Ministry of Finance Banking & Postal Services
Government of the Republic of the Marshall Islands

To: Hon. Brenson S Wase, Speaker

From: Hon. David Paul, Minister of Finance, Banking and Postal Services

Subject: Presentation of the Economic Policy Statement FY25

Date: September 24, 2024

It gives me great pleasure to present to you the FY25 Economic Policy Statement.

As directed by the Fiscal Responsibility and Debt Management Act, The Minister of Finance, Banking and Postal Services shall present the Economic Policy Statement and the Budget for the financial year to which the statement relates concurrently.

As directed by the Fiscal Responsibility and Debt Management Act (2020), the Economic Policy Statement sets out the Government's medium-term objectives for fiscal policy. The Economic Policy Statement provides details with regard how the medium-term objectives accord with the principles of responsible fiscal management.

As per the Fiscal Responsibility and Debt Management Act, the Economic Policy Statement also provides details that explain how the current budget is consistent with medium term fiscal strategy and other matters of policy.

Therefore, as prescribed by the Fiscal Responsibility and Debt Management Act, I present the FY25 Economic Policy Statement as a part of the FY25 Appropriations Act.

Hon. David Paul,
Minister of Finance, Banking and Postal Services

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REPUBLIC OF THE MARSHALL ISLANDS

ECONOMIC POLICY STATEMENT

SEPTEMBER 2024

A. Introduction and Purpose

We seek a resilient, prosperous, and inclusive economy. We have a clear vision for the Republic of the Marshall Islands (RMI) to have a resilient, prosperous, and inclusive economy and nation. Achieving this will require building our human and financial capital, leveraging and conserving our natural and cultural capital, and creating opportunities for all Marshallese.

We now approach a critical juncture in our history. After four decades of Constitutional self-government and nearly four decades of free-association with the United States under the Compact of Free Association, we face uncertainties in our economic, security, and environmental outlooks. The COVID-19 pandemic had negative impacts on the economy, however we implemented a successful strategy to navigate through the emergency. We continue to see an improving economic climate as we put the lockdown behind us. We have recently signed an Amended Compact of Free Association with the United States., This new Agreement includes increased annual sector grant funding, including funding that addresses nuclear legacy issues. Furthermore, the agreement includes additional funding in the areas of education, health and climate change... We expect that this agreement will assist us in addressing the challenges that confront us including out-migration, natural disasters and climate change

We must continue to set clear strategic directions for economic and development progress. This Economic Policy Statement provides direction for the Government to pursue economic policy objectives in accordance with the principles of responsible fiscal management as outlined in the Fiscal Responsibility and Debt Management Act, and the policy objectives detailed in the National Strategic Plan. These principles are reconfirmed in our ongoing commitment to implementing the ongoing Pubic Financial Management Reforms

This Economic Policy Statement complements the direction of our National Strategic Plan (NSP) 2030, and provides strategic guidance on key areas of macroeconomic and sectoral policy, budgetary considerations, and associated reforms.

Our collective and decisive leadership is critical. With our collective responsibility and leadership to implement the key provisions of this Economic Policy Statement, we aim to achieve a sound foundation to manage the possible Compact transition in 2024 and accelerate the implementation of our development priorities outlined in the NSP 2030.

B. Background

An enabling legislative framework for presenting the E**conomic Policy Statement was approved in June 2021.** The RMI approved the Fiscal Responsibility and Debt Management Act with the objective to strengthen fiscal governance.

The Act provides for the annual presentation of an Economic Policy Statement to Nitijela by the Minister of Finance. The Statement is aimed to cover the following overarching objectives:

i. Reducing total debt to levels that will provide a buffer against factors that may impact adversely on the level of total debt in the future;
ii. Maintaining debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues;
iii. Achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future; and
iv. Managing the fiscal risks facing the Government.[1]

C. Development and Socio-economic Setting

Our geography presents challenges for development. Our nation will forever remain small and isolated, making transport and trade with major markets costly. However, our geography also presents niche opportunities for development.

We remain heavily reliant on external resources. Reflecting our isolation, smallness, and narrow resource base, our economy remains highly dependent on international support, mostly in the form of grants, which has been equivalent to 41 percent of GDP over the past decade. The FY2025 budget includes approximately 85 percent of funding from external sources including Compact Grants, US Federal Grants and Other Development Assistance (ODA).

Over the past seven years, the GRMI's global budget averaged a growth rate of roughly 14%. A notable increase was in FY2023 when a supplemental act was introduced and passed to account for the additional funds under the then newly approved Amended Compact 3. Although a substantial increase in funds was accounted for, it is important to note that the Trust Fund contribution as well as certain one-time allocations for other additional supplementary funds provided under the new agreement were appropriated at that time.

