INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/370

REPUBLIC OF FIJI

2013 ARTICLE IV CONSULTATION

December 2013

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 2013 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF for the Executive Board's consideration on November 4, 2013, following discussions that ended on August 15, 2013, with the officials of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 18, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its November 4, 2013 consideration of the staff report that concluded the Article IV consultation with the Republic of Fiji.
- A **Statement by the Executive Director** for the Republic of Fiji.

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

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Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

October 18, 2013

KEY ISSUES

Context: Growth in recent decades has been sluggish owing to persistent political turmoil, external shocks, and slow progress on structural reforms. Unemployment at nearly 9 percent continues to be stubbornly high, with youth and underemployment at significantly higher rates. The political environment remains complex as Fiji prepares for transition to democratic government in 2014, although the strained relations with traditional development partners have started to ease somewhat, after the enactment of the new constitution in September 2013.

Key issues and policy recommendations:

- **Structural reform.** The key policy challenges are to raise potential growth, reduce vulnerability to shocks, and further reduce poverty. Although the authorities have recently implemented some structural measures—improving infrastructure, enhancing land-leasing efficiency, restructuring the sugarcane industry, among others—the need for deeper and faster reform to support higher growth and reduce unemployment and poverty is urgent. The investment climate needs improvement through making government regulations more predictable and less intrusive, including relaxing the extensive price controls.

- **Macroeconomic policies.** The current configuration of mildly expansionary fiscal policy and accommodative monetary policy is broadly appropriate as the unemployment rate remains high and inflationary pressures dissipate against the background of some slack in the economy and stable commodities prices. The projected increase in the fiscal deficit is largely due to an increase in capital spending to clear infrastructure backlogs. Recent income tax cuts are growth-friendly but base-broadening measures are needed. The slow appreciation of the real exchange rate has continued and the Fund's exchange rate assessment approaches now suggest moderate overvaluation. The level of the peg should be subject to periodic reviews and adjusted as necessary, and the authorities could also consider more flexible arrangements.

Approved By
Hoe Ee Khor and Masato Miyazaki

Discussions took place during August 1-15, 2013. The team comprised C. Sumi (head), D. Nyberg and N. Suphaphiphat (all APD), and J. Chen. (MCM) and Y. Yang (Resident Representative), as well as C. Currie (ADB) and T. Haque (World Bank). The mission was joined by W. Santoso and C. Waqabaca (both OED) and coordinated with S. Roger (PFTAC).

CONTENTS

TABLES

APPENDICES

CONTEXT

1. **Fiji is one of the largest and most developed of the Pacific island economies, with a per capita income of US$4,200.** Fiji's human development indicators are relatively strong and Fiji has achieved broad coverage in provision of basic services, with declining overall poverty levels even though progress in rural areas is lagging (see Box 1). Although Fiji has a more diversified production structure than most Pacific island economies, the economy remains heavily dependent on sugar and tourism. Regional integration of Pacific Island Countries (PICs), including Fiji, with Australia, New Zealand, and emerging Asia has increased over the last two decades. PICs have become more exposed to the region's business cycles, and spillovers from large regional economies are more important for PICs than from advanced economies outside the region.[1]

2. **The political environment remains complex as Fiji prepares for transition to democratic government in 2014.** The current government took power in a 2006 military coup and in July 2009 announced plans for a new constitution and an election by September 2014. After some delays and controversies, a new constitution was drawn up and became effective in September 2013. Since the enactment of the new constitution, the strains with traditional development partners have started to ease, and stakeholders are looking forward to the 2014 election.

3. **The key policy challenges are to raise the potential growth rate and increase the resilience to shocks.** After experiencing robust growth in the 1970s, economic growth in Fiji slowed to about 2 percent between 1980-2012 owing to persistent political turmoil, external shocks, and slow progress in structural reforms that have discouraged private investment. As in the case of other Pacific island economies, growth in Fiji has also been constrained by high transportation costs and the small size of its domestic economy. Although the authorities have recently implemented some reform measures, the need for deeper and faster structural reforms to support broad-based and inclusive growth is urgent. Unemployment at nearly 9 percent remains stubbornly high, with youth and underemployment at significantly higher rates. Moreover, reflecting the limited opportunities in Fiji, emigration continues, often among the skilled and highly educated, leading to brain drain and reducing the population growth rate.

4. **In the last Article IV consultation with Fiji, Executive Directors viewed the authorities' macroeconomic policies as generally appropriate.** Directors noted that boosting sustainable growth and reducing poverty through structural reform is the top priority. Directors considered the reform of the Fiji National Provident Fund (FNPF) as the key financial-sector priority. Directors supported the reform plans for land policy, the sugar sector, the civil service, and public enterprises, while encouraging faster progress in other areas. They called on the authorities to rapidly scale back the price-control regime, strengthen antitrust enforcement, and increase social transfers to cushion the impact on the poorest. Directors also urged the removal of remaining exchange restrictions.

[1] See Sheridan, Tumbarello, and Wu (2012), "Global and Regional Spillovers to Pacific Island Countries", IMF Working Paper 12/154.

Since the last Article IV Executive Board discussion in January 2012, the authorities have made progress on the structural reform agenda by reforming the FNPF and other state owned enterprises, reducing the size of civil service wage bill, and scaling back capital controls. But the urgency to accelerate the reform momentum remains.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

5. **Economic activity is picking up, partly driven by supportive policies.** Growth in 2012 increased to 2¼ percent supported by income tax cuts, low interest rates and the one-time payouts under the FNPF reform in 2012. However, not all sectors expanded in 2012. Tourist arrivals declined by 2.5 percent, while sugar production fell by 7.1 percent as massive floods and Cyclone Evan, one of the worst storms in Fiji's history, caused severe damage to crops in December 2012. The cyclone also caused extensive damage to tourist infrastructure and dampened growth. Economic growth is set to increase to around 3 percent in 2013, fueled by consumption and investment spending both by the public and private sectors. The latest available consumption indicators suggest accelerating momentum in the first half of 2013 boosted by higher disposable income and borrowing. These effects are likely to taper off somewhat in the latter part of 2013. As a result of this higher growth, the slack in the economy is estimated to close towards the end of 2013. In 2014, growth is projected to moderate to 2¼ percent, in line with estimated potential.

6. **Headline inflationary pressures are subdued.** In 2012, average inflation stood at 4.3 percent as imported commodity and food prices moderated, down from 8.7 percent in 2011. Inflation is projected at around 3 percent in 2013 as world commodity prices are expected to be broadly stable. The authorities continue to maintain price controls on a large part of the CPI basket—basic food items, hardware and construction materials, pharmaceuticals, and petroleum products—that may cause the CPI to overstate the decline in inflationary pressures.

7. **Monetary policy rates remain near the zero-lower bound.** The Reserve Bank of Fiji (RBF) lowered its policy rate to 0.5 percent in October 2011 and monetary policy has been on hold since then. The lower policy rate and persistent excess liquidity in the banking system have slowly been transmitted to lower lending rates and the yield curve has shifted down. In response to lower rates and improved confidence, net domestic credit increased by 10 percent in the first half of 2013, led by the wholesale, retail, hotel, restaurant, and construction sectors. The increased lending continues to be funded predominantly by deposits. Despite the RBF's accommodative monetary policy stance, real lending rates remain relatively high in the range of 4-5 percent.

8. **The financial sector is stable.** Banks are sound and continue to be well capitalized with average capital adequacy ratios above regulatory requirements, low levels of non-performing loans (NPLs) and adequate loan loss provisioning. At end-March 2013, the NPL ratio declined further to 2.6 percent while provisioning for NPLs improved to 41 percent. Banking sector earnings remain buoyant and profitability increased by 70 percent in the first quarter of 2013 with interest spreads at around 4 percent. The entry of BRED Bank (part of Banque Populaire Group of France) in November

2012 was expected to increase competition in the banking sector and exert some pressure on banking sector margins.

9. **The estimated 2012 fiscal deficit of 1 percent of GDP was smaller than projected owing mainly to expenditure restraint.** On the revenue side, personal income tax collection declined by 22 percent mainly as a result of corporate and income tax cuts in the 2012 budget, but the revenue impact was partly offset by buoyant VAT collection and increased fees, fines and charges. On the expenditure side, lower than budgeted capital expenditure and interest bill contributed to the lower deficit. The primary surplus stood at 2.6 percent in 2012 and the government debt declined to 51.1 percent, from 53 percent in 2011. The 2013 budget targets a deficit of 2.8 percent of GDP, with a large boost to infrastructure spending. The 2013 budget also raised the minimum threshold for income tax. Over the past years, the corporate tax rate has been lowered from 31 percent to the current rate of 20 percent. For companies establishing regional headquarters in Fiji, the 2013 budget further lowered the corporate income tax to 17 percent.

10. **International reserves have stabilized at comfortable levels.** At end-2012, international reserves stood at US$ 889 million (about 5 months of retained imports). The reserve position has so far remained stable despite offshore investments by the FNPF and the gradual relaxation of exchange controls. The current account deficit is estimated to have narrowed in 2012, mainly on account of slower import growth. In 2013, the current account deficit is set to widen substantially reflecting the purchase of three aircrafts by Fiji Airways, at a total cost of about US$600 million, partly financed by the FNPF. Partly a result of the aircraft purchase, international reserve coverage is expected to dip to around 4.7 months of imports in 2013. In the first six months of 2013, imports increased by 6.7 percent, while exports declined by 14.5 percent as export earnings from gold and fishing sectors were sluggish. Through the first quarter of 2013, tourism earnings remained somewhat weaker than in the same period of 2012.

11. **Reforms to the FNPF were introduced in March 2012.** The reforms terminated the FNPF's overly generous benefits that were based on unrealistic demographic and socioeconomic projections. Under the reforms, recipients of pensions in the scheme could either opt for a lump sum withdrawal or roll over their balances into a new scheme which is based on more realistic assumptions. Nearly 1/3 of the recipients of pensions elected a lump-sum payout, which in total amounted to F$127 million (1¾ percent of GDP), and this has contributed to a one-off stimulus to growth.

12. **Risks to the outlook stem both from domestic and external factors.** Domestic risks stem largely from the complex political situation as Fiji prepares for elections in 2014, and from delays in further implementation of structural reforms. Credit growth has picked up in recent months. While an increase in credit growth is desirable as it has been sluggish in recent years reflecting lack of confidence in the economy, it should be monitored carefully to avoid risks of overheating in the context of the economy's absorptive capacity constraints. On the external side, tourism spending may be adversely affected by the below trend growth in Australia (the main source of tourist arrivals) as the economy is facing a transition from the mining investment boom, and the weakening Australian dollar on the back of declining commodity prices as emerging markets demand slows. In

addition, the recent appreciation of the Fiji dollar against the Australia and New Zealand currencies may have affected Fiji's competitiveness as a tourist destination. The prospective tapering of unconventional monetary policy in advanced countries may result in economic and financial volatility, particularly in emerging markets. Portofolio flows into Fiji have been small to date, limiting the risks of capital flow reversals. However, the potentially protracted financial market volatility raises the risk of having to refinance Fiji's US$ 250 million sovereign bond in unfavorable market conditions. While strong linkages with Asia would help in the event of a global downturn, Fiji remains vulnerable to global commodity price shocks. Moreover, Fiji continues to be susceptible to natural disasters, requiring the maintenance of macroeconomic policy buffers.

13. **In the event that risks to the Fijian economy materialize, allowing the automatic stabilizers to operate would be the first line of defense.** If the downturn persists, there is scope for limited fiscal stimulus. Monetary policy will be of limited effectiveness given that policy rates are near the zero-lower bound and the weak transmission mechanism. To limit the risk of having to refinance Fiji's sovereign bond in unfavorable market conditions, the authorities should consider building balances in the sinking fund for repayment of external debt. On the upside, a successful implementation of democratic elections in 2014 could trigger a surge in foreign investment and development aid. To take advantage of the benefits of increased foreign direct investment, it is urgent to accelerate the implementation of structural reforms to alleviate supply side constraints and boost the absorptive capacity in the economy so as to avoid bidding up asset prices and wages of skilled workers in short supply (see Risk Assessment Matrix in Box 2).

Authorities' Views

14. The authorities broadly agreed on the macroeconomic outlook. They viewed the recent pick up in consumption and investment as driven by the returning confidence rather than temporary factors. On the risks, the authorities were more sanguine than staff on the effect of the Fiji dollar appreciation against the Australian and New Zealand currencies on tourist spending, arguing that tourism will hold up as tourists that previously went to higher cost locations elsewhere will now view Fiji as an attractive alternative.

POLICY DISCUSSIONS

The macroeconomic situation has improved and the current configuration of macroeconomic policies is broadly appropriate. However, there is no time for complacency. The current environment is a rare window of opportunity to address deep-seated structural issues and lay the foundation for higher and broad-based growth that is inclusive and sustainable.

A. Monetary and Financial Policies

15. **In view of low inflation and continued underlying sluggishness, monetary policy is appropriate, but the monetary transmission mechanism remains weak.** Despite RBF's policy easing, real lending rates remain relatively high. There are welcome signs that the policy easing is slowly leading to lower lending rates and credit growth has picked up, albeit from low levels. The

addition of new entrants to the banking sector is welcome as it could encourage competition and could potentially improve the transmission of monetary policy.

16. **The financial sector is generally sound.** The banking sector is well capitalized and most banks have low NPLs. While the RBF has improved supervision, there is scope for further progress in improving stress testing and scenario analysis. Good progress has been made on the 2006 Financial Sector Assessment Program (FSAP) recommendations but in view of the time elapsed since the last FSAP, the authorities are considering requesting an update. The persistent excess liquidity in the banking system remains. Credit growth has been sluggish in recent years, but the excess liquidity could pose risk of excessive credit growth as confidence in the economy improves.

17. **The recent pickup in credit growth—albeit from low levels—warrants close monitoring.** The strong growth in loans for consumption purposes and vehicle imports likely reflects a one-time consumption increase due to the permanent tax cuts that has led to higher disposable income, as well as aggressive marketing by banks. Real estate lending is also brisk and real estate prices, particularly of freehold land, have increased, although the picture is clouded by the lack of comprehensive house price data. The RBF is urged to monitor sectoral developments closely, including enhanced data collection and surveillance of sectors with rapid credit growth, and could consider using targeted macroprudential measures if credit growth in certain sectors is deemed out of line with economic fundamentals. In case of rekindled and broad-based inflationary pressures, the RBF should use open market operations more aggressively to reduce excess liquidity and, if necessary, tighten policy rates.

18. **Initiatives to broaden financial access are welcome.** The RBF has recently introduced a small- and medium-sized enterprise loan guarantee scheme, established sector lending ratios for banks, and encouraged micro-finance operations (see Box 3). However, the international experience with sectoral lending targets is mixed and can lead to a misallocation of resources. In the context of providing increased financial access, particularly to the agricultural sector and small & medium enterprises, the Fiji Development Bank should focus on its core mandate to expand access to financial services but the lending criteria should be implemented transparently and with clear budgetary support.

Authorities' Views

19. The authorities broadly shared staff's outlook on the monetary and financial sectors. They view the recent rise in credit as a generally healthy rebound from low levels and appropriate to stimulate investment, but agreed that vigilance is needed in case inflationary pressures emerge. The authorities noted that the current excess liquidity is not fueling inflation, but indicated their readiness to aggressively use open market operations to mop up liquidity in the event of inflationary pressures. The authorities view increased financial inclusion as important to foster broad-based economic development and the agricultural lending target is justifiable on this basis, but emphasized that the program is relatively small and flexibly administered.

B. Fiscal policy

20. **The fiscal policy stance in the 2013 budget is broadly appropriate.** Fiji's fiscal policy continues to balance the need to strengthen the fiscal position against the need to increase public investment to enhance the growth potential. The increase in public investment, especially upgrading the inadequate infrastructure, is appropriate to support growth, if administered effectively. The cabinet-endorsed plan to keep the fiscal deficits small (2 percent of GDP in 2014; 1.5 percent in 2015; and 1 percent in 2016) implies primary surpluses, a declining debt ratio, and limited roll-over risk since most of the public debt is domestic. The authorities have been successful in maintaining tight control over expenditures in recent years (e.g. the declining share of civil service wages) and the share of operating expenditures is expected to decline further in favor of increased capital spending, but the contingent liabilities of the government remain sizeable and underscore the importance of continued state-enterprise reform.

21. **Tax revenues have been boosted by increased consumption, but may prove less buoyant in the period ahead.** The reduction in income tax rates has resulted in sharply lower direct tax revenue in 2012 and thus far in 2013. This decline has so far been largely offset by buoyant VAT collection (up by 13 percent through August 2013), including contributions by one-off factors such as increased VAT arrears collection efforts and the temporary consumption boost. Based on revenue and expenditure developments in the first half of 2013, the deficit target of 2.8 percent of GDP in 2013 appears to be on track to be comfortably met. Looking ahead, revenue buoyancy in 2014 may prove somewhat lower as the effect of one-off factors that have contributed to higher revenues tapers off. In such a case, imposition of intrusive ad hoc taxes and administrative fees to meet the deficit target should be avoided because such measures could damage the business confidence. On the expenditure side, restraint should be focused on non-interest recurrent spending rather than capital spending.

22. **Recent direct tax cuts are growth friendly, but need to be accompanied by base-broadening measures.** Base-broadening measures are needed as the abundant use of income-tax holidays and tax incentives have hollowed out the direct tax revenue base and discretionary tax concessions should be curbed. To better assess the cost and benefit of sector-specific incentives, the authorities are encouraged to enhance the cost-benefit analysis and reporting of the incentives. Further reducing the scope for discretionary concessions would make the system more transparent and create fiscal space for well-targeted investment incentives. The corporate income tax rate has been lowered significantly to 20 percent over the past few years—and to 17 percent for companies establishing regional headquarters in Fiji—and should not be lowered further to avoid adverse revenue impact and tax competition concerns.

Corporate Tax Rates
(In percent)

Fiji	20
Oceania 1/	27
Global Average	24
OECD Average	25

Source: KPMG
1/ Includes Australia, Fiji, New Zealand, Papua New Guinea, Samoa, and Vanuatu.

23. **Public debt has declined and is broadly sustainable.** Public debt stood at just above 50 percent of GDP in 2012, down from 54.7 percent in 2010. In addition, contingent liabilities, largely

on account of state-owned enterprises, remain above 15 percent of GDP, although they have declined in recent years owing to reforms on such entities and the pension scheme. The debt sustainability analysis indicates that public debt is sustainable, but points to the need for some caution on external financing. Fiji's external debt remains low from a regional perspective, but it has increased rapidly recently, largely reflecting the US-dollar denominated sovereign bond issued in 2011, and increased reliance on bilateral loans from nontraditional sources for infrastructure financing. The financing terms of these loans are long-term and the interest rates are lower than market rates, but the effective rates of the loans (factoring in the hidden cost of using specified suppliers and other captive costs) could be higher.

24. **Debt management strategies should be geared to preserving policy options.** The US$250 million sovereign bond issued in 2011 matures in 2016 (see Box 4). Prospects of less accommodative monetary policy in advanced economies could trigger a repricing risk, a sustained reversal of capital flows, and may result in possibly unfavorable external conditions for refinancing. To maintain policy buffers, debt management may consider taking advantage of current favorable domestic financing conditions to gradually build up balances in the sinking fund for external debt repayments (currently amounting to around US$128 million). Fiji's debt management capacity is generally sound and has benefited from technical assistance from development partners.

25. **The FNPF reform in 2012 is commendable but some risks remain.** The reform has enhanced the actuarial sustainability of the pension fund and reduced the medium-term contingent liabilities of the government. The introduction of periodic updating of actuarial assumptions every three years should fortify sustainability. The current lump-sum payout policy has resulted in only 5 percent electing more gradual payments when reaching pension age. Despite the positive actuarial impact of the pension reform, the risk remains of an increase in government social spending in the longer term, as the lump sum payment is unlikely to support an adequate level of income over the remaining lifespan of the retirees. However, any fiscal impact would likely only materialize in the longer term. In the meantime, the authorities are encouraged to plan ahead and continue using international expertise to review the pension system.

26. **In the medium term, structural reforms to broaden the revenue base and continued restraint on operating expenditure are key to create fiscal space for capital investment spending, lowering the public debt and increasing resilience to shocks.** Fiji's susceptibility to natural disasters and narrow export base suggest the need to continue building fiscal buffers to respond to adverse developments.

