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Republic of Fiji: 2010 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion

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 2010 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 12, 2010, with the officials of the Republic of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 19, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 2, 2011 discussion of the staff report that concluded the Article IV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Republic of Fiji: Staff Report for the 2010 Article IV Consultation[1]

Prepared by Staff Representatives for the 2010 Consultation with the Republic of Fiji

Approved by Ray Brooks and James Roaf

January 19, 2011

Key Issues and Recommendations

Context: Fiji's economy contracted during 2007–09 amid the global financial crisis and a weak domestic investment climate, which has resulted from delayed reforms, political developments, administrative restrictions, and mismanagement in the sugar industry. The 2011 budget faces potential pressure from costs associated with the government takeover of the Fiji Sugar Corporation (FSC) and external payments. Public debt is high and rising.

Growth prospects: Real GDP growth is expected to have improved to 0–1 percent in 2010 and 2011 on the back of recovering tourism, exports, and investment driven by resource extraction (water and mining). The weak investment climate clouds medium-term growth prospects.

Focus: Identifying measures to support fiscal and external sustainability, to increase Fiji's resilience to shocks, and to lay the foundation for stronger growth.

Fiscal strategy: Fiscal consolidation to reduce public debt to below 50 percent of GDP; credible restructuring of FSC and the sugar industry; improved debt management. Limit contingent liabilities through full cost recovery for public enterprises. Mitigate the social impact of adjustment through well-targeted social safety nets.

External sustainability: Adopt a more flexible exchange rate regime and ensure that monetary and fiscal policies help protect reserves.

Supporting growth: Implement broad-based structural reforms to stimulate investment, including by phasing out exchange and price controls and pursuing land lease reform to help diversify the sources of growth.

The *de facto* exchange rate arrangement is a conventional peg (see Informational Annex).

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[1] Discussions were held in Suva October 28–November 12, 2010 with government officials, labor unions, academia, and business groups. The team comprised Mr. Dunn (head), Mr. Dodzin, Mr. Wang (all APD), Mr. Yamada (FAD), and Mr. Ndela Ntsama (SPR). The team was assisted by Mr. Yang (Resident Representative) and coordinated with Mr. Davies (PFTAC). Ms. Veve (Asian Development Bank) and Ms. Alonso I Terme (World Bank) joined the mission. Mr. Toh (OED) participated in the discussions.

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I. INTRODUCTION

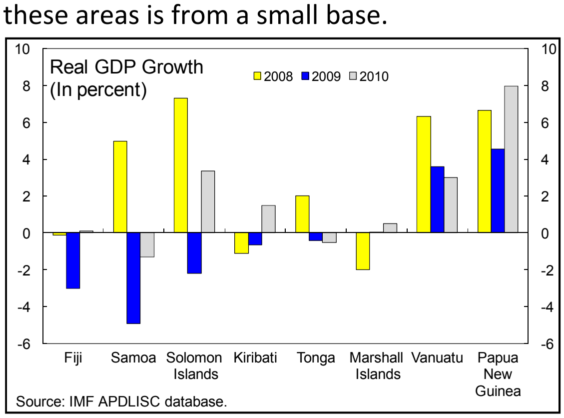
1. **Economic growth in Fiji has been negative or low for four years.** This compares unfavorably with other island economies in the region (Figure 1). Fiji's weak growth performance is in part due to the weak domestic investment climate that results from delays in structural reforms, an increase in administrative controls, the decline of the sugar industry, and political uncertainty. The global crisis and heavy rains and cyclones in 2009 and 2010 sapped further strength from the economy. This period has also been characterized by sharp swings in Fiji's terms of trade and foreign reserves, and an increase in public debt from 50 to 56 percent of GDP, due in part to government financing losses of the failed Fiji Sugar Corporation (FSC).

2. **It is now time to secure and supplement recent reform efforts and pursue strong fiscal consolidation to bolster Fiji's long-term growth prospects and ensure external and fiscal sustainability.** In the absence of ambitious reforms, growth is expected to be weak and public debt and contingent liabilities will remain high. The global crisis, commodity-price volatility and recent natural disasters have highlighted Fiji's vulnerability to shocks. This suggests that the macroeconomic policy framework and key institutions should be strengthened to improve Fiji's capacity and flexibility to absorb shocks.

II. BACKGROUND

A. Macroeconomic Developments

3. **Fiji's economy contracted by 3 percent in 2009 and marginal growth is estimated for 2010** (Text Figure). The 2010 improvement is based on tourism rebounding on the strength of regional economies and the ongoing competitive gain secured through the April 2009 devaluation (Figure 3). Exports and investment driven by resource extraction are showing positive signs, though growth in these areas is from a small base.



4. **Inflation has fallen sharply.** After rising to over 10 percent y/y in the 12-months following the devaluation, inflation—inclusive of two electricity tariff increases—moderated to 4.0 percent y/y by late 2010 on sluggish demand and steady international commodity prices. Price controls imposed on many food products since 2009 have likely contributed to low inflation.

5. **Foreign exchange reserves have improved steadily following the April 2009 devaluation and stood at over 4 months of imports ($710 million) at end 2010.** Reserves have, however, been artificially supported by exchange restrictions (Box 2). Nonetheless, the reserve level increased during 2010 even after adjusting for un-repatriated dividends.

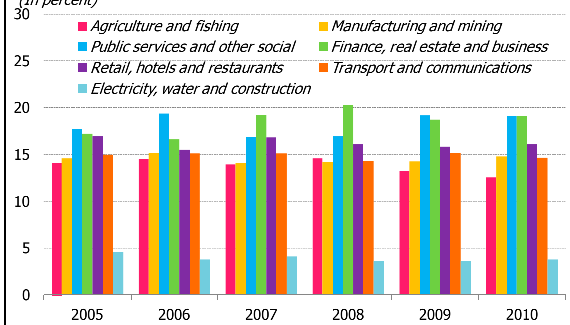
Box 1. Fiji: Identifying Sources of Economic Growth

Fiji's economic growth was low in the past few years and the structure of the economy remained broadly unchanged. The public sector, finance, and tourism-related sectors such as retail and hotels continue to be the largest parts of the economy. In addition, the share of agriculture in GDP has declined recently mainly due to natural disasters and the deterioration of the sugar sector. Nonetheless, more than half of the population is still involved in agriculture, reflecting lack of employment opportunities in other areas and low productivity growth in this sector.

The weak business climate results in sluggish private investment and is the major impediment to economic growth in Fiji. Structural issues related to land leases and uncertainty about regulations are among main factors affecting the business climate. The economy was hit hard by the global crisis and contracted by 3 percent in 2009, with most sectors suffering across the board. The contribution to growth from the public sector is significant but volatile.

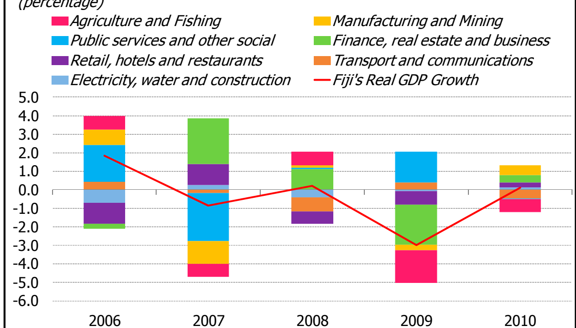
Fiji's economy—especially tourism and finance—is linked closely to its regional neighbors. These links also increase Fiji's exposure to external shocks. In the near term, growth will be supported by tourism, which is benefitting from quick recovery in Australia and New Zealand and the effect of the 2009 devaluation. The mining sector also shows promise.

Fiji: Components of GDP[1]
(In percent)



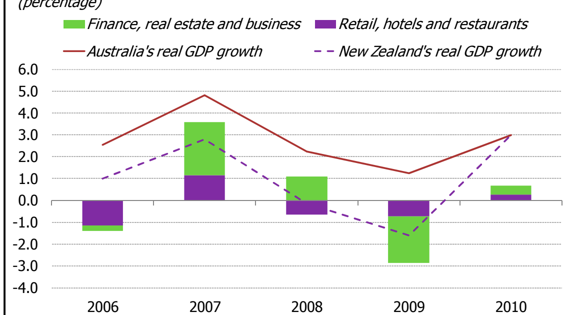
Sources: Fiji Islands Bureau of Statistics, and IMF staff estimates.
[1] Projections for 2010.

Fiji: Contribution to GDP growth[1]
(percentage)



Sources: Fiji Islands Bureau of Statistics, and IMF staff estimates.
[1] Projections for 2010.

Fiji: Linkage of growth with Australia and New Zealand[1]
(percentage)



Sources: Fiji Islands Bureau of Statistics, and IMF staff estimates.
[1] Projections for 2010.

Box 2. Fiji: Exchange Restrictions

Fiji maintains a number of exchange restrictions and controls for companies and individuals. The main restrictions and controls are:

- **Exchange restrictions subject to Fund approval under Article VIII.** (i) Repatriation by foreign banks of their audited profits is limited to a certain amount each year based on negotiation with the RBF; (ii) Tax certification requirement before foreign companies can remit profits; and (iii) Direct limits on large payments for imports (e.g., oil).

- **Activities not delegated to commercial banks and requiring RBF permission.**[1] (i) Profit remittances and the withdrawal of investments by companies must generally be staggered over several months based on agreement with the RBF; (ii) Emigration allowance (up to $200,000 per annum); (iii) Offset of foreign exchange earnings against foreign currency payables other than payment of imports already landed in Fiji; (iv) Foreign currency accounts—for local individuals and locally registered business entities ; (v) Offshore insurance payments; (vi) Mortgage of Fiji registered assets to secure transactions held outside Fiji; (vii) Local borrowing by nonresident individuals and nonresident-controlled companies.

- **Activities delegated to commercial banks (up to certain limits).**[1] Payments including court order, education and medical expenses, advance import payments, and other current account transactions, etc.

- **Activities not allowed by the RBF.**[1] Offshore investments by nonbank financial institutions, companies, and individuals. Suspension applies to both new applications and existing approvals not yet utilized.

These restrictions limit income outflows in the balance of payments and thus artificially support Fiji's international reserves. However, staff analysis suggests that, even without these restrictions, reserves would have been on an upward path, reflecting the strengthening of Fiji's external position after the devaluation.

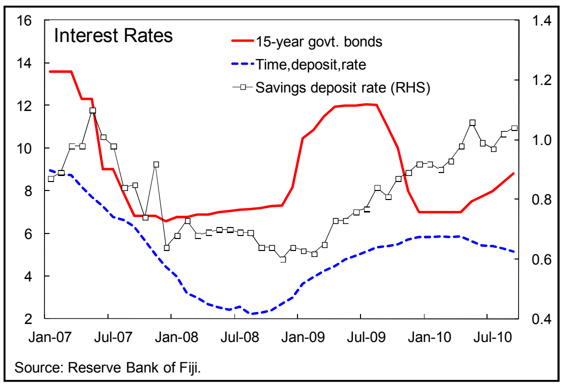
Fiji: International Reserves
(In millions of U.S. dollars unless noted overwise)

	2005	2006	2007	2008	2009	Est. 2010	Proj. 2011
Baseline	520	310	519	317	565	710	705
(In months of imports)	3.2	2.0	2.5	2.1	4.0	4.3	4.4
Counterfactual alternative (no restrictions on bank dividend repatriation)	520	310	519	305	527	654	628
(In months of imports)	3.2	2.0	2.5	2.1	3.7	4.0	3.9

Sources: Fiji authorities, and IMF staff estimates.

[1] Staff is assessing whether the measures related to these activities may give rise to exchange restrictions subject to Fund jurisdiction under Article VIII, Sections 2(a), 3 and 4.

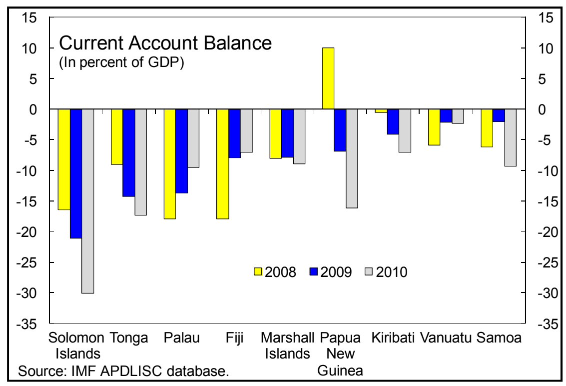
6. **Interest rate controls were relaxed.** To allow banks to better price risk, the Reserve Bank of Fiji (RBF) in January 2010 removed ceilings on bank lending rates, though banks must justify deposit-lending rate spreads greater than 4 percent. In response, average deposit and lending rates rose marginally. Banks report limited lending opportunities due to the weak investment climate, and credit growth has been modest (Figure 7). The government re-established variable rate auctions for government securities in May 2010. Government borrowing costs have risen as banks and the Fiji National Provident Fund (FNPF) can now better price risk.



7. **The fiscal deficit is estimated to have fallen to 3.6 percent of GDP in 2010 from 3.9 percent of GDP in 2009.** This reduction resulted from a public hiring freeze (other than for key IT, HR, and financial control positions), lower-than-budgeted capital spending, and stronger-than-projected VAT receipts (in part reflecting the need to clear fewer VAT refund arrears in 2010 after a major refund effort in 2009). Preliminary data indicate that the FNPF financed most of the deficit as banks remain near their sovereign limits.

8. **Central government debt at end-2010 is estimated at 56 percent of GDP.** Contingent fiscal liabilities are estimated at 17.6 percent of GDP at end 2010 and fully reflect newly identified guarantees on bonds issued by Fiji Development Bank (FDB). Loans for infrastructure of about $185 million have recently been negotiated with China Development and Malaysia EXIM banks and these loans are incorporated in the baseline macroeconomic projections.

9. **The current account deficit is expected to have narrowed from 8 percent of GDP in 2009 to 7 percent of GDP in 2010 (text figure).** This reflects the improvement of non-sugar exports and the rebound in tourism.

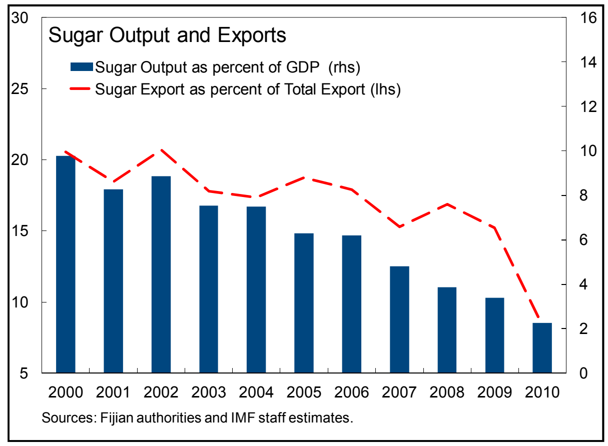


10. **The government is in the process of taking over FSC.** Mismanagement has resulted in the company's inability to service its government-guaranteed debts amounting to 3 percent of GDP (Box 3). The government is developing a sugar industry reform plan and intends to restructure FSC and the sugar industry over the coming three years.

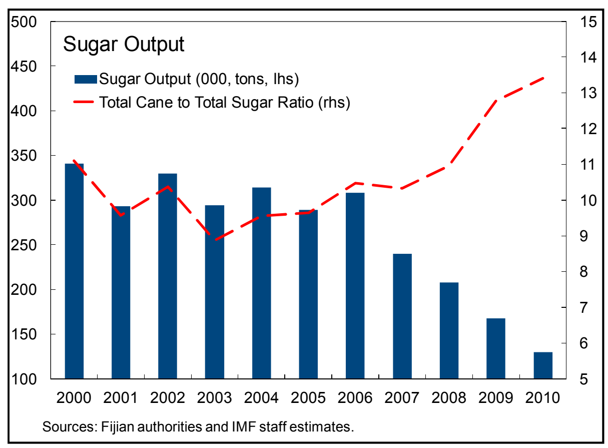
Box 3: Fiji: Fiji's Sugar Industry

Fiji's sugar industry was founded in the mid-1800s and beginning in 1879 labor was brought from India to grow cane. The vast majority of cane farmers today are still of Indian descent. At independence in 1970, sugar accounted for 70 percent of export earnings. Fiji's sugar mills were privately owned until 1973, at which time the government brought all four mills under the newly formed Fiji Sugar Corporation (FSC), a majority state-owned company.

The sugar industry remains important for the economy. It is estimated that 200,000 people—over 20 percent of the population—depend on the industry for their livelihoods (growers, transporters, millers, and associated service providers). However, the share of sugar in total export earnings and in GDP has declined significantly since 1990.



The quantity and quality of sugar cane grown have fallen since the 1990s due to shorter-term lease renewals that discourage investment, aging farmers, and emigration due to political uncertainty. The efficiency of cane crushing has also deteriorated sharply in recent years despite a mill upgrade program undertaken by FSC during 2006–2010 at a cost of $45 million (1.5 percent of GDP). Reduced cane quality and poor mill efficiency are reflected in the rising total cane to total sugar ratio (TCTS).



FSC has been operating at a loss for the past four years, in large part due to the mismanagement of the mill upgrade program that has left FSC unable to crush the minimum quantity of cane for the company to be profitable. During this period the government has provided guarantees on borrowing by FSC to cover both the mill upgrade cost and the company's operating losses. Total guaranteed debt of FSC stood at $92 million (3 percent of GDP) at end 2010.

B. Outlook and Risks

11. **Growth is likely to be around 1 percent in 2011.** This modest rebound will be driven by recovery in agriculture following drought in 2010 and continued improvement in tourism. FDI weakened during 2009-10 and investment-goods imports and lending for investment have been, and are anticipated to remain, weak (Table 4). Growth is projected at 1 to 2 percent over the medium term in light of the weak investment climate, which is persisting due to structural rigidities, exchange restrictions and price controls, and political uncertainty.

12. **Inflation is projected to fall to 3 percent over the medium term.** Banks' excess liquidity has increased to 12 percent of deposits in recent months. Much of this is attributable to the lack of lending and investment opportunities for banks and exchange restrictions preventing or delaying outflows. Excess liquidity is now only slightly lower than one year ago despite efforts by the RBF to mop up liquidity in 2010 through changes in the required reserve ratio and monetary operations. Liquidity is expected to build further in the coming months due to continued strong export receipts.

13. **Fiji faces multiple potential risks to macroeconomic and external stability.**

- Investment and growth are likely to remain weak without strong structural reforms and the removal of exchange and price controls;

- Without fiscal consolidation and stronger growth public debt will remain high and Fiji will not create the fiscal space it ought to have to respond to shocks;

- Excess liquidity in the banking system could feed into inflation pressure once recovery leads to more rapid credit growth. This could also put pressure on reserves through an increase in the current account deficit arising from higher imports. Short-term pressure would be even greater if exchange restrictions were relaxed and current income outflows were to increase;

- If Fiji experiences difficulties in rolling over its $150 million international bond in 2011 the government could face higher financing costs, have to identify significant spending cuts, and/or obtain central bank financing and use reserves to pay the bond off. This risk is judged as small at present due to substantial liquidity in Asia and the authorities' selection of an international bank to lead the bond issue but the ongoing turmoil in sovereign bond markets has the potential to complicate Fiji's bond refinancing.

Authorities' Views

14. **The authorities agree on the growth outlook and inflation prospects for 2011.** They acknowledge the need for structural reforms to lay the foundation for stronger growth but differ with staff on the importance of exchange restrictions and price controls as disincentives to investment. They believe that Fiji will be able to roll over its $150 million bond in the first half of 2011 though perhaps at a slightly higher interest rate than originally envisaged.

III. SUPPORTING GROWTH AND MAINTAINING FISCAL AND EXTERNAL SUSTAINABILITY

Fiji's near term challenge is to restore growth while ensuring fiscal and external stability. Success will rest on rapid implementation of structural reforms, fiscal consolidation, and strengthening the macroeconomic policy framework and the independence of the central bank. Specific structural measures include removing price and exchange controls, civil service reform, restructuring and reforming public enterprises and the pension fund, and implementing land reform. Without reforms, Fiji risks continued low growth, greater vulnerability from the concentration of economic activity in tourism and reduced fiscal space to deal with shocks.

A. Monetary and Financial Policies

15. **Staff supported the RBF's introduction of a new monetary policy framework in May 2010 and the announcement of a 3 percent policy rate, given low inflation, steady reserves and weak activity.** The new framework allows the RBF to manage liquidity through the sale and purchase of RBF bills and is an important move toward a more active and market-oriented monetary policy arrangement. Staff acknowledged that managing liquidity and targeting the policy rate has proved challenging in an environment of persistent excess liquidity and limited lending opportunities. The RBF's two increases in the statutory reserve deposit ratio in mid-2010 were appropriate and helped remove some of the potential risk associated with high liquidity. In the current environment of weak growth, zero core inflation and no wage pressure, the recent further reduction by 50 basis points of the key policy rate keeps policy neutral.

