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2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF FIJI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 31, 2014, following discussions that ended on July 30, 2014, with the officials of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 16, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its October 31, 2014 consideration of the staff report that concluded the Article IV consultation with Fiji.
- A **Statement by the Executive Director** for the Republic of Fiji.

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

October 9, 2014

KEY ISSUES

Context: With successful landmark elections in September 2014, Fiji took a decisive stride toward returning to democratic government for the first time since 2006. The successful elections are expected to solidify the recent improvements in relationships with traditional development partners, improve access to concessional development finance, and boost confidence in the economy. In terms of economic policy, the comfortable Parliamentary majority for the former interim Prime Minister's party (FijiFirst) is expected to support continued economic reform momentum.

Key issues and policy recommendations:

- With the economy now growing above potential, near-term macroeconomic management needs to be carefully calibrated. The accommodative monetary policy in place since 2011 has stimulated economic activity. The Reserve Bank of Fiji should now tighten policy in order to moderate credit growth and curb excess liquidity.

- Fiscal policy has been prudent and well focused in recent years, but the expansionary 2014 budget was a major departure from these welcome trends. Reversion to the prudent trend is strongly encouraged.

- The authorities have accelerated economic reforms in recent years, for example in the sugar sector and pension schemes, but the key policy challenges remain to raise potential growth, reduce unemployment, improve financial inclusion, and increase resilience to shocks. Following the elections, continued structural reform momentum is needed to improve the business environment, address the infrastructure backlog, and raise the absorptive capacity to take full advantage of a potential increase in investments.

Approved By
Hoe Ee Khor and Masato Miyazaki

Discussions took place during July 17-30, 2014. The team comprised C. Sumi (head), D. Nyberg and S. Das (all APD), and Y. Yang (Resident Representative), as well as C. Currie (ADB) and T. Haque (World Bank). The mission was joined by C. Waqabaca (OED) and coordinated with S. Roger (PFTAC).

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CONTEXT

1. **Persistent political turmoil, external shocks, and slow progress in structural reforms have contributed to low growth over the past three decades**. After experiencing robust growth in the 1970s, economic growth in Fiji slowed to about 2 percent between 1980-2012. As in the case of other Pacific island economies, growth in Fiji has also been constrained by high transportation costs and the small size of its domestic economy. Fiji's human development indicators are relatively strong and Fiji has achieved broad coverage in provision of basic services, with declining overall poverty levels even though progress in rural areas is lagging. Although Fiji has a more diversified production structure than most Pacific island economies, the economy remains heavily dependent on sugar and tourism.[1]

2. **With the successful elections in September 2014, Fiji took a decisive step toward a return to democratic government,** ending nearly eight years of military government since the coup in 2006. The international community welcomed the successful elections.[2] Voter participation rate was high at 84 percent, and FijiFirst – the party of (former interim) Prime Minister Bainimarama – received nearly 60 percent of the popular vote and thus secured about 2/3 majority in the Parliament. With the return to democracy, relations with traditional development partners and access to concessional finance will likely continue to improve (see Box 1). The confidence in the economy will receive a boost as political uncertainty is reduced. In terms of the economic policy, the new government is expected to continue the economic reform momentum established over the past few years.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **Progress towards elections had led to increased confidence in the economy.** Growth in 2013 is estimated to have accelerated to 4.6 percent. The latest available consumption and investment indicators suggest continued strength in 2014, with economic growth projected at 3.8 percent. Growth is projected to moderate towards 2.5 percent in 2015, in line with estimated potential, as the growth rates in 2013-14 were temporarily boosted by a sharp rise in credit growth. The one-off increase in disposable income from recent tax cuts would likely be used for debt service.

4. **Headline inflation remains subdued.** Headline inflation is currently low (0.7 percent) as imported commodity and food prices have remained stable. However, this low inflation includes a one-off contribution of the introduction of free primary and secondary education. The authorities

[1] Pacific island countries have become more exposed to the region's business cycles. See Sheridan, Tumbarello, and Wu (2012), "Global and Regional Spillovers to Pacific Island Countries", IMF Working Paper 12/154.

[2] The Multinational Observers Group found the elections credible and on track to broadly represent the will of the Fijian voters. On the other hand, leaders of 6 other parties issued a joint statement disputing freeness and fairness of the elections.

continue to maintain price controls on a large part of the CPI basket[3]—basic food items, hardware and construction materials, pharmaceuticals, and petroleum products—that may cause the measured CPI to understate the inflationary pressures. Looking ahead, inflation is expected to remain within the Reserve Bank of Fiji's (RBF) comfort range around 3 percent on continued benign movements of food and commodities prices.

5. **Monetary policy rates remain near the zero-lower bound and lending growth is accelerating.** The RBF lowered its policy rate to 0.5 percent in October 2011 and monetary policy has been on hold since then. The lower policy rate and persistent excess liquidity in the banking system have slowly been transmitted to lower lending rates. In response to lower rates and improved confidence, net domestic credit increased by 16.5 percent in the first half of 2014, driven by loans to households, wholesale and retail, building and construction, hotel and restaurants, and real estate sectors.

6. **The financial sector prudential indicators continue to show strength.** The banking sector has been dominated by foreign-owned commercial banks but two new entrants (one domestic) in the past two years have increased competition. Overall, the banks remain highly liquid, with liquid assets-to-total assets at 18 percent. Despite some pressures on margins reflecting increased competition, the banks remain highly profitable with a return on equity of 25.6 percent. The capital adequacy ratio stood at 13.7 percent at end-2013, above the minimum prudential requirement of 12 percent, and the NPL ratio declined to 2 percent.

7. **The fiscal deficit was smaller than expected in 2013, but the 2014 budget was expansionary.** The overall deficit for 2013 is estimated at 0.5 percent of GDP, well below the budgeted level of 2.8 percent. Slower expenditure disbursement (including initial delays in road projects due to the unexpected need for new equipment) as well as buoyant VAT collections contributed to the lower deficit. As a result, the government debt-to-GDP ratio declined to 51 percent of GDP, down from 56 percent in 2010. In the 2014 budget, the authorities have provided for a large increase in expenditures with the bulk of the increased spending financed from privatization receipts. Under the national convention which treats privatization receipts as revenue, the budget deficit is projected at 1.9 percent of GDP, however, under the Fund's convention, the budgeted deficit is much larger at 7.8 percent of GDP.[4] Large parts of the planned privatization financing will not materialize in 2014, and the authorities have developed and implemented expenditure and revenue contingency plans aimed at containing the deficit. Based on developments in the first half of 2014, the deficit financing target is on track to be met, as the authorities have exercised significant expenditure restraint, combined with revenue over performance.

[3] It is estimated that nearly half the CPI basket is under some form of price control. The Commerce Commission adjusts the prices in response to international price developments (often with a few months lag). Lifting the price controls would shorten the transmission of international prices to the CPI.

[4] The national convention in Fiji relies on older Government Financial Statistics (GFS) standards and treats asset sales as revenue, whereas the new GFS since 2001 treats asset sales as financing.

8. **International reserves have recently declined owing to strong import growth, but remain above four months of imports**. The goods export-to-GDP ratio has declined in recent years, partly reflecting the real exchange rate appreciation since 2009, while the import-to-GDP ratio has increased. At the same time, robust remittances and tourism spending have moderated the current account deficit, which combined with sizeable foreign direct investment, have allowed the buildup of an adequate level of foreign exchange reserves. Fiji's merchandise trade deficit widened in 2013 as imports grew by 20 percent (including aircraft purchase by Fiji Airways) while exports contracted by 3 percent, partly reflecting disruptions in tourism due to the floods in the first quarter and sluggish gold exports. Strong remittances (10 percent increase) and tourism spending (1 percent increase) provided offsetting inflows. Fiji's net international investment position stood at -81 percent of GDP in 2013, up from -78 percent in 2012, with the bulk of liabilities stemming from foreign direct investment.

9. **There are both domestic and external risks to the outlook** (see RAM in Box 2). Downside domestic risks are focused on a slowing of the reform momentum, including sustaining capital investment. There is also a risk that the planned large-scale privatizations may not materialize, jeopardizing the authorities' medium-term debt and deficit targets without offsetting expenditure and revenue measures. On the upside, smooth transition to reform-oriented democratic government could result in stronger confidence in the economy, overheating, and upward pressure on inflation. On the external risks, Australia and New Zealand, the two most important tourism markets for Fiji, could be adversely affected by lower commodity demand from China and elsewhere. Normalization of U.S. monetary policy could raise interest rates globally and result in higher bond market volatility, at a time when Fiji's sovereign bond matures in 2016. Moreover, increased frequency of natural disasters, possibly related to climate change, and the susceptibility to commodity price shocks call for stronger macroeconomic buffers.

10. **In the event that risks to the Fijian economy materialize, allowing the automatic stabilizers to operate would be the first line of defense.** If the downturn persists, there is scope for limited fiscal stimulus. Monetary policy will be of limited effectiveness given that policy rates are near the zero-lower bound and the transmission mechanism is weak. To limit the risk of having to refinance Fiji's sovereign bond in unfavorable market conditions, the authorities should maintain sufficient balances in the sinking fund. On the upside, to take advantage of the benefits of increased foreign direct investment after the successful democratic transition, it is urgent to accelerate the implementation of structural reforms to alleviate supply side constraints and boost the absorptive capacity in the economy so as to avoid bidding up asset prices and wages of skilled workers in short supply.

Authorities' Views

11. The authorities broadly agreed with the macroeconomic outlook and risks. The authorities view the strong pickup in growth reaching 4.6 percent in 2013 as broad based, driven both by increased investment and consumption, and supported by accommodative macroeconomic policies. Remittances have increased as a result of increased demand from the UN for Fiji peacekeepers, supporting consumption. They view the 3.8 percent growth forecast in 2014 as conservative. Growth

will slow in 2015 as the effects of tax cuts and lending growth moderate. While inflation is currently low, a rise in commodity prices, increase in wage demands and a growing economy may put upward pressure on inflation. Sustaining investment levels at around 25 percent of GDP will be a macroeconomic challenge. On the external front, the rapid increase in imports can put stress on the balance of payments in the post-election environment.

POLICY DISCUSSIONS

With the economy now growing above potential, near-term macroeconomic management needs to be carefully calibrated. To lay the foundation for sustainable and inclusive post-election growth, the structural reform momentum needs to be maintained.

A. Monetary and Financial Policies

12. **The accommodative monetary policy has stimulated economic activity over the past two years.** After a long lag, the low policy rate in place since 2011 has led to a reduction in nominal lending rates, which combined with increased disposable income, competition in the banking sector and rising confidence in the economy, have contributed to strong credit growth over the past two years. Both the household and corporate sectors have now rapidly taken advantage of recent tax cuts and growth in disposable income to increase leverage, contributing to the strong increase in real estate prices and buoyant import growth. The economy is now estimated to be growing faster than its potential of around 2½ percent. While inflation is currently low, the limited supply capacity of the economy could lead to rapid price increases in some sectors in light of a growing output gap.

13. **The RBF should now tighten policy in a gradual and measured manner to moderate credit growth.** The RBF is carefully monitoring the rapid credit growth and has intensified its surveillance through targeted onsite bank examinations. Despite intensified surveillance, credit growth accelerated in the first half of 2014. While initially welcomed as a long-awaited departure from stagnant credit growth, it has reached a stage where moderation is needed. Large parts of loans carry variable rates, making borrowers subject to risk of interest rate hike. To moderate credit growth, the RBF should enhance its supervision (including moral suasion) as a targeted first step. Banks should conduct scenario analysis as to how a sizable increase in its variable lending rate would affect its clients' financial viability, especially for real estate and personal lending. In this context, more data on household and corporate leverage need to be collected. The RBF could also consider targeted macro prudential measures in sectors where credit growth is deemed excessive, such as stamp duties and higher risk weights. While macro prudential measures would address the effects of excess liquidity, and to the extent that such measures alone may be insufficient to limit credit growth, the RBF should mop up excess liquidity through open market operations and raising the reserve requirement. The RBF should also consider gradually raising the policy rate as a preemptive move to moderate demand pressure on the economy.

14. **The financial sector remains highly profitable**. The banking sector is well capitalized and most banks report low NPLs. Despite some pressure on interest margins reflecting increased

competition, the banks remain highly profitable and liquid. However, with the rapid rise in credit growth and a likely moderation of the economy, along with a general increase in global interest rate levels, there is a risk that non-performing loans could increase in the period ahead. It is imperative that banks address such risk through stress testing and scenario analysis, an area where further progress is needed to complement the authorities' good progress on the 2006 FSAP recommendations (see Annex 3).

15. **The Fiji National Provident Fund (FNPF) continues to play a key role in the financial sector and the economy more broadly.** Recent reforms have commendably strengthened the actuarial soundness of the Fund. The reforms have also improved the board governance of the Fund through the "fit and proper" criteria. The FNPF has taken equity stakes in a wide range of sectors, and it is also a potential bidder in sales of government assets. In this context, it is important that FNPF not be pressured to accept below-market returns on such investments in order to provide funding for budget spending. Against this background, the continued focus on governance and commercial criteria in the FNPF investment decision-making process is of paramount importance, especially given FNPF's past record of poor investment decisions and governance issues.

Authorities' Views

16. The authorities broadly shared staff's outlook on the monetary and financial sectors. The RBF has maintained an accommodative monetary policy stance since 2011, resulting in high system liquidity and record low interest rates. Furthermore, tax rates have been reduced, resulting in higher disposable income, which has fuelled credit growth in the banking sector. Liquidity in the system has recently been reduced through the decline in foreign reserves and the RBF has communicated a monetary tightening bias, including raising the policy rate to stem rapid credit growth. The RBF is closely monitoring credit growth and has stepped up supervision with onsite examinations.

B. Fiscal policy

17. **Fiscal policy has been prudent and well focused in recent years, but the expansionary 2014 budget is a departure from these trends.** The overall deficit in the 2014 budget is estimated at 7.8 percent of GDP, of which about 6 percentage points are expected to be financed from the proceeds of privatization and the remaining 1.9 percent from debt financing. The Budget continues the focus on improving infrastructure and expands health and education spending. On the other hand, it also increases civil service wages significantly, albeit after several years of wage freezes. More importantly, the budget relies heavily on prospects of large-scale government asset sales to finance the expansion in recurrent expenditures, risking funding shortfall possibly in the current year and in the years ahead.

18. **Given the likely large shortfall in privatization receipts, the authorities are striving to meet the 2014 financing gap by proactively developing contingency plans.** The planned large-scale privatization sales seem unlikely to be realized in 2014, judging from the progress made so far in the complex and long process of privatizing state-owned companies and properties. The current strong consumption and import growth are likely to increase tax and duties revenue above the

planned level, and partially offset the asset sale shortfall. The ambitious capital spending budget may encounter capacity constraints, resulting in under spending. Nevertheless, keeping the debt financing of the 2014 budget to below 1.9 percent will require broad-based and deep expenditure restraint, including on the budgeted 20 percent increase in the civil service wage bill. To the extent that deficit targets are threatened, the authorities should continue to rein in expenditure, including delaying filling civil service vacancies. From a cyclical point of view, fiscal restraint in 2014 would be helpful in limiting overheating concerns, including pressure on reserves due to strong import growth, in the context of above potential growth.

19. **The challenge intensifies as the authorities prepare the 2015 budget.** While the increase in recurrent expenditure in the 2014 budget elevates baseline expenditures in 2015, the temporary revenue boost from above-potential growth in 2014 is likely to dissipate in 2015. Against this backdrop, it will be challenging for the 2015 budget to meet the authorities' medium-term deficit plan which envisages a further reduction in the deficit to 1.5 percent of GDP for the year.

20. **In view of elevated expenditure levels and dissipation of the temporary revenue boost, it is unlikely that the authorities' deficit and debt targets can be met without increases in current revenues.** Base-broadening measures should be the first in line, as the abundant use of income-tax holidays and tax incentives have narrowed the direct tax revenue base and added complexity to the tax system. As the general environment for investment and political stability improve, the need for these ad hoc tax incentives diminish. Using the broad mandate for continued economic reform, the authorities should proceed to curtail these ad hoc tax subsidies significantly, and only well-targeted and temporary incentives should be provided after rigorous cost-benefit analysis. Likewise, ad hoc fees, administrative charges and fines, as well as irregular treatment of deductibles, have worsened the business environment, and should also be drastically curtailed.

21. **Fiscal policy should continue to balance the need to strengthen the fiscal position against the need for public investment spending.** To address severe infrastructure backlogs, which constrains the economy's supply capacity and affects public safety, capital spending has increased in recent budgets. This has alleviated some of the most urgent needs. However, the infrastructure improvement needs for the next ten years remain significant and requires continued focus on improving infrastructure in the budget, including maintenance. The authorities are encouraged to coordinate development projects closely with donors including the World Bank and the Asian Development Bank.

22. **Public debt has declined since 2010 and is broadly sustainable.** The debt sustainability analysis indicates that public debt is sustainable, but points to some caution on external financing. Fiji's external debt remains low from a regional perspective, but it has increased sharply recently, largely reflecting the US$250 million sovereign bond issued in 2011, and increased reliance on bilateral loans from nontraditional sources for infrastructure financing. State-owned enterprise (SOE) reform is progressing well and the authorities continue to pursue divestment and corporatization of the SOEs. On a consolidated basis, SOEs produced a net profit. Among the larger, the Fiji Sugar Corporation and Fiji Electricity Authority were profitable in 2013, while other SOEs such as the

Housing Authority still require subsidies. Contingent liabilities have also declined in recent years through the SOE and FNPF reform.

