INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/57

REPUBLIC OF FIJI

2018 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

February 2019

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 2018 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on consideration on lapse of time basis, following discussions that ended on December 18, 2018, 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 31, 2019.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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February 15, 2019

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IMF Executive Board Concludes 2018 Article IV Consultation with Fiji

On February 12, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Republic of Fiji and considered and endorsed the staff appraisal without a meeting[2].

The economy is recovering well from several natural disasters and is expected to record its ninth consecutive year of expansion in 2018. The fiscal stance has eased substantially in fiscal year 2017/18 and external conditions are becoming less favorable due to lower sugar prices, higher oil prices, and slowing growth in main trading partners. Growth is expected to pick up to about 3.2 percent in 2018, underpinned by consumption and public investment. The growth momentum is projected to continue in the coming years. Headline inflation increased to 5.2 percent in November reflecting higher taxes on tobacco and alcohol as well as higher prices for yaqona caused by floods in April. Inflation is projected to decline to 3 percent in 2019–20 as supply conditions normalized.

Policies should aim to increase Fiji's resilience to shocks and strengthen growth performance. Faster fiscal consolidation is needed to rebuild fiscal space and support external stability. Improving the business environment and governance will raise potential growth by mobilizing private investment, enhancing productivity, and diversifying the economy.

Executive Board Assessment

In concluding the 2018 Article IV consultation with the Republic of Fiji, Executive Directors endorsed staff's appraisal, as follows:

[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Economic growth has been resilient. Despite the recent wave of natural disasters, the economy is expected to record its ninth consecutive year of positive GDP growth in 2018, underpinned by strong consumption and public investment. Growth is projected at 3−3.5 percent the medium term, in line with estimates of potential growth.

However, external conditions have become less favorable, underscoring the need to increase the economy's resilience. Higher oil prices, lower sugar prices, and weaker growth in Fiji's major trading partners increase risks to external stability and warrant a recalibration of macroeconomic policies.

Fiscal buffers should be rebuilt as soon as possible to support fiscal sustainability and external stability. The fiscal deficit and public debt increased sharply in recent years and put fiscal space at risk. Fiscal consolidation should proceed quickly to put the debt-to-GDP ratio on a clear downward path. This will help maintain fiscal sustainability, create fiscal space to respond with flexibility to natural disasters in the future, and alleviate the current pressure on foreign reserves by containing imports. Consolidation measures need to be spelled out expeditiously and should be mainly expenditure-based, given the limited scope for further revenue mobilization.

Monetary policy may need to be tightened to further support external stability. A tighter monetary stance could contribute to narrowing the current account deficit and preserving foreign reserves in tandem with fiscal consolidation, if less favorable external conditions persist.

Continuing to undertake financial sector reforms, following the recommendations of the 2018 FSSR, is encouraged. Priority reforms include: adopting a more risk-based approach to banking supervision; development of macroprudential toolkits by passing legislation to formalize the RBF's mandate over such activities and filling existing data gaps; enhancing the governance of NBFIs; and adopting the new Credit Union Act.

Pension savings used to mitigate the impact of Cyclone Winston should be restored. Low levels of pension savings could jeopardize the adequacy of pensions for a large fraction of contributors. 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.

To boost growth potential, reforms should focus on attracting and supporting private investment. High-priority measures include: an improved investment regime that can better protect the property rights of investors; an adequate regulatory framework that allows to shift from far-reaching price controls to enhancing competition; and improving the ease of doing business (e.g., fewer procedures to start a business and a decrease in the number of hours that tax compliance requires).

Governance would be improved by enhancing fiscal transparency and strengthening the rule of law. Fiscal transparency would be improved by: extending reporting of government operations to include public corporations that pose a significant risk to public finances; publishing in a timely manner the annual reports of major SOEs and statutory bodies; and issuing mid-year budget reports. Rule of law would be improved by upgrading the investment regime in line with international best practices.

The exchange restrictions for payments on current international transactions should be removed. The limits on large external payments and the tax certification requirement on the transfer abroad of profits, dividends, and proceeds of airline ticket sales are inconsistent with Article VIII and discourage investment.

Improving data quality will help better guide policy-making. National accounts, consumer price indexes, and government finance statistics should be improved with support from PFTAC and development partners.

Fiji: Selected Economic Indicators, 2015–20

	2015	2016	2017 Est.	2018 Proj.	2019 Proj.	2020 Proj.
Output and prices (in percent change)						
Real GDP	3.8	0.7	3.0	3.2	3.4	3.3
GDP deflator	3.7	5.8	0.7	3.0	3.0	3.1
Consumer prices (average)	1.4	3.9	3.4	4.1	3.5	3.0
Central government budget (in percent of GDP)						
Revenue	27.9	28.1	30.3	30.4	30.1	30.1
Expenditure	32.0	29.5	32.4	34.8	33.7	33.4
Fiscal balance	-4.0	-1.4	-2.1	-4.4	-3.6	-3.3
Public debt	46.2	47.5	48.1	49.8	50.2	50.4
Money and credit (in percent change)						
Net domestic credit depository corporations	13.4	7.6	5.9	...	...	...
Private sector credit	14.2	12.9	9.3	...	...	...
Broad money (M3)	13.9	4.8	8.3	...	...	...
Monetary base	8.4	0.5	18.4	...	...	...
Central Bank Policy rate	0.5	0.5	0.5	...	...	...
Commercial banks deposits rate	2.7	3.0	3.2	...	...	...
Commercial banks lending rate	5.8	5.8	5.6	...	...	...
External sector (in percent of GDP)						
Trade balance	-20.9	-21.8	-22.4	-24.6	-23.4	-22.5
Services plus income (net)	12.5	12.7	10.0	12.0	12.0	11.8
Transfers (net)	6.1	5.9	6.2	6.7	6.3	6.3
Current account balance	-2.3	-3.2	-6.2	-5.9	-5.1	-4.4
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-3.4	-6.7	-10.4	-3.4	-4.6	-5.0
Of which: FDI (net)	-5.5	-8.9	-8.0	-3.2	-5.4	-5.8
Of which: Portfolio investment (net)	2.1	0.6	0.9	0.9	0.9	0.9
Of which: Other investment (net)	0.0	1.5	-3.3	-1.0	-0.1	-0.1
Errors and omissions	0.3	-3.5	-0.9	0.0	0.0	0.0
Change in reserve assets	1.5	0.1	3.5	-2.5	-0.4	0.7
Gross official reserves (in millions of U.S. dollars)	921	915	1,103	961	940	978
(In months of retained imports)	5.5	5.2	5.7	4.6	4.5	4.5
Miscellaneous						
Output gap	2.5	0.2	0.2	0.1	0.0	0.0
Exchange rate (Fiji dollars per U.S. dollar; period average)	2.11	2.10	2.06	...	...	...
GDP at current market prices (in millions of U.S. dollars)	4,344	4,569	4,891	5,118	5,322	5,668
GDP per capita (in U.S. dollars)	4,996	5,232	5,528	5,758	5,961	6,321
GDP at current market prices (in millions of Fiji dollars)	9,150	9,582	10,073	10,716	11,404	12,145

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

January 31, 2019

KEY ISSUES

Context. The economy is recovering well from several natural disasters, supported by accommodative fiscal and monetary policies.

- Growth performance picked up in recent years with improved political stability, though average growth rates were still lower than in other emerging and developing countries.
- The current government was reelected in mid-November.
- Fiscal buffers have been used and external conditions, including oil prices and growth prospects of main trading partners, are becoming less favorable.

Policy priorities. Policies should aim to increase Fiji's resilience to shocks and strengthen growth performance.

- Fiscal consolidation is needed to rebuild fiscal space and to support external stability.
- Tighter monetary policy could also support external stability in tandem with fiscal consolidation if less favorable external conditions persist.
- Improving the overall business environment and governance will raise potential growth by mobilizing private investment, enhancing productivity, and diversifying the economy.

Approved By
Odd Per Brekk (APD) and Mary B. Goodman (SPR)

Discussions took place during December 3–18, 2018. The team comprised Pablo Lopez Murphy (head), Si Guo, Sandile Hlatshwayo (both APD), and Leni Hunter (Regional Resident Representative). Alessandra Balestieri and Huan Zhang (both APD) provided support from headquarters. Alternate Executive Director Keng Heng Tan and Lanieta Rauqeuqe (both OED) participated in the policy meetings. The mission was joined by staff from the World Bank.

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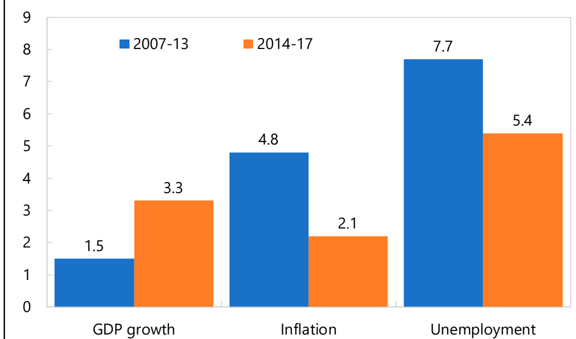
CONTEXT, RECENT DEVELOPMENT, OUTLOOK AND RISKS

A. Context

1. Fiji's economic performance has improved in recent years. Despite frequent natural disasters, the economy has been resilient and is on track to achieve its 9th consecutive year of growth in 2018 (Figure 1, top left). The 2014 election, following 8 years of military government, was a turning point as Fiji re-engaged with the international community and political stability bolstered business confidence and GDP growth (Text Figure 1). The government was reelected in November.

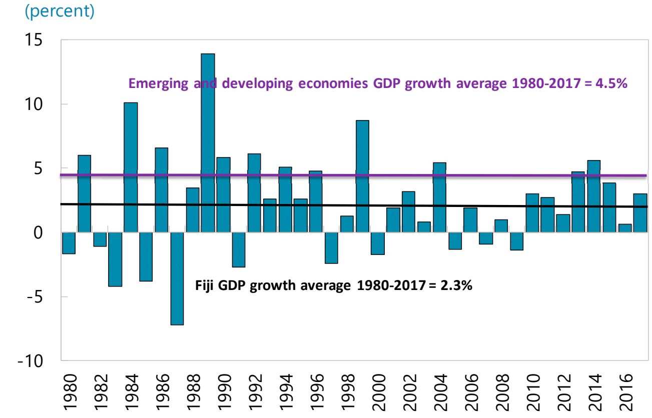
Text Figure 1. Fiji: Recent Economic Performance
(annual average; percent)



Sources: FBoS and IMF staff estimates

2. There is, however, ample scope for raising medium- and long-term growth. Although GDP growth picked up in recent years, its average in the last few decades was low compared to other emerging and developing economies (Text Figure 2). Against this background, the National Development Plan (NDP) aims to transform Fiji into a more dynamic and inclusive economy with annual GDP growth averaging 4-5 percent over the next two decades, higher than staff's current estimates of potential growth (3-3.5 percent). The ambitious growth targets in the NDP are underpinned by an increase in the investment rate to 25 percent of GDP from an average of 19.8 percent of GDP during 2014-17.

Text Figure 2. Fiji: Real GDP Growth
(percent)



Sources: FBoS and IMF World Economic Outlook

B. Recent Developments

3. **The economy is recovering well from several natural disasters**. Tropical Cyclone Winston, a Category 5 storm, hit Fiji in February 2016 and caused extensive damage while tropical Cyclones Josie and Keni in April 2018 brought substantial floods. Real GDP growth was 3 percent in 2017 and is projected to reach 3.2 percent in 2018, led by consumption and public investment (Figure 1). Headline inflation rose to 4.1 percent on average (y/y) in 2018, on account of higher excise taxes on tobacco and alcohol as well as higher prices for yaqona (Fiji's traditional drink) caused by the April floods.

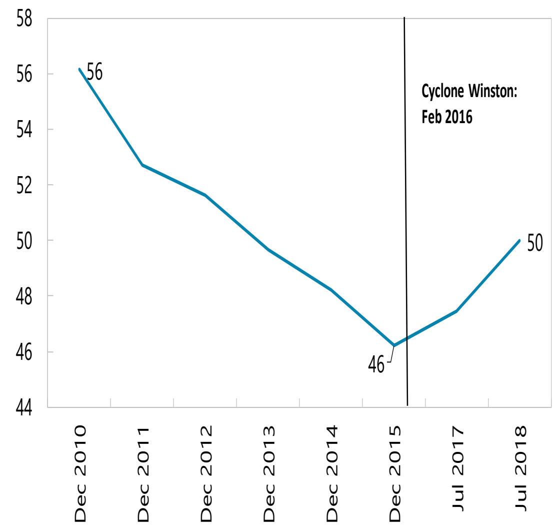
4. **The fiscal stance has eased substantially in the wake of the cyclones**. The deficit in fiscal year 2017-18 is estimated at 4.8 percent of GDP, up 2.5 percent of GDP from the year before on account of large spending increases that more than offset stronger revenues (Text Table 1). Although part of the expenditure increase (about 1.6 percent of GDP in fiscal year 2017-18) is directly related to post-cyclone rehabilitation, there was also a sizable increase in current spending. The public debt-to-GDP ratio increased to 50 percent by the end of fiscal year 2017-18, reversing a downward trend that started in 2010 (Text Figure 3).

Text Table 1. Fiji: Central Government Operations

	FY16-17	FY17-18 est
	(percent of GDP)	
Revenue	28.4	30.6
Tax revenue	25.8	26.8
Other revenue	2.6	3.9
Expenditure	30.7	35.5
Primary expenditure	27.9	32.7
Current	17.5	19.4
Personnel	8.7	9.2
Transfers	5.6	6.9
Supplies and consumables	2.5	2.5
Other	0.7	0.8
Capital	10.5	13.2
Interest	2.8	2.8
Fiscal balance	-2.3	-4.8
Primary balance	0.5	-2.0

Source: MoE and IMF staff calculations

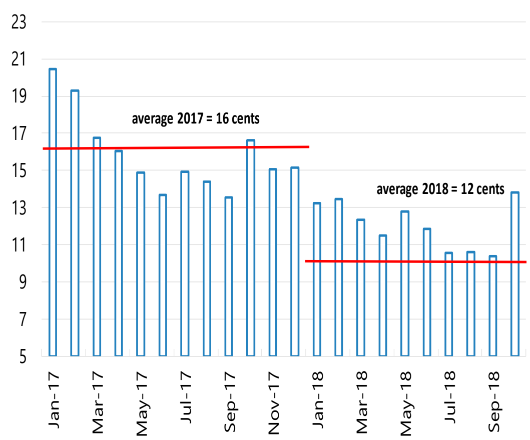
Text Figure 3. Fiji: Public Debt
(percent of GDP)



Sources: MoE

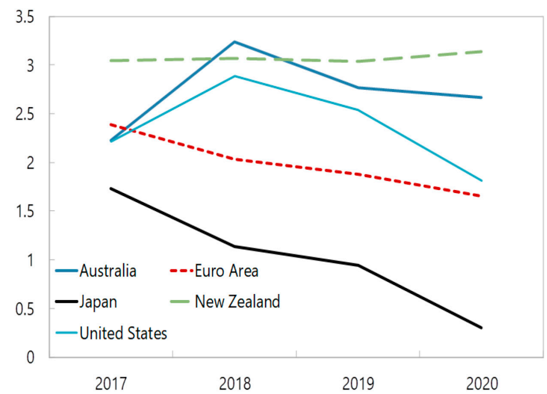
5. External conditions are becoming less favorable. Despite the slight decline in late 2018, average oil prices during 2018 were about 30 percent higher than 2017[1] and world sugar prices fell 24 percent on average in the first ten months of 2018 (Text Figure 4).[2] In addition, growth of main trading partners is projected to slow down, affecting tourism and other exports (Text Figure 5). In the first nine months of 2018, the trade deficit increased by about 2.7 percent of GDP (text Figure 6) on account of higher imports of transportation equipment and fuel (Figure 3, middle right) and lower exports of sugar (Figure 3, bottom left). Foreign reserves declined by 13 percent (US$ 142 million) during 2018 but remain at about 4.5 months of imports (Text Figure 7) by December 2018.

Text Figure 4: Sugar Price
(US$ cents per pound; end of period)



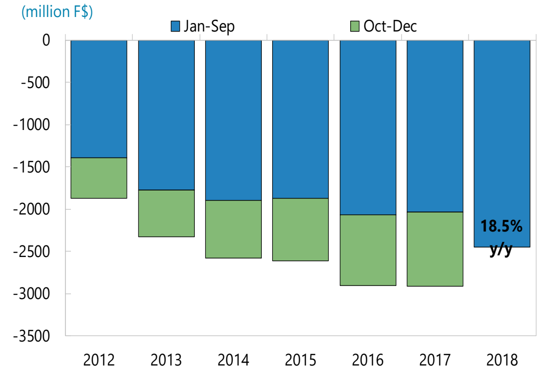
Sources: RBF

Text Figure 5. Fiji Trading Partners' GDP Growth
(percent)



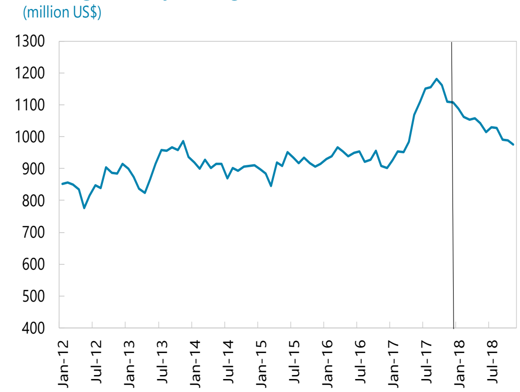
Sources: IMF World Economic Outlook, Oct 2018.

