INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/34

REPUBLIC OF FIJI

February 2018

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF FIJI

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 2017 Article IV consultation with the Republic of Fiji, 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 February 5, 2018 consideration of the staff report that concluded the Article IV consultation with the Republic of Fiji.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 5, 2018, following discussions that ended on December 12, 2017, with the officials of the Republic of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 10, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Fiji.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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February 8, 2018

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700 19th Street, NW
Washington, D. C. 20431 USA

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

On February 5, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Fiji.[1]

Background

The economy is recovering well after Tropical Cyclone Winston and is expected to record its eighth consecutive year of expansion in 2017. Growth is expected to pick up to about 4 percent in 2017, underpinned by reconstruction activities, a vibrant tourism sector, and the recovery of agriculture production. The growth momentum is projected to continue in the coming years. Inflation declined sharply in recent months as the supply of food items started to normalize and is projected to remain around 3 percent.

Risks to the economic outlook are largely related to external developments. The economy is vulnerable to natural disasters that weigh on growth. A tightening of global financial conditions could affect capital inflows. In addition, a possible growth slowdown in China could affect Fiji through its trading partners, especially Australia and New Zealand. On the domestic side, a stalling of structural reform momentum could discourage private sector development and investment.

Sustaining strong growth will depend on maintaining financial stability, rebuilding fiscal policy buffers, and boosting private sector development. Improving the business environment will propel private investment and growth as fiscal and monetary policy support is gradually withdrawn.

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

Executive Board Assessment[2]

Executive Directors commended the authorities' prompt and effective response to Cyclone Winston with well-designed policies that supported the economy's strong recovery. Directors noted that, while the medium-term growth outlook is favorable, downside risks remain including from natural disasters, tighter global financial conditions, and vulnerabilities in the financial sector. Against this background, they emphasized the need to rebuild fiscal buffers, and press ahead with structural reforms to foster private sector development and maintain the growth momentum in the medium term.

Directors commended the structural reforms undertaken by the authorities, and emphasized the importance of implementing measures to boost private investment. They encouraged continued efforts in improving the business environment, including re-establishing a credit bureau with an adequate regulatory framework, upgrading leasing mechanisms to use land more efficiently, and rationalizing price controls to improve the allocation of resources. Directors welcomed the steps taken to build climate change resilience and encouraged the authorities to continue their efforts in this area. A few Directors supported the authorities' call to the Fund and other IFIs to enhance financial and TA support to vulnerable small states, in their efforts to build climate change resilience and access available climate financing.

Directors noted that the pickup in headline inflation was driven by temporary food shortages and that, since April 2017, inflation has been on a downward trend. However, they considered that underlying inflation pressure is likely to increase as the recovery becomes firmer and encouraged the authorities to stand ready to gradually tighten monetary policy. Directors also underscored the need to strengthen macroprudential policies and intensify financial supervision, including on non-bank institutions, to contain financial stability risks given the rapid credit growth in recent years. Efforts to continue strengthening the AML/CFT framework were also recommended.

Directors encouraged the authorities to pursue fiscal consolidation over the medium term to reduce procyclicality and maintain fiscal sustainability. While they considered the expansionary fiscal stance in fiscal year 2017-18 as appropriate to support the reconstruction efforts, they noted that fiscal buffers, including pension savings, should be rebuilt in the medium term to help Fiji remain resilient to adverse shocks and to place debt on a downward path.

Directors underscored the importance of improving data quality and its timely dissemination to better guide policymaking. They recommended broadening the coverage of government operations in the budget and increasing the reporting frequency of fiscal outturns. Directors encouraged the authorities to further relax exchange restrictions to meet requirements under Article VIII.

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

Table 1. Fiji: Selected Economic Indicators, 2013–18

Quota: SDR 70.3 million

	2013	2014	2015	2016	2017	2018
					Proj.	
Output and prices (percent change)						
Real GDP	4.7	5.6	3.8	0.4	3.8	3.5
GDP deflator	2.3	4.1	3.7	4.9	3.0	3.0
Consumer prices (average)	2.9	0.5	1.4	3.9	3.4	3.3
Central government budget (percent of GDP)						
Revenue	26.5	27.2	27.9	27.5	28.1	28.5
Expenditure	27.1	31.5	32.0	28.9	31.3	32.3
Fiscal balance	-0.6	-4.3	-4.0	-1.4	-3.2	-3.8
Public debt	49.7	48.2	46.2	46.5	46.6	47.3
Money and credit (percent change)						
Net domestic credit depository corporations	14.0	18.7	13.4	7.7	…	…
Net credit to government	-64.4	-79.9	-36.9	-49.8		
Private sector credit	9.2	15.5	14.4	12.9	…	…
Broad money (M3)	19.0	10.4	13.9	4.8	…	…
Monetary base	7.5	4.2	8.4	0.5	…	…
Central Bank Policy rate	0.5	0.5	0.5	0.5	…	…
Commercial banks deposits rate	1.8	2.2	2.7	3.0	…	…
Commercial banks lending rate	5.8	5.7	5.9	5.8	…	…
External sector (in percent of GDP)						
Trade balance	-27.7	-22.9	-20.8	-21.4	-21.9	-20.2
Services plus income (net)	13.1	10.0	11.1	10.6	10.0	9.0
Transfers (net)	4.9	5.4	6.1	5.8	6.2	6.2
Current account balance	-9.7	-7.6	-3.6	-5.0	-5.7	-5.0
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-9.6	-13.7	-5.8	-4.2	-9.1	-5.5
Of which: FDI (net)	-6.2	-6.9	-7.8	-6.3	-7.1	-4.9
Of which: Portfolio investment (net)	0.7	0.2	2.1	0.6	0.4	0.4
Of which: Other investment (net)	-4.1	-7.0	0.0	1.5	-2.4	-1.0
Errors and omissions	1.8	-7.1	-0.8	0.6	0.0	0.0
Change in reserve assets	1.8	-0.9	1.5	-0.1	3.5	0.6
Gross official reserves (in millions of U.S. dollars)	937	911	914	902	1,109	1,140
(In months of retained imports)	5.0	5.2	5.5	5.2	5.9	5.9
External central government debt (in percent of GDP)	14.2	14.8	13.6	13.7	13.7	13.9
Miscellaneous						
Output gap (in percent of GDP)	-1.1	1.5	2.3	-0.4	-0.1	0.0
Real effective exchange rate (average)	107.6	106.6	110.4	114.8	…	…
Exchange rate (Fiji dollars per U.S. dollar, period	1.84	1.89	2.10	2.10	…	…
GDP at current market prices (in millions of U.S.	4,190	4,484	4,344	4,666	5,079	5,387
GDP per capita (in U.S. dollars)	4,863	5,180	4,996	5,343	5,791	6,114
GDP at current market prices (in millions of Fiji dollars)	7,716	8,462	9,150	9,785	10,461	11,152

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

January 10, 2018

KEY ISSUES

Context. The economy is recovering after Cyclone Winston struck in February 2016. GDP growth is estimated to have rebounded to 3.8 percent in 2017 from 0.4 percent in 2016. It is projected to reach 3.5 percent in 2018 and stabilize at 3–3.5 percent in the medium term. The outlook is subject to significant downside risks related to natural disasters, a possible sharp adjustment in China, vulnerabilities in the financial sector, and capital outflows triggered by tighter global financial conditions.

Policy priorities. The main priorities are to maintain financial stability, rebuild fiscal buffers, and strengthen potential growth by boosting private investment. Average growth has been modest since 2000 but has picked up in recent years against the backdrop of political stability.

- **Monetary and financial.** Monetary policy should be tightened as the recovery becomes firmer and as global financial conditions become tighter. Macroprudential policies could be strengthened to contain financial stability risks. The vulnerabilities posed by the withdrawal of corresponding banking relationships should be addressed.
- **Fiscal.** Fiscal consolidation is needed to rebuild buffers, reduce procyclicality, and maintain fiscal sustainability. After the reconstruction is completed, withdrawing fiscal policy support should be a priority. Pension savings used to mitigate the impact of Cyclone Winston should be rebuilt.
- **External.** The external sector position was broadly consistent with fundamentals and desirable policy settings. The relaxation of exchange restrictions on the making of payments and transfers for current international transactions should continue towards fully meeting Article VIII, Section 2(a) requirements.
- **Structural.** Improving the business environment is necessary to foster private investment, increase competitiveness, and support GDP growth as policy support unwinds. Re-establishing a credit bureau will help improve the business environment and support financial stability.

Approved By
Odd Per Brekk (APD) and Daria Zakharova (SPR)

Discussions took place during November 29–December 12, 2017. The team comprised Pablo Lopez Murphy (head), Si Guo (both APD), and Rasmane Ouedraogo (STA), and was supported by Tubagus Feridhanusetyawan (Regional Resident Representative Office). Antoinette Kanyabutembo and Huan Zhang (both APD) provided support from headquarters. Executive Director Juda Agung and Lanieta Rauqeuqe (both OED) participated in policy meetings. The mission was joined by staff from the Asian Development Bank.

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ANNEXES

CONTEXT

1. **The economy is recovering after Cyclone Winston hit in February 2016.** Winston was a category-five storm and the most intense on record to affect Fiji. It damaged infrastructure, agricultural production, and the sugar industry. The combined value of damaged assets and production losses was about 30 percent of GDP, of which 85 percent was borne by the private sector (Text Table 1). GDP growth slowed to 0.4 percent in 2016, from 3.8 percent in 2015.

Text Table 1. Damage and losses from Cyclone Winston
(percent of GDP)

	Public	Private	Total
Agriculture, Commerce, Tourism and Mining	1.0	7.5	8.5
Education, Health and Housing	1.0	7.8	8.9
Transport, Water and Electricity	2.1	0.4	2.5
Environment and Culture	0.3	8.9	9.2
Total	4.5	24.6	29.2

Source: Post-Disastrer Needs Assessment, Government of Fiji.

2. **Fiji faces several challenges common to Pacific islands.** The economy has a relatively narrow production structure heavily dependent on tourism, remittances, and the sugar sector. It is remotely located and prone to natural disasters, and trade is hindered by high transportation costs. Average growth during 2000–16 was 1.8 percent, well below most emerging markets and developing economies in Asia.

3. **Fiji had experienced strong growth momentum before the Cyclone Winston shock.** Political stability since the historic 2014 election bolstered business confidence and provided impetus for reform. Real GDP growth averaged 4.7 percent during 2013–15 and the unemployment rate declined to 5.5 percent in 2016, the lowest in 15 years. The next general election will take place between April and September 2018 and a smooth election will be critical to maintain political stability.

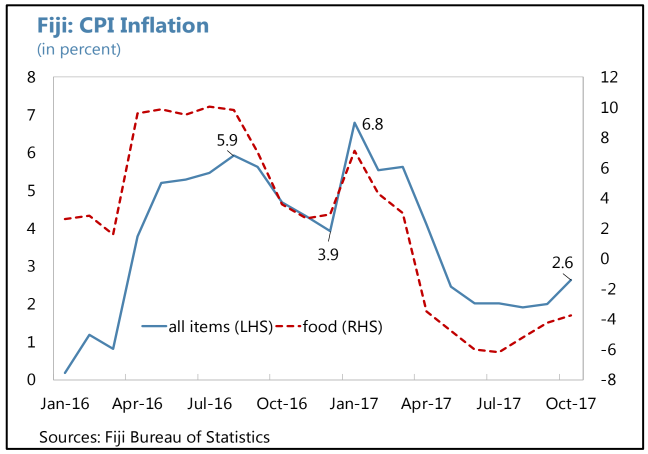
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **The government's humanitarian response to Cyclone Winston was prompt and effective.** Nine humanitarian clusters were set up soon after the disaster. The assistance included cash payments, transfers-in-kind, housing and food vouchers, and the permission to withdraw from pension savings accounts (Box 1). A large proportion of the assistance was distributed via the existing social protection programs.[1]

5. **The economy is expected to record its eighth consecutive year of expansion in 2017.** Growth is estimated to have picked up to 3.8 percent in 2017 underpinned by reconstruction activities, tourism, and the recovery in the agriculture sector. Consumption indicators such as electricity usage and new vehicle registration surged in the first ten months of 2017 (Figure 1, top right). Investment indicators, such as cement sales and bank lending to real estate and construction, also experienced strong growth (Figure 1, middle left). On the supply side, the agriculture and

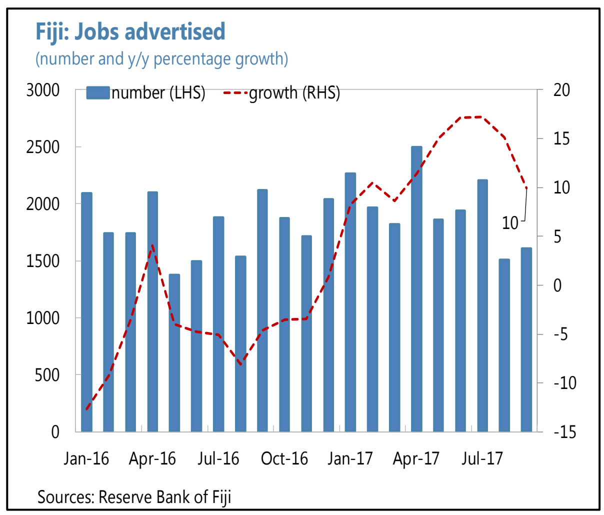
[1] Mansur, A. and others (2017) "Social Protection and Humanitarian Assistance Nexus for Disasters Response. Lessons learnt from Fiji's Tropical Cyclone Winston. "Social protection and labor discussion paper, No. 1701, World Bank.

industrial sectors are recovering (Figure 1, middle right). Visitor arrivals increased 6.6 percent (y/y) in the year to October driven by strong growth in tourist arrivals from New Zealand and the United States (Figure 1, bottom right).



6. **Inflation pressures declined sharply in recent months.** Following Winston, food prices rose sharply. Headline inflation increased to 5.9 percent y/y in August 2016 before moderating by end 2016. However, floods in December caused further supply constraints pushing inflation back up, to 6.8 y/y percent in January 2017. Since April headline inflation has been on a downward trend, led by lower food prices as supply of most agricultural items started to normalize.

7. **Monetary policy has been accommodative, and private sector credit is growing fast.** The Reserve Bank of Fiji (RBF) has been maintaining its policy rate at 0.5 percent since 2011. Average lending rates declined by about 2 percent during 2011–13, and have been stable since 2014 (Figure 2, top left). The combination of lower lending interest rates and strong GDP growth propelled credit growth to the private sector to about 15 percent in 2014–15. Credit growth slowed down somewhat after Winston (Figure 2, top right).



8. **Labor market conditions are supporting the recovery.** The number of jobs advertised increased 10 percent (y/y) in the first ten months of 2017. Higher labor demand was broad based including retail, restaurants, hotels, construction, and agriculture sectors.

9. **The current account (CA) deficit widened to 5.0 percent of GDP in 2016 from 3.6 percent in 2015, but foreign reserves remained adequate.** The widening CA deficit was mainly driven by the impact of Winston through agricultural exports and imports related to reconstruction (Annex I). The larger trade deficit, together with a decline in foreign direct investment (FDI), offset increased tourism earnings. Hence, international reserves fell marginally in 2016, but were still about 5 months of imports. Since early 2017, reserves have resumed a growing trend, most likely arising from the recovery of FDI and exports (Figure 4, bottom right).

10. **The fiscal deficit in fiscal year 2016-17 was much lower than projected in the budget.**[2] The fiscal deficit was 2.2 percent of GDP compared to 7 percent of GDP in the budget (Text Table 2). The discrepancy was mainly explained by large shortfalls in capital expenditure due to

[2] Fiscal year 2016–17 was from August 2016 to July 2017.

implementation capacity constraints. Current expenditure also undershot the budget as both the wage bill and other expenses were lower than expected. On the revenue side, tax revenue was 0.9 percent of GDP lower than the target following a reduction in the standard VAT rate from 15 to 9 percent. The envisaged privatization of airports and the electricity public corporation did not materialize. The public debt-to-GDP ratio reached 46 percent of GDP by end July 2017.

Text Table 2. Fiji: Central Government Finances
(percent of GDP)

	Fiscal Year 2016-17	
	budget	est.
Government Revenue	28.0	27.2
Tax revenue	25.6	24.7
Other revenue	2.4	2.5
Government Expenditure	35.0	29.5
Primary Expenditure	32.2	26.8
Current	18.0	16.8
Personnel	8.8	8.3
Transfers	5.5	5.4
Supplies and consumables	2.5	2.4
Other	1.2	0.7
Capital	14.1	10.0
Interest	2.8	2.7
Fiscal Balance	**-7.0**	**-2.2**
Financing	7.0	2.2
Privatization revenue	2.4	0.0
other sources of financing	4.6	1.7
Memo:		
Fiscal Balance (authorities' definition) 1/	-4.6	-2.2

Sources: Ministry of Finance and IMF Staff estimates
1/ Privatization revenues are recorded above the line.

11. Baseline projections assume that policy support is gradually withdrawn to contain vulnerabilities and rebuild policy buffers. The private sector is projected to drive the recovery as the business environment improves and bottlenecks to private sector development are gradually removed**:**

- Real GDP growth is projected to reach 3.5 percent in 2018, supported by the normalization of production in the agriculture sector, the reconstruction activities, and a buoyant tourism sector underpinned by the strong growth momentum of the global economy. Growth is expected to be around 3–3.5 percent in the medium-term, in line with estimates of potential growth (Table 5 and Box 2).
- Inflation pressures are expected to increase following increases in excise taxes, public wages, and oil prices. Inflation is projected to average 3.3 percent in 2018, and converge to 3 percent in the medium term (Table 5).
- The current account deficit is projected to remain elevated, close to 5 percent of GDP, in 2017-18 due to higher reconstruction-related imports. It will then gradually decline to 3.5 percent of GDP as the impact of Winston on external accounts wanes (Table 4).
- Fiscal policy will be supportive during fiscal year 2017–18 as the rebuilding of public infrastructure is still ongoing. The fiscal deficit is projected to increase to 4.5 percent of GDP in fiscal year 2017-18 and then decline to 2.5–3 percent as capital expenditure normalizes (Text Table 3). The public debt-to-GDP ratio is projected to increase in fiscal year 2017–18 to finance the temporarily higher fiscal deficit and to decline slowly after that (Text Table 3 and Annex II).
- Monetary and financial conditions are projected to gradually tighten as the recovery becomes firm and underlying inflation picks up. Credit to the private sector is projected to gradually slow down and grow in line with nominal GDP (Table 5).

