

# Republic of Nauru: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Alternate Executive Director for the Republic of Nauru



# REPUBLIC OF NAURU

September 2025

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF NAURU

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Nauru, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 17, 2025 consideration of the staff report that concluded the Article IV consultation with the Republic of Nauru.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 17, 2025, following discussions that ended on July 11, 2025 with the officials of the Republic of Nauru on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 22, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Alternate Executive Director** for the Republic of Nauru.

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## IMF Executive Board Concludes 2025 Article IV Consultation with the Republic of Nauru

FOR IMMEDIATE RELEASE

**Washington, DC – September 22, 2025:** On September 17, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with the Republic of Nauru.<sup>1</sup>

**The government of Nauru has made significant strides in restoring economic stability.** In recent years, the government has worked closely with development partners to improve infrastructure, ensure access to banking services, and secure multi-year donor support. Nonetheless, Nauru remains highly vulnerable to external shocks, particularly in a global environment with growing policy uncertainty and potential cuts in development aid.

**Growth has picked up to 2.1 percent in FY2025**, mainly driven by sustained donor support and a revival of activity in the regional processing center. Inflation remains elevated at over 6 percent in FY2025 and is expected to moderate to 4.5 percent this fiscal year. Fiscal outlook has improved over the medium term, following the Nauru-Australia Treaty concluded in late 2024 and the anticipated pickup of activity in the regional processing center in coming years.

**Risks to the growth outlook are tilted to the downside.** External risks stem from the reduced foreign grants. Inflation could be higher than expected owing to volatile commodity prices, and a resurgence of food prices from delayed shipments and escalating trade tensions globally. Unexpected disruptions in banking services arising from the transition may delay payments and dampen economic activity.

### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' efforts to restore macroeconomic stability over the last decade despite the significant structural challenges faced by Nauru owing to its remote location and small size. Directors welcomed the improved outlook supported by the anticipated pickup of the regional processing center, while noting that risks are tilted to the downside, including from a potential decline in donor support. Against this background, they underscored the importance of fiscal

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<sup>1</sup> 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.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chair 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 summing up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

and structural reforms, supported by capacity development and strong donor partnership, to promote economic diversification and sustainable growth.

Directors welcomed the authorities' commitment to fiscal prudence and noted the importance of continued compliance with the fiscal responsibility ratios and sustained contributions to the Intergenerational Trust Fund. They concurred that fiscal policies should pivot towards restraint in the near term to build buffers and bolster resilience. Directors emphasized the need to avoid procyclical spending and noted that containing the rise in the government wage bill, while strengthening social safety nets, rationalizing expenditures, and mobilizing revenues, would help contain inflationary pressures and support sustainable growth. Improvements in public financial management, including in SOEs, will be crucial for managing fiscal risks.

Directors welcomed the progress in transitioning to a new commercial bank and stressed the importance of stronger coordination, oversight and contingency planning by government agencies to ensure uninterrupted banking services and safeguard financial stability. They agreed that banking sector stability could pave the way for enhanced access to credit; however, cultivating financial literacy is essential for promoting responsible borrowing. Directors also recognized the progress made in enhancing the AML/CFT regulatory framework, while calling for continued vigilance in managing correspondent banking relationships and monitoring emerging risks related to digital assets and the citizenship program.

Directors concurred that structural policies should be geared towards lifting potential growth and diversifying growth. They emphasized that enhancing human capital and infrastructure, strengthening governance, transparency and the business environment, advancing digitalization, and building resilience against natural disasters are imperative for achieving sustainable growth. Carefully assessing the risks and opportunities from deep sea mining would also be important. Enhancing data quality will also be critical to improve policy making.

**Table 1. Nauru: Selected Economic Indicators, FY2023–27 1/**

Nominal GDP (AU\$ million, FY2024)	247.6	Human capital index (scale 0-1, 2020)		0.51
Per capita GDP (US\$, FY2024)	13,592	Infant mortality rate (per 1,000 lives, 2023) <sup>2/</sup>		25
Population (FY2024)	11,947			
	FY2023	FY2024	FY2025 Prelim.	FY2026 Projected
Real sector				
Real GDP growth (percent change)	0.6	1.6	2.1	1.9
Consumer price index (period average, percent change)	4.8	9.3	6.1	4.5
Population (thousand)	11.9	11.9	12.1 (In percent)	12.2
Structure of the economy				
Agriculture	3.2	3.3	3.4	3.5
Manufacturing	15.6	14.1	13.4	13.1
Services	72.9	74.9	75.7	76.2
			(In percent of GDP)	76.6
Government finance				
Total revenue and grants	137.4	151.9	135.2	141.1
Revenue	121.2	118.9	109.6	109.9
Grants <sup>3/</sup>	16.2	33.0	25.6	31.2
Total expenditure	118.1	122.1	131.6	131.6
Net lending (+) / borrowing (-)	19.4	29.8	3.6	9.5
After Trust Fund contribution	8.4	21.0	-4.9	1.0
Stock of government deposits <sup>3/</sup>	48.9	62.3	50.1	45.8
Stock of Trust Fund <sup>4/</sup>	131.6	143.8	154.8	149.4
			(In millions of Australian dollars, unless otherwise indicated)	159.8
Balance of payments				
Current account balance (In percent of GDP)	2.8	15.4	7.2	6.8
Capital account balance	1.3	6.2	2.7	2.4
Reserves	27.2	54.0	41.3	35.3
Financial accounts balance and other flows	33.9	71.9	44.6	42.1
(In months of imports)	78.2	114.4	76.9	85.1
Reserves	4.1	5.0	3.3	3.5
Government debt indicators				
Total government debt (In percent of GDP)	46.1	43.1	39.8	36.6
External debt (In percent of GDP)	20.5	17.4	15.0	13.0
Domestic debt <sup>5/</sup> (In percent of GDP)	26.2	23.9	21.6	19.3
External debt service <sup>6/</sup> (In percent of exports of goods and services)	11.6	9.7	8.1	6.8
External debt service <sup>6/</sup> (In percent of exports of goods and services)	19.9	19.2	18.2	17.3
External debt service <sup>6/</sup> (In percent of exports of goods and services)	8.8	7.7	6.8	6.1
External debt service <sup>6/</sup> (In percent of exports of goods and services)	5.7	5.1	5.0	4.9
External debt service <sup>6/</sup> (In percent of exports of goods and services)	5.8	3.7	3.0	2.8
Exchange rates				
Australian dollar per U.S. dollar (period average)	1.48	1.52	1.54	...
Nominal GDP (in millions of Australian dollars)	225.3	247.6	266.1	282.5
				296.9

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/ Infant mortality rate before 5 years old is 25, while the neonatal mortality rate is 15 per 1000 population (UN Multiple Indicator Cluster Survey 2023).

3/ Taiwan Province of China is due to exit the Trust Fund. The stock of Trust Fund excludes the value of their contributions (AU\$40 million) from FY2026 to reflect this.

4/ Including the estimated government liability related to Bank of Nauru's liquidation.

5/ External debt service is through bilateral grants before FY2025.



# REPUBLIC OF NAURU

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

August 22, 2025

### KEY ISSUES

**Context.** Constrained by structural challenges stemming from its remote location and small landmass, Nauru's economy has registered low and volatile growth and is heavily reliant on imports and foreign support, making it susceptible to external shocks, particularly in a global environment with heightened trade policy uncertainty. The growth outlook has improved, supported by the anticipated pickup of regional processing center (RPC) operations and sustained donor support. Risks to the growth outlook are tilted to the downside, driven by a global slowdown and potential decline in donor support induced by deepening geoeconomic fragmentation and policy uncertainty. Inflation is expected to moderate, though it could stay protractedly high owing to rising wage growth in the public sector.

#### Economic Policy Recommendations.

- **Fiscal policies** should pivot towards restraint and avoid procyclical spending, which would help build buffers and accumulate savings in the trust fund. Containing the rise in government wage bill, while strengthening social safety nets and mobilizing revenues, will help contain inflationary pressures and support sustainable growth. Fiscal risks originating from public enterprises require diligent oversight through enhanced disclosures and accountability measures.
- **Financial sector policies** should ensure uninterrupted banking services and address emerging bottlenecks when transitioning to the new bank. Stability in the financial sector offers a pathway to credit provision, but promoting financial literacy is required to harness the opportunity. Building on the progress made to its AML/CFT framework, Nauru should continue to enhance its regulatory framework and adhere to robust oversight when establishing the digital asset regulatory.
- **Structural policies** should be geared towards lifting potential growth, diversifying the growth drivers, while being cognizant of the associated risks. This comprises (i) enhancing human capital and digital infrastructure; (ii) strengthening governance and the regulatory framework that will create a more favorable business environment and improve private sector development; and (iii) advancing adaptation efforts to build resilience against natural disasters.
- **Enhancing capacity** in economic statistics, with support from development partners, will provide timely and quality data for sound economic policies.

**Approved By**  
**Lamin Leigh (APD)**  
**and Tokhir Mirzoev**  
**(SPR)**

Discussion took place in Nauru during June 30 to July 11, 2025. The mission team comprised W. Raphael Lam (mission chief; FAD), Shujaat Khan, Krishal Prasad, Akshat Singh (all APD), and Amila Jeevan (STA STX). Eunji Choi (OED) joined part of the mission. The mission met with His Excellency President David Adeang, senior government officials, and representatives from public enterprises, private sector, development partners, and representatives of the Australian High Commission and Chinese Embassy in Nauru. Ricardo Pinto Davido, Sukham Lertprasert, Shikha Rao, and Yan Xu (all APD) provided research and administrative support to this report.

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## CONTEXT: ENHANCING ECONOMIC RESILIENCE AND PROMOTING STABILITY

- 1. Nauru's economic landscape is constrained by enduring structural challenges.** Remote location, small landmass, and limited capacity make Nauru fully dependent on imports and collectively hinder its ability to achieve sustainable growth. A narrow revenue base, primarily from fishing licenses and residual phosphate processing, renders fiscal sustainability and growth efforts largely reliant on development partners (accounting for three-quarters of the budget). Moreover, the rising sea level and extreme weather events pose significant risks to long-term developments.
- 2. While notable efforts have restored economic stability, Nauru remains vulnerable to an array of external shocks.** Following the resolution of external debt in 2021 and continued savings in the intergenerational trust fund, the government has largely restored economic stability over the last decade. In recent years, Nauru has worked closely with development partners to improve infrastructure, ensure banking services, and secure multi-year donor support. Nonetheless, Nauru remains highly vulnerable to external shocks, particularly in a global environment marred by heightened policy uncertainty.

## RECENT DEVELOPMENTS: GROWTH PICKUP AMID ELEVATED INFLATION AND GLOBAL UNCERTAINTIES

- 3. Growth has picked up, mainly driven by a revival in activity in the Regional Processing Center (RPC).** The economy is estimated to have grown by 2.1 percent in FY2025.<sup>1</sup> The pick-up in growth was largely driven by increased government spending from financial inflows of the RPC for refugees and asylum seekers (Box 1) and more grants from Australia and China. Growth was also supported by activity in the transport and communication sectors, which more than offset a slowdown in trade from adverse spillovers from U.S. tariffs.
- 4. Inflation has moderated but remains elevated.** After soaring to 9.3 percent in FY2024—mainly due to a one-off hike in telecommunication subscription fees and higher export prices from Australia, Nauru's primary import source— inflation is estimated to moderate to 6.1 percent in FY2025. Supply-side factors tied to shipping delays and Australian export prices have been the predominant driver (accounting for two-thirds) of inflation. Demand-side factors, which are correlated with government wage growth, have recently picked up. Inflation remains elevated

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<sup>1</sup> Fiscal year (FY) refers to the period starting from July of previous calendar year to end-June of current calendar year. For example, FY2025 starts from July 1, 2024 to June 30, 2025. Discrepancy between staff GDP estimates and the authorities' national account statistics are partly driven by the rebasing of GDP (see 2023 Article IV Consultation Staff Report, IMF Country Report No.23/376). PFTAC provides capacity development to reconcile and upgrade national account statistics.



**5. The fiscal stance in FY2025 was expansionary.** The fiscal balance is estimated at 3.6 percent of GDP in FY2025, down from the previous year, due to weaker revenues from fishing license fees and tax collection, coupled with increased capital expenditure and elevated compensation for government employees. The large spending is partly financed by large surplus carried forward from last year.<sup>3</sup> The fiscal outlook has improved, relative to that in the previous Article IV Staff Report (IMF Country Report No. 23/376), following the [Nauru-Australia Treaty](#) and the anticipated expansion of the RPC operations (Box 1), which secure a stable source of revenues and grants in coming years.<sup>4</sup> Furthermore, the government contributed AU\$22.6 million (8.5 percent of GDP) to the Nauru Intergenerational Trust Fund in FY2025, on track to reach its target by FY2033 (Box 2).

**6. Nauru's external position in FY2024 is assessed to be broadly in line with the level implied by fundamentals and desirable policies** (Annex I). The current account balance strengthened to 6.2 percent in FY2024, driven partly by donor support. The current account is expected to moderate to 2.7 percent in FY2025 due to a deterioration in the trade balance from stronger imports and weaker fishing revenues in the primary income. Gross international reserves declined to just below AU\$80 million as of end-FY2025, owing to the drawdown of previously large fiscal surplus to finance government spending, but the reserve coverage has remained over 3 months of imports.

**7. The financial system has been broadly stable and the Commonwealth Bank of Australia (CBA) is on track to commence its banking operations in Nauru.** The commercial bank CBA, in support of the Nauru-Australia Treaty, will begin its services by August 2025, providing continuous banking operations as Bendigo Bank Agency transits out of Nauru. CBA has taken steps for households and businesses to verify their identities and set up new bank accounts ahead of scheduled commencement. As of end-June, more than half of the existing customer base at Bendigo Bank has applied to open bank accounts at CBA. Onboarding of nonindividual accounts has seen delays, and bottlenecks are being addressed through increased outreach to depositors.

**8. Economic policies have been broadly consistent with past Fund advice** (Annex IV). The authorities have adhered to fiscal responsibility ratios and taken initial steps to formulate long-term fiscal strategy.<sup>5</sup> The government enacted the Anti-Money Laundering and Targeted Financial Sanctions Act 2023 as a commitment to aligning with international standards and improving access

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<sup>3</sup> As the budget adopts a cash basis, the large surplus in FY2024 was related to corporate income taxes paid in advance, which contributed to low tax collection in FY2025. Against this background, the change in fiscal balance may not fully reflect the change in fiscal stance (see footnote 8 and ¶13).

<sup>4</sup> The Nauru-Australia Treaty, signed on December 9, 2024, aim to deepen the bilateral relationship and enhance Nauru's economic resilience and fiscal stability. The treaty ensures access to essential banking services by facilitating the entry of Commonwealth Bank of Australia. Additionally, Australia commits to providing AU\$100 million in budget support over five years, facilitating Nauru's long-term development, and another AU\$40 million for policing and security, including through support for recruitment, training, and infrastructure.

<sup>5</sup> Fiscal responsibility ratios were introduced in 2017 to strengthen fiscal discipline. The three ratios are: (1) the fiscal balance must be non-negative; (2) personnel costs must be less than 30 percent of current expenditure; and (3) the fiscal cash buffer must be equal to at least two months of non-RPC expenditure.

to formal financial services. Structural reforms are underway, with legislation passed to support small businesses and reduce restrictions for foreign investment, initiatives to enhance governance and public financial management, and strengthen climate resilience through donor-supported projects such as the climate-resilient port and solar farms.

### Box 2. Intergenerational Trust Fund<sup>1</sup>

The Nauru Intergenerational Trust Fund (NTF) was established in 2015 to safeguard the long-term sustainability of Nauru's public finances. The NTF revenues are expected to provide a stable source of income to finance education, health, environment, and infrastructure needs after 2033, while the fund can also serve to a stabilization purpose against future cyclical shocks. The government has set a target to accumulate AU\$400 million (in 2015 real terms or a nominal AU\$700 million) by 2033, which remains the primary fiscal anchor (IMF Country Report No. 20/31). As of May 2025, the NTF had asset holdings of AU\$412 million (on track to reach the 2033 target), reflecting an average asset return of 8.7 percent per annum since inception and exceeding the performance target of 7.7 percent per annum.<sup>2</sup>

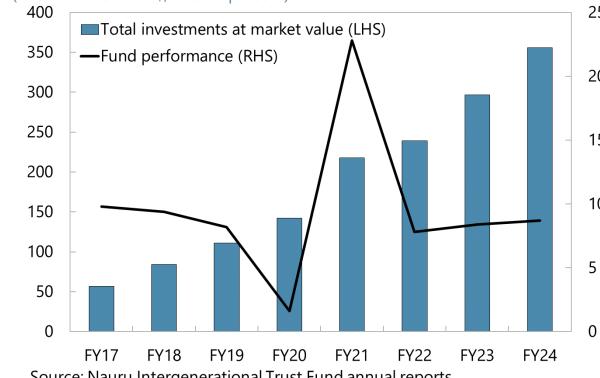
The NTF continues to grow through investment earnings and contributions from the government of Nauru and its development partners. As the largest contributor, Nauru committed to contribute 10 to 12 percent of domestic revenue annually, provided the domestic revenues exceed AU\$100 million. As of end-FY2024, the government of Nauru has contributed a total of AU\$213.3 million. The Asian Development Bank played a pivotal role in the NTF, providing advice on administration and making initial contributions. Other donors include Australia, New Zealand, and Taiwan Province of China. Following the cut in ties, Taiwan Province of China informed the NTF of its intent to withdraw its contributions (present value of about AU\$40 million). A subcommittee was tasked to ensure a smooth exit and minimize the impact on the NTF.

The NTF has well-established governance and disclosure procedures. The NTF has a long-term investment horizon and broad asset allocations that aim to achieve strong risk-adjusted returns. Maintaining sound governance is critical in light of heightened market volatility. Proactive risk management can mitigate the adverse impact of shocks and reinforce public trust.

1/ Prepared by Krishal Prasad.

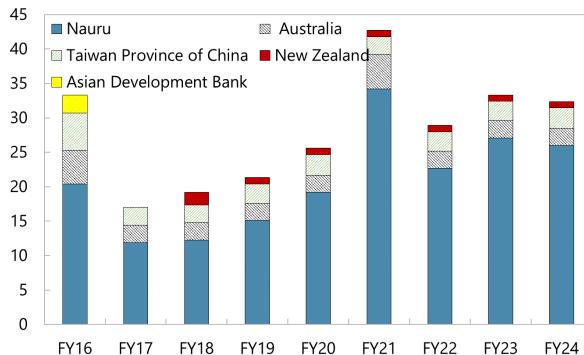
2/ The NTF revenues could potentially reach about AU\$20-25 million per year by 2033, assuming a real return on assets of 3.0-3.5 percent and a trust fund balance of AU\$700 million in 2033, and without drawing down the real value of the trust fund.

**Total Investment and Performance of NTF**  
(LHS: Millions of AU\$; RHS: In percent)



Source: Nauru Intergenerational Trust Fund annual reports.

**NTF Contributions by Development Partners**  
(In millions of AU\$)



Source: Nauru Intergenerational Trust Fund annual reports.

## OUTLOOK AND RISKS: MODERATE GROWTH AMID A BUMPY EXTERNAL ENVIRONMENT

**9. Growth and inflation are expected to moderate in the near term.** The economy is projected to grow by 1.9 percent in FY2026, supported by the continuation of RPC operations and the strengthening of the fiscal outlook from sustained budget and development support through the medium-term. Meanwhile, inflation is expected to moderate to 4.5 percent in FY2026, dropping below 3 percent by FY2029. The pace of moderation is largely driven by external developments due to Nauru's reliance on imports of essential products and the external monetary anchor based on the use of the Australian dollar as legal tender.

**10. Risks to the growth outlook are tilted to the downside, while inflation is subject to upside risks** (Annex III):

- **External risks:** Near-term external risks to growth stem from a global slowdown and reduced foreign grants driven by growing policy uncertainty and weakened international cooperation. Inflation could be higher than expected due to volatile commodity prices and a resurgence in food price inflation from delayed shipments and escalatory trade tensions in the global economy. Nauru is also susceptible to natural disaster risks and rising sea levels, which may threaten key infrastructure and fishery income (¶32).
- **Domestic risks:** Unexpected disruptions in banking services from the transition to the new bank may delay payments and dampen economic activity. Additionally, further wage increases in the public sector could keep inflation more protracted. Over the medium-term, uncertainties surrounding the RPC activity pose risks to growth and employment, as the RPC-related inflows constitute a major source of revenues and job opportunities. The economic impact of Nauru's sponsorship on deep-sea mining is uncertain, as the initiative is still in its early stages (Annex VIII). Domestic upside risks to growth include early completion of construction projects related to the port upgrade and the Micronesia Games.

