Republic of the Marshall Islands

FY2005 Economic Review

June 2006

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CURRENCY EQUIVALENTS

Currency Unit – United States Dollar (US$)

ABBREVIATIONS

ADB	—	Asian Development Bank
Amended Compact	—	The second phase of the Compact, FY04-FY23
AMI	—	Air Marshall Islands
CIP	—	Capital Improvement Project
Compact	—	RMI Compact of Free Association with the US
Compact I	—	First 17 years of the Compact, FY1987-2003
CTF	—	Compact Trust Fund
CMI	—	College of Marshall Islands
DoRC	—	Division of Revenue and Customs
EPA	—	Environmental Protection Agency
EPPSO	—	Economic Policy, Planning, and Statistics Office
FDI	—	Foreign Direct Investment
FMS	—	Financial Management System
FSM	—	Federated States of Micronesia
GDP	—	Gross Domestic Product
IMF	—	International Monetary Fund
KALGOV	—	Kwajalein Atoll Local Government
MALGOV	—	Majuro Atoll Local Government
MEC	—	Marshall Energy Company
MTN	—	Medium Term Notes (Compact-backed bonds)
MIDB	—	Marshall Island Development Bank
MIITF	—	Marshall Island Intergenerational Trust Fund
MIMRA	—	Marshall Islands Marine Resources Authority
MISSA	—	Marshall Islands Social Security Administration
MIVA	—	Marshall Islands Visitors Authority
MoF	—	Ministry of Finance
MoE	—	Ministry of Education
MoH	—	Ministry of Health
MoJ	—	Ministry of Justice
MoPW	—	Ministry of Public Works
MoTC	—	Ministry of Transport and Communications
MTBI	—	Medium Term Budget Investment Framework
NESS	—	National Economic and Social Summit
NGO	—	Non Governmental Organization
NTA	—	National Telecommunications Authority

PIER	—	Pacific Island Economic Report (
PSE	—	public sector enterprise
PSRP	—	Public Sector Reform Program
R&D	—	Ministry of Resources and Development
RIF	—	Reduction in Force
ROC	—	Republic of China
RMI	—	Republic of the Marshall Islands
SOE	—	State Owned Enterprises
TA	—	Technical Assistance
US	—	United States of America
VAT	—	Value Added Tax

NOTE

The Government's fiscal year (FY) ends on September 30.

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FOREWORD

This report has been prepared to assist the Government of the Republic of the Marshall Islands and U.S. Department of Interior to fulfill their respective reporting obligations under the Compact of Free Association with the U.S. In the case of the RMI, the nation is required under Title One section 215 to report to the U.S. President on the use of sector grant assistance and progress in meeting mutually agreed program and economic goals. In the case of the U.S under Title One Section 104.h the President is required to submit a similar report to the Congress concerning developments in the RMI. This report has been prepared under a grant from the Department of Interior and administered through the U.S. Department of Agriculture Graduate School. However, it is not intended to directly fulfill the reporting requirements of the two governments. Rather it is intended to provide an assessment of RMI economic performance, its policy environment and to compile a set of economic statistics. It is envisaged that much of the material will be directly relevant for the two reports. However, the reporting requirements of the two governments are different and thus not all the material will be relevant to both reports.

The report is comprises of two sections: a descriptive section of economic developments in the RMI, and discussion of policy developments, prospects and issues. The descriptive section takes a standard macroeconomic approach and includes discussion on economic growth and employment, monetary developments and prices, the external sector and fiscal developments. On the policy discussion the report is intended to review key topical areas rather than provide any attempt to complete a comprehensive review. Discussion focuses on private sector development, public expenditure management, the fiscal outlook, and Compact Trust Fund viability. Following the descriptive and analytical sections, a comprehensive set of economic statistics is provided. The presentation of the statistics section is an important milestone for the RMI. It is the first time that a complete set of macroeconomic data has been presented in one place.

The author of this report would like to express thanks to the many people who have contributed and made this report possible. Firstly, to Glenn McKinlay who under assistance from the ADB, produced the RMI's revised national accounts series and worked on improvements to many other economic time series. Secondly, and equally importantly to Steve Bolan, whose advice and knowledge of the RMI economy was invaluable. Steve helped in the preparation of the sections on employment, public sector payroll, external debt and tax administration. The Chief Secretary Bobby Muller supported the project and provided key administrative and logistics support. His long institutional knowledge of the RMI economy, Compact negotiations, etc. provided an invaluable overview of critical issues. Thanks are also given to Tony Costanzo and his group, EPPSO staff members, and officials of the Ministry of Finance.

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I. INTRODUCTION AND SUMMARY

This report has been prepared to assist both the RMI Government and the U.S. in the fulfillment of their respective obligations under the Compact. In the case of the RMI the amended Compact states under Title One Section 215 that:

> *"The Government of the Republic of the Marshall Islands shall report annually to the President of the United States on the use of United States sector grant assistance and other assistance and progress in meeting mutually agreed program and economic goals. The Joint Economic Management and Financial Accountability Committee shall review and comment on the report and make appropriate recommendations based thereon."*

In the case of the U.S. the President is required to submit a similar report to the Congress concerning economic developments in the RMI. Under Title One Section 104.h of the amended Compact it states:

> *(1) REPORT BY THE PRESIDENT.—Not later than the end of the first full calendar year following enactment of this resolution, and not later than December 31 of each year thereafter, the President shall report to Congress regarding the Federated States of Micronesia and the Republic of the Marshall Islands, including but not limited to—*
>
> *(A) general social, political, and economic conditions, including estimates of economic growth, per capita income, and migration rates;*
>
> *(B) the use and effectiveness of United States financial, program, and technical assistance;*
>
> *(C) the status of economic policy reforms including but not limited to progress toward establishing self-sufficient tax rates;*
>
> *(D) the status of the efforts to increase investment including: the rate of infrastructure investment of U.S. financial assistance under the U.S.-FSM Compact and the U.S.-RMI Compact; non-U.S. contributions to the trust funds, and the level of private investment; and*
>
> *(E) recommendations on ways to increase the effectiveness of United States assistance and to meet overall economic performance objectives, including, if appropriate, recommendations to Congress to adjust the inflation rate or to adjust the contributions to the Trust Funds based on non-U.S. contributions.*

The report is prepared in two main parts: a review of economic developments, and a section on policy developments, prospects and issues. While this report relates to the fiscal period FY05, analysis of developments in that year alone would provide a limited and one-sided view. The approach has been rather to review developments in a broader context so that a more informed assessment can be made. The content of the review of economic developments follows a standard macroeconomic approach and provides detail on growth and employment, monetary developments and prices, the balance of payments and external debt, and a final section on fiscal developments.

The policy, prospects and issues part of the report provides coverage of a selected range of topical issues and is not intended to review the whole range of public and private sector policies. Review is conducted on recent policies that affect the environment for private sector development. In particular, policies to remove administrative barriers and improve tax administration are examined. A second policy section reviews policies relating to public expenditure management. This includes an examination of recent trends in public sector payroll, the medium term budget and investment framework (MTBIF), financial management information needs, and the need for renewed public sector reform. A third key section takes a look the existing fiscal situation. While the fiscal outturn for FY06 projects a small surplus, the government is currently experiencing fiscal stress and is finding difficulties meeting payments. In the medium term increasing debt service commitments and the erosion of the value of the Compact sector grants through lack of full indexation and the annual decrement presents challenges. Expansionary fiscal policies in the early 2000s have run their course and the current mounting fiscal pressure indicate that the time is ripe for a renewed reform effort. Finally, a brief discussion of the viability of the Compact Trust is undertaken and its capacity to replace the annual stream of Compact sector grants.

II. REVIEW OF ECONOMIC DEVELOPMENTS

A. *Growth and Employment*

1. GDP, GROWTH AND STRUCTURAL CHANGE

1. Economic developments in the RMI economy have been dominated by the economic provisions of the Compact of Free Association with the United States, and the transition from the original period (Compact I) FY87-FY03 to the amended Compact period FY04-FY23. The structure of Compact I economic assistance was front-loaded with two stepdowns after 5 and 10 years entailing a 15 and 14 percent reduction in base grant funding. The transfers were only partially indexed to US inflation, resulting in a real reduction in resource flows amounting to an annual average decline of 5 percent. Provision was made for a further two years of funding through FY03, but at the average level of funding during the first 15 years. During the initial stages of Compact I and through the early 90s, the RMI issued a series of Bonds to fund development projects pledged against future Compact receipts. By 1993, the year of the last Bond issue, only a small proportion approximately $10 million of the total annual Compact flows of $40 million, remained available for funding of Government operations. The difference being required to service the Bond issue debt repayments, and transfers to Kwajalein landowners.

2. Analysis of the RMI economy is based on a new national accounts series for the FY97-FY05 period. Although GDP estimates were constructed for prior periods, they were not compiled on a comparable basis and no information on the methodology remains. In the absence of reliable information for the old series, the discussion of economic developments commences in FY97. Figure 1 reveals two distinct periods of economic performance: a depressed state in the late 90s with negative rates of growth and a more expansionary era in the 2000s. The late 90s was marked by an extended period of contraction in the economy and fiscal instability resulting from the reduction in revenues to fund government operations, due to the need to service the prior Bond issues. A Public Sector Reform Program (PSRP) was initiated with assistance from the ADB to assist with the fiscal adjustment. A Reduction in Force (RIF) was a major component of the reforms to reduce the cost of government. There were other objectives of the reforms: to improve tax administration, reform of public enterprises, improvements to the environment for the private sector, etc. However, the major element to reduce public expenditures was the RIF.

3. By the start of FY00 circumstances began to improve. In 1999 the RMI recognized the ROC and was thereafter to receive $10 million annually in grant assistance. This significantly eased fiscal pressure and permitted an expansion in Government expenditures. By FY02 repayment of the Bond issues was complete, which enabled use of Compact funds that had in prior years been absorbed in debt repayment. FY02 and FY03 were also the “bump-up” years of the Compact and saw infusion of additional resources. However, the RMI had committed to contributing $25 million to a Compact Trust Fund

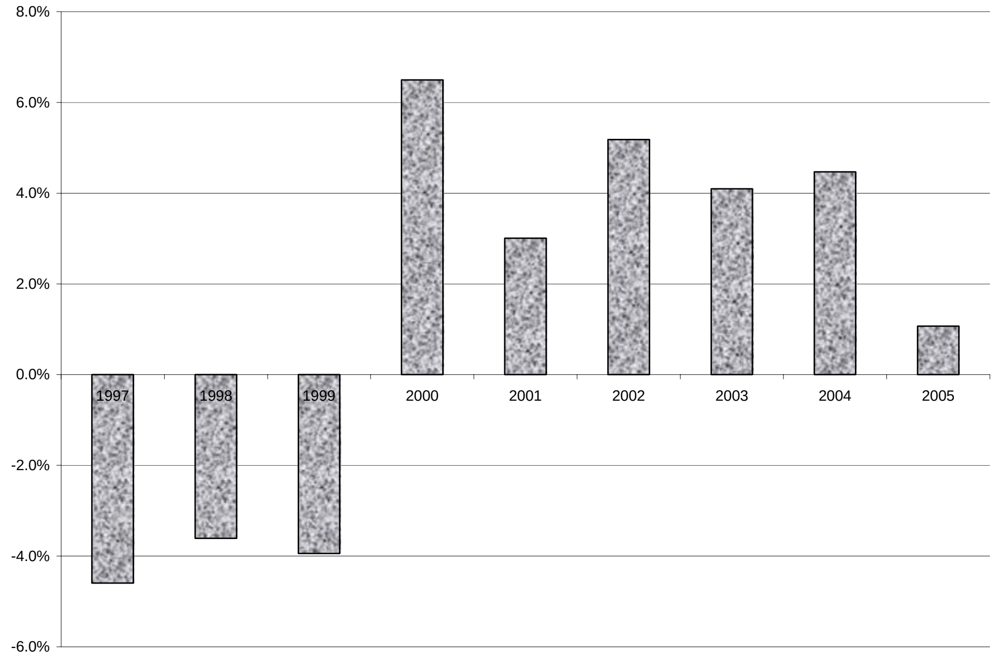
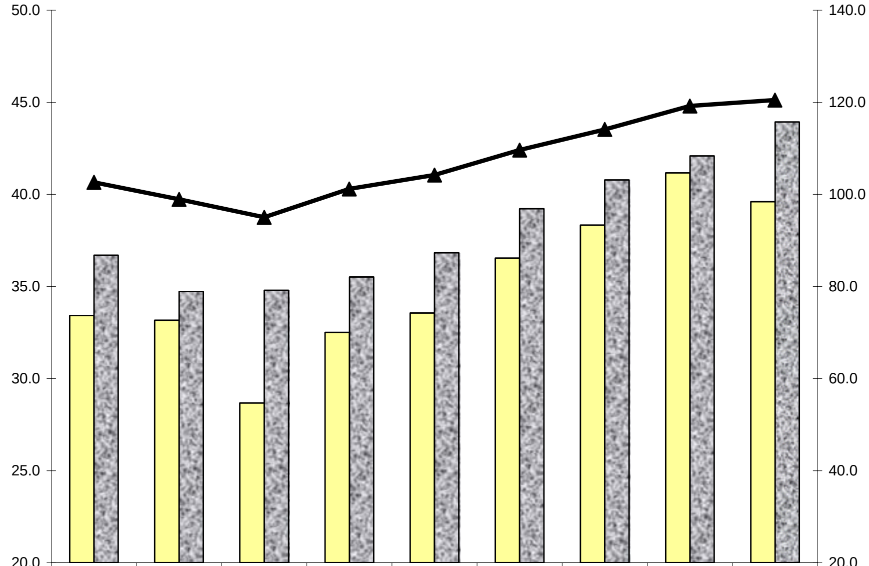


Figure 1 RMI Real GDP Growth (percent)

at the start of FY04, which thus had the impact of sterilizing a large component of what otherwise would have been a very sizeable infusion of resources. FY04 was the start of the amended Compact and the RMI had negotiated a favorable assistance package that resulted in an increased in funding from pre-bump levels of $25 million to $35 million. FY04 thus represented a further year of fiscal stimulus. By FY05 the use of the very substantial increase in resources over the FY99-FY04 period had reached the zenith, and the year saw the culmination of a period of rapid public sector led growth.

4. Figure 2 elaborates the story indicating the performance and contribution of the private and public sectors to the economy. The contribution of the public sector is made up of the compensation of employees of public servants. The trend in constant prices indicates compression during the late 90s coinciding with the RIF, but then a continuing expansion of 4 percent per annum in real terms resulting from the additional infusion of funds. The dependent nature of the private sector is clearly revealed during the period, which mirrors the growth in the public sector but with a significant variation from trend in some periods. With the exception of the fisheries sector the private sector is dominated by establishments largely producing services for the domestic market. Clearly, as public expenditures rise and fall, demand for private sector services moves in tandem.

5. The national accounts estimates are constructed by institutional sector and further analysis of economic developments is undertaken with reference to the GDP tables of the statistical appendix. Developments in the private sector reflect the provision of general



	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Private Enterprise	33.4	33.2	28.7	32.5	33.6	36.5	38.3	41.2	39.6
Government	36.7	34.7	34.8	35.5	36.8	39.2	40.8	42.1	43.9
Real GDP	102.6	98.9	95.0	101.2	104.2	109.6	114.1	119.2	120.5

Figure 2 RMI Real GDP by Private and Public Sector (FY00 US$ millions)

services and fisheries. FY97 and FY98 were the final years of Ting Hong fish exports and the dip in private sector value added figures in FY99 reflects the loss of this enterprise. However, in FY00 the PMOP loining plant commenced operations in Majuro and private sector value added regained some of the lost ground. Through the early 2000s private activity is dominated by the expansionary fiscal policy. The data for FY04 indicates an unusual and unexplained growth in private activity. The sizeable reduction in FY05 resulted from the closure of the PMOP plant.

6. Table 1 provides detail on the contribution of the public enterprise sector to GDP by enterprise at factor cost (before receipt of subsidies.) The sector has made a variable

Table 1 Public Enterprises Value Added, FY97-FY05, $'000

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Air Marshall Islands	-753	338	325	173	-307	-555	1,052	614	696
Kwajalein Atoll Joint Utilities Resources	-12	574	305	-876	-1,123	-932	-1,656	-748	-584
Majuro Water and Sewer Company	605	650	412	-13	107	661	742	654	529
Marshalls Energy Co. Inc. (Utilties)	809	1,282	2,171	1,878	150	1,689	400	-587	-2,417
Marshalls Energy Co. Inc. (Fuel distribution)	930	1,251	422	735	835	1,430	1,512	1,761	1,757
Marshall Islands Airports Authority	0	0	0	-15	137	258	200	265	0
Marshall Islands Ports Authority	-44	157	321	1,096	867	1,192	1,283	964	1,289
National Telecommunications Authority	2,658	2,277	2,101	2,659	2,504	3,270	2,643	2,014	2,365
Marshall Islands Resort (Inc)	-223	-338	-6	412	1,939	239	208	512	776
Tobolar	-1,147	-589	-415	-1,527	-1,674	-757	-736	-188	-1,086
Total Value Added	2,821	5,602	5,636	4,522	3,434	6,495	5,649	5,260	3,325

contribution to GDP depending on the profitability of the respective enterprises. After a long history of loss making activity Air Marshall Islands reveal a positive contribution to GDP since FY02. The performance of the utilities, KAJUR and MEC, has been far from satisfactory. KAJUR has managed to contribute a negative value added throughout most of its history. While the story for MEC looks better, it has been the cross subsidization of fuel distribution with electricity production that has keep the operation viable. However, in FY04 the utility made a negative contribution to GDP and the situation deteriorated further in FY05. The Marshall Island Resort has made a positive contribution since FY00, and reported positive profits for the first time in FY05. Tobolor, the agency responsible for Copra collection and production of coconut oil, has made a negative contribution to GDP throughout the period, but acts as an instrument of social policy and income generation in the outer atolls. The local telecom authority NAT, makes the largest contribution to GDP reflecting its monopoly status and ability to set prices. Overall while the PSE sector has made a positive contribution to the economy, its performance has not been satisfactory. Issues of management and the role of the public sector in productive activities are taken up at various stages in this report.

7. While the Government of the RMI is the largest player in the public sector, government agencies including the College of the Marshal Islands and local government are also significant. Taken together the two local governments represented about 26 percent of the national government in FY05 (by valued added), and have grown in real terms over the FY97-FY05 period. Government agencies grew rapidly between FY97-FY01, much of it as a result of growth in CMI, but have subsequently stabilized. Local government has recorded a positive growth of 1.8 percent during the period.

8. The household sector makes an important contribution to GDP producing mixed incomes from copra, fishing and handicrafts. Non-marketed production (subsistence) and home ownership are the main components and are estimated to grow in relation to population growth. Indirect taxes are comprised of import duties of the national government, receipts from the Gross Receipts Tax (GRT) and local government indirect taxes mostly sales taxes. Finally, an adjustment is made to GDP for the imputed bank service charge, the difference between interest receipts and payments of the financial sector.

9. Figure 3 compares the GDP deflator with the CPI. In the RMI real GDP calculations for each of the institutional sectors is derived by four basic methods. For compensation of employees employment is used as the real indicator and covers 54 percent of GDP. For a further 17 percent of GDP real volume indicators are used. For the household sectors except copra production (11 percent of GDP) the CPI is used. For the remaining uncovered sectors a general deflator is used based on an average of the above methods. The RMI GDP deflator is thus largely an independent measure of inflation. For four out of the eight periods the two indices move in the same direction and are broadly similar. However in the other four years the indices indicate inflation rates with different signs and in FY00 and FY02 large differences in magnitude occur. In FY00 nominal GDP grew by over 4 percent and the GDP deflator fell by 2 percent resulting in a 6 per-

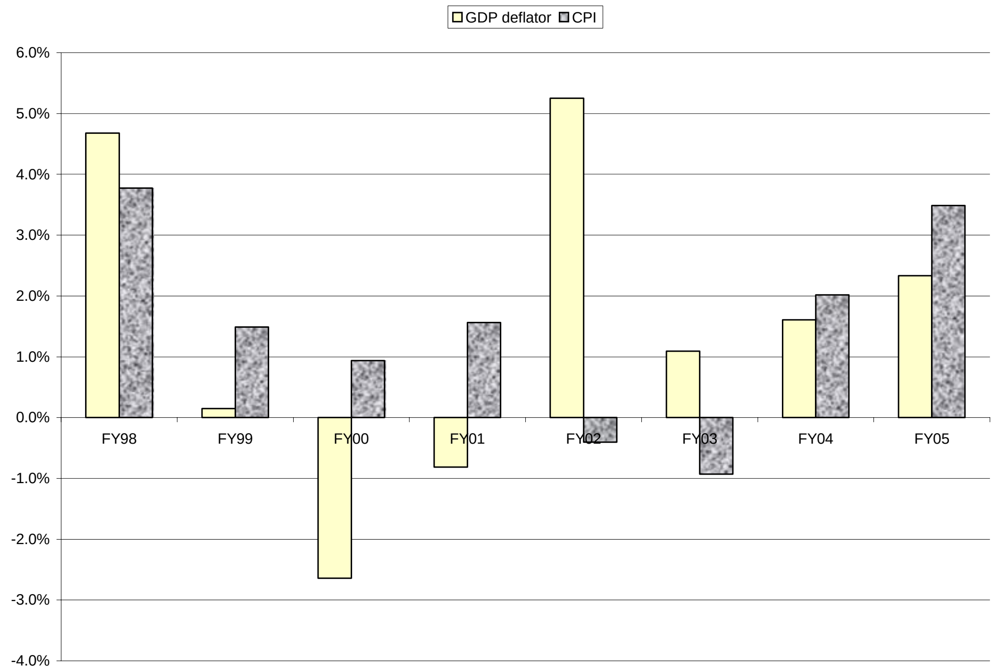


Figure 3 GDP deflator and CPI (percent annual change)

cent increase in real GDP. In FY02 nominal GDP grew by over 10 percent and after deflation real GDP indicates an increase of 5 percent. While the result for FY02 seems reasonable the real increase in FY00 of 6 percent maybe overstated. Overall for the FY95-FY05 period the CPI records an increase in inflation of 12.5 percent and that of the GDP deflator of 12.2 percent. While the annual differences are in certain periods substantial, for the period as a whole the two indices indicate a very similar rate.

10. Changes in the structure of the RMI economy during the FY97-FY05 period are summarized diagrammatically in Figure 4. Not surprisingly given the rapid rates of growth in government the share of the public sector (including both government and public enterprises) has grown significantly from representing 40.6 percent of GDP in the FY97-99 period to 43.5 percent during FY03-FY05. This is a large change in a short period of time. The private sector managed to sustain its contribution and increased its share by 0.5 percent. This reflects the additional demand created by an expansionary fiscal policy pumped into the economy, and the ability of the private sector to respond positively. The increase in share of the public sector is compensated by a decline in the household sector, which represents subsistence and home ownership. With low rates of population growth (on which the household sector estimates are based) and growth in the cash economy, a decline in this sector should be anticipated. Perhaps not anticipated is the decline in indirect taxes by 1 percent over the period, representing a reduction in the share of customs duties. In part the decline represents discretionary reduction in tax rates during the period, but it also reflects the limited capacity of an outdated tax regime to provide a

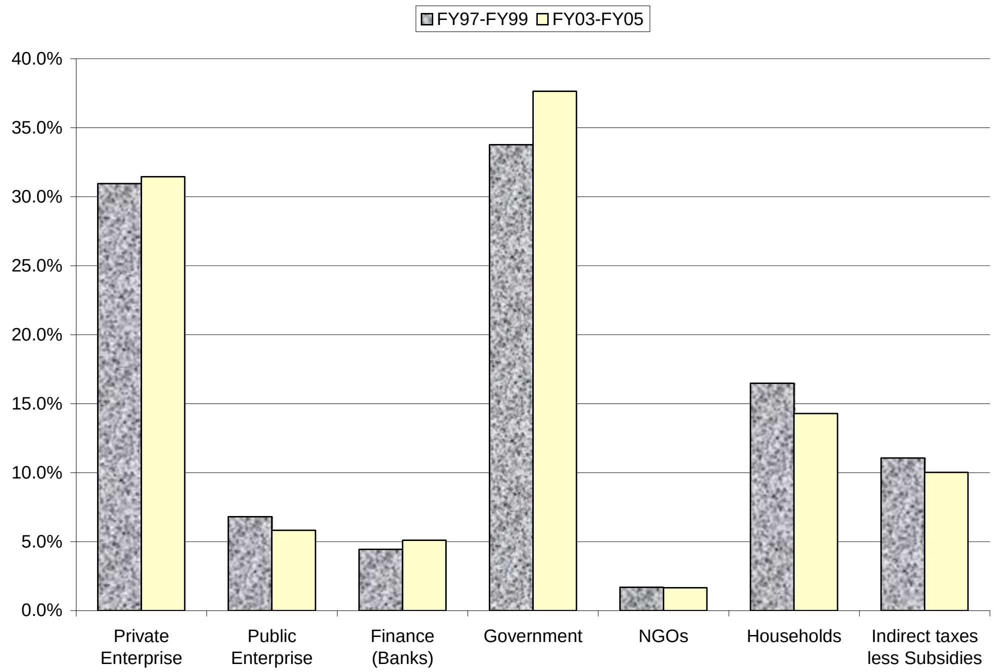


Figure 4 Structure of the RMI Economy by Institutional Sector

buoyant source of revenue that adjusts automatically to changes in economic circumstances and provides for the long-term needs of the economy. Some small changes are shown in the contribution of public enterprises, but do not reflect any change in policy or commitment to transformation of activities that would be more efficiently operated by the private sector. The finance or commercial banking sector represents 5 percent of GDP and non-governmental organizations play only a minor role in the economy.

11. To conclude this section of the review, the economy has shown a surprising trend of increasing economic growth in the 2000 era. It has been a period of public sector led growth. The repayment of Bond issues in the early 90s, additional funding received from the ROC, and the more favorable financial arrangements of the amended Compact have enabled pursuit of a very expansionary fiscal policy. However, the sources of this growth have run their course and fiscal policy in the remainder of the first decade of the 2000s will need to confront the real reduction of Compact resources, and increasing debt service obligations. Only a shift to improving the opportunities for private sector led growth can hope to maintain the previous performance without further retrenchment.

2. Population, Incomes, Distribution, and Poverty

12. Population in the RMI has historically grown at very high rates. During the period 1980-1988 in the lead up to Compact I the annual average rate of growth was 4.3 percent (see Table 2.) Population in Majuro and the seat of the capital grew at 6.6 percent reflecting the emergence of a modern economy and the availability of jobs and public ser-

Table 2 Population by major centers and population growth, 1967-1999

	Population				Population Growth			
	Total	Majuro	Ebeye	Other	Total	Majuro	Ebeye	Other
1967	18,925	5,249	3,540	10,136	3.3%	4.9%	11.9%	0.8%
1973	25,045	10,290	5,123	9,632	4.8%	11.9%	6.4%	-0.8%
1980	30,873	11,791	6,169	12,913	3.0%	2.0%	2.7%	4.3%
1988	43,380	19,664	8,324	15,392	4.3%	6.6%	3.8%	2.2%
1999	50,840	23,676	9,345	17,819	1.5%	1.7%	1.1%	1.3%

Source Census Reports

vices such as health and education. Population in Ebeye was slightly below the nation's average and the outer atolls (other category) were below average and reflect internal migration. This pattern changed radically between the next two census points in 1988 and 1999. Population growth slowed down significantly to 1.5 percent reflecting the emergence of large out migration to neighboring US territories, Hawaii, and the US mainland under the migration provisions of the Compact. Clearly, the limited job opportunities and depressed nature of the economy during much of the period encouraged large-scale migration to seek employment opportunities and better rates of remuneration in the U.S. In the short-run migration plays an equilibrating role: as incomes decline outward migration compensates, improving average income levels for those remaining. However, outward migration will have a distorting impact on the local economy, if it is achieved through a loss of the economically active and skilled. The loss of human capital will reduce the long-run productive potential of the economy.