Text Figure 6. Fiji: Trade Balance
(million F$)



Sources: FBOS and RBF. Excluding aircraft imports.

Text Figure 7. Fiji: Foreign Reserves
(million US$)



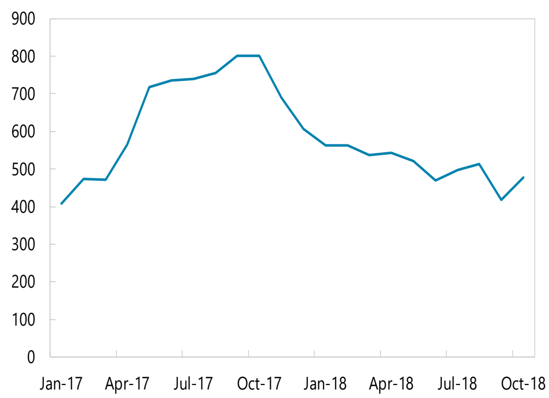
Sources: RBF

[1] Oil imports account for about 20 percent of imports.

[2] Exports of sugar account for about 13 percent of exports.

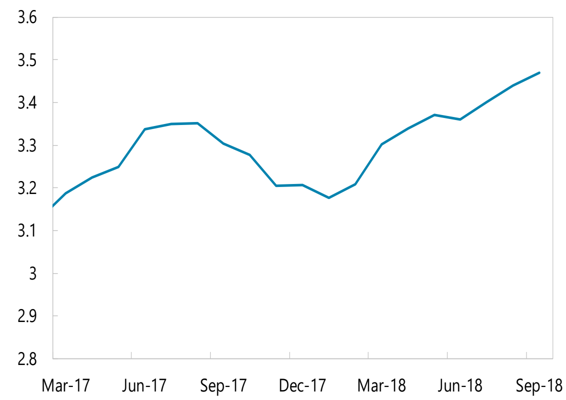
6. **Financial conditions tightened in recent months while the monetary policy rate has remained unchanged**. Commercial banks' excess liquidity has been declining during 2018 (Text Figure 8) while time deposit rates paid by commercial banks have been increasing (Text Figure 9). Amid this backdrop, the overnight policy rate (OPR) through which the Reserve Bank of Fiji (RBF) communicates its monetary stance has remained unchanged at 0.5 percent (Figure 4, top right).

Text Figure 8. Fiji: Commercial Banks' Liquidity
(Demand deposits at RBF; in F$ millions)



Sources: RBF

Text Figure 9: Fiji: Time Deposit Rate at Commercial Banks
(percent)



Sources: RBF

C. Outlook and Risks

7. **Growth is projected at 3-3.5 percent in 2019 and the medium term, in line with estimates of potential growth** (Table 5). High public investment, stable FDI, and the elimination of uncertainties surrounding the election are expected to support investment growth. Inflation is projected to decline to 3 percent in 2019-20 as supply disruptions ease (Table 5). The fiscal and the current account deficits are projected to decline gradually as public investment normalizes after the reconstruction from Cyclone Winston (Table 3).

8. **Risks are tilted to the downside**. Downside risks stem from natural disasters, higher oil prices, slower growth in main trading partners, and delays in implementing structural reforms required to mobilize private investment. On the upside, the new air route to Japan and code share arrangement with British Airways may boost the tourism sector (Annex 1).

Authorities' Views

9. **The authorities broadly agreed with staff's macroeconomic projections and highlighted a few additional downside risks.**

- They projected growth at 3-3.5 percent in 2019 and the medium term, in line with staff, underpinned by expansion in agriculture, tourism, construction, and insurance activities. They project inflation at 3.5 percent by end 2018 and at 3 percent in the medium term, barring major supply shocks.

- They also noted a few other downside risks. On external side, these included higher food prices as a risk to inflation and external accounts. On domestic risks, they pointed to labor shortages, especially in the construction sector, explained by the emigration of skilled workers.

POLICY DISCUSSIONS

A. Macroeconomic Policies: Responding to a Changing External Environment

10. Fiscal and monetary policies should be recalibrated to respond to less favorable external conditions. The larger trade deficit, stalled accumulation of foreign reserves, and continued appreciation of the real effective exchange rate (Text Figure 2.1) suggest that the risks of external imbalances are rising. These developments are ultimately linked to the higher fiscal spending and less favorable external conditions. Fiscal consolidation would support external stability and create fiscal buffers. Monetary policy tightening could also contribute to narrowing the current account deficit and preserve foreign reserves in tandem with fiscal consolidation if less favorable external conditions persist.

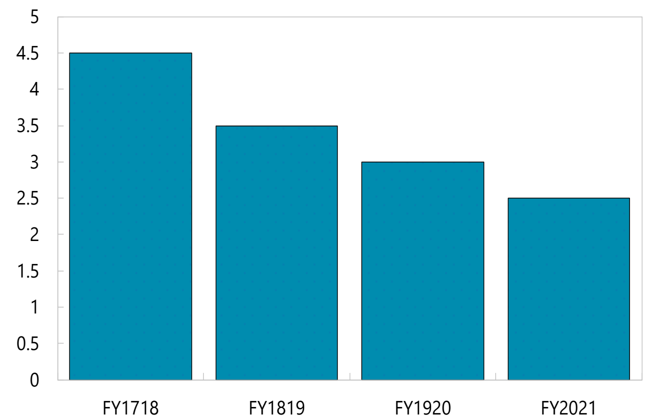
11. The external sector position in 2018 is moderately weaker than implied by medium-term fundamentals and desirable policy settings. The underlying current account (CA) deficit, defined as the actual CA deficit adjusted for Cyclone Winston and other cyclical factors, is projected at 4.9 percent of GDP in 2018, some 1.3 percent of GDP above the "norm" suggested by the IMF's External Balance Assessment-Lite model (Annex 2). The underlying fiscal deficit in 2018 is projected at 3 percent of GDP (Table 3), about 1-2 percent of GDP higher than its desirable medium-term level, accounting for the bulk of the gap between the actual CA and the estimated norm.

Fiscal Policy

12. There is an urgent need for fiscal consolidation to rebuild fiscal buffers and support external stability. Fiscal space is assessed to be "at risk" (Annex 3). Sovereign spreads and debt profile indicators are consistent with medium-risk benchmarks, and under adverse scenarios debt does not stabilize in the medium term. Given the external position, with less favorable conditions, the availability of financing is likely to be more limited. Fiscal space should be rebuilt to preserve fiscal sustainability, allow for flexibility in responding to future natural disasters, and support investment needs identified in the Climate Vulnerability Assessment (Annex 4). While private investment will be needed to address some of such needs, the authorities' also need to lay out a medium or long term fiscal plan that accounts for the government's contributions. Given the high probability of natural disasters happening in short succession and with increased severity, fiscal space should be rebuilt as soon as possible.

13. The authorities' fiscal plans are aiming for deficit reduction, but they still have yet to define underlying policies in support of the targets. The 2018-19 budget outlines a medium-term fiscal strategy that targets a gradual reduction of the fiscal deficit from 4.8 percent of GDP in 2017-18 to 2.5 percent in 2020-21 (Text Figure 10), and 1.5 percent in 2022-23. The medium-term public debt target is 40 percent of GDP. The strategy, however, does not include detailed revenue and expenditure projections and the measures required to achieve those targets are not quantified. Moreover, the strategy does not include fiscal and macroeconomic projections consistent with the medium-term debt target.

Text Figure 10. Fiji: Fiscal Deficit Targets
(percent of GDP)



Sources: 2018-19 budget

14. Under current policies, fiscal buffers would not be rebuilt, putting the debt position at risk. In the baseline scenario (Text Table 2) staff projects that the fiscal deficit will decline gradually to 2.9 percent of GDP by 2022-23, but public debt will remain broadly constant at 51 percent of GDP. In the event of a large natural disaster, the associated fiscal cost could imply a jump in the level of public debt that could be difficult to sustain (Annex 5).

15. Staff recommends a more ambitious medium-term fiscal consolidation strategy compared with the authorities' current plan. In staff's preferred scenario (Text Table 3) the fiscal deficit reaches 1 percent of GDP by fiscal year 2022-23 by keeping real primary per capita spending broadly constant. Staff recommends a medium-term debt target of 44 percent of GDP, creating a debt buffer of 6 percent of GDP compared to the current level. Moderating current spending creates space for higher

Text Table 2. Fiji: Central Government Operations, FY2017–23
(In percent of GDP)

	FY 2017–18	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22	FY2022-23
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Government Revenue	30.6	30.0	30.1	30.1	30.1	30.1
Tax revenue	26.8	26.8	26.9	26.9	26.9	26.9
Direct taxes	7.9	8.0	8.0	8.0	8.0	8.0
Indirect taxes	18.8	18.8	18.9	18.9	18.9	18.9
Other revenue	3.9	3.2	3.2	3.2	3.2	3.2
Government Expenditure	35.5	33.7	33.5	33.2	33.1	33.0
Primary expenditure	32.7	30.8	30.5	30.2	30.1	29.9
Current	19.4	21.6	21.5	21.2	21.1	20.9
Personnel	9.2	9.8	9.8	9.7	9.7	9.6
Transfers	6.9	7.6	7.6	7.5	7.5	7.5
Supplies and consumables	2.5	2.9	2.8	2.7	2.6	2.5
Other	0.8	1.3	1.3	1.3	1.3	1.3
Capital	13.2	9.2	9.0	9.0	9.0	9.0
Interest	2.8	3.0	3.0	3.0	3.1	3.1
Fiscal balance	**-4.8**	**-3.7**	**-3.4**	**-3.1**	**-3.0**	**-2.9**
Primary balance	-2.0	-0.8	-0.4	-0.1	0.0	0.2
Financing	4.8	3.7	3.4	3.1	3.0	2.9
Privatizations	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	5.1	3.7	3.4	3.1	3.0	2.9
Other	-0.3	0.0	0.0	0.0	0.0	0.0
Public debt	**50**	**51**	**51**	**51**	**51**	**51**

Sources: Ministry of Economy, and IMF staff estimates.

capital expenditure to close the infrastructure gaps identified in the Climate Vulnerability Assessment (Annex 4) and in the National Development Plan. GDP growth is lower in the short run because of the fiscal consolidation but the GDP level in the medium run is unchanged. In this scenario, the public debt-to-GDP ratio declines steadily from FY2019-20 onward and the CA balance gradually improves as the cumulative increase in public saving exceeds the increase in public investment.

Text Table 3. Baseline and Recommended Scenarios

	Baseline scenario					Recommended scenario				
	FY1819	FY1920	FY2021	FY2122	FY2223	FY1819	FY1920	FY2021	FY2122	FY2223
Real GDP growth (percent)	3.3	3.3	3.3	3.2	3.2	3.1	3.1	3.3	3.5	3.5
Primary current expenditure growth (percent)	18.0	6.1	5.0	5.9	5.5	6.4	4.0	4.0	4.0	5.0
Government Revenue (percent of GDP)	30.0	30.1	30.1	30.1	30.1	30.0	30.0	30.0	30.0	30.0
Current Expenditure (percent of GDP)	24.6	24.5	24.2	24.1	24.0	22.4	22.0	21.6	21.2	20.9
Capital Expenditure (percent of GDP)	9.2	9.0	9.0	9.0	9.0	10.0	10.0	10.0	10.0	10.0
Fiscal Balance (percent of GDP)	-3.7	-3.4	-3.1	-3.0	-2.9	-2.5	-2.0	-1.6	-1.2	-1.0
Current Account Balance (percent of GDP)	-5.4	-4.7	-4.1	-3.9	-3.9	-5.2	-4.5	-3.9	-3.5	-3.6
Public Debt (percent of GDP)	51	51	51	51	51	49	48	47	45	44

Source: IMF Staff calculations

16. Fiscal consolidation should be primarily expenditure-based. Government revenues increased sharply in recent years and are relatively high compared to other economies in the region (Figure 2, top left and top right). Hence, the scope for further revenue mobilization is limited. Capital expenditure should be protected to address infrastructure needs. Measures to help keep current primary spending constant in real terms should be identified and could include keeping public employment constant, adjusting public wages and transfers in line with inflation, eliminating unproductive spending, and targeting social programs better. Under the budget, current spending is expected to grow by 18 percent in FY1819, which is too fast and should be avoided. The Public Expenditure Review currently being conducted by the World Bank will help identify inefficient and poorly targeted spending on education, health, and infrastructure (Box 1).

17. Pension savings used to mitigate the impact of Tropical Cyclone Winston should be rebuilt. The Fiji National Provident Fund (FNPF) allowed 180,000 pension contributors to withdraw up to 30 percent of the pension savings (about 2.8 percent of GDP). 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, especially given that a large fraction of pension members have relatively low pension saving balances at present.

Authorities' Views

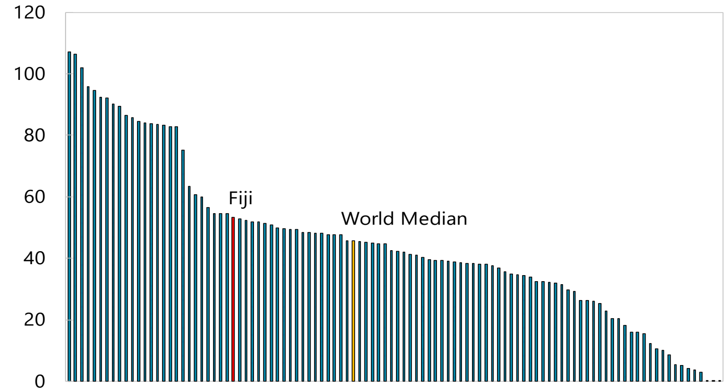
18. The authorities agreed on the need to pursue fiscal consolidation, but viewed their current consolidation plans as adequate. They thought that staff's preferred scenario was too ambitious. To achieve fiscal consolidation, they saw scope for expenditure rationalization and for improving tax compliance. They will work with the World Bank to identify expenditure measures and will launch a new IT system, allowing for a more thorough cross-checking of information to improve tax compliance.

19. The authorities do 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 this increase should help compensate for the withdrawal of pension savings in the aftermath of several cyclones in recent years.

Monetary and Exchange Rate policy

20. The fixed exchange rate regime has provided Fiji with an effective nominal anchor. The last devaluation was in 2009 and inflation has averaged 3.3 percent since 2010. Reducing fiscal imbalances is essential to safeguard the sustainability of the current peg. Prudent increases of relatively high national minimum wages for unskilled workers would help preserve competitiveness (Text Figure 11).

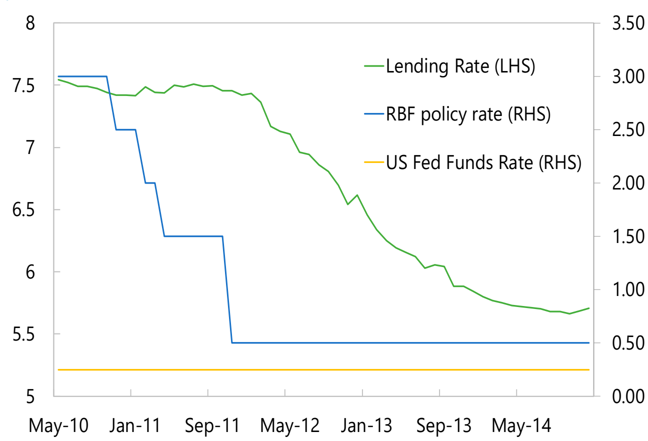
Text Figure 11: Minimum Wage
(In percent of per capita GDP)



Sources: International Labour Organization.

21. The RBF should tighten its monetary policy stance to support external stability. In recent months foreign reserves have dropped and, if less favorable external conditions persist, they could fall below reserve adequacy metrics (Annex 2). In a context of limited capital mobility, tightening monetary policy would raise market interest rates, slow down credit growth, reduce imports, and preserve foreign reserves. The influence of the RBF's policy rate on lending rates was significant in the previous loosening cycle, despite occurring with a lag (Text Figure 12).

Text Figure 12: Fiji: Policy Rate and Lending Rate
(percent)



Sources: RBF

Authorities' Views

22. The current exchange rate regime has worked well. It has been effective in maintaining a relatively stable Fiji dollar, which has served as an anchor for domestic inflation.

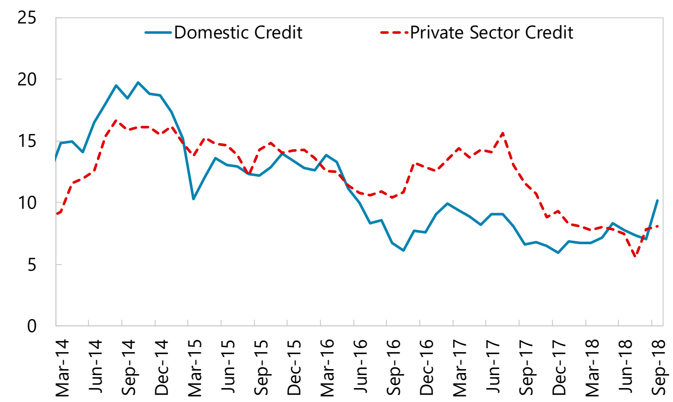
23. The authorities were monitoring the evolution of foreign reserves closely and were ready to tighten monetary policy if warranted. They concurred with the view that the external sector position was moderately weaker than the level implied by fundamentals and desirable policy settings. Foreign reserves declined steadily during 2018 due to less favorable external conditions and high public investment. The authorities underscored the importance of coordinating monetary and fiscal policy to support external stability.

