

BEST'S COUNTRY RISK REPORT

Micronesia

CRT-5

August 22, 2018

Region: Oceania

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Micronesia has a moderate level of political risk, a high level of economic risk, and a very high level of financial system risk. For decades, the country has depended on US aid to sustain it. That aid is expected to end in 2023, and as a result, economic growth will likely slow. Growth has been decelerating since 2015, with a rate of 2% in 2017. Inflation is expected to remain stable at 2% over the medium term. Poor infrastructure and geography constrains the development of tourism and foreign investment.
- A.M. Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4, or CRT-5. A notable exception is Singapore, a CRT-1 country.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

Vital Statistics 2017

Nominal GDP	USD bn	0.33
Population	mil	0.1
GDP Per Capita	USD	3,200
Real GDP Growth	%	2.0
Inflation Rate	%	0.5

United Nations Estimates

Literacy Rate	%	n.a.
Urbanization	%	22.5
Dependency Ratio	%	62.4
Life Expectancy	Years	73.1
Median Age	Years	25.1

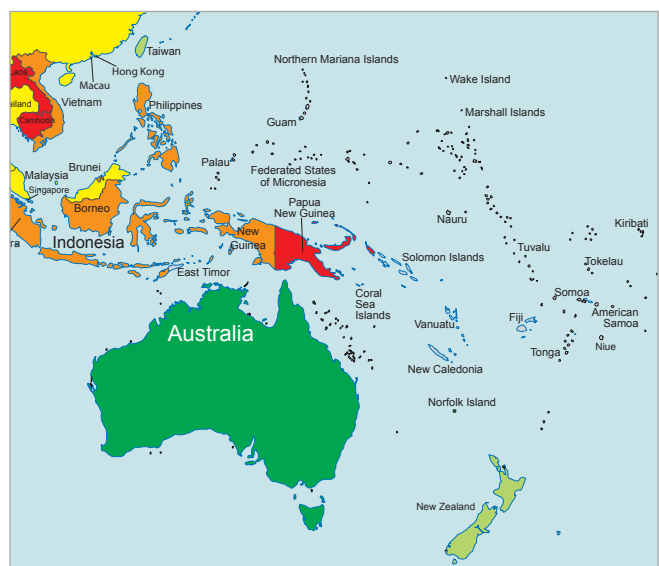
Insurance Statistics

Insurance Regulator	Federated States of Micronesia Insurance Board	
Premiums Written (Life)	USD mil	n.a.
Premiums Written (Non-Life)	USD mil	n.a.
Premiums Growth (2016 - 2017)	%	n.a.

Regional Comparison

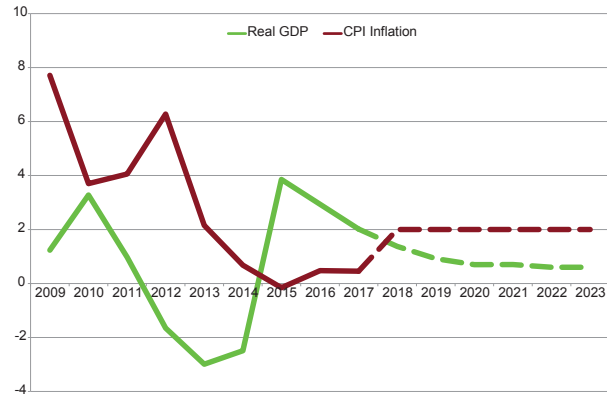
	Country Risk Tier
Micronesia	CRT-5
Philippines	CRT-4
Indonesia	CRT-4
Japan	CRT-2
Malaysia	CRT-3
Papua New Guinea	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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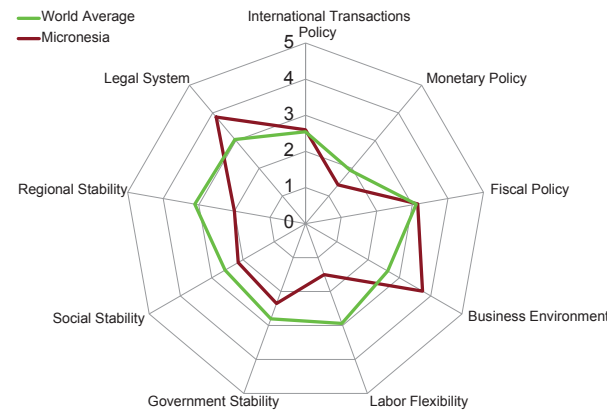
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

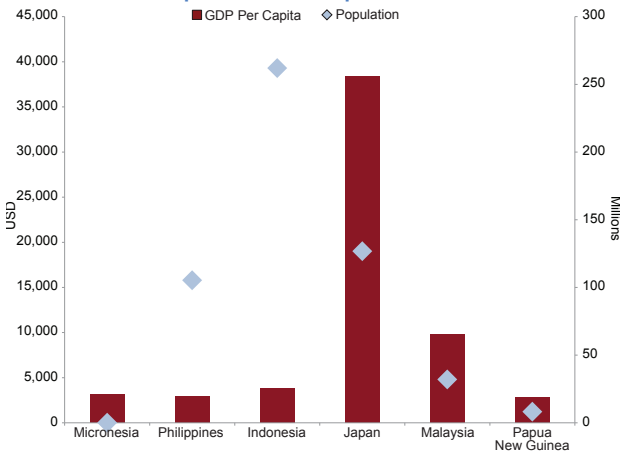
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Micronesia's economy is primarily agricultural- and fishing-based. Agriculture employs nearly half the workforce but is not commercialized, resulting in poor returns and profitability. The fishing sector requires technology investments.
- The tourism sector lacks infrastructure and geographic isolation, but it has strong potential for development.
- Geography exposes the country to natural disasters, which is exacerbated by inadequate infrastructure.
- The country has financial aid and protection from the US, under the Compact of Free Association (COFA), however it is due to expire in 2023.
- Micronesia's GDP is one of the world's lowest. The labor force is limited, and poverty levels are relatively high. The economic outlook for the near term is lackluster, owing to the country's heavy dependence on aid and stagnant production.

Political Risk: Moderate

- President Peter Christian has focused on development projects to connect the country to the US.
- The main risk to long-term political stability is the country's four member islands' increasing calls for independence from the central government.
- The infrastructure development plan for 2016 to 2025 is focused on ten sectors and should be favorable to growth.
- The Supreme Court works to improve legal accessibility to the public, supported by the Technical Assistance program. It aims to improve judicial efficiency.
- Corruption is rampant and can thwart efficient business operation and impact political stability. Significant progress toward improved transparency is unlikely in the short term.
- Micronesia is at low risk for security concerns, both externally and internally. Protests and strikes are rare and unlikely to be disruptive.
- Micronesia ranks 155 out of 189 countries in the World Bank's Ease of Doing Business Survey, reflecting the country's difficult business operating environment.

Financial System Risk: Very High

- The Insurance Act of 2006 provides the legal and regulatory framework for the Federated States of Micronesia Insurance Board, which is responsible for all regulatory and supervisory functions.
- Micronesia lacks buffers and sustainability, and should focus on fiscal consolidation to improve resilience. Tax administration should also be strengthened.
- The IMF has recommended enhancing the regulatory framework and facilitation of the private sector economic activities.
- The use of the US dollar as Micronesia's currency helps to mitigate some vulnerabilities.