Hardship in various forms and rural-urban disparities continue to exist. This is the case in both our urban centres and neighboring islands, and there continues to be a clear trend of urban migration, with Majuro and Kwajalein atolls now home to three-fourths of our population. This urban migration is reflected in the most recent census (2021). The economies of our outer island communities have not fundamentally changed over the past century relying on subsistence farming, fishing, copra and handicrafts.

[1] Fiscal Responsibility and Debt Management Act 2021

Our urban economies remain non-diversified. Our urban economies in Majuro and Kwajalein continue to rely heavily on government employment and spending and the Kwajalein missile base for employment and income. These economies remain dominated by the wholesale and retail trade, construction, banking and insurance, and commercial fisheries operations.

Our human capital remains underdeveloped. At the heart of our development is human development, and at the heart of human development is early childhood and maternal health, nutrition, and care. While our broad human development indicators such as infant and child survival rates and educational attainment have steadily improved since independence, our overall progress in building our human and cognitive capital remains unsatisfactory. We must redouble our efforts to ensure that every child born in the RMI is provided the proper health, nutrition, and care especially in the first 1,000 days of life. We continue to implement the World Bank funded Early Childhood Development Project through December 2026. This and other programs are designed to address the skill gaps and technical capacity challenges in a holistic approach.

Agenda 2030. The Agenda 2030: A Pathway for a Prosperous and Resilient Future (Agenda 2030) delineates the Government of the Republic of Marshall Islands priorities and strategic directions of major reforms, modernization initiatives and transformative projects to be achieved by the year 2030. The Agenda 2030 was developed after a development dialogue between the Cabinet and all the line ministries and agencies; discussing progress of implementation of key programs and initiatives, challenges and main priorities toward 2030. This provides an opportunity for the Cabinet to consider development priorities towards 2030 and formulate key actions that will proactively address the most development challenges and pressing problems facing the RMI. The Agenda 2030 provides a platform for development partners to design their program towards meeting RMI long-term strategic goals specified in the National Strategic Plan.

D. Fiscal Setting

Expected Growth in FY24-25. Real economic growth for FY25 is projected to be 2.0 percent from 3.0 percent in FY24. The main drivers of positive growth in this period is dominated by construction, fisheries, with finance and public sector services playing an important role. In the public sector, administration, education, and health have all been forces of growth supported by disbursement of the Compact sector grants in education and health, infrastructure and by booming sovereign rents (fishing royalties and fees from the shipping registry).

Inflation

Projected inflation for both FY25 and FY24 remains moderate at 2.30 percent and 2.80 percent, respectively. The sustained increase in food prices, particularly for rice, canned goods, and frozen poultry, remain the biggest contributors to inflation[2].

In FY23 inflation rose by a significant 7.4 percent and it looked like global price increases were finally impacting the RMI. In FY23 inflation shot up reflecting a large increase in food prices of close to 11 percent, contributing 3.6 percent to the overall result of inflation. In addition to the increases in food prices, the increase in taxes on tobacco by MalGov contributed 3.5 percent to inflation. With the fortuitous decline in oil prices, transport costs moderated, but the housing and utility section, which includes electricity prices, rose by 3.8 percent. An increase in utility tariffs at

[2] EPPSO/IMF

the end of 2022 was requested by the MEC Board, and Cabinet approved increases for businesses and government while rates for residential customers remained unchanged. With the fall in oil prices at the start of FY23 the increase in tariffs reverted to prior levels. However, the resurgence of inflation toward the close of FY23 will have resumed pressure on MEC cash reserves.[3]

E. Economy

Public/Private Sector Employment

Contrary to expectation, employment expanded during COVID-19 by 1.9 percent (FY19-22). However, the impact was uneven. While the private sector experienced a loss of 404 jobs, this was more than compensated for by a gain of 645 jobs. Much of the private sector loss was incurred in the commercial fisheries sector, where there was a loss of 341 jobs, with 222 employees being laid off from the main loining plant.

In FY23 employment contracted by 5.3 percent. This was almost entirely due to public sector jobs being cut by 15 percent, and the reduction in national government employees after services returned to normal when the COVID-19 stimulus money ran out[4].

External Position

The current account remained in surplus in FY2022 despite a 4.3 percent decline in exports and a 6.4 percent increase in the import bill; widening the trade deficit from 13.1 percent of GDP in FY2021 to 18.2 percent in FY2022. Exports declined on the back of lower fish production, while imports increased due to higher freight charges coupled with a rising trend in global food and fuel prices. In addition, grant inflows were also lower as COVID-related grants expired. However, the primary income account surplus (revenue exceeding expenditure) increased due to lower outflows of FDI-related dividends (Foreign Direct Investment) and compensation of employees, the latter reflecting the impact of border closures on the movement of foreign workers.

