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# Marshall Islands: Recent Economic Developments

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## INTERNATIONAL MONETARY FUND

# MARSHALL ISLANDS

# Recent Economic Developments

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# Approved by the Asia and Pacific Department

# June 15, 1998

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Nominal GDP (1997/98): Population (1998):

GDP per capita (1997/98):

Quota:

US\$96 million 61,000 US\$1,522

SDR 2.5 million

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Real sector (calendar year basis)					<del></del>
Real GDP (percent change)	4.1	2.8	2.7	-15.2	-5.3
Consumer prices (percent change)	5.0	5.6	8.3	9.6	4.8
Central government finance (percent of GDP)					
Revenue and grants	82.4	74.9	76.0	82.4	66.8
Grants	32.4	29.5	33.6	37.4	25.7
Expenditure	50.1	45.5	42.5	45.0	41.1
Current	97.5	88.2	90.1	62.0	62.9
Capital and net lending	76.7	62.8	55.2	54.4	48.5
Overall balance	20.8	25.3	34.9	7.7	10.8
	-15.0	-13.2	-14.1	20.3	3.9
Commercial banks (US\$ mn.; end-December)	1210	13.2	-14.1	20.3	3.9
Foreign assets	15.8	18.8	17.8	21.1	18.0
Private sector claims	36.1	36.4	30.4	30.5	32.3
Total deposits	37.7	37.5	34.0	37.7	35.5
One-year time deposit rate (in percent)	16.5	16.5	17.2	19.8	18.0
Average consumer loan rate (in percent)	11.0	12.4	12.4	11.7	11.0
Balance of payments (US\$ mn.)					
Trade balance	-53.2	<b>-4</b> 9.5	-51.0	<b>-53</b> .1	-35.8
Net services	1.9	4.9	1.5	6.0	5.5
Private and official transfers	50.0	49.4	51.1	50.6	46.7
Current account including official transfers	-1.3	4.8	1.6	3.5	16.4
(In percent of GDP)	-1.5	5.1	1.5	3.6	16.9
Current account excluding official transfers	-52.9	-46.2	-51.2	-48.7	-31.8
(In percent of GDP)	-60.7	<del>-48.8</del>	-48.7		
Overall balance	8.0	3.1	-46.7 -31.5	<b>-4</b> 9.9	-32.8
(In percent of GDP)	9.2	3.3	-29.9	-0.9 -0.9	-1.2 -1.2
External debt (US\$ mn.; end of period) 2/	132.2	158.4	148.6	133.1	124.0
(In percent of GDP)	151.8	167.4	141.3	136.2	124.9 128.8
External debt service (US\$ mn.)	20.3	22.1	24.0	25.1	25.3
(In percent of exports of goods and nonfactor services)	43.7	38.6	37.9	40.1	36.9
Government financial holdings (US\$mm.; end of perio	37.3	40.4	8.9	8.0	6.8
(In months of imports of goods and services)	4.6	4.8	0.9	0.9	0.8
Exchange rate					
Exchange rate regime	U.S. do	ollar is the d	omestic cur	rency	

<sup>1/</sup> The fiscal year ends on September 30.

<sup>2/</sup> Government and government-guaranteed debt only.

### I. INTRODUCTION

- The Marshall Islands (MI), situated 2,000 miles west of Hawaii, consists of about 30 atolls and 1,200 small islands, with a total land area of 70 square miles. MI's population was estimated at 63,000 in 1997, of which 70 percent lived on Majuro atoll, the government and business center of the country, and on Kwajalein/Ebeye atoll, where a U.S. missile testing facility is located. Population growth in MI has averaged over 3 percent a year and a majority of the population is under 15 years of age. Net population growth is unknown but it is believed that outward migration to the United States and its territories has been sizable. MI's productive base is narrow and consists primarily of fishing, coconut harvesting and processing, and subsistence farming.
- 2. The Marshall Islands was part of the United Nations Trust Territory of the Pacific Islands, under U.S. administration during the period from 1947–86. A Compact of Free Association (compact) between the United States and MI came into effect in October 1986 for a 15-year period to FY2001, under which the United States retains responsibility for defense and provides financial assistance, presently equivalent to 48 percent of GDP. This support includes annual cash block grants of \$26 million for the first five years, \$22 million for the next five years, and \$19 million for the final five years; with provisions for a partial annual inflation adjustment. The United States also provides grants for specified purposes supervised by different federal agencies, especially for health, education, and environmental protection. MI has borrowed from abroad against its prospective block grant receipts through bond issues on commercial terms.

## II. OUTPUT AND PRICES

### A. Output

- 3. Real GDP declined by 15.2 percent and 5.3 percent in FY1996 and FY1997, respectively (Table 1), reflecting mainly the effects of the adjustment measures implemented by the government since 1996 under the Policy Reform Program (PRP) aimed at correcting the large imbalances in the public finance and external sector. Agriculture and fishing activities declined in FY1996 but recovered partially the following year. Construction fell sharply in FY1996 and stagnated in FY1997 with no new major projects following the completion of a 150-room hotel and the dry dock. Cuts in the government wage bill and employment affected negatively the services sector, particularly financial services.
- 4. Copra production, the main cash crop, dropped by 16 percent in 1996 and 11 percent in 1997 (Table 2), which were attributed in 1996 to a sharp drop in prices paid to producers and also to unfavorable climatic conditions caused by "El Niño." Inter-island transportation, while much improved, continued to be unreliable and also explained lower output, as the crop

<sup>&</sup>lt;sup>1</sup>The fiscal year starts on October 1.

needed to be brought to Majuro for further processing and export. Procurement prices had dropped by almost one-half from \$0.20 per pound in 1994 to \$0.11 by July 1997, but were still above world prices because of a government subsidy to growers. Net earnings to growers continue to be affected by a local tax (8 percent) and community service fees. More importantly, productivity remains low because the aging tree stock continues to be a problem (60 percent of palms are older than 60 years and one-third are nonbearing). No systematic replanting program is being considered. The Tobolar Copra Processing Authority, a privately managed government-owned enterprise, is the sole commercial purchaser of copra. Its main output is coconut oil, for which it has the capacity to crush up to 22,000 tons of copra per year, but has recently only been able to purchase less than one-third of this amount. A scheme to import copra from Kiribati to augment Tobolar's production was initiated but suspended since March 1996 pending further discussions on purchase contracts.

- Chilled fish exports were a major component of total exports. Its share in exports has 5. risen from less than 50 percent in 1994 to more than 75 percent in 1997, reflecting increased catches from Japanese and Chinese long-line boats and improved facilities in MI for landing and transhipping the fish to major markets abroad.<sup>2</sup> Marshallese-owned long-line boats ceased operation in mid-1996 because of low profitability and the vessels are now used by the fisheries training school and for other services. Frozen fish exports had stopped in 1995 also because of poor returns from government-operated purse seiner boats, but some exports resumed in 1997 from private operations. A foreign investor is expected to begin a processing plant for export of frozen fish in the second half of 1998 which is expected to provide 300 jobs. As a result of past failures, the government's current fisheries policy has been to retreat from direct involvement in commercial fishing operations. Instead, the government's efforts would be directed at improving port and on-shore facilities to attract increasing transhipment and processing of fish through MI, as well as to rely on fees from licensing arrangements. With the assistance of Japan, efforts have been made to improve in-shore fishing activity mainly to supply the domestic market. Support for the Fisheries and Nautical Training Center has continued with government support being supplemented by the fishing industry. Some 40 students graduate annually from the school, in the disciplines of fishing, merchant seamanship, navigation, and marine engineering.
- 6. The output of **food crops and livestock** has continued to grow modestly, with faster development still hampered by the easy availability of imported food, as well as poor marketing channels. Recent partial analysis of the MI food balance sheet indicated that imports accounted for 60 percent of calorific intake, whereas 65 percent of protein intake was provided by fresh fish. Parallel to the reform measures, the government continued to direct efforts at facilitating food production and improving transportation and marketing

<sup>&</sup>lt;sup>2</sup>Much of this activity represents reexports. MI net earnings on fisheries stem largely from fishing-license fees, on-shore facilities to resupply and retrofit foreign fishing boats, expenses for processing and transhipping chilled fish, and transit/recreation of boat crews.

arrangements, mainly to stimulate greater output of breadfruit, pandanus, taro, vegetables, pigs, and poultry products.

