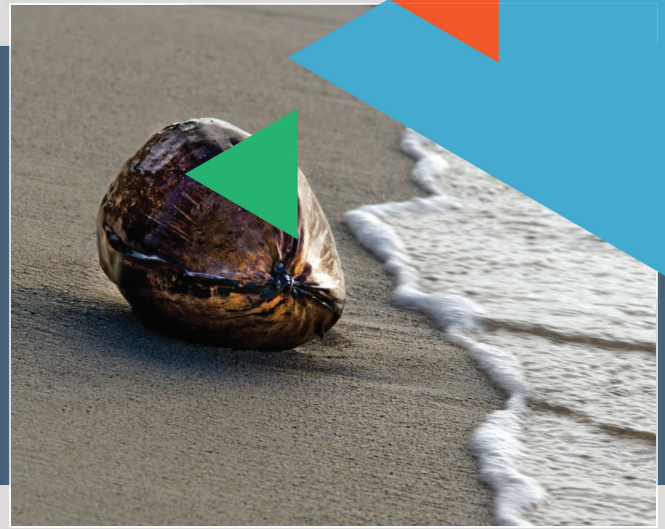




# Freely Associated States: Economic Performance & Policy Briefing

January 2023



## Pacific Islands Training Initiatives

### IGFOA

Support to Island  
Government Finance Officers  
(2 meetings/year)

### APIPA

Association of Pacific Island  
Public Auditors (annual  
conference + training)

### EconMAP

Economic Monitoring &  
Analysis Program in FSM, RMI  
and Palau (+ Statistics)

### TRAINING

Customized classroom  
training for insular  
governments (on demand)

### ELDP

Executive Leadership  
Development Program for  
emerging public sector leaders.

# Economic Monitoring & Analysis Program



- Core program designed to meet Compact-related needs for **economic monitoring and analysis**.
- FSM & RMI since FY07, **Palau since FY12**
- Full-time **economist** and nearly full-time **statistician** (Palau-based)
- Economic statistics are **adopted** by all three governments as their "official" statistics
- Economic data is **peer-reviewed** by the IMF and broadly utilized by ADB, World Bank and other development partners.

3

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# Economic Monitoring & Analysis Program

## Annual Program Outputs



- Annual Economic Reviews & Briefs
- Statistical Yearbooks
- Economic Presentations to US & FAS
- Economic & Fiscal Advice, Forecasting, & Periodic Reform Facilitation (on demand)
- Stochastic Modeling (Trust Funds, Social Security Funds, Pension Funds)
- Financial Management Review and Risk Analysis
- On-demand Economic Issue Papers