As a result, the current account surplus has declined from 22.6 percent of GDP in FY2021 to 8.2 percent in FY2022. In FY2023, the trade deficit was expected to narrow due to higher exports in the fisheries sector, supported by the commissioning of a new fishing vessel. Nevertheless, the current account surplus is expected to narrow due to lower grant inflows.[5]

Debt

External debt and debt service fall to low levels. As a result of the IMF/World Bank's Debt Sustainability Analysis (DSA) indicating the nation as being at high risk of debt distress, the RMI was designated as a "grant only" recipient (2013), making the RMI no longer eligible for loan financing from all multilateral donors including World Bank and ADB.

External debt has fallen sharply to sustainable levels as a result of being accorded "grant- only" status. This status is accorded on the proviso that the RMI does not incur debt from third parties at non-concessional rates. This requirement has inhibited the surge of debt that occurred during the original Compact period and during the early stages of the 2003 Amended Compact.

[3] 2030 RMI Economic Review

[4] IBID

[5] IMF Staff Report October 2023

The current position has improved significantly, and external debt has fallen from 71 to 22 percent of GDP as of FY23. Debt service as a ratio of payments to general fund revenues has also fallen significantly from over 20 percent at the height of the global financial crisis, when the RMI was in a state of default, to just 7 percent in FY21.[6]

The DSA provision and analysis has levied a useful brake on any re-emergence of the past debt financing trends. However, with the favorable outcome of the 2023 Amended Compact agreements the RMI status is likely to be reassessed during the next IMF Article IV consultations.[7]

The Budget

Implementation of the FY2023 Amended Compact will inject significant additional funds into the Compact Sectors of the government and should result in General Funds to be available for other government priorities that were not available in previous years. Infrastructure projects are expected to remain strong in FY25 with Compact Infrastructure and World Bank funding providing. Increased budget support from World Bank, ADB and Taiwan will also provide increased funding and flexibility in allocating to government priority areas.

Through the Amended Compact RMI is now again eligible for several US Federal Grant opportunities, that can be used to offset the loss of the Supplemental Education Grant (SEG). The government is considering tax reforms, including revision of income tax brackets (FY25) and the introduction of a VAT (FY26) which would result in increased household funds availability. The government is also considering the implementation of a Universal Basic Income (UBI) which would inject increased funds to each household in the RMI. RMI also expects increased contributions from the Trust Company which would offset the decrease in remittance from the fisheries sector[8]

The FY24 fiscal outcome is projected to be largely in line with the Budget. With the anticipated economic rebound projected tax collection of $41 million in FY23 and $43.9 million in FY24**.** Despite pressures on spending owing to still-high fuel prices and subsidies to support state-owned enterprises (SOEs), overall expenditure is expected to keep pace with revenues to ensure broad adherence to the balanced budget rule under the (Fiscal Responsibility and Debt Management Act 2020) FRDMA.[9]

Fiscal ceiling within a medium-term macroeconomic framework is critical. As per the FDRMA, the key assumptions regarding debt levels, ratio of operating expenses and revenues, net worth, risk management and compliance were considered when preparing the annual budget and medium-term budget and investment framework beginning in FY23 and moving forward with each fiscal year.

[6] IBID

[7] 2023 Economic Brief

[8] RMIM FY25 Budget Circular

[9] IMF Article IV Concluding Statement October 2023

F. Managing Risks

a. Climate Change and Disaster Risk

RMI is a climate-vulnerable nation. Our National Adaptation Plan (NAP) focuses on highlighting cost estimates and financing strategies.

This NAP is coordinated with the Tile Til Eo 2050 Climate Strategy (launched in 2018), which envisions net-zero emissions and 100% renewable energy use by 2050, and commits to developing a national action plan for climate change adaptation and resilience. As per the timeline for development of the NAP, it is scheduled to be finalized in late 2023.

Significant financial support is needed to implement climate resilience projects[10] Substantial international climate finance will be required to meet our large climate change adaptation costs. The WB projects that by the 2040s, adaptation costs for coastal protection could be in the range of 4-13 percent of GDP, depending on the climate change scenarios, while the cost of protecting infrastructure is projected at 3.7 percent of GDP.[11]

Stronger Public Financial Management (PFM) is a necessary precondition for enhancing our ability to access international climate-related assistance (such as the Green Climate Fund) considering the limited room from domestic revenue sources. As part of PFM reforms, we continue to focus on improving internal coordination and integrating climate related projects into the fiscal framework through the National Strategic Plan (NSP), the Development Assistance Plan and related sector planning. The ADB has included climate financing has one of the critical benchmarks for the 2024-2027 ongoing Public Financial Management Reform Project

