



# REPUBLIC OF FIJI

June 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR FIJI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Fiji, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 22, 2024, consideration of the staff report that concluded the Article IV consultation with Fiji.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 22, 2024, following discussions that ended on March 12, 2024, with the officials of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 2, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Fiji.

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with Fiji

FOR IMMEDIATE RELEASE

**Washington, DC – May 28, 2024:** On May 22, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Fiji.

Fiji's economy has recovered strongly from the pandemic. Tourist arrivals surpassed pre-pandemic levels in 2023, yielding GDP growth of an estimated 8.0 percent and erasing pandemic-related output losses. Inflation ticked up in mid-2023, reaching 4.6 percent year-on-year in March 2024. The current account deficit narrowed to 7.6 percent of GDP in 2023 aided by the strong rebound in tourism earnings, and FX reserves remained adequate. Supported by the strong economic recovery, the fiscal deficit narrowed to 7.1 percent of GDP, and the public debt-to-GDP ratio declined to 82.7 percent in FY2023 (August-July). Significant revenue-enhancing measures in the FY2024 budget are expected to further reduce the fiscal deficit and public debt ratios, although both are projected to remain elevated over the medium-term without further measures. Monetary conditions remain accommodative, although the authorities have begun tightening liquidity. The ratio of bank non-performing loans to total loans has improved but continues to be higher than pre-pandemic levels.

GDP growth is projected to moderate to 3.0 percent in 2024, owing in part to supply-side constraints in the tourism sector. Supported by a gradual rise in tourism sector capacity and policies to address immigration and investment bottlenecks, the economy is expected to grow around the pre-pandemic trend (which is estimated at around 3¼ percent) over the medium-term. Downside risks to the economic outlook include a slowdown in tourist arrivals, high emigration and worsening skilled labor shortages, higher global commodity prices and shipping costs, and limited fiscal space. On the upside, stronger reform momentum, including to improve the business climate, could stimulate private investment and boost growth.

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

Executive Directors agreed with the thrust of the staff appraisal. Directors welcomed the strong economic rebound driven by the recovery in tourism. They noted, however, downside risks to the outlook given Fiji's vulnerability to a slowdown in tourism, commodity price shocks, and climate change. Directors emphasized the importance of pursuing sound macroeconomic management, while advancing efforts to address structural challenges related to fiscal buffers, resilience and inclusive growth.

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

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

Directors commended the authorities for implementing significant revenue-enhancing measures in the FY2024 budget to reduce the fiscal deficit, reverse the debt trajectory, and finance increased social spending. They stressed that continued gradual fiscal consolidation is critical to rebuild fiscal buffers to respond to future shocks and to place debt firmly on a downward path. Directors emphasized the need to further increase revenue mobilization and expenditure efficiency, including by better targeting social spending and improving public investment capacity. They concurred that strengthening oversight of state-owned enterprises and reinforcing the fiscal institutional framework can help protect fiscal sustainability.

Noting excess liquidity and the closing negative output gap, Directors encouraged the authorities to gradually shift monetary policy to a neutral stance to create policy space, supported by a proactive communication strategy. Developing a more effective monetary transmission mechanism would also be important. Directors encouraged reversing the remaining pandemic-related current account exchange restrictions and capital flow management measures, and phasing out the pre-pandemic exchange restrictions.

While noting that the financial sector remains sound, Directors stressed the importance of further enhancing financial sector oversight, particularly for banks with high non-performing loans. Improving the financial supervision framework, implementing the remaining recommendations of the 2018 Financial Sector Stability Review, addressing deficiencies in the AML-CFT framework, and strengthening financial inclusion are also key.

Directors welcomed the authorities' plans to undertake growth-enhancing reforms, including under the National Development Plan. They encouraged pursuing a prioritized growth strategy to foster diversification, enhance governance, and address labor shortages, including by promoting female labor force participation. Directors underscored the need to advance climate plans to enhance climate resilience and diversify energy sources. Noting the financing and capacity constraints, they stressed the importance of prioritizing projects and welcomed the planned C-PIMA in this regard. Enhancing data quality to better inform policymaking remains key.

## Fiji: Selected Economic Indicators, 2021-2029

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.				Proj.		
<b>Output and prices (percent change)</b>									
Real GDP	-4.9	20.0	8.0	3.0	3.4	3.4	3.3	3.3	3.1
GDP deflator	-2.5	2.5	4.4	4.2	3.2	3.1	3.0	2.9	2.8
Consumer prices (average)	0.2	4.3	2.3	4.0	3.2	3.1	3.0	2.9	2.8
Consumer prices (end of period)	3.0	3.1	5.1	3.0	3.1	3.0	2.9	2.8	2.7
<b>Central government budget (percent of GDP)</b>									
Revenue	22.6	21.8	24.7	27.4	27.3	27.0	26.9	26.8	26.8
Expenditure	36.5	31.5	30.6	31.8	31.7	31.3	31.2	31.0	31.0
Overall balance	-14.0	-9.7	-5.9	-4.4	-4.4	-4.3	-4.3	-4.2	-4.1
Primary balance	-9.8	-6.0	-1.9	-0.4	-0.6	-0.6	-0.6	-0.5	-0.5
Central government debt	91.5	86.3	80.4	80.4	80.1	79.7	79.4	79.1	78.7
Central government external debt	28.0	32.0	28.1	28.6	28.6	28.5	28.3	28.2	27.9
<b>External sector (percent of GDP)</b>									
Current account balance	-13.0	-17.3	-7.6	-7.7	-7.7	-7.8	-7.8	-7.9	-7.9
Trade balance	-19.1	-32.8	-32.4	-31.0	-30.1	-29.2	-29.0	-28.7	-28.6
Services balance	-5.2	11.7	20.1	19.8	19.4	18.7	18.7	18.4	18.5
Primary Income balance	-5.8	-5.3	-5.7	-6.9	-7.2	-7.2	-7.3	-7.4	-7.5
Secondary Income balance	17.1	9.1	10.3	10.3	10.2	10.0	9.9	9.8	9.8
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (- = inflows)	-18.3	-14.0	-4.9	-5.7	-5.9	-6.6	-7.0	-7.6	-7.6
FDI	-8.7	-1.8	-1.1	-3.7	-4.9	-5.8	-6.4	-7.1	-7.2
Portfolio investment	0.6	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other investment	-10.1	-12.7	-4.7	-2.9	-2.0	-1.8	-1.6	-1.5	-1.4
Errors and omissions	6.0	5.1	4.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (- = increase)	-11.3	-2.1	0.6	2.0	1.8	1.1	0.7	0.3	0.2
Gross official reserves (in months of prospective imports)	5.8	5.5	5.2	4.6	4.1	3.7	3.4	3.2	...
<b>Money and credit (percent change)</b>									
Net domestic assets of depository corporations	2.8	5.8	12.8	11.3	11.2	...	...	...	...
Claims on private sector	-0.1	6.7	7.6	10.0	10.0	...	...	...	...
Broad money (M3)	11.1	3.6	10.7	7.8	7.4	...	...	...	...
Monetary base	48.8	15.9	-4.0	7.3	6.7	...	...	...	...
Central Bank Policy rate (end of period)	0.25	0.25	0.25	...	...	...	...	...	...
Commercial banks deposits rate (end of period)	0.5	0.4	0.4	...	...	...	...	...	...
Commercial banks lending rate (end of period)	6.1	5.2	4.8	...	...	...	...	...	...
<b>Memorandum items</b>									
Exchange rate, average (FJD/USD)	2.1	2.2	2.3	...	...	...	...	...	...
Real effective exchange rate, average	103.5	101.6	101.5	...	...	...	...	...	...
GDP at current market prices (in millions of Fiji dollars)	8,914	10,963	12,368	13,275	14,162	15,104	16,071	17,081	18,111
GDP at current market prices (in millions of U.S. dollars)	4,305	4,980	5,497	5,801	6,103	6,441	6,792	7,163	7,546
GDP per capita (in U.S. dollars)	4,750	5,462	5,993	6,287	6,575	6,898	7,230	7,579	7,937

Sources: RBF, Ministry of Finance, and IMF staff estimates and projections.



# REPUBLIC OF FIJI

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

May 2, 2024

### KEY ISSUES

**Context.** The Fijian economy has recovered strongly from the pandemic. Real GDP rebounded by around 30 percent cumulatively in 2022–23, surpassing pre-pandemic levels. Inflation has recently ticked up modestly largely due to a temporary effect of the hike in Value-Added Tax rates. Supported by the economic recovery, the fiscal deficit and debt-to-GDP ratios continued to decline but remain at elevated levels. The FY2024 (August–July) budget included significant revenue enhancing measures, partially offset by spending increases, which, on balance, are expected to reduce the fiscal deficit and debt ratios. The monetary policy stance has remained accommodative, although the Reserve Bank of Fiji has begun tightening liquidity. The banking sector is sound overall, and asset quality is improving (although still lower than pre-pandemic levels). The coalition government is developing a program of growth-enhancing reforms, particularly in the National Development Plan due in June.

#### Main Policy Recommendations:

- Continue to rebuild fiscal buffers through a gradual consolidation, improve the targeting of social spending, and prioritize capital spending to support inclusive growth.
- Begin to move monetary policy to a neutral stance now to create policy room to manage downside risks and develop effective monetary policy transmission mechanism.
- Persist in strengthening financial sector oversight, particularly for banks with high non-performing loans, and continue enhancing financial infrastructure to boost inclusion.
- Develop and operationalize an ambitious, comprehensive, and prioritized growth strategy to address key impediments to growth and enhance climate resilience.

Approved By  
**Sanjaya Panth (APD)**  
**and Geremia Palomba**  
**(SPR)**

Mission dates: February 28–March 12, 2024.  
 The mission team comprised Marshall Mills (head), Arpitha Bykere, Ruifeng Zhang (all APD). Neil Saker (Resident Representative, Fiji) and Seruwaia Cagilaba (Resident Representative Office, Fiji) assisted the mission. Yati Kurniati and Esala Masitabua (both OED) attended some of the meetings. To-Nhu Dao, Connor Kinsella, Shikha Atul Rao, and Pule Sukanaivalu (all APD) contributed to the preparation of this report and supported the mission. The mission met with the Deputy Prime Minister/Minister for Finance Biman Chand Prasad, the Governor of the Reserve Bank of Fiji Ariff Ali, other senior government officials, development partners, and private sector representatives.

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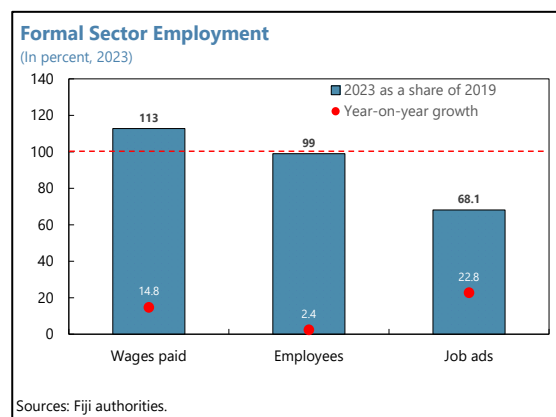
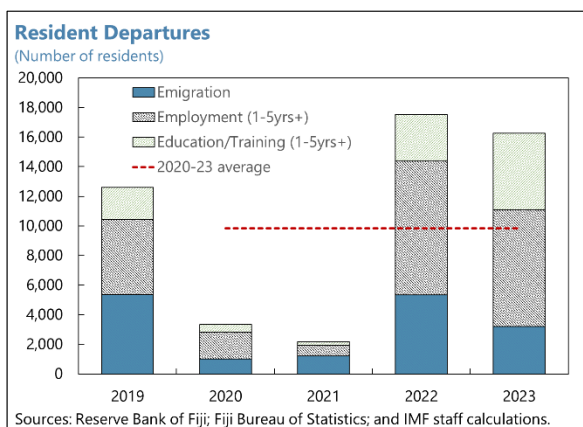
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## CONTEXT

**1. The Fijian economy has rebounded strongly from the pandemic, although with mixed trends at the sectoral level.** Real GDP recovered by around 30 percent cumulatively in 2022–23, erasing sharp pandemic losses. The negative output gap is closing<sup>1</sup>, with output in tourism-related sectors rebounding swiftly, while slack remains in many sectors<sup>2</sup>. The recovery in the labor market is still underway, although hiring activity remains below pre-pandemic levels; at the same time, nearly 34,000 Fijians left to reside in other countries during 2022–23 (equivalent to about 4 percent of the population), which is leading to recent upward pressure on nominal wages, especially in specific skilled segments (Text Figures and Annex VIII).



**2. The legacies of the pandemic continue to limit macroeconomic policy space.** The room for policy responses to economic shocks is limited due to elevated public debt and the historically low monetary policy rate. The authorities have partially implemented past Article IV advice to rebuild this space, particularly on raising fiscal revenues (Annex IV).

**3. The coalition government is developing a program of growth-enhancing reforms to help maintain momentum.** Previous staff advice to adopt a comprehensive and ambitious reform program is being pursued, although not as rapidly as staff had recommended in the 2023 Staff Report. The cabinet has established a “Growth Reset Committee” and is formulating a new National Development Plan (NDP; expected by mid-2024), aiming to foster sustainable growth, social equity, private investment, and environmental stewardship.

## RECENT DEVELOPMENTS

**4. The economic recovery remained strong in 2023, driven by the rebound in tourism.** The rapid restoration of air travel and robust tourism demand (including during the off-season) helped 2023 tourist arrivals reach 104 percent of 2019 levels. With GDP growth at an estimated 8.0 percent, output surpassed pre-pandemic levels in 2023, witnessing a faster recovery than other

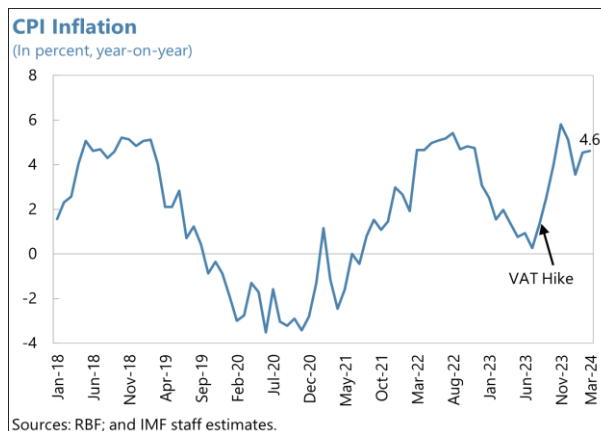
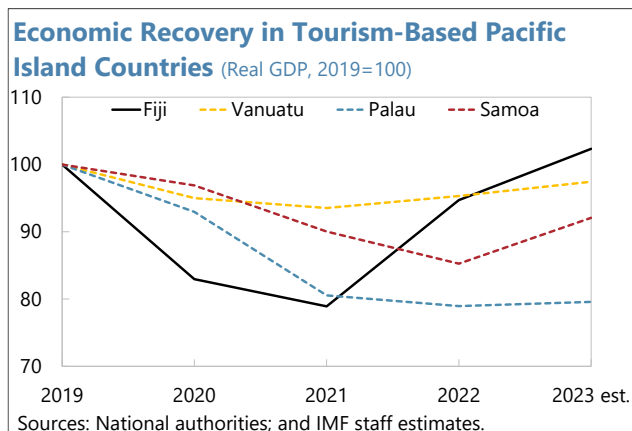
<sup>1</sup> Data limitations, including the scarcity of labor market data and unavailability of quarterly GDP data, hinder a comprehensive assessment of the business cycle.

<sup>2</sup> Production in several sectors, such as mining, manufacturing, and timber, remains below pre-pandemic levels.



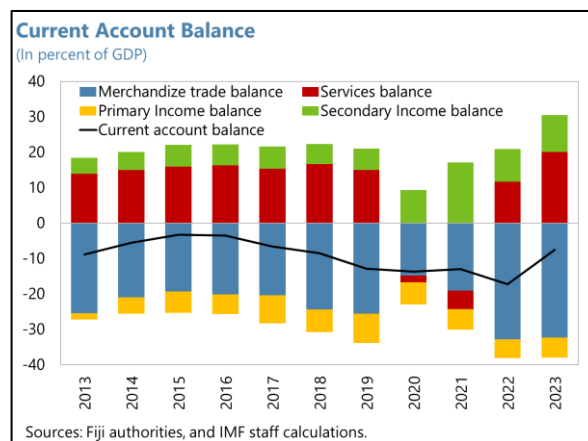
tourism-based Pacific Island countries (Text Figure and Table 1). Tourism demand remained buoyant in early 2024, with moderation in tourist inflows from Australia offset by ongoing recovery in tourist inflows from Asia.

**5. After falling sharply in 2023 H1, inflation has ticked back up.** Inflation averaged 1.3 percent yoy during January–July 2023 but picked up starting in August 2023, due largely to the temporary effect of the hike of value-added taxes (VAT) – which was estimated to add nearly 2.0 pts to monthly inflation – and settled at 4.6 percent yoy in March (Text Figure).

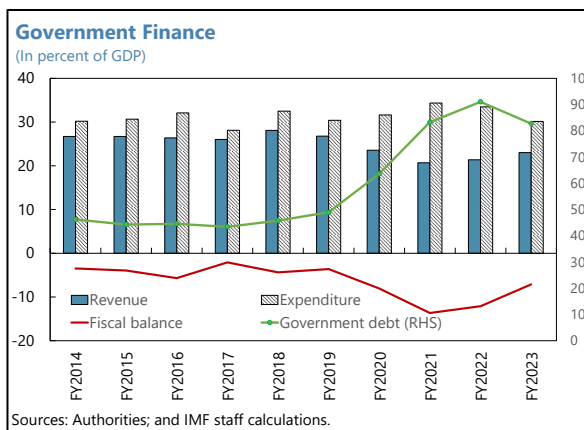


**6. The current account balance improved significantly after deteriorating during 2020-22.**

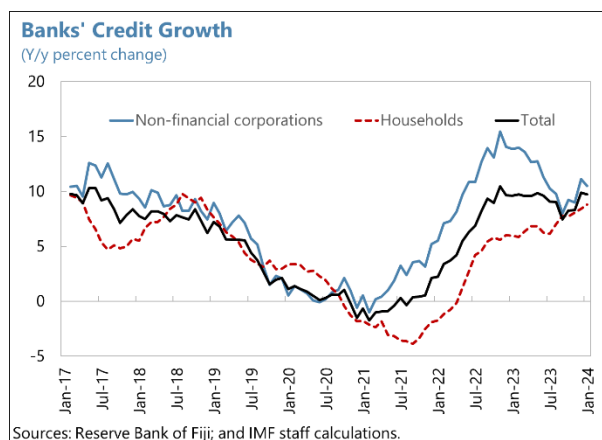
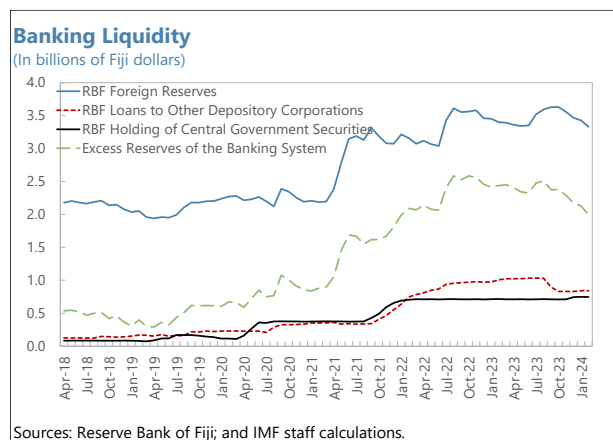
The current account deficit narrowed to an estimated 7.6 percent of GDP in 2023, driven by a strong rebound in tourism-related earnings (Text Figure and Table 2). With Fiji’s inflation below that of trading partners, the REER maintained its depreciation trend. The EBA-lite model suggests that Fiji’s external position in 2023 was weaker than the level implied by fundamentals and desirable policies settings (Annex II). FX reserves declined somewhat, in part due to a slowdown in government’s net external borrowings but remained adequate at 5.2 months of prospective imports.



**7. The fiscal deficit continued to narrow, and debt fell relative to GDP.** The overall deficit dropped from 12.1 percent in FY2022 (August-July) to 7.1 percent of GDP in FY2023, driven by a strong revenue recovery (35 percent yoy growth), but also an under-execution of capital spending and the wage bill (Text Figure; Table 3a and Table 3b). The public debt-to-GDP ratio declined to 83 percent in FY2023 from the peak of 90 percent, reflecting the recovery of GDP (debt in nominal terms rose slightly).



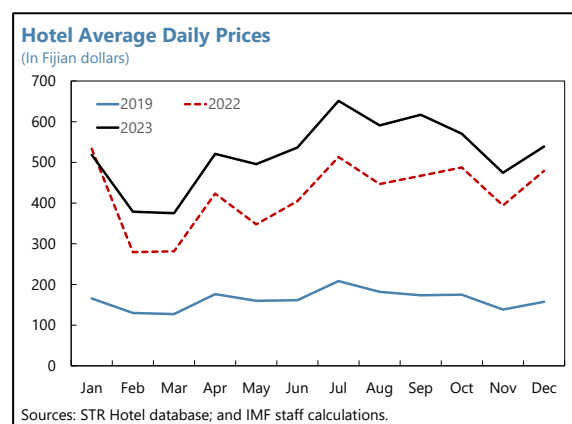
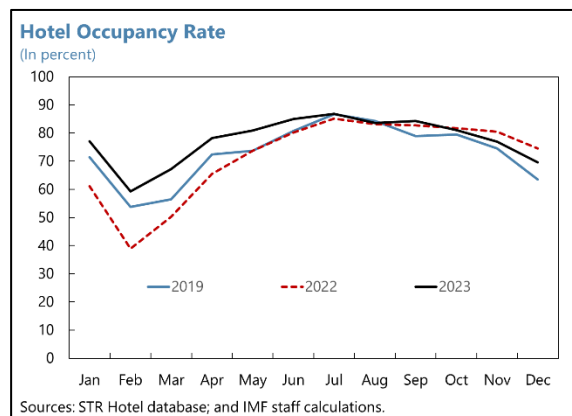
**8. The monetary policy stance and financial conditions have remained accommodative.** The Reserve Bank of Fiji (RBF) has kept the policy rate unchanged at 0.25 percent since the onset of the pandemic. While the authorities have begun tightening liquidity, by withdrawing the liquidity support under its unconventional pandemic-related lending facilities and easing controls on profit repatriations, the excess reserves within the banking sector remain elevated (Text Figure), keeping interest rates at historical lows. Private sector credit growth remains positive, led by stronger demand from tourism-related sectors (Text Figure and Table 4).



## OUTLOOK AND RISKS

**9. Supply-side constraints in tourism-related sectors will likely weigh on the near-term economic outlook (Text Figures).** Tourism-related sectors remain the main driver of Fiji's economic growth. As in 2023, hotel capacity in 2024 – while growing slowly – is expected to remain below pre-pandemic levels, while labor shortages and supply-chain challenges in the construction sector will hold back the existing pipeline of investment projects in the tourism sector. Considering these factors, staff projects GDP growth to moderate to 3 percent in 2024 — similar to the pre-pandemic average — with downside risks. Subsequent GDP growth is expected to return to the pre-pandemic historical trend of 3¼ percent, aided by gradually rising hotel capacity, policies to cut red tape and immigration bottlenecks (thereby boosting construction and other activity), and one-off

effects from a new gold mine and an increase in Fiji Water’s production. As the temporary impact of the VAT hike fades, inflation is projected to soften to 3 percent yoy by end-2024 and remain around trend – close to 3 percent – over the medium-term. The current account deficit is projected to remain high in 2024, owing to elevated global commodity prices, slower growth in tourism earnings and remittances, and renewed deterioration in the primary income balance, predominantly profit repatriation and reinvested earnings. The FX reserve cover is expected to remain adequate in the near term while falling slowly, owing in part to government’s slower net external borrowings and weak FDI inflows.



**10. Domestic developments and global shocks pose downside risks to the economic outlook** (Annex I). Worsening labor shortages could further delay the pipeline of projects, particularly in the tourism sector, and accentuate wage pressures. Renewed acceleration in global commodity prices, higher shipping costs, wage pressures, and possible second-round effects of the VAT hike pose upside risks to inflation. Slower tourist arrivals due to the loss of competitiveness or a global slowdown could weigh on Fiji’s growth prospects, as would continued high emigration and delays in investment projects. The fiscal path under current policies could limit the fiscal space to respond to future shocks. On the upside, stronger reform momentum and improvements to the business climate could stimulate private investment and FDI, boosting growth.

### **Authorities’ Views**

**11. The authorities broadly agreed with the staff’s assessment while highlighting upside and downside risks to the growth outlook.** The authorities pointed out that growth going forward could be further supported by an acceleration in budget execution (particularly capital expenditure), the pipeline of large private investment projects, increases in hotel capacity starting end-2024, and ongoing measures to improve immigration processes. At the same time, the authorities acknowledged risks to the economic outlook posed by signs of softening tourism demand, and the impact of emigration on skilled labor supply and consumer spending.

