



**THE REPUBLIC OF THE MARSHALL ISLANDS
FISCAL RESPONSIBILITY AND DEBT MANAGEMENT
REGULATION 2020**

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1. Overview & Purpose

The Ministry of Finance, Banking and Postal Services makes the following Regulations under section 138 of the Fiscal Responsibility and Debt Management Act 2020.

A. Short Title.

These Regulations are the Fiscal Responsibility and Debt Management Regulation 2020.

B. Commencement.

These Regulations come into effect once approved by the Cabinet pursuant to the *Administrative Procedure Act, 1979* (MIRC 1)

C. Interpretation

For the purpose of the Act and this regulation,

“concessional loan” means a loan that typically has long grace periods and that is extended on terms substantially more generous than market loans, either through interest rates below those available on the market or by grace periods, or both;

“GDP” means gross domestic product;

2. Contents of an Economic Policy Statement

- a. For the purposes of the Act the contents of an economic policy statement shall include:
 - i. an assessment of the extent to which the economic and fiscal update prepared under the Act is consistent with the short- term intentions referred in the Act; and
 - ii. if the economic and fiscal update departs from those short-term intentions, an explanation of the reasons for the departure.
- b. An economic policy statement shall also include:
 - i. scenarios that:
 - I. contain projections of trends in the variables set out in the Government's medium-term objectives and where prescribed, long-term objectives, for fiscal policy, (which projections shall illustrate, for stated assumptions, likely future progress towards achieving the medium-term objectives and long-term objectives); and
 - II. explain the reasons for any differences from previous scenarios; and
 - ii. an assessment of the consistency of the scenarios with the medium-term objectives, and where prescribed, long-term objectives; and
 - iii. if the scenarios depart from the medium-term objectives or long-term objectives, an explanation of the reasons for the departure.

3. Statement of Responsibility

- a. A statement of responsibility required under the Act to accompany an economic and fiscal update shall be signed by the Minister and the Secretary and shall be in three parts. The first part of a statement of responsibility shall be signed by the Minister and shall state that the following matters have been communicated to the Secretary:
 - i. all policy decisions with material economic or fiscal implications that the Government has made before the day on which the contents of an economic policy statement and annual budget were finalized; and
 - ii. all other circumstances with material economic or fiscal implications of which the Minister was aware before that day.
- b. The second part of a statement of responsibility shall be signed by the Secretary and shall state, that the Ministry has

supplied to the Minister an economic policy statement and annual budget that incorporates the economic and fiscal implications of the decisions and circumstances referred subsection (2),

- i. using its best professional judgments; and
 - ii. based on the economic and fiscal information available to it before the day on which the contents of the update or the relevant aspect of the update were finalized.
- c. The second part of statement of responsibility under subsection (3) shall not incorporate any decisions, circumstances, or statements that the Minister has determined under that subsection should not be incorporated in the economic and fiscal update.
 - d. The third part of a statement of the responsibility shall be signed by the Minister and shall attest to,
 - i. the integrity of the disclosures contained in the update;
 - ii. the consistency of the information contained in the update; and
 - iii. any omission from the update of any decision, circumstance, or statement

4. Posting of Notices of Matters Presented to the Nitijela

- a. The following matters shall be posted on the Ministry website and be made available for inspection by the public free of charge,

- (a) any budget policy statement, including any economic and fiscal update, presented to the Nitijela;
 - (b) any statement on the long-term fiscal position presented to the Nitijela:
 - (c) any half-year economic and fiscal update presented to the Nitijela:
- b. Matters referred to in this section that are required to be posted on the Ministry website shall indicate where copies of the report, statement, or update are available for inspection by members of the public and in the case of a statement or update, indicate whether the statement or update has been posted on the Ministry website in advance of being presented to the Nitijela.

5. Creation of Budget Circular

For the purposes of the Interpretation section of the Act, the budget circular is created by the Budget Coordinating Committee formed at the request of Chief Secretary in the President's Office and approved by Cabinet that provides the information and guidance necessary to formulate and develop the annual portfolio budget proposal for the upcoming fiscal year and that is used to allocate budget ceilings in accordance with Government priorities and available financial resources;

6. Departure from principles of fiscal responsibility

The Government may depart from the principles of fiscal responsibility in the following circumstances:

- (i) Where there is a major national disaster such as a typhoon, dengue outbreak, drought or flooding.
- (ii) Where the economy experiences a severe economic shock.

7. Debt management targets

- a. The Government shall meet the following targets within the time frames indicated:
 - i. Reduce the stock of debt to no more than 30 percent of GDP by the end of 2025 (in 5 years) and no more than 27 percent by 2030 (in 10 years);

- ii. Reduce the cost of payments on interest and principal (debt servicing) on outstanding debt to no more than 10 percent of revenues by the end of 2025 (in five years);
- iii. Reduce the stock of debt so the value of interest payments on outstanding debt are at or below 5 percent of General Fund revenue;
- iv. Progressively reduce the amount of Government loan guarantees to 10 percent of GDP by 2025 (in 5 years) and to 8 percent of GDP by 2030 (in 10 years); and
- v. Increase the proportion of concessional loans to at least 90 percent of the Government's total loan portfolio by 2025 (in 5 years); and
- vi. Decrease the proportion of non-concessional loans to not less than 10 percent of the Government's total loan portfolio by 2025 (in 5 years).
 - b. In this section debt means sovereign debt and includes debt related to the Government's contingent liabilities.
 - c. The Ministry shall report its debt to GDP ratio to Cabinet semi-annually.

Reducing interest rate risk

- d. All borrowing by Government and state-owned enterprises shall be in the form of long-term concessional loans by 2030 (in ten years).

Reducing default risk

- e. Interest payments shall be capped at 5 percent of revenue and grants by 2025 (in five years).

Updating debt management targets

- f. The debt management strategy in this section shall be updated every four years from the date this section comes into force.

8. Debt Management Functions of Ministry

The debt management functions of the Ministry shall include the following matters:

- (i) To prepare an annual medium-term debt management strategy;
- (ii) To prepare an annual borrowing plan;
- (iii) To participate in negotiations with creditors, and advise the Minister on all Government borrowings;
- (iv) To assess the risks in issuing any guarantees, and prepare reports on the method used for each assessment and the results thereof for the attention of the Minister;
- (v) To facilitate the recovery of any payments including interest and other costs incurred by Government due to the honoring of outstanding guarantees;
- (vi) To prepare annual reports on outstanding guarantees;
- (vii) To assess the credit risk in any lending, and prepare reports on the method

used for each assessment and the results thereof for the attention of the Minister;

- (viii) To prepare annual reports on outstanding lending by Government;
- (ix) To process requests from state-owned enterprises for borrowings under the Act;
- (x) To monitor and keep track of debt levels of all state-owned enterprises;
- (xi) To prepare annual reports on the debt of local state-owned enterprises;
- (xii) To keep timely, comprehensive and accurate records of outstanding Government debt, guarantees and lending in an appropriate database
- (xiii) To advise on all debt servicing obligations of the Government;
- (xiv) To prepare and publish debt statistical bulletins annually;
- (xv) To prepare forecasts on Government debt servicing and disbursements as part of the yearly budget preparation;
- (xvi) To compile, verify and report on all Government domestic arrears and design strategy for the settlement of those arrears as part of the Government's overall debt management strategy;
- (xvii) To monitor that the disbursements of loan raised by Government are in accordance with agreed disbursement schedules; and
- (xviii) To perform such other functions in relation to debt management as may be determined by the Minister.