13. Table 3 sheds some further useful information on current migration rates and net movement of passengers between the RMI and U.S. points of disembarkation. Since the destination of nearly all flights originating from within the RMI is a U.S. point of entry (the FSM being the main exception), the figures provide a very useful indicator of net migration. The table indicates the rates of migration since 1990 in batches of five yearly averages and confirms the reduction in population growth indicated by the census data

Table 3 Net movement of air passengers between the RMI and US ports of entry and percent population

	1990-1994 (est)			1995-1999 (est)			2000-2004 (est)		
	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration
Kwajalein	-32	8,683	-0.4%	58	9,151	0.6%	306	9,646	3.2%
Majuro	284	21,043	1.3%	754	22,897	3.3%	932	24,913	3.7%
RMI	252	45,966	0.5%	812	49,404	1.6%	1,238	53,100	2.3%

Source: US Department of Transportation "TRANSTATS" database
Notes: Population estimates based on average projected levels between census points.
Only includes air passengers to/from RMI and US air points (Guam, Hawaii, Saipan).
Passengers to/from RMI and other countries (e.g. FSM) are excluded.

between 1988 and 1999. The Table indicates an increasing level of out migration between the three five yearly intervals. The outward migration rate of 0.5 percent during 1990-1995 accelerated to 1.6 percent and 2.3 percent in the 1995-1999 and 2000-2004 periods, respectively. The table also implies that out migration from Majuro has been more rapid than from Kwajalein.

14. Figure 5 indicates the changes in per capita GDP since 1981 in 2000 prices. The GDP estimates are derived from chaining the previous national accounts series. While the lack of information about the earlier series is a cause for concern, the Figure provides a clear message of the developments in average real incomes. The advent of the Compact clearly saw a large improvement in income levels in the run up to the Compact. After a period of stagnation in the earlier years growth was boosted in the early to mid 90s through the series of Bond issues that enable the nation to embark on a series of risky ventures. However, the gamble on public sector involvement in productive activities did not pay off, and the nation was forced into a difficult period of decline as the economy adjusted to low levels of net aid transfers depleted by the need to repay the former extravagancies. In 2000 matters began to improve as fiscal circumstances improved significantly with new donor assistance, repayment of the debt, and a favorable financial outcome of the amended Compact negotiations. Between 2000 and 2004 GDP per capita expanded strongly in each year regaining the ground lost in the late 90s. However, with the harsh realities of declining financial resources and greater external debt service require-

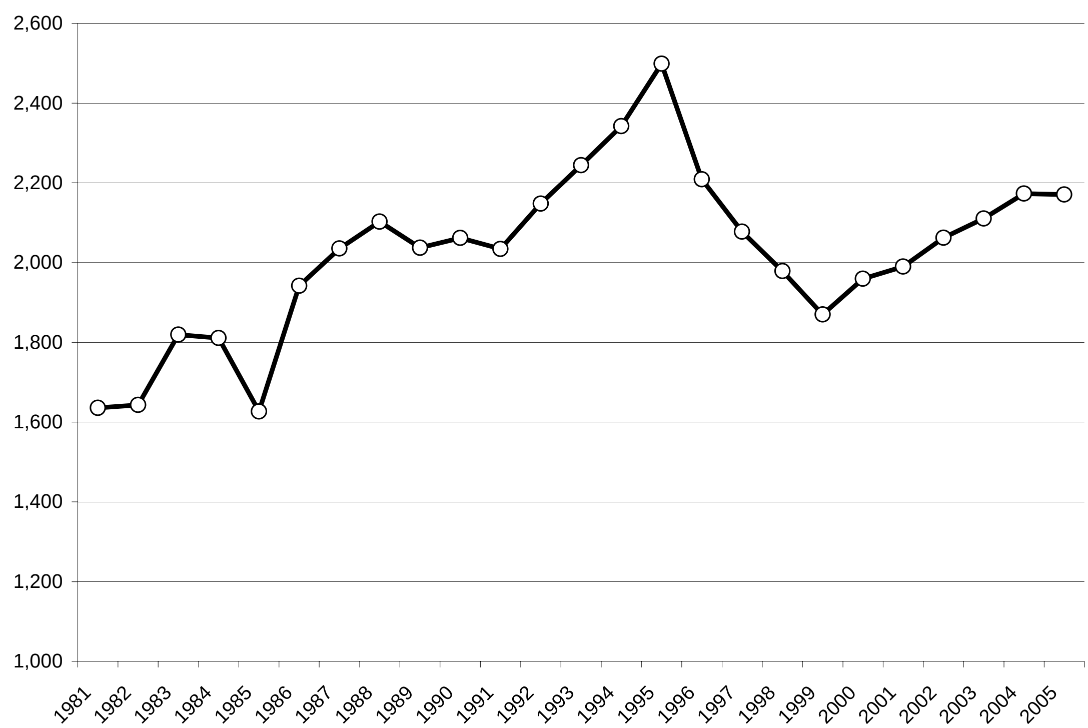


Figure 5 GDP per capita, constant prices 2000, $'s 1981-2005

ments, the nation is faced with a difficult challenge if the pattern of the late 90s is not to repeat itself and a sharp downturn in incomes is to be avoided.

15. A recent paper in the Pacific Island Economic Report (PIER) series completed by the ADB in 2004 (Jummemmej, publication forthcoming) focuses on distributional, poverty, and social related issues and provides a comprehensive study on the RMI. While this review is macroeconomic in nature it would be remiss not to pass comment on distributional issues and their impact on the economy. Drawing on the discussion raised in the Jummemmej it is noted that while abject poverty, starvation and destitution may not be present in the RMI, there are clear signs that certain urban settlements live in extreme poverty, and that two-thirds of outer islanders have an income less than $1 a day in 1993 purchasing power parity terms (see ADB Assessment of Hardship and Poverty, 2002.)

16. Figure 6 below provides a diagrammatic overview of average per capita cash income in the various atolls of the RMI. The data is drawn from the 1999 census and excludes substance production and home ownership, which are usually included in the definition of income. In the outer islands subsistence production compensates for the lack of cash income, and the emerging picture of income distribution is thus more extreme than the reality on the ground. Economic activity clearly differs between the urban centers of Majuro and Kwajalein, which are the centers of the Nation's cash economy and labor market, and the outer atolls. Cash incomes in Majuro and Kwajalein are 4 times those of the outer atolls. However, within the outer atolls the cash incomes of the nuclear affected communities of Enewetak, and Killi are substantially above those in the other islands. In

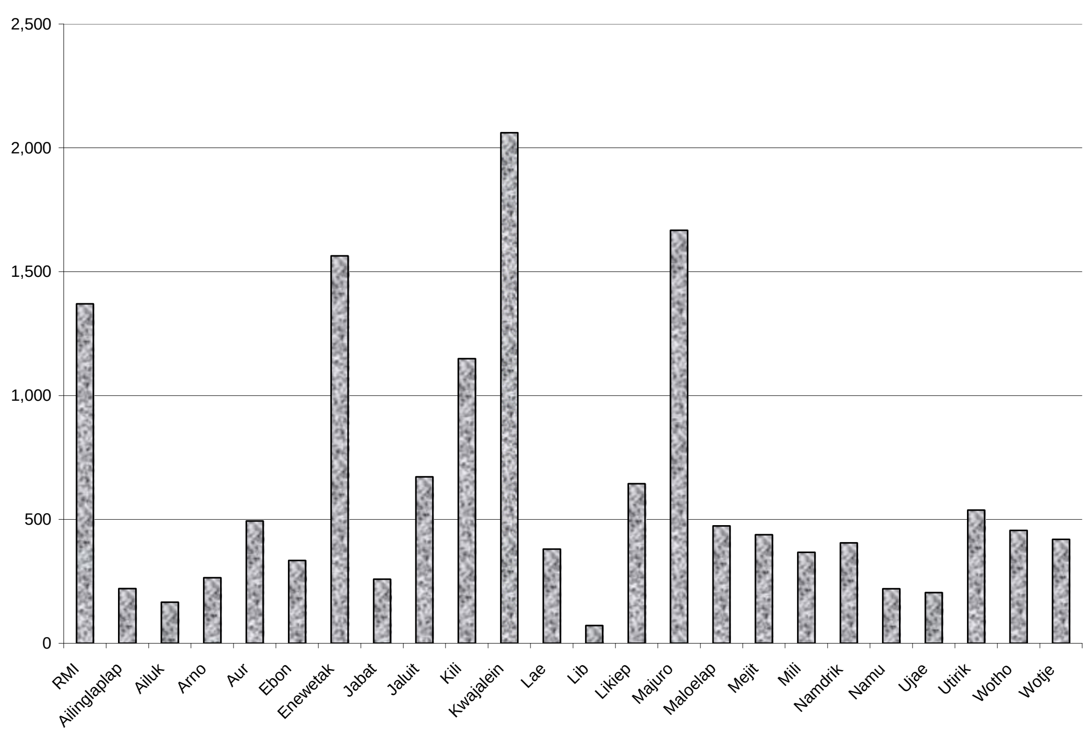


Figure 6 Average Per Capita Income by Island, $'s (1999—Population Census).

the non nuclear affected islands average per capita incomes range between $71 a year on Lib to $672 on Jaluit; on average this equates to slightly less than $1 day. Clearly the lack of income earning opportunities and the decline of copra production resulting from adverse price movements, has provided a strong incentive to migrate to the two major urban atolls and externally to the US.

17. While Figure 6 provides an important picture of the spatial distribution of income it says little about the characteristics of the distribution of income by income group. The Jummemmej reports a RMI Gini coefficient of 0.54 (a standard measure of income inequality ranging between 0 and 1, with higher levels indicting greater inequality.) The level of inequality in the RMI is greater than Fiji 0.46, PNG 0.46, Samoa 0.43, Tuvalu 0.43, Tonga 0.42 and the FSM 0.41 (ADB 2005, Hardship and Poverty in the Pacific.) While strict comparison between countries may not be appropriate, as other Pacifica Island measures may include subsistence, the figures for RMI indicate a high degree of inequality.

3. Employment, Earnings and Wages

i Employment

18. Since the mid-90s the economy has experienced significant structural adjustment and stress. Recent employment data reflect this stress. Using the quarterly data collected by the Marshall Islands Social Security Administration (MISSA), with adjustments made by EPPSO, it is possible to analyze recent employment and earnings trends. The data is based on returns made to MISSA by employers and counts employees equally, irrespective of how many hours they may have worked during the quarter.

19. Two prominent trends discernable from the data are the recent growth in numbers employed by the public sector, specifically the RMI Government, and the erratic nature of private sector employment. The recent growth in RMI Government employment follows a sustained period of downsizing in the late 90s. The erratic nature of private sector employment has been influenced by the initial opening in FY00 and then closure of the PMOP loining plant in FY04.

20. Analysis of the data in Table 4 shows the sudden decrease in private sector employment due to the closure of the plant in FY05. This enterprise employed many workers at below minimum wage, and with the closure of the plant, the workers were no longer recorded as making contributions to MISSA. Employment in the private sector in FY05 fell by 13.3% or 479 employees on the previous year to 3,123, its lowest level since FY99 before the PMOP plant opened. Meanwhile in FY05, the size of the RMI Government increased by 116 employees or 5.8% over the previous year. The RMI Government employment has increased by 42.5% or 632 employees since its low point in FY00 after the completion of the Government's reduction-in-force (RIF) program under the PSRP.

Table 4 Total Number of Employees (average over Fiscal Year)

Institutional Sector	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Private Sector	2,578	2,721	2,659	3,155	3,446	3,543	3,592	3,602	3,123
Banks	103	115	124	126	149	137	137	155	164
Sub-total - Private Sector	2,681	2,836	2,783	3,281	3,595	3,680	3,730	3,757	3,286
RMI Government	1,856	1,692	1,531	1,487	1,525	1,774	1,900	2,003	2,119
Public Enterprise	676	683	600	589	584	635	659	668	677
Government Agencies	408	370	494	574	626	615	644	596	606
Local Government	819	902	960	989	995	910	852	923	938
Sub-total - Public Sector	3,759	3,647	3,584	3,638	3,730	3,934	4,055	4,190	4,339
NGO's and Non-Profits	333	340	343	353	372	370	355	373	375
Foreign Embassies	12	12	13	14	15	13	14	14	15
Kwajalein US Base	1,040	1,076	1,140	1,195	1,229	1,196	1,457	1,177	1,174
Total	7,825	7,911	7,864	8,480	8,941	9,193	9,611	9,511	9,188

Source Social Security.

21. It is important to note that the inclusion of Head Start, which provides pre-school education within the RMI Government payroll did not occur until the final quarter of FY05. With fiscal year averaging Head Start accounts for about half of the increase in FY05, or about 50-60 employees. The change in the status of Head Start, however, has no effect on overall Public Sector employment. This is because the increase in RMI Government employment is offset by a corresponding decline in the numbers employed by Government Agencies, where Head Start was previously classified.

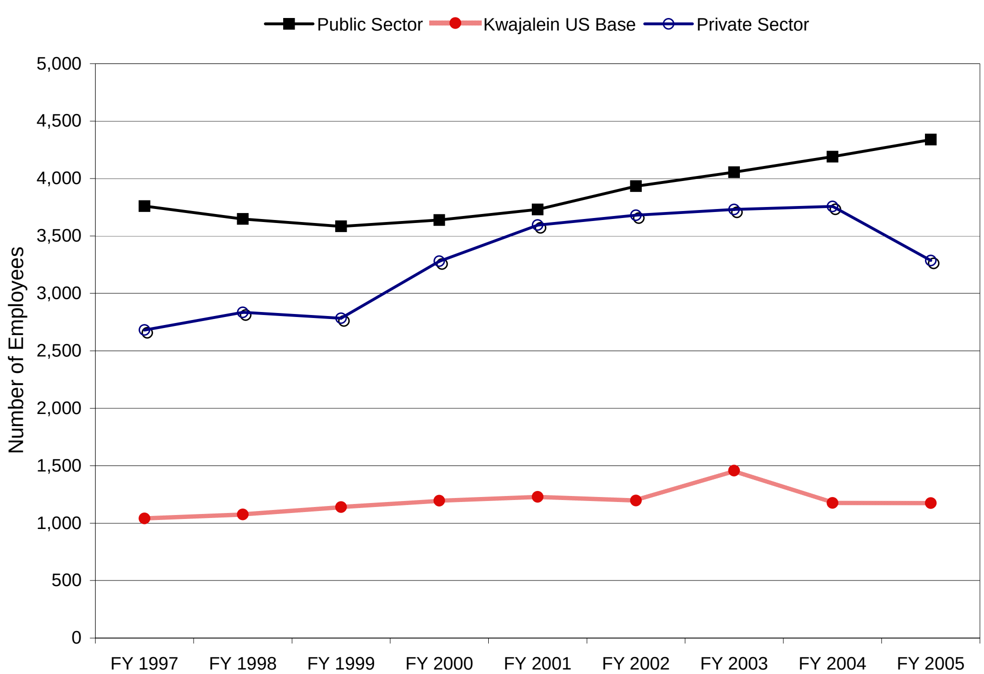


Figure 7 Employment by Major Institutional Sectors

22. A worrying trend is the growth in employment within the public sector, especially in the RMI Government, and the corresponding downward movement in private sector employment in FY05 seen in Figure 7. Public sector employment is now well in excess of employment in the whole of the private and financial sectors. The numbers of people employed by the Kwajalein US Base is significant in a small workforce while the NGO's and the non-profits sector do not make a large impact on overall employment numbers.

23. Figure 8 indicates the structure of employment in the private sector. The wholesale and retail trade sector (34%) employs the greatest number. Other activities such as banks and real estate (9%), hotels and restaurants (5%) and construction (9%) provide much of private sector employment, with fishing making only a small contribution since the close of the PMOP loining plant in 2004. Manufacturing and agriculture are insignificant employers. Extra-territorial organizations and bodies (23%) include employment at Kwajalein US Base.

ii Employment Earnings

24. Employee earnings have a critical impact on the economy since they are both a cost to enterprises and also income to individuals available for spending in the economy. Looking at the total earnings by each institutional sector paints a revealing picture. The earnings figures include all wages and salaries paid to employees. The picture is quite different to that provided by the employee numbers presented above. Table 5 outlines total earnings levels, which show the recent rapid rise in earnings of RMI Government pub-

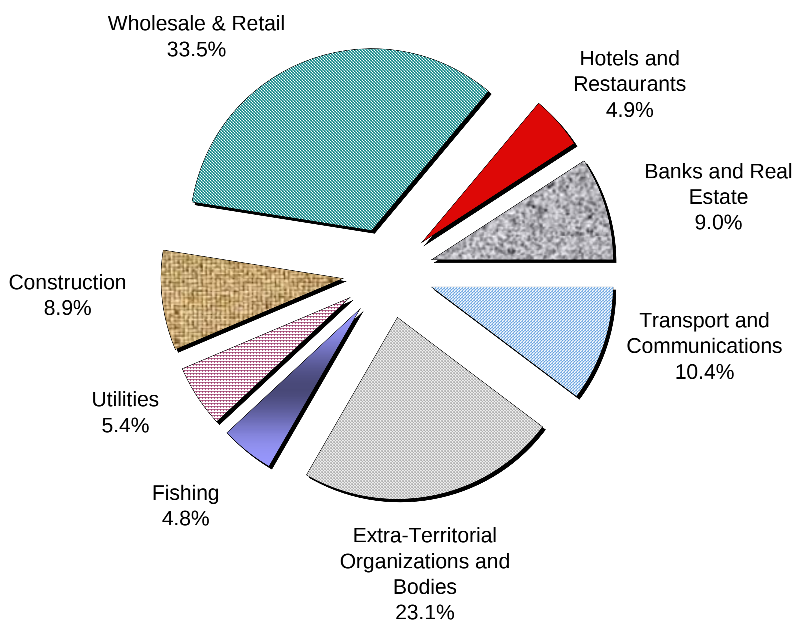


Figure 8 Employment in the Private Sector by Major Industrial Sector, FY05

Table 5 Earnings by Major Institutional Sector, FY97-FY05

Institutional Sector	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Private Sector	16,100	16,244	16,697	17,475	18,928	18,916	18,171	17,817	17,053
Banks	2167	2377	2348	2308	2431	2622	2798	3041	3424
Sub-total Private Sector and Banks	18,267	18,621	19,045	19,783	21,359	21,538	20,969	20,858	20,477
RMI Government	17,485	15,854	15,746	15,406	16,923	19,768	20,821	23,598	26,840
Public Enterprise	7009	7023	6265	6402	6293	6744	7373	7651	7486
Government Agencies	4099	4287	5764	6805	7179	7748	8224	8153	8067
Local Government	6306	6543	6819	7126	7031	7149	6805	7127	7048
Sub-total Public Sector	34,899	33,707	34,594	35,739	37,426	41,409	43,223	46,529	49,441
NGO's and Non-Profits	1,722	1,702	1,721	1,799	1,924	1,944	1,986	2,082	2,055
Foreign Embassies	106	113	140	149	167	143	147	174	182
Kwajalein US Base	12,254	12,963	14,357	16,333	16,979	16,159	17,469	16,861	17,814
Total	67,248	67,106	69,857	73,803	77,855	81,193	83,794	86,504	89,969

Source MISSA.

lic servants since FY00. During this time, which coincided with the end of the RIF program, earnings have increased by $11.4 million or 74%.

25. Correspondingly, since FY01 private sector earnings have slowly declined, and with the closure of the PMOP loining plant in FY04 earnings dropped again though, only by a small amount reflecting the small payroll of this enterprise, despite the large numbers employed. The small fall in earnings is likely a combination of the fact that many employees worked less than a full workweek combined with the company's exemption from paying minimum wage to make the enterprise more competitive. A factor that may also partially offset the decline in earnings is the increase in earnings from locally based fishing companies that expanded during FY05. To accentuate the point of the disappointing performance of the private sector, its share of total earnings has fallen from 24% in FY01 to only 19% in FY05. During the corresponding period, the public sector share has grown from 48% to 55%.

26. The picture is reinforced in Figure 9, which combines the earnings among the major sectors between FY97 and FY05. Again it is clear that the growth in the public sector earnings has corresponded with stagnant earnings in the private sector and banks sector since FY01. The growth in the earnings of RMI Government employees reflects the corresponding growth in the Government payroll. Growth in the public sector earnings appears to be unchecked and is unsustainable. The growth in public sector earnings will eventually hit a budget constraint as the Government's fiscal position becomes tighter. Other sources of growth, in other words the private sector, will have to provide increased earnings in the future as public sector earnings growth cannot continue.

27. In that light, the performance of the private sector and banks sector over this period is a source of major concern. The decline and then loss of the PMOP loining plant in 2004 was a major factor but the decline in earnings reflects other recent events that would have had an impact, including the cessation of Aloha Airlines flights, the withdrawal of

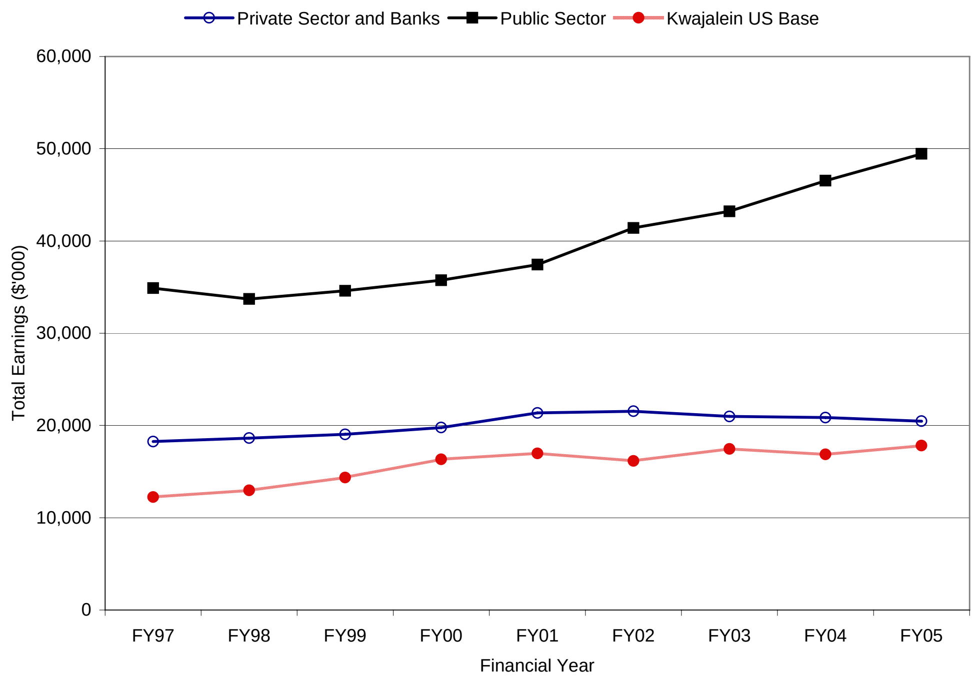


Figure 9 Earnings by Major Institutional Sector

Outrigger Hotel management and increasing pressure on local retailers. It is probably no coincidence that the growth in the public sector has corresponded with the decline in earnings in the private sector as Government reflecting a likely "crowding-out" effect.

28. The most current Gross Domestic Product (GDP) figures have shown expansion of the economy in recent years. However, the GDP figures have been calculated using the "income approach", which includes "compensation to employees" of which the largest component is government salaries and wages. The earnings figures reinforce the understanding that GDP growth has in large part resulted from growth in government employee earnings. The figures in Table 5 and Figure 9 also reinforce the importance of employment at the Kwajalein Base. Although this is not included as part of measurement of GDP, it is considered as part of Gross National Income (GNI).

iii Average Earnings

29. The MISSA-sourced data shows that average earnings have increased in recent years, though this has been a combination of increased earnings in the RMI Government and at Kwajalein Base, with the loss of low paying jobs in the private sector with the closure of the PMOP loining plant. This later event has resulted in the average private sector wage increasing significantly in FY05, as the low wage earners at the loining plant had held average wages down because of the exemption from the minimum wage legislation. Even so, private sector average wages are still less than half the average wages of RMI Government employees as can be seen from Table 6. This does not necessarily reflect the

Table 6 Average Earnings by Major Institutional Sector

Institutional Sector	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Private Sector	6,041	5,718	5,974	5,375	5,332	5,140	4,861	4,772	5,301
Banks	14351	14583	13731	13419	12467	14328	15290	15129	16383
Average Earnings - Private Se	6,813	6,567	6,843	6,030	5,942	5,852	5,622	5,552	6,232
RMI Government	9,421	9,370	10,339	10,347	12,801	12,770	12,183	13,648	12,830
Public Enterprise	10368	10283	10442	10869	10776	10620	11205	11488	11207
Government Agencies	10047	11586	11668	11918	11468	12598	12575	12860	13320
Local Government	7700	7254	7103	7205	7066	7856	7987	7705	7711
Average Earnings - Public Sec	9,283	9,242	9,651	9,823	10,033	10,527	10,660	11,105	11,394
NGO's and Non-Profits	4,731	4,588	4,767	4,772	4,859	5,010	5,268	5,179	5,062
Foreign Embassies	8833	9417	10769	10643	11133	11000	10500	12429	12133
Kwajalein US Base	11,783	12,047	12,594	13,668	13,815	13,511	11,990	14,325	15,200
Total	8,415	8,274	8,670	8,537	8,736	8,857	8,690	9,125	9,675

Source Social Security Administration.

wage differential for comparable skills, but only the average earnings across the respective sectors. Banking employees, though a small proportion of overall employment, have the highest average wages, while the private sector and the NGO's and non-profit sector have the lowest levels of average earnings in the economy.

30. Figure 10 shows the rise in earnings of employees at Kwajalein Base since FY03, though coming after two years of decline. Public sector wage growth has been relatively

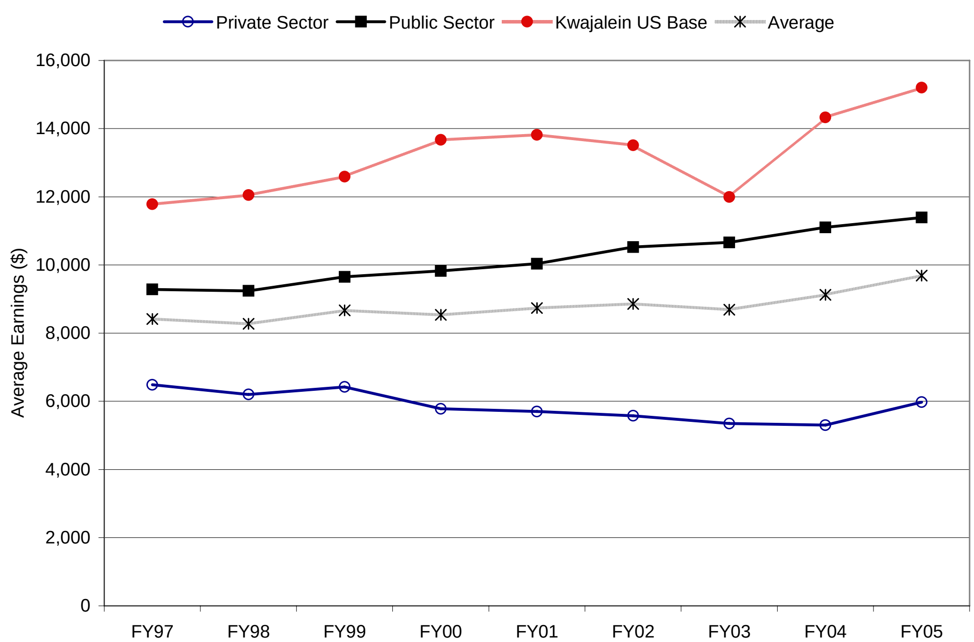


Figure 10 Average Earnings by Major Institutional Sectors

steady since FY97 until FY05. The increases in average earnings in the RMI Government between FY98 and FY00 was largely the result of the reduction in force (RIF) program. This program resulted in disproportionately more low paid workers being retrenched than higher paid workers, thereby forcing up average earnings figures for the sector. Since FY00 both employee numbers and average earnings have been increasing which has resulted in the large growth in total earnings of RMI Government employees over recent years.