12. Risks to the baseline outlook are skewed to the downside. Increased connectivity via direct flights to Japan could help the tourism sector to perform better-than-expected, and lower-than-expected commodity prices could emerge as upsides, but they are outweighed by downside risks (Annex III):

- First, the economy is highly vulnerable to natural disasters that weigh on growth and put fiscal sustainability at risk.[3] Natural disasters usually undermine production in the agriculture sector and entail fiscal costs stemming from the reconstruction of public infrastructure.
- Second, delayed implementation of structural reforms would pose a setback to private sector investment and growth. There is still significant room to improve the business environment.
- Third, a sharp adjustment in China could slow down Fiji's trading partners, especially Australia and New Zealand. This could have a negative impact on Fiji's real and external sectors via lower tourism.
- Fourth, the prolonged period of monetary policy accommodation and high credit growth could entail risks in the financial sector. Financial instability could affect the real economy via the lending channel.
- Fifth, if global financial conditions tightened, net capital inflows may decrease and reserves accumulation may reverse. This could eventually have an impact on the sustainable level of the exchange rate and on inflation.
- Sixth, reduced financial services by correspondent banks could disrupt remittances and other cross-border transactions. These could affect the balance of payments and domestic consumption.

Authorities' Views

13. The authorities broadly agreed with staff's macroeconomic outlook, though they considered risks more balanced.

- While they expected a slightly stronger near-term growth (3.6 percent in 2018), they agreed that it would be underpinned by the expansionary fiscal policy in fiscal year 2017–18, supportive monetary policy, reconstruction activities, tourism, and agriculture.
- The authorities saw risks more balanced than staff. On external risks, while they recognized the risks from natural disasters and China's slowdown, they viewed risks from the withdrawal of corresponding banks and from tighter global financial conditions as less acute. Unlike other countries in the Pacific, there were no cases of withdrawal of a correspondent bank in Fiji. Global financial conditions are unlikely to affect much FDI flows which are the main source of external financing.
- On domestic risks, the authorities pointed to the upcoming election, the slow implementation of structural reforms, and delays in executing investment projects as additional risks.

[3] Lee, Zhang, and Nguyen (IMF forthcoming Working Paper) document that Fiji has had a natural disaster almost every year since 1980.

POLICY DISCUSSIONS

A. Monetary Policy

14. Fiji has a fixed exchange rate regime combined with capital controls, which allows some autonomy in monetary policy. The main policy instrument is the overnight policy rate that is used by the RBF to communicate and signal its monetary policy stance.[4] The policy rate was cut to 0.5 percent in November 2011 to facilitate the recovery from the global financial crisis. The RBF has also adopted unconventional monetary policy measures since 2012, notably targeted credit support to specific sectors and groups[5] (for example, SMEs, housing, agriculture, renewable energy, businesses, and households affected by natural disasters).

15. Maintaining an accommodative monetary policy stance was appropriate in the aftermath of Cyclone Winston. The policy rate was kept constant and unconventional monetary policy measures were not withdrawn. The accommodative stance helped prevent disorderly liquidity drain after the disaster and facilitated the recovery. Although headline inflation temporarily increased, the jump was mainly a reflection of the slow recovery of food production.

16. A gradual tightening of monetary policy is necessary as the recovery becomes firmer. Underlying inflationary pressure is likely to increase as the recovery continues and the output gap shrinks. Moreover, global financial conditions could tighten as major advanced economies normalize their monetary policy, and could justify a tightening in monetary policy to prevent eventual pressures on the exchange rate. The tightening of monetary policy could involve an increase in the policy rate, and the unwinding of unconventional monetary policies deployed since 2012.

Authorities' Views

17. The direction of monetary policy will hinge mainly on the evolution of inflation and foreign reserves.

- If inflation remains low and foreign reserves continue increasing, the accommodative monetary policy stance is likely to continue going forward.
- If a normalization of monetary policy were warranted because underlying inflation is well above 3 percent and/or foreign reserves become under pressure, the RBF would consider all tools at its disposal including raising the policy rate and unwinding unconventional policies.

B. Financial Policies

18. Private sector credit has been growing fast in recent years and there are some early signs of asset quality deterioration. Staff estimates suggest that after a few years of rapid credit growth, the credit-to-GDP ratio has caught up with its long-term trend and a positive credit gap started to emerge in the fourth quarter of 2016. NPLs increased from 1 percent by end 2015 to

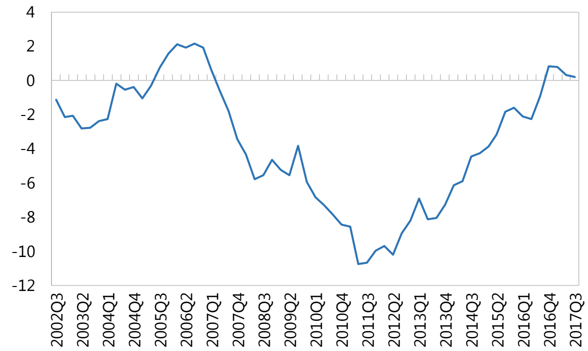
[4] Another monetary policy instrument is the statutory reserve requirement that has been at 10 percent since 2010.

[5] The RBF typically provides funds to banks at lower interest rates provided that they use those funds for loans to those specific sectors and groups.

2.1 percent by the third quarter of 2017. The RBF has been actively monitoring the banking sector through its financial stability rating system.

19. Macroprudential policies could be strengthened and financial supervision should be intensified to contain financial stability risks. If the credit gap increases and persists, higher capital requirements could be considered. Tightening monetary policy could also help slow down credit growth. The RBF should intensify the supervision of non-bank financial institutions, given that they have been growing fast recently and their financial soundness is typically weaker compared to commercial banks (Figure 2, bottom right).

Fiji: Credit Gaps
(In percent of GDP)



Sources: IMF staff calculations.

20. The risk posed by the withdrawal of corresponding banking could be serious and calls for monitoring of AML/CTF vulnerabilities. Remittances make up a sizable portion of revenue in Fiji (Figure 4, middle right) that could be compromised if banks close accounts that are deemed high risk. The banking system is dominated by foreign-owned banks operating mostly through branches.[6] Two local banks have closed the accounts of foreign exchange dealers and another bank closed the accounts of money lenders. Since Fiji's 2016 AML/CFT Mutual Evaluation, the authorities have taken steps to improve technical compliance with the FATF standard. Going forward, engagement at a regional level, with development partners, banks, and supervisors, is important to seek ways to enhance the effectiveness of the AML/CFT regime and improve the transparency and fairness of its taxation system, especially considering Fiji's recent listing in the EU's tax haven gray list.

Authorities' Views

21. The authorities acknowledged that credit growth accelerated in recent years. The RBF was closely monitoring the financial system and stepped-up supervisory efforts to detect potential vulnerabilities and safeguard overall stability. In their view, as of late 2017, credit growth was slowing down and not excessive. The overall health of the financial system was relatively sound and macroprudential intervention was not required. If macroprudential measures were warranted, tools such as loan-to-value ratio limits or credit ceilings would be considered.

22. They noted that they had no cases of withdrawal of corresponding bank relationships. However, risk management requirements for banks licensed to operate in Fiji were strengthened. Moreover, onsite examinations covering the risks of money laundering and terrorism financing were increased in frequency and thoroughness.

[6] There are six commercial banks in Fiji of which four are foreign banks operating through branches.

C. Fiscal Policy

23. The fiscal stance in fiscal year 2017–18 will be expansionary and public debt will increase.[7] The fiscal deficit is projected to increase from 2.2 to 4.5 percent of GDP and will be mainly financed by public debt (Text Table 3).[8] Tax revenue is projected to increase by 1 percent of GDP from the collection of tax debts and non-tax revenue by 0.7 percent of GDP from higher dividends from public corporations. Tax debts emerged amid enhanced efforts by the Fiji Revenue and Customs Administration (FRCA) to combat tax evasion. Recent tax audits uncovered one-off tax debts of 1 percent of GDP to be collected in fiscal year 2017–18, of which half were already paid by October 2017. Fiji Airways and Fiji Electricity Authority achieved higher profits driven by low oil prices while Fiji Airports raised fees and charges. The wage bill and current transfers are projected to increase by 0.6 and 1.1 percent of GDP, respectively, as wages and individual transfers were raised. Public wages were increased after a review to realign them with the private sector to ensure that civil servants are adequately remunerated. Transfers were increased as poverty alleviation schemes became more generous. Capital expenditure is projected to increase by 1.8 percent of GDP to accommodate spending planned but not executed during fiscal year 2016–17 (Text Table 3).

Text Table 3. Fiji: Central Government Operations, FY2013–22

(In percent of GDP)

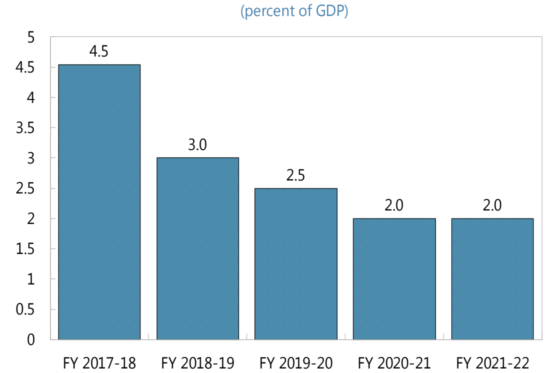
	FY 2016–17	FY 2017–18	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
		Proj.				
Government Revenue	27.2	28.9	27.9	27.9	28.1	28.1
Tax revenue	24.7	25.7	24.9	24.9	25.1	25.1
Other revenue	2.5	3.2	3.0	3.0	3.0	3.0
Government Expenditure	29.5	33.4	30.9	30.7	30.8	30.7
Primary expenditure	26.8	30.7	28.1	27.9	28.0	27.9
Current	16.8	18.9	18.9	18.7	18.7	18.6
Personnel	8.3	8.9	8.9	8.8	8.8	8.8
Transfers	5.4	6.5	6.5	6.4	6.4	6.3
Supplies and consumables	2.4	2.7	2.7	2.7	2.7	2.7
Other	0.7	0.8	0.8	0.8	0.8	0.8
Capital	10.0	11.8	9.2	9.2	9.3	9.3
Interest	2.7	2.7	2.8	2.8	2.8	2.8
Fiscal balance	**-2.2**	**-4.5**	**-3.0**	**-2.8**	**-2.7**	**-2.6**
Primary balance	0.4	-1.8	-0.2	0.0	0.1	0.2
Financing	2.2	4.5	3.0	2.8	2.7	2.6
Privatizations	0.0	0.1	0.4	0.4	0.4	0.0
Public debt	1.7	4.3	2.5	2.4	2.3	2.6
Other	0.5	0.0	0.0	0.0	0.0	0.0
Public debt	**46**	**47**	**47**	**47**	**46**	**46**

Sources: Ministry of Economy, and IMF staff estimates.

24. The fiscal deficit will decline to more moderate levels in the medium term and the debt-to-GDP ratio will stabilize at 46 percent. Staff projects that under current policies the fiscal deficit will decline to around 3 percent of GDP in fiscal year 2018–19 as the reconstruction is completed. The fiscal deficit will decline slowly after that, underpinned by improvements in tax compliance and by current expenditure growing at a slightly lower rate than nominal GDP (Text Table 3). Some improvements in tax compliance are expected from the adoption of Electronic Fiscal Devices and from the continuous

Fiji: Fiscal deficit targets

(percent of GDP)



Sources: Ministry of Economy

[7] Fiscal year 2017–18 started in August 2017 and will end in July 2018.

[8] The budget stipulates that the maximum fiscal deficit that can be financed with public debt is 4.5 percent of GDP and this is a binding constraint. Other sources of financing (e.g. privatization revenue) are projected to be very small.

modernization of the tax administration under PFTAC technical assistance program. Primary current expenditure in percent of GDP usually declines in the years following a large increase (Figure 3, middle left). Public debt is projected to stabilize around 46 percent of GDP in the medium term as the primary balance improves (Text Table 3 and Annex II).

25. The authorities' medium-term fiscal targets are appropriate but should be underpinned by specific measures. The National Development Plan published in November 2017 states that the goal is to reach a debt-to-GDP ratio of 35 percent of GDP by 2036 to have larger buffers to deal with adverse shocks. The authorities also target a gradual reduction in the fiscal deficit from 4.5 percent of GDP in fiscal year 2017–18 to 2 percent of GDP in fiscal year 2021–22.

26. A supportive fiscal stance in fiscal year 2017–18 is appropriate, but should be followed by fiscal consolidation in the medium term. In the near term, fiscal policy should support the reconstruction and the recovery by allowing a higher fiscal deficit. However, the authorities should elaborate a medium-term strategy for spending in wages and current transfers consistent with their fiscal objectives. In the medium term, fiscal policy should aim to rebuild fiscal buffers, reduce procyclicality,[9] and maintain fiscal sustainability by putting the debt-to-GDP ratio on a clear downward path to support resilience to future natural disasters or other shocks (Annex II). In an alternative scenario (staff's preferred scenario) in which current primary spending is kept constant in real terms from fiscal year 2018–19 until fiscal year 2020–21, the authorities' fiscal deficit targets would be met with margin and the debt-to-GDP ratio would decline to 41 percent by the end of fiscal year 2021–22 (Text Table 4), closer to the average for comparable economies (Figure 3, bottom right). The combination of lower deficits and public debt could also improve confidence and private investment and induce higher medium-term growth (Text Table 4).

Text Table 4. Baseline and Alternative scenarios

	Baseline scenario					Alternative scenario				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Real GDP growth (percent)	3.5	3.4	3.3	3.3	3.2	3.5	3.4	3.4	3.5	3.5
CPI Inflation (percent)	3.3	3.0	3.0	3.0	3.0	3.3	3.0	3.0	3.0	3.0
Government Revenue (percent of GDP)	28.9	27.9	27.9	28.1	28.1	28.9	27.9	27.9	28.1	28.1
Current expenditure (percent of GDP)	21.6	21.7	21.5	21.5	21.4	21.6	21.0	20.5	19.9	19.9
Capital expenditure (percent of GDP)	11.8	9.2	9.2	9.3	9.3	11.8	9.2	9.2	9.3	9.3
Fiscal balance (percent of GPD)	-4.5	-3.0	-2.8	-2.7	-2.6	-4.5	-2.3	-1.8	-1.1	-1.1
Current account balance (percent of GDP)	-5.0	-4.4	-3.8	-3.6	-3.5	-5.0	-4.2	-3.5	-3.1	-3.0
Public debt (percent of GDP)	47	47	47	46	46	47	46	45	43	41

Source: IMF staff calculations

27. Fiscal consolidation measures to help keep primary current spending constant in real terms could include:

- keeping public employment constant;
- increasing public wages in line with inflation;
- creating more competitive conditions for public procurement by enhancing the transparency of the process of government purchases to generate a larger pool of suppliers;

[9] The evolution of the cyclically adjusted primary balance (Table 3) and the output gap (Table 1) suggests that fiscal policy has been procylical during 2014–16.

- improving the targeting of government transfers via the adoption of digital technologies that facilitate the availability and processing of more accurate and timely information on beneficiaries; and
- increasing transfers in line with inflation.

28. Pension savings used to mitigate the impact of Cyclone Winston should be rebuilt. The Fiji National Provident Fund (FNPF) allowed pension contributors to withdraw up to 30 percent of their pension savings (Box 1). About F$275 million (2.8 percent of GDP) were disbursed to 180,000 contributors. This measure was effective in mitigating the adverse impact of Winston on many households. However, it is also important to lay out a strategy to restore these pension savings to ensure that contributors will eventually have access to adequate pensions.

29. The coverage of government operations in the budget could be broadened to better gauge and calibrate the impact of fiscal policy. The budget covers the central government. However, Fiji has 13 local government units, 33 extrabudgetary units, and 24 public corporations. Many local government units, extrabudgetary units, and public corporations (both financial and nonfinancial) also implement fiscal policy. Such activities can have a fiscal impact comparable with that of more traditional government activities. Full coverage of government operations may be impractical but, at a minimum, should include those extrabudgetary units and public corporations that pose a significant risk to public finances. A statement of fiscal risks (including from natural disasters) could further strengthen budget presentation.

30. Improving fiscal transparency can support fiscal adjustment by enhancing the public's awareness of fiscal constraints and by strengthening accountability. Reporting of fiscal outturns to the public is currently limited to the annual budget. This is insufficient and should be done on a monthly frequency. Subscription to the IMF's Special Data Dissemination Standards (SDDS) would put Fiji in line with international best practice on transparency issues.[10]

Authorities' Views

31. The authorities agreed on the need to pursue fiscal consolidation after the reconstruction is completed. They emphasized that the sharp reduction in the public-debt-to GDP ratio since 2010 shows their commitment to fiscal discipline. Their goal is to achieve a gradual reduction in the debt-to GDP ratio while at the same time addressing infrastructure gaps and raising GDP growth through higher public investment.

32. They did not plan to take measures to restore pension savings in the near term. They noted that mandatory pension contributions were increased in 2015 from 16 to 18 percent and that increase should compensate for the withdrawal of pension savings in the aftermath of Winston.

33. The authorities agreed on the benefits of improving the coverage and reporting frequency of fiscal data. Going forward they will aim to publish monthly fiscal statistics on the website of Ministry of Economy and broadening the coverage of government operations in the budget.

[10] A recent IMF study (Choi and Hashimoto, IMF Working Paper 17/74) finds that subscriptions to the IMFs SDDS data dissemination standards leads to a significant reduction in sovereign spreads.

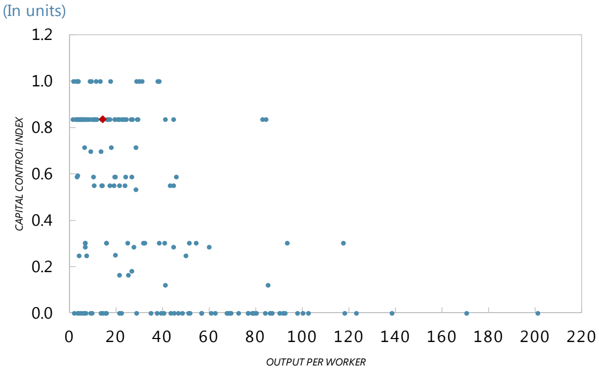
D. External Sector

34. The external sector position was broadly consistent with fundamentals and desirable policy settings. The underlying current account balance was 0.4 percent of GDP lower than the estimated current account norm (Annex I). As FDI inflows have been sufficient to finance current account deficits, reserves have increased in recent years. Reserves were about 5 months of imports by end-2016 and were adequate based on the IMF's composite metric (Annex I).

