

MICRONESIA

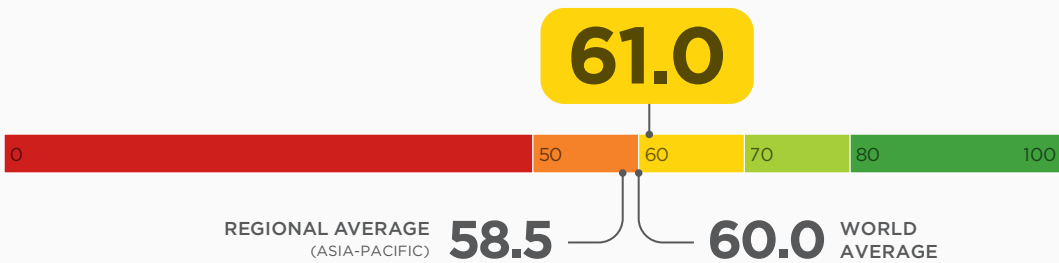
Micronesia's economic freedom score is 61.0, making its economy the 82nd freest in the 2022 *Index*. Micronesia is ranked 16th among 39 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Micronesia's economic growth slowed from 2017 to 2018 but accelerated in 2019 before turning negative in 2020. A five-year trend of declining economic freedom has reversed course. Boosted by significant score increases for rule of law, Micronesia has recorded a 6.9-point overall gain in economic freedom since 2017 and has climbed into the "Moderately Free" category for the first time. Micronesia's status as a major beneficiary of international aid is reflected in its robust **fiscal health**, but the burden of **government spending** on the economy is one of the heaviest in the world.

IMPACT OF COVID-19: As of December 1, 2021, data on deaths attributed to the pandemic in Micronesia were not available. The economy contracted by 1.6 percent in 2020.

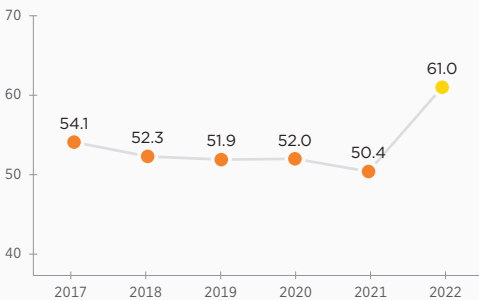


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 2009): +9.3

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
0.1 million

GDP (PPP):
\$0.4 billion
-1.6% growth in 2020
5-year compound annual growth 0.7%
\$3,446 per capita

UNEMPLOYMENT:
16.2% (2010 est.)

