IMF Country Report No. 16/54

REPUBLIC OF FIJI

February 2016

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF FIJI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 15, 2016 consideration of the staff report that concluded the Article IV consultation with the Republic of Fiji.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 5, 2016, following discussions that ended on October 28, 2015, 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, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Fiji.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/70
FOR IMMEDIATE RELEASE
February 23, 2016

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with the Republic of Fiji

On February 5, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Fiji.[1]

Fiji is enjoying strong growth momentum, due to higher investment, robust tourism and strong remittances, supported by an improvement in the terms of trade. The historic elections of September 2014 marked the return to democracy, leading to a normalization in relations with development partners, further boosting investor and consumer confidence.

The Fijian economy entered its third year of above 4 percent annual growth in 2015, with GDP projected to expand by 4.3 percent, following growth of 5.3 percent in 2014. Headline inflation has remained low, benefiting from low global energy prices and wide-ranging administered prices. In addition, delayed pass-through of low global food prices is likely to keep inflationary pressures at bay. The Reserve Bank of Fiji (RBF) has kept the overnight policy interest rate near zero, at 0.5 percent, and excess liquidity in the banking system persists. Despite some recent moderation, credit growth has remained strong, reflecting in part the accommodative monetary conditions, improved business confidence, and pent-up demand for credit. The 2015 fiscal deficit is estimated at 3.2 percent of GDP and key budget targets have been met, but slower execution of capital projects contributed to a smaller deficit. As a result of the shift in capital spending from 2015 to 2016, the fiscal deficit is projected to increase to 4.3 percent of GDP in 2016, and consolidation has been deferred to 2017. Public debt is sustainable, and is forecast to gradually decline over the medium term. Foreign exchange reserves remain adequate.

The authorities continue to make progress in several structural reform areas, with a view to lowering the cost of doing business and improving the overall business climate. However, much scope for further liberalization remains, including with regard to consumer prices and exchange controls. Efforts in these areas and continued impetus on structural reforms would also help sustain broad-based inclusive growth.

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

Executive Board Assessment[2]

Executive Directors noted that political stability had contributed to Fiji's strong growth performance and favorable economic outlook. Macroeconomic policies have also been supportive. Nevertheless, Directors noted that risks to growth remain, and derive mostly from external developments. At the same time, prolonged accommodative policies and delays in reform implementation could generate imbalances and undermine growth prospects. Accordingly, Directors encouraged the authorities to pursue sound macroeconomic policies and implement structural reforms to generate sustainable, inclusive growth.

Directors emphasized the need for a growth-friendly fiscal consolidation to build buffers and maintain sustainability. They commended the authorities' focus on addressing public infrastructure gaps, and recommended prioritization of capital projects and social spending while containing current expenditure. They welcomed efforts to broaden the tax base and strengthen administration. Directors also commended the successful refinancing of external sovereign debt, which reflected favorable market conditions and an improvement in Fiji's macroeconomic fundamentals.

Directors recommended a gradual tightening of monetary conditions. They also supported the use of appropriate macro-prudential policies to help moderate credit growth, especially to the housing sector. While financial stability indicators are generally sound, Directors recommended strengthened bank and non-bank supervision.

Directors noted that the broadly favorable macroeconomic conditions provided an opportunity to increase exchange rate flexibility over the medium term to cushion against external shocks. Directors encouraged the authorities to review and adjust the level of the exchange rate basket peg more frequently to prevent protracted deviations from fundamentals.

Directors underlined the need for structural reforms to cement gains in potential growth, bolster resilience, and reduce poverty. Directors encouraged the authorities to further streamline government regulation, implement civil service and state-owned enterprise reforms, and remove impediments to land use. Directors also recommended a gradual relaxation of price controls and exchange restrictions.

Directors commended the authorities' efforts to improve data which can help improve policy making and reform efforts.

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

Table 1. Fiji: Selected Economic Indicators, 2011–16

Nominal GDP (2014): US$4,532 million
Population (2014): 886,500 (est.)
GDP per capita (2014): US$5,112
Quota: SDR 70.3 million

	2011	2012	2013	2014	2015	2016
		Est.	Est.	Est.	Proj.	Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	2.7	1.4	4.7	5.3	4.3	3.7
GDP deflator	10.6	3.3	2.3	5.1	3.2	3.2
Consumer prices (average)	7.3	3.4	2.9	0.5	2.8	2.8
Consumer prices (end of period)	6.4	2.5	3.4	0.1	2.8	2.8
Central government budget (percent of GDP)						
Revenue	26.7	26.5	27.0	27.6	28.2	29.0
Expenditure	28.0	28.9	27.6	31.8	31.4	33.3
Fiscal deficit	-1.4	-2.4	-0.6	-4.3	-3.2	-4.3
Fiscal deficit in national convention 1/	-1.4	-2.4	-0.5	-4.1	-2.1	-1.3
Total debt outstanding	52.6	51.7	49.5	47.7	46.1	44.7
Money and credit (percent change)						
Net domestic credit	0.5	2.7	14.0	18.7	…	…
Private sector credit	3.9	6.3	9.2	15.5	…	…
Broad money (M3)	11.5	5.9	19.0	10.4	…	…
Monetary base	19.6	11.4	7.5	4.2	…	…
Reserve Bank of Fiji's discount rate	1.0	1.0	1.0	1.0	…	…
Commercial bank lending rate	7.4	6.6	5.8	5.7	…	…
External sector (in millions of U.S. dollars)						
Trade balance 2/	-844	-770	-1,167	-1,028	-981	-1,025
(In percent of GDP)	-22.3	-19.4	-27.8	-22.7	-20.5	-20.4
Exports, f.o.b.	1,068	1,205	1,138	1,208	1,438	1,384
Imports, f.o.b. 2/	1,912	1,975	2,305	2,236	2,419	2,409
Current account balance 2/	-184	-53	-413	-326	-254	-206
(In percent of GDP)	-4.9	-1.3	-9.8	-7.2	-5.3	-4.1
Capital/financial account balance	478	339	412	531	373	381
Errors and omissions	-177	-219	77	-186	-67	0
Overall balance	117	68	76	19	52	176
Gross official reserves (in millions of U.S. dollars)	831	914	990	1,010	1,062	1,237
(In months of retained imports) 2/	5.2	5.7	5.3	5.2	4.8	5.4
External central government debt (in millions of U.S. dollars)	455	523	570	673	670	724
(In percent of GDP)	12.2	13.1	14.0	14.7	13.9	14.3
Miscellaneous						
Real effective exchange rate (average)	103.4	106.6	107.6	106.6	…	…
Exchange rate (Fiji dollars per U.S. dollar, period average)	1.79	1.79	1.84	1.89	…	…
GDP at current market prices (in millions of Fiji dollars)	6,769	7,120	7,727	8,553	9,206	9,852
Oil price (U.S. dollars per barrel)	104.0	105.0	104.1	96.2	50.9	42.0
Oil import (US Dollars)	650.2	677.1	662.5	583.7	388.7	409.8

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.
1/ Including privatization receipts as revenue.
2/ Includes purchase of aircraft by Fiji Airways in 2013

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

January 19, 2016

KEY ISSUES

Context. Fiji is enjoying a strong growth momentum due to accommodative policies, robust tourism and strong remittances, and an improvement in the terms of trade. The smooth and peaceful elections in September 2014 marked the return to democracy—leading to a normalization in relations with development partners, further boosting investor and consumer confidence. While addressing infrastructure gaps and further improving the business climate will be critical to ensure strong, sustainable and more inclusive growth, this must be balanced against the need to consolidate fiscal policy. Risks are tilted to the downside, related to external developments and prolonged accommodative policy settings.

Key issues and policy recommendations

- Accommodative macroeconomic policies have supported growth, but the exceptionally strong momentum and the robust credit cycle call for a removal of policy accommodation. This would make policies more countercyclical, enhance resilience against external risks, and help reduce the risk of emerging macroeconomic imbalances.

- Fiscal consolidation would help reduce external imbalances and ensure that the medium term fiscal path is sustainable and prudent buffers are built. A withdrawal of excess liquidity in the banking system and monetary tightening would help ensure that the credit cycle is sustainable. Stronger financial sector supervision is also needed to safeguard financial stability, especially as the credit cycle moderates.

- Faster implementation of structural reforms would help to address infrastructure bottlenecks and investors' concerns, enhancing the business climate. Continued structural reforms will also help reduce economic distortions and maintain sustainable and inclusive growth, thereby lowering unemployment and poverty.

Approved By
Hoe Ee Khor (APD) and Luis Cubeddu (SPR)

Discussions took place during October 15–28, 2015. The team comprised Roberto Guimarães-Filho (head), Gee Hee Hong, and Ikuo Saito (all APD), and was supported by Tubagus Feridhanusetyawan (Resident Representative Office). Leni Hunter, Anh Van Le, and Antoinette Kanyabutembo (all APD) provided support from headquarters. Executive Director Marzunisham Omar and Petaia Tuimanu (OED) participated in some of the high level policy meetings. The mission was also joined by staff from the World Bank and Asian Development Bank.

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CONTEXT

1. **The historic September 2014 general elections marked Fiji's return to democracy.** Voter participation was high at 84 percent and FijiFirst—the party of Prime Minister Bainimarama—received nearly 60 percent of the popular vote, securing a two-third majority in Parliament. Parliament has supported reforms and government policies more generally, helping lay the foundations of the ongoing strong economic performance. Moreover, relations with traditional development partners have normalized, further enhancing economic sentiment and access to concessional financing.

2. **Political and macroeconomic stability have underpinned rising confidence in the economy.** Business confidence picked up in the lead-up to the elections and has remained strong, contributing to a gradual pick up in private domestic investment. Tourist arrivals reached new peaks in 2014, and are on track for another strong performance in 2015. Despite some moderation, the credit cycle has remained strong, reflecting pent up demand, improved optimism, and accommodative monetary policy settings. In May 2015, Standard and Poor's raised Fiji's credit rating from B to B+, further boosting confidence in the economy. The authorities have accelerated reforms in recent years—including improved infrastructure, civil service, pension system, and the restructuring of the sugar industry.

3. **Long-standing structural challenges remain.** For three decades prior to 2013, growth was sluggish, averaging 2–2.5 percent per annum, owing to recurring political turmoil, external shocks, and slow progress in structural reforms. The transition to the higher growth path has reduced slack in the economy, but unemployment and poverty remain relatively high, particularly in rural areas.[1] The main policy challenge is to accelerate reforms to sustain the growth momentum in an inclusive manner, while at the same time consolidating the fiscal position and normalizing monetary policy to build policy buffers against shocks and avoid the risk of overheating.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

4. **Fiji's growth momentum has been exceptionally strong in recent years**. The economy entered its third year of above 4 percent annual growth in 2015, with GDP projected to expand by 4.3 percent, following growth of 5.3 percent in 2014. Growth has been broad-based and several sectors (for example, transportation, financial intermediation, retail) have benefited from strong foreign exchange inflows (from both tourism and remittances) and a continuation of the credit cycle upswing. Tourist arrivals reached new peaks in 2014 and, despite significant exchange rate appreciation relative to New Zealand and Australia, arrivals from both countries continued to grow – while at the same time Fiji has also been expanding into Asian markets. The sugar industry, which has been restructured, performed relatively well in 2014 and is estimated to have done so again in

[1] Official unemployment data was last reported at 9 percent (2012, ILO), and poverty at 35 percent (2008, World Bank).

2015. Retail and commerce also continued to improve, benefiting from remittances. Strong economic performance, favorable market conditions, and the credit rating upgrade (to B+ by S&P) contributed to Fiji's successful issuance of a new global bond to refinance part of a maturing bond.

5. **Despite robust domestic demand, inflation has remained low**. Inflation increased modestly in 2015, but remains low at 1.8 percent (November) due to lower oil prices, wide ranging administered prices, and the appreciation of the exchange rate against major trading partners. The strong growth momentum has diminished slack in the economy, but following several years of lackluster growth, demand-induced inflationary pressures remain relatively muted. Moreover, price pressures from domestic demand have been alleviated by higher imports (Table 4), with imports benefitting from exchange rate appreciation against the Australian and New Zealand dollars (countries which represented 25 percent of imports in 2014). Finally, the introduction of fee-free primary and secondary education in early 2014 also helped to contain price pressures.

6. **While reserve coverage has declined somewhat, it remains adequate.** International reserves remain adequate but fell modestly to about 5.1 months of imports in 2015, reflecting strong import growth.[2] Fiji's merchandise underlying trade deficit (after excluding aircraft purchases in 2013) widened in 2014 with the growth of imports (15 percent) exceeding that of exports (7 percent). However, the balance of payments remained in surplus in 2014 on account of strong growth in tourism (5 percent) and remittances (13 percent), as well as robust FDI. Preliminary data for 2015 suggests that the trade deficit is estimated to have narrowed, owing in large part to lower global oil and food prices and a pickup in export growth. Meanwhile, the real effective exchange rate, after appreciating by about 1.5 percent in 2014, was broadly stable in 2015.

7. **Notwithstanding some moderation in 2015, credit growth has remained strong, reflecting in part accommodative monetary conditions**. Interest rates (both lending and deposit) are low, as the RBF has kept its policy rate at 0.5 percent since November 2011. Low real interest rates and the strong demand momentum have helped fuel a sustained period of rapid credit growth, particularly in certain segments such as automobiles and real estate. The latter has contributed to rapidly rising house prices, further propelling credit growth. Although commercial bank lending has moderated to 12.8 percent (provisional as of October 2015), it is still high after adjusting for inflation. Liquidity conditions have remained comfortable, aided by strong foreign exchange inflows and the accommodative monetary stance.

8. **Reflecting the strong growth in recent years, commercial banks remain profitable and financial stability indicators are generally sound.** The capital adequacy ratio declined marginally, reaching 14.7 percent at end-September 2014, well above the minimum prudential requirement of 12 percent, while Tier-1 capital ratios dropped to 11.3 percent, while remaining at strong levels. Interest margins have also remained broadly stable as have non-interest expenses (relative to gross income), while the return on assets has declined only modestly last year. The NPL ratio has been on

[2] The level of adequate reserves is estimated at 4-4.5 months of imports, based on the standard IMF metric which is a function of the weighted average of short term external debt, longer term debt arising from portfolio investment and other investment liabilities, broad money, and exports of goods and services.

a declining trend since 2012, reflecting the strong upswing in the credit cycle. Banks' balance sheets are liquid: the liquid asset ratio has remained comfortable at 17.6 percent, albeit lower compared to 2014.

9. Fiscal policy has remained accommodative. The fiscal deficits in 2014 and 2015 are estimated at 4.3 and 3.2 percent of GDP, respectively, considerably larger than in previous years. The authorities financed part of the spending increase (especially on roads and other capital projects) with receipts from privatization, although these fell short of original targets.[3] Following the 2014 budget, civil servant wages were raised by an average of 20 percent, although the pay hike does not cover all civil servants, and follows several years of wage freezes.[4] For 2015, key budget targets are estimated to have been met (for example, VAT revenues) and there is some over performance in tax revenues (partly due to stronger-than-expected growth), though the slower execution of capital projects contributed to a smaller-than-projected deficit in 2015.

10. Privatization continued to fall short of targets. Receipts from the sale of assets are estimated to have reached F$80–100 million, well short of the F$507 million (6 percent of GDP) planned for 2015. Similarly to last year, delays in the sale of the Fijian Electricity Authority, which accounts for about half (F$250m) of the initially-envisaged privatization program, reflect uncertainty about electricity tariff policies. Other SOEs including the port (F$80m) and airport operator (F$125m) were only partially privatized. Given shortfalls the authorities have relied on sales of domestic bonds and loans from banks and the FNPF to finance the budget.

11. Fiji has successfully issued a US$200 million 5-year bond to refinance part of the US$250 million (6 percent of GDP) global bond that will fall due in March 2016. The remainder of the maturing bond will be paid using accumulated savings (US$43 million from the government's sinking fund), and a residual of US$7 million remains outstanding until they mature in March 2016. The coupon rate of the new bond (6.6 percent) is about 240 basis points lower than that of the maturing bond, in line with government estimates and reflecting favorable market conditions as well as S&P's upgrade of Fiji's credit rating (to B+) in May 2015.

B. Outlook and Risks

12. The near-term outlook is favorable. Growth for 2015 is estimated at 4.3 percent, propelled by strong tourism earnings and remittances, robust credit growth, low oil prices, as well as high public investment. The momentum is expected to moderate this year, with GDP projected to expand by 3.7 percent supported in part by accommodative policies. Inflation is projected to remain stable in 2016, and low oil and food prices will continue to keep inflationary pressures at bay. The current account deficit is projected to widen slightly to 6.1 percent of GDP reflecting a pickup in non-oil import growth, with reserve coverage projected to remain at 5 months of imports.

13. The medium-term outlook is also favorable, but Fiji needs to address infrastructure gaps and improve the business climate. Growth is expected to remain strong at around 3–

[3] As the authorities' convention treats privatization receipts as revenues, the deficit by the authorities' definition is somewhat smaller at 4.1 and 2.1 percent of GDP in 2014 and 2015, respectively.

[4] In real terms, taking into account cumulative CPI inflation in the last 5 years, the increase was about 4 percent.

4 percent over the medium term (Appendix III), partly driven by robust public and private investment, as well as buoyant tourism and remittances inflows, despite a gradual tightening in macro policies. Strong FDI inflows are also expected in the medium-term, due to regained political stability and positive investment sentiment, albeit with downside risks from external conditions as discussed below. The current account deficit is expected to decline gradually, stabilizing at around 5 percent of GDP and public debt is also projected to decline in relation to GDP (to about 40 percent in 2020), owing to fiscal consolidation and strong GDP growth. Inflation is expected to remain low and stable, in line with developments in main trading partners and global commodity prices.

14. Risks to the outlook are tilted to the downside and are largely related to external developments, including Fiji's exposure to natural disasters, but prolonged accommodative policies have increased the risk of macroeconomic imbalances. Over the medium-term, risks to reform implementation are also relevant (see RAM, Box 1).

- A sharper-than-envisaged growth slowdown in China would hit Fiji directly as tourism revenue, FDI, and exports would be impacted. Slower growth in China would also have indirect effects, as it would adversely affect Australia and New Zealand economies, which would in turn hit Fiji's tourism revenues as well as remittances. While Fiji is relatively insulated from global financial markets, higher global borrowing costs and financial volatility could result in higher market volatility and interest rates, denting FDI and other foreign exchange inflows into Fiji.
- Prolonged policy accommodation could lead to macroeconomic imbalances (such as rising current account deficits and financial sector vulnerabilities) associated with continued low interest rates and fiscal expansion. In addition, further delays in asset sales could affect the financing of the planned infrastructure spending, adversely impacting growth potential.
- Sustaining strong growth will also depend on timely and effective implementation of reforms to further bolster the business climate, boosting private investment and fostering private sector development more broadly. Private sector development could also slow if capacity constraints and supply bottlenecks (e.g., labor skills mismatch) are not eased and the provision of infrastructure by the public sector falls short of envisaged levels.
- Fiji, like other small states in the Pacific, is highly exposed to natural disasters, including cyclones and flooding, which could severely affect macroeconomic performance and the livelihood of Fijians. Building fiscal buffers will increase Fiji's resilience to natural disasters and weather-related shocks.

Authorities' Views

15. The authorities agreed with the staff's macroeconomic outlook, but consider risks to be more balanced than in the staff's assessment.

- While they expect the economic momentum to moderate slightly more than in the staff's baseline, they noted that private investment should provide a bigger impetus going forward, especially as business expectations remain strong. In their view, credit growth has been the result of strong economic growth and has not been a key autonomous driver of the current momentum.

- The authorities see risks as broadly balanced: while they recognized the risk factors outlined by the staff, they pointed to the positive sentiment, increased domestic private sector investment, and upside for more foreign direct investment. They also pointed that there is an upside risk to tourism inflows as connectivity continues to improve with the addition of direct flights to Singapore. The budget announcement was also noted as an additional factor that will further bolster business sentiment.

POLICY DISCUSSIONS

Implementing reforms and gradually removing policy accommodation will be key to sustaining the growth momentum with macrofinancial stability. A recalibration of policy settings, including the removal of monetary accommodation, medium term fiscal consolidation, and a tightening of macroprudential measures to tame the credit cycle is appropriate to prevent the building of cyclical imbalances. Ensuring sustainable and faster potential growth would require a continued impetus on structural reforms to address infrastructure bottlenecks and improve the business climate.

