Republic of the Marshall Islands

Fiscal Year 2008 Economic Review

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CURRENCY EQUIVALENTS

Currency Unit – United States Dollar (US$)

ABBREVIATIONS

ADB	—	Asian Development Bank
Amended Compact	—	Second phase of the Compact, FY2004–FY2023
AMI	—	Air Marshall Islands
BoP	—	Balance of Payments
c.i.f.	—	Cost, insurance and freight
CIP	—	Capital Improvement Project
Compact	—	RMI Compact of Free Association with the United States
Compact I	—	First 17 years of the Compact, FY1987–FY2003
CPI	—	Consumer Price Index
CTF	—	Compact Trust Fund
CMI	—	College of the Marshall Islands
DoRC	—	Division of Revenue and Customs
EPA	—	Environmental Protection Agency
EPPSO	—	Economic Policy, Planning, and Statistics Office
EEZ	—	Exclusive Economic Zone
f.o.b.	—	Free on board
FDI	—	Foreign Direct Investment
FMS	—	Financial Management System
FSM	—	Federated States of Micronesia
GDP	—	Gross Domestic Product
GNI	—	Gross National Income
GNDI	—	Gross National Disposable Income
IMF	—	International Monetary Fund
JEMFAC	—	Joint Economic Management and Financial Accountability Committee
KAJUR	—	Kwajalein Atoll Joint Utilities Resources
KALGOV	—	Kwajalein Atoll Local Government
MALGOV	—	Majuro Atoll Local Government
MEC	—	Marshalls Energy Company
MTN	—	Medium Term Notes (Compact-backed bonds)
MIDA	—	Marshall Islands Development Authority
MIDB	—	Marshall Islands Development Bank
MIITF	—	Marshall Islands Intergenerational Trust Fund
MIMRA	—	Marshall Islands Marine Resources Authority

MISC	—	Marshall Islands Shipping Corporation
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	—	Nongovernmental Organization
NTA	—	National Telecommunications Authority
PIER	—	Pacific Island Economic Report
PM&O	—	Philippines Micronesia and Orient Line
PMOP	—	PM&O Processing Plant
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
U.S.	—	United States
USDA	—	U.S. Department of Agriculture
VAT	—	Value Added Tax

NOTE

The RMI 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 (RMI) and U.S. Department of Interior to fulfill their respective reporting obligations under the Compact of Free Association with the United States. 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 on 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. It is also required that the Government of the U.S. prepare a special review of the Compact during the fifth, tenth and fifteen years. The RMI is entitled to present its comments on the review; these are included with the annual report submitted to Congress in the subsequent year.

This report has been prepared under a grant from the Department of Interior and administered through the Graduate School. However, it is not intended to directly fulfill the reporting requirements of the two governments but rather to provide an assessment of RMI's economic performance and policy environment and to present a set of economic statistics. Much of the material will be directly relevant to the two reports. However, the reporting requirements of the two governments are different; thus, not all the material will be relevant to both reports.

The report contains two sections: (i) a description of economic developments in the RMI; and (ii) a discussion of policy developments, prospects and issues. The descriptive section takes a standard macroeconomic approach and includes economic growth and employment; monetary developments and prices; the external sector; and fiscal developments. The policy discussions review key topical areas, rather than undertaking a comprehensive policy review. Discussion focuses on private sector development, human resource developments in health and education, public sector management, and the fiscal issues. A special section on the Compact Trust Fund is included in the Fiscal Issues section, given the recent collapse of the U.S. stock market and its implications for the attainment of the objectives of the Trust Fund. Following the descriptive and analytical sections there is a comprehensive set of economic statistics. In this year's statistical appendix, the focus is on improving the balance of payments; the report provides indicators of real Gross National Income and Gross National Disposable Income.

This report and statistical appendix have been prepared by a team: Mark Sturton, Ben Graham, Glenn Mckinlay and Anna Lennblad. Mark Sturton, with support from Ben Graham prepared the economic report, while Glenn McKinlay coordinated the statistics and was assisted by Anna Lennblad, who compiled the balance of payments. Thanks are given to Castin Nemra, Chief Secretary, Jefferson Barton and Junior Patrick of the Ministry of Finance, who all supported the preparation of the material. On the statistics side, the support of Carl Hacker and the staff of EPPSO was much appreciated.

I. Background and Summary

1. Background

This report has been prepared to assist both the RMI Government and the United States in the fulfillment of their respective obligations under the Compact of Free Association with the United States. 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 United States, the President is required to submit, to the Congress, a similar report on economic developments in the RMI. The U.S. Government must also. prepare a special review of the Compact during the fifth, tenth and fifteen years. The RMI is entitled to submit its views on the review; these are included with the annual report submitted to Congress in the subsequent year. Title One, Section 104.h, of the amended Compact states, in part:

> *(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.*

(2) REVIEW.—During the year of the fifth, tenth, and fifteenth anniversaries of the date of enactment of this resolution, the Government of the United States shall review the terms of the respective Compacts and consider the overall nature and development of the U.S.-FSM and U.S.-RMI relationships including the topics set forth in subparagraphs (A) through (E) of paragraph (1). In conducting the reviews, the Government of the United States shall consider the operating requirements of the Government of the Federated States of Micronesia and the Government of the Republic of the Marshall Islands and their progress in meeting the development objectives set forth in their respective development plans. The President shall include in the annual reports to Congress for the years following the reviews the comments of the Government of the Federated States of Micronesia and the Government of the Republic of the Marshall Islands on the topics described in this paragraph, the President's response to the comments, the findings resulting from the reviews, and any recommendations for actions to respond to such findings.

The report contains two main parts: a review of economic developments and a section on policy developments, prospects, and issues. It is intended as an economic review of the first five years of the amended Compact. However, a longer-term perspective has been taken; the report brings in data from the commencement of the original Compact, if this information aids a more informed assessment. The review of economic developments follows a standard macroeconomic approach: growth and employment; monetary developments and prices; the balance of payments and external debt; and fiscal developments. The policy, prospects, and issues part of the report covers selected topical issues and is not intended to review the whole range of public and private sector policies. The first section includes discussion of the environment for private sector development and covers the regulatory environment and tax reform. The second section is devoted to issues of human resource development in health and education. The third section examines trends in public sector payroll, public financial management, and public sector reform. The final section provides an assessment of external debt management, the operations of the Marshall Island Electricity Corporation, fiscal policy, and the viability of the Compact Trust Fund. The latter issue is given a special focus in view of the recent collapse of the U.S. stock market and its implications for the attainment of the objectives of the Trust Fund.

2. SUMMARY

The economy of the Marshall Islands during the first five years of the amended Compact has experienced sustained growth, averaging 1.7% per annum. However, the expansion in the economy has largely been based on substantial increases in grant assistance from the United States and Republic of China (ROC). Initial usage of Compact funds was constrained by capacity limitations in adaptation to the new fiscal procedures, but by FY2007 these had largely been overcome. Economic performance in FY2007 was boosted by investment demand from both the private and public sector, but in FY2008 the period of fiscal expansion had plateaued, and the onset of the world recession depressed performance. Employment grew strongly at the end of the 1990s but has largely stagnated during the first five years of the amended Compact. The lack of gainful employment opportunities has encouraged Marshall Islanders to seek jobs in the U.S., and outmigration has averaged 1.6% during the first five years of the amended Compact.

Expansionary fiscal policy has been the main driving force behind the economic growth. Employment in the public sector expanded by 938 jobs, or 26%, since FY1999 and 11% since the start of the amended Compact. However, the rate of increase is not sustainable, and failure to control public service employment has resulted in a stressed fiscal position with the government suffering a tight cash flow. This problem has been exacerbated by weak management of the Marshal Energy Company (MEC), lack of adjustment to the loss of the Compact I energy grant, rising world energy prices, and increasing competition from high-seas fuel distributors. The financial crisis of the MEC has required continuing cash injections from the government to sustain electricity production and has threatened the fiscal stability of the nation. The RMI government defaulted on debt service of ADB loans but subsequently brought its payments up to date. Fiscal pressure will continue to come from reductions in Compact funds caused by the annual decrement, uncontrolled recruitment, increasing debt service commitments, and loss of revenue resulting from the reduction in the U.S. military at the Kwajalein base.

In the late 1990s the RMI undertook an economic reform program. At the time the financial circumstances were dire, and the nation had no alternative to a painful adjustment. However, political buy-in was limited, and almost all the reforms that had been accomplished were reversed once conditions improved. Circumstances have now changed, and while the need to adjust is not as immediate, several internally motivated reform efforts have been initiated. There is some awareness that if the nation is to generate sustained economic growth and attain the Compact objective of self-reliance, a more proactive stance is required. During the remainder of the amended Compact the leadership of the RMI must take a broader view and make rational decisions about the future of the nation. A comprehensive reform program remains highly relevant if RMI is to consolidate the fiscal reforms under way, take a holistic approach to public enterprise management, and, most importantly, focus on measures to encourage private sector development.

The design of the RMI Trust Fund — including the funding stream and withdrawal rules — embeds the notional goal of a Trust Fund that will be able to provide a source of income to replace the real value of the Compact annual grant assistance in FY2023. Notwithstanding the design features of the Trust Fund, the U.S. Department of State has articulated U.S. policy: there is no guarantee, nor even a commitment, that the Trust Fund will be able to meet such a goal. Thus it is imperative that the RMI Government make every effort to assess the Trust Fund's performance against a sensible goal. If its performance were "on-track," the Trust Fund would have reached $109.6 million as of March 31, 2009; however, the actual value was just $69.1 million. To offset this current shortfall, the investment return required for the remaining 14.5 years of the amended Compact period is estimated at an annually compounded rate of return of 9.9%. This "catch-up" rate of return remains achievable, though by no means assured. To achieve such a return.

given the current investment policy established by the RMI Trust Fund Committee, would require market returns well in excess of historical returns.

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, as well as the financial arrangements prevailing in the original period (Compact I) FY1987–FY2003 and the amended Compact period FY2004–FY2023. The structure of Compact I economic assistance was front-loaded, with two step-downs after 5 and 10 years, entailing a 15% and 14 % percent reduction in base grant funding. The transfers were only partially indexed to U.S. inflation, resulting in a real reduction in resource flows amounting to an annual average decline of 5%. Provision was made for a further two years of funding through FY2003, but at the average level of funding during the first 15 years. During the initial stages of Compact I and through the early 1990s, 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, $30 million, was spent on servicing bond issue debt repayments and on transfers to Kwajalein landowners.

2. Analysis of the RMI economy is based on the national accounts series for the FY1997–FY2008 period, and Fig. 1 indicates trends in constant price GDP and real GNDI. GNDI augments GDP with incomes and transfers from the rest of the world (important items include the compensation of employees of Marshallese workers at the Kwajalein base, rent received by Kwajalein land owners, and the receipt of current transfers from the U.S. and other donors). There are two distinct periods of economic performance, with the hint of the emergence of a third: first a depressed state in the late 1990s, with negative rates of growth, then a more expansionary era in the 2000s. The late 1990s were marked by an extended period of economic contraction and fiscal instability resulting from the reduction in revenues to fund government operations, as well as the need to service the prior Bond issues. A Public Sector Reform Program (PSRP) was initiated with assistance from the Asian Development Bank (ADB), to assist with the fiscal adjustment. A reduction in force (RIF) was the major component of the reforms intended to reduce the cost of government. There were further objectives: to improve tax administration, reform public enterprises, improve the environment for the private sector, among others.

3. By the start of FY2000 circumstances began to improve. In 1999, the RMI recognized the ROC and was initially to receive $10 million annually in grant assistance, an amount that rose to $16 million in FY2008. This significantly eased fiscal pressure and permitted an expansion in government expenditures. The impact of the additional grants is clearly emphasized in the GNDI figures. By FY2002 repayment of the bond issues was complete; Compact funds that had in prior years been absorbed in debt repayment were

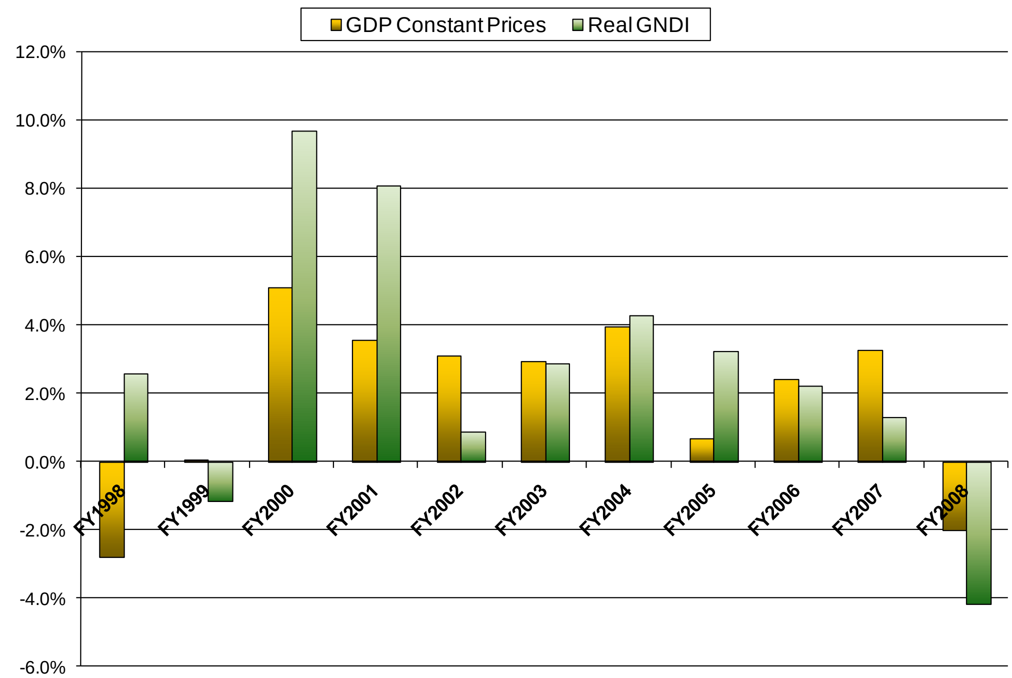


Figure 1 RMI real GDP growth (percent)

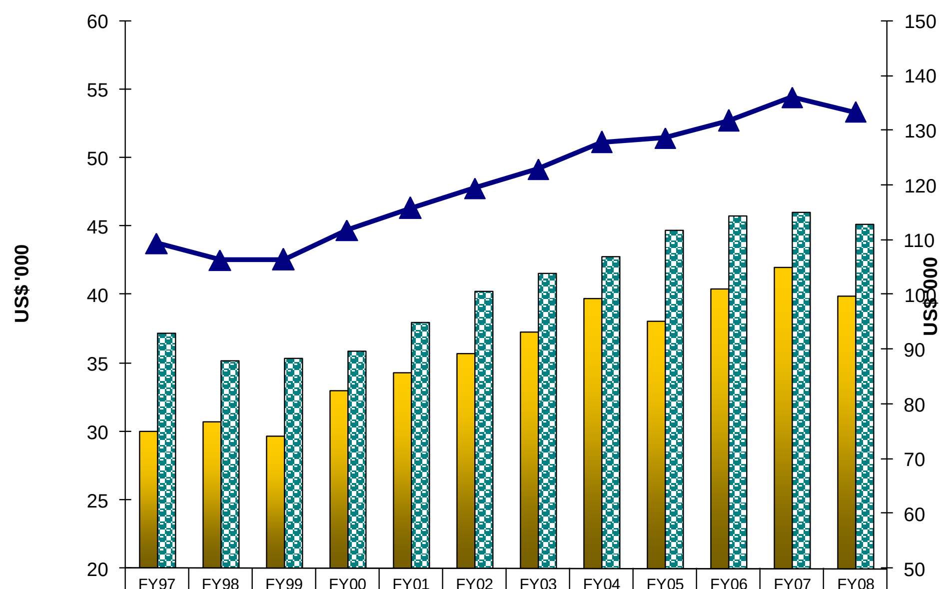
now available. FY2002 and FY2003 were also the "bump-up" years of the Compact and saw infusion of additional resources. However, the RMI had committed and contributed $25 million to a Compact Trust Fund at the start of FY2004; this had the impact of sterilizing a large component of what otherwise would have been a very sizeable infusion of resources. FY2004 was the start of the amended Compact, and the RMI had negotiated a favorable assistance package that resulted in an increase in funding of $10 million from the pre-bump level of $25 million. FY2004 thus represented another year of fiscal stimulus.

4. By FY2005, the use of the very substantial increase in resources over the FY1999-2004 period had reached a peak. This, aided by the closure of the PMOP loining plant, meant that the year would be the culmination of a period of rapid economic growth. However, although the fiscal stimulus of the additional Compact resources had peaked, the forward momentum in public expenditures continued. The private sector maintained economic activity, with additional investment demand arising from the Compact infrastructure grant, the Taiwanese-funded convention center, and reconstruction of the Majuro fish loining plant, as a new owner saw potential to revitalize the activity. GDP grew by 0.7%, 2.4% and 3.3%, in the three years from FY2005-FY2007. In FY2008, the economy took a dive, and GDP fell by 2.0 percent, reflecting the fact that many activities had peaked, while inflation was affecting real incomes. The significance of the recent trends in FY2007 and FY2008 is more clearly indicated by the real GNDI figures. While inflationary pressure has eased in the world and future expectations are for a return to

lower rates, the potential for future fiscal expansion is limited, and the emerging picture in FY2008 indicates a future of constrained economic growth.

5. Fig. 2 elaborates the story, indicating the performance and contribution of the private and government sectors to the economy. The contribution of the government is determined through the employment of public servants. The trend in constant prices indicates compression during the late 1990s, coinciding with the RIF, but this is followed by a continuing expansion of 4% per annum in real terms, the result of the additional infusion of funds from FY2001-FY2006. By FY2007, the potential for further employment of public servants peaked, and it fell in FY2008. The dependency of the private sector is clearly revealed during the period; it mirrors the growth in the public sector, but with significant deviation in some periods. With the exception of fisheries, the private sector is dominated by establishments largely producing services for the domestic market. Thus, as public expenditures rise and fall, demand for private sector services moves in tandem.

6. The national accounts estimates are constructed by institutional sector, and further analysis of economic developments is undertaken in the GDP tables in the statistical appendix. Developments in the private sector reflect the provision of general services and fisheries. FY1997 and FY1998 were the final years of Ting Hong fish exports, and the dip in private sector value-added figures in FY1999 reflects the loss of this enterprise. However, in FY2000, the Philippines Micronesia and Orient Line Processing Plant



	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Private Enterprise	30.1	30.8	29.7	33.0	34.4	35.7	37.3	39.8	38.1	40.5	42.1	39.9
Government	37.2	35.2	35.4	36.0	38.0	40.3	41.6	42.9	44.7	45.8	46.0	45.2
GDP at Factor Cost (Gross)	109.5	106.4	106.5	111.9	115.9	119.5	123.0	127.9	128.8	131.9	136.2	133.5

Figure 2 RMI real GDP by private and public Sector (FY2000 prices, US$ millions)

(PMOP) loining plant commenced operations in Majuro, and private sector value-added regained some of the lost ground. Through the early 2000s, private activity was dominated by the expansionary fiscal policy and fishing loining, but in FY2005, the PMOP plant closed and resulted in a sizeable reduction in GDP. In FY2007, Pan Pacific showed renewed interest in revitalizing the loining plant, and after two years of construction activity, the plant reopened in FY2009. Private sector economic activity fell significantly in FY2008 – by 5.1% -- reflecting both the onset of the world recession and the impact of rapid inflation in food and energy prices. Increases in prices (15% in FY2008) reduced real incomes and resulted in lower levels of demand for supply from the small domestic private sector, primarily in the service area.

7. Table 1 provides detail on the contribution of the public enterprise sector to GDP by enterprise during FY2000-FY2008 (at purchaser prices, i.e., before receipt of subsidies). The sector has made a variable contribution to GDP, depending on the performance and profitability of the respective enterprises. Air Marshall Islands recorded a positive contribution to GDP in only one year out of nine, and the outcome in FY2008 was particularly adverse, with the cessation of operations for much of the year due to aircraft repair and renovation. The performance of the energy sector, Kwajalein Atoll Joint Utilities Resources (KAJUR) and Marshalls Energy Company (MEC), has been far from satisfactory. KAJUR has managed to contribute a negative value-added throughout much of its history. The story for MEC is a long and arduous one. Cross-subsidization of fuel distribution with electricity production kept the operation viable for many years. However, circumstances changed radically in FY2005 with the erosion of the fuel distribution market, changes in the arrangements for fuel supply, recent high energy prices, and inability to adopt a viable tariff structure. Value-added in electricity generation turned negative in FY2005 and FY2006 but improved in FY2008. From a sizeable and positive contribution in FY2005, value-added in fuel distribution fell and turned negative in FY2008. The MEC situation has threatened the solvency of the government and is further discussed later in this report.

8. The Marshall Island Resort has made a positive contribution throughout the period, although profitability has been marginal. Tobolor, the agency responsible for copra collection and production of coconut oil, has made a negative contribution to GDP throughout much of the period, but acts as an instrument of social policy and income

Table 1 Public enterprises value added at purchaser prices, FY2000-FY2008, $'000

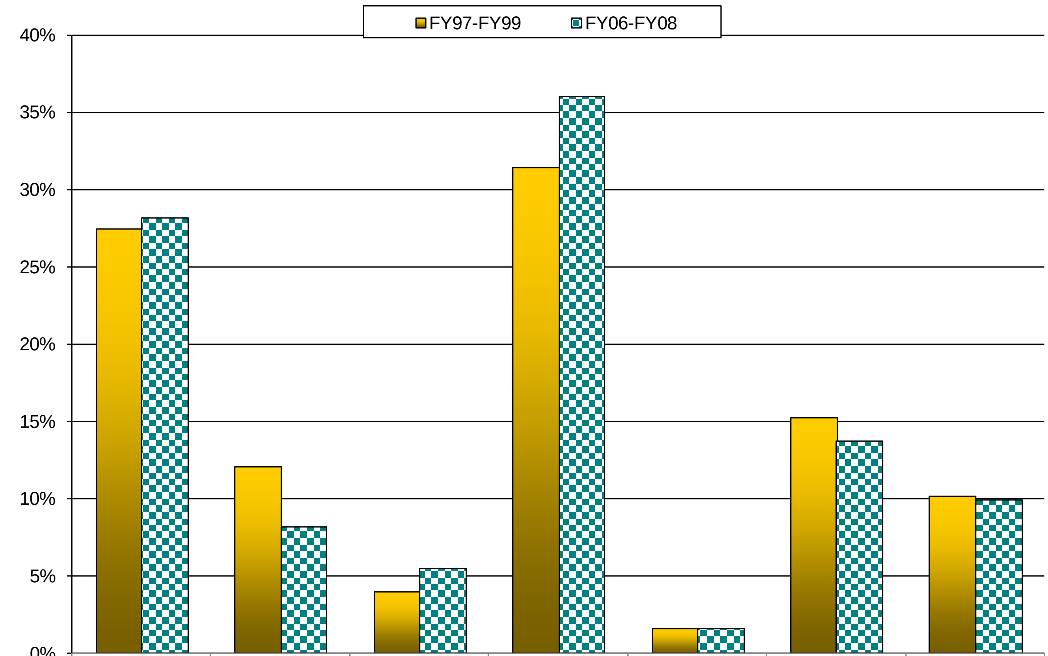
	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Air Marshall Islands	1,340	953	699	2,159	1,231	1,225	964	1,383	-718
Kwajalein Atoll Joint Utilities Resources	-27	-383	52	-709	-178	1,001	93	-1,119	-1,609
Majuro Water and Sewer Company	425	536	699	775	697	560	646	496	413
Marshalls Energy Co. Inc. (Utilties)	2,670	1,157	2,687	1,420	498	-1,328	-1,574	-26	982
Marshalls Energy Co. Inc. (Fuel distribution)	783	885	1,477	1,561	1,801	1,798	1,428	704	-90
Marshall Islands Airports Authority	299	402	612	582	579	0	0	0	0
Marshall Islands Ports Authority	1,611	1,370	1,707	1,670	1,377	1,947	1,395	1,362	1,229
Marshall Islands Shiping Corp	0	0	0	0	0	0	0	-254	12
National Telecommunications Authority	4,615	4,794	5,073	4,349	3,783	4,195	4,672	5,290	4,883
Marshall Islands Resort (Inc)	883	2,547	739	701	653	913	983	1,098	797
Tobolar	-1,341	-1,531	-547	-521	867	4	-143	681	789
Total Value Added	11,259	10,729	13,197	11,988	11,307	10,315	8,464	9,615	6,688

generation in the outer atolls. Similarly the recent creation of the Marshall Islands Shipping Corp. was intended to provide better shipping services to the outer islands and is financed by government subsidy. Value-added has been marginal, but the arrangements are an improvement over prior operation through a government department. The Marshall Islands National Telecommunications Authority (NTA) makes the largest contribution to GDP, reflecting its monopoly status and ability to set prices. Overall, the State Owned Enterprise (SOE) sector makes a positive contribution to the economy, but in later years its contribution has declined, with problems at AMI and MEC and the impact of world recession. The performance has not been satisfactory (the role of the public sector in productive activities is further discussed elsewhere in this report).

9. While the Government of the RMI is the largest player in the public sector, government agencies and institutions, including the College of the Marshall Islands (CMI), and local government are also significant. Taken together, the two local governments (KALGOV and MALGOV) represented about 20% of the national government in FY2008 (by value-added), but their contribution to GDP has remained static in real terms from FY1998–FY2008. Government agencies grew rapidly between FY1997–FY2001, primarily as a result of growth in the CMI. In the next four years, the contribution of the Government agencies stabilized, but declined significantly in FY2006, with the amalgamation of the former U.S. Federal Program, Head Start, into the national government.

10. 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 include 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 FSIM (financial intermediation services, indirectly measured), which is the difference between interest receipts and payments of the banking sector relating to productive activities.

11. Changes in the structure of the RMI economy during FY1997–FY2008 are summarized in Fig. 3. Not surprisingly, given the rapid rates of growth in government, the share of the public sector (including both government and SOEs) has grown, from 43.6% of GDP in FY1997–FY1999 to 44.1% during FY2006–FY2008. However, the rapid (4.5%) increase in the share of government has been offset by a 4% decline in SOEs. The decline does not reflect any change in policy or commitment to transformation of activities that would be more efficiently operated by the private sector, but rather increasing inefficiencies, even as the sector is confronted by an increasingly hostile economic and financial environment. The private sector managed to maintain its contribution, reflecting its inability to break out of its dependant status and assume a more dynamic role as the engine of economic growth. 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. Indirect



	Private Enterprise	Public Enterprise	Finance (Banks)	Government	NGOs	Households	Indirect taxes less Subsidies
FY97-FY99	27.5%	12.1%	4.0%	31.5%	1.6%	15.2%	10.2%
FY06-FY08	28.1%	8.1%	5.4%	36.0%	1.5%	13.7%	9.9%

Figure 3 Structure of the RMI economy by institutional sector

taxes less subsidies have remained relatively constant, although this masks a dip in trend during FY2000-FY2004, when discretionary reductions in taxes and weak collections resulted in lower tax revenues. The finance (or commercial banking) sector has increased its share and now represents 5.4% of GDP. Nongovernmental organizations play only a minor role in the economy.

12. Summary and outlook: There has been a surprising increase in economic activity since 2000. This has been a period of public sector-led growth. The repayment of bond issues in the early 1990s, additional funding received from the ROC, and the more favorable financial arrangements of the amended Compact enabled pursuit of a very expansionary fiscal policy. Perhaps surprisingly, the economy continued to expand past the peak of potential Compact funding in FY2004, but this is the result of greater private and public sector investment. However, the emerging picture for FY2008 indicates the possible trend for the future. While the world recession and increases in inflation in FY2008 have negatively impacted the economy – and will hopefully be short-lived – the current precarious position of both the government and public enterprises suggest that a period of restructuring and compression is required. In the short and medium term, the economy may need to contract. In the longer term, only a shift to improving the opportunities for private-sector-led growth can support sustained growth, as the economy is forced to confront the reduction in real Compact resources.

2. Population, Incomes, Distribution, and Poverty

13. Population in the RMI has historically grown at very high rates. From 1980–1988, in the lead-up to Compact I, the annual average rate of growth was 4.3% (Table 2). Population in Majuro grew at 6.6%, reflecting the emergence of a modern economy and the availability of jobs and public services such as health and education. Population in Ebeye was slightly below the nation's average, and the outer atolls (the "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 significantly to 1.5%, reflecting a reduction in fertility rates and the emergence of large out-migration to neighboring U.S. territories, Hawaii, and the U.S. mainland under the migration provisions of the Compact. While the scheduled population census of 2009 has been delayed, current indications are that the population in Majuro has grown rapidly, and there has been increased inward migration from the outer islands. A household water survey conducted by EPPSO in early 2009 found a total of 4,335 occupied residential households in the entire atoll; this number suggests that Majuro's population has now reached nearly 33,000 (assuming an average household size of 7.6). While overall population growth has been moderated by out-migration, inward migration from Asia has been significant.

14. Limited job opportunities and the depressed nature of the economy during the later part of Compact I encouraged large-scale migration to seek employment opportunities and better rates of remuneration in the United States. Migration plays an equilibrating role: as incomes decline, outward migration compensates, improving the 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 economically active and skilled individuals. Such a loss of human capital would reduce the long-run productive potential of the economy.

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

15. Table 3 provides further 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 figures provide a very useful indicator of net migration. The table indicates the average rates of migration since 1990 in three groups: expansionary phase of Compact I, contractionary phase, and the first five years of Compact II. The table confirms the reduction in population growth indicated by the census data between 1988 and 1999, which are the result of increasing out-migration. The outward migration rate of 1.1% during the early Compact years accelerated to 2.2% during the depressed era of Compact I and continued at the slightly lower rate of 1.6% during the improved period of the first five years of Compact II. The table also implies that out-migration from Majuro has been more rapid than from Kwajalein.

16. Fig. 4 indicates the changes in constant-price GDP and real GNDI per capita in 2000 prices. The constant-price GDP estimates are derived from chaining the earlier GDP series with the current national accounts series, and real GNDI includes the primary and secondary incomes received and paid to the rest of the world. The major differences between the two estimates are the compensation of employees of Marshallese workers at the Kwajalein base, rent received by Kwajalein land owners, and the receipt of current transfers from the U.S. and other donors (see "Balance of Payments" for a list of primary and secondary income flows). The GNDI estimates begin in FY1997 and indicate the far higher level of disposable incomes when the additional flows are taken into account. In FY2008, GNDI per capita was over $1,823, 64% higher than current price GDP.

17. Fig. 4 provides a clear picture of the developments in average real incomes (discussion is based on the GDP series). The advent of the Compact marks a clear and significant improvement in income levels during the run-up to the Compact. After a period of stagnation in the earlier years, growth was boosted in the early to mid-1990s through the series of bond issues that enabled the nation to fast-track public expenditures (including embarking on a series of risky public projects and 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

Table 3 Net movement of air passengers between the RMI and U.S. ports of entry and percent population

	1990-1996			1997-2003			2004-2008		
	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration	Net Departures	Population	Net Migration
Kwajalein	-51	8,822	-0.6%	-207	9,495	-2.2%	-114	10,114	-1.1%
Majuro	-462	21,593	-2.1%	-935	24,293	-3.9%	-815	26,882	-3.0%
RMI	-513	46,988	-1.1%	-1,142	51,968	-2.2%	-930	56,666	-1.6%

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

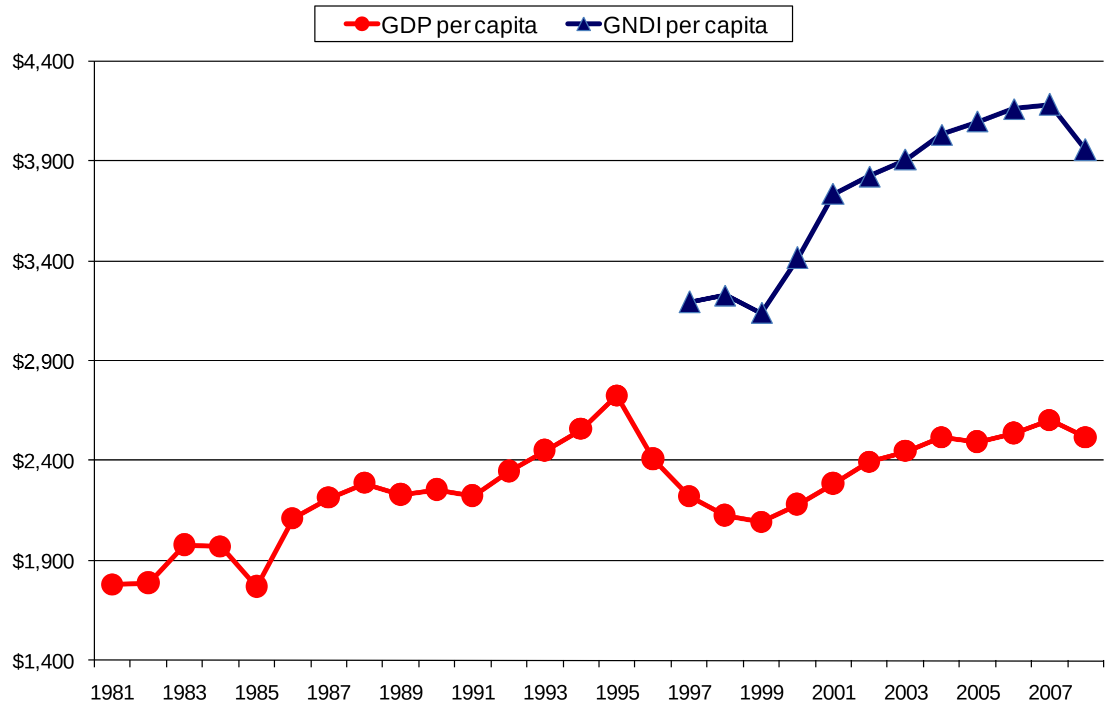


Figure 4 GDP per capita, constant prices 2000, $'s 1981–2008

transfers depleted by the need to repay the former extravagances. In 2000, matters improved significantly, as fiscal stability was restored 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 1990s. In Compact II, from 2004 onwards, the earlier sustained rise in GDP per capita has faltered; it took a sharp downward turn in 2008, as economic growth turned negative. With the harsh realities of declining Compact resources and adverse external environment, the nation is faced with a difficult challenge if it is to avoid the pattern of the late 1990s and a sharp downturn in per-capita incomes.