23. **Debt management strategies should be geared to preserving policy options.** The US-dollar denominated sovereign bond issued in 2011 matures in early 2016. To maintain policy buffers and reduce the risk of being forced to roll over the bond in a volatile international financial market, debt management needs to be prudent, including maintaining sufficient balances in the sinking fund to retire the bond if necessary. With the planned re-engagement of traditional development partners following the recent elections, the authorities are urged to consider the use of concessional financing to lower the cost of funding.

Authorities' Views

24. The authorities are confident that the debt financing gap of the 2014 budget deficit will not be breached, similar to the recent past where the actual deficit outcomes have been lower than budgeted. On the revenue side, the authorities agreed that the recent revenue performance may not be sustained, particularly on the VAT side. The authorities view some tax incentives as necessary to continue to attract foreign investment, but they intend to review the tax incentive regime in due course. On debt management, the authorities remain committed to preserve policy options.

C. Exchange Rate Policy and External Balance

25. **International reserves coverage has recently declined owing to strong import growth and sluggish exports.** Fiji's narrow export base and susceptibility to shocks would suggest the need for a relatively higher reserves target in the range of 4 to 5 months of retained imports. Under current projections, the reserves level would be in the lower end of the range at end-2014.

26. **The competitive boost from the April 2009 devaluation has been largely eroded by creeping real exchange rate appreciation, driven by partner-country inflation differentials.** The Fund's standard exchange rate assessment approaches indicate that the real exchange rate remains moderately higher (in the range of 2-14 percent) than the level consistent with medium-term macroeconomic fundamentals (see Box 3), although the estimates are subject to considerable uncertainty.

27. **A more flexible exchange rate would help absorb shocks and protect the reserve position.** Although the level of international reserves is currently adequate, a more flexible exchange rate, through periodic reviews and adjustments as needed, would help prevent creeping overvaluation and avoid the disruptive large devaluations experienced in the past and safeguard balance of payments sustainability. The current environment provides a good opportunity to lay the foundation for a more flexible exchange rate, including by considering a crawling peg system which can ensure that the exchange rate remains fair valued over the medium term.

28. **Exchange restrictions arising from the tax certification requirements and from the limits on large payments should be made compatible with the IMF's Article VIII.** A number of

exchange restrictions are subject to Fund approval under Article VIII, Section 2(a). These exchange restrictions arise from tax certification requirements on the transfer abroad of profits and dividends and on the proceeds of airline ticket sales, and on the making of external debt and maintenance payments, and from limits on large payments. These exchange restrictions should be made compatible with requirements under Article VIII. While the restrictions arising from the tax certification requirements are designed to promote tax compliance, exchange restrictions are not the appropriate means to this end as they weaken the business climate and dampen foreign investment. In addition, to promote the integrity of the financial sector, and in advance of the upcoming AML/CFT assessment scheduled for next year, the authorities are urged to further strengthen the AML/CFT regime.

Authorities' Views

29. The authorities view the current level of the exchange rate as generally in line with economic fundamentals. The authorities agreed that more exchange rate flexibility is desirable in the medium-term, but the timing of this will depend on alignment with the appropriate monetary and fiscal policy framework as well as when macroeconomic circumstances warrant such a move. They also highlighted the role of different currencies in the Fijian currency basket, and the challenges in making assessments of competitiveness when basket currencies move in different directions. On exchange restrictions, the authorities remain committed to working with staff to make the restrictions more compatible with the Fund's Article VIII.

D. Structural Reforms

30. **The structural reform agenda has advanced well over the past four years, but continued reform momentum is needed to support increased investment**. Structural reform priorities include relaxation of price controls, increased efficiency of land use, an improved consultative process, predictability and streamlining of government regulation and implementation, continued focus on infrastructure upgrades, and better aligned incentives for expanding electricity production and transmission. Continued reform momentum would reduce the economy's supply bottlenecks and enhance the ability of the economy to utilize productively the increase in private sector investment necessary to raise potential growth without fueling price increases.

31. **Price controls should be scaled back significantly.** There may be a case for regulating a few basic commodities for the benefit of the poor, given that oligopolistic behavior is not uncommon in small economies and it is difficult to prosecute anti-competitive practices. However, the current micromanagement of price controls could distort price signals, create uncertainty, is costly to administer and comply with, gives vendors incentives to reduce product quality and/or supply, and reduces incentives for investment. With inflationary pressures currently low, the price controls should be scaled back significantly to enhance competition, transparency, cost-efficiency, and predictability.

32. **Continued progress on sector-specific reforms in energy, land use and sugarcane industry is needed to improve the investment climate and broaden the export base.**

- **Energy.** A reliable energy supply is essential to meet the increasing demands of the economy and crucial to improve the investment environment. In this context, a national energy policy that provides clear incentives for energy producers to significantly increase supply, especially in renewable energy sources like solar, is needed.

- **Efficiency of land utilization.** Increased efficiency in utilization of land is also a key factor in facilitating investment. The establishment of the Land Bank is welcome, but further progress is needed to provide a predictable and stable supply of land for long-term investment. The limited supply of land for housing development is also a factor in the recent rapid increases in real estate prices.

- **Sugarcane sector.** The government has made good plans for reforming the sugar-cane sector, and its output has bottomed out in 2012. However, the issue of unreliable land leases, aging workers, lack of larger-scale mechanization, and obsolete and poorly maintained facilities are structural challenges that need to be addressed. With EU preferential purchase agreements expiring, it is imperative to continue reform efforts to ensure the industry remains competitive over the medium term. Reform in this sector also has a large implication in national energy supply through co-generation and ethanol production.

Given that the availability of energy and land are important determinants of the investment climate, it is imperative to accelerate reforms in these sectors so that the potential increased investment in the broader private sector can be encouraged.

33. **Continued improvements in data quality and coverage are urgently needed for informed policy making.** The Fiji Bureau of Statistics (FBOS) has received additional resources to improve the quality and timeliness of statistics, including the technical assistance from the Fund. Continued efforts are needed to increase data coverage and quality, particularly in the areas of balance of payments, national accounts, including GDP by expenditure, unemployment, and household and corporate debt, through strengthening the capacity of FBOS. Increased cooperation and information sharing between government entities are needed to improve the quality and coverage of the statistics, for instance through a stakeholder steering committee.

34. **The structural reform momentum needs to be maintained to unlock Fiji's potential.** While significant reform has been put in train over the past three years – e.g. sugarcane sector, civil service, land utilization, pension system, infrastructure improvements – a slowing down in the reform momentum now will likely cause potential growth to stall at around 2-3 percent. The recent focus on improving infrastructure is appropriate and will likely lead to higher potential growth over the medium term. Both domestic and foreign investments are expected to pick up significantly as political uncertainty is reduced. However, the economy urgently needs to boost investor confidence and expand its capacity to accommodate increased private sector investment to foster inclusive growth and reduce unemployment. Under a successful reform scenario, with an improved

investment climate stimulating both domestic and foreign investment without triggering absorptive constraints, potential growth can be raised to about 4-5 percent.[5]

Authorities' Views

35. The authorities broadly agreed on the structural reform agenda and the urgency to maintain the reform momentum. They point to significant progress on the structural reform agenda, including infrastructure improvements, pension reform, and improving the efficiency of land use, over the past few years. The authorities acknowledge the need to scale back price controls, but view some controls as essential to protect the poor given the lack of competition in some of the geographically dispersed markets of Fiji. The authorities acknowledge the need to improve the business climate including improving the efficiency of government bureaucracy. The authorities also recognize the need for continued improvement in the quality and timeliness of statistics in the areas of national accounts, unemployment and the balance of payments, among others.

STAFF APPRAISAL

36. **The return to a democratically-elected government will further boost confidence but continued structural reform momentum is needed to unlock Fiji's potential.** The authorities need to continue to improve the investment climate and absorptive capacity to take full advantage of potential increases in investments following the elections. In this context, structural reform priorities include relaxation of price controls, increased efficiency of land use, an improved consultative process, predictability and streamlining of government regulation and implementation, continued focus on infrastructure upgrades, and better aligned incentives for expanding electricity production and transmission.

37. **With the economy now growing above potential, near-term macroeconomic management needs to be carefully calibrated.** The accommodative monetary policy has stimulated economic activity over the past two years. The RBF should now adopt a tightening bias to moderate credit growth. In particular, the RBF should enhance its supervision and conduct stress testing of banks. To the extent that targeted measures are insufficient to limit credit growth, the RBF should tighten monetary conditions through open market operations and raising the reserve requirement. The RBF should also consider raising the policy rate as a preemptive move to moderate demand pressure on the economy.

38. **Fiscal policy has been prudent in recent years, but the 2014 budget is a departure from this trend.** As privatization receipts are likely to fall short of the 2014 budget targets, the authorities have commendably adopted contingency plans, including strong expenditure restraint, to contain the deficit. Fiscal restraint in 2014 would also be helpful in limiting overheating concerns in light of the positive output gap. More broadly, expansion of recurrent expenditure should not be financed

[5] For an upside scenario with increased investment, see the IMF Country Report No. 13/370 (paragraphs 37-38).

with one-off asset sales, risking funding shortfall also during the years ahead. To meet the authorities' medium-term deficit and debt targets, base-broadening revenue measures are needed, significantly curtailing income-tax holidays and tax incentives that have narrowed the direct tax base and added complexity to the tax system, in the context of general improvement in the investment climate. Only well-targeted and temporary incentives should be provided after rigorous cost-benefit analysis.

39. **The current environment provides a good opportunity to lay the foundation for a more flexible exchange rate.** A more flexible exchange rate would help absorb shocks and protect the reserve position. Although the level of international reserves is currently adequate, a more flexible exchange rate, through periodic reviews and adjustments as needed, would help prevent creeping overvaluation and avoid the disruptive large devaluations experienced in the past and safeguard balance of payments sustainability.

40. **Improved data quality is urgently needed for informed policy making**. With the help of technical assistance, the authorities have accelerated efforts to increase data coverage and quality, particularly in the areas of balance of payments and national accounts, including GDP by expenditure. The capacity of the FBOS should continue to be strengthened, supported by technical assistance from development partners. Increased statistics provision to the public is also encouraged. Government ministries and agencies are encouraged to make data more expeditiously available for FBOS.

41. **A number of exchange restrictions are subject to Fund approval under Article VIII**. Restrictions arise from tax certification requirements on the transfer abroad of profits and dividends, and on the proceeds of airline ticket sales, and on the making of external debt and maintenance payments, and from direct limits on large payments. These should be made compatible with requirement under Article VIII. The authorities are urged to further strengthen the AML/CFT regime.

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

Box 1. Fiji: Re-engagement of Traditional Development Partners

The political situation following the coup in 2006 limited Fiji's access to concessional financing from traditional development partners such as the Asian Development Bank (ADB), the World Bank, and Australia. In view of the limited concessional financing from traditional development partners, the authorities have developed ties with the EXIM Banks of China and Malaysia, primarily to finance infrastructure projects, and these agencies have been the main source of external finance over the past years. The traditional development partners are in the process of formulating their Fiji assistance strategies and Fiji's access to concessional finance is likely to improve following the elections, to address key development priories:

- **ADB.** The ADB engagement in Fiji has focused on promoting sustained economic growth through direct investments in economic infrastructure (transport, water and sanitation and energy), and improved public sector management. The draft country partnership strategy for 2014–2018 positions ADB to re-engage quickly with a financing envelope up to US$350 million to help Fiji overcome its key development challenges: raise Fiji's growth potential by encouraging private investment, make growth more inclusive and improve service delivery, and reduce volatility and build resilience.

- **World Bank.** The World Bank is currently preparing its country strategy for Fiji, for consideration by end-2014. Program sector focus and allocations remain to be determined, but are likely to include early significant investment in road infrastructure.

- **Australia.** Australia and Fiji have long-standing trade and investment links. Australia is Fiji's largest bilateral aid donor, source of tourism demand, and foreign direct investment. In late 2013, the Australian government announced a new policy of enhanced engagement with Fiji centered on increased cooperation in political and economic relations and both countries expanded high-level contact in 2014. In 2014-15, Australia will invest in strengthening human development in Fiji by improving education, health and community development. Australian aid will support effective governance and enhance Australia's engagement with Fiji's public sector.

Box 2. Risk Assessment Matrix		
Nature/Source of Risk	**Likelihood**	**Expected Impact on the Economy and Policy Response**
Potential Domestic Shocks		
Political instability	*Low*	*High* Continued political uncertainty delays investment and development aid. Policy response includes continued transparency in returning to democracy and structural reform to improve the investment climate.
Slow progress in structural reform, including the sugar sector	*Medium*	*Medium* Slow progress in structural reform, leading to low investment, lower foreign exchange earnings from the sugar sector as EU preferential purchase agreement expires. Policy response includes stronger coordination efforts to improve the investment climate, modernize the sugar sector.
Planned privatization not materializing	*Medium*	*Low* The large-scale privatization plans are complex and may not materialize, which could jeopardize the authorities' medium-term debt and deficit targets. Policy response includes developing contingency plans with expenditure and revenue measures to ensure fiscal targets are met.
Surge in capital inflows following elections	*Medium*	*Medium* Large capital inflows should stimulate medium-term growth but the positive impact may be partially offset by short-term appreciation pressures and absorptive capacity constraints. Policy response includes accelerated structural reform to improve absorptive capacity and productivity. Fiscal restraint would also contribute to limiting overheating concerns.
Potential External Shocks		
Growth slowdown and financial risks in China and sustained decline in energy prices	*Medium*	*Medium* Australia and New Zealand are the largest tourism source countries for Fiji. A slowdown in China and elsewhere could affect commodity exporting economies such as Australia and New Zealand through lower commodity prices, exchange rate depreciation, and this could trigger a decline in tourism in Fiji. Allowing automatic stabilizers would be the first line of defense. If the slump persists, limited fiscal stimulus could be envisioned. If the reserve target is threatened, a more flexible exchange rate could be appropriate.
Side-effects from global financial conditions: surges in global market volatility	*High*	*Low* Prospects of less accommodative monetary policy in advanced economies could trigger a sustained reversal of capital flows and re-pricing of risk across emerging markets, and an intensification of liquidity strains. Portfolio flows to Fiji have been limited and the impact of reversal of such flows minor. However, Fiji's bond repayment in 2016 in conjunction with protracted external volatility may result in possibly unfavorable conditions for refinancing. Policy response includes building macroeconomic policy buffers, including debt management strategies to preserve refinancing options.

Box 2. Risk Assessment Matrix (concluded)

Geopolitical fragmentation and heightened risk of fragmentation/state failures in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy	*Medium*	*Medium* Higher import prices lead to higher current account deficits and inflation. In the event of second-round effects on inflation, the RBF should clearly communicate its intention to tighten monetary policy and to the extent that the reserve target is threatened, a more flexible exchange rate regime could be appropriate. In a long-term perspective, reforms to reduce dependence on imported fuels.
Severe natural disasters	*Medium*	*High* Cyclones and flooding damage infrastructure and tourist sector. Limited and temporary fiscal stimulus would be the first line of defense with continued infrastructure upgrade (e.g. flood control).

Box 3. Fiji: Exchange Rate Assessment

Staff estimates that the Fiji dollar is moderately stronger than the value consistent with medium-term fundamentals. Three complementary approaches are used to assess the degree of Fiji's real exchange rate (REER) alignment:

i) Macroeconomic balance: The current account deficit "norm" is estimated at -5.3 percent of GDP, while the "underlying" current account deficit is estimated at -9.3 percent of GDP.[1] The difference between the norm and the underlying current account suggests that the REER is about 12 percent stronger than consistent with medium-term fundamentals.

ii) Equilibrium exchange rate approach: A comparison of the current value of the REER and an estimate of its medium-term equilibrium value indicates that the REER is about 2 percent higher than the equilibrium value.

iii) External sustainability: Assuming a negative NFA of 75 percent of GDP, Fiji's current account norm is estimated at -4.4 percent of GDP. Taken together with the underlying current account deficit of 9.3 percent of GDP, this suggests the REER is about 14 percent stronger than the level implied by medium-term fundamentals.

Table 1: Exchange Rate Assessment 1/

	CA/GDP		REER
	Norm	Proj. 2/	Overvaluation
MB approach 3/			
Current account balance (CAB)	-5.3	-9.3	12.5
ERER approach 4/	…	…	1.6
ES approach 5/			
NFA stabilizing CAB	-4.4	-9.3	14.4

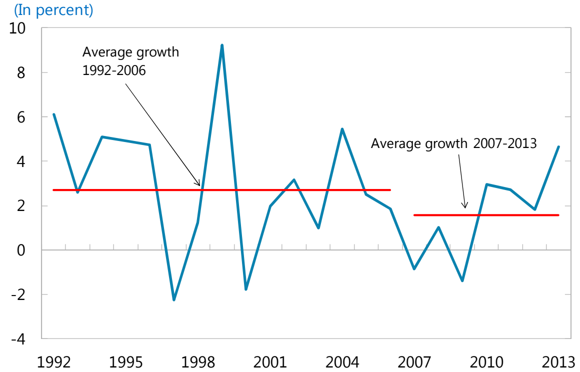
1/ All results are expressed in percent.
2/ Staff projection of the underlying CA/GDP in 2019.
3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.327.
4/ Overvaluation is assessed relative to July 2014.
5/ CA deficit that stabilizes net foreign assets in the medium term. NFA is calibrated to the 2011 value of -75 percent of GDP.

[1] For details on the exchange rate assessment methodologies, please see Lee et al. 2008.

Figure 1. Fiji: Macroeconomic Developments

Confidence is returning to the economy...