35. The current exchange rate regime has been effective in maintaining low inflation and facilitating trade. Inflation has been low in recent years averaging 2.4 percent in the last 5 years. The value of the Fiji dollar is pegged to a basket of currencies and each of the basket currencies has a non-disclosed weight that is updated every year and is related to trade shares. Regression analysis suggests that the U.S. dollar has a weight in the basket much larger than its trade share (Box 3). A more periodic review of the basket weights and a smaller weight on the U.S. dollar could help smooth fluctuations in effective exchange rates that may affect international trade patterns. Fiscal and income policies such as public wages and minimum wages should be consistent with the peg.

36. Further opening of the capital account can be beneficial, but should be planned and sequenced properly. In principle, an easing of capital account restrictions (on both inflows and outflows) would induce a more efficient allocation of resources in the economy, lifting potential growth. It would also encourage foreign investment. However, the regulatory framework of the domestic financial system should be strengthened before liberalizing capital flows to avoid undesirable disruptions. Opening the capital account would also require a more flexible exchange rate regime to preserve some monetary policy autonomy.

Fiji: Capital Control Index, 2016
(In units)



Sources: Chinn Ito Index; and IMF, *World Economic Outlook (WEO)*.

37. The relaxation of exchange restrictions should continue towards fully meeting Article VIII requirements. The remaining exchange restrictions inconsistent with Article VIII, Section 2(a) arise from: i) limits on large external payments (e.g., oil imports and dividend repatriation of foreign banks) and ii) the tax certification requirement on the transfer abroad of profits and dividends, on the proceeds of airline ticket sales, and on the making of external debt and maintenance payments. The exchange controls imposed by the authorities, some of which are indicative, create the perception that firms' repatriation of profits or proceeds from selling assets may be disrupted, undermining foreign investment.

Authorities' Views

38. The authorities agreed with staff's view that the current exchange rate regime has broadly worked well. It has been effective in maintaining a relatively stable Fiji dollar while appropriately serving as an anchor for domestic inflation. They also noted that as of late 2017, reserves were at a comfortable level and that foreign exchange inflows continued to surprise on the upside. The authorities also welcomed staff's views on how to adjust the basket weights.

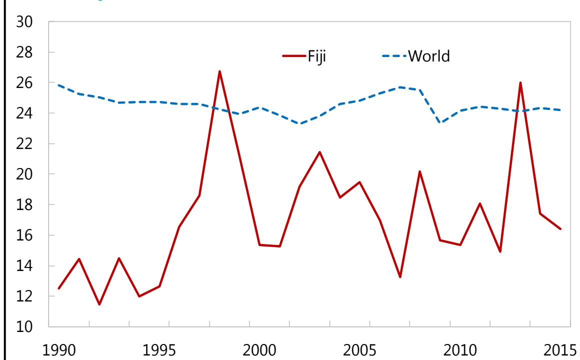
39. The authorities noted that exchange controls have been relaxed except the tax clearance certification requirements. The RBF will continue to review and relax exchange controls annually based on the outlook for foreign reserves. Currently there are no plans to further liberalize capital controls.

E. Structural Issues

40. While the business sentiment has improved, challenges remain in boosting investment. There have been many positive reform initiatives and progress, such as the setup of the land bank, an upgrade of financial sector regulations, and the relaxation of some exchange and capital controls (Annex IV). These efforts were acknowledged by credit rating agencies. Despite recent growth, investment is still low compared with other countries as well as the authorities' medium-term target of 25 percent of GDP. Moreover, the moderate increase in investment in recent years was mainly accounted by public investment.[11] Significant and sustained increases in investment can only come from the private sector, as the public sector withdraws fiscal policy support, in line with the authorities' fiscal targets.

41. The top priority should be to improve the business environment to foster private investment. Measures could include:

Gross Capital Formation (% of GDP)



Sources: World Development Indicators and Fiji Bureau of Statistics

- Re-establishing a credit bureau with an adequate regulatory framework. The government decided to shut down the credit bureau in April 2016 that had been operating since 2001 because of issues related to inadequate reporting practices. A credit bureau would also support sound risk management and promote financial stability**.**
- Rationalizing the extensive net of price controls**.** The rationale for imposing price control measures include lack of adequate competition and the need to protect low-income households. However, price controls distort market signals and could generate shortages in quantity or variety that ultimately hurt households. Therefore, price controls could be replaced as much as possible with measures enhancing market competition such as streamlining the process for getting a business license, as well as targeted transfers to the most vulnerable.
- Improving leasing procedures and conditions to use land. About 90 percent of the land in Fiji is owned by the indigenous population. This land cannot be sold and it can only be leased. A land bank was established under the Land Use Decree 2010 to offer a competitive avenue for land leasing. Obtaining a lease agreement generally takes 14 months and there is significant room to

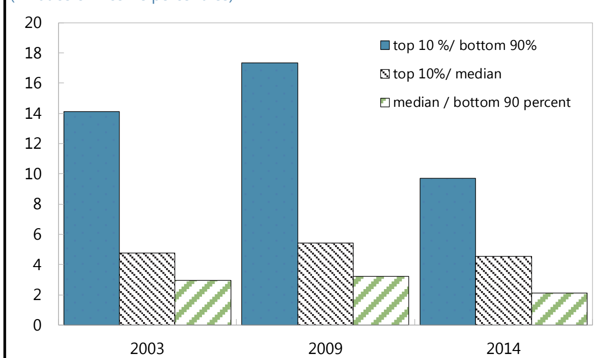
[11] The jump in private investment in 2013 was explained by the lumpy purchase of aircrafts by Fiji Airways.

streamline the process. The lease terms are rigid and sometimes do not provide landowners with attractive rents. The duration of the leases is in some cases not long enough to support long-term investment.

- Reducing policy uncertainty. This would be fostered by more comprehensive and transparent consultations with stakeholders, including the private sector, before introducing policy changes.

42. Fiji's income inequality declined in the past 15 years. The income ratio between the top and bottom 90 percent of the population declined from 14.1 in 2002–03 to 9.7 in 2013–14.[12] This change can be attributed to improvements in the social safety net and in employment. The unemployment rate dropped from 7.1 percent in 2010–11 to 5.5 percent in 2015–16. Further measures could be implemented in these two areas to achieve more inclusive growth:

Fiji: Income Inequality
(In ratios of income percentiles)



Source: Fiji Bureau of Statistics.

- *Safety net*. The authorities have been increasing budget support to social protection programs in recent years. Major programs include Poverty Benefit Scheme, Social Pension Scheme, and Tertiary Education Loan Scheme. The experience with Cyclone Winston is an opportunity to review the operations and effectiveness of the current schemes in terms of coverage, scale, as well as the sources of funding. The current transfer programs assisting poor and near-poor households are well targeted and could be expanded so that the price controls could be scaled down.

- *Employment*. Fiji's labor market features a high youth unemployment rate (18 percent) and a large share of workers in the informal sector.[13] Although the school drop-out rate has declined from 32 percent to 5 percent from 2011 to 2016, continued efforts in education and training are needed to ensure that the labor force has skills that are valuable in the job market. As a positive step, the government has substantially increased the budgeted spending in education (22 percent of the total fiscal expenditure in 2017–18) and made some progress in facilitating overseas seasonal worker programs.

43. Fiji is making important efforts to build resilience to climate change. As the first small states country presiding international talks on Climate Change (COP 23), Fiji has pledged to transition completely to renewable energy sources by 2030 and adopted a reforestation policy intended to store carbon from freshly planted trees. Fiji is also one of the three countries in the world that issued a sovereign green bond to finance projects that help build resilience to climate change. In addition, the "Build Back Safer" program was launched after Winston aiming to teach local residents how to rebuild homes more resilient to natural disasters. Future policies could include

[12] The Gini coefficient also shows an improvement in income inequality during 2002-13. It was 38 percent in 2002, 40 percent in 2008, and 36 percent in 2013 according to the World Development Indicators (World Bank).

[13] Estimates range from 36 percent (Fiji Bureau of Statistics) to over 60 percent (2016 ILO Fiji Labor Market Update).

a careful consideration of infrastructure projects resilient to natural disasters and the exploration of ways to expand insurance to natural disasters.

44. Improving data quality could better guide policy making. With the help of international development partners and PFTAC, the authorities have made important progress on economic statistics. However, the quality of statistics is uneven across different areas. Although financial and trade statistics are generally good, there is significant scope for improvement on national accounts and unemployment statistics in terms of frequency and timeliness.

Authorities' Views

45. The authorities agreed that improving the business environment is critical to the economy.

- They underscored the importance of having a well-managed credit bureau. They noted that an application for a license to operate as a Credit Reporting Agency was received in October 2017 and could start to operate sometime in 2018.
- They will seek to enhance land use through digitalization of title records and the development of a national land register. They will streamline lease processes.
- They will develop a comprehensive competition and consumer protection policy framework to gradually reduce the reliance on price controls.
- They are receiving technical assistance form the Singapore Cooperation Enterprise to improve ease of doing business and make the business environment more predictable.

46. They also agreed that skill development of the labor force and meeting future industry needs should be a priority. The government noted, however, there were 15 technical colleges already in operation around the country to promote vocational skills.

47. The authorities acknowledged the need to make progress on core statistics such as the quarterly national accounts. However, they mentioned that tight resource constraints at the Fiji Bureau of Statistics were an obstacle.

STAFF APPRAISAL

48. Economic growth has been resilient despite significant adverse shocks. The economy is expected to record eight consecutive years of positive GDP growth in 2017 as it recovers from the impact of Cyclone Winston. The near-term growth outlook is favorable, supported by reconstruction activities, the normalization of agricultural production, and the robust performance of the tourism sector. Growth is projected to remain strong at around 3–3.5 percent over the medium term as the private sector compensates for the gradual withdrawal of policy support.

49. To maintain the growth momentum in the medium term, reforms should focus on improving the business environment to foster private sector development. Measures could include: re-establishing a credit bureau with an adequate regulatory framework, upgrading leasing mechanisms to use land more efficiently, rationalizing the extensive net of price controls to improve the allocation of resources and mobilize private investment, and consulting the private sector before introducing major policy changes to reduce economic policy uncertainty.

50. A gradual tightening of monetary policy is recommended as the recovery becomes firmer. Underlying inflation pressure is likely to increase as the output gap closes. The tightening of monetary policy could include measures such as an increase in the policy rate, and the unwinding of unconventional monetary policies deployed after the global financial crisis.

51. Macroprudential policies could be strengthened and financial supervision should be intensified to contain financial stability risks. Credit growth has accelerated over the last few years and there has been an increase in NPLs since late 2015. Macroprudential measures such as higher capital requirements could help moderate credit growth if necessary. The RBF should intensify the supervision of non-bank financial institutions, given they have been growing fast recently and their financial soundness is typically weaker compared to commercial banks.

52. A supportive fiscal stance in fiscal year 2017-18 is appropriate but should be followed by fiscal consolidation in the medium term. In the near term, fiscal policy should support the reconstruction and the recovery by allowing a higher fiscal deficit. However, fiscal buffers should be rebuilt in the medium term by adopting fiscal consolidation measures and putting the debt-to-GDP ratio on a clear downward path. This will help maintain fiscal sustainability even under adverse shocks.

53. Pension savings used to mitigate the impact of Cyclone Winston should be restored. Although allowing pension savings withdrawals was effective in containing the adverse impact of Winston on many households, it is also important to safeguard adequate savings for retirement.

54. The coverage of government operations in the budget could be broadened. Currently the budget covers central government. However, many other public entities can also implement fiscal policy on a non-negligible scale. At the minimum, the budget statement should include those public entities that pose significant risks to public finance. Fiscal transparency could be improved by publishing fiscal outturns monthly (instead of yearly) on the website of the Ministry of Economy.

55. The relaxation of exchange restrictions on payments and transfers for current international transactions should continue. The limits on large external payments and the tax certification requirement on the transfer abroad of profits, dividends, proceeds of airline ticket sales, and making external debt and maintenance payments are inconsistent with Article VIII, Section 2(a) and discourage investment.

56. Improving data quality will help better guide policy-making. Publishing timely quarterly national accounts should be a priority.

57. It is recommended that the next Article IV Consultation takes place on the standard 12-month consultation cycle.

Box 1. Pension Savings Withdrawal

Fiji's pension system is operated by Fiji National Provident Fund (FNPF). All employees in the formal sector are mandated to participate the pension scheme. Employees and employers pay mandatory monthly contributions (18 percent of the salaries) to FNPF. Contributions and the associated investment returns are credited to individual pension savings accounts. Upon retirement (age 55), members can choose to withdraw from their savings account through a lump-sum payment or, alternatively, buy an annuity.

The FNPF allowed its members to withdraw up to 30 percent of their pension savings account balance after Winston. About F$ 275.5 million (2.8 percent of GDP) were disbursed to 180,000 members in the first two months after Winston. Active FNPF members were allowed to withdraw up to F$1,000 (US$465), plus an additional F$5,000 (US$2,325) if they could present proof (property title) of having a house in an area affected by Winston.

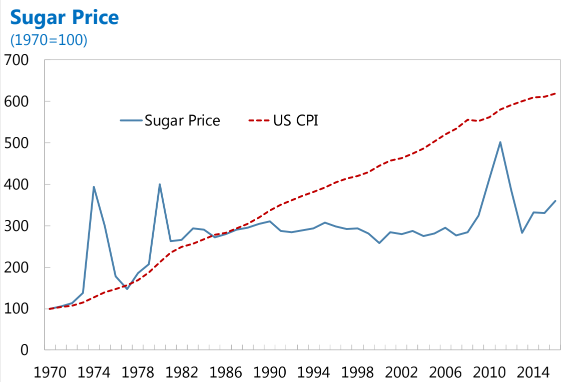
Few people have insurance in Fiji. Only 12 percent of the adult population has some form of insurance. For many households, the biggest economic loss from Winston came from the damage to their houses. Most households had to bear the rebuilding cost and lack of liquidity was a major challenge for most households hit by the disaster.

Staff view is that the early withdrawal measure was an appropriate measure to mitigate the impact of Winston given the low coverage of insurance. However, pension contributions should be increased to secure adequate pensions in the future. There are several options to consider:

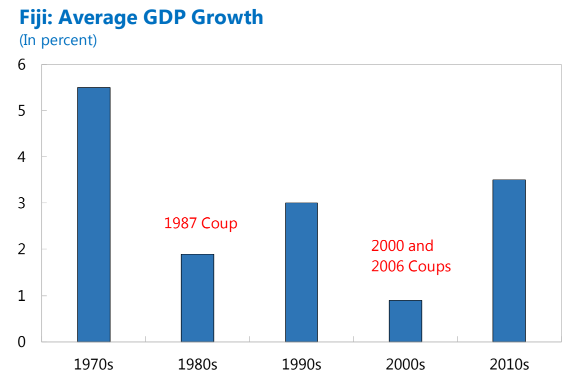
- Increasing mandatory contribution rates for a few years until pension savings are restored.
- Increasing pension contribution rates on a permanent basis to restore savings for retirement and to build up precautionary saving that could be tapped in case of future natural disasters.
- Gradually increasing the minimum retirement age to access pensions.

Box 2. Medium-Term Growth Outlook in Fiji

GDP growth accelerated since the aftermath of the global financial crisis. Historically, Fiji's growth performance has been highly correlated with sugar prices and political stability. Fast growth in the 1970s benefited from high sugar prices at that time, while political instability and low (real) prices of sugar in the 1980s and 2000s came hand in hand with sluggish growth (1.9 and 0.9 percent, respectively). In the 2010s, as political stability improved and the economy was less dependent on sugar exports, investment picked up and the average real GDP growth rate reached 3.5 percent during 2010–15.



Sources: IMF Commodity Price System



Sources: Fiji Authorities

The acceleration of GDP growth was mainly explained by the dynamism in services. The service sector accounts for about 70 percent of the economy.[1] From 2011 to 2015, while the primary and secondary sectors grew moderately at about 1.5 percent per year, the services sector (i.e., the tertiary sector) grew 4.6 percent per year. Labor productivity growth was also faster in the services sector than primary and secondary sectors (by 0.7 and 1.7 percent per year, respectively). Large investments in the tourism industry likely explain labor productivity differentials across sectors and the reallocation of labor to the tertiary sector.[2]

[1] In 2015, the average share of the services sector in GDP was about 59 percent for Asian countries.

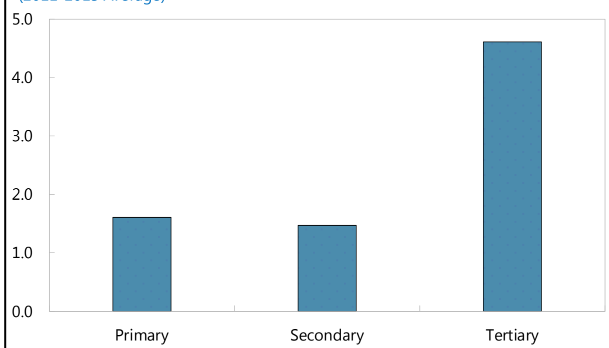
[2] Based on ILO data, from 2011 to 2015, the employment in tertiary sector as a fraction of total employment increased from 73.3 percent to 74.9 percent.

Box 2. Medium-Term Growth Outlook in Fiji (Concluded)

At the aggregate level, a growth accounting exercise suggests that TFP growth was the key driver of the acceleration in GDP growth.

The average growth rate of TFP from 2010 to 2015 was about 1.5 percent per year, which was substantially higher than the one observed during 1990 to 2010.[1] Capital accumulation was relatively slow in early 2010s due to the global financial crisis. However, investment activities picked up after 2013 and the average pace of capital accumulation was above 4 percent during 2013 to 2015, on par with its historical average from 1990 to 2010. Population growth has been on a gradual declining trend.

Fiji: Real GDP Growth by Sector
(2011-2015 Average)



Sources: Fiji Authorities

	TFP	K	L	Potential GDP
2010-2015	1.5	3.0	0.5	3.4
1990-2010	-0.9	4.3	0.7	1.9

Projected potential growth is close to 3.5 percent in the medium term. This is assuming that TFP will grow moderately and capital accumulation will return to its historical average between 1990 to 2015. Specifically, TFP is assumed to grow at 0.7 percent per year, which is about half of the average performance during 2010-15. Capital accumulation is assumed to be about 3.9 percent, which requires an investment-to-GDP ratio of about 19.5–20 percent. This is in line with the 1990–2010 average but slightly higher than its average from 2010 to 2015 (19.1 percent). Under a more conservative assumption that the investment-to-GDP ratio will be 19 percent from 2017–2021, capital accumulation will be 3.7 percent and potential GDP growth will be 3.3 percent.

