

PART V: PALAU

A. Organization of the Statistical System

This report is based on missions to Palau in June 2000 and March 2002 to advise on Palau's statistical operations and needs. Both missions provided an opportunity to field-test an early version of the PFTAC-Q and the modified DQAF for Pacific island countries, respectively.

Institutional Context

Palau's program of economic statistics is a relatively recent development. Substantial progress has been achieved since 1999 as a result of technical assistance in statistics under a UNDP project. It involved a resident statistics adviser and other technical staff and has used data sources from a number of government ministries and agencies, including:

- Office of Planning and Statistics (OPS)—census and demographic data;
- Ministry of Administration (MOA)—economic statistics;
- Ministries of Health and Education—health and education data;
- Ministry of Justice—immigration statistics and annual corporate reports;
- Environmental Quality Protection Board—new construction projects;
- Ministry of Commerce and Trade—labor statistics;
- Palau Visitors Authority—tourism statistics; and
- Customs administration of the MOA—trade data.

At the time of the June 2000 mission, social statistics were being produced by the Office of Planning and Statistics (OPS) in the President's Office, and economic statistics by the Budget Office in the Ministry of Administration (MOA). The statistical functions were consolidated in December 2001 with the creation of a new Statistics and Planning sub-division within the Bureau of Budget and Planning. Authority for statistical operations is vested in an Executive Order, but an urgent need exists for enactment of a Statistics Act—a draft for which has been submitted for consideration by the Congress. Bank supervision also did not exist at the time of the June 2000 mission. The only sources of banking data consisted of information filed in connection with the Gross Revenue Tax and with business registrations by the Attorney General's Office. A new Financial Institutions Commission has now been established, which will develop bank reporting requirements for supervisory and statistical needs.

Resources

The consolidation of statistical functions into the new Statistics and Planning sub-division has resulted in the creation of nine established positions, but only four of them are filled, and only the Head of the unit has university-level training. There is a need within the current structure for two senior statistician positions and two positions for nongraduate statistical support staff. The departure of the three-person UNDP project team will create a serious

problem. It is recommended that efforts be made to secure the services of an experienced statistics adviser for a two-year period to assist in developing the new office and provide training, so that by the end of the appointment the office will be self-sustaining. Nevertheless, specialized technical assistance is expected to be required in specific areas. Moreover, the recent office consolidation calls for the clear designation of priority statistics within an overall framework.

Consultation and Coordination

The Budget Office and the Office of Planning and Statistics have been the major users of the statistical data they have also produced. Under the new structure, however, it is recommended that planning and related work be moved elsewhere within the finance portfolio. This would provide a separate identity for statistical work and assure respondents of the confidentiality of the data they provide, in line with IMF standards.

Dissemination Practices

The principal dissemination vehicle for statistics is the *Statistical Yearbook* and official releases for the CPI. Apart from the CPI release, however, there is no formal dissemination program. Statistical data are treated as inputs to the budget process and, prior to their release, are reviewed by the Minister and senior officials. A ministerial statement may accompany the data. To meet international standards and emphasize the independence of the Statistics Office, separate releases are recommended for all regular statistics under the name of the Statistics Office rather than the Bureau of Budget and Planning. To improve data dissemination, statistics are planned to be included on a government website. Moreover, Palau has expressed its commitment to the Fund's *General Data Dissemination System (GDDS)*, but metadata have yet to be assembled.

Training Needs

Training in statistics has been provided by the resident statistics adviser, as well as in-country courses given by the Secretariat of the Pacific Community and external courses given by the IMF and others. However, there is no systematic review of training needs. An important element in the training process is the involvement of counterparts working with the statistics adviser on developing economic indicators. Indeed, the emphasis for the remainder of 2002 should be training the staff of the Statistics Office to enable them to maintain the current range and quality of the data. Given Palau's resource constraints, it is expected that the need for external technical assistance and training programs will persist over the medium term (3-5 years).

B. Data Characteristics

Real Sector

National accounts

Benchmark estimates of GDP were produced using the income, expenditure, and value-added approaches for 1984-85, 1992-93, and 1993-94. There is a set of new accounts for the year 2000 based on new administrative data that closely follows the *UN's System of National Accounts 1993 (SNA)*. These accounts include a production account, broken down to institutional sectors and industry, and a primary distribution of income account, which encompasses the generation of income and allocation of primary income accounts. These provide a new estimate for national income on a gross and net basis. The allocation of primary income account still suffers from data gaps within the property incomes section, but estimates have been made. The production account is accompanied by a manual and a computerized system.