**11. In an adverse scenario, economic growth and fiscal positions could deteriorate further.** While direct trade exposures with the US are limited, indirect spillovers from persistent trade policy uncertainty globally will reduce fiscal revenues because of global slowdown and possible reduction or delays in donor support. Financial market volatility could also reduce asset returns in the intergenerational trust fund. Under an illustrative scenario (calibrated based on Box 1.1 of April 2025 World Economic Outlook), Nauru's growth is projected to decline for FY2026 and FY2027 (by 0.5 percentage points cumulatively) relative to the baseline. Under the scenario, current account is expected to weaken, while a decline in global commodity prices lowers inflation.<sup>6</sup>

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<sup>6</sup> The trade policy shock is assumed to have an asymmetric impact on the current account, lowering exports disproportionately more than imports volume, despite a decline in global commodity prices. While RPC-related inflows are assumed to remain stable, the primary income account balance deteriorates due to lower receipts from

(continued)

## Authorities' Views

**12. The authorities broadly agreed with the staff's assessment of the economic outlook and risks.** They recognized that the current economic momentum has been supported by the revival in RPC operations and steady donor support; however, the country's small size and population impose significant structural and institutional factors which constrain the spectrum of choice regarding economic policies. They stressed that inflation spikes are more influenced by shipping delays rather than domestic spending and noted that the impact of government's ex-gratia wage payments on inflation is short-lived. The authorities also highlighted that key nonstructural risks to the economy are external, expressing concerns about the potential reduction in donor assistance owing to the anticipated OECD graduation in official development assistance (ODA) to high income status. They emphasized that a vulnerability-based classification, such as the UN Multidimensional Vulnerability Index, reflects more accurately the unique challenges faced by Nauru and similar micro-scale island nations than indicators such as GNI per capita, given their limited economic diversification and reliance on development partnerships for revenues.

## POLICIES TO REBUILD BUFFERS, AND ENHANCE ECONOMIC RESILIENCE

*Policies should be geared towards mitigating inflation risks and building fiscal buffers, while ensuring economic stability and sustainable growth. Fiscal policy should pivot toward restraint, avoiding procyclical measures, to bolster resilience. Accumulating savings in the trust fund to reach target levels by 2033 remains a key long-term fiscal anchor. Moreover, financial sector policies need to ensure uninterrupted banking services and improve financial literacy. Structural policies should aim to lift potential growth and diversify growth drivers, while managing associated risks from new initiatives. Investing in human capital and building resilience against natural disasters are imperative for sustainable growth.*

### A. Fiscal Policies—Pivot Toward Fiscal Restraint to Build Buffers

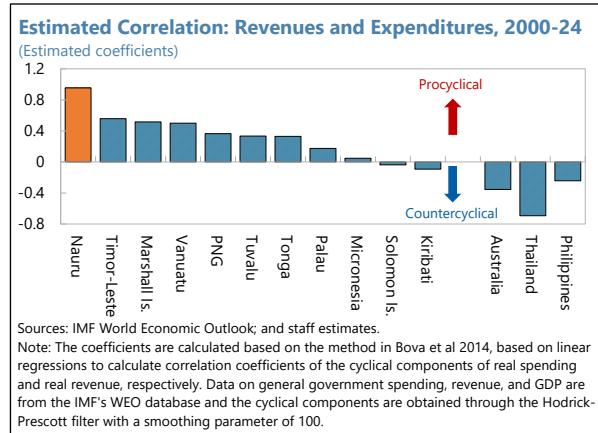
**13. Uncertainty around the regional growth outlook and protracted domestic inflation warrant a pivot toward fiscal restraint to build buffers and bolster resilience.** Following fiscal expansion in FY2025, staff recommends a tightening of the fiscal stance—measured by the slower growth in primary expenditures and higher fiscal balance—in FY2026, as the budget is currently being prepared.<sup>7</sup> Tightening expenditure growth would help comply comfortably with all three fiscal

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fishing license fees, and the secondary income account deteriorates somewhat due to lower donor grants owing to heightened uncertainty and bottlenecks in supply chains.

<sup>7</sup> Data limitation implies that the cyclically adjusted primary balance, a common measure of fiscal stance, is not available. Given limited automatic stabilizers on expenditure side and most revenues are from external grants and RPC operations that are exogenous, the stance is measured by the growth rate in primary expenditure relative to potential growth.

responsibility ratios (text table) and meet annual contributions to the trust fund. Fiscal policy should be carefully calibrated to contain inflationary pressures and avoid procyclical spending, which is estimated to be among the highest in Pacific Island countries (text chart). Exercising fiscal restraint would facilitate the moderation of inflation and create policy buffers to respond to adverse shocks, particularly in light of growing policy uncertainty globally. Should downside risks materialize, resulting in a severe growth slowdown, targeted and temporary support to protect vulnerable households could be deployed if warranted.



#### 14. Over the medium term, fiscal policy should foster economic stability and promote sustainable growth.

Formal agreements with Australia for multi-year budget support and the scaling up of RPC operations are expected to bring steady inflows of revenues in the coming years, thereby strengthening public

finances. While the current fiscal plan is on track to reach the trust fund target by 2033, greater fiscal prudence is warranted given Nauru's vulnerabilities. Over the medium term, a larger cumulative adjustment of 3 percentage points of GDP (about AU\$10 million by FY2030) relative to the authorities' plan would balance the need to build buffers against

adverse shocks and meeting spending needs (text table). This would further improve liquidity buffers to historical average levels. As debt level is low, the pace and size of adjustment should primarily aim to ensure sufficient reserves to meet government's spending obligations, while frontloading adjustments have merits of mitigating inflationary pressures. A comprehensive approach involving a blend of expenditure and revenue measures can help achieve these objectives.

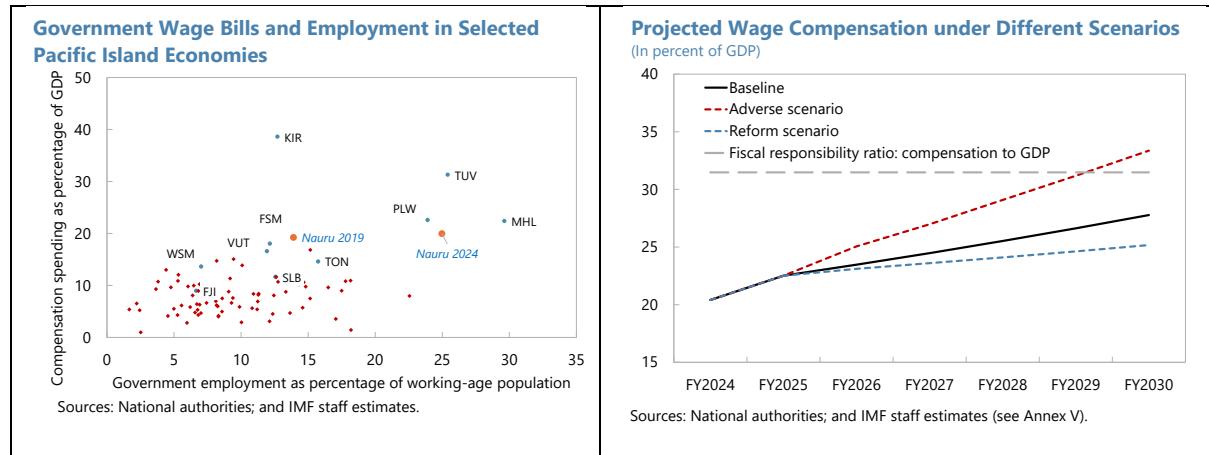
- *Containing the rise in wage bills.* High wage bills (one-fifth of current expenditures in FY2025) were driven by the rapid expansion of government workforce as well as nominal salary rise to compensate for higher cost of living. Wage bills are projected to rise further and could surpass the fiscal responsibility ratio in an adverse scenario (text chart). Containing wage pressures as a share of output is imperative to mitigate inflationary pressures in the near term. This will involve (i) limiting new hires for positions no longer deemed essential, (ii) aligning compensation within the overall budget envelope and medium-term fiscal strategy, and (iii) better linking the salary structure to individual performance to encourage attendance and productivity (Annex V).

**Text Table 1. Nauru: Fiscal Responsibility Ratios**

	Target ratios	FY2022	FY2023	FY2024	FY2025 (Prelim.)
1. Fiscal balance (in percent of GDP)	≥0	24.3	19.4	29.8	3.6
2. Compensation to government employees (in percent of current expenditure)	<30	19.5	22.4	19.9	19.9
3. Liquidity and cash buffer (in months of non-RPC expenditure)	>2	5.9	6.5	8.1	5.8
<i>Memorandum items:</i>					
Compensation to government employees in percent of total expenditures		15.6	19.5	16.7	16.2
in percent of total revenues		13.2	16.7	13.4	16.7

Sources: Government of Nauru budget documents and IMF staff estimates.

Note: FY2025 is based on preliminary release by the government.



- *Strengthening social safety nets* is essential as the government builds fiscal buffers to respond to adverse shocks. The government has relied on imperfect means—such as government employment, housing allowances, and local donations—to provide income support, which are often not well targeted. With the support of Asian Development Bank, the government can build on the National Social Protection Strategy (2022–32) to strengthen social safety net, with priority to support households in hardship.

Text table 2. Nauru: Baseline and Proposed Fiscal Adjustments			
(percent of GDP)	FY2030		
	Baseline	Staff recommendations	Cumulative difference
<b>Expenditure</b>			
Current expenditures	101.7	98.9	-2.8
Wage bills	27.8	25.0	-2.8
Social spending	9.5	10.7	1.2
Other current expenditures	64.3	63.1	-1.2
Capital expenditures	21.7	23.5	1.8
<b>Revenue</b>			
Tax revenues	19.3	21.3	2.0
Nontax revenues	89.3	89.3	0.0
<b>Overall balance</b>	15.3	18.3	3.0

Source: IMF staff estimates.

- *Rationalize expenditure and further improve public financial management.* Subsidies and donations comprise 17 percent of the total expenditure in FY2025, highlighting the need for rationalization. This can be achieved by replacing blanket subsidies with more targeted ones. Household grants should be narrowed to the most vulnerable segments of the population. Such measures will also allow the authorities to prioritize public investment and sustainable development goals such as education and health. Improving public investment management, including addressing gaps on project planning, costing, and monitoring, can mitigate delays. In

addition, the government has reached a long-term agreement with a private provider to improve the quality of health services, including by bringing in doctors and medical equipment to Nauru and improving facilities and staff capacity. The outsourcing of public health services to a private provider might have significant implications for workers, patients, and existing donors (such as potential reorganization of workforce, pricing for health services, and a shift of donor support).<sup>8</sup> The broad healthcare reforms should thus ensure cost effectiveness for quality services, preserve donor landscape, and safeguard long-term fiscal sustainability.

- *Mobilize revenues by tapping tax potential.* Taxes have gradually declined from 27 percent of total revenues in FY2021 to 12 percent in FY2025, reflecting a persistently narrow tax base and tax exemptions to businesses. To reduce the reliance on donor support, the government should mobilize domestic revenues over the medium term. Untapped tax potential—about 2 percentage points of GDP, within the range of 1.4 to 3.0 percent among Pacific Island countries (Sy et al. 2022)—could be unlocked by modernizing revenue administrations, removing tax exemptions, and broadening the tax base. Ongoing pilot efforts to strengthen audits of business profit tax for compliance could be extended to raise tax revenues (Annex IV).

**15. Fiscal adjustments must be framed under a sound medium-term fiscal framework.**

This entails a continued commitment to the well-observed fiscal responsibility ratios in a multi-year fiscal plan and vigilant monitoring of within-year developments, particularly through inter-agency collaboration for timely data sharing. Maintaining fiscal discipline would require prudent revenue projections, including for taxes and citizenship program, and exerting stricter expenditure control to limit inefficient spending. Strengthening treasury cash management practices will bolster liquidity management and fiscal discipline.

**16. Monitoring state-owned enterprises (SOEs) is integral to managing fiscal risks.** The Public Enterprise Monitoring Unit (PEMU)—established in 2020 for overseeing SOEs' health—has made progress in managing fiscal risks but it should be empowered to enforce the 2019 Public Enterprises Act. This will facilitate a risk-based monitoring of SOEs, particularly those with weak financial positions and obligations to service debt (e.g., Air Nauru and Republic of Nauru Phosphate Corporation (RONPHOS)). Going forward, support to SOEs (in the forms of grants, subsidies, and community services obligations, amounting to AU\$56 million or 20 percent of GDP in FY2025) should be accompanied by efforts to achieve tangible gains and timely disclosure of financial statements. Ensuring that PEMU is entrusted with authority and adequately staffed is critical in this regard.

**17. Robust fiscal governance and transparency is critical for ensuring the efficiency of public spending amid the plans for an infrastructure push.** While accelerating infrastructure projects is essential, it is equally important to strengthen fiscal governance and enhance transparency. The government has made progress in publishing regular budget documents and

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<sup>8</sup> A UAE-based company has been engaged to deliver public health services in Nauru. While details are not fully formulated, government departments are currently working on establishing terms of reference and coordinating the transition process.

reports on development funds. Open and transparent procurement processes will improve accountability, mitigating corruption opportunities. Priorities are to build capacity for systemic audits of investment projects and monitor fiscal risks, which will bolster confidence in the governance (¶31).

**18. Nauru's debt is assessed to be sustainable** (Annex II). Public debt is estimated at 15 percent of GDP as of end-June 2025, with moderate risk of debt distress. Public debt is relatively low, owing to donor support and the resolution of external debt in 2021, which reduced debt by about 40 percentage points (IMF Country Report No. 22/28). Nonetheless, debt service burden has risen following the expiry of donor support in existing debt repayment, which would expose Nauru to moderate interest rate and exchange rate risks. The realization of contingent liabilities—arising from SOE losses—could adversely impact the debt outlook. Moreover, a decline in donor support, one of key domestic risks to growth, could lead to an abrupt cut in primary spending and possibly lead to a buildup of government arrears. Strengthening the debt management framework with PFTAC support and modernizing Public Debt Law would help monitor debt risks and clarify the borrowing authority within the government.

### **Authorities' Views**

**19. The authorities reaffirmed their commitment to fiscal prudence.** They agreed with staff's recommended fiscal adjustment, underscoring the need to avoid overly procyclical spending and safeguard the progress achieved through prudent budgeting. However, they acknowledged significant spending pressures to address continued development needs, reminiscent of other small island states. They expressed confidence that sustained wage increases can be managed, as spending is inherently constrained by revenues collected; however, public employment plays an important social role, making it difficult to constrain the entire wage bill in the context of limited private sector opportunities. Additionally, the authorities acknowledged that PEMU is making steady progress in improving the governance of public enterprises and in monitoring fiscal risks through regular meetings and consistent pressure, but recognized that timely financial disclosures are difficult to enforce. They also stressed the continued need for supporting public enterprises because they are often the sole provider of essential services. The authorities anticipate that outsourcing health services to a private provider will lead to enhancement in the quality and cost-effectiveness of healthcare spending and are making strong efforts to ensure the success of this initiative.

**20. The authorities highlighted the challenges of fiscal reforms given the small scale of the economy.** They noted that medium-term fiscal planning was challenging due to capacity constraints and uncertain donor flows. Broadening the tax base for personal income tax is likely to create unnecessary social tensions. Nonetheless, they highlighted new initiatives to improve compliance with business profit tax, including pilot audits, which could enhance revenue collection over the medium term. Although current debt levels are low, the authorities anticipate potential future increases to support necessary replacement of depreciated capital stock, noting that Nauru's capacity to service debt is limited given structural constraints on economic growth.

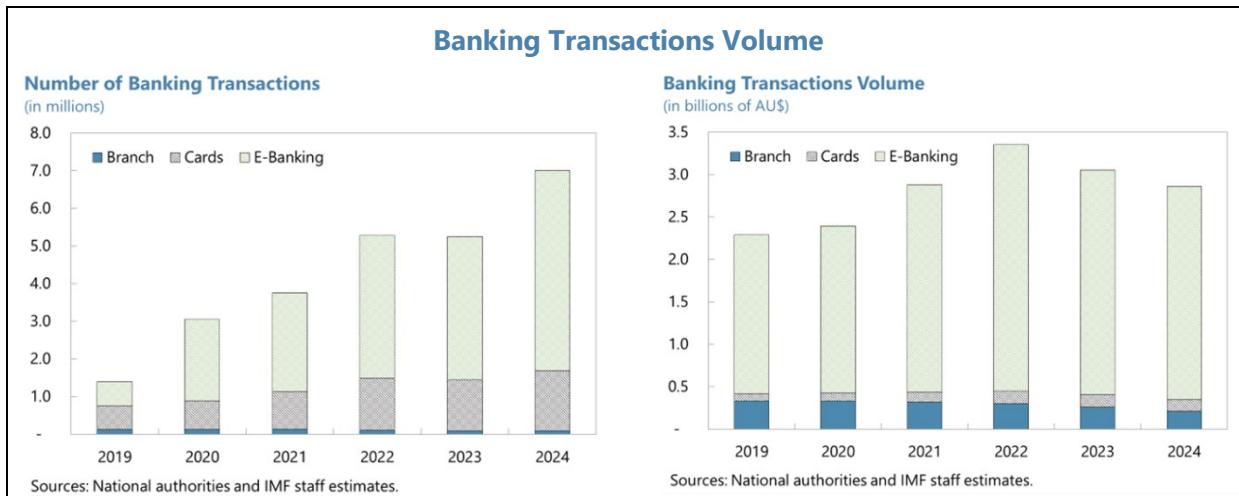
## B. Financial Sector Policies—Foster a Stable and Inclusive Financial System

**21. Nauru’s financial system is in a nascent stage and remains generally stable, though it faces vulnerabilities.** Only a single bank operates in Nauru (¶7 and ¶22) and provides essential financial services without extending credits. Over the years, there has been a steady and gradual rise of bank transaction volume. Bank deposits as of May 2025 total AU\$257.1 million, distributed across current accounts (58 percent of total deposits), savings accounts (11 percent), and fixed deposit accounts (30 percent). The presence of only one bank means that the financial sector is highly concentrated, which poses potential systemic risks. Any operational or financial instability within the bank could have significant repercussions for Nauru’s financial sector. Additionally, the lack of competition—due to Nauru’s small size—limits innovation in financial products.

**22. An orderly transition from Bendigo Bank to the CBA is necessary to ensure uninterrupted banking services and maintain financial stability.** To facilitate seamless transition to the new bank, frontloaded efforts—such as public outreach encouraging depositors to set up new bank accounts—is welcome. Parallel efforts to train personnel and greater coordination between government agencies and the two banks will swiftly address emerging bottlenecks, reducing the risk of disruptions in banking services, particularly for nonindividual accounts. Establishing robust contingency plans will further mitigate risks associated with disruptions of services. Managing transition-related risks will facilitate financial stability.

**23. Beyond the immediate transition, strengthening oversight will ensure the new bank adheres to financial regulations and consumer protection standards.** As Nauru’s connectivity to the global payment system remains fragile, sustaining correspondent banking relationships (CBRs) is essential. The CBA will provide access to CBRs for FX transactions in major currencies previously not available, including the U.S. dollar. Such access to a wider foreign exchange will reduce transaction costs associated with imports of goods and receipts of fishing revenues. Further efforts to address CBR pressures should consider the low ML/TF risk environment and focus on the outreach to key foreign regulatory authorities, including a corridor risk assessment.

**24. Stability in the banking sector could offer a pathway to improved access to credit, but fostering financial literacy is a prerequisite.** Due to lack of comprehensive credit profiles for bank customers, households and firms do not have access to bank credit. With an increasing e-banking transaction volume (text chart), Nauru can leverage the upgraded internet connectivity to expand financial services, and subsequently introduce credit services. In parallel, enhancing financial literacy would help individuals and businesses prudently manage and utilize financial resources. Such a phased approach can facilitate responsible borrowing, eventually paving a way for a sustainable credit ecosystem.

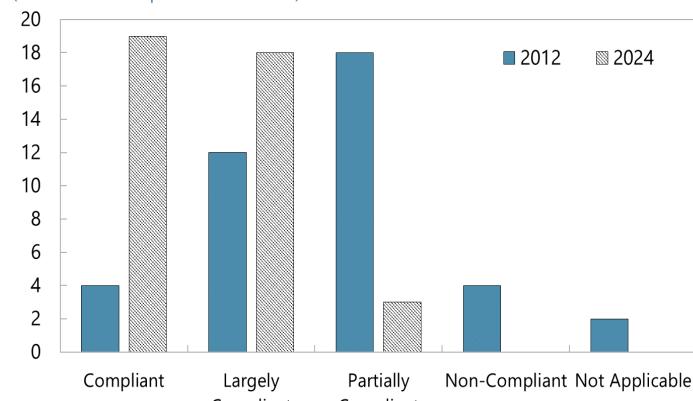


## 25. Building on steady progress in recent years, Nauru should continue to improve its AML/CFT framework.

Nauru has made notable progress in enhancing its AML/CFT regulatory framework. The 2023 Anti-Money Laundering and Targeted Financial Sanctions Act has addressed shortcomings in the AML/CFT framework and strengthened the independence of the Nauru Financial Intelligence Unit (NFIU).<sup>9</sup> The Asia-Pacific Group on Money Laundering (APG) 2024 Mutual Evaluation Report on Nauru recognizes improvements in technical compliance with the recommendations by Financial Action Task Force (FATF) (text chart).

Nonetheless, the overall effectiveness of Nauru's AML/CFT system is assessed as moderate to low. The NFIU should scale up efforts (as highlighted in the 2023 National Risk Assessment) to monitor vulnerabilities facing Nauru, including emerging risks to the AML/CFT framework related to digital assets and the Economic and Climate Resilience Citizenship Program (Annex VI). As activity in digital assets have broader implications for the economy and capital flows, the government should adhere to robust licensing mechanism and regulatory oversight.

**Technical Compliance with FATF Recommendations**  
(Number of compliance indicators)



Source: Asia-Pacific Group on Money Laundering (APG)

Note: The scoring is based on APG's evaluation of Nauru's compliance with FATF's 40 recommendations on AML/CFT.

<sup>9</sup> The Act includes provisions for simplified and enhanced due diligence that would support proportionate risk-based compliance. It also enables foreign financial institutions to provide Nauruans access to financial services, without the additional burden of AML/CFT supervision and oversight in Nauru, if this is conducted by the home country of financial institutions.

