INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/80

REBUBLIC OF FIJI

March 2020

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR FIJI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 24, 2020 consideration of the staff report that concluded the Article IV consultation with the Republic of Fiji.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 24, 2020, following discussions that ended on December 13, 2020, with the officials of the Republic of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Fiji.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR[20/91]

IMF Executive Board Concludes 2019 Article IV Consultation with Fiji

FOR IMMEDIATE RELEASE

WASHINGTON, DC – **February 24, 2020** the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Fiji.

The Fijian economy experienced relatively high growth during 2017-18 amid rising external and fiscal imbalances. Fiscal space is now at risk and external vulnerabilities remain significant. Economic activity slowed sharply in 2019 due to lower government spending, tighter domestic financial conditions, weak sentiment, and the synchronized global downswing. Growth is estimated to have reached about 1 percent in 2019, underpinned by resilient tourism and remittances. GDP growth should pick up gradually as the private sector regains dynamism. Inflation pressures are subdued.

Policies should aim to sustain growth and make it more inclusive as fiscal policy support is withdrawn and external imbalances narrow. Reducing fiscal imbalances is essential to rebuild buffers to respond to natural disasters and to maintain public debt sustainable. Fiscal consolidation should focus on reining in current spending given limited scope for further revenue mobilization and the need for capital spending to improve resilience to climate change. Improvements in the business environment and in governance are essential to raise potential growth and needed private investment, and to enhance productivity and competitiveness. Another priority should be to tackle the gender gap in labor force participation in order to boost potential growth and make it more inclusive.

Disclaimer. The Staff Report prepared by a staff team of the IMF for the Executive Board's consideration on February 24, 2020. The staff report reflects discussions with the Fiji authorities in December 2019 and is based on the information available as of December 15, 2019. It focuses on Fiji near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Fiji and globally.

---

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

Executive Board Assessment[2]

Executive Directors welcomed the recent pickup in activity after a sharp slowdown in 2019. Directors noted that the medium-term growth outlook is favorable but subject to significant risks, including rising fiscal and external imbalances, and natural disasters. They emphasized the need to consolidate the fiscal position, boost potential growth, and build resilience to weather-related shocks.

Directors stressed the importance of growth-friendly fiscal consolidation to rebuild buffers and ensure debt sustainability. In this context, they encouraged the authorities to rationalize current spending and protect priority investments and social programs. They agreed that a credible medium-term fiscal strategy would help underpin the consolidation efforts and place the debt-to-GDP ratio firmly on a downward path.

Directors noted that the stance of monetary policy is appropriate and should continue to focus on maintaining adequate foreign reserves. They agreed that the central bank should continue to rely on the automatic stabilizing mechanism of the peg, avoid financing the government, and strengthen its operational independence. Directors also encouraged the authorities to gradually relax the remaining exchange restrictions, with technical support from the Fund.

Directors underscored the need to safeguard financial stability, including by upgrading the supervision of nonbank financial institutions, adopting the Credit Union Act, and closely monitoring nonperforming loans. They looked forward to further progress in strengthening the AML/CFT framework in line with the recommendations of the FATF.

Directors welcomed the authorities' structural reform initiatives. They encouraged sustained efforts to improve the business environment, foster private sector investment, and strengthen governance. Directors recommended reforms to improve the functioning of the labor and product markets, including measures to boost female labor force participation and rationalize price controls. They also highlighted the importance of aligning the investment regime with international best practices, and upgrading the disaster risk management framework.

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

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

Quota: SDR 98.4 million
GDP per capita (2018): US$6,208
Nominal GDP (2018): US$5.5 billion

	2015	2016	2017	2018	2019	2020
					Proj.	
Output and prices (percent change)						
Real GDP	4.7	2.5	5.4	3.5	1.0	1.8
GDP deflator	3.7	5.8	0.7	3.0	2.4	2.5
Consumer prices (average)	1.4	3.9	3.4	4.1	1.9	2.0
Central government budget (percent of GDP)						
Revenue	26.0	26.1	27.6	27.1	25.4	25.7
Expenditure	29.8	27.4	29.4	32.6	30.3	30.2
Fiscal balance	-3.8	-1.3	-1.8	-5.5	-4.9	-4.5
Public debt	43.0	44.0	43.7	46.2	47.8	50.3
Money and credit (percent change)						
Net domestic credit depository corporations	13.4	7.6	5.9	9.7	...	...
Private sector credit	14.2	12.9	13.9	14.9	7.0	6.0
Broad money (M3)	13.9	4.8	8.2	2.7	...	...
Monetary base	8.4	0.5	18.4	-9.9	...	...
Central Bank Policy rate	0.5	0.5	0.5	0.0	...	...
Commercial banks deposits rate	2.7	3.0	3.2	3.4	...	...
Commercial banks lending rate	5.9	5.8	5.6	5.7	...	...
External sector (in percent of GDP)						
Trade balance	-19.5	-20.2	-20.4	-24.4	-21.5	-21.8
Services (net)	16.0	16.3	15.5	16.7	17.0	17.1
Primary Income (net)	-6.1	-5.5	-7.9	-6.5	-8.2	-7.6
Secondary Income (net)	6.1	5.8	6.1	5.7	5.5	5.4
Current account balance	-3.5	-3.6	-6.7	-8.5	-7.2	-6.9
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-3.2	-6.2	-9.5	-12.1	-8.6	-7.4
Of which: FDI (net)	-5.1	-8.2	-7.2	-8.6	-7.6	-6.2
Of which: Portfolio investment (net)	1.9	0.6	0.8	0.6	0.3	2.2
Of which: Other investment (net)	0.0	1.4	-3.0	-4.2	-1.4	-3.3
Errors and omissions	1.6	-2.6	0.3	-6.0	0.0	0.0
Change in reserve assets	1.4	0.1	3.1	-2.3	1.5	0.5
Gross official reserves (in millions of U.S. dollars)	921	915	1,103	940	1,008	1,038
(In months of retained imports)	5.6	5.3	5.7	4.4	5.0	4.8
External central government debt (In percent of GDP)	12.7	13.1	12.6	12.6	13.1	13.7
Miscellaneous						
Output gap	1.3	0.5	2.5	2.8	0.7	-0.5
Real effective exchange rate (average)	105.5	110.1	111.9	112.7	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	2.10	2.09	2.07	2.09	...	...
GDP at current market prices (in millions of U.S. dollars)	4,682	4,930	5,353	5,537	5,526	5,766
GDP per capita (in U.S. dollars)	5,386	5,621	6,050	6,223	6,176	6,409
GDP at current market prices (in millions of Fiji dollars)	9,822	10,327	11,065	11,557	11,951	12,470

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

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

January 23, 2020

KEY ISSUES

Context. Economic activity slowed sharply in 2019 due to lower government spending, tighter domestic financial conditions, weak sentiment, and the global deceleration. The slowdown followed several years of relatively strong growth, boosted by reconstruction spending after a major cyclone in 2016, which resulted in rising external and fiscal imbalances. Fiscal space is now at risk and external vulnerabilities remain significant. Fiji has large investment needs to strengthen resilience to natural disasters and climate change.

Policy priorities. A key priority should be to rebuild fiscal buffers in a growth-friendly way to create space to respond to future natural disasters and to ensure public debt sustainability. Fiscal consolidation should focus on reining in current spending given limited scope for further revenue mobilization and the need for capital spending to improve resilience to climate change. Improvements in the business environment and in governance are essential to raise potential growth and boost private investment, and to enhance productivity and competitiveness. Another priority should be to tackle the gender gap in labor force participation in order to boost potential growth and make it more inclusive.

Disclaimer. The Staff Report prepared by a staff team of the IMF for the Executive Board's consideration on February 24, 2020. The staff report reflects discussions with the Fiji authorities in December 2019 and is based on the information available as of December 15, 2019. It focuses on Fiji near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Fiji and globally.

Approved By
Jonathan D. Ostry (APD) and Mary Goodman (SPR)

Discussion took place during December 3-13, 2019. The team comprised Pablo Lopez Murphy (Head), Robin Koepke, Nour Tawk (all APD), and Leni Hunter (Resident Representative). Alessandra Balestieri, Stephen Chukwumah, Si Guo, and Yun He provided support from headquarters. Executive Director Alisara Mahasandana and Muslimin Anwar (both OED) participated in the policy meetings. The mission was joined by staff from the World Bank.

CONTENTS

CONTEXT, RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Context

1. **Fiji is highly vulnerable to natural disasters and climate change.** In February 2016, Cyclone Winston had a severe impact on infrastructure, the agriculture sector, the sugar industry, and public finances. The government spent about 4 percent of GDP on the reconstruction of schools, roads, bridges, and other infrastructure. The World Bank conducted a Climate Vulnerability Assessment in 2018 and identified large investment needs to strengthen Fiji's resilience to climate change and natural hazards.

2. **The Fijian economy had a few years of high growth amid rising external and fiscal imbalances.** Real GDP growth averaged 4.5 percent in 2017-18, higher than the estimated potential growth of 3 percent, benefitting from expansionary fiscal policy, strong tourism, and loose financial conditions. The current account deficit was 8.5 percent of GDP in 2018, the largest since 2013, driven by a record-high election-year fiscal deficit of 5.5 percent of GDP, soaring imports of transportation equipment and oil, and a modestly appreciating real exchange rate (Figure 3, top right).

3. **A key priority is to rebuild fiscal buffers in a growth-friendly way to create space to respond to future natural disasters and to ensure public debt sustainability.** The economy decelerated sharply in 2019 as lower government spending, tighter financial conditions, weak confidence, and the global slowdown weighed on economic activity. Improving the business environment and strengthening governance is necessary to foster private investment, increase competitiveness, and lift GDP growth as policy support unwinds. Addressing the significant gender gap in labor force participation should boost potential growth and make it more inclusive.

B. Recent Developments

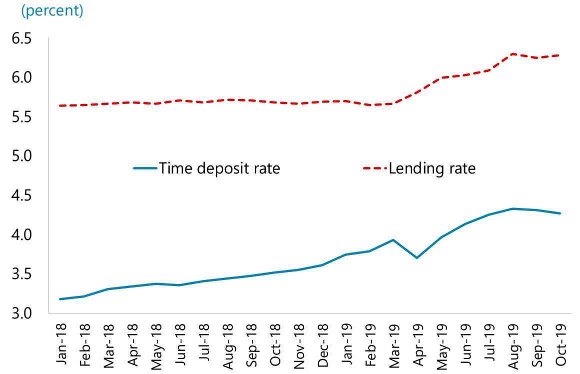
4. **High-frequency indicators point to a sharp slowdown in 2019.** GDP growth is estimated at 1 percent in 2019, from 3.5 percent in 2018 (Figure 1). VAT collections declined by 1.8 percent in the year to October driven by lower imports. Retail sales growth in 2019 is estimated to have softened to 2 percent, from 6.2 percent in 2018. Business confidence declined sharply in June 2019 amid tighter financial conditions, which triggered broader concerns about the economic outlook. The tourism sector held up well amid the global slowdown as visitor arrivals rose 3.2 percent y/y in the first ten months of 2019.

5. **Inflation pressures are subdued while financial conditions are tighter than in 2018.** Inflation reached -0.3 percent y/y in November 2019 after the normalization of domestic supply of food and alcoholic beverages (Figure 1, bottom right) and muted domestic demand pressures. Financial conditions tightened in the first half of 2019 as both lending and deposit rates increased (Text Figure 1) in a context of large external imbalances and lower foreign reserves (Text Figure 2).

Against this backdrop, the Reserve Bank of Fiji (RBF) purchased government T-Bills in May 2019 to compensate for the lower demand by commercial banks. More recently, interest rates have started to decline and confidence has recovered somewhat.

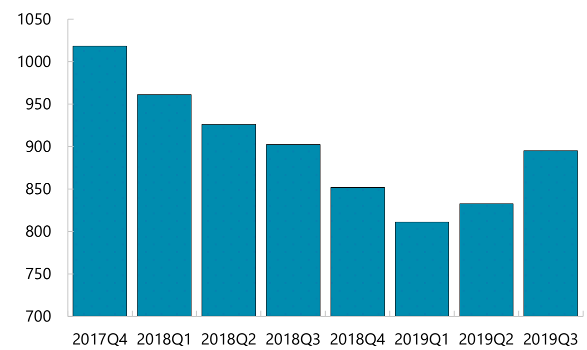
6. Government spending is declining and foreign reserves are recovering. Government spending contracted by 4.1 percent in 2019 up to October while government revenues declined by 3 percent. Public investment was the main driver of the decline in government spending and taxes on imports accounted for most of the decline in government revenue. The merchandise trade deficit in 2019 up to October declined by 9 percent driven by subdued economic activity, tighter financial conditions, and lower oil prices. Foreign reserves coverage reached 5.1 months of imports in November 2019, helped by a robust tourism sector and steady remittances.

Text Figure 1. Fiji: Interest Rates
(percent)



Sources: RBF

Text Figure 2. Fiji: Foreign Reserves
(in millions of US dollars)

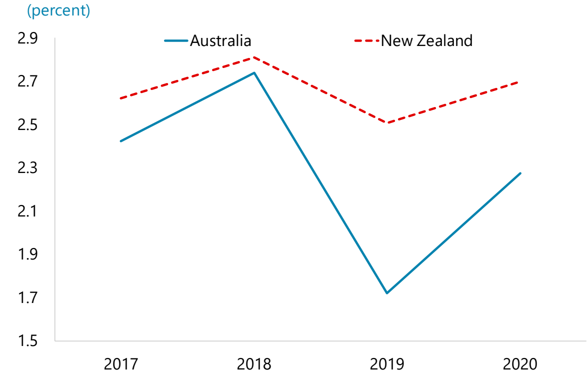


Sources: RBF

C. Outlooks and Risks

7. GDP growth should pick up gradually in the medium term as the private sector regains dynamism. Growth is projected at 1.8 percent in 2020, underpinned by resilient tourism and remittances, more supportive financial conditions, and recovered business confidence. Australia and New Zealand are the main sources of tourism earnings and employment of Fijians abroad, and both economies are projected to grow faster in 2020 than in 2019 (Text Figure 3). Inflation is projected to be around 2 percent on account of stable supply of local food, lower oil prices, and reduced fiscal and external imbalances (Table 5). The fiscal deficit is projected to gradually decline to about 3 percent of GDP as the economy recovers while the debt-to-GDP ratio is projected to increase steadily in the medium term (Table 3). The current account deficit should

Text Figure 3. Australia and New Zealand: GDP Growth
(percent)



Sources: World Economic Outlook October 2019, IMF narrow as the private sector expands, supported by improvements in the business environment and governance (Table 5).

8. Downside risks are elevated. Downside risks to the outlook stem from an increasing debt-to-GDP ratio in the medium term, weaker-than-expected global growth, delays in implementing structural reforms, and higher oil prices. On the upside, tourism arrivals may turn out to be stronger as the national carrier expands its routes and code-sharing arrangements with European and Indian carriers (Annex 1).

Authorities' Views

9. The authorities broadly agreed with staff's macroeconomic projections. They project growth to gradually pick up to around 3 percent by 2021 as business confidence recovers, underpinned by more favorable financial conditions and improvements in the business environment. Inflation is projected to increase in line with the recovery of economic activity. The current account deficit is estimated to narrow to 5.5 percent of GDP in 2019 driven by a sharp reduction of imports and remains around 5 percent of GDP in 2020-24. The fiscal deficit is projected to decline gradually to around 2 percent of GDP in the medium term, in line with the medium-term fiscal strategy described in the FY2019/20 budget. The authorities also mentioned persistent weak business confidence, fiscal consolidation spillovers, and tighter domestic financial conditions as sources of risk to the outlook.

POLICY DISCUSSIONS

A. Macroeconomic Policies

10. The external sector position in 2019 is estimated to be weaker than implied by medium-term fundamentals and desirable policy settings. The underlying current account (CA), defined as the actual CA deficit adjusted for temporary factors, is estimated at -6.8 percent of GDP in 2019, some 3.2 percent of GDP below the "norm" suggested by the IMF's External Balance Assessment (EBA)-Lite model (Annex 2). Likewise, the real exchange rate is estimated to be overvalued by 9 percent. Structural reforms to improve the business environment and governance combined with fiscal consolidation should help strengthen the external sector position.