## POLICY DISCUSSIONS

### A. Fiscal Policies: Rebuilding Buffers and Supporting Inclusive Growth

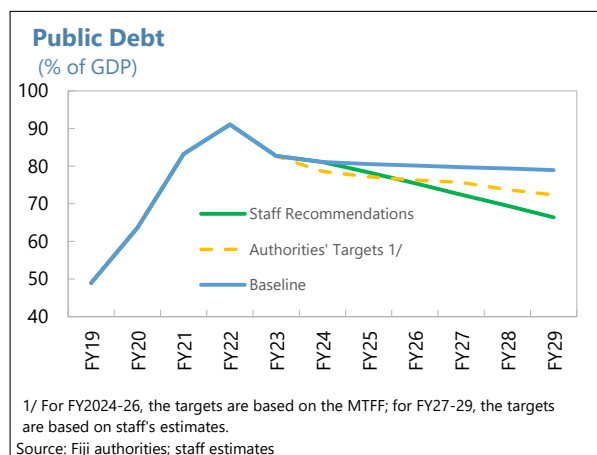
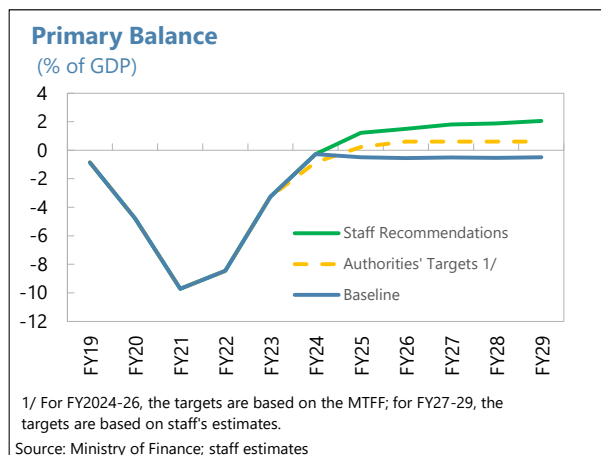
**12. The tightened fiscal stance reflected in the FY2024 budget is broadly appropriate, as the negative output gap is closing and monetary conditions remain accommodative.** The Fijian authorities have made impressive progress in mobilizing domestic revenue, although spending has also increased. The FY2024 budget appropriately included substantial revenue enhancing measures, including increasing the rates for VAT, corporate income tax, and departure taxes and removing certain tax concessions and incentives; total fiscal impact for FY2024 is estimated at 4.6 percent of GDP (Text Table). While motivated by important social concerns,

Main Revenue Measures in FY2024 Budget	
Measures	Fiscal Impact % of GDP
Simplify the VAT rates from three rates to two rates, and increase main VAT from 9% to 15 % <sup>1/</sup>	3.5
Increase standard corporate income tax rate raised from 20% to 25%	0.6
Increase departure tax raised from \$100 to \$125	0.2
Increase excises on alcohol, tobacco, and carbonated/sugar-sweetened beverages	0.1
Remove certain customs concessions and tax incentives	0.3
<b>Total</b>	<b>4.6</b>
<sup>1/</sup> Twenty-two items are on zero rate, with majority of them being basic food. Sources: Fiji authorities; staff estimates	

the maintenance of a zero VAT rate for 22 basic items will nevertheless complicate administration and compliance. At the same time, planned expenditure increased by 2.4 percent of GDP, rightly prioritizing spending on social protection and infrastructure investment. The FY2024 budget envisages an overall fiscal deficit of 4.8 percent of GDP, while staff currently projects a smaller deficit of 4.4 percent of GDP, reflecting some modest expected under-execution of spending on wages and capital investment.

**13. Over the medium-term, rebuilding fiscal buffers should be a top priority given Fiji's vulnerability to shocks.** The deficit reduction in the FY2024 is an important first step in reversing the public debt trajectory. Nevertheless, staff analysis shows that further fiscal consolidation is needed to put debt on a clearly downward trajectory over the medium-term. Staff's baseline projections – based on announced policies, rather than announced targets – projects that the overall fiscal deficit would remain above 4 percent of GDP over the medium-term, with public debt declining very slowly to around 79 percent of GDP in FY2029 (Text Figures). The risk of debt distress is assessed as moderate, thanks to favorable terms and maturities; nevertheless, the fiscal space to absorb future shocks while minimizing social costs – as done during the pandemic – would remain limited (DSA Annex III). The authorities are rightly targeting additional fiscal consolidation (achieving a small primary surplus starting in FY2025), as reflected in their Medium-Term Fiscal Strategy (MTFS); however, additional concrete measures are needed to achieve this path, including its budgetary targets for FY2025. In addition, a more ambitious adjustment path than the MTFS can help rebuild fiscal buffer at a faster pace and enhance policy resilience. Staff suggests enhancing fiscal consolidation to achieve a primary surplus of around 2 percent of GDP by FY2029 (compared with a

primary balance of -0.5 percent in the baseline and +0.5 percent in the MTFs), which – if sustained – would reduce the debt to GDP ratio to 50 percent (pre-pandemic level) by FY2034.



**14. A combination of revenue and expenditure measures can achieve the consolidation path while supporting inclusive growth.**

- Further mobilizing revenue.* Given the already significant revenue measures, the near-term priority should be enhancing efficiency and simplifying administration, which could include: further reducing exemptions and incentives (including phasing out the export income deduction<sup>3</sup>), simplifying the personal income tax structure (including lowering the initial threshold), introducing a dividend tax, increasing the VAT for items with zero rate and unifying the VAT rates (while allocating targeted resources to protect the poorest, see below), and strengthening revenue administration and tax compliance. These measures would yield at least 1.5 percent of GDP in additional revenue (Text Table).

<b>Baseline and Proposed Adjustment Scenarios</b> (In percent of GDP)			
		Baseline	Adjustment
		FY24	FY29
<b>Revenue</b>		<b>27.4</b>	<b>26.8</b>
	o/w Tax Revenue	23.0	23.5
	Non-Tax Revenue	4.4	3.3
<b>Expenditure</b>		<b>31.8</b>	<b>30.9</b>
	Primary Current Expenditure	20.8	19.8
	Capital Expenditure	6.9	7.5
	Interest Payments	4.1	3.6
<b>Overall Balance</b>		<b>-4.4</b>	<b>-4.1</b>
<b>Primary balance</b>		<b>-0.3</b>	<b>2.0</b>
<b>Debt to GDP</b>		<b>81.1</b>	<b>66.7</b>

Source: Ministry of Finance; staff calculations

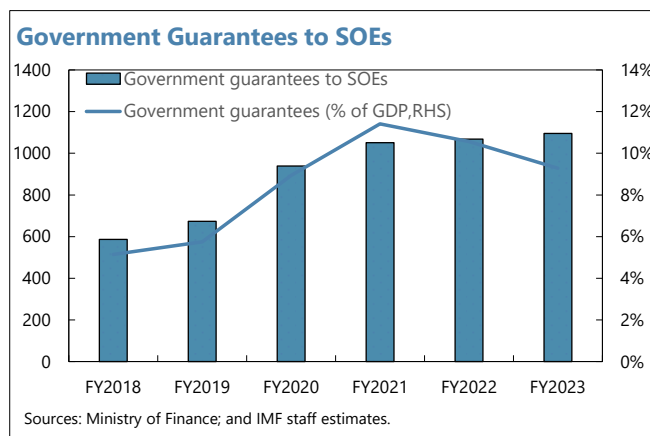
- Enhancing the efficiency of spending while promoting inclusion.* Following an increase in transfers in FY2024 budget (1.3 percent of GDP), the authorities should limit the future increase of transfers while improving the targeting. Measures could include: limiting the increase of spending on programs that are allocated to less vulnerable households, such as the Social Pension Scheme (SPS) and cutting broad-based utility subsidies; rationalizing subsidies to poorly performing SOEs and sectors (such as sugar); rebalancing resources to more effective poverty

<sup>3</sup> The EU has identified as a harmful preferential tax regime.

reduction programs; reviewing the eligibility criteria to improve targeting<sup>4</sup>; and setting up a comprehensive social registry over the medium-term. Enhancing the efficiency of other current spending, including on supplies and consumables, could generate additional savings for promoting inclusion priorities, such as health, education, training, and climate adaptation. The authorities should launch the planned public sector employment review and civil service reform to right-size the public sector while improving efficiency and service delivery. Staff estimates that limiting the increase of low-efficiency expenditure, while increasing targeted spending on inclusion, could generate overall savings of 2 percent of GDP by FY2029.

- *Scaling up growth-enhancing expenditure and enhancing implementation capacity.* Implementing the above revenue and expenditure measures can create room for more capital investment (by up to 1 percent of GDP) while still reducing debt levels, which supports sustained inclusive growth. Improving public investment management, including addressing the gaps on project planning, prioritization, costing, and monitoring, is also important to effectively implement investment projects, as identified by the 2020 Public Expenditure and Financial Accountability Assessment. A Climate-Public Investment Management Assessment (C-PIMA) planned for this year can help identify improvements to institutions and processes to build climate-resilient infrastructure.
- *Further enhancing transparency of public procurement.* The authorities continue to publish public procurement information<sup>5</sup> and are finalizing the amendments to Procurement Regulations 2010 which establish a central online procurement platform, enhance access to procurement information, and set up a debarment committee. Staff recommends that the authorities further enhance procurement transparency by collecting and publishing beneficial ownership information for awarded procurement contracts, which are key to reduce corruption vulnerabilities.

**15. Continued improvement in the oversight and performance of state-owned enterprises (SOEs) can reduce fiscal risks** (Text Figure, Annex VI). The overall financial performance of SOEs appears to be improving following the impact of pandemic, and public guarantees to SOEs were stable in nominal terms in FY2023. However, sizable guarantees (9 percent of GDP end-FY2023) and government subsidies (over 1 percent of GDP annually) that benefit SOEs continue to pose risks and burdens on public finances. The authorities should continue to strengthen SOE



<sup>4</sup> Including by using the 2019-2020 Household Income and Expenditure Survey to update the proxy means test.

<sup>5</sup> Available on Fiji's eTender [portal](#) and the [website](#) of Fiji's Procurement Office.

oversight, governance, and performance. Measures could include: expanding the regulation and governance standards under Public Enterprises Act 2019 to all SOEs; enhancing the capacity to assess and mitigate financial vulnerabilities of SOEs; developing a plan to limit SOE guarantees; and addressing shortcomings in financial reporting, as identified by the Office of the Audit General. The authorities recently made progress in improving the selection and appointment process for board directors, enhancing SOE risk analysis, and reducing the backlog in the audit of SOE financial statements.<sup>6</sup>

**16. Strengthening the institutional framework for fiscal policy can reinforce sustainability, communication, and confidence.** The authorities continued to submit the MTFs to parliament and public annually, helping enhance medium-term planning and transparency. In light of the need for sustained fiscal consolidation and debt reduction, the authorities could consider revising the Public Finance Management Act to introduce an explicit fiscal anchor (e.g., on debt ratios) to guide policy design and the MTFs. The authorities could also consider the introduction of fiscal rules (e.g., on primary balance or current expenditure) and a fiscal council to support the implementation of the MTFs and strengthen fiscal oversight.

#### ***Authorities' Views***

**17. The authorities agreed with the importance of fiscal sustainability but also emphasized the spending needs to support inclusion and growth.** They remain committed to continuing consolidation and debt reduction, as envisaged in the latest Medium-Term Fiscal Strategy (FY2025-FY2027). On revenue mobilization, the authorities intend to keep the tax regime broadly stable and predictable following recent significant tax measures, while agreeing on the value of exploring additional targeted revenue measures such as introducing a dividend tax, further increasing the departure tax, focusing on streamlining tax exemptions, and improving tax compliance. On expenditure measures, the authorities plan to restrain overall spending over time and agreed with the objectives on improving expenditure targeting and efficiency. In the meantime, they also emphasized the priority on spending for social needs and infrastructure to support inclusive growth. In this context, they concurred with the importance of enhancing implementation capacity to address under-execution of capital spending and highlighted that the recently approved guidelines and procedures for capital projects under the Public Sector Investment Program are expected to improve project planning, procurement, and management.

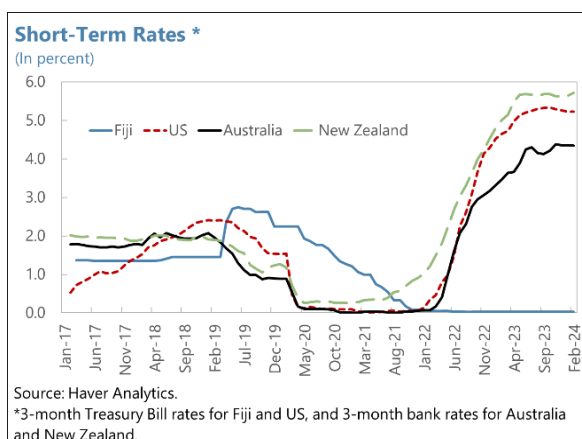
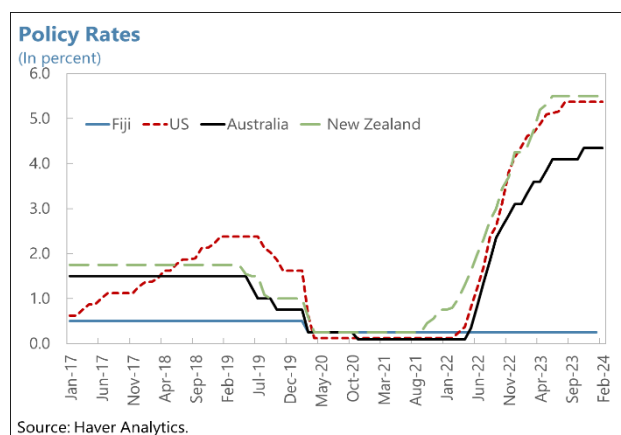
**18. The authorities also broadly agreed with staff's recommendations on further strengthening public financial management and fiscal institutions.** They highlighted their recent progress in strengthening fiscal risk analysis related to SOEs and contingent liabilities, including through engaging with the Pacific Financial Technical Assistance Centre (PFTAC) to broaden the scope and coverage of fiscal risk analysis and reporting. They planned to further strengthen the disclosure of fiscal risks including expanding related discussions in annual budgets and publishing previous SOE fiscal risk analysis. They also expected to further enhance fiscal transparency through

<sup>6</sup> The Fiji Sugar Corporation published its 2021-2023 annual reports in September 2023. The authorities plan to publish all outstanding annual reports for Fiji Airways in 2024H1.

the planned amendments to procurement regulations and publishing more SOE annual reports. The authorities agreed to examine how they might further strengthen the fiscal institutional framework, including consultations with the IMF.

## B. Monetary and Exchange Rate Policies: Preserving Price Stability and Enhancing Resilience

**19. The monetary policy stance should gradually move to neutral to be ready to counter any persistent inflationary or balance of payments pressures.** Under an exchange rate peg with limited capital mobility, the Reserve Bank of Fiji (RBF) has broadly achieved its objectives for reserve adequacy and price stability in recent years. Nevertheless, excess liquidity within the banking system remains high relative to pre-pandemic levels, although it has declined to 16.1 percent of GDP in January from 19.7 percent a year ago. As the negative output gap is closing, the RBF should begin to gradually normalize monetary policy by addressing remaining excess liquidity and raising policy rates, with tools including open market operations (e.g., introducing a fixed rate fill allotment), to create policy room to manage downside risks and any potential impact from the recent uptick in inflation on expectations (Text Figures and Figure 4). In addition, monetary tightening, combined with fiscal consolidation, would help strengthen the external position and support FX reserves. The normalization of the monetary policy should be supported by a proactive communication strategy to manage market expectations and help develop more effective transmission mechanisms to support price stability and reserve adequacy. The prolonged loose stance can weaken these mechanisms, including the inter-bank market and secondary market for government bonds.



**20. Progress has been made in easing some pandemic-related exchange controls, but more should be done.** As announced in April and effective in June 2023, Fiji completely reversed some of the pandemic-related tightening of exchange controls, such as those on emigrant transfers and offshore investment by companies and non-bank financial institutions. Meanwhile, exchange controls on profit repatriation, loan repayments, investment withdrawal via shares and asset sale, and deposits into FJD external accounts, were eased, but not back to the pre-pandemic levels<sup>7</sup>.

<sup>7</sup> Informational Annex.



Some of these exchange controls constitute exchange restrictions on current transactions subject to approval under Article VIII, Section 2(b) of the IMF's Articles of Agreement, and some constitute Capital Flow Management Measures (CFMs) under the Fund's Institutional View. The remaining pandemic-related exchange restrictions and CFMs should be reversed in the near-term. Moreover, the pre-pandemic current account exchange restrictions should be phased out in a sequenced manner, in line with the Article VIII obligations. Such exchange restrictions impose costs on businesses and individuals. In addition, a carefully planned relaxation of certain pre-pandemic CFMs could also serve as a part of Fiji's strategy to encourage foreign investment.

**21. Fiji's current exchange rate peg continues to provide an effective nominal anchor to the economy.**<sup>8</sup> Nonetheless, as Fiji's development strategy evolves, the exchange rate regime could be periodically assessed, including the composition of the currency basket<sup>9</sup>.

### **Authorities' Views**

**22. The authorities broadly agreed with staff's advice on the direction of monetary policy, while differing on the timing of measures.** The RBF has opted for a wait-and-see approach, including to assess downside risks to growth and the impact of the upcoming National Budget on its monetary policy objectives and growth. The RBF noted that premature tightening of monetary policy may harm growth, while it is expecting to meet both its primary objectives on price stability and foreign reserves adequacy over the near term. The RBF will continue to monitor risks to inflation and foreign reserves, revising monetary policy as needed by raising Overnight Policy Rate and through open market operations.

**23. The authorities emphasized a careful and progressive approach to reviewing exchange controls, while broadly sharing staff's assessment on the exchange rate regime.** The authorities highlighted the measures undertaken since last year to streamline documentation and tax clearance requirements for several transactions. While managing risks related to FX reserve volatility and current account outflows, the authorities planned to review the pandemic-related exchange restrictions on current transactions in connection with the budget, in line with standard practice, and also expressed interest in understanding cross-country experiences in phasing down such restrictions.

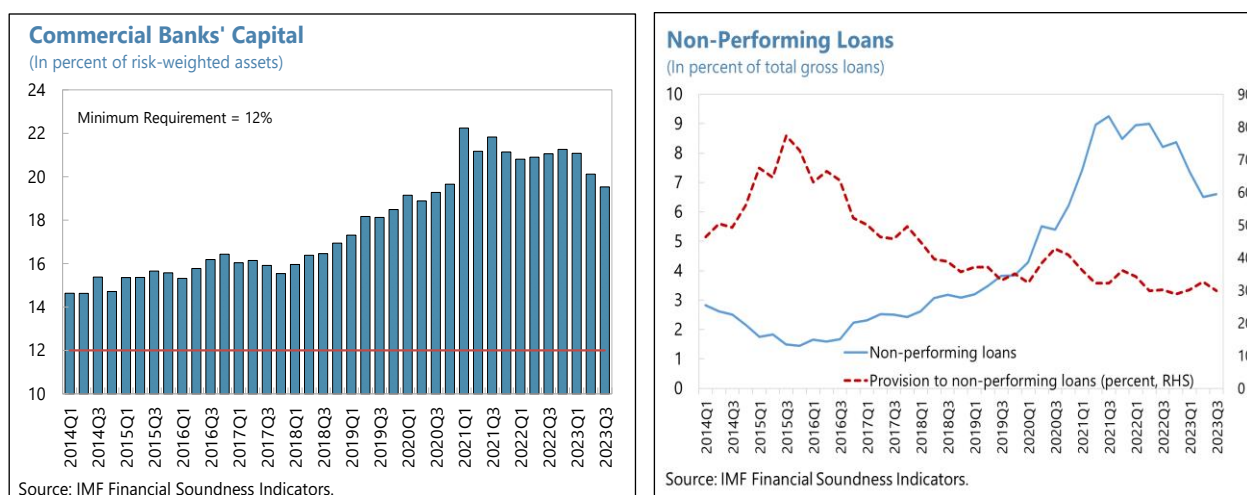
## **C. Financial Sector Policies: Safeguarding Financial Stability and Promoting Inclusion**

**24. The banking sector is sound although high NPLs at some banks are a concern** (Table 5). The banking sector is well capitalized, liquid, and profitable (Text Figure). NPL-to-total loans ratios

<sup>8</sup> Currently, Fiji has a 'conventional peg' exchange rate regime pegged to a weighted basket of five currencies: the USD, EUR, JPY, AUD, and NZD.

<sup>9</sup> At the request of the authorities, staff presented a technical note on the framework for the considerations to assess the suitability of Fiji's exchange rate regime during the November 2023 staff visit.

have improved but remain elevated relative to pre-pandemic levels, and the adequacy for provisioning for NPLs merits continued attention (Text Figure). Some vulnerabilities remain from high NPLs at certain banks, as well as perhaps from recent margin compression amidst heightened competition. The authorities should continue to strengthen financial sector oversight, particularly for banks with high NPLs (including evaluating credit risk management, intensified on-site supervision, and ensuring adequate provisioning). With Fund support, the authorities are currently reviewing the Fiji Banking Act (expected to be completed by December 2024) and the Credit Union Act; however, the authorities still need to address remaining recommendations from the 2018 Financial Sector Stability Review (FSSR) (Annex V), including the review of the RBF Act (plans are expected by mid-2025) and the expansion of RBF's supervision remit to cover non-bank financial institutions (NBFIs), such as the Housing Authority.



**25. Recent improvements to the financial infrastructure should further enhance financial inclusion and efficiency of the financial sector.** The RBF recently implemented an Automated Clearing House, which helps to improve efficiency of the payment system and reduce transaction costs. In addition, the authorities are currently developing a national FinTech Strategy to be completed by end-2024. The RBF should prioritize plans for a National digital ID and e-KYC facility, to facilitate financial access for underserved groups. The authorities should also pursue additional measures to improve financial inclusion, including reviewing the Agent Banking Policy and the Fair Reporting of Credit Act 2016.

**26. Fiji should continue to address the remaining weaknesses in its anti-money laundering and countering-financing of terrorism (AML/CFT) framework.** Fiji issued an e-KYC Guideline in September 2023 and has joined the Global Forum on Transparency and Exchange of Information for Tax Purposes to facilitate its removal from the EU's list of non-cooperative tax jurisdictions<sup>10</sup>. However, Fiji still needs to address certain AML/CFT deficiencies relating to entity transparency, beneficial ownership, and risk-based supervision of the financial sector. The authorities are reviewing

<sup>10</sup> Fiji would also need to join the Inclusive Framework and implement the Base Erosion Profit Shifting minimum standard.

relevant legislation to address these deficiencies, including with assistance from Asia/Pacific Group on Money Laundering for the Non-Profit Organizations sector. Fiji should ensure that legal changes are followed by measures to ensure their effective implementation in practice. In relation to virtual assets, the legal framework should be updated to ensure compliance with the new international AML/CFT standards relating to Virtual Asset Service Providers.

### **Authorities' Views**

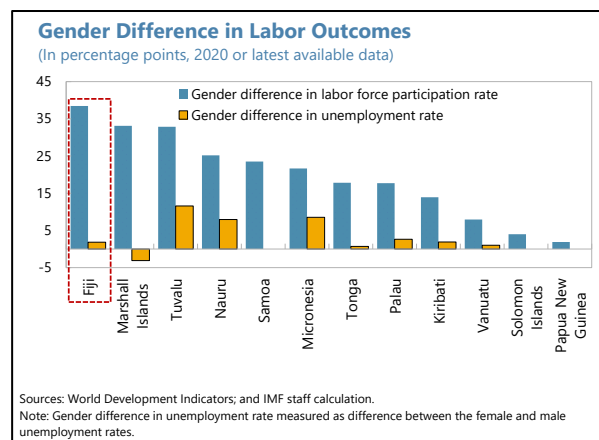
**27. The authorities agreed to continue close supervision and monitoring of the financial sector, particularly of banks with high NPLs.** The RBF will continue to closely supervise institutions with higher-than-normal NPLs, including follow-up onsite examinations. The RBF will also closely monitor banks' application of credit underwriting standards, given the historically low margins and high levels of liquidity (which could promote imprudent risk-taking).

## **D. Structural Reforms: Addressing Impediments to Growth and Unlocking Potential**

**28. The authorities are pursuing ambitious growth-enhancing reforms.** Most importantly, the authorities are developing a National Development Plan (NDP) to be issued with the budget in June. The three-year/five-year/20-year plan will have a near-term focus on improving public service delivery and addressing legal and regulatory bottlenecks to private investment. The authorities have also established a multi-stakeholder Growth Reset Committee to tackle immediate impediments to growth from immigration processes, electricity sector, investment regulations, and land planning. Other efforts underway to cut red tape and boost business activity include: developing a centralized digital portal for new business onboarding to reduce the time to start a business from 71 days currently to 14 days; developing a National Single Window System for international trade; and setting up a Farm to Fork initiative to increase hotels' domestic sourcing.

**29. Given the public sector's capacity constraints, the growth strategy needs to be carefully prioritized with a focus on full operationalization to attain higher growth.** In particular, the NDP should focus on prioritizing and speeding up the implementation of reforms (including effective monitoring) and should be aligned with the MTFs and Public Sector Investment Program (PSIP). In addition, as the post-pandemic rebound runs its course, urgent action will be required to address immediate binding constraints to boost near-term growth, including immigration bottlenecks and red tape (including permitting) holding back already planned private investment projects. The key near- to medium-term reforms include:

- Addressing skilled labor shortages in affected sectors.** The authorities need to improve immigration procedures for priority sectors and expedite the approval process. In addition, strengthening technical training institutions, increasing industry-led training, and improving the quality of tertiary education would help narrow the workplace skills gap and mitigate the loss of human capital due to emigration. Facilitating female labor force participation, including by promoting affordable childcare services and flexible working arrangements, could enhance labor supply (Text Figure).



- Effectively cutting red tape.** Drawing on lessons from the shortcomings of the previous Single Window System, the upcoming centralized digital onboarding system for new businesses and foreign investors should ensure a process-driven reform with buy-in from all agencies. It is crucial to streamline the large number of time-consuming duplicate approval and due-diligence processes across agencies, including preferably for taxation and immigration.
- Addressing bottlenecks in utility services.** The authorities need to improve the electricity connection process, urgently identifying and addressing the causes for high cost and prolonged time. The authorities and Energy Fiji Limited (EFL) should also work to facilitate the installation of renewable energy by businesses. In the water sector, ongoing efforts and investments should intensify to improve access, reduce water disruptions, and minimize waste by upgrading infrastructure, particularly the pipe system.
- Enhancing tourism's contribution to inclusive growth.** Fiji's inclusive development could benefit more from tourism if it were more diversified geographically and better linked to the rest of the economy. These efforts will require improving infrastructure facilities across the country, tapping into human and natural resources across the economy (e.g., the World Bank-backed plan to expand tourism access on the second island of Vanua Levu). Increasing the domestic value-added in tourism, from related services and especially agriculture, will help foster employment and inclusive development.
- Diversifying the agriculture sector.** A gradual diversification in agriculture toward higher value-added products (and perhaps away from sugar) would yield higher incomes and faster agriculture development. Enhancing the economies of scale, improving agriculture logistics, and encouraging the growth of agro-processing are important to ensure consistent quality and supply.
- Enabling growth in IT and BPO sectors.** The rapid growth of the BPO sector provides scope for diversification and job creation, including for value-added services, if complemented by economies of scale, streamlined onboarding process for new BPOs, and additional climate-

resilient infrastructure, including high-speed internet. Plans for new satellite and cable broadband connections will support these rapidly developing sectors.