- 7. **Small-scale manufacturing**, other than the Tobolar operations, consists mainly of the production and/or processing of drinking water, beer, taro, breadfruit chips, and coconut products mainly for domestic consumption. The adjustment measures resulted in lower demand and thus manufacturing output fell in 1996 and has remained stagnant. Construction of a garment factory in a joint venture with the People's Republic of China has been completed and operations began in 1998. Initially, workers from the People's Republic of China would be utilized in the major production activities, while Marshallese employees undergo training to eventually replace them.
- The tourism sector in MI is incipient; on average some five to six thousand visitors a year have come to MI, of which about one-tenth could be classified as tourists, with the remainder being on business or in transit. Tourism continues to face the major obstacles of distance from major markets, compounded by infrequent air services, limited infrastructure, and a complex land tenure system that has hindered the development of small-scale tourist resorts. Competition from better developed, lower-cost destinations in the region is another important negative factor which has intensified with the recent appreciation of the U.S. dollar, MI's currency. The construction of a government-owned 150-room hotel in Majuro completed in July 1996 was in part to improve infrastructure. The hotel is operating under private management but running unprofitably with a 30 percent room occupancy rate. Air access services have been curtailed due to a streamlining of the operations of Air Marshall Islands (AMI) to improve its financial condition. In addition, there are concerns that the major foreign airline operating in MI (Continental) would reduce its frequency of operations. MI has good potential for tourism in niche markets which would focus on its main attractions of sport fishing, diving and snorkeling, and natural beauty. Studies by the World Bank and the Asian Development Bank (AsDB) suggest that environmental and ecological considerations as well as better developed, low-cost facilities of destinations elsewhere in the region would dictate that MI's tourist attractions be exploited on a small-scale, specific activity basis. Assistance from the AsDB under the reform program includes the establishment of the Marshall Islands Visitor Authority (MIVA), which would facilitate tourism development through easing regulatory obstacles, and strengthening marketing and promotion arrangements. In addition, AsDB is continuing discussions with MI and other countries in the region on an initiative for joint development of intra-regional airline services to boost the potential gains from the tourism industry.
- 9. **Infrastructure** investment has declined and stagnated following the completion of a dry-dock facility and the government hotel. However, assistance from Japan on a major road improvement project in Majuro began in 1998 and, in response to the drought from "El Niño," projects to upgrade water storage and produce fresh water by desalination throughout MI are being undertaken. Outside of these activities, infrastructure outlays have suffered cut-backs

under the government reform program, thereby negatively affecting private sector construction activity.

Attracting investments, particularly foreign investments, is one of the main compo-10. nents of the public sector reform program. The reforms envisage a two-prong approach to create an enabling environment for private investments. The first prong involves reducing the role of government in economic activity by downsizing, reduction in government wages, privatization, and outsourcing of some government service operations. The second envisages the simplification of investment approvals; easing of business licensing procedures; flexibility in issuance of work permits for expatriate workers and other labor regulations; clarification of legal issues on the use and lease of land, including for collateral; and enactment of bankruptcy legislation. To reinforce these efforts, the authorities established a Private Sector Unit (PSU) in the Office of the President, which is tasked with ensuring that government policies support an environment of competition and fair trading. The PSU would also develop a strategy for privatization of public enterprises and government services. The authorities also recognize that an important consideration for investors was the availability of labor with appropriate skills and competitive costs. For this purpose, the government has focused efforts on vocational training and skills acquisition programs with the assistance of AsDB, Japan, and other donors.

### B. Prices, Employment, and Wages

- 11. Consumer prices accelerated to about 10 percent in 1996 but declined to 5 percent in 1997 (Table 3). The rise in prices in 1996 reflected, in part, the impact of an increase in imports and indirect taxes on food items, household goods, personal supplies, and fuel, as well as upward adjustments in utility service charges. In 1997, inflation continued to be high relative to U.S. inflation and, while there may have been residual impact from the reform measures, this historical differential in price development remained puzzling. The possibility of data survey errors was raised and it was expected that the new Consumer Expenditure Survey of about 350 households in Majuro conducted in late 1996 would update key elements used in the consumer price index and correct its current weakness.
- 12. **Employment in the public sector** dropped markedly as the civil service workforce was reduced by a quarter during 1996–97 under the reform program. Government total employment is targeted to fall by 35 percent to 1,484 by FY1999 compared to 2,303 in FY1995. There has also been a cut in real government wages through a wage reduction and a freeze on nominal wages since 1995. These measures were expected to ease distortions in wage setting in the labor market induced by the large government presence. While the private sector would thus be in a better position to compete for labor, it would not be able immediately to absorb the sizable number of government employees laid off.
- 13. Full-time private sector employment is mainly limited to Majuro and Ebeye and the U.S. military installation in Kwajalein. A large percentage of the economically active

population is engaged in semi-subsistence activities, especially in the outer islands. There are no reliable data on unemployment or wage earnings. However, as formal employment in the private sector largely depends on public sector expenditures which have dwindled, private sector employment has been negatively affected. In addition, the employment opportunities provided by the United States in Kwajalein have recently declined. The national minimum wage of \$2.00 per hour, last adjusted in 1995, is not strictly enforced.

14. The Decennial Census of Population and Housing is scheduled to be conducted in the second half of 1998 with financial assistance from AsDB and the United States, which is expected to provide improved information on employment and wage statistics.

### C. Environmental Issues

15. The Marshall Islands has a solid legal and institutional environmental framework. The Environmental Protection Authority has legislative powers to monitor water quality, waste disposal, and sewage, and to promulgate and enforce regulations. Legislation also exists for the control of coastal zone development, although enforcement remains hampered by a shortage of manpower. Environmental problems in the main urban areas have been attributed to the high population density and inadequacies in the treatment of waste water, sewerage, and solid waste. The near-shore environment has been damaged by untreated waste water and sewage, disposed off in less than 40 feet of water. Projects from AsDB for water and transportation and UNDP for coastal zone management should help to alleviate these problems. The long-term effects of the nuclear-testing program in the 1950s on the atolls of Bikini and Enewetok continue to be addressed through various joint programs funded by the U.S. government. To preserve the environmental heritage, all new tourist and industry projects are to be carefully scrutinized.

#### III. PUBLIC FINANCE

16. The central government overall budget position registered a surplus of over 14 percent of GDP in FY1996 after sustaining deficits averaging 13 percent in the prior two years (Table 4). In FY1997, the surplus was reduced to 4 percent of GDP, reflecting the step-down in compact grants, significantly lower nontax revenues, and compensation payments for downsized government employees. An accumulation of external arrears in FY1996 was reduced by one-half in FY1997 to around \$3 million.

