

Nauru's remarkable recent economic success

by Stephen Howes

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Nauru's phosphorous is almost gone, but it has found other sources of foreign income

Photo Credit: Stephen Howes

After a **disastrous first couple of decades** following independence in 1968, Nauru turned its economic fortunes around in the 2010s, with average annual per-person growth in national income of 4.9% between 2009 and 2024. In 2020, it was once again **reclassified as a high-income country**.

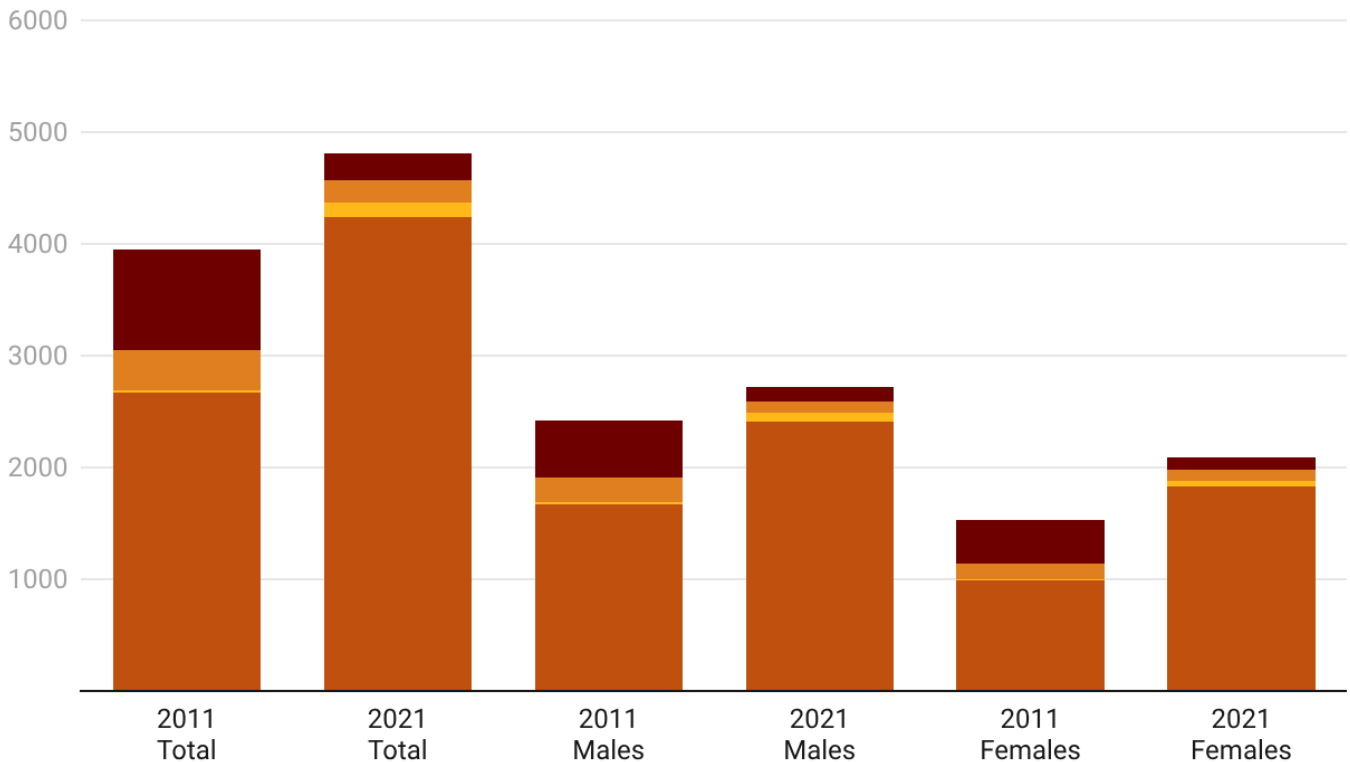
Nauru's boom has been caused by a surge in foreign income. Its ratio of foreign income to GDP grew from around 30% in the late 2000s to more than 60% now. The major sources of foreign income have been Australia's **Regional Processing Centre** (RPC), other aid and fishing licence revenue.