**30. The authorities are working to improve governance, which staff welcomed, considering significant vulnerabilities to corruption.** Efforts are underway to improve the quality, independence, and efficiency of the judicial system, and to formulate a national anti-corruption policy, which is a pressing priority. Further progress should be made to improve governance, increase transparency in the public sector through legislation, and align with international standards. It is essential to establish a stand-alone whistleblower law and pass the Code of Conduct Bill to establish an Accountability and Transparency Commission and enforce asset declaration for appointed and elected public sector officials and politically exposed persons.

**31. Climate change is a central challenge to Fiji’s inclusive development, and the authorities need to follow through on plans to intensify their responses.** The elaboration and implementation of plans to enhance climate resilience is one of the most challenging elements of Fiji’s development agenda. Economic vulnerability is aggravated by Fiji’s dependence on the marine-based “blue economy,” including tourism, which is highly vulnerable to climate change (Annex VII). The government has adopted various climate-related documents, including National Adaptation Plan 2018, Climate Change Act 2021, and Climate Finance Strategy 2022. However, a significant financing gap hampers implementation – the 2017 Climate Vulnerability Assessment identified the need for investment equivalent to 75 percent of 2024 GDP over 2017–2027 to strengthen Fiji’s resilience. The authorities recently launched additional initiatives to address climate financing challenges, including securing sovereign parametric insurance and issuing its first domestic blue bond.<sup>11</sup> To make the most of limited financing, they should strive to identify priority projects and investment needs more effectively, which the C-PIMA will help (above).

**32. Investment in renewable energy production should be accelerated to achieve Fiji’s national target.**<sup>12</sup> Increasing renewable energy sources will generate environmental benefits, make electricity access more resilient to natural disasters, and enhance macroeconomic resilience by reducing the reliance on imported fuel.<sup>13</sup> The government and EFL should continue to pursue options for renewable energy, including Independent Power Producers such as hotels from solar installation. The authorities could also consider raising environmental taxes (e.g., increasing excise on diesel and fuel oil to cover externalities) and introducing feebates for spending on climate investment, as recommended by recent FAD TA.<sup>14</sup>

<sup>11</sup> The government issued a 15-year bond of FJD15 million (US\$6.6 million) and a three-year bond of FJD 5 million (US\$2.2 million), focusing on coastal protection, aquaculture, sustainable towns, and solid waste management.

<sup>12</sup> Fiji has set a goal of 100 percent of electricity generation from renewable energy sources by 2036. Renewables (mostly hydropower) currently account for around 55 percent of electricity generation.

<sup>13</sup> Fuel accounts for around 20 percent of total merchandise imports, or 12 percent of GDP.

<sup>14</sup> The foregone revenues for under-taxation of diesel are estimated around 3 percent of GDP (*Review of Tax Policy and Expenditures, February 2024*).

**Authorities' Views**

**33. The authorities stressed that they are developing plans to boost inclusive growth.** The authorities highlighted initiatives under the new government and plans under the NDP to push forward reforms, attract private investment projects, and achieve 5 percent economic growth over the medium-term. The authorities also underlined their commitment to reinforce governance and transparency in the public sector. The authorities highlighted that they are setting up a taskforce to assess the incidence of unexplained wealth, especially from a tax compliance perspective. They also highlighted their broad consultative processes, including around 275 country-wide meetings on the NDP and the multi-stakeholder process to improve the ease of doing business (above).

**34. The authorities concurred on the vital importance of enhancing climate resilience but emphasized financing and capacity constraints.** They are currently exploring additional initiatives to better access financing, including accreditation of the Ministry of Finance to the Green Climate Fund and the Adaptation Fund. However, they underscored that a sizable financing gap remains, while noting that access to affordable climate finance is lagging across the Pacific region. Building on their Climate Finance Strategy, they are working with development and regional partners to further prioritize climate-related projects and expect to facilitate the implementation.

**CAPACITY BUILDING**

**35. Further improvements to capacity building and data quality could help guide policymaking.** Data are broadly adequate for surveillance (Informational Annex). Going forward, priority areas should be: improving the GFS compilation, public sector debt statistics, strengthening Public Financial Management, and improving Financial Sector Supervision; undertaking Macroeconomic Programming and Analysis, publishing quarterly national accounts; improving the quality of CPI and GDP data; and increasing the Fiji Bureau of Statistics' capacity. The authorities are reviewing how to strengthen the bureau, including through its budget.

**STAFF APPRAISAL**

**36. Fiji's economy has achieved a remarkable rebound while rebuilding resilience.** Tourism activity has surpassed pre-pandemic levels, keeping the tourism-led growth model intact, while inflation outside of the VAT hike remains well-contained. The financial sector and the external sector have remained largely resilient against the backdrop of large external shocks in the recent years. Post-pandemic, the fiscal stance has rightly moved towards gradual fiscal consolidation, with increasing focus on growth-enhancing policies.

**37. Maintaining this momentum will likely require continued strengthening of macroeconomic and structural reform policies.** Although strong tourist inflows continue to support growth, the near-term economic outlook has become more uncertain. Hotel capacity constraints, labor shortages, red tape for immigration and investment permitting, the slow pace of private investment projects, and under-execution of government spending would likely weigh on near-term growth in the absence of immediate policy action. Recognizing these priorities, the

government has been developing appropriate responses and is beginning to implement them. Successfully operationalizing these plans now poses the main near-term challenge.

**38. The authorities have achieved notable progress in boosting revenue and buttressing fiscal sustainability, although continuing gradual consolidation is needed to rebuild buffers.**

The substantial revenue measures in the FY2024 budget are commendable, helping narrow the deficit and reverse the public debt trajectory. The current fiscal stance is broadly appropriate. Nevertheless, going forward, debt indicators will improve only marginally without further measures; accordingly, continuing gradual fiscal consolidation is needed to rebuild fiscal space to respond to future shocks, even while the risk of debt distress is assessed as moderate. Additional revenue mobilization and expenditure rationalization measures would not only rebuild fiscal buffers but also generate room for new spending to support inclusion and growth priorities. In this context, improving implementation capacity and execution of public investment is critical to achieve a growth-friendly consolidation path. Further enhancing fiscal transparency, strengthening SOE oversight, and reinforcing the fiscal institutional framework can help enhance and protect fiscal sustainability.

**39. Monetary policy should gradually shift to a more neutral stance to help build policy space to respond to shocks.**

Although the RBF's twin objectives of price stability and reserve adequacy appear secure over the near term, pressures may emerge as the recovery runs its course and the negative output gap closes. Staff recommend a normalization of monetary policy, by reducing excess liquidity and raising policy rates, to put the RBF in a better position to manage any future inflationary or balance of payments pressures. Remaining pandemic-related CFMs should be reversed in the near term. In addition, current account exchange restrictions should be phased out in a sequenced manner, in line with obligations under Article VIII, Section 2(b) of the Fund's Articles of Agreement.

**40. While the financial sector remains generally sound, staff advise strengthening financial sector oversight particularly for banks with high NPLs.**

The RBF should continue to closely supervise and monitor the impact of high NPLs on individual banks' financial stability and follow up on recommendations to improve credit risk management at specific banks. The effects of compressed lending margins (amidst heightened competition) on banks' profitability warrants vigilance. Staff supports the continued effort to improve the financial supervision framework. Staff encourages authorities to implement remaining recommendations of the 2018 FSSR—particularly those related to corrective action, bank recovery, coordination with home authorities, and bank resolution.

**41. To improve medium-term growth potential, it is critical to adopt and operationalize a carefully prioritized growth strategy.**

The authorities rightly aim to increase growth beyond pre-pandemic levels to promote inclusion, resilience, and public debt sustainability. Reforms should aim to: enable diversification, both within and beyond the tourism sector; increase the domestic value-added in tourism; and improve infrastructure to promote agriculture and broader regional development. To mitigate the impact of emigration, it is imperative to enhance human capital formation (especially technical training and tertiary education) and improve immigration processes

for priority sectors to target skill shortages. Measures to promote female labor force participation could complement these efforts.

**42. Advancing Fiji’s climate plans can help enhance its resilience to climate shocks and safeguard economic stability.** Implementation of Fiji’s climate adaptation and mitigation plans will boost Fiji’s economic strength, by enhancing resilience to climate-related shocks, diversifying energy sources, and reducing volatile fuel imports. Given the significant financing and capacity constraints, proper prioritization is critical to accelerating the implementation.

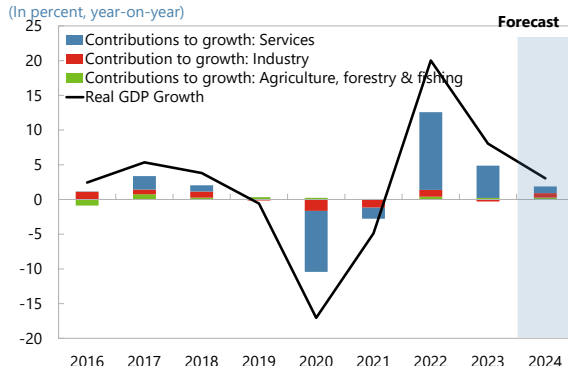
**43. It is recommended that the next Article IV Consultation take place on the standard 12-month consultation cycle.**



**Figure 1. Fiji: Recent Developments**

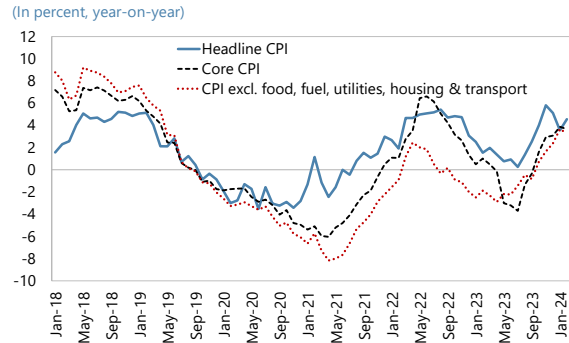
*GDP growth is stabilizing after a strong rebound in 2022-23*

**Real GDP Growth**



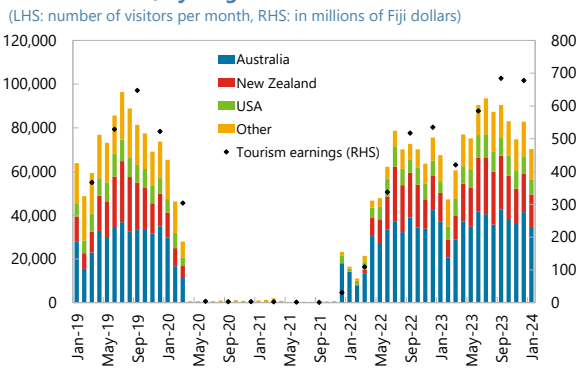
*Inflation has accelerated, largely owing to the VAT rate hike*

**Inflation**



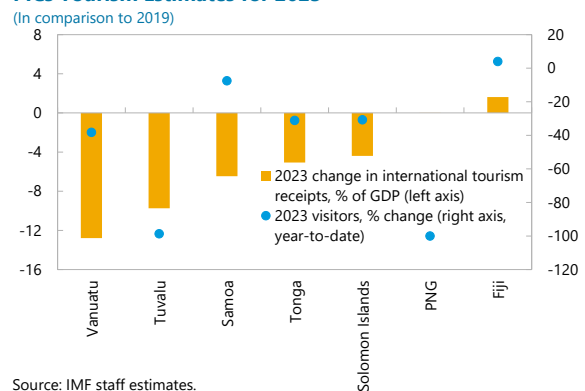
*With tourist arrivals from Australia, New Zealand, and the U.S. surpassing pre-pandemic levels*

**Visitor Arrivals, by Origin**



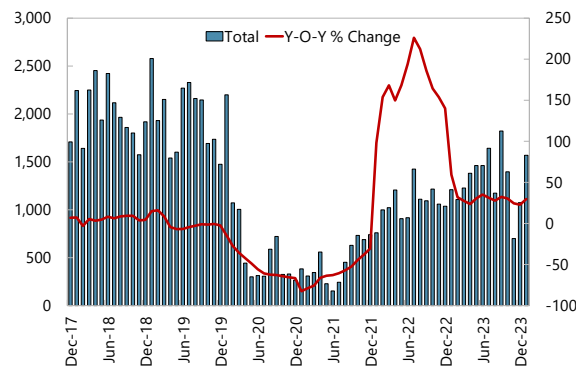
*...tourism recovery in Fiji has outperformed that in other Pacific Island Countries*

**PICs Tourism Estimates for 2023**



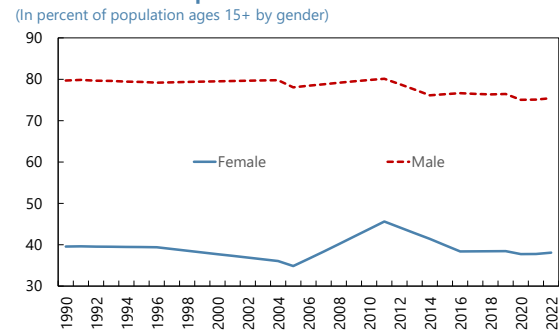
*The labor market is recovering, with skill shortages in certain sectors*

**Consolidated Job Ads Cumulative Growth**



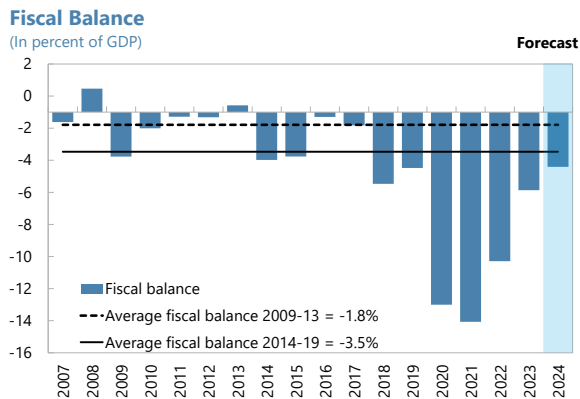
*...which, in part, could be addressed by increasing female labor force participation*

**Labor Force Participate Rate**



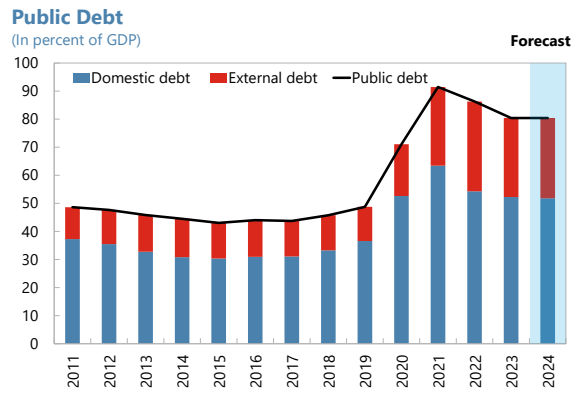
**Figure 2. Fiji: Fiscal Sector Indicators**

*Fiscal deficit continued to narrow*



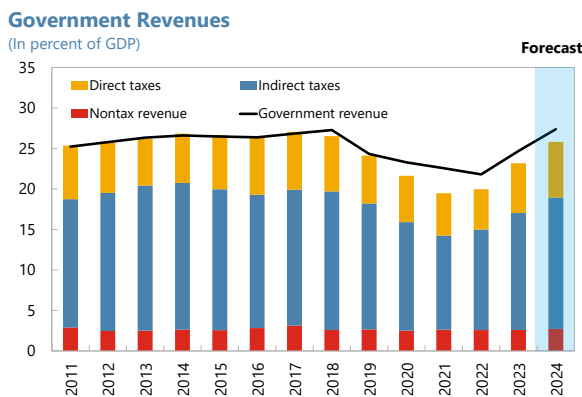
Sources: Fiji authorities, and IMF staff calculations.

*Public debt remains elevated*



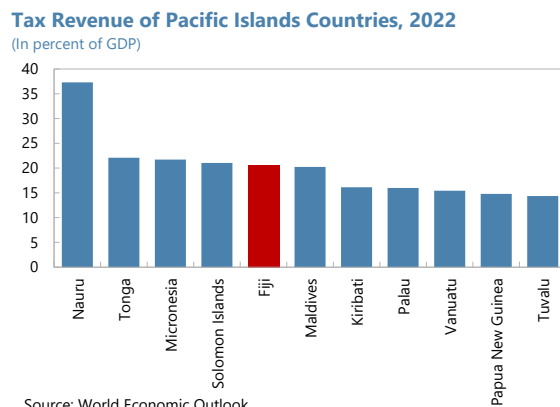
Sources: Fiji authorities and IMF staff calculations.

*Fiscal revenue is recovering supported by economic recovery and tax measures*

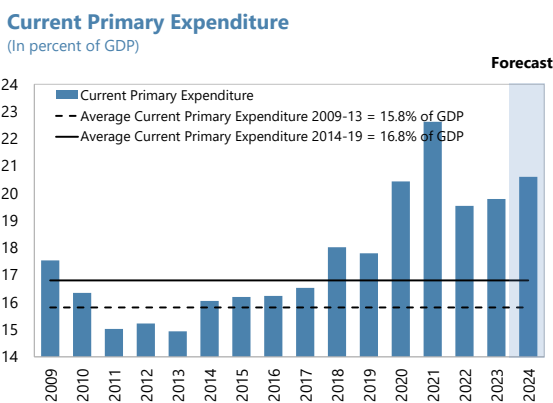


Sources: Fiji authorities, and IMF staff calculations.

*...and higher than in most PICs.*

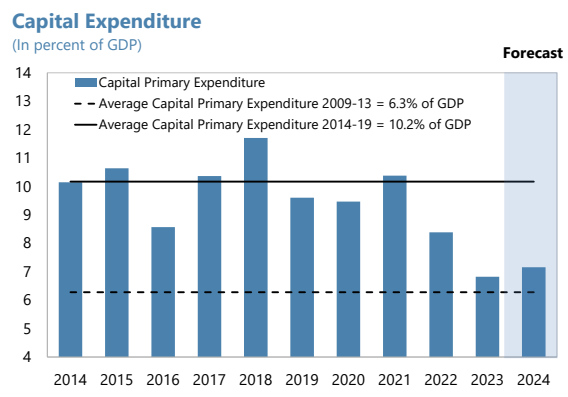


*Fiscal expenditure is also increasing*



Sources: MoE, and IMF staff calculations.

*...while capital expenditure is lower than past decade*



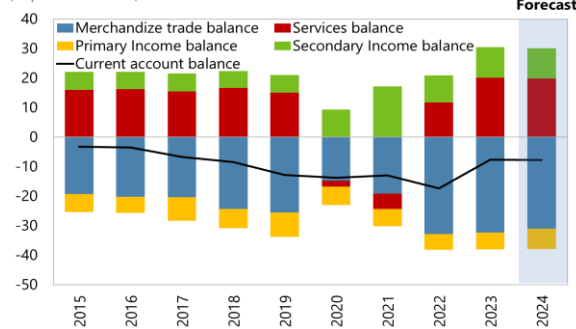
Sources: MoE, and IMF staff calculations.

**Figure 3. Fiji: External Sector Indicators**

*The current account deficit has begun to correct following the 2022 commodity price shock*

**Current Account Balance**

(In percent of GDP)

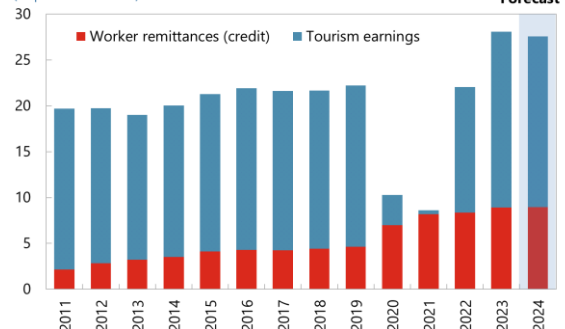


Sources: Fiji authorities, and IMF staff calculations.

*...with tourism earnings surpassing pre-pandemic levels and remittances remaining strong.*

**Tourism Earnings and Worker Remittances**

(In percent of GDP)

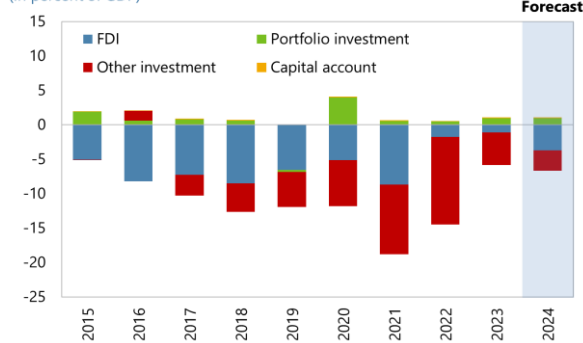


Sources: RBF and IMF staff calculations.

*Pandemic-related official financing has begun to moderate*

**Capital Account and Financial Account Components**

(In percent of GDP)

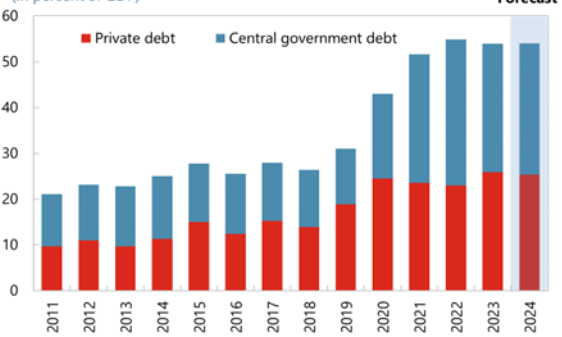


Sources: RBF and IMF staff calculations.

*...helping stabilize external debt following the surge in recent years.*

**External Debt**

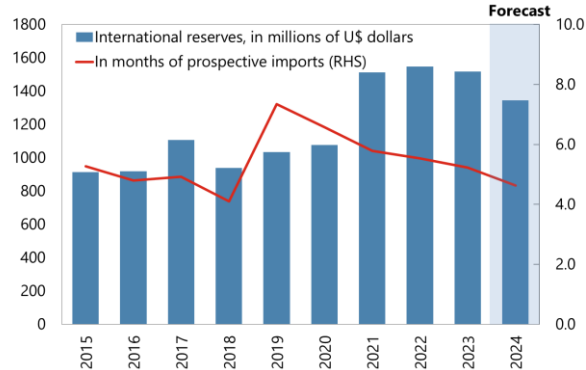
(In percent of GDP)



Sources: RBF and IMF staff calculations.

*FX reserve cover has begun to decline from the pandemic highs.*

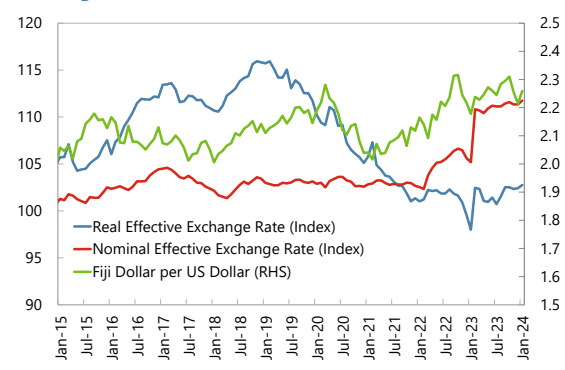
**FX Reserves**



Sources: RBF and IMF staff calculations.

*The REER has depreciated in the recent years due to relatively higher trading partners' inflation.*

**Exchange Rates**



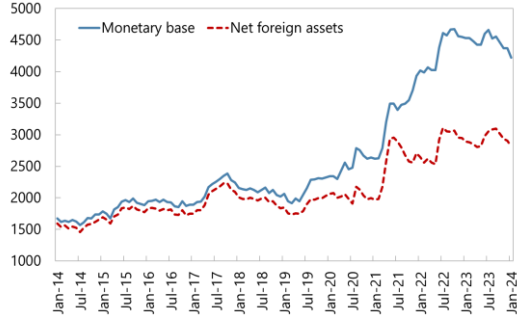
Sources: IMF INS database and IMF staff calculations.

**Figure 4. Fiji: Monetary and Financial Indicators**

*Monetary conditions remain accommodative...*

**Monetary Base and Net Foreign Assets**

(In millions of F\$)

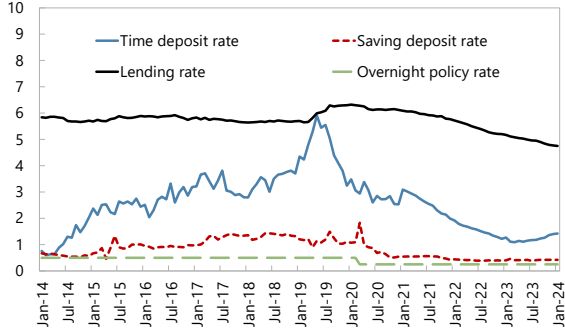


Source: Reserve Bank of Fiji.

*...and help keep interest rates at low levels*

**Interest Rates**

(In percent)

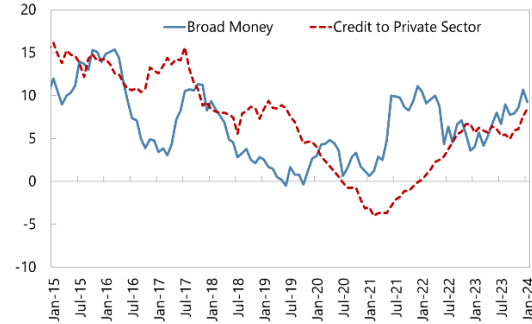


Source: Reserve Bank of Fiji.

