



Fourth Annual Report of the Economic Advisory Group for Palau

Table of Contents

EAG Transmittal Letter to the Government of the United States	4
EAG Transmittal Letter to the Government of the Republic of Palau	6
Fourth Annual Report of the Economic Advisory Group for Palau	8
Background	8
2025/2026 Highlights	9
Timeline and Activities	9
In-Country Dialogue, Findings and Recommendations	10
Appendix 1:	
4th Annual Palau EAG Performance Monitoring Dashboard	19
Background	19
The Palau EAG Performance Monitoring Dashboard	20
4 th Annual Assessment of Palau's Performance—Based on Audit Figures and estimates for post-FY2023	20
Government Employment	21
Fiscal Performance	23
Financial/Banking Performance	24
Economic Performance	25
Palau EAG Monitoring Dashboard Data	27
Appendix 2	
EAG 4th Annual Mission to Palau Final Schedule	28
Appendix 3	
Summary of Mission Meetings	31
1. President of the Republic of Palau (Monday Session)	31
2. President of the Republic of Palau (Wednesday Session)	32
3. OEK - Introductory Session	32
4. Ministry of Finance	33
5. Office of the Public Auditor (OPA)	34
6. Donor Partners	35
7. Palau National Communications Corporation (PNCC)	36
8. Palau Public Utilities Corporation (PPUC)	36
9. Ministry of Agriculture, Fisheries, and Environment	37
10. Tourism, Visitors Bureau, and Foreign Investment Board	38
11. Ministry of Education	39
12. Palau Community College (PCC)	40
13. Belau National Hospital	41
14. Republic of Palau Social Security Administration (ROPSSA)	42



May 1, 2026

Dr. James Galbraith

Chairman

Nominated by Palau
Selected by the United States

Dr. Denise Konan

Member

Delegated by the United States

Dr. Peter Watson

Member

Delegated by the United States

Hon. Kaleb Udui, Jr.

Member

Delegated by Palau

Dr. Naoyuki Yoshino

Member

Delegated by Palau

The Honorable Marco Rubio

Secretary

U.S. Department of State

2201 C Street NW

Washington, DC 20520

The Honorable Doug Burgum

Secretary

U.S. Department of the Interior

1849 C Street NW


Washington, D.C., 20240


Dear Secretaries Rubio and Burgum:

I am pleased to share with you the 4th Annual Report of the Economic Advisory Group for Palau. This Report describes our activities and the impressive performance of Palau's economy during the period from May 2025 - April 2026. Our membership in the "Advisory Group" has been consistent from formation in the early summer of 2022 and was renewed pursuant to the 2023 Compact Review Agreement (2023 CRA).

The mandate of the Advisory Group has been extended through the March 15, 2024, entry-into-force of the 2023 CRA with minor modifications. Each of us is now privileged to continue our work through March 15, 2027 (renewable), to work with the government of Palau to help identify and overcome the challenges and to benefit from the opportunities Palau presently faces, and to share our perspectives and recommendations with Palau, the United States, and with Palau's other partners in economic management and development.

In our fourth year we have worked within our mandate to help Palau take advantage of the recovery of its tourism-led economy alongside the favorable terms of the COFA for the 20-year period through FY2043. Looking forward, we will continue

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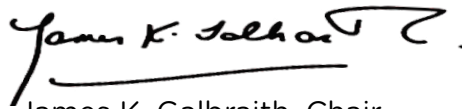
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to offer our best advice and recommendations and when necessary, warnings. We will focus on policies that support balanced development of the tourism sector and diversification to mitigate the external shocks Palau is likely to suffer.

As we have learned from deep interaction with the government and people of Palau, we have been able to expand and strengthen our recommendations. Going forward we will work to open new windows of opportunity for Palau's donors, including US government agencies and those of other partner countries, especially Japan, and especially to support private sector investments in Palau. Our goal, as always, will be to help foster sustainable development, to raise the living standards of Palau's people, and to work toward the most favorable integration of Palau's domestic and non-resident populations. As in this report, we will continue to share our recommendations with the governments of Palau and the United States.

It is a privilege and a pleasure to serve as part of the Economic Advisory Group for Palau, and in this I speak for each of my four colleagues.

Signed on Behalf of the Economic Advisory Group for Palau,



James K. Galbraith, Chair

Enclosure: **4th Annual Report of the Economic Advisory Group for Palau (May 2026)**

cc: **Hon. William Hague**
Principal Deputy Assistant Secretary, Office of International and Insular Affairs, Department of the Interior

Hon. Michael G. DeSombre
Assistant Secretary of State for East Asian and Pacific Affairs



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Member

Delegated by Palau

Dr. Naoyuki Yoshino

Member

Delegated by Palau

His Excellency Surangel Whipps, Jr.

President

Republic of Palau

Post Office Box 6051


Palau, PW 96940


Dear President Whipps:

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The mandate of the Advisory Group has been extended through the March 15, 2024, entry-into-force of the 2023 CRA with minor modifications. Each of us is now privileged to continue our work through March 15, 2027 (renewable), to work with the government of Palau to help identify and overcome the challenges and to benefit from the opportunities Palau presently faces, and to share our perspectives and recommendations with Palau, the United States, and with Palau's other partners in economic management and development.

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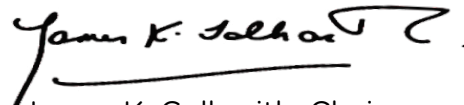
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As we have learned from deep interaction with the government and people of Palau, we have been able to expand and strengthen our recommendations. Going forward we will work to open new windows of opportunity for Palau's donors, including US government agencies and those of other partner countries, especially Japan, and especially to support private sector investments in Palau. Our goal, as always, will be to help foster sustainable development, to raise the living standards of Palau's people, and to work toward the most favorable integration of Palau's domestic and non-resident populations. As in this report, we will continue to share our recommendations with the governments of Palau and the United States.

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Signed on Behalf of the Economic Advisory Group for Palau,



James K. Galbraith, Chair

Enclosure: **4th Annual Report of the Economic Advisory Group for Palau (May 2026)**

cc: **Hon. Gibson Kanai**
Speaker of the House of Delegates
Olbiil Era Kelulau

Hon. Hokkons Baules
President of the Senate
Olbiil Era Kelulau



Fourth Annual Report of the Economic Advisory Group for Palau

Background

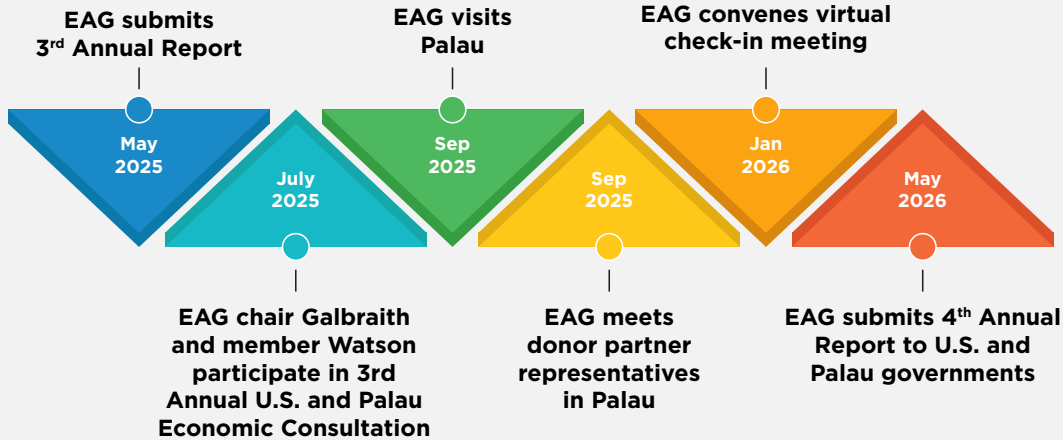
The Economic Advisory Group for Palau (EAG) was formed during the spring and summer of 2022, pursuant to the terms of the 2010 Compact Review Agreement between the Republic of Palau and the United States. With passage into law and March 15, 2024, entry-into-force of the 2023 Compact Review Agreement (2023 CRA), the EAG has been extended indefinitely and the members who initiated the effort have each been extended for three-year terms through March 15, 2027 (renewable). The EAG consists of five members, two appointed by each government and a fifth nominated by Palau and selected by the United States. All members serve as volunteers. The chair is chosen by the members themselves. Secretariat assistance is provided by the Graduate School, USA, in Honolulu under funding from the U.S. Department of the Interior with funding committed through September 30, 2026. Financial support for the operations of EAG comes from the partner governments.

The five members are:

- Hon. Kaleb Udoi, former Minister of Finance (Palau)
- Professor Naoyuki Yoshino (Palau)
- Dr. Peter Watson (US)
- Professor Denise Konan (US)
- Professor James Galbraith, Chairman (Palau/US)

The Republic of Palau is now well on its way to adjusting to the improved financial conditions under the 2023 CRA. The agreement reflects mutual commitment with the United States to promote sustained economic growth and prosperity for Palauans. Under our mandate, the EAG supports that commitment by monitoring economic and social conditions in Palau, calling attention to problems as they arise, and facilitating communication and coordination between Palau and its partners, notably but not exclusively the United States. In addition to our report narrative, Appendix 1 provides a performance monitoring dashboard based on data through FY2025.