16. **The removal of ceilings on bank lending rates and the re-introduction of variable rate auctions for government securities are welcome.** Looking forward, staff urges the RBF to allow deposit and lending rates to respond to the demand for and supply of funds and thereby support credit demand from all borrowers, including small and medium enterprises.

17. **Staff cautioned the authorities to stand ready to tighten monetary policy gradually if projected inflation moves above 3 percent, or if liquidity increases and credit growth becomes too strong.** Given rising energy prices and the uncertain inflation outlook, any further reduction in the key policy rate should be avoided at this time.

18. **Removing restrictions on profit and dividend repatriation by foreign banks and companies would reduce excess liquidity while improving confidence, the appetite for borrowing, and growth prospects.** About half of excess liquidity arises from these restrictions. Staff urged the authorities to relax these exchange restrictions quickly and to remove them by the end of 2011.

19. **The RBF has improved supervision and supervision policy for both banks and insurance companies.** Progress has been made in a number of areas, including on 2006 FSAP recommendations (Appendix III). Commercial banks appear well capitalized and liquid (Table 6), albeit in part due to the lack of investment opportunities. Going forward, staff suggests that stress tests should be conducted and reviewed with banks at least semi-annually. Vacant bank examiner

positions should be filled as soon as possible to ensure effective, timely supervision. The RBF should leverage data on credit analysis available from large banks and enhance risk-based analysis and supervision of banks and FNPF.

20. **The government should be cautious about extending further guarantees to FDB.** FDB's nonperforming-asset ratio rose to 28 percent at end 2009. The government guarantees about 20 percent of FDB's loan portfolio and all bonds issued by FDB to fund its lending operations. Government guarantees to FDB stand at 5.3 percent of GDP.

21. **The government adopted in April 2010 its reform plan to put FNPF on a sound financial and actuarial footing.** This is a welcome development since FNPF is a monopoly pension fund and has assets equivalent to 62 percent of GDP. FNPF lending to quasi-government entities increased only marginally (F$12 million) in the year to June 2010. However, staff was concerned about FNPF's plans to invest further in real estate developments that have already created financial difficulties for the fund. Key steps taken or anticipated under the FNPF reform plan are covered in Appendix III and full implementation of these measures in 2011 will help ensure fiscal sustainability.

22. **The first-time safeguards assessment of RBF has now been completed, which found key safeguards elements in place.** The RBF publishes annual financial statements, albeit with some delay, that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of autonomy of the RBF is very low, with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were recommended by the staff for others. The assessment also made recommendations to establish an inter-departmental working group to develop procedures for compilation of monetary program data, and adopt an action plan for establishing RBF capacity to prepare IFRS financial statements. The authorities are already working towards implementing the recommendations.

Authorities' Views

23. **The authorities believe the current stance of monetary policy is appropriate given weak growth and low inflation.** They suggested the policy rate could be lowered further to support fiscal objectives, notwithstanding the high level of excess liquidity. They indicated that interest rate flexibility will be maintained to ensure the effectiveness of monetary policy and allow banks and other financial institutions to properly price risk. The RBF noted it will take steps to improve the quality and timeliness of bank supervision. The authorities are cognizant of high contingent fiscal liabilities but feel that FDB plays a key role in lending to agriculture and that further government support to the bank is necessary, while keeping FDB under close supervision by the RBF. The authorities intend to complete reforms of FNPF during 2011 and will consider allowing FNPF to invest more offshore.

B. Fiscal Policy

24. **Staff projects a 2011 deficit of 3.7 percent of GDP (Table 3), based on the authorities' budget (which shows a deficit of 3.5 percent of GDP on a different statistical treatment of some items).** Staff recommended a 2011 deficit of 3 percent of GDP to start the fiscal consolidation necessary to reduce Fiji's public debt to less than 50 percent of GDP over the medium term. Staff supports the increase of the VAT rate from 12.5 percent to 15 percent and policy changes to increase the yield of excise taxes. All of the increased revenue in 2011 will therefore be used to finance FSC restructuring costs and higher capital and non-wage recurrent spending, in part to increase social protection programs. These measures are estimated to yield increased revenue of 2.3 percent of GDP. The government's intention to continue to limit hiring and the growth in the wage bill will also help restrain expenditure growth in 2011. These measures are, however, more than offset by ambitious capital spending plans and higher nonwage current spending.

25. **On the financing side, the discussions focused on options to roll over the global bond and ensure domestic financing requirements are feasible.** The authorities are working with an international bank to roll over the global bond in the first half of 2011. Staff considers such an approach reasonable but commented there is some risk that the cost to roll over the bond could increase, especially for a full rollover in the current global environment.

26. **Staff noted strict adherence to debt management procedures would help avoid a rapid, excessive build-up of public debt.** Staff urged the authorities to ensure that new loan discussions are coordinated across government agencies and that new borrowing is consistent with debt sustainability and takes into account currency risk.

27. **Staff welcomes the inclusion of 1.7 percent of GDP in 2011 budget expenditure to begin restructuring FSC.** It is, however, critical that government develops a well-designed reform plan for FSC so that allocated funds are used for successful restructuring of the company, which is a necessary step in the overall strategy to reform the sugar sector. Staff urged the authorities to consider divestment of FSC as an option when withdrawing budget support in the future.

28. **The current stance of fiscal policy will not create the fiscal space Fiji needs to be able to react to shocks in the future.** With existing policies, public debt will rise by 0.7 percent of GDP by 2015 and contingent liabilities will remain high. This falls well short of the government's own stated goal of reducing public debt to 45 percent of GDP in the medium term. Under a somewhat more ambitious reform program based on civil service rationalization, land reform, and the elimination of exchange restrictions and price controls, the combination of a lower wage bill and higher growth would reduce public debt to below 50 percent of GDP by 2016 and help contain contingent liabilities (text table).

29. **Staff reiterated its advice to introduce a simplified investment allowance scheme.** It commended the authorities for initial steps to restrict any new tax holidays. At the same time, staff expressed concern that some of the measures introduced in the 2011 budget—such as water resource tax rates differentiated by scale of production

and sharp increases in import duties on some items—could distort economic incentives and might erode business confidence if they are perceived to be arbitrary and create uncertainty.

Authorities' Views

30. **The government is mindful of the level of public debt but views a continued expansionary fiscal stance, supported by an accommodative monetary policy, as the best policy mix to support medium-term investment and growth.** The authorities agree on the need to simplify investment incentives and plan steps to achieve this in the medium term. As noted earlier, they do not foresee any difficulties in rolling over the global bond but acknowledge some risk that the interest rate could be higher than assumed in the budget. They agreed that debt management procedures should be strengthened and will take measures to ensure better coordination of future borrowing.

Fiji: Fiscal Deficit and Central Government Debt : No Adjustment and Adjustment Scenarios
(As percentage of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016
Budget deficit								
Baseline	-3.9	-3.6	-3.7	-2.8	-2.2	-2.5	-1.9	-1.8
Alternative scenario		-3.6	-3.0	-2.1	-1.3	-1.5	-0.8	-0.6
Gross Central Government Debt								
Baseline	55.4	55.9	58.9	58.8	58.5	57.7	56.6	54.1
Alternative scenario	55.4	55.9	58.2	56.9	55.3	53.1	50.8	47.1
Net Central Government Debt								
Baseline	51.5	52.1	55.2	55.2	55.0	54.4	53.5	51.2
Alternative scenario	51.5	52.1	54.5	53.4	51.9	50.0	47.7	44.2
Memorandum item:								
FSC costs		0.7	1.7	0.9	0.2	0.7	0.2	0.2

Sources: Fiji authorities and IMF staff estimates.

C. External Balance and Vulnerabilities

31. **The baseline external current account deficit is projected to be 7–8 percent of GDP over the medium term.** This represents a substantial improvement compared to projections at the time of the 2009 Article IV Consultation. This reflects stronger non-sugar exports, tourism receipts and remittances; subdued import demand due to weak growth; and lower-than-earlier projected outflows of dividends and profits, consistent with current government policy. The overall balance of payments is now

projected to be fully financed going forward—assuming reserve coverage of around 4 months of imports—due to these developments and assuming rollover of the global bond.

32. **External vulnerabilities arise from the narrow export base and volatile commodity prices, and risks highlighted above, namely natural disasters, exchange restrictions that are limiting outflows, and potential difficulties in rolling over the global bond in 2011.** All of these factors argue for reserves closer to 5 months of import cover, following from tighter fiscal policy and an improved investment climate.

- Foreign exchange earnings depend heavily on tourism, sugar exports, and remittances. While remittances have been strong, the increased reliance on tourism—which has been volatile—and the uncertain outlook for sugar create risks.

- Food, oil and other commodity prices have started to increase. Fiji is import dependent for these items and further price increases could put pressure on reserves.

33. **Debt sustainability analysis shows a number of vulnerabilities.** Shocks to the outlook could push central government debt to 61 percent of GDP by 2015 (Appendix IV). Fiji has low external debt—currently 17 percent of GDP—but a combination of shocks to GDP growth, interest rates and the current account could raise external debt to 23 percent of GDP.

Authorities' Views

34. **The authorities agreed on the improved outlook for the current account while acknowledging that this is driven in part by weaker growth prospects and exchange restrictions.** They noted that they intend to review and relax exchange controls in 2011 if reserves continue to build. They are mindful of the vulnerabilities arising from Fiji's position as a small open economy and would like to target reserves sufficient to cover 4 to 5 months of imports. They are confident that Fiji will be able to obtain the external financing it needs in 2011 at reasonable cost.

D. Exchange Rate Policy

35. **The 20 percent devaluation of April 2009 improved competitiveness.** The REER has not changed significantly in the past 12 months and Fiji has locked in a sizeable competitive gain from the devaluation. The exchange rate assessment is complicated by weaknesses in data but all three CGER approaches show that the exchange rate is broadly in line with fundamentals (Box 4). Direct indicators such as growing reserves and modest real wage growth support this conclusion. For the special case of sugar, export earnings and profitability have declined due to the reduction in the EU support price and developments in the domestic industry—such as mismanagement of FSC, the breakdown in the sugar transport system, and the abandonment of sugar farms—that have reduced production capacity.

36. **Staff encourages the authorities to adopt a more flexible exchange rate regime.** Fiji's exchange rate peg to a basket has served as a nominal anchor, but has led to periodic overvaluation and repeated sharp devaluation due to inconsistent fiscal and monetary policies and adverse terms-of-trade shocks. A more flexible regime—based initially on an exchange rate band of ±2–3 percent around the current parity—would help Fiji absorb external shocks and protect its reserve position. A new regime would, however, need to be supported with prudent fiscal and monetary policies. It would also require the RBF to be given full autonomy in managing monetary policy and the exchange rate regime.

Authorities' Views

37. **The authorities agree that the devaluation continues to pay dividends and agree with the exchange rate assessment.** They are reconsidering their earlier decision to adopt a more flexible exchange rate regime and may retain the basket peg as their nominal anchor because—in their view—such a move could be premature given uncertainties about the macroeconomic environment and the current policy mix.

Box 4. Fiji: Exchange Rate Assessment

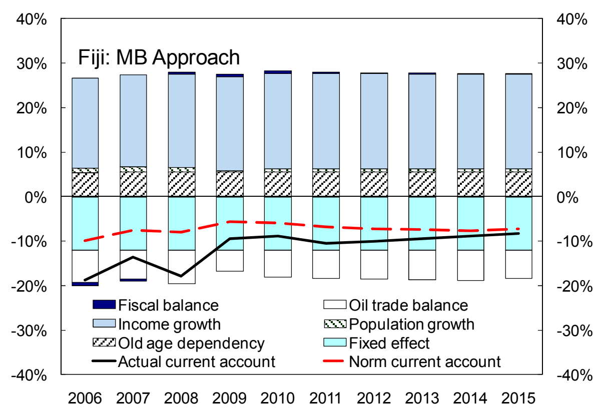
Staff estimates show the exchange rate is broadly in line with fundamentals. Staff's calculation of the underlying current account to GDP ratio incorporates estimated outflows that would occur in the absence of the restriction on dividend repatriation. The Macro Balance (MB) approach shows that the currency is close to its estimated equilibrium level. Both the Equilibrium Real Exchange Rate (ERER) approach and the External Stability (ES) approach suggest there is no evidence of substantial misalignment. With the MB approach, the decomposition of the fitted values into time-varying contributions implies demographic factors and relative income growth are the main factors in determination of the equilibrium current account balance. With the projected low growth and improved fiscal position, the current account balance tends to stabilize around its current level over the medium term. In the ERER approach movements in terms of trade are the key driving forces for the equilibrium exchange rate, while the ES approach indicates that rising foreign debt and low economic growth are potential risks to external stability. Each approach is subject to uncertainty because of the size of potential dividend outflows and/or model limitations.

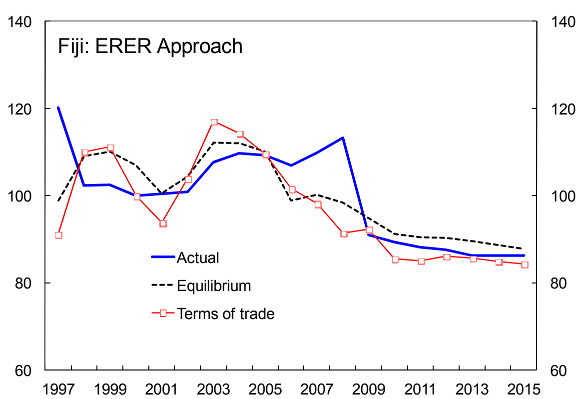
Rising foreign reserves and low real wage growth also imply no overvaluation for the real exchange rate at present. Since the 20 percent devaluation in April 2009 foreign reserves have increased substantially. Staff calculations suggest that reserves would have increased even in the absence of restrictions on dividend repatriation due to rebounds in tourism and workers' remittances. In addition, falling inflation and lower real wage growth compared to major trading partners suggest that the currency is not under high pressure for depreciation.

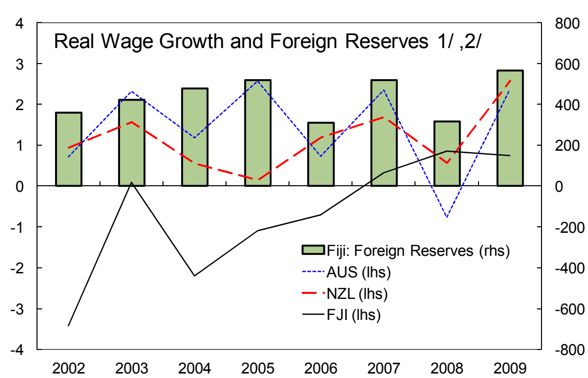
Exchange Rate Assessment 1/

	CA/GDP		REER
	Norm	Proj. 2/	Overvaluation
MB approach 3/			
Current account balance (CAB)	-7.3	-8.2	3.1
ERER approach 4/	…	…	-1.8
ES approach 5/			
NFA stabilizing CAB	-6.1	-8.2	6.9

1/ All results are expressed in percent.
2/ Staff projection of the underlying CA/GDP in 2015 without assuming restrictions on repatriation of the dividends.
3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.3
4/ Overvaluation is assessed relative to October 2010.
5/ Current account deficit that stabilizes net foreign liabilities, estimated at 120 percent of GDP in 2015.







1/ Real wage growth in annual % change.
2/ RBF holdings of foreign reserves only, in millions of US Dollars.

E. Structural Reforms

38. **Structural reforms would spur growth and help protect macroeconomic stability.** Priorities identified by the government include public enterprise, civil service, and land reform. The removal of widespread price controls would help improve economic efficiency and build investor confidence.

39. **Public enterprise reform will support private-sector led growth and help contain fiscal risks.** Staff supports the government's decision to take over the FSC and restructure the company. Finalizing quickly a credible sugar industry reform plan will reduce uncertainty for potential investors and help ensure that the fiscal costs of FSC and sugar industry reform are minimized. Raising utility tariffs for services provided by public enterprises to full cost recovery would eliminate losses and encourage private investment. Staff welcomes the government's approval of higher electricity tariffs in 2010 as this should allow the Fiji Electricity Authority (FEA) to proceed with much-needed investment and attract more independent power producers to Fiji. Tariff adjustments tied to public enterprises should be accompanied by well-targeted subsidies—or other mechanisms such as the existing lifeline electricity tariff—to protect the poor. Improved oversight of public enterprises and moving regulatory functions to an independent entity would help improve governance.

40. **A well-designed and comprehensive civil service reform will create space for public investment in priority areas and contribute to fiscal sustainability.** Staff supports the functional review of public service positions being undertaken by the government. This should allow for a comprehensive analysis of government functions and wage and salary expenditures, including of the police and military. The adoption of performance-based remuneration would be important for a sustainable reform and more attractive redundancy packages would assist in right-sizing government. The successful creation of the Water Authority of Fiji in 2010 is encouraging and staff welcomes government's efforts to identify other non-core services that can be outsourced.

41. **Land tenure reform would encourage private sector investment and job creation.** The government's decision to create a land bank to facilitate long-term leases should help support greater utilization of land and development and diversification of agriculture. The recent announcement of a major investment in bauxite mining on land obtained through the land bank is a good example of the growth dividends that are flowing from the government's structural reforms.

42. **Staff urges the government to eliminate price controls.** These controls distort market signals and discourage investment, including in small-scale agriculture. It would be preferable to use targeted transfers to mitigate the impact of price rises on vulnerable groups.

Authorities' views

43. **The authorities agree that public enterprise reforms must proceed soon to improve efficiency and help contain fiscal**

risks. They intend to adopt a comprehensive reform plan for the FSC in 2011 and are preparing for the partial divestment of the FEA. They noted that the ongoing functional review of the civil service will guide future reform efforts, though a comprehensive civil service reform is several years away. The authorities are hopeful that the land bank will attract substantial voluntary traditional land deposits that can then be sub-leased to investors. The authorities commented that they understand the costs associated with price controls but stated that this is their preferred way to deliver assistance to the poor and noted their concern that certain retailers are making excessive profits.

IV. STAFF APPRAISAL

44. **Fiji faces difficult challenges to break away from its low growth of the past decade.** There are encouraging signs of recovery, but stronger, sustained growth would require a more favorable investment climate that can materialize only through continued structural reforms and the removal of administrative controls. There are a number of downside risks to the growth outlook. Public debt and contingent liabilities are equivalent to 74 percent of GDP and limit the fiscal space Fiji should reserve to respond to frequent shocks. Volatile commodity prices, increasing reliance on tourism, risk of natural disasters and some uncertainty about external financing represent significant vulnerabilities. Investor interest is likely to remain subdued in the presence of exchange and price controls and continued political uncertainty.

45. **The current monetary policy stance is appropriate.** High excess liquidity in the banking system reflects the weak economic environment and exchange restrictions. Monetary policy should be gradually tightened if core inflation rises or a return of confidence leads to strong credit growth. Restrictions on the repatriation of profits and dividends should be relaxed to build investor confidence.

46. **The 2011 budget deficit of 3.7 percent of GDP falls short of the effort needed to bring public debt below 50 percent of GDP in the medium term.** The authorities are to be commended for the bold revenue measures in the 2011 budget. If these are complemented by ambitious civil service and public enterprise reform Fiji will move towards fiscal sustainability.

47. **Public enterprise and FNPF reform will bolster fiscal sustainability.** The fiscal risk of supporting public enterprises has been made clear by FSC. The government should move quickly to finalize the FSC restructuring plan and the company should be divested within the next three years. FNPF reforms detailed in Appendix III should be completed in 2011.

48. **Fiji should adopt a more flexible exchange rate regime to help absorb shocks and protect reserves**. An appropriate first step would be to move to an exchange rate band of ±2–3 percent around the current rate. This should be supported by strong fiscal adjustment, prudent monetary policy, and continued interest rate flexibility. The independence of the RBF should be strengthened and changes to the RBF Act recommended in the recent safeguards assessment should be implemented.

49. **Recent RBF action to strengthen bank supervision is welcome but further steps toward risk-based supervision are needed.** Stress tests should be conducted and reviewed with banks more frequently and the RBF should make greater use of credit-analysis data available from large banks.

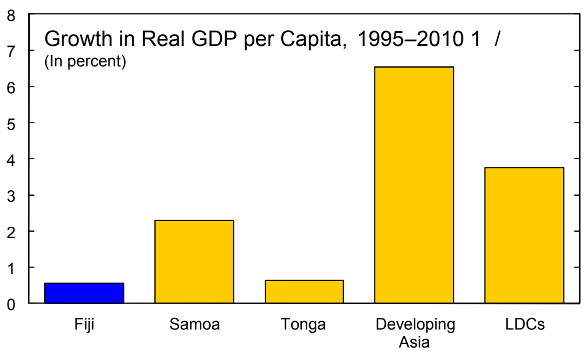
50. **Structural reforms are necessary to spur growth and would help protect macroeconomic stability.** Well-designed land reform and the removal of price controls should support investment and the diversification of economic activity. Civil service reform and adjusting tariffs for public services will help contain contingent liabilities and should increase efficiency. The social impact of redundancies and higher tariffs can be addressed through retraining programs and additional targeted social assistance.