# A. Budgetary Developments in FY1996-98

17. In FY1996, with grants remaining almost unchanged (Table 5), the turnaround to a large budget surplus position reflected a sharp drop in capital outlays, with the completion of construction of the government-owned hotel, dock facilities, and a high school. Current expenditures were also reduced (Table 6); subsidies to public enterprises in particular were cut by 60 percent (Table 7), as utility enterprises were corporatized and required to operate on a

full-cost recovery basis, and the operations of AMI were streamlined to improve its financial position. At the same time, tight constraints on outlays for goods and services reduced spending (each ministry reduced expenses by 3 percent). Nontax revenue rose sharply, mostly from receipts on sales of Marshallese passports to investors and other persons from abroad. Receipts from fishing fees fell reflecting the reduction in Japanese fishing boats operating in MI waters, while interest earnings plummeted with the large drawdown in government financial holdings in the previous year. A decline in revenue from income and import taxes reflecting the decline in economic activity from the reform measures was offset by increases in receipts from the fuel and gross receipts taxes. There was an accumulation of arrears with respect to allotted payments of government employees to domestic banks held back by the Treasury and payments to suppliers and foreign service providers. Much of the surplus was applied to amortization of government bonds borrowed against undisbursed compact grants. In practice, the amortization payments were made directly to creditors from the proceeds of the compact grants.

- 18. The budgetary surplus in **FY1997** declined sharply to 4 percent of GDP because grants and revenue fell and expenditures were augmented by compensation payments to retrenched civil servants. Excluding the redundancy payments, the budgetary surplus was 7.5 percent of GDP. Compact grants declined by 4 percent of GDP reflecting the planned step-down for the final five-year period of disbursements. Tax revenues fell as economic activity continued to be negatively affected by the reform measures, but an adjustment in import duties, a reduction of exemptions, and an improved administration raised receipts from import duties.<sup>3</sup> Nontax revenue was significantly lower, as receipts from passport sales virtually dried up when the program ran into legal and political difficulties and needed to be suspended. In total, grants and revenue were lower by 15.5 percent of GDP compared to FY1996.
- 19. On the expenditure side, the government was committed to reducing current outlays sharply under the public reform program agreed with the AsDB (see Box 1). Over the three-year period FY1996–99, current expenditure was to be reduced by 20 percent. It was expected that this target was to be achieved mainly by cuts in outlays on personnel, goods and services, and subsidies. A schedule to reduce government employment by 819 positions to 1,484 employees by end-FY1997 was agreed. However, the level realized was a more modest 1,690 and agreement was reached with AsDB to achieve the targeted reduction by end-FY1998. A freeze on wage increases was put in force for three years and expenses on goods and services were held in check, in part by merging four ministries into two. Except for AMI and Tobolar, where transfers were much reduced, subsidies to all other public enterprises were virtually eliminated. The AsDB disbursed a first tranche of \$5.5 million under its program loan but a second tranche of \$3.5 million was held back pending agreement on

<sup>&</sup>lt;sup>3</sup>A uniform duty of 12 percent was applied on all imports, except for specific product lines where eight tariff rates between 5–150 percent applied. The average import duty rate was estimated to be between 10–12 percent.

	Box 1. The Marshall Islands: Fiscal Measures, FY1996-98						
Exper	nditure						
a.	Target size of government by September 1998 <sup>1</sup> Number of employees, October 1995 Number of employees, March 1998 Number reduced to date <sup>2</sup> Percent reduction from October 1995 level Estimated savings on annual basis	1,484 2,303 1,699 609 26.6 \$4.2 million (4	ongoing percent of GDP)				
b.	A wage freeze in force from FY1995 to FY1998		ongoing				
C.	Reduce/eliminate subsidies to state enterprises		ongoing				
d.	Merge ministries of social services and of interior; of resources and development and of public works	and ministries	completed				
Reven	ue						
<b>. a</b> .	Strengthen tax and customs administration		ongoing				
b.	Reduce tax arrears		ongoing				
C.	Simplify import duty schedule—basic duty of 12 p and eight other rates between 5-150 percent	percent,	completed				
d.	Double the tax on gasoline		pending				
e.	Reduce exemptions on import duties and GRT		pending				
f.	Introduction of VAT with associated excise duties rationalization/elimination of some taxes	and	action needed				
g. 	Impose tax on rental income for commercial building increase fees and other charges, e.g., for roads	ngs and	action needed				

<sup>&</sup>lt;sup>1</sup>This target was originally scheduled to be achieved by September 1997 but was rescheduled to 1998. Both the government and AsDB expect that the rescheduled target would not be achieved and discussions are ongoing.

<sup>&</sup>lt;sup>2</sup>Separated government employees receive a lump-sum payment (determined on the basis of length of service, age, and salary level) and a monthly payment over three years determined by a formula linked to social security benefits.

further expenditure cuts. As expected, \$3.5 million from the first disbursement went toward funding the compensation package for retrenched workers. The remaining \$2 million was transferred to service AMI's external loans, which accounted mainly for the increase in capital outlays in FY1997. Continued large amortization payments were made during FY1997 and the government was able to reduce outstanding arrears.

The FY1998 budget assumed continued weak revenue receipts as a result of 20. declining real growth and further reductions in expenditures in line with the reform program. It was estimated that a budgetary surplus of at least 11 percent of GDP would be needed to cover net amortization of external debt. Tax revenue was to fall by 1 percent of GDP because the impact of planned revenue measures to improve tax administration, reduce exemptions, and introduce a VAT were not incorporated. A 4.5 percent of GDP reduction in current outlays was to come from the full-year impact of the previous year's reduction in employment and additional lay-offs to be made during the year. Lower interest payments were projected as outstanding government external debt was being progressively amortized. Capital expenditures were expected to be lower reflecting difficulties in the implementation of additional investment projects, in part, from lack of government staff and counterpart funds. However, the enactment of a supplementary budget in March 1998 added \$6.5 million of expenditures. About \$4 million in additional outlays on goods and services and wage payments associated with delayed retrenchment, and \$2 million in servicing AMI debt on past aircraft purchases. The government was expecting to finance the additional expenditures through the sale of government assets and the disbursement of the second tranche of the delayed AsDB loan.

### **B.** Nonfinancial Public Enterprises

- 21. Public utilities in Majuro continued to be operated efficiently and were generally able to meet consumer demand. In the outer islands, however, the provision of electricity, tele-communications, water, and sewerage services are less efficient or nonexistent, due to the dispersion of consumer households, poor management, and smaller scale operations which have tended to raise unit costs, sometimes to prohibitive levels. The Marshalls Energy Company (MEC), which provides electrical power in Majuro, no longer relies on subsidies and posted profits in 1996 and 1997, with continued sales of fuel to fishing boats and enhanced collection efforts. Tariff rates were last raised in 1995 but were considered to be still adequate to cover cost and subsidize services to outer islands. MEC continues to provide management assistance to the Majuro Water and Sewage Services, which is run on a commercial basis, has been able to cover operating costs, and also receives no subsidies from the government. An AsDB project was initiated to upgrade the water supply system and promote conservation, but the drought caused by "El Niño" has had disruptive effects on water supply requiring emergency assistance from the United States and other donors.
- 22. The government still retains majority ownership in the National Telecommunications Authority (NTA), which is the sole provider of long distance and local services in Marshall Islands. Despite low domestic tariffs, international calls have enabled the authority to remain

profitable. However, recent initiatives by the U.S. authorities to adjust accounting rates on international calls may negatively affect NTA's income from long-distance calls. Capital expansion continued to be funded from the U.S. Rural Electrification Administration, with outstanding loans of about \$20 million.

