INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/321

REPUBLIC OF THE MARSHALL ISLANDS

December 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE AUTHORITIES OF THE REPUBLIC OF THE MARSHALL ISLANDS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Marshall Islands, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 29, 2025, consideration of the staff report that concluded the Article IV consultation with the Republic of Marshall Islands.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 29, 2025, following discussions that ended on August 29, 2025, with the officials of the Republic of Marshall Islands on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 7, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Authorities** of the Republic of the Marshall Islands**.**

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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IMF Executive Board Concludes 2025 Article IV Consultation with Republic of the Marshall Islands

FOR IMMEDIATE RELEASE

- Growth is projected to sustain a rate of 2.5 percent in FY2025 and accelerate to 4.1 percent in FY2026. These reflect income tax relief measures and the carryover of delayed Compact-related spendings in FY2025 and a scheduled fiscal expansion in FY2026.

- Priorities are to preserve fiscal sustainability by continuing with the strong momentum on tax reform and replacing the Universal Basic Income (UBI) scheme at the earliest feasible opportunity with a more targeted scheme. The authorities should not proceed with the planned global launch of a "digital sovereign bond" given the lack of pre-requisite capacity and ability to effectively mitigate associated risks.

- Achieving sustainable growth will require continued diversification efforts and capacity building, improvements in governance and regulatory frameworks, and enhanced climate resilience by mobilizing additional financing and promptly addressing adaptation needs.

Washington, DC – **December 4, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Republic of Marshall Islands on October 29, 2025.[1]

After two years of contraction, the Republic of the Marshall Islands (RMI) economy is estimated to grow by 3 percent in FY2024, driven by a strong rebound in fisheries and increased investment and consumption related to the Micronesian Games. This growth has occurred despite delays in grant disbursements related to the Compact of Free Association with the United States (Compact), ongoing emigration, and the end of COVID-related stimulus. Inflation, though moderating from a peak of 9.3 percent in December 2022, remained at 5.7 percent by end-FY2024, above the 10-year average, mainly due to elevated electricity tariffs.

Looking ahead, the new Compact significantly improves the near-term outlook. Growth is projected at 2.5 percent in FY2025, supported by income tax relief and delayed Compact spending. Momentum is expected to accelerate to 4.1 percent in FY2026 amid scheduled fiscal expansion. Over the medium term, growth will moderate due to structural challenges and ongoing labor emigration, while inflation remains above its historical average.

Uncertainty surrounding the baseline outlook is high. The elevated global risks, most notably rising trade barriers, prolonged policy uncertainty, and volatile commodity prices, could

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

increase the RMI's balance of payments and fiscal pressures, raising living costs. More frequent natural disasters could pose a significant threat to the economy. Domestically, the expansion of Decentralized Autonomous Organization (DAO) registry operations and premature implementation of new largely untested policy initiatives, namely USDM1 and the Universal Basic Income (UBI), could have adverse macro-fiscal and financial integrity implications. Withdrawal of the last Correspondent Banking Relationship (CBR) could disrupt trade and remittance flows.

Executive Board Assessment[2]

Executive Directors welcomed the recent growth recovery, as well as the strengthened external and fiscal outlooks following the successful renewal of the Compact agreement. At the same time, Directors noted that medium-term growth prospects remain constrained by persistent structural challenges, including capacity limitations, vulnerability to climate and external shocks, geographical remoteness, and continued labor emigration. Against the background of significant downside risks, Directors highlighted the importance of prudent policies and sustained reforms supported by capacity development assistance to foster resilient and inclusive growth.

Directors agreed that steadfast revenue mobilization, expenditure reprioritization, and robust PFM reforms will be critical to create space for priority investments, build buffers against climate-related and external shocks, and further strengthen debt sustainability. In this context, they welcomed the enactment of the comprehensive tax reform law as an important step forward. Directors also encouraged the authorities to reprioritize expenditures, including the universal basic income scheme and subsidies to state-owned enterprises, in favor of targeted support to the most vulnerable and needed investments.

Directors underscored the importance of strengthening financial sector oversight to preserve macroeconomic stability. They stressed that the planned global issuance of a digital sovereign bond should be carefully reassessed, taking due account of institutional readiness and ability to effectively mitigate associated macroeconomic as well as financial stability and integrity risks. In that respect, continued strengthening of the AML/CFT regime, including through implementation of the national Strategic Implementation Plan, particularly before embarking on new initiatives, will be critical for safeguarding financial integrity, and will help preserve correspondent banking relationships. Directors also commended the passage of the legislation establishing the Monetary Authority aimed at strengthening financial stability and inclusion.

Directors encouraged the authorities to advance structural reforms to enhance resilience and address climate risks. Mobilizing additional climate financing both domestically and internationally is vital to respond to adaptation needs. In this context, Directors agreed that additional revenue mobilization can help create fiscal space to fund climate investments and that enhanced PFM and public investment management will help attract external climate financing. Strengthening governance, regulatory frameworks, digital infrastructure, and human capital, as well as diversification where feasible, will enhance the business climate and private sector development. Closing data gaps also remains an important priority.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Marshall Islands: Selected Economic Indicators, FY2021–30[1]

Nominal GDP: US$259 million (FY 2023)	GDP per capita: US$6,417 (FY 2023)									
Population: 44,722 (FY 2022)	Quota: SDR 4.90 million									
	FY 2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
		Prel.		Est.			Proj.			
Real sector										
Real GDP (percent change)	1.2	-1.1	-4.0	3.0	2.5	4.1	2.4	1.9	1.8	1.6
Consumer prices (percent change, average)	2.2	2.8	7.4	5.2	5.2	5.9	5.2	3.3	2.4	2.4
Consumer prices (percent change, end of period)	1.8	5.7	6.1	5.7	4.7	7.0	3.6	3.0	2.4	2.4
Central government finance (in percent of GDP)										
Revenue and grants	70.0	68.4	69.5	75.2	68.2	78.5	82.0	80.4	80.8	80.5
Total domestic revenue	30.5	32.3	33.8	32.0	31.4	30.4	30.4	30.1	30.0	30.1
Grants	39.5	36.1	35.7	43.1	36.8	48.2	51.6	50.3	50.8	50.4
Expenditures	69.8	67.7	68.4	71.6	66.5	83.8	81.3	79.8	80.7	80.4
Expense	63.0	61.2	58.4	63.1	56.3	68.2	71.5	70.2	70.4	70.2
Net acquisition of nonfinancial assets	6.8	6.5	10.0	8.5	10.2	15.7	9.8	9.7	10.2	10.2
Net lending/borrowing	0.2	0.7	1.1	3.6	1.7	-5.3	0.7	0.6	0.1	0.0
Compact Trust Fund (in millions of US$; end of period)	668.9	567.6	683.9	1058.2	1315.6	1566.1	1716.2	1772.1	1824.0	1874.7
Balance of payments (in percent of GDP)										
Current account balance	22.7	10.0	16.8	14.0	10.3	4.0	7.9	5.7	4.7	3.4
Goods and services balance	-25.0	-37.4	-32.8	-35.4	-35.2	-52.5	-51.3	-52.4	-54.2	-55.2
Primary income	9.6	14.9	19.5	17.8	18.4	17.0	16.2	16.3	16.5	16.6
Of which: fishing license fee	7.1	6.9	6.5	6.1	5.7	5.6	5.6	5.9	6.1	6.1
Secondary income	38.1	32.6	30.2	31.6	27.0	39.5	43.0	41.8	42.4	42.0
Of which: Compact current grants	12.6	12.6	12.4	12.2	11.8	12.0	11.3	11.0	10.7	10.5
Of which: other budget and off-budget grants	23.8	18.9	17.3	19.5	15.5	14.3	14.4	14.0	13.7	13.4
Current account excluding current grants	-12.9	1.9	-1.8	-9.4	-4.1	-8.0	-3.5	-5.2	-6.0	-7.0
External PPG debt (in millions of US$; end of period)	63.5	59.6	54.7	48.5	44.0	62.0	60.7	60.8	64.2	69.9
External PPG debt (Percent of GDP; end of period)	24.5	23.5	21.1	17.3	14.6	18.7	17.0	16.2	16.4	17.1
Memorandum item:										
Nominal GDP (in millions of US$)	258.9	253.4	259.3	280.6	302.2	332.2	357.4	376.1	392.0	407.7

Sources: RMI authorities; and IMF staff estimates and projections.

1/ Fiscal year ending September 30.

INTERNATIONAL MONETARY FUND

REPUBLIC OF THE MARSHALL ISLANDS

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

October 7, 2025

KEY ISSUES

Overview. As a small, fragile, and remote island state, the Republic of the Marshall Islands faces several vulnerabilities and challenges, including high exposure to climate-related shocks and persistent labor emigration. Near-term growth is projected to accelerate amid expansionary fiscal policy. Growth is expected to moderate over the medium term, constrained by structural challenges and inflation to remain above its historical average. The government is pursuing an ambitious reform agenda. The recent renewal of the Compact of Free Association (Compact) with the United States offers a window of opportunity to enhance fiscal prudence and press ahead with such reforms.

Main Policy Recommendations

Fiscal Policy

- Replace the Universal Basic Income (UBI) at the earliest feasible opportunity with a more targeted scheme to help preserve fiscal sustainability and achieve the desired developmental impact.
- Gradually phase out subsidies to SOEs with the Compact's Extraordinary Needs Distribution (END) to outer atolls as an alternative support mechanism.
- Continue with the strong momentum on tax reform and ensure timely implementation to reduce dependence on volatile revenues and create fiscal space.

Financial Sector Policies

- Prioritize mitigating risks to financial integrity amid weaknesses in the AML/CFT framework. Pause the planned global launch of a "digital sovereign bond" given the lack of pre-requisite capacity and ability to effectively mitigate associated risks.

Structural Policies

- Continue efforts to diversify by investing in higher value-added activities in fisheries.
- Remove barriers to growth through improving governance, regulatory frameworks, and digital infrastructure to help boost private sector development.
- Strengthen climate resilience through mobilizing additional financing and swiftly addressing adaptation needs.
- Prioritize building the absorptive and technical capacity urgently needed to implement sound policies and achieve developmental goals.

Approved By
Lamin Leigh (APD) and Bergljot Bjornson Barkbu (SPR)

Discussions took place in Majuro, Marshall Islands between August 19-28, 2025, and in Honolulu on August 28-29. The staff team comprises Ghada Fayad (Head), Xin Li, Taku Zakoji (all APD), and Kavita Ram (RRO). Kathleen Kao (LEG) joined some meetings virtually. Neil Saker (Resident Representative, Fiji) joined the mission. Mark Blackmore (alternate ED) and Eugene Wase (ED advisor) participated in discussions with the authorities. Seron Shivanjali (RRO), Shikha Rao, Puying Wang, and Yan Xu (all APD) provided support for the mission. Data used in this report for staff analyses are as of September 19, 2025, unless otherwise noted.

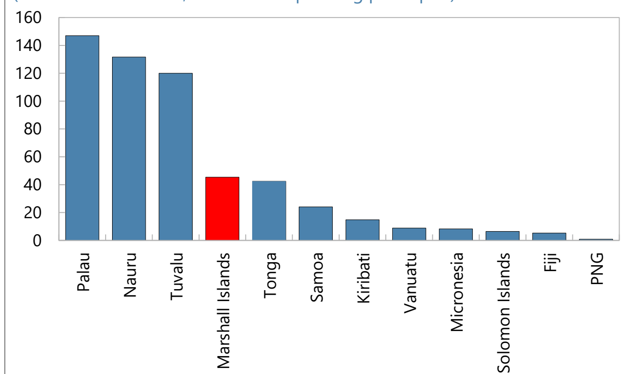
CONTENTS

ANNEXES

CONTEXT

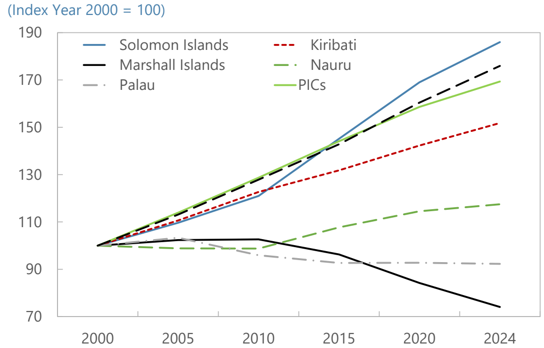
1. **As a small, remote, and low-lying island state with vast ocean, the Republic of the Marshall Islands (RMI) faces numerous vulnerabilities and challenges (Annex I).** Climate-related challenges, manifested as sea-level rise (SLR), fluctuating sea temperatures, inconsistent rainfall, and extreme weather events, have far-reaching consequences for Marshallese livelihoods and access to critical resources. Numerous other fragilities such as small landmass, rapidly shrinking small population,[1] and limited productive capacity have left the economy undiversified, heavily dependent on imports and grants, with underdeveloped private and financial sectors. The RMI is classified as a fragile state due to weaknesses in economic management and structural policies.

CD Delivery to Pacific Island Countries
(Cumulative 2020-25, U.S. dollars spending per capita)



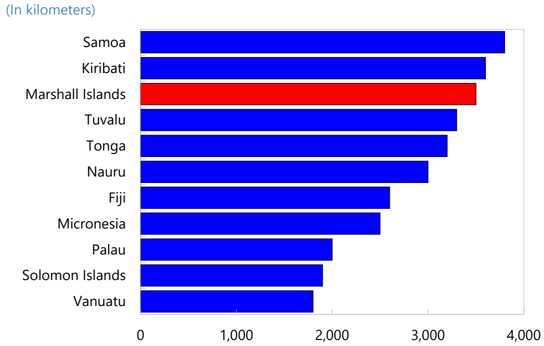
Sources: CDMAP database, and IMF staff calculations.

Population Trends in the PICs
(Index Year 2000 = 100)



Source: United Nations

Distance to the Nearest Continent
(In kilometers)



Sources: Google Earth and IMF staff estimates.

2. **Amid global uncertainties, the RMI authorities are pursuing an ambitious reform agenda and have made notable progress in addressing challenges.** The authorities have defined their medium-term policy objectives within the National Strategic Plan 2020-2030, emphasizing resilience across environmental, social, and economic dimensions. In 2023, the RMI issued its National Adaptation Plan. One of largest users of Fund Capacity Development (CD) in the region, the RMI continues to rely on CD in the ongoing ambitious tax reform program planned for implementation ahead of the next general elections in November 2027 and had relied on CD for their plan to establish a Monetary Authority (MA) to enhance financial development.

3. **The new Compact of Free Association with the United States (Compact), ratified in March 2024, significantly strengthens the RMI's fiscal and external outlooks (Annex II).** The

[1] Reportedly, about one-third of the population has relocated to the U.S. since 2011.

previous Compact expired at end-FY2023. The new agreement provides US$2.3 billion over 20 years starting in FY2024 (54 percent higher than under the previous Compact).[2] It also ensures continued access to critical U.S. federal programs and services, such as the U.S. Postal Service.

RECENT DEVELOPMENTS

4. **After two years of contraction, the RMI's economy appears to be returning to growth in FY2024, while inflation remains above historical average.**[3] Estimated at 3 percent, growth in FY2024 was supported by a strong rebound in the fisheries sector and buoyant investment and consumption related to the Micronesian Games, despite delays in Compact grant disbursements and the impact of continued emigration. Inflation continued to moderate in FY2024. Following a peak of 9.3 percent in December 2022, year-on-year inflation gradually eased in line with global commodity prices, reaching 5.7 percent by end-FY2024, still well above the 10-year historical average of 1.4 percent mainly due to the elevated electricity tariffs.

5. **The FY2024 fiscal position is estimated to have recorded an overall surplus of 3.6 percent of GDP, significantly higher than projected.** This outcome reflects the late disbursement of Compact grants limiting the government's ability to scale up spending in time. The FY2024 surplus marks the fourth consecutive year of fiscal surpluses since the balanced budget rule[4] came into effect in FY2021.

6. **The authorities are actively implementing several fiscal policy initiatives.** They have submitted to parliament (August 2025) and passed into law (September 2025) four tax reform bills aligned with IMF recommendations. They are also close to rolling out in FY2026 a Universal Basic Income (UBI) scheme of untargeted and unconditional transfers to all Marshallese citizens (Annex III) and the Extraordinary Needs Distribution (END; another income support scheme established under the new Compact, specifically targeting outer-island residents). Both schemes, financed by now permitted annual drawdowns from the Compact Trust Fund (CTF), were approved in August 2025 by the Trust Fund Committee (TFC).

7. **The current account also remained in surplus largely on account of increased grant inflows and sustained primary income**. In FY2024, the current account registered a surplus of 14 percent of GDP. Compact-related and other donor grants increased to 31.7 percent of GDP (from 29.7 percent in FY2023) while primary incomes were supported by higher Kwajalein atoll related

[2] The economic assistance encompasses sector grants, contributions to the Compact Trust Fund (CTF), and other earmarked funds.

[3] The fiscal year runs October-September.

[4] This is stipulated in the Fiscal Responsibility and Debt Management Act 2020 (FRDMA).

inflows.[5] The RMI's external position in FY2024 is assessed to be substantially stronger than the level implied by fundamentals and desirable policies (Annex IV).[6]

8. The financial system remains underdeveloped, but well-capitalized and highly liquid (Table 6), partly reflecting its weak contribution to credit and economic growth. The RMI operates under a fully dollarized regime with minimal financial linkages to the global system. The payments and settlement infrastructure remain slow, costly, and largely manual, with very low digitalization and limited access to mobile banking. Three banks operate domestically—two local banks and a branch of a U.S.-based bank. As of end-Q3 2025, the system-wide Tier 1 capital ratio stood well above the statutory minimum of 15 percent. Nonperforming loans are contained at around 4 percent of gross loans, while provisions remain adequate, and the main foreign bank has access to its parent bank's support. Liquidity remains ample, with liquid assets exceeding 80 percent of total assets, and loans accounting for less than one-third of deposits, underscoring the sector's capacity to absorb shocks. Credit to the private sector has declined steadily, falling to below 40 percent of GDP in FY2024, as banks have shifted toward safer foreign asset holdings.

9. Despite welcome progress in rolling back some past digital initiatives, there remains strong appetite to rapidly pursue risky initiatives. The repeal in August 2025 of the Sovereign Currency Act (SOV Act), originally intended to issue digital currency as a second legal tender, aligns with past Fund recommendations. In contrast, the Decentralized Autonomous Organization (DAO)[7] sector has expanded steadily[8] following the passage of the DAO Act in November 2022, which, against Fund recommendation, allows DAOs to register as onshore LLCs in the RMI.

10. The authorities are planning the issuance of a "digital sovereign bond" (tokenized format), called USDM1, to raise revenues and improve financial inclusion (Annex V). USDM1 would be targeted at investors globally, and unlike traditional sovereign bonds, all proceeds are earmarked for the purchase of short-term US T-Bills to serve as collateral, differing from standard stablecoins by offering a yield to holders. Interest would be accrued continuously in additional USDM1 units. The rate would reflect prevailing T-Bill yields minus administrative costs and a government margin, which the authorities intend to use initially to overcollateralize USDM1 and later to fund priority spending. While the RMI government would legally be the issuer, the government has retained, as a service provider, a U.S.-based private entity, MIBOND Global LLC, which, through and in coordination with other U.S.-based and its domestic subsidiary MIFS, would undertake coordinating and administering the issuance and redemption, its collateral and interest payouts, risk management, and all regulatory compliance tasks. Redemption would be available on demand, with the government retaining the right to wind down the project. An oversight

[5] Consisting of compensation for Marshallese employed at the U.S. military base in the Kwajalein Atoll.

[6] However, caution is needed to interpret the results. If based on the current account excluding grants (-9.4 percent of GDP), the EBA-lite CA model would imply an external position in FY2024 that was weaker than the level implied by fundamentals and desirable policies.

[7] DAOs are entities that are algorithmically managed through smart contracts stored on a blockchain. See Annex V of 2023 Article IV Staff report.

[8] As of August 2025, 196 DAOs were operational, up from 142 in October 2024.

committee, including the government, will review the issuance cap regularly, beginning with about US$100,000. The issuance process will be iterative, and demand driven. Bilateral issuance tests with select partners are set to take place as part of a technical pilot by late September 2025. Domestic issuance will be linked to the UBI rollout in November, as USDM1 will be offered as an option for UBI payments. Global issuance will be sequenced depending on test results and investor demand.

OUTLOOK AND RISKS

11. Growth is expected to continue at 2.5 percent in FY2025, before accelerating to 4.1 percent in FY2026, while inflation is expected to remain elevated. An expansionary fiscal stance in FY2025 supported the ongoing recovery,[9] through income tax relief measures and the carryover of delayed Compact-related spendings. The direct effects from U.S. tariffs and global trade tensions are assessed to be modest, as the RMI faces the lowest 10 percent universal tariff, and the share of exports to the U.S. is small. Growth is projected to accelerate in FY2026, somewhat supported by a more expansionary fiscal stance.[10,11] Despite easing global commodity prices, inflation is expected to remain above the historical average over the medium term, reflecting wage-driven cost increases following the planned minimum wage increases[12] and the rollout of the UBI, notwithstanding additional demand leaking through imports.

12. The fiscal balance, except for a temporary deficit in FY2026, is projected to remain in surplus but to follow a declining trend over the medium term. Limited implementation capacity continues to constrain the full execution of infrastructure projects financed under the new Compact, resulting in a projected narrowing of the overall surplus from 3.6 percent of GDP in FY2024 to 1.7 percent in FY2025. In FY2026, the fiscal balance is projected to temporarily swing into a deficit of 5.3 percent of GDP, reflecting the projected government purchase[13] of two new aircrafts for the state-owned national airline (US$20 million). Excluding this one-off factor, the fiscal surplus is expected to gradually decline over the medium term as implementation capacity improves.

13. The current account surplus is projected to decline to 10.3 and 4.0 percent of GDP in FY2025 and FY2026, respectively. While the direct impact of tariffs is expected to be small, the indirect effects from reduced demand due to a slowdown in trading partners will likely affect exports. The projected decline in the current account balance in FY2026 mainly reflects the import of

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[9] Data limitation implies that the cyclically adjusted primary balance, a common measure of fiscal stance, is not available. Given limited automatic stabilizers on expenditure side and most revenues are from external grants and non-tax revenues that are mostly exogenous to the government, an alternative measure of fiscal stance could be the growth rate in primary expenditure (net of transfers to the CTF and one-off capital import items with no impact on domestic demand) relative to potential growth.

[10] The FY2026 budget bill, which was provided during the mission, was approved in September.

[11] The growth impact of the UBI and the END programs could be limited by high import penetration and, particularly in the case of the UBI, potential adverse effects through reduced labor supply.

[12] In September 2024, the authorities enacted legislation to raise the minimum wage from US$3.0 to US$4.0 per hour, effective in FY2025, with additional staged increases in FY2026-28, to reach a minimum of US$5.25.

[13] The purchase is fully financed by an external loan from a development partner.

two airplanes. Given limited domestic production base, consumption related to the UBI payments is expected to be directed mainly toward imported goods. Over the medium term, the current account is projected to remain in surplus but to gradually narrow in line with the declining fiscal surplus.

14. Medium-term growth is expected to remain subdued at around 1.6 percent, reflecting longstanding structural constraints and continued but moderating labor emigration. Inflation is expected to converge to its historical average of around 2.4-2.5 percent. While Compact-related grants provide a near-term boost to public investment and household incomes, the medium to long-term growth trajectory remains dependent on structural reforms to address capacity constraints and improve the investment climate.

15. Risks to the outlook are mostly tilted to the downside (Annex VI). Externally, the elevated global risks, most notably rising trade barriers, prolonged policy uncertainty, and volatile commodity prices, could increase the RMI's balance of payments and fiscal pressures, raising living costs beyond the baseline assumptions. More frequent natural disasters and SLR pose a significant threat to the economy. Domestically, the expansion of DAO registry operations and premature implementation of new largely untested policy initiatives, namely USDM1 and UBI, could have adverse macro-fiscal and financial integrity implications. Withdrawal of the last CBR could disrupt trade and remittance flows. Continued labor emigration poses long-term challenges for economic development.

Authorities' Views

16. The authorities agreed with staff's assessment of the economic outlook and external risks. They noted that short-term growth is supported by domestic demand measures, including the minimum wage increase, the launch of the UBI, and the procurement of two new aircrafts to enhance domestic air travel, while emigration to the U.S. in search of better opportunities is expected to weigh on long-term growth. They pointed out limited use of land as collateral due to land tenure and customary practices as a key factor behind weak commercial lending, while expressing hope that the planned introduction of a credit guarantee mechanism could help support an eventual recovery in bank lending. They stressed that the inflation rate alone might not fully reflect the cost-of-living crisis that Marshallese citizens have been grappling with, given very high price levels. They indicated that their economic forecasts rely on IMF and ADB projections and recognized the need for technical assistance to strengthen in-house macro forecasting capacity. The authorities highlighted RMI's dependence on external finance as its main vulnerability and pointed to key downside risks, including shifts in U.S. federal program priorities, geopolitical risks affecting bilateral assistance from Taiwan Province of China (ICDF), exposure to global commodity price swings, and climate impacts on fisheries and copra production.

POLICY DISCUSSIONS

A. Fiscal Policy: Leveraging the Renewed Compact Effectively

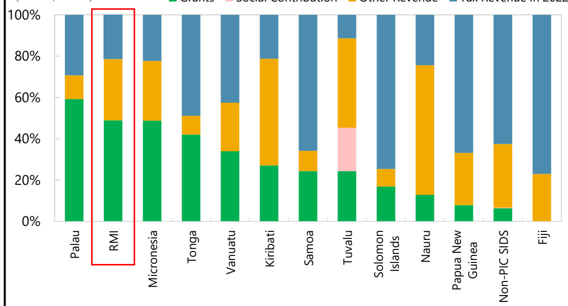
17. Given the ongoing economic recovery and the improvement in the fiscal outlook following the Compact renewal, fiscal policy support in FY2025 is appropriate, but the fiscal expansion in FY2026 is excessive and not warranted. Large permanent expansions in current fiscal spending, as envisaged with the UBI and END programs (equivalent to 8.1 percent of GDP and 6.0 percent of GDP, respectively in FY2026), pose macro and fiscal risks (¶20), while unfavorably shifting the balance of expenditure away from needed capital investment and eroding fiscal buffers. If an unexpectedly severe external shock were to materialize, the policy response should rely on temporary and well-targeted support to the most affected.

18. A careful and sustainable fiscal path is needed to maintain appropriate fiscal buffers given the RMI's vulnerabilities and uncertainty over future Compact renewals. The authorities should leverage the space provided by the Compact to foster greater fiscal prudence, through revenue mobilization (¶19), expenditure restraint (¶20, 21) and ambitious public financial management (PFM) reform agenda (¶22). This will also help ensure the predictability of the budgetary framework and support medium-term debt sustainability. With a large share of Compact resources tied to specific uses (Annex II), securing additional funding sources beyond the Compact will be essential given the substantial financing needs for climate adaptation and development priorities.

19. Timely implementation of phase two of tax reform, scheduled for FY2027, is critical to reducing dependence on volatile non-tax income and creating fiscal space (Annex VII). RMI's tax revenue remains below potential; staff estimate the tax capacity at 17-19 percent of GDP, compared to the current level of around 14-16 percent of GDP.[14] The planned transition from the gross revenue tax (GRT) to a value-added tax (VAT) and business profit tax (BPT), alongside excise tax reforms, is expected to reduce distortions and broaden the tax base while maintaining revenue neutrality in the medium term. To further close the gap, particularly to support climate investment, additional policy measures, including gradual VAT rate increases beyond the initial 12 percent, are warranted.

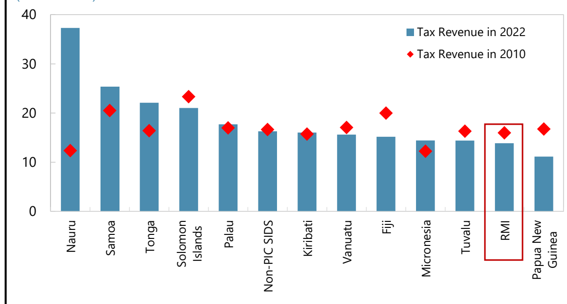
[14] The first phase, legislated in October 2024, aims to reduce personal income tax burdens by adjusting tax rates and corresponding income brackets. An additional amendment passed in January 2025 removes the top tax rate (16%), against Fund TA recommendation.

Revenue Structure Across PICs and SIDS
(Share, 2022)



Sources: IMF World Revenue Longitudinal Database (WoRLD) and IMF staff calculations.

Tax Revenues Across PICs and SIDS
(In % of GDP)

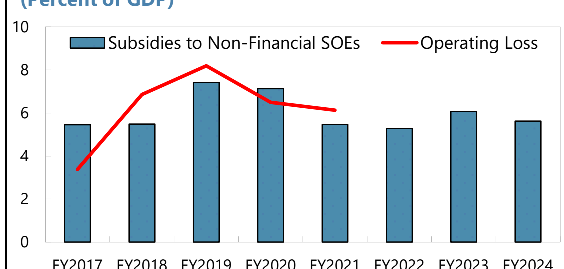


Sources: IMF World Revenue Longitudinal Database (WoRLD) and IMF staff calculations.

20. Given RMI's significant developmental needs and exposure to external shocks, the authorities should replace the UBI at the first available and feasible opportunity with a more targeted scheme to ensure more effective uses of the CTF resources (Annex III). The UBI scheme, expected to be rolled-out in November 2025, aims at addressing rising cost-of-living pressures and curtailing emigration. While the initiative could strengthen income security, it poses a significant and permanent fiscal cost, erodes fiscal buffers, and crowds out needed investments. It also poses significant macroeconomic risks that require close monitoring. In particular, the large fiscal injection would add to aggregate demand and could fuel inflationary pressures. The scheme may also raise reservation wages and dampen labor supply, potentially eroding private sector competitiveness. To mitigate these risks, the authorities should closely monitor inflation trends, coordinate with importers to ensure adequate inventories, and support labor force participation through training and active labor market programs. Yearly monitoring and evaluation of the scheme is imperative. Scaling back the UBI to a more targeted scheme to those who need it the most, which staff recommends be no later than in next year's proposal to the TFC, would help preserve fiscal sustainability and achieve the desired developmental impact. To achieve so, the IMF stands ready to support the authorities as soon as needed in improving administrative capacity, with support from other development partners, to ensure the resubmitted scheme is targeted. In this respect, it would be important that design and administrative synergies between all social assistance programs are built-in from their onset.

21. Inefficient and poorly targeted subsidies to SOEs should be gradually phased out with the END serving as an alternative supportive measure. Over the past five years, SOE subsidies have averaged 5.9 percent of GDP, well above regional benchmarks, and have often supported entities with limited commercial viability and weak governance. Particularly, the authorities should consider gradually replacing the inefficient and

Financial Indicators of Non-Financial SOEs (Percent of GDP)



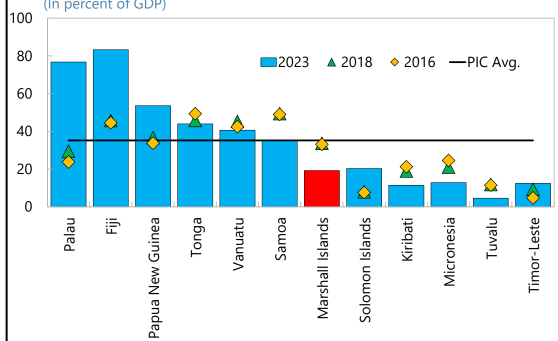
Note: Data on operating losses are not reported since FY2022.
Source: Country authorities and IMF staff calculations.

fiscally burdensome Copra Support Program[15] with the END program. To ensure liftoff of such politically sensitive reform and facilitate a smooth transition, the authorities should support displaced workers through targeted social protection and retraining programs.

22. Maintaining momentum on PFM reforms is essential to better realize the benefits of the revenue mobilization agenda. Recent progress, including the rollout of a new FMIS and ASYCUDA, has laid a foundation for improved budget execution and reporting. However, further reforms are needed to strengthen medium-term budgeting, enhance expenditure control, and improve fiscal transparency and accountability. The authorities are in the process of bidding for an integrated revenue administration system (IRAS) and are considering its integration with the existing ASYCUDA and FMIS. These reforms are expected to streamline the current labor-intensive tax administration, and timely implementation should be pursued. Continued capacity building will be vital to translating higher revenues into better public service delivery and fiscal resilience.

