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## **Federated States of Micronesia: Recent Economic Developments**

This Recent Economic Developments report on the Federated States of Micronesia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Federated States of Micronesia or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND  
FEDERATED STATES OF MICRONESIA

**Recent Economic Developments**

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Approved by the Asia and Pacific Department

June 15, 1998

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Federated States of Micronesia: Basic Data, 1992/93-1996/97 1/

Nominal GDP (1997/98):	\$213 million
Population (1998):	111,000
GDP per capita (1997/98):	\$1,914
Quota:	SDR 3.5 million

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
<b>Real sector (calendar year basis)</b>					
Real GDP (percent change)	1.1	-1.8	1.6	0.7	-4.0
Consumer prices (percent change) 2/	6.0	4.0	4.0	4.0	3.0
<b>Consolidated government finance (percent of GDP)</b>					
Revenue and grants	85.3	85.3	83.8	82.7	73.8
Revenue	32.3	31.0	29.3	31.7	30.9
Grants	53.0	54.2	54.6	51.0	43.0
Expenditure	88.6	85.8	82.2	75.9	72.4
Current	68.0	69.4	67.9	63.0	58.8
Capital	20.5	16.4	14.3	12.9	13.6
Overall balance	-3.3	-0.6	1.7	6.9	1.5
Stock of domestic arrears 4/	3.6	5.6	6.7	7.9	8.0
<b>Commercial banks (US\$ mn; end December)</b>					
Foreign assets	62.3	60.2	68.9	79.6	80.3
Loans	58.1	57.9	53.6	47.8	46.3
Total deposits	116.7	113.6	113.5	121.4	119.1
<b>Balance of payments (US\$ mn.)</b>					
Trade balance	-109.1	-93.7	-75.5	-59.1	-52.0
Net services	-16.0	-22.8	-12.5	-0.2	-0.6
Private and official transfers	121.5	129.2	133.8	120.9	116.4
Current account including official transfers	-3.6	12.7	45.8	61.6	63.8
(In percent of GDP)	-1.9	6.5	22.3	28.6	30.0
Current account excluding official transfers	-113.1	-103.6	-74.4	-45.1	-37.8
(In percent of GDP)	-59.3	-53.2	-36.2	-20.9	-17.7
Overall balance	2.9	-17.8	-11.5	-0.6	7.5
(In percent of GDP)	1.5	-9.1	-5.6	-0.3	3.5
<b>External debt (US\$ mn.; end of period) 4/</b>					
(In percent of GDP)	136.6	128.8	119.3	110.3	111.4
	71.6	66.1	58.0	51.2	52.3
<b>External debt service (US\$ mn.) 4/</b>					
(In percent of exports of goods and nonfactor services)	17.5	20.2	19.3	19.3	19.3
	26.2	18.8	21.4	25.3	25.8
<b>National and state governments financial holdings (US\$mn.; end of period) 5/</b>					
(In months of imports of goods and services)	68.0	50.2	38.7	38.1	45.6
	4.3	2.7	2.6	3.4	4.3
<b>Exchange rate</b>					
Exchange rate regime	U.S. dollar is the domestic currency.				

Sources: Data provided by the Micronesian authorities; and Fund staff estimates and projections.

1/ On a fiscal year basis; the fiscal year ends on September 30.

2/ As the Federated States of Micronesia has no price index, prices are estimated by the staff based on trends in the United States and the Marshall Islands.

3/ Estimated stock of domestic arrears in Chuuk state; end of period.

4/ Government and public enterprise debt only.

5/ Indicator of official reserves. Excludes \$71 million in notes issued under the Yap Monetization Scheme.

## I. INTRODUCTION

1. The Federated States of Micronesia (FSM) is a confederation of four independent states: Chuuk, Kosrae, Pohnpei, and Yap, comprising 607 volcanic islands and coral atolls in the Northern Pacific, covering a total land area of 270 square miles and an exclusive economic zone of over 1 million square miles. Each state is headed by a governor and guided by its own constitution, which determines the relative balance of powers between the executive, the legislative, and the judiciary, as well as between the state and municipal levels of government. The national executive is headed by a president elected from among the 14 members of the unicameral National Congress, which comprises ten senators representing districts apportioned by population and one senator from each of the four states. The population is 111,000, of which 56,000 live on Chuuk and 36,000 on Pohnpei. While population growth has been rapid at 3 percent per annum, migration mostly to the United States in recent years has contributed to a net population growth of some 1.3 percent a year.

2. FSM was part of the United Nations Trust Territory of the Pacific Islands, under U.S. administration during the period from 1947-86. A Compact of Free Association with the United States (compact) came into effect in 1986 for a 15-year period to 2000/01,<sup>1</sup> under which the United States retains authority and responsibility for security and defense matters in exchange for financial assistance, presently equivalent to about 35 percent of GDP, down from 45 percent, reflecting a step reduction of grants in FY1997. Financial assistance includes annual block grants of \$60 million for the first five years, \$51 million for the next five years, and \$40 million for the final five years, as well as amounts for special projects, all subject to a partial annual inflation adjustment. U.S. federal agencies also provide grants for specified purposes, including for health, education, and marine surveillance projects.

## II. OUTPUT AND PRICES

### A. Output

3. **Real GDP** growth which has been sluggish in recent years contracted by 4 percent in FY1997 (Table 1).<sup>2</sup> This mainly reflects a sharp reduction in government expenditures under the reform program implemented by the national and state governments since FY1996, the cornerstone of which is the reduction in workforce and wage levels of government employees. The 1996 official GDP data indicated that government services accounted for 42 percent of GDP, wholesale and retail trade for 22 percent, and agriculture, hunting, and forestry for 17 percent (Table 2).

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<sup>1</sup>The fiscal year starts on October 1.

<sup>2</sup>GDP data are estimated by the authorities in coordination with the mission as there are no official national accounts estimates for FSM. With technical assistance from the Asian Development Bank (AsDB) the first preliminary official GDP data for 1996 was published in April 1998.

4. **Fisheries** in the FSM consist of commercial fishing in FSM's exclusive economic zone that are mainly undertaken by foreign fleets under license agreements, and inshore subsistence fishing carried out by Micronesians for domestic consumption. Commercial fishing is centered on the export of tuna, mainly to Japan. Fish accounted for 82 percent of exports in 1996 (the most recent year for which data is available) and the value of exports has fallen by two-thirds since 1994 due to the withdrawal of Chinese fishing operations from FSM. In recent years, the state and national governments made substantial investments in fishing fleets, shore facilities, and processing plants. These individual and joint-venture operations proved unprofitable and many either have since been liquidated or are in receivership. Based on these past failures, the government's current fisheries policy is to avoid direct involvement in commercial fishing operations in favor of initiatives to support private sector activities. These would include continued improvement of port and on-shore facilities to attract greater transshipment and processing of fish through FSM by foreign fleets. Reliance on fees from licensing arrangements is to be emphasized. In FY1996-97, earnings from fishing fees accounted for some 30 percent of consolidated government domestic revenue.

5. **Agriculture** is dominated by subsistence production for individual household consumption with a relatively low level of commercial activity. Production of **copra**, the main commercial and cash crop, continues on a long-term downward trend, reflecting the aging tree stock; export of copra virtually stopped by 1996. The Coconut Development Authority (a national agency) continues to purchase copra (at higher-than-market rates) for export or sale to processing plants. Only the Pohnpei state-owned plant is operational, while the Chuuk state plant has ceased operations from a lack of working capital and management expertise. Reflecting the national and state government policies for the diversification of **agricultural production**, some gains in the production and exports of betel nuts, bananas, black pepper, and citrus products have been made over the past few years. **Manufacturing** activity through a garment factory in Yap and production of buttons from trochus shells has remained moderate. **Tourism** activity continues to be limited to niche markets, including ecotourism and ship-wreck diving in Chuuk and Yap. Average annual travel arrivals to FSM is estimated to be steady at around 25,000, of which some 60 percent could be classified as tourist. Growth in tourist arrivals remains hampered by the lack of infrastructure and distance from potential markets, while the development of resorts is hindered by the complex land tenure system and environmental concerns.