Internal coordination and integration of climate change projects and financing to fiscal framework need to be clearly established. Preparation of long-term financing strategy will help prioritize and target funding applications in a strategic and coordinated way. Additionally, we look to access financing for disaster management via sources including the World Bank's Catastrophe Differed Drawdown Option, and the Asian Development Bank's Contingency Disaster Fund and insurance markets.

b. Fiscal Risks SOE and Contingent Liabilities

The RMI's SOE sector has underperformed for many years, operating at an average annual loss of up to 6.9 percent of GDP and incurring average subsidies of 5.9 percent over the last three years, FY20-FY22[12]. In FY2023 the subsidies continued to decrease totalling $8.7 million (3.14 percent of GDP).[13] In FY2024 subsidies were scheduled to increase slightly from FY2023 totalling $9.7 million (3.5 percent of GDP).

[10] IMF Staff Report for the 2021 Article IV Consultation August 2022
[11] IMF Staff Report for the 2021 Article IV Consultation August 2022
[12] 2023 RMI Economic Review
[13] SOE Monitoring Unit and EPPSO

SOE reform includes a focus on the development of Community Service Obligations (CSOs) and developing Financial Management Capacity. CSO's are designed to replace existing subsidies with contractual CSOs for the delivery of quantifiable services.

The Financial Management capacity of SOEs is, in general quite weak. Attempts to improve this through the employment of international CFOs have had only limited success. SOE boards and managers need financial information to manage the businesses and drive performance. Few boards and managers demand in-year regular financial information for this purpose.

The SOE Monitoring Unit (SOEMU) created in 2018 continues to drive the reform program with a focus on critical issues including:

- Improving the quality of SOE planning (and reporting);
- Review of SOE Balance Sheets;
- Work with SOEs on implementing the result of the diagnostic analysis, prepared through the ADB PFM project (June 2023)[14] of their capacity in asset management, financial management and non-commercial activity; and
- Work to develop a Shared Services hub with a need for some SOEs to access financial management services at a high standard for board meeting reports, half-year reports and financial statements for audit. ADB and World Bank are working to provide initial funding for this service in FY25 and FY26.

We must improve the financial viability of SOEs. Actions include focus on:

- **Rationalizing subsidies to SOEs** by reviewing the efficiency and effectiveness of the copra subsidies (including via the CSOs and considering social protection through fiscal transfers);
- **Ongoing implementation of the SOE Act** and further strengthening SOEs' commercial mandate;
- **Continue to enforce** SOE business planning and reporting submission requirements including revisions; and
- **Progressively implement** the findings of the SOE diagnostic analysis including changes to business fundamentals such as:
  - ✓ Institutional Strengthening.
  - ✓ Internal policies and procedures
  - ✓ Marketing
  - ✓ Business Planning
  - ✓ Timely Reporting
  - ✓ Investment in business systems
  - ✓ Financial Statement Presentation

Marshall Islands Social Security Administration (MISSA)

Contingent liabilities could also arise from the Marshall Islands Social Security Administration. Recent financial data indicates MISSA contributions now exceed benefits. The impact of reforms and cash transfers appears to have been significantly greater than originally projected.

Projections indicate MISSA's financial position has improved significantly but requires careful monitoring Without government transfers, fund balances continue to rise but by FY30 the system

[14] SOE Diagnostic Study, SOE Reform

begins to peak and suggests government should maintain the current level of transfers to maintain long term financial sustainability. The results indicate that the financial position of MISSA is out of the danger zone. However, the benefit projections presented here are based on earlier actuarial studies. There remains a need for re-evaluation and regular monitoring of the system[15].

F. Compact Grants and Trust Fund

a. Compact Grants

The 2023 Amended Compact agreement comes with more resources but a significant amount of reporting. The agreement of the 2023 Amended Compact with the US in October 2023 was a milestone in the RMI's history and will introduce a new era with a significant expansion in available resources. The annual sector grants will increase from the current level of $35 million (including the Supplemental Education Grant) to $50 million. In addition, there is $8 million a year for supplemental health and a series of other onetime grants. Federal grants and services will continue as will the Joint Economic Management and Financial Accountability Committee[16].

