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March 21, 2017

**Statement by Mr. Fachada and Mr. Cheong on Republic of Nauru
(Preliminary)
Executive Board Meeting
March 24, 2017**

1. We thank staff for the report and Mr. Choi and Ms. Preston for their statement. This chair welcomes the first Article IV consultation with Nauru, the Fund's newest member. We also commend management and staff for their engagement with small and micro-states. We note that for micro-states such as Nauru, the Fund can play an invaluable role as a trusted advisor while also spurring the engagement of other multinational institutions. We consider the discussions in the staff report as appropriately focused on macro-critical issues and are encouraged by the general convergence of views between staff and the authorities.
2. **We welcome the authorities' commitment to fiscal discipline and the steps taken to enhance the public financial management (PFM) framework.** For a micro-state with capacity constraints, Nauru has made stellar progress in implementing some of the Public Expenditure and Fiscal Accountability (PEFA) reforms. With revenues from the Regional Processing Center (RPC) expected to taper-off over the medium-term, we encourage the authorities to continue to make progress on PFM reforms, particularly with respect to developing a medium-term expenditure framework and improving transparency. These and other reforms can help the authorities prioritize critical spending, such as on health care and poverty reduction, while also engendering greater accountability.
3. **For micro-states such as Nauru, building macroeconomic buffers are critical to protect the country against exogenous shocks.** We commend the authorities for the establishment of the intergenerational trust fund and encourage the planned accumulation of balances to the 2033 target. Additionally, we agree with staff's recommendation that as much as possible, the government should use surplus revenues to build deposits which may then be utilized to smooth expenditure in the face of declining RPC related revenues post 2018.
4. **The authorities have duly recognized the threats to long-term sustainability and development posed by climate change.** Staff notes that the authorities have incorporated

climate change in their national development strategy and have also conducted studies on climate change financing. Recognizing that fiscal space may be constrained in the medium-term and that best practices may take years to implement, we support the practical approaches being considered to build climate change resilience in the near-term. Moreover, along with the technical assistance provided by other multinational agencies, we encourage the Fund to continue to lend its macroeconomic expertise to assist Nauru in securing climate change financing where available.

5. We support the use of concessional and grant financing, as well as state owned enterprise (SOE) reform, to bridge the gap between immediate development needs and the necessary medium-term fiscal adjustment. In this regard, we welcome the use of grant financing for the hospital development and the planned construction of a new seaport facility. Further, reforms to the SOE sector as recommended by the Asian Development Bank may not only help reduce the fiscal drag from the sector, but may also serve as a catalyst for donor support.