6. **The Public Sector Reform Program (PSRP)** was initiated in 1996 in anticipation of the substantial step-down in and possible termination of U.S. compact grants. It was primarily designed to correct large imbalances in the public sector and external accounts and to make the economy more self-reliant by reducing the dominant role of the public sector in economic activity, particularly fisheries, agriculture, and tourism. The level of development and economic situation of individual states differed and thus required the development of specific reform strategies. A complex framework of measures to achieve the program's objectives were nevertheless agreed to and received the endorsement of broad groups of FSM citizens at economic summits held at the state and national levels. This program is supported by the

donor community and the AsDB is providing financial support with concessional loans amounting to \$18 million to be disbursed in two tranches.

7. Both the national and state governments recognize the potential for **foreign investment** to play an important role in expanding and diversifying the productive base, and in supporting the promotion of private sector activity. A new foreign investment act was enacted in 1997 and remains to be ratified by the individual states. The new law would increase the transparency of the approval and regulatory framework, clarify jurisdiction between the national and state governments, and streamline the licensing procedure. However, the remaining impediments to investment yet to be addressed include access to land, its use for collateral, and procedures for land lease.

### B. Prices, Employment, and Wages

8. It is estimated that **retail prices** decelerated to 3 percent in 1997 from 4 percent in 1996, reflecting the negative real GDP growth. There is no official consumer price index or GDP deflator, but the authorities estimate price movements based on price changes in the main trading partners, tariff levels, transportation costs, and the limited competition at the wholesale and retail levels. In general, the inflation rate has largely followed that of the United States.

9. Traditionally, public service has played a major role in providing formal sector employment in the FSM, accounting for approximately one-half of total employment. The total number of **public sector employees** declined by 6 percent on average in FY1996-97, due to the cutback in the government workforce (Table 3). The largest decrease in FY1997 was recorded in Yap where the public sector workforce was reduced by over 11 percent, followed by a 10 percent drop in Pohnpei, where there has been a continuous reduction since FY1994. Employees in the national government, however, increased by 3 percent in FY1997, following a 4 percent decline in FY1996. Data are not collected on unemployment.

10. **Public sector nominal wages** fell by 6 percent in FY1997, following a freeze in FY1996, primarily because of the measures under the reform program. Average wages in Chuuk and Pohnpei decreased by 10 percent in FY1997, while for the national government and Kosrae, they dropped by 2 percent. In contrast, wages in Yap rose in the last two years. The average wage of national government employees continue to be well above those of the states. Public sector employees continue to benefit from much higher wages and salaries than private sector employees. There is no national minimum wage policy, although minimum wages are applied in Chuuk and Pohnpei, currently set at \$0.85 per hour and \$1.35 per hour, respectively, but are loosely enforced.



### C. Environmental Issues

11. High birth rates, limited land, and migration to state capitals have contributed to growing environmental problems. The availability and access to safe and reliable drinking water have worsened. An improper and poorly maintained waste management system—under 50 percent of the urban population is connected to sewerage systems—has led to waterborne diseases. Encroachment by homesteaders seeking firewood and crop lands has resulted in deforestation and depletion of vital watershed areas. While fisheries and tourism are important growth sectors, policies to restrict pollution, effectively manage coastal water resources, and preserve the country's biodiversity need to be further developed. Appropriate national and state environmental regulations exist but enforcement is hindered by limited institutional capacity.

### III. PUBLIC FINANCE

12. The formulation of a consistent **national fiscal policy** is hindered by the structure of relations between the national and state authorities. The national government is responsible for policy coordination, but state authorities have a high degree of autonomy in the implementation of budgetary policies. They have the power to levy a wide range of taxes—including sales taxes and excises on tobacco, cigarettes, fuel, alcohol, beer, soft drinks, car rentals, and hotel accommodations—and all forms of fees and licenses, and to determine the level and composition of expenditure. While the national government imposes taxes on imports and income, 80 percent of the fuel import tax and 50 percent of other import and income taxes accrue to the treasury of the state where they are collected (starting in October 1998, the latter percentage would increase to 70 percent, but the increase resources must be earmarked for capital expenditures in the areas of health and education). U.S. compact grants are automatically redistributed to the states according to set formulas and, as a result, the national government acts only as an administrator of such flows and cannot alter their terms or uses. In addition, a certain portion of compact grants can only be expended for specific purposes. Thus, while general grant funds may be applied to general budgetary expenditures, special funds are earmarked for specific uses, particularly in the health and education areas, and cannot be diverted to other uses, and the use of capital funds is limited to approved public investment outlays, which in some states are allocated down to the municipality level, and thus may not be redeployed elsewhere. The national congress plays an important role in determining the spending of the proceeds from fish licensing fees, the major source of revenue accruing to the national government (the states have mounted a challenge in the courts regarding the manner in which such resources are utilized).

#### A. Consolidated Budgetary Developments in 1995/96 and 1996/97

13. The overall surplus of the consolidated general government rose to 7 percent of GDP in FY1996 but fell back to 1.5 percent in FY1997, owing to the step-down in compact grants (Table 4). Outstanding domestic payments arrears (incurred by Chuuk and Pohnpei states)

rose to \$17 million in FY1996 and remained at that level in the following year. The reform measures led to a sharp reduction in current expenditures, while domestic revenue remained unchanged at about 31 percent of GDP. In line with the strategy of the adjustment program, the size of the public sector declined significantly at both the state and national levels (see Box 1 for a summary of the envisaged measures).

14. **External grants** continued to account for a significant part of budgetary revenue, equivalent to 51 percent of GDP in FY1996, but falling to 43 percent in FY1997 with the last five-yearly step-down in compact grants. Current grants continued to account for some 70 percent of total grants, and in FY1997 such grants covered more than one-half of consolidated current expenditures, for some states more than 75 percent. One-third of domestic revenue was derived from tax receipts which, at just below 11 percent of GDP, remained low relative to comparable countries in the Pacific region.<sup>3</sup> Tax receipts at the national level were stagnant, reflecting the fall in economic activity in FY1996-97, while the tax effort at the state level improved with a tightening of tax administration and the collection of tax arrears. Nontax receipts continued to be dominated by fishing license fees, which represented a third of total domestic revenue, but the absolute level of receipts stagnated in recent years as foreign fishing vessels withdrew operations. Noncompact external grants declined gradually reflecting lower U.S. federal grants for public works (Table 5).

15. **Current expenditure** fell to 63 percent of GDP in FY1996 and further to 59 percent in FY1997. The decline in FY1996 was a result of tight controls on outlays of goods and services, particularly for travel; in FY1997, it was due to the reduction in wage rates, a freeze on wage increases, and the elimination of vacant positions. **Capital expenditure** was held to around 13 percent of GDP in the last two fiscal years, somewhat lower than it had been in the previous years.

## B. National Government Finances

16. The overall balance of the **national government** continued to register surpluses, but they have declined in recent years (Table 6). In FY1997 grants decreased from the compact step-down, while other nontax receipts fell as a result of a suspension of the passport sales program after running into some political problems. Tax receipts were marginally lower despite the sharp slowdown in economic activity, reflecting improved tax administration efforts. Current expenditure was reduced by 12 percent, largely reflecting a reduction in outlays on goods and services. However, the impact of the reform measures on the wage bill was negligible, in part reflecting delays in the implementation of the downsizing and early retirement program.

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<sup>3</sup>Recent tax-to-GDP ratios in other Pacific islands include: Fiji (22 percent), Kiribati (23 percent), Marshall Islands (19 percent), Papua New Guinea (19 percent), Samoa (30 percent), Solomon Islands (24 percent), Tonga (18 percent), and Vanuatu (19 percent).