## **Authorities' Views**

**26. The authorities noted that the financial sector is relatively stable, and the risk of de-banking has been contained.** They are confident that the ongoing bank transition is on track, asserting that current bottlenecks are being effectively resolved with intensified outreach efforts over the coming months. They emphasized the critical role of financial literacy in promoting savings and private business development, and the expectation that the new banking services provider will expand access to credit leading to private sector growth. The authorities are committed to strengthening the regulatory framework for a safe payment corridor, potentially with the Fund's technical assistance. They highlighted the APG's recognition of their AML/CFT framework and considered that the overall low risk rating stems from an effective regulatory regime with very few actual cases. The authorities argued that their commitment to rigorous standards in the citizenship program would contain AML/CFT risks, with the low take-up of the program reflecting its stringent criteria. The establishment of the digital asset regulatory authority aims to comply with FATF recommendation on regulating virtual assets and virtual asset service providers (VASPs). The authorities noted that initially they plan to license only those VASPs that are already licensed in other well-regulated and supervised jurisdictions, with no plans to adopt digital currency as a legal tender. The authorities expressed a desire to seek support and advice of Fund experts to ensure that regulations and practice remain carefully managed to minimize risk and optimize revenue opportunities.

## **C. Structural Reforms—Lift Potential Growth, Broaden Growth Drivers and Build Resilience**

**27. Policies should be geared towards lifting potential growth and broadening Nauru's growth drivers, while weighing associated risk factors.** As Nauru faces significant structural and capacity constraints, raising potential growth and diversifying to new sources of growth will require concerted policies to invest in human capital and infrastructure, while improving the business environment to foster a more vibrant private sector. In this regard, Nauru is taking several initiatives, including (i) upgrading a climate-resilient port; (ii) enhancing infrastructure related to upcoming 2028 Micronesia Games; (iii) enacting legislation to support small business growth and attract foreign direct investment; (iv) launching an economic citizenship program (Annex VI); and (v) pursuing joint ventures to explore deep-sea mining (Annex VIII). While several initiatives to bolster the private sector and improve infrastructure are expected to yield broad economic gains, it is imperative that risks associated with less-pursued initiatives, such as the economic citizenship program and deep-sea mining, are comprehensively evaluated.

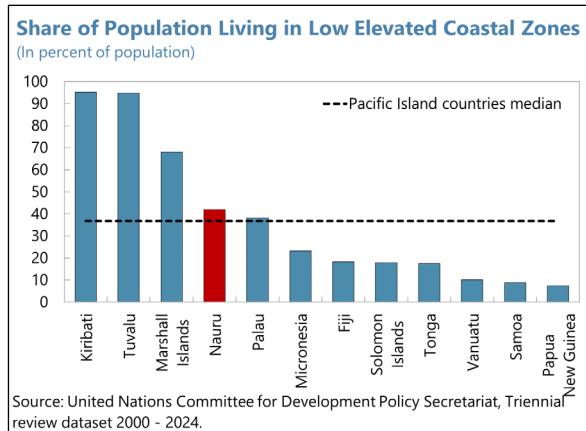
**28. Strengthening human capital to take advantage of its demographic dividend is vital for advancing Nauru's development and bolstering the resilience of its economy.** Nauru has a predominantly young population, with about 10 percent of the total population expected to enter the labor force in the next five years. While this influx poses challenges for gainful employment, it also presents opportunities. To capitalize on the demographic dividend, Nauru must address low school enrollment and teacher shortages. School attendance rates, particularly at the secondary

level, stand only at 61 percent and only 40 percent of students completed upper secondary schools.<sup>10</sup> Strong enforcement, on top of the existing conditional incentives for re-enrollment and attendance, can be instrumental. Building on the partnership with Australia<sup>11</sup>, vocational training aligned with private sector needs will help address skills mismatch. Collaborations with local businesses for vocational training can further align education with labor market needs, which will require close coordination and information sharing among government agencies.

**29. Enhanced digital infrastructure can improve public service delivery and act as a catalyst for growth.** Improved connectivity can enable the government to deliver quality services more efficiently.<sup>12</sup> High mobile phone coverage and well-developed e-banking services can serve as digital platforms to strengthen social safety nets by facilitating targeted direct transfers to eligible vulnerable households. With the arrival of a new telecom company and soon complete undersea cable by 2025, Nauru is poised to benefit from improved connectivity to the global economy.

**30. Improvements in infrastructure should be leveraged to promote trade and attract foreign investment.** The climate-resilient port, fully operational now and near completion to accommodate more and larger ships, presents new avenues for trade, businesses, and employment. Ongoing construction activity for the 2028 Micronesia Games could help upgrade infrastructure.

**31. Strengthening the governance framework, supported by the authorities recently unveiled anti-corruption strategies, will cultivate a more favorable business environment and improve private sector development, thereby help boost growth.** The government has recently passed a small business enterprises bill and a foreign investment bill, which aim to support small businesses and their financial independence, as well as remove entry barriers to attract foreign investments. Recent improvements in public financial management include a dedicated unit to monitor public enterprises, improved timeliness of in-year budget reports, and stronger internal controls for expenditures. Building on these developments, the authorities should continue to reinforce fiscal governance and the rule of law. As observed in other countries, corruption can be a hindrance to quality private sector development. In that regard, the government could consider strengthening independent mechanisms to combat corruption when developing its National Anti-Corruption Strategy.



<sup>10</sup> The numbers are based on the UN Multiple Indicator Cluster Survey (MICS) in 2023.

<sup>11</sup> Nauru has partnered with Australia on education support through the Nauru Improved Education Initiative, the Health Support Program, and the Alternative Pathways Program.

<sup>12</sup> Some examples include implementing an e-government portal for accessing various public services, digital education platforms to expand learning opportunities, and digital land and property registries to streamline property documentation ("Transforming Public Finance Through GovTech", IMF 2023).

**32. Accelerating climate adaptation efforts can strengthen Nauru's resilience to natural disasters.** Nauru is highly vulnerable to volatile weather patterns and climate change, including rising sea levels. Droughts remain a significant concern, affecting water supply and sanitation. The government's *Higher Ground Initiative*, which involves relocating infrastructure at risk from coastal erosion and rehabilitating households to higher grounds, is a cost-effective adaptation measure (Annex VII). The new solar farm could reduce reliance on fossil fuels. Efficient fisheries management accounting for climate change is also vital for economic stability. As Nauru implements its national adaptation plan (RonAdapt), costing of priority projects should be integrated to medium-term fiscal plans.

### Authorities' Views

**33. The authorities highlighted several structural challenges that remain entrenched.** They acknowledged that providing gainful employment for young adults is challenging due to limited job opportunities and declining educational attainment standards in the aftermath of the pandemic. The public sector has an implicit obligation to try and recruit school leavers, where possible. This helps to maintain social cohesion but also provides youth with essential work-related experience. Various initiatives to enhance school attendance and skill development have had limited impact to date. Continued donor support, especially from the Australia-financed education programme, will remain important. They also emphasized steps being taken to facilitate entrepreneurship and strengthen the private sector. Resolving the correspondent bank issue, improved internet access with the undersea cable, and new legislation such as the small business and foreign investment bills, alongside the preparation of a National Anti-Corruption Strategy, should create a more enabling environment. The authorities foresee some, but modest, direct jobs and business opportunities from the new port and digital infrastructure, however, the secondary effects could be significant. Meanwhile, the completion of the solar farm is a step toward climate resilience and reduced reliance on imported fuel. Given Nauru's uniquely small geographic and population size, and remote location, traditional opportunities for growth and revenues are extremely limited, prompting exploration of new and potentially riskier avenues for revenue generation. They plan to continue their pursuit of various strategies for deep-sea mining in parallel, weighing feasibility and cost, with proceeds directed to the Intergenerational Trust Fund to benefit Nauruan communities of the future.

## D. Data and Capacity Development

**34. Accelerated efforts to enhance data quality are warranted.** Data provided to the Fund has shortcomings that pose some difficulties for surveillance (Annex X). While the authorities have made progress, capacity is a constraint for data timeliness and frequency. Addressing these gaps will help policymakers calibrate policies based on economic developments. It requires both national efforts as well as capacity development from partners. Institutional constraints at the National Bureau of Statistics should be addressed to transition toward a self-sustained program for the compilation of macroeconomic statistics.

**35. As an important element of Fund engagement, ongoing Fund capacity development (CD) supplements the government's efforts to improve data quality and availability.**

Compilation of real sector and external sector statistics has required capacity supplementation from PFTAC and Capacity Development Office in Thailand (CDOT) (Annex X). PFTAC also supports fiscal forecasting, debt management, revenue administration to align with the Digitalization Roadmap and strengthen tax compliance, and digital transformation initiatives. These efforts contribute to more effective economic management, for example, in reviewing government compensation and employment amidst inflationary pressures.

## STAFF APPRAISAL

**36. Nauru has made significant strides in restoring economic stability.** In recent years, the government has worked closely with development partners to improve infrastructure, ensure access to banking services, and secure multi-year donor support. But enduring structural challenges from remote location, small landmass, and limited capacity have constrained the economy and hinder the ability to diversify growth. Nauru remains vulnerable to external shocks, particularly in a global environment with growing policy uncertainty globally and potential cuts in development aid.

**37. The growth outlook has improved, supported by a resumption in RPC activities and sustained donor support.** After picking up to 2.1 percent in FY2025, growth is expected to moderate to 1.9 percent this year. Meanwhile, inflation—primarily driven by supply-side factors—is expected to moderate to 4.5 percent in FY2026. The external position in FY2024 is assessed to be broadly in line with the level implied by fundamentals and desirable policies.

**38. Risks to growth are tilted to the downside, while inflation is subject to upside risks.**

Downside risks to the growth outlook stem from a global slowdown and reduced foreign grants driven by growing policy uncertainty and weakened international cooperation. Unexpected disruptions in banking services from the transition may also dampen economic activity if payments are delayed. High inflation could be protracted, stemming from volatility in commodity and food prices, and further increases in government wage.

**39. Fiscal policy should pivot towards fiscal restraint to build buffers amid elevated uncertainty around regional growth outlook.** Staff recommend avoiding procyclicality in spending and tightening of the fiscal stance in the near term. Expenditure measures to achieve this could include containing wage bills, strengthening social safety nets with the support of development partners, and expenditure rationalization, while revenue measures could include steps to broaden the tax base and improve compliance with business profit tax. The government should continue to adhere to the fiscal responsibility ratios and vigilantly monitor within-year developments and the financial health of public enterprises, including by improving the timeliness of their financial statements' disclosures.

**40. An orderly bank transition is essential for financial stability.** Proactive public outreach encouraging depositors to open bank accounts with the new bank, as well as greater coordination

between government agencies and the banks can resolve bottlenecks and limit disruption in banking services. A phased approach, predicated on fostering financial literacy, should be taken to introducing credit. Further efforts to address CBR pressures should consider the low-risk environment of ML/TF in Nauru and focus on the outreach to key foreign regulatory authorities, including a corridor risk assessment. In regulating digital asset activity, the government should adhere to robust licensing mechanisms and regulatory oversight, including consumer protection, with technical support from established international financial institutions.

**41. Structural policies should be geared towards lifting potential growth and broadening Nauru's growth drivers, while weighing associated risk factors.** To boost growth, policies must focus on human capital, infrastructure, and a better business environment. The authorities must address school enrollment issues and teacher shortages. Collaborations with local businesses for vocational training will further align education with labor demands. Improvements in infrastructure should be leveraged to promote trade and attract investment. As the government pursues policies to develop the private sector, it could also consider strengthening independent mechanisms to improve governance. Ongoing efforts to nurture the National Anti-Corruption Strategy are welcome, which help create an enabling environment for private sector development. Additionally, strengthening both the timeliness and quality of macroeconomic data remain priorities.

**42. It is recommended that the Article IV Consultation continue to take place on the 24-month cycle.**







**Table 1. Nauru: Selected Economic Indicators, FY2023–27 1/**

Nominal GDP (AU\$ million, FY2024)	247.6	Human capital index (scale 0-1,2020)		0.51	
Per capita GDP (US\$, FY2024)	13,592	Infant mortality rate (per 1000 live, 2023) 2/		25	
Population (FY2024)	11,947				
		FY2023	FY2024	FY2025	
				Prelim.	
				FY2026	
				Proj	
Real sector					
Real GDP growth (percent change)	0.6	1.6	2.1	1.9	1.9
Consumer price index (period average, percent change)	4.8	9.3	6.1	4.5	3.4
Population (thousand)	11.9	11.9	12.1	12.2	12.3
		(In percent)			
Structure of the economy					
Agriculture	3.2	3.3	3.4	3.5	3.5
Manufacturing	15.6	14.1	13.4	13.1	12.9
Services	72.9	74.9	75.7	76.2	76.6
		(In percent of GDP)			
Government finance					
Total revenue and grants	137.4	151.9	135.2	141.1	140.0
Revenue	121.2	118.9	109.6	109.9	109.1
Grants	16.2	33.0	25.6	31.2	30.9
Total expenditure	118.1	122.1	131.6	131.6	129.8
Net lending (+) / borrowing (-)	19.4	29.8	3.6	9.5	10.3
After Trust Fund contribution	8.4	21.0	-4.9	1.0	1.8
Stock of government deposits	48.9	62.3	50.1	45.8	43.2
Stock of Trust Fund 3/	131.6	143.8	154.8	149.4	159.8
		(In millions of Australian dollars, unless otherwise indicated)			
Balance of payments					
Current account balance	2.8	15.4	7.2	6.8	6.6
(In percent of GDP)	1.3	6.2	2.7	2.4	2.2
Capital account balance	27.2	54.0	41.3	35.3	35.8
Financial accounts balance and other flows	33.9	71.9	44.6	42.1	42.4
Reserves	78.2	114.4	76.9	85.1	85.3
(In months of imports)	4.1	5.0	3.3	3.5	3.3
Government debt indicators					
Total government debt	46.1	43.1	39.8	36.6	32.0
(In percent of GDP)	20.5	17.4	15.0	13.0	10.8
External debt	26.2	23.9	21.6	19.3	15.6
(In percent of GDP)	11.6	9.7	8.1	6.8	5.2
Domestic debt 4/	19.9	19.2	18.2	17.3	16.4
(In percent of GDP)	8.8	7.7	6.8	6.1	5.5
External debt service 5/	5.7	5.1	5.0	4.9	4.7
(In percent of exports of goods and services)	5.8	3.7	3.0	2.8	2.6
Exchange rates					
Australian dollar per U.S. dollar (period average)	1.48	1.52	1.54	...	...
Nominal GDP (in millions of Australian dollars)	225.3	247.6	266.1	282.5	296.9

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/ Infant mortality rate before 5 years old is 25, while the neonatal mortality rate is 15 per 1000 population (UN Multiple Indicator Cluster Survey 2023).

3/ Taiwan Province of China is due to exit the Trust Fund. The stock of Trust Fund excludes the value of their contributions (AU\$40 million) from FY2026 to reflect this.

4/ Including the estimated government liability related to Bank of Nauru's liquidation.

5/ External debt service is through bilateral grants before FY2025.









## Annex I. External Sector Assessment<sup>1</sup>

**Overall Assessment:** The external position of Nauru in FY2024 is assessed to be broadly in line with the level implied by fundamentals and desirable policies. Reserves remain adequate, and their coverage is expected to be stable over the medium term. This assessment, however, is highly uncertain owing to significant data gaps and the high dependence of the current account (CA) on exogenous and volatile factors.

**Potential Policy Responses:** Adhering to fiscal discipline and building FX reserve buffers will help support the external balance, while also enhancing fiscal sustainability. Implementing structural reforms to improve human capital and promoting private sector growth will help build resilience and boost long-term productivity.

### Foreign Assets and Liabilities: Position and Trajectory

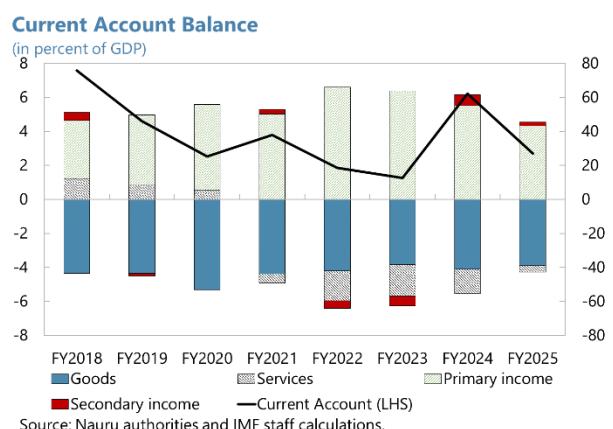
**Background.** Nauru's net international investment position (NIIP) as of end FY2025 amounted to 212 percent of GDP (AUD\$564 million), reflecting foreign assets worth 264 percent of GDP and foreign liabilities of 52 percent of GDP, with external debt (including SDR allocations) amounting to 10.3 percent of GDP. The NIIP has been strengthened by consistent contributions to the Nauru Trust Fund and strong returns on its investment.

**Assessment.** The NIIP is expected to increase further over the medium term, supported by contributions to the trust fund, surpassing 230 percent of GDP by FY2030. Risks to NIIP largely stem from market volatility that could impact the valuation of the trust fund; however, the long-term investment horizon acts as a mitigating factor. Under the forecasted evolution of growth and rates of returns on the stocks of foreign assets and liabilities, the external position is sustainable over the medium term under the baseline.

FY25 (percent of GDP)	NIIP: 212.1	Gross Assets: 264.0	Debt Assets: N/A	Gross Liabilities: 51.9	Debt Liabilities: 10.3
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### Current Account

**Background.** The FY2024 CA balance is estimated at 6.2 percent of GDP, following a surplus averaging 2.8 percent of GDP in the previous five years. The large CA surplus is in part driven by larger than anticipated donor support in FY2024. Nauru has been running a trade deficit since FY2014, due to a decline in the export of phosphates and heavy reliance on imported goods, including fuel and food. Large trade deficit (55 percent of GDP in FY2024) was financed by large surpluses in the primary income account related to RPC-inflows and fishing license fees. The current account surplus is estimated to moderate to 2.7 percent of GDP in FY2025, owing to a deterioration in the primary income balance, and the surplus is expected to be sustained over the medium-term, albeit at a lower level (averaging 2.1 percent of GDP), supported by a persistent primary income surplus. Large trade deficits and primary income surplus suggest that the overall CA may be less suitable as an indicator of competitiveness.



**Assessment.** Nauru's external position in FY24 is assessed to be broadly in line with the level implied by fundamentals and desirable policies. The EBA-lite CA model implies a CA gap of 1.0 percent of GDP, after adjusting for the temporary

<sup>1</sup> Prepared by Shuaat Khan.

increase in budget support through higher donor funds in the secondary income balance. The CA model, however, does not show a good fit for Nauru, with the residual amounting to nearly 11 percent of GDP. This is because Nauru's CA dynamics are largely driven by exogenous and volatile factors not fully captured by domestic policy variables in the model.	<b>Model Estimates for FY2024 (in percent of GDP)</b>		
	<b>CA model 1/ REER model 1/</b> (in percent of GDP)		
	<b>CA-Actual</b>	<b>6.2</b>	
	Cyclical contributions (from model) (-)	0.2	
	Additional temporary/statistical factors (-) 2/	2.6	
	Natural disasters and conflicts (-)	-0.4	
	<b>Adjusted CA</b>	<b>3.8</b>	
	<b>CA Norm</b> (from model) 3/	<b>2.8</b>	
	Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>			
<b>CA Gap</b>	<b>1.0</b>	<b>-0.4</b>	
o/w Relative policy gap	12.4		
Elasticity	-0.5		
<b>REER Gap (in percent)</b>	<b>-2.0</b>	<b>0.8</b>	
1/ Based on the EBA-lite 3.0 methodology			
2/ Additional adjustment to account for the temporary impact of higher budget support on the secondary income account balance.			
3/ Cyclically adjusted, including multilateral consistency adjustments.			
<b>Real Exchange Rate</b>			
<p><b>Background.</b> The real effective exchange rate (REER) appreciated by about 8 percent in 2024, above the historical average between FY2020-24, owing to the high inflation in Nauru in 2024. Fluctuations in the REER largely mirror movements in the Australian dollar, which is the legal tender in Nauru.</p> <p><b>Assessment.</b> The EBA-lite CA model implies a REER undervaluation of 2.0 percent. Movements in REER, however, have little impact on competitiveness because trade is predominantly in Australian dollars. Moreover, key drivers of the CA are the primary and secondary income account, which are inelastic to movements in the REER. Main exports (phosphate and fishing) and imports (basic food and fossil fuel) are inelastic to the REER. Higher domestic inflation relative to major trading partners may weaken REER beyond FY2024.</p>			
<b>Capital and Financial Accounts: Flows and Policy Measures</b>			
<p><b>Background.</b> The capital account is estimated to have registered a surplus amounting to 22 percent of GDP in FY2024, largely driven by capital transfers for development projects. Given the surpluses in the current and capital accounts, the financial account reflects acquisition of financial assets, mainly in the form of portfolio investment outflows associated with the trust fund.</p> <p><b>Assessment.</b> Capital inflows have exhibited volatility, primarily stemming from uncertainties associated with donor support. Structural reforms aimed at promoting FDI are essential for broadening Nauru's economy and growth. Key initiatives include enhancing infrastructure development and improving the business environment to attract and retain investment.</p>			
<b>FX Intervention and Reserves Level</b>			
<p><b>Background.</b> FX reserves are estimated at about AU\$77 million as of end-FY2025, which is equivalent to over 3 months of imports. Reserves have been bolstered by the windfall from RPC-related financial inflows. The Government of Nauru established an intergenerational trust fund in 2015, the size of which has grown through contributions from the government and donors, reaching over AU\$410 million as of end-May 2025. Nauru uses the Australian dollar as its legal tender and does not have a central monetary institution.</p> <p><b>Assessment.</b> The use of the Australian dollar as legal tender remains appropriate in view of Nauru's small size and its close trade and financial linkages with the Australian economy. In the absence of a monetary authority, the Australian dollar provides a nominal anchor. Based on the Assessing Reserve Adequacy (ARA) metric for small state credit-constrained economies, Nauru's reserves are adequate. The reserve coverage is expected to gradually improve, reaching 4 months of imports by FY2030. Compliance with fiscal discipline is crucial to maintain foreign reserves adequacy.</p>			

## Annex II. Sovereign Risk and Debt Sustainability Analysis<sup>1</sup>

**1. Nauru is at a moderate overall risk of sovereign stress.** Over the past few years, continued donor support and resolution of external debt in FY2020 have contributed to a significant reduction in public debt by 40 percentage points to 17.4 percent of GDP in FY2024.<sup>2</sup> Over the medium term, public debt is projected to decline further to 6.7 percent of GDP by FY2030, supported by a narrowing but positive primary balance. Nevertheless, Nauru remains vulnerable to external shocks such as volatility of commodity prices, large exposures to natural disasters, as well as potential decline of foreign donor support beyond the medium term. Realization of contingent liabilities, such as fiscal backstop for SOE losses or write-offs of accounts receivables could push up debt to GDP ratio. Mitigating factors include maintaining sustained fiscal surpluses and adequate treasury cash balance to meet imports and other spending obligations.