23. The RMI's debt is sustainable and assessed to be at moderate risk of debt distress, improved from the previous high-risk assessment in 2023 (DSA Annex). Debt has declined from 74 percent of GDP in FY2002 to about 17.3 percent in FY2024. The large inflow of Compact-related grants supports this outlook, showing a low risk over the next 10 years. However, the risk of external debt distress is assessed as moderate for the 20-year horizon as the present value of PPG external debt-to-GDP ratio will breach its threshold in both natural disaster and most extreme shock stress tests. As such, the risk of external debt distress is assessed as moderate, with some space to absorb shocks. Nevertheless, the authorities have expressed interest in securing concessional financing from International Financial Institutions (IFIs) to construct two hospitals and rehabilitate six port facilities, with the future Compact funding to be set aside for repayment. If fully approved and implemented, these proposed large-scale projects—amounting to up to US$300 million (99 percent of GDP)—could crowd out investments in needed adaptation capital and raise concerns about debt sustainability. Furthermore, the planned issuance of USDM1 will have notable

Pacific Islands: Total Public Debt
(In percent of GDP)



Source: National authorities, IFS, staff estimates.

[15] Under the Copra Support Program, the government, through an SOE (Tobolar), purchases copra from outer island producers at subsidized prices, guaranteeing a certain income to them. In the context of stagnant global copra prices and weak international competitiveness in the RMI, it creates incentives for labor to remain in inefficient copra production. Further, this system has placed a substantial burden on fiscal finances, with annual government subsidies to Tobolar averaging around 3 percent of GDP (4 percent of government expenditure).

implications for the debt sustainability analysis, particularly with respect to defining the perimeter of government debt and quantifying the associated risks.[16, 17]

Authorities' Views

24. The authorities see the recently approved UBI as providing the much-needed support to Marshallese families in the face of the cost-of-living crisis and persistent outmigration. They noted that registration and delivery systems are already in place and that funding for FY2026 has been approved by the TFC. They indicated that, while challenging, it would be possible to gradually make the scheme more targeted over time. However, they argued that targeting would not meaningfully reduce the size of the program and shared possible plans to cap the scheme to avoid future increases with inflation. They considered the labor market impact manageable, given the modest benefit of US$800 per person per year and persistent excess labor supply, though they agreed with staff on the importance of coordination with importers and retailers to prevent inflationary pressures. Regarding the alternative uses of the CTF, the authorities highlighted the limited capacity to deploy the fund for investment purposes and consider the UBI as an investment in the Marshallese people.

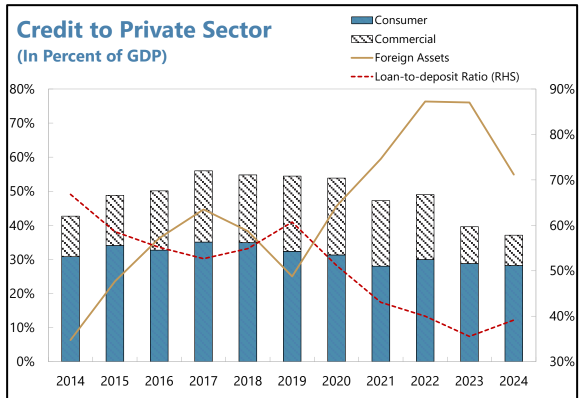
25. The authorities reiterated their strong commitment to ongoing fiscal reforms. They are working on an ambitious timeline for the implementation of the tax reform bills passed into law in September 2025, and underlined the need for continued CD to support a smooth transition. On the Copra Subsidy Program, they acknowledged the political difficulty of reform but expressed willingness to explore more efficient alternatives over the medium term.

26. The authorities welcomed the upgrade in the risk rating of debt distress to moderate. They noted that this improvement would create additional fiscal space, enabling the financing of large infrastructure projects through concessional loans, with repayments backed by future Compact funds. The authorities concurred with staff that this increased space should be utilized in a prudent and sustainable manner given the country's low debt-carrying capacity. They reaffirmed their commitment to maintaining zero non-concessional borrowing under IDA's Sustainable Development Finance Policy.

[16] Given the small initial issuance cap and the uncertainties over the amount and timing of future issuance due to competition with similar yield-bearing digital products and ongoing regulatory scrutiny, the USDM1 has not been incorporated into the DSA baseline.

[17] While Compact resources are secured under the treaty framework and the risk of discontinuation is extremely low, any interruption in Compact funding—though unlikely—could have serious implications for debt sustainability.

B. Financial Sector and Financial Integrity Issues: Mitigating ML/TF Vulnerabilities



Sources: National authorities and IMF staff calculations.

27. The RMI's banking sector is stable, but its role in the RMI economy hinges on addressing underlying structural bottlenecks and ML/TF concerns. While systemic risks remain broadly contained, only one domestic bank maintains a correspondent banking relationship (CBR) with a U.S. bank, and a key financial sector vulnerability remains its potential loss at least in part due to ongoing financial integrity concerns (¶29), related to various digital initiatives. Despite recent reforms—such as the introduction of a secured transactions framework and a property registry—credit demand remains subdued due to limited investment opportunities and perception of high risk associated with still-insufficient collateral. The authorities' plan to introduce a Credit Guarantee Mechanism (CGM) in FY2026, which aims to underwrite part of the credit risk borne by lenders,[18] could help catalyze private sector lending in priority sectors, if implemented effectively. However, addressing more fundamental structural bottlenecks, such as improving the business environment and land reforms, as well as effectively mitigating money laundering and terrorism financing (ML/TF) risks, will remain essential to unlocking sustained private sector-led growth.

28. The successful operationalization of the MA will hinge on the right sequencing, coordination, and sustained investments in capacity. Following past Fund recommendations, the passage of the MA Act in August 2025 represents a welcome step forward. The MA will take on essential non-monetary central bank functions, including liquidity monitoring, licensing and supervision of financial institutions, oversight of the payments system, and fiscal agency services. Immediate priorities include establishing the MA's governance bodies, finalizing supervisory frameworks, and ensuring oversight continuity during the transition. Strong coordination with development partners will be critical to support institutional development and policy implementation.

29. Weaknesses in the AML/CFT framework and its effective implementation pose material risks to financial integrity and stability. The 2024 FATF/APG[19] Mutual Evaluation Report (MER) identified elevated cross-border ML/TF risks associated with the offshore corporate registry

[18] The CGM is designed to share credit risk between private lenders and the public sector, with guarantees covering up to 60 percent of the principal for SME and 50 percent for construction firms. The CGM will be administered through local commercial banks and a non-bank credit institution (Marshall Island Development Bank, MIDB), with government providing initial capitalization of US$3 million sourced from Compact sector grants.

[19] The onsite visit for the assessment was conducted by the Asia Pacific Group (APG) in October 2023.

and the emerging DAO sector.[20] The opacity and limited oversight of these sectors, as well as the lack of a comprehensive and detailed assessment of associated ML/TF risks, create significant ML/TF vulnerabilities. Institutional constraints, including weaknesses in implementing beneficial ownership (BO) requirements, fragmented AML/CFT supervision, and insufficient market entry controls further undermine effective mitigation of ML/TF risks. These persistent AML/CFT gaps could threaten access to CBRs, with adverse implications for remittances, development finance, and trade.

30. The risks posed by a global launch of USDM1 appear to be disproportionally higher than the perceived gains and cannot be mitigated given lack of prerequisite capacity (Annex V). USDM1's ability to meet its objectives appears constrained by structural and market limitations:

- Revenue prospects are uncertain, as US T-Bill yields may fall below expectations and USDM1's global uptake faces competition and regulatory uncertainty.

- Furthermore, USDM1's contribution to financial inclusion appears limited in the near term, given the lack of adequate digital infrastructure. Domestically, USDM1 will be offered as an option for UBI payments, alongside bank transfers and checks. However, take-up is highly uncertain as the option would not likely serve UBI's objective of cost-of-living support given questionable functionality as a means of exchange and considerable operational challenges.

At the same time, this initiative gives rise to a wide range of risks:

- USDM1 may entail fiscal risks in the event of redemption pressures due to loss of investor confidence. The latter could be triggered by price volatility of T-Bills or more likely by operational and cybersecurity vulnerabilities, possibly amplified by inadequate legal and regulatory framework for USDM1. The issuance may additionally pose a risk of non-compliance under the IDA's Sustainable Development Finance Policy (SDFP), [21] subject to the terms of the Non-Concessional Borrowing ceiling (if applicable) for the RMI in FY2026. [22]

- Furthermore, to date, no in-depth risk assessment has been conducted on the potential misuse of USDM1 or its potential client pool. At present, the authorities do not appear to be equipped with appropriate expertise, tools, or technological abilities to supervise entities involved, analyze potentially suspicious transactions, and combat illicit activity involving USDM1, adding to risks of losing access to CBRs (¶29).

[20] Despite some regulatory steps taken (such as enactment of the DAO Amendment Act and related regulations), oversight of the DAO sector remains insufficient, hindered by capacity constraints and limitations in beneficial ownership understanding. The recommendation from the 2023 mission to issue a moratorium on new DAO registrations until adequate oversight mechanisms are established has not been implemented.

[21] Non-compliance could result in the loss of the annual allocation incentive bonus, and, in the case of repeated non-compliance, lead to a hardening of future IDA financing terms.

[22] RMI's PPAs for FY2025 stipulates that the RMI government "will not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt during the FY25 period, except if the non-concessional debt limit is adjusted by the World bank."

31. Thus, in staff's view, the authorities should not proceed with the planned global launch given the lack of institutional readiness, ownership, understanding, and ability to effectively mitigate associated risks. They should also consider whether the policy objectives could be better achieved through alternative, less risky measures—such as the ongoing tax reform for climate finance (Annex VII) and strengthening digital infrastructure and promoting the use of mobile and online banking.

32. The authorities should steadily implement the national Strategic Implementation Plan, particularly before embarking on such new initiatives. Key recommendations made in the MER include undertaking ML/TF risk assessments of the offshore corporate and DAO sectors and implementing the necessary mitigation measures, delineating institutional responsibilities and ensuring adequate capacity for oversight, particularly of high-risk sectors, and ensuring the availability of BO information in line with international standards. A national Strategic Implementation Plan was prepared with the APG in February 2025 based on the MER findings, but implementation will require high-level political commitment and sustained technical support.

Authorities' Views

33. The authorities are confident in USDM1's ability to achieve its objectives, in particular on the financial inclusion front, and asserted their readiness for the launch and its implications. While attentive to staff's presentation on the range of macro-fiscal and financial integrity risks, the authorities considered them manageable, especially given that USDM1 is fully backed by secure short-term US T-bills. They also credited their partnership and engagement with U.S. experts for ensuring that the framework to address risks is put in place. They noted that they had no intention to halt the project at this stage, though they remained open to adjustments should risks materialize more severely than expected.

34. They reaffirmed their commitment to executing the Strategic Implementation Plan, based on the MER recommendations and with assistance from the APG and development partners, to strengthen the AML/CFT framework. This would also help mitigate the risk of loss of their stable, but fragile, CBR. In that respect, they welcomed progress under the Pacific Strengthening CBR Project with the Pacific Islands Forum Secretariat, the World bank, and other development partners. Relatedly, the authorities emphasized the importance of additional CD needed for the establishment of the MA and indicated that securing staff and building institutional capacity during the transition period would be prioritized to ensure effective operationalization.

C. Structural Policies: Lift Growth Potential and Enhance Economic Resilience

35. Further diversification efforts on the sources of growth, either by investing in higher value-added activities in fisheries, or in exploring new industries such as sustainable tourism, are needed (Annex I). Further development of the fisheries sector faces challenges arising from the potential impacts of warming seas on the RMI tuna resources, high production costs, and the high turnover of skilled workers in fish processing activities. To promote a sustainable fisheries sector, the RMI should enhance regional cooperation to maximize the long-term benefits from the jointly managed resource, improve the effectiveness of financial incentives to attract investments, develop a pathway to gain access to the EU market, as well as expanding vocational training programs to increase the supply of (semi-)skilled workers. As for tourism, RMI faces challenges including geographic constraints, environmental risks, and limited costly air connectivity. To develop tourism, the country should secure long-term land tenure, invest strategically in infrastructure, enhance regional connectivity, and prioritize environmental protection while coordinating public-private efforts.

36. Strengthening institutions in both the public sector and key industries is essential for sustainable growth and long-term economic resilience. Technical assistance from IFIs has made progress in enhancing the government's ability to design and implement reforms in revenue mobilization, public procurement, PFM, and financial sector supervision. However, a major challenge to sustainable growth remains training and retaining Marshallese workers amid ongoing labor emigration. With continued support from multilateral and bilateral partners, the RMI government should scale up investments in upskilling its workforce through education and vocational training. In the near term, further enhancements to the work permit system to facilitate the recruitment of foreign labor would help fill skill shortages and support growth.

37. Despite uncertainty regarding the pace of climate shocks, acting on adaptation needs now is imperative to unlock growth potential.[23] Simulation results based on the DIGNAD Model show that resilient infrastructure investments and effective public investment management (PIM) can significantly reduce GDP contraction following natural disasters and recurring SLR shocks. Tax reform, featured by a permanent increase in the VAT rate, helps facilitate infrastructure restoration against persistent SLR and boost private investment and long-term growth despite dampened consumption. It can also help boost residents' confidence in the nation's long-term development prospects and alleviate the strong trend of labor emigration.

38. The high costs of adaptation investments underscore the urgent need to mobilize additional financing both domestically and internationally. The CCDR estimates that adapting to a potential 0.5-meter SLR by 2070-2100 will cost the RMI approximately US$5.0 billion, equivalent to about 17.8 years of FY2024 GDP.[24] The RMI has access to a variety of climate windows but faces difficulties in preparing bankable projects in line with donors' requirements. The authorities are actively engaging several bilateral donors to unlock fundings for climate adaptation projects and are implementing a multi-pronged accreditation strategy[25] to access the Green Climate Fund (GCF). Moving forward, additional revenue mobilization can help create fiscal space to fund climate

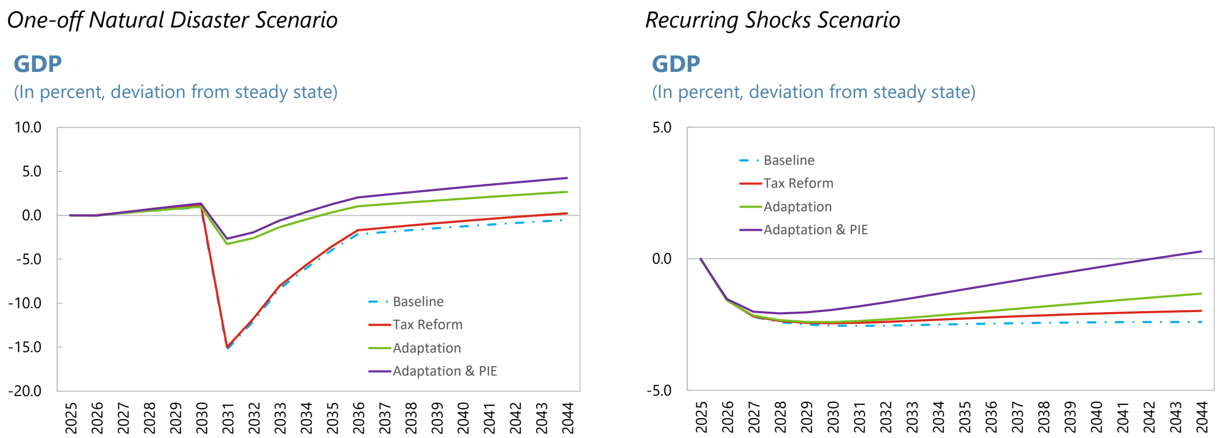
[23] See Selected Issues on "Building Resilience to Natural Disasters and Climate Change in the Marshall Islands" for details.

[24] This includes infrastructure measures and nature-based solutions in various locations.

[25] RMI's accreditation strategy encompasses the use of regional accredited entities, seeking technical assistance, leveraging readiness support, and accessing projects through international entities.

investments (Annex VII), and enhanced PFM and PIM will help attract external climate financing. Moreover, expanding solar energy development on densely populated islands, alongside upgrading the power grid, would provide critical benefits by reducing RMI's reliance on costly imported fossil fuels and generating long-term savings for climate adaptation.

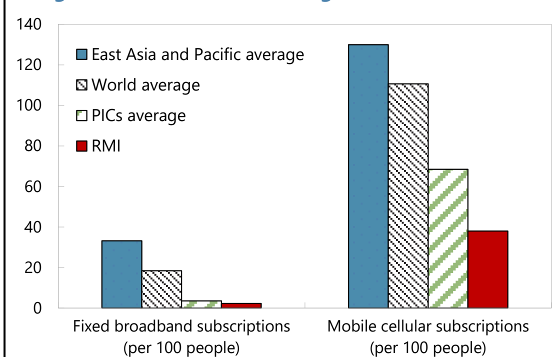
GDP Loss and Recovery under Alternative Investment/Financing Schemes
(Simulation Results based on the DIGNAD Model)



Source: IMF Staff calculations.

39. Improving governance and digital infrastructure can help enhance the business climate, foster private sector development, and support medium-term growth. Overcoming governance challenges would help transform strategies into effective policies, regulations, and outcomes. Advancing reforms in the main identified areas of weakness, including fiscal governance,[26] the regulatory framework,[27] and AML/CFT, is imperative. Improving digital connectivity, where the RMI lags its peers, can help unlock new pathways for growth.[28]

Digital Infrastructure Coverage



Source: World Development Indicators and IMF staff calculation.

[26] This includes revenue outcomes, revenue institutions, spending outcomes, procurement, fiscal transparency, and PFM controls.

[27] This includes product market regulation and land reclamation.

[28] Research on the Federal States of Micronesia shows that improving digital usage could raise labor force participation, enhance education and health outcomes, and accelerate private sector development (See CR No. 24/66, Annex V). For the RMI, important initiatives are underway through the 'Digital RMI' project funded by the World Bank that aims to build new digital infrastructure - including fiber optic systems, to provide affordable and accessible internet across the various atolls. Starlink, which became available in the Marshall Islands as of June 2025, builds on the World Bank's efforts to provide residents with high-speed internet for the first time in many remote locations.

Authorities' Views

40. The authorities recognized climate change as an existential threat central to their long-term strategic planning and are working on addressing some of the RMI's structural bottlenecks. They underscored the 2023 NAP for the Marshall Islands as a comprehensive, multi-phased "survival plan" designed to enable the nation to adapt to climate impacts, particularly sea level rise, extreme weather events, and droughts. By addressing governance and capacity gaps, the authorities remain actively engaged with development partners to expand RMI's access to external climate financing. While acknowledging the importance of land reform, the authorities noted that land ownership and rights are constitutional issues in the RMI, and wide-ranging dialogue and consensus building are needed to make changes. In response to evolving environmental and market conditions, the authorities are committed to moving up the value chain in the fisheries sector by substantially increasing onshore fish off-loading and processing capacity and launching a marketing platform jointly with other member countries of the Parties to the Nauru Agreement. Furthermore, the government underscored the importance of mobilizing the private sector as a cornerstone of industry viability and sustainability. The authorities indicated their intention to continue investing domestically over the long term to ease skilled labor shortages, while in the short term they expect the recent immigration law amendments easing visa requirements to playa supportive role.

CAPACITY DEVELOPMENT AND DATA ISSUES

41. Fund CD assistance is focused on supporting the authorities' reform agenda and improving implementation capabilities in line with surveillance priorities (Annex I). Recent IMF CD activities and priorities include macroeconomic statistics, PFM, financial sector supervision, and tax reform.

42. Strengthening both the timeliness and quality of macroeconomic data remains a priority, as shortcomings in the data provided to the Fund somewhat hamper surveillance (Annex VIII). National accounts statistics are frequently subject to sizable revisions and are typically published with a lag of about one year, while quarterly GDP data are not available. Similar challenges exist in other areas, where gaps reflect capacity limitations. To address these gaps, the authorities should make full use of ongoing Fund CD and strengthen institutional capacity, while continuing their engagement with Graduate School USA.

Authorities' Views

43. The authorities welcomed IMF's CD support and reiterated their commitment to improving the quality of macroeconomic statistics. They agreed with the importance of high-quality macroeconomic statistics as useful input to inform their assessment of the macroeconomic situation and thus policy making.

STAFF APPRAISAL

44. The RMI's economy is expected to grow, while inflation is expected to remain elevated. Growth will be somewhat supported by the excessively expansionary fiscal stance. Despite easing global commodity prices, inflation is expected to remain above the historical average over the medium term, reflecting wage-driven cost increases following the planned minimum wage increases and the rollout of the UBI. The new Compact has significantly strengthened the RMI's fiscal and external outlooks. The external position in FY2024 is assessed to be substantially stronger than the level implied by fundamentals and desirable policies

45. Several risks cloud the outlook. These include those arising from rising trade barriers, volatile commodity prices, and steady sea-level rise and more frequent natural disasters. Domestically, premature implementation of new largely untested policy initiatives, such as UBI and USDM1, could have adverse macro-fiscal and financial integrity implications. Continued labor emigration poses long-term challenges for economic development.

46. A careful and sustainable fiscal approach is needed to maintain appropriate fiscal buffers given the RMI's vulnerabilities and needs, and uncertainty over future Compact renewals. In the near term, the authorities should replace the UBI at the first available and feasible opportunity with a more targeted scheme to ensure more effective uses of the CTF resources. The IMF stands ready to support the authorities in improving administrative capacity, in collaboration with other development partners, to develop a better targeted and fiscally sustainable scheme. Over the medium term, the authorities should leverage the space provided by the Compact to foster greater fiscal prudence, through revenue mobilization, expenditure restraint, including gradual subsidy rationalization, and ambitious PFM reform agenda.

47. The timely implementation of phase two of tax reform is critical to reducing dependence on volatile non-tax income and creating fiscal space. RMI's tax revenue remains below potential. The planned transition from the GRT to a VAT and BPT, alongside excise tax reforms, is expected to reduce distortions and broaden the tax base while maintaining revenue neutrality in the medium term. To further close the tax gap, particularly to support climate investment, additional policy measures, including gradual VAT rate increases, are warranted. Maintaining momentum on PFM reforms is also essential to better realize the benefits of the revenue mobilization agenda.

48. While the upgrade in the risk rating of debt distress implies access to additional concessional financing, it is imperative that this increased space is utilized prudently and sustainably. The moderate-risk assessment in the current DSA is largely driven by the renewed Compact. Pursuing multiple large-scale spending initiatives simultaneously, including sizable concessional financing from IFIs for the new hospital projects, could have significant implications for debt sustainability. Given the country's limited absorption capacity, it is important to prioritize and sequence investment projects— including essential climate adaptation efforts—over a longer horizon, while finding the right balance between grant and debt financing.

49. The authorities should not proceed with the planned global launch of USDM1 given the lack of institutional readiness, ownership, understanding, and ability to effectively mitigate associated risks. They should also consider whether the policy objectives could be better achieved through alternative, less risky measures—such as the ongoing tax reform for climate finance and strengthening digital infrastructure and promoting the use of mobile and online banking.

50. The authorities should steadily implement the national Strategic Implementation Plan, particularly before embarking on new initiatives. Key recommendations made in the MER include undertaking ML/TF risk assessments of the offshore corporate and DAO sectors and implementing the necessary mitigation measures, delineating institutional responsibilities and ensuring adequate capacity for oversight, particularly of high-risk sectors, and ensuring the availability of BO information in line with international standards.

51. Mobilizing additional financing both domestically and internationally is vital to respond to adaptation needs. Moving forward, additional revenue mobilization can help create fiscal space to fund climate investments and enhanced PFM and PIM will help attract external climate financing.

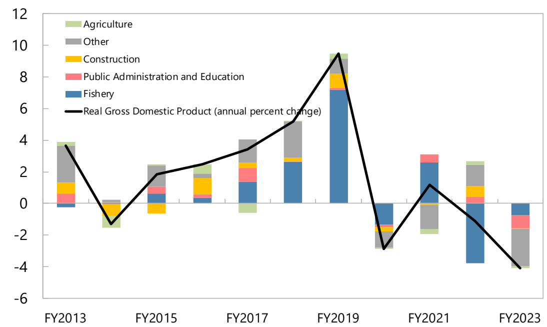
52. Strengthening governance, regulatory frameworks, and digital infrastructure, as well as diversification where feasible will enhance the business climate and private sector development. In doing so, the authorities should prioritize building the absorptive and technical capacity urgently needed to implement sound policies and achieve resilient and inclusive growth.

53. It is recommended that the next Article IV consultation be held on a 24-month cycle.

Figure 1. Marshall Islands: Real Sector Developments

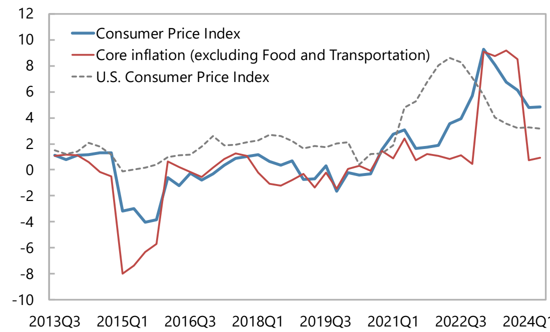
The economy registered three consecutive years of negative growth since FY2022.

Contribution to Change in Real Gross Domestic Product
(Percentage point)



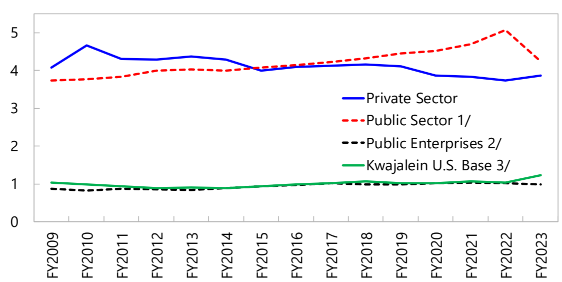
Inflation gradually eased in line with global commodity prices.

Inflation
(y/y percent change)



Public sector employment declined as economic activities slowed down…

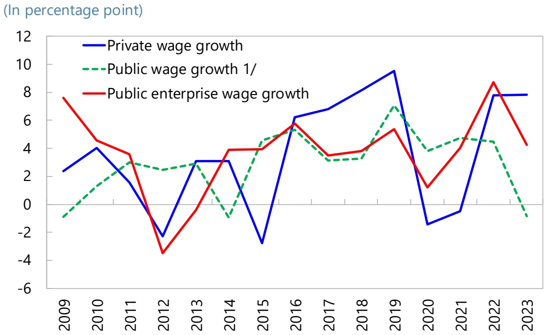
Employment
(Workers, in thousand)



1/ Central and local government.
2/ State-Owned Enterprises
3/ U.S. military base hired workers

putting downward pressure on wage growth.

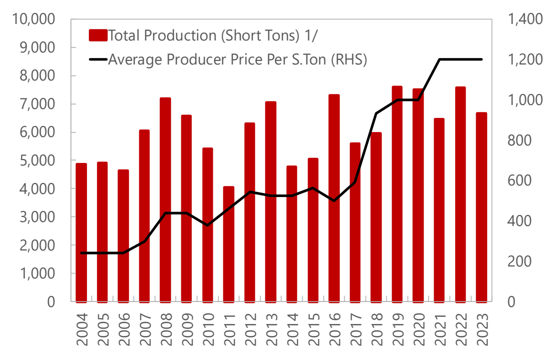
Average Public and Private Sector Wages
(In percentage point)



1/ Average wage growth of central, local and government agencies.

Copra production has remained stable following an all-time high in 2020.

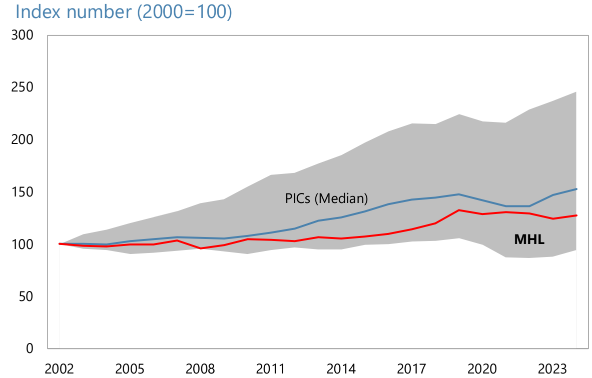
Copra Production and Producer Price



1/ Short Ton=0.984, Metric Ton=907.2 Kgs.

Income growth remains subdued and below PICs median over last 2 decades.

Pacific Island Countries: Real Gross Domestic Product
Index number (2000=100)

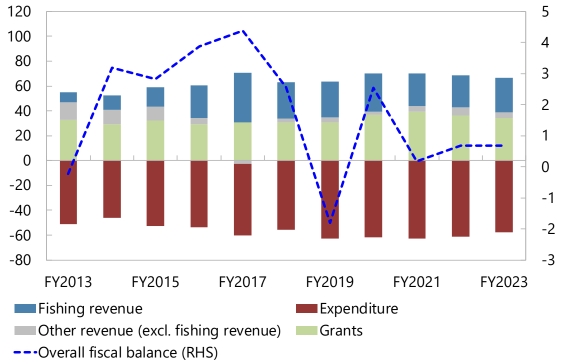


Sources: National authorities, World Economic Outlook, World Bank World Development Indicators, and IMF staff estimates.

Figure 2. Marshall Islands: Fiscal Sector Development

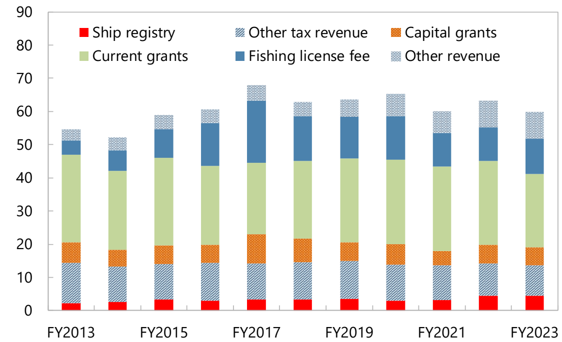
Expenditure was adjusted to match revenues under the FY21 balanced budget rule, resulting in fiscal surpluses.

Fiscal Balance
(In percent of GDP)



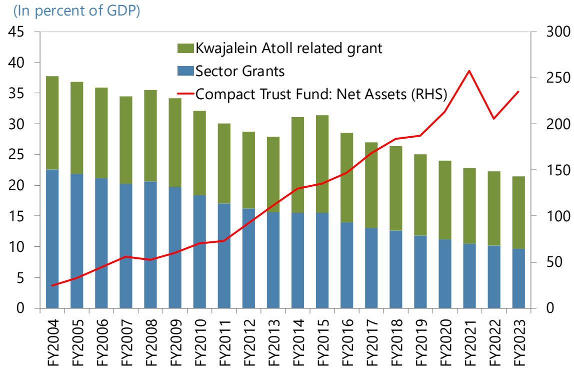
Steady external grants have supported revenues amid weak fishing license fees since FY21.

Government Revenue and Grants
(In percent of GDP)



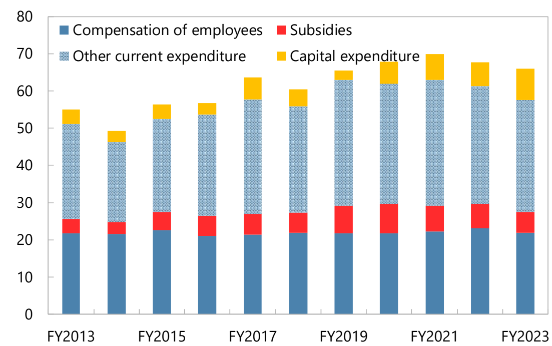
Compact grants had been declining as percent of GDP but are set to roughly double from FY24 with new Compact.