**Box 1. Federated States of Micronesia: Fiscal Measures, FY1996-98**

**Expenditure**

<i>a. Workforce reduction</i>	<u>Base</u>	<u>Target</u> <u>Mid-1999</u>	<u>Target</u>	<u>Reduction</u> <u>Through Dec. 97</u>
Chuuk	2,800	2,000	800	360
Pohnpei	1,633	1,255	378	217
Yap	1,060	769	300	242
Kosrae	794	690	104	140
National	750	600	150	40
Total	7,046	5,314	1,732	999

*b. Wage reduction*

Chuuk	20 percent
Kosrae	10 percent
Pohnpei	12.5 percent

*c. Other measures*

- following reductions, a wage freeze
- following reductions, a freeze on travel expenses
- merging government departments and ministries
- outsourcing of certain services

**Revenue**

Targeted increase of 20 percent each for Chuuk and Pohnpei, 30 percent for Yap, 5 percent for Kosrae, and 40 percent for the national government. Increase to be achieved by:

- Adjusting import duties to c.i.f. from f.o.b. basis.
- Raising state taxes.
- Reducing exemptions on import duties and GRT.
- Strengthening tax and customs administration, reducing tax arrears.
- Combining state and national agencies into a unified federal tax department.
- Increasing user fees and charges.

### C. Fiscal Developments in States

17. After facing a severe financial crisis in FY1995, the state government of **Chuuk** took measures to reduce expenditures, which led to the generation of surpluses in FY1996 and FY1997 (Table 7). However, payment arrears continued to be accumulated in FY1996; with financial assistance from the national government, the stock of arrears was reduced in FY1997 and is scheduled to be reduced further in FY1998 and be eliminated by FY1999. There were problems in FY1996 in the collection of tax receipts linked in part to Chuuk's arrears to suppliers. These problems were resolved in FY1997 and tax receipts rose by 85 percent, reflecting in part reduction in tax arrears and improved collections. However, revenue measures involving an increase in sales taxes from 3 to 5 percent, a tax on luxury items of 10 percent, and increases in fees and charges for certain services are still under consideration in the legislature. In the expenditure area, wages were effectively reduced by 20 percent with the introduction of a four-day week in FY1996, a freeze in general wage adjustments, and a halt in new hiring. The size of the government workforce was reduced by some 13 percent by FY1997 compared to a targeted reduction of 29 percent by FY1999. In all, outlay on wages has fallen by 23 percent since FY1995. A travel freeze and stricter scrutiny on other outlays of goods and services helped to bring this category of expenses under better control. Nevertheless, the finances of Chuuk state remained vulnerable. Domestic revenue still only covered a little over one-third of current expenditures and additional adjustments would clearly be needed to achieve greater self-reliance.

18. The overall balance of the state government of **Kosrae** recorded a small deficit in FY1996 and was in virtual balance in FY1997 (Table 8). The levels of total revenue and grants and current expenditures have fluctuated narrowly in recent years. The deficit in FY1996 was the result of ongoing capital outlays on infrastructure and was financed mainly out of holdings of capital funds from the previous year's grant disbursements. In FY1997, with the step-down in compact grants, the Kosraen authorities implemented the agreed reform measures which contributed to a 17.5 percent reduction in current expenditures. The authorities have already reduced the government workforce by 17.5 percent, substantially ahead of the target date of FY1999, and much more than the reduction of 13 percent envisaged. In addition, a wage reduction of 12.5 percent was put in place with the FY1998 budget. Kosrae is especially dependent on external grants, as domestic revenue cover less than 30 percent of current expenditures. The authorities are considering further measures in the expenditure and revenue areas to reduce their reliance on external grants.

19. After registering a large overall surplus in FY1996, the fiscal position of the state of **Pohnpei** turned into a deficit in FY1997 as it failed to adequately adjust to the step-down in compact grants (Table 9). Its outstanding stock of payments arrears rose to \$3 million by end-FY1997. In FY1996, strict control on expenses for good and services, especially travel, reduced outlays, but the gains were reversed in FY1997. While the payroll was reduced in FY1997 with a halt in new hiring, a moratorium in promotions, and a freeze on wage increases, an effective wage decrease of 20 percent by reducing the work week was only put

in place in the latter half of FY1997. Under the reform program, the number of government employees was reduced by 13 percent compared to a target of 23 percent. The envisaged revenue measures and additional downsizing of personnel have been considerably delayed by the state legislature. Measures include raising sales taxes to a single rate of 7 percent from 1-3 percent and extending the tax to include food items. Without these measures, Pohnpei would likely be faced with a financial crisis in FY1998, similar to that experienced by Chuuk in FY1995. Like Chuuk, Pohnpei has also approached the national government for financial assistance to help bridge the financial shortfall, but the assistance would not be forthcoming until the proposed measures are implemented.

20. The overall balance of the state of Yap swung to a surplus position in FY1996 and FY1997, after registering sizable deficits in recent years (Table 10). Tax receipts increased with improvement in tax administration and collection and there was a gain in investment earnings in FY1996. With the step-down in compact grants, Yap also agreed to implement the reform measures to reduce current expenditures. Yap is in a somewhat less vulnerable position as its payroll has always been modest. Yap has already reduced government employment by 23 percent, compared to a target of 28 percent. Domestic revenue covered 55 percent of current outlays in FY1997.

#### **D. Nonfinancial Public Enterprises**

21. The reform measures included reducing subsidies to **public utilities** and striving toward a pricing policy that required complete cost recovery by all state entities. Except for Chuuk state all other state utility companies have been able to attain this objective by FY1997. The Chuuk state utilities began with a much weaker financial position, but appear to have formulated a plan to attain the cost recovery objective over the next few years.

22. The Telecommunications Corporation continues to be a profitable entity, providing domestic and international services, although it has received considerable financial assistance from the United States. Efforts to restructure and privatize commercial operations in fishing and agriculture have progressed very slowly. Pohnpei state has made advances in preparing the Fisheries Corporation for privatization and is pursuing interested buyers. The national government continues to provide financial support to the National Fisheries Corporation and the Coconut Development Authority; the Pohnpei state government assists transportation, housing, and port operations; and the Yap state government subsidizes fishing and public transportation.

#### **E. Social Security Administration**

23. The Social Security Administration (SSA) is a self-financing autonomous institution whose operations and entitlements, including old age, survivors, and disability benefits, are paid out of contributions and investment income. Revenue from contributions has persistently exceeded entitlement payments and administrative expenses (Table 11). Moreover,

contribution rates, which are applied in equal proportions to employees and employers, were raised from 4 percent to 5 percent of gross salary in 1995. The financial holdings of the administration, which are mostly invested in U.S. securities, continue to be equivalent to four years of benefit payments at end-FY1997. The latest interim actuarial report, which takes into account the impact of the reform measures on public employment and contributions to SSA, indicate that benefit payments would start to exceed contributions in FY1999. This negative position is likely to persist and even worsen through the end of the compact in 2001.

#### IV. FINANCIAL SECTOR

##### A. Background

24. The **financial sector** consists of three commercial banks (the Bank of the Federated States of Micronesia, the only domestically owned bank with offices in each of the four states, and two U.S. banks, the Bank of Guam with offices in Pohnpei and Chuuk, and the Bank of Hawaii with offices in Pohnpei, Kosrae, and Yap); the Development Bank of the Federated States of Micronesia; six insurance companies; and four credit unions. There is no central monetary authority and the U.S. dollar is the currency of FSM. Deposits in all three commercial banks are protected by the U.S. Federal Deposit Insurance Corporation.

25. **Supervision of commercial banks** is exercised by the Banking Board established in the Banking Act in 1980, and headed by a banking commissioner. With IMF technical assistance, directly and through the Pacific Financial Technical Assistance Centre (PFTAC), supervision functions of the Board have steadily improved. The Board has established prudential norms and has improved capital and other regulatory requirements, and is now able to review indicators of the financial situation of commercial banks reported on a monthly basis. The Bank Commissioner has conducted on-site visits to all bank branches, except one bank each in Kosrae and Chuuk. The Board has authority to license banks and, in early 1998, the requirement for annual renewal was eliminated; banks are now licensed until withdrawal for defined infractions. The regulation that banks should not transfer abroad more than 50 percent of deposits received from local residents and domestic corporations was also eliminated in late 1997. The supervision and licensing of the Development Bank, insurance companies, and the credit union continue to be outside the jurisdiction of the Banking Board.