INFLATION (CPI):
0.5%

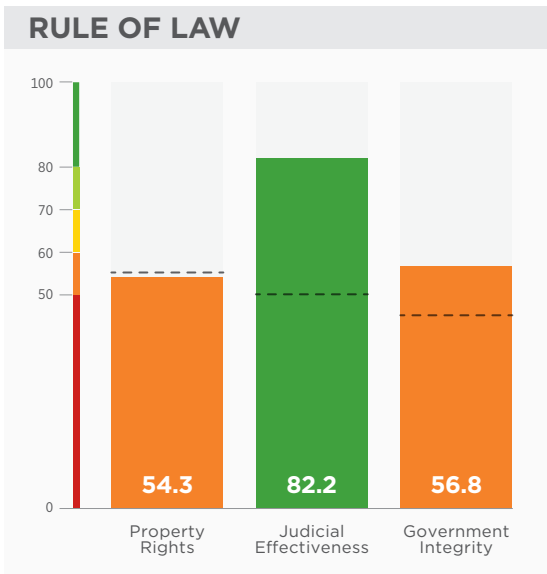
FDI INFLOW: n/a

PUBLIC DEBT: 16.0% of GDP

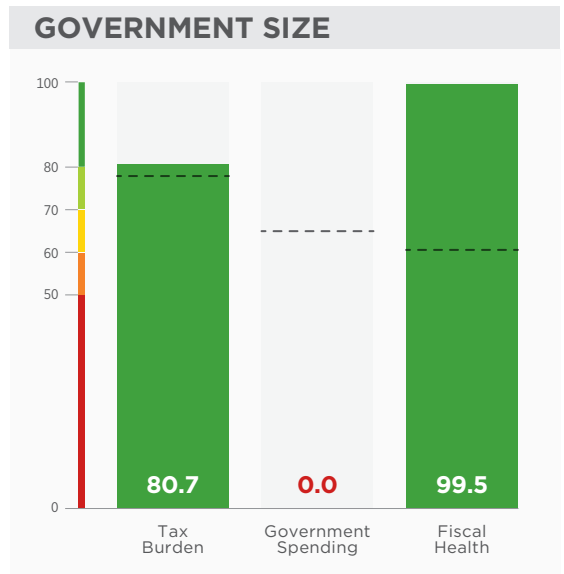
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: The widely scattered Caroline Islands in the southwestern Pacific Ocean were part of a U.N. Trust Territory administered by the United States after World War II. The eastern four island groups (Pohnpei, Chuuk, Yap, and Kosrae) adopted a constitution in 1979 and became the Federated States of Micronesia. The 607-island archipelago's central government has only limited powers. In 2019, David Panuelo was elected president by a narrow margin. Elections for the unicameral parliament took place in March 2021. Under a Compact of Free Association signed in 1986 and up for renewal in 2023, the U.S. is responsible for Micronesia's defense and currently provides approximately \$130 million annually in economic assistance. Economic activity consists largely of subsistence farming and fishing.

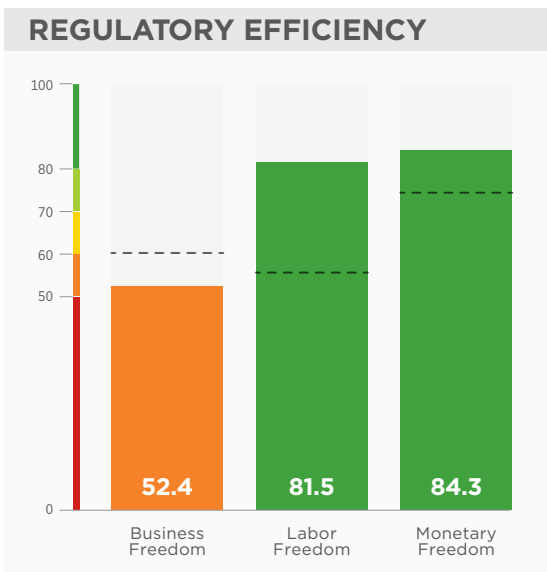
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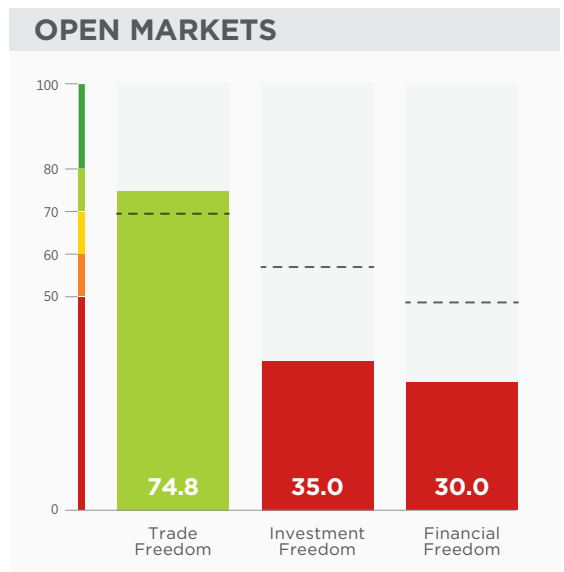
The law respects and protects property rights. The judiciary is constitutionally independent, but courts are weakened by chronic underfunding, technical constraints on capacity, delays, and an inability to enforce judgments properly. Although the authorities can investigate and punish cases of official corruption and misuse of funds, both problems remain subjects of public discontent.



The top individual income tax rate is 10 percent, and the top corporate tax rate is 21 percent. The overall tax burden equals 37.3 percent of total domestic income. Government spending has amounted to 61.5 percent of total output (GDP) over the past three years, and budget surpluses have averaged 13.0 percent of GDP. Public debt is equivalent to 16.0 percent of GDP.



Micronesia is essentially a subsistence economy except in larger towns where the government is by far the largest employer and limited commercial activity is conducted. There is a minimum wage for government jobs in all four states, but only one state (Pohnpei) has a minimum wage for the private sector. The government has monopolies in fuel, telecommunications, and copra production and is heavily dependent on U.S. subsidies.



Micronesia has two preferential trade agreements in force. The simple average tariff rate is 5.1 percent, but nontariff barriers and poor trade infrastructure limit overall trade freedom. Micronesia is not a member of the World Trade Organization. Numerous impediments discourage foreign investment. High credit costs and scarce access to financing constrain the small private sector. Much of the population does not use formal banking.