Authorities' Views

27. The authorities are confident that the 2013 deficit target will not be breached, similar to the recent past where the actual deficit outcomes have been lower than the budget target. On the revenue side, the authorities agreed that the recent revenue performance may not be sustained, particularly on the domestic VAT side. The authorities view some tax incentives as necessary to continue to attract foreign investment, but they intend to review the tax incentive regime in due course. On debt management, the authorities remain committed to building up balances in the

sinking fund to preserve policy options through privatization and property sale revenue without resorting to domestic borrowing. Debt is raised to finance government capital projects rather than operating expenditure, which is more than sufficiently covered by revenues.

C. Exchange Rate Policy and External Balance

28. **The competitive boost from the April 2009 devaluation has been largely eroded by creeping real exchange rate appreciation, driven by partner-country inflation differentials under Fiji's basket peg regime.**[2] The real exchange rate is now slightly higher than the level consistent with medium-term macroeconomic fundamentals. The IMF's exchange rate assessment approaches point to overvaluation in the range of 1-14 percent (see Box 5). Although the exchange rate assessment approaches are subject to considerable uncertainty, the continuous real appreciation trend following the depreciation in 2009 is a cause for concern. Overall, export growth is projected to be sluggish in the medium term. The sugar export earnings are expected to continue its relative decline, especially in the context of expiring EU preferential purchase agreements. Over a longer period, growth in the tourism sector earnings may also be adversely affected by the real appreciation.

29. **The current stable macroeconomic environment provides a good opportunity to lay the foundation for a more flexible exchange rate regime.** To avoid the need for large disruptive step devaluations under balance of payments stress conditions, the exchange rate policy should be subject to periodic reviews and adjustments made if needed, in order to prevent creeping overvaluation. More flexible arrangements, including a wider trading band, could also be considered.

30. **Further relaxation of capital account restrictions could be considered.** By standard reserve metrics, the current level of international reserves is adequate although Fiji's narrow export base and susceptibility to shocks would suggest the need for a relatively higher reserve target in the range of 5 months of retained imports. Capital transactions are still allowed only if the Fiji Revenue and Customs Authority (FRCA) issues a tax clearance certificate, and such issuance is sometimes delayed. In this context, increased use of one-year pre-approvals under the FRCA "Gold Card" program to facilitate payments should be encouraged. Some exchange restrictions are subject to Fund approval under Article VIII, arising from tax certification requirement.[3] Relaxation of capital controls should be accompanied by a continued strengthening of the AML/CFT regime.

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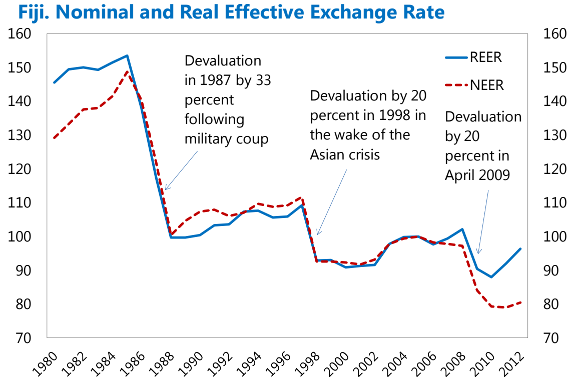
[2] Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the Euro; and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually.

[3] Staff are assessing whether these or any other measures have jurisdictional implications.

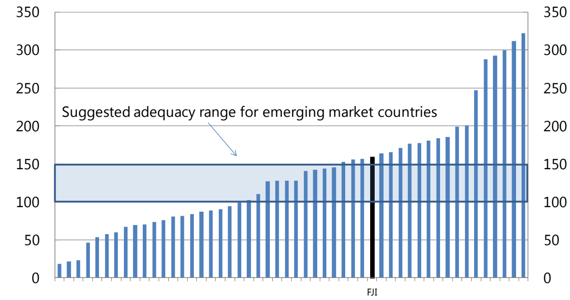
Fiji. Nominal and Real Effective Exchange Rate



Source: IMF, Information Notice System.

Reserve Adequacy for Emerging Market Countries

(In percent of calculated reserve metric)



Sources: IMF, International Financial Statistics, World Economic Outlook database, and IMF staff estimates.

Authorities' Views

31. The authorities agreed that more exchange rate flexibility is desirable, but did not view it as urgent as reserves are at comfortable levels. They also highlighted the role of different currencies in the Fijian currency basket, and the challenges in making assessments of competitiveness when basket currencies move in different directions.

D. Structural Reforms

32. **Slow progress on structural reforms has held back growth in the past decades.** The authorities have accelerated reforms in recent years, but the key policy challenge remains to raise potential growth, reduce unemployment and increase resilience to shocks. The need for faster and deeper structural reform is urgent to boost investor confidence, reduce the economy's supply bottlenecks and raise the absorptive capacity in order to take full advantage of a potential increase in foreign and domestic investments following the planned elections in 2014. Fiji has relatively strong human development indicators (see Box 1), but reducing poverty levels further will require, among others, increased employment opportunities domestically through structural reforms.

33. **Price controls should be scaled back significantly.** Arguably, there may be a case for regulating a few basic essential commodities, given that oligopolistic behavior is not uncommon in small economies and that Fiji's remotely dispersed population makes it difficult to enforce anti-competitive practices. However, the current micromanagement of price controls distorts price signals, creates uncertainty, is costly to administer, gives vendors incentives to reduce product quality and/or supply, and reduces incentives for investment. With inflationary pressures currently low, the price controls should be scaled back to enhance competition, transparency, cost-efficiency, and predictability, while targeted social transfers could mitigate any impact on vulnerable segments of the population.

34. **Government policy consultation and predictability should be improved**. There is scope to improve communication between the government and stakeholders. The authorities are encouraged to involve the broader public in the key policy decision making process. Any abruptness in policy decisions can create uncertainty in the business community, adversely affecting the

investment climate and long-term investment decisions. Moreover, improvement in intra-government communication and in the capacity of the middle-level management can speed up the approval process and improve the business climate. The line ministries should be encouraged to provide assistance to improve the operations and viability of small-to-medium sized employers, and stimulate employment generation, instead of imposing ad hoc fees and fines. More participation of talents with diverse expertise, including private sector experience, in government boards, commissions and other decision making positions should be encouraged.

35. **Efforts to improve data quality to underpin informed policy making should continue**. The authorities need to accelerate and expand efforts to increase data coverage and improve quality, particularly in the areas of balance of payments and national accounts, including GDP by expenditure in constant prices, through strengthening the capacity of the Fiji Bureau of Statistics. In the past, the provision of high quality statistics has been hampered by high turnover among skilled statisticians. The authorities continue to receive substantial support through technical assistance to improve capacity in this area. Increased provision of statistics to the public is also encouraged.

36. **Continued sector-specific structural reforms are needed to improve the investment climate and broaden the export base.** A reliable energy supply is essential to meet the increasing demands of the economy and crucial to improve the investment environment. In this context, a national energy policy that provides clear incentives for energy producers to significantly increase supply, especially in renewable energy sources like solar, is needed. In view of the investment-to-output lags in the energy sector, it is urgent to accelerate efforts to sustainably expand the energy supply in the medium-term. The government has made good plans for reforming the sugar-cane sector, including using the by-products of sugar production for ethanol and electricity generation. However, the issue of unstable land lease, aging workers, lack of larger-scale mechanization, and obsolete and poorly maintained facilities are long-term challenges (Box 6), which require immediate and accelerated reform efforts. With EU preferential purchase agreements expiring, it is imperative to continue the reform efforts to ensure the industry remains viable. Increased efficiency in utilization of land is also a key factor in facilitating investment. The recent establishment of the Land Bank is welcome, but further progress is needed in laws, policy and implementation to provide a predictable and stable supply of land with lease for long-term investment.

37. **Successful elections in 2014 may lead to increased investment as political uncertainty is reduced.** Under the baseline scenario of transition to democratic government in 2014, both foreign and domestic investment is expected to increase, which would be positive for growth. However, in the absence of accelerated structural reform to reduce supply bottlenecks, a surge in investment could quickly trigger absorptive constraints and lead to overheating in some sectors. In such a scenario growth would likely stall in

Fiji. Potential Growth, Production Function Approach

	1990-2012 (Average)	2020 Reform Scenario
Potential growth (percent)	2.1	[4-5]
Contribution of TFP	-1.1	0.5
Contribution of capital	2.2	2.9
Contribution of labor	1.0	1.2

the range of 2-3 percent, inflation would rise, and competitiveness may gradually erode. To raise the potential growth, reduce poverty and increase the resilience to external shocks, the pace of structural reform needs to accelerate.

Economic Indicators	2018	
	Baseline	Scenario
GDP growth	2.4	4.5
Inflation	2.9	2.5
Investment (percent of GDP)	18.5	22.0
FDI (percent of GDP)	8.0	9.5
Current Account Balance (percent of GDP)	-7.6	-7.4
Reserves (in months of prospective imports)	3.0	5.0

38. **Over the longer term, the key to raising potential growth is improving the quality of labor and capital inputs.** Total factor productivity is estimated to have contracted during the period 1990-2012.[4] The underinvestment over the past decades has contributed to degradation of physical capital. Similarly, the lack of domestic opportunities has contributed to loss of highly skilled and educated labor through emigration. Under a successful reform scenario of a drastically improved business investment climate, private sector investment can be stimulated to reverse the decline in total factor productivity, and capital as well as labor inputs can be boosted. Under this scenario, potential growth can be raised from the current 2-3 percent to about 4-5 percent by 2020 (Box 7). Unemployment and poverty levels can be reduced through increased economic opportunities domestically, the debt-to-GDP ratio would stabilize at around 45 percent of GDP, and longer-term inflationary pressures can be mitigated through improvements in productivity. Staff constructed an illustrative structural reform scenario to estimate the economic benefits of accelerated reforms. This scenario assumes an improved investment climate which stimulates both domestic and foreign investment, raising potential growth to 4½ percent in the medium term.

Authorities' Views

39. The authorities broadly agreed on the structural reform agenda and the urgency to speed up implementation. They point to significant progress on the structural reform agenda over the past few years. The authorities acknowledge the need to scale back price controls, but view some controls as essential to protect the poor given the lack of competition in some of the geographically dispersed markets of Fiji. The authorities view the past use of decrees as sometimes necessary to improve the business climate against the background of occasionally non-responsive government bureaucracy.

STAFF APPRAISAL

40. **Macroeconomic policies are broadly appropriate.** The current configuration of mildly expansionary fiscal policy and accommodative monetary policy is broadly appropriate as the unemployment rate remains high and inflationary pressures have dissipated against the background of some slack in the economy and stable commodities prices. The recent pickup in credit growth warrants close monitoring. In case of rekindled and broad-based inflationary pressures, the RBF

[4] The capital stock is estimated using the perpetual inventory model and the labor force is estimated using the average working hours, population and labor force participation rate.

should use open market operations more aggressively to reduce excess liquidity and, if necessary, tighten policy rates. The projected increase in the fiscal deficit is largely due to an increase in capital spending to clear infrastructure backlogs. Recent income tax cuts are growth friendly but base-broadening measures are needed to strengthen the revenue system and fiscal position. The gradual appreciation of the real exchange rate has continued and the Fund's exchange rate assessment approaches now suggest moderate overvaluation. The level of the peg should be subject to periodic reviews and adjusted if necessary, and the authorities could also consider more flexible arrangements.

41. **The current environment provides a rare window of opportunity to make a clear break with the slow growth of past decades and lay the foundation for a transition to a higher growth trajectory and reduced poverty.** This will require accelerated progress in implementing structural reform. While significant reforms have been put in train over the past three years—e.g. sugarcane sector, civil service, land utilization, pension system, infrastructure improvements, improved financial access—a slowing down in the reform momentum now will likely stall potential growth at around 2 percent.

42. **Under a scenario of successful elections in 2014, both domestic and foreign investments are expected to pick up significantly as political uncertainty is reduced.** However, the economy urgently needs to improve the investment climate, boost investor confidence and expand its capacity to accommodate increased private sector investment. In this context, relaxation of price controls, increased efficiency of land use, improved predictability and streamlining of government regulation and implementation, continued focus on infrastructure upgrades and better aligned incentives for expanding electricity production, would reduce the economy's supply bottlenecks. In particular, given the investment-to-output lags in the energy and sugarcane sectors, it is imperative to accelerate reforms in these sectors. This would allow the economy to utilize more effectively the expected increase in private sector investment in order to raise potential growth and to stimulate employment without fueling price increases.

43. **Improved data quality is urgently needed for informed policy making**. The authorities need to accelerate and expand efforts to increase data coverage and quality, particularly in the areas of balance of payments and national accounts, including GDP by expenditure. The capacity of the Fiji Bureau of Statistics should continue to be strengthened, supported by technical assistance from development partners. Increased statistics provision to the public is also encouraged.

44. **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 eliminated. While they are designed to promote tax compliance, exchange restrictions are not the appropriate means to this end, as they weaken the business climate and dampen foreign investment. The authorities are urged to further strengthen the AML/CFT regime.

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

Box 1. Fiji: Human Development and Poverty (World Bank)

Fiji's development indicators are relatively strong. Fiji has achieved broad coverage in provision of basic social services, contributing to strong human development indicators. Fiji spends less on basic social services than other Pacific economies as a proportion of public expenditure and relative to the size of the economy, reflecting greater economies of scale realizable with larger population. Around 35 percent of Fijians lived below the national basic needs poverty line in 2008/09, but the incidence of food poverty is low, under 5 percent.[1]

Expectancy of life was around 69.3 years in 2011, slightly above the Pacific average of 67.5 years. Infant and child mortality rates are among the lowest in the Pacific, at 16.4 and 14.1 per 1,000 live births respectively, reflecting the broad coverage of public health services. Incidence of tuberculosis is low and declining. The incidence of HIV is around 0.1 percent. Like other Pacific Island Countries, however, Fiji faces important challenges in managing Non-Communicable Diseases (NCDs) which are responsible for 82 percent of deaths. 62.3 percent of adult Fijian population is overweight or underweight, and 18 percent have diabetes.

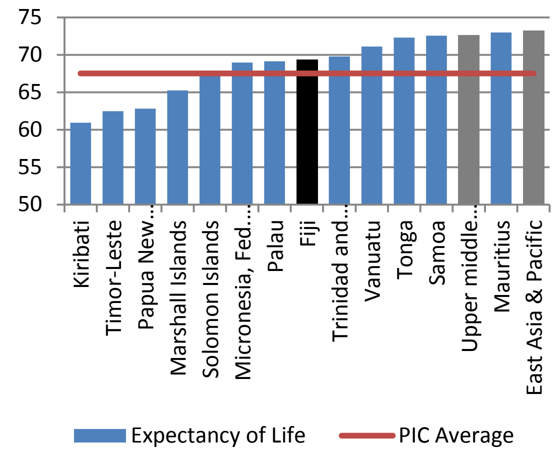
Fiji has achieved strong health outcomes with low public health expenditure as a proportion of government expenditure and as a percentage of GDP, relative to other Pacific Island Countries and other upper-middle income countries. Public expenditure in health is complemented by private health expenditure of around 1.2 percent of GDP. Enrollment in primary education is almost universal, with a primary net enrollment rate of 96.8 percent – well above the Pacific average of 86.4 percent. Net enrollment in secondary education, at 80.3 percent, is the highest in the Pacific. Broad access to education has seen the youth literacy rate reach 99.5 percent, above the average for upper-middle income countries and the East Asia and Pacific region. Secondary drop-out rates remain a cause for concern, but specific policy measures have recently been implemented to address this issue. Since 2007, public expenditure on education has declined steadily, and is now equivalent to 4.5 percent of GDP. At around 16 percent, expenditure on education is close to the average for Pacific Island Countries, upper-middle income counties, and the East Asia and Pacific region as a proportion of total government expenditure. In 2009, just over one third of the Fijian population lived in poverty. Since 2003 national poverty dropped by 4.6 percentage points from 39.8 percent in 2002/03 to 35.2 percent in 2008/09. This overall decline, however, masks significant rural-urban variation. Most of the poverty reduction during this period was driven by the 8.3 percentage point (23 percent) reduction in urban poverty from 34.5 percent to 26.2 percent. Rural poverty remained at 44 percent. Poverty rates varied significantly by district, from 53.5 percent in Northern to 23.4 percent in Central.

The social protection system in Fiji is one of the most developed in the Pacific region. Moreover, in 2012 the Government endorsed 2 key changes to the social protection system in Fiji: (i) introduction of the poverty-targeted benefit at a household level (targeting the poorest 10 percent of the population); and (ii) introduction of the old age social pension for people aged over 70.

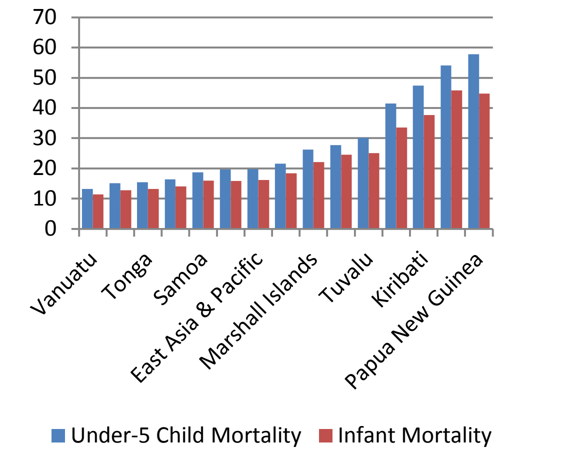
[1] For further details, see *Republic of Fiji: Poverty Trends, Profiles, and Small Area Estimation (Poverty Maps)* in Republic of Fiji (2003-2009), World Bank, 2011.