18. While this review is macroeconomic in nature, it would be remiss not to comment on income distribution issues and their impact on the economy. Drawing on discussions raised in the 2002 Assessment of Hardship and Poverty (ADB), the 2005 Social and Economic Report (ADB), and recently completed 2009 National Millennium Development Goals (MDG) Progress Report (UNDP/EPPSO), we note that while abject poverty, starvation, and destitution may not yet be present in the RMI, there are clear signs that certain groups are facing increasing hardship. RMI is demonstrating mixed progress on MDG1 (eradicate extreme poverty and hunger), and there are growing concerns over high unemployment, financial hardship (including declining real incomes coupled with staggering consumer debt), hunger and poor nutrition.

19. According to 1999 census data, two-thirds of outer islanders have an income less than $1 a day (in 1993 purchasing power parity terms). Fig. 5 provides an overview of average per-capita cash income in the various atolls of the RMI. The data are drawn from the 1999 census and exclude 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 -- the centers of the nation's cash economy and labor market -- and the outer atolls. Cash incomes in Majuro and Kwajalein are four times those of the outer atolls. However, within the outer atolls, the cash incomes of the nuclear-affected communities of Enewetak and Kili are substantially above those in the other islands. In the non-nuclear affected islands, average per-capita incomes range from $71 a year on Lib to $672 on Jaluit; on average, this equates to slightly less than $1 a day. Clearly the lack of income earning opportunities has provided a strong incentive to migrate to the two major urban atolls and, externally, to the United States

20. While Fig. 5 provides an important picture of the spatial distribution of income, it says little about the characteristics of the distribution of income. According to 1999 census data on household income, the RMI has a 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 at 0.46, PNG 0.46, Samoa 0.43, Tuvalu 0.43, Tonga 0.42 and the FSM 0.41. While strict comparison between

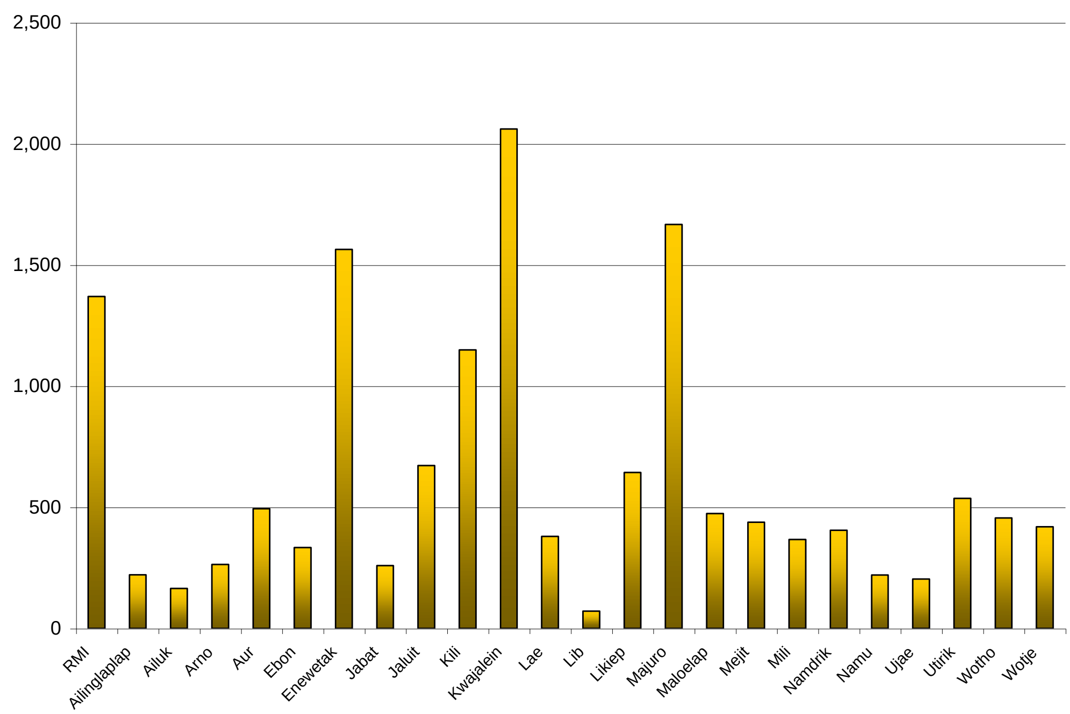


Figure 5 Average per capita income by island, $'s (1999; population census) .

countries may not be appropriate, as other Pacific Island measures may include subsistence, the figures for RMI nevertheless indicate a high degree of inequality.

3. Employment, Earnings, and Wages

i Employment

21. At the end of the 1990s the economy underwent significant stress because of the need for significant reform, and it undertook a series of painful adjustments. These trends are reflected in Fig. 6 and are based on quarterly data collected by the Marshall Islands Social Security Administration (MISSA), adjusted by EPPSO. The figures are estimated from the returns submitted to MISSA by employers, and employment is measured by a count of individuals, regardless of how many hours each individual may have worked during the quarter. Two prominent trends are discernable from the data: the recent growth in numbers employed by the public sector — specifically, the RMI government — and similar but erratic growth in private sector employment

22. Developments in private sector employment have been dominated by public-sector-led expansion in the economy, the opening of the PMOP loining plant in FY2000, and its subsequent closure in FY2004. From FY 2004-FY2005 employment in the private sector fell by 17% (593 employees), to a level of 3,567, the lowest since FY2000, when the PMOP plant opened. However, in the remainder of the period, private sector employment continued to expand and maintained its level in FY2008, despite the drop in private sector GDP. After adjusting for the opening and subsequent closure of the loining

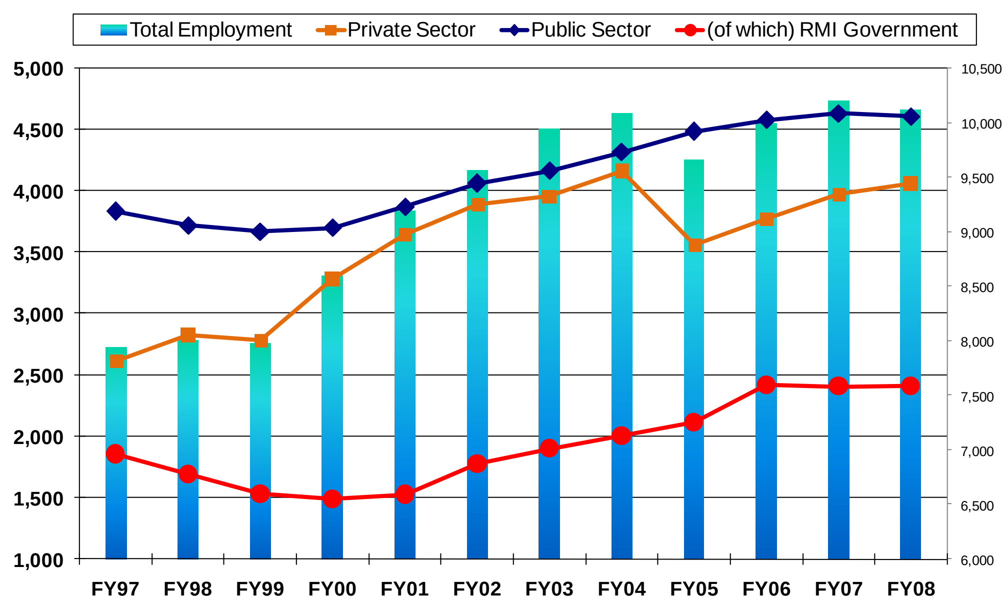


Figure 6 Employment in the private, public and RMI government sectors.

plant, growth in private sector employment expanded by an annual average of 4.1% during FY1997-FY2008.

23. The recent growth in public sector employment follows a sustained period of downsizing in the late 1990s. From FY2000, at the lowest point of the cycle (and the conclusion of the reform program), public sector employment has expanded strongly and peaked in FY2007. Public sector employment (including public enterprises, agencies, local and central government) grew by 26% between FY1999 and FY2007 at an annual average rate of 3%. Of the four components of the public sector, the RMI government, which in FY2008 represented 52% of total public sector employment, has been the dominant force in the expansion. In analyzing the data, it is important to note the impact of the switch in funding of Head Start, which provided preschool education administered by the national government through an independent unit to the SEG. Also in FY2007 the government created the Marshall Islands Shipping Corp., and there was decline in national government employment as well as an offsetting rise in the SOE sector. Fig. 6 separates the two components of the public sector and reveals the overall growth in public sector employment.

24. The result of these trends is that employment in the economy as a whole expanded rapidly between FY2000 and FY2004, with alleviation of the fiscal constraints and growth in fish related employment. Since that time public sector employment has continued to expand but has been offset by the closure of the loining plant. Looking to the future, the reopening of the loining plant will again generate strong growth in private sector employment. However, public sector employment has peaked and is likely to require some retrenchment as current fiscal pressures require adjustment. It is thus clear that generation of future employment opportunities will require a switch in strategy to private-sector-led growth, if accelerated out-migration is to be limited.

25. Fig. 7 indicates the structure of employment, excluding government, education and health. The wholesale and retail trade sector (34%) employs the greatest number. Other activities, such as banks and real estate (7%), hotels and restaurants (5%), and construction (12%), 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 ("others") are insignificant employers. The Kwajalein U.S. base is included in the dataset and represents a significant proportion of total private sector employment (18%). However, employment in the base has fallen by 200 jobs – or about 20% – since the early 2000s and is set to fall further, as the U.S. reduces its presence at Kwajalein with advances in technology (such as fiber optic connection to the base) that enable operations to be conducted from the U.S. mainland. A total reduction in 669 Marshallese jobs has been projected.

ii Wage Rates

26. The data on nominal and real wage rates is derived from dividing the MISSA-sourced reported earnings levels by employment numbers. Although this is not an exact

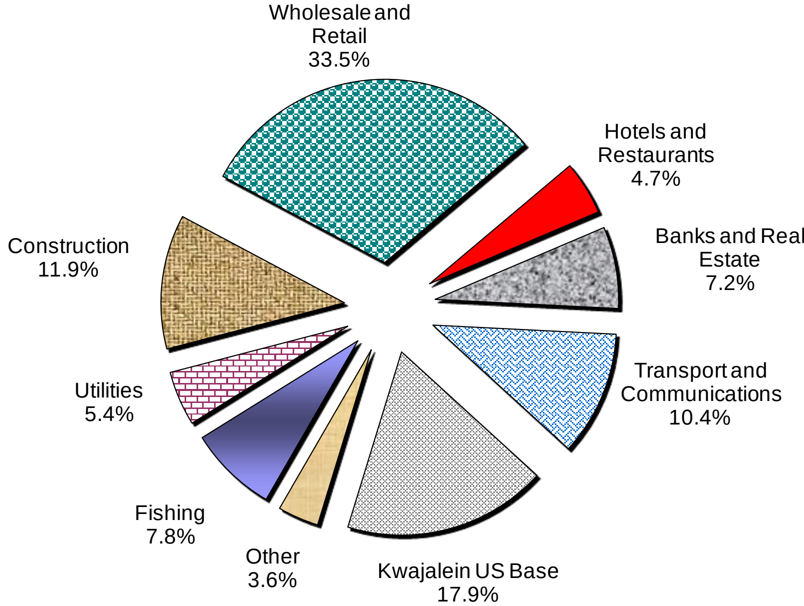


Figure 7 Employment in the Private Sector by Major Industrial Sector, FY2008

estimate of wage rates, it should closely approximate change in wage levels. Fig. 8 reveals a series of interesting trends. First, public sector nominal wage rates rose during the late 90s, reflecting the fact that the RIF involved a disproportionate loss of low-paid workers. In the first part of 2000, wage rates rose rapidly, reflecting the relative abundance of resources, and although employment continued to grow after FY2004, the rate of additional hiring did not significantly increase until FY2008. For the private sector, the pattern is different. The PMOP plant depressed average rates during its years of operations, but even after closure in FY2004, private sector wage rates failed to return to their FY1997 levels, representing an annual average decline of 1%. The evidence would suggest that increasing numbers of job seekers during this period exerted downward pressure on private sector wage rates.

27. It is not possible to conclude that public sector wage rates for similar skills are higher than in the private sector. However, it is clear that the wage differential between the sectors has widened significantly. The widening disparity would have encouraged a shift of resources (i.e., labor) to the public sector. Although not indicated in Fig. 8, wage rates at the Kwajalein U.S. base have grown rapidly, at an average annual rate of 2.9%, which exceeds the average public sector rate of 2.4% during FY1997-FY2008. Fig. 8 also indicates that real wages have largely held their value through the period, with the exception of FY2008, when the rapid increase in inflation significantly eroded real living standards. While it is likely that some of this adverse movement may be reversed as ener-

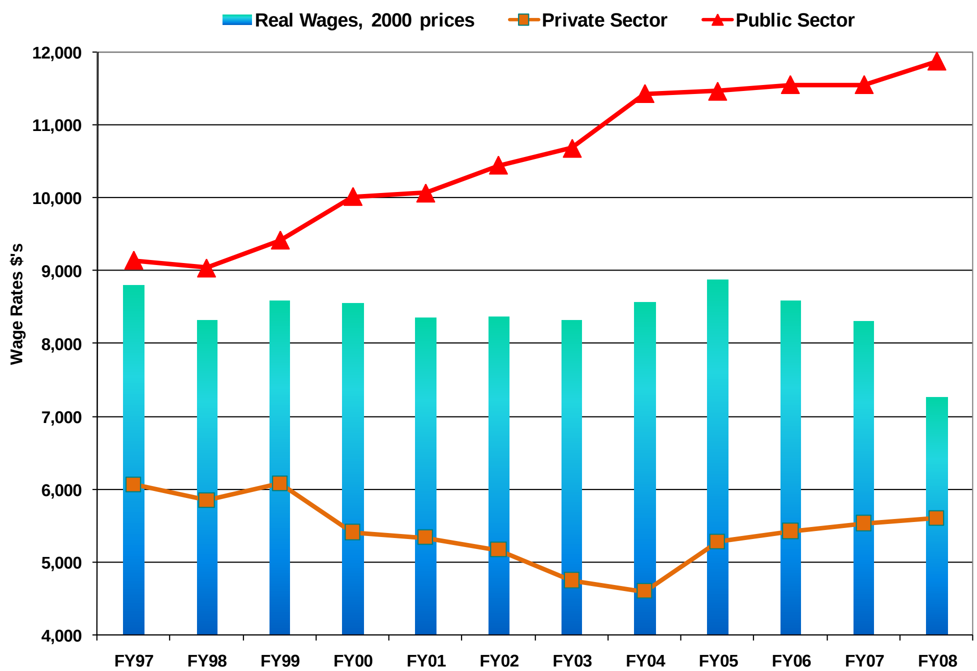


Figure 8 Nominal and real wage rates by major institutional sectors

gy and food prices return to earlier levels, the long-run expectation is for higher inflation as the world economy moves out of recession.

4. Sectoral Developments

i Agriculture

28. ***Policy overview***: Policies and priorities surrounding agricultural activity and production have varied over the years. While the importance of agriculture for basic subsistence and nutrition has always been maintained, national agricultural policy has increasingly emphasized the potential of agriculture as a commercial and value-adding economic activity. In Compact I, development plans highlighted the critical role of agriculture as a way to gain greater self-reliance, and the Government facilitated several import-substitution-themed projects. An official Food, Agriculture and Nutrition Policy was adopted by the Cabinet in 1996, further emphasizing the importance of agriculture in the broader context of development and self-reliance.

29. Copra has been the dominant commercial agricultural activity in the RMI now for over 100 years, with productivity and export levels reaching their pinnacle during the 1920s and 1930s under Japanese administration. In 1976, while still under Trust Territory Administration, the RMI established a Copra Stabilization Board Act, which was subsequently replaced by the Tobolar Copra Processing Authority (by Act) in 1992.

30. Policy and planning for agriculture and related activities fall under the Ministry of Resources and Development, whose Strategic Plan for 2005-2010 articulates numerous objectives: increasing domestic food production and consumption (including establishment of new farmers' markets in the two urban areas); ensuring adequate supply of agricultural inputs into for the production of coconut, as well as handicraft, medicine, and other non-food products; protection against the introduction and spread of injurious pests and diseases; increasing exports of niche and value-added products; increasing the value of coconuts and coconut products; and reducing dependence of outer island communities on imported fuel and copra subsidies. With limited national investment into agriculture (aside from the contributions to the copra industry), the majority of activities and projects are funded by development partners.

31. ***Trends and developments***: Domestic (non-copra) agricultural production and consumption data are very limited. A household survey in 2006 conducted by EPPSO showed that a large portion of rural households continue to rely on home production for own consumption (of 244 homes surveyed in Wotje, Jaluit, Arno and Likiep, around 80% kept and relied on home-grown crops such as breadfruit and pandanus), and well over half relied on copra as a source of income.

32. Domestic production of niche agriculture products (both edible and non-edible) has increased, as a result of greater private sector interest and investment, as well as stronger technical assistance and training programs facilitated by Taiwan, the Ministry of Resources and Development, and non-governmental organizations.

33. The high inflation in the prices of imported rice and other staple foods prompted the Government to reconsider and refocus efforts on strengthening basic food security. In 2008, a sharp rise in global prices for coconut oil translated into a boom year for local copra production, but by mid-2009, prices had fallen back towards pre-2008 levels, and the RMI has had to revert to heavy copra subsidies.

ii Fisheries

34. ***Policy overview***: Fisheries policy has evolved significantly since the beginning of the Compact. Through the early 1990s, the perception in RMI and throughout most of the Pacific was that it was government's role to directly own, operate or tax the means of production, including the vessels, processing plants, and other facilities. Moreover, local participation in fisheries was strongly favored over foreign involvement and investment. But by the mid-1990s, after a number of costly government-led fisheries projects had failed (including a major ADB-financed fisheries venture in the RMI), it became clear that this approach was not working. This prompted the RMI to rethink its policy, and with additional support from the ADB, a new direction was taken. The RMI's first National Fisheries Development Plan (NFDP 1997) aimed to create an environment more conducive to private-sector–led fisheries development. The plan, which included an organizational overhaul of the Marshall Islands Marine Resources Authority (MIMRA), helped establish the RMI as a business-friendly fishing nation and port. The adoption and

implementation of the NFDP, along with improvements in MIMRA management in the late 1990s, has led directly to a turnaround in the fisheries sector and ushered in significant new investment and growth since 1999.

35. The RMI maintains its business-friendly policy, but greater regional concern has emerged over several key issues, including (i) the sustainability of the tuna stocks (particularly yellow-fin and big-eye tuna); and (ii) the strong perception that the resource-owning Pacific states are not equitably benefiting from the $4 billion annual tuna harvest in the central and western Pacific. The Parties to the Nauru Agreement (PNA), the group of eight countries (including the RMI) which now provide more than one-third of the global supply of tuna, have resolved to establish their own intergovernmental body to begin considering new and more collective policies and approaches to address these concerns. The RMI has taken the lead role in pushing for reform in the PNA fishery and has offered to host the new PNA Secretariat. Thus, the overarching policy priorities are to conserve and sustain the fishery and to assert more influence on the impacts and outcomes of the fishery, including much higher returns to the PNA member states.

36. ***Trends and developments***: The RMI's commercial fishery sector has been a primary source of employment and economic growth. Currently, the industry employs 464 persons, with the recently established Pan Pacific Foods tuna loining plant well on its way to achieving its target of 600-plus employees by August, 2009.

37. The sector has grown and diversified in recent years. Currently, four Majuro-based operations are engaged in the harvesting, processing and export of skip jack (for the canned tuna market), yellow-fin, and big-eye (for the sashimi market). A new Australian-owned venture in caged fish farming has operated a pilot operation in Majuro lagoon, but recent rises in transport costs have prevented full operations (and exports to Asia) from commencing. Majuro is slowly beginning to re-establish itself as the favored port for transshipment and resupply in the central Pacific, with efforts underway to recapture market share in the refueling business (targeting mostly fishing vessels operating in the region). A Taiwanese firm has gained clearance for establishing a large-scale drydock with capability to service purse seiners in Majuro.

iii Tourism

38. ***Policy overview***: Tourism has long been identified as a priority sector for development in the RMI. Tourism's potential as an economic driver was recognized in the early development plans of the first Compact, and in 1991, the Nitijela enacted the Marshall Islands Visitors Authority (MIVA) Act to facilitate tourism planning and development. Technical assistance from the ADB in 1996-1997 helped strengthen MIVA's autonomy and provided the RMI with its first medium-term marketing and development strategies (focusing on niche markets). In 2008, with support from the U.S. Department of the Interior, the RMI completed its first National Tourism Development Plan (NTDP). The plan diagnoses the country's key strengths and weaknesses and articulates a number of goals

and objectives to more effectively facilitate tourism investment and growth over the medium-term (2008-2011).

39. The NTDP identifies three spatial and sequencing priorities over the short-term: (i) to further develop Majuro into an attractive and well functioning hub and gateway to the rest of the country; (ii) to begin laying the foundation for opening up Kwajalein Atoll for tourism development, with the longer term goal of developing Kwajalein into the second international hub and gateway; and (iii) to catalyze tourism growth in the outer islands by improving domestic air transport, reducing barriers to sea based tourism and facilitating assistance for small scale tourism development in the outer islands. Over the medium to long term, the NTDP signals the intention to focus on the development of a high-end, private-resort tourism industry.

40. ***Trends and developments***: The industry is small, slow-growing and has not seen the same rapid take-off experienced in some neighboring Pacific destinations. Total annual air arrivals have averaged around 6,600 in the past five years, with true holiday visitors making up just 1,600 annually. Sea based cruise ship and private yacht arrivals are growing, albeit very slowly, with Majuro seeing an average of just two commercial cruise ships a year. Annual holiday arrivals exceeded 2,000 for the first time in 2007, as a direct result of six Japan Air Line charter flights that year.

41. The accommodation base has seen some expansion in recent years, with new facilities in Majuro (on the main island and in the northern islands) and Rongelap. In 2008 one of the RMI's key tourism attractions, Bikini Atoll Dive Resort, terminated its operations because of problematic domestic air service. In 2008, all hotels and resorts employed a total of about 200 persons, with no strong growth trend in the past five years.

42. The NTDP's intentions to foster the development of a high-end private resort industry will require significant and complementary improvements in air accessibility (both to and within the country), access to secure-titled land and islands for development, supporting infrastructure, and domestic transportation service.

B. Monetary Developments and Prices

1. Prices

43. Fig. 9 indicates the annual percent changes in the RMI CPI since the commencement of the series in FY1983. It might be expected that inflation in the RMI would follow trends in the United States, given the 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 in the mid-1990s rates were above U.S. norms. The early part of the 1990s was a period of rapid growth in GDP, and expansion in demand would likely have resulted in acceleration of inflation. In more recent times, from FY1999-FY2004, the rate of inflation in the RMI moderated significantly and fell below U.S. rates, despite the pick-up in economic growth and additional

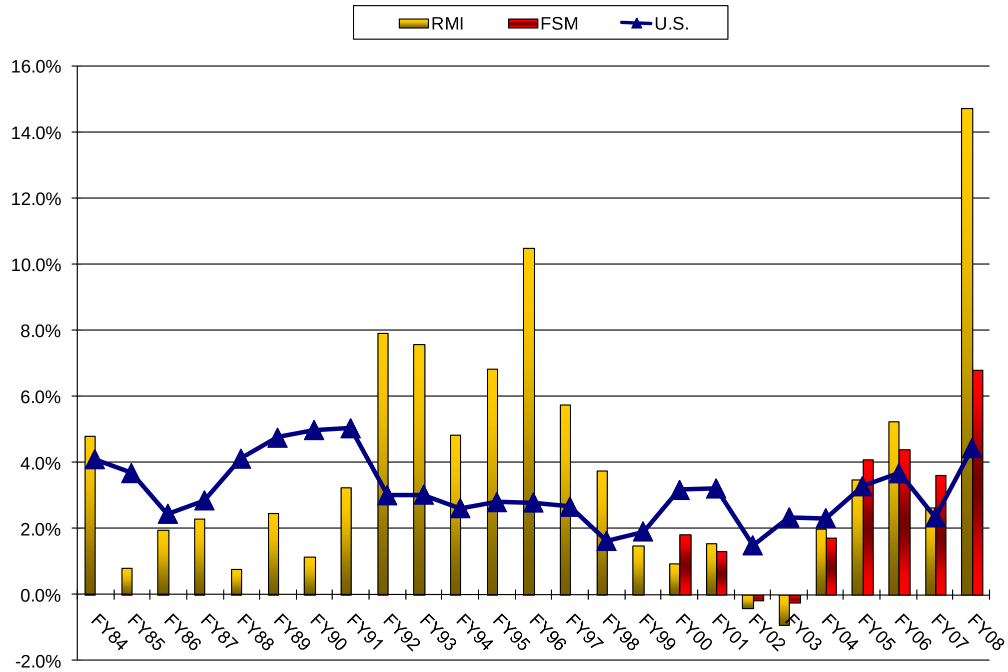


Figure 9 Change in CPI: RMI, FSM, and U.S. (percent); FY1984–FY2008

demand in the economy. More recently, between FY2005 and FY2007, inflation has picked up faster than in the U.S. However, in FY2008, the rate of inflation rose to 15%, reflecting very large increases in food and energy prices. Comparative data for the FSM have been included in Fig. 9 for those years for which they are available. The two countries show a very similar experience and trend in the average price level, although the recent experience of rapidly increasing food and energy prices in FY2008 hit the RMI with greater force than the FSM.

44. From the first quarter of 2003, the Economic Planning, Policy, and Statistics Office (EPPSO) initiated a new CPI series based on the 2002 Household Income and Expenditure Survey. Fig. 10 indicates changes in the new index for selected commodity groups since Q1 of 2004. Clearly, the most dominant price change has been in the housing and utility section of the CPI, reflecting the impact of higher utility prices, which peaked at 62% in Q3 of 2008. The changing environment confronting the MEC required large changes in electricity prices because of both a hike in world fuel prices and a need to charge prices more closely related to the basic costs of operations. The direct impact of higher fuel prices is seen more clearly in transportation prices, which rose by 42% in the same quarter. Reflecting the increases in world food prices, which have had serious consequences for developing nations, the food section of the CPI rose by 31%. The combination of these forces caused the CPI to rise by 15% in the RMI, to rates not experienced since the mid-90s.

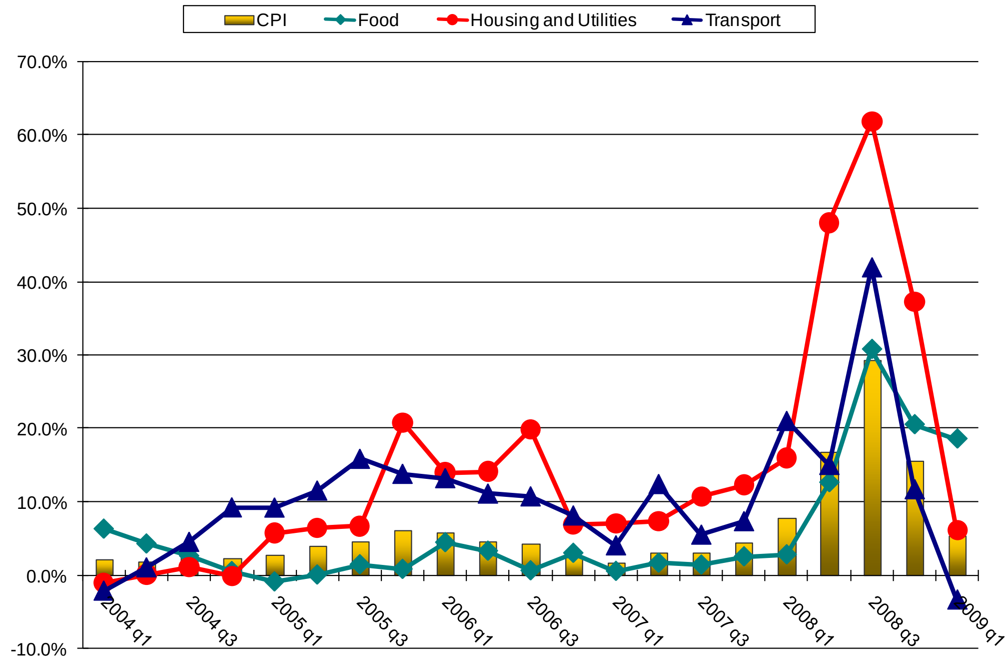


Figure 10 Change in CPI by selected major commodity groups; FY1984–FY2005

2. Money and Banking

45. With the adoption of U.S. currency in the RMI, macroeconomic policy and adjustment has been limited to 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. Consequently, the RMI has no means of adjustment to reduced levels of resource transfers, other than the more politically painful policy of directly cutting government expenditures, reducing public sector employment and wages, and increasing domestic revenues. Furthermore, 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 RMI 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.

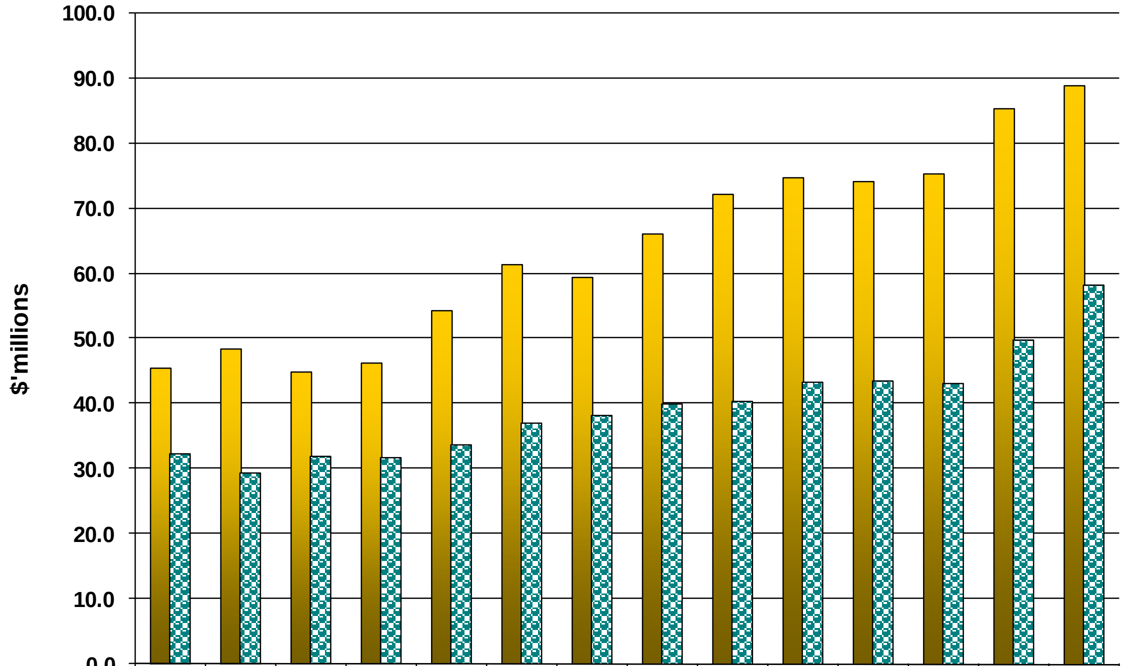
46. The banking system in the RMI is regulated by the banking commissioner, whose role includes licensing of domestic and foreign banks, on and off-site supervision of all commercial banks, and consumer protection. The Marshall Islands Development Bank does not currently come under the regulatory inspection of the banking commissioner. Until December 2002, until the Bank of Hawaii withdraw from the market, there were three U.S. banks operating in the RMI. There is one locally owned bank, the Bank of the Marshall Islands. The remaining U.S. bank, the Bank of Guam, is a branch of its parent

registered in the U.S., comes under U.S. federal supervisory requirements and is FDIC insured. Although the financial system has provided satisfactory and secure banking services, the marketplace, because of its small size and lack of a well developed supervisory capability, requires careful monitoring.

47. Since there is no independent monetary policy, domestic interest rates are closely aligned with those in the U.S. Deposit interest rates observed in the market are broadly similar to those throughout the United States. From 1997–2000, average three-month deposit rates were just 4.1% (see Appendix, Table 6c), but they were subsequently reduced, following the general easing of monetary policy in the United States. By 2004, the three-month deposit rate had fallen to 1.3%; it strengthened slightly in FY2005-FY2007 but fell back to 1.8% in FY2008. 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% and those on commercial borrowing, 10.9% during FY1997–FY2008. While rates have shown some variation, they appear relatively insensitive to market forces. As in many developing countries, financial intermediation is accompanied by a significant spread between lending and deposit rates.

48. Statistics on the RMI banking sector are available from 1992 onward (see Appendix, Table 6), and major trends in lending and the deposit base are shown in Fig. 11. On the deposit side, there was a stagnant period through the late 1990s, reflecting the general slackness in the economy and contraction in activity, the result of the worldwide financial crisis. However, once the crisis was resolved and the economy picked up speed, the deposit base grew rapidly, averaging 6.7% between 1998 and 2008. On the lending side, developments reveal a different picture. Commercial bank credit contracted through 1995–1998, as a result of the financial crisis and the RIF of public servants. Confidence returned in 2000, and bank lending grew steadily although slowly, on average by 3.8% between 1998 and FY2006. In 2002, Bank of Hawaii departed the RMI, but Fig. 11 suggests that the runoff in business was picked up by the remaining banks. Certainly, the departure of Bank of Hawaii had much less financial impact on the RMI than on the FSM, where lending dropped by more than half. In the last two years, FY2007 and FY2008, lending has been active and grew by over 15% in each year.