*Credit to private sector is recovering*

**Credit to Private Sector and Broad Money**

(YoY percentage change)

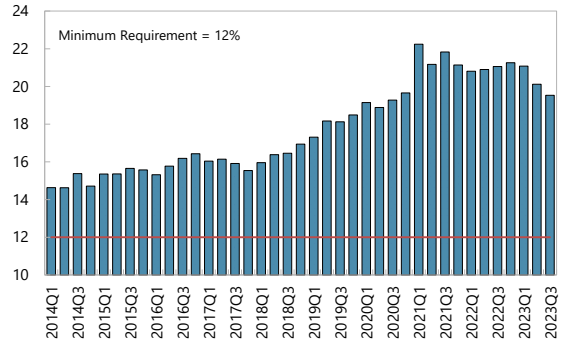


Source: Reserve Bank of Fiji.

*Banks are adequately capitalized*

**Commercial Banks' Capital**

(In percent of risk-weighted assets)

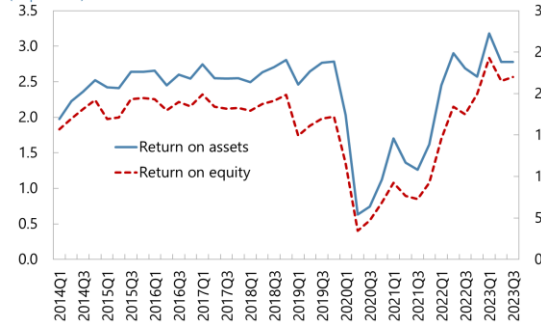


Source: IMF Financial Soundness Indicators.

*Banks profitability is also improving*

**Return on Assets and Equity**

(In percent)

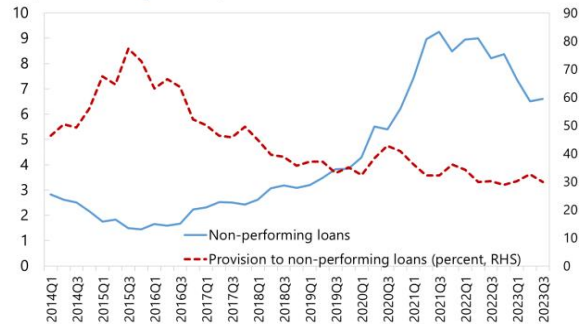


Sources: IMF Financial Soundness Indicators, Reserve Bank of Fiji.

*NPLs are declining with NPL coverage stabilized*

**Non-Performing Loans**

(In percent of total gross loans)



Source: IMF Financial Soundness Indicators.

Table 1. Fiji: Selected Economic Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.			Proj.			
<b>Output and prices (percent change)</b>									
Real GDP	-4.9	20.0	8.0	3.0	3.4	3.4	3.3	3.3	3.1
GDP deflator	-2.5	2.5	4.4	4.2	3.2	3.1	3.0	2.9	2.8
Consumer prices (average)	0.2	4.3	2.3	4.0	3.2	3.1	3.0	2.9	2.8
Consumer prices (end of period)	3.0	3.1	5.1	3.0	3.1	3.0	2.9	2.8	2.7
<b>Central government budget (percent of GDP)</b>									
Revenue and Grants	22.6	21.8	24.7	27.4	27.3	27.0	26.9	26.8	26.8
Expenditure	36.5	31.5	30.6	31.8	31.7	31.3	31.2	31.0	31.0
Overall balance	-14.0	-9.7	-5.9	-4.4	-4.4	-4.3	-4.3	-4.2	-4.1
Primary balance	-9.8	-6.0	-1.9	-0.4	-0.6	-0.6	-0.6	-0.5	-0.5
Central government debt	91.5	86.3	80.4	80.4	80.1	79.7	79.4	79.1	78.7
Central government external debt	28.0	32.0	28.1	28.6	28.6	28.5	28.3	28.2	27.9
<b>External sector (percent of GDP)</b>									
Current account balance	-13.0	-17.3	-7.6	-7.7	-7.7	-7.8	-7.8	-7.9	-7.9
Trade balance	-19.1	-32.8	-32.4	-31.0	-30.1	-29.2	-29.0	-28.7	-28.6
Services balance	-5.2	11.7	20.1	19.8	19.4	18.7	18.7	18.4	18.5
Primary Income balance	-5.8	-5.3	-5.7	-6.9	-7.2	-7.2	-7.3	-7.4	-7.5
Secondary Income balance	17.1	9.1	10.3	10.3	10.2	10.0	9.9	9.8	9.8
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (-= inflows)	-18.3	-14.0	-4.9	-5.7	-5.9	-6.6	-7.0	-7.6	-7.6
FDI	-8.7	-1.8	-1.1	-3.7	-4.9	-5.8	-6.4	-7.1	-7.2
Portfolio investment	0.6	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other investment	-10.1	-12.7	-4.7	-2.9	-2.0	-1.8	-1.6	-1.5	-1.4
Errors and omissions	6.0	5.1	4.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	-11.3	-2.1	0.6	2.0	1.8	1.1	0.7	0.3	0.2
Gross official reserves (in months of prospective imports)	5.8	5.5	5.2	4.6	4.1	3.7	3.4	3.2	...
<b>Money and credit (percent change)</b>									
Net domestic assets of depository corporations	2.8	5.8	12.8	11.3	11.2	...	...	...	...
Claims on private sector	-0.1	6.7	7.6	10.0	10.0	...	...	...	...
Broad money (M3)	11.1	3.6	10.7	7.8	7.4	...	...	...	...
Monetary base	48.8	15.9	-4.0	7.3	6.7	...	...	...	...
Central Bank Policy rate (end of period)	0.25	0.25	0.25	...	...	...	...	...	...
Commercial banks deposits rate (end of period)	0.5	0.4	0.4	...	...	...	...	...	...
Commercial banks lending rate (end of period)	6.1	5.2	4.8	...	...	...	...	...	...
<b>Memorandum items</b>									
Exchange rate, average (FJD/USD)	2.1	2.2	2.3	...	...	...	...	...	...
Real effective exchange rate, average	103.5	101.6	101.5	...	...	...	...	...	...
GDP at current market prices (in millions of Fiji dollars)	8,914	10,963	12,368	13,275	14,162	15,104	16,071	17,081	18,111
GDP at current market prices (in millions of U.S. dollars)	4,305	4,980	5,497	5,801	6,103	6,441	6,792	7,163	7,546
GDP per capita (in U.S. dollars)	4,750	5,462	5,993	6,287	6,575	6,898	7,230	7,579	7,937

Sources: RBF, Ministry of Finance, and IMF staff estimates and projections.

Table 2. Fiji: Balance of Payments, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.			Proj.			
(In millions of U.S. dollars)									
<b>Current account</b>	-560	-861	-417	-448	-472	-500	-528	-568	-594
Trade balance	-822	-1,635	-1,779	-1,796	-1,835	-1,883	-1,969	-2,056	-2,159
Exports, f.o.b.	888	1,053	1,067	1,112	1,175	1,237	1,271	1,335	1,391
Imports, f.o.b.	1,710	2,688	2,846	2,908	3,011	3,120	3,241	3,391	3,550
Services (net)	-225	584	1,106	1,150	1,184	1,204	1,267	1,317	1,394
Primary Income (net)	-250	-265	-312	-401	-442	-465	-496	-530	-565
Secondary Income (net)	738	455	568	599	621	644	670	701	736
Private transfers	518	432	496	519	546	576	608	643	681
<b>Capital account (net)</b>	3	3	3	4	4	4	4	4	5
<b>Financial account (net) (-=inflows)</b>	-786	-695	-267	-330	-359	-426	-476	-545	-573
FDI (net)	-375	-88	-62	-217	-299	-375	-437	-507	-543
Portfolio investment (net)	24	25	54	57	60	64	67	71	74
Other investment (net)	-435	-633	-260	-171	-120	-115	-106	-109	-105
Errors and omissions	260	255	231	0	0	0	0	0	0
<b>Overall balance</b>	490	91	85	-114	-109	-70	-49	-19	-16
<b>Financing</b>	-487	-104	31	114	109	70	49	19	16
Change in official reserve assets (-=increase)	-487	-104	31	114	109	70	49	19	16
(In percent of GDP)									
<b>Current account balance</b>	-13.0	-17.3	-7.6	-7.7	-7.7	-7.8	-7.8	-7.9	-7.9
Trade balance	-19.1	-32.8	-32.4	-31.0	-30.1	-29.2	-29.0	-28.7	-28.6
Exports	20.6	21.1	19.4	19.2	19.3	19.2	18.7	18.6	18.4
Imports	39.7	54.0	51.8	50.1	49.3	48.4	47.7	47.3	47.0
<b>Capital account balance</b>	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Financial account balance</b>	-18.3	-14.0	-4.9	-5.7	-5.9	-6.6	-7.0	-7.6	-7.6
(Annual percent growth)									
Tourism receipts	-88.4	4009.2	58.2	4.0	3.4	3.1	3.0	3.0	2.9
Workers' remittances (credits)	8.6	25.4	20.4	8.0	7.8	7.8	7.6	7.6	7.4
Imports of goods and services	7.4	65.0	11.9	3.6	4.0	4.6	3.7	5.0	4.5
<b>Memorandum items:</b>									
External debt (in percent of GDP) 1/	51.6	54.9	54.0	54.0	54.0	53.8	53.5	53.1	52.6
External central government debt (in percent of GDP)	28.0	32.0	28.1	28.6	28.6	28.5	28.3	28.2	27.9
Gross official reserves (in millions of U.S. dollars)	1,512	1,548	1,518	1,346	1,221	1,139	1,081	1,054	1,035
Gross official reserves (in months of prospective imports)	5.8	5.5	5.2	4.6	4.1	3.7	3.4	3.2	...
Nominal GDP (in millions of U.S. dollars)	4,305	4,980	5,497	5,801	6,103	6,441	6,792	7,163	7,546

Sources: RBF and IMF staff estimates.

1/ External Debt=Central Government External Debt+ External Private Debt.

Table 3a. Fiji: Central Government Operations, CY2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.			Proj.			
	(In millions of Fiji dollars)								
<b>Government Revenue</b>	<b>2,043</b>	<b>2,332</b>	<b>3,053</b>	<b>3,634</b>	<b>3,863</b>	<b>4,085</b>	<b>4,325</b>	<b>4,581</b>	<b>4,856</b>
Tax revenue	1,397	2,003	2,545	3,066	3,298	3,520	3,758	4,009	4,269
Direct taxes	443	546	758	914	970	1,044	1,122	1,204	1,285
Indirect taxes	954	1,457	1,787	2,152	2,329	2,476	2,636	2,805	2,984
Grants	411	47	188	208	187	168	151	136	128
Other nontax revenue	235	282	321	360	378	397	416	436	459
<b>Government Expenditure</b>	<b>3,297</b>	<b>3,460</b>	<b>3,779</b>	<b>4,219</b>	<b>4,487</b>	<b>4,735</b>	<b>5,009</b>	<b>5,300</b>	<b>5,607</b>
Primary expenditure	2,942	3,061	3,292	3,685	3,942	4,172	4,416	4,674	4,948
Current	2,017	2,142	2,448	2,735	2,883	3,044	3,215	3,398	3,594
Personnel	925	943	985	1,046	1,118	1,183	1,251	1,327	1,403
Transfers	774	803	953	1,114	1,175	1,251	1,322	1,394	1,480
Supplies and consumables	254	271	315	345	368	393	418	444	471
Other	63	125	195	230	221	217	224	233	240
Capital	925	919	844	950	1,059	1,128	1,201	1,276	1,354
Interest	355	399	487	534	545	563	593	626	659
<b>Overall balance</b>	<b>-1,254</b>	<b>-1,128</b>	<b>-726</b>	<b>-585</b>	<b>-623</b>	<b>-650</b>	<b>-684</b>	<b>-720</b>	<b>-751</b>
<b>Primary balance</b>	<b>-899</b>	<b>-729</b>	<b>-239</b>	<b>-51</b>	<b>-78</b>	<b>-87</b>	<b>-90</b>	<b>-94</b>	<b>-92</b>
<b>Financing</b>	1,254	1,128	726	585	623	650	684	720	751
Net change in public debt	1,319	1,307	487	729	671	690	721	753	752
Domestic	583	231	229	551	466	482	509	528	503
Foreign	736	1,076	258	178	205	208	212	225	250
Borrowing	774	1,180	380	361	407	438	450	463	480
Amortization	38	104	122	183	202	230	238	238	230
Privatizations	210	3	1	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
	(In percent of GDP)								
<b>Government Revenue</b>	<b>22.9</b>	<b>21.3</b>	<b>24.7</b>	<b>27.4</b>	<b>27.3</b>	<b>27.0</b>	<b>26.9</b>	<b>26.8</b>	<b>26.8</b>
Tax revenue	15.7	18.3	20.6	23.1	23.3	23.3	23.4	23.5	23.6
Direct taxes	5.0	5.0	6.1	6.9	6.8	6.9	7.0	7.0	7.1
Indirect taxes	10.7	13.3	14.4	16.2	16.4	16.4	16.4	16.4	16.5
Grants	4.6	0.4	1.5	1.6	1.3	1.1	0.9	0.8	0.7
Other nontax revenue	2.6	2.6	2.6	2.7	2.7	2.6	2.6	2.6	2.5
<b>Government Expenditure</b>	<b>37.0</b>	<b>31.6</b>	<b>30.6</b>	<b>31.8</b>	<b>31.7</b>	<b>31.3</b>	<b>31.2</b>	<b>31.0</b>	<b>31.0</b>
Primary expenditure	33.0	27.9	26.6	27.8	27.8	27.6	27.5	27.4	27.3
Current	22.6	19.5	19.8	20.6	20.4	20.2	20.0	19.9	19.8
Personnel	10.4	8.6	8.0	7.9	7.9	7.8	7.8	7.8	7.7
Transfers	8.7	7.3	7.7	8.4	8.3	8.3	8.2	8.2	8.2
Supplies and consumables	2.9	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Other	0.7	1.1	1.6	1.7	1.6	1.4	1.4	1.4	1.3
Capital	10.4	8.4	6.8	7.2	7.5	7.5	7.5	7.5	7.5
Interest	4.0	3.6	3.9	4.0	3.8	3.7	3.7	3.7	3.6
<b>Overall balance</b>	<b>-14.1</b>	<b>-10.3</b>	<b>-5.9</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.3</b>	<b>-4.3</b>	<b>-4.2</b>	<b>-4.1</b>
Primary balance	-10.1	-6.7	-1.9	-0.4	-0.6	-0.6	-0.6	-0.5	-0.5
<b>Financing</b>	14.1	10.3	5.9	4.4	4.4	4.3	4.3	4.2	4.1
Public debt	14.8	11.9	3.9	5.5	4.7	4.6	4.5	4.4	4.2
Domestic	6.5	2.1	1.9	4.1	3.3	3.2	3.2	3.1	2.8
Foreign	8.3	9.8	2.1	1.3	1.4	1.4	1.3	1.3	1.4
Borrowing	8.7	10.8	3.1	2.7	2.9	2.9	2.8	2.7	2.7
Amortization	0.4	1.0	1.0	1.4	1.4	1.5	1.5	1.4	1.3
Privatizations	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government debt	<b>91.5</b>	<b>86.3</b>	<b>80.4</b>	<b>80.4</b>	<b>80.1</b>	<b>79.7</b>	<b>79.4</b>	<b>79.1</b>	<b>78.7</b>
Domestic	63.4	54.3	52.3	51.8	51.5	51.2	51.1	50.9	50.8
External	28.0	32.0	28.1	28.6	28.6	28.5	28.3	28.2	27.9

Sources: Ministry of Finance and IMF staff estimates.

Table 3b. Fiji: Central Government Operations, FY2021–29

	FY 2020–21	FY 2021–22	FY2022-23	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
	Proj.								
	(In millions of Fiji dollars)								
<b>Revenue</b>	<b>1,905</b>	<b>2,160</b>	<b>2,711</b>	<b>3,533</b>	<b>3,775</b>	<b>3,987</b>	<b>4,222</b>	<b>4,470</b>	<b>4,735</b>
Tax revenue	1,385	1,663	2,246	2,964	3,209	3,423	3,656	3,901	4,160
Direct taxes	466	465	659	896	939	1,012	1,089	1,169	1,253
Indirect taxes	918	1,198	1,586	2,067	2,270	2,411	2,567	2,732	2,907
Grants	284	233	167	217	195	176	158	142	128
Other nontax revenue	236	264	298	353	371	389	408	427	447
<b>Expenditure</b>	<b>3,162</b>	<b>3,385</b>	<b>3,550</b>	<b>4,099</b>	<b>4,387</b>	<b>4,627</b>	<b>4,886</b>	<b>5,181</b>	<b>5,468</b>
Primary expenditure	2,799	3,014	3,094	3,570	3,847	4,075	4,308	4,566	4,825
Current	2,049	2,171	2,285	2,676	2,817	2,976	3,138	3,322	3,505
Personnel	929	930	964	1,014	1,090	1,158	1,217	1,297	1,368
Transfers	804	903	853	1,093	1,144	1,220	1,295	1,360	1,443
Supplies and consumables	255	252	300	335	358	382	407	433	459
Other	62	86	168	234	225	216	219	232	234
Capital	750	843	809	893	1,030	1,099	1,170	1,244	1,320
Interest	363	370	456	529	540	552	579	614	643
<b>Overall balance</b>	<b>-1,257</b>	<b>-1,225</b>	<b>-840</b>	<b>-566</b>	<b>-612</b>	<b>-639</b>	<b>-665</b>	<b>-710</b>	<b>-733</b>
<b>Primary balance</b>	<b>-895</b>	<b>-855</b>	<b>-383</b>	<b>-37</b>	<b>-72</b>	<b>-88</b>	<b>-86</b>	<b>-96</b>	<b>-90</b>
<b>Financing</b>	1,257	1,225	840	566	612	639	665	710	733
Net change in public debt	978	1,223	838	566	612	639	665	710	733
Domestic	191	304	509	408	406	436	450	502	485
Foreign	787	919	329	158	206	203	215	208	248
Borrowing	1,248	982	408	340	390	430	450	450	480
Amortization	461	63	79	182	184	227	235	242	232
Privatizations	210	2	1	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
	(In percent of GDP)								
<b>Government Revenue</b>	<b>20.7</b>	<b>21.4</b>	<b>23.0</b>	<b>27.4</b>	<b>27.4</b>	<b>27.1</b>	<b>26.9</b>	<b>26.8</b>	<b>26.8</b>
Tax revenue	15.0	16.4	19.1	23.0	23.3	23.3	23.3	23.4	23.5
Direct taxes	5.1	4.6	5.6	6.9	6.8	6.9	6.9	7.0	7.1
Indirect taxes	10.0	11.9	13.5	16.0	16.5	16.4	16.4	16.4	16.4
Grants	3.1	2.3	1.4	1.7	1.4	1.2	1.0	0.9	0.7
Other nontax revenue	2.6	2.6	2.5	2.7	2.7	2.6	2.6	2.6	2.5
<b>Government Expenditure</b>	<b>34.3</b>	<b>33.5</b>	<b>30.1</b>	<b>31.8</b>	<b>31.8</b>	<b>31.4</b>	<b>31.2</b>	<b>31.1</b>	<b>30.9</b>
Primary expenditure	30.4	29.8	26.3	27.7	27.9	27.7	27.5	27.4	27.3
Current	22.3	21.5	19.4	20.8	20.4	20.2	20.0	19.9	19.8
Personnel	10.1	9.2	8.2	7.9	7.9	7.9	7.8	7.8	7.7
Transfers	8.7	8.9	7.2	8.5	8.3	8.3	8.3	8.2	8.2
Supplies and consumables	2.8	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Other	0.7	0.9	1.4	1.8	1.6	1.5	1.4	1.4	1.3
Capital	8.1	8.3	6.9	6.9	7.5	7.5	7.5	7.5	7.5
Interest	3.9	3.7	3.9	4.1	3.9	3.8	3.7	3.7	3.6
<b>Overall balance</b>	<b>-13.7</b>	<b>-12.1</b>	<b>-7.1</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.3</b>	<b>-4.2</b>	<b>-4.3</b>	<b>-4.1</b>
<b>Primary balance</b>	<b>-9.7</b>	<b>-8.5</b>	<b>-3.3</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.5</b>
<b>Financing</b>	13.7	12.1	7.1	4.4	4.4	4.3	4.2	4.3	4.1
Public debt	11.4	12.1	7.1	4.4	4.4	4.3	4.2	4.3	4.1
Domestic	2.1	3.0	4.3	3.2	2.9	3.0	2.9	3.0	2.7
Foreign	8.6	9.1	2.8	1.2	1.5	1.4	1.4	1.2	1.4
Borrowing	13.6	9.7	3.5	2.6	2.8	2.9	2.9	2.7	2.7
Amortization	5.0	0.6	0.7	1.4	1.3	1.5	1.5	1.5	1.3
Privatizations	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government debt	<b>83.3</b>	<b>91.0</b>	<b>82.7</b>	<b>81.1</b>	<b>80.6</b>	<b>80.2</b>	<b>79.8</b>	<b>79.5</b>	<b>79.1</b>
Domestic	56.9	57.1	52.4	51.0	50.6	50.4	50.2	50.3	50.1
External	26.3	34.0	30.4	30.1	30.0	29.8	29.6	29.3	29.0

Sources: Ministry of Economy and IMF staff estimates.



Table 4. Fiji: Monetary Survey, 2020–26

	2020	2021	2022	2023	2024	2025	2026
					Proj.	Proj.	Proj.
(in millions of Fiji dollars; end of period)							
<b>Reserve Bank of Fiji</b>							
Net foreign assets	1,994	2,707	2,946	2,903	2,643	2,389	2,224
Net domestic assets	647	1,223	1,576	1,469	2,049	2,617	3,114
Net claims on central government	347	620	652	670	714	758	806
Claims on other depository corporations	352	638	976	844	966	1,090	1,223
Other items, net	(52)	(35)	(52)	(44)	370	769	1,086
Monetary base	2,640	3,930	4,552	4,372	4,692	5,006	5,339
Currency in Circulation	932	992	1,045	1,070	1,149	1,225	1,307
Liabilities to other depository corporations	1,708	2,938	3,507	3,302	3,543	3,780	4,032
<b>Depository corporations</b>							
Net foreign assets	2,048	2,831	2,987	3,040	2,790	2,546	2,392
Net domestic assets	6,676	6,861	7,256	8,188	9,190	10,326	11,437
Net claims on central government	216	486	405	536	493	551	561
Claims on other sectors	8,520	8,588	9,139	9,895	10,389	10,908	11,454
in which, claims on private sector	8,062	8,054	8,594	9,248	10,172	11,189	12,308
Other items	(2,061)	(2,213)	(2,288)	(2,243)	(1,692)	(1,133)	(578)
Broad money	8,724	9,692	10,043	11,115	11,980	12,872	13,829
Currency outside depository corporations	701	762	790	791	849	906	966
Transferable deposits	4,854	6,066	6,608	7,541	8,144	8,780	9,464
Other deposits	3,052	2,763	2,577	2,737	2,938	3,134	3,342
Securities other than shares	117	99	68	46	49	53	56
<b>Monetary Survey</b>							
Monetary base	2,640	3,930	4,552	4,372	4,692	5,006	5,339
Narrow money (M1)	5,555	6,829	7,398	8,952	10,549	12,392	14,555
Quasi Money (M2)	7,906	8,830	9,185	10,166	10,958	11,773	12,649
Broad Money (M3)	8,724	9,692	10,043	11,115	11,980	12,872	13,829
(in percent, unless otherwise noted)							
<b>Memorandum items</b>							
Money velocity (GDP/M2)	1.2	1.0	1.2	1.2	1.2	1.2	1.2
Money multiplier (M2/Monetary base)	3.0	2.2	2.0	2.3	2.3	2.4	2.4
Claims on private sector to GDP	83.9	90.4	78.4	74.8	76.6	79.0	81.5
Commercial Banks Loan to Deposit Ratio	87.5	79.0	81.0	77.9	79.5	81.3	83.2
RBF Policy rate (end-period)	0.25	0.25	0.25	0.25	...	...	...
Interest rates on saving deposits (end of period) 1/	0.5	0.5	0.4	0.4	...	...	...
Interest rates on time deposits (end of period) 1/	2.5	3.1	1.2	1.4	...	...	...
Lending rates (end of period) 1/	6.1	6.1	5.2	4.8	...	...	...
Sources: Reserve Bank of Fiji, and IMF staff estimates.							
1/ Weighted average.							

**Table 5: Financial Soundness Indicators, 2018–23**

Ratios in percent	2018	2019	2020	2021	2022	2023 September
<b>Capital Adequacy</b>						
Risk Weighted CAR	16.9	18.5	19.7	21.1	21.3	19.5
Tier 1 Capital to RWA	13.8	15.5	16.6	17.8	17.2	15.4
Capital to Total Assets	9.9	11.0	11.4	10.8	10.2	9.5
<b>Asset Quality</b>						
NPLs to Total Loans	3.1	3.8	6.2	8.5	8.4	6.6
Provision to NPLs	35.7	35.1	40.9	36.1	28.8	29.8
Net NPLs to Capital	12.1	13.6	18.4	25.2	28.5	23.9
<b>Earnings and Profitability</b>						
Return on Assets	2.8	2.7	1.1	1.6	2.6	2.8
Return on Equity	24.1	20.6	8.2	11.6	19.9	22.0
Net Interest Income to Gross Income	58.0	58.5	66.5	70.4	66.0	63.5
<b>Liquidity</b>						
Liquid Assets to Total Assets	15.1	17.1	18.8	27.6	27.8	26.3
Liquid Assets to Total Deposits	22.9	25.6	26.8	40.1	41.6	38.4

Sources: Haver Analytics; and Reserve Bank of Fiji.