Box 1. Fiji: Human Development and Poverty (World Bank) (concl'd)

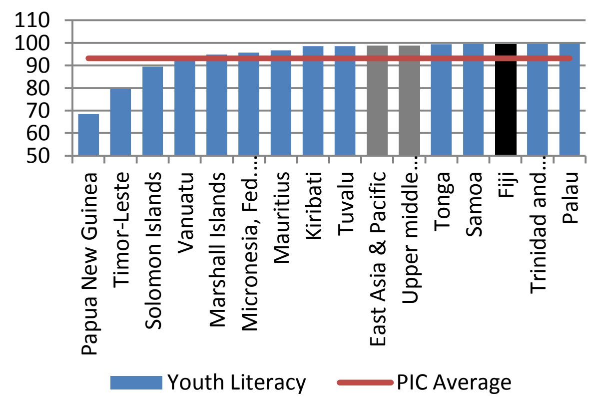
Expectancy of Life (years)
Source: World Development Indicators



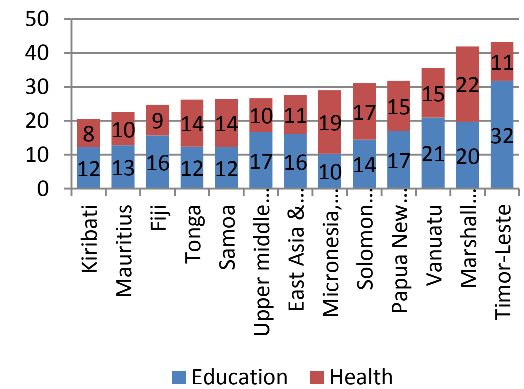
Infant and Child Mortality (Deaths per 1,000 live births)
Source: World Development Indicators



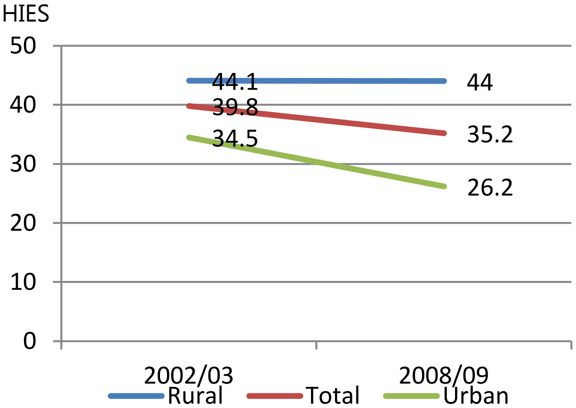
Youth Literacy (%)
Source: World Bank



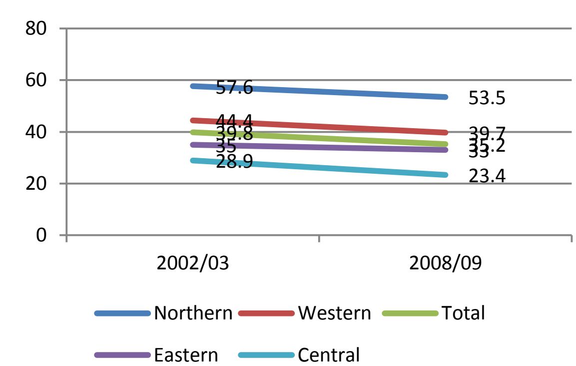
Expenditure on Health and Education (% Total Public Expenditure)
Source: World Bank data



Poverty Rates – Urban/Rural (%)
World Bank estimates based on 2002/03 and 2008/09 HIES



Poverty Rates – District (%)
World Bank estimates based on 2002/03 and 2008/09 HIES



Box 2. Fiji: Risk Assessment Matrix

Shock	Likelihood	Transmission channel	Potential impact	Policy response
Global/external risks				
Deeper-than-expected slowdown in emerging markets	Medium	A slowdown in Australia and New Zealand due to lower commodity prices as emerging market demand slows, and the Australian and New Zealand exchange rates depreciate, could trigger a decline in tourism	Medium: Growth and tourism earnings would slow. The latter is somewhat offset by reduced imports	Allowing automatic stabilizers would be the first line of defense. If the slump persists, limited fiscal stimulus could be envisioned. If the reserve target is threatened, a more flexible exchange rate regime could be appropriate
Protracted economic and financial volatility triggered by prospective exist from unconventional monetary policy	High	Prospects of less accommodative monetary policy in advanced economies could trigger a sustained reversal of capital flows and repricing of risk across emerging markets, and an intensification of liquidity strains on sovereigns and leveraged corporates	Low: Portfolio flows to Fiji have been limited and the impact of reversal of such flows minor. However, protracted external volatility may result in possibly unfavorable conditions for refinancing Fiji's sovereign bond	Building macroeconomic policy buffers, including debt management strategies to preserve refinancing options
Global oil shock triggered by geopolitical events	Low	Higher import prices lead to higher current account deficits and fuel inflation	Medium: higher inflation, international reserves are adequate to withstand a BoP shock	In the event of second-round effects on inflation, the RBF should clearly communicate its intention to tighten monetary policy and to the extent that the reserve target is threatened, a more flexible exchange rate regime could be appropriate. In a long-term perspective, reforms to reduce dependence on imported fuels.
Severe natural disasters	Medium	Cyclones and flooding damage infrastructure and tourist sector	Medium: growth could slow as sugar and tourism industry are affected.	Limited and temporary fiscal stimulus would be the first line of defense. Upgrade infrastructure (e.g. flood control)
Domestic risks				
Political instability	Medium/high	Continued political uncertainty delays investment and development aid	High: lower investment and aid further slows growth	Continued communication of commitment to democratic elections, and structural reform to improve the investment climate
Slow progress in structural reform, including the sugar sector	Medium	Low investment, lower foreign exchange earnings from the sugar sector as EU preferential purchase agreement expires	Medium: private sector investment declines, the sugar sector employment decreases, reserve coverage declines	Structural reform to improve the investment climate, modernize the sugar sector
Upside domestic risks				
Successful elections trigger surge in capital inflows		Large capital inflows should stimulate medium-term growth but the positive impact may be partially offset by short-term appreciation pressures and absorptive capacity constraints	Medium: Increased capital inflows would be positive for growth in the medium term, but may trigger short-term loss of competitiveness in the tourism and sugar sectors	Accelerated structural reform to improve absorptive capacity and productivity

Box 3. Fiji: Financial Inclusion and Access

Despite a relatively well-developed financial sector, financial access needs broadening. Compared to other PICs, the financial sector in Fiji has well-developed institutions, including a broad array of services offered by commercial banks, non-banking financial institutions, credit institutions, insurance companies and microfinance institutions. However, the banking sector's business models, including physical presence, products and services largely serve the well-off urban population, leaving many Fijians, especially in rural areas and SMEs, with few financial services. The limited access to financial services has likely contributed to holding back growth and employment generation in the financially underserved areas, including the SME sector.

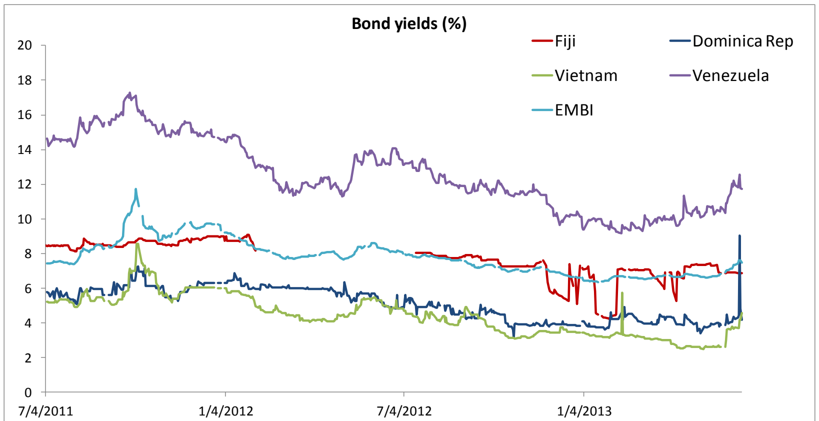
The RBF has recently introduced initiatives to promote financial inclusion. To promote development of SMEs, the RBF introduced a small and medium enterprises credit guarantee scheme in January 2012. This allows lending institutions to apply for a government guarantee cover of up to $50,000 per business on eligible SME loan facilities at an interest rate below 10 percent. The government contributed an initial $2.5 million to start off the scheme and pledged another $1.5 million in the 2013 budget. The RBF has also established a housing facility for low income home owners, with a total allocation of $25 million to be channeled through the Housing Authority. To promote increased agricultural lending, the RBF issued policy guidance to commercial banks to require them to lend at least four percent of their deposits to business in the agriculture sector. The RBF also chairs the National Financial Inclusion Taskforce—a multistakeholder representative committee—to coordinate national efforts towards financial inclusion, with focus on microfinance, statistics and financial literacy.

Box 4. Fiji: Sovereign Bond

In March 2011, Fiji issued a five-year US$250 million sovereign bond at an interest of 9 percent in a challenging financing environment. The 2011 bond rolled over a maturing US$150 million bond that was issued in 2006.

S&P and Moody's rated the bond as B1 and B respectively (high-yield). Beside Papua New Guinea, Fiji is the only country in the Pacific islands rated by the international rating agency (the text table lists all the countries that have a comparable rating with Fiji). The holders of the bond include large emerging market bond funds and the FNPF. The current US$250 million sovereign bond matures in 2016. To build up policy space, the authorities are accumulating balances in the sinking fund, dedicated for payment of external debt, currently amounting to around US$128 million.

	Moody's		**Standard & Poor's**	
Country	Rating	Outlook	Rating	Outlook
Albania	B1	Stable	B+	Stable
Dominican Republic	B1	Stable	B+	Stable
Fiji	B1	Negative	B	Stable
Lebanon	B1	Stable	B	Stable
Mongolia	B1	Stable	BB-	Stable
Papua New Guinea	B1	Stable	B+	Stable
Paraguay	B1	Stable	BB-	Stable
Senegal	B1	Stable	B+	Negative
Sri Lanka	B1	Positive	B+	Positive
St. Vincent & the Grenadines	B1	Stable		
Suriname	B1	Stable	BB-	Stable
Vietnam	B1	Negative	BB-	Negative
Pacific Islands				
Papua New Guinea	B1	Stable	B+	Stable
Caribbean Islands				
Trinidad and Tobago	Baa1	Stable	A	Stable
Bahamas	A3	Stable	BBB	Stable
Jamaica	B3	Stable	CCC+	Negative



Source: Bloomberg.

Box 5. Fiji: Exchange Rate Assessment

Staff estimates suggest that the Fiji dollar is moderately overvalued. The three standard methods show overvaluation ranging from 1 to 14 percent.

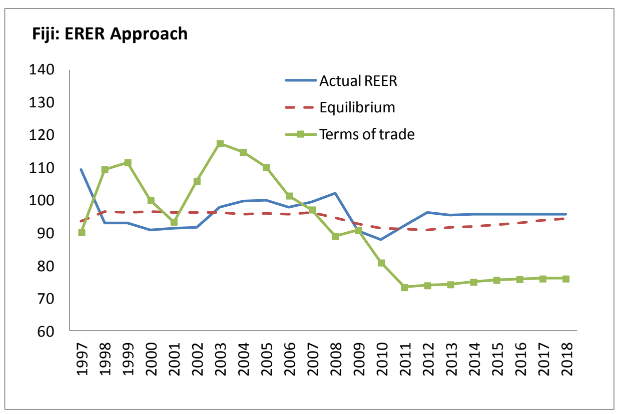
Exchange Rate Assessment 1/

	CA/GDP		REER
	Norm	Proj. 2/	Overvaluation
MB approach 3/			
Current account balance (CAB)	-5.5	-8.7	10.2
ERER approach 4/	…	…	1.3
ES approach 5/			
NFA stabilizing CAB 6/	-4.4	-8.7	13.6

1/ All results are expressed in percent.
2/ Staff projection of the underlying CA/GDP in 2018.
3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.31
4/ Overvaluation is assessed relative to June 2013.
5/ Current account deficit that stabilitzes net foreign liabilities, estimated at 75 percent of GDP in 2018

The current account (CA) norm for Fiji is estimated at a deficit of 5½ percent of GDP, driven by fiscal balance, net foreign assets, oil balance, GDP per capita, old-age dependency, and population growth. With the projected current account deficit at 8.7 percent of GDP in 2018 and estimated elasticity at -0.31, Fiji's exchange rate needs to depreciate by around 10 percent in order to be in line with the projected current account norm.

The ERER estimates explain the REER largely on the basis of the tourism-based terms of trade (i.e., using average expenditure per tourist as a price proxy for this key export). Assuming a slight improvement in the terms of trade over the medium term (with tourist spending flat, and import prices declining as per the WEO), the exchange rate is estimated to be 1 percent overvalued.

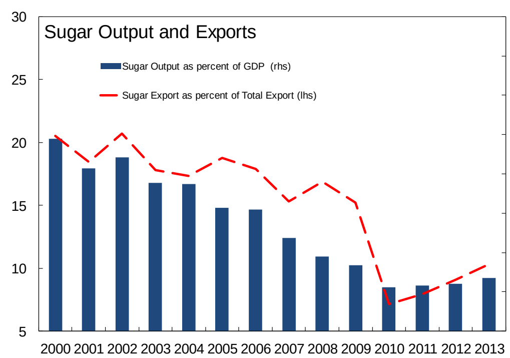


The estimated overvaluation of around 14 percent of the ES approach is somewhat higher than previous estimates due the use of a different estimate of net foreign liabilities (70 percent of GDP from the net international investment position).

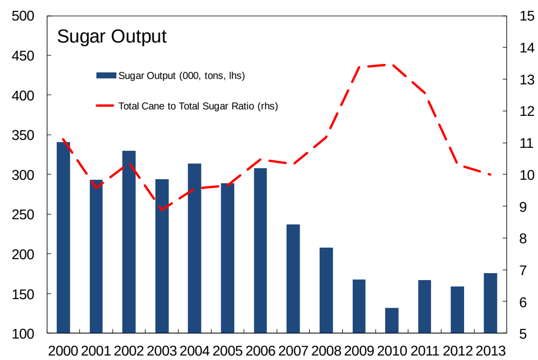
Box 6. Fiji: Transforming Sugar to Sugarcane Industry

Despite its long-term relative decline, the sugar industry remains important in Fiji's economy. It is estimated that almost a quarter of the population engages in sugar-related activities such as growers, transporters, millers, and associated service providers. The industry remains a major earner of foreign exchange.

Recent reforms have stemmed the decline in production, but growth is expected to be slow. Sugar production once peaked over 500,000 tonnes in 1994. Since then output has significantly declined to around 160,000 tonnes in 2012, accounting for only 10 percent of its full capacity. Moreover, of the 20 African Caribbean and Pacific Group (ACP) sugar producers, Fiji has among the lowest sugar yield per harvested hectare. The declining productivity of sugar production is captured through the rising total cane to total sugar ratio (TCTS).



Sources: Fijian authorities and IMF staff estimates.



Sources: Fijian authorities and IMF staff estimates.

Government support and implementation of reforms, including improvements to mill operations, harvesting and transport systems, have stabilized the sugar sector. After a period of operating at a loss necessitating budgetary support from the government, the Fiji Sugar Corporation (FSC) registered a net profit of FJ$ 1.8 million in 2012, further reducing the contingent liabilities of the government. To coordinate the reforms going forward, the government established the Stakeholder Action Group in 2012 to focus on commercial viability, industry competitiveness and sustainability.

Significant challenges remain to revitalize the sugar industry. Transforming sugar to sugarcane industry is an important component in reviving the industry and promoting financial sustainability of FSC. FSC's strategies to reform the industry include the utilization of the by-products of sugarcane to generate electricity. Currently, the FSC has installed a 5-megawatt electricity generator, and plan to acquire a 40-megawatt generator. The FSC is also considering ethanol production projects. Moreover, the government intends to improve the financial sustainability of FSC through converting government debt to equity and buying out minority shareholders. Other areas of reform include introducing the new cane quality payment system and replanting programs. However, significant challenges still remain for the sugar cane industry, including the expiration of EU preferential purchase agreement, obsolete equipment, unstable land leases, and an aging work force.

Box 7. Fiji: Estimating Potential Growth

Potential growth is currently estimated at around 2¼ percent. Simple statistical filtering approaches provide estimates of potential output growth around two percent. This result is robust when economic variables such as inflation and unemployment are considered in a multivariate filter framework.

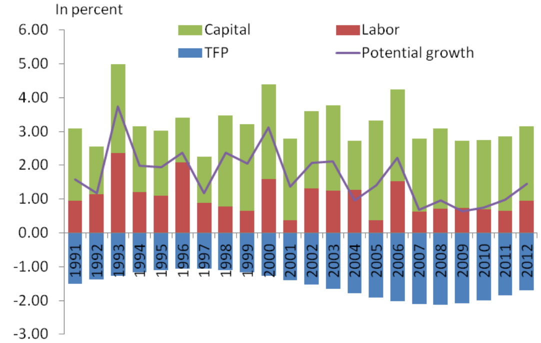
Potential Growth (In percent y/y)

	Simple Filtering Approach		Production Function Approach	Multivariate Filter	
Year	HP	BP		Phillip Curve	Okun
2013	1.6	2.5	2.0	2.1	2.1
2014	1.7	2.9	2.0	2.1	2.1
2015	1.8	2.9	2.2	2.1	2.1
2016	1.8	2.4	2.2	2.1	2.1
2017	1.9	1.8	2.2	2.2	2.2
2018	1.9	1.0	2.2	2.2	2.2

Using a production function approach, productivity growth is estimated to have contracted over the past decades. The main contribution to growth in Fiji is estimated to come from capital accumulation through public and private investment, while labor input has contributed a smaller share. The lack of sufficient investment to maintain labor and capital inputs, combined with the political instability, have eroded the quality of the factors of production. Against this background, total factor productivity is estimated to have contracted over the past two decades. This underinvestment has manifested itself in insufficient infrastructure and brain drain through emigration, hampering productivity growth. According to the World Bank's Logistics Performance Index, Fiji was ranked 144th out of 155 countries, indicating the country's high cost of logistics and transportation.

Fiji: Contribution to Potential Growth, 1991-2012

In percent



Structural reform can boost potential growth. Using empirics from cross-country panel regressions, improved institutional quality, better human capital, and lower agricultural share are positively correlated with TFP growth. In the Fijian context, structural reforms through land reforms, state-enterprise reform, relaxation of price and exchange controls, and improvement in the infrastructure and business climate could raise potential growth to the range of 4-5 percent. This will also require continued improvement in health and education achievements, and a general improvement in the domestic economic opportunities to reduce emigration among the highly skilled, to enhance the productivity of labor.

Fiji. Potential Growth, Production Function Approach

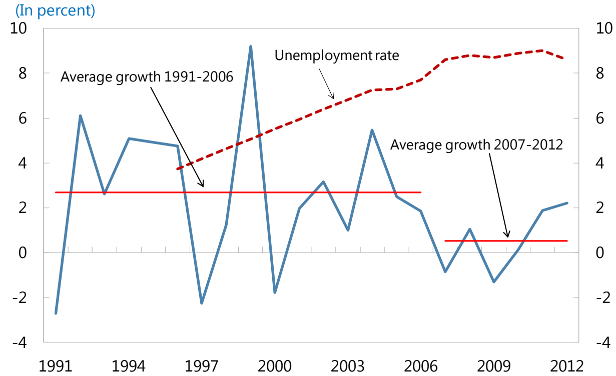
	1990-2012 (Average)	2020 Reform Scenario
Potential growth (percent)	2.1	[4-5]
Contribution of TFP	-1.1	0.5
Contribution of capital	2.2	2.9
Contribution of labor	1.0	1.2

Figure 1. Fiji: Macroeconomic Developments

Fiji's growth is increasing from low levels but high unemployment remains…

Fiji: Real GDP Growth

(In percent)

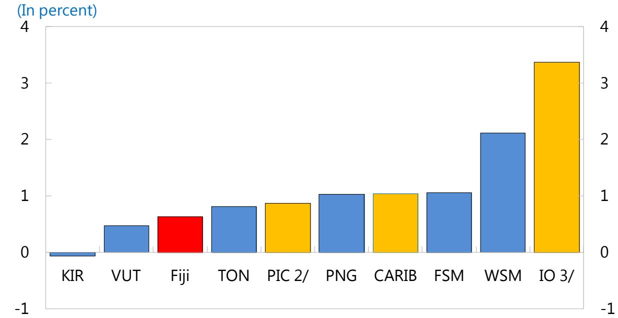


Sources: Fiji authorities; and IMF staff calculations.

… and per capita GDP has stagnated for more than a decade.

Growth in Real GDP per Capita, 1996-2012 1/

(In percent)

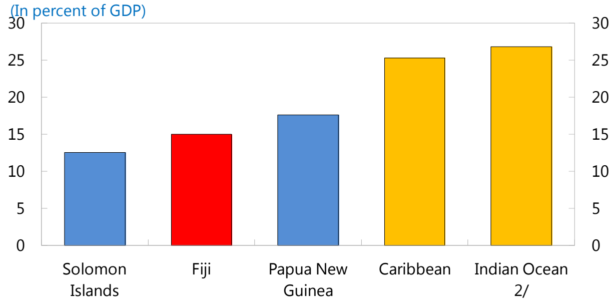


Sources: *World Economic Outlook* database; and Fund staff calculations.
1/ Geometric average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Investment remains low by international standards.

Investment, 1996–2012 1/

(In percent of GDP)

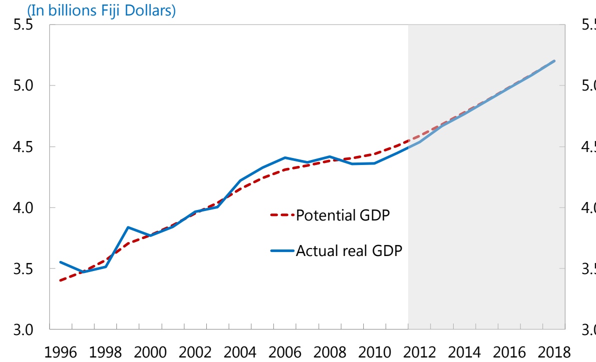


Sources: *World Economic Outlook* database; and Fund staff calculations.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Output is estimated to be below potential and there is still some slack in the economy.

Fiji: Actual and Potential real GDP

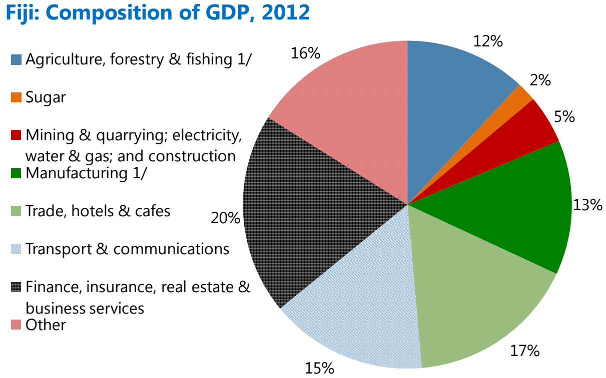
(In billions Fiji Dollars)



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

While production is relatively diversified….