11. Macroeconomic policies should be set to reduce fiscal and external imbalances in an orderly way. Although the economy is slowing down, fiscal consolidation is warranted to secure public debt sustainability and to contain external stability risks. Fiscal space is at risk and should be rebuilt to deal with future natural disasters. The stance of monetary policy remains appropriate under the baseline but should be tightened to complement fiscal policy if foreign reserves decline and external stability risks become more acute.

Authorities' Views

12. The authorities broadly agreed with staff's external sector assessment, but estimate external imbalances to be somewhat lower. They estimate the underlying current account at -5.1 percent of GDP in 2019, some 1.4 percent of GDP below the norm suggested by the EBA-Lite model, underpinned by more optimistic estimates of the trade and services balances in 2019. The real exchange rate is estimated to be slightly overvalued by 4 percent. The authorities expect that fiscal consolidation and subdued domestic inflation should help maintain external stability.

Fiscal Policy

13. The properly-measured fiscal deficit in 2019 will be higher than what is reported in the fiscal accounts. The portion of Energy Fiji Limited (EFL) sold in August 2019 to the Fiji National Provident Fund (FNPF) and the associated privatization proceeds (1.8 percent of GDP) are reported as revenue. However, since privatization is an exchange of assets, the proceeds should be treated as a financing item in the fiscal accounts. Staff projects that the fiscal deficit in 2019 will be 4.9 percent of GDP and the debt-to-GDP ratio will continue rising.

14. A key priority should be to rebuild fiscal buffers in a growth-friendly way to create space to respond to future natural disasters and to ensure public debt sustainability. The medium-term fiscal strategy described in the budget for FY2019/20 is focused on achieving fiscal consolidation. The goal is to rebuild fiscal space to respond to shocks and to facilitate external balance. Having said that, there is ample room to improve the fiscal strategy. A credible strategy should contain detailed revenue and expenditure projections including measures underpinning the fiscal deficit targets, which are currently missing. The strategy should also underscore the need to protect public investment to build resilience to natural disasters and boost potential growth. Public investment management should be strengthened to maximize the quality of capital expenditure with technical support from PFTAC. Staff projects that, under current policies, the public debt-to-GDP ratio will continue increasing in the medium term, posing major risks to debt sustainability.

15. Fiscal consolidation should be primarily based on rationalizing current spending. Current spending has increased too fast in recent years and is substantially above the historical average (Figure 2, bottom left). Tax revenues have increased strongly since 2010 (Figure 2, middle left) and are relatively high compared to other countries in the region (Figure 2, middle right). Hence, the scope for further revenue mobilization is limited. Staff recommends keeping current spending constant in real terms in the coming 5 years and sustaining capital expenditure at around 10 percent of GDP, including an increasing allocation of spending to support natural disaster resiliency[1] (Text Table 1 and Annex 4). If that happens, fiscal buffers would be rebuilt and the public

[1] Spending to boost resilience would go from 0.1 percent of GDP in 2020 to 0.7 percent in 2024. The annual fiscal cost of natural disasters in Fiji is about 1 percent of GDP according to the estimates by Hidetaka, N, S. Roger, and H. Zhang, 2019, IMF Working Paper 19/152.

debt-to-GDP ratio would be on a downward path (Text Table 1). Measures to keep current spending constant in real terms could include:

- Maintaining public employment and transfer recipients constant
- Adjusting public wages and transfers in line with inflation
- Reducing transfers to state-owned enterprises such as the Fiji Sugar Corporation and the Water Authority of Fiji
- Rationalizing spending in tertiary education by adopting recommendations from the education spending review being conducted by the World Bank
- Targeting social programs to the most vulnerable

Text Table 1. Fiji: Baseline and Recommended Fiscal Scenarios

	Baseline scenario					Recommended scenario				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP Growth	1.8	2.8	3.0	3.3	3.3	1.6	2.6	2.8	3.1	3.2
Government Revenue	25.7	26.0	26.3	26.5	26.6	25.7	26.0	26.3	26.5	26.6
Current Expenditure 1/	20.5	20.5	20.5	20.5	20.3	20.2	19.7	19.2	18.6	18.1
Capital Expenditure	9.7	9.6	9.5	9.4	9.3	9.8	9.9	9.9	10.0	10.0
Fiscal Balance	-4.5	-4.1	-3.7	-3.4	-3.0	-4.3	-3.6	-2.8	-2.1	-1.5
Public Debt	50.3	51.8	52.8	53.3	53.4	50.1	51.1	51.2	50.5	49.2

1/ Including interest payments
Source: IMF Staff calculations

Authorities' Views

16. Fiscal consolidation is a key goal of the authorities' medium-term fiscal strategy. They aim to reduce fiscal deficits and put the debt-to-GDP ratio on a downward trajectory. Expenditure restraint will underpin fiscal consolidation as expenditure policies will seek to maximize the growth dividend from public investment, enhance operational efficiency, and contain the expansion of the wage bill. They note that improvements in infrastructure management have contributed to reducing vulnerability to natural disasters. After Cyclone Winston, the government established the Construction Implementation Unit to ensure reconstruction in the education and health sector is done with higher resilience standards.

Monetary and Financial Policies

17. Fiji operates a fixed exchange regime, with the local currency pegged to a basket of currencies amid limited capital mobility. The RBF has been largely relying on the automatic stabilizing mechanism of the peg to manage liquidity: when foreign reserves decline, domestic liquidity conditions tighten (Figure 4, top left), interest rates rise, and import growth is contained.

18. At the current juncture of low inflation and a high current account deficit, monetary policy should be focused on maintaining adequate foreign reserves. Given that foreign reserves have recovered in recent months and are adequate (Annex 2), the RBF should continue relying on the automatic stabilizing mechanism of the peg. If foreign reserves start falling again, the RBF could tighten domestic credit to further support the automatic stabilizing mechanism. The RBF should avoid financing the government to protect the sustainability of the peg and to safeguard the integrity of the monetary policy framework. The government should strengthen the independence of the RBF by prohibiting the central bank to finance fiscal deficits.

19. The banking sector remains sound overall. Its stability is underpinned by the dominance of large foreign banks that operate as branches and have access to their parent banks for capital and liquidity. The expansion of credit to the private sector, after double-digit growth during 2014-2016, has moderated substantially to a pace broadly in line with nominal GDP growth (Figure 4, middle left). Although NPLs are still low relative to historical levels and other peer countries, they have increased steadily the last few years, so they should be closely monitored (Figure 4, bottom right). Banking sector supervision should be strengthened by undertaking scenario-based solvency stress testing and summarizing the results in the Financial Stability Review, in line with the recommendations from IMF's technical assistance.

20. Pockets of vulnerability lie in Non-Bank Financial Institutions (NBFIs). Credit unions and financial cooperatives are not properly regulated. The three big public NBFIs (Fiji National Provident Fund (FNPF), Fiji Development Bank (FDB) and Housing Authority (HA)) have governance shortcomings in terms of the tenure, independence, and expertise of their board members. The last two board members for the FNPF were nominated without passing the fit and proper test established in the FNPF Act. The FNPF should establish sound investment guidelines and a risk tolerance framework to guide equity investments and protect pension savings.

21. There are also gaps on compliance with international Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) standards. Fiji still has six non-compliant/partially compliant ratings out of forty recommendations made by the Financial Action Task Force (FATF). In addition, Fiji shows low or moderate levels of AML/CFT effectiveness for all "immediate outcome" criteria. The authorities should consider strengthening the transparency of legal persons and arrangements by making related beneficial ownership information available. They should also enhance the effectiveness of terrorism financing preventive measures and prosecution, in light of the low AML/CFT effectiveness of national measures in these areas. Fiji should also step-up AML/CFT supervisory efforts to improve compliance of financial institutions and designated non-financial businesses and professions with the AML/CFT preventive measures.

22. Financial sector reform priorities include:

- Streamlining supervision of bank branches that are subject to robust home supervision in order to focus on NBFIs, which are more likely to be at higher risk

- Adopting the new Credit Union Act so that credit unions and financial cooperatives are in the regulatory perimeter of the RBF

- Protecting board members of major public NBFIs from removal without cause and have their terms extended from two to four years, in line with international best practice

- Strengthening FNPF's governance by naming board members without conflicts of interest (e.g., officials from the Ministry of Economy) and that pass the fit and proper test for all nominations

- Continue strengthening the AML/CFT framework by fully adopting the recommendations of the FATF

Authorities' Views

23. Amid lower risks to external stability, the RBF sees scope to support economic activity if the recovery is weaker than projected. Given that the policy rate is already at 0.5 percent, this leaves little room for further interest rate reduction. However, the RBF could still support the economy by lowering reserve requirements to place downward pressure on market interest rates.

24. Credit unions and financial cooperatives are still outside the regulatory perimeter of the RBF. The draft bill is currently subject to final revisions to be fully harmonized with other legislation affecting cooperatives. These revisions will most likely be minor and the authorities anticipated the new Credit Union Act should be adopted by August 2020.

25. The RBF made some progress on adopting a more risk-based supervision approach. A new supervisory ranking framework based on a risk-based methodology has been in place since September 2019. Although NPLs have been increasing recently, they are still at a level (lower than 5 percent) that the RBF considers satisfactory.

26. The authorities acknowledged limited progress on strengthening the governance of public NBFIs. Although the RBF started discussions with the FNPF, the FDB, and the HA, concrete measures to better protect board members are still pending. On a more positive note, the RBF has recently started to supervise the FDB.

27. Scenario based-stress testing will be implemented in 2020 and the results summarized in the Financial Stability Review. Technical assistance from the Fund in November 2019 provided the relevant tools to enhance stress testing tools at the RBF.

28. The authorities underscored that AML/CFT framework continues improving. New prudential policies to manage AML/CFT risks in insurance companies and foreign exchange dealers have been effective since January 2019. Fiji has made substantial and uninterrupted progress in adopting the forty recommendations/standards from the FATF since the evaluation conducted by the Asia Pacific Group was published in 2016. While Fiji complied with 13 FATF recommendations in 2016, it currently complies with 34.

29. Corresponding banking relationship pressures have been lower in Fiji than in other countries in the region. Although there were some pressures during 2012-14 when Australian banks de-risked from money transfers operators (MTOs), those MTOs were able to quickly get corresponding banking relationships with other banks. Fiji has stronger AML/CFT and supervisory frameworks than most countries in the region, which the authorities felt explains why pressures have been lower than in other countries.

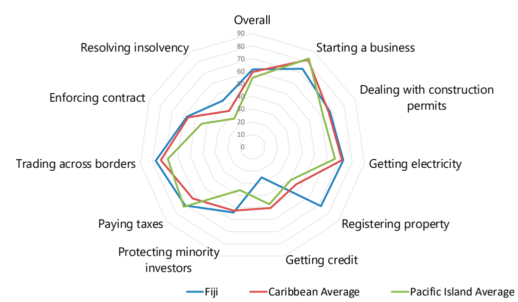
B. Sustaining Medium- and Long-Term Inclusive Growth

30. Structural reforms are warranted to boost potential growth, improve inclusiveness, and strengthen resilience. Given the limited fiscal space, enhancing the business environment and strengthening governance is essential to foster private investment, reduce vulnerabilities to corruption, and sustain growth. Policies that encourage greater female labor participation are also needed to increase the contribution from labor to GDP growth and mitigate gender inequality.

Improving the Business Environment and Strengthening Governance

31. Reducing impediments to doing business is important to increase competitiveness and stimulate private investment. Fiji lags behind in its conditions for starting a business, getting construction permits, obtaining credit, and tax compliance costs (Text Figure 4). It takes forty days and eleven procedures to start a business. Similarly, it takes fifteen procedures and almost seven months to get construction permits. Access to credit has been problematic because of the absence of a credit bureau and a registry for movable assets. Although there have been some improvements after the RBF granted a license to a credit bureau in May 2018 and created the Personal Property Securities Registry in June 2019, legal uncertainty related to potential severe penalties discouraging banks from joining the credit bureau remain and should be eliminated. Tax compliance costs are elevated because of the time-consuming process and the large number of steps it takes to file taxes each year. Extending "Digital Fiji" could help reduce face-to-face contact, thereby reducing vulnerabilities to corruption.

Text Figure 4. Fiji: Business Environment
(Distance to Frontier/best performer)



Sources: Doing Business Indicators, World Bank 2020
Note: Uncertainty bands around point estimates are not provided by the compiler.

32. Adequate consultation of policy changes with the private sector is an important component of an enabling business environment. There has been some progress on the public consultations, including the use of budget submissions, through which individuals and industry associations can express their views and offer suggestions on economic policies to the government. However, staff's conversations with the private sector suggest that many regulations and policy measures are still perceived to be introduced abruptly. Staff recommends improving the public consultation process through public hearings and written replies to budget submissions to reduce perceived policy uncertainty.

33. The current legal regime for foreign investment has a provision allowing the expropriation of assets without compensation. The circumstances in which those expropriations can happen are relatively broad and not well-defined. This is a significant departure from international best practice in terms of protection of property rights. Moreover, foreign investors cannot participate in several activities. A new Investment Act that aligns the investment regime with international best practice has been drafted with support from the International Financial Corporation (IFC). Staff encourages the authorities to adopt this upgraded legislation and the relevant policy implementation guidelines as soon as possible.

34. About one third of the items in the consumption basket is subject to some form of price controls. The rationale for imposing price control measures include a lack of adequate competition and the need to protect low-income households. However, price controls discourage new entrants and investment in critical sectors such as electricity and water. Fiji's extensive price controls should be rationalized and replaced by sound market regulations. In August 2019, the Fijian Competition & Consumer Commission (FCCC) adopted a transparent formula to adjust electricity prices. Although this was an important step in the right direction, it would be helpful to publish the rate of return on investment benchmark that was used to calculate electricity tariffs, a key parameter for private investors. The improved regulatory framework for the electricity sector should be used as a model in the water sector where tariffs have been frozen for more than twenty years.

35. The exchange restrictions for payments on current international transactions should be phased out. These include: i) limits on large external payments and ii) the tax certification requirement for the transfer of profits and dividends abroad, proceeds of airline ticket sales, and for making external debt and maintenance payments. These restrictions are inconsistent with Article VIII, hamper Fiji's international trade, and discourage foreign investment. Staff recommends removing these restrictions with advice from Fund staff with a view to proper sequencing based on Fiji's tax compliance risks and consistency with the peg.

36. The authorities should address governance vulnerabilities and follow up on adopting more holistic national anti-corruption policies. The authorities should bring the domestic anti-corruption laws in line with the requirements of the United Nations Convention against Corruption. More precisely, they should improve the Fiji Independent Commission against Corruption’s (FICAC) mandate and operations, and develop a comprehensive asset declarations system for senior public officials to reduce vulnerabilities to corruptions and conflict of interest.

Authorities’ Views

37. The authorities highlighted that the Ministry of Industry, Trade & Tourism (MITT) is leading a national effort to facilitate doing business. The MITT is working with the Singapore Cooperation Enterprise (SCE) and the IFC to redesign and streamline processes, make information available on a single online platform, and digitalize business processes. An information portal, BizFiji, was launched, including information on starting a business and on construction permits. The next step is to convert it into an online submission, approval, and payment portal. An immediate goal is to reduce the time it takes to start a business to 2 days and 2 procedures.

38. The Fiji Revenue and Customs Service (FRCS) is rolling out of the new Taxpayer Online Services System. The new system introduces online tax services to all taxpayers, seeking higher voluntary compliance and reducing tax compliance costs.

39. New legislation on foreign investment in line with international best practice was endorsed by the Cabinet in September 2019. The new legislation was drafted with technical support from IFC and will be submitted to Parliament in early 2020.