B. Strengthening Frameworks to Preserve Financial Stability[3]

24. The banking sector remains sound overall. The expansion of credit to the private sector has moderated since the second half of 2017 to a pace broadly in line with nominal GDP growth (Text Figure 13). Although banks' NPLs increased in the past 18 months (Figure 4, middle left), they remain low relative to historical levels and other countries. The overall banking sector is well capitalized (Figure 4, middle right) and backed by solid profitability margins (Figure 4, bottom right). Banking sector stability is underpinned by the presence of large foreign banks that operate as branches and have access to their parent banks for capital and liquidity.

Text Figure 13. Fiji: Credit Growth

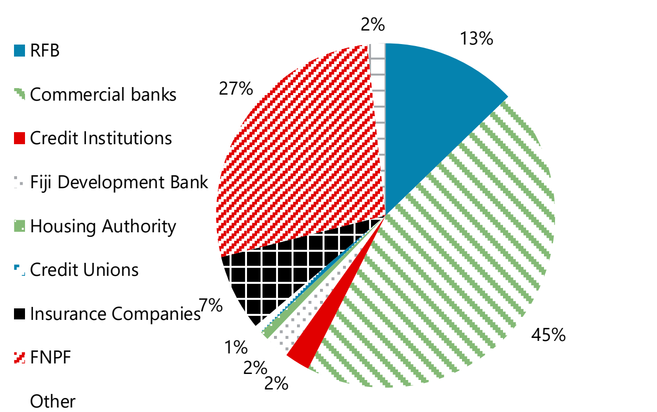
(year-over-year, percent)



Sources: RBF

25. Financial supervision resources are scarce and could be better allocated. The RBF supervises six commercial banks, the Fiji National Provident Fund (FNPF), insurance companies, four credit institutions, and other smaller financial institutions (Text Figure 14). Staff recommends streamlining supervision of bank branches that are subject to robust home supervision to focus on non-bank financial institutions, which are more likely to be at higher risk. Fund staff will provide technical assistance to implement this shift toward risk-based supervision (Box 1).

Text Figure 14. Fiji: Financial System Composition



Sources: RBF

26. There has been some progress on identifying systemic risks. The RBF has been publishing its annual Financial Stability Review report since 2016. However, the ability of the RBF to monitor and assess systemic risk is limited by the lack of information/data, especially on borrowers' side. Filling such data gaps would help the RBF to better identify risks and calibrate

[3] This section draws on the findings and recommendations of the June 2018 FSSR report.

macroprudential instruments such as loan-to-value and debt-to-income ratios. On this front, the RBF's recent study on commercial banks' mortgage loan portfolio is timely and welcomed. More efforts are needed on collecting financial data of non-financial corporate borrowers.

27. The legal frameworks underpinning financial sector oversight have gaps. Oversight of credit unions and cooperatives by the Registrar of Credit Unions is inadequate. The credit unions lack reliable record keeping and there is increased mistrust among members. The new Credit Union Act that places credit unions and cooperatives under the oversight of the RBF and is aligned with international best practice, as applicable for Fiji, should be adopted. The macroprudential framework adopted in 2012 has gaps as no institution in Fiji has a formal mandate for macroprudential policy. A clear mandate should designate the RBF as the macroprudential authority responsible for identifying, monitoring, and responding to risks to financial stability.

28. The governance of public non-bank financial institutions (NBFIs) has weaknesses that could undermine their economic performance. Public NBFIs include the Fiji National Provident Fund (FNPF), the Fiji Development Bank (FDB), and the Fiji Housing Authority (FHA). Currently, the government can remove board members from public NBFIs without cause during their terms. In addition, board member terms tend to be short, limiting NBFIs' ability to build institutional knowledge and expertise. Independent and highly qualified board members will be more likely to meet NBFIs' policy mandates and insulate NBFIs from government's high priority initiatives (e.g., public investment plans). Staff recommends protecting board members from removal without cause and their terms extended from 2 to 4 years, in line with international best practices.

Authorities' Views

29. The authorities agreed with staff's assessment that the banking sector remains sound. They noted that credit growth had slowed down, and the current cycle should not pose systemic risk concerns. They also noted that higher NPLs were not a significant concern for financial stability as they were still low compared with historical levels.

30. The authorities appreciated the IMF's technical assistance on financial supervision. The authorities noted that they would continue to make progress on the shift toward more risk-based financial supervision. They recently started monitoring and documenting relevant developments at the parent/head office of bank branches. With support from Fund's technical assistance, further progress in developing a risk-based supervision manual is expected (Box 1).

31. The development of a macroprudential toolkit is a medium-term goal and the RBF will seek to formalize its macroprudential mandate. The RBF is currently conducting an assessment on data gaps. So far, the main gaps include: i) data to monitor the non-bank sector, ii) national real estate price indexes, and iii) data to monitor risk appetite. The RBF will seek a clear macroprudential mandate in the Reserve Bank of Fiji Act.

32. The authorities agreed with staff on the importance of the financial oversight on credit unions. They noted that the Credit Union Act was still in draft form and under consultation. The RBF is working with the Solicitor's General Office and the goal is to table the Credit Union Bill the second quarter of 2019.

33. On NBFIs' governance, the authorities acknowledged its importance. The RBF will meet each NBFI in the first quarter of 2019 to develop an implementation plan to strengthen their governance. The RBF plans to work closely with the relevant line ministries and the NBFIs to ensure all relevant recommendations are appropriately addressed.

C. Raising Medium- and Long-Term Growth

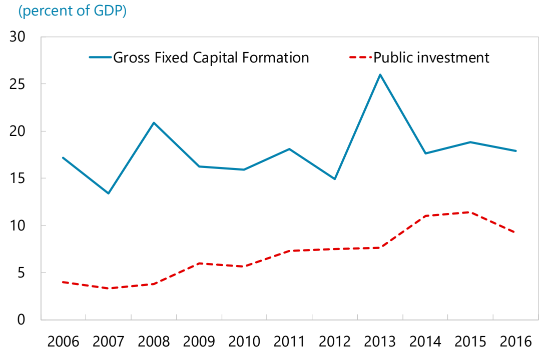
34. An improvement in the overall business environment is essential to achieve the ambitious growth targets laid out in the National Development Plan. Such improvement would trigger higher private investment, enhanced productivity, and a more diversified economy:

- Private investment would need to rise from an average of 7.7 percent of GDP during 2014-17 to at least 15 percent of GDP to reach the overall investment rate target of 25 percent of GDP, bringing private investment rates closer to Asian economies that saw robust growth in recent decades (Text Figure 15 and 16).

- Higher private investment will enhance market competition and productivity.

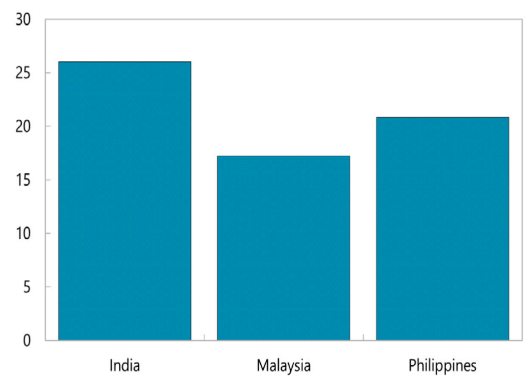
- A more diversified economic structure would strengthen Fiji's growth resiliency. There is scope for growth in a variety of activities such as film-making, retirement communities, and agriculture directed at the tourism sector.

Text Figure 15. Fiji Investment
(percent of GDP)



Sources: FBoS

Text Figure 16. Private Investment
(average 2015-17, percent of GDP)



Sources: World Development Indicators, World Bank

35. The current legal regime for foreign investment could be improved. The Foreign Investment Act has a provision providing for the expropriation of assets without compensation. The circumstances in which those expropriations can happen are relatively broad and not well-defined. This is a significant departure from international best practices in terms of protection of property rights. Moreover, foreign investors cannot participate in several activities. Staff recommends the authorities to continue working with the International Financial Corporation to strengthen the protection of property rights and align the foreign investment regime with international best practices (Box 1).

36. Fiji's extensive price controls should be replaced by sound market regulation, as emphasized in previous IMF Article IV Staff Reports. The rationale for imposing price control measures include a lack of adequate competition and the need to protect low-income households. However, extensive price controls discourage new entrants and investment. For example, tariffs in the electricity sector have been frozen for a few years. This deters private investment in the energy sector and is especially problematic in the current environment of higher oil prices. Price controls should be rationalized and replaced by a regulation framework that has tariffs consistent with a reasonable rate of return on investment and promotes market competition (Box 1, Annex 7).

37. The exchange restrictions for payments on current international transactions should be phased out. These include: i) limits on large external payments and ii) the tax certification requirement for the transfer of profits and dividends abroad, proceeds of airline ticket sales, and for making external debt and maintenance payments. These restrictions are inconsistent with Article VIII, hamper Fiji's international trade, and discourage foreign investment. Staff recommends removing these restrictions with support from the Fund (Box 1, Annex 7).

38. The business environment in Fiji could be enhanced by steps to facilitate starting a business, obtaining credit, and paying taxes (Text Figure 17). Other shortcomings include both the lack of public consultation and impact assessments for new regulations. To start a business, it takes 11 procedures and 40 days, whereas in peer countries it takes 7 procedures and 21 days on average. The absence of a credit bureau, which was shut down in 2016, accounts for Fiji's low scores on obtaining credit. In March 2018, the RBF granted a license and a new credit bureau is being set up. Both the number of tax payments per year and the time it takes to comply are burdensome in Fiji compared to peers (Text Figure 18).

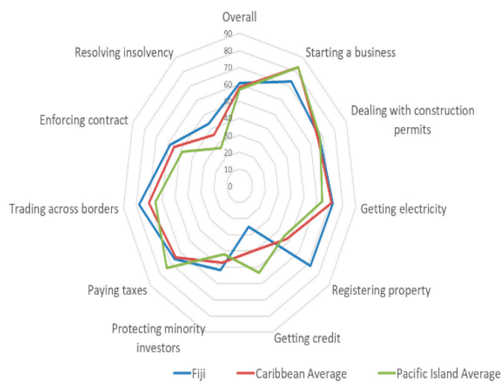
39. Staff recommends streamlining procedures to do business, accelerating the activation of the credit reporting agency, and reducing tax compliance costs:

- Enhancing transparency of procedures, conducting meaningful and timely consultations with the private sector, supporting a framework for e-government services, ensuring consistent and predictable application of rules at both the national and sub-national levels, and implementing a risk-based approach to private-sector regulation would help remove impediments to do business (Box 1). Some improvements have been made, including conducting policy budget consultations with a diverse set of stakeholders. (Annex 7).

- The re-establishment of the credit bureau is a welcomed development (Annex 7). Promptly activating the newly licensed bureau following best credit-reporting practices with the support and participation of all financial institutions is encouraged.

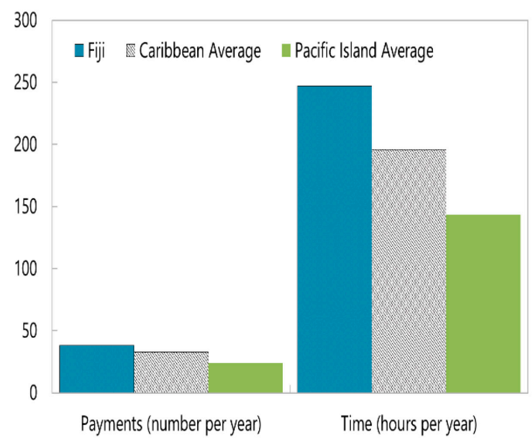
- Improving tax-payer services and streamlining processes to reduce the costs of tax compliance would be helpful (Box 1).

Text Figure 17. Business Environment
(Distance to Frontier/best performer)



Sources: Doing Business Indicators, World Bank 2018
Note: Uncertainty bands around point estimates are not provided by the compiler.

Text Figure 18. Tax Compliance Costs



Sources: Doing Business Indicators, World Bank 2018.
Note: Uncertainty bands around point estimates are not provided by the compiler.

40. Improving data quality could better guide policy making. The authorities have made important progress on economic statistics with support from PFTAC and international development partners. The more frequent publication of fiscal outturns and the launch of National Summary Data Page (Annex 6) are important steps in the right direction. However, there is significant scope for improving the quality of national accounts, consumer price index, and government finance statistics to guide policy making in a timely manner (Box 1).

Authorities' Views

41. The authorities were keen to diversify the production structure of the economy. They saw significant scope for expansion in the agriculture, telecommunications, and health care sectors. Within the tourism sector, they want to attract the "large-scale events" industry.

42. The authorities acknowledged the importance of improving the investment regime. They were working to address the existing shortcomings in the current investment regime. They drafted an Investment Bill and articulated an Investment Policy framework with support from IFC and they will send it to Cabinet as soon as it is finalized.

43. **They acknowledged the need to rationalize price controls.** They will develop a comprehensive competition and consumer protection policy framework to gradually reduce the reliance on price controls.

44. **They were not ready to remove exchange restrictions for payments on current international transactions**. The tax administration saw risks to tax compliance if the tax certification requirement was eliminated.

45. **They agreed that improving the business environment is critical to enhance growth prospects of the economy.**

- They have set up working committees aiming to remove obstacles to doing business and the World Bank is providing technical assistance. One central goal is to reduce the time it takes to start a new business by streamlining processes and requirements.

- They also emphasized the importance of developing training programs for the labor force to tackle shortages of skilled labor in the garment, manufacturing, construction, tourism, and mining sectors.

- They expect to gradually improve access to credit, especially for SMEs, when the new credit bureau is operational and when the new registry for movable assets is in place.

46. **The authorities asked for support to improve the reliability of the national accounts**. They have some doubts with respect to recent price deflator estimates that were hard to square with other data sources.

D. Continue Improving Governance

47. **Addressing governance vulnerabilities will help strengthen institutions, limit corruption, and lift potential growth**. Available evidence, based on indicators and qualitative reports, points to governance and corruption vulnerabilities, notably in fiscal governance, rule of law, the regulatory framework, financial sector oversight, and AML/CFT. The Fiji Independent Commission against Corruption (FICAC) has been addressing corruption by improving transparency, rewarding whistleblowers, and prosecuting perpetrators; while the Financial Intelligence Unit is tasked with strengthening Fiji's compliance with international AML/CFT standards.

48. **Fiscal governance has improved in recent years but there is substantial room for further progress, which will also help reduce the scope for corruption**. In July 2018, the Fiji Revenue and Customs Services (FRCS) received the country's first Anti-Corruption Policy framework, as well as training, from FICAC to strengthen its governance. With respect to transparency, fiscal outturns for the central government have started to be published regularly and the authorities subscribed to e-GDDS in September 2018 (Annex 6), significantly upgrading data transparency. Although the annual budget document has the basic elements included in

the Public Expenditure and Financial Accountability framework, main governance areas to be improved include: i) extending the coverage of government operations to public corporations that pose a significant risk to public finances; ii) publishing public financial assets and their evolution; iii) publishing fiscal outturns on a monthly basis; iv) presenting estimates of the budgetary impact of all major fiscal policy changes; v) producing mid-year budget reports; and vi) following the procurement process (Box 1).

Authorities' Views

49. The authorities agreed that Fiji faces governance vulnerabilities and considered adopting a more holistic national anti-corruption regulatory framework. While existing regulation covers FICAC's mandate and operations, the authorities thought that legislation for a national anti-corruption framework could improve anti-corruption efforts. Currently, government entities are not obliged to undergo FICAC's Corruption Impact Assessments or follow-through on tailored anti-corruption plans. They also highlighted the extensive improvements in meeting AML/CFT international best practices and noted that the score on AML/CFT is likely to improve.

50. The authorities plan to continue enhancing fiscal transparency. In addition to increasing the frequency of publishing fiscal outturns via e-GDDS, the authorities indicated they will publish mid-year reports and the budgetary impacts of new or revised policies.

E. Staff Appraisal

51. Economic growth has been resilient. Despite the recent wave of natural disasters, the economy is expected to record its ninth consecutive year of positive GDP growth in 2018, underpinned by strong consumption and public investment. Growth is projected at 3-3.5 percent the medium term, in line with estimates of potential growth.

52. However, external conditions have become less favorable, underscoring the need to increase the economy's resilience. Higher oil prices, lower sugar prices, and weaker growth in Fiji's major trading partners increase risks to external stability and warrant a recalibration of macroeconomic policies.

53. Fiscal buffers should be rebuilt as soon as possible to support fiscal sustainability and external stability. The fiscal deficit and public debt increased sharply in recent years and put fiscal space at risk. Fiscal consolidation should proceed quickly to put the debt-to-GDP ratio on a clear downward path. This will help maintain fiscal sustainability, create fiscal space to respond with flexibility to natural disasters in the future, and alleviate the current pressure on foreign reserves by containing imports. Consolidation measures need to be spelled out expeditiously and should be mainly expenditure-based, given the limited scope for further revenue mobilization.

54. Monetary policy may need to be tightened to further support external stability. A tighter monetary stance could contribute to narrowing the current account deficit and preserving foreign reserves in tandem with fiscal consolidation, if less favorable external conditions persist.

