as a result of customs and tax reaching its highest peak in tax collection.

The Pacific region average tax to GDP ratio is around 20 percent, and the average tax potential is about 23% of GDP. Fiscal consolidation through domestic revenue mobilization is critical then ever in order to achieve fiscal consolidation. However, this needs to be carefully planned to avoid adverse impact on economic growth given the major role the public sector plays in the overall economy. The new automated Revenue Management System that will be installed in the next few months, and the key roadmap that was already prepared by the National Tax Reform Committee on the new tax reform towards modified GRT and moving forward on VAT is subject to approval and we will expect a rise in the underlying tax revenue to GDP ratio to an estimated 16.0 percent of GDP in the medium term.

The FSM external 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. 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 increase reflecting the continual structural shift in the economy towards public sector structural reforms. This trend is forecast to continue in the medium term as a result of public sector dominating the economy.

Table 4: Fiscal Responsibility Ratios

Item	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
FSM ratios						
Tax revenue-to-GDP	35.6%	29.1%	15.3%	15.1%	17.4%	25.6%
External Debt-to-GDP	22.0%	20.7%	20.6%	17.4%	16.5%	14.7%
Government share of GDP	19.7%	19.0%	19.9%	19.9%	20.6%	22.4%
National Government ratios						
Personnel costs-to-revenue	11.2%	13.6%	18.3%	18.2%	19.2%	20.1%
Net operating balance-to-GDP	25.2%	16.1%	7.1%	4.3%	7.7%	9.5%

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 16 percent. This ratio is forecast to raise in the near term as a result public law 22-170 increasing the base salary schedule for the National Government employees and more World Bank projects and ADB projects that are ready to be implemented in FY2023 onwards.

In FY2020 and FY2021 the net operating balance-to-GDP experienced with surpluses of 7.1 percent and 4.3 percent respectively. Over the medium term this ratio is expected to remain healthy allowing for continued investment in the FSM Trust Fund.

3.3. 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 national revenue invested in the States (refer table 5. This amounted to \$18.3 million in support in FY2013 and has risen to \$54.1 million in FY2019. Over the same period the National Government has also invested over \$170 million in the FSM Trust Fund. 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. The National Government has also stepped in and funded education initiatives such as the grant to the College of Micronesia and scholarships which in recent years have been significantly cut by the US Office of Interior through JEMCO.

Table 5: National Government Revenue Sharing (\$ million)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Amended Compact Grant	8.0	8.0	8.0	8.0	8.0	8.0
Education	7.1	7.2	7.0	7.1	8.1	8.9
Infrastructure	16.0	15.9	18.2	19.9	2.3	12.2
Congress Projects	9.3	11.3	18.3	16.6	8.0	9.8
Judiciary	0.6	0.6	0.7	0.7	1.1	1.1
State Tourism Dev.	1.9	2.0	0.1	2.5	16.0	0.0
Change in tax formula	5.7	6.2	6.5	6.9	6.6	7.0
Other	2.7	1.8	3.0	1.7	0.2	0.1
Total	51.3	53.0	61.8	66.1	51.7	47.2

Source: FSM Budget & Economic Management Office

In FY2015 Public Law 18-107 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 an approximate \$6.0 million decline annually 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 \$50 million will be invested in the Trust Fund on behalf of the States by 2023 through Public Law 18-107.

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 \$9.3 million in FY2016 to a peak of \$18.3 million in FY2018 followed by \$16.6 million in FY2019. In FY2020 the public projects returns to its current level with total appropriations of 7.9 million followed by 9.8 in FY2021. Public projects are a mix of infrastructure, economic, and social projects at the State level as well as being the main source of funds of municipal governments.

At the onset of COVID-19, with the help of our donor partners, the National government was able to inject \$14.5 million to mitigate the impact of Covid-19 on Tourism and private sector relief activities. The National Government provided substantial subsidy to businesses who are heavily impacted by COVID-19 through rebate of salaries and wages, utility expenses, businesses gross revenue tax, and principal payments on businesses loans.

3.4. FSM Trust Fund

The FSM Trust Fund was established through Public Law 10-150 in April 1999. The current status of the FSM Trust Fund is shown in table 5 below. Prior to FY2014 the National Government invested \$18 million into the Trust Fund (refer figure 4 below). Since then the National Government has made considerable deposits into the Fund on annual basis in line with a key recommendation from the 2023 Action Plan to build this Fund to provide future fiscal sustainability for the FSM.

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

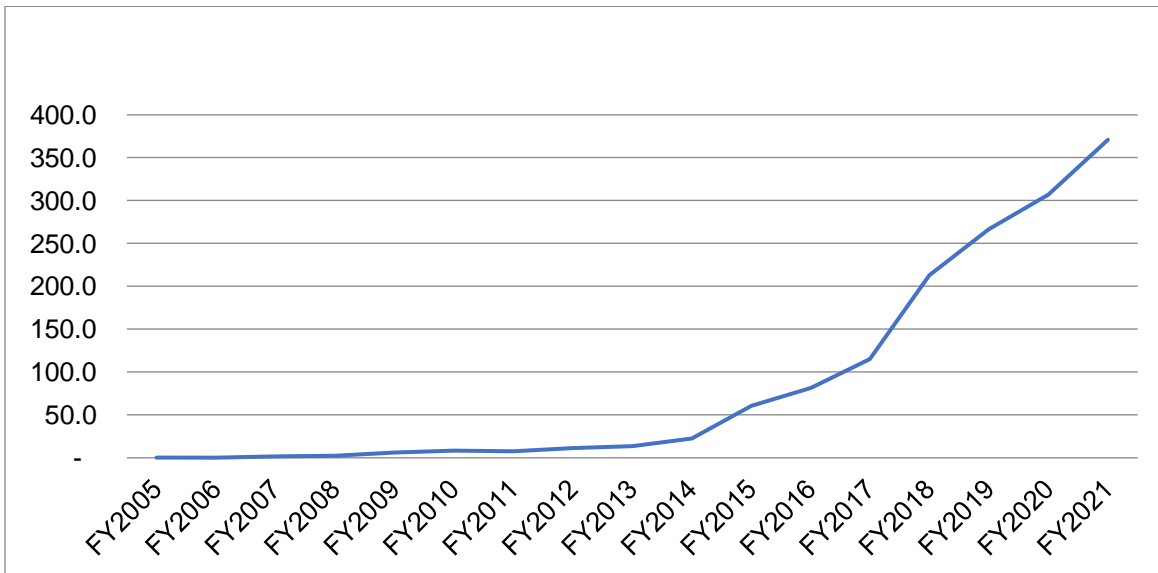
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Net Assets, Beginning	60.9	81.5	115.0	212.5	266.9	307.3
Appropriations	15.2	22.0	88.9	42.8	17.3	1.2
Investment income:	5.5	11.5	8.5	11.6	23.0	62.5
Net Assets, Ending	81.5	115.0	212.5	266.9	307.3	370.9