A. Monetary and Financial Policies

16. While CPI inflation has been subdued, low interest rates and excess liquidity in the banking system have fueled credit growth and house prices. Inflation pressures have remained subdued partly due to low global fuel prices as well as a significant share of administered prices in the CPI (Appendix IV). In contrast, house prices have risen rapidly and the credit cycle has remained strong, and combined with low interest rates, has further propelled the house price momentum. Despite the relatively weak monetary transmission mechanism, there is some econometric evidence that low interest rates have fueled credit growth and contributed to the run-up in house prices (Appendix V).[5]

17. Given strong economic momentum and rapid credit growth, a removal of monetary accommodation is warranted. The RBF should start by mopping up excess liquidity (with open market operations or raising reserve requirements) and then gradually raising the policy rate. Growth has been above trend for the past three years, and as a result, the output gap is estimated to be positive. With the real policy interest rate in negative territory, a tightening of the monetary policy stance is needed to ensure that the credit cycle is sustainable and does not accentuate the economic cycle, increasing the economic volatility and the likelihood of a boom-bust cycle (Appendix V). The removal of monetary support will also be important as broader efforts to deregulate administered prices take place, especially as the transitory factors holding inflation down (such as the low level of oil and other commodity prices) wane.

18. Strong credit growth also calls for intensified financial sector supervision and the implementation of macroprudential policies. While banks have capital ratios above regulatory

[5] House price data are somewhat incomplete and covers mostly the capital Suva. The rapid increases in house prices in recent years were partly driven by scarcity of freehold land and a surge in purchases by foreigners before measures to restrict foreign purchases were taken by the authorities. Nonetheless, loan growth in the real estate and housing segments has remained strong, pointing to strong domestic demand as well.

requirements and low levels of non-performing loans (NPLs), the RBF should actively monitor their exposures to interest rate and credit risks, including by regularly conducting stress tests. This is important given that NPLs are a lagging indicator (particularly when credit growth is robust) and asset quality has not been tested given the strong economic momentum. The RBF should also actively monitor and supervise the lending activities of non-bank financial institutions as a step toward enlarging the regulatory perimeter, given that closer supervision of banks may create incentives for regulatory arbitrage and growth in the non-bank financial sector. The RBF should also consider imposing loan-to-value restrictions for real estate loans to help tame the steep credit growth in the real estate segment and rapid increases in house prices. Measures to address the fast growth in automobile and unsecured personal loans should also be considered. Efforts to promote financial inclusion, particularly access to banking services, are welcome.

Authorities' Views

19. The authorities noted that monetary policy should continue to support growth. While they agreed that interest rates are low, they see the liquidity situation stabilizing in the near term and noted that lending rates have already started to increase. They also argued that while they are monitoring credit growth closely, it is too early to tighten monetary policy as there is still pent up demand for credit.

20. In response to the staff's recommendation of enhanced financial sector supervision, the RBF noted that they have been proactively conducting onsite supervisions. They also noted that they have access to more data following the implementation of the macro-prudential survey to assess lending conditions and creditworthiness.

21. The RBF underscored that they would consider the use of macro-prudential tools such as loan-to-value ratios for real estate, particularly if the run-up in house prices continue, but that changes in policy and regulations would remain data dependent. The authorities have also added that measures to restrict foreign purchases of land and real estate have helped somewhat cool the momentum in house prices.

B. Fiscal Policy

22. Fiscal policy has played an important role in supporting demand and raising potential growth with a focus on infrastructure spending. The government contributed to recent strong growth by boosting public demand and improving the business environment. Public spending increased from 27.6 percent of GDP in 2013 to an estimated 31.4 percent in 2015 mainly due to larger public investment, but also on account of greater health and education spending as well as increases in public sector wages. For instance, the government introduced free primary and secondary education program and loan schemes for tertiary education. Both are expected to improve Fiji's growth potential (see Appendix III) by enhancing human and physical capital, in addition to supporting near-term demand. Although sales of the government's assets, which were supposed to finance the expenditure increase, has been behind the schedule, the government has managed to maintain capital spending while containing current expenditure in 2015. Public investment is expected to further increase in 2016, financed through additional asset sales.

23. The approved 2016 budget remains accommodative. It targets a deficit of 4.4 percent of GDP, and includes tax reform measures and continued high public investment. The VAT rate has been cut from 15 percent to 9 percent, but exemptions on certain goods (food and medicine) will be removed to broaden the tax base and improve revenue buoyancy. Along with other smaller changes to the tax system, the services tax has been increased from 5 to 10 percent, which should cover nearly 40 percent of the loss of VAT revenue. The budget incorporates capital projects which have been delayed in 2015, with a prospective deterioration in the fiscal balance of about 1 percent of GDP in 2016.

24. Fiscal consolidation is needed to build buffers and reduce policy pro-cyclicality. The envisaged deficit reduction this year has been postponed (resulting in an increase in the deficit by 1 percent of GDP), in part because of slower implementation of capital projects in 2015 which resulted in a smaller-than-expected deficit. Staff, however, urged the authorities to tighten fiscal policy in order to lower the risk of overheating and create fiscal buffers. Implementation of the envisaged fiscal adjustment over the medium term is critical, while taking into account the need to support investment to address infrastructure bottlenecks and raise productivity and potential growth. Greater efforts should also be made to secure privatization receipts.

25. Containing current spending and maintaining robust revenue growth should remain an important part of the strategy of sustaining high public investment and bolstering fiscal sustainability. While revenue buoyancy and spending restraint have been maintained, the government rightly intends to further contain wage growth (after a rapid increase in recent years) as well as rationalize other current spending. On the revenue front, the authorities' efforts to implement many of the recommendations of the TADAT (tax administration and diagnostic tool) and the measures to increase the efficiency of the tax system are welcome. Ongoing efforts to improve rates of filing compliance and taxpayer registry have been important to maintain tax buoyancy. The elimination of VAT exemptions, effective in January 2016, will also contribute to broadening the tax base and reducing administration and compliance costs. In this connection, both tax incentives and tax expenditures should be reviewed and gradually phased out in a predictable fashion, especially in areas where job creation has fallen short of expectations or costs are estimated to be too high.

26. Public debt remains sustainable, with an important roll-over risk eliminated. While the debt to GDP ratio has been on a steady decline reflecting favorable growth and debt dynamics, maintaining the envisaged medium-term fiscal consolidation path will contribute to reducing public debt from around 50 percent of GDP to about 40 percent by 2020. This would create policy space and fiscal buffers to deal with contingent liabilities and shocks, especially natural disasters. External debt is relatively low at 21 percent of GDP and is expected to decline modestly to about 19 percent of GDP. The external debt profile has also improved with the pre-payment of the global bond that is due in March 2016 and the issuance of a new bond at much lower rate.

27. Pension reform has restored sustainability, but more needs to be done to increase investment opportunities and diversify risks. The pension system, which is managed by the Fiji National Provident Fund (FNPF), is fully funded and financially viable, thanks to a comprehensive reform implemented in 2012, which among other things, raised the contribution rate (initially to 15 percent from 8 percent) and restricted contributors' withdrawals from their retirement accounts.

The FNPF remains heavily exposed to government debt, but has also been diversifying its portfolio and gradually increasing its exposure to external investments to improve risk-adjusted returns.

Authorities' Views

28. The authorities have emphasized that a prudent approach to fiscal policy remains their priority and that it will continue to guide the formulation of their fiscal policies. In particular, they noted that the goal of a declining debt to GDP ratio is consistent with the budget. The tax reforms enacted will be largely revenue neutral and should help improve compliance, which is consistent with their goal of improving efficiency and equity of revenue collection. They noted that the shift in capital spending to 2016 will lead to a temporary increase in the fiscal deficit in 2016, but that this will not compromise macroeconomic stability or the medium-term orientation of fiscal policy. They agreed with the mission on the need for fiscal adjustment over the medium term—starting in 2017—to deliver on the goals of lowering the public debt and bolstering the credibility of the fiscal framework.

29. The authorities also argued for the need to continue to look into tax policies to enhance the business climate while at the same time improving compliance, which will help maintain revenue buoyancy. They also noted that while tax incentives for investment will remain a part of their policy package, they will continue to review incentive regimes to ensure that ineffective incentives are gradually phased out, although this could take time. The authorities also noted that the FNPF will continue to pursue a diversified strategy to enhance investment returns, including through gradual increases in its overseas investments, with due consideration for Fiji's foreign reserve coverage.

C. Exchange Rate Policy, Reserves, and External Balance

30. The external balance has improved in 2015, owing to low global commodity prices and strong foreign inflows. The trade balance narrowed in 2015 given weaker-than-expected import growth, due to low global commodity prices.[6] Exceptionally strong earnings from tourism and remittances have also contributed to the improvement of the current account balance from a deficit of 10 percent of GDP in 2013 to an estimated deficit of 5.6 percent of GDP in 2015. While the tourism earnings and visitor arrivals are expected to continue to grow strongly due to an increased connectivity to Asia, the current account deficit is expected to widen somewhat going forward with growing imports. Reserve coverage remains stable at about 5 months of imports using standard reserve metric.

31. While the real effective exchange rate has depreciated slightly in 2015, it remains somewhat above the level consistent with medium-term fundamentals. In September 2015, the REER declined slightly by 0.2 percent from a year ago.[7] Reflecting its peg to a currency basket, the Fiji dollar appreciated against the Australian and New Zealand dollar but depreciated significantly

[6] Imports have been substantially revised downwards due to improved data collection by the authorities.

[7] 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 Euro; and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually.

against the US dollar. According to the Fund's exchange rate assessment models, estimates of the deviation of the real effective exchange rate from its equilibrium level point to an average overvaluation of about 8 percent, with a range that encompasses a small undervaluation of 3 percent to an overvaluation of 15 percent (see Box 3 for further details).

32. **The current favorable environment provides a good opportunity to lay the foundation for a more flexible exchange rate regime.** Periodic reviews and adjustments as needed of the level of the basket peg would avoid protracted deviations from fundamentals and the need for large adjustments. As noted in previous consultations, allowing greater flexibility from a position of strength (particularly strong economic growth and robust foreign exchange inflows) would facilitate the eventual transition to a more flexible regime while helping cushion the blow from external shocks.

33. **Relaxation of capital account restrictions should continue towards fully meeting Article VIII requirements.** A gradual liberalization of capital controls and exchange rate restrictions will encourage foreign investment as it will improve investors' perception (particularly of the ease of remittance of profits and funds and the elimination of tax certification requirements). Given the prospect of robust reserve coverage over the medium term, the challenges associated with liberalizing exchange restrictions should diminish and the measures would have a minimal impact on the balance of payments. Moreover, recent efforts to strengthen the current AML/CFT regime, including the role of the Financial Intelligence Unit in assisting the National AML Council, are welcome and should continue.

Authorities' Views

34. **The authorities noted that the current exchange rate regime has served the country well and has contributed to macroeconomic stability**. They noted that reserves are at a comfortable level and that foreign exchange inflows have continued to surprise on the upside. While they noted that more flexibility could be desirable over the longer term as the economy develops, they are closely monitoring the foreign exchange market and see no need for adjustments in the near term.

35. **The authorities also argued that exchange restrictions should be gradually liberalized, but this should happen in tandem with broader economic development**. They underscored that those restrictions have helped insulate Fiji from volatility in international financial markets, while at the same time they have not adversely affected the country's overall openness to international investors.

D. Structural Reforms

36. **Continued structural reform will be key to cement recent gains in potential growth, bolster resilience, and reduce poverty.** The authorities' focus on structural reform is welcome. Progress in key areas such as civil service reform and state-owned enterprises has accelerated after years of slow progress, which has held back growth in the past decades. The implementation should continue to proceed apace. Recent improvements in access to health and education, including free primary and secondary education, loan schemes for tertiary education, as well as infrastructure investment in hospitals and schools, will help alleviate poverty and make growth more inclusive.

37. Robust growth in private investment will crucially hinge on the effective implementation of reforms. Key reforms to achieve this goal include:

- *Further scaling back price controls*. As of end-2014, a third of the CPI basket remained subject to price controls. Further relaxation is needed to enable prices to act as signals for resource allocation and investment. Relaxation of price controls can be supplemented with targeted support for low-income consumers and competition policies.
- *Improving the predictability and streamlining of government regulation*. Building on recent efforts, further reduction of policy uncertainty through transparent and consultative policy processes will further enhance the business climate and lower the costs of doing business.
- *Improving land-leasing efficiency*. Although the Land Use Decree 2010 allowed for the establishment of a land bank, only a small share of land has thus far been deposited. Further progress is needed in laws, policy and implementation to provide a predictable and stable supply of land that can be leased for long-term investment.
- *Relaxing capital controls.* Relaxation of foreign exchange restrictions would improve investors' perception (particularly of the ease of remittance of profits and funds), thereby further encouraging foreign investment.

38. While Fiji has a relatively well educated labor force, improving the quality of labor will help address skills mismatch in the labor market and boost labor productivity. Efforts are being made to ensure the access to, and the quality of education, but labor skills mismatch remains a challenge to raise productivity and in some cases an obstacle to growth in many industries, and have contributed to the loss of skilled labor through emigration. Further improvement in human capital in key sectors such as tourism and sugar would complement efforts to address infrastructure gaps, raising overall productivity and lowering unemployment and poverty.

39. Improving data quality will help better guide policy-making. The authorities have improved the quality of statistics on many fronts, in some cases with help of development partners, including the IMF's Pacific Financial Technical Assistance Centre (PFTAC), the Asian Development Bank, and the World Bank. Enhancing the capacity of the Fiji Bureau of Statistics (FBOS) to address challenges posed by the recent national accounts rebasing, the need for better integration of balance of payment and national accounts, and the breakdown of GDP by expenditure, remains key to enhancing the monitoring of the economy. More timely provision of information to FBOS also remains a priority. Cooperation across different government agencies could be improved to speed up the resolution of gaps in data coverage, quality, and timely provision, as well as other challenges.

Authorities' Views

40. The authorities concurred with the assessment that timely and effective implementation of reforms will be critical to sustaining the growth momentum. They argued that recent budgets have been a focal point to launch far reaching reforms, and budget announcements and the subsequent implementation of reforms have boosted investor sentiment, acting as catalysts for investment. They underscored that Fiji will continue to implement reforms in a number of areas to lower the cost of doing business while maintaining the goals of inclusive growth and poverty reduction.

41. The authorities highlighted that they prefer a more gradual approach to phasing out of price and capital controls. In their view, price controls have been an important mechanism to protect the poor given the insufficient competition in key sectors of the economy due to its small size and, in some cases, the remoteness of certain areas. They also noted that regulated prices are frequently reviewed and that the needs of businesses are fully taken into account in those reviews, hence the distortions typically associated with prices controls are minimized.

STAFF APPRAISAL

42. Fiji's growth has been strong, reflecting higher potential growth and accommodative policies. Following many years of low growth, the economy has benefited from supportive macroeconomic policies and external tailwinds and has grown at above 4 percent for the past three years, while inflation has remained subdued. In addition to policy support and favorable terms of trade, improved confidence amid the return to democracy and the re-engagement of development partners have strengthened investor sentiment and provided renewed impetus to the growth momentum. Growth is expected to moderate in the near term but remain strong at around 3-4 percent over the medium term, partly reflecting robust investment and higher potential growth.

43. Risks to the outlook are tilted to the downside. Risks to growth are largely related to external developments and prolonged accommodative monetary and fiscal policies, and, over the medium-term, to reform implementation. Fiji is subject to risks from lower trading partners' growth and its exposure to natural disasters. Further delays in asset sales could constrain the financing of the planned infrastructure spending, adversely impacting growth potential. Easing capacity constraints and supply bottlenecks are critical to further unleashing private sector development.

44. To secure sustainable growth and enhance resilience against shocks (including from natural disasters), Fiji needs to consolidate, build policy buffers, and accelerate structural reform implementation. Fiscal consolidation should proceed apace to avoid policy pro-cyclicality and build strong policy buffers that could be deployed in the event of a large external shock. At the same time, the authorities should continue to address the infrastructure gaps and streamline government regulations to further bolster the business climate.

45. A removal of monetary accommodation is warranted, while stronger financial sector supervision and macroprudential policies should be employed to moderate the credit cycle. With the real policy interest rate in negative territory amid strong growth, the withdrawal of monetary accommodation is needed to moderate the credit cycle and prevent the emergence of macroeconomic and financial imbalances. In addition, the RBF should also actively monitor banks' exposures to interest rate and credit risks, including by regularly conducting stress tests. Given still strong credit growth and rapidly rising house prices, the RBF should adopt macroprudential measures to tame the credit and housing price momentum, including through the use of loan-to-value ratios.

46. Fiscal consolidation would help create fiscal buffers and avoid policy procyclicality, and maintain fiscal sustainability. Efforts to broaden the tax base, improve compliance, and strengthen tax administration should also continue to ensure that buoyancy gains are not reversed and the efficiency of revenue collection is maintained. Both tax incentives and tax expenditures should be reviewed and gradually phased out. On the spending side, while capital projects and social spending should continue to be given priority, restraint on current expenditures remains critical to create policy space and ensure a growth-friendly consolidation strategy.

47. Continued structural reform will be key to cement recent gains in potential growth, bolster resilience, and reduce poverty. Notwithstanding recent progress, further streamlining government regulations could help improve the business climate; implementation of reforms in key areas such as civil service and state-owned enterprises could be accelerated. Lowering the cost of doing business and improving economic efficiency would also require further reform efforts, such as relaxing price controls, addressing bottlenecks to land usage, as well as easing capital controls and exchange restrictions.

48. A more flexible exchange rate regime should be gradually introduced. The real effective exchange rate remains somewhat above the level consistent with medium-term fundamentals. Against this backdrop, greater exchange rate flexibility would help cushion against external shocks, while minimizing the risk of large exchange rate movements. Although the exchange rate regime remains appropriate, the level of the basket peg should be periodically reviewed and adjusted in order to prevent protracted deviations from fundamentals.

49. A number of exchange restrictions are subject to Fund approval under Article VIII. Restrictions arise from tax certification requirements on the transfer abroad of profits and dividends, and on the proceeds of airline ticket sales, and on the making of external debt and maintenance payments, and from direct limits on large payments. These should be made compatible with requirement under Article VIII.

50. Improving data quality will help better guide policy-making. The authorities have improved the quality of economic statistics on many fronts, in some cases with help of technical assistance by development partners. Enhancing capacity to address challenges remains key to enhancing the monitoring of the economy. This could be helped by, inter alia, closer cooperation across different government agencies to speed up the resolution of gaps in data coverage, quality, and timely provision.