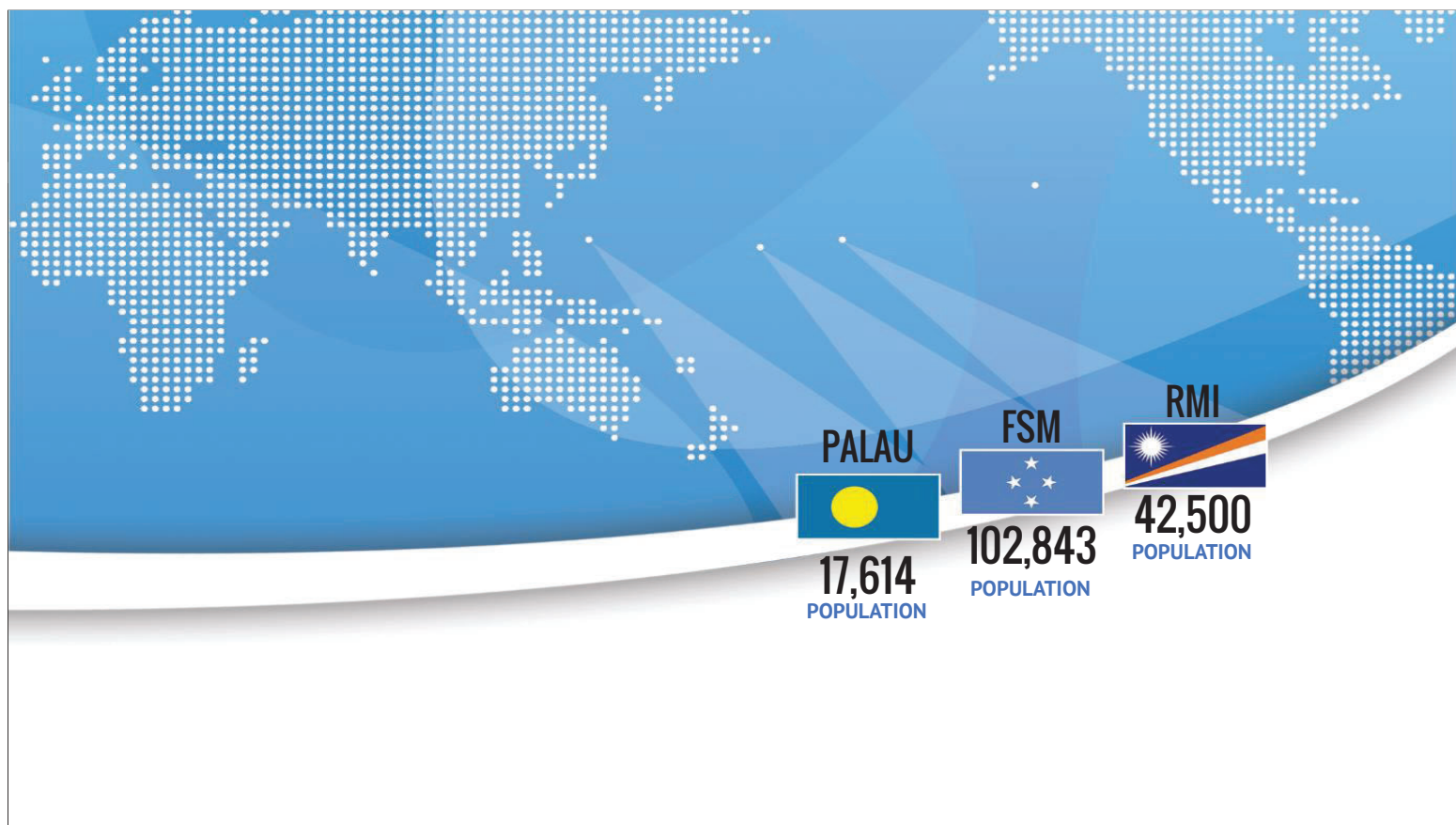
4

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## Presentation Outline

### 1. Economic & Fiscal Trends

- Including comments on key economic and fiscal policy issues

### 2. FAS Fiscal Forecast through FY25

- With a basic, steady-state Compact renewal assumption

### 3. Economic & Fiscal Policy Assessment for each FAS

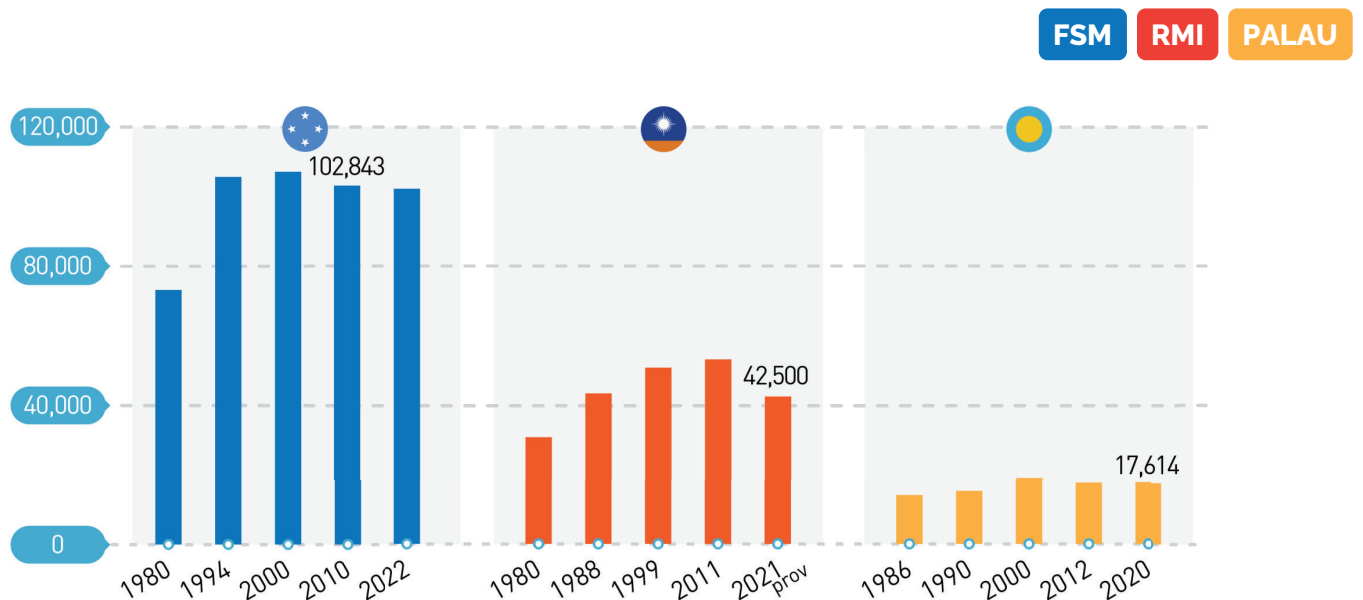