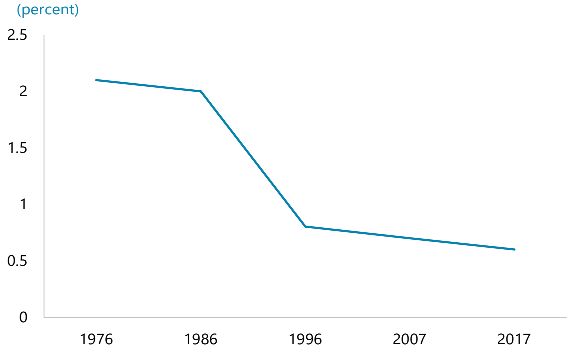
40. The authorities explained that the FNPF aims to diversify its investment portfolio as one of its strategic priorities to protect pensions savings. The acquisition of 20 percent of EFL is in line with that priority. The FNPF will gradually increase the share of equity investments from 25 to 35 percent and reduce the share of fixed income investments from 75 to 65 percent. The FCCC aims to enhance the regulatory framework of the water sector using a similar framework as the one developed for electricity sector.

41. The RBF continues to review exchange controls annually based on the outlook for foreign reserves. RBF approval is required for payments in foreign exchange above certain limits and the last time those limits were modified was in August 2018. Although the tax certification requirement is an important instrument to protect tax compliance, the FRCS aims to develop a strategy to gradually eliminate it.

Raising Female Labor Force Participation

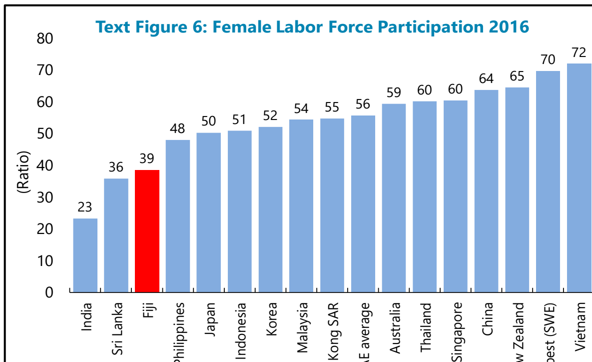
42. While Fiji is still a young country, population growth has decelerated. The median age was 27.5 as of 2017, still young compared with countries. However, population growth has declined from about 2 percent per year in the 1980s to 0.6 percent in the 2010s (Text Figure 5), mainly due to the lower birth rates and outmigration. This trend could eventually imply slower economic growth. Against this backdrop, Fiji's female labor force participation was 39 percent in 2016, lower than in most countries (Text Figure 6) and much lower than for men (76 percent).

Text Figure 5. Fiji : Population Growth
(percent)



Sources: FBoS

Text Figure 6: Female Labor Force Participation 2016



Sources: World Bank - WDI; and IMF staff calculations.
Note: Latest data for Cambodia, China and India for 2014, 2010 and 2012, respectively. AE stands for 21 advanced economies excluding Asia.

43. More efforts to raise female labor force participation could help compensate for the slowdown in population growth. Starting from 2019, Fiji extended paid maternity leave from 84 to

98 days and introduced 5 days of paid paternity leave for fathers. A recent study by the IFC found that each year, businesses and the public sector in Fiji are losing 12.7 workdays per employee due to the responsibilities of working parents. The limited supply of affordable child care services is failing to meet the growing needs of families. To help address this problem, staff recommends establishing a coherent policy framework to ensure that all childcare services in Fiji are safe and high quality. Other measures that could help reduce gender gaps include adopting legislation prohibiting discrimination by creditors on the basis of gender, mandating equal remuneration for work of equal value, and that women are able to work in the same industries as men.

Authorities' Views

44. The authorities emphasized several measures the government is taking to raise female labor force participation. In addition to the increases in paternity leave, continued support to the Fiji National Women's Expo has provided a platform for many rural women to gain access to the urban market and further expand their small and micro enterprises, gaining experience and skills over the years in numerous workshops organized under the program.

Other issues

45. Improving data quality could help better guide policy making. Priority areas should be publishing quarterly national accounts and reporting fiscal outcomes according to GFS 2014 standards with support from PFTAC.

Authorities' views

46. The Ministry of Economy has been working with PFTAC to publish fiscal data according to GFS standards. Although tight resource constraints prevented completing the project, the Ministry of Economy will publish fiscal data in line with GFS standards in 2020. Quarterly national accounts should also be published in 2020.

STAFF APPRAISAL

47. Economic growth has slowed in 2019. Business confidence has declined amid a slowdown in domestic demand, while the tourism sector held up well despite slower global growth. GDP growth is projected at 1 percent in 2019, from 3.5 percent in 2018. Staff expects growth to pick up to around 3 percent in the medium term, in line with estimates of potential growth. Downside risks stem from an increasing debt-to GDP ratio, natural disasters, weaker-than-expected global growth, delays in implementing structural reforms, and higher oil prices.

48. Fiscal space is at risk and should be rebuilt. Although the economy is slowing down, fiscal consolidation is warranted to rebuild fiscal buffers to respond to future natural disasters and to maintain public debt sustainability. A credible medium-term fiscal strategy including revenue and expenditure projections should underpin consolidation efforts and put the debt-to-GDP ratio on a downward path. Specific consolidation measures should be identified, focused on rationalizing current spending, which increased too fast in recent years and is too high compared to the past.

49. The stance of monetary policy remains appropriate under the baseline but may need to be tightened to keep external stability risks in check. The RBF should avoid financing the government to safeguard the sustainability of the peg and the integrity of the monetary policy framework.

50. Further efforts are needed to underpin financial stability. The evolution of NPLs should be closely monitored and financial supervision should be upgraded by relying on scenario-based stress tests. The new Credit Union Act should be adopted as soon as possible, placing credit unions and financial cooperatives under the oversight of the RBF. The governance of public NBFIs should be strengthened. The FNPF should avoid conflicts of interest for its board members and all future nominations should be subject to a rigorous fit and proper test. Moreover, FNPF should establish sound investment guidelines and a risk tolerance framework to guide equity investments and protect pension savings.

51. Reforms to improve the business environment and the functioning of product and labor markets would support potential growth. Impediments to doing business should be reduced by streamlining requirements for starting a business and for getting construction permits, and by reducing tax compliance costs. A new legislation that aligns the investment regime with international best practice should be adopted expeditiously. Fiji's extensive price controls should be rationalized and replaced by sound market regulations, especially in the water sector. More efforts to raise female labor force participation are desirable including to compensate for the slowdown in population growth.

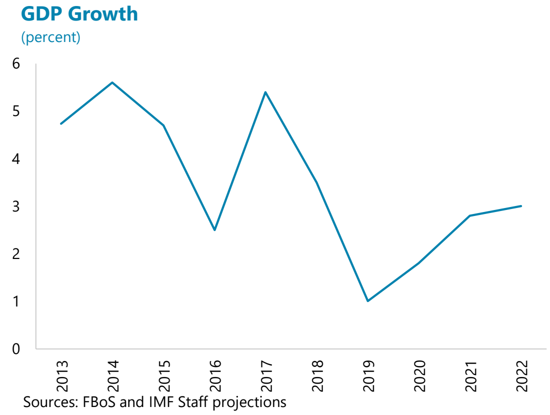
52. The exchange restrictions for payments on current international transactions should be phased out. These restrictions on large external payments and tax certification requirements for certain international transactions are inconsistent with Article VIII, hamper Fiji's international trade, and discourage foreign investment.

53. Improving data quality could help better guide policy making. Priority areas should be publishing quarterly national accounts and reporting fiscal outcomes according to GFS 2014 standards with support from PFTAC.

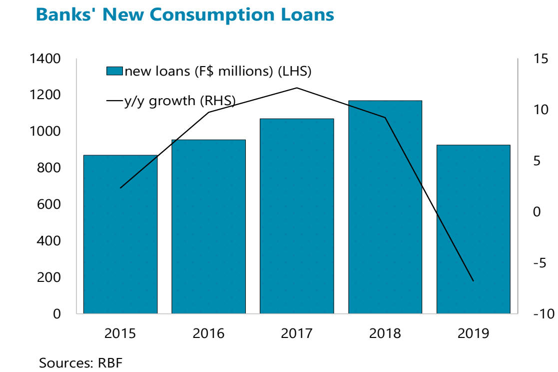
54. It is recommended that the next Article IV Consultation take place on the standard 12-month consultation cycle.

Figure 1. Fiji: Recent Developments

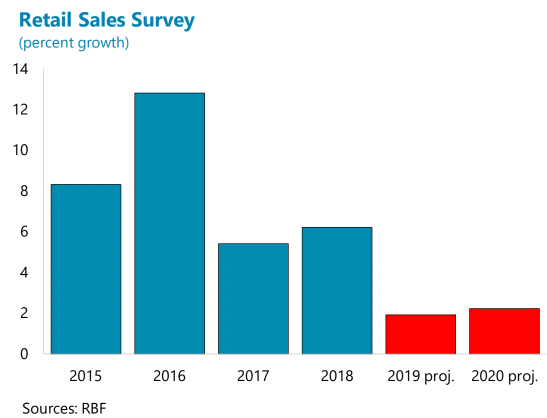
The economy is estimated to have slowed down sharply in 2019.



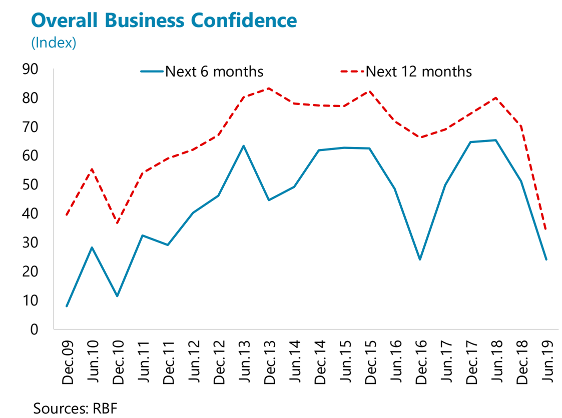
New bank lending for consumption is contracting.



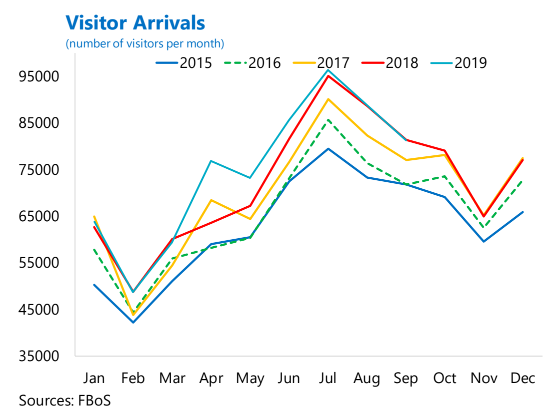
Retail sales growth lost momentum.



Overall business confidence fell to a record low.



The tourism sector remains firm.



Inflation pressures are muted.

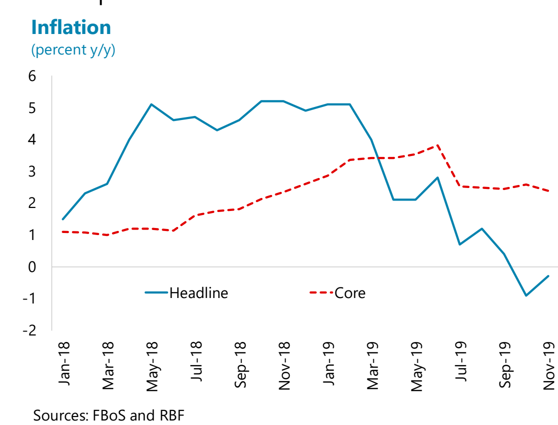
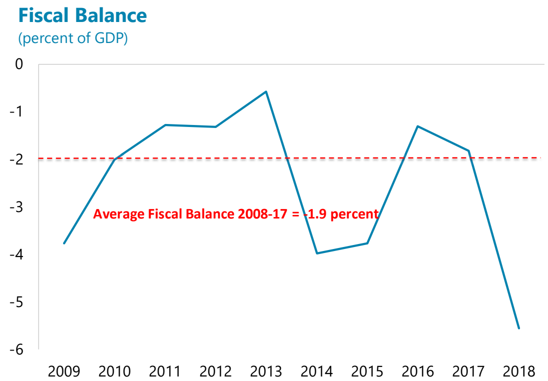


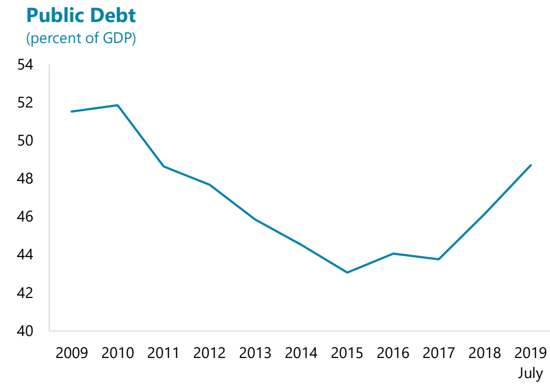
Figure 2. Fiji: Fiscal Sector Indicators

The fiscal balance deteriorated substantially in 2018….



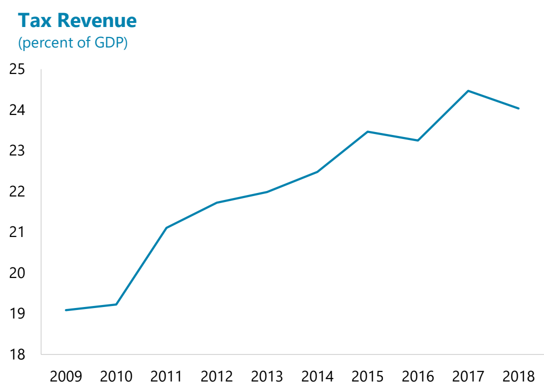
Sources: MoE

…and the debt-to-GDP ratio reverted to an upward path.



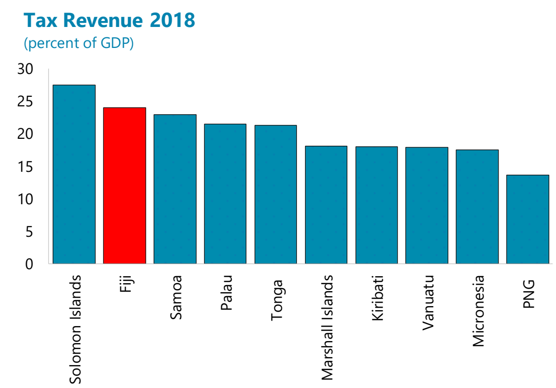
Sources: MoE

Tax revenue mobilization has been remarkable in recent years…



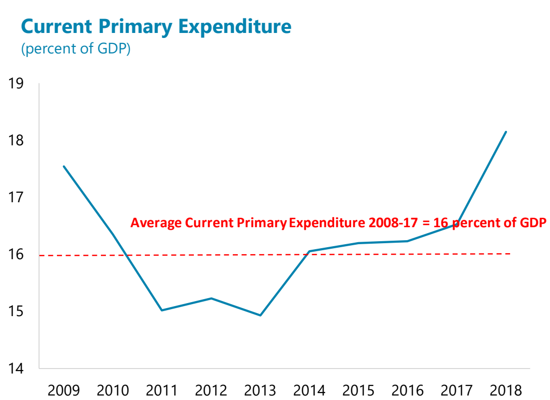
Source: MoE

…and the tax yield is now high by regional standards.



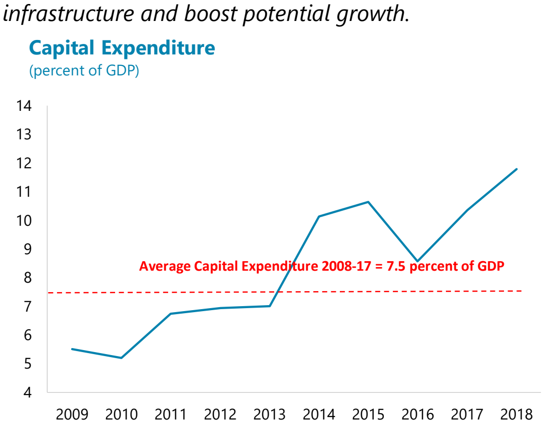
Sources: IMF staff estimates

Containing current spending should be a priority…



Source: MoE

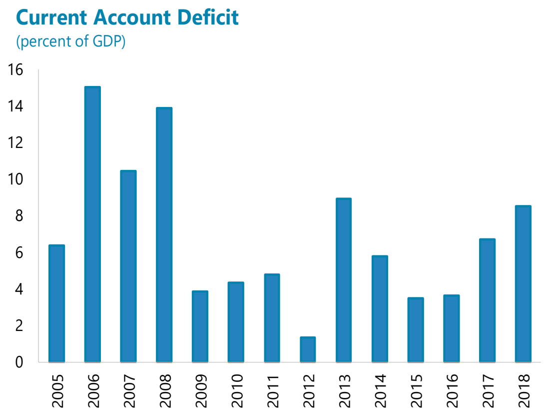
…as capital expenditure is needed to build resilient infrastructure and boost potential growth.



