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# **Staff Country Reports**

## **Republic of Palau: Selected Issues and Statistical Appendix**

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**International Monetary Fund**  
**Washington, D.C.**

INTERNATIONAL MONETARY FUND

REPUBLIC OF PALAU

**Selected Issues and Statistical Appendix**

Prepared by Dora Iakova and Ashok Bhundia (both APD)

Approved by the Asia and Pacific Department

February 5, 2004

	Contents	Page
I.	Fiscal Options for the Future .....	3
	A. Introduction.....	3
	B. Assessment of the Current CTF Withdrawal Schedule.....	4
	C. An Alternative Approach .....	5
	D. The Need for Fiscal Consolidation .....	7
II.	Promoting Growth Through Sustainable Tourism.....	11
	A. Introduction.....	11
	B. Overcoming Impediments and Diversifying Palau's Tourist Base.....	12
	C. Promoting Sustainable Tourism.....	13
	D. Reforms to Promote Investment in Tourism.....	14
	E. Concluding Remarks.....	14
III.	Development Toward Effective Banking Supervision and Regulation .....	15
	A. Palau's Banking Sector .....	15
	B. The Legal Framework for Banking Regulation and Anti-Money Laundering.....	15
Statistical Appendix		
1.	Selected Social Indicators, 1995, 2000, and 2001/02 .....	17
2.	United States Grants, 1994/95–2000/09 .....	18
3.	Financial Holdings of the Central Government, 1998/99–2002/03 .....	19
4.	Employed Persons by Industry, 1990, 1995, and 1999–2003 .....	20
5.	National Government Budgetary Operations, 1998/99–2003/04.....	21
6.	Gross Domestic Product, 1994–2002 .....	22
7.	National Government Expenditure, 1990/91–2002/03 .....	23
8.	Operating Accounts of the State Governments, 1993/94–2002/03.....	24
9.	Financial Position of the Compact Trust Fund, 1994/95–2002/03 .....	25
10.	Financial Position of the Social Security Fund, 1989/90–2001/02.....	26
11.	Financial Position of the Civil Service Pension Fund, 1990/91–2002/03 .....	27
12.	Operating Accounts of the Major Public Corporations, 1996/97–2002/03 .....	28

13.	National Government Debt and Debt Service, 1992/93–2002/03 .....	29
14.1	Structure of Interest Rates, Palau National Development Bank, May 1997–2003 .....	30
14.2	Structure of Interest Rates, Bank of Guam, May 1997–2003 .....	31
14.3	Structure of Interest Rates, Bank Pacific Ltd., May 1997–2003 .....	32
14.4	Structure of Interest Rates, Bank of Hawaii, May 1997–2003 .....	33
14.5	Structure of Interest Rates, Pacific Savings Bank, May 1997–2003 .....	34
15.	Operating Accounts of the Palau National Development Bank, 1991/92–2002/03 .....	35
16.	Assets and Liabilities of the Palau National Development Bank, 1990/81–2002/03 ..	36
17.	Selected Economic and Financial Indicators, 1998/99–2003/04 .....	37
18.	Balance of Payments, 1998/99–2003/04 .....	38
19.	Imports by Product Category, 1994–2003 .....	39
20.	Imports by Country or Territory of Origin, 1996–2003 .....	40
21.	Tourism and Business Arrivals, and Travel/Work Abroad by Residents, 1993–2003 .....	41
22.	Credit Allocation by the Palau National Development Bank, 1997–2003 .....	42
23.	Consumer Price Index: Quarterly and Annual Average, June 2000–September 2003 .....	43

## I. FISCAL OPTIONS FOR THE FUTURE<sup>1</sup>

### A. Introduction

1. **The Republic of Palau (Palau) has always been heavily dependent on external assistance.** Foreign grants have been used to develop Palau's infrastructure and to support a large public sector. However, Palau will need to adjust to a lower level of external financing since the overall amount of grants is expected to decline sharply after 2009. Early emphasis on prioritization and consolidation of government expenditure and prudent management of the existing government assets would help to ensure long-term sustainability.
2. **Palau entered into an association agreement with the United States in 1994,** called the Compact of Free Association ("the Compact").<sup>2</sup> It is a 50-year strategic treaty, under which the United States has control of defense and security matters in Palau as well as exclusive access to the land adjoining the Airai Airfield and a part of Malakai Harbor. In exchange, the United States has agreed to provide the government of Palau pre-specified annual grants in the first fifteen years of the Compact.<sup>3</sup> In addition, the United States granted an initial sum of money to set up a Compact Trust Fund (CTF), owned and managed by Palau. Under the agreement, Palau citizens can enter the United States as non-immigrants and accept employment. Palau is also eligible for different forms of direct United States assistance, based on direct proposals to grantor agencies (e.g., specific projects in the areas of healthcare, education, and labor). These have varied between \$7 million and \$11 million in recent years. Palau would be eligible for these programs as long as it remains a freely associated country.
3. **The stated purpose of the CTF is to provide a steady source of income that would replace the annual grants after their termination in 2009.** The initial amount of the CTF was about \$70 million (\$66 million was disbursed in 1994 and \$4 million in 1996). These funds are invested in United States equity and fixed income instruments and increased to \$136 million at the end of FY2003. When the Compact agreement was written, the assumed average annual investment return on the CTF for the next 50 years was 12½ percent. Such return would have allowed annual withdrawals of \$5 million between 1998 and 2009,

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<sup>1</sup> Prepared by Dora Iakova.

<sup>2</sup> Prior to that, Palau was a Japanese military base from 1914 to 1947. In 1947, Palau became a strategic Trust of the United Nations, administered by the United States.

<sup>3</sup> See Statistical Appendix Table 6 for a schedule of the annual grants.

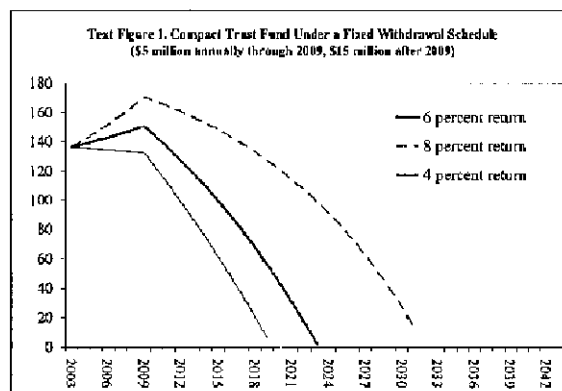
and \$15 million between 2010 and 2043.<sup>4</sup> However, the actual average returns since 1994 have been much lower.

4. **In addition to the annual grants and the CTF, the United States provided in-kind grants for road construction and a large discretionary grant for capital improvements in the initial years of the Compact.** The latter formed the basis of the Non-Compact Trust Fund (non-CTF) assets, which represent the financial holdings of the central government (Statistical Appendix Table 4). Grants from other sources over the years have been added to these funds and spending on current and capital projects has been financed from them.<sup>5</sup> Currently, the government's non-CTF financial assets have been reduced to only about \$16 million and almost all of these funds are earmarked for specific projects.

5. **The availability of steady grants has allowed Palau to maintain a sizable public sector.** In recent years, public administration has accounted for about a quarter of gross domestic output and a third of total employment. Total government expenditure has been above 60 percent of GDP, with current expenditure averaging about 50 percent of GDP. The stock of non-CTF assets has allowed the government to run large deficits in the past decade (Statistical Appendix Table 5). However, with the non-earmarked non-CTF assets practically exhausted and grants expected to slow down in the coming years, Palau will have to adjust to a much lower level of government spending.

## B. Assessment of the Current CTF Withdrawal Schedule

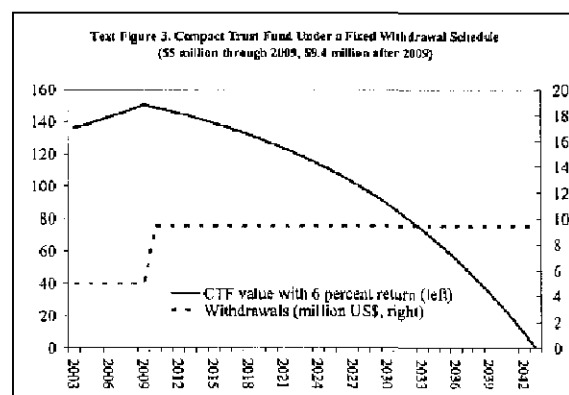
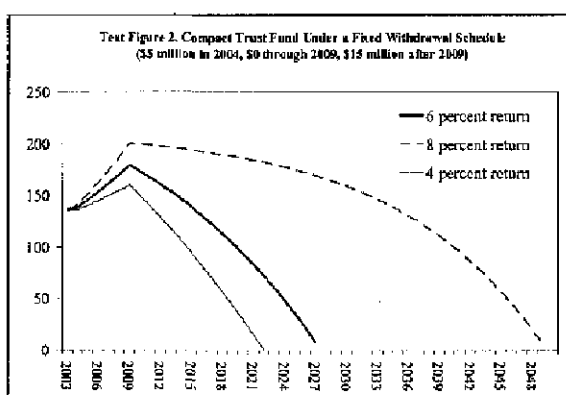
6. **Palau has started drawing down the accumulated earnings of the CTF since 2002.** The annual withdrawals are \$5 million currently. Assuming \$15 million annual withdrawals after 2009, as envisioned in the Compact agreement, the CTF is likely to be exhausted before 2043. The Text Figure 1 shows the depletion of the CTF assuming 4 percent, 6 percent, and 8 percent return, respectively. The calculation assumes that investment fees are about 0.7 percent of assets.



<sup>4</sup> The return of 12½ percent is only an assumption, not an obligation. In the language of the Compact agreement: "Any excess or variance from the agreed minimum annual distributions (\$15 million per year starting in 2010) ... shall accrue to or be absorbed by the Government of Palau unless otherwise mutually agreed ...".

<sup>5</sup> In recent years, Palau has received substantial grants as well as in-kind assistance from Taiwan Province of China and Japan.

For the CTF to last until 2043, a nominal annual return of 8.8 percent would be required. Such high return may be difficult to achieve, especially if the current environment of low inflation persists.<sup>6</sup> It is impossible to forecast the exact future rate of return, but erring on the conservative side would help avoid unanticipated expenditure contraction in the future. For example, the nominal rate of return assumed in the renegotiated Compact agreement between the United States and the Republic of Marshall Islands was about 6 percent, so this rate will be used as a benchmark in most of the subsequent calculations. For the CTF to last until 2043, assuming 6 percent rate of return and \$5 million annual withdrawals until 2009, only \$9.4 million can be withdrawn annually between 2010 and 2043 (Text Figure 2). Reducing withdrawals from the CTF prior to 2009 would allow funds to accumulate faster. The scenario of no withdrawals between 2005 and 2009, and \$15 million annual withdrawals thereafter is illustrated in Text Figure 3.



7. **This analysis underscores the significant risks associated with any fixed withdrawal schedule.** Returns (especially stock-market returns) have been highly volatile historically and lower-than-expected realization of returns would lead to early depletion of the funds and a sharp economic contraction. Limiting withdrawals in the early years would allow the CTF to last longer, but will not provide a fundamental solution to the problem.