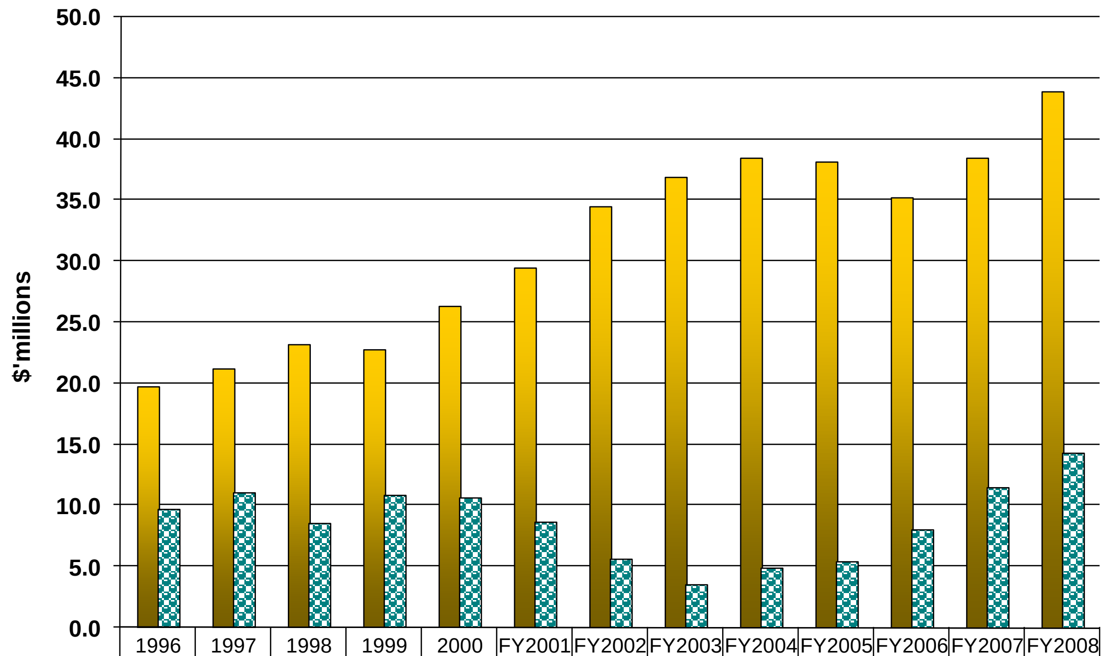
49. The difference between loans and deposits indicates the large level of liquidity in the RMI banking system and is another example of a widely observed phenomenon in the Pacific Islands region: capital is not a factor of production in short supply. Reflecting the trends described above, the loans-to-deposit ratio was approximately 70% during the 1990s, but it fell back to about 60% during the early to mid-2000s. It has since returned to its former levels, with the growth in lending in FY2007 and FY2008. The large difference between the level of deposits and loans is invested offshore, and, mirroring the trends in credit, the level of foreign assets rose from $18 million in 1995 to $57 million in 2008 – an annual average growth rate of 9%.



	1995	1996	1997	1998	1999	2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Deposits	45.6	48.6	45.0	46.4	54.3	61.4	59.6	66.2	72.2	74.9	74.3	75.5	85.5	89.0
Loans	32.3	29.5	32.0	31.7	33.6	37.0	38.1	40.1	40.4	43.4	43.6	43.2	49.9	58.2

Figure 11 Commercial bank loans and deposits (end of period)

50. Fig. 12 indicates the extension of credit to the private sector in the consumer and commercial markets since 1996, when the data was first available. After a weak period in the late 1990s, consumer credit expanded rapidly in the early 2000s, as confidence in the economy returned, and the government embarked on a rapid increase in the size of the public service sector. In 2005, lending opportunities for consumer credit took a dip but returned to their upward trend in FY2007. Between 1999 and FY2008, consumer credit grew by a respectable annual average of 7.5%. However, the opposite happened in the commercial sector, which collapsed after 2000. This segment of the market was indeed affected by the loss of Bank of Hawaii. The remaining two banks failed to pick up the released business, in certain cases because of a lack of solvency. From a figure of $10.6 million in commercial lending in 2000, the market fell to $3.5 million in 2003. There has been improvement since that time, and outstanding commercial credit stood at $14.3 million at the end of FY2008. However, commercial lending to the private sector has been lackluster and reflects lack of collateral, poor business management, and the many impediments to lending. With planned improvements in “secure transactions” law, it is hoped that this segment of the market, which is of critical importance to private sector development, will show signs of expansion.



	1996	1997	1998	1999	2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Consumer	19.7	21.2	23.2	22.8	26.4	29.5	34.5	36.9	38.5	38.2	35.2	38.5	43.9
Commercial	9.7	11.1	8.5	10.8	10.6	8.6	5.6	3.5	4.9	5.4	8.0	11.4	14.3

Figure 12 Commercial bank credit by sector

C. Balance of Payments and External Debt

1. BALANCE OF PAYMENTS

51. During the preparation of the data in the statistical appendix, a substantial effort was made to improve the RMI balance of payments estimates. In previous reports, only rudimentary series were presented, but in the current version represents a thorough overhaul. A similar methodology has been imposed on all years, and the data is presented according to the latest IMF BoP Manual, Version 6. Although much work is still to be undertaken, it is felt the current statistics are now as accurate as the other RMI statistics. While improved external statistics was the main reason for the overhaul of the BoP, a desire to produce estimates of GNI and GNDI was also important. The revised BoP is presented in abbreviated form in Table 4 and in more detail in the statistical appendix. The trade account is composed of imports and exports. Exports are largely composed of fuel re-exports, coconut products, fish, and a few other small items, of which fuel re-exports are the major component. While the RMI provides shoring facilities to many fishing enterprises, most of these are non-resident and therefore do not enter the BoP. Estimates of imports are based on customs duty collections and divided by an estimate of the average tariff rate. Detailed trade data by commodity is not produced in the RMI and is a major weakness in the nation's statistical systems. The implementation of a modern and effi-

Table 4 Balance of payments (FY2000–FY2006, US $'millions)

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Current Account Balance	**-20.9**	**-16.0**	**1.6**	**-7.1**	**0.9**	**-1.6**	**-5.5**	**-5.7**	**-6.5**
Trade balance	-67.0	-69.9	-53.5	-62.3	-56.7	-63.5	-71.9	-71.2	-71.5
Exports, f.o.b.	11.8	9.8	12.7	15.0	17.3	24.2	12.3	16.2	19.4
Imports, f.o.b.	-78.8	-79.8	-66.2	-77.2	-74.1	-87.6	-84.3	-87.3	-90.9
Services account	-18.5	-19.7	-17.1	-19.0	-22.1	-27.0	-27.6	-30.9	-32.1
Receipts	9.8	9.5	10.3	11.3	10.2	9.1	9.1	8.7	8.7
Payments	-28.3	-29.2	-27.4	-30.3	-32.3	-36.1	-36.7	-39.6	-40.7
Freight and insurance	-14.4	-13.9	-11.6	-13.5	-12.9	-15.3	-14.6	-15.1	-15.8
Passenger services, airlines	-7.3	-7.6	-7.9	-8.8	-10.3	-11.1	-12.2	-12.9	-12.9
Travel	-3.5	-4.3	-4.0	-4.3	-5.0	-5.0	-5.4	-5.1	-4.5
Other	-3.2	-3.4	-3.8	-3.7	-4.1	-4.7	-4.4	-6.5	-7.5
Primary income balance	31.6	32.5	32.9	32.6	33.6	36.4	38.3	36.3	33.8
Receipts	37.1	37.1	36.9	36.6	39.1	42.4	45.8	44.6	41.3
Compensation of employees	18.3	19.2	18.3	19.5	19.7	20.3	22.3	21.2	18.7
Rent (Kwajalein land)	10.9	11.1	11.2	11.2	15.0	15.2	15.4	15.8	16.2
Other	7.9	6.8	7.4	5.9	4.4	6.9	8.1	7.6	6.4
Payments	-5.5	-4.6	-3.9	-4.0	-5.5	-5.9	-7.5	-8.4	-7.5
Secondary income balance	33.0	41.1	39.2	41.6	46.2	52.4	55.7	60.0	63.3
Receipts	36.1	44.3	42.4	44.9	49.6	55.9	59.3	63.7	66.9
Budget grants	27.1	35.2	33.4	35.9	40.0	45.9	49.5	53.6	57.2
Compact current grants	8.1	8.1	13.4	13.5	17.4	22.9	26.0	30.8	39.7
Other budget grants	19.1	27.2	19.9	22.4	22.6	23.0	23.5	22.8	17.5
Other	8.9	9.0	9.1	9.1	9.6	10.0	9.8	10.1	9.6
Payments (mainly households)	-3.1	-3.2	-3.2	-3.3	-3.4	-3.5	-3.6	-3.7	-3.6
Capital account balance	**23.0**	**23.4**	**19.3**	**19.2**	**10.2**	**14.1**	**18.5**	**26.3**	**21.0**
Compact capital grants	23.0	23.4	19.3	19.2	3.2	4.7	9.5	16.6	11.3
Trust Fund	0.0	0.0	0.0	0.0	7.0	9.3	9.0	9.7	9.7
Net lending/Borrowing (Curr + Cap)	**2.1**	**7.4**	**20.9**	**12.2**	**11.1**	**12.4**	**13.0**	**20.6**	**14.5**
Financial account balance	**-10.1**	**-17.6**	**-16.5**	**-25.3**	**-15.3**	**-23.3**	**-11.5**	**-15.0**	**-6.2**
Direct investment	0.1	0.1	0.1	-1.9	0.3	2.4	1.5	8.0	4.7
Portfolio investment	-15.8	-27.7	-17.3	-16.1	-13.3	-20.6	-16.9	-18.6	-10.3
Assets	0.0	-5.2	-17.3	-16.8	-13.9	-20.3	-16.8	-17.1	-9.7
Trust Fund, Government	0.0	0.0	0.0	0.0	-32.0	-11.8	-11.5	-9.7	-9.7
Social Security portfolio	0.0	-5.2	0.2	-7.9	-6.9	-8.4	-5.3	-7.4	0.0
Liabilities (mainly MTN)	-15.8	-22.5	0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6
Other Investment	5.6	9.9	0.7	-7.3	-2.3	-5.1	3.9	-4.4	-0.5
Assets (Deposits of Com. Banks)	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6
Liabilities (External Debt)	15.1	8.0	7.9	2.7	0.3	-2.5	7.9	-1.2	-4.1
Errors and Omissions	*-8.0*	*-10.3*	*4.4*	*-13.1*	*-4.2*	*-10.9*	*1.5*	*5.6*	*8.4*

cient customs system such as PC Trade, which has been adopted in many other small Pacific Island nations, would not only provide reliable trade data, but would also assist, perhaps more importantly, in improving customs administration, compliance and tax collection.

52. The service account on the receipt side comprises a series of small items: transshipment fees of fishing fleets restocking in the RMI, port facilities, telecommunications, travel expenses of visitors to the RMI, and local expenses of Continental airlines. On the payment side, the large item for freight and insurance represents the adjustment made to imports c.i.f. to estimate imports on an f.o.b. basis. Payments for passenger services represent payments for air travel and have increased rapidly in recent years due to increasing fuel prices and dependence on one carrier. Travel expense is also significant, representing overseas travel costs of government officials and private individuals. The

remaining item, "other," includes a series of small payments for pension services, business and financial services, etc.

53. On the primary income account, the two major items are the compensation of employees of Marshallese workers on the Kwajalein military base and the receipts for rent by the Kwajalein landowners. Since a substantial number of the Kwajalein landowners live in the U.S., only the transactions related to residents are included in the flows. The "other" category includes fishing rights fees, which are relatively small in the RMI, compared with the FSM, and $1.7 million was received in FY2008. Also included in the "other" category are the interest earnings of the various Trust Funds (including Compact Trust Fund), the MISSA social security funds, and commercial bank off-shore investments. On the payments side, primary income flows are mostly represented by interest payments on external debt.

54. The secondary income account provides a very major source of income to the RMI. Budget grants include both the very sizeable Compact grants and other transfers received from the ROC and U.S. federal programs. "Other" receipts include inward remittance flows to households, which is an important item, but for which little reliable data exists. The College of the Marshall Islands also receives relatively large transfers from Pell grants and other U.S. federal grants. Remittance outflows are mainly household transfers and are estimated to be larger than inward remittances of Marshallese living in the U.S. Included in outward transfers are payments not only from Marshallese families but also from the sizeable Chinese and other Asian communities living in the Marshall Islands.

55. The capital account includes Compact capital grants, which before FY2004 were represented by the original Compact I CIP funds and since that time by the use of the Compact infrastructure sector grant. In the early part of Compact II, capacity constraints limited the use of this grant, but performance has improved, and now most of the available funds are being used in capital projects. The receipt of funds for the Compact Trust Fund is also included in the capital account and matched by a contrary entry in the financing account.

56. As regards the financing account, direct investment flows have generally been small, but in FY2007 and FY2008 reflected the re-construction of the fish loining plant by Pan Pacific. Portfolio investment represents a series of important items. First, contributions to the Compact Trust Fund from the RMI, U.S. and ROC reflect the sizeable investments in the Fund (note that increases in assets are shown as negative in the BoP, while increases in liabilities are positive). Second, investment by MISSA in the U.S. for the social security portfolio has been sizeable in most years, but recorded zero in FY2008 and turned negative in FY2009 (not shown in the table.) The decline in build-up and reduction in FY2009 of social security assets is a cause of concern as to whether the investments can meet the long-term obligations to the beneficiaries. The recent financial crash has exacerbated the problem, and while it has not been taken up in this report, it

represents a serious financial issue facing the nation. During Compact I, the RMI issued a series of Medium Term Notes, to cash in on future Compact receipts. The portfolio investment item under "liabilities" mainly represents repayment of notes, which concluded in FY2001. The remaining item on the finance account – "other investment" – represents changes in commercial bank foreign assets, which has generally been a large increase, and net changes in liabilities on external debt.

57. The structure of the balance of payments represents a large trade account deficit matched by substantial inflows on the primary and secondary income accounts. In essence the level of imports and services consumed is matched by earnings of Marshallese workers at the Kwajalein U.S. base, rent of the base, and Compact current transfers. The current account has recorded surplus and deficits, but on average recorded -$1.1 million in FY2000-FY2008. The capital account is always positive, reflecting receipt of capital transfers from the U.S. and ROC. The finance account has always been negative, reflecting the buildup of assets, whether contributions to the Compact Trust Fund, the social security portfolio, or commercial bank accumulation of foreign assets. Offsetting the increase in assets has been direct investment inflows and official loan drawdown. Overall the errors and omissions, the difference between net lending and the financing account has averaged -$2.3 million, a surprisingly low figure, given the nature of the estimates.

2. External Debt

58. The external debt situation of the RMI had a major impact on economic performance during Compact I. By the mid-1990s bond issues (MTNs) made as far back as 1987 resulted in almost all Compact revenue streams being committed to repayments by the mid-1990s. The problems were compounded by lack of performance of the investments funded out of the bond proceeds, and the result was a sharp downturn in the economy in the second half of the 1990s. All of the MTN issues were repaid by the end of FY2001.

59. During Compact I, the government developed a substantial portfolio of loans from the Asian Development Bank (ADB; see Table 5). The RMI commenced borrowing from the ADB in 1993 with the funding of the Fisheries Development Loan, which focused on fisheries development in Ebeye. Subsequent loans have included water supply, social sector, and transport projects, including reform program loans. In total, the ADB has approved $76.2 million worth of loans since the RMI joined in 1991. After debt repayment and lack of full disbursement for some loans, outstanding ADB debt at the end of FY2008 was $60.6 million. 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, although a "service charge" of 1–1.5% is applied to the outstanding principal. New program loans, such as those through the Fiscal and Financial Management Program, now have a term of 24

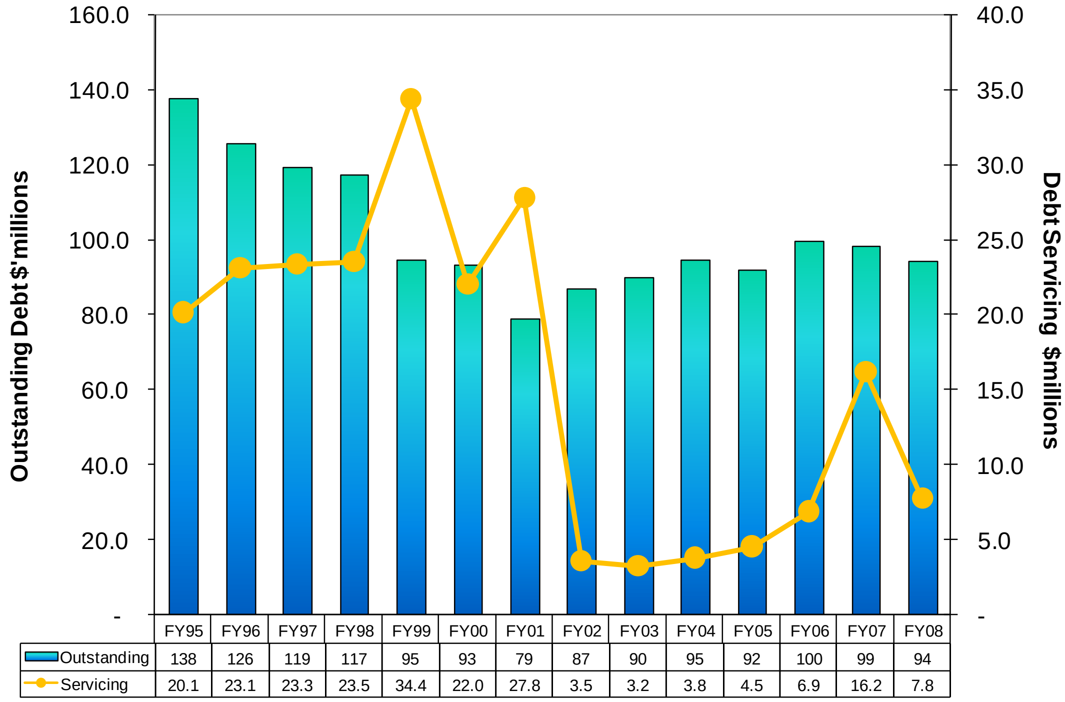
Table 5 External Debt by loan, commitment date, original debt and outstanding principal

Loan	Lender	Number	Year	Original debt, $'000	Estimated outstanding principal September 2008, $'000
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	3,029
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	453
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	7,099
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	650
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	7,888
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	4,805
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	10,952
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	8,767
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,923
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	8,389
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	3,142
Outer-Islands Transport and Infrastructure Loan	ADB	1948-RMI (SF)	2003	7,900	508
Marshalls Energy Company - New Powerplant Loan	RUS		1997	12,500	7,624
Marshalls Energy Company - Consolidation Loan	BoG		2007	12,000	10,718
NTA Loan	RUS		1989	18,800	13,249
NTA Loan Supplement	RUS		1993	3,900	0
MIDB ICBC Loan	ICBC		2004	4,000	2,400
Total				127,390	94,595

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.

60. Other major external debt commitments represent government guaranteed debt to the SOE sector and include the Rural Utilities Service (RUS, formerly the Rural Electrification Administration) loans for 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 million in 1993, though the extension of the loan was not guaranteed by the RMI. In 1997, MEC secured a RUS loan for $12.5 million to finance the new power plant on Majuro. More recently, in FY2004 the government guaranteed a loan issued by the International Bank of China to the Marshall Islands Development Bank, and in FY2007 the government guaranteed a loan in the amount of $12 million on behalf of the MEC to the Bank of Guam. In all cases the RMI guarantees require that the RMI will meet debt service requirements in case of default by the state owned enterprises (SOEs).

61. Fig. 13 shows the substantial size of the RMI's external debt in the mid-1990s and the burden of the debt servicing until FY2008. In 1995, the outstanding debt reached $138 million, which equated to 115 % of GDP. After the bond issues were fully repaid, there was a corresponding reduction in debt and debt servicing, and by FY2008, outstanding external debt had fallen to $94.3 million, or 62% of GDP. The dramatic fall in debt servicing since FY2001 is due largely to the concessional nature of much of the remaining debt, which is predominantly from ADB. In FY2007, the sharp upward movement in debt service represents transactions relating to the MEC crisis, which were consolidated through the $12 million loan from the Bank of Guam. Although debt servicing has fallen considerably, the increasing trend since FY2002 represents the expiration of grace periods and is a worrying trend. Since external debt servicing is now funded out of



	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Outstanding	138	126	119	117	95	93	79	87	90	95	92	100	99	94
Servicing	20.1	23.1	23.3	23.5	34.4	22.0	27.8	3.5	3.2	3.8	4.5	6.9	16.2	7.8

Figure 13 RMI external debt and debt servicing, FY1995–FY2006

the government's discretionary resources, or General Fund, there are significant implications for the RMI's fiscal policy. This issue is taken up further in the Policy Issues part of this report.

D. Fiscal Developments

1. Fiscal Policy Framework

62. The original Compact, which became effective in FY1987, 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 U.S. special and federal programs. The flow of resources entailed two step-downs in five yearly intervals in FY1992 and FY1997, and an increase in funding in FY2002–FY2003 at the average levels of the first 15 years. Of the different grants, some were inflation indexed at two-thirds of the U.S. GDP deflator, and some were not indexed. The structure of the original Compact, due to the fungiblity of the resources, placed no effective constraints on the choice of sectors to which the resources were directed. However, the original Compact entailed the need for two large fiscal adjustments coinciding with the two step-downs, as well as the challenge of how to "sterilize" the "bump-up" in resources in the final two years, FY2002 and FY2003.

63. The agreement and adoption of the amended Compact by the RMI and U.S. governments, which became effective in FY2004, 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 element 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 6 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 United States 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 $35 million in FY2004 but are to be annually reduced by $0.5 million. The difference between the total contribution and the annual sector grant levels will be deposited in the Trust Fund to accumulate over the 20-year Compact period. In addition to the sector grants and Trust Fund, the United States will contribute $15 million a year, for Kwajalein impact, to the Kwajalein landowners. The United States agreed to contribute a further $5 million to the RMI in FY2014, $2 million of which would be added to the annual sector grants; the remaining $3 million would be used for Kwajalein impact.

64. In comparison with the original Compact, the new arrangement avoids the need for large fiscal adjustments every five years. However, in order to establish the viability of the Compact Trust Fund, the United States instigated the annual decrement. While

Table 6 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

avoiding large shocks to the system, the decrement will still require annual adjustment. Coupled with the lack of full inflation adjustment, the annual reduction in real resources — estimated to be approximately 2% per annum — will require active fiscal policy adjustments, unless the country can develop a policy regime that will attract and encourage private sector investment and economic growth great enough to offset the decline.

65. A special condition agreed upon by both parties is that the RMI will devote between 30% and 50% of the total Compact sector grant specifically to infrastructure. Of the infrastructure grant, 5% must be set aside for infrastructure maintenance, and the RMI must contribute an additional 5% out of local revenues. In general, the implementation of the sector grant approach of the amended Compact did not impose on the RMI any effective fiscal constraint or need for restructuring. There are sufficient general fund revenues to maintain operations without cutting back expenditures in non-compact sectors. In FY2004-FY2008, the use of the minor sector grants of private sector development, environment, and public sector capacity building was minimal.

66. 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 continues, with the exception of certain education programs, which were “cashed out” and have been replaced through the Supplemental Education Grant (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 have had an important impact on the conduct of fiscal policy and management in the RMI.

67. In addition to the special relationship the RMI enjoys with the United States, the RMI has also developed strong ties with the ROC. The ROC initially contributed $10 million to the RMI government, of which $4 million was transferred to the general fund and the remaining $6 million was available for special projects to be agreed upon between the parties. In FY2008, the contribution to special projects had risen to $12 million and was no longer strictly earmarked for development projects. As fiscal pressures have mounted, an increasing amount of the project money has been used for general activities, and, in effect, the project contribution simply augmented general fund revenues. Of special significance is the additional support provided by the ROC to the Compact Trust Fund. By way of a memorandum of understanding, the ROC has agreed to transfer $50 million to the RMI over the period of the amended Compact; $40 million of this 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 yield earned on the resources in the D fund once they have reached $10 million.

68. 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. Expenditures from this fund are largely unrestricted, but there is limited flexibility or authority to use monies from the other funds. Under Compact I, a major part of the external assistance provided revenue to the general fund and thus was unrestricted. Under the amended Compact and sector grant approach, however, all such receipts are earmarked for specific purposes and must be liquidated if they remain unused at the end of the financial year. This requirement effectively inhibits deficit spending under the sector grants. Fiscal policy in the macroeconomic sense is thus executed only through the general fund. The structure of the standard Government Financial Statistics (GFS), which aggregates across funds and focuses on "above-the-line" revenues and expenditures and "below-the-line" financing, does not always highlight some of the additional constraints faced by fiscal policymakers.

69. Government in the RMI consists 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, Ronelap, Enewetok, and Utrik; and other smaller atoll local governments. At present, local government provides services in administration, police, garbage collection, etc. Local government expenditures represent about 6% of national government expenditures. Under the constitution, powers to raise taxes rest with the national government, but local governments may raise taxes provided the increase has been authorized by 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 FY2008, the local government share of total domestic revenues amounted to 11%.

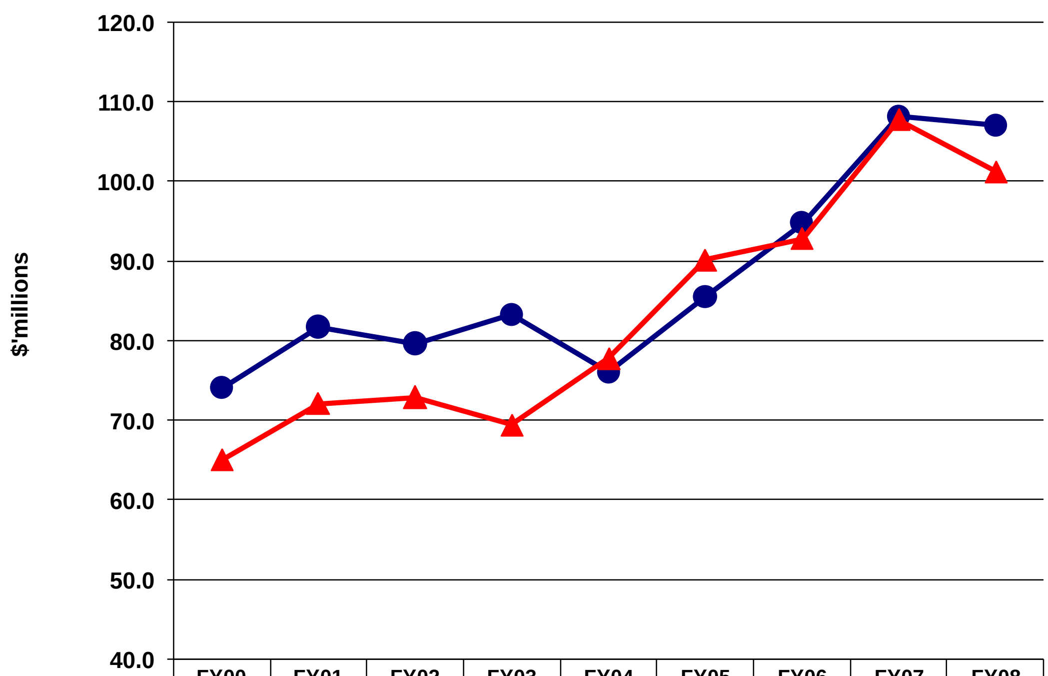
70. The RMI has a good record of timeliness in the preparation and publication of the annual single audits. This report is based on audit information through FY2008. In this part of the report, discussion will focus on fiscal developments during FY1997–FY2008. Analysis of the emerging fiscal situation and the fiscal outlook will be undertaken in Part III, 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

71. ***Fiscal Performance***: Fig. 14 depicts RMI fiscal performance during the FY1997–FY2008 period (see also Table 10a of the statistical appendix). The figure shows developments in total revenues and expenditures on a GFS basis, consolidating across the general and all other fund types. 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 FY1997, expenditures were compressed through FY1999, 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-1990s, the RMI had pledged a very significant portion of all future Compact revenue streams, 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 help 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. This, plus other cuts in subsidies to public enterprises, as well as attempted privatization of the Ministries of Public Works and Transportation, resulted in a significant cutback in expenditures until the end of FY1999. During that fiscal year, fiscal policy was further exacerbated by reduction in customs tariffs and excises on beer and tobacco in the run-up to the 1999 election.

72. In FY2000, a new administration took office, and customs rates were increased to restore fiscal stability, although not to the full rates prevailing in FY1998. During FY1999, the RMI formally recognized the ROC and was to benefit from substantial contributions, both to the general fund and for capital projects. In FY2000, this new source of revenues amounted to $10 million, representing 14% of that year's total revenues, and



	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Revenues	74.1	81.7	79.7	83.3	76.1	85.6	94.8	108.2	107.1
Total Expenditures	65.1	72.1	72.9	69.4	77.8	90.2	92.9	107.8	101.3

Figure 14 RMI consolidated revenues and expenditures, FY1997–FY2008.

eased the fiscal situation significantly, enabling the government to allow expansion in expenditures. In FY2001, revenues continued to grow from a further large increase in non-U.S. grants, and expenditures grew apace. In FY2002 and FY2003, 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 by then been fully repaid. The double "bumper" amounted to an additional $6 million, because of 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 agreed to contribute $30 million to the Compact Trust Fund. In FY2002, the RMI set aside $17.5 million and a further $16 million in FY2003 to the RMI Intergenerational Trust Fund, which was, at a later date, to be committed to the Compact Trust Fund. (These transfers have been omitted from the expenditure streams of Fig. 15.) These actions 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.

73. The large difference in Fig. 14 between revenues and expenditures in FY1997–FY2003 indicates that the RMI ran substantial surpluses. However, these numbers mask several important fiscal trends. During FY1997–FY2001, the RMI was required to devote a significant proportion of its Compact funding to bond repayment, thus unconditionally pushing revenues above expenditures. However, during this same period, the RMI drew down heavily on external borrowing, mostly from the ADB, representing approximately $10 million of additional new funds each year. While the level of ADB borrowing offset the impact of Compact bond repayment, the need to set aside funds to repay the previous bond issues dominated, and the overall effect was fiscal surplus. In FY2002 and FY2003, the government continued to draw down on ADB structural adjustment loan finance, and although bond repayment was complete, the need to set aside funds for the Compact Trust Fund dominated, and the RMI continued to run surpluses.

74. In FY2004-FY2008, during the first five years of the amended Compact, the fiscal account shows a more normal trajectory, with revenues and expenditures in closer alignment. Unlike Compact I, the new fiscal procedures agreement with the United States did 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 prevailed under the amended Compact, and the issue of bonds against future Compact flows was no longer possible. The results for FY2004-FY2008 are thus more easily interpreted. Expenditures in FY2004-FY2007 resumed their upward movement, boosted by the higher levels of funding available under the amended Compact and, in later years, by the increasing capacity utilization of the infrastructure sector grant. In FY2004, revenues were mostly in line with expenditures, and the fiscal account records a small deficit of $1.8 million, or 1.3% of GDP. In FY2005, with the upward momentum in expenditures remaining in full swing, a larger deficit of 3.4% of GDP was recorded. In FY2006 and FY2007, the fiscal situation continued to tighten, but the fiscal account recorded small surpluses of 1.3% and 0.2% of GDP, re-

spectively. By FY2008, the period of fiscal expansion had ran its course, and total expenditures dropped back by $7.8 million, reflecting lower transfer payments and a large drop-off in capital expenditures. Revenues were also weak in FY2008, dropping by 1.1% percent, and failed to exhibit the growth of earlier years. Overall, FY2008 indicates an apparently healthy surplus of 4.6 % of GDP. However, this masks the large prepayment of electricity bills to the MEC, an amount approximating the size of the recorded surplus. Circumstances continued to remain extremely tight in FY2008, and in Part III of this report, the fiscal situation is addressed again in greater detail.

75. ***The Fiscal Structure***: Table 7 provides a summary of the structure of the fiscal account. Grants as a percent of GDP remained relatively stable during FY1997–FY2003, averaging 44% of GDP. (An exception was the unusual receipt of grants in FY2001 from deferred receipt of ROC funds originally specified for FY2000.) In FY2004, the level dropped significantly – by over 10% -- reflecting the inability of the RMI to fully utilize the resources available under the amended Compact. Of a total FY2004 budget ceiling of $35 million, the RMI was able to utilize only $20.5 million. Absorptive capacity limitations were reached in both of the operational sector grants and under the infrastructure grant. In FY2005, there was some improvement, and Compact expenditures rose to $27.6 million, reflecting better performance on the operational grants, but significant underperformance on the use of the infrastructure funds. By FY2006, capacity constraints had all but been eradicated in all grant streams, and total use of Compact funds reached $35.5 million. In FY2007 and FY2008, the level of Compact grants rose to $47.4 and $51.0 million, in part reflecting the greater use of the infrastructure grant. Grants as a percent of total revenues indicate a similar trend, accounting for 64% in FY2008. There has been little change in the level of dependency on external transfers as a percentage of both total revenues and GDP. While the dependency on U.S. grants has fallen, this decrease has been offset by increased funding from the ROC.

76. Tax revenues, which have averaged 17% of GDP since FY1997, have changed little, reflecting continuation of the existing regime, although improved tax administration in the last few years has increased collections. Tax effort is above that of the FSM but below that of the majority of other Pacific Island economies and below the rate prevailing in the United States. Public expenditure averaged 65% of GDP during Compact II and is at a level similar to that of the FSM. Total expenditure as a percent of GDP dipped below trend during the reform period in FY1998–FY1999 but subsequently increased, and the ratio has risen in the first five years of the amended Compact, as absorptive capacity im-

Table 7 Comparative analysis of fiscal structure FY2000–FY2008

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Grants as % of GDP	44.4	50.7	42.3	43.0	32.0	36.1	40.4	46.1	44.7
Grants as % of Total Revenue	67.1	71.1	65.5	65.6	56.0	58.5	61.7	64.4	63.5
Tax Revenue as % of GDP	15.2	16.0	16.3	18.2	16.9	17.5	17.4	17.9	17.2
Total Expenditure as % of GDP	58.1	62.9	59.1	54.7	58.4	65.1	64.2	71.4	66.7
Current Balance as % of GDP	-1.7	4.9	3.7	6.6	4.7	2.4	4.8	6.3	8.5
Overall Balance as % of GDP	8.1	8.4	5.5	10.9	-1.3	-3.4	1.3	0.2	3.8

proved. Clearly, the public sector, supported by external assistance, continues to play a dominant role in the economy.