Source: MoE

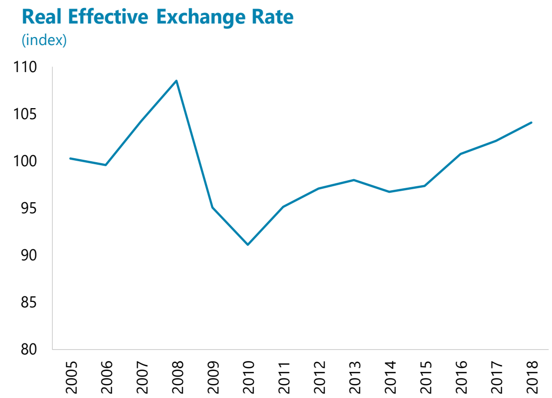
Figure 3. Fiji: External Sector Indicators

The current account deficit increased rapidly in 2017-18…



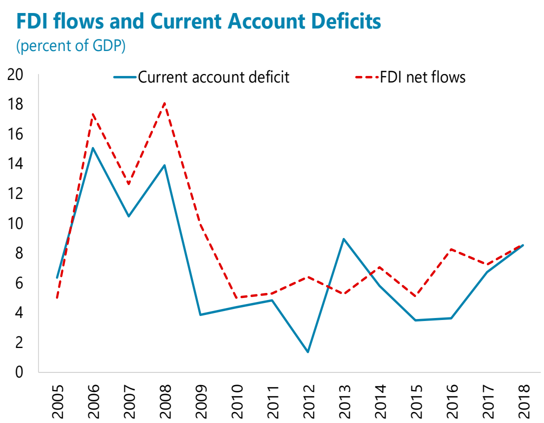
Sources: RBF

…while the real exchange appreciated.



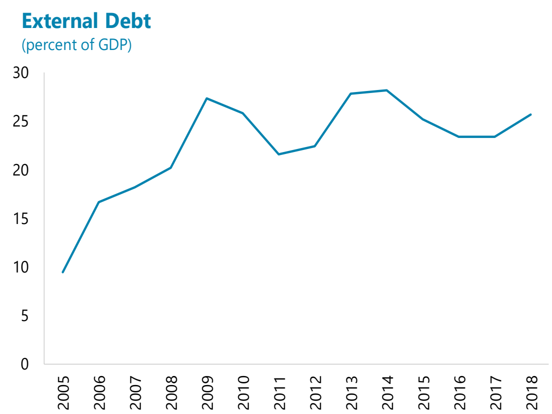
Sources: RBF

FDI inflows have been larger than current account deficits,…



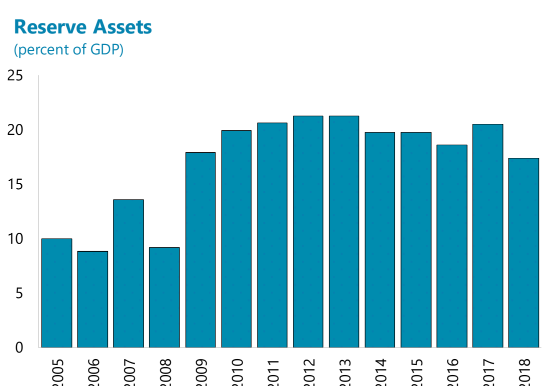
Sources: RBF and FBoS

…keeping external debt at moderate levels.



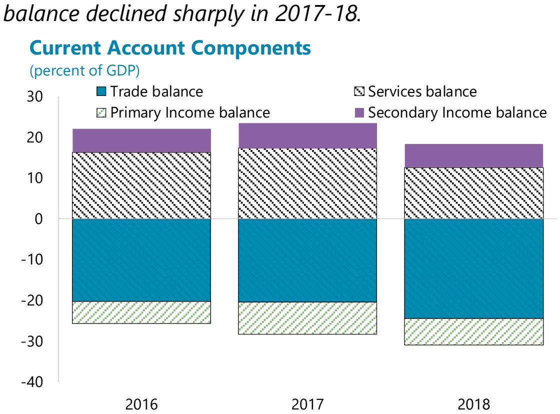
Sources: RBF

Reserve assets have been broadly stable.



Sources: RBF

The merchandise trade balance and the net income balance declined sharply in 2017-18.

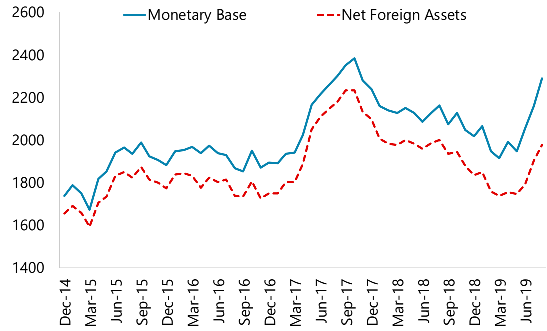


Sources: RBF

Figure 4. Fiji: Monetary and Financial Indicators

The monetary base has had a tight link with net foreign assets.

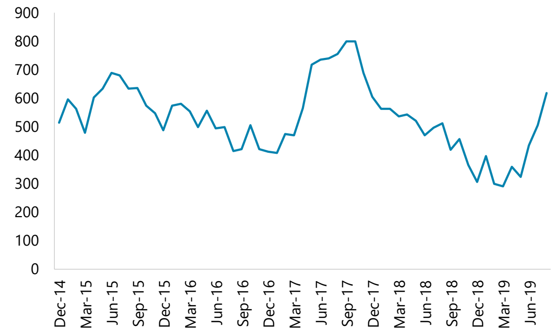
Monetary Base and Net Foreign Assets
(in F$ millions)



Sources: RBF

Commercial banks' liquidity is recovering.

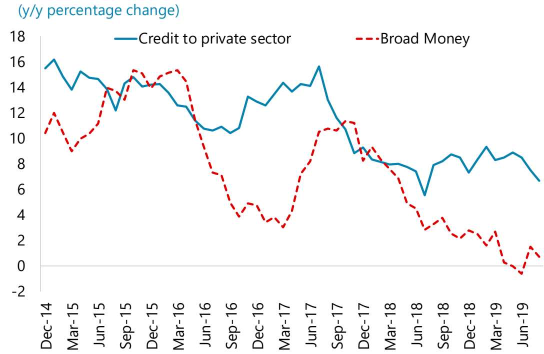
Commercial Banks' Liquidity
(Deposits at RBF in excess of reserve requirements; in F$ millions)



Sources: RBF

Broad money has been broadly constant while credit to the private sector is growing in line with GDP.

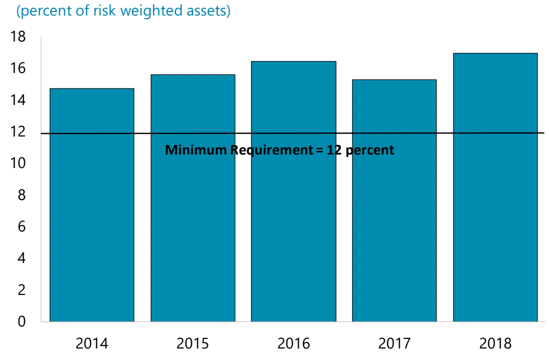
Credit to Private Sector and Broad Money
(y/y percentage change)



Sources: RBF

Commercial banks are well capitalized,...

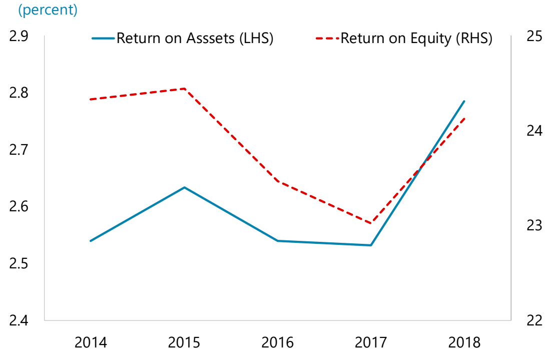
Commercial Banks' Capital
(percent of risk weighted assets)



Sources: IMF Financial Soundness Indicators

...with good profitability,...

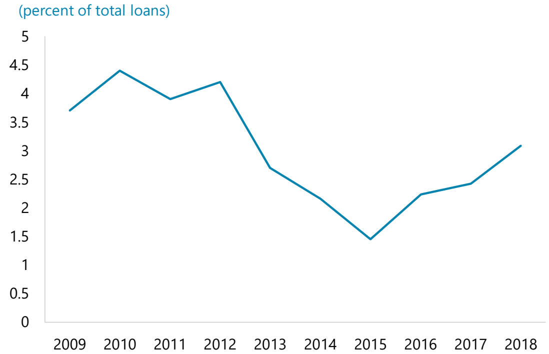
Return on Assets and Equity
(percent)



Sources: IMF Financial Soundness Indicators

...and moderate levels of NPLs.

Non-performing Loans
(percent of total loans)



Sources: IMF Financial Soundness Indicators

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

Quota: SDR 98.4 million
GDP per capita (2018): US$6,208
Nominal GDP (2018): US$5.5 billion

	2015	2016	2017	2018	2019	2020
					Proj.	
Output and prices (percent change)						
Real GDP	4.7	2.5	5.4	3.5	1.0	1.8
GDP deflator	3.7	5.8	0.7	3.0	2.4	2.5
Consumer prices (average)	1.4	3.9	3.4	4.1	1.9	2.0
Central government budget (percent of GDP)						
Revenue	26.0	26.1	27.6	27.1	25.4	25.7
Expenditure	29.8	27.4	29.4	32.6	30.3	30.2
Fiscal balance	-3.8	-1.3	-1.8	-5.5	-4.9	-4.5
Public debt	43.0	44.0	43.7	46.2	47.8	50.3
Money and credit (percent change)						
Net domestic credit depository corporations	13.4	7.6	5.9	9.7	...	...
Private sector credit	14.2	12.9	13.9	14.9	7.0	6.0
Broad money (M3)	13.9	4.8	8.2	2.7	...	...
Monetary base	8.4	0.5	18.4	-9.9	...	...
Central Bank Policy rate	0.5	0.5	0.5	0.0	...	...
Commercial banks deposits rate	2.7	3.0	3.2	3.4	...	...
Commercial banks lending rate	5.9	5.8	5.6	5.7	...	...
External sector (in percent of GDP)						
Trade balance	-19.5	-20.2	-20.4	-24.4	-21.5	-21.8
Services (net)	16.0	16.3	15.5	16.7	17.0	17.1
Primary Income (net)	-6.1	-5.5	-7.9	-6.5	-8.2	-7.6
Secondary Income (net)	6.1	5.8	6.1	5.7	5.5	5.4
Current account balance	-3.5	-3.6	-6.7	-8.5	-7.2	-6.9
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-3.2	-6.2	-9.5	-12.1	-8.6	-7.4
Of which: FDI (net)	-5.1	-8.2	-7.2	-8.6	-7.6	-6.2
Of which: Portfolio investment (net)	1.9	0.6	0.8	0.6	0.3	2.2
Of which: Other investment (net)	0.0	1.4	-3.0	-4.2	-1.4	-3.3
Errors and omissions	1.6	-2.6	0.3	-6.0	0.0	0.0
Change in reserve assets	1.4	0.1	3.1	-2.3	1.5	0.5
Gross official reserves (in millions of U.S. dollars)	921	915	1,103	940	1,008	1,038
(In months of retained imports)	5.6	5.3	5.7	4.4	5.0	4.8
External central government debt (In percent of GDP)	12.7	13.1	12.6	12.6	13.1	13.7
Miscellaneous						
Output gap	1.3	0.5	2.5	2.8	0.7	-0.5
Real effective exchange rate (average)	105.5	110.1	111.9	112.7	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	2.10	2.09	2.07	2.09	...	...
GDP at current market prices (in millions of U.S. dollars)	4,682	4,930	5,353	5,537	5,526	5,766
GDP per capita (in U.S. dollars)	5,386	5,621	6,050	6,223	6,176	6,409
GDP at current market prices (in millions of Fiji dollars)	9,822	10,327	11,065	11,557	11,951	12,470

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

Table 2. Fiji: Financial Corporations, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
					(percent of GDP)				
Reserve Bank of Fiji									
Net foreign assets	17.5	18.3	19.2	19.3	18.0	18.1	16.9	19.0	15.9
Net claims on central government	2.0	1.5	1.3	0.5	0.6	0.6	0.7	0.4	0.6
Claims on other depository corporations	0.1	0.4	0.6	0.9	1.1	0.9	0.9	1.2	1.3
Monetary base	17.8	19.0	20.1	19.9	19.0	19.2	18.3	20.3	17.5
Currency in Circulation	7.3	6.8	7.3	6.8	7.0	7.5	7.6	7.6	7.9
Liabilities to other depositorey corporations	10.5	12.2	12.9	13.1	12.0	11.7	10.8	12.7	9.6
Other	1.7	1.2	1.0	0.8	0.8	0.4	0.3	0.3	0.3
Depository corporations									
Net foreign assets	16.9	18.7	19.1	21.2	17.7	18.4	18.2	20.0	16.2
Net claims on central government	2.9	1.7	0.4	0.1	0.3	0.3	-1.5	-3.3	-1.3
Claims on private sector	57.9	53.5	54.2	54.5	57.4	61.2	65.7	67.0	68.9
Broad money	62.4	61.7	62.5	68.5	68.9	73.3	73.0	73.8	72.7
Currency outside depository corporations	5.9	5.4	5.7	5.3	5.3	5.6	5.8	5.8	5.6
Transferable deposits	15.7	21.7	21.6	36.7	35.1	37.2	36.5	39.2	37.8
Other deposits	36.4	32.0	32.8	25.1	27.2	29.2	29.6	27.8	28.2
Securities other than shares	4.4	2.5	2.4	1.4	1.3	1.3	1.1	1.1	0.9
Other	15.3	12.2	11.3	7.4	6.6	6.6	9.3	9.9	11.1
Financial corporations									
Net foreign assets	17.6	21.4	23.0	26.3	21.4	22.8	23.9	26.1	20.4
Net claims on central government	38.1	32.7	31.0	28.7	26.2	25.5	24.4	23.4	27.2
Claims on private sector	77.1	69.6	70.9	69.1	72.6	78.8	84.4	86.2	93.5
Currency outside financial corporations	5.2	4.6	4.1	3.6	4.6	4.8	5.0	4.9	4.8
Deposits	45.1	43.8	43.4	45.8	46.4	50.6	52.4	52.9	53.3
Insurance technical reserves	54.6	51.9	54.1	53.6	52.1	52.9	53.3	55.3	58.8
Other	27.9	23.4	23.4	21.1	17.1	18.8	22.1	22.6	24.3

Source: RBF

Table 3. Fiji: Central Government Operations, 2015-2024

(In percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.					
Government Revenue	26.0	26.1	27.6	27.1	25.4	25.7	26.0	26.3	26.5	26.6
Tax revenue	23.5	23.2	24.5	24.0	22.5	22.7	23.0	23.3	23.5	23.6
Other revenue	2.6	2.8	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Government Expenditure	29.8	27.4	29.4	32.6	30.3	30.2	30.1	30.0	29.9	29.6
Primary expenditure	26.8	24.8	26.9	30.0	27.5	27.4	27.2	27.1	26.9	26.6
Current	16.2	16.2	16.5	18.2	17.7	17.7	17.6	17.6	17.5	17.3
Personnel	8.4	8.1	8.0	8.7	8.8	8.8	8.7	8.7	8.7	8.6
Transfers	4.8	5.2	5.5	6.3	5.9	5.9	5.8	5.8	5.7	5.7
Supplies and consumables	2.1	2.2	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.2
Other	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Capital	10.6	8.6	10.4	11.8	9.8	9.7	9.6	9.5	9.4	9.3
Interest	3.0	2.6	2.5	2.7	2.8	2.8	2.9	2.9	3.0	3.0
Fiscal balance	**-3.8**	**-1.3**	**-1.8**	**-5.5**	**-4.9**	**-4.5**	**-4.1**	**-3.7**	**-3.4**	**-3.0**
Primary balance	-0.8	1.3	0.7	-2.8	-2.1	-1.7	-1.2	-0.8	-0.4	0.0
Cyclically adjusted primary balance	-1.1	1.1	0.1	-3.5	-2.3	-1.6	-1.1	-0.7	-0.4	0.0
Financing	3.8	1.3	1.8	5.5	4.9	4.5	4.1	3.7	3.4	3.0
Privatizations	1.9	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0
Public debt	1.5	3.1	2.6	4.3	3.1	4.5	4.1	3.7	3.4	3.0
Other	0.3	-1.8	-0.8	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	**43.0**	**44.0**	**43.7**	**46.2**	**47.8**	**50.3**	**51.8**	**52.8**	**53.3**	**53.4**

Sources: MoE and IMF staff estimates.