B. Monetary Developments and Prices

1. Prices

31. Figure 11 indicates the annual percent changes in the RMI CPI since the commencement of the series in FY83. It might be expected that inflation in the RMI would follow trends in the U.S. given its close historical ties, although in recent times the emergence of strong ties with the ROC would have resulted in changed sources of supply. Inflation in the RMI has mostly been moderate although the mid 90s saw rates above U.S. norms. The early part of the 90s was a period of rapid growth in GDP, and expansion in demand would likely have feed through into an acceleration of inflation. In more recent times during the early 2000s (1999-2003) the rate of inflation in the RMI moderated significantly and fell below U.S. rates despite the pick up in economic growth and additional demand in the economy. In the most recent two years FY04 and FY05 inflation has picked up while remaining below or at US levels. Comparative data for the FSM has been

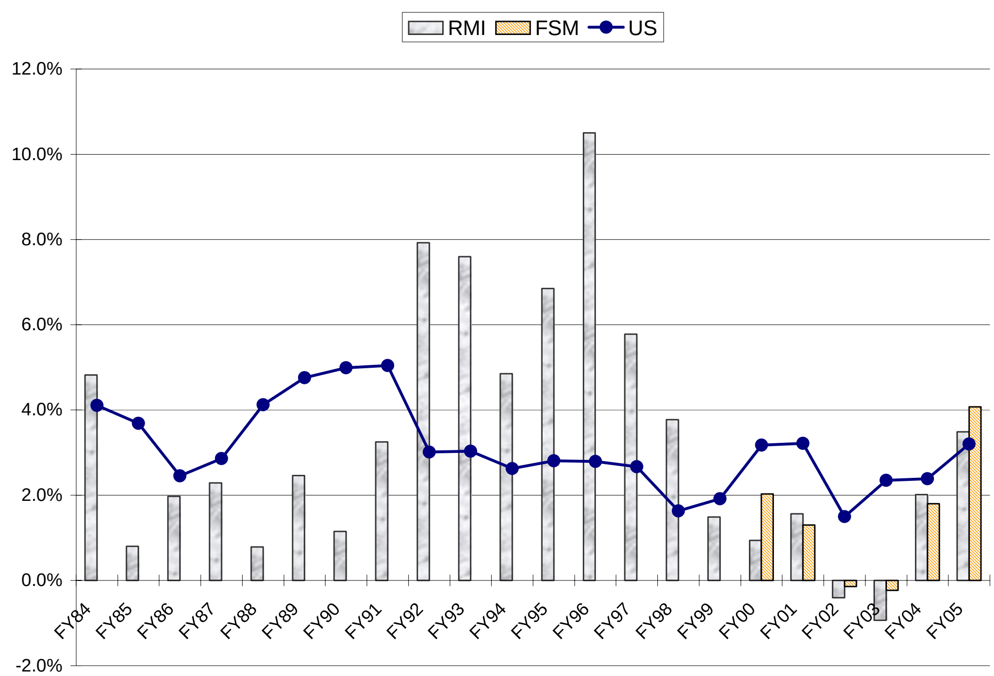


Figure 11 Change in CPI RMI, FSM and US (percent), FY84-FY05

included in Figure 11 for those years for which it is available. The two countries show a very similar experience and trend in the average price level. Inflation records negative rates in FY02 and FY03, but picks up speed in FY04 and FY05.

32. From the first quarter of 2003 the Economic Planning Policy and Statistics Office (EPPSO) initiated a new CPI series based on the 2002 and Household Income and Expenditure Survey. Figure 12 indicates changes in the new index for selected commodity groups since quarter 1, 2003. The period saw a significant increase in prices of selected commodities. While food prices remained relatively static, prices of alcoholic beverages recorded significant increases following changes in import tariff rates designed to collect revenue specifically earmarked for the College of the Marshall Islands. The specific tariffs levied on beer was doubled and that on cigarettes by 33 percent. Smaller increases were also levied on wine, spirits and soft drinks. Figure 12 also indicates rapid increases in the prices of utilities and transportation. Following the general inflation in world energy prices those in the RMI followed suit. There were also significant increases in the prices of education and communications during 2004. Overall the CPI peeked during the last quarter of 2005 with inflation running at 6.2 percent compared with the same quarter of the previous year. In FY06 inflation abated and fell to 5.9 percent during the first quarter and recorded 4.6 percent in the second.

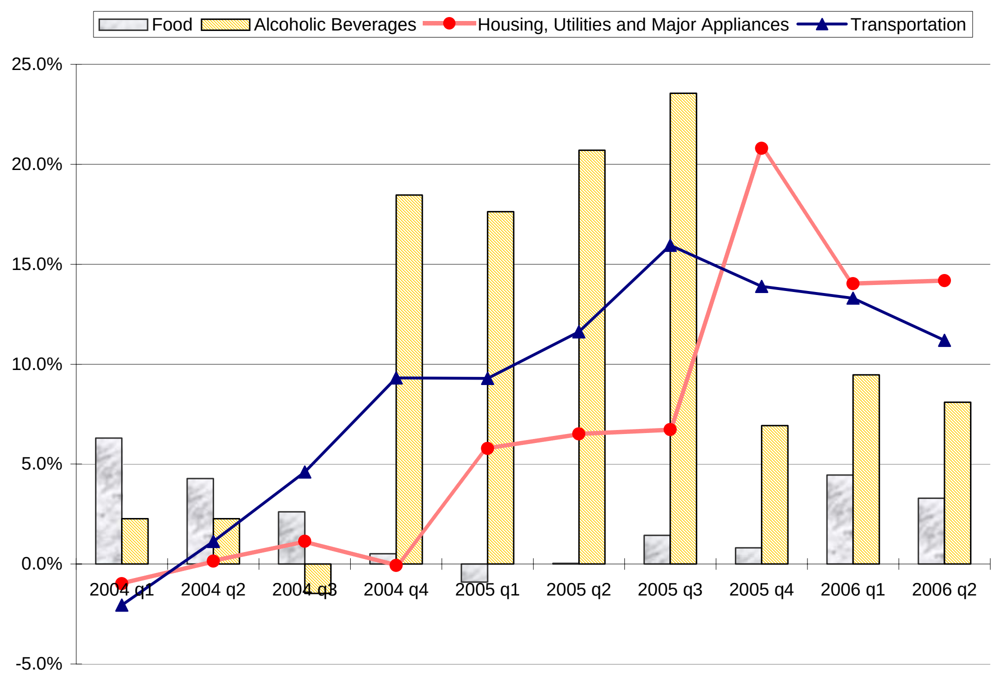


Figure 12 Change in CPI by selected major commodity groups; FY84-FY05

2. Money and Banking

33. With the adoption of US currency in the RMI, macroeconomic policy and adjustment has been limited to the use of fiscal policy. The use of a foreign currency is practiced in many other small island economies of the Pacific and has served the RMI well. While the range of macroeconomic policy options is limited, it has removed the potential to use inflationary monetary policy to adjust to changes and reductions in Compact funding. Of course, this has left the RMI with no other means of adjustment to reduced levels of resource transfers other than through the more politically painful means of directly cutting Government expenditures, reducing public sector employment and wages, and increasing domestic revenues. The use of a foreign currency has removed exchange rate realignment and devaluation to encourage the export and traded goods sectors of the economy. At this stage of the RMI's economic development with many underlying structural impediments exchange rate adjustment without accompanying supporting policies would be unlikely to have encouraged a favorable supply response in traded goods production.

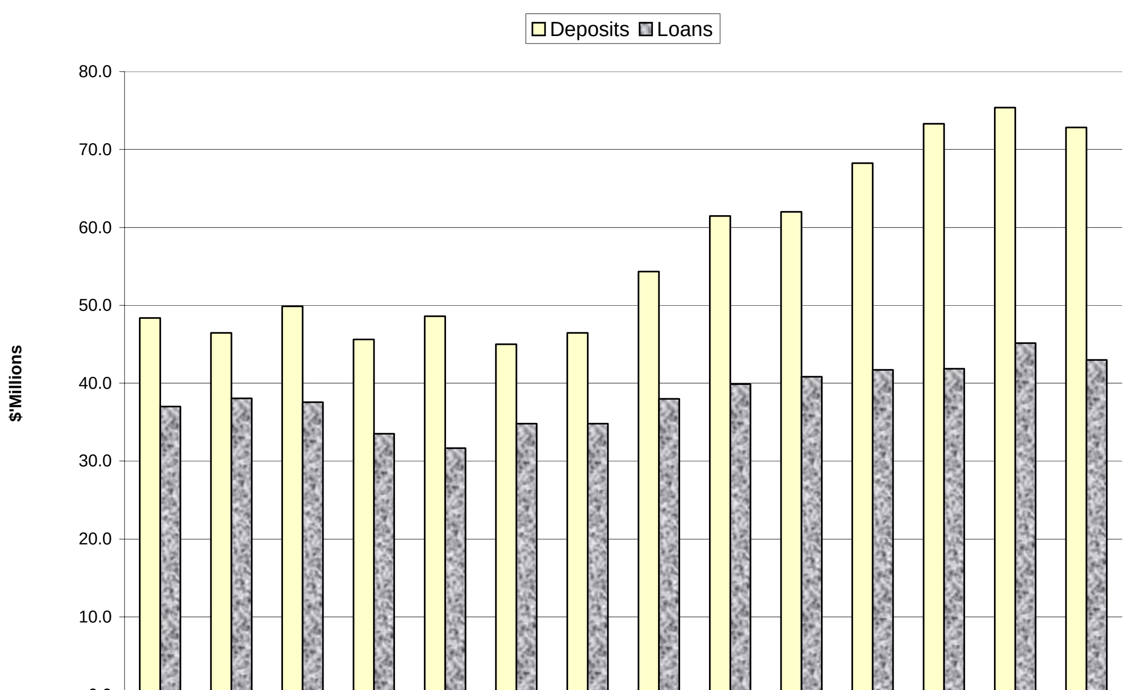
34. The Banking system in the RMI is regulated by the Banking Commissioner, which is developing a capacity for banking supervision. The role of the Commissioner includes licensing of domestic and foreign banks, on and off-site supervision of all commercial banks, and consumer protection. The Marshall Islands Development Bank does not currently come under the regulatory inspection of the Banking Commissioner. Until December 2002 there were three US banks operating in the RMI, when the Bank of Hawaii withdraw from the market. There is one locally owned bank, the Bank of the Marshall Islands. The recent loss of the Bank of Marshall Islands correspondent banking relationship has inhibited processing of foreign transactions, and resulted in a large shift of demand deposit accounts to the remaining commercial bank, reducing competition in the banking sector. The remaining US bank, the Bank of Guam, is a branch of its parent, comes under US federal supervisory requirements, and is FDIC insured. Although the financial system has provided satisfactory and secure banking services, the general small size of the market place, and lack of a well developed supervisory capability requires careful monitoring.

35. The lack of an independent monetary policy results in domestic interest rates being closely aligned with US rates. Deposit interest rates observed in the market are broadly similar to those throughout the U.S. During the 1997-2000 period average three month deposit rates were just of 4.1 percent (see appendix table 6c), but subsequently were reduced following the general easing of monetary policy in the U.S. By 2004 the 3 month deposit rate had fallen to 1.3 percent, but strengthened in FY05 following monetary tightening. Lending rates, however, are generally higher reflecting the additional risk and costs of doing business in the RMI. Interest rates on consumer loans averaged 18.5 percent and those on commercial borrowing 11.3 percent during the FY97-FY05 period. While rates have shown some variation, they appear relatively insensitive to market forces. Like many developing countries financial intermediation is accompanied by a significant margin or spread between lending and deposit rates.

36. Statistics on the RMI banking sector are available since 1992 (see Appendix tables 6), and major trends in lending and the deposit base are shown in Figure 13. On the deposit side the Figure reveals a stagnant period through the mid to late 90s, reflecting the general slackness in the economy and contraction in activity due to the impact of the financial crisis. However, once the crisis was resolved and the economy picked up speed the deposit base grew rapidly averaging 8.4 percent between 1998 and 2004. In 2005, liquidity tightened as the economy ran up against bottlenecks and was forced to come into line with the new fiscal realities.

37. On the lending side developments reveal a different picture. Credit contracted through the 1995—1998 period due to the impact of the financial crisis and Reduction in Force (RIF) of public servants. Confidence returned by 2000, but bank lending has remained largely stagnant since that time. In 2002 the Bank of Hawaii departed the RMI, but Figure 13 suggests that business was picked up by the remaining banks. Certainly the departure of the Bank of Hawaii had a far reduced impact on the financial system compared with the FSM where lending dropped by more than half. The figure indicates a generally depressed lending sector, reflecting the risk in lending and the lack of collateral.

38. The difference between loans and deposits indicates the large level of liquidity in the RMI banking system, and reinforces the widely observed phenomena in the Pacific

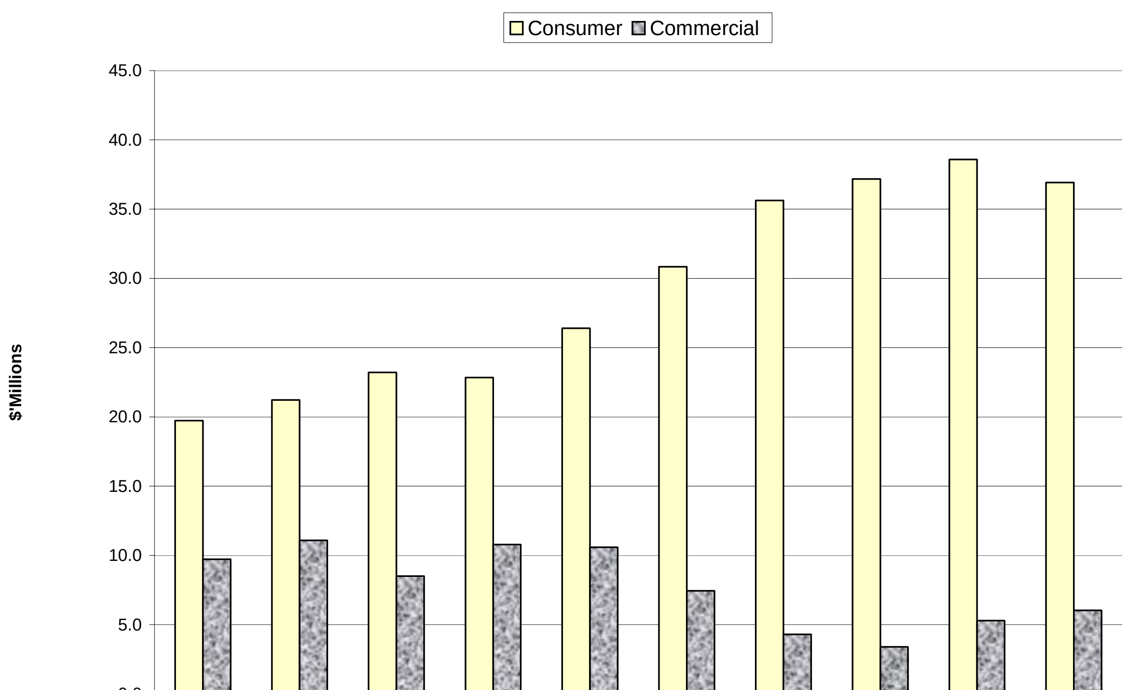


	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Deposits	48.4	46.5	49.9	45.6	48.6	45.0	46.4	54.3	61.4	62.0	68.3	73.3	75.4	72.8
Loans	37.0	38.1	37.6	33.5	31.7	34.8	34.8	38.0	39.9	40.8	41.7	41.8	45.1	43.0

Figure 13 Commercial Bank Loans and Deposits (end of period)

island region that capital is not a factor of production in short-supply. Reflecting the trends described above, the loans to deposit ratio was approximately 70 percent during the 1990s but fell back to about 60 percent in the 2000 period as the deposit base grew and lending stagnated. The large difference between the level of deposits and loans is invested offshore, and mirroring the stagnation in credit the level of foreign assets rose from $17 million in 1992 to $54 million in 2005 or at an annual average growth rate of 9 percent.

Figure 14 below indicates the extension of credit to the private sector in the consumer and commercial markets since 1996 when the data series begins. After a weak period in the late 90s consumer credit expands rapidly in the early 2000s as confidence returns in the economy and the government embarks on a rapid increase in the size of the public service. By 2005 opportunities have ran out and the expansion has come to an end. However, a converse story is seen in the commercial sector, which collapsed after 2000. This segment of the market was indeed affected by the loss of the Bank of Hawaii. The remaining two Banks failed to pick the released business, which in certain cases was due to a lack of solvency. From a figure of $10.6 million in commercial lending in 2000, the market fell to $3.4 million in 2003. There has been some improvement and growth since that time, but overall private sector commercial lending is severely constrained. With planned improvements in “secure transactions” law, it is hoped that this segment of the



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer	19.7	21.2	23.2	22.8	26.4	30.8	35.6	37.2	38.6	36.9
Commercial	9.7	11.1	8.5	10.8	10.6	7.4	4.3	3.4	5.3	6.0

Figure 14 Commercial Bank Credit by Sector

market, which is of critical importance to private sector development, will show signs of expansion in the near future.

C. Balance of Payments and External Debt

1. Balance of Payments

39. Of all the major macroeconomic statistical information the RMI balance of payments is the most rudimentary. The estimates presented in this review (see Table 7 and Table 8a in the statistical appendix for further detail) draw on the work undertaken by the IMF during their bi-annual Article IV missions and supplemented by additional information where available. No economic review is complete without an analysis of the balance

Table 7 Balance of Payments (FY00-FY06, US $ millions)

	FY00	FY01	FY02	FY03	FY04	FY05	FY06 (est.)
Current Account Balance	**11.1**	**17.0**	**17.9**	**26.2**	**16.3**	**9.0**	**-0.9**
Trade balance	-74.5	-69.4	-59.2	-63.3	-57.4	-69.3	-82.8
ExportS, f.o.b.	8.8	10.0	11.4	14.2	15.7	16.5	16.2
Imports, f.o.b.	-83.2	-79.4	-70.6	-77.5	-73.1	-85.8	-99.0
Services account	-1.6	-3.4	-6.3	-3.6	-1.7	-6.9	-7.9
Receipts	9.0	9.3	9.6	10.3	12.1	9.0	9.6
Travel 1/	3.0	3.1	3.4	4.0	5.0	5.5	6.0
Payments	-15.0	-16.8	-20.2	-17.5	-16.6	-18.6	-20.1
Freight and insurance	-7.6	-7.8	-10.6	-11.6	-11.0	-12.9	-14.9
Income, net	37.0	30.6	34.9	41.5	33.3	35.6	38.7
Receipts	40.2	33.2	37.0	43.6	35.6	38.1	40.9
Fishing rights fees	3.7	2.9	3.3	1.7	0.9	1.5	2.4
Registration fees	1.1	0.7	0.6	1.0	1.0	1.0	1.0
Interest dividend income	9.3	2.6	-0.2	7.4	1.0	1.7	3.0
Labor income	17.7	18.6	17.7	17.8	17.6	18.6	19.1
Other	8.5	8.4	15.6	15.6	15.0	15.2	15.5
Payments (interest payments)	-3.3	-2.6	-2.1	-2.1	-2.3	-2.5	-2.3
Unrequited transfers	50.2	59.2	48.5	51.6	42.1	49.6	51.2
Private (net)	-6.8	-7.0	-13.0	-12.9	-12.4	-12.6	-12.8
Compact funds 2/	31.1	31.4	32.7	32.7	20.5	35.4	37.5
Official (other)	25.9	34.9	28.9	31.8	34.0	26.8	26.5
Capital and financial account	**-10.5**	**-16.9**	**2.0**	**-6.8**	**-27.7**	**-7.5**	**-10.3**
Direct investment, net	0.1	0.1	0.1	-1.9	0.1	2.1	0.1
Short-term liabilities, net 3/	-4.9	-2.2	-6.6	-8.1	-4.9	-4.9	-5.6
Medium-term liabilities, net	-5.6	-14.8	8.6	3.3	2.1	-2.2	-2.3
Transfer to Compact Trust Fund	0.0	0.0	0.0	0.0	-25.0	-2.5	-2.5
Errors and omissions	4.0	-5.3	-6.5	-3.0	-12.1	-7.4	7.9
Overall balance 4/	**4.6**	**-5.2**	**13.5**	**16.4**	**-23.5**	**-5.9**	**-3.3**

Source: IMF Article IV data, and EPPSO.

Notes: 1/ Prior to 2004, the estimated number of visitors to the RMI only include air arrivals.

2/ Compact funding pertaining to the Kwajalein Atoll Trust Fund and Kwajalein resident and landowner compensation payments are classified as income rather than official transfers.

3/ Includes changes in social security fund investments, banking system assets held overseas, and government assets held in the capital and special fund accounts.

4/ Changes in government assets, excluding the general fund.

of payments, but discussion here is intended to focus more on the structure of external transactions rather than to draw policy orientated conclusions. The trade account is composed of imports and experts. Exports are largely composed of fuel re-exports, coconut products, fish and a few other small items with fuel re-exports being the major component. Recent home basing in the RMI of several longline fishing companies is not reflected in the export statistics and the figures are thus under recorded. Estimates of imports are based on customs duty collections and an estimate of the average tariff rate. Trade data is very weak in the RMI and implementation of a modern and efficient customs system would not only assist in improving customs administration, but would provide reliable trade data.

40. The service account is comprised of a series of items. On the receipt side travel receipts are the major items, although the PMOP loining plant was a major contributor while it was in operation. The valued added of the loining plant has been included in the service account rather than treating the processed fish under exports. Transshipment fees of fishing fleets restocking in the RMI are included although the receipts are small. On the payment side the large item for freight represents the adjustment made to imports for freight and insurance. Transportation represents payments for air travel, while "other" includes the cost of medical referrals. A special item for NTA indicates the size of receipts for telecommunications.

41. On the income account major items include the earnings of workers on the Kwajalein military base, and the receipts for rent by the Kwajalein landowners. Fishing rights fees are relatively small in the RMI compared with the FSM, and earnings from shipping company registration make a small contribution. Interest receipts mostly represent the earnings of MISSA on funds invested, while interest payments have fallen over the period reflecting the repayment of the Bonds issued in the 90s.

42. The transfer account is made up of private and public flows. On the private side remittance inflows are small and not significant despite the large number of Marshallese living in the US. There are no direct estimates of family remittances but the conventional wisdom is that they are not large. Remittance outflows are, however, significant reflecting a large element of Kwajalein landowners sending funds offshore, and remittances outflows of the migrant communities living in the RMI. Official transfers represent the large flows derived from the Compact and "other" official sources represents access to US federal programs and receipts from the ROC.

43. On the capital account direct investment flows are positive but minor, while short-term portfolio changes represent the build up of foreign assets of the commercial banking system and MISSA investments. Medium term liabilities represent drawdown and repayment of Bond issue and external borrowing largely from the ADB. External borrowing was large in the early part of the data series representing the climax of the Bond issues, and subsequent sizeable drawdown of concessional loan funds from the ADB. Debt repayment was heavy through end of Compact I, reflecting the final repayment of the

Bonds, but fell to low levels in FY02-FY04. Repayments have subsequently risen as the grace period on some of the ADB loans has expired. As indicated in the next section external debt repayment is scheduled to rise significantly in the coming years, and presents a significant challenge for fiscal management. In FY04 through FY06 the RMI fulfilled its commitment to transfer $30 million to the Compact trust fund.

44. Overall, the current account has recorded a surplus FY99-FY05, although a small current account deficit is projected for FY06. The large trade account deficit is matched by substantial inflows on the income and transfers accounts, in particular from donors and under the provisions of the Compact. The capital account has mostly been in deficit reflecting the sizeable repayment of external debt and more recently in contributions to the Compact Trust Fund. The overall balance is measured as the change in government unrestricted liquid assets. The difference between the overall balance and the sum of the current and capital accounts is recorded as errors and omissions. Over the period presented in Table 7 errors and omissions have averaged 7 percent of total current account payments, a surprisingly low figure given the nature of the estimates.

2. External Debt

45. The RMI's external debt situation was a major influence on its economic performance during Compact I. Bond issues made as far back as 1987 resulted in almost all Compact revenue streams being committed to repayments by the mid-1990s. The lack of performance of the investments funded out the bond proceeds compounded this situation and precipitated the sharp downturn in the economy in the second half of the 90s.

46. The proceeds from these bonds were used for a variety of purposes. A $65 million bond issue made in 1987 liquidated existing debts, funded government recurrent operations and was used for development purposes funded through the Marshall Islands Development Authority (MIDA). Subsequent bond issues of $20 million and $38 million were made in 1989 and 1991, respectively. In FY93 the RMI under took a bond issue of $100 million, which largely refinanced existing debt. A final refinancing was undertaken in 1999 and the bonds were fully paid out by FY01. A total of $116 million was used by MIDA for a variety of projects during Compact I, with the main projects listed in Table 8. The proceeds of the bond issues also financed $22.2 million worth of general government operations.

47. Other major external debt commitments during this time include Government guarantees of Rural Utilities Service (RUS formerly the Rural Electrification Administration) loans for the Marshall Islands National Telecommunications Authority (NTA) and the Marshalls Energy Company (MEC). In 1989 the RMI guaranteed an $18.8 million loan for NTA to finance fiber optic cable and administration facilities in Majuro. NTA extended this loan by another $4.0 million in 1993, though the extension of the loan was not guaranteed by the RMI. The loan has a life of 35 years with maturity in FY27. In 1997 MEC secured an RUS loan for $12.5 million to finance the new power plant on Majuro, with this loan maturing in FY18. In both these cases the RMI guarantees require

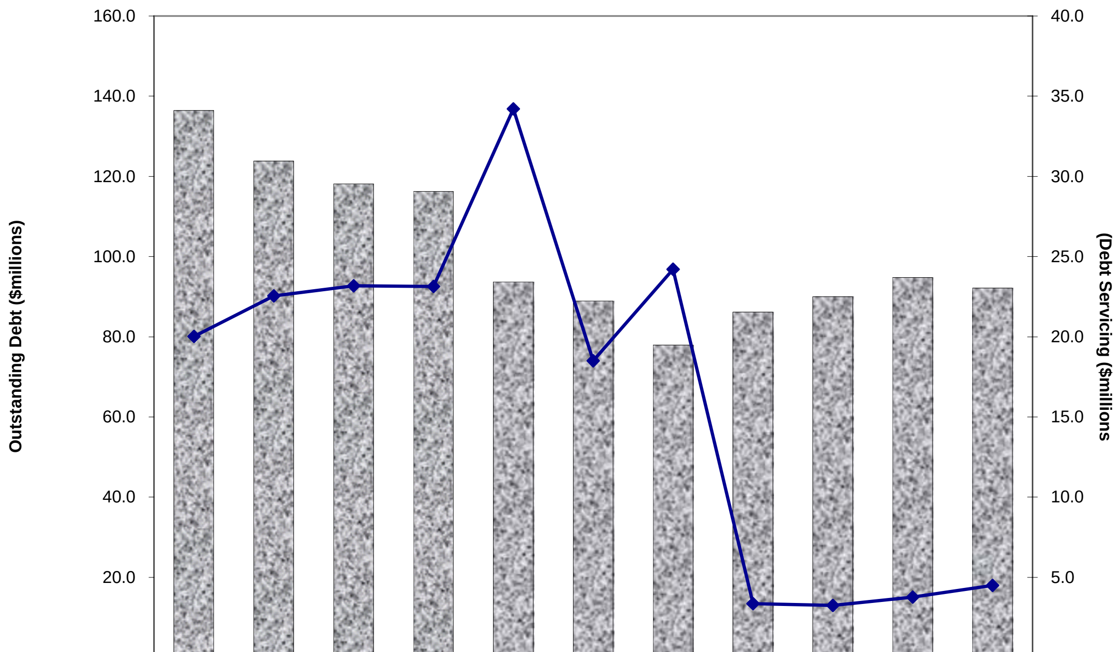
Table 8 Bond Proceed Expenditures through MIDA

MIDA Expenditures during Compact I	Amount
Air Marshall Islands Inc.	$ 26,787,399
SAAB 2000 Aircraft	$ 15,761,469
Hotel facilities	$ 11,267,658
Fishing Enterprises	$ 9,767,888
Construction of Capitol Complex	$ 8,261,235
Copra Operations	$ 7,033,891
Marshall Islands Development Bank	$ 4,994,603
Construction of Elementary School facilities	$ 3,662,934
Purchase of Honolulu Apartment Complex	$ 3,081,585
Construction of Drydock facilities	$ 2,982,854
Power plant facilities	$ 2,605,473
Embassy Buildings	$ 2,057,881
Reengineering Micrships	$ 1,549,387
Cargo vessels	$ 1,530,065
Heavy Equipment	$ 1,362,056
Bond issue costs	$ 1,182,406
Construction of Health facilities	$ 1,005,343
Civic Action Team	$ 978,242
World Bank/IMF subscriptions	$ 788,821
Other	$ 9,649,507
Total	$ 116,310,697

that the RMI will meet debt service requirements in case of default by the respective PSEs.

48. More recently the Government has developed a substantial portfolio of loans from the Asian Development Bank (ADB). The RMI commenced borrowing from the ADB in 1993 with the funding of the Fisheries Development Loan focusing on fisheries development in Ebeye. This loan was subsequently cancelled before full disbursement. In total the ADB has approved $76.2 million dollars worth of loans since the RMI joined in 1991. Outstanding ADB debt as at FY05 is only $63.2 million since a number of loans have not been fully disbursed. All but $4 million of this outstanding amount is provided on highly concessional terms from the Asian Development Fund (ADF) resources of the ADB. These resources provide grace periods of 8-10 years and full repayment of principal over 40 years (inclusive of grace periods) for older loans and 32 years for more recent loans. No interest is applied to the principal of these loans though a “service charge” of between 1% and 1.5% is applied to the outstanding principal. New program loans, such as the Fiscal and Financial Management Program now have a term of 24 years. The concessional nature of the lending means that the ADF loans have a significant grant component when valued on a discounted cash flow basis.