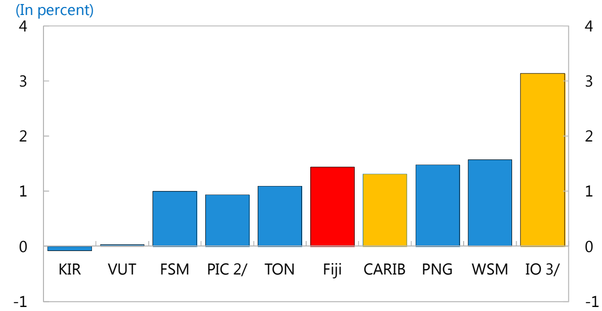
Fiji: Real GDP Growth
(In percent)



Sources: Fiji authorities and Fund staff calculations.

Per capita income growth has been held back by political instability, slow reform progress and external shocks.

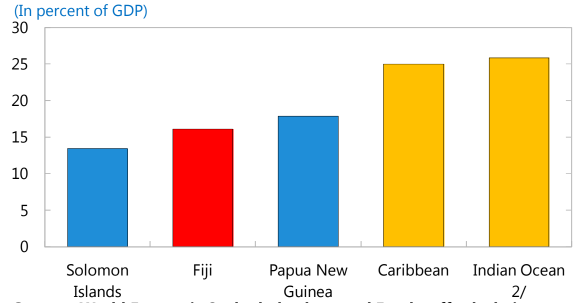
Growth in Real GDP per Capita, 1997-2013 1/
(In percent)



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

Investment has been low by international standards.

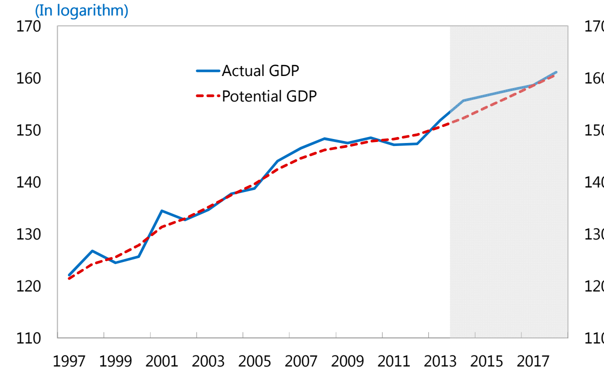
Investment, 1997–2013 1/
(In percent of GDP)



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

The economy is now growing above potential.

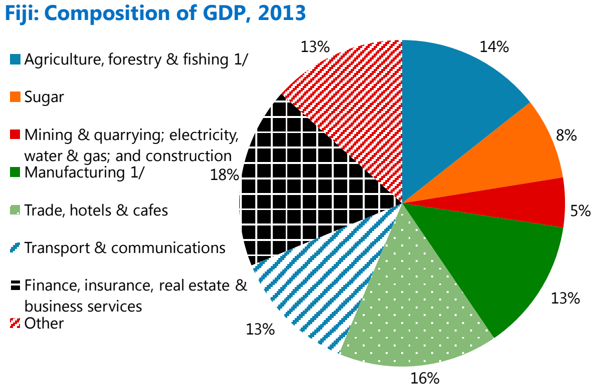
Potential and Actual Growth
(In logarithm)



Sources: Reserve Bank of Fiji and Fund staff calculations.

Fiji's economy is relatively diversified...

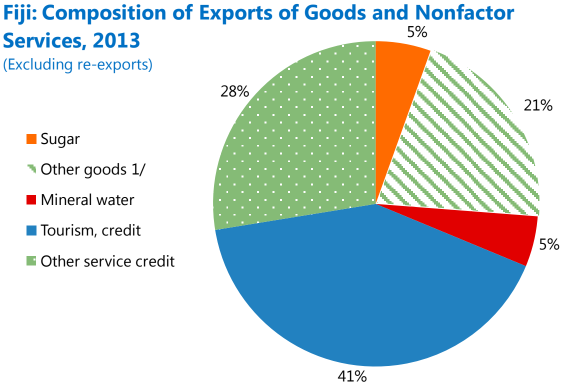
Fiji: Composition of GDP, 2013



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

...but the export dependence on tourism and sugar remains.

Fiji: Composition of Exports of Goods and Nonfactor Services, 2013
(Excluding re-exports)



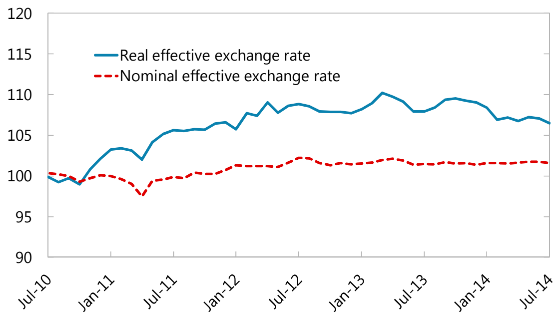
Sources: Fiji authorities and Fund staff calculations.
1/ Fish, garments, gold, timber, and others.

Figure 2. Fiji: Exchange Rate and Inflation Developments

After a period of steady appreciation, the real exchange rate has been broadly stable over the past 12 months.

Fiji: Effective Exchange Rates

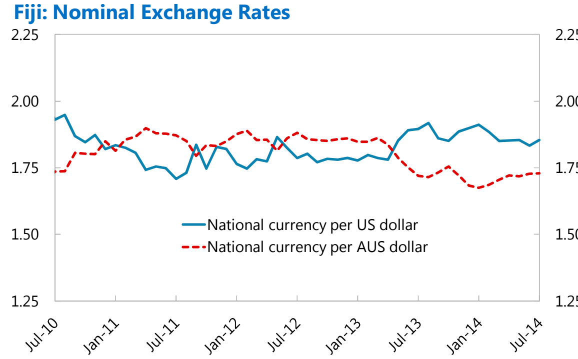
(2010=100)



Sources: IMF Information Notice System and Fund staff calculations.

In nominal terms, the Fiji dollar has appreciated against the Australian dollar over the past year.

Fiji: Nominal Exchange Rates

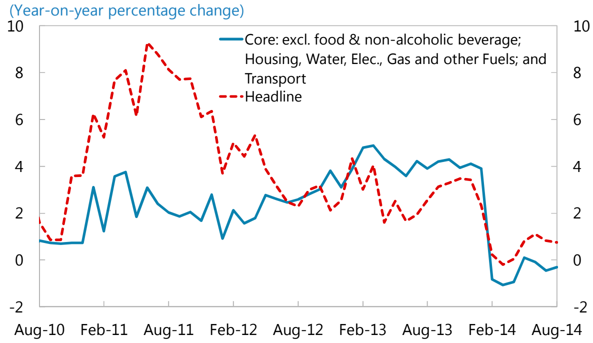


Sources: IMF International Financial Statistics and Fund staff calculations.

Inflationary pressures are currently low...

Fiji: Headline and Core Inflation

(Year-on-year percentage change)

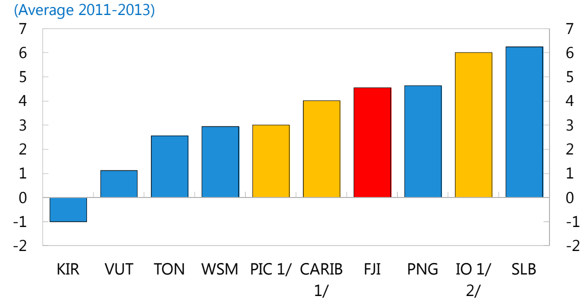


Sources: Fiji Islands Bureau of Statistics and Fund staff calculations.

...but inflation in Fiji has been higher than the regional average in recent years.

CPI Headline Inflation

(Average 2011-2013)

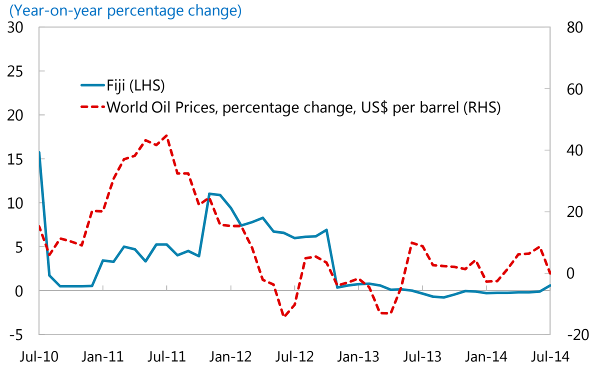


Sources: World Economic Outlook database; and Fund staff calculations.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Transportation costs have declined as global commodities prices have remained stable...

Fiji: Transportation Costs

(Year-on-year percentage change)

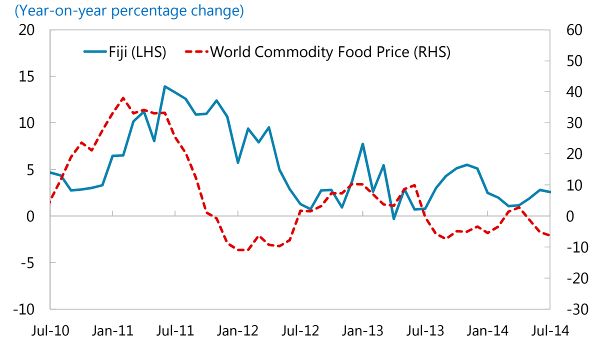


Sources: World Economic Outlook database and Fund staff calculations.

...and food price pressures are currently low.

Fiji:Food Prices 1/

(Year-on-year percentage change)

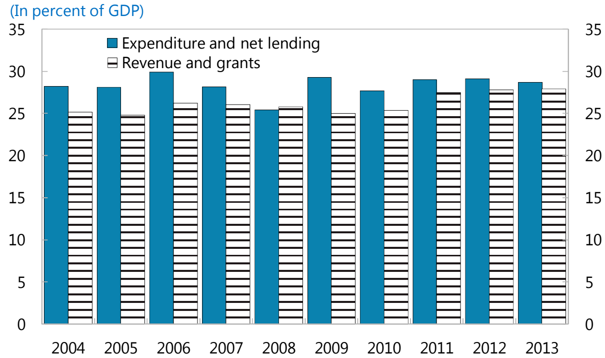


Sources: World Economic Outlook database and Fund staff calculations.
1/ Food and Non-alcoholic Beverage for Fiji.

Figure 3. Fiji: Fiscal Indicators

Expenditure has been stable in recent years…

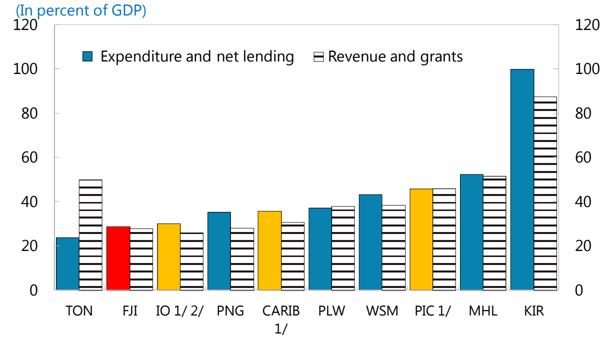
Expenditure
(In percent of GDP)



Sources: Reserve Bank of Fiji and Fund staff calculations.

…as has revenue.

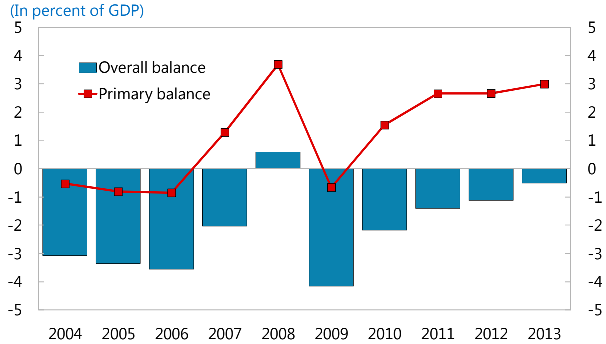
Revenue and Expenditure, 2013
(In percent of GDP)



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

The fiscal balances continue to improve…

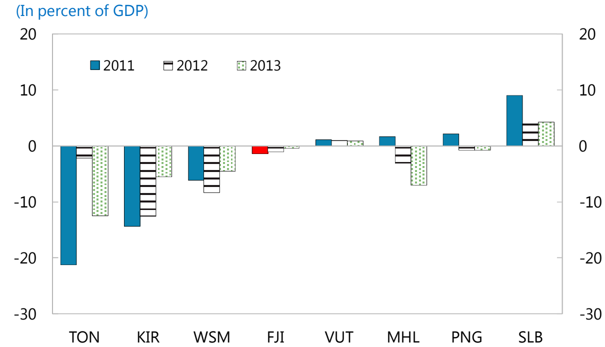
Fiscal Balances
(In percent of GDP)



Sources: Fiji authorities and Fund staff calculations.

…and fiscal performance is not out of line with comparators.

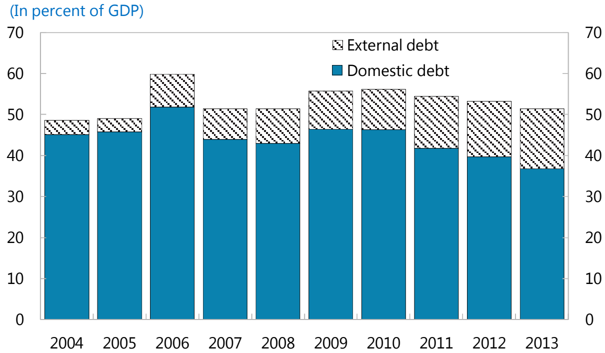
Fiscal Balance
(In percent of GDP)



Source: IMF APDLISC database.

Public debt is mostly domestic, though the share of foreign debt has increased in recent years.

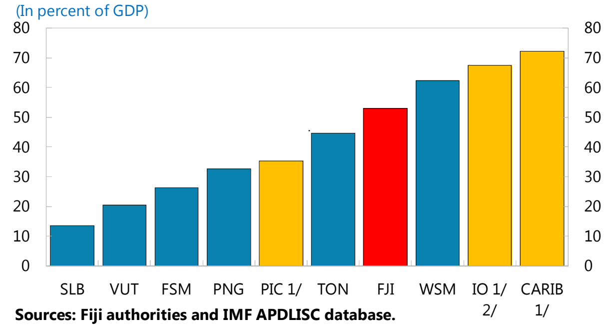
Central Government Debt
(In percent of GDP)



Sources: Fiji authorities and Fund staff estimates.

Public debt is relatively high by regional standards.

Public Debt, 2013
(In percent of GDP)



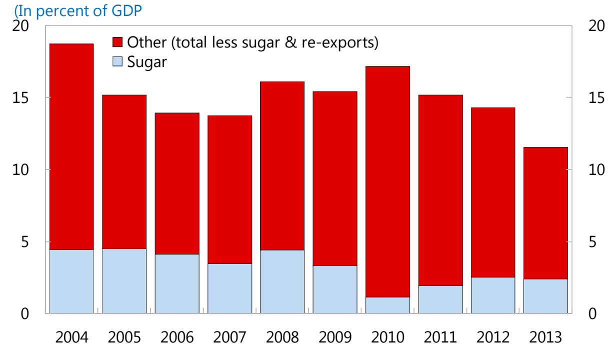
Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

Figure 4. Fiji: Balance of Payments

Exports have been on a declining trend….

Fiji: Exports, excluding re-exports

(In percent of GDP)

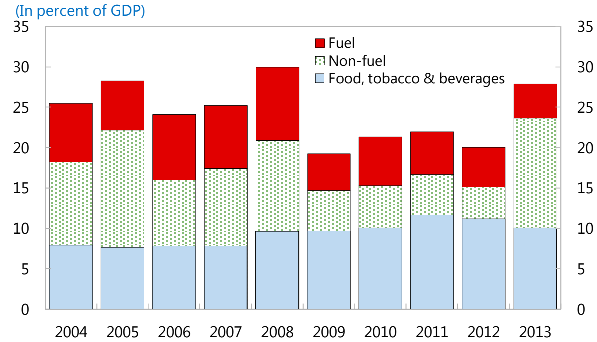


Sources: Fiji authorities and Fund staff estimates.

…while good imports have increased.

Fiji: Imports, excluding re-exports

(In percent of GDP)

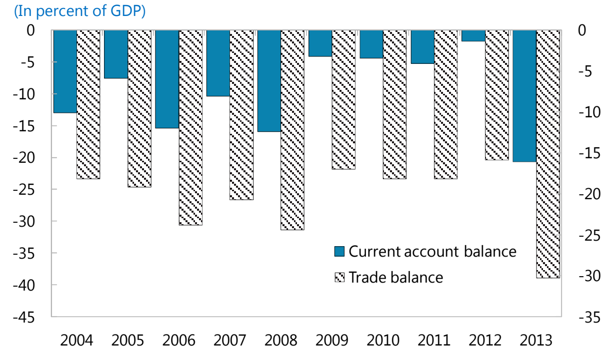


Sources: Fiji authorities and Fund staff estimates.

Larger trade balance and current account deficits (partly reflecting aircraft purchase in 2013)…

Fiji: Trade Balance and Current Account

(In percent of GDP)

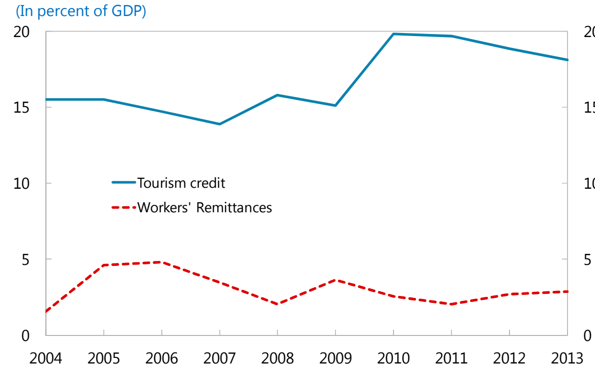


Sources: Fiji authorities and Fund staff estimates.