	TFP	K	L	Potential GDP
2017-2021	0.7	3.9	0.5	3.5

[1] In our baseline growth accounting exercise, labor share is assumed to be about 0.4 for 1990–2010 and 1/3 after 2010, broadly consistent with the trend of labor compensation share in Fiji. Under the alternative assumptions that labor share is 0.5, annual TFP growth rates during 2010–2015 and 1990–2010 were 1.9 and -0.6 percent, respectively. Considering Fiji is prone to natural disasters, capital depreciation rate is assumed to be 10 percent, which is relatively high in literature.

Box 3. Exchange Rate Policy

Fiji has maintained a fixed exchange rate regime since 1975. The Fiji dollar (F$) is pegged to a weighted basket comprising the Australian dollar (A$), the New Zealand dollar (NZ$), the United States dollar (US$), the Japanese yen (JPY) and the Euro (EUR). The weights of each currency in the basket is not disclosed, although they are updated annually based on the currency denomination of international trade and financial transactions.

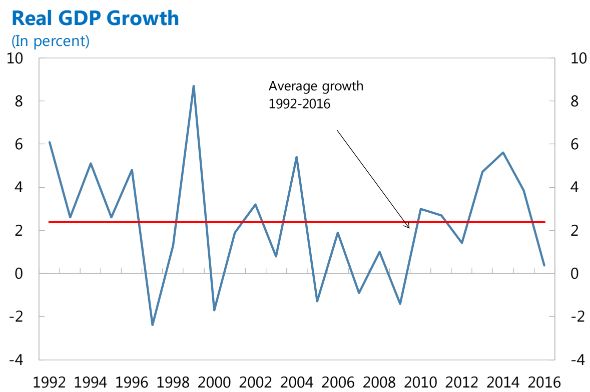
A peg to a basket of currencies has clear benefits for a small open economy like Fiji. It provides a nominal anchor and it facilitates international trade (as importers and exporters do not have to bear exchange rate risk). Pegging to a basket of currencies (instead of a bilateral peg to the US$) helps maintain the stability of real effective exchange rate and hence external competitiveness when US$ appreciates.

The movements in the F$ are mainly explained by movements in the US$. Regression analysis indicates that the weight of the US$ in the basket is much larger than the share of international trade with the United States. This is because some international trade and financial transactions in which the US does not participate are still denominated in US$.

A smaller weight on the US$ and more frequent revisions of the basket weights could help to contain the volatility of the effective exchange rates.

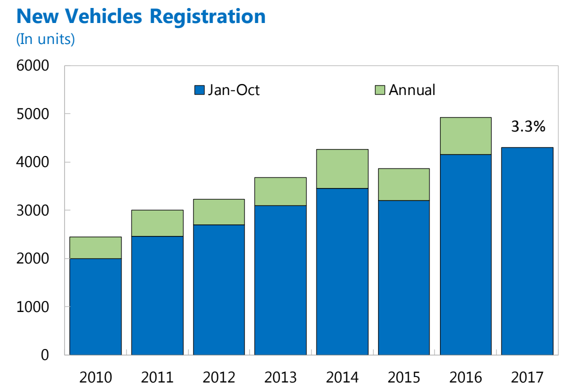
Figure 1. Fiji: Macroeconomic Developments

Growth decelerated due to the Cyclone shock in early 2016.



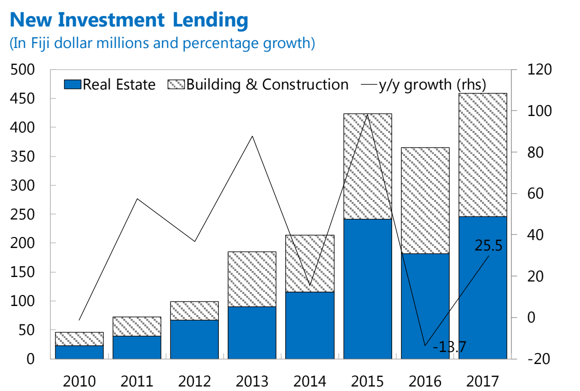
Sources: Fiji authorities and IMF staff calculations.

Consumption indicators are picking up...



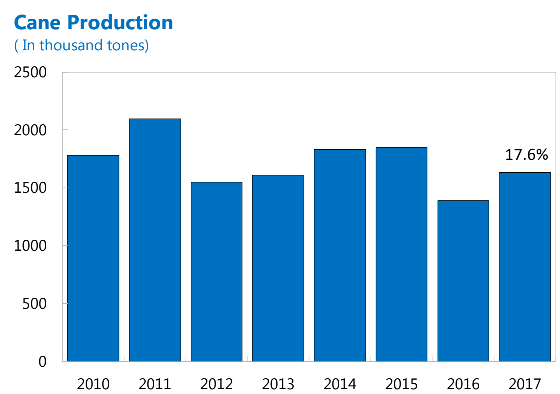
Sources: Reserve Bank of Fiji

...as well as investment indicators.



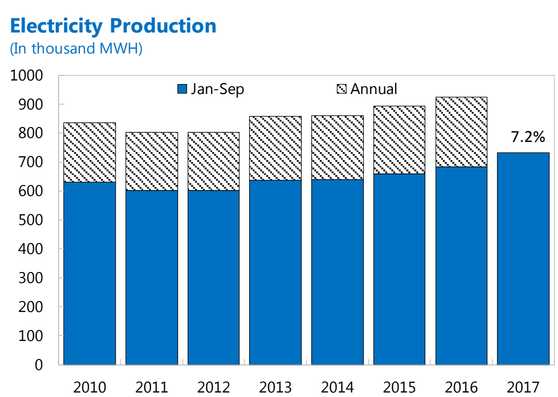
Sources: Reserve Bank of Fiji

The primary sector is recovering...



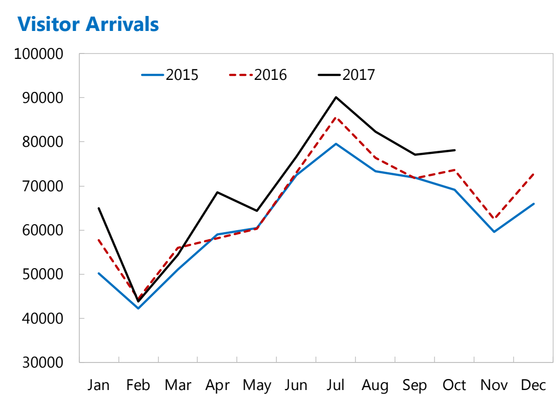
Sources: Reserve Bank of Fiji

...and the industrial sector is accelerating.



Sources: Reserve Bank of Fiji

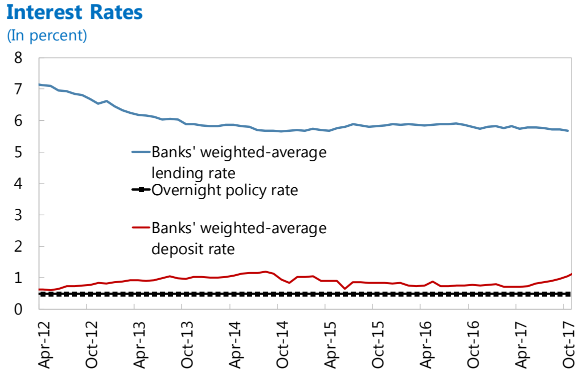
Tourism remains robust.



Sources: Reserve Bank of Fiji

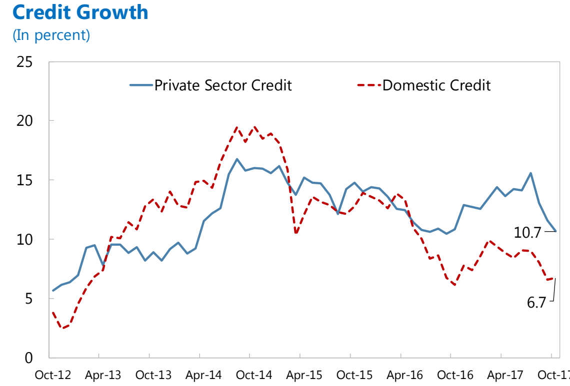
Figure 2. Fiji: Monetary and Financial Indicators

The policy rate has been kept at 0.5 percent since 2011.



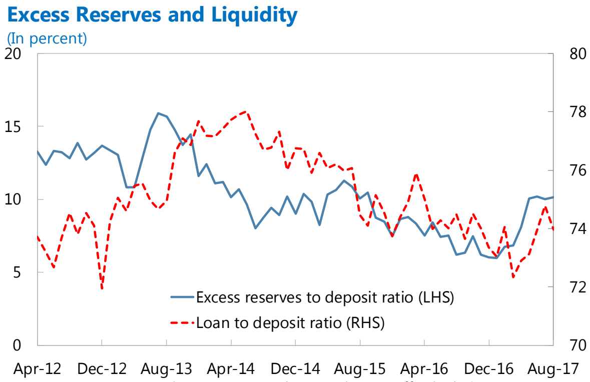
Source: IMF Integrated Monetary Database.

The fast credit growth since 2013 slowed down somewhat in 2016



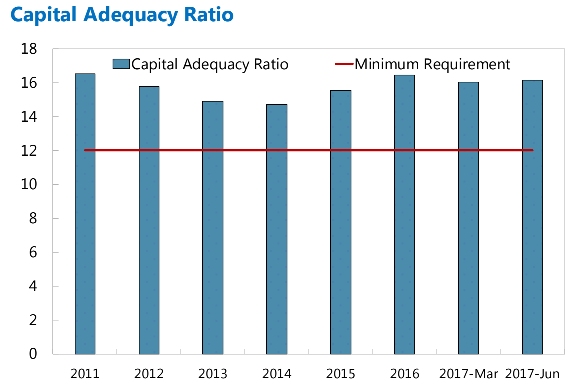
Sources: Reserve Bank of Fiji

Excess liquidity declined, especially after the cyclone (2016 H1).



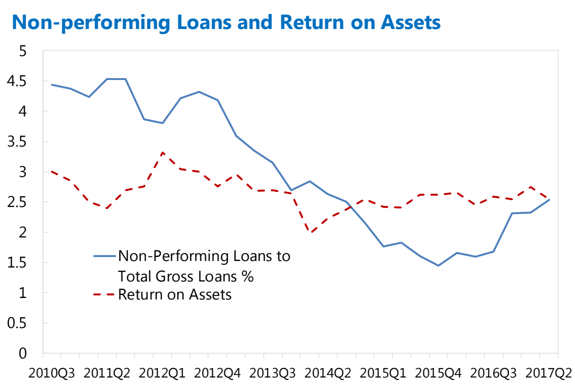
Sources: IMF Integrated Monetary Database and IMF staff calculations.

Capital adequacy improved somewhat.



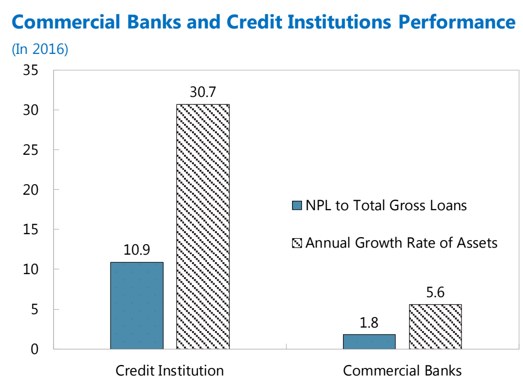
Sources: IMF Financial Soundness Indicator

NPLs picked up in late 2016, although the return on assets was unchanged.



Sources: IMF Integrated Monetary Database

Non-banking financial institutions grew fast, and their NPLs were higher than in banks.

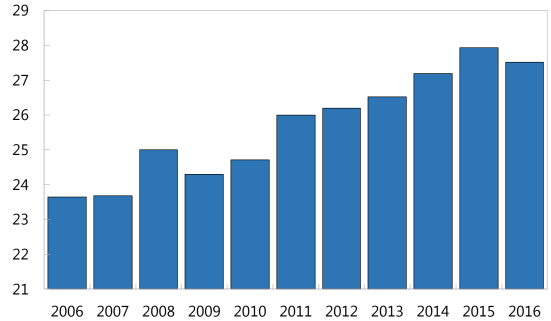


Sources: Reserve Bank of Fiji

Figure 3. Fiji: Fiscal Indicators

Government revenue has been on an upward trend....

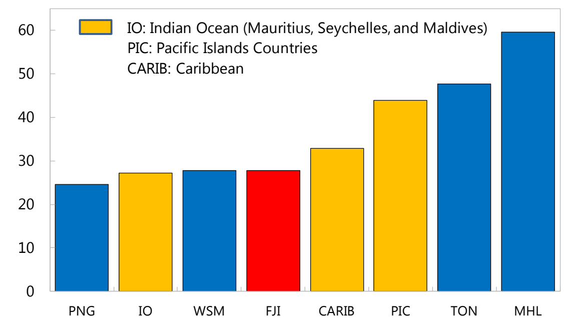
Revenue
(In percent of GDP)



Sources: Fiji authorities

.... and is now in a midpoint by regional standards.

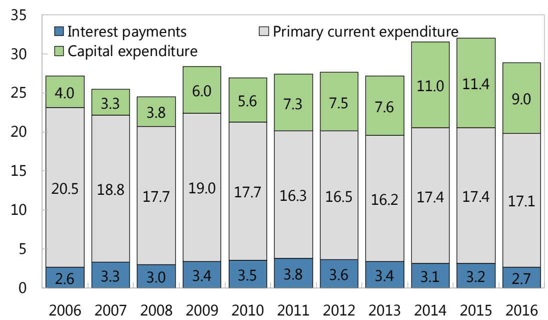
Revenue, 2016
(In percent of GDP)



Sources: Fiji authorities and IMF WEO database

The share of capital expenditure in total expenditure picked up.

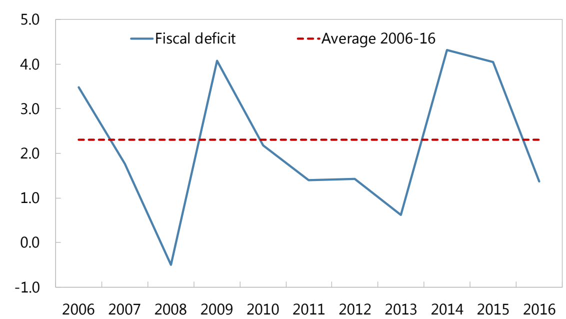
Expenditure
(In percent of GDP)



Sources: Fiji authorities

Fiscal deficits have been volatile but, on average, moderate.

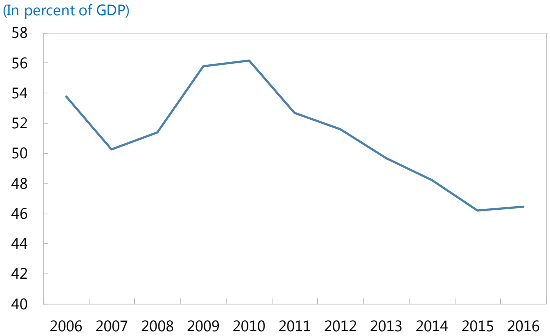
Fiscal Deficit
(In percent of GDP)



Sources: Fiji authorities

Public debt declined fast since 2010...

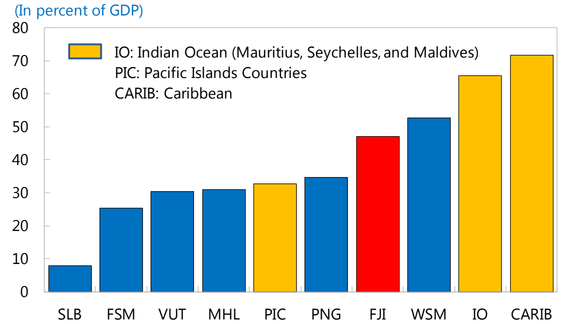
Public Debt
(In percent of GDP)



Sources: Fiji authorities

....but is still relatively high by regional standards.

Public Debt, 2016
(In percent of GDP)



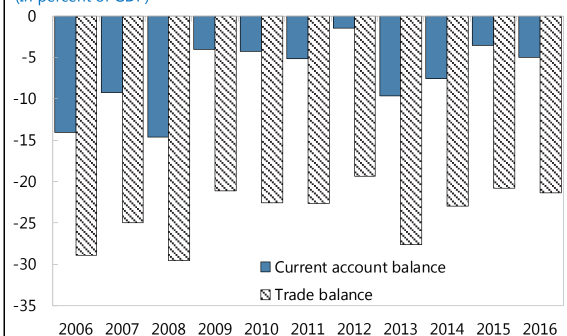
Sources: Fiji authorities and IMF WEO database

FSM: Micronesia, MHL: Marshall Islands, PNG: Papua New Guinea, SLB: Solomon Islands, TON: Tonga, WSM: Samoa, VUT: Vanuatu

Figure 4. Fiji: Balance of Payments

Current account and trade deficits widened moderately in 2016…

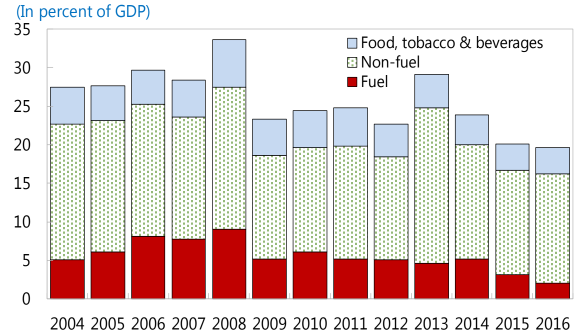
Trade Balance and Current Account
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Driven by larger investment goods imports (and the decline of agricultural exports)

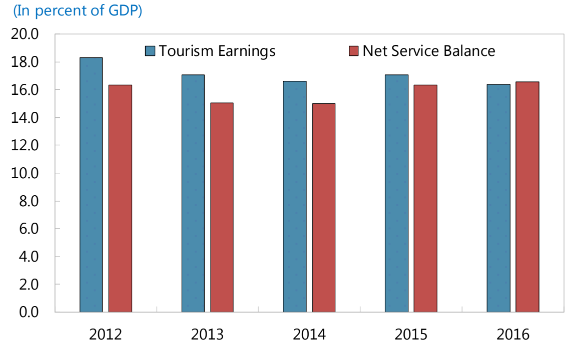
Imports, excluding re-exports
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Services credits, especially tourism earnings, have held up well.

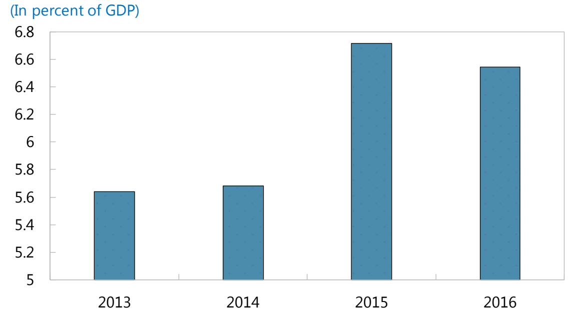
Tourism Earnings
(In percent of GDP)



Sources: Fiji Bureau of Statistics

Remittances are a significant portion of external income.