### C. An Alternative Approach

8. **A number of issues need to be considered in designing a comprehensive management strategy for the CTF.** First, the CTF could be exhausted within a limited time period or its principle could be preserved so that a number of generations benefit from it. Second, the withdrawals could be fixed in nominal terms or in percent of the value of the CTF, or the authorities could exercise discretion. The time profile of withdrawals could be constant (e.g., in real terms or in real per capita terms) or it could be front (back) loaded. Since the CTF is a grant for the benefit of Palau's people, a reasonable criterion that can be

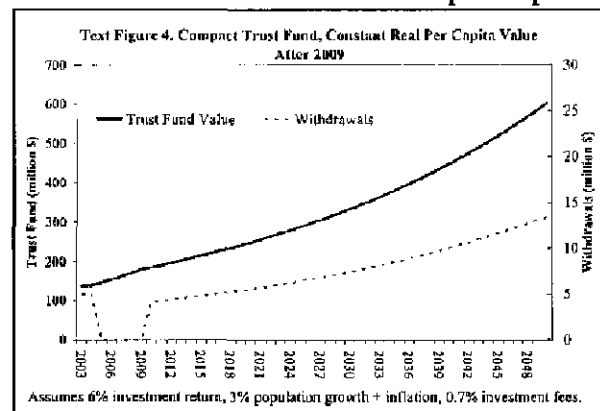
<sup>6</sup> The CTF can only be invested in United States assets, so it is not possible to form an internationally diversified portfolio.

used to choose among the different options is whether or not they satisfy the principle of intergenerational equity.

9. **A policy of drawing a fixed nominal annual sum from the CTF is not consistent with intergenerational equity.** An important assumption, implicit in the Compact agreement, is that the CTF would last only until about 2043. However, making fixed withdrawals and allowing the CTF to be completely exhausted in the coming decades may not be the best options from an intergenerational equity perspective. Assuming positive inflation, withdrawals fixed in nominal terms would finance a decreasing amount of actual goods and services every year. If the population grows, the value of per capita income financed through such withdrawals would decline even faster. Once the CTF is exhausted, there could be a drastic permanent drop in funding for government expenditure.

10. **One option that satisfies intergenerational equity is to adopt a formal target of maintaining annual withdrawals and the value of the CTF constant in real per capita terms.** The Text Figure 4 illustrates the value of allowable withdrawals and the value of the CTF, if such policy is adopted.

It is assumed that no withdrawals are made between FY2005 and FY2009. Starting in 2010, annual withdrawals would be a constant fraction of the value of the CTF, equal to the difference between annual returns (net of investment fees) and population growth plus inflation.<sup>7 8</sup> This is just an illustrative example of a possible withdrawal schedule. In practice, the reduction in withdrawals could be implemented in a more gradual manner to support a smooth adjustment to lower levels of government spending. For example, higher withdrawals could be made for several years after 2009 to compensate partially for the loss of Compact grants, although that would result in a slower build-up of the CTF.



<sup>7</sup> In practice, the actual allowed returns will need to be re-calculated periodically as the parameters in the formula change—investment returns, inflation, and population growth may vary significantly over time. For a discussion of these issues, see Becker (2003) and Davis et.al. (2001).

<sup>8</sup> It should be noted that under this policy, annual withdrawals would decline in percent of GDP over time, if real GDP growth is higher than population growth (which is the typical case, assuming capital accumulation and total factor productivity growth are positive). Therefore, it would be necessary either to gradually reduce public expenditure as a share of GDP or increase revenue.



11. **Higher withdrawals in the early years of economic development could be justified, if they are used for high-return capital investments, expected to benefit future generations.** However, in practice, all capital investments in the past have been financed by project-specific external grants and from the initial grant for capital expenditure provided by the United States. Withdrawals from the CTF so far have been used exclusively for current expenditure. That is likely to continue in the future as declining current grants put pressure on current expenditure. To protect future generations, it could be desirable to reduce withdrawals until 2009, and limit them after that by adopting a goal of preserving the real per capita value of the CTF after 2009.

12. **Kiribati and Tuvalu are two Pacific island economies that have successfully managed to preserve and even increase the real per capita value of their trust funds.** In contrast, Nauru stands as an example of a country in the Pacific region that used up quickly its large fund, accumulated from the use of natural resources. The consequence was a sharp decline in the standards of living of the population.

#### **D. The Need for Fiscal Consolidation**

13. **The expected decline in grants would force significant fiscal adjustment in the coming years.** Policy choices are limited to undertaking significant consolidation in the medium term and preserving resources for the future, or postponing serious reforms until the CTF is exhausted. Figure 1 illustrates possible expenditure paths under three different withdrawal scenarios. With the non-CTF financial assets at very low levels, CTF withdrawals determine the total amount of available deficit financing. The estimation assumes that domestic revenue and non-Compact grants for current expenditure in percent of GDP remain at their levels from recent years.<sup>9</sup> Capital expenditure is assumed to be entirely financed by capital grants (historically, capital expenditure used to be much higher than grants and was financed by running down the non-CTF assets). Finally, nominal GDP growth is fixed at 3 percent per year and the nominal annual return to financial assets is assumed to be 6 percent.

- The benchmark profile of withdrawals follows the Compact agreement: \$5 million annually until 2009, and \$15 million annually thereafter. Under that rule, expenditure will have to decline gradually by a total of 6–7 percent of GDP between 2003 and 2023. At that time, the CTF will be exhausted and there would be a sharp downward adjustment of at least 7 percent of GDP (tax revenue in percent of GDP may also decline, adding to the distress).

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<sup>9</sup> Capital grants are assumed to decline to about \$2 million annually from 2005 on. Capital grant amounts from non-United States sources received in FY2003 and expected in FY2004 have been unusually high and probably cannot be sustained.

- The second schedule limits annual withdrawals after 2009 to \$9.4 million. That would allow the CTF to last until 2043. Under this scenario, significant expenditure reduction is brought forward to 2010 (it could be made more gradual by reducing withdrawals prior to 2010). That allows maintaining a relatively high level of expenditure for much longer. In addition, there is a relatively smooth adjustment to lower level of spending after the CTF is exhausted.
- The third scenario follows the option of maintaining a constant real per capita value of the CTF starting in 2010. It is assumed that no withdrawals are made between 2005 and 2009. That allows the CTF to grow faster and ensures a higher level of permanent income starting in 2010. Under the specific parameter assumptions of this example (see footnote 1 to Figure 1), annual withdrawals equal to 2.3 percent of the value of the CTF could be made every year in the future starting in 2010.<sup>10</sup> If deemed more politically feasible, a smooth schedule of withdrawals could be devised that does not require a very large adjustment in certain years. The trade-off is that a more gradual adjustment would reduce the size of the CTF and the value of future annual withdrawals.

14. **The existence of substantial contingent liabilities makes addressing the fiscal imbalances even more urgent.** The National Development Bank (NDG) (wholly owned by the government) has guaranteed about \$3.8 million in commercial loans to small and medium enterprises. The civil pension system and the social security system are seriously underfunded—their estimated joint liability in net present value terms exceeds \$45 million. That underscores the need to undertake serious fiscal consolidation in the coming years.

15. **Keynesian short-run effects of fiscal consolidation on economic growth would be limited if the adjustment is implemented gradually.** Expenditure reductions may have a negative effect on the economy in the short run. However, Palau is highly open and import propensities of consumption and investment are very large, so the negative effect on growth would be mitigated. The private sector can assimilate at least partially the labor released from the public sector, if the adjustment is done in a gradual manner. The alternative, a drastic adjustment after the CTF is exhausted, is likely to be much more damaging to economic growth and development.

16. **Both revenue and expenditure measures would be necessary, but the brunt of adjustment would fall mostly on current expenditure.** Tax revenue is already relatively high by international standards, although the tax system could be improved to increase its

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<sup>10</sup> Note that withdrawals are defined in percent of the value of the fund and their real per capita value remains constant over time.

efficiency and fairness.<sup>11</sup> Capital expenditure is limited by grants availability. However, wages and current expenditure in percent of GDP are very high by developing countries' standards and one of the highest among Pacific economies. Implementing the adjustment early and gradually could allow the government to reduce expenditure in a way that does not undermine the institutions that are important for economic growth. It would also be important to leave room for some locally financed capital expenditure.

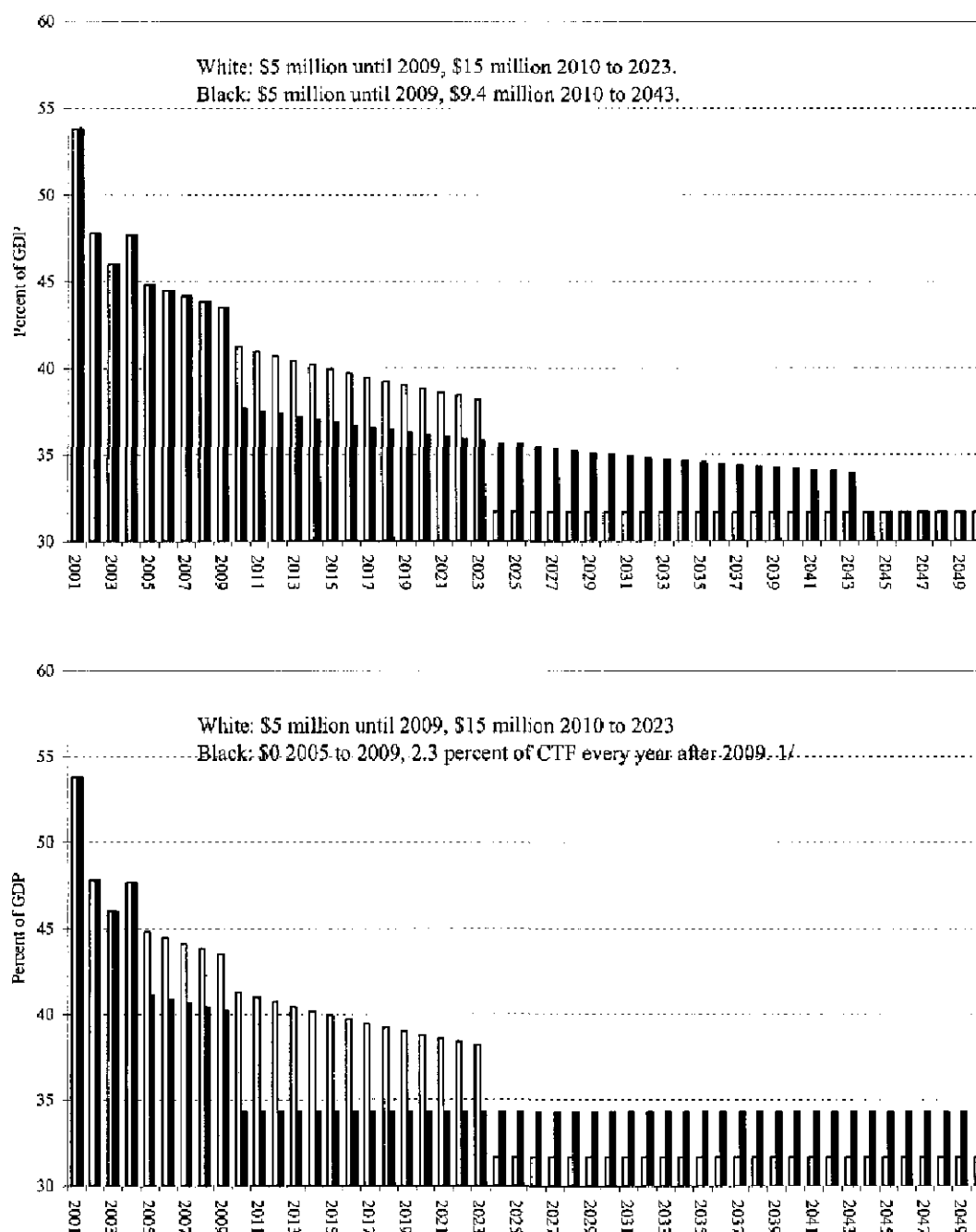
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- Davis, J. et. al., "Stabilization and Savings Funds for Nonrenewable Resources," *Occasional Paper* 205, IMF, 2001.

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<sup>11</sup> The current system of corporate taxation in Palau is based on a gross revenue tax, which is inequitable, inefficient, and acts as a deterrent for start-up businesses. A new draft tax law has been prepared with IMF assistance a few years ago, but has not been acted upon yet.