Timeline and Activities



The EAG acknowledges the continued support of all parties, which includes the Office of the President of Palau, and President Whipps, and the U.S. Department of State, including the U.S. Embassy in Palau, and the U.S. Department of the Interior

The EAG conducted its fourth annual mission to Palau September 15-19, 2025. The mission was complicated by travel delays (inbound) and by a case of COVID-19. Nevertheless, the members covered a wide range of new and ongoing topics. The final program for the visit is provided in Appendix 2.

Full details of our meetings were captured by the Secretariat. Summaries of those meetings are reflected in part in this report, and in Appendix 3. The sections below highlight the matters the EAG judges to be key elements of interest and, importantly, the EAG’s fourteen most recent recommendations.

2025/2026 Highlights

During its visit the EAG confirmed that economic and fiscal conditions in Palau have continued to improve dramatically since 2022. Tourist arrivals exceeded 65,000 in fiscal year 2025, supported by new travel connections to Taipei and Brisbane. Direct service to Tokyo, twice-weekly, began shortly after the mission. Hotel renovations are underway and new facilities are scheduled.



As of April 2026, visitor arrival numbers are tracking ahead of the fiscal year 2026 projection of 85,000 visitors. The EAG is also encouraged to note the modestly growing length of stay and spending per visitor.

Economic growth has continued at a strong pace. Real GDP is estimated to have grown 7.3 percent in FY2025 and is projected to grow at 8.2 percent in FY2026; thereby exceeding the pre-pandemic level of GDP in FY2019.

Following a second full year of successful implementation of the Palau Goods and Services Tax (PGST), the government's budget position has shifted from COVID-induced deficits to strong annual surpluses. The government is therefore in a strong fiscal position, especially with enhanced support from the COFA assured through fiscal year 2043.

Major infrastructure projects are now in the discussion and planning stages, and there is welcome thinking about how best to integrate tourism with the existing urban setting. Improvements are also being made to schools, the existing hospital and commercial port.

Overall, the EAG judges that the government has used its improved position prudently so far. However, many challenges and key policy decisions remain ahead.

In-Country Dialogue, Findings and Recommendations

Reform Window and Political Economy of Implementation

The initial meeting for the EAG mission was with the President of Palau, H.E. Surangel Whipps, covering a wide range of performance and policy topics. The President emphasized that Palau is in a critical reform window following Compact renewal and renewed donor alignment. He characterized the next three years as decisive for advancing fiscal, structural, and institutional reforms before political constraints intensify ahead of the next election cycle.

Tax Reform, Wages, and Cost-of-Living Pressures

The discussion highlighted ongoing challenges in advancing tax reform, wage adjustments, utility cost recovery, and pension reform. The President underscored the importance of raising incomes rather than masking costs through subsidies, arguing that wage growth is necessary to address cost-of-living pressures sustainably. He noted that inflation has remained modest since tax reform, contrary to public perceptions.

Donor coordination featured prominently, with the President describing efforts to reduce duplication and improve alignment across partners. He stressed the importance of “additionality” and cited strong engagement from the United States, Japan, Australia, and Taiwan following recent bilateral discussions.

Executive-Legislative Alignment and Fiscal Policy Continuity

One notable topic was the clear lack of full cooperation between Palau's executive and legislative leadership. This had resulted in key positions in the government, notably in the ministries of Finance and Education—not having been filled at the time of our visit (nor through April 2026). There were sharp differences evident over tax and fiscal policy. In the end, EAG recommends maintaining the unity that exists with respect to fiscal policy and finding ways to use the increased fiscal space to address social concerns upon which both branches agree.

We are satisfied in this matter that the executive's position has since mostly prevailed. Palau maintains a strong, simple tax base, offsetting the regressive burden with: (a) substantial refunds on the wages and salary tax paid by low and middle-income earners, and (b) higher minimum wage and with additional pay increases targeted to Palauan citizens who are heavily represented in the civil service. This resolution will help to retain civil servants and slow the pace of emigration; its merits are strengthened by the fact that visitors pay a large share of the PGST (a broad-based consumption tax). Again, EAG recommends

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maintaining the simple and well-operating tax law as it avoids repeating the complexity and inefficiency of the former tax regime.

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Economic Diversification and Infrastructure Planning

In a second meeting with the President, the discussion was more granular and included a focus upon diversification of the economy beyond tourism, large infrastructure project planning, and the political economy of reform implementation. The President outlined progress on feasibility and planning for a newly sited hospital, refurbishment and expansion of the existing port, and airport improvement projects, noting strong interest from international partners but emphasizing the need for realistic sequencing and capacity management. Tourism recovery was discussed in the context of welcome flight expansion and the need to improve visitor experience through land-based activities and integrated developments. The discussion also covered exploratory ideas for agriculture, fisheries, financial services, and niche industries, while acknowledging that many concepts remain at an early stage and require careful analysis.



EAG Members presenting to members of the Olbiil era Kelulau (OEK), Palau's national congress.



Legislative Dialogue and Shared Reform Priorities

In meeting with members of the Olbiil era Kelulau (OEK—Palau’s national congress), EAG members outlined the group’s advisory and independent role, emphasizing that it does not make policy decisions but seeks to provide objective analysis and external perspective. Members highlighted Palau’s recent economic improvements, including Compact renewal and recovery from the pandemic, while noting persistent structural challenges. Discussion with legislators covered wages, cost-of-living, tax reform, and productivity. Differing views emerged on the relationship between wage increases and inflation, with concerns raised about affordability for businesses and households. Legislators expressed interest in donor coordination, national security considerations, and regional economic integration.

Pension and Social Security Sustainability

In most of the EAG meetings, political constraints remained a central theme, particularly stalled reform of the Civil Service Pension Plan (CSPP) and the Republic of Palau Social Security Administration (ROPSSA). Reform is required to avoid looming collapse. We are confident that the principals understand the fiscal risks associated with failure to take timely and sufficient actions. We further note that Palau has secured \$20 million in U.S. support (with another \$6 million forthcoming as of April 2026). The sensible conditions that apply to this grant funding will support CSPP reform. While noting that progress in these areas has been slow, EAG continues to urge that reforms be implemented to place CSPP and ROPSSA on sustainable footings for the long term.

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EAG urges intense focus at this moment on the complex task of getting a new hospital planned, financed and built.

Donor Coordination, Additionality, and Capacity Constraints

The EAG held a productive and illuminating meeting with on-island representatives of Palau’s bi-lateral and multi-lateral donors. Donor partners expressed strong geopolitical and strategic alignment in support of Palau following Compact renewal and multiple recent bilateral engagements. There was broad consensus that Palau is viewed as reform-minded, with the next several years representing a critical window to translate political commitment into sustained institutional progress.

Donors highlighted ongoing and planned support across energy, water, connectivity, health, education, and private-sector development. At the same time, many emphasized that government capacity—rather than financing—is increasingly the binding constraint. Private-sector growth and domestic savings mobilization were cited as central to Palau’s long-term economic independence, alongside continued investment in human capital. EAG recommends Palau strengthen its donor coordination efforts to avoid duplication and to ensure government-led prioritization and sequencing of projects.

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Health Infrastructure, Hospital Governance, and Public Health Risks

Among the many infrastructure projects vital to Palau’s future, the EAG urges intense focus at this moment on the complex task of getting a new hospital planned, financed and built. The existing facility – vital to public health in Palau – is aging, vulnerable, structurally compromised. A new facility, strategically placed near clinics and future retiree housing, will offer services that currently necessitate off-island travel. It could help reduce emigration, attract returning residents, and serve as a useful resource for visitors. The EAG urges concentrated planning and donor efforts to move this project forward and looks forward to the



EAG Charmain Dr. James Galbraith with Dr. Greg Dever, Chairman of the new National Hospital Authority

results of the preliminary project evaluation work of the U.S. Trade and Development Administration, which was underway in the spring of 2026.

The EAG also held a meeting with the Chairman of the new National Hospital Authority. The Hospital Authority will eventually manage a corporatized Belau National Hospital and separate its governance and finances from the Ministry of Health and Social Services. While governance reforms are advancing, financial separation remains complex due to shared services, federal funding dependencies, and unresolved cost-allocation issues.

The EAG was also made aware that in the foreseeable future Palau faces a public health crisis in non-communicable diseases, driven by diabetes, with severe implications for health care costs. This adds urgency to the need for public health planning, new and appropriate facilities, and provisions or incentives to train or import appropriate skilled personnel. EAG again recommends that steps be taken to permit reimbursements under U.S. Medicare for returned Palauans and U.S. visitors who have earned such benefits.

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In a separate but related matter, EAG recommends the US Department of Veterans Affairs reevaluate its decision not to enhance veterans' services in Palau. The population of U.S. military veterans in Palau is concentrated, and VA services could be offered at reasonable cost. Such services would immediately benefit the U.S. veterans currently living in Palau and could benefit a larger number of veterans who do not return to Palau in large part to maintain access to VA benefits.

EAG recommends the US Department of Veterans Affairs reevaluate its decision not to enhance veterans' services in Palau

Other Strategic Infrastructure Priorities

Other significant projects on which the EAG has commented in the past include telecommunications, the port, the airport, water and sewer, and a potential fishing and industrial port on the west coast of Babeldaob. We are pleased to note that Palau is making progress in most of these areas.

