

ANNEX V. STATISTICAL ISSUES

As of December 10, 2012	
ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE	
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in government finance and balance of payments statistics.	
National Accounts: External consultants funded by the U.S. Department of Interior have prepared the national income accounts from FY1995 to FY2011. Some shortcomings remain, for instance, no unemployment and investment/savings indicators are available.	
Price statistics: A quarterly consumer price index (CPI) –rebased to Q2 2008 and utilizing expenditure weights derived from an earlier household survey– is published for the Federated State of Micronesia (FSM) as a whole and for each state. However, the data releases suffer from considerable lags, which prevent an accurate and timely evaluation of domestic price movements. For instance, the FY2012 consumer price index has not yet been finalized.	
Government finance statistics: The national and the state governments and public sector enterprises publish annual audit reports detailing their fiscal operations; consultants put these data in a GFS format with a lag of about one year. The accuracy of the tax revenue data compiled by the authorities needs improvement as they are sometimes different from the audit reports. Further improvements in the quality and timeliness of the fiscal data depend on greater cooperation between the national and state governments. Micronesia does not present fiscal data using the <i>Government Finance Statistics Manual 2001 (GFSM 2001)</i> format.	
Monetary statistics: The Banking Commissioner reports monthly monetary data to STA with a two- to three-month lag. The data comprise interest rates, the accounts of the monetary authorities, commercial banks, and the FSM Development Bank. The Commissioner has taken the view that the banking law prevents the sharing of this information outside the Banking Board, hampering domestic surveillance.	
Balance of payments: The Office of Statistics, Budget & Economic Management, Overseas Development Assistance and Compact Management (SBOC) publishes annual estimates of the balance of payments and external debt statistics. The data on workers’ remittances are highly incomplete. Delays of data release impart a high degree of uncertainty to analysis of external sector developments. The SBOC aims to produce quarterly balance of payments statistics and to introduce new data sources, such as surveys. Micronesia participates in the JSA Project on the Improvement of External Sector Statistics in the APD region.	
DATA STANDARDS AND QUALITY	
Micronesia does not participate in the IMF’s General Data Dissemination System.	No data ROSC is available.
REPORTING TO STA (OPTIONAL)	
Only international liquidity and monetary statistics are currently reported to STA for publication in the <i>International Financial Statistics (IFS)</i> . Micronesia does not submit balance of payments data to STA for publication in the <i>IFS</i> or the <i>Balance of Payments Statistics Yearbook (BOPSY)</i> .	

MICRONESIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF DECEMBER 10, 2012

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates	Nov. 2012	Nov. 2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Aug. 2012	Nov. 2012	M	M	M
Reserve/Base Money	Aug. 2012	Nov. 2012	M	M	NA
Broad Money	Aug. 2012	Nov. 2012	M	M	NA
Central Bank Balance Sheet	Aug. 2012	Nov. 2012	M	M	NA
Consolidated Balance Sheet of the Banking System	Aug. 2012	Nov. 2012	M	M	NA
Interest Rates ²	Aug. 2012	Nov. 2012	M	M	M
Consumer Price Index	2011Q4	Aug. 2012	Q	A	I
Revenue, Expenditure, Balance/Composition of Financing ³ General Government ⁴ and Central Government	FY2011	Aug. 2012	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	N/A	N/A	N/A	N/A	N/A
External Current Account Balance	FY2011	Aug. 2012	A	A	I
Exports and Imports of Goods and Services	FY2011	Aug. 2012	A	A	I
GDP/GNP	FY2011	Aug. 2012	A	A	I
Gross External Debt	FY2011	Aug. 2012	A	A	I
International Investment Position ⁶	FY2011	Aug. 2012	A	A	A

1 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

2 Include the interest rates on consumer loans and commercial loans. Deposit rates are received annually with latest observation for 2011.

3 Foreign, domestic bank, and domestic nonbank financing.

4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5 Including currency and maturity composition.

6 Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)



INTERNATIONAL MONETARY FUND

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January 17, 2013

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IMF Executive Board Concludes 2012 Article IV Consultation with Federated States of Micronesia

On January 14, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Federated States of Micronesia (FSM).¹

Background

The FSM's economy is highly dependent on external aid, and private activity contributes little to growth. A new Compact of Free Association agreement ("Compact") with the United States, effective since Fiscal Year (FY) 2004, steadily lowers transfers to the FSM through FY2023 and has stricter rules on the use of grants. After FY2023, the FSM is expected to complement its domestic revenues with income from its Compact Trust Fund (CTF) and other savings.

Since the last Article IV consultation, the economy continued on a steady growth path. Following a recession in FY2006-2008 due to delay in Compact grants utilization as well as high fuel and food prices, the FSM economy grew by 2–2½ percent for FY2010 and FY2011. The expansion was driven by new construction activities and growth of the fishery sector. Inflation has declined to 4.6 percent in FY2011, after reaching its recent peak of 7.8 percent in FY2009.

The overall fiscal balance of the consolidated government recorded modest surpluses for three straight years through FY2011, with an uneven distribution of outcomes across states. Public debt remains at a relatively low level (below 30 percent of GDP), but underfunding in the CTF assets and a declining balance of the social security fund pose long-term challenges.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Despite some deterioration of the current account balance, external balance is sustained by a stable flow of official transfers. The majority of the overall current account deficit is financed through capital transfers from official sources.

Economic growth will likely slow in the near term, as the private sector falls short of offsetting the declining public sector demand from Compact grants reduction. Growth in FY2012 is estimated at 1.4 percent as recent construction projects are winding down. A modest consolidated fiscal surplus of 1¼ percent of GDP is expected in FY2012, mainly due to a sharp increase in fishing access fee revenue by \$7.6 million. While the fishery sector is expected to continue its healthy expansion, lackluster wholesale and retail activities will remain a drag on the private sector growth. Beyond the near-term, growth is weighed down by the scheduled reduction in Compact grants. Medium-term growth is estimated to stay low at about ½ percent, with limited private sector growth failing to offset the effects of a decline in Compact grants.

Executive Board Assessment

Executive Directors noted that the FSM economy continued to grow last year, driven by construction and fishery. Nonetheless, the economy faces important risks, including from a potential deterioration in the external environment and, over the longer term, the scheduled expiration of Compact grants and the continued outmigration of the working age population. In this context, Directors underscored the need to begin addressing the fiscal gap to create fiscal buffers and ensure sustainable public finances, and to accelerate reforms to boost potential growth.

Directors encouraged the authorities to implement a credible fiscal strategy based on a realistic macroeconomic framework and balanced fiscal adjustment. They stressed the importance of swift passage of the comprehensive tax reform bill to enhance revenue, and the need to contain current expenditures, in particular public wages. It will also be essential to improve public financial management to complement tax and expenditure reforms.

Directors cautioned that underfunding of the Compact Trust Fund and a declining balance of the social security fund pose long-term challenges. With the Compact grants scheduled to expire in FY2023, Directors underlined the importance of improving FSM's capacity to fully utilize the remaining grants. They encouraged the authorities to prepare for the grants' expiration by developing realistic reform plans with broad support from the state governments and the general public. In this regard, they looked forward to swift approval of the budget to establish the 2023 Planning Committee.

Directors emphasized the importance of advancing investment-friendly reforms to catalyze growth and support fiscal consolidation. In this context, further liberalizing land use and lease and streamlining investment licensing procedures at the national and state levels are important priorities.

Directors noted that the financial system is well capitalized and liquid, but urged careful monitoring of credit quality given the increase in consumer loans in recent years. They welcomed efforts to address issues in loan collateral, which could help unlock commercial