Compact Agreement Grants and Compact Trust Fund
(In percent of GDP)



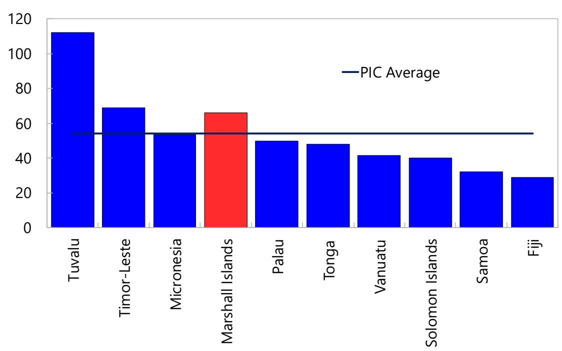
Subdued current spending due to population decline was offset by CapEx for the FY23 Micronesian Games.

Government Expenditure
(In percent of GDP)



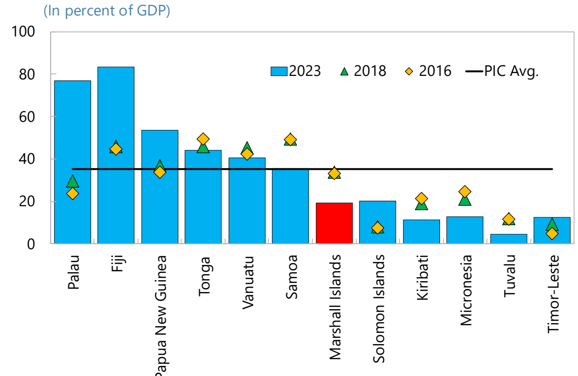
…but current government spending still higher than PIC average…

Current Government Expenditure
(In percent of GDP, 2023)



Public debt is declining and below regional peers.

Pacific Islands: Total Public Debt
(In percent of GDP)

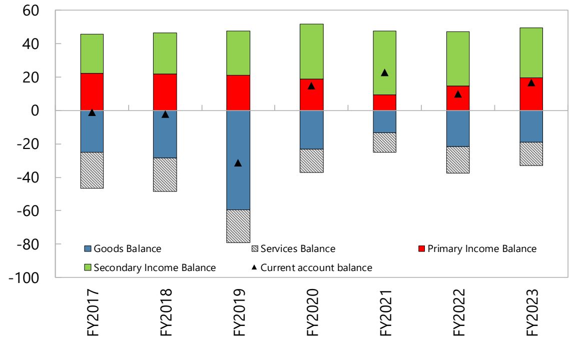


Sources: National authorities, IFS, and IMF staff estimates.

Figure 3. Marshall Islands: External and Credit Development

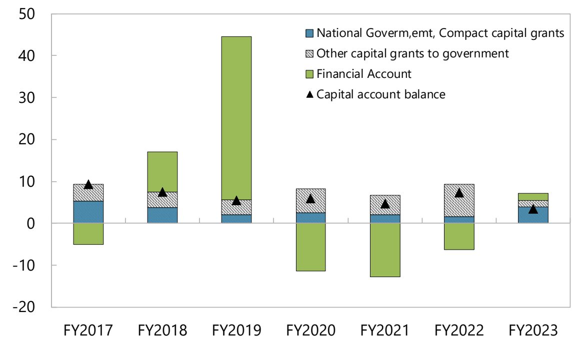
The current account remained in surplus, reflecting increased grant inflows and sustained primary income.

Current Account Balance
(In percent of GDP)



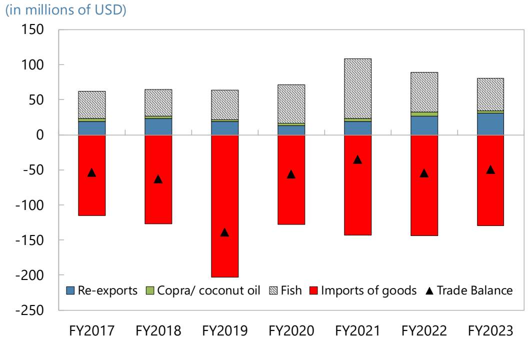
Financial outflows since FY2020 reflect increase in residents' offshore deposits.

Capital and Finance Account Balance
(In percent of GDP)



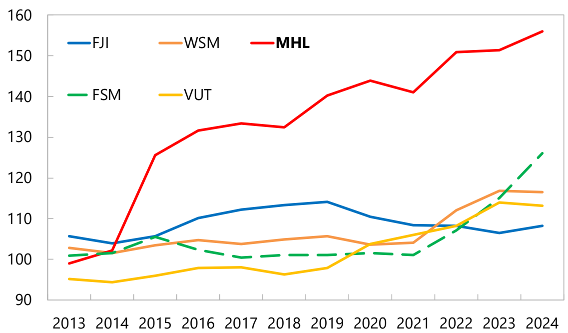
Goods account remains in deficit but sightly narrowed in FY2023 as imports declined due to lower fuel imports.

Total Exports and Imports of Goods
(in millions of USD)



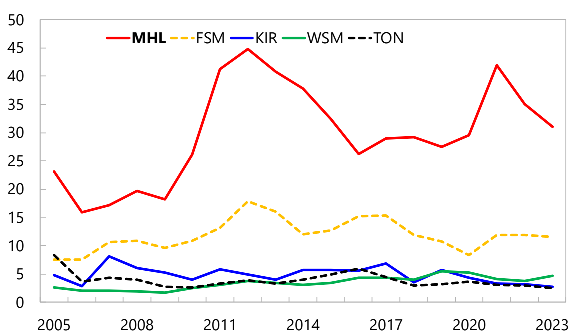
Real exchange rate appreciation reflects USD strength.

Real Effective Exchange Rates
(Index 2010=100)



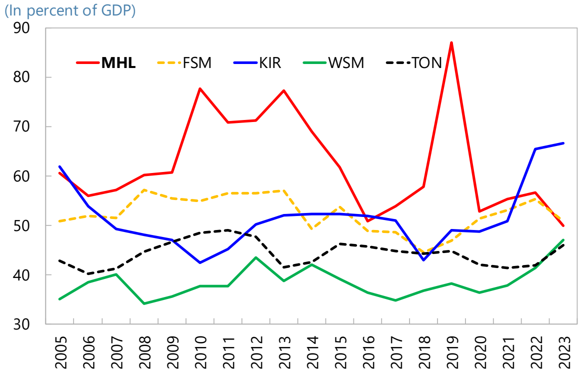
RMI's export performance has been volatile relative to peers, and has deteriorated in recent years…

Total Merchandise Exports
(In percent of GDP)



…while imports have declined in FY2023.

Total Merchandise Imports
(In percent of GDP)



Sources: National authorities, IFS, and IMF staff estimates.

Table 1. Marshall Islands: Selected Economic Indicators, FY2021–30[1]

Nominal GDP: US$259 million (FY 2023) — GDP per capita: US$6,417 (FY 2023)
Population: 44,722 (FY 2022) — Quota: SDR 4.90 million

	FY2021	FY2022	FY2023	FY 2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
		Prel.		Est.	Proj.					
Real sector										
Real GDP (percent change)	1.2	-1.1	-4.0	3.0	2.5	4.1	2.4	1.9	1.8	1.6
Consumer prices (percent change, average)	2.2	2.8	7.4	5.2	5.2	5.9	5.2	3.3	2.4	2.4
Consumer prices (percent change, end of period)	1.8	5.7	6.1	5.7	4.7	7.0	3.6	3.0	2.4	2.4
Central government finances (in percent of GDP)										
Revenue and grants	70.0	68.4	69.5	75.2	68.2	78.5	82.0	80.4	80.8	80.5
Total domestic revenue	30.5	32.3	33.8	32.0	31.4	30.4	30.4	30.1	30.0	30.1
Grants	39.5	36.1	35.7	43.1	36.8	48.2	51.6	50.3	50.8	50.4
Expenditure	69.8	67.7	68.4	71.6	66.5	83.8	81.3	79.8	80.7	80.4
Expense	63.0	61.2	58.4	63.1	56.3	68.2	71.5	70.2	70.4	70.2
Net acquisition of nonfinancial assets	6.8	6.5	10.0	8.5	10.2	15.7	9.8	9.7	10.2	10.2
Net lending/borrowing	0.2	0.7	1.1	3.6	1.7	-5.3	0.7	0.6	0.1	0.0
Compact Trust Fund (in millions of US$; end of perioc	668.9	567.6	683.9	1058.2	1315.6	1566.1	1716.2	1772.1	1824.0	1874.7
Balance of payments (in percent of GDP)										
Current account balance	22.7	10.0	16.8	14.0	10.3	4.0	7.9	5.7	4.7	3.4
Goods and services balance	-25.0	-37.4	-32.8	-35.4	-35.2	-52.5	-51.3	-52.4	-54.2	-55.2
Primary income	9.6	14.9	19.5	17.8	18.4	17.0	16.2	16.3	16.5	16.6
Of which : fishing license fee	7.1	6.9	6.5	6.1	5.7	5.6	5.6	5.9	6.1	6.1
Secondary income	38.1	32.6	30.2	31.6	27.0	39.5	43.0	41.8	42.4	42.0
Of which : Compact current grants	12.6	12.6	12.4	12.2	11.8	12.0	11.3	11.0	10.7	10.5
Of which : other budget and off-budget grants	23.8	18.9	17.3	19.5	15.5	14.3	14.4	14.0	13.7	13.4
Current account excluding current grants	-12.9	1.9	-1.8	-9.4	-4.1	-8.0	-3.5	-5.2	-6.0	-7.0
External PPG debt (in millions of US$; end of period)	63.5	59.6	54.7	48.5	44.0	62.0	60.7	60.8	64.2	69.9
External PPG debt (Percent of GDP; end of period)	24.5	23.5	21.1	17.3	14.6	18.7	17.0	16.2	16.4	17.1
Memorandum item:										
Nominal GDP (in millions of US$)	258.9	253.4	259.3	280.6	302.2	332.2	357.4	376.1	392.0	407.7

Sources: RMI authorities; and IMF staff estimates and projections.
[1]Fiscal year ending September 30.

Table 2. Marshall Islands: Statement of Government Operations, FY2020–30[1]

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
		Prel.[2]		Est.			Proj.			
					(In millions of U.S. dollars)					
Revenue	**181.2**	**173.4**	**180.3**	**211.0**	**206.0**	**260.9**	**293.0**	**302.5**	**316.5**	**328.1**
Taxes	**35.4**	**35.9**	**39.7**	**42.9**	**44.8**	**48.8**	**54.9**	**57.7**	**60.2**	**62.6**
Taxes on income, profits, and capital gains	17.4	16.7	18.5	20.1	19.2	20.2	26.2	27.6	28.8	29.9
Taxes on goods and services	7.5	8.2	9.2	10.2	11.5	12.6	25.6	26.9	28.0	29.2
Taxes on international trade and transactions	9.8	10.1	9.7	10.2	11.5	13.2	0.0	0.0	0.0	0.0
Other taxes	0.7	1.0	2.2	2.4	2.6	2.8	3.0	3.2	3.3	3.5
Grants[3]	**102.3**	**91.5**	**92.6**	**121.1**	**111.2**	**160.1**	**184.3**	**189.3**	**199.0**	**205.5**
Of which: U.S. Compact Sector Grants	27.1	27.9	28.0	50.0	51.0	52.0	53.1	54.1	55.2	56.3
Of which: drawdown of the Compact Trust Fund	0.0	0.0	0.0	16.8	0.0	46.8	65.2	67.4	74.6	78.4
Other revenue	**43.4**	**45.9**	**46.0**	**47.1**	**50.0**	**52.1**	**53.8**	**55.4**	**57.3**	**60.0**
Of which: fishing license fee	26.0	25.6	25.0	30.0	29.0	30.3	31.4	32.6	33.8	34.9
Expenditure	**180.7**	**171.6**	**177.3**	**200.8**	**200.9**	**278.4**	**290.6**	**300.2**	**316.3**	**328.0**
Expense	**163.1**	**155.1**	**151.4**	**177.0**	**170.2**	**226.4**	**255.6**	**263.9**	**276.1**	**286.3**
Compensation of employees	57.6	58.7	56.9	57.8	60.7	65.1	67.7	69.9	71.7	73.6
Use of goods and services	56.5	44.5	44.5	51.6	56.6	60.5	65.1	67.1	68.7	71.4
Interest	0.6	0.5	0.5	0.6	0.5	0.5	0.7	0.7	0.6	0.6
Subsidies	18.0	16.5	14.4	15.8	16.4	17.6	18.2	18.2	18.2	18.2
Grants	17.3	16.6	14.8	27.4	10.9	12.9	13.9	14.7	15.3	15.9
Other expense	7.8	17.8	20.3	23.9	25.1	69.1	89.2	92.6	100.8	105.7
Net acquisition of nonfinancial assets	**17.6**	**16.5**	**25.9**	**23.8**	**30.7**	**52.0**	**35.0**	**36.4**	**40.1**	**41.7**
Primary balance	**0.9**	**2.2**	**3.3**	**9.9**	**5.5**	**-17.4**	**2.7**	**2.6**	**0.5**	**0.3**
Net operating balance[4]	**18.1**	**18.2**	**28.9**	**34.0**	**35.8**	**34.5**	**37.4**	**38.6**	**40.4**	**41.8**
Net lending/borrowing	**0.5**	**1.7**	**3.0**	**10.1**	**5.1**	**-17.5**	**2.4**	**2.2**	**0.3**	**0.1**
					(In percent of GDP)					
Revenue	**70.0**	**68.4**	**69.5**	**75.2**	**68.2**	**78.5**	**82.0**	**80.4**	**80.8**	**80.5**
Taxes	**13.7**	**14.2**	**15.3**	**15.3**	**14.8**	**14.7**	**15.3**	**15.3**	**15.3**	**15.3**
Taxes on income, profits, and capital gains	6.7	6.6	7.2	7.2	6.4	6.1	7.3	7.3	7.3	7.3
Taxes on goods and services	2.9	3.2	3.6	3.6	3.8	3.8	7.2	7.2	7.2	7.2
Taxes on international trade and transactions	3.8	4.0	3.7	3.6	3.8	4.0	0.0	0.0	0.0	0.0
Other taxes	0.3	0.4	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants[3]	**39.5**	**36.1**	**35.7**	**43.1**	**36.8**	**48.2**	**51.6**	**50.3**	**50.8**	**50.4**
Of which: U.S. Compact Sector Grants	10.5	11.0	10.8	17.8	16.9	15.7	14.8	14.4	14.1	13.8
Of which: drawdown of the Compact Trust Fund	0.0	0.0	0.0	6.0	0.0	14.1	18.2	17.9	19.0	19.2
Other revenue	**16.8**	**18.1**	**17.7**	**16.8**	**16.5**	**15.7**	**15.1**	**14.7**	**14.6**	**14.7**
Of which: fishing license fee	10.0	10.1	9.6	10.7	9.6	9.1	8.8	8.7	8.6	8.6
Expenditure	**69.8**	**67.7**	**68.4**	**71.6**	**66.5**	**83.8**	**81.3**	**79.8**	**80.7**	**80.4**
Expense	63.0	61.2	58.4	63.1	56.3	68.2	71.5	70.2	70.4	70.2
Compensation of employees	22.2	23.2	22.0	20.6	20.1	19.6	18.9	18.6	18.3	18.1
Use of goods and services	21.8	17.6	17.2	18.4	18.7	18.2	18.2	17.8	17.5	17.5
Interest	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Subsidies	7.0	6.5	5.6	5.6	5.4	5.3	5.1	4.8	4.6	4.5
Grants	6.7	6.5	5.7	9.8	3.6	3.9	3.9	3.9	3.9	3.9
Other expense	3.0	7.0	7.8	8.5	8.3	20.8	25.0	24.6	25.7	25.9
Net acquisition of nonfinancial assets	6.8	6.5	10.0	8.5	10.2	15.7	9.8	9.7	10.2	10.2
Primary balance	**0.4**	**0.9**	**1.3**	**3.5**	**1.8**	**-5.2**	**0.7**	**0.7**	**0.1**	**0.1**
Net operating balance[4]	**7.0**	**7.2**	**11.1**	**12.1**	**11.8**	**10.4**	**10.5**	**10.3**	**10.3**	**10.2**
Net lending/borrowing	**0.2**	**0.7**	**1.1**	**3.6**	**1.7**	**-5.3**	**0.7**	**0.6**	**0.1**	**0.0**
Memorandum items:										
Compact Trust Fund (in millions of US$)	668.9	567.6	683.9	1058.2	1315.6	1566.1	1716.2	1772.1	1824.0	1874.7
Compact Trust Fund (in percent of GDP)	258.4	224.0	263.7	377.1	435.3	471.4	480.2	471.2	465.4	459.8
Outstanding central government debt (in millions of US$)	63.5	59.6	54.7	48.5	44.0	62.0	61.1	61.7	64.3	70.0
Outstanding central government debt (in percent of GDP)	24.5	23.5	21.1	17.3	14.6	18.7	17.1	16.4	16.4	17.2
Nominal GDP (in millions of US$)	258.9	253.4	259.3	280.6	302.2	332.2	357.4	376.1	392.0	407.7

Sources: RMI authorities; and IMF staff estimates and projections.

[1] Fiscal year ending September 30.

[2] Based on administrative data. The data will be finalized when the audit is completed and are subject to change.

[3] Does not include Compact funds earmarked for Kwajalein rental payments and Trust Fund contributions. Assume that RMI will continue to receive 100 percent of its MBDs financial assistance in the form of grants.

[4] Net operating balance is the difference between revenue and expense.

Table 3. Marshall Islands: Balance of Payments, FY2021–30[1]

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
		Prel.		Est.			Proj.			
					(In millions of U.S. dollars)					
Current account balance	**58.8**	**25.5**	**43.6**	**39.2**	**31.1**	**13.3**	**28.1**	**21.5**	**18.4**	**14.0**
Goods Balance	-34.6	-54.7	-49.2	-60.2	-64.3	-126.1	-128.0	-135.4	-144.3	-150.2
Exports, f.o.b.	108.6	89.0	80.4	84.0	87.9	93.5	97.1	100.7	104.4	109.0
Imports, f.o.b.[2]	-143.2	-143.7	-129.6	-144.1	-152.2	-219.5	-225.1	-236.1	-248.7	-259.2
Re-exports	19.2	26.3	30.6	33.1	36.2	40.6	44.1	47.0	50.4	53.9
Copra/ coconut oil	4.5	6.2	3.4	3.7	4.0	4.4	4.7	5.0	5.2	5.4
Fish	85.0	56.5	46.3	47.1	47.8	48.5	48.2	48.7	48.8	49.7
Services Balance	-30.2	-40.2	-35.9	-39.2	-42.0	-48.5	-55.4	-61.7	-68.0	-74.7
Exports of Services	11.1	13.8	19.7	20.8	21.8	24.0	25.8	27.1	28.3	29.4
Imports of Services	-41.3	-53.9	-55.6	-60.0	-63.8	-72.5	-81.2	-88.8	-96.3	-104.1
Primary Income Balance	24.9	37.7	50.5	49.9	55.7	56.6	57.9	61.2	64.6	67.6
Of which: Kwajalein atoll related inflows	48.1	47.2	53.5	54.8	58.2	59.6	61.1	62.6	64.1	65.7
Rent receipts for use of Kwajalein land	22.7	22.6	24.0	24.7	27.4	28.3	29.1	30.0	30.9	31.8
Ship registration fees	8.2	11.4	11.4	11.8	15.0	15.0	15.0	15.0	15.0	15.6
Of which: fishing licence fees inflows	18.3	17.6	16.8	17.1	17.4	18.6	19.8	22.1	23.9	24.7
Secondary Income Balance	98.7	82.7	78.2	88.6	81.7	131.2	153.7	157.4	166.0	171.3
Inflows	112.4	97.0	93.4	103.0	97.2	148.3	172.1	176.7	186.1	192.3
o/w Government grants	94.1	79.8	77.1	88.9	82.5	133.9	157.2	161.3	170.3	175.9
Of which: Compact current grants	32.6	31.8	32.3	34.3	35.7	39.8	40.5	41.2	42.0	42.8
Of which: Drawdown of the Compact Trust Fund	~	~	~	~	~	46.8	65.2	67.4	74.6	78.4
Of which: Other budget and off-budget grants	61.5	48.0	44.8	54.6	46.8	47.4	51.5	52.7	53.7	54.8
Current account excluding current grants	**-33.5**	**4.9**	**-4.6**	**-26.5**	**-12.4**	**-19.7**	**-23.6**	**-28.7**	**-54.0**	**-61.8**
Capital account balance	**12.0**	**18.4**	**9.1**	**17.0**	**26.2**	**27.4**	**28.4**	**29.2**	**30.0**	**30.8**
Of which: Compact capital grants	5.2	4.0	10.3	8.0	15.3	15.6	15.9	16.2	16.6	16.9
Of which: other capital grants to government	12.1	19.5	3.8	9.0	10.9	11.8	12.5	13.0	13.4	13.9
Financial account balance	**-32.9**	**-16.0**	**4.4**	**-56.2**	**-57.3**	**-40.7**	**-56.5**	**-50.8**	**-48.4**	**-44.8**
Errors and ommisions	**-37.9**	**-27.9**	**-57.1**	**~**	**~**	**~**	**~**	**~**	**~**	**~**
					(In percent of GDP)					
Current account balance	**22.7**	**10.0**	**16.8**	**14.0**	**10.3**	**4.0**	**7.9**	**5.7**	**4.7**	**3.4**
Goods Balance	-13.4	-21.6	-19.0	-21.4	-21.3	-37.9	-35.8	-36.0	-36.8	-36.8
Exports, f.o.b.	41.9	35.1	31.0	29.9	29.1	28.1	27.2	26.8	26.6	26.7
Imports, f.o.b.[2]	-55.3	-56.7	-50.0	-51.4	-50.4	-66.1	-63.0	-62.8	-63.4	-63.6
Services Balance	-11.7	-15.8	-13.8	-14.0	-13.9	-14.6	-15.5	-16.4	-17.4	-18.3
Exports of Services	4.3	5.4	7.6	7.4	7.2	7.2	7.2	7.2	7.2	7.2
Imports of Services	-16.0	-21.3	-21.4	-21.4	-21.1	-21.8	-22.7	-23.6	-24.6	-25.5
Primary Income Balance	9.6	14.9	19.5	17.8	18.4	17.0	16.2	16.3	16.5	16.6
Of which: Kwajalein atoll related	18.6	18.6	20.6	19.5	19.2	17.9	17.1	16.6	16.4	16.1
Of which: fishing licence fees	7.1	6.9	6.5	6.1	5.7	5.6	5.6	5.9	6.1	6.1
Secondary Income Balance	38.1	32.6	30.2	31.6	27.0	39.5	43.0	41.8	42.4	42.0
Of which Government grants	36.4	31.5	29.7	31.7	27.3	40.3	44.0	42.9	43.4	43.1
Of which: Compact current grants	12.6	12.6	12.4	12.2	11.8	12.0	11.3	11.0	10.7	10.5
Of which: Drawdown of the Compact Trust Fund	~	~	~	~	~	14.1	18.2	17.9	19.0	19.2
Of which: Other budget and off-budget grants	23.8	18.9	17.3	19.5	15.5	14.3	14.4	14.0	13.7	13.4
Current account excluding current grants	**-12.9**	**1.9**	**-1.8**	**-9.4**	**-4.1**	**-5.9**	**-6.6**	**-7.6**	**-13.8**	**-15.2**
Capital account balance	**4.6**	**7.3**	**3.5**	**6.1**	**8.7**	**8.2**	**7.9**	**7.8**	**7.7**	**7.5**
Of which: Compact capital grants	2.0	1.6	4.0	2.8	5.1	4.7	4.5	4.3	4.2	4.1
Of which: other capital grants to government	4.7	7.7	1.5	3.2	3.6	3.5	3.5	3.5	3.4	3.4
Financial account balance	**-12.7**	**-6.3**	**1.7**	**-20.0**	**-19.0**	**-12.2**	**-15.8**	**-13.5**	**-12.3**	**-11.0**
Errors and ommisions	**-14.6**	**-11.0**	**-22.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal GDP	258.9	253.4	259.3	280.6	302.2	332.2	357.4	376.1	392.0	407.7

Sources: RMI authorities; and IMF staff estimates and projections.

[1] Fiscal years run October 1-September 30. Refers to the fiscal year ending September 30 of year.

[2] Imports of goods in FY2019 include the purchase of 3 boats that amounted to US$61.8 million.

Table 4. Marshall Islands: Deposit Money Banks, FY2020–24[1]

	FY2020	FY2021	FY2022	FY2023	FY2024
	(In millions of U.S. dollars)				
Assets and Liabilities					
Assets	293.8	324.8	353.0	334.6	297.5
Foreign assets	155.3	193.2	221.1	225.7	192.3
Total Credit/loan	129.9	121.6	124.4	102.7	102.6
Claims on central and local governments	0.3	0.0	0.2	0.0	0.3
Claims on public enterprises	0.5	0.2	0.0	0.0	2.0
Claims on private sector	129.2	121.4	124.2	102.7	100.2
Consumer	75.7	72.6	76.0	74.7	76.2
Commercial	53.5	48.8	48.2	28.0	24.0
Unclassified assets	7.5	9.0	7.5	6.2	2.6
Liabilities	293.8	324.8	353.0	334.6	297.5
Deposits	254.4	284.1	310.4	288.6	255.9
Central government deposits [2]	18.6	13.8	13.1	9.4	38.1
Foreign liabilities	5.7	6.2	6.5	6.7	6.7
Capital accounts	31.6	33.4	34.8	36.4	32.3
Unclassified liabilities	1.4	1.1	1.4	2.8	2.5
Memorandum items:					
Loan/deposit ratio (in percent)	51.5	43.1	40.1	35.6	40.1
Deposits (percent change)	38.8	25.0	41.3	38.2	0.6
Loans (percent change)	26.2	0.8	1.9	-19.6	-21.7
Consumer loans (in percent of total loan)	58.2	59.3	61.2	72.8	76.0
Income and expense					
Interest Income	12.9	13.1	13.2	17.2	18.9
Interest and fees on loans	9.7	12.9	11.9	9.9	10.6
Deposits with banks	3.2	0.2	1.3	7.3	8.4
Interest Expense	1.3	1.4	1.6	1.8	2.4
Deposits	1.3	1.4	1.6	1.8	2.4
Net interest income	11.7	11.7	11.6	15.4	16.6
Provision for loan losses	-0.1	1.0	0.3	2.8	4.3
Net interest income after loan loss provisions	11.7	10.8	11.3	12.6	12.2
Net Income (Loss)	7.2	6.4	7.0	8.4	8.2
Interest rates (in percent) [3]					
Deposit rates					
Checkable savings	0.2	0.1	0.1	0.1	0.4
Savings deposits	0.2	0.2	0.4	0.6	0.4
Time deposits	2.1	2.9	2.5	2.5	3.3
All interest bearing deposits [4]	0.8	0.7	0.7	0.9	1.5
Loan rates					
Businesses	6.3	6.1	6.0	6.0	7.4
Individuals	8.3	13.6	11.9	11.1	11.6
All loans [4]	9.9	10.7	10.6	16.7	18.5

Sources: RMI authorities; and IMF staff estimates.

[1] Fiscal year ending September 30.

[2] Includes deposits of social security administration and other trust funds.

[3] Yearly average.

[4] Actual interest paid divided by relevant deposit or loan balances.

Table 5. Marshall Islands: Financial and External Vulnerability Indicators, FY2020–24[1]

	FY2020	FY2021	FY2022	FY2023	FY2024
Financial indicators:					
Commercial bank deposits (12-month percent change)	21.8	11.7	9.3	-7.0	-11.3
Private sector credit (12-month percent change)	2.7	-6.1	1.5	-17.3	-2.4
Foreign assets/total assets (percent)	52.9	59.5	62.6	67.5	64.7
Consumer loans (in percent of total private sector loans)	58.2	59.3	61.2	72.8	76.0
External indicators:					
Exports (percent change)	11.6	51.8	-18.1	-9.7	n.a.
Imports (percent change)	-37.0	12.1	0.3	-9.8	n.a.
Current account balance (percent of GDP)	14.9	22.7	10.0	16.8	16.9
Capital and financial account balance (percent of GDP)	-5.4	-8.1	-185.5	-172.4	n.a.
Of which: FDI (percent of GDP)	2.1	4.0	69.9	60.6	n.a.
Gross official reserves (in millions of U.S. dollars) [2]	18.6	13.8	13.1	9.4	38.1
Gross official reserves (in months of imports of goods and services)	1.2	0.8	0.8	0.6	2.2
Debt indicators:					
External debt service (in millions of US$)	6.7	6.7	7.0	7.3	n.a.
External debt service (In percent of exports of goods and services)	5.6	6.5	7.0	6.9	n.a.
External PPG debt (percent of GDP) [3]	27.4	24.5	23.5	21.1	0.0
External PPG debt (in percent of exports of goods and services) [3]	77.7	61.8	59.5	51.8	0.0

Sources: RMI authorities; and IMF staff estimates and projections.

[1] Fiscal year ending September 30.

[2] Measured by the end-of-period stock of government financial assets held in commercial banks.

[3] Public and publicly-guaranteed external debt.

Table 6. Marshall Islands: Financial Soundness Indicators, FY 2022-2025

(In Percent)

	Q4-FY2022	Q4-FY2023	Q4-FY2024	Q3-FY2025
Assets Quality				
Target ALLL to Gross Loans	2.4%	3.6%	3.2%	4.1%
Actual ALLL to Gross Loans	5.4%	4.2%	7.0%	8.9%
ALLL to Non-Performing Loans (NPLs)	282.8%	114.7%	127.9%	223.4%
NPLs to Gross Loans	1.9%	3.7%	5.5%	4.0%
Non-Current Loans to Gross Loans	12.9%	4.5%	3.3%	6.9%
Recoveries to Write -Offs	94.6%	13.4%	31.8%	150.1%
Net Loan Losses (Recoveries) to Average Gross Loans	0.0%	4.6%	3.1%	-0.3%
Related Party Exposures to Gross Loans	0.5%	0.6%	1.0%	0.9%
Earnings				
Return on Assets (ROA)	1.9%	3.3%	3.4%	2.2%
Net Interest Income to Average Earning Assets (NIM)	3.2%	5.0%	4.9%	4.0%
Total Overhead Expense to Average Assets	2.0%	2.3%	2.2%	2.4%
Net Operating Profit After Tax to Average Capital (ROE)	19.1%	33.1%	34.1%	22.8%
Non-Interest Income to Average Assets	1.0%	1.1%	1.0%	0.9%
Liquidity				
Liquid Asset Ratios (Statutory)	74.2%	79.3%	76.4%	82.2%
Statutory Requirement - Minimum Threshold 20%	20.0%	20.0%	20.0%	20.0%
Loans (Net) to Total Deposits	36.4%	30.7%	35.6%	27.6%
Loans (Gross) to Total Deposits	39.3%	34.8%	39.1%	31.0%
Top 20 Depositors to Total Deposits	68.8%	64.7%	63.9%	66.0%

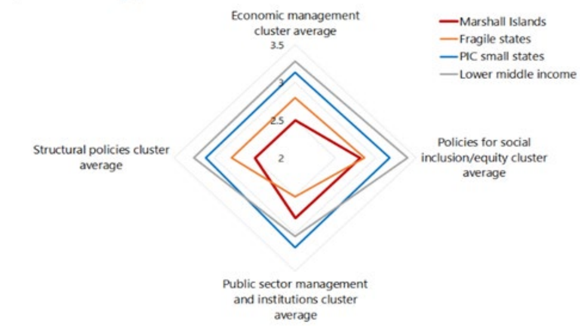
Source: RMI authorities

Note: ALLL means Allowance for loan and lease losses

Annex I. Country Engagement Strategy[1]

Country Policy and Institutional Assessment, 2023

(1=low to 6=high)



Sources: World Bank. *CPIA:* and IMF staff calculations.

1. **The Republic of Marshall Islands (RMI) is characterized by the World Bank and IMF as a Fragile and Conflict-Affected State, largely stemming from weak structural and economic management policies, with no conflict-related issues.**[2] As a small, remote and low-lying island state, the RMI is faced with several vulnerabilities and challenges, compounded by its island dispersion, population decline and exposure to rising sea temperatures and levels and to natural disasters. These structural factors drive fragility and contribute to poor economic outcomes.