Budget and Investment Framework. As part of the Compact Agreement, the RMI is required to prepare and maintain an annual (Medium- Term) Budget and Investment Framework (BIF). The BIF is intended to be strategic in nature and be continuously reviewed and updated through the annual budget process. In the Fiscal Procedures Agreement, it states that the BIF includes:

- The goals and broad strategies of the RMI to promote economic advancement, macro-economic goals, budgetary self-reliance, and economic self-reliance;
- Multi-year objectives for each of the grants included in the 2023 Amended Compact, and
- The BIF is to be formally adopted by the government of the RMI

This Economic Policy Statement, in alignment with the National Strategic Plan and Agenda 2030 will serve as the foundation for the design and development of the BIF with regard to RMI goals and strategies for promoting economic advancement and self-reliance.

b. Trust Fund

Repurposing of the Trust Fund. The funds from the existing trust fund, that was intended to form the basis of a perpetual fund to eventually replace annual sector grants, will set up in "Account 1," which will be repurposed for current use to support additional sector grants or for individual income support. Up to 4 percent of the funds may be withdrawn in any one year. An Account 2 will be established with a series of grants totaling $700 million over the first four years and can be withdrawn at rates up to 5 percent for extraordinary needs of the outer atolls. Finally, carryover funds from previous years will be deposited in Account 3 and be available for use in the sectors. The "D" account, now Account 4, funded by the RMI, Taiwan and, potentially, other donors, will be available for unanticipated shortfalls.[17]

Universal Basic Income. The recently agreed to Trust Fund Agreement (TFA) includes Article 17, titled **Sector and Individual Support Distribution,** paragraph B reads in part

[15] 2023 RMI Economic Review
[16] 2023 RMI Economic Review
[17] IBID

The Sector and Individual Support Distribution may be used for the payment of individual dividends to Eligible Recipients and for the administration of such payments, only after the establishment of a mechanism and procedures for the payment of individual dividends to Eligible Recipients has been established by the Government of the Republic of the Marshall Islands with the concurrence of the Government of the United States of America…

Universal Basic Income Tax Force. CM 083 (2024) established the Task Force to identify requirements for the Universal Basic Income

Establishment of a Task Force to Develop Mechanisms for the Distribution of the Basic Universal Income Funding that is included as part of the 2023 Amended Compact and the Trust Fund Agreement (October 2023).

The task force is in the process of finalizing a report and recommendations for further discussion with RMI and US Government

Extraordinary Needs

The Trust Fund Agreement includes a distribution for Extraordinary Means. As per Article 18 of the Agreement

The Extraordinary Needs Distribution shall be available for disbursement beginning October 1, 2023, in annual amounts not to exceed the Extraordinary Needs Distribution Cap.

The Extraordinary Needs Distribution shall be used only to address exceptional unmet hardships and needs through programs for people in communities in the Republic of the Marshall Islands in extraordinary circumstances, including people from Ailuk, Aur, Bikini, Enewetak, Likiep, Lib, Mejit, Rongelap, Rongerik, Wotje, Wotho, Ujelang, and Utrik, and any other atolls or islands as mutually decided by the Signatory Governments, the populations of which face challenges due to location, inadequate housing, lack of arable land, or limited local economic opportunities.

Distribution arrangement are in progress as part of the ongoing Trust Fund Meetings.

G. Medium-Term Fiscal Strategy

Government is committed to consolidating the budget as mandated by the Constitution and the Financial Management Act. The current budget is framed around the principles of transparency, good governance, and accountability. All line ministries and agencies are bound to this commitment in the framing of the FY25 budget.[18]

Fiscal consolidation is an ongoing priority. We continue to reiterate our commitment to meeting the balanced budget target under the FRDMA. The FY 25 Budget is based upon ongoing fiscal and policy analysis undertaken by the Government in close collaboration with key development and institution partners. The budget articulates Government's broader policies for fiscal, economic management and reforms over the medium to long term[19]

[18] RMI Budget Circular 2024

[19] IBID

With regard to fiscal reforms, we focus on the ongoing public financial management reform program to modernize the PFM framework through a new Financial Management and Information System (FMIS). When fully implemented, the FMIS is expected to strengthen budgetary control, improve transparency, enable timely audits of government bodies, and achieve their expenditure rationalization goals. We are also working to modernize the Customs revenue management system by adopting an ASYCUDA system, which will strengthen revenue collection and provide important and timely data on imports.