Fiji: Composition of GDP, 2012

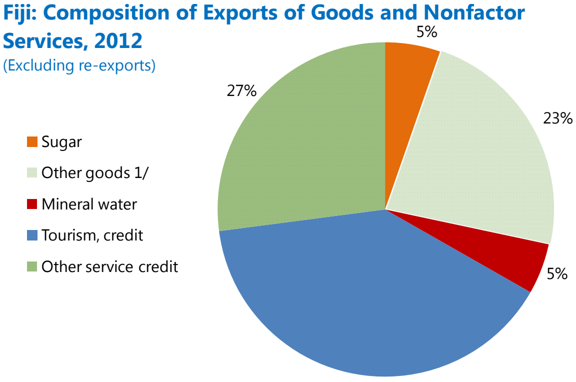


Sources: Fiji authorities; and IMF staff calculations.
1/ Excluding sugar.

… exports are less so.

Fiji: Composition of Exports of Goods and Nonfactor Services, 2012

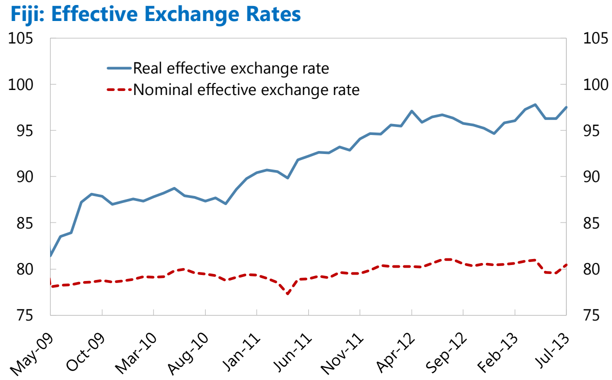
(Excluding re-exports)



Sources: Fiji authorities; and IMF staff calculations.
1/ Fish, garments, gold, timber, and others.

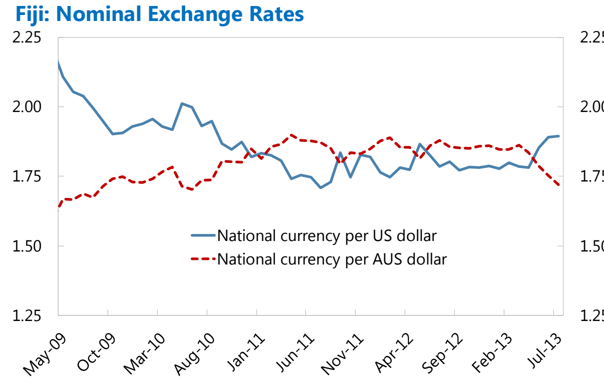
Figure 2. Fiji: Exchange Rate and Inflation Developments

The April 2009 devaluation resulted in significant competitiveness gain but the REER has since steadily appreciated.



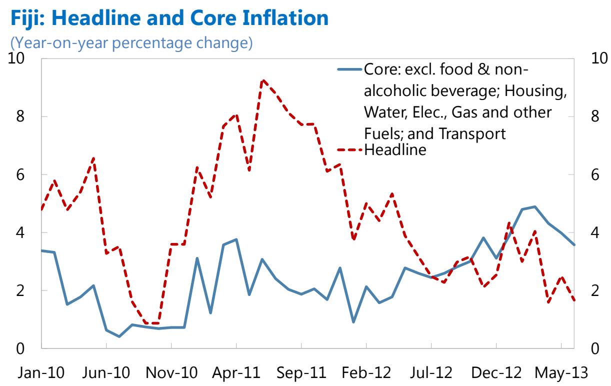
Sources: IMF Information Notice System; and IMF staff estimates.

The Fiji dollar has recently appreciated against the Australian dollar.



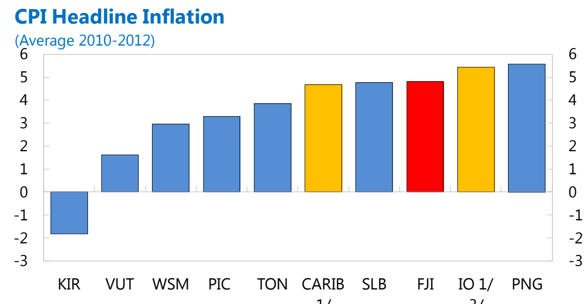
Sources: Reserve Bank of Fiji; and IMF staff estimates.

Inflation has moderated, due to the global slowdown in commodity prices…



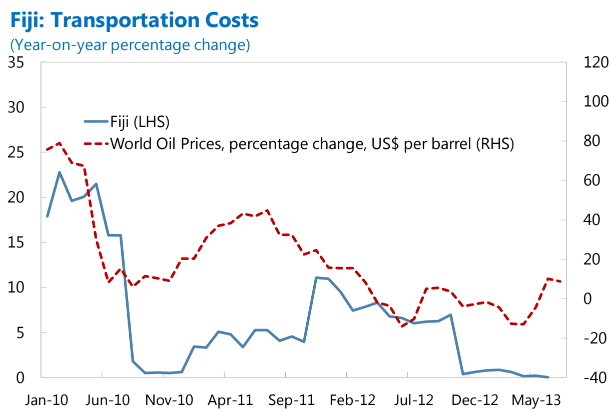
Sources: Fiji Islands Bureau of Statistics; and IMF staff calculations.

…yet inflationary pressures have remained above the regional average in recent years.



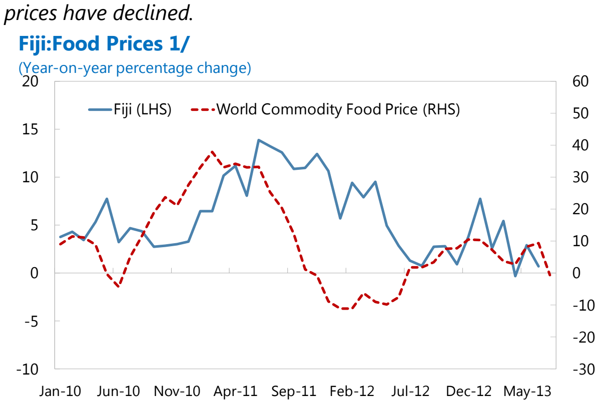
Sources: World Economic Outlook database; and IMF staff calculations.
1/ Simple average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Transportation costs have recently declined as global commodity prices moderated.



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

Domestic food price inflation has moderated as global food prices have declined.



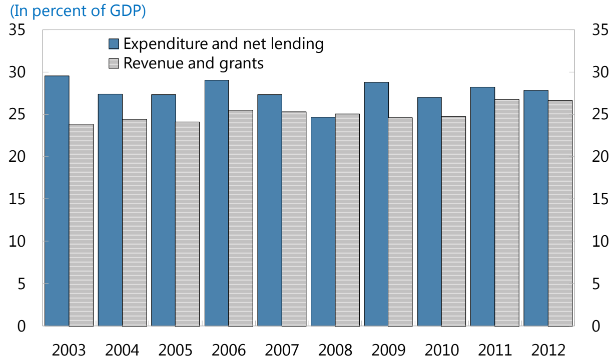
Sources: World Economic Outlook database; and IMF staff calculations.
1/ Food and Non-alcoholic Beverage for Fiji.

Figure 3. Fiji: Fiscal Indicators

Revenue and expenditures have been broadly stable ...

Expenditure

(In percent of GDP)

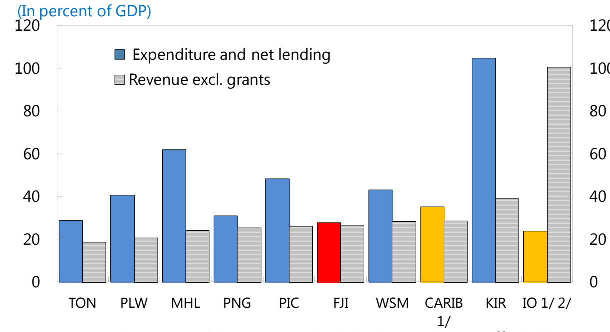


Sources: Reserve Bank of Fiji; and IMF staff calculations.

...with revenues in line with regional averages.

Revenue excl. Grants and Expenditure, 2012

(In percent of GDP)

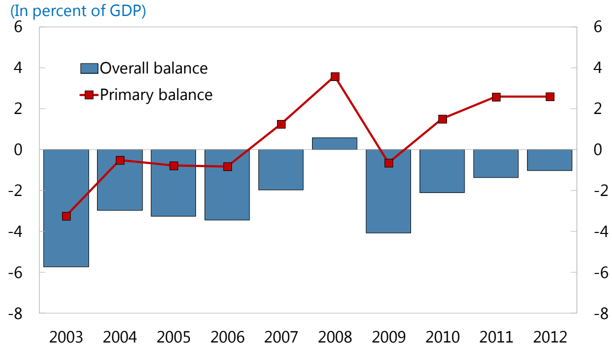


Sources: Fiji authorities; World Economic Outlook database; and IMF staff calculations.
1/ Simple average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

The fiscal balances have improved in recent years...

Fiscal Balances

(In percent of GDP)

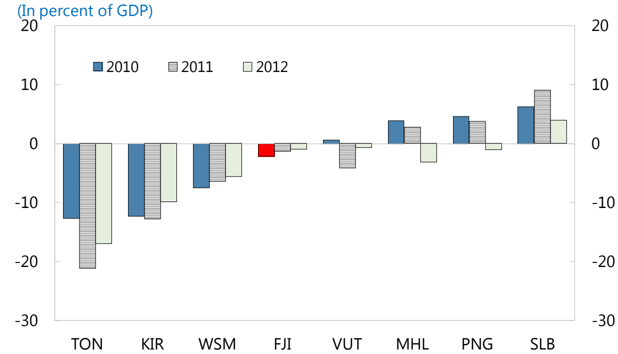


Sources: Fiji authorities; and IMF staff calculations.

...and its performance is not out of line with comparators.

Fiscal Balance

(In percent of GDP)

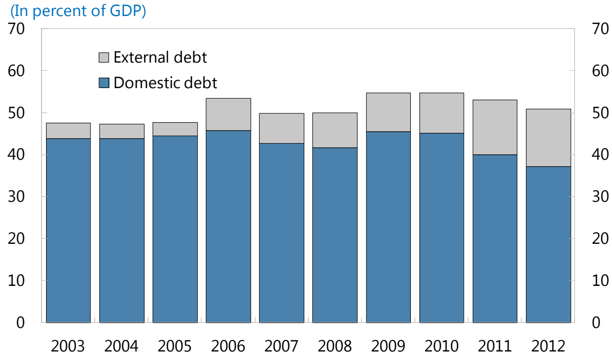


Source: IMF APDLISC database.

Public debt is mostly domestic, though the share of external debt has increased.

Central Government Debt

(In percent of GDP)

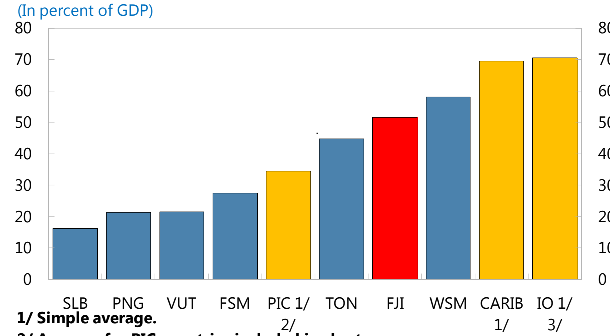


Sources: Fiji authorities; and IMF staff estimates.

Moreover, public debt is high by regional standards.

Public Debt, 2012

(In percent of GDP)

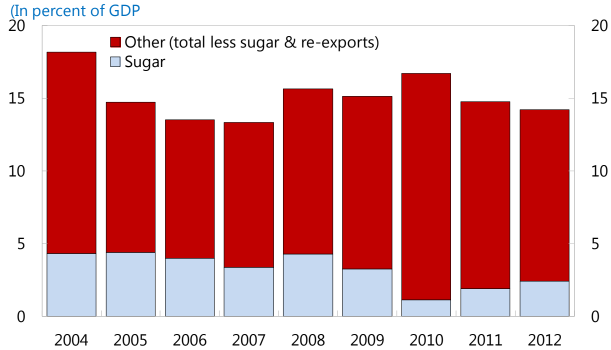


1/ Simple average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Figure 4. Fiji: Balance of Payments

Exports (excluding re-exports) have been stable as a share of GDP....

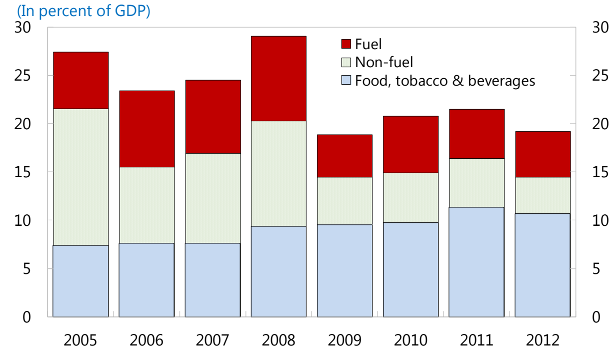
Fiji: Exports, excluding re-exports
(In percent of GDP)



Sources: Fiji authorities; and IMF staff estimates.

...as have imports.

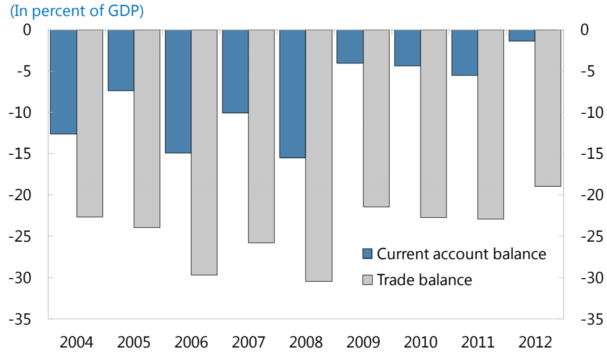
Fiji: Imports, excluding re-exports
(In percent of GDP)



Sources: Fiji authorities; and IMF staff estimates.

The trade deficit remains sizable....

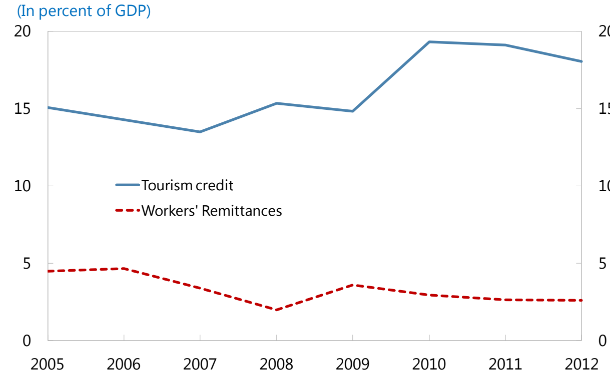
Fiji: Trade Balance and Current Account
(In percent of GDP)



Sources: Fiji authorities; and IMF staff estimates.

...but tourism credit and remittances have moderated the current account deficit.

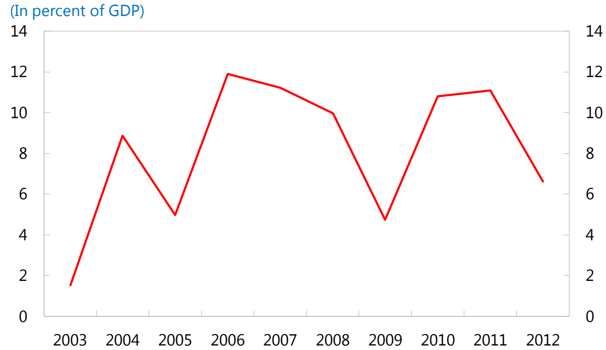
Workers' Remittances and Tourism Credit
(In percent of GDP)



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

FDI has remained volatile....

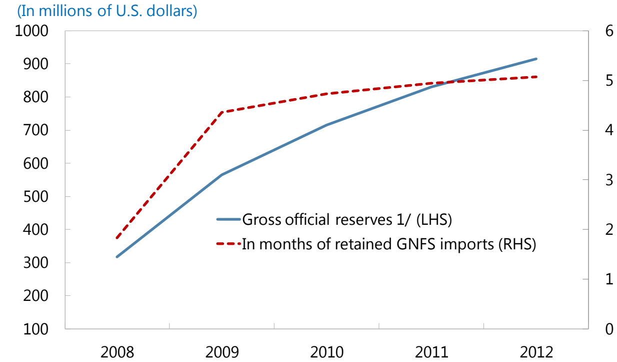
Fiji: Foreign Direct Investment
(In percent of GDP)



Sources: Fiji authorities; and IMF staff estimates.

...however, official reserves have stabilized following the depreciation in 2009.

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



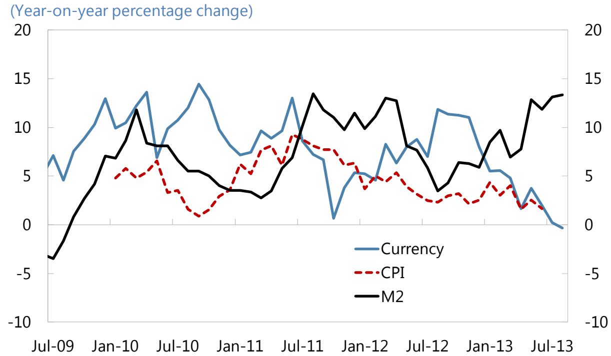
Sources: Reserve Bank of Fiji; and IMF staff estimates.
1/ Reserve Bank of Fiji holdings only.

Figure 5. Fiji: Monetary Indicators

Broad money growth has recently increased.

Money and Inflation

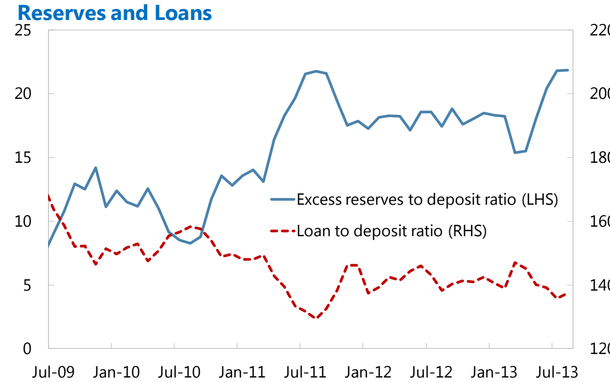
(Year-on-year percentage change)



Sources: Reserve Bank of Fiji and IMF's Integrated Monetary Database.

Bank excess liquidity remains high.

Reserves and Loans

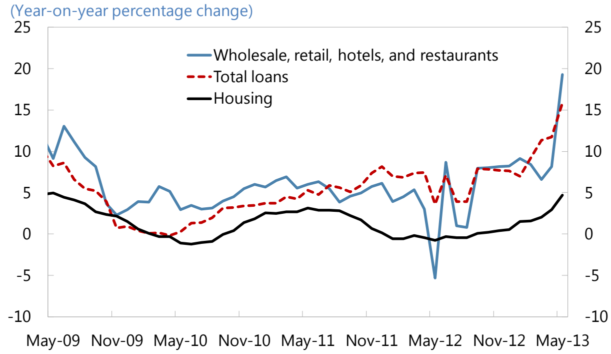


Source: IMF, Integrated Monetary Database.

Credit growth remains on an upward trend and recently accelerated.

Loans

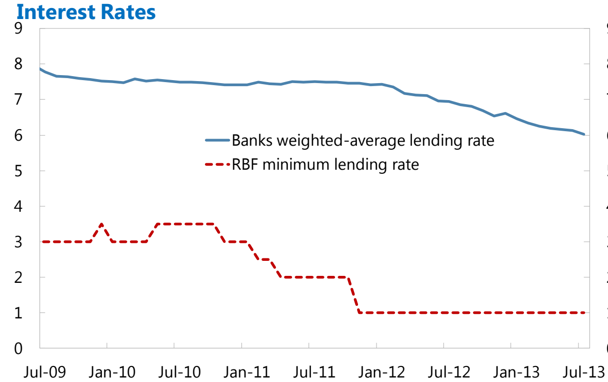
(Year-on-year percentage change)



Source: Reserve Bank of Fiji.