This influx of foreign income has transformed Nauru's economy, as a comparison of the country's two most recent censuses, in 2011 and 2021, confirms.

Between 2011 and 2021, the Nauru economy created 36% more jobs for men and, in a victory for gender equity, 74% more for women. The share of the population employed increased from 47% to 64%. Unemployment went down from 23% in 2011 to 5% in 2021. If any other boom worldwide has delivered similarly stunning results in such a short period, I am not aware of it.

Employment in Nauru, 2011 and 2021

Wage/salary earner Employer Other Unemployed

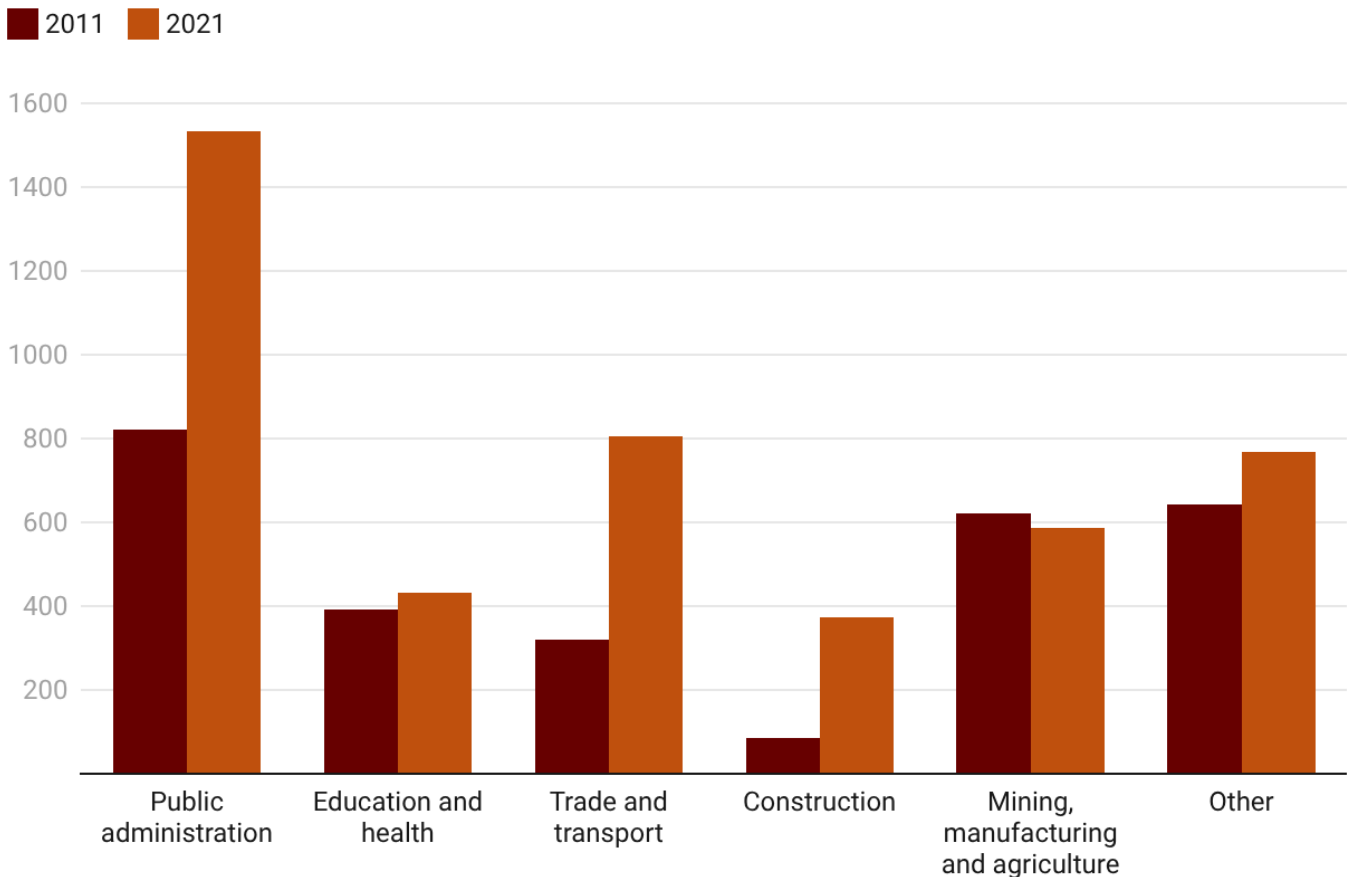


Source: Republic of Nauru Census 2011 and Census 2021.