Figure 1. Palau: Affordable Current Expenditure Under Different Withdrawal Schedules



Source: Ministry of Finance data and staff estimations.

Note: The estimation assumes: (1) domestic revenue and non-Compact grants for current expenditure in percent of GDP remain at their levels from recent years; (2) capital expenditure is entirely financed by capital grants; (3) nominal GDP growth of 3 percent.

1/ This scenario assumes investment returns of 6 percent, population growth plus inflation of 3 percent, and investment fees equal to 0.7 percent of assets.

## II. PROMOTING GROWTH THROUGH SUSTAINABLE TOURISM<sup>12</sup>

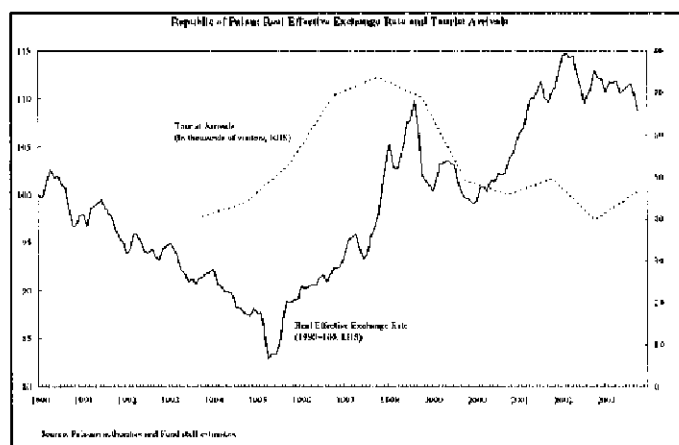
### A. Introduction

17. **Tourism is the leading sector in Palau and a significant source of income.** Over the last three years, tourism receipts have been running at about \$50 million (or 45 percent of GDP). In FY2003 there were 46,615 visitors who spent an average of \$124 per day bringing in about \$58 million.<sup>13</sup> The next largest export relates to fishing, which includes exports of fish and the sale of fishing licenses to foreign and domestic fishing companies but accounts for a much smaller share of exports of goods and nonfactor services (approximately 20 percent in FY2003).

18. **Tourism also makes a significant indirect contribution to the economy through linkages with other sectors of the economy, especially services and construction, for example.** However, the contribution to national income is somewhat limited by the fact that the tourism sector depends on imported inputs and a considerable share of the investment in tourism is foreign-owned. Nevertheless, tourism still provides considerable employment opportunities to contribute to economic growth in Palau in a way that is consistent with preserving its fragile environment.

19. **Most tourists come from Asia and the United States (see text table).** This makes Palau's economy vulnerable to events in these two regions. For example, visitor numbers declined sharply after the Asian financial crisis in 1998—numbers of tourist and business arrivals have yet to recover to the pre-crisis levels. Visitor numbers also fell significantly following the September 11 attacks, and the SARS epidemic in Asia, both of which had a negative impact on

peoples' confidence regarding the safety of international travel. The breakdown of tourist arrivals by country of origin partly reflects the geographical position of Palau, and its strong historical ties with Japan and the United States.



<sup>12</sup> Prepared by Ashok Bhundia.

<sup>13</sup> Based on data provided by Palau Visitors Authority.

## B. Overcoming Impediments and Diversifying Palau's Tourist Base

20. **The narrow base from which Palau is able to draw tourists presents serious challenges for managing the impact of external shocks.** As the Asian financial crisis demonstrated, Palau's tourism industry can be adversely affected by events overseas that impact on the competitiveness of its tourist industry and on the perceptions about foreign travel more generally. After reaching 66,441 in 1997 (a peak), visitor numbers dropped significantly in 1997 when the Asian financial crisis made Palau a more expensive place to visit in terms of the Asian currencies. The drop in competitiveness is seen when measured by the appreciation of Palau's real effective exchange rate. The recent decline in the value of the dollar should help to restore some of the loss in competitiveness.

### Palau: Tourist and Business Arrivals in FY2003

Country of Residency	Tourist and Business Arrivals	Average Length of Stay	Average Expenditure Per Day (US\$)
Japan	16,051	5	239
United States	5,708	8	177
Australia/New Zealand	2,059	7	147
Philippines	448	4	137
Singapore	40	6	160
Taiwan Province of China	19,137	4	287
People's Republic of China	152	5	165
Hong Kong SAR	307	5	165
Korea	179	4	160
Germany	310	9	159
Italy	143	9	145
Switzerland	170	9	147
France	45	9	158
United Kingdom	204	9	157
Others	1,662	5	160
<b>Totals for FY2003</b>	<b>46,615</b>		

Source: Palau Visitors Authority.

21. **A major challenge faced by the authorities in trying to attract visitors beyond Asia is Palau's relative inaccessibility due to its geographical isolation which is compounded by high air fares that are primarily the result of limited competition on air routes to Palau.** Currently, few airlines fly regularly to Palau, including charter flights which are mostly from Japan and Taiwan Province of China. For visitors outside these countries, the cost of traveling to Palau by air is probably much higher when compared to other destinations in the region such as Bali. Therefore, in order to diversify its tourist industry, efforts to encourage more airlines to fly to Palau will be an important step. This should spur

competition between airlines and therefore bring down airfares. Most recently, the Palau Visitors Authority reported encouraging indications in their discussions with China Airlines which may begin to provide connections from Europe to Palau via Taiwan Province of China at competitive prices. This may help to encourage more European tourists to visit.

**22. Another impediment to future expansion is the lack of high-end tourist facilities, with limited resort facilities at international standards.** If the government's objective of attracting high-end tourists is to be realized, then more luxury hotels and complementary facilities will need to be developed. This will probably require international hotel chains to invest in Palau and bring their expertise and experience to the tourist sector. In this regard, there may be complementary reforms that Palau could undertake to promote foreign investment (see Section D).

### **C. Promoting Sustainable Tourism**

**23. At present tourism activity is concentrated in diving but a strategy for developing tourism further will also need to encourage other activities.** Limits to future growth in diving are dictated by concerns about the environment and this means that Palau will need to diversify its tourist activities if numbers can be expanded significantly beyond current levels. The President's Management Action Plan emphasizes that future growth in diving may be limited. Consequently, a strategy for future growth that is consistent with sustaining the marine environment will also need to focus on diversifying the range of activities—golf resorts being one example—that can attract more tourists, and encouraging higher spending per tourist and a longer average length of stay. Such a strategy could provide considerable room for expansion in tourist arrivals before the sustainability limits are reached. This will require considerable investment in infrastructure such as luxury hotels and other complementary facilities. If carefully designed, these facilities could have minimal impact on Palau's environment whilst contributing to developing the tourist industry and training the local workforce.

**24. Recent steps taken by the Office of the President to develop a strategy for sustainable tourism include the setting up of a Tourism Task Force.** In May 2002,<sup>14</sup> this task force recommended that a Sustainable Tourism Unit be set up to help coordinate and implement initiatives to develop sustainable tourism in Palau. The task force enjoyed considerable technical assistance from the South Pacific Project Facility, a multi-donor funded facility managed by the International Finance Corporation of the World Bank Group.

**25. Financing the infrastructure necessary to develop high-end tourism will require considerably more foreign direct investment from international hotel chains given the limited capacity of the local tourist industry.** These international entities should be able to

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<sup>14</sup> Report on the establishment of a National Tourism Unit. Final Report, May 2002.

provide the necessary capital, both physical and human, and help develop Palau as an internationally competitive destination at the high-end of the international tourism market.

#### **D. Reforms to Promote Investment in Tourism**

26. **Developing tourism can be viewed in the broader context of developing a vibrant private sector in Palau.** In this regard, policies designed to boost tourism will need to be multi-faceted and comprehensive in their reach. For example, the foreign investment law is a key component in shaping an appropriate foreign investment climate. The government may consider to amend this law in ways that encourages foreign investment beyond current levels, but which at the same time promotes the development of local skills, and has positive spillovers for domestic firms such as providing managerial expertise and knowledge of international best-practice to local workers. Positive spillovers from foreign investment need not be limited to tourism but could be seen in related service industries that do business with the tourist industry.

27. **Disputes over land ownership continue to be an obstacle for foreign investment in Palau.** While land ownership is a sensitive issue, and one which can only be addressed by local debate, there are numerous ways to work around the current law which does not allow foreigners to own land. For example, foreign investors can agree to long-term leases of land which protects their investments. Moreover, where land disputes exist, if the parties to the dispute are agreeable, then land can be held in trust and leased to a foreign investor. Once the dispute is resolved, earnings from the lease and the rights under the lease agreement are enjoyed by the party that wins the dispute.

28. **Reforms to the foreign investment law and regulations should help to improve investment incentives.** A major component of the foreign investment law is the level of local participation required in foreign investment projects. Conditions related to the hiring of local staff should strike an appropriate balance that does not result in strong disincentives for foreign investment, but at the same time ensures that the local population is provided real benefits in terms of employment and training. In this regard, it may be appropriate to have some rules on minimum local participation in employment provided by a foreign investor. Currently, foreign investors are required to hire a minimum share of Palauan workers if they invest less than \$500,000, but are exempt from this rule if they invest more than this amount.

#### **E. Concluding Remarks**

29. **With its unique natural resources, Palau continues to enjoy sizeable tourism receipts in terms of per head of its population.** These resources promise great potential for developing Palau's tourism sector and the economy through a well-designed package of policies that promote sustainable tourism. This can lay the basis for a healthy and resilient macroeconomy, so that the adjustment to a post-Compact world is less onerous, and provides an alternative means for income generating economic activity in Palau.



### **III. DEVELOPMENT TOWARD EFFECTIVE BANKING SUPERVISION AND REGULATION<sup>15</sup>**

#### **A. Palau's Banking Sector**

30. **Palau has a large banking sector relative to its population.** There are 10 licensed commercial banks, one development bank, and about half dozen or so other financial institutions (insurance companies and credit unions).<sup>16</sup> Available data from reports by the 9 major commercial banks indicated that total deposits were around \$110 million and total net loans (outstanding loans less provisions for bad loans) were about \$56 million as of October 2002 (see Table III.1). The largest three United States-based FDIC insured banks accounted for about 80 percent of deposits and 60 percent of net loans. Three other banks are branches of Asian banks. The remaining four are locally chartered, of which, two are insolvent and currently under Financial Institution Commission's (FIC) Consent Judgment for recapitalization.

31. **Bank lending is limited, focusing on small consumer loans secured by deductions from salaries.** The spreads between the deposit and lending interest rates are large. The average deposit rate on 30-day time savings accounts and lending rate for consumer loans were 2 and 15 respectively as of May 2003 (Statistical Appendix Tables 14.1–14.5). Funds tend to flow out of the country as foreign banks pool deposits at their headquarters for investment elsewhere.

#### **B. The Legal Framework for Banking Regulation and Anti-Money Laundering**

32. **Banking sector supervision and regulations were virtually non-existent prior to 2001.** The Financial Institutions Act (FIA) and Anti-Money Laundering (AML) legislation passed in June 2001 laid the foundations for banking supervision and regulation. However, these laws need to be strengthened to enable implementation. Under the current laws, regulations of the FIC must be approved by the OEK (Palau's Parliament), the FIC has no clear authority to conduct on-site inspections; it has to obtain authority from the Supreme Court to initiate enforcement actions; domestic and foreign banks are subject to different auditing requirement with the domestic banks having the option to provide "internally prepared audit;" there is no restriction on the number of bankers that may serve as members of the FIC.

33. **To implement the banking laws passed in 2001, the FIC was established in 2002 and Financial Intelligent Unit (FIU) in July 2003.** Recently, a working group has been set up under the auspices of the FIU Chairman to exchange information on suspicious transactions.

