

SUR/17/25

March 24, 2017

**The Acting Chair's Summing Up
Republic of Nauru—2017 Article IV Consultation
Executive Board Meeting 17/21
March 24, 2017**

Executive Directors welcomed the first Article IV consultation with Nauru. They agreed with the thrust of the staff appraisal. They noted that economic growth and government revenue improved substantially in recent years, owing to the Regional Processing Center (RPC), fishing license fees, and residual phosphate mining. They commended the authorities for using the fiscal surplus to build up fiscal buffers, contribute to the new trust fund, and clear arrears. At the same time, Directors recognized that Nauru faces substantial challenges over the medium and long terms arising from the limited sources of growth and income, and climate change. In this regard, they welcomed the authorities' commitment to undertake the necessary reforms.

Directors agreed that Nauru's medium-term outlook is vulnerable to the expected scaling down of the RPC, which will entail a substantial decline in revenue. With limited access to borrowing, fiscal spending would need to adjust. Directors emphasized that maintaining fiscal buffers and continuing to build the new trust fund with donor support will be critical to ensure fiscal liquidity and sustainability. They urged continued tax and public financial reforms to support fiscal adjustment and help control spending, and a further strengthening of public debt management to preserve debt sustainability and improve market access.

Directors noted that Nauru faces long-term climate change challenges and emphasized the importance of a medium-term fiscal framework that enhances resilience to climate change. They welcomed the adoption of practical approaches in the near term, such as matching planned capital projects with Nauru's climate change strategy, meeting climate proofing standards, and incorporating the projects into a multi-year budget plan.

Directors highlighted the importance of structural reforms in promoting inclusive growth and private sector development. They welcomed the plan to build a new seaport and improve the performance of the public utility company, and urged the authorities to strengthen the governance, transparency, and accountability of state-owned enterprises. They welcomed the return of banking services, which will help promote financial inclusion. They emphasized that a strong framework for combating money laundering and the financing of terrorism, and enhancing tax transparency would support confidence and financial stability, and help regain access to international transfer facilities. Directors encouraged the authorities

to continue to address health-related challenges by maintaining adequate health spending and implementing plans to combat non-communicable diseases. Directors also underscored the importance of improving the quality and timeliness of macroeconomic data for surveillance.

It is expected that the next Article IV consultation with the Republic of Nauru will be held on the 24-month cycle.