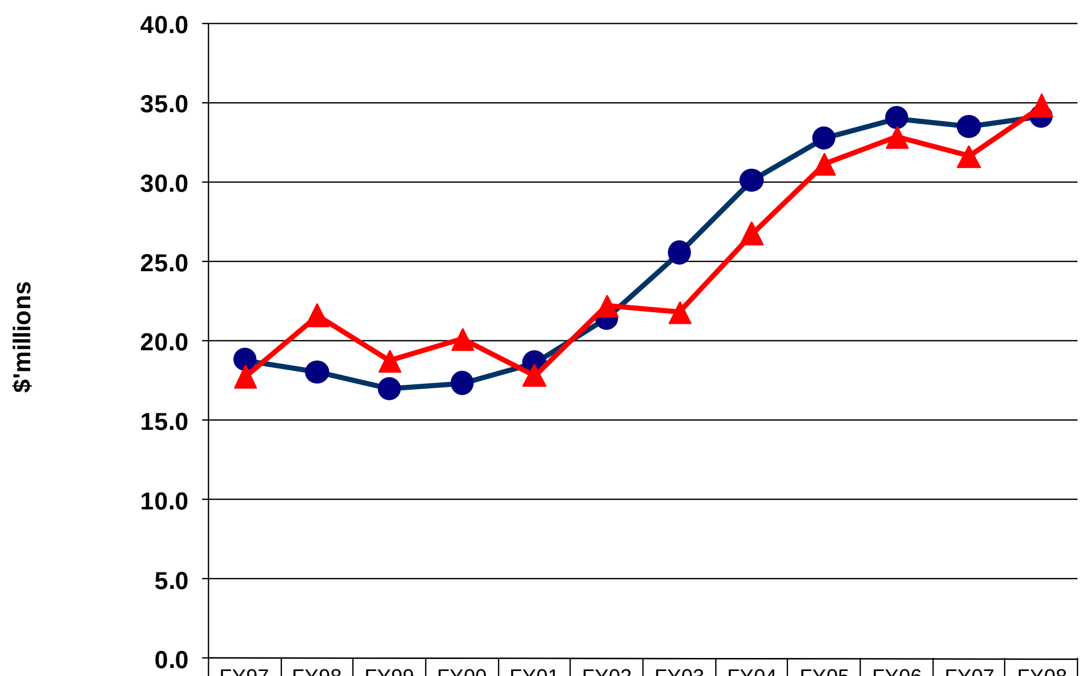
77. ***Revenues***: The tax regime in the RMI is based on a tax system inherited from – and largely unaltered since – Trust Territory days. The major source of tax revenue is a tax on wages, accounting for $11 million out of a total tax yield of $26 million in FY2008. The reduction in military presence on Kwajalein atoll in FY2008 and the anticipated drawdown in FY2009 and FY1010 will erode income tax receipts, and a $1.6 million reduction overall is projected. Wage earners pay 8%, up to a threshold of $10,400, and above that, 12%. Those earning less than $5,200 receive a tax-free threshold of $1,560. The gross receipts tax (GRT) is levied at 3% of business turnover and is intended as a proxy income tax, although the incidence is comparable to that of a sales tax. The tax suffers from the well known cascading effect, such 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.

78. Customs duties provide the second most significant category in terms of tax yield and have maintained a constant relation to GDP, with the exception of years when rates were adjusted. In FY1998, $7.8 million of customs taxes were collected, mainly from a general rate of 12% on merchandise. Varying but lower rates are collected on food products, and high rates on alcohol and tobacco have been imposed. In FY1999, the general rate of 12% was reduced to 5% 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 $4.5 million in FY2000. When a new administration assumed office in early 2000, import tariffs were returned to higher levels: the general rate was set at 8%,, and the rates on "sin" goods were raised. However, collections of import tariffs remained sluggish, with wide ranges of exemptions for different categories of importers and others. In FY2003, customs taxes reached $7.0 million but were still below FY1997 and FY1998 levels. In FY2005, new higher rates were imposed on "sin" goods, with the additional revenues earmarked for the College of the Marshall Islands (CMI). In FY2008, the government eliminated tariffs on certain basic foods, including rice, in response to the increase in world food prices. Duties on diesel used by MEC were also eliminated as part of the assistance and subsidy package to the ailing enterprise. Total customs collections reached $8.6 million in FY2006 and rose to $9.4 million in FY2007 but slid back to $8.7 million in FY2008, as the economy suffered the effects of the world recession.

79. Other forms of national taxes on fuel and hotels make a minor contribution to the general tax effort. Of non-tax revenues, fishing fees have raised an average $1.3 million during the Compact II period but have been a volatile source, depending on the location of the fishing stock. In FY2002, the rate of contribution to the health care fund was increased from 2.5% of gross pay to 3.5% for both employers and employees, bringing the total to 7%. In previous years these contributions had been collected and dispersed by the Marshall Islands Social Security Administration (MISSA). As of FY2002, the funds were

directly allocated to the Ministry of Health, although MISSA remained in charge of collection. In FY2004, the funds were included in the audit for the first time and contributed $6.9 million to local revenues in FY2008. In addition to fishing fees and the health fund, domestic revenues included a variety of smaller fees, earnings on investments, etc.

80. ***Expenditures***: Outlays on payroll and goods and services have grown rapidly in recent years. Fig. 15 shows recent trends in these two important categories of cost. During FY1997–FY2000, payroll costs were compressed through the implementation of the RIF, as the financial crisis and PSRP necessitated fiscal discipline. 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 unchecked. The amended Compact also permitted increased public servant recruitment in education and health. By FY2008, total payroll costs had risen to $34.2 million, from $17 million in FY1999 — a 101% increase. The apparent downturn in FY2007 reflects the creation of the Marshall Islands Shipping Corp, whose function was previously executed through the Ministry of Transport and Communications. Wage and other costs of the Department of Transport are thus now funded out of a subsidy to the MISC. Further elaboration on public servant payroll trends is provided in Part III. Payroll costs were not the only item to show a significant increase; expenditures on goods and services rose rapidly, from $19 million in FY1997 to over $35 million in FY2008.



	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Wages and Salaries	18.8	18.0	17.0	17.4	18.7	21.5	25.6	30.1	32.8	34.1	33.5	34.2
Goods and Services	17.8	21.6	18.8	20.1	17.9	22.3	21.9	26.8	31.2	32.9	31.7	34.9

Figure 15 Expenditures on payroll and goods and services, FY1997–FY2008.

81. 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 has increased in the last few years, although interest payments have fallen markedly with completion of repayment of the bond issues at the end of Compact I. Capital expenditures remained at a low level at the end of Compact I in FY1997-FY2000, reflecting the same constraints that affected operating expenses. In FY2000-FY2003, capital outlays expanded rapidly, financed through the release of funds from bond repayment; the additional bump-up funds; and the new Taiwanese resources. At the start of the amended Compact, capital expenditures fell back, because of capacity limitations, to $11 million in FY2004. In the following four years, capital outlays grew rapidly as the constraints were overcome and, according to estimates, peaked in FY2007 at $26 million, which represents a certain amount of catch-up, and fell back to a more normal level of $19 million in FY2008.

82. Table 8 indicates the importance of public sector enterprises (SOEs) in the RMI economy and the size of subsidy received. The table includes both the current operating subsidies and capital transfers i.e. equity injections. The level of subsidy has grown significantly in the last few years and 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 1990s. 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. In particular, the MEC is now in regular receipt of funds from the government to maintain operations, and the level of subsidy in the table fails to indicate the large number of other injections and advances the Corporation has received. The Marshall Islands Shipping Corp. was created in FY2007 to supply shipping services to the outer atolls, an important element of RMI social policy. The creation of the MISC has made explicit a subsidy that was formerly hidden in the general costs of government and represents an improvement in governance and transparency. The Marshall Islands Resort has required significant injections of cash over the years to remain in business but generated an operating surplus in FY2005-FY2007, which turned negative in FY2008. Tobolar provides a way for government to support rural incomes through subsidization of the copra price in the outer atolls. The general trend

Table 8 Subsidies to public sector enterprises (current and capital), FY2000–FY2008, $'000

US$000	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Air Marshall Islands	2,000	-	1,500	913	716	400	397	2,100	2,740
Kwajalein Atoll Development Authority	-	-	-	-	-	-	-	-	-
Kwajalein Atoll Joint Utilities Resources	2,030	750	573	199	650	904	716	563	563
Kwajalein Atoll Port Authority	-	-	-	-	-	-	-	-	-
Majuro Water and Sewer Company	100	100	1,465	49	75	75	75	349	1,258
Marshalls Energy Co. Inc.	-	-	1,867	1,867	205	400	1,470	874	356
Marshall Islands Airports Authority	50	89	-	-	-	-	-	-	-
Marshall Islands Development Bank	50	970	995	165	207	194	347	249	-
Marshall Islands Ports Authority	-	-	-	-	-	99	-	-	-
National Telecommunications Authority	-	-	-	-	-	-	-	-	-
Outrigger - Marshall Islands Resort	100	186	-	-	545	-	-	-	-
Marshall Islands Shipping Corporation	-	-	-	-	-	-	-	920	1,056
Tobolar	845	3,050	1,449	1,096	900	895	900	1,200	1,092
Total	5,174	5,145	7,848	4,289	3,299	2,967	3,905	6,254	7,065

increase in subsidies and other costs that are not included in the table suggests that SOE management has once again become a major policy issue and is taken up later in this report, in the Policy Issues section.

83. ***The Compact Trust Fund*** (CTF): A final important component of fiscal policy has been the establishment of the Compact Trust Fund. In FY2002, the RMI created the Marshall Islands Intergenerational Trust Fund (MIITF), intended to be an initial source of funds for the RMI contribution to the CTF. The RMI had committed, during the Compact negotiations, to contribute $25 million in FY2004 and $2.5 million/year in FY2005 and FY2006. In FY2002 and FY2003, 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 FY2004, at the inception of the CTF, the RMI transferred $25 million to the new fund, coupled with the U.S. contribution of $7 million. In order to sustain the activities of certain businesses in the RMI economy, however, the government drew down $7 million from the MIITF and invested the funds in certificates of deposit at the Marshall Islands Development Bank (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. The government was thus short of funds to make up the remaining contribution to the CTF in FY2005 and FY2006.

84. In FY2005 (including back payment for FY2004), 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 FY2005, 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 FY2006, the RMI made the final contribution of $2.5 million to the CTF through transfer of funds from the D account. As at the end of FY2006, the funds in the CTF stood at $63.1 million in the A account and $3.0 million in the D account.

85. During FY2007, the U.S. made its annual contribution of $8.9 million, and the ROC contributed $2.5 million, of which $0.75 million was earmarked for the A account and the rest for the D. Due to an administrative error, the funds were all deposited in the A account, and as a result, the ROC delayed its FY2008 contribution till FY2009. During FY2009, $1.5 million was transferred back to the D account, but the residual $0.25 million is outstanding. While the FY2008 contribution was the last of the scheduled ROC payments to the D account, the ROC still requires the RMI to make good on the $3.5 million used to meet the RMI $30 million contribution to the A account. At the end of FY2007, the balance on the A account stood at $83.9 million, after a bullish year on the U.S. stock market, and benefited from $9.1 million in holding gains.

86. In FY2008, only the U.S. made an annual contribution of $9.7 million, but unlike the prior year, FY2008 saw the onset of the worst recession since the great crash of the 1920s. Losses for the year were $20.5 million. Developments in the U.S. stock market during FY2008 and the late investing of funds in the early years raised concerns that the

CTF would fall short of the target for FY2024, at which time withdrawals from the Fund are to replace the use of the annual sector grants. A special section in this report in Part III has been included to investigate the performance of the CTF and the question of whether it will meet its objectives.

III. Policy Developments, Prospects, and Issues

A. Private Sector Development

1. Improving the Regulatory Environment for Private Sector Development

87. Private initiative in the RMI is generally constrained by the natural limitations of a remote location, a small and fragmented domestic market, a limited natural resource base, and weakness in the policy environment. Recent assessments of the RMI private sector, including the World Bank "Doing Business" survey, have pinpointed some specific comparative disadvantages, such as difficulties in registering property, limited access to credit, a shortage of skilled domestic labor, and high costs of doing business. The RMI ranked 8th out of 10 Pacific Island economies and near the 50th percentile (93 out of 181) in the global rankings of the 2009 "Doing Business" survey.

88. The lack of a comprehensive economic development strategy remains a critical policy challenge. Such a strategy could articulate how the RMI intends to address its business constraints and weaknesses and capitalize on its comparative strengths. One key area that has yet to see any serious policy reform attention has been the state owned enterprises, most of which are inefficiently run, require heavy subsidies, and contribute to the high cost of doing business. State involvement in running enterprises remains high, and there have not been any serious reform efforts in this area since the Public Sector Reform Program in the late 1990s.

89. For several years, efforts have been underway through cooperation with the Asian Development Bank to reduce general administrative barriers and to tackle two specific constraints: registering and accessing property and accessing credit. A Land Registration Authority (LRA) was established in 2003 to facilitate access to land (with secure title) for development, and in 2007, a Secure Transactions law was passed in the Nitijela to allow commercial financing to be secured by movable property; to provide for the creation of security interests in movable property; and to simplify enforcement against collateral when a debtor defaults. Public misunderstanding and distrust of the LRA system have resulted in only several dozen properties being formally registered as of mid-2009. There have also been administrative delays in establishing the Secure Transactions registry.

90. The dependent and limited nature of the private sector's contribution to economic growth and employment was discussed in Part II. The national government and the broader public sector (which includes local governments, public enterprises and agencies) remains prominent. Nevertheless, five years into the amended Compact, it is abundantly clear that the strategies of stimulating the economy through fiscal policy and creating new jobs through the civil service have run their course; a more effective and well-planned effort to invigorate the private sector is needed if the economy and employment are to grow sustainably. Efforts to improve the regulatory environment, including those

supported by the ADB, are important, but much more can be done to develop an attractive and enabling environment for private initiative.

2. Tax Administration

91. In FY2998, the RMI government's tax administrative system contributed approximately $26.2 million (out of total revenue of $34.7 million) to the government's general fund. Tax revenue is consequently a major determinant of the fiscal health of the government. It also plays a key role in the allocation of resources and in the environment for private sector initiative. The basic structure of the tax system has been described in Part II. The government recognizes that the system needs reform, and in 2008, the Cabinet established a Revenue and Tax Reform and Modernization Commission, whose purpose is to develop a proposal to reform the existing revenue system and strengthen compliance and collections. The commission's work is still in progress, with additional support being provided by PFTAC and the IMF.

92. In recent years, the Ministry of Finance's Division of Revenue and Customs has generally improved tax compliance and enforcement through more assertive auditing efforts. The increased vigilance has had an important demonstration effect and has resulted in improved compliance and tax collections. Initial audit efforts concentrated on income tax and the Gross Revenues Tax (GRT), and efforts are underway to expand audits of imports; such audits may help improve the RMI's currently very weak trade statistics.

93. Another step to improve enforcement is the transfer of foreign investment business licensing (FIBL) to the DoRC to allow for better tracking of businesses. Complementing this move is the memorandum of understanding among MISSA, MALGOV, and KALGOV to streamline the sharing of information in order to increase the coverage of the tax system.

94. 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 and longer-term reductions in Compact funding must be addressed if the nation is to cope with its fiscal challenges.

95. In 2008, in a response to the high inflation on fuel and food prices, the government granted an import duty exemption to MEC for its imported diesel fuel (for general and re-export) and to importers of basic food staples (rice, flour, etc.). Tax holidays continue to be granted by the Cabinet in special cases, including exemptions on GRT for the existing fishing operations. To encourage growth in exports and foreign exchange earnings, taxing export-oriented business activities is usually discouraged. This principle has not been fully adopted in the RMI, with several exporters still paying GRT on their export revenues, including MEC, which has re-exported an average of $4.8 million worth of diesel to foreign vessels in FY2006-2008.

B. Human Resource Development

96. ***Summary***: The RMI has placed education and health at the forefront of its approach to development, and since commencement of the Compact, tremendous effort has been made to improve education and health infrastructure, basic services, and ultimate outcomes. More than two decades into the Compact and five years into the amended Compact, although clear progress has been made in several key areas, including significant improvements in infrastructure, accessibility and basic quality of services, there remains much room for improvement.

97. ***Financing***: Significant resources go into the education and health sectors, and the RMI typically out-spends most other Pacific nations in these two areas, in both per-capita terms and as a percentage of GDP. Moreover, the amount of funding going into these sectors has grown rapidly over the course of the Compact. As shown in Table 9, from FY1979-FY1985, in the lead-up to the commencement of Compact I, recurrent spending on education and health averaged $2.6 million and $3.5 million, respectively (in nominal terms). In FY1987 (the first year of the Compact), expenditures jumped to $6.1 and $7.3 million, respectively. By the late Compact I period, in FY1999, annual spending had reached $14.2 and $12.6 million. The transition year into the amended Compact (from FY2003 to FY2004) brought with it another 58% increase in the combined education and health budgets, and the two areas have spent an average of $23.8 and $19.5 million over the first five years of the amended Compact.

98. In real per-capita terms, from the first year of Compact I (FY1987) through FY2008, recurrent expenditures on education and health have grown by 108% and 42%, respectively. Recurrent education expenditure has grown by $11.6 million in the decade FY1999-FY2008; 60% of this amount has come from growth in wages and salaries (the Ministry of Education added 587 employees over the period, including some 200 teachers from the former Head Start program in FY2005). Recurrent health expenditure has grown by $8.4 million, with 42% accounted for by wage and salary growth (the Ministry of Health added 147 new employees over the period). In FY2008, annual recurrent expenditures on education and health were equivalent to 17% and 14% of nominal GDP. Compact financing now provides around 90% of total recurrent expenditure on education and health.

Table 9 Recurrent Education and Health Expenditure (nominal terms, $ millions)

	Education	Health	Total
FY79-85 Pre-Compact Avg	2.6	3.5	6.1
FY87 First Year Compact I	6.1	7.3	13.3
FY99 Near-end Compact I	14.2	12.6	26.8
FY03 Transition	15.0	9.9	24.8
FY04-08 New Compact Avg	23.8	19.5	43.4

99. ***Areas of progress***: Education and health indicators show progress in several key areas. In education, as reported in the 2009 Millennium Development Goals (MDG) Progress Report, primary enrollment appears to have rebounded in the preceding decade, with estimates for 2007 at 83% males and 84% females (compared to 75% and 76%t, respectively, in 1999). New school construction, falling fertility rates, and urbanization have all positively contributed to the trend. Adult educational attainment has also risen over the long term; close to 90% percent of male and more than 80% percent of all female adults have now completed primary schooling (or higher). Female-to-male school enrollment ratios show parity in the secondary and tertiary levels. Education infrastructure has improved dramatically in recent years, thanks in large part to new capital financing through the amended Compact. Efforts are also being made to dramatically strengthen teacher qualifications through certification and licensing.

100. In health, strong progress has been made in reducing infant, under-five and maternal mortality, as reported in the 2009 MDG report. The infant mortality rate has been cut in half since the late 1980s, from an estimated 63 infant deaths per 1,000 live births in 1988 to the low 30s in 2007 and 2008. The under-five mortality rate has shown a similar trend, falling from 93 in 1988 to 46 in 2007. From an average of 1,500 to 1,600 births annually, there have been only 0-3 maternal deaths. These trends suggest that the accessibility and delivery of basic health services have generally improved. Notable improvements over the preceding decade have also been seen in health infrastructure, including the recently completed Majuro hospital main annex and a new hospital completed on Ebeye in 2002. Improvements to on-island services and the decision to send most off-island referrals to the Philippines have directly resulted in lowered referral costs in recent years. The RMI has constructed and now operates a total of 57 outer-island health dispensaries, dramatically improving the accessibility of basic services, even in the most remote communities. The RMI is also showing decent progress on a range of MDG health-related indicators, including indicators of maternal health.

101. The Pacific Human Development Index (HDI) is a composite index that incorporates average achievements in health, knowledge, and standard of living (as measured by life expectancy at birth, the adult literacy rate, school enrollment ratios, and GDP per capita). The RMI's raw HDI score increased from 0.563 to 0.716 between 1998 and 2008, and its ranking in the Pacific rose from 10th to 8th.

102. ***Remaining challenges***: Many education and health indicators show clearly that the RMI continues to face serious challenges in translating high financial inputs into tangible human development outcomes and results. While the accessibility of basic education and health services for the Marshallese has improved, there remains a struggle to raise service standards and quality.

103. In education, student test scores at primary and secondary levels show much room for improvement, especially in public schools. The Pacific Islands Literacy Levels (PILL) exam results show that more than half of all children tested remain "at risk" in their com-

prehension of Marshallese and English literacy and their basic numeracy levels. While drop-out rates have generally fallen, nearly one-third of children do not complete the full cycle of primary and secondary schooling.

104. In health, some of the most serious challenges include the epidemic of diabetes (which now affects nearly half of persons over the age of 35), high teen fertility rates, low contraceptive-use rates, high incidence and prevalence of sexually transmitted infections, the persistence of communicable diseases such as tuberculosis, and serious problems with nutrition (especially among younger children from lower-income families).

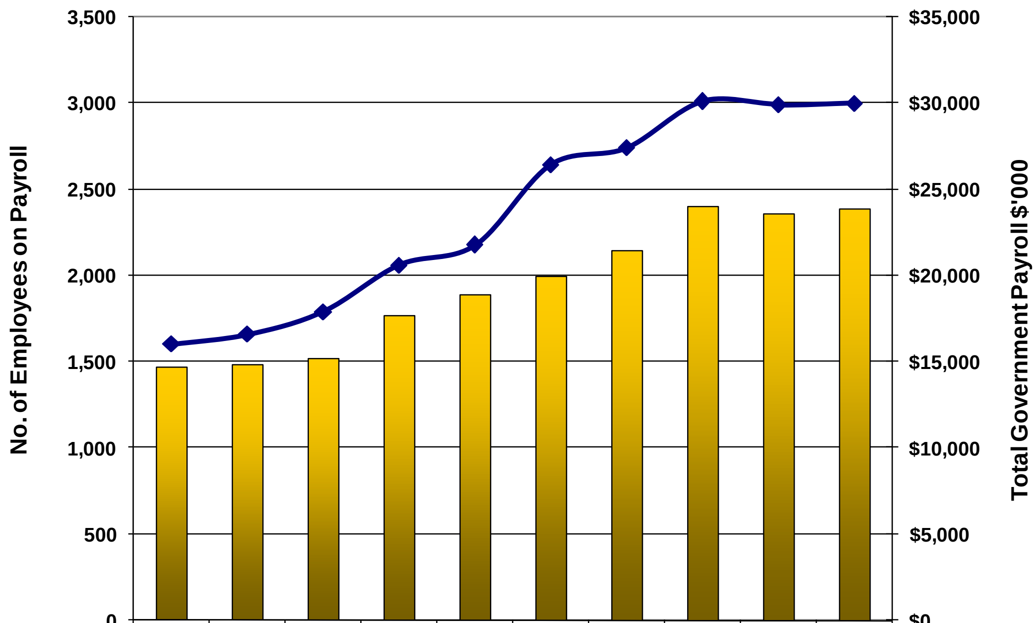
105. Perhaps the most serious challenge soon to be faced by the RMI's education and health managers (and the RMI leadership in general) will be to maintain progress that has been made and to tackle the persistent challenges against a backdrop of diminishing financial resources. Fixed decrements in Compact grant transfers and the likely scenario of stagnant domestic and other revenue flows over the coming years will probably begin to reverse the upward trends recently seen in education and health financing. In simple terms, the RMI has probably now reached a financing "plateau." The financing outlook and the continued growth in the population (and demand and expectations) suggest strongly that the RMI will soon have to face the very difficult task of doing more with less.

C. Public Sector Management

1. Public Sector Payroll

106. The RMI government's payroll has grown considerably over recent years since the completion of the Public Sector Reform Program and RIF. 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. Since FY1999, there has been rapid increase in the number of public servants (see Fig. 16). Employee numbers on the payroll fell to 1,475 in FY1999 but increased to 2,390 by the end of FY2008. This represents an increase of 916 employees (62%) . The payroll cost over the same time increased by 87%. This very sizeable increase has been influenced by a number of extraordinary items that have accentuated the underlying growth taking place.

107. Most of the growth in the payroll and in employee numbers has been in the Ministry of Education (MoE). This growth reflects a number of structural changes that have increased staff numbers as the ministry has taken on more responsibilities. The implementation of the kindergarten program funded out of the SEG (replacing the previously externally managed Head Start program) added more than 200 staff to the payroll in FY2006. In FY2001 and FY2002, 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 sys-



	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Payroll	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,402	2,363	2,390
Payroll ($'000)	16,037	16,608	17,903	20,609	21,771	26,438	27,422	30,107	29,922	30,014

Figure 16 RMI government payroll cost and number of public servants, FY1999–FY2008

tem (CBGS), but these arrangements collapsed and were reincorporated under MoE. Once allowance is made for these anomalies, expansion in education payroll during FY1999-FY2008 was 38% and added an extra 566 positions. Where recruitment has taken place, it has supported service delivery, e.g., with increases in teaching staff and elementary school services and support.

108. Substantial growth in the payroll has come from outside the MoE. Employment in the Ministry of Health (MoH) increased by 147 positions, from 386 in FY1999 to 532 in FY2008 (Table 10). Significant increases in staff occurred in the Majuro and Kwajalein Hospitals, suggesting an increased emphasis on curative care. The Ministry of Internal Affairs has doubled, while that of the Ministry of Public Works (MoPW) is not far behind, after scaling back its operations after the RIF. The MoPW had adopted a largely oversight and regulatory role at the end of the RIF, but has now taken on a more proactive role in outer-island project implementation and maintenance. The Ministry of Transport and Communications (MoTC) was also scaled back during the RIF, with the intention of privatizing outer-islands shipping services. However, this policy was not successful, and the services were initially brought back into the public sector and later transferred to the newly formed Marshall Island Shipping Corporation.

109. The overall trend in payroll, after allowing for the structural changes in the Ministry of Education, is upward, from $16 million in FY1999 to $30 million in FY2008. As-

Table 10 RMI government number of public servants by department, FY1999–FY2008

	FY99[1]	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08[2]
President & Cabinet	24	23	22	23	23	22	26	27	32	33
Chief Secretary Office	15	14	14	13	12	18	20	21	25	25
Special Appropriations	0	1	2	2	2	0	2	0	0	10
Council of Iroij	17	17	17	15	14	15	15	16	15	15
Nitijela	39	35	37	37	38	42	45	48	49	49
Auditor General	7	7	8	11	11	11	10	11	10	7
Foreign Affairs	30	56	34	34	33	32	36	34	37	36
Public Service Commission	12	11	12	11	11	13	13	14	15	15
Judiciary	22	21	22	22	20	30	35	40	40	37
Attorney General Office	9	10	16	18	24	25	25	26	25	23
Ministry of Education	472	474	478	671	706	720	800	1,028	1,032	1,059
Health & Environment	386	389	376	389	437	480	529	535	540	532
Transport & Communications	33	24	41	84	92	108	108	100	54	18
R & D	61	45	33	33	32	27	26	28	29	28
Internal Affairs	51	54	56	53	54	69	61	64	63	103
Justice	158	170	153	144	163	168	168	170	166	164
Finance	89	86	93	99	104	107	112	121	121	126
Public Works	52	50	111	114	115	99	100	99	90	91
Epa	0	0	0	0	0	16	18	19	19	18
Compact II Capital	0	0	0	0	0	1	2	3	3	3
Total	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,402	2,363	2,390

sociated personnel expenditures, such as the government's MISSA contributions and housing allowances for expatriate staff, are also significant. Housing allowances alone required a budget of over $2.0 million in FY2008; more than half was for MoH, which has a large number of expatriate medical staff. While the number of public servants has increased significantly, wage rates have also moved upwards. Average public sector wages increased by 16% during the period, while those in education and health rose by 23% and 33%, respectively. The impact of the switch in Compact II to a sector grant approach is clear and has encouraged a significant rise in the number of employees and in wage rates.

110. Recruitment is continuing, despite a hiring freeze endorsed by the 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, the 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. Public Financial Management (PFM)

111. With the onset of the amended Compact, the RMI adopted a medium-term framework for the preparation of the annual budget and request for resources from the U.S. under the sector grants. The implementation of public financial management is typically considered under two components: the medium-term financial framework (MTFF) and the medium-term expenditure framework (MTEF). The MTFF is concerned with setting the overall fiscal envelope in which the budget is formulated, while the MTEF is concerned with the allocation of public resources (expenditure) in accordance with delivery of specified outputs. Both are set in the medium-term. Reflecting a PFM approach to

budgeting in the Compact, the RMI system was termed the Medium-Term Budget and Investment Framework (MTBIF).

112. The medium-term framework was written into the language of the Compact with the following requirement:

> *The Government of the Republic of the Marshall Islands shall prepare and maintain an official medium-term budget and investment framework. The framework shall be strategic in nature, shall be continuously reviewed and updated through the annual budget process, and shall make projections on a multi-year rolling basis.*

The discussion of public financial management in this report is divided into its MTFF and MTEF components, and a section is included on the need for a modern Integrated Financial Management Information System to support the process.

i Medium Term Financial Framework (MTFF)

113. The MTBIF is described in government planning documents (see "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) as a five-year, medium-term budgeting framework. It contains two past review years, the current fiscal year and two future trend years. The MTBIF is supposed to be updated twice annually — in December and February — to identify budget envelopes for the following fiscal year based on past trends, expected needs, and performance. The intention was to update the MTBIF mid-year to include previous FY audit information. As part of the process, a MTBIF Policy Framework Paper is prepared to provide macroeconomic and fiscal guidance. As input it uses the MTBIF, as well as other statistics and reports, including the quarterly and annual sector performance. The paper is intended 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.

114. However, while the MTBIF approach has been incorporated into the amended Compact, the process has not been adopted as a meaningful budget planning tool or active component of fiscal and macroeconomic planning. While the validity of the approach is not in doubt, the framework is prepared by an expatriate once a year to fulfill the Compact requirement. The FY2007 budget omitted the MTBIF, reflecting its lack of significance, although the framework is supposed to be the centerpiece. At the JEMFAC meetings, the U.S. reminded the RMI of the Compact requirement.

115. The emerging economic and financial circumstances confronting the RMI suggest that the MTBIF is indeed much needed to ensure a sound basis for budget formulation. The projected decline in real Compact flows – because of the lack of full indexation and decrement – suggests that instead of a medium-term framework, the orientation should be long-term. The current framework is rudimentary, but with the more advanced set of sta-

tistics available to the RMI, a more comprehensive LTBIF is feasible. This would entail projection, over the long-term, of the national accounts, the balance of payments, and revised GFS, with greater coverage of the financing account. In other words, the development of a long-term macroeconomic framework is needed to assist in the design of development and fiscal options available to the RMI.

ii Medium Term Expenditure Framework (MTEF)

116. Accompanying the adoption of the MTBIF has been an effort to move towards a medium-term and performance-based expenditure framework. Under the amended Compact, a Performance Based Budgeting (PBB) system has been adopted and initially implemented in the Compact-recipient ministries and agencies, but with the intention of eventual government-wide adoption. The PBB effort is central to increasing the accountability of the Government for its use of public funds, not just Compact funds. The PBB aims to clarify the connections between funding inputs, activities, outputs and overall impacts, and it has been supported through assistance from the ADB, the U.S. Department of Interior, and Compact public-sector capacity-building funds. The installation and adoption of a new financial management system is another part of this effort. The following are the major building blocks of the system:

- ***Sector Portfolios*** typically contain: (i) policy statement; (ii) objective areas; (iii) outcome groups per objective area; and (iv) expected primary results with output and impact measurements, by outcome group. Financing per outcome group is also provided. The Sector Portfolios are based on ministry/agency strategies, plans, and priorities, with input from senior government, ministry/agency management and staff, and, in some cases, civil society. The Portfolios are submitted to the RMI-U.S. JEMFAC for Compact sector grant review. The Portfolios also become the base for quarterly and annual performance reviews. EPPSO assists 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, providing a snapshot of how much was spent and what is remaining. The reports also identify major achievements and issues confronted that may require future implementation. EPPSO facilitates report preparation and vets reports for accuracy; it also 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 provide measurement, based on broader indicators, that can actually provide information as to whether activities are accomplishing objectives and having actual impacts. Work is being done to improve key performance indicators so as to facilitate results monitoring and measurement. EPPSO, along with the MoF and line ministries/agencies, is responsible for Annual Performance Report preparation. EPPSO also objectively analyzes sector

performance to provide feedback to cabinet and line ministry/agency management. Reports are also used for JEMFAC review.

117. As of FY2008, five ministries and four agencies were implementing PBB (with varying degrees of success), with several now adopting three-year medium-term rolling plans. These nine include: the ministries of Health, Education, Resources and Development, Internal Affairs, Transportation and Communication; the National Training Council; the Marshall Islands Visitors Authority; the Scholarship Board; and the Environmental Protection Authority.

iii Financial Management Information System Needs

118. Critical to the needs of a modern PFM system is the availability of an efficient and effective integrated financial management information system (IFMIS) – a system capable of producing meaningful financial and quantitative information beyond the basic audit and trial balance data. A modern IFMIS must deliver, in addition to the basic financial data, a set of information needs:

- Implementation of standard economic fiscal data, i.e., the International Monetary Fund's government finance statistics (GFS). This requires adoption of a chart of accounts that enables GFS classification and avoids ambiguous classifications such as "contractual services."
- Implementation of an MTEF or performance budgeting and management system that captures financial details and dovetails with the performance coding.
- A system of quantitative data management mirroring the outputs and outcomes specified in the MTEF.
- A budget module capable of handling the above requirements, so that PFM is satisfied at the start of the cycle.

119. For the RMI to adopt a modern PFM, the initial requirement is for redesign of the chart of accounts. The current chart is not aligned with the GFS and contains no performance codes. It has been reported that the existing accounting system can be extended to capture performance criteria. However, it is unclear whether a system not originally designed with these needs in mind can fulfill the functions of a modern IFMIS. While it may be doubtful that a small nation such as the RMI can implement modern PFM practices, the successful adoption of the approach in certain Ministries suggests that implementation throughout government is possible but would take several years to accomplish. If such an approach were adopted, then implementation of a modern IFMIS would be essential.

3. Public Sector Reform

120. In the mid-1990s, the RMI embarked on a Public Sector Reform Program (PSRP), assisted by the ADB, to adjust to an emerging financial crisis precipitated by the need to

repay various bonds issued in the earlier part of the decade. The goals of the PSRP were (i) to embark on a long-term reform program to avert a looming financial and economic crisis; and (ii) to set the economy on a more sustainable growth path. The program 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 finances; and (iii) creation of an improved environment for the private sector.

121. 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 in the mid-1990s. 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 SOE subsidies. However, efforts to reform and transform the sector did not prove successful. In the late 1990s a Private Sector Unit was established, and KAJUR, the utility corporation supplying Kwajalein, was contracting out to the private sector. However, no further SOE transformation took place, and KAJUR has reverted to public management.

122. 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 sector today is much greater than before the PSRP. The work undertaken by the Ministry of Public Works and Ministry of Transport and Communications were to be managed by the private sector, and, although both were downsized during the PSRP, the Ministry of Public Works is once again sizeable, and the shipping operations of the Ministry of Transport and Communications have been transferred to the newly created MISC. On the revenue side, long-run gains were to be achieved through administrative strengthening and introduction of a modern tax regime such as the value-added tax (VAT). Little progress was made with administrative reforms, and the VAT met with strong opposition.