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<sup>15</sup> Prepared by Ashok Bhundia.

<sup>16</sup> Palau is currently classified by the Financial Stability Forum as an Offshore Financial Center (OFC) and was assessed in 2002 under the Fund's OFC assessment program.

The group includes senior officials from the FIC, Customs, Immigration Department, and other agencies.

34. **There has been strong domestic resistance to the implementation of the FIA and improvement of the regulatory framework.** Since the two local banks were put under cease and desist orders by the FIC, the two banks went to the court to challenge the orders. A legislation was twice adopted by the OEK to reduce the minimum capital requirement from \$0.5 million to \$0.25 million, extend the FIA compliance period from 2003 to 2005, and reinstate all licenses revoked after passage of the FIA in June 2001. The President vetoed this legislation in November 2003.

35. **The government submitted to the OEK a set of FIA amendments and AML acts aimed at strengthening the existing legal framework.** In addition, regulations submitted by the FIC are also being debated by the OEK. These regulations will provide the FIC with the operational authority it needs to carry out its duties. Together, if passed by the legislature, these two sets of legislation would help strengthen the legal environment for banking in Palau.

Palau: Selected Balance Sheet Data as of October 31, 2002 (In millions of U.S. dollars) 1/ 2/			
	FDIC-insured banks	Other banks	Total
<b>Assets</b>	<b>83.7</b>	<b>35.6</b>	<b>119.2</b>
<i>Of which</i> : Notes and coins	2.0	3.5	5.5
Deposits due from other FIs	48.8	3.0	51.8
Net loans and overdrafts 3/	32.6	23.6	56.2
Net fixed assets 4/	0.2	2.6	2.7
Other assets	0.1	2.4	2.5
<b>Liabilities</b>	<b>85.8</b>	<b>30.5</b>	<b>117</b>
<i>Of which</i> : Deposits	85.5	24.7	110.2
Other liabilities 1/	...	6.8	6.8
Source: Financial Institutions Commission.			
1/ Based on reports by 9 commercial banks; include data which are not internationally audited.			
2/ Rounding may result in some totals not being exactly equal to the sub-aggregates.			
3/ Gross loans and overdrafts less provisions for bad loans.			
4/ Land and building less depreciation.			

Table 1. Republic of Palau: Selected Social Indicators, 1995, 2000, and 2001/02 1/

	1995	2000	2001 Est.	2002 Est.
GDP per capita (U.S. dollars)	5,527	6,179	6,111	6,094
Area (sq. miles)				
Land	188	188	188	188
Sea	237,850	237,850	237,850	237,850
Demographic indicators (2000)				
Total population	17,225	19,129	19,626	19,976
Population growth (percent per annum)				
1986-90	2	...	...	...
1990-95	3	...	...	...
2000	...	2	...	...
Crude birth rate (per 1,000)	13	15	15	13
Crude death rate (per 1,000)	7	7	7	7
Infant mortality (per 1,000)	20	11	17	23
Labor force	8,368	9,845	...	...
Employed 2/	7,780	9,621	11,099	11,632
Agriculture, fisheries, and mining	724	215	183	287
Construction	1,089	1,112	1,815	2,285
Manufacturing	78	345	...	...
Transport, storage, communication, and other public utilities	436	765	607	573
Wholesale, retail, restaurants, and hotels	1,455	2,619	2,364	2,291
Finance, insurance, and real estate	124	116	126	150
Other business, personal, community, and social services	1,120	1,246	1,917	2,049
Public administration	2,879	3,203	4,087	3,997
Unemployed	588	224	...	...
Age structure (in percent)				
0-14	28	24	...	...
15-64	66	71	...	...
65 and over	6	5	...	...
Public health and education				
Education				
Percent graduating				
Primary	97	97	118	119
Secondary	65	78	99	82
College	12	10	11	12
Student/teacher ratio (1998 and 2000)	11	11	...	...
Health				
Number of encounters at dispensary	115	48	...	...

Sources: 1995 and 2000 Census of Population and Housing; Data provided by the Office of Planning & Statistics.

1/ Figures for 2001-2003 are estimates based on partial data.

2/ Composition of employment figures for 2001-2003 are based on figures from social security records.

Table 2. Republic of Palau: United States Grants, 1994/95–2000/09

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

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
								Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Under Compact															
Basic grants	21,227	18,623	18,856	19,220	11,570	11,640	11,785	11,928	11,928	12,138	10,714	10,782	10,850	10,917	10,985
Operations	14,948	12,781	12,781	12,781	7,781	7,851	7,781	7,781	7,781	7,781	6,781	6,781	6,781	6,781	6,781
Inflation adjustment 1/	6,279	5,842	6,075	6,439	3,789	3,789	4,004	4,147	4,147	4,357	3,933	4,001	4,069	4,136	4,204
Energy - Section 211(b)	28,000	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation adjustment	12,880	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Trust fund - Section 211(f)	66,000	...	4,000	...	...	...	...	...	...	...	...	...	...	...	...
Capital improvements	36,000	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation adjustment	16,560	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Military options	5,500	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Special program assistance	6,300	4,300	3,500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total direct payments	192,467	23,523	26,356	21,220	13,570	13,640	13,785	13,928	13,928	14,138	12,714	12,782	12,850	12,917	12,985
Special program assistance															
Federal services															
Road system construction	53,000	...	96,000	...	...	...	...	...	...	...	...	...	...	...	...
Weather, postal, aviation services	1,340	1,490	1,640	1,790	1,940	2,090	2,240	2,390	2,540	2,690	2,840	2,990	3,140	3,290	3,440
Total federal services	54,340	1,490	97,640	1,790	1,940	2,090	2,240	2,390	2,540	2,690	2,840	2,990	3,140	3,290	3,440
Total Compact aid	246,807	25,013	123,996	23,010	15,510	15,730	16,025	16,318	16,468	16,828	15,554	15,772	15,990	16,207	16,425
Other United States assistance 1/	16,245	13,630	10,586	8,172	7,789	7,399	6,927	11,196	8,397	6,298	4,723	3,542	2,657	1,993	1,494
Total United States grants	263,052	38,643	134,582	31,182	23,299	23,129	22,952	27,514	24,865	23,126	20,277	19,314	18,646	18,200	17,920

Sources: Independent Auditor's Report on financial statements; and data provided by the Bureau of Program, Budget and Management, Ministry of Administration.

1/ Other United States assistance are received based on the proposals submitted to each grantor agencies. Based on the Compact agreement, various programs were to phase out beginning fiscal year 1996. Scheduled phasing out is 25 percent reduction of grant authorization for each fiscal year. However, there are available old and new programs for which the Republic of Palau is eligible.

Table 3. Republic of Palau: Financial Holdings of the Central Government, 1998/99–2002/03

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

	1998/99	1999/00	2000/01	2001/02	2002/03 Prel.
Foreign assets 1/					
Deposits with foreign banks	64.6	45.3	39.8	10.8	10.9
Domestic assets 2/					
Deposits with domestic banks	2.4	32.4	3.9	2.9	5.5
<b>Total Non-Compact Trust Fund Assets</b>	<b>67.0</b>	<b>77.7</b>	<b>43.7</b>	<b>13.7</b>	<b>16.4</b>
Compact Trust Fund 3/	141.1	161.8	135.0	124.5	136.3
<b>Total financial holdings</b>	<b>208</b>	<b>240</b>	<b>179</b>	<b>138</b>	<b>153</b>

Sources: Data provided by the Office of the President, and Ministry of Finance.

1/ Deposits with all foreign banks, including those in the United States.

2/ Deposits with local banks.

3/ Refer only to Compact Section 211(f) Trust Fund, excluding the Civil Service Pension Trust Fund and the Social Security Retirement Fund.

Table 4. Republic of Palau: Employed Persons by Industry, 1990, 1995, and 1999–2003

	1990 Census	1995 Census	1999 Social Security	2000 Census	2001 Social Security	2002 Social Security	2003 Social Security
Agriculture, fisheries, and mining	446	724	287	215	183	287	261
Construction	861	1,087	946	1,112	1,815	2,285	2,678
Manufacturing	93	78	26	345	...	...	6
Transport, storage, communication, and other public utilities	477	435	766	765	607	573	526
Wholesale, retail, restaurants, and hotels	800	1,448	2,495	2,619	2,364	2,291	2,639
Finance, insurance, and real estate	119	122	119	116	126	150	169
Services <sup>1/</sup>	687	1,573	1,147	1,246	1,917	2,049	2,595
Public administration	2,116	2,292	3,048	3,203	4,087	3,997	4,374
Total employed population	5,599	7,759	8,834	9,621	11,099	11,632	13,248

Sources: Office of Planning and Statistics, *1994 & 1999 Statistical Yearbook*; *1995 and 2000 Census of Population and Housing*, and Social Security Office.

<sup>1/</sup> Includes business, repair, personal, community, and entertainment and recreation, health, education, and social services.

Table 5. Republic of Palau: National Government Budgetary Operations, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03 Prel.	2003/04 Budget 1/	2003/04 Staff Proj. 2/
(In millions of U.S. dollars)							
Total revenue and grants	47.8	61.1	53.2	51.2	65.4	74.6	71.6
Domestic revenue	25.8	29.1	31.8	28.8	29.8	36.4	33.5
Tax revenue	18.9	22.9	24.1	22.0	23.0	29.6	26.7
Salaries and wages	5.2	5.5	6.0	5.9	6.5	6.7	6.7
Import tax	5.0	6.4	6.8	5.5	5.3	9.2	7.8
Gross revenue tax	5.6	6.2	6.9	7.4	7.4	7.7	7.6
Other	3.2	4.8	4.5	3.3	3.9	6.0	4.6
Nontax revenue 3/	4.5	4.3	5.8	4.5	5.3	5.3	5.3
Local trust funds	2.4	1.9	1.9	2.2	1.5	1.5	1.5
Grants	22.0	32.1	21.4	22.4	35.5	38.1	38.1
Current grants	20.6	21.3	21.4	21.4	22.3	21.8	21.8
U.S. Compact	13.6	13.6	13.8	13.9	13.9	14.1	14.1
U.S. non-Compact	6.4	6.8	7.0	6.5	7.7	7.0	7.0
Other country	0.6	0.8	0.6	1.0	0.7	0.8	0.8
Capital grants	1.4	10.8	0.0	1.0	13.3	16.3	16.3
U.S. non-Compact	1.4	0.6	0.0	1.0	1.5	3.1	3.1
Other country	...	10.2	...	...	11.8	13.2	13.2
Total expenditure	72.1	79.6	79.9	80.1	72.6	84.2	84.2
Current expenditure	64.1	67.1	64.6	59.1	58.6	62.5	62.5
Wages and salaries	28.4	29.3	30.0	30.8	30.1	30.6	30.6
Other purchases of goods and services	27.3	27.4	27.0	23.4	23.9	26.7	26.7
Interest payments and investment fees	0.4	0.3	0.9	0.8	0.8	1.1	1.1
Subsidies and transfers	8.1	12.1	6.7	4.1	3.8	4.1	4.1
Public enterprises	1.3	3.1	2.8	1.7	1.7	1.7	1.7
Other	6.7	6.9	3.9	2.5	2.2	2.4	2.4
Capital expenditure	8.0	12.5	15.4	21.0	14.0	21.7	21.7
Balance ex. capital grants & expenditure	-17.6	-21.7	-11.4	-8.9	-6.5	-4.3	-7.2
Errors and omissions, Accounts payable/receivable 4/	3.6	10.6	1.7	-5.3	4.4	0.0	-3.1
Overall balance	-20.6	-7.8	-25.1	-34.2	-2.9	-9.7	-15.7
Financing	20.6	7.8	25.1	34.2	2.9	9.7	15.7
Net long-term borrowing	-4.1	18.6	...	...	-0.6	-1.1	-1.1
New borrowing	...	20.0	...	...	...	...	...
Principal repayments	4.1	1.4	...	...	0.6	1.1	1.1
Change in NTF assets 5/	24.7	-10.7	25.1	29.2	-1.6	5.8	11.8
Withdrawals from Compact Trust Fund	...	...	...	5.0	5.0	5.0	5.0
(In percent of GDP)							
Total revenue and grants	41.8	52.6	44.3	42.1	52.7	58.7	56.4
Domestic revenue	22.6	25.0	26.5	23.6	24.1	28.7	26.4
Tax revenue	16.5	19.7	20.1	18.1	18.6	23.3	21.0
Nontax revenue	4.0	3.7	4.8	3.7	4.3	4.2	4.2
Grants	19.2	27.6	17.8	18.4	28.7	30.0	30.0
Total expenditure	63.0	68.4	66.7	65.8	58.6	66.3	66.3
Current expenditure	56.0	57.7	53.8	48.6	47.3	49.2	49.2
Wages and salaries	24.8	25.2	25.0	25.3	24.3	24.1	24.1
Capital expenditure	7.0	10.7	12.8	17.3	11.3	17.1	17.1
Balance ex. capital grants and expenditure	(15.4)	(18.7)	(9.5)	(7.3)	(5.2)	(3.3)	(5.7)
Overall balance	(18.0)	(7.8)	(20.9)	(28.1)	(2.3)	(7.6)	(12.4)
Memorandum item: (in millions of U.S. dollars)							
GDP (fiscal year)	114.4	116.3	119.9	121.7	123.9	127.0	127.0

Source: Ministry of Finance.