…but offsetting inflows of remittances and tourism spending have moderated the current account deficit.

Workers' Remittances and Tourism Credit

(In percent of GDP)

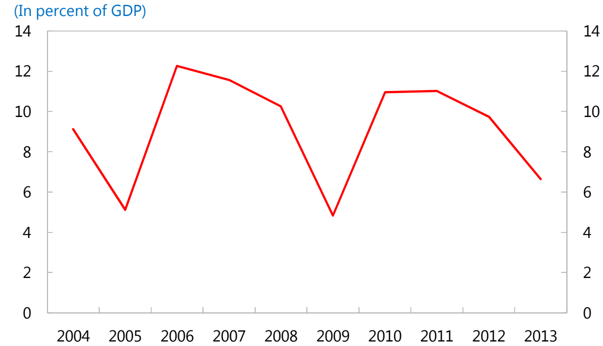


Sources: Reserve Bank of Fiji and Fund staff calculations.

FDI remains volatile…

Fiji: Foreign Direct Investment

(In percent of GDP)

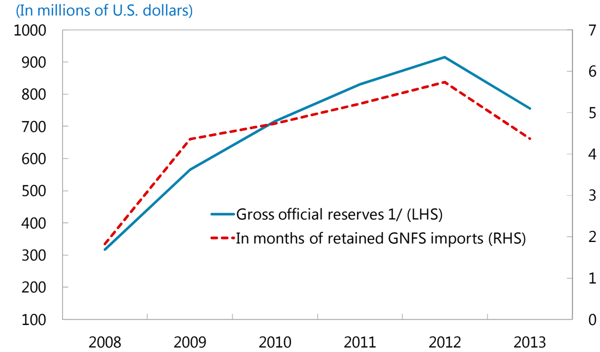


Sources: Fiji authorities and Fund staff estimates.

…and reserves have stabilized at comfortable levels.

Fiji: Gross Official Reserves

(In millions of U.S. dollars)



Sources: Reserve Bank of Fiji and Fund staff estimates.

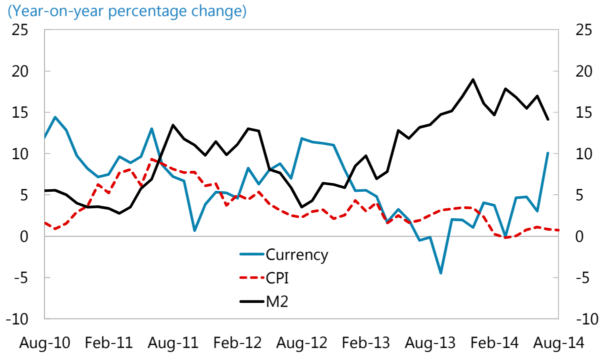
1/ Reserve Bank of Fiji holdings only.

Figure 5. Fiji: Monetary Indicators

Broad money growth has accelerated….

Money and Inflation

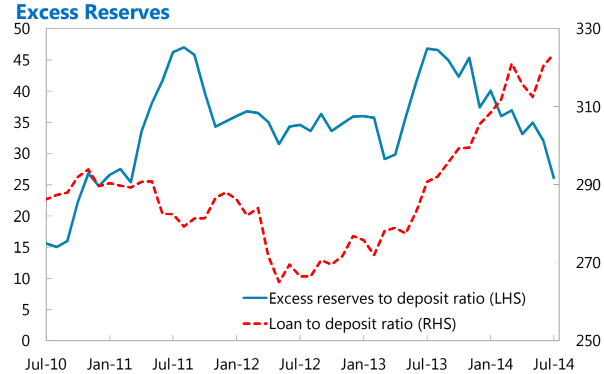
(Year-on-year percentage change)



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

…excess liquidity remains.

Excess Reserves

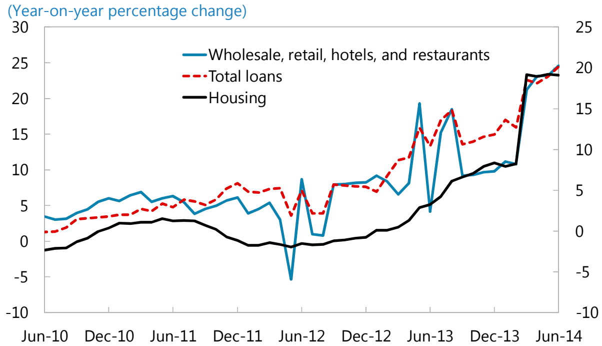


Source: IMF Integrated Monetary Database.

Increased growth in loans, including housing…1/

Loans

(Year-on-year percentage change)

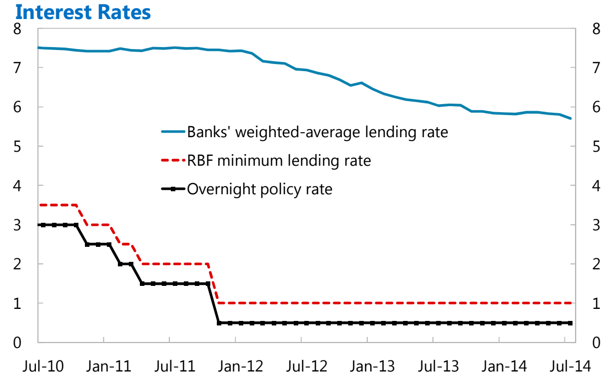


Source: Reserve Bank of Fiji.

1/ Includes the entry of HFC bank in 2014.

… and bank lending rates have continued to decline.

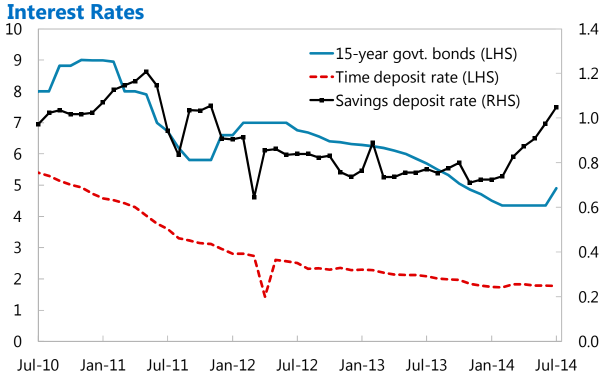
Interest Rates



Source: IMF Integrated Monetary Database.

Government yields have declined as have time deposit rates.

Interest Rates

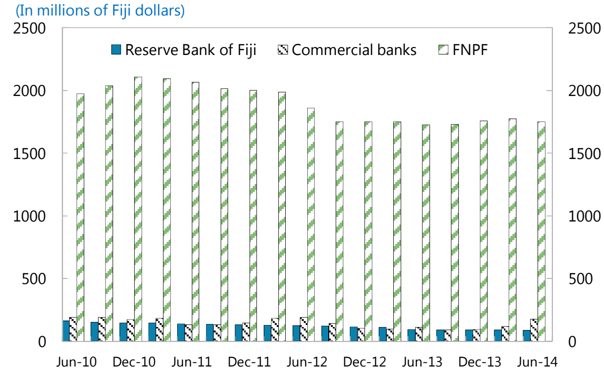


Source: IMF Integrated Monetary Database.

The FNPF remains the largest holder of government securities.

Outstanding Goverment Securities by Holder

(In millions of Fiji dollars)

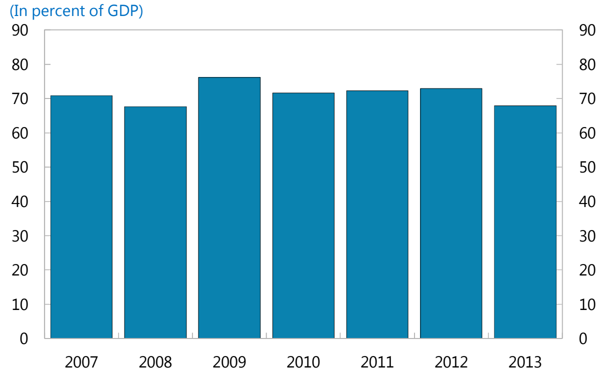


Source: Reserve Bank of Fiji.

Figure 6. Fiji: Financial Soundness Indicators

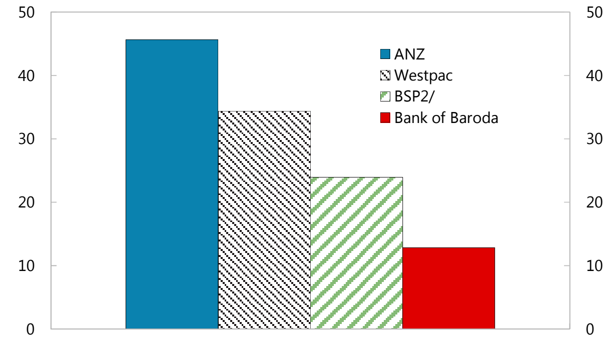
Commercial bank assets remain stable around 70 percent of GDP.

Commercial Bank Assets
(In percent of GDP)



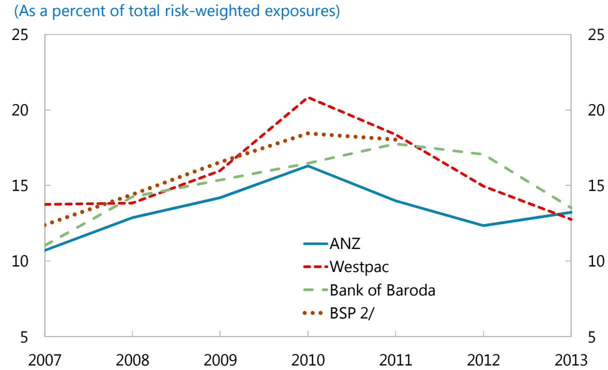
The banking sector is dominated by foreign-owned banks.

Size: Share in Total Assets, 2013 1/
(As a percent of total commercial bank assets)



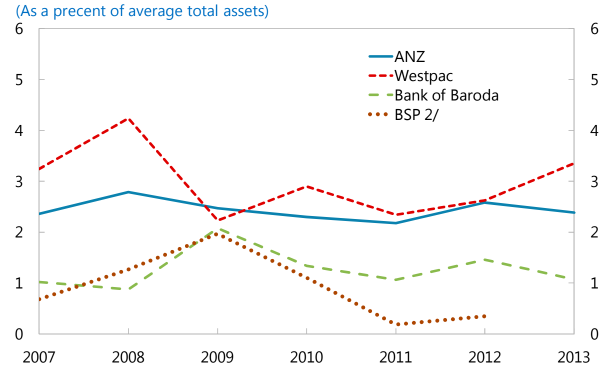
Capital adequacy remains adequate…

Total Capital Adequacy 1/
(As a percent of total risk-weighted exposures)



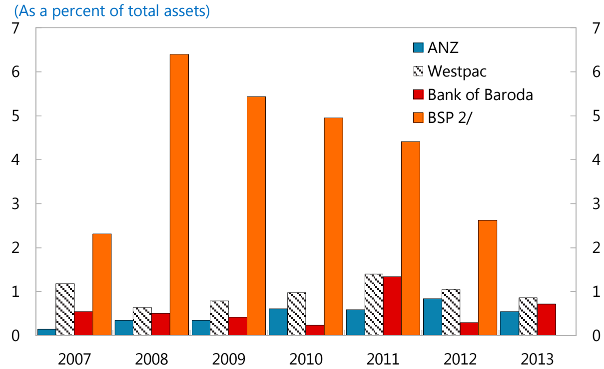
…profitability healthy.

Profitability 1/
(As a precent of average total assets)



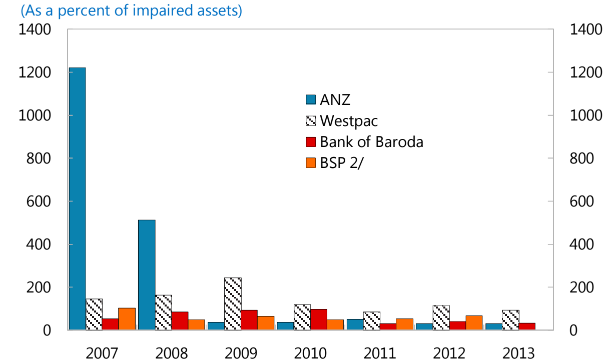
Asset quality has improved…

Nonperforming Loans 1/
(As a percent of total assets)



…while provisioning seems sufficient.

Total Provisions 1/
(As a percent of impaired assets)



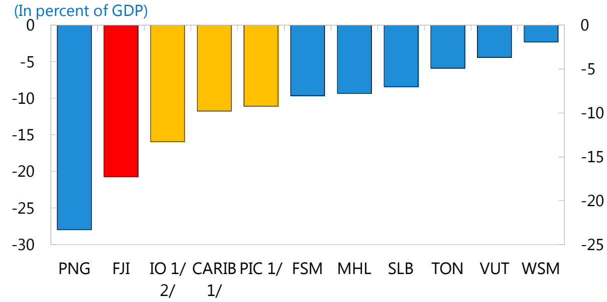
Sources: Reserve Bank of Fiji and IMF staff calculations.
1/ Twelve months up to September 2013 for ANZ and Westpac, up to December 2010 for Colonial National Bank, up to December 2012 for BSP, and up to March 2013 for Bank of Baroda.
2/ From 2011 data is for BSP and Colonial National bank for prior years.

Figure 7. Fiji: External Vulnerabilities

Fiji's current account deficit increased in 2013, partly reflecting purchase of aircrafts…

Current Account Balance, 2013

(In percent of GDP)

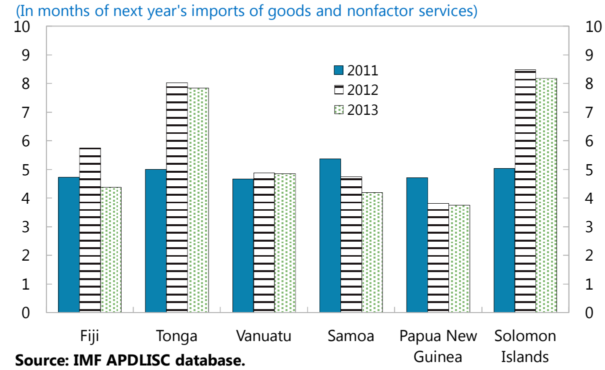


Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

…but reserve coverage is still adequate.

Gross Official Reserves

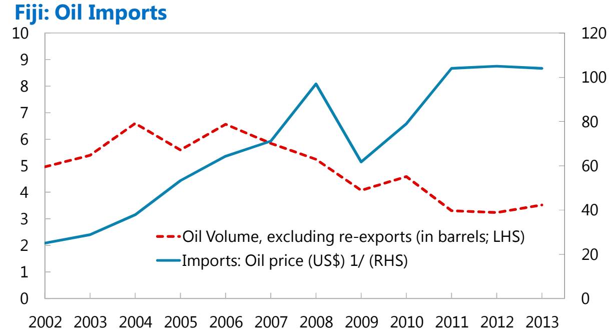
(In months of next year's imports of goods and nonfactor services)



Source: IMF APDLISC database.

Oil imports volumes have been declining…

Fiji: Oil Imports

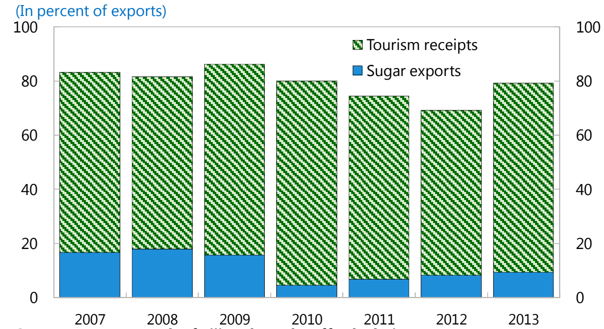


Sources: Global Assumptions Database and Fund staff calculations.
1/ Crude Oil (petroleum), simple average of three spot prices: Dated Brent, West Texas Intermediate, and the Dubai Fateh, U.S. dollars per barrel.

…and tourism receipts increased in 2013.

Fiji: Sugar Exports and Tourism Receipts 1/

(In percent of exports)

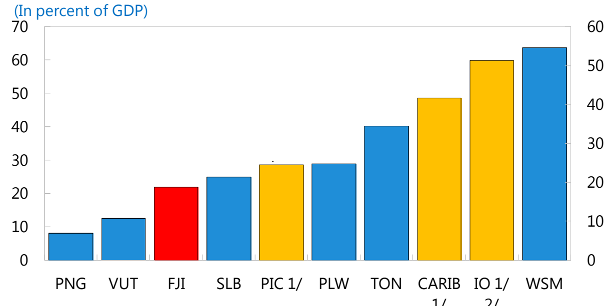


Sources: Reserve Bank of Fiji and Fund staff calculations.
1/ Exports of goods, f.o.b.

External debt is relatively low…

External Debt, 2013

(In percent of GDP)

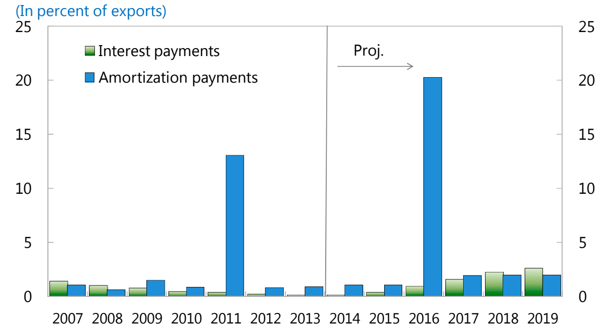


Sources: Fiji authorities and IMF APDLISC database.
1/ Simple average.
2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

…but Fiji has a large external bond payment due in 2016.