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

Box 1. Fiji: Risk Assessment Matrix[1]

Nature/ Source of Risk	Likelihood	Expected Impact on the Economy and Policy Response
Potential Domestic Shocks		
Political instability	*Low*	*High* A reprisal of political instability would damage the business climate. Commitment to further reforms is needed to sustain the growth momentum.
Structural reform momentum	*Medium/ Low*	*Medium/High* A stalling of structural reform momentum would pose a setback to growth. With much room yet to improve business conditions and liberalize the economy, further structural reform poses upside risks. Given the expiry of EU sugar subsidies in 2017, which will negatively affect growth and employment, urgent structural reform progress is needed, as well as effective use of social mitigation funds.
Credit growth and overheating	*Medium*	*Medium* Strong credit growth 2012-15 may have created pockets of risk, particularly in personal lending. Close monitoring is required, and the RBF should prepare to use macro-prudential measures as necessary. To proactively manage risk to monetary policy objectives, the RBF should also prepare for a monetary tightening by withdrawing excess banking system reserves.
Potential External Shocks		
Sharp China slowdown in 2016.	*Low*	*Medium* A sharp growth slowdown in China would hit commodity prices, denting growth prospects for Australia and New Zealand. This could lower tourism and remittances inflows to Fiji. Targeted fiscal stimulus can be considered if the shock is large enough. An adjustment of the exchange rate may also be necessary to strengthen competitiveness and the balance of payments.
Tighter or more volatile global financial conditions: Sharp asset price adjustment and decompression of credit spreads	*High*	*Medium/Low* Risk reassessment by investors could cause sharp asset price adjustment and increase volatility, resulting in tighter financial conditions and capital outflows for emerging markets. While portfolio inflows to Fiji are negligible, higher interest rates and financial volatility could eventually lead to lower FDI and tourism flows into Fiji. Fiscal restraint and the creation of buffers should remain high on the agenda to increase policy credibility.
Natural disasters	*Medium*	*High* Cyclones and flooding could severely damage roads, housing, and tourism infrastructure. Targeted fiscal stimulus could be deployed, but further improvements to increase resilience and sizable fiscal buffers are also needed.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Box 2. Fiji: Authorities' Responses to Past Fund Advice

Fund Recommendation	Policy Actions
Fiscal Policy • Restrain accommodative fiscal policy settings to avoid overheating. • Avoid funding recurrent expenditure with asset sales. • Adopt base-broadening revenue measures, curtailing income-tax holidays and tax incentives. • With regard to the global bond, debt management should be prudent.	The envisaged deficit reduction has been delayed to 2017, due to delays in capital project implementation and asset sales. Budget 2016 states that asset sales will be used to fund capital expenditure. Recent tax reforms have broadened the tax base. The authorities have successfully refinanced the global bond.
Monetary Policy and Exchange Rate • Lay the foundation for a more flexible exchange rate to help absorb shocks and protect the reserve position. • Adopt a tightening bias to moderate credit growth. Tighten monetary conditions through open market operations and raising the reserve requirement. Consider raising the overnight policy rate.	While increased exchange rate flexibility is desirable over the longer term, the authorities do not consider adjustments to be necessary in the near term. Exchange restrictions should be liberalized gradually as the economy develops. Current accommodative monetary policy settings are considered appropriate given low inflation and sufficient reserves.
Macro-prudential Policy • The RBF should enhance its supervision and conduct stress testing of banks.	The RBF is conducting onsite supervision, and is conducting a macro-prudential survey to improve data collection on lending conditions and creditworthiness. Changes to and implementation of macro-prudential tools will be considered, and are data dependent.
Structural Reforms • Structural reform priorities include the relaxation of price controls, increased efficiency of land use, improved consultative process, predictability and streamlining of government regulation and implementation, infrastructure upgrades, and better aligned incentives for expanding electricity production and transmission.	Progress has been made on infrastructure development, particularly on new roads. Other key structural issues remain to be addressed, including with regard to land. As of end-2015, one-third of the CPI basket remained subject to price controls.
Statistics • Improve the quality of data for informed policy making.	Efforts to improve statistics, including the national accounts, is currently underway with technical assistance.

Box 3. Fiji: Exchange Rate Assessment

Staff model-based estimates indicate that that the Fiji dollar is somewhat stronger than the value consistent with medium term fundamentals. Three complementary approaches are applied to estimate the equilibrium level of the real effective exchange rate (REER) or gauge the exchange rate adjustment needed to bring it in line with equilibrium implied by medium term fundamentals.

i) Macroeconomic balance: First, a current account norm is estimated based on a panel regression of 146 countries from 1995 to 2015 of the current account on a set of fundamentals. They include: (i) relative old age dependency; (ii) income growth forecast; (iii) cyclically adjusted fiscal balance; (iv) private credit to GDP and (v) remittances. The current account deficit "norm" for Fiji is estimated at -5.5 percent of GDP, while the "underlying" current account balance, which measures the current account balance after adjusting for cyclical factors, is estimated at -8.1 percent of GDP. Given that the underlying current account deficit is larger than the norm, the exchange rate has to depreciate to "close" this current account gap. In this case, the difference between the norm and the underlying current account indicates an overvaluation of the REER of about 10 percent.

ii) Equilibrium exchange rate approach: The equilibrium value of the REER is based on a panel regression of the REER on a set of fundamentals, including (i) terms of trade; (ii) relative productivity; (iii) relative government consumption; (iv) net foreign assets; (v) aid inflows; and (vi) remittances flows. The fitted value from the regression yields the equilibrium REER level. A comparison of the current value of the REER and an estimate of its medium-term equilibrium value indicates that the REER is about 3 percent lower than the equilibrium value. The growth in reserves position and positive output gap in recent years explain the strengthening of the equilibrium REER level.

iii) External sustainability: The external sustainability approach calculates the current account norm by pinning down the level of the current account balance that stabilizes net foreign assets (NFA) at their current level (or some other benchmark level consistent with macroeconomic stability). Given the NFA estimate of about -70 percent of GDP, Fiji's current account norm is estimated at -3.1 percent of GDP. Taken together with the underlying current account deficit of 8.1 percent of GDP, this suggests the REER is overvalued by about 14 percent.

Table 1: Exchange Rate Assessment 1/

	CA/GDP		REER
	Norm	Proj. 2/	Overvaluation
CA approach 2/			
Current account balance (CAB)	-5.5	-8.0	10.2
REER approach 3/	…	…	-3.0
ES approach 4/			
Net IIP stabilizing CAB 5/	-3.1	-8.1	14.4

1/ All results are expressed in percent.
2/ Staff projection of the underlying CA/GDP in 2020.
3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.32
4/ Overvaluation is assessed relative to June 2015.
5/ Current account deficit that stabilitzes net foreign liabilities, estimated at 70 percent of GDP in 2030.

Box 4. Fiji: Findings of the Tax Administration Diagnostic Assessment Tool

In 2015 Fiji carried out an assessment of its tax administration, using the Tax Administration Diagnostic Assessment Tool, or TADAT – becoming the first Pacific Island country member of the IMF to have done so. The TADAT provides a baseline assessment of tax administration performance relative to international good practices that can be used to determine reform priorities and highlight reform achievements over time.

The assessment found several areas of strength in Fiji's tax administration. These included: initiatives to detect unregistered tax payers, tax payer awareness and education initiatives, sound arrears management, consistent achievement of revenue targets, external oversight and transparency in reporting, and monitoring of taxpayer perceptions of service. High rates of on-time payments were found to be one of Fiji's strengths, particularly regarding VAT system: approximately 95 percent of VAT payments received on time, or around 88 percent of total VAT payments by value (2014 figures).[1]

The TADAT also called for improvements in areas such as: the taxpayer registration database, on-time filing rates, a national compliance improvement strategy and plan, monitoring and evaluation of compliance risk mitigation activities, use of audit activity to deter inaccurate reporting, and use of empirical analysis, among others. Fiji's on-time filing rates were found to be on the low side, at 16.3 percent for corporate income tax (CIT), and 28.5 percent for personal income tax (PIT). The most recent cross-country filing rate data is currently dated from 2010, but by comparison upper-middle income country peers averaged 53.5 percent for CIT, and 47.3 percent for PIT.

The Fiji Revenue and Customs Authority (FRCA) has quickly made use of the TADAT findings, starting with a focus on how to improve filing rates with technical assistance from PFTAC. In addition, an improved taxpayer registry would enable the authorities to more easily follow up on non-compliant but active taxpayers, and thereby improve filing rates – in turn raising the potential for increased revenue collection and reduced compliance gaps.

[1] The VAT has been the single largest source of revenue: around 40 percent of tax revenue in recent years. The share has increased with a gradual rise in the VAT rate from 10 to 12.5 percent in 2003, and then to 15 percent in 2011. Some items are tax exempt (e.g., financial services, education goods), while some are taxed at the zero rate (e.g., kerosene, rice, edible oil). The share of the zero-taxed food items in the food consumption basket is around 20-25 percent.

Box 5. Fiji: Progress on Selected Structural Reforms

Fiji has made significant and steady progress on structural reforms over the last few years. Efforts have been made in a number of areas with a view to lowering the cost of doing business and improving the overall business climate. This box outlines some of the major reform areas.

Infrastructure. The main emphasis has been on new roads and road upgrades, following the creation of the Fiji Roads Authority in 2013.

Civil service reform. The 2015 Budget initiative aims to improve performance and efficiency of the civil service with World Bank assistance.

Cost of doing business. Companies Act 2015—modernization of the legal framework concerning companies.

Restructuring the sugarcane industry. Sugar's direct contribution to GDP has fallen to around 2 percent, from approximately 16 percent in the early 1980s. Despite this decline in its direct economic importance, the industry reportedly employs 40,000 people, and sugar cane accounts for around three-quarters of Fiji's arable land. Operational inefficiencies and lack of capital investment have steadily pushed up production costs, and uncertainty regarding the renewal of land leases has also reduced the prospective profitability of new investments in production. In addition, labor costs have risen as it has become difficult to hire younger workers who generally prefer to seek employment in urban areas and other sectors. With the EU preferential treatment set to expire in 2017, modernization of the industry is urgently needed to improve international competitiveness.

Pension fund sustainability. Fiji National Pension Fund's (FNPF) sustainability – implementation of IMF TA recommendations, including increases in contributions and withdrawal restrictions by members, which have reduced contingent liabilities to government. Also, the review of the Pension Supervision act is expected to be finalized this year.

State owned enterprise reform. Including asset sales to increase efficiency of service provision and private sector participation.

Foreign investment. Has increased and benefitted from the single window for processing of applications. Would benefit from relaxation of exchange restrictions, particularly those pertaining to fund repatriation.

Public financial management. The ministry of finance is implementing key requirements for the adoption of the new International Public Sector Accounting Standards (IPSAS), which is expected to improve the provision of funding support and roll-out of capacity building programs.

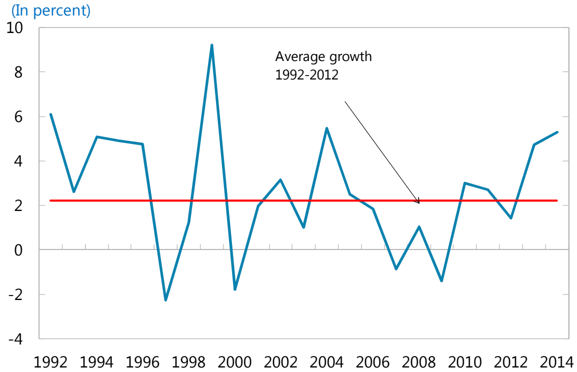
Data quality improvements. Enhancements to data provision and quality are underway, including with the assistance of PFTAC and other IFIS to better underpin policy decisions.

Enhanced financial access. Government agencies are assessing ways to enable the regulatory frameworks to eliminate barriers to financial access, aided by the National Demand Side Survey which will also help with the Financial Inclusion Strategy for Fiji.

Figure 1. Fiji: Macroeconomic Developments

Fiji is experiencing strong pickup in growth…

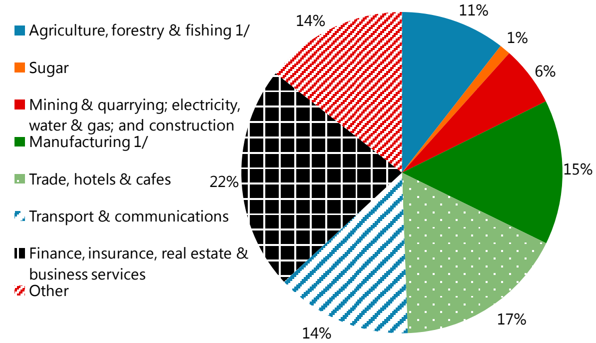
Fiji: Real GDP Growth
(In percent)



Sources: Fiji authorities and IMF staff calculations.

…underpinned by key sectors such as tourism and other services…

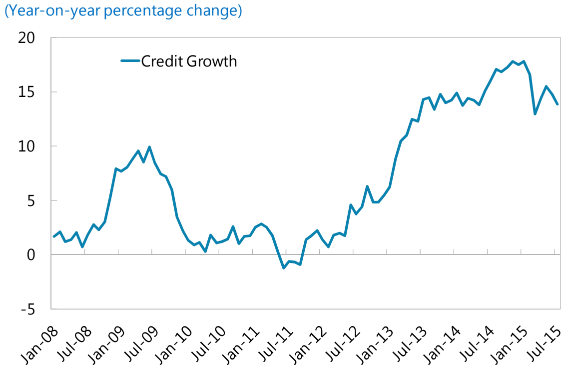
Fiji: Composition of GDP, 2014



Sources: Fiji authorities; and IMF staff calculations.
1/ Excluding sugar.

…and strong credit growth.

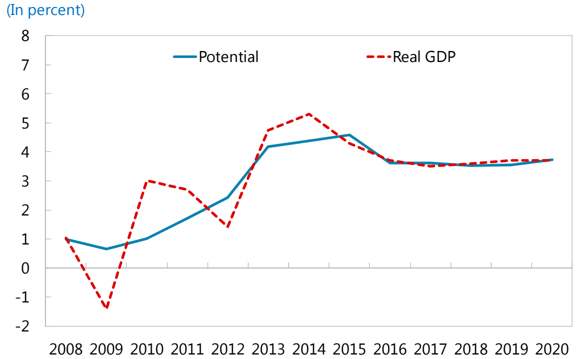
Credit Growth
(Year-on-year percentage change)



Sources: Haver Analytics, IMF staff calculations.

Potential growth is estimated to have increased…

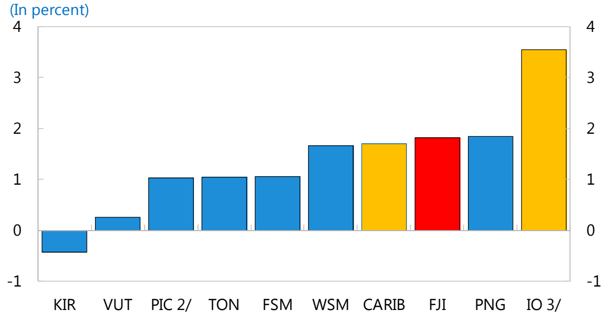
Fiji--Real and Potential GDP Growth
(In percent)



Source: IMF staff calculations.

Per capita income growth is relatively high and should benefit from the strong momentum.

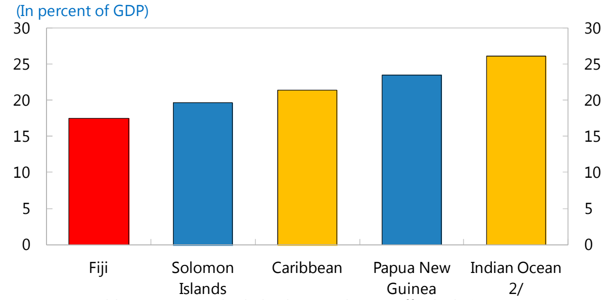
Growth in Real GDP per Capita, 1997-2014 1/
(In percent)



Sources: World Economic Outlook database and IMF staff calculations.
1/ Geometric average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Investment has risen, but remains low by comparison to regional peers.

Investment, 2010–2014 1/
(In percent of GDP)



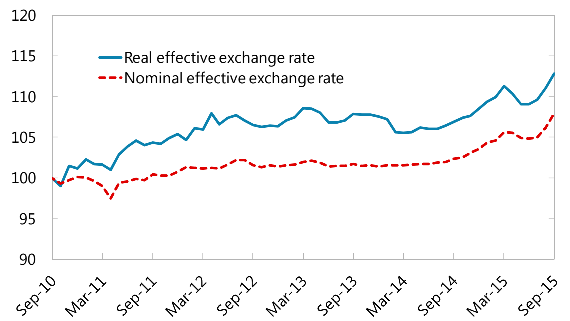
Sources: World Economic Outlook database and IMF staff calculations.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Figure 2. Fiji: Exchange Rate and Inflation Developments

The *real effective exchange rate has appreciated in recent months…*

Fiji: Effective Exchange Rates

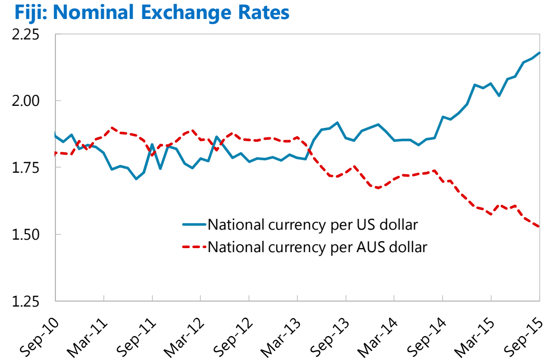
(2010=100)



Sources: IMF Information Notice System and IMF staff calculations.

…reflecting weaker nominal exchange rates of major trading partners (Australia and New Zealand) and U.S. dollar strength….

Fiji: Nominal Exchange Rates

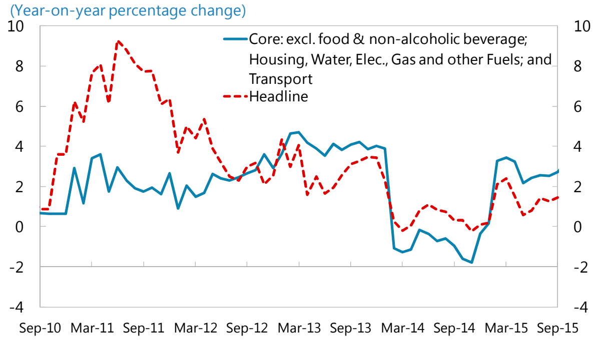


Sources: IMF International Financial Statistics and IMF staff calculations.

Inflation has picked up modestly, but inflationary pressures remain contained…

Fiji: Headline and Core Inflation

(Year-on-year percentage change)

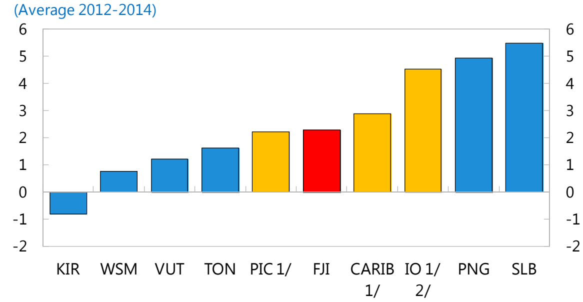


Sources: Fiji Bureau of Statistics and IMF staff calculations.

…and headline inflation is low by regional standards.

CPI Headline Inflation

(Average 2012-2014)



Sources: World Economic Outlook database; and IMF staff calculations.

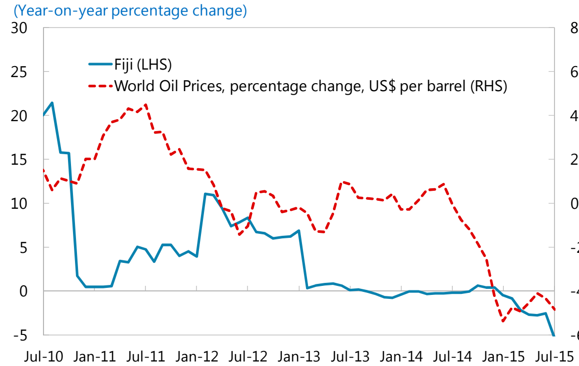
1/ Simple average.

2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Lower oil prices have helped keep inflationary pressures at bay…

Fiji: Transportation Costs

(Year-on-year percentage change)

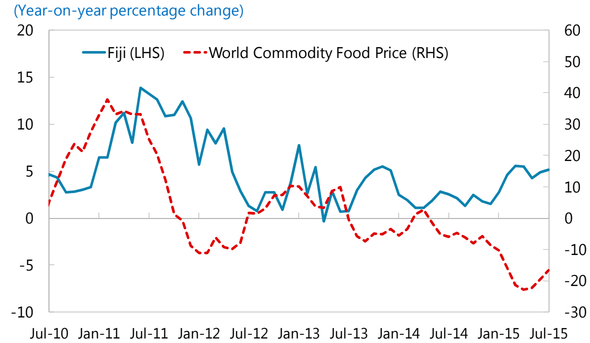


Sources: World Economic Outlook database and IMF staff calculations.

…with lower global food prices likely to put downward pressure on future inflation through administered prices.

Fiji: Food Prices 1/

(Year-on-year percentage change)



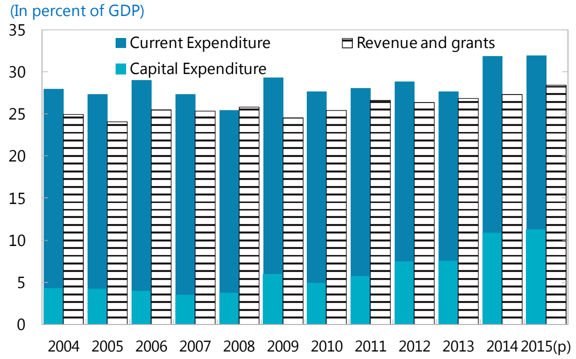
Sources: World Economic Outlook database and IMF staff calculations.

1/ Food and Non-alcoholic Beverage for Fiji.