**2. Background.** The primary balance has declined following the large fiscal expansion in FY2025. While donor support has increased, government expenditures have also caught up in wage bills, purchases of goods and services, and net acquisition of nonfinancial assets. External debt consists of EXIM bank loans from Taiwan Province of China (AU\$19.7 million)—which were used to purchase an aircraft for Air Nauru and have been serviced by grants—and informal debt relating to membership fees owed to international organizations (e.g., International Postal Union) (AU\$2.9 million) in FY2024. Domestic debt consists entirely of the outstanding government liability as a guarantor of the Bank of Nauru, which went into liquidation in 2016. Contingent liabilities are hard to assess quantitatively and could arise from exposures of Air Nauru Inc. as an unsecured creditor to a foreign company, government arrears to SOEs, and potential overbudget spending from delays in the climate-resilient port (as the government is liable for extra spending exceeding the donor grants). The potential decline of donor grants in coming years could delay the replacement of deteriorating capital stock such as aircraft and cargo vessel or the government may need to finance them with concessionary loans.

**3. Baseline.** In staff baseline scenario, the primary balance is expected to narrow in the near term but remain positive at around 10 percent of GDP over the medium term, reflecting budget support under the Nauru-Australia Treaty, continuation of RPC revenues, and expectation to comply with long-standing fiscal responsibility ratios. Growth is projected to moderate over the medium term, and average effective interest rates were broadly similar to historical levels. As a result, debt is projected to be on a gradual downward trend from 17.4 percent of GDP in FY2024 to 6.7 percent in FY2030. The baseline assumes no contingent liabilities realized from state-owned enterprises and no excess spending related to the construction of climate-resilient port.

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<sup>1</sup> Prepared by Akshat Singh.

<sup>2</sup> Public debt reduced significantly following the resolution of Nauru's external debt to Firebird, a global fund manager, in 2021. The government settled the outstanding amount of two yen-denominated bearer bonds (issued in mid 1980s and defaulted in the 1990s) for AUS\$4 million and repaid it with the fiscal cash buffer (see <https://naurufinance.info/wp-content/uploads/2021/06/Nauru-Debt-Report-2021-Budget-2020-21.pdf>).

**4. Adverse shock scenario.** The adverse scenario of contingent liability is considered. It suggests that a realization of contingent liabilities amounting to 7 percent of GDP would push up the debt ratio uniformly by 9 percentage points relative to GDP, but debt would remain at a downward path over the medium term. A depreciation of Australian dollar exchange rate against the USD would raise the nominal value of the external debt as well as a small increase in debt service. For example, a 10 percent depreciation of bilateral exchange rate would push debt up by 1 percent of GDP. Similarly, a 1-percent increase in interest rates would push up debt service cost by up to AU\$0.15 million. If the government was to borrow debt to replace deteriorating capital stock typically financed by donor support, the rise in debt would be significant and could put debt sustainability at risk given the capacity to repay the principal is limited.

**5. Risks and mitigating factors.** Nauru's downward public debt dynamics is subject to macroeconomic shocks, especially related to a decline in foreign grants or a deterioration of current account. In the stress test scenarios, the external debt could rise to 50 percent of GDP in FY2030 in response to adverse shocks (Annex Figure II.6). The current account inflows in Nauru are mainly attributable to donor support in the primary and secondary income accounts owing to a heavy reliance on grants and RPC revenues. In the absence of sufficient buffers, the inherent uncertainty of these flows can potentially put debt sustainability at risk. An unanticipated scaling-down of RPC activity would likely lead to an abrupt cut in primary spending because the government has no access to external markets or domestic financing from a central bank. That said, the government may have access to project-based concessionary loans from ADB or accumulate arrears from state-owned enterprises that would lead to an eventual buildup of debt.

**6. Realism.** The realism assessment is subject to constraints on data availability as well as the high uncertainty surrounding macro-fiscal projections. At the same time, historical macro-fiscal data and debt dynamics before 2009 are unavailable. This leads to an outlier in the data for the three-year adjustment in cyclically adjusted primary balance relative to historic data and across countries. The large effects mainly reflect higher current spending. While Nauru does not have potential GDP estimates due to data limitations, real GDP growth is projected to converge towards its 10-year average of 1.8 percent, albeit at a lower level.

**Figure 1. Risk of Sovereign Stress**

<b>Horizon</b>	<b>Mechanical signal</b>	<b>Final assessment</b>	<b>Comments</b>
<b>Overall</b>	...	<b>Moderate</b>	The overall risk of sovereign stress is moderate. While debt level is low, Nauru is highly vulnerable to external shocks which would affect public finance positions. The moderate risk reflects the levels of vulnerability in the medium- and long-term horizons.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>Low</b>	<b>Moderate</b>	Medium-term risks are assessed as moderate. The rollover risks remain low and the government has secured budget support from donors over the next 3-5 years. Nonetheless, Nauru remains susceptible to macroeconomic shocks and has limited policy tools to respond. Debt repayment is also subject to interest rate and exchange rate risks.
<b>Stress test</b>	<b>Moderate</b>	...	
<b>GFN</b>	<b>Low</b>	...	
<b>Long term</b>	...	<b>Moderate</b>	Long-term risks are moderate. While the government is expected to pay off existing debt, it may incur additional debt financing to meet development needs such as education and healthcare. Nauru is vulnerable to climate change and rising sea levels. The government initiatives such as the Higher Ground Initiative act as risk mitigating factors. Nauru has some exposures to rising ocean temperatures that could reduce fishery income (see Annex VII: Climate Resilience and Adaptation Policies). Fishery income accounts for 13 percent of government revenue in FY2025. A moderate reduction will affect public finances, although it may not significantly weaken long-term fiscal sustainability.
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	
<b>Debt stabilization in the baseline 3/</b>			No

**DSA Summary Assessment**

Commentary: Nauru is at a moderate overall risk of sovereign stress. This assessment is underpinned by anticipated pickup of RPC operations, continued budget support from Australia and other development partners, and continued commitment to comply with fiscal responsibility ratios. While medium- and long-term risks are moderate with public debt on a downward trend, the risks surrounding the debt outlook are large (wide band in the debt fan chart). Nauru remains vulnerable to large macroeconomic shocks, including those related to contingent liabilities, commodity prices, and natural disasters. Historical macroeconomic and debt profile data before 2009 is not available, which may affect the quantitative indicators when assessing sovereign risks.

Source: IMF staff assessment.

Note: The risk of sovereign distress is a broader concept than debt sustainability. Unsustainable debt is often resolved through exceptional measures (such as debt restructuring or defaults). In contrast, a sovereign can face distress without having unsustainable debt. A broader range of measures, such as fiscal adjustments and new financing sources, could provide remedies to address rising risk of debt distress.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

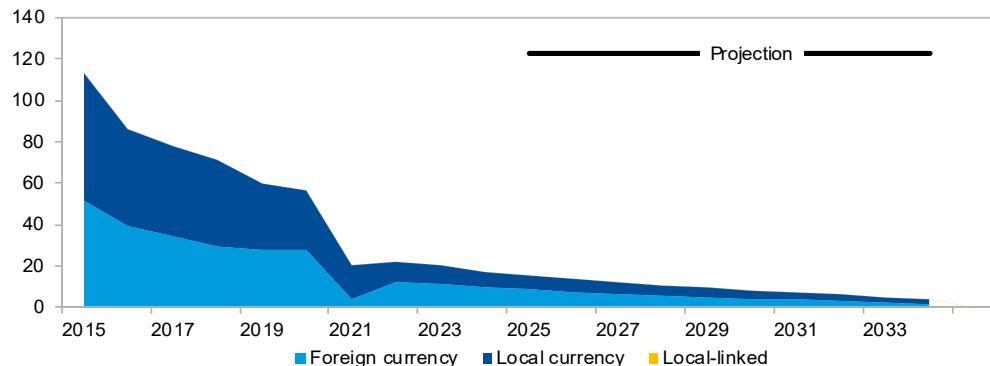
3/ Debt is projected to be at a declining trend over the medium term.

**Figure 2. Debt Coverage and Disclosures**

					Comments				
<b>1. Debt coverage in the DSA: 1/</b>	CG	GG	NFPS	CPS	Other				
<b>1a. If central government, are non-central government entities insignificant?</b>	n.a.								
<b>2. Subsectors included in the chosen coverage in (1) above:</b>	Subsectors captured in the baseline								
CPS	NFPS	GG: expected	CG	1 Budgetary central government 2 Extra budgetary funds (EBFs) 3 Social security funds (SSFs) 4 State governments 5 Local governments 6 Public nonfinancial corporations 7 Central bank 8 Other public financial corporations	Inclusion				
				Yes No No Yes No No No No No	Not applicable Not applicable Not applicable No local government No central bank No public financial corporations				
<b>3. Instrument coverage:</b>	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/				
<b>4. Accounting principles:</b>	Basis of recording		Valuation of debt stock						
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/				
<b>5. Debt consolidation across sectors:</b>	Consolidated	Non-consolidated							
• code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable									
<b>Reporting on Intra-Government Debt Holdings</b>									
Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
Issuer									
CPS	NFPS	GG: expected	CG	1 Budget. central govt 2 Extra-budget. funds 3 Social security funds 4 State govt. 5 Local govt. 6 Nonfin pub. corp. 7 Central bank 8 Oth. pub. fin. corp					
				0	0	0	0	0	0
Total				0	0	0	0	0	0
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.									
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.									
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.									
4/ Includes accrual recording, commitment basis, due for payment, etc.									
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).									
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.									
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.									
Commentary: The coverage in the SRDSF is for the general government. Fiscal year in Nauru starts in July of the previous calendar year. For example, FY2025 refers to the period between July 2024 and June 2025.									

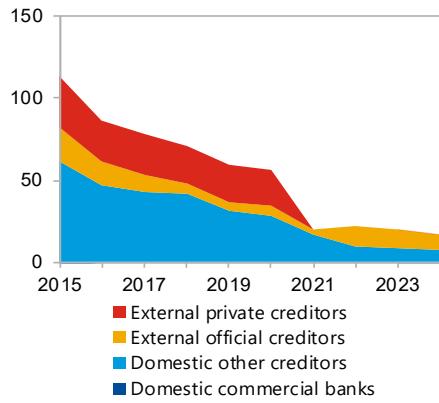
### Figure 3. Public Debt Structure Indicators

**Debt by Currency (Percent of GDP)**



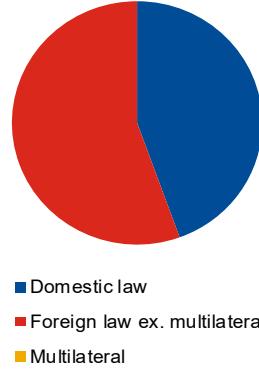
Note: The perimeter shown is general government.

**Public Debt by Holder (Percent of GDP)**



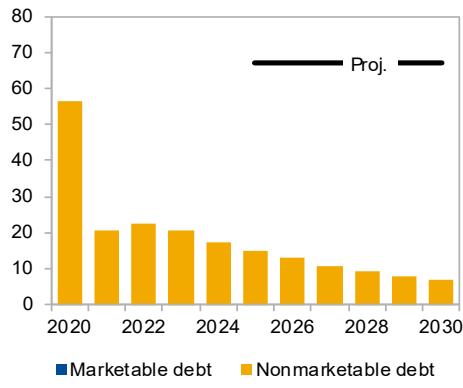
Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2024 (Percent)**



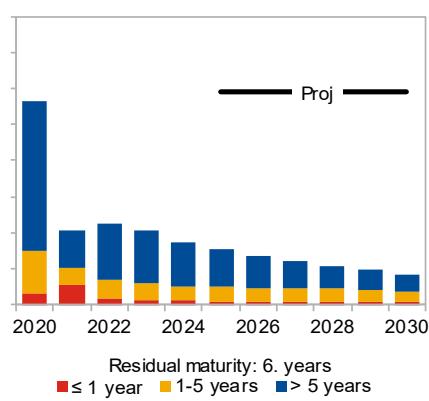
Note: The perimeter shown is general government.

**Debt by Instruments (percent of GDP)**



Note: The perimeter shown is general government.

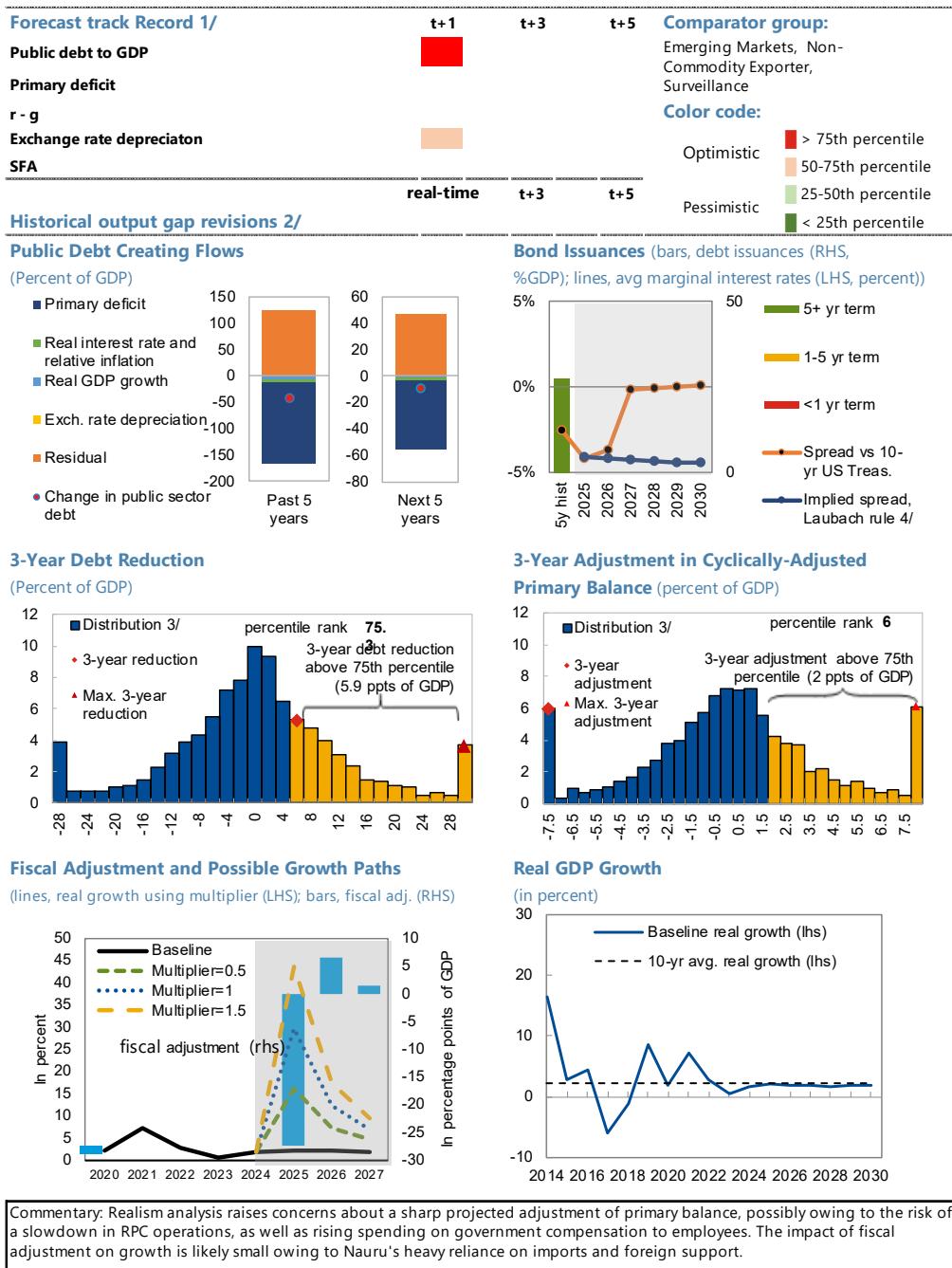
**Public Debt by Maturity (Percent of GDP)**



Note: The perimeter shown is general government.

Commentary: Nauru's public debt are mainly nonmarketable, foreign-currency denominated official debt, with maturities above 5 years. Domestic debt is entirely attributable to the liability claims that the government undertook as the guarantor for the Bank of Nauru when it entered liquidation in 2016. The sharp decline in public debt in FY2021 reflected a settlement involving a debt forgiveness of AU\$37.6 million with foreign private creditors.



**Figure 5. Realism of Baseline Assumptions**

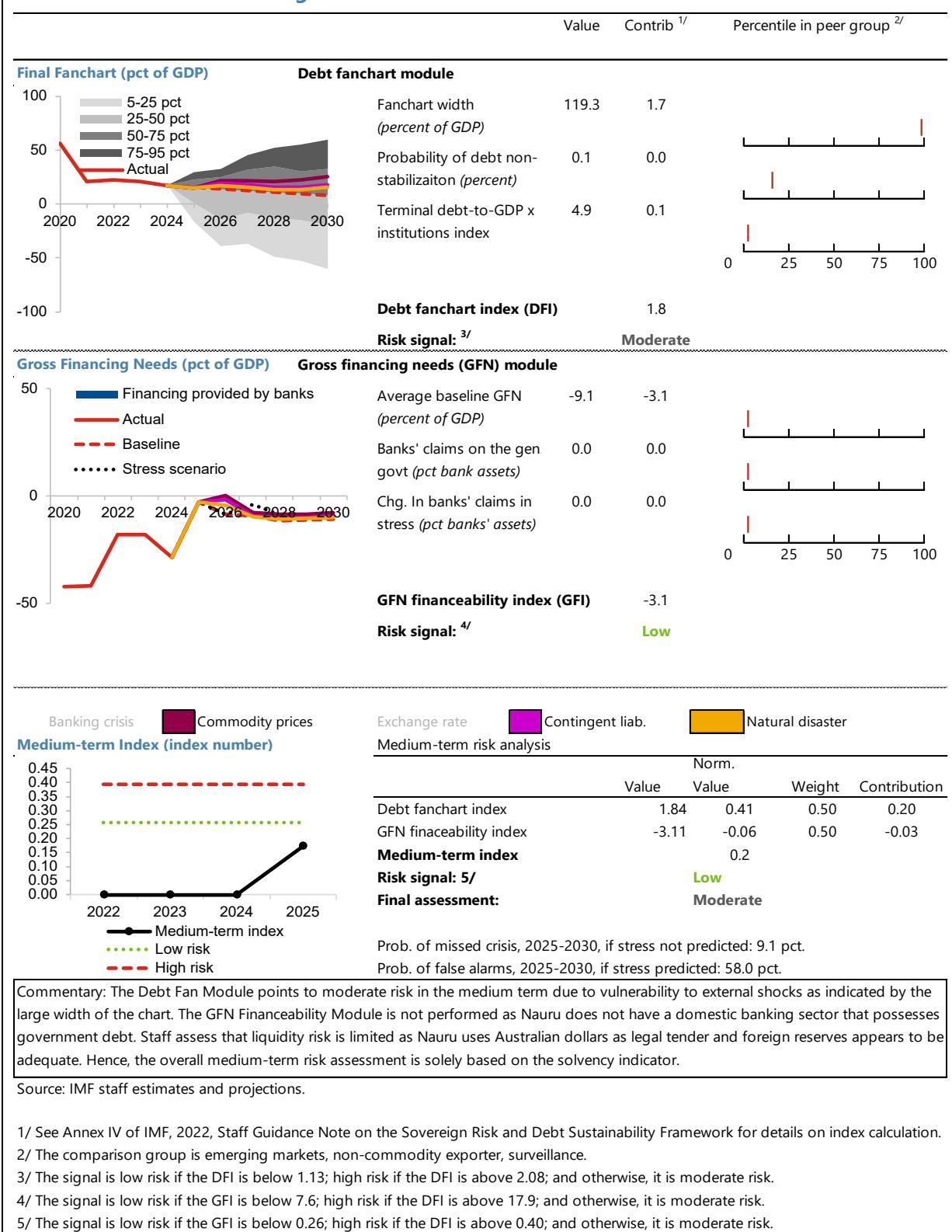
Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