26. **Consumer loans** continue to account for some two-thirds of total loans and are contracted primarily by public sector employees and other salaried workers for the purpose of travel, family celebrations, home improvements, and education. These loans are usually repaid through a system of automatic deductions from employer's payrolls. **Commercial loans** are made to public enterprises and the private sector for working capital and equipment purchases. Long-term lending remains very limited in view of the small number of viable projects and are hampered by the inflexible land tenure system which prevents banks from using land as collateral or for leasing arrangements.

## B. Recent Developments

27. Reflecting the fall in economic activity, commercial bank lending contracted by 11 percent in 1996 and a further 3 percent in 1997 (Table 12). The steep fall in 1996 reflected the fiscal crisis in Chuuk which led to a severe curtailment of consumer lending, as the state government failed to make allotment payments to cover employee loan obligations and the employment outlook turned sharply negative. Banks were required to charge off nonperforming consumer loans which lowered profitability. Commercial loans remained unchanged in 1996-97 implying a fall in real terms.

28. There was an increase in bank deposits in 1996, attributed in part to an increase in time deposit interest rates (Table 13). In 1997, deposits fell as the decline in economic activity took hold. However, the loan-deposit ratio fell sharply over the last two years to 39 percent by end-1997. Claims on foreign banks increased as a result by 16.5 percent in 1995-97 to \$80 million.

29. Average **interest rates** on savings deposits rose in 1996 by 0.5 percentage points to 3 percent and those on time deposits rose by 1.5 percentage points to 4.9 percent. Time deposit rates fell to 4.3 percent in 1997 and such deposits accounted for 50 percent of all deposits. Interest rates on consumer loans remained unchanged at 15 percent throughout this period while the average rate on commercial loans has fallen by 0.5 percentage points to 10.8 percent in 1997. In early 1998, interest rate ceilings on commercial loans were eliminated subject to a usuary ceiling of 24 percent, and the ceiling on consumer loans is to be removed by September 1998.<sup>4</sup> The ratio of delinquent loans has been reduced to 2-3 percent of the loan portfolio in 1997 from 7 percent in 1995 and, with large charge-offs, the equity-to-asset ratio has fallen.

30. After falling slightly in 1996, the private sector loan portfolio of the Development Bank rose to \$32 million (Table 14). Loans to the fisheries sector continued to dominate the portfolio, followed by credits to the manufacturing sectors. Nonperforming loans amounted to about 10 percent of the total loans. Interest rates on new loans remained at 9 percent, for an average term of seven years.

## V. EXTERNAL SECTOR

31. The current account deficit, excluding official transfers, narrowed sharply by about one-half over the past two years to less than 18 percent in FY1997, reflecting the compression of imports from the decline in economic activity arising from the sharp decrease in government expenditure (Table 15). With the absence of new borrowings, large medium-term capital

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<sup>4</sup>The ceiling on consumer loans is 15 percent and the ceilings on commercial loans were the U.S. prime rate plus 4 percentage points for loans up to \$1 million, or the bank's savings rate plus 8 percentage points, depending upon the borrower.

outflows continued in FY1996, but the medium-term capital account swung into a small surplus in FY1997 with the disbursement of the first tranche of the AsDB public sector reform loan of \$10 million. It is believed that continued large negative errors and omissions reflect overestimation of exports (particularly fish reexports), service receipts and accounting for official transfers. Capital account transactions are difficult to monitor owing to the use of the U.S. dollar and the absence of capital controls, and no official balance of payments statistics are compiled by the authorities. The overall balance of payments position, measured by changes in the consolidated financial holdings of the government, improved sharply in FY1997 as public finances strengthened.

#### A. Merchandise Trade

32. **Exports** and reexports continued to fall sharply in recent years to 15 percent of GDP by FY1997 from some 30 percent in FY1995. This decline is explained by a precipitous fall in fish exports in FY1996-97, due to the withdrawal of a Chinese fishing operation from FSM and lower fish landings by Japanese vessels. Nevertheless, in 1997 fish exports still accounted for more than 80 percent of total exports (Table 16). Among minor exports, betel nut and pepper expanded notably and garments have grown steadily, while all other items remained stagnant and copra exports have disappeared. **Imports** also decreased significantly to the equivalent of 40 percent of GDP in FY1997 down from 80 percent in FY1994. Food and beverages continued to take up the largest share of total imports (29 percent), followed by mineral fuels (18 percent), and manufactured goods (16 percent) (Table 17). The United States remained the dominant source of imports, accounting for 70 percent of all imports in 1996, followed by Japan with 13 percent (Table 18).

#### B. Services and Transfers

33. The services account in FY1996-97 was virtually in balance reflecting mainly the large decline in service payments on freight and insurance because imports fell sharply over the last two years. **Services receipts** were somewhat higher in FY1996 with larger interest and investment income earnings, but these earnings returned to normal levels in FY1997. Income from fishing fees continued to represent 50 percent of service receipts, while travel receipts remained stagnant. U.S. compact grants were reduced by 16 percent in FY1997 but, together with grants from various federal agencies, continued to represent 77 percent of total **unrequited transfers**, somewhat lower than in past years. Non-U.S. official transfers included bilateral grants, particularly from Japan.

#### C. Capital Account, Overall Balance, and External Debt

34. The **capital account** consists of medium-term government borrowings and principal repayments, as well as short-term capital flows that include social security fund investments, public enterprises' escrow accounts, government-guaranteed borrowing from the U.S. Rural Electrification Administration, and errors and omissions. The **overall balance**, measured by



changes in the financial holdings of the national and state governments, shifted to a surplus position in FY1997.

35. The bulk of **external debt** originated from government commercial borrowings made against future compact disbursements through the early 1990s. There were also loans from U.S. federal agencies for telephone and power generation services. In the last two years, the government has increased borrowing from the AsDB at concessional terms. Total outstanding debt at the end of FY1997 stood at \$111 million, equivalent to 52 percent of GDP (Table 19). Debt-servicing payments have increased steadily to some 26 percent of exports of goods and services and continue to be dominated by amortization and interest outflows associated with commercial borrowing.

#### **D. Exchange and Trade System**

36. The currency of the FSM is the U.S. dollar. Under the terms of the compact, the FSM must consult with the United States if it decides to issue its own currency. There is no central monetary institution, the authorities do not act as agents for buying or selling foreign exchange, and there are no exchange control regulations. Foreign exchange transactions are handled by the three commercial banks which are authorized foreign exchange dealers and are regulated by the bank commissioner. The commercial banks buy and sell foreign exchange at the rates quoted in the international markets. Forward transactions may be conducted through the commercial banks without restrictions. Both outward and inward payments may be settled in U.S. dollars or any other convertible currency, and there are no taxes or subsidies on purchases or sales of foreign exchange. FSM accepted the obligations of Article VIII, Sections 2, 3, and 4 in June 1993, and maintains an exchange system that is free of restrictions on payments and transfers for current transactions.

37. Imports are not subject to licensing requirements, but importers must obtain a business license. Imports of certain products are prohibited for environmental, health, safety, or social reasons. There are no surrender requirements for export proceeds; exports are not subject to licensing requirements; and there are no taxes or quantitative restrictions on exports. The purchasing, processing, and exporting of copra and copra by-products are solely conducted by the government-owned Coconut Development Authority. There are no restrictions on payments for, or receipts from, invisibles.

38. Foreign investors must obtain a business license from the Department of Resources and Development of the national government to engage in business or acquire an interest in a business in the FSM and submit an application for review by the Foreign Investment Board of the state in which the investor proposes to operate (the Department of Industries and Commerce in Yap). Legislation to streamline and make transparent the licensing and approval procedures for investments was approved by the national government at the end of 1997, but requires ratification by all states before its implementation. The prohibition from transferring abroad of more than 50 percent of deposits received from local residents, including domestic corporations and the authorities, was removed in 1997. There are no restrictions on other inward or outward capital transfers.