# Economic & Fiscal Trends



## Population



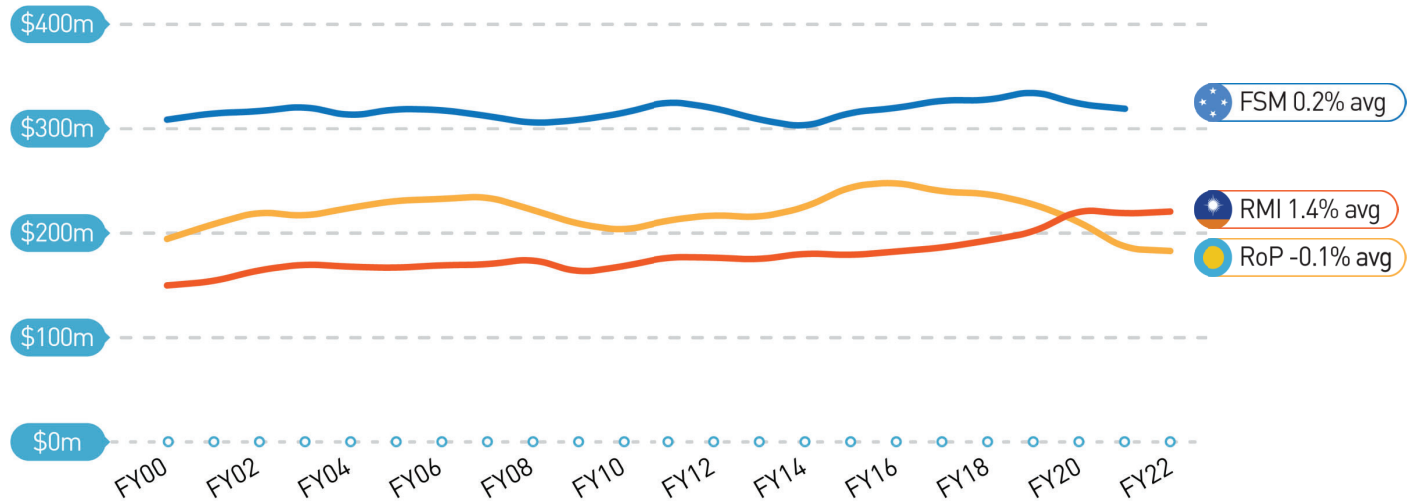
# Real GDP

► 2015 Prices

FSM

RMI

PALAU



9

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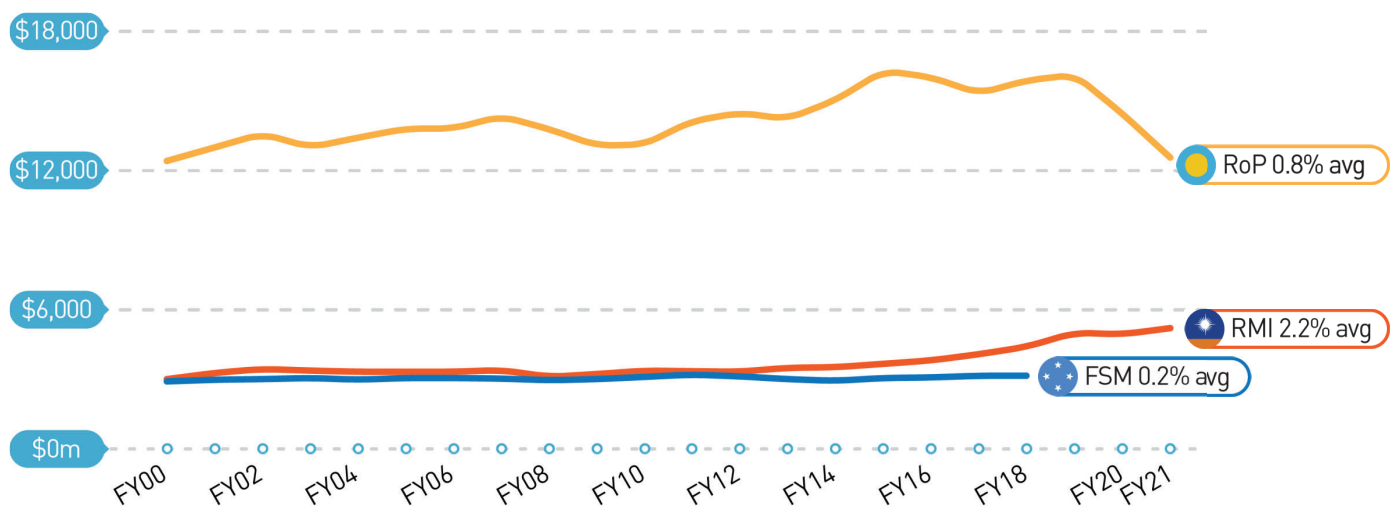
# Real GDP Per Capita

► 2015 Prices

FSM

RMI

PALAU



10

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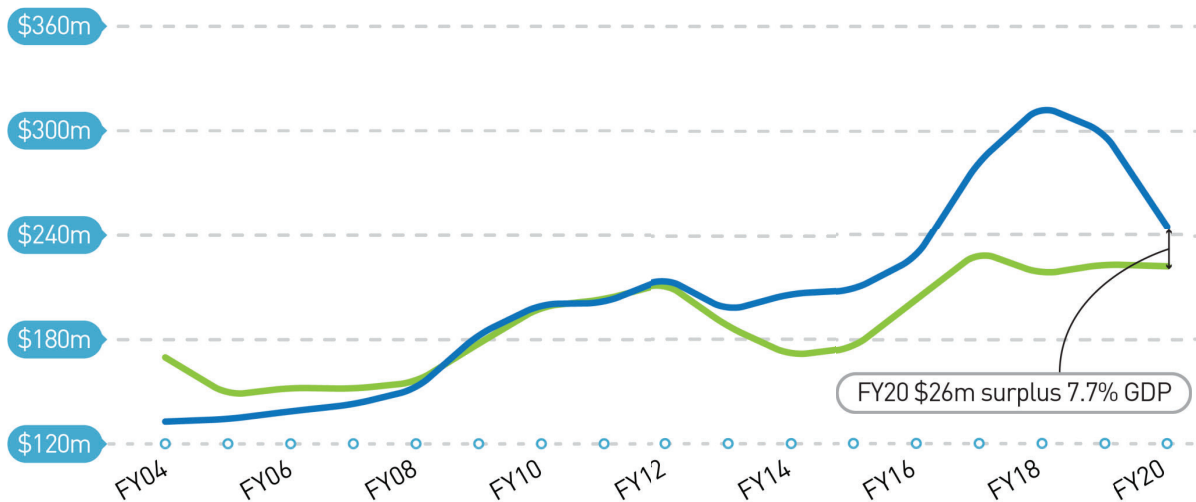