Developments are ongoing with secondary distribution of income, use of income, capital, rest of world, and goods and services accounts. Estimated balances for domestic production, national income, and national disposable income have been developed for 2000. Estimates for 2001 are now presently being compiled.

The basis of the latest accounts is an annual corporate report that must be filed with the authorities and is available to the Statistics Office. This has been redeveloped over the past year to include income, expenditure, fixed asset schedules, and balance sheets.

On the expenditure side (use of income account in the *1993 SNA*) the main gap is the household consumption with 'saving' as a balancing item. This would need to be estimated—perhaps trended forward from 1997 when the last HIES was conducted.

Moreover, to assess changing economic conditions and facilitate timely economic and fiscal responses, there is a crucial requirement for quarterly as well as annual statistics. In the short term, estimates can be produced for capital expenditure and constant price GDP. The 1993 SNA should continue to be used as the basis for this work.

One of the missing pieces of the national accounts is a genuine constant price GDP series, which is the basic international standard measure for economic growth. At the moment, current or nominal price GDP is deflated by the CPI to get a crude estimate of economic growth. It is possible to significantly improve on this by constructing industry specific price deflators based on a mix of CPI components, import unit values, and wage indices. The resulting difference between constant and current price GDP would thus be a genuine GDP deflator. Some specific short-term technical assistance might be needed to assist with this project.

Capital expenditure

Known technically as Gross Fixed Capital Formation, capital expenditure should initially be estimated from imports of capital goods plus the output of the construction industry. Figures are already available for government and aid-related capital expenditure, so only the additional private sector figures need to be estimated this way. For the future, additional questions should be added to the company returns filed with the Registrar.

Employment

A quick win for the office would be to instigate a new quarterly series of employment statistics based on Social Security data. The new Statistics Law would facilitate access. The recent census data is a rich source not yet fully exploited. Nevertheless it will soon become out-of-date. Unemployment can however only be measured from the labor supply side, via a census of population every 10 years, or by household surveys in-between: i.e., a Household Income and Expenditure Survey or a Labor Force Survey. Such a survey should be conducted within the next two years.

Consumer price index

A quarterly Consumer Price Index was developed and implemented in 2000 with assistance from the Secretariat of the Pacific Community (SPC). It was based on a Household Income and Expenditure Survey conducted with the assistance of the U.S. Department of the Interior. The Consumer Price Index is reasonably soundly based. However, no provision is being made for quality changes.

Within the next two years it will be necessary to update the base period expenditure of the CPI. Usually a Household Income and Expenditure Survey is the basis for such weights. However, if such a survey is not conducted, then updated weights should still be produced. In a country like Palau this can be done by looking at changes in imports compared to the old base period.

An underlying inflation index is calculated and included in internal government briefings. This excludes seasonal foods, erratic items, and those affected by tax changes. This index should be shown in the published press release, so that all users of statistics have equal access.

Fiscal Sector

Accounts for the central government are regularly published on a timely basis and, although on a cash basis, are considered to be of good quality. The fiscal data contain the degree of detail required for producing GFS data, although GFS data are not currently produced.

Aggregated state (local) government accounts are also produced (by OPS) and published (by the IMF) with some delay, and it is recommended they be included in the Yearbook. Accounts of central government agencies such as the Museum and Visitors Authority are available but are not yet compiled as statistical aggregates. An annual General Government consolidated account should therefore be produced, including agencies of government such

as the Museum and Visitors Authority, plus state (local) government. The Social Security System should also be included, because it is a defined benefits scheme and therefore part of general government.

Financial Sector

As Palau's currency is the U.S. dollar, there is no central bank. Most of the major banks come under U.S. regulations, but banking data available to the authorities are currently restricted to filings for the Gross Revenue Tax and the Companies Office of the Ministry of the Attorney General. As a result, a pressing need remains for comprehensive and reliable banking data.

New data sources will become available from the new banking supervision returns administered by a new Financial Institutions Commission (FIC). The objective should be a standard monthly or quarterly banking return, which meets statistical as well as supervisory needs. From a statistical point of view, the balance sheet needs to be analyzed quarterly by financial instrument (deposits, loan, securities, etc.); by economic sector (government, banks, nonbank corporate, households, and nonresidents) and by currency. Some data are also required from the profit and loss account. Consultations with PFTAC should continue during the process of agreeing on the final shape of the reporting obligations.