2. **These fragilities are compounded by the authorities tendency to explore untested and risky policy initiatives that are well beyond their capacity to manage and could lead to serious policy errors.** These include proliferation of risky digital initiatives, including the latest plan to issue "digital sovereign bond" (Annex V). In the same vein, the authorities are embarking on other untested large-scale policies such as the Universal Basic Income scheme (Annex III). The RMI has, however, made progress in many areas, including through investments in health, education, and renewable energy. The authorities have articulated their medium-term policy objectives in their National Strategic Plan 2020-2030, with a focus on resilience in all its dimensions including environmental, social and economic resilience. The RMI also issued its national adaptation plan (NAP) in 2023 and is close to setting up a Monetary Authority.

Fragility and Economic Implication in RMI

Sources of fragility:

- Remoteness
- Limited land, vast ocean
- Population decline
- Low production capacity
- Exposure to natural disasters
- Institutional fragility
- Poverty and health concerns
- Proliferation of digital initiatives

→

Economic outcomes:

- Undiversified economy
- Low and volatile growth
- Import dependence
- Underdeveloped private sector
- Underdeveloped financial markets
- Reliance on foreign aid and grants

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[1] Prepared by Seron Shivanjali (RRO).

[2] Average score below 3 out of a maximum of 6 on World Bank's Country Policy and Institutional Assessment (CPIA) was used to determine the fragility classification.

A. Constraints to Reform and Policies to Address the Sources of Fragility

3. Progress toward RMI's policy goals will require navigating complex and multi-faceted challenges, including the ongoing global trade policy uncertainty. A multi-layered long-term approach is required to address the sources of fragility in the RMI. Key policies include:

- ***Enhancing Fiscal Sustainability.*** Domestic revenue mobilization is a priority, and while the authorities have commenced work on tax reforms, fast-tracking or implementing the pending reforms is needed. Expenditure needs to be re-prioritized from recurrent spending to capital investment. The subsidies provided to SOEs should be gradually phased out and replaced by targeted transfers to the most vulnerable. The PFM framework needs to be updated to deal with the inflow of funds to address climate and development challenges under the new Compact.

- ***Improving connectivity.*** Infrastructure investments to upgrade air transport, ports, shipping capacity, and power generation and improving the infrastructure for more reliable internet supply would facilitate market access and enhance the business climate.

- ***Mitigating risks to the financial sector.*** Continuous improvement to financial sector supervision and regulation is needed to safeguard financial stability. The establishment of a Monetary Authority would ensure an effective payment ecosystem and promote financial digitalization and inclusion. Financial sector policies should also focus on mitigating risks to financial integrity, particularly arising from the ongoing and planned digital initiatives when the supervisory framework is not yet fully operational.

- ***Diversifying through structural reforms***. Comprehensive structural reforms would help increase long-term growth, raise productivity, and support diversification efforts. These include fiscal reforms (ongoing tax reform and needed subsidy removal) and reforms to address structural bottlenecks related to land availability and dispute resolution mechanisms that continue to hinder private sector development and foreign investment. Further efforts are needed to diversify the economic base, either by investing in higher value-added activities in fisheries and copra, with progress achieved though gaining EU Certification and the tuna supply deal with Walmart, or in exploring new industries and markets such as sustainable tourism.

- ***Continuing to invest in climate adaptation***. With the support of development partners, various adaptation projects in line with the 2023 NAP are already underway.[3] However, the available funding covers only a small proportion of RMI's total investment needs due to complex adaptation requirements and internal capacity constraints. RMI should work towards enhancing internal capacity to unlock more climate financing.

[3] Primarily focused on coastal protection, enhancing water security and developing disaster preparedness strategies.

B. Fund Engagement and Capacity Development (CD) Priorities

4. To assist RMI in addressing the sources of fragility, the IMF collaborates closely with the authorities and development partners to ensure a coordinated effort. The Fund's engagement focuses on surveillance and CD to support the authorities' reform agenda and improve implementation capabilities. Fund CD has been regularly delivered mainly by Pacific Financial Technical Assistance Center (PFTAC), with support and focused missions from Fund headquarters. Recent CD has focused on the following:

- ***Macroeconomic Statistics.*** The Fund continues to provide support to the Statistics office to improve economic statistics for surveillance including national accounts, prices, government finance, public sector debt as well as external sector statistics.

- ***Public Financial Management (PFM).*** PFTAC has been working with the authorities and facilitated improved budgeting practices; provided further support on the design of a transparent and more informative budget book to be developed through the new Financial Management Information System.

- ***Revenue Administration.*** PFTAC is supporting the RMI to broaden its tax base. While RMI has a relatively simple tax system, it is inefficient and is based on turnover taxes, import duties, and personal income tax, making tax revenues only the third largest source of government revenues. Domestic revenue mobilization is a priority to help lower high dependence on the narrow and volatile fisheries and copra sectors and grants.

- ***Financial Sector Supervision.*** The Fund assisted RMI to develop risk management and prudential standards for Marshall Islands Development Bank and other non-banking credit institutions and provided training programs on implementation of the Basel standards for the supervisory authorities.

- ***Technical assistance in establishing the MA.*** The Fund undertook a mission to advise the authorities on defining the requirements and conditions for the establishment of the MA.

5. Future Fund engagement with the RMI is expected to continue to be centered around surveillance and CD, in coordination with development partners. The near-term CD priorities will remain focused on improving statistics for surveillance, PFM, fiscal governance and financial sector regulatory reforms. While the US continues to remain the biggest donor to the RMI largely through the compact agreement, other key partners are the WB, ADB, Japan and Australia.

6. There are several risks that could affect engagement with the RMI and hinder the traction of policy advice. Political resistance to the fiscal reform agenda could hinder the reform momentum, while controversial initiatives such as digital initiatives and the UBI scheme pose significant fiscal and financial integrity risks. Additionally, as a small state, protracted and elevated global trade policy uncertainty could increase the volatility of international grants available to RMI and amplify its challenges.

Annex II. Renewal of Compact of Free Association[1]

1. The amended Compact of Free Association (Compact[2]), signed in 2023, marks the second renewal of the bilateral agreement between the United States and RMI. First enacted in 1986, the Compact governs the U.S.–RMI relationship across defense, security, migration, and economic assistance. The provisions for economic assistance of the previous Compact (signed in 2003) expired at end-FY2023. Following over two years of negotiations, the two governments signed the amended Compact in October 2023, accompanied by two related agreements,[3] extending economic assistance over the span of 20 years (from FY2024 to FY2043). The appropriation bill was signed into law by the U.S. in March 2024. The revised framework includes a more diversified and secure funding structure and comprises the following key elements:[4]

A. Expanded Economic Assistance

2. Overall funding for 20 years is US$2.3 billion, a 54 percent increase over the prior 20-year period. Funding is classified into several categories as follows:

- ***Sector Grants****:* The Compact provides annual sector grants of US$50 million, adjusted by 2 percent per year as inflation indexation.[5] Sectors covered include (1) Education; (2) Health Care; (3) Private Sector Development; (4) Public Sector Capacity Building; (5) Environment; (6) Public Infrastructure;[6] (7) Enhanced Reporting and Accountability;[7] (8) Enewetak Development;[8]and other sectors as mutually decided by both governments.

- ***Additional Environment Assistance****:* US$30 million in grants over 20 years, of which US$20 million is allocated to feasibility studies and technical assistance, and US$10 million to support future environmental programs.

- ***Additional Education Assistance****:* US$22 million in grants over 20 years specifically for education and job-training programs.

[1] Prepared by Taku Zakoji (APD).

[2] Agreement to Amend the Compact of Free Association, as Amended, October 16, 2023.

[3] Agreement Regarding the Compact Trust Fund, October 16, 2023 and Agreement Concerning Procedures for the Implementation of Economic Assistance Provided in the 2023 Amended Compact, October 16, 2023.

[4] The amended Compact provides the option for extension of Sector Grants and federal services beyond FY2043 under similar terms. This offers flexibility for continued U.S. support depending on future bilateral negotiations.

[5] However, this adjustment is below the historical CPI average (2.8 percent over FY2005–FY2024).

[6] A minimum of 30 percent and maximum of 50 percent of the total value of the Sector Grant must be allocated to Public Infrastructure. Allocation must be consistent with the Infrastructure Development Plan, as explained below.

[7] A minimum of 2.5 percent of the total Sector Grant must be allocated to Enhanced Reporting and Accountability.

[8] Allocation to Enewetak Development must be 4.8 percent of total Sector Grant.

- ***Contribution to Compact Trust Fund (CTF)**:* US$700 million in new U.S. contributions (US$200 million annually from FY2024–FY2026, and US$100 million in FY2027).

- ***Supplemental Health Fund**:* A one-time contribution of US$20 million in FY2024 and annual contributions of up to US$8 million through FY2043. Funds may be drawn only for health programs recommended by the Joint Health Dialogue, a bilateral body established under the Compact.

- ***Climate Fund**:* A one-time contribution of US$20 million in FY2024, to be used for climate-related needs as identified by the Climate Working Group, also established under the Compact framework.

- ***Kwajalein Development Plan Fund***: A one-time contribution of US$132 million in FY2024 to support community resilience and health across Kwajalein Atoll, aligned with the government's development plan adopted in March 2022.

- ***Nuclear Testing-related Assistance**:* US$15 million in grants over 20 years to support projects related to the legacy of U.S. nuclear testing.

Annex II. Table 1. Marshall Islands: Breakdown of Overall Compact Funding
(in Millions of US Dollars)

FY	2024	25	26	27	28	29	30	31-43 (total)	Total
Sector Grants	50	51	52	53	54	55	56	843	1,215
Contribution to CTF	200	200	200	100	-	-	-	-	700
Additional Environment Assistance	30								30
Additional Education Assistance	22								22
Nuclear Testing-related Assistance	15								15
Supplemental Health Fund	28	8	8	8	8	8	8	104	180
Climate Fund	20	-	-	-	-	-	-	-	20
Kwajalein Development Plan Fund	132	-	-	-	-	-	-	-	132
Total	433	262	263	164	65	67	68	69	2,314

3. **Under the Compact, the RMI will continue to access selected U.S. federal programs and services**, including the U.S. Postal Service (USPS), National Weather Service (NWS), Federal Emergency Management Agency (FEMA), and Federal Aviation Administration (FAA).

B. Reorganized Compact Trust Fund (CTF)

4. **The CTF has been restructured to permit annual withdrawals for direct income distribution to individuals.** Originally designed to support fiscal self-sufficiency after the expiration

of the Compact 2003, the CTF now comprises four accounts and has been repurposed to allow the RMI government to withdraw certain percentages of its value in each fiscal year:[9]

- ***Account 1***: Consolidates the previous A, B, and C accounts under the 2003 CTF Agreement. Valued at around US$832 million (297 percent of GDP) as of end-FY2024, withdrawals are capped at 4 percent of the three-year average fund value. Funds may be used for sector grant-related purposes and Individual Support Distributions (i.e., universal basic income (UBI).[10]

- ***Account 2****:* Comprises US$700 million in new U.S. contributions (see para. 3). Withdrawals are capped at US$10 million (FY2025), US$20 million (FY2026), and US$30 million (FY2027), increasing to 5 percent of the average fund value from FY2028 onward. Funds support the Extraordinary Needs Distribution (END), intended to address exceptional economic hardship for people living in outer atolls.[11]

C. Strengthened Reporting Requirements

5. The new Compact enhances transparency through expanded pre- and post-award reporting obligations under the oversight of the Joint Economic Management and Financial Accountability Committee (JEMFAC), composed of two members from each government. JEMFAC is tasked with reviewing implementation plans and financial reports. Post-award reporting requirements include Annual Financial Report and Annual Trust Fund Investment Reports. Pre-award reporting requirements, all of which must be submitted to JEMFAC by July 15 each year, include:

- ***Budget and Investment Framework***: An annual medium-term framework outlining strategic goals, self-reliance strategies, and multi-year objectives for each grant.

- ***Infrastructure Development Plan***: A prioritized list of infrastructure projects with cost estimates and timelines, aligned with BIF objectives. Public infrastructure channeled from Sector Grant must be made available in accordance with the IDP.

- ***Annual Implementation Plan***: AIP, essentially as annual Compact budget, details planned grant allocations, recent fiscal year spending, and associated performance indicators.

6. The implementation of the UBI and END programs is also subject to prior review by the Trust Fund Committee (TFC), on a yearly basis. If the RMI government intends to implement

[9] While withdrawal rates (4–5 percent) remain below the CTF's historical average return (6.9 percent), high inflation (e.g., 5.7 percent in FY2024) may erode the real value of fund assets over time if maximum drawdowns are exercised.

[10] The UBI must be paid in equal amounts on a per capita basis to all eligible recipients, and the criteria used to determine eligible recipients must be mutually decided by both governments.

[11] In addition to Account 1 and 2, the CTF also includes Account 3 and 4. Account 3 holds unspent balances from economic assistance grants, which may be used for any sector grant purposes or other jointly agreed priorities. Account 4 holds additional contributions from the RMI government and external partners, use of which is restricted to addressing unanticipated shortfalls or as agreed with the Trust Fund Committee (TFC).

these programs in the upcoming fiscal year, it must submit a proposed budget—including the target population and total payment amount—to the TFC by July 15 of the preceding fiscal year for review.

Annex III. Macroeconomic Implications of the Universal Basic Income Program[1]

This annex assesses the potential macroeconomic implications of the RMI's planned Universal Basic Income (UBI) scheme, which is set to launch in FY2026 and will be financed through Compact Trust Fund (CTF) withdrawals. The authorities aim for the UBI program to address the cost-of-living crisis and to lower incentives for emigration by providing unconditional cash transfers to all Marshallese citizens. The program raises important policy considerations regarding inflation, fiscal sustainability, and labor market dynamics. The authorities should assess the relative merits of alternative uses of the CTF to ensure the most effective use of fiscal resources. They should replace the UBI at the first feasible opportunity with a more targeted scheme to better achieve its developmental impact and preserve fiscal sustainability. Capacity building will be critical to develop more targeted schemes.

A. Background

1. **In response to the longstanding cost-of-living crisis and sharp emigration, the RMI government plans to introduce a UBI scheme.** The RMI currently has a social security system providing benefits to retirees, but it does not extend to the non-working-age population nor cover workers in the informal sector, which constitutes a large share of the labor force (around a 33 percent of total employment,[2] though this figure could reach as high as 50 percent if those engaged in subsistence activities, small-scale agriculture, and informal trading are included), particularly in the outer islands. For decades, income support for informal sector workers has relied heavily on the inefficient and fiscally burdensome Copra Support Program, which subsidizes copra producers. Against this backdrop, with the UBI program, the authorities aim to provide a universal, unconditional income floor to enhance income equity and strengthen social protection.

2. **The UBI program is scheduled to begin in Q1 of FY2026.** The initiative will be funded through annual withdrawals from the CTF, in line with the Compact of Free Association and its subsidiary agreements (Compact). Under these agreements, UBI payments must be distributed in equal per capita amounts to all eligible recipients, with eligibility criteria jointly determined by the RMI and U.S. governments. CTF Account 1, from which UBI-related expenditures are to be drawn, holds a balance equivalent to 297 percent of GDP as of end-FY2024. Under the Compact, annual withdrawals are capped at 4 percent of the three-year moving average of the account balance (see Annex II). Following these rules, the authorities plan to fully utilize the allowable withdrawal and commence quarterly cash transfers to all Marshallese citizens residing in the country.[3] A formal distribution plan was approved by the Trust Fund Committee (TFC)[4] in August 2025. For FY2026, the

[1] Prepared by Taku Zakoji (APD). The annex has benefitted from comments from IMF Fiscal Affairs Department and World Bank colleagues.

[2] International Labour Organization, 2024, "*Marshall Islands: Country Factsheet*."

[3] As of May 2025, 33,294 eligible citizens had registered for the UBI program.

[4] The TFC consists of representatives from the RMI and the U.S. Given its composition, the U.S. members collectively hold an effective veto power over the TFC's decision.

authorities have budgeted US$27 million (8.1 percent of GDP; 10.4 percent of government expenditure), equivalent to about US$800 per person annually (approximately 6 percent of the average annual wage of formal sector employees), with the first disbursement planned for November 2025, followed by quarterly payments in February, May, and August 2026.

3. Delivery mechanisms include bank transfer and checks, with the option to receive benefits in USDM1 units. However, take-up for the USDM1 option is highly uncertain as the option would not likely serve UBI's objective of cost-of-living support given questionable functionality as a means of exchange and considerable operational challenges (Annex V).

B. Policy Discussions

4. There is very limited cross-country experience with large-scale UBI as the one planned in the RMI.[5] It is important to recognize that depending on its design and implementation, several risks and policy considerations could emerge, as outlined below:

- ***Inflation: Effective collaboration with the private sector will be essential to mitigate inflationary pressures stemming from the rollout of the UBI.*** The UBI program constitutes a large fiscal injection and is expected to significantly boost household consumption. Given the economy's heavy reliance on imports and minimal domestic production capacity, much of the additional demand will likely result in higher imports rather than domestic inflationary pressures. This "import leakage" could help contain price increases for tradables. However, localized inflation could emerge in non-tradable sectors—such as housing, food services, and transport—if supply constraints are not addressed. In addition, the quarterly disbursement structure could cause temporary demand surges, leading to short-term supply bottlenecks. Coordination with importers and retailers, regular price monitoring, and advance inventory planning will be essential to minimize inflation volatility.

- ***Fiscal and External Sustainability: Given the RMI's significant developmental needs and exposure to external shocks, allocating a large share of fiscal space to the UBI raises concerns about long-term fiscal sustainability and resilience.*** In the context of fiscal sustainability, once implemented, a UBI scheme is difficult to scale back, creating a permanent fiscal cost that needs to be tied to reliable financing. In that respect, prolonged erosion of the CTF's capital in real value, whether due to poor investment performance or higher-than-expected inflation, could undermine the program's viability. This may create temptation to supplement UBI funding through budgetary spending in the future. While fiscal sustainability is to some extent preserved by adhering to the rules-based drawdown formula, it is important to note that allocating the entirety of CTF resources to UBI could reduce the government's fiscal space for other necessary investment projects (see Policy Design and Alternative Use of CTF) and flexibility to implement counter-cyclical measures in response to future shocks—particularly in light of RMI's huge development needs and its vulnerability to natural disasters and external

[5] As of now, there is no country yet implementing a full-scale, permanent UBI program that is both universal and unconditional at a national level.

shocks. In terms of external sustainability, the rise in imports will widen the trade deficit, but this is not expected to threaten external stability, provided CTF drawdowns remain sustainable.

- ***Labor Market and Wage Dynamics: To mitigate potential labor market distortions and support formal employment, the introduction of UBI should be accompanied by well-defined active labor market policies and clear policy communication.*** The UBI program may affect labor supply and demand in nuanced ways. On the supply side, while the benefit level is modest, it may raise reservation wages and reduce the willingness to accept low-paid or informal jobs, particularly among subsistence workers and those in informal sectors. These dynamics will depend on the broader business environment, including access to capital and the regulatory burden of formalization. On the demand side, the scheduled increase in the minimum wage from US$3.00 to US$5.25 per hour over three years could raise labor costs in low-productivity sectors, discouraging formal hiring and increasing reliance on informal labor if not matched by productivity gains. When combined with UBI, this could further shift employment toward informality unless offset by productivity-enhancing measures or targeted labor demand support such as public investment, skills development and job matching initiatives. Clear communication to frame the UBI as a basic income floor—not a substitute for employment—would also help manage expectations and preserve work incentives.

- ***Policy Design and Alternative Use of the CTF: To ensure the most effective use of fiscal resources, the authorities should assess the relative merits of alternative uses of the CTF.*** While a universal scheme can help address capacity constraints and mitigate exclusion errors,[6] it is important to weigh its long-term opportunity costs, particularly given the CTF's finite nature and competing development priorities. Regardless of its current financing through CTF withdrawals, the programs form part of public spending and may become politically difficult to scale back even if CTF resources are depleted or insufficient in the future. Specifically, considering that CTF resources can also be allocated to any spending aligned with sector grant purposes, the authorities should replace the UBI with a more targeted scheme. This would require capacity building, and careful program designing and cost-benefit analysis of how the fiscal space could be reallocated to other critical areas, such as access to financial services, climate-related public investment, training and education, or healthcare. In terms of delivery, creating a robust digital payment network and engaging with stakeholders will be essential, especially in remote atolls.

[6] The relative merits of targeted versus universal social benefits have attracted considerable attention and remain a key policy challenge for country authorities (IMF, 2024, "Operational Guidance Note for IMF Engagement on Social Spending Issues," IMF Policy Paper No. 2024/022, Washington DC). This choice is shaped by multiple factors, including administrative capacity to implement means testing (such as regularly verifying incomes), financing sources, and the responsiveness of labor supply across different income groups (IMF, 2017; IMF, 2019, "A Strategy for IMF Engagement on Social Spending: Background Papers," IMF Policy Paper No. 2019/017, Washington DC.).

Annex IV. External Sector Assessment

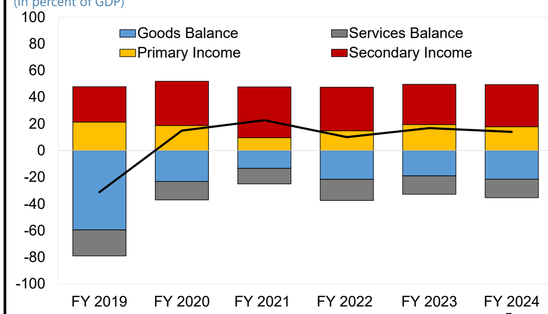
Overall Assessment: *The external position of the RMI in FY2024 is assessed to be substantially stronger than the level implied by fundamentals and desirable policies. The current account balance remained in surplus FY2024, in large part due to an increase in grants following the Compact renewal. The real effective exchange rate is assessed to be undervalued. However, these assessments are subject to substantial uncertainty given large errors and omissions in the BOP, frequent data revisions and the volatile nature of the BOP flows.*

Potential Policy Responses: *Structural reforms to promote private sector development and export diversification through higher value-added activities and accessing new markets could strengthen resilience of the external position. Financial sector reforms and reducing financial integrity risks by strengthening the AML/CFT framework would mitigate risks associated with the loss of correspondent banking relationships and the related implications of capital flow.*

Current Account

Background: The current account in FY2024 recorded a surplus of 14 percent of GDP largely on account of higher Compact and other grants which more than offset higher trade and services deficit. Following the new Compact ratification, Compact current grants increased in FY2024 (to 12.2 percent of GDP). The merchandize trade balance deteriorated mainly on account of higher imports due to increased capital expenditure related to the Micronesian Games, while exports remained subdued.

Current Account Balance
(In percent of GDP)



Sources: Country authorities; and IMF staff estimates.

Assessment: The external position in FY2024 is assessed to be substantially stronger than the level implied by fundamentals and desirable policies. The EBA-Lite CA model estimates an adjusted current account surplus of 13.4 percent of GDP after considering model-based cyclical contributions. The current account norm, the level consistent with fundamentals and desirable policies, is estimated to be 0.8 percent of GDP. This implies a model estimated current account gap of around 12.6 percent of GDP, of which a policy gap is estimated at 3.0 percent of GDP. The policy gap is largely driven by a tight fiscal policy, higher public health expenditure, and limited private credit.

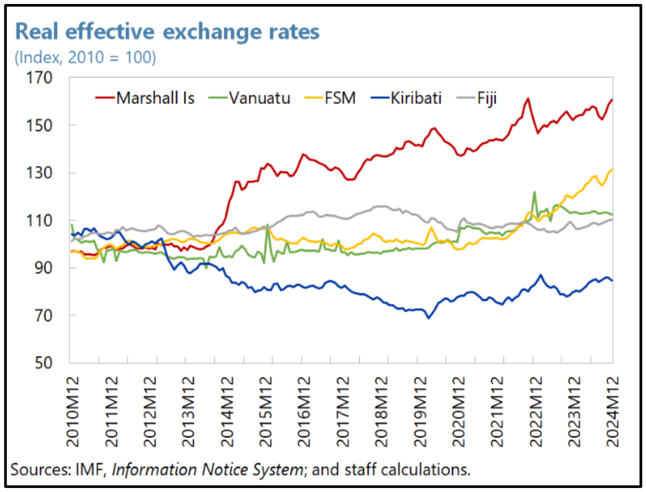
Marshall Islands: EBA-lite Model Results, 2024

	CA model 1/ (in percent of
CA-Actual	**14.0**
Cyclical contributions (from model) (-)	0.6
Natural disasters and conflicts (-)	0.0
Adjusted CA	**13.4**
CA Norm (from model) 2/	**0.8**
Adjustments to the norm (+)	0.0
Adjusted CA Norm	**0.8**
CA Gap	**12.6**
o/w Relative policy gap	3.0
Elasticity	-0.4
REER Gap (in percent)	**-33.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Looking ahead, the current account balance is projected to record another surplus, although narrowing to around 10.3 percent of GDP in FY2025. The current account surplus is projected to temporarily decline to 4.0 percent in FY2026, reflecting the purchase of two new airplanes funded by an external loan. In the RMI, where the domestic production base is limited, consumption related to the UBI payments is expected to be directed mainly toward imported goods. As a result, imports are projected to rise from FY2026 onward, mostly offsetting the inflows from CTF withdrawals recorded under secondary income. Over the medium term, the current account is projected to remain in surplus but to gradually narrow in line with the declining fiscal surplus.

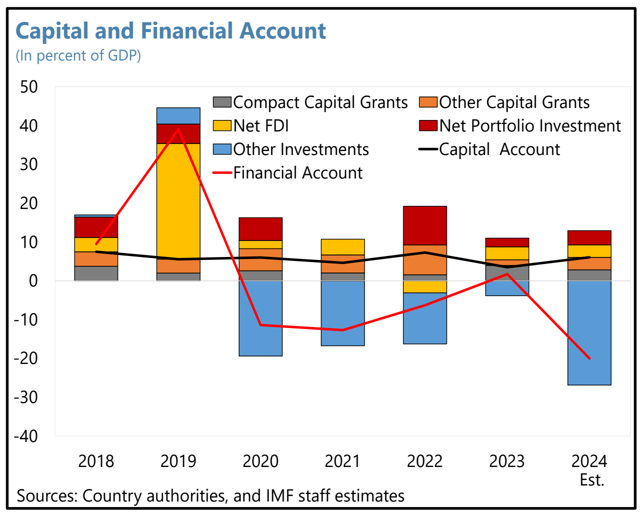
Real Exchange Rate



Background: The US dollar is used as legal tender and official currency in the RMI, and there is no central bank. The RMI has maintained an open and free financial account without restrictions on international payments and transfers. During FY2024, the real effective exchange rate (REER) of the RMI appreciated by 1.9 percent, driven by the strength of the US dollar.

Assessment: Given data limitations and large statistical variations, the REER and external sustainability approaches under EBA-lite were not used. Results from the CA approach indicate a REER gap of -33 percent (based on elasticity of -0.4), indicating that the real exchange rate is assessed to be undervalued. However, caution is needed to interpret the results. Based on the current account excluding grants, the EBA-lite CA model would imply an overvaluation. Additionally, there is large uncertainty surrounding the assessment, especially due to the consistently large errors and omissions (22 percent of GDP in FY2023), implying significant measurement issues.

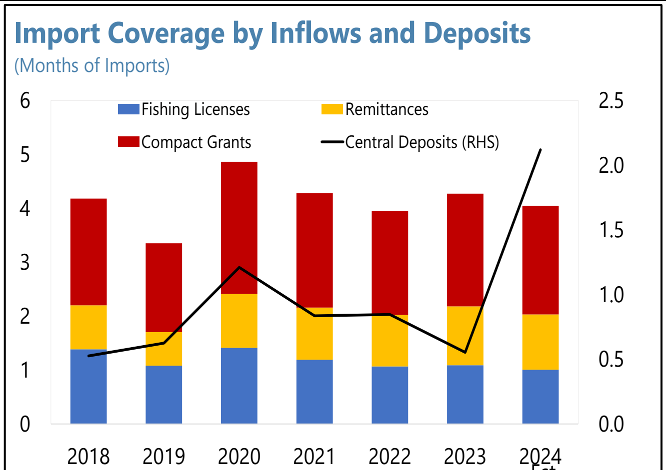
Capital and Financial Account



Background: The capital account inflows consist of Compact capital grants and grants from development partners. Total government grants (including both current and capital grants) increased to 37.7 percent of GDP in FY2024, from 33.2 percent in FY2023, following the ratification of the new Compact, as well as stable inflows of the other budget and off-budget grants. The financial account recorded net outflows in four of the past five years, excluding FY2023, mainly driven by an increase in bank deposits held abroad. Foreign direct investment in the RMI remains modest and mostly concentrated in the fisheries sector. Portfolio investment is also limited in scale, largely dominated by changes in local government trust funds.

Assessment: Excluding the volatile other investment (mainly representing changes in bank deposits held abroad), net inflows in the capital and financial account are expected to persist over the medium term, mainly supported by Compact and other donor grants.

FX Intervention and Reserves Level



Sources: Country authorities; and IMF staff estimates.

Background: Although the Monetary Authority Act was passed in August 2025, it has not yet become fully operational. As in the previous ESA, this assessment, therefore, treats government deposits held with commercial banks as reserves because they can be used to meet short-term liquidity requirements and to help offset the trade deficit. In the RMI, these deposits are influenced by other inflows, including fishing license fees, workers' remittances and Compact grants. The import coverage of government deposits increased significantly to 2.1 month of imports in FY2024 from 0.6 months in FY2023, largely on account of higher Compact grants and remittances which offset the moderation in fishing license fees.

Assessment: Looking ahead, government deposits are expected to be sustained driven by inflows of Compact grants and a steady increase in remittances given the increasing Marshallese diaspora in the U.S.

Annex V. A Digital Sovereign Bond—Implications for the Republic of the Marshall Islands[1]

The RMI government is planning to issue a "digital sovereign bond" (tokenized format) to raise revenue and enhance financial inclusion, but the initiative entails significant risks. While the proposed digital sovereign bond has the potential to generate fiscal benefits and expand access to financial services, its success is uncertain due to questionable market demand, limited digital infrastructure, legal and regulatory gaps, and capacity constraints. In the absence of stronger safeguards and institutional readiness, the authorities should not proceed with the global launch as planned.

A. Background

1. The authorities are exploring the issuance of a "digital sovereign bond" (tokenized format), USDM1, with the aim of raising revenue and enhancing financial inclusion. The initiative is coordinated by MIBOND Global LLC (MIBOND), a private U.S.-based entity, that the government has retained as a service provider. MI Financial Services LLC (MIFS), the RMI-based subsidiary of MIBOND (licensed as a financial services provider in the RMI and supervised by the Banking Commission) will administer issuance and redemption of USDM1 and handle all compliance tasks, including on-boarding prospective bondholders. Suspicious activity monitoring, reporting, and compliance support will be outsourced to Inca Digital, a U.S.-based software firm. The proposal seeks to achieve two objectives: (1) generate additional revenue to finance climate adaptation and mitigation projects; and (2) enhance financial inclusion, especially for domestic residents in remote atolls, by offering digital settlement and investment tools.

2. The issuance of USDM1 is envisaged to scale up in an iterative, demand-driven manner, with the authorities considering a global launch, including to U.S. retail investors. An oversight committee, including the government, will review and adjust the issuance cap regularly, beginning with about US$100,000. Bilateral issuance tests with selected partners are set to take place as part of a technical pilot by late September 2025. Domestic issuance will be linked to the UBI rollout in November 2025, as USDM1 will be offered as an option for UBI payments (Annex III). International issuance will be paced depending on test results and investor demand for U.S. qualified institutional investors and international investors. However, broader global issuance (i.e., to the U.S. retail investors) will depend on Schedule B registration with U.S. SEC.

3. USDM1 would be fully collateralized by short-term US Treasuries (T-Bills). Investors would exchange U.S. dollars or eligible stablecoins (initially USDC) for USDM1, with funds deposited in a segregated U.S. bank account or wallet held by the RMI government, subject to KYC requirements. Legally, the RMI government would be the issuer, and as such, guarantor of its par value, backed by its full faith and credit. Operationally, investors can purchase USDM1 continuously via MIBOND portal and wire funds to a U.S. incorporated trust. The proceeds would be managed by

[1] Prepared by Taku Zakoji (APD). The annex has benefited from technical inputs and guidance from colleagues at the IMF Monetary and Capital Markets and Legal Departments.

the trust, which would fulfill the role of asset management and invest in short-term U.S. government securities via U.S.-regulated custodians.