- 23. **Tobolar Copra Processing Plant** finances continued to be weak in FY1996 and FY1997, as domestic procurement prices remained above world market levels, while lower budgetary subsidies were insufficient to cover operating costs resulting in increased resort to borrowing from domestic banks. Tobolar continued to be under private management, which had been successful at increasing sales of coconut products abroad. However, future prospects would hinge on the government's decision either to provide larger subsidies or to allow procurement prices to reflect world prices.
- 24. Air Marshall Islands continued to sustain large losses in FY1996 and FY1997. Under the reform program supported by AsDB, a restructuring in the management of AMI was foreseen, with the ultimate objective of streamlining its operation and strengthening its financial position. The Board of Directors was reduced from nine to five, and a competent chief executive officer with international experience was appointed and delegated authority to manage AMI on a commercial basis in accordance with internationally accepted practices and airline security standards. He was empowered to set tariffs and flight schedules, and manage company personnel. Direct government subsidies to AMI were reduced and would be eliminated by FY1999. Under the new CEO, some international routes were cut, remaining routes were consolidated, and a viable financial restructuring plan was developed in preparation for AMI's eventual privatization. However, differences between the CEO, the Board, and the authorities led to the CEO's resignation and created renewed uncertainty about the restructuring plans. This situation was another factor contributing to nondisbursement of the second tranche of the AsDB loan.
- 25. The Marshall Islands Social Security Administration (MISSA) has suffered severe problems of mismanagement in recent years. No audited accounts of operations have been presented since FY1995 and actuarial studies have not been performed for several years. Under the reform program agreed with the AsDB, an actuarial study is being undertaken and the report of a Commission of Inquiry into mismanagement of MISSA funds has been made public.

### IV. FINANCIAL SECTOR

#### A. Background

26. The **financial sector** consists of branches of two U.S. commercial banks, the Bank of Guam and the Bank of Hawaii, and one domestically incorporated commercial bank, the Bank of the Marshall Islands (BMI); there is also the government-owned Marshall Islands Development Bank (MIDB). All three commercial banks operate in Majuro, while only the Bank of

Guam and BMI operate in Ebeye. BMI is majority owned by the government (63 percent) with another 16 percent owned by MIDB. The deposits of the U.S. banks are protected by the Federal Deposit Insurance Corporation.

- 27. Under the Banking Act, the Office of the Banking Commissioner (OBC) is charged with the supervision of commercial banks. With the assistance of IMF technical assistance, directly and through the Pacific Financial Technical Assistance Centre (PFTAC), the OBC has gradually developed an important array of supervision functions. These include the monthly reporting of commercial bank indicators, formulation of prudential norms, codification of accounting and reporting requirements, and improvements in credit risk appraisal. The OBC has authority to license banks and has begun to analyze the financial condition of banks, conduct inspection of banks, and enforce compliance with prudential, capital, and other regulatory requirements. The requirement for annual renewal of the bank license was eliminated in early 1998; banks are now licensed until withdrawal for defined infractions. However, the bank commissioner does not have adequate support staff.
- 28. Consumer loans continue to dominate bank credit, used primarily for construction, travel, and education. Many loans are made to public servants and consumer loan repayments are traditionally made through direct payroll deductions (called allotments). Commercial loans are short term in nature, mainly for working capital and equipment. Long-term lending is hampered by the land tenure system, which prevents banks from utilizing land as collateral, as well as by the lack of viable projects.

### B. Commercial Banking Developments

- 29. Despite the economic downturn, bank credit rose by 10 percent in 1996 (Table 8), mainly to public enterprises, and by a further 5 percent in 1997. The share of consumer loans rose to 67 percent of outstanding private sector credit. Nonperforming loans were reduced to between 2–3 percent of the loan portfolio compared to 10 percent in 1995, and with a reduction in charge-offs, bank profitability was reported to have improved. In March 1998, amendments in the banking law removed the minimum term on commercial loans.
- 30. The **loan-to-deposit ratio** for all banks stood at close to 80 percent at end-1997 with remaining bank resources held with banks abroad. The statutory loan-to-deposit ratio was eased from 75 percent to 70 percent in March 1998, and its enforcement has been made more flexible. BMI continues to meet this requirement easily but the two foreign banks continue to be somewhat below the requirement, reflecting their more cautious lending operations.
- 31. Total bank deposits recovered in 1996 from a sharp fall in 1995 but declined again in 1997. Average deposit interest rates declined over this period in line with U.S. interest rates (Table 9). While average interest rates on commercial loans fell, those for consumer loans increased markedly in 1996 and remained high at 18 percent in 1997. This reflected, in part, loan delinquency problems in 1995–96 and uncertainty about employment and wage prospects

with the downsizing of government under the reform program, which also prompted banks to reduce maturities on consumer loans.

## C. Development Bank

32. The Marshall Islands Development Bank was financed initially by a grant of \$10 million provided under compact funds (Table 10). MIDB also received a loan from the government, which was converted into a grant in 1993. Lending operations have remained largely stagnant following the write-down of loans to public enterprises in 1994/95. Some 30 percent of outstanding loans to the private sector were nonperforming, mostly in the fishing and real estate areas. Interest rates on loans continued to be below market rates. A restructuring of the operations of MIDB is envisaged under the reform program with technical assistance from the AsDB.

### V. EXTERNAL SECTOR

33. The external position remains structurally weak, even though the current account deficit, excluding official transfers, narrowed from 50 percent of GDP in FY1996 to 33 percent in FY1997 (Table 11). The deficits on trade continued to be sizable and were offset in part by modest surpluses in the services account and by compact grants. With the use of the U.S. dollar and the lack of data on most financial flows, it is difficult to gauge capital account trends in MI but capital flows have remained free of restrictions. With the termination of government external borrowing against compact funds, net official capital flows turned substantially negative in 1996 and 1997 reflecting amortization of past loans. In MI, changes in the financial holdings of government liquid assets held mostly in commercial banks abroad are used as a proxy for the overall balance of payments position. Large errors and omissions reflect weaknesses in the recording of exports (particularly the reexport of fish), service receipts, and accounting for official transfers.

### A. Merchandise Trade

- 34. The **export sector** remains small, owing to the limited resource base, consisting almost entirely of coconut oil and fish (Table 12). Exports of chilled fish rose steadily to \$22 million in 1997 or 78 percent of exports, attributed to greater landings by foreign fishing fleets. Frozen fish exports resumed in 1996 and picked up strongly in 1997 with the basing of a Chinese fishing fleet in Majuro. However, reexports of diesel fuel to the Federated States of Micronesia ceased in 1997.
- 35. Imports declined by 3 percent and 20 percent in 1996 and 1997, respectively, due mainly to fiscal tightening, a step-down in compact receipts, and the increase in import tariffs (Table 13). Imports, which had averaged over 70 percent of GDP in recent years, reflecting limited domestic production in foodstuffs and basic consumption items, dropped to 60 percent in 1997. Food and beverages comprised about 25 percent of total imports in 1996–97, down

from 30 percent in previous years. Imports of machinery and transportation equipment fell in 1996 to one-fifth of the level in 1995 with the completion of major construction projects and the hike in import duty on motor vehicles, but recovered in 1997. Imports of mineral fuels dropped by one-half in 1997 reflecting the cessation of reexports, a rise in fuel prices, and the drop in economic activity. The United States remained the dominant source of imports (Table 14), supplying over 50 percent of the total in 1996–97, down from 80 percent. Imports from Singapore jumped in 1996, due to a switch in the sourcing of mineral fuel imports from Guam.

### B. Services and Transfers

36. Service receipts include interest earnings from the trust funds established under the Nuclear Claims Fund for the four atolls affected by nuclear tests in the 1950s and earnings of citizens employed at the U.S. base on Kwajalein atoll, each accounting for around 30 percent of the total receipts. Remaining receipts encompass fishing fees, international receipts from telecommunications, airline services, and small tourism earnings. Service payments include freight and insurance (equivalent to 50 percent of payments), compensation to foreign contractors, and interest on external debt. Official transfers consist almost entirely of U.S. grants under the compact and through various U.S. federal agencies. Non-U.S. grants include Japanese assistance for education and fisheries (Table 15).