Remittances 1/
(In percent of GDP)

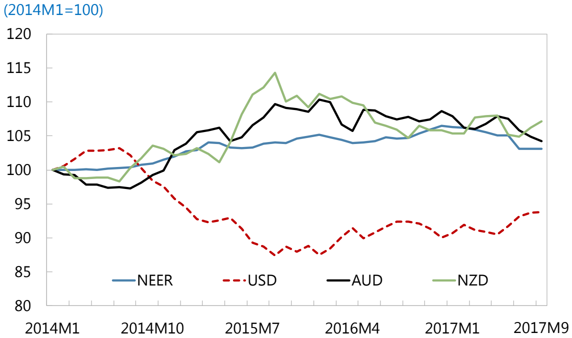


1/ The remittances data is proxied by non-government transfers

Sources: Fiji Bureau of Statistics

Although F$ depreciated against US$, it appreciated against other currencies in its reference currency basket.

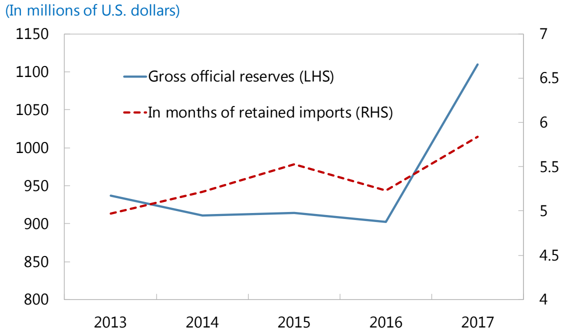
Exchange Rates: Selected Countries/FJD Monthly Average
(2014M1=100)



Sources: INS database

Despite the current account deficits, reserves held up well

Gross Official Reserves
(In millions of U.S. dollars)



Sources: Reserve Bank of Fiji and IMF staff estimates

Table 1. Fiji: Selected Economic Indicators, 2013–18

Quota: SDR 98.4 million

	2013	2014	2015	2016	2017	2018
				Est.	Proj.	
Output and prices (percent change)						
Real GDP	4.7	5.6	3.8	0.4	3.8	3.5
GDP deflator	2.3	4.1	3.7	4.9	3.0	3.0
Consumer prices (average)	2.9	0.5	1.4	3.9	3.4	3.3
Central government budget (percent of GDP)						
Revenue	26.5	27.2	27.9	27.5	28.1	28.5
Expenditure	27.1	31.5	32.0	28.9	31.3	32.3
Fiscal balance	-0.6	-4.3	-4.0	-1.4	-3.2	-3.8
Public debt	49.7	48.2	46.2	46.5	46.6	47.3
Money and credit (percent change)						
Net domestic credit depository corporations	14.0	18.7	13.4	7.7	...	...
Net credit to government	-64.4	-79.9	-36.9	-49.8	...	...
Private sector credit	9.2	15.5	14.4	12.9	...	...
Broad money (M3)	19.0	10.4	13.9	4.8	...	...
Monetary base	7.5	4.2	8.4	0.5	...	...
Central Bank Policy rate	0.5	0.5	0.5	0.5	...	...
Commercial banks deposits rate	1.8	2.2	2.7	3.0	...	...
Commercial banks lending rate	5.8	5.7	5.9	5.8	...	...
External sector (in percent of GDP)						
Trade balance	-27.7	-22.9	-20.8	-21.4	-21.9	-20.2
Services plus income (net)	13.1	10.0	11.1	10.6	10.0	9.0
Transfers (net)	4.9	5.4	6.1	5.8	6.2	6.2
Current account balance	-9.7	-7.6	-3.6	-5.0	-5.7	-5.0
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-9.6	-13.7	-5.8	-4.2	-9.1	-5.5
Of which: FDI (net)	-6.2	-6.9	-7.8	-6.3	-7.1	-4.9
Of which: Portfolio investment (net)	0.7	0.2	2.1	0.6	0.4	0.4
Of which: Other investment (net)	-4.1	-7.0	0.0	1.5	-2.4	-1.0
Errors and omissions	1.8	-7.1	-0.8	0.6	0.0	0.0
Change in reserve assets	1.8	-0.9	1.5	-0.1	3.5	0.6
Gross official reserves (in millions of U.S. dollars)	937	911	914	902	1,109	1,140
(In months of retained imports)	5.0	5.2	5.5	5.2	5.8	5.9
External central government debt (In percent of GDP)	14.2	14.8	13.6	13.7	13.7	13.9
Miscellaneous						
Output gap	-1.1	1.5	2.3	-0.4	-0.1	0.0
Real effective exchange rate (average)	107.6	106.6	110.4	114.8	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.84	1.89	2.11	2.10	...	...
GDP at current market prices (in millions of U.S. dollars)	4,190	4,484	4,344	4,666	5,079	5,387
GDP per capita (in U.S. dollars)	4,863	5,180	4,996	5,343	5,791	6,114
GDP at current market prices (in millions of Fiji dollars)	7,716	8,462	9,150	9,785	10,461	11,152

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.

Table 2. Fiji: Depository Corporations Survey, 2010–16

	2010	2011	2012	2013	2014	2015	2016
Reserve Bank of Fiji (RBF)			(In millions of Fiji dollars)				
Net Foreign assets	1,139	1,343	1,481	1,613	1,654	1,790	1,749
Net domestic assets 1/	29	52	75	57	87	96	147
Net domestic credit	181	159	169	142	158	151	175
Net credit to nonfinancial public sector	174	131	121	62	58	58	76
Capital accounts	177	131	115	104	91	95	81
Other items (net)	25	25	21	19	20	40	53
Monetary base	1,165	1,393	1,552	1,667	1,738	1,883	1,893
Currency in circulation	479	496	558	572	641	732	781
Other depository corporations liabilities	685	896	993	1,095	1,097	1,151	1,112
Nonliquid Liabilities	4	3	4	3	3	3	3
Other Depository Corporations			(In millions of Fiji dollars)				
Net Foreign assets	-38	28	-10	159	-30	33	128
Net domestic assets	3,822	4,159	4,431	5,175	5,927	6,667	6,861
Net domestic credit	4,711	4,960	5,200	5,927	6,840	7,704	8,130
Net credit to nonfinancial public sector	226	125	25	281	429	450	151
Net credit to central government	63	16	-68	-29	-27	-29	-235
Net credit to public nonfinancial corporations	150	92	75	294	438	463	370
Credit to private sector	3,777	3,924	4,175	4,558	5,264	6,020	6,786
Capital accounts	837	763	773	843	981	1,119	1,227
Other items (net)	-52	-39	4	91	68	82	-43
Liquid liabilities	3,691	4,138	4,373	5,281	5,828	6,651	6,941
Transferable deposits	1,027	1,596	1,661	3,068	3,214	3,653	3,767
Other deposits	2,375	2,347	2,529	2,094	2,494	2,872	3,058
Securities other than shares	289	195	183	119	120	125	116
Nonliquid liabilities	93	49	49	52	68	50	47
Depository Corporations			(In millions of Fiji dollars)				
Net Foreign assets	1,101	1,371	1,471	1,772	1,623	1,823	1,877
Net domestic assets	3,071	3,223	3,391	4,006	4,766	5,428	5,714
Domestic credit	4,109	4,131	4,243	4,838	5,742	6,514	7,007
Net credit to nonfinancial public sector	400	255	146	343	487	508	227
Net credit to central government	214	124	31	10	32	29	-158
Net credit to public nonfinancial corporations	173	115	98	317	438	463	370
Credit to private sector	3,776	3,926	4,174	4,558	5,264	6,011	6,786
Capital accounts	1,014	894	888	947	1,072	1,214	1,308
Other items (net)	38	0	-25	-15	36	116	14
Broad money	4,075	4,542	4,810	5,723	6,318	7,198	7,541
Narrow money	1,411	2,000	2,098	3,510	3,704	4,201	4,367
Currency in circulation	384	404	437	442	490	548	600
Transferable deposits	1,027	1,596	1,661	3,068	3,214	3,653	3,767
Other deposits	2,375	2,347	2,529	2,094	2,494	2,872	3,058
Securities other than shares	289	195	183	119	120	125	116
Nonliquid liabilities	97	52	53	55	71	53	50
			(In percent of GDP)				
Net Foreign assets	18	20	21	23	19	20	19
Credit to private sector	63	58	59	59	62	66	69
Broad money	68	67	68	74	75	79	77

Sources: Fiji Authorities and IMF, Integrated Monetary Database.

1/ Net domestic assets = Net domestic credit + Other items(net) - Capital accounts

Table 3. Fiji: Central Government Finances, 2013–22
(in percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.	Proj.					
Government Revenue	26.5	27.2	27.9	27.5	28.1	28.5	27.9	28.0	28.1	28.1
Tax revenue	23.8	24.3	25.2	24.5	25.3	25.4	24.9	25.0	25.1	25.1
Other revenue	2.7	2.8	2.8	3.0	2.8	3.1	3.0	3.0	3.0	3.0
Government Expenditure	27.1	31.5	32.0	28.9	31.3	32.3	30.8	30.8	30.8	30.7
Primary expenditure	23.8	28.4	28.8	26.2	28.6	29.6	28.0	27.9	27.9	27.8
Current	16.2	17.4	17.4	17.1	17.8	18.9	18.8	18.7	18.6	18.6
Personnel	8.1	9.0	9.0	8.6	8.6	8.9	8.9	8.8	8.8	8.8
Transfers	4.9	5.2	5.2	5.4	5.9	6.5	6.5	6.4	6.4	6.3
Supplies and consumables	2.4	2.4	2.3	2.3	2.5	2.7	2.7	2.7	2.7	2.7
Other	0.8	0.8	0.9	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Capital	7.6	11.0	11.4	9.0	10.9	10.7	9.2	9.3	9.3	9.3
Interest	3.4	3.1	3.2	2.7	2.7	2.7	2.8	2.8	2.8	2.9
Fiscal balance	**-0.6**	**-4.3**	**-4.0**	**-1.4**	**-3.2**	**-3.8**	**-2.9**	**-2.7**	**-2.7**	**-2.6**
Primary balance	2.7	-1.2	-0.9	1.3	-0.5	-1.1	-0.1	0.1	0.2	0.3
Cyclically adjusted primary balance	3.0	-1.6	-1.4	1.4	-0.5	-1.1	-0.1	0.1	0.2	0.3
Financing	0.6	4.3	4.0	1.4	3.2	3.8	2.9	2.7	2.7	2.6
Privatizations	0.1	0.2	2.1	0.0	0.1	0.3	0.4	0.4	0.2	0.0
Public debt	2.1	2.9	1.6	2.0	3.1	3.5	2.5	2.4	2.4	2.6
Other	-1.6	1.2	0.4	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	**50**	**48**	**46**	**46**	**47**	**47**	**47**	**46**	**46**	**46**

Sources: Ministry of Economy and IMF staff estimates.

Table 4. Fiji: Balance of Payments, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.			Proj.			
				(In millions of U.S. dollars)						
Trade balance 1/	-1,159	-1,029	-903	-997	-1,110	-1,090	-1,114	-1,131	-1,164	-1,209
Exports, f.o.b.	1,146	1,208	968	920	968	1,036	1,108	1,186	1,269	1,345
Imports, f.o.b. 1/	2,305	2,237	1,871	1,917	2,078	2,126	2,222	2,316	2,432	2,554
Services (net)	631	673	688	704	753	763	773	783	783	783
Income (net)	-82	-225	-204	-209	-244	-276	-279	-280	-281	-282
Transfers (net)	205	242	265	268	313	336	368	398	432	468
Private	165	183	213	212	252	275	307	337	371	408
Official	40	59	46	60	61	61	61	61	61	61
Current account 1/	-405	-339	-154	-233	-288	-267	-252	-230	-231	-241
Capital account (net)	5	4	3	4	4	4	4	4	4	4
Financial account (net) 2/	-402	-615	-251	-197	-463	-297	-258	-237	-257	-287
FDI (net)	-259	-311	-339	-296	-363	-264	-266	-229	-273	-280
Portfolio investment (net)	29	11	89	29	21	22	23	25	26	27
Other investment (net)	-172	-314	-1	70	-121	-56	-16	-33	-10	-34
Errors and omissions	74	-318	-35	26	0	0	0	0	0	0
Change in reserve assets	76	-38	65	-7	179	34	10	10	30	50
				(In percent of GDP)						
Trade balance	-27.7	-22.9	-20.8	-21.4	-21.9	-20.2	-19.4	-18.5	-17.9	-17.5
Exports	27.4	26.9	22.3	19.7	19.1	19.2	19.3	19.4	19.5	19.4
Imports	55.0	49.9	43.1	41.1	40.9	39.5	38.7	37.9	37.4	36.9
Current account balance	-9.7	-7.6	-3.6	-5.0	-5.7	-5.0	-4.4	-3.8	-3.5	-3.5
Memorandum items:										
External debt (in millions of U.S. dollars)	1,227	1,301	1,165	1,136	1,223	1,256	1,299	1,343	1,386	1,429
External debt as a share of GDP	29.3	29.0	26.8	24.3	24.1	23.3	22.6	22.0	21.3	20.6
External central government debt (in millions of U.S. dollars)	594	665	591	639	698	751	792	835	881	934
External central government debt as a share of GDP	14.2	14.8	13.6	13.7	13.7	13.9	13.8	13.7	13.5	13.5
Gross official reserves (in millions of U.S. dollars)	937	911	914	902	1,109	1,140	1,150	1,160	1,190	1,240
(In months of retained imports) 1/	5.0	5.2	5.5	5.2	5.8	5.9	5.7	5.5	5.4	5.3
GDP (in millions of U.S. dollars)	4,190	4,484	4,344	4,666	5,079	5,387	5,738	6,111	6,508	6,925

1/ Includes purchase of aircraft by Fiji Airways in 2013.
2/ Excuding change in reserve assets; negative balance means an increase in net liabilities or decrease in net asset.

Table 5. Fiji: Selected Medium-Term Indicators, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.			Proj.			
Output and prices (percent change)										
Real GDP (at constant factor cost)	4.7	5.6	3.8	0.4	3.8	3.5	3.4	3.3	3.3	3.2
GDP deflator	2.3	4.1	3.7	4.9	3.0	3.0	3.0	3.1	3.1	3.1
Consumer prices (average)	2.9	0.5	1.4	3.9	3.4	3.3	3.0	3.0	3.0	3.0
Output gap (percent of potential output)	-1.1	1.5	2.3	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0
Consumption and investment 1/				(In percent of GDP)						
Consumption	85.0	84.3	82.2	84.6	84.6	85.7	86.0	85.8	86.0	86.4
Gross fixed capital formation	26.0	17.4	16.4	21.5	21.0	19.5	19.1	19.1	19.1	19.1
Changes in inventories	1.7	1.6	0.0	0.2	1.4	0.9	0.8	0.8	0.7	0.7
Central government budget (in percent of GDP)										
Revenue	26.5	27.2	27.9	27.5	28.1	28.5	27.9	28.0	28.1	28.1
Expenditure	27.1	31.5	32.0	28.9	31.3	32.3	30.8	30.8	30.8	30.7
Overall balance	-0.6	-4.3	-4.0	-1.4	-3.2	-3.8	-2.9	-2.7	-2.7	-2.6
Primary balance	2.7	-1.2	-0.9	1.3	-0.5	-1.1	-0.1	0.1	0.2	0.3
Central government debt outstanding	49.7	48.2	46.2	46.5	46.6	47.3	46.9	46.4	46.0	45.8
Balance of payments (in percent of GDP)										
Trade balance	-27.7	-22.9	-20.8	-21.4	-21.9	-20.2	-19.4	-18.5	-17.9	-17.5
Services plus income (net)	13.1	10.0	11.1	10.6	10.0	9.0	8.6	8.2	7.7	7.2
Transfers (net)	4.9	5.4	6.1	5.8	6.2	6.2	6.4	6.5	6.6	6.8
Current account balance	-9.7	-7.6	-3.6	-5.0	-5.7	-5.0	-4.4	-3.8	-3.5	-3.5
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance 2/	-9.6	-13.7	-5.8	-4.2	-9.1	-5.5	-4.5	-3.9	-3.9	-4.1
Of which: FDI (net)	-6.2	-6.9	-7.8	-6.3	-7.1	-4.9	-4.6	-3.7	-4.2	-4.0
Of which: Portfolio investment (net)	0.7	0.2	2.1	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Of which: Other investment (net)	-4.1	-7.0	0.0	1.5	-2.4	-1.0	-0.3	-0.5	-0.2	-0.5
Errors and omissions	1.8	-7.1	-0.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets	1.8	-0.9	1.5	-0.1	3.5	0.6	0.2	0.2	0.5	0.7
Memorandum items:										
Private sector credit (percentage change)	9.2	15.5	14.4	12.9	11.0	10.0	9.0	8.0	6.5	6.5
Gross official reserves (in millions of U.S. dollars) 3/	937	911	914	902	1,109	1,140	1,150	1,160	1,190	1,240
(In months of retained imports)	5.0	5.2	5.5	5.2	5.8	5.9	5.7	5.5	5.4	5.3

Sources: Reserve Bank of Fiji; Ministry of Finance; Fiji Bureau of Statistics and IMF staff estimates.

1/ Projections of consumption and capital formation start from 2016.
2/ Excluding change in reserve assets; negative balance means an increase in net liabilities or decrease in net asset.

Annex I. External Sector Assessment

Foreign Asset and Liability Position

Background. The net international investment position (NIIP) was -81 percent of GDP in 2016. External assets and liabilities were 35 and 116 percent of GDP, respectively. Reserves held by the Central Bank accounted for about 55 percent of total external assets. Key components of external liabilities included FDI liabilities (87 percent of GDP) and external debt (25 percent of GDP), of which about half was public debt. The commercial banks' net foreign assets position was positive.

Assessment. The structure of the external balance sheet, especially the large share of FDI liabilities in total external liabilities and adequate reserves, entails relatively low vulnerabilities.

Current Account

Background. The average current account (CA) deficit during 2011-16 was about 3.2 percent of GDP[1] and was financed by FDI inflows. The CA deficit in 2016 was 5 percent of GDP, about 1.4 percent of GDP larger than 2015. The widening CA deficit in 2016 was mainly driven by the decline in exports (especially in agriculture sector) after Cyclone Winston and by the increase in imports stemming from post-Winston reconstruction.