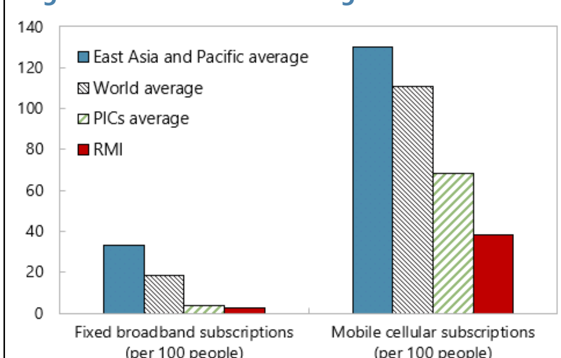
4. USDM1 would be distinguished from traditional stablecoins by offering interest in kind to holders while also generating fiscal revenue. The bond has no fixed maturity, with monthly variable coupon payments: interest would be accrued continuously but distributed monthly from the trustee in kind (in additional USDM1 units). The rate would reflect prevailing T-Bill yields minus administrative costs[2] and a government margin (e.g., 1 percentage point). MIBOND projects that, for illustrative purposes, with a 1 percent market share of global stablecoins, and assuming T-Bill yields around 5 percent (as of October 2024), additional annual revenue for the RMI government could reach US$8.5 million (2.6 percent of GDP). Initially, proceeds will be used to overcollateralize USDM1; over time, residual revenues may be directed toward budget financing purposes.

5. Redemption would be available on demand, with the government retaining the right to terminate the project. Investors could redeem USDM1 for cash with fees and a T+0 settlement period or trade it peer-to-peer on MIBOND's platform and would bear redemption costs. If a secondary market develops, USDM1 could also be traded for other assets. The RMI government would hold a right to wind down the project, i.e., a call option to redeem all already-issued USDM1 after a waiting period allowing the underlying T-Bills to mature, providing an exit mechanism.[3]

B. Limitations to Envisioned Benefits

6. However, USDM1's ability to meet its dual objectives appears constrained by structural and market limitations. On the financial inclusion side, digital infrastructure gaps, such as limited access to cellular networks and broadband, remain a barrier. MIBOND's expectation is demand from both retail and institutional investors, with domestic demand likely to cover operational costs and global demand driving potential profits. However, for digital money like USDM1 to gain widespread adoption in the RMI, access to reliable digital infrastructure, including electricity, wireless, cellular, and broadband technology, must be ensured across the population.[4] On this front, RMI lags behind even its regional peers, and the gap

Digital Infrastructure Coverage



Source: World Development Indicators and IMF staff calculation.

[2] Costs of redemptions could be higher than the estimation if availability for the holders to sell USDM1 through crypto exchanges is limited.

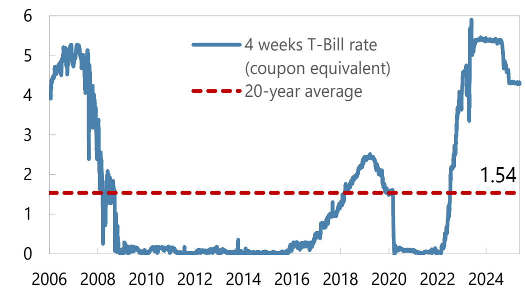
[3] It remains unclear whether this mechanism can indeed be considered an "orderly exit mechanism" that, as the authorities claim, would avoid disruptions to financial markets or the public finances.

[4] International Monetary Fund (IMF), 2024, "Rise of Digital Money Implications for Pacific Island Countries" IMF Departmental Paper, DP/2024/003, Washington DC.

is even more pronounced when compared to global averages (Figure 1). Even in the capital city, connections tend to be costly and unreliable, with frequent disruptions due to power outages. This digital infrastructure gap is particularly acute for residents of the outer atolls, who are expected to be the main beneficiaries of financial inclusion.[5] Moreover, domestic banks already offer competitive time deposit rates (3.3 percent average in FY2024),[6] limiting USDM1's marginal appeal to local users.

7. On the fiscal side, revenue expectations are subject to downside risks stemming from interest rate fluctuations and uncertain market uptake. MIBOND's projections assume a 5 percent yield on T-Bills, but the 20-year average yield is closer to 1.5 percent, with yields approaching zero during past monetary easing cycles (e.g., post-GFC and COVID-19 pandemic) (Figure 2). In addition, given the emergence of similar yield-bearing digital products[7] and ongoing global regulatory scrutiny, particularly in the U.S.,[8] it appears increasingly unlikely that USDM1 can achieve 1 percent market share. As such, realized government's revenue net of costs may fall short of expectations.

1-Month T-Bill Yield
(Percent)



Source: US Treasury Department and IMF staff calculation.

C. Risks

8. USDM1 presents financial, fiscal, legal, reputational, and financial integrity risks, particularly given limited institutional capacity. Beyond the inherent risks that the project may not succeed as expected, the following risks, among others, warrant careful consideration:

Financial Risks

9. Stablecoins entail a risk of potential redemption shocks. Despite being fully backed by T-Bills, USDM1 could face redemption pressures in a confidence shock.[9] While asset-backed stablecoins have not experienced "runs" to date, there have been occurrences where money market mutual funds, exhibiting financial structures akin to USDM1, "broke the buck" during crises. Investor

[5] The outer atolls are generally not connected to the national power grid and rely solely on unreliable solar generation. In addition, anecdotal evidence suggests that internet penetration has been lagging in these areas.

[6] For example, a domestic commercial bank, Bank of Marshall Islands, offers 2 percent interest on savings accounts and up to 3 percent interest on certificates of deposits.

[7] In recent years, major U.S. firms have started offering tokenized financial products that, while not traditional stablecoins, functions similarly by providing stable value and yield through tokenized money market funds. Some other firms also created tokens with yield available to retail investors.

[8] The legal counsel to the RMI government does not believe that the GENIUS Act for "payment stablecoins" would apply to the offering of USDM1 in the U.S.

[9] MIBOND plans to address redemption risks by (i) over-collateralization on the asset side, by holding T-Bills more than the outstanding USDM1 in circulation using initial yields (based on the rating agency's methodology to maintain an investment-grade rating) and (ii) delaying responses to redemption requests until T-Bills mature.

confidence could be shaken by macro shocks or issuer-specific problems such as cyberattacks or operational disruptions. Hence, the RMI government, in its dual role as both the issuer and potential regulator of USDM1, must cultivate sophisticated risk management capabilities and ensure adequate resources for effective regulation and implementation.[10]

10. Moreover, should USDM1 become widely held domestically, it may lead to banking disintermediation. This could result in significant deposit withdrawals from private banks and would exert downward pressure on bank profitability and constrict the availability of credit within the economy. At the same time, reducing the demand for banking services through digital money could reduce the attractiveness of a bank providing them in the RMI (IMF, 2024). These risks could be managed by setting a certain cap on individual purchases and balances. However, the authorities appear to lack adequate capacity to respond effectively to sudden deposit flights and manage these risks effectively.

Fiscal Risks

11. Contingent fiscal risk may arise in the event of redemption shocks. In a crisis, the government may be forced to sell T-Bills at fire-sale prices to meet redemptions, potentially incurring losses. Moreover, the authorities currently lack the requisite capacity and resources to effectively manage operational risks stemming from digitization, particularly concerning cybersecurity threats that necessitate close monitoring and effective incident response and recovery mechanisms. The RMI government could be obliged to restore investors' financial losses from their own resources.

12. USDM1 may pose a risk of non-compliance under the IDA's Sustainable Development Finance Policy (SDFP), particularly concerning the Non-Concessional Borrowing ceiling applicable to the RMI in FY2026.[11] This risk arises from the possibility that financing through USDM1 could potentially exceed the permissible limits for non-concessional borrowing. Such an occurrence could trigger policy-related consequences[12] within the SDFP framework. However, it is not definitively clear that USDM1 will lead to exceeding these allowable limits. Therefore, careful monitoring and assessment, as well as close coordination with IDA, are required to ensure compliance with the SDFP guidelines and to mitigate any potential risks associated with non-concessional borrowing through USDM1.

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[10] To establish a national cybersecurity framework, the RMI government enacted a Cybersecurity Act of 2025, under which a Chief Information Security Officer (CISO) will be appointed. The officer will also be tasked with overseeing cybersecurity risks associated with the USDM1 project. However, CISO has not been appointed as of the mission.

[11] RMI's PPAs for FY2025 stipulates that the RMI government "will not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt during the FY25 period, except if the non-concessional debt limit is adjusted by the World Bank."

[12] Non-compliance could result in the loss of the annual allocation incentive bonus, and, in the case of repeated non-compliance, lead to a hardening of future IDA financing terms.

Legal Risks

13. Lack of clarity on the legal aspects of USDM1 regulation could amplify the contingent fiscal and financial risks. The authorities have explained that issuance of USDM1, being a government security, falls under the realm of the Fiscal Responsibility and Debt Management Act 2020 (FRDMA), and provided a legal opinion stating that "the issuance of USDM1 is legally valid." However, the application of other domestic laws to USDM1 remains uncertain.[13] Further, while USDM1 is intended to be offered under the relevant U.S. regulations, the associated legal risks may not be comprehensively assessed or understood by the authorities. These legal gaps, both domestically and internationally, could further amplify contingent fiscal and financial risks. The authorities should make sure the whole process related to USDM1 clearly fits into all relevant legal systems.

Financial Integrity Risks

14. ML/TF concerns are not sufficiently addressed. The authorities have not conducted any in-depth assessment of the money laundering (ML) and terrorist financing (TF) risks associated with this new instrument.[14] The competent anti-money laundering and counter-terrorist financing (AML/CFT) authorities, including Banking Commissioner's Office and Attorney General's Office, do not appear to be, at present, equipped with the appropriate expertise, tools, and technological capabilities to supervise entities participating in the stablecoin arrangement, analyze potentially suspicious transactions, and investigate and prosecute offenses involving USDM1. In this respect, Banking Commissioner's Office (or the planned Monetary Authority) is expected to supervise MIFS for activities under its Financial Services Provider (FSP) license. However, the authorities do not yet have sufficient capacity or understanding to undertake such oversight and plan to rely on technical support and capacity development from Guidepost, a U.S.-based consultant, which will take place over the next year. The authorities should endeavor to have a comprehensive understanding of new technologies ahead of launch, particularly as the RMI government, as the issuer, would retain ultimate responsibility for complying with legal requirements associated with USDM1 issuance and would suffer a reputational fallout from abuse of this product. As noted in the 2024 MER, however, the authorities continue to face institutional and resource constraints in implementing AML/CFT framework. These limitations will hamper effective oversight of digital asset activities and undermine the enforcement of international financial integrity standards.

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[13] USDM1 might not fall under the scope of existing domestic regulatory frameworks for securities or digital assets. Government-issued securities are explicitly exempt from the application of the Securities and Investment Act, the Banking Act excludes such instruments from the definition of "virtual assets," and the DAO Act defines "digital securities" in a manner that does not cover government-issued instruments.

[14] Financial Action Task Force (FATF), 2023, "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation." Paris. Recommendation 15 and Interpretive Note to Recommendation 15.

D. Conclusion

15. The risks posed by a global launch of USDM1 appear to be disproportionally higher than the perceived gains and cannot be mitigated given lack of prerequisite capacity. USDM1's ability to meet its objectives appears constrained by structural and market limitations:

- Revenue prospects are uncertain, as US T-Bill yields may fall below expectations and USDM1's global uptake faces competition and regulatory uncertainty.

- Furthermore, USDM1's contribution to financial inclusion appears limited in the near term, given the lack of adequate digital infrastructure. Domestically, USDM1 will be offered as an option for UBI payments, alongside bank transfers and checks. However, take-up is highly uncertain as the option would not likely serve UBI's objective of cost-of-living support given questionable functionality as a means of exchange and considerable operational challenges.

At the same time, this initiative gives rise to a wide range of risks:

- USDM1 may entail fiscal risks in the event of redemption pressures due to loss of investor confidence. The latter could be triggered by price volatility of T-Bills or more likely by operational and cybersecurity vulnerabilities, possibly amplified by inadequate legal regulatory framework for USDM1. The issuance may additionally pose a risk of non-compliance under the IDA's Sustainable Development Finance Policy (SDFP), subject to the terms of the Non-Concessional Borrowing ceiling (if applicable) for the RMI in FY2026.

- Furthermore, to date, no in-depth risk assessment has been conducted on the potential misuse of USDM1 or its potential client pool. At present, the authorities do not appear to be equipped with appropriate expertise, tools, or technological abilities to supervise entities involved, analyze potentially suspicious transactions, and combat illicit activity involving USDM1, adding to risks of losing access to CBRs.

16. In staff's view, the authorities should not proceed with the planned global launch given the lack of institutional readiness, ownership, understanding, and ability to effectively mitigate associated risks. They should also consider whether the policy objectives could be better achieved through alternative, less risky measures—such as the ongoing tax reform for climate finance (Annex VII) and strengthening digital infrastructure and promoting the use of mobile and online banking.

Annex VI. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Expected Impact if Realized	Recommended Policy Response
External Risks			
Escalating Trade Measures and Prolonged Uncertainty	**High**	**Medium** Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	• Provide targeted fiscal assistance to the most affected sectors and groups. • If possible, expedite critical investment projects (e.g., for climate adaptation) to support economic activity and jobs.
Commodity price volatility	**High**	**High** Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	• Provide targeted fiscal assistance to the most affected sectors and groups.
Geopolitical Tensions	**High**	**Medium** Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	• Intensify structural reforms to support private sector growth. • Provide targeted fiscal assistance to the most affected sectors and groups.
Climate change	**Medium**	**High** Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	• Strengthen fiscal buffers. • Increase adaptation infrastructure investment that bolsters resistance to rising sea levels and cyclones. • Build institutional capacity and strengthen the PFM framework.
Domestic Risks			
Implementation of policies that weaken the financial integrity framework and pose fiscal risks.	**High**	**Medium to High** The expansion of DAO registry operations and premature full launch of a digital sovereign bond (tokenized format) (USDM1) will generate significant financial integrity risks in the absence of effective regulation and supervision. The issuance of USDM1, unlike past initiatives, will also increase fiscal risks in the event of redemptions at a loss or operational failures.	• Pause the planned global launch of USDM1. • Adopt a phased approach grounded in risk assessment. • Strengthen regulatory and supervisory capacity before rolling out approved initiatives. • Maintain control of critical state functions.

Source of Risks	Relative Likelihood	Expected Impact if Realized	Recommended Policy Response
		Similarly, rushed implementation of an ill-designed UBI scheme could have significant implications on inflation, labor dynamics, while imposing a large permanent fiscal cost and crowding out other investments.	• Replace the UBI at the earliest feasible opportunity with a more targeted scheme. • Formulate a comprehensive macro-fiscal strategy and exercise vigilant oversight. • In the long term, assess the cost-benefit trade-offs of reallocating CTF resources to enhance resilience and consider transitioning to more targeted social assistance schemes.
Withdrawal of CBR	**Medium**	**High** The termination of the last USD CBR for the Bank of Marshall Islands (BOMI), due to the adverse findings of the 2024 FATF/APG Mutual Evaluation Report (MER) or the materialization of risks posed by USDM1, could impact access to USD clearing services and disrupt trade and remittance flows.	• Prioritize implementing the MER's recommendations, including undertaking risk assessments of the offshore corporate and DAO sectors and delineating institutional responsibilities and implementation timelines. • Work with U.S. authorities to give BOMI access to USD windows. • Avoid actions that weaken the financial integrity framework, including on FinTech initiatives.
Continued labor emigration	**Medium**	**High** While labor emigration can provide immediate economic benefits through remittances, it also poses long-term challenges for the RMI's economic development and sustainability.	• Create economic opportunities within the RMI to help retain the existing population through investments in infrastructure, education, and job creation programs. • Develop policies to attract skilled migrants. • Encourage higher workforce participation among the existing population, including women and older individuals. • Implement the 2023 NAP to improve economic resilience to natural disasters and climate transition in the long run.

Annex VII. Revenue Mobilization for a Sustainable Future: The Case of the Republic of the Marshall Islands[1]

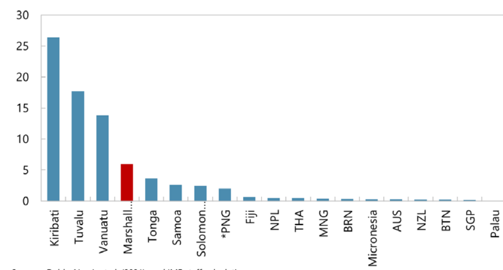
Domestic revenue mobilization is one of the Republic of the Marshall Islands (RMI)'s most pressing challenges. Given high dependence on external grants amid an extremely uncertain external environment, a long-standing pattern of persistently low tax revenues as a share of GDP, and growing climate and development investment needs, the time is right to press ahead with critical revenue reforms. This annex assesses the tax revenue RMI could potentially mobilize given its structural characteristics and reform efforts. It also outlines reform options and implementation considerations.

A. Context—Needed Financing for Climate Adaptation

1. RMI faces acute financing needs to address climate adaptation. As one of the most climate-vulnerable countries globally, exposed to cyclones, drought, and rising sea levels, RMI must significantly scale up investment in resilient infrastructure. World Bank's Country Climate and Development Report (CCDR) estimates that, under a typical 1-in-10-year extreme wave condition with 0.5 meters of sea-level rise, around 60 percent of the urban areas in Majuro and Ebeye will be inundated. With a 1-meter rise in sea level, the number would reach around 80 percent in both cities (World Bank, 2024). While estimates of adaptation costs vary depending on assumptions regarding the time horizon, financing sources, and the pace of sea level rise, there appears to be broad consensus that substantial additional investment will be required. One study shows that annual adaptation costs (public investment needs for making infrastructure climate-resilient) for the RMI are estimated at around 6 percent of GDP (IMF, 2021; Figure 1). In contrast, the RMI's National Adaptation Plan and the CCDR estimate that about US$5 billion (discounted present value; 17.8 years of FY2024 GDP) of physical adaptation is needed against 0.5 meters of sea-level rise, anticipated to occur by 2070-2100.

Republic of the Marshall Islands: Estimated Annual Climate Adaptation Costs

(In Percent of GDP)



Sources: Dabla-Norris et al. (2021); and IMF staff calculations.
Notes: Bars correspond to the sum of upgrading and retrofitting costs in the public sector and coastal protection costs. The level of protection being costed corresponds to the protection that keeps average annual losses below 0.01 percent of local GDP for protected areas. Data labels in the figure use International Organization for Standardization (ISO) country codes.*Missing values in the private sector for Papua New Guinea.

B. RMI's Revenue Structure and Tax Potential

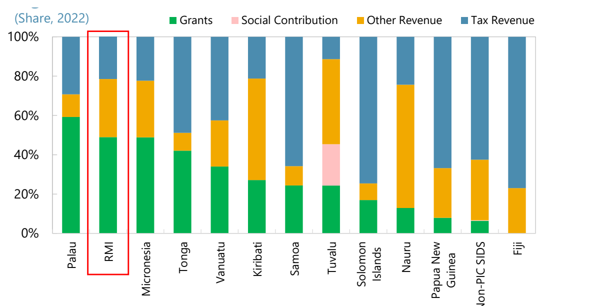
2. Given the RMI's current revenue structure, boosting tax revenues will need to be an essential pillar in creating fiscal space to meet climate-adaptation spending needs. The RMI's revenue structure is heavily reliant on grants, primarily under the Compact of Free Association (Compact). Grants account for over 30 percent of GDP and around 50 percent of its total revenue, which is among the highest in the region. Non-tax revenues, such as fishing license fees and corporate/ship registration fees, have increased, reaching nearly 20 percent of GDP and 30 percent

[1] Prepared by Taku Zakoji (APD).

of revenue, but are volatile in nature and subject to the climate impact on tuna stocks.[2] In contrast, tax revenues are low, averaging around 14–16 percent of GDP and 20 percent of revenue, well below the average for small island developing states (SIDS) (Figure 2).

3. **While Compact resources partially explain the low tax effort, those are largely earmarked for certain categories of spendings, with only around 30 percent of them, at the maximum, available for infrastructure investments**. Although the RMI holds assets equivalent to about 377 percent of GDP in its Compact Trust Fund as of end-FY2024, it has announced its intention to fully utilize the annual withdrawal limit set by Compact to finance a Universal Basic Income (UBI) (Annex III) and other recurrent distribution programs, such as Extraordinary Needs Distribution (END) program. Furthermore, the latest Compact agreement provided a one-time contribution of only US$20 million in FY2024, to be used specifically for climate-related needs as identified by the Climate Working Group. Finally, while the RMI also faces significant investment needs for non-climate infrastructure (e.g., electricity, healthcare, education, and sanitation), the annual allocation of the sector grant for public infrastructure is capped at 50 percent of the total (Annex II).

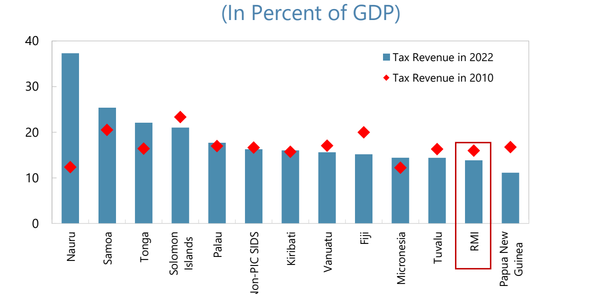
Marshall Islands: Revenue Structure Across PICs and SIDs



Sources: IMF World Revenue Longitudinal Database (WoRLD) and IMF staff calculations.

Marshall Islands: Tax Revenues Across PICs and SIDs

(In Percent of GDP)



Sources: IMF World Revenue Longitudinal Database (WoRLD) and IMF staff calculations.

4. **Access to climate finance and market-based financing options are limited.** Like other Pacific Island countries, the RMI has access to multilateral climate funds including the Green Climate Fund (GCF), Adaptation Fund, and the Global Environment Facility, to support climate priorities, but actual financing has been limited due to complex and lengthy accreditation requirements for direct access to them (RMI 2023 Article IV Consultation Staff Report, Annex VII). Furthermore, the RMI lacks access to international capital markets with a shallow domestic financial sector. These factors underscore the importance of developing a more stable and resilient tax base. While the authorities are pushing ahead with such reforms, they are also exploring riskier yet quicker sources of revenues such as their latest "digital sovereign bond" initiative (Annex V).

[2] The RMI's Exclusive Economic Zone (EEZ) is home to the world's largest tuna fishery, providing a significant source of revenues, mainly through licenses sold to foreign vessels.

Current Tax System and Ongoing Tax Reforms

5. The RMI's current tax system is simple but inefficient, relying mainly on a gross revenue tax (GRT), import duties, and a personal income tax (PIT).

- Current indirect taxes consist of import duties and local sales taxes: Import duties distort trade, and specific duties fail to address domestic externalities. Local sales taxes are levied in only two municipalities, creating fragmentation.

- The PIT has a progressive rate structure of 0, 8, and 12 percent[3] but contains an inefficient "threshold effect." Taxpayers lose entitlement to the tax-free band if they earn more than the upper threshold of the zero band ($8,320), implying that taxpayers earning more than $8,320 immediately pay tax of 8 percent on all their earnings, which discourages additional labor supply and compliance at around this income level. Its narrow base excludes capital income and most non-wage employment benefits.

- Businesses are taxed with the inefficient GRT with a tax rate of 3 percent that leads to "tax cascading," meaning that each time an intermediate good or service is sold among businesses, tax applies again, including tax on the tax. The cascading effect also means that the GRT favors integrated industrial structures over production that is divided across various specialized firms. In addition, the 3 percent GRT applies regardless of profitability, particularly disadvantageous for low-profit-margin businesses, such as newly established ones and retailers.

- Tax administration remains heavily paper-based, understaffed, and burdensome.

6. A two-phase tax reform is in progress with the support of Fund CD.[4]

- The first phase, legislated in October 2024 and effective April 2025, aims to reduce PIT burdens by adjusting tax rates and corresponding income brackets. An additional amendment passed in January 2025, effective FY2026, removes the top tax rate (16 percent) applied to the highest income bracket, against Fund CD recommendation.

- The second phase planned for implementation in FY2027 involves fundamental reforms, including replacing the GRT and general import duties with a value added tax (VAT), and introducing a net profit tax (Business Profit Tax, BPT) for large firms, retaining the GRT only for small firms. The VAT and BPT can be well combined as both require similar bookkeeping and administrative changes. In August 2025, the authorities submitted four tax reform bills to the Nitijela (Parliament) to implement the second phase of the reform, which are currently under deliberation.

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[3] As part of the first phase of tax reform, the 16-percent taxable income bracket was eliminated in FY2025 as a tax relief measure.

[4] In response to request from the authorities, a CD mission of the IMF Fiscal Affairs Department visited Majuro during December 4-13, 2024, to provide advice on tax policy and administration reforms.

7. The estimated revenue impact of the entire tax reform is expected to be broadly revenue-neutral (Table 1). The estimation indicates that the first phase of tax reform, along with the additional amendments passed in January 2025, is forecasted to result in a reduction of tax revenue from 15.3 percent in FY2024 to 14.7 percent of GDP in FY2026. Subsequently, following the implementation of the second phase, tax revenue is expected to stabilize at around 15.3 percent of GDP.

Annex VII. Table 1. Marshall Islands: IMF Baseline for the Tax Reform and their Impact on Revenue

Second Phase Tax Reform Measures	Rev. Impact (% of GDP)
First phase of tax reform: adjusting PIT rates and corresponding income brackets	-0.6
Replacing the GRT and general import duties with a12 percent VAT.	-2.7
Introducing a 16 percent BPT	+3.2
Replacing specific import duties and local taxes on alcohol, tobacco, vehicles, and fuel with excise taxes.	+2.1
Broadening the PIT base by expanding the tax-free threshold while maintaining first-phase tax rates and income brackets.	-2.0
Total	**+0.0**

Source: Graduate School USA (2024) and IMF staff calculations.
Note: Revenue impact is measured relative to FY2026 (after the implementation of the first phase).

RMI's Tax Potential

8. RMI's tax collection is below its potential. Stochastic tax frontier analysis suggests that the RMI could potentially collect more revenue, given its economic, structural, and institutional characteristics (IMF, 2015; IMF, 2018; IMF, 2022; and IMF, 2024). Determinants of tax capacity include income level, trade openness, agricultural share (a proxy for informality), control of corruption, and government effectiveness. RMI's estimated tax capacity ranges from around 17 to 19 percent of GDP in the short to medium term, indicating a sizeable tax gap of up to 4 percent of GDP. While this estimated tax potential is not necessarily the optimal level of taxation, it provides a credible medium-term target that the authorities can work toward. Box 1 provides methodological details and empirical results.

Annex VII. Box 1. Estimating Tax Potentials Using Stochastic Tax Frontier Analysis

One method to assess a country's tax potential is to estimate a "tax frontier"—the maximum level of tax revenue (as a percent of GDP) that could be achieved given the country's structural characteristics. These characteristics include the level of economic development, trade openness, sectoral composition, and institutional quality. The difference between a country's actual tax revenue and its estimated tax frontier indicates the "tax gap," which reflects the room to increase revenue either through improved policy or better compliance. Estimates should be used in care, as they can be sensitive to modeling assumptions and estimation techniques.

Methodology

This analysis uses stochastic frontier analysis (SFA) (IMF, 2018 and IMF, 2023), to estimate tax capacity across countries, where panel data techniques are applied to regressions of tax revenue on a range of potential determinants. The following equation is estimated:

Annex VII. Box 1. Estimating Tax Potentials Using Stochastic Tax Frontier Analysis (continued)

$$\left(\frac{T}{Y}\right)_{it} = f(X_{it};\beta)\cdot \xi_{it}\cdot e^{v_{it}}$$

where $\left(\frac{T}{Y}\right)_{it}$ is the tax revenue-to-GDP ratio for country i at time t. $f(X_{it};\beta)$ is an expression for the tax production function where a vector of inputs (X_{it}) is transformed into tax revenue, in line with parameter vector (β). In line with the literature, X_{it} represents the explanatory variables considered in this annex that might affect the tax capacity: GDP per capita (proxy for economic development), trade openness, agriculture share in GDP (proxy for informality), and control of corruption and government effectiveness (institutional quality indicators), etc. ξ_{it} is tax effort—the efficiency with which revenue is collected—which is measured as the gap between actual revenue and the estimated tax frontier, with values ranging from 0 to 1. A value closer to 1 indicates that a country is collecting close to its potential, while a lower value suggests significant room for improvement. v_{it} represents random shocks.

Results

The results of the SFA are presented in Annex Table 2.1. The left-hand side specification in each country group includes all explanatory variables, while the right-hand side excludes institutional indicators. As in prior studies (e.g., IMF 2018), the analysis finds that: (1) Higher income is positively associated with higher tax revenue, though the relationship is non-linear; (2) Greater trade openness and stronger institutional quality are associated with higher tax collection; and (3) A larger agricultural sector—typically linked with informality—is associated with lower tax revenue.

Most coefficients are statistically significant at the 1 percent level, except for the institutional quality indicators and commodity exporter dummy (which however mostly have the expected signs). These estimates are used to derive tax capacity for each country in the sample, which can then be aggregated by regional groupings. Annex Figure 2.1 illustrates the predictive power of these variables in explaining differences in tax capacity across countries. Annex Table 2.2 provides tax capacity estimates across income groups based on the two model specifications.

Annex VII. Box 1. Table 1. Tax Frontier Regression Results

Dependent variable: log of tax to GDP	All sample				EMDCs				LIDCs			
Explanatory variables	Coeff.	Std. error	Coeff.	Std. error	Coeff.	Std. error	Coeff.	Std. error	Coeff.	Std. error	Coeff.	Std. error
Log of real GDP per capita	0.540	0.038	0.113	0.042	0.787	0.061	0.598	0.053	-0.022	0.094	0.098	0.090
Log of real GDP per capita squared	-0.027	0.002	0.008	0.002	-0.047	0.004	-0.032	0.003	0.022	0.006	0.015	0.006
Share of agriculture in GDP	-0.012	0.001	-0.002	0.001	-0.016	0.001	-0.012	0.001	-0.007	0.001	-0.006	0.001
Trade openness	0.001	0.000	0.002	0.000	0.001	0.000	0.001	0.000	0.003	0.000	0.004	0.000
Control of corruption	0.182	0.210			0.097	0.236			0.367	0.378		
Government effectiveness	0.020	0.013			0.013	0.018			0.003	0.022		
Commodity exporter dummy	-0.008	0.012	0.280	0.188	0.034	0.017	0.129	0.270	-0.040	0.025	0.281	0.352
sigma_u	0.164	0.004	0.168	0.005	0.170	0.008	0.169	0.008	0.170	0.008	0.169	0.008
sigma_v	0.058	0.003	0.070	0.004	0.066	0.006	0.068	0.006	0.066	0.006	0.068	0.006
No. of observations	3532		3537		2649		2654		1180		1181	
No. of countries	188		188		141		141		64		64	

Source: World Bank World Development Indicators, World Bank World Governance Indicators, IMF World Economic Outlook, IMF World Revenue Longitudinal Data (WoRLD), and IMF staff estimates. Note: Trade openness is measured as the sum of exports and imports of goods and services as percentage of GDP. Both control of corruption and government effectiveness indices range from –2.5 (high corruption, low effectiveness) to +2.5 (low corruption, high effectiveness).

Annex VII. Box 1. Estimating Tax Potentials Using Stochastic Tax Frontier Analysis (concluded)

Annex VII. Box 1. Table 2. Tax Potential Across Country Groups

Country group	Tax to GDP	All sample		LIDCs	
		A	B	A	B
Non-PIC SDS	19.2	21.2			
PICs (unweighted avg.)	18.4	21.4	21.4	21.7	21.7
FAS (FSM, Palau, RMI)	17.7	21.2	21.5	21.9	22.1
RMI	13.9	16.7	18.3	17.7	18.6

Note: SDS = small developing states, and FAS = Freely Associated States under the Compact of Free Association agreements with the United States.

C. Policy Recommendations

Tax Policy

9. To ensure more stable and efficient revenue sources, the RMI should implement the second phase reform measures as scheduled in October 2026. Replacing the GRT, local sales taxes, and import duties with a VAT, BPT, and excise taxes will help reduce distortions and broaden the tax base.