Tourism Recovery, Sustainability, and Koror Revitalization

In EAG meetings with tourism officials, those individuals reviewed Palau's gradual recovery following the pandemic and noted significant diversification toward North America, Europe, and Australia. Average visitor stays have lengthened, and marketing initiatives have strengthened Palau's regional profile. Still, recovery remains constrained by air connectivity uncertainty, workforce shortages, and gaps in transport and public infrastructure. Investment discussions emphasized aligning incentives with Palau's sustainability and high-value tourism strategy.

The EAG calls favorable attention to Palau's Sustainable Tourism Strategy, which has been working to coordinate expectations, planning and development around a model for the industry that balances goals for revenue per visitor with minimal environmental impact. The strategy seeks a sensible balance between self-isolating very high-end resorts and mass-market package tours. Toward this goal, EAG recommends and commends continuing work toward urban revitalization in Koror. Such efforts can create both the living center of Palauan society and the base for a large share of future visitors. We note the potential of a



project proposed by the Asian Development Bank to support planning along these lines, including further diversification of Palau's economy beyond its leading sector of tourism.

EAG recommends and commends continuing work toward urban revitalization in Koror.

Ministry of Finance, Tax Administration, and Digital Governance

The EAG members held extensive meetings with Ministry of Finance officials. The Ministry presented progress across tax administration, energy and water regulation, and digital residency. Efforts are underway to modernize tax systems, expand risk-based audits, and strengthen international cooperation, though capacity and IT limitations remain significant. The EAG continues to recommend caution in introducing Fintech products or services and urges attention to cybersecurity and reputational risks.

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Audit Timeliness and Public Financial Accountability

The EAG members also met with officials within the Office of the Public Auditor (OPA). OPA reported continued delays in audit timeliness due to staffing shortages and system transitions, though audit quality remains strong. Clean opinions have been maintained, and recent peer reviews confirmed compliance with professional standards. Recruitment and retention remain critical challenges, with OPA operating well below required staffing levels. The office has relied heavily on regional partnerships and donor-supported training to sustain capacity. The EAG recommends continued collaborative efforts to catch up on delayed audits and return Palau to its former admired status with respect to audit timeliness and quality.

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Utility Governance, Tariff Reform, and Community Service Obligations

In a meeting with officials of the Palau Public Utilities Corporation (PPUC), EAG members were made aware of progress in renewable energy integration, including solar expansion and planned battery storage investments supported by Australia. These investments are expected to reduce curtailment of solar power, improve grid stability, and lower long-term generation costs. Despite technical progress, PPUC

EAG Members with Dr. Patrick Tellei, President of the Palau Community College



officials emphasized that financial sustainability remains constrained by political resistance to tariff reform. Electricity revenues continue to subsidize water and wastewater services, creating cash-flow pressures, deferred maintenance, and audit risks.

The EAG calls attention to ongoing and broader concerns with the governance and financing of PPUC. While full-cost utility pricing is not a sacred principle, power, water and sanitation services are not free, and appropriate pricing helps to maintain capacity and regulate use. Legislative action to appropriate funds to provide for community service obligations (CSO) is much preferred to ill-considered and untargeted subsidies. EAG recommends all parties work toward sustainable compromises to ensure reliable, efficient and high-quality energy, water and sanitation services. The EAG further notes that robust PGST revenues can be used, in part, to support targeted efforts.

EAG recommends all parties work toward sustainable compromises to ensure reliable, efficient and high-quality energy, water and sanitation services.

Recommendations to the United States

We conclude this fourth annual report with three ongoing recommendations directed to the U.S. government to further enhance the ties that bind the United States and Palau and that protect the mutual interest of the two nations in achieving sustained growth and prosperity of Palauans. Given Palau's risks to natural disasters and in attempting to achieve complementarity with Palau's sister Freely Associated nations, EAG again recommends that Palau be made eligible for assistance by or through the U.S. Federal Emergency Management Agency.

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It would be beneficial for all to enhance linkages and support mechanisms between Palauans at home—in the process of developing their own proud nation—and Palauans working productively in the United States. In this matter, EAG recommends the U.S. create an opt-in provision under the U.S. tax code to permit Palauan citizens resident in the United States to direct half of their federal income tax to Palau.

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To enhance potential linkages with U.S. based philanthropic institutions and individuals, EAG recommends that the U.S. code allow 501(c)(3) status for charitable contributions to Palau.

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Closing Observation: Pacific Islands Forum and Reform Momentum

Finally, the EAG congratulates the Republic of Palau on hosting the forthcoming Pacific Island Forum, noting that the Government of Palau will be doing so from a position of solid achievement in the past four years.



EAG Member Dr. Naoyuki Yoshino with young professionals from the Palau Ministry of Finance

Appendix 1:

4th Annual Palau EAG Performance Monitoring Dashboard

Background

Pursuant to the 2023 Compact Review Agreement (2023 CRA) with entry-into-force on March 15, 2024, the Economic Advisory Group for Palau is described in Article 7, as follows:

(a) The Advisory Group on Economic Reform established by the 2010 Compact Review Agreement, as amended, shall continue to exist until otherwise agreed by the Signatory Governments but shall be renamed “The Economic Advisory Group for Palau” (the “Advisory Group”). Its purpose shall continue to be to contribute to the economic growth and sustainability of Palau by recommending economic, financial, and fiscal management measures.

(b) Upon entry into force of this Agreement, the members of the Advisory Group as of April 1, 2023, shall be redesignated for a three-year term, after which the Signatory Governments shall designate members in accordance with this paragraph and giving favorable consideration to current members. The Advisory Group shall be comprised of five (5) members, two (2) of whom shall be designated by the President of Palau, two (2) of whom shall be designated by the Secretary of the Interior of the United States or their designee, and the fifth of whom shall be chosen by the Secretary of the Interior of the United States or their designee from a list of not fewer than three (3) persons not residents of Palau submitted by the President of Palau. In the event that the Secretary of the Interior of the United States or their designee rejects the persons enumerated in the list submitted by the President of Palau, then the fifth member shall be chosen by the President of Palau from a list of not fewer than three (3) persons submitted by the Secretary of the Interior of the United States or their designee. In making these designations, due consideration shall be given to the mix of expertise that would be most beneficial to the work of the Advisory Group. The Advisory Group shall continue to be chaired by a member chosen by its members from among their number.

(c) The Advisory Group shall meet at least twice a year. Each Signatory Government shall provide the necessary support for its designated members on the Advisory Group. Support for the fifth member shall be borne equally by the Signatory Governments.

(d) The Advisory Group shall report and make recommendations to the Signatory Governments on these matters and otherwise as it deems advisable by May 1 of each year.

(e) Subject to the availability of appropriated funds, the Government of the United States shall provide for technical and administrative assistance for the Advisory Group and support necessary for it to accomplish its purpose.

Article 4 of the 2023 CRA further specified matters related to “Fiscal Management” in Palau and these provisions will be taken up, in part, by the Advisory Group. Specifically Article 4 includes:

In order to increase the long-term economic stability of Palau and to maximize the benefits of the economic assistance provided by the Government of the United States, the Government of Palau shall continue to undertake economic, legislative, financial, and management improvements, and shall give due consideration to recommendations from the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Pacific Financial Technical Assistance Centre (PFTAC), and the Government of the United States. The Government of Palau shall adhere to sound fiscal principles as outlined in its Fiscal Responsibility and Debt Management Act (FRDMA) of 2021...

In response to the Advisory Group’s 2023 CRA, Article 7 mandate that, “its purpose shall continue to be to contribute to the economic growth and sustainability of Palau by recommending economic, financial, and fiscal management measures, annual reports will continue to include an Appendix providing a dashboard approach to performance monitoring.”

This dashboard approach is proposed to be maintained as background tracking and to be expanded as economic, financial and fiscal management. ROP leadership and officials have been exceedingly helpful in enabling the gathering of key data over the specified time periods and it is expected that continued cooperation will be necessary to ensure successful monitoring and to inform the recommendation-making process that the EAG will undertake as it achieves increasing levels of understanding of the opportunities and challenges facing Palau.

The Palau EAG Performance Monitoring Dashboard

As an initial effort to report on economic, financial and fiscal management the EAG presented an initial Dashboard in four sections in its 1st Annual Report (April 2023):

1. Government Employment

- a. National government number of employees
- b. National government employees as % of total employees
- c. National government wage bill, nominal and real (\$ millions)
- d. National government wage bill as % of GDP

2. Fiscal Performance

- a. Tax revenues as % of GDP
- b. Expenditures as % of GDP
- c. Fiscal balance as % of GDP
- d. Unreserved general fund cash balance (\$ millions)
- e. External debt as % of GDP

3. Financial/Banking Performance

- a. Total depository bank deposits as % of GDP
- b. Total depository bank loans as % of deposits

4. Economic Performance

- a. Real GDP (2015 prices, \$ millions)
- b. Real GDP per capita (2015 prices)
- c. Economic transformation—traded goods as % of GDP

4th Annual Assessment of Palau's Performance—Based on Audit Figures and estimates for post-FY2023

Each of the fourteen (14) charts includes a brief commentary on the progress (or lack of progress) indicated for Palau over the noted period. 3-year averages over five (5) time periods are utilized to smooth some of the volatility suffered by Palau in almost all economic, financial and fiscal matters.

Data for each of the charts was available through FY25 and as of May 2026.

