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March 22, 2017

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

We thank staff for the comprehensive set of reports and Mr. Choi and Ms. Preston for their helpful Buff statement. We welcome the opportunity to discuss the first Article IV consultation for Nauru since it became the 189th Fund member in 2016.

Nauru's rapid economic growth in the past four years has been supported by government revenues related to the operations of the Australian Regional Processing Centre (RPC), fishing license fees and phosphate mining exports. Mindful of the significant challenges in achieving sustained growth due to its limited sources of growth and income, and in light of the uncertainty of RPC's future operations, the authorities have appropriately established an intergenerational trust fund, with the assistance of international development partners, to provide long-term fiscal financing. We support the efforts to further safeguard fiscal sustainability and address Nauru's vulnerability to challenges associated with climate change. We broadly concur with staff's appraisal and offer the following comments for emphasis.

Strong commitment to fiscal prudence is critical to safeguarding fiscal sustainability and improving resilience to climate change. Given the limited source of income, we view that one of the main priorities for the authorities should be to manage the revenue effectively. We welcome the authorities' strong commitment to maintain cash buffers to meet liquidity needs while continuing to build up the trust fund's resources. *Could staff elaborate on the authorities' plan to take a more active role in RPC administration?* Efforts to shore up fiscal buffers are being appropriately balanced with the authorities' continued priority allocation for critical social and development spending. We therefore support the authorities' plan, as highlighted in the Buff statement, to continue implementing a new tax system and public finance management reforms.

Given Nauru's significant vulnerability to challenges related to climate change, we support the authorities' continued efforts to address climate change vulnerabilities, including by incorporating climate change strategy into the National Sustainable Development Strategy

(NSDS) 2005-25 and medium-term budget planning, as well as public investment to help Nauru better adapt to climate change.

Sustained commitment to structural reforms is important to ensure Nauru's sustainable development. These reforms will help in promoting economic diversification and private sector development. In this regard, we welcome the authorities' plan to develop a climate-proof seaport, which is critical to facilitate trade and to Nauru's future development. We encourage the authorities to make the best use of the financial and technical assistance from the development partners, including from the Fund, in order to develop Nauru's public institutions, improve governance and performance of state-owned enterprises, which can help reduce fiscal burdens, safeguard fiscal sustainability, and facilitate private sector development. Given a need to improve financial inclusion, we welcome the authorities' continued cooperation with Australian financial supervision authorities on measures to improve the performance of its sole financial institution and further strengthening of the AML/CFT framework to help gain access to international transfer facilities.

We take this opportunity to welcome Nauru to the Fund and wish the authorities success in their future endeavors.