1/ Budget as approved by the National Congress.

2/ Taking into account arrears clearance, debt service, and more prudently projected revenue. See table 5 for projections of accelerated fiscal consolidation.

3/ Nontax revenue comes mainly from different fees and charges.

4/ The staff projection for 2003/04 includes 3.1 million accounts payable to cover arrears that have been accumulated in 2002/03.

5/ Change in non-trust fund assets excluding capital gains/losses. A minus sign is an increase in assets.

Table 6. Republic of Palau: Gross Domestic Product, 1994–2002

	1994	1995 1/	1996 2/	1997	1998	1999	2000	2001	2002 Prov.
(In thousands of U.S. dollars)									
Agriculture	1,926	1,579	1,231	1,312	1,398	1,358	1,372	1,399	569
Fisheries	4,864	3,918	2,973	2,057	2,038	3,148	3,274	3,372	721
Mining and quarrying	444	301	158	138	176	218	229	240	1,826
Manufacturing	705	851	997	1,403	1,702	1,609	1,690	1,774	787
Electricity, gas, and water	613	303	-8	-388	2,360	3,393	3,563	3,741	3,317
Construction	4,819	7,395	8,545	8,834	10,389	8,249	8,661	9,181	13,138
Trade	14,511	18,238	20,995	23,913	24,837	23,165	23,860	24,337	26,145
Hotels and restaurants	7,051	12,794	15,360	13,986	12,370	11,938	12,057	12,419	7,117
Transport and communication	9,798	8,345	7,270	8,734	9,191	9,846	10,338	10,855	5,469
Finance and insurance	3,127	4,210	5,294	6,573	5,706	4,297	4,511	4,647	1,902
Real estate and business services	4,954	6,262	7,570	6,298	6,555	4,611	4,842	5,036	5,027
Public administration	22,989	23,203	26,813	29,401	28,462	29,374	30,255	30,860	31,942
Other services	6,208	6,480	9,807	9,211	9,907	9,691	9,982	10,381	7,656
Subtotal	82,008	93,879	107,006	111,471	115,091	110,897	114,634	118,243	116,270
Less: Imputed bank service charge	1,386	1,743	2,100	2,101	2,640	2,384	1,250	1,250	1,250
Plus: Import duties	2,904	3,101	3,298	3,842	4,869	4,972	3,842	3,842	3,842
Gross domestic product	83,526	95,237	108,204	113,212	117,320	113,485	117,226	120,835	118,862
(In percent of total)									
Agriculture	2.3	1.7	1.1	1.2	1.2	1.2	1.2	1.2	0.5
Fisheries	5.8	4.1	2.7	1.8	1.7	2.8	2.8	2.8	0.6
Mining and quarrying	0.5	0.3	0.1	0.1	0.2	0.2	0.2	0.2	1.5
Manufacturing	0.8	0.9	0.9	1.2	1.5	1.4	1.4	1.5	0.7
Electricity, gas, and water	0.7	0.3	...	-0.3	2.0	3.0	3.0	3.1	2.8
Construction	5.8	7.8	7.9	7.8	8.9	7.3	7.4	7.6	11.1
Trade	17.4	19.1	19.4	21.1	21.2	20.4	20.4	20.1	22.0
Hotels and restaurants	8.4	13.4	14.2	12.4	10.5	10.5	10.3	10.3	6.0
Transport and communication	11.7	8.8	6.7	7.7	7.8	8.7	8.8	9.0	4.6
Finance and insurance	3.7	4.4	4.9	5.8	4.9	3.8	3.8	3.8	1.6
Real estate and business services	5.9	6.6	7.0	5.6	5.6	4.1	4.1	4.2	4.2
Public administration	27.5	24.4	24.8	26.0	24.3	25.9	25.8	25.5	26.9
Other services	7.4	6.8	9.1	8.1	8.4	8.5	8.5	8.6	6.4
Subtotal	98.2	98.6	98.9	98.5	98.1	97.7	97.8	97.9	97.8
Less: Imputed bank service charge	-1.7	-1.8	-1.9	-1.9	-2.2	-2.1	-1.1	-1.0	-1.1
Plus: Import duties	3.5	3.3	3.0	3.4	4.2	4.4	3.3	3.2	3.2
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

1/ Data for 1995 have been estimated using indicators for tourism, trade, and public administration between 1993 and 1996 benchmarks.

2/ Data for 1996 to 2001 have been estimated by a UNDP statistics specialist.



Table 7. Republic of Palau: National Government Expenditure, 1990/91–2002/03

(In thousands of U.S. dollars by Budget Category)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 1/
													Prov.
Office of the President	701	754	1,013	1,221	1,251	985	1,408	1,645	1,879	1,942	1,690	1,971	1,005
Office of the Vice-President	231	290	330	346	390	410	437	507	442	450	402	560	408
Ministries													
State	806	1,022	1,116	1,234	1,627	1,846	1,731	1,859	2,244	2,440	2,409	2,135	2,311
Administration	2,513	2,652	2,752	1,578	1,618	2,204	1,953	1,911	2,587	2,661	2,479	2,889	2,253
Health	...	...	...	5,833	7,608	8,030	9,704	9,147	9,536	10,193	10,391	10,053	6,681
Education	...	...	...	9,741	11,204	8,844	9,173	8,833	9,710	9,055	9,431	8,730	6,549
Community and Cultural Affairs	...	...	...	920	1,010	726	654	815	748	785	768	808	774
Social Services	11,441	13,303	15,055	...	...	...	...	...	...	...	...	...	...
Justice	1,334	1,592	1,565	2,030	2,308	2,458	2,973	2,970	3,870	4,366	3,538	3,579	3,382
Resources and Development	...	...	...	8,274	4,736	3,931	4,830	5,534	7,719	9,161	7,657	6,766	5,689
Commerce & Trade	...	...	...	407	810	914	1,559	1,753	1,386	1,475	1,503	1,290	1,254
Natural Resources	8,998	6,608	9,597	...	...	...	...	...	...	...	...	...	...
Boards, Committees, and Authorities	385	487	465	598	1,208	835	791	454	335	564	526	443	489
Office of the Public Auditor	151	229	344	378	391	527	608	566	779	689	667	684	390
Office of the Special Prosecutor	...	173	175	156	136	188	117	62	213	227	225	281	235
Oilbill Era Kelulau (Congress)	2,162	2,665	2,597	3,227	3,470	3,261	3,651	3,384	3,394	3,606	3,312	3,368	3,367
Grants to state governments	1,874	2,123	3,266	3,484	3,268	1,747	4,682	4,612	4,514	4,850	4,453	4,453	4,463
Judiciary	1,148	1,294	1,390	1,464	1,618	1,793	1,915	2,045	2,206	2,259	2,268	2,342	2,124
Other 2/	1,525	6,213	2,748	4,056	4,260	7,018	6,890	5,204	4,074	4,966	5,275	5,988	6,314
Capital expenditures	11,074	10,663	3,792	3,012	8,529	17,003	18,290	9,856	7,988	12,726	15,361	21,038	14,020
Interest payments	...	...	...	...	...	...	...	...	...	...	700	708	704
Operating transfers 3/	...	246	357	2,422	9,809	12,429	5,176	3,460	8,052	12,078	6,707	4,132	3,829
Public enterprises	...	...	207	266	5,543	7,889	3,036	1,000	1,337	3,149	2,837	1,662	1,676
Other 4/	49	3	150	2,158	4,266	4,540	2,140	2,460	6,715	8,929	3,870	2,470	2,153
Total	44,343	50,314	46,576	50,381	65,251	75,148	76,542	64,617	71,678	84,493	79,762	82,218	66,241

Sources: Reports on the audit of financial statements and data provided by the Bureau of Program, Budget, and Management, Ministry of Finance.

1/ Unaudited figures.

2/ Other expenditures includes other programs from general fund expenditures, special revenue fund expenditures, CIP management fees, and prior year.

3/ Includes subsidies and other transfers for current operations.

4/ Other major public entities receiving transfers are: Palau Community College Board of Trustees, COM Board of Regents, and Civil Service Pension Plan.

Table 8. Republic of Palau: Operating Accounts of the State Governments, 1993/94–2002/03

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

	1993/94	1994/95	1995/96	1996/97 1/	1997/98 2/	1998/99 3/	1999/00	2000/01	2001/02	2002/03
<b>Revenues</b>										
National government grant	2,612	1,303	4,960	3,092	1,346	1,546	...	...	...	...
Fishing right fees	885	346	847	373	166	112	...	...	...	...
Interest income	2	5	27	73	12	...	...	...	...	...
Other	333	114	853	273	12	133	...	...	...	...
Total revenues	3,832	1,768	6,688	3,811	1,535	1,791	...	...	...	...
<b>Expenditures</b>										
Salaries and wages	654	334	1,451	1,312	455	552	...	...	...	...
Capital expenditure	1,023	399	2,815	2,005	645	778	...	...	...	...
Other	2,395	1,097	1,623	1,320	880	596	...	...	...	...
Total expenditures	4,071	1,830	5,889	4,637	1,980	1,926	...	...	...	...
Net collection (deficit)	-239	-62	799	-826	-445	-135	...	...	...	...
Account receivables/loan repayment	232	...	-53	-15	...	...	...	...	...	...
Fund balance (beginning of year)	690	683	622	1,368	526	82	...	...	...	...
Fund balance (end of year)	683	622	1,368	526	82	-53	...	...	...	...

Source: Data provided by the Office of the Public Auditor.

1/ A total of (2) states operations are not yet included in FY 1997.

2/ A total of (11) states operations are not yet included in FY 1998.

3/ A total of (12) states operations and the Fund balances are not yet included in FY 1999.

Table 9. Republic of Palau: Financial Position of the Compact Trust Fund, 1994/95–2002/03 1/

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

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 2/ Prev.
Total receipts	71,034	6,961	28,862	17,600	19,621	21,472	(25,810)	(9,695)	14,454
Compact grants	66,000		4000						
Investment gains and interest income	5,034	6,961	24,862	17,600	19,621	21,472	(25,810)	(9,695)	14,454
Total expenditures	255	564	502	773	845	778	984	848	2,650
Investment fees	255	564	502	773	845	778	984	848	2,650
Overall balance	70,779	6,397	28,360	16,826	18,776	20,694	(26,794)	(10,543)	11,804
Fund balance at year end	70,779	77,176	105,536	122,362	141,139	161,833	135,039	124,496	136,300

Sources: Independent auditor's report on financial statement; and data provided by the Office of the President, and Ministry of Administration.