It should be noted that US officials persistently highlighted the size and cost of the national government during the period from FY2007-FY2009 (and perhaps before). Importantly, the same US officials expressed concern as to the ability of Palau to adjust to reduced resource transfers if the mandated Compact section 432 Review (in 2010) led to a result of zero new funding commitments were agreed after FY2009. In such an event the International Monetary Fund (IMF) presented its standard fiscal/financial assessment of Palau in quite dire terms, recommending a strong focus on fiscal adjustment (expenditure cuts and/or revenue enhancements).

The dire outcome of a failure to secure additional funding through the CRA negotiations did not occur; however, an 8-year delay in funding the CRA was virtually tantamount to a zero funding availability outcome for Palau’s access to operational budget support, and equated to an 8-year delay in capital funding support. So the IMF recommendations prove useful in assessing Palau’s performance during the period from FY2010-FY2018. The time periods chosen for the dashboard align well with the CRA-specified IMF and ADB recommendations. In future it will be the policy of the EAG to include contemporary assessments, such as the January 2025 IMF Article IV Publication, of Palau’s opportunities and challenges in our performance monitoring and in our making of recommendations and any timelines associated with our policy recommendations.

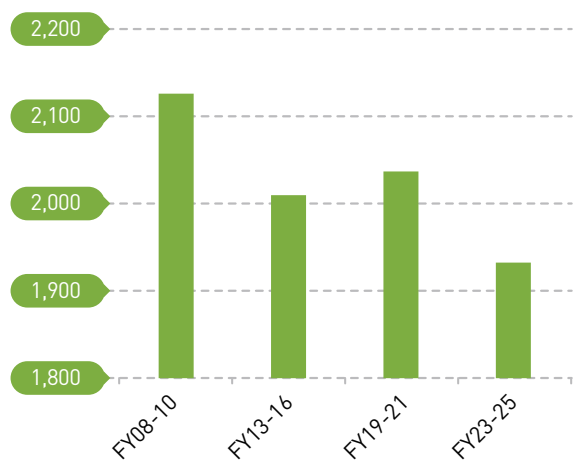
At a high level, we can see that the then prevailing IMF modeling exercise predicted a need to improve the fiscal position by some 0.9 percent annually for the period from FY2009 – FY2021 even with Compact renewal in place. [see the IMF paper referenced in the 2010 CRA, pp 7-10].

In fact, Palau, despite a delayed Compact renewal achieved an improvement in its overall fiscal balance from a deficit of 3.6% at the end of FY2009 to a surplus of 6.2% in FY2018. An adjustment averaging 1.1% annually. FY19 resulted in a small deficit (0.4% of GDP) as a result of active retribution by the government of PRC drastically reducing tourism arrivals. The key takeaway is that Palau did manage its fiscal situation responsibly and out-performed the stark modeling projections for austerity shared by the IMF in 2008. Notably, Palau achieved progress on revenue enhancements—achieving an increase of 5.6% of GDP from FY08-10 through FY23-25. A key lesson, of course, is that fiscal austerity is easier during periods of economic recovery and growth... a lesson worth applying as the Palau economy is projected to continue and even strengthen its recovery from its COVID-19-affected depths, as well as being bolstered by the favorable financial results of the 2023 CRA.

The 4th Annual Palau EAG Performance Dashboard follows.

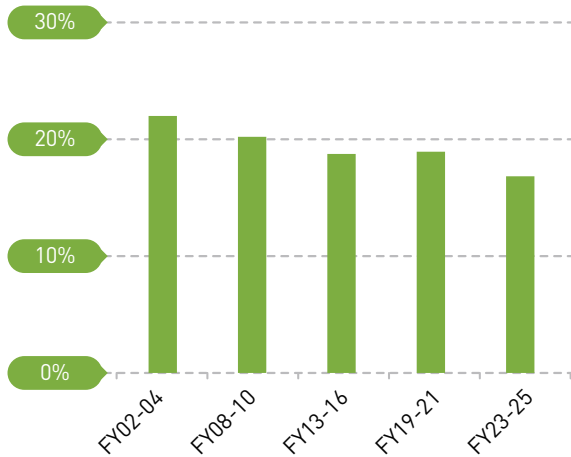
Government Employment

1.a. Nat’l Gov’t Employees



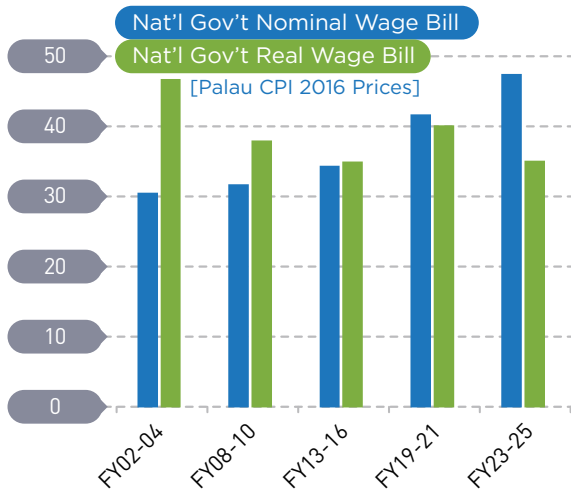
- Critics of Palau’s economy during the initial Compact period argued that the government workforce was excessively large and absorbed “too many” resources.
- In response, the government allowed its workforce to decline in size; however, there are now staffing shortages in key sectors such as health, education, and financial management.
- The 20% reduction in national government employees between FY02-04 and FY23-25 reflects a deliberate shift toward private sector-led growth.
- An anticipated moderate increase in government size was anticipated for the FY23-25 due to new funding from the 2023 Compact Review Agreement (CRA); however, the continued decline is evidence of the difficulties Palau faces in filling critical vacancies.

1.b. Nat'l Gov't Employees [as % of Total Employees]



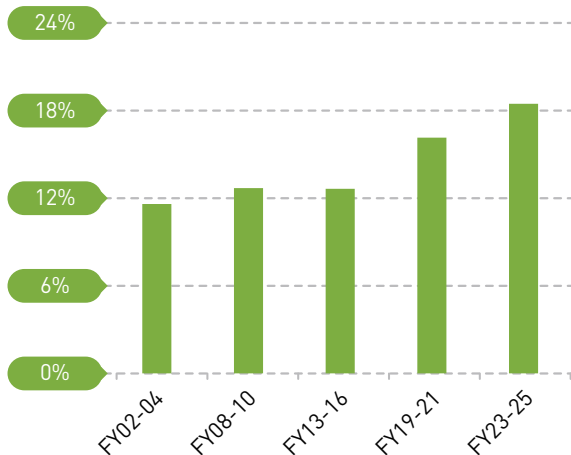
- The share of national government employees relative to total employment declined by 24%, from FY02-04 to FY23-25.
- This reduction aligns with a growing and strengthening private sector.
- The trend is expected to persist, potentially accelerating as the private sector continues its recovery from the COVID-19 pandemic's impact.

1.c. Nominal & Real National Government Wage Bill (\$millions)



- The national government's real wage bill declined by 25% between FY02-04 and FY23-25, reflecting sustained efforts toward fiscal responsibility and noting public sector wage levels relative to the private sector.
- In response to the overall real wage bill reduction, the government has implemented three public sector pay increases and two economy-wide minimum wage increases.
- These wage policies aim to improve competitiveness, particularly as the government seeks to retain and attract Palauan workers amid an aging workforce. By FY26 it is anticipated real wages will be within 4 percent of the level prevailing in FY20.
- The Economic Advisory Group (EAG) is monitoring wage policy closely, noting that current increases are justified by an approach measuring Palau's basic needs poverty line over time.

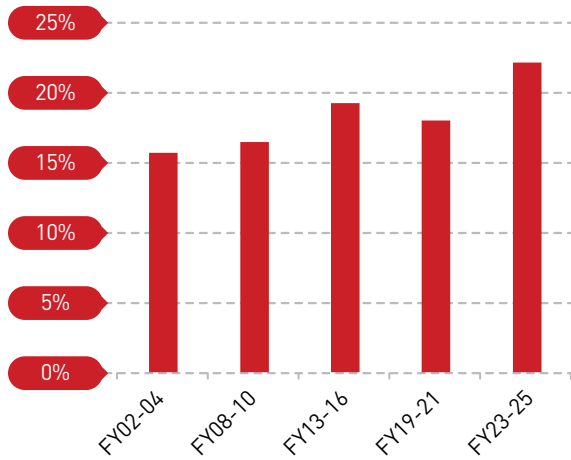
1.d. Nat'l Gov't Wage Bill as % GDP



- The national government wage bill rose as a share of GDP by 6.9 percentage points from FY02-02 to FY23-25, primarily due to recent wage increases amid a still-recovering, post-pandemic economy.
- A medium-term return to a lower wage-to-GDP ratio is anticipated, though risks remain if 2023 CRA funds are excessively dedicated to wage growth at the expense of insufficiently funding public infrastructure to remove constraints hindering growth.

