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GRAY/17/678

March 22, 2017

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

The Nauruans have shown remarkable resilience having faced the devastation of the environment, an economic collapse and reliance on foreign aid for survival. Notwithstanding the additional challenges common to small island economies, Nauru's recent IMF membership is a sign of international confidence and a promise of rigorous economic oversight en route to achieving the country's development objectives. We thank staff for their first Article IV report on Nauru and Mr. Choi and Ms. Preston for their informative Buff.

We recognize the substantial growth performance in recent years but the imminent depletion of primary phosphate reserves and the expected scaling down of the Australian Regional Processing Centre (RPC) highlight a sobering economic outlook. Ensuring and preserving fiscal sustainability is critical and we welcome the progress in the implementation of a new tax system and using of any fiscal surpluses to clear arrears and build buffers. We are particularly encouraged by the establishment of the new intergenerational Trust Fund and take positive note of the fund's management structure comprising also the contributing donors to ensure stringent safeguards.

Given that the outlook is largely dependent on foreign aid, incomes from fishing licenses and the performance of the Trust Fund, there is an urgency for innovative ideas to rehabilitate the environment, boost development and economic diversification. While agreeing on the critical priorities of rebuilding infrastructure and reforming SOEs, we emphasize that as foreign aid continues to be an essential source of funding over the long term, these priorities must align with the strategies of development partners. *We would therefore appreciate staff's comments on how development aid is currently being managed, i.e. is there a coherent framework in place and is the timing of aid flows coordinated to avoid spending volatility.*

The first steps in redeveloping Nauru's financial sector are welcome, after nearly a decade long absence of deposit taking services and revoking of banking licenses. We note that despite operating in accordance with the Australian financial regulations and in compliance with the Australian financial supervision, regaining access to international transfer facilities

is proving difficult, implying the need for continued strengthening of the AML/CFT framework.