To enable fiscal consolidation, a three- pronged strategy is considered:

i. Expenditure rationalization;
ii. Revenue mobilization; and
iii. Public financial management.

a) Expenditure Rationalization

Review of spending on goods and services, as well as, SOE subsidies is critical. Areas of focus include:

i. Rationalize current spending, particularly on goods and services, while preserving spending on health and education;
ii. Continue with ministerial budgetary ceilings;
iii. Undertake a public expenditure review to identify unproductive spending;
iv. Speed up the reforms of state-owned enterprises as per SOE Reform Roadmap, including examining the feasibility of more direct conditional cash transfers to reach copra producers over the medium-term; and
v. Continue to reform the social security system to further contain government transfers.

b) Revenue Mobilization

Improvement to revenue administration and tax reform is essential. Areas of focus include:

i. Enacting tax reform legislation, to enable broad based revenue streams and improve collection efficiency;
ii. Reforming the taxation of offshore shipping and corporate registries to support public finance;
iii. Continue improving the revenue administration, including through further use of tax and customs information systems;
iv. Maximize fishing revenues by working with our PNA partners to ensure realization of maximum effectiveness of the Parties to the Nauru Agreement Treaty; and
v. Maximize the value of transhipments through the Port of Majuro and continue to review and revise fees, and other charges for various commercial services.

c) Public Financial Management

Ongoing strengthening of public financial management systems is necessary. In addition to implementing the Fiscal Responsibility and Debt Management Act, key measures include:

i. Continue implementation of the PFM Roadmap and PFM reforms with assistance from our development partners;
ii. Improved accounting for fiscal risks;

iii. Continue strengthening fiscal projections and budget presentation and transparency to help guide policy goals; and
iv. Roll out the new Financial Management Information System (FMIS) to improve accountability, management and reporting.

A considered approach will be adopted to quantify medium-term fiscal targets. *Annex 1* includes a table of selected economic indicators, prepared by IMF using data from RMI government sources. We will focus on these indicators moving forward with the development of macroeconomic targets that we can aim to meet as we continue to implement the three-pronged fiscal strategy as described. This work will include discussion and agreement on targets for these macroeconomic indicators including our debt ratio (as a percentage of GDP), amount of domestic revenues including fishing and other non-tax revenues, and our overall balance of payments. Government will review these indicators and projections (and the regional indicators included in *Annex 2*) so that realistic targets are agreed to as a guide to implementing our Budget Investment Framework (BIF) in coordination with the medium-term fiscal strategy. The development of targets was delayed due to the previous focus on the COVID mitigation effort; however, the Ministry of Finance will provide leadership during this coming fiscal year so that government will develop these targets and projects following further consultation and assessment.

H. Enabling Policy Initiatives and Reforms

Complementary policy initiatives and reforms are required to sustain our fiscal consolidation effort. As a forward-looking Government, we recognize that supporting reforms which improve the efficiency of institutional operations and strengthen the effectiveness of service delivery are necessary to realize overall gains from complementary fiscal and sectoral strategies.

a. Tax Reforms

The Cabinet has introduced a proposal to modernize RMI tax regime in two phases with the first phase to implement at the start of the fiscal year FY25 in October 2024. In the first stage, an initial tax relief is implemented in October FY25 by overhauling the current tax on wages and salaries and taking into consideration the wage earners at the minimum wage and below are exempted from personal income tax.

A comprehensive tax reform package will be pursued in the second stage in FY26/FY27. The full package of reforms consisting of income tax reforms, the introduction of the Marshall Islands Consumption Tax, and excise taxes, are implemented. To ensure that there is a transparent process, Cabinet has established a Tax Reform Modernization Committee to review the proposals and information based on previous studies by the Asian Development Bank and PFTAC.

As part of the reform, the Government plan to procure a new Revenue Management System that can be deployed to implement proposed tax reforms and bring maximum efficiencies to the Tax Office and taxpayers. Digitalizing the RMI tax system is crucial for modernization and economic development.

b. Public Financial Management Reforms

The Asian Development Bank and the World Bank continue to implement Public Financial Management Reform Projects. Critical to these reforms is the ongoing implementation and rollout of the new Financial Management Information System (FMIS).

The *Bisan* system (FMIS) is up and running but compliance with US audit requirements will only be ascertained following issuance of the FY23 single audit. Implementation started in early 2022 and after user acceptance testing and training, the new system went live at the start of fiscal year FY23.

Additionally, PFM reform focuses on assistance to MOF and the RMI Government to prioritize and implement reforms included in the PFM Roadmap with impacts of PFM reform focused on (i) institutional capacity to implement the PFM Reform Roadmap strengthened; and (ii) institutional capacity to implement SOE reforms strengthened.

Both ADB and World Bank PFM projects have recently been extended for additional three years (ADB 2024-2027) and World Bank (2025-2028).

c. Civil Service Reforms

Human resource development is a crosscutting enabler of reform. Implementation of the Human Resource Management Information System (HRMIS) is ongoing allowing user access and automated processing of paperwork, including module to process personnel actions. Further efforts continue regarding improve human resource records, and automate processes is aimed to enable efficiency gains and allow for better harmonisation of interoperable functions such as payroll and personnel actions.