Once the confidentiality provisions of the new Statistics Law are in place, the FIC would be willing to share the data with Statistics. The IMF has offered to send a money and banking expert to help set up a processing and analytical system for these returns. This would not only produce statistics on the aggregate national banking balance sheet but also on banking cross-border flows (for the balance of payments) of the banking system and domestic credit and/or monetary statistics. However, owing to the consultation process and the early stages of development of the FIC, the first returns are unlikely before early 2003.

External Sector

Balance of payments

The balance of payments data are fragmentary. Many of the elements for the balance of payments are available from administrative records, but there are also a number of data gaps. Available data include monthly trade data based on Customs documents, fishing licence receipts, and travel and tourism data compiled by the Visitors Bureau. However, the services account consists only of travel and freight and insurance, while very little information is available on investment flows, indicating a need for a small survey of transactions by larger enterprises. Moreover, the combined effects of e-commerce, and cheap postal rates under the U.S. postal system could create data problems by affecting the comprehensiveness of the merchandise import data.

Direct investment

Direct investment statistics are important in their own right, but the associated income flows (profits due to foreign owners) are the main missing component of the current account of the

balance of payments and are needed to measure Gross National Income–GNI. A first estimate of these for the incorporated companies could be obtained from Company registration returns.

Once the above improvements have been but in place, it may be necessary to consider an annual business survey of (nonbank) companies with cross-border transactions, including direct investment enterprises (corporate and unincorporated). This would cover all larger companies plus a sample of smaller and unincorporated companies.

An alternative that might also be explored would be an expansion of the commercial remittances already reported to the Statistics Office by the larger banks. However, obtaining a split of such remittances into relevant balance of payments categories (interest, dividends, payments for goods, payments for services, equity investment, loan repayments, etc.) would involve much work for the banks and/or their customers. Such systems have been shown in some other countries to often be comprehensive in total, but with unreliable breakdowns.

Fish exports

It is recommended that Palau should retain the current net service treatment for fish. The degree of economic transformation of fish landed in Palau is not enough to treat it as a manufacturing activity involving fish inputs (imports) and packaged fish outputs (exports).

Clothing exports

For similar reasons, the degree of economic transformation of the garment industry is significant and should be treated on a gross-output basis. The valuation of exports/gross output should be based on the cost of imported cloth and machinery, plus the service value added already estimated within the national accounts. The much higher declared value of the garments imported into the U.S. should be treated as a transaction with the parent non-Palauan holding company, and not as the value of cloth exported from Palau.

Personal remittances

Personal remittances handled by the banking sector should be grossed up in the census year to the census level (i.e., use the census as a benchmark level for the time series). This is because a large proportion of remittances are handled via nonbank agents or sent directly via the postal system. A new benchmark level would be obtained from the next HIES. One gap in balance of payments consists of debits, from spending while abroad by residents of Palau (the mirror image of credits from visitor spending in the country). The Palauan Visitors Authority might be asked to expand their next tourist expenditure survey to cover the debit side, or alternatively the Statistics Office could run an occasional survey of its own (perhaps every five years).

Presentational issues

The annual accounts should be produced to a fixed timetable and the period switched to a calendar year. This would improve consistency with other economic statistics and facilitate international comparisons. At the moment, errors and omissions (which are calculated last)

are shown before the net government balance in the financial account. Once the new banking data and Direct Investment estimates are available, the balance of payments should be shown on a full *BPM5* format.

Socio-Demographic Data

Socio-demographic data mainly come from the Census of Population and Housing (most recently for 2000) and an occasional Household Income and Expenditure Survey (HIES) based on the U.S model, with annual information also available from line ministries (Health, Education, Attorney -General). A new Household Income and Expenditure Survey will be required in 2003 or 2004 to meet several statistical and policy needs—in particular, to provide updated weights for the CPI (currently based on 1997), to allow independent estimates for household consumption for the national accounts (including own account production of food), to allow studies of poverty (low consumption or low incomes), and to provide an estimate of labor supply (unemployment, etc.).

There is a need to produce annual population estimates, but migration figures are currently only available every 10 years from the Census. The Immigration Department should be asked to process both the arrival and the departure cards by citizenship status (no need to link records for multiple trips). Over a 12-month period it should be possible to assume that total arrivals minus total departures indicate net migration each year, at least for Palau residents.

General Data Dissemination System (GDSS)

It would help with the further development of the statistical system for Palau to formally join the IMF's GDSS. The key requirements are the appointment of a Country Coordinator, and a commitment to move towards the best practice guidelines for statistics and put metadata and action plans in the public domain on the IMF website. The UNDP team has already prepared some draft metadata, and a Pacific subregional workshop is due to be organized by IMF and PFTAC in November 2002.

