INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/238

REPUBLIC OF FIJI

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2023

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 2023 Article IV consultation with Fiji, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 22, 2023, 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 May 11, 2023.
- An **Informational Annex** prepared by the IMF staff.

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

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PRESS RELEASE

PR23/248

IMF Executive Board Concludes 2023 Article IV Consultation with Fiji

FOR IMMEDIATE RELEASE

Washington, DC – June 28, 2023: On June 1, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Fiji and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Fiji's economy rebounded strongly in 2022, as tourism recovered rapidly. The tourist arrivals in 2022 reached 71 percent of 2019 levels, yielding GDP growth of an estimated 16.0 percent in 2022. Inflation has been contained, averaging 4.3 percent in 2022 and falling to 2 percent year-on-year in March 2023, due in part to the dampening effects of administered price controls and fiscal measures. The current account deficit remained high at 17.5 percent of GDP in 2022, as improving tourism receipts and strong remittances were offset by the impact of higher commodity prices and rising import demand. The overall fiscal deficit declined slighted to 12.2 percent of GDP in FY2022 from 13.6 percent in FY2021, and public debt-to-GDP remained elevated at 87 percent end-2022. The ratio of bank non-performing loans to total loans has stabilized recently but remains well above pre-pandemic levels.

In the near-term, the economy is projected to grow above trend (which is estimated at around 3¼ percent). Tourist inflows are expected to approach pre-pandemic levels in 2023 and revert to the long-term growth trend thereafter. This tourism rebound will support momentum in the economy, with real GDP projected to grow by 7.5 percent in 2023 and 3.9 percent in 2024. Downside risks to the outlook include weaker growth in tourism-source countries, renewed acceleration in global commodity prices, and skilled labor shortages. On the upside, reduced policy uncertainty and reform momentum post-elections could improve the business climate and encourage private investment.

Executive Board Assessment

In concluding the Article IV consultation with Fiji, Executive Directors endorsed the staff's appraisal as follows:

With the rapid rebound in tourism, the economy is experiencing a strong recovery. Nevertheless, significant risks to growth remain both on the demand side – due to the global outlook – and on the supply side – due to capacity constraints and price competitiveness. Inflation has eased since end-2022, but risks are tilted to the upside, given strengthening domestic demand, growing wage pressures, and volatile global commodity prices. Increasing policy certainty through a coherent strategy for economic reform and fiscal consolidation should help reinforce sustainability and promote growth.

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

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

The recovery and ongoing broad consultations make the upcoming budget a critical opportunity to begin rebuilding Fiji's fiscal space and reducing vulnerability. While the risk of debt distress is currently moderate, high debt levels leave Fiji vulnerable to future shocks, with little space to respond. The authorities' commitment to fiscal consolidation is therefore highly welcome, and it is vital to follow through with the necessary measures. Staff recommends setting a fiscal rule—for example, an anchor based on debt-to-GDP—and pursuing a front-loaded consolidation relying mostly on a comprehensive tax reform strategy which raises revenue, simplifies the tax system, and enhances efficiency. Revenue mobilization should be accompanied by increased spending on inclusion (including targeted transfers to offset any impact of tax hikes on low-income households) and growth-enhancing reforms, such as cutting red tape. Overall, spending should be disciplined and gradually re-oriented to boost growth, enhance resilience, and promote inclusion. To safeguard progress, the authorities should closely monitor and address fiscal risks, including from contingent liabilities related to financially weak public companies.

Monetary policy needs to begin shifting now to a more neutral stance, amidst growing uncertainty to the outlook for inflation and foreign reserves. While the outlook for near-term inflation and foreign reserves remains stable, pressures may resurge as the output gap narrows with the economic recovery. The Reserve Bank of Fiji (RBF) should be closer to neutral stance to be in a position to manage pressures. Similarly, with external sector pressures easing, the tightening of exchange restrictions and capital flow management measures at the onset of the pandemic should be reversed. In addition, gradually phasing out the long-standing restrictions on current transactions, which constitute an exchange restriction subject to approval under Article VIII, Section 2(b) of the Fund's Articles of Agreement, would help reduce impediments to cross-border transactions and encourage foreign investment.