Bank lending rates have fallen only slightly despite several policy rate cuts ...

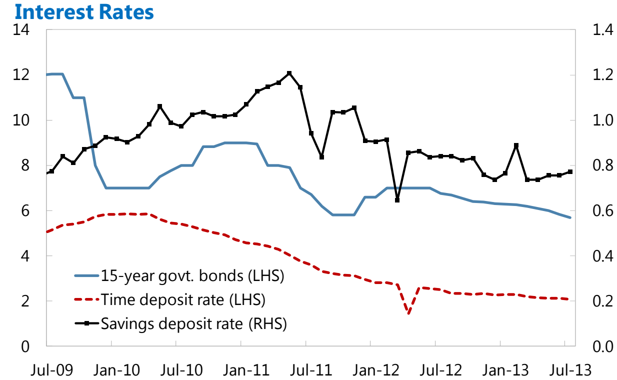
Interest Rates



Source: IMF, Integrated Monetary Database.

...though deposit rates have been more responsive.

Interest Rates

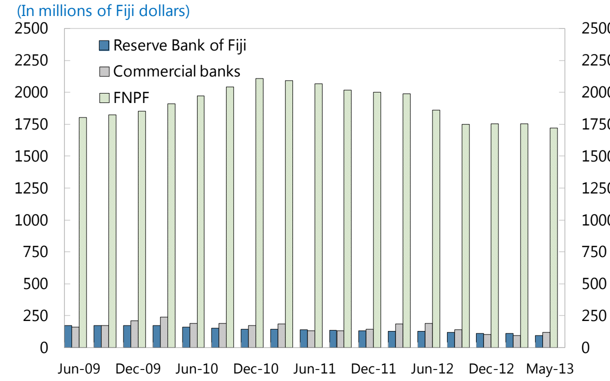


Source: IMF, Integrated Monetary Database.

The FNPF remains the largest holder of government securities.

Outstanding Goverment Securities by Holder

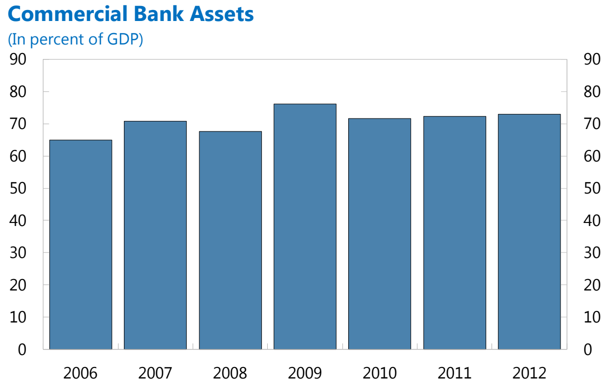
(In millions of Fiji dollars)



Source: Reserve Bank of Fiji.

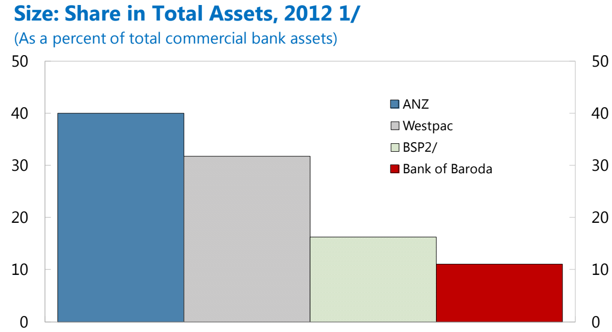
Figure 6. Fiji: Financial Soundness Indicators

Commercial bank assets are stable at around 70 percent of GDP.



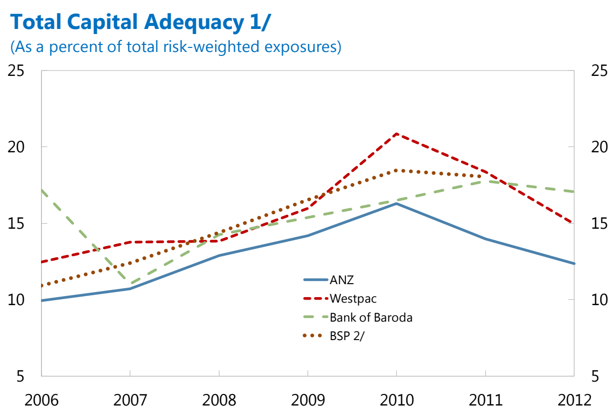
Sources: Reserve Bank of Fiji; and IMF staff calculations.

The banking sector is concentrated with three quarters of the total bank assets belonging to two Australian-owned branches (ANZ and Westpac).

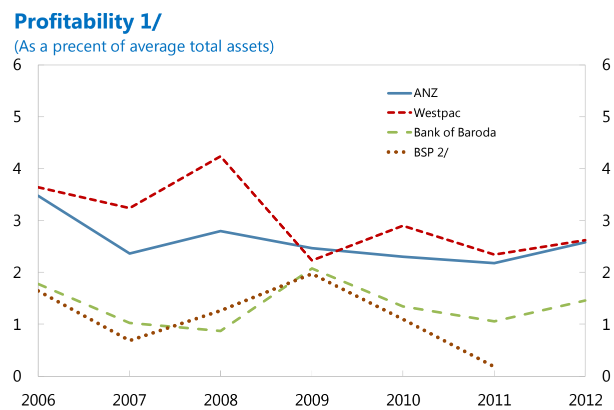


Sources: Reserve Bank of Fiji; and IMF staff calculations.
1/ Twelve months up to September 2012 for ANZ and Westpac, up to December 2011 for BSP, and up to March 2012 for Bank of Baroda.

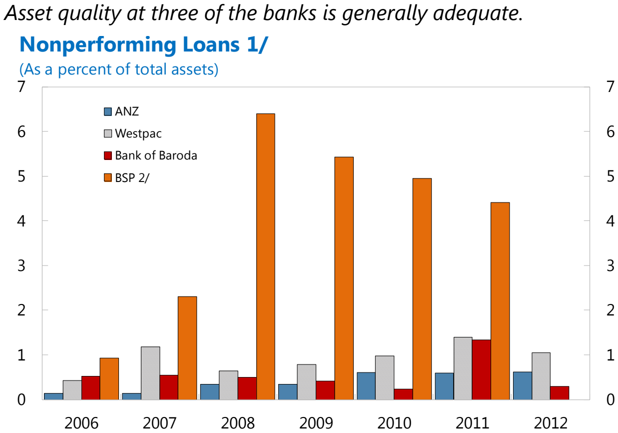
Capital adequacy remains adequate...



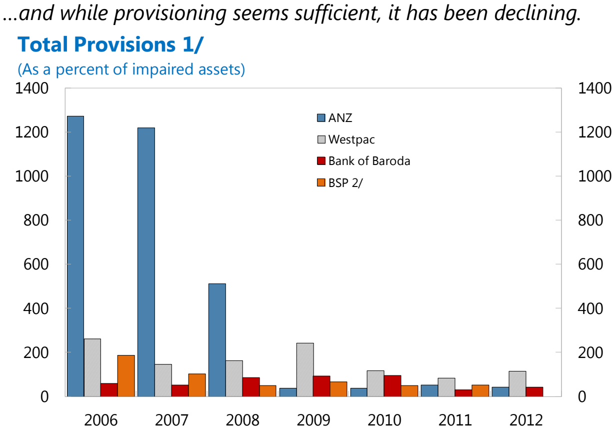
...and profits remain healthy.



Asset quality at three of the banks is generally adequate.



...and while provisioning seems sufficient, it has been declining.



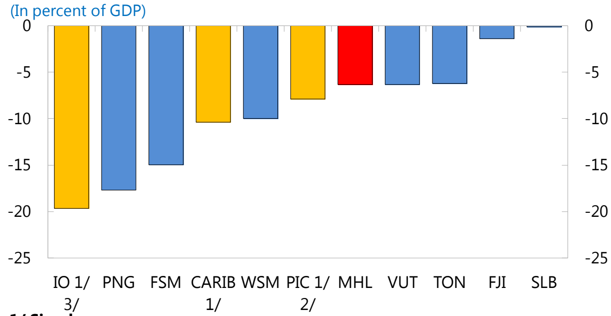
Source: Reserve Bank of Fiji.
1/ Twelve months up to September 2012 for ANZ and Westpac, up to December 2010 for Colonial National Bank, up to December 2011 for BSP (includes CNB for 2011), and up to March 2012 for Bank of Baroda. 2/ From 2011 data is for BSP, and Colonial National bank for prior years.

Figure 7. Fiji: External Vulnerabilities

The current account deficit is moderate compared to peers…

Current Account Balance, 2012

(In percent of GDP)

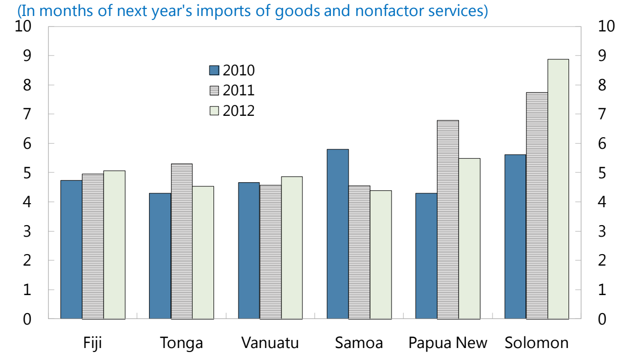


1/ Simple average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

…with adequate reserve coverage.

Gross Official Reserves

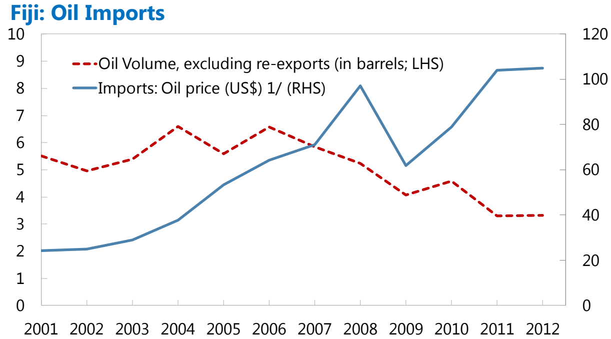
(In months of next year's imports of goods and nonfactor services)



Source: IMF APDLISC database.

But oil demand is substantial and inelastic…

Fiji: Oil Imports



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 exports remain poorly diversified, despite some recent improvement.

Fiji: Sugar Exports and Tourism Receipts 1/

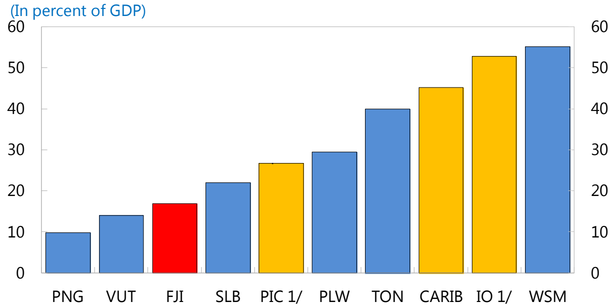
(In percent of exports)

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

External debt is lower than in other Pacific Island Countries…

External Debt, 2012

(In percent of GDP)

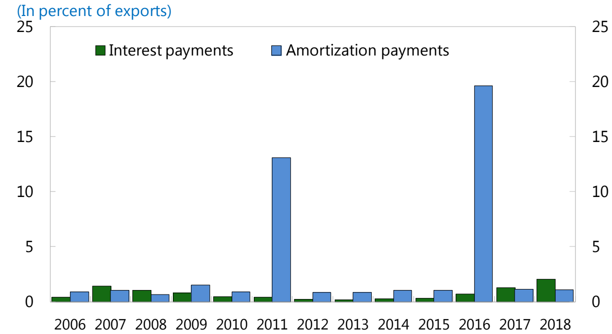


1/ Simple average.
2/ Average for PIC countries included in chart.
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

…but Fiji will face a large external bond payment in 2016.

Fiji: External Payments 1/

(In percent of exports)



Source: Fiji Islands Bureau of Statistics.
1/ Exports of goods, f.o.b., and nonfactor services.

Table 1. Fiji: Selected Economic Indicators, 2008–14

Nominal GDP (2011): US$3,753 million
Population (2011): 894,500 (est.)
GDP per capita (2011): US$4,196
Quota: SDR 70.3 million

	2008	2009	2010	2011 Est.	2012 Est.	2013 Proj.	2014 Proj.
Output and prices (percent change)							
Real GDP (at constant factor cost)	1.0	-1.3	0.1	1.9	2.2	3.0	2.2
GDP deflator	4.3	1.2	6.5	6.0	4.7	4.3	4.4
Consumer prices (average)	7.7	3.7	5.5	8.7	4.3	2.9	3.0
Consumer prices (end of period)	6.6	6.8	5.0	7.7	1.5	2.9	3.0
Central government budget (percent of GDP)							
Revenue	25.1	24.7	24.9	26.8	26.8	26.7	26.3
Expenditure	24.7	28.8	27.0	28.2	27.8	29.4	28.3
Net lending (+)/borrowing (–)	-0.1	-4.4	-2.3	-1.4	-1.0	-2.8	-2.0
Total debt outstanding	49.9	54.7	54.7	53.0	51.1	51.8	50.9
Money and credit (percent change) 1/							
Net domestic credit	4.1	7.2	-0.6	0.5	2.7	11.6	...
Net credit to government	-42.9	89.7	-33.3	-42.1	-75.2	-64.4	...
Private sector credit	7.3	0.7	3.5	3.9	6.3	9.0	...
Broad money (M3)	-6.5	7.1	3.5	11.5	5.9	13.1	...
Monetary base	-31.2	50.5	22.0	19.6	11.4	20.0	...
Reserve Bank of Fiji's discount rate	6.3	3.5	3.0	1.0	1.0	1.0	...
Commercial bank lending rate	7.7	7.5	7.4	7.4	6.6	6.0	...
External sector (in millions of U.S. dollars)							
Trade balance 2/	-1,106	-628	-734	-861	-763	-1,496	-1,001
(In percent of GDP)	-30.5	-21.5	-22.8	-22.9	-19.0	-35.5	-22.8
Exports, f.o.b.	874	615	824	1,061	1,213	1,152	1,213
Imports, f.o.b. 2/	1,980	1,242	1,557	1,921	1,976	2,648	2,214
Current account balance 2/	-562	-119	-142	-207	-56	-734	-243
(In percent of GDP)	-15.5	-4.1	-4.4	-5.5	-1.4	-17.4	-5.5
Capital/financial account balance	276	454	295	478	281	738	253
Errors and omissions	123	-62	-43	-154	-156	0	0
Overall balance	-163	272	111	117	68	5	10
Gross official reserves (in millions of U.S. dollars)	317	565	716	831	915	919	930
(In months of retained imports) 2/	1.8	4.4	4.7	4.9	5.1	4.7	4.6
External central government debt (in millions of U.S. dollars)	270	274	324	523	657	736	738
(In percent of GDP)	8.2	9.2	8.9	13.0	15.4	16.6	16.0
Miscellaneous							
Real effective rate (average)	102.2	90.5	87.9	92.1	96.3	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.59	1.96	1.92	1.79	1.79	...	...
GDP at current market prices (in millions of Fiji dollars)	5,785	5,722	6,187	6,731	7,203	7,740	8,262
Oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	105.0	102.7	98.5

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

1/ The 2013 data refer to July 2013.
2/ Includes purchase of aircraft by Fiji Airways in 2013.

Table 2. Fiji: Depository Corporations Survey, 2008–12

	2008	2009	2010	2011	2012
Reserve Bank of Fiji (RBF)			(In millions of Fiji dollars)		
Net Foreign assets	521	866	1139	1343	1481
Net domestic assets	115	91	29	52	75
Net domestic credit	125	231	181	159	169
Net credit to nonfinancial public sector	125	226	174	131	121
Capital accounts	77	213	177	131	115
Other items (net)	66	73	25	25	21
Monetary base	634	955	1165	1393	1552
Currency in circulation	390	431	479	496	558
Other depository corporations liabilities	244	524	685	896	993
Other Depository Corporations			(In millions of Fiji dollars)		
Net Foreign assets	21	-67	-38	28	-10
Net domestic assets	3385	3705	3822	4159	4431
Net domestic credit	4054	4506	4711	4960	5200
Net credit to nonfinancial public sector	191	329	226	125	25
Net credit to central government	44	120	63	16	-68
Net credit to public nonfinancial corporations	136	198	150	92	75
Credit to private sector	3622	3649	3775	3924	4173
Capital accounts	683	774	837	763	773
Other items (net)	14	-27	-52	-39	4
Liquid liabilities	3362	3582	3691	4138	4373
Transferable deposits	1043	907	1027	1596	1661
Other deposits	2026	2371	2375	2347	2529
Securities other than shares	294	304	289	195	183
Nonliquid liabilities	44	57	93	49	49
Depository Corporations			(In millions of Fiji dollars)		
Net Foreign assets	504	805	543	799	1101
Net domestic assets	3161	3154	3180	3196	3071
Net domestic credit	3664	3706	3859	4136	4109
Net credit to nonfinancial public sector	436	391	316	555	400
Net credit to central government	354	295	169	320	214
Net credit to public nonfinancial corporations	79	88	136	223	173
Credit to private sector	3336	3376	3624	3650	3776
Capital accounts	593	668	760	987	1014
Other items (net)	89	116	80	48	-25
Broad money	3630	3931	3677	3937	4075
Narrow money	1150	1621	1357	1262	1411
Currency in circulation	294	290	314	355	384
Transferable deposits	856	1332	1043	907	1027
Other deposits	2126	1956	2026	2371	2375
Securities other than shares	354	353	294	304	289
Nonliquid liabilities	35	28	46	59	97

Sources: Fiji Authorities and IMF, Integrated Monetary Database.

Table 3A. Fiji: Central Government Operations, 2008–15
(In millions of Fiji dollars)

	2008	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.
Revenue	1,455	1,413	1,538	1,805	1,930	2,063	2,171	2,298
Taxes	1,243	1,209	1,303	1,592	1,714	1,801	1,922	2,036
Indirect tax	805	756	877	1,113	1,249	1,369	1,460	1,547
Of which: VAT	453	403	496	619	676	734	783	829
Direct tax	439	453	426	479	465	433	462	489
Grants	13	6	9	7	13	17	19	20
Other revenue	199	197	225	207	203	244	211	222
Expenditure	1,427	1,645	1,669	1,897	2,004	2,278	2,338	2,433
Expense	1,214	1,310	1,329	1,402	1,480	1,602	1,624	1,721
Compensation of employees	565	597	564	569	601	618	637	674
Interest	174	196	218	266	261	272	277	278
Other expense	475	516	547	567	618	712	711	769
Net acquisition of nonfinancial assets	213	335	340	496	524	676	714	712
Acquisitions of nonfinancial assets	213	335	340	496	524	676	714	712
Investment	134	203	163	202	220	101	107	193
Grants and transfers	79	132	177	293	304	575	606	518
Of which: Fiji Sugar Corporation (FSC)	…	…	40	110	41	0	0	0
Gross Operating Balance *[= revenue minus expense* (excluding consumption of fixed capital)]	241	103	209	404	450	460	546	577
Net lending (+)/borrowing (–) *(= revenue minus expenditure)*	28	-232	-131	-92	-74	-215	-168	-135
Net lending/borrowing minus interest	207	-37	93	174	187	57	109	143
Net lending/borrowing excluding FSC	28	-232	-91	18	-33	-215	-168	-135
Net acquisition of financial assets	56	-20	9	36	50	102	0	0
Domestic 1/ 2/	0	0	0	0	0	0	0	0
Foreign 1/ 2/	56	-20	9	36	50	102	0	0
Currency and deposits	56	-20	9	36	50	102	0	0
Net incurrence of liabilities	60	202	237	128	124	317	168	135
Domestic 1/ 2/	48	194	192	-153	-6	75	21	131
Other accounts payable	…	-29	85	0	0	0	0	0
Foreign 1/ 2/	12	8	45	281	130	243	146	4
Loans	12	8	45	281	130	243	146	4
Borrowing	24	29	61	572	150	263	172	30
Amortization	13	21	16	291	20	20	26	26
Statistical discrepancy	33	-10	97	0	0	0	0	0

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

1/ For financing, the *GFSM2001* allows for a classification, under each instrument, by the sector of the counterparty. For residents (domestic), these are: general government, central bank, deposit-taking financial corporations except the central bank, other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households. For nonresidents (foreign), these are: general government, international organizations, financial institutions except international organizations, and other nonresidents.