Source: FSM Department of Finance & Administration

There were regular appropriations invested into the Trust Fund since 2014 worth a total of \$189 million up to end of FY2019. 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. With the focus of the 2023 action plan to invest in the FSM Trust Fund with a target of \$500million by 2023, Congress passed public law 20-134 which earmarks 50% of corporate fees and 20% of fishing license into the FSM Trust Fund with the expectation that it will breach the target of 500 million by 2023.

Unfortunately, with the onset of COVID-19 and its prolonged economic impact, the contributions to the Fund from PL 20-134 was diverted to economic recovery programs which impacted the National Government contributions to the FSM Trust Fund.

Figure 4: FSM Trust Fund Balance (\$ millions)



Source: FSM Budget & Economic Management Office

The contributions by the National Government and tax revenue deposits for the State Government has a positive investment gain into the FSM Trust Fund for FY2021 (refer table 7 below). The National Government sub account has risen to \$304.2 million in FY2021 while Pohnpei State sub-account is the largest State account at \$30.1 million reflecting where the bulk of taxes are paid in the FSM.

Table 7: FSM Trust Fund Cash flow and Performance summary (\$thousands)

Account	September 30 2020	Net Contrib.	Invest Gain/Loss	September 30 2021
National	255,207	0	51,435	304,242
Chuuk State	12,548	297	2,678	16,124
Kosrae State	6,355	88	1,405	8,448
Pohnpei State	23,822	635	4,997	30,054
Yap State	9,329	161	2,010	12,099
Total	307,262	1,181	62,525	370,967

Source: FSM Department of Finance & Administration

3.5. Overseas Development Assistance

The FSM is dependent upon support from the international development community and the depth and diversity of challenges facing the country means that it will remain dependent on assistance for the foreseeable future. In December 2013, the FSM adopted a Policy for Overseas Development Assistance (ODA) with the aim of maximizing the benefits of development assistance for all stakeholders. ODA priorities will be set on a 3-year cycle and these will be used to direct allocations to those activities that are deemed most urgent and crucial. Alignment between the process for identifying official ODA requests and the budget cycle will help to ensure that ODA resourcing is met with adequate local implementation capacity.

Table 8 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 2030, increase electricity to 100% nationwide, the share of renewable energy sources will be at least 70% percent of total electricity production, while energy efficiency, including a reduction in carbon dioxide emissions from electricity, will increase by 65 percent.

Table 8: ODA Expenditure by Key Growth Sector (\$million)

Item	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Agriculture/Fishing	1.4	1.0	0.0	0.6	1.0	1.5
Energy	5.5	7.5	9.6	24.0	24.7	5.9
ICT	21.0	13.5	11.0	6.0	5.0	4.8
Transport	7.5	21.0	16.1	29.4	50.5	57.0
Environment	8.3	12.0	7.1	6.8	12.0	12.4
Other	27.5	25.2	24.0	33.3	28.1	14.0
Total	71.2	80.1	67.9	100.1	121.3	95.5

Source: Estimates based on latest available donor information (excludes compact funding)

The Yap Renewable Energy Development project (\$9.0 million) with 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 is completed on September 2019.

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.

The fiber-optic cable for Yap, Chuuk, Pohnpei was already connected to the cable system except Kosrae

The WB IDA18 increase in funding to \$108 million is tentatively allocated across the energy, ICT, maritime, transport and government sectors. IDA19 is around 40 million mainly for road investment projects and additional funding for strengthening public financing management in the FSM.(Check figures with Senny, these are not correct)

IDA 20 allocation is around 63 million, and this includes about \$17. million for FSM Skills and Employability Enhancement Project (SEEP) to help improve vocational education in the States, \$10 million for Fisheries Enhancement Project being prepared as PROP Phase II, \$20 million for the agriculture sector, \$20 million for Renewable Energy, \$5 million for PFM Improvement, and remaining funds toward enhancing transport infrastructure in the outer islands. It is note stating that \$20 million from Regional IDA is already being leveraged towards the PROP Phase II project currently being designed.

In FY2020 there is a \$6.0 million from ADB, to improve the resilience of the FSM disasters triggered by natural hazards and also to provide a source of financing for timely disaster response and early recovery, followed by \$15.0 million from that will help fund renewable energy development project in the FSM. The U.S FAA has lodged a \$3.8 million to fund the Kosrae international airport project.

In FY2021 China has approved a 25 million for road improvements project in pohnpei followed by a 5 million from ADB for preparing sustainable road infrastructure investment project in the FSM.