55. Continuing to undertake financial sector reforms, following the recommendations of the 2018 FSSR, is encouraged. Priority reforms include: adopting a more risk-based approach to banking supervision; development of macroprudential toolkits by passing legislation to formalize the RBF's mandate over such activities and filling existing data gaps; enhancing the governance of NBFIs; and adopting the new Credit Union Act.

56. Pension savings used to mitigate the impact of Cyclone Winston should be restored. Low levels of pension savings could jeopardize the adequacy of pensions for a large fraction of contributors. 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.

57. To boost growth potential, reforms should focus on attracting and supporting private investment. High-priority measures include: an improved investment regime that can better protect the property rights of investors; an adequate regulatory framework that allows to shift from far-reaching price controls to enhancing competition; and improving the ease of doing business (e.g., fewer procedures to start a business and a decrease in the number of hours that tax compliance requires).

58. Governance would be improved by enhancing fiscal transparency and strengthening the rule of law. Fiscal transparency would be improved by: extending reporting of government operations to include public corporations that pose a significant risk to public finances; publishing in a timely manner the annual reports of major SOEs and statutory bodies; and issuing mid-year budget reports. Rule of law would be improved by upgrading the investment regime in line with international best practices.

59. The exchange restrictions for payments on current international transactions should be removed. The limits on large external payments and the tax certification requirement on the transfer abroad of profits, dividends, and proceeds of airline ticket sales are inconsistent with Article VIII and discourage investment.

60. Improving data quality will help better guide policy-making. National accounts, consumer price indexes, and government finance statistics should be improved with support from PFTAC and development partners.

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

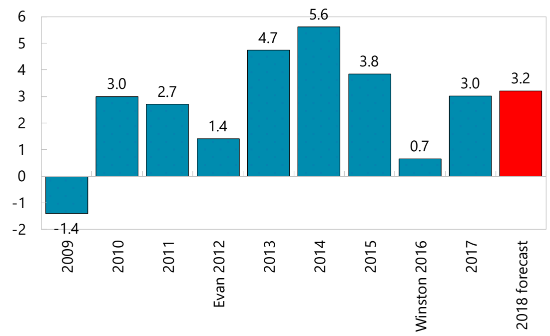
Box 1. Integrating Fund Surveillance and Capacity Development

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Public Expenditure Policy	Fiscal consolidation should be expenditure-based (paragraph 16).	The Public Expenditure Review (PER) currently being conducted by the World Bank should help identify expenditure measures to generate savings. The PER focuses on education, health, and infrastructure and is set to be completed by March 2019. IFC is helping the government to introduce parametric insurance for households to mitigate the impact from natural disasters in a cost-effective manner.
Financial Sector	Shift to risk-based supervision (paragraph 25), develop a macroprudential toolkit (paragraph 26), strengthen oversight frameworks (paragraph 27), strengthen governance of non-bank financial institutions (paragraph 28).	The Fund conducted a Financial Sector Stability Review in March 2018 that developed a financial sector reform program for the coming years. The Fund also provided follow up technical assistance in December 2018 to support the shift to risk-based supervision.
Investment Regime	Align the foreign investment law with international best practices (paragraph 35).	IFC is working with the government on a new investment law and a new investment policy framework.
Market Regulation	Rationalize price controls by relying on sound market regulation (paragraph 36).	The ADB is providing technical assistance to develop an adequate regulatory framework for the electricity sector.
Exchange Restrictions	Remove exchange restrictions for payments on current international transactions (paragraph 37).	The Fund will provide support through the Regional Representative Office, PFTAC, and the Legal Department.
Doing Business	Streamline procedures to do business (paragraph 39).	The Doing Business reform team from the World Bank is working with the authorities.
Tax Administration	Improve tax-payer services to facilitate tax compliance (paragraph 39).	The Fund will provide technical support through PFTAC.
Statistics	Improve the quality of national accounts, CPI, and government finance statistics (paragraph 40).	The Fund provided technical assistance on national accounts through PFTAC in December 2018 and will provide assistance on government finance statistics in February 2019.
Public Financial Management	Strengthen fiscal governance (paragraph 48).	The Fund is providing technical assistance through PFTAC to develop a new Public Financial Management Act. This is the core law for public financial management and would improve fiscal governance across several dimensions including: i) developing a fiscal strategy; ii) producing mid-year fiscal reports; and iii) preparing a pre-election fiscal state report.

Figure1. Fiji: Recent Developments

The economy recovered from Cyclone Winston.

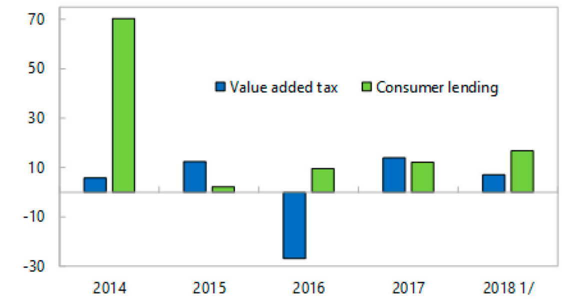
Real GDP Growth
(percent)



Sources: FBoS and RBF

Consumption growth was robust in 2018....

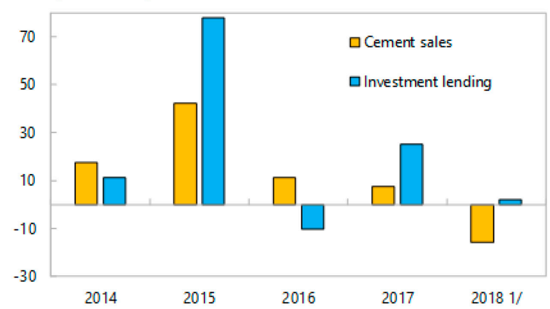
Value Added Tax Collection and Consumer Lending
(Annual percent changes)



1/: 2018 number is based on 2018 Jan - Sep.
Sources: Fiji authoritites.

while private investment was soft.

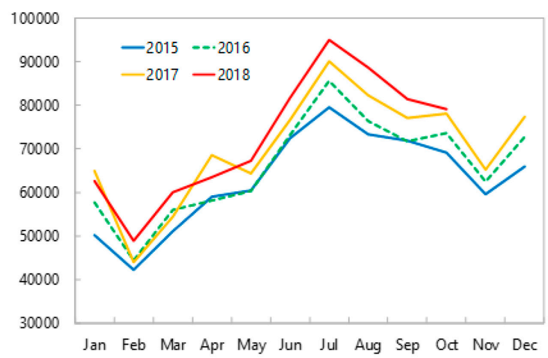
Cement Sales and Investment Lending
(Annual percent changes)



1/: 2018 number is based on 2018 Jan - Sep.
Sources: Fiji authoritites.

Tourism was strong...

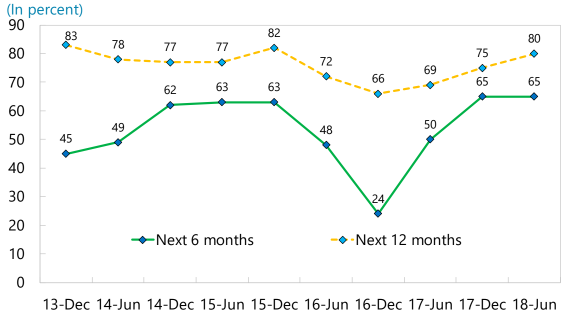
Visitor Arrivals



Sources: Reserve Bank of Fiji

and business confidence remained firm.

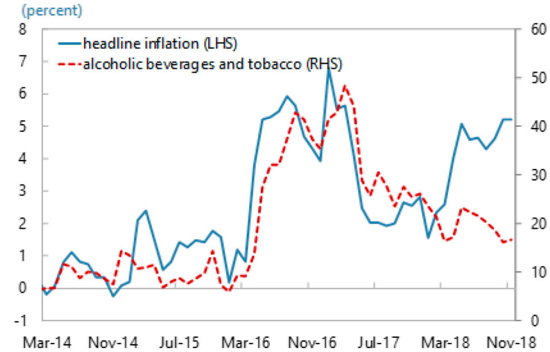
Overal Business Confidence 1/
(In percent)



1/: Measured by share of people who think business conditions will improve minus share of people who think business conditions will get worse.
Sources: RBF.

Inflation inched up because of taxes and supply disruptions.

Inflation
(percent)

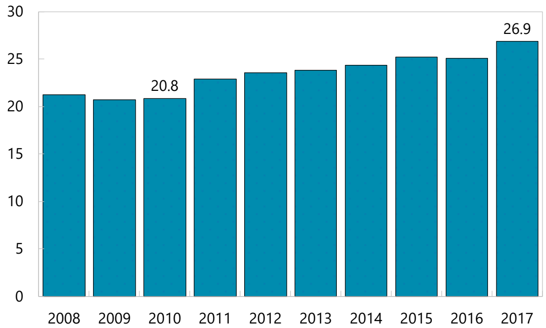


Sources: FBoS

Figure 2. Fiji: Fiscal Sector Indicators

Tax revenue has been on an upward trend….

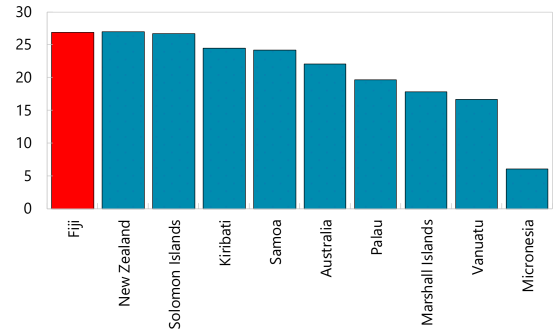
Fiji. Tax Revenue
(percent of GDP)



Sources: MoE

…and is now high by regional standards.

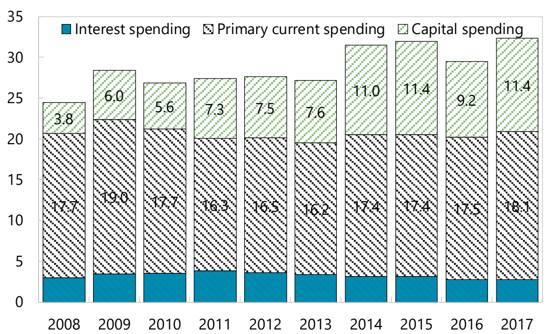
Tax Revenue 2017
(percent of GDP)



Sources: MoE and World Development Indicators.

The share of capital spending in total spending picked up.

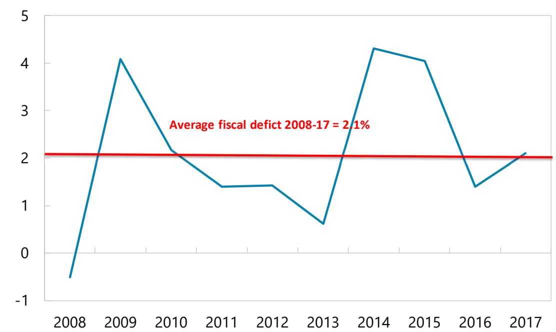
Expenditure
(percent of GDP)



Sources: MoE

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

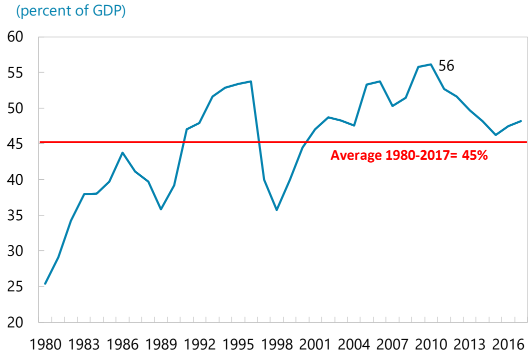
Fiscal deficit
(percent of GDP)



Sources: MoE

Public debt declined rapidly since 2010…

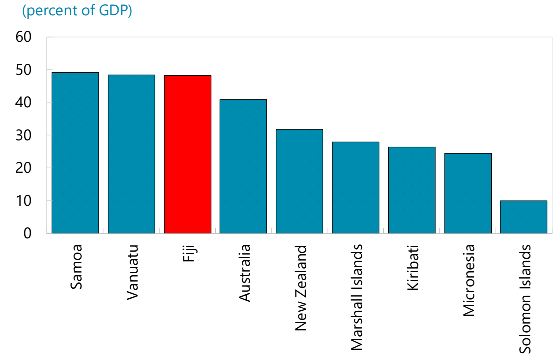
Public Debt 1980-2017
(percent of GDP)



Sources: MoE

…but is high by regional standards.

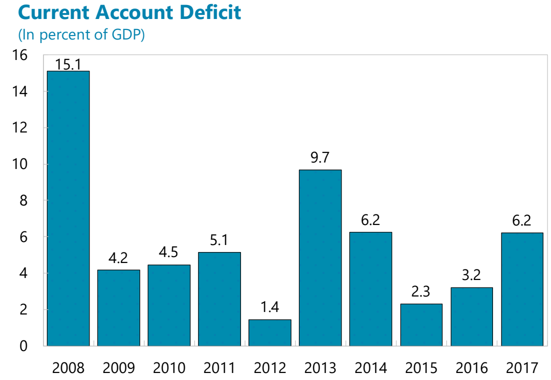
Public Debt 2017
(percent of GDP)



Sources: World Economic Outlook Database

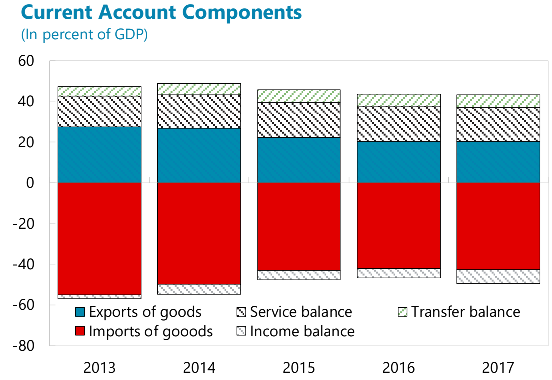
Figure 3. Fiji: External Sector Indicators

The current account deficit increased in 2017....



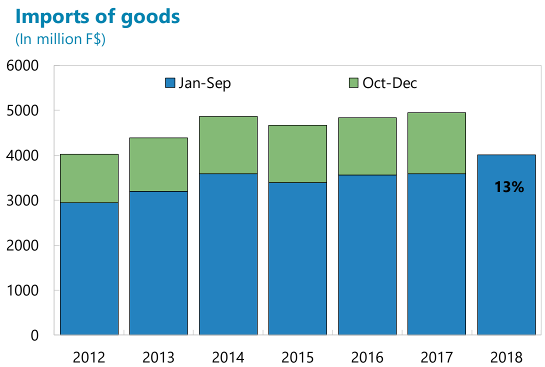
Sources: FBoS.

...as unusually large dividend payments affected the income balance.



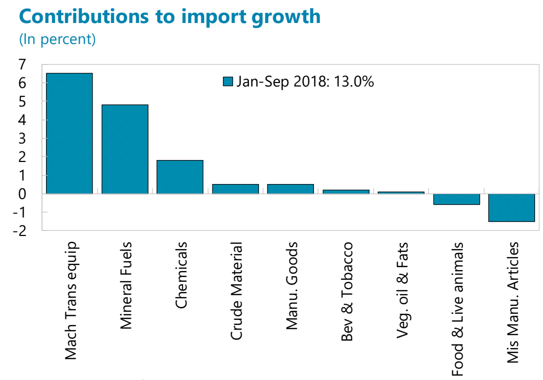
Sources: FBoS and RBF.

Imports of goods grew quickly in 2018...



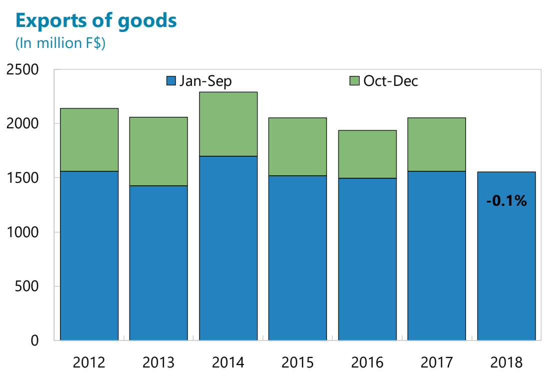
Sources: FBoS and RBF.

...especially, transportation equipment and minerals.



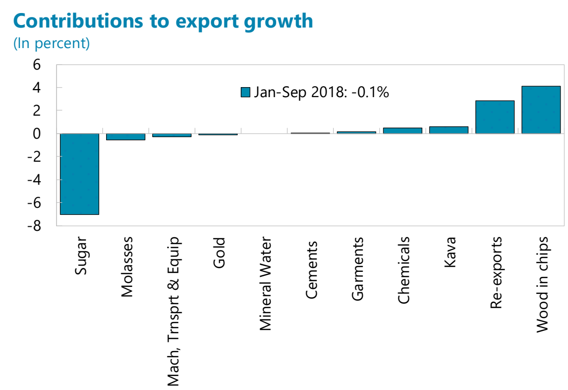
Sources: FBoS and RBF.

Exports of goods grew modestly in 2018...



Sources: FBoS and RBF.

...as exports of sugar declined.

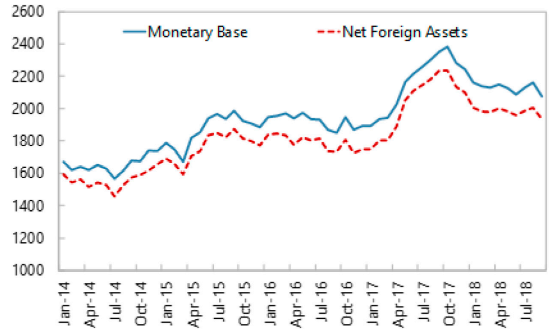


Sources: FBoS and RBF.