2/ The instrument classification is consistent with the *2008 System of National Accounts* .

Table 3B. Fiji: Central Government Operations, 2008–15
(As percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015
					Est.	Proj.	Proj.	Proj.
Revenue	25.1	24.7	24.9	26.8	26.8	26.7	26.3	26.3
Taxes	21.5	21.1	21.1	23.7	23.8	23.3	23.3	23.3
Indirect tax	13.9	13.2	14.2	16.5	17.3	17.7	17.7	17.7
Of which: VAT	7.8	7.0	8.0	9.2	9.4	9.5	9.5	9.5
Direct tax	7.6	7.9	6.9	7.1	6.5	5.6	5.6	5.6
Grants	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Other revenue	3.4	3.5	3.6	3.1	2.8	3.2	2.5	2.5
Expenditure	24.7	28.8	27.0	28.2	27.8	29.4	28.3	27.8
Expense	21.0	22.9	21.5	20.8	20.5	20.7	19.7	19.7
Compensation of employees	9.8	10.4	9.1	8.5	8.3	8.0	7.7	7.7
Interest	3.0	3.4	3.5	3.9	3.6	3.5	3.3	3.2
Other expense	8.2	9.0	8.8	8.4	8.6	9.2	8.6	8.8
Net acquisition of nonfinancial assets	3.7	5.9	5.5	7.4	7.3	8.7	8.6	8.1
Acquisitions of nonfinancial assets	3.7	5.9	5.5	7.4	7.3	8.7	8.6	8.1
Investment	2.3	3.5	2.6	3.0	3.1	1.3	1.3	2.2
Grants and transfers	1.4	2.3	2.9	4.4	4.2	7.4	7.3	5.9
Of which: Fiji Sugar Corporation (FSC)	…	…	0.6	1.6	0.6	0.0	0.0	0.0
Gross Operating Balance *[= revenue minus expense* (excluding consumption of fixed capital)]	4.2	1.8	3.4	6.0	6.2	5.9	6.6	6.6
Net lending (+)/borrowing (–) *(= revenue minus expenditure)*	0.5	-4.1	-2.1	-1.4	-1.0	-2.8	-2.0	-1.5
Net lending/borrowing minus interest	3.6	-0.6	1.5	2.6	2.6	0.7	1.3	1.6
Net lending/borrowing excluding FSC	0.5	-4.1	-1.5	0.3	-0.5	-2.8	-2.0	-1.5
Net acquisition of financial assets	1.0	-0.3	0.1	0.5	0.7	1.3	0.0	0.0
Domestic 1/ 2/	0	0	0	0	0	0	0	0
Foreign 1/ 2/	1.0	-0.3	0.1	0.5	0.7	1.3	0.0	0.0
Currency and deposits	1.0	-0.3	0.1	0.5	0.7	1.3	0.0	0.0
Net incurrence of liabilities	1.0	3.5	3.8	1.9	1.7	4.1	2.0	1.5
Domestic 1/ 2/	0.8	3.4	3.1	-2.3	-0.1	1.0	0.3	1.5
Other accounts payable	…	-0.5	1.4	0.0	0.0	0.0	0.0	0.0
Foreign 1/ 2/	0.2	0.1	0.7	4.2	1.8	3.1	1.8	0.0
Loans	0.2	0.1	0.7	4.2	1.8	3.1	1.8	0.0
Borrowing	0.4	0.5	1.0	8.5	2.1	3.4	2.1	0.3
Amortization	0.2	0.4	0.3	4.3	0.3	0.3	0.3	0.3
Statistical discrepancy	0.6	-0.2	1.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Central government debt	49.9	54.7	54.7	53.0	51.1	51.8	50.9	50.0
Domestic (excluding Fiji Sugar Corporation)	41.7	45.5	45.8	40.6	38.1	36.4	34.4	34.0
External	8.2	9.2	8.9	12.4	13.0	15.4	16.6	16.0
Net central government debt 3/	46.1	51.3	50.8	48.6	46.3	46.0	45.4	44.8
Contingent liabilities from public enterprises 4/	14.2	17.9	17.1	17.1	16.5	16.1	15.7	15.2

Sources: Ministry of Finance, and IMF staff estimates.

1/ For financing, the *GFSM2001* allows for a classification, under each instrument, by the sector of the counterparty. For residents (domestic), these are: general government, central bank, deposit-taking financial corporations except the central bank, other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households. For nonresidents (foreign), these are: general government, international organizations, financial institutions except international organizations, and other nonresidents.

2/ The instrument classification is consistent with the *2008 System of National Accounts*.
3/ Net of deposits (including JP Morgan Sinking Fund).
4/ Debt guaranteed by the government, excluding FNPF liabilities.

Table 4. Fiji: Balance of Payments, 2008-18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Est.			Proj.				
					(In millions of U.S. dollars)						
Trade balance 1/	-1106	-628	-734	-861	-763	-1496	-1,001	-1,048	-1,119	-1168	-1216
Exports, f.o.b.	874	615	824	1061	1213	1152	1213	1264	1283	1338	1395
Of which: Sugar 2/	156	96	37	71	98	97	110	115	84	87	90
Re-exports	306	172	285	507	640	587	609	625	644	662	686
Other exports	412	347	502	483	475	468	494	524	555	588	619
Imports, f.o.b. 1/	1,980	1,242	1,557	1,921	1,976	2,648	2,214	2,312	2402	2506	2611
Of which: Retained imports (excluding fuels)	1,173	827	921	1,101	1,041	1,705	1,246	1,331	1400	1483	1558
Purchase of aircrafts including prepayment				104	51	507					
Mineral fuels for domestic consumption	508	252	363	343	340	392	412	395	397	400	407
Imports for re-export	299	163	274	477	595	552	557	587	605	623	646
Services and income (net)	396	330	443	511	496	576	565	557	544	547	545
Nonfactor services (net)	483	341	543	628	647	697	704	715	721	742	760
Of which: Tourism credit	557	434	623	717	726	759	778	785	793	801	809
Factor income (net)	-87	-11	-100	-117	-152	-120	-140	-158	-177	-195	-215
Transfers (net)	148	179	149	143	212	186	193	202	206	218	230
Private	142	178	147	140	209	183	189	197	201	213	225
Of which: Workers' remittances	72	105	81	75	104	125	130	137	144	152	161
Official	6	1	3	3	3	3	4	5	5	5	5
Current account 1/	-562	-119	-142	-207	-56	-734	-243	-289	-368	-403	-441
Capital account (net)	5	2	3	6	4	4	4	4	3	3	3
Financial account (net)	271	451	292	472	277	734	250	266	367	399	453
FDI (net)	362	139	349	416	266	196	314	345	365	387	410
Portfolio investment (net)	1	-1	0	106	0	0	0	0	0	0	0
Other investment (net) 1/ 3/	-64	299	-76	-187	-34	462	-142	-81	-1	10	41
Net loans to the government	-28	14	19	137	45	77	78	2	2	1	2
Disbursements	15	15	32	319	84	143	91	16	263	16	17
Amortization	-8	-11	-8	-162	-11	-11	-14	-14	-261	-15	-15
Change in Sinking Fund (net)	-35	10	-5	-20	-28	-56	0	0	0	0	0
Errors and omissions	123	-62	-43	-154	-156	0	0	0	0	0	0
Overall balance	-163	272	111	117	68	5	10	-19	2	-1	15
Trade balance 1/	-30.5	-21.5	-22.8	-22.9	-19.0	-35.5	-22.8	-23.0	-23.7	-23.8	-23.8
Exports	24.1	21.0	25.5	28.3	30.1	27.3	27.6	27.7	27.1	27.2	27.4
Imports 1/	54.6	42.5	48.3	51.2	49.1	62.8	50.4	50.7	50.8	51.0	51.2
Current account balance 1/	-15.5	-4.1	-4.4	-5.5	-1.4	-17.4	-5.5	-6.3	-7.8	-8.2	-8.7
Capital/financial account	7.6	15.5	9.1	12.7	7.0	17.5	5.8	5.9	7.8	8.2	8.9
Overall balance	-4.5	9.3	3.4	3.1	1.7	0.1	0.2	-0.4	0.0	0.0	0.3
					(Annual percent growth)						
Tourism receipts	21.2	-22.1	43.4	15.2	1.2	4.5	2.5	1.0	1.0	1.0	1.0
Workers' remittances	-37.5	45.7	-23.1	-7.3	39.8	20.0	4.0	5.0	5.0	6.0	6.0
Imports of goods and services	24.7	-34.5	17.6	22.6	3.7	24.6	-13.0	4.3	4.0	4.4	4.2
Oil prices	36.4	-36.3	27.9	31.6	1.0	-2.2	-4.0	-3.8	-3.0	-2.7	-1.7
Memorandum items:											
External debt (in millions of U.S. dollars)	449	430	464	612	674	1026	1097	1095	1096	1097	1101
External debt as a share of GDP	12.4	14.7	14.4	16.3	16.8	24.3	25.0	24.0	23.2	22.3	21.6
External central government debt (in millions of U.S. dollars)	270	274	324	457	523	657	736	738	740	742	743
External central government debt as a share of GDP	8.2	9.2	8.9	12.4	13.0	15.4	16.6	16.0	15.5	15.1	14.6
Central government debt-service ratio	1.8	2.0	1.3	12.6	1.1	1.0	1.3	1.3	19.7	2.3	3.0
Gross official reserves (in millions of U.S. dollars) 4/	317	565	716	831	915	919	930	911	913	912	927
(In months of retained GNFS imports) 1/	1.8	4.4	4.7	4.9	5.1	4.7	4.6	4.3	4.1	4.0	3.9
GDP (in millions of U.S. dollars)	3,630	2,926	3,225	3,754	4,024	4,218	4,392	4,557	4,730	4,910	5,100
Trading partners' real GDP growth	1.3	-1.7	2.8	2.1	2.4	2.4	2.7	3.0	2.9	2.9	2.8
Trading partners' import volume (goods and services)	2.5	-10.4	12.7	5.9	4.7	3.4	4.9	4.0	4.5	4.5	4.6
Oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	105.0	102.7	98.5	94.7	91.9	89.4	87.9

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

1/ 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, 2008–18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Est.			Proj.			
Output and prices (percent change)											
Real GDP (at constant factor cost)	1.0	-1.3	0.1	1.9	2.2	3.0	2.2	2.3	2.3	2.3	2.4
GDP deflator	4.3	1.2	6.5	6.0	4.7	4.3	4.4	3.5	3.5	3.5	3.5
Consumer prices (average)	7.7	3.7	5.5	8.7	4.3	2.9	3.0	3.0	3.0	3.0	2.9
Unemployment rate	8.8	8.7	8.9	9.0	8.6	8.8	9.0	9.0	9.0	9.0	9.0
Output gap (percent of actual output)	1.2	-1.2	-2.3	-1.8	-1.5	-0.5	-0.1	0.0	0.0	0.1	0.1
Savings and investment 1/					(In percent of GDP)						
National savings	-0.5	9.9	10.6	11.0	15.1	5.4	12.9	12.1	10.7	10.3	9.8
Public	4.2	1.8	3.4	6.0	6.2	5.9	6.6	6.6	6.4	6.3	6.4
Private	-4.6	8.1	7.2	5.0	8.9	-0.6	6.2	5.5	4.4	3.9	3.5
Gross investment 2/	15.0	14.0	15.0	16.5	16.5	22.8	18.4	18.4	18.5	18.5	18.5
Public	3.7	5.9	4.9	5.7	6.7	8.7	8.6	8.1	7.4	7.4	7.4
Private	11.3	8.1	10.1	10.8	9.8	14.0	9.8	10.3	11.1	11.1	11.1
Foreign savings	15.5	4.1	4.4	5.5	1.4	17.4	5.5	6.3	7.8	8.2	8.7
Central government budget (in percent of GDP)											
Revenue	25.1	24.7	24.9	26.8	26.8	26.7	26.3	26.3	26.0	26.1	26.1
Expenditure	24.7	28.7	27.0	28.2	27.8	29.4	28.3	27.8	27.1	27.1	27.0
Net acquisition of nonfinancial assets	3.7	5.9	4.9	5.7	6.7	8.7	8.6	8.1	7.4	7.4	7.4
(As a percent of total expenditure)	17.5	20.4	18.0	20.3	24.1	29.7	30.5	29.3	27.3	27.2	27.2
Of which: Fiji Sugar Corporation	...	...	0.6	1.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Expense	21.0	22.9	21.5	20.8	20.5	20.7	19.7	19.7	19.7	19.7	19.7
Compensation of employees	9.8	10.4	9.1	8.5	8.3	8.0	7.7	7.7	7.7	7.7	7.7
Interest	3.0	3.4	3.5	3.9	3.6	3.5	3.3	3.2	3.1	3.2	3.2
Other	8.2	9.0	8.8	8.4	8.6	9.2	8.6	8.8	8.8	8.8	8.8
Overall balance 3/	-0.1	-4.4	-2.3	-1.4	-1.0	-2.8	-2.0	-1.5	-1.0	-1.0	-1.0
Primary balance	3.6	-0.6	1.5	2.6	2.6	0.7	1.3	1.6	2.1	2.2	2.2
Central government debt outstanding	49.9	54.7	54.7	53.0	51.1	51.8	50.9	50.0	48.6	47.2	45.8
Balance of payments (in percent of GDP)											
Trade balance 2/	-30.5	-21.5	-22.8	-22.9	-19.0	-35.5	-22.8	*-23.0*	*-23.7*	*-23.8*	*-23.8*
Services plus income (net)	10.9	11.3	13.7	13.6	12.3	13.7	12.9	12.2	11.5	11.1	10.7
Transfers (net)	4.1	6.1	4.6	3.8	5.3	4.4	4.4	4.4	4.4	4.4	4.5
Current account balance 2/	-15.5	-4.1	-4.4	-5.5	-1.4	-17.4	-5.5	-6.3	-7.8	-8.2	-8.7
Capital and financial account balance	7.6	15.5	9.1	12.7	7.0	17.5	5.8	5.9	7.8	8.2	8.9
Of which: FDI (net)	10.0	4.7	10.8	11.1	6.6	4.6	7.2	7.6	7.7	7.9	8.0
Of which: Portfolio investment (net)	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Other investment (net) 2/	-2.5	10.7	-1.8	-1.3	0.3	12.8	-1.5	-1.7	0.0	0.2	0.8
Errors and omissions	3.4	-2.1	-1.3	-4.1	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.5	9.3	3.4	3.1	1.7	0.1	0.2	-0.4	0.0	0.0	0.3
Memorandum items:											
Gross official reserves (in millions of U.S. dollars) 3/	317	565	716	831	915	919	930	911	913	912	927
(In months of retained GNFS imports)	1.8	4.4	4.7	4.9	5.1	4.7	4.6	4.3	4.1	4.0	3.9

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

1/ Saving-investment balances are not available and are estimated by staff. Foreign savings is equivalent to the current account deficit, with private savings as a residual.
2/ Includes planned purchase of aircraft by Fiji Airways in 2013.
3/ Reserve Bank of Fiji holdings only.

Appendix I. External Debt Sustainability Framework, 2008-18

Table 1. Fiji: External Debt Sustainability Framework, 2008-2018
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	14.7	14.4	16.3	16.8	24.3			**25.0**	**24.0**	**23.2**	**22.3**	**21.6**	**22.5**	**-7.2**
Change in external debt	1.2	-0.3	1.9	0.4	7.6			0.7	-1.0	-0.9	-0.8	-0.8	0.9	
Identified external debt-creating flows (4+8+9)	1.4	-7.6	-7.5	-6.3	12.0			-2.1	-1.8	-0.5	-0.2	0.1	0.1	
Current account deficit, excluding interest payments	3.7	4.1	5.2	1.2	17.2			5.2	6.0	7.3	7.5	7.7	7.5	
Deficit in balance of goods and services	9.8	5.9	6.2	2.9	19.0			6.8	7.3	8.4	8.7	8.9	9.7	
Exports	48.5	56.3	59.3	60.5	56.4			56.2	56.0	55.0	55.1	55.0	50.2	
Imports	58.3	62.2	65.5	63.4	75.3			63.0	63.3	63.4	63.8	64.0	59.9	
Net non-debt creating capital inflows (negative)	-4.7	-10.8	-11.1	-6.6	-4.6			-7.2	-7.6	-7.7	-7.9	-8.0	-8.5	
Automatic debt dynamics 1/	2.4	-0.8	-1.7	-0.9	-0.6			-0.2	-0.2	-0.1	0.2	0.4	1.1	
Contribution from nominal interest rate	0.4	0.3	0.3	0.2	0.2			0.4	0.4	0.5	0.7	0.9	1.0	
Contribution from real GDP growth	0.0	0.0	-0.2	-0.3	-0.5			-0.5	-0.5	-0.5	-0.5	-0.5	0.2	
Contribution from price and exchange rate changes 2/	2.0	-1.2	-1.7	-0.8	-0.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.2	7.3	9.4	6.8	-4.4			2.8	0.8	-0.4	-0.6	-0.9	0.8	
External debt-to-exports ratio (in percent)	30.3	25.5	27.5	27.7	43.1			44.4	42.9	42.1	40.5	39.2	44.8	
Gross external financing need (in billions of US dollars) 4/	179.1	197.8	418.2	120.5	794.6			295.6	339.8	666.6	455.5	493.3	481.2	
in percent of GDP	6.1	6.1	11.1	3.0	18.8	10-Year	10-Year	6.7	7.5	14.1	9.3	9.7	9.6	
Scenario with key variables at their historical averages 5/								**25.0**	**25.1**	**24.0**	**22.8**	**21.4**	**21.1**	**-8.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-0.3	0.1	1.9	2.2	3.0	1.7	1.8	2.2	2.3	2.3	2.3	2.4	-0.8	
GDP deflator in US dollars (change in percent)	-13.1	8.6	13.4	4.9	1.7	7.3	9.6	1.9	1.5	1.5	1.5	1.5	-0.6	
Nominal external interest rate (in percent)	2.3	2.5	2.2	1.4	1.2	2.5	0.9	1.6	1.6	2.0	3.0	4.3	4.5	
Growth of exports (US dollar terms, in percent)	-12.9	27.9	22.7	9.3	-2.3	10.0	13.5	3.8	3.4	2.0	3.9	3.7	-10.0	
Growth of imports (US dollar terms, in percent)	-18.4	17.6	22.6	3.7	24.6	12.3	15.0	-13.0	4.3	4.0	4.4	4.2	-7.6	
Current account balance, excluding interest payments	-3.7	-4.1	-5.2	-1.2	-17.2	-8.1	5.2	-5.2	-6.0	-7.3	-7.5	-7.7	-7.5	
Net non-debt creating capital inflows	4.7	10.8	11.1	6.6	4.6	7.6	3.6	7.2	7.6	7.7	7.9	8.0	8.5	

Note: Imports increase significantly in 2013 owing to Fiji Airways' purchase of aircraft.