Fiji: External Payments 1/

(In percent of exports)



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

Table 1. Fiji: Selected Economic Indicators, 2009-15

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

	2009	2010	2011	2012	2013	2014	2015
				Est.	Est.	Proj.	Proj.
Output and prices (percent change)							
Real GDP (at constant factor cost)	-1.4	3.0	2.7	1.8	4.6	3.8	2.5
GDP deflator	2.6	2.5	3.8	2.4	3.8	3.5	3.5
Consumer prices (average)	3.7	3.7	7.3	3.4	2.9	1.2	3.0
Consumer prices (end of period)	6.8	5.0	6.4	2.5	3.4	2.7	3.0
Central government budget (percent of GDP)							
Revenue	25.2	25.5	27.6	28.0	28.2	28.6	28.4
Expenditure	29.3	27.7	29.0	29.1	28.7	30.6	31.1
Fiscal deficit	-4.1	-2.5	-1.4	-1.1	-0.5	-2.1	-2.7
Fiscal deficit in national convention 1/	-4.1	-2.5	-1.4	-1.1	-0.5	-1.9	-1.5
Total debt outstanding	55.8	56.2	54.5	53.3	51.4	49.4	48.5
Money and credit (percent change)							
Net domestic credit	7.2	-0.6	0.5	2.7	11.4	...	...
Private sector credit	0.7	3.5	3.9	6.3	8.8	...	...
Broad money (M3)	7.1	3.5	11.5	5.9	13.2	...	...
Monetary base	50.5	22.0	19.6	11.4	20.0	...	...
Reserve Bank of Fiji's discount rate	3.5	3.0	1.0	1.0	1.0	...	...
Commercial bank lending rate	7.5	7.4	7.4	6.6	6.0	...	...
External sector (in millions of U.S. dollars)							
Trade balance 2/	-628	-733	-850	-786	-1,569	-1,064	-1,028
(In percent of GDP)	-21.9	-23.3	-23.3	-20.4	-38.9	-25.2	-23.4
Exports, f.o.b.	615	824	1,061	1,191	1,046	1,094	1,153
Imports, f.o.b. 2/	1,242	1,557	1,911	1,976	2,615	2,158	2,181
Current account balance 2/	-119	-140	-193	-69	-835	-424	-383
(In percent of GDP)	-4.2	-4.5	-5.3	-1.8	-20.7	-10.0	-8.7
Capital/financial account balance	454	293	478	339	423	419	396
Errors and omissions	-62	-42	-168	-201	252	0	0
Overall balance	272	111	117	69	-160	-5	13
Gross official reserves (in millions of U.S. dollars)	565	716	831	915	755	750	764
(In months of retained imports) 2/	4.4	4.7	5.2	5.7	4.4	4.0	4.0
External central government debt (in millions of U.S. dollars)	274	324	523	570	626	671	721
(In percent of GDP)	9.4	9.1	13.6	14.6	14.6	15.1	15.6
Miscellaneous							
Real effective rate (average)	102.9	100.0	104.7	107.9	95.5	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.96	1.92	1.79	1.79	1.84	...	...
GDP at current market prices (in millions of Fiji dollars)	5,614	6,024	6,539	6,891	7,428	7,984	8,470
Oil price (U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	104.2	97.9

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

1/ Including privatization receipts as revenue.
2/ Includes purchase of aircraft by Fiji Airways in 2013.

Table 2. Fiji: Depository Corporations Survey, 2009-13

	2009	2010	2011	2012	2013
Reserve Bank of Fiji (RBF)	(In millions of Fiji dollars)				
Net Foreign assets	866	1139	1343	1481	1613
Net domestic assets	91	29	52	75	57
Net domestic credit	231	181	159	169	142
Net credit to nonfinancial public sector	226	174	131	121	62
Capital accounts	213	177	131	115	104
Other items (net)	73	25	25	21	19
Monetary base	955	1165	1393	1552	1667
Currency in circulation	431	479	496	558	572
Other depository corporations liabilities	524	685	896	993	1095
Other Depository Corporations	(In millions of Fiji dollars)				
Net Foreign assets	-67	-38	28	-10	159
Net domestic assets	3705	3822	4159	4431	5175
Net domestic credit	4506	4711	4960	5200	5927
Net credit to nonfinancial public sector	329	226	125	25	281
Net credit to central government	120	63	16	-68	-29
Net credit to public nonfinancial corporations	198	150	92	75	294
Credit to private sector	3649	3775	3924	4173	4557
Capital accounts	774	837	763	773	843
Other items (net)	-27	-52	-39	4	91
Liquid liabilities	3582	3691	4138	4373	5281
Transferable deposits	907	1027	1596	1661	3068
Other deposits	2371	2375	2347	2529	2094
Securities other than shares	304	289	195	183	119
Nonliquid liabilities	57	93	49	49	52
Depository Corporations	(In millions of Fiji dollars)				
Net Foreign assets	805	543	799	1101	1371
Net domestic assets	3154	3180	3196	3071	3223
Net domestic credit	3706	3859	4136	4109	4131
Net credit to nonfinancial public sector	391	316	555	400	255
Net credit to central government	295	169	320	214	124
Net credit to public nonfinancial corporations	88	136	223	173	115
Credit to private sector	3376	3624	3650	3776	3926
Capital accounts	668	760	987	1014	894
Other items (net)	116	80	48	-25	-15
Broad money	3931	3677	3937	4075	4542
Narrow money	1621	1357	1262	1411	2000
Currency in circulation	290	314	355	384	404
Transferable deposits	1332	1043	907	1027	1596
Other deposits	1956	2026	2371	2375	2347
Securities other than shares	353	294	304	289	195
Nonliquid liabilities	28	46	59	97	52

Sources: Fiji Authorities and IMF, Integrated Monetary Database.

Table 3. Fiji: Central Government Finances, 2009-15

	2009	2010	2011	2012	2013	2014	2015
				Est.		Proj.	
	(In millions of Fiji dollars)						
Total revenue and grants	1,411	1,538	1,805	1,928	2094	2280	2405
Tax revenue	1,207	1,303	1,592	1,714	1877	2018	2130
Indirect tax	756	877	1,113	1,249	1424	1531	1613
Of which: VAT	403	496	619	676	751	807	856
Direct tax	452	426	479	465	453	487	516
Nontax revenue and grants	197	225	207	201	198	223	235
Expenditure	1,645	1,669	1,897	2,005	2131	2446	2636
Current	1,310	1,329	1,402	1482	1550	1733	1838
Wages and salaries	597	564	569	601	623	744	789
Current charges on public debt	196	224	266	261	260	257	257
Other current expenditure	516	541	567	620	667	732	793
Fiji Sugar Corporation (FSC)		40	110	41	0	0	0
Capital (excluding Fiji Sugar Corporation)	335	300	386	483	582	713	798
Investment	203	163	202	220	86	93	167
Grants and transfers	132	137	183	263	495	620	630
Overall balance	-234	-131	-92	-77	-38	-166	-231
Primary balance	-37	93	174	184	223	92	26
Financing	232	152	92	77	38	166	231
Domestic	223	107	-189	-53	-205	41	46
Foreign	8	45	281	130	243	106	85
Borrowing	29	61	572	150	263	131	110
Amortization	-21	-16	-291	-20	-20	-25	-25
Change in Sinking Fund (net)	20	-9	-36	-50	-63	0	0
Privatization proceeds	0	0	0	0	0	19	100
	(In percent of GDP)						
Total revenue and grants	25.1	25.5	27.6	28.0	28.2	28.6	28.4
Tax revenue	21.5	21.6	24.3	24.9	25.3	25.3	25.1
Indirect tax	13.5	14.6	17.0	18.1	19.2	19.2	19.0
Direct tax	8.1	7.1	7.3	6.7	6.1	6.1	6.1
Nontax revenue and grants	3.5	3.7	3.2	2.9	2.7	2.8	2.8
Expenditure	29.3	27.7	29.0	29.1	28.7	30.6	31.1
Current	23.3	22.1	21.4	21.5	20.9	21.7	21.7
Wages and salaries	10.6	9.4	8.7	8.7	8.4	9.3	9.3
Current charges on public debt	3.5	3.7	4.1	3.8	3.5	3.2	3.0
Other current expenditure	9.2	9.0	8.7	9.0	9.0	9.2	9.4
Capital	6.0	5.0	5.9	7.0	7.8	8.9	9.4
Investment	3.6	2.7	3.1	3.2	1.2	1.2	2.0
Grants and transfers	2.4	2.3	2.8	3.8	6.7	7.8	7.4
Overall balance	-4.2	-2.2	-1.4	-1.1	-0.5	-2.1	-2.7
Primary balance	-0.7	1.5	2.7	2.7	3.0	1.1	0.3
Memorandum items (percent of GDP):							
Central government debt	55.8	56.2	54.5	53.3	51.4	49.4	48.5
Domestic (excluding Fiji Sugar Corporation)	46.4	47.1	41.8	39.7	36.9	34.8	33.4
External	9.4	9.1	12.7	13.6	14.6	14.6	15.1
Net central government debt 1/	52.3	52.1	49.9	48.3	45.8	44.6	43.8

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

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

Table 4. Fiji: Balance of Payments, 2009-19

	2009	2010	2011	2012	2013	2014	2015	2016	2019
				Est.	Est.		Proj.		
				(In millions of U.S. dollars)					
Trade balance 1/	-628	-733	-850	-786	-1569	-1,064	-1,028	-1,060	-1198
Exports, f.o.b.	615	824	1061	1191	1046	1094	1153	1195	1285
Of which: Sugar 2/	96	37	71	98	97	104	109	91	102
Re-exports	172	285	507	640	580	586	574	566	566
Other exports	347	503	483	453	368	403	470	538	616
Imports, f.o.b. 1/	1,242	1,557	1,911	1,976	2,615	2,158	2,181	2255	2483
Of which: Retained imports (excluding fuels)	827	921	1,091	1,041	1,758	1,333	1,375	1461	1693
Purchase of aircrafts including prepayment			104	51	484				
Mineral fuels for domestic consumption	252	363	343	340	311	273	267	263	259
Imports for re-export	163	274	477	595	546	552	539	531	531
Services and income (net)	330	444	514	505	528	460	452	448	457
Nonfactor services (net)	341	543	628	647	609	605	610	618	662
Of which: Tourism credit	434	623	717	726	731	735	735	737	753
Factor income (net)	-11	-99	-114	-143	-80	-145	-157	-170	-204
Transfers (net)	179	149	143	212	205	180	193	207	258
Private	178	147	140	209	202	176	188	201	253
Of which: Workers' remittances	105	81	75	104	116	127	139	151	196
Official	1	3	3	3	3	4	5	5	5
Current account 1/	-119	-140	-193	-69	-835	-424	-383	-405	-482
Capital account (net)	2	3	6	4	5	5	4	4	4
Financial account (net)	451	290	472	335	419	414	392	417	475
FDI (net)	139	344	402	374	268	295	326	356	466
Portfolio investment (net)	-1	-1	100	-34	-23	-22	-23	-24	-28
Other investment (net) 1/ 3/	299	-72	-167	-50	76	86	45	35	-4
Net loans to the government	14	19	137	45	98	56	44	50	41
Disbursements	15	32	319	84	143	69	57	307	66
Amortization	-11	-8	-162	-11	-11	-13	-13	-257	-26
Change in Sinking Fund (net)	10	-5	-20	-28	-34	0	0	0	0
Errors and omissions	-62	-42	-168	-201	252	0	0	0	0
Overall balance	272	111	117	69	-160	-5	13	16	-3
				(In percent of GDP)					
Trade balance 1/	-21.9	-23.3	-23.3	-20.4	-38.9	-25.2	-23.4	-23.2	-23.2
Exports	21.4	26.3	29.1	30.9	25.9	25.9	26.2	26.1	24.8
Imports 1/	43.3	49.6	52.4	51.3	64.8	51.0	49.6	49.3	48.0
Current account balance 1/	-4.2	-4.5	-5.3	-1.8	-20.7	-10.0	-8.7	-8.9	-9.3
Capital/financial account	15.8	9.3	13.1	8.8	10.5	9.9	9.0	9.2	9.3
Overall balance	9.5	3.5	3.2	1.8	-4.0	-0.1	0.3	0.4	-0.1
				(Annual percent growth)					
Tourism receipts	-22.1	43.4	15.2	1.2	0.7	0.5	0.0	0.3	1.0
Workers' remittances	45.7	-23.1	-7.3	39.8	10.9	10.0	9.0	9.0	9.0
Imports of goods and services	-34.5	17.6	22.1	4.2	26.5	-13.4	1.5	3.2	2.9
Oil prices	-36.3	27.9	31.6	1.0	-0.9	0.1	-6.0	-5.0	-1.7
Memorandum items:									
External debt (in millions of U.S. dollars)	430	464	610	673	885	952	996	1048	1178
External debt as a share of GDP	15.0	14.8	16.7	17.5	21.9	22.5	22.6	22.9	22.8
External central government debt (in millions of U.S. dollars)	274	324	455	523	570	626	671	721	837
External central government debt as a share of GDP	9.4	9.1	12.7	13.6	14.6	14.6	15.1	15.6	16.2
Gross official reserves (in millions of U.S. dollars) 4/	565	716	831	915	755	750	764	780	813
(In months of retained GNFS imports) 1/	4.4	4.7	5.2	5.7	4.4	4.0	4.0	3.9	3.6
GDP (in millions of U.S. dollars)	2,871	3,140	3,646	3,850	4,034	4,230	4,400	4,570	5,171
Trading partners' real GDP growth	-1.2	2.9	2.3	2.7	2.0	2.6	2.9	2.7	2.5
Trading partners' import volume (goods and services)	-9.6	12.4	7.5	4.9	0.5	1.7	3.3	3.6	3.5
Oil price (U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	104.2	97.9	93.0	86.6

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

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

2/ Including EU sugar transfer payments. It also includes re-exports of sugar purchased abroad to comply with the EU quota. The current preferential agreement with the EU will expire in 2015 and the team assumes no further extension

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

4/ Reserve Bank of Fiji holdings only.

Table 5. Fiji: Medium-Term Indicators, 2009-19

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.	Est.			Proj.			
Output and prices (percent change)											
Real GDP (at constant factor cost)	-1.4	3.0	2.7	1.8	4.6	3.8	2.5	2.4	2.6	2.7	2.7
GDP deflator	2.6	2.5	3.8	2.4	3.8	3.5	3.5	3.5	3.5	3.5	3.5
Consumer prices (average)	3.7	3.7	7.3	3.4	2.9	1.2	3.0	3.0	3.0	2.9	2.9
Output gap (percent of actual output)	-1.2	-2.3	-1.8	-1.5	1.3	3.3	2.2	1.2	0.1	0.0	0.0
	(In percent of GDP)										
Savings and investment 1/											
National savings	9.8	10.5	11.2	14.7	2.3	8.4	9.7	9.6	9.4	9.3	10.2
Public	1.8	3.5	6.2	6.5	7.3	6.9	6.7	6.6	6.6	6.6	6.5
Private	8.0	7.1	5.0	8.2	-5.0	1.5	3.0	3.0	2.8	2.7	3.6
Gross investment 2/	14.0	15.0	16.5	16.5	23.0	18.4	18.4	18.5	18.5	18.5	19.5
Public	6.0	5.0	5.9	7.0	7.8	8.9	9.4	8.3	8.2	8.2	8.2
Private	8.0	10.0	10.6	9.5	15.2	9.5	9.0	10.2	10.3	10.3	11.3
Foreign savings	4.2	4.5	5.3	1.8	20.7	10.0	8.7	8.9	9.1	9.2	9.3
Central government budget (in percent of GDP)											
Revenue	25.2	25.5	27.6	28.0	28.2	28.6	28.4	28.0	28.0	27.9	27.9
Expenditure	29.3	27.7	29.0	29.1	28.7	30.6	31.1	29.7	29.6	29.6	29.5
Net acquisition of nonfinancial assets	6.0	5.0	5.9	7.0	7.8	8.9	9.4	8.3	8.2	8.2	8.2
(As a percent of total expenditure)	20.4	18.0	20.3	24.1	27.3	29.1	30.3	27.9	27.8	27.9	27.9
Of which: Fiji Sugar Corporation	…	0.7	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense	23.3	22.1	21.4	21.5	20.9	21.7	21.7	21.4	21.4	21.4	21.4
Compensation of employees	10.6	9.4	8.7	8.7	8.4	9.3	9.3	9.3	9.3	9.3	9.3
Interest	3.5	3.6	4.1	3.8	3.5	3.2	3.0	2.7	2.7	2.7	2.7
Other	9.2	9.1	8.7	9.0	9.0	9.2	9.4	9.4	9.4	9.3	9.3
Overall balance 3/	-4.1	-2.5	-1.4	-1.1	-0.5	-2.1	-2.7	-1.7	-1.7	-1.7	-1.7
Primary balance	-0.7	1.5	2.7	2.7	3.0	1.1	0.3	1.0	1.0	1.0	1.0
Central government debt outstanding	55.8	56.2	54.5	53.3	51.4	49.4	48.5	47.7	46.9	46.0	45.3
Balance of payments (in percent of GDP)											
Trade balance 2/	-21.9	-23.3	-23.3	-20.4	-38.9	-25.2	-23.4	-23.2	-23.2	-23.2	-23.2
Services plus income (net)	11.5	14.1	14.1	13.1	13.1	10.9	10.3	9.8	9.4	9.1	8.8
Transfers (net)	6.2	4.8	3.9	5.5	5.1	4.3	4.4	4.5	4.7	4.9	5.0
Current account balance 2/	-4.2	-4.5	-5.3	-1.8	-20.7	-10.0	-8.7	-8.9	-9.1	-9.2	-9.3
Capital and financial account balance	15.8	9.3	13.1	8.8	10.5	9.9	9.0	9.2	9.5	9.6	9.3
Of which: FDI (net)	4.8	11.0	11.0	9.7	6.6	7.0	7.4	7.8	8.2	8.6	9.0
Of which: Portfolio investment (net)	0.0	0.0	2.8	-0.9	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Of which: Other investment (net) 2/	10.9	-1.7	-0.8	-0.1	4.3	3.3	2.0	1.9	1.7	1.5	0.7
Errors and omissions	-2.2	-1.3	-4.6	-5.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	9.5	3.5	3.2	1.8	-4.0	-0.1	0.3	0.4	0.3	0.4	-0.1
Memorandum items:											
Gross official reserves (in millions of U.S. dollars) 3/	565	716	831	915	755	750	764	780	795	816	813
(In months of retained GNFS imports)	4.4	4.7	5.2	5.7	4.4	4.0	4.0	3.9	3.8	3.8	3.6

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

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

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

3/ Reserve Bank of Fiji holdings only.