Financial sector soundness remains strong exiting from the pandemic, although staff advises reinforcing financial sector supervision as the economy recovers. The RBF should closely monitor NPLs and further enhance ongoing efforts to address them. Efforts to strengthen the financial supervision framework should continue. Staff urges continuing follow-up on key recommendations of the 2018 Financial Sector Stability Review —particularly those related to corrective action, and bank recovery, coordination with home authorities, and bank resolution.

Following the strong economic rebound, the medium-term outlook hinges on the implementation of a well-designed and comprehensive growth strategy. With the public support that broad consultations can bring, pro-growth reforms and medium-term fiscal consolidation can be mutually reinforcing. Boosting business confidence can also help jumpstart numerous private investment projects that are already planned and financed. Reforms should aim to enable diversification, both within and beyond the tourism sector; increasing the domestic value-added in tourism could promote agriculture and rural development, with benefits for job creation and inclusion. With potential headwinds from a "brain drain," it is a priority to enhance training, education, and health care programs to bolster the supply of skilled labor. Promotion of sector-specific immigration to target any skill shortages could complement these efforts. Further efforts to reduce the overall cost of doing business are also a priority to attract private and foreign investment, including in the tourism sector.

Addressing the implementation challenges of Fiji's climate plans will require increased efforts and financing. Advancing climate adaptation plans will help Fiji transition to a more sustainable and resilient growth model. Accelerating investments on renewable energy will help Fiji diversify its energy sources and reduce external imbalances. However, Fiji's climate adaptation and mitigation plans faces significant challenges, including shortfalls in climate financing, implementation capacity, and investment management. The authorities should intensify their efforts, working with development partners and private sector, to address the challenges.

Fiji: Selected Economic Issues 2020-2028

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est.			Proj.			
Output and prices (percent change)									
Real GDP	-17.0	-5.1	16.0	7.5	3.9	3.7	3.5	3.5	3.3
GDP deflator	-1.2	-3.4	5.1	3.3	2.9	2.6	2.8	3.0	3.0
Consumer prices (average)	-2.6	0.2	4.3	2.5	2.5	2.6	2.8	3.0	3.0
Consumer prices (end of period)	-2.8	3.0	3.1	2.5	2.6	2.7	2.9	3.0	3.0
Central government budget (percent of GDP)									
Revenue	20.4	23.0	21.5	24.6	24.3	24.1	24.2	24.3	24.3
Expenditure	33.3	37.1	31.9	31.5	30.3	30.0	29.9	29.7	29.6
Overall balance	-12.9	-14.1	-10.4	-6.9	-6.0	-5.8	-5.6	-5.4	-5.3
Primary balance	-9.2	-10.1	-6.7	-3.1	-2.4	-2.3	-2.1	-2.0	-1.8
Central government debt	71.1	92.4	87.2	84.6	85.1	86.0	86.7	87.1	87.3
External sector (percent of GDP)									
Current account balance	-13.6	-16.0	-17.5	-10.7	-10.4	-9.6	-8.8	-8.3	-7.7
Trade balance	-14.6	-22.0	-33.2	-29.9	-28.8	-27.8	-26.9	-25.9	-25.1
Services balance	-1.9	-5.2	11.9	16.0	16.2	16.6	16.9	16.8	16.7
Primary Income balance	-6.3	-5.8	-5.4	-6.5	-6.7	-6.9	-7.2	-7.5	-7.5
Secondary Income balance	9.2	17.1	9.2	9.7	8.9	8.6	8.4	8.3	8.2
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financial account balance (-= inflows)	-7.8	-18.3	-14.0	-8.5	-8.4	-8.8	-8.8	-8.8	-8.9
FDI	-5.1	-8.7	-1.8	-4.8	-5.7	-6.1	-6.5	-6.8	-7.0
Portfolio investment	4.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other investment	-6.6	-10.1	-12.8	-4.2	-3.2	-3.2	-2.8	-2.6	-2.4
Errors and omissions	4.7	7.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	0.3	-11.3	-2.1	2.2	1.9	0.7	0.0	-0.6	-1.3
Gross official reserves (in months of prospective imports)	6.2	5.8	6.2	5.5	4.9	4.5	4.4	4.3	…
External central government debt	17.4	27.8	34.9	32.0	31.2	31.0	30.6	30.1	29.5
Money and credit (percent change)									
Net domestic assets of depository corporations	0.8	2.8	3.3	23.2	9.3	…	…	…	…
Claims on private sector	-3.1	-0.1	6.7	10.0	8.0	…	…	…	…
Broad money (M3)	1.2	11.1	3.1	14.7	5.0	…	…	…	…
Monetary base	13.5	48.8	15.8	11.1	7.0	…	…	…	…
Central Bank Policy rate (end of period)	0.25	0.25	0.25	…	…	…	…	…	…
Commercial banks deposits rate (end of period)	0.5	0.5	0.4	…	…	…	…	…	…
Commercial banks lending rate (end of period)	6.1	6.1	5.2	…	…	…	…	…	…
Memorandum items									
Exchange rate, average (FJD/USD)	2.17	2.07	2.20	…	…	…	…	…	…
Real effective exchange rate, average	108.3	103.5	101.5	…	…	…	…	…	…
GDP at current market prices (in millions of Fiji dollars)	9,710	8,896	10,844	12,047	12,886	13,717	14,601	15,572	16,577
GDP at current market prices (in millions of U.S. dollars)	4,477	4,296	4,926	5,558	5,925	6,277	6,630	7,002	7,381
GDP per capita (in U.S. dollars)	4,970	4,740	5,403	6,060	6,422	6,762	7,129	7,488	7,849