**Figure 6. Medium-Term Risk Assessment**

### Annex III. Risk Assessment Matrix<sup>1</sup>

Risks	Likelihood	Expected Impact	Policy Recommendations
<b>External risks</b>			
<b>Escalating Trade Measures and Prolonged Uncertainty.</b> Rising trade barriers, prolonged uncertainty on economic policies, and a reversal of global economic integration trigger a suboptimal allocation of resources, reducing trade, investment, growth, and fueling inflationary pressures, which could be amplified and made more persistent by strategic complementarities.	High	<b>Medium:</b> Trade policy shocks, resulting in increased import prices or supply chain disruptions, could interrupt the flow of essential goods. Such shocks may also cause an abrupt economic slowdown for trading partners and donors, potentially leading to decreased grants, reduced remittances, and diminished economic activity.	In case of severe slowdown, targeted temporary fiscal support could protect vulnerable households and workers, while ensuring fiscal prudence. The Trust Fund should continue to adhere its investment policies to achieve long-term gains amid volatility in financial markets.
<b>Decline in international aid.</b> A sharp reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such a withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a deterioration in living conditions and food security.	High	<b>High:</b> A decline in foreign grants, including a reduction in official development aid (ODA) from OECD accession to high income status, would severely strain public finances and worsen the current account, which could weaken growth.	Collaborate closely with development partners to mobilize diverse support and identify the challenges posed by relying solely on income classification as the criterion for determining aid flows.
<b>Climate change.</b> Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. Adaption and mitigation policies affect fiscal balances.	Medium	<b>High:</b> Nauru is extremely vulnerable to climate-related shocks given its small size, remoteness, and the concentration of its population and buildings in coastal areas.	Improve disaster preparedness by investing in climate-resilient infrastructure. Relocate homes and critical infrastructure away from low-lying coastal areas. Establish contingency financing and post-disaster relief from development partners.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Expected Impact	Policy Recommendations
<b>Domestic risks</b>			
<b>Elevated inflationary pressure.</b> Shipping delays and a persistent wage increase for public sector workers leads to protracted inflation.	High	<b>Medium:</b> Given that public sector workers account for a significant share of Nauru's labor force, high inflation will become entrenched, eroding living standards and fueling social discontent.	Exercise fiscal restraint to contain the growth of compensation to government employees. When fiscal space allows, salary increases should be better linked to performance. Promote private sector development.
<b>Unintended scale-down of the Regional Processing Center (RPC).</b> A downsizing of the RPC over the medium-term would lead to a decline in RPC-related revenues, posing fiscal sustainability concerns.	Medium	<b>High:</b> Less than anticipated refugees or a scale-down of RPC operations would worsen the fiscal position, weaken growth, and possibly lead to mass layoffs, undermining macro stability, and risking social discontent.	Maintain prudent fiscal policy and build fiscal buffers to minimize adverse growth impact on growth. Develop contingency plans and mobilize donor support in case refugee inflows are less than anticipated. Accelerate plans for strengthening human capital and upskilling the labor force.
<b>Fiscal risks from contingent liabilities.</b> Realization of contingent liability risks, with the government stepping in to fulfill obligations of SOE guarantees, would have adverse consequences for fiscal policy.	Medium	<b>Medium:</b> Realization of contingent liabilities, such as fiscal backstop for SOE losses could push up debt and worsen fiscal position.	Enhance SOE disclosures (for example, audited financial statements) and governance to monitor fiscal risks. Maintain prudent fiscal policy and build fiscal buffers.
<b>Disruption in banking services.</b> The transition from Bendigo Bank to CBA may have bottlenecks and lead to operational disruptions.	Medium	<b>High:</b> Unanticipated disruptions would undermine the continuity of essential financial services. A disruption in CBRs could severely impact banking and foreign exchange transactions, particularly for imports of essential goods and receipt of financial flows.	Frontload preparatory efforts ahead of the bank commencement. Enhance coordination and communication between Bendigo Bank and CBA. Establish comprehensive contingency plans, including backup systems and processes to ensure uninterrupted service delivery.

## Annex IV. Past Fund Policy Advice<sup>1</sup>

<b>Fund Recommendations</b>	<b>Authorities' Policy Actions</b>
<b>Fiscal policies</b>	
<ul style="list-style-type: none"> <li>Expeditoriously formulate a plan to absorb or upskill current workers in the regional processing center (RPC).</li> </ul>	<ul style="list-style-type: none"> <li>The authorities have renewed the RPC arrangements with Australia, which would avoid an abrupt cut in expenditures.</li> <li>The authorities implemented the Alternative Pathways Program (APP) to upskill those affected by the reduced RPC operations and facilitate re-employment within Nauru or through Australian labor mobility programs. Although RPC operations have since normalized, those programs are still in place to provide upskilling opportunities.</li> </ul>
<ul style="list-style-type: none"> <li>Maintain fiscal discipline while mobilizing revenues through a medium-term strategy. Revenue measures should consider (i) removing discretionary exemptions in import duties; (ii) improving progressivity of personal income tax; (iii) reducing exemptions in corporate income tax. Over the long term, introducing a value-added tax for a sustainable source of revenue.</li> <li>Improving revenue risk management, audits, regular review of excise rates and digitalizing tax administration.</li> </ul>	<ul style="list-style-type: none"> <li>The authorities have maintained fiscal prudence by adhering to fiscal responsibility ratios. They reviewed their medium-term revenue strategy. On revenue mobilization measures, they have initiated pilot audit programs on business profit taxes, encouraging compliance by small businesses. Work is underway to revise the fiscal responsibility ratios.</li> <li>On revenue administration, a new taxpayer identification number (TIN) database was launched. The ADB-supported Small State IT Solution project could improve efficiency through digitalization. PFTAC advisor provided technical assistance on digitalization on revenue administration.</li> </ul>
<ul style="list-style-type: none"> <li>Expenditure policies should prioritize promoting growth, resilience, and inclusion.</li> </ul>	<ul style="list-style-type: none"> <li>The authorities identified nonessential spending items such as payments on business travel, subsidies to SOEs, and local donations for potential streamlining of expenditures.</li> </ul>
<b>Financial sector policies</b>	
<ul style="list-style-type: none"> <li>Continue efforts to align the AML/CFT framework with the revised 2012 FATF recommendations and accelerate the implementation of legislated improvements and risk mitigation measures.</li> <li>Improve access to formal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>The authorities implemented the Anti Money Laundering and Targeted Financial Sanctions Act 2023, with support from the Asia Pacific Group on Money Laundering (APG), which addressed gaps identified in 2018. The 2023 National Risk Assessment (NRA) and the APG Mutual Evaluation exercise report were published. A digital asset regulatory is established to address issues highlighted in the FATF recommendation on regulating virtual assets and virtual asset service providers (VASPs). The Financial Intelligence Unit (FIU) plans to address remaining AML/CFT gaps.</li> <li>The authorities have arranged the Commonwealth Bank of Australia to provide corresponding banking relationship in Nauru following the anticipated exit of Bendigo Bank in Fall 2025.</li> </ul>

<sup>1</sup> Prepared by Krishal Prasad.

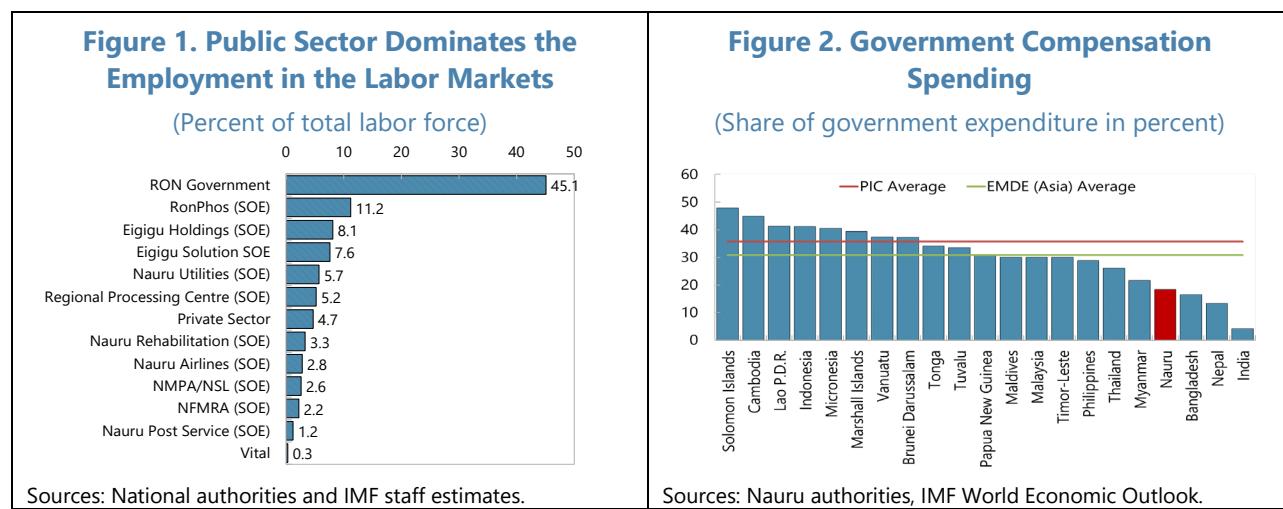
<b>Fund Recommendations</b>	<b>Authorities' Policy Actions</b>
<b>Structural reforms and policies</b>	
<ul style="list-style-type: none"> <li>Strengthen fiscal governance and advance public financial management (PFM) reforms, including for State-Owned Enterprises (SOEs), and implement key recommendations from the 2022 Public Expenditure and Financial Accountability Assessment (PEFA).</li> </ul>	<ul style="list-style-type: none"> <li>The authorities continued to take efforts to improve timeliness and transparency of fiscal policy, including better debt management, publishing a formal debt management strategy, and improving timeliness and transparency of in-year budget reports.</li> <li>The Public Enterprise Monitoring Unit (PEMU) has regular meetings with public enterprises to improve their governance and monitor fiscal risks, although it is difficult to enforce.</li> <li>Plans to review the current procurement framework and fully digitize the current tax administration are underway.</li> </ul>
<ul style="list-style-type: none"> <li>Develop human capital such as through improving the quality and efficiency of education expenditure to support current efforts in meeting Sustainable Development Goals (SDGs).</li> </ul>	<ul style="list-style-type: none"> <li>The authorities continue to enhance efficiency of education spending, including enrollment and teacher shortages, with the support from Australia's training program. Several structural barriers are entrenched such as low salary for teachers (relative to competing jobs) and inadequate support from parents.</li> </ul>
<ul style="list-style-type: none"> <li>Strengthen climate resilience efforts to enhance resilience to climate change.</li> </ul>	<ul style="list-style-type: none"> <li>The climate-resilient port is fully operational and is under ongoing upgrade, once completed, will allow for more and larger ships, and the solar farm will begin operation in August 2025.</li> <li>The government has implemented the Higher Ground Initiative—a long-term adaptation initiative focused on relocating affected households from rising sea levels.</li> <li>The government launched the Economic and Climate Resilience Citizenship Program to seek contributions in the climate resilience funds.</li> </ul>
<ul style="list-style-type: none"> <li>Implement structural reforms to diversify the economy for long-term development.</li> </ul>	<ul style="list-style-type: none"> <li>The new and upgraded port is fully operational and could bring in more shipments and reduce domestic container costs. Nauru has signed MoUs with neighboring countries to support their freight transit.</li> <li>The government passed legislations: (i) the Nauru Small Business Enterprises Bill 2025 intends to support small businesses and encourage their financial independence; (ii) The Foreign Investment Bill 2025 intends to remove entry barriers and encourage foreign investment. They have held stakeholders' meetings to develop the National Anti-Corruption Strategy.</li> </ul>
<ul style="list-style-type: none"> <li>Enhance institutional capacity in preparing key economic statistics to support informed decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing support from PFTAC and CDOT in compiling macroeconomic and external sector statistics. The authorities expressed interest in receiving technical assistance in the areas of digital assets, debt management, and fiscal and economic analysis.</li> </ul>

## Annex V. Government Employment and Compensation in Nauru<sup>1</sup>

### A. Rising Government Employment and Wage Bills

**1. The public sector—the government and state-owned enterprise—is a key employer in Nauru.** It has employed about 4,000 employees as a whole, about half of the public employees work in the government and another 40 percent primarily work in state-owned enterprises (Figure 1).<sup>2</sup> Government workers have almost doubled since FY2019 and now account for over 30 percent of the working age population aged 15–64, representing very high levels even among other Pacific islands countries (PICs) or small developing states (SDS). Private sector jobs are limited, a typical feature of Nauru among Pacific islands countries.

**2. The government's wage bill has been high and rising.** Wage bills (or government compensation of employees) reached 22.5 percent of GDP (or 20 percent of government current expenditure) in FY2025, the third-highest behind Kiribati and Tuvalu among Pacific island countries (PICs) (Figure 1). Salary is the main component of government compensation expenditure, while the government has sometimes provided a one-off bonus (referred to as ex-gratia) and allowances.<sup>3</sup> Although the wage bill, currently at 18 percent of total current expenditures, is still within the fiscal responsibility ratio below 30 percent, it has grown faster relative to the economy since FY2019.

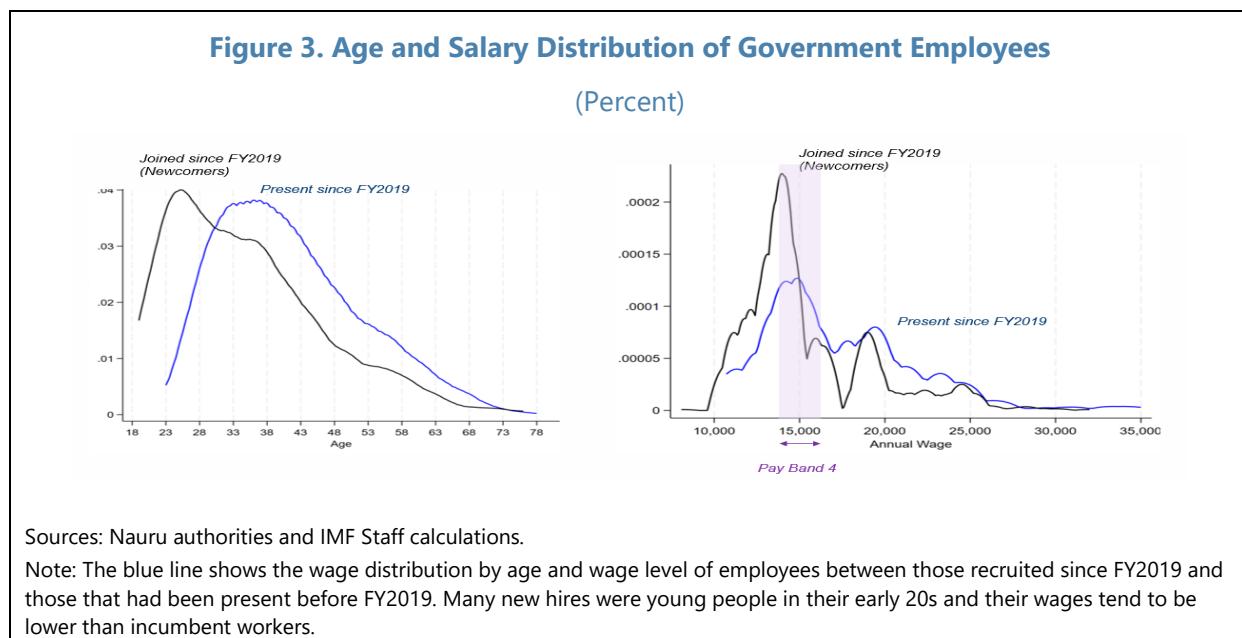


<sup>1</sup> Prepared by Celine Thévenot and Huy Nguyen. The analysis is based on the IMF Technical Assistance on government compensation during March 2025 (C. Thevenot, H. Nguyen, and C. Bender, 2025).

<sup>2</sup> Government workers consist of local hires (over 90 percent of the government employment) and expatriates for hard-to-fill positions, such as lawyers and healthcare workers, that often require high skills.

<sup>3</sup> Ex-gratia payments are progressively structured based on fortnightly income. Workers would receive AUD\$600 ex-gratia payment if their fortnightly income is less than AUD\$500. They would receive AUD\$400 if their fortnightly income is between AUD\$501–800, and would receive AUD\$200 payment if their fortnightly income is above AUD\$800. In the FY2023–24 and FY2024–25 budgets, the government allocated AUD\$3.4 and 5.5 million for ex-gratia payments for public sector employees and pensioners. Other allowances include overtime pay, director fees, allowances on uniforms and meals and drinks.

**3. The rapid increase in government wage bill has been driven primarily by the expansion of employment rather than the rise in average wage per worker.**<sup>4</sup> The average compensation per worker (among local workers) in real terms including the one-off ex-gratia payment has been fairly stable since FY2019 while the workforce has increased significantly. Most new hires are young people in their early 20s, and they tend to receive lower average salaries than incumbent workforce, reflecting less tenure and skills in the jobs. As a result, nominal average compensation declined from AUD\$ 23,000 to AUD\$20,800 between FY2019 and FY2025. For workers that entered the government payroll before FY2019 and had worked over the past 6 years, their average real compensation increased until FY2022 and remained stable since then.



**4. High wage bill reflects limited job opportunities in the private sector and procyclical fiscal expansion. Several factors contribute to the rapid increase since the pandemic.**

- *Limited job opportunities in private sector.* Private sector activity is very limited in Nauru, mostly are micro- and small-sized enterprises in basic services such as restaurants and retails. These businesses are essential but hardly generate enough jobs for the rising number of working-age population entering the workforce. Anecdotal evidence also shows wage in private sector is on average lower than government employees for unskilled labor.

<sup>4</sup> Most workers would become open-ended government employees after a 6-month initial temporary employment period. There are two types for local employees—permanent or temporary. Permanent employees are recruited through a competitive process and depend on vacancies. The recruitment is administered by the Department of Human Resources. For temporary position, after the initial 6-month of services, the employee can be hired with a permanent status, without similar due diligence process. This means the decision for future hires is increasingly shifting from the Human Resource Department to other ministries of government, which are less able to prioritize strategically.

- *Procyclical spending.* Fiscal policy in Nauru has typically been highly procyclical—a rise in revenues would be mostly expensed, leading to high volatility in primary spending. As existing fiscal frameworks do not encourage the buildup of fiscal buffers, higher revenues from budget support from development partners are thus largely expensed in current spending, including on government compensation to employees. The fiscal expansion could have contributed to inflationary pressures.
- *Limited skills in the workforce.* New entries to the workforce tend to have low skills, partly driven by low attendance in and high dropouts from secondary schools. The challenges are aggravated by limited on-the-job training and high rate of absence in the job.
- *Government employment as a social safety net.* Without a strong formal social safety net on income support, government employment is used as a form of social safety net to contain unemployment and respond to adverse shocks such as the surge in the cost of living. While this preserves social cohesion, it creates fiscal pressures and limits the room private sector could develop. Job protection in government positions also precludes the dismissal of nonessential workers.
- *Changing demography.* Government employment has been used to absorb excess labor supply from demographic changes. The working-age population has increased by about 1.0 percent per year and the increase will intensify in the next five years. Given the young demography in the nation, each year about 200–250 young adults enter the workforce. With limited jobs in the private sector, government employment provides an avenue against unemployment after school (Figure 4).

<b>Table 1. Nauru: Government Employees (Age and Job Experience)</b>					
(in percent)	Youth	Young adults	Middle-aged adults	Seniors	Total
<b>Early careers (less than 5 years)</b>	10	17	20	4	52
<b>5-9 years</b>	0	11	10	1	23
<b>More than 10 years</b>	0	4	16	5	25
<b>Total</b>	<b>10.6</b>	<b>32.0</b>	<b>47.1</b>	<b>10.3</b>	<b>100.0</b>

Source: Nauruan authorities and IMF staff calculations.  
Note: Youth are defined as individuals aged 18–24, young adults as those aged 25–34, middle-aged individuals as those aged 35–54, and seniors as those aged 55 and above.