Figure 4. Fiji: Monetary and Financial Indicators

The monetary base has been broadly constant since January 2018....

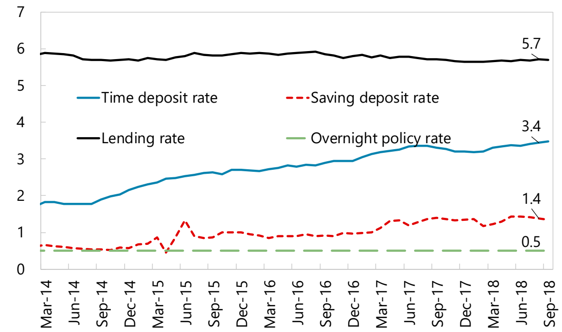
Monetary Base and Net Foreign Assets
(million F$)



Sources: RBF

...while deposit rates are picking up.

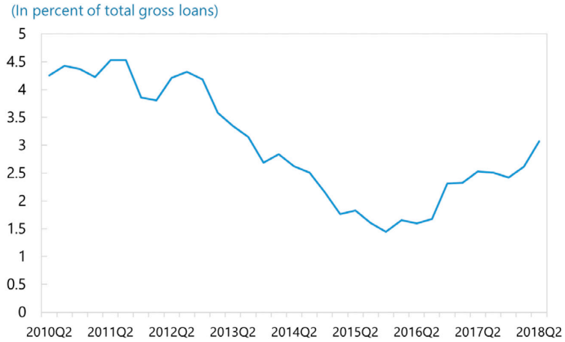
Interest rates
(percent)



Sources: RBF

Although NPLs increased in 2017....

Non-performing Loans
(In percent of total gross loans)



Sources: IMF Financial Soundness Indicators.

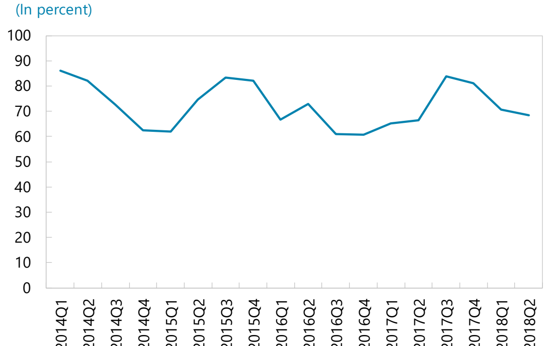
...banks are well capitalized....

Banks' Capital
(In percent of risk-weighted assets)

Sources: IMF Financial Soundness Indicators

...with adequate liquidity coverage...

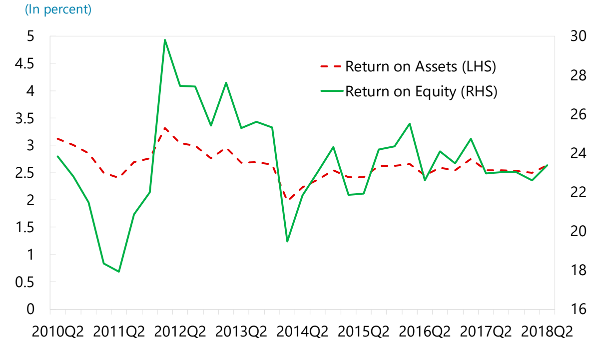
Liquid Assets to Short-term Liabilities
(In percent)



Sources: IMF Financial Soundness Indicators.

...and solid profitability.

Return on Assets and Equity
(In percent)



Sources: IMF Financial Soundness Indicators.

Table 1. Fiji: Selected Economic Indicators, 2015–20

Quota: SDR 98.4 million
GDP per capita (2017): US$5,528
Nominal GDP (2017): US$4.89 billion

	2015	2016	2017	2018	2019	2020
			Est.		Proj.	
Output and prices (percent change)						
Real GDP	3.8	0.7	3.0	3.2	3.4	3.3
GDP deflator	3.7	5.8	0.7	3.0	3.0	3.1
Consumer prices (average)	1.4	3.9	3.4	4.1	3.5	3.0
Central government budget (percent of GDP)						
Revenue	27.9	28.1	30.3	30.4	30.1	30.1
Expenditure	32.0	29.5	32.4	34.8	33.7	33.4
Fiscal balance	-4.0	-1.4	-2.1	-4.4	-3.6	-3.3
Public debt	46.2	47.5	48.1	49.8	50.2	50.4
Money and credit (percent change)						
Net domestic credit depository corporations	13.4	7.6	5.9	...	...	...
Private sector credit	14.2	12.9	9.3	...	...	...
Broad money (M3)	13.9	4.8	8.3	...	...	...
Monetary base	8.4	0.5	18.4	...	...	...
Central Bank Policy rate	0.5	0.5	0.5	...	...	...
Commercial banks deposits rate	2.7	3.0	3.2	...	...	...
Commercial banks lending rate	5.8	5.8	5.6	...	...	...
External sector (in percent of GDP)						
Trade balance	-20.9	-21.8	-22.4	-24.6	-23.4	-22.5
Services plus income (net)	12.5	12.7	10.0	12.0	12.0	11.8
Transfers (net)	6.1	5.9	6.2	6.7	6.3	6.3
Current account balance	-2.3	-3.2	-6.2	-5.9	-5.1	-4.4
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-3.4	-6.7	-10.4	-3.4	-4.6	-5.0
Of which: FDI (net)	-5.5	-8.9	-8.0	-3.2	-5.4	-5.8
Of which: Portfolio investment (net)	2.0	0.6	0.9	0.9	0.9	0.9
Of which: Other investment (net)	0.0	1.5	-3.3	-1.0	-0.1	-0.1
Errors and omissions	0.3	-3.5	-0.9	0.0	0.0	0.0
Change in reserve assets	1.5	0.1	3.5	-2.5	-0.4	0.7
Gross official reserves (in millions of U.S. dollars)	921	915	1,103	961	940	978
(In months of retained imports)	5.5	5.2	5.7	4.6	4.5	4.5
Miscellaneous						
Output gap	2.5	0.2	0.2	0.1	0.0	0.0
Exchange rate (Fiji dollars per U.S. dollar; period average)	2.11	2.10	2.06	...	...	...
GDP at current market prices (in millions of U.S. dollars)	4,344	4,569	4,891	5,118	5,322	5,668
GDP per capita (in U.S. dollars)	4,996	5,232	5,528	5,758	5,961	6,321
GDP at current market prices (in millions of Fiji dollars)	9,150	9,582	10,073	10,716	11,404	12,145

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

Table 2. Fiji: Financial Corporations, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
				(percent of GDP)				
Reserve Bank of Fiji								
Net foreign assets	19	20	21	21	20	19	18	21
Net claims on central government	2	2	1	1	1	1	1	0
Claims on other depository corporations	0	0	1	1	1	1	1	1
Monetary base	19	21	22	22	21	21	20	22
Currency in Circulation	8	7	8	7	8	8	8	8
Liabilities to other depositorey corporations	11	13	14	14	13	13	12	14
Other	2	1	1	1	1	0	0	0
Depository corporations								
Net foreign assets	18	20	21	23	19	20	20	22
Net claims on central government	3	2	0	0	0	0	-2	-4
Claims on private sector	63	58	59	59	62	66	71	74
Broad money	68	67	68	74	75	79	79	81
Currency outside depository corporations	6	6	6	6	6	6	6	6
Transferable deposits	17	24	23	40	38	40	39	43
Other deposits	39	35	36	27	29	31	32	31
Securities other than shares	5	3	3	2	1	1	1	1
Other	17	13	12	8	7	7	10	11
Financial corporations								
Net foreign assets	19	23	25	29	23	25	26	29
Net claims on central government	41	35	34	31	28	27	26	26
Claims on private sector	83	75	77	75	79	85	91	95
Currency outside financial corporations	6	5	4	4	5	5	5	5
Deposits	49	47	47	50	50	54	56	58
Insurance technical reserves	59	56	59	58	56	57	57	61
Other	30	25	25	23	18	21	24	25

Source: Reserve Bank of Fiji and IMF staff calculations.

Table 3. Fiji: Central Government Operations, 2016–23

(In percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.				
Government Revenue	28.1	30.3	30.4	30.1	30.1	30.1	30.1	30.1	30.1
Tax revenue	25.0	26.9	26.8	26.9	26.9	26.9	26.9	26.9	26.9
Direct taxes	8.4	8.9	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Indirect taxes	16.7	18.0	18.8	18.9	18.9	18.9	18.9	18.9	18.9
Other revenue	3.0	3.3	3.6	3.2	3.2	3.2	3.2	3.2	3.2
Government Expenditure	29.5	32.4	34.8	33.7	33.4	33.2	33.1	33.0	33.0
Primary expenditure	26.7	29.6	31.9	30.7	30.4	30.2	30.0	29.9	29.9
Current	17.5	18.1	20.4	21.5	21.4	21.2	21.0	20.9	20.9
Personnel	8.8	8.8	9.5	9.8	9.8	9.7	9.7	9.6	9.6
Transfers	5.6	6.1	7.2	7.6	7.5	7.5	7.5	7.5	7.5
Supplies and consumables	2.4	2.5	2.7	2.8	2.8	2.7	2.6	2.5	2.5
Other	0.8	0.8	1.0	1.3	1.3	1.3	1.3	1.3	1.3
Capital	9.2	11.4	11.5	9.1	9.0	9.0	9.0	9.0	9.0
Interest	2.8	2.8	2.9	3.0	3.0	3.0	3.1	3.1	3.1
Fiscal balance	**-1.4**	**-2.1**	**-4.4**	**-3.6**	**-3.3**	**-3.1**	**-3.0**	**-2.9**	**-2.9**
Primary balance	1.4	0.7	-1.5	-0.6	-0.3	0.0	0.1	0.2	0.2
Cyclically adjusted primary balance	1.5	0.7	-1.5	-0.6	-0.3	0.0	0.1	0.2	0.0
Financing	1.4	2.1	4.4	3.6	3.3	3.1	3.0	2.9	2.9
Privatizations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	3.3	3.0	4.3	3.6	3.3	3.1	3.0	2.9	2.9
Other	-2.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	**48**	**48**	**50**	**50**	**50**	**50**	**50**	**50**	**50**
Memo:									
Underlying Fiscal Balance 1/	-1.4	-1.0	-3.3	-3.1	-2.8	-3.1	-3.0	-2.9	-2.9

Sources: Ministry of Economy and IMF staff estimates.

1/ Underlying fiscal balance removes reconstruction spending related to natural disasters.

Table 4. Fiji: Balance of Payments, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
							Proj.			
				(In millions of U.S. dollars)						
Trade balance	-1,027	-906	-995	-1,096	-1,259	-1,245	-1,275	-1,328	-1,413	-1,505
Exports, f.o.b.	1,206	966	923	987	1,029	1,070	1,134	1,207	1,285	1,368
Imports, f.o.b.	2,234	1,873	1,918	2,083	2,288	2,315	2,409	2,535	2,698	2,873
Services (net)	732	745	789	816	865	899	952	1,014	1,079	1,149
Income (net)	-225	-204	-209	-328	-251	-261	-283	-302	-321	-342
Transfers (net)	242	265	268	305	343	335	357	380	405	431
Current account	-279	-101	-147	-302	-302	-271	-249	-235	-250	-267
Capital account (net)	4	3	4	4	4	4	4	4	4	4
Financial account (net) 1/	-644	-149	-306	-510	-172	-246	-283	-280	-288	-316
FDI (net)	-341	-237	-406	-389	-165	-287	-326	-327	-337	-369
Portfolio investment (net)	11	89	29	42	44	46	49	52	56	59
Other investment (net)	-314	-1	70	-163	-51	-5	-6	-6	-6	-7
Errors and omissions	-407	13	-161	-43	0	0	0	0	0	0
Change in reserve assets	-38	65	4	169	-126	-21	38	49	41	53
				(In percent of GDP)						
Trade balance	-22.9	-20.9	-21.8	-22.4	-24.6	-23.4	-22.5	-22.0	-22.0	-22.0
Exports	26.9	22.2	20.2	20.2	20.1	20.1	20.0	20.0	20.0	20.0
Imports	49.8	43.1	42.0	42.6	44.7	43.5	42.5	42.0	42.0	42.0
Current account balance	-6.2	-2.3	-3.2	-6.2	-5.9	-5.1	-4.4	-3.9	-3.9	-3.9
Memorandum items:										
External debt (in millions of U.S. dollars)	1,301	1,165	1,136	1,303	1,294	1,341	1,387	1,434	1,481	1,527
External debt as a share of GDP	29.0	26.8	24.9	26.6	25.3	25.2	24.5	23.8	23.1	22.3
External central government debt (in millions of U.S. dollars)	631	586	635	688	722	778	832	886	941	998
Gross official reserves (in millions of U.S. dollars)	958	921	915	1,103	961	940	978	1,026	1,068	1,121
(In months of retained imports)	5.2	5.5	5.2	5.7	4.6	4.5	4.5	4.5	4.4	4.3
GDP (in millions of U.S. dollars)	4,484	4,344	4,569	4,891	5,118	5,322	5,668	6,037	6,423	6,841

1/ 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, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Proj.					
Output and prices (percent change)										
Real GDP (at constant factor cost)	5.6	3.8	0.7	3.0	3.2	3.4	3.3	3.3	3.2	3.2
GDP deflator	4.1	3.7	5.8	0.7	3.0	3.0	3.1	3.1	3.1	3.2
Consumer prices (average)	0.5	1.4	3.9	3.4	4.1	3.5	3.0	3.0	3.0	3.0
Output gap (percent of potential output)	1.5	2.5	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Consumption and investment 1/			(In percent of GDP)							
Consumption	84.6	82.9	88.0	86.4	87.3	86.5	85.8	85.3	85.4	85.1
Gross fixed capital formation	17.6	18.8	17.9	19.6	19.5	19.1	19.1	19.1	19.1	19.3
Changes in inventories	1.6	2.3	1.3	0.0	0.9	0.9	0.8	0.8	0.7	0.8
Central government budget (in percent of GDP)										
Revenue	27.2	27.9	28.1	30.3	30.4	30.1	30.1	30.1	30.1	30.1
Expenditure	31.5	32.0	29.5	32.4	34.8	33.7	33.4	33.2	33.1	33.0
Overall balance	-4.3	-4.0	-1.4	-2.1	-4.4	-3.6	-3.3	-3.1	-3.0	-2.9
Primary balance	-1.2	-0.9	1.4	0.7	-1.5	-0.6	-0.3	0.0	0.1	0.2
Central government debt outstanding	48.2	46.2	47.5	48.1	49.8	50.2	50.4	50.4	50.4	50.2
Balance of payments (in percent of GDP)										
Trade balance	-22.9	-20.9	-21.8	-22.4	-24.6	-23.4	-22.5	-22.0	-22.0	-22.0
Services plus income (net)	11.3	12.5	12.7	10.0	12.0	12.0	11.8	11.8	11.8	11.8
Transfers (net)	5.4	6.1	5.9	6.2	6.7	6.3	6.3	6.3	6.3	6.3
Current account balance	-6.2	-2.3	-3.2	-6.2	-5.9	-5.1	-4.4	-3.9	-3.9	-3.9
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/	-14.4	-3.4	-6.7	-10.4	-3.4	-4.6	-5.0	-4.6	-4.5	-4.6
Of which: FDI (net)	-7.6	-5.5	-8.9	-8.0	-3.2	-5.4	-5.8	-5.4	-5.2	-5.4
Of which: Portfolio investment (net)	0.2	2.0	0.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Of which: Other investment (net)	-7.0	0.0	1.5	-3.3	-1.0	-0.1	-0.1	-0.1	-0.1	-0.1
Errors and omissions	-9.1	0.3	-3.5	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets	-0.9	1.5	0.1	3.5	-2.5	-0.4	0.7	0.8	0.6	0.8
Memorandum items:										
Private sector credit (percentage change)	15.5	14.2	12.9	9.3	7.1	8.0	7.0	6.5	6.5	6.5
Gross official reserves (in millions of U.S. dollars)	958	921	915	1,103	961	940	978	1,026	1,068	1,121
(In months of retained imports)	5.2	5.5	5.2	5.7	4.6	4.5	4.5	4.5	4.4	4.3

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

1/ Projections of consumption and capital formation start from 2017.
2/ Excluding change in reserve assets; negative balance means an increase in net liabilities or decrease in net asset.