Table 1. Federated States of Micronesia: Gross Domestic Product, 1992/93-1996/97 1/

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
(In millions of U.S. dollars)					
Compensation of employees	93.0	96.8	104.3	108.8	104.6
Wages and salaries	90.3	92.8	99.8	104.1	100.1
Government	60.5	61.1	61.8	63.1	57.5
Private sector	29.8	31.7	38.0	41.0	42.7
Social security and employers	2.7	4.0	4.5	4.7	4.5
Operating surplus 2/	44.9	42.5	46.5	50.2	52.2
Nonmarket production	42.7	43.4	44.0	44.6	45.2
GDP at factor cost	180.6	182.7	194.8	203.6	202.0
Indirect taxes	14.7	15.7	14.3	15.0	14.1
Less: Subsidies	4.5	3.5	3.3	3.1	3.1
GDP at market prices	190.8	194.9	205.8	215.5	213.0
(In percent of GDP)					
Compensation of employees	48.7	49.7	50.7	50.5	49.1
Operating surplus	23.6	21.8	22.6	23.3	24.5
Nonmarket production	22.4	22.3	21.4	20.7	21.2
Memorandum items:					
GDP per capita (in U.S. dollars)	1,832	1,847	1,925	1,990	1,941
Inflation rate (in percent) 3/	6.0	4.0	4.0	4.0	3.0
Real GDP growth rate (in percent)	1.1	-1.8	1.6	0.7	-4.0
Real GDP growth per capita (in percent)	-0.6	-3.0	0.2	-0.6	-5.3

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Financial year ending September 30.

2/ Includes depreciation and self-employment income.

3/ Staff estimates based on trends in the Marshall Islands' CPI and U.S. GDP deflator.

Table 2. Federated States of Micronesia: Gross Domestic Product, 1996

(In millions of U.S. dollars)

A. By State and Major Economic Activity

	National Government	Pohnpei	Chuuk	Kosrae	Yap	FSM Total	Percent Share
Agriculture, hunting, and forestry	...	6.3	19.6	1.3	3.1	30.3	16.7
Fishing	...	2.7	0.6	0.1	1.0	4.4	2.4
Mining and quarrying	...	0.4	0.3	0.0	0.0	0.7	0.4
Manufacturing	...	1.3	0.1	0.0	1.2	2.6	1.4
Electricity, gas, and water	...	3.4	-2.7	0.5	0.7	1.9	1.0
Construction	...	0.9	0.0	0.5	0.5	1.9	1.1
Wholesale and retail trade	...	21.4	8.1	4.9	5.1	39.5	21.8
Hotels and restaurants	...	1.8	1.3	0.2	0.8	4.1	2.3
Transportation, storage, and communications	...	6.6	0.6	0.5	0.8	8.5	4.7
Financial intermediation	...	2.0	0.8	0.6	0.8	4.2	2.3
Real estate, renting, and business activities	...	1.1	0.0	0.1	0.1	1.3	0.7
Government services	16.4	21.3	23.9	6.8	8.1	76.5	42.1
Education	...	2.3	1.2	0.0	0.1	3.6	2.0
Health and social work	...	0.2	0.0	0.0	0.0	0.2	0.1
Other services	...	0.4	1.2	0.1	0.1	1.8	1.0
GDP at market prices	...	72.1	55.0	15.6	22.4	181.5	100.0

B. By Expenditure Category

Category	Total	Percent Share
Government final consumption expenditure	165.2	91.0
Private final consumption expenditure	93.9	51.7
Gross fixed capital formation	20.5	11.3
Net exports	-98.0	-54.0
GDP at market prices	181.6	100.0

Sources: Data provided by the Micronesian authorities; and the Asian Development Bank.

Table 3. Federated States of Micronesia: Public Sector Employment and Wages, 1992/93-1996/97 1/

	1992/93	1993/94	1994/95 2/	1995/96	Est. 1996/97
(In persons)					
Number of public sector employees					
National government	653	660	682	658	676
Pohnpei	1,838	1,823	1,518	1,427	1,288
Chuuk	2,368	2,392	2,824	2,583	2,444
Yap	907	989	1,000	980	869
Kosrae	777	785	762	782	738
Total	6,543	6,649	6,786	6,430	6,015
(In U.S. dollars)					
Average public sector wage					
National government	15,133	15,574	13,953	14,023	13,757
Pohnpei	8,542	8,887	11,198	11,699	10,565
Chuuk	8,868	8,403	7,303	6,950	6,266
Yap	6,935	6,822	6,851	6,920	6,948
Kosrae	6,624	6,494	7,228	7,395	7,242
Weighted average wage	8,867	8,787	8,768	8,777	8,247
Memorandum item:					
Total population	104,139	105,506	106,891	108,294	109,715

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ National and state governments, excluding municipal employees.

2/ There is a structural break.

Table 4. Federated States of Micronesia: Consolidated General Government  
Finances, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
(In millions of U.S. dollars)					
Total revenue and grants	162.7	166.2	172.5	178.3	157.3
Domestic revenue	61.6	60.5	60.2	68.4	65.8
Taxes	20.5	21.5	21.0	19.9	23.0
National government	8.2	8.0	8.1	7.9	7.8
Income	2.7	2.7	2.8	2.7	2.7
Gross revenue	3.0	3.0	3.1	3.1	3.0
Imports	2.3	2.1	2.0	1.9	1.9
Fuel	0.1	0.2	0.2	0.2	0.2
Revenue sharing	8.5	8.9	8.8	8.3	10.7
Other	3.8	4.6	4.2	3.7	4.5
Nontax revenue	41.1	39.0	39.2	48.5	42.8
Fishing fees	18.1	21.3	20.8	19.8	20.1
Investment and interest income	11.1	9.7	10.1	13.8	10.9
Other	11.9	8.0	8.3	14.9	11.8
Grants	101.1	105.7	112.3	109.9	91.5
Of which: Current grants	70.7	71.7	76.8	74.9	65.6
Compact	89.1	90.7	91.9	93.3	78.4
Other	12.0	15.0	20.4	16.6	13.1
Total expenditure	169.0	167.3	169.1	163.5	154.2
Current expenditure	129.8	135.3	139.7	135.7	125.3
Wages and salaries	57.9	58.4	63.5	63.0	55.5
Goods and services	54.4	58.0	62.4	57.1	55.0
Interest payments	6.8	5.5	5.0	5.4	5.3
Subsidies and transfers	10.7	13.3	8.8	10.2	9.5
Capital expenditure 1/	39.2	32.0	29.4	27.8	28.9
Current balance	2.5	-3.1	-2.7	7.6	6.1
Overall balance	-6.3	-1.1	3.4	14.8	3.1
Memorandum items:					
Outstanding stock of arrears	6.9	11.0	13.8	17.1	17.1
Financial holdings	68.0	50.2	38.7	38.1	45.6
(In percent of GDP)					
Revenue and grants	85.3	85.3	83.8	82.7	73.8
Revenue	32.3	31.0	29.3	31.7	30.9
Grants	53.0	54.2	54.6	51.0	43.0
Expenditure	88.6	85.8	82.2	75.9	72.4
Current	68.0	69.4	67.9	63.0	58.8
Capital	20.5	16.4	14.3	12.9	13.6
Current balance	1.3	-1.6	-1.3	3.5	2.9
Overall balance	-3.3	-0.6	1.7	6.9	1.5

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes net lending.