49. The picture presented in Figure 15 shows the substantial size of the RMI’s external debt in the mid-1990s and the burden of the debt servicing until FY01. In 1995 the



	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Outstanding	136.43	123.80	118.15	116.25	93.72	88.95	77.94	86.18	90.02	94.77	92.15
Servicing	20.02	22.55	23.17	23.14	34.21	18.49	24.20	3.36	3.24	3.77	4.49

Fiscal Year

Figure 15 RMI External Debt and Debt Servicing, FY1995-FY2005

outstanding debt reached $136 million, which equated to 117% of GDP. After the bond issues were fully repaid there was a corresponding reduction in debt and debt servicing, and by FY05 outstanding external debt had fallen to $92.2 million or 70% of GDP. The spike in debt servicing in FY99 was a result of debt refinancing, which pushed many payments back until FY01, with a dip in servicing in FY00. The dramatic fall in debt servicing since FY01 is due largely to the concessional nature of much of the remaining debt, which is predominantly from ADB. Although debt servicing has fallen considerably the increasing trend in servicing since FY02 is a worrying trend since this is now funded out of the government's discretionary resources, or General Fund, with serious implications for the RMI's fiscal policy. This is issue is taken up further in the policy issues part of this report.

D. Fiscal Developments

1. Fiscal Policy Framework

50. The original Compact which became effective in FY87 provided for the transfer of resources in three essential areas: funds to support general government, which were largely unrestricted, special grants tied to specific sectors, and access to US special and federal programs. The flow of resources entailed two step-downs in five yearly intervals in FY92 and FY97, and an increase in funding in FY02-FY03 at the average levels of the

first 15 years. Of the different grants some were inflation indexed at 2/3rds of the US GDP deflator and some were not indexed. The structure of the original Compact, due to the fungiblity of the resources, placed no effective constraints to which sectors the resources were directed. However, the original Compact entailed the need for two large fiscal adjustments coinciding with the two step-downs, and the challenge of how to "sterilize" the "bump-up" in resources in the final two years in FY02 and FY03.

51. The agreement and adoption of the amended Compact by the RMI and U.S. governments, which became effective in FY04, initiated a new fiscal framework on the RMI. The structure entailed a series of sector grants earmarked for education, health, environment, private sector development, capacity building and infrastructure. The innovative nature of the amended Compact was the introduction of a Trust Fund, which was designed to provide a yield sufficient to replace the annual grants after 20 years. Table 9 below indicates the aggregate structure of the annual Compact grants and the contribution to the Compact Trust Fund. Each year over a 20-year period the U.S. will contribute to the RMI $57 million partially adjusted for inflation. The inflation adjustment factor remains as in the original Compact. The annual sector grants start at a level of $35 million in FY04, but are to be annually reduced by a $0.5 million decrement. The difference between the total contribution and the annual sector grant levels will be deposited in a Trust Fund to accumulate over the 20-year Compact period. In addition to the sector grants and trust fund, the U.S. will contribute $15 million a year for Kwajalein impact (Kwajalein

Table 9 U.S. Annual Compact Grants and Contributions to the Trust Fund

	Annual Sector Grants	Trust Fund Contribution	Kwajalein Impact	Total Contribution
FY04	35.0	7.0	15.0	57.0
FY05	34.5	7.5	15.0	57.0
FY06	34.0	8.0	15.0	57.0
FY07	33.5	8.5	15.0	57.0
FY08	33.0	9.0	15.0	57.0
FY09	32.5	9.5	15.0	57.0
FY10	32.0	10.0	15.0	57.0
FY11	31.5	10.5	15.0	57.0
FY12	31.0	11.0	15.0	57.0
FY13	30.5	11.5	15.0	57.0
FY14	32.0	12.0	18.0	62.0
FY15	31.5	12.5	18.0	62.0
FY16	31.0	13.0	18.0	62.0
FY17	30.5	13.5	18.0	62.0
FY18	30.0	14.0	18.0	62.0
FY19	29.5	14.5	18.0	62.0
FY20	29.0	15.0	18.0	62.0
FY21	28.5	15.5	18.0	62.0
FY22	28.0	16.0	18.0	62.0
FY23	27.5	16.5	18.0	62.0

landowners). In FY14 the US agreed to contribute a further $5 million to the RMI, $2 million of which would be added to the annual sector grants and the remaining $3 million for Kwajalein Impact.

52. In comparison with the original Compact the new regime avoids the need for large fiscal adjustments every five years. However, in order to establish the viability of the Trust Fund, the U.S. instigated the annual decrement. The decrement while avoiding large shocks to the system will still require an annual compression of expenditures. Coupled with the lack of full inflation adjustment, the annual reduction in real resources estimated to be approximately 2 percent per annum, will require active fiscal policy adjustments unless a policy regime can be developed sufficiently attractive to encourage private sector investment and economic growth great enough to offset the decline.

53. A special condition agreed by both parties is that the RMI will devote between 30 and 50 percent of the total Compact sector grant specifically to infrastructure. Of the use of the infrastructure grant 5 percent must be set aside for infrastructure maintenance, and the RMI must contribute an additional 5 percent out of local revenues. In general the implementation of the sector grant approach of the amended Compact did not pose any affective fiscal constraint or need for restructuring on the RMI. There are sufficient general fund revenues to maintain operations without the need to cut back expenditures in non-compact sectors. In FY04 and FY05 the use of the minor sector grants of private sector development, environment, and public sector capacity building were all small.

54. In addition to the sector grants, trust fund and Kwajalein impact, provision is also made under the amended Compact for the community needs of Kwajalein atoll. Access to Federal Programs will continue with the exception of certain education programs, which were "cashed out" and have been replaced through the Supplemental Education Grant or SEG. Finally, the implementation of the amended Compact entails a whole new accountability regime that is specified in the Fiscal Procedures Agreement (FPA). Taken as a whole the new fiscal arrangements of the amended Compact will have an important impact on the conduct of fiscal policy and management in the RMI.

55. In addition to the special relationship the RMI enjoys with the US, the RMI has also developed strong ties with ROC. The ROC currently contributes $10 million to the government, of which $4 million is transferred to the general fund and the remaining $6 million is available for special projects to be agreed between the parties. Of special significance is the additional support provided by the ROC to the Compact Trust Fund. By way of MOU the ROC has agreed to transfer $50 million to the RMI over the period of the amended Compact, $40 million of which will accumulate in the "A" account and $10 million in the "D" account. Funds in the "A" account may not be "touched" during the amended Compact period, while the RMI has the right to utilize the resources in the "D" fund once they have accumulated to $10 million.

56. Fiscal policy in the RMI is conducted under the constitutional requirement of a "balanced budget." This of course does not guarantee that the final outcome will also be

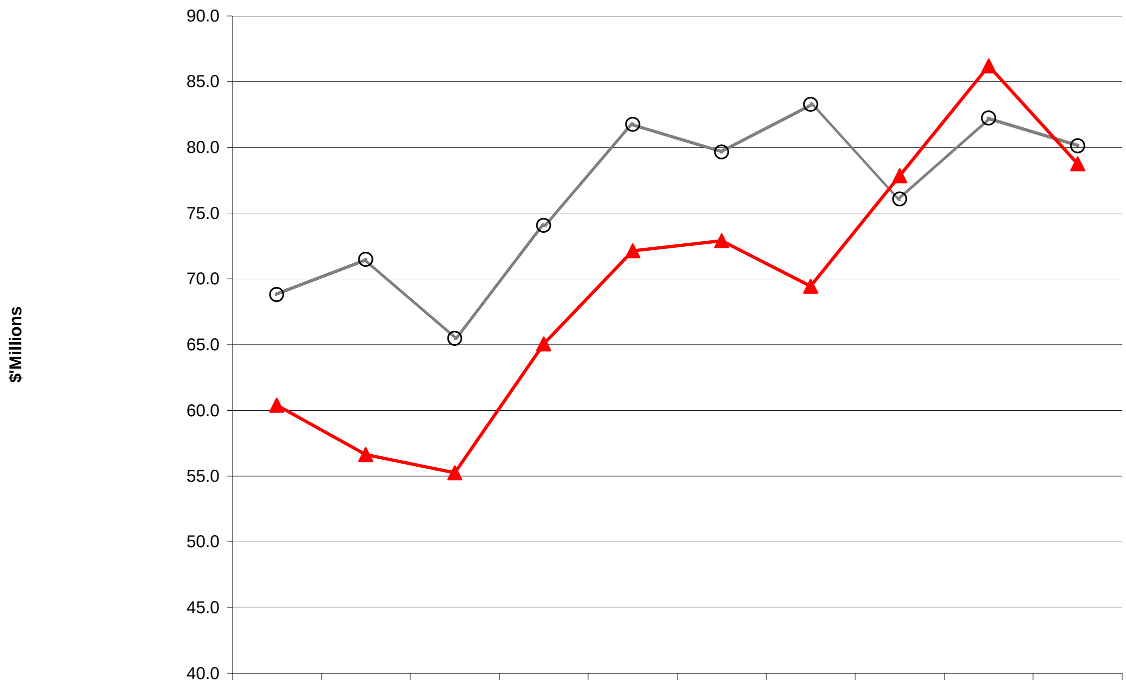
balanced; either revenue may fall short or expenditures may exceed budget estimates. The execution of the budget operations is performed through a series of separate funds, the most important being the general fund, special fund and capital fund. Expenditures from the General fund are largely unrestricted in nature, but there is limited flexibility or authority to use funds from the special and capital funds. Under Compact I a major part of the external assistance provided revenue to the General Fund and thus was unrestricted in nature. Under the amended Compact, however, all such receipts are recorded as either special or capital funds, which effectively inhibit deficit spending apart from timing differences between the receipt and payment of funds. Fiscal policy in the macroeconomic sense is thus only executed through the general fund. Standard Government Financial Statistics (GFS) reporting, aggregating across funds and accurately distinguishing between "above-the-line" revenues and expenditures and "below-the-line" financing operations do not always highlight some of the additional constraints faced by fiscal policymakers.

57. Government in the RMI is composed of the national government, the urban local governments of Majuro Atoll Local Government (MALGOV) and Kwajalein Atoll Local Government (KALGOV), the nuclear affected atoll local governments of Bikini, Rongelap, Enewetok, and Utrik, and other smaller atoll local governments. At present local government provides services in security i.e. police, administration and garbage collection. In comparison with the national government local government expenditures represent about 6 percent of national expenditures. Under the constitution powers to raise taxes rest with the national government. However, local governments may raise taxes provided it has been authorized under law. The Local Government Act of 1989 provides the framework and limits the powers of local governments to levy taxes in specified areas, notably sales taxes, licenses, and other indirect taxes. In FY05 the local government share of revenues amounted to 17 percent. Coordination and tax administrative efficiency between the layers of government are an important issue, which are raised in the policy section below.

58. The RMI has a good record in the timeliness of preparation and publication of the annual single audits. This report is based on audit information through FY05. Estimates have also been prepared for FY06 based on the first 8 months of data, and either extrapolated for the remaining period or supplemented where additional information is available. In this section of the report the discussion will focus on fiscal developments during the FY97-FY05 period. Analysis of the emerging fiscal situation in FY06 and the fiscal outlook will be undertaken in Part III on Policy Issues. Table 10a in the statistical appendix shows fiscal performance on a consolidated basis and the presentation follows the standard Government Financial Statistics (GFS) format.

2. Recent Fiscal Performance

59. ***Fiscal Performance***: Analysis of Figure 16 provides a useful means of discussion of RMI fiscal performance during the FY97–FY05 period (see also Table 10a of the statistical appendix.) The figure describes developments in total revenues and expendi-



	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06 Est
Total revenue	68.8	71.5	65.5	74.1	81.7	79.7	83.3	76.1	82.2	80.1
Total expenditure	60.4	56.6	55.3	65.1	72.1	72.9	69.4	77.8	86.2	78.7

Figure 16 RMI Consolidated Revenues and Expenditures, FY97-FY06.

tures on a GFS basis consolidating across the general, special and capital funds. A detailed analysis of the components of revenue and expenditures will follow, but at this point discussion is limited to consideration of the major forces behind the fiscal outturn. From a base of $60 million in FY97 expenditures were compressed through FY99 reflecting the onset of financial crisis. In the early 90s the RMI embarked on an extensive program of Bond issues secured against future Compact revenues. Benefiting from the "full faith and credit" of the Compact, the RMI was able to borrow against future Compact flows at low interest rates. By the mid 90s the RMI had pledged a very significant portion of all future Compact revenue steams both current and capital, leaving the Government with a substantial loss in the annual revenue stream. The result precipitated a financial crisis and the Government responded through implementation of the Public Sector Reform Program (PSRP), an ADB loan program designed to assist the RMI restore financial stability, reduce expenditures, raise revenues, restructure the public sector and initiate policies to improve the development of the private sector. Implementation of a Reduction-in-Force (RIF) was the major mechanism of expenditure compression through a painful reduction in payroll costs. Coupled with other expenditure cuts in subsidies to public enterprises, and attempted privatization of the Ministries of Public Works and Transportation, expenditures were cut back significantly until the end of FY99. During FY99 fiscal policy was further exacerbated by reduction in customs tariffs and excises on beer and tobacco in the run up to the 1999 election.

60. In FY00 a new administration took office and customs rates were increased to restore fiscal stability although not to the full rates prevailing in FY98. In FY99 the RMI formally recognized the Republic of China and was to benefit from substantial contributions to both the general fund and for capital projects. In FY00 this new source of revenues amounted to $10 million, representing 14 percent of total revenues in that year. This eased the fiscal situation significantly and enabled the Government to allow expansion in expenditures. In FY01 revenues continued to grew from a further large increase in non-US grants, and expenditures grew apace. In FY02 and FY03 the RMI entered the bump-up period. Not only did the level of Compact funds temporarily rise in those years, but the previous bond issues had now been fully repaid. The double "bumper" amounted to an additional $6 million due to the provisions of the Compact for the two final years, and an additional $16 million that had formally been committed to Bond repayment. As part of the amended Compact negotiations the RMI had agree to contribute $30 million to the Compact Trust Fund. In FY02 the RMI set aside $17.5 million and a further $16 million in FY03 to the RMI Intergenerational Trust Fund, which at a later date was to be committed to the Compact Trust Fund. (These transfers have been omitted from the expenditure streams of Figure 16.) This effectively sterilized a significant proportion of the additional funding, and overall expenditures remained at largely similar levels during the last two years of Compact I.

61. The large difference in Figure 16 between revenues and expenditures indicates that the RMI ran substantial surpluses in the FY97-FY03 period. However, while on a GFS basis this is correct, it masks important fiscal trends. During the FY97-FY01 period the RMI was required to devote a significant proportion of its Compact funding to Bond repayment, thus unconditionally pushing revenues above expenditures. However, the period was also one where the RMI drew down heavily on external borrowing mostly from the ADB, representing approximately $10 million of additional new funds each year. The level of ADB borrowing to fund expenditures offset the impact of Compact bond repayment, but the overall effect was fiscal surplus.

62. In FY04 and FY05 with the commencement of the amended Compact the fiscal account shows a more normal trajectory with revenues and expenditures being closer in alignment. Unlike Compact I, the new fiscal procedures agreement with the US does not permit accumulation of unused funds, and all unspent resources must be liquidated (unused funds may, however, be carried over to the subsequent year, but are not reflected in the books in the year to which they were originally budgeted.) The provision of "full faith and credit" of Compact I no longer prevails under the amended Compact and the issue of Bonds against future Compact flows is no longer possible. The results for FY04 and FY05 are thus more easily interpreted. Expenditures in FY04 and FY05 resumed there upward movement boosted by the higher levels of funding available under the amended Compact. In FY04 revenues were mostly in line with expenditures and the fiscal account records a small deficit of $1.8 million or 1.3 percent of GDP. In FY05 with the upward momentum in expenditures remaining in full swing the RMI runs up against the funding

constraint and the larger deficit of 2.7 percent of GDP results. In section III on policy and issues the continuation of fiscal pressure in FY06 is taken up again in greater detail.

63. ***The Fiscal Structure***: Table 10 provides a summary of the structure of the fiscal account. Grants as a percent of GDP remain relatively stable during the FY97-FY03 period averaging 42 percent of GDP (except the unusual receipts of grants in FY01 due to deferred receipt of funds from the ROC.) In FY04 the level drops significantly by over 10 percent reflecting the inability of the RMI to fully utilize the resources available under the amended Compact. Of a total budget ceiling in FY04 of $35 million the RMI was able to utilize only $20.5 million. Absorptive capacity limitations were reached in both the operational sector grants and under the infrastructure grant. In FY05 there was some improvement and Compact expenditures rose to $27.6 million reflecting better performance on the operational grants, but a remaining significant under performance on the use of the infrastructure funds. Grants as a percent of total revenues indicates a similar trend accounting for about 65 percent of total revenues. As both a percentage of total revenues and GDP, the level of dependency on external transfers has remained little changed. While the dependency on US grants will have fallen this has been compensated through increased funding from the ROC.

64. Tax effort has remained little changed during the review period averaging 16 percent and reflects continuation of the existing regime with minor changes. This level is above the FSM, but below the majority of other Pacific Island economies and below the rate prevailing in the US. Public expenditure to GDP averages about 60 percent and is at a similar level to the FSM. Expenditure/GDP dipped below trend during the reform period in FY98-FY99, but has subsequently returned and the ratio may increase in future years as absorptive capacity improves. Clearly the public sector continues to play a dominant role in the economy supported by external assistance.

65. ***Revenues***: The tax regime in the RMI is based on a tax system inherited from Trust Territory days and is maintained largely unaltered. The major source of tax revenue is derived from a tax on wages accounting for $11 million out to total tax yield of $24 million. Wage earners pay 8 percent up to a threshold of $10,400 and 12 percent above. Those earning less that $5,200 receive a tax-free threshold of $1,560. The gross receipts tax is levied at 3 percent of business turnover and is intended as a proxy income tax, although the incidence is comparable to a sales tax. The tax suffers from the well known

Table 10 Comparative Analysis of Fiscal Structure FY97—FY05

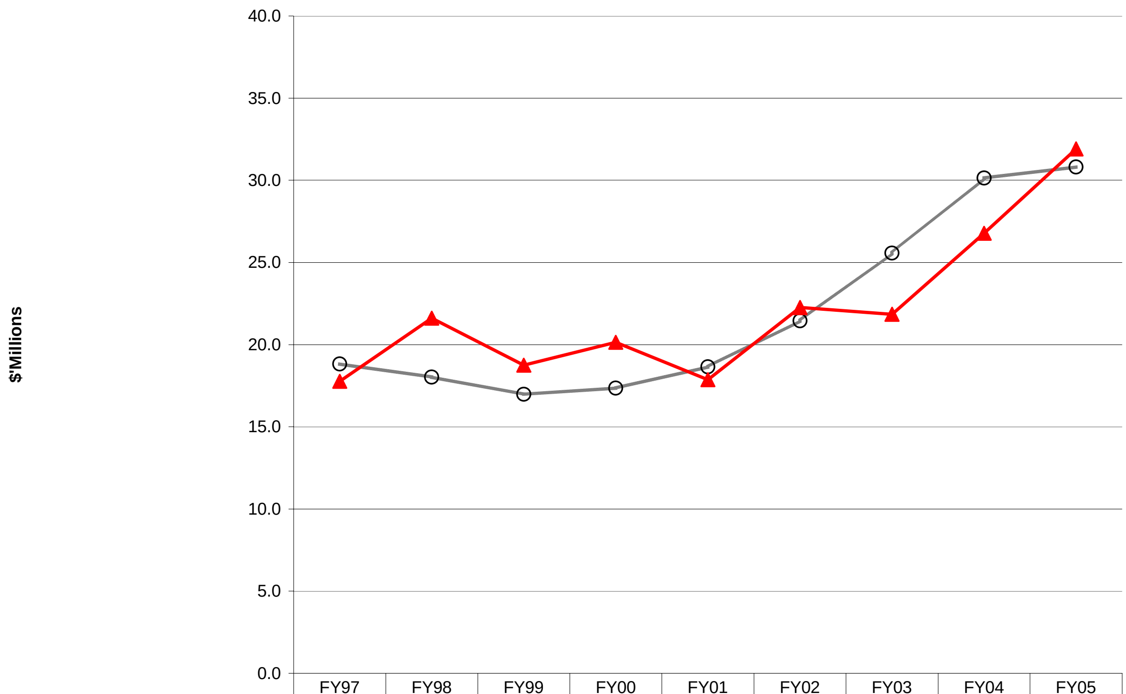
	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Grants as % of GDP	39.2	43.2	38.7	43.7	48.6	41.1	41.8	30.9	32.4
Grants as % of Total Revenue	59.6	65.4	63.8	67.1	71.1	65.5	65.6	56.0	56.8
Tax Revenue as % of GDP	17.8	17.2	15.6	15.0	15.3	15.8	17.6	16.3	16.8
Total Expenditure as % of GDP	57.7	52.3	51.2	57.2	60.3	71.2	65.3	56.4	59.7
Current Balance as % of GDP	-6.8	-3.9	-5.5	-1.6	4.7	-10.2	-5.8	4.5	2.5
Overall Balance as % of GDP	8.0	13.7	9.5	7.9	8.0	-8.5	-1.7	-1.3	-2.7

cascading effect that each sale from one business to another multiplies the tax yield and distorts resource allocation. Fish and fish products have been exempted from the GRT to enable the fishing sector to remain competitive on international markets.

66. Customs duties provide the second most significant category in terms of tax yield, but have failed to provide an elastic source of revenues. In FY98 $7.5 million of customs taxes were collected, mainly from a general rate of 12 percent on merchandise. Varying but lower rates are collected on food products, and high rates on alcohol and tobacco have been imposed. In FY99 the general rate of 12 percent was reduced to 5 percent in the run up to the elections together with reductions in taxes on “sin” goods. As a consequence revenues took a dive and fell to $4.2 million in FY00. With a new administration assuming office in early 2000 import tariffs were returned to higher levels: the general rate was set at 8 percent and the rates on “sin” goods were raised. However, collections of import tariffs remained sluggish with large ranges of exemptions for different categories of importers, etc. In FY03 customs taxes reached $6.6, but were still below the FY97/FY98 levels. In FY05 new higher rates were imposed on “sin” goods with the additional revenues earmarked for the College of the Marshall Islands (CMI). Total customs collections reached $7.8 million in FY05, but unlike the wages and GRT have not provided an elastic source of revenues as the economy has grown.

67. Other forms of national taxes on fuel and hotels make a significant but minor contribution to the general tax effort. Of non tax revenues fishing fees have raised an average $2.0 million in revenues during the FY97-FY05 period, but have been a volatile source depending on the location of the fishing stock. In FY02 the rate of contribution to the health care fund was increased from 2.5 percent of gross pay to 3.5 percent for both employers and employees bringing the total to 7 percent. In previous years these contributions had been collected and dispersed by the Marshall Islands Social Security Administration (MISSA). As of FY02 the funds were directly allocated to the Ministry of Health although MISSA remained in charge of collection. In FY04 the funds show up in the audit for the first time and contribute $6.3 million to local revenues. In addition to fishing fees and the health fund domestic revenues include a variety of smaller fees, earnings on investments etc.

68. ***Expenditures***: Outlays on payroll and goods and services have grown rapidly in recent years. Figure 17 describes recent trends in these two important categories of cost. During the FY97-FY00 period payroll costs were compressed through the implementation of the RIF with the need to maintain fiscal discipline imposed through the financial crisis and PSRP. However, as the revenue position began to improve with the new grants from the ROC, repayment of the Bond issues, and bump-up years, payroll expenditures were allowed to rise almost without check. The amended Compact also permitted increased public servant recruitment in education and health. By FY04 total payroll costs had risen from a level of $17 million in FY99 to $31 million in FY05 an 84 percent increase. Further elaboration on public servant payroll trends is provided in the Section III on policy and issues. Increases in payroll costs were not the only item to show a signifi-



	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Wages and salaries	18.8	18.0	17.0	17.4	18.7	21.5	25.6	30.1	30.8
Goods and services	17.8	21.6	18.8	20.1	17.9	22.3	21.9	26.8	31.9

Figure 17 Expenditures on payroll and goods and services, FY97-FY05.

cant increase, and expenditures on goods and services rose rapidly from a level of $18 million in FY97 to over $32 million in FY95.

69. The rate of change in other major categories of cost has been subdued in comparison. The level of current subsidy to the public enterprise sector and capital outlays have remained at levels comparable to those prevailing in FY97, although interest payments have fallen markedly with completion of repayment of the Bond issues at the end of Compact 1. However, debt service costs are due to rise significantly in the future and are taken up as a special topic in Section III. Hopefully capacity limitations on the infrastructure grant will be overcome and the RMI will see an important increase in the use of the infrastructure grant.

70. Table 11 indicates the importance of Public Sector Enterprises (PSE) in the RMI economy and the size of subsidy received. Table 11 includes not only current operating subsidies but also capital transfers and equity injections. While the level of subsidy has remained largely unchanged through the FY97-FY05 period, it still represents a significant element of public cost. Air Marshall Islands has been a major drain on public resources, although the subsidy is significantly less now than in the early 90s. Both of the utilities KAJUR and the MEC have had significant recourse to public funds, and the table indicates the failure of both entities to operate on a commercial basis at full cost recovery.

Table 11 Subsidies to Public Enterprises, FY97-FY05, $'000

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Air Marshall Islands	299	500	1,874	2,000	0	0	0	0	400
Kwajalein Atoll Joint Utilities Resources	488	356	325	1,889	750	573	199	650	1,099
Majuro Water and Sewer Company	100			100	100	1,464	49	0	0
Marshalls Energy Co. Inc.	601					1,867	1,867	205	
Marshall Islands Airports Authority				50	89				
Marshall Islands Development Bank				50	970	995			194
Marshall Islands Ports Authority	395	90							
Outrigger - Marshall Islands Resort	420	1,120	462	100	186			545	
Tobolar	450	579	581	845	3,050	1,449	1,096	900	895
Total	2,753	2,645	3,242	5,033	5,145	6,348	3,210	2,301	2,588

The Marshall Islands Resort has required significant injections of cash over the years to remain in business, but in FY05 reported a profit. Tobolar provides a means to government to support rural incomes through subsidization the copra price in the outer atolls.

71. ***The Compact Trust Fund*** (CTF): A final important component of fiscal policy has been the establishment of the Compact Trust Fund. In FY02 the RMI created the Marshall Island Intergenerational Trust Fund (MIITF) intended to be an initial source of funds for the RMI's contribution to the CTF. The RMI had committed during the Compact negotiations to contribute $25 million in FY04, and $2.5 million in each of FY05 and FY06. In FY02 and FY03 utilizing the funds freed up after the repayment of the Bond issues and the "bump-up" funds, the government contributed $17.5 million and $16 million to the MIITF, respectively. In FY04 at the inception of the Compact Trust Fund the RMI transferred $25 million to the new Fund coupled with the US contribution of $7 million. However, in order to sustain the activities of certain business in the RMI economy, the government drew down $7 million from the MIITF and invested the funds in CDs at the MIDB. After accounting for investment losses due to weaknesses in the stock market, the investments in the MIDB nearly exhausted the remaining funds in the MIITF. This left the government short of funds to make up the remaining contribution to the CTF in FY05 and FY06.

72. In FY05 (including back payment for FY04) the ROC made its first contributions to the A and D accounts of the CTF, a combined total for the two years of $1.75 and $3.75 million, respectively. In order to meet the CTF commitment of $2.5 million in FY05, the RMI transferred $1 million from the D to the A account, $1.18 million (the remaining cash) from the MIITF, and $0.32 million from the general fund. In FY06 the RMI made the final contribution of $2.5 million to the CTF through transfer of funds from the D account. As of preparation of this report the funds in the CTF are valued at $60.4 million in the A account and $2.8 million in the D account.

III. POLICY DEVELOPMENTS, PROSPECTS AND ISSUES

A. *Private Sector Development*

1. IMPROVING THE REGULATORY ENVIRONMENT FOR PRIVATE SECTOR DEVELOPMENT

73. Private initiative in the RMI is constrained both by the natural limitations of a remote location and lack of resources, but also held back by a weak policy environment. Access to land suffers from institutional constraints typical of traditional Pacific island societies, the private sector is frequently over-regulated, there is a lack of transparency in administrative decision making, and public enterprises are not run efficiently increasing the cost of doing business. The government is involved in areas better serviced by the private sector such as transportation and public works, the tax regime is inefficient, outdated and distorts incentives, and private initiative is constrained by a host of other constraints that have been long identified.

74. However, efforts are under way to improve the situation. With help from the ADB to encourage greater use of land for productive purpose, the Land Registration Authority was established in 2003. However, it is anticipated that it will take a long time for the traditional society and existing land tenure arrangements to adapt to the needs of a modern economy.