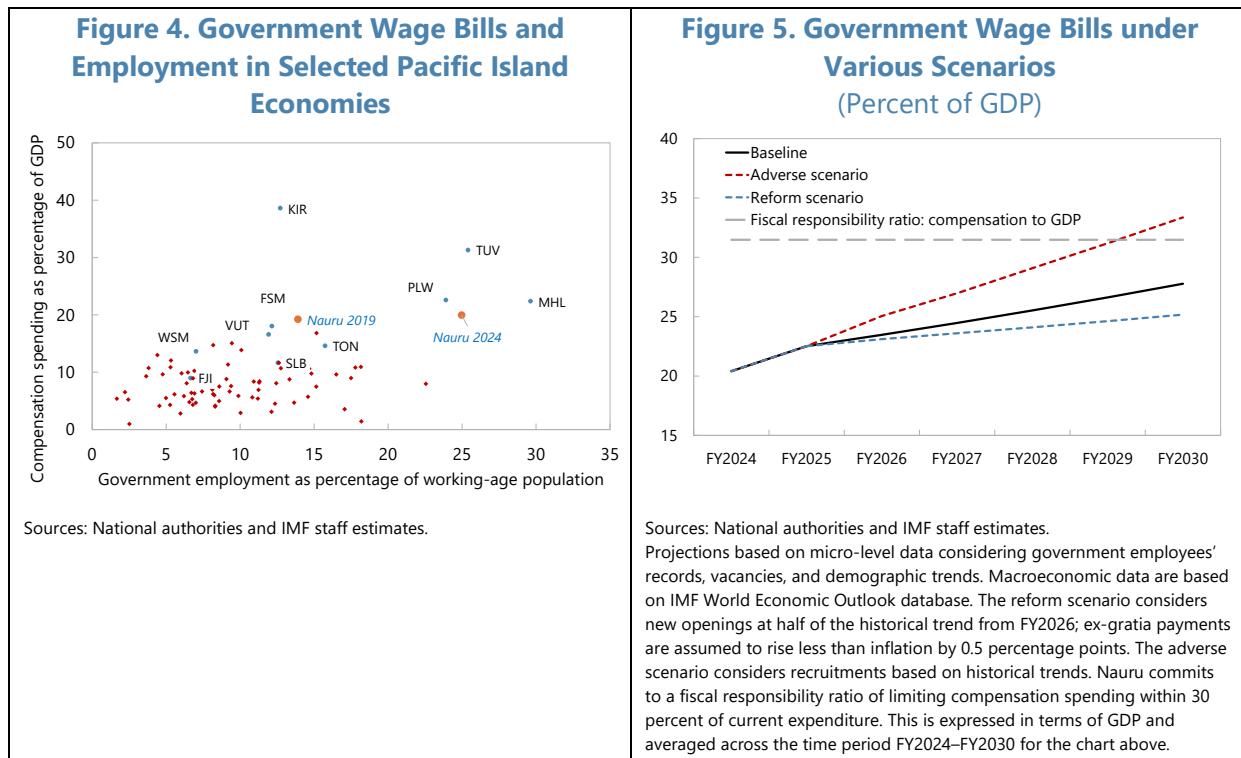
## 5. The influx of younger cohorts in government workforce has not filled the skill gaps.

Despite the doubling on the size of the government workforce since FY2019, the lack of skilled workers remains a key constraint. For example, high skills positions have remained unfilled (e.g., legal, education, and healthcare). Most employees who joined government employment after FY2019 were paid at government pay bands 4 or 5 in the salary table, that is, for lower-skilled positions.

## 6. Government compensation to employees is projected to rise further over the medium term.

Our scenario analysis shows that, under a range of scenarios, the government wage bills

would continue to rise relative to the size of the economy, potentially exceeding the fiscal responsibility ratio (Figure 5).<sup>5</sup> The baseline projection assumes that the net increase in government workforce (in number of workers) would rise by less than half of that observed between FY2018 and FY2024 (i.e., at 4 percent per year after normal attrition owing to mortality, turnover, and retirement); (ii) a mild ex-gratia payment that is lower than the annual inflation; (iii) other allowance such as overtime, non-payroll compensation, and superannuation contributions as a share of base salary would remain constant. The impact of longevity in the increments in the salary tables is estimated based on regression analysis to set at a range of 0.4 to 0.8 percent for education and healthcare workers and other sectors. The macro-fiscal variables are consistent with this IMF Staff Report. Under these assumptions, government compensation to employees would rise from 23 percent in FY2025 to about 28 percent of GDP by FY2030, roughly one percentage point of GDP per year. The rise is mostly attributable to the rise in employment growth, while the average salary would largely remain stable in real terms.



<sup>5</sup> Our projection uses disaggregate data on workforce provided by the authorities, which allowed refined classification of workers into selected sectors across occupations, such as education (teachers, assistant principals, and principals but excludes administrative and other staff) and healthcare (front-line workers but excludes most staff not working directly with patients). The disaggregate data also allow the distinction between local workers and expatriates, which enrich the analysis, particularly in relation to a change in policy or compensation profile. In each group/sector, anonymized individual-level payroll data are used to create distributions of workers and wages by age groups that match the latest budget data for FY2024, which serves as the first year of the scenario analysis. Compensation other than base salary, such as overtime, ex-gratia bonus, allowances, and government's contributions to the superannuation fund is estimated separately using a different methodology. The detailed wage profile is then projected for next five years to FY2030 depending on policy assumption and macro-fiscal forecast.

**7. Alternative scenarios suggest the wage bills are subject to significant upside risks, unless policies could restrain new hires.** Adverse shocks to the economy would reduce nominal GDP and increase pressures to protect households through government employment. As a result, wage bills are expected to rise further as a share of GDP. Alternative scenarios such as assuming new hires are at two-thirds of historical level, or higher ex-gratia payments that covers rising cost of living from inflation, or more sluggish growth than anticipated would add to the wage bills, putting it above 30 percent of GDP and potentially exceeding the fiscal responsibility ratio (a ceiling at 30 percent of government current expenditures).

**8. A practical challenge is how to respond to employment pressures while upgrading the skills and productivity of the government workforce.** Government employment has been a key tool to absorb excess labor supply. While it preserves social cohesion, it is less sustainable because of the anticipated large number of young populations entering the labor force in the next decade and limited skills among new hires. Large public workforce also constrains the government's ability to maintain the real purchasing power of salary, while a rising wage bill could reduce available fiscal space and crowd out other priority spending on sustainable development needs.

**Table 2. Nauru: Projections of Government Wage Bills across Scenarios  
(percent of GDP)**

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
<b>Baseline Projection</b>	20.4	22.5	23.5	24.5	25.5	26.6	27.8
Cumulative savings relative to the baseline projection:							
<b>Employment</b>							
New positions created at 25 percent of historic trend		0.7	1.5	2.4	3.3	4.2	
Workforce capped at FY2025 level		1.5	3.0	4.6	6.3	7.9	
Filling only half of the vacancies		2.1	4.2	6.3	8.4	10.6	
<b>Salary compensation</b>							
Phasing out ex-gratia in FY2026		1.2	1.3	1.4	1.4	1.5	
Cost-of-living adjustments 1/2 percentage points less than inflation		0.0	0.1	0.2	0.4	0.5	
Reducing overtime pay by 50 percent		0.4	0.4	0.4	0.5	0.5	
Source: IMF estimates based on authorities' data.							
Savings are cumulative and measured <i>relative</i> to the baseline projection in percent of GDP. For example, a value of 0.2 in 2026 implies that government compensation would be 0.2 percentage points of GDP lower than that in the baseline. Reforms are assumed to begin in FY2026 until FY2030. Employment measures include both (i) new jobs to the Establishment List) and (ii) filling vacancies. The "New Positions Created at 25 percent of trend" scenario assumes all vacancies are filled, while the "50 percent of vacancies filled" scenario assumes that no new positions are created. On the compensation side, the scenario to "phasing out ex-gratia in FY2026" assumes the cost of living adjustment in FY2026 is identical to inflation rate, which is less generous than in baseline. The scenario of "COLAs equal to inflation minus 0.5 percent" assumes that—beginning in FY2027—adjustments to the cost of living are one half percentage points less than the lagged inflation rate.							

## B. Policies to Contain Wage Bill Pressures and Supporting Growth

### 9. Policies should aim to contain the rise in wage bills and upgrade the skills of labor force.

As total government compensation reflects both the average salary and the size of government workforce, policies should address both dimensions. Accompanying reforms to strengthen social safety net and improve skills and education will also be necessary.

- *Containing wage pressures can help keep a lid on inflation.* Analysis shows that inflation in Nauru is correlated with demand-side factors such as wage growth. Across-the-board wage hikes—such as ex-gratia payments—could exacerbate initial supply-side shocks. Over the medium term, considerations could be given for more prudent targets on the limit of government wage bills as a share of revenues.
- *Rationalizing the size of the workforce—preferably through natural attrition—is essential.* Alongside with natural attrition, the government should rationalize its workforce—leveraging digital technology on data collection and analysis—by restricting new hires for positions no longer deemed essential. Managing the transition includes periodic reviews on the *Establishment List*.<sup>6</sup> Our analysis shows that a proactive policy scenario, comprising slower hires, will maintain stable wages in real terms for existing workers, while ensuring wage bills stay prudently within fiscal responsibility limit (Figure 5).

### 10. The government wage bill should be consistent with the overall budget envelope and priorities, while individual salary compensation should be better linked to performance.

- Compensation to employees should reflect the government's medium-term strategy on human resources. At the aggregate level, gradual adjustments to compensation could help anchor household expectations and mitigate upward wage pressures. The adjustments need to vary across positions reflecting their recruitment and retention situations. Targeted increase in wages is in general more efficient to address specific staffing issues than across-the-board wage hikes. In that context, ex-gratia payment is not the best way to address wage pressures because they could easily become entrenched entitlements and undermine policy objectives.
- Individual salaries should be better linked to merits-based performance. Increments in the salary table—small by international standards—could be adjusted to reward quality performance while keeping neutral impact on the budget.
- Non-wage benefits could include on-the-job training, internship programs, and education courses to improve the skills of the workforce. Linking workforce training to government specific personnel needs is particularly important in Nauru.

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<sup>6</sup> In addition to government workforce, state-owned enterprises also employment a large share of workers. A comprehensive review of SOE employment and compensation practices could assess the staffing needs and align the compensation with that in the government.

**11. As the government takes efforts to contain its spending on compensation, it should strengthen the formal social safety net.** It is because government payroll serves as an imperfect social safety net and containing wage bills will require protection to vulnerable households. Efforts to build social safety net programs, building on recent ADB technical support, should be part of the reform, while preserving work incentives. This could further leverage widespread use of mobile services and digital technology to identify eligible households and deliver transfers.

**12. Upgrading the skill levels of workers will improve productivity and eventually reduce the pressures on government employment.** The most pressing need is to improve school attendance nationwide and reduce dropouts, particularly at higher secondary level. Targeted training to teachers and preparing students for available jobs will equip young cohorts to have skills aligned with future job opportunities. Second, improving childcare or community support to families could help workers reduce their absence in the job, which will reduce the need to have multiple hires for the same job and save fiscal cost. Third, improving education attainment and outcomes will open workers to a wider set of jobs, which in turn support economic diversification and private sector growth. For example, the successful pilot of internship programs and education partnership with Australia has helped onboard public sector talent and aligned skills with labor market needs. Structured pathways for local workers to enter professions (e.g., healthcare) such as scholarships, targeted recruitment, and structured career progression plans can address the chronic shortages of qualified professionals.

## Annex VI. Economic and Climate Resilience Citizenship Program<sup>1</sup>

### A. Background on Nauru's Citizenship Program

**1. Nauru introduced the Economic and Climate Resilience Citizenship Program (NECRCP) in late 2024.<sup>2</sup>** The government initiated the program for investors to acquire Nauru's citizenship while contributing to climate adaptation and sustainable developments. The NECRCP provides a pathway to citizenship through a direct financial contribution (a minimum of US\$105,000 and vary across household size) to Nauru's Treasury Fund. The program allows for dual citizenship (original nationality and Nauruan citizenship) and provides successful applicants for a visa-free access or visa on arrival to 90 countries without residency requirements in Nauru (Annex Figure 1). The process requires a background check, including of financial resources and criminal records, and takes about 3–4 months to approve (Annex Table 1). The government has appointed an international investment migration advisory firm to develop, implement, and manage the NECRCP.<sup>3</sup>

**2. The authorities expect the NECRCP would generate economic benefits to the country and anticipate a favorable uptake.** The government envisages fiscal revenues of US\$5.7 million in the first year from over 60 applications, with aspiration to contribute about 20 percent of total government revenue (or over US\$43 million) (Annex Figure 2). The contributions to the treasury fund are expected to support households' relocation to higher grounds as Nauru adapts to vulnerabilities from climate change.

<b>Table 1. Nauru: Citizenship Programs for Selected Small Developing States</b>			
<b>Country</b>	<b>Inception Year</b>	<b>Minimum Investment (USD)</b>	<b>Processing Time</b>
<b>St. Kitts and Nevis</b>	1984	\$250,000	3-6 months
<b>Dominica</b>	1993	\$100,000	3 months
<b>Antigua and Barbuda</b>	2013	\$250,000	3-4 months
<b>Grenada</b>	2014	\$250,000	4-6 months
<b>St. Lucia</b>	2015	\$100,000	3 months
<b>Vanuatu</b>	2017	\$130,000	1-2 months
<b>Nauru</b>	2025	\$105,000	3-4 months

Sources: National authorities and IMF staff estimates.  
Note: None of the programs in these countries have residency requirements. Common eligibility often requires primary applicants to be at least 18 years old with good character and make a financial contribution. Other than a direct financial contribution, some countries offer alternative options such as investment in real estate or in startups of local firms.

<sup>1</sup> Prepared by Krishal Prasad.

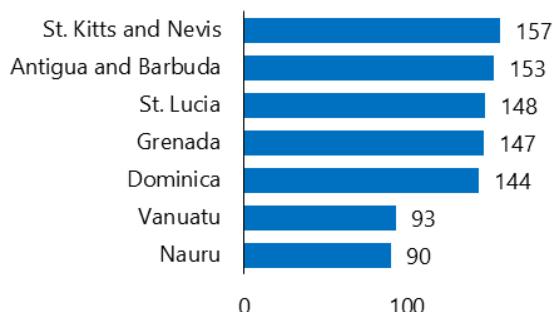
<sup>2</sup> With its landmass of only 21 square kilometers (8 square miles), Nauru is at significant risk from encroaching tides on its coastal areas, which rise 1.5 times faster than global averages. The country plans a inland relocation, while its fertile coastal fringe is being eroded. Nauru's significant pure phosphate deposits (key ingredient in fertilizer) were largely depleted, leaving 80 percent of the island uninhabitable.

<sup>3</sup> The Nauru Program Office is based in New Zealand. It is run independently by the advisory practice arm of a law firm

## B. Cross-Country Experience

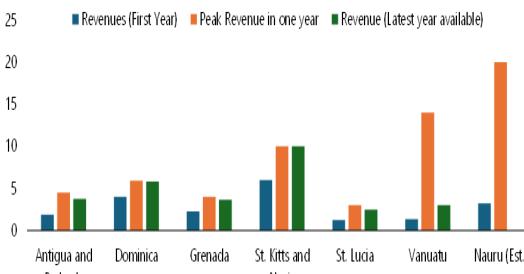
**3. Economic Citizenship Programs (ECP) have been adopted in small developing states across regions over the last two decades.** Investors' rising demand for ECPs was primarily driven by (i) tax and estate planning; and (ii) growing needs for convenient travels in the face of tighter travel restrictions and security concerns. Small developing states such as Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and Vanuatu have citizenship programs ([Annex Table 1](#)). These programs often entail limited or no residency requirements, reduce the scope for income taxation (particularly on cross-border taxation), and provide convenient travel visa free access to major economies.

**Figure 1. Visa-Free Destinations for Selected Small Developing States**  
(Number of countries)



Sources: National authorities.

**Figure 2. Fiscal Revenues from Economic Citizenship Programs across Selected Countries**  
(Percent of GDP)



Sources: National authorities and IMF staff estimates. Estimates of Nauru are based on authorities' announcement. The actual revenue for FY2025 was at AU\$0.24 million (less than 0.1 percent of GDP).

**4. Across countries, ECPs generate different sources of inflows to local economies but they may also exacerbate imbalances.** ECPs often generate inflows through fiscal revenues, contributions to public trust funds, and foreign investments, which may bring large economic impact to selected sectors for small states. Additional fiscal revenues could also help reduce fiscal deficits and finance developments if managed prudently, but countries also face procyclical fiscal policies from volatile ECP revenues (Xu, El-Ashram, and Gold, 2015). Supporters also consider that ECPs can create jobs, bring new investments to local economies (such as real estate sector), and diversify growth beyond tourism and agriculture. For example, ECPs in St. Kitts and Nevis and Dominica have reported sizable inflows to real estate sectors, supporting local construction activity, although the inflows could have exacerbated imbalances (e.g., overvaluation of property sector). However, additional inflows from foreign direct investment (FDIs) or portfolio investment in trust funds may lead to higher imports and current account imbalances, particularly in small developing states with high import dependency. For example, Grenada saw an increase in foreign direct investment from its citizenship investment program, prompting rapid developments of high-end real estate projects tailored to high net-worth individuals. In Antigua and Barbuda, while the citizenship program has led to a boom in construction activity and jobs in tourism, large demand for

housing drove up prices, making it difficult for local residents to afford homes (Clerides, Coelho, Klemm, and Kotsogiannis 2025).

**5. Cross country experience suggests that economic conditions, regulatory frameworks, and geopolitical factors are key determinants for the uptakes of ECPs.** Countries with economic and political stability, favorable growth prospects often attract foreign investment more successfully. The presence of transparent regulatory frameworks (e.g., due diligence in verifying ECP applicants and their transactions) and ease of doing business are also key determinants for the ECP uptakes (Gold and Myrvoda, 2017). A positive international reputation further bolsters ECPs, because potential investors often prioritize security. The design of ECP programs, including the range of investment options and benefits from citizenship, also plays a role.

## C. Risks Associated with Economic Citizenship Programs

**6. Economic citizenship programs present financial risks and challenges to the domestic economies, which could outweigh potential benefits among small developing states.** Common risks of economic citizenship programs include:

- *Overestimated inflows and exacerbating imbalances.* Governments may overestimate the potential fiscal revenues from ECPs, which typically only reach 2-4 percent of GDP over the medium term (Figure 2). The initial surge in demand may not be sustained over time. Investment inflows from ECPs are inherently volatile and susceptible to the risks of sudden-stop or policy reversal, which would exacerbate economic imbalances or vulnerabilities in small developing states. As the primary assets underpinning inflows are the visa-free access or residency rights granted to foreign investors, a loss of these privileges could precipitate a sudden halt in inflows (Clerides, Coelho, Klemm, & Kotsogiannis, 2025). Changes in visa policies by advanced economies represent a significant risk that could reduce the attractiveness of these programs. Investors also become more cautious as global scrutiny on financial integrity intensifies. The volatility creates a range of vulnerabilities across the real (e.g. housing), fiscal, external, and financial sectors, posing substantial challenges for economic management in small states.
- *Risks of money laundering and illicit financing.* Economic citizenship programs often present risks for financial integrity and governance, such as money laundering, tax evasion, and other potential criminal activity, especially if the programs are not properly managed. ECPs can inadvertently enable criminals to gain access to countries with less stringent security measures. The increased mobility from visa-free access in citizenship programs could aid illegal operations, including drug trafficking and terrorism. Lack of comprehensive background checks in some ECPs could obscure individuals' identities.<sup>4</sup> Overall, these programs could pose

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<sup>4</sup> For instance, reported incidences in Vanuatu (Asia/Pacific Group on Money Laundering, 2018) and Grenada (Caribbean Financial Action Task Force, 2022) raised concerns about compliance with international AML/CFT standards. Programs in St. Kitts and Nevis faced allegations that individuals with organized crime and money

(continued)

reputational damage to offering countries and could be detrimental to their financial sector and the broader economy. In the case of Vanuatu, concerns over compliance with global AML/CFT standards contributed to a withdrawal of visa-free access to other, leading to a sharp decline in inflows (from 14 percent of GDP in its peak in 2020 to around 3 percent of GDP now).

- *Governance challenges and reputational risks.* ECPs among small developing states often operate with inadequate regulatory oversight given limited capacity, making them vulnerable to governance and corruption issues (FATF/OECD, 2023). The involvement of multiple agencies in a country without a cohesive governance structure could create gaps in due diligence and governance, hindering effective compliance, monitoring, or enforcement in the economic citizenship programs. Countries initiating ECPs also face the risks of policy reversal from other countries, such as the revoke of visa-free access or tighter investment restrictions.

## D. Policies to Manage Risks

**7. Establishing a sound framework with adequate oversight will help ensure the integrity and transparency of the Nauru's economic and climate resilience citizenship program.** As Nauru leverages the citizenship program to build resilience against natural disasters and attract foreign investment for sustainable growth, strong commitment to uphold high standards in vetting applicants and monitoring is essential. This involves rigorous assessment on individuals seeking citizenship, as well as continued monitoring after citizenship is granted, thereby mitigating risks associated with illicit activities. Appropriate corrective measures should be in place for non-compliance or fraudulent behavior that may arise, safeguarding the reputation and integrity of its program. Several areas of good practices are discussed below:

- *Accounting for the citizenship program in current fiscal framework.* The budget has reflected the potential revenues from the program in Nauru. Similar to sound practices in other countries, the framework should have prudent estimates of potential revenue inflows to limit unsustainable rise in spending (Xu, El-Ashram, and Gold, 2015).
- *Enhancing Integrity and Transparency.* The authorities should develop a regulatory framework that mandates regular and independent assessments of the citizenship program. Publicly available reports should include key metrics such as the number and demographic data of applicants, associated fees and inflows, and the outcomes of vetting process. A centralized database accessible to relevant authorities can track applicants and their investment sources, which ensure transparency. Possible cross-references with global or regional databases can identify risks. Clear guidelines on the vetting process should include risk assessment to evaluate applicants based on financial activity, criminal background, and links to terrorism or other high-risk jurisdictions or activity. The authorities could consider fostering collaboration with existing

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laundering had gained citizenship, prompting calls for enhanced vetting to safeguard the integrity of the program (Transparency International, 2018). The citizenship program in Dominica in 2017 found fraudulent documents or applicants' misrepresentation of identities (Best Citizenships, 2017).

international bodies to (i) ensure responsible investment migration and taxation; (ii) combat the misuse of ECPs.

- *Putting in place a sound monitoring mechanism.* Continued monitoring of AML/CFT risks of the ECPs could respond to emerging threats. The period assessment can be formalized in reviews, involving key stakeholders from government, private sector, and civil society. Lessons from the early implementation of the citizenship program can then inform future policy adjustments.