# FSM Fiscal Performance

REVENUES

EXPENDITURES



11

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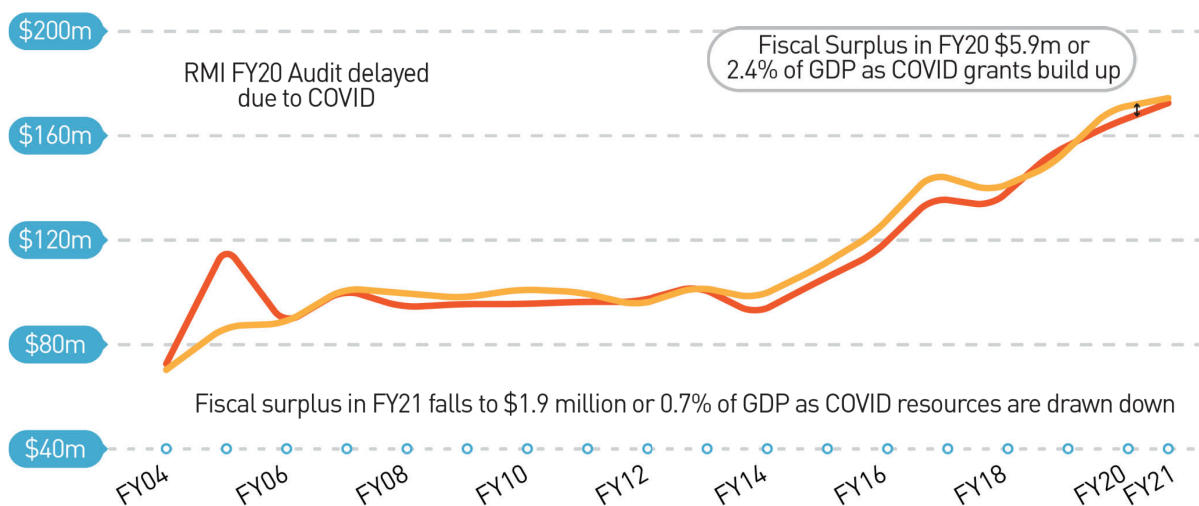
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# RMI Fiscal Performance

REVENUES

EXPENDITURES



12

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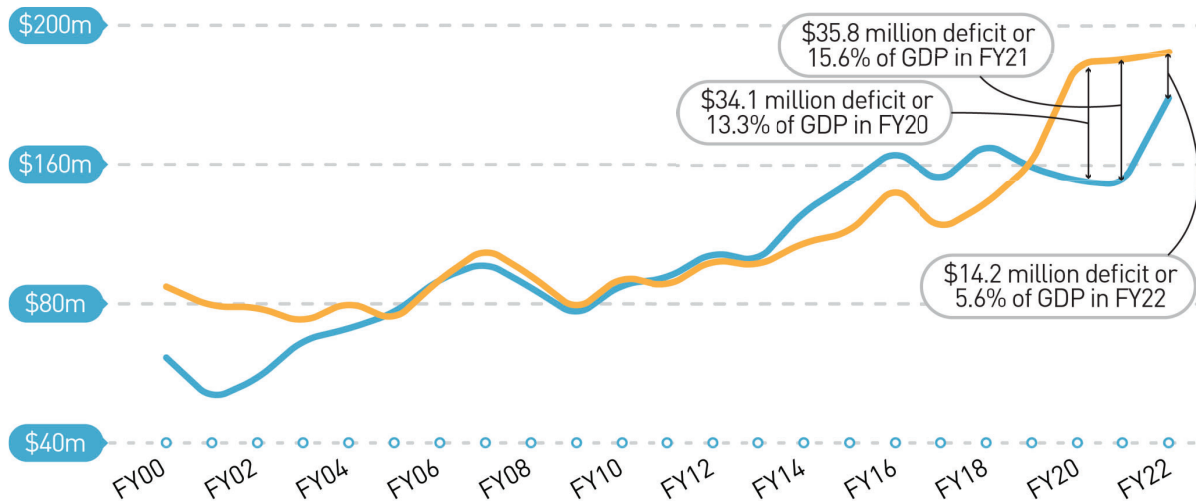
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# Palau Fiscal Performance