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

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

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

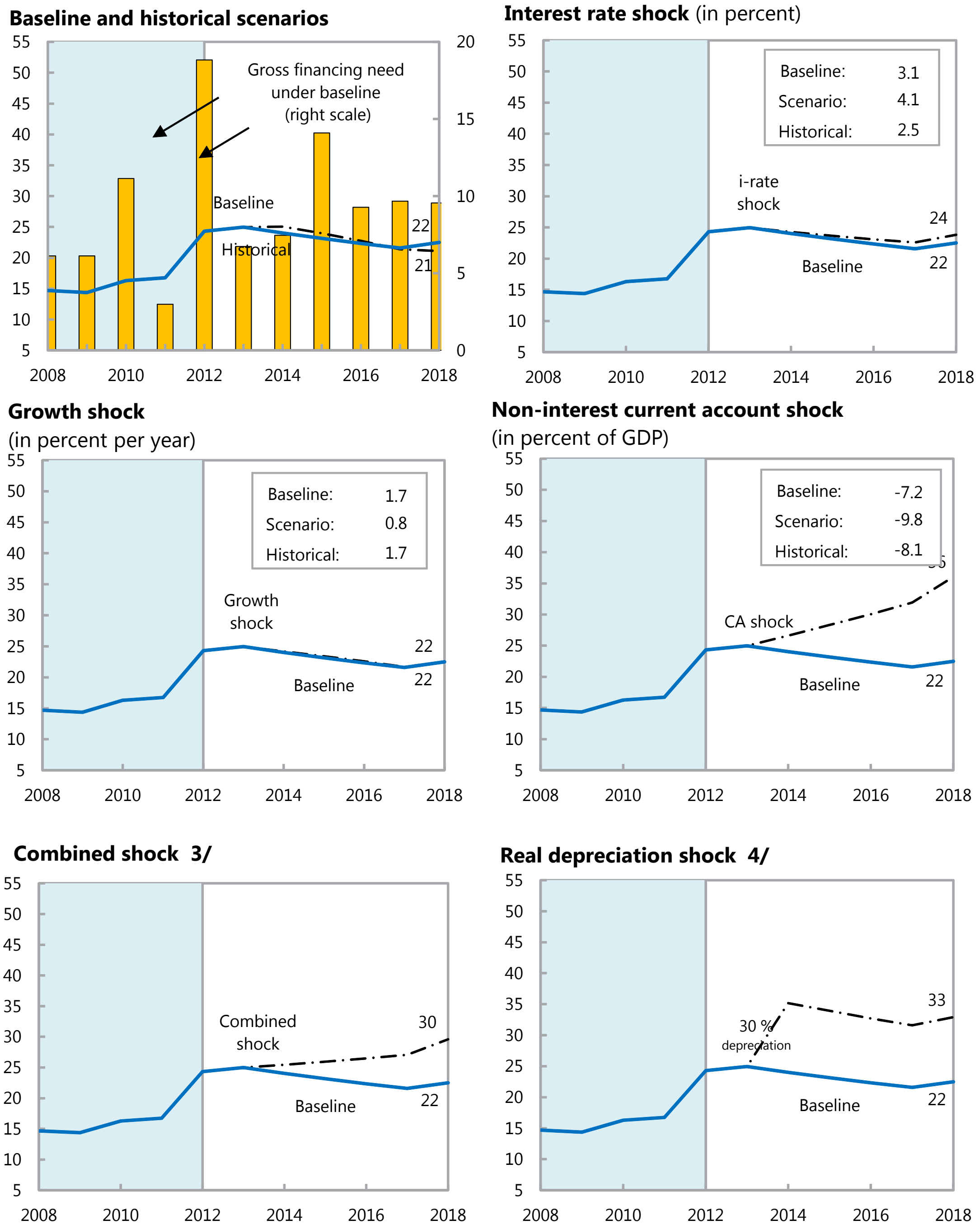
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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.

Appendix II. Public Debt Sustainability Framework, 2008-18

Table 2. Fiji: Public Sector Debt Sustainability Framework, 2008-2018
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	49.9	54.7	54.7	53.0	51.1	**51.8**	**50.9**	**50.0**	**48.6**	**47.2**	**45.8**	**0.8**
o/w foreign-currency denominated	8.2	9.2	8.9	12.4	13.1	15.6	16.8	16.2	15.7	15.2	14.6	
Change in public sector debt	0.0	4.8	-0.1	-1.7	-1.9	0.7	-0.9	-0.9	-1.4	-1.4	-1.4	
Identified debt-creating flows (4+7+12)	-2.1	4.9	-1.7	-1.1	-2.7	-0.8	-1.2	-1.3	-1.7	-1.7	-1.7	
Primary deficit	-3.6	0.6	-1.5	-2.6	-2.6	-0.7	-1.3	-1.6	-2.1	-2.2	-2.2	
Revenue and grants	25.2	24.7	24.9	26.8	26.8	26.7	26.3	26.3	26.0	26.1	26.1	
Primary (noninterest) expenditure	21.7	25.3	23.4	24.2	24.2	25.9	25.0	24.6	23.9	23.9	23.9	
Automatic debt dynamics 2/	1.4	4.3	-0.2	0.0	-0.1	0.0	0.1	0.4	0.4	0.5	0.5	
Contribution from interest rate/growth differential 3/	0.4	3.5	0.3	-0.1	0.1	0.0	0.1	0.4	0.4	0.5	0.5	
Of which contribution from real interest rate	0.9	2.8	0.3	0.9	1.2	1.4	1.2	1.5	1.4	1.5	1.6	
Of which contribution from real GDP growth	-0.5	0.7	-0.1	-0.9	-1.1	-1.4	-1.1	-1.1	-1.1	-1.1	-1.1	
Contribution from exchange rate depreciation 4/	1.0	0.8	-0.5	0.0	-0.2	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	2.2	-0.1	1.7	-0.6	0.8	1.5	0.4	0.4	0.3	0.3	0.3	
Public sector debt-to-revenue ratio 1/	197.8	222.0	220.0	197.6	190.6	194.4	193.8	190.3	186.5	181.1	175.6	
Gross financing need 6/	3.0	8.7	5.6	8.9	3.8	5.1	4.4	3.2	7.9	2.6	2.5	
in billions of U.S. dollars	107.1	255.8	180.5	332.7	154.7	215.5	195.1	144.2	373.0	129.7	127.8	
Scenario with key variables at their historical averages 7/						**51.8**	**51.8**	**51.8**	**51.7**	**51.6**	**51.6**	**0.5**
Scenario with no policy change (constant primary balance) in 2013-2018						**51.8**	**51.5**	**51.5**	**51.5**	**51.6**	**51.7**	**0.9**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	1.0	-1.3	0.1	1.9	2.2	3.0	2.2	2.3	2.3	2.3	2.4	
Average nominal interest rate on public debt (in percent) 8/	6.4	6.8	7.1	7.9	7.3	7.4	6.9	6.6	6.6	6.9	7.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.0	5.6	0.7	1.9	2.6	3.1	2.5	3.1	3.1	3.4	3.6	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-12.1	-8.5	6.0	-0.1	1.9	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.3	1.2	6.5	6.0	4.7	4.3	4.4	3.5	3.5	3.5	3.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-9.1	14.3	-6.3	6.6	2.0	10.4	-1.5	1.0	-0.6	2.1	2.2	
Primary deficit	-3.6	0.6	-1.5	-2.6	-2.6	-0.7	-1.3	-1.6	-2.1	-2.2	-2.2	

1/ Central government gross debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

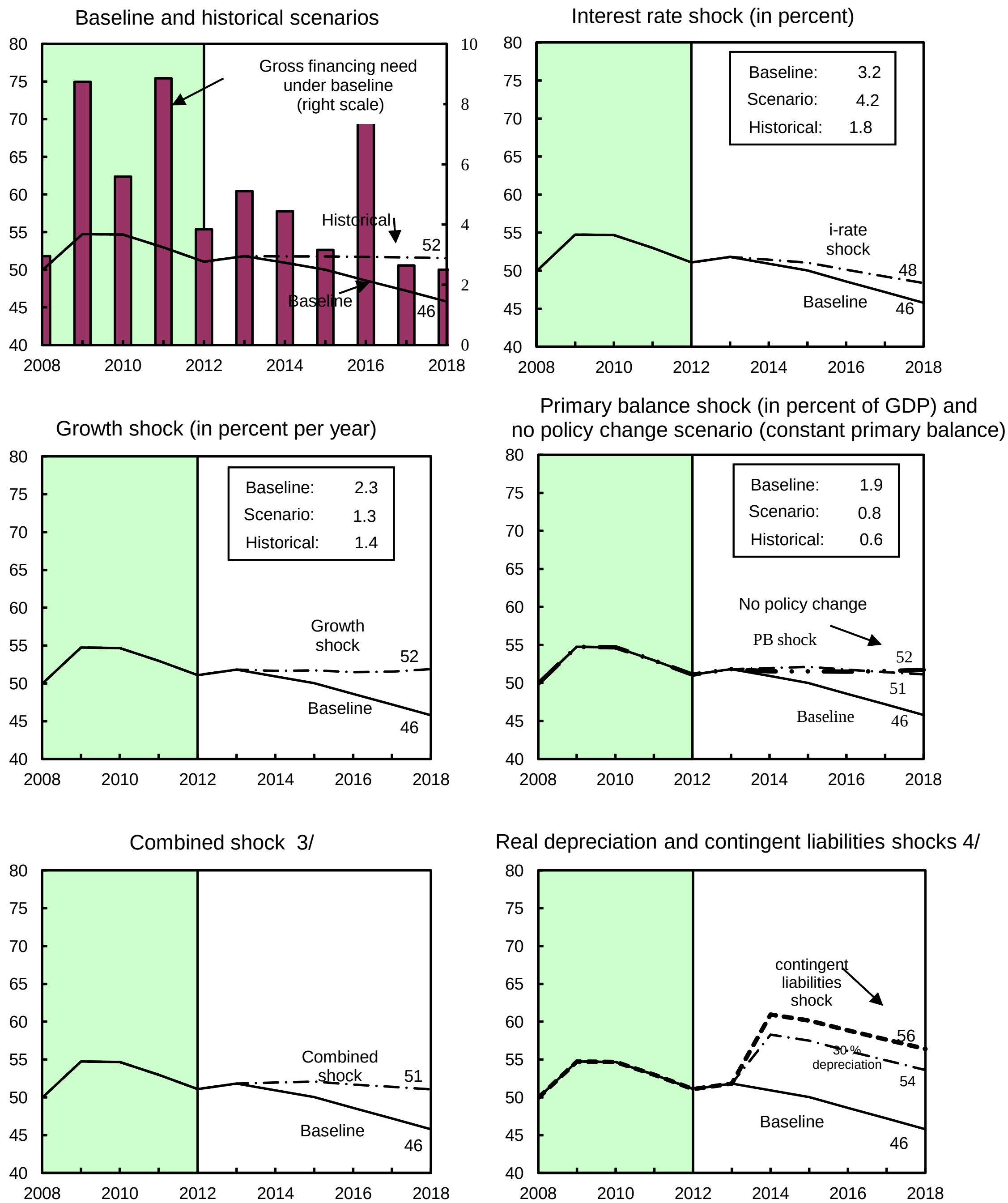
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Fiji: Public Debt Sustainability: Bound Tests 1/ 2/
(Public 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 primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 18, 2013

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(as of September 30, 2013)

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	53.82	76.56
Reserve position in Fund	16.54	23.52

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	51.08	76.14

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				
	2013	2014	2015	2016	2017
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	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. On April 15, 2009, the Fiji dollar was devalued by 20 percent against the basket. The exchange rate was F$1.8584 per U.S. dollar as of September 26, 2013.

Exchange and capital controls were tightened significantly in early 2009 following the devaluation of the currency. Some of the exchange restrictions have been eliminated and amended since then. Remaining restrictions subject to Article VIII arise from the Fiji Revenue and Customs Authority 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 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 in January 2013. Banks have also been allowed to have net forward contracts of up to F$20 million, and individuals are allowed to take out up to F$15,000 for overseas investment.

Last Article IV Consultation: The 2011 Article IV consultation discussions were held in Suva during October 24–November 4, 2011. The consultation (Country Report No. 12/44) was completed by the Executive Board on January 20, 2012. Fiji is on a 12-month cycle with the concurrence of the authorities. The 2013 Article IV consultation was delayed owing to the authorities' request to better align the consultation with the authorities budget schedule.

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

WORLD BANK-IMF COLLABORATION

(As of September 30, 2013)

The Bank and Fund country teams led by Mr. Vivek Suri (World Bank Lead Economist, East Asia and the Pacific) and Mr. Chikahisa Sumi (IMF Mission Chief for Fiji) maintain a close working relationship and have an ongoing dialogue on a range of macroeconomic and structural issues.

Cooperation over the past year has included World Bank participation in the August 2013 Article IV mission to Fiji. The Bank's participation facilitated discussions with the authorities in areas of mutual interest such as social protection, civil service reform, and growth priorities.

Based on the above cooperation, the Bank and Fund teams continue to agree that Fiji's main macroeconomic challenges are to safeguard fiscal and external stability, as well as address structural obstacles that are impeding growth. 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. The need for faster and deeper structural reform is urgent to boost investor confidence, reduce the economy's supply bottlenecks and raise the absorptive capacity in order to take full advantage of a potential increase in foreign and domestic investments following the planned elections in 2014. These obstacles are detailed in the main text of the report, but some of the structural reforms seen by the Bank and the Fund as macro-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.

- **Sugar-cane sector reform**, to revitalize a key sector. The government has made good plans for reforming the sugar-cane sector, including using the by-products of sugar production for ethanol and electricity generation. However, the issue of unstable land lease, aging workers, lack of larger-scale mechanization, and obsolete and poorly maintained facilities are long-term challenges. With EU preferential purchase agreements expiring, it is imperative to continue the reform efforts to ensure the industry remains viable

- **Civil service reform**. The authorities have made some progress with civil service reform. Over the medium term, functional reviews are required to identify core service areas and ensure that the structure of the public service remains appropriate.

- **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 the government's direct and contingent liabilities, help ensure fiscal sustainability, and promote growth.

- **Review of the social safety net.** Fiji has recently achieved significant gains in protecting the vulnerable through the strengthening of social safety nets. From this point, efforts should continue to enhance the definition of eligibility criteria, improve targeting, and increase coverage of vulnerable groups. A stronger safety net will help to ensure the success of Fiji's reform agenda.

- **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.

- **Debt management.** Debt management strategies should be geared toward careful evaluation of and optimization between all policy options and building up buffers.

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

The Bank and Fund teams agreed to continue close collaboration going forward**.** Appendix I details those activities that the Bank and Fund will work on over the coming year.

Fiji: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas, November 2013–November 2014

	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, 2013]

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 FIRCA 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 PFM area, support has been focused on building internal audit and accounting capacity while in macroeconomics the focus has been on building modeling skills, including for potential natural resource revenues.

PFTAC TA aims to sustain the authorities' progress on fiscal consolidation and enhance the framework for macroeconomic policy making. In the fiscal area, revenue will continue to be the main focus as the authorities are keen to improve revenue performance.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.[2]

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and enhance the framework for macroeconomic policy making. In the fiscal area the majority of inputs will continue to be in the revenue area with support on PFM systems and fiscal forecasting. Enhanced statistics will support strengthened modeling capacity in RBF and Ministry of Finance which should ensure policy makers are better informed.

In the **Public Financial Management** area, the main focus will be assisting in strengthening weaknesses identified in the 2012 PEFA assessment. This may include assistance in looking at the roles, responsibilities and structure of the Ministry of Finance. Areas of specific follow-up assistance

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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.

[2] The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (*1.6*), where 1.6 is the code in the result framework in the program document.

will be influenced by the action plan drawn up following the PEFA (*1.2*) but are likely to be focused on strengthening accounting and financial reporting processes and systems, formal adoption of IPSAS, transition to accrual accounting (perhaps drawing on IMF HQ expertise), budget execution (*1.4*), and continuation of training budget officers in methods for budget preparation/analysis. Assistance in cash and debt management may also be a focus *(1.6),* if resources are available. PFTAC will coordinate closely with the ADB's PEM TA project.

In the **revenue** area, Fiji is one of the regional leaders in terms of administrative processes but is keen to improve revenue performance. PFTAC assistance will focus on (i) finalising the legislation for PAYE Final Tax to enable the laws to be promulgated; (ii) implementing PAYE Final Tax; planning for and implementing VAT self assessment; and reviewing the planned changes to FRCA's operating model and structure relative to the implementation of PAYE FINAL and self assessment. PFTAC will also follow up on recommendations arising from the strategic review of FRCA's information technology processes carried out in August 2012 and contribute to the enhancement of FRCA's capability to manage the fiscal regime for the mining sector and international tax issues.

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 2014 (*4.4*), but in advance of that PFTAC will support the finalization of rebased estimates planned for September 2013 (*4.1, 4.2*). PFTAC will also support the development of GDP estimates by expenditures with the expectation to produce draft estimates by December 2013 (*4.1*) and will continue to provide limited follow-up on price indices with support from IMF HQ (4.8). IMF HQ will also provide 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 RNF's head of bank supervision who is executive director of AFSPC. APRA, who had provided the bulk of TA in this sector recently indicated that it will be scaling down its support to the RBF following a policy change at AusAid. RBF subsequently indicated that it will be increasing its involvement with the TA program provided by PFTAC, especially as it pertains to Risk Based Banking Supervision training. It will further request technical assistance during the anticipated Credit Union's legislative and oversight modernization program of that sector.

In the **macroeconomic** area, work will focus on building macroeconomic modeling and analysis capacity in RBF (*5.1, 5,2)* with the aim of having better inflation and external forecasts to feed into monetary policy making (*5.3*). Key projects include measuring core inflation, empirical work on identifying the long-run determinants of inflation, development of macroeconomic models for Fiji, and improvements to RBF's financial programming framework and toolkit for external sustainability. In the fiscal area, past work helped to evaluate MoF's revenue forecast and make methodological improvements; current work is focused on developing a framework for debt sustainability analysis, drawing on the Fiscal Management Model for Fiji that resulted from an earlier PEM TA project (*5.4*).

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of September 30, 2013)

The Asian Development Bank (AsDB) has approved 19 loans totaling $317million. The AsDB has approved 83 TA projects, totaling $27.3 million since 1970. AsDB opened a Pacific sub-regional office in Suva in June 2004, servicing Fiji Islands and five other Pacific nations.

Following the military coup of December 2006, AsDB's disbursements and TA operations were suspended. In April 2007, AsDB adopted an *Approach to Reengagement* for Fiji Islands which allows for the completion of activities ongoing at the time of the December 2006 coup, but not approval of a new country partnership strategy or new operations until Management judges that five criteria have been met viz.(i) whether a new loan would expose ADB to additional legal or political risks associated with the country's financial obligations; (ii) whether the de facto government is in effective control of the country and enjoys a reasonable degree of stability and public acceptance; (iii) whether the de facto government generally recognizes the country's existing international obligations; (iv) the number of countries that have recognized the de facto government or dealt with it as the government of the country; and (v) the attitude of other international organizations toward the de facto government. While the first four criteria have been met, the stance of some AsDB member countries towards the government and Fiji Islands' suspension from the Pacific Islands Forum and the Commonwealth remain problematic. Periodic reports, to update AsDB's Board on the evolving situation in the country, are prepared in line with the *Approach to Reengagement*.

ADB's assistance has focused on completing activities ongoing at the time of the December 2006 coup. Supplementary financing of $26.8 million was provided in 2009 for the Third Road Upgrading Project, while $23.0 million was provided for the Suva–Nausori Water Supply and Sewerage Project in the same year. As an exception, the Emergency Flood Recovery Project loan of $17.56 million was processed and approved in 2009. All three projects are expected to be completed by the end of 2013. ADB is providing ongoing technical assistance, most recently for state-owned enterprise (SOE) reform, and provided two grants from the Asia Pacific Disaster Response Fund of $1 million each in February and April 2012 following the floods. Fiji also participates in regional technical assistance in areas such as climate change, public sector management, and information and communication technology. In February 2013, a country diagnostic study, jointly supported by the Economic Research Department and Pacific Subregional Office, commenced in Fiji to identify critical constraints to growth of the economy. The study is expected to be completed by November 2013.