We continue to focus our efforts on improving performance management by ensuring that Ministries and agencies submit complete performance evaluations. The evaluations are required under PSC regulations. An amendment to the PSC Act also resulted in placing the Permanent Secretaries of the line ministries, Deputy and Assistant Secretaries; and Agency Directors, and the equivalent on four-year performance-based employment contract schemes. This shifts the focus of performance to a more outcome-oriented focus and aligns with our goals to improve government efficiency and effectiveness by the improved alignment of planning, budgeting and public financial management.

d. Development Cooperation

Development cooperation with a range of local, bilateral, multilateral, civil society and philanthropic partners is essential to supplement government resources. The final Development Assistance Policy (DAP), which addresses the management of all development assistance to the RMI including climate finance, grants in-kind, and South-South and technical cooperation is currently waiting government final review and approval by the Minister of Finance, Banking and Postal Services.[20]

[20] DIDA August 2023

The DAP will allow for coordination of government's approach to development cooperation and allow for more targeted support in priority areas. The DAP aims to improve mutual accountability and coordination between government agencies to increase the predictability, and effectiveness, of development assistance flows.

The RMI for the time received budget support from the World Bank in July 2024. The budget support includes a US$9 million development policy grant and a US$12 million Catastrophe Deferred Drawdown Option (Cat DDO) development policy grant, which will be available for post-disaster efforts if an eligible catastrophic event occurs. The budget support will strengthen the RMI Government financial stability and ensures that the country can quickly mobilize financing in response to emergencies such as droughts, and other climate-related hazards, as well as health-related emergencies.

e. Investment and Private Sector Development

A better business climate is critical for private sector development. A healthy, self-reliant economy can be sustained through a flourishing private sector. We recognize the need for a vibrant private sector for creating jobs, raising the choices of products and services available at more affordable prices, and generating revenues which could be used for delivery of public services.

The World Bank "Ease of Doing Business Survey" (DBS) provides a useful broad indicator and yardstick on the attractiveness of the business environment. From the 2020 DBS survey (this survey was discontinued in 2021) out of 190 countries the RMI ranked 153 (81 percent down the list), indicating that there was much room for improvement.[21]

The Office of Commerce Investment and Tourism (OCIT) launched an updated National Investment Policy Statement (NIPS) in 2023. Highlights of the NIPS include: 1) Clear Investment Guidelines (a definitive roadmap for investors); 2) Sustainable Development Initiatives (emphasizing environmentally conscious investments); 3) Collaboration and Partnership (fostering fruitful partnerships between the public and private sectors); 4) Investor Protection (safeguarding the rights of investors); and 5) Incentive Program (Cabinet authority to grant incentives aimed at stimulating economic growth and job creation).

Of primary concern moving forward will be in the areas of registering property and protecting investors as well as access to utilities (electricity). Regulatory reforms in these areas are needed, as well as those of starting a business, access to credit, doing business with government and taxes as we continue to look to improve our business environment. Various reforms are planned to build momentum on ease of doing business, including streamlining the Foreign Investment Business License application process as part of the National Investment Policy Statement.

Additionally, the Office of Commerce Investment and Tourism (OCIT) will implement strategies for private sector development in tourism, fisheries and micro, small and medium sizes enterprises. To supplement the NIPS, a diagnostic study prepared by OCIT to highlight actions

[21] The World Bank's ease-of-doing-business survey has now been discontinued because an independent investigation found that senior World Bank officials had improperly influenced the results.

needed to further facilitate private sector development and investment in Majuro and Arno. In addition, the OCIT is updating the Tourism Development Plan (2020-2024) to better align with the NIPS. This updated Tourism Sector plan will draw from the diagnostic study supporting the implementation of economic development strategies for Majuro and Arno.

f. Financial Sector Development

A safe and stable financial system is crucial for a robust economy. We remain committed to promoting efficient and inclusive financial services to allow our people to take advantage of opportunities and manage their finances. We recognize that access to finance is necessary for the development of micro, small and medium enterprises. To support this, we will continue to review and strengthen the role of the Marshall Islands Development Bank to enable better access and higher levels of financing for all qualified enterprises.

Establishment of a Monetary Authority. Since the RMI uses the US dollar as the currency of legal tender, some of the key functions of a central bank would not be available in the RMI, such as the issue of a national currency and conduct of monetary or exchange rate policies. However, many important functions would remain including (i) management of the RMI's international reserves and operation of an account at the Fed and other international financial institutions, (ii) provision of banking services to the government and banks which include USD currency management services, (iii) management and supervisory oversight of the national payments system, and (iv) enhancement of its regulatory capacity to ensure the stability of the RMI financial system and ability to provide financial and economic advice to the government. The IMF has been providing Technical Assistance to the RMI for the establishment of the Monetary Authority and has recommended key features of a draft legislation aligned with international best practices[22].

