Statement by the IMF Staff Representative
January 22, 2020

This statement contains information that has become available since the staff report was circulated to the Executive Board. This information does not alter the thrust of the staff appraisal.

1. **A fourth supplementary budget for FY2019/20 was issued on 20 December 2019, to appropriate A$17.6 million (10 percent of GDP) in additional revenue.** The revenue was mainly due to Australian Regional Processing Centre (RPC) for asylum seekers operations and included A$5.3 million in additional RPC hosting fees and a A$10.2 million payment for reimbursable RPC costs. The government also received a dividend paid by a telecom company (A$1.5 million). The supplementary budget is expected to have a negligible impact on GDP growth and other key variables as fiscal multipliers are low given Nauru's openness.

- **Most of the additional revenue has been appropriated as new spending,** including A$10.9 million for operational costs at the Department of Multicultural Affairs (which has responsibility for the RPC). A further A$4.2 million was paid in SOE subsidies and a windfall payment to government workers. The supplementary budget included a Nauru Trust Fund contribution of A$ 0.6 million, and the remaining A$2.0 million was spent on other areas.

- **Staff has treated the revenue increase as windfall revenue, in the absence of further information.** However, the revenue gain over the four supplementary budgets has been significant, increasing revenue in FY2019/20 by 60 percent above the initial Approved Budget. The supplementary budgets have included total appropriations of A$86 million (50.5 percent of GDP) for FY2019/20, comprised of new spending (A$73.6 million) and appropriations to the Nauru Trust Fund and Fiscal Cash Buffer (A$12.4 million).

- **While the revenue gains are positive, supplementary budget appropriation in FY2019/20 has included little spending on core areas of education and health.** Of the newly appropriated expenditure in FY 2019/20, 2 percent of GDP (A$3.6 million) was spent on health and less than 1 percent of GDP (A$0.4 million) was spent on education. Staff reiterates the advice to set aside windfall revenues for appropriation in the normal budget cycle rather than through a supplementary budget process. Windfall revenues should be used to boost resources for carefully planned spending.

2. **The authorities are making progress on public financial management reforms.** Following the Article IV discussions, the authorities have communicated that the financial statements for FY2016/17 have been submitted for audit and published on the official website. They are continuing efforts to improve bank reconciliation and have engaged a consultant to map the financial management information system (FMIS) to support GFS reporting. Other work is continuing to improve internal audit, establish a Finance and Audit Risk Committee, and recruit new staff to oversee reconciliation and SOE performance.