REVENUES

EXPENDITURES



13

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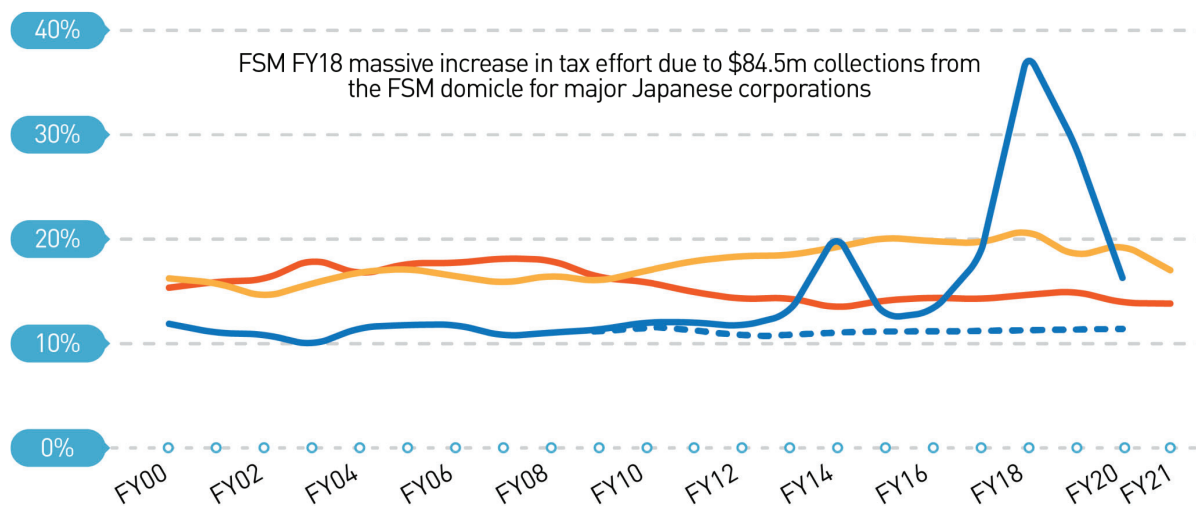
# Tax Effort

► AS A PERCENT OF GDP

FSM

RMI

PALAU



14

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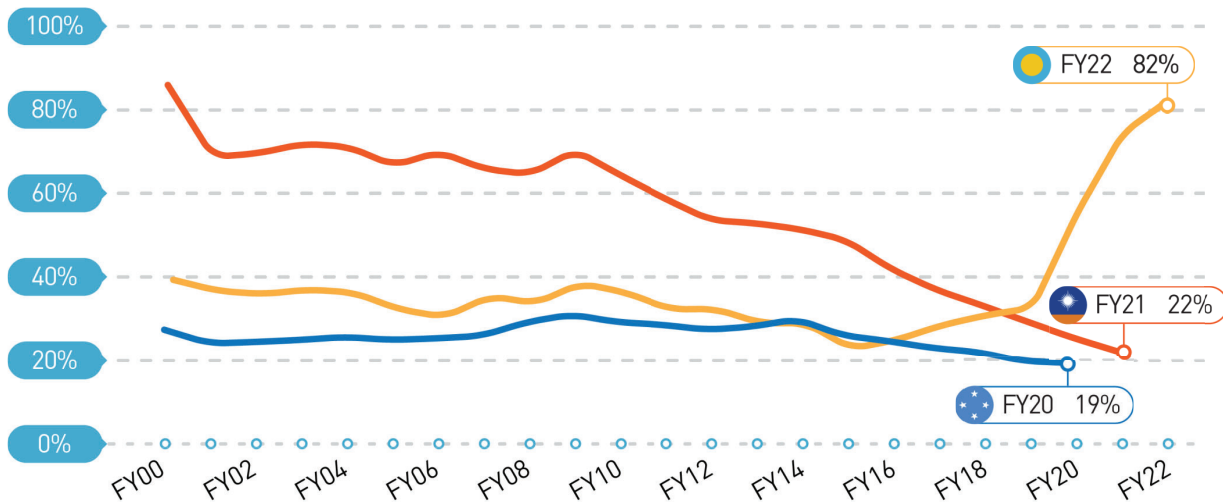
## External Debt

