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March 22, 2017

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

We thank staff for the paper on Nauru and we also thank Mr. Choi and Ms. Preston for the informative Buff statement.

At the outset, we would like to extend our congratulations to the authorities for completing their first Article IV consultation. Following the phosphate boom of the 1980s, the subsequent decline in phosphate production and the depletion of the Nauru Phosphate Royalty Trust (NPRT), Nauru is facing headwinds that threaten its ability to sustain growth and ensure fiscal sustainability. These headwinds are largely driven by the country's limited sources of growth and income due to its remote location, small production base and population, high cost of public goods, insufficient infrastructure and risks to climate change. In this light we largely concur with staff's assessment and policy recommendations on the need to enhance fiscal sustainability, bolster climate change resilience and advance structural reforms.

We note that revenue has increased substantially in recent years with the creation of the Australian Regional Processing Center (RPC), thus contributing to a surplus in the fiscal balance. The authorities have appropriately taken steps to utilize the surplus to clear arrears, enhance cash buffers and replenish the new intergenerational trust fund with the support of bilateral donors and development partners. That said, the deterioration of the non-RPC current balance may pose risks to Nauru's fiscal position, along with the expected scaling down of the RPC. In this regard, we agree with staff that the authorities should maintain adequate cash buffers. *Can staff provide us with the latest information on the projected timeline on the scaling down of the RPC as well as the associated fiscal impact?*

As Nauru is vulnerable to numerous climate change related risks we concur with staff on the importance of climate proofing the medium-term budget, reflecting the challenges illustrated in the National Sustainable Development Strategy (NSDS) 2005-25 and the 2014 Framework for Climate Change Adaptation and Disaster Risk Reduction (RONAdapt). In this regard, we are encouraged by the authorities' reestablishment of the National Development Planning

Committee, with the stated intention of incorporating the Sustainable Development Goals (SDGs) and climate strategies.

We concur with staff assessment that reforms should be focused on the overarching objective of promoting inclusive growth by reforming SOEs, updating infrastructure and addressing the health-related challenges. The return of the banking services is an encouraging development and we welcome the launch of the operations of Bendigo bank which is the first bank to provide banking services in the country for over a decade. However, it is regrettable that it continues to face restrictions imposed by correspondence banks on the transfer of funds. We encourage the staff to work closely with the authorities to find a solution to this issue.