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1,300 jobs were created over this period. The government used public sector employment to distribute its newfound foreign income among the population. The biggest job creator: public administration, where the number of jobs almost doubled. Unfortunately, there was hardly any increase in the number of education and health workers. But there were large increases in trade and transport, and in construction, responding to increased demand, as increased foreign income circulated through the economy.

Employment in Nauru by sector, 2011 and 2021



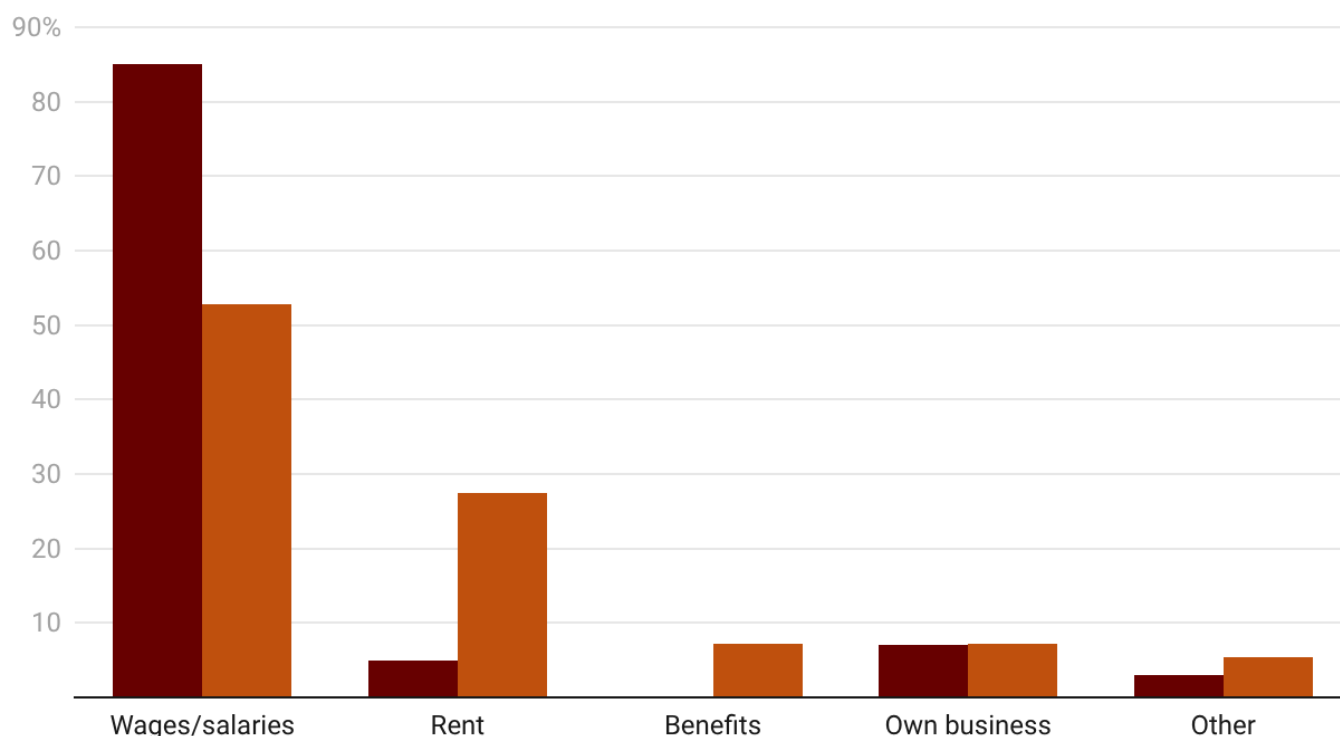
Source: Estimates from Republic of Nauru Census 2011 and Census 2021.