51. **A number of exchange restrictions are subject to Fund approval under Article VIII (Box 2).** Restrictions arise from tax certification requirements before foreign companies can remit profits and direct limits on large payments (dividend payments and oil payments). Staff does not recommend IMF Executive Board approval of these restrictions and advises that they be removed.

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

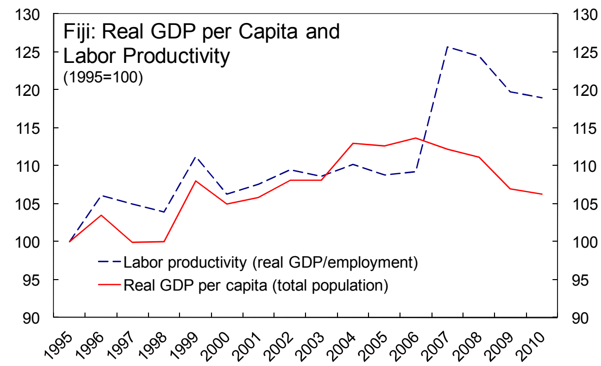
Figure 1. Fiji: Macroeconomic Developments

Real GDP per capita has stagnated for more than a decade, unlike in comparable countries…



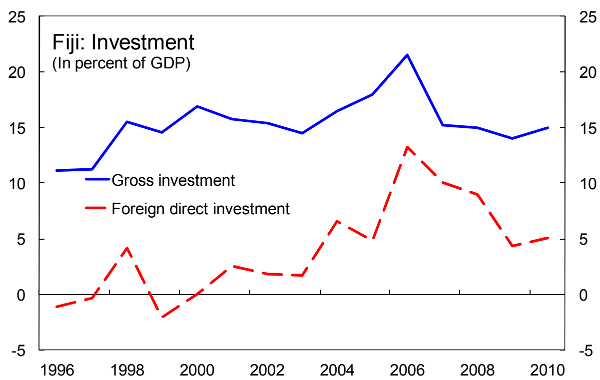
Sources: IMF, World Economic Outlook database; and Fund staff calculations.
1/ Geometric average.

…and even declined in recent years.



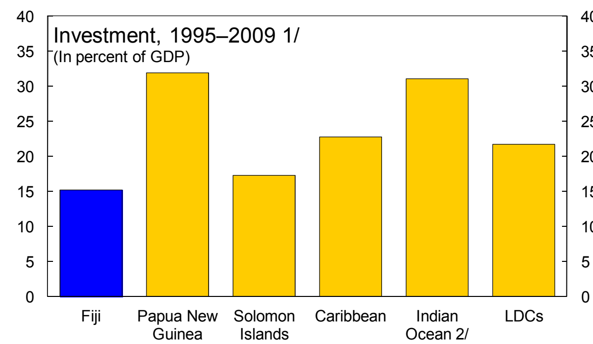
Sources: Fiji Islands Bureau of Statistics; and Fund staff estimates.

Investment rose in 2003–06 but stagnated after the 2006 coup…



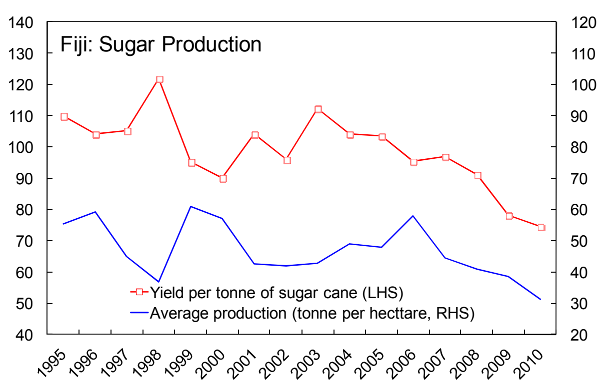
Sources: Fiji authorities; and Fund staff estimates.

…and remains low by international standards.



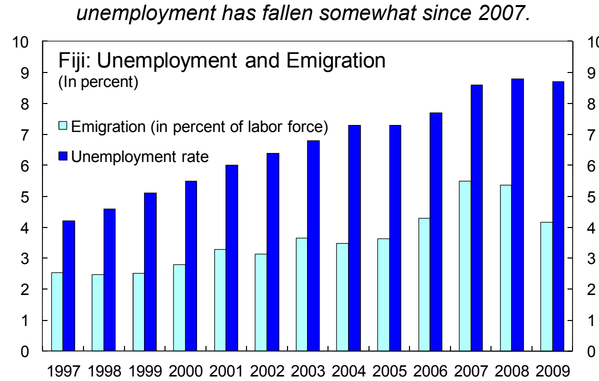
Sources: IMF, World Economic Outlook database; and Fund staff calculations.
1/ Simple averages.
2/ Mauritius, Seychelles, and Maldives.

The sugar sector has been deteriorating with lower yields.



Source: Fiji Islands Bureau of Statistics.

Emigration has deprived the economy of skilled labor, while unemployment has fallen somewhat since 2007.



Sources: Reserve Bank of Fiji; Fiji Islands Bureau of Statistics; and Fund staff estimates.

Figure 2. Fiji: Post-Crisis Comparison of Pacific Island Countries

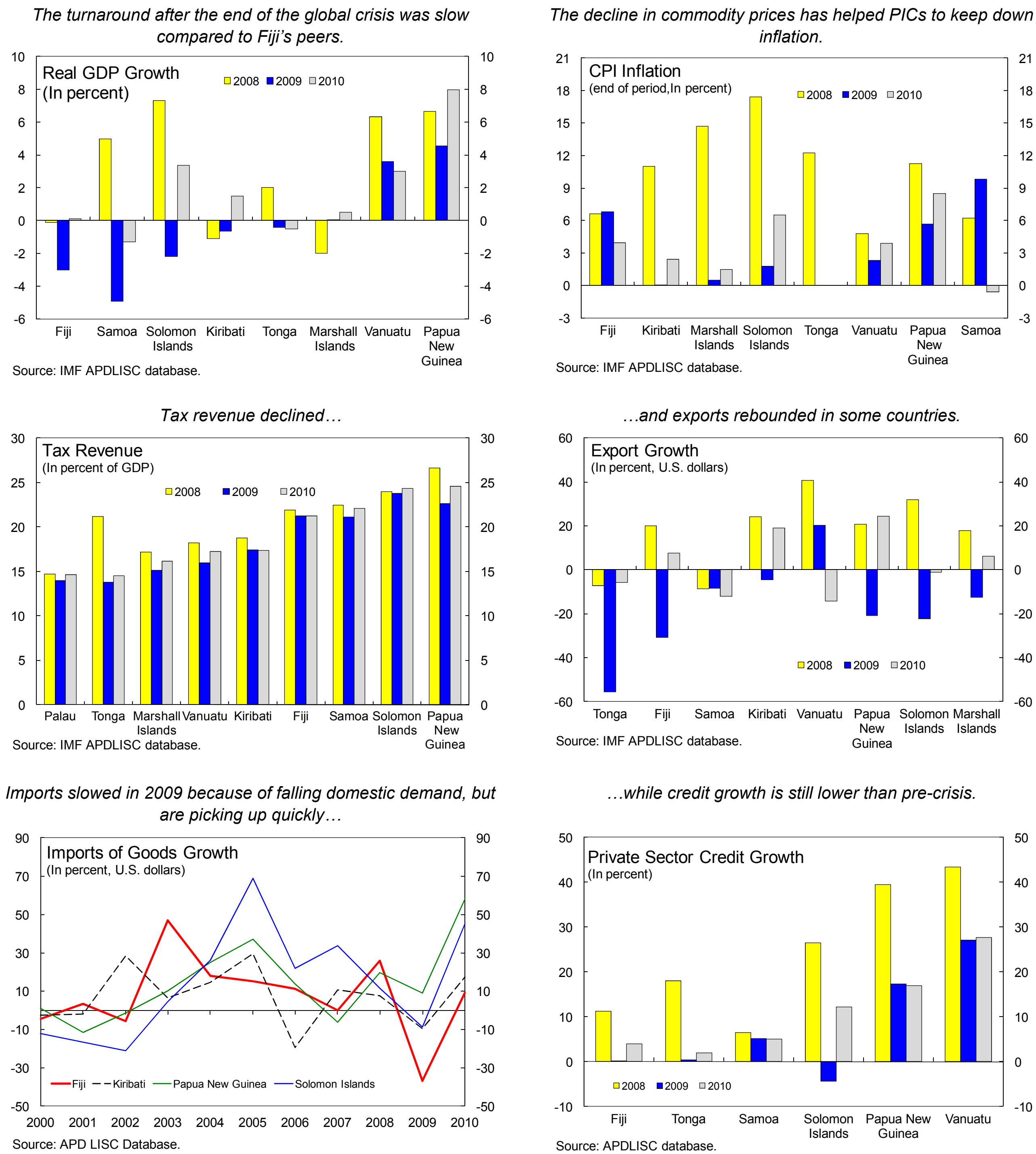
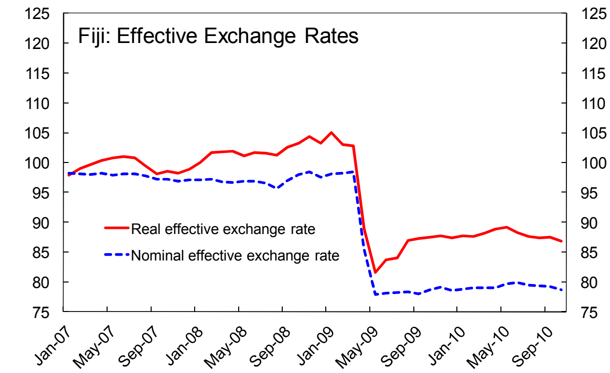


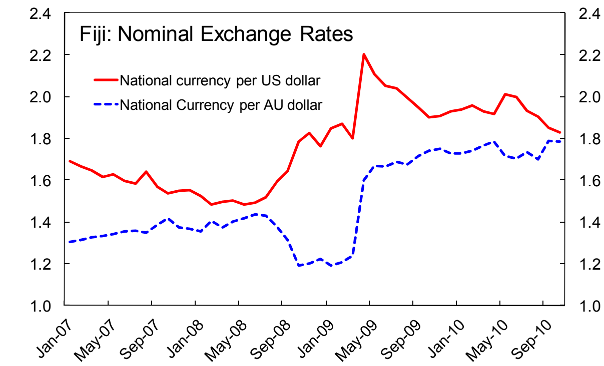
Figure 3. Fiji: Exchange Rate and Inflation Developments

The gains from the 2009 devaluation have held…



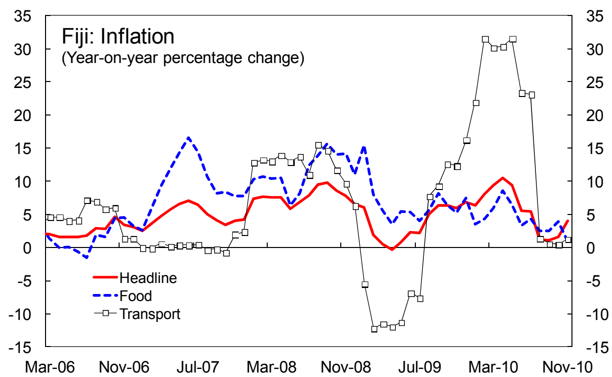
Source: IMF, Information Notice System; and Fund staff estimates.

…with a larger depreciation against the Australian dollar than the U.S. dollar because of U.S. dollar weakness.



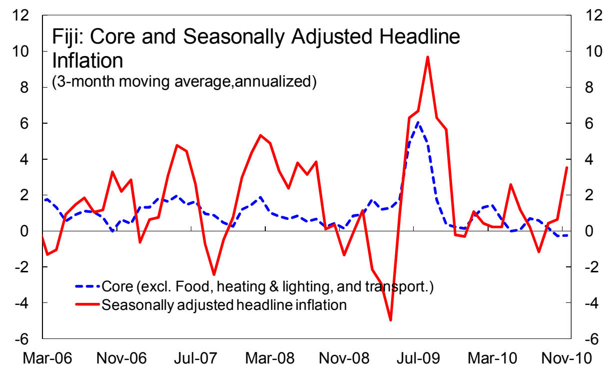
Source: Reserve Bank of Fiji; and Fund staff estimates.

Annual inflation (year-on-year) increased in 2009, but eased in 2010…



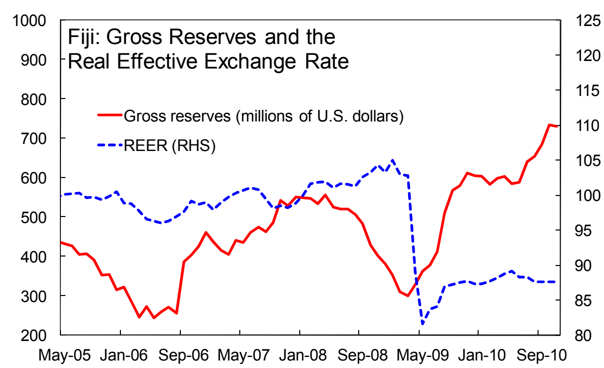
Source: Fiji Islands Bureau of Statistics.

…and seasonally adjusted and core measures suggest that inflation may have already peaked.



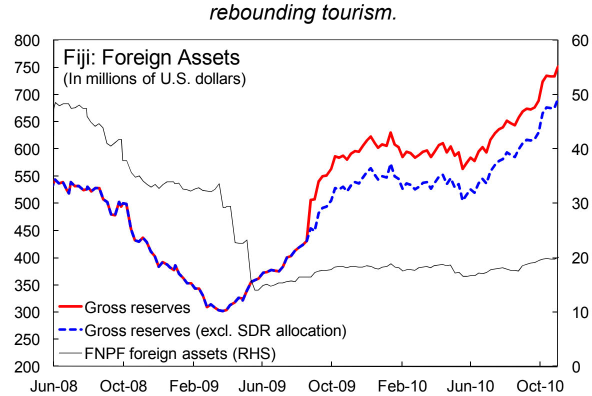
Sources: Fiji Islands Bureau of Statistics; and IMF staff calculations.

Reserves increased following the devaluation…



Sources: Reserve Bank of Fiji; IMF, Information Notice System; and Fund staff estimates.

…and also because of the 2009 SDR allocation and rebounding tourism.



Source: Reserve Bank of Fiji; and Fund staff estimates.

Figure 4. Fiji: Balance of Payments

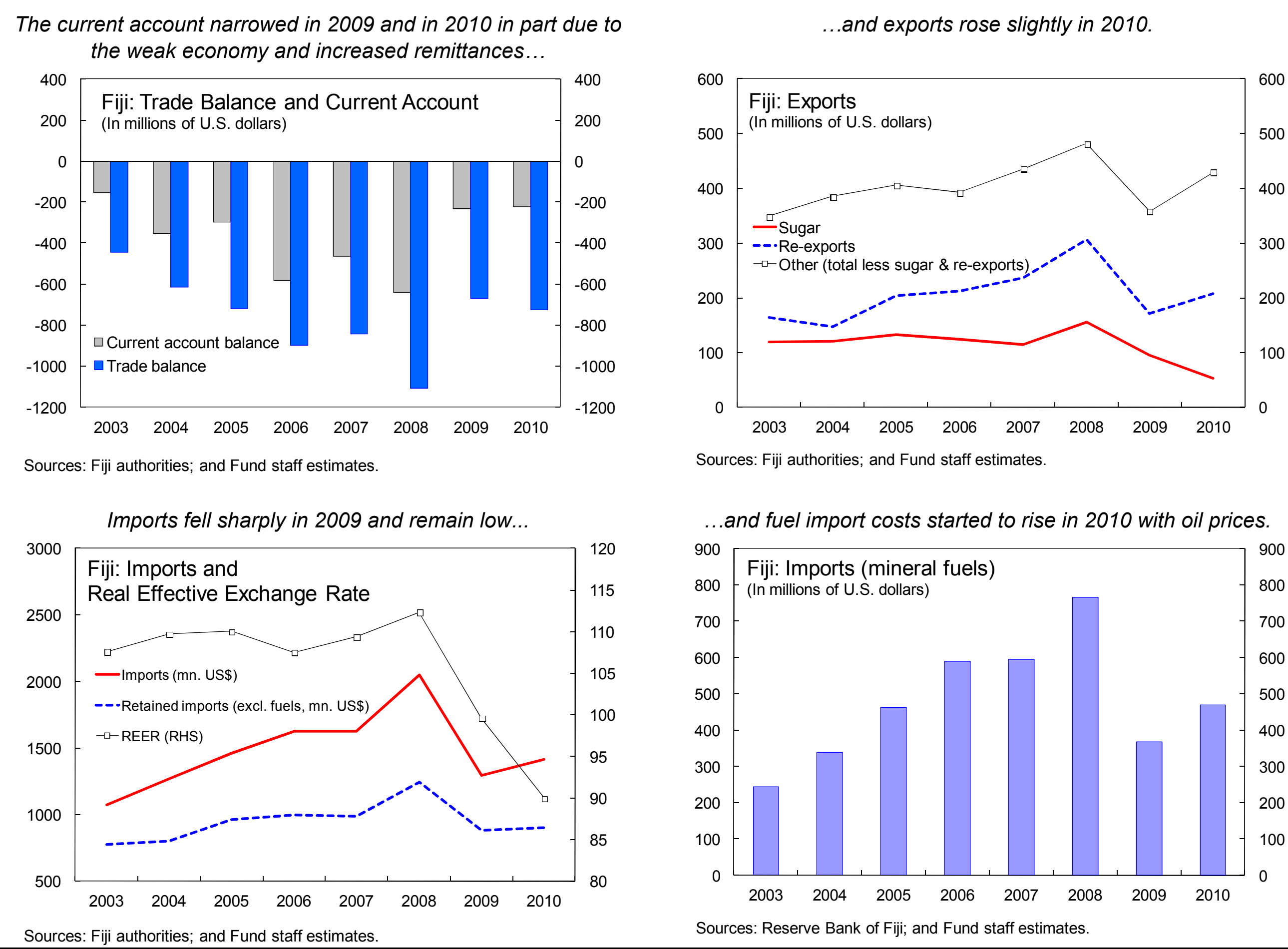


Figure 5. Fiji: Tourism Developments Affecting Fiji

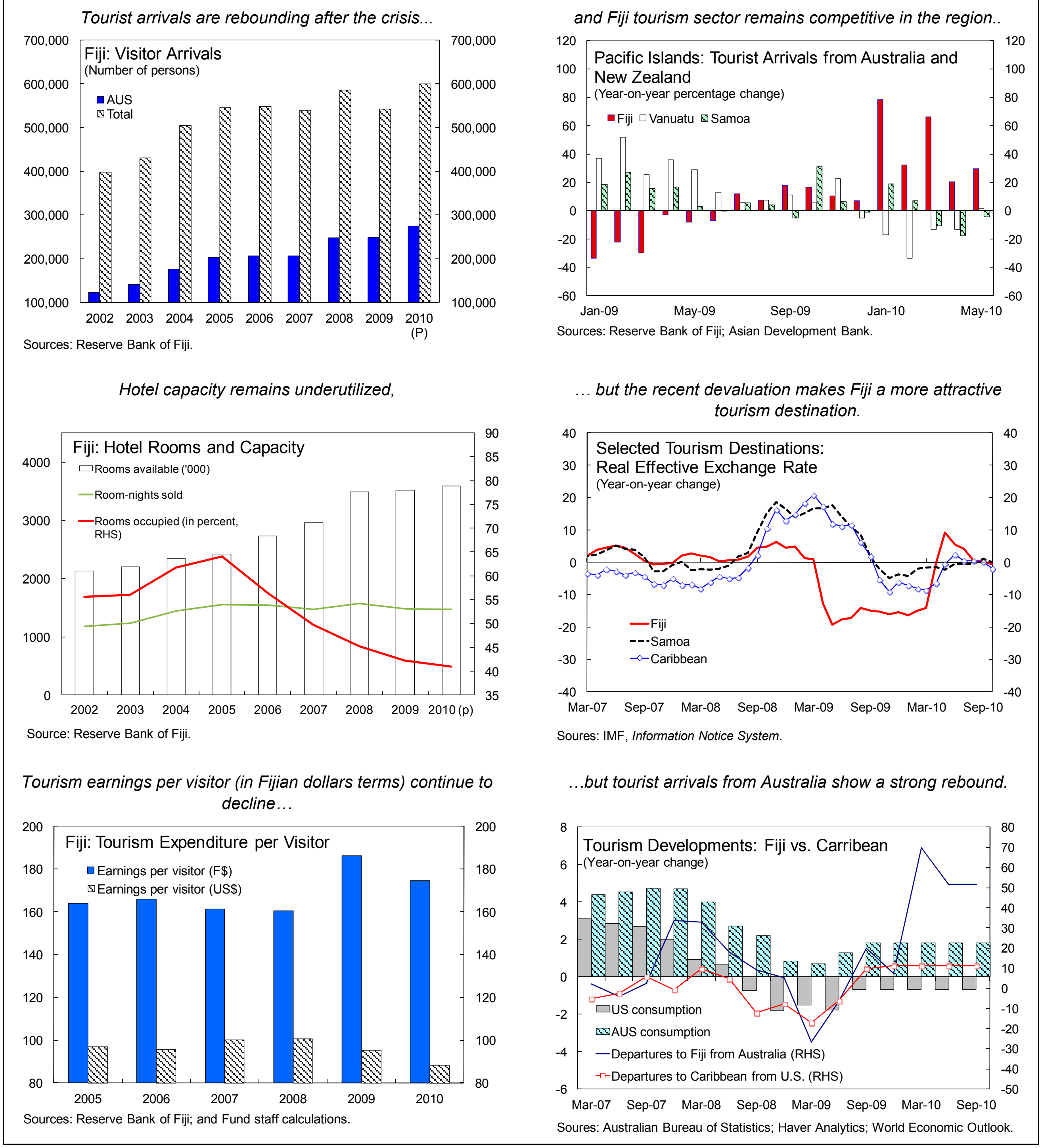
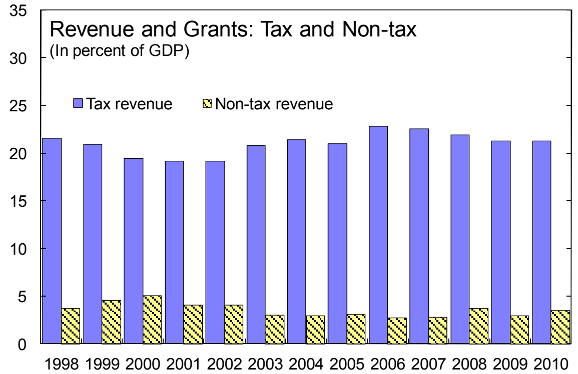


