

Explanatory Notes on FSM National Accounts data

Brief Description of the FSM National Accounts:

National Accounts Statistics (GDP) have been compiled by the former Economic Policy and Management Team (EMPAT) with assistance from the FSM Division of Statistics. Data sources used include Social Security records, Gross Revenue Tax collection, public Enterprise Audits and financial statements, National and State Government Audits and Financial data, FSM Banking Board data, and Statistical surveys (1996 and 2001 FSM Business Surveys, 2000 Census of Population and Housing and 1998 Household Income and Expenditure Survey). As of 2003 the data has been presented using and institutional sector classification as recommended by SNA93 standard. Work is progressing towards a presentation of GDP by industry.

GDP Estimation Methodology and Background

There are 3 methods of national accounting:

1. *GDP by the Expenditure Approach*

This method simply adds all of the “final” expenditures on goods and services by individual consumers, business firms, government and foreigners. These final expenditures are conveniently grouped into five categories: consumption (C), investment (I), government (G), exports (X) and imports (M). Since GDP measures domestic production, the value of expenditures on imports must be subtracted from all other expenditures, giving us the following formula:

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M}) \quad (\#1)$$

Note: C here is only Private Consumption
I is a specific form of investment—called gross capital formation
G includes Consumption by Government (C_G) and Investment by Government (I_G)
(X — M) is also called net exports

This method yields the “resource gap” or the difference between domestic demand and domestic supply. Where exports are less than imports, as in the FSM, domestic demand is greater than domestic supply.

2. *GDP by the Production Approach (Value-Added Approach)*

This method does not rely only on “final” values, rather it measures domestic production as the total of value-added by all productive activities. This method commonly aggregates value-added into sectors. A common sectoral approach yields the following formula:

$$\text{GDP} = \text{VA}_{\text{AGRICULTURE}} + \text{VA}_{\text{INDUSTRY}} + \text{VA}_{\text{SERVICES}} \quad (\#2)$$

Note: With these three sectoral components disaggregated, it is common to measure the rate of change of GDP (the growth rate) as the sum of changes in these three sectors; therefore, this method is useful as it provides information on leading and lagging sectors in the economy.

3. *GDP by the Income Approach (Cost Approach)*

The third method of calculating GDP is by adding up all of the incomes in the economy. The income can be grouped into three categories: Compensation of Employees, Operating Surplus and Non-marketed Production. Adding these yields net national income, to get GDP, we need to also account for depreciation (added to give gross value), indirect taxes (added to get final value) and subsidies (subtracted); or the following formula:

$$\begin{array}{rcl} \text{GDP} = & \text{Compensation of Employees} & \\ + & \text{Operating Surplus} & \\ + & \text{Non-marketed Production} & \\ + & \text{Depreciation} & \\ + & \text{Indirect Taxes} & \\ - & \text{Subsidies} & \text{(#3)} \end{array}$$

The Method Used For FSM (1987-96)

On two occasions, an effort has been made in the FSM to calculate GDP (or GNP) by use of the Expenditures approach (1983 and 1988/89). Other than that, the only method employed—and the only method yielding a time-series—has been the Income Approach.

In fact, the approach used should be called a modified income approach since it utilizes a number of simplifying assumptions to be able to make annual estimates based on data available on a consistent basis.

It uses social security data and tax information to estimate employee compensation and social security contributions

+ Compensation of Employees

Public wages (Social Security data—annual)

Private Wages (Social Security data—annual)

Social Security Contribution (Social Security data—annual)

+ Operating Surplus

Self-employment income, business profits and rental incomes are estimated from an assumption that 20% of gross revenues are derived in form of operating surplus (profit margin).

(Gross revenues are estimated using GRT tax receipts—annual)

+ Non-marketed Production

estimated from Household Income/Expenditure Survey in 1988—assumed to be growing at rate of population growth from 1992 onward

+ Depreciation

assumed to be nil

+ Indirect Taxes

Total of all taxes other than income tax
from Government Financial Data (annual)

— Subsidies

from Government Financial Data (annual)

Source: Economic Planning Unit.