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

We thank staff for a clearly written report and Mr. Choi and Ms. Preston for an informative Buff statement. The small economy of Nauru is subject to unsustainable sources of growth and income, resulting in high macroeconomic volatility. With the factors underlying the rapid growth of previous years expected to be scaled down or exhausted over the medium term, policies need to be focused on promoting sustainable and inclusive growth while preserving macroeconomic stability. We agree with the staff assessment and have the following remarks for emphasis.

**In the absence of monetary and exchange rate policies, maintaining a prudent fiscal policy is crucial for both fiscal and external sustainability.** We commend the authorities for using the overall fiscal surpluses to build-up cash buffers, clear arrears, and contribute to the trust fund. However, given the projected lower RPC revenues from FY2018 onwards and the need to maintain permanently adequate cash buffers, further policy actions are necessary to cut inefficient and wasteful spending and keep the wage bill under control. Spending restraint should also provide the fiscal space required to augment capital spending, address health-related challenges, finance climate change adaptation costs, and further clear debt arrears. To achieve adequate spending control, the reform of the public financial management should be a priority. Progress with tax reform should be continued to enhance revenue mobilization and broaden the tax base.

**Structural reforms are critical to building the foundations of sustainable and inclusive growth.** Given that the main current sources of growth for Nauru are either transitory (RPC), or exhaustible (phosphate deposits), or very costly (below-surface mining), alternative sources of long-run growth need to be promoted by economic diversification and private sector development. To optimize the island's scarce human and financial resources, a comprehensive reform of the SOEs is needed. The reform should focus on improving governance, accountability of the management, transparency, and monitoring of the SOEs,

but should also open the possibility of identifying those activities that could operate more efficiently, while providing better services, in the private sector. To foster growth through further development of the financial sector and safeguarding financial stability, we agree with staff that the authorities should step up the efforts to strengthen the AML/CFT and tax transparency frameworks. Rebuilding infrastructure, supporting capital spending for climate change adjustment by multi-annual budgeting, and addressing health-related challenges to improve human capital should also be priority growth-friendly policies.