Figure 3. Fiji: Fiscal Indicators

Both current and capital expenditure have increased…

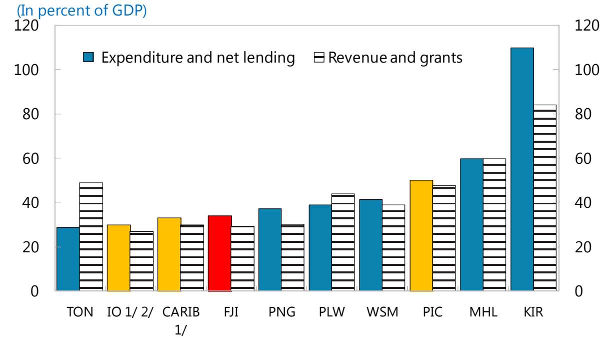
Expenditure
(In percent of GDP)



Sources: Reserve Bank of Fiji and IMF staff calculations.

…and revenue is comparatively low by regional standards.

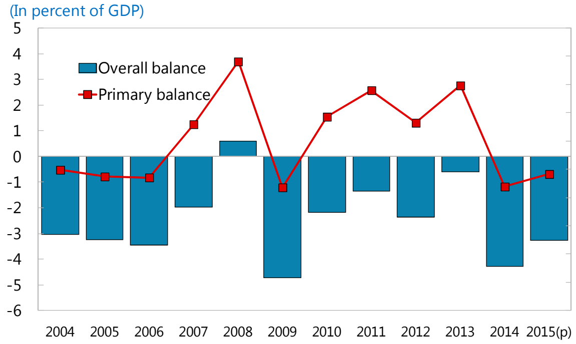
Revenue and Expenditure, 2014
(In percent of GDP)



Sources: Fiji authorities; World Economic Outlook database; and IMF staff calculations.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Greater spending has led to a higher fiscal deficit….

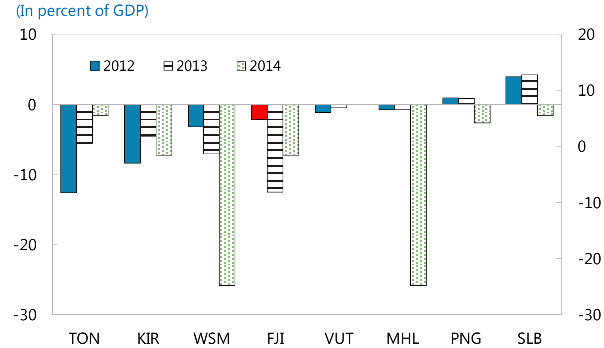
Fiscal Balances
(In percent of GDP)



Sources: Fiji authorities and IMF staff calculations.

…but fiscal performance has been relatively prudent when compared with peers.

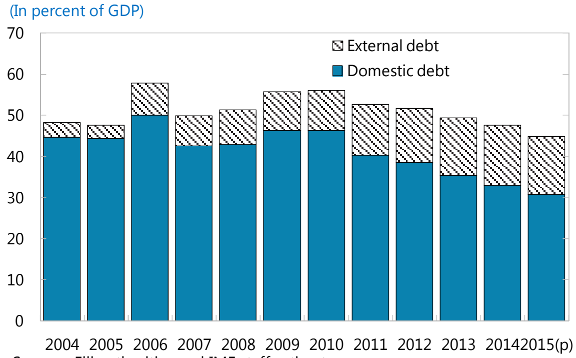
Fiscal Balance
(In percent of GDP)



Source: IMF APDLISC database.

Debt is mostly domestic and has been declining as a share of GDP…

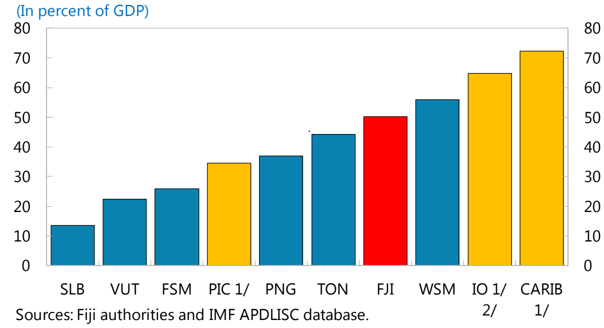
Central Government Debt
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

…but public debt is relatively high by regional standards.

Public Debt, 2014
(In percent of GDP)



Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Figure 4. Fiji: Balance of Payments

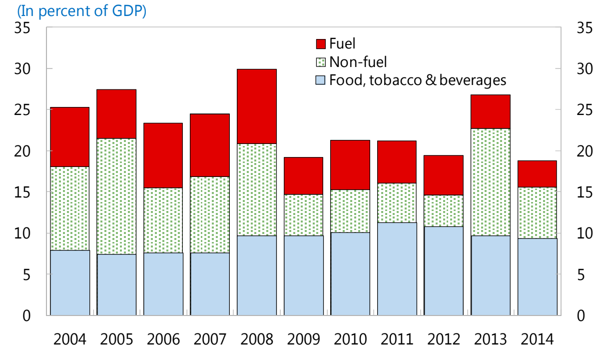
Export performance has strengthened modestly....

Fiji: Exports, excluding re-exports
(In percent of GDP)

Sources: Fiji authorities and IMF staff estimates.

...while imports have been subdued owing to lower international prices.

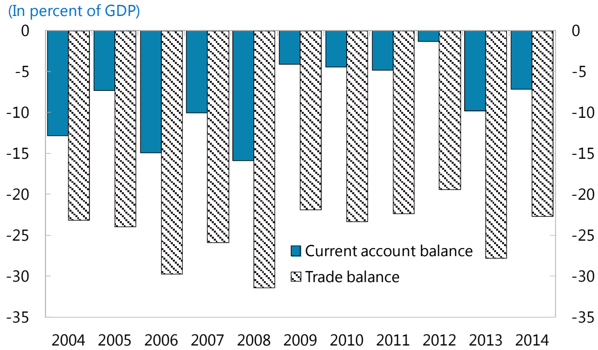
Fiji: Imports, excluding re-exports
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Trade deficits have declined as a share of GDP...

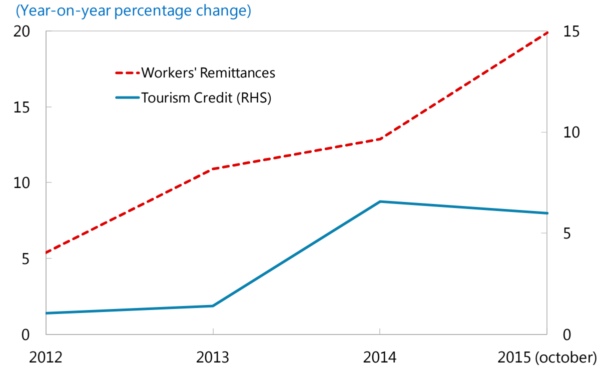
Fiji: Trade Balance and Current Account
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

...and inflows from remittances and tourism have contributed to lower the current account deficit.

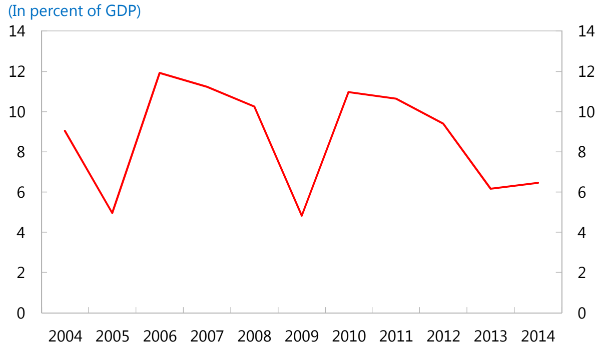
Workers' Remittances and Tourism Credit
(Year-on-year percentage change)



Sources: Reserve Bank of Fiji and IMF staff calculations.

FDI remains volatile...

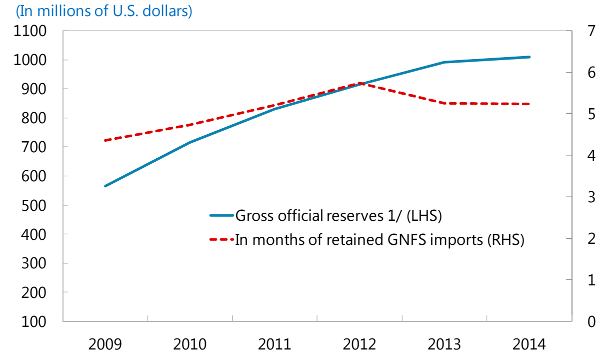
Fiji: Foreign Direct Investment
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

...and international reserve coverage remains adequate.

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

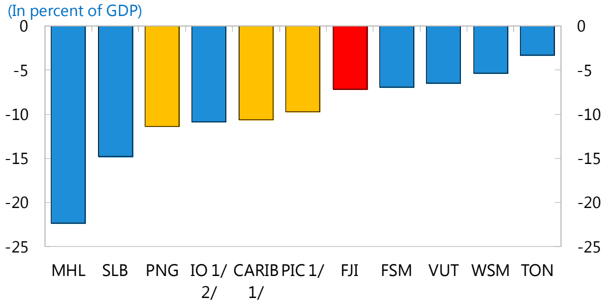


Sources: Reserve Bank of Fiji and IMF staff estimates.
1/ Reserve Bank of Fiji holdings only.

Figure 5. Fiji External Vulnerabilities

Fiji's current account deficit compares favorably against its peers…

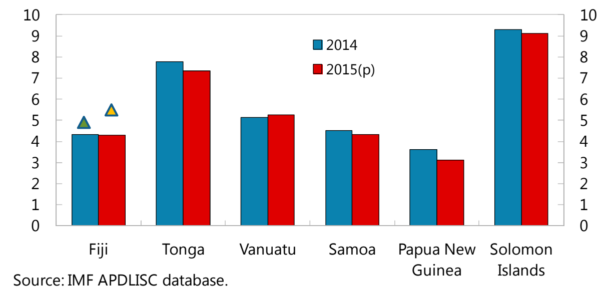
Current Account Balance, 2014
(In percent of GDP)



Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

…but reserve coverage, while adequate, is lower than that of peer countries.

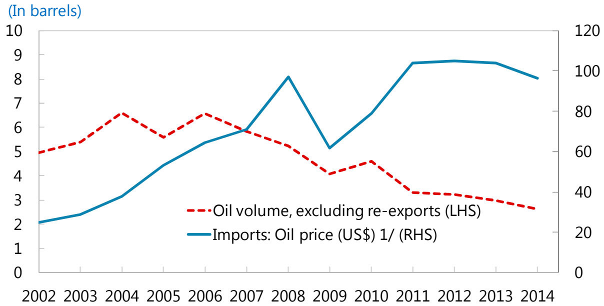
Gross Official Reserves
(In months of next year's imports of goods and nonfactor services)



Source: IMF APDLISC database.
1/ Fiji: in months of current year's imports of goods and nonfactor servcices (triangle)

The current account balance has benefited from lower oil imports…

Fiji: Oil Imports
(In barrels)



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

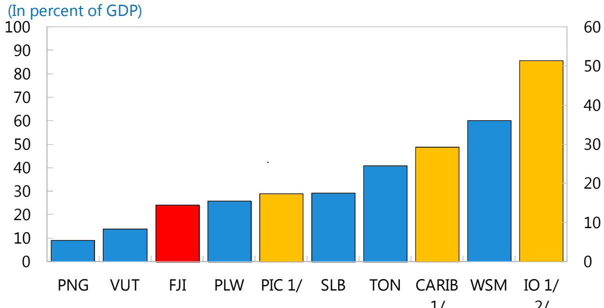
…and strong tourism receipts, even as sugar export growth remained modest.

Fiji: Sugar Exports and Tourism Receipts 1/
(In percent of exports)

Sources: Reserve Bank of Fiji and IMF staff calculations.
1/ Exports of goods, f.o.b.

While external debt remains relatively low…

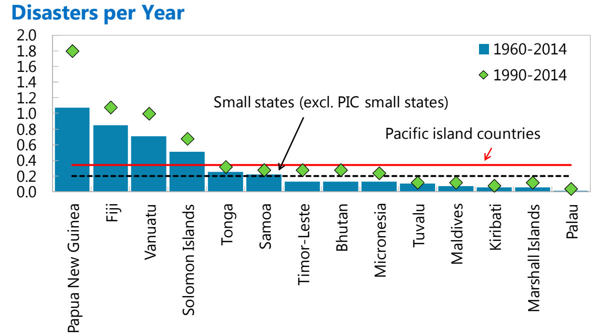
External Debt, 2014
(In percent of GDP)



Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

the risks to natural disaster are high, even compared to other Pacific Islands.

Pacific Island Countries: Average Number of Natural Disasters per Year



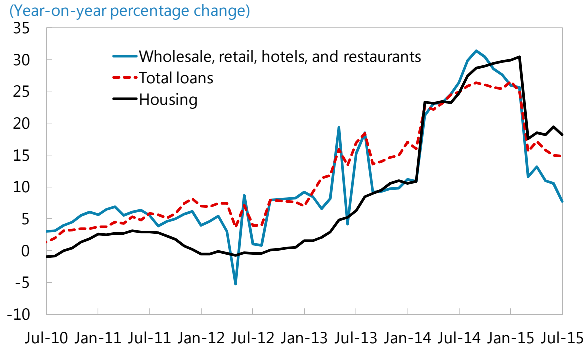
Sources: Cabezon, Hunter, Tumbarello, Washimi and Wu (2015).

Figure 6. Fiji: Monetary and Financial Indicators

Bank lending growth has been robust …

Loans

(Year-on-year percentage change)

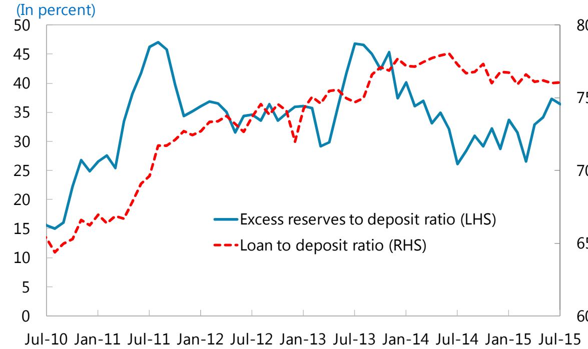


Source: Reserve Bank of Fiji.

…partly helped by excess liquidity…

Excess Reserves and Liquidity

(In percent)

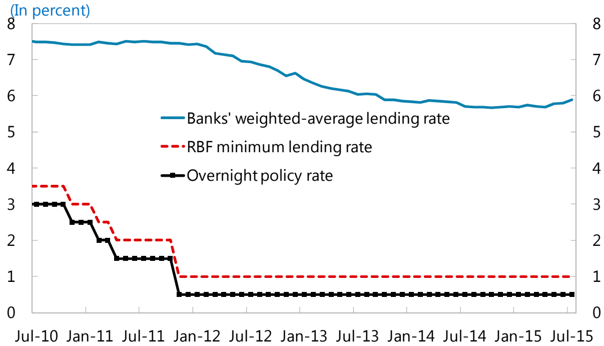


Sources: IMF Integrated Monetary Database and IMF staff calculations.

…and low interest rates.

Interest Rates

(In percent)



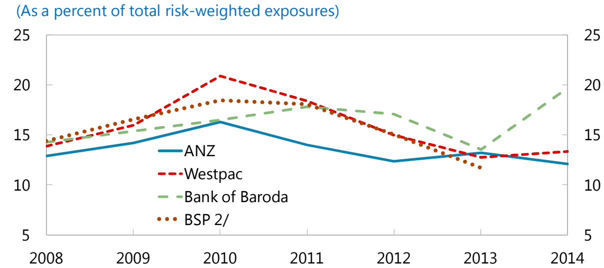
Source: IMF Integrated Monetary Database.

1/ Includes the entry of HFC bank in 2014.

Capital ratios remain adequate….

Total Capital Adequacy 1/

(As a percent of total risk-weighted exposures)



Sources: Reserve Bank of Fiji and IMF staff calculations.

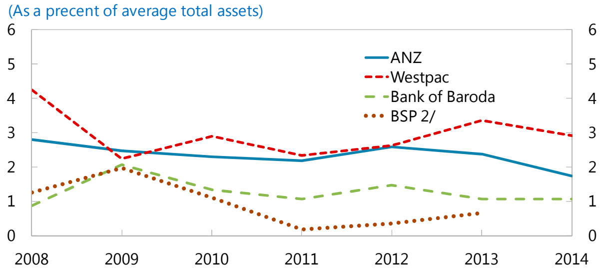
1/ Twelve months up to September 2013 for ANZ and Westpac, up to December 2010 for Colonial National Bank, up to December 2012 for BSP, and up to March 2013 for Bank of Baroda.

2/ From 2011 data is for BSP and Colonial National bank for prior years.

… and profitability has declined modestly, but remains close to recent historical averages.

Profitability 1/

(As a precent of average total assets)



Sources: Reserve Bank of Fiji and IMF staff calculations.

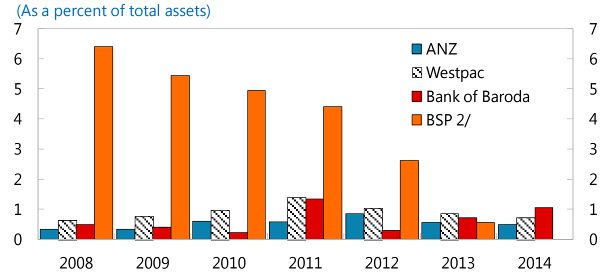
1/ Twelve months up to September 2013 for ANZ and Westpac, up to December 2010 for Colonial National Bank, up to December 2012 for BSP, and up to March 2013 for Bank of Baroda.

2/ From 2011 data is for BSP and Colonial National bank for prior years.

Asset quality ratios continue to improve, reflecting the credit cycle upswing.

Nonperforming Loans 1/

(As a percent of total assets)



Sources: Reserve Bank of Fiji and IMF staff calculations.

1/ Twelve months up to September 2013 for ANZ and Westpac, up to December 2010 for Colonial National Bank, up to December 2012 for BSP, and up to March 2013 for Bank of Baroda.

2/ From 2011 data is for BSP and Colonial National bank for prior years.

Table 1. Fiji: Selected Economic Indicators, 2011–16

Nominal GDP (2014): US$4,532 million
Population (2014): 886,500 (est.)
GDP per capita (2014): US$5,112
Quota: SDR 70.3 million

	2011	2012	2013	2014	2015	2016
		Est.	Est.	Est.	Proj.	Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	2.7	1.4	4.7	5.3	4.3	3.7
GDP deflator	10.6	3.3	2.3	5.1	3.2	3.2
Consumer prices (average)	7.3	3.4	2.9	0.5	2.8	2.8
Consumer prices (end of period)	6.4	2.5	3.4	0.1	2.8	2.8
Central government budget (percent of GDP)						
Revenue	26.7	26.5	27.0	27.6	28.2	29.0
Expenditure	28.0	28.9	27.6	31.8	31.4	33.3
Fiscal deficit	-1.4	-2.4	-0.6	-4.3	-3.2	-4.3
Fiscal deficit in national convention 1/	-1.4	-2.4	-0.5	-4.1	-2.1	-1.3
Total debt outstanding	52.6	51.7	49.5	47.7	46.1	44.7
Money and credit (percent change)						
Net domestic credit	0.5	2.7	14.0	18.7	…	…
Private sector credit	3.9	6.3	9.2	15.5	…	…
Broad money (M3)	11.5	5.9	19.0	10.4	…	…
Monetary base	19.6	11.4	7.5	4.2	…	…
Reserve Bank of Fiji's discount rate	1.0	1.0	1.0	1.0	…	…
Commercial bank lending rate	7.4	6.6	5.8	5.7	…	…
External sector (in millions of U.S. dollars)						
Trade balance 2/	-844	-770	-1,167	-1,028	-981	-1,025
(In percent of GDP)	-22.3	-19.4	-27.8	-22.7	-20.5	-20.4
Exports, f.o.b.	1,068	1,205	1,138	1,208	1,438	1,384
Imports, f.o.b. 2/	1,912	1,975	2,305	2,236	2,419	2,409
Current account balance 2/	-184	-53	-413	-326	-254	-206
(In percent of GDP)	-4.9	-1.3	-9.8	-7.2	-5.3	-4.1
Capital/financial account balance	478	339	412	531	373	381
Errors and omissions	-177	-219	77	-186	-67	0
Overall balance	117	68	76	19	52	176
Gross official reserves (in millions of U.S. dollars)	831	914	990	1,010	1,062	1,237
(In months of retained imports) 2/	5.2	5.7	5.3	5.2	4.8	5.4
External central government debt (in millions of U.S. dollars)	455	523	570	673	670	724
(In percent of GDP)	12.2	13.1	14.0	14.7	13.9	14.3
Miscellaneous						
Real effective exchange rate (average)	103.4	106.6	107.6	106.6	…	…
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.79	1.79	1.84	1.89	…	…
GDP at current market prices (in millions of Fiji dollars)	6,769	7,120	7,727	8,553	9,206	9,852
Oil price (U.S. dollars per barrel)	104.0	105.0	104.1	96.2	50.9	42.0
Oil import (US Dollars)	650.2	677.1	662.5	583.7	388.7	409.8

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.
1/ Including privatization receipts as revenue.
2/ Includes purchase of aircraft by Fiji Airways in 2013.