► AS A PERCENT OF GDP

FSM

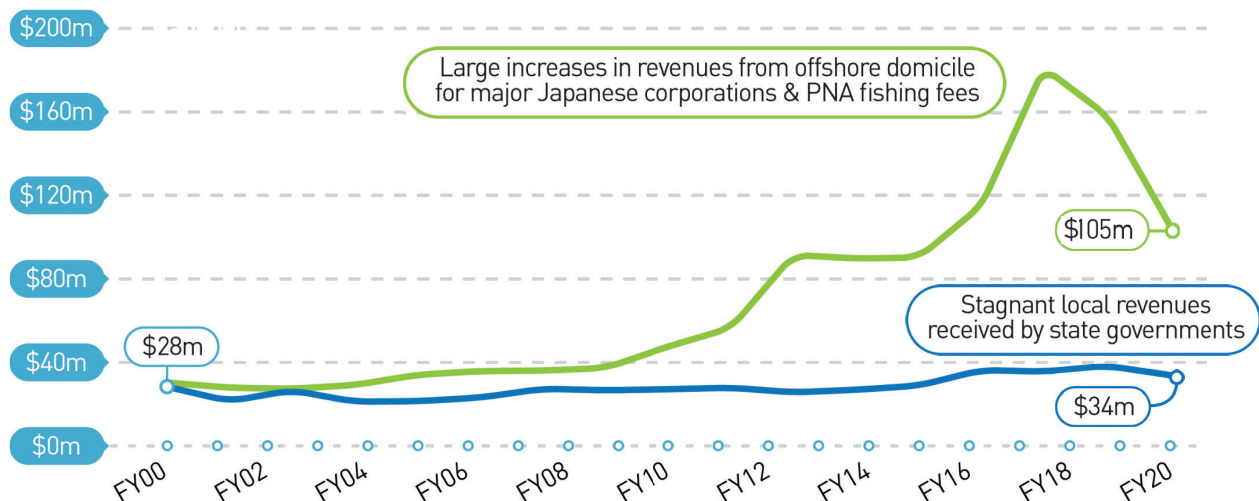
RMI

PALAU



# FSM Domestic Revenues

## FSM STATES

**FSM NATIONAL**





# Economic & Fiscal Forecast through FY25



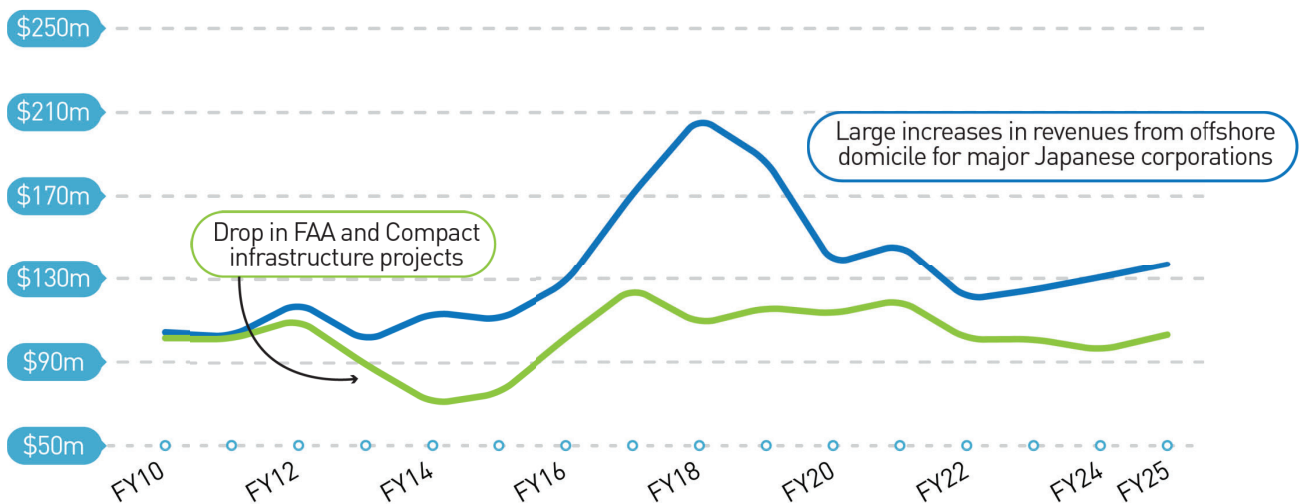
## FSM Natl Government Revenues and Expenditures

### ► ACTUAL & PROJECTED

*Projections based on a favorable extension of the Compact at current levels of resource transfers*

REVENUES

EXPENDITURES



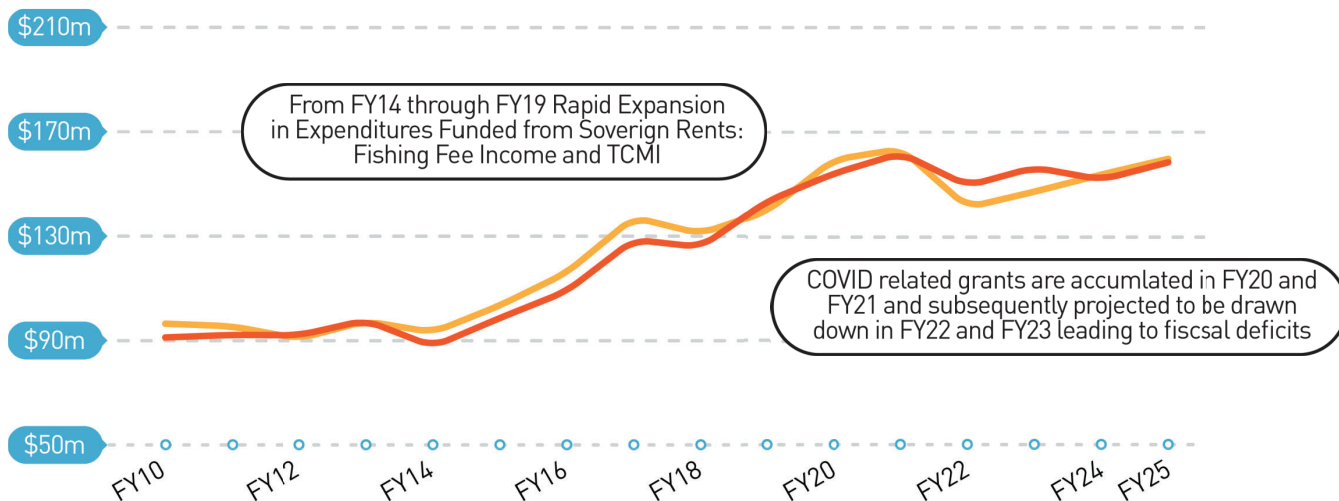
# RMI Government Revenues and Expenditures