3.6. Compact Trust Fund

The summary highlights of the Compact Trust Fund for FY2020 were:

- The Fund's total net position value increased by 27.5 percent to \$999.8 million in FY2021 from \$783.9 million in FY2020. The increase was primarily due to interest, dividend, and realized and unrealized gains from investment of \$182.6 million and a contribution from the United States government of \$35.3 million.
- The Fund had a weighted annual rate of return of 22.1 percent, for FY2021 following a return of 8.4 percent for FY2020. On a performance basis, net of fees, the Fund gained 22.7 percent compared to a benchmark of 23.8 percent.
- Given the insignificant return, an allocation of 96.2 million was made for "C" account for FY2021 due to annual income earned was over 6.0% threshold specified in the agreement, making the total balance of the account to increase to \$250.6 million.

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

Table 9: Statement of Changes in Net Assets (\$million)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Restricted Net Assets, Beginning	405.1	466.9	565.0	636.1	689.5	783.9
United States contributions	28.3	29.5	30.8	32.2	33.8	35.3
Net investment income	34.4	69.3	41.2	22.3	64.4	182.6
Less Administrative expenses	0.9	0.7	0.2	0.2	0.2	0.3
Restricted Net Assets, Ending	466.9	565.0	636.1	689.5	783.9	999.8

Source: FSM Trust Fund Annual Report 2021

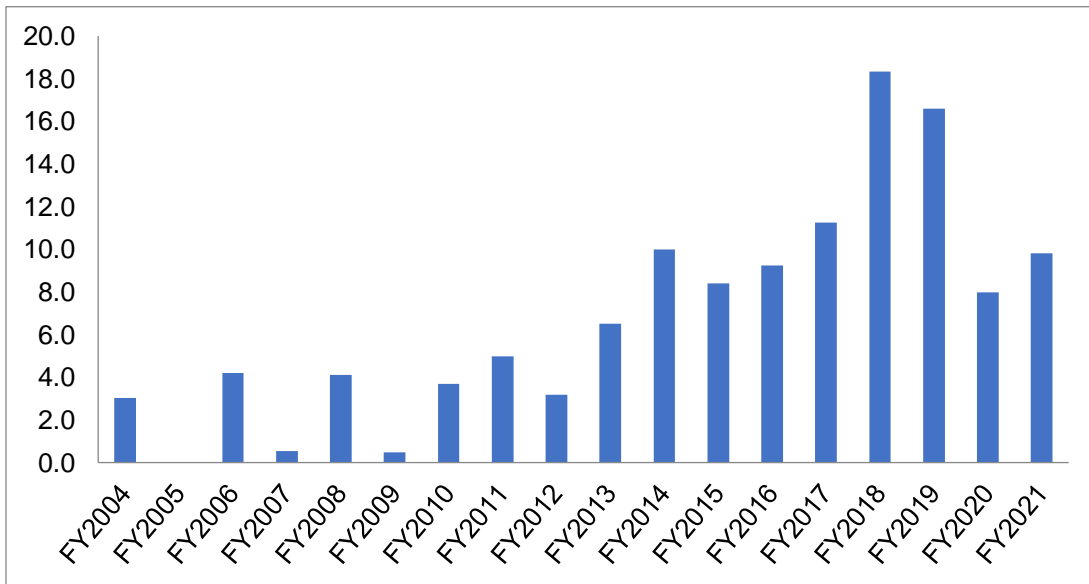
Projections based upon actual performance demonstrate that continuing on its current trajectory; the CTF will have a value of \$1.0 billion. Assuming average future returns of 6.9 percent per annum then to maintain the corpus of the Fund post 2023 the FSM could draw down 5 percent or \$50 million in 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. The magnitude of the shortfall is large and the government needs to consider additional contribution into the Fund as part of the negotiations to ensure corpus build-up to a long term sustainable level.

3.7. Public Projects

Since the beginning of the Amended Compact, \$122.4 million has been appropriated on public projects up to the end of FY2021. Of this amount, Chuuk has received \$52.6 million, Pohnpei \$35.7 million, and Kosrae \$17.4 million and Yap \$16.7 million.

Public annual appropriations started to exceed \$7.0 million in FY2014 with two appropriations with a total of 10.0 million. In FY2015 there has been three appropriations totalling of \$8.4 million and a further three appropriations in FY2016 totalling \$9.3 million. There was a further jump in FY2017 with total appropriation of \$11.3 million, followed by a huge increase in appropriations to 18.3 million in FY2018 and 16.6 million in FY2019. In FY2020 there are three appropriations with total appropriations of 7.9 million and 9.8 in FY2021 respectively.

Figure 5: Public Projects Appropriations (\$millions)



Source: FSM Congress Public Laws

The analysis of these projects by expenditure category is given in table 10 below. The ‘Other’ category is projects which are not deemed to be directly 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 40 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. Social development has been significant over the last three years.

Table 10: Public Projects Expenditure by Category (percent)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Economic Development	6.4	11.4	7.2	6.3	6.5	5.4
Infrastructure	46.7	30.4	42.7	30.5	38.5	42.3
Social Development	17.4	31.7	25.8	24.2	21.8	16.8
Government	21.3	18.8	17.7	20.4	24.8	26.3
Other	8.2	7.6	6.7	18.5	8.3	9.2
Total	100	100	100	100	100	100

Source: Budget & Economic Management Analysis

Table 11 below gives a breakdown of FY2021 public projects by State and by category. Pohnpei and Chuuk have the highest portion on infrastructure reflecting road improvement projects. While Kosrae have the highest portion on social development.