EBA-Lite CA Model (percent of GDP)	
CA, actual	**-5.0**
CA, underline	**-3.5**
CA norm, cyc adjusted	**-3.1**
CA-Gap	**-0.4**
of which policy gap	1.0
of which fiscal policy	1.1
of which credit growth	0.1
of which change in reserves	0.0
of which capital controls	-0.2

Source: IMF staff.

Assessment. The external position in 2016 was broadly consistent with fundamentals and desirable policy settings. The CA norm estimated using the EBA model was -3.1 percent of GDP.[2] The actual CA was -5 percent of GDP. The underlying CA, defined as the actual CA adjusted by the output gap and by the impact of Winston, was -3.5 percent of GDP. The CA gap, measured by the difference between the underlying CA and the CA norm, was -0.4 percent of GDP. The policy gap was 1 percent of GDP and mainly reflects the impact of the relatively low fiscal deficit in 2016. Using standard trade elasticities, a CA gap at -0.4 percent of GDP is equivalent to a REER gap at 1–2 percent.

The projected CA balance in 2017 is -5.7 percent of GDP[3] and the underlying CA is projected around 4 percent of GDP as the recovery from Winston is likely to affect the external accounts in a similar way as in 2016. Hence, the assessment of the external position in 2017 is unchanged.

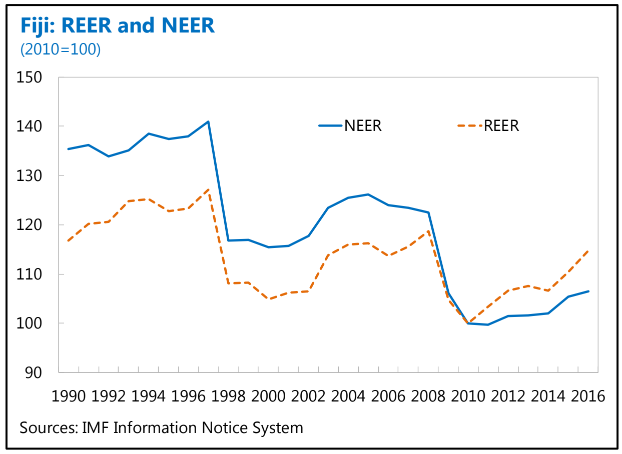
[1] This excludes the one-off purchase of aircrafts by Fiji Airways in 2013.

[2] The negative CA norm is mainly explained by the productivity gap between Fiji and the world frontier: countries with lower productivities tend to have weaker CA balances.

[3] The latest data on the current account balance is for 2016Q4.

Real Exchange Rate

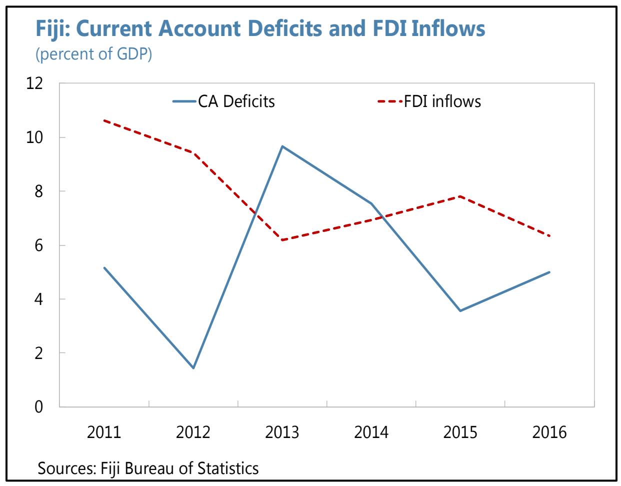
Background. The real effective exchange rate (REER) appreciated 15 percent since the large devaluation in 2009. About half of the REER appreciation came from the nominal effective exchange rate (NEER) appreciation, and the rest from higher domestic inflation relative to Fiji's trading partners. In 2016, NEER and REER appreciated by 1.1 and 3.9 percent (relative to 2015 average), respectively.



Assessment. The REER is broadly consistent with fundamentals and desirable policy settings. The REER norm from the EBA-lite REER model is about 1 percent stronger than the actual REER in 2016.

The REER remained broadly constant the first nine months of 2017. These developments suggest that the assessment for 2017 remains unchanged.

Capital and Financial Accounts



Background. FDI inflows have generally been able to finance the current account deficits in recent years. Consequently, reserves have been on an increasing trend. Restrictions on residents' overseas investments apply.

Assessment. Capital flow liberalization need to be planned, timed, and sequenced to ensure that its benefits outweigh its costs.

FX Intervention and Reserves Level

Background. The value of the Fiji dollar is officially determined on the basis of a weighted basket of currencies comprising the Australian dollar, Japanese yen, New Zealand dollar, euro, and U.S. dollar (Box 2). Intervention data is not available. Reserves were about USD 0.9 billion (about 20 percent of GDP) by end-2016, broadly flat relative to the level at end-2015.

Assessment. Reserves were above 5 months of imports at end-2016. Based on the IMF's composite metric,[4] reserves were about 135 percent of the metric adjusted for capital controls and non-full-

[4] The metric was initially developed in the IMF Board Paper "Assessing Reserve Adequacy" in 2011 and "Assessing Reserve Adequacy-Specific Proposals" in 2014. For countries with fixed (or other non-full-floating) exchange rate regimes, the metric is calculated as "10 percent*Exports + 10 percent*Broad Money + 30 percent*Short-term Debt +20 percent*Other Liabilities". For countries with capital controls, the weight of broad money is adjusted to 5 percent.

floating exchange rate regimes at end-2016. Both approaches indicate that reserves level is adequate.

Technical Remark on Underlying CA

The cyclically-adjusted CA estimated by the EBA-Lite model (which takes into account output gaps and terms-of-trade but not the additional impact of Winston on CA) is marginally weaker than the actual CA (-5 percent of GDP) due to the small output gap in 2016. Based on exports dynamics during 2013-15, staff assess that the Winston-related losses in domestic goods exports is about 0.7 percent of GDP in 2016. The impact of Winston on imports is twofold: on one hand the weaker domestic activities could lead to lower imports (especially oil imports); on the other hand, the reconstruction of housing and infrastructure would imply higher imports. Overall, staff assess that the latter effect dominates and Winston-related imports increase was likely to be larger than 0.8 percent of GDP in 2016. Summing up the impact of Winston on exports and imports, Winston is likely to have increased 2016 CA deficit by 1.5 percent of GDP (or more). Therefore, staff estimates that the underlying CA in 2016 was about 3.5 percent of GDP.

Annex II. Public Sector Debt Sustainability Analysis

Public debt is expected to remain sustainable assuming the recovery after Winston is completed in 2018, GDP growth is broadly in line with potential growth, and a gradual medium-term fiscal consolidation progresses. Under the baseline, the public debt-to-GDP ratio is forecast to stabilize around 46 percent of GDP by 2022. Future natural disasters and their associated fiscal costs are the major risk to the public debt outlook.

The public debt-to-GDP ratio of the central government has been on a declining trend since 2010 (Figure 3, bottom left), reaching 46 percent of GDP by end July 2017. Domestic debt accounted for 70 percent of total debt and external debt for the remaining 30 percent. Short-term debt was less than 3 percent of total debt.

The baseline scenario assumes that the output gap will close in 2018 and GDP growth will be around 3– 3.5 percent in the medium-term, in line with estimates of potential growth (Box 1). The primary balance will improve significantly once the reconstruction from Winston is completed but the interest-growth differential will gradually worsen.

Under the baseline scenario the debt-to-GDP ratio peaks in 2018 at 47 percent of GDP before stabilizing around 46 percent of GDP by 2022.

The constant primary balance scenario shows the debt-to-GDP ratio increasing steadily in the medium term to 48 percent in 2022, putting debt sustainability at risk.

The historical scenario shows the debt-to-GDP ratio declining more rapidly (compared to the baseline) to 42 percent of GDP by 2022. Although GDP growth is lower than in the baseline, the projected average primary balance offsets that and puts debt on a downward path. The average primary balance during 2007–16 was 1.3 percent of GDP, much higher than the projected average primary balance under the baseline during 2018–22 (-0.1 percent of GDP).

The natural disaster scenario assumes that a shock hits in 2019 slowing down GDP growth and temporarily increasing the primary deficit by 4 percent of GDP in 2019–20. The debt-to-GDP ratio jumps to 52 percent of GDP in 2020 and remains above 50 percent by 2022, putting debt sustainability at risk.

This natural disaster scenario suggests that adopting fiscal consolidation measures after the reconstruction is completed and putting debt on a clear downward path would help the economy to be more resilient to eventual adverse shocks.

Fiji: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

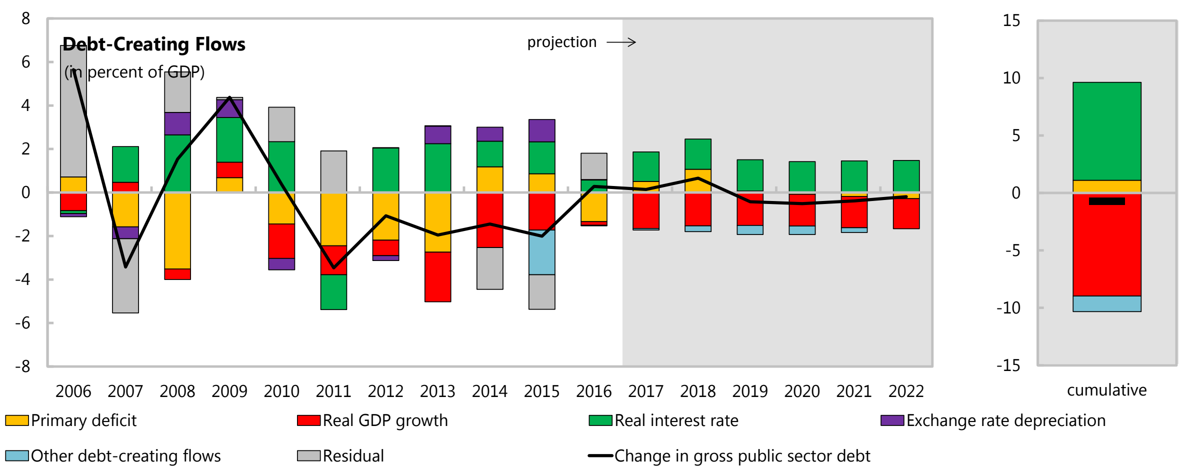
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	52.1	46.2	46.5	46.6	47.3	46.9	46.4	46.0	45.8
Public gross financing needs	12.9	14.9	4.4	5.2	6.9	6.1	8.9	5.7	5.4
Real GDP growth (in percent)	2.0	3.8	0.4	3.8	3.5	3.4	3.3	3.3	3.2
Inflation (GDP deflator, in percent)	3.9	3.7	4.9	3.0	3.0	3.0	3.1	3.1	3.1
Nominal GDP growth (in percent)	5.9	8.1	6.9	6.9	6.6	6.5	6.5	6.5	6.4
Effective interest rate (in percent) [4/]	6.8	7.1	6.3	6.2	6.3	6.3	6.4	6.5	6.6

As of December 11, 2017		
Sovereign Spreads		
Bond Spread (bp) 3/		360
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

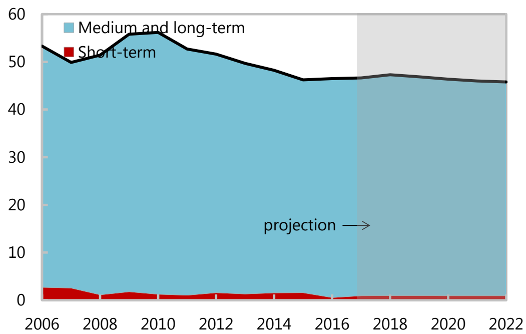
	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.1	-2.0	0.3	0.1	0.7	-0.4	-0.5	-0.4	-0.2	-0.7	
Identified debt-creating flows	-0.6	-0.4	-0.9	0.1	0.7	-0.4	-0.5	-0.4	-0.2	-0.7	
Primary deficit	-1.3	0.9	-1.3	0.5	1.1	0.1	-0.1	-0.2	-0.3	1.1	0.1
Primary (noninterest) revenue and grants	25.4	27.9	27.5	28.1	28.5	27.9	28.0	28.1	28.1	168.8	
Primary (noninterest) expenditure	24.2	28.8	26.2	28.6	29.6	28.0	27.9	27.9	27.8	169.9	
Automatic debt dynamics [5/]	0.6	0.8	0.4	-0.3	-0.1	-0.1	0.0	0.0	0.1	-0.4	
Interest rate/growth differential [6/]	0.4	-0.3	0.4	-0.3	-0.1	-0.1	0.0	0.0	0.1	-0.4	
Of which: real interest rate	1.4	1.5	0.6	1.4	1.4	1.4	1.4	1.5	1.5	8.5	
Of which: real GDP growth	-1.0	-1.7	-0.2	-1.7	-1.5	-1.5	-1.5	-1.4	-1.4	-9.0	
Exchange rate depreciation [7/]	0.2	1.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	-2.1	0.0	-0.1	-0.3	-0.4	-0.4	-0.2	0.0	-1.4	
Please specify (1) (e.g., privatization rece	0.0	-2.1	0.0	-0.1	-0.3	-0.4	-0.4	-0.2	0.0	-1.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.7	-1.6	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



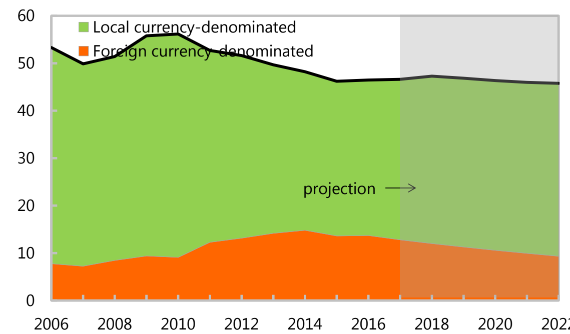
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds (bp).
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as $[r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi)$ times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Fiji: Public DSA – Composition of Public Debt and Alternative Scenarios

By Maturity
(in percent of GDP)



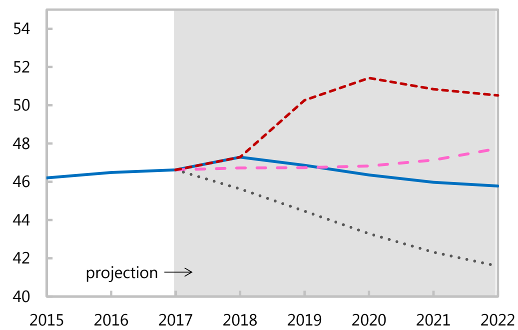
By Currency
(in percent of GDP)



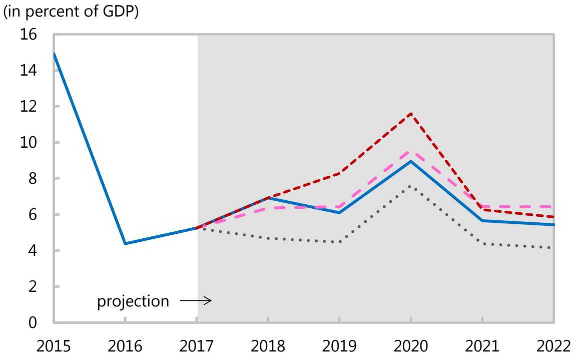
Alternative Scenarios

Baseline
Historical
Constant Primary Balance
Natural Disaster

Gross Nominal Public Debt 1/
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.8	3.5	3.4	3.3	3.3	3.2
Inflation	3.0	3.0	3.0	3.1	3.1	3.1
Primary Balance	-0.5	-1.1	-0.1	0.1	0.2	0.3
Effective interest rate	6.2	6.3	6.3	6.4	6.5	6.6
Constant Primary Balance Scenario						
Real GDP growth	3.8	3.5	3.4	3.3	3.3	3.2
Inflation	3.0	3.0	3.0	3.1	3.1	3.1
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	6.2	6.3	6.3	6.4	6.5	6.6

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.8	2.0	2.0	2.0	2.0	2.0
Inflation	3.0	3.0	3.0	3.1	3.1	3.1
Primary Balance	-0.5	1.3	1.3	1.3	1.3	1.3
Effective interest rate	6.2	6.3	6.3	6.4	6.5	6.5
Natural Disaster Scenario						
Real GDP growth	3.8	3.5	0.4	4.0	3.7	3.5
Inflation	3.0	3.0	3.0	3.1	3.1	3.1
Primary Balance	-0.5	-1.1	-2.1	-1.9	0.2	0.3
Effective interest rate	6.2	6.3	6.3	6.4	6.5	6.6

Annex III. Risk Assessment Matrix 1/

Likelihood	Impact		Policy Response
Medium	**Medium** **Stronger-than-expected performance in the tourism sector** The new Fiji Airways direct flights to Singapore and San Francisco could help the tourism sector to perform better than expected.	Upside	• Minimize the negative impact on environment. • Address the constraints that may limit the growth of capacity in tourism sector (e.g. landowning).
Low	**Medium** **Lower energy prices** Persistently lower oil prices have kept inflationary pressures in check and improve Fiji's fiscal and external balances.	Upside	• Take advantage of favorable conditions to make fiscal and external adjustments.
Medium	**Medium** **1. Excessive credit growth** Strong credit growth since 2012 may incur risks to financial stability.	Downside	• Close monitoring is required. The RBF should prepare to use macro-prudential measures. Tightening monetary policy could also help.
Low/Medium	**Medium/High** **2. Reform momentum** A stalling of structural reform momentum would pose a setback to growth. There is still much room to improve the business climate and maintain the strong growth of potential output.	Downside	• More structural reform progress is needed in key areas including ease of doing business, price controls, and land-leasing policies.
Medium	**High** **3. Weaker-than-expected global growth, especially significant China slowdown.** A sharp adjustment in China would hit commodity prices, denting growth prospects for Australia and New Zealand. This could lower tourism and remittances inflows to Fiji.	Downside	• Adjustments of the exchange rate may be necessary to strengthen competitiveness and the balance of payments.
High	**Medium** **4. Tighter global financial conditions:** Fed normalization and tapering by ECB could increase global rates and term premia, strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations. Adjustments could be disruptive if there are policy surprises. Higher interest rates and financial volatility can potentially lead to lower FDI.	Downside	• The RBF should prepare to tighten monetary policy and use macro-prudential measures when necessary.
High	**Medium** **5. Reduced financial services by correspondent banks** The withdrawal of corresponding banking relationships could have a significant impact on financial inclusion and result in higher costs for remittance and trade payments.	Downside	• Upgrade regulatory and supervisory frameworks to comply with international standards regarding both AML/CFT and tax transparency.
High	**High** **Natural disasters and climate change** Fiji consists of more than 300 islands. Natural disasters such as tropical cyclones and floods could severely damage roads, housing, and tourism infrastructure.	Downside	• Build fiscal buffers against natural disaster shocks. • Invest in resilient infrastructure to strengthen climate change mitigation and adaptation.