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

Sources of Risks	Relative Likelihood	Expected Impact	Recommended Policy Responses
<b>External Risks</b>			
<b>Abrupt global slowdown</b>	<b>Medium:</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	<b>High:</b> A global slowdown would weigh on Fiji's growth prospects via spillovers from key trading partners—the U.S., Australia, and New Zealand—including via lower tourist inflows.	Targeted fiscal support as needed to most-affected groups while watching public debt sustainability carefully. Seek official financing for any additional financing needs.
<b>Commodity price volatility</b>	<b>High:</b> A succession of supply disruptions (e.g., due to regional conflicts, OPEC+ decisions, and export restrictions) and demand fluctuations cause recurrent commodity price volatility, external and fiscal pressures, cross-border spillovers, and social and economic instability.	<b>High:</b> Given Fiji's high reliance on food and fuel imports, including in the tourism sector, higher global commodity prices would raise inflationary pressures and increase external sector imbalances.	Immediate yet gradual adjustment in the policy mix to deal with shocks of uncertain duration. Continue to increase reliance on renewable energy generation. domestic agriculture productivity.
<b>Domestic Risks</b>			
<b>Extreme climate events</b>	<b>Medium:</b> Fiji is highly vulnerable to natural disasters (tropical cyclones and flooding), with climate change effects on agriculture, marine ecosystems, and coastal settlements, posing risk of infrastructure damage, supply disruptions, and lower growth.	<b>Medium:</b> Major disasters could cause large damages (Cyclone Winston: 12 percent of GDP) and lead to high growth volatility (with the highest impact on poor, women, and youth) and higher public spending needs.	Invest in infrastructure resilience and climate adaptation needs, in line with the National Adaptation Plan. Enhance fiscal buffers to meet climate financing needs. Seek official grants or financing. Improve the targeting of social assistance programs.
<b>Social discontent</b>	<b>Medium:</b> Supply shocks, high inflation and lower real wages worsen inequality trigger social unrest, leading to slower growth, policy uncertainty, and market repricing.	<b>Medium:</b> Beyond economic disruption and adverse impact on investor confidence, political instability and polarization could complicate policy choices, including populist pressures.	Well-targeted social transfer system for most vulnerable households. Measures to further improve governance, policy transparency, job creation, and quality of public services.
<b>Slow reform momentum</b>	<b>Medium:</b> Challenging business climate, high cost of doing business, capacity constraints, and labor shortages owing to slow pace of reform implementation.	<b>Medium:</b> Weak private investment and low human capital weigh on tourism-led growth and reduce the economy's long-term growth potential.	Measures to reduce red tape, improve access to low-cost and better-quality infrastructure, facilitate sector-specific immigration, improve technical training, and increase diversification.

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

## Annex II. External Sector Assessment

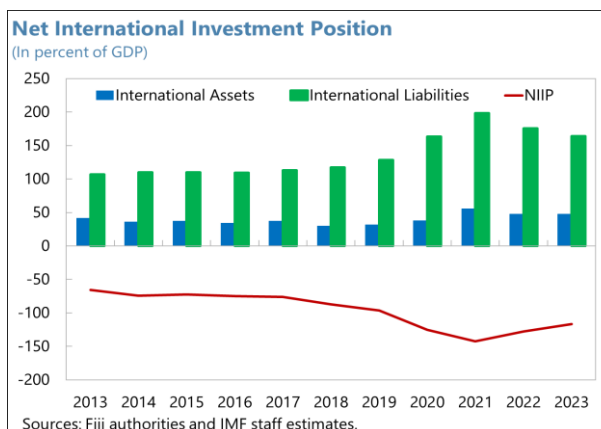
**Overall Assessment:** Fiji's external position in 2023 was weaker than the level implied by fundamentals and desirable policies settings, based on the results of the IMF's EBA-lite current account model<sup>1</sup>. The current account balance improved significantly in 2023 as the impact of the global commodity price shock and pandemic-related effects on the tourism sector reversed sharply. However, the underlying drivers of the long-standing current account imbalance remain intact, suggesting that the current account deficit will remain sizeable in the near-term. In addition, the projected decline in the FX reserve level and coverage going forward cast a shadow over the overall assessment, prompting the need for policies to maintain FX reserve adequacy.

**Potential Policy Responses:** Fiji's persistent current account deficits could be attributed in part to the imbalances of the public sector, reflected in sizeable fiscal deficits (as well as possibly also loose monetary policy). Policies to shift the underlying driver of current account deficits from the public sector toward private sector via continued fiscal consolidation and increase in private investment could have potential growth and productivity benefits over the medium-term. In addition, policies to facilitate diversification and improve tourism sector competitiveness could help reduce structural current account deficits. Further assessment is also required on the impact of monetary policy and real interest rates on private savings behavior and current account deficits.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Fiji's Net International Investment Position (NIIP) continued to improve in 2023, following a deterioration in 2020–21, moving to an estimated -116 percent of GDP from -128 percent of GDP in 2022. The improvement in the NIIP position in 2023 was driven by the recovery in GDP and a deceleration in the exceptional pandemic-related official loans, which had primarily caused a sharp increase in international liabilities in the recent years.

**Assessment.** The NIIP position is expected to stabilize in the near-term as the pandemic-related effects wane, but it will remain weaker relative to the pre-pandemic trend. On the positive side, the recent increase in the official international liabilities mostly reflects concessional and medium- to long-term loans, thus reducing vulnerabilities to the NIIP position. In addition, equity and investment fund shares-related FDI inflows account for the largest component, or nearly two-thirds, of the outstanding international liabilities, which is in large part due to reinvested earnings being a significant share of FDI inflows into Fiji (and consequently, a key driver of the primary income deficit and current account deficit). At the same



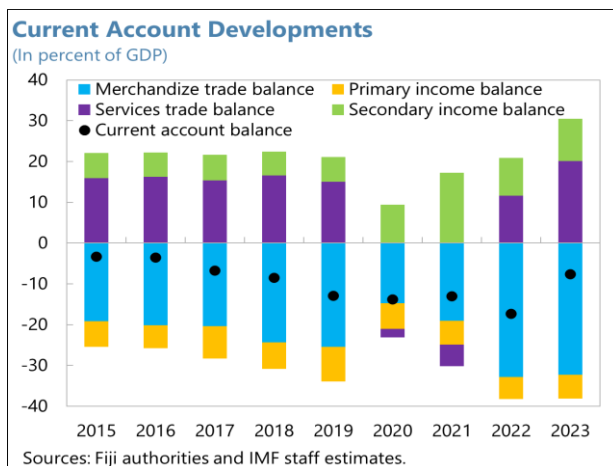
<sup>1</sup> The external sector assessment is based on staff's estimates.

time, however, international liabilities remain vulnerable to large exchange rate depreciations (see Annex III, Part B).

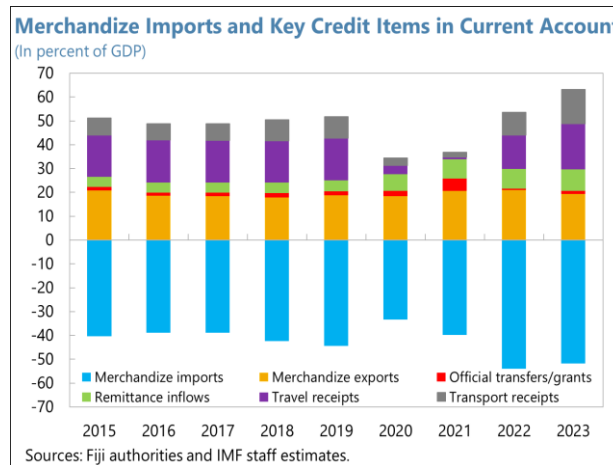
[2023 Est.] (% of GDP)	NIIIP: (-)116	Gross Assets: 48	Debt Assets: 45	Gross Liab.: 164	Debt Liab.: 59
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**Current Account**

**Background.** After deteriorating during 2020–22, the current account deficit narrowed markedly in 2023 to an estimated 7.6 percent of GDP. This improvement was driven by the moderation in global commodity prices from their 2022 highs, and a sharp rebound in tourism-driven travel and transport services receipts. In particular, the services trade surplus reached record levels. From the perspective of saving-investment analysis, the reduction in the saving-investment balance in the private sector accounts for most of the improvement in the current account in 2023 relative to 2022, although the improvement in government finances also contributed.



**Assessment.** In the EBA-lite current account (CA) model, adjustments are made to the 2023 current account balance to account for cyclical factors, temporary shocks, and the impact of frequent natural disasters to arrive at an ‘adjusted CA balance’ estimate. Adjustments for temporary shocks include accounting for the impact of the post-pandemic pent-up demand and global oil price shock on transport services receipts in the services trade balance. In particular, transport services receipts jumped to an estimated 14.3 percent of GDP in 2023 compared to the pre-pandemic trend of close to 9 percent of GDP. The impact of the oil price shock since early 2022 on transport receipts is estimated at 1.7 percent of GDP. Based on these adjustments, the EBA-lite model estimates the ‘adjusted CA balance’ for 2023 at -9.1 percent of GDP, against a model-determined ‘CA norm’ of -7.1 percent of GDP, implying a ‘CA gap’ of -2.0 percent of GDP. The assessment suggests that Fiji’s external position in 2023 was weaker than the level implied by fundamentals and desirable policies.



**Fiji: EBA-Lite Model Estimates for 2023**

	<b>CA model 1/ (in percent of GDP)</b>
<b>CA-Actual</b>	<b>-7.6</b>
Cyclical contributions (from model) (-)	-0.2
Additional temporary/statistical factors (-) 2/	1.7
Natural disasters and conflicts (-)	-0.01
<b>Adjusted CA</b>	<b>-9.1</b>
<b>CA Norm</b> (from model) 3/	<b>-7.1</b>
<b>Adjusted CA Norm</b>	<b>-7.1</b>
<b>CA Gap</b>	<b>-2.02</b>
o/w Relative policy gap	0.1
Elasticity	-0.3
<b>REER Gap</b> (in percent)	<b>5.9</b>

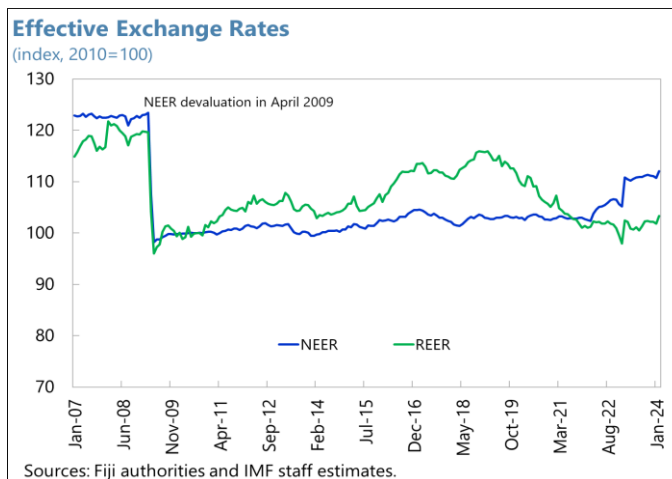
1/ Based on the EBA-lite 3.0 methodology.

2/ Additional adjustment to account for the impact of the global oil shock on transport services receipts.

3/ Cyclically adjusted, including multilateral consistency adjustments.

**Real Exchange Rate**

**Background.** Fiji has a ‘conventional peg’ exchange rate regime pegged to a weighted basket of currencies comprising of the USD, AUD, NZD, EUR, and JPY. With aggressive monetary tightening by major central banks since 2022 leading to sharp global cross-currency movements, the NEER continued to appreciate in 2023, up by 5.3 percent year-on-year. On the other hand, with inflation in Fiji remaining relatively lower than inflation in trading partners since 2020, the REER continued to depreciate in 2023, albeit at a slower pace.



Following the depreciation in the recent years, the REER is now close to the levels witnessed after the April 2009 devaluation.

**Assessment.** In the EBA-lite CA model, the estimated ‘CA gap’ and the elasticity of the trade balance to the REER imply that Fiji’s REER is overvalued by 5.9 percent.

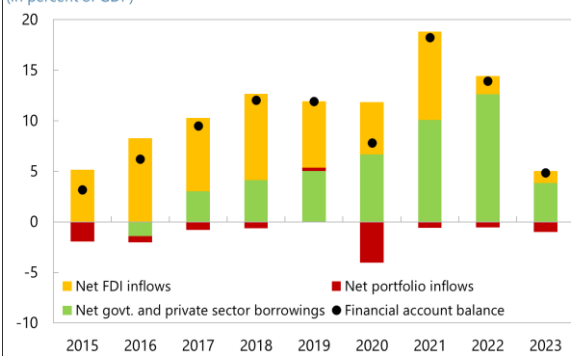
## Capital and Financial Accounts: Flows and Policy Measures

**Background.** Pandemic-related official financing slowed sharply in 2023, while FDI inflows remained low. FDI inflows, which accounted for around 7 percent of GDP and three-fourths of capital inflows into Fiji in the pre-pandemic years, have slowed markedly since 2022. The composition of the financial account may also have been in part affected by the relaxation of some Capital Flow Management measures (CFMs) on financial outflows back to their pre-pandemic levels in June 2023, including on offshore investment by corporate and financial firms. The CFMs on investment withdrawal and deposits into FJD accounts were also eased, although not back to the pre-pandemic levels.

**Assessment.** With pandemic-related official financing flows normalizing, the outlook for the financial account surplus in the near-term depends on reform measures to improve the investment climate and revive FDI inflows. Some easing of exchange restrictions on profit repatriation starting June 2023 is expected to increase re-invested earnings-related FDI inflows going forward.

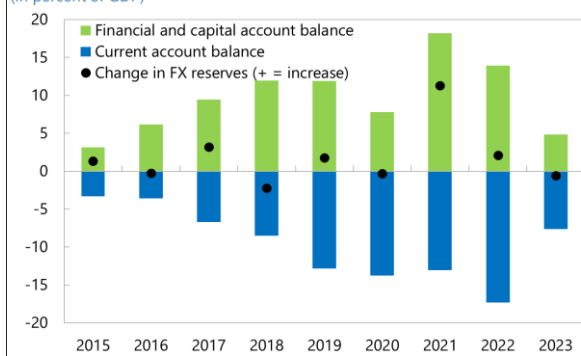
**Financial Account Developments**

(In percent of GDP)



**Balance of Payments Developments**

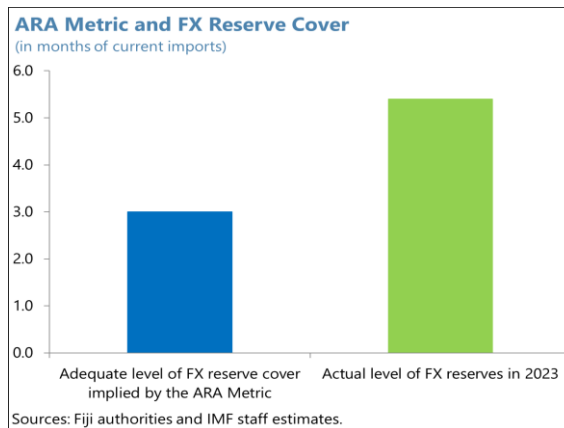
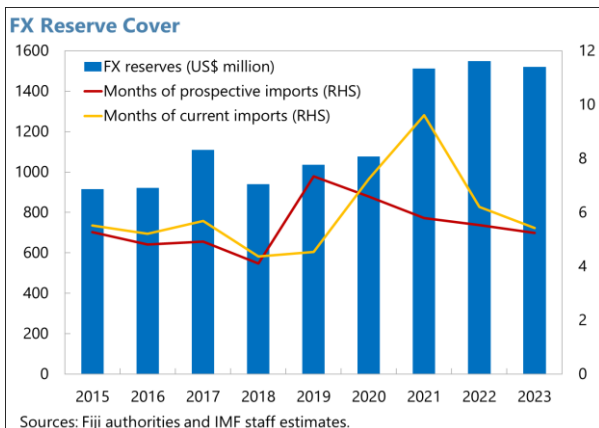
(In percent of GDP)



### FX Intervention and Reserves Level

**Background.** After increasing markedly during 2021–22 and reaching a record high of US\$1,548 million in 2022, FX reserves declined slightly in 2023 to US\$1,518 million (27.2 percent of GDP). As a result, the FX reserve cover began to normalize from the pandemic highs, but it remained adequate at 5.4 months of current imports and 5.2 months of prospective imports. FX reserves stood at 243 percent of short-term external debt in 2023.

**Assessment.** The Assessing Reserve Adequacy (ARA) metric for small state economies, with fixed exchange rates and 50 percent probability of a large shock, is based on a cost-benefit analysis of holding FX reserves. Based on this metric, the adequate level of FX reserves for Fiji is estimated to be 3.0 months of current imports. In 2023, Fiji’s FX reserves remained above the adequate levels implied by the ARA metric. However, if Fiji’s high vulnerability to natural disasters is incorporated in the ARA metric by raising the probability of a large shock to 75 percent, the adequate level of FX reserves is estimated to be 4.9 months of current imports.





## Annex III. Debt Sustainability Analyses

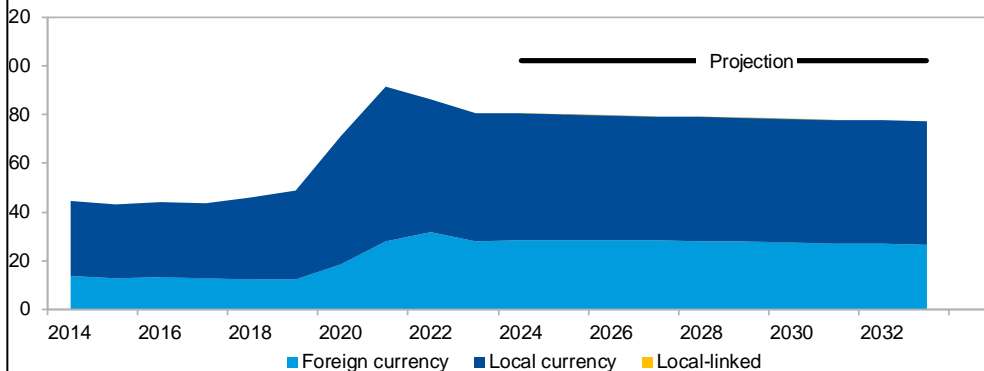
### A. Public Sector Debt Sustainability Analysis

Figure 1. Fiji: Risk of sovereign stress			
Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	Moderate	The overall risk of sovereign stress is moderate, reflecting a relatively consistent level of vulnerability in the near-term and moderate levels of vulnerability in the medium-, and long-term horizons.
<b>Near term 1/</b>			
<b>Medium term</b>	Moderate	Moderate	Medium-term risks are assessed as moderate. This reflects Fiji's debt path and composition of investor base.
Fanchart	High	...	
GFN	Low	...	
Stress test	Cont. Liabty. FX rate Nat. Diast.	...	
<b>Long term</b>	...	Moderate	Long-term risks are moderate. While the debt path is expected to gradually decline, risks including those from climate change feed into debt dynamics.
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	
<b>Debt stabilization in the baseline</b>			Yes
<b>DSA summary assessment</b>			
<p>Commentary: Risks of sovereign stress are moderate. This assessment is based on a baseline scenario that envisages improvements in the primary balance because of continued economic recovery and the revenue-enhancing measures in FY2024 Budget. As illustrated by the large width of the debt fanchart, Fiji remains vulnerable to large macroeconomic shocks, including those related to natural disasters and contingent liabilities. Over the longer run, Fiji should continue with reforms to tackle risks arising from climate change. However, the long time horizon at which these risks would materialize and the authorities' planned measures will help contain risks.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Figure 2. Fiji: Debt Coverage and Disclosures

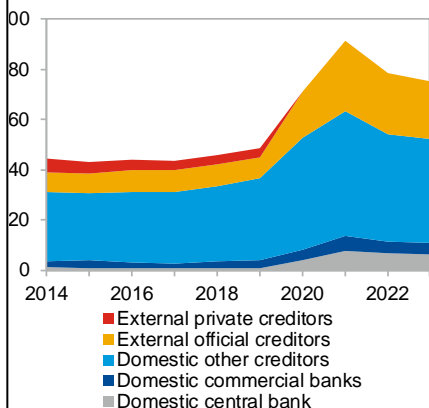
Figure 2. Fiji: Debt Coverage and Disclosures										Comments				
<b>1. Debt coverage in the DSA: 1/</b>					CG	GG	NFPS	CPS	Other		Not applicable			
<b>1a. If central government, are non-central government entities insignificant?</b>										No				
<b>2. Subsectors included in the chosen coverage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

**Figure 3. Fiji: Public Debt Structure Indicators**  
Debt by Currency (Percent of GDP)



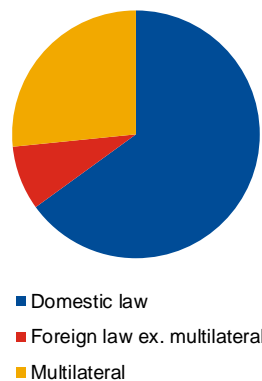
Note: The perimeter shown is central government.

**Public debt by holder (percent of GDP)**



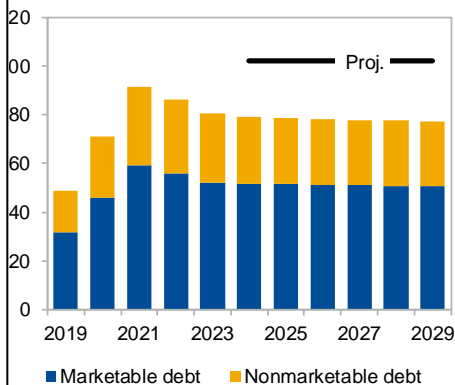
Note: The perimeter shown is general government.

**Public debt by governing law, 2023 (percent)**



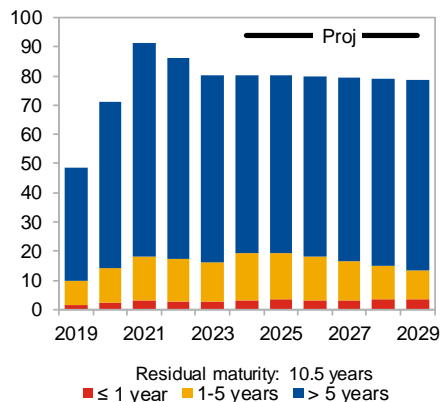
Note: The perimeter shown is general government.

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



Note: The perimeter shown is general government.

**Public debt by maturity (percent of GDP)**



Note: The perimeter shown is general government.

Commentary: The majority of public debt will remain local currency-denominated instruments, average maturities are expected to remain above 5 years. Blue bonds are included in the total FY2024 debt issuance and have similar terms as other domestic debt. Marketable instruments form the bulk of public debt and it is held by domestic creditors. As end of FY2023, Fiji's public debt is around two-thirds domestic. The domestic debt is concentrated on the Fiji National Provident Fund and insurance companies (FNPF: 65 percent; Insurance Companies: 14 percent; RBF:11 percent; Commercial Banks: 4 percent). The FNPF and insurance companies remain able to absorb most domestic financing with their strong financial position, while the absorption capacity of the rest of the private financial sector is unclear. Public external debt is held by almost entirely by official creditors. Average term to maturity of total debt at FY2023 was 10.5 years.

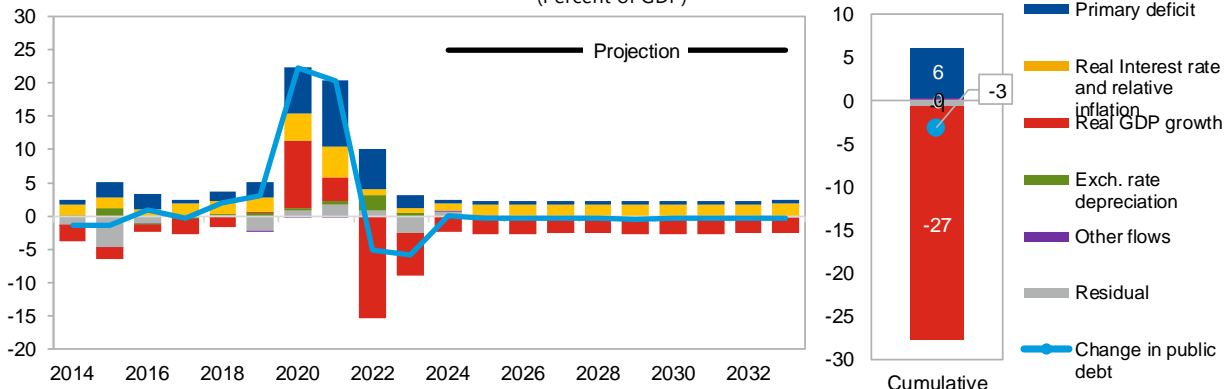
**Figure 4. Fiji: Baseline Scenario**

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Public debt	80.4	80.4	80.1	79.7	79.4	79.1	78.7	78.3	78.0	77.7	77.4	
Change in public debt	-5.9	0.0	-0.3	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3	-0.2	
Contribution of identified flows	-3.3	-0.6	-0.3	-0.3	-0.2	-0.2	-0.3	-0.1	-0.2	-0.1	0.0	
Primary deficit	1.9	0.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	
Noninterest revenues	24.7	27.4	27.3	27.0	26.9	26.8	26.8	26.8	26.9	26.9	26.9	
Noninterest expenditures	26.6	27.8	27.8	27.6	27.5	27.4	27.3	27.3	27.4	27.4	27.4	
Automatic debt dynamics	-5.2	-1.2	-0.9	-0.9	-0.8	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6	
Real interest rate and relative inflation	0.7	1.2	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	
Real interest rate	0.6	0.7	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	
Relative inflation	0.2	0.5	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	
Real growth rate	-6.4	-2.4	-2.6	-2.7	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4	-2.4	
Real exchange rate	0.5	-0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	
Other identified flows	0.0	0.2	0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	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	0.0	
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	0.0	0.2	0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	
Contribution of residual	-2.6	0.6	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	
Gross financing needs	8.6	7.5	7.4	7.7	7.1	7.3	7.6	7.4	6.4	6.0	6.1	
of which: debt service	6.6	7.1	6.9	7.1	6.5	6.8	7.1	6.9	5.9	5.5	5.5	
Local currency	4.8	4.7	4.5	4.7	4.2	4.6	5.1	5.0	4.1	3.8	4.0	
Foreign currency	1.8	2.4	2.4	2.4	2.3	2.2	2.0	1.9	1.8	1.7	1.5	
Memo:												
Real GDP growth (percent)	8.0	3.0	3.4	3.4	3.3	3.3	3.1	3.1	3.1	3.1	3.1	
Inflation (GDP deflator; percent)	4.4	4.2	3.2	3.1	3.0	2.9	2.8	2.8	2.8	2.8	2.8	
Nominal GDP growth (percent)	12.8	7.3	6.7	6.7	6.4	6.3	6.0	6.0	6.0	6.0	6.0	
Effective interest rate (percent)	5.1	5.1	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.9	5.0	

**Contribution to Change in Public Debt**

(Percent of GDP)



Commentary: Public debt to GDP ratios are expected to remain elevated, mainly reflecting high fiscal deficits.