Table 4 : General Data Dissemination System - Data Categories and Indicators

Coverage		Recommended Periodicity	Available data	Timeliness	
Data Categories and Indicators	Encouraged aggregates and/or components			GDDS	Actual
Real Sector					
National accounts aggregates	Gross national income, capital formation, savings, GDP (nominal and real)	Annual (Quarterly encouraged)	Annual val. add (Inc & exp a/c under dev't)	6-9 mths	18 months
Production index/indices:	Manufacturing or Industrial; Primary commodity, Agricultural, or other indices, as relevant	Monthly As relevant	Gross output – Annual	Mfg:6 wks All:3 mths	N/A
Price indices:	Consumer Price index	Monthly	Qtly (from Q4/00)	1-2 mths	1 month
Labor market indicators:	Employment and wages/earnings, as relevant	Annual 2/	Annual from Social Sec. records	6-9 mths	12 months
Fiscal Sector					
Central government budgetary aggregates	Revenue, expenditure, balance and financing with breakdowns (debt holder, instrument, currency), as relevant. Interest payments	Quarterly	Annual	1 qtr	3-6 months
Central government debt	Domestic debt and foreign debt, as relevant with appropriate breakdowns (currency, maturity, debt holder, instrument), as relevant. Government guaranteed debt	Annual (Quarterly encouraged)	Annual	1-2 qtrs	N/A
Financial Sector					
Broad money and credit aggregates	Net external position, domestic credit, broad or narrow money	Monthly	Not applicable – U.S.\$; Credit data not available	1-3 mths	N/A
Central bank aggregates	Reserve money	Monthly	Not applicable	1-2 mths	N/A
Interest rates	Money or interbank market rates and a range of deposit and lending rates Short and long-term, government security rates, policy variable rate	Monthly	Annual	High frequency dissemination	N/A
Stock market	Share price index, as relevant	Monthly	Not applicable	n.a.	N/A
External Sector					
Balance of payments aggregates:	External debt and debt service, as relevant. Imports and exports of goods and services; current a/c balance, reserves, overall bal.	Annual (Qtly strongly encouraged)	Annual	6 months	12 months
International reserves	Reserve related liabilities Gross official reserves in US dollars	Monthly	Not applicable	1-4 wks	N/A
Merchandise trade	Major commodity breakdowns with longer time lapse; Total exports and total Imports	Monthly	Annual	8 wks Total: 3 mths	3 months
Exchange rates	Spot rates	Daily	U.S.\$ rates	High freq.	
Socio-demographic data					
Population:	Population; Population growth rate; Urban/Rural population; Population by gender; Age composition of population	Not specified or variable	Census (2000)	6-9 months	1 year
Health:	Population per physician; Life expectancy; Infant/child/maternal mortality	Not specified or variable	Census/ Min. of Health	6-9 months	6-9 months
Education:	Adult literacy, pupil-teacher ratio; Primary/secondary school enrollment	Not specified or variable	Census/ Min. of Education	6-9 months	6-9 months
Poverty:	Access to safe water/sanitation; Number of people per room; Income distribution; Families below minimum standard income	Not specified or variable	Census (2000)/ HIES (2002)	1 year	1 year

C. *Action Plan*

By the Authorities:

A phased action plan was developed identifying statistical development already or substantially completed, the priorities (i.e., within the following year), and longer-term development. Specifically, more immediate priorities called for further development of macroeconomic statistics are:

- Further development of income-based accounts, including secondary distribution of income, use of income accounts, and documentation.
- Development of income and expenditure (annual)—Initial development has now been completed.
- Development of balance of payments (annual), linked to, and consistent with, the national accounts.
- Development of quarterly banking statistics (balance sheet, income, prudential measures)—Annual balance sheet data are now available.
- Development of quarterly employment statistics based on social security records.
- Development of Investment (fixed assets) data from Building Permits/Construction records.
- Construction of Foreign Investment/External Debt data.
- Consolidation of the statistical function, and submission of the requisite statutory authority (Statistics Act) to Congress.
- Further systems development and documentation (UNDP Consultant).

By PFTAC:

- PFTAC undertook to provide information and technical advice on request, with particular reference to banking and balance of payments data. Also, following passage of the Statistics Act, it will consider the provision of technical assistance to assist in the management of a statistics program and the development of GDDS metadata.