Appendix I. External Debt Sustainability Framework, 2009-19

Table 1. Fiji: External Debt Sustainability Framework, 2009-2019
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	15.0	14.8	16.7	17.5	21.9			**22.7**	**22.8**	**23.1**	**23.1**	**23.1**	**23.2**	**-9.0**
Change in external debt	2.2	-0.2	2.0	0.8	4.4			0.7	0.2	0.3	0.0	0.0	0.1	
Identified external debt-creating flows (4+8+9)	2.0	-7.5	-7.5	-8.6	13.3			2.5	0.8	0.6	0.4	0.1	-0.2	
Current account deficit, excluding interest payments	3.8	4.1	5.0	1.6	20.5			9.8	8.4	8.4	8.5	8.4	8.4	
Deficit in balance of goods and services	10.0	6.1	6.1	3.6	23.8			10.9	9.6	9.8	10.1	10.3	10.6	
Exports	49.5	57.8	61.1	62.6	56.1			55.6	55.4	54.9	54.4	53.7	52.9	
Imports	59.4	63.9	67.2	66.2	79.9			66.5	65.0	64.6	64.5	64.1	63.5	
Net non-debt creating capital inflows (negative)	-4.8	-11.0	-11.0	-9.7	-6.6			-7.0	-7.5	-7.9	-8.3	-8.7	-9.2	
Automatic debt dynamics 1/	3.1	-0.7	-1.5	-0.5	-0.6			-0.3	-0.1	0.0	0.2	0.5	0.6	
Contribution from nominal interest rate	0.4	0.3	0.3	0.2	0.2			0.3	0.4	0.5	0.8	1.0	1.1	
Contribution from real GDP growth	0.2	-0.4	-0.3	-0.3	-0.6			-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	2.5	-0.6	-1.5	-0.4	-0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.2	7.3	9.5	9.4	-8.8			-1.8	-0.6	-0.2	-0.5	-0.1	0.3	
External debt-to-exports ratio (in percent)	30.3	25.5	27.4	27.9	39.0			40.8	41.2	42.2	42.6	43.1	43.9	
Gross external financing need (in billions of US dollars) 4/	179.1	196.4	404.6	133.6	895.8			476.5	433.5	704.5	488.1	508.6	534.8	
in percent of GDP	6.2	6.3	11.1	3.5	22.2	10-Year	10-Year	11.3	9.9	15.5	10.4	10.4	10.5	
Scenario with key variables at their historical averages 5/								**22.7**	**22.0**	**21.7**	**21.2**	**21.1**	**21.3**	**-9.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-1.4	3.0	2.7	1.7	3.5	1.9	2.0	2.7	2.3	2.3	2.3	2.4	2.4	
GDP deflator in US dollars (change in percent)	-16.3	4.4	11.1	2.7	1.3	4.2	8.1	1.4	1.5	1.5	1.5	1.5	1.5	
Nominal external interest rate (in percent)	2.3	2.5	2.2	1.4	1.1	2.4	0.8	1.5	1.6	2.4	3.4	4.5	5.0	
Growth of exports (US dollar terms, in percent)	-28.4	27.9	22.6	8.3	-6.1	7.5	16.7	3.1	3.5	2.8	2.9	2.7	2.3	
Growth of imports (US dollar terms, in percent)	-34.5	17.6	22.1	4.2	26.5	9.9	18.1	-13.4	1.5	3.2	3.6	3.2	2.9	
Current account balance, excluding interest payments	-3.8	-4.1	-5.0	-1.6	-20.5	-9.6	6.2	-9.8	-8.4	-8.4	-8.5	-8.4	-8.4	
Net non-debt creating capital inflows	4.8	11.0	11.0	9.7	6.6	9.2	2.7	7.0	7.5	7.9	8.3	8.7	9.2	

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

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

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

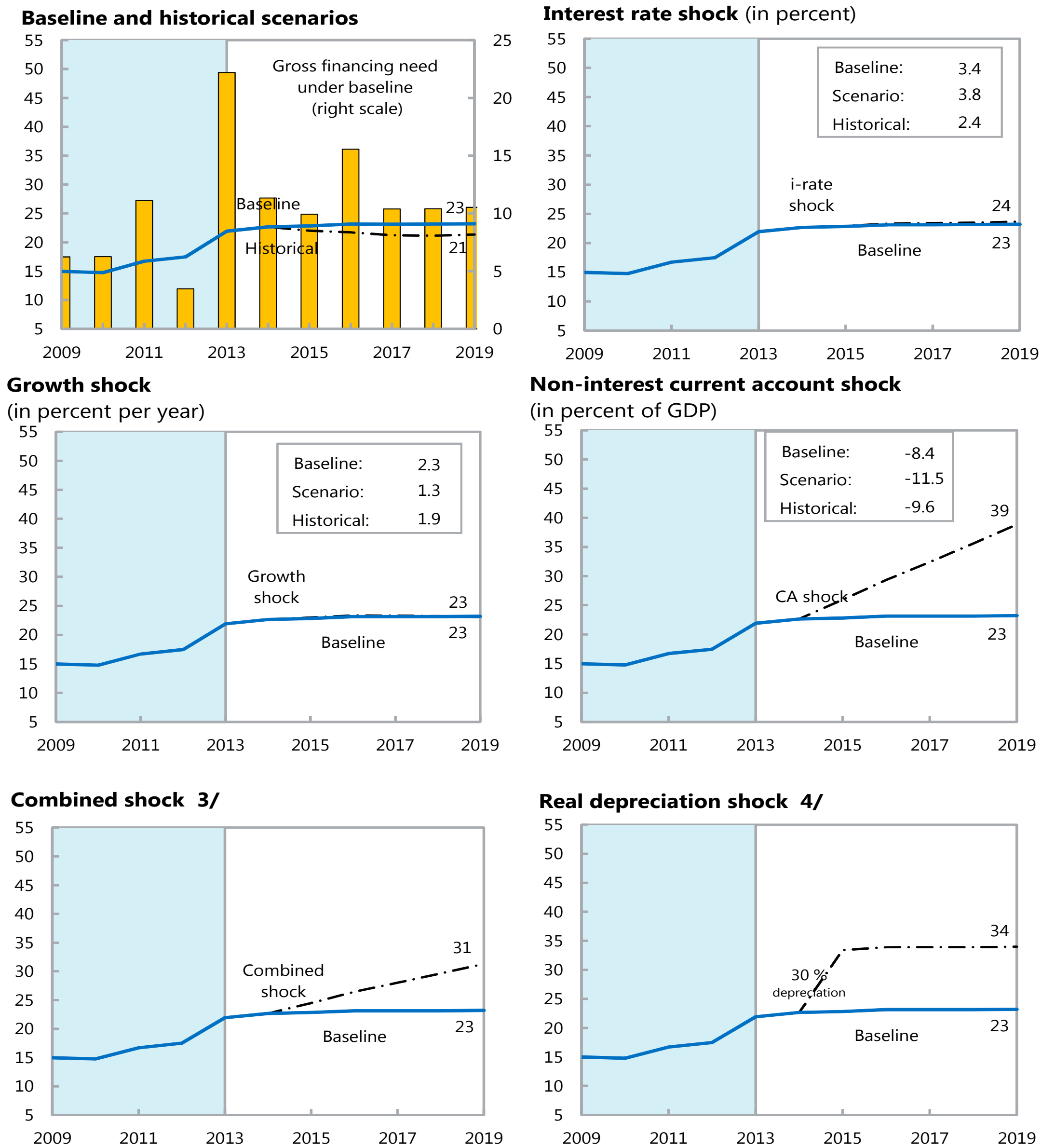
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2010.

Appendix II. Public Debt Sustainability Analysis

Fiji. Public DSA – Composition of Public Debt and Alternative Scenarios

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

(in percent of GDP unless otherwise indicated)

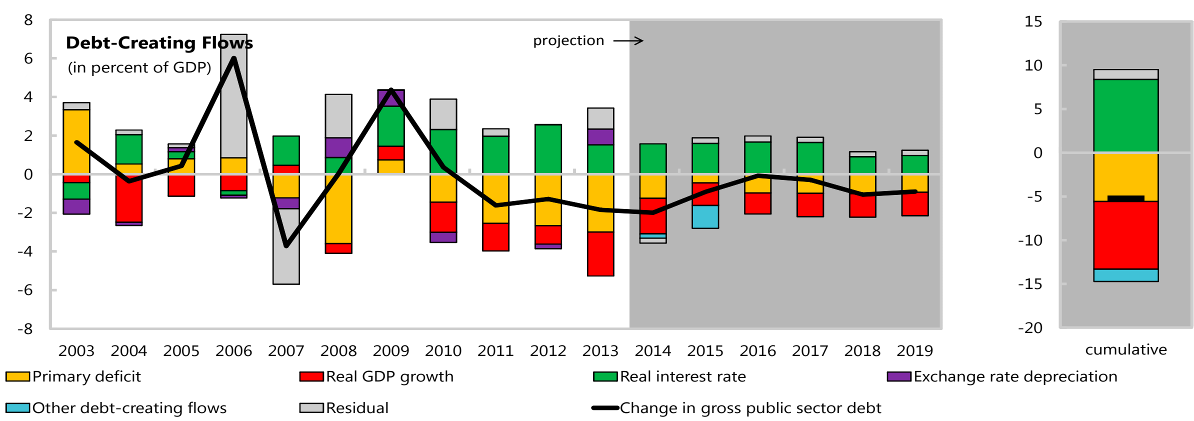
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	52.4	53.3	51.4	49.4	48.5	48.4	48.1	47.1	46.2
Public gross financing needs	7.0	4.1	2.9	4.6	4.1	8.9	3.9	4.2	3.9
Real GDP growth (in percent)	1.7	1.8	4.6	3.8	2.5	2.4	2.6	2.7	2.7
Inflation (GDP deflator, in percent)	4.1	2.4	3.8	3.5	3.5	3.5	3.5	3.5	3.5
Nominal GDP growth (in percent)	5.7	5.4	7.8	7.5	6.1	6.0	6.2	6.3	6.3
Effective interest rate (in percent) [4/]	6.2	7.3	7.1	6.9	7.0	7.2	7.2	5.6	5.8

As of September 23, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		371
5Y CDS (bp)		na
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B	B
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.8	-1.3	-1.8	-2.0	-0.9	-0.1	-0.3	-1.1	-0.9	-5.2	
Identified debt-creating flows	0.0	-1.3	-2.9	-1.7	-1.2	-0.4	-0.5	-1.3	-1.2	-6.4	
Primary deficit	-0.3	-2.7	-3.0	-1.2	-0.5	-1.0	-1.0	-1.0	-0.9	-5.6	-0.2
Primary (noninterest) revenue and grants	25.7	28.0	28.2	28.6	28.5	28.1	28.1	28.0	28.0	169.3	
Primary (noninterest) expenditure	25.4	25.3	25.2	27.4	28.0	27.1	27.1	27.0	27.1	163.7	
Automatic debt dynamics [5/]	0.2	1.4	0.1	-0.3	0.4	0.6	0.4	-0.3	-0.2	0.6	
Interest rate/growth differential [6/]	0.3	1.6	-0.8	-0.3	0.4	0.6	0.4	-0.3	-0.2	0.6	
Of which: real interest rate	1.1	2.6	1.5	1.6	1.6	1.7	1.7	0.9	1.0	8.4	
Of which: real GDP growth	-0.8	-1.0	-2.3	-1.8	-1.2	-1.1	-1.2	-1.2	-1.2	-7.7	
Exchange rate depreciation [7/]	0.0	-0.2	0.8	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-0.2	-1.2	0.0	0.0	0.0	0.0	-1.4	
Please specify (1) (e.g., drawdown of dep	0.0	0.0	0.0	-0.2	-1.2	0.0	0.0	0.0	0.0	-1.4	
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 Euroare	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	0.0	1.1	-0.3	0.3	0.3	0.3	0.3	0.3	1.1	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

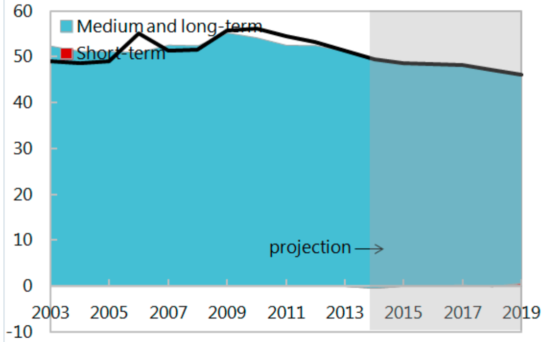
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

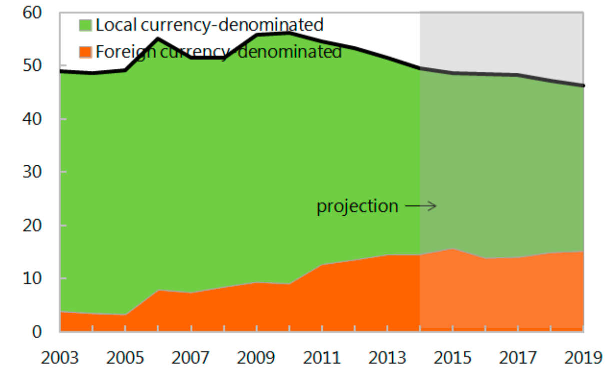
Figure 1. Fiji: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



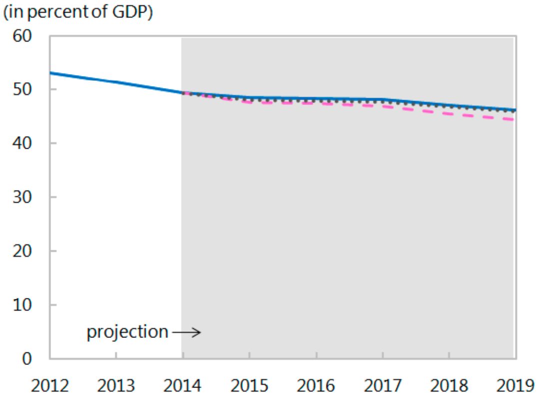
By Currency
(in percent of GDP)



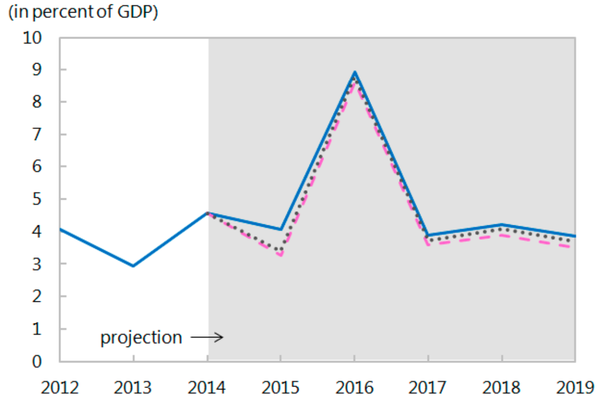
Alternative Scenarios

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	2014	2015	2016	2017	2018	2019
Real GDP growth	3.8	2.5	2.4	2.6	2.7	2.7
Inflation	3.5	3.5	3.5	3.5	3.5	3.5
Primary Balance	1.2	0.5	1.0	1.0	1.0	0.9
Effective interest rate	6.9	7.0	7.2	7.2	5.6	5.8
Constant Primary Balance Scenario						
Real GDP growth	3.8	2.5	2.4	2.6	2.7	2.7
Inflation	3.5	3.5	3.5	3.5	3.5	3.5
Primary Balance	1.2	1.2	1.2	1.2	1.2	1.2
Effective interest rate	6.9	7.0	7.3	7.3	5.7	5.9

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.8	2.1	2.1	2.1	2.1	2.1
Inflation	3.5	3.5	3.5	3.5	3.5	3.5
Primary Balance	1.2	1.2	1.2	1.2	1.2	1.2
Effective interest rate	6.9	7.0	7.3	7.2	5.6	5.8

Source: IMF staff.