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## Annex VII. Climate Resilience and Adaptation Policies<sup>1</sup>

### A. Climate Trend and Natural Disaster Risks

**1. Nauru is a small developing state in the equatorial Pacific Ocean, characterized by a hot and humid equatorial climate.** With stable year-round temperatures at an average of 28°C, Nauru experiences nearly constant rainfall with no pronounced dry season (Government of the Republic of Nauru, 2019a). Annual precipitation totals around 2,000 mm/year, significantly higher than the global average of 1,060 mm/year, reflecting Nauru's wetter-than-average climate compared to most nations (Annex Figure 1).

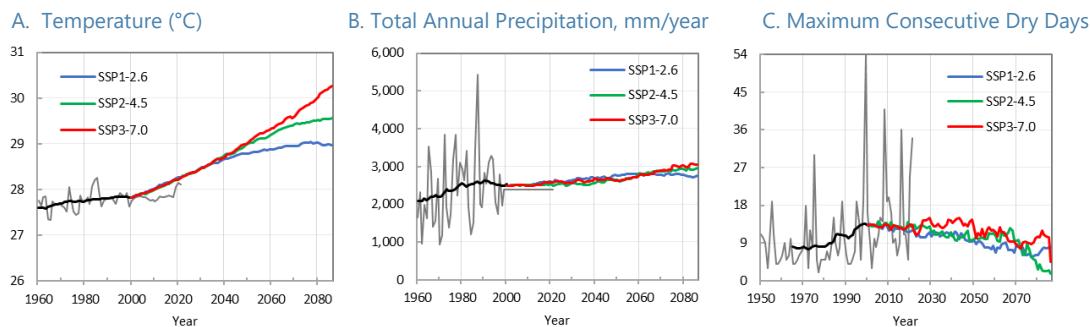
**2. Nauru exhibits a gradual warming trend, consistent with global climate change patterns.** The annual mean temperature is projected to continue rising, with the rate of warming depending on the global emissions scenario. The equatorial location and climatic conditions help limit the occurrence of the extreme heat (over 35°C)—a level above which would imply severe impact on the economy.

**3. The trend in the historical precipitation shows substantial inter-annual variability but no clear long-term change in total annual rainfall.** Nauru's precipitation history is characterized by significant variability driven by the El Niño Southern Oscillation (ENSO) and the seasonal movement of the Intertropical Convergence Zone (ITCZ), both of which influence water availability and quality—challenges that align with those in other Small Island Developing States (SIDS) (CSIRO, 2021). Precipitation projections for Nauru based on CMIP6 data suggest a potential increase in mean annual rainfall under various climate scenarios (Annex Figure 1), aligning with broader Western Pacific trends, though uncertainties remain due to the island's small size and equatorial position.

**4. Droughts are a significant concern, which could often lead to water shortages and affect groundwater quality, although projections do not point to a further deterioration.** Although historical precipitation trends in Nauru reveal no significant long-term shift in total annual rainfall, substantial variability driven by ENSO and modulated by seasonal movements of the ITCZ is evident, with notable droughts (1998–2001, 2009–2010 and 2015–2017) leading to water shortages and degrading groundwater quality (Kuleshov et al., 2014; McGree et al., 2016; ReliefWeb, 2017). Alongside a potential increase in mean annual rainfall under various climate scenarios, projections from CMIP6 data indicate that Nauru may experience a decline in the maximum number of consecutive dry days (CDD) per year, however, these changes are minimal when compared to the island's pronounced exposures to severe drought (Annex Figure 1). Disaster data show no clear trend in major flood events, but uncertainty remains due to limited historical records.

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<sup>1</sup> Prepared by Emanuele Massetti and Filippos Tagklis (both FAD).

**Figure 1. Historical and Projected Climate in Nauru**

Source: FADCP Climate Dataset (Massetti and Tagkis, 2024), using CRU data (Harris et al., 2020), and CMIP6 data (Copernicus Climate Change Service, Climate Data Store, 2021).

Notes: The gray line describes historical mean annual temperature (precipitation) based on observations (CRU and ERA5 for CDD). The black line describes the 30-year moving average of historical data centered around each year. Colored lines represent the median of 30-year moving averages of CMIP6 ensemble temperature anomalies added to the CRU value (thick black line in the year 1999). SSP3-7.0 (red) is a high emission scenario. SSP1-2.6 scenario (blue) is in line with the Paris goal to keep global mean temperature increase below 2 °C with respect to pre-industrial times. SSP2-4.5 (green) represents continuation of present trends.

**Table 1. Nauru: Projected Changes in Tuna-Fishing Access Fees and Fiscal Revenues for Selected Pacific Island Countries**

Pacific SIDS	Average 2015–2018			Change by 2050 (RCP 8.5)			Change by 2050 (RCP 4.5)		
	Gov Revenue (M US\$)	Access Fees (M US\$)	Access Fees % of Gov Revenue	Purse-Seine Catch (%)	Access Fees (M US\$)	Government Revenue (%)	Purse-Seine Catch (%)	Access Fees (M US\$)	Government Revenue (%)
Cook Islands	126.1	13.5	10.6	-4	-0.5	-0.4	8.9	1.2	1
FSM	150.6	68.4	47.6	-13	-8.9	-5.9	-2.7	-1.8	-1.2
Kiribati	181.7	128.3	70.6	-8.2	-10.5	-5.8	6.9	8.9	4.9
Marshall Islands	66.1	31	47.8	-0.7	-0.2	-0.3	2.1	0.7	1
Nauru	98.6	29.5	31.1	-21.6	-6.4	-6.5	5.7	1.2	1.7
Palau	75.2	7.1	9.4	-0.3	-0.02	-0.03	3.1	0.2	0.3
PNG	3360.8	134.3	4	-33.1	-44.4	-1.3	-15.5	-20.8	-0.6
Solomon Islands	429	41.3	9.6	-26.1	-10.8	-2.5	-8.7	-3.6	-0.8
Tokelau	16	13.4	84.2	-16.1	-2.2	-13.4	5.7	0.8	4.8
Tuvalu	47.4	25.6	53.9	-23.4	-6	-12.6	3.4	0.9	1
Total	492.4				-90	-12		-12	-1

Source: Bell et al., Nature Sustainability, 2021.

Notes: The 2021 Nature Sustainability study, Pathways to sustaining tuna-dependent Pacific Island economies during climate change, investigates the economic impacts of climate-driven tuna redistribution on ten Pacific Small Island Developing States (SIDS), including Nauru, by 2050. It projects that under a high-emissions scenario (RCP 8.5), tuna biomass in these SIDS' waters could decline by an average of 13%, reducing purse-seine catches by 20% and leading to a US\$90 million annual loss in regional tuna-fishing access fees. This decline threatens government revenues, with an average drop of 12% across the SIDS under RCP 8.5. Under a lower-emissions scenario (RCP 4.5), the catch decline is only 3%, and revenue losses are significantly reduced, offering a more sustainable outlook. The study underscores the need for adaptive fishery management.

Table data reflects average government revenue, access fees, and the percentage of government revenue from access fees for 2015–2018, with projected changes under RCP 8.5 and RCP 4.5 scenarios by 2050.

## 5. Rising ocean temperatures, acidification, and shifting currents in the Western Pacific Ocean pose serious risks to Nauru's fisheries—a key economic resource.

Sea surface temperatures are projected to rise by 1.2–2.4°C and pH to decline by 0.25–0.3 units by 2100 under SSP3-7.0, while a weakening Pacific Equatorial Undercurrent may further disrupt marine conditions. These changes could reduce fish stocks around Nauru through habitat shifts and declining productivity, with models projecting a 15–30 percent drop in tuna catch by 2050–2100 (Bell et al., 2021). Under a severely extreme scenario (Representative Concentration Pathway (RCP) 8.5), regional tuna biomass may decline by 13 percent by 2050, leading to a 20 percent fall in purse-seine catches and annual losses of roughly US\$90 million in fishing fees (Bell et al., 2021). Given the dependence on fishing license revenues, such impact would threaten fiscal revenues, external sector stability, and more broadly economic resilience. The moderate scenario (e.g., RCP 4.5) would significantly reduce these losses (Annex Table 1; Bell et al., 2021), though uncertainty remains, as Nauru could see a slight increase rather than a decrease. To manage these risks, Nauru could engage in regional fisheries governance to secure its economic interests despite changing fish distributions.

## 6. Nauru is also exposed to the sea level rise.

Since 1993, observational data have shown a 5 mm per year increase, exceeding the global average of approximately 3.3 mm/year (IPCC 2021; NASA 2022). This trend is projected to accelerate with the sea level projected to increase by 56–85 cm in this century (2000–2100) (Annex Figure 2). Low-lying coastal areas in Nauru will be permanently inundated. Storm surge floods will become both more frequent and impactful, and saltwater may intrude already limited groundwater resources. This creates large risks for Nauru because the majority of the population lives along a narrow low-lying coastal band (known as the "Bottomside").

## B. Macroeconomic Impact

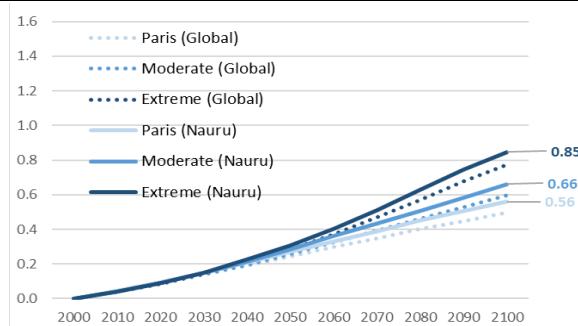
### 7. Sea level rise and changes in the marine environment are of macro-critical concern and

**would require adaptation plans.** While it is impossible to rule out catastrophic changes due to high uncertainties, climate trends and projections do not indicate a substantial worsening of weather-related risks. These risks can be controlled by addressing already existing development criticalities, for example in waste management and in water collection and distribution. At the same time, sea level rise and potential shifts in the distribution, quality, and quantity of fisheries from changes in the marine environment create new risks that could be macro-critical, which can pose profound impact on people's livelihoods and public finances.

### 8. The government has already developed an effective strategy to adapt to sea level rise.

It launched the "Higher Ground Initiative" to relocate homes and critical infrastructure away from

**Figure 2. Projected Rise in Sea Level for the Globe and Nauru**  
(Rise in meters relative to 2000 levels)



Source: Sea-level rise projections from the CIAM model database (Diaz, 2016) based on data from Kopp et al. (2014). Notes: Local (solid) and Global (dotted) Sea-Level Rise (SLR) probabilistic projections until 2100 under three emission scenarios (Paris - RCP 2.6; Moderate - RCP 4.5; Extreme - RCP 8.5). Median SLR for each emission scenario.

low-lying coastal areas, which is considered as an efficient adaptation to sea level rise. Homes and critical infrastructure will be relocated from the flood-prone "Bottomside" to the rugged, higher-elevation "Topside" of the island.<sup>2</sup> This strategy effectively reduces risks, offers an opportunity to restore areas degraded by phosphate mining, and can help pioneer sustainable urban development in the Pacific Islands. Empirical analysis finds that planned relocation (from low-coastal areas) is the least-cost option in Nauru after considering all costs and benefits across a broad range of options (Annex Figure 3). Other adaptation measures, such as coastal protection using natural and man-made barriers or coastal engineering techniques such as beach nourishment, would be more costly.

## **9. Challenges of an orderly relocation**

### **should not be underestimated.**

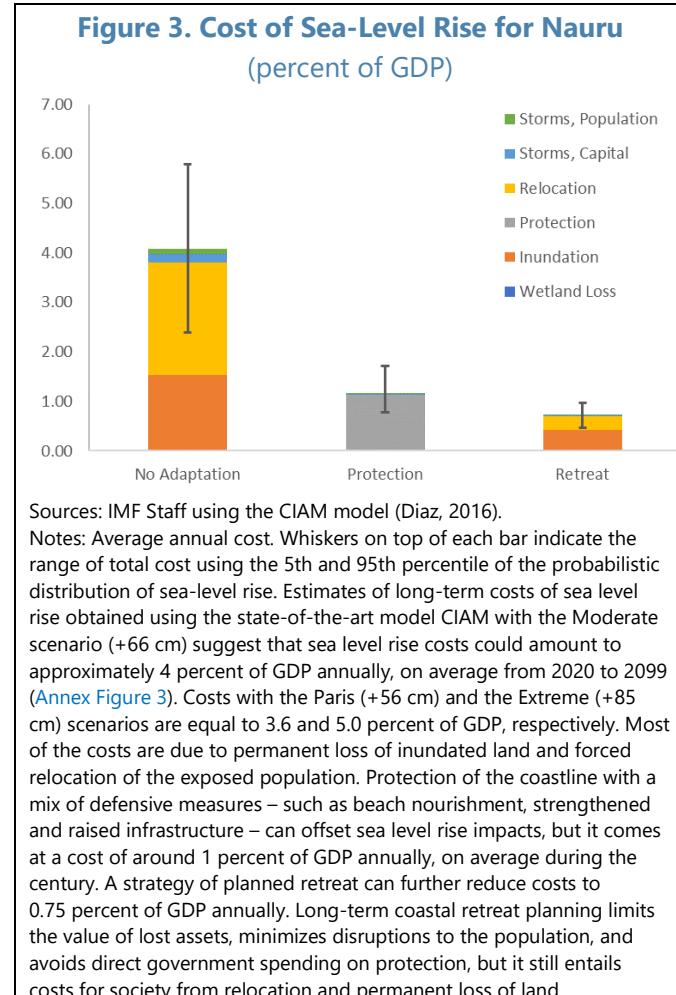
The development of the master land use plan, included in the Nationally Determined Contributions, is a priority. A more dynamic legal and regulatory framework to govern land ownership would enhance the efficiency of land use in Nauru, as recognized by the National Sustainable Development Strategy 2019–30, while facilitating relocation from coastal areas (Government of the Republic of Nauru, 2019b).

## **10. Efficient management of regional fisheries is key to maximize regional catch, which would provide resources to facilitate adaptation.**

Reinforcing regional fisheries governance among Pacific Island countries helps minimize economic risks because of larger local changes in fish distribution than those in the larger Western Pacific region (Bell et al., 2021). It also enhances regional coordination to minimize risks from overfishing in neighboring Exclusive Economic Zones. Regional schemes, such as in the forthcoming National Coastal Fisheries Management Plan, prepared in accordance with the Coastal Fisheries and Aquaculture Act 2020, should reflect changes in fisheries because of the changing oceanic environment.

## **11. With limited fiscal space, Nauru should make efficient use of adaptation expenditures among competing development needs.**

Adaptation spending should be optimally allocated within



<sup>2</sup> The Higher Ground Initiative is described in the [Updated Nationally Determined Contribution](#) and in Government of the Republic of Nauru (2019).

the overall budget envelope, considering all synergies and trade-offs among all development needs. Cost-benefit analysis, applied to adaptation projects as well as to all other development projects, is a key tool to prioritize funding and maximize synergies (Bellon and Massetti, 2022). For example, the upgraded, more accessible, and climate resilient seaport, financed by the Green Climate Fund and the Asian Development Bank, represents an important first step to boost economic potential and strengthen key infrastructure against sea-level rise risks. Investment in solar power generation improves the balance of payment by reducing fossil fuel imports, reduces greenhouse gases emissions, and provides a reliable energy source to address growing energy needs from air conditioning, a form of adaptation to higher temperatures. A strong public financial management (PFM) framework could promote the efficient and effective adaptation expenditures, because it ensures spending is properly allocated, implemented, and monitored. The PFM framework enhances strategic allocation of resources to climate initiatives, prioritizes public investment projects for climate resilience, and responds swiftly to natural disasters.

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## Annex VIII. Deep-Sea Mining in High Seas<sup>1</sup>

**1. Deep-sea mining (DSM) is the process of retrieving mineral resources from the ocean floor** (around 3,500-5,000 meters deep), including polymetallic nodules and sulphides, and cobalt-rich ferromanganese crusts. These mineral resources contain critical inputs in the manufacture of high-technology devices, renewable energy systems, and batteries for electric vehicles. The deep-sea mining activities in the high seas (international waters) are regulated by the United Nation's International Seabed Authority (ISA). The ISA awarded several exploration contracts (but not extraction) in the Clarion Clipperton Zone (central Pacific Ocean west of Mexico), to the Nauru Ocean Resources Inc. (NORI), a subsidiary of a Canadian company, under the sponsorship of the Republic of Nauru. In partnership with Nauru, NORI has progressed with a comprehensive seabed-to-surface research program in one of its designated areas, NORI-D, that is believed to contain the largest unexplored nickel deposit.<sup>2</sup>

**2. Government of Nauru has requested the ISA to approve undersea mining and put forward regulations for the industry.** Nauru's position is supported by some Pacific island nations, including Kiribati, Tonga, and the Cook Islands. In 2021, Nauru invoked a regulatory rule in the ISA that effectively set a two-year timer for the ISA to determine regulations for the nascent industry. The ISA has not made a decision since 2023, and has indicated recently that if activity in the high seas violates international law, the existing exploration permits issued could be revoked. The situation remains uncertain with respect to the eventual outcomes. More than 20 countries, including several pacific islands countries, have advocated for a moratorium on mining activities until further assessment of environmental consequences is conducted. The extraction in a largely untouched region has raised concerns of irreversible damage to the marine ecosystem.

**3. Economic impact from extractive activity in the deep sea is uncertain.** Deep-sea mining could bring additional fiscal revenues for Nauru and open new sources of foreign investment. Currently, Nauru receives an annual administration fee from the company (about US\$650,000 in 2023). Nauru could also receive a fixed payment from corporate operations for every ton of nodules extracted from the seabed once production begins. The revenues generated from mining activities are pledged to a fund, which Nauru's government intends to manage transparently for equitable returns to local communities. Nauru sees it as a way to enhance its economic resilience, create jobs, attract foreign investment, with potential revenues reinvesting in infrastructure and social services. Nonetheless, the impact is highly uncertain depending on the UN decision, subsequent corporate investment, and the final revenue-sharing arrangements with Nauru government.

**4. Given large uncertainty, staff baseline forecast does not include the activity.** As deep-sea mining is still a nascent industry, unilateral actions or joint ventures on high seas without the ISA

<sup>1</sup> Prepared by Krishal Prasad.

<sup>2</sup> This area, which makes up 22 percent of The Metals Company's total estimated resources in the CCZ. Since 2012, NORI has completed 22 offshore research campaigns to define the nodule resource, develop an environmental baseline of the area, and monitor the impacts of the pilot collection system test

endorsement could give rise to significant contingent liabilities that possibly outweigh corporate guarantees—such as legal challenges, revoke of exploratory license, environmental and social concerns, and potential loss of income from fishery—particularly if Nauru serves as a sponsoring country for the mining activity.

## Annex IX. Small Developing States Engagement Box<sup>1</sup>

<p><b>Policy objectives and constraints:</b> Nauru faces significant challenges in putting in place the foundations for sustainable development. Similar to other small developing states (SDS), challenges stem from its geographical remoteness, small landmass, limited capacity, and exposures to natural disasters. Nauru has the additional challenge of diversifying from the depleted phosphate sector that was once the key export. Weak educational attainment and health outcomes, as well as the lack of a vibrant private sector, are key impediments for growth. These constraints had led to the pursue of nontraditional revenues such as offshore banking in the past. External shocks have knock-on effects, impacting Nauru's macroeconomic stability and growth prospects.</p> <p>Nauru has made steady progress to address these interconnected challenges under its national development plans. But the financing needs for development remain pressing, necessitating a more durable and predictable funding solution to avoid procyclical spending and ensure sustainability. Coordination among key stakeholders will be crucial.</p>	
<p><b>Engagement areas and plans.</b> Against this background, Fund engagement with Nauru focuses on both surveillance and capacity developments (CDs) priorities, while collaborating with other key development partners (DPs) to provide synergies.</p>	
<b>Lifting up potential growth and enhancing diversification</b>	Creating a conducive environment for private sector entrepreneurship is essential and can be achieved by streamlining business regulations, enhancing financial access for small and medium enterprises. Enhancing primary and secondary education and vocational training to address skills gap, promoting FDI, and investing in sustainable infrastructure to leverage Nauru's unique natural oceanic resources and cultural heritage. New areas such as deep-sea mining and digital assets will require careful consideration. Staff will continue to coordinate with other DPs, including the Asian Development Bank (ADB), World Bank, and other bilateral development partners.
<b>Laying the groundwork for medium-term fiscal adjustments</b>	Medium-term fiscal adjustments can help address economic vulnerabilities. This involves building fiscal buffers and mobilizing revenues while ensuring efficient public expenditure. Past Fund advice included prioritizing expenditure policies that promote growth and resilience while reprioritizing nonessential spending items to more productive use. Ongoing surveillance and collaboration with development partners will focus on formulating long-term fiscal strategies in line with development goals.
<b>Broadening the tax base</b>	Past Fund advise recommended to broaden the tax base. The authorities have initiated a pilot audit program to raise awareness and improve collections. The launch of a new taxpayer identification number (TIN) database and the ADB-supported Small State IT Solution project aim to improve revenue collection and administration through digitalization.
<b>Strengthening public financial management</b>	The Fund, through PFTAC and CDOT, has supported Nauru by compiling national account and external sector statistics and assisting the authorities to explore different macro-fiscal scenarios. Engagement through technical assistance has examined government compensation schemes and public debt management. Engagement with PFTAC will emphasize the need for robust surveillance to ensure a sound fiscal framework, such as preparing medium-term fiscal plans and improving cash management.
<b>Developing correspondent banking relationships (CBR)</b>	The risk of debanking has affected Nauru, particularly with the announced exit of Bendigo Bank, the only provider of banking services. The Commercial Bank of Australia is on track to establish operations to ensure a smooth transition. Engagement with the authorities focus on identifying the possible bottlenecks in the transition and corresponding measures to reduce risk. Nauru should continue to ensure a smooth transition and limit the future risk of debanking, thereby safeguarding financial stability.
<b>Monitoring AML/CFT risks</b>	Strengthening the AML/CFT system remains essential for safeguarding banking in Nauru and maintaining CBRs access. Adopting FATF recommendations can further improve effectiveness. The authorities plan to update the National Risk Assessment, which, if appropriately conducted and in line with FATF guidance, will bolster the understanding of ML/TF risks in Nauru and support informed decision-making to strengthen the financial sector's integrity and resilience. Fund engagement includes providing technical advice on digital asset regulatory and supervision framework, and identifying the emerging financial risks, including those related to economic citizenship program and licensing of virtual asset service providers.
<b>Building resilience against natural disaster</b>	While efforts are underway, Nauru continues to be vulnerable to long-term climate challenges. Fund surveillance continues to focus on policies to strengthen resilience against natural disasters and extreme weather events.
<b>Enhancing data capacity</b>	Data provided to the Fund have some shortcomings and may somewhat hamper surveillance, including on national accounts and external sector statistics. Improving data quality and timeliness is essential to better assess the economy and formulate appropriate policies. The Fund CD engagement is expected to continue, with PFTAC covering real sector statistics and STA to compile the external sector statistics through CDOT.