1/ Compact Trust Fund refers to Section 211(f).

2/ Unaudited figures for 2003.

Table 10. Republic of Palau: Financial Position of the Social Security Fund, 1989/90–2001/02

(In thousands of U.S. dollars)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Revenues	1,532	2,476	3,165	4,268	3,349	5,727	4,930	8,280	6,791	10,276	13,469	-221	5,402
Contributions	1,471	1,592	2,557	2,889	3,383	3,615	4,014	5,310	5,487	5,587	6,362	6,891	8,166
Government	730	740	1,385	1,534	1,853	1,948	2,011	2,681	2,644	2,748	2,780	2,885	3,381
Private	736	848	1,168	1,345	1,517	1,649	1,983	2,599	2,805	2,838	3,403	3,925	4,521
Penalties and interest	5	4	4	10	13	18	20	30	38	1	179	81	264
Investment and other income	61	884	608	1,379	-34	2,112	916	2,970	1,304	4,689	7,107	-7,112	-2,764
Investment with trust company	...	...	...	...	...	...	900	2,952	1,288	4,664	7,034	-7,130	-2,787
Other income (local)	...	...	...	...	...	...	16	18	16	25	73	18	23
Expenditures	1,715	1,835	2,011	2,312	2,539	2,625	2,871	3,105	3,354	3,713	4,215	4,685	5,195
Total benefit payout 1/	1,502	1,553	1,752	1,947	2,192	2,304	2,420	2,616	2,780	2,990	3,551	3,968	4,252
Administrative fees 2/	213	282	259	365	347	321	451	489	574	723	664	717	943
Net collection (deficit)	-183	641	1,154	1,956	810	3,102	2,059	5,175	3,437	6,563	9,254	-4,906	207
Fund balance (end-year) 3/	4,765	5,556	6,709	8,667	9,477	12,579	14,638	19,813	23,250	29,813	39,144	34,129	34,336

Sources: Annual audit reports; and data provided by the Palauan Social Security Office.

1/ Total benefit payout includes retirements, survivors, disability, and lumpsum payments.

2/ Including administrative and investment management expenses and fees.

3/ Capitalized assets of \$77,000 in FY2000.

Table 11. Republic of Palau: Financial Position of the Civil Service Pension Fund, 1990/91–2002/03

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

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 3/
Revenues	2,363	2,364	4,202	2,715	7,221	5,688	7,068	5,108	12,183	14,115	-1,354	2,951	10,101
Contributions													
Government employees	1,975	1,975	2,228	2,708	2,851	3,125	3,285	3,309	3,438	3,596	3,926	4,096	4,214
Investment gains (losses)	30	30	992	-359	1,827	653	3,305	1,201	3,880	6,288	-7,653	-2,097	5,182
Investment interest income	112	112	159	164	227	290	346	456	455	554	605	595	566
Miscellaneous income	...	...	...	...	...	...	...	...	...	...	34	26	-
Other income	96	96	672	52	86	120	132	142	110	177	234	206	219
Transfers from national government	150	150	150	150	2,230	1,500	-	-	4,300	3,500	1,500	125	-
Expenditures	1,077	1,346	2,032	1,840	2,305	2,536	3,025	3,116	3,491	4,597	5,293	5,219	5,545
Total benefit payout 1/	956	1,124	1,416	1,557	1,980	2,078	2,545	2,703	3,008	3,819	4,752	4,740	5,069
Administrative fees 2/	121	222	616	283	325	458	480	413	483	778	541	479	476
Net collection (deficit)	1,286	1,018	2,170	875	4,916	3,152	4,043	1,992	8,692	9,518	-6,647	-2,268	4,556
Fund balance (end-year)	4,233	5,252	7,421	8,296	13,212	16,364	20,407	22,399	31,093	40,611	33,964	31,696	36,252

Sources: Independent auditor's report on financial statements; and data provided by the Palau Civil Service Pension Plan Authority.

1/ Including lumpsum benefits, refunds, and disability benefits.

2/ Including investment management expenses and fees.

3/ Unaudited figure for FY 2003.

Table 12. Republic of Palau: Operating Accounts of the Major Public Corporations, 1996/97–2002/03

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

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 Prov.
<b>Palau Utility Corporation</b>							
Operating revenues	6,170	8,055	7,797	9,248	11,528	10,422	11,071
Operating expenses	9,379	9,761	8,378	11,400	12,263	11,576	12,137
Gross operating profit (loss)	-3,209	-1,706	-581	-2,152	-735	-1,154	-1,066
Non-operating revenues (expenses)	...	...	...	...	...	...	1,038
Subsidies from government and foreign grants	2,239	1,566	706	1,990	1,198	552	535
Net total profit (loss)	-970	-140	125	-162	463	-602	506
<b>Palau Housing Authority</b>							
Operating revenues:	389	270	201	115	209	403	175
Operating expenditures	398	258	227	139	120	94	113
Change in equity during the year	23	41	-26	-24	89	309	62
Fund equity, beginning of year	-268	-245	-245	-231	-255	-166	143
Fund equity, end of year	-245	-205	-231	-281	-166	143	205
<b>Palau National Communications Corporation</b>							
Operating revenues	5,835	6,390	6,412	6,656	6,059	8,812	8,812
Operating expenses	4,496	5,632	6,206	5,594	6,166	8,438	8,523
Other income (expenses)	-1	-1	-1,911	-1,337	-1,496	1,686	1,686
Change in equity during the year	828	...	-1,705	-275	-1,603	-1,312	-2,267
Fund equity, beginning of year	13,111	13,939	13,536	11,831	12,041	10,438	10,783
Fund equity, end of year	13,939	13,536	11,831	11,556	10,438	9,126	8,516

Sources: Independent auditor's report on financial statements; and data provided by the Palau Utilities Corporation, Palau Housing Authority; and Palau National Communications Corporation.

Table 13. Republic of Palau: National Government Debt and Debt Service, 1992/93–2002/03

(In thousands of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03 1/ Prov.
Gross external debt	67,429	20,000	15,500	12,500	9,100	5,500	1,433	20,000	20,000	20,000	19,429
ICBC debt service											
Debt service	1,000										
Principal	...	...	4,500	3,000	3,400	3,600	4,067	1,433	...	571	1,143
Interest	...	...	...	...	...	...	...	...	700	708	704

Sources: Independent auditor's report on financial statements; and data provided by the Ministry of Finance.

1/ Unaudited figures.

Table 14.1. Republic of Palau: Structure of Interest Rates, May 1997–2003

(Palau National Development Bank, in percent)

	May 1997	May 1998	May 1999	May 2000	May 2001	May 2002	May 2003
<b>Deposit rates</b>							
Checking account (with minimum balance)	...	...	...	...	...	...	...
Savings account	...	...	...	...	...	...	...
<b>Time savings account</b>							
30 days	...	...	...	...	...	...	...
One year	...	...	...	...	...	...	...
<b>Certificates of deposit</b>							
Six months	...	...	...	...	...	...	...
One year	...	...	...	...	...	...	...
Two years	...	...	...	...	...	...	...
Three years	...	...	...	...	...	...	...
<b>Lending rates</b>							
Consumer loans	-	-	-	-	-	-	-
Commercial loans (one year)	...	-	-	10.0-12.0	10.0-12.0	10.0-12.0	10.0-12.0
<b>Residential housing loans</b>							
30-year, fixed (Maximum 20 year)	...	-	-	8.0-12.0	8.0-12.0	8.0-12.0	8.0-12.0
15-year, fixed	...	12.0	12.0	12.0	12.0	12.0	12.0
Government-directed scheme 1/	-	-	-	8.0	8.0	8.0	8.0
Normal loan scheme	...	12.0	12.0	12.0	12.0	12.0	12.0

Source: Data provided by the Palau National Development Bank (PNDB).

1/ Under government-directed loan scheme, loan is provided to Palauans who have never owned a house.



Table 14.2. Republic of Palau: Structure of Interest Rates, May 1997–2003

(Bank of Guam-Palau Branch, in percent)

	May 1997	May 1998	May 1999	May 2000	May 2001	May 2002	May 2003
<b>Deposit rates</b>							
Checking account (with minimum balance) PCA	0.0-2.25	0.0-2.0	0.0-2.0	...	...	1.25	.25-.5
Savings account	2.25-3.0	2.25-3.0	2.25-3.0	2.5-3.0	3.0	1.5	.5-1.0
Time savings account							
30 days	2.25-3.0	2.25-3.0	2.25-3.0	4.07-4.38	2.5	0.88	0.9
One year	2.25-3.25	2.25-3.25	2.25-3.25	4.6-5.1	2.5	0.88	0.9
Certificates of deposit							
Six months	4.12-4.25	4.10-4.47	3.02-3.39	4.35-4.79	3.04	1.16	.56-.67
One year	4.18-4.31	4.14-4.64	3.28-3.60	4.60-5.10	3.07	1.21	.94-1.00
Two years	4.25-4.37	4.36-4.86	3.35-3.72	5.07-5.26	3.4	1.44	1.18-1.36
Three years	4.31-4.5	4.36-4.86	3.75-3.94	5.19-5.45	3.4	1.44	1.28-1.36
<b>Lending rates</b>							
Consumer loans	15.0-18.0	15.0-18.0	15.0-18.0	15.0-18.0	15.0	15.0	15.0
Commercial loans (one year)	10.5-12.75	10.5-12.75	9.75-12.50	9.75-12.50	11.75	7.5-13.5	7.5-13.84
Residential housing loans							
30-year, fixed	...	...	...	...	...	...	...
15-year, fixed	...	...	...	...	...	...	...

Source: Data provided by the Bank of Guam, Palau Branch.

Table 14.3. Republic of Palau: Structure of Interest Rates, May 1997–2003

(Bank Pacific, Ltd. (Guam Savings Bank), in percent)

	May 1997	May 1998	May 1999	May 2000	May 2001	May 2002	May 2003
Deposit rates							
Checking account (with minimum balance)	0.0-4.5	2.0	2.0	2.0	2.0	1.3	0.25-0.75
Savings account	2.25-5.0	2.3	2.3	2.3	2.2	1.1	0.5
Time savings account							
30 days	3.0-5.0	3.4	2.7	3.1	2.6	1.6	0.5
One year	4.5-6.0	4.7	3.7	5.4	3.4	2.1	0.7
Certificates of deposit							
Six months	5.0	4.7	3.5	4.6	3.2	1.8	0.7
One year	6.0	4.7	3.7	5.4	3.4	2.1	0.7
Two years	7.0	...	...	...	...	...	...
Three years	8.0	...	...	...	...	...	...
Lending rates							
Consumer loans	15.0-18.0	18.0	11.0-15.25	9.9-17.25	11.0-17.25	9.9-12.75	11.0-12.75
Commercial loans (one year)	9.5-12.5	9.5-12.5	9.25-12.25	10.0-13.0	10.5-11.5	6.0-9.0	6.8
Residential housing loans							
30-year, fixed	12.0	12.0	9.0	9.0	7.6	...	5.4
15-year, fixed	12.0	10.0	8.0	8.0	7.1	...	4.6

Source: Data provided by Bank Pacific, Ltd. (Guam Savings Bank).