Table 2. Fiji: Depository Corporations Survey, 2009–14

	2009	2010	2011	2012	2013	2014
Reserve Bank of Fiji (RBF)			(In millions of Fiji dollars)			
Net Foreign assets	866	1139	1343	1481	1613	1652
Net domestic assets	91	29	52	75	57	89
Net domestic credit	231	181	159	169	142	158
Net credit to nonfinancial public sector	226	174	131	121	62	58
Capital accounts	213	177	131	115	104	91
Other items (net)	73	25	25	21	19	22
Monetary base	955	1165	1393	1552	1667	1738
Currency in circulation	431	479	496	558	572	641
Other depository corporations liabilities	524	685	896	993	1095	1097
Other Depository Corporations			(In millions of Fiji dollars)			
Net Foreign assets	-67	-38	28	-10	159	-30
Net domestic assets	3705	3822	4159	4431	5175	5927
Net domestic credit	4506	4711	4960	5200	5927	6840
Net credit to nonfinancial public sector	329	226	125	25	281	429
Net credit to central government	120	63	16	-68	-29	-27
Net credit to public nonfinancial corporations	198	150	92	75	294	438
Credit to private sector	3649	3775	3924	4173	4557	5262
Capital accounts	774	837	763	773	843	981
Other items (net)	-27	-52	-39	4	91	68
Liquid liabilities	3582	3691	4138	4373	5281	5828
Transferable deposits	907	1027	1596	1661	3068	3214
Other deposits	2371	2375	2347	2529	2094	2494
Securities other than shares	304	289	195	183	119	120
Nonliquid liabilities	57	93	49	49	52	68
Depository Corporations			(In millions of Fiji dollars)			
Net Foreign assets	799	1101	1371	1471	1772	1621
Net domestic assets	3196	3071	3223	3391	4006	4767
Net domestic credit	4136	4109	4131	4243	4838	5742
Net credit to nonfinancial public sector	555	400	255	146	343	487
Net credit to central government	320	214	124	31	10	32
Net credit to public nonfinancial corporations	223	173	115	98	317	438
Credit to private sector	3650	3776	3926	4174	4558	5264
Capital accounts	987	1014	894	888	947	1072
Other items (net)	116	80	48	-25	-15	36
Broad money	3937	4075	4542	4810	5723	6318
Narrow money	1262	1411	2000	2098	3510	3704
Currency in circulation	355	384	404	437	442	490
Transferable deposits	907	1027	1596	1661	3068	3214
Other deposits	2371	2375	2347	2529	2094	2494
Securities other than shares	304	289	195	183	119	120
Nonliquid liabilities	59	97	52	53	55	71
			(In percent of GDP)			
Net Foreign assets	14	18	20	21	23	19
Credit to private sector	65	63	58	59	59	62
Broad money	70	68	67	68	74	74

Sources: Fiji Authorities and IMF, Integrated Monetary Database.

Table 3. Fiji: Central Government Finances, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Est.		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of Fiji dollars)									
Total revenue and grants	1805.9	1888.9	2088.2	2358.0	2592.3	2856.6	3064.2	3288.1	3532.1	3781.1
Tax revenue	1592.0	1701.6	1879.5	2117.8	2346.4	2588.3	2783.0	2987.6	3204.2	3429.1
Indirect tax	1113.2	1236.7	1436.9	1599.4	1790.1	1968.3	2114.2	2266.1	2425.1	2595.3
Of which: VAT	618.9	663.6	765.7	794.1	927.6	845.8	913.4	981.6	1050.5	1124.2
Direct tax	478.8	464.9	442.6	518.4	556.3	620.0	668.8	721.5	779.1	833.8
Nontax revenue and grants	213.8	187.3	208.8	240.4	245.9	268.2	281.1	300.6	327.9	352.0
Expenditure	1897.3	2056.5	2135.3	2723.1	2887.7	3291.6	3341.0	3542.0	3759.2	4017.4
Current	1401.7	1481.7	1549.0	1793.0	1866.7	1959.3	2066.4	2207.3	2352.2	2511.7
Wages and salaries	569.3	601.2	622.7	765.0	830.4	847.0	904.7	967.3	1035.2	1107.8
Current charges on public debt	265.7	260.7	260.5	264.3	233.1	258.1	277.2	294.5	310.5	326.7
Other current expenditure	566.7	619.8	665.8	763.7	803.1	854.3	884.4	945.6	1006.6	1077.2
Fiji Sugar Corporation (FSC)	110.0	40.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital (excluding FSC)	385.6	533.8	586.3	930.1	1021.1	1332.3	1274.7	1334.7	1407.0	1505.7
Investment	202.4	270.7	91.2	175.4	166.5	217.2	200.5	214.3	229.4	245.5
Grants and transfers	183.2	263.1	495.2	754.7	854.6	1115.1	1074.2	1120.4	1177.6	1260.3
Overall balance	-91.5	-167.6	-47.1	-365.1	-295.5	-435.0	-276.9	-253.8	-227.1	-236.3
Primary balance	174.3	93.1	213.4	-100.8	-62.3	-176.9	0.4	40.6	83.4	90.4
Financing	91.5	167.6	47.1	365.1	295.5	435.0	276.9	253.8	227.1	236.3
Domestic	-153.3	88.9	30.3	229.0	141.6	31.3	108.5	191.3	161.7	164.5
Foreign	281.0	126.4	79.8	94.7	-4.5	103.7	61.0	62.6	65.3	71.7
Borrowing	572.1	146.4	99.5	120.2	487.1	149.8	107.7	108.2	112.4	541.2
Amortization	-291.1	-20.1	-19.7	-25.5	-491.6	-46.1	-46.6	-45.7	-47.0	-469.5
Change in Sinking Fund (net) 1/	-36.3	-47.7	-73.1	28.6	58.3	-1.5	-1.5	-1.5	-1.6	-1.6
Privatization proceeds	0.0	0.0	10.1	12.8	100.0	300.0	107.3	0.0	0.0	0.0
	(In percent of GDP)									
Total revenue and grants	26.7	26.5	27.0	27.6	28.2	29.0	29.1	29.2	29.3	29.3
Tax revenue	23.5	23.9	24.3	24.8	25.5	26.3	26.4	26.6	26.6	26.6
Indirect tax	16.4	17.4	18.6	18.7	19.4	20.0	20.1	20.1	20.1	20.1
Direct tax	7.1	6.5	5.7	6.1	6.0	6.3	6.4	6.4	6.5	6.5
Nontax revenue and grants	3.2	2.6	2.7	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Expenditure	28.0	28.9	27.6	31.8	31.4	33.4	31.7	31.5	31.2	31.2
Current	20.7	20.8	20.0	21.0	20.3	19.9	19.6	19.6	19.5	19.5
Wages and salaries	8.4	8.4	8.1	8.9	9.0	8.6	8.6	8.6	8.6	8.6
Current charges on public debt	3.9	3.7	3.4	3.1	2.5	2.6	2.6	2.6	2.6	2.5
Other current expenditure	8.4	8.7	8.6	8.9	8.7	8.7	8.4	8.4	8.4	8.4
Capital	5.7	7.5	7.6	10.9	11.1	13.5	12.1	11.9	11.7	11.7
Investment	3.0	3.8	1.2	2.1	1.8	2.2	1.9	1.9	1.9	1.9
Grants and transfers	2.7	3.7	6.4	8.8	9.3	11.3	10.2	10.0	9.8	9.8
Overall balance	-1.4	-2.4	-0.6	-4.3	-3.2	-4.4	-2.6	-2.3	-1.9	-1.8
Primary balance	2.6	1.3	2.8	-1.2	-0.7	-1.8	0.0	0.4	0.7	0.7
Memorandum items (percent of GDP):										
Central government debt	52.6	51.7	49.5	47.7	46.1	44.8	43.2	42.4	41.8	41.1
Domestic	40.4	38.4	35.4	33.1	32.3	30.5	29.6	29.3	28.8	28.2
External	12.2	13.1	14.0	14.7	13.9	14.3	13.7	13.1	13.0	13.0
Net central government debt 2/	48.2	46.9	44.1	43.2	43.5	42.4	41.0	40.3	39.8	39.3

Sources: Ministry of Finance and National Planning; and IMF staff estimates.
1/ Excludes the amount used to repay debt.
2/ Net of deposits (including JP Morgan Sinking Fund).

Table 4. Fiji: Balance of Payments, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Est.	Est.			Proj.				
					(In millions of U.S. dollars)					
Trade balance 1/	-843.5	-769.9	-1167.3	-1028.0	-995.6	-1125.9	-1130.8	-1172.3	-1233.4	-1306.8
Exports, f.o.b.	1068.1	1204.8	1138.2	1207.7	1318.3	1372.9	1506.3	1660.2	1810.6	1964.3
Of which: Sugar 2/	70.9	97.5	97.3	112.0	117.7	97.9	101.7	105.6	109.6	114.9
Re-exports	506.5	640.4	580.2	559.2	434.1	507.8	527.3	565.6	575.8	584.7
Other exports	490.7	466.8	460.6	536.5	766.5	767.1	877.3	989.0	1125.2	1264.7
Imports, f.o.b. 1/	1911.7	1974.7	2305.5	2235.6	2313.9	2498.7	2637.0	2832.6	3044.0	3271.1
Of which: Retained imports (excluding fuels)	1091.6	1040.4	1448.6	1304.2	1533.7	1666.3	1806.8	1953.6	2147.8	2360.9
Purchase of aircrafts including prepayment	103.7	50.9	484.2							
Mineral fuels for domestic consumption	343.5	339.3	311.0	406.4	380.5	358.4	336.0	345.8	352.3	356.8
Imports for re-export	476.6	595.0	545.9	525.0	399.6	474.1	494.2	533.1	544.0	553.5
Services and income (net)	516.7	505.8	549.8	469.0	436.3	501.5	478.4	481.1	540.8	620.8
Nonfactor services (net)	630.8	648.3	630.3	667.9	674.7	738.4	736.4	758.7	815.8	893.9
Of which: Tourism credit	717.4	726.3	731.0	766.0	811.1	858.8	909.3	962.8	1019.4	1079.4
Factor income (net)	-114.1	-142.5	-80.5	-198.9	-238.4	-236.9	-258.0	-277.6	-275.0	-273.1
Transfers (net)	143.2	211.2	204.6	233.3	290.2	317.4	341.6	368.4	390.2	410.1
Private	140.2	208.1	201.4	229.1	286.0	312.3	336.6	363.5	384.9	404.5
Of which: Workers' remittances	161.9	171.0	184.3	202.9	238.4	259.5	282.4	307.3	331.4	357.4
Official	3.0	3.1	3.2	4.2	4.2	5.1	5.0	4.9	5.3	5.6
Current account 1/	-183.6	-52.9	-412.9	-325.6	-269.1	-306.9	-310.8	-322.9	-302.4	-275.9
Capital account (net)	5.9	4.0	4.8	4.7	4.3	4.4	4.3	4.2	4.1	4.0
Financial account (net)	472.0	335.4	407.6	526.6	368.9	376.9	354.3	377.0	439.5	450.9
FDI (net)	401.7	374.5	259.4	293.5	335.8	362.1	389.1	418.0	440.1	463.1
Portfolio investment (net)	100.4	-34.1	-23.4	-10.9	-67.6	-16.5	-17.5	-18.5	-19.6	-20.2
Other investment (net) 1/ 3/	-166.6	-49.0	167.9	178.7	72.8	-20.7	-47.0	-52.4	-11.7	-25.0
Net loans to the government	136.5	43.9	3.6	65.3	28.0	52.0	29.7	29.9	30.6	33.0
Disbursements	319.1	81.8	54.0	63.7	253.0	76.3	53.8	53.0	53.9	254.6
Amortization	-162.3	-11.2	-10.7	-13.5	-255.3	-23.5	-23.3	-22.3	-22.6	-220.9
Change in Sinking Fund (net)	-20.2	-26.7	-39.7	15.1	30.3	-0.8	-0.8	-0.8	-0.8	-0.8
Errors and omissions	-177.3	-218.5	76.6	-186.4	-52.1	0.0	0.0	0.0	0.0	0.0
Overall balance	117.0	67.9	76.1	19.3	51.9	74.4	47.9	58.3	141.2	179.1
					(In percent of GDP)					
Trade balance 1/	-22.3	-19.4	-27.8	-22.7	-20.8	-22.4	-21.5	-21.3	-21.3	-21.6
Exports	28.3	30.3	27.1	26.7	27.6	27.4	28.7	30.1	31.3	32.4
Imports 1/	50.6	49.6	54.9	49.3	48.4	49.8	50.2	51.4	52.7	54.0
Current account balance 1/	-4.9	-1.3	-9.8	-7.2	-5.6	-6.1	-5.9	-5.9	-5.2	-4.6
Capital/financial account	12.7	8.5	9.8	11.7	7.8	7.6	6.8	6.9	7.7	7.5
Overall balance	3.1	1.7	1.8	0.4	1.1	1.5	0.9	1.1	2.4	3.0
					(Annual percent growth)					
Tourism receipts	15.2	1.2	0.7	4.8	5.9	5.9	5.9	5.9	5.9	5.9
Workers' remittances	5.3	5.6	7.8	10.1	17.5	8.8	8.8	8.8	7.8	7.8
Imports of goods and services	22.1	4.0	14.2	-2.3	2.6	10.0	8.2	9.9	10.1	10.3
Oil prices	31.6	1.0	-0.9	-7.5	-39.6	12.9	6.2	2.9	1.9	1.3
Memorandum items:										
External debt (in millions of U.S. dollars)	609.6	672.9	885.0	1000.1	998.9	1055.9	1063.9	1072.9	1112.9	1156.7
External debt as a share of GDP	16.1	16.9	21.1	22.1	20.9	21.0	20.2	19.5	19.3	19.1
External central government debt (in millions of U.S. dollars)	454.8	523.4	569.6	672.8	670.4	723.7	726.4	728.7	760.4	794.5
External central government debt as a share of GDP	12.2	13.1	14.0	14.7	13.9	14.3	13.8	13.2	13.2	13.1
Gross official reserves (in millions of U.S. dollars) 4/	830.8	914.3	990.4	1009.6	1061.6	1136.0	1183.8	1242.1	1383.3	1562.4
(In months of retained GNFS imports) 1/	5.2	5.7	5.3	5.2	5.1	5.0	4.8	4.5	4.5	4.6
GDP (in millions of U.S. dollars)	3774.5	3977.7	4196.1	4531.5	4782.0	5017.3	5254.0	5507.1	5778.1	6062.4
Trading partners' real GDP growth	2.7	2.4	1.9	2.6	2.9	2.8	2.4	2.5	2.4	2.3
Trading partners' import volume (goods and services)	7.3	4.9	1.3	2.9	2.7	3.6	3.4	3.2	3.5	3.5
Oil price (U.S. dollars per barrel)	104.0	105.0	104.1	96.2	58.1	65.7	69.7	71.8	73.1	74.0
Export Growth	27.7	12.8	-5.5	6.1	9.2	4.1	9.7	10.2	9.1	8.5
Import Growth	22.7	3.3	16.8	-3.0	3.5	8.0	5.5	7.4	7.5	7.5
excluding aircraft	16.1	6.4	-5.3	22.8	3.5	8.0	5.5	7.4	7.5	7.5
Oil Imports (U.S. Dollars)	650.2	677.1	662.5	583.7	443.8	641.0	642.5	694.9	715.8	733.4

1/ 2015 numbers are annualized by staff. Includes purchase of aircraft by Fiji Airways in 2013.
2/ Including EU sugar transfer payments. It also includes re-exports of sugar purchased abroad to comply with the EU quota. The current preferential agreement with the EU will expire in 2015 and the team assumes no further extension
3/ In 2009, it includes Fiji's share in the General and Special SDR allocation (SDR 60.2 million).
4/ Reserve Bank of Fiji holdings only.

Table 5. Fiji: Selected Medium-Term Indicators, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.						
Output and prices (percent change)											
Real GDP (at constant factor cost)	2.7	1.4	4.7	5.3	4.3	3.7	3.5	3.6	3.7	3.7	3.3
GDP deflator	10.6	3.3	2.3	5.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Consumer prices (average)	7.3	3.4	2.9	0.5	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Output gap (percent of potential output) 1/	0.8	-2.1	-1.2	0.4	1.3	1.2	0.9	0.7	0.6	0.5	0.1
Savings and investment 2/					(In percent of GDP)						
National savings	11.6	15.2	12.9	9.8	12.7	14.4	14.2	14.0	15.5	17.0	16.9
Public	6.0	5.7	7.0	6.6	7.9	9.2	9.6	9.7	9.8	9.9	9.9
Private	5.7	9.5	5.9	3.2	4.8	5.2	4.6	4.3	5.7	7.1	7.0
Gross investment 3/	16.5	16.5	22.8	17.0	18.0	18.5	18.5	18.5	19.5	20.5	20.6
Public	5.7	7.5	7.6	10.9	11.1	13.5	12.1	11.9	11.7	11.7	11.7
Private	10.8	9.0	15.2	6.1	6.9	5.0	6.4	6.6	7.8	8.8	8.9
Foreign savings	4.9	1.3	9.8	7.2	5.3	4.1	4.3	4.5	4.0	3.5	3.7
Central government budget (in percent of GDP)											
Revenue	26.7	26.5	27.0	27.6	28.2	29.0	29.1	29.2	29.3	29.3	29.3
Expenditure	28.0	28.9	27.6	31.8	31.4	33.3	31.6	31.4	31.2	31.1	31.1
Net acquisition of nonfinancial assets	5.7	7.5	7.6	10.9	11.1	13.5	12.1	11.9	11.7	11.7	11.7
(As a percent of total expenditure)	20.3	26.0	27.5	34.2	35.4	40.6	38.3	37.8	37.5	37.5	37.6
Of which: Fiji Sugar Corporation	1.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense	20.7	20.8	20.0	21.0	20.3	19.8	19.5	19.5	19.5	19.5	19.4
Compensation of employees	8.4	8.4	8.1	8.9	9.0	8.6	8.6	8.6	8.6	8.6	8.6
Interest	3.9	3.7	3.4	3.1	2.5	2.6	2.5	2.5	2.5	2.5	2.5
Other	8.4	8.7	8.6	8.9	8.7	8.7	8.4	8.4	8.4	8.4	8.4
Overall balance 4/	-1.4	-2.4	-0.6	-4.3	-3.2	-4.3	-2.5	-2.2	-1.8	-1.8	-1.8
Primary balance	2.6	1.3	2.8	-1.2	-0.7	-1.8	0.0	0.4	0.7	0.7	0.7
Central government debt outstanding	52.6	51.7	49.5	47.7	46.1	44.7	43.1	42.2	41.5	40.9	40.3
Balance of payments (in percent of GDP)											
Trade balance 3/	-22.3	-19.4	-27.8	-22.7	-20.5	-20.4	-19.9	-19.9	-20.1	-20.5	-21.0
Services plus income (net)	13.7	12.7	13.1	10.3	9.1	10.0	9.1	8.7	9.4	10.2	10.5
Transfers (net)	3.8	5.3	4.9	5.1	6.1	6.3	6.5	6.7	6.8	6.8	6.8
Current account balance 2/	-4.9	-1.3	-9.8	-7.2	-5.3	-4.1	-4.3	-4.5	-4.0	-3.5	-3.7
Capital and financial account balance	12.7	8.5	9.8	11.7	7.8	7.6	6.8	6.9	7.7	7.5	7.6
Of which: FDI (net)	10.6	9.4	6.2	6.5	7.0	7.2	7.4	7.6	7.6	7.6	7.7
Of which: Portfolio investment (net)	2.7	-0.9	-0.6	-0.2	-1.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Of which: Other investment (net) 2/	-0.8	-0.1	4.1	5.4	2.1	0.6	-0.3	-0.4	0.3	0.1	0.1
Errors and omissions	-4.7	-5.5	1.8	-4.1	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.1	1.7	1.8	0.4	1.1	3.5	2.5	2.4	3.7	4.0	3.9
Memorandum items:											
Gross official reserves (in millions of U.S. dollars) 3/	831	914	990	1010	1062	1237	1371	1505	1717	1960	2205
(In months of retained GNFS imports)	5.2	5.7	5.3	5.2	4.8	5.4	5.5	5.4	5.5	5.6	5.7

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

2/ 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.