## ► ACTUAL & PROJECTED

Projections based on a favorable extension of the Compact at current levels of resource transfers

REVENUES

EXPENDITURES



19

FAS Economic Performance and Policy Briefing

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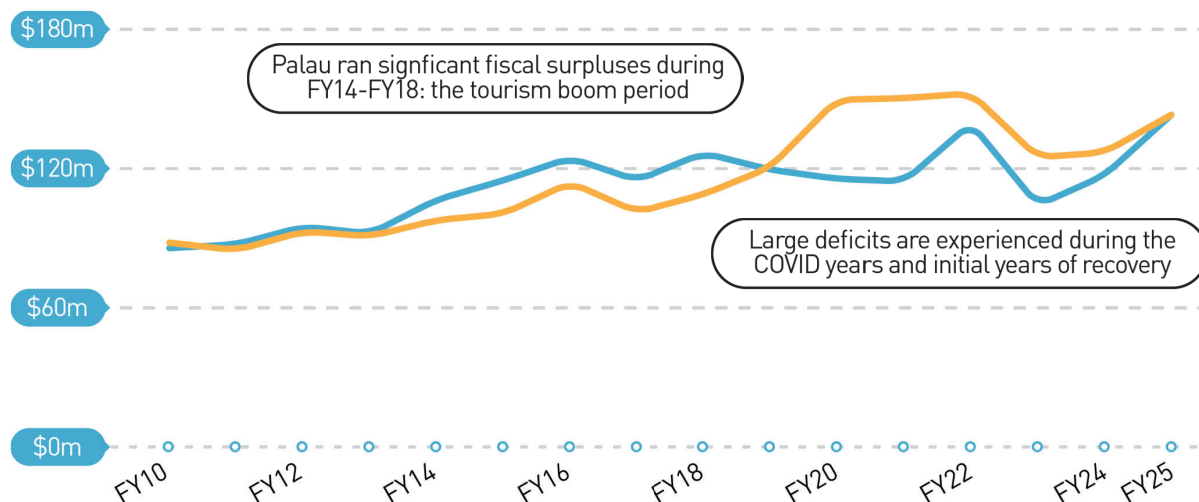
# Palau Revenues and Expenditures

## ► ACTUAL & PROJECTED

Projections based on a favorable extension of the Compact at current levels of resource transfers

REVENUES

EXPENDITURES



20

FAS Economic Performance and Policy Briefing

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# Economic & Fiscal Policy Assessment for each FAS



## FAS Policy Assessments | FY19 and FY23

FSM		PALAU		RMI	
FSM Policy Areas		PALAU Policy Areas		RMI Policy Areas	
Status/Description in 2019		Status/Description in 2019		Status/Description in 2019	
Assessment		Assessment		Assessment	
2019		2019		2019	
2023		2023		2023	
<b>Fiscal policy</b>		<b>Fiscal policy</b>		<b>Fiscal policy</b>	
Fiscal balance		Fiscal balance		Fiscal balance	
Long-term fiscal adjustment		Long-term fiscal adjustment		Long-term fiscal adjustment	
Public sector payroll		Public sector payroll		Public sector payroll	
Tax reform		Tax reform		Tax reform	
External debt		External debt		External debt	
Social security		Social security		Social security	
Macroeconomic Monitoring		Macroeconomic Monitoring		Macroeconomic monitoring	
<b>Public financial management</b>		<b>Public financial management</b>		<b>Public financial management</b>	
Financial accountability		Financial accountability		Financial accountability	
Public Expenditure & Financial Accountability (PEFA)		Public Expenditure & Financial Accountability (PEFA)		Public Expenditure & Financial Accountability (PEFA)	
Strategic Development Plan		Strategic Development Plan		Strategic Development Plan	
Medium-Term Budget Framework		Medium-Term Budget Framework		Medium-Term Budget Framework	
Performance management		Performance management		Performance management	
Information systems		Information systems		Information systems	
<b>State-Owned Enterprises</b>		<b>State-Owned Enterprises</b>		<b>State-owned enterprises</b>	
Subsidies		Subsidies		Subsidies	
Divestment		Divestment		Divestment	
Full cost recovery		Full cost recovery		Full cost recovery	
SOE policy		SOE policy		SOE policy	
<b>Regulatory Environment</b>		<b>Regulatory Environment</b>		<b>Regulatory environment</b>	
FDI		FDI		FDI	
Land reform		Land reform		Land reform	
Doing Business Survey		Doing Business Survey		Doing Business Survey	