Figure 5. Fiji: Medium-term risk assessment

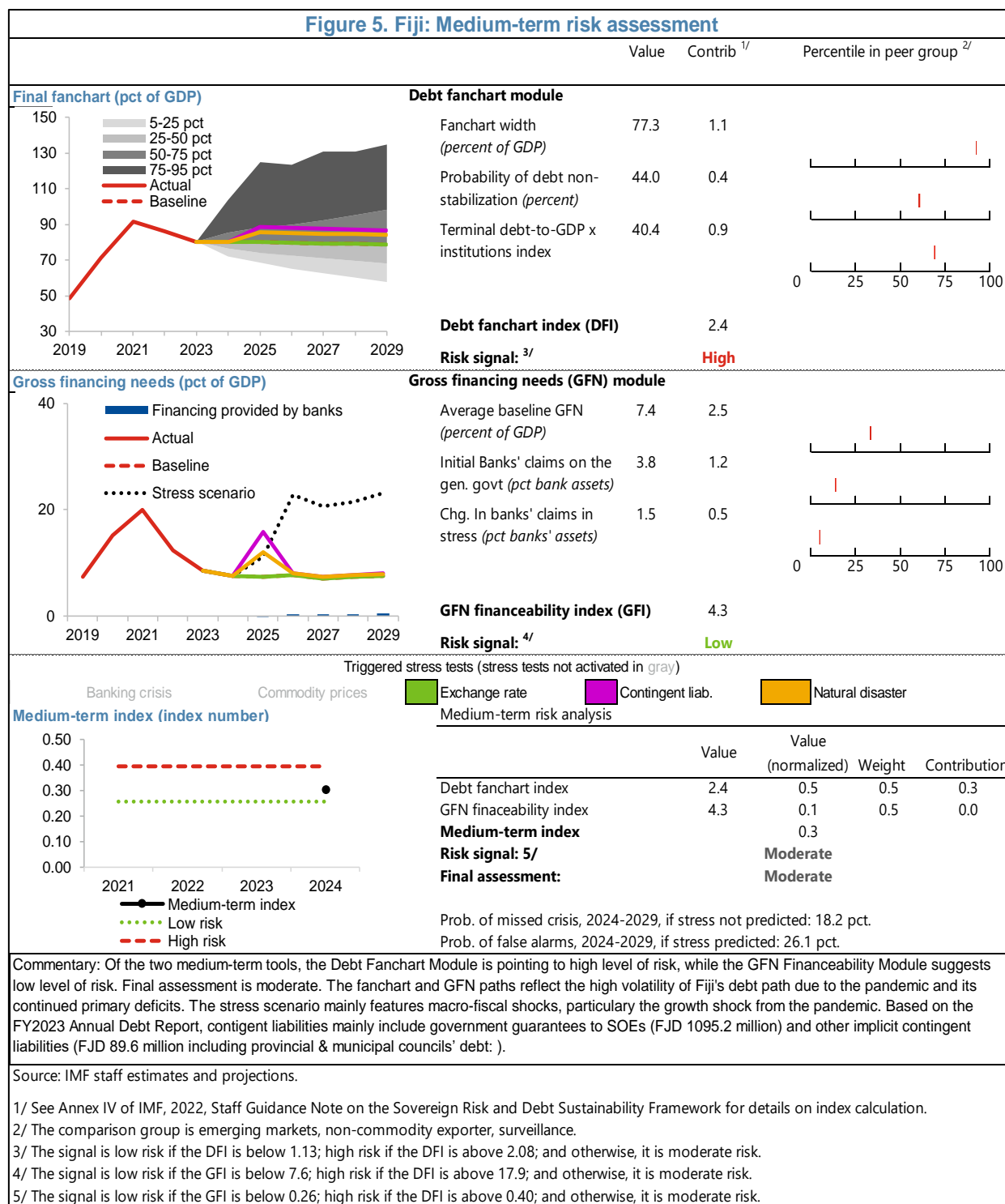
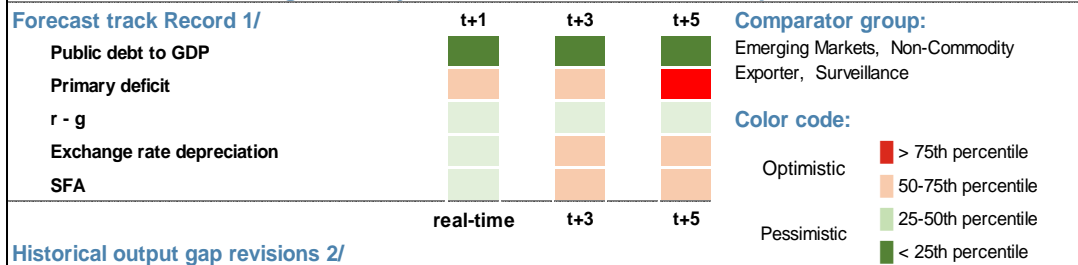
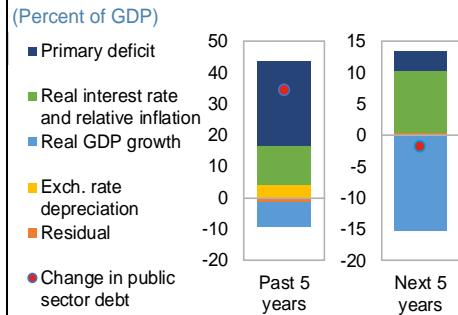


Figure 6. Fiji: Realism of Baseline Assumptions

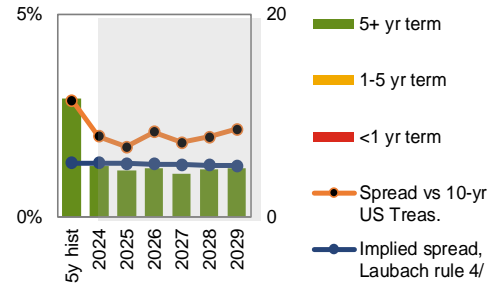


**Historical output gap revisions 2/**

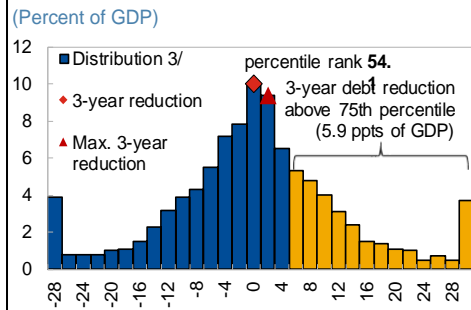
**Public Debt Creating Flows**



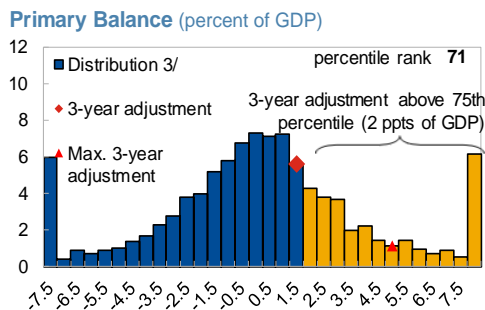
**Bond Issuances** (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



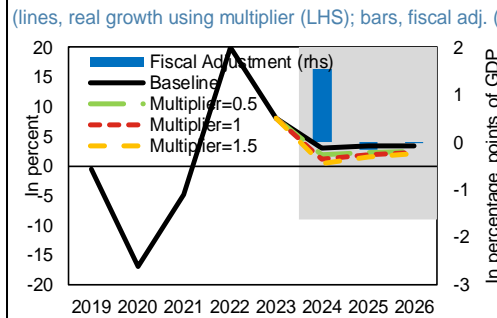
**3-Year Debt Reduction**



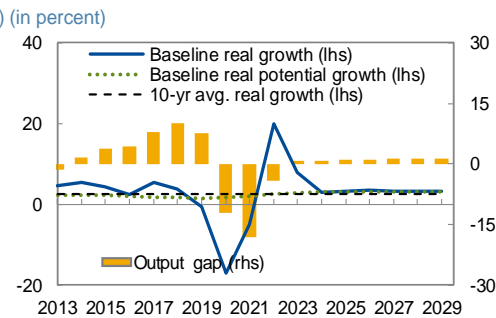
**3-Year Adjustment in Cyclically-Adjusted**



**Fiscal Adjustment and Possible Growth Paths**



**Real GDP Growth**



Commentary: Realism analysis points to some concerns: past forecast errors do not reveal any systematic biases and the projected debt reduction are well within norms. However, the projected fiscal adjustment are in the top 30 percent of cross-country database. The increase in debt-to-GDP ratios in the past five years mainly reflected high primary deficit while the decline in the next five years is mainly driven by positive real GDP growth. The bond issuance reflects the financing needs and the authorities' plan to continue to issue primarily long-term debt.

Source : IMF Staff.

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

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

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

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

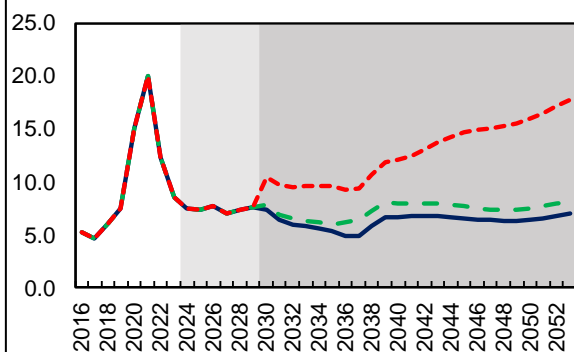
**Figure 7. Fiji: Triggered modules**

Large amortizations      Pensions      **Climate change: Adaptation**      Natural Resources  
 Health      Climate change: Mitigation

**Fiji: Long-term risk assessment: Large Amortization**

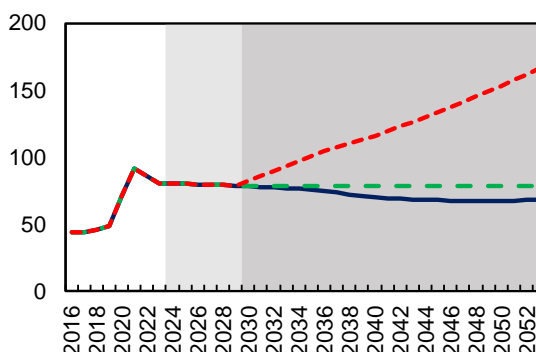
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Red
	Amortization-to-GDP ratio	Red
	Amortization	Red
Overall Risk Indication		Green

**GFN-to-GDP ratio**



Long run projection  
 Projection  
 Baseline with t+5  
 Baseline with t+5 and DSPB  
 Historical 10-year average

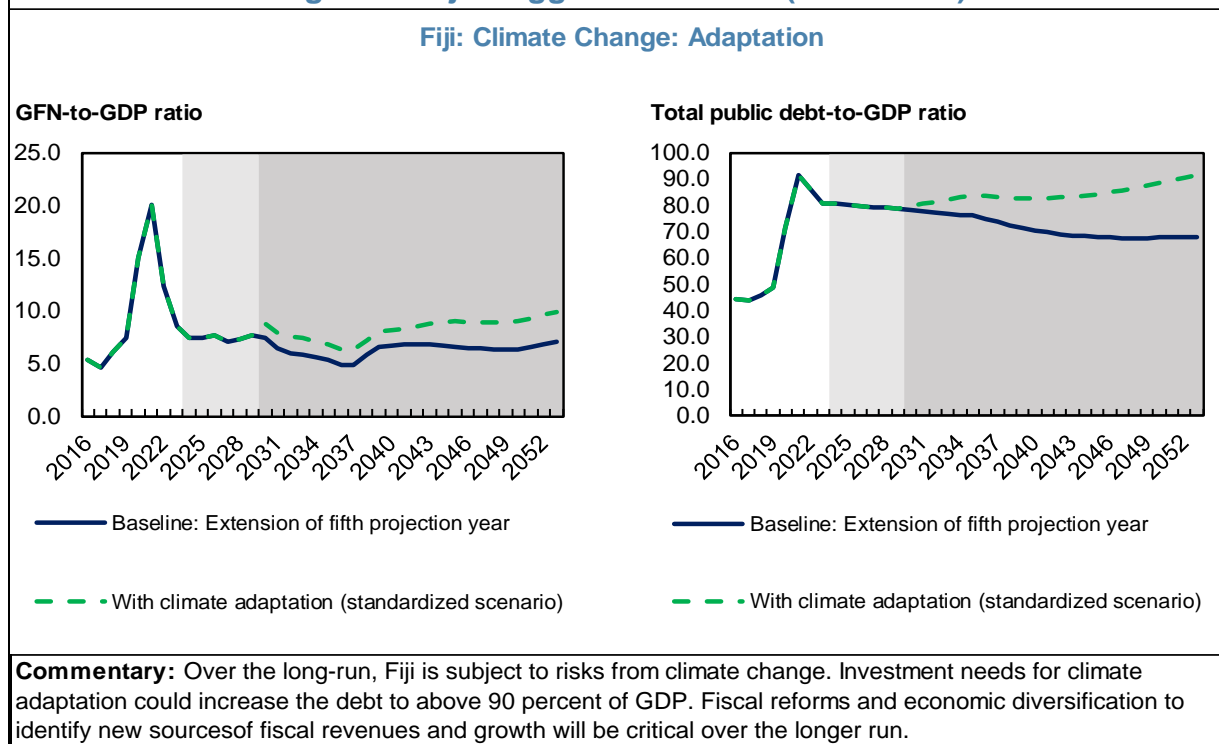
**Total public debt-to-GDP ratio**



Long run projection  
 Projection  
 Baseline with t+5  
 Baseline with t+5 and DSPB  
 Historical 10-year average

**Commentary:** The gross financing needs and public debt to GDP ratios are expected to remain stable over the long run under the baseline scenario. The high gross financing needs and public debt to GDP ratio under Historical 10-year average reflect the significant fiscal response during the pandemic.

**Figure 7. Fiji: Triggered Modules (concluded)**



## B. External Debt Sustainability Analysis

After witnessing a significant increase during the pandemic years, Fiji's external debt grew at a slower pace in 2023, edging down to an estimated 54.0 percent of GDP from a peak of 54.9 percent of GDP in 2022, as net government borrowings slowed from their pandemic highs. Under the baseline scenario, external debt is projected to continue declining somewhat over the medium-term to reach 52.6 percent of GDP by 2029. However, given Fiji's high vulnerability to domestic and external shocks, the external debt trajectory remains vulnerable to GDP growth, current account, and in particular, exchange rate shocks.

- 1. Background.** Fiji's external debt as a share of GDP began to stabilize in 2023, after nearly doubling between 2019-2022 owing to large pandemic-related official financing. External debt fell marginally from 54.9 percent of GDP in 2022 to an estimated 54.0 percent of GDP in 2023 as government's external borrowing eased (Table 1). After deteriorating during the pandemic, the external debt service-to-export revenues ratio improved during 2022-23, helped by the swift recovery in both merchandise exports and tourism-related receipts.
- 2. Assessment.** Under the baseline scenario, Fiji's external debt trajectory is projected to improve marginally over the medium-term from a peak of 54.9 percent of GDP in 2022 to about 52.6 percent of GDP by 2029. This is expected to be driven by the normalization of government's



external borrowings from its pandemic highs. However, external debt over the medium-term will remain well above the pre-pandemic average of 28 percent of GDP. Similarly, in light of increasing debt servicing, the external debt service-to-export revenues ratio is projected to remain somewhat higher over the medium-term relative to its pre-pandemic trend. Nevertheless, mitigating factors for external debt dynamics include its composition—with government external debt, which is almost entirely held by official creditors, accounting for 53 percent of total external debt—as well as its maturity structure—with medium- and long-term debt accounting for 79 percent of external debt as of 2023.

**3. Stress test scenarios:** Under the historical scenario—in which key macroeconomic variables are set equal to their 10-year historical average—Fiji’s external debt would rise significantly over the medium-term to reach 80 percent of GDP by 2029. The external debt trajectory is also vulnerable to macroeconomic shocks, which could be driven by external as well as domestic factors, including natural disasters. External debt is highly vulnerable to exchange rate depreciation shocks, which would lead to a permanent increase in the external debt-to-GDP ratio (Figure 8). The external debt trajectory is also vulnerable to GDP growth and current account shocks.

**Table 1. Fiji: External Debt Sustainability Framework, 2019–29**  
(In percent of GDP, unless otherwise indicated)

	Actual				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Baseline: External debt*</b>	<b>31.0</b>	<b>43.0</b>	<b>51.6</b>	<b>54.9</b>	<b>54.0</b>	<b>54.0</b>	<b>54.0</b>	<b>53.8</b>	<b>53.5</b>	<b>53.1</b>	<b>52.6</b>
Change in external debt	4.6	11.9	8.6	3.3	-0.9	0.1	0.0	-0.2	-0.3	-0.4	-0.5
Identified external debt-creating flows (4+8+9)	6.9	15.7	5.6	8.5	1.3	2.4	1.1	0.2	-0.3	-0.8	-0.9
Current account deficit, excluding interest payments	11.1	10.9	10.1	14.9	5.1	4.9	4.7	4.8	5.0	5.2	5.3
Deficit in balance of goods and services	10.5	16.7	24.3	21.1	12.2	11.1	10.7	10.5	10.3	10.3	10.1
Exports	48.5	27.8	27.3	48.1	56.4	55.1	53.9	52.8	51.4	50.7	50.0
Imports	59.0	44.5	51.6	69.2	68.7	66.3	64.6	63.3	61.7	61.0	60.1
Net non-debt creating capital inflows (negative)	-6.6	-5.1	-8.7	-1.8	-1.1	-3.7	-4.9	-5.8	-6.4	-7.1	-7.2
Automatic debt dynamics 1/	2.4	9.9	4.1	-4.6	-2.6	1.3	1.3	1.2	1.1	1.0	1.0
Contribution from nominal interest rate	1.7	2.8	2.9	2.4	2.5	2.8	3.1	2.9	2.8	2.7	2.6
Contribution from real GDP growth	0.2	6.5	2.2	-8.9	-4.0	-1.6	-1.7	-1.8	-1.7	-1.7	-1.6
Contribution from price and exchange rate changes 2/	0.5	0.6	-0.9	1.9	-1.2	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-2.3	-3.7	3.1	-5.2	-2.2	-2.4	-1.1	-0.4	0.0	0.4	0.4
<b>External debt-to-exports ratio (in percent)</b>	<b>64.0</b>	<b>154.4</b>	<b>189.3</b>	<b>114.2</b>	<b>95.7</b>	<b>98.0</b>	<b>100.2</b>	<b>102.0</b>	<b>104.1</b>	<b>104.8</b>	<b>105.2</b>
<b>External debt service-to-exports ratio (in percent)</b>	<b>20.4</b>	<b>54.5</b>	<b>54.8</b>	<b>23.7</b>	<b>24.2</b>	<b>31.2</b>	<b>30.5</b>	<b>31.1</b>	<b>31.6</b>	<b>31.4</b>	<b>31.2</b>
<b>Gross external financing needs (in billions of US dollars) 4/</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>
in percent of GDP	21.0	26.1	25.1	26.3	18.7	21.2	20.3	20.4	20.3	20.3	20.0
<b>Scenario with key variables at their historical averages 5/</b>						<b>56.2</b>	<b>59.4</b>	<b>63.7</b>	<b>68.6</b>	<b>74.2</b>	<b>80.0</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>											
Real GDP growth (in percent)	-0.6	-17.0	-4.9	20.0	8.0	3.0	3.4	3.4	3.3	3.3	3.1
GDP deflator in US dollars (change in percent)	-1.9	-1.9	2.1	-3.6	2.2	2.4	1.8	2.0	2.1	2.1	2.1
Nominal external interest rate (in percent)	6.3	7.3	6.5	5.4	5.1	5.5	6.0	5.7	5.5	5.3	5.2
Growth of exports (US dollar terms, in percent)	-1.0	-53.2	-4.9	104.0	29.5	3.2	2.9	3.3	2.7	4.0	3.9
Growth of imports (US dollar terms, in percent)	3.6	-38.5	12.5	55.2	9.5	1.9	2.5	3.5	2.8	4.2	3.8
Current account balance, excluding interest payments	-11.1	-10.9	-10.1	-14.9	-5.1	-4.9	-4.7	-4.8	-5.0	-5.2	-5.3
Net non-debt creating capital inflows	6.6	5.1	8.7	1.8	1.1	3.7	4.9	5.8	6.4	7.1	7.2

Sources: Country authorities; and IMF staff estimates and projections.

\*Includes central government external debt and private sector external debt.

1/ Derived as  $[r - g - \pi(1+g) + ea(1+r)] / (1+g+\pi+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $\pi$  = 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.

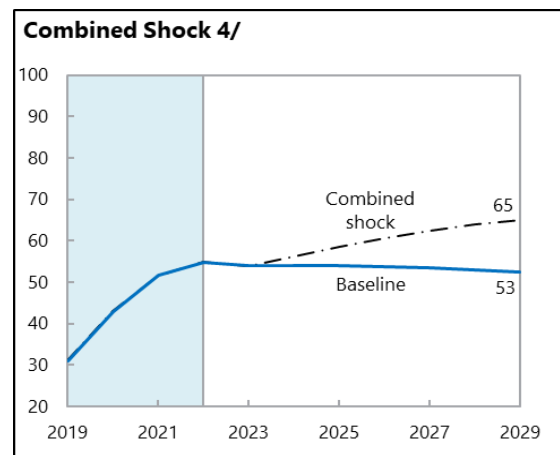
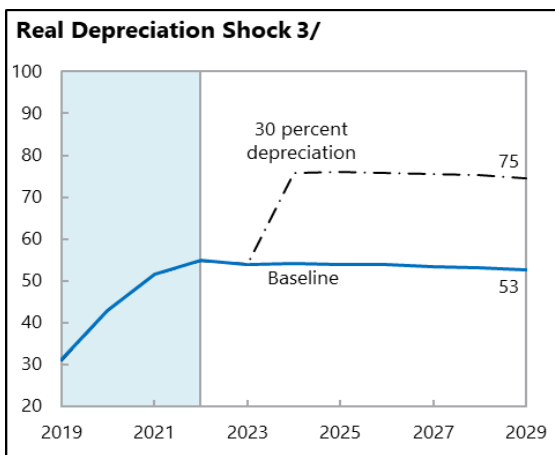
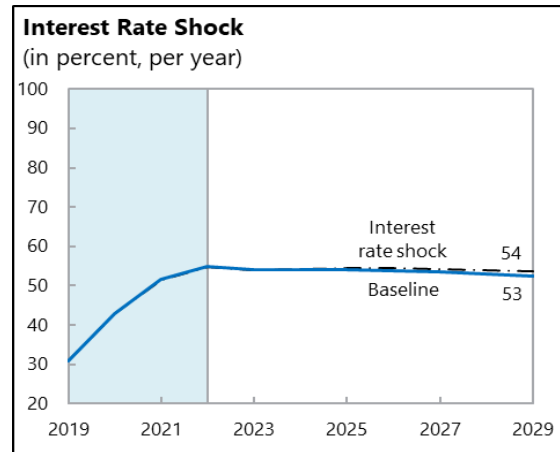
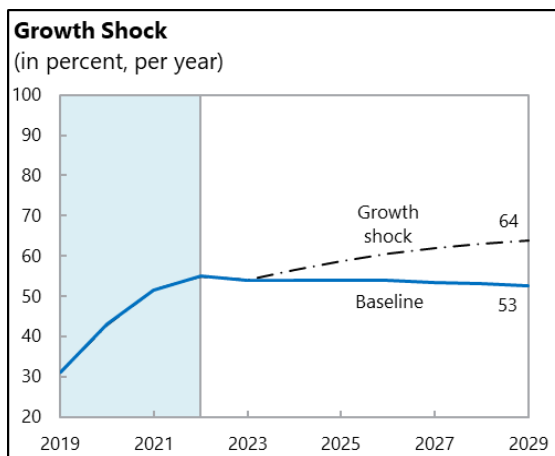
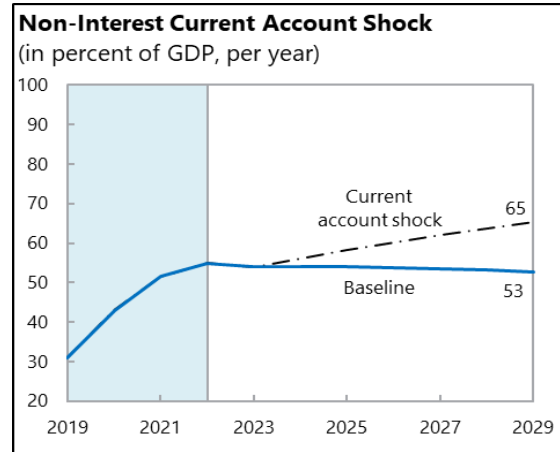
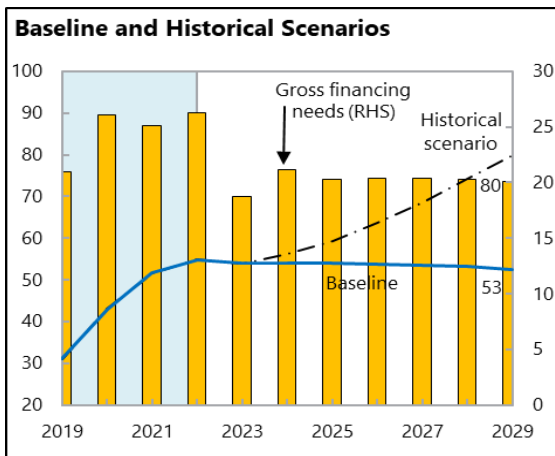
2/ The contribution from price and exchange rate changes is defined as  $[-\pi(1+g) + ea(1+r)] / (1+g+\pi+gr)$  times previous period debt stock. Variable  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

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 the end of previous period.