Table 4. Fiji: Balance of Payments, 2016-24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
							Proj.			
					(In millions of U.S. dollars)					
Trade balance	-912	-996	-1,093	-1,351	-1,188	-1,257	-1,331	-1,398	-1,473	-1,559
Exports, f.o.b.	972	921	984	1,013	1,022	1,078	1,148	1,232	1,324	1,408
Imports, f.o.b.	1,884	1,917	2,077	2,365	2,210	2,335	2,479	2,630	2,797	2,967
Services (net)	747	805	827	927	939	986	1,045	1,110	1,181	1,257
Primary Income (net)	-284	-272	-423	-361	-453	-438	-450	-462	-475	-489
Secondary Income (net)	285	284	329	315	304	311	328	346	360	374
Private	220	225	248	221	210	214	227	241	250	259
Official	65	59	81	93	93	97	101	106	110	115
Current account	-164	-179	-360	-471	-398	-398	-407	-404	-407	-417
Capital account (net)	3	4	4	5	4	4	5	4	5	5
Financial account (net) 1/	-150	-307	-508	-672	-477	-424	-434	-432	-436	-446
FDI (net)	-238	-406	-388	-475	-418	-358	-367	-362	-363	-371
Portfolio investment (net)	90	29	42	34	18	124	18	20	22	25
Other investment (net)	-1	70	-163	-232	-77	-190	-85	-90	-95	-101
Errors and omissions	75	-128	15	-332	0	0	0	0	0	0
Change in reserve assets	65	4	168	-126	84	30	31	32	33	34
					(In percent of GDP)					
Trade balance	-19.5	-20.2	-20.4	-24.4	-21.5	-21.8	-21.9	-21.8	-21.7	-21.7
Exports	20.8	18.7	18.4	18.3	18.5	18.7	18.9	19.2	19.5	19.6
Imports	40.2	38.9	38.8	42.7	40.0	40.5	40.8	41.0	41.2	41.3
Current account balance	-3.5	-3.6	-6.7	-8.5	-7.2	-6.9	-6.7	-6.3	-6.0	-5.8
Memorandum items:										
External debt (in millions of U.S. dollars)	1,165	1,147	1,303	1,385	1,441	1,514	1,592	1,673	1,755	1,840
External debt as a share of GDP	24.9	23.3	24.3	25.0	26.1	26.3	26.2	26.1	25.9	25.6
External central government debt (in millions of U.S. dollars)	586	641	682	680	717	788	855	920	982	1042
External central government debt as a share of GDP	12.7	13.1	12.6	12.6	13.1	13.7	14.2	14.4	14.6	14.6
Gross official reserves (in millions of U.S. dollars)	921	915	1,103	940	1,008	1,038	1,069	1,101	1,135	1,169
(In months of retained imports)	5.6	5.3	5.7	4.4	5.0	4.8	4.7	4.5	4.4	4.3
GDP (in millions of U.S. dollars)	4,682	4,930	5,353	5,537	5,526	5,766	6,076	6,415	6,789	7,184

Source: FBoS and IMF staff estimates

Table 5. Fiji: Selected Medium-Term Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.					
Output and prices (percent change)										
Real GDP	4.7	2.5	5.4	3.5	1.0	1.8	2.8	3.0	3.3	3.3
GDP deflator	3.7	5.8	0.7	3.0	2.4	2.5	2.5	2.5	2.5	2.5
Consumer prices (average)	1.4	3.9	3.4	4.1	1.9	2.0	2.0	2.0	2.0	2.0
Output gap (percent of potential output)	1.3	0.5	2.5	2.8	0.7	-0.5	-0.6	-0.5	0.0	0.0
Central government budget (in percent of GDP)										
Revenue	26.0	26.1	27.6	27.1	25.4	25.7	26.0	26.3	26.5	26.6
Expenditure	29.8	27.4	29.4	32.6	30.3	30.2	30.1	30.0	29.9	29.6
Overall balance	-3.8	-1.3	-1.8	-5.5	-4.9	-4.5	-4.1	-3.7	-3.4	-3.0
Primary balance	-0.8	1.3	0.7	-2.8	-2.1	-1.7	-1.2	-0.8	-0.4	0.0
Central government debt	43.0	44.0	43.7	46.2	47.8	50.3	51.8	52.8	53.3	53.4
Balance of payments (in percent of GDP)										
Trade balance	-19.5	-20.2	-20.4	-24.4	-21.5	-21.8	-21.9	-21.8	-21.7	-21.7
Services balance	16.0	16.3	15.5	16.7	17.0	17.1	17.2	17.3	17.4	17.5
Primary Income balance	-6.1	-5.5	-7.9	-6.5	-8.2	-7.6	-7.4	-7.2	-7.0	-6.8
Secondary Income balance	6.1	5.8	6.1	5.7	5.5	5.4	5.4	5.4	5.3	5.2
Current account balance	-3.5	-3.6	-6.7	-8.5	-7.2	-6.9	-6.7	-6.3	-6.0	-5.8
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-3.2	-6.2	-9.5	-12.1	-8.6	-7.4	-7.1	-6.7	-6.4	-6.2
Of which: FDI (net)	-5.1	-8.2	-7.2	-8.6	-7.6	-6.2	-6.0	-5.6	-5.4	-5.2
Of which: Portfolio investment (net)	1.9	0.6	0.8	0.6	0.3	2.2	0.3	0.3	0.3	0.3
Of which: Other investment (net)	0.0	1.4	-3.0	-4.2	-1.4	-3.3	-1.4	-1.4	-1.4	-1.4
Errors and omissions	1.6	-2.6	0.3	-6.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets	1.4	0.1	3.1	-2.3	1.5	0.5	0.5	0.5	0.5	0.5
Memorandum items:										
GDP (in millions of Fiji dollars)	9,822	10,327	11,065	11,557	11,951	12,470	13,140	13,872	14,681	15,538
Private sector credit (percentage change)	14.2	12.9	13.9	14.9	7.0	6.0	5.8	5.8	5.8	5.8
External debt (percent of GDP)	24.9	23.3	24.3	25.0	26.1	26.3	26.2	26.1	25.9	25.6
Gross official reserves (in millions of U.S. dollars	921	915	1,103	940	1,008	1,038	1,069	1,101	1,135	1,169
(In months of retained imports)	5.6	5.3	5.7	4.4	5.0	4.8	4.7	4.5	4.4	4.3

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

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Source	Time Horizon	Expected Impact	Direction of Impact	Main Impacts → Recommended Policy Actions
Confidence falters due to increasing debt-to-GDP ratio	Medium	Domestic	ST, MT	High	↓	A sustained increase in the debt-to-GDP ratio could affect business confidence and hamper private investment. → A credible fiscal consolidation strategy focused on rationalizing current spending would put the debt-to GDP ratio on a clear downward path and secure public debt sustainability.
Large swings in energy prices	Medium	External	ST, MT	High	↓ ↑	Oil imports are about 20 percent of Fiji's total imports. Risks to oil prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. → Temporary shocks should be financed while permanent shocks should be adjusted. Preemptive and gradual adjustments in the policy mix are adequate to deal with an uncertain duration of a shock.
Weaker-than-expected global growth	High	External	ST, MT	Medium	↓	Weaker-than-expected global growth could materialize due to escalating trade tensions affecting China. Its impact on Fiji would also depend on its effect on Australia and New Zealand, the two largest trading partners. → Tighten fiscal and monetary policy to support external stability and to secure fiscal sustainability.
Stronger-than-expected performance in tourism sector	Low-Medium	Domestic	MT	Medium	↑	The new air route and code share arrangements may boost the tourists from the Europe and India. → Remove impediments to the expansion of the tourism sector to further improve the capacity and price competitiveness.
Higher frequency and severity of natural disasters	Medium	External	ST, MT	High	↓	Fiji is prone to natural disasters → Rebuild fiscal and external buffers in normal times to use them when natural disasters hit. Enhance structural resilience prioritizing investment in high-quality-infrastructure.
Delays in the adoption of structural reforms	Medium	Domestic	MT	High	↓	Structural reforms are essential to promote private sector development and support medium-term growth.

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

Annex II. External Sector Assessment

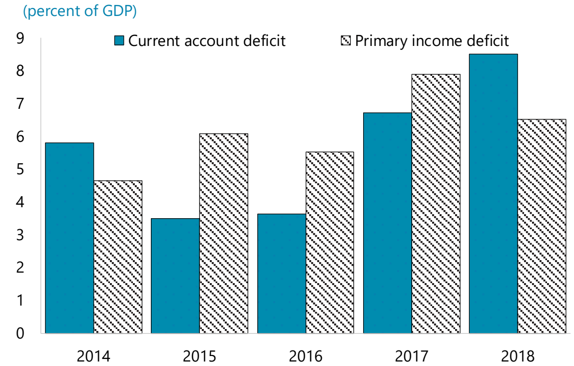
The external sector position in 2019 is estimated to be have been weaker than implied by medium-term fundamentals and desirable policy settings. Similarly, the real exchange rate was stronger than warranted. While reserve coverage is adequate, it is expected to decline over time. Structural policies and fiscal consolidation should help improve competitiveness and reduce the current account gap.

1. Foreign Asset and Liability Position. *Background.* The net international investment position (NIIP) was about -86 percent of GDP by end 2018. External assets and liabilities were 30 and 116 percent of GDP, respectively. Reserves held by the Central Bank were 17 percent of GDP. Key components of external liabilities included FDI liabilities (89 percent of GDP) and external debt (about 25 percent of GDP), of which about half was public debt. The net foreign asset position of commercial banks was positive.

Assessment. The structure of the external balance sheet, especially the large share of FDI liabilities in total external liabilities and adequate reserves, entails relatively low vulnerabilities.

2. Current Account. *Background*. The average current account deficit during 2008-17 was 5.3 percent of GDP and was more than fully financed by average FDI inflows of 7.8 percent of GDP.[1] The primary income deficit has been an important driver of the current account deficit in recent years (Figure 2.1). Although reinvested earnings account for about two thirds of the primary income deficit, they do not involve foreign exchange transactions and may exaggerate the vulnerability associated with the current account deficit level.[2] The current account deficit in 2019 is projected at 7.2 percent of GDP, mainly reflecting a lower merchandise trade deficit relative to 2018.

Text Figure 1. Fiji: Primary Income and Current Account
(percent of GDP)



Sources: RBF and FBoS

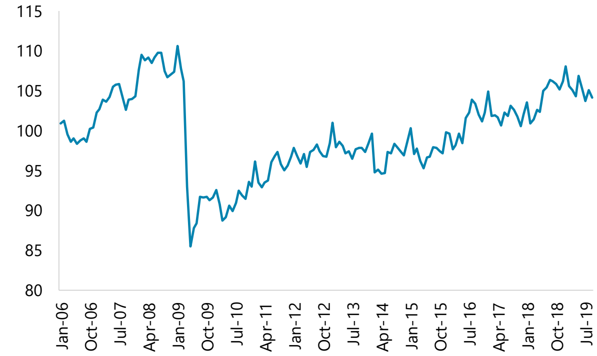
Assessment. The external position in 2019 was weaker than fundamentals and desirable policy settings. The underlying current account balance (CA), defined as the actual CA adjusted for cyclical factors, was estimated at -6.8 percent of GDP. The CA norm estimated using the EBA-lite model was -3.7 percent of GDP. The CA gap, measured by the difference between the underlying CA and the CA norm, was -3.2 percent of GDP. The more expansionary fiscal policy (relative to desired level) contributed to the CA gap by 0.7 percent. Structural weaknesses in the business environment and governance (not captured by the model) account for the bulk of the gap.

[1] A large fraction of FDI inflows are reinvested earnings from existing FDI.

[2] Reinvested earnings are recorded as debit item under primary income and as a credit item under FDI flows.

3. Real Exchange Rate. *Background.* The real effective exchange rate (REER) appreciated about 20 percent since the large devaluation in 2009 (Text Figure 2.2). About one tenth of the REER appreciation came from the nominal effective exchange rate (NEER) appreciation, and the rest from higher domestic inflation relative to Fiji's trading partners. The REER depreciated 4 percent during the first 9 months of 2019, consistent with an estimated lower current account deficit in 2019.

Text Figure 2. Fiji: Real Effective Exchange Rate
(Index)



Sources: RBF

Assessment. Using standard trade elasticities, a CA gap at -3.2 percent of GDP is equivalent to a REER gap about 9 percent.

4. Capital and Financial Accounts. *Background.* FDI inflows have generally been able to finance the current account deficits in recent years. Consequently, reserves have been on an increasing trend. Restrictions on residents' overseas investments apply.

Assessment. Capital flow liberalization needs to be planned, timed, and sequenced to ensure that its benefits outweigh its costs.

5. FX Intervention and Reserves Level. *Background.* The value of the Fiji dollar is officially determined on the basis of a weighted basket of currencies comprising the Australian dollar, Japanese yen, New Zealand dollar, euro, and U.S. dollar. Intervention data is not available. Reserves were about 5 months of imports by the end of 2019Q3, moderately higher than the level at end-2018 (4.4 months).

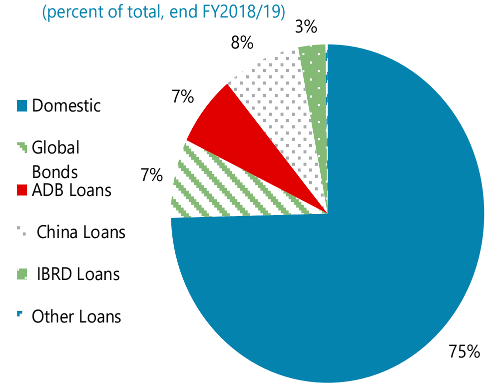
Assessment. According to the IMF's composite metric, reserves were about 122 percent of the metric adjusted for capital controls and non-full-floating exchange rate regimes at end-2018, suggesting that the current level of reserves is adequate.

Annex III. Debt Sustainability Analysis

Public debt is expected to increase steadily under the baseline, posing major risks to debt sustainability. Natural disasters and contingent liabilities from state-owned enterprises pose further risks to public debt sustainability. There was a large fiscal stimulus in 2018 amid reconstruction efforts from Cyclone Winston and general elections at the end of the year. The fiscal deficit reached 5.5 percent of GDP, the highest in the decade, and the public debt-to-GDP ratio increased sharply to 46 percent of GDP. The fiscal deficit is projected at 4.9 percent of GDP in 2019 and to gradually decline in the medium-term as the economy recovers. Under current policies, the debt-to-GDP ratio is forecast to reach 53 percent of GDP by 2024.

Fiji's debt profile is associated with moderate levels of risk. Public debt held by non-residents by end FY2018/19 was 25 percent while the remaining 75 percent is held by domestic residents. About 52 percent of total public debt is held by the FNPF. Short-term public debt was about 5 percent of the total and was held by domestic residents. Although Fiji is a middle-income economy, the World Bank approved its inclusion as an IDA-eligible economy in March 2019, making it eligible for concessional financing. The authorities plan to replace the global bond due in October 2020 with loans from the ADB and the World Bank.