75. More recently with further assistance form the ADB efforts have focused on the regulatory environment in three broad areas: (i) efforts to reduce administrative barriers, (ii) secure transactions law reform, and (iii) improved land access. The former initiative to reduce administrative barriers has focused on facilitating processing of labor permits, and immigration visas. A participatory working group with representation from the private sector and foreign communities was formed and draft laws have now been prepared and are ready for consideration by the Nitijela. A Secure Transactions Bill has also been drafted after deliberation by a working group represented by the private sector, the chief justice and members of the Bar. The working group has further identified the need for reform of the laws governing bankruptcy and income garnishment. The TA has yet to focus on increasing the economic use of land and the Land Registration Authority.

76. Clearly, now that the economy has largely made the transition to the amended Compact, and the option to use fiscal policy to stimulate the economy has run its course, efforts to invigorate the private sector are needed if the economy is to grow further, and jobs are to be created. The efforts to improve the regulatory environment supported by the on-going ADB are important, but much more is needed before the RMI has developed an enabling environment that will attract private initiative.

2. TAX ADMINISTRATION

77. The Government's tax administrative system contributed approximately $24.3 million out of total revenue of $32.0 million to the Government's general fund in FY05. Tax revenue is consequently a major determinant of the fiscal health of the Government as well as playing a key role in the allocation of resources and the environment for private sector initiative. The basic structure of the tax system has been described in Part II of this review. The Government recognizes that the system needs reform and has adopted a program that initially focuses on improving administration. The Government has responded to calls from the private sector to focus on improved enforcement rather than major restructuring of the existing tax regime.

78. The Government has reinvigorated the MoF's Division of Revenue and Customs (DoRC) with improvement in enforcement focusing on two main areas: (i) improved tax auditing, and (ii) installation of a new tax management and information system. On the auditing side the Government established a Tax Audit Unit (TAU) in May 2005 and instituted a program of tax audits. Eight staff has been trained to undertake audits with two staff dedicated full time to auditing. Audit training commenced soon after the establishment of the TAU and the first audits started in October 2005. The training, which is funded under a grant from the United States Department of Agriculture (USDA) will continue on an as needed basis. So far the TAU has completed approximately 15 audits with findings of approximately $1.0 million in past due tax. Payment of these outstanding amounts is subject to ongoing negotiations with respective businesses.

79. A new computer tax system has also been installed in the DoRC. The new system, which is approximately 70% complete, will initially handle the wages and salaries Tax, GRT, Hotel Tax, Non-resident workers tax and Immovable Property Tax. At present the system does not incorporate import taxes though moves are underway to expand the system to cover this area. Part of the remaining work requires the linking of the Majuro and Ebeye tax offices to ensure timely reporting of data from the two main collection points. Complementing the installation of the new system is the introduction of electronic lodgment, though this will focus initially on the wages and salaries tax filing since this is the most intensive data entry activity. The facility is then likely to be expanded to the GRT and beyond.

80. Another step to improve enforcement is the transfer of Foreign Investment Business Licensing (FIBL) to the Division to allow for better tracking of businesses. Complementing this move is the recently signed Memorandum of Understanding (MoU) between MISSA, MALGOV and KALGOV to streamline the sharing of information in order to increase the coverage of the tax system.

81. Despite this progress in improving enforcement, the RMI still requires major structural reform of its tax regime. The inefficiency of the existing GRT and import taxes combined with the overlap between national and local Government taxes is an impediment to both fiscal and economic progress. Serious inefficiencies and inequities also exist

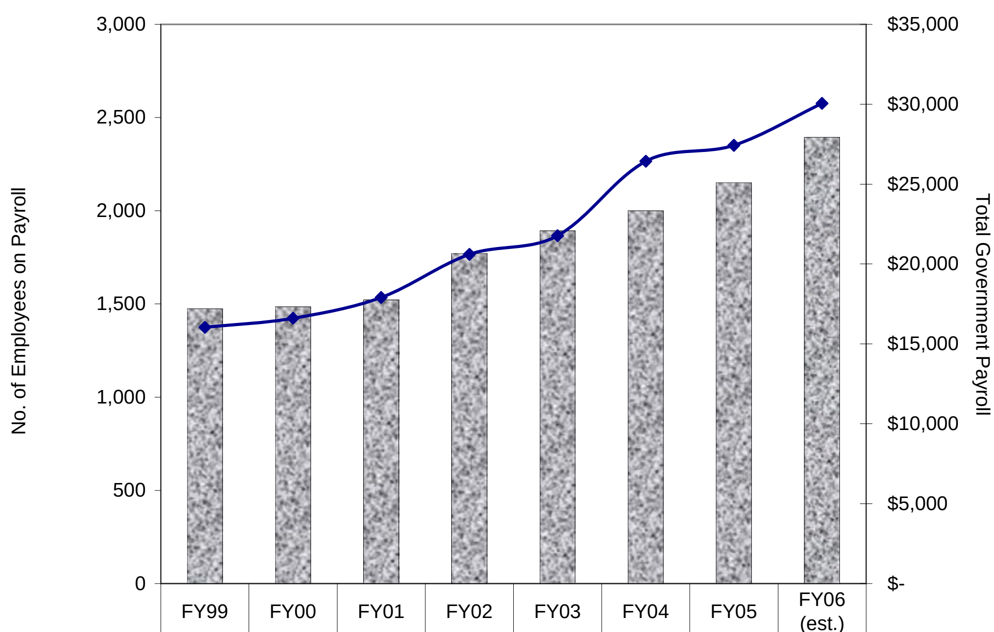
in the income tax regime. The current tight fiscal situation limits the Government's structural tax reform options, though this area will require addressing in the not too distance future to cope with the fiscal challenges facing the nation.

B. Public Sector Management

1. PUBLIC SECTOR PAYROLL TRENDS

82. Government's payroll has grown considerably over recent years, which has coincided with the completion of the RIF program. The sizeable reductions in public service achieved through the RIF were followed by the transitional "bump-up" years and the implementation of the amended Compact, which enabled expansion in payroll. The trend since FY99 has been one of rapid increase in public servants (see Figure 18). Employee numbers on the payroll fell to 1,475 in FY99, but increased to 2,395 by the end of the second quarter of FY06. This represents an increase of 920 employees or 62%. The payroll cost over the same time has increased by 87%. This very sizeable increase has been influenced by a number of extraordinary items that have accentuated the underlying growth taking place.

83. Most of the growth in the payroll and employees has centered on the Ministry of Education (MoE). But within this growth there been a number of structural changes that have increased staff numbers as it has taken on more responsibilities. The recent im-



	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06 (est.)
Payroll Numbers	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,395
Payroll ($'000)	$16,037	$16,608	$17,903	$20,609	$21,771	$26,438	$27,422	$30,049

Figure 18 RMI Payroll and Employees, FY1999 – FY2006

plementation of the Kindergarten program funded out of the SEG, replacing the previously externally managed Head Start program, has added more than 200 staff to the payroll in FY06. In FY01 and FY02 both Majuro and Ebeye elementary school teachers were brought back under the MoE adding approximately 100 and 50 employees to the payroll, respectively. Previously, elementary education in Ebeye and Majuro had been managed by the MALGOV and KALGOV under the Community Based Governance System (CBGS), but these arrangements collapsed and were reincorporated under MoE. Once allowance is made for these anomalies the trend in payroll in MoE is much more moderate than at first sight. Where recruitment has taken place it has generally supported service delivery such as increases in teaching staff and elementary school services and support.

84. Both Head Start and the Majuro and Ebeye elementary school teachers were previously part of the Ministry of Finance payroll in the 90s. While these entities were not listed on the payroll, the Government was still indirectly paying for the salaries of the staff. In the case of the Kindergarten this was provided by the Head Start federal grant, and the elementary teachers were provided for in grants to the respective local governments for management of the elementary school system under CBGS.

85. Much of the real growth in the payroll has come from outside the MoE. Employment in the Ministry of Health (MoH) has increased from 386 in FY99 to 530 in FY06 (See Table 12.) Significant increases in staff have occurred in the Majuro and Kwajalein Hospitals, suggesting an increased emphasis on curative care. The Ministry of Public Works (MoPW) has almost doubled in size after its scaling down after the RIF, while the Ministry of Transport and Communications (MoTC) has more than tripled.

Table 12 RMI Payroll and Employees, FY1999 – FY2005

	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06 (est.)
President & Cabinet	24	23	22	23	23	22	26	26
Chief Secretary Office	15	14	14	13	12	18	20	20
Special Appropriations	0	1	2	2	2	0	2	0
Council of Iroij	17	17	17	15	14	15	15	15
Nitijela	39	35	37	37	38	42	45	47
Auditor General	7	7	8	11	11	11	10	11
Foreign Affairs	30	56	34	34	33	32	36	34
Public Service Commission	12	11	12	11	11	13	13	13
Judiciary	22	21	22	22	20	30	35	40
Attorney General Office	9	10	16	18	24	25	25	27
Ministry of Education	472	474	478	671	706	720	800	1,024
Health & Environment	386	389	376	389	437	480	529	530
Transport & Communications	33	24	41	84	92	108	108	107
R & D	61	45	33	33	32	27	26	27
Internal Affairs	51	54	56	53	54	69	61	64
Justice	158	170	153	144	163	168	168	171
Finance	89	86	93	99	104	107	112	121
Public Works	52	50	111	114	115	99	100	100
Epa	0	0	0	0	0	16	18	19
Compact II Capital	0	0	0	0	0	1	2	3
Total Payroll	**1,475**	**1,486**	**1,522**	**1,771**	**1,892**	**1,999**	**2,151**	**2,395**

Both MoPW and MoTC had adopted largely oversight and regulatory roles at the end of the RIF. Now MoPW has adopted a more proactive role in outer-island project implementation and maintenance while MoTC provides a shipping service for the outer-islands that competes with the private sector.

86. The overall trend in payroll after allowing for the structural changes in the Ministry of Education is upward. The payroll in FY06 is expected to reach $30.0 million for the first time. Associated personnel expenditures such as the Government's MISSA contributions and housing allowances for expatriate staff are also significant. Housing allowances alone require a budget of over $2.0 million in FY06 with more than half of this expenditure in MoH, which has a large number of expatriate medical staff.

87. Recruitment is continuing despite a hiring freeze having been endorsed by Cabinet. There is little oversight and control of the recruitment process despite recent moves to performance based budgeting. The Public Service Commission and more importantly Cabinet are the main coordinating mechanisms for managing overall payroll. While continued recruitment is placing increased pressure on the Government fiscal position the Budget Committee needs an expanded role in managing recruitment within the overall fiscal framework.

2. Medium Term Budget and Investment Framework (MTBIF)

88. The following discussion based on recent papers prepared by EPPSO[1] provides a brief description of the RMI's strategic planning, budget formulation and implementation, and performance monitoring system. Over the last 3 years the RMI has taken a proactive approach to transform its strategic and finance planning and implementation from a standard and traditional line item budget system, to a more medium term strategy composed of an intertwined economic and budget strategy and a more performance-oriented management and accountability system.

89. The aim has been to adopt this system and approach government-wide. Currently, with the former help of the ADB and the current assistance of the U.S. Department of Interior, this approach is being implemented in the Compact recipient ministries (MoE, MoH, EPA, R&D, MoJ) and is being phased into other ministries according to the program schedule so that eventually the entire government is operating on a medium term basis with a full performance and results orientation. In line with this effort is the installation and adoption of the US DOI-sponsored Financial Management System. The following list comprises the major building blocks of the system:

1 Economic and Finance Strategy Development and Implementation Functions, Timing and Responsibilities; and Medium Term Budget and Investment Framework and Work Schedule 5/5/06, EPPSO, May 2006.

- ***Medium Term Budget and Investment Framework (MTBIF)***: The MTBIF is a 5-year medium term budgeting framework. It contains 2 past review years, the current fiscal year and 2 future trend years. At this point, the MTBIF is updated twice annually December-February to identify budget envelopes for the following FY based on past trends, expected needs and performance. The MTBIF is also updated mid-year to include previous FY audit information. This mid-year revision will also eventually include a revision of current FY financial performance to provide a mid-FY review opportunity.

- ***MTBIF Policy Framework Paper***: This Paper provides macroeconomic and fiscal guidance. It uses as the main input the MTBIF as well as other statistics and reports including the quarterly and annual Sector Performance Reports. The paper attempts to highlight major trends, such as revenue and expenditure issues, and other macroeconomic issues that the Government and/or economy may be confronting in the medium-term. For FY05, some of these major issues were integrated into the Budget Call Circular. The Paper is produced mainly by EPPSO with input of the MoF, line ministries and agencies, and, eventually, the private sector. The paper should be used as an information input for the President and Cabinet, Secretaries and other economic actors in the RMI. It should also act as a road map for EPPSO and MoF in policy formulation and implementation.

- ***Sector Portfolios***: Sector Portfolios were initially envisioned to provide direction for Compact funding allocated to recipient Ministries/Agencies. However, the Government decided to include all funding to a particular sector so that sector-wide strategies can be formulated along with actual performance measurement. The Sector Portfolios contain the following information: 1) Policy Statement; 2) Objective Areas; 3) Outcome Groups per Objective Area; and 4) Expected Primary Results with output and impact measurements per Outcome Groups. Financing per Outcome Groups is also provided.

  The Sector Portfolios are prepared based on ministry/agency strategies, plans and priorities in consultation with input from senior Government, ministry/agency management and staff, and some with civil society input. The Portfolios are used for submission to the RMI-U.S. JEMFAC for Compact Sector Grant review. The Portfolios also become the base for quarterly and annual performance reviews. For FY06, Sector Portfolios will include feedback and performance information from the first full year of applying quarterly and annual performance review information. EPPSO facilitates ministries/agencies in Portfolio preparation.

- ***The Quarterly Reports*** provide a quarter-by-quarter report of sector performance based on the objectives, outcomes and results (measuring both outputs and impacts) identified in the Sector Portfolios. The financial allocations per Outcome Group are also measured so a snapshot is available of how much was spent and what is remaining. The reports also identify major achievements and issues confronted that may need to be revised. EPPSO facilitates report preparation and vets reports for accuracy as well as provides objective analysis of performance.

- ***The Annual Performance Report*** provides an annual performance review based on the Sector Portfolio objectives, activities and expected results. Most importantly, the Annual Performance Reports provides measurement based on broader indicators that can actually provide information if activities are accomplishing objectives and having actual impacts. Since there has only been two years of full reporting, some of these indicators are weak. However, EPPSO and line ministries are currently working to gather improved data so more accurate measurements are being made. EPPSO, with the MoF and line ministries/agencies, are responsible for Report preparation. EPPSO also provides objective analysis of sector performance to provide feedback to Cabinet and line ministry/agency management. Reports are also used for JEMFAC review.

90. The adoption of a medium term budgeting framework in the RMI coincided with the implementation of the amended Compact. It was designed to provide a strategic framework for both the use and monitoring of Compact funds, but equally importantly as a modern system of public expenditure management to guide the allocation of public resources in the RMI. The system has been in operation for 3 years and is in its infancy. In the design of fiscal policy or determination of the "fiscal envelope", the new MTBIF needs to be institutionalized from the existing twice yearly update of the fiscal projections into a regular feature of fiscal monitoring by the Government prepared by public servants. With the emerging fiscal crisis that is confronting the Government, the system needs to become an active component of fiscal management, such that current trends as they emerge can be viewed in the medium term perspective and their sustainability accessed. The basis of estimation of the current revenue forecasts is rudimentary. However, there have been significant improvements in the RMI's statistics data set, which will now enable a more rigorous estimation of revenues especially local taxes.

91. Performance budgeting and management is a new tool of management in most economies in the Pacific, let alone in the world at large. In countries where optimization is not part of the local culture, application to the allocation of public resources runs counter to traditional societies. Success in implementation has thus been mixed with some departments such as the MoH adapting well to the new regime, and in others performance has been less satisfactory. The requirements of the amended Compact and needs to improve service delivery require continued efforts—return to the days of line item budgeting are not an option. However, it must be accepted that the process will take time before all government departments have successfully adopted and been converted to the new system.

3. Financial Management Information System Needs

92. Critical to the needs of the MTBIF are the availability of a modern financial management system (FMS.) A system capable of producing meaningful financial information

beyond the basic audit and trial balance data that can be used day-to-day to monitor fiscal performance is needed. A system also capable of producing the standard economic fiscal data such as the IMF's Government Finance Statistics (GFS) would be very helpful. Performance budgeting and magangement requires a chart of account structure that includes the performance hierarchy, so that the cost of delivering services can be measured. The system must be further capable of capturing performance criteria, that is the non financial indicators associated with outcome and output measurement. All of this must be reflected in a budget module that captures the essential ingredients of the RMI system. However, the existing FMS in the RMI is not well suited to these needs. While it fulfills the basic financial management, audit and accounting needs, it is based on an "outdated" architecture, which makes data retrieval difficult. Development of a suitable bridge between the underlying data and the desired reporting structure would go a long way to improving informational needs, although it is unlikely that the system can fully adjust to the performance system currently being deployed in the RMI.

4. Public Sector Reform

93. In the mid 90s the RMI embarked on a Public Sector Reform Program assisted by the ADB to adjust to an emerging financial crisis precipitated by the need to repay various Bonds that had been issued in the earlier part of the decade. The goal of the PSRP was to embark on a long-term reform program to avert a looming financial and economic crisis, and to set the economy on a more sustainable growth path. Its purpose had four main elements: (i) fiscal stabilization and fiscal policies, (ii) privatization of public enterprises, (iii) public service reform, and (iv) a number of measures to stimulate private sector development. Three outputs were specified (i) stabilization of the Government's finances in the short-term; (ii) long-term structural stability of Government's finances; and (iii) creation of an improved environment for the private sector.

94. While a full review of the PSRP, which was evaluated by the ADB, is not called for, a brief overview is warranted because many of the program objectives remain just as relevant today as they were in the mid 90s. Of the three outputs of the PSRP fiscal stabilization was focused on revenue and expenditure policies. Improvements in tax collections were to come from increases in tax rates, removal of exemptions, and administrative strengthening. While increase in tax rates in the existing outdated regime is uncalled for, administrative strengthening and removal of exemptions remain important. Reduction in expenditures was to be achieved through removal of PSE subsidies. However, efforts to reform and transform the sector did not prove successful. In the late 90s a Private Sector Unit was established and KAJUR, the utility corporation supplying Kwajalein, was contracting out to private sector. However, no further PSE transformation took place and KAJUR has reverted to public management.

95. To achieve the second PSRP output of long-run structural stability, efforts to reduce expenditures focused on implementation of the RIF, restructuring of government operations and civil service wage freeze. The RIF was implemented but as can be seen from the above analysis the size of the public service today is much greater than before

the PSRP. The work undertaken by the ministries of public works and transport were to be managed by the private sector, and although both were downsized during the PSRP both are now once again sizeable operations. On the revenue side long-run gains were to be achieved through administrative strengthening and introduction of a modern tax regime such as the VAT. Little progress was made with administrative reforms and the VAT met with strong opposition.

96. Of the third PSRP output to create an improved environment for the private sector, the program was structured in two parts: (i) reduction in the role of the Government, and (ii) improvements in the regulatory environment of the private sector. Reduction in the role of Government was focused on reducing subsidies to AMI and through PSE reform. While AMI no longer present the risk it did in the mid 90s, MEC as discussed below, has the potential to undermine fiscal stability. Improvements to the regulatory environment for the private sector were focused on changes to improve transparency in company registration, work permits, the Foreign Direct Investment (FDI) regime, and legislation to ensure security in land leases. As discussed in the section above the RMI is making progress to improve the environment for the private sector.

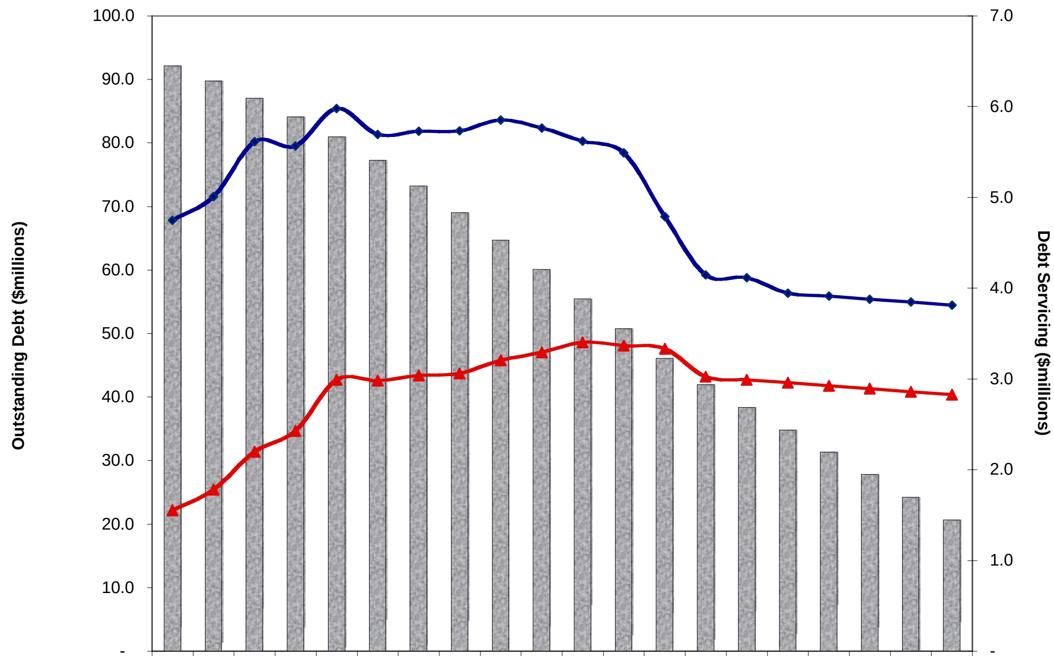
97. The focus of this section has not been to say little has been done since the PSRP, but rather to indicate the outstanding agenda of public and private sector reform that is once again topical. As the current phase of public sector led growth has run its course, and expenditures are bumping up against the fiscal envelope, other avenues to develop the economy are required. There is thus a need once again to reinvigorate the reform agenda and craft a new program that is relevant to today's needs, if the RMI economy is to fulfill its potential.

C. Fiscal Outlook

1. External Debt Management

98. While the sizeable bond issues used to finance development projects in the 1990s is now part of the RMI's fiscal history, external debt management in the foreseeable future presents a major challenge. As mentioned in Part II debt servicing requirements are projected to increase. The major debt commitments of the Government are the servicing of the ADB loan portfolio. Servicing of the NTA and MEC loans guaranteed by the RMI government will continue, but the operational revenues of the two enterprises should cover the repayments.

99. Analysis of Figure 19, which is based on the existing portfolio of external debt, suggests a seemingly contradictory outcome with repayment levels increasing in the medium term as outstanding debt declines. However, this is a direct result of the concessional nature of the ADB lending. As grace periods expire over the next few years repayment levels will increase. Total debt servicing is projected to peak in FY10, though this is inclusive of MEC and NTA. More importantly, debt service of the RMI government of ADB loans will continue to grow until FY16. These repayments will be funded



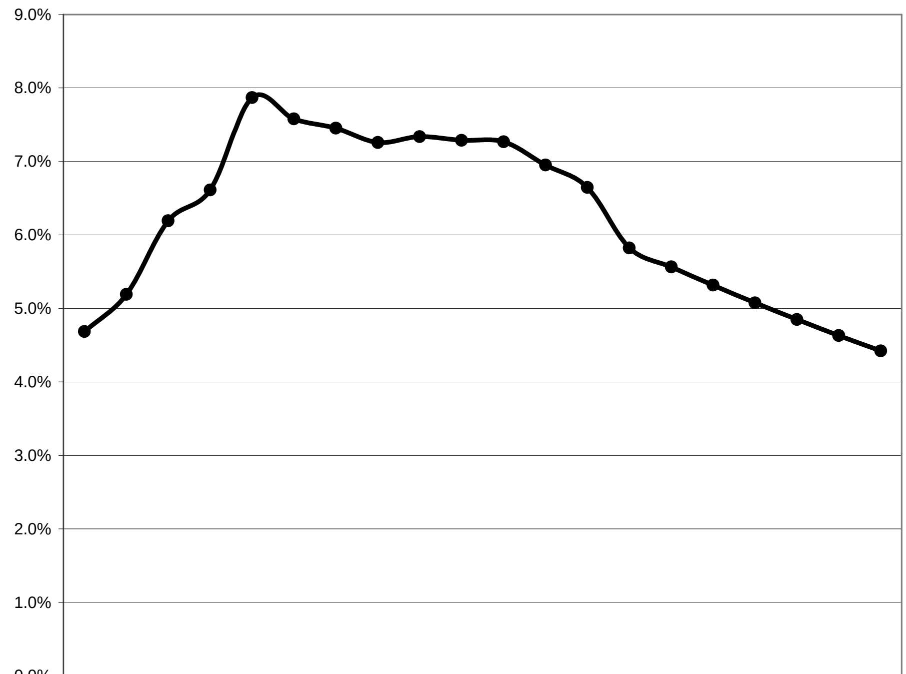
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Total Outstanding	92.15	89.77	87.07	84.14	80.96	77.27	73.25	69.06	64.73	60.12	55.48	50.77	46.10	41.97	38.40	34.80	31.32	27.80	24.25	20.67
Total Debt Servicing	4.75	5.01	5.61	5.57	5.98	5.69	5.73	5.73	5.85	5.77	5.62	5.49	4.79	4.15	4.11	3.94	3.91	3.88	3.85	3.81
ADB Debt Servicing	1.55	1.78	2.20	2.43	2.99	2.98	3.04	3.06	3.20	3.30	3.40	3.37	3.33	3.03	2.99	2.96	2.93	2.89	2.86	2.83

Figure 19 RMI Debt and Debt Servicing Projections, FY 2006- FY2025

out of the Government's general fund and will place increasing pressure on the Government's fiscal position.

100. In order to effectively manage external debt the Government may need to take a conservative position regarding future borrowing unless the loans can provide corresponding revenues to cover repayments—something that has been lacking on borrowing so far. General fund expenditures will need to be contained to ensure that domestic revenues will be available to cover the forecast repayments. Figure 20 provides an indication of the impact that the ADB repayments will have on the general fund in the medium term, with repayments taking up more general fund resources at the expense of other operational expenditures.

101. The Government has already experienced problems meeting its existing debt service obligations to the ADB and is currently delinquent on a number of loans, signaling that debt is placing pressure on the fiscal situation. While ADB debt servicing is the predominant issue, government guarantees of domestic debt incurred by Public Sector Enterprises (PSEs) is also a major concern. In particular the guarantee of MEC debt for the purchase of prior and future fuel supplies could cause substantial additional fiscal pressure should the MEC default.



	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
ADB Share of General FUnd	4.7%	5.2%	6.2%	6.6%	7.9%	7.6%	7.5%	7.3%	7.3%	7.3%	7.3%	7.0%	6.6%	5.8%	5.6%	5.3%	5.1%	4.8%	4.6%	4.4%

Figure 20 ADB Debt Servicing as a Share of General Fund Projected Revenues

2. SHORT-TERM PROSPECTS

102. Real GDP is forecast to grow by 1.7 percent in FY06, a favorable outcome, and contrary to the general observation that economic activity has declined. Estimates for the private and public sectors are based on the outturn over the first 8 months of the year, while figures for public enterprises are rated by the general trend in the economy and some adjustments for AMI and MEC. The private sector is forecast to grow by 3 percent in FY06, the increase reflecting additional construction activity and in off-shore fishing. The GDP estimates include those fishing enterprises that home based out of Majuro, but does not include vessels that use the RMI as a service center. Based on government payroll figures and local government and agency data from MISSA, general government is forecast to expand by 3 percent. While government payroll is below budget, it is up on the FY05 levels, indicating the system continues to expand despite the financial difficulties currently being experienced. The PSE sector is projected to decline by 23 percent indicating a deteriorating situation in MEC, although the financial situation of the national airline AMI is projected to improve. Estimates for the remaining GDP institutional sectors are based on MISSA data, trended with the general level of activity, or in the case of the household sectors related to population growth.