Annex I. Risk Assessment Matrix 1/

Source of Risk	Location of Source	Relative Likelihood	Time Horizon	Expected Impact	Direction of Impact	Main Impacts → Recommended Policy Actions
Sizeable deviations from baseline energy prices.	External	M	ST, MT	H	↓ ↑	Oil imports were 20 percent of total imports in 2017. Changes in the price of oil impact the resource constraint of the economy. → Temporary shocks should be financed while permanent shocks should be adjusted. Preemptive and gradual adjustments in the policy mix are adequate to deal with an uncertain duration of a shock.
Sharp tightening of global financial conditions	External	H	ST	M	↓	Capital outflows pressure may intensify, though the pressure may be somewhat mitigated by capital control measures and the FDI-dominated capital flow structure. → Tighten fiscal and monetary policy to support external stability and to secure fiscal sustainability.
Rising protectionism and retreat from multilateralism	External	H	ST, MT	M	↓	Lower global trade could lower growth in main trading partners and could affect Fiji's exports. → Tighten fiscal and monetary policy to support external stability and to secure fiscal sustainability.
Natural disasters and climate change	Domestic	H	MT	H	↓	Fiji is prone to natural disasters → Rebuild fiscal and external buffers in normal times to use them when natural disasters hit.
Stronger-than-expected performance in tourism sector	Domestic	L-M	MT	M	↑	The new air route (to Japan) and code share arrangements may boost the tourists from Japan, United Kingdom and United States. → Remove impediments to the expansion of the tourism sector.
Delays in the adoption of structural reforms	Domestic	M	MT	H	↓	Structural reforms are essential to promote private sector development and support medium-term growth.

[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 of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment

The external sector position in 2018 is moderately weaker than implied by medium-term fundamentals and desirable policy settings. This reflects the need to tighten fiscal policy to ensure external stability.

1. Foreign Asset and Liability Position

Background. The net international investment position (NIIP) was about -85 percent of GDP by 2018Q2. External assets and liabilities were 34 and 120 percent of GDP, respectively. Reserves held by the Central Bank accounted for about 58 percent of total external assets. Key components of external liabilities included FDI liabilities (90 percent of GDP) and external debt (about 25 percent of GDP), of which about slightly more than 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.

2. Current Account

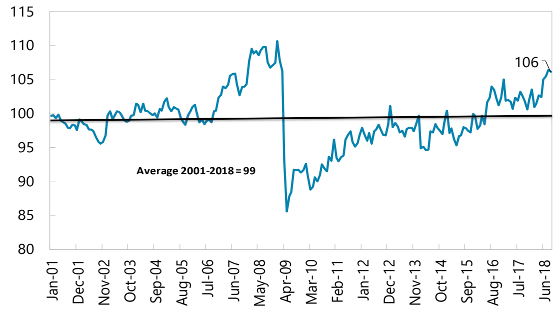
Background. The average CA during 2015-17 was about -3.9 percent of GDP and was financed by FDI inflows. The decline in the CA in 2017 (from -3.2 percent of GDP in 2016 to -6.2 percent) was mainly explained by the jump in investment income outflows after the removal of foreign dividend tax withholding (Figure 3, top right). The CA in 2018 is projected at -5.9 percent of GDP, reflecting a decline in investment income outflows, an increase in remittances, and a larger trade deficit relative to 2017.

Assessment. The external position in 2018 was moderately weaker than fundamentals and desirable policy settings. The underlying CA, defined as the actual CA adjusted for Cyclone Winston and other cyclical factors, is projected at -4.9 percent of GDP. The CA norm estimated using the EBA model was -3.6 percent of GDP. The CA gap, measured by the difference between the underlying CA and the CA norm, was -1.3 percent of GDP. The more expansionary fiscal policy (relative to desired level) contributed to the CA gap by 0.6 percent.

3. Real Exchange Rate

Background. The real effective exchange rate (REER) appreciated about 20 percent since the large devaluation in 2009. About one third 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.

Text Figure 2.1. Fiji: Real Effective Exchange Rate
(index)



Sources: RBF

Assessment. Using standard trade elasticities, a CA gap at -1.3 percent of GDP is equivalent to a REER gap about 3-4 percent. It should be noted that the emergence of CA and REER gaps does not automatically imply a need for nominal exchange rate adjustment. Instead, the CA and REER gaps can be attributed to the increasing fiscal deficits, indicating the need for tighter fiscal policy to maintain external balance.

4. 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 needs to be planned, timed, and sequenced to ensure that its benefits outweigh its costs.

5. 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. Intervention data is not available. Reserves were about USD 0.96 billion (about 20 percent of GDP) by end-2018, moderately lower than the level at end-2017 (USD 1.1 billion).

Assessment. According to the IMF's composite metric,[1] reserves were about 135 percent of the metric adjusted for capital controls and non-full-floating exchange rate regimes at end-2017. Despite the decline, reserves were between 4.5 to 5 months of imports in 2018. Both metrics suggest that the current level of reserves is adequate.

[1] 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.

Annex III. Fiscal Space Assessment

Fiscal space is defined as the room for undertaking discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability. The assessment is informed by the following three considerations:

1. *Macroeconomic context*

- The economy recovered well from the Cyclone that hit Fiji in 2016. Real GDP growth was 3 percent in 2017 and is projected at 3.2 percent in 2018 and 3-3.5 in the medium-term.

- Inflation picked up to 5.2 percent y/y in November 2018 because of an increase in excise taxes and supply disruptions caused by floods but is expected to moderate as conditions normalize. Unemployment is low (4.5 percent in 2017) and the output gap is estimated to be closed.

- Fiscal policy has been expansionary recently. The fiscal deficit is estimated to increase from 2.3 percent of GDP in fiscal year 2016-17 to 4.8 percent of GDP in 2017-18. Public debt increased from 47 by end 2016-17 to 50 percent of GDP by end 2017-18 (Text Figure 4).

- The estimated current account gap stands at -1.3 percent, of which about half is explained by expansionary fiscal policy, suggesting Fiji's external position is slightly weaker than fundamentals and desirable policy settings. Moreover, external conditions are less favorable than one year ago because of higher oil prices, lower sugar prices (Text Figure 4), and growth in main trading partners is projected to slow down (Text Figure 5).

- Non-performing loans in the banking sector edged up but remain below their historical average.

- The average annual cost of natural disasters is large at 1.7 percent of GDP over 1994-2016.

2. *Availability of financing and debt sustainability*

- Sovereign spreads and debt profile indicators were consistent with medium-risk benchmarks.

- The debt level is stable at 50 percent of GDP in the baseline but could reach 56 percent in a natural disaster scenario (Annex 5). The 70 percent of GDP benchmark used for emerging markets is not breached in either the baseline or the natural disaster scenario. A debt level above 50 percent of GDP, however, is high compared to economies in the region (Figure 2, bottom right). Some of these economies, such as Australia and New Zealand, are much more diversified and less vulnerable to shocks.

- Gross financing needs increase above 10 percent of GDP in the natural disaster scenario and breach the 15 percent risk benchmark under a contingent liability risk scenario (Annex 5).

3. Dynamic analysis of expansionary fiscal policy

- We consider two dynamic scenarios to assess Fiji's ability to use further discretionary fiscal policy: (1) a 2 ppt expansion in the non-interest expenditure-to-GDP ratio in 2019-20 (benign scenario) and (2) the same expansion combined with an increase in risk premia of 100 bps shock relative to baseline for 2019-23 (adverse scenario). Under the adverse scenario, debt does not stabilize in the medium term.

4. Assessment

Fiscal space is assessed to be "at risk" and should be rebuilt to preserve fiscal sustainability, allow for flexibility in responding to future natural disasters, and support investment needs. While the output gap has closed, sovereign spreads and debt profile indicators are consistent with medium-risk benchmarks, and Fiji's external position is slightly weaker than fundamentals and desirable policy settings. Under adverse scenarios, debt does not stabilize in the medium-term and, with less favorable external conditions, the availability of financing is likely to be more limited. Fiscal consolidation is essential to rebuild buffers and secure debt sustainability in future adverse scenarios.

Annex IV. Climate Vulnerability Assessment

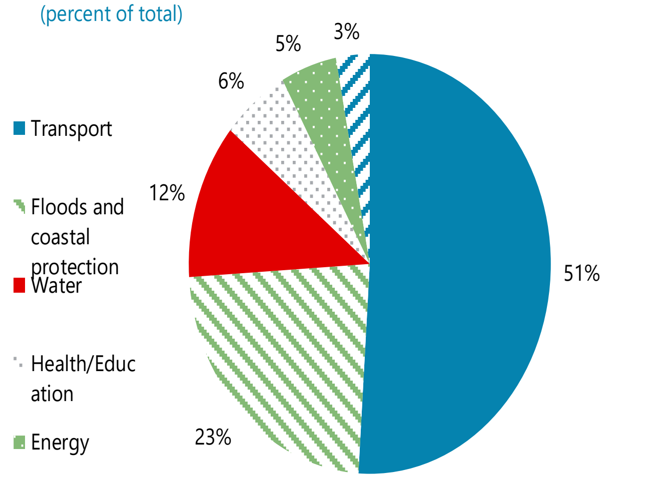
The Government of Fiji, in collaboration with the World Bank, conducted a Climate Vulnerability Assessment (CVA) in late 2017. It estimated investment needs of about 100 percent of GDP in over the next 10 years (about 10 percent of GDP per year) to strengthen Fiji's resilience to climate change and natural hazards for decades to come.

Fiji is exposed to large natural risks, and climate change is likely to amplify these risks. The future of tropical cyclones is very uncertain, but most models suggest an increase in the proportion of high-intensity storms and higher economic losses. In addition to natural disasters, climate change brings long-term threats to health, tourism, and agriculture.

The government's efforts to strengthen resilience have recently been stepped up. For instance, after Tropical Cyclone Winston, it established the Construction Implementation Unit to ensure reconstruction in the education and health sector was done with higher resiliency standards.

Altogether, the CVA proposes 125 priority interventions. Strengthening infrastructure is a priority in the strategy laid out in the CVA to adapt to climate change. The transport sector has the largest investment needs for building the country's resilience. Large investments in flood risk management and coastal protection measures will be required. Water sector investments are needed to protect assets against natural hazards. Strengthening the resilience of the energy sector will require a range of critical investments. Investments in health and education infrastructure are needed to strengthen existing infrastructure and construct new, robust facilities. Short-term priorities include improved flood planning, rehabilitation of roads and bridges, upgrading of informal settlements, expansion of solar generation, and enhanced asset and resource management. The assessment notes that further discussion on the prioritization and sequencing of such interventions is likely needed and should be balanced against other considerations, including fiscal sustainability.

Text Figure 4.1. Fiji: Investment Needs by Sector
(percent of total)



Sources: Climate Vulnerability Assessment and IMF Staff.

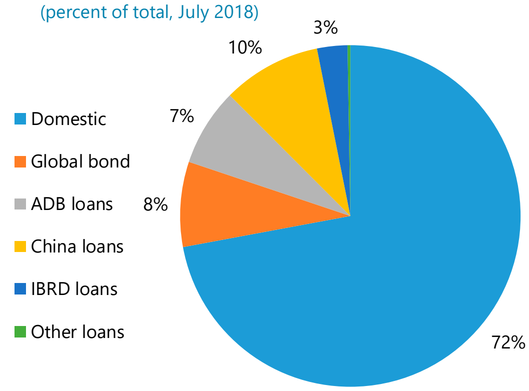
While the government hopes to encourage private sector investment to help fund a portion of the interventions, it also introduced a novel instrument (the Green Bond) as a financing tool. Fiji issued its first-ever sovereign green bond in November 2017, becoming the first developing country in the world to pursue such initiative. Government had planned for a $100 million (about 1 percent of GDP) Green Bond issuance with $86 million raised by June 2018 with tenors of 5 years and 13 years. Fiji has also listed the green bond on the London Stock Exchange. So far demand for the Green bond has been domestic.

Annex V—Public Debt Sustainability Analysis

Public debt-to-GDP is expected to hit 50 percent of GDP by the end of 2018, almost 4 percentage points higher than its 2015 level.[1] *Growth is near its potential and a gradual medium-term fiscal consolidation is expected to begin next year. Under the baseline, the public debt-to-GDP ratio is forecast to stabilize around 50 percent of GDP by 2023 and gross financing needs are projected to remain below 10 percent. Fiji's debt profile is associated with moderate levels of risk. Shocks to contingent liabilities and the fiscal costs of future natural disasters pose major risks to the public debt outlook, with the former resulting in a breach of the 15 percent gross financing needs benchmark.*

Fiji's debt profile is associated with moderate levels of risk (Fiji Public DSA Risk Assessment). The public debt-to-GDP ratio increased to 50 percent by end July 2018, partially reversing a downward trend that started in 2010 (Text Figure 3). As of July 2018, domestic debt accounted for 72 percent of total debt and external debt for the remaining 28 percent. Short-term debt was less than 3 percent of total debt and increased by less than 1 percent.

Text Figure 5.1 Public debt holders
(percent of total, July 2018)



Sources: MoE

The baseline scenario assumes that GDP growth will be around 3– 3.5 percent in the medium-term, in line with estimates of potential growth. Under the baseline scenario the debt-to-GDP ratio will stabilize around 50 percent of GDP over the period 2019-2023, remaining below the debt-to-GDP burden benchmark of 70 percent over the medium-term under stochastic analyses of the uncertainty around the baseline estimates and under stress tests. The primary balance will improve as public investment normalizes after the reconstruction from Winston and current expenditures stabilize; the adjustments and levels in the baseline appear realistic based on comparisons of the adjustment and levels of the cyclically-adjusted primary balance (CAPB) compared to other economies with debt over 60 percent of GDP. Relative to other surveillance countries, the forecast track record for Fiji is above the 63rd percentile for growth, the primary balance, and inflation.

[1] Public sector debt is defined as central government debt in this DSA.

The constant primary balance scenario shows the debt-to-GDP ratio increasing steadily in the medium term to 57 percent in 2023, putting debt sustainability at risk.

The historical scenario shows the debt-to-GDP ratio declining more rapidly (compared to the baseline) to 46 percent of GDP by 2023. 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 2007–17 was 1.1 percent of GDP, much higher than the projected average primary balance under the baseline during 2018–23 (-0.3 percent of GDP).

Under scenarios with shocks to the primary balance, real growth, interest rate, exchange rate, and a combined macro-fiscal scenario (the combination of all four shocks), the debt-to-GDP ratio and gross financing needs rise but remain below debt burden benchmarks, with the largest negative effect from the real GDP growth shock.

Two additional exercises shed further light on Fiji's country-specific vulnerabilities—natural disasters and contingent liabilities tied to state-owned enterprises (SOEs) and other commitments of almost 10 percent of GDP. The natural disaster scenario assumes that a shock hits in 2020 slowing down GDP growth and temporarily increasing the primary deficit to - 2.3 percentage points of GDP in 2020.[2] The debt-to-GDP ratio jumps to 56 percent of GDP in 2021 and remains above 55 percent by 2023, putting debt sustainability at risk.

The contingent liability shock scenario assumes a 10 ppt increase in the primary deficit in 2019 relative to the baseline to cover government's contingent liabilities. Real GDP growth is assumed to fall by 1 standard deviation in 2019 and 2020, with accompanying falls in inflation and an increase in the interest rate relative to baseline. The debt-to-GDP ratio jumps above 60 percent and remains at 64 percent by 2023 while gross financing needs breach the benchmark of 15 percent hitting 17 percent in 2019.

The natural disaster and contingent liability shock scenarios suggests that fiscal consolidation and putting debt on a clear downward path would help the economy to be more resilient to adverse shocks.

[2] This is broadly in line with what was observed with Tropical Cyclone Winston in 2016.