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

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Despite significant shortcomings in some areas, especially GDP and balance of payments data, core economic and financial data provided to the Fund are generally adequate for surveillance. Macroeconomic data are 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 2011. Revised data were published in April 2013 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 August 2013. The BoS is currently updating the CPI weights from the current 2008 base using results of the 2008/09 Household Expenditure and Income survey.
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, sending participants to regional training in 2012 and 2013 and receiving a TA mission in January 2013. 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 September 18, 2013)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	August 2013	September 2013	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	July 2013	September 2013	M	M	M
Reserve/Base Money	August 2013	September 2013	M	M	M
Broad Money	August 2013	September 2013	M	M	M
Central Bank Balance Sheet	August 2013	September 2013	M	M	M
Consolidated Balance Sheet of the Banking System	August 2013	September 2013	M	M	M
Interest Rates[2]	August 2013	September 2013	M	M	M
Consumer Price Index	July 2013	August 2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	2011	June 2013	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	2011	November 2012	A	A	A
External Current Account Balance	Q4, 2012	June 2013	Q	Q	Q
Exports and Imports of Goods and Services	Q4, 2012	June 2013	Q	Q	Q
GDP/GNP	2011	November 2012	A	A	A
Gross External Debt	November 2012	June 2013	M	M	M

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

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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

Press Release No. 13/521
FOR IMMEDIATE RELEASE
December 20, 2013

IMF Executive Board Concludes 2013 Article IV Consultation with the Republic of Fiji

On November 4, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Fiji.[1]

Growth in the Fijian economy increased to 2¼ percent in 2012, supported by income tax cuts, low interest rates and the one-time payouts under the Fiji National Provident Fund (FNPF) reform, which offset the negative impact of the severe floods and Cyclone Evan on the agriculture and tourist sectors. Inflation declined as imported commodity and food prices moderated. With a lower-than-budgeted deficit of 1 percent of GDP, Fiji's debt-to-GDP ratio continued to decline in 2012. The financial sector is stable and international reserves have stabilized to a comfortable level. However, unemployment remains stubbornly high at nearly 9 percent, with youth unemployment and underemployment at significantly higher rates. Emigration pressures continue especially among the higher skilled. Economic growth is set to increase to around 3 percent in 2013. The latest available indicators suggest accelerating growth momentum in the first half of 2013 boosted by increases in disposable income, bank borrowing, and rising investment. These effects are likely to taper off somewhat in the latter part of 2013. In 2014, growth is projected to moderate to 2¼ percent.

The current macroeconomic policies are broadly appropriate. Fiji's fiscal policy continues to balance the need to strengthen the fiscal position against the need to increase public investment to support growth. The 2013 deficit target of 2.8 percent of GDP is on track to be met, with strong VAT revenue collections and somewhat slower-than-planned expenditures in the first half of 2013. In view of muted inflationary pressures, the accommodative stance of monetary policy is appropriate.

The authorities have recently accelerated structural reforms—including in the areas of land policy, the sugarcane sector, the civil service, public enterprises, and pensions—but key policy

[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.

challenges remain to sustainably raise economic growth, reduce poverty, and increase resilience to shocks. To achieve higher growth and reduce unemployment, faster and deeper structural reform is now urgently needed. It is particularly important to expand Fiji's capacity to utilize effectively an expected increase in foreign and domestic investment following a successful transition to democratic parliamentary government in 2014.

Executive Board Assessment[2]

Executive Directors welcomed Fiji's improved macroeconomic situation and viewed the current configuration of policies as broadly appropriate. Directors encouraged the authorities to use the present stable environment to accelerate the pace of structural reforms in order to support sustainable, higher and broad-based growth and to reduce vulnerability to shocks.

Directors observed that fiscal policy is rightly balancing the need to strengthen the fiscal position against the need to increase growth-enhancing public investment. They welcomed the authorities' plan to reduce fiscal deficits, while increasing capital spending to clear infrastructure backlogs. While recent income tax cuts are growth friendly, Directors stressed the need to broaden the tax base and to manage current expenditures to create space for capital investment, lower public debt, and build buffers against external shocks. They welcomed the reform of the Fiji National Provident Fund, while noting that potential risks arising from the option of lump sum payment would need to be managed carefully.

Directors saw the accommodative monetary policy as appropriate in view of low inflation and high unemployment. They welcomed the overall soundness of the financial sector and the rebound of credit growth from low levels but called for enhanced monitoring of sectors with rapid credit growth. In the event inflationary pressures emerge, Directors advised using open market operations to reduce excess liquidity and, if needed, tighten policy rates. Directors welcomed the initiatives for financial inclusion.

Directors noted the continued gradual appreciation of the real exchange rate and called for periodic reviews and adjustment if necessary, of the level of the peg to avoid abrupt step devaluations. Most Directors also saw merit in more flexible exchange arrangements. Directors encouraged the authorities to eliminate remaining exchange restrictions and to continue to strengthen the Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) regime.

Directors welcomed the recent progress in structural reforms. However, to raise Fiji's potential growth, reduce its vulnerability to shocks, and alleviate poverty they saw a need for deeper and

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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.

faster reforms. Priority should be given to improving the investment climate by streamlining government regulations, relaxing price controls while protecting the most vulnerable, increasing the efficiency of land use, and upgrading the infrastructure. Efforts are also needed to increase the energy supply and ensure the viability of the sugarcane industry. Directors called for improvement in data quality.

Fiji: Selected Economic Indicators, 2008–14

	2008	2009	2010	2011 Est.	2012 Est.	2013 Proj.	2014 Proj.
Output and prices (percent change)							
Real GDP (at constant factor cost)	1.0	-1.3	0.1	1.9	2.2	3.0	2.2
GDP deflator	4.3	1.2	6.5	6.0	4.7	4.3	4.4
Consumer prices (average)	7.7	3.7	5.5	8.7	4.3	2.9	3.0
Consumer prices (end of period)	6.6	6.8	5.0	7.7	1.5	2.9	3.0
Central government budget (percent of GDP)							
Revenue	25.1	24.7	24.9	26.8	26.8	26.7	26.3
Expenditure	24.7	28.8	27.0	28.2	27.8	29.4	28.3
Net lending (+)/borrowing (–)	-0.1	-4.4	-2.3	-1.4	-1.0	-2.8	-2.0
Total debt outstanding	49.9	54.7	54.7	53.0	51.1	51.8	50.9
Money and credit (percent change) 1/							
Net domestic credit	4.1	7.2	-0.6	0.5	2.7	11.6	…
Private sector credit	7.3	0.7	3.5	3.9	6.3	9.0	…
Broad money (M3)	-6.5	7.1	3.5	11.5	5.9	13.1	…
Monetary base	-31.2	50.5	22.0	19.6	11.4	20.0	…
Reserve Bank of Fiji's discount rate	6.3	3.5	3.0	1.0	1.0	1.0	…
Commercial bank lending rate	7.7	7.5	7.4	7.4	6.6	6.0	…
External sector (in millions of U.S. dollars)							
Trade balance 2/	-1,106	-628	-734	-861	-763	1,496	1,001
(In percent of GDP)	-30.5	-21.5	-22.8	-22.9	-19.0	-35.5	-22.8
Exports, f.o.b.	874	615	824	1,061	1,213	1,152	1,213
Imports, f.o.b. 2/	1,980	1,242	1,557	1,921	1,976	2,648	2,214
Current account balance 2/	-562	-119	-142	-207	-56	-734	-243
(In percent of GDP)	-15.5	-4.1	-4.4	-5.5	-1.4	-17.4	-5.5
Capital/financial account balance	276	454	295	478	281	738	253
Errors and omissions	123	-62	-43	-154	-156	0	0
Overall balance	-163	272	111	117	68	5	10
Gross official reserves (in millions of U.S. dollars)	317	565	716	831	915	919	930
(In months of retained imports) 2/	1.8	4.4	4.7	4.9	5.1	4.7	4.6
External central government debt							
(In millions of U.S. dollars)	270	274	324	523	657	736	738
(In percent of GDP)	8.2	9.2	8.9	13.0	15.4	16.6	16.0
Miscellaneous							
Real effective rate (average)	102.2	90.5	87.9	92.1	96.3	…	…
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.59	1.96	1.92	1.79	1.79	…	…
GDP at current market prices (in millions of Fiji dollars)	5,785	5,722	6,187	6,731	7,203	7,740	8,262
Oil price (U.S. dollars per barrel)	97.0	61.8	79.0	104.0	105.0	102.7	98.5

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

1/ The 2013 data refer to July 2013.

2/ Includes purchase of aircraft by Fiji Airways in 2013.

Statement by Wimboh Santoso, Executive Director for Fiji
and Caroline Waqabaca, Advisor to Executive Director
November 4, 2013

1. On behalf of the Fijian authorities, we would like to express our gratitude to staff for the constructive discussions held during the 2013 Article IV Consultations from August 1-15, 2013. This year, policy discussions focused on the need to raise potential growth, reduce the country's vulnerability to shocks and further reduce poverty. The authorities remain committed to implementing key structural reforms that will improve the efficiency of the public sector and encourage more private sector investment in the economy. Authorities broadly agree with the thrust of the staff report and the analysis and recommendations in the report which serve as a useful reference for pursuing efforts to achieve sustainable inclusive growth and macroeconomic and financial stability. Nevertheless, there have been several recent developments in Fiji since the mission concluded which may be beneficial to the Board of Directors as additional supporting information for their discussion in the board meeting. This statement outlines the authorities' views on the recent 2013 Article IV Consultation report and highlights the strategic policy priorities for Fiji.

Updates on the Fijian economy and outlook

2. On September 6, 2013, the President gave his assent to the country's new constitution, which should pave the way for parliamentary elections by September 2014, and lay the foundation for genuine democracy in Fiji by incorporating the concept of one person-one vote and support the creation of a national identity by entrenching common and equal citizenry. As part of preparations for next year's elections, the authorities are working with development partners, some of whom have pledged their assistance in cash and kind as well as provided technical experts to assist the Elections Office.

3. The authorities have set sustainable inclusive growth and poverty reduction through structural reforms as the top policy priorities in their medium and long-term development plan. The reform agenda covers various areas including monetary and financial, fiscal, public sector and private sector, and is in line with the recommendations in the 2011 Article IV Report.

4. The implementation of policies such as the income tax cuts, low interest rates and the one-time payouts under the FNPF reform were the main drivers for growth in 2012, helping the economy expand by 2.2 percent, despite the negative impact from Cyclone Evan and the massive floods which slowed tourism arrivals by 2.1 percent and lowered sugar production by 7.1 percent. Based on economic developments in the last few months, the authorities now estimate that the growth rate for 2013 will be higher at 3.6 percent. The improved forecast for this year is supported by buoyant consumption spending and investment, that will contribute to better than expected performances in the manufacturing, communications, wholesale and retail and construction and transport sectors. Owing to positive performances in these same sectors as well as the agriculture and financial sectors, the economy is forecast to further expand by 3.0 percent next year. Determined efforts by the authorities to reinvigorate the economy have seen growth improve from what was earlier anticipated in the 2011 Article IV Report when growth for 2012 and 2013 was projected at 1.5 percent and 1.7 percent, respectively.

5. Inflation was on a declining trend in 2012 reaching 2.5 percent (new 2008 base) by year end. In September 2013, inflation was 3.1 percent, and is expected to fall to 3.0 percent by December, mainly driven by movements in global food and oil prices. The current account deficit improved to 1.4 percent of GDP in 2012 led by an improved trade balance, as exports growth outweighed a pick-up in imports. For this year, the current account deficit (excluding the purchase of Fiji Airways aircrafts roughly 83 percent financed by a 10-year foreign loan) is forecast to increase to around 7.3 percent of GDP, mainly on account of a higher trade deficit resulting from higher imports of fuel, consumption and investment-related goods. Higher consumption spending in the economy has boosted imports of food, cars and household goods while the implementation of major investment projects such as roads has led to increased importation of heavy industrial machines and equipment. The level of international reserves is currently sufficient to cover 5 months of imports and is expected to remain comfortable over the medium term.

6. The financial sector remains sound and stable, despite the negative impact from the 2012 cyclones and floods as well as the implementation of banking reforms to remove and reduce bank fees and charges. Banks remain well capitalized with low NPLs and adequate loan loss provisioning. The insurance industry maintained its solvency requirements, posted positive and satisfactory earnings and grew its asset size in 2012. The Fiji National Provident Fund (FNPF), which remains the single largest supervised institution accounting for around 35 percent of total financial system assets, recorded a slight expansion in assets last year, as the Reserve Bank of Fiji continued to closely monitor the implementation of the institution's reform program.

7. The authorities are mindful of the down side risks to Fiji's economic outlook. Possible natural disasters given the country is now entering the cyclone season, poses a risk to this year's positive growth outlook. Slower growth in major trading partners particularly Australia and New Zealand on which the country depends for trade in goods and tourism, along with the depreciation in their currencies, and oil and food price shocks, can also impact negatively on Fiji's external position. The authorities continue to boost budgetary resources towards import substitution initiatives under its Food Security Program as well as its Export Promotion Program, to strengthen Fiji's external position. Investment in the country's second major 40 megawatts hydro-electric scheme now operational in Nadarivatu is expected to bring much savings to the economy while extending power supply to more villages and settlements. We agree that any risk of capital flow reversals from the potential impact of UMP tapering in advanced economies, is minimal, given the current minor portfolio flows the country has. On the risk of refinancing the US$250 million sovereign bond, investor feedback so far has been positive with indications for continuing interest in Fiji's sovereign bond.

Monetary and Financial Sector Policies

8. The authorities have maintained an acommodative monetary policy by keeping its policy rate at 0.5 percent since October 2011. The lower interest rate policy provides an avenue for the banking sector to support economic growth through granting credit to businesses mainly in wholesale, retail, hotels, restaurants, manufacturing and construction sectors. Credit growth increased by 9.5 percent in the first eight months of 2013 and authorities are mindful of the downside risk to financial sector instability from any excessive credit growth. Therefore, strengthening prudential regulation and supervision remain on the agenda of the authorities to ensure that NPLs are reduced with greater provisioning and any identified risks are mitigated in the early stages by adopting risk based supervision. Current excess liquidity levels are not expected to pose any inflationary pressures however, the authorities remain watchful of any emerging threats to price stability. The authorities continue to work with stakeholders on broadening financial inclusion, through initiatives such as the

loan guarantee scheme with the banks, targeted lending, financial services and other micro-finance activities. Fiji recently won the “Maya Declaration Award” at the 2013 5th Alliance for Financial Inclusion (AFI) Global Policy Forum, in September in recognition of its achievement in reaching by March this year, 85 percent of its goal to provide financial services to 150,000 unbanked people by 2014. This figure has since risen to 93 percent by end September, 2013.

Fiscal Policy

9. On the fiscal front, medium and long term fiscal reforms are still underway to gradually reduce the fiscal deficit. For 2012, the fiscal deficit is estimated at 1.0 percent of GDP, slightly below the estimated target of 1.6 percent. For 2013, the fiscal deficit is projected at 2.8 percent largely reflecting substantial government grants to the Fiji Roads Authority for nation-wide infrastructure development. At the end of September this year, the government recorded a fiscal surplus of 0.3 percent of GDP, owing to buoyant revenue collections and lower than expected spending for both operating and capital purposes. The implementation rate of capital projects typically picks up during the second half of the year. Going forward, the authorities have maintained their commitment to achieving their fiscal targets within the 2013-17 Medium Term Fiscal Framework approved by Cabinet. The authorities are confident that measures in the 2014 National Budget to be announced on November 8, 2013, will ensure alignment with the current fiscal deficit forecasts of 2.0 percent in 2014, 1.5 percent in 2015 and 1.0 percent in 2016. The authorities agree with the staff assessment on striking a balance between measures to strengthen the fiscal position and efforts to support growth, recognizing the need to create more fiscal space in order to effectively respond to shocks such as natural disasters and slowing global demand. The authorities are also committed to further reducing the debt level, currently around 50 percent of GDP, towards the medium term target of 45 percent. To date, the Government has saved up to US$128 million in its offshore sinking fund account for the US$250 million bond repayment in 2016, and has targeted to raise this balance to US$150 million by year end.

10. Building on tax measures implemented last year, the government introduced further tax measures in 2013, to attract investment and support growth in the economy. The relocation of ANZ Bank’s Pacific headquarters to Fiji from Australia early this year, is a positive response by the market to the lowering of corporate tax rates by the government for companies that establish their regional or global headquarters in Fiji. To help provide income tax relief to low income earners, the income tax exemption threshold was increased almost doubling the minimum threshold over the last five years. At the same time, efforts to enhance revenues, simplify and strengthen tax administration and improve compliance, continue. Fund assistance is being sought towards the introduction of a tax self-assessment program and towards implementing the current Pay As You Earn tax as a final tax wherewith all personal taxable allowances will be removed. Indirect tax measures, particularly VAT, are expected to boost overall revenues, and help to offset lower collections from reduced direct tax rates. Authorities will continue to scrutinize discretionary duty and tax concessions to curb revenue losses while balancing this with allowing concessions to support development purposes. Over the past two years, the authorities have consistently transferred a number of concession items under its Section 10 Standing List to the Customs Tariff list, effectively removing ministerial control over these items. Expenditure policy has been directed to priority areas such as infrastructure, essential services and poverty reduction. Huge infrastructure spending this year is expected to improve productivity and access to services while promoting growth and equality in the economy. The Government continues to extend measures through its social welfare system, to protect the poor and alleviate poverty, introducing for the first time this year pensions for senior citizens over 70 years of age who do not have any form of income or pension or have been under such scheme.

Exchange rate policy

11. The authorities agree with staff that more exchange rate flexibility is desirable, and will continue to internally assess the options for introducing future periodic reviews and adjustments to avoid large disruptive step devaluations. Under the current fixed exchange rate regime, basket weights are reviewed annually and adjusted accordingly, to reflect recent bilateral trading patterns with major trading partners.

Structural Reforms

12. The authorities agree with the need to push for further reforms and remove the structural impediments that hinder investment towards lifting the country to a higher growth trajectory and sustainable development.

13. Progress on public service reforms continues. The Functional and Regulatory Review Office continues to work closely with government ministries to review the current regulatory environment, systems and processes, to enhance service delivery and produce a modern public service that is lean, efficient and accountable. On land reforms, the government recently lifted the moratorium on agricultural land allowing landowners the option of converting agricultural land for residential, commercial or industrial use. This allows the areas surrounding Fiji's towns and cities to be utilized for other productive purposes including building of new homes, which will increase the value of land and returns from it, providing landowners with a greater sense of security. Reforms in the sugar industry remain vital given that a large portion of the population is dependent on the sector. Ongoing efforts to revitalize the industry and convert it from a sugar to a sugar-cane industry remain a challenge, especially with the lack of key development partner support and in the face of the impending expiry of the current preferential agreement with the EU. Nevertheless, reform efforts have begun to show encouraging signs through the replanting program, the renewal of long term leases and diversification efforts, which are returning confidence and stability to the industry.

14. On FNPF reform, steps were taken to adopt an actuarial fair pension conversion rate, establish a more robust governance framework, separate the pension business from the accumulation fund and adopt solvency requirements for each fund under the FNPF. In addition, efforts will continue on rehabilitating major non-performing assets to recover value over time, modernizing the FNPF Act to strengthen governance, and introducing prudential guidelines for proper supervision, to ensure prudent and sustainable delivery of retirement savings in the best interest of its members. The FNPF has progressively increased its offshore investments to around 9 percent of its portfolio and aims to further raise this to 20 percent over the medium term. Under its pension reform, the FNPF reduced the pension conversion rate for single life and joint life annuities. Authorities are aware of possible fiscal risks from the pension reforms highlighted by staff and will put appropriate measures in place to mitigate any negative implications from these.

15. The objective of price controls has been to provide protection for poor households through reasonable levels of prices for selected core commodities on a temporary basis until the market is able to provide fair prices for these basic items. At the same time, authorities are mindful of the distortions to market mechanisms that price controls create and acknowledge the need to scale these back. Additionally, the administrative costs and disincentives for investment attached to price controls, can negatively impact on economic activity. Authorities will continue to work with stakeholders to improve the regulatory environment, reduce uncertainties for businesses and encourage more investment.

Final remarks

16. To conclude, the authorities are committed to safeguarding Fiji's economy and the financial system against shocks while maintaining monetary and fiscal prudence. Continuing to implement structural reform measures is essential to secure growth momentum in the medium and long-term. Reducing poverty remains a major priority for the authorities.

17. The authorities welcome the recommendations to urgently improve data coverage and quality particularly in the balance of payments and national accounts sectors, including GDP by expenditure. Strengthening the Fiji Bureau of Statistics Office with technical assistance from development partners is very important to ensure timely and high quality of statistical information. We thank the Fund for its assistance so far through headquarters and the PFTAC office in Fiji and look forward to working closely with it on the recommended areas for improvement.

18. Finally, the authorities would like to thank staff for their efforts in producing this comprehensive assessment on Fiji's recent economic and financial developments and policy recommendations. Looking ahead, the authorities deem that maintaining close collaboration between authorities and the Fund is a vital part to improving value added contributions to both sides, especially in increasing the effectiveness of the surveillance role of the Fund.