## C. Capital Account and External Debt

- 37. With limited information on other flows, the **capital account** reflects mostly public sector transactions dominated by external bond issues against compact grants in earlier years and their amortization in recent years. Other external borrowing in 1996–97 were from AsDB to support sectoral projects and the reform program.
- 38. Accordingly, the outstanding stock of external debt in 1997 was dominated by medium-term government bonds, followed by obligations of NTA to a U.S. federal agency and loans from AsDB, and a small loan from the People's Republic of China. Outstanding debt declined but remained unsustainably high at \$125 million (129 percent of GDP) at the end of FY1997 (Table 16). External debt service narrowed to 37 percent of exports of goods and nonfactor services in FY1997 from a high of 57 percent in FY1992. Most debt service stemmed from the government bonds, as loans from AsDB and bilateral governments had concessional terms with long grace periods for repayments.

## D. Exchange and Trade System

39. The currency of MI is the U.S. dollar. Under the terms of the compact, MI must consult with the United States if it decides to issue its own currency. There is no central monetary institution and the authorities do not act as agents for buying or selling foreign exchange. Foreign exchange transactions are handled by the three commercial banks which are authorized foreign exchange dealers and are regulated by the bank commissioner.

Commercial banks buy and sell foreign exchange at the rates quoted in the international markets. Forward transactions may be conducted through these commercial banks without restrictions. There are no taxes or subsidies on purchases or sales of foreign exchange and no exchange control regulations. MI accepted the obligations of Article VIII, Sections 2, 3, and 4, in May 1992, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

- 40. Imports are not subject to licensing requirements, but importers must obtain a business license. Imports of certain products are prohibited for environmental, health, safety, or social reasons. There are no surrender requirements for export proceeds. Exports are not subject to licensing requirements and there are no taxes or quantitative restrictions on exports. The purchasing, processing, and exporting of copra and copra by-products are solely conducted by the government-owned, but private sector managed, Tobolar Copra Processing Plant. There are no restrictions on payments for, or receipts from, invisibles.
- 41. Foreign investors are required to submit applications to the Cabinet and obtain a license in order to engage in business or acquire an interest in a business in MI. The Cabinet has the authority to formulate policies regarding incentives and priorities for foreign direct investment. (Legislation to streamline and make more transparent the licensing and investment approval procedures was approved by parliament in 1998 and is awaiting implementation.) All other inward and outward capital transfers are unrestricted, with the exception of restrictions on commercial banks (under the minimum loan-to-deposit ratio requirement) from transferring abroad more than 30 percent of deposits received from Marshallese individuals and entities. However, this restriction is not strictly enforced and does not prevent a depositor from transferring funds abroad.

- 17 Table 1. Marshall Islands: Gross Domestic Product, 1992/93-96/97 1/
(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Agriculture and fishing	11.4	15.1	15.7	13.6	14.4
Agriculture	4.2	4.6	5.3	4.0	3.8
Copra	2.5	2.7	3.4	2.0	1.8
Food crops	1.8	1.9	1.9	2.0	2.0
Livestock	1.6	1.6	1.8	1.9	1.9
Agricultural services Fishing	0.1	0.2	0.2	0.2	0.2
risinig	5.5	8.8	8.4	7.5	8.5
Mining and quarrying	0.2	0.2	0.3	0.3	0.3
Manufacturing	0.6	1.0	2.7	2.2	2.2
Processed copra	-0.9	-0.5	0.1	-0.1	-0.1
Other manufactured goods	1.1	1.2	2.2	1.9	1.9
Handicrafts .	0.4	0.4	0.4	0.4	0.4
Construction	8.5	9.3	10.7	6.6	6.6
Electricity and water	0.9	1.7	2.1	2.6	2.4
Electricity	1.2	1.6	1.9	2.4	2.2
Water	-0.4	0.1	0.2	0.2	0.2
Transportation and communications	2.8	1.9	6.5	6.9	6.4
Land transportation	1.6	1.7	1.7	1.6	1.5
Water transportation	0.6	0.7	0.8	0.7	0.6
Air transportation	-1.4	-2.8	0.6	0.6	0.6
Communications	1.9	2.3	3.5	4.0	3.7
Trade	16.2	17.2	17.9	17.7	17.3
Wholesale and retail trade	12.2	12.9	13.6	13.0	12.7
Restaurants and hotels	4.0	4.3	4.3	4.8	4.6
Financial services	14.2	15.9	17.1	15.0	14.7
Financial institutions	4.1	4.8	5.3	3.9	3.6
Insurance	0.5	0.6	0.7	0.2	0.2
Real estate	2.8	2.9	3.1	2.9	2.7
Owner-occupied dwellings	5.7	6.2	6.4	7.2	7.4
Business services	1.2	1.5	1.7	0.8	0.8
Community services	29.5	31.7	32.1	30.7	29.3
Public administration	12.5	13.3	13.5	13.0	12.1
Education	8.4	9.5	9.7	9.1	9.1
Health	4.3	4.4	4.5	4.6	4.5
Other social services	1.4	1.5	1.7	1.2	1.1
Recreation/cultural services	1.0	1.1	1.0	1.0	0.9
Personal services	0.8	0.9	0.9	0.9	0.8
Public utility services	1.0	1.0	0.8	0.9	0.8
Less: Imputed bank service charges	5.2	6.6	6.9	4.9	4.3
Plus: Import duties	8.1	7.2	7.1	7.0	7.7
GDP at current market prices	87.1	94.6	105.2	97.7	97.0
GDP in 1991 prices (percentage change)	4.1	2.8	2.7	-15.2	-5.3

<sup>. 1/</sup> Financial year ending September 30.

Table 2. Marshall Islands: Copra Production, Producer Prices, and Export Unit Values, 1993-97

	1993	1994	1995	1996	Est. 199 <b>7</b>
Production (in short tons)	4,627	4,836	7,728	6,464	5,774
Average producer prices (In U.S. dollars per short ton)	470	423	433	458	400
Total income (In thousands of U.S. dollars)	2,175	2,046	3,346	2,961	2,310
Export unit value (In U.S. dollars per short ton) 1/	499	437	433	560	519

Sources: Data provided by the Office of Planning and Statistics; and Fund staff estimates.

<sup>1/</sup> Export unit values are estimated by dividing the value of exports of coconut oil and copra cake by total copra production.

Table 3. Marshall Islands: Majuro Consumer Price Index, 1993-97

Groups Weights	All Groups 100.0	Food 57.71	Household and Personal Supplies 14.76	Clothing 11.95	Durable Goods and Fuel 15.58
			(1982 = 100)		
1993	142.1	135.6	162.1	153.5	138.8
1994	150.1	137.5	191.2	158.1	151.0
	145.5	137.0	165.1		151.8
$\tilde{\Omega}^2$	149.8	137.8		155.0	151.2
Q1 Q2 Q3 Q4	153.0	137.8	191.1	159.4	147.9
04	152.1		207.9	161.5	149.0
Q4	152.1	136.9	200.7	156.7	159.1
1995	162.5	141.6	221.3	183.0	168.8
Q1	154.3	136.3	212.8	162.6	159.4
Q2	160.9	138.2	218.0	189.4	168.8
Q3	165.6	145.1	217.0	191.1	173.1
Q1 Q2 Q3 Q4	169.4	146.8	237.3	188.7	173.7
1996	178.1	160.2	248.1	190.8	172.0
O1	171.4	149.9	243.4		173.8
$\tilde{O2}$	178.7	161.4	245.4 246.1	189.1	172.8
$\tilde{O}_3$	180.0	164.1		189.6	174.0
Q2 Q3 Q4	182.5	165.5	250.8	190.4	174.2
	162.5	103.3	252.0	194.2	174.2
1997	186.7	168.7	258.2	196.3	186.7
Q1	184.3	166,2	253.0	197.8	183.7
Q2	185.3	166.7	256.2	195.2	184.8
Q3	187.7	170.5	257.1	195.7	188.7
Q1 Q2 Q3 Q4	189.6	171.2	266.6	196.5	189.6
		(Annual av	erage change in p	ercent)	
1993	5.0	2.6	-0.1	16.0	10.0
1994	5.6	2.6	17.9	16.0	12.3
1995	8.3	3.0		3.0	6.7
1996	9.6		15.7	15.7	11.2
1997		13.2	12.1	4.3	3.0
レフフノ	4.8	5.3	4.1	2.9	7.4

Source: Data provided by the Marshall Islands authorities (Office of Planning and Statistics).