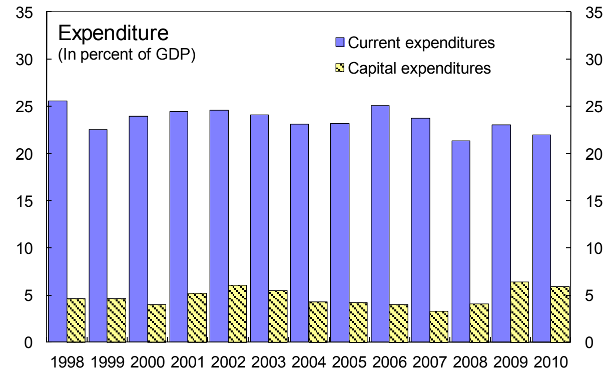
Figure 6. Fiji: Fiscal Indicators

Tax revenue of the central government declined due to low economic growth



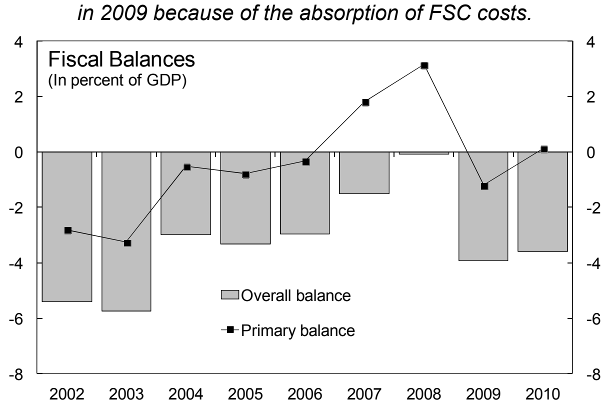
Sources: Fiji authorities; and Fund staff estimates.

…and expenditure has been cut.



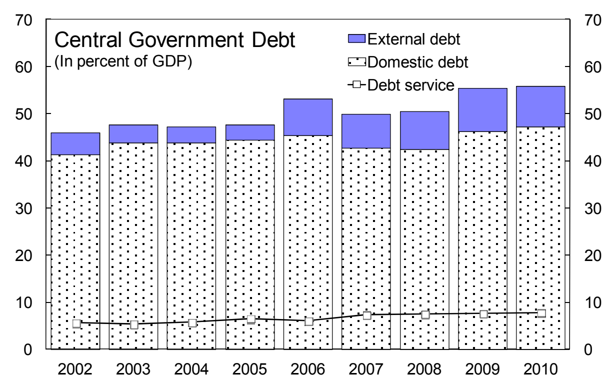
Sources: Fiji authorities; and Fund staff estimates.

The overall fiscal balance for 2010 remained about the same as in 2009 because of the absorption of FSC costs.



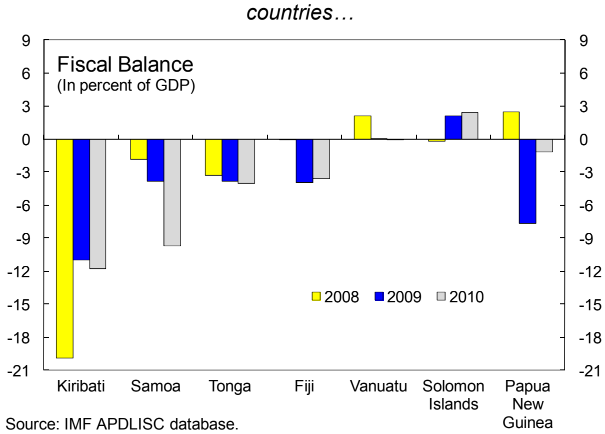
Sources: Fiji authorities; and Fund staff estimates.

The deficit has been financed mostly domestically.



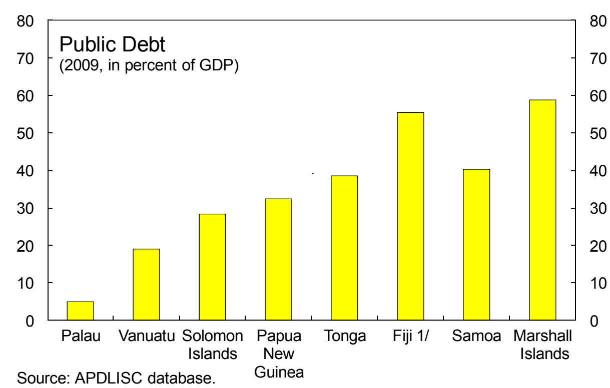
Sources: Fiji authorities; and Fund staff estimates.

While recent deficits are in line with other Pacific Island countries…



Source: IMF APDLISC database.

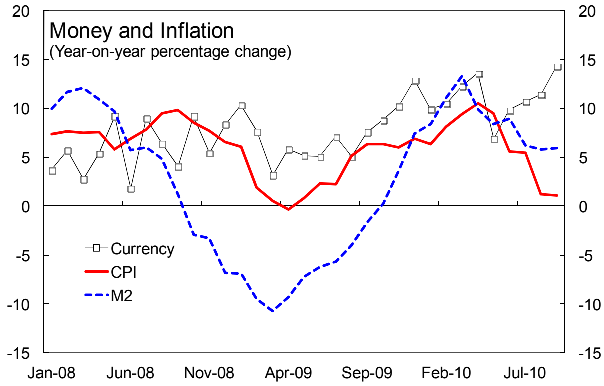
…public debt is among the highest.



Source: APDLISC database.
1/ Central government debt

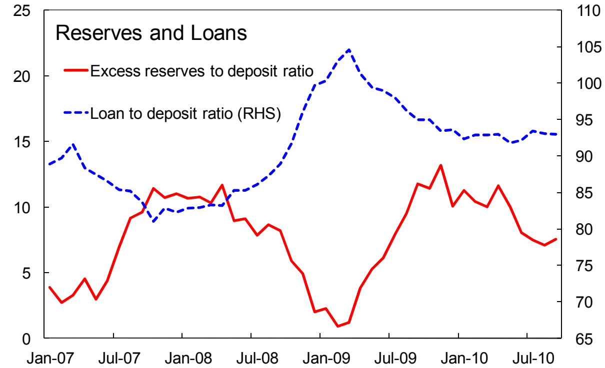
Figure 7. Fiji: Monetary Indicators

Inflation declined in recent months mainly because of easing in commodity prices.



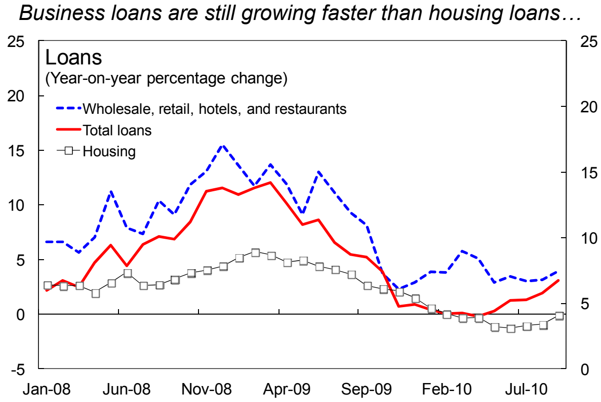
Source: Reserve Bank of Fiji.

Excess liquidity increased, but loan growth decelerated because of economic uncertainty and absence of opportunity.



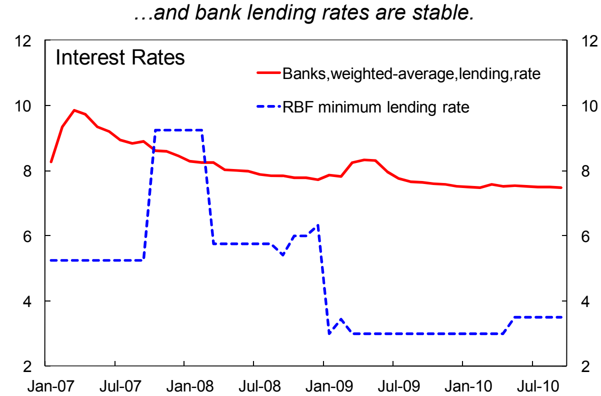
Source: Reserve Bank of Fiji.

Business loans are still growing faster than housing loans…



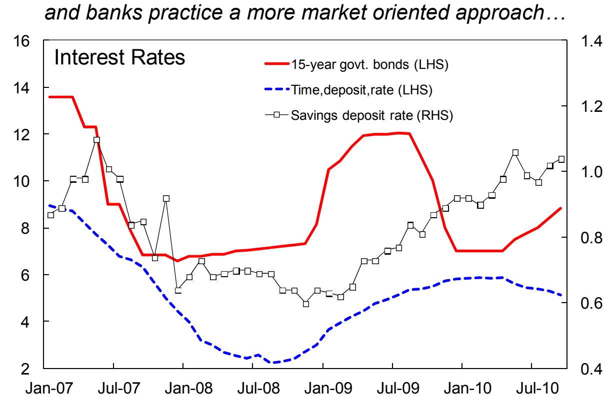
Source: Reserve Bank of Fiji.

…and bank lending rates are stable.



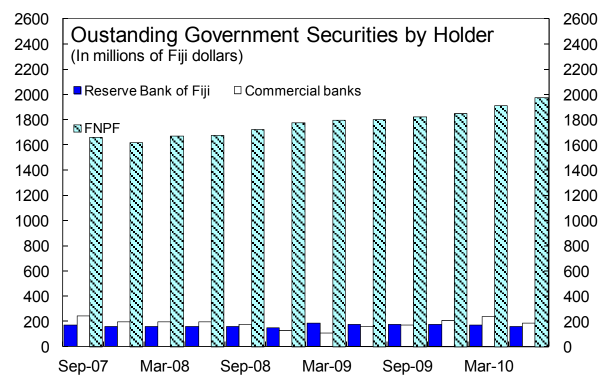
Source: Reserve Bank of Fiji.

Government bond and deposit interest rates increased as FNPF and banks practice a more market oriented approach…



Source: Reserve Bank of Fiji.

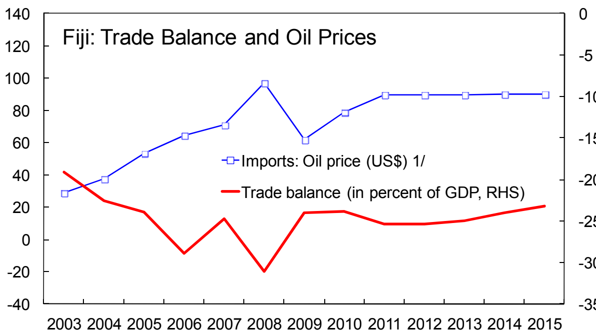
…and the FNPF remains the largest holder of government securities.



Source: Reserve Bank of Fiji.

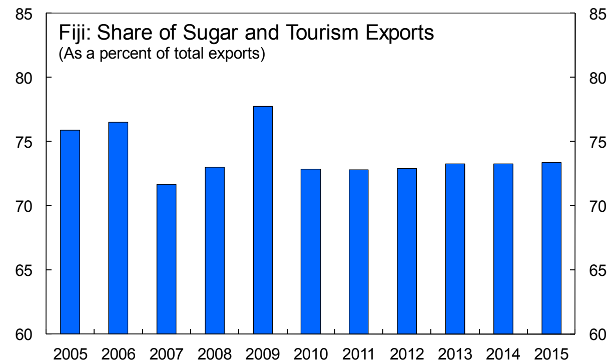
Figure 8. Fiji: External Vulnerabilities

The trade balance is sensitive to changes in oil prices.



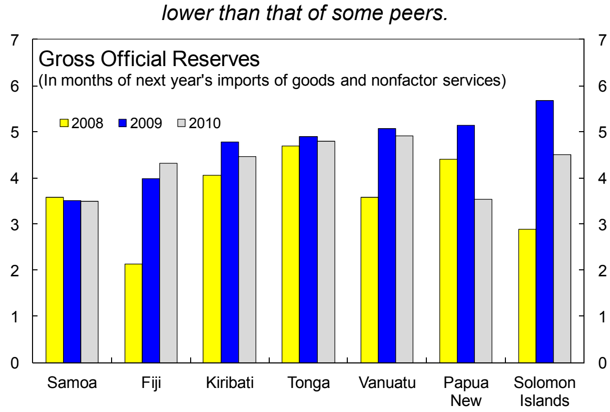
Sources: Global Assumptions Database; and Fund staff calculations.
1/ Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel.

Compounded by low diversification of export income.



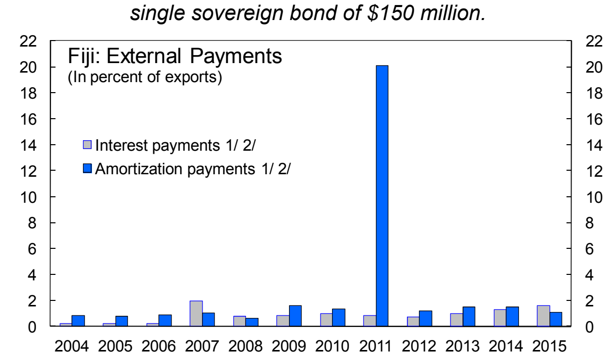
Sources: Reserve Bank of Fiji; and Fund staff calculations.

Fiji's foreign exchange reserve coverage is rising, but remains lower than that of some peers.



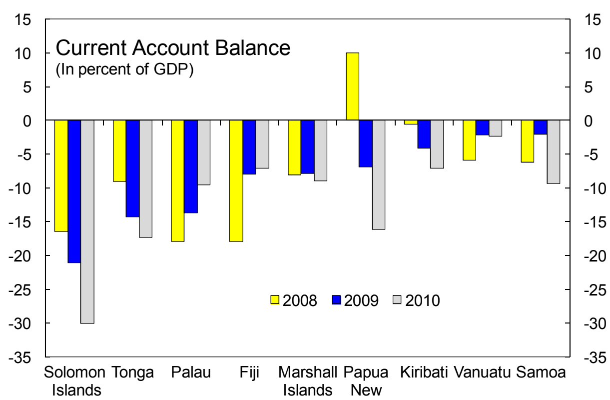
Source: IMF APDLISC database.

External debt service jumps in 2011because of the maturity of a single sovereign bond of $150 million.



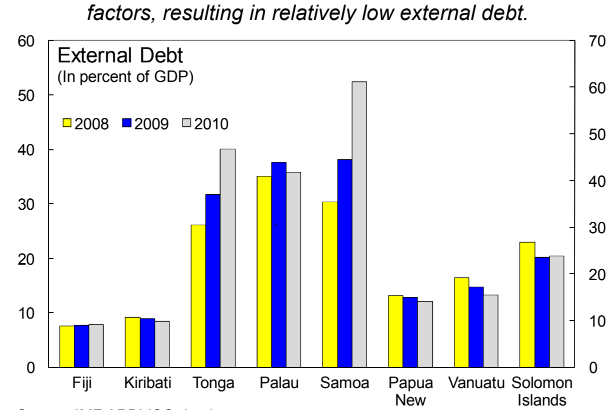
Source: Fiji Islands Bureau of Statistics.
1/ Exports of goods, f.o.b., and nonfactor services.
2/ On medium- or long-term debt.

The current account deficit in Fiji remains sizeable in 2010. .



Source: IMF APDLISC database.

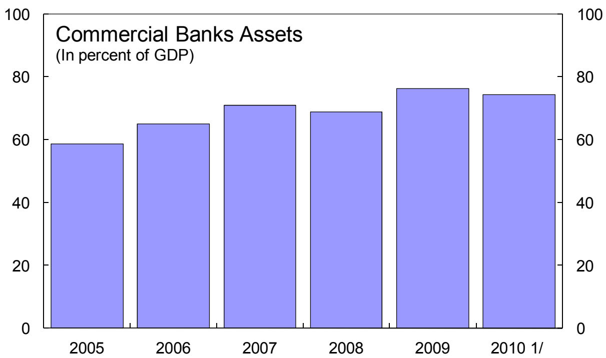
And external borrowing has been constrained due to political factors, resulting in relatively low external debt.



Source: IMF APDLISC database.

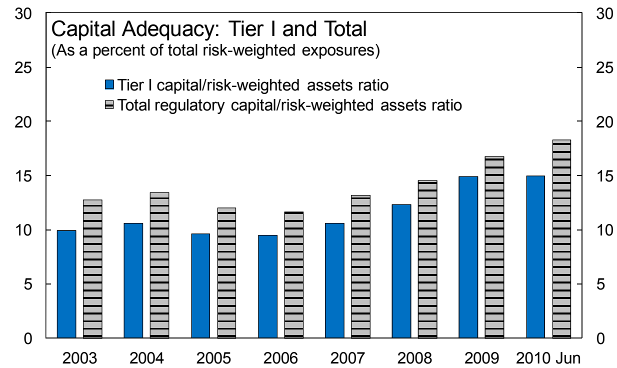
Figure 9. Fiji: Financial Soundness Indicators

Commercial banks' assets have risen to more than 70 percent of GDP.



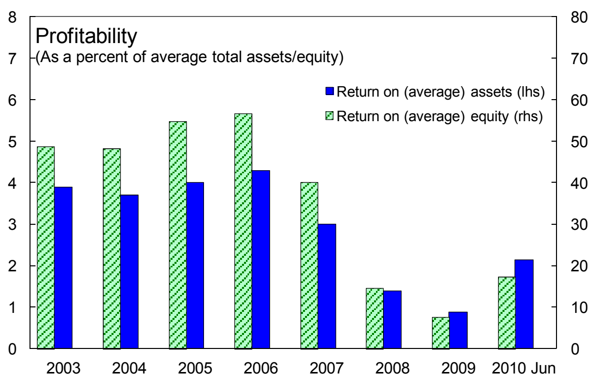
Sources: Reserve Bank of Fiji; and Fund staff calculations.
1/ As of October 2010.

Capital adequacy is high.



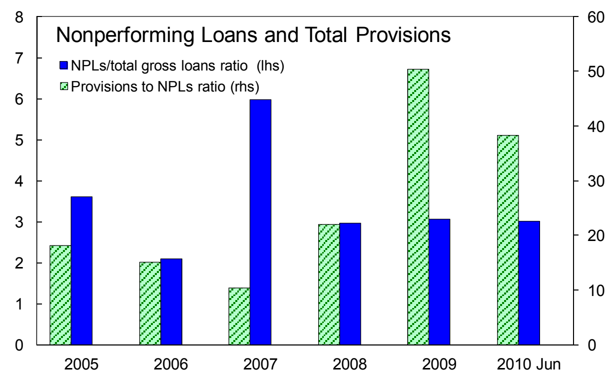
Source: Reserve Bank of Fiji.

Profits declined in the past few years, but show promise in 2010.



Source: Reserve Bank of Fiji.

Asset quality is generally good and provision coverage seems sufficient.



Source: Reserve Bank of Fiji.