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Nauru's labour market has clearly been booming. But what is even more remarkable is that, given this, the share of households primarily dependent on wage or salary income collapsed between 2011 and 2021, from 85% to 53%. What new sources of income became available to households? Rents and pensions. The share of households getting their income primarily from rental income increased from just 5% to 27%. The share of households getting their income primarily from pensions or retirement benefits increased from zero to 7%.

Households in Nauru by most important income source

■ 2011 ■ 2021



Source: Republic of Nauru Census 2011 and Census 2021.

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Clearly, the government, its bottom line boosted by its new access to foreign income, could now afford to pay benefits. But why has rent become so much more important to Nauruan households? Part of it must be coming from the growing number of foreign businesses operating in Nauru (from the many Chinese restaurants to Australia's RPC). But this is also another way in which the government is sharing the wealth: in the [2020-21 budget](#), government land and house rental came to \$14 million, a significant amount compared to a salary bill of \$45 million.

While the 2021 census data is now a bit old, there is no sign of Nauru's boom having ended. The most recent indicator we have is trips to Australia. In the 1990s, 200–300 Nauruans travelled to Australia every month on average. As times got tough, this fell to 100 in the 2010s. Then, due to the boom of the 2010s, the number of visitors to Australia grew to 500 a month before the pandemic shut borders. After the pandemic, the number of visits started to increase again, and reached 600–800 a month last year: that is more than 5% of the Nauruan population visiting Australia every month. Departures and arrivals are almost identical; this is not migration, these are visits. Travel for temporary employment is also extremely rare; rather,

these trips are financed from disposable income.

Of course, there is no guarantee that Nauru's boom will continue. But the country has learned from its past. Having bankrupted its first Sovereign Wealth Fund (SWF), financed with phosphate profits, Nauru has created a **second, better-managed SWF**, which has grown from 20% of the size of the economy in 2016 to 100% now.

The bigger threat to Nauru's economic performance comes from its growing population. Nauru's population was stagnant over the 2000s but grew at an annual rate of 1.6% between 2011 and 2021. The foreign rents that Nauru has been so successful in attracting are unlikely to continue to grow indefinitely. The country's population growth means that these rents have to be divided between an ever-larger number of people.

Overall, Nauru has done extremely well to grow its economy and transform its economy for the benefit of its citizens. It has followed a heterodox strategy, ignoring much of the advice offered by **mainstream economists**. By trial and error, Nauru has come up with a mix of external revenue sources that, while controversial, does not, unlike its earlier experiments with offshore banking and passport sales, attract the opprobrium of major powers.

What Nauru needs now is a migration outlet to reduce population pressures and improve access to health and education. Despite its new-found wealth, Nauru actually has **the lowest life expectancy** of all the Pacific Island countries, which indicates the seriousness of the health challenges it is facing. A tiny country will always find it difficult to deliver quality health and education services, even a tiny rich country.

Now that Nauru has signed a **security treaty with Australia** similar to the **Tuvalu Falepili treaty**, it is well positioned to negotiate with Australia for the same **migration concessions that Tuvalu extracted**. This would mean that the hundreds of Nauruans who visit Australia every month would be able not only to shop and holiday in Australia, but also to benefit from Australia's world-class education and health services. And some would migrate permanently, taking pressure off Nauru's very limited island capacity and helping the country to sustain its remarkable economic boom.

*Notes: The Republic of Nauru's 2011 and 2021 censuses are available on the web. National income data is measured using **Gross National Disposable Income (GNDI)**, deflated by the GDP deflator. SWF and budget data obtained from Nauru government documents.*

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Author/s:

Stephen Howes

Stephen Howes is Director of the Development Policy Centre and Professor of Economics at the Crawford School of Public Policy at The Australian National University.

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