123. Regarding the third PSRP output – to create an improved environment for the private sector – the program was structured in two parts: reduction in the role of the government and improvements in the regulatory environment of the private sector. Reduction in the role of government focused on reducing subsidies to Air Marshall Islands (AMI) and on SOE reform. Although AMI still presents risk, it is considerably less than in the mid-1990s; however, the Marshalls Energy Company (MEC), as discussed below, has the potential to undermine fiscal stability. Improvements to the regulatory environment of the private sector focused on improving transparency in company registration, work permits, the foreign direct investment (FDI) regime, and legislation to ensure security in land leas-

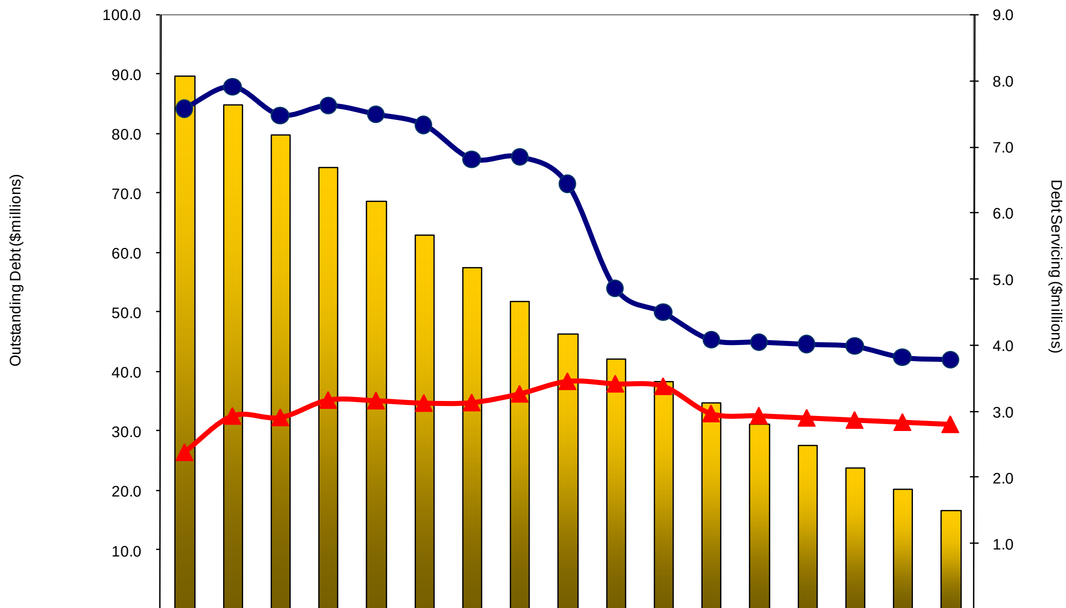
es. As noted above, the RMI is making progress in improving the environment for the private sector.

124. In response to the current and ongoing fiscal crisis and the fragility of financial operations, the Cabinet recently created two groups and commissions tasked with fiscal reform initiatives. In April 2009, an RMI CAP Advisory Group was created to develop an internally conceived and designed Comprehensive Adjustment Program. The program would promote the immediate interests of fiscal responsibility and stability, while also enhancing medium-term prospects for private-sector-led economic growth. The second group created by government was the Revenue and Tax Reform and Modernization Commission, which was to develop a proposal to reform the existing revenue system and strengthen compliance and collections. While the scope of the two groups has been limited to fiscal measures of revenue reform, expenditure compression, and implementation of "best practices," they represent an initial and important step forward. Although narrower in scope than the original PSRP, the focus on a limited design stands a greater chance of implementation than an overly ambitious program covering the whole range of economic policy.

D. Fiscal Issues

1. External Debt Management

125. While the sizeable bond issues used to finance development projects in the 1990s are now part of the RMI's fiscal history, external debt management in the medium term presents a major challenge. As mentioned in Part II, debt servicing requirements are projected to increase. There are two major components of debt service: government debt on concessional terms to the ADB and government guaranteed debt incurred by the SOE sector. Fig. 17 indicates the projected trend in outstanding debt and debt service for the two types, based on amortization schedules. For total debt, there are two phases: an existing high rate of debt service of about $8 million, to be repaid over the next ten years, then a much reduced rate of about $4 million. For its debt to the ADB, the government will be required to set aside about $3 million from the general fund for the next 20 years. As a proportion of general fund revenues of $30 million, this represents about 10%. In previous periods, nearly all of the RMI debt was in the grace-period era, and debt service obligations were not significant. However, in the last three years, principal repayments for many of the loans have fallen due, and debt service has contributed to significant fiscal pressure. In FY2006, the government experienced its first problems in servicing ADB debt and defaulted on several loans. In FY2007, it remained in arrears, as service obligations rose to $2.2 million. By FY2008, the government "bit the bullet" and made good on its commitments.



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Total Outstanding	89.9	85.1	79.9	74.4	68.8	63.0	57.6	51.9	46.4	42.3	38.4	34.8	31.2	27.6	24.0	20.5	16.9
Total Debt Servicing	7.59	7.91	7.49	7.63	7.50	7.34	6.82	6.86	6.45	4.87	4.50	4.09	4.06	4.03	3.99	3.83	3.79
ADB Debt Servicing	2.38	2.93	2.91	3.18	3.17	3.13	3.14	3.27	3.46	3.42	3.39	2.97	2.94	2.91	2.87	2.84	2.81

Figure 17 RMI debt and debt servicing projections, FY 2009–FY2025

126. The difference between the two curves in Fig. 17 indicates the debt service obligations of the SOE sector. External debt of the SOEs is at higher interest rates and shorter terms and thus incurs a proportionately higher service commitment. Current debt service levels of the NTA, MIDB, and MEC are $1.5 million, $0.5 million, and $3.2 million, respectively. Given the current financial problems of the MEC, its existing debt service presents a substantial financial risk for the government. The ADB debt service crisis has bought home the impact of a poorly managed external debt strategy, and officials are now less sanguine about ADB loans officers selling loans at concessional rates. A well articulated debt management strategy is needed to assist the RMI in determining the type of projects for which external loan finance is appropriate and identifying cases where there is some potential for projects to cover service costs.

2. Public Enterprise Issues (MEC)

127. As detailed in Table 8, subsidies to public enterprises have grown notably in recent years, a trend that should raise serious concern. Most public enterprises continue to face critical challenges in maintaining efficient and effective operations and finances, and the recent experience of the Marshalls Energy Company is one of the most telling examples of how a struggling public enterprise can constitute a direct and significant threat to the national budget and overall economy.

Table 11 Marshalls Energy Company indicators, FY1999–FY2008

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Electricity revenue	$6.36	$6.99	$7.24	$8.29	$8.86	$8.62	$9.71	$11.51	$14.06	$18.69
Fuel and gas sale revenue	$2.88	$7.32	$6.12	$7.66	$9.34	$11.31	$13.88	$9.50	$8.12	$12.66
Total Revenue	$9.24	$14.31	$13.36	$15.95	$18.21	$19.93	$23.59	$21.01	$22.18	$31.35
Fuel and gas gross profit margin	26%	16%	23%	28%	21%	19%	19%	24%	20%	4%
Net operating income/loss	$0.74	$0.60	-$0.83	$2.84	$1.27	-$1.38	-$3.21	-$3.89	-$2.90	-$2.94
Current ratio	0.89	1.15	0.86	1.60	1.87	1.22	0.72	0.82	1.15	0.69
Net working capital	-$0.39	$0.59	-$0.76	$1.72	$2.46	$0.97	-$1.83	-$1.51	$1.39	-$4.07
Total debt ratio	0.74	0.76	0.83	0.72	0.69	0.78	0.95	1.18	1.33	1.59
Gross mWh generated								79,078	76,652	68,033
Billed mWh								56,761	56,996	52,385
Ratio of billed to generated mWh								0.72	0.74	0.77
Fuel sales (gallons) to foreign vessels	1.48	5.21	3.01	5.44	6.03	7.26	7.21	1.60	1.95	2.51
Residential tariff (weighted avg)						0.12	0.14	0.17	0.21	0.32

128. ***Financial performance summary***. Electricity revenue has nearly tripled in the decade from FY1999-FY2008, the direct result of rising global oil prices and higher local electricity tariffs. MEC raised tariffs twelve times between January 2005 and June 2008 (the weighted average residential tariff has risen from $0.12 to $0.32 in the past five years). Meanwhile, total demand has steadily deteriorated over time, with FY2008 seeing just 52,385 mWh billed. Fuel and gas sale revenue has generally improved in recent years, reaching $12.66 million on FY2008. However, two factors – higher fuel costs to MEC (stemming from higher global fuel costs and the imposition of new taxes on the company in 2006) and limited ability to raise prices due to the entry of lower-cost ocean-going refueling vessels -- have dramatically compressed MEC's gross margins, from a peak of 28% in FY2002 to just 4% in FY2008. Altogether, MEC's strong record of net operating income through most of the 1990s and early 2000s has disappeared, with FY2008 seeing a $2.94 million operating loss, the fifth straight year of losses for the Corporation.

129. MEC's short- and long-term solvency positions have strongly deteriorated, with the current ratio (current assets/current liabilities) falling to 0.69 in FY2008, the lowest point in the past decade and sharply below historic averages. MEC's overall debt load has worsened, with the total debt ratio (total liabilities/total assets) ballooning in FY2008 to 1.59 (fueled largely by the new Bank of Guam debt taken on after the resolution of the ExxonMobil transition in 2006-2007). MEC's operating liquidity, as measured by its available net working capital, is in critical condition, with a working capital deficit (current assets minus current liabilities) of over $4 million in FY2008.

130. ***An overview of significant events***. Established at the beginning of the Compact (in 1986) as a wholly-owned Government corporation, MEC has long been considered one of the better run electric utilities in the Pacific. MEC's success capitalized on the RMI's large bunkering capacity with its six-million-gallon tank farm, which allowed direct shipment of lower-unit-cost, larger volumes of diesel directly from Singapore refineries. Its consignment-based fuel supply arrangements with Mobil, Majuro's proximity to productive fishing grounds, and its ideal port conditions established the RMI as an attractive refueling and transshipment hub in the central Pacific. High gross profit margins (in

some years over 20%) on fuel sales allowed MEC to cross-subsidize and suppress electricity tariffs. This model worked quite well for over a decade.

131. A series of events during 2004 -2007 constituted a "perfect storm" for MEC, rapidly eroding the company's financial position. These events included:

- steadily increasing global fuel prices;
- the inability of MEC to pass on higher fuel costs to its tariffs because of a rigid tariff template that did not recover full costs;
- the outbreak of a major legal dispute between MEC and its fuel supplier Mobil (the ultimate resolution of this dispute resulted in MEC shouldering significant debts and losing its consignment fuel supply arrangements);
- the imposition of new import and gross revenue taxes on MEC's fuel imports and sales, a questionable government move that aimed to level the playing field but which raised MEC's fuel costs and profoundly impacted its export business;
- the entry of lower-cost high-seas refueling vessels in the central Pacific, a development which directly and significantly ate into MEC's market share.

132. Moreover, in FY2002 and FY2003, MEC benefited from access to an energy grant made available through Compact I, valued at around $1.9 million. In FY2004, with the commencement of the amended Compact, the company no longer received the grant and this change, coupled with other factors, led to the company's first major operating loss, nearly $1.4 million. These subsidies, in fact, had allowed MEC to mask its underlying fiscal situation in FY2002 and FY2003.

133. As reported in the FY2006 Economic Review, what was once a lucrative and well-run utility had by FY2005 and FY2006 very quickly turned into a major liability and risk to the fiscal system and overall economy. The situation today for MEC remains extremely risky. The 2008 global fuel crisis, which hit the RMI economy very severely, prompted the RMI leadership to declare a first-ever "state of economic emergency" which placed MEC and the overall energy sector front-and-center. Global oil prices peaked in July of 2008, and over the ensuing 12 months, the national Government was forced to transfer nearly $8 million to MEC to allow it to continue fuel procurement. With fuel prices forecast to rise again, this scenario may well repeat itself in the near future.

134. ***Reform outlook***. A reconstituted MEC Board has, since late 2008, endeavored to push through a comprehensive set of financial, operational and governance reforms aimed at improving the fundamental solvency and sustainability of the utility. Specific reform items on the agenda include: (i) adoption of a new, full cost-recovery tariff template; (ii) dramatic reduction in power system losses; (iii) improvements in collections and in the recovery of debt; (iv) rationalization of non-essential expenditures; (v) catch-

ing up on overdue capital repairs and maintenance; and (vi) recapturing market share in the fuel sales business.

3. FISCAL POLICY

135. Recent fiscal performance (Fig. 14 and Table 7), indicates a very tight fiscal position but does not reveal the large or growing deficits frequently associated with an unsustainable fiscal position. Some might argue that while fiscal administration needs to be more finely tuned, there is no need to worry. However, it should be noted that any economy such as the RMI cannot easily run a large deficit, since there is no central bank or access to external capital markets. Deficits can be supported only through such measures as aging payments to vendors, default on debt, or failure to pay monthly tax and social security allotments on behalf of employees. Thus, to accurately assess actual fiscal pressure, it is necessary to identify non-conventional signals of weakness. The following indicators have been evident during the first five years of the amended Compact:

- a ruling in July 2005 by the U.S. Inspector General that Compact funds should be quarantined in special bank accounts. (This ruling curtailed the use of Compact resources to fund general operations and exposed the underlying tight fiscal position in the general fund. In FY2007, Compact funds were in fact diverted for 24 hours to fund the general account.);
- difficulty in meeting the general fund payroll in FY2006;
- delays in the payment of allotments and MISSA contributions from the salaries of government employees in FY2006;
- the performance of MEC and its impact on the budget, including the need to frontload utility payments (in FY2008, $6 million of "offsets" was advanced);
- a growing level of subsidies and capital transfers to the SOE sector (there has been a sharp increase in the last three years);
- a very finely balanced fiscal outturn;
- Inability to service ADB debt;
- the increasing use of the ROC project fund ($12 million in FY2008) for advances to the SOE sector and general fund purposes. (In the preparation of the fiscal statistics the ROC project fund was originally classified as a capital project. However, this principle has become so distant it should be reclassified as "current.");
- low unreserved working balances of the general fund (less than $2 million in FY2008) and a negative unreserved fund balance; and
- use of the Compact Trust Fund "D" account ($3.5 million) to meet the RMI capital contributions to the "A" account in FY2005 and FY2006; replenishment of the D account is outstanding.

136. There has been some improvement in many areas, ADB debt servicing has been bought up to date, and earlier delays in meeting allotments have been rectified, although payments to vendors remain in substantial arrears. However, the overall pattern clearly indicates a stressed and very tight position. In addition, there are two other important reasons why implementation of fiscal adjustment is warranted. The first is the issue of vulnerability, in particular, the MEC. As has been demonstrated above, the MEC is in a very precarious financial position. Any adverse movements in world fuel prices would turn the MEC operations into an immediate financial liability for the government, a development which, given the government's tight fiscal position, would threaten the financial viability of the nation. The second reason why fiscal adjustment is necessary is that the long-run funding arrangements of the Compact, with the annual decrement and less than full indexation, means declining resources for the delivery of services. In addition, the withdrawal of U.S. military from Kwajalein atoll will result in less employment of Marshallese and tax payments from U.S. employees at the base. The world economic recession has also affected economic activity, as is evident in the FY2008 outturn.

137. To its credit, the government has created two committees and commissions to consider public sector reform: (i) an RMI Advisory Group which has been tasked to look at cost cutting measures and develop a Comprehensive Adjustment Program (CAP); and (ii) a Revenue and Tax Reform and Modernization Commission to develop a proposal to reform the existing revenue system and strengthen compliance and collections. Furthermore, the board of the MEC has established an internal committee to recommend ways to reform and regularize the operations of the MEC. Clearly, there is recognition in the RMI that not all is well and that the nation's finances are on a fragile footing and require long-term solutions. It is to be hoped that the recommendations of these committees can be implemented, so that the nation can be better positioned to face the challenges in the coming years of the amended Compact.

4. TRUST FUND VIABILITY -- MONITORING THE SUFFICIENCY OF THE TRUST FUND

138. The establishment of the Trust Fund for the Peoples of the RMI was a major feature of the amended Compact. The Trust Fund design — including the funding stream and withdrawal rules — includes the goal of a Trust Fund that will be able to provide a source of income that can, in FY2024 and presumably thereafter, distribute the fully inflation-adjusted value of the Compact annual grant assistance in FY2023, the twentieth year under the terms and conditions of the amended Compact. Notwithstanding the design features of the Trust Fund, the U.S. Department of State has, on several occasions subsequent to the outset of the amended Compact period, stated that "the amended Compacts and their subsidiary agreements contain no commitments, either express or implied, regarding the level of the revenue that will be generated by the Trust Funds, nor is there any commitment regarding the degree to which the revenue will 'contribute' to the long-term budgetary self-reliance of the FSM and RMI."

139. With the risk of a shortfall in the Trust Fund not being underwritten by the U.S. Government in any formal sense, it is imperative that the RMI Government make every effort to monitor the progress of the Trust Fund and to assess performance against a sensible goal. That goal is the sufficiency of the Trust Fund to support a "smooth and sustainable transition" from direct, U.S.-appropriated, annual grants to annual Trust Fund distributions to the RMI. By definition, that means the target value of the Trust Fund at the end of FY2023 must be sufficient to support annual withdrawals equal to the inflation adjusted value of the grants received in FY2023, while preserving the real value of the Trust Fund in perpetuity. A monitoring procedure is presented in this paper that identifies the "terminal condition for sufficiency" of the Trust Fund at the outset of FY2024, the first year in which it must provide income to the RMI Government. It is expected that a similar "sufficiency analysis" or progress report will be undertaken as part of the annual reporting requirements of the Trust Fund Committee, since the Agreement that guides the Trust Fund requires such.

140. There is no clear documentation of the assumed rate of growth of the initial Trust Fund deposits augmented by the assumed annual contributions; however, there is only one variable that affects the projected direct grant level in FY2023 — the rate of inflation. More precisely, that one variable is the cumulative inflation adjustment, pursuant to Compact Section 217, for the 20-year period beginning in FY2004.

141. The RMI began the amended Compact period with an annual direct grant drawdown rate of $35.2 million. That stream of direct grants is adjusted annually in two countervailing ways: annual grant levels are adjusted upward by the addition of two-thirds of inflation and adjusted downward by the subtraction of the so-called "decrement" of $500,000. Using actual inflation adjustment data through FY2009 and projecting forward based on inflation at 3.0%, a direct grant level of $35.5 million is projected for FY2023. Using that value, allowing for inflation and maintaining the real value of the Trust Fund corpus, there is one other variable required in order to determine the size of the Trust Fund at the outset of FY2024.

142. It is assumed that the RMI investment strategy at that time would need to provide for a prudent balance of risk while allowing for long-term growth. From FY2024 onward, a balanced investment allocation is assumed, with 65% of assets in equities with an assumed real rate of return of 6.5% annually and 35% in fixed income with an assumed real rate of return of 2.5% annually. The blended real rate of return for the distribution period is thus estimated at 5.1%. If inflation were to average 3.0%, a nominal rate of return of 8.1% would thus be required.

143. Taking the above projections and assumptions into account, the terminal condition for sufficiency of the Trust Fund is projected to be $754.9 million. If the Trust Fund had been funded in a timely manner and only as called for in the amended Compact (ignoring contributions from third parties), the meeting of this terminal condition value would require an annually compounded rate of return of 8.0%. With inflation projected

at 3.0%, the implied real rate of return is 5.0%. The projected growth path from FY2004–FY2023 is presented as the baseline growth, and actual progress is compared to this baseline (see Fig. 18's smooth line projection, from a deposit of $32 million in FY2004 to the target level of $754.9 million at the end of FY2023).

144. The value of the RMI Trust Fund is currently far below that baseline. Several factors have combined to result in the RMI Compact Trust being below the projected path to sufficiency as of March 31, 2009.

- The most important factor is the poor investment climate that existed over the initial period; since the time horizon for the Fund is twenty years in the accumulation phase it would have been expected that there would be several periods of poor investment performance. It is of course unfortunate that the Fund has experienced such a historically volatile and negative period early in the accumulation period. Several other factors that were not "market-driven" follow below.
- The RMI failed to deposit, in a timely manner, its required $30 million contribution. Although the sum was anticipated to be available on October, 1, 2003, the RMI deposited $25 million on June 2, 2004, $1.5 million on February 17, 2005, $1.0 million on May 19, 2005, and the final $2.5 million on October 5, 2005. The US made its initial deposit of $7 million on June 3, 2004.

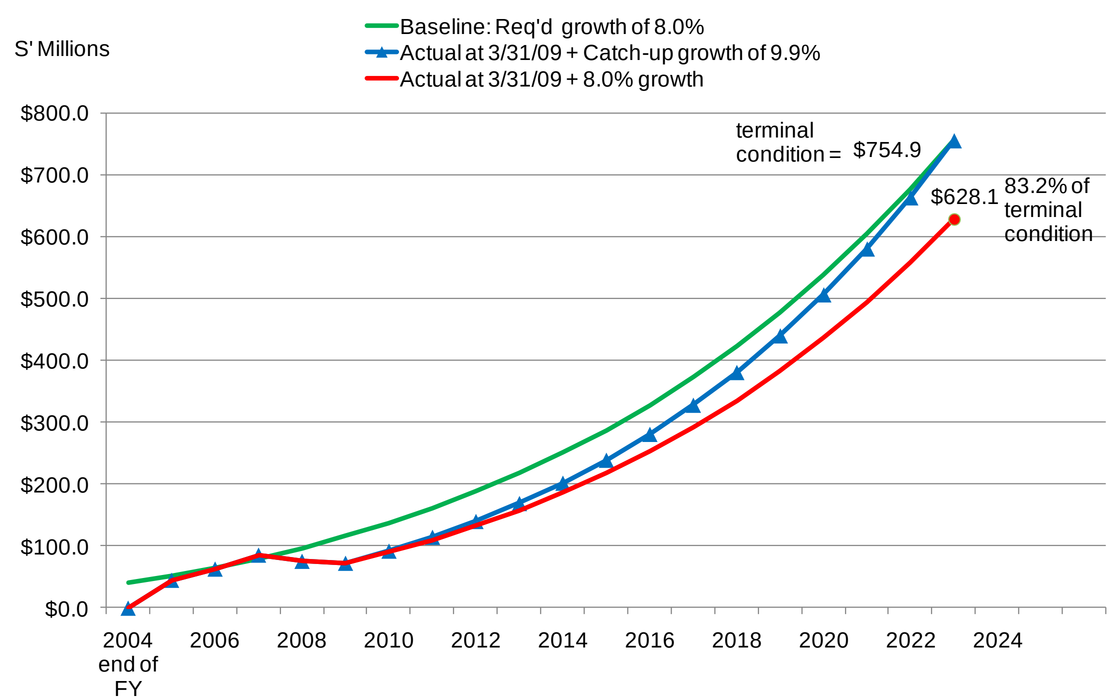


Figure 18 Compact Trust Fund Sufficiency, FY2004 – FY2024, $'millions

- The U.S. and RMI did not establish the Trust Fund on schedule. Although anticipated to be established on October 1, 2003, the Trust Fund was incorporated as a non-profit corporation on April 28, 2004, and the amended Compact did not go into effect until May 1, 2004.
- The allocation of deposited funds to the asset classes identified in the RMI Investment Policy Statement did not occur until September 30, 2005, fully 24 months into the amended Compact period.
- While invested in the asset allocation identified in the Investment Policy adopted on August 19, 2005, over the period from September 30, 2005-March 31, 2009, it appears that the actual results lagged behind the weighted returns of the benchmarks for each asset class. Since the investment choices to date have involved passive instruments designed to track index performance, any under-performance would likely be a result of fees and expenses, combined with the effects of timing and tactical execution of the strategy.

145. One factor that has proven positive for the RMI Trust Fund is contributions from the Government of Taiwan, which have augmented the balance as of March 31, 2009. Taiwan has committed to a total funding level of $40 million over the twenty-year period of the amended Compact. Taiwan has deposited $3.25 million thus far against an agreed-upon level of $4.0 million. As of March 31, 2009, the deposit expected in May 2008 had not been received. The allowance for third-party contributions to the Trust Fund, with mutual consent, was an enlightened feature of the Compact as amended.

146. As shown in Fig. 18, the "catch-up" rate required for the RMI Trust Fund to achieve the terminal condition by the end of FY2023 is projected as a 9.9% compounded annual return for the remaining 14.5 years of the accumulation period. Given the historically poor initial period, and in light of the additional contributions anticipated from Taiwan (not included in the projection), the Trust Fund has a reasonable chance of achieving the target level. It would be sensible for the RMI Trust Fund Committee to re-visit its investment strategy—as it should in any event on a periodic basis—to consider the appropriate balance of risk versus reward and the appropriate mix of asset classes and allocations to those chosen asset classes.

147. A breakout of each of the negative and positive factors is provided in Table 12 below. As noted above, the bulk of the negative result over the initial 5.5 year period is the result of market conditions that are truly out of the control of the parties to the Trust Fund. Taking all factors into account, the impact of the other positive and negative factors are highlighted. The market analysis utilized index comparisons against the initial investment strategy adopted by the Trust Fund Committee. Specifically, U.S. Equity at 36% (of which 14% Large Cap Growth, 17% Large Cap Value, 5% Small Cap), 21% International Equity, 37% Fixed Income (of which 35% Aggregate Bond, 2% cash), and 6% Alternative (of which 6% Real Estate). While the strategy may have been amended slightly over time, the authors had no clear documentation of any such changes, and thus

the "benchmark" remained unchanged over the 5.5 year period of interest. The analysis utilized actual index-based measures and actual date of deposit data to estimate various effects as noted in Table 12 below.

E. Conclusion

148. There is no doubt that the RMI has benefited from the first five years of the amended Compact. Economic growth has averaged 1.7% per annum, and while not emulating the rates of growth of some rapidly growing developing countries, it has been a far more favorable experience than in the FSM, where economic growth was negative in all but one year of the amended Compact. Employment data indicates that the economy has managed to hold its own, with a rapid expansion in public sector jobs matched by a similar decline in the Kwajalein military base. Private sector employment has grown marginally over the period. Reflecting the lack of gainful employment opportunities, outward migration remains substantial and averaged 1.6% annually.

149. However, despite the relatively favorable economic outcome, this review indicates that the positive trend has peaked and is unlikely to continue through the next five years. In fact, if anything, the FSM experience is more likely for the RMI, unless proactive decisions are made to confront the issues facing the nation. The review has indicated that the fiscal situation, while not deteriorating, is very tight -- and fragile. The financial situation of the MEC and other state owned enterprises threatens the nation's financial viability, especially if world economic conditions deteriorate further or when, in the upswing, oil prices rise. The financial conditions of the amended Compact – decrement and lack of full indexation – will involve declining real resource inflows. Unless the private sector is able to take center stage and become the engine of growth, sustained economic growth is unlikely.

150. In the late 1990s the RMI undertook an economic reform program. At the time, the financial circumstances were dire, and the nation had little alternative but to bite the bullet and undergo a painful adjustment. Political buy-in was limited, and after economic circumstances had improved, almost all the reforms that had been accomplished were re-

Table 12 Trust Fund Performance analyzed by Source of Variation as at end March 2009

	Value at end of 3/31/09	Difference from actual	Variation %
Value required to achieve terminal condition (with smooth growth)	109,615,434	-40,481,519	100%
Value if invested from original date with actual benchmark returns	80,472,228	-29,143,206	72%
Value if invested from date of actual deposit	77,420,781	-3,051,447	8%
Value prescribed by Trust Fund investment policy	72,481,087	-4,939,694	12%
Actuals, FY end	69,133,915	-3,347,172	8%

versed. Circumstances have now changed, and while the need to adjust is not as immediate, there is awareness that if the economy is to continue to expand, a more proactive stance is required. Two reform committees have been created to look at the fiscal issues of revenue reform and expenditure compression. The MEC board is also taking moves to regularize and rationalize its operations. All these measures are welcome and important, but there is a need for the leadership of the RMI to take a broader view and to make rational decisions about the nation's future during the remainder of the amended Compact. A comprehensive reform program remains highly relevant to consolidate the fiscal reforms under way, take a holistic approach to the SOEs, and, most importantly, to focus on measures to encourage the private sector.

Republic of the Marshall Islands

Fiscal Year 2008 Statistical Appendices

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This Statistical Appendix is available as an Excel file.
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List of Statistical Tables

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%

Source RMI Population Censuses

Table 1c Net Air Passengers from US, Majuro and Kwajalein Atolls: 1990 to 2008

(Arrivals minus departures)

Calender Year	Majuro	Kwajalein	RMI
1990	-309	320	11
1991	-197	535	338
1992	-330	-376	-706
1993	-254	-524	-778
1994	-330	207	-123
1995	-513	-280	-793
1996	-586	-54	-640
1997	-1,179	-236	-1,415
1998	-833	78	-755
1999	-660	203	-457
2000	-1,289	-627	-1,916
2001	-1,517	-512	-2,029
2002	-894	-19	-913
2003	-419	-362	-781
2004	-542	-11	-553
2005	-1,054	17	-1,037
2006	-792	-186	-978
2007	-466	-112	-578
2008	-1,223	-280	-1,503

5 year averages			
1994-1998	-688	-57	-745
1999-2003	-956	-263	-1,219
2004-2008	-815	-114	-930

Source : US Department of Transportation "TRANSTATS" database

Notes : Only includes air passengers to/from Majuro or Kwajalein and US airports (Guam, Hawaii)
Passengers to/from FSM and other countries (e.g. FSM, Kiribati) are excluded.
Passengers between Majuro and Kwajalein are excluded

Table 2a National income measures in current prices and real terms, FY1997-FY2008

(US$'000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Current prices												
Gross Domestic Product (GDP)	**106,583**	**108,967**	**108,347**	**111,906**	**114,696**	**123,271**	**127,001**	**133,255**	**138,645**	**144,598**	**150,992**	**151,995**
Primary incomes 2												
Receivable from the rest of the world	30,741	33,816	35,573	36,362	37,869	37,629	37,782	40,036	43,823	47,544	44,696	41,507
Payable to the rest of the world	-8,612	-8,171	-7,206	-5,499	-4,592	-3,917	-4,001	-5,509	-5,916	-7,468	-8,374	-7,491
Gross National Income (GNI)	**128,712**	**134,612**	**136,714**	**142,769**	**147,973**	**156,983**	**160,783**	**167,782**	**176,551**	**184,674**	**187,315**	**186,011**
Secondary Incomes (Current transfers) 2 3												
Receivable from the rest of the world	26,180	31,190	27,300	35,594	43,796	41,928	44,434	49,086	55,347	58,772	63,161	66,290
Payable to the rest of the world	-2,959	-2,904	-2,911	-3,097	-3,184	-3,223	-3,346	-3,446	-3,503	-3,571	-3,696	-3,615
Gross National Disposable Income (GNDI)	**151,932**	**162,898**	**161,103**	**175,266**	**188,585**	**195,689**	**201,871**	**213,421**	**228,394**	**239,875**	**246,779**	**248,686**
Constant 2000 prices												
GDP, at constant prices	**109,469**	**106,410**	**106,473**	**111,906**	**115,901**	**119,503**	**123,030**	**127,909**	**128,767**	**131,868**	**136,193**	**133,475**
Trading gains/losses 4	-588	-141	-100	0	-13	-487	-1,139	-1,714	-1,591	-392	-439	2,034
Real Gross Domestic Income	**108,882**	**106,269**	**106,374**	**111,906**	**115,888**	**119,016**	**121,891**	**126,195**	**127,175**	**131,476**	**135,754**	**135,509**
Primary incomes 5												
Receivable from the rest of the world	32,984	34,728	36,004	36,362	37,696	37,447	37,713	39,343	41,259	42,347	38,889	31,981
Payable to the rest of the world	-9,240	-8,392	-7,293	-5,499	-4,571	-3,898	-3,993	-5,414	-5,570	-6,651	-7,286	-5,772
Real Gross National Income (GNI)	**132,625**	**132,605**	**135,085**	**142,769**	**149,013**	**152,566**	**155,610**	**160,123**	**162,864**	**167,171**	**167,357**	**161,718**
Secondary Incomes (Current transfers) 5												
Receivable from the rest of the world	28,090	32,032	27,631	35,594	43,596	41,725	44,353	48,235	52,108	52,347	54,955	51,076
Payable to the rest of the world	-3,175	-2,983	-2,947	-3,097	-3,170	-3,207	-3,340	-3,387	-3,298	-3,181	-3,216	-2,785
Real Gross National Disposable Income (GNDI) 1	**157,540**	**161,654**	**159,769**	**175,266**	**189,440**	**191,083**	**196,623**	**204,972**	**211,674**	**216,337**	**219,096**	**210,009**
Annual changes												
GDP at constant prices		-2.8%	0.1%	5.1%	3.6%	3.1%	3.0%	4.0%	0.7%	2.4%	3.3%	-2.0%
Real GNI		-2.4%	0.1%	5.2%	3.6%	2.7%	2.4%	3.5%	0.8%	3.4%	3.3%	-0.2%
Real GNDI		2.6%	-1.2%	9.7%	8.1%	0.9%	2.9%	4.2%	3.3%	2.2%	1.3%	-4.1%
Per capita income measures 6												
Population	49,286	50,028	50,840	51,299	50,675	49,917	50,266	50,799	51,592	51,953	52,338	53,033
Current price GDP per capita (US$)	2,163	2,178	2,131	2,181	2,263	2,470	2,527	2,623	2,687	2,783	2,885	2,866
Current price GNI per capita (US$)	2,612	2,691	2,689	2,783	2,920	3,145	3,199	3,303	3,422	3,555	3,579	3,507
Current price GNDI per capita (US$)	3,083	3,256	3,169	3,417	3,721	3,920	4,016	4,201	4,427	4,617	4,715	4,689
Constant price GDP per capita (US$)	2,221	2,127	2,094	2,181	2,287	2,394	2,448	2,518	2,496	2,538	2,602	2,517
Real GDI per capita	2,209	2,124	2,092	2,181	2,287	2,384	2,425	2,484	2,465	2,531	2,594	2,555
Real GNI per capita (US$)	2,691	2,651	2,657	2,783	2,941	3,056	3,096	3,152	3,157	3,218	3,198	3,049
Real GNDI per capita (US$)	3,196	3,231	3,143	3,417	3,738	3,828	3,912	4,035	4,103	4,164	4,186	3,960
Implicit Price deflators												
Gross Domestic Product (GDP)	97.4	102.4	101.8	100.0	99.0	103.2	103.2	104.2	107.7	109.7	110.9	113.9
Gross National Income (GNI)	97.0	101.5	101.2	100.0	99.3	102.9	103.3	104.8	108.4	110.5	111.9	115.0
Gross National Disposable Income (GNDI)	96.4	100.8	100.8	100.0	99.5	102.4	102.7	104.1	107.9	110.9	112.6	118.4

1) GDP, GNI and GNDI are at purchasers prices.
2) Refer to Balance of Payments tables for breeakdown of primary and secondary Income flows
3) US Federal and other grants not passed through the Government of the RMI are understated
4) From changes in the terms of trade. Estimated using the US GDP implicit price deflator as a proxy measure of RMI import prices.
5) Primary, Secondary income and capital grants are deflated by an equal weighting of the RMI CPI and the RMI GDP implicit price deflator, as a proxy for the Gross Domestic Expenditure deflator
6) Income comparisons between countries should be made using Purchasing Power Paritys (PPP) rather than US$. However, these measures are currently not available for the RMI.