Table 4. Marshall Islands: Central Government Finances, 1992/93-1997/98 1/

	1992/93	1993/94	1994/95	1995/96	1996/97	Budget 1997/98		
	(In millions of U.S. dollars)							
Revenue and grants	71.8	70.9	80.0	80.5	64.8	61.4		
Tax revenue	19.6	18.7	19.9	19.8	19.1	61.4		
Income tax	8.1	8.0	9.3	8.5	8.1	17.8		
Import duties	7.4	6.6	6.3	5.7	7.0	7.8 6.6		
Gross receipts tax	3.1	3.2	3.1	3.9	2.9	2.7		
Fuel tax	0.6	0.6	0.9	1.3	0.8	0.4		
Other (including penalties and interest)	0.3	0.4	0.3	0.4	0.3	0.4		
Nontax revenue	8.6	9.2	15.4	16.7	5.8	5.7		
Fishing rights	2.4	3.1	2.2	1.6	1.9	1.8		
Interest income	2.7	1.4	5.6	0.9	0.5	0.3		
Fees and charges	1.4	1.7	0.7	1.3	1.2	1.3		
Other	2.0	3.0	6.9	12.9	2.2	2.3		
Grants	43.6	43.0	44.7	44.0	39.9	37.9		
Compact	32.0	33.7	36.1	34.5	30.4	30.7		
Other 2/	11.6	9.2	8.6	9.5	9.5	7.2		
Expenditure	84.9	83.4	94.8	60.6	61.0	50.9		
Current expenditure	66.8	59.4	58.1	53.1	47.0	42.6		
Wages and salaries	19.4	21.0	21.9	21.4	19.0	17.0		
Goods and services	26.3	21.1	19.2	18.6	18.0	16.5		
Interest	10.2	6.6	7.5	7.5	6.5	5.5		
Subsidies and other current transfers	10.8	10.7	9.5	5.6	3.5	3.6		
Capital expenditure/net lending	18.1	23.9	36.7	7.5	10.5	7.3		
RIF funding	0.0	0.0	0.0	0.0	3.5	1.0		
Overall balance	-13.1	-12.5	-14.8	19.9	3.8	10.5		
Deferred payments (net)	0.0	0.0	-0.8	<b>5</b> .5	-2.6	0.0		
Cash balance	-13.1	-12.5	-15.6	25.4	1.2	10.5		
Financing	13.1	12.5	15.6	-25.4	-1.2			
Net borrowing	11.6	15.6	-10.0	-15.3	<b>-</b> 7.6	***		
Gross borrowing	100.9	30.0	5.0	1.1	9.6	***		
Repayments	-89.3	-14.4	-15.0	-16.4	-17.2	•••		
Use of government financial assets 3/	1.5	-3.1	25.6	-10.1	6.4	•••		
	(In percent of GDP)							
Revenue and grants	82.4	74.9	76.0	82.4	66.8	64.1		
Revenue	32.4	29.5	33.6	37.4	25.7	24.5		
Grants	50.1	45.5	42.5	45.0	41.1	39.6		
Expenditure and net lending	97.5	88.2	90.1	62.0	62.9	53.1		
Current expenditure	76.7	62.8	55.2	54.4	48.5	44.5		
Capital expenditure and net lending	20.8	25.3	34.9	7.7	10.8	7.6		
Overall balance	-15.0	-13.2	-14.1	20.3	3.9	11.0		
Memorandum items:								
Financial holdings (in millions of U.S. dollars)	37.3	40.4	8.9	8.0	6.8			
Stock of arrears (in millions of U.S. dollars) 4/		1.2	0.4	5.9	3.3			

<sup>1/</sup> Includes Kwajalein Atoll Development Authority and foreign-assisted development expenditure. Excludes Kwajalein Atoll Trust Fund and Kwajalein resident and landowner compensation payments shown in Table 5. 2/ Includes non-Compact U.S. and other foreign donors.

<sup>3/</sup> In FY1995 includes write-down of loans to public enterprises and of claims on other debtors totaling \$7.5 million and an adjustment to fund balances made in FY1996.

4/ Includes an adjustment of \$11 million in FY1996 for liquidated expenses that had not been reconciled.

- 21 -Table 5. Marshall Islands: U.S. Grant Assistance, 1992/93-1997/98

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97	Budget 1997/98
Under Compact of Free Association	40.0	41.7	44.3	42.7	38.7	39.0
Basic - Section 211	31.1	32.8	33.4	33.8	29.8	30.1
Central government operations	21.6	20.7	20.7	23.4	19.2	19.5
Grant	15.0	15.0	15.0	15.0	12.0	12.0
Inflation adjustment	6.6	5.7	5.7	8.4	7.2	7.5
Kwajalein Atoll Development Authority	3.4	6.0	6.4	4.1	4.2	4.2
Grant	2.8	2.8	2.8	2.8	2.8	2.8
Inflation adjustment	0.6	3.2	3.6	1.3	1.4	1.4
Kwajalein Atoll Trust Fund 1/	6.1	6.1	6.3	6.3	6.4	6.4
Grant	4.3	4.3	4.3	4.3	4.3	4.3
Inflation adjustment	1.8	1.8	2.0	2.0	2.1	2.1
Kwajalein resident and landowner				2.0	2.1	2.1
compensation payments - Section 213 1/	1.9	1.9	1.9	1.9	1.9	1.9
Energy - Section 214	2.0	2.0	2.0	2.0	2.0	2.0
Communications - Section 215	0.3	0.3	0.3	0.3	0.3	0.3
Tied grants - Section 216	1.7	1.7	1.7	1.7	1.7	1.7
Block grants - Section 221	3.0	3.0	3.0	3.0	3.0	3.0
Investment Development Fund	0.0	0.0	2.0	0.0	0.0	0.0
Other grants	10.4	7.5	6.4	7.5	7.5	7.5
Total	50.4	49.2	50.7	50.2	46.2	46.5

<sup>1/</sup> Not included in central government finances (Table 4).