103. After recording a large overall deficit in FY05 of $4 million (GFS basis), a surplus of $1.6 million is currently projected for FY06. However, government cash flow is

under considerable pressure, and this outcome masks a series of underlying weaknesses. Government revenues are forecast to decline by $2.0 million in FY06. This is the result of a series of factors. While income and GRT tax collections are largely on track, collections of import duties are significantly down on budget and have fallen $0.5 million. Import duties were forecast to rise based on an increase in "sin" taxes to fund the CMI, although a reduction of the general rate of customs tax from 8 to 6 percent was factored into the equation. Clearly, the forecast was over optimistic despite the fact that the general tax rate remained unchanged at 8 percent. Collections of both fuel taxes and fish license fess are down on budget reflecting a variety of factors. The FY06 budget anticipated that MEC could begin paying fuel taxes, but payments have been erratic. Due to climatic conditions the migratory fish stock has shifted away from the RMI and fishing vessels have been obtaining supplies for alternative locations. The base of fuel tax collections has shifted from ad valorem to a specific rate. Further the structure of fishing fee assessment has changed. All of these factors have contributed to a decline in revenues related to fishing—fuel taxes are down $0.6 million and fishing fees are $1.1 million below forecast. Lastly, on the positive side the government received a $1 million windfall payment from MIDB due to an unexpected repayment of a prior loan bailout provided to two private sector enterprises in 2003.

104. On the expenditure side outlays are projected to fall $2.8 million below budget and greater than the fall in revenues. Payroll expenditures are below budget by $1.2 million and indicate capacity constraints in hiring staff to fill vacancies. Operational expenditures are projected to fall $1.4 million below budget reflecting a "general freeze" on general fund outlays, which has forced departments to reduce operating non-payroll expenses. Debt service is also below budget and repayment commitments. Projected debt service to the ADB for FY06 is $1.7 million. However, only $1 million was budgeted and in affect only $0.25 was paid. While expenditures have generally been below budget payments for utilities are projected to be $0.5 million above target.

105. The fiscal projections for FY06 appear to indicate a tight but not adverse outcome. However there are a variety of factors that suggest that the fiscal situation is under considerable stress:

- A ruling in July 2005 by the US inspector general that Compact funds should by quarantined in special bank accounts. This curtailed the use of Compact resources to fund general operations, and exposed the underlying tight fiscal position in the general fund;
- The imposition of a freeze on the general fund on non-essential expenditures in February remains in place. The "freeze" cut back travel expenses and "aged" payments to vendors;
- The inability to pay MISSA taxes for government employees earlier in the year;
- Continued difficulty to meet the general fund payroll every fortnight;

- Delays in the payment of allotments and MISSA contributions from the salaries of Government employees each payroll;
- The performance of MEC and its impact on the FY06 budget including the need to frontload utility payments for the year;
- The draft audit statement for FY05 indicates a $4.1 million deficit on the general fund signifying a stressed position;
- the recent Cabinet approval of the use of up to $1.0 million from MIDB, originally invested in the MIITF, to cover recurrent expenditures and accumulated debts; and
- the inability to meet ADB debt service requirements.

106. The current situation prevailing at the Marshalls Energy Company (MEC) is a further cause of considerable concern and fiscal risk to the government. In FY02 and FY03 the MEC benefited from access to the energy grant part under Compact I, valued at $1.9 million. In FY04 the company "lost" the grant and recorded an operating deficit of $1.1 million. Reflecting a deteriorating situation and higher world fuel prices the deficit rose to $3.1 million in FY05. The MEC has in the past used the profits earned on its fuel distribution business servicing fishing fleets to subsidize utility prices. However, when there are disruptions to supply or fishing vessels locate elsewhere this leaves the financial viability of MEC highly vulnerable. In 2005 the former "consignment" basis of fuel delivery, where payments are only made to the supplier after fuel has been sold, were switched to a cash basis. This considerably tightened MEC cash flow. Debt to Exxon/Mobil was restructured and the government was required to underwrite a $5 million facility repayable over 2 years. A further $2 million facility with the Bank of Guam was arranged together with a line of credit repayable in 45 days for $3 million. In FY06 a further operating deficit of $3.5 million is forecast. Utility tariffs have been raised by 50 percent to improve the situation, but remain low by neighboring island standards. Basic residential rates are ¢18 in Majuro, ¢27 in Pohnpei, ¢31 in Chuuk and ¢42 in Kosrae.

107. To conclude this section on short-term prospects, the current fiscal position of the government is under stress with recent increases in payroll and operating expenditures pushing up against ceilings. The current situation has remained manageable through deferring payments and defaulting on external debt. The underling MEC position is highly fragile and poses a major risk to financial stability, if the government is called onto repay MEC's outstanding liabilities. In the medium-term there is the need to come to terms with external debt repayment and the decline in the real value of the annual Compact sector grants through the lack of full indexation and the annual decrement. While it had originally been recognized that fiscal adjustment would eventually be required, the need is now more immediate if a fiscal crisis is to be averted. Given the need to diversify the economy and switch the engine of growth to the private sector, the need for adjustment and reform becomes all the more urgent.

D. Trust Fund Viability and Management

108. In this last section comment is made on the viability of the Compact Trust Fund to meet the "terminal condition", the requirement that the yield from the Fund will be sufficient to replace the annual Compact sector grants by FY2024. Table 13 provides a projection of the value of the Fund based on a 6 percent real stock market yield over the remaining period of the amended Compact and an inflation rate of 2.5 percent. The first column of the table indicates the projected value of the Fund in current prices. At the end of June 2006 the value of the Fund was $60.4 million, which is assumed the value at the start of FY07. The second column indicates the annual US contribution. The third column indicates the value of the US contributions plus the annual partial inflation adjustment. The fourth column indicates the level of contribution pledged by the Republic of China—there is no inflation adjustment to this stream. The fifth column indicates the earnings of the Fund assuming all contributions are made at the beginning of the year. The final column indicates the projected value of the annual sector grants inflation adjusted.

109. As the value in bottom right-hand corner of Table 13 indicates the Compact Trust Fund is projected to yield $50.7 in FY24 at 6 percent and provide sufficient resources for reinvestment to maintain the real value of the Fund. Of course these projections are based on a growth orientated investment strategy (investing all the resources in equities) and that the Fund attains the historical average real yield of 6 percent. At present the Fund is not invested for growth but in a balanced portfolio of both stocks and bonds (70:30).

Table 13 Compact Trust Fund Project Balance and Yield, FY07 – FY24, $'millions

	Trust Fund $'millions	US contribution	Inflation Adjustment	ROC contribution	Earnings	Sector Grants
FY07	60.4	8.5	8.9	0.75	6.0	35.2
FY08	76.0	9.0	9.6	0.75	7.3	35.3
FY09	93.8	9.5	10.3	2.4	9.1	35.3
FY10	115.5	10.0	11.0	2.4	11.0	35.3
FY11	139.9	10.5	11.8	2.4	13.1	35.4
FY12	167.2	11.0	12.6	2.4	15.5	35.4
FY13	197.7	11.5	13.3	2.4	18.1	35.4
FY14	231.5	12.0	14.2	2.4	21.1	37.8
FY15	269.2	12.5	15.0	2.4	24.4	37.8
FY16	310.9	13.0	15.9	2.4	28.0	37.8
FY17	357.2	13.5	16.7	2.4	32.0	37.8
FY18	408.3	14.0	17.6	2.4	36.4	37.8
FY19	464.8	14.5	18.6	2.4	41.3	37.8
FY20	527.0	15.0	19.5	2.4	46.7	37.8
FY21	595.6	15.5	20.5	2.4	52.6	37.7
FY22	671.1	16.0	21.5	2.4	59.1	37.7
FY23	754.2	16.5	22.6	2.4	66.2	37.6
FY24	845.4					**50.7**

110. While Table 13 indicates a favorable outcome several caveats are warranted. Firstly, although stock markets have provided an average real yield of 6 percent since the early 1800s, long cyclical trends have arisen where the yield maybe either higher or lower. Thus there is considerable risk that the Fund will not attain the projected value. Secondly, there are several weaknesses with the structure of the Compact Trust Fund agreement that need reconsideration. The structure of the amended Compact Trust Fund protects the nominal value of the Trust Fund and not the real value. Thus as time goes by if drawdowns occur at the rate permitted, the real yield will fall and provide insufficient resources to maintain the real value of government operations. As research for the FSM has indicated the present structure of the Compact Trust Fund agreement has a "spectacular" tendency to crash during sustained periods of low yields. Given the requirement to provide a regular and guaranteed level of resources, investment strategies that minimize risk need to be developed. While the operational phase of the Fund is still a long way off, it is well to have developed suitable draw down mechanisms that maximize the ability of the Fund to provide a regular stream of resources during long periods of market weakness. In circumstance where the yield from the CTF will form a very high proportion of revenues, failure in the Trust Fund arrangements will have dire consequences for economic and financial stability.

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Table 1a Population by major centers, percent of population and growth, 1930-1999

	Population				Percent of Population			Population Growth			
	Total	Majuro	Ebeye	Other	Majuro	Ebeye	Other	Total	Majuro	Ebeye	Other
1930	10,412	753	19	9,640	7.2%	0.2%	92.6%				
1935	10,446	779	16	9,651	7.5%	0.2%	92.4%	0.1%	0.7%	-3.4%	0.0%
1958	14,163	3,415	1,284	9,464	24.1%	9.1%	66.8%	1.3%	6.6%	21.0%	-0.1%
1967	18,925	5,249	3,540	10,136	27.7%	18.7%	53.6%	3.3%	4.9%	11.9%	0.8%
1973	25,045	10,290	5,123	9,632	41.1%	20.5%	38.5%	4.8%	11.9%	6.4%	-0.8%
1980	30,873	11,791	6,169	12,913	38.2%	20.0%	41.8%	3.0%	2.0%	2.7%	4.3%
1988	43,380	19,664	8,324	15,392	45.3%	19.2%	35.5%	4.3%	6.6%	3.8%	2.2%
1999	50,840	23,676	9,345	17,819	46.6%	18.4%	35.0%	1.5%	1.7%	1.1%	1.3%

Source Annual Abstract 2004 Tables 1.3 and 1.6

Table 1b Working age population, economically active, and not economically active, 1988 and 1999

	Numbers		Percent	
	1988	1999	1988	1999
Working age population	21,244	28,698		
Economically active	11,488	14,677	54.1%	51.1%
Economically inactive	9,546	14,015	44.9%	48.8%
Not stated	210	6		
Employed	10,056	10,141	87.5%	69.1%
Employee - public sector	3392	3,106	33.7%	30.6%
Employee - private sector	3369	4,115	33.5%	40.6%
Self employed	2484	2,622	24.7%	25.9%
Employer in own farm or business		115		1.1%
Paid family worker	811	96	8.1%	0.9%
Unpaid family worker		87		0.9%
Unemployed	1,432	4,536	12.5%	30.9%

Table 1c International airline passenger movements, Majuro and Kwajalein Atolls: 1990 to 2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Kwajalein																
Disembarkations	6,002	6,593	5,530	5,332	4,781	5,086	5,051	4,719	3,869	4,335	23,190	5,676	7,463	6,813	7,991	7,001
Embarkations	5,682	6,058	5,906	5,856	4,574	5,366	5,105	4,955	3,791	4,132	23,817	6,188	7,482	7,175	8,002	6,984
Majuro																
Disembarkations	6,636	7,078	7,194	7,633	7,744	7,959	8,160	8,111	8,227	8,776	8,893	9,392	9,548	10,005	9,406	10,369
Embarkations	6,945	7,275	7,524	7,887	8,074	8,472	8,746	9,290	9,060	9,436	10,182	10,909	10,442	10,424	9,948	11,423
Kwajalein net embarkations	(320)	(535)	376	524	(207)	280	54	236	(78)	(203)	627	512	19	362	11	(110)
Majuro net embarkations	309	197	330	254	330	513	586	1,179	833	660	1,289	1,517	894	419	542	935
RMI net embarkations	(11)	(338)	706	778	123	793	640	1,415	755	457	1,916	2,029	913	781	553	825
Net embarkations 1990 to 2005	12,335															

Source: US Department of Transportation, Bureau of Transportation Statistics, TranStats Database

Notes: Data include international movements on regularly scheduled US carriers only; movements include travelers visiting the RMI, travelers in transit, and migrants.

Table 2a Employment by institutional sector, numbers, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
1.1	Private Sector	2,584	2,720	2,655	3,152	3,443	3,540	3,595	3,604	3,127	3,388
1.2	Public Enterprise	676	683	600	589	584	635	659	668	677	689
2	Banks	103	115	123	124	147	135	135	153	163	172
3.1	RMI Government	1,856	1,692	1,531	1,487	1,525	1,774	1,900	2,003	2,119	2,404
3.2	Government Agencies	408	370	494	571	627	615	644	596	610	409
3.3	Local Government	819	902	960	989	995	910	852	926	943	943
4	NGO's and Non-Profits	333	340	343	353	372	370	355	373	375	387
5	Households										
6.1	Foreign Embassies	12	12	13	14	15	13	14	14	15	15
6.2	Kwajalein US Base	1,040	1,076	1,140	1,195	1,229	1,196	1,411	1,177	1,174	1,161
	Total	7,831	7,910	7,859	8,472	8,937	9,188	9,566	9,513	9,201	9,566

Table 2b Employment by institutional sector, wage costs, $'000, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
1.1	Private Sector	15,229	15,113	15,469	16,506	17,900	17,662	16,950	16,671	16,457	17,931
1.2	Public Enterprise	7,009	7,023	6,265	6,402	6,293	6,744	7,548	7,817	8,069	8,368
2	Banks	1,388	1,598	1,569	1,529	1,652	1,843	2,019	2,262	2,741	2,821
3.1	RMI Government	17,485	15,854	15,843	16,645	17,936	20,655	21,863	26,478	27,523	30,121
3.2	Government Agencies	4,099	4,287	5,764	6,799	7,180	7,748	8,100	7,705	8,074	6,207
3.3	Local Government	6,306	6,543	6,819	7,126	7,031	7,149	6,805	7,347	7,842	7,826
4	NGO's and Non-Profits	1,537	1,517	1,610	1,652	1,776	1,833	1,874	1,935	1,938	2,002
5	Households										
6.1	Foreign Embassies	106	113	140	149	167	143	147	174	182	204
6.2	Kwajalein US Base	12,254	12,963	14,357	16,333	16,979	16,159	16,971	16,861	17,779	19,973
	Total	65,413	65,011	67,837	73,141	76,914	79,937	82,279	87,251	90,603	95,453

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2c Employment by institutional sector, wage and salary rates, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
1.1	Private Sector	5,893	5,557	5,826	5,237	5,198	4,989	4,715	4,625	5,263	5,293
1.2	Public Enterprise	10,368	10,279	10,442	10,867	10,778	10,628	11,461	11,707	11,919	12,145
2	Banks	13,445	13,899	12,785	12,341	11,219	13,640	14,917	14,807	16,840	16,451
3.1	RMI Government	9,420	9,373	10,352	11,198	11,761	11,643	11,508	13,221	12,992	12,530
3.2	Government Agencies	10,043	11,574	11,670	11,915	11,461	12,591	12,580	12,923	13,241	15,176
3.3	Local Government	7,703	7,254	7,103	7,206	7,065	7,860	7,984	7,938	8,315	8,303
4	NGO's and Non-Profits	4,618	4,457	4,691	4,678	4,774	4,954	5,276	5,185	5,167	5,179
5	Households										
6.1	Foreign Embassies	8,803	9,586	10,540	11,050	11,045	11,010	10,713	12,415	12,523	13,593
6.2	Kwajalein US Base	11,782	12,046	12,591	13,671	13,815	13,511	12,024	14,332	15,147	17,211
	Total	8,353	8,219	8,632	8,633	8,606	8,700	8,601	9,172	9,847	9,979

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2d Employment by industrial sector, numbers, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	10	9	8	7	1	0	21	24	24	28
B	Fishing	80	81	45	542	601	705	871	937	248	318
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	75	86	61	48	41	48	49	43	50	48
E	Electricity, Gas and Water Supply	230	233	220	218	230	251	261	281	288	292
F	Construction	456	603	595	435	506	528	502	408	432	519
G	Wholesale and Retail Trade	1,436	1,411	1,429	1,574	1,716	1,662	1,534	1,555	1,681	1,737
H	Hotels and Restaurants	235	237	228	248	259	262	282	246	237	270
I	Transport, Storage and Communications	415	393	388	399	401	439	472	511	535	544
J	Financial Intermediation	122	134	140	142	167	152	151	169	179	189
K	Real Estate, Renting and Businesss Activities	236	245	208	228	239	239	238	229	240	256
L	Public Administration	2,803	2,726	2,586	2,570	2,609	2,774	2,845	2,994	3,159	3,445
M	Education	456	403	521	558	603	612	612	599	612	393
N	Health and Social Work	179	202	208	212	229	230	226	245	248	272
O	Community, Social & Personal Service Activities	41	58	66	81	88	74	73	77	78	79
P	Private Households With Employed Persons	5	4	4	3	3	4	5	6	4	3
Q	Extra-Territorial Organizations and Bodies	1,054	1,088	1,154	1,208	1,244	1,209	1,425	1,191	1,188	1,176
	Total	7,831	7,910	7,859	8,472	8,937	9,188	9,566	9,513	9,201	9,566

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2e Employment by industrial sector, wage costs, $'000, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	24	19	18	14	1	0	54	68	79	72
B	Fishing	413	401	410	1,658	1,837	1,941	2,167	2,324	1,464	1,704
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	379	365	237	230	220	275	279	282	318	326
E	Electricity, Gas and Water Supply	2,605	2,682	2,426	2,615	2,528	2,788	3,298	3,412	3,588	3,748
F	Construction	3,087	3,564	3,705	2,739	3,300	3,134	2,917	2,561	2,654	3,506
G	Wholesale and Retail Trade	7,847	7,479	7,757	8,622	9,310	8,672	7,560	7,617	8,127	8,126
H	Hotels and Restaurants	1,252	1,267	1,244	1,317	1,269	1,382	1,415	1,205	1,201	1,348
I	Transport, Storage and Communications	4,173	3,926	3,848	3,949	4,006	4,183	4,550	4,933	4,657	4,688
J	Financial Intermediation	1,597	1,811	1,786	1,723	1,890	2,025	2,184	2,434	2,932	3,029
K	Real Estate, Renting and Businesss Activities	1,854	1,708	1,635	1,685	1,737	1,974	2,283	1,975	1,971	2,191
L	Public Administration	25,471	24,236	24,180	25,331	26,297	29,184	29,943	34,721	36,717	39,377
M	Education	2,840	2,927	4,447	5,008	5,383	6,042	6,482	6,541	6,790	4,591
N	Health and Social Work	1,273	1,268	1,310	1,378	1,525	1,581	1,604	1,685	1,757	2,171
O	Community, Social & Personal Service Activities	217	266	317	372	445	441	404	434	374	378
P	Private Households With Employed Persons	19	17	21	18	19	15	20	25	14	22
Q	Extra-Territorial Organizations and Bodies	12,362	13,075	14,497	16,483	17,146	16,303	17,118	17,035	17,960	20,177
	Total	65,413	65,011	67,837	73,141	76,914	79,937	82,279	87,251	90,603	95,453

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2f Employment by industrial sector, wage and salary rates, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	2,441	2,282	2,168	2,109	1,480		2,614	2,830	3,315	2,628
B	Fishing	5,189	4,982	9,220	3,058	3,055	2,753	2,489	2,481	5,913	5,357
C	Mining and Quarrying										
D	Manufacturing	5,047	4,247	3,902	4,777	5,340	5,742	5,701	6,598	6,332	6,789
E	Electricity, Gas and Water Supply	11,313	11,522	11,025	11,983	11,005	11,131	12,631	12,154	12,470	12,858
F	Construction	6,765	5,908	6,227	6,294	6,523	5,933	5,814	6,275	6,144	6,756
G	Wholesale and Retail Trade	5,465	5,302	5,430	5,476	5,424	5,218	4,929	4,900	4,834	4,677
H	Hotels and Restaurants	5,335	5,354	5,456	5,312	4,898	5,270	5,013	4,892	5,061	5,002
I	Transport, Storage and Communications	10,065	10,003	9,911	9,907	9,983	9,531	9,647	9,655	8,698	8,614
J	Financial Intermediation	13,145	13,563	12,780	12,179	11,309	13,297	14,496	14,424	16,427	16,067
K	Real Estate, Renting and Businesss Activities	7,849	6,984	7,845	7,397	7,277	8,270	9,609	8,618	8,219	8,575
L	Public Administration	9,089	8,890	9,352	9,858	10,081	10,520	10,523	11,595	11,625	11,432
M	Education	6,230	7,271	8,536	8,980	8,927	9,878	10,587	10,929	11,087	11,697
N	Health and Social Work	7,127	6,264	6,307	6,515	6,658	6,866	7,107	6,867	7,090	7,980
O	Community, Social & Personal Service Activities	5,250	4,565	4,787	4,580	5,076	5,981	5,530	5,667	4,808	4,780
P	Private Households With Employed Persons	3,935	4,353	5,632	5,990	5,889	3,995	3,968	4,320	4,120	7,333
Q	Extra-Territorial Organizations and Bodies	11,726	12,019	12,568	13,642	13,782	13,484	12,012	14,309	15,115	17,165
	Total	8,353	8,219	8,632	8,633	8,606	8,700	8,601	9,172	9,847	9,979

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2g Employment in private sector by industry, numbers, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	8	8	8	7	1	0	0	2	2	2
B	Fishing	79	78	42	512	559	660	822	882	185	243
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	4	13	8	9	14	15	15	16	22	18
E	Electricity, Gas and Water Supply	0	0	0	0	0	0	0	3	9	11
F	Construction	456	603	595	435	506	528	502	408	432	519
G	Wholesale and Retail Trade	1,436	1,411	1,429	1,574	1,716	1,662	1,534	1,555	1,681	1,737
H	Hotels and Restaurants	139	145	142	161	170	159	180	160	148	174
I	Transport, Storage and Communications	171	147	159	158	166	198	222	251	302	310
J	Financial Intermediation	18	19	17	18	20	17	15	16	16	17
K	Real Estate, Renting and Businesss Activities	221	229	193	213	223	224	221	218	231	246
L	Public Administration	0	0	0	0	0	0	0	0	0	0
M	Education	1	1	1	1	2	2	2	2	2	2
N	Health and Social Work	8	7	6	7	8	11	15	20	28	39
O	Community, Social & Personal Service Activities	39	56	52	54	56	61	64	67	67	68
P	Private Households With Employed Persons	5	4	4	3	3	4	5	6	4	3
Q	Extra-Territorial Organizations and Bodies	0	0	0	0	0	0	0	0	0	0
	Total	2,584	2,720	2,655	3,152	3,443	3,540	3,595	3,604	3,127	3,388

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2h Employment in private sector by industry, wage costs, $'000, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	17	17	18	14	1	0	0	2	6	7
B	Fishing	408	388	391	1,346	1,384	1,477	1,675	1,752	748	875
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	17	33	20	25	42	48	43	42	63	59
E	Electricity, Gas and Water Supply	0	0	0	0	0	0	0	27	42	45
F	Construction	3,087	3,564	3,705	2,739	3,300	3,134	2,917	2,561	2,654	3,506
G	Wholesale and Retail Trade	7,847	7,479	7,757	8,622	9,310	8,672	7,560	7,617	8,127	8,126
H	Hotels and Restaurants	545	534	534	598	575	597	650	590	574	681
I	Transport, Storage and Communications	1,135	1,035	1,094	1,176	1,174	1,329	1,436	1,547	1,668	1,657
J	Financial Intermediation	209	212	217	195	238	181	164	172	192	207
K	Real Estate, Renting and Businesss Activities	1,642	1,490	1,400	1,480	1,488	1,743	2,002	1,748	1,756	1,937
L	Public Administration	0	0	0	0	0	0	0	0	0	0
M	Education	44	40	14	2	4	7	8	20	23	14
N	Health and Social Work	46	42	35	40	51	97	138	194	256	453
O	Community, Social & Personal Service Activities	213	262	265	251	313	362	337	375	332	342
P	Private Households With Employed Persons	19	17	21	18	19	15	20	25	14	22
Q	Extra-Territorial Organizations and Bodies	0	0	0	0	0	0	0	0	0	0
	Total	15,229	15,113	15,469	16,506	17,900	17,662	16,950	16,671	16,457	17,931

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 2i Employment in private sector by industry, wage and salary rates, FY97-FY06

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
A	Agriculture, Hunting and Forestry	2,165	2,165	2,168	2,109	1,480			1,200	3,000	3,600
B	Fishing	5,203	4,976	9,307	2,629	2,475	2,237	2,039	1,986	4,039	3,602
C	Mining and Quarrying										
D	Manufacturing	4,155	2,580	2,422	2,707	3,108	3,280	2,928	2,650	2,926	3,286
E	Electricity, Gas and Water Supply								9,020	4,974	4,071
F	Construction	6,765	5,908	6,227	6,294	6,523	5,933	5,814	6,275	6,144	6,756
G	Wholesale and Retail Trade	5,465	5,302	5,430	5,476	5,424	5,218	4,929	4,900	4,834	4,677
H	Hotels and Restaurants	3,933	3,688	3,754	3,716	3,395	3,765	3,618	3,685	3,881	3,927
I	Transport, Storage and Communications	6,654	7,041	6,900	7,432	7,072	6,726	6,466	6,159	5,516	5,339
J	Financial Intermediation	11,451	11,476	12,745	11,033	11,979	10,591	10,764	10,768	12,159	12,192
K	Real Estate, Renting and Businesss Activities	7,427	6,505	7,250	6,966	6,664	7,773	9,079	8,012	7,610	7,889
L	Public Administration										
M	Education				1,600	1,825	3,277	4,050	10,235	11,420	7,240
N	Health and Social Work	5,804	6,170	5,767	5,953	6,364	8,607	9,388	9,896	9,235	11,772
O	Community, Social & Personal Service Activities	5,425	4,664	5,087	4,662	5,631	5,982	5,249	5,637	4,995	5,061
P	Private Households With Employed Persons	3,935	4,353	5,632	5,990	5,889	3,995	3,968	4,320	4,120	7,333
Q	Extra-Territorial Organizations and Bodies										
	Total	5,893	5,557	5,826	5,237	5,198	4,989	4,714	4,625	5,263	5,293

Source: Social Security plus EPPSO 'non-reported' estimate

Note FY 06 estimate based on first 2 quarters

Table 3a National government public servant employment by department, FY99-FY06

		FY99[1]	FY00	FY01	FY02	FY03	FY04	FY05	FY06[2]
10	President & Cabinet	24	23	22	23	23	22	26	26
11	Chief Secretary Office	15	14	14	13	12	18	20	20
12	Special Appropriations	0	1	2	2	2	0	2	0
13	Council of Iroij	17	17	17	15	14	15	15	15
14	Nitijela	39	35	37	37	38	42	45	47
15	Auditor General	7	7	8	11	11	11	10	11
16	Foreign Affairs	30	56	34	34	33	32	36	34
17	Public Service Commission	12	11	12	11	11	13	13	13
18	Judiciary	22	21	22	22	20	30	35	40
19	Attorney General Office	9	10	16	18	24	25	25	27
20	Ministry of Education	472	474	478	671	706	720	800	1,024
30	Health & Environment	386	389	376	389	437	480	529	530
40	Transport & Communications	33	24	41	84	92	108	108	107
45	R & D	61	45	33	33	32	27	26	27
50	Internal Affairs	51	54	56	53	54	69	61	64
55	Justice	158	170	153	144	163	168	168	171
60	Finance	89	86	93	99	104	107	112	121
70	Public Works	52	50	111	114	115	99	100	100
75	Epa	0	0	0	0	0	16	18	19
80	Compact II Capital	0	0	0	0	0	1	2	3
	Total	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,395

Note 1 Based on last 2 quarters of FY99, 2 based on first 2 quarters of FY06

Table 3b National government public servant wage costs by department, $'000, FY99-FY06

		FY99[1]	FY00	FY01	FY02	FY03	FY04	FY05	FY06[2]
10	President & Cabinet	549	537	586	650	649	720	702	739
11	Chief Secretary Office	249	225	244	264	262	385	455	452
12	Special Appropriations	0	15	41	41	40	0	14	0
13	Council of Iroij	195	205	204	187	180	248	249	249
14	Nitijela	815	628	792	819	798	791	907	916
15	Auditor General	98	109	124	167	165	176	164	162
16	Foreign Affairs	596	788	743	781	756	723	800	757
17	Public Service Commission	270	267	250	257	258	331	323	322
18	Judiciary	359	345	376	480	479	547	520	510
19	Attorney General Office	171	263	321	357	442	459	474	486
20	Ministry of Education	3,883	4,087	4,290	5,775	5,953	8,015	8,010	10,448
30	Health & Environment	3,948	4,054	4,145	4,502	5,026	5,971	6,704	6,752
40	Transport & Communications	488	428	494	919	1,094	1,412	1,398	1,290
45	R & D	635	445	387	431	415	361	320	347
50	Internal Affairs	549	589	677	704	689	1,074	895	978
55	Justice	1,507	1,931	1,728	1,630	1,825	2,147	2,157	2,145
60	Finance	1,266	1,259	1,329	1,415	1,472	1,641	1,848	1,923
70	Public Works	459	434	1,172	1,230	1,267	1,172	1,156	1,207
75	Epa	0	0	0	0	0	223	274	270
80	Compact II Capital	0	0	0	0	0	42	51	95
	Total	16,037	16,608	17,903	20,609	21,771	26,438	27,422	30,049