Text Figure 1. Fiji: Public Debt Holders
(percent of total, end FY2018/19)



Sources: MoE

The baseline scenario assumes that GDP growth will be around 3 percent in the medium-term, in line with estimates of potential growth. In this scenario the debt-to-GDP ratio increases to 53 percent of GDP over the period 2019-2024, remaining below the debt-to-GDP burden benchmark of 70 percent.[1]

The constant primary balance scenario assumes that the estimated primary balance in 2019 remains constant in the medium term. This scenario shows that without fiscal consolidation, the debt-to-GDP ratio increases steadily, reaching 60 percent of GDP in 2024 and putting debt sustainability at risk.

The historical scenario assumes that GDP growth and primary balances in 2020-24 equal the 2009-18 average. Under this scenario the public debt-to-GDP ratio in the medium term reaches 46 percent of GDP, lower than in the baseline. The average primary balance during 2009-18 (0.5 percent of GDP) is higher than the average projected primary balance during 2020-24 (-0.8 percent

[1] Compared with the Debt Sustainability Analysis published in the last Article IV report, the debt-to-GDP ratios from 2014 to 2018 have been revised down by 3-4 percentage points. This was largely caused by an upward revision of the historical nominal GDP.

of GDP). This suggests that preserving fiscal discipline as was done during 2009-18 would help to rebuild a debt buffer of 7 percent of GDP compared to the end of FY2018/19.

The natural disaster scenario assumes that a shock hits in 2020 slowing down GDP growth to -2 percent and temporarily increasing the primary deficit to 3.7 percent of GDP in 2021 and 3.2 percent of GDP in 2022.[2] The debt-to-GDP ratio reaches 74 percent of GDP in 2022 and remains close to 59 percent by 2024, putting debt sustainability at risk. This suggests that putting debt on a clear downward path in normal times (as in staff's preferred scenario) would help to keep debt broadly stable under natural disasters.

The contingent liability shock scenario is relevant because the central government guaranteed state-owned enterprises' debt of about 10 percent of GDP. The scenario assumes that a contingent liability of 10 percent of GDP materializes in 2020. The debt-to-GDP ratio jumps to almost 61 percent of GDP and reaches 67 percent of GDP by 2024 while gross financing needs breach the benchmark of 15 percent in 2020.

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

Figure 1. Fiji: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

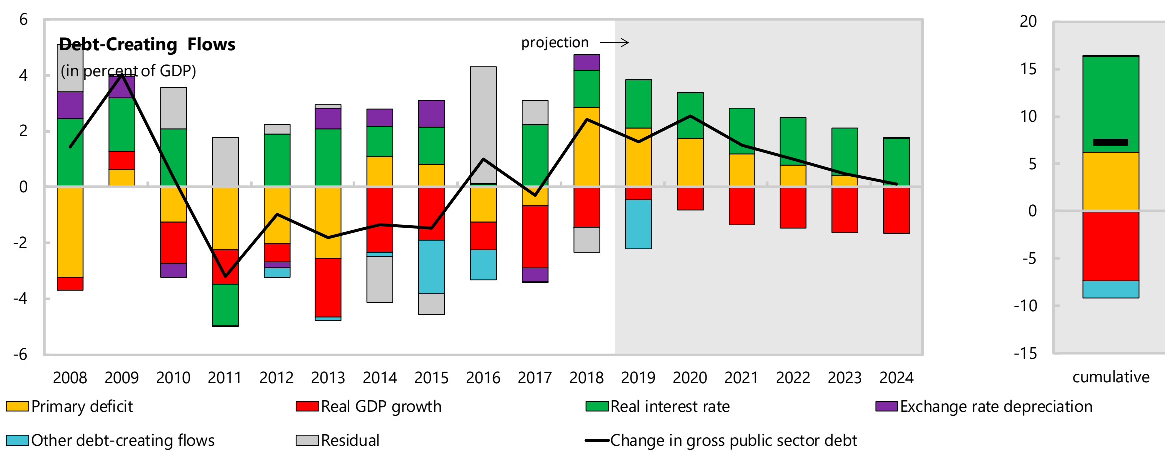
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	47.2	43.7	46.2	47.8	50.3	51.8	52.8	53.3	53.4
Public gross financing needs	10.4	5.7	9.1	8.4	10.4	7.4	6.7	6.2	6.2
Real GDP growth (in percent)	2.7	5.4	3.5	1.0	1.8	2.8	3.0	3.3	3.3
Inflation (GDP deflator, in percent)	3.9	0.7	3.0	2.4	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	6.4	7.1	4.5	3.4	4.3	5.4	5.6	5.8	5.8
Effective interest rate (in percent) [4/]	6.9	6.1	6.4	6.3	6.1	6.0	6.0	6.0	6.0

As of December 05, 2019		
Sovereign Spreads		
EMBIG (bp) 3/	372	
5Y CDS (bp)	n.a.	
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing
Change in gross public sector debt	-0.2	-0.3	2.4	1.6	2.6	1.5	1.0	0.5	0.1	7.3	primary
Identified debt-creating flows	-1.0	-1.2	3.3	1.6	2.6	1.5	1.0	0.5	0.1	7.2	balance [9/]
Primary deficit	-1.1	-0.7	2.8	2.1	1.7	1.2	0.8	0.4	0.0	6.2	0.1
Primary (noninterest) revenue and grants	24.2	27.5	27.1	25.4	25.7	26.0	26.3	26.5	26.6	156.5	
Primary (noninterest) expenditure	23.1	26.9	30.0	27.5	27.4	27.2	27.1	26.9	26.6	162.8	
Automatic debt dynamics [5/]	0.5	-0.5	0.4	1.3	0.8	0.3	0.2	0.1	0.1	2.8	
Interest rate/growth differential [6/]	0.1	0.0	-0.1	1.3	0.8	0.3	0.2	0.1	0.1	2.8	
Of which: real interest rate	1.3	2.2	1.3	1.7	1.6	1.6	1.7	1.7	1.7	10.1	
Of which: real GDP growth	-1.2	-2.3	-1.4	-0.4	-0.8	-1.3	-1.5	-1.6	-1.7	-7.4	
Exchange rate depreciation [7/]	0.4	-0.5	0.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.4	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Financing: Foreign Financing: Privatization (negative)	-0.4	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.8	0.9	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

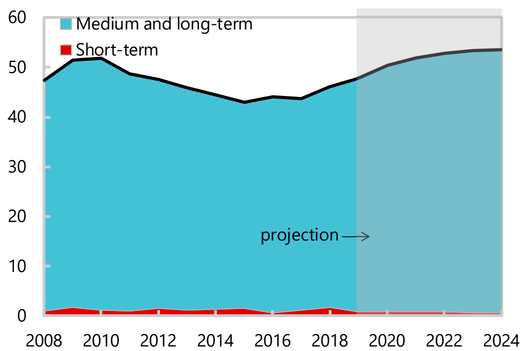
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

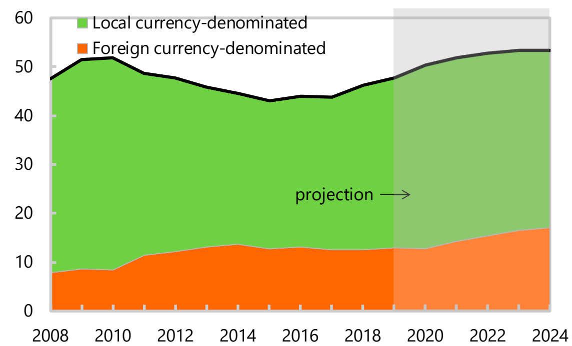
Figure 2. Fiji: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



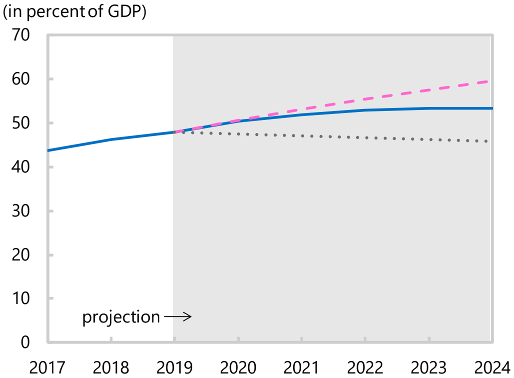
By Currency
(in percent of GDP)



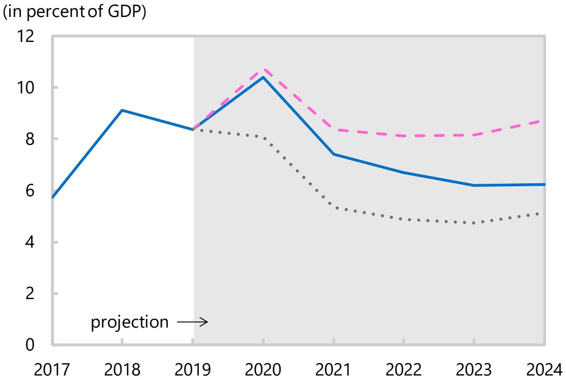
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



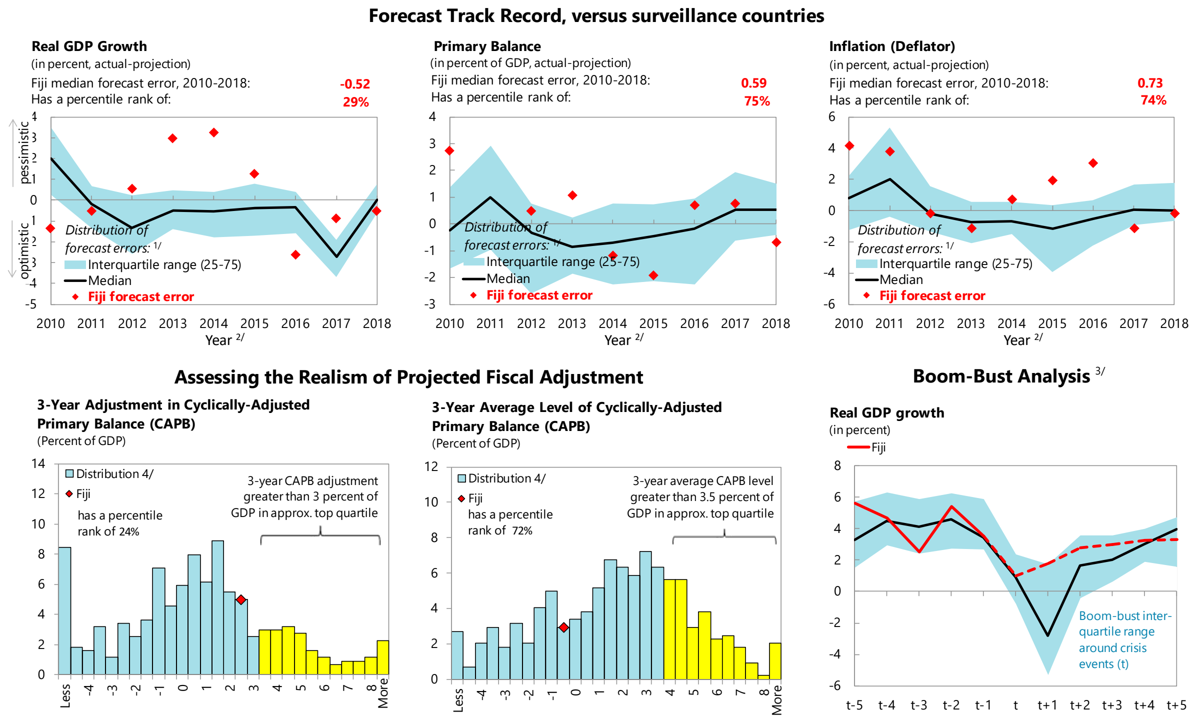
Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.0	1.8	2.8	3.0	3.3	3.3
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary Balance	-2.1	-1.7	-1.2	-0.8	-0.4	0.0
Effective interest rate	6.3	6.1	6.0	6.0	6.0	6.0
Constant Primary Balance Scenario						
Real GDP growth	1.0	1.8	2.8	3.0	3.3	3.3
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary Balance	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	6.3	6.1	6.0	6.0	6.0	6.0

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.0	3.2	3.2	3.2	3.2	3.2
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary Balance	-2.1	0.5	0.5	0.5	0.5	0.5
Effective interest rate	6.3	6.1	5.9	6.0	5.9	5.9

Source: IMF staff.

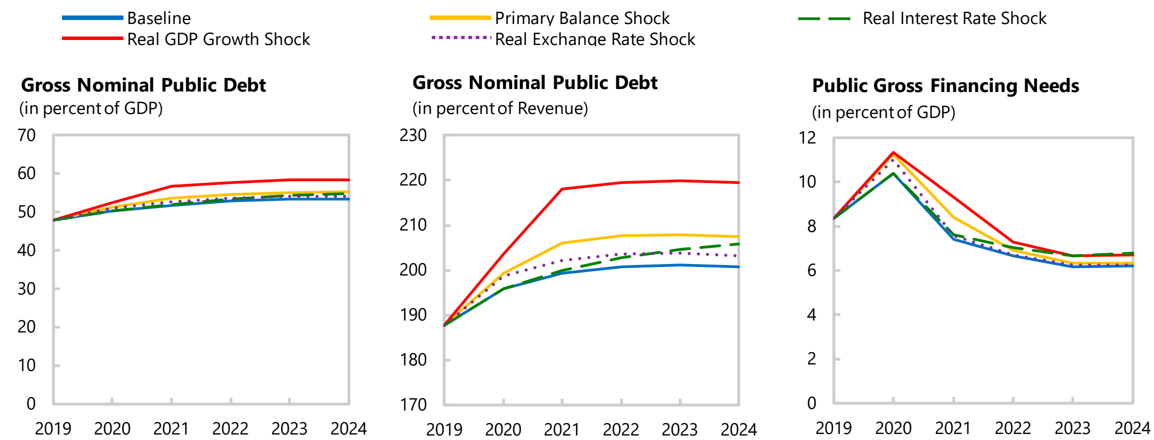
Figure 3. Fiji: Public DSA - Realism of Baseline Assumptions



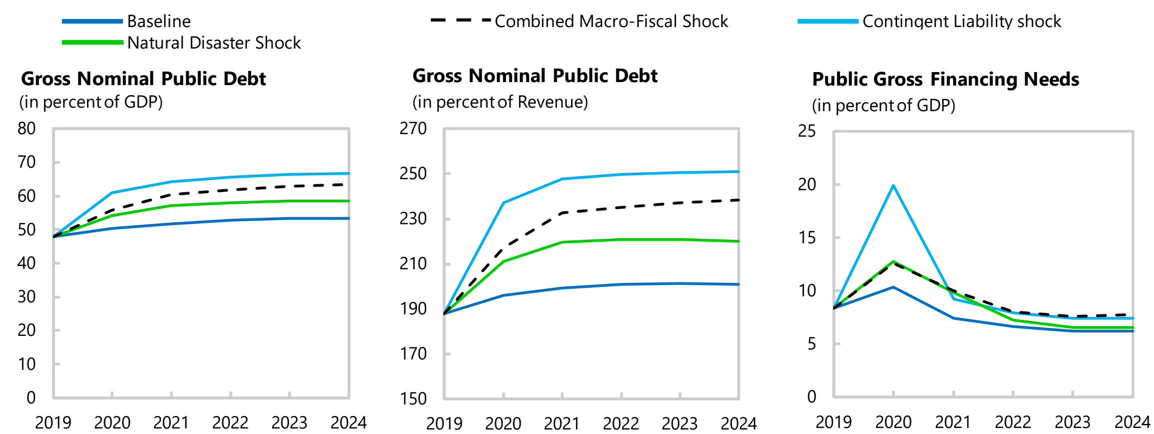
Source : IMF Staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Fiji has had a positive output gap for 3 consecutive years, 2016-2018. For Fiji, t corresponds to 2019; for the distribution, t corresponds to the first year of the crisis.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Fiji: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	1.0	1.8	2.8	3.0	3.3	3.3
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary balance	-2.1	-2.6	-2.1	-0.8	-0.4	0.0
Effective interest rate	6.3	6.1	6.0	6.0	6.0	6.1
Real Interest Rate Shock						
Real GDP growth	1.0	1.8	2.8	3.0	3.3	3.3
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary balance	-2.1	-1.7	-1.2	-0.8	-0.4	0.0
Effective interest rate	6.3	6.1	6.4	6.6	6.8	7.0
Combined Shock						
Real GDP growth	1.0	-0.3	0.7	3.0	3.3	3.3
Inflation	2.4	2.0	2.0	2.5	2.5	2.5
Primary balance	-2.1	-2.6	-2.7	-0.8	-0.4	0.0
Effective interest rate	6.3	6.5	6.3	6.5	6.8	7.0
Natural Disaster Shock						
Real GDP growth	1.0	-2.0	4.0	3.0	3.3	3.3
Inflation	2.4	2.5	2.5	2.5	2.5	2.5
Primary balance	-2.1	-3.7	-3.2	-0.8	-0.4	0.0
Effective interest rate	6.3	6.1	5.9	5.9	5.9	6.0

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	1.0	-0.3	0.7	3.0	3.3	3.3
Inflation	2.4	2.0	2.0	2.5	2.5	2.5
Primary balance	-2.1	-2.5	-2.7	-0.8	-0.4	0.0
Effective interest rate	6.3	6.1	6.0	6.0	6.1	6.1
Real Exchange Rate Shock						
Real GDP growth	1.0	0.8	2.8	3.0	3.3	3.3
Inflation	2.4	8.7	2.5	2.5	2.5	2.5
Primary balance	-2.1	-1.7	-1.2	-0.8	-0.4	0.0
Effective interest rate	6.3	6.5	5.9	5.9	6.0	6.0
Contingent Liability Shock						
Real GDP growth	1.0	-0.3	0.7	3.0	3.3	3.3
Inflation	2.4	2.0	2.0	2.5	2.5	2.5
Primary balance	-2.1	-10.7	-1.2	-0.8	-0.4	0.0
Effective interest rate	6.3	6.8	6.4	6.4	6.4	6.4

Source: IMF staff.