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Table 6. Marshall Islands: Central Government Current Expenditure, 1992/93-1997/98

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97	Budget 1997/98
Government	12.7	4.4	6.9	6.2	5.4	5.0
President and Cabinet	1.4	1.9	1.8	1.8	1.6	1.5
Advisory Council of High Chiefs (Iroij)	1.2	0.4	0.4	0.3	0.3	0.3
Legislature (Nitijela)	1.2	1.3	1.4	1.2	1.1	1.0
Commissions, agencies, and offices 1/	9.7	0.9	3.3	2.9	2.4	2.2
Ministries	31.4	35.0	34.9	35.5	31.6	30.1
Health and Environment	5.9	5.0	6.9	6.2	5.6	5.2
Education	8.1	9.8	10.2	11.1	10.4	10.0
Transportation and Communications	2.3	1.9	2.0	1.5	1.3	1.2
Interior and Outer Island Affairs	1.6	1.5	1.1	0.9	0.9	0.8
Public Works	2.0	2.1	1.6	1.6	1.4	1.3
Social Services	3.0	3.0	2.8	2.0	1.7	1.7
Resources and Development	1.1	1.0	0.9	0.8	0.8	0.7
Foreign Affairs	3.4	3.4	3.0	5.2	4.2	4.3
Finance	1.5	1.6	1.3	1.8	1.6	1.5
Justice	1.7	1.4	1.4	1.4	1.3	1.1
Other	0.8	4.4	3.7	3.0	2.4	2.3
Interest payments	10.2	6.6	7.5	7.5	6.5	5.5
Subsidies and transfers to public enterprises	6.8	8.9	6.8	2.6	2.5	1.0
Miscellaneous	5.7	4.7	2.1	1.3	1.0	1.0
Total	66.8	59.4	58.2	53.1	47.0	42.6

Sources: Data provided by the Marshall Islands authorities; and Fund staff estimates.

1/ Includes typhoon relief and Kwajalein causeway protection spending.

Table 7. Marshall Islands: Subsidies and Transfers to Public Enterprises, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97
Total	6.8	8.9 ·	6.8	2.6	2.5
Tobolar Copra Processing	1.9	2.2	2.7	0.6	0.5
Marshalls Energy Company	0.4	1.3	0.0	0.0	0.1
Air Marshall Islands	3.7	5.3	2.7	1.5	0.9
National Telecommunications Authority	0.3	0.0	0.3	0.0	0.0
Majuro Water and Sewer Company	0.3	0.2	0.6	0.0	0.1
Kwajalein Enterprises 1/	0.2	1.1	0.5	0.5	0.9

<sup>1/</sup> Subsidiaries of Kwajalein Atoll Development Authority.

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Table 8. Marshall Islands: Assets and Liabilities of Deposit Money Banks, 1994-97 1/

(In millions of U.S. dollars)

	1994	19	95	199	96	199	7
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec
Assets	58.6	54.7	51.5	50.0	55.2	55.5	54.6
Foreign assets	18.8	17.6	17.8	18.8	21.1	19.6	18.0
Claims on central and local governments	1.4	1.2	1.1	0.0	0.0	0.0	0.0
Claims on public enterprises	1.0	0.2	0.0	1.6	2.9	3.0	2.7
Claims on private sector	36.4	34.1	30.4	28.4	30.5	31.6	32.3
Unclassified assets	1.0	1.6	2.2	1.2	0.8	1.3	1.6
Liabilities	58.6	54.7	51.5	50.0	55.2	55.5	54.6
Demand deposits	16.6	14.5	13.2	14.8	15.3	18.7	14.8
Checking accounts	14.2	12.5	10.3	11.1	12.4	12.5	11.3
Local governments	1.4	0.8	0.6	2.2	1.7	1.9	1.7
Public enterprises	0.5	0.4	1.0	0.9	1.0	1.1	1.2
Private sector	12.3	11.3	8.7	8.0	9.7	9.5	8.4
Checkable savings accounts	2.4	2.0	2.9	3.7	2.9	6.2	3.5
Time, savings, and foreign currency							
deposits	20.9	20.5	20.8	21.2	22.4	18.4	20.7
Time deposits	8.6	10.8	11.4	10.7	13.8	10.3	12.6
Local governments	0.0	0.0	0.0	0.3	0.4	0.1	0.2
Public enterprises	2.9	3.6	2.2	2.9	3.8	1.0	1.3
Private sector	5.7	7.2	9.2	7.5	9.6	9.2	11.1
Savings accounts	12.3	9.7	9.4	10.5	8.6	8.1	8.1
Local governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	0.2	0.2	0.2	0.3	0.1	0.3	0.1
Private sector	12.1	9.5	9.2	10.2	8.6	7.8	8.0
Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import and restricted deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	2.6	2.3	0.0	1.5	1.5	2.5	2.1
Central government deposits 2/	13.8	12.5	11.6	8.2	10.9	9.3	9.5
Capital accounts	3.9	4.2	4.5	3.7	4.5	5.2	6.1
Unclassified liabilities	0.8	0.7	1.4	0.6	0.6	1.4	1.4

<sup>1/</sup> The deposit money banks comprise the Bank of Hawaii, the Bank of Guam, and the Bank of the Marshall Islands. 2/ Includes deposits of social security administration and other trust funds.

Table 9. Marshall Islands: Interest Rates of Deposit Money Banks, 1994-97

(In percent per annum)

	1994	199	5	1996		1997	
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.
Deposit rates						<del> </del>	
Savings accounts 1/	3.1	3.1	3.1	2.8	2.8	2.8	2.8
Time deposits 2/							
Three months	3.4	4.9	4.8	4.3	4.3	4.2	4.3
Six months	3.8	5.4	5.4	5.0	4.7	4.8	5.0
One year and more	4.2	5.8	5.9	6.0	5.5	5.3	5.4
Loan rates 3/							
Consumer loans	16.5	16.5	17.2	18.2	19.8	18.0	18.0
Commercial loans	12.4	12.4	12.4	11.7	11.7	11.8	11.0

<sup>1/</sup> Average of rates offered by deposit money banks.

<sup>2/</sup> Average of minimum rates offered by deposit money banks.

<sup>3/</sup> Average of maximum rates charged by deposit money banks.

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Table 10. Marshall Islands: Assets and Liabilities of the Marshall Islands Development Bank, 1993-97

(In millions of dollars; end of period)

	1993	1994	1995	1996	1997
Assets	11.3	9.2	8.3	8.2	9.0
Deposits with domestic banks	0.9	0.5	1.2	1.2	1.0
Claims on nonresident banks	1.7	1.6	0.3	0.3	0.3
Claims on local governments	0.0	0.0	0.2	0.2	0.2
Claims on nonfinancial public enterprises	2.8	0.6	0.0	0.0	0.0
Claims on private sector	5.2	5.5	5.9	5.8	6.9
Fixed assets	0.1	0.1	0.1	0.1	0.1
Other	0.6	0.9	0.6	0.6	0.5
iabilities	11.3	9.2	8.3	8.2	9.0
Deposits	0.0	0.0	0.0	0.0	0.0
Notes payable 1/	0.0	0.0	0.3	0.3	0.4
Other	0.1	0.2	0.1	0.1	0.7
Bank capital 2/	11.2	9.0	7.9	7.8	7.9

Source: Data provided by the Marshall Islands Development Bank.

<sup>1/</sup>On-lent by the central government out of the proceeds of its third bond issue. The loan was converted to equity capital in June 1993.

<sup>2/</sup> A grant of \$10 million was provided by the U.S. government.