Note 1 Based on last 2 quarters of FY99, 2 based on first 2 quarters of FY06

Table 3c National government public servant average wage and salary rates by department, $, FY99-FY06

		FY99[1]	FY00	FY01	FY02	FY03	FY04	FY05	FY06[2]
10	President & Cabinet	23,366	23,859	26,329	27,952	28,777	32,382	26,753	28,404
11	Chief Secretary Office	16,584	16,347	17,740	21,136	21,363	21,974	22,482	22,611
12	Special Appropriations		14,749	20,394	20,500	19,787		6,829	
13	Council of Iroij	11,318	12,069	11,837	12,258	13,058	16,820	16,300	16,570
14	Nitijela	20,892	17,944	21,550	22,143	20,802	18,939	20,166	19,486
15	Auditor General	14,003	16,099	16,490	15,199	14,950	15,980	16,008	15,472
16	Foreign Affairs	20,046	14,140	21,860	23,150	22,855	22,959	22,368	22,602
17	Public Service Commission	22,460	24,237	21,270	23,362	23,435	25,441	24,880	24,767
18	Judiciary	16,695	16,218	17,487	22,318	23,911	18,530	14,762	12,915
19	Attorney General Office	20,090	25,661	20,035	20,386	18,178	18,164	18,959	18,003
20	Ministry of Education	8,235	8,618	8,974	8,604	8,431	11,136	10,019	10,208
30	Health & Environment	10,236	10,435	11,032	11,573	11,509	12,453	12,668	12,740
40	Transport & Communications	14,670	18,219	12,128	10,936	11,827	13,137	12,917	12,108
45	R & D	10,414	9,880	11,804	13,271	13,042	13,620	12,414	13,108
50	Internal Affairs	10,874	10,915	12,142	13,351	12,664	15,568	14,729	15,403
55	Justice	9,570	11,342	11,316	11,359	11,203	12,799	12,838	12,545
60	Finance	14,189	14,599	14,295	14,255	14,149	15,374	16,501	15,893
70	Public Works	8,778	8,776	10,585	10,810	10,990	11,872	11,593	12,073
75	Epa						13,749	15,210	14,616
80	Compact II Capital						41,537	34,150	31,653
	Total	10,876	11,180	11,761	11,639	11,505	13,224	12,750	12,547

Note 1 Based on last 2 quarters of FY99, 2 based on first 2 quarters of FY06

Table 3d National government public servant employment by fund, FY2004 Quarter 1 - FY2006 Quarter 2

Fund	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2
General Fund	855	804	817	838	870	863	871	876	886	890
Compact II	892	881	891	925	938	936	934	1,154	1,196	1,202
Special Revenue	67	71	70	73	74	74	76	70	74	78
US Federal Grant	166	167	164	169	176	179	182	191	189	210
ROC	36	36	36	35	34	33	33	31	30	31
UNDP	0	0	2	2	1	2	2	3	1	3
Total	2,016	1,959	1,980	2,042	2,093	2,087	2,098	2,325	2,376	2,414

Table 3e National government public servant wage costs by fund, $'000, FY2004 Quarter 1 - FY2006 Quarter 2

Fund	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2
General Fund	3,215	2,669	3,133	3,287	2,962	3,016	3,481	3,493	3,021	3,521
Compact II	3,087	2,303	2,737	2,825	2,566	2,560	3,005	3,162	3,168	3,676
Special Revenue	268	238	294	296	262	224	262	246	227	252
US Federal Grant	448	351	423	438	414	413	483	496	460	529
ROC	107	100	101	98	83	81	95	87	76	84
UNDP	0	0	11	10	3	13	9	6	3	7
Total	7,125	5,661	6,699	6,953	6,290	6,305	7,335	7,491	6,954	8,070

Table 3f National government public servant wage rates by fund, $, FY2004 Quarter 1 - FY2006 Quarter 2

Fund	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2
General Fund	15,043	13,280	15,337	15,688	13,620	13,979	15,988	15,950	13,638	15,827
Compact II	13,841	10,457	12,289	12,215	10,944	10,940	12,870	10,961	10,594	12,233
Special Revenue	16,010	13,398	16,829	16,215	14,148	12,108	13,815	14,078	12,244	12,906
US Federal Grant	10,798	8,413	10,319	10,367	9,407	9,219	10,613	10,398	9,739	10,082
ROC	11,857	11,067	11,205	11,147	9,707	9,767	11,467	11,260	10,098	10,886
UNDP			21,881	20,068	11,397	25,116	17,762	8,040	13,846	9,928
Total	14,137	11,559	13,534	13,620	12,021	12,085	13,986	12,889	11,708	13,372

Table 4a Current and constant price GDP, GDP per capita, 1981-2006

	GDP $'000 (old series) [1]	GDP $'000 (new series) [2]	Linked Series [3]	GDP constant prices (2000 prices) $'000 [4]		Population	GDP constant prices per capita, (2000 prices), $	Real per capita GDP annual growth
1981	27,152		28,719	52,692		32,214	1,636	
1982	30,564		32,328	55,237	4.8%	33,613	1,643	0.5%
1983	36,543		38,652	63,804	15.5%	35,073	1,819	10.7%
1984	39,515		41,795	66,270	3.9%	36,596	1,811	-0.5%
1985	38,408		40,625	62,124	-6.3%	38,185	1,627	-10.2%
1986	49,008		51,836	77,370	24.5%	39,844	1,942	19.4%
1987	55,130		58,312	84,615	9.4%	41,574	2,035	4.8%
1988	61,874		65,445	91,206	7.8%	43,380	2,102	3.3%
1989	63,721		67,398	89,663	-1.7%	44,010	2,037	-3.1%
1990	68,691		72,655	92,063	2.7%	44,650	2,062	1.2%
1991	72,219		76,387	92,143	0.1%	45,299	2,034	-1.3%
1992	79,709		84,308	98,723	7.1%	45,957	2,148	5.6%
1993	87,059		92,084	104,653	6.0%	46,625	2,245	4.5%
1994	94,596		100,055	110,804	5.9%	47,302	2,342	4.4%
1995	105,239		111,312	119,904	8.2%	47,989	2,499	6.7%
1996	97,036		102,636	107,551	-10.3%	48,687	2,209	-11.6%
1997	92,184	100,531	100,531	102,609	-4.6%	49,394	2,077	-6.0%
1998	95,659	101,437	101,437	98,906	-3.6%	50,112	1,974	-5.0%
1999	95,360	97,579	97,579	95,004	-3.9%	50,840	1,869	-5.3%
2000	98,849	101,178	101,178	101,178	6.5%	51,579	1,962	5.0%
2001	99,174	103,369	103,369	104,220	3.0%	52,328	1,992	1.5%
2002		114,437	114,437	109,620	5.2%	53,089	2,065	3.7%
2003		120,428	120,428	114,112	4.1%	53,860	2,119	2.6%
2004		127,831	127,831	119,211	4.5%	54,643	2,182	3.0%
2005		132,208	132,208	120,484	1.1%	55,437	2,173	-0.4%
2006 [5]		138,700	138,700	122,581	1.7%	56,242	2,180	0.3%

Notes
1 GDP estimates old series 1981-2001
2 GDP estimates, EPPSO 1997-2005
3 Series linked based on differential between the average figures 1996-1998
4 U.S. CPI used as deflator for 2001-1997, and RMI CPI 1997-2005
6 Based on partial data

Table 4b Constant price GDP by institutional sector, (constant prices of FY2000, $'000)

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise	33,418	33,167	28,664	32,499	33,554	36,541	38,337	41,168	39,600	40,808
1.2	Public Enterprise	5,824	5,859	4,844	6,514	7,349	9,085	8,407	7,088	7,054	5,469
2	Finance (Banks)	4,849	5,113	5,324	5,463	5,891	5,757	5,685	6,082	6,091	6,272
3	Government	36,698	34,719	34,790	35,507	36,829	39,222	40,781	42,085	43,931	45,143
4	NGOs	1,686	1,724	1,739	1,789	1,885	1,875	1,800	1,891	1,900	1,962
5	Households	17,625	16,598	16,469	16,658	17,331	16,844	17,382	17,827	18,126	18,148
	GDP at Factor Cost (Gross)	**100,101**	**97,179**	**91,829**	**98,432**	**102,840**	**109,324**	**112,393**	**116,140**	**116,701**	**117,802**
	Indirect taxes less Subsidies	7,687	7,257	8,824	9,340	8,362	8,404	8,775	10,069	11,148	12,329
	Less bank service charge	-5,179	-5,530	-5,649	-6,594	-6,982	-8,109	-7,056	-6,999	-7,365	-7,551
	Real GDP at Market Prices (Gross)	**102,609**	**98,906**	**95,004**	**101,178**	**104,220**	**109,620**	**114,112**	**119,211**	**120,484**	**122,581**

Table 4c Constant price GDP (FY2000) by institutional sector, annual percent growth

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise		-0.8%	-13.6%	13.4%	3.2%	8.9%	4.9%	7.4%	-3.8%	3.1%
1.2	Public Enterprise		0.6%	-17.3%	34.5%	12.8%	23.6%	-7.5%	-15.7%	-0.5%	-22.5%
2	Finance (Banks)		5.4%	4.1%	2.6%	7.8%	-2.3%	-1.2%	7.0%	0.1%	3.0%
3	Government		-5.4%	0.2%	2.1%	3.7%	6.5%	4.0%	3.2%	4.4%	2.8%
4	NGOs		2.3%	0.9%	2.9%	5.3%	-0.5%	-4.0%	5.0%	0.5%	3.3%
5	Households		-5.8%	-0.8%	1.1%	4.0%	-2.8%	3.2%	2.6%	1.7%	0.1%
	GDP at Factor Cost (Gross)		**-2.9%**	**-5.5%**	**7.2%**	**4.5%**	**6.3%**	**2.8%**	**3.3%**	**0.5%**	**0.9%**
	Indirect taxes less Subsidies		-5.6%	21.6%	5.9%	-10.5%	0.5%	4.4%	14.8%	10.7%	10.6%
	Less bank service charge		6.8%	2.1%	16.7%	5.9%	16.1%	-13.0%	-0.8%	5.2%	2.5%
	Real GDP at Market Prices (Gross)		**-3.6%**	**-3.9%**	**6.5%**	**3.0%**	**5.2%**	**4.1%**	**4.5%**	**1.1%**	**1.7%**

Source: EPPSO estimates

Table 4d Current price GDP by institutional sector, $'000

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise	32,651	31,659	28,470	32,499	33,869	36,470	38,170	41,284	40,146	42,381
1.2	Public Enterprise	5,130	8,241	7,005	6,514	6,042	10,026	8,839	7,748	5,374	5,223
2	Finance (Banks)	4,100	4,381	4,793	5,463	5,661	6,700	6,165	6,363	6,912	7,074
3	Government	33,653	33,624	33,890	35,507	37,523	41,045	44,195	47,797	51,372	53,717
4	NGOs	1,664	1,642	1,744	1,789	1,937	2,018	2,069	2,134	2,137	2,215
5	Households	17,212	15,738	16,408	16,658	17,118	16,819	17,299	18,081	18,968	19,995
	GDP at Factor Cost (Gross)	**94,410**	**95,285**	**92,309**	**98,432**	**102,150**	**113,077**	**116,738**	**123,409**	**124,907**	**130,606**
	Indirect taxes less Subsidies	11,009	11,350	10,786	9,340	8,252	9,611	11,073	11,898	15,318	16,461
	Less bank service charge	-4,888	-5,198	-5,516	-6,594	-7,033	-8,251	-7,383	-7,476	-8,017	-8,367
	Current GDP at Market Prices (Gross)	**100,531**	**101,437**	**97,579**	**101,178**	**103,369**	**114,437**	**120,428**	**127,831**	**132,208**	**138,700**
	Annual change		0.9%	-3.8%	3.7%	2.2%	10.7%	5.2%	6.1%	3.4%	4.9%

Table 4e Implicit GDP price deflators by institutional sector, FY00=100

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise	97.7	95.5	99.3	100.0	100.9	99.8	99.6	100.3	101.4	103.9
1.2	Public Enterprise	88.1	140.6	144.6	100.0	82.2	110.4	105.1	109.3	76.2	95.5
2	Finance (Banks)	84.6	85.7	90.0	100.0	96.1	116.4	108.4	104.6	113.5	112.8
3	Government	91.7	96.8	97.4	100.0	101.9	104.6	108.4	113.6	116.9	119.0
4	NGOs	98.7	95.3	100.3	100.0	102.8	107.6	114.9	112.9	112.4	112.9
5	Households	97.7	94.8	99.6	100.0	98.8	99.9	99.5	101.4	104.6	110.2
	GDP at Factor Cost (Gross)	**94.3**	**98.1**	**100.5**	**100.0**	**99.3**	**103.4**	**103.9**	**106.3**	**107.0**	**110.9**
	Indirect taxes less Subsidies	143.2	156.4	122.2	100.0	98.7	114.4	126.2	118.2	137.4	133.5
	Less bank service charge	94.4	94.0	97.7	100.0	100.7	101.8	104.6	106.8	108.8	110.8
	GDP at Market Prices (Gross)	**98.0**	**102.6**	**102.7**	**100.0**	**99.2**	**104.4**	**105.5**	**107.2**	**109.7**	**113.1**
	Annual change		4.7%	0.1%	-2.6%	-0.8%	5.3%	1.1%	1.6%	2.3%	3.1%

Source: EPPSO estimates

Table 4f Share of GDP by institutional sector, current prices

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise	32.5%	31.2%	29.2%	32.1%	32.8%	31.9%	31.7%	32.3%	30.4%	30.6%
1.2	Public Enterprise	5.1%	8.1%	7.2%	6.4%	5.8%	8.8%	7.3%	6.1%	4.1%	3.8%
2	Finance (Banks)	4.1%	4.3%	4.9%	5.4%	5.5%	5.9%	5.1%	5.0%	5.2%	5.1%
3	Government	33.5%	33.1%	34.7%	35.1%	36.3%	35.9%	36.7%	37.4%	38.9%	38.7%
4	NGOs	1.7%	1.6%	1.8%	1.8%	1.9%	1.8%	1.7%	1.7%	1.6%	1.6%
5	Households	17.1%	15.5%	16.8%	16.5%	16.6%	14.7%	14.4%	14.1%	14.3%	14.4%
	GDP at Factor Cost (Gross)	**93.9%**	**93.9%**	**94.6%**	**97.3%**	**98.8%**	**98.8%**	**96.9%**	**96.5%**	**94.5%**	**94.2%**
	Indirect taxes less Subsidies	11.0%	11.2%	11.1%	9.2%	8.0%	8.4%	9.2%	9.3%	11.6%	11.9%
	Less bank service charge										
	Current GDP at Market Prices (Gross)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: EPPSO estimates

Table 4g Current price GDP by institutional sector and income components $'000

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise										
	Compensation of employees	16,951	16,866	17,210	18,266	20,060	19,849	18,853	18,452	18,123	19,647
	Operating surplus (gross)	12,516	11,953	11,260	13,354	12,884	13,221	14,979	18,011	16,813	17,297
	Offshore fishing surplus (1)	3,184	2,840	0	879	926	3,399	4,338	4,822	5,209	5,437
1.2	Public Enterprise										
	Compensation of employees	7,780	7,763	7,455	7,940	8,069	8,098	9,180	9,125	9,271	9,491
	Operating surplus (gross)	-2,651	478	-450	-1,426	-2,026	1,928	-341	-1,377	-3,897	-4,267
	Less Subsidies	-2,308	-2,639	-1,368	-1,993	-2,609	-3,531	-3,190	-2,488	-2,049	-1,600
2	Finance (Banks)										
	Compensation of employees	1,520	1,614	1,758	1,833	2,108	2,354	2,265	2,419	2,635	2,610
	Operating surplus (gross)	2,580	2,767	3,035	3,631	3,553	4,346	3,901	3,945	4,277	4,463
3	Government (compensation of employees)										
3.1	RMI Government	22,041	20,736	19,204	19,446	20,779	23,523	26,842	30,385	33,396	37,902
3.2	Government Agencies	4,720	5,774	7,112	7,828	8,568	9,358	9,507	9,192	9,342	7,308
3.3	Local Government	6,891	7,114	7,574	8,234	8,175	8,164	7,846	8,221	8,634	8,507
4	NGOs (compensation of employees)	1,664	1,642	1,744	1,789	1,937	2,018	2,069	2,134	2,137	2,215
5	Households										
	Mixed Income										
	Copra production	2,062	821	1,007	1,183	949	478	1,027	1,186	1,178	989
	Fishing	523	556	571	586	607	615	620	644	678	724
	Handicrafts	899	954	980	1,006	1,042	1,056	1,065	1,105	1,164	1,244
	Other	200	209	216	222	230	233	235	244	257	274
	Subsistence	6,662	6,750	7,027	6,878	7,259	7,312	7,172	7,447	7,841	8,377
	Home Ownership	6,865	6,449	6,608	6,784	7,031	7,125	7,181	7,456	7,850	8,387
	Indirect taxes										
	Import and fuel taxes (REPMAR)	7,810	8,335	6,227	4,523	4,451	6,323	7,040	6,681	8,830	9,149
	Other Indirect taxes (REPMAR)	2,756	2,672	2,569	3,227	2,980	3,100	3,528	4,133	3,981	4,158
	Indirect taxes (Local Government)	2,751	2,981	3,359	3,583	3,430	3,719	3,696	3,573	4,556	4,755
	Less bank service charge	-4,888	-5,198	-5,516	-6,594	-7,033	-8,251	-7,383	-7,476	-8,017	-8,367
	Nominal GDP at Market Prices (Gross)	**100,531**	**101,437**	**97,579**	**101,178**	**103,369**	**114,437**	**120,428**	**127,831**	**132,208**	**138,700**
	Memo item: Labor Income, Kwajalein base (2)	13,353	14,113	15,628	17,743	18,566	17,814	18,720	18,619	19,624	22,171

(1) Estimated surplus of RMI based longline fishing and shorebased fish processing under foreign investment (tax holiday) exemptions
This does not include purse seine operations, which are treated as outside the economic territory of the RMI and so are not included in GDP

(2) Income earned by Marshallese workers on Kwajalein military base and in foreign embassies in Majuro, also outside the economic territory of the RMI

Source: EPPSO estimates

Table 4h Constant price GDP by institutional sector and income components, $'000, FY00 prices

		FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06proj
1.1	Private Enterprise										
	Compensation of employees	16,796	17,699	17,219	18,266	19,920	20,183	19,501	19,354	19,108	20,249
	Operating surplus (gross)	13,251	12,499	11,445	13,354	12,720	13,013	14,606	17,207	15,644	15,589
	Offshore fishing surplus (1)	3,371	2,970	0	879	914	3,345	4,230	4,606	4,847	4,969
1.2	Public Enterprise										
	Compensation of employees	9,111	9,209	8,087	7,940	7,869	8,552	8,877	9,000	9,124	9,300
	Operating surplus (gross)	-3,287	-3,350	-3,243	-1,426	-520	533	-470	-1,912	-2,070	-3,830
	Less Subsidies	-2,446	-2,807	-1,401	-1,993	-2,590	-3,470	-3,049	-2,329	-1,882	-1,436
2	Finance (Banks)										
	Compensation of employees	1,528	1,702	1,816	1,833	2,179	1,999	2,003	2,260	2,408	2,497
	Operating surplus (gross)	3,321	3,411	3,508	3,631	3,713	3,757	3,682	3,822	3,683	3,775
3	Government (compensation of employees)										
3.1	RMI Government	24,283	22,128	20,021	19,446	19,950	23,207	24,852	26,199	27,713	31,573
3.2	Government Agencies	5,599	5,081	6,775	7,828	8,594	8,441	8,832	8,179	8,364	5,700
3.3	Local Government	6,817	7,510	7,993	8,234	8,286	7,574	7,097	7,707	7,853	7,870
4	NGOs (compensation of employees)	1,686	1,724	1,739	1,789	1,885	1,875	1,800	1,891	1,900	1,962
5	Households										
	Mixed Income										
	Copra production	1,599	1,264	929	1,183	1,455	735	1,186	1,348	1,359	1,087
	Fishing	554	571	576	586	596	606	617	628	639	650
	Handicrafts	951	981	989	1,006	1,024	1,041	1,060	1,078	1,097	1,116
	Other	212	215	218	222	226	230	234	238	242	246
	Subsistence	7,048	6,938	7,090	6,878	7,127	7,208	7,138	7,263	7,390	7,520
	Home Ownership	7,262	6,629	6,668	6,784	6,903	7,024	7,147	7,272	7,399	7,529
	Indirect taxes										
	Import and fuel taxes (REPMAR)	4,298	4,049	4,155	4,523	4,589	5,173	4,920	5,184	5,187	5,701
	Other Indirect taxes (REPMAR)	2,920	2,843	2,630	3,227	2,958	3,046	3,372	3,869	3,657	3,762
	Indirect taxes (Local Government)	2,915	3,172	3,440	3,583	3,405	3,655	3,532	3,345	4,186	4,303
	Less bank service charge	-5,179	-5,530	-5,649	-6,594	-6,982	-8,109	-7,056	-6,999	-7,365	-7,551
	Nominal GDP at Market Prices (Gross)	**102,609**	**98,906**	**95,004**	**101,178**	**104,220**	**109,620**	**114,112**	**119,211**	**120,484**	**122,581**

(1) Estimated surplus of RMI based longline fishing and shorebased fish processing under foreign investment (tax holiday) exemptions
This does not include purse seine operations, which are treated as outside the economic territory of the RMI

Source: EPPSO estimates

Table 5a Copra Production, Average Producer Price and Total Income from the Produce in RMI: 1951-2004

	Total Production (Short Tons)[1]	Average Producer Price Per S.Ton	Total Producer Income ($,000)
1951	4980	84	418
1961	6060	126	764
1971	5344	154	823
1981	5760	171	985
1991	4213	155	653
2001	5256	187	949
2002	2653	180	478
2003	4283	240	1027
2004	4868	240	1186
2005	4908	240	1178

Source: Tobolar Processing Plant and EPPSO

Note [1] Short Ton=0.984, Metric Ton=907.2 Kgs.

Table 5b PM&O Tuna Loining Plant Achievements, Majuro: 1999 to 2003

	Number of Employees			Fish Processed	Value of fish	Animal Feed Produced	
	Male	Female	Total	(Short Tons)	Exported ($)	Quantity (S.Tons)	Value ($)
FY99	20	80	100	300	60,000	50	15,000
FY00	60	240	300	10,000	2,500,000	1,600	480,000
FY01	80	320	400	9,700	2,450,000	1,400	420,000
FY02	100	400	500	10,200	2,550,000	1,750	525,000
FY03	110	420	530	12,400	3,350,000	1,300	400,000
FY04	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*

Source: PM&O Tuna Loining Plant, Majuro

Note Loining plant was closed down towards the end of year 2004.

Table 5c Total Fish Catch (Metric Tons) in RMI EEZ By Method: 1998 - 2004

Fiscal Year	Method of catch			
	Long Line	Purse Line	Pole and Line	Total
FY98	2,147	65,551	18,392	86,090
FY01	4,829	23,743	3,944	32,515
FY00	2,110	20,403	8,208	30,721
FY01	4,176	36,324	16,243	56,743
FY02	1,992	28,915	7,316	38,223
FY03	1,149	2,443	39	3,631
FY04	1,550	13,296	0	14,846

Source: Marshall Islands Marine Resources Authority

Table 5d Visitors to Majuro by Year and Purpose of Visit: 1991, 1996, and 2001-2005

Purpose	1991	1996	2001	2002**	2003**	2004	2005
Transit/Stop Over	1,633	1,447	676	997	1,988	1,779	1,590
Business	2,271	2,513	1,892	2,165	2,245	2,999	3,061
Holiday/Vacation	947	1,113	1,483	1,445	1,380	2,683	2,727
Visiting Friends/Relatives	606	634	662	763	769	810	931
Other/Not Stated	415	409	731	632	813	736	864
Total	5,872	6,116	5,444	6,002	7,195	9,007	9,173

Source: Marshall Islands Visitors Authority

Note ** Does not include those who arrive at Kwajalein airport

Table 5e Length of Stay, Visitors to Majuro by Year and Purpose of Visit: 2001-2005

Purpose	2001	2002	2003	2004	2005
Transit/Stop Over	1.5	1.1	0.8	0.7	0.9
Business	6.2	7.9	6.8	4.8	6.4
Holiday/Vacation	5.4	5.4	6.2	3.7	5.6
Visiting Friends/Relatives	8.9	9.1	12.9	9.1	10.7
Other	9.0	9.8	11.8	10.3	8.8
Not Stated	0.8	1.0	0.5	1.0	1.0
Total	5.6	6.1	5.6	4.2	5.5

Source: Marshall Islands Visitors Authority

Note Prior to 2004 only visitors travelling by air were included

Table 5f Visitors to Majuro by Usual Residence: 1998 to 2005

Usual residence	1998	1999	2000	2001	2002	2003	2004	2005
USA/Canada & other America	1,975	2,071	2,022	1,994	2,156	2,189	2,099	2,554
Australia/ New Zealand	229	223	202	222	263	279	277	578
Other Pacific Island countries	1,318	864	1,181	1,070	1,072	1,650	1,669	2,024
European Countries	89	91	129	115	147	196	160	404
Japan	104	100	856	940	828	961	984	1,565
Taiwan	670	585	211	353	347	209	321	476
People's China	165	85	83	80	159	57	87	142
Philippines	211	280	170	180	239	245	192	532
Other Asian Countries	240	223	181	228	489	1,021	936	731
Others & Not Stated	43	100	211	262	302	388	2,282	167
Total	5,044	4,622	5,246	5,444	6,002	7,195	9,007	9,173

Source: Marshall Islands Visitors Authority (MIVA), EPPSO

Table 6a Assets and Liabilities of Deposit Money Banks[1]

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets	55.2	57.0	57.5	53.1	51.8	55.1	52.7	60.7	71.8	77.3	83.3	91.0	95.9	94.2
Foreign assets	16.6	16.2	18.4	17.7	20.1	18.8	18.1	23.5	33.0	32.9	43.1	50.1	52.4	53.7
Claims on central and local governments	1.3	1.5	1.4	1.2										
Claims on public enterprises	1.4	1.1	0.7	0.1	2.2	2.9	3.1	4.3	2.9	2.5	1.8	1.3	1.3	0.0
Claims on private sector	34.4	35.5	35.6	32.3	29.5	32.0	31.7	33.6	37.0	38.3	39.9	40.6	43.9	43.0
Consumer					19.7	21.2	23.2	22.8	26.4	30.8	35.6	37.2	38.6	36.9
Commercial					9.7	11.1	8.5	10.8	10.6	7.4	4.3	3.4	5.3	6.0
Unclassified assets	1.6	2.7	1.6	1.9	0.1	1.5	-0.3	-0.7	-1.1	3.6	-1.4	-1.0	-1.7	-2.4
Liabilities	55.2	57.0	57.5	53.1	51.8	55.1	52.7	60.7	71.8	77.3	83.3	91.0	95.9	94.2
Deposits	48.4	46.5	49.9	45.6	48.6	45.0	46.4	54.3	61.4	62.0	68.3	73.3	75.4	72.8
Demand deposits	16.9	15.2	15.4	13.9	15.1	16.8	13.9	15.9	20.5	20.2	20.8	25.1	27.7	25.0
Time deposits	9.1	9.0	9.2	11.1	12.3	11.5	11.9	16.6	19.8	21.0	22.0	20.9	20.1	16.2
Savings deposits	11.4	11.1	11.9	9.6	9.6	8.1	8.2	12.0	14.5	15.9	17.1	17.5	19.0	24.7
Central government deposits[2]	11.0	11.2	13.5	12.1	9.6	9.4	9.9	8.1	6.6	4.9	8.4	9.8	8.6	6.9
Foreign liabilities	1.8	4.2	2.8	1.2	1.5	2.3	2.8	1.6	2.6	2.6	2.8	3.8	4.4	3.2
Capital accounts	3.0	3.7	3.8	4.4	3.3	5.7	5.4	5.9	7.1	7.2	11.9	13.3	15.7	17.7
Unclassified liabilities	1.9	2.7	1.1	1.1	0.5	1.4	0.6	0.4	0.7	5.5	0.4	0.6	0.5	0.5
Memorandum items:														
Loan/deposit ratio (in percent)	73.9	78.7	72.6	70.9	65.2	77.3	74.9	69.9	64.9	65.8	61.1	57.1	59.9	59.0
Deposits (12-month percent change)		-3.9	7.3	-8.5	6.6	-7.4	3.2	17.0	13.1	0.9	10.1	7.4	2.8	-3.4
Loans (12-month percent change)		2.2	-1.0	-10.6	-2.1	9.9	0.0	9.1	5.0	2.4	2.2	0.3	7.8	-4.8
Consumer loans (in percent of total loans)					62.3	61.0	66.7	60.2	66.2	75.6	85.4	88.8	85.5	86.0
Commercial loans (in percent of total loans)					30.7	31.8	24.4	28.4	26.5	18.2	10.3	8.1	11.7	14.0

Source: Banking Commision and IMF

Notes 1 Calendar-year basis 4 quarter average

2 includes deposits of social security administration and other trust funds

Table 6b Income and Expense of Domestic Money Banks, 1997-2005, $'000

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Interest Income:									
Interest and fees on loans	5,030	5,467	5,632	6,686	6,781	7,488	7,342	7,552	7,156
Deposit with banks	1,218	1,133	1,038	1,504	1,431	2,022	369	510	1,429
Other interest income	91	91	195	236	106	95	56	59	46
Total interest income	6,339	6,691	6,865	8,426	8,318	9,605	7,767	8,121	8,631
Interest Expense:									
Deposits	1,610	1,509	1,554	1,941	2,085	2,228	1,578	1,241	1,136
Other interest expense	0	0	10	13	32	0	0	0	0
Total interest expense	1,610	1,509	1,564	1,954	2,117	2,228	1,578	1,241	1,136
Net interest income	4,729	5,182	5,301	6,472	6,201	7,377	6,189	6,880	7,495
Provision for loans losses	865	1,124	656	732	2,327	630	930	988	648
Net interest income after provision for loan losses	3,864	4,058	4,645	5,740	3,874	6,747	5,259	5,892	6,847
Noninterest Income:									
Service charges and fees	646	712	854	918	985	630	634	640	631
Other noninterest income	159	119	287	457	866	1,269	773	767	645
Total noninterest income	805	831	1,141	1,375	1,851	1,899	1,407	1,407	1,276
Noninterest Expense:									
Salaries and employee benefits	1,209	1,320	1,426	1,510	1,750	2,091	1,634	1,888	2,240
Occupancy	358	392	371	393	398	468	248	261	281
Furniture and equipment	171	200	337	394	393	466	276	180	144
Other operating expense	1,216	1,272	1,204	1,744	2,043	1,614	1,783	1,917	1,751
Total noninterest expense	2,954	3,184	3,338	4,041	4,584	4,638	3,941	4,246	4,416
Net Income (Loss)	1,715	1,705	2,448	3,074	1,141	4,008	2,725	3,053	3,707

Source: Banking Commision and EPPSO

Table 6c Interest Rates of Domestic Money Banks, 1997-2005, percent[1]

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Deposit rates									
Savings accounts[2]	2.8	2.9	3.1	2.5	2.7	2.1	1.5	1.1	1.2
Time deposits[3]									
Three months	4.3	3.7	4.4	4.3	3.5	2.6	1.8	1.3	2.2
Six months	5.0	4.2	4.6	4.8	3.8	2.9	2.0	1.6	2.9
One year or more	5.4	5.1	5.0	6.8	4.4	3.5	2.6	2.1	3.5
Loan rates[4]									
Consumer loans	18.0	18.7	20.5	18.3	19.2	18.4	17.7	17.4	18.5
Commercial loans	11.0	11.5	12.5	13.3	11.8	10.8	9.8	9.7	11.0

Source: Banking Commision

1 year average

2 average of rates offered by deposit money banks.