Table 2b   Current and constant price GDP, GDP per capita, 1981-2008

	GDP $'000 (old series) [1]	GDP $'000 (new series) [2]	Linked Series [3]	Real GDP $'000 [4]	Real GDP annual growth	Population	GDP per capita, Constant prices [4]	Real per capita GDP annual growth
1981	27,152		31,054	57,333		32,214	1,780	0.0%
1982	30,564		34,956	60,103	4.8%	33,613	1,788	0.5%
1983	36,543		41,794	69,423	15.5%	35,073	1,979	10.7%
1984	39,515		45,193	72,107	3.9%	36,596	1,970	-0.5%
1985	38,408		43,927	67,595	-6.3%	38,185	1,770	-10.2%
1986	49,008		56,050	84,185	24.5%	39,844	2,113	19.4%
1987	55,130		63,052	92,068	9.4%	41,574	2,215	4.8%
1988	61,874		70,765	99,239	7.8%	43,380	2,288	3.3%
1989	63,721		72,877	97,560	-1.7%	43,734	2,231	-2.5%
1990	68,691		78,561	100,171	2.7%	44,392	2,257	1.2%
1991	72,219		82,597	100,259	0.1%	45,060	2,225	-1.4%
1992	79,709		91,162	107,419	7.1%	45,739	2,349	5.6%
1993	87,059		99,569	113,870	6.0%	46,427	2,453	4.4%
1994	94,596		108,189	120,563	5.9%	47,126	2,558	4.3%
1995	105,239		120,361	130,465	8.2%	47,835	2,727	6.6%
1996	97,036		110,979	117,024	-10.3%	48,555	2,410	-11.6%
1997	92,184	106,583	106,583	109,469	-6.5%	49,286	2,221	-7.8%
1998	95,659	108,967	108,967	106,410	-2.8%	50,028	2,127	-4.2%
1999	95,360	108,347	108,347	106,473	0.1%	50,840	2,094	-1.5%
2000	98,849	111,906	111,906	111,906	5.1%	51,299	2,181	4.2%
2001	99,174	114,696	114,696	115,901	3.6%	50,675	2,287	4.8%
2002		123,271	123,271	119,503	3.1%	49,917	2,394	4.7%
2003		127,001	127,001	123,030	3.0%	50,266	2,448	2.2%
2004		133,255	133,255	127,909	4.0%	50,799	2,518	2.9%
2005		138,645	138,645	128,767	0.7%	51,592	2,496	-0.9%
2006		144,598	144,598	131,868	2.4%	51,953	2,538	1.7%
2007		150,992	150,992	136,193	3.3%	52,338	2,602	2.5%
2008		151,995	151,995	133,475	-2.0%	53,033	2,517	-3.3%

Notes
1 GDP estimates old series 1981-2001
2 GDP estimates, EPPSO from 1997
3 Series linked based on differential between the average figures 1997-1999
4 Constant price GDP is in 2000 prices. U.S. CPI used as deflator for 1981-1997

Table 2c Constant price GDP by institutional sector, FY1997-FY2008

	(constant prices of FY2000, US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise	30,084	30,792	29,715	33,025	34,372	35,737	37,343	39,806	38,109	40,508	42,074	39,915
1.2	Public Enterprise	12,980	12,434	11,851	13,251	13,837	14,992	14,674	13,976	14,163	13,601	16,059	15,464
2	Finance (Banks)	4,501	4,755	4,971	5,082	5,559	5,531	5,383	5,764	5,789	5,930	6,513	7,181
3	Government	37,211	35,198	35,398	35,956	38,046	40,335	41,643	42,858	44,741	45,840	46,039	45,227
4	NGOs	1,780	1,815	1,834	1,914	2,010	1,959	1,870	1,949	2,066	2,029	2,025	1,908
5	Households	17,648	16,609	16,469	16,485	16,753	15,830	16,157	16,418	16,589	16,574	17,027	17,476
	GDP at Factor Cost (Gross)	**104,204**	**101,604**	**100,239**	**105,713**	**110,578**	**114,383**	**117,070**	**120,771**	**121,456**	**124,481**	**129,738**	**127,171**
	Indirect taxes less Subsidies	7,621	7,194	8,746	9,047	8,297	8,292	8,620	9,877	10,243	10,630	10,304	9,925
	Less intermediate FISIM	-2,356	-2,388	-2,512	-2,855	-2,974	-3,173	-2,661	-2,739	-2,933	-3,243	-3,849	-3,620
	Real GDP at Market Prices (Gross)	**109,469**	**106,410**	**106,473**	**111,906**	**115,901**	**119,503**	**123,030**	**127,909**	**128,767**	**131,868**	**136,193**	**133,475**

Table 2d Constant price GDP by institutional sector, annual percent growth, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise		2.4%	-3.5%	11.1%	4.1%	4.0%	4.5%	6.6%	-4.3%	6.3%	3.9%	-5.1%
1.2	Public Enterprise		-4.2%	-4.7%	11.8%	4.4%	8.3%	-2.1%	-4.8%	1.3%	-4.0%	18.1%	-3.7%
2	Finance (Banks)		5.7%	4.5%	2.2%	9.4%	-0.5%	-2.7%	7.1%	0.4%	2.4%	9.8%	10.3%
3	Government		-5.4%	0.6%	1.6%	5.8%	6.0%	3.2%	2.9%	4.4%	2.5%	0.4%	-1.8%
4	NGOs		2.0%	1.1%	4.4%	5.0%	-2.5%	-4.5%	4.2%	6.0%	-1.8%	-0.2%	-5.8%
5	Households		-5.9%	-0.8%	0.1%	1.6%	-5.5%	2.1%	1.6%	1.0%	-0.1%	2.7%	2.6%
	GDP at Factor Cost (Gross)		**-2.5%**	**-1.3%**	**5.5%**	**4.6%**	**3.4%**	**2.3%**	**3.2%**	**0.6%**	**2.5%**	**4.2%**	**-2.0%**
	Indirect taxes less Subsidies		-5.6%	21.6%	3.4%	-8.3%	-0.1%	4.0%	14.6%	3.7%	3.8%	-3.1%	-3.7%
	Less intermediate FISIM		1.4%	5.2%	13.6%	4.2%	6.7%	-16.1%	2.9%	7.1%	10.6%	18.7%	-5.9%
	Real GDP at Market Prices (Gross)		**-2.8%**	**0.1%**	**5.1%**	**3.6%**	**3.1%**	**3.0%**	**4.0%**	**0.7%**	**2.4%**	**3.3%**	**-2.0%**

Table 2e Current price GDP by institutional sector, FY1997-FY2008

	(US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise	29,797	29,751	29,596	33,025	34,585	35,242	35,370	37,760	36,538	40,443	42,529	42,751
1.2	Public Enterprise	11,051	14,532	13,583	13,251	13,337	16,746	15,285	13,950	12,798	11,119	13,875	11,180
2	Finance (Banks)	3,979	4,283	4,569	5,082	4,933	5,574	5,357	5,840	6,704	7,664	8,580	8,092
3	Government	34,045	33,849	34,086	35,956	38,060	41,587	44,754	48,292	51,895	53,933	53,545	53,649
4	NGOs	1,749	1,731	1,819	1,914	2,099	2,096	2,100	2,093	2,256	2,205	2,247	2,193
5	Households	17,233	15,750	16,408	16,485	16,530	15,790	16,069	16,636	17,336	18,186	19,403	23,526
	GDP at Factor Cost (Gross)	**97,854**	**99,895**	**100,062**	**105,713**	**109,544**	**117,035**	**118,936**	**124,571**	**127,526**	**133,550**	**140,178**	**141,391**
	Indirect taxes less Subsidies	10,956	11,322	10,730	9,047	8,112	9,422	10,796	11,523	14,226	14,540	14,949	14,626
	Less intermediate FISIM	-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021
	Nominal GDP at Market Prices (Gross)	**106,583**	**108,967**	**108,347**	**111,906**	**114,696**	**123,271**	**127,001**	**133,255**	**138,645**	**144,598**	**150,992**	**151,995**

Source: EPPSO estimates

Table 2f Implicit GDP price deflators by institutional sector, FY1997-FY2008

	(FY2000=100)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise	99.0	96.6	99.6	100.0	100.6	98.6	94.7	94.9	95.9	99.8	101.1	107.1
1.2	Public Enterprise	85.1	116.9	114.6	100.0	96.4	111.7	104.2	99.8	90.4	81.8	86.4	72.3
2	Finance (Banks)	88.4	90.1	91.9	100.0	88.7	100.8	99.5	101.3	115.8	129.3	131.7	112.7
3	Government	91.5	96.2	96.3	100.0	100.0	103.1	107.5	112.7	116.0	117.7	116.3	118.6
4	NGOs	98.3	95.3	99.2	100.0	104.4	107.0	112.3	107.4	109.2	108.7	110.9	114.9
5	Households	97.6	94.8	99.6	100.0	98.7	99.7	99.5	101.3	104.5	109.7	114.0	134.6
	GDP at Factor Cost (Gross)	**93.9**	**98.3**	**99.8**	**100.0**	**99.1**	**102.3**	**101.6**	**103.1**	**105.0**	**107.3**	**108.0**	**111.2**
	Indirect taxes less Subsidies	143.8	157.4	122.7	100.0	97.8	113.6	125.2	116.7	138.9	136.8	145.1	147.4
	Less intermediate FISIM	94.5	94.2	97.3	100.0	99.5	100.4	102.6	103.7	106.0	107.7	107.4	111.1
	GDP at Market Prices (Gross)	**97**	**102**	**102**	**100**	**99**	**103**	**103**	**104**	**108**	**110**	**111**	**114**

Table 2g Share of GDP by institutional sector, current prices, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise	28.0%	27.3%	27.3%	29.5%	30.2%	28.6%	27.9%	28.3%	26.4%	28.0%	28.2%	28.1%
1.2	Public Enterprise	10.4%	13.3%	12.5%	11.8%	11.6%	13.6%	12.0%	10.5%	9.2%	7.7%	9.2%	7.4%
2	Finance (Banks)	3.7%	3.9%	4.2%	4.5%	4.3%	4.5%	4.2%	4.4%	4.8%	5.3%	5.7%	5.3%
3	Government	31.9%	31.1%	31.5%	32.1%	33.2%	33.7%	35.2%	36.2%	37.4%	37.3%	35.5%	35.3%
4	NGOs	1.6%	1.6%	1.7%	1.7%	1.8%	1.7%	1.7%	1.6%	1.6%	1.5%	1.5%	1.4%
5	Households	16.2%	14.5%	15.1%	14.7%	14.4%	12.8%	12.7%	12.5%	12.5%	12.6%	12.9%	15.5%
	GDP at Factor Cost (Gross)	**91.8%**	**91.7%**	**92.4%**	**94.5%**	**95.5%**	**94.9%**	**93.6%**	**93.5%**	**92.0%**	**92.4%**	**92.8%**	**93.0%**
	Indirect taxes less Subsidies	10.3%	10.4%	9.9%	8.1%	7.1%	7.6%	8.5%	8.6%	10.3%	10.1%	9.9%	9.6%
	Real GDP at Market Prices (Gross)	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: EPPSO estimates

Table 2h GDP by income component, current prices, FY1997-FY2008

(US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Compensation of employees	62,169	62,557	63,036	66,388	71,006	75,524	77,963	81,259	85,277	89,133	91,267	92,854
Operating surplus (Gross before depreciation)	18,452	21,588	20,618	22,840	22,008	25,722	24,903	26,676	24,913	26,231	29,508	25,010
Household mixed income	3,707	2,553	2,774	2,982	2,759	2,253	2,798	3,012	3,097	3,149	3,913	5,599
Indirect taxes less Subsidies	10,956	11,322	10,730	9,047	8,112	9,422	10,796	11,523	14,226	14,540	14,949	14,626
Less intermediate FISIM	-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021
Total Monetary	**93,057**	**95,770**	**94,712**	**98,402**	**100,925**	**109,734**	**113,730**	**119,631**	**124,406**	**129,561**	**135,503**	**134,068**
Percentage Monetary	*87.3%*	*87.9%*	*87.4%*	*87.9%*	*88.0%*	*89.0%*	*89.6%*	*89.8%*	*89.7%*	*89.6%*	*89.7%*	*88.2%*
Household subsistence	6,661	6,748	7,027	6,775	7,002	6,896	6,648	6,794	7,060	7,428	7,623	8,778
Owner occupied housing	6,865	6,449	6,608	6,728	6,769	6,641	6,624	6,831	7,179	7,609	7,867	9,150
Total Non-Monetary	**13,526**	**13,197**	**13,635**	**13,503**	**13,771**	**13,537**	**13,271**	**13,624**	**14,239**	**15,037**	**15,490**	**17,927**
Percentage Non-Monetary	*12.7%*	*12.1%*	*12.6%*	*12.1%*	*12.0%*	*11.0%*	*10.4%*	*10.2%*	*10.3%*	*10.4%*	*10.3%*	*11.8%*
Nominal GDP at Market Prices (Gross)	**106,583**	**108,967**	**108,347**	**111,906**	**114,696**	**123,271**	**127,001**	**133,255**	**138,645**	**144,598**	**150,992**	**151,995**

Table 2i GDP by income component, constant prices, FY1997-FY2008

(constant prices of FY2000, US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Compensation of employees	66,338	65,974	64,864	66,388	70,855	75,011	76,111	78,523	80,316	82,616	85,052	84,566
Operating surplus (Gross before depreciation)	20,219	19,021	18,905	22,840	22,970	23,542	24,802	25,830	24,551	25,291	27,659	25,128
Household mixed income	3,339	3,043	2,712	2,982	3,232	2,485	2,948	3,129	3,169	3,108	3,511	3,848
Indirect taxes less Subsidies	7,621	7,194	8,746	9,047	8,297	8,292	8,620	9,877	10,243	10,630	10,304	9,925
Less intermediate FISIM	-2,356	-2,388	-2,512	-2,855	-2,974	-3,173	-2,661	-2,739	-2,933	-3,243	-3,849	-3,620
Total Monetary	**95,161**	**92,844**	**92,715**	**98,402**	**102,380**	**106,158**	**109,821**	**114,621**	**115,346**	**118,403**	**122,677**	**119,847**
Percentage Monetary	*86.9%*	*87.3%*	*87.1%*	*87.9%*	*88.3%*	*88.8%*	*89.3%*	*89.6%*	*89.6%*	*89.8%*	*90.1%*	*89.8%*
Household subsistence	7,046	6,937	7,090	6,775	6,875	6,798	6,616	6,626	6,654	6,652	6,651	6,673
Owner occupied housing	7,262	6,629	6,668	6,728	6,646	6,547	6,592	6,662	6,766	6,814	6,864	6,955
Total Non-Monetary	**14,308**	**13,566**	**13,758**	**13,503**	**13,521**	**13,345**	**13,209**	**13,288**	**13,420**	**13,465**	**13,516**	**13,628**
Percentage Non-Monetary	*13.1%*	*12.7%*	*12.9%*	*12.1%*	*11.7%*	*11.2%*	*10.7%*	*10.4%*	*10.4%*	*10.2%*	*9.9%*	*10.2%*
Real GDP at Market Prices (Gross)	**109,469**	**106,410**	**106,473**	**111,906**	**115,901**	**119,503**	**123,030**	**127,909**	**128,767**	**131,868**	**136,193**	**133,475**

Source: EPPSO estimates

Table 2j Current price GDP by institutional sector and income components

	(US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Enterprise												
	Compensation of employees	16,458	17,105	17,699	17,598	19,339	19,568	17,631	17,530	18,019	19,420	20,854	21,336
	Operating surplus (gross)	12,929	12,365	11,852	13,931	13,524	13,373	15,049	18,039	17,358	19,682	20,400	19,595
	Offshore fishing related (1)	410	281	45	1,497	1,722	2,301	2,690	2,190	1,161	1,341	1,276	1,820
1.2	Public Enterprise												
	Compensation of employees	8,151	8,090	7,646	8,127	8,212	8,307	9,379	9,356	9,431	9,429	10,205	10,941
	Operating surplus (gross)	2,900	6,443	5,936	5,124	5,126	8,438	5,906	4,594	3,367	1,690	3,669	238
	Less Subsidies	-2,308	-2,639	-1,368	-1,993	-2,609	-3,549	-3,297	-2,643	-2,483	-2,655	-4,260	-4,491
2	Finance (Banks)												
	Compensation of employees	1,520	1,614	1,758	1,833	2,108	2,370	2,285	2,518	2,904	3,212	3,411	3,448
	Operating surplus (gross)	2,459	2,669	2,812	3,249	2,824	3,205	3,072	3,323	3,800	4,452	5,168	4,645
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	37,109	36,924	37,299
3.2	Government Agencies	4,821	5,698	6,989	7,957	8,672	9,514	9,716	9,311	9,436	7,551	7,554	7,425
3.3	Local Government	7,183	7,414	7,893	8,553	8,609	8,550	8,196	8,596	9,063	9,274	9,067	8,925
4	NGOs (compensation of employees)	1,749	1,731	1,819	1,914	2,099	2,096	2,100	2,093	2,256	2,205	2,247	2,193
5	Households												
	Mixed Income												
	Copra production	2,062	821	1,007	1,183	949	478	1,027	1,186	1,178	1,115	1,810	3,153
	Fishing	532	560	571	581	584	573	572	590	620	657	679	790
	Handicrafts	913	962	980	998	1,004	985	982	1,013	1,064	1,128	1,166	1,357
	Other	200	209	216	220	222	217	217	224	235	249	257	299
	Subsistence	6,661	6,748	7,027	6,775	7,002	6,896	6,648	6,794	7,060	7,428	7,623	8,778
	Home Ownership	6,865	6,449	6,608	6,728	6,769	6,641	6,624	6,831	7,179	7,609	7,867	9,150
	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	8,601	9,354	8,672
	Other Indirect taxes (REPMAR)	2,725	2,663	2,545	2,993	2,901	2,995	3,407	4,015	3,882	4,778	5,851	5,849
	Indirect taxes (Local Government)	2,728	2,963	3,327	3,524	3,369	3,654	3,646	3,470	3,997	3,816	4,003	4,595
	Less intermediate FISIM	-2,226	-2,250	-2,445	-2,855	-2,960	-3,187	-2,730	-2,839	-3,108	-3,492	-4,135	-4,021
	Nominal GDP at Market Prices (Gross)	**106,583**	**108,967**	**108,347**	**111,906**	**114,696**	**123,271**	**127,001**	**133,255**	**138,645**	**144,598**	**150,992**	**151,995**
	Memo items:												
	Offshore fishing vessels (2)	*3,020*	*2,728*	*0*	*0*	*13,874*	*15,962*	*15,388*	*19,420*	*24,192*	*19,019*	*35,452*	*24,778*
	Nominal GDP with offshore fishing vessels	*109,604*	*111,695*	*108,347*	*111,906*	*128,571*	*139,232*	*142,389*	*152,675*	*162,837*	*163,617*	*186,444*	*176,773*
	Labor Income, Kwajalein base (3)	*15,022*	*15,175*	*16,630*	*19,182*	*20,129*	*19,100*	*20,393*	*20,643*	*21,231*	*23,323*	*22,172*	*19,512*

(1) Value added for shore based processing and support units directly related to offshore fishing
(2) Estimated value added for offshore fishing vessels operated by RMI incorporated companies.
These would be included within RMI GDP under SNA guidelines, but are presented separately outside of official GDP for analytical purposes.
(3) Income earned by Marshallese workers on Kwajalein military base and in foreign embassies in Majuro - outside the economic territory and GDP of the RMI
Source: EPPSO estimates

Table 3a Employment by institutional sector, numbers, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Sector	2,515	2,710	2,663	3,157	3,498	3,755	3,824	4,007	3,408	3,603	3,795	3,869
1.2	Public Enterprise	676	683	600	589	585	635	658	690	702	702	760	807
2	Banks	103	115	123	124	149	141	136	153	158	175	184	191
3.1	RMI Government	1,856	1,692	1,531	1,487	1,525	1,775	1,900	2,003	2,116	2,421	2,408	2,412
3.2	Government Agencies	408	371	494	571	650	636	645	596	607	405	454	411
3.3	Local Government	893	975	1,048	1,056	1,114	1,019	963	1,031	1,061	1,053	1,013	980
4	NGO's and Non-Profits	339	346	349	364	383	373	356	371	393	386	386	363
5	Households	0	0	0	0	0	0	0	0	0	0	0	0
6.1	Foreign Embassies	12	12	13	14	15	13	14	14	15	16	17	16
6.2	Kwajalein US Base	1,137	1,108	1,155	1,241	1,281	1,227	1,453	1,229	1,208	1,239	1,194	1,069
	Total	**7,940**	**8,010**	**7,976**	**8,600**	**9,199**	**9,572**	**9,948**	**10,093**	**9,667**	**9,998**	**10,209**	**10,117**

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

Table 3b Employment by institutional sector, wage costs, FY1997-FY2008

	(US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Sector	14,496	14,937	15,380	16,219	17,778	18,182	16,813	16,872	16,163	17,518	18,805	19,596
1.2	Public Enterprise	7,009	7,023	6,265	6,402	6,352	6,798	7,546	7,829	8,140	8,204	8,654	9,725
2	Banks	1,388	1,600	1,569	1,534	1,683	1,952	1,999	2,262	2,665	2,975	3,217	3,156
3.1	RMI Government	17,485	15,854	15,843	16,645	17,938	20,665	21,863	26,478	27,500	30,233	30,144	30,425
3.2	Government Agencies	4,086	4,108	5,539	6,800	7,126	7,579	8,096	7,659	7,996	6,372	6,686	6,555
3.3	Local Government	6,486	6,672	6,952	7,244	7,628	7,436	7,021	7,407	7,823	8,115	8,094	8,067
4	NGO's and Non-Profits	1,543	1,528	1,606	1,689	1,840	1,821	1,820	1,815	1,957	1,911	1,946	1,900
5	Households	0	0	0	0	0	0	0	0	0	0	0	0
6.1	Foreign Embassies	106	113	140	150	165	143	147	175	182	199	221	208
6.2	Kwajalein US Base	13,181	13,323	14,603	16,877	17,601	16,566	17,689	17,892	18,413	20,123	19,230	16,886
	Total	**65,779**	**65,158**	**67,898**	**73,560**	**78,110**	**81,142**	**82,995**	**88,389**	**90,838**	**95,649**	**96,997**	**96,519**

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3c Employment by institutional sector, wage and salary rates, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1.1	Private Sector	5,764	5,512	5,776	5,138	5,083	4,842	4,397	4,211	4,742	4,862	4,956	5,065
1.2	Public Enterprise	10,368	10,279	10,442	10,867	10,860	10,715	11,461	11,351	11,601	11,691	11,384	12,054
2	Banks	13,445	13,879	12,785	12,422	11,334	13,892	14,729	14,807	16,840	17,046	17,509	16,547
3.1	RMI Government	9,420	9,373	10,352	11,198	11,762	11,645	11,508	13,221	12,997	12,490	12,519	12,614
3.2	Government Agencies	10,005	11,077	11,216	11,916	10,958	11,919	12,559	12,854	13,173	15,753	14,726	15,948
3.3	Local Government	7,265	6,845	6,635	6,863	6,847	7,300	7,292	7,188	7,373	7,703	7,987	8,230
4	NGO's and Non-Profits	4,556	4,422	4,599	4,636	4,810	4,885	5,113	4,892	4,975	4,947	5,049	5,233
5	Households												
6.1	Foreign Embassies	8,803	9,586	10,540	11,106	10,793	11,010	10,713	12,489	12,523	12,860	13,392	13,185
6.2	Kwajalein US Base	11,590	12,027	12,641	13,602	13,743	13,503	12,176	14,555	15,249	16,243	16,111	15,803
	Total	**8,285**	**8,134**	**8,513**	**8,553**	**8,491**	**8,477**	**8,343**	**8,758**	**9,396**	**9,567**	**9,501**	**9,540**

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

Table 3d Employment by industrial sector, numbers, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry	10	9	8	7	1	0	21	24	24	27	31	28
B	Fishing	83	84	48	546	618	735	902	1,002	280	343	314	464
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	75	86	61	48	41	48	48	41	48	48	60	58
E	Electricity, Gas and Water Supply	230	233	220	218	231	251	261	281	285	279	274	286
F	Construction	405	610	613	424	480	626	563	498	516	673	772	706
G	Wholesale and Retail Trade	1,423	1,399	1,421	1,582	1,776	1,746	1,655	1,768	1,837	1,847	1,833	1,849
H	Hotels and Restaurants	245	242	233	258	268	269	311	272	240	259	296	282
I	Transport, Storage and Communications	415	393	392	408	410	450	474	538	559	561	695	655
J	Financial Intermediation	121	133	139	140	168	159	151	169	174	193	208	211
K	Real Estate, Renting and Businesss Activities	217	230	194	212	224	221	220	232	248	204	207	219
L	Public Administration	2,877	2,799	2,673	2,636	2,728	2,885	2,957	3,100	3,275	3,572	3,514	3,485
M	Education	456	401	520	561	627	624	606	590	624	383	435	399
N	Health and Social Work	183	207	213	217	235	237	232	251	252	272	276	278
O	Community, Social & Personal Service Activities	44	61	70	86	93	79	77	80	81	80	81	107
P	Private Households With Employed Persons	5	4	4	3	3	4	6	6	4	3	3	7
Q	Extra-Territorial Organizations and Bodies	1,152	1,120	1,169	1,254	1,296	1,240	1,467	1,243	1,222	1,254	1,210	1,084
	Total	**7,940**	**8,010**	**7,976**	**8,600**	**9,199**	**9,572**	**9,948**	**10,093**	**9,667**	**9,998**	**10,209**	**10,117**

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

Table 3e Employment by industrial sector, wage costs, FY1997-FY2008

	(US$'000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry	24	19	18	14	1	0	54	68	79	73	85	82
B	Fishing	423	416	421	1,686	1,911	2,018	2,203	2,547	1,528	1,847	1,856	2,176
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	379	365	237	230	219	278	277	281	317	318	391	314
E	Electricity, Gas and Water Supply	2,605	2,682	2,426	2,615	2,587	2,843	3,298	3,425	3,655	3,592	3,396	3,890
F	Construction	2,589	3,604	3,825	2,590	2,988	3,351	3,017	2,685	2,746	3,916	4,499	4,515
G	Wholesale and Retail Trade	7,811	7,454	7,751	8,663	9,618	9,172	7,877	8,085	8,260	7,976	8,259	8,503
H	Hotels and Restaurants	1,289	1,291	1,265	1,346	1,286	1,397	1,445	1,208	1,185	1,339	1,518	1,454
I	Transport, Storage and Communications	4,175	3,927	3,853	3,964	4,018	4,200	4,553	4,941	4,645	4,654	5,417	5,965
J	Financial Intermediation	1,585	1,800	1,774	1,717	1,909	2,130	2,164	2,433	2,857	3,181	3,434	3,389
K	Real Estate, Renting and Businesss Activities	1,592	1,468	1,380	1,414	1,489	1,639	1,623	1,316	1,353	1,328	1,331	1,423
L	Public Administration	25,650	24,364	24,313	25,449	26,907	29,497	30,177	34,799	36,695	39,766	39,500	39,732
M	Education	2,827	2,748	4,210	5,031	5,369	5,824	6,393	6,341	6,708	4,643	5,015	4,898
N	Health and Social Work	1,276	1,270	1,313	1,389	1,544	1,589	1,616	1,702	1,770	2,235	2,305	2,284
O	Community, Social & Personal Service Activities	247	297	349	406	479	478	440	467	433	452	511	738
P	Private Households With Employed Persons	19	17	21	18	19	15	21	25	12	8	28	63
Q	Extra-Territorial Organizations and Bodies	13,289	13,436	14,743	17,027	17,766	16,709	17,836	18,067	18,595	20,322	19,451	17,093
	Total	**65,779**	**65,158**	**67,898**	**73,560**	**78,110**	**81,142**	**82,995**	**88,389**	**90,838**	**95,649**	**96,997**	**96,519**

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3f Employment by industrial sector, avarage wage and salary rates, FY1997-FY2008

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry							2,614	2,830	3,315	2,713	2,741	2,966
B	Fishing	5,131	4,948	8,865	3,088	3,093	2,747	2,443	2,542	5,456	5,382	5,922	4,686
C	Mining and Quarrying												
D	Manufacturing	5,047	4,247	3,902	4,777	5,308	5,787	5,777	6,884	6,569	6,695	6,487	5,446
E	Electricity, Gas and Water Supply	11,313	11,522	11,025	11,983	11,211	11,350	12,631	12,211	12,830	12,891	12,401	13,589
F	Construction	6,396	5,904	6,239	6,111	6,225	5,353	5,361	5,393	5,325	5,816	5,830	6,395
G	Wholesale and Retail Trade	5,488	5,328	5,455	5,478	5,415	5,254	4,760	4,573	4,496	4,318	4,506	4,598
H	Hotels and Restaurants	5,264	5,329	5,422	5,210	4,791	5,202	4,651	4,450	4,930	5,171	5,120	5,157
I	Transport, Storage and Communications	10,051	9,992	9,836	9,710	9,796	9,329	9,615	9,188	8,314	8,292	7,793	9,114
J	Financial Intermediation	13,157	13,560	12,788	12,252	11,381	13,418	14,329	14,420	16,418	16,483	16,510	16,079
K	Real Estate, Renting and Businesss Activities	7,321	6,386	7,117	6,679	6,659	7,406	7,379	5,668	5,461	6,511	6,418	6,513
L	Public Administration	8,917	8,705	9,095	9,653	9,862	10,226	10,206	11,225	11,204	11,133	11,241	11,401
M	Education	6,197	6,846	8,099	8,965	8,560	9,337	10,559	10,749	10,755	12,122	11,522	12,273
N	Health and Social Work	6,986	6,143	6,174	6,399	6,579	6,721	6,967	6,792	7,036	8,209	8,353	8,207
O	Community, Social & Personal Service Activities	5,590	4,845	5,024	4,737	5,176	6,037	5,709	5,871	5,384	5,670	6,313	6,895
P	Private Households With Employed Persons												
Q	Extra-Territorial Organizations and Bodies	11,541	12,002	12,617	13,575	13,708	13,477	12,162	14,532	15,217	16,201	16,074	15,765
	Total	**8,285**	**8,134**	**8,513**	**8,553**	**8,491**	**8,477**	**8,343**	**8,758**	**9,396**	**9,567**	**9,501**	**9,540**

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

Table 3g Employment in private sector by industry, numbers, FY1997-FY2007

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry	8	8	8	7	1	0	0	2	2	1	0	0
B	Fishing	82	81	45	516	574	688	852	947	218	267	236	397
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	4	13	8	9	14	15	14	14	20	18	29	28
E	Electricity, Gas and Water Supply	0	0	0	0	0	0	0	3	9	11	12	8
F	Construction	405	610	613	424	480	626	563	498	516	673	772	706
G	Wholesale and Retail Trade	1,423	1,399	1,421	1,582	1,776	1,746	1,655	1,768	1,837	1,847	1,833	1,849
H	Hotels and Restaurants	149	150	148	171	179	165	208	185	151	158	191	181
I	Transport, Storage and Communications	171	148	162	168	175	209	224	256	298	305	392	328
J	Financial Intermediation	17	18	16	17	19	18	15	16	16	19	24	20
K	Real Estate, Renting and Businesss Activities	202	214	179	197	208	207	203	222	240	194	197	208
L	Public Administration	0	0	0	0	0	0	0	0	0	0	0	0
M	Education	1	1	1	1	2	2	2	2	2	2	2	2
N	Health and Social Work	8	7	6	7	8	11	15	20	27	37	39	54
O	Community, Social & Personal Service Activities	40	57	53	56	58	64	68	70	70	68	65	81
P	Private Households With Employed Persons	5	4	4	3	3	4	6	6	4	3	3	7
Q	Extra-Territorial Organizations and Bodies	0	0	0	0	0	0	0	0	0	0	0	0
	Total	**2,515**	**2,710**	**2,663**	**3,157**	**3,498**	**3,755**	**3,824**	**4,007**	**3,408**	**3,603**	**3,795**	**3,869**

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

Table 3h Employment in private sector by industry, wage costs, FY1997-FY2007

	(US$000)	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry	17	17	18	14	1	0	0	2	6	2	0	0
B	Fishing	419	399	402	1,374	1,448	1,543	1,711	1,966	810	1,036	1,004	1,389
C	Mining and Quarrying	0	0	0	0	0	0	0	0	0	0	0	0
D	Manufacturing	17	33	20	25	42	51	41	40	62	64	120	80
E	Electricity, Gas and Water Supply	0	0	0	0	0	0	0	27	44	45	48	37
F	Construction	2,589	3,604	3,825	2,590	2,988	3,351	3,017	2,685	2,746	3,916	4,499	4,515
G	Wholesale and Retail Trade	7,811	7,454	7,751	8,663	9,618	9,172	7,877	8,085	8,260	7,976	8,259	8,503
H	Hotels and Restaurants	581	557	555	627	592	613	681	593	559	637	776	739
I	Transport, Storage and Communications	1,137	1,036	1,099	1,191	1,186	1,347	1,442	1,556	1,654	1,645	1,918	1,950
J	Financial Intermediation	197	201	205	183	226	178	164	172	192	207	217	232
K	Real Estate, Renting and Businesss Activities	1,380	1,249	1,145	1,210	1,259	1,413	1,342	1,096	1,152	1,092	1,117	1,190
L	Public Administration	0	0	0	0	0	0	0	0	0	0	0	0
M	Education	44	40	14	2	4	5	8	15	13	8	8	12
N	Health and Social Work	44	38	31	39	51	97	138	202	260	449	377	334
O	Community, Social & Personal Service Activities	242	291	295	283	344	397	372	408	393	434	434	551
P	Private Households With Employed Persons	19	17	21	18	19	15	21	25	12	8	28	63
Q	Extra-Territorial Organizations and Bodies	0	0	0	0	0	0	0	0	0	0	0	0
	Total	**14,496**	**14,937**	**15,380**	**16,219**	**17,778**	**18,182**	**16,813**	**16,872**	**16,163**	**17,518**	**18,805**	**19,596**

Source: Social Security plus EPPSO 'non-reported' estimate. Wage Costs = Gross wages and salaries as per Social Security regulations

Table 3i Employment in private sector by industry, avarage wage and salary rates, FY1997-FY2007

		FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
A	Agriculture, Hunting and Forestry												
B	Fishing	5,144	4,925	8,926	2,664	2,523	2,243	2,008	2,077	3,724	3,880	4,257	3,499
C	Mining and Quarrying												
D	Manufacturing		2,580			3,033	3,446	2,992	2,924	3,165	3,481	4,112	2,895
E	Electricity, Gas and Water Supply										3,936	3,982	
F	Construction	6,396	5,904	6,239	6,111	6,225	5,353	5,361	5,393	5,325	5,816	5,830	6,395
G	Wholesale and Retail Trade	5,488	5,328	5,455	5,478	5,415	5,254	4,760	4,573	4,496	4,318	4,506	4,598
H	Hotels and Restaurants	3,911	3,710	3,761	3,659	3,313	3,713	3,269	3,202	3,698	4,025	4,065	4,089
I	Transport, Storage and Communications	6,633	7,024	6,784	7,093	6,783	6,444	6,429	6,082	5,550	5,401	4,896	5,942
J	Financial Intermediation	11,433	11,459	12,806	10,989	11,742	9,771	10,764	10,733	12,180	11,178	8,941	11,617
K	Real Estate, Renting and Businesss Activities	6,821	5,831	6,412	6,157	6,048	6,824	6,614	4,945	4,810	5,635	5,658	5,713
L	Public Administration												
M	Education												
N	Health and Social Work						8,607	9,388	10,104	9,546	12,137	9,606	6,158
O	Community, Social & Personal Service Activities	6,011	5,089	5,536	5,028	5,907	6,210	5,502	5,872	5,613	6,363	6,735	6,827
P	Private Households With Employed Persons												
Q	Extra-Territorial Organizations and Bodies												
	Total	**5,764**	**5,512**	**5,776**	**5,138**	**5,083**	**4,842**	**4,397**	**4,211**	**4,742**	**4,862**	**4,956**	**5,065**

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

Table 4a National government public servant employment by department, FY1999-FY2008

		FY1999[1]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008[2]
10	President & Cabinet	24	23	22	23	23	22	26	27	32	33
11	Chief Secretary Office	15	14	14	13	12	18	20	21	25	25
12	Special Appropriations	0	1	2	2	2	0	2	0	0	10
13	Council of Iroij	17	17	17	15	14	15	15	16	15	15
14	Nitijela	39	35	37	37	38	42	45	48	49	49
15	Auditor General	7	7	8	11	11	11	10	11	10	7
16	Foreign Affairs	30	56	34	34	33	32	36	34	37	36
17	Public Service Commission	12	11	12	11	11	13	13	14	15	15
18	Judiciary	22	21	22	22	20	30	35	40	40	37
19	Attorney General Office	9	10	16	18	24	25	25	26	25	23
20	Ministry of Education	472	474	478	671	706	720	800	1,028	1,032	1,059
30	Health & Environment	386	389	376	389	437	480	529	535	540	532
40	Transport & Communications	33	24	41	84	92	108	108	100	54	18
45	R & D	61	45	33	33	32	27	26	28	29	28
50	Internal Affairs	51	54	56	53	54	69	61	64	63	103
55	Justice	158	170	153	144	163	168	168	170	166	164
60	Finance	89	86	93	99	104	107	112	121	121	126
70	Public Works	52	50	111	114	115	99	100	99	90	91
75	Epa	0	0	0	0	0	16	18	19	19	18
80	Compact II Capital	0	0	0	0	0	1	2	3	3	3
	Total	1,475	1,486	1,522	1,771	1,892	1,999	2,151	2,402	2,363	2,390

1) Based on last 2 quarters of FY99.
2) Temporary election staff adjusted for full time equivalent basis.