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Table 11. Marshall Islands: Balance of Payments, 1992/93-1996/97 1/

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Trade balance 1/	-53.2	-49.5	-51.0	<i>5</i> 2.1	
Exports, f.o.b.	8.1	18.6	22.9	-53.1 20.1	-35.8
Imports, c.i.f. 2/	61.3	68.1	73.9	73.2	25.8 61.6
Net services	1.9	4.9	1.5	6.0	5.5
Receipts	38.4	38.7	40.4	42.5	42.8
Transportation	4.3	4.9	6.7	7.1	6.9
Travel	4.0	4.0	4.2	4.4	4.2
Interest and dividend earnings	15.1	13.7	13.3	13.5	13.1
Fishing rights income	2.4	3.1	2.2	1.6	1.9
Labor earnings 3/	10.6	10.5	11.2	13.3	14.0
Other	2.0	2.5	2.8	2.6	2.7
Payments	36.5	33.8	38.9	36.5	37.3
Transportation	17.5	17.5	20.9	18.7	21.1
Travel	3.0	3.2	3.7	3.5	3.3
Interest payments	10.7	7.5	8.5	8.5	7.5
Other	5.3	5.6	5.8	5.8	5.4
Unrequited transfers	50.0	49.4	51.1	50.6	46.7
Private	-1.6	-1.6	-1.7	-1.6	-1.5
Inflows	0.5	0.5	0.5	0.6	0.7
Outflows	2.1	2.1	2.2	2.2	2.2
Official .	51.6	51.0	52.8	52.2	48.2
U.S. grants	50.4	49.3	50.6	50.2	46.2
Other ·	1.2	1.7	2.2	2.0	2.0
Current account including official transfers	-1.3	4.8	1.6	3.5	16.4
(As percentage of GDP)	-1.5	5.1	1.5	3.6	16.9
Current account excluding official transfers	-52.9	-46.2	-51.2	-48.7	-31.8
(As percentage of GDP)	60.7	-48.8	-48.7	-49.9	-32.8
Capital account	26.8	34.2	-10.3	-16.0	-8.7
Public sector	24.7	26.0	-9.8	-15.5	-8.2
Gross borrowing 4/	114.3	40.6	5.7	1.1	9.6
Amortization	89.6	14.6	15.5	16.6	17.8
Other 5/	2.1	8.2	-0.5	-0.5	-0.5
Errors and omissions	-17.5	-35.9	-22.8	11.6	-8.9
Overall balance 6/	8.0	3.1	-31.5	-0.9	-1.2
Overall balance 6/	8.0				

<sup>1/</sup> Trade data are compiled on a calendar-year basis and converted to a fiscal-year basis by the staff.

<sup>2/</sup> Includes petroleum products for reexport.

<sup>3/</sup> Earnings of Marshallese employed at the U.S. base on Kwajalein Atoll.

<sup>4/</sup> Data for 1992/93 include the refinancing of \$80 million of outstanding bonds.

<sup>5/</sup> Includes transactions of the Social Security Administration.

<sup>6/</sup> Reflects the change in the government financial holdings.

Table 12. Marshall Islands: Exports by Product Category, 1993-97 1/
(In millions of U.S. dollars)

Product	1993	1994	1995	1996	Est. 1997
Copra cake	0.2	0.2	0.2	0.4	0.3
Coconut oil, crude	2.1	2.0	3.1	3.3	2.7
Trochus shells	0.0	0.0	0.0	0.0	0.0
Chilled fish	1.3	10.4	12.7	13.2	21.9
Pet fish	0.4	0.3	0.3	0.2	0.0
Frozen fish	3.6	4.7	0.0	0.7	3.0
Reexport of diesel fuel	0.0	4.6	6.7	1.2	0.0
Shark fins	0.0	0.0	0.0	0.1	0.1
Total	7.7	22.2	23.1	19.1	28.0

<sup>1/</sup>On a calendar-year basis.

Table 13. Marshall Islands: Imports by Product Category, 1993-97 1/

(In millions of U.S. dollars)

Product	1993	1994	1995	1996	Est. 1997
Food and live animals	17.8	19.9	18.1	15.0	13.2
Beverages and tobacco	4.1	4.0	3.1	2.3	1.6
Crude materials	5.2	5.0	5.1	3.8	3.4
Mineral fuels and lubricants	8.5	15.3	22.5	25.6	13.6
Animal and vegetable oils	0.2	0.3	0.3	3.5	3.1
Chemicals and related products	2.7	2.4	1.9	1.6	3.8
Manufactured goods	5.3	6.0	4.9	3.0	4.3
Machinery and transportation equipment	10.5	8.7	9.6	1.4	5.5
Miscellaneous manufactured articles	1.4	1.9	1.7	7.8	4.7
Unidentified items	5.5	7.0	7.8	8.5	4.8
Total	61.1	70.4	75.1	72.6	58.0

<sup>1/</sup>On a calendar-year basis. Data for 1994-95 include imports of mineral fuels and lubricants for the Chinese fishing boats and for reexport to the Federated States of Micronesia.

Table 14. Marshall Islands: Imports by Supplier, 1993-97 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	Est. 1997
Australia	1.1	1.3	1.4	1.4	2.3
Fiji	0.2	0.5	0.6	0.4	0.1
Hong Kong SAR	0.7	1.5	1.3	1.3	1.2
Japan	5.9	4.2	5.6	2.9	1.9
New Zealand	0.7	0.5	1.1	0.8	0.8
Philippines	0.1	0.3	0.4	0.2	0.3
Taiwan Province of					
China	0.3	0.8	0.6	1.3	0.1
United States	49.1	59.9	49.3	40.4	30.2
Mainland and Hawaii	42.4	42,9	38.4	38.8	27.4
Guam	6.7	17.0	10.9	1.6	2.8
Singapore	0.0	0.0	0.0	22.6	2.0
Other	3.0	1.5	14.8	1.2	19.1
Total	61.1	70.4	75.1	72.6	58.0

<sup>1/</sup> On a calendar-year basis. It should be noted that the term "country," as used in this report, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states but for which statistical data are maintained and provided internationally on a separate and independent basis.

Table 15. Marshall Islands: External Assistance by Donor, 1992/93-1996/97

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
U.S. grants	50.4	49.3	50.6	50,2	46.2
Under Compact of Free Association	40.0	41.7	44.2	42.7	38.7
Other U.S.	10.4	7.5	6.4	7.5	7.5
Other grants	1.2	1.7	2.2	2.0	2.0
Japan	1.0	1.5	2.0	2.0	2.0
Australia	0.1	0.1	0.1	0.0	0.0
Other	0.1	0.1	0.1	0.0	0.0
Concessional loans	0.9	1.2	5.0	1.1	9.6
Asian Development Bank	0.9	1.2	3.1	1.1	9.6
Government of the People's Republic of China and others	0.0	0.0	1.9	0.0	0.0
Total	52.5	52.2	57.8	53.3	57.8

Table 16. Marshall Islands: External Debt and Debt-Service Obligations, 1992/93-1996/97
(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est.
Total debt outstanding	132.2	158.4	148.6	133.1	124.9
(In percent of GDP)	151.8	167.4	141.3	136.2	128.8
Debt service 1/	20.3	22.1	24.0	25.1	25.3
(In percent of exports of				2011	25.5
goods and services)	43.7	38.6	37.9	40.1	36.9
Medium-term bond issues					
Disbursements .	110.0	30.0	0.0	0.0	0.0
Outstanding principal	120.0	135.6	120.6	104.2	87.1
Amortization	89.3	14.4	15.0	16.4	17.1
Interest	10.2	6.6	7.5	7.4	6.4
Asian Development Bank					
Disbursements	0.9	1.2	3.1	1.1	9.6
Outstanding principal	1.2	. 2.4	5.5	6.6	16.2
Amortization	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.1	0.1
Other central government 2/					
Disbursements	0.0	0.0	1.9	0.0	0.0
Outstanding principal	0.4	0.4	2.0	2.0	1.9
Amortization	0.0	0.0	0.3	0.0	0.1
Interest	0.0	0.0	0.0	0.0	0.0
National Telecommunications Authority					
Disbursements	3.4	9.4	0.7	0.0	0.0
Outstanding principal	10.6	20.0	20.5	20.3	19.7
Amortization	0.3	0.2	0.2	0.2	0.6
Interest	0.5	0.9	1.0	1.0	1.0

 $<sup>1/\</sup>operatorname{Data}$  for 1992/93 exclude refinancing of \$80 million in amortization.

<sup>2/</sup> Includes financial assistance from the Federal Emergency Management Agency (1991/92) and the Government of the People's Republic of China (1994/95).