<sup>1</sup> Prepared by Krishal Prasad.

## Annex X. Data Issues <sup>1</sup>

**Table 1. Nauru: Data Adequacy Assessment for Surveillance**

<b>Data Adequacy Assessment Rating 1/</b>														
Please select your overall DAA rating from one of the circled buttons on the right.														
<b>Assessment</b>	Questionnaire Results 2/													
	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating							
C	C	B	D	NA	B	C								
Detailed Questionnaire Results														
<b>Data Quality Characteristics</b>														
Coverage	D	B	B	D	NA									
Granularity 3/	C		B	C	NA									
Consistency			B	C		B								
Frequency and Timeliness	C	C	B	D	NA									
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>														
A	The data provided to the Fund are adequate for surveillance.													
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.													
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.													
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.													
<b>Rationale for staff assessment.</b> Data availability and provision has notable shortcomings that significantly hamper surveillance. Nauru became an IMF member in April 2016. During the membership preparation in 2014-15, the authorities compiled data with the support of PFTAC technical assistance (TA). Most macroeconomic data remain unpublished and are compiled during TA missions by PFTAC and CDOT. Capacity remains limited despite additional staff recruited and assigned to the compilation of external and real sector statistics. Nauru has continued to rely on Fund TA, capacity supplementation, and donor support in compiling data. An absence of the ESS data hampers surveillance. There is only one staff in the National Bureau of Statistics (NBS) that is assigned and trained to compile ESS, therefore there is limited prospects of developing a self-sustained compilation program over the medium-term due to capacity constraints and unresolved institutional issues. The price statistics have shortcomings and there are no producer, wholesale, or trade price indices. The public sector accounts for an outsized role in the economy and fiscal budgetary data are generally timely and of good quality. There are no monetary and financial statistics available since the financial sector is still in early stage of development and Nauru does not have a central bank, but uses the Australian dollar as a legal tender.														
<b>Changes since the last Article IV consultation.</b> The authorities released the 2021 Census in August 2023 which included latests household information. The United Nations conducted and published its first MICS report in late 2024 on key socio-economic indicators. The Fund continues to provide capacity development to address previous shortcomings effectively.														
<b>Corrective actions and capacity development priorities.</b> The NBS should increase the number of suitably skilled technical staff for compiling national account and external sector statistics. Although the NBS has expanded its capacity (6 people), ongoing capacity development efforts by PFTAC and CDOT are essential for strengthening data adequacy and ensuring effective surveillance. In the absence of those technical assistance, the quality of data provided to the Fund would significantly impede surveillance efforts. Additionally, the NBS should independently initiate the collection and compilation of external sector statistics, reducing reliance on CDOT for capacity substitution.														
<b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Due to data shortcomings in the national authorities' publication of national account data, staff relies on its own GDP estimates. These estimates are informed by the rebasing of GDP conducted with technical assistance from PFTAC. Since external sector statistics are only compiled during TA missions on CDOT, staff have sometimes relied on its own estimates in Article IV consultations.														
<b>Other data gaps.</b> Substantial progress in enhancing data coverage and dissemination is needed.														

**Table 2. Nauru: Data Standards Initiatives**

Nauru does not participate in the IMF Data Standards Initiatives.
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<sup>1</sup> Prepared by Shujaat Khan.

**Table 3. Nauru: Table of Common Indicators Required for Surveillance**  
(As of July 2025)

	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange rates <sup>1</sup>	07/31/2025	07/31/2025	D	NA	NA
International reserve assets and reserve liabilities of the monetary authorities <sup>2</sup>	06/30/2025	07/11/2025	A	I	I
Reserve/base money <sup>3</sup>	NA	NA	NA	NA	NA
Broad money <sup>3</sup>	NA	NA	NA	NA	NA
Central bank balance sheet <sup>3</sup>	NA	NA	NA	NA	NA
Consolidated balance sheet of the banking system	NA	NA	NA	NA	NA
Interest rates	NA	NA	NA	NA	NA
Consumer price index	12/2024	06/2025	Q	Q	Q
Revenue, expenditure, balance and composition of financing <sup>4</sup> —general government <sup>5</sup>	FY2025	07/11/2025	Q	Q	Q
Revenue, expenditure, balance and composition of financing <sup>4</sup> —central government	FY2025	07/11/2025	Q	Q	Q
Stocks of central government and central government-guaranteed debt <sup>5</sup>	FY2025	07/11/2025	A	I	I
External current account balance	FY2025*	07/11/2025	A	A	A
Exports and imports of goods and services	FY2025*	07/11/2025	A	A	A
GDP/GNP	FY2023*	08/2024	A	I	I
Gross external debt	FY2025	07/11/2025	A	I	I
International investment position <sup>6</sup>	FY2025*	07/11/2025	A	A	A

\* Compiled by experts during technical assistance missions.

<sup>1</sup> Nauru uses the Australian dollar as its legal tender.

<sup>2</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means. Data on reserve position in the Fund and SDR holdings are available on the IMF website <https://www.imf.org/data/imf-finances>. Other reserve assets include deposits channeled via Bendigo Bank Agency into Bendigo Bank Australia which are considered cross-border and liquid and unrestricted government financial assets in Bendigo Bank Agency in Nauru are legitimately attributed to international reserves. Data on other reserve assets is from government of Nauru cash monitor.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> Fiscal year ending June 30 of the calendar year. The general government consists of the central government (budgetary funds, e budgetary funds, and social security funds).

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).



# REPUBLIC OF NAURU

August 22, 2025

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Asia and Pacific Department  
(In consultation with other departments).

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## FUND RELATIONS

(As of July 31, 2025)

**Membership Status:** Joined April 12, 2016; Article VIII

### General Resources Account:

	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	2.80	100.00
IMF's Holdings of Currency	2.12	75.71
Reserves Tranche Position	0.68	24.32

### SDR Department:

	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	3.55	100.00
Holdings	2.86	80.68

**Outstanding Purchases and Loans:** None

**Financial Arrangements:** None

**Projected Payments to Fund** (In millions of SDR, based on existing use of resources and present holdings of SDR):

	<b>Forthcoming</b>				
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
<b>Principal</b>					
<b>Charges/Interest</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>
<b>Total</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>

### Exchange Rate Arrangement

The de jure and de facto exchange rate arrangements are classified as no separate legal tender. Nauru's legal tender is the Australian dollar. There is no central monetary institution. Nauru has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

### Technical Assistance

Nauru has received technical assistance (TA) from the Pacific Financial Technical Assistance Centre's (PFTAC) and from the Capacity Development Office in Thailand (CDOT) in recent years. In FY2025, TA

provided by PFTAC and CDOT included developing a medium-term fiscal framework under PFM, assessing the public sector wage bill, strengthening revenue administration and public debt management, updating the GDP estimates, and compiling external sector statistics. In FY2024, PFTAC TA has offered additional support for the compilation of 2020-2021 GDP estimates and a review of tax administration and core tax functions. TA on external sector statistics delivered by CDOT is setting up a compilation program for the balance of payments and IIP statistics including addressing institutional issues.

### **Resident Representative**

The Regional Resident Representative Office for Pacific Islands is based in Suva, Fiji and was opened on September 13, 2010. The office covers Fiji, Kiribati, Marshall Islands, Micronesia, Republic of Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Neil Saker is the current resident representative.

**Technical Assistance Activities:****Table 1. Nauru: IMF Capacity Development**

<b>Provided by:</b>	<b>Topic:</b>	<b>Period:</b>
PFTAC	Statistics - National Accounts	July 2018
CDOT	Statistics - External Sector Statistics	October 2018
PFTAC	PFM – Transition to IPSAS Cash Reporting	February 2019
PFTAC	Revenue – Review of tax administration reforms	April 2019
PFTAC	Statistics - National Accounts – Building independent compilation capacity	May 2019
PFTAC	Revenue – Review organizational arrangements and core tax functions	September 2019
PFTAC	PFM – Financial Reporting on IPSAS Cash	November 2019
PFTAC	Government Finance Statistics	December 2019
PFTAC/FAD	Tax Policy Review	January 2020
PFTAC	Revenue – Organizational arrangements and core tax functions	March 2020
PFTAC	Macroeconomic Analysis Program	August-September 2020
PFTAC	Revenue – Revenue Administration Program	November 2020
CDOT	External Sector Statistics	November – December 2020
PFTAC	Government Finance Statistics	November – December 2020
PFTAC	Statistics – National Accounts	January 2021
PFTAC	Revenue – review administrative reforms	April 2021
PFTAC	Statistics – National Accounts	July 2021
PFTAC	Macroeconomic Program – Macro-fiscal model	August 2021
CDOT	External Sector Statistics	November – December 2021
PFTAC	PFM – Agile PEFA Assessment	March – May 2022
CDOT	Statistics - External Sector Statistics	October 2022
PFTAC	Statistics – Updating National Accounts GDP	November 2022
PFTAC	Revenue – Enhance compliance improvement strategy and improve core tax functions	February 2023
PFTAC	PFM Roadmap	February – April 2023
PFTAC	Statistics - Government Finance Statistics	April 2023
PFTAC	Revenue - Risk management of tax collection and tax audit capability development	June 2023
PFTAC	Revenue – Enhance compliance improvement strategy and improve core tax functions	August 2023
PFTAC	Statistics – Updating National Accounts GDP	September 2023
PFTAC	Macroeconomic Program - Macro-fiscal model	November 2023
CDOT	Statistics – External Sector Statistics	April 2024
PFTAC	Revenue – Strengthen revenue administration and governance arrangements	July – August 2024

**Table 1. Nauru: IMF Capacity Development (Concluded)**

PFTAC	Statistics – National Accounts	August – September 2024
PFTAC	PFM – Develop a medium-term fiscal framework	October – November 2024
PFTAC	Revenue – Review digitalization roadmap	November – December 2024
PFTAC	Expenditure – Public sector wage bill	March 2025
PFTAC	Medium-term fiscal framework	May 2025
PFTAC	Public Debt Management	June 2025
CDOT	Statistics – External Sector Statistics Compilation	July 2025

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other institutions in Nauru can be found at:

- World Bank Group:  
<https://projects.worldbank.org/en/projects-operations/projects-list?searchTerm=nauru>.
- Asian Development Bank:  
<https://www.adb.org/countries/nauru/main>.
- Organisation for Economic Cooperation (OECD):

The Development Assistance Committee (DAC) of OECD approved the graduation of Nauru from the DAC list of ODA Recipients but agreed to defer the date of effect of its graduation until 1 January 2026. In January 2026, the DAC will update the DAC list of ODA recipients to reflect Nauru's graduation. Nauru is currently in the DAC list of Official Development Assistance (ODA) recipients. <https://www.oecd.org/en/topics/sub-issues/oda-eligibility-and-conditions/dac-list-of-oda-recipients.html#oda-recipients-list>

**Statement by the IMF Staff Representative**  
**September 17, 2025**

*This staff statement provides information that has become available since the staff report (SM/25/209) was issued on August 26, 2025, including the new memorandum of understanding between Australia and Nauru. The information does not alter the thrust of the staff appraisal.*

- 1. The Commonwealth Bank of Australia (CBA) officially commenced banking agency operations in Nauru on August 18, 2025.** The CBA has in effect endorsed Nauru as a low-risk jurisdiction with a high level of financial inclusion. Banking services are available for deposit and real-time payments, including international payments in major currencies.
- 2. The government has published the budget bill for FY2025-26, which is in line with estimates in the staff report.** On September 2, the government tabled the budget papers for FY2025-26. The budget envisages a tighter fiscal stance relative to last year, with a small overall fiscal surplus similar to the estimates in the staff report. The budget also reflects the government priorities on growth and development, including scaling up investment in education and health, and reducing ex-gratia payment and subsidies to public enterprises.
- 3. The governments of Nauru and Australia signed a new memorandum of understanding (MoU) on the resettlement of former immigration detainees from Australia.** The MoU on the Third Country Resettlement Agreement, signed on August 29, contains undertakings of the long-term residence of non-citizens who have no legal right to remain in Australia and who cannot be transferred to their country of origins, to be received by Nauru. Australia will provide funding—which includes real income generated from a newly-established trust fund contribution of AU\$408 million and an annual payment of AU\$70 million (depending on the number of transferees)—to support the Third Country Reception Arrangement and contribute to Nauru’s economic resilience. The financial arrangement has not been included in Nauru’s FY2025-26 budget bill and will only be activated when Nauru receives the first transferees. The agreement represents an upside risk to growth and the thrust of the staff appraisal remains valid.

**Statement by Ms. Luu, Alternate Executive Director for the Republic of Nauru,  
and Ms. Choi, Advisor to Executive Director**  
**September 17, 2025**

Since joining the Fund in 2016, Nauru has valued the Fund's engagement through successive Article IV consultations. The authorities broadly agree with staff's assessment of the outlook, risks, and key policy priorities.

**Nauru, one of the world's smallest countries at just 8 square miles with around 12,000 people, faces unique vulnerabilities** due to its limited scale and isolation. The central plateau has been heavily mined for phosphate, leaving little coastal land for settlement and development. With no lagoon or natural harbor, nearshore fishing and port operations are technically difficult. Almost all food and fuel are imported at high cost, and economic activity is concentrated in the government and the Regional Processing Centre (RPC). While GNI per capita exceeds US\$10,000, this reflects external support and a small population base, masking both the high cost of living and the fixed costs of delivering essential services.

**Despite these challenges, the authorities have undertaken efforts to diversify the economy and upgrade infrastructure with continued donor support.** Asian Development Bank (ADB) and partner-supported projects, including the climate-resilient port, solar farms, and submarine cable, together with the Nauru-Australia Treaty of December 2024, have strengthened Nauru's medium-term outlook. The authorities are also maintaining active engagement with other regional partners to address structural challenges. Considering the significant risks of inaction in diversifying the economy and revenue base, any new initiatives will carefully balance potential benefits with associated risks and capacity constraints.

### **Recent Economic Developments and Key Risks**

**Since the last consultation, two major concerns have eased: the winding down of the RPC and the exit of Bendigo Bank (the only bank).** RPC activity has revived, supporting growth and government revenues. In addition to the existing RPC agreements, the Memorandum of Understanding between Nauru and Australia on the Third Country Resettlement Arrangement was signed on 29 August 2025. While not yet active, it is expected to offer longer-term and more stable financial support to Nauru, contributing to increased budget inflows and employment opportunities. On the financial side, the Commonwealth Bank of Australia (CBA) has taken over operations from Bendigo Bank since August 18, 2025 thereby ensuring the continuation of banking services.

**These developments, however, highlight the economy's underlying fragilities.** Fiscal sustainability and financial connectivity continue to rely heavily on external support. Limited administrative capacity could delay reform implementation. A key risk relates to possible graduation from official development assistance eligibility as Nauru approaches high-income status, which could reduce access to concessional financing and grants, thereby increasing reliance on more costly and shorter-maturity borrowing. Climate change and uncertainty in donor economies further add to these risks.

### **Fiscal Policy**

**The authorities are reinforcing fiscal sustainability through prudent anchors.** In FY2024-25, all three Fiscal Responsibility ratios were met—avoiding deficits, capping personnel costs at 30 percent of current expenditure, and maintaining cash buffers equivalent to two months of non-RPC expenditure—with the same targets set for FY2025-26 as outlined in the budget passed on August 29. Contributions to the Nauru Intergenerational Trust Fund (NTF), which complements these ratios and serves as an important buffer, remain on track.

**Fiscal reforms are underway, focusing on enhancing public financial management** in collaboration with the IMF and the ADB amid increasing budget inflows. A risk recognition and management system that quantifies fiscal vulnerabilities from new initiatives and provides the Cabinet with tools for timely mitigation is being developed. With assistance from the Pacific Financial Technical Assistance Centre (PFTAC), the authorities have developed a Public Financial Management Roadmap. SOE oversight has been reinforced through the Public Enterprise Monitoring Unit and Community Service Obligations, which provide funding for selected SOEs, have been withdrawn where possible.

**The authorities remain committed to containing wage pressures, fostering private sector employment, and strengthening the social safety net.** That said, while the private sector business environment remains limited, any adjustment in public employment will need to be gradual. Given the country's small population, limited administrative capacity, and data constraints, the costs and benefits of more sophisticated social protection measures—such as enhanced targeting to improve efficiency—must be carefully considered. The authorities appreciate staff's analysis in Annex V and will take it into account when preparing the budget and related reforms.

### **Financial Sector**

**Nauru's financial connectivity has improved with the entry of CBA.** As part of CBA's soft opening on August 11, around 8,000 account applications have been submitted, and the rollout of

related debit cards and mobile banking services are already well underway. Both the authorities and CBA are actively working to address potential bottlenecks to ensure a smooth transition. As Australia's largest bank under Australian supervision, CBA is expected to deliver a more reliable and stable banking service.

**That said, structural constraints remain.** Concentration from reliance on a single bank is unavoidable, given high fixed costs and low profitability, a common feature of small states. The more pressing concerns, however, lie in ensuring the sustainability of local access to even one bank and addressing the limited range of financial services, especially lending services. The lack of direct access to the global payments system via a single CBR has hindered inward investment and broader economic development, underscoring the need to address any negative perceptions from the international community and potential partners. The authorities value the Fund's ongoing efforts to help address correspondent banking issues in the Pacific and welcome continued attention to the evolving challenges and their policy implications.

**Nauru has not been on the OECD's list of uncooperative tax havens since 2003,** reflecting its commitment to transparency and information exchange. The authorities remain largely compliant with OECD standards and stand ready to actively address possible issues stemming from capacity constraints. Progress in AML/CFT continues, underpinned by new legislation and stronger institutions, as noted in the 2024 APG mutual evaluation. While exploring opportunities in digital assets by establishing the Command Ridge Virtual Asset Authority (CRVAA) to license and regulate virtual asset service providers, the authorities are taking a cautious and conservative approach. They are developing the framework in line with FATF standards, initially licensing only providers already regulated in well-supervised jurisdictions, and considering the Fund's technical assistance where appropriate.

### Diversification and Development Strategy

**Diversification efforts are underway, but they remain challenging due to the lack of economies of scale.** Alongside nearly completed infrastructure projects, other initiatives, such as the ADB-supported urbanization and water reticulation program, are advancing. The Small Business Enterprises Act 2025 and the Foreign Investment Act 2025 are expected to provide a stronger legal framework to encourage entrepreneurship and investment. The staff's advice on new initiatives such as the Climate-resilience Citizenship Program or deepsea mining has been invaluable and will be strengthening relevant efforts.

**The authorities recognize significant scope for improvement in education and health while prioritizing investments.** With a median age in the early 20s, the demographic dividend presents both an opportunity and a challenge. While education remains the largest per capita

investment in Nauru, reforms aim to attract qualified teachers, expand tertiary and vocational training abroad, and gradually phase out less effective scholarships. A National Education Dialogue will be launched to bring together policymakers, teachers, students, and parents to explore further improvements. In the health sector, the high prevalence of noncommunicable diseases, combined with limited domestic medical infrastructure, has led to substantial costs from overseas medical referrals. To address these challenges, the authorities are seeking to improve the system, including by outsourcing health services to a private provider, with the aim of enhancing quality and cost-effectiveness while carefully managing associated risks.

**For the first time, Nauru is developing a national anti-corruption strategy (NACS).** In February 2025, the Cabinet approved the drafting of the NACS and the establishment of a National Anti-Corruption Strategy Working Committee to guide its development, implementation, monitoring, and evaluation. The United Nations Office on Drugs and Crime regional office is supporting this effort with technical and financial assistance.

### **Engagement with the Fund**

**Nauru places high value on the IMF's rigorous economic analysis, policy advice, and capacity development,** as one of the Fund's newest and smallest members. The recent Article IV consultation and the technical assistance on public sector wages and employment have been especially valuable in identifying risks and providing practical policy guidance. Ongoing Fund support to improve data quality and availability is likewise helping the authorities advance evidence-based policymaking. While recognizing that significant work and capacity constraints remain in Nauru, they are confident that the Fund's efforts to deepen its understanding of microstates and to provide tailored advice will continue to serve small state members well. The authorities look forward to continued close and constructive engagement.