Table 4b National government public servant wage costs by department, FY1999-FY2008

	(US$'000 [3])	FY1999[1]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008[2]
10	President & Cabinet	549	537	586	650	649	720	702	740	760	687
11	Chief Secretary Office	249	225	244	264	262	385	455	465	473	514
12	Special Appropriations	0	15	41	41	40	0	14	0	0	189
13	Council of Iroij	195	205	204	187	180	248	249	252	248	240
14	Nitijela	815	628	792	819	798	791	907	919	1,022	901
15	Auditor General	98	109	124	167	165	176	164	167	158	136
16	Foreign Affairs	596	788	743	781	756	723	800	762	841	793
17	Public Service Commission	270	267	250	257	258	331	323	334	342	345
18	Judiciary	359	345	376	480	479	547	520	529	578	575
19	Attorney General Office	171	263	321	357	442	459	474	479	462	438
20	Ministry of Education	3,883	4,087	4,290	5,775	5,953	8,015	8,010	10,444	10,500	10,693
30	Health & Environment	3,948	4,054	4,145	4,502	5,026	5,971	6,704	6,805	7,093	7,264
40	Transport & Communications	488	428	494	919	1,094	1,412	1,398	1,241	723	319
45	R & D	635	445	387	431	415	361	320	369	398	367
50	Internal Affairs	549	589	677	704	689	1,074	895	958	854	967
55	Justice	1,507	1,931	1,728	1,630	1,825	2,147	2,157	2,124	2,060	2,092
60	Finance	1,266	1,259	1,329	1,415	1,472	1,641	1,848	1,933	1,915	1,971
70	Public Works	459	434	1,172	1,230	1,267	1,172	1,156	1,200	1,117	1,151
75	Epa	0	0	0	0	0	223	274	288	282	291
80	Compact II Capital	0	0	0	0	0	42	51	98	96	79
	Total	16,037	16,608	17,903	20,609	21,771	26,438	27,422	30,107	29,922	30,014

1) Based on last 2 quarters of FY99.
2) Temporary election staff adjusted for full time equivalent basis.
3) Sum of gross galary and wages, does not include benefits.

Table 4c National government public servant average wage and salary rates by department, FY1999-FY2008

	(US$ per annum)	FY1999[1]	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008[2]
10	President & Cabinet	23,366	23,859	26,329	27,952	28,777	32,382	26,753	27,174	23,754	21,136
11	Chief Secretary Office	16,584	16,347	17,740	21,136	21,363	21,974	22,482	21,868	19,321	20,991
12	Special Appropriations		14,749	20,394	20,500	19,787		6,829			18,470
13	Council of Iroij	11,318	12,069	11,837	12,258	13,058	16,820	16,300	16,000	16,558	16,246
14	Nitijela	20,892	17,944	21,550	22,143	20,802	18,939	20,166	19,245	21,082	18,301
15	Auditor General	14,003	16,099	16,490	15,199	14,950	15,980	16,008	15,492	16,221	18,824
16	Foreign Affairs	20,046	14,140	21,860	23,150	22,855	22,959	22,368	22,756	22,877	22,039
17	Public Service Commission	22,460	24,237	21,270	23,362	23,435	25,441	24,880	24,289	23,178	23,004
18	Judiciary	16,695	16,218	17,487	22,318	23,911	18,530	14,762	13,233	14,351	15,431
19	Attorney General Office	20,090	25,661	20,035	20,386	18,178	18,164	18,959	18,615	18,467	19,051
20	Ministry of Education	8,235	8,618	8,974	8,604	8,431	11,136	10,019	10,162	10,172	10,100
30	Health & Environment	10,236	10,435	11,032	11,573	11,509	12,453	12,668	12,726	13,147	13,648
40	Transport & Communications	14,670	18,219	12,128	10,936	11,827	13,137	12,917	12,377	13,451	17,723
45	R & D	10,414	9,880	11,804	13,271	13,042	13,620	12,414	13,402	13,722	13,232
50	Internal Affairs	10,874	10,915	12,142	13,351	12,664	15,568	14,729	15,081	13,656	9,410
55	Justice	9,570	11,342	11,316	11,359	11,203	12,799	12,838	12,510	12,388	12,794
60	Finance	14,189	14,599	14,295	14,255	14,149	15,374	16,501	15,977	15,858	15,643
70	Public Works	8,778	8,776	10,585	10,810	10,990	11,872	11,593	12,123	12,414	12,723
75	Epa						13,749	15,210	14,955	14,866	15,943
80	Compact II Capital						41,537	34,150	32,775	32,102	31,600
	Total	10,876	11,180	11,761	11,639	11,505	13,224	12,750	12,537	12,665	12,558

1) Based on last 2 quarters of FY99.
2) Temporary election staff adjusted for full time equivalent basis.

Table 4d National government public servant employment by fund, FY2004 Quarter 1 - FY2009 Quarter 2

Fund	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3
General Fund	855	804	817	838	870	863	871	861	881	890	851	858	897	893	812	816	998	859	866	908	911	927	932
Compact II	892	881	891	925	938	936	934	1,117	1,207	1,202	1,158	1,184	1,110	1,122	1,103	1,117	1,128	1,152	1,139	1,120	1,099	1,107	1,101
Special Revenue	67	71	70	73	74	74	76	71	74	78	79	78	79	79	80	78	93	88	82	84	81	51	56
US Federal Grant	166	167	164	169	176	179	182	243	183	210	270	271	283	289	284	283	234	233	225	220	216	218	220
ROC	36	36	36	35	34	33	33	30	30	31	30	28	27	27	26	26	26	26	73	25	27	31	27
UNDP	0	0	2	2	1	2	2	3	1	3	3	6	4	5	6	4	4	5	5	6	6	5	7
Total	**2,016**	**1,959**	**1,980**	**2,042**	**2,093**	**2,087**	**2,098**	**2,325**	**2,376**	**2,414**	**2,391**	**2,425**	**2,400**	**2,415**	**2,311**	**2,324**	**2,483**	**2,363**	**2,390**	**2,363**	**2,340**	**2,339**	**2,343**

Table 4e National government public servant wage costs by fund, FY2004 Quarter 1 - FY2009 Quarter 2

Fund [2] ($US000)	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3
General Fund	3,215	2,669	3,133	3,287	2,962	3,016	3,481	3,446	3,008	3,521	2,966	3,458	3,125	3,626	2,929	3,370	3,120	3,444	3,100	3,772	3,293	3,898	3,317
Compact II	3,087	2,303	2,737	2,825	2,566	2,560	3,005	3,104	3,195	3,676	3,163	3,603	2,960	3,453	2,952	3,332	3,067	3,604	3,081	3,412	2,951	3,499	3,008
Special Revenue	268	238	294	296	262	224	262	255	227	252	234	268	241	277	243	287	275	262	219	250	163	183	165
US Federal Grant	448	351	423	438	414	413	483	597	446	529	561	650	636	750	653	742	548	631	526	574	498	608	525
ROC	107	100	101	98	83	81	95	84	76	84	71	81	69	82	66	78	69	73	127	80	73	105	71
UNDP	0	0	11	10	3	13	9	6	3	7	8	18	9	16	13	13	12	15	18	24	17	17	26
Total	**7,125**	**5,661**	**6,699**	**6,953**	**6,290**	**6,305**	**7,335**	**7,491**	**6,954**	**8,070**	**7,003**	**8,080**	**7,040**	**8,204**	**6,855**	**7,822**	**7,092**	**8,030**	**7,070**	**8,113**	**6,995**	**8,310**	**7,112**

Table 4f National government public servant wage rates by fund, FY2004 Quarter 1 - FY2009 Quarter 2

Fund (US$)	2004-Q1	2004-Q2	2004-Q3	2004-Q4	2005-Q1	2005-Q2	2005-Q3	2005-Q4	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3
General Fund	15,043	13,280	15,337	15,688	13,620	13,979	15,988	16,008	13,655	15,827	13,941	16,123	13,937	16,243	14,428	16,520	12,507	16,039	14,319	16,618	14,460	16,819	14,236
Compact II	13,841	10,457	12,289	12,215	10,944	10,940	12,870	11,116	10,589	12,233	10,925	12,173	10,667	12,312	10,704	11,931	10,875	12,513	10,818	12,187	10,740	12,642	10,928
Special Revenue	16,010	13,398	16,829	16,215	14,148	12,108	13,815	14,344	12,244	12,906	11,832	13,756	12,204	14,014	12,157	14,731	11,824	11,918	10,675	11,914	8,058	14,319	11,798
US Federal Grant	10,798	8,413	10,319	10,367	9,407	9,219	10,613	9,831	9,749	10,082	8,314	9,600	8,988	10,383	9,198	10,488	9,371	10,829	9,350	10,430	9,227	11,157	9,540
ROC	11,857	11,067	11,205	11,147	9,707	9,767	11,467	11,167	10,098	10,886	9,446	11,643	10,194	12,132	10,121	12,026	10,637	11,286	6,932	12,753	10,792	13,586	10,537
UNDP			21,881	20,068	11,397	25,116	17,762	8,040	13,846	9,928	11,238	12,007	9,250	12,585	8,616	12,796	12,408	12,170	14,652	16,269	11,073	13,804	14,817
Total	**14,137**	**11,559**	**13,534**	**13,620**	**12,021**	**12,085**	**13,986**	**12,889**	**11,708**	**13,372**	**11,715**	**13,327**	**11,734**	**13,589**	**11,866**	**13,463**	**11,425**	**13,593**	**11,833**	**13,733**	**11,957**	**14,211**	**12,142**

1) For 2008 Q1, Q2 and Q3, temporary election staff are adjusted for full time equivalent basis

2) Sum of gross galary and wages, does not include benefits.Quarter on quarter changes may reflect the number of pay days per quarter

Table 5a Copra production, average producer price and income to producers: 1951-2008

	Total Production (Short Tons)[1]	Average Producer Price Per S.Ton	Total Producer Income ($,000)
1951	4,980	84	418
1961	6,060	126	764
1971	5,344	154	823
1981	5,760	171	985
1991	4,213	155	653
2001	5,256	187	949
2002	2,653	180	478
2003	4,283	240	1,027
2004	4,868	240	1,186
2005	4,908	240	1,178
2006	4,646	240	1,115
2007	6,053	299	1,810
2008	7,182	439	3,153

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: FY1999 to FY2003

Fiscal Year	Number of employees			Fish processed	Value of fish exported ($)	Animal feed produced	
	Male	Female	Total	(Short Tons)		Quantity *(S.Tons)*	Value ($)
FY1999	20	80	100	300	60,000	50	15,000
FY2000	60	240	300	10,000	2,500,000	1,600	480,000
FY2001	80	320	400	9,700	2,450,000	1,400	420,000
FY2002	100	400	500	10,200	2,550,000	1,750	525,000
FY2003	110	420	530	12,400	3,350,000	1,300	400,000
FY2004 [1]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*

Source: PM&O Tuna Loining Plant, Majuro

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

Table 5c Total fish catch in RMI EEZ, by method: 1998 - 2008

	Method of catch *(metric tons)*			
	Long Line	Purse-Seine	Pole and Line	Total
1998	2,147	65,551	18,392	86,090
1999	4,829	23,743	3,944	32,515
2000	2,110	20,403	8,208	30,721
2001	4,176	36,324	16,243	56,743
2002	2,090	28,915	7,316	38,321
2003	3,100	3,381	94	6,575
2004	2,232	16,425	1,171	19,828
2005	4,526	19,637	655	24,818
2006	4,768	14,618	987	20,373
2007	3,836	9,580	4,400	17,816
2008 [1]	4,473	5,123	2,460	12,056

Source: Marshall Islands Marine Resources Authority

1) 2008 data are provisional, but coverage is "high"

Table 5d Total fish catch by Marshall Islands and domestically based vessels: 2001 - 2008

	Method of catch *(metric tons)* [1]	
	Domestic based Long Line	Marshall Islands Purse-Seine
2001	n.a.	35,774
2002	n.a.	38,952
2003	n.a.	37,875
2004	2,016	46,672
2005	3,175	56,164
2006	4,543	42,689
2007	3,683	59,485
2008 [2]	4,473	32,218

Source: Marshall Islands Marine Resources Authority

1) Includes fish caught outside RMI EEZ

2) 2008 data are provisional, but coverage is "high"

Table 5e Visitors to Majuro, by year and purpose of visit: 1991, 1996, and 2001-2008

Purpose	1991	1996	2001	2002**	2003**	2004	2005	2006	2007	2008
Transit/Stop Over	1,633	1,447	676	997	1,988	1,779	1,590	965	1,415	1,325
Business	2,271	2,513	1,892	2,165	2,245	2,999	3,061	2,033	2,218	2,147
Holiday/Vacation	947	1,113	1,483	1,445	1,380	2,683	2,727	1,255	2,060	1,385
Visiting Friends/Relatives	606	634	662	763	769	810	931	661	718	587
Other/Not Stated	415	409	731	632	813	736	864	866	548	578
Total	5,872	6,116	5,444	6,002	7,195	9,007	9,173	5,780	6,959	6,022

** Does not include those who arrived at Kwajalein airport

Table 5f Length of stay, visitors to Majuro, by year and purpose of visit: 2001-2008

Purpose	2001	2002	2003	2004	2005	2006	2007	2008
Transit/Stop Over	1.5	1.1	0.8	0.7	0.9	2.4	1.1	1.1
Business	6.2	7.9	6.8	4.8	6.4	6.3	5.4	4.8
Holiday/Vacation	5.4	5.4	6.2	3.7	5.6	6.6	4.9	4.0
Visiting Friends/Relatives	8.9	9.1	12.9	9.1	10.7	11.5	7.1	6.2
Other	9.0	9.8	11.8	10.3	8.8	9.5	6.8	5.5
Not Stated	0.8	1.0	0.5	1.0	1.0	1.5	0.1	2.0
Total	5.6	6.1	5.6	4.2	5.5	6.3	4.6	4.0

Prior to 2004 only visitors travelling by air were included

Table 5g Visitors to Majuro by usual residence: 1998 to 2008

Usual residence	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
USA/Canada & other America	1,975	2,071	2,022	1,994	2,156	2,189	2,099	2,554	1,831	1,690	1,480
Australia/ New Zealand	229	223	202	222	263	279	277	578	293	496	275
Other Pacific Island countries	1,318	864	1,181	1,070	1,072	1,650	1,669	2,024	1,236	1,024	965
European Countries	89	91	129	115	147	196	160	404	180	275	177
Japan	104	100	856	940	828	961	984	1,565	907	1,600	1,427
Taiwan	670	585	211	353	347	209	321	476	228	311	375
People's China	165	85	83	80	159	57	87	142	58	157	61
Philippines	211	280	170	180	239	245	192	532	204	255	236
Other Asian Countries	240	223	181	228	489	1,021	936	731	565	320	324
Others & Not Stated	43	100	211	262	302	388	2,282	167	278	831	702
Total	5,044	4,622	5,246	5,444	6,002	7,195	9,007	9,173	5,780	6,959	6,022

Source: Marshall Islands Visitors Authority (MIVA), EPPSO

Table 6a Assets and liabilities of Deposit Money Banks, 1997-2008

(US$ millions)	CY1997	CY1998	CY1999	CY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Assets [1]	55.1	52.7	60.7	71.8	70.6	83.3	89.1	94.3	95.6	98.3	109.3	113.9
Foreign assets	18.8	18.1	23.5	33.0	31.1	38.3	48.3	51.0	53.6	57.6	60.7	57.1
Claims on central and local governments	2.9	3.1	4.3	2.9	2.6	2.3	1.4	1.3	0.5	0.3	0.5	2.9
Claims on public enterprises											1.4	0.0
Claims on private sector	32.0	31.7	33.6	37.0	38.1	40.1	40.4	43.4	43.6	43.2	49.9	58.2
Consumer	21.2	23.2	22.8	26.4	29.5	34.5	36.9	38.5	38.2	35.2	38.5	43.9
Commercial	11.1	8.5	10.8	10.6	8.6	5.6	3.5	4.9	5.4	8.0	11.4	14.3
Unclassified assets	1.5	-0.3	-0.7	-1.1	-1.2	2.6	-1.0	-1.4	-2.1	-2.7	-3.2	-4.3
Liabilities [1]	55.1	52.7	60.7	71.8	70.6	83.3	89.1	94.3	95.6	98.3	108.8	113.9
Deposits	45.0	46.4	54.3	61.4	59.6	66.2	72.2	74.9	74.3	75.5	85.5	89.0
Demand deposits	16.8	13.9	15.9	20.5	19.6	20.6	23.6	27.0	26.1	25.7	25.6	24.7
Time deposits	11.5	11.9	16.6	19.8	19.9	21.9	22.0	20.0	17.7	16.2	19.0	20.6
Savings deposits	8.1	8.2	12.0	14.5	14.8	16.6	17.6	18.1	22.7	26.6	33.3	35.7
Central government deposits [2]	9.4	9.9	8.1	6.6	5.3	7.0	9.0	9.8	7.8	7.0	7.7	8.0
Foreign liabilities	2.3	2.8	1.6	2.6	2.7	2.7	3.5	4.1	3.8	3.7	2.2	1.6
Capital accounts	5.7	5.4	5.9	7.1	7.4	10.0	12.9	14.8	17.0	18.6	20.4	22.5
Unclassified liabilities	1.4	0.6	0.4	0.7	1.0	4.4	0.5	0.5	0.5	0.6	0.7	0.8
Memorandum items:												
Loan/deposit ratio (in percent)	77.3	74.9	69.9	64.9	68.3	64.1	57.8	59.7	59.3	57.6	60.5	68.7
Deposits (12-month percent change)	-7.4	3.2	17.0	13.1	-3.0	11.1	9.1	3.6	-0.8	1.6	13.3	4.1
Loans (12-month percent change)	9.9	0.0	9.1	5.0	2.1	4.2	-1.5	7.0	-1.4	-1.3	17.9	18.0
Consumer loans (in percent of total loans)	61.0	66.7	60.2	66.2	72.4	81.4	88.4	86.2	86.6	81.0	75.0	84.7
Commercial loans (in percent of total loans)	31.8	24.4	28.4	26.5	21.2	13.1	8.3	10.9	12.3	18.4	22.3	27.6

Source: Banking Commision and IMF

1) Calendar-year basis 4 quarter average to 2000. Fiscal-year basis 5 quarter average from FY2001.

2) Includes deposits of Social Security administration and other trust funds

Table 6b Income and expense of Domestic Money Banks, 1997-2008

(US$ '000)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
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	7,231	8,514	9,132
Deposit with banks	1,218	1,133	1,038	1,504	1,431	2,022	369	510	1,429	2,410	2,521	833
Other interest income	91	91	195	236	106	95	56	59	46	122	158	115
Total interest income	6,339	6,691	6,865	8,426	8,318	9,605	7,767	8,121	8,631	9,763	11,193	10,080
Interest Expense:												
Deposits	1,610	1,509	1,554	1,941	2,085	2,228	1,578	1,241	1,136	1,370	1,669	1,447
Other interest expense	0	0	10	13	32	0	0	0	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	1,370	1,669	1,447
Net interest income	4,729	5,182	5,301	6,472	6,201	7,377	6,189	6,880	7,495	8,393	9,524	8,633
Provision for loans losses	865	1,124	656	732	2,327	630	930	988	648	448	422	260
Net interest income after loan loss provisions	3,864	4,058	4,645	5,740	3,874	6,747	5,259	5,892	6,847	7,945	9,102	8,373
Noninterest Income:												
Service charges and fees	646	712	854	918	985	630	634	640	631	661	613	783
Other noninterest income	159	119	287	457	866	1,269	773	767	645	724	911	824
Total noninterest income	805	831	1,141	1,375	1,851	1,899	1,407	1,407	1,276	1,385	1,524	1,607
Noninterest Expense:												
Salaries and employee benefits	1,209	1,320	1,426	1,510	1,750	2,091	1,634	1,888	2,240	2,449	2,625	2,665
Occupancy	358	392	371	393	398	468	248	261	281	306	333	351
Furniture and equipment	171	200	337	394	393	466	276	180	144	93	109	87
Other operating expense	1,216	1,272	1,204	1,744	2,043	1,614	1,783	1,917	1,751	1,818	1,978	2,154
Total noninterest expense	2,954	3,184	3,338	4,041	4,584	4,638	3,941	4,246	4,416	4,666	5,045	5,257
Net Income (Loss)	1,715	1,705	2,448	3,074	1,141	4,008	2,725	3,053	3,707	4,664	5,581	4,723

Source: Banking Commision and EPPSO

Table 6c Interest rates of Domestic Money Banks, 1997-2008

(Percent[1])	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Deposit rates												
Savings accounts[2]	2.8	2.9	3.1	2.5	2.7	2.1	1.5	1.1	1.2	1.7	1.7	1.1
Time deposits[3]												
Three months	4.3	3.7	4.4	4.3	3.5	2.6	1.8	1.3	2.2	2.5	2.8	1.8
Six months	5.0	4.2	4.6	4.8	3.8	2.9	2.0	1.6	2.9	3.2	3.1	2.4
One year or more	5.4	5.1	5.0	6.8	4.4	3.5	2.6	2.1	3.5	4.0	4.1	3.6
Loan rates[4]												
Consumer loans	18.0	18.7	20.5	18.3	19.2	18.4	17.7	17.4	18.5	18.5	18.5	18.5
Commercial loans	11.0	11.5	12.5	13.3	11.8	10.8	9.8	9.7	11.0	11.0	9.5	9.4

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 Majuro Consumer Price Index (CPI) by major groups, 1982-2001

Base 1982=100

	All Groups	Food	Household & Personal	Apparel	Durables & Fuel
Weights	100.0	57.7	14.8	12.0	15.6
FY1983	102.3	104.2	99.7	98.1	100.9
FY1984	107.3	108.5	104.7	101.8	109.2
FY1985	108.1	105.0	110.1	108.4	117.5
FY1986	110.2	108.2	109.2	109.5	119.2
FY1987	112.8	104.7	119.7	129.1	119.0
FY1988	113.7	108.0	128.9	127.7	110.0
FY1989	116.5	113.5	125.8	124.0	112.7
FY1990	117.8	117.7	130.2	114.5	110.8
FY1991	121.6	121.6	129.8	125.0	111.3
FY1992	131.3	129.3	152.2	128.5	121.0
FY1993	141.2	135.6	162.9	151.4	133.9
FY1994	148.1	137.2	183.3	157.3	148.0
FY1995	158.2	139.1	212.1	175.0	165.1
FY1996	174.8	155.6	244.4	189.4	173.7
FY1997	185.0	167.2	254.6	195.0	177.9
FY1998	191.9	173.1	270.5	200.2	181.0
FY1999	194.8	175.7	273.7	206.1	182.2
FY2000	196.6	174.3	279.6	219.2	183.5
FY2001	199.7	175.3	288.5	232.1	180.9
Percent change year-on-year					
FY1984	4.8%	4.1%	5.1%	3.8%	8.1%
FY1985	0.8%	-3.3%	5.1%	6.5%	7.7%
FY1986	2.0%	3.1%	-0.8%	1.0%	1.4%
FY1987	2.3%	-3.2%	9.6%	17.9%	-0.2%
FY1988	0.8%	3.1%	7.6%	-1.1%	-7.6%
FY1989	2.5%	5.1%	-2.3%	-2.9%	2.5%
FY1990	1.2%	3.7%	3.5%	-7.6%	-1.7%
FY1991	3.3%	3.3%	-0.4%	9.2%	0.5%
FY1992	7.9%	6.3%	17.3%	2.8%	8.7%
FY1993	7.6%	4.9%	7.0%	17.8%	10.7%
FY1994	4.9%	1.2%	12.5%	3.9%	10.5%
FY1995	6.8%	1.4%	15.7%	11.3%	11.6%
FY1996	10.5%	11.8%	15.2%	8.3%	5.2%
FY1997	5.8%	7.5%	4.2%	2.9%	2.5%
FY1998	3.8%	3.5%	6.2%	2.7%	1.8%
FY1999	1.5%	1.5%	1.2%	2.9%	0.7%
FY2000	0.9%	-0.8%	2.1%	6.4%	0.7%
FY2001	1.6%	0.6%	3.2%	5.9%	-1.4%

Source: EPPSO

Table 7b Majuro Consumer Price Index (CPI) by major groups, 2003-2008

Base 2003 1st quarter=100

	All	Food	Alcoholic Beverages	Housing, Utilities and Major Appliances	Apparel	Transport	Medical Care	Recreation	Education and Comm.	Other Goods 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
2006 q3	113.0	108.0	135.6	128.4	106.1	131.3	100.0	83.7	115.9	96.4
2006 q4	113.7	110.3	130.6	127.7	104.3	131.7	100.0	84.9	115.9	96.9
2007 q1	113.2	110.6	133.1	127.9	105.8	126.3	100.0	85.6	115.9	96.9
2007 q2	115.1	112.0	134.3	129.9	102.9	138.5	100.0	85.5	115.9	96.8
2007 q3	116.5	109.5	136.2	142.3	103.1	138.6	100.0	85.6	115.9	94.7
2007 q4	118.8	113.1	136.2	143.5	105.3	141.5	100.0	83.7	115.9	96.7
2008 q1	122.1	113.7	137.0	148.4	113.1	153.0	100.0	83.7	115.9	98.7
2008 q2	134.6	126.2	138.3	192.3	104.0	159.4	100.0	83.7	115.9	98.6
2008 q3	150.7	143.2	134.5	230.3	108.1	196.9	100.0	85.6	117.1	87.2
2008 q4	137.5	136.4	143.8	197.0	108.4	158.2	100.0	83.0	117.1	87.7
2009 q1	128.8	134.9	143.8	157.5	105.7	148.0	100.0	83.0	117.1	88.4
FY2003	100.5	101.8	101.3	99.5	100.6	98.6	100.0	100.1	100.0	100.5
FY2004	102.5	106.1	102.1	99.5	103.9	99.3	100.0	99.1	102.8	101.0
FY2005	106.1	106.4	122.6	104.2	102.9	110.8	100.0	94.1	111.8	102.9
FY2006	111.7	108.8	132.3	122.1	105.9	124.3	100.0	88.8	115.9	98.8
FY2007	114.6	110.6	133.6	131.9	104.0	133.8	100.0	85.4	115.9	96.3
FY2008	131.6	124.1	136.5	178.6	107.7	162.7	100.0	84.2	116.2	95.3

Percent change year-on-year

	All	Food	Alcoholic Beverages	Housing, Utilities and Major Appliances	Apparel	Transport	Medical Care	Recreation	Education and Comm.	Other Goods and Services
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%
2006 q3	4.3%	0.6%	7.3%	19.9%	2.2%	10.8%	0.0%	-11.4%	1.8%	-6.4%
2006 q4	2.6%	3.0%	1.5%	6.9%	0.7%	8.2%	0.0%	-5.9%	0.0%	-6.1%
2007 q1	1.7%	0.5%	1.1%	7.1%	1.7%	4.1%	0.0%	-6.3%	0.0%	-2.4%
2007 q2	3.2%	1.7%	0.7%	7.4%	-6.5%	12.5%	0.0%	-5.0%	0.0%	0.5%
2007 q3	3.1%	1.4%	0.5%	10.8%	-2.8%	5.6%	0.0%	2.3%	0.0%	-1.8%
2007 q4	4.5%	2.5%	4.4%	12.3%	1.0%	7.4%	0.0%	-1.4%	0.0%	-0.3%
2008 q1	7.9%	2.8%	2.9%	16.0%	6.9%	21.1%	0.0%	-2.1%	0.0%	1.8%
2008 q2	16.9%	12.6%	2.9%	48.0%	1.1%	15.1%	0.0%	-2.1%	0.0%	1.9%
2008 q3	29.4%	30.8%	-1.3%	61.8%	4.9%	42.1%	0.0%	0.0%	1.1%	-7.9%
2008 q4	15.7%	20.6%	5.5%	37.3%	2.9%	11.8%	0.0%	-0.9%	1.1%	-9.3%
2009 q1	5.4%	18.6%	5.0%	6.1%	-6.5%	-3.3%	0.0%	-0.9%	1.1%	-10.4%
FY2004	2.0%	4.2%	0.8%	-0.1%	3.3%	0.7%	0.0%	-1.0%	2.8%	0.4%
FY2005	3.5%	0.3%	20.1%	4.7%	-1.0%	11.6%	0.0%	-5.0%	8.8%	2.0%
FY2006	5.3%	2.3%	7.9%	17.2%	2.9%	12.3%	0.0%	-5.6%	3.7%	-4.0%
FY2007	2.7%	1.6%	0.9%	8.1%	-1.8%	7.6%	0.0%	-3.8%	0.0%	-2.5%
FY2008	14.8%	12.2%	2.2%	35.4%	3.5%	21.6%	0.0%	-1.4%	0.3%	-1.1%

