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September 14, 2023

**Statement by Ms. Medearis on Republic of the Marshall Islands
(Preliminary)
Executive Board Meeting
September 18, 2023**

We thank staff for this report and Mr. Nicholl, Ms. Choi, and Mr. Wase for the informative Buff statement. The authorities took decisive actions to prevent further COVID-19 outbreaks and spur post-pandemic recovery. Nonetheless, the Republic of Marshall Islands (RMI) remains vulnerable to risks and its outlook will be guided by meaningful progress on structural reforms. We agree with the thrust of the Article IV report and have highlighted a few areas for emphasis below.

The United States remains committed to renewing the Compact of Free Association (COFA) agreement with RMI. We recognize the importance of Compact renewal on the authorities' fiscal planning and RMI's medium-term macroeconomic outlook. We encourage the authorities to prioritize efforts to utilize potential Compact resources effectively. In that vein, we urge authorities to continue implementing the principles outlined in the Fiscal Responsibility and Debt Management Act. We are currently in the advanced stages of negotiation with the RMI authorities, and we will share updates with staff as Compact discussions progress.

We share staff's views that additional fiscal reforms will help build buffers and safeguard long-term fiscal sustainability. We note that the World Bank's most recent public expenditure review has highlighted significant under-investment in infrastructure, as well as large increases in subsidies to state-owned enterprises (SOEs) and transfers to non-profits and households in recent years. *We would welcome an update from staff on the authorities' timeline for completing the ongoing public financial management program, and its planned oversight structure of government budgetary prioritization, including with respect to SOE subsidies.* Reorientation of expenditures toward productive capital investments and rationalization of subsidies, as well as increased revenue mobilization, could also help RMI create additional fiscal space for adaptation of substantial climate risks. We

encourage the authorities to continue working with the MDBs and international donors to build resilience and meet the Marshall Islands' climate financing needs.

Underscoring the fragility of RMI's connectivity to the international financial system, we urge the authorities to approach new FinTech measures with caution. We agree with staff that introducing new digital initiatives, such as registering entities under the DAO Act, absent sound regulatory and surveillance frameworks could introduce additional financial integrity risks. We also echo staff's recommendation for the authorities to expedite efforts to strengthen their AML/CFT framework. A negative evaluation by the APG could pose risks to RMI's access to existing dollar clearing services, which could impact trade and remittance flows. *Could staff please comment on actions the authorities have implemented to bring its legal and regulatory framework in line with FATF standards?*