Table 11: Public Projects by State by Category, FY2021 (percent)

	Chuuk	Kosrae	Pohnpei	Yap	Total
Economic Development	9.9	5.3	1.5	0.0	5.4
Infrastructure	30.7	13.9	62.7	36.4	38.3
Social Development	15.0	33.9	13.1	12.5	16.8
Government	37.4	35.5	9.1	46.4	26.3
Emergency/Disaster relief	4.5	1.4	0.0	0.0	2.1
Other	2.5	10.0	12.5	4.6	6.7
Debt	0.0	0.0	1.1	0.0	0.3
Total	100	100	100	100	100

Source: Budget & Economic Management Analysis

3.8. Government Debt

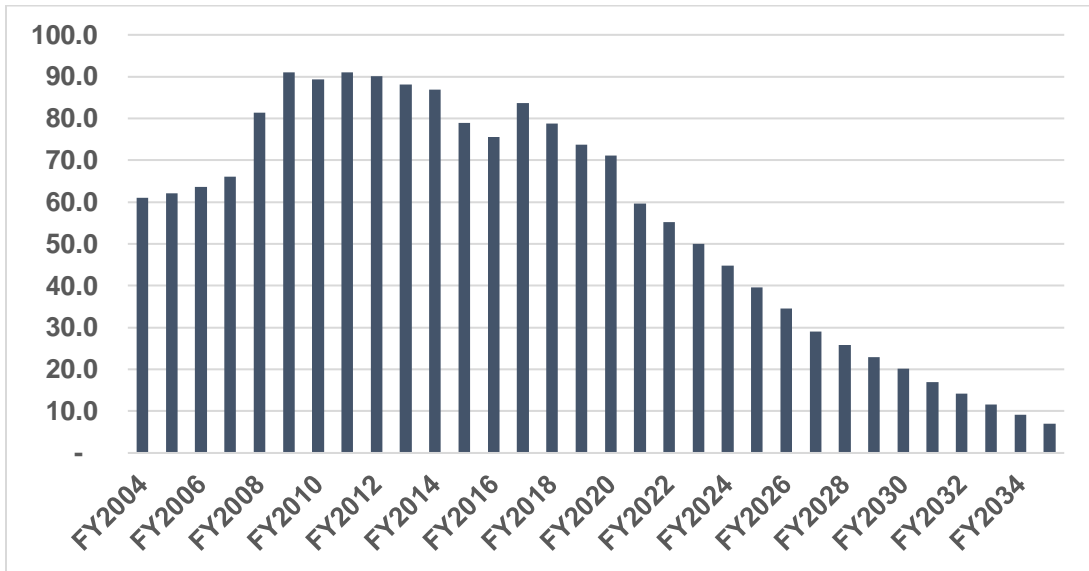
After a period of sizeable borrowing in the early 1990s, to finance development projects, external debt has fallen significantly, and in more recent times the FSM has maintained a prudent external debt profile. The external Debt-to-GDP ratio is low by developing country standards. However, the FSM is deemed to be at high risk of debt distress by the International Monetary Fund due to the high level of uncertainty around the expiring of the economic provisions in the Amended Compact in 2023 and the possible need to borrow to maintain operations of State Governments.

Debt levels have been declining since the peak of \$90.1 million in FY2012 but in FY2017 debt levels slightly increase with an external debt of \$83.6 million and remain stable at \$83.2 million in FY2018. The increase results from two new ADB omnibus infrastructure development loans. In FY2019 debt levels begin to decline again as the Yap loan is fully drawn down and the

downward trend will continue as loan as FSM has grant only status with the multi-lateral banks. There was a significant annual decline in FY2021 as a result of principal repayments and US Rural Utilities Services writing off \$8.2 million in debt owed to them by the FSM Telecommunications Corporation.

The bulk of the public external debt in 2021 is owed to the Asian Development Bank with \$44.2 million (74.1), a further \$11.0 million (18.5) is owed to the US Rural Utilities Services, mainly FSM Telecom debt, and \$3.9 million (6.6 percent) is owed to Bank of Guam, mainly for the drawdown from FSM PetroCorp.

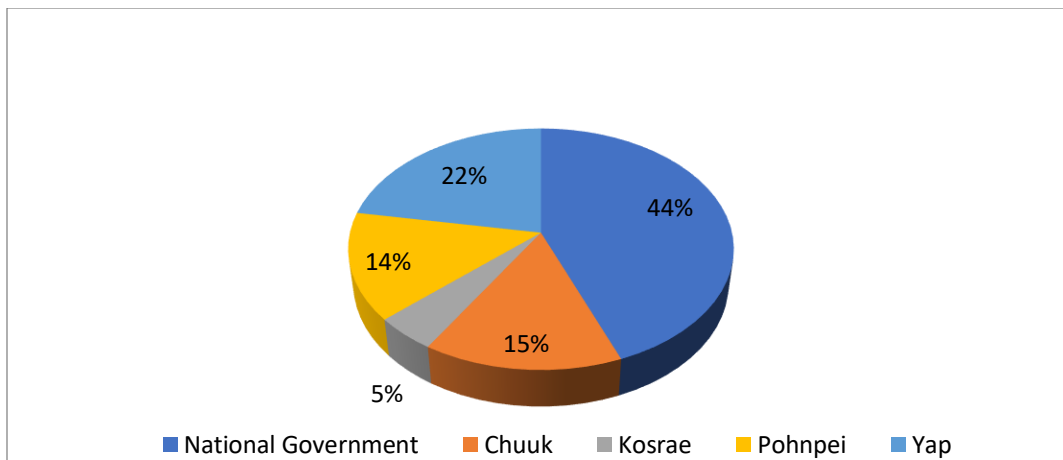
Figure 6: External Debt (\$ million)



Source: FSM Audits & Budget & Economic Management Office Forecast

By government, the largest share, 44.0 percent, of total external debt is owed by the National Government and component units, 14.4 percent by Pohnpei, 14.8 percent by Chuuk, 22.3 percent by Yap, and 4.6 percent by Kosrae (refer figure 3).

Figure 7: Government Share of External Debts at September 30 2021(\$ millions)



Source: FSM Budget & Economic Management Office Estimate

Historically, 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. The renewable energy loans were lent directly to Yap State but are backed by a National Government guarantee.

FSM’s external debt service has increased steadily from just \$2.7 million in FY2007 to a peak of \$7.6 million in FY2013, as some maturing debts required increased principal payments. It has since dropped to \$6.2 million by FY2017 but increases again to \$7.3 million in FY2018 and to \$8.5 million in FY2019 as drawdown on the Yap loan accumulates interest.