Appendix III. FSAP Recommendations and Implementation

Recommendation	Status of Implementation
Bank Supervision	
Enhance supervision while economizing on RBF's resources. Make greater use of external and financial institution internal auditors to deal with targeted areas;	The RBF has implemented the recommendation though the following: • The role of internal auditors (IA) is outlined in the RBF Corporate Governance supervision policies *(BSPS No. 11)* for banks and *(ISPS No. 4)* insurance companies. IA roles are also captured under the Operational Risk policy for banks and credit institutions (BSPS No. 16). These policies cover the functions that are, as a minimum expected of IAs for licensed institutions. • Specific supervision policies are also issued for the role of external auditors (EA) in the supervision of banks and credit institutions *(BSPS No. 7)*. The policy provides an avenue that if need be, the RBF can leverage off the EA's expertise and resources to examine specific areas of regulatory concern. This policy is currently being reviewed, since it was initially issued in 2001. • Additionally, the RBF conducts on-site examinations whereby discussion sessions are held with the internal audit function of regulated institutions. Internal audit reports are reviewed and on-site discussions provide an opportunity to the IA function to frankly discuss its review processes and findings, the responses received, key risk areas and concerns directly with the RBF.
Fully introduce risk-based supervision to ensure that supervision is focused on the areas and institutions of greatest concern	• RBF has moved to risk-based supervision with all key supervisory processes reviewed to be in line with risk-based supervision objectives. The changes made are now being documented in a 'Risk Based Supervision' manual to be finalized by the end of 2014. • The move to risk-based supervision has allowed the establishment of a clear link between off-site monitoring, on-site reviews, identification of systemic issues and the establishment of a macroprudential supervision framework.
Clarify the status of "credit institutions" in law and regulation.	• No further work has been undertaken on this as the RBF still relies on the definitions provided under the Banking Act to differentiate between a bank and a credit institution. • The RBF has however discussed internally the need to establish some "tiering" of supervised institutions to determine intensity of supervision activities, as part of its risk-based supervision framework, and this will be undertaken in 2015.
Monetary policy framework and transparency	
Strengthen liquidity forecasting capacity to improve forecasting of foreign reserves and the net position of the government; and	• There is continuous improvement to fine tune the forecast of foreign reserves. The RBF will continue to liaise closely with the Ministry of Finance and relevant industry stakeholders to improve the timeliness and quality of the data.

Bank Supervision	
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Monetary policy framework and transparency	
Strengthen liquidity forecasting capacity to improve forecasting of foreign reserves and the net position of the government.	• There is continuous improvement to fine tune the forecast of foreign reserves. The RBF will continue to liaise closely with the Ministry of Finance and relevant industry stakeholders to improve the timeliness and quality of the data.
Clarify the powers and responsibilities of the RBF and the MOF.	• This has been considered in the review of the RBF Act but the proposed amendments coming out of the review are yet to be approved.

Government securities market development	
Establish joint group between the FNPF, the MOF and the RBF to share information and agree on the transitional pace of FNPF diversification out of the bond market and publicly disclose broad parameters of FNPF's planned diversification in order to limit disruptions to the government securities market.	• No specific group or committee has been set up. However since then, there has been a more measured and pragmatic view on the diversification of the FNPF's investments. A confluence of factors has contributed to shaping this view: our recall of their foreign investment due to wider national considerations, the exposed risk of "other investments" (Momi, Natadola), and availability of domestic alternatives that matched the FNPF's liabilities and objectives. • The RBF continues to liaise closely with the Ministry of Finance as bankers to Government on their funding needs. Should there be a need to rope in the FNPF as the largest player in the market to avoid disruptions to the Government's securities market this has been done and will continue.
Fiji National Provident Fund	
Implement a clear separation of accounts by area of activity and place the annuity business on a sound actuarial basis; and	• The Provident Fund is nearing the completion of a 3-year reform programme aimed at strongly establishing its operations and sustainability. The coming into effect of the FNPF Decree 2011 (replacing the FNPF Act) provided the legal framework for significant changes to the structure of the Provident Fund's pension/annuity business (Retirement Income Fund (RIF)) and its accumulation fund (the FNPF). As part of the reform, the FNPF has introduced actuarially valued and age based pension rates from March 1 2012. • The separation of accounts by activity is being initiated with the Provident Fund now having the RIF and FNPF as two separate funds with their own assets and liabilities. Both funds are required to meet specific solvency requirements and be actuarially evaluated on an annual basis. • The Provident Fund will now have to work on the reporting obligations of the two funds in its annual financial statements.
Prudent investment principles, including appropriate levels of international diversification for all providers of retirement savings, need to be adopted. The foreign assets of the FNPF and other providers of retirement savings should not be subject to recall. Gradual implementation of these principles is necessary to ensure consistency with macroeconomic stability.	• Prudent investment principles are now incorporated in the FNPF Decree 2011 (a revision of the FNPF Act). With capital controls still an important feature of the RBF's monetary policy framework due to the objective of ensuring the maintenance of an adequate level of foreign reserves, the recall requirement is still a condition stipulated for off-shore investments of the FNPF. • The RBF however is fully aware of the consequences on such a recall on FNPF investments and considers this as the very last option.

Appendix IV. Main Recommendations of the 2013 Article IV Consultation

Main Staff Recommendation	Policy Actions
Structural reform: Staff welcomed the progress in structural reforms and identified raising potential growth, reducing vulnerability to shocks, and further reducing poverty as the key policy challenges.	Since the last Article IV Executive Board discussion in November 2013, the authorities have made progress on the structural reform agenda by continuing the focus on improving infrastructure, land use efficiency, improving the provision of statistics and reform of state enterprises.
Macroeconomic policies: Staff viewed the macroeconomic policies as broadly appropriate. Staff recommended close monitoring of the pickup in credit growth, and welcomed progress on financial inclusion. Staff urged structural reform to broaden the revenue base, continued restraint on operating expenditure to create space for capital investment.	The RBF is carefully monitoring the rapid credit growth and has intensified its surveillance through targeted onsite bank examinations. The RBF is leading efforts to increase financial inclusion. Through the National Banking Task Force, the targets for increased financial inclusion set in 2010 have been met. Over the past year, agricultural lending has increased. The authorities have maintained their focus on improving infrastructure.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

October 9, 2014

Prepared By | Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of September 30, 2014)

Membership Status

Joined: May 28, 1971; Article VIII

General Resources Account

	SDR Million	Percent of Quota
Quota	70.30	100.00
Fund holdings of currency	53.76	76.47
Reserve position in Fund	16.61	23.62

SDR Department

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

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Obligations to Fund

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

Exchange Rate Arrangements

Fiji's *de facto* exchange rate arrangement is a conventional peg. Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. On April 15, 2009, the Fiji dollar was devalued by 20 percent against the basket. The exchange rate was F$1.9054 per U.S. dollar as of September 22, 2014.

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

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010, and further increases in delegated limits were announced to come into effect in January 2014. Banks have also been allowed to have net forward contracts of up to F$40 million, and the delegated limit on dividends and profits for companies per annum was raised from F$500,000 to F$1,000,000.

Last Article IV Consultation

The 2013 Article IV consultation discussions were held in Suva during August 1–15, 2013. The consultation (Country Report No. 13/370) was completed by the Executive Board on November 4, 2013. Fiji is on a 12-month cycle with the concurrence of the authorities.

Safeguards Assessment

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

Resident Representative

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

WORLD BANK-IMF COLLABORATION

(As of September 22, 2014)

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

Cooperation over the past year has included World Bank involvement in the July 2014 Article IV mission to Fiji. The Bank's participation facilitated discussions with the authorities in areas of mutual interest such as social protection, civil service reform, and growth priorities.

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

- **Increased efficiency of land use,** which is critical for Fiji's growth prospects and economic diversification.

- **Price decontrol**, to re-establish price signals and encourage investment.

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

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

- **Public enterprise reform.** The pace of implementation of reforms of other public enterprises aimed at improving services and reducing fiscal costs needs to be accelerated. These reforms will help reduce the government's direct and contingent liabilities, help ensure fiscal sustainability, and promote growth.

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

- **Tax policy and administration reform.** Efforts to broaden the tax base should continue, including review of the tax incentive regime. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.

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

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

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

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

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

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE[1]

(As of September 19, 2014)

Background

Fiji has been one of PFTAC's largest users of TA in recent years. The PFM sector has recently become the main area of focus, but significant contributions in Revenue Policy/Administration and Macroeconomic Statistics also continue. In the PFM area, support has been focused on training for budget analysts, building internal audit and accounting capacity, and assisting authorities to develop a PFM Reform Roadmap. PFTAC has supported FRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures. There has also been significant progress made in the Statistics area with improved national accounts balance of payments and price statistics. In macroeconomics the focus has been on building modeling skills, including for potential natural resource revenues.

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

Strategy 2013-2015

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

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

In the **Public Financial Management** area, the main focus will be assisting in strengthening weaknesses identified in the 2012 PEFA assessment. With PFTAC support the Fiji MOF started a PFM Reform Roadmap in April 2014 (RBM 1.2). Budget analyst training started in 2013 has continued with a particular focus on changes to the process for reviewing line ministry requests for new

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

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

resources (RBM 1.6). Assistance has also been provided on implementation of international accounting and reporting standards, including implementation of accrual accounting. Other areas of specific follow-up assistance will be influenced by the PFM Roadmap currently being finalized. These may be focused on review of the roles, responsibilities and structure of the Ministry of Finance; strengthening accounting and financial reporting processes and systems; formal adoption of IPSAS; transition to accrual accounting (perhaps drawing on IMF HQ expertise); and budget execution (1.7). Assistance in cash and debt management may also be a focus *(*RBM 1.7*),* if resources are available. PFTAC will coordinate closely with the ADB's PEM TA project. PFTAC will coordinate closely with the ADB's PEM TA project.

In the **revenue administration area** Fiji continues to progress with its most recent achievement being the implementation of the PAYE final withholding tax regime. PFTAC assistance for 2014/2015 will focus on: (1) implementation of strategic objectives identified in the new strategic plan designed with PFTAC assistance; (2) facilitate the implementation of business systems and processes which are based on modern risk management principles and assist in the implementation of a self assessment regime; (3) assist in strengthening compliance improvement plans and strategies that are risk based and utilize a mixture of service and enforcement approaches; and (4) review and recommend improvements to core tax functions. PFTAC recently provided extensive assistance in the design of the user requirements for a new IT system, for which a tender will be issued by end December, 2014.

In **statistics**, the focus of support will be further development of the national accounts. The ultimate aim is to have preliminary quarterly national accounts estimates being produced with limited circulation by June 2015 (*4.4*) and to start general publication by the end of December 2015. In addition, supply and use tables for 2011 are planned for completion by April 2015 which will provide important input into the planned December 2015 rebase of the constant price accounts. PFTAC will also support the development of GDP estimates by expenditure and income with the expectation of producing experimental estimates by the beginning of 2015 for publication in August 2015 (*4.1*) and will continue to provide follow-up on price indices with support of both IMF HQ (4.8) and the Australian Bureau of Statistics. IMF HQ will also provide support for enhancing balance of payment statistics and government finance statistics.

In **financial sector supervision**, the PFTAC advisor will continue to be available for consultations with RBF staff and will work on regional issues with the RBF's head of bank supervision who is executive director of AFSPC. PFTAC will stage a three day workshop on consolidated supervision of conglomerates in September for 24 members of its banking supervision department. The RBF will also participate in the mid year sub regional PFTAC workshop on Risk Based Banking Supervision to be held in Samoa. The RBF further indicated an interest in receiving technical assistance during its anticipated Credit Union's legislative and oversight modernization program of that sector.

In the area of **macroeconomic analysis**, technical assistance will focus on building capacity in macroeconomic modeling (5.1) and debt sustainability (*5.3)*. Working with RBF staff to develop macroeconomic models to capture unique features of the monetary policy transmission mechanism will be a key area of analysis (5.1). On the fiscal side, the main project will entail assisting MOF staff in incorporating debt dynamics into the medium-term fiscal planning framework (*5.3*).

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of September 23, 2014)

ADB engagement in Fiji since a coup in 2006 has been guided by the *Fiji Islands: Reengagement Approach.*[3]

With elections in September 2014 meeting criteria for re-engagement, and with broad based shareholder support, ADB intends submit a new country partnership strategy, drafted in consultation with the Fiji government, to its Board of Executive Directors in December 2014.

Since 1970, ADB has provided $317 million in loans and $27 million in technical assistance (TA). ADB's support has focused primarily on transport (ports and roads); and water and sanitation. Although there were limited new investments since 2006, ADB continued to implement ongoing projects, finance emergency needs following natural disasters and maintained policy dialogue with the government.

ADB's support since the 2006 coup continued to be a relevant response to the country context and government priorities and was aligned with ADB's Strategy 2020. This was achieved by maintaining sector selection and continuity in economic infrastructure (ports, roads and water and sanitation), continued strong coordination and harmonization with other development partners, particularly in terms of ongoing policy dialogue on public sector management, and appropriate allocation of resources via supplementary financing for ongoing projects and emergency assistance.

In 2009, ADB approved $49.8 million in additional financing to complete road and water supply and sewerage investment have been a focus of ADB's engagement. Additional support was provided in 2009 ($17.6 million) and 2012 via two separate $1 million grants from the Asia-Pacific Disaster Response Facility in response to devastating floods. These investments will be completed by the end of 2014. ADB has also provided TA in 2012 to SOE reform, and in 2013 to develop a National 20 Year Transport Strategy (inclusive of roads and maritime transport) and an Urban Water and Sanitation Master Plan (as part of the overall National Water Resources and Sanitation Plan due for Cabinet Approval in 2014). Fiji also continues to participate in ADB regional TA projects in areas such as climate change, public sector management, information and communication technology and trade facilitation.

Reflecting country challenges, ADB's partnership for the medium term will be focused on three interlinked priorities of: (i) raising Fiji's longer-term growth potential; (ii) building resilience and reducing vulnerability, and (iii) reducing poverty through more inclusive growth and better service delivery. Fiji is eligible for assistance from ADB's Ordinary Capital Resources (OCR). Up to $350 million in OCR resources is available during the 5 year period from 2014 to 2018. TA will also be

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[3] ADB. 2007. *Fiji Islands: Reengagement Approach.* Manila.

provided to develop sector plans, prepare investments, and build capacity for broader policy and institutional reform. Lending operations are anticipated for a transport (roads, bridges, jetties and wharves) project for $100 million (with possible co-financing by the World Bank), and an urban water and sanitation investment of up to $100 million in 2015. These will be guided by current technical assistance to prepare a 20 year national transport plan and an urban water and sanitation master plan.

The ADB has recently supported the preparation of Fiji's Green Growth framework and will continue to contribute to Fiji's development efforts.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Despite significant shortcomings in some areas, especially GDP and balance of payments data, core economic and financial data provided to the Fund are broadly adequate for surveillance. Macroeconomic data are in the process of improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years.

The Reserve Bank of Fiji (RBF) publishes the *Annual Report*, the *Quarterly Review,* and the monthly *Economic Review*. The Fiji Bureau of Statistics (BoS) publishes a quarterly *Current Economic Statistics* and a monthly *Statistical News*. The Ministry of Finance and National Planning (MoF) issues the *Budget Address* and the *Supplement to the Budget Address* on an annual basis. All of these publications are received by APD on a regular basis.

Formal participation in the GDDS commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002.

National Accounts: Production-side estimates of GDP at current and constant prices are available up to 2011. Revised data were published in April 2013 using the 2002 Household Income and Expenditure Survey, a new business census, and estimates of the informal sector. Expenditure-side GDP data in constant prices are not available and expenditure-side GDP data in current prices are only available through 2005. The authorities are currently refining the methodology for estimating GDP from the expenditure side. In addition, GDP broken down by income is only available through 2005.

Price statistics: CPI data are published monthly, with data available up to August 2013. The BoS is currently updating the CPI weights from the current 2008 base using results of the 2008/09 Household Expenditure and Income survey.

Government finance statistics: While Fiji has provided metadata for central government operations and central government debt, the metadata were last updated in 2005. Fiji last reported data for publication in the IMF's Government Finance Statistics Yearbook (GFSY) in 2006. The authorities have participated in the regional GFS capacity building project funding by the Government of Japan, sending participants to regional training in 2012 and 2013 and receiving a TA mission in January 2013. Data for budgetary central government has been compiled and advances have been made in collecting the source data required to expand coverage to general government. The authorities are encouraged to review and update the GDDS fiscal metadata and resume reporting data for publication in the GFSY and commence reporting in the International Financial Statistics.

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

Fiji—Table of Common Indicators Required for Surveillance
(As of September 18, 2014)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	August 2014	September 2014	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	August 2014	September 2014	M	M	M
Reserve/Base Money	July 2014	September 2014	M	M	M
Broad Money	July 2014	September 2014	M	M	M
Central Bank Balance Sheet	July 2014	September 2014	M	M	M
Consolidated Balance Sheet of the Banking System	July 2014	September 2014	M	M	M
Interest Rates[2]	August 2014	September 2014	M	M	M
Consumer Price Index	August 2014	September 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	2011	June 2013	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	June 2014	August 2014	A	A	A
External Current Account Balance	Q1, 2014	July 2014	Q	Q	Q
Exports and Imports of Goods and Services	Q1, 2014	July 2014	Q	Q	Q
GDP/GNP	2013	September 2014	A	A	A
Gross External Debt	June 2014	August 2014	M	M	M

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

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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November 11, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with the Republic of Fiji

On October 31, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Fiji.[1]

Background

With landmark elections in September 2014, Fiji took a decisive stride toward returning to democratic government for the first time since 2006. The successful elections are expected to solidify the recent improvements in relationships with traditional development partners, improve access to concessional development finance, and boost confidence in the economy.