Table 14.4. Republic of Palau: Structure of Interest Rates, May 1997–2003

(Bank of Hawaii, in percent)

	May 1997	May 1998	May 1999	May 2000	May 2001	May 2002	May 2003
<b>Deposit rates</b>							
Checking account (with minimum balance)	0.0-4.5	...	...	...	...	...	...
Savings account	2.25-5.0	2.5	2.0	2.0	1.75-3.0	.25-2.05	.25-1.0
Time savings account							
30 days	3.0-5.0	2.7-3.0	2.3-2.45	2.32 - 2.47	1.4-2.27	1.0-1.51	0.3
One year	4.5-6.0	4.5-4.75	3.4-3.5	3.75-5.0	1.45-2.25	1.2-1.75	...
<b>Certificates of deposit</b>							
Six months	5.0	3.75-4.45	3.10-3.20	3.65-4.1	1.45-2.26	1-1.51	0.5
One year	6.0	4.50-4.75	3.40-3.50	3.75-5.0	1.45-2.25	1.2-1.75	0.5
Two years	7.0	4.70-4.90	3.70-3.80	3.95-5.25	2.0-2.5	1.9-2.60	1.3
Three years	8.0	4.90-5.05	3.85-3.95	4.0-5.75	2.5-3.0	3.0-3.25	2.0
Five years	...	...	...	...	...	...	3.0
<b>Lending rates</b>							
Consumer loans	15.0-18.0	15.0	15.0	15.0	15.0	10.0-15.0	10.0-15.0
Commercial loans (one year) 1/	9.5-12.5	Prime + .75-4%	Prime + 4 %	Prime + 4%	Prime + 1-4%	Prime + .75-4%	Prime + .75-4%
Residential housing loans							
30-year, fixed	12.0	...	...	...	...	...	...
15-year, fixed	12.0	...	...	...	...	...	...

Source: Data provided by the Bank of Hawaii.

1/ Commercial loan rates follow the Wall Street Journal.

Table 14.5. Republic of Palau: Structure of Interest Rates, May 1997–2003

(Pacific Savings Bank, in percent)

	May 1997	May 1998	May 1999	May 2000	May 2001	May 2002	May 2003
Deposit rates							
Checking account (with minimum balance)	0.0-4.5	5.0	5.0	5.0	5.0	5.0	...
Savings account	2.25-5.0	4.8	4.8	4.8	4.8	4.8	...
Time savings account							
30 days	3.0-5.0	4.8	4.8	4.8	4.8	4.8	...
One year	4.5-6.0	6.0	6.0	6.0	6.0	6.0	...
Certificates of deposit							
Six months	5.0	5.0	5.0	5.0	5.0	5.0	...
One year	6.0	6.0	6.0	6.0	6.0	6.0	...
Two years	7.0	7.5	7.5	7.5	7.5	7.5	...
Three years	8.0	8.0	8.0	8.0	8.0	8.0	...
Lending rates							
Consumer loans	15.0-18.0	15.0-18.0	15.0-18.0	15.0-18.0	15.0-18.0	18.0	...
Commercial loans (one year) 1/	9.5-12.5	...	...	...	...	...	...
Residential housing loans							
30-year, fixed	12.0	...	...	...	...	...	...
15-year, fixed	12.0	...	...	...	...	...	...

Source: Data provided by the Pacific Savings Bank.

1/ Commercial loan rates follow the highest New York Prime plus 4 percent.

Table 15. Republic of Palau: Operating Accounts of the Palau National Development Bank, 1991/92–2002/03

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

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 1/
Revenues:	361	424	535	2,675	1,875	872	820	727	2,970	1,388	1,122	939
Interest	...	...	...	...	...	...	...	629	564	737	904	746
Loan fees	290	304	370	397	547	746	770	20	61	84	82	62
Other	13	11	20	58	52	126	50	78	195	567	136	132
Transfers from national government 2/	9	58	95	219	276	...	...	...	2,150	...	...	...
Contributions from other countries	50	50	50	2,000	1,000	...	...	...	...	...	...	...
Expenditures:	245	255	435	493	570	602	256	571	572	395	455	302
Wages and salaries	96	103	117	107	138	136	123	148	158	203	250	140
Depreciation	9	11	13	23	19	16	13	15	35	33	38	30
Interest	32	32	33	36	17	...	5	...	...	...	...	...
Other	108	110	272	327	395	450	115	408	379	159	167	131
Net income (losses)	116	169	100	2,182	1,305	270	564	156	2,398	993	667	637
Fund equity, beginning of year 3/	820	836	1,004	1,104	4,401	6,176	6,446	6,572	6,728	9,126	10,118	11,000
Fund equity, end of year	936	1,005	1,104	3,286	5,706	6,446	7,010	6,728	9,126	10,119	10,785	12,159

Sources: Independent auditor's report on financial statements; and data provided by the Palau National Development Bank (PNDB).

1/ Unaudited figures.

2/ Capital transfers include amounts for Y2K upgrading project and \$2 million for the first-time home-owner program from the government.

Table 16. Republic of Palau: Assets and Liabilities of the Palau National Development Bank, 1990/91–2002/03

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

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 1/
<b>Assets</b>													
Cash	786	484	537	707	1,775	1,146	33	113	919	3,583	3,589	482	892
Time certificates of deposit	...	...	...	100	500	600	606	1,339	1,413	1,084	1,149	2,219	1,186
Loans	2,003	2,439	2,519	2,487	2,721	4,356	5,728	5,049	4,181	4,007	5,966	8,653	9,969
Fixed assets	45	41	44	59	52	36	25	33	16	133	100	109	81
Other 2/	14	12	7	31	50	38	33	46	210	1,097	95	109	62
<b>Total assets</b>	<b>2,848</b>	<b>2,976</b>	<b>3,107</b>	<b>3,384</b>	<b>5,098</b>	<b>6,176</b>	<b>6,425</b>	<b>6,580</b>	<b>6,739</b>	<b>9,904</b>	<b>10,899</b>	<b>11,572</b>	<b>12,190</b>
<b>Liabilities</b>													
Accounts payable 3/	15	28	88	28	18	23	1	8	10	23	25	32	13
Bonds payable	...	...	...	253	...	...	...	...	...	...	...	...	...
Loans payable	900	900	900	885	680	407	407	...	...	...	...	...	...
Bank capital 4/	1,933	2,048	2,119	2,218	4,400	5,746	6,016	6,572	6,729	9,881	10,874	11,540	12,177
<b>Total liabilities</b>	<b>2,848</b>	<b>2,976</b>	<b>3,107</b>	<b>3,384</b>	<b>5,098</b>	<b>6,176</b>	<b>6,424</b>	<b>6,580</b>	<b>6,739</b>	<b>9,904</b>	<b>10,899</b>	<b>11,572</b>	<b>12,190</b>

Sources: Independent auditor's report on financial statement; and data provided by the Palau National Development Bank (PNDB).

1/ Unaudited figures.

2/ Includes other receivables, inventory, prepaid expenses, and receivable from the Republic of Palau.

Table 17. Republic of Palau: Selected Economic and Financial Indicators, 1998/99–2003/04

Nominal GDP (2003): US\$123.9 million 1/  
 Population (2000): 19,129  
 GDP per capita (2000): 6,179

	1998/99	1999/00	2000/01	2001/02 Est.	2002/03 Est.	2003/04 Proj.
<b>Real sector</b>						
Real GDP growth (percent change)	-5.4	0.3	4.5	1.1	1.5	2.0
Consumer prices (percent change, end-of-period) 2/	2.2	3.0	-1.3	0.4	0.5	0.5
Business and tourist arrivals	49,170	45,932	49,731	39,833	46,615	50,000
(In millions of U.S. dollars)						
<b>Public finance</b>						
Central government						
Revenue	47.8	61.1	53.2	51.2	65.4	71.6
Domestic revenue	25.8	29.1	31.8	28.8	29.8	33.5
Grants	22.0	32.1	21.4	22.4	35.5	38.1
Expenditures	72.1	79.6	79.9	80.1	72.6	84.2
Current	64.1	67.1	64.6	59.1	58.6	62.5
Capital	8.0	12.5	15.4	21.0	14.0	21.7
Current fiscal balance 3/	-17.7	-16.7	-11.4	-8.9	-6.5	-7.2
Overall fiscal balance						
Including grants	-20.6	-7.8	-25.1	-34.2	-2.9	-15.7
Excluding grants	-42.6	-39.9	-46.5	-56.6	-38.4	-53.8
Compact Trust Fund (CTF) balance	141.1	161.8	135.0	124.5	136.6	...
Interest income and capital gains/losses	19.6	21.5	-25.8	-9.7	14.5	...
Investment fees and withdrawals	0.8	0.8	1.0	5.8	7.8	...
Government non-CTF financial assets	67.0	77.7	43.7	13.7	16.4	...
Usable reserves 4/	38.9	29.4	7.6	3.1	0.4	...
In percent of govt. expenditure	61.0	40.9	12.2	5.6	0.7	...
In months of imports	3.5	2.8	0.9	0.4	0.1	...
<b>Balance of payments</b>						
Trade balance	-127.3	-115.6	-81.1	-80.4	-81.8	-96.5
Exports (f.o.b.)	7.3	11.5	18.7	20.3	11.9	12.3
Imports (f.o.b.)	-134.6	-127.1	-99.8	-100.7	-93.7	-108.8
Tourism receipts	54.1	53.2	58.5	47.4	57.9	62.2
Current account balance						
Including grants	-62.4	-35.5	-7.3	-17.1	-5.3	-22.6
Excluding grants	-83.0	-67.0	-28.7	-38.5	-27.6	-45.5
Overall balance	-24.7	0.4	-25.1	-34.2	-3.4	-16.5
External public debt 5/	1.4	20.0	20.0	20.0	19.4	18.3
Debt service ratio 6/	6.6	2.2	0.9	1.0	1.8	3.0
(In percent of GDP)						
Current fiscal balance 3/	-15.4	-14.4	-9.5	-7.3	-5.2	-5.7
Overall fiscal balance						
Including grants	-18.0	-6.7	-20.9	-28.1	-2.3	-12.4
Excluding grants	-37.2	-34.3	-38.8	-46.5	-30.9	-42.4
External current account						
Including grants	-54.5	-30.6	-6.1	-14.0	-4.3	-17.8
Excluding grants	-72.5	-57.6	-23.9	-31.6	-22.3	-35.8
External public debt 5/	1.3	17.2	16.7	16.4	15.7	14.4

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

1/ Based on limited available data. The fiscal year is from October to September. For example, FY2002 is from October 2001 to September 2002.

2/ U.S. CPI is used for 1995 to 2000. Palau has compiled its own CPI since June 2000.

3/ Defined as domestic revenue plus current grants minus current expenditures.

4/ The government's non-Compact Trust Fund assets excluding amounts reserved for capital projects and other specific uses.

5/ Does not include public enterprise debt not guaranteed by the government.