As a share of domestic revenues, debt service peaked at 10.4 percent in FY2011, and has been declining since. In FY2019 the debt service ratio is 3.8 percent followed by 3.5 percent in FY2020. In FY2021 the debt service increase again to 9.4 percent as a result of principal payment of 8.2 million in debt services to FSMTC.

4. CONSOLIDATED ACCOUNTS OF THE NATION

In recent years, consolidated government revenues have been growing faster than consolidated government expenses. 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. (Refer Table 12 below)

The increase in tax revenue reflects underlying growth in the economy especially in chuuk and pohnpei. Non-tax revenue remains steady at an average of 80 million, while grant revenue keep declining after the completions of two major projects in chuuk.

Table 12: Consolidated Government Finances (\$million)

Item	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	239.3	295.1	309.4	303.1	258.1	242.8
Tax revenue	38.9	61.2	125.5	103.7	52.5	52.4
Non-tax revenue	74.4	85.6	82.6	78.3	94.9	85.9
Grants	126.0	148.3	101.7	106.5	110.4	104.4
Expenditure	201.0	239.8	227.5	232.7	236.9	228.0
Wages & salaries	71.2	70.7	71.6	76.1	77.0	78.0
Other goods and services	90.5	93.4	105.0	91.9	99.6	101.5
Interest, subsidies, & grants	10.3	9.6	11.9	19.9	24.4	22.0
Capital expenditure	29.0	66.1	38.6	44.8	36.0	39.9
Overall fiscal balance	38.3	55.2	81.9	70.4	21.2	10.3

Source: FSM Annual Audit Reports Budget & Economic Management estimate (FY21)

Consolidated government expenditure started to increase again in FY2019 mainly due to World Bank projects and a slight increase in FY2021 due to more congress capital improvement projects and public projects. Wages and salaries have a slight increase for the last three years as a result of COLA adjustment and National Government salary increase, while other goods and services experienced a jump in expenditure in FY2020 and FY2021 with contractual services being the main component to increase as expenses associated with implementation of FSM capital improvement projects rose significantly.

Table 13: Chuuk State Finances (\$million)

Item	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	40.1	39.2	37.4	37.1	41.2	38.9
Tax revenue	6.5	7.0	8.5	6.8	7.7	8.1
Non-tax revenue	1.5	1.5	1.9	3.8	3.2	1.2
Grants	32.1	30.7	28.9	26.5	30.4	29.6
Expenditure	37.8	39.1	41.5	38.3	40.4	41.2
Wages & salaries	18.4	18.6	18.6	19.1	19.9	20.3
Other goods and services	16.8	18.0	19.9	17.4	18.6	19.0
Interest, subsidies, & grants	0.8	0.2	1.0	0.3	0.1	0.3
Capital expenditure	1.9	1.9	2.0	0.8	1.1	1.1
Overall fiscal balance	2.2	0.1	-4.1	-1.2	0.9	-2.3

Source: Chuuk Annual Audit Reports & Budget & Economic Management estimate (FY21)

Table 14: Kosrae State Finances (\$million)

Item	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	12.3	11.9	12.0	12.7	11.9	12.0
Tax revenue	2.6	1.6	1.6	1.7	1.8	1.6
Non-tax revenue	1.5	0.5	0.3	0.7	0.7	0.7
Grants	9.7	9.8	10.2	10.3	9.3	9.7
Expenditure	13.4	12.0	13.6	12.7	11.9	12.1
Wages & salaries	6.0	6.0	5.9	6.7	6.2	6.4
Other goods and services	6.2	5.5	7.2	5.5	5.2	5.3
Interest, subsidies, & grants	0.8	0.1	0.5	0.5	0.4	0.4
Capital expenditure	0.4	0.4	0.0	0.0	0.0	0.0
Overall fiscal balance	-1.1	-0.1	-1.6	-0.0	0.1	-0.1

Source: Kosrae Annual Audit Reports/Budget & Economic Management estimate (FY21)

Table 15: Pohnpei State Finances (\$million)

Item	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	31.6	39.7	40.1	40.7	41.6	41.6
Tax revenue	9.3	10.9	13.8	13.3	13.2	13.4
Non-tax revenue	1.9	5.5	3.0	3.7	3.3	3.3
Grants	20.4	23.3	23.4	23.7	25.2	24.9
Expenditure	33.0	34.6	36.2	39.5	43.2	43.9
Wages & salaries	18.5	18.2	18.2	19.4	20.5	21.3
Other goods and services	12.7	13.2	14.3	16.3	16.2	16.9
Interest, subsidies, & grants	0.8	0.9	2.9	2.4	4.7	2.8
Capital expenditure	1.0	2.3	0.9	0.9	1.8	0.9
Overall fiscal balance	-1.4	5.1	3.9	1.2	-1.5	0.5

Source: Pohnpei Annual Audit Reports & FY2021 estimate

Table 16: Yap State Finances (\$million)

Item	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	19.8	21.4	18.0	25.2	23.5	24.1
Tax revenue	3.4	4.1	3.7	3.6	4.0	4.6
Non-tax revenue	1.2	2.7	2.1	4.9	1.1	1.1
Grants	15.2	14.4	12.2	16.7	18.5	18.5
Expenditure	20.1	23.9	24.8	22.8	26.4	26.9
Wages & salaries	9.0	9.0	9.4	9.4	9.8	10.0
Other goods and services	9.6	12.8	13.1	11.8	13.9	14.2
Interest, subsidies, & grants	0.9	0.7	1.1	0.7	0.8	0.8
Capital expenditure	0.6	1.4	1.2	0.8	1.9	1.9
Overall fiscal balance	-0.3	-2.5	--6.8	2.4	-2.9	-2.7

Source: Yap Annual Audit Reports & FY2021 Estimate

APPENDIX 1: 2023 Action Plan Matrix Update

The following is an update of the 2023 Action Plan Matrix, outlining achievements for FY2022 and policy direction of the new Executive.