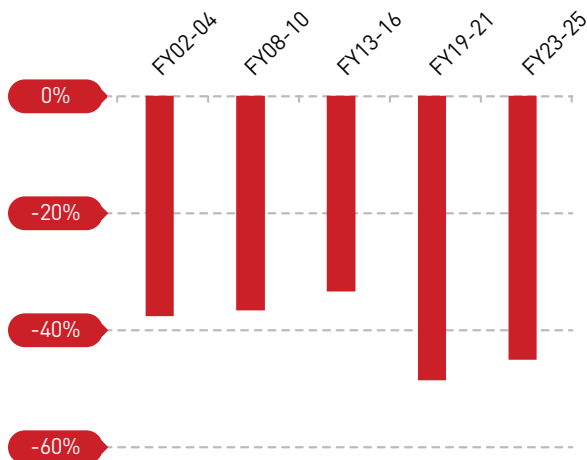
Fiscal Performance

2.a. Tax Revenues as % GDP



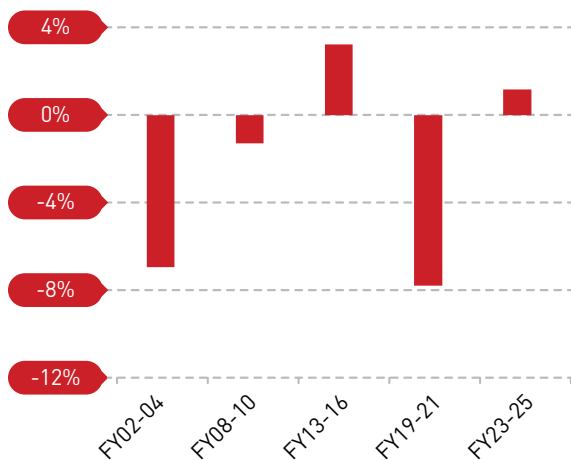
- Taxes as a share of GDP increased by 41%, from 15.7% in FY02-04 to 22.1% in FY23-25, driven by profound reforms to Palau’s outdated tax system.
- Palau’s new tax policy aligns with longstanding IMF recommendations and addresses inefficiencies and declining revenue returns under the previous tax regime.
- The Economic Advisory Group (EAG) has closely monitored the effects of the comprehensive tax reform enacted in FY2022 and effective since January 2023. Results indicate that tax revenues—particularly from the new Palau Goods and Services Tax (PGST)—have surpassed expectations, and the one-time price index increase did not translate into persistent inflation.

2.b. Expenditures as % GDP



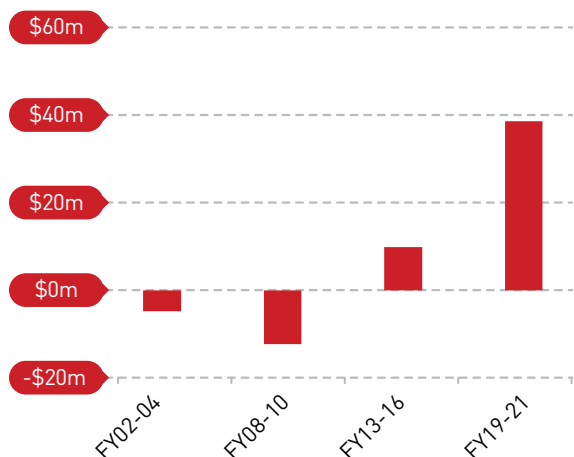
- Government expenditures as a share of GDP rose by 20%, from 37.7% in FY02-04 to 45.2% in FY23-25 but have declined from 48.7% of the previous COVID-19 pandemic impacted period.
- This increase marks a reversal of the prior declining trend and deviates from IMF modeling assumptions, which had projected stable expenditure ratios.
- Palau had previously avoided excessive borrowing by maintaining fiscal discipline, a position disrupted only by the pandemic.
- The EAG will closely monitor this metric going forward, emphasizing the importance of increasing capital investment relative to GDP and overall spending.

2.c. Fiscal Balance as % GDP



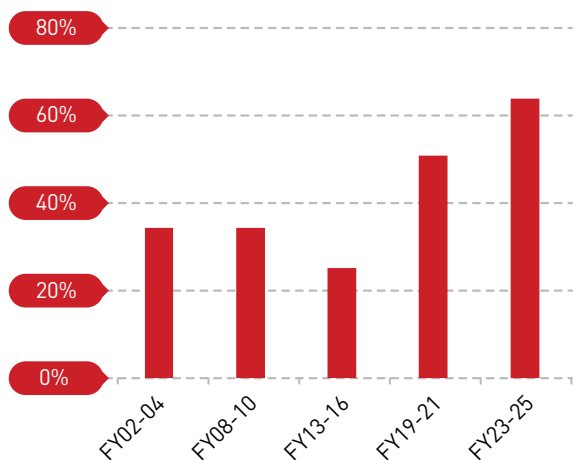
- Palau achieved a strong fiscal turnaround, shifting from a -6.9% deficit to a +3.2% surplus of GDP (FY02-04 to FY17-19), exceeding IMF targets.
- Fiscal discipline was tested through the pandemic with counter-cyclical expenditures called for by the temporary shock.
- EAG notes favorably the return to a fiscal surplus of 1.2% of GDP from FY23-25.
- Priorities include economic diversification, public infrastructure investments to support higher value-added tourism and restoration of Palau’s infrastructure stock.

2.d. Unreserved general fund cash balance (\$millions)



- Palau’s available fund balance improved by \$43.3 million, from -\$4.9M to +\$38.5M (FY02–04 to FY19–21).
- This reflects stronger core financial management and progress toward long-term reserve goals to mitigate against future economic shocks and natural disasters.
- Maintaining reserves is critical to economic stability and private sector growth.
- Reserve levels are expected to have increased substantially through FY25; however, the delay in public audits is an ongoing concern that the EAG is monitoring.

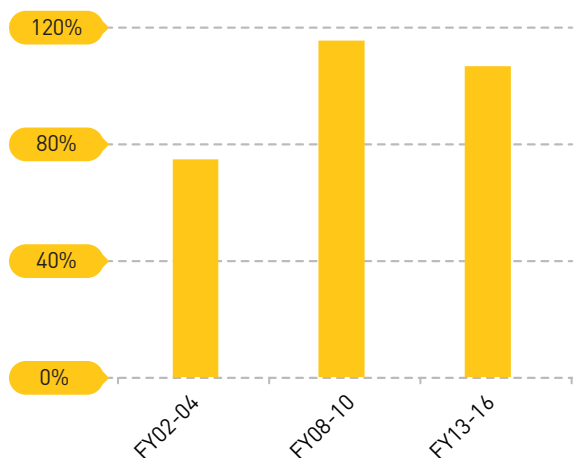
2e. External Debt as % GDP



- Palau’s external debt increased by 29.5 percentage points as a share of GDP from FY02–04 to FY23–25), largely due to pandemic-related borrowing.
- The cyclical shock of the pandemic led to a level of borrowing that has resulted in a small, manageable structural deficit.
- Debt relief under the 2023 CRA provides \$60 million over six years to ease the burden; however, the EAG recommendation that such support be used to reduce debt stock has not been fully implemented as Palau dedicated the US support to debt service more broadly.
- Projections show Palau’s external debt ratio declining to 40% of GDP by FY35—consistent with the IMF’s recommended sustainable level, but above Palau’s own target of 30% of GDP.

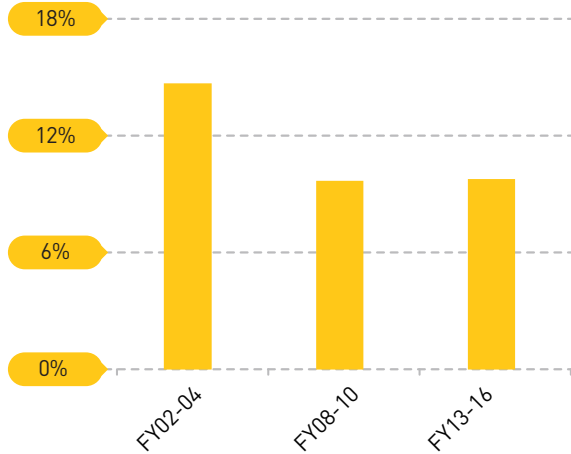
Financial/Banking Performance

3.b. Total depository bank deposits [as % GDP]



- Domestic banking deposits as a share of GDP rose markedly from 52% in FY08-10 to 106.7% in FY23-25, reflecting the relatively high and growing penetration of formal banking in the Palauan economy.
- EAG supports continued deposit growth alongside expanded commercial lending to mobilize domestic resources.
- Introduction of Palau savings bonds is underway to help fund infrastructure investment.
- EAG will monitor banking trends as Palau addresses major domestic investment needs.

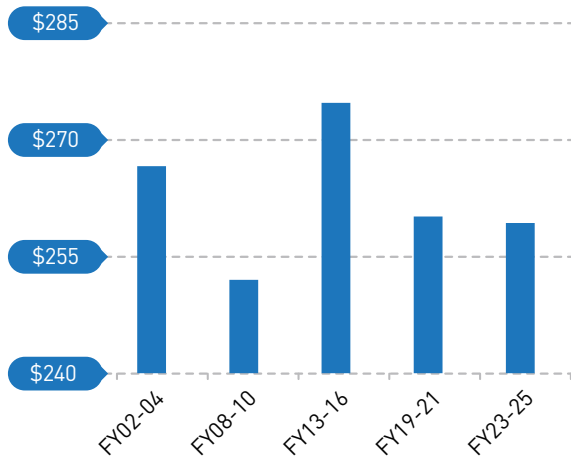
3.c. Total depository bank loans [as % Deposits]



- Bank loans as a share of deposits fell from 16.6% to 11.1% (FY13-16 to FY23-25), due to declining lending amid rising deposits.
- This trend indicates underutilization of available domestic financial resources.
- EAG emphasizes the need to increase lending to support domestic investment and economic diversification.
- If bank lending does not improve, alternative resource mobilization strategies will be considered, including soon-to-be-introduced Palau savings bonds focused upon public infrastructure investments.