3/ Includes planned purchase of aircraft by Fiji Airways in 2013.

4/ Reserve Bank of Fiji holdings only.

Appendix I. External Debt Sustainability Framework, 2010–20

Table 1. Fiji: External Debt Sustainability: 2010–2020

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020		
								I. Baseline Projections							Debt-stabilizing non-interest current account 6/
External debt	14.8	16.1	16.9	21.1	22.1			**20.9**	**21.0**	**20.2**	**19.5**	**19.3**	**19.1**		**-7.6**
Change in external debt	-0.2	1.4	0.8	4.2	1.0			-1.2	0.2	-0.8	-0.8	-0.2	-0.2	0.0	
Identified external debt-creating flows (4+8+9)	-7.9	-7.6	-8.8	3.0	-0.9			-2.5	-2.1	-2.4	-2.7	-3.3	-4.0	0.0	
Current account deficit, excluding interest payments	3.7	4.6	1.1	9.7	6.9			5.3	5.6	5.2	5.0	4.3	3.7	7.6	
Deficit in balance of goods and services	5.7	5.6	3.1	12.8	7.9			6.7	7.7	7.5	7.5	7.2	6.8		
Exports	58.2	59.3	61.0	56.6	54.8			54.3	56.2	58.6	61.8	65.5	69.6		
Imports	63.9	64.9	64.1	69.4	62.8			61.0	64.0	66.1	69.3	72.7	76.4		
Net non-debt creating capital inflows (negative)	-11.0	-10.6	-9.4	-6.2	-6.5			-7.0	-7.2	-7.4	-7.6	-7.6	-7.6	-7.6	
Automatic debt dynamics 1/	-0.7	-1.5	-0.5	-0.5	-1.3			-0.8	-0.5	-0.2	0.0	0.0	0.0	0.0	
Denominator: 1+g+ρ+gρ	1.1	1.1	1.0	1.0	1.1			1.1	1.0	1.0	1.0	1.0	1.0	1.0	
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	0.3			0.3	0.5	0.7	0.9	0.9	0.9	0.9	
Contribution from real GDP growth	-0.4	-0.3	-0.2	-0.8	-1.0			-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	
Contribution from price and exchange rate changes 2/	-0.6	-1.5	-0.5	0.1	-0.5			-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
Residual, incl. change in gross foreign assets (2-3)	7.7	9.0	9.6	1.2	1.8			1.4	2.2	1.6	1.9	3.1	3.8	0.0	
External debt-to-exports ratio (in percent)	25.4	27.2	27.7	37.3	40.3			38.5	37.4	34.6	31.5	29.4	27.4		
Gross external financing need (in billions of US dollars) 3/	184.2	395.2	117.3	472.9	373.5			558.5	364.8	368.8	380.5	361.0	533.6		
in percent of GDP	5.9	10.5	2.9	11.3	8.2			11.7	7.3	7.0	6.9	6.2	8.8		
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Nominal GDP (US dollars)	3140.5	3774.5	3977.7	4196.1	4531.5			4782.0	5017.3	5254.0	5507.1	5778.1	6062.4	6360.6	
Real GDP growth (in percent)	3.0	2.7	1.4	4.7	5.3	2.0	2.1	4.3	3.7	3.5	3.6	3.7	3.7	3.7	3.6
Exchange rate appreciation (US dollar value of local currency, change in p	1.9	7.0	0.2	-2.8	-2.4	-0.6	7.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
GDP deflator (change in domestic currency)	2.5	3.8	3.3	2.3	5.1	3.8	1.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
GDP deflator in US dollars (change in percent)	4.5	11.1	3.5	-0.6	2.6	3.2	7.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Nominal external interest rate (in percent)	2.5	2.2	1.4	1.1	1.4	2.3	0.8	1.5	2.4	3.7	4.6	4.9	4.9	4.9	4.1
Growth of exports (US dollar terms, in percent)	28.8	22.4	8.5	-2.2	4.6	7.6	16.5	4.5	8.7	9.1	10.5	11.2	11.5		10.2
Growth of imports (US dollar terms, in percent)	17.6	22.1	4.0	14.2	-2.3	6.3	16.9	2.6	10.0	8.2	9.9	10.1	10.3		9.7
Current account balance, excluding interest payments	-3.7	-4.6	-1.1	-9.7	-6.9	-7.7	4.7	-5.3	-5.6	-5.2	-5.0	-4.3	-3.7		-4.8
Net non-debt creating capital inflows	11.0	10.6	9.4	6.2	6.5	8.7	2.8	7.0	7.2	7.4	7.6	7.6	7.6		7.5
A. Alternative Scenarios								II. Stress Tests for External Debt Ratio							Debt-stabilizing non-interest current account 6/
A1. Key variables are at their historical averages in 2015-2020 4/								**20.9**	**21.5**	**21.5**	**21.7**	**23.1**	**25.2**		**-9.4**
B. Bound Tests															
B1. Nominal interest rate is at baseline plus one-half standard deviation								**20.9**	**21.1**	**20.4**	**19.7**	**19.6**	**19.5**		**-7.6**
B2. Real GDP growth is at baseline minus one-half standard deviations								**20.9**	**21.2**	**20.5**	**19.8**	**19.6**	**19.4**		**-7.8**
B3. Non-interest current account is at baseline minus one-half standard deviations								**20.9**	**23.4**	**25.0**	**26.6**	**28.7**	**30.9**		**-7.6**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**20.9**	**22.4**	**22.8**	**23.3**	**24.4**	**25.4**		**-7.7**
B5. One time 30 percent real depreciation in 2016								**20.9**	**30.9**	**29.7**	**28.6**	**28.3**	**28.0**		**-11.2**

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) 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, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

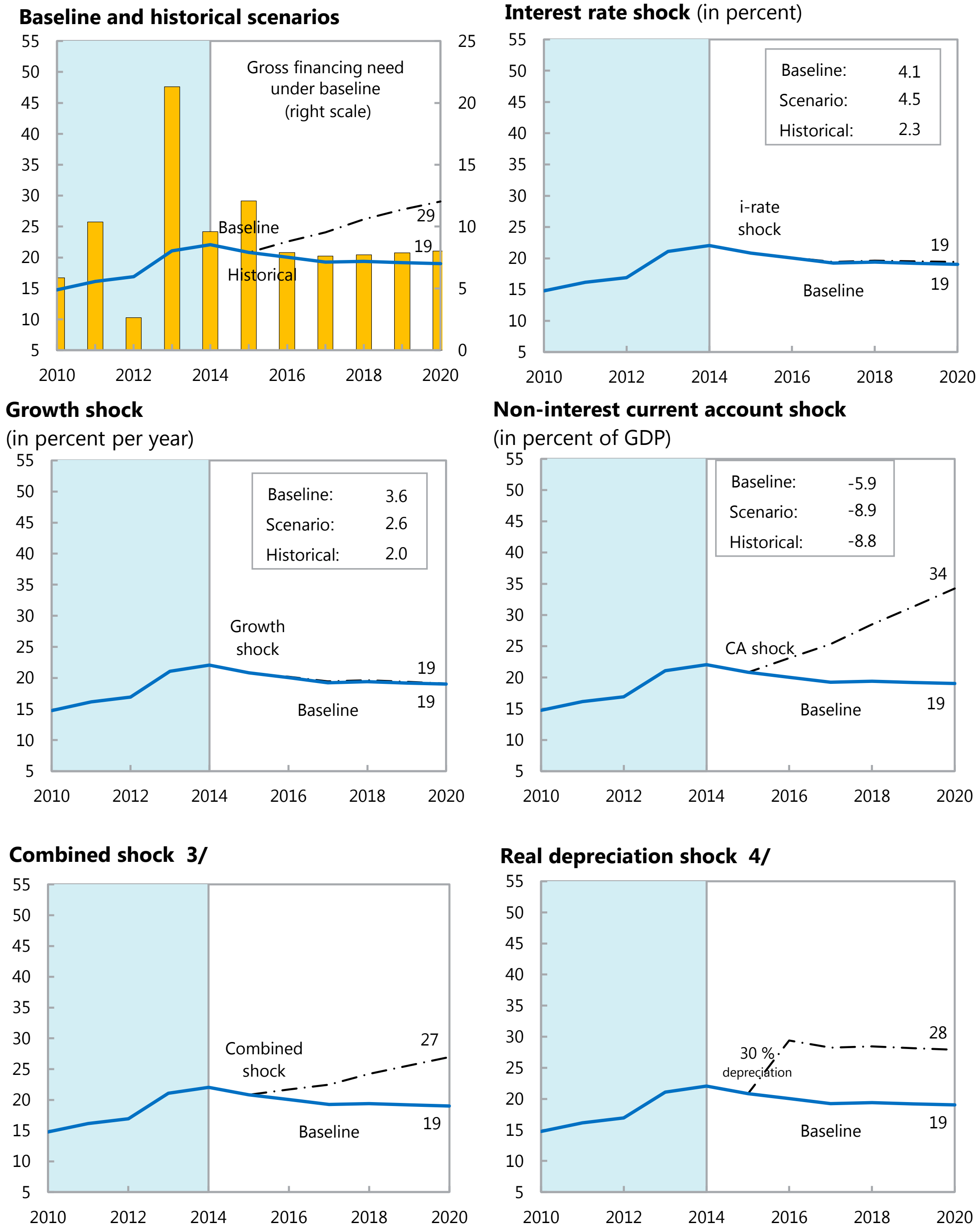
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ The implied change in other key variables under this scenario is discussed in the text.

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Appendix II. Public Debt Sustainability Analysis

Fiji: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario (in percent of GDP unless otherwise indicated)

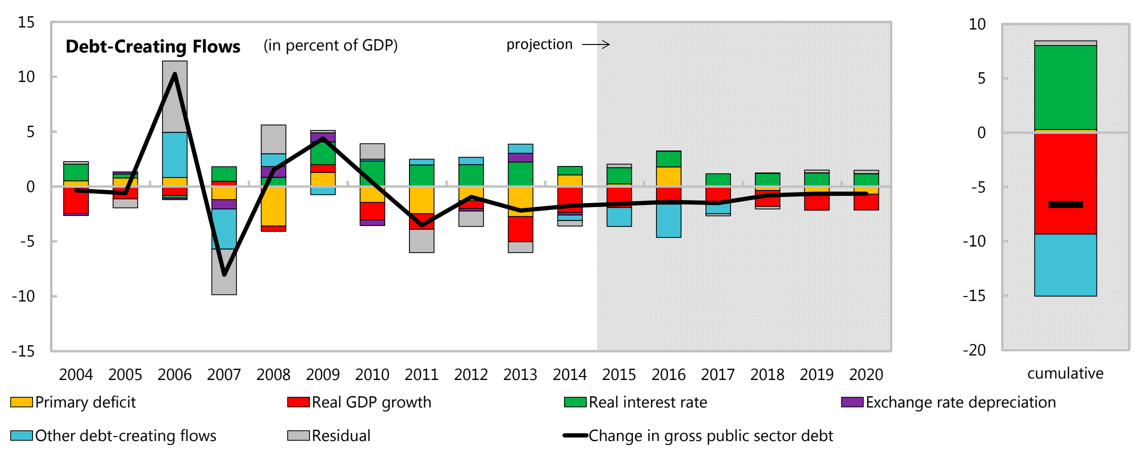
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	52.4	49.5	47.7	46.1	44.8	43.2	42.4	41.8	41.1
Public gross financing needs	6.5	3.0	6.6	10.9	7.1	4.9	5.7	5.2	8.7
Real GDP growth (in percent)	1.7	4.7	5.3	4.3	3.7	3.5	3.6	3.7	3.7
Inflation (GDP deflator, in percent)	3.6	2.3	5.1	3.2	3.2	3.2	3.2	3.2	3.2
Nominal GDP growth (in percent)	5.6	8.5	10.7	7.6	7.0	6.8	6.9	7.0	7.0
Effective interest rate (in percent) [4/]	6.4	7.0	7.2	6.7	6.6	6.1	6.3	6.5	6.3

As of November 17, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		474
5Y CDS (bp)		na
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.3	-2.2	-1.8	-1.6	-1.4	-1.5	-0.8	-0.7	-0.7	-6.6	
Identified debt-creating flows	0	-1.2	-1.2	-1.9	-1.4	-1.3	-0.6	-0.9	-1.0	-7.0	
Primary deficit	-0.7	-2.7	1.1	0.2	1.8	0.0	-0.4	-0.7	-0.7	0.3	-0.3
Primary (noninterest) revenue and grants	25.5	27.0	27.6	28.2	29.0	29.1	29.2	29.3	29.3	174.2	
Primary (noninterest) expenditure	24.7	24.3	28.6	28.4	30.8	29.1	28.9	28.6	28.6	174.5	
Automatic debt dynamics [5/]	0.5	0.8	-1.8	-0.4	-0.2	-0.3	-0.2	-0.2	-0.3	-1.6	
Interest rate/growth differential [6/]	0.5	-0.1	-1.6	-0.4	-0.2	-0.3	-0.2	-0.2	-0.3	-1.6	
Of which: real interest rate	1.4	2.2	0.8	1.5	1.4	1.2	1.2	1.2	1.2	7.7	
Of which: real GDP growth	-0.8	-2.3	-2.4	-1.9	-1.6	-1.5	-1.5	-1.5	-1.4	-9.3	
Exchange rate depreciation [7/]	0.0	0.8	-0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.2	0.8	-0.5	-1.7	-3.0	-1.0	0.0	0.0	0.0	-5.7	
Privitization receipts (negative)	-0.1	-0.1	-0.1	-1.1	-3.0	-1.0	0.0	0.0	0.0	-5.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.3	0.9	-0.3	-0.6	0.0	0.0	0.0	0.0	0.0	-0.6	
Residual, including asset changes [8/]	0.3	-1.0	-0.5	0.3	0.0	-0.2	-0.2	0.2	0.3	0.4	



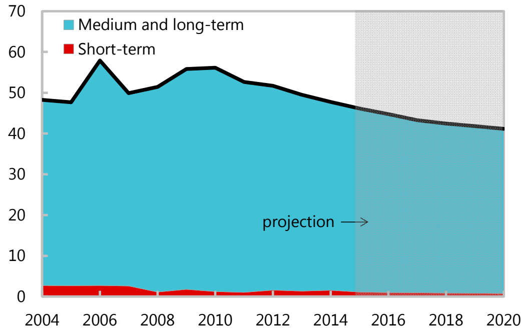
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$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

Figure 1. Public DSA –Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

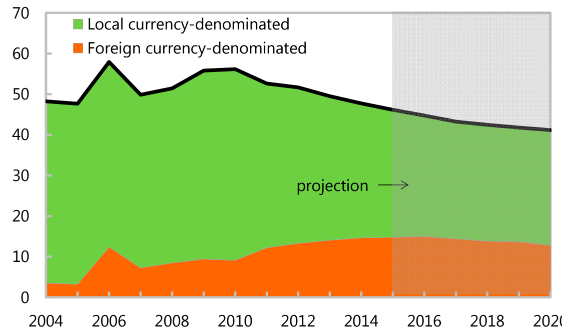
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

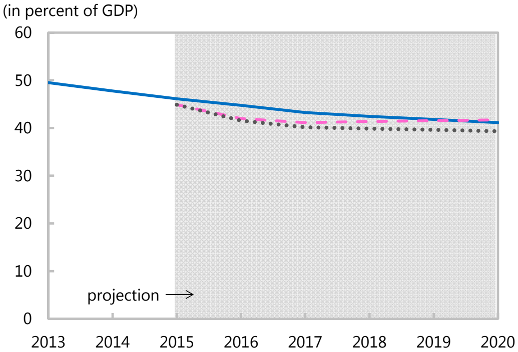


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

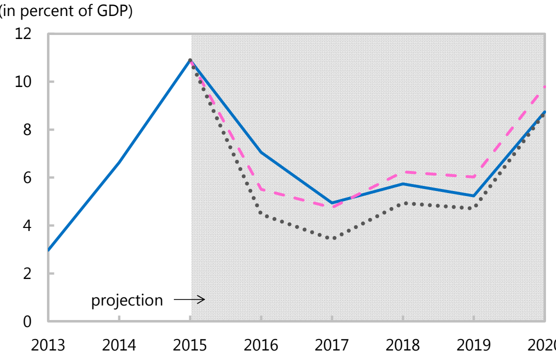
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.3	3.7	3.5	3.6	3.7	3.7
Inflation	3.2	3.2	3.2	3.2	3.2	3.2
Primary Balance	-0.2	-1.8	0.0	0.4	0.7	0.7
Effective interest rate	6.7	6.6	6.1	6.3	6.5	6.3
Constant Primary Balance Scenario						
Real GDP growth	4.3	3.7	3.5	3.6	3.7	3.7
Inflation	3.2	3.2	3.2	3.2	3.2	3.2
Primary Balance	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	6.7	6.8	6.3	6.5	6.5	6.4

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.3	2.0	2.0	2.0	2.0	2.0
Inflation	3.2	3.2	3.2	3.2	3.2	3.2
Primary Balance	-0.2	0.9	0.9	0.9	0.9	0.9
Effective interest rate	6.7	6.8	6.4	6.6	6.6	6.4

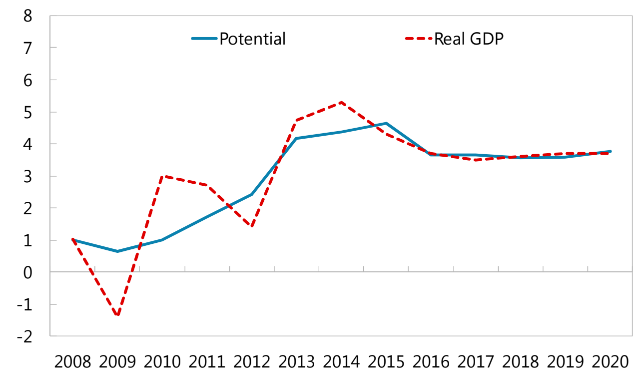
Source: IMF staff.

Appendix III. Potential Growth in Fiji: Updating the Estimates

Fiji's growth momentum has accelerated, reflecting a combination of structural and cyclical factors. The economy is entering its third year of above 4 percent annual growth in 2015, following GDP growth of 5.3 percent in 2014. In 2015, growth is projected at 4.3 percent, and has been driven by strong foreign exchange inflows (remittances and tourism) and robust credit growth. Public investment has been strong, as the government has focused on upgrading the country's roads as well as addressing other infrastructure gaps. These factors have bolstered investor sentiment, which in turn has propelled private domestic investment.

Potential growth is currently estimated at around 3.5‑3.8% in the medium-term. This is significantly higher than the 2.5 percent estimate from the 2013 Staff Reports and reflects, inter alia, the strong investment cycle and the gains in productivity growth in recent years, which are expected to support growth in the medium term. Three main approaches are used to estimate potential GDP using annual data spanning from 1990-2014 and some assumptions for the outer years consistent with the baseline scenario discussed in the main text of the Staff report and with the authorities. In the production function approach, a standard Cobb-Douglas production function with capital and labor is used. Given the aforementioned increase in the investment share of GDP, the contribution of capital has increased since 2013. The recent rise in growth has also been associated with a slight increase in TFP, given some productivity gains associated with the upgrades in infrastructure. In the forecasting period, given some fiscal consolidation, there is a noticeable decline in the capital contribution. Labor growth is assumed to follow population growth, and TFP growth is expected to remain broadly constant at its historical average of 1 percent. These assumptions yield an estimate of about 3.5–3.8 percent potential GDP growth.