	Action	Responsibility	Status
1.	Infrastructure		
1.2	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. The Dept of TC&I has already committed most of the arrears
1.3	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 2016
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.
2.3	Establish a National Tourism Authority	DR&D	Await Policy Approval
2.4	Conduct an Annual Tourism Conference	DR&D	R&D conference scheduled for 2023
2.5	Develop a branding strategy for FSM tourism	DR&D	In process to finalize, financial support is needed to start
2.6	Strengthen and expand hospitality & tourism management training	DR&D, DOE & COM	Working with COM on the needs of private sector on the linkages that needs to be made, and regional partners for capacity building. This will be included in the SEEP Project
2.7	Develop an accreditation system for hotels, commercial tourism operators & tour guides	DR&D	Tourism policy creates our own accreditation, and private sector should create regulation to enforce. Work with FSM ACC to forma tourism comedy.
3.	Agriculture		
3.1	Establish a National Agriculture Research Center in partnership with COM-FSM	DR&D/COM-FSM	

	Action	Responsibility	Status
3.2	Build Quarantine, treatment and processing facilities	DR&D, States	Financing required
3.3	Establish feed mills for processing local materials for poultry, pig and aquaculture feeds	DR&D, States,	Financing required
3.4	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	Endorsed by congress
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
5.	Energy		
5.1	Increase share of renewable energy sources in total energy production to 30 percent by 2030	DR&D	Yap Renewable Energy Project with solar and wind generation financed through a \$9.6 million ADB loan and the expansion of the Polanghas solar farm in Pohnpei has been completed.
5.2	Develop relevant legislation to regulate the energy sector	R&D	Part of WB/ADB technical assistance for IDA18,

	Action	Responsibility	Status
5.3	Increase private participation in the energy sector to improve efficiency	R&D	Part of WB/ADB technical assistance for IDA18,
5.4	Develop State Energy Action Plans	R&D/States	State Energy Master plans completed in 2017
6.	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 signed in FY2021
7.2	Tax Reform implemented	DoFA	NTRC Tax Reform road map 2023-2026still ongoing
7.3	PFM Reform	DOFA	PFMReform2023-2026 launched January 2023
8.	Enabling Environment		
8.1	Develop Legal Framework for Protection of FSM genetic resources and associated traditional knowledge	DoJ/R&D	Marine Spatial Planning Bill is pending with congress for approval
8.2	Complete land survey and boundary identification in the States for sites suitable for commercial development	TC&I	Financing required
8.3	Intellectual property rights regime review	R&D	
8.4	Develop Legal Framework for Deep Sea Mining of FSM non-living resources	DoJ/R&D	Draft Bill is pending with Congress for approval

APPENDIX 2: Statistical Tables

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

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Agriculture, Hunting & Forestry	37.2	38.5	37.8	39.5	36.2	33.0
Fisheries	26.3	24.5	23.8	26.2	24.1	25.1
Manufacturing	1.3	1.3	1.4	1.3	1.3	1.3
Electricity, Gas & Water Supply	4.5	4.7	4.4	5.5	5.6	5.6
Construction	5.8	6	5	6.0	3.9	3.8
Wholesale & Retail Trade & Repairs	26	27.2	24.6	26.9	27.8	28.9
Hotels & Restaurants	4.2	4.5	4.6	4.4	3.4	2.5
Transport, Storage & Communications	14.2	14.6	13.2	16.3	16.1	14.0
Financial Intermediation	8.2	8.6	9.9	7.1	6.4	5.5
Real Estate & Business Activities	31.2	32.5	33	31.4	32.0	31.4
Public Administration	26.8	27	27.2	26.4	26.3	26.2
Education	29.1	29.1	28.9	28.9	28.5	29.4
Health & Social Work	12.7	13.3	13.2	12.8	13.1	13.1
Other Community & Personal Services	3.4	3.6	3.8	4.9	4.6	4.4
<i>less intermediate FISIM</i>	-3.9	-3.8	-4.4	(5.4)	(4.6)	(3.8)
<i>Plus Net Indirect Taxes</i>	17.9	19.0	21.3	21.5	21.1	22.0
GDP at purchaser's prices	244.0	250.6	251.1	253.9	245.6	242.6

Source: FSM Statistics Office, Budget & Economic Management estimate (FY19-FY21)

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

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Agriculture, Hunting & Forestry	0.0%	1.2%	1.1%	4.6%	-8.5%	-8.8%
Fisheries	2.7%	-3.6%	12.9%	10.1%	-8.2%	4.2%
Manufacturing	28.7%	13.4%	5.6%	-3.6%	-0.5%	-0.8%
Electricity, Gas & Water Supply	5.9%	0.7%	0.4%	25.4%	2.2%	-0.9%
Construction	46.4%	15.3%	-49.0%	20.0%	-35.1%	-2.1%
Wholesale & Retail Trade & Repairs	7.1%	4.0%	-6.3%	9.4%	3.5%	3.9%
Hotels & Restaurants	4.1%	8.0%	1.8%	-3.9%	-23.8%	-25.8%
Transport, Storage & Communications	13.1%	2.9%	-5.0%	23.4%	-1.4%	-12.9%
Financial Intermediation	24.4%	7.3%	10.1%	-28.7%	-9.7%	-13.6%
Real Estate, & Business Activities	5.9%	3.3%	8.2%	-4.8%	2.0%	-1.9%
Public Administration	-0.5%	0.5%	0.4%	-3.0%	-0.5%	-0.2%
Education	-4.8%	0.7%	0.0%	0.0%	-1.4%	3.3%
Health & Social Work	-1.8%	3.4%	-0.2%	-2.7%	1.7%	0.6%
Other Community & Personal Services	1.4%	5.4%	-1.8%	29.3%	-5.6%	-4.5%
GDP at purchaser's prices	3.5%	2.8%	0.2%	1.1%	-3.3%	-1.2%