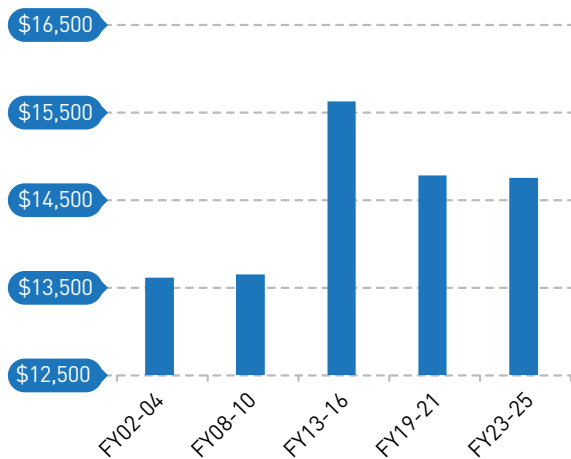
Economic Performance

4.a. Real GDP (2019 prices)



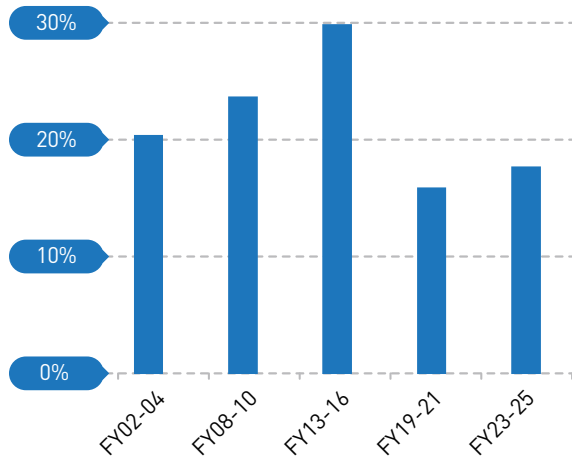
- Real GDP declined by 2.7% over two decades, from \$266.6M (FY02-04) to \$259.3M (FY23-25).
- One-third of the years in this period saw negative real growth, reflecting high vulnerability to external shocks and reliance upon a narrow, tourism and construction-led economic base.
- The COVID-19 pandemic caused a sharp 25% economic contraction after FY19.
- EAG emphasizes the need for a sustainable recovery through economic and fiscal management policies to diversify the economy and to mitigate the impact of external shocks.

4.b. Real GDP/capita



- Real GDP per capita rose only 8.3% over two decades, from \$13,606 to \$14,739 (FY02-04 to FY23-25).
- This reflects limited economic growth and minimal change in population size.
- The slow growth trend increases the challenges in retaining Palauan citizens, not to mention attracting Palauans to return home.
- EAG highlights the need for policies that support income growth and financial security as well as additional policies to address constraints to Palauan population stability (if not growth) over the long-term.

4.c. Economic Transformation [Traded Goods as % GDP]



- The share of traded goods in GDP declined from 20.5% to 17.8% (FY02-04 to FY23-25).
- This measure peaked at 30% from FY13-16 as Palau's tourism sector peaked.
- As the economy continues to recover, this measure should enable the Palauan economy to return to a process of "economic transformation" in which its capacity to produce tradeable goods improves.
- EAG will use this metric to assess progress in strengthening Palau's private sector and outward-oriented economic strategy.

Palau EAG Monitoring Dashboard Data

1 Government Employment						
		FY02-04	FY08-10	FY13-16	FY19-21	FY23-25
a	National Government Employees	2,412	2,125	2,010	2,037	1,932
b	"Nat'l Gov't Employees [as % of Total Employees]"	22.1%	20.3%	18.8%	19.0%	16.9%
c1	Nat'l Gov't Nominal Wage Bill1/	30.7	31.8	34.5	41.7	47.5
c2	"Nat'l Gov't Real Wage Bill1/ [Palau CPI 2016 Prices]"	46.8	38.1	35.0	40.3	35.2
d	Nat'l Gov't Wage Bill as % GDP	11.5%	12.6%	12.6%	16.0%	18.3%
2 Fiscal Performance						
a	Tax Revenues as % GDP	15.7%	16.5%	19.2%	18.0%	22.1%
b	Expenditures as % GDP	-37.7%	-36.7%	-33.5%	-48.7%	-45.2%
c	Fiscal Balance as % GDP	-6.9%	-1.3%	3.2%	-7.8%	1.2%
d	Unreserved general fund cash balance1/	\$(4.9)	\$(12.3)	\$9.7	\$38.5	n.a.
e	External Debt as % GDP	34.3%	34.4%	25.1%	50.7%	63.8%
3 Financial/Banking Performance						
a	"Total depository bank deposits [as % GDP]"	n.a.	52%	74.9%	115.5%	106.7%
b	"Total depository bank loans [as % Deposits]"	n.a.	n.a.	16.6%	11.0%	11.1%
4 Economic Performance						
a	Real GDP [2019=100]1/	\$266.6	\$252.0	\$274.7	\$260.1	\$259.3
b	Real GDP/capita (USD)	\$13,606	\$13,645	\$15,599	\$14,762	\$14,739
c	"Economic Transformation [Traded Goods as % GDP]"	20.5%	23.8%	30.0%	16.0%	17.8%
>	Nominal GDP	266.6	252.0	274.7	260.1	259.3
>	CPI Deflator [2016q2=100]	65.5	83.4	98.5	103.6	135.0

1/ in million US Dollars

Source: Palau Bureau of Budget and Planning and EconMAP.

Appendix 2

EAG 4th Annual Mission to Palau Final Schedule

EAG Delegation:

- **Dr. James Galbraith**, Chairman (accompanied by spouse)
- **Dr. Denise Konan**, Member
- **Dr. Peter Watson**, Member
- **Dr. Naoyuki Yoshino**, Member
- **Hon. Kaleb Udui, Jr.**, Member

Mission Team:

- **Mr. Jason Aubuchon**, Senior Director, Graduate School USA
- **Mr. Kevin O’Keefe**, Economist, Graduate School USA
- **Ms. Roleen Ronny**, Microeconomist, Ministry of Finance

Mission Support Team:

- **Mr. Tabesul Ngirailemsang**, Program Coordinator, Ministry of Finance
- **Ms. Andrea Dukkora Ngirarois**, Aide Coordination Specialist, Ministry of Finance
- **Ms. Klumch Tanglebad**, Planning Specialist, Ministry of Finance
- **Ms. Leony Christman**, Human Resource Specialist, Ministry of Finance
- **Ms. Vivica Nakamura**, Coordination Expert, Ministry of Finance-Asian Development Bank]

Final Mission Schedule:

Time	Activity	Notes
Saturday, Sep-13 & Sunday, Sep-14		
	Arrivals of EAG members	<i>Mr. Jason Aubuchon will meet and share pick-up with Palau Pacific Resort bus</i>
Monday, Sep-15		
10:30 am	EAG Internal Meeting <ul style="list-style-type: none"> • Economic/Fiscal Briefing • Internal Planning Discussion 	<i>ADB Conference Room</i>
12:00 – 1:30 pm	Private Lunch	
1:30 – 2:45 pm	Ministry visits by EAG members: <ul style="list-style-type: none"> • Ministry of Education (2 or 3 members) • Ministry of Agriculture, Fisheries, and Environment (2 or 3 members) 	<i>On-site</i>
3:00 – 4:45 pm	Ministry visits by EAG members: <ul style="list-style-type: none"> • Ministry of Human Resources, Culture, Tourism and Development (2 or 3 members) • Ministry of Health (2 or 3 members) 	<i>On-site</i>
Tuesday, Sep-16		
8:30 am - 10:00 am	Meeting w/ Diplomatic Corps, Donor Partners and Ministry of State officials <ul style="list-style-type: none"> • Ambassador, US Embassy • Ambassador, Japan Embassy • Ambassador, Taiwan Embassy • Ambassador, Australia Embassy • Representatives of UNDP, ADB, etc. 	<i>One Stop Shop Building</i>
10:15 am – 12:00 pm	Site visits by EAG members: <ul style="list-style-type: none"> • Palau Public Utilities Corporation—PPUC (2 or 3 members) • Palau Community College—PCC (2 or 3 members) 	<i>On-site</i>
12:00 - 1:15 pm	Private Lunch	
1:30 – 2:45 pm	Site visit by EAG members: <ul style="list-style-type: none"> • Board members of ROP Social Security Administration—ROPSSA 	<i>One Stop Shop</i>
3:00 - 4:45 pm	Site visit by EAG members: <ul style="list-style-type: none"> • Board members of Palau's Civil Service Pension Plan—CSPP 	<i>On-site (CSPP)</i>
Wednesday, Sep-17		
9:00 am - 11: 45 pm	Ministry visit by EAG members: <ul style="list-style-type: none"> • Ministry of Finance 	<i>One Stop Shop Building</i>
1:30 – 3:00 pm	Meeting with President Surangel Whipps, Jr	<i>One Stop Shop Building</i>
3:15 – 4:45 pm	Site visits by EAG members: <ul style="list-style-type: none"> • Palau Visitors Authority PVA (2 or 3 members) • Palau National Communications Corporation—PNCC (2 or 3 members) 	<i>On-site</i>
6:30 pm	Dinner Hosted by US Embassy	<i>US Embassy Residence</i>
Thursday, Sep-18		
	OPEN DAY - Land/Sea tours [confirmed visit to Kayangel]	