Table 5. Federated States of Micronesia: U.S. Grants Under the Compact of Free Association, 1992/93-1996/97

(In millions of U.S. dollars)

Compact Section	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Section 211 - Block grant	51.0	51.0	51.0	51.0	40.0
Section 212 - Civic action teams	1.0	1.0	1.0	1.0	1.0
Section 214(b) - Energy grant	3.0	3.0	3.0	3.0	3.0
Section 215(a)(2) - Communications operations	0.6	0.6	0.6	0.6	0.6
Section 216(a)(1) - Marine surveillance	0.5	0.5	0.5	0.5	0.5
Section 216(a)(2) - Health and medical program	1.3	1.3	1.3	1.3	1.3
Section 216(a)(2) - Education	1.9	1.9	1.9	1.9	1.9
Section 217 - Inflation adjustment 1/	22.8	24.4	25.6	27.0	23.1
Section 221 - Block grants: Education/health	7.0	7.0	7.0	7.0	7.0
Total	89.1	90.7	91.9	93.3	78.4
Memorandum items:					
U.S. federal grants	11.0	13.8	16.4	11.3	10.9
Non-U.S. grants 2/	9.4	11.8	11.9	2.1	12.3

Source: Data provided by the Micronesian authorities.

1/ Section 217 states that the amounts provided in Sections 211, 212, 214, and 215 shall be adjusted for each fiscal year by the percent that equals two-thirds of the percentage change in the U.S. GNP implicit price deflator, or 7 percent, whichever is less in any one year.

2/ Total grants are higher than those shown in Table 4 as not all non-U.S. grants are channeled through the national or state governments.

Table 6. Federated States of Micronesia: National Government Finances, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total revenue and grants	51.4	53.1	57.8	55.2	49.5
Total domestic revenue	34.6	35.2	37.6	35.1	33.0
Taxes	8.2	8.0	8.1	7.9	7.8
National government	8.2	8.0	8.1	7.9	7.8
Income	2.7	2.7	2.8	2.7	2.7
Gross revenue	3.0	3.0	3.1	3.1	3.0
Imports	2.3	2.1	2.0	1.9	1.9
Fuel	0.1	0.2	0.2	0.2	0.2
Nontax	26.4	27.1	29.5	27.2	25.2
Fishing rights	18.1	21.3	20.8	19.8	20.1
Fines and penalties	0.8	0.2	0.9	1.0	0.3
Interest	1.7	2.1	2.4	2.1	2.0
Investment income	1.6	0.7	1.4	1.0	1.0
Other	4.1	2.9	3.7	3.3	1.8
Grants	16.8	17.9	20.2	20.1	16.5
<i>Of which</i> : Current grants	12.8	9.1	14.4	15.3	13.2
Compact	13.0	13.2	13.3	13.5	11.6
Other	3.8	4.7	7.2	6.6	4.9
Total expenditure	41.6	43.7	53.0	53.1	45.9
Current expenditure	38.4	41.0	48.3	48.8	42.9
Wages and salaries	9.9	10.3	10.9	11.4	11.2
Goods and services	21.7	22.7	32.2	32.1	26.9
Interest payments	0.0	0.0	0.0	0.0	0.0
Subsidies and transfers	6.8	8.0	5.2	5.3	4.8
Capital expenditure 1/	3.2	2.7	4.7	4.3	3.0
Current balance	9.0	3.3	3.7	1.6	3.3
Overall balance	8.2	8.0	5.8	2.1	3.6

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes net lending.

Table 7. Federated States of Micronesia: Chuuk Government Finances, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total revenue and grants	42.7	42.2	43.1	41.3	40.1
Total domestic revenue	8.0	7.0	7.3	6.8	10.2
Taxes	4.1	3.9	3.6	2.8	5.2
Revenue sharing	2.6	2.5	2.4	1.7	3.8
State	1.5	1.4	1.3	1.1	1.4
Nontax	3.9	3.1	3.7	4.0	5.0
Investment and interest income	2.1	1.1	1.4	2.1	3.0
Other 1/	1.8	2.0	2.3	1.9	2.0
Grants	34.7	35.2	35.8	34.5	29.9
<i>Of which:</i> Current grants	23.8	24.9	23.8	23.6	20.7
Compact	32.2	32.8	33.2	33.2	27.8
Other	2.5	2.3	2.6	1.3	2.1
Total expenditure	49.5	48.3	43.2	39.0	38.7
Current expenditure	36.4	34.3	33.7	31.2	28.7
Wages and salaries	21.0	20.1	21.9	20.9	16.8
Goods and services	14.6	13.2	10.1	8.2	9.2
Interest payments	0.2	0.6	0.7	0.7	1.4
Subsidies and transfers	0.6	0.4	1.1	1.4	1.3
Capital expenditure	13.1	14.0	9.5	7.8	10.0
Capital projects 2/	12.9	13.8	9.4	6.5	8.9
Capital transfers	0.2	0.2	0.1	1.3	1.1
Current balance	-4.6	-2.4	-2.6	-0.8	2.2
Overall balance	-6.8	-6.1	-0.3	2.3	1.4
Memorandum item:					
Outstanding stock of arrears	6.9	11.0	13.5	15.6	14.2

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes transfers from the national government.

2/ Includes net lending.



Table 8. Federated States of Micronesia: Kosrae Government Finances, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total revenue and grants	13.3	15.0	15.0	15.3	13.1
Total domestic revenue	2.5	3.1	3.0	3.2	2.5
Taxes	0.8	0.9	0.9	1.0	1.1
Revenue sharing	0.6	0.8	0.8	0.8	0.9
State	0.1	0.1	0.1	0.2	0.2
Nontax	1.8	2.1	2.1	2.2	1.4
Investment and interest income	0.8	0.5	0.4	0.4	0.4
Other 1/	1.0	1.7	1.7	1.8	1.0
Grants	10.8	11.9	12.0	12.1	10.6
<i>Of which</i> : Current grants	7.1	8.1	7.9	8.3	7.5
Compact	9.4	9.8	9.8	9.9	8.4
Other	1.4	2.2	2.2	2.2	2.2
Total expenditure	13.6	13.4	13.7	15.9	12.9
Current expenditure	9.3	9.8	10.8	10.8	8.9
Wages and salaries	5.1	5.1	5.5	5.8	4.7
Goods and services	3.9	3.8	4.8	4.5	3.9
Interest payments	0.3	0.2	0.1	0.0	0.0
Subsidies and transfers	0.0	0.7	0.4	0.5	0.3
Capital expenditure	4.3	3.6	2.9	5.1	4.0
Capital projects 2/	4.3	3.3	2.9	5.1	4.0
Capital transfers	0.0	0.3	0.0	0.0	0.0
Current balance	0.3	1.4	0.1	0.7	1.1
Overall balance	-0.3	1.6	1.3	-0.6	0.2

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes transfers from the national government.

2/ Includes net lending.

Table 9. Federated States of Micronesia: Pohnpei Government Finances, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total revenue and grants	32.5	33.4	34.9	36.5	30.9
Total domestic revenue	8.2	7.1	7.7	9.9	9.8
Taxes	4.9	5.1	5.7	5.5	5.9
Revenue sharing	3.8	3.8	4.3	4.2	4.5
State	1.0	1.3	1.3	1.3	1.4
Nontax	3.4	2.1	2.0	4.4	3.9
Investment and interest income	1.2	0.8	0.6	1.1	0.5
Other 1/	2.2	1.2	1.5	3.3	3.4
Grants	24.3	26.3	27.2	26.6	21.1
<i>Of which</i> : Current grants	16.6	18.8	19.1	16.6	14.5
Compact	21.1	21.5	21.8	22.1	18.4
Other	3.2	4.8	5.4	4.5	2.7
Total expenditure	36.7	33.6	34.2	30.3	33.6
Current expenditure	26.6	28.3	29.8	26.5	26.0
Wages and salaries	15.7	16.2	17.7	17.9	16.2
Goods and services	8.3	8.6	8.8	6.2	7.6
Interest payments	1.5	1.7	1.6	0.9	0.7
Subsidies and transfers	1.1	1.8	1.7	1.5	1.5
Capital expenditure	10.1	5.3	4.4	3.8	7.6
Capital projects 2/	7.3	2.0	3.7	3.2	7.6
Capital transfers	2.8	3.3	0.7	0.6	0.0
Current balance	-1.8	-2.4	-3.0	0.0	-1.7
Overall balance	-4.2	-0.2	0.7	6.2	-2.7
Memorandum item:					
Outstanding stock of arrears	...	...	0.3	1.5	2.9

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes transfers from the national government.