Table 1. Fiji: Selected Economic Indicators, 2006–11

Nominal GDP (2008): US$3,572 million
Population (2008): 843,132
GDP per capita (2008): US$4,237
Quota: SDR 70.3 million

	2006	2007	2008 Prel.	2009 Est.	2010 Proj.	2011 Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	1.9	-0.5	-0.1	-3.0	0.1	1.3
Consumer prices (end of period)	3.1	4.3	6.6	6.8	4.0	3.3
Central government budget (percent of GDP) 1/						
Revenue and grants	25.6	25.3	25.6	24.8	25.0	27.3
Total expenditure	29.0	27.4	25.5	29.4	28.5	31.0
Of which: Capital	4.0	3.5	4.1	6.4	5.9	6.6
Overall balance	-3.4	-1.1	-0.1	-3.9	-3.6	-3.7
Total debt outstanding	53.5	49.7	50.4	55.4	55.9	58.9
Money and credit (percent change)						
Domestic credit	23.6	3.2	4.8	4.2	2.4	7.1
Government (net)	28.3	-15.0	-38.0	65.0	0.8	0.0
Broad money (M2)	19.8	10.4	-6.9	7.4	7.0	7.9
Reserve money	24.3	37.4	-30.0	50.5	19.0	11.3
Treasury bill rate (91-day)	10.9	0.3	0.5	3.0	…	…
Commercial bank lending rate	7.9	8.5	7.7	7.5	…	…
External sector (in millions of U.S. dollars)						
Trade balance	-897	-842	-1,108	-671	-726	-809
(In percent of GDP)	-28.9	-24.7	-31.1	-23.1	-23.2	-24.7
Exports, f.o.b.	729	787	944	625	690	735
Imports, f.o.b.	1,626	1,629	2,052	1,296	1,416	1,544
Current account balance	-582	-463	-640	-231	-222	-292
(In percent of GDP)	-18.7	-13.6	-17.9	-7.9	-7.1	-8.9
Capital/financial account balance	634	469	244	456	233	235
Overall balance	-150	218	-222	278	137	-5
Gross official reserves (in millions of U.S. dollars) 2/	310	519	317	565	710	705
(In months of retained imports)	2.0	2.5	2.1	4.0	4.3	4.4
External central government debt (in millions of U.S. dollars)	241	247	285	269	271	330
(In percent of GDP)	7.8	7.2	8.0	9.3	8.6	10.1
Miscellaneous						
Real effective rate (average) 3/	97.7	99.4	102.0	90.5	87.7	…
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.73	1.61	1.59	1.96	1.92	1.93
GDP at current market prices (in millions of Fiji dollars)	5,372	5,483	5,683	5,685	6,000	6,310
Oil price (U.S. dollars per barrel)	64.3	71.1	97.0	61.8	78.9	89.5

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

1/ IMF staff scenario for 2011.
2/ Reserve Bank of Fiji holdings only.
3/ 2005 REER = 100. Data for 2010 is the period average through Novermber 2010.

Table 2. Fiji: Monetary Accounts, 2006–11

	2006	2007	2008	2009 Est.	2010 Proj.	2011 Proj.
Reserve Bank of Fiji			(In millions of Fiji dollars)			
Net foreign assets 1/	880	805	559	1091	1292	1361
Foreign assets	880	805	559	1091	1292	1361
Foreign liabilities	0	0	0	0	0	0
Net domestic assets	-219	103	76	-135	-154	-96
Domestic credit	192	173	154	227	218	218
Claims on government (net) 2/	192	173	154	201	194	194
Claims	198	179	160	203	196	196
Government Deposits	6	5	7	2	2	2
Claims on official entities				26	24	24
Other items (net)	-411	-71	-77	-362	-373	-314
Reserve Money	660	908	635	956	1137	1265
Currency in circulation	355	382	391	431	462	498
Deposits	306	525	244	524	675	767
Deposit Money Banks			(In millions of Fiji dollars)			
Net foreign assets	-31	-73	-92	-129	-71	-76
Foreign Assets	162	163	276	350	374	404
Foreign Liabilities	193	235	368	478	445	480
Net Domestic Assets	2731	3084	2858	3099	3247	3465
Domestic Credit	2,736	2,847	3,013	3,073	3,160	3,399
Net credit to the government 2/	164	129	34	109	118	118
Claims on official entities	160	238	221	201	227	244
Claims on the private sector	2,411	2,479	2,757	2,763	2,815	3,037
Other items (net)	-5	237	-154	27	87	66
Demand deposits	830	1324	985	905	985	1055
Quasi Money	1870	1687	1781	2048	2192	2334
Monetary Survey			(In millions of Fiji dollars)			
Net foreign assets	849	732	466	962	1,221	1,285
Monetary authority	880	805	559	1,091	1,292	1,361
Depository monetary banks	-31	-73	-92	-129	-71	-76
Domestic credit	2,928	3,020	3,166	3,299	3,378	3,617
Claims on government (net) 2/	356	303	188	310	312	312
Claims on official entities	324	368	221	227	250	268
Claims on private sector	2,411	2,479	2,757	2,763	2,815	3,037
Broad money (M2)	3,012	3,326	3,098	3,327	3,561	3,842
Narrow money (M1)	1,142	1,639	1,300	1,260	1,365	1,465
Of which: Currency outside banks	294	290	315	355	380	410
Quasi-money	1,870	1,687	1,798	2,067	2,196	2,376
Other items (net)	764	426	535	934	1,038	1,061
Reserve money	660	908	635	956	1,137	1,265
			(12-month percent change)			
Domestic credit	23.6	3.2	4.8	4.2	2.4	7.1
Claims on government (net)	28.3	-15.0	-38.0	65.0	0.8	0.0
Claims on official entities	13.5	13.4	-39.8	2.3	10.4	7.1
Claims on private sector	23.7	2.8	11.2	0.2	1.9	7.9
Broad money (M2)	19.8	10.4	-6.9	7.4	7.0	7.9
Narrow money (M1)	-4.6	43.5	-20.7	-3.1	8.3	7.3
Quasi-money	42.0	-9.8	6.6	15.0	6.2	8.2
Reserve money	24.3	37.4	-30.0	50.5	19.0	11.3
			(12-month change as a percent of M2 at end of period)			
Net foreign assets	2.1	2.6	-8.0	16.0	7.8	1.8
Domestic credit	22.2	3.1	4.4	4.3	2.4	6.7
Claims on government (net)	3.1	-1.8	-0.6	1.5	-0.2	0.0
Claims on official entities	0.0	0.0	-4.4	0.2	0.7	0.5
Claims on private sector	18.4	2.2	8.4	0.2	1.6	6.2
Money velocity (M2) 3/	1.9	1.7	1.8	1.8	1.7	1.7
Money multiplier (M2) 4/	4.6	3.7	4.9	3.5	3.1	3.0
Claims on the private sector to GDP (percent)	45	45	49	48.6	46.9	48.1
Interest rates (in percent, end of period)						
91-day Treasury bill rate	10.9	0.3	0.5	3.0	…	…
Overnight interbank rate	5.4	..	..	…		
Commercial bank lending rates 5/	7.9	8.6	7.7	7.7	…	…
Memorandum item:						
Claims on private sector (including FNPF loans) (12-month percent change)	…	…	17.6	4.0	…	…

Sources: IMF, Economic Information System; Reserve Bank of Fiji, *Quarterly Review;* and IMF staff estimates.

1/ RBF holdings of net foreign assets only.

2/ Holdings of government bonds are recorded at market value.

3/ Ratio of GDP to average M2.

4/ Ratio of M2 to reserve money.

5/ Weighted average rate charged by commercial banks on loans.

Table 3. Fiji: Central Government Finances, 2007–12

	2007	2008	2009	2010	2011	2011	2012
			Est.	Proj.	Budget	Proj. 1/	Proj.
			(In millions of Fiji dollars)				
Total revenue and grants	1,389	1,458	1,411	1,498	1,723	1,722	1,805
Tax revenue	1,228	1,246	1,207	1,276	1,514	1,515	1,589
Indirect tax	790	807	756	841	1,060	1,059	1,110
Of which: VAT	466	451	403	461	582	582	612
Direct tax	438	439	452	436	455	456	479
Nontax revenue and grants	161	212	204	222	209	207	216
Expenditure	1,504	1,447	1,671	1,712	1,959	1,954	1,951
Current	1,310	1,214	1,310	1,318	1,433	1,429	1,498
Wages and salaries	585	565	597	553	567	567	590
Current charges on public debt	181	169	192	222	270	259	274
Other current expenditure	545	481	521	542	596	603	634
Capital (excluding Fiji Sugar Corporation)	194	233	361	355	416	416	437
Investment	107	154	229	182	216	216	227
Grants and transfers	87	79	132	173	199	199	209
Fiji Sugar Corporation				40	110	110	17
Overall balance	-115	11	-260	-215	-236	-232	-189
Primary balance	66	180	-68	8	34	26	85
Statistical discrepancies	-55	16	-38	0	…	0	0
Overall balance (from below the line)	-60	-5	-222	-215	…	-232	-189
Financing	60	5	222	215	…	232	189
Domestic	-134	48	194	208	…	147	128
Foreign	194	-44	28	6	…	86	60
Borrowing	20	24	29	41	…	403	80
Amortization	-17	-13	-21	-20	…	-317	-20
Change in Sinking Fund (net)	191	-56	20	-15	…	0	0
			(In percent of GDP)				
Total revenue and grants	25.3	25.6	24.8	25.0	27.3	27.3	27.2
Tax revenue	22.4	21.9	21.2	21.3	24.0	24.0	24.0
Indirect tax	14.4	14.2	13.3	14.0	16.8	16.8	16.7
Direct tax	8.0	7.7	8.0	7.3	7.2	7.2	7.2
Nontax revenue and grants	2.9	3.7	3.6	3.7	3.3	3.3	3.3
Expenditure	27.4	25.5	29.4	28.5	31.0	31.0	29.4
Current	23.9	21.4	23.0	22.0	22.7	22.6	22.6
Wages and salaries	10.7	9.9	10.5	9.2	9.0	9.0	8.9
Current charges on public debt	3.3	3.0	3.4	3.7	4.3	4.1	4.1
Other current expenditure	9.9	8.5	9.2	9.0	9.4	9.6	9.6
Capital	3.5	4.1	6.4	5.9	6.6	6.6	6.6
Investment	2.0	2.7	4.0	3.0	3.4	3.4	3.4
Grants and transfers	1.6	1.4	2.3	2.9	3.2	3.2	3.2
Fiji Sugar Corporation	…	…	…	0.7	1.7	1.7	0.3
Overall balance	-2.1	0.2	-4.6	-3.6	-3.7	-3.7	-2.8
Primary balance	1.2	3.2	-1.2	0.1	0.5	0.4	1.3
Statistical discrepancies	-1.0	0.3	-0.7	0.0	…	0.0	0.0
Overall balance (from below the line)	-1.1	-0.1	-3.9	-3.6	…	-3.7	-2.8
Memorandum items (percent of GDP):							
Central government debt	49.7	50.4	55.4	55.9	58.9	58.9	58.8
Domestic (excluding Fiji Sugar Corporation)	42.5	42.1	46.2	47.2	47.3	47.2	46.9
External	7.2	8.4	9.3	8.6	10.1	10.1	10.6
Fiji Sugar Corporation					1.6	1.6	1.3
Net central government debt 2/	47.4	46.6	51.5	52.1	55.2	55.2	55.2
Contingent liabilities from public enterprises 3/	14.5	14.5	18.0	17.6	17.6	17.6	16.5
Outstanding VAT refunds liabilities (millions of F$)	26.8	64.4	40.2	…	…	…	…

Sources: Ministry of Finance and National Planning; and IMF staff estimates.

1/ IMF staff scenario for 2011.

2/ Net of deposits (including JP Morgan Sinking Fund).

3/ Debt guaranteed by the government, excluding FNPF liabilities.

Table 4. Fiji: Balance of Payments, 2007–15

	2007	2008	2009 Est.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj
(In millions of U.S. dollars)									
Trade balance	-842	-1,108	-671	-726	-809	-845	-861	-863	-873
Exports, f.o.b.	787	944	625	690	735	755	784	821	866
Of which: Sugar 1/	115	156	96	53	53	54	58	61	65
Re-exports	237	306	171	208	232	223	228	238	250
Other exports	436	482	358	429	450	478	497	522	552
Imports, f.o.b.	1,629	2,052	1,296	1,416	1,544	1,600	1,645	1,684	1,739
Of which: Retained imports (excluding fuels)	985	1,245	881	905	940	983	1,014	1,026	1,050
Mineral fuels for domestic consumption	443	547	269	335	406	427	436	455	477
Imports for re-exports	201	260	146	177	197	190	194	202	212
Services and income (net)	254	355	260	324	333	360	380	379	393
Nonfactor services (net)	338	383	256	349	367	397	421	423	430
Of which: Tourism credit	434	483	430	480	505	540	563	586	616
Factor income (net)	-84	-28	4	-26	-34	-37	-41	-44	-36
Transfers (net)	125	113	180	181	183	193	199	208	217
Private	83	34	132	126	128	138	144	153	162
Of which: Workers' remittances	115	72	150	154	157	163	171	180	189
Official	43	79	48	55	55	55	55	55	55
Current account	-463	-640	-231	-222	-292	-292	-283	-276	-262
Capital account (net)	13	16	29	19	19	20	20	21	22
Financial account (net)	456	227	427	214	216	210	214	211	230
FDI (net)	343	320	127	169	160	166	173	180	189
Portfolio investment (net)	0	-47	-5	-18	-23	-24	-25	-27	-28
Net loans to the government	120	-28	14	3	44	31	25	15	19
Disbursements	12	15	15	22	209	41	38	28	29
Amortization	-11	-8	-11	-10	-165	-10	-13	-13	-10
-Repayment of sovereign bond					-150				
Change in Sinking Fund (net)	118	-35	10	-8	0	0	0	0	0
Other investment (net) 2/	-50	-65	251	59	35	37	41	43	51
Of which: FNPF redemption/(- investment)	3	15	29	0	0	0	0	0	0
Errors and omissions	212	174	54	125	52	52	51	51	51
Overall balance	218	-222	278	137	-5	-11	3	7	40
Financing				-137	5	11	-3	-7	-40
Change in gross reserves (- = increase)				-137	5	11	-3	-7	-40
(In percent of GDP)									
Trade balance	-24.7	-31.1	-23.1	-23.2	-24.7	-24.7	-24.3	-23.3	-22.6
Current account balance	-13.6	-17.9	-7.9	-7.1	-8.9	-8.5	-8.0	-7.5	-6.8
Capital/financial account	13.8	6.8	15.7	7.4	7.2	6.7	6.6	6.3	6.5
Overall balance	6.4	-6.2	9.6	4.4	-0.2	-0.3	0.1	0.2	1.0
(Annual growth)									
Tourism receipts	0.2	11.2	-11.0	11.8	5.2	6.9	4.2	4.1	5.1
Workers' remittances	-20.5	-37.5	108.8	2.6	1.9	4.0	5.0	5.0	5.0
Imports of goods and services	0.0	23.6	-34.3	8.4	9.0	3.1	2.8	2.4	3.3
Oil prices	10.7	36.4	-36.3	27.8	13.4	0.3	-0.3	0.6	0.3
Memorandum items:									
External debt (in millions of U.S. dollars)	461	449	501	528	527	554	576	600	628
External debt over GDP	13.5	12.6	17.2	16.9	16.1	16.2	16.2	16.2	16.3
External central government debt (in millions of U.S. dollars)	247	285	269	271	330	362	388	401	421
External central government debt over GDP	7.2	8.0	9.3	8.6	10.1	10.6	10.9	10.9	10.9
Gross official reserves (in millions of U.S. dollars) 3/	519	317	565	710	705	694	697	704	744
(In months of retained GNFS imports)	2.5	2.1	4.0	4.3	4.4	4.2	4.1	4.0	4.1
GDP (in millions of U.S. dollars)	3,405	3,565	2,903	3,131	3,276	3,425	3,549	3,697	3,867
Trading partners' real GDP growth	3.0	1.2	-2.0	2.4	2.8	2.9	2.9	2.9	2.9
Trading partners' import volume (goods and services)	5.6	2.9	-11.7	9.9	5.9	5.6	5.4	6.0	5.3
Oil price (U.S. dollars per barrel)	71.1	97.0	61.8	78.9	89.5	89.8	89.5	90.0	90.3

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

1/ Including EU sugar transfer payments. It also includes re-exports of sugar purchased abroad to comply with the EU quota.

2/ In 2009, it includes Fiji's share in the General and Special SDR allocation (SDR 60.2 million).

3/ Reserve Bank of Fiji holdings only.

Table 5. Fiji: Selected Medium-Term Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.	Projections					
Output and prices (percent change)									
Real GDP (at constant factor cost)	-0.5	-0.1	-3.0	0.1	1.3	1.2	1.3	1.8	2.3
Consumer prices (average)	4.8	7.7	3.1	5.4	3.8	3.9	3.0	3.0	3.0
Savings and investment 1/									
National savings	1.6	-2.9	6.1	7.9	7.1	8.5	9.5	11.0	11.7
Public	1.4	4.3	1.8	3.0	4.6	4.6	4.6	4.8	4.8
Private	0.2	-7.2	4.3	4.9	2.4	3.8	4.9	6.3	6.9
Gross investment	15.2	15.0	14.0	15.0	16.0	17.0	17.5	18.5	18.5
Public	3.5	4.1	6.4	5.9	6.6	6.6	6.6	6.6	6.6
Private	11.7	10.9	7.6	9.1	9.4	10.4	10.9	11.9	11.9
Foreign savings	13.6	17.9	7.9	7.1	8.9	8.5	8.0	7.5	6.8
Central government budget (in percent of GDP)									
Total revenue and grants	25.3	25.6	24.8	25.0	27.3	27.2	27.2	27.2	27.1
Total expenditure	27.4	25.5	29.4	28.5	31.0	29.4	29.4	29.7	29.1
Capital expenditure	3.5	4.1	6.4	5.9	6.6	6.6	6.6	6.6	6.6
(As a percent of total expenditure)	14.8	19.2	21.6	20.7	21.3	22.4	22.4	22.2	22.7
Current expenditure	23.9	21.4	23.0	22.0	22.6	22.6	22.5	22.4	22.3
Of which: Wages and salaries	10.7	9.9	10.5	9.2	9.0	8.9	8.8	8.7	8.6
Interest	3.3	3.0	3.4	3.4	0.0	3.8	3.7	3.7	3.7
Other	9.9	8.5	9.2	9.0	9.6	9.6	9.6	9.6	9.6
Fiji Sugar Corporation	…	…	…	0.7	1.7	0.3	0.2	0.7	0.2
Overall balance 2/	-1.1	-0.1	-3.9	-3.6	-3.7	-2.8	-2.2	-2.5	-1.9
Primary balance	1.2	3.2	-1.2	0.1	0.4	1.3	2.0	1.6	2.2
Central government debt outstanding	49.7	50.4	55.4	55.9	58.9	58.8	58.5	57.7	56.6
Balance of payments (in percent of GDP)									
Trade balance	-24.7	-31.1	-23.1	-23.2	-24.7	-24.7	-24.3	-23.3	-22.6
Services plus income (net)	7.5	10.0	9.0	10.3	10.2	10.5	10.7	10.3	10.2
Transfers (net)	3.7	3.2	6.2	5.8	5.6	5.6	5.6	5.6	5.6
Current account balance	-13.6	-17.9	-7.9	-7.1	-8.9	-8.5	-8.0	-7.5	-6.8
Capital/financial account balance	13.2	7.5	14.3	7.4	0.7	5.2	5.4	5.6	5.6
Of which: FDI (net)	10.1	9.0	4.4	5.4	4.9	4.8	4.9	4.9	4.9
Of which: Portfolio investment (net)	0.0	-1.3	-0.2	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Of which: Other investment (net)	2.8	-0.6	9.1	2.0	-4.0	0.5	0.7	0.9	0.9
Errors and omissions	6.8	4.2	1.8	4.0	1.6	1.5	1.4	1.4	1.3
Overall balance	6.4	-6.2	9.6	4.4	-0.2	-0.3	0.1	0.2	1.0
External central government debt	7.2	8.0	9.3	9.8	10.6	11.1	11.5	11.4	11.4
Memorandum items:									
Gross official reserves (in millions of U.S. dollars) 3/	519	317	565	710	705	694	697	704	744
(In months of retained GNFS imports)	2.5	2.1	4.0	4.3	4.4	4.2	4.1	4.0	4.1

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

1/ Saving-investment balances are not available and are estimated by staff. Foreign savings is equivalent to the current account deficit, with private savings as a residual.

2/ Measured from the financing side (below the line).

3/ Reserve Bank of Fiji holdings only.