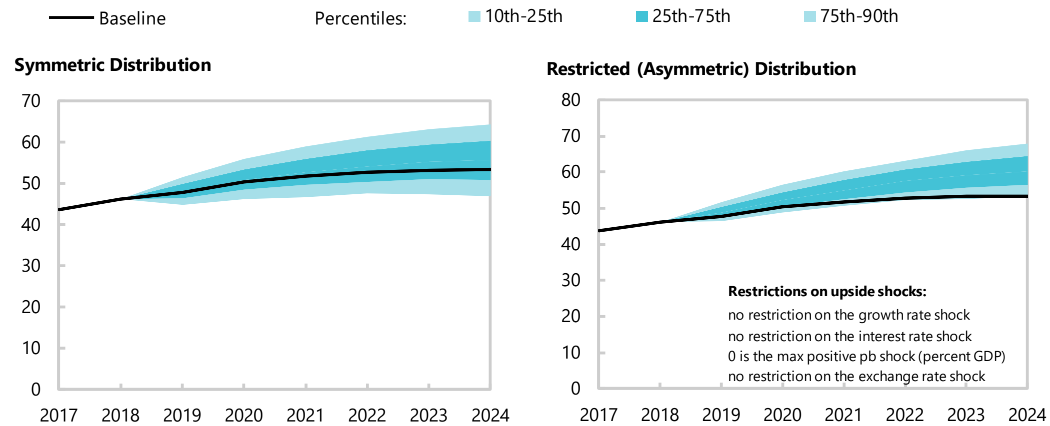
Figure 5. Fiji: Public DSA Risk Assessment

Heat Map

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

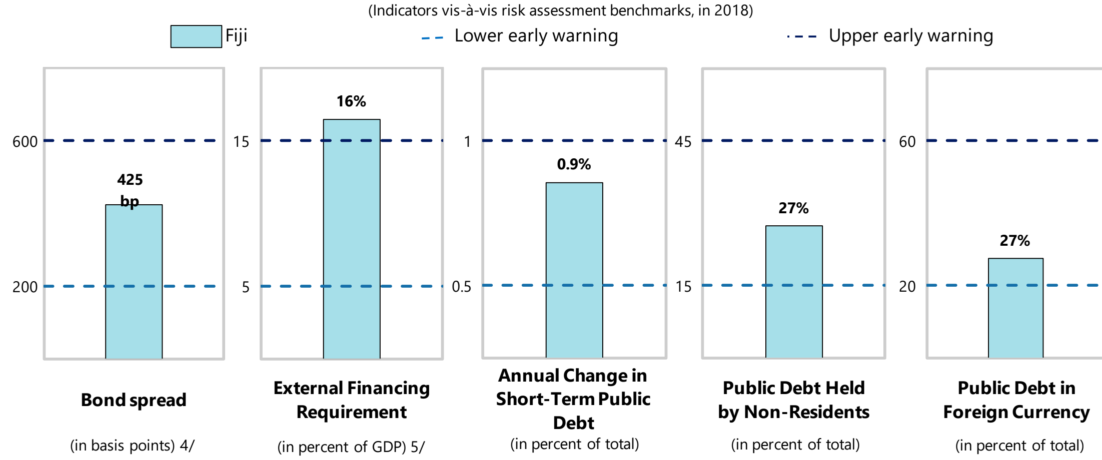
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 06-Sep-19 through 05-Dec-19.

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

Figure 6. Fiji External Debt Sustainability Framework, 2014-2024
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	26.8	24.9	23.3	24.3	25.0			**25.7**	**25.6**	**25.3**	**24.9**	**24.5**	**24.0**	**-5.7**
Change in external debt	-0.2	-1.9	-1.6	1.1	0.7			0.7	-0.1	-0.3	-0.4	-0.4	-0.4	
Identified external debt-creating flows (4+8+9)	-1.7	-2.1	-6.8	-2.5	-0.6			-1.0	-0.1	-0.3	-0.4	-0.4	-0.4	
Current account deficit, excluding interest payments	4.1	1.6	1.9	5.5	7.1			5.7	5.4	5.3	5.0	4.7	4.8	
Deficit in balance of goods and services	6.1	3.5	3.9	5.0	7.7			4.5	4.7	4.7	4.5	4.3	4.2	
Exports	52.3	48.8	46.6	46.0	48.3			47.9	48.4	48.8	49.2	49.7	49.9	
Imports	58.5	52.4	50.5	50.9	56.0			52.4	53.1	53.5	53.7	54.0	54.1	
Net non-debt creating capital inflows (negative)	-6.3	-5.1	-8.2	-7.2	-8.6			-7.9	-6.5	-6.3	-5.9	-5.6	-5.4	
Automatic debt dynamics 1/	0.5	1.4	-0.5	-0.7	0.9			1.3	1.1	0.8	0.6	0.5	0.3	
Contribution from nominal interest rate	1.8	1.8	1.7	1.2	1.4			1.5	1.5	1.4	1.3	1.3	1.0	
Contribution from real GDP growth	-1.4	-1.2	-0.6	-1.2	-0.8			-0.2	-0.4	-0.7	-0.7	-0.8	-0.8	
Contribution from price and exchange rate changes 2/	0.2	0.9	-1.6	-0.8	0.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.5	0.2	5.2	3.5	1.2			1.7	0.0	0.0	0.0	0.0	-0.1	
External debt-to-exports ratio (in percent)	51.2	51.0	49.9	52.9	51.8			53.7	52.9	51.8	50.6	49.2	48.1	
Gross external financing need (in millions of US dollars)	589.6	812.3	648.8	709.2	920.2			799.4	977.0	837.2	847.4	864.8	889.3	
in percent of GDP	12.1	17.3	13.2	13.2	16.6	10-Year	10-Year	14.2	16.6	13.5	13.0	12.5	12.1	
Scenario with key variables at their historical averages 5/								**25.7**	**22.8**	**19.8**	**16.8**	**13.8**	**10.6**	**-7.3**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	5.6	4.7	2.5	5.4	3.5	3.2	2.1	1.0	1.8	2.8	3.0	3.3	3.3	
GDP deflator in US dollars (change in percent)	-0.6	-3.1	6.7	3.5	-1.3	2.0	5.7	0.8	2.5	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.9	6.7	7.4	5.8	5.8	6.9	0.9	6.1	6.2	5.9	5.6	5.5	4.5	
Growth of exports (US dollar terms, in percent)	6.7	-10.0	0.6	7.0	8.6	4.1	16.2	-1.0	5.3	6.2	6.6	6.8	6.3	
Growth of imports (US dollar terms, in percent)	-2.4	-13.7	1.6	9.5	13.6	3.2	17.0	-6.5	5.6	6.2	6.1	6.3	6.1	
Current account balance, excluding interest payments	-4.1	-1.6	-1.9	-5.5	-7.1	-3.5	2.5	-5.7	-5.4	-5.3	-5.0	-4.7	-4.8	
Net non-debt creating capital inflows	6.3	5.1	8.2	7.2	8.6	7.4	2.0	7.9	6.5	6.3	5.9	5.6	5.4	

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 deflato
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.

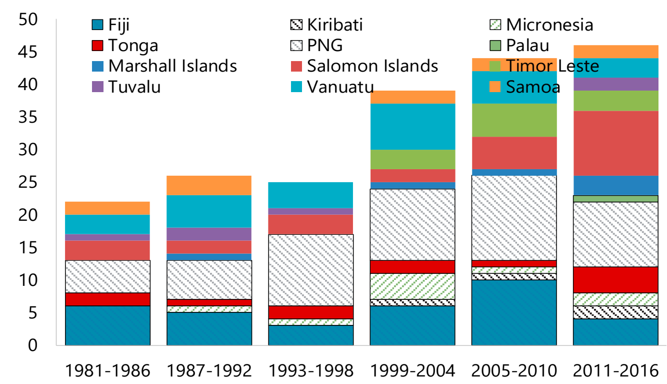
Annex IV. Natural Disasters Risk Management

Fiji has a disaster risk management framework that has been strengthened after dealing with a variety of natural disasters. Strong institutional arrangements and capacity have been developed to respond quickly and effectively to natural disasters. There is a case, however, for investing more in building resilience ex ante (rather than responding to a disaster ex post) by focusing on structural and financial resilience.

Fiji's location in the tropical cyclone belt renders it prone to cyclones and other natural disasters. Between 1981 and 2016, Fiji experienced 36 natural disasters, 20 of which were cyclones. About 7 natural disasters caused damage of more than 2% of GDP and affected more than 20 percent of the population. In 2016, Cyclone Winston, a category-five storm and the most intense on record to hit Fiji, caused extensive damage to infrastructure, agricultural production, and the sugar industry. As the frequency and severity of natural disasters in the region has been increasing (Text Figure 4.1), building resilience to natural disasters is of utmost importance.

Fiji has a disaster risk management (DRM) framework that has been evolving over the past three decades. In 2001 it established the National Disaster Management Office (NDMO), which is responsible for the coordination of response to natural disasters. The NDMO operates under the jurisdiction of the Natural Disaster Management Act (1998) which provides the legislative basis for the Fiji National Disaster Management Plan (1995). In 2007 it adopted the National Climate Change Polity Framework, resulting in Fiji's first National Climate Change Policy (2012).

Text Figure 1. Natural Disasters in Pacific Island Countries
(number of disasters)



Sources: EM database

Fiji should develop a resilience strategy within a macroeconomic framework that is consistent with maintaining debt sustainability, including under adverse shocks. The Disaster Resilience Strategy (DRS) could be part of the medium-term fiscal strategy chapter in the budget. A DRS has thee important pillars[1]:

1) **Structural resilience.** This includes infrastructure and other investment to limit the impact of natural disasters. In recent years the government has invested to enhance structural resilience by providing early warnings and by properly maintaining energy infrastructure. Public investment (including infrastructure to strengthen resilience) was increased notably reaching an average of 10.3 percent of GDP during 2014-18 (Figure 4, bottom right). The 2018 Climate Vulnerability Assessment

[1] IMF, 2019, Building Resilience in Developing Countries Vulnerable to Large Natural Disasters.

conducted by the World Bank estimated large investment needs to strengthen structural resilience. A current expenditure-based fiscal consolidation as shown in Text Table 2 is warranted to prioritize those investment needs while maintaining debt sustainability.

2) **Financial resilience.** This includes fiscal buffers and financial instruments to protect fiscal sustainability and manage recovery costs. The public debt-to-GDP ratio increased from 43 percent of GDP by end-2015 to 49 percent by July 2019. Fiscal consolidation is warranted to put debt on a downward path and regain flexibility to respond to future natural disasters while maintaining debt sustainability (Annex 2). Fiji's households have limited access to housing insurance as IFC estimates that 94 percent of homes are uninsured. IFC is helping the Fiji government to provide parametric insurance to farmers and disadvantaged families. For large natural disasters such as Cyclone Winston, the PCRAFI insurance program allows countries to pay a premium to transfer some of their risk to international reinsurance markets. Both Tonga and Vanuatu have relied on this scheme in recent years. Green bonds are also a useful tool to attract financing for building resilience to natural disasters and to support sustainable development (Box 1).

Box 1. Green Bonds in Fiji

The Fijian government collaborated with IFC to develop Fiji's first ever Green Bond. On November 2017, Fiji became the first emerging economy to issue sovereign green bonds. The bond raised 100 million Fiji dollars (around 50 million US dollars or 1 percent of GDP), with the goal of helping the country to adapt to climate change. The government split the 100 million amount between a five-year tenor at 20 million targeting commercial banks and a 13-year tenor at 80 million focusing on institutional investors. The bond was issued in domestic currency.

Before issuing the green bond, Fiji developed a pipeline of eligible expenditures to be financed by the bond. Then they gained support from the World Bank's Climate and Environment team to endorse the list of eligible projects. Some projects that were financed with the green bond include the rehabilitation and construction of schools damaged by Cyclone Winston, a rainwater harvesting system, the construction of Naboro landfill, reducing emissions from deforestation and forest degradation, and the installation of solar home systems for rural areas.

One lesson from the Fiji experience is that green bonds are not necessarily a cheaper source of financing. The coupon for 5 years was 4 percent and for 13 years was 6.3 percent, broadly in line with standard bonds. Another lesson is that transparency is critical for the success of the process, so resources and expertise must be applied to monitor and report the use of the proceeds. Capacity gaps could be filled with external expertise and Fiji drew on the World Bank.

3) **Post-disaster resilience.** This includes contingency planning ensuring an efficient disaster response. The humanitarian response to Cyclone Winston led by the government with generous

external assistance was quick and successful.[2] Strong institutional arrangements and coordination mechanisms were already in place in Fiji. Cash and voucher payments were used to provide food assistance, strong civil-military coordination led to the fast deployment of relief assistance, and a few weeks after the shock most schools were operational.

[2] World Bank, 2017, Social Protection and Humanitarian Assistance Nexus for Disaster Response: Lessons Leant from Fiji's Tropical Cyclone Winston.

Annex V. Public Financial Management (PFM) Reforms

A Public Expenditure and Financial Accountability (PEFA) assessment is ongoing and will inform Public Financial Management (PFM) reforms in the coming years. Staff considers that there is a strong case for enhancing fiscal transparency and budget credibility.

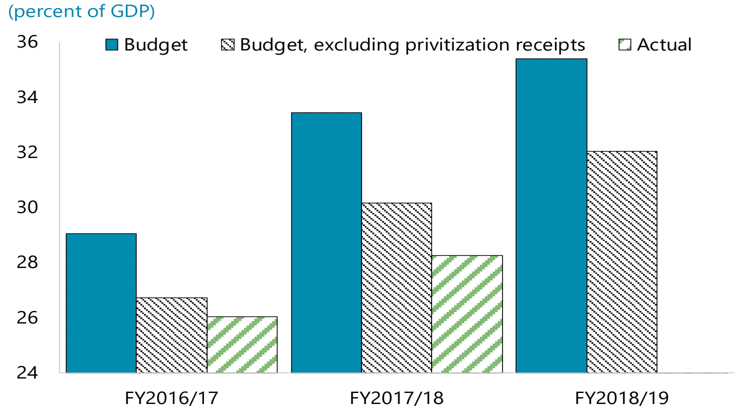
Fiji has been actively reforming its PFM practices, with support from development partners. Fiji had a PEFA assessment in 2013, which led to the Public Financial Management Implementation Plan (PFMIP) 2013-18. Implementation of the PFMIP included: formulation of the Citizens' Budget, e-Procurement, cash basis IPSAS reporting, and progress on budget transparency (including quarterly budget reporting to parliament). In addition, work has started to create a national asset register, and a new construction implementation unit has been established to oversee infrastructure spending execution.