- A broad-based VAT avoids trade distortions and eliminates cascading effects because businesses are allowed to credit VAT that they paid on any of their inputs (Box B). The proposed 12 percent, broad-based VAT provides a sound starting point, though a relatively low rate compared to the world average of 16 percent, with potential increases over time to mobilize additional revenue.

- The BPT and VAT should apply to large, profitable businesses only. Small businesses could remain on the GRT unless they opt into the new system, which would entail VAT and BPT compliance (and since both taxes jointly replace the GRT, such a choice implies adoption of both). At the same time, setting lower mandatory registration thresholds for VAT and BPT would require a larger number of firms to file more complex tax returns, thereby increasing compliance costs for businesses and administrative costs for the authorities. In this context, the proposed threshold of US$300,000 represents a reasonable balance.

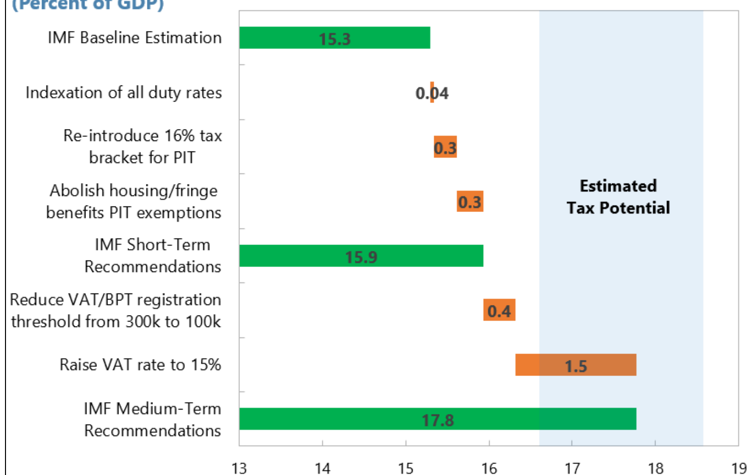
- The PIT should be restructured to eliminate the threshold effect and improve progressivity by reintroducing the 16 percent tax bracket. The base should be broadened to include capital income (interest, rents, and capital gains, exempting dividends). The non-taxation of capital income weakens the progressivity and even creates tax avoidance opportunities as interest payments are deductible under the BPT. Furthermore, the housing allowance and non-wage employment benefits should be brought into the PIT base to eliminate incentive to avoid taxes by changing the form of remuneration. These measures have not been incorporated in the proposed tax reform bills.

- Well-designed excise taxes (to fuels, vehicles, alcohol, tobacco, and soft drinks) with an appropriate inflation-indexation would address the negative externalities.

10. The IMF-recommended measures of the second phase of tax reforms go a long way in closing the tax gap. Their estimated impact on tax revenue relative to the IMF baseline scenario is presented in Figure (*Estimated Tax Revenue Impact*). To close the remaining gap, especially for climate-related investments in the medium- to long-term, modest VAT rate increases could be considered. Raising the VAT from 12 to 15 percent could yield an additional 1.5 percent of GDP. Evidence suggests that modest VAT increases—especially from low starting points like 10 percent—have no or minimal adverse effects on growth (Gunter et al., 2021). Another potential policy option would be to gradually lower the mandatory registration thresholds for VAT and BPT to US$100,000 as capacity improves on both the taxpayer and administrative sides. This measure could be expected to yield an additional revenue of approximately 0.4 percent of GDP.

Estimated Tax Revenue Impact

(Percent of GDP)



Source: IMF (2025) and IMF staff calculations.

Tax Administration and Other Considerations

11. The authorities should adhere to the current timeline to operationalize a new digital tax system by October 2026, in line with the implementation of the second phase of tax reform. The Ministry of Finance (MoF) is in the process of bidding for an integrated revenue administration system (IRAS) and is considering its integration with the existing ASYCUDA and FMIS. These reforms are expected to streamline the current labor-intensive tax administration, and timely implementation should be pursued with support from development partners.

12. Implementing the second phase of tax reform will require substantial upgrades to the Revenue and Taxation Unit (RTU) in the Ministry of Finance. The RTU currently operates in a manual environment with only seven staff and limited resources. The introduction of the BPT and VAT within a relatively short time frame will place new demands on both taxpayers and the tax administration. Success will hinge on a robust project management framework encompassing staff recruitment, training for both tax officials and taxpayers, digitalization of processes (including tax declarations and payments), streamlined procedures, and taxpayer outreach to support compliance. Without these foundational upgrades, effective implementation of the reform will be at risk.

13. Given the persistently low tax compliance rate, the development of targeted compliance strategies and risk-based management practices will be essential. In FY2022-23, 14.7 percent of registered GRT taxpayers and 18.7 percent of PIT taxpayers failed to file tax returns on time. While compliance among large business taxpayers is high (98.6 percent), small and medium-sized businesses lag significantly behind, with filing rates of 56 percent and 89 percent, respectively. Measures to strengthen compliance should include simplified tax return forms, enhanced taxpayer support services, audit and monitoring programs supported by data analytics, and improved information exchange with relevant agencies such as Customs.

14. Delivering the second phase of reform while ensuring business continuity will be a major undertaking that requires strong political commitment and substantial capacity development (CD). While CD from the IMF and development partners will remain important, successful implementation depends on national ownership and broad-based engagement, including consultation with the private sector. These recommendations are consistent with global best practices and recent analytical work (e.g., Akitoby et al., 2018). In parallel with domestic efforts, concessional financing and grants from development partners and climate funds remain critical to closing the financing gap for climate-related investments (IMF 2023 RMI Article IV Staff Report, Annex VII).

D. Conclusion

15. The time is right for the RMI to press ahead with revenue mobilization to help finance its substantial climate spending needs and decrease dependence on external grants. This appendix presents an overview of the current tax system and its weaknesses and estimates a feasible revenue target for the RMI based on its economic and institutional characteristics. It also proposes a menu of measures, in line with the recent Fund CD and the submitted tax reform bills, to close the tax gap. These include eliminating current inefficient taxes and introducing a broad-based single-rate VAT and BPT as the most urgent of reforms. The depth of these important and big reforms requires significant preparatory work on the policy, legislative, and administrative sides, and should be supported by extensive CD by the IMF and development partners.

Annex VII. Box 2. Value-Added Tax (VAT): How It Works and Why It Matters For RMI?

How Does A VAT Work and Who Ultimately Pays It?

VAT is a modern form of consumption tax now used in over 170 countries. It is collected at each stage of production and distribution, but unlike a simple gross receipts tax like the GRT, VAT allows businesses to claim credits for any tax already paid on their inputs. In practice, each firm charges VAT on its sales (output VAT) and deducts the VAT paid on its purchases (input VAT), remitting only the difference to the government. In short, all businesses in the supply chain effectively act as tax collection agents on behalf of the government. Crucially, exports are zero-rated (no VAT charged on exports, and exporters can refund any input VAT), while imports are taxed at the border – this destination principle ensures that all domestic consumption is taxed equally, whether the good is produced locally or imported. Thus, a VAT creates a level playing field between imported and locally made products, avoiding the trade distortions associated with tariffs or local sales taxes. More importantly, this credit-invoice mechanism ensures the tax "sticks" only to final consumption – the final consumer bears the cost, not the businesses (De Mooij and Swistak, 2022).

Annex VII. Box 2. Value-Added Tax (VAT): How It Works and Why It Matters For RMI? (Continued)

What Is a Well-Designed VAT?

Appropriate Registration Threshold. The main obligation on businesses is administrative: registering for the tax, tracking sales and purchases, filing returns, and paying the net tax. These compliance costs can be a concern, especially for small enterprises. However, a well-designed VAT addresses this by setting a registration threshold (annual sales level) that exempts small businesses from VAT collection requirements. Those below the threshold effectively don't charge VAT (but also can't reclaim VAT on their inputs), which is a reasonable trade-off. Some may opt in voluntarily if they deal mostly with VAT-registered suppliers/clients and find it beneficial. Most countries choose a threshold that balances revenue coverage against compliance costs, on the principle that excluding micro enterprises causes only a minor revenue loss but greatly reduces administrative burden.

Broad Base, Minimal Exemptions. The VAT should cover as much final consumption as with very few exemptions. A broad base means the rate can be lower to raise the same revenue, and it avoids creating favoritism or loopholes. Exemptions (untaxed items) break the VAT chain and can reintroduce cascading or complexity. (In practice, most countries exempt only a short list of items like financial services or small-scale agriculture due to technical issues.) Keeping the base broad also means services and the informal sector consumption are included to the extent possible, important for an economy like RMI where informal and services sectors (telecom, retail, hotels, etc.) are significant.

Single Rate. A single uniform VAT rate (for example, 10%) applied to all taxable consumption is recommended. Multiple rates (e.g. a lower rate for some goods) are generally avoided because they add complexity, increase compliance costs, and invite lobbying for special treatment. From an economic perspective, one uniform rate causes fewer distortions in consumer choices.

Efficient Refund and Administration Mechanisms. A well-designed VAT treats refunds as integral to the system. Timely refund processing prevents accumulation of credits that can strain business cash flows. The tax administration needs adequate capacity to audit and process VAT claims.

What Benefits Does It Bring?

For the RMI government: Introducing a well-designed VAT would allow for much needed robust and efficient revenue collection. Its self-enforcing incentive structure increases tax compliance and revenue collection efficiency. Because each firm wants to claim credits for VAT paid on inputs, buyers have an incentive to insist on proper invoices from their suppliers (who must declare the VAT they charged). This cross-checking mechanism encourages tax compliance up and down the supply chain. In addition, by broadening the tax base to virtually all goods and services and the large informal or hard-to-tax service sector (that might escape import duties), VAT can mobilize revenue from a growing economy in a relatively stable way (IMF, 2023). This is especially valuable for RMI, which needs stable revenues as volatile non-tax revenues account for around 30 percent of its revenue. Moreover, an effective VAT system should positively impact the whole tax system as it helps reduce overall noncompliance and facilitate a fair and competitive environment for all businesses (Bodin, 2012; IMF, 2023). The RMI would also be on good grounds in international trade negotiations as VAT is neutral over imports and domestic production.

For the economy as a whole: A well-designed VAT would support growth and private sector development. By removing tax from business inputs, VAT spares capital goods and intermediate inputs from bearing tax costs, unlike import duties or the GRT that make new investment more expensive. Firms can invest in equipment and materials knowing that any VAT they pay will be credited. This encourages private investment and business expansion. For a small island economy trying to foster a nascent private sector, this is critical – a VAT will not penalize businesses for expanding output or hiring workers whereas

Annex VII. Box 2. Value-Added Tax (VAT): How It Works and Why It Matters For RMI? (Concluded)

cascading taxes might. Research has shown that countries with a VAT system are better off than those without (Akitoby et al, 2018), and this is also true for Pacific Island Countries (IMF, 2023). Empirical studies find that the growth effect of the VAT is likely to happen through a rise in C-efficiency (actual collection as a share of its potential base, consumption), approximated well by the broadening of tax bases (IMF, 2019). This suggests that whether a VAT can be beneficial for the economy depends crucially on its proper design and implementation.

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Annex VIII. Data Issues

Annex VIII. Table 1. Marshall Islands: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	C	C	C	C	C

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	C	B	C	C	B	
Granularity 3/	C		C	C	C	
			C		B	
Consistency			B	C		C
Frequency and Timeliness	D	C	C	C	C	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment.
Data compilation in RMI is supported by the Graduate School USA (GSUSA) through its EconMAP program. Some shortcomings in the data provided to the Fund have somewhat hampered surveilance. On **national accounts (NA) statistics,** GDP growth figures are frequently subject to sizable revisions. While expenditure-side GDP has been introduced on an experimental basis, large discrepancies with the production-side estimates persist. Quarterly GDP data are not available, and annual GDP figures are published with a lag of about one year. Data on employment and wages are available and classified by sectors based on the filings to Social Security Administration. However, no unemployment data are available. On **prices**, data dissemination remains subject to considerable delays. On **government finance statistics (GFS)**, the timeliness of annual statistics has improved in recent years following the introduction of a new FMIS. However, the data only cover the budgetary central government subsector, and no quarterly data are published. Fund TA has also identified deficiencies in the GFS mapping under the new chart of accounts. While **external sector statistics (ESS)** cover the main components of BOP, there are shortcomings in the coverage and granularity, including a poor quality of private external debt data in ESS and incomplete coverage of trust funds, resulting in an under coverage of assets in the IIP and transactions in the financial account. The errors & omissions have been large in recent years and further enhancements are needed in areas including the expansion of Trust Fund coverage; direct and portfolio investments; and trade data. Moreover, **monetary and financial sector statistics** are published only once a year and with a lag of approximately one year, hindering timely analysis. financial soundness indicators are only partially shared with the mission by the authorities and are not publicly disseminated.

Changes since the last Article IV consultation.
The authorities (Ministry of Finance and the Economic Policy, Planning and Statistics Office) have requested TAs on the NA, ESS, GFS, and prices statistics to strengthen their capacity to compile these statistics in a timely and accurate manner. For example, the Fund's TA on prices statistics in FY2024 marked significant progress by replacing the previously separate series for two cities with a single national CPI based on up-to-date national expenditure weights. Fund TA missions on GFS in 2024 and 2025 helped to develop a new quarterly compilation process and provided in-depth technical advice and formal training to the Ministry of Finance on GFS compliance with the FMIS configuration and reporting. Moreover, Fund TA mission was carried out in 2023 to assist authorities to improve data collection and compilation practices for the external sector statistics (ESS), however, the progress in the implementation of key recommendations to improve exernal sector assessment remains slow.

Corrective actions and capacity development priorities.
To a large extent, gaps reflect capacity limitations and current TAs by IMF and other development partners are helping address exisiting data gaps. For example, IMF TA currently focuses on NA, GFS, and ESS to enhance the use of statistics and to strengthen instituitional capacity. Looking ahead, the authorities should prioritize collating data relevant to current issues, such as reliable national accounts and external setor data and financial stability indicators and accurate and timely data on the health of the overall public sector. Further strengthening data-sharing arrangements and communication with data providers and other government agencies should support improvements in macroeconomic statistics and assist RMI to becoming self-sufficient in data compilation in future.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.
Staff do not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps.
Data on the outmigration of Marshallese nationals to other countries are macro-critical. There is room to enhance both the accuracy and timeliness of the data to support effective macroeconomic analysis and policy-making.

Annex VIII. Table 2. Marshall Islands: Data Standards Initiatives

Marshall Islands participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in March 2014 but is yet to disseminate the data recommended under the e-GDDS.

Annex VIII. Table 3. Marshall Islands: Table of Common Indicators Required for Surveillance

as of August 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Marshall Islands[8]	Expected Timeliness[6,7]	Marshall Islands[8]
Exchange Rates	NA	NA	NA	NA	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	NA	NA	NA	NA	M	...	1M	...
Reserve/Base Money	NA	NA	NA	NA	M	...	2M	...
Broad Money	NA	NA	NA	NA	M	...	1Q	...
Central Bank Balance Sheet	NA	NA	NA	NA	M	...	2M	...
Consolidated Balance Sheet of the Banking System	FY2024	Jun 2025	A	A	M	...	1Q	...
Interest Rates[2]	FY2024	Jun 2025	A	A	M	A	...	5Y
Consumer Price Index	Q2 2025	Aug 2025	Q	Q	M	Q	2M	2-4W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	FY2023	Sep 2024	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	FY2023	Sep 2024	A	A	Q	A	1Q	11M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	FY2023	Sep 2024	A	A	Q	...	2Q	...
External Current Account Balance	FY2023	Sep 2024	A	A	Q	A	1Q	10-11M
Exports and Imports of Goods and Services	FY2023	Sep 2024	A	A	M	A	12W	11M
GDP/GNP	FY2023	Sep 2024	A	A	Q	A	1Q	11M
Gross External Debt	FY2023	Sep 2024	A	A	Q	A	2Q	10-11M
International Investment Position	FY2023	Sep 2024	A	A	A	A	3Q	11M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex IX. Main Recommendations From the 2023 Article IV Consultation

	Fund Recommendations	Policy Actions
Fiscal Policy	• Authorities should prepare for uncertainty around Compact renewal negotiations by undertaking fiscal consolidation to preserve the real value of the CTF. • Even with a new Compact, revenue and expenditure rationalization and reprioritization reforms are needed to create space for climate investment and disaster response.	• The amended Compact of Free Association was successfully renewed and passed into law in March 2024. • While some elements of recurrent spending—particularly use of goods and services—declined, subsidies to SOEs and untargeted transfers to households and NPISHs remained elevated at an estimated 10.1 percent of GDP in FY2025.
Public Financial Management	• Modernization of the PFM framework and customs systems would provide a foundation for the revenue and expenditure reforms.	• In FY2023, a new Financial Management Information System (FMIS) and, with the Fund TAs, work is ongoing to operationalize it effectively. • Automated System for Customs Data (ASYCUDA) was implemented in 2024.
Climate Change	• A well-articulated National Adaptation Plan (NAP) should be released in 2023. • A dedicated climate finance unit to coordinate and implement climate-related investment projects could facilitate access to climate finance.	• The NAP published in October 2023 laid out a multi-phased pathway to prepare the country for climate change and transition to climate resilience. • Climate Change Directorate, housed in Ministry of Environment, oversees climate action and cooperates with MoF to facilitate access to climate finance.
State-Owned Enterprises	• A gradual reduction in subsidies to SOEs, replacing them with better-targeted support to vulnerable groups, would help create fiscal space.	• SOE subsidies remain in place and are estimated at 5.4 percent of GDP in FY2025, broadly unchanged from FY2022.

	Fund Recommendations	Policy Actions
Financial Sector and Integrity	• Authorities should strengthen financial integrity frameworks in line with Asia Pacific Group of the FATF recommendations, including for the non-resident and offshore sectors, to safeguard access to correspondent banking. • Authorities are strongly encouraged to repeal the Sovereign Currency (SOV) Act and withdraw the DEZRA bill to avoid macro-financial risks. • Given the limited regulatory and supervisory framework, authorities should consider a moratorium on new DAO registrations and proceed cautiously on other FinTech initiatives.	• In response to the release of the FATF/APG mutual evaluation report, the authorities have been implementing its national Strategic Implementation Plan. • The SOV Act was repealed in August 2025. While the DEZRA bill has not been submitted to Parliament, the government has indicated it will no longer pursue it. • No moratorium has been implemented. In 2023-24, the RMI government passed the DAO Amendment Act and the DAO Regulation, which elaborate on procedures. The operating entity, MIDAO, was brought under formal compliance processes by the Banking Commission in 2024.
Monetary Authority	• Authorities should consider the advice provided in the Fund's TA when establishing Monetary Authority (MA). An MA with a focused mandate could support financial stability and inclusion.	• A bill establishing a Monetary Authority—largely based on IMF TA recommendations—was enacted in August 2025.
Encourage Private Sector Growth	• Authorities should address land availability and promote its efficient use to support investment and growth. • Efforts to diversify the economic base, supported by improvements in critical infrastructure, would boost growth and living standards.	• No regulatory changes have been made regarding land use. • A joint venture with the Nature Conservancy Group (Pacific Island Tuna) renewed a long-term supply contract with Walmart. The installation of tuna unloading equipment enabled partial value chain expansion in fish transshipment.

INTERNATIONAL MONETARY FUND

REPUBLIC OF THE MARSHALL ISLANDS

October 7, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staff of the International Monetary Fund and the International Development Association (IDA).

Marshall Islands: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Some space to absorb shocks
Application of judgement	Yes: Judgment is used only for the risk of external debt distress. The forecast horizon is extended to 20 years to take account of a continuous upward trajectory of debt indicators in the stress tests.

The Republic of the Marshall Islands' (RMI) debt is sustainable and assessed to be at moderate risk of debt distress under the Low-Income Country Debt Sustainability Framework (LIC DSF),[1] [2] *improved from the previous high-risk assessment in August 2023. Incorporating the renewal of the Compact of Free Association (Compact) in the baseline, which includes a large increase in U.S. grants to the RMI, leads the mechanical ratings for external debt on a 10-year forecast horizon to indicate low risk. However, the risk of external debt distress is assessed as moderate for the 20-year horizon as the present value (PV) of PPG external debt-to-GDP ratio will breach its threshold in both natural disaster and most extreme shock stress tests. As such, the risk of external debt distress is assessed as moderate, with some space to absorb shocks. The PV of public debt-to-GDP also appears vulnerable to shocks of commodity prices within 10 years and natural disasters within 20 years, while it does not breach the*

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework (DSF) for Low Income Countries (LICs) (February 2018).

[2] The Composite Indicator (CI) of 1.65 is based on the latest available CI information—April 2025 IMF World Economic Outlook (WEO) and the World Bank's Country Policy and Institutional Assessment (CPIA) for 2023 indicating a "weak" capacity to carry debt (see ¶13).

benchmark in the baseline. As a result, the overall risk of debt distress is also assessed as moderate. This assessment is subject to significant uncertainties, particularly regarding the frequency and economic impact of natural disasters. RMI's high vulnerability to weather-related natural disasters poses a key risk and calls for integration of climate considerations into budget planning, allotting resources for sizable investment in adaptation infrastructure and post-disaster reconstruction. Meanwhile, it is important to build capacity to improve efficiency of public investment, accompanied by reforms to unlock sustained private sector-led growth, which would help achieve higher sustainable growth and strengthen debt dynamics. In addition, the recently proposed innovative financing projects, if fully implemented and financed through debt, could crowd out investments in needed adaptation capital and raise concerns about debt sustainability. The planned issuance of a digital sovereign bond (tokenized format)(USDM1) presents a major macro-financial risk and uncertainty to the DSA.

PUBLIC DEBT COVERAGE

1. **The DSA for the RMI covers both central government debt and government-guaranteed debt** (Text Table 1). The DSA classifies domestic and external debt based on the residency criteria, as the RMI uses the US dollar as its legal tender. The RMI's debt is entirely denominated in US dollars, and the bulk is held by non-residents, primarily on concessional terms from development partners. Data availability limits debt coverage, especially the lack of timely information on balance sheets for all other subsectors except the central government,[3] reflecting capacity constraints that result in long time lags in the preparation of audited financial statements for state-owned enterprises (SOEs). The risk from the limited data coverage is mitigated by the measures highlighted in Paragraph 12, as well as the inclusion of contingent liability and financial market risks in the DSA. The settings on these have been maintained at the default levels specified in the LIC-DSF template (see table below). At present, there are no Public-Private Partnerships (PPPs) established for infrastructure investment in the country.

Text Table 1. Marshall Islands: Coverage of Public Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central government, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

2. **The RMI's debt is mainly public and publicly guaranteed (PPG) external debt, which has been declining since the early 2000s.** The PPG external debt in percent of GDP has been on a downward trajectory, declining from 74 percent of GDP in FY2002 to about 17.3 percent in FY2024.[4] RMI's PPG external debt is mainly made up of concessional loans by the Asian Development Bank (ADB) to the central government—accounting for over 60 percent of existing PPG external debt, with the remainder being government-guaranteed debt owed to the U.S. Rural Utilities Services—contracted by a SOE—and debt

[3] Official government finance statistics compiled by the RMI Government, and the Graduate School USA (GSUSA) only covers government and government-guaranteed debt.

[4] FY2024 data is based on data received from the GSUSA on behalf of the authorities. These are estimates and are subject to change.

owed to the International Cooperation and Development Fund of Taiwan Province of China (ICDF).[5] Private external debt stands at about 2.5 percent of GDP. The U.S. dollar is the dominant currency in central government debt. Total debt service amounted to US$7.4 million in FY2024 and is expected to remain broadly stable over the medium term. RMI has had no domestic debt since FY2021.

UNDERLYING MACRO-ECONOMIC ASSUMPTIONS

3. The key assumptions are consistent with the baseline macroeconomic projections (Text Table 2). The DSA makes the following assumptions, which are in line with the macroeconomic framework:

- ***Real sector:*** Growth is expected to continue[6] at 2.5 percent in FY2025, before accelerating to 4.1 percent in FY2026, while inflation is expected to remain elevated. An expansionary fiscal stance in FY2025 is expected to support the recovery, through income tax relief measures and the carryover of delayed Compact-related spendings. The direct effects from U.S. tariffs and global trade tensions are assessed to be modest, as the RMI faces the 10 percent universal tariff, and the share of exports to the U.S. is small. Growth is projected to accelerate in FY2026, somewhat supported by a more expansionary fiscal stance in FY2026.[7] Despite easing global commodity prices, inflation is expected to remain above the historical average over the medium term, reflecting wage-driven cost increases following the planned minimum wage increases[8] and the rollout of the universal basic income (UBI), notwithstanding additional demand leaking through imports. Over the medium term, growth is expected to remain subdued at the historical average of around 1.6 percent, reflecting, on the one hand, the continued presence of structural constraints and, on the other hand, an easing of labor outmigration. Inflation is expected to converge to its historical average of around 2.4-2.5 percent. Long-term growth prospects remain dependent on structural reforms to address capacity constraints and improve the investment climate.

- ***Fiscal sector:*** The renewed Compact provides total U.S. assistance of US$2.3 billion from FY2024 through FY2043, encompassing sector grants, contributions to the Compact Trust Fund (CTF), and other earmarked funds. In addition, the government is expected to receive about US$1.8 billion grants from other bilateral official donors, international financial institutions (IFIs),

[5] This facility was used to finance the construction of a Track and Field Stadium for the 2024 Micronesian Games and for on-lending to Marshall Islands Development Bank (MIDB)'s household energy project.

[6] Growth underperformed IMF projections over FY2022-2023, with the economy recording two consecutive years of negative growth. Contributing factors include significantly worse-than-expected population emigration, the collapse of the Kili, Bikini, and Ejit (KBE) local government, a decline in fisheries output, and an unanticipated fiscal contraction in FY2024 stemming from delays in the disbursement of Compact grants.

[7] The FY2026 budget bill, which was provided during the mission, was approved in September 2025.

[8] In September 2024, the authorities enacted legislation to raise the minimum wage from US$3.0 to US$4.0 per hour, effective in FY2025, with additional staged increases in FY2026-28, to reach a minimum of US$5.25.

mainly WB and ADB, as well as CTF withdrawals.[9] Under these financing assumptions, grant inflows will increase to 47.3 percent of GDP on average between FY2024-2030, from 35.7 percent of GDP in FY2023, and then steadily decline to 37.7 percent of GDP in FY2043. The main uses of these funds include the implementation of the UBI[10] and significant development needs, including investment for climate adaptation; meanwhile, the net effect of tax reform on revenue is assumed to be broadly neutral. The government is expected to stick to the balanced budget rule over the medium term, under the 2020 Fiscal Responsibility and Debt Management Act (FRDMA), with the exception of a temporary deviation in FY2026 to accommodate loan financing for the purchase of two airplanes. Although, in the short term, limited capacity to utilize the sharply increased grants leads to the accumulation of a primary surplus (1.9 percent in FY2025), over the medium term, the gradual easing of spending capacity constraints is expected to bring expenditures in line with the fiscal envelope.

- ***External sector:*** In the near term, the non-interest current account is projected to attain a surplus of 10.7 and 4.3 percent of GDP in FY2025 and FY2026, respectively. Grant inflows are anticipated to hold up, while some moderation is expected due to their funding cycles. Increased demand from the UBI and the continuation of construction activity – mainly related to coastal protection and infrastructure, are projected to drive up imports. The sharp decline in the current account in FY2026 also reflects the projected government purchase of two new airplanes for its national airline, while other elements of the current account are expected to remain broadly stable. While the direct impact of tariffs is expected to be modest, the indirect effects from reduced global demand will likely affect exports. In the medium-term, the non-interest current account is projected to remain in surplus, averaging over 6.3 percent of GDP. Net FDI inflows are projected to stabilize around 3.3 percent of GDP.

- ***External financing:*** In the absence of access to international capital markets and because of a very shallow domestic market, any remaining financing gap is assumed to be closed by a combination of bilateral and multilateral loans, all on concessional terms.[11] The baseline assumes that while the RMI will preserve its grant-only status in the near term, future financing from MDBs will move from all grants to a mix of grants and loans in the medium term and only loan financing thereafter. Specifically, it is assumed that other than grant financing that has already been committed, ADB financing in the projection period will shift from all grants in FY2025 to mixture of grants and loans by FY2026; and World Bank financing will remain 100 percent grant financing for FY2025-26 and then shift to a mix of grant and loan financing between FY2027-30

[9] As per official statistics, the CTF is treated as an external entity, and therefore, annual withdrawals from the CTF are recorded as grants.

[10] As of end-FY2024, the balance of the Compact Trust Fund (CTF) stands at approximately four times GDP (392 percent of GDP). Under the new Compact agreement, the role of the CTF has shifted from serving as a replacement for sector grants after the expiration of the Compact period—as envisaged under the previous arrangement—to supporting current transfers through the UBI and the Extraordinary Needs Distribution (END) programs.

[11] Debt that has a grant element of 35 percent or higher, based on the difference between the discounted present value (PV) of debt service payments (including any fees or other charges) and the face value of the debt, is defined as being concessional. The PV is calculated using a discount rate of 5 percent.

and only loan financing thereafter. Over the 20-year period from FY2025-FY2045, new external borrowing flows are projected to total US$396.2 million,[12] of which 52.7 and 37.9 percent are from WB and ADB, respectively, while bilateral borrowing is expected to make up the remaining 9.4 percent. WB credit is expected to be on standard IDA small-economy terms (interest rate of 0.75 percent, 10-year grace period, 40-year maturity). ADB financing is similarly expected to be on standard terms (zero interest, 6-year grace period, 12-year maturity). Bilateral support is expected to be from the ICDF, which is expected to carry a 1.5 percent interest rate with a 5-year grace period and 25-year maturity. Over the 20 years, the new borrowing flows are expected to average around 3.7 percent of GDP annually.

Text Table 2. Marshall Islands: Macroeconomic Projections

	DSA AIV 2023					DSA AIV 2025				
	2022	2023	Average 2024-2027	2032	2042	2024	2025	Average 2026-2029	2034	2044
	Percent of GDP, unless otherwise indicated									
GDP Growth (percent)	-4.5	3.0	2.1	1.5	1.5	3.0	2.5	2.5	1.6	1.6
GDP Deflator (percent)	6.2	3.0	2.2	2.0	2.0	5.7	4.7	4.0	2.4	2.0
Non-interest CA Deficit	-8.8	-4.2	6.4	37.0	49.3	-14.4	-10.7	-5.8	6.6	12.9
Primary Deficit 1/	-0.9	-0.3	0.7	3.7	6.0	-3.8	-1.9	0.8	2.5	1.6
Revenues and Grants	66.4	62.8	69.5	57.6	51.4	75.2	68.2	80.4	74.5	66.3

1/ Primary deficit is calculated as "Non-Interest Government Expenditures" minus "Total Government Revenue." This differs slightly from the primary balance calculation in the macro projections of the staff report, where the interest earned by the government is also deducted from total government revenue.
Sources: National authorities, Staff's projections.

4. **Issues flagged in the realism tools largely reflect changing context** (Figures 3 and 4).

- ***The large reduction in nominal PPG external debt relative to the previous DSA discussed in the IMF staff report for 2023 Article IV Consultation mainly reflects the incorporation of the renewed Compact agreement.*** The previous DSA assumed the expiration of the Compact in FY2023, resulting in the loss of Compact-related funding from FY2024 onward. Since then, the new Compact agreement has been concluded, which includes a total of US$2.3 billion in economic assistance over the FY2024-2043 period.

- ***The drivers of debt dynamics have evolved relative to those identified in the previous DSA.*** The RMI's debt dynamics over the next five years will be driven mainly by the current account developments over the medium- and long term. On external debt dynamics, the current account surplus (including the recently secured long-term grants)—albeit lower than that in the previous five years—will remain the main driver to reduce the external debt flows, countering the unexpected other debt creating flows/the residual. On public debt dynamics, while a temporary primary deficit due to the planned purchase of two airplanes will drive up public debt in FY2026,

[12] In the absence of new Compact-related grants, the previous DSA projected much higher primary deficits over the 20-year period from FY2023-FY2042, which would be financed by new external borrowing flows of US$545.6 million in the same period.

real GDP growth and lower real interest rate will continue to help reduce the public debt-to-GDP ratio between FY2027-30.