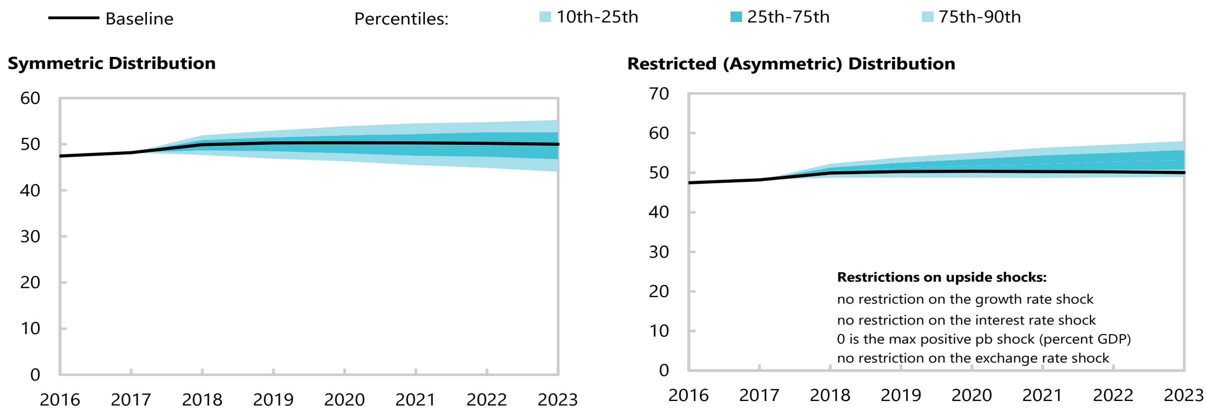
Figure 1. Fiji Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

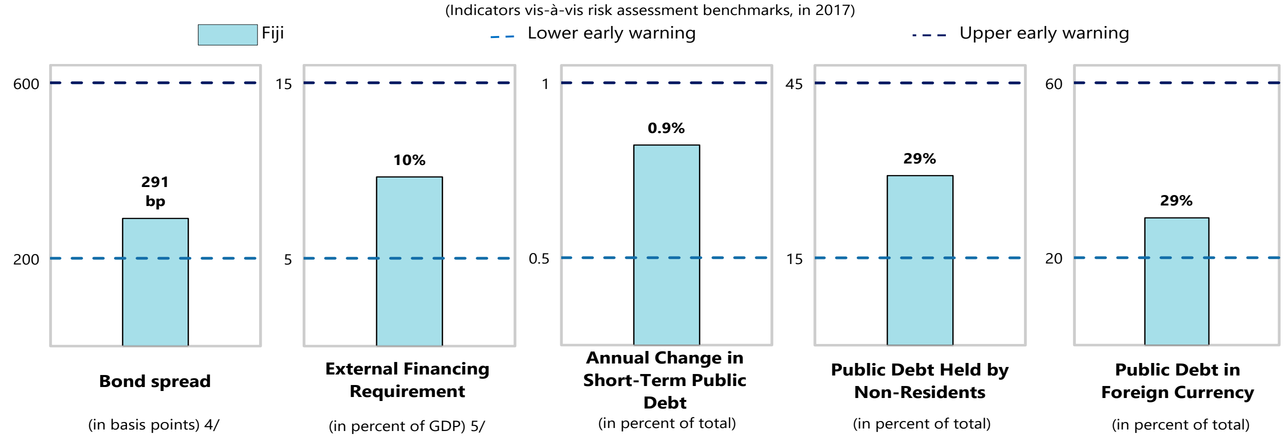
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

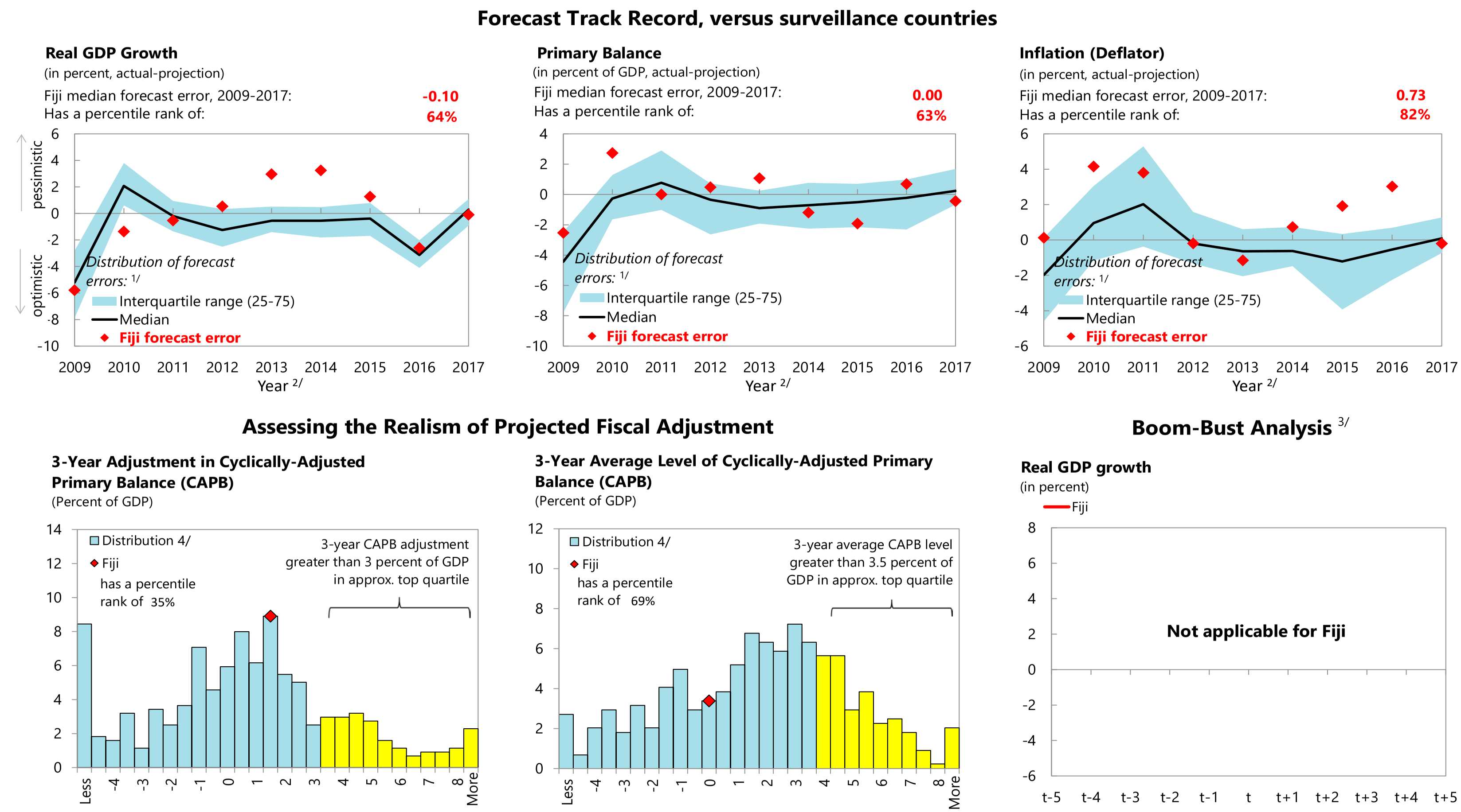
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 14-Sep-18 through 13-Dec-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Fiji Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Fiji, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Fiji Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

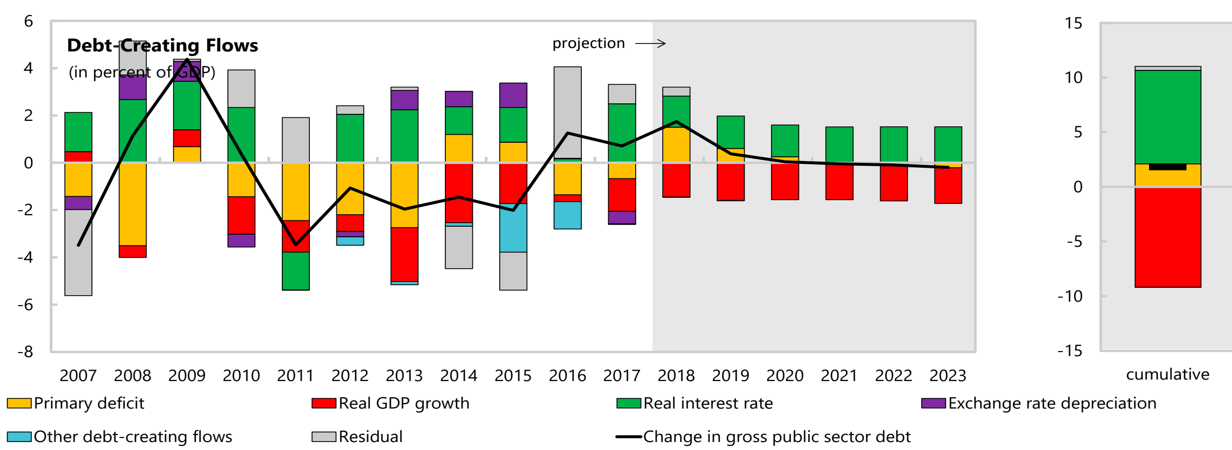
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of December 13, 2018		
	2007-2015 [2]	2016	2017	2018	2019	2020	2021	2022	2023			
Nominal gross public debt	51.3	47.5	48.2	49.9	50.3	50.3	50.3	50.2	50.0	Sovereign Spreads		309
Public gross financing needs	12.7	5.3	6.3	6.8	6.7	7.9	8.4	8.2	8.4	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	2.2	0.7	3.0	3.2	3.4	3.3	3.3	3.2	3.2	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.7	5.8	0.7	3.0	3.0	3.1	3.1	3.1	3.2	Moody's	Ba3	Ba3
Nominal GDP growth (in percent)	6.3	4.7	5.1	6.3	6.5	6.5	6.5	6.4	6.5	S&Ps	B+	B+
Effective interest rate (in percent) [4]	6.9	6.3	6.1	6.0	6.0	6.0	6.3	6.4	6.5	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.8	1.3	0.7	1.7	0.4	0.0	0.0	-0.1	-0.2	1.8	
Identified debt-creating flows	-0.7	-2.6	-0.1	1.4	0.4	0.0	0.0	-0.1	-0.2	1.5	
Primary deficit	-1.2	-1.4	-0.7	1.5	0.6	0.3	0.0	-0.1	-0.2	2.1	0.0
Primary (noninterest) revenue and grants	25.7	28.1	30.3	30.4	30.1	30.1	30.1	30.1	30.1	181.0	
Primary (noninterest) expenditure	24.5	26.7	29.6	31.9	30.7	30.4	30.2	30.0	29.9	183.1	
Automatic debt dynamics [5]	0.9	-0.1	0.6	-0.1	-0.2	-0.2	-0.1	0.0	0.0	-0.6	
Interest rate/growth differential [6]	0.5	-0.1	1.1	-0.1	-0.2	-0.2	-0.1	0.0	0.0	-0.6	
Of which: real interest rate	1.6	0.2	2.5	1.3	1.4	1.3	1.5	1.5	1.5	8.6	
Of which: real GDP growth	-1.1	-0.3	-1.4	-1.5	-1.6	-1.6	-1.6	-1.5	-1.5	-9.2	
Exchange rate depreciation [7]	0.3	0.0	-0.5	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.3	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing: Foreign Financing: Privatizatic	-0.3	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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., ESM and Euroare	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]	-0.2	3.9	0.8	0.4	0.0	0.0	0.0	0.0	0.0	0.4	

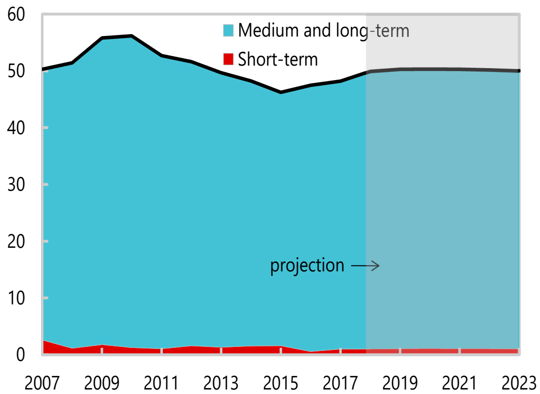


Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = 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 - π (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.

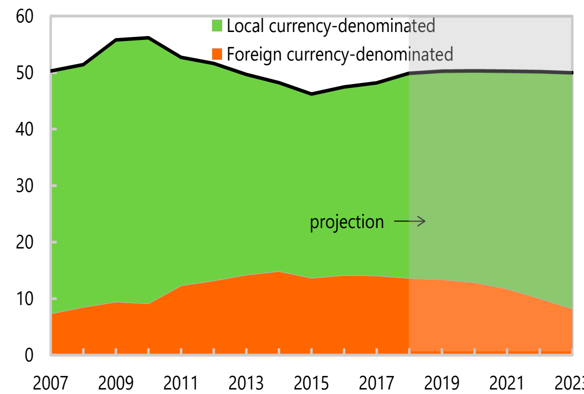
Figure 4. Fiji Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



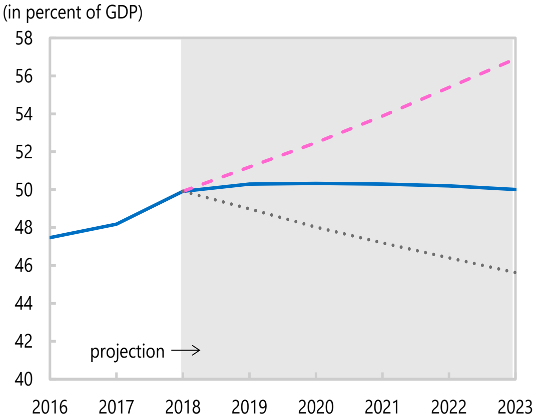
By Currency
(in percent of GDP)



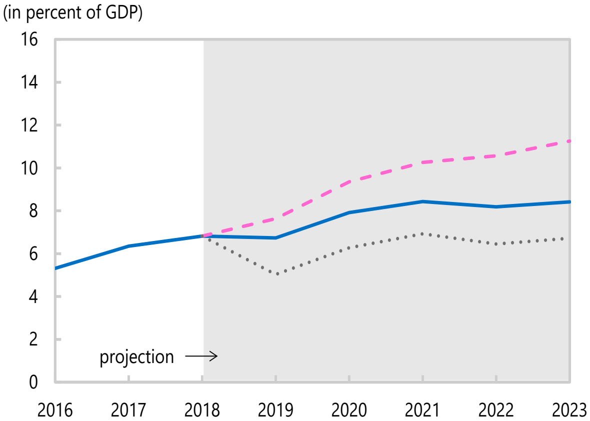
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

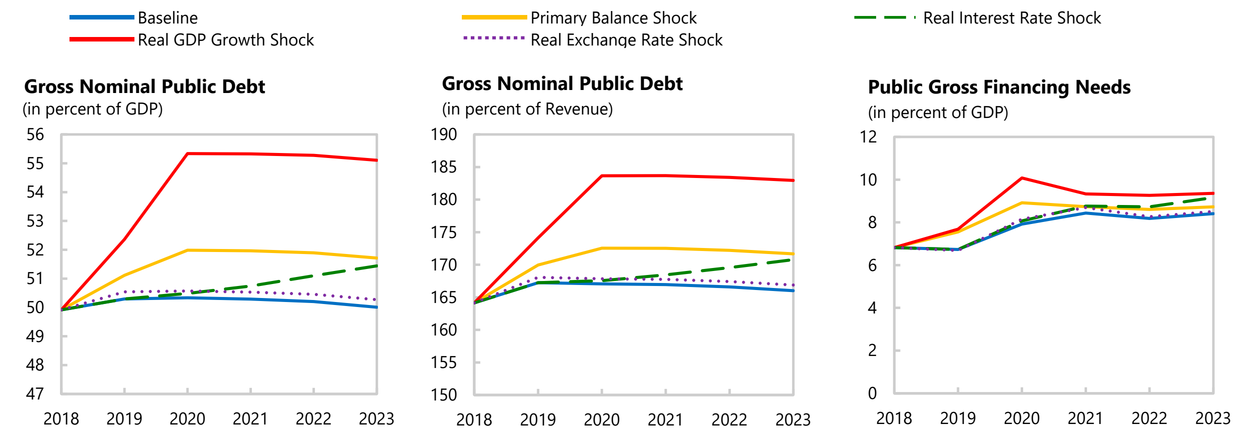
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	3.4	3.3	3.3	3.2	3.2
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary Balance	-1.5	-0.6	-0.3	0.0	0.1	0.2
Effective interest rate	6.0	6.0	6.0	6.3	6.4	6.5
Constant Primary Balance Scenario						
Real GDP growth	3.2	3.4	3.3	3.3	3.2	3.2
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary Balance	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	6.0	6.0	6.0	6.3	6.4	6.5

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	2.5	2.5	2.5	2.5	2.5
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary Balance	-1.5	1.2	1.2	1.2	1.2	1.2
Effective interest rate	6.0	6.0	6.1	6.4	6.5	6.6

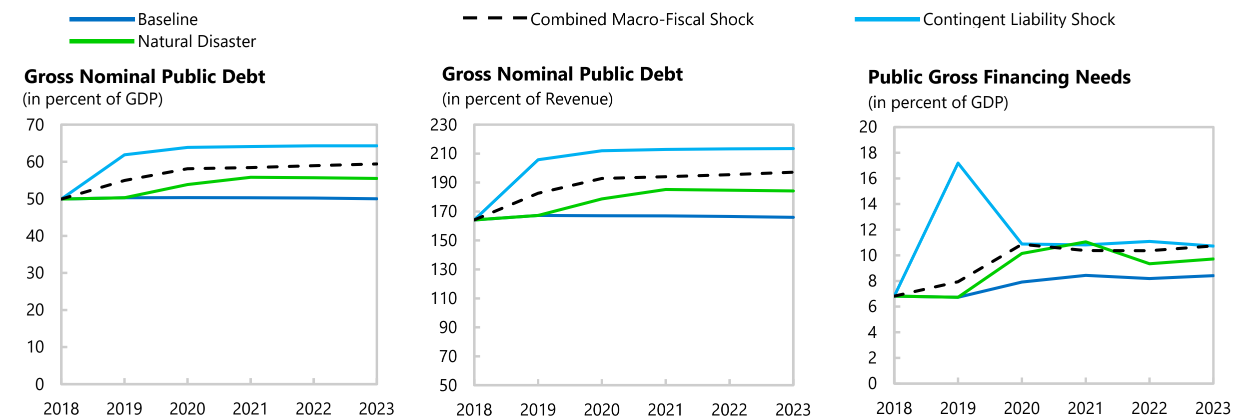
Source: IMF staff.

Figure 5. Fiji Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	3.4	3.3	3.3	3.2	3.2
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary balance	-1.5	-1.4	-1.1	0.0	0.1	0.2
Effective interest rate	6.0	6.0	6.1	6.4	6.5	6.6
Real Interest Rate Shock						
Real GDP growth	3.2	3.4	3.3	3.3	3.2	3.2
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary balance	-1.5	-0.6	-0.3	0.0	0.1	0.2
Effective interest rate	6.0	6.0	6.4	6.9	7.4	7.7
Combined Shock						
Real GDP growth	3.2	1.3	1.2	3.3	3.2	3.2
Inflation	3.0	2.5	2.6	3.1	3.1	3.2
Primary balance	-1.5	-1.4	-1.8	0.0	0.1	0.2
Effective interest rate	6.0	6.3	6.4	7.0	7.4	7.7
Natural Disaster						
Real GDP growth	3.2	3.4	0.3	3.3	3.2	3.2
Inflation	3.0	3.0	3.1	3.1	3.1	3.2
Primary balance	-1.5	-0.6	-2.3	-2.0	0.1	0.2
Effective interest rate	6.0	6.0	6.0	6.3	6.4	6.5

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	1.3	1.2	3.3	3.2	3.2
Inflation	3.0	2.5	2.6	3.1	3.1	3.2
Primary balance	-1.5	-1.4	-1.8	0.0	0.1	0.2
Effective interest rate	6.0	6.0	6.1	6.4	6.5	6.6
Real Exchange Rate Shock						
Real GDP growth	3.2	3.4	3.3	3.3	3.2	3.2
Inflation	3.0	7.6	3.1	3.1	3.1	3.2
Primary balance	-1.5	-0.6	-0.3	0.0	0.1	0.2
Effective interest rate	6.0	6.3	6.0	6.3	6.4	6.6
Contingent Liability Shock						
Real GDP growth	3.2	1.3	1.2	3.3	3.2	3.2
Inflation	3.0	2.5	2.6	3.1	3.1	3.2
Primary balance	-1.5	-10.6	-0.3	0.0	0.1	0.2
Effective interest rate	6.0	6.7	6.8	6.8	6.8	6.9

Source: IMF staff.