Source: EPPSO

Table 7c Ebeye Consumer Price Index (CPI) by major groups, 2005-2008

Base 2006 4th quarter=100

	All	Food	Alcoholic Beverages	Housing, Utilities and Major Appliance	Apparal	Transport	Medical Care	Recreation	Education and Comm.	Other Goods and Service	*Other (old CPI)*
Weights (new)	100.0	46.7	1.5	15.9	6.1	12.3	0.9	2.2	4.4	10.1	*19.0*
Old Ebeye CPI [1]											
2005 q1	*92.2*	*91.9*	*n.a.*	*70.1*	*115.6*	*80.0*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*111.5*
2005 q2	*95.4*	*94.4*	*n.a.*	*77.2*	*115.6*	*88.0*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*111.5*
2005 q3	*96.1*	*90.5*	*n.a.*	*84.5*	*115.6*	*93.7*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*114.9*
2005 q4	*96.7*	*91.6*	*n.a.*	*86.7*	*121.4*	*93.9*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*111.6*
2006 q1	*95.6*	*92.4*	*n.a.*	*84.8*	*110.8*	*89.4*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*111.4*
2006 q2	*98.3*	*96.7*	*n.a.*	*97.7*	*110.8*	*97.6*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*99.0*
2006 q3	*99.9*	*98.0*	*n.a.*	*100.9*	*100.7*	*106.1*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*99.0*
New Ebeye CPI											
2006 q4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
2007 q1	100.4	100.1	101.5	100.0	101.8	101.9	100.0	100.0	100.0	100.5	
2007 q2	102.2	102.3	101.5	100.0	101.7	105.1	100.0	100.0	100.0	101.1	
2007 q3	104.3	106.3	101.5	99.5	97.1	110.5	100.0	100.0	100.0	103.6	
2007 q4	107.0	108.3	101.5	103.1	101.2	120.1	100.0	100.0	100.0	101.5	
2008 q1	110.9	110.5	101.5	103.4	101.2	135.4	100.0	107.9	100.0	108.2	
2008 q2	118.3	115.2	102.8	120.6	115.3	145.5	100.0	107.9	100.0	111.4	
2008 q3	128.5	126.1	94.6	143.5	129.9	149.8	100.0	108.0	100.0	113.5	
2008 q4	119.7	125.4	97.5	118.2	118.3	119.9	100.0	108.0	100.0	112.5	
2009 q1	114.1	125.2	97.5	91.4	114.5	109.0	100.0	108.0	100.0	115.1	
FY2006	97.6	94.7	*n.a.*	92.5	110.9	96.8	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
FY2007	101.7	102.2	101.1	99.9	100.2	104.4	100.0	100.0	100.0	101.3	
FY2008	116.2	115.0	100.1	117.7	111.9	137.7	100.0	105.9	100.0	108.6	

Percent change year-on-year

	All	Food	Alcoholic Beverages	Housing, Utilities and Major Appliance	Apparal	Transport	Medical Care	Recreation	Education and Comm.	Other Goods and Service
2006 q1	3.7%	0.5%	n.a.	21.1%	-4.2%	11.8%	n.a.	n.a.	n.a.	n.a.
2006 q2	3.0%	2.5%	n.a.	26.6%	-4.2%	11.0%	n.a.	n.a.	n.a.	n.a.
2006 q3	3.9%	8.4%	n.a.	19.5%	-12.9%	13.3%	n.a.	n.a.	n.a.	n.a.
2006 q4	3.4%	9.2%	n.a.	15.4%	-17.6%	6.5%	n.a.	n.a.	n.a.	n.a.
2007 q1	5.0%	8.4%	n.a.	17.9%	-8.1%	14.0%	n.a.	n.a.	n.a.	n.a.
2007 q2	3.9%	5.8%	n.a.	2.4%	-8.2%	7.6%	n.a.	n.a.	n.a.	n.a.
2007 q3	4.5%	8.4%	n.a.	-1.4%	-3.6%	4.1%	n.a.	n.a.	n.a.	n.a.
2007 q4	7.0%	8.3%	1.5%	3.1%	1.2%	20.1%	0.0%	0.0%	0.0%	1.5%
2008 q1	10.4%	10.4%	0.0%	3.4%	-0.6%	32.9%	0.0%	7.9%	0.0%	7.6%
2008 q2	15.8%	12.6%	1.3%	20.6%	13.3%	38.5%	0.0%	7.9%	0.0%	10.2%
2008 q3	23.2%	18.7%	-6.8%	44.2%	33.8%	35.5%	0.0%	8.0%	0.0%	9.5%
2008 q4	11.9%	15.8%	-3.9%	14.6%	16.9%	-0.1%	0.0%	8.0%	0.0%	10.9%
2009 q1	2.8%	13.3%	-3.9%	-11.6%	13.2%	-19.5%	0.0%	0.2%	0.0%	6.4%
FY2007	4.2%	7.9%	n.a.	8.0%	-9.7%	7.9%	n.a.	n.a.	n.a.	n.a.
FY2008	14.2%	12.6%	-1.0%	17.8%	11.7%	31.9%	0.0%	5.9%	0.0%	7.2%

Source: EPPSO

(1) Data prior to 2006 q4, are old Ebeye CPI series, using the new CPI weights

Table 8a Marshall Islands: Balance of Payments, FY1999-FY2006

(US$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Current account balance	***-28.7***	***-38.7***	***-25.2***	***-20.6***	***-23.0***	***-23.3***	***-16.8***	***0.4***	***-8.6***	***0.4***	***1.1***	***-2.3***	***-8.3***	***-8.0***
Goods and services balance	*-80.8*	*-79.4*	*-70.5*	*-74.5*	*-75.7*	*-86.7*	*-90.7*	*-72.1*	*-83.5*	*-79.7*	*-88.7*	*-97.6*	*-104.1*	*-104.7*
Goods balance	*-63.2*	*-61.0*	*-53.0*	*-55.3*	*-58.2*	*-67.0*	*-69.9*	*-53.5*	*-62.3*	*-56.7*	*-63.5*	*-71.9*	*-71.2*	*-71.2*
Exports of goods	7.3	9.0	10.3	8.3	6.2	11.8	9.8	12.7	15.0	17.3	24.2	12.3	16.2	19.6
Re-exports	5.3	0.3	0.1	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.8
Copra/ coconut oil	1.7	7.0	7.5	6.2	4.6	9.5	8.1	11.3	13.0	15.8	20.3	11.4	12.8	13.2
Fish 1/	0.3	1.7	2.7	1.3	1.0	1.8	1.2	0.9	1.5	1.0	3.3	0.4	2.8	5.6
Imports of goods, f.o.b.	70.5	70.0	63.3	63.6	64.4	78.8	79.8	66.2	77.2	74.1	87.6	84.3	87.3	90.9
Services balance	*-17.6*	*-18.4*	*-17.5*	*-19.2*	*-17.5*	*-19.7*	*-20.8*	*-18.6*	*-21.2*	*-23.0*	*-25.2*	*-25.7*	*-32.9*	*-33.5*
Exports of services	6.7	6.4	6.2	7.3	7.3	8.0	7.1	7.8	7.9	7.6	9.1	9.0	8.7	8.5
Transport related	2.6	2.5	2.2	3.5	3.5	4.0	3.3	3.5	3.6	3.7	5.0	4.8	4.7	4.6
Travel	2.6	2.4	2.3	2.4	2.4	2.6	2.4	2.8	3.1	3.0	3.2	3.2	3.0	2.8
Telecommunication	1.5	1.5	1.6	1.4	1.4	1.5	1.3	1.4	1.2	0.9	0.9	1.1	1.1	1.1
Fish processing	~													
Imports of services	24.3	24.8	23.7	26.6	24.8	27.7	27.9	26.3	29.1	30.6	34.4	34.7	41.6	42.0
Transport	17.9	17.5	16.0	17.4	17.6	21.3	21.1	19.2	21.9	22.9	26.0	26.5	27.6	28.3
Passenger services, airlines	5.5	5.6	5.6	6.4	6.5	7.3	7.6	7.9	8.8	10.3	11.1	12.2	12.9	12.9
Freight and postal services	12.4	11.8	10.4	11.1	11.0	14.0	13.5	11.3	13.1	12.6	14.9	14.2	14.7	15.4
Travel	3.4	2.7	2.8	2.7	2.7	2.8	2.9	3.0	3.1	3.3	3.3	3.4	7.1	5.7
Health Fund	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.1	1.9	2.1	2.2	2.6	2.7
Business services	0.7													
Repair of aircraft	~													
Technical assistance	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Other	0.2	2.2	2.7	3.9	2.1	1.2	1.3	1.6	1.5	2.1	2.4	2.1	3.7	4.6
Primary income balance	*27.4*	*21.4*	*22.1*	*25.6*	*28.4*	*30.9*	*33.3*	*33.7*	*33.8*	*34.5*	*37.9*	*40.1*	*36.3*	*34.0*
Primary income, inflows	35.8	30.9	30.7	33.8	35.6	36.4	37.9	37.6	37.8	40.0	43.8	47.5	44.7	41.5
Compensation of employees, Kwajalein US base and foreign embassies	14.1	13.9	14.4	14.5	15.9	18.3	19.2	18.3	19.5	19.7	20.3	22.3	21.2	18.7
Rent receipts for use of Kwajalein land	10.8	10.9	10.7	10.9	10.9	10.9	11.1	11.2	11.2	15.0	15.2	15.4	15.8	16.2
Fishing licence fees	2.2	2.0	1.9	3.8	4.8	2.8	0.9	1.1	1.2	0.9	1.4	1.6	0.8	1.7
Transshipment fees	0.1	0.1	0.1	0.9	0.8	0.9	0.3	0.3	0.2	0.1	0.2	0.1	0.1	0.1
Dividends and interest	7.9	1.8	1.9	1.8	2.3	2.7	4.3	4.5	3.4	2.3	4.3	5.2	4.8	2.2
Portfolio investment	0.7	0.7	0.7	0.7	1.2	1.2	2.8	2.5	3.0	1.7	2.8	2.8	2.3	1.3
Commercial banks	1.1	1.1	1.2	1.1	1.0	1.5	1.4	2.0	0.4	0.5	1.4	2.4	2.5	0.8
Government	6.2	1.1	0.8	1.6	0.6	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.2	0.4
Other	0.8	1.2	1.2	1.2	1.2	1.2	2.0	2.1	2.3	2.1	2.6	2.9	1.9	2.4
Primary income, outflows	8.4	9.5	8.6	8.2	7.2	5.5	4.6	3.9	4.0	5.5	5.9	7.5	8.4	7.5
Non-resident Kwajalein land owners	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	2.0	2.0	2.0	2.1	2.1
Dividends related to direct investment	0.9	0.1	0.1	0.1	0.2	0.3	0.1	0.2	0.2	1.0	1.4	2.1	2.7	2.0
Interest on loans	1.5	1.6	1.6	2.0	2.0	2.1	2.1	2.2	2.3	2.5	2.5	3.3	3.6	3.3
Interest on bonds	4.6	6.3	5.5	4.6	3.6	1.7	0.9	~	~	~	~	~	~	~
Compensation of employees	~	~	~	~	~	~	~	~	~	~	~	~	0.1	0.1
Secondary income balance	*24.7*	*19.3*	*23.2*	*28.3*	*24.4*	*32.5*	*40.6*	*38.7*	*41.1*	*45.6*	*51.8*	*55.2*	*59.5*	*62.7*
Secondary income, inflows	27.7	22.2	26.2	31.2	27.3	35.6	43.8	41.9	44.4	49.1	55.3	58.8	63.2	66.3
Budget grants	19.8	14.1	18.0	22.9	18.8	26.7	34.8	32.9	35.4	39.5	45.4	49.0	53.0	56.7
Compact current grants	14.2	7.0	7.6	7.4	8.0	8.1	8.1	13.4	13.5	17.4	22.9	26.0	30.8	39.7
Other budget grants	5.6	7.1	10.4	15.5	10.8	18.6	26.7	19.5	21.9	22.1	22.5	23.0	22.2	16.9
College of Marshall Islands grants	4.8	4.8	4.8	4.8	4.8	4.9	4.8	4.9	4.7	5.2	5.4	4.8	5.2	4.8
Income tax from Kwajalein US workers	1.7	1.7	1.7	1.7	1.9	2.2	2.3	2.2	2.3	2.3	2.4	2.6	2.5	2.3
Household remittances	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.2	2.3
Non-life insurance, claims	~	~	~	~	~	~	~	~	~	~	~	~	3.4	~
Secondary income, outflows	3.0	2.9	3.0	2.9	2.9	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.7	3.6
Household remittances	2.7	2.7	2.8	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.3	3.4	3.4
Non-life insurance, net premiums	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Capital account balance	***23.3***	***28.0***	***23.0***	***23.9***	***23.0***	***23.0***	***23.4***	***19.3***	***19.2***	***10.2***	***14.1***	***18.5***	***26.3***	***21.0***
Capital inflows	23.3	28.0	23.0	23.9	23.0	23.0	23.4	19.3	19.2	10.2	14.1	18.5	26.3	21.0
Trust Fund grants	~	~	~	~	~	~	~	~	~	7.0	9.3	9.0	9.7	9.7
Compact capital grants	22.2	27.6	22.8	23.5	23.0	23.0	23.4	19.3	19.2	3.2	4.7	9.5	16.6	11.3
Other	1.1	0.4	0.2	0.4	0.0	~	~	~	~	~	~	~	~	~
Capital outflows	~	~	~	~	~	~	~	~	~	~	~	~	~	~
Net lending/Borrowing (Current + Capital)	***-5.4***	***-13.4***	***-5.2***	***0.9***	***-1.7***	***-0.9***	***4.3***	***17.4***	***8.3***	***6.4***	***5.6***	***8.2***	***19.2***	***8.8***
Financial account balance	***27.6***	***-13.8***	***-4.0***	***-0.7***	***-20.7***	***-9.9***	***-17.4***	***-16.2***	***-25.0***	***-15.1***	***-23.0***	***-11.1***	***-14.6***	***-5.8***
Direct investment	0.2	0.3	0.3	0.3	3.3	0.3	0.3	0.4	-1.6	0.6	2.7	1.9	8.4	5.1
Disinvestment	0.0	0.0	0.1	0.1	3.1	0.1	0.1	0.1	-1.9	0.1	2.1	1.1	7.4	4.3
Reinvested earnings	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.5	0.6	0.8	0.9	0.8
Portfolio investment (increase in assets is a minus)	15.3	-14.0	-2.3	-18.1	-30.2	-15.8	-27.7	-17.3	-16.1	-13.3	-20.6	-16.9	-18.6	-10.3
Assets	~	~	~	~	~	~	-5.2	-17.3	-16.8	-13.9	-20.3	-16.8	-17.1	-9.7
Contributions to the Trust Fund	~	~	~	~	~	~	~	~	~	-32.0	-11.8	-11.5	-9.7	-9.7
Investment Portfolio, Government	~	~	~	~	~	~	~	-17.5	-8.9	25.0	~	~	~	~
Social Security portfolio	0.0	0.0	0.0	0.0	0.0	0.0	-5.2	0.2	-7.9	-6.9	-8.4	-5.3	-7.4	0.0
Liabilities	15.3	-14.0	-2.3	-18.1	-30.2	-15.8	-22.5	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6
Capital and reinvested earnings, commercial banks	-1.6	0.4	0.8	0.5	-1.1	1.0	0.1	-0.0	0.8	0.6	-0.3	-0.1	-1.5	-0.6
Medium term notes	16.9	-14.3	-3.1	-18.6	-29.1	-16.8	-22.6	~	~	~	~	~	~	~
Other investment (increase in assets is a minus)	12.1	-0.1	-1.9	17.1	6.2	5.6	9.9	0.7	-7.3	-2.3	-5.1	3.9	-4.4	-0.5
Assets	0.7	-2.4	1.3	0.7	-5.3	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6
Deposits of commercial banks	0.7	-2.4	1.3	0.7	-5.3	-9.6	1.9	-7.2	-10.0	-2.7	-2.6	-4.0	-3.2	3.6
Liabilities	11.4	2.3	-3.2	16.5	11.5	15.1	8.0	7.9	2.7	0.3	-2.5	7.9	-1.2	-4.1
Loans, government	11.4	2.5	-3.2	16.9	7.0	15.9	8.8	8.8	3.6	1.3	-1.8	9.1	-0.0	-3.0
Loans, Development Bank	~	~	~	~	5.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.4	-0.4	-0.3
Loans, National Telecom Authority	-0.1	-0.2	-0.1	-0.4	-0.5	-0.5	-0.6	-0.6	-0.6	-0.7	-0.6	-0.8	-0.8	-0.8
Errors and omissions	***22.2***	***-27.2***	***-9.2***	***0.2***	***-22.4***	***-10.8***	***-13.1***	***1.2***	***-16.7***	***-8.7***	***-17.4***	***-2.9***	***4.6***	***3.1***
Memo: "Exports" by offshore fishing vessels 1/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28.3	35.2	33.7	44.1	56.0	47.1	81.2	61.2

1/ Fish caught and sold to non-residents by vessels incorporated in the RMI are considered exports under international statistical guidelines.
However, the fishing vessels operate effectively as offshore units; thus, the sales are not included in the RMI's 'official' exports.

Table 8b External debt, original value, and outstanding principle by loan

Loan	Lender	Number	Year	Original debt, $'000	Estimated outstanding principal September 2008, $'000
Ebeye Fisheries Loan	ADB	1102-MAR (SF)	1992	3,522	3,029
Emergency Rehabilitation Loan (Typhoon Gay)	ADB	1218 MAR (SF)	1993	508	453
Basic Education Project Loan	ADB	1249 MAR (SF)	1993	8,383	7,099
Majuro Water Supply Project Loan No. 1	ADB	1250 MAR (SF)	1993	765	650
Majuro Water Supply Project Loan No. 2	ADB	1389-RMI (SF)	1995	8,400	7,888
Health and Population Project Loan	ADB	1316-RMI (SF)	1995	5,861	4,805
Public Sector Reform Program	ADB	1513-RMI (SF)	1997	12,000	10,952
Ebeye Health and Infrastructure	ADB	1694-RMI (SF)	1999	9,250	8,767
Skills Training and Vocational Education Project Loan	ADB	1791-RMI (SF)	2001	7,600	4,923
Fiscal and Financial Management Program Loan	ADB	1829-RMI (SF)	2001	8,000	8,389
Fiscal and Financial Management Program loan	ADB	1828-RMI	2001	4,000	3,142
Outer-Islands Transport and Infrastructure Loan	ADB	1948-RMI (SF)	2003	7,900	508
Marshalls Energy Company - New Powerplant Loan	RUS		1997	12,500	7,624
Marshalls Energy Company - Consolidation Loan	BoG		2007	12,000	10,718
NTA Loan	RUS		1989	18,800	13,249
NTA Loan Supplement	RUS		1993	3,900	0
MIDB ICBC Loan	ICBC		2004	4,000	2,400
PRC Loan for Garment Factory	PRC		1991	1,900	0
Tobolar Bank Credit Line	BMI		2003	1,000	650
Tobolar MIPA Notes Payable	MIPA		1998	100	61
Tobolar MIAA Note Payable	MIAA		na	95	95
Total				127,390	94,595

Table 8c External debt and debt service, RMI and national government, FY1992-FY2008

(US$ millions)	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
External Debt Total														
New	34.39	3.21	11.32	15.25	5.85	10.09	10.42	9.25	4.98	6.05	1.04	9.83	12.00	-
Outstanding	151.89	140.96	126.19	126.74	118.58	100.49	94.52	78.94	86.18	94.11	92.79	101.91	111.73	98.52
Debt Service	20.14	23.13	23.34	23.54	34.38	22.05	27.77	3.54	3.24	3.77	4.53	6.85	16.20	7.76
Principal	14.04	15.20	16.28	16.94	28.80	18.32	24.97	1.58	1.17	1.43	2.03	3.52	12.60	4.47
Interest	6.11	7.92	7.06	6.60	5.58	3.73	2.80	1.96	2.07	2.34	2.50	3.33	3.61	3.28
Principal balance	137.80	125.80	119.44	117.30	94.72	93.32	78.94	87.10	90.02	94.69	92.08	99.73	98.52	94.28
External debt (adjusted) as % of GDP	114.5%	113.4%	112.1%	107.6%	87.4%	83.4%	68.8%	70.7%	70.9%	71.1%	66.4%	69.0%	65.2%	62.0%
Debt service as % of general fund revenues[1]	62.8%	80.5%	90.8%	103.6%	138.0%	80.0%	96.2%	10.1%	8.8%	12.0%	14.2%	21.4%	47.2%	22.6%
Memorandum items:														
Debt to ADB (all concessional)	4.49	6.60	17.27	25.22	28.52	37.54	46.76	56.01	60.91	62.63	63.13	63.04	61.70	60.60
ADB Debt Servicing	0.02	0.07	0.07	0.17	0.25	0.29	0.40	0.48	0.63	1.16	1.41	1.55	1.55	2.17
Interest	0.02	0.07	0.07	0.17	0.25	0.29	0.39	0.45	0.52	0.85	0.87	0.84	0.83	0.84
Principal	-	-	-	-	-	-	0.01	0.03	0.10	0.31	0.54	0.71	0.72	1.33
General Fund Revenues	32.06	28.74	25.72	22.73	24.92	27.54	28.86	34.96	36.75	31.49	31.90	32.06	34.32	34.25
ADB Share of General Fund	0.1%	0.2%	0.3%	0.8%	1.0%	1.0%	1.4%	1.4%	1.7%	3.7%	4.4%	4.8%	4.5%	6.3%
GDP	120.36	110.98	106.58	108.97	108.35	111.91	114.70	123.27	127.00	133.25	138.64	144.60	150.99	152.00
Export of Goods and Services	15.02	15.42	16.41	15.64	13.50	19.83	16.91	20.50	22.86	24.97	33.29	21.34	24.91	28.15

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

1) General Fund revenue = uncommitted government revenue available for debt service

Table 8d External debt and debt service projections, FY2009-FY2038

	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
FY09	94.3	7.6	4.6	3.0	59.4	2.39	35.46	6.7%
FY10	89.9	7.9	5.2	2.8	57.6	2.94	36.71	8.0%
FY11	85.1	7.5	4.9	2.5	55.3	2.92	38.01	7.7%
FY12	80.0	7.6	5.3	2.3	52.7	3.18	39.35	8.1%
FY13	74.4	7.5	5.5	2.0	50.1	3.17	40.73	7.8%
FY14	68.8	7.3	5.6	1.8	47.5	3.14	42.17	7.4%
FY15	63.1	6.8	5.3	1.5	44.9	3.14	43.65	7.2%
FY16	57.7	6.9	5.6	1.3	42.0	3.28	45.19	7.2%
FY17	51.9	6.5	5.4	1.1	39.0	3.47	46.79	7.4%
FY18	46.4	4.9	4.0	0.8	35.9	3.43	48.44	7.1%
FY19	42.3	4.5	3.8	0.8	32.9	3.39	50.14	6.8%
FY20	38.4	4.1	3.4	0.7	30.1	2.98	51.91	5.7%
FY21	34.9	4.1	3.5	0.6	27.4	2.94	53.74	5.5%
FY22	31.3	4.0	3.5	0.5	24.8	2.91	55.63	5.2%
FY23	27.7	4.0	3.6	0.4	22.1	2.88	57.60	5.0%
FY24	24.0	3.8	3.5	0.3	19.4	2.84	59.63	4.8%
FY25	20.5	3.8	3.5	0.3	16.8	2.81	61.73	4.6%
FY26	16.9	2.4	2.2	0.2	14.7	2.26	63.90	3.5%
FY27	14.7	2.2	2.1	0.2	12.6	2.23	66.16	3.4%
FY28	12.6	2.2	2.1	0.1	10.5	2.21	68.49	3.2%
FY29	10.5	2.0	1.9	0.1	8.5	2.05	70.90	2.9%
FY30	8.5	2.0	1.9	0.1	6.7	1.96	73.40	2.7%
FY31	6.7	1.6	1.5	0.1	5.2	1.56	75.99	2.0%
FY32	5.2	1.4	1.4	0.1	3.8	1.41	78.67	1.8%
FY33	3.8	1.4	1.4	0.0	2.5	1.39	81.44	1.7%
FY34	2.5	1.3	1.3	0.0	1.2	1.33	84.31	1.6%
FY35	1.4	0.8	0.8	0.0	0.6	0.80	87.28	0.9%
FY36	0.6	0.5	0.5	0.0	0.1	0.46	90.36	0.5%
FY37	0.1	0.1	0.1	0.0	0.0	0.11	0.00	0.0%
FY38	0.0	0.0	0.0	-	0.0	0.00	0.00	0.0%

Table 9a RMI Government Finances (GFS Format) FY1997-FY2008

US$ millions	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Total revenue and grants	69.1	71.8	65.5	74.1	81.7	79.7	83.3	76.1	85.6	94.8	108.2	107.1
Total domestic revenue	28.1	25.0	23.7	24.4	23.6	27.5	28.7	33.4	35.5	36.4	38.6	39.1
Taxes	18.9	19.0	16.9	17.0	18.4	20.1	23.1	22.5	24.3	25.1	27.1	26.2
Income	8.1	7.6	7.6	8.7	9.6	9.6	12.0	10.6	10.9	11.1	11.2	11.0
Gross revenue	2.7	2.7	2.5	3.2	3.8	3.5	3.4	4.0	3.9	4.8	5.9	5.8
Imports	7.8	8.3	6.2	4.5	4.5	6.3	7.0	6.7	8.8	8.6	9.4	8.7
Other	0.3	0.3	0.5	0.6	0.4	0.6	0.6	1.2	0.6	0.6	0.6	0.7
Nontax	9.2	6.0	6.8	7.3	5.3	7.4	5.6	11.0	11.2	11.2	11.5	12.9
Fishing rights	1.9	1.3	2.3	3.7	1.8	3.3	1.7	0.9	1.4	1.5	1.3	1.5
Social contributions (6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.3	6.2	6.4	6.3	6.9
Fees and charges (2)	1.9	0.6	0.6	0.9	1.0	1.6	0.8	1.4	1.4	1.3	1.2	1.5
Investment income	0.8	1.6	0.6	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.2	0.4
Other	4.6	2.4	3.3	2.3	2.0	2.1	2.8	2.1	2.2	1.8	2.4	2.7
Grants	41.0	46.8	41.8	49.7	58.1	52.2	54.6	42.6	50.1	58.5	69.6	68.0
Of which: current grants	18.0	22.9	18.8	26.7	34.8	32.9	35.4	39.5	45.4	49.0	53.0	56.7
Compact (3)	30.4	30.9	30.9	31.1	31.4	32.7	32.7	20.5	27.6	35.5	47.4	51.0
Other	10.6	15.9	10.9	18.6	26.7	19.5	21.9	22.1	22.5	23.0	22.2	16.9
Total expenditure	60.4	56.6	55.3	65.1	72.1	72.9	69.4	77.8	90.2	92.9	107.8	101.3
Current expenditure	52.9	51.8	48.4	52.9	52.8	55.8	55.7	66.7	77.5	78.3	82.1	82.9
Wages and salaries	18.8	18.0	17.0	17.4	18.7	21.5	25.6	30.1	32.8	34.1	33.5	34.2
Goods and services	17.8	21.6	18.8	20.1	17.9	22.3	21.9	26.8	31.2	32.9	31.7	34.9
Interest payments	6.8	5.4	4.3	2.0	1.5	0.6	0.9	0.8	0.9	0.9	0.9	1.3
Subsidies to public enterprises	2.3	2.6	1.4	2.0	2.6	3.5	3.3	2.6	2.5	2.7	4.3	4.5
Other subsidies and transfers	5.2	3.5	6.1	11.1	12.1	8.0	4.1	6.3	10.1	7.8	11.8	8.0
Capital expenditure (4)	7.5	4.8	6.9	12.1	19.4	17.1	13.8	11.1	12.7	14.5	25.7	18.5
Current balance	-6.9	-3.9	-5.9	-1.9	5.6	4.5	8.4	6.2	3.4	7.0	9.5	12.9
Overall balance	8.7	15.2	10.2	9.0	9.6	6.8	13.8	-1.8	-4.7	1.9	0.4	5.7
Financing	-8.7	-15.2	-10.2	-10.3	-9.6	-6.8	-13.8	1.8	4.7	-1.9	-0.4	-5.7
Net government debt repayment	-7.3	-11.0	-27.0	-5.6	-14.8	8.6	4.1	2.1	0.5	-0.6	-1.7	-1.1
Principal repayment	-17.9	-19.0	-42.3	-16.7	-24.0	-1.1	-0.2	-0.2	-0.5	-0.7	-1.8	-1.1
Gross borrowing	10.7	7.9	15.3	11.1	9.2	9.6	4.3	2.3	1.0	0.1	0.1	0.0
Change in government financial assets	-1.4	-4.1	16.8	-3.4	5.2	-15.3	-18.0	-0.3	4.1	-1.3	1.4	-4.6
Of which: Intergenerational Trust Fund						-17.5	-16.0	0.0	-0.3	-0.6	5.9	
(In percent of GDP)												
Revenue and grants	64.8	65.9	60.4	66.2	71.3	64.6	65.6	57.1	61.7	65.6	71.7	70.4
Revenue	26.4	23.0	21.9	21.8	20.6	22.3	22.6	25.1	25.6	25.1	25.5	25.7
Taxes	17.8	17.4	15.6	15.2	16.0	16.3	18.2	16.9	17.5	17.4	17.9	17.2
Grants	38.5	42.9	38.6	44.4	50.7	42.3	43.0	32.0	36.1	40.4	46.1	44.7
Expenditure	56.7	52.0	51.0	58.1	62.9	59.1	54.7	58.4	65.1	64.2	71.4	66.7
Current	49.7	47.6	44.6	47.3	46.0	45.3	43.8	50.1	55.9	54.2	54.4	54.5
Capital	7.0	4.4	6.4	10.8	16.9	13.9	10.8	8.4	9.2	10.1	17.0	12.2
Current balance	-6.4	-3.6	-5.4	-1.7	4.9	3.7	6.6	4.7	2.4	4.8	6.3	8.5
Overall balance	8.2	13.9	9.4	8.1	8.4	5.5	10.9	-1.3	-3.4	1.3	0.2	3.8
(In percent of GDP)												
Memorandum items:												
Trust Fund Balances						15.9	32.9	40.4	41.4	47.6	46.7	36.9
Intergenerational						15.9	32.9	40.4	7.5	5.8	0.0	0.0
Compact									33.9	41.9	46.7	36.9
Closing Fund Balances	42.5	47.0	29.6	34.1	28.9	16.3	5.0	8.3	3.0	3.2	8.0	12.6
Of which												
Usable government financial assets (5	9.3	12.4	4.8	2.8	1.5	2.7	0.8	5.3	1.6	0.3	1.7	-2.9
Outstanding government debt	108.1	97.0	70.1	97.9	49.6	58.2	62.4	64.5	66.1	66.9	68.8	69.8
Nominal GDP	106.6	109.0	108.3	111.9	114.7	123.3	127.0	133.3	138.6	144.6	151.0	152.0

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's health fund.
3/ Does not include Compact funds earmarked for Kwajalein rental payments and trust fund contributions.
4/ Excludes $10.4 million in FY02 and $1.37 million in FY05 for loan write-offs.
5/ Cash and cash equivalents that are not reserved for specific uses.
6/ In FY02 employer and employee contributions (7% of payroll) for health insurance were transferred from the Marshall Island Social Security Administration to Government. Only in FY04 did the audit capture these changes

Table 9b Transfers (including subsidies and capital transfers) to Public Enterprises, FY1997-FY2008

US$000	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Air Marshall Islands	785	500	1,874	2,000	-	1,500	913	716	400	397	2,100	2,740
Kwajalein Atoll Joint Utilities Resources	488	356	325	2,030	750	573	199	650	904	716	563	563
Majuro Water and Sewer Company	100	-	-	100	100	1,465	49	75	75	75	349	1,258
Marshalls Energy Co. Inc.	601	-	-	-	-	1,867	1,867	205	400	1,470	874	356
Marshall Islands Airports Authority	-	-	-	50	89	-	-	-	-	-	-	-
Marshall Islands Development Bank	-	-	-	50	970	995	165	207	194	347	249	-
Marshall Islands Ports Authority	395	115	-	-	-	-	-	-	99	-	-	-
National Telecommunications Authority	-	-	-	-	-	-	-	-	-	-	-	-
Outrigger - Marshall Islands Resort	420	1,120	462	100	186	-	-	545	-	-	-	-
Marshall Islands Shipping Corporation	-	-	-	-	-	-	-	-	-	-	920	1,056
Tobolar	450	579	581	845	3,050	1,449	1,096	900	895	900	1,200	1,092
Total	3,239	2,670	3,242	5,174	5,145	7,848	4,289	3,299	2,967	3,905	6,254	7,065

Source: Compiled from Government of RMI and selected Public Enterprise Audits

Table 9c Transfers treated as current subsidies in GDP estimates, FY1997-FY2008

US$000	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Air Marshall Islands	785	500	-	-	-	418	913	716	400	397	308	935
Kwajalein Atoll Joint Utilities Resources	488	325	325	898	550	498	199	327	904	712	563	563
Majuro Water and Sewer Company	-	-	-	100	100	751	155	155	235	226	395	489
Marshalls Energy Co. Inc.	115	-	-	-	-	934	934	-	-	420	874	356
Marshall Islands Airports Authority	-	-	-	50	-	-	-	-	-	-	-	-
Marshall Islands Development Bank	-	-	-	-	-	-	-	-	-	-	-	-
Marshall Islands Ports Authority	50	115	-	-	-	-	-	-	99	-	-	-
National Telecommunications Authority	-	-	-	-	-	-	-	-	-	-	-	-
Outrigger - Marshall Islands Resort	420	1,120	462	100	110	-	-	545	-	-	-	-
Marshall Islands Shipping Corporation	-	-	-	-	-	-	-	-	-	-	920	1,056
Tobolar	450	579	581	845	1,849	949	1,096	900	845	900	1,200	1,092
Total	2,308	2,639	1,368	1,993	2,609	3,549	3,297	2,643	2,483	2,655	4,260	4,491

Source: EPPSO GDP estimates

Table 9d RMI: Compact grants awarded, FY2004-FY2009

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2004-2009
Education	9,648,932	9,541,921	10,834,083	11,408,682	11,336,978	12,457,410	65,228,006
Health	5,894,448	4,855,960	5,597,181	5,815,108	6,512,349	7,404,620	36,079,666
Public Sector Capacity Buildin	~	103,514	103,514	~	300,000	425,000	932,028
Private Sector Development	356,620	361,943	361,943	~	~	~	1,080,506
Environment	200,000	202,360	202,480	~	~	~	604,840
Ebeye Special Needs	3,100,000	3,100,000	3,185,560	3,263,969	3,345,830	3,536,134	19,531,493
Education	*1,100,000*	*1,600,000*	*1,100,000*	*1,731,985*	*1,775,424*	*1,792,845*	*9,100,254*
Health	*1,000,000*	*1,500,000*	*1,085,560*	*1,531,984*	*1,570,406*	*1,743,289*	*8,431,239*
Infrastructure	*1,000,000*	~	*1,000,000*	~	~	~	*2,000,000*
Kwajalein Environment	200,000	202,360	205,520	210,579	215,860	236,735	1,271,054
Kwajalein Development Fund	~	~	5,774,860	~	4,051,167	~	9,826,027
Infrastructure	13,700,000	14,618,982	12,495,679	12,573,086	11,855,213	16,999,495	82,242,455
Supplemental Education Grar	~	6,100,000	5,941,769	5,990,490	5,895,668	5,895,668	29,823,595
Total	**33,100,000**	**39,087,040**	**44,702,589**	**39,261,914**	**43,513,065**	**46,955,062**	**246,619,670**