- ***On the near-term growth path, real GDP growth is projected to be lower than the mechanical growth paths that assume only a fiscal impact from the last observed growth rate, reflecting several factors.*** The estimated growth in FY2024 is updated to 3 percent, driven by a strong rebound in the fisheries sector and robust investment and consumption activity related to the Micronesian Games, despite delays in Compact grant disbursements and the ongoing impact of emigration. Growth is projected to moderate slightly to 2.5 percent in FY2025, supported by income tax relief measures and the carryover of delayed Compact-related expenditures. In FY2026, growth is expected to accelerate to 4.1 percent amid scheduled fiscal expansion.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

5. The debt-carrying capacity of the RMI continues to be classified as weak (Text Table 3). The Composite Indicator (CI) for the RMI, which is used to assess the debt carrying capacity in the LIC-DSF stood at 1.65, and the classification of weak capacity remains, like in the last DSA.[13] Accordingly, the DSA thresholds applicable for the RMI are 30 percent for the present value (PV) of external debt-to-GDP ratio, 140 percent for the PV of external debt-to-exports ratio, 10 percent for the external debt service-to-exports ratio, 14 percent for the external debt service-to-revenue ratio, and 35 percent for the PV of public debt-to GDP ratio.

6. There are six standardized stress tests in the DSF, each applied to both the external and the public DSA. These standard stress tests capture shocks to real GDP growth, the primary fiscal balance, exports, other external flows (including official and private transfers and FDI), exchange rate depreciation, and a combination of these shocks. In standardized stress tests, a variable is subject to a shock, and the post-shock values of the stressed variables are set to the baseline projection minus one standard deviation. However, if the historical average is less favorable than the baseline projection, then the post-shock values are instead set to the historical average minus one standard deviation.

7. Given RMI's susceptibility to natural disasters and extreme weather events including sea-level rise (SLR), a customized stress test for natural disaster shocks is added to the standard set of stress test scenarios. Natural hazards, particularly SLR and typhoons, pose significant economic losses that, when intertwined with population decline, threaten to erode the country's long-term growth potential. Broadly in line with WB's Country Climate and Development Report on Pacific Atoll Countries (2024), the natural disaster scenario factors in: (i) A one-off natural disaster (e.g., a devastating typhoon) hits in 2031, resulting in a reduction of 20 percent of GDP in that year and (ii) a

[13] Based on the April 2025 WEO and 2023 CPIA.

recuring shock (i.e., SLR and the associated coastal flooding) with a reduction of 2 percent of GDP per annum. While the timing and damage of natural disasters are highly uncertain, boosting climate-resilient investment with improved public investment efficiency could help mitigate the economic toll and facilitate a quick recovery (see the SIP). The adaptation investment could be financed by additional grants allocation and tax reforms,[14] as well as new external borrowing.[15]

Text Table 3. Marshall Islands: Calculation of CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.635	1.01	61%
Real growth rate (in percent)	2.719	0.882	0.02	1%
Import coverage of reserves (in percent)	4.052	0.000	0.00	0%
Import coverage of reserves^2 (in percent)	-3.990	0.000	0.00	0%
Remittances (in percent)	2.022	10.392	0.21	13%
World economic growth (in percent)	13.520	2.973	0.40	24%
CI Score			1.65	100%
CI rating			Weak	

Composite Indicators

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 1.65	Weak 1.69	Weak 1.65

DEBT SUSTAINABILITY

External Debt Sustainability

8. **Under the baseline scenario, there are no breaches in any external debt indicators vis-à-vis indicative thresholds over the extended 20 year horizon.** (Table 1 and Figure 1). The PPG external debt stock is projected to rise moderately from 14.6 percent of GDP in FY2025 to 17.1 percent in FY2030, despite a temporary spike in FY2026 due to the new airplane purchase, and then steadily increase to 42.9 percent of GDP in FY2045. The pick-up of PPG external debt over the long term is mainly driven by the expected scale-up in public investment, including on climate-related infrastructure investment, the rollout of the UBI, and the assumed reduction in grant inflows from IFIs. Nevertheless, with large grant inflows from the renewed Compact, all external debt stock and liquidity indicators remain below their thresholds through FY2045. Compared with the 2023 DSA, which projected the PV of PPG external debt-to-GDP ratio to reach 34 percent and breach the threshold in FY2032, the slower external debt accumulation is mainly due to the

[14] In the SIP, additional tax reforms are envisaged beyond the baseline reform plan, which includes the introduction of a 12 percent VAT, specifically, an increase in the VAT rate to 15 percent.

[15] See Selected Issues on “Building Resilience to Natural Disasters and Climate Change in the Marshall Islands” for details.

availability of the renewed Compact-related grants, and to some extent, an improved outlook for the medium term. In the long term, it is important to use the Compact resources to enhance potential growth, build resilience, and support long-term development. The UBI signifies a substantial shift in fiscal policy. While its impact on debt sustainability is tempered by the annual withdrawal limit of the CTF, which is currently fully earmarked for the UBI and Extraordinary Needs Distribution (END) programs, this spending-oriented policy shift may diminish the flexibility to respond to future economic shocks.

9. Stress tests point to the vulnerability of the RMI's external debt dynamics to shocks from natural disasters during the extended 20-year period (Figure 1 and Table 3). In the stress test for natural disaster shocks, the PV of external PPG debt-to-GDP ratio is projected to be on an upward trajectory, resulting in a breach of the indicative threshold starting in FY2036. The steady rise of the debt level reflects the continuous need to rebuild infrastructure damaged by the recurring shocks. The uptick of the external debt-to-GDP ratio in FY 2031 is driven by the GDP loss from the one-off shock as well as the post-disaster reconstruction.

Public Debt Sustainability

10. Public sector debt presents similar dynamics as external debt (Table 2 and Figure 2). The ratio of public debt to GDP is projected at 14.6 percent in FY2025 and will rise to 42.9 percent in FY2045. The PV of the public debt-to-GDP ratio does not breach the benchmark under the baseline through the 20-year projection horizon.

11. Domestic debt is estimated to be small (Figure 5). RMI has not had domestic debt since 2021 and any projected gross financing need is assumed to be primarily met by concessional external loans in the baseline. In comparison to other countries employing the LIC DSF with non-zero domestic debt, both the projected domestic debt-to-GDP ratio and domestic debt service relative to revenues, including grants, are lower in the RMI. However, this projection carries a degree of uncertainty due to limitations in SOE debt data and the planned issuance of a stablecoin-based sovereign bond (see paragraph 15 for details).

12. Stress tests indicate overall debt dynamics is vulnerable to commodity price and natural disasters shocks (Figure 2 and Table 4). The PV of overall debt-to-GDP ratio is projected to continue to increase, breaching the benchmark in response to a commodity price shock[16] and a natural disaster shock starting from FY2028 and FY2039, respectively. The debt dynamics resemble that of PPG external debt since public financing needs are met by external sources.

RISK RATING AND VULNERABILITIES

13. The risk of external debt distress is assessed at moderate with some space to absorb shocks (Figure 6)**, upgraded from high in the previous DSA.** The improved risk ratings are closely linked to the renewal of the Compact, with the DSA's mechanical rating indicating low risk, as none of the DSA thresholds are breached in either the baseline or stress tests over the standard 10-year horizon. Nevertheless, the

[16] The commodity price shock is applied as commodities constitute more than 50 percent of RMI's total exports. In the tailored stress test, a shock to export prices of precious metals and agricultural products has been activated.

horizon for the RMI is extended to 20 years due to longer term effects on debt from some shocks. While there is still no breach in the baseline within a 20-year forecast, the projected breach of the threshold in stress tests warrants an assessment of moderate risk of external debt distress. External debt dynamics are especially vulnerable to natural disaster and climate shocks. As a current IDA-only country at a high risk of external debt distress (in the 2023 DSA), RMI is required to prepare Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy (SDFP). The following progress with the PPAs has been made in FY2025.

- ***PPA1:*** To improve debt sustainability, the Government will not enter into any contractual obligations for new external public and publicly guaranteed (PPG) nonconcessional debt during the FY25 period (1 July 2024 - 30 June 2025), except if the nonconcessional debt limit is adjusted by the World Bank to a) reflect any material change of circumstances or b) in coordination with the IMF, in particular, in line with adjustments in the IMF Debt Limits Policy (DLP).

- ***PPA2:*** To increase revenue collection, Cabinet has approved and submitted to Parliament the RMI Customs Bill and Customs Valuation Regulations to replace the 1989 Import Duties Act of 1989, that (i) outlines the key roles and responsibilities for the Customs organization; (ii) provides for electronic submission of declarations; and (iii) provides guidelines to determine the customs value of imported goods.

14. The risk rating of overall debt distress is also upgraded to moderate from high in the previous DSA. The mechanical rating indicates moderate risk. While there is no breach in the baseline within 10 years, the PV of overall debt-to-GDP ratio breaches the benchmark in response to a commodity price shock starting from FY2028. Extending the forecast horizon to 20 years, the PV of public debt-to GDP ratio is projected to be on a persistent upward trajectory in the stress tests with natural disaster shocks; and it is expected to breach the benchmark starting from FY2039.

15. The planned issuance of a "digital sovereign bond" (tokenized format) (USDM1) presents a major risk and uncertainty to the DSA (Annex V). The RMI government is exploring the issuance[17] of USDM1 targeted at investors globally (including domestic investors) with the objective of raising additional revenue and improving financial inclusion. A key feature of the USDM1 is that, unlike traditional sovereign bonds, all proceeds from investor purchases are earmarked for the purchase of safe backing assets (mainly short-term US T-Bills), thereby maintaining the par value. USDM1 differs from standard stablecoins by offering a yield to holders. Interest would be accrued continuously in additional USDM1 units. The rate would reflect prevailing T-Bill yields minus administrative costs and a government margin, which the authorities intend to use initially to overcollateralize USDM1 and later to fund priority spending. Redemption would be available on demand, with the government retaining the right to wind down the

[17] The issuance process will be iterative, and demand driven. Bilateral issuance tests with select partners are set to take place as part of a technical pilot by late September 2025. Domestic issuance will be linked to the UBI rollout in November, as USDM1 will be offered as an option for UBI payments. Global issuance will be sequenced depending on test results and investor demand.

project.[18] An oversight committee, including the government, will review the issuance cap regularly, beginning with about US$100,000. At this stage, it is extremely difficult to project the volume of USDM1 issuance, as the instrument will be issued on a tap basis and redemption is available on demand. Given the small initial issuance cap and the uncertainty over the future total issuance due to competition with similar yield-bearing digital products and ongoing regulatory scrutiny, the USDM1 has not been incorporated into the baseline. However, since the government has committed to maintaining the par value, USDM1 liabilities, once issued, would be tentatively treated as short-term PPG debt in the DSA.[19] Accordingly, any increase in USDM1 issuance would raise short-term gross debt, though this could possibly be offset by a corresponding accumulation of liquid assets.

16. Large front-loaded, debt-financed projects—backed by long-term Compact funding—may crowd out essential investment in adaptation capital and pose significant risks to debt sustainability. The government has expressed interest in securing concessional financing from International Financial Institutions (IFIs) to construct two hospitals and rehabilitate six port facilities.[20] Pending approval by the U.S. on such use of Compact funds, loan disbursements are projected over the next five years with repayments assumed to be covered by Compact inflows. Illustrative scenario analysis suggests that if these large-scale projects—amounting to up to US$300 million (99 percent of GDP)—are fully implemented and financed through debt, they would result in a sharp increase in the PV of PPG external debt-to-GDP ratio. This spike would be driven by the substantial, front-loaded loan disbursements, breaching the sustainability threshold in FY2028 and peaking at over 59 percent of GDP in FY2034 (see Text Figure 1). Following this peak, the debt ratio is projected to gradually decline as external debts are repaid through Compact-related grant inflows.

17. The innovative financing arrangement helps create additional fiscal space for large infrastructure projects in the near-to-medium term; however, such increases can heighten vulnerability to external shocks, strain implementation capacity, and reduce fiscal flexibility. The committed stream of Compact funding through 2043 ensures the government's capacity to repay. However, given the RMI's low implementation capacity in its construction sector, this innovative financing may crowd out essential investments needed to build resilience and support long-term growth, which has implications for debt sustainability. This issue is particularly salient given the country's vulnerability to natural disasters and extreme weather events, coupled with a significant portion of Compact funding allocated to the UBI. In an illustrative scenario characterized by innovative financing combined with a one-off natural disaster in FY2031 and persistent SLR, all four external debt risk indicators are projected to trend upward, resulting in a breach of the indicative thresholds within the next 10 years. This concerning outcome can be

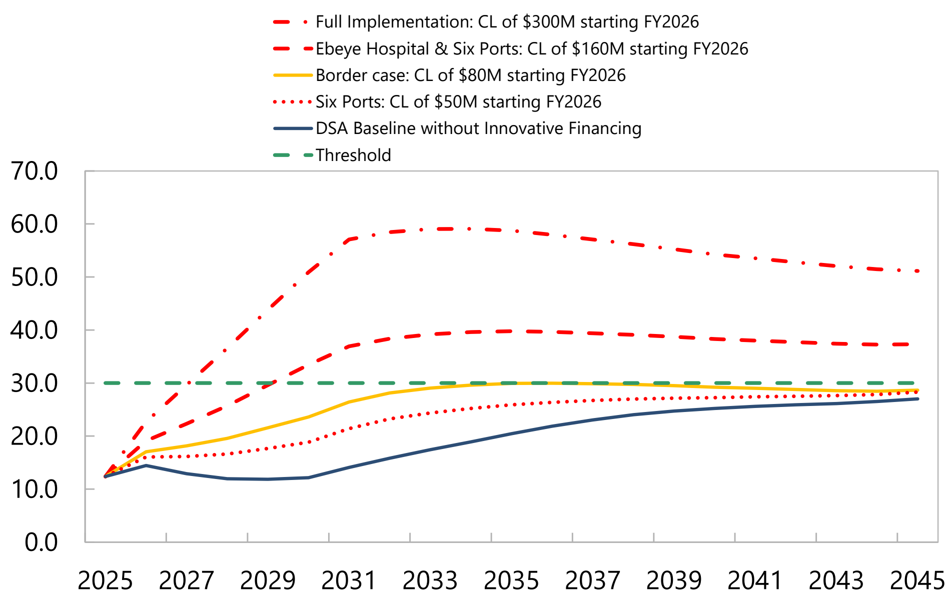
[18] The RMI government would hold a right to wind down the project, i.e., a call option to redeem all already-issued USDM1 after a waiting period allowing the underlying T-Bills to mature, providing an exit mechanism. However, it remains unclear whether this mechanism can indeed be considered an "orderly exit mechanism" that, as per the authorities' plans, would avoid disruptions to financial markets or the public finances.

[19] According to the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (IMF, 2018), a government liability should be considered debt when future payments of interest and/or principal are required from the debtor to the creditor. A debt instrument payable on demand is classified as short-term debt under the Public Sector Debt Statistics Guide for Compilers and Users (IMF, 2013).

[20] This includes approximately $140 million for Majuro Hospital, $110 million for Ebeye, and an additional $50 million for port revitalization.

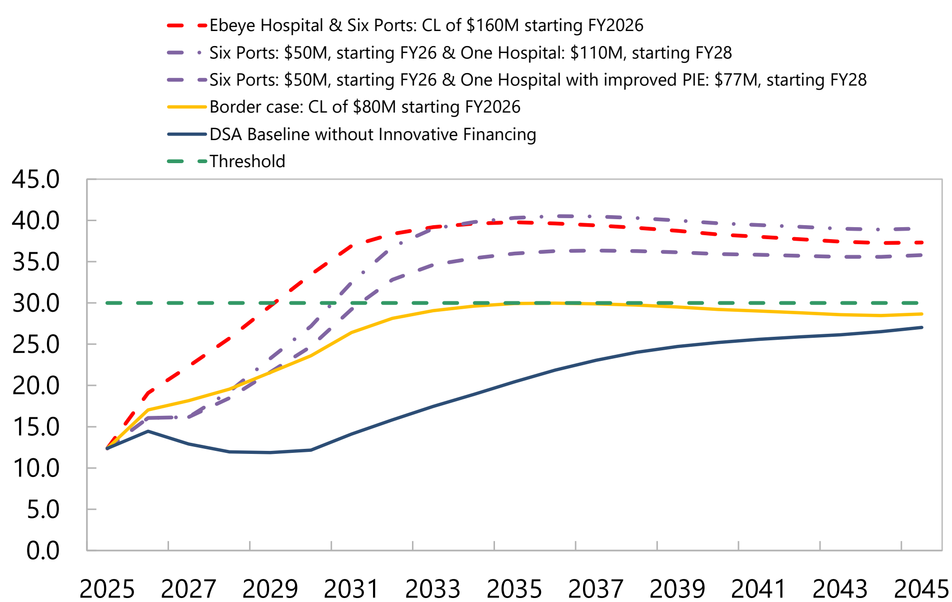
attributed to the crowding-out effect of such large-scale investments, which reduces the resources available for adaptation infrastructure investment and post-disaster reconstruction, ultimately exerting a heavier toll on GDP and slowing the recovery.

Text Figure 1. Marshall Islands: PV of PPG External Debt-to-GDP Ratio under Alternative Scenarios, FY2025-2045 (Percent)



Source: IMF and WB staff estimates.

Text Figure 2. Marshall Islands: PV of PPG External Debt-to-GDP Ratio under Alternative Scenarios, FY2025-2045 (Percent)



Source: IMF and WB staff estimates.

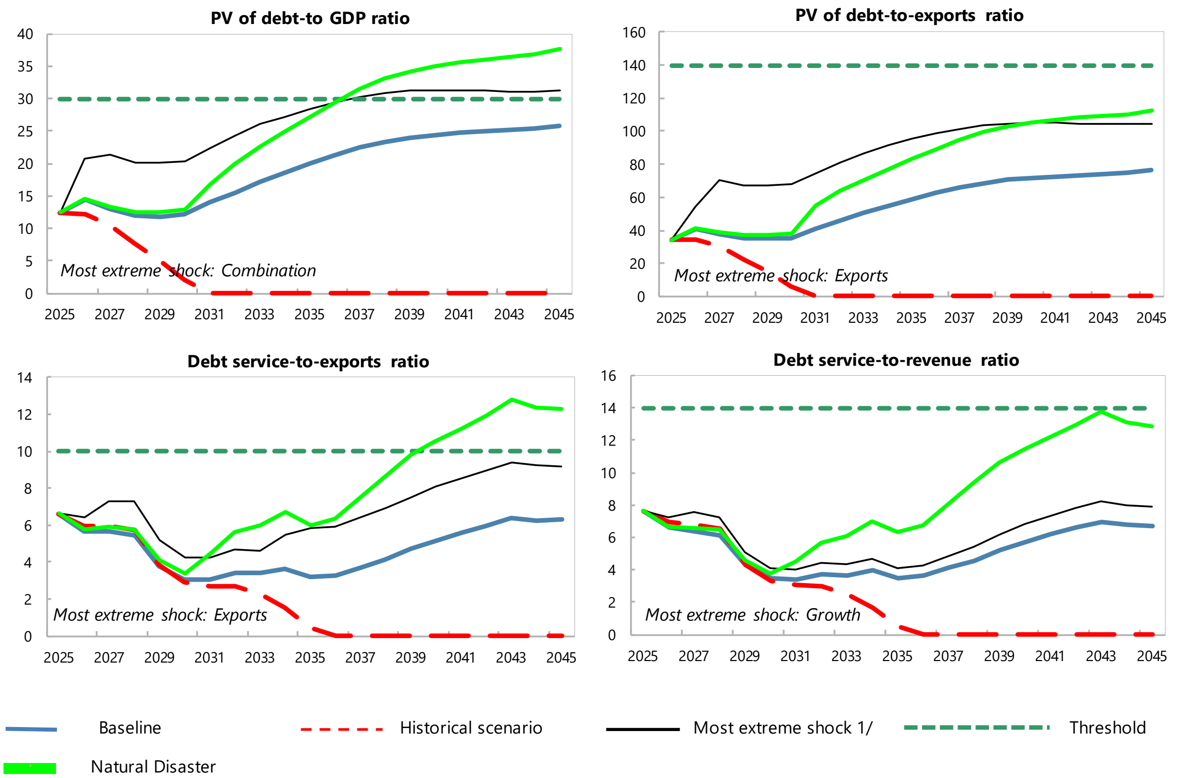
18. Prioritization with a phased or blended financing approach may help mitigate the risks.

- Prioritization on magnitude and type of projects is key. Current debt sustainability indicators suggest that RMI can absorb up to approximately $80 million (around 27 percent of GDP) in concessional borrowing over the medium term without breaching sustainability thresholds within the next 10 years (border case in the text figure).
    - Allocating additional IDA resources to the port project alone ($50 million) would remain within this limit and is therefore not expected to lead to debt distress (Text Figure 1).
    - Prioritizing the construction of one hospital in FY2026 alongside the six ports would lead to a breach of the sustainability threshold by FY2030. Delaying the hospital's construction to FY2028 and improving public investment efficiency could help contain rising debt, but the threshold would still be exceeded toward the end of the first 10 years (Text Figure 2).
- The revitalization of six ports is anticipated to deliver quick economic benefits, support long-term development—particularly in the fisheries sector—and enhance fiscal and debt resilience. This is not expected to be the case for the hospital projects, which in addition to their larger upfront costs, will entail yearly maintenance costs, and will not generate direct financial returns.
- Investment priorities should be more focused on climate-resilient infrastructure (see the SIP on adaptation). Climate-resilient, small-scale projects financed by grant inflows or highly concessional loans can better balance the need to improve livelihoods with fiscal sustainability.
- These outcomes are contingent on effective project implementation, robust debt monitoring, coordination with the U.S. Compact, and continued grant support.

AUTHORITIES' VIEWS

19. The authorities welcomed the upgrade in the risk rating of debt distress to moderate. They noted that this improvement would create additional fiscal space, enabling the financing of large infrastructure projects through concessional loans, with repayments backed by future Compact funds. The authorities concurred with staff that this increased space should be utilized in a prudent and sustainable manner given the country's low debt-carrying capacity. In particular, they reaffirmed their commitment to maintaining zero non-concessional borrowing under IDA's Sustainable Development Finance Policy.

Figure 1. Marshall Islands: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, FY2025-2045



Customization of Default Settings

Tailored Stress	Size	Interactions
Standardized Tests	Yes	
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

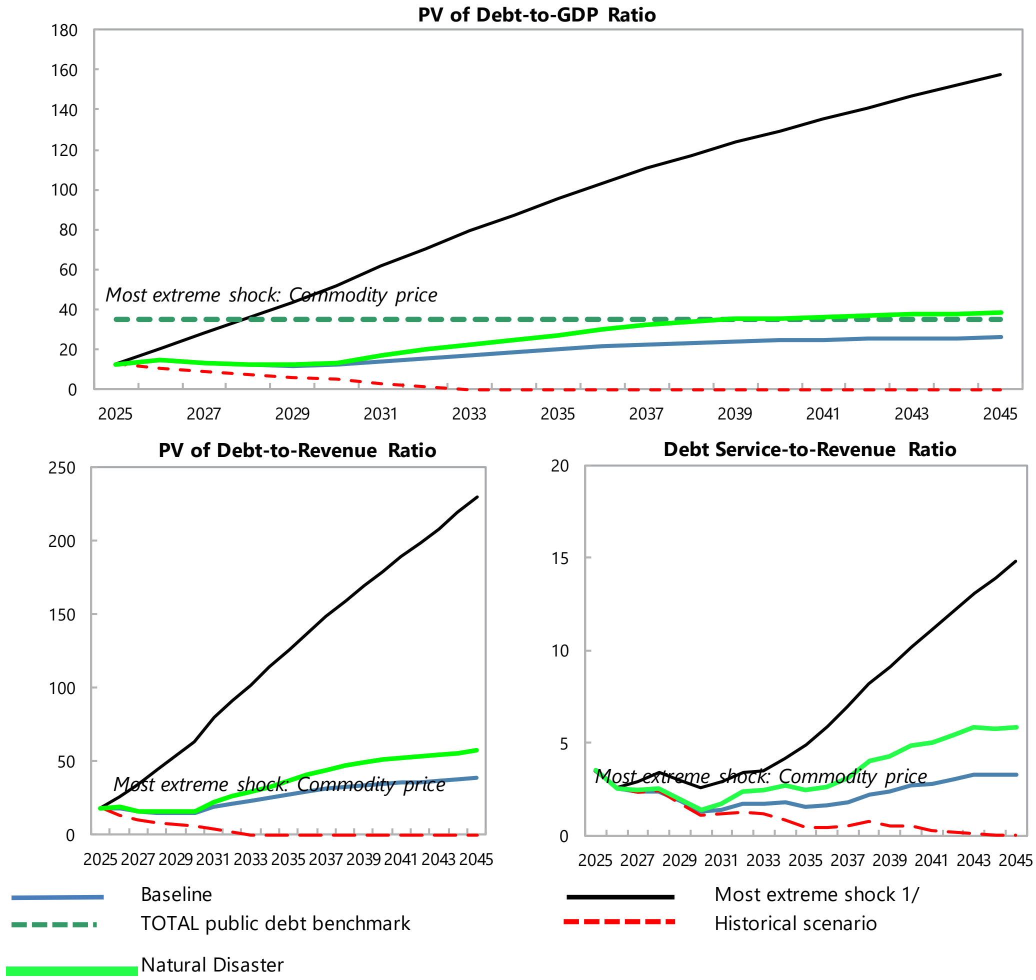
Borrowing assumptions on additional financing needs resulting from the stress tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Marshall Islands: Indicators of Public Debt Under Alternative Scenarios, FY2025-2045



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	97%	97%
Domestic medium and long-term	0%	0%
Domestic short-term	3%	3%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-1.4%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

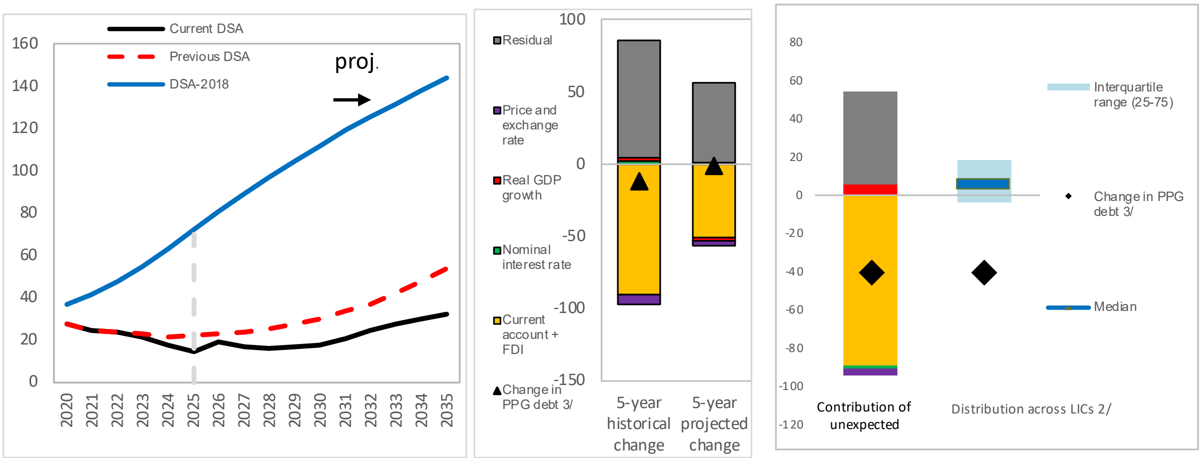
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Marshall Islands: Drivers of Debt Dynamics – Baseline Scenario

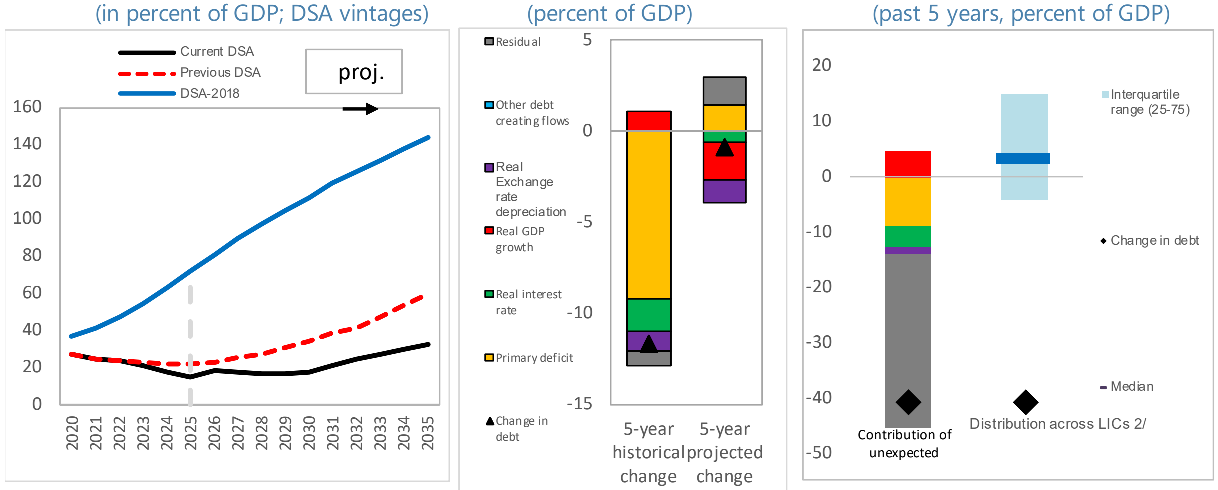
External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



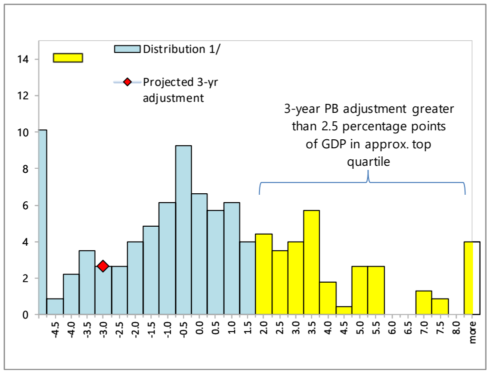
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

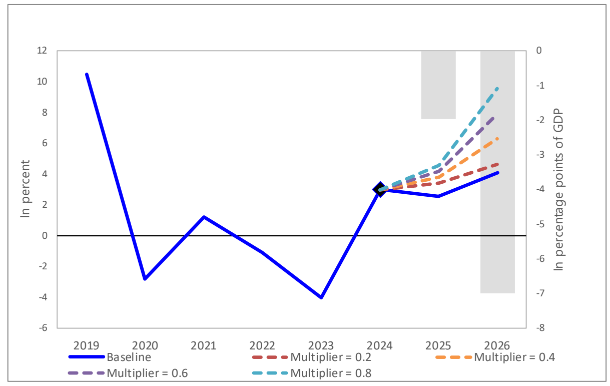
Figure 4. Marshall Islands: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

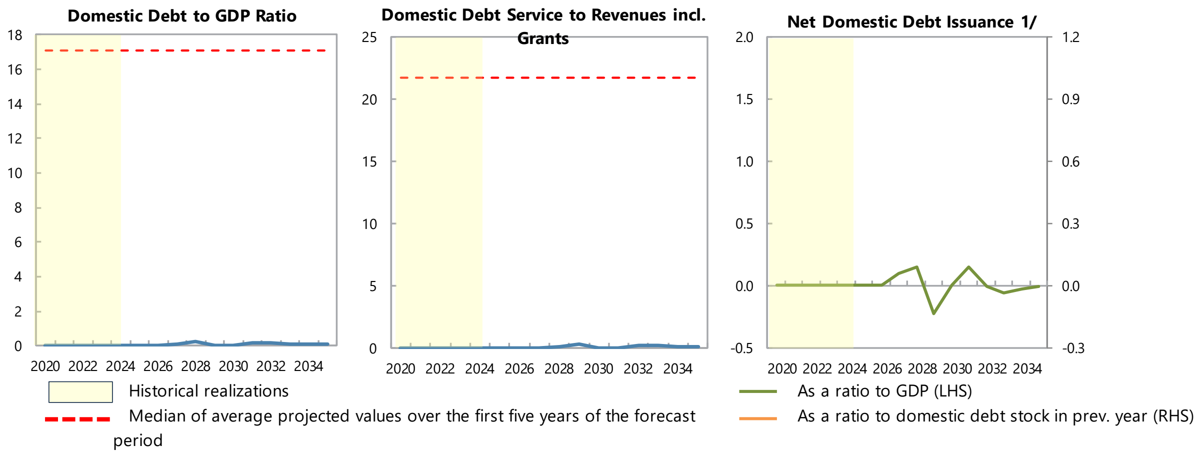
Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 5. Marshall Islands: Indicators of Domestic Debt, 2020-2035 1/

(Percent)

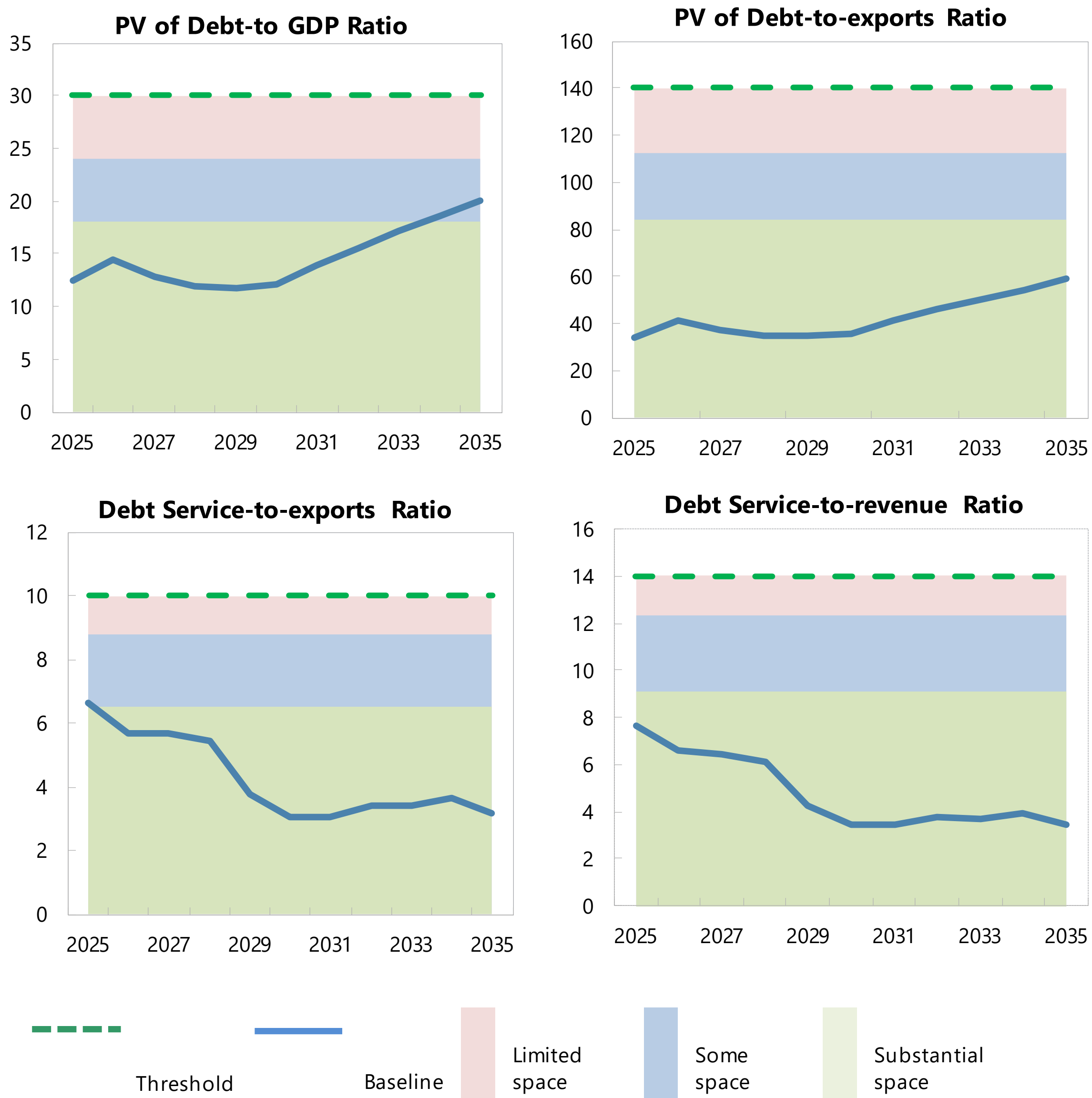


Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	0%
Short-term	100%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	0.0%
Avg. maturity (incl. grace period)	1
Avg. grace period	0
Domestic short-term debt	
Avg. real interest rate	-1.4%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 6. Marshall Islands: Qualification of the Moderate Category, 2025-2035 1/



Sources: Country authorities; and staff estimates and projections.