Table 6. Fiji: Core set of Financial Soundness Indicators for Banking Sector, 2006-2010
(In percent, unless otherwise indicated)

	2006	2007	2008	2009	2010	
					Mar	Jun
Capital adequacy						
Tier I capital/risk-weighted assets ratio	9.5	10.6	12.3	14.9	15.1	15.0
Total regulatory capital/risk-weighted assets ratio	11.7	13.2	14.5	16.8	17.5	18.3
Total regulatory capital/total assets ratio	7.9	8.1	10.4	11.0	11.3	11.9
Asset quality						
Distribution by risk weight category						
0 percent	17.3	22.3	12.7	19.4	19.8	20.2
10 percent	3.9	4.5	3.9	3.3	3.3	2.9
20 percent	4.4	5.4	6.9	7.3	7.1	6.3
50 percent	21.7	20.1	17.0	16.0	18.5	18.3
100 percent	52.6	47.7	59.5	54.0	51.3	52.3
Sectoral assets concentration						
Government	0.6	0.3	0.4	0.7	0.7	0.7
Agriculture, forestry, and fisheries	1.0	1.3	1.2	1.0	1.0	0.8
Mining & quarrying	0.1	0.1	0.1	0.2	0.2	0.2
Manufacturing	10.7	10.9	10.8	10.6	10.4	9.5
Transport	3.0	3.0	4.4	4.3	4.5	4.3
Building and construction	8.3	7.3	7.3	7.8	8.0	7.8
Real estate	8.8	9.9	10.4	10.3	10.1	11.0
Hotels and restaurants	9.5	10.3	10.1	10.1	10.0	10.2
Other whole sale and retail trade	14.1	13.5	14.6	15.0	15.6	15.2
Financial institutions	0.3	0.3	0.3	0.1	0.2	0.2
Other services	10.8	11.3	10.9	10.3	10.1	10.7
Household	32.8	31.8	29.6	29.6	29.2	29.4
Of which: Mortgage	25.6	25.7	24.0	24.2	23.8	23.5
Aggregate large exposures/total assets ratio (r)	23.5	19.7	28.1	28.4	29.1	30.1
Aggregate large exposure/total capital ratio (r)	297.5	241.7	269.7	258.1	256.6	253.7
Foreign exchange loans/total loans ratio	1.0	0.4	3.0	4.8	4.6	5.6
NPLs/total gross loans (or exposures) ratio (r)	2.1	6.0	3.0	3.1	3.2	3.0
NPLs net of provisions/total capital ratio (r)	16.4	44.3	16.8	9.6	10.0	11.0
Provisions to NPLs ratio (r)	15.1	10.4	21.9	50.4	48.4	38.3
Profitability						
Return on (average) assets (r)	4.3	3.0	1.4	0.9	1.5	2.1
Return on (average) equity (r)	56.7	40.1	14.5	7.5	12.0	17.2
Interest margin/gross income ratio	40.9	47.8	60.0	42.8	41.6	39.9
Expenses/revenues ratio	69.3	71.7	54.1	69.4	69.2	65.8
Non-interest expenses/gross income ratio	36.1	44.1	42.2	40.6	40.2	38.2
Personnel expenses to noninterest expenses ratio	58.3	52.4	52.3	58.6	59.0	62.2
Trading and fee income to gross income ratio	15.0	14.9	17.3	15.4	15.7	17.0
Liquidity						
Loans to deposits ratio	85.2	77.7	92.7	88.3	88.3	89.1
Liquid assets/total assets ratio	23.3	30.4	22.1	27.3	28.2	27.1
Liquid assets/short-term liabilities ratio	29.5	37.9	29.2	38.2	39.5	38.4
Demand deposits/total liabilities ratio	31.6	44.2	36.8	31.3	31.4	31.3
Forex liabilities to total liabilities ratio	4.7	4.7	7.7	9.3	9.8	9.3
Memo item:						
Net forex open position to total capital	1.8	2.1	2.4	2.5	2.3	2.2
Regulatory limit on net forex open position (if applicable)	25.0	25.0	25.0	25.0	25.0	25.0

Source: Fiji authorities.

Appendix I. Status of Key 2004 Fiscal ROSC Recommendations

2004 ROSC	Status	MOF Comments
Clarify the status of the suspended 1999 Public Finance Management Law.	The 1999 law was replaced by the new 2004 Financial Management Act (the 2004 FMA) and other instructions, providing a legislative framework to support financial management reform, which envisages performance budgeting, moving to actual accounting over the medium term, and introducing a new financial management information system (IFMIS).	The PFMA was repealed and replaced with the FAM 2004. From the FMA, the Finance Instructions, and Finance Manual were developed. A new Financial Management Information System was implemented in 48 out of 52 departments. The 4 outside FMIS include Ministry of Health (MOH), Department of National Roads (DNR), Water Supplies Department and Government Supplies Department. The Water Department is now the Fiji Water Authority and has its own information system. The Government Supplies Department has been closed and replaced with the Fiji Procurement Office, which from next year will be an Activity under Program 1 of Head 4. Implementation of the FMIS is currently being undertaken with MOH and necessary paperwork is also currently being done to implement FMIS in DNR.
Address weaknesses in compliance of legal and regulatory requirements on budget implementation.	Compliance remains weak. A draft on accounting protocols has been prepared.	Compliance is no doubt weak. The State Services Decree of 2009 allows all Permanent Secretaries to control the recruitment and termination of personnel under their control, as well as initiating disciplining them. To address the noncompliance issue, the Ministry of Finance implemented the following measures: • Write monthly to all Permanent Secretaries whose financial returns are not up to date and copied to Permanent Secretary of the Public Service Commission.

Appendix I. Status of Key 2004 Fiscal ROSC Recommendations

2004 ROSC	Status	MOF Comments
		• Ministry of Finance to request Permanent Secretary of the Public Service Commission to initiate disciplinary actions, if noncompliance continues.
Simplify tax statutes, in particular, the Income Tax Act, narrowing the room for administrative discretion.	The new Tax Administrative Decree (effective January 1, 2010) harmonizes and simplifies administrative provisions in Income Tax Act, VAT Decree, Hotel Turnover Tax, Gambling Turnover Tax, and Land Sales Act. However, there is still room for discretional administrative decisions.	The Fiji Islands and Revenue Customs Authority is currently working with a PFTAC consultant on the rewrite of the tax legislation.
Strengthen the policy framework for publicly controlled financial institutions, such as FNPF, Fiji Development Bank (FDB), and the Housing Authority. Monitor the soundness of their financial positions.	Financial reports are prepared quarterly by the Ministry of Public Enterprises and annual audited financial reports are submitted to the Cabinet. However, oversight is not harmonized, with the Ministry of Public Enterprises overseeing some public enterprises, while the Ministry of Finance oversees the Fiji Development Bank.	Under the Public Enterprises Act 1996, the Ministry of Public Enterprises is responsible for overseeing and implementing Government public enterprise reform program with the intention of increasing the efficiency and effectiveness of the public enterprise sector. Under the Act, the Ministry will continue to monitor the performance of public enterprises declared as Government Commercial Companies [GCCs]. The Ministry also implements and monitors the restructuring or re-organization of identified government entities. From a national fiscal viewpoint, the Ministry of Finance is responsible for overseeing; (a) GCCs; (c) Commercial Statutory Authorities (CSAs) that includes FDB; and (d) grant recipient statutory entities (SAs). The comment is noted and a harmonized effort to closely monitor entities which are both looked after by the two ministries are being undertaken, which include quarterly meeting updates

Appendix I. Status of Key 2004 Fiscal ROSC Recommendations

2004 ROSC	Status	MOF Comments
Establish sound internal controls within ministries, departments, and Fiji Islands Revenue and Customs Authority (FIRCA), by: (i) upgrading the capability of the current accounting system, (ii) conducting basic reconciliation processes, (iii) taking effective and timely disciplinary action for contravention.	Not yet fully enforced. (i) An Integrated Financial Management Information System has been partly implemented (four ministries, including the Ministry of Health, are yet to adopt it). (ii) The reconciliation process is neither effective nor timely. (iii) Disciplinary action is not taken in most cases. Instructions are being reviewed to introduce disciplinary measures for noncompliance.	It is important to note that the Ministry of Finance only collates financial information that is posted by individual agencies to produce financial reports for Whole of Government. The carrying out of reconciliation is the onus of the Accounting Heads of the various agencies and the Permanent Secretary (PS) as he/she is the Chief Accounting Officer of the agency. Furthermore, both the Accounting Head and the PS have a reporting requirement stipulated in the Finance Instructions which requires them to ensure the monthly submission or tabling of financial returns to relevant authorities. On disciplinary actions, please refer to comments on item 2 above.
Introduce an internal audit unit and strengthen FIRCA's Internal Audit Committee.	Internal audit was introduced in 2008.	After introduction in 2008, Internal Audit has carried out and continues to carry out strengthening and reviewing of FIRCA's internal business processes for both Customs and Taxation. They have moved toward improving and eliminating risks with regards to revenue leakages and collections.
Strengthen audit capacity.	External audit has been strengthened in the last few years.	There has been a significant shift in the selection of cases to be audited. At the moment we are delving on technical issues with large and small and medium taxpayers since they contribute the highest amount of taxes to the government.

Appendix I. Status of Key 2004 Fiscal ROSC Recommendations

2004 ROSC	Status	MOF Comments
Improve the quality and expand the scope of the information provided in the annual budget documents, in accordance with the *GFS*.	Public agencies and expenditures that are outside the budget should be included, for example FIRCA, the Housing Authority, and some large infrastructure projects. In addition, some expenditure items are misclassified, e.g., some capital transfers should be reclassified as current transfers.	Beginning in the 2010 Revised Budget, projects financed through direct payments are reported as part of total expenditure. FIRCA grant is recorded as one-line items in the budget, depending on the purpose of the grant, i.e., operating or capital nature. Housing Authority does not receive any government support through the budget. The misclassifications will be addressed in the annual budget process; where the purpose of the spending will be reviewed and classified accordingly.
Introduce quarterly reporting by MOF on the fiscal outturn and present a mid-year report on budget implementation to parliament, including revised spending and revenue forecasts.	Quarterly information on revenue is published, but no quarterly information on expenditure is available. Internal monthly revenue and expenditure reports are available for some areas. The quality of reporting needs to be improved.	Quarterly expenditure information form part of the Fiscal Outturn Report that is tabled to Cabinet at the end of every quarter. Following Cabinet's endorsement, quarterly expenditure information can be accessed on RBF's quarterly publications. Some of the improvements now implemented include: reporting on the outstanding commitments; tracking of the amount of unpresented checks; matching the financing sources (below the line), and the overall balance (above the line) is also being introduced in the second half of 2010.

Appendix II. Status of Key FAD Recommendations on Tax Policy and Administration

2009 TA on Tax Incentives	Status
Reduce the corporate tax rate to 25 percent in 2012.	The corporate income tax rate was reduced from 31 percent in 2008 to 28 percent in 2010 and 20 percent for companies listed on the South Pacific Stock Exchange with more than 40 percent local equity shareholding. The corporate tax remains at 28 percent in 2011.
Eliminate the provision of tax holidays as of December 31, 2011.	Tax holidays have not been eliminated. However, no new tax holidays were introduced in the 2010 Budget.
Restructure investment allowances by replacing by, say, a 20 percent investment allowance and providing a higher, say, a 30 percent allowance for key priority areas in 2012.	Not restructured as per IMF recommendation. In the 2011 Budget there were some extensions to some of the incentive allowances, deductions, and exemptions but the rate remains the same. The extension were for the following: 1. Export Income Deduction Incentive is extended to 2015. 2. Employment taxation Scheme is extended to 2012. 3. Accelerated Depreciation available to buildings is extended to 2012. The incentive is also available to new plants and machineries used for manufacturing. 4. Tourist vessels to enjoy the 55 percent investment allowance.
Eliminate most sector-specific and employment-related incentives.	Not eliminated as per IMF recommendation. In the 2011 Budget the employment tax reduction scheme is extended to 2012.
Review of the Sixth Schedule	Amendments to the Sixth Schedule as part of 2011 Budget to make it more meaningful to investors.
Tax deduction of 150 percent to be available for marketing costs of goods and services in the South Pacific islands.	Income Tax Act to be amended to provide 150 percent deduction for marketing costs of up to $250,000. To be available to the South Pacific islands excluding Australia and New Zealand.
2008 TA on Tax Administration	**Status**
Reorganize core tax and customs functions of the Fiji Islands Revenue and Customs Authority (FIRCA).	Early in 2009, FIRCA formed the Reform Steering Committee on taxation and customs to study and implement recommendations.
For domestic tax administration reform, review all tax procedures, especially the burdensome assessment regime, and develop effective business processes.	Regarding tax procedures, the new Tax Administration Decree (effective January 2010) harmonizes and simplifies administration.
For customs, develop a comprehensive reform plan and review business processes under the new organizational proposals.	A reforms team has been set up in FIRCA to ensure proper reforms are carried out for business processes for Customs and Taxation Division. The team was set up in 2009 and is progressing well on reforms activities for FIRCA.
Increase and unify the VAT threshold and strengthen audits, given concerns about fraudulent VAT refunds.	The authorities increased the VAT threshold in the 2010 Budget (from F$30,000 to F$50,000 for goods and from F$15,000 to F$50,000 for services).

Appendix III. Fiji: Status of Key 2006 FSAP Recommendations

FSAP Recommendations	Status/Progress
Enhance supervision while economizing on RBF's resources. Make greater use of external and financial institution internal auditors.	**2009** The RBF has made substantial progress in dealing with their staffing problems and has filled most examiner and analyst positions. A challenge remains, however, with high staff turnover. The RBF has made extensive use of external auditors. **2010** Staff turnover has significantly reduced over 2009/2010. Vacancies existed within the Financial Institutions Group (FIG) after the establishment of the Financial System Development & Compliance Group in April 2009 during which policy analysts within FIG were viewed as the best people to initiate financial system development work in the newly established group. FIG is in the process of filling the two remaining examiner vacancies. The RBF continues to be pro-active in its effort to enhance the effectiveness of its supervisory role, given its current resources and challenges. There are plans to establish a separate Statistical Unit in 2011, and job rotation to strengthen the policy and research function. The RBF continues to engage the external auditors of licensed financial institutions in its supervision work and continues to review the internal auditors' reports during onsite examinations. The RBF requested some special audits in 2010. The RBF will continue to improve this process in 2011. Improvements are to be made on timeliness of meetings/submission of management letters, and more robust formal analysis and integration of off-site and on-site supervisory work.
Introduce risk-based supervision to ensure that supervision is focused on the areas and institutions of greatest concern, including matters other than credit risk.	**2009** The RBF has made good progress in implementing risk-based supervision. The cycle of onsite examinations has been done on a risk-based basis with pre-exam information collected based on internal discussions of significant risk areas, and integrated with offsite information. In-house stress testing is currently carried out on an ad-hoc basis, but the RBF is working toward regular stress testing with the help of Fund technical assistance provided in March 2009. Market risks policies have yet to be developed but supervision units have started examining these areas. In September, a draft Banking Supervisory Policy on Minimum Requirements for Management and Operational Risk was circulated to the industry for comments and will be finalized by year end. Supervisory actions have been stepped up for the FNPF with recent onsite recommendations focusing on strengthening corporate governance and risk management. **2010** Risk-based supervision is now the approach taken in all on-site examinations and

FSAP Recommendations	Status/Progress
	off-site monitoring. Though the documentation of the approach is still to be completed, risk-based modules introduced by APRA in its training for Pacific Supervisors have been used as a guide. Stress testing is continuing and there are plans to increase the regularity of conducting these in 2011. The Banking Supervisory Policy on Minimum Requirements for Management and Operational Risk was finalized and approved by the Board and implemented in the first half of 2010. The Insurance Supervision Policy Statement on Minimum Guidelines for Risk Management Frameworks on Licensed Insurers was implemented in June 2010.
Sign MOUs with all relevant foreign and domestic supervisors.	**2009** A draft MOU with the Australian Prudential Regulation Authority (APRA) has not been finalized. The RBF is discussing a draft MOU with the Bank of Papua New Guinea. The Capital Markets Development Authority, an agency responsible for regulating and supervising capital markets, has recently been brought under the RBF. **2010** No further work has been done on the formalization of the MOUs. This is due to an agreement with the AFSPC that Pacific supervisors are able to maintain APRA contacts that they can use in case they need information on branches/subsidiaries of Australian financial institutions they supervise. The same AFSPC network is used for sharing of information amongst Pacific supervisors.
Clarify the powers and responsibilities of the RBF and the MOF.	**2009** A new RBF Act has been drafted bringing it into line with international standards. The draft Act has been reviewed by the Fund. **2010** The Amendments to the RBF Act have been finalized by the RBF and sent to the Solicitor General's office for consideration. The RBF has had several discussions to clarify various provisions relating to r intentions and objectives. The Amendments will now require the approval of the Attorney General and then Cabinet's final approval.
Strengthen liquidity forecasting capacity to improve forecasting of foreign reserves and the net position of the government, and improve the RBF's ability to undertake a systematic analysis of the forecasting errors.	**2009** The RBF has discussed with MOF ways to improve cash flow forecasts. The RBF monitors and analyzes daily forecast errors, and produces monthly forecasts to year-end. However, the use of direct control instruments and the suspension of open market operations since June 2007 made the liquidity forecasting exercise practically irrelevant and thus halted its improvement. **2010** The RBF continues to fine tune its methodologies for forecasting foreign reserves, an important determinant of bank liquidity. Strengthening the accuracy and reliability of Overseas Exchange Transactions data from the banks and foreign

FSAP Recommendations	Status/Progress
	exchange dealers, is critical. In addition, improving liaison with major industries is needed for the accurate capturing of inflows and outflows of foreign reserves. Strengthening information sharing between the RBF and the MoF to more accurately forecast government's net financial position, is vital.
Improve government securities primary issuance techniques (auction frequency, advanced calendar, benchmark issues, consolidation).	**2009** No progress has been made on this front. The government still relies heavily on the FNPF to finance its deficits and sees no immediate need to implement this recommendation. The Reserve Bank's Capital Markets Unit intends to incorporate these recommendations into its master plan for capital market development. **2010** The government has removed the fixed coupon on its bonds and setting of interest rates on treasury bills. Since May 2010 interest rates on all government securities are market determined. The market is informed of all upcoming government issues. In addition, the timing of some of these government issues are discussed with institutional investors and where appropriate the issues are aligned with investor preference.
Fiji National Provident Fund strengthening and reform.	**2009** The FNPF Board is considering the recommendations of an actuarial report conducted by Mercer consultants. In addition, a paper has been drafted for possible demonopolization of compulsory retirement savings. Plans are also in place for a comprehensive review of the operations of the FNPF including an overhaul of governance structure to ensure FNPF autonomy and long-term sustainability. An expert on the Singapore's Central Provident Fund (CPF) will assist the authorities in coming months. A proposed action plan should be finalized by the first quarter of 2010. **2010** A major reform program of the FNPF is currently underway. The Reform Program was developed after a staff visit to the Singapore CPF by the FNPF and the RBF in February 2010, and taking into account the recommendations of the FSAP 2006 mission, the 2008 World Bank Actuarial Advisory Report, the Singapore Cooperation Enterprise (SCE) Consultancy Reports of 2009 and 2010, and Mercer Actuarial Reports of the FNPF from 2008. The Reform Program was approved by the Prime Minister in April 2010 and has a time line for completion by December 2011. Major areas of reform are the Review of the FNPF Act, the Pension Review, the Investment Rehabilitation Program, and the IT Strategic Review and Reform. The FNPF makes a quarterly update to the Prime Minister on the progress of the reform actions, and meets monthly with the Reserve Bank as part of the prudential consultation process, where the reform and other issues of concern are discussed, and updates provided by the Fund.