Global connectivity of our financial systems is a pre-requisite for economic growth. This facilitates efficient personal, investment and trade transactions. Several challenges remain to achieve deeper integration of our banking systems with those in overseas countries of importance to the Marshall Islands. We continue to face the significant challenge of maintaining our local correspondent banking relations with international banks, and as a result access to the international financial system. We will continue to address this challenge. A second challenge is money laundering and financing of terrorism risks which necessitate the strengthening of our supervisory and regulatory oversight systems. Therefore, we will require all financial institutions including those currently unregulated in the Marshall Islands to be appropriately legislated, regulated and supervised. To support this, we continue to strengthen relevant legislation and the regulatory authority's capacity to effectively deliver on its mandates.

I. Closing and Moving Forward

Clear direction and dedicated leadership. This Economic Policy Statement sets out the framework for Government, development partners and Marshallese stakeholders to support growth and development of our economy. The Economic Policy Statement complements key documents, including our National Strategic Plan, Agenda 2030 and the FY25 budget. This Economic Policy Statement captures the strategic direction of our fiscal and reform strategy to achieve our collective development ambition.

[22] RMI Banking Commission

With decisive leadership and collective effort, we will continue to move together to achieve our overall development objectives. We will continue to review this Economic Policy Statement, and report transparently as provided in the Fiscal Responsibility and Debt Management Act.

With your support for the direction provided in this Economic Policy Statement, we can work to deliver improved economic and development outcomes for all Marshallese.

Annex 1. Republic of Marshall Islands: Selected Economic Indicators, FY 2019 – 2028

Marshall Islands: Selected Economic Indicators, FY2019–28										
			Preliminary		Projected					
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Real Sector										
Real GDP (Change)	10.30	-2.90	1.00	-4.50	3.00	3.00	2.00	1.80	1.50	1.50
Consumer Prices (percentage change)	-0.01	-0.07	2.20	3.20	5.20	2.80	2.30	2.00	2.00	2.00
Consumer Prices (end of period)	-1.70	1.50	2.20	5.70	3.00	2.50	2.00	2.00	2.00	2.00
Central Government Finances (in percentage change in GDP)										
Revenue and Grants	64.00	70.70	70.40	66.30	62.80	69.50	67.80	68.90	71.60	70.00
Total domestic revenue	33.00	31.70	28.70	31.30	30.90	41.70	40.90	41.00	41.00	41.00
Grants	31.00	39.00	41.70	35.00	31.90	27.80	26.90	27.90	30.60	29.00
Expenditure	65.80	68.10	70.10	65.70	62.80	69.40	68.80	70.30	73.20	72.00
Expense	63.20	62.20	63.30	59.40	53.00	53.50	54.50	56.10	58.40	57.60
Net acquisition of non-financial assets	2.60	5.90	6.80	6.30	9.80	15.90	14.30	14.20	14.80	14.40
Net lending /borrowing	-1.80	2.50	0.20	0.70	0.00	0.10	-0.10	-1.40	-1.60	-2.00
Compact Trust Fund (in millions of US$; end of period)	434.70	514.40	668.90	567.30	621.90	620.90	622.50	623.70	624.30	624.40
Balance of Payments (in percentage GDP)										
Current account balance	-31.30	15.00	22.60	8.20	4.10	-0.40	-4.80	-8.00	-12.00	-15.00
Good and services balance	-79.30	-37.20	-24.90	-33.10	-27.30	-33.70	-35.60	-38.80	-43.00	-44.60
Primary Income	21.40	18.90	9.70	11.10	9.70	20.10	18.20	17.20	16.10	15.10
of which: fishing license fees	10.40	8.60	7.10	6.70	7.60	7.60	7.60	7.50	7.50	7.50
Secondary Income	26.60	33.30	37.70	30.20	21.70	13.10	12.60	13.70	14.80	14.50
of which: compact current grant	16.00	14.80	12.70	12.20	12.70	3.50	3.40	3.30	3.30	3.20
of which: other budget and off-budget grants	10.40	18.20	24.70	18.40	8.60	9.50	9.10	10.30	11.50	11.30
Current account balance excluding current account grants	-16.40	-24.20	-18.40	-4.30	-9.00	-12.20	-16.40	-11.30	-15.30	-18.30
External PPG debt ((in millions of US$; end of period))	67.50	66.20	63.50	59.60	59.70	59.20	62.30	66.70	71.60	78.60
External PPG debt ((Percent of GDP; end of period)	29.10	27.50	24.60	22.80	21.60	20.20	20.50	21.10	21.90	23.20
Memorandum Item:										
Nominal GDP	231.90	240.60	257.50	261.20	276.80	292.80	304.50	315.90	327.00	338.40