Source: FSM Statistics Office, Budget & Economic Management estimate (FY20-FY21)

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

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Agriculture, Hunting & Forestry	48.4	49.5	50.9	51.6	47.4	44.1
Fisheries	38.6	44.9	43.3	47.6	44.8	43.2
Manufacturing	1.7	1.9	2	2.0	2.0	2.0
Electricity, Gas & Water Supply	10.3	10.1	12.7	10.6	10.6	10.4
Construction	12.3	14.1	7.2	5.7	6.0	5.9
Wholesale & Retail Trade & Repairs	36.8	40.5	38.4	42.0	42.6	44.9
Hotels & Restaurants	6	6.5	6.8	6.6	5.0	4.6
Transport, Storage & Communications	19.4	19.7	19.9	24.1	23.8	24.4
Financial Intermediation	14.7	15.7	17.6	20.7	18.6	16.4
Real Estate, & Business Activities	36.8	38.5	42.5	39.5	40.3	40.3
Public Administration	33.3	34.4	34.3	37.8	38.6	38.6
Education	33.6	34.6	34	34.8	33.5	33.5
Health & Social Work	14.5	15.3	15.2	2.8	3.1	3.2
Other Community & Personal Services	5.2	5.6	5.9	6.0	5.7	5.6
<i>less intermediate FISIM</i>	-5.6	-6.2	-7	-8.1	-6.9	-5.7
<i>Plus Net Indirect Taxes</i>	25.1	27.9	30.3	33.2	32.4	34.2
GDP at purchaser's prices	326.6	351.3	351.9	356.6	344.9	343.5

Source: FSM Statistics Office, Budget & Economic Management estimate (FY20-FY21)

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

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Agriculture, Hunting & Forestry	-0.4%	2.2%	2.1%	1.3%	-8.1%	-6.9%
Fisheries	15.3%	16.3%	-3.5%	9.8%	-5.8%	-3.6%
Manufacturing	28.0%	14.0%	7.2%	0.9%	-0.6%	1.2%
Electricity, Gas & Water Supply	7.4%	-2.1%	26.2%	-16.4%	-0.1%	-1.7%
Construction	47.2%	16.2%	-49.2%	-20.2%	3.6%	-1.7%
Wholesale & Retail Trade & Repairs	4.8%	2.8%	-5.3%	9.4%	1.3%	5.5%
Hotels & Restaurants	3.5%	8.6%	3.4%	-2.8%	-23.9%	-7.8%
Transport, Storage & Communications	12.4%	3.5%	1.0%	21.3%	-1.4%	2.5%
Financial Intermediation	23.7%	7.8%	12.3%	17.4%	-9.8%	-11.9%
Real Estate, & Business Activities	6.1%	4.7%	10.5%	-7.1%	2.1%	0.0%
Public Administration	-1.4%	3.9%	10.5%	10.3%	2.1%	0.0%
Education	-0.3%	2.8%	-1.7%	2.3%	-3.5%	0.0%
Health & Social Work	-3.7%	5.7%	-0.3%	-81.5%	9.9%	5.1%
Other Community & Personal Services	5.3%	7.0%	4.3%	2.4%	-5.5%	-2.5%
GDP at purchaser's prices	5.3%	6.2%	0.2%	1.3%	-3.3%	-0.4%

Source: FSM Statistics Office, Budget & Economic Management estimate (FY19-FY21)

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

	FY2018	FY2019	FY2020	FY2021
Food	0.9	-0.1	1.0	4.5
Tobacco & Alcohol	0.4	5.3	0.7	17.5
Clothing & Footwear	0.7	-1.3	1.9	2.8
Housing, water, electricity and gas	7.9	2.5	-1.7	1.1
Furnishings and household equipment	1.2	0.7	0.9	2.5
Health	-6.4	0.0	0.0	0.0
Transport	6.2	1.3	-5.5	7.9
Communication	2.5	3.8	0.4	-0.4
Recreation and culture	1.3	0.6	-0.7	-0.5
Education	-2.5	-1.4	0.0	0.7
Restaurant and hotels	-1.4	0.5	0.5	0.8
Miscellaneous	-1.8	1.1	-0.6	5.1
Total All Groups	2.5	1.3	-0.3	5.4

Source: FSM Statistics Office

Table 6: Visitor Arrivals by Purpose

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

Source: FSM Statistics Office

Table 7: Tourists & Visitor Arrivals by Origin

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

Source: FSM Statistics Office

Table 8: FSM Commercial Banking Survey (\$ millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Total Assets	313.9	333.9	369.5	389.7	435.5	476.8
Total Liquid Assets	230.8	254.3	288.2	302.4	347.1	387.5
Cash & Due from Local banks	4.0	4.9	5.1	7.3	6.9	8.0
Foreign Assets - Due from Banks Abroad	226.8	249.3	283.1	295.1	340.1	379.6
Total Loans	75.4	71.6	73.1	77.5	78.1	79.1
Commercial Loans	42.6	37.5	40.9	45.0	42.3	44.2
Consumer Loans	32.8	34.1	32.2	32.6	35.9	34.9
Other Assets	7.7	7.9	8.2	9.7	10.3	10.1
Total Liabilities & Capital	313.9	333.9	369.5	389.7	435.5	476.8
Total Deposits:	283.8	298.3	335.7	350.7	395.8	437.9
Demand	79.8	91.7	98.4	105.5	152.4	145.5
Savings	179.5	175.6	199.5	208.5	214.8	257.7
Time	24.4	24.1	26.7	25.8	19.4	21.6
Other	0.2	6.6	11.1	10.8	9.1	13.0
Other Liabilities & Capital	30.1	35.9	33.8	39.0	39.7	38.9
Memorandum Items:						
Loan/Deposit Ratio	27.0	24.0	22.0	22.1	19.7	18.1
Commercial Loan Share of Total Loans (%)	56.0	48.0	44.0	58.1	54.2	55.9
Consumer Loan Share of Total Loans (%)	44.0	52.0	56.0	42.1	46.0	44.1
Deposits Annual Rate of Change (%)	12.2	5.1	12.5	4.5	12.9	10.6
Loans Annual Rate of Change (%)	-3.9	-5.0	2.1	6.0	0.8	1.3
Commercial Loans Annual Rate of Change (%)	8.0	-12.0	9.1	10.0	-6.0	4.5
Consumer Loans Annual Rate of Change (%)	-15.9	4.0	-5.6	1.2	10.1	-2.8

