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

**We welcome Nauru's first Article IV Consultation.** The country joined the membership in April 2016. Limited factor endowments and sources of income, health shortcomings and climate risks have constrained growth and burdened fiscal sustainability adding to the challenges common to small states. Recently, growth performance boosted on the back of processing asylum seekers for Australia, fishing license fees and phosphate mining. The temporary nature of processing asylum seekers and the exhaustible nature of mining weight negatively on medium-term growth while downside risks relate to weaker global growth, change in climate patterns and slow progress in delivering structural reforms. Fiscal policy, adaptation to climate change, and structural reforms are key areas to unlock inclusive growth potential and to preserve macroeconomic stability.

**Robustness hinges on timely implementation of fiscal policy and reform.** The economy is fully dollarized and with limited access to public borrowing. Building fiscal space is essential to deal with downside risks, open access to international credit markets, preserve macroeconomic stability and enhance inclusive growth prospects. We concur with authorities on focusing spending priorities in health, education and infrastructure. We welcome the establishment of a new trust fund to provide fiscal long-term financing and encourage authorities to build up savings from revenues coming from processing asylum seekers, maintaining adequate cash buffers, rationalizing expenditures, implementing tax and public financial management reforms and integrating climate change strategies in budget planning. In addition, we welcome the efforts to clear arrears and encourage progress in this area. We highlight the importance of revisiting the coherence between planned investment projects, climate adaptation strategies and multi-year budget planning. *We would like to ask for staff's insights on funding and fiscal costs to address health related challenges.*

**Sustaining medium-term growth depends of delivering structural reforms.** We take note that authorities have prioritized reforming SOEs, enhancing infrastructure and developing the

financial system. We encourage authorities to continue strengthening the AML/CFT framework and expedite actions to comply with tax transparency standards. *We welcome staff's comments on the policies to abate income inequality and planned structural and fiscal reforms. In addition, could staff elaborate on the sectors and policies with potential to support the diversification efforts?*

**We encourage authorities to continue improving statistics and to participate in the E-GDDS initiative.**