6:30 pm	Dinner Hosted by President	<i>Sakura Restaurant</i>
Friday, Sep-19		
9:00 - 10:30 am	Site visit by EAG members: <ul style="list-style-type: none"> • Office of the Public Auditor 	<i>On-site (OPA)</i>
10:45 am - 12:00 pm	OPEN for additional visits	<i>TBD</i>
12:00 - 1:15 pm	Private Lunch	
1:30 pm - 4:00 pm	Leadership Debriefing with OEK and Executive <ul style="list-style-type: none"> • President & OEK Presiding Officers' remarks • Chair and members share observations • Dialogue with gathered leaders • Chair shares potential recommendations and next steps • Closing remarks 	<i>Old OEK Satellite Building</i>
6:30 pm	Private Dinner	
Saturday, Sep-20		
Early am	First departures of EAG Members	<i>PPR bus</i>

Appendix 3

Summary of Mission Meetings

1. President of the Republic of Palau (Monday Session)

- Key Participants: President Surangel Whipps Jr.; Palau Cabinet; EAG members

Purpose of Discussion

To discuss Palau's current economic position, reform priorities, donor engagement, and the political constraints shaping policy implementation.

Summary of Discussion

The President emphasized that Palau is in a critical reform window following Compact renewal and renewed donor alignment. He characterized the next three years as decisive for advancing fiscal, structural, and institutional reforms before political constraints intensify ahead of the next election cycle.

The discussion highlighted ongoing challenges in advancing tax reform, wage adjustments, utility cost recovery, and pension reform due to legislative resistance. The President underscored the importance of raising incomes rather than masking costs through subsidies, arguing that wage growth is necessary to address cost-of-living pressures sustainably. He noted that inflation has remained modest since tax reform, contrary to public perceptions.

Donor coordination featured prominently, with the President describing efforts to reduce duplication and improve alignment across partners. He stressed the importance of "additionality" and cited strong engagement from the United States, Japan, Australia, and Taiwan following recent bilateral discussions.

What's Working

- Strong executive commitment to fiscal reform and long-term sustainability
- Improved donor alignment and geopolitical support
- Clear framing of reform priorities and sequencing

Key Constraints

- Legislative resistance to politically sensitive reforms
- Public misinformation regarding inflation and cost drivers
- Capacity constraints across government agencies

Issues to Watch

- Ability to sustain reform momentum through 2028
- Effectiveness of public communication strategies

2. President of the Republic of Palau (Wednesday Session)

- Key Participants: President Surangel Whipps Jr.; EA members

Purpose of Discussion

To follow up on reform priorities, economic diversification strategies, and major infrastructure initiatives.

Summary of Discussion

This session focused on diversification beyond tourism, large infrastructure planning, and the political economy of reform implementation. The President outlined progress on feasibility and planning for hospital, port, and airport projects, noting strong interest from international partners but emphasizing the need for realistic sequencing and capacity management.

Tourism recovery was discussed in the context of flight expansion and the need to improve visitor experience through land-based activities and integrated developments. The President also referenced exploratory ideas for agriculture, fisheries, financial services, and niche industries, while acknowledging that many concepts remain at an early stage and require careful analysis.

Political constraints remained a central theme, particularly stalled pension and social security legislation. The President emphasized the importance of incremental reform and sustained engagement with the OEK.

What's Working

- Active planning for major infrastructure projects
- Improved air connectivity prospects
- Clear linkage between reforms, audits, and donor confidence

Key Constraints

- Legislative action on pension and social security reforms
- Limited implementation capacity
- Risk of overextension across multiple initiatives

Issues to Watch

- Sequencing of infrastructure investments
- Feasibility of diversification concepts
- Legislative engagement strategy

3. OEK - Introductory Session

- Key Participants: Members of the OEK; Economic Advisory Group members

Purpose of Discussion

To introduce the EAG's mandate, role, and approach, and to hear initial perspectives from legislators.

Summary of Discussion

EAG members outlined the group's advisory and independent role, emphasizing that it does not make policy decisions but seeks to provide objective analysis and external perspective. Members highlighted Palau's post-2019 economic improvements, including Compact renewal and recovery from the pandemic, while noting persistent structural challenges.

Discussion with legislators covered wages, cost of living, tax reform, and productivity. Differing views emerged on the relationship between wage increases and inflation, with concerns raised about affordability for businesses and households. Legislators expressed interest in donor coordination, national security considerations, and regional economic integration.

What's Working

- Openness to dialogue across institutions
- Recognition of economic progress since 2019
- Interest in evidence-based policy discussion

Key Constraints

- Divergent views on reform tradeoffs
- Political sensitivity around wage and tax policy
- Concerns over inflation and competitiveness

Issues to Watch

- Receptiveness to EAG analysis over time
- Appetite for pension and social security reform discussions
- Use of comparative evidence in legislative debates

4. Ministry of Finance

- Key Participants: Ministry of Finance leadership; Bureau of Revenue & Taxation; Palau Energy & Water Administration; Digital Residency Office; EAG members

Purpose of Discussion

To review fiscal administration, utility regulation, and digital innovation initiatives.

Summary of Discussion

The Ministry presented progress across tax administration, energy and water regulation, and digital residency. Efforts are underway to modernize tax systems, expand risk-based audits, and strengthen international cooperation, though capacity and IT limitations remain significant.

Energy and water regulation has been consolidated under PEWA, with ongoing work on tariff reviews and regulatory frameworks. The Digital Residency program was highlighted as a revenue generator, though emerging cybersecurity and reputational risks were also mentioned.

What's Working

- Expansion of risk-based tax audits
- Revenue generation from digital residency
- Consolidation of utility regulation

Key Constraints

- Staffing and technical capacity gaps
- Reliance on manual systems
- Cybersecurity and compliance risks

Issues to Watch

- Implementation of the new tax administration system
- Balance between utility affordability and cost recovery
- Long-term sustainability of digital revenues

5. Office of the Public Auditor (OPA)

- Key Participants: Public Auditor Nino Tewid; OPA staff; Economic Advisory Group members

Purpose of Discussion

To review audit status, capacity constraints, and institutional priorities.

Summary of Discussion

OPA reported continued delays in audit timeliness due to staffing shortages and system transitions, though audit quality remains strong. Clean opinions have been maintained, and recent peer reviews confirmed compliance with professional standards.

Recruitment and retention remain critical challenges, with OPA operating well below required staffing levels. The office has relied heavily on regional partnerships and donor-supported training to sustain capacity.

What's Working

- Maintenance of audit quality despite delays in issuance
- Successful peer review outcomes
- Strong regional training partnerships

Key Constraints

- Severe staffing shortages
- Competition for qualified professionals
- Limited forensic audit capacity

Issues to Watch

- Progress in clearing the audit backlog
- Funding models to support OPA independence
- Donor perceptions of audit timeliness

6. Donor Partners

- Key Participants: Representatives from the United States, Japan, Taiwan, Australia, United Nations agencies, Asian Development Bank; EAG members

Purpose of Discussion

To understand donor priorities, coordination mechanisms, and perspectives on Palau's reform trajectory and capacity constraints.

Summary of Discussion

Donor partners expressed strong geopolitical and strategic alignment in support of Palau following Compact renewal and recent bilateral engagements. There was broad consensus that Palau is viewed as reform-minded, with the next several years representing a critical window to translate political commitment into sustained institutional progress.

Donors highlighted ongoing and planned support across energy, water, connectivity, health, education, and private-sector development. At the same time, many emphasized that government capacity—rather than financing—is increasingly the binding constraint, raising concerns about duplication and clearer government-led prioritization and sequencing.

Private-sector growth and domestic savings mobilization were cited as central to Palau's long-term economic independence, alongside continued investment in human capital.

What's Working

- Strong donor alignment around Palau's sovereignty, stability, and reform agenda
- Active portfolios across infrastructure, utilities, health, education, and connectivity
- Increased attention to coordination and complementarity among partners
- Willingness to provide policy and institutional support, not only capital financing

Key Constraints

- Limited absorptive and implementation capacity within government agencies
- Risk of fragmented assistance without strong central coordination
- Increasing scrutiny on aid effectiveness and results
- Balancing infrastructure delivery with long-term institutional strengthening

Issues to Watch

- Effectiveness of donor coordination mechanisms
- Alignment of donor support with Palau's reform sequencing and capacity

- Shift from project delivery to sustained systems-building

7. Palau National Communications Corporation (PNCC)

- Key Participants: PNCC management and board representatives; Economic Advisory Group members

Purpose of Discussion

To review PNCC's financial performance, infrastructure investments, and strategic positioning.

Summary of Discussion

PNCC reported strong financial performance, with sustained revenue growth, improved profitability, and significant cost savings from renegotiated international contracts. Major infrastructure upgrades are underway, largely financed through U.S. and Australian grants, including mobile core modernization and nationwide fiber deployment.