Source: FSM Statistics Office

Table 9: Interest rates of domestic money banks

(percent)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Deposit rates						
Savings deposits	0.2	0.2	0.6	0.6	0.5	0.6
CDs	0.4	0.4	0.4	0.3	0.4	0.3
Time Deposits	0.6	0.3	0.2	0.1	0.0	0.0
Other Deposits	0.0	0.0	0.1	0.0	0.0	0.0
Loan rates						
Consumer loans	15.7	15.7	15.4	15.7	15.7	15.7
Commercial loans	6.2	7.7	7.6	7.8	6.8	7.6

Source: FSM Statistics Office

Table 10.1: FSM Balance of Payments (\$ millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Current account balance	12.9	27.3	84.6	62.7	12.3	2.5
<i>Goods and services balance</i>	-151.0	-157.8	-120.2	-173.0	-169.6	-185.4
<i>Goods balance</i>	-110.3	-120.2	-128.5	-125.0	-113.7	-126.6
Exports of goods	49.7	55.2	47.2	59.6	52.1	51.6
Fish	33.3	39.1	31.2	33.0	33.3	33.0
Other	16.5	16.1	15.5	15.9	11.7	11.5
Imports of goods f.o.b.	160.0	175.4	175.7	184.6	165.8	178.1
<i>Services balance</i>	-40.8	-37.5	8.3	-48.0	-55.9	-58.9
Exports of services	38.1	54.4	95.4	70.1	44.8	44.2
Travel	23.5	23.6	24.7	25.4	6.3	6.3
Other	14.6	30.8	70.8	35.1	34.6	34.1
Imports of services	78.9	92.0	87.1	118.1	100.6	103.1
Transport	44.5	48.9	47.9	49.2	38.5	40.9
of which: Passenger services	18.2	20.0	19.0	19.5	9.3	12.1
of which: Freight and postal services	26.3	28.8	28.8	29.6	29.1	28.8
Construction services	7.7	17.4	10.9	11.9	5.9	5.8
Other	26.6	25.7	28.2	30.2	29.8	29.3
<i>Primary income balance</i>	<i>54.3</i>	<i>47.2</i>	<i>10.3</i>	<i>46.3</i>	<i>46.4</i>	<i>41.1</i>
Receipts	72.1	78.7	78.6	78.6	78.4	72.6
Fishing licence fees	63.2	72.5	70.0	72.3	70.2	69.0
Other (mainly dividends and interest)	8.9	6.2	8.6	3.4	3.3	3.8
Payments	17.8	31.5	68.4	32.3	32.0	31.5
<i>Secondary income balance</i>	<i>109.6</i>	<i>137.9</i>	<i>194.5</i>	<i>189.3</i>	<i>135.5</i>	<i>146.8</i>
Receipts	126.3	154.9	211.9	206.4	151.1	163.3
Budget grants	76.8	94.6	80.8	97.9	63.6	63.6
Off-budget grants	5.1	-1.1	8.8	9.1	8.9	8.8
College of Micronesia	12.3	11.4	9.0	12.8	12.6	12.5
Other (mainly households)	26.0	27.3	28.8	30.4	18.0	26.3
Payments (mainly households)	16.7	17.1	17.4	17.1	15.6	16.6

Table 10.2: FSM Balance of Payments (\$ millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Capital account balance	32.2	23.1	19.6	21.3	20.2	30.0
Compact capital grants	7.2	5.2	2.4	2.9	2.9	4.4
Other	25.0	17.9	17.2	18.4	17.3	25.6
Net lending/Borrowing (Curr + Cap)	45.1	50.4	104.2	84.0	32.3	32.4
Financial account balance	-26.7	-57.9	136.4	84.0	32.3	32.4
Direct investment	0.2	0.2	0.2	0.2	0.2	0.2
Portfolio investment (increase in assets: -)	3.3	-15.6	-113.1	72.4	12.6	13.3
Assets	2.9	-16.5	-113.8	71.5	11.7	12.4
Liabilities	0.4	0.9	0.8	-0.9	-0.9	-0.9
Other investment (increase in assets: -)	-30.1	-42.5	-23.5	11.4	20.0	19.4
Assets (mainly bank deposits)	-26.08	-38.2	-19.1	13.7	8.1	15.0
Liabilities (public sector loans)	-3.3	-4.3	-4.4	1.9	-11.9	-4.4
Errors and omissions	18.4	-7.5	-32.3	0	0	0
<i>Memorandum item</i>						
Exports by FSM incorporated, non-resident fishing vessels	8.4	25.8	31.6			

Source: FSM Statistics Office/BEM estimates 2019-2021

Table 11: FSM external debt (million)

(US\$ millions)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
External Debt Total (US\$ millions)						
New	3.5	4.5	0.7	0.0	0.0	0.0
Amortization	4.4	4.6	4.5	5.5	4.6	4.7
Interest	2.0	2.0	1.9	1.8	1.9	1.9
Principal balance	80.4	80.4	75.7	77.3	65.4	61.0
External debt as % of GDP	24.1	23.2	22.0	20.8	21.8	18.3
Debt service as % domestic revenue	7.1	6.0	7.0	8.9	5.2	7.3

Source: FSM Statistics Office/BEM estimates 2020&2021

Table 12: Population by state, 1980 to 2010

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

Source: FSM Statistics Office

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

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

Source: FSM Statistics Office

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

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

Source: FSM Statistics Office