2/ Includes net lending.

Table 10. Federated States of Micronesia: Yap Government Finances, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total revenue and grants	27.1	25.3	25.9	30.0	23.7
Total domestic revenue	12.0	10.2	9.8	13.4	10.3
Taxes	2.9	3.5	2.3	2.7	3.0
Revenue sharing	1.5	1.7	1.3	1.6	1.5
State	1.4	1.8	1.0	1.1	1.5
Nontax	9.1	6.7	7.5	10.7	7.3
Interest and investment income	3.6	4.0	3.7	7.1	4.0
Other 1/	5.5	2.7	3.8	3.6	3.3
Grants	15.1	15.1	16.1	16.6	13.4
<i>Of which</i> : Current grants	10.4	10.8	11.6	11.1	9.7
Compact	14.1	14.2	14.4	14.6	12.2
Other	1.0	0.9	1.7	2.0	1.2
Total expenditure	26.1	26.9	25.8	25.2	23.1
Current expenditure	20.2	23.5	21.1	18.4	18.8
Wages and salaries	6.3	6.7	7.0	7.0	6.6
Goods and services	6.3	7.6	9.4	6.1	7.4
Interest payments	5.4	5.0	4.4	3.8	3.2
Subsidies and transfers	2.2	4.2	0.3	1.5	1.6
Capital expenditure	5.9	3.4	4.7	6.8	4.3
Capital projects 2/	3.8	3.4	4.7	6.6	3.6
Capital transfers	2.1	0.0	0.0	0.2	0.7
Current balance	2.2	-2.5	0.3	6.1	1.2
Overall balance	-3.3	-4.4	-3.6	4.8	0.6

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Includes transfers from the national government.

2/ Includes net lending.

Table 11. Federated States of Micronesia: Social Security Administration, 1992/93-1996/97 1/

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
<b>Total contributions</b>	5.5	6.3	7.0	7.7	8.2
Government	3.3	3.6	4.0	4.4	4.8
Private	2.2	2.7	3.0	3.3	3.4
<b>Total benefits</b>	4.6	5.1	5.6	6.1	6.6
<b>Net collections</b>	0.9	1.2	1.4	1.5	1.6
<b>Administrative expenses (net)</b>	0.5	0.6	0.6	0.7	0.6
<b>Net investment income</b>	1.9	0.0	1.3	3.7	2.7
<b>Financial holdings, cash, and   investments (end of period)</b>	17.0	17.6	19.7	24.2	27.9

Source: Data provided by the Micronesian authorities.

1/ Years ending March 31.

Table 12. Federated States of Micronesia: Banking Survey, 1993-97

(In millions of U.S. dollars; end of period)

	1993	1994	1995	1996	1997
<b>Assets</b>	129.1	126.3	129.4	134.4	133.9
Cash	8.0	7.4	4.0	4.3	4.3
Claims on banks abroad	62.3	60.2	68.9	79.6	80.3
Loans	58.1	57.9	53.6	47.8	46.3
Consumer	38.4	37.2	32.9	28.2	26.6
Commercial	19.8	20.7	20.6	19.6	19.7
Fixed assets	0.4	0.5	1.0	1.9	1.6
Other	1.0	1.0	1.9	0.8	1.4
<b>Liabilities</b>	129.1	126.3	129.4	134.4	133.9
Deposits	116.7	113.6	113.5	121.4	119.1
Demand	21.0	24.8	23.1	22.7	25.6
Savings	52.6	40.4	35.6	35.5	34.6
Time	43.1	48.3	54.9	63.2	58.9
Other 1/	2.4	1.2	1.8	3.6	4.8
Shareholders' equity	10.1	11.5	14.1	9.4	10.0
<b>Memorandum items:</b>					
Loan/deposit ratio (in percent)	49.8	51.0	47.2	39.4	38.9
Deposits/GDP ratio (in percent)	61.2	58.3	55.2	56.3	55.9
Equity/assets ratio (in percent)	7.8	9.1	10.9	7.0	7.5
Deposits (percentage change)	4.4	-2.7	0.0	7.0	-1.9
Loans (percentage change)	23.6	-0.3	-7.4	-10.8	-3.1
Consumer loans (percentage of total loans)	66.0	64.3	61.5	41.0	42.5

Source: Data provided by the Micronesian authorities.

1/ Includes reserves for possible loan losses.

Table 13. Federated States of Micronesia: Interest Rates of Deposit Money Banks, 1993-97 1/

(In percent per annum; end of period)

	1993	1994	1995	1996	1997
Deposit rates 2/					
Savings accounts	3.3	2.8	2.5	3.0	3.0
Time deposits	4.0	3.2	3.5	4.9	4.3
Loan rates					
Consumer loans	15.3	15.3	15.0	15.0	15.0
Commercial loans	9.1	9.4	11.3	10.8	10.8

Source: Data provided by the Micronesian authorities.

1/ Average of rates offered and charged by deposit money banks.

2/ Deposit rates are calculated using the average savings and time deposits of each bank, divided into the total interest paid for the year for that deposit category.

Table 14. Federated States of Micronesia: Assets and Liabilities of the Development Bank of the Federated States of Micronesia, 1993-97 1/

(In millions of U.S. dollars; end of period)

	1993	1994	1995	1996	1997
<b>Assets</b>	44.6	54.4	56.5	59.0	59.7
Cash and deposits with domestic banks	5.8	3.9	2.7	1.5	4.7
Equity	0.7	0.7	0.7	0.7	0.7
Claims on nonresident financial institutions	17.2	18.5	20.3	25.2	19.8
Claims on private sector	20.9	29.7	30.4	29.3	32.4
Fixed assets, net	0.1	0.1	0.1	0.1	0.1
Other	0.0	1.6	2.2	2.2	1.9
<b>Liabilities</b>	44.6	54.4	56.5	58.9	59.6
Unclassified liabilities	0.1	3.3	3.7	3.1	2.5
Equity	44.5	51.1	52.8	55.8	57.1
Contributed capital	38.9	22.9	23.2	26.2	27.0
Board designated reserve 3/	0.7	27.1	27.8	27.9	28.3
Retained earnings	4.9	1.1	1.8	1.7	1.8

Source: Data provided by the Micronesian authorities.

1/ The fiscal year changed from September to December in FY1994.

2/ Reflects investment abroad and Investment Development Fund (IDF) resources.

3/ Reflects the final distribution from the Trust Territories of the Pacific Islands Economic Development Loan Fund; this is being kept as a cash reserve. In FY1994, all funds other than the IDF and the states' private funds were converted to stock equity by the national government and the state of Kosrae.

Table 15. Federated States of Micronesia: Balance of Payments, 1992/93-1996/97 1/