The 2019 PEFA will aim to strengthen the PFM legislative framework, improve service delivery and revamp the quality of public spending. The PEFA assessment has been conducted and the report will be finalized by March 2020. The PEFA results will guide the next PFMIP phase, 2019-2024.

While the PEFA results have not yet been released, staff considers that improvements can be made in the budget process and fiscal transparency. The budget process is evolving, but is hindered by the absence of a functional or program classification system, and the absence of key performance indicators. Regarding fiscal transparency, a lengthy approval process has created delays in publication of public financial statements of several SOEs, which has in turn held up the production of annual reports. Staff encourages the authorities to address these delays by streamlining the approval process or releasing qualified financial statements.

Staff also sees scope for strengthening budget credibility. The discrepancy between budget fiscal projections and fiscal outturns has been too large in recent years, undermining the credibility of the budget. Government revenue projections should be more realistic, especially when estimating the yield from tax administration gains, and projected privatization receipts should not be part of government revenues. The budget should also include estimates of the budgetary impact of all major fiscal policy changes.

Text Figure 1. Fiji: Budget Revenue Projections
(percent of GDP)



Sources: MoE and IMF staff calculations

Annex VI. Selected Past Advice

Fund Recommendation	Policy Actions
Fiscal consolidation to rebuild fiscal space and support external stability.	Fiscal consolidation is a key objective of the medium-term fiscal strategy in the FY2019/20 budget. The challenge is implementation.
Protect public investment by containing current primary expenditure.	No progress.
Reducing **policy uncertainty** by fostering more comprehensive and transparent consultations.	Some progress, including conducting policy consultations (e.g., budget) with a diverse set of stakeholders.
Rationalizing **price controls**.	Some progress in the electricity sector.
Restoring **pension savings** disbursed after TC Winston.	No progress. The authorities are reluctant to increase mandatory pension contributions. The work with IFC to get parametric insurance will contain the need for using pension savings in future natural disasters.
Improving **fiscal reporting**.	Some progress. The government publishes fiscal data every quarter. No progress in publishing in a timely manner the annual reports of major SOEs.
Improving the **ease of doing business**.	Some progress. The Personal Property Registry was launched in June 2019 facilitating access to credit.
Upgrade the **foreign investment regime**.	No progress.
Removing **exchange restrictions** for payments on current international transactions.	No progress.
Strengthening **statistics** for informed policy making.	Some progress. Data Dissemination System (e-GDDS) in September 2018. Progress with quarterly national accounts and with fiscal statistics under GFS (2014) standards has been slow.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 23, 2019

Prepared By

Asian and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2019)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	98.40	100.00
Fund holdings of currency	74.30	75.51
Reserve position in Fund	24.14	24.53

SDR Department:

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

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Type Stand-By	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn Allocation (SDR Million)
	Nov. 8, 1974	Nov. 7, 1975	3.25	0.00

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

	Forthcoming				
	2020	2021	2022	2023	2024
Principal					
Charges/Interest	0.25	0.26	0.25	0.26	0.26
Total	0.25	0.26	0.25	0.26	0.26

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. The exchange rate was F$2.17 per U.S. dollar as of December 20, 2019.

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

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

Last Article IV Consultation: The 2018 Article IV consultation discussions were held in Suva during December 3-18, 2018. The consultation (Country Report No. 19/57) was completed by the Executive Board on February 12, 2019. Fiji is on a 12-month cycle.

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Macroeconomic data are improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years. The Reserve Bank of Fiji (RBF) publishes the *Annual Report*, the *Quarterly Review,* and the monthly *Economic Review*. The Fiji Bureau of Statistics (FBoS) publishes a quarterly *Current Economic Statistics* and a monthly *Statistical News*. The Ministry of 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. In September 2018, the authorities began publishing key macroeconomic data via a National Summary Data Page (NSDP) under the enhanced General Data Dissemination System (e-GDDS) to support surveillance and improve data transparency (See Staff Report *Annex VI: Fiji Implements the Enhanced General Data Dissemination System*).
National Accounts: Production-side estimates of GDP by production at current and constant 2014 prices are available up to 2018; current price estimates of GDP by expenditure and income are available to 2017 and will be updated to 2018 by early-2020. Estimates were rebased from 2011 to 2014 in 2019 mainly using the 2013/14 Household Income and Expenditure Survey (HIES) and the 2014 Business Census to derive new benchmarks. **Price statistics:** CPI data are published monthly using 2014 weights derived from the 2013/14 HIES survey. Quarterly PPIs for goods and services (experimental) are available from 2011 to 2019:Q2.
Government finance statistics: Fiji compiles and submits annual GFS data for budgetary central government (BCG), exclusive of the classifications of the functions of government. The most recent submission was in December 2018 and the submission included data for the fiscal years 2016 and 2017. Re-classification of BCG expenditure data is required to improve the integrity of the fiscal data and prepare the data for general government consolidation. Ongoing chart of accounts reforms for BCG, planned for implementation mid-August 2020, may see some improvements for GFS reporting. The authorities continue to make progress in collecting source data required to expand general government coverage; however, delays are experienced to obtain audited annual financial statements from statutory bodies and state-owned enterprises. The authorities are encouraged to review and update outstanding fiscal metadata as part of the process to produce its NSDP under the e-GDDS.
Monetary and financial statistics: Data on the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) are comprehensive and provided to APD and STA on a regular and timely basis using the standardized reporting forms. Monetary and financial statistics (MFS) that are in line with the *Monetary and Financial Statistics Manual* (*MFSM*)

are published on the RBF's website and *International Financial Statistics*. The full implementation of STA's technical assistance missions' recommendations, including enhancing source data for ODCs and OFCs as well as compilation of a financial corporations survey with full institutional coverage, will significantly improve the quality and cross-country comparability of MFS.
Financial sector: Fiji reports to STA for publication on the IMF's website, all core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers on a quarterly basis and with one quarter timeliness. Coverage and timeliness of FSIs for other sectors need to be improved as currently two FSIs are reported to STA with a longer time lag.
Balance of payments: Balance of payments statistics weaknesses persist and there is a need to improve the coverage, classification and compilation methodology of the external sector statistics (ESS). Fiji reports its balance of payments data for dissemination purposes in the Fund's *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*. FBoS has undertaken a number of actions that were recommended to improve timeliness in ESS dissemination and to enhance consistency with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), albeit at a slow pace.
II. Data Standards and Quality
Fiji is an e-GDDS participant and publishes key macroeconomic data via an NSDP.

Fiji—Table of Common Indicators Required for Surveillance

(As of December, 2019)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	12/2019	12/2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2019	12/2019	M	M	M
Reserve/Base Money	10/2019	12/2019	M	M	M
Broad Money	10/2019	12/2019	M	M	M
Central Bank Balance Sheet	10/2019	12/2019	M	M	M
Consolidated Balance Sheet of the Banking System	10/2019	12/2019	M	M	M
Interest Rates[2]	10/2019	12/2019	M	M	M
Consumer Price Index	11/2019	12/2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	10/2019	12/2019	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	10/2019	12/2019	M	M	M
External Current Account Balance	Q2, 2019	10/2019	Q	Q	Q
Exports and Imports of Goods and Services	Q2, 2019	10/2019	Q	Q	Q
GDP	2018	09/2019	A	A	A
Gross External Debt	Q2/2019	10/2019	Q	Q	Q
International Investment Position	Q2/2019	10/2019	Q	Q	Q

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

**Statement by Alisara Mahasandana, Executive Director for Fiji
and Muslimin Anwar, Senior Advisor to Executive Director
February 24, 2020**

On behalf of our Fiji authorities, we would like to thank the IMF mission team for the comprehensive and constructive policy dialogue during the 2019 Article IV consultation. The consultation provided valuable opportunities to discuss the progress of home-grown policies as well as reforms that Fiji is currently undertaking. We appreciate staff's understanding of the domestic economy and acknowledgement of the country-specific challenges, as well as the authorities' policies and objectives. The authorities broadly concur with the thrust of staff's appraisal and will carefully consider the relevant recommendations.

Recent Economic Development and Outlook

After recording strong economic growth from 2013 to 2018, Fiji experienced a sharp slowdown in 2019. The Fijian economy is estimated to have grown by 1.0 percent in 2019 compared to 3.5 percent in 2018, owing to lower capital spending by the Government, the global economic downswing and subdued domestic demand. Growth for the year was driven mainly by resilient tourism earnings and remittances, with the former growing by 3.7 percent (Jan-Sep 2019) and the latter by 4.2 percent in 2019. Weaker domestic demand and steady service income led to an improvement in the current account deficit to 5.5 percent of GDP in 2019, compared to 8.5 percent of GDP in 2018. Subdued domestic demand and the decline in certain commodity prices resulted in a significant decline in inflation from 4.8 percent in December 2018 to -0.9 percent in December 2019. The average inflation rate for 2019 dropped to 1.8 percent from 4.1 percent in 2018.

The outlook remains positive with growth expected to pick up in the medium-term. Economic growth is projected at 1.7 percent in 2020, underpinned by resilient tourism and remittances growth, recovery in domestic demand amid accommodative financial conditions, and an improvement in business confidence. In the medium term, broad-based growth of 2.9 percent and 3.0 percent is projected for 2021 and 2022, respectively. Inflation is also forecasted to rebound to an average of around 2.0 percent in the medium term.

Risks to the economic outlook are tilted to the downside. Risks stem from slower growth in major trading partners, potential adverse impact of the COVID-19 outbreak and the Australian bushfires on the tourism industry, and delays in implementing structural reforms to boost business confidence and mobilize private investment. Against this backdrop, the authorities commit to achieve sound macroeconomic management and advance the comprehensive reform agenda to enhance the country's productivity as well as promote inclusive long-term economic growth and financial stability.

Fiscal Policy

Fiscal policy has played an instrumental role in Fiji's economic growth. Expansionary fiscal policy to rejuvenate the economy and bring back Fiji to normalcy after the devastation caused by tropical cyclone Winston in 2016, helped restore consumer and business confidence. However, the lower revenue collections due to business and economic activity disruptions along with the post-disaster reconstruction works have resulted in a higher fiscal deficit of 5.6 percent of GDP in 2018. The fiscal deficit declined to 4.3 percent of GDP in 2019 as a result of expenditure adjustment together with continued focus on strengthening revenue administration. Nonetheless, the debt to GDP ratio rose to 48.0 percent in 2019, from 46.2 percent in 2018.

Fiscal consolidation is a key focus of the Government's medium-term fiscal strategy. The Government will ensure that expenditure growth is contained and that the public sector wage-bill is kept stable. Capital spending will be guided by prioritizing high-impact investments and balancing the need to enhance inclusive socio-economic development and build resilience against climate change and natural disasters. To enhance revenue collection, the Fiji Revenue & Customs Services (FRCS) will undertake various measures to improve revenue administration through the adoption of new IT system and providing additional resources to enhance tax compliance. The medium-term fiscal framework is geared towards reducing the fiscal deficit to around 1.5 percent of GDP and bringing down the debt-to-GDP ratio to 45.9 percent by 2021-22.

Monetary Policy

We take positive note of staff appreciation that our monetary policy stance remains appropriate. Going forward, monetary policy will remain accommodative to support economic activity in 2020, while ensuring price stability and adequate foreign reserves. At the same time, the Fijian authorities are considering to rationalize certain price controls, including tariffs in the water sector.

External Sector and Exchange Rate

The external sector position improved due mainly to lower imports as a result of lower public investment and more moderate domestic demand. The decline in the trade deficit in the first eleven months of 2019 from the reduction in imports of goods, coupled with increases in remittances and tourism earnings supported Fiji's overall external position in 2019. The current account deficit is expected to continue to narrow from 5.5 percent of GDP in 2019 to around 5.0 percent of GDP in 2024. The improvement in the external position is also reflected in the adequate level of foreign reserves, equivalent to 5.2 months of retained imports (MORI) of goods and non-factor services, well above the 3 months minimum level of the international reserve adequacy standard.

The authorities' strong commitment to fiscal consolidation and stable domestic inflation would help maintain external stability. Fiscal consolidation will help lower import demand and consequently reduce the current account deficit. This is critical in the face of a global slowdown which pose risks to Fiji's exports and tourism sectors as well as the country's foreign exchange revenue. The authorities agree to consider gradually phasing out exchange restrictions for payments on current international transactions and welcome technical support from the Fund for appropriate measures and sequencing.

Financial Sector

Fiji's financial sector remains sound, with adequate capital, strong earnings and liquidity positions. In 2019, the banking sector remained stable underpinned by the operation of foreign banks that were funded by their parent banks' capital and liquidity. Liquidity in the banking system remained adequate and supportive of credit growth. Access to credit has improved since the launch of the Personal Property Securities Registry in 2019 and will be enhanced when the Credit Reporting Agency licensed in 2018 starts its operation in early 2020. The relevant legal framework pertaining to the credit bureau is also being enhanced.

The authorities continue to strengthen financial sector supervision and are addressing gaps in the legal frameworks underpinning financial sector oversight. While commercial banks' non-performing loans (NPLs) have been edging upwards recently, the overall ratio remains relatively low at 3.0. Nonetheless, the authorities remain vigilant in monitoring this development. The authorities will also undertake scenario-based solvency stress testing this year and publish its findings in the Financial Stability Review report. In addition, the new revised Credit Unions Act that places credit unions and financial cooperatives under the oversight of the RBF is planned to be finalized this year. The improvement of the governance of public non-bank financial institutions (NBFIs) has commenced with the RBF's full supervision of the Fiji Development Bank.

Structural Reform

The authorities will continue to pursue long-term structural policies to diversify the economy and reduce impediments to Fiji's economic growth reaching its potential. Key reforms are focused on improving the ease of doing business and strengthening governance. With technical support from the Singapore Corporation Enterprise (SCE) and the International Financial Corporation (IFC), the administrative requirements and permits for starting a business are being streamlined, relevant information are to be centralized to a single on-line platform, with digitization of business processes. The IFC also supported the drafting of the new Investment Bill, which will align the investment regime to the international best practices. The Bill was endorsed by Cabinet in September 2019 and is expected to be presented to Parliament in 2020. The authorities' commitment to enhancing access to finance and overall economic stability will support domestic and foreign investment and improve productivity and competitiveness. Tackling the gender gap in labor force participation in order to boost growth and make it more inclusive will remain a key priority. On improving data quality to better guide policy making, the authorities plan to publish quarterly national accounts and report fiscal outcomes according to the GFS 2014 standards in 2020, with support from the Pacific Financial Technical Assistance Center (PFTAC).

On climate change, the authorities have submitted Fiji's long-term climate action plan under the Paris Agreement to the secretariat of the UN Framework Convention on Climate Change (UNFCCC), aiming to reach net zero carbon emissions across all sectors of its economy by 2050. Additionally, the authorities plan to introduce a carbon credit scheme, reward climate-friendly infrastructure projects, and make 30 percent of its exclusive economic zone a marine protected area by 2030.

Final Remarks

Sound macroeconomic management and structural reform policies have continued to serve Fiji well in supporting economic growth and stability as well as safeguarding the economy against risks and vulnerabilities. Going forward, our authorities will continue to pursue robust policies and fiscal consolidation to promote sustainable and inclusive growth and maintain macroeconomic stability. Our authorities will remain vigilant in monitoring domestic and international economic developments and potential downside risks to the Fijian economy and financial system and will deploy appropriate policies accordingly. The authorities remain committed to advance the comprehensive structural reform agenda that would enable the Fijian economy to reach its potential growth in the medium-term.

The authorities acknowledge the support and assistance provided by the Fund through PFTAC, World Bank, IFC, Asian Development Bank and other development partners in their collective bid to lift the economic welfare of all Fijians. The authorities commit to strengthening collaboration and partnership with the Fund, and continue close engagement through regional forums, training and surveillance missions.

Finally, the authorities wish to thank the Mission Chief, Mr. Pablo Lopez-Murphy and his team for an insightful analysis and useful policy suggestions presented in the Staff Report.