1/The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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. Nonmutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Authorities' Responses to Past Fund Advice

Fund Recommendation	Policy Actions
Fiscal Policy	
• Fiscal consolidation is needed to build buffers and reduce policy pro-cyclicality. • Contain current spending and maintain robust revenue growth. • FNPF: increase investment opportunities and diversify risks.	Cyclone Winston forced the authorities to adopt supportive fiscal plans in 2016 and 2017 to rehabilitate public infrastructure. The government's medium-term fiscal strategy aims to achieve fiscal consolidation. The budget for FY 2018 envisages a significant increase in the wage bill. Recent tax reforms have broadened the tax base, while anti-avoidance measures have been strengthened. The FNPF has increased its investments abroad and is diversifying its portfolio.
Monetary and Financial Policies	
• Remove monetary policy accommodation by gradually raising the monetary policy rate. • Actively monitor banks' exposure to interest rate and credit risks. Enlarge the supervision on non-banking financial institutions. • Consider loan-to-value restrictions for real estate loans. • Move towards a more flexible exchange rate regime, including periodic reviews and adjustments as needed of the level of the basket peg.	The RBF has kept the monetary policy rate unchanged since November 2011. Maintaining an accommodative monetary policy stance was appropriate in the aftermath of Winston. The RBF has been collecting and publishing financial soundness indicators of commercial banks and non-bank financial institutions. The draft of Credit Union Act was presented in June 2016. Though there was no actual change to macro-prudential policies, financial stability risk analysis was conducted regularly. There were no changes in exchange rate policies in 2016 and 2017.
External Sector • A gradual relaxation of exchange controls should continue.	The RBF increased the limits of some categories of foreign exchange transactions (advance imports payments, subscriptions, wages paid in foreign currency to foreign crew).
Structural Reforms	
• Structural reform priorities include the relaxation of price controls, increased efficiency of land use, improved consultative process, predictability and streamlining of government regulation and investment in human capital.	Progress has been made on the land-leasing scheme (by introducing the land bank) and education (the budget allocation to education has increased). Price controls are still broad-based.
Statistics • Improve the quality of data for informed policy making.	Progress with quarterly national accounts has been slow. The presentation of government budget improved somewhat.

Annex V. External Debt Sustainability Framework, 2012–22

Table 1. Fiji: External Debt Sustainability: 2012–22

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	24.3	29.3	29.0	26.8	24.3			**23.6**	**22.9**	**22.3**	**21.6**	**21.0**	**20.3**	**-4.2**
2 Change in external debt	1.2	5.0	-0.3	-2.2	-2.5			-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	
3 Identified external debt-creating flows (4+8+9)	-9.4	3.3	-0.7	-4.5	-2.6			-2.3	-0.7	-1.0	-0.7	-1.3	-1.2	
4 Current account deficit, excluding interest payments	-0.4	8.1	5.7	1.6	3.2			4.4	3.7	3.2	2.6	2.4	2.4	
5 Deficit in balance of goods and services	3.1	12.6	7.9	4.9	6.3			6.8	6.0	5.9	5.6	5.8	6.1	
6 Exports	61.1	56.9	55.4	51.1	47.1			45.9	44.3	43.6	42.9	42.0	41.1	
7 Imports	64.2	69.5	63.3	56.1	53.4			52.7	50.3	49.4	48.5	47.8	47.2	
8 Net non-debt creating capital inflows (negative)	-9.4	-6.2	-6.9	-7.8	-6.3			-7.1	-4.8	-4.6	-3.7	-4.1	-4.0	
9 Automatic debt dynamics 1/	0.4	1.4	0.5	1.7	0.6			0.4	0.5	0.4	0.4	0.4	0.4	
10 Contribution from nominal interest rate	1.8	1.6	1.9	1.9	1.9			1.3	1.2	1.2	1.1	1.1	1.1	
11 Contribution from real GDP growth	-0.3	-1.1	-1.6	-1.1	-0.1			-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	
12 Contribution from price and exchange rate changes 2/	-1.1	0.9	0.2	0.9	-1.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	10.6	1.6	0.5	2.3	0.1			1.6	0.0	0.3	0.0	0.6	0.5	
External debt-to-exports ratio (in percent)	39.8	51.5	52.4	52.5	51.7			51.4	51.7	51.1	50.5	49.9	49.5	
Gross external financing need (in billions of US dollars) 4/	206.5	612.3	565.5	675.1	783.9			575.4	574.9	569.0	758.7	565.0	583.7	
in percent of GDP	5.2	14.6	12.6	15.5	16.8	10-Year	10-Year	11.3	10.5	9.8	12.2	8.5	8.3	
Scenario with key variables at their historical averages 5/								**23.6**	**21.8**	**19.9**	**17.7**	**16.1**	**14.4**	**-8.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	1.4	4.7	5.6	3.8	0.4	2.0	2.3	3.8	3.5	3.4	3.3	3.3	3.2	
GDP deflator in US dollars (change in percent)	5.0	-3.7	-0.6	-3.1	4.8	1.5	7.6	5.0	4.0	3.0	3.1	3.1	3.1	
Nominal external interest rate (in percent)	8.5	6.7	6.9	6.7	7.4	7.1	0.7	5.8	5.6	5.4	5.4	5.4	5.4	
Growth of exports (US dollar terms, in percent)	8.5	-1.8	4.3	-10.6	-1.0	4.9	17.2	6.2	4.0	4.7	4.7	4.4	4.0	
Growth of imports (US dollar terms, in percent)	3.6	14.2	-2.4	-14.2	2.3	3.4	18.1	7.6	2.7	4.6	4.4	5.0	5.0	
Current account balance, excluding interest payments	0.4	-8.1	-5.7	-1.6	-3.2	-4.8	4.2	-4.4	-3.7	-3.2	-2.6	-2.4	-2.4	
Net non-debt creating capital inflows	9.4	6.2	6.9	7.8	6.3	8.5	2.3	7.1	4.8	4.6	3.7	4.1	4.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

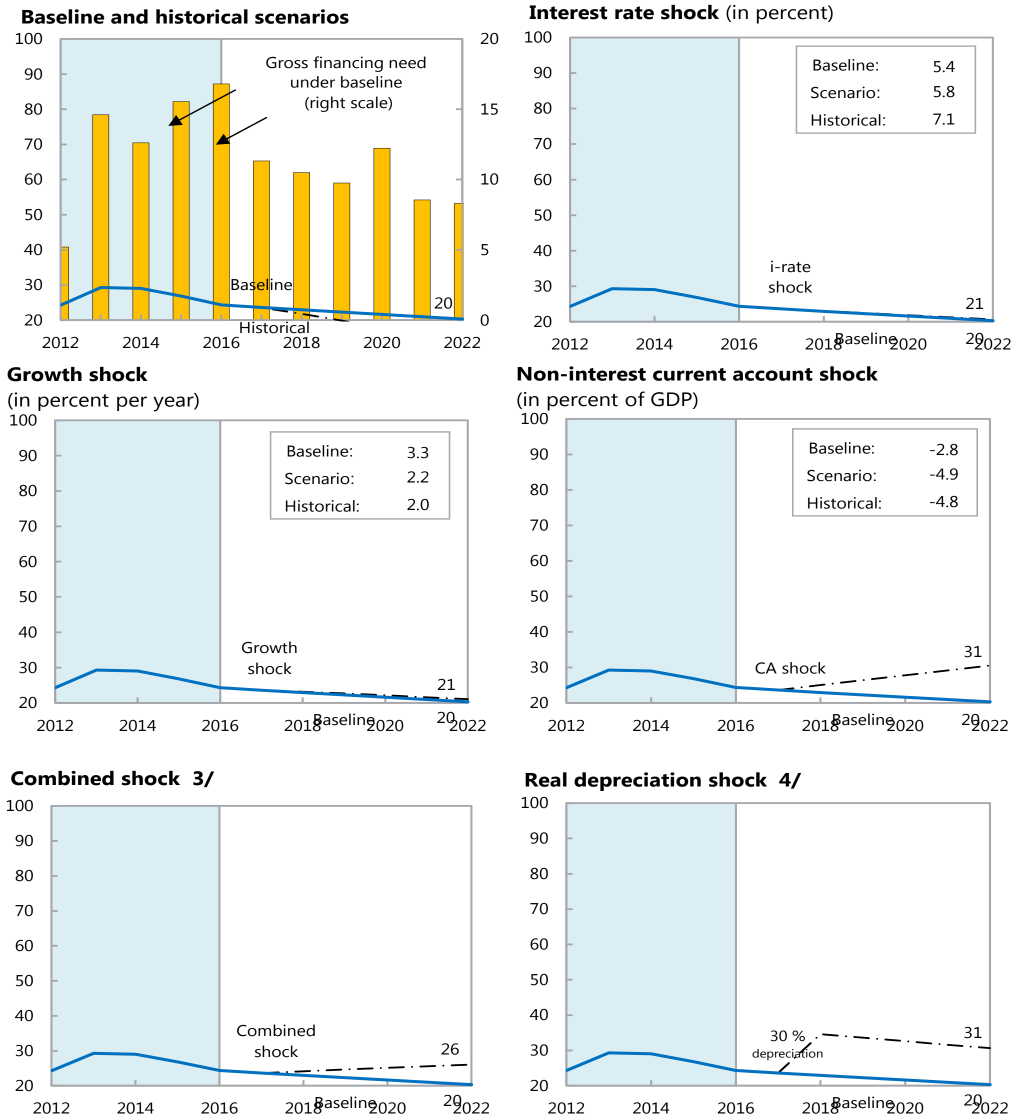
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels at the last projection year.

Figure 1. Fiji: External Debt Sustainability: Bond Tests 1/ 2/

(External Debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2010.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 10, 2018

Prepared By

Asian and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2017)

Membership Status: Joined: May 28, 1971; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	98.40	100.00
Fund holdings of currency	74.58	75.79
Reserve position in Fund	23.84	24.23

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	44.03	65.63

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Type Stand-By	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn Allocation (SDR Million)
	Nov. 8, 1974	Nov. 7, 1975	3.25	0.00

Overdue Obligations and Projected Payments to Fund:[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17	0.17

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements: Fiji's *de facto* exchange rate arrangement is a conventional peg.

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. The exchange rate was F$2.05 per U.S. dollar as of December, 2017.

Exchange and capital controls were tightened significantly in early 2009 following the devaluation of the currency. Some of the exchange restrictions have been eliminated and amended since then. Remaining exchange restrictions subject to Article VIII arise from the Fiji Revenue and Customs Authority tax certification requirements on the transfer abroad of profits and dividends, on the proceeds of airline ticket sales, and on the making of external debt and maintenance payments and from limits on large payments (e.g., oil imports and dividends repatriation of foreign banks).

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010, and further increases in delegated limits were announced to come into effect in January 2014. Banks have also been allowed to have net forward contracts of up to F$40 million, and the delegated limit on dividends and profits for companies per annum was raised from F$500,000 to F$1,000,000 per invoice. In November 2015, the RBF announced further exchange control relaxations effective January 1, 2016, to include further increases to the delegated limits of certain payments and offshore investment by Fiji residents. Deposits into external accounts were raised from up to $500 per month to $2,000 per month, ceilings on offshore investment by Fiji residents were raised from $15,000 per family per annum to $25,000. In August 2017, RBF relaxed the exchange controls on the limits of advanced import payments (from $1 million per invoice to $2 million per invoice), subscriptions (from $10,000 per annum to $20,000 per annum) and wages paid in foreign currency of foreign crew (from $500 to $10000 per beneficiary).

Last Article IV Consultation: The 2015 Article IV consultation discussions were held in Suva during October 15–28, 2015. The consultation (Country Report No. 16/54) was completed by the Executive Board on February 15, 2016. Fiji is on a 12-month cycle.

Safeguards Assessment: The first-time safeguards assessment of the Reserve Bank of Fiji (RBF) was finalized in January 2011 and found key safeguards elements in place. The RBF publishes annual financial statements that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were recommended by the staff for others. An action plan has been put in place where there is capacity to prepare IFRS financial statements and commenced with the financial statements for the year ended 2010 during 2011.

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

WORLD BANK-IMF COLLABORATION

(As of December 31, 2017)

The Fund and the Bank teams maintain close cooperation in various areas. During the current cycle, the Bank staff has joined the IMF missions, including the 2015 Article IV mission. The Fund and the Bank have also been engaged in provision of technical assistance and advice in public financial management and debt management policy. The two institutions extensively shared information and closely coordinated policy advice during the preparation of the World Bank's post-Cyclone Winston emergency budget support (see below).

During the current cycle, the Bank's engagement with the Fiji government has deepened. On July 1, 2016, the World Bank's Board approved the $50 million post-Cyclone Winston emergency development policy operation to support Fiji's recovery from the immediate impact of Cyclone Winston and help finance the post-disaster social protection to the most vulnerable. On November 30, 2016, the Board approved the $6 million Fiji Connectivity Project to finance a fiber optical cable spur to the northern island of Vanua Levu. In addition to the IBRD operations, the Bank mobilized the $8.5 million Global Environment Fund to finance Sustainable Energy Finance Project which aims to increase the use of renewable energy by providing a risk-sharing facility to encourage local financial institutions to provide financing to households and small businesses to adopt sustainable energy technologies. The Bank is also providing technical assistance in areas of geothermal energy and the design and implementation of Fiji's civil service reforms. On the analytical front, the Bank has collaborated with the government to updated the poverty assessment based on the 2013/14 household survey data, and completed the Fiji Systematic Country Diagnostic (SCD), which identifies the key opportunities and challenges to accelerating growth and poverty reduction in Fiji and priorities for policy reforms. The SCD provides the analytical basis for the new 5-year Country Partnership Framework for 2018-22. The Public Expenditure Review is underway to analyze the efficiency and effectiveness of public spending programs in recent years and to identify potential sources of expenditure adjustment to restore fiscal sustainability.

The Bank's team view is that Fiji's main macroeconomic challenges are to safeguard fiscal and external stability and raise potential growth through structural reforms. The authorities have accelerated reforms in recent years, but the key policy challenge remains to raise the potential growth, create productive jobs, and increase resilience to shocks. Although poverty rates in Fiji are among the lowest in the Pacific and have been falling in the last decade, the averages mask divergence within the country. In particular, between the 2008/09 and 2013/14 surveys, urban poverty has increased (from 12 to 13 percent based on the $3.20 per day international poverty line) even as the aggregate poverty and rural poverty have declined (from 17 to 14 percent and 22 to 16 percent, respectively). Despite the above-trend growth in recent years, continued structural reform is needed to unlock Fiji's potential and sustain growth. Key structural reforms needs as seen by the Fund and the Bank as critical include:

- **Investment climate reform**. Encouraging private sector growth by providing a more supportive business environment remains a priority. Fiji's overall *Doing Business* ranking continues to decline—down to 97 in 2017 from 84 in 2016. Challenges remain in areas of starting a business, getting permits, paying taxes, and registering property. Fiji scores particularly poorly in starting a business—159th of 190 countries—with 40 days required to start one.

- **Public enterprise reform.** The pace of SOE reforms aimed at improving services and reducing fiscal costs needs to be accelerated. These reforms will help reduce direct and contingent liabilities of the government, help expand and improve the quality of service delivery, and promote growth.
- **Tax policy and administration reform.** Efforts to broaden the tax base should continue, including review of the tax incentive regime. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.
- **Strengthening statistical capacity and statistics.** Fiji should ensure that it continues to develop personnel with the capacity to produce accurate and timely economic statistics. Good statistics are important both for macro policy formulation and good public financial management (e.g. establishment payroll and wage bill control). Fiji continues to benefit from a broad range of statistical advice from PFTAC.

Fiji: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas

	Products	**Expected Delivery**
Bank Work Program	• Regional GEF sustainable energy financing project to support commercial banks to lend to businesses and households for renewable energy. • IFC TA for improving business environment • Public Expenditure Review to identify options for fiscal consolidation • Development Policy Operation	• Ongoing • Ongoing • FY2017/18 • FY2017/18
Fund Work Program	• Tax policy and administration TA • Statistics TA	• Ongoing • Ongoing

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)[1]

(As of December 31, 2017)

Background

Fiji continues to be one of PFTAC's largest TA users. More than 70 percent of PFTAC assistance to Fiji is fiscal related. Investments in revenue administration capacity development have delivered strong results through more effective core functional capacities such as audit and taxpayer services, and introduction of innovative approaches more common in advanced administrations such as tax rulings, programs for high-wealth individuals, and application of risk management. Assistance across a broad array of PFM topics is guided by the government's PFM reform roadmap. The imminent release of quarterly GDP-by-production estimates has benefited from PFTAC National Accounts TA, and PFTAC is now providing capacity development in GFS following the conclusion of a regional Japanese funded IMF program. The emphasis of the financial sector supervision program is expanding beyond credit union TA to the insurance sector, and Fiji plays a key role in PFTAC's regional financial sector efforts. The PFTAC macroeconomic program is helping strengthen the tools and capacity for robust policy making through better medium-term economic and fiscal forecasting.

With respect to Public Financial Management (PFM), assistance has continued to focus on remedying weaknesses identified in the 2012 PEFA assessment that are reflected and prioritized in the Ministry of Economy's approved 2016 – 2019 PFM Reform Roadmap. In the near term, areas of specific PFTAC follow-up assistance include strengthening accounting and financial reporting consistent with IPSAS; developing a framework for assessing fiscal risks arising from state-owned enterprises and statutory authorities; developing an internal audit charter and internal control assessment framework; revision of financial instructions; and further improvements to budget documentation. In the medium to longer-term, additional areas of PFTAC assistance could include improving cash management, debt management, budget execution controls, public investment management, and medium-term budgeting. PFTAC coordinates closely with other development partners also providing PFM support to Fiji.

In the area of revenue administration, PFTAC has continued to assist in the modernization of the Fiji Revenue and Customs Service (FRCS) by providing TA to help improve taxpayer services; build audit capability; introduce a public and private tax rulings regime; improve the management of tax arrears and outstanding returns; and introduce a High Net Worth Individual Strategy. A compliance improvement strategy, first introduced in 2016, has been updated annually and is fast becoming the tool driving organizational performance. A review of progress resulting from the TADAT diagnostic

[1] The Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji, is a regional technical assistance institution operated by the IMF with financial support of the AsDB, Australia, New Zealand, Korea and the European Union. The Centre's aim to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu.

assessment in 2015 has shown strong commitment to addressing priority issues including the creation of a new unit to deal with tax disputes. The procurement of a new IT system is nearing completion with implementation anticipated before the end of 2017.