PNCC described its ambition to position itself as a regional digital services provider, offering network and platform services to other Pacific jurisdictions. Cybersecurity readiness was emphasized as a strategic priority, given PNCC's role as a national critical infrastructure provider.

What's Working

- Improved EBITDA and sustained profitability
- Successful cost reductions reinvested into operations
- Major grant-funded infrastructure investments
- Strong governance and board-management alignment
- Proactive cybersecurity posture and external partnerships

Key Constraints

- Small domestic market limits scale economies
- Dependence on external grant financing for large investments
- Challenges with U.S. roaming agreements and pricing
- Limited specialized cybersecurity workforce locally

Issues to Watch

- Execution risks in fiber and mobile network upgrades
- Feasibility of regional service expansion
- Long-term cybersecurity capacity and talent development

8. Palau Public Utilities Corporation (PPUC)

- Key Participants: PPUC leadership; Economic Advisory Group members

Purpose of Discussion

To assess utility sustainability, tariff reform challenges, and infrastructure investment needs.

Summary of Discussion

PPUC highlighted progress in renewable energy integration, including solar expansion and planned battery storage investments supported by Australia. These investments are expected to reduce curtailment, improve grid stability, and lower long-term generation costs.

Despite technical progress, PPUC emphasized that financial sustainability remains constrained by political resistance to tariff reform. Electricity revenues continue to subsidize water and wastewater services, creating cash-flow pressures, deferred maintenance, and audit risks.

What's Working

- Clear technical understanding of grid and water system challenges
- Progress on renewable energy and battery integration
- Active engagement with development partners
- Commitment to universal service obligations

Key Constraints

- Legislative resistance to cost-recovery tariffs
- Cross-subsidization distorting financial performance
- Limited fiscal space for capital investment
- Deferred maintenance and long-term asset risks

Issues to Watch

- Completion and performance of battery storage projects
- Financing pathways for water and grid upgrades
- Political strategy to advance tariff reform and targeted subsidies

9. Ministry of Agriculture, Fisheries, and Environment

- Key Participants: Ministry leadership; Economic Advisory Group members

Purpose of Discussion

To review agriculture and fisheries development strategies within Palau's sustainability framework.

Summary of Discussion

The Ministry outlined a cautious, sustainability-first approach focused on increasing domestic value capture in fisheries while avoiding past regional failures in state-led commercial ventures. Marine spatial planning is central to the strategy, alongside exploration of PPP models for fishing ports and processing infrastructure.

Agriculture faces significant structural constraints, including limited arable land, workforce shortages, and fragmented markets. The Ministry emphasized the need for better data, workforce development, and realistic investment sequencing.

What's Working

- Clear policy framework anchored in marine spatial planning
- Focus on domestic participation and value capture
- Awareness of regional lessons and investment risks
- Interest in PPP and donor-supported feasibility work

Key Constraints

- Severe skills and workforce gaps
- Weak production and economic data
- High risk of underutilized infrastructure
- Limited domestic market scale

Issues to Watch

- Viability of domestic tuna fleet expansion
- Sequencing of port and processing investments
- Development of sector-specific economic metrics

10. Tourism, Visitors Bureau, and Foreign Investment Board

- Key Participants: Tourism officials; Foreign Investment Board representatives; Economic Advisory Group members

Purpose of Discussion

To review tourism recovery, investment priorities, and constraints affecting visitor growth.

Summary of Discussion

Tourism officials reported gradual recovery following the pandemic, with diversification toward North America, Europe, and Australia. Average visitor stays have lengthened, and marketing initiatives have strengthened Palau's regional profile.

However, recovery remains constrained by air connectivity uncertainty, workforce shortages, and gaps in transport and public infrastructure. Investment discussions emphasized aligning incentives with Palau's sustainability and high-value tourism strategy.

What's Working

- Market diversification beyond traditional source countries
- Improved marketing, branding, and regional coordination

- Growth in length of stay and visitor engagement
- Clear sustainability positioning

Key Constraints

- Unstable flight schedules and limited long-term agreements
- Shortages of trained local tourism workers
- Transport and public-realm infrastructure gaps
- External shocks and currency fluctuations

Issues to Watch

- Securing stable, long-term air service agreements
- Workforce training and retention pipelines
- Alignment of foreign investment with sustainability goals

11. Ministry of Education

- Key Participants: Minister of Education Dale Jenkins; senior Ministry staff; Economic Advisory Group members

Purpose of Discussion

To review education sector reforms, workforce constraints, and alignment with Palau's long-term human capital needs.

Summary of Discussion

The Ministry outlined ongoing reforms to modernize Palau's education system in response to declining enrollment, outward migration, and evolving labor market needs. Curriculum changes introduced differentiated academic, vocational, and alternative pathways, improving student engagement and early outcomes. Standardized assessment results have improved since 2022, though performance remains uneven.

Teacher recruitment and retention continue to pose major challenges due to low salaries, early retirement rules, and hiring bottlenecks. While most students now have access to devices and internet connectivity, effective classroom use of technology is inconsistent. The planned return of Peace Corps volunteers in 2026 is expected to provide near-term support for instructional capacity and professional development.

What's Working

- Curriculum diversification and pathway-based instruction
- Measurable gains in standardized assessment performance
- Universal student access to connectivity and devices
- Planned Peace Corps support for capacity-building

Key Constraints

- Low teacher compensation and retention challenges
- Bureaucratic hiring and governance constraints
- Gaps between internal grading and external benchmarks
- Uneven adoption of technology in classrooms

Issues to Watch

- Sustainability of the teacher pipeline
- Translation of reforms into college and workforce readiness
- Political and institutional support for scaling reforms

12. Palau Community College (PCC)

- Key Participants: PCC leadership; Board of Trustees representatives; Economic Advisory Group members

Purpose of Discussion

To assess PCC's role in workforce development, institutional sustainability, and expanded degree offerings.

Summary of Discussion

PCC described its central role in Palau's workforce development ecosystem, offering associate degrees, technical training, and, more recently, a bachelor's degree program. Strong accreditation status and extensive regional partnerships support program credibility and student mobility. Recent initiatives include expanded nursing and education pathways aligned with national workforce needs.

While institutional finances are stable, PCC faces uncertainty from the loss of certain federal funding streams and ongoing concerns about graduate out-migration. Securing Pell Grant eligibility for the new bachelor's program was identified as a priority to improve access and affordability.

What's Working

- Strong accreditation and governance framework
- Expanded degree offerings and workforce-aligned programs
- Deep regional and international partnerships
- Growing endowment and audit stability

Key Constraints

- Loss of select federal funding programs
- Graduate retention challenges
- Dependence on external funding and grants
- Uncertainty around Pell Grant eligibility for new programs

Issues to Watch

- Workforce outcomes and graduate retention
- Long-term financial sustainability
- Federal funding and accreditation developments

13. *Belau National Hospital*

- Key Participants: Hospital Authority Chair Dr. Greg Dever; Economic Advisory Group members

Purpose of Discussion

To review hospital governance reform, financial sustainability, and service delivery challenges.

Summary of Discussion

The Hospital Authority described ongoing efforts to corporatize Belau National Hospital and separate its governance and finances from the Ministry of Health and Social Services. While governance reforms are advancing, financial separation remains complex due to shared services, federal funding dependencies, and unresolved cost-allocation issues.

ADB is conducting a financial review to inform the transition and assess long-term sustainability. Service improvement initiatives, including oncology, orthopedics, and dialysis capacity, are under consideration, though aging infrastructure and physical site limitations remain significant risks.

What's Working

- Clear legal framework for hospital governance
- Active donor engagement and technical assistance
- Focus on improving local service delivery
- Recognition of lessons from regional hospital failures

Key Constraints

- Financial uncertainty post-separation
- Dependence on federal funding streams
- Aging and vulnerable facilities
- Political sensitivity around cost recovery

Issues to Watch

- Results of ADB's financial review
- Sequencing of governance and financial separation
- Long-term infrastructure and sustainability planning

14. Republic of Palau Social Security Administration (ROPSSA)

- Key Participants: ROPSSA Board and management; Economic Advisory Group members

Purpose of Discussion

To review the financial outlook of the social security system and proposed reform options.

Summary of Discussion

ROPSSA presented actuarial findings indicating that, without reform, the social security trust fund could face insolvency within the next decade. Contributing factors include a shrinking workforce, demographic pressures, benefit structures that exceed contributions, and the payment of benefits to retirees living abroad.

The Board has developed a package of reform proposals intended to restore long-term sustainability, including changes to eligibility thresholds, contribution rates, and benefit structures. However, political resistance and equity concerns—particularly impacts on women and near-retirement workers—remain significant barriers. Limited public understanding of the system’s financial risks further complicates reform efforts.

What’s Working

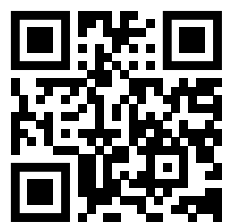
- Clear actuarial analysis and projections
- Defined reform proposals under consideration
- Recognition of urgency at the board level

Key Constraints

- Strong political resistance to reform
- Equity and fairness concerns
- Limited public awareness and engagement
- Dependence on legislative action

Issues to Watch

- Updated actuarial modeling reflecting recent wage changes
- Public communication and education strategy
- Legislative alignment and reform sequencing



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