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IMF Executive Board Concludes 2017 Article IV Consultation with the Republic of Nauru

On March 24, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the first Article IV consultation¹ with Nauru after the country became the 189th IMF member country in April 2016 (see [Press Release No. 16/167](#)).

Nauru's growth and government revenue have improved substantially in recent years owing to the Australian Regional Processing Center (RPC) to process asylum seekers, in addition to fishing license fees, and residual phosphate mining. In the near term, GDP growth is projected to moderate to 4 percent in FY2017 (ending June 30) mainly due to a slowdown in phosphate exports and limited expansion of the RPC. Inflation is projected to decline to around 6 percent along with moderating economic activities and stable food and fuel prices.

Despite the improved economic performance in recent years, Nauru continues to face challenges in sustaining growth and ensuring fiscal sustainability due to its limited sources of growth and income. The country is also vulnerable to climate change, its antiquated infrastructure hampers trade and growth, and its health indicators are below those of peers due to high incidence of non-communicable diseases.

The medium-term outlook is vulnerable to the scaling down of the RPC as refugees are expected to be transferred to other countries, entailing a substantial decline in RPC revenue. With limited access to borrowing, fiscal spending would have to adjust accordingly. Inflation is projected to remain low, in line with the economic slowdown, inflation in Australia, and low commodity prices.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

Executive Directors welcomed the first Article IV consultation with Nauru. 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.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Nauru: Selected Economic Indicators, FY2012–17 1/

I. Social and Demographic Indicators 2/						
GDP (FY2015 est.) (in millions of Australian dollars):	120.1			Poverty rate:	24 percent (2013)	
Per capita GDP (FY2015 est.) (in Australian dollars):	9,631			Live expectancy at birth:	60.4 years (2011)	
Population (FY2015 est.):	12,475			Adult literacy rate:	96.5 (2011)	
II. Economic Indicators						
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
				Preliminary		Proj.
Real sector						
Real GDP growth (percent change)	10.1	34.2	36.5	2.8	10.4	4.0
Consumer price index (period average, percent change)	0.3	-1.1	0.3	9.8	8.2	6.0
Population (thousand)	10.3	10.8	11.9	12.5	13.0	13.3
In percent of GDP						
Government finance						
Total revenue and grants	52.6	58.9	76.8	81.2	115.2	110.3
Revenue	31.9	39.1	60.0	64.6	94.1	92.6
Grants	20.7	19.9	16.8	16.6	21.0	17.7
Total expenditure	44.7	57.4	51.8	72.3	91.6	99.9
Net lending (+) / borrowing (-)	7.9	1.5	25.0	8.9	23.5	10.4
Stock of government deposits	6.7	5.5	16.3	21.5	9.9	6.7
Stock of Trust Fund	22.7	33.4
(In millions of Australian dollars, unless otherwise indicated)						
Balance of payments						
Current account balance	38.4	19.9	-17.2	-11.4	2.4	0.8
(In percent of GDP)	38.1	18.8	-13.5	-9.5	1.7	0.5
Trade balance	33.8	4.6	-34.6	-51.6	-52.9	-61.5
Exports	67.4	58.2	50.7	25.0	34.4	32.0
Imports	33.6	53.6	85.3	76.5	87.3	93.5
Capital account balance	0.9	2.5	3.2	4.3	5.9	5.3
Financial accounts balance and other flows	39.2	22.3	-13.9	-7.1	8.3	6.1
Government debt indicators 3/						
External debt	54.4	50.8	48.1	47.2	48.1	48.9
(In percent of GDP)	54.0	48.0	37.7	39.3	34.3	32.4
Domestic debt	66.1	66.1	52.5	46.1	42.9	41.9
(In percent of GDP)	65.6	62.4	41.2	38.4	30.6	27.8
Exchange rates						
Australian dollar per U.S. dollar (period average)	0.97	0.98	1.09	1.20	1.37	...
Real Effective Exchange Rate (period average)	103.0	100.1	93.4	98.2	104.9	...
Nominal GDP (in millions of Australian dollars)	100.7	105.9	127.5	120.1	140.2	151.0
Sources: Nauru authorities and IMF staff estimates and projections.						
1/ Nauru uses the Australian dollar as the legal tender, and the fiscal year ends in June.						
2/ The social indicators are taken from United Nations Development Program and Secretariat of the Pacific Community.						
3/ Including the defaulted Yen bonds and the estimated government liability related to Bank of Nauru's liquidation.						