Growth in 2013 accelerated to 4.6 percent. The latest available consumption and investment indicators suggest continued strength in 2014, with economic growth projected at 3.8 percent. Headline inflation is currently low as imported commodity and food prices have remained stable. The Reserve Bank of Fiji (RBF) lowered its policy rate to 0.5 percent in 2011 and monetary policy has been on hold since then. The lower policy rate and persistent excess liquidity in the banking system have slowly been transmitted to lower lending rates. In response to lower rates and improved confidence, net domestic credit accelerated in the first half of 2014. The fiscal deficit was smaller than expected in 2013, but the 2014 budget was expansionary. In the 2014 budget, the authorities have provided for a large increase in expenditures with the bulk of the increased spending financed from privatization receipts. Large parts of the planned privatization financing will not materialize in 2014, and the authorities have developed and implemented expenditure and revenue contingency plans aimed at containing the deficit. Based on developments in the first half of 2014, the deficit financing target is on track to be met.

The authorities have accelerated economic reforms in recent years, for example in the sugar sector and pension schemes, but the key policy challenges remain to raise potential growth, reduce unemployment, improve financial inclusion, and increase resilience to shocks. Following the elections, continued structural reform momentum is needed to improve the business environment, address the infrastructure backlog, and raise the absorptive capacity to take full advantage of a potential increase in investments.

[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 Fiji's successful national elections, which are expected to boost confidence in the economy, solidify relationships with traditional development partners and improve access to concessional development finance. Directors encouraged the authorities to take advantage of the post-election environment to accelerate the pace of structural reforms in order to support sustainable, higher and broad-based growth, and reduce vulnerability to shocks.

Directors agreed that near-term macroeconomic management needs to be carefully calibrated, with the economy now growing above potential. They noted that fiscal policy has been prudent and well focused in recent years, but that the 2014 budget is a departure from trend. While welcoming the contingency plans developed by the authorities, Directors cautioned against financing an expansion of recurrent expenditure with one-off asset sales. To enhance buffers and create space for needed public investment, they stressed that base-broadening revenue measures are needed, alongside current spending restraint. These measures should include a significant reduction in income-tax holidays and tax incentives, within the context of a general improvement in the investment climate.

Directors called for the adoption of a tightening bias in the monetary stance to curb demand pressures, given strong credit growth and the positive output gap. They advised an appropriate policy mix consisting of targeted prudential measures, open market operations, raising reserve requirements, and if needed, a gradual adjustment of the policy rate. Directors viewed the post-election environment as a good window of opportunity to lay the foundation for moving toward a more flexible exchange rate, designed to enhance external competitiveness and resilience to shocks. They encouraged the authorities to bring exchange restrictions in compliance with Article VIII requirements.

Directors acknowledged the soundness of the banking system, but called for enhanced financial oversight to mitigate risks stemming from rapid credit expansion. They recommended strengthening the financial sector's supervisory and macroprudential frameworks, monitoring banking sector risks through regular stress testing, and further improving the AML/CFT regime. Directors commended the success in increasing financial inclusion, and encouraged further efforts in this regard.

While welcoming recent progress, Directors supported deeper and faster structural reforms to lift Fiji's potential growth, reduce external vulnerabilities, and alleviate poverty. Priority should be given to improving the investment climate by streamlining government regulations, relaxing price controls while protecting the most vulnerable, further enhancing the efficiency of land use, and upgrading infrastructure. Efforts are also needed to boost the energy supply and ensure the viability of the sugarcane industry. Directors also looked forward to continued improvements in data quality.

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

Table 1. Fiji: Selected Economic Indicators, 2009–15

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

	2009	2010	2011	2012	2013	2014	2015
				Est.	Est.	Proj.	Proj.
Output and prices (percent change)							
Real GDP (at constant factor cost)	-1.4	3.0	2.7	1.8	4.6	3.8	2.5
GDP deflator	2.6	2.5	3.8	2.4	3.8	3.5	3.5
Consumer prices (average)	3.7	3.7	7.3	3.4	2.9	1.2	3.0
Consumer prices (end of period)	6.8	5.0	6.4	2.5	3.4	2.7	3.0
Central government budget (percent of GDP)							
Revenue	25.2	25.5	27.6	28.0	28.2	28.6	28.4
Expenditure	29.3	27.7	29.0	29.1	28.7	30.6	31.1
Fiscal deficit	-4.1	-2.5	-1.4	-1.1	-0.5	-2.1	-2.7
Fiscal deficit in national convention 1/	-4.1	-2.5	-1.4	-1.1	-0.5	-1.9	-1.5
Total debt outstanding	55.8	56.2	54.5	53.3	51.4	49.4	48.5
Money and credit (percent change)							
Net domestic credit	7.2	-0.6	0.5	2.7	11.4	…	…
Private sector credit	0.7	3.5	3.9	6.3	8.8	…	…
Broad money (M3)	7.1	3.5	11.5	5.9	13.2	…	…
Monetary base	50.5	22.0	19.6	11.4	20.0	…	…
Reserve Bank of Fiji's discount rate	3.5	3.0	1.0	1.0	1.0	…	…
Commercial bank lending rate	7.5	7.4	7.4	6.6	6.0	…	…
External sector (in millions of U.S. dollars)							
Trade balance 2/	-628	-733	-850	-786	-1,569	-1,064	-1,028
(In percent of GDP)	-21.9	-23.3	-23.3	-20.4	-38.9	-25.2	-23.4
Exports, f.o.b.	615	824	1,061	1,191	1,046	1,094	1,153
Imports, f.o.b. 2/	1,242	1,557	1,911	1,976	2,615	2,158	2,181
Current account balance 2/	-119	-140	-193	-69	-835	-424	-383
(In percent of GDP)	-4.2	-4.5	-5.3	-1.8	-20.7	-10.0	-8.7
Capital/financial account balance	454	293	478	339	423	419	396
Errors and omissions	-62	-42	-168	-201	252	0	0
Overall balance	272	111	117	69	-160	-5	13
Gross official reserves (in millions of U.S. dollars)	565	716	831	915	755	750	764
(In months of retained imports) 2/	4.4	4.7	5.2	5.7	4.4	4.0	4.0
External central government debt (in millions of U.S. dollars)	274	324	523	570	626	671	721
(In percent of GDP)	9.4	9.1	13.6	14.6	14.6	15.1	15.6
Miscellaneous							
Real effective rate (average)	102.9	100.0	104.7	107.9	95.5	…	…
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.96	1.92	1.79	1.79	1.84	…	…
GDP at current market prices (in millions of Fiji dollars)	5,614	6,024	6,539	6,891	7,428	7,984	8,470
Oil price (U.S. dollars per barrel)	61.8	79.0	104.0	105.0	104.1	104.2	97.9

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

1/ Including privatization receipts as revenue.

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

Statement by Wimboh Santoso, Executive Director for Fiji and Caroline Waqabaca, Advisor to Executive Director October 31, 2014

Introduction

1. The Fijian authorities would like to thank the IMF team for the constructive and useful discussions held during the 2014 Article IV Consultations in July. The authorities are in broad agreement with the staff assessment on the economy and the focus on policy and reform priorities that will boost growth potential and sustain broad-based and inclusive growth in the post-election period. The successful September 17 national election was deemed credible, free and fair by the Multinational Observer Group and marked Fiji's return to parliamentary democracy after 8 years. The decisive victory by the Fiji First party which secured a majority 32 seats in the new 50-member parliament implies the entrenchment and continuation of policies by the Bainimarama Government that have achieved positive growth and reform momentum during the past four years. The positive result of the election has boosted investment and growth prospects and cemented a path towards a stronger and more dynamic economy. This statement provides an update on recent developments in Fiji and elaborates on key policy issues for clarification and emphasis.

Recent economic developments and outlook

2. Latest provisional estimates released by the Fiji Bureau of Statistics show that Fiji's economy grew by 4.6 percent in 2013, higher than the earlier forecast of 3.6 percent reflecting better-than-expected performances in sectors including finance, transport, construction, education and services. The higher growth last year, underpinned by strong consumption and investment activity, is expected to moderate slightly to 4.0 percent this year. Staff estimates are in line with authorities' assessment. Partial data so far this year show increases in sales of new vehicles and cement for construction activity, higher bank lending, strong imports, and robust Value Added Tax collections suggesting that private consumption and investment activity remain key drivers of growth. Headline inflation has remained low, falling further to 0.3 percent in September, reflecting stable international commodity and food prices as well as free primary and secondary education. Credit growth picked up from 9 percent in 2013 to 17 percent in the first eight months of this year, reflecting higher lending to the wholesale, retail, hotels and restaurants, transport and housing and private individuals sectors. The fiscal deficit is forecast at around 1.9 percent in 2014, slightly more expansionary than the 2013 deficit of 0.5 percent. Commensurate with the deficit levels, the Government debt-to-GDP ratio fell slightly to 49.8 percent at the end of September 2014 from 51.4 percent at the end of last year. Foreign reserves have recently declined owing to the strong expansion in imports and sluggish exports, however, remain at a comfortable level. Tourism and remittances inflows are expected to grow this year and provide some some buffer for the external sector.

Monetary and Financial Sector Policies

3. The authorities have maintained an accommodative monetary policy stance, keeping the Reserve Bank of Fiji (RBF) Overnight Policy Rate at 0.5 percent, consistent with the assessment on the outlook for growth and inflation. This has seen bank lending rates fall further and credit growth pick up, as the lending environment is supported by higher disposable incomes from the tax cuts and growing confidence in the economy. Financial stability continues to be preserved by well-capitalized banks and low NPLs. Nevertheless, the rapid growth in credit to certain sectors, and sharp increases in house prices and imports seen in recent months have led to increased vigilance by the RBF in closely monitoring bank activity and the liquidity situation. The RBF remains closely engaged with the banks bilaterally and jointly through the quarterly Association of Banks forum to discuss the latest macroeconomic situation and outlook and implications for monetary policy and financial stability. The RBF continues to enhance its supervision through more risk-based assessment of banks and ongoing training for staff to improve the overall supervisory framework. In the meantime, the RBF will continue to assess the need for sectoral measures while it stands ready, on a tightening bias, to implement open market operations and raise the policy rate as warranted.

4. Fiji has made huge strides towards improving financial inclusion through the National Financial Inclusion Taskforce (NFIT), whose work has received international accolade and modeled by countries in the region. Since 2010, the RBF as chair of the NFIT, has driven national efforts in financial inclusion that has seen the over-achievement on the target of reaching 150,000 unbanked by 2014, implementation of a Poverty Progress Index Scorecard to track client poverty over time, and ongoing survey work that will provide a baseline for a new National Financial Inclusion Strategy for 2015-2020. Moreover, ongoing outreach through financial inclusion expositions in conjunction with financial literacy training programs held outside urban centers and the integration of financial education into core subjects in schools from Year one to Year 12, have increased awareness and demand for financial services and improved consumer empowerment.

Exchange Rate Policy and External Balance

5. Fiji's reliance on trade and tourism make it susceptible to external shocks especially in trading partner demand and commodity prices. As such, the authorities see merit in allowing greater exchange rate flexibility for shock absorption and will continue to review the timing for this as the macroeconomic situation warrants it. In the meantime, the current exchange rate basket regime continues to provide an important anchor for inflation and benefit to Fiji's trade through the role of different currencies in the basket whose offsetting movements help minimize the overall impact on the Fiji dollar. On exchange restrictions, the authorities are working with staff to bring these measures in line with requirements under the Fund's Article VIII.

6. The authorities recognize the importance of safeguarding the financial system from money laundering and other criminal activities, and continue to strengthen its AML/CFT framework in line with international standards. Better coordination and information exchange with partner agencies domestically and internationally and close liaison with financial institutions should improve compliance with the Financial Transactions Reporting Act. This year, the FIU is working closely with key agencies in implementing the new law on “unexplained wealth”, as well as some provisions of the new 2013 Constitution, particularly those relating to the code of conduct, assets disclosure and governance for public sector officials.

Fiscal Policy

7. On the fiscal front, the authorities are committed to gradually consolidating finances over the medium term while remaining supportive of policies that will achieve sustainable and inclusive growth. This year’s budget strategy aims to build further on the 2013 budget priorities of improving the country’s infrastructure and expanding health and education spending. So far this year, the fiscal performance has been marked by strong tax revenue collections, weak non-tax revenue collections mainly due to the delays in asset sales and below-budget recurrent and capital spending. The resulting budget deficit of 1.5 percent of GDP for the January-September 2014 period, while reflecting the revenue shortfall from privatization receipts, remains within the 1.9 percent annual deficit target. The authorities are aware of the current pressures from the privatization delays to this year’s fiscal position and are undertaking all efforts to rein in expenditures to ensure the deficit target is achievable. At the same time however, authorities are mindful of the potential impact of halting the momentum of investment spending on the economy and remain careful to appropriately balance its deficit and growth targets. The direction for fiscal policy under the medium term fiscal framework for 2015 and beyond, which will be announced on November 21, 2014, is expected to remain centered on fostering investment-led growth in a fiscally sustainable environment.

8. Revenue policy will continue to focus on ensuring a tax system that is equitable, non-distortionary and simple to administer. Ongoing efforts to strengthen tax administration and improve revenue mobilization through streamlining tax administrative processes and procedures, improving compliance, reviewing of tariff rates and government fees, fines and charges, as well as improving internal controls, are aimed at providing a conducive environment that will stimulate investment. Expenditure policy will remain focused on improving funding allocations to key sectors such as transport infrastructure development to improve connectivity and increase supply capacity, as well as health, education and poverty alleviation. In line with fiscal deficits of below 2.0 percent of GDP over the past five years, Government debt has been declining. Under its debt management framework, government aims to further reduce debt towards its medium term target of 45 percent, by prudently managing public finances, Government guarantees and contingent liabilities and building up its offshore fund for the global bond repayment in 2016.

Structural Reforms

9. The authorities have made significant progress in certain areas of reforms, where outcomes have been evident, and will continue to drive the reform process to increase the productive capacity of the economy and improve the business environment to raise the economy's competitiveness and strengthen its resilience to shocks.

10. Land reform is crucial to unlocking Fiji's economic potential. Ongoing work by the government's Committee for Better Utilization of Land and the Land Bank Initiative are central to its aim to make more land available for productive use and ensure equitable returns to both the tenant and landlord via long term leases and market-based returns. Recent efforts are focusing on stronger monitoring of lease renewals to ensure land is utilized to raise production and productivity, concerns on speculators are addressed and there is close liaison with stakeholders to improve capacity support, competence, innovation and sustainability for farmers. The increase in land deposits with the Land Bank unit has brought economic benefits to landowners and boosted private sector interest in the economy. The government plans to develop more state land for 99 year leasing to improve squatter dwelling as well as continue its assistance programs including support to the Housing Authority and Public Rental Board institutions that provide affordable housing to Fijians.

11. Reforms to revitalize the sugar industry since 2010 have borne positive results through higher production and a positive turnaround in the sugar company FSC's financial performance which has stabilized this important industry on which a large part of the population depend. Under its Sugar Cane Industry Action Plan 2013-22, the government will focus on improving key areas of the sector that will raise sugar output and exports, prepare the industry for the withdrawal of EU preferential prices in 2017, and sustain the industry over the next ten years.

12. Despite the addition of more renewable power to Fiji's energy sector, the increased demand for services and infrastructure in a growing economy continues to drive authorities' efforts to improve the industry's supply of accessible, affordable, safe and reliable power. Joint efforts between government and industry stakeholders will soon culminate in the implementation of a new Energy Policy for 2014-2020, aimed at addressing the country's energy needs and ensuring that the sector remains resource efficient, cost effective and environmentally sustainable. Government plans for the sector include fast-tracking outstanding electrification projects and amending legislation to allow households to sell power from alternative energy sources to the national grid.

13. The reform of the FNPF which contributes 36 percent of total financial sector assets is critical to ensure sustainable returns to members' funds and to safeguard the stability of the financial system. The latest review by the Fund's Actuary confirmed that the pension scheme is now based on an actuarially-calculated rate, which will be reviewed periodically to ensure that it remains sound. In line with international best practices, separate funds were

established for each business and a solvency reserve regulated. Effective November 1 2014, member accounts will be split into a Preserved fund for retirement and a General fund to cater for pre-retirement withdrawals inclusive of education, medical, unemployment, housing. Governance for the Fund has been strengthened under prudential guidelines for proper supervision and the RBF, as regulator, monitors compliance with solvency guidelines for the sustainability of the Fund. At the same time, the Fund has instituted a robust risk management framework and governance structure to strengthen the Fund's internal controls.

14. The smallness, isolation and lack of competitive nature of local markets sometimes give rise to exorbitant price increases in market commodities that have a huge negative impact on the poor and rural population, and as such result in Government's intervention that include adjusting the transmission lag for price changes to soften the impact on consumers. Nevertheless, the authorities are aware of the need to improve price signals in the market and continue to assess this need with a view to scaling back controls while ensuring that the poor are not disadvantaged. Since 2011, the authorities have gradually relaxed regulation on several items including basic food, rent, and pharmaceuticals.

Final remarks

15. The Fijian authorities are committed to implementing appropriate economic policies and maintaining the reform momentum to ensure that near term needs of the economy are met and macroeconomic stability and sustainable growth are achieved over the medium and long term. With the expected boost in investor optimism following the successful elections, the authorities look forward to working closely with development partners to broaden and maximize new economic opportunities for the country.

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

17. Finally, the authorities wish to thank the Mission Chief Mr Chikahisa Sumi and Mr Dan Nyberg and the team for a well-written report and useful policy suggestions.