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

Figure 8. External Debt Sustainability: Stress Tests 1/ 2/



Sources: Country authorities; and IMF staff estimates and projections.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks.

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

3/ One-time depreciation of 30 percent occurs in 2024.

4/ Permanent one-fourth standard deviation shock applied to real interest rate, GDP growth, and current account balance.

## Annex IV. Implementation of Past Article IV Recommendations

Fund Recommendations	Policy Actions
Implementing a comprehensive tax reform strategy which raises revenue	Notable progress. The FY2024 budget included revenue enhancing measures, including increases in VAT, CIT, and departure taxes, and removing certain tax concessions and incentives.
Reorientation of expenditure that promotes growth, resilience, and inclusion	Some progress. The FY2024 budget prioritized spending on social protection and infrastructure. But the targeting of transfers and capital expenditure need to be enhanced.
Improving public financial management and fiscal transparency	Some progress. Public guarantees for certain SOEs have been reduced, but the total size has been broadly unchanged. Certain SOEs made progress in publishing their annual reports.
Gradually unwinding accommodative monetary policy stance	Limited progress. The RBF has withdrawn liquidity support through its lending facilities, but the policy rate remains unchanged.
Reversing the tightening of exchange controls during the pandemic	Some progress. In April 2023, exchange controls on profit repatriation, loan repayments, investment withdrawal via shares and asset sale, and deposits into FJD external accounts were eased but not to the pre-pandemic levels. The exchange controls are typically reviewed in connection with the budget.
Strengthening financial regulation and supervisions	Some progress. The authorities are in the process of reviewing the Banking Act and have plans to review the RBF Act.
Strengthening anti-money laundering and countering-financing of terrorism (AML/CFT) framework	Some progress. The authorities issued an eKYC Guideline to financial institutions in September 2023, on the use of digital ID systems for customer due diligence. Fiji joined the Global Forum on Transparency and Exchange of Information for Tax Purposes.
Continuing to enhance financial inclusion	Some progress. Automated Clearing House went live in November 2023. In the next phase of the National Payment System, RBF will onboard Mobile Money Operators to improve the interoperability of mobile wallets to bank accounts which should further enhance financial inclusion.
Designing and implementing a comprehensive growth strategy	Some progress. The authorities are developing a National Development Plan with a near-term focus on improving public service delivery; medium-term plans have not been prioritized yet.

<b>Fund Recommendations</b>	<b>Policy Actions</b>
Improving competitiveness and business environment	Some progress. The authorities have established a Growth Reset Committee to address challenges on immigration, utilities, land planning and investment regulations, and they are developing a centralized digital portal for new business and investment onboarding and a Single Window System for international trade.

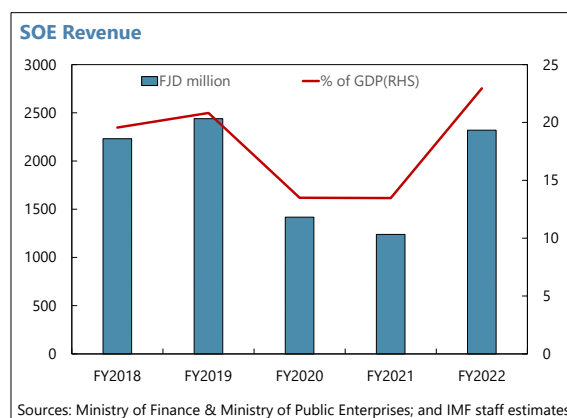
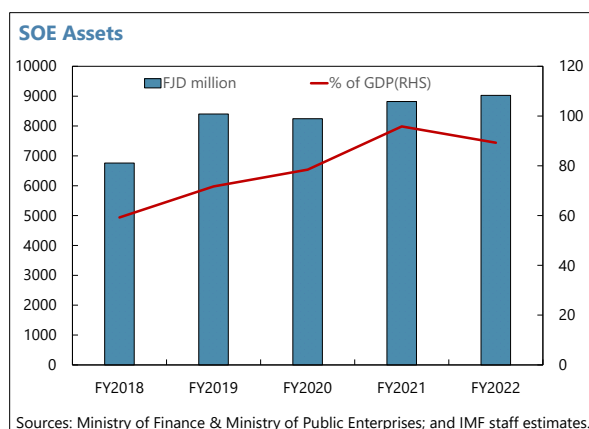
## Annex V. 2018 Financial Sector Stability Review Outstanding Recommendations

Recommendations	Authorities Response
Conduct a broad review of the Banking Act and determine amendments required to ensure compatibility with powers required to implement supervision.	Review of the Banking Act to identify changes required is in progress, assisted by the IMF. Plan to complete in December 2024.
Seek to amend the Banking Act to address related parties, consolidated supervision, major acquisitions, and establish definition of significant ownership and controlling interest.	
Enhance the quantitative analysis to take into account and quantify the level of reliance of branches on their parent groups.	Papers to address recommendations to strengthen EWI in practice and bank resolution and recovery processes and procedures are in progress. Plan to complete in June 2024.
Enhance the integration of supervisory knowledge of the financial institution into stress testing and, conversely, relate the analytical outputs to potential supervisory actions including establishing early warning indicators (EWIs).	Partially completed. Papers to address recommendations to strengthen EWI in practice and bank resolution and recovery processes and procedures are in progress. Plan to complete in June 2024.
Assign the macroprudential authority to the RBF with powers to identify and assess risks to financial stability; and to implement macroprudential policies.	Proposed regulations have been drafted. Work in progress on further discussing an appropriate legislation to support implementation. Expected to be finalized in December 2024.
Develop a detailed macroprudential toolkit, mapping policy instruments to intermediate policy objectives and to risk indicators.	The draft macroprudential toolkit has been developed. Need to amend the RBF Act or a separate regulation to support implementation. Confirmation on the way forward is expected by June 2025.
Strengthen the domestic coordination arrangements by establishing a Financial Stability Committee (FSC).	Work in progress on appropriate legislation to support implementation. Scope of RBF Act seen as needing strengthening via regulations.
Assess the costs and benefits of deposit insurance and possible design options.	Partially completed. Following World Bank technical assistance provided, the authorities are preparing a report on an appropriate framework for Fiji, outlining key pre-requisites. A discussion paper was tabled at the Financial System Policy Committee. Further discussions and additional information are being sought before the paper is tabled again. Confirmation on way forward is expected by December 2024.

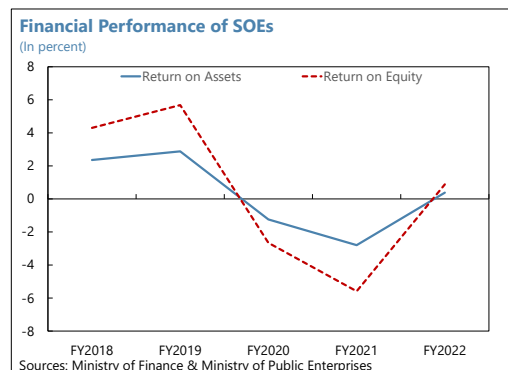
Recommendations	Authorities Response
Develop comprehensive bank resolution policies and procedures and establish bank recovery planning requirements.	Papers to address recommendations to strengthen EWI in practice and bank resolution, recovery processes and procedures are in progress and expected to be finalized in June 2024. On ELA policy and processes, there may be possible amendments to the RBF Act.
Develop ELA policy and processes.	
Enhance crisis management cross-border coordination with home authorities.	
Strengthen the framework and capacity for the early detection of bank stress and early intervention actions, and to introduce recovery planning for banks.	

## Annex VI. State-Owned Enterprises in Fiji

**1. State-Owned Enterprises (SOEs) have a large presence in the Fijian economy.** There are 25 SOEs in Fiji, which not only provide core public services but also undertake a range of commercial activities including in the sectors of agriculture, fisheries, transportation, and financial services. As of 2023, the total assets and revenues of SOEs were around 90 percent of GDP and 25 percent of GDP, respectively (Text Figures).



**2. The financial performance of SOEs is improving after a significant drop during the pandemic.** SOEs’ overall financial performance had been positive before the pandemic, while certain sectors (agriculture (especially sugar), fisheries, and forestry) had periodical losses. While total profit of SOEs turned negative during the pandemic due to border closures and the grounding of the national airline during the pandemic, the post- pandemic performance has rapidly recovered. Nevertheless, the government has continued to receive dividends from the SOEs, although at lower levels so far.

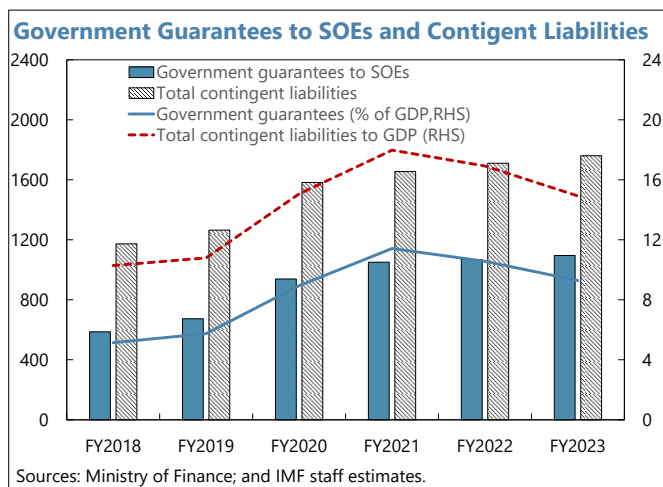


Dividends Received by Sector						
(In millions of Fijian dollars)						
Sectors	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Agriculture	-	-	3.5	-	-	-
Communication	4.7	1.4	2.2	-	1.5	-
Fisheries & Forestry	-	-	-	-	-	0.4
Trade & Finance	-	0.5	0.7	-	-	0.8
Transport & Infrastructure	116.6	71.4	14.3	21.9	29.3	38.0
<b>Total</b>	<b>121.3</b>	<b>73.3</b>	<b>20.7</b>	<b>21.9</b>	<b>30.8</b>	<b>39.2</b>
% of GDP	1.1	0.6	0.2	0.2	0.3	0.3

Source: Ministry of Finance



**3. However, SOEs also pose burdens on government finances and are an important source of fiscal risks.** To support the operations of SOEs, the Fiji government provides sizable guarantees, which increased substantially during the pandemic. As of end-FY2023, government guarantees to SOEs stood at FJD 1.1 billion (9 percent of GDP). which are concentrated in Fiji Airways (FA), Fiji Development Bank, and Fiji Sugar Corporation (FSC) (together over 90 percent of total guarantees). In particular, the increase in government guarantees since the pandemic is almost fully due to the guarantees to Fiji Airways (4 percent of GDP). In addition, the government provides direct lending to FSC (FJD 200 million or 1.7 percent of GDP) and Housing Authorities (FJD 25.5 million or 0.2 percent of GDP). The government also allocates indirect and direct subsidies to SOEs in its annual budget (above 1 percent of GDP).



**4. The authorities have made progress in SOE reform and oversight, but some gaps remain.** The progress includes: passing the Public Enterprise Act in 2019 to strengthen SOE governance framework and oversight; partial privatization of SOEs, including selling part of government shares in Energy Fiji Limited in 2021; and enhancing the capacity to assess financial risks from SOEs.<sup>1</sup> The authorities recently took further measures to reduce the backlog in the audit of SOE financial statements and improve SOE governance.<sup>2</sup> However, gaps remain in the SOE governance framework, risk assessment and monitoring, and financial reporting.<sup>34</sup>

**5. Additional measures aiming to enhance SOE oversight and performance can limit the associated fiscal risks.** These measures could include: improving the disclosure of SOEs' financial reports (e.g., punctually making all SOEs' annual reports public); enhancing the capacity to assess financial vulnerabilities and address risks emerging from SOEs; restricting the provision of new guarantees and developing plans to reduce existing guarantees; and effectively implementing a

<sup>1</sup> The authorities have started to utilize the IMF SOE Health Check Tool and Stress Test Tool, assisted by PFTAC.

<sup>2</sup> The measures included: implementing a Guideline for Merit Based Selection and Appointment Process for Board Director; passing the Higher Salaries Commission Act 2023 and reestablishing Higher Salaries Commission to adopt an independent and transparent approach to the remuneration of top positions in public enterprises and other state-owned entities; and provide training and carrying out Board Inductions for newly appointed Directors.

<sup>3</sup> Based on annual budget documents, the government holds shares in 25 SOEs. However, only 13 SOEs (classified as public enterprises) are covered by Public Enterprises Act and the Ministry of Public Enterprises, and other SOEs are oversighted by the Ministry of Finance and other line ministries.

<sup>4</sup> The 2021–2022 Audit Report on Public Enterprises (conducted by the Office of the Audit General) identified some areas for improvement for some SOEs, including: the quality and timeless submission of financial statements, internal control, risk assessment, and monitoring.

robust framework for SOEs' governance. In addition, the 2019 Public Enterprise Act could be further improved to enhance SOE monitoring.<sup>5</sup> The authorities should also review the financial assistance to poorly performing SOEs such as FSC, in the broader context of reforming these industries.

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<sup>5</sup> A recent study by the Asian Development Bank suggests that the 2019 act has some important gaps on SOE monitoring, including the submission of SOEs audited accounts.

## Annex VII. The Significance of Fiji’s Blue Economy and its Vulnerability to Shocks<sup>1</sup>

*Pacific Island Economies (PIEs) like Fiji are particularly dependent on the Blue Economy—which refers to marine-related activities/sectors in the economy—as a source of economic growth. Estimates using input-output tables suggest that the Blue Economy accounts for a little over one-third of Fiji’s output (measured as Gross Value Added). Simulation of shocks to the input-output models shows the Blue Economy’s vulnerability to demand and supply shocks, including external demand and climate-related shocks, and the compounded effects of such shocks on the rest of the economy.*

### A. Measuring the Size of the Blue Economy

**1. The Blue Economy includes marine-related activities in the country’s land territory, as well as oceans and seas within the exclusive economic zones.** The share of the Blue Economy in the economy’s total Gross Value Added (GVA) can be estimated using multi-regional input-output (MRIO) tables (Huo et al (2022)) and the U.S. Bureau of Economic Analysis methodology (Nicolls et al. (2020)). In these input-output tables, seven sectors<sup>2</sup> can be considered as *fully marine-related sectors*, i.e., 100 percent of the sector’s output is part of the Blue Economy—this provides *narrow estimates* of the Blue Economy. Another 21 sectors<sup>3</sup> in the input-output tables can be considered as *partially marine-related sectors*, based on whether their production is dependent on marine-related sectors, i.e., whether the sector’s activity is typically coastal or some marine-related inputs are used for production—adding these to the *narrow estimates* would yield *wide estimates* of the Blue Economy. In addition to these sectors, accounting for *government activities* financed by marine-related tax and fishing license revenues would provide *expanded estimates* of the Blue Economy.

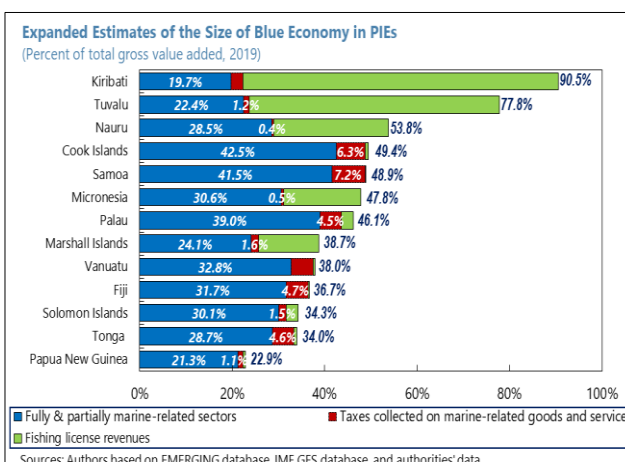
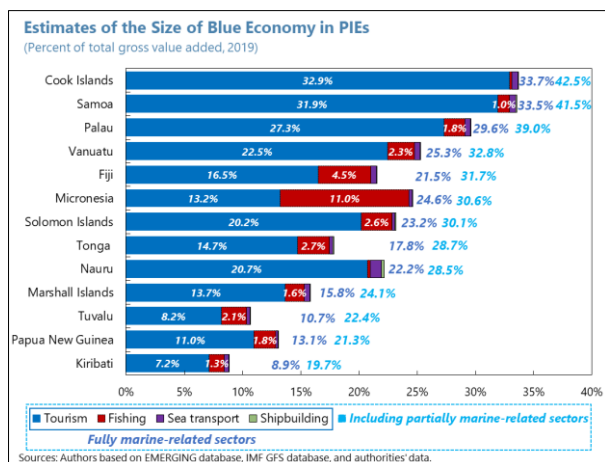
**2. Tourism, fishing, and tax revenues from marine-related goods and services are the key Blue Economy activities in Fiji.** The above methodology suggests that as of 2019, the *fully marine-related* Blue Economy sectors accounted for 21.5 percent of Fiji’s GVA. However, the size of the Blue Economy rises to 31.7 percent of GVA after including *the partially marine-related sectors*, and to 36.7 percent of GVA after including *government activities* financed by marine-related goods and services tax revenues and fishing license revenues (Text Figures). Compared to most PIEs, Fiji has a slightly

<sup>1</sup> This Annex is excerpted from the preliminary findings from Gonguet F. and J. Zhou. Forthcoming. “Size and resilience of the Blue Economy in Pacific Island economies”. *IMF Working Paper*.

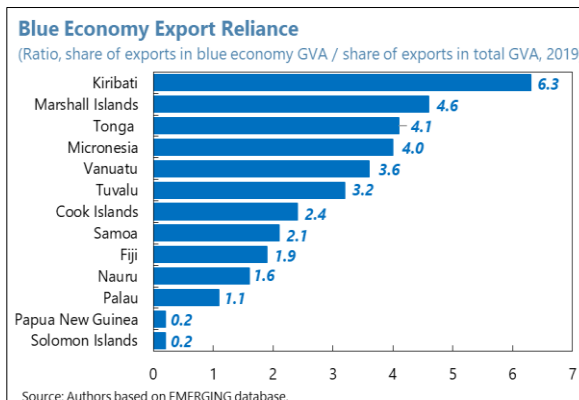
<sup>2</sup> This includes fish, crustaceans, mollusks, aquatic invertebrates; Ships, boats and other floating structures; sea transport; goods (travel); local transport services; accommodation services; and food-serving services.

<sup>3</sup> This includes: Products of animal origin; oil seed, oleaginous fruits, grain, seed, fruit, etc.; animal, vegetable fats and oils, cleavage products, etc.; meat, fish and seafood food preparations; residues, wastes of food industry, animal fodder; Salt, Sulphur, earth, stone, plaster, lime and cement; Essential oils, perfumes, cosmetics, toiletries; Wadding, felt, nonwovens, yarns, twine, cordage, etc.; Umbrellas, walking sticks, seat sticks, whips, etc.; Pearls, precious stones, metals, coins, etc.; Articles of iron and steel; Nuclear reactors, boilers, machinery, etc.; Water collection, purification and distribution; Maintenance and repair services; Construction; Insurance; Real estate; Telecommunication services and Computer services (e.g., via use of underwater cables); Professional and management consulting services; and Recreation and other services.

higher share of fishing sector and *partially marine-related activities* in the Blue Economy, whereas fishing license revenues account for a tiny share in GVA.



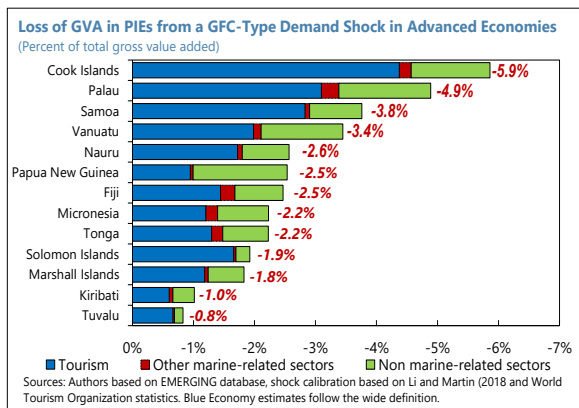
**3. The Blue Economy is more reliant on external demand relative to other sectors of the economy.** The blue economy sectors are more export-dependent compared to the economy as a whole. In the case of Fiji, the blue economy is nearly twice as dependent on external demand as the economy as a whole (Text Figure). While this increases the opportunity for the blue economy sectors to rely on external demand for rapid growth, it also increases the blue economy’s vulnerability to external shocks.



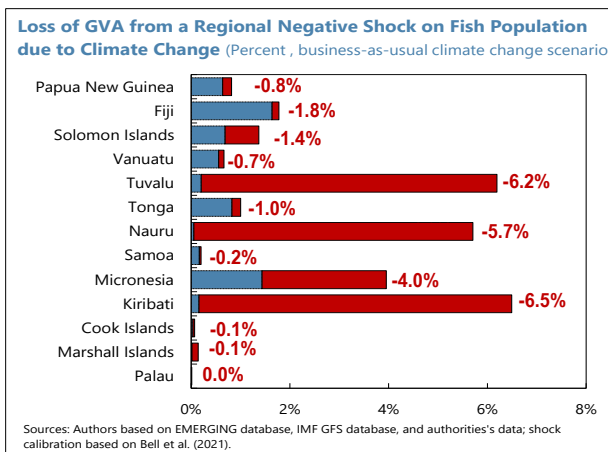
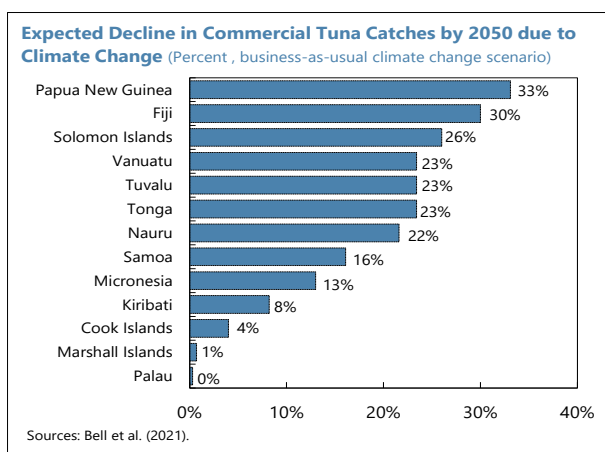
## B. Impact of Climate and External Shocks on the Blue Economy

**4. The Blue Economy is vulnerable to demand and supply shocks and has compounded effects on the broader economy through upstream and downstream transmission.** Input-output models (Leontief and Ghosh) can be used to simulate the transmission of shocks in the production network through backward linkages (for demand shocks) and forward linkages (for supply shocks).

- An *external demand shock* similar to the Global Financial Crisis (GFC), which trickles upstream to affect intermediate and final goods and services exports of the PIEs, as well as reduces international tourist arrivals to the PIEs (tourist arrivals declined by 8 percent in the PIEs region during the GFC): Simulations show that such a shock would affect Fiji’s Blue Economy mainly through the tourism sector and would also have compounded effects on the non-marine related sectors, leading to an overall 2.5 percent loss in GVA (Text Figure).



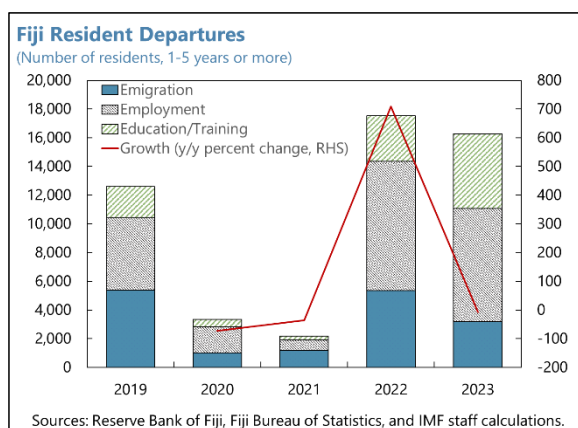
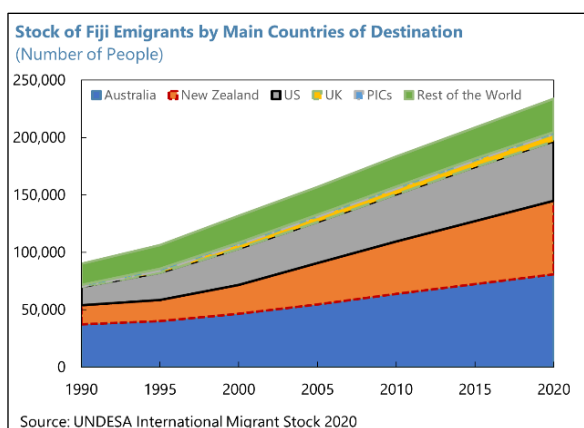
- A *supply shock* which reduces domestic fish population due to global warming and in turn leads to a first-round domestic demand shock owing to lower fishing license revenues (and therefore government spending): Under the business-as-usual climate change scenario where global emissions continue to rise through this century, the PIEs are expected to witness a significant decline in commercial tuna catches (Bell et al (2021)). Fiji would be among the most affected PIEs, with commercial tuna catches expected to decline by 30 percent by 2050. Simulations suggest that such a shock could lead to about 1.8 percent loss in Fiji’s GVA, with the impact largely coming from the supply shock—the loss of fish population (Text Figures). The impact through domestic demand shock is tiny since government spending is not heavily reliant on fishing license revenues.