Figure 6. External Debt Sustainability Framework, 2013–23

(In percent of GDP)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	29.3	29.0	26.8	24.9	26.6			26.1	25.4	24.6	23.9	23.2	22.5	-5.5
Change in external debt	5.0	-0.3	-2.2	-2.0	1.8			-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	
Identified external debt-creating flows (4+8+9)	3.8	-2.7	-3.5	-7.7	-4.1			0.6	-1.6	-2.2	-2.4	-2.1	-2.1	
Current account deficit, excluding interest payments	8.1	4.3	0.2	1.0	4.3			4.1	3.5	3.1	2.6	2.7	2.7	
Deficit in balance of goods and services	12.6	6.6	3.6	4.2	5.2			7.4	6.3	5.7	5.2	5.2	5.2	
Exports	56.9	56.7	52.5	50.4	50.8			50.0	49.7	49.2	49.1	49.1	49.1	
Imports	69.5	63.3	56.1	54.5	56.0			57.3	56.0	55.0	54.3	54.3	54.3	
Net non-debt creating capital inflows (negative)	-5.7	-7.6	-5.5	-8.9	-8.0			-4.1	-5.7	-5.9	-5.5	-5.4	-5.3	
Automatic debt dynamics 1/	1.4	0.5	1.7	0.3	-0.4			0.6	0.6	0.6	0.5	0.5	0.5	
Contribution from nominal interest rate	1.6	1.9	1.9	1.9	1.3			1.5	1.4	1.4	1.3	1.3	1.2	
Contribution from real GDP growth	-1.1	-1.6	-1.1	-0.2	-0.7			-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	
Contribution from price and exchange rate changes 2/	0.9	0.2	0.9	-1.4	-1.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.2	2.5	1.3	5.7	5.8			-1.1	0.9	1.5	1.6	1.4	1.4	
External debt-to-exports ratio (in percent)	51.5	51.2	51.1	49.4	52.4			52.2	51.1	50.1	48.7	47.3	45.8	
Gross external financing need (in billions of US dollars) 4/	612	506	617	681	563			606	597	794	592	610	632	
in percent of GDP	14.6	11.3	14.2	14.9	11.5	**10-Year**	**10-Year**	12.2	11.3	14.1	9.8	9.5	9.3	
Scenario with key variables at their historical averages 5/								26.1	24.5	23.5	22.7	21.8	20.7	-7.5
Key Macroeconomic Assumptions Underlying Baseline						**Historical Average**	**Standard Deviation**							
Real GDP growth (in percent)	4.7	5.6	3.8	0.7	3.0	2.5	2.1	3.2	3.4	3.3	3.3	3.2	3.2	
GDP deflator in US dollars (change in percent)	-3.7	-0.6	-3.1	5.7	4.5	0.9	7.0	-1.4	3.0	3.1	3.1	3.1	3.2	
Nominal external interest rate (in percent)	6.7	6.9	6.7	7.4	5.8	7.0	0.8	5.7	5.8	5.7	5.7	5.6	5.5	
Growth of exports (US dollar terms, in percent)	-1.8	6.8	-10.4	1.0	7.9	5.5	17.1	0.1	5.9	5.6	6.2	6.4	6.5	
Growth of imports (US dollar terms, in percent)	14.2	-2.4	-14.2	2.3	9.9	4.4	18.1	4.1	4.1	4.5	5.2	6.4	6.5	
Current account balance, excluding interest payments	-8.1	-4.3	-0.2	-1.0	-4.3	-4.0	4.2	-4.1	-3.5	-3.1	-2.6	-2.7	-2.7	
Net non-debt creating capital inflows	5.7	7.6	5.5	8.9	8.0	8.2	2.2	4.1	5.7	5.9	5.5	5.4	5.3	

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.

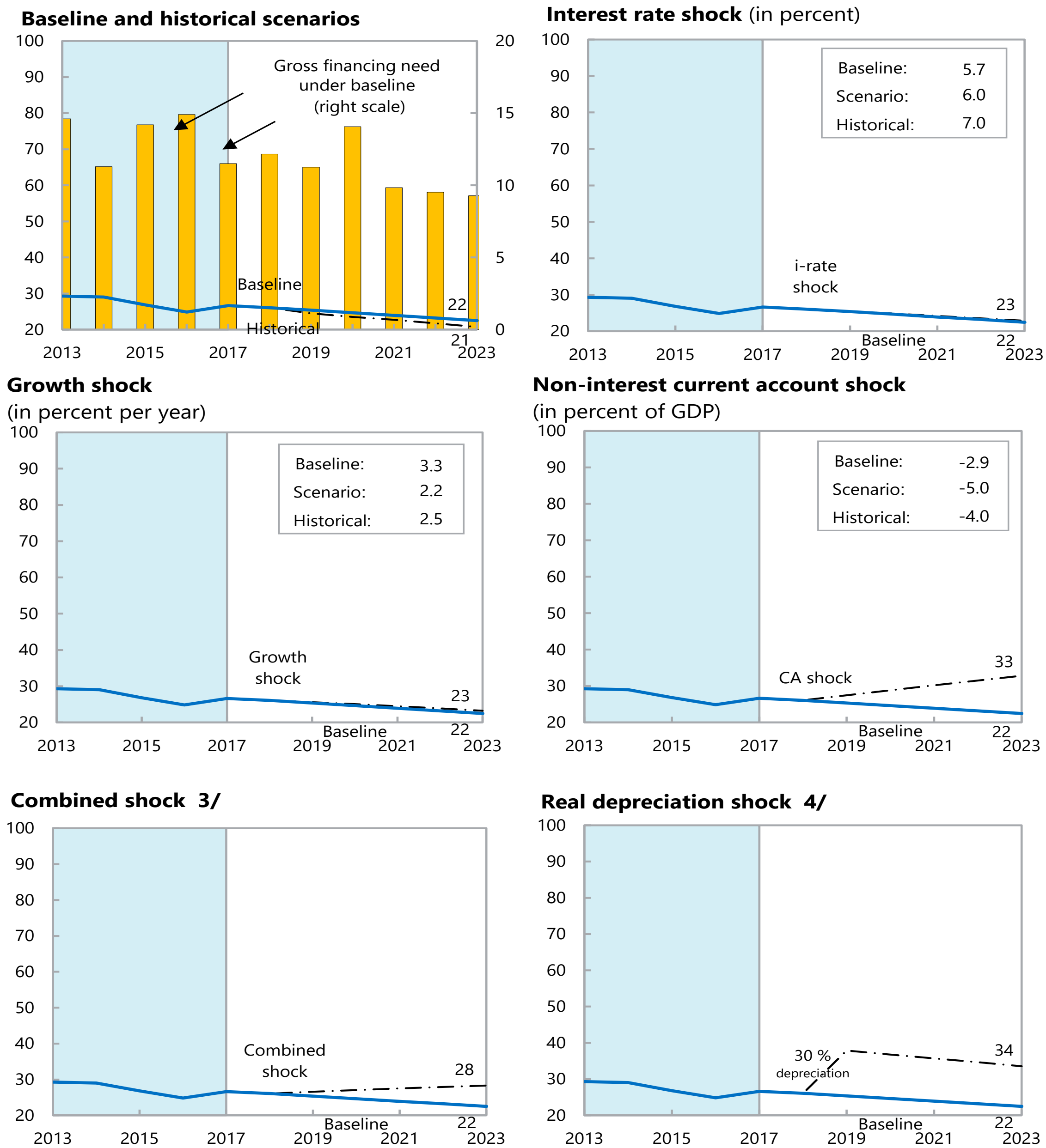
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 7. Country: External Debt Sustainability: Bound 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.

Annex VI. Fiji Implements the Enhanced General Data Dissemination System

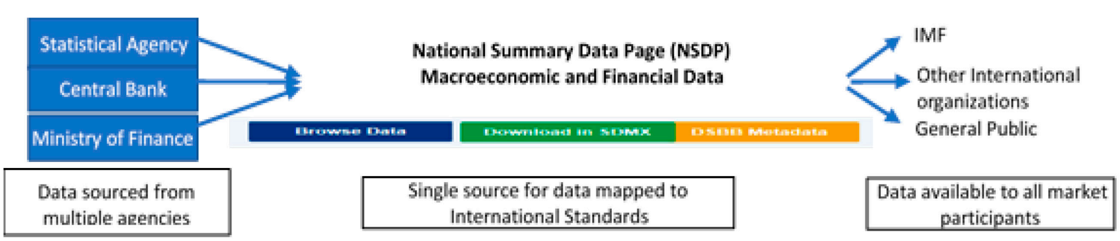
In mid-September 2018, the Fijian authorities published key macroeconomic data in a new National Summary Data Page (NSDP) under the enhanced General Data Dissemination System (e-GDDS) to support surveillance and improve data transparency. This represents a major reform in reported statistics and will help create strong synergies between data dissemination and surveillance.

The e-GDDS was established in May 2015 resulting from introduction of new features to the General Data Dissemination System. It refocuses on data dissemination to support transparency, encourage statistical development, and help create strong synergies between data dissemination and surveillance. It is designed to assist participants in improving data transparency and governance through release of key macroeconomic and financial data in a standardized format and disciplined manner. Staff analysis has shown that data transparency reforms reduce borrowing costs (Choi and Hashimoto, 2017).

The e-GDDS recommends dissemination of 15 data categories that are considered essential for the analysis and monitoring of macroeconomic and financial conditions. In particular, these data categories are aligned with those as listed in the Table of Common Indictors Required for Surveillance (TCIRS). Such alignment integrates and leverages both e-GDDS and data provision for TCIRS and creates synergies given the central role of TCIRS in surveillance activities.

An STA mission visited Fiji in August 2018 to support the authorities in preparing to publish key macroeconomic data via NSDP. The authorities committed to publish 14 core e-GDDS data categories in September 2018 and publish the remaining one (general government operations) when it is compiled. The authorities have also opted to disseminate supplementary indicators, including production index, producer price index, labor market indicators, and financial soundness indicators. The implementation of NSDP has accelerated the authorities' ongoing efforts to enhance data dissemination via improved data coverage and user accessibility. It has also helped to identify data gaps and thus high priority areas for targeted technical assistance.

The NSDP is a national "data portal" that assembles links for e-GDDS recommended data categories and supplementary datasets for a country. The links provide access to time series in formats readable by humans and computers. These data are usually compiled by multiple agencies, but their dissemination and regular updating are coordinated by one designated agency.



Annex VII. Selected Past and Ongoing Fund Advice on Structural Issues

Fund Recommendation	Policy Actions
Improving leasing procedures to use **land**.	Progress has been made on the land-leasing scheme by introducing the land bank. The authorities will seek to enhance land use through digitalization of title records and the development of a national land register.
Reducing **policy uncertainty** by fostering more comprehensive and transparent consultations.	Some improvement, including conducting policy consultations (e.g., budget) with a diverse set of stakeholders.
Rationalizing **price controls**.	No substantial progress.
Restoring **pension savings** disbursed after TC Winston.	No progress. The authorities are reluctant to increase mandatory pension contributions.
Improving **Public Financial Management (PFM).**	The government is working with PFTAC and the ADB to implement the recommendations in the 2013 Public Expenditure Financial Accountability (PEFA) assessment. They are also working with PFTAC to develop a new Public Financial Management Act.
Adopting a **tax compliance** improvement strategy.	The strategy was introduced in 2016 with support from PFTAC, has been updated annually, and contributed to significant improvements in tax compliance
Improving the **ease of doing business**, including **re-establishing a credit bureau**	The government is working with the IFC and the government of Singapore to address the issues detected by the World Bank's Doing Business Survey. A credit reporting agency was granted a license in 2018
Adopting **reforms to SOEs** to improve their financial performance and reduce contingent liabilities	The Fiji Electricity Authority was corporatized in April 2018 but there was no progress in attracting private investment in part because of the regulatory framework. The ADB is assisting government in reviewing the Public Enterprises Act of 1996 to improve monitoring and operations of SOEs.
Strengthening **statistics** for informed policy making	The MoE started to publish quarterly fiscal outturns regularly in 2018. Fiji implemented the IMF the enhanced General Data Dissemination System (e-GDDS) in September 2018. Progress in publishing quarterly national accounts and fiscal data consistent with the GFS (2001) manual has been slow.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 31, 2019

Prepared By

Asian and Pacific Department
(In consultation with other departments)

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FUND RELATIONS

(As of December 31, 2018)

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	74.30	75.51
Reserve position in Fund	24.14	24.53

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	44.01	65.59

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

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.25	0.26	0.25	0.26	0.26
Total	0.25	0.26	0.25	0.26	0.26

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$2.13 per U.S. dollar as of September 2018.

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).

Details about current and past exchange control policies can be found in https://rbf.gov.fj/Left-Menu/Financial-Market-Operations/Exchange-Control.

Last Article IV Consultation: The 2017 Article IV consultation discussions were held in Suva during November 29 – December 12, 2017. The consultation (Country Report No. 18/34) was completed by the Executive Board on February 5, 2018. Fiji is on a 12-month cycle.

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. Ms. Leni Hunter is the resident representative.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://financesapp.worldbank.org/en/countries/Fiji/.
- Asian Development Bank: https://www.adb.org/countries/fiji/main.
- Pacific Financial Technical Assistance Center:

  https://www.pftac.org/content/PFTAC/en1/reports11.html#tab_5

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 Economy (MoE) 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. In September 2018, the authorities began publishing key macroeconomic data via a National Summary Data Page (NSDP) under the enhanced General Data Dissemination System (e-GDDS) to support surveillance and improve data transparency (See Staff Report *Annex VI: Fiji Implements the Enhanced General Data Dissemination System*).
National Accounts: Production-side estimates of GDP by production at current and constant 2011 prices are available up to 2017; current price estimates of GDP by expenditure and income are available to 2016 and will be updated to 2017 by early-2019. 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. Work is now underway to rebase to 2014. The rebased estimates are expected to be published by end-March 2019. **Price statistics:** CPI data are published monthly using 2011 weights derived from the 2008/2009 HIES survey. Quarterly PPIs for goods and services (experimental) are available from 2011 to 2018:Q2.
Government finance statistics: Fiji compile and submit annual GFS data for budgetary central government (BCG), exclusive of the classifications of the functions of government. The most recent submission was in December 2018 and the submission included data for the fiscal years 2016 and 2017. Re-classification of BCG expenditure data is required to improve the integrity of the fiscal data and prepare the data for general government consolidation. Ongoing chart of accounts reforms for BCG, planned for implementation mid-August 2020, may see some improvements for GFS reporting. The authorities continue to make progress in collecting source data required to expand general government coverage; however, delays are experienced to obtain audited annual financial statements from statutory bodies and state-owned enterprises. The authorities are encouraged to review and update outstanding fiscal metadata as part of the process to produce its NSDP under the e-GDDS.
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 using the standardized reporting forms. Monetary and

financial statistics (MFS) that are in line with the *Monetary and Financial Statistics Manual* (*MFSM*) are published on the RBF's website and *International Financial Statistics*. The full implementation of STA's technical assistance missions' recommendations, including enhancing source data for ODCs and OFCs as well as compilation of a financial corporations survey with full institutional coverage, will significantly improve the quality and cross-country comparability of MFS.
Financial sector: Fiji reports to STA for publication on the IMF's website, all core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers on a quarterly basis and with one quarter timeliness. Coverage and timeliness of FSIs for other sectors need to be improved as currently two FSIs are reported to STA with a longer time lag.
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 and publishes key macroeconomic data via an NSDP.

Fiji—Table of Common Indicators Required for Surveillance

(As of December, 2018)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	01/2019	01/2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/2018	01/2019	M	M	M
Reserve/Base Money	10/2018	12/2018	M	M	M
Broad Money	10/2018	12/2018	M	M	M
Central Bank Balance Sheet	10/2018	12/2018	M	M	M
Consolidated Balance Sheet of the Banking System	10/2018	12/2018	M	M	M
Interest Rates[2]	10/2018	12/2018	M	M	M
Consumer Price Index	12/2018	01/2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/2018	11/2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	10/2018	11/2018	M	M	M
External Current Account Balance	Q3, 2018	12/2018	Q	Q	Q
Exports and Imports of Goods and Services	Q3, 2018	12/2018	Q	Q	Q
GDP	2017	09/2018	A	A	A
Gross External Debt	Q3/2018	12/2018	Q	Q	Q
International Investment Position	Q3/2018	12/2018	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).