Fiji--Real and Potential GDP Growth
(In percent) 1/



Sources: Fund staff calculations
1/ Potential growth rate estimated using production function approach

The growth accounting approach suggests that recent strong growth is supported by public and private investment growth. Political stability along with the recent reform efforts to promote investment sentiment have translated into strong investment activity. Continued structural reforms and streamlining government regulations can help secure recent gains in potential growth by improving the business climate, which could in turn attract more FDI

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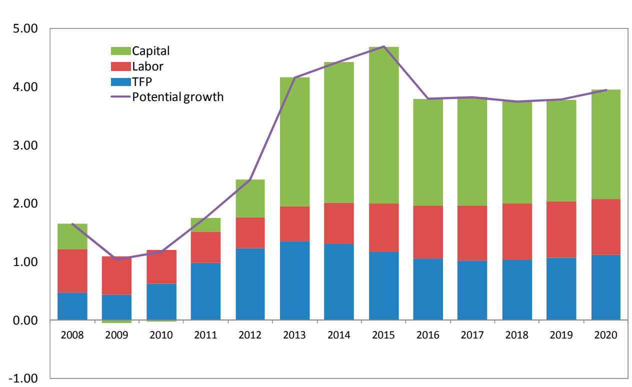
Fiji: Contribution to Potential Growth, 2008-2020
(In percent)



Sources: IMF Staff estimates

Appendix IV. Understanding Price Movements in Fiji

Fiji has benefited from low inflation primarily due to lower global oil prices. However, inflation has been even lower than previously anticipated and strong growth has not led to noticeable price pressures. This box tries to shed light on the pass-though from global commodity prices to domestic inflation as well as on the role of the exchange rate and monetary policy. Despite the very low policy rate of 0.5 percent since November 2011 and recent strong economic growth, CPI inflation has been relatively subdued since 2012, averaging about 2 percent. Does this justify a continuation of monetary easing? Answering this important question requires a more careful examination of the subcomponents of the CPI and the role of global prices and the exchange rate.

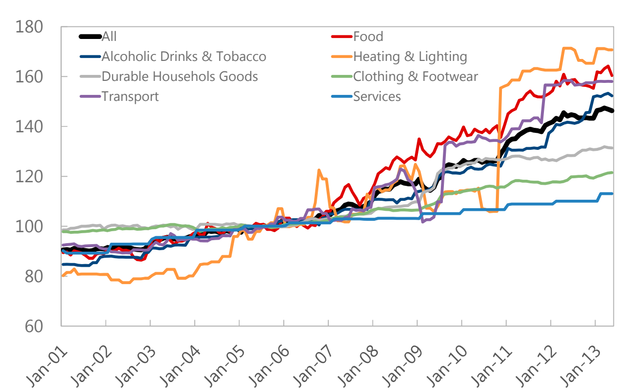
Since inflation has been stable, it is likely that price pressures from strong domestic demand may have been offset by favorable terms of trade shocks and price controls. As Fiji's import dependency is high with imports of around 60 percent of GDP, commodity price movements and exchange rate fluctuations are expected to have significant impact on domestic price movements. While the exchange rate has been broadly stable, global oil and food prices have been volatile and have dropped significantly since mid-2014.

Expected pass-through

	No price control	Price control
Imported goods	Immediate pass-through	Pass-through with lags
Domestically produced goods	Indirect (muted) pass-through via imported inputs	Indirect (muted) pass-through with lags

In addition, still prevalent price controls complicate the understanding of price movements of both domestically and internationally-produced goods. For example, gasoline prices are reviewed and revised quarterly based on cost information submitted by domestic retailers, while food prices could in principle be revised on a daily basis (shipment by shipment), in both cases subject to the approval of the Price Commission (the government agency in charge of regulating domestic prices). In this case, the pass-through from external prices (and other factors such as input costs and exchange rate changes) to domestic prices can vary across different types of goods, as illustrated by the text table and chart.

Monthly Price Index
(2005 annual average=100)

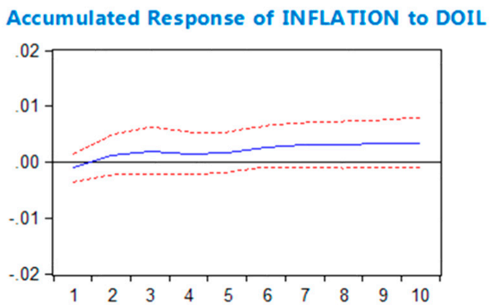


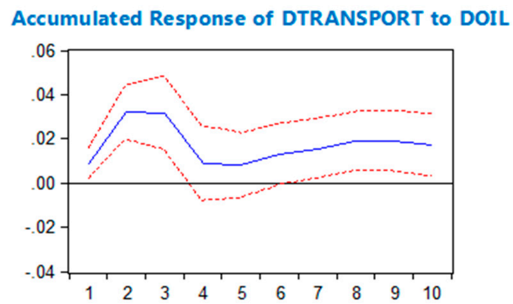
Sources: RBF

Taking into account the potential heterogeneity of the pass-through to different components of the CPI, several VARs are estimated using disaggregated CPI data. The VARs are estimated using [monthly] data from 2005-2015 and include international price (oil or food index from the WEO), domestic activity, domestic CPI (or CPI subcomponent), and the domestic interest rate. The variables are ordered as listed from the most exogenous to the most endogenous.

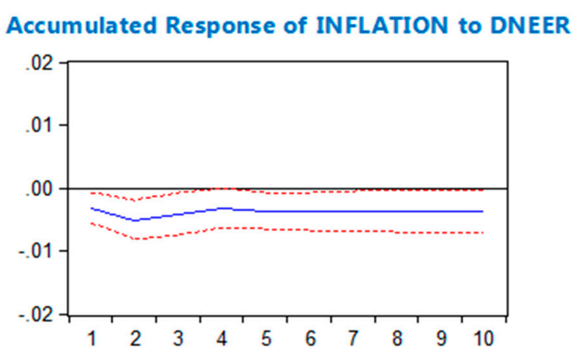
As expected, there is significant heterogeneity in the pass-though from global prices:

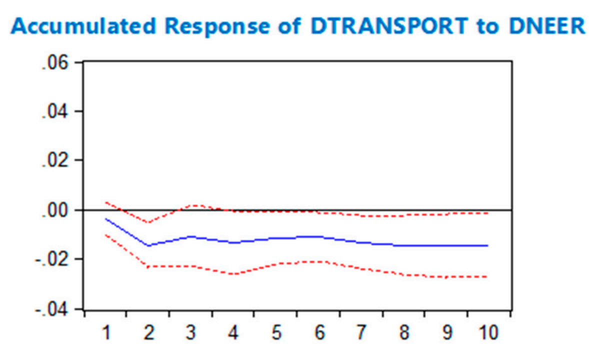
- The VAR estimates show that the pass-through of global oil prices to overall CPI is gradual and muted (about 50 percent). But the pass-through from global oil prices to domestic transportation sector prices is almost one-to-one, despite some prices controls affecting the transportation sector[1]





- Exchange rate movements have not significantly affected headline CPI, but have impacted sectors with higher import dependence. Exchange rate pass-through to overall CPI is only about 25 percent after 10 quarters and statistically insignificant (using the more conservative two-standard deviation bands for impulse responses), despite high overall import dependency. The relatively small exchange rate movements (excluding the 2009 devaluation) may make it difficult to gauge the exchange rate pass-through with precision. Nonetheless, the use of more disaggregated price data points to some evidence of pass-through: the cumulative exchange rate pass-through to the transportation sector after 10 quarters is about 60 percent.





[1] The following variables, 'doil' and 'dtransport' in the charts refer to the changes in log oil prices and log transportation prices, respectively.

- Meanwhile, the pass-through effect of global food prices on the overall CPI and the domestic food CPI subcomponent is relatively muted, mostly likely reflecting price controls. The cumulative pass-through to CPI and food prices is about 45 percent and 65 percent, respectively, after 10 quarters, and in both cases it is statistically insignificant (using 16 and 84 percent confidence bands).

Appendix V. The Role of Credit in the Monetary Transmission

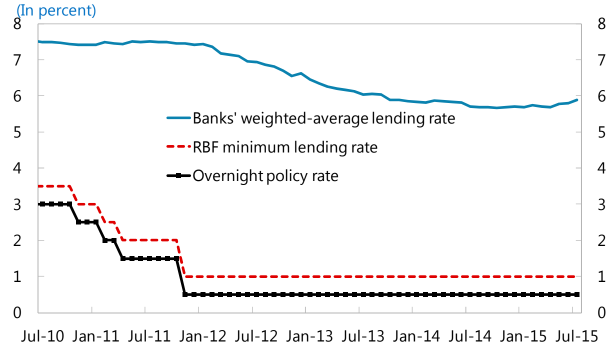
Fiji's monetary policy has been guided by the dual mandate of keeping inflation low and stable and foreign reserves at an adequate level. While the RBF has no explicit inflation target, it has stated in its policy documents that it is comfortable with an average inflation rate of about 3 percent, a level broadly consistent with that of Fiji's main trading partners. While the reserve coverage depends to a large extent on imports, the RBF has set a benchmark cover of 4-5 months of imports of goods and non-factor services.

Fiji's main monetary policy instrument is the overnight policy rate (OPR). This is the rate that the RBF uses to communicate its monetary policy stance. In addition, the RBF also operates an interest rate corridor, with the repo (reverse repo) rate set 50 basis points above (below) the OPR. Open market operations (conducted with RBF notes) and occasionally changes to the statutory deposit ratio are the main tools to influence the interbank and other interest rates as well as liquidity and credit conditions.

While the OPR is adjusted according to the outlook for inflation and reserve coverage, it has remained unchanged since late 2011. Inflation pressures remain low (owing largely to external factors) and reserves have increased on the back of strong tourism inflows and remittances, but the OPR has been very low, and negative in real terms. This accommodative stance has also been reflected in market interest rates, and while Peiris and Ding (IMF working paper 12/176) find that the direct effect on GDP is small for PICs, the low interest rate environment in Fiji has been associated with strong growth in credit, particularly in real estate, housing, and auto segments.

Several factors are behind the credit cycle upswing. The robust growth in credit has been from a low base and reflects in part pent up demand for credit following years of subdued growth. In addition, there has been increased competition in the banking system, with the entry of new players, including non-bank financial institutions. But low interest rates (combined with strong growth in income) are likely to be playing a role. In addition, low interest rates are typically associated with rising house prices, which in turn tend to influence credit demand and economic activity.

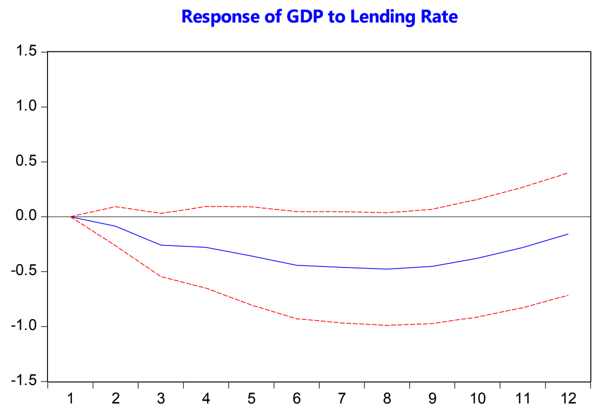
Interest Rates
(In percent)

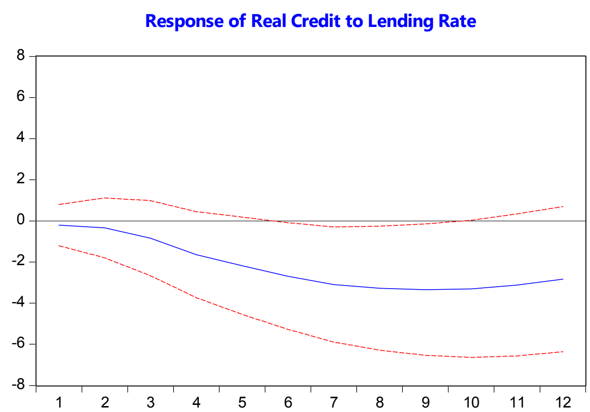


Source: IMF Integrated Monetary Database.

To test the role of interest rates in the credit cycle and their indirect effect on activity, this box applies a VAR to Fiji macroeconomic data. The VAR is estimated with quarterly data from 1994 until 2014. The VAR model comprises [GDP CPI IR Credit] with GDP* and Poil as exogenous (small economy assumption), where GDP * is the average of trading partners' real GDP, IR is the interest rate, and credit is adjusted for CPI inflation. The quarterly GDP series proxy is computed using Chow-Lin interpolation method using imports as the auxiliary variable (the results are robust to using other series including credit or using a simple linear-quadratic interpolation of the GDP series). The model is estimated in log-levels (except for the interest rate) with seasonally adjusted data for GDP, credit, and CPI. The ordering of the VAR is as listed above starting from the most exogenous. The baseline model is estimated with 2 lags as indicated by the BIC lag selection criteria, but the qualitative results are broadly similar if 4 lags are used. The results are also robust to using the deposit rate instead of the lending rate in the VAR, but the OPR cannot be used in the estimations because it did not change during a significant part of the sample. Finally, exogenous time-shift (dummy) variables were included (2002Q2, 2007Q1) to ensure well-behaved residuals.

The results point to a powerful *indirect* effect of interest rates on activity operating through credit. According to the impulse response functions, the direct effect of credit on GDP (not shown here to conserve space) is relatively small and not statistically significant, though it is economically significant. In contrast, the effect of interest rates on credit is sizable, and peaks at 8 quarters, with a one standard deviation drop in interest rates boosting credit by about 4 percent (above baseline). In addition, the effect of interest rates on GDP is also large and economically significant (as well as statistically significant using the standard 16-84 percent confidence bands). As expected, GDP also exerts significant influence on credit, suggesting a powerful positive feedback loop making it important to control for that effect when gauging the effects of credit on activity and other variables. Consistent with an incomplete transmission mechanism, credit shocks do not exert a significant effect on the CPI.





Finally, additional econometric evidence also suggests that credit might be systematically associated with house prices. While data limitations prevent the inclusion of housing prices on the VAR, simple Granger causality tests also suggest that real credit is an important predictor of real house prices, though interestingly the causality only goes from credit to house prices and not the other way around.

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 19, 2016

Prepared By
Asian and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2015)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	70.30	100.00
Fund holdings of currency	53.69	76.36
Reserve position in Fund	16.68	23.72

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	51.08	76.13

Outstanding Purchases and Loans: None

Financial Arrangements: None

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01	0.01

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji

(RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. The exchange rate was F$2.18 per U.S. dollar as of September, 2015.

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

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

Last Article IV Consultation: The 2014 Article IV consultation discussions were held in Suva during July 17–30, 2014. The consultation (Country Report No. 14/321) was completed by the Executive Board on October 31, 2014. Fiji is on a 12-month cycle.

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

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

WORLD BANK-IMF COLLABORATION

(As of November 13, 2015)

The Fund and the Bank teams maintain close cooperation in various areas. During the current cycle, the Bank staff has joined the IMF missions, including the 2015 Article IV mission. The Fund and the Bank have also been engaged in provision of technical assistance and advice in public financial management and debt management policy. The two institutions extensively shared information and closely coordinated policy advice during the government's preparation of the refinancing of the $250 million global bond in September.

During the current cycle, the Bank's engagement with the Fiji government has deepened. On March 11, 2015, the World Bank Group's Board endorsed a two year Country Engagement Note (CEN) and approved the US$50 million IBRD Transport Infrastructure Investment Project, the first World Bank project in Fiji in 23 years. The CEN is structured around two themes: (i) strengthen the foundations for inclusive, private sector led growth, and (ii) protect vulnerable population. Specific areas of support from the WBG in the near term include:

- **Strengthening public infrastructure**—to help the government address the huge backlog in transport infrastructure repair that is urgently needed to support private sector investment and better service delivery;
- **Technical assistance in civil service reform**—to help improve public accountability and transparency;
- **The IFC advisory services on regulatory and administrative reforms**—to improve the business environment.

The program anticipates that IBRD lending envelope of US$100-125million, including the US$50 million Transport Infrastructure Investment Project that was presented to the Board together with the CEM. A second IBRD operation is under preparation based on further consultations and analytical work. On the analytical front, the Bank will collaborate with the government to undertake poverty assessment based on the 2013/14 household survey data, public expenditure review, and the country growth diagnostics, all of which will inform a country partnership framework that will outline a 4-6 year program following this CEN cycle.

The Fund and the Bank teams continue to agree that Fiji's main macroeconomic challenges are to safeguard fiscal and external stability and raise potential growth through structural reforms. The authorities have accelerated reforms in recent years, but the key policy challenge remains to raise the potential growth, reduce unemployment and increase resilience to shocks. While the latest information is from 2009, poverty remains widespread at just over one third of the population according to the basic needs $3.10 a day threshold, though extreme poverty is relatively rare. Despite the above-trend growth in recent years, continued structural reform is needed to unlock Fiji's potential and sustain growth. In addition to improving infrastructure, the government needs to improve the investment climate (Fiji's *Doing Business* ranking has slipped from 60 in 2013 to 81 in 2015) to take full advantage of potential increases in domestic and foreign investment. Key structural reforms needs as seen by the Fund and the Bank as critical include:

- **Increased efficiency of land use,** which is critical for Fiji's growth prospects and economic diversification.
- **Price decontrol**, to re-establish price signals and encourage investment.
- **Public enterprise reform.** The pace of implementation of reforms of other public enterprises aimed at improving services and reducing fiscal costs needs to be accelerated. These reforms will help reduce direct and contingent liabilities of the government, help ensure fiscal sustainability, and promote growth.
- **Tax policy and administration reform.** Efforts to broaden the tax base should continue, including review of the tax incentive regime. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.
- **Strengthening statistical capacity and statistics.** Fiji should ensure that it continues to develop personnel with the capacity to produce accurate and timely economic statistics. Good statistics are important both for macro policy formulation and good public financial management (e.g. establishment payroll and wage bill control). Fiji continues to benefit from a broad range of statistical advice from PFTAC.

Fiji: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas, November 2014–November 2015

	Products	Expected Delivery
Bank Work Program	• Debt Management Performance Assessment and associated Technical Assistance with debt management and strategy	• FY2014
	• IDF grant to support the telecoms regulator.	• Ongoing FY2013/14
	• AusAID financed grant to support poverty mapping and advice to the Ministry of Labor and Social Welfare to better target social assistance programs.	• Ongoing FY2013/14
	• Regional GEF sustainable energy financing project to support commercial banks to lend to businesses and households for renewable energy.	• FY2013/14
	• Joint AAA with IFC on payments systems reform and legislation.	• FY2013/14
Fund Work Program	• Tax policy and administration TA	• Ongoing
	• Statistics TA	• Ongoing

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE[1]

(As of September 30, 2015)

Background

Fiji has been PFTAC's largest user of TA in recent years. The revenue sector has been the main area of focus. PFTAC has supported FRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures. There has also been significant progress made in the statistics area with improved national accounts, balance of payments and price statistics. In the Public Financial Management (PFM) area, support has been focused on improving the quality of budget documents, developing a PFM Reform Roadmap, revising the Financial Management Act, and building accounting and financial reporting capacity. In macroeconomics the focus has been on building modeling skills, including for potential natural resource revenues.

In the PFM area, the main focus will be assisting in remedying weaknesses identified in the 2012 PEFA assessment and prioritized in the Ministry of Finance's 2015 draft PFM Reform Roadmap. This may include assistance in looking at the roles, responsibilities and structure of the Ministry of Finance. Areas of specific follow-up assistance could include strengthening accounting and financial reporting consistent with IPSAS, revision of financial instructions, review of non-tax revenues, further improvements to budget documentation, including adding more information on medium-term expenditure forecasts, and continued training of budget officers in methods for budget preparation/analysis. Assistance in cash and debt management may also be provided, if resources are available. PFTAC will coordinate closely with the AsDB's PEM TA project. In the next PFTAC program period (2017-22), additional areas of TA could include improving budget execution controls and internal audit, as well as developing an asset management framework.

In the revenue area Fiji requested an assessment of the tax administration system using the Tax Administration Diagnostic Assessment Tool (TADAT) which provides an assessment baseline of tax administration performance. FRCA, upon reviewing the diagnostic, appointed a reform project team to address identified areas of weakness. With PFTAC support, the selection of a new customized off-the-shelf IT system has progressed with the selection of a vendor currently taking place. Other areas of PFTAC assistance include: (a) the restructuring of the audit department; (b) improving the

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[1] The Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji, is a regional technical assistance institution operated by the IMF with financial support of the AsDB, Australia, New Zealand, Govt. of Korea and the EU. 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, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu.

collection of tax arrears; (c) setting new processes in place to improve on-time filing and collection of outstanding tax returns; and (d) assisting in the design of a Compliance Improvement Strategy targeted for implementation from 1 January, 2016. Legal drafting assistance to finalize the Income Tax Bill was also recently provided.

In statistics, the focus of support will be further development of the national accounts. The ultimate aim is to have quarterly national accounts estimates being produced by 2016. PFTAC assisted with the finalization of rebased estimates using base year 2011 supported by the compilation of supply-use tables for 2011. PFTAC also supported the development of GDP estimates by expenditures which were expected to be published in December 2015. The Australian Bureau of Statistics has provided assistance to develop a producer price index. IMF HQ has provided support for enhancing balance of payment statistics and government finance statistics.

