IMF Staff Completes 2026 Article IV Mission to the Federated States of Micronesia

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- Driven by strong fishing output, high bank profitability and an increase in public sector wages, growth for FY2024 is estimated at 2.3 percent before moderating to 1.1 percent in FY2025.
- Growth is expected to remain steady at 1 percent in FY2026, supported by a gradual pickup in Compact-funded public investment. Risks are tilted to the downside, as delays in implementing large projects would hurt growth prospects and intensify emigration pressures.
- The priority is to expedite climate-resilient public investment and improve project quality, with the support of development partners. Consensus building across stakeholders is needed to reignite reforms that would support a vibrant private sector, helping create high-quality jobs.

Washington, DC: An International Monetary Fund (IMF) team led by Dinar Prihardini conducted discussions for the 2026 Article IV consultation with the Federated States of Micronesia (FSM) from January 15 to 28.The team exchanged views with Finance Secretary Nakanaga, as well as senior officials in several departments of the national government and state governments of Chuuk and Pohnpei, the private sector, and development partners.

At the end of the visit, Ms. Dinar Prihardini issued the following statement:

"The FSM is progressing to achieve development goals, under challenging circumstances. Access to basic services and digital connectivity has improved. These are commendable achievements given the country's fragility, which is driven by remoteness, dispersed population, high vulnerability to climate change and governance challenges. However, service quality is impacted by an aging infrastructure, and wide disparities remain, particularly in outer islands and for low-income households

"Growth rebounded to an estimated 2.3 percent in FY2024, before moderating to 1.1. percent in FY2025 as the effects of higher fishing output and public sector wage increase dissipates and commencement of new infrastructure projects are delayed. Inflation slowed to 3.5 percent as global commodity prices moderate and US inflation gradually eases.

"The fiscal surplus narrowed as revenues normalized following windfall gains and states increased expenditure in response to the higher revenue envelope from a greater share of fishing fees. Public debt declined to 9.6 percent of GDP in FY2025, while the assets of the Compact of Free Association with the United States (Compact) and FSM trust funds reached a combined total of 508 percent of GDP.

"Growth is projected to remain steady at 1 percent of GDP in FY2026, bolstered by a gradual pickup in public investment funded by the Compact. Risks are tilted to the downside. Slow implementation of infrastructure projects, amidst intensifying climate change, would depress growth, exacerbating emigration and skills shortages, leading to a negative feedback loop. Fiscal risks arise from financially weak state-owned enterprises, and the cost of addressing oil spills from WWII-era shipwrecks.

"The renewal of the Compact, with a significant step up in grants, provides an opportunity to reset the FSM's economic trajectory, provided it is accompanied by reforms. The near-term priority is to expedite climate-resilient public investment and improve project quality, with the support of development partners. A mix of grants, concessional loans, and domestic revenue mobilization can help finance these investments, while preserving fiscal buffers and safeguarding debt sustainability.

“Consensus building across stakeholders is needed to reignite reforms that would support a vibrant private sector, a key priority of the Strategic Development Plan. Streamlining and harmonizing laws and regulations across states – particularly those related to foreign direct investment and business regulations – would enable sectors where FSM has a comparative advantage to flourish. Enabling the productive use of land, while protecting customary ownership rights, would support growth. Digital banking and fiscal reforms can be leveraged to ease constraints on the demand and supply of credit. These measures would help create high-quality jobs, and when coupled with measures to address skills mismatches, could stem the tide of emigration.

“The efforts to close data gaps are welcome. Improving the availability and timeliness of economic statistics can support policy formulation.

“We would like to thank the authorities and counterparts in public enterprises, the private sector, and development partners for their valuable and constructive dialogue, and warm hospitality. We look forward to continuing the IMF’s close engagement with the Federated States of Micronesia.”

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