FSM Policy Areas		Assessment	
		2019	2023
<b>Fiscal policy</b>			
Fiscal balance	Stong perfomance at National Government; fragile balance at State level		
Long-term fiscal adjustment	Initial adjustment to Amended Compact achieved in Chuuk and Kosrae; long-term fiscal frameworks prepared in all states but now inactive		
Public sector payroll	Size of public service reduced through amended Compact; wages grew at start but held in check since FY2010; recent growth at National Government		<==
Tax reform	No progress after many years of active consideration; tax reform laws repealed by FSM Congress		
External debt	Sound external debt position		
Social security	Reforms enacted with improved sustainability		↓
Macroeconomic Monitoring	Full set of statistics available for economic performance assessment; issues with data sharing need resolution		
<b>Public Financial Management</b>			
Financial accountability	Audits currently "unqualified"		<==
Public Expenditure & Financial Accountability (PEFA)	Internal assessment completed late 2016 and road map outlined; planned roll-out to the states		
Strategic Development Plan	Completed at outset of amended Compact; monitoring and implementation underresourced; draft 2023 Action Plan prepared but no longer active		
Medium-Term Budget Framework	Not currently adopted in the FSM		
Performance management	Weak and no monitoring of outputs or outcomes		
Information systems	Captures accounting information; weak tool for management; under replacement with World Bank support		
<b>State Owned Enterprises</b>			
Subsidies	Low: 0.5 percent of GDP		
Divestment	Fisheries coporations either defunct or under private management/ownership		
Full cost recovery	Utilities operate on cash-flow basis without setting aside funds for depreciation		
SOE policy	No FSM or state level SOE policy framework: World Bank ICT reforms weakly implemented, issues with PetroCorp investment strategy		
<b>Regulatory Environment</b>			
FDI	Reforms in late 1990s; followed by reversals; legislation proposed at national level - not acted upon		
Land Reform	Some progress, but considerably more required		
Doing Business Survey	World Bank survey places FSM 160th out of 190		
		2.00	1.85

RMI Policy Areas	Status/Description in 2019	Assessment		
		2019	2023	
Fiscal policy				
Fiscal balance	Average fiscal surplus of 3.4 percent to GDP achieved since FY2014			
Long-term fiscal adjustment	CAP not implemented; DMP now inactive		↓	
Public sector payroll	Sharp increase at start of amended Compact; slippage after FY2016			
Tax reform	No progress after many years of active consideration			
External debt	External debt position fragile but improving 33% of GDP			<==
Social security	SS reforms undertaken, but sustainability still at risk		↑	
Macroeconomic monitoring	Full set of statistics available for economic performance assessment			
Public financial management				
Financial accountability	Accounting functions improving; capacity building initiated			<==
PEFA	Assessment undertaken in 2014, provides basis for ADB reforms			
National Strategic Plan	Completed May 2014 but provides little performance/monitoring criteria			
Medium-Term Fiscal Framework	New process being initiated with donor support			<==
Performance management	Performance budgets in some departments; no monitoring			
Information systems	Captures financial information only; legacy system under replacement			<==
State-owned enterprises				
Subsidies	Subsidies + capital transfers 32% of general fund revenues; significant fiscal risk			
Divestment	No entities privatized			
Full cost recovery	All SOEs operate below full cost recovery			
SOE policy	Law passed; but board composition modified; SOE unit operational		↑	
Regulatory environment				
FDI	No reforms undertaken, but FDI realized in fisheries sector			
Land reform	ADB TA executed; minor impact			
Doing Business Survey	World Bank survey places RMI 150th out of 190	150 was 143		
		1.90	1.85	

Palau Policy Areas	Status/Description in 2019	Assessment	
		2019	2023
Fiscal policy			
Fiscal balance	Fragile, balanced since FY2010; large 3% of GDP surplus in FY2016-2018		
Public sector payroll	Size of public service has been reduced since FY2005 -0.5% per annum, wage rates +3.1% pa		
Tax Reform	Considered in 2014 not enacted		<==
External debt	Sound external debt position		<==
Long-term fiscal adjustment	Fiscal strategy has been prepared and additional resources allocated to the Cofa Trust Fund but is yet to attain perpetual status		
Social security	Interim reforms enacted and unfunded liability reduced		<==
Civil service pension fund	CSPS projected to collapse within 10 years without reform		
Macroeconomic Monitoring	Full set of Statistics available for economic performance assessment		
Public Financial Management			
Public Expenditure & Financial Accountability (PEFA)	Assessment completed in 2013 and external assessment planned for the near-term		
Financial accountability	Audits currently "unqualified"		<==
Medium-Term Fiscal Framework	Not currently adopted in the RoP		<==
Strategic Development Plan	In FY2008 the RoP completed a strategic development framework: Facility for Economic and Infrastructure Management. A fiscal strategy has been prepared together with a set of budget manuals		
Performance management	Weak and no monitoring of outputs or outcomes		
Information Systems	Captures financial information only; in the process of replacement		↑
State Owned Enterprises			
Subsidies	1% of GDP		↓
Divestment	Limited public investment in economy outside of utilities and telecom		
Full cost recovery	Utilities operate on cash-flow basis without setting aside funds for depreciation; challenges to achieve operating balance in water/sewer		
SOE policy	SOE policy issued by President, but needs enactment into law		
Regulatory Environment			
FDI	RoP operates a non transparent foreign investment board		
Tourism	Tourism Policy Framework prepared, but fails to fulfill need for a comprehensive strategy		
Private sector regulatory environment	Recent changes to secure transactions law		
Doing business Survey	World Bank survey places RoP 136th out of 190		
		2.14	2.14