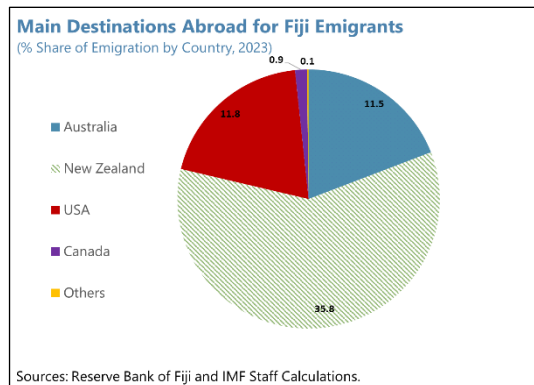
**5. The Blue Economy’s vulnerability to demand and supply shocks underscores the need for diversification, adaptation, and – on a global scale – mitigation.** These priorities include diversification within the tourism sector, such as of tourism source markets and developing niche areas of tourism, as well as climate adaptation and access to climate finance to ensure sustainability of the Blue Economy sectors. The tools developed to estimate the blue economy and model shocks can be used to support policymaking in a number of areas, including responding to macroeconomic as well as climate shocks.

## Annex VIII. Labor Migration in Fiji<sup>1</sup>

**1. Migration of skilled labor is a growing trend in Fiji that is having an increasing economic impact in recent years.** Historically, the stock of Fiji emigrants has risen significantly from 12.4 percent of the total population in 1990 to 26.1 percent in 2020. Following a sharp fall during the pandemic, there has been a strong recovery in emigration, as well as Fiji resident departures for both employment, and studies beyond a year.<sup>2</sup> This trend has important implications for the Fiji labor market, with both positive and negative spillover effects on the economy. This analysis will identify the main push or pull factors of skilled labor migration in Fiji and analyze its impact on the economy.



**2. Near-shore countries continue to be attractive destinations for Fiji residents to migrate, work, and study.** According to data from the Fiji Bureau of Statistics, Australia and New Zealand were the top two destinations for Fiji emigrants over the 2016–2023 period. The sharp post-pandemic increase in temporary migration for employment is mainly due to growing demand from the seasonal worker programs<sup>3</sup> while the easing of immigration policies for skilled migration in Australia and New Zealand supported permanent migration. Recent trends in emigration are more likely to be driven by pull factors rather than push factors; the former



<sup>1</sup> Prepared by Seruwaia Cagilaba (APD).

<sup>2</sup> Resident departures for employment and education/training are those that migrate on temporary short-term visas (five years or less), while emigration refers to permanent migration and those that leave Fiji for more than one year for reasons other than employment, and education/training.

<sup>3</sup> The Pacific Australia Labour Mobility (PALM) scheme and the Recognised Seasonal Employer (RSE) scheme in New Zealand.

include better opportunities for education, skills improvement, and financial security (Global Development Network, 2011).<sup>4</sup>

**3. The continued rise in skilled labor migration has important implications on the economy.** Staff estimates based on Fiji Bureau of Statistics data showed that 59.3 percent of Fijian emigrants from 2018 to 2022 were skilled labor such as professional workers, technicians, legislators, senior officials, and managers (Text Figure). As a result, Fiji is facing a brain drain and critical skill shortages in several sectors, including health and construction. Based on the UN data on population<sup>5</sup>, staff scenarios suggests that out of the average net emigration of 5,552 people from Fiji's working age population (aged between 15–64 years) over 2022–2023, 71.5 percent were between 15–44 years old.<sup>6</sup> The scenarios also suggest a declining permanent migration trend among those aged 40 years and above, indicating that Fiji is losing more of its younger working age population to emigration (Text Figure). Higher rates of permanent migration among the younger working age population can create a larger proportion of the aging population in Fiji, leading to a smaller tax base. However, staff scenarios suggests that, based on the drop-in emigration rates (stripping out the post-pandemic catch-up) and given the announced immigration policy changes in Australia, net emigration of working age population may fall over the 2024–2028 period, which could help curb the brain drain issue. It is estimated that net emigration of Fiji's working age population as a share of working age population will fall from 0.6 percent in 2022 to 0.2 percent in 2028.<sup>7</sup>

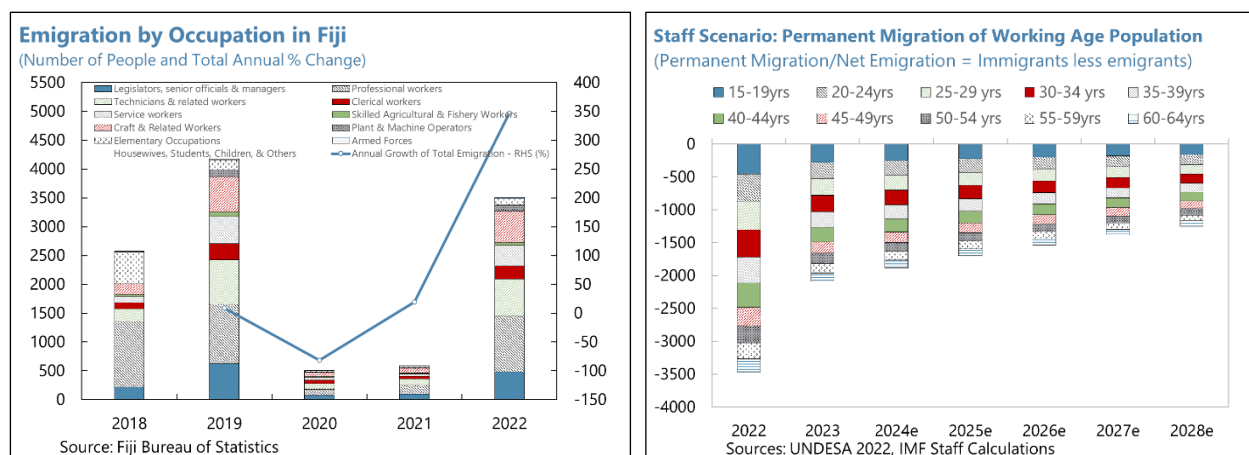
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<sup>4</sup> Global Development Network: Development on the Move, Development on the Move: Measuring and Optimising Migration's Economic and Social Impacts in Fiji, 2011, [https://repository.usp.ac.fj/4763/1/Development\\_on\\_the\\_move.pdf](https://repository.usp.ac.fj/4763/1/Development_on_the_move.pdf)

<sup>5</sup> UNDESA World Population Prospects 2022. The UN population estimates accounts for three demographic factors: fertility, mortality, and net international migration (immigrants less emigrants) using the demographic balance equation. That is, population at the end of the year is equal to population at the beginning of the year adjusted for births, deaths, and net international migration within the year. For detailed methodology see United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects 2022: Methodology of the United Nations population estimates and projections. UN DESA/POP/2022/TR/NO. 4.

<sup>6</sup> Net emigration = estimated population with net international migration less estimated population with zero migration. This helps derive the UN estimates for international migration which are computed as the differences between overall population growth and natural increase. See United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects 2022, Data Sources. UN DESA/POP/2022/DC/NO. 9.

<sup>7</sup> Based on staff calculations using UNDESA 2022 population data. The UNDESA estimates net emigration as the difference between overall population growth and natural increase (i.e., the growth implied by estimated levels of fertility and mortality).



**4. There are costs and benefits of labor migration, and experiences from other developing countries provides valuable insights for policymakers.** Bilateral ties with Australia, New Zealand and others have led to increased opportunities for labor mobility making these countries attractive destinations for Fiji emigrants. One of the positive impacts of labor migration is remittances, which are an important source of foreign exchange in Pacific Island countries like Fiji. Remittances can be a form of social protection in countries where social insurance and social assistance coverage is limited (Doan et.al, 2023),<sup>8</sup> improve the long-term welfare of households, and increase their investment in human capital formation (education). Preliminary staff estimates suggest that emigration has positive impacts on remittances and consumption in Pacific Island countries (PICs).<sup>9</sup> However, preliminary staff estimates also suggest that emigration leads to lower growth in PICs compared to other small island states where it has helped to increase growth. Labor migration also provides employment opportunities, particularly for unemployed youth, and improves the income of migrant workers. While emigration of highly skilled labor has helped support economic growth and development in several Asian countries, including Bangladesh, China, India, and Philippines (Mohanty 2006), it may be more detrimental to long-term growth in Fiji where the stock of human capital is limited.

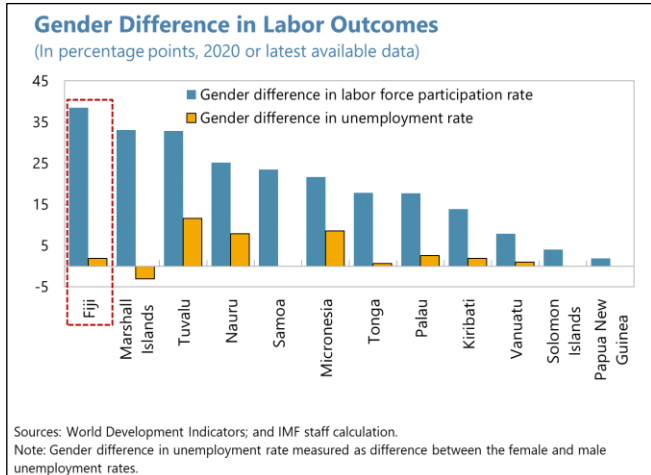
**5. Policy reforms and measures can help mitigate the negative impact of the high level of skilled labor emigration in Fiji, while enhancing its benefits.** The government should strengthen education and training, to help reduce skilled labor shortages in Fiji, including by reviewing the curriculum of local training institutions and universities. Immigration policies ought to be reviewed with a view to making it easier to recruit and retain foreign workers in sectors where there are critical skills shortages. The 2023 Training and Skill Needs Analysis Survey will help government to identify priority areas for human capital planning and development for the Five-Year National Human Resource Plan and the new National Development Plan. Over the medium term, government needs to further promote private sector development to create more local employment and investment opportunities, as well as enhancing female labor force participation. There is potential to address

<sup>8</sup> See Doan et.al, 2023, Migration and labor mobility from Pacific Island countries, World Bank.

<sup>9</sup> Cagilaba, Merga, Zhang (2024) Emigration in Pacific Island Economies: Unraveling Challenges and Seizing Development Opportunities, IMF Working Paper (forthcoming).



labor shortages in Fiji by reducing gender gaps in the labor force participation rate, which have remained prevalent and are among the highest in the Pacific islands' region. Authorities can help increase female labor force participation by improving access to affordable childcare services and promoting flexible work arrangements.





# REPUBLIC OF FIJI

May 2, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia & Pacific Department  
(In consultation with other departments)

### CONTENTS

FUND RELATIONS	2
RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS	5
STATISTICAL ISSUES	6

## FUND RELATIONS

(As of March 31, 2024)

**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	73.60	74.79
Reserve position in Fund	24.90	25.30

### SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	161.41	100.00
Holdings	138.53	85.82

**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:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2024	2025	2025
Principal					
Charges/Interest	0.70	0.94	0.94	0.94	0.94
Total	0.70	0.94	0.94	0.94	0.94

**Exchange Rate Arrangement:** Fiji's exchange rate arrangement is a conventional peg. Since the beginning of 1999, the exchange rate of the Fiji dollar has been linked to a basket of five currencies: the U.S., Australian, and New Zealand dollars; the Euro; 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 the 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.

Fiji maintains exchange restrictions on current transactions subject to approval under Article VIII, Section 2(b) of the IMF's Articles of Agreement. These exchange restrictions include: (i) Limits on large payments, such as oil imports, profit repatriation, and loan repayments; and (ii) Tax clearance certification requirements for the transfer abroad of profits, proceeds from airline ticket sales, and external debt and maintenance payments.

Fiji also maintains Capital Flow Management Measures (CFMs) under the Fund's Institutional View (IV). These CFMs include threshold limits and/or RBF approval requirements for: (i) Offshore investment by companies, non-bank financial institutions and individuals; (ii) Emigrant transfers; (iii) Loan repayments; (iv) Withdrawal of investment through sale of shares and assets, and shareholder funds (including dividends); (v) Deposits into FJD external accounts of proceeds from insurance maturity and sale of assets and personal effects; and (vi) Gifts to non-residents.

Exchange controls were tightened significantly in early-2009 following the devaluation of the currency, although some of the exchange controls were eliminated and amended since then. The exchange controls were tightened again at the onset of the COVID-19 pandemic in April 2020. In April 2023, the authorities completely reversed CFMs such as emigrant transfers and offshore investment by companies and non-bank financial institutions back to the pre-pandemic levels (offshore investment by individuals remains suspended), whereas CFMs such as investment withdrawal (via shares and asset sale, shareholder funds and dividends) and deposits into FJD external accounts (of proceeds from insurance maturity and sale of assets and personal effects) were eased but not to the pre-pandemic levels. Exchange restrictions on profit repatriation and loan repayments were also eased but not back to the pre-pandemic levels.

Details about current and past exchange control measures can be found in:  
<https://www.rbf.gov.fj/markets/exchange-control/>

<https://www.rbf.gov.fj/markets/exchange-control/ec-guidelines/> (latest)

**Last Article IV Consultation:** The 2023 Article IV consultation discussions were held in Suva during March 8-22, 2023. The consultation (Country Report No. 2023/238) was completed by the Executive Board on June 1, 2023. 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, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Neil Saker is the resident representative.

### Technical Assistance Activities:

<b>Fiji: Capacity Development</b>			
<b>TA Area</b>	<b>Description</b>	<b>Advisors</b>	<b>Period</b>
Macroeconomic Programming and Analysis	To assist in constructing and provided training on a straightforward macro-fiscal model.	PFTAC	September 2023, November 2023
Macroeconomic Programming and Analysis	To help produce an econometrically based, 4-year horizon, GDP(P) forecasting model using relevant leading indicators.	PFTAC	April 2023
Public Financial Management	To assist the Ministry of Finance (MoF) to design and implement a new Chart of Accounts (CoA) which accords with international standards	PFTAC	December 2023
Public Financial Management	To assist Fiji in strengthening its identification, analysis, and reporting of fiscal risks, with a view to publishing the analysis in the Fiscal Strategy.	FAD	August 2023
Financial Supervision and Regulation	To provide training on liquidity stress-testing on Macroprudential Solvency Stress Testing.	MCM	April 2023
Payments and Infrastructure	To help the RBF develop its payments oversight and supervision framework for payment systems and PSPs.	MCM	May 2023
Revenue Administration	To assist in developing key performance indicators (KPIs) to ensure the successful implementation of the new Performance Management System (PMS).	FAD	January-February 2024
Revenue Administration	Follow-up assistance to the Fiji Revenue and Customs Service (FRCS) as part of their implementation of a new Performance Management System (PMS).	FAD	November 2023
Revenue Administration	To provide risk analysis on tax collection compliance, including to develop standard operating procedures and test them on a sample of top 20 taxpayers.	FAD	March-April 2023
Revenue Administration	To provide a readiness assessment of the Fiji Revenue and Customs Service (FRCS) to implement a new Performance Management System (PMS).	FAD	July-August 2023

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank:  
<https://financesapp.worldbank.org/countries/Fiji/>
- Asian Development Bank:  
<https://www.adb.org/countries/fiji/main>
- Pacific Financial Technical Assistance Center:  
<https://www.pftac.org/content/PFTAC/en1/countrieswp.html>

## 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. Some key macroeconomic data releases still have significant publication lags; annual GDP data is released with an eight-month lag. High-frequency labor market data, such as unemployment rate and wages, are not published.

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 the *Key Statistics*. The Ministry of Finance (MoF) issues the *Budget Address* and the *Supplement to the Budget Address* on an annual basis. All of these publications are received by APD on a regular basis.

**National Accounts:** Production-side estimates of GDP at current and constant 2014 prices are available up to 2022; current price estimates of GDP by expenditure and income are available to 2022. Estimates were rebased from 2011 to 2014, mainly using the 2013/14 Household Income and Expenditure Survey (HIES) and the 2014 Business Census to derive new benchmarks. Development of experimental quarterly national accounts started in 2020 but quarterly GDP data is not published.

**Price statistics:** CPI data are published monthly using 2014 weights derived from the 2013/14 HIES survey. The CPI weights are currently being updated based on the results of the 2019/20 HIES survey, which was finalized in August 2021. Core CPI data is not published. Quarterly PPIs for goods and transportation services are available from 2015 to 2023 (Provisional).

**Government finance statistics:** Fiji compiles and submits annual GFS data for budgetary central government (BCG), exclusive of the classifications of the functions of government. The most recent submission was in December 2023. Re-classification of BCG expenditure data is required to improve the integrity of the fiscal data and prepare the data for general government consolidation. The authorities are in the process of reforming the financial system and the chart of accounts of BCG, which would allow an improvement on the 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.

**Monetary and financial statistics:** Data on the central bank, other depository corporations, and other financial corporations are comprehensive and provided to APD and STA on a regular and timely basis using the standardized reporting forms. Monetary and financial statistics that are in line with the *Monetary and Financial Statistics Manual* are published on the RBF's website and *International Financial Statistics*.

The RBF reports data on some key indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) of the United Nations Sustainable Development Goals.

**Financial sector surveillance:** Fiji reports to STA for publication on the IMF website all core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers on a quarterly basis and with one-to-two-quarter timeliness. Coverage of FSIs for other sectors needs to be improved as currently only two FSIs are reported to STA.

**External sector statistics:** Fiji reports its quarterly balance of payments data for dissemination purposes in the Fund's *International Financial Statistics* and in the *Balance of Payments Statistics Yearbook (BOPSY)* following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* presentation. It also reports debt statistics to the World Bank's quarterly debt statistics database (QEDS). The FBoS has undertaken a number of actions that were recommended to improve timeliness and other quality dimensions of the external sector statistics.

## II. Data Standards and Quality

Fiji participates in the IMF enhanced General Data Dissemination System (e-GDDS), and since September 2018, disseminates key macroeconomic data on its National Summary Data Page, hosted by the RBF.



**Table 1. Fiji: Table of Common Indicators Required for Surveillance**  
(As of April 19, 2024)

	Date of latest observation	Date received	Frequency of Data <sup>5</sup>	Frequency of Reporting <sup>5</sup>	Frequency of Publication <sup>5</sup>
Exchange Rates	02/2024	03/2024	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	02/2024	03/2024	M	M	M
Reserve/Base Money	01/2024	03/2024	M	M	M
Broad Money	01/2024	03/2024	M	M	M
Central Bank Balance Sheet	01/2024	03/2024	M	M	M
Consolidated Balance Sheet of the Banking System	01/2024	03/2024	M	M	M
Interest Rates <sup>2</sup>	01/2024	03/2024	M	M	M
Consumer Price Index	03/2024	04/2024	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3,4</sup> —General Government	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> — Central Government	01/2024	03/2024	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	01/2024	03/2024	M	M	M
External Current Account Balance	Q4, 2023	4/2024	Q	Q	Q
Exports and Imports of Goods and Services	Q4, 2023	4/2024	Q	Q	Q
GDP	2022	08/2023	A	A	A
Gross External Debt	Q3, 2023	01/2024	Q	Q	Q
International Investment Position	Q4, 2023	4/2024	Q	Q	Q
<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. <sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds. <sup>3</sup> Foreign, domestic bank, and domestic nonbank financing. <sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. For Fiji, General Government is the same as Central Government. <sup>5</sup> Daily (D), monthly (M), quarterly (Q), and annually (A).					

**Statement by Ms. Yati Kurniati and Mr. Esala Masitabua on Republic of Fiji  
May 22, 2024**

**Introduction**

1. The Fijian authorities express their sincere appreciation to the Mission Team led by Mr. Marshall Mills, for their constructive engagement, and for providing the comprehensive report. The authorities broadly concur with the thrust of the staff appraisal and positively note the policy priorities and recommendations, which will be carefully considered.

**Recent Developments & Outlook**

2. The Fijian economy is estimated to have grown by 8.2 percent in 2023, following a 20 percent growth in 2022. This post-pandemic recovery clawed back the significant GDP contraction experienced in 2020 and 2021 of 21.9 percent cumulatively, returning to pre-pandemic levels a year ahead of initial forecasts. The expansion was fueled primarily by the resilience of the tourism sector and its supporting sectors, including accommodation & food services, transportation and storage, wholesale and retail, and agriculture. Supporting the recovery efforts was the invaluable financial and capacity development provided by partner countries, MDBs, the World Bank and the Fund.
3. Being a small island state vulnerable to adverse climatic events, Fiji maintains relatively sound macroeconomic fundamentals, underpinned by sound macroeconomic policies as well as robust regulatory and supervisory frameworks that contribute to the economic recovery.
4. Looking ahead, the economy is expected to revert to its long-term trend of 3 percent in 2024 with capacity constraints weighing on the tourism industry, and resource-based sectors grappling with industry-specific issues. The ongoing outflow of workers continues to constraint labor demand, leading to strong wage growth and tight labor market conditions. Despite this, consumption is expected to remain positive, supported by increased tourism activity, higher remittance inflows and rising disposable income levels. However, the pickup in investment activity has been comparatively slow, owing to a combination of factors including labor availability, red tape, and disruptions to the importation of materials.

**Fiscal policy**

5. On fiscal front, the authorities acknowledge the need to continue reducing fiscal deficit and debt ratios over the medium term, thus commit to further fiscal consolidation aiming at rebuilding sufficient fiscal buffers to cushion against potential shocks to the economy, while minimizing social costs that may occur. Our authorities note the staff assessment that the tightened fiscal stance reflected in the FY2024 budget is broadly appropriate. Impressive progress has been made in mobilizing domestic revenues. Although spending has also increased, it is mainly directed toward social protection and infrastructure investment particularly to support inclusive growth. Implementing revenue enhancing measures in the face of rising costs entails expending significant political capital and is a testament to our authorities resolve for fiscal consolidation.
6. Noting the mobilizing of substantial revenue enhancing measures in the FY2024 Budget, our authorities intend to maintain stability and consistency in the FY2025 Budget and focus primarily on streamlining tax exemptions and improving tax compliance.

7. In the medium term, our authorities are committed to considering additional targeted revenue measures and implementing plans to restrain overall spending primarily by improving expenditure targeting and efficiency, while prioritizing spending for social needs and infrastructure to support inclusive growth.

### **Monetary, Capital Flows Management and Exchange Rate Policies**

8. Our authorities agree broadly with staff recommendation that the monetary policy stance should gradually move to neutral to be ready to counter any persistent inflationary or balance of payments pressures. However, the monetary policy stance should remain conducive to sustain economic growth amid price stability. Our authorities recognize that the economic growth outlook has been reverting to the long-term trend of around 3.25%, inflation is projected to soften to 3 percent year-on-year by end-2024 and stays at that low level over the medium-term, while foreign reserves are projected to remain adequate. Moreover, there remains uncertainties in the near-term outlook. Under these circumstances, our authorities are of the view that there is still room to maintain the current policy rate to support growth, while continuing to assess the outlook and balance of risks for domestic inflation and growth, and stand ready to align policy accordingly.
9. On the Exchange rate policy, our authorities note the staff assessment that Fiji's current exchange rate peg continues to provide an effective nominal anchor to the economy. Despite this, our authorities are committed to periodically reviewing the current exchange rate peg framework to ensure that it continues to serve the monetary policy framework well as the country's development evolves.
10. Our authorities note the staff recommendation that the remaining pandemic-related exchange restrictions and Capital Flow Management measures (CFMs) should be reversed in the near-term. Moreover, the pre-pandemic current account exchange restrictions should be phased out in a sequenced manner, in line with the Article VIII obligations.
11. While recognizing the costs that exchange restrictions pose on businesses and individuals, our authorities emphasize the preference for a careful and progressive approach and will review the pandemic-related exchange restrictions on current transactions in connection with the FY2025 budget. Our authorities also express interest in understanding cross-country experiences in phasing down such restrictions and look forward to further engagement on this issue.

### **Financial Stability and Inclusion**

12. Fiji's financial system remains well capitalized, liquid, and profitable. Noting and agreeing with staff concerns that NPLs remain high at some banks, our authorities highlight that these are being closely monitored and managed, and that the levels have improved from the highs during the worst impacts of the pandemic in 2021/2022.
13. While NPLs have improved significantly over the past two years, vulnerabilities remain at certain banks. Our authorities note the staff recommendation to continue strengthening financial sector oversight, particularly for banks with high NPLs, intensifying on-site supervision and ensuring adequate provisioning.
14. Some recommendations from the 2018 Financial Sector Stability Review (FSSR) have been implemented, most notably the expansion of the RBF's supervision remit to cover key national non-bank financial institutions (NBFIs), the Housing Authority of Fiji and the Fiji Development Bank. Our

authorities remain committed to addressing the remaining recommendations over the medium term particularly those involving changes in legislation.

15. Our authorities are attentive and have adopted evolving action plans to address emerging risks in the financial sector especially cyber-risk, as well as identified weaknesses in the anti-money laundering and countering-financing of terrorism (AML/CFT) framework.
16. Financial inclusion continues to be a priority and our authorities note the staff acknowledgment that recent infrastructure development should enhance the efficiency and inclusion of the financial sector. Our authorities positively note the well-considered recommendations to pursue plans aimed at underserved groups through a national digital ID, e-KYC facility, promotion of agency banking and fair reporting.

### **Structural reforms**

17. Our authorities are deeply committed to advancing ambitious structural reforms to boost Fiji's medium-term economic growth potential, while enhancing social inclusion and environmental stewardship. To this end, a new National Development Plan is being formulated that will consolidate current efforts and build on the outcomes of an earlier Economic Summit, a Fiscal Review Committee report, and an Education Summit.
18. These reforms, including some that are already in various stages of progress, will be announced with the FY2025 Budget and is envisaged to be broadly underpinned by a focus on attracting private investment projects, reinforcing governance and transparency in the public sector, and addressing priority areas recommended by staff: skilled labor shortages, improving ease of doing business processes, diversifying tourism and the agricultural sector, and enabling new industries such as IT and Business Process Outsourcing sectors.
19. The staff recommendation on the careful prioritization of the growth strategies is well received, including the assessed priorities addressing immediate binding constraints to boost near-term growth, such as immigration bottlenecks and red tape holding back already planned private investment projects.

### **Final remarks**

20. The Fijian authorities remain committed to their unwavering efforts in conducting sound macroeconomic management with robust regulatory and supervisory frameworks. They are also dedicated to advancing and deepening structural reforms, to promote sustainable and inclusive growth. Our authorities express their appreciation to the Fund for its ongoing engagement and support and look forward to continued engagements and strong collaboration, including capacity development and meaningful policy dialogues.