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Trade balance	-109.1	-93.7	-75.5	-59.1	-52.0
Exports and reexports, f.o.b.	28.1	66.3	49.0	32.0	33.0
Imports, f.o.b. 2/	-137.2	-160.0	-124.5	-91.1	-85.0
Private sector	-100.7	-121.1	-92.6	-63.6	-61.5
Petroleum products	-11.2	-18.4	-18.4	-12.0	-11.0
Public sector	-8.7	-7.9	-6.9	-5.5	-4.5
Public via private sector	-27.8	-31.0	-25.0	-22.0	-19.0
Services account	-16.0	-22.8	-12.5	-0.2	-0.6
Receipts	38.6	41.3	41.1	44.2	41.8
Fishing rights fees	18.1	21.3	20.8	19.8	20.1
Interest and dividend income	11.1	9.7	10.1	13.8	10.9
Travel	4.9	5.7	5.5	5.8	5.8
Other	4.5	4.6	4.7	4.8	5.0
Payments	-54.6	-64.1	-53.6	-44.4	-42.4
Freight and insurance	-39.3	-45.5	-35.5	-26.0	-24.0
Interest payments	-9.6	-10.2	-9.5	-9.5	-9.5
Management, repair, insurance	-1.7	-4.0	-4.2	-4.4	-4.4
Government, not otherwise included	-3.1	-3.4	-3.4	-3.5	-3.5
Travel	-0.9	-1.0	-1.0	-1.0	-1.0
Unrequited transfers	121.5	129.2	133.8	120.9	116.4
Private	12.0	12.9	13.6	14.2	14.8
Inflows	16.7	17.7	18.7	19.7	20.7
Outflows	-4.7	-4.8	-5.1	-5.5	-5.9
Official	109.5	116.3	120.2	106.7	101.6
Compact funds	89.1	90.7	91.9	93.3	78.4
Other	20.4	25.6	28.3	13.4	23.2
Current account					
Including official transfers	-3.6	12.7	45.8	61.6	63.8
In percent of GDP	-1.9	6.5	22.3	28.6	30.0
Excluding official transfers	-113.1	-103.6	-74.4	-45.1	-37.8
In percent of GDP	-59.3	-53.2	-36.2	-20.9	-17.7
Capital account	6.5	-30.5	-57.3	-62.2	-56.3
Short term, net 3/	-14.2	-22.7	-47.8	-53.2	-57.4
Medium term, net	20.7	-7.8	-9.5	-9.0	1.1
Inflows	28.6	2.2	0.3	0.8	10.9
Medium-term note issues	14.3	0.0	0.0	0.0	0.0
Other borrowing	14.3	2.2	0.3	0.8	10.9
Outflows	-7.9	-10.0	-9.8	-9.8	-9.8
Medium-term note amortization	-7.9	-8.6	-9.2	-9.2	-9.2
Other amortization, excluding IMF	0.0	-1.4	-0.6	-0.6	-0.6
Overall balance 4/	2.9	-17.8	-11.5	-0.6	7.5

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ Financial year ending September 30.

2/ Based on official statistics for the calendar year; supplemented for coverage deficiencies.

3/ Includes social security fund investments, public enterprises' escrow accounts, and errors and omissions.

4/ Reflected in changes in the financial holdings of the national and state governments.



Table 16. Federated States of Micronesia: Exports by Major Product Category, 1992-96 1/

(In thousands of U.S. dollars, unless otherwise specified)

	1992	1993	1994	1995	Est. 1996
Agricultural products	958	1,680	1,620	1,915	1,854
In percent	4.0	5.8	2.1	4.9	6.4
Copra	222	0	390	82	0
Bananas	278	754	456	397	421
Citrus fruits	15	8	9	11	14
Root crops	11	85	91	253	103
Black pepper	32	36	95	95	102
Betel nut	94	267	252	534	721
Other	306	530	327	543	493
Marine products	20,113	25,325	74,113	34,723	24,511
In percent	86.3	86.8	94.3	88.9	84.8
Fish	19,485	25,216	73,573	33,948	23,764
Trochus shells and meat	524	3	430	87	75
Crabs and lobsters	65	75	97	114	132
Other	39	30	13	574	540
Garments and buttons	2,176	2,055	2,161	2,285	2,415
In percent	9.3	7.1	2.8	5.9	8.4
Coconut oil and soap products	37	24	39	44	48
In percent	0.2	0.0	0.0	0.1	0.2
Handicrafts	35	85	240	16	21
In percent	2.2	1.4	0.7	0.0	0.1
Stamps for collection	48	36	56	58	58
In percent	0.2	0.1	0.1	0.1	0.2
<b>Total</b>	<b>23,367</b>	<b>29,205</b>	<b>78,229</b>	<b>39,041</b>	<b>28,907</b>
In percent	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ On a calendar-year basis.

Table 17. Federated States of Micronesia: Imports by Major Product Category, 1992-96 1/

(In thousands of U.S. dollars, unless otherwise specified)

	1992	1993	1994	1995	Est. 1996
Food and live animals	19,752	31,171	25,351	27,665	20,749
In percent	20.0	28.5	19.6	27.8	30.0
Beverages and tobacco	8,048	7,035	6,045	5,421	3,795
In percent	8.1	6.4	4.7	5.4	5.5
Crude materials, inedible, except fuels	60	100	428	379	227
In percent	0.1	0.1	0.3	0.4	0.3
Mineral fuels, lubricants, and related minerals	16,896	11,221	18,446	18,420	11,973
In percent	17.1	10.2	14.3	18.5	17.3
Animal and vegetable oils, fats, and waxes	13.0	4.0	52.0	52.0	51.0
In percent	0.0	0.0	0.0	0.1	0.1
Chemicals and related products	4,416	4,245	5,696	4,835	3,143
In percent	4.5	3.9	4.4	4.9	4.5
Manufactured goods	13,873	18,503	24,678	14,417	9,371
In percent	14.0	16.9	19.1	14.5	13.6
Machinery and transportation equipment	16,793	22,086	30,275	11,602	8,121
In percent	17.0	20.2	23.5	11.7	11.7
Miscellaneous manufactured articles	7,619	12,955	16,597	15,990	11,193
In percent	7.7	11.8	12.9	16.1	16.2
Commodities and transactions not classified elsewhere in the SITC	11,327	2,166	1,491	744	521
In percent	11.5	2.0	1.2	0.7	0.8
Total	98,797	109,486	129,060	99,525	69,144

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ On a calendar-year basis.

Table 18. Federated States of Micronesia: Imports by Country of Origin, 1992-96

(Value in millions of U.S. dollars)

	1992		1993		1994		1995		Est. 1996	
	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total
United States	68.7	69.5	71.5	65.3	72.4	56.1	68.1	68.4	50.6	73.3
Japan	20.2	20.5	19.7	18.0	41.3	32.0	14.7	14.8	8.2	11.9
Australia	3.2	3.2	3.2	2.9	4.6	3.5	2.6	2.6	1.9	2.7
Other	6.7	6.8	15.2	13.8	10.8	8.4	14.0	14.1	8.4	12.1
Total	98.8	100.0	109.5	100.0	129.1	100.0	99.5	100.0	69.1	100.0

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

Table 19. Federated States of Micronesia: External Debt and Debt-Service Obligations, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Total external debt (end of period)	136.6	128.8	119.3	110.3	111.4
In percent of GDP	71.6	66.1	58.0	51.2	52.3
Debt service	17.5	20.2	19.3	19.3	19.3
Debt-service ratio 1/	26.2	18.8	21.4	25.3	25.8
<b>Medium-term notes</b>					
New borrowing	14.3	0.0	0.0	0.0	0.0
Debt outstanding	90.9	82.3	73.1	63.9	54.7
Amortization	7.9	8.6	9.2	9.2	9.2
Interest	7.3	7.6	6.8	6.8	6.8
<b>Yap Fisheries Corporation</b>					
New borrowing	0.0	0.0	0.0	0.0	0.0
Outstanding principal	9.0	8.1	8.1	8.1	8.1
Amortization	0.0	0.9	0.0	0.0	0.0
Interest	0.8	0.7	0.7	0.7	0.7
<b>FSM Telecommunications Corporation and Rural Electric Association 2/</b>					
New borrowing	14.3	2.2	0.0	0.0	0.0
Outstanding principal	36.7	38.4	37.8	37.2	36.6
Amortization	0.0	0.5	0.6	0.6	0.6
Interest	1.5	1.9	2.0	2.0	2.0
<b>AsDB Fisheries Project</b>					
New borrowing	0.0	0.0	0.3	0.8	0.9
Outstanding principal	0.0	0.0	0.3	1.1	2.0
Amortization	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0
<b>AsDB Public Sector Reform Program Loan</b>					
New borrowing	0.0	0.0	0.0	0.0	10.0
Outstanding principal	0.0	0.0	0.0	0.0	10.0
Amortization	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0
<b>AsDB Water/Sanitation Project</b>					
New borrowing	0.0	0.0	0.0	0.0	0.0
Outstanding principal	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0

Sources: Data provided by the Micronesian authorities; and Fund staff estimates.

1/ In percent of exports of goods and nonfactor services.

2/ The loan bears 5 percent interest and has a 35-year term; two years' grace was allowed before interest and amortization began in 1994.