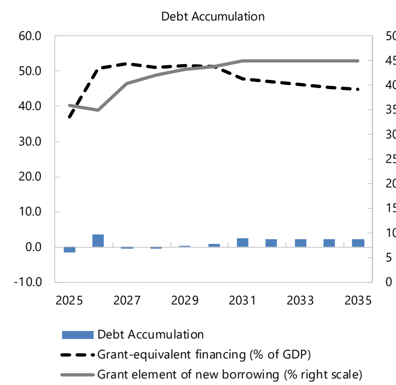
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

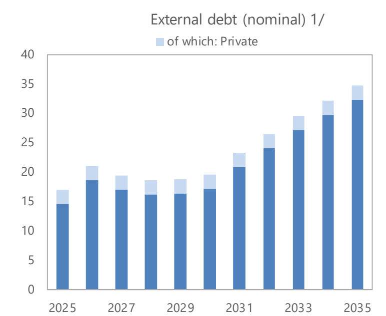
Table 1. Marshall Islands: External Debt Sustainability Framework, Baseline Scenario, FY2022-2045

(In Percent of GDP, unless otherwise Indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	**26.0**	**23.7**	**19.7**	**17.0**	**21.1**	**19.4**	**18.6**	**18.8**	**19.5**	**34.7**	**45.3**	**32.5**	**23.7**
of which: public and publicly guaranteed (PPG)	**23.5**	**21.1**	**17.3**	**14.6**	**18.7**	**17.0**	**16.2**	**16.4**	**17.1**	**32.3**	**42.9**	**30.2**	**21.3**
Change in external debt	-0.9	-2.4	-4.0	-2.7	4.1	-1.7	-0.8	0.2	0.8	2.5	0.8		
Identified net debt-creating flows	**-6.4**	**-20.8**	**-19.1**	**-14.1**	**-8.0**	**-11.7**	**-9.4**	**-8.4**	**-7.1**	**4.0**	**7.8**	**-13.2**	**-4.6**
Non-interest current account deficit	**-10.6**	**-17.5**	**-14.4**	**-10.7**	**-4.3**	**-8.2**	**-6.0**	**-4.9**	**-3.7**	**7.6**	**11.4**	**-7.3**	**-1.1**
Deficit in balance of goods and services	37.4	32.8	35.4	35.2	52.5	51.3	52.4	54.2	55.2	59.0	62.4	**43.4**	**53.5**
Exports	40.5	38.6	37.4	36.3	35.4	34.4	34.0	33.8	33.9	33.9	33.9		
Imports	78.0	71.4	72.8	71.5	87.9	85.7	86.4	88.0	89.1	92.9	96.3		
Net current transfers (negative = inflow)	-32.6	-30.2	-31.6	-27.0	-39.5	-43.0	-41.8	-42.4	-42.0	-34.5	-32.3	**-29.6**	**-37.6**
of which: official	-31.5	-29.7	-31.7	-27.3	-40.3	-44.0	-42.9	-43.4	-43.1	-35.9	-32.0		
Other current account flows (negative = net inflow)	-15.4	-20.1	-18.2	-18.8	-17.3	-16.5	-16.6	-16.7	-16.8	-16.9	-18.6	**-21.2**	**-17.0**
Net FDI (negative = inflow)	**3.1**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-5.2**	**-3.3**
Endogenous debt dynamics 2/	**1.1**	**0.0**	**-1.4**	**-0.1**	**-0.3**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.2**	**-0.2**		
Contribution from nominal interest rate	0.5	0.6	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.3	0.4		
Contribution from real GDP growth	0.3	1.0	-0.7	-0.5	-0.6	-0.5	-0.4	-0.3	-0.3	-0.5	-0.6		
Contribution from price and exchange rate changes	0.3	-1.6	-1.1	...	...	...	...	...	...	...	...		
Residual 3/	**5.5**	**18.4**	**15.1**	**11.4**	**12.1**	**10.0**	**8.6**	**8.6**	**7.8**	**-1.5**	**-7.0**	**9.9**	**6.0**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**14.8**	**12.4**	**14.5**	**12.9**	**12.0**	**11.9**	**12.2**	**20.5**	**27.0**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**39.6**	**34.1**	**40.9**	**37.6**	**35.2**	**35.0**	**35.9**	**60.3**	**79.6**		
PPG debt service-to-exports ratio	**6.9**	**7.3**	**6.9**	**6.6**	**5.7**	**5.7**	**5.4**	**3.8**	**3.1**	**3.2**	**6.3**		
PPG debt service-to-revenue ratio	**8.6**	**8.3**	**8.1**	**7.6**	**6.6**	**6.4**	**6.1**	**4.3**	**3.5**	**3.5**	**6.7**		
Gross external financing need (Million of U.S. dollars)	-11.9	-46.7	-42.5	-35.1	-18.7	-34.3	-28.2	-27.4	-24.3	26.3	73.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-1.1	-4.0	3.0	2.5	4.1	2.4	1.9	1.8	1.6	1.6	1.5	**2.0**	**2.0**
GDP deflator in US dollar terms (change in percent)	-1.0	6.6	5.0	5.1	5.6	5.1	3.2	2.4	2.4	2.4	2.0	**2.3**	**3.2**
Effective interest rate (percent) 4/	2.0	2.5	1.8	2.0	1.9	1.6	1.5	1.3	1.2	1.1	1.0	**2.2**	**1.4**
Growth of exports of G&S (US dollar terms, in percent)	-14.2	-2.6	4.7	4.7	7.0	4.6	4.1	3.7	4.3	4.0	3.5	**2.4**	**4.4**
Growth of imports of G&S (US dollar terms, in percent)	7.1	-6.3	10.2	5.8	35.2	4.9	6.1	6.2	5.3	4.8	3.5	**2.8**	**8.0**
Grant element of new public sector borrowing (in percent)	...	...	...	35.8	35.0	40.2	42.0	43.1	43.8	45.0	42.9	**...**	**42.3**
Government revenues (excluding grants, in percent of GDP)	32.3	33.8	32.0	31.4	30.4	30.4	30.1	30.0	30.1	31.0	31.9	**32.3**	**30.6**
Aid flows (in Million of US dollars) 5/	91.5	92.6	121.1	112.8	181.8	186.3	192.3	203.0	210.5	225.2	271.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	37.0	50.7	52.1	51.0	51.6	51.4	44.7	36.7	**...**	**47.7**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	99.1	91.6	98.6	98.2	97.9	97.6	94.8	94.2	**...**	**96.0**
Nominal GDP (Million of US dollars)	253	259	281	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	-2.1	2.3	8.2	7.7	9.9	7.6	5.2	4.2	4.0	4.0	3.5	**4.3**	**5.3**
Memorandum items:													
PV of external debt 7/	...	...	17.2	14.8	16.9	15.3	14.4	14.3	14.6	22.9	29.4		
In percent of exports	...	...	46.0	40.7	47.7	44.6	42.2	42.1	42.9	67.3	86.7		
Total external debt service-to-exports ratio	6.9	7.3	6.9	6.6	5.7	5.7	5.4	3.8	3.1	3.2	6.3		
PV of PPG external debt (in Million of US dollars)			41.5	37.4	48.0	46.2	45.0	46.5	49.6	101.6	194.2		
(PVt-PVt-1)/GDPt-1 (in percent)				-1.5	3.5	-0.6	-0.3	0.4	0.8	2.4	1.5		
Non-interest current account deficit that stabilizes debt ratio	-9.7	-15.1	-10.4	-7.9	-8.4	-6.5	-5.2	-5.1	-4.4	5.0	10.6		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

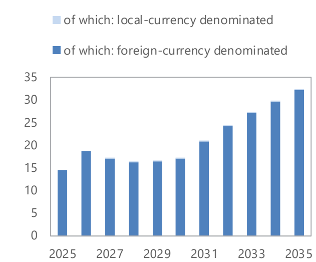
Table 2. Marshall Islands: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2022-2045

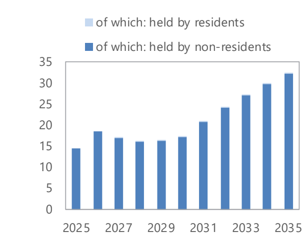
(In Percent of GDP, unless otherwise Indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	**23.5**	**21.1**	**17.3**	**14.6**	**18.7**	**17.1**	**16.4**	**16.4**	**17.2**	**32.4**	**43.0**	**30.2**	**21.4**
of which: external debt	**23.5**	**21.1**	**17.3**	**14.6**	**18.7**	**17.0**	**16.2**	**16.4**	**17.1**	**32.3**	**42.9**	**30.2**	**21.3**
Change in public sector debt	-1.0	-2.4	-3.8	-2.7	4.1	-1.6	-0.7	0.0	0.8	2.5	0.8		
Identified debt-creating flows	**0.2**	**-1.2**	**-5.0**	**-2.3**	**4.5**	**-1.4**	**-1.2**	**-0.7**	**-0.6**	**1.4**	**0.8**	**-2.8**	**0.9**
Primary deficit	**-0.9**	**-1.3**	**-3.8**	**-1.9**	**5.1**	**-0.9**	**-0.8**	**-0.2**	**-0.2**	**2.3**	**1.8**	**-2.3**	**1.5**
Revenue and grants	68.4	69.5	75.2	68.2	78.5	82.0	80.4	80.8	80.5	73.7	66.9	**66.8**	**76.8**
of which: grants	36.1	35.7	43.1	36.8	48.2	51.6	50.3	50.8	50.4	42.7	35.0		
Primary (noninterest) expenditure	67.5	68.2	71.4	66.3	83.7	81.1	79.6	80.5	80.3	76.1	68.7	**64.5**	**78.3**
Automatic debt dynamics	**1.1**	**0.1**	**-1.2**	**-0.5**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.9**	**-1.0**		
Contribution from interest rate/growth differential	-0.9	0.8	-0.7	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5	-0.9	-1.0		
of which: contribution from average real interest rate	-1.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.4	-0.4		
of which: contribution from real GDP growth	0.3	1.0	-0.6	-0.4	-0.6	-0.4	-0.3	-0.3	-0.3	-0.5	-0.6		
Contribution from real exchange rate depreciation	1.9	-0.7	-0.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-1.2**	**-1.2**	**1.2**	**-0.4**	**-0.4**	**-0.1**	**0.6**	**0.7**	**1.4**	**1.1**	**0.0**	**-0.5**	**0.5**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**14.8**	**12.4**	**14.5**	**13.0**	**12.2**	**11.9**	**12.2**	**20.5**	**27.1**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**19.7**	**18.2**	**18.4**	**15.9**	**15.2**	**14.7**	**15.2**	**27.8**	**40.5**		
Debt service-to-revenue and grants ratio 3/	**4.1**	**4.0**	**3.4**	**3.5**	**2.6**	**2.4**	**2.4**	**1.9**	**1.3**	**1.6**	**3.3**		
Gross financing need 4/	1.9	1.5	-1.2	0.5	7.1	1.1	1.2	1.3	0.9	3.5	4.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-1.1	-4.0	3.0	2.5	4.1	2.4	1.9	1.8	1.6	1.6	1.5	**2.0**	**2.0**
Average nominal interest rate on external debt (in percent)	2.2	2.8	2.1	2.3	2.2	1.9	1.7	1.5	1.4	1.2	1.0	**2.3**	**1.6**
Average real interest rate on domestic debt (in percent)	3.2	-3.6	-2.8	-2.6	-3.3	-3.1	-0.2	-0.4	-1.4	-1.4	-1.0	**0.2**	**-1.6**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.2	-2.8	-2.5	...	...	...	...	...	...	...	...	**0.5**	**...**
Inflation rate (GDP deflator, in percent)	-1.0	6.6	5.0	5.1	5.6	5.1	3.2	2.4	2.4	2.4	2.0	**2.3**	**3.2**
Growth of real primary spending (deflated by GDP deflator, in percent)	-4.0	-3.0	7.8	-4.8	31.3	-0.8	0.1	2.9	1.3	0.4	0.7	**6.2**	**3.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.1	1.1	0.0	0.9	1.0	0.7	-0.1	-0.2	-0.9	-0.2	1.0	**0.4**	**0.1**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Marshall Islands: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY2025-2035

(In Percent)

	Projections 1/										
	2025	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
PV of debt-to GDP ratio											
Baseline	12	14	13	12	12	12	14	16	17	19	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	12	12	10	8	5	2	0	0	0	0	0
A2. Alternative Scenario: Natural disaster	12	15	13	12	13	13	17	20	23	26	28
B. Bound Tests											
B1. Real GDP growth	12	16	15	14	14	14	17	19	21	22	24
B2. Primary balance	12	16	15	14	14	14	16	18	20	21	23
B3. Exports	12	17	20	19	19	19	21	23	25	26	27
B4. Other flows 3/	12	18	21	20	19	20	22	23	25	26	27
B5. Depreciation	12	14	13	12	12	12	14	16	18	19	21
B6. Combination of B1-B5	12	21	21	20	20	20	23	25	26	28	29
C. Tailored Tests											
C1. Combined contingent liabilities	12	18	17	16	16	16	18	20	21	23	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	16	16	14	12	11	11	11	11	10	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	34	41	38	35	35	36	42	47	51	56	60
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	34	35	30	23	15	6	0	0	0	0	0
A2. Alternative Scenario: Natural disaster	34	42	39	37	37	39	56	65	73	79	86
B. Bound Tests											
B1. Real GDP growth	34	41	38	35	35	36	42	47	51	56	60
B2. Primary balance	34	44	44	42	42	42	48	53	58	62	67
B3. Exports	34	54	70	67	67	68	76	82	88	93	97
B4. Other flows 3/	34	52	60	57	57	58	64	69	74	78	81
B5. Depreciation	34	41	38	36	36	37	42	47	52	56	61
B6. Combination of B1-B5	34	60	56	62	62	63	70	75	81	85	89
C. Tailored Tests											
C1. Combined contingent liabilities	34	52	49	47	47	47	53	58	63	67	71
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	34	48	49	43	38	33	33	32	31	30	28
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	7	6	6	5	4	3	3	3	3	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	7	6	6	6	4	3	3	3	2	2	0
A2. Alternative Scenario: Natural disaster	7	6	6	6	4	3	4	6	6	7	6
B. Bound Tests											
B1. Real GDP growth	7	6	6	5	4	3	3	3	3	4	3
B2. Primary balance	7	6	6	6	4	3	3	4	4	4	4
B3. Exports	7	6	7	7	5	4	4	5	5	5	6
B4. Other flows 3/	7	6	6	6	4	3	3	4	4	5	5
B5. Depreciation	7	6	6	5	4	3	3	3	3	4	3
B6. Combination of B1-B5	7	6	7	7	5	4	4	4	4	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	6	6	4	3	3	4	4	5	4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	7	6	6	6	4	3	3	3	3	4	3
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	8	7	6	6	4	3	3	4	4	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	8	7	7	7	4	3	3	3	2	2	1
A2. Alternative Scenario: Natural disaster	8	7	7	6	5	4	4	6	6	7	6
B. Bound Tests											
B1. Real GDP growth	8	7	8	7	5	4	4	4	4	5	4
B2. Primary balance	8	7	6	6	4	4	4	4	4	4	4
B3. Exports	8	7	7	7	5	4	4	4	4	5	5
B4. Other flows 3/	8	7	7	7	5	4	4	4	4	5	5
B5. Depreciation	8	7	6	6	4	3	3	4	4	4	4
B6. Combination of B1-B5	8	7	7	7	5	4	4	5	4	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	8	7	7	6	5	4	4	4	4	5	4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8	7	7	7	5	4	4	4	4	4	4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Marshall Islands: Sensitivity Analysis for Key Indicators of Public Debt, FY2025-2035
(In Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	12	14	13	12	12	12	14	16	18	19	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	12	11	9	7	6	5	3	1	0	0	0
A2. Alternative Scenario: Natural disaster	12	15	13	13	13	13	17	20	23	25	28
B. Bound Tests											
B1. Real GDP growth	12	18	21	23	26	29	35	**40**	**45**	**50**	**55**
B2. Primary balance	12	16	15	14	14	14	16	18	20	21	23
B3. Exports	12	17	19	19	18	19	21	22	24	25	26
B4. Other flows 3/	12	18	21	20	19	20	22	24	25	26	27
B5. Depreciation	12	14	13	12	12	12	14	16	18	19	21
B6. Combination of B1-B5	12	16	15	15	15	15	17	19	21	22	24
C. Tailored Tests											
C1. Combined contingent liabilities	12	19	17	16	16	16	18	20	21	23	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	12	20	28	**36**	**44**	**52**	**62**	**71**	**79**	**88**	**96**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	18	18	16	15	15	15	19	21	23	25	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	18	13	10	9	7	6	4	2	0	-	-
A2. Alternative Scenario: Natural disaster	18	19	16	16	16	16	23	26	30	34	38
B. Bound Tests											
B1. Real GDP growth	18	21	23	25	28	33	42	48	54	61	68
B2. Primary balance	18	20	19	18	17	18	22	24	26	28	31
B3. Exports	18	21	24	23	23	23	27	30	32	34	36
B4. Other flows 3/	18	23	25	25	24	25	29	31	33	35	37
B5. Depreciation	18	18	16	15	15	15	19	21	23	25	28
B6. Combination of B1-B5	18	20	17	18	18	18	22	24	27	29	31
C. Tailored Tests											
C1. Combined contingent liabilities	18	24	21	20	20	20	24	26	29	31	33
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	18	26	34	44	54	64	80	91	103	115	127
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	4	3	2	2	2	1	1	2	2	2	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	4	3	2	2	2	1	1	1	1	1	0
A2. Alternative Scenario: Natural disaster	4	3	2	3	2	1	2	2	2	3	2
B. Bound Tests											
B1. Real GDP growth	4	3	3	3	2	2	2	2	3	3	3
B2. Primary balance	4	3	2	3	2	1	1	2	2	2	2
B3. Exports	4	3	2	3	2	1	2	2	2	2	2
B4. Other flows 3/	4	3	2	3	2	1	2	2	2	2	2
B5. Depreciation	4	3	2	2	2	1	1	2	2	2	2
B6. Combination of B1-B5	4	3	2	2	2	1	2	2	2	2	2
C. Tailored Tests											
C1. Combined contingent liabilities	4	3	3	3	2	1	1	2	2	2	2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4	3	3	3	3	3	3	3	4	4	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

REPUBLIC OF THE MARSHALL ISLANDS

October 7, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of August 30, 2025)

Membership Status: Joined May 21, 1992; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	4.90	100.00
IMF's Holdings of Currency	4.55	92.86
Reserve Tranche Position	0.35	7.15

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	8.02	100.00
Holdings	7.70	95.97

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Overdue Obligations and Projected Payments to Fund[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements

The U.S. dollar is legal tender and the official currency. The Marshall Islands maintains an exchange system that is free of restrictions on the making of international payments and transfers for current and capital transactions.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Article IV Consultation

The Marshall Islands is on a 24-month consultation cycle. The 2023 Article IV Consultation discussions were held during May 12-24, 2023. The Executive Board discussed the staff report and concluded the consultation on September 18, 2023.

Technical Assistance: Fund CD has been closely integrated with policy priorities to support the authorities' reform agenda and improve implementation capabilities. Fund CD has been regularly delivered mainly by Pacific Financial Technical Assistance Center (PFTAC), with support and focused missions from Fund headquarters. Recent IMF CD activities and priorities include macroeconomic statistics, PFM, financial sector supervision, and tax reform (See Staff Report Annex I on Country Engagement Strategy for details).

Marshall Islands: Capacity Development Activities

Year	TA Area	Activities	Advisors
FY2025	Financial Sector	Development of Supervisory Manual for Credit Institutions	PFTAC
	GFS	Mapping the Chart of Accounts to GFS Taxonomy	
	Real Sector	Update GDP	
		Update the Consumer Price Index	STA
	Macro Analysis	Support for budget forward estimates	PFTAC
	PFM	Strengthening budgeting practices and documentation	
	Revenue	Core Tax Administration Systems Needs Assessment Tax Reform Phase 1 Implementation Support HQ Revenue Mobilization CD	
		Key tax policy measures the authorities should adopt to advance phase 2 of the tax reform	FAD
FY2024	Financial Sector	Review of Prudential Standards and Prudential Returns	PFTAC
	GFS	Assist Economic Policy, Planning and Statistics Office (EPPSO) in improving the compilation and dissemination of government finance statistics (GFS)	
	Macro Analysis	Macro-Fiscal Modelling	
	PFM	Strengthening Budgeting Practices Strengthening Financial Reporting and CoA	
	Revenue	Progress implementation of performance management (people) to improve people capability Review reform progress Improve taxpayer services process and skills development	
FY2023	Financial Sector	Regulatory Framework for MIDB and other NBFI's Prudential Standards- Impact Study & Industry consultation	PFTAC
		Establishing Monetary Authority	LEG/MCM
	GFS	Expand coverage to public nonfinancial corporations and for public sector debt statistics (PSDS). Source data provide sufficient detail to allow consolidation of GFS for the various levels of the general government (or public) sector.	PFTAC
	Real Sector	Balance of Payments GDP Deflators/ PPI	

Marshall Islands: Capacity Development Activities (concluded)			
Year	**TA Area**	**Activities**	**Advisors**
FY2023	Macro Analysis	Macro-Fiscal Modelling	PFTAC
	PFM	Strengthening Budget Preparation	
	Revenue	Review reform progress Improve Taxpayer Service Process and Skills Development	
FY2022	Financial Sector	Assisting RMI BC in the finalization of prudential standards by reviewing the industry feedback on draft prudential standards (Prudential Standards - Development of Impact Study Templates)	PFTAC
	GFS	Refine compilation techniques for using various administrative data sources to reduce statistical discrepancies Compile, review and disseminate data to the IMF Statistics Department.	
	Real Sector	Provide training on the compilation of non-market value-added Quality control and data editing for BGRT Implementing non-market production	
	Macro Analysis	Support the use of the Marshall Islands Fiscal Model (MI_FM) and Medium-Term Budget and Investment Framework (MTBIF) in budget preparations and policy analysis	
	PFM	Increase transparency in the presentation of the budget	
FY2021	Financial Sector	Review revised draft banking law and regulations and propose final amendments. Training on risk-based supervision	PFTAC
	GFS	Refine compilation techniques for using various administrative data sources to reduce statistical discrepancies Compile, review and disseminate data to the IMF Statistics Department.	
	Real Sector	Review progress in independent compilation of GDP. Training of new staff on GDP compilation and national specifics of data sources.	
	Macro Analysis	Economic Forecast COVID19 Update	
	PFM	Assist with the compilation of a manual for the Marshall Islands Fiscal Model (MI-FM) and Medium-Term Budget and Investment Framework (MTBIF)	
	Revenue	Review of Tax Reforms and Core Tax Functions	

Resident Representative: The resident representative office in the Pacific Islands was opened in September 2010 in Suva, Fiji. Mr. Neil Saker is the current Resident Representative.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Relations with other IFIs:

- World Bank Group: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=MH
- Asian Development Bank: https://www.adb.org/countries/marshall-islands/main
- Pacific Financial Technical Assistance Center: https://www.pftac.org/content/PFTAC/en1.html

Authorities' Statement on the Republic of the Marshall Islands Staff Report for the 2025 Article IV Consultation

The Republic of the Marshall Islands thanks the IMF staff for their constructive engagement and for their continued attention to the unique challenges faced by small island economies.

The Marshall Islands is dispersed across an ocean area comparable to the size of Mexico, and distance has long operated as a structural economic tax for Marshallese households, further compounded in recent years by the retreat of correspondent banking activity across the Pacific. These structural constraints have guided the government's ongoing investments in digital infrastructure, financial inclusion, and resilient public-service delivery.

ENRA, the Republic's Universal Basic Income program, reflects this commitment - symbolizing community, care, and shared prosperity - and represents the largest social-outreach initiative undertaken by the Republic, providing regular, predictable support to households across all atolls. The program is financed through Compact Trust Fund (CTF) drawdowns that remain within the sustainable four-percent cap approved by the Trust Fund Committee (TFC), whose members include both RMI and U.S. representatives. All disbursements occur under external oversight and are aligned with long-term fiscal sustainability.

ENRA is being introduced through both conventional and digital channels, supported by the nationwide deployment of low-earth-orbit satellite internet (i.e. Starlink), with opportunities to deliver more targeted support as the program is maintained over time. The government's introduction of USDM1, the Republic's digital sovereign bond, provides an option for those who prefer or require a digital channel to access their benefits as best suits their circumstances. This channel is introduced alongside conventional distribution channels, which remain fully available. Digital distribution options allow transfers of funds to remote areas, enable direct transfers to citizens without bank accounts and reduce the burden of moving physical cash across dispersed atolls.

The Government's top priority is financial stability and fiscal transparency, so it appreciates the IMF's focus on these issues. As the issuer of USDM1, the Marshall Islands values the opportunity to clarify its structure and the approach the Government has taken.

USDM1 provides an additional distribution mechanism supporting government-to-citizen disbursements and fiscal transfers in a manner consistent with the RMI's debt-management strategy and fiscal objectives. Issuance, collateral management, and servicing activities are conducted through licensed trustees and paying agents, and operate within established sovereign-debt governance, disclosure, and reporting practices.

USDM1 is not a central bank digital currency or an e-money instrument. Unlike privately issued payment tokens, which represent a claim on a private issuer, USDM1 is a digital form of a sovereign debt instrument issued under a New York law indenture. Each unit represents a par-value sovereign obligation and provides enforceable rights against the issuer. The instrument is fully secured by an equivalent value of short-term U.S. Treasury securities held on a segregated basis by a U.S. trust company and pledged to a collateral agent that maintains a first-priority perfected security interest under New York law for the benefit of the bond holders.

As the RMI is fully dollarized, operates without an independent monetary authority, and continues to operate exclusively on the U.S. dollar under the Compact of Free Association, the issuance of USDM1 introduces no new monetary-policy transmission channels or exchange-rate exposures, and does not alter the Republic's monetary or fiscal arrangements. Issuance proceeds are fully segregated and cannot be drawn upon for budget support or recurrent expenditures.

USDM1's contractual and legal structure follows established international practices for collateralized sovereign obligations. These include the use of New York law indentures, sovereign waivers of immunity, trustee-enforced rights, and dedicated collateral arrangements that strengthen creditor protections and enhance transparency. The modernization introduced by USDM1 lies in its secure digital implementation, enabling more reliable and resilient service delivery and improved operational efficiency across the RMI's dispersed geography.

Domestically, USDM1 is being introduced through a controlled, phased rollout, which allows the Government to calibrate scale and monitor operational performance as implementation progresses. It operates within existing domestic legal frameworks, including the Fiscal Responsibility and Debt Management Act of 2020 and investor-protection measures, as well as within existing sovereign debt, securities, and trust-law frameworks under U.S law. The instrument's form-factor provides a safe way to transfer value while maintaining contractual rights, collateral structure and enforceability.

The government has expanded domestic supervisory capacity to support implementation. Qualified experts and international partners have been engaged and retained to further augment institutional readiness, strengthen digital infrastructure, and reinforce checks and balances through the establishment and maintenance of rigorous safeguards. Technology governance, risk-management, and compliance practices meet established regulatory expectations and global standards. Cyber-security safeguards have been put in place consistent with international best practices. USDM1 is in full alignment with AML/KYC frameworks and operates within the Republic's prudential and AML/CFT supervisory perimeter. In response to early international institutional inquiries, USDM1 will offer limited access for qualified institutional investors, with any government revenue contributing to long-term development priorities in a manner consistent with the Republic's fiscal framework, and in recognition of the country's circumstances as a climate-vulnerable and geographically isolated nation.

The Republic of the Marshall Islands thanks the IMF for its constructive engagement as the government works to expand financial access and opportunity across its vast country. It remains firmly committed to innovation that supports financial stability, transparency and long-term sustainability. The government values the IMF's continued collaboration and remains committed to maintaining alignment in support of development priorities and international obligations.