

SU/20/11

January 24, 2020

**The Acting Chair's Summing Up
Republic of Nauru—2019 Article IV Consultation
Executive Board Meeting 20/7
January 22, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the improved economic performance in recent years, but noted that significant challenges remain, including volatile revenue sources, capacity and infrastructure constraints, and climate change. To help address these challenges, Directors urged the authorities to press ahead with reforms to preserve fiscal and debt sustainability, foster economic diversification, and strengthen governance and transparency.

Directors agreed that Nauru's medium-term fiscal outlook is vulnerable to the scaling down of the operations of the Australian Regional Processing Center (RPC) for asylum seekers, entailing a substantial decline in government revenue. They stressed the importance of a timely adjustment of fiscal plans to avoid breaching the fiscal anchor, meet the mandatory Trust Fund contributions, and prevent further accumulation of debt. Directors highlighted that maintaining adequate fiscal buffers would be critical to ensure fiscal liquidity and sustainability, and to allow flexibility in responding to shocks.

Directors urged sustained fiscal reforms, including continued tax and public financial reforms to support fiscal adjustment and help control spending. They underscored the need for continued improvement in public debt management to resolve legacy debt and contain debt accumulation, including within state-owned enterprises (SOEs). Directors urged the authorities to limit the use of supplementary budgets and to set aside windfall revenues for appropriation in the normal budget cycle to boost resources for carefully planned investment spending. They welcomed the new Public Enterprises Act, including establishment of the SOE monitoring unit.

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 recent measures in adaptation and mitigation, including the new seaport that will reduce Nauru's carbon footprint. They encouraged the authorities to fully cost adaptation plans and incorporate the projects into a multi-year budget plan.

Directors agreed that prospects for inclusive growth and private sector development can be lifted through improvements in the business environment. They welcomed progress in financial inclusion and called for further strengthening of the anti-money

laundering/combating the financing of terrorism (AML/CFT) framework. Directors urged the authorities to seek to improve the quality of health and educational outcomes, and continue to combat non-communicable diseases. Directors strongly encouraged the authorities to improve 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.