Appendix IV. Table 1. Fiji: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	47.6	53.1	49.9	50.4	55.4	55.9	58.9	58.8	58.5	57.7	56.6	1.3
o/w foreign-currency denominated	3.2	7.7	7.1	8.0	9.3	8.6	10.1	10.6	10.9	10.9	10.9	
Change in public sector debt	0.4	5.5	-3.2	0.6	5.0	0.4	3.0	-0.1	-0.3	-0.8	-1.0	
Identified debt-creating flows (4+7+12)	1.1	0.3	0.1	-0.9	6.0	0.2	-0.7	-0.8	-0.3	-0.8	-1.0	
Primary deficit	0.7	0.8	-1.7	-3.1	1.9	-0.6	-2.0	-2.0	-2.1	-2.2	-2.2	
Revenue and grants	24.1	25.5	25.3	25.6	24.2	24.8	27.2	27.1	27.0	27.0	27.0	
Primary (noninterest) expenditure	24.8	26.3	23.7	22.5	26.0	24.2	25.1	25.0	25.0	24.9	24.8	
Automatic debt dynamics 2/	0.4	0.0	1.7	2.2	4.1	0.8	1.4	1.3	1.7	1.4	1.2	
Contribution from interest rate/growth differential 3/	0.2	0.1	2.3	1.2	3.4	0.8	1.4	1.3	1.7	1.4	1.2	
Of which contribution from real interest rate	0.5	1.0	2.0	1.2	1.8	0.8	2.0	1.9	2.4	2.4	2.4	
Of which contribution from real GDP growth	-0.3	-0.8	0.3	0.1	1.5	-0.1	-0.7	-0.7	-0.7	-1.0	-1.2	
Contribution from exchange rate depreciation 4/	0.2	-0.1	-0.5	1.0	0.8	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.7	5.2	-3.3	1.5	-1.0	0.2	3.7	0.6	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	198.1	208.0	197.0	196.9	229.5	225.3	216.8	216.9	216.3	213.2	209.7	
Gross financing need 6/	9.7	9.6	8.4	5.9	12.1	8.4	12.1	7.4	7.4	7.2	6.9	
In billions of U.S. dollars	292.6	297.6	286.4	210.8	350.1	263.4	395.2	252.4	261.6	266.0	267.9	
Scenario with key variables at their historical averages 7/						55.9	60.9	63.0	64.5	66.0	67.5	2.0
Scenario with no policy change (constant primary balance) in 2010-2015						55.9	60.1	61.5	62.7	63.6	64.3	1.4
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	0.6	1.9	-0.5	-0.1	-3.0	0.1	1.3	1.2	1.3	1.8	2.3	
Average nominal interest rate on public debt (in percent) 8/	5.8	5.9	6.5	6.2	6.7	7.1	7.7	7.4	7.4	7.4	7.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.1	2.2	3.9	2.4	3.6	1.6	3.9	3.5	4.4	4.4	4.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-5.7	4.9	7.3	-12.1	-8.5	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.7	3.7	2.6	3.8	3.1	5.4	3.8	3.9	3.0	3.0	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	8.3	-10.7	-5.1	12.3	-7.0	5.3	0.8	1.0	1.5	1.9	
Primary deficit	0.7	0.8	-1.7	-3.1	1.9	-0.6	-2.0	-2.0	-2.1	-2.2	-2.2	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Appendix IV. Table 2. Fiji: External Debt Sustainability Framework, 2005–2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-Stabilizing Non-interest Current Account 6/
Baseline: External debt	9.5	14.4	13.5	12.6	17.2	16.9	16.1	16.2	16.2	16.2	16.3	-6.1
Change in external debt	-0.6	4.9	-0.8	-0.9	4.7	-0.4	-0.8	0.1	0.1	0.0	0.0	
Identified external debt-creating flows (4+8+9)	3.7	16.4	-4.5	3.4	4.6	-2.3	2.2	2.0	1.4	0.9	0.3	
Current account deficit, excluding interest payments	9.7	18.5	13.1	17.5	7.6	6.6	8.5	8.2	7.5	6.9	6.0	
Deficit in balance of goods and services	12.3	19.3	14.8	20.3	14.3	12.0	13.5	13.1	12.4	11.9	11.5	
Exports	53.2	49.9	48.3	54.1	45.8	48.4	49.4	49.0	49.2	48.6	48.3	
Imports	65.5	69.2	63.1	74.3	60.1	60.4	62.9	62.1	61.6	60.5	59.7	
Net non-debt creating capital inflows (negative)	-5.4	-2.1	-16.9	-13.8	-6.2	-9.4	-6.5	-6.4	-6.3	-6.2	-6.2	
Automatic debt dynamics 1/	-0.5	-0.1	-0.8	-0.2	3.3	0.5	0.2	0.2	0.3	0.3	0.4	
Contribution from nominal interest rate	0.2	0.2	0.5	0.4	0.4	0.5	0.4	0.3	0.5	0.6	0.8	
Contribution from real GDP growth	-0.1	-0.2	0.1	0.0	0.5	0.0	-0.2	-0.2	-0.2	-0.3	-0.4	
Contribution from price and exchange rate changes 2/	-0.7	-0.1	-1.3	-0.6	2.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.3	-11.5	3.7	-4.4	0.0	1.9	-3.0	-1.9	-1.4	-0.9	-0.2	
External debt-to-exports ratio (in percent)	17.8	28.7	28.0	23.3	37.6	34.8	32.5	33.0	33.0	33.4	33.7	
Gross external financing need (in billions of US dollars) 4/	434.1	756.5	630.3	824.3	400.4	437.1	568.9	440.3	422.5	395.4	392.5	
In percent of GDP	14.4	24.4	18.5	23.1	13.8	14.0	17.4	12.9	11.9	10.7	10.2	
Scenario with key variables at their historical averages 5/						16.9	18.9	22.1	25.7	29.8	34.8	-8.4
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	0.6	1.9	-0.5	-0.1	-3.0	0.1	1.3	1.2	1.3	1.8	2.3	
GDP deflator in U.S. dollars (change in percent)	7.3	1.3	10.3	5.0	-16.2	7.7	3.3	3.3	2.3	2.3	2.3	
Nominal external interest rate (in percent)	2.3	2.3	3.8	3.2	2.5	3.1	2.4	2.2	3.0	3.9	4.9	
Growth of exports (U.S. dollar terms, in percent)	19.2	-3.1	6.1	17.4	-31.1	13.9	6.9	3.6	4.0	3.0	3.9	
Growth of imports (U.S. dollar terms, in percent)	12.3	9.1	0.0	23.6	-34.3	8.4	9.0	3.1	2.8	2.4	3.3	
Current account balance, excluding interest payments	-9.7	-18.5	-13.1	-17.5	-7.6	-6.6	-8.5	-8.2	-7.5	-6.9	-6.0	
Net nondebt creating capital inflows	5.4	2.1	16.9	13.8	6.2	9.4	6.5	6.4	6.3	6.2	6.2	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

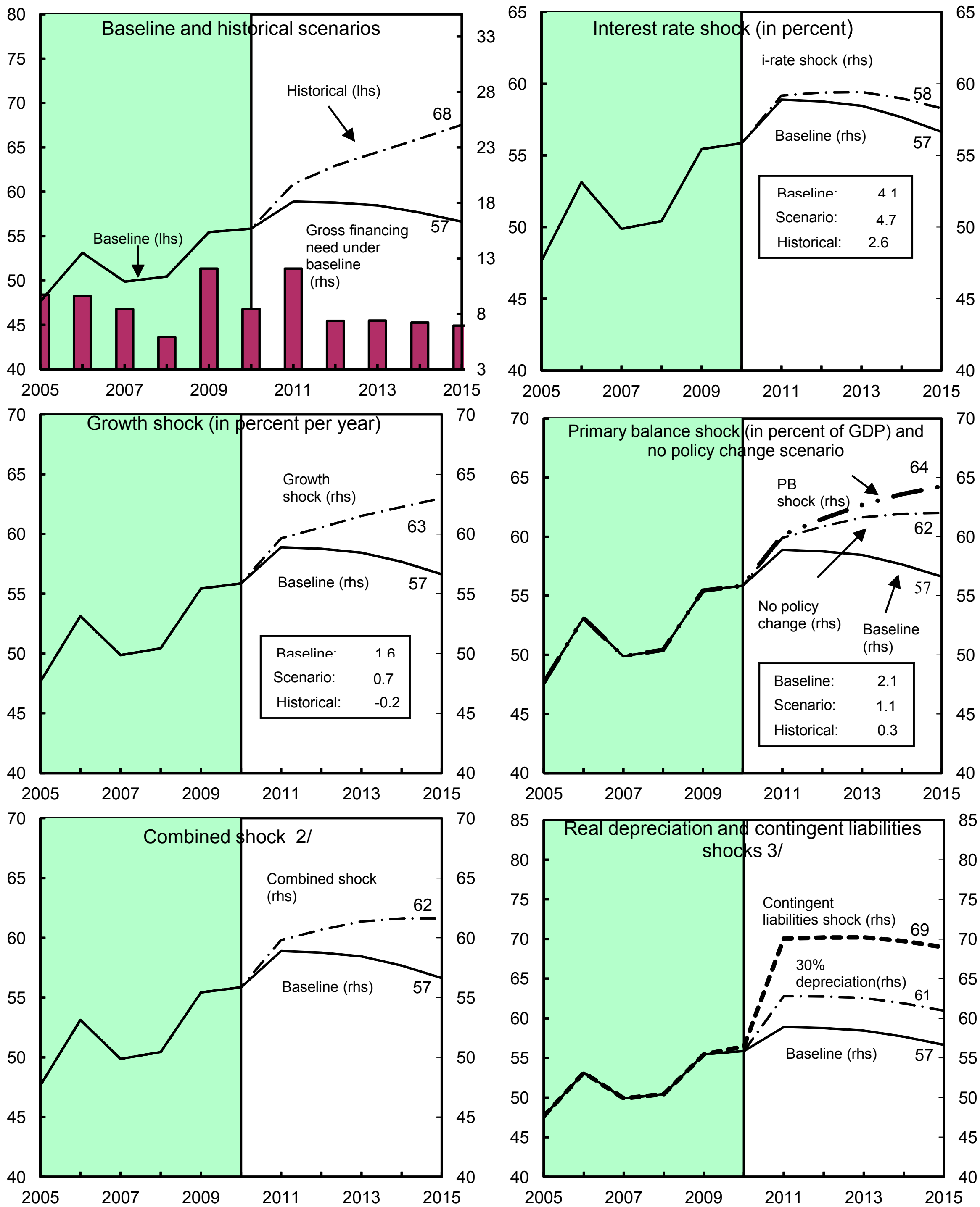
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

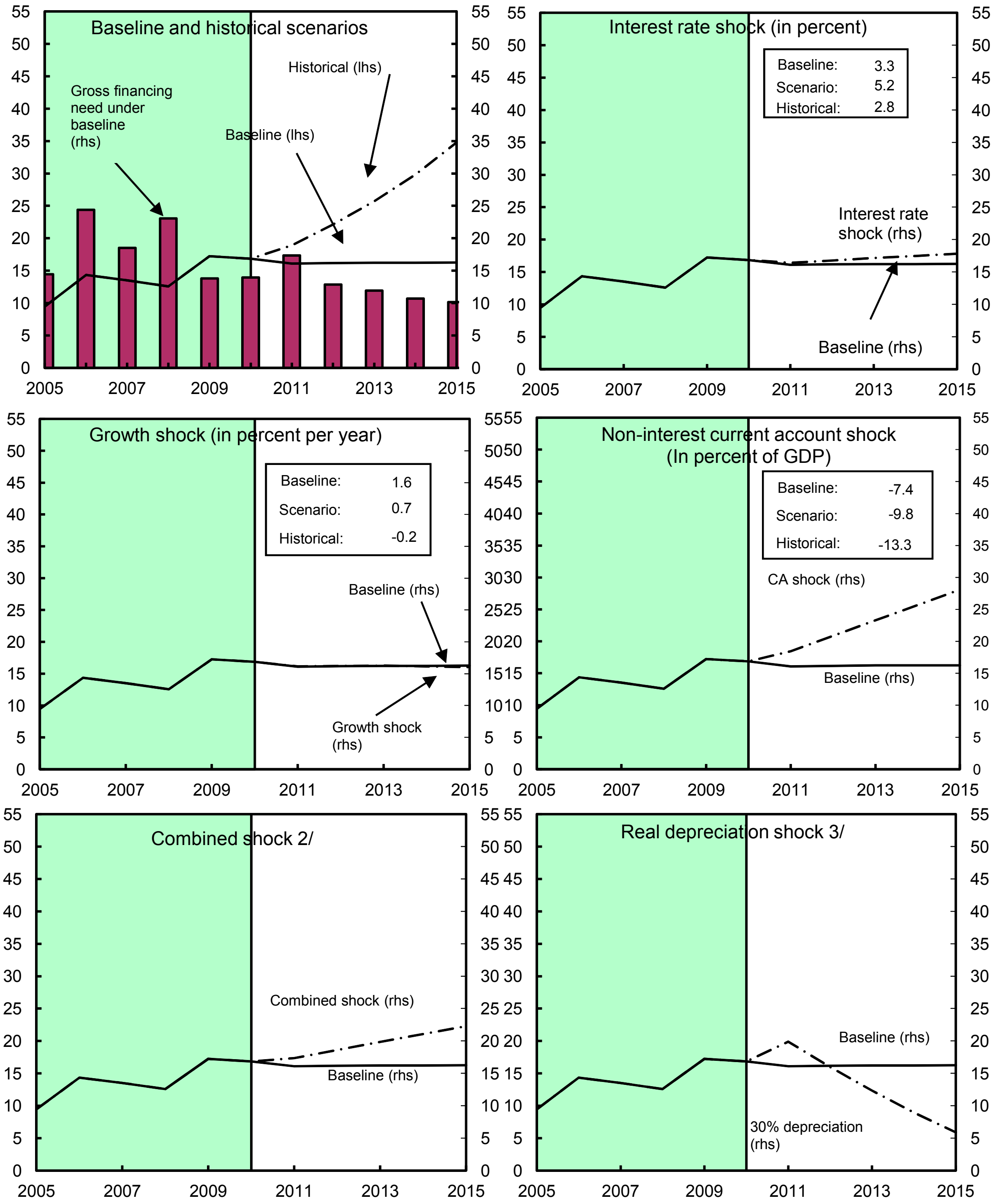
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix IV. Figure 1. Fiji: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Five-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix IV. Figure 2. Fiji: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Five-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2011.

INTERNATIONAL MONETARY FUND

FIJI

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Staff Representatives for the 2010 Consultation with Fiji
(In consultation with other departments)

January 20, 2011

Contents Page

ANNEX I. FIJI—FUND RELATIONS

As of December 31, 2010

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

II. General Resources Account:	**SDR million**	**% Quota**
Quota	70.30	100.00
Fund holdings of currency	54.08	76.92
Reserve position in Fund	16.25	23.11

III. SDR Department:	**SDR million**	**% Allocation**
Net cumulative allocation	67.09	100.00
Holdings	51.10	76.16

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund:

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal					
Charges/Interest	0.04	0.05	0.05	0.05	0.05
Total	0.04	0.05	0.05	0.05	0.05

VII. Exchange Rate Arrangements:

Fiji's *de facto* exchange rate arrangement is a conventional peg.

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. On April 15, 2009, the Fiji dollar was devalued by 20 percent against the basket. The exchange rate was F$1.8195 per U.S. dollar as of December 31, 2010.

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

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010. There are also restrictions in Fiji dollars on offshore portfolio and direct investments by the Fiji National Provident Fund and other nonbank financial institutions, companies, and individuals.

VIII. Last Article IV Consultation

The 2009 Article IV consultation discussions were held in Suva during Nov 10–24, 2009. The consultation (Country Report No. 10/136) was completed by the Executive Board on January 11, 2010. Fiji is on a 12-month cycle with the concurrence of the authorities.

IX. Technical Assistance from Headquarters

Fiscal Affairs Department (FAD):

- The Report on the Observance of Standard and Codes on Fiscal Transparency for Fiji was published on March 3, 2004.
- Assistance on review of tax and customs organization and operations, March–April, 2008.
- Assistance on investment tax incentives, January–February, 2009.

Monetary and Capital Markets Department (MCM):

- Long-term policy advisor with the Reserve Bank of Fiji, July 1993–November 1996.
- Assistance on monetary management, money and securities markets, and foreign exchange operations, September 1994.
- Assistance on bank supervision and monetary management, February 1996.
- Assistance on exchange rate arrangement and capital account liberalization, November 1997.
- Assistance on bank supervision, August 1998–August 1999.
- Assistance on insurance sector supervision, March 2002.
- Assistance on risk based framework for supervision of National Provident Fund and Pension funds, November–December 2005, March 2006.
- FSAP mission with World Bank, June–July 2006.
- Assistance on monetary operations and secondary market development, August 2006.

- Assistance on pension fund supervision, April–May 2007.
- Assistance on stress testing and financial stability analysis, March 2009.
- Comments provided from HQ on new draft Reserve Bank of Fiji Act, November 2009.

Statistics Department (STA):

- Assistance on Government Finance Statistics, January–February 2004.
- Monetary and Financial Statistics based on the GDDS framework, November–December 2005
- Multisector statistics advisor, 2005–2009.
- Balance of payments statistics, September 2006.
- Monetary and Financial Statistics under the MFS project for PFTAC members, January–February 2008.
- Import price index statistics, February 2008 and October–November 2008.
- Consumer price statistics, May 2008.

Legal Department (LEG):

- AML/CFT as part of Pacific project, December 2001.
- Assistance on Draft Financial Transactions Reporting Act, Financial Intelligence Unit and Proceeds of Crime Act, Mutual Assistance in Criminal Matters Act, November 2002–August 2004.
- Comments provided from HQ on new draft Reserve Bank of Fiji Act, November 2009.

X. Safeguards Assessment: The first-time safeguards assessment of the Reserve Bank of Fiji (RBF) was finalized in January 2011 and found key safeguards elements in place. The RBF publishes annual financial statements, albeit with some delay, that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were recommended by the staff for others. Other priority recommendations include: (i) establishing an inter-departmental working group to develop procedures for compilation of monetary program data, and (ii) adopting an action plan for establishing RBF capacity to prepare IFRS financial statements.

XI. 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, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Yongzheng Yang is the resident representative.

ANNEX II. FIJI: WORLD BANK-IMF COLLABORATION

(As of December 31, 2010)

The Bank and Fund country teams led by Ms. Rosa Alonso I Terme (World Bank Task Team Leader, Public Service Reform), Mr. Vivek Suri (World Bank Lead Economist, East Asia and the Pacific) and Mr. Jonathan Dunn (IMF Mission Chief for Fiji) maintain a close working relationship and have an ongoing dialog on a range of macroeconomic and structural issues.

Cooperation over the past year has included World Bank participation in the 2009 Article IV and April 2010 SBA negotiation missions and overlap (separate Bank missions on public service reform) with the April 2010 SBA negotiation mission and September 2010 IMF staff visit to Fiji. The Bank's participation facilitated discussions with the authorities in the areas of public service, public financial management, and land reforms.

The Bank and Fund teams agree that Fiji's main macroeconomic challenges are to put government finances on a sustainable path to reduce Fiji's public debt-to-GDP ratio and help safeguard external stability, and to address structural obstacles that are impeding growth. The Bank and Fund share the view that the following structural reforms are important to achieve the above objectives and are therefore deemed macro-critical:

- **Civil service reform**. A well-designed civil service reform would identify non-core service areas that could be privatized or outsourced to help rationalize public sector employment. Initial steps would include freezing wages and limiting hiring to key positions such as IT and HR pending an audit of civil service positions to identify overall government employment needs. Other key steps include establishing control over civil service payroll and hiring procedures and, if needed, designing adequate redundancy packages to facilitate the right-sizing of government.

- **Public enterprise reform.** The Fiji Sugar Corporation needs to be restructured and returned to profitability, and wide ranging sugar sector reforms need to be implemented to make the sugar industry viable. Tariffs for electricity and other goods and services provided by public enterprises should be raised to full cost recovery levels. FNPF should be made actuarially sound, including through reducing the conversion rates of benefits to annuities, limiting non-pension withdrawals and increasing the independence of FNPF's management. These reforms will help reduce the government's direct and contingent liabilities and help ensure fiscal sustainability and promote growth. Poor performance on the part of FSC has already created a large burden on the budget and significantly reduced Fiji's growth, highlighting the need for urgent and credible reforms in the sugar sector.

- **Review of the social safety net.** Fiji's social safety net needs to be reviewed to reduce inefficiencies and enhance protection of the most vulnerable segments of the population. A stronger safety net will help to ensure the success of Fiji's reform agenda.

- **Tax policy and administration reform.** VAT and income tax legislation should be strengthened and simplified to increase efficiency and broaden the tax base. This should include eliminating tax holidays, removing most tax exemptions, and introducing a simplified investment allowance scheme. Tax administration reforms will improve compliance and taxpayer services. These reforms should increase revenue and reduce discretion, thereby helping to achieve fiscal consolidation and to improve the business climate and prospects for growth. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.

- **Debt management.** Debt management procedures should be followed strictly and Fiji should develop a debt-management strategy to prevent a rapid build-up of public debt.

- **Land reform.** Land leases should be redesigned and procedures for the use of land as collateral need to be streamlined. Land reform is critical for Fiji's growth prospects and economic diversification.

- **Strengthening statistical capacity and statistics.** Fiji should ensure that it continues to develop personnel with the capacity to produce accurate and timely economic statistics. Good statistics are important both for macro policy formulation and good public financial management (e.g. establishment payroll and wage bill control). Fiji continues to benefit from a broad range of statistical advice from PFTAC.

The Bank and Fund teams agreed to continue close collaboration going forward**.** Appendix I details those activities that the Bank and Fund will work on over the coming year. The teams agreed, in consultation with the Asian Development Bank (AsDB), that the AsDB will lead on public enterprise reform and analysis of the social safety net in connection with the possible reform of the sugar industry.