In financial sector supervision, the PFTAC advisor will continue to be available for consultations with RBF staff and will work on regional issues with the RBF's head of bank supervision who is executive director of AFSPC. RBF is increasing its involvement with TA programs provided by PFTAC, especially pertaining to Risk Based Banking Supervision training with the staging of a consolidated supervision of conglomerates workshop. It is further receiving technical assistance with the drafting of a new Credit Union Act, the deployment of a capacity building program for credit unions and the establishment of an oversight program for that sector.

In the macroeconomic area, work will focus on building macroeconomic modeling and analysis capacity with the aim of having better forecasts to feed into policy making. Key projects include assessing the monetary transmission mechanism, further development of the Fiji financial programming framework and toolkit for external and debt sustainability analysis, and improving government expenditure and revenue forecasting methodology and processes.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of November 12, 2015)

The Asian Development Bank (ADB) has been working with the Government of Fiji since 1970. As of 31 December 2014, $417.26 million in loans and $30.72 million in technical assistance has been provided to the country, largely supporting infrastructure development in the transport (roads) and urban water and sanitation sectors. In December 2014, ADB and the government formulated a new country partnership strategy (CPS), 2014–2018. The CPS provides the foundation for higher, more inclusive growth, and will assist Fiji to achieve its Millennium Development Goals.

Consistent with the priorities of successive governments, ADB engagement in Fiji has focused on promoting inclusive economic growth and poverty reduction. Strides have been made toward these goals through direct investments in transport and urban water and sanitation infrastructure, and improved public sector management. Road transport investments in Fiji over a 20-year period have helped disadvantaged groups participate in the cash economy by reducing transport costs and traveling times. This has increased access to employment opportunities and social services. An improved transport system in Fiji has helped to bolster market efficiencies, and to broaden access to education, health, and business services.

In December 2014, ADB built on its commitment to ongoing infrastructure development through receiving Board approval for a new $100 investment in the transport sector. This project, which has received additional cofinancing from the World Bank, will upgrade and rehabilitate roads, wharfs and jetties in line with priorities identified in the Government's 20-year National Transport Plan. In December 2016 ADB will seek Board Approval for an Urban Water and Sanitation Project with cofinancing from the Green Climate Fund and the European Investment Bank. The project will ensure that residents of some of Fiji's most densely populated areas have improved access to safe piped water and an environmentally friendly sewerage system.

ADB also provided emergency assistance in 2009 and 2012 to help meet humanitarian and relief expenses following devastating floods in the Western Division. This allowed the retroactive financing of unforeseen government spending, and improved the government's fiscal position.

Fiji also continues to participate in ADB technical assistance projects in the region, covering areas such as climate change, public sector management, information and communication technology, and trade facilitation.

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

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Macroeconomic data are in the process of 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.
National Accounts: Production-side estimates of GDP at current and constant prices are available up to 2014. Revised data were published in August 2015 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. The authorities are currently refining the methodology for estimating GDP from the expenditure side. In addition, GDP broken down by income is only available through 2005. **Price statistics:** CPI data are published monthly, with data available up to October 2015. The BoS has rebased the CPI weights and is currently working on connecting the 2008 base data and updated 2011 base data.
Government finance statistics: While Fiji has provided metadata for central government operations and central government debt, the metadata were last updated in 2005. Fiji last reported data for publication in the IMF's Government Finance Statistics Yearbook (GFSY) in 2006. The authorities have participated in the regional GFS capacity building project funding by the Government of Japan and held a regional GFS seminar in Suva in November 2015. Data for budgetary central government has been compiled and advances have been made in collecting the source data required to expand coverage to general government. The authorities are encouraged to review and update the GDDS fiscal metadata and resume reporting data for publication in the GFSY and commence reporting in the International Financial Statistics.
Monetary and financial statistics: Data on the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) are comprehensive and provided to APD and

STA on a regular and timely basis. Progress has been achieved by the RBF in most areas of the collection, compilation, and dissemination of monetary and financial statistics (MFS), leading to the introduction of the standardized reporting forms for the central bank, ODCs, and OFCs. This resulted in the publication of data aligned to the *Monetary and Financial Statistics Manual* (*MFSM*) in the RBF's website and *International Financial Statistics*. The full implementation of the November 2005 workshop and January 2008, July 2011, and April 2012 missions' recommendations will constitute a very important step towards the compilation in a timely and efficient manner, of monetary statistics fully consistent with the *MFSM* and *Monetary and Financial Statistics Compilation Guide*. Efforts are now concentrated in improving source data for ODCs and OFCs and compiling a financial corporations survey with full institutional coverage. Financial soundness indicators are not reported to STA.
Balance of payments: Balance of payments statistics weaknesses persist and there is a need to improve the coverage, classification and compilation methodology of the external sector statistics (ESS). Fiji reports its balance of payments data for dissemination purposes in the Fund's *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*. BoS has undertaken a number of actions that were recommended to improve timeliness in ESS dissemination and to enhance consistency with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), albeit at a slow pace.
II. Data Standards and Quality
Fiji is a GDDS participant.

Fiji—Table of Common Indicators Required for Surveillance
(As of January 7, 2016)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	09/2015	10/2015	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/2015	10/2015	M	M	M
Reserve/Base Money	09/2015	11/2015	M	M	M
Broad Money	07/2015	11/2015	M	M	M
Central Bank Balance Sheet	09/2015	11/2015	M	M	M
Consolidated Balance Sheet of the Banking System	07/2015	10/2015	M	M	M
Interest Rates[2]	08/2015	10/2015	M	M	M
Consumer Price Index	10/2015	11/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2014	11/2015	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2014	11/2015	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	2014	11/2015	A	A	A
External Current Account Balance	Q1, 2014	08/2015	Q	Q	Q
Exports and Imports of Goods and Services	Q1, 2014	08/2015	Q	Q	Q
GDP/GNP	2014	10/2015	A	A	A
Gross External Debt	09/2015	10/2015	M	M	M
International Investment Position[5]	N/A	N/A	N/A	N/A	N/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 sta and local governments. For Fiji, General Government is the same as Central Government.
[5] Lack of capacity prevented the authorities from providing the data.
[6] Daily (D), monthly (M), quarterly (Q), and annually (A).

Statement by Marzunisham Omar, Executive Director, and Petaia D. Tuimanu,
Advisor to the Executive Director of the Republic of Fiji
February 5, 2016

Overview

1. The Fijian authorities would like to express their sincere appreciation to the IMF team for the constructive and engaging dialogue during the 2015 Article IV Consultation. The authorities are in broad agreement with staff assessment of the economy as well as the proposed policy and reform priorities to enhance broad-based inclusive growth of the Fijian economy.

2. Economic activity in the lead-up to and after the National Elections in September 2014 remains strong, supported by an expansionary fiscal stance, accommodative monetary policy and a wide array of structural reforms aimed at creating an environment conducive to private sector-led investment and job-rich growth. Improved confidence, together with a holistic and effective macroeconomic management framework have bolstered private sector investment, strengthened growth prospects and paved the path towards a stronger and more dynamic economy. Since the conclusion of the Article IV mission late last year, there have been several major developments, chief amongst which was the announcement of the 2016 National Budget themed "The Future: A Strong Fiji, A Fair Fiji, A Healthy Fiji". This statement provides an update on recent developments and elaborates on key policy issues for clarification and emphasis.

Recent Economic Developments and Outlook

3. Following an expansion of 4.7 percent in 2013 and 5.3 percent in 2014, the Fijian economy is estimated to have expanded further, albeit at a slower pace of 4.0 percent in 2015. The above-average growth performance over the last three years is attributed to robust performance across most major sectors, driven by the increase in public and private investment, strong domestic demand fueled largely by remittance inflows, and a favorable external environment underlined by high tourism receipts and windfall gains from low commodity prices. For 2016, the economy is projected to grow by 3.5 percent, underpinned by positive contributions from the transport, manufacturing, finance, retail and accommodation sectors. Over the medium term, the authorities concur with staff assessment that growth is expected to remain strong at around 3-4 percent.

4. Staff estimates for 2015 are generally in line with the authorities' own assessment. Latest indicators suggest that the economy is on-track to achieve the 4.0 percent annual growth forecast. For the second consecutive year, annual tourist arrivals soared to a new record level in 2015 with a growth of 9.0 percent over the previous peak in 2014. The sugar industry, despite prolonged dry weather conditions, performed better than expected. Investment activity remained strong, marked by notable increases in domestic cement sales, value of construction work put-in-place and a surge in new

lending for investment purposes. Similarly, consumption activity remained robust, evident by strong Value Added Tax (VAT) collections, higher new lending for consumption purposes, and an upturn in retail trade. Domestic credit expanded by 13.6 percent in 2015 on account of higher bank lending to the household, real estate, construction, agricultural, retail trade, and transport & storage sectors. The fiscal deficit for 2015 is projected to be lower than originally expected, due partly to the slower implementation of capital projects. With fiscal consolidation planned for the medium term, government debt of around 47.9 percent of GDP at end-2015 is expected to remain stable going forward. Reflecting low global commodity prices and below-trend domestic inflationary outcomes, the headline inflation rate was 1.6 percent at end-2015, 0.4 percentage points below the earlier projection of 2.0 percent. The 3.0 percent headline inflation rate currently forecast for 2016 is likely to be revised downward due to the reduction in the VAT rate, changes in excise duties announced in the 2016 National Budget and persistently low commodity prices. On the external front, foreign reserves stood at a comfortable level of FJ$1.9 billion, equivalent to 5.9 months of retained imports. Tourism and remittance inflows are expected to increase further this year and provide additional buffer for the external sector.

Monetary and Financial Policies

5. The authorities continued to maintain an accommodative monetary policy stance in 2015, with the Reserve Bank of Fiji (RBF) keeping its overnight policy rate at 0.5 percent, consistent with the assessment on its dual mandate of low inflation and adequate level of foreign reserves. As a consequence of monetary accommodation, interest rates over the last few years have trended downwards, contributing to higher private sector credit growth. The rapid credit growth in the last few years, however, also reflect the strong economic growth, pent up demand, firm investment activity and improved business and consumer confidence. Nevertheless, recent data shows that commercial bank lending and deposit rates edged-up in December, in part due to the decline in liquidity, further compressing aggregate interest margins that have generally narrowed for most of 2015. Notably, new bank lending in 2015 slowed sharply, growing by 14.5 percent, compared with 43.2 percent registered in 2014. This triggered a slowdown in the overall domestic credit growth to 13.6 percent in the year to December compared with 18.7 percent in the corresponding period in 2014.

6. Financial stability continues to be strengthened and remains a key priority, with the authorities ensuring, through robust supervisory framework that banks are well capitalized, hold ample liquidity, have low levels of non-performing loans and operate in a competitive environment. While the latest financial soundness indicators point to a robust financial sector, the rapid growth in credit to certain sectors (such as real estate and private individuals for housing and automobile purposes) and upsurge in house prices have led to more vigilance by the RBF in monitoring activities of banks. The RBF remains closely engaged with financial system stakeholders and continues to enhance its

supervisory framework, by undertaking more risk-based assessment of banks, pro-active on-site supervision, macro-prudential surveys to assess lending conditions and creditworthiness, regular stress tests, and ongoing training for staff. The central bank is also closely monitoring non-bank financial institutions and has been recently mandated by the Government to supervise the operations of credit unions.

7. Given the favorable outlook on inflation and foreign reserves, the moderation in credit expansion, and the expected deceleration in growth this year, monetary policy in the near term will be pragmatically geared towards supporting the economy. The RBF will continue to closely assess macro and sectoral developments and, if warranted, implement appropriate macro-prudential tools to curb excesses in the financial system without bluntly curtailing credit flows.

8. The authorities recognize the importance of a vibrant and stable financial sector. In this regard, a Financial Sector Development Plan spearheaded by the RBF in consultation with industry stakeholders has been finalized and is now awaiting the government's endorsement prior to implementation. The plan recognizes key reform areas for the financial sector and is designed to boost its contribution to growth and position Fiji as a regional financial hub. As part of broader reform efforts, the RBF is progressing with, and aims to complete in 2016, the drafting of the Pension Savings Act, Secured Transactions Act and National Payments Act, jointly with the review of the Insurance Act 1998 and Credit Union Act 1978. Furthermore, a Macro-prudential Surveillance Framework that focuses on analyzing the interrelationship between key players in the financial system and macro-prudential factors such as asset prices was enhanced in 2015 and will be used for supervisory work going forward.

Fiscal Policy

9. On the fiscal front, the authorities are committed to fiscal discipline by adopting a prudent approach that focuses on growing the economy through investment while ensuring fiscal sustainability. In the last couple of years, the authorities have intensely focused on addressing infrastructure gaps by raising the ratio of capital to operating expenditure mix from 14 percent in 2007 to 40 percent in the 2016 budget. Amid this spending reorientation, sizable resources were also directed to priority sectors of education, health and social protection, in line with the authorities' objective of delivering broad-based inclusive growth.

10. The 2016 budget strategy continues along this trajectory by prioritizing investment in infrastructure and containing recurrent expenditure, streamlining the cost of government while improving the efficiency of public service delivery. The authorities have also introduced tax reform measures aimed at broadening the tax base, improving compliance and enhancing collection efficiency. Along these lines, the VAT rate was reduced from 15 percent to 9 percent, and previous exemptions on selected goods (basic

food items and medicine) were removed. By contrast, the service turnover tax (STT), which is applicable mostly to the tourism industry and high-end restaurants, has been raised from 5 percent to 10 percent. An environmental levy of 6 percent will also be placed on operators currently paying STT. To promote a health conscious public, the tax rates on tobacco and alcohol has been raised by 12.5 percent while a new Health Levy of 6 percent has also been imposed on the same products. In addition, a 5-cent/liter levy will be added to sugar sweetened drinks. Along with other changes to the tax regime, the overall impact is expected to be a revenue gain of FJ$38.5 million. On the expenditure front, capital spending is budgeted to increase by FJ$18.7 million, with majority of the allocation for roads and bridge upgrades as well as for improvement in water and sewer services. The increase in capital expenditure in 2016 also reflects the shift in implementation of some capital projects from 2015. Likewise, operating expenditure is projected to be higher, albeit marginally, by 4.4 percent due to higher personnel expenses arising from the hiring of additional teachers, nurses and doctors.

11. Moving ahead, the authorities will continue with the prudent management of fiscal policy by gradually consolidating and ensuring that government finances are sustainable in the near to medium term, with acceptable deficit levels and low debt relative to GDP, while still providing the necessary support for higher, broad-based and inclusive growth.

Exchange Rate and External Balance

12. Fiji's small open economy and reliance on trade, tourism and remittance inflows make it vulnerable to external shocks, particularly to trading partners' demand and commodity prices. While there is merit in allowing greater exchange rate flexibility over the longer term as the economy further develops, the authorities are of the view that in the present environment, the current exchange rate regime, where the Fiji dollar is linked to a basket of currencies of the country's five major trading partners, continues to provide an important anchor for inflation and benefits Fiji's trade with a relatively stable domestic currency. An exchange rate review is undertaken annually and the authorities will continue to assess the need for moving to a more flexible framework against Fiji's macroeconomic position and development needs.

13. On exchange controls, the authorities will continue to work with staff to bring these measures in line with requirements under the Fund's Article VIII. The RBF has progressively relaxed exchange control measures over the years in line with improvements in the external position and will continue to loosen policies taking into consideration external vulnerabilities. In this context, the authorities underscore the importance of sequencing reform efforts and of the need to gradually liberalize exchange restrictions in line with broader economic development.

Structural Reforms

14. The authorities will continue to press ahead with reforms to raise the productive capacity of the economy, improve the business environment to facilitate private sector-led development and enhance the economy's competitiveness.

15. Public sector reform, in collaboration with the World Bank, is progressing and remains a top priority for authorities. To this effect, the Ministry of Civil Service was established earlier this year to manage the reform program and maintain central coordination of key areas that will ensure consistency across the civil service. The Civil Service Reform Management Unit is operational and is currently developing and implementing strategic policies to assist Permanent Secretaries in maintaining consistency and ensuring transparent, accountable management of their respective Ministries. Furthermore, the authorities have commenced work on a National Procurement Strategy and Policy, and have centralized the coordination of capital and climate change projects at the Ministry of Finance and Strategic Planning. This will bring about greater transparency, boost efficiency whilst ensuring that projects are administered in a holistic and well-coordinated manner.

16. Tax reforms continue to proceed alongside the financial management reform initiative. The reform plan involves the upgrade of the Fiji Revenue Customs Authority (FRCA) ICT infrastructure, an aspect of which involves a direct connection to cash registers of businesses. To improve compliance and minimize distortions in the taxation system, a number of tax measures have been removed. These include the exemptions on VAT, Duty Suspension Scheme and stamp duties on small and medium enterprises. The Short Life Investment Package incentive introduced to accelerate tourism industry development through tax breaks will be phased out to existing operators by 2017. The authorities are appreciative to the Fund for all the assistance provided through the Pacific Financial and Technical Assistance Center (PFTAC) on tax related matters.

17. The authorities recognize that land reform is crucial to unlocking Fiji's economic potential. Ongoing development work via the Land Bank initiative and the iTaukei Land Trust Board is central to making more land available for productive use and ensuring equitable returns to both the tenant and landlord via long-term leases and market-based instruments. Hence, a budgetary allocation of FJ$10 million was provided to iTaukei landowners to subdivide and develop their lands while a further $2.5 million was granted to the Land Bank Program for its work on increasing the availability of land for development purposes. In addition, the authorities have undertaken to develop all vacant, prime, under-utilized state land near urban areas to lease out for productive purposes this year.

18. To improve the quality of labor and address skills mismatch, the authorities have invested heavily in reforming the education system (it receives the second highest allocation after infrastructure) including mandating free education in primary and secondary schools, and raising budgetary provisions for tertiary institutions. In addition, the authorities have introduced the National Toppers Scheme that provides 600 fully-funded scholarships to priority areas of engineering, health, education, agriculture, technology, land and environmental studies. Moreover, 11 training colleges were commissioned across the country, tasked with providing training and short courses in the areas of the labor market where there are skills mismatch.

19. The reform of the Fiji National Provident Fund (FNPF), which constitutes 28.0 percent of total financial sector assets, is critical to ensure sustainable returns to members' funds and to safeguard financial system stability. The RBF, which supervises the FNPF, is progressing with the drafting of the Pension Savings Act that will include a provision for new entrants, enabling competition in the pension fund market. Investment diversification is also being pursued by FNPF, particularly as it seeks to boost long-term returns to members by venturing into infrastructure assets and overseas investments. The authorities are supportive of FNPF's overseas investment strategy and will continue to assess and allow such transactions in consideration with the external position of the economy.

20. The smallness, isolation and lack of competitive nature of local markets sometimes exacerbate the negative impact of price increases in commodities on the most vulnerable segments of the population. To soften the impact on consumers, the authorities therefore deem market intervention – by adjusting the transmission lag for price changes through controls – appropriate. Nevertheless, the authorities are aware of the need to improve price signals in the market and will continue to assess this need by encouraging competition, scaling back controls where appropriate while ensuring that the low income segment of the population are not disadvantaged.

21. The authorities concur with staff that improving data quality will better guide policy-making. To signal the authorities' ongoing commitment on this front, appropriate budgetary allocation have been provided to the Fiji Bureau of Statistics (FBOS) to hire 17 additional staff, strengthen its analytical capacity and develop new economic indicators. In collaboration with PFTAC, FBOS has released the GDP by Expenditure accounts for Fiji after a lapse of several years. The Bureau will continue to work with development partners such as PFTAC, the World Bank and the Australian Bureau of Statistics to improve statistical analysis and releases.

Final Remarks

22. The Fijian authorities are committed to the implementation of appropriate economic policies and further strengthening the reform momentum to ensure that the near

term needs of the economy are met and that macroeconomic stability and sustainable growth are achieved over the medium to long term.

23. The authorities acknowledge the support and assistance provided by the Fund, World Bank, Asian Development Bank, and other development partners, particularly the technical assistance through PFTAC in the area of public financial management, revenue administration, statistics, financial supervision and macroeconomic analysis. The authorities will strengthen collaboration and partnership with the Fund, and continue close engagement through regional forums, training, and surveillance missions.

24. Finally, the authorities wish to thank the Mission Chief, Mr. Roberto Guimaraes-Filho and his team for an insightful analysis and useful policy suggestions presented in the Staff Report.