In statistics, support has been ongoing to further develop the national accounts that are broadly consistent with the *2008 SNA*. Following recent PFTAC assistance, the Fiji Bureau of Statistics (FBoS) is expected to publish new quarterly estimates of GDP by production by the end of 2017. These will complement annual GDP by production and expenditure, the latter published since December 2015. A rebase to 2014 is planned in 2018. The Australian Bureau of Statistics continues to assist the development of the producer price index, published experimentally since 2014. Through October 2015 Fiji received TA on government finance statistics (GFS) and external sector statistics (ESS) under the IMF HQ Japan Administered Account (JSA1), but following the conclusion of that program, PFTAC has assumed capacity development support to Fiji in GFS. This support aims at expanding coverage and compiling GFS for the general government in Fiji. PFTAC also funded an ESS mission in FY16.

In financial sector supervision, PFTAC's work with the Reserve Bank of Fiji (RBF) has focused on credit union supervision in recent years, with PFTAC continuing to provide support to the RBF in developing a credit union supervisory regime. The RBF will attend PFTAC's upcoming workshop on insurance regulation, at which a technical assistance plan for the enhancement of the RBF's insurance regulation and supervision will be developed. PFTAC continues to engage with the RBF through the Association of Financial Supervisors of Pacific Countries (AFSPC) on regional initiatives, which currently include a proposed IT Risk Examination assistance program and AML/CFT supervision assistance.

In the macroeconomic area, work is focusing on building macroeconomic modeling and analysis capacity with the aim of having medium-term economic and fiscal projections to feed into policy making. Key projects include an upgrade of the Fiji macroeconomic programming framework to undertake external and debt sustainability analysis, estimation of potential output, and improvements to government expenditure and revenue forecasting methodology and processes.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of December 31, 2017)

The Asian Development Bank (ADB) has been working with the Government of Fiji since 1970. As of 30 June 2017, $562.0 million in loans, $37.0 million in grants and $32.2 million in technical assistance has been committed to the country, largely supporting infrastructure development in the transport (roads) and urban water and sanitation sectors. Current ADB operations in Fiji are delivered under the country partnership strategy (CPS), 2014–2018. Fiji, a borrowing member, has access to indicative financing of $275 million available during 2017–2020 for sovereign operations. ADB is also exploring the possibility of Fiji dollar denominated lending to Fiji, in addition to other diversified lending products. Indicative cofinancing sources will also be explored to support Fiji's financing needs.

Consistent with the priorities of successive governments, ADB engagement in Fiji has focused on (i) raising Fiji's growth potential, (ii) building resilience and reducing vulnerability, and (iii) reducing poverty through more inclusive growth and better service delivery. Strides have been made toward these goals through direct investments in transport and urban water and sanitation infrastructure, and improved public sector management. Road transport investments in Fiji over a 20-year period have helped disadvantaged groups participate in the cash economy by reducing transport costs and traveling times. This has increased access to employment opportunities and social services. An improved transport system in Fiji has helped to bolster market efficiencies, and to broaden access to education, health, and business services.

As of 30 June 2017, the ADB portfolio consisted of (i) a $100 million transport sector loan, approved in December 2014 (with an additional $50 million cofinancing from the World Bank); (ii) a $153.2 million two phase loan for an urban water supply and wastewater management project, with the first $42.1 million approved in December 2016 (with additional $31.0 million cofinancing from Green Climate Fund and $70.8 million cofinancing from the European Investment Bank); and (iii) $50.0 million for emergency assistance following tropical cyclone Winston (with additional $50 million cofinancing from the World Bank), which was disbursed in early 2017. ADB is currently discussing a proposed policy-based loan of up to $180 million to facilitate private-sector-led growth, with $50 million in cofinancing from the World Bank.

The transport sector investment will upgrade and rehabilitate roads, wharfs and jetties in line with priorities identified in the Government's 20-year National Transport Plan. The Urban Water Supply and Wastewater Management Project will ensure that residents of some of Fiji's most densely populated areas have improved access to safe piped water and an environmentally friendly sewerage system. In February 2016, tropical cyclone Winston caused $1.36 billion in damage and losses, equivalent to 31% of GDP. In response to the disaster, ADB provided a $2 million grant to support relief efforts and additional financing toward recovery and rehabilitation. The proposed policy based loan will support public financial management reforms, state-owned enterprise reforms and assist the government improve the business and investment environment.

Fiji also continues to participate in ADB technical assistance projects in the region, covering areas such as building capacity for economic and financial management, providing economic policy advice, mitigating climate change impacts, planning for investment in the ports and energy sectors, and promoting private sector development through business environment reform.

ADB's presence in Fiji has been enhanced by the location of its Pacific Sub-regional Office in Suva, strong coordination and harmonization with other development partners, and significant analytical work. However, Fiji faces similar operational and implementation challenges to other Pacific island countries, with limited public sector capacity and frequent staffing changes in key public and private sector positions. These constraints are reflected in the design of ADB projects, and accompanying technical assistance is an important component of the overall support package.

ADB maintains ongoing dialogue on country operations with the Government of Fiji and its key development partners. This ensures that external support is coordinated and reflects the comparative advantages of individual partners. ADB has a strong track record of cooperative programming in Fiji and will continue to seek opportunities to support poverty reduction and development. ADB cooperates with the private sector and civil society organizations in the implementation of national and regional operations involving Fiji.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Macroeconomic data are improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years. The Reserve Bank of Fiji (RBF) publishes the *Annual Report*, the *Quarterly Review,* and the monthly *Economic Review*. The Fiji Bureau of Statistics (FBoS) publishes a quarterly *Current Economic Statistics* and a monthly *Statistical News*. The Ministry of Finance and National Planning (MoF) issues the *Budget Address* and the *Supplement to the Budget Address* on an annual basis. All of these publications are received by APD on a regular basis. Formal participation in the GDDS (now e-GDDS) commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002.
National Accounts: Production-side estimates of GDP by production at current and constant 2011 prices are available up to 2016; current price estimates of GDP by expenditure and income are available to 2015 and will be updated to 2016 by end-2017. Estimates were rebased from 2008 to 2011 in 2014 mainly using the 2013/14 Household Income and Expenditure Survey and the 2014 Business Census to derive new benchmarks. Quarterly current and constant price GDP by production was due to be published by end-2017, as well as currently internal annual Supply and Use tables. **Price statistics:** CPI data are published monthly, with data available up to November 2017. The NSO has rebased the CPI weights and is currently working on connecting the 2008 base data and updated 2011 base data. Quarterly PPIs for goods and services (experimental) are available from 2011 to 2016.
Government finance statistics: While Fiji has provided metadata for central government operations and central government debt, the metadata were last updated in 2005. Fiji reported budgetary central government (BCG) GFS data for publication in the IMF's Government Finance Statistics Yearbook (GFSY) for 2006, this was followed by a time series break for 2007-2009. In 2013, Fiji commenced to submit GFS data again for the BCG, 2010-2013. The authorities are encouraged to continue its submission of GFS data from 2014 to date and to complete the data for the time series break. Advances have been made in collecting source data required to expand general government coverage. The authorities are encouraged to review and update the GDDS fiscal metadata and resume reporting data for publication in the GFSY and commence reporting in the International Financial Statistics.
Monetary and financial statistics: Data on the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) are comprehensive and provided to APD and STA on a regular and timely basis. Progress has been achieved by the RBF in most areas of the

collection, compilation, and dissemination of monetary and financial statistics (MFS), leading to the introduction of the standardized reporting forms for the central bank, ODCs, and OFCs. This resulted in the publication of data aligned to the *Monetary and Financial Statistics Manual* (*MFSM*) in the RBF's website and *International Financial Statistics*. The full implementation of the November 2005 workshop and January 2008, July 2011, and April 2012 missions' recommendations will constitute a very important step towards the compilation in a timely and efficient manner, of monetary statistics fully consistent with the *MFSM* and *Monetary and Financial Statistics Compilation Guide*. Efforts are now concentrated in improving source data for ODCs and OFCs and compiling a financial corporations survey with full institutional coverage.
Balance of payments: Balance of payments statistics weaknesses persist and there is a need to improve the coverage, classification and compilation methodology of the external sector statistics (ESS). Fiji reports its balance of payments data for dissemination purposes in the Fund's *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*. FBoS has undertaken a number of actions that were recommended to improve timeliness in ESS dissemination and to enhance consistency with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), albeit at a slow pace.
II. Data Standards and Quality
Fiji is an e-GDDS participant.

Fiji—Table of Common Indicators Required for Surveillance
(As of December, 2017)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	12/2017	12/2017	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2017	12/2017	M	M	M
Reserve/Base Money	09/2017	10/2017	M	M	M
Broad Money	09/2017	10/2017	M	M	M
Central Bank Balance Sheet	09/2017	10/2017	M	M	M
Consolidated Balance Sheet of the Banking System	09/2017	10/2017	M	M	M
Interest Rates[2]	09/2017	10/2017	M	M	M
Consumer Price Index	11/2017	12/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	FY2016/17[6]	06/2017	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	FY2016/17	06/2017	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	07/2017	11/2017	A	A	A
External Current Account Balance	Q3, 2017	12/2017	Q	Q	Q
Exports and Imports of Goods and Services	Q3, 2017	12/2017	Q	Q	Q
GDP/GNP	2015	10/2016	A	A	A
Gross External Debt	Q2/2017	12/2017	Q	Q	Q
International Investment Position	Q2/2017	12/2017	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and sta and local governments. For Fiji, General Government is the same as Central Government.
[5] Daily (D), monthly (M), quarterly (Q), and annually (A).
[6] The reporting of fiscal data changed from calendar year to fiscal year in FY2016/17 (August 2016 to July 2017).

Statement by Mr. Juda Agung, Executive Director, and Ms. Lanieta Rauqeuqe, Advisor to the Executive Director of the Republic of Fiji
February 5, 2018

On behalf of our Fiji authorities, we thank staff for the detailed report and their constructive engagement and work. Our authorities broadly concur with the staff's assessment and will carefully consider the relevant recommendations.

Latest Economic Developments and Outlook

Fiji's economic fundamentals are firm. In 2017, the Fijian economy is estimated to have grown by 4.2 percent, above its potential of 3-3.5 percent. This is the country's eighth consecutive year of growth, a feat not achieved since independence in 1970. The Fijian economy has grown above 4 percent in the last five years, outside of the 0.4 percent GDP growth in 2016 – as a result of the damages and losses of about 30 percent of GDP from tropical cyclone Winston. This represents a notable shift from previous years' growth cycles and has been supported by record levels of tourists and remittances, elevated construction activity, improved terms of trade and accommodative macroeconomic policies. This broad-based growth and resultant improved business confidence has also driven the strong investment cycle, and consequently, Fiji's potential growth trajectory. Five years ago, Fiji's growth potential was around 2.0 percent. As at December 2017, inflation was 2.8 percent and international reserves coverage remained sufficient at over 5 months of retained imports.

The current economic momentum and reform package have created a virtuous cycle. The unemployment rate reached 4.5 percent last year, its lowest level in 20 years, as per the recently released 2017 population census report. Key income inequality measures also improved due to better targeting and increased government funding of social protection programs. In addition, Fiji's credit ratings were upgraded last year on account of accelerated reforms, notable measures to improve the effectiveness of fiscal policy and strengthen resilience to negative shocks, and political stability.

Looking ahead, prospects remain positive. Our authorities broadly agree with the medium-term outlook, but assess the risk profile to be more balanced, compared to staff. The withdrawal of correspondent banking relationships has not been an issue for Fiji, and less-volatile FDI dominates the country's capital inflows.

Monetary Policy and Financial Sector

Monetary policy remains appropriately accommodative and supportive of growth. The outlook for the Reserve Bank of Fiji's (RBF) twin monetary policy objectives of low inflation and adequate foreign reserves will continue to determine the monetary policy stance, going forward. Next year, inflation and foreign reserves coverage are both expected to be stable and sufficient at around 2.5 percent and 5.2 months, respectively.

Fiji's financial system is sound, based on capital, earnings and liquidity positions. The RBF's macroprudential assessments do not indicate any build-up of systemic risk in Fiji's financial system. The positive credit gap of Q4 2016 was a result of the devastating impact of tropical cyclone Winston earlier in the year, rather than excessive credit growth. Internal calculations show that the credit gap has since turned negative for June 2017, pointing to the moderation of the current credit cycle. Also, private sector credit annual growth slowed to 9.1 percent in December 2017, compared to 12.9 percent in 2016 and 14.2 percent in 2015. Against a growing loan book, NPLs increased from 1.0 percent at end-2015 to 1.8 percent at end-2016 and 1.9 percent in November 2017. Survey measures also indicate a tightening of credit standards by financial institutions in the absence of a credit bureau. Equally important, proactive onsite supervision, regular risk-based assessments and stress tests are ongoing. Consequently, the authorities see no current need for macroprudential intervention, given that credit growth has slowed and the financial system remains sound.

Key reforms and supervisory enhancements in the financial sector are progressing well. A comprehensive review of the corporate governance policies for the banking, insurance and capital markets industries commenced in 2017 and will be finalized at the beginning of 2018. The Personal Property Securities Act, that facilitates the use of movable property as collateral, was also passed by parliament in 2017. On the supervision of NBFIs, offsite closer monitoring of the Fiji Development Bank continues under the directive of the Minister for Economy, and work will progress to the cooperatives and money lender industries once the review of the Credit Union Act is completed. While Fiji has not had a case of withdrawal of corresponding bank relationships, risk management and AML/CFT requirements have been strengthened for banks, foreign exchange dealers and money changers, life insurers, general insurers, and insurance brokers. Also, onsite examinations that cover AML/CFT risks have increased in frequency and thoroughness. The Fiji FSSR mission will be held during February 13-27, 2018 and the authorities look forward to the team's findings and guidance as per its diagnosis of key issues and challenges in Fiji's financial system.

Fiscal Policy

Fiscal policy has been calibrated to sustain substantial investments in infrastructure, health plus education, and support inclusive growth. Improving the spending mix towards growth-friendly investment in physical and human capital has already yielded benefits. These include a notable lift in Fiji's potential growth via the sizeable infrastructure outlays, and reduced income inequality with better-targeted social protection measures and elevated spending on education and health. Given the ongoing reconstruction effort, the authorities welcome the staff's assessment that the current supportive fiscal stance for 2017-18 is appropriate.

The authorities are committed to concurrently achieving fiscal sustainability and key development priorities. The downward trajectory in the public debt-to-GDP ratio from around 56 percent in 2010 to 46 percent at the end of fiscal year 2016/2017 is indicative of the authorities' commitment to fiscal discipline and sustainability. Looking ahead, a key anchor for fiscal policy is the government's intention to reduce the public debt-to-GDP ratio to 35 percent by 2036. The envisioned fiscal consolidation from 2019 will help further build fiscal buffers and preserve debt/fiscal sustainability. More precisely, the authorities will pursue fiscal consolidation that balances fiscal sustainability with development priorities and inclusive growth. Adequate budgetary allocation to key sectors will remain, and on the revenue side, efforts on simplifying tax administration, ensuring certainty and predictability and strengthening compliance will continue. Our authorities will carefully consider staff suggestions on specific fiscal consolidation measures and aim to expand the budget coverage of government operations and improve the frequency of fiscal data reporting.

Exchange Rate Regime

The current exchange rate regime has served as an appropriate anchor for inflation and has supported trade. The authorities undertake an annual review of the exchange rate weights to ensure that the basket remains appropriate and protects competitiveness. In addition, exchange control measures have been progressively relaxed. Strong reserves and the favorable outlook for Fiji's external balance do not suggest misalignment. Further relaxations in the capital account and a move to a flexible exchange rate arrangement will ultimately hinge on macroeconomic fundamentals and supportive domestic policies.

Building Resilience

Building resilience to natural disasters and other external shocks is key. Fiji's 2014 'Green Growth Framework' aims to integrate inclusive and sustainable growth with increasing resilience, considering Fiji's vulnerability to natural disasters and the impact of climate change. Given the enormous costs and efforts associated with natural disaster rehabilitation and climate change mitigation and adaptation, and the difficulty small states have in accessing climate financing and associated support, the Fijian government issued a green bond in November 2017. This was also consistent with the government's strategy to make access to climate finance a key pillar of its 2017 COP23 presidency. Fiji became only the third sovereign to issue a green bond, and the budgeted $50 million proceeds for the 2017/18 fiscal year are dedicated to climate change mitigation, adaptation and other environment-friendly initiatives. In a similar vein, our authorities are pursuing an inclusive insurance framework to help low and average income families mitigate natural disaster risks, and are laying the groundwork for accessing a regional catastrophe risk insurance pool. Additionally, the Fiji National Provident Fund is considering parametric insurance options for its members. All these constitute ex-ante measures to strengthen the country's resilience to natural disasters and climate change impact. Our authorities encourage the Fund and other IFIs to enhance financial support and TA to vulnerable small states, to strengthen their resilience building efforts and bolster their long-term climate adaptation and mitigation strategies.

Structural Reforms

The authorities' structural reform agenda is driven by its 5 and 20-year national development plans. As noted by staff, significant reforms were put in train over the past five years in the key areas of land utilization, labor market, pension system and improving financial access. On the civil service reform, the key pay review was completed in 2017 and the introduction of a new performance management system will follow. The review of the Public Enterprises Act is currently being done with the aim of strengthening the monitoring of SOEs and aligning their operations to international best practices. The government is proceeding with divestment of its shares in various SOEs, and the Electricity Act to facilitate the deregulation of the energy sector was passed in March 2017. As for price controls, oligopolistic behavior is not rare for small economies, and the remote and dispersed population makes it difficult for authorities to enforce anti-competitive behavior. The Fijian Competition and Consumer Commission continues to review the administered price regime and will gradually reduce these controls based on assurances of fair competition and appropriate pricing in the market. On land reforms, the authorities will next focus on reviewing administrative processes and capacity building to strengthen land-use administration. Additionally, our authorities are committed to further improving the regulatory environment for business and lifting productivity, and huge investments to improve transport (roads, port services and inter-island shipping, airport) and digital connectivity, strengthen education and health outcomes and improve access to finance and housing, and broaden utilities coverage will continue.

Conclusion

On the whole, sound macroeconomic management and the comprehensive reform agenda have served Fiji well. Nevertheless, the authorities are not at all complacent and remain committed to sound macroeconomic policies, progressing the reform agenda and sustaining inclusive growth. The authorities reiterate their appreciation to staff for the candid dialogue and value the Article IV process for the cross-country perspectives it brings to bear and the opportunity these consultations provides authorities to assess policies and in return, inform Fund advice, work and policy frameworks.