3 average of minimum rates offered by deposit money banks.

4 average of maximum rates charged by deposit money banks.

Table 7a Consumer Price Index (CPI) by major groups, 1982=100

	All Groups	Food	Household & Personal	Apparel	Durables & Fuel
Weights	100.0	57.7	14.8	12.0	15.6
FY83	102.3	104.2	99.7	98.1	100.9
FY84	107.3	108.5	104.7	101.8	109.2
FY85	108.1	105.0	110.1	108.4	117.5
FY86	110.2	108.2	109.2	109.5	119.2
FY87	112.8	104.7	119.7	129.1	119.0
FY88	113.7	108.0	128.9	127.7	110.0
FY89	116.5	113.5	125.8	124.0	112.7
FY90	117.8	117.7	130.2	114.5	110.8
FY91	121.6	121.6	129.8	125.0	111.3
FY92	131.3	129.3	152.2	128.5	121.0
FY93	141.2	135.6	162.9	151.4	133.9
FY94	148.1	137.2	183.3	157.3	148.0
FY95	158.2	139.1	212.1	175.0	165.1
FY96	174.8	155.6	244.4	189.4	173.7
FY97	185.0	167.2	254.6	195.0	177.9
FY98	191.9	173.1	270.5	200.2	181.0
FY99	194.8	175.7	273.7	206.1	182.2
FY00	196.6	174.3	279.6	219.2	183.5
FY01	199.7	175.3	288.5	232.1	180.9
Percent change year-on-year					
FY84	4.8%	4.1%	5.1%	3.8%	8.1%
FY85	0.8%	-3.3%	5.1%	6.5%	7.7%
FY86	2.0%	3.1%	-0.8%	1.0%	1.4%
FY87	2.3%	-3.2%	9.6%	17.9%	-0.2%
FY88	0.8%	3.1%	7.6%	-1.1%	-7.6%
FY89	2.5%	5.1%	-2.3%	-2.9%	2.5%
FY90	1.2%	3.7%	3.5%	-7.6%	-1.7%
FY91	3.3%	3.3%	-0.4%	9.2%	0.5%
FY92	7.9%	6.3%	17.3%	2.8%	8.7%
FY93	7.6%	4.9%	7.0%	17.8%	10.7%
FY94	4.9%	1.2%	12.5%	3.9%	10.5%
FY95	6.8%	1.4%	15.7%	11.3%	11.6%
FY96	10.5%	11.8%	15.2%	8.3%	5.2%
FY97	5.8%	7.5%	4.2%	2.9%	2.5%
FY98	3.8%	3.5%	6.2%	2.7%	1.8%
FY99	1.5%	1.5%	1.2%	2.9%	0.7%
FY00	0.9%	-0.8%	2.1%	6.4%	0.7%
FY01	1.6%	0.6%	3.2%	5.9%	-1.4%

Source: EPPSO

Table 7b Consumer Price Index (CPI) by major groups, 2003 1st quarter=100

	All	Food	Alcoholic Beveraes	Housing, Utilities and Major Appliances	Apparel	Transport-ation	Medical Care	Recreation	Education and Comm.	Other Good and Services
Weights	100.0	35.9	1.7	17.1	4.3	13.7	2.2	2.3	6.6	16.2
2003 q1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003 q2	100.5	102.3	100.0	99.3	99.7	98.1	100.0	100.2	100.0	100.5
2003 q3	101.0	103.1	103.8	99.2	102.1	97.7	100.0	100.1	100.0	101.1
2003 q4	102.0	105.7	101.5	99.0	102.8	97.8	100.0	99.1	100.0	101.7
2004 q1	102.2	106.3	102.3	99.0	105.7	98.0	100.0	99.6	100.0	100.8
2004 q2	102.5	106.6	102.3	99.4	103.7	99.2	100.0	100.9	100.0	100.4
2004 q3	103.4	105.8	102.3	100.4	103.6	102.2	100.0	96.7	111.1	101.0
2004 q4	104.4	106.3	120.3	98.9	102.4	106.9	100.0	94.2	111.1	102.1
2005 q1	105.1	105.3	120.3	104.8	102.8	107.1	100.0	92.6	111.1	102.4
2005 q2	106.7	106.7	123.5	105.9	102.4	110.7	100.0	95.2	111.1	104.2
2005 q3	108.3	107.3	126.4	107.1	103.8	118.4	100.0	94.5	113.8	103.1
2005 q4	110.8	107.1	128.6	119.5	103.5	121.7	100.0	90.3	115.9	103.3
2006 q1	111.3	110.0	131.7	119.5	104.0	121.3	100.0	91.3	115.9	99.3
2006 q2	111.6	110.2	133.4	120.9	110.0	123.1	100.0	90.0	115.9	96.3
FY03	100.5	101.8	101.3	99.5	100.6	98.6	100.0	100.1	100.0	100.5
FY04	102.5	106.1	102.1	99.5	103.9	99.3	100.0	99.1	102.8	101.0
FY05	106.1	106.4	122.6	104.2	102.9	110.8	100.0	94.1	111.8	102.9
Percent change year-on-year										
2004 q1	2.2%	6.3%	2.3%	-1.0%	5.7%	-2.1%	0.0%	-0.4%	0.0%	0.8%
2004 q2	2.0%	4.3%	2.3%	0.1%	4.0%	1.1%	0.0%	0.8%	0.0%	-0.1%
2004 q3	2.4%	2.6%	-1.5%	1.1%	1.5%	4.6%	0.0%	-3.4%	11.1%	-0.1%
2004 q4	2.4%	0.5%	18.5%	-0.1%	-0.3%	9.3%	0.0%	-4.9%	11.1%	0.4%
2005 q1	2.8%	-0.9%	17.6%	5.8%	-2.8%	9.3%	0.0%	-7.1%	11.1%	1.6%
2005 q2	4.1%	0.0%	20.7%	6.5%	-1.3%	11.6%	0.0%	-5.7%	11.1%	3.8%
2005 q3	4.7%	1.4%	23.6%	6.7%	0.2%	15.9%	0.0%	-2.3%	2.5%	2.1%
2005 q4	6.2%	0.8%	6.9%	20.8%	1.0%	13.9%	0.0%	-4.2%	4.3%	1.1%
2006 q1	5.9%	4.5%	9.5%	14.0%	1.2%	13.3%	0.0%	-1.3%	4.3%	-3.1%
2006 q2	4.6%	3.3%	8.1%	14.2%	7.4%	11.2%	0.0%	-5.5%	4.3%	-7.6%
FY04	2.0%	4.2%	0.8%	-0.1%	3.3%	0.7%	0.0%	-1.0%	2.8%	0.4%
FY05	3.5%	0.3%	20.1%	4.7%	-1.0%	11.6%	0.0%	-5.0%	8.8%	2.0%

Source: EPPSO

Table 8a   Marshall Islands: Balance of Payments, FY95-FY06, $'millions[1/]

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Current account	**12.2**	**2.7**	**5.1**	**11.1**	**17.0**	**17.9**	**26.2**	**16.3**	**9.0**
Trade balance	-41.3	-49.7	-61.7	-74.5	-69.4	-59.2	-63.3	-57.4	-69.3
Exports, f.o.b.	14.2	7.5	7.2	8.8	10.0	11.4	14.2	15.7	16.5
Imports, f.o.b.	-55.6	-57.2	-68.9	-83.2	-79.4	-70.6	-77.5	-73.1	-85.8
Net services	-10.5	-12.9	-7.5	-1.6	-3.4	-6.3	-3.6	-1.7	-6.9
Receipts	3.8	4.2	5.1	9.0	9.3	9.6	10.3	12.1	9.0
Travel [2/]	2.8	3.1	2.9	3.0	3.1	3.4	4.0	5.0	5.5
Transshipments	1.0	1.1	1.0	1.1	1.3	1.2	1.1	1.3	1.4
Other	0.0	0.0	1.2	4.9	4.9	5.1	5.1	5.7	2.1
Payments	-14.4	-17.1	-12.6	-15.0	-16.8	-20.2	-17.5	-16.6	-18.6
Freight and insurance	-8.3	-8.6	-8.9	-7.6	-7.8	-10.6	-11.6	-11.0	-12.9
Transportation	-4.2	-5.3	-2.3	-1.4	-1.7	-2.5	-2.1	-1.7	-1.7
Communications	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	-1.8	-3.0	-1.2	-6.0	-7.3	-7.1	-3.8	-3.9	-4.0
Other [3/]	4.9	4.3	4.3	4.4	4.0	4.3	3.6	2.8	2.7
Net income	24.2	20.4	31.5	37.0	30.6	34.9	41.5	33.3	35.6
Receipts	31.6	27.1	37.1	40.2	33.2	37.0	43.6	35.6	38.1
Fishing rights fees	1.9	1.3	2.3	3.7	2.9	3.3	1.7	0.9	1.5
Registration fees	1.0	1.0	1.0	1.1	0.7	0.6	1.0	1.0	1.0
Interest and dividend earnings	7.5	2.4	9.5	9.3	2.6	-0.2	7.4	1.0	1.7
Labor income	13.4	13.9	15.8	17.7	18.6	17.7	17.8	17.6	18.6
Other	7.8	8.4	8.4	8.5	8.4	15.6	15.6	15.0	15.2
Payments	-7.4	-6.7	-5.6	-3.3	-2.6	-2.1	-2.1	-2.3	-2.5
Interest payments	-7.4	-6.7	-5.6	-3.3	-2.6	-2.1	-2.1	-2.3	-2.5
Unrequited transfers	39.9	44.9	42.8	50.2	59.2	48.5	51.6	42.1	49.6
Private	-5.7	-6.2	-6.1	-6.8	-7.0	-13.0	-12.9	-12.4	-12.6
Inflows	0.5	0.6	0.6	0.6	0.6	0.4	0.3	0.3	0.4
Outflows	-6.2	-6.7	-6.7	-7.4	-7.7	-13.4	-13.2	-12.7	-13.0
Official	45.6	51.1	48.9	57.0	66.3	61.6	64.5	54.5	62.2
Compact grants [4/]	30.4	30.5	30.9	31.1	31.4	32.7	32.7	20.5	35.4
Other	15.2	20.6	18.0	25.9	34.9	28.9	31.8	34.0	26.8

Table 8a Marshall Islands: Balance of Payments, FY95-FY06, $'millions[1/]

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Capital and financial account	**-6.5**	**1.4**	**-21.6**	**-10.5**	**-16.9**	**2.0**	**-6.8**	**-27.7**	**-7.5**
Direct investment, net	0.1	0.1	3.1	0.1	0.1	0.1	-1.9	0.1	2.1
Short-term liabilities, net[5/]	1.6	-2.4	-3.2	-4.9	-2.2	-6.6	-8.1	-4.9	-4.9
Medium-term liabilities, net	-6.9	-11.1	-27.0	-5.6	-14.8	8.6	3.3	2.1	-2.2
Inflows	10.7	7.9	15.3	11.1	9.2	9.6	4.3	2.3	0.0
Outflows	-17.6	-19.0	-42.3	-16.7	-24.0	-1.1	-1.1	-0.2	-2.2
Transfer to Compact Trust Fund								-25.0	-2.5
Errors and omissions	-6.3	11.5	4.6	4.0	-5.3	-6.5	-3.0	-12.1	-7.4
Overall balance[6/]	**-0.6**	**3.1**	**-7.6**	**4.6**	**-5.2**	**13.5**	**16.4**	**-23.5**	**-5.9**
Gross official reserves[7/]	9.3	12.4	4.8	9.4	4.2	18.4	34.1	10.6	4.8
Of which: usable government financial asse	9.3	12.4	4.8	9.4	4.2	2.7	2.9	4.5	1.1
Months of imports of goods and services	1.6	2.0	0.7	1.2	0.5	0.4	0.4	0.6	0.1

Notes
1/ Fiscal year ending September 30.
2/ Prior to 2004, the estimated number of vistitors to the RMI only include air arrivals.
3/ Net payments to the National Telecommunications Authority.
4/ Compact funding pertaining to the Kwajalein Atoll Trust Fund and Kwajalein resident and landowner compensation payments are classified as income rather than official transfers.
5/ Includes changes in social security fund investments, banking system assets held overseas, and government assets held in the capital and special fund accounts.
6/ Changes in government assets, excluding the general fund.
7/ Approximated by changes in usable government financial assets.

Table 9a External debt, original value, outstanding and net present value by loan

Loan	Lender	Number	Year	Original debt, $'000	Estimated outstanding principle June 2006, $'000	NPV of repayments of loans discounted @ 6%
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	3,306	1,821
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	493	272
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	7,724	4,305
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	708	374
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	8,304	4,365
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	5,228	2,926
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	11,290	5,714
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	8,954	4,474
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,231	4,300
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	8,389	5,593
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	4,000	4,091
Outer-Islands Transport and Infrastructure Loan	ADB	1848-RMI (SF)	2003	7,900	3	3,918
Marshalls Energy Company - New Powerplant Loan	RUS		1997	12,500	9,781	9,775
NTA Loan	RUS		1989	18,800	16,295	14,613
NTA Loan Supplement	RUS		1993	3,900	0	0
PRC Loan for Garment Factory	PRC		1991	1,900	1,900	934
Tobolar Bank Credit Line	BMI		2003	1,000	650	700
Tobolar MIPA Notes Payable	MIPA		1998	100	61	100
Tobolar MIAA Note Payable	MIAA		na	95	95	95
Total				114,485	91,411	68,371

Table 9b External debt and debt service RMI and national government, FY92-FY05, $'m

	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
External Debt Total (US$ millions)									
New	34.4	2.2	10.7	15.3	5.9	9.7	10.4	9.2	5.0
Outstanding	150.5	138.5	123.9	125.4	117.5	92.8	90.2	77.9	86.2
Amortization	20.0	22.6	23.2	23.1	34.2	18.5	24.2	3.4	3.2
Interest	6.0	7.8	6.9	6.4	5.5	3.5	2.6	2.0	2.3
Principal balance	136.4	123.8	118.2	116.3	93.7	89.0	77.9	86.2	90.0
External debt (adjusted) as % of GDP	117%	115%	118%	115%	96%	88%	76%	75%	75%
Debt service as % of general fund revenues**	52%	76%	88%	98%	135%	66%	83%	9%	9%
Memorandum items:									
Debt to ADB (all concessional)	4.5	6.6	17.3	25.2	28.5	37.5	46.8	56.0	60.9
	0.0	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.6
General Fund Revenues	38.2	29.7	26.3	23.5	25.4	28.1	29.3	35.7	36.9
GDP (US$ millions)	**116.9**	**107.8**	**100.5**	**101.4**	**97.6**	**101.1**	**103.2**	**114.3**	**120.4**
Export of Goods and Services (US$ millions)	22.8	20.0	14.2	7.5	7.2	8.8	10.0	11.4	14.2

Source: *Department of Finance and Administration and EPPSO estimates.*

* Export of Goods and Services

** general fund revenue = uncommitted government revenue available for debt service

Table 9c External debt and debt service projections, FY06-FY40, $'m

	Total External Debt (US$ millions)				Debt to ADB			
	Outstanding	Amortization	Interest	Principal balance	Debt to ADB (concessional)	ADB Debt Servicing	General Fund Revenues (est.)	ADB Share of General Fund
FY06	92.1	4.8	2.4	89.8	62.5	1.6	33.1	4.7%
FY07	89.8	5.0	2.3	87.1	61.5	1.8	34.3	5.2%
FY08	87.1	5.6	2.3	84.1	60.5	2.2	35.5	6.2%
FY09	84.1	5.6	2.1	81.0	59.3	2.4	36.7	6.6%
FY10	81.0	6.0	2.0	77.3	57.4	3.0	38.0	7.9%
FY11	77.3	5.7	1.9	73.2	55.1	3.0	39.4	7.6%
FY12	73.2	5.7	1.7	69.1	52.6	3.0	40.7	7.5%
FY13	69.1	5.7	1.6	64.7	50.1	3.1	42.2	7.3%
FY14	64.7	5.9	1.4	60.1	47.4	3.2	43.7	7.3%
FY15	60.1	5.8	1.3	55.5	44.6	3.3	45.2	7.3%
FY16	55.5	5.6	1.1	50.8	41.6	3.4	46.8	7.3%
FY17	50.8	5.5	1.0	46.1	38.6	3.4	48.5	7.0%
FY18	46.1	4.8	0.8	42.0	35.6	3.3	50.2	6.6%
FY19	42.0	4.1	0.7	38.4	32.9	3.0	51.9	5.8%
FY20	38.4	4.1	0.6	34.8	30.2	3.0	53.8	5.6%
FY21	34.8	3.9	0.5	31.3	27.5	3.0	55.7	5.3%
FY22	31.3	3.9	0.5	27.8	24.8	2.9	57.6	5.1%
FY23	27.8	3.9	0.4	24.2	22.1	2.9	59.6	4.8%
FY24	24.2	3.8	0.3	20.7	19.4	2.9	61.8	4.6%
FY25	20.7	3.8	0.3	17.1	16.8	2.8	63.9	4.4%
FY26	17.1	2.4	0.2	14.8	14.6	2.3	66.2	3.4%
FY27	14.8	2.4	0.2	12.5	12.5	2.2	68.5	3.3%
FY28	12.5	2.2	0.1	10.4	10.4	2.2	70.9	3.1%
FY29	10.4	2.1	0.1	8.4	8.4	2.1	73.4	2.8%
FY30	8.4	2.0	0.1	6.5	6.5	2.0	76.0	2.6%
FY31	6.5	1.7	0.1	4.9	4.9	1.7	78.7	2.2%
FY32	4.9	1.6	0.1	3.4	3.4	1.6	81.5	1.9%
FY33	3.5	1.4	0.0	2.1	2.1	1.4	84.3	1.7%
FY34	2.1	1.3	0.0	0.8	0.8	1.3	87.3	1.5%
FY35	1.0	0.8	0.0	0.2	0.2	0.8	90.4	0.9%
FY36	0.2	0.2	0.0	0.0	0.0	0.2	93.6	0.3%

Table 10a RMI Government Finances (GFS Format) FY97-FY05, $'millions [1/]

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06 est.
Total revenue and grants	68.8	71.5	65.5	74.1	81.7	79.7	83.3	76.1	82.2	87.8
Total domestic revenue	27.8	24.7	23.7	24.4	23.6	27.5	28.7	33.4	35.5	35.8
Taxes	18.6	18.7	16.9	17.0	18.4	20.1	23.1	22.5	24.3	24.8
Income	8.1	7.6	7.6	8.7	9.6	9.6	12.0	10.6	10.9	11.1
Gross revenue	2.7	2.7	2.5	3.2	3.8	3.5	3.4	4.0	3.9	4.2
Imports	7.0	7.5	6.2	4.2	4.0	6.0	6.6	6.2	7.8	8.1
Other	0.8	0.8	0.5	0.9	0.9	1.0	1.0	1.7	1.7	1.5
Nontax	9.2	6.0	6.8	7.3	5.3	7.4	5.6	11.0	11.2	10.9
Fishing rights	1.9	1.3	2.3	3.7	1.8	3.3	1.7	0.9	1.4	1.5
Social contributions [7/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.3	6.2	6.8
Fees and charges [2/]	1.9	0.6	0.6	0.9	1.0	1.6	0.8	1.4	1.4	1.9
Investment income	0.8	1.6	0.6	0.5	0.4	0.4	0.2	0.1	0.1	0.1
Other	4.6	2.4	3.3	2.3	2.0	2.1	2.8	2.1	2.2	0.7
Grants	41.0	46.8	41.8	49.7	58.1	52.2	54.6	42.6	46.8	52.0
Of which: current grants	18.0	22.9	18.8	26.7	34.8	32.9	35.4	39.5	42.0	42.5
Compact [3/]	30.4	30.9	30.9	31.1	31.4	32.7	32.7	20.5	27.6	33.3
Other	10.6	15.9	10.9	18.6	26.7	19.5	21.9	22.1	19.2	18.7
Total expenditure	60.4	56.6	55.3	65.1	72.1	90.4	85.4	77.8	86.2	86.4
Current expenditure	52.9	51.8	48.4	52.9	52.8	73.3	71.7	66.7	74.0	71.5
Wages and salaries	18.8	18.0	17.0	17.4	18.7	21.5	25.6	30.1	30.8	30.9
Goods and services	17.8	21.6	18.8	20.1	17.9	22.3	21.9	26.8	31.9	30.9
Interest payments	6.8	5.4	4.3	2.0	1.5	0.6	0.9	0.8	0.9	0.3
Subsidies to public enterprises	2.3	2.6	1.4	2.0	2.6	3.5	3.2	2.5	2.0	2.0
Other subsidies and transfers [/4]	5.2	3.5	6.1	11.1	12.1	25.5	20.2	6.5	8.3	7.4
Capital expenditure [5/]	7.5	4.8	6.9	12.1	19.4	17.1	13.8	11.1	12.2	14.9
Current balance	-7.1	-4.2	-5.9	-1.9	5.6	-13.0	-7.6	6.2	3.6	6.8
Overall balance	8.4	14.9	10.2	9.0	9.6	-10.7	-2.2	-1.8	-4.0	1.4

Financing	8.4	14.9	10.2	9.0	9.6	-10.7	-2.2	-1.8	-4.0	1.4
Net government debt repayment	7.3	11.0	27.0	5.6	14.8	-8.6	-4.1	-2.1	-0.5	0.1
Principal repayment	17.9	19.0	42.3	16.7	24.0	1.1	0.2	0.2	0.5	0.1
Gross borrowing	10.7	7.9	15.3	11.1	9.2	9.6	4.3	2.3	1.0	0.0
Change in government financial assets	1.1	3.8	-16.8	4.6	-5.2	-2.2	2.0	0.3	-3.5	1.3
Of which : Trust Funds (Compact & Intergenerational)						17.5	16.0	0.0	0.3	1.5
					(In percent of GDP)					
Revenue and grants	65.7	66.0	60.6	65.2	68.4	62.7	63.7	55.1	57.0	59.0
Revenue	26.6	22.8	21.9	21.5	19.7	21.6	21.9	24.2	24.6	24.0
Taxes	17.8	17.2	15.6	15.0	15.3	15.8	17.6	16.3	16.8	16.7
Grants	39.2	43.2	38.7	43.7	48.6	41.1	41.8	30.9	32.4	35.0
Expenditure	57.7	52.3	51.2	57.2	60.3	71.2	65.3	56.4	59.7	58.1
Current	50.6	47.8	44.8	46.6	44.1	57.7	54.8	48.3	51.2	48.1
Capital	7.1	4.4	6.4	10.7	16.2	13.4	10.5	8.1	8.5	10.0
Current balance	-6.8	-3.9	-5.5	-1.6	4.7	-10.2	-5.8	4.5	2.5	4.6
Overall balance	8.0	13.7	9.5	7.9	8.0	-8.5	-1.7	-1.3	-2.7	0.9
					(In percent of GDP)					
Memorandum items:										
Trust Fund Balances						15.9	32.9	40.4	41.4	45.1
Intergenerational						15.9	32.9	40.4	7.5	6.8
Compact									33.9	38.2
Closing Fund Balances	42.5	47.0	29.6	34.1	28.9	16.3	5.0	8.3	2.5	3.9
Of which										
Usable government financial assets 6/	9.3	12.4	4.8	2.8	1.5	2.7	0.8	5.3	1.1	2.3
Outstanding government debt	108.1	97.0	70.1	64.5	49.6	58.2	62.4	64.5	65.0	64.9
Nominal GDP	104.7	108.3	108.0	113.6	119.6	127.0	130.7	138.1	144.4	148.7

Sources: Government of RMI Audits

1/ The fiscal year ends on September 30.
2/ From FY04 onward figures include fees and charges related to the Ministry of health health fund.
3/ Does not include Compact funds earmarked for Kwajalein rental payments and trust fund contributions.
4/ Includes $17.5 and $16.0 million contribution in FY02 and FY03, respectively, to the intergenerational trust fund subsequently transferred to Compact Trust Fund. In FY06 $1 million was transferred from the intergenerational trust fund to the general fund for cash management
5/ Excludes $10.4 million in FY02 and $1.37 million in FY05 for loan write-offs.
6/ Cash and cash equivalents that are not reserved for specific uses.
7/ In FY02 employer and employee contributions (7% of payroll) for hearlth insurance were transferred from the Marshall Island Social Security Administration to Government. Only in FY04 did the audit capture these changes

Table 10b Subsidies to Public Enterprises, FY97-FY05, $'000

	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Air Marshall Islands	299	500	1,874	2,000	0	0	0	0	400
Kwajalein Atoll Joint Utilities Resources	488	356	325	1,889	750	573	199	650	1,099
Majuro Water and Sewer Company	100			100	100	1,464	49	0	0
Marshalls Energy Co. Inc.	601					1,867	1,867	205	
Marshall Islands Airports Authority				50	89				
Marshall Islands Development Bank				50	970	995			194
Marshall Islands Ports Authority	395	90							
Outrigger - Marshall Islands Resort	420	1,120	462	100	186			545	
Tobolar	450	579	581	845	3,050	1,449	1,096	900	895
Total	2,753	2,645	3,242	5,033	5,145	6,348	3,210	2,301	2,588