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

Table 18. Republic of Palau: Balance of Payments, 1998/99–2003/04  
(In millions of U.S. dollars)

	1998/99	1999/2000	2000/01	2001/02 Est.	2002/03 Est.	2003/04 Proj. 1/
Trade balance	-127.3	-115.6	-81.1	-80.4	-81.8	-96.5
Exports, f.o.b.	7.3	11.5	18.7	20.3	11.9	12.3
Imports, f.o.b.	-134.6	-127.1	-99.8	-100.7	-93.7	-108.8
Services account	43.8	38.5	47.0	35.2	49.2	46.9
Receipts	54.1	53.2	58.5	47.4	57.9	62.2
Travel	54.1	53.2	58.5	47.4	57.9	62.2
Payments	-10.3	-14.7	-11.6	-12.1	-8.7	-15.3
Freight and insurance 2/	-8.4	-12.7	-9.6	-9.8	-6.6	-13.1
Travel	-1.9	-2.0	-1.9	-2.3	-2.1	-2.2
Income	4.8	5.5	5.3	4.7	3.9	3.2
Investment income	4.8	5.5	6.0	5.5	4.6	4.3
Interest payment	...	...	-0.7	-0.7	-0.7	-1.1
Current transfers	16.3	36.1	21.4	23.4	23.4	23.8
Private	-3.7	3.3	-1.4	0.3	-1.3	-1.7
Inflows	1.5	11.1	5.7	7.2	5.7	5.9
Outflows	-7.2	-7.9	-7.1	-6.9	-7.1	-7.6
Official	22.0	32.9	22.9	23.1	24.7	25.5
Business licenses and fees	1.9	1.9	2.1	2.3	3.0	3.1
Grants	20.6	31.5	21.4	21.4	22.3	22.9
Other 3/	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5
Current account (includes official grants)	-62.4	-35.5	-7.3	-17.1	-5.3	-22.6
Current account (excludes official grants)	-83.0	-67.0	-28.7	-38.5	-27.6	-43.3
Capital and financial account	64.6	40.5	23.7	15.8	23.2	26.0
Public sector	63.6	38.5	22.7	13.8	22.2	25.0
Capital grants 4/	67.6	20.0	22.7	13.8	22.8	26.2
Loan disbursements	0.0	20.0	...	...	...	...
Loan repayments	-4.1	-1.4	...	...	-0.6	-1.1
Private sector	1.0	2.0	1.0	2.0	1.0	1.0
Foreign direct investment	1.0	2.0	1.0	2.0	1.0	1.0
Errors and omissions 5/	-26.9	-4.6	-41.5	-32.9	-21.3	-20.0
Overall balance 6/	-24.7	0.4	-25.1	-34.2	-3.4	-16.5
Memorandum items:						
Current account/GDP (in percent)						
Including official grants	-54.5	-30.6	-5.6	-14.0	-4.3	-17.8
Excluding official grants	-72.6	-57.6	-23.4	-31.6	-22.3	-35.8
Service receipts/GDP (in percent)	47.3	45.8	48.8	38.9	46.8	48.9
REER (percent change)	-6.5	2.8	8.0	2.9	-1.8	...
Public debt/GDP (percent) 7/	1.2	17.2	16.7	16.4	15.7	14.4
Debt-service ratio 8/	6.6	2.2	0.9	1.0	1.8	3.0

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

1/ Before adjustment measures.

2/ Based on data collected by Customs from 2000/01, and assume 10 percent of f.o.b. imports for previous years.

3/ Contributions to international and regional organizations.

4/ Includes in-kind capital grants.

5/ Large errors and omissions in 1998/99 reflect underreporting of imports prior to April 1999 when new customs system was implemented. There are no reliable estimates of net private capital flows since no banking system data is collected on a systematic basis.

6/ Reflects the changes in the financial holdings of the government.

7/ Does not include a loan to the PNCC in 1994 (with no government guarantee).

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



Table 19. Republic of Palau: Imports by Product Category, 1994–2003 1/

(In thousands of U.S. dollars; f.o.b.)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 2/
Food and live animals	6,647	9,164	9,317	10,987	8,462	10,446	14,650	14,534	14,381	9,952
Beverages and tobacco	3,816	5,002	5,428	6,165	5,530	5,588	8,702	7,954	7,004	7,406
Crude materials, inedible, except fuels	33	187	118	199	172	821	1,858	1,840	1,464	834
Mineral fuels, lubricant, and related minerals	19,882	15,057	20,886	8,341	14,761	11,036	20,093	9,930	12,430	9,123
Animal and vegetable oils, fats, and waxes	112	234	204	268	235	188	248	247	246	209
Chemicals and related products	1,147	2,306	1,949	2,818	2,396	5,165	7,187	7,134	4,860	3,619
Manufactured goods	3,546	4,765	4,930	5,713	5,090	14,490	25,223	18,203	23,647	10,651
Machinery and transport equipment	5,936	13,246	23,846	17,599	18,045	18,977	32,350	23,179	21,902	13,539
Miscellaneous manufactured articles	7,100	12,567	12,758	17,148	11,037	11,127	16,816	12,744	9,921	5,935
Commodities and transactions not classified elsewhere	363	191	199	51	147	-	-	-	17	35
Total	48,582	62,719	79,636	69,289	65,875	77,838	127,127	95,765	95,874	61,303

Source: Data provided by the Customs Office, Ministry of Administration.

1/ On a calendar-year basis.

2/ Data year to date ending September.

Table 20. Republic of Palau: Imports by Country or Territory of Origin, 1996–2003 1/

(In thousands of U.S. dollars, f.o.b.)

	1996	1997	1998 2/	1999 3/	2000	2001	2002	2003 4/
United States	27,010	27,872	...	28,690	41,552	37,611	40,356	28,457
Singapore	23,412	9,047	...	11,948	12,195	7,343	7,439	5,675
Guam	12,473	12,223	...	8,381	17,033	13,379	11,558	8,480
Japan	9,051	9,348	...	11,949	21,996	9,814	9,364	5,390
Taiwan Province of Ch	2,391	3,465	...	5,370	8,751	5,091	5,439	3,171
Australia	1,463	994	...	1,094	2,005	1,047	1,440	1,268
Hong Kong SAR	1,070	1,245	...	634	4,434	3,484	3,457	539
The Philippines	1,053	1,221	...	2,297	4,215	2,617	4,083	2,913
Korea 5/	570	517	...	2,021	6,852	6,155	8,523	2,376
Saipan	440	690	...	-	-	-	559	282
New Zealand	238	590	...	49	141	38	559	122
Federated States of Mic	189	-	...	79	118	389	69	231
People's Republic of Ch	42	1,685	...	892	824	2,546	864	476
Malaysia	37	-	...	576	648	90	122	111
Indonesia	9	-	...	786	2,850	367	389	553
Thailand	-	-	...	1,296	177	151	202	136
Other	188	391	...	1,776	3,336	5,643	1,450	1,124
Total	79,636	69,289	...	77,838	127,127	95,765	95,874	61,303

Source: Data provided by the Customs Office, Ministry of Administration.

1/ On a calendar-year basis.

2/ Data not available.

3/ Data for last three quarters.

4/ Data year to date ending September.

Table 21. Republic of Palau: Tourism and Business Arrivals, and Travel/Work Abroad by Residents, 1993–2003 1/

	1993	1994	1995	1996	1997	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
<b>Tourism</b>											
Visitor arrivals by purpose											
Tourist	32,125	35,030	44,850	58,022	63,601	59,780	45,462	42,470	46,684	44,728	57,468
Business	1,916	2,548	2,173	2,697	2,840	3,876	3,708	3,462	3,047	3,441	3,265
Employment	3,194	3,528	2,735	3,347	3,425	3,926	3,901	5,064	5,590	4,731	4,392
Resident	...	...	...	...	...	...	...	...	...	335	430
Other	3,262	2,967	3,471	5,264	3,853	1,346	3,395	5,506	265	1,562	217
Total tourism and business arrivals	34,041	37,578	47,023	60,719	66,441	63,656	49,170	45,932	49,731	48,169	60,733
Total arrivals	40,497	44,073	53,229	69,330	73,719	68,928	56,466	56,502	55,586	54,797	65,772
<b>Total arrivals by country of residency</b>											
Taiwan Province of China	3,384	5,559	10,727	22,523	30,497	24,123	12,754	14,390	14,077	13,708	26,813
Japan	18,095	16,939	20,202	21,410	19,519	21,567	22,651	21,140	23,299	22,831	21,620
United States	7,080	8,837	9,017	8,878	9,400	12,255	11,807	8,072	9,652	10,098	9,449
Korea	831	1,163	1,738	1,907	1,640	697	610	592	451	395	466
Australia and New Zealand	523	446	634	1,212	500	602	550	402	391	395	547
The Philippines	1,092	980	627	854	879	3,130	2,863	3,819	4,162	3,666	3,409
Other 2/	9,492	10,149	10,284	12,546	11,284	6,554	5,231	8,087	3,554	3,505	3,468
Total arrivals by country of residency	40,497	44,073	53,229	69,330	73,719	68,928	56,466	56,502	55,586	54,598	65,772

Source: Data provided by the Palau Visitors Authority.

1/ On a calendar-year basis from 1993 to 1997, and on a fiscal-year basis from 1998.

2/ Other includes fishermen, crews, students, transits, and dependents.

Table 22. Republic of Palau: Credit Allocation by the Palau National Development Bank, 1997–2003

(In thousands of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 1/
Industry														
Agriculture	55.0	65.9	56.9	23.4	47.3	54.6	65.0	45.0	7.0	...	15.0	15.0	...	197.2
Fisheries	191.6	253.1	237.8	270.9	239.4	201.6	359.0	164.0	16.0	...	...	16.9	25.4	46.5
Tourism	756.0	917.4	910.2	867.3	1,259.1	1,257.8	348.0	265.0	...	...	...	...	...	131.6
Forestry	14.9	11.6	4.4	0.2	...	...	...	...	...	...	...	...	...	...
Small business	...	...	...	...	...	...	...	...	...	...	...	...	35.0	67.7
Manufacturing	86.1	150.8	91.5	1.8	1.7	...	48.3	...	...	...	488.7	1135.0	...	...
Commerce and construction	574.7	882.0	1,411.9	1,640.5	1,353.8	1,789.6	2,469.0	1,685.0	70.0	...	2,378.2	1,881.1	1,636.6	4,401.0
Housing	...	...	...	...	...	...	...	...	...	...	2,881.9	3,048.0	2,736.0	6,193.6
Total loans	1,678.2	2,280.9	2,712.7	2,804.1	2,901.4	3,303.5	3,289.3	2,159.0	93.0	...	5,763.7	6,096.0	4,433.0	11,037.6

Source: Data provided by the Palau National Development Bank (PNDB).

1/ Unaudited figures.

Table 23. Republic of Palau: Consumer Price Index: Quarterly and Annual Average, June 2000–September 2003

(June 2000=100)

	2000				2001					2002					2003			
	Average	Jun.	Sept.	Dec.	Average	Mar.	Jun.	Sept.	Dec.	Average	Mar.	Jun.	Sept.	Dec.	Average	Mar.	Jun.	Sept.
All Groups	100.5	100.0	101.9	99.6	99.8	100.6	99.9	99.5	99.1	99.9	100.1	100.6	99.9	99.1	100.3	100.2	100.4	100.2
Food and beverage	100.4	100.0	103.3	97.9	100.1	101.8	100.0	98.6	100.1	99.9	101.0	101.5	97.9	99.2	100.7	99.8	102.4	99.8
Alcohol, tobacco, and betelnut	99.5	100.0	98.7	99.8	99.9	98.3	102.3	101.0	97.9	98.1	99.1	100.2	98.9	94.3	99.7	98.1	98.6	102.5
Clothing and footwear	100.3	100.0	101.5	99.3	100.4	101.8	99.8	100.3	99.6	98.0	99.9	96.3	98.2	97.6	100.4	98.8	101.1	101.1
Housing	100.7	100.0	100.7	101.4	100.1	104.1	100.3	99.4	96.7	98.9	100.6	100.0	94.4	100.4	99.9	99.1	99.7	101.0
Household operations	100.9	100.0	102.0	100.6	98.7	98.2	99.4	99.7	97.7	101.2	99.6	99.9	105.4	99.8	99.6	101.4	97.8	99.7
Transportation	100.5	100.0	100.3	101.2	100.0	100.6	99.4	99.8	100.3	99.7	99.2	100.4	99.6	99.8	100.3	101.7	99.8	99.5
Health, personal care, education, and services	101.0	100.0	102.8	100.2	100.1	100.0	99.6	101.3	99.5	100.7	99.7	101.0	101.9	100.1	101.6	100.2	101.7	102.8
Leisure and entertainment	100.9	100.0	102.7	99.9	99.8	101.2	98.4	99.5	100.0	100.4	99.7	101.0	101.6	99.4	99.6	99.7	99.5	99.6

Source: Bureau of Budget and Planning.