Appendix I: Fiji: Bank and Fund planned activities in macro-critical structural reform areas, September 2010-September 2011

	Products	Expected Delivery Date
Bank Work Program	• Needs assessment for Public Service reform • Public Service reform • Actuarial assessment and capacity building of FNPF • Poverty mapping • Assessment of Family Assistance Program • Land reform (potential assistance)	• October 2010 • Ongoing FY2011 • Ongoing FY2011 • Ongoing FY2011 • Ongoing FY2011 • FY2011/12
Fund Work Program	• Article IV staff report to the board • National Accounts Statistics (PFTAC) • Income Tax and VAT legislation (PFTAC) • Internal audit and accounting reform (PFTAC) • Implementation of simplified investment allowance scheme (potential assistance) • Debt strategy and debt management (potential assistance	• January 2011 • Ongoing FY2011/12 • Ongoing FY2011/12 • Ongoing FY2011/12 • FY2011/12 • FY2011/12

ANNEX III: FIJI—RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE[1]

(As of December 31, 2010)

Public Financial Management

PFM TA to Fiji has mainly focused on accounting and control based, in part on a 2006 PFTAC review of Treasury operations that provided advice on the appropriate structure, functions and accounting procedures, as well as interim measures for strengthening internal controls. This has been supplement by a scoping study on Accrual Accounting in September 2009, following which a consultant worked, in November 2009, on the next steps to improve IPSAS based cash accounting, before moving toward accrual accounting. The consultant further worked on this issue in September 2010 as a result of which, for the first time, Fiji's IPSAS based cash accounts shall be submitted to the Auditor General by mid-December 2010. Fiji also requested a review of their IFMIs system and this is being undertaken in December 2010.

In addition, a peripatetic consultant assisted the government in 2006 to set up a system of Performance Budgeting, and this work was continued in 2007 and 2008 by the PFTAC PFM Advisor. A short-term mission to develop staff capacity in Debt Strategy and Sustainability Analysis was undertaken in July–August 2007. In addition, the PFTAC Advisor conducts regular monthly training courses in PFM for the staff of the Budget Division. Permanent Secretary Finance also participated in the PFTAC organized study visit to the US Treasury, in August 2008.

A Fiji participant attended the two-week PFM program in September 2009, organized by PFTAC in India.

Tax Administration and Policy

In March 2008, FAD recommended changes to FIRCAs (Fiji Islands Revenue and Customs Authority) operations, i.e., reorganize core tax and customs functions; review all tax procedures, especially the burdensome assessment regime; develop effective business processes; customs to develop a comprehensive reform plan and review business processes under the new organizational proposals; increase and unify the VAT threshold; and strengthen audits.

FIRCA have adopted all but a few of the recommendations. Terms of reference for the implementation have been finalized and steering committee and project teams formed. PFTAC has provided assistance to review the business processes and identify process enhancements. PFTAC has also assisted with development of a new corporate plan incorporating implementation of the new business processes and modernization of the income tax legislation. The rewritten income tax

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

legislation, drafted with PFTAC assistance, and will include self-assessment principles and make PAYE a final tax. The IMF Legal has provided assistance to review and modernize the VAT legislation.

Financial Sector Regulation and Supervision

In 2008, TA in respect of supervision of the national provident fund was provided by MCM. In September 2009, RBF hosted a regional training seminar by STA on Financial Soundness Indicators and reporting requirements under the IMF Monetary and Financial Statistics Manual. In March 2009, RBF and PFTAC hosted a regional training seminar by MCM on Stress Testing and in October 2010 participated in a regional training seminar organized by the Advisor on Liquidity Risk in Banking Operations.

Recently, assistance to the RBF has been provided through its participation in AFSPC activities, for which the Advisor serves as Secretariat. As a result of the RBF's participation in the June 2010 meeting of the AFSPC working group to standardize prudential returns, the Advisor provided recommendations to the RBF for strengthening prudential bank reporting requirements. Additionally, the RBF was an active participant in the October 2010 annual meeting of the AFSPC, which included training presentations on Basel III and the possible implications for the Pacific, and supervisory cost recovery schemes being used by PIC supervisory authorities.

Macroeconomic Frameworks

In December 2009, PFTAC provided assistance to the RBF on reform of monetary policy operations and the exchange rate arrangement. PFTAC's new macroeconomic advisor is following up with assistance in building forecasting and financial programming techniques in RBF.

Economic and Financial Statistics

GDDS metadata for Fiji, prepared with assistance from PFTAC, are posted on the IMF website. A multi-year action plan developed in 2002 was reviewed and updated in early 2008, to strengthen both the organization and content of statistics. In response to subsequent requests by the authorities, assistance has been, and will continue to be, provided to assist the transition of balance of payments (BOP), government finance, monetary and national accounts statistics to the latest international standards, and to improve the quality of these statistics. During 2007 and early 2008 a series of STA expert missions focused on strengthening monetary and financial statistics.

The PFTAC Advisor and experts have undertaken 11 missions since 2008 to assist in improving balance of payments, national accounts, and prices statistics. As a result, the Fiji Islands Bureau of Statistics has recently released quarterly BOP estimates up to September 2009 and annual international investment position statistics. The coverage and quality of national accounts estimates have been significantly improved and constant price estimates have been rebased to 2005 prices. Work has also begun on developing quarterly GDP estimates and an expenditure measure of GDP. The CPI has been rebased to 2005, an imports' prices survey has been implemented to begin compiling import price indexes and development of producer price indexes is underway.

ANNEX IV: FIJI—RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of December 31, 2010)

The Asian Development Bank (AsDB) has approved 18 loans totaling $303.6 million. The AsDB has approved 80 TA projects, totaling $27.0 million since 1970. AsDB opened a Pacific sub-regional office in Suva in June 2004, servicing Fiji Islands and five other Pacific nations.

Following the military coup of December 2006, AsDB's disbursements and TA operations were suspended. In April 2007, AsDB adopted an *Approach to Reengagement* for Fiji Islands which allows for the completion of activities ongoing at the time of the December 2006 coup, but not approval of a new country partnership strategy or new operations until Management judges that five criteria have been met. While three criteria have clearly been met, the stance of some AsDB member countries towards the government and Fiji Islands' suspension from the Pacific Islands Forum and the Commonwealth remain problematic. Periodic reports, to update AsDB's Board on the evolving situation in the country, are prepared in line with the *Approach to Reengagement*.

ADB has three ongoing loan projects—two that were ongoing at the time of the 2006 coup and one, Emergency Flood Recovery Project for $17.5 million, was approved in 2009 as an exception to the *Approach to Reengagement*. Supplementary financing for the Third Fiji Road Upgrading Project ($26.8 million) and the Suva-Nausori Water Supply and Sanitation Project ($23.0 million) was approved in 2009. The implementation of all three projects is proceeding satisfactorily with the road and water/sanitation projects expected to be substantially complete by end 2012. The flood recovery loan is also expected to be completed by 2012. Opportunities for private sector operations continue to be considered. Fiji Islands has continued to benefit from a limited amount of regional technical assistance (TA) on a case-by-case basis, but there are no ongoing country program TAs.

AsDB undertook a review of country portfolio performance in 2010. While AsDB-financed projects have not experienced significant counterpart resource constraints to date, the sustainability of the absorptive capacity of various government agencies particularly as a result of the migration of skilled staff to implement programs is a long-term concern.

When the conditions for reengagement are in place, a Country Partnership Strategy will be prepared with Government. Future operations would likely include areas where there is a clear poverty alleviation focus, both within AsDB's traditional sectors of assistance in Fiji Islands and also in relevant areas prioritized under AsDB's *Strategy 2020*. Grant co-financing and capacity building technical assistance are also likely to play important roles in any future strategy.

ANNEX V: FIJI—STATISTICAL ISSUES As of December 31, 2010
I. Assessment of Data Adequacy for Surveillance
General: Despite significant shortcomings in some areas, especially GDP and balance of payments data, core economic and financial data provided to the Fund are generally adequate for surveillance. Macroeconomic data are slowly improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years. The Reserve Bank of Fiji (RBF) publishes the *Annual Report*, the *Quarterly Review,* and the *Monthly Economic Review*. The Fiji Bureau of Statistics (BoS) publishes a quarterly *Current Economic Statistics* and a monthly *Statistical News*. The Ministry of Finance and National Planning (MoF) issues the *Budget Address* and the *Supplement to the Budget Address* on an annual basis. All of these publications are received by APD on a regular basis. Formal participation in the GDDS commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002. The country has maintained its commitment to use the GDDS as a framework for statistical development.
National Accounts: Production-side estimates of GDP at current and constant prices are available up to 2009. Revised data were published in September 2010 using the 2002 Household Income and Expenditure Survey, a new business census, and estimates of the informal sector. Expenditure-side GDP data in constant prices are not available and expenditure-side GDP data in current prices are only available through 2005. In addition, GDP broken down by income is only available through 2005. **Price statistics:** The BoS is updating the CPI weights from the current 1993 base using results of the 2002 Household Expenditure and Income survey. There have been persistent difficulties in compiling export and import unit value indexes, mainly due to lack of continuity that resulted from a switch to ASYCUDA for customs processing late in 1999. The BoS plans to re-introduce trade price indexes with a starting period of 2002 (to coincide with the new benchmark year for national accounts).
Government finance statistics: Public debt data remain weak. Following a PFTAC supervised project, reporting of data for publication in the *Government Finance Statistics (GFS) Yearbook* has resumed. Data include a statement of sources and uses of cash for budgetary central government, subdivisions of receipts and payments by economic category and outlays by function. Data for 2006 in the format of the *Government Finance Statistics Manual 2001* are available. Some inconsistencies remain between the *GFS* data and fiscal data provided to APD, especially in the areas of nontax revenue, wages and salaries, other

purchases of goods and services, and subsidies and transfers. Other problem areas include a lack of transparency in budget reporting, with some agencies outside the budget, including the Fiji Islands Revenue and Customs Authority; and an absence of published updates on the budget outcome and financing sources.
Monetary statistics: Data on the monetary authorities and the deposit money banks are comprehensive and provided to APD and STA on a regular and timely basis. Data on nonbank financial institutions, including the Fiji National Provident Fund (FNPF), are less regular, timely, and reliable. With FNPF representing a large part of the financial sector, the unavailability of a consolidated financial survey hampers economic and financial analysis. The RBF is in the process of broadening its monetary survey into a depository corporations survey and compiling a financial survey that covers nonbank financial institutions. A November 2005 expert mission, during a PFTAC monetary statistics workshop, reviewed the compilation procedures and provided training and a work plan for the RBF to comply with the methodology of the *Monetary and Financial Statistics Manual* and to report using the standardized report forms (SRFs). A follow-up February 2008 mission provided advice on introducing the SRFs and developing an integrated monetary database that will meet the data needs of the RBF, APD, and STA.
Balance of payments: The BoS is nearing the end of a major PFTAC assisted project to compile new balance of payments data and revise historical data back to 2000 consistent with the IMF *Balance of Payments Manual (fifth edition)*. Revised annual balance of payments data were published in June 2010 that significantly reduced errors and omissions in 2008 from over 10 percent of GDP to about 6 percent of GDP. Initial estimates of quarterly balance of payments data and the annual investment position were also published in June 2010. A separate project to publish data on international trade in services is also nearing completion, while technical assistance to address problems in the capital and financial accounts will start shortly. Balance of payments data for the period up to end-2006 were reported to the Statistics Department for publication in the 2007 *Balance of Payments Yearbook*. Problems remain in the measurement of external debt, due to the absence of a consistent framework and insufficient coordination between the RBF, the BoS, and the MoF.
II. Data Standards and Quality
Fiji is a GDDS participant. The statistics advisor based at PFTAC in Suva is the GDDS Project Manager for the Pacific region.

Fiji—Table of Common Indicators Required for Surveillance

(As of December 31, 2010)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	December 2010	December 2010	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	November 2010	December 2010	M	M	M
Reserve/Base Money	October 2010	November 2010	M	M	M
Broad Money	October 2010	November 2010	M	M	M
Central Bank Balance Sheet	October 2010	November 2010	M	M	M
Consolidated Balance Sheet of the Banking System	October 2010	November 2010	M	M	M
Interest Rates[2]	October 2010	November 2010	M	M	M
Consumer Price Index	November 2010	December 2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2009	November 2010	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	2009	November 2010	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	Q3, 2010	November 2010	Q	Q	Q
External Current Account Balance	Q3, 2009	November 2010	Q	A	A
Exports and Imports of Goods and Services	2009	November 2010	A	A	A
GDP/GNP	2009	November 2010	A	A	Q
Gross External Debt	2009	November 2010	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Daily (D), monthly (M), quarterly (Q), and annually (A).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 11/35
FOR IMMEDIATE RELEASE
March 14, 2011

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

IMF Executive Board Concludes 2010 Article IV Consultation with Fiji

On February 2, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Fiji on a lapse-of-time basis.[2]

Background

Economic growth in Fiji has been negative or low for four years. This is in part due to the weak domestic investment climate that results from delays in structural reforms, an increase in exchange restrictions and price controls, the decline of the sugar industry, and political uncertainty. Fiji's economy contracted by 3 percent in 2009 and marginal growth is estimated for 2010. The 2010 improvement is based on tourism rebounding on the strength of regional economies and the ongoing competitive gain secured through the April 2009 devaluation. Exports and investment driven by resource extraction are showing positive signs, though growth in these areas is from a small base. Growth is projected at 1 to 2 percent over the medium term in the absence of structural reforms and other measures to improve the investment climate. Inflation is projected to fall to 3 percent over the medium term in the weak growth environment. Without fiscal consolidation and stronger growth public debt will remain high and Fiji will not have the fiscal space it needs to respond to shocks.

Foreign exchange reserves have improved steadily following the April 2009 devaluation and stood at just over 4 months of imports at end 2010. Reserves have, however, been supported by exchange restrictions. The real effective exchange rate has remained stable. After rising

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

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

through mid-2010, inflation—inclusive of two electricity tariff increases—moderated to 4.0 percent (year on year) by late 2010 due to sluggish demand and steady international commodity prices. Price controls imposed on many food products since 2009 have likely contributed to low inflation.

The fiscal deficit is estimated to have fallen to 3.6 percent of GDP in 2010 from 3.9 percent of GDP in 2009. This reduction resulted from a public hiring freeze (other than for some key areas), lower-than-budgeted capital spending, and stronger-than-projected VAT receipts. The losses and mismanagement of the Fiji Sugar Corporation (FSC) have led to pressures on the budget. The deficit was financed mostly by the Fiji National Provident Fund (FNPF) as commercial banks remained near their sovereign lending limits. Central government debt at end-2010 is estimated at close to 56 percent of GDP. Contingent fiscal liabilities are estimated at 17.6 percent of GDP at end 2010 and include guarantees on bonds issued by Fiji Development Bank. On November 26, 2010, the authorities announced a 2011 budget with a deficit of 3.5 percent of GDP.[3]

The Reserve Bank of Fiji (RBF) relaxed interest controls in the beginning of 2010 by removing ceilings on bank lending rates (though banks still must justify deposit-lending rate spreads greater than 4 percent). In response, average deposit and lending rates rose marginally. The government re-established variable rate auctions for government securities in May 2010. Government borrowing costs have risen as banks and the FNPF can now better price risk. Banks report limited lending opportunities due to the weak investment climate, and credit growth has been modest. Banks' excess liquidity has increased to 12 percent of deposits in recent months, much of it attributable to the lack of lending and investment opportunities for banks and exchange restrictions preventing or delaying outflows.

On the structural front, the government is drawing up a detailed plan to revive the FSC and the sugar industry. A land bank has been established to increase security of land leases as part of an overall effort to encourage investment and job creation. Significant progress has been made in SOE reforms, including adjustments to electricity tariffs to increase cost recovery and the establishment of a water authority. A functional review of public service positions is under way, as is the adoption of a performance-based remuneration system. However, wide-spread price controls have continued and, in some cases, they have intensified in recent months.

Executive Board Assessment

On February 2, 2011, the Executive Board of the IMF concluded the Article IV consultation with Fiji and considered and endorsed the staff appraisal without a meeting.

Fiji faces difficult challenges to break away from its low growth of the past decade. There are encouraging signs of recovery, but stronger, sustained growth would require a more favorable investment climate that can materialize only through continued structural reforms and the removal of administrative controls. There are a number of downside risks to the growth outlook.

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[3] This corresponds to the staff's projected 2011 budget deficit of 3.7 percent of GDP, which excludes privatization receipts from revenue and makes adjustments in customs revenue estimates.

Public debt and contingent liabilities are equivalent to 74 percent of GDP and limit the fiscal space Fiji should reserve to respond to frequent shocks. Volatile commodity prices, increasing reliance on tourism, risk of natural disasters and some uncertainty about external financing represent significant vulnerabilities. Investor interest is likely to remain subdued in the presence of exchange and price controls and continued political uncertainty.

The current monetary policy stance is appropriate. High excess liquidity in the banking system reflects the weak economic environment and exchange restrictions. Monetary policy should be gradually tightened if core inflation rises or a return of confidence leads to strong credit growth. Restrictions on the repatriation of profits and dividends should be relaxed to build investor confidence.

The 2011 budget deficit falls short of the effort needed to bring public debt below 50 percent of GDP in the medium term. The authorities are to be commended for the bold revenue measures in the 2011 budget. If these are complemented by ambitious civil service and public enterprise reform Fiji will move towards fiscal sustainability.

Public enterprise and FNPF reform will bolster fiscal sustainability. The fiscal risk of supporting public enterprises has been made clear by FSC. The government should move quickly to finalize the FSC restructuring plan and the company should be divested within the next three years. FNPF reforms should be completed in 2011.

Fiji should adopt a more flexible exchange rate regime to help absorb shocks and protect reserves. An appropriate first step would be to move to an exchange rate band of ±2–3 percent around the current rate. This should be supported by strong fiscal adjustment, prudent monetary policy, and continued interest rate flexibility. The independence of the RBF should be strengthened and changes to the RBF Act recommended in the recent safeguards assessment should be implemented.

Recent RBF action to strengthen bank supervision is welcome but further steps toward risk-based supervision are needed. Stress tests should be conducted and reviewed with banks more frequently and the RBF should make greater use of credit-analysis data available from large banks.

Structural reforms are necessary to spur growth and would help protect macroeconomic stability. Well-designed land reform and the removal of price controls should support investment and the diversification of economic activity. Civil service reform and adjusting tariffs for public services will help contain contingent liabilities and should increase efficiency. The social impact of redundancies and higher tariffs can be addressed through retraining programs and additional targeted social assistance. Fiji should seek support from development partners, including technical and expert advice, to help design and implement these important structural reforms, which are critical to improving the overall business environment.

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Fiji: Selected Economic Indicators, 2006–11

Nominal GDP (2008): US$3,572 million
Population (2008): 843,132
GDP per capita (2008): US$4,237
Quota: SDR 70.3 million

	2006	2007	2008 Prel.	2009 Est.	2010 Proj.	2011 Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	1.9	-0.5	-0.1	-3.0	0.1	1.3
Consumer prices (end of period)	3.1	4.3	6.6	6.8	4.0	3.3
Central government budget (percent of GDP) 1/						
Revenue and grants	25.6	25.3	25.6	24.8	25.0	27.3
Total expenditure	29.0	27.4	25.5	29.4	28.5	31.0
Of which: Capital	4.0	3.5	4.1	6.4	5.9	6.6
Overall balance	-3.4	-1.1	-0.1	-3.9	-3.6	-3.7
Total debt outstanding	53.5	49.7	50.4	55.4	55.9	58.9
Money and credit (percent change)						
Domestic credit	23.6	3.2	4.8	4.2	2.4	7.1
Government (net)	28.3	-15.0	-38.0	65.0	0.8	0.0
Broad money (M2)	19.8	10.4	-6.9	7.4	7.0	7.9
Reserve money	24.3	37.4	-30.0	50.5	19.0	11.3
Treasury bill rate (91-day)	10.9	0.3	0.5	3.0	…	…
Commercial bank lending rate	7.9	8.5	7.7	7.5	…	…
External sector (in millions of U.S. dollars)						
Trade balance	-897	-842	-1,108	-671	-726	-809
(In percent of GDP)	-28.9	-24.7	-31.1	-23.1	-23.2	-24.7
Exports, f.o.b.	729	787	944	625	690	735
Imports, f.o.b.	1,626	1,629	2,052	1,296	1,416	1,544
Current account balance	-582	-463	-640	-231	-222	-292
(In percent of GDP)	-18.7	-13.6	-17.9	-7.9	-7.1	-8.9
Capital/financial account balance	634	469	244	456	233	235
Overall balance	-150	218	-222	278	137	-5
Gross official reserves (in millions of U.S. dollars) 2/	310	519	317	565	710	705
(In months of retained imports)	2.0	2.5	2.1	4.0	4.3	4.4
External central government debt (in millions of U.S. dollars)	241	247	285	269	271	330
(In percent of GDP)	7.8	7.2	8.0	9.3	8.6	10.1
Miscellaneous						
Real effective rate (average) 3/	97.7	99.4	102.0	90.5	87.7	…
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.73	1.61	1.59	1.96	1.92	1.93
GDP at current market prices (in millions of Fiji dollars)	5,372	5,483	5,683	5,685	6,000	6,310
Oil price (U.S. dollars per barrel)	64.3	71.1	97.0	61.8	78.9	89.5

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

1/ IMF staff scenario for 2011.

2/ Reserve Bank of Fiji holdings only.

3/ 2005 REER = 100. Data for 2010 is the period average through November 2010.