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 11, 2023

KEY ISSUES

Context and outlook. As a small island dependent on tourism, Fiji's economy contracted sharply with the pandemic and then rebounded strongly in 2022, as tourism recovered with the reopening of international travel. Growth momentum is expected to continue in 2023, as tourist inflows approach pre-pandemic levels. The new government installed in December has committed to pursue economic reforms that promote inclusive growth and fiscal sustainability. Downside risks to the outlook stem from weaker growth in tourism-source countries, delayed recovery in hotel capacity, and exacerbated skilled labor shortages. Fiji remains vulnerable to external shocks related to natural disasters and climate change.

Main Policy Recommendations:

- Rebuild fiscal space and reinforce sustainability. Bringing down the elevated public debt burden over time requires fiscal consolidation under a credible medium-term fiscal strategy, for example anchored on a debt-to-GDP target. Fiscal risks from contingent liabilities should be closely monitored and addressed.

- Remain vigilant to inflationary pressures, preserve reserve adequacy, and further strengthen financial sector soundness. The Reserve Bank of Fiji should begin now to gradually unwind its accommodative monetary policy stance and maintain close attention to non-performing loans.

- Pursue comprehensive strategy to boost economic diversification and growth potential. Reform priorities include reducing the cost of doing business, improving governance and the fight against corruption, enhancing social inclusion, and meeting the economy's investment needs.

- Accelerate climate adaptation and mitigation to enhance Fiji's climate resilience. More efforts are needed to address implementation challenges from capacity and financing.

Approved By
Sanjaya Panth (APD) and Pritha Mitra (SPR)

Discussions took place in Suva, Fiji during March 8–22, 2023.The mission team comprised Marshall Mills (head), Arpitha Bykere, Ruifeng Zhang (all APD), and Seruwaia Cagilaba (Resident Representative Office, Fiji). Neil Saker (Resident Representative, Fiji) joined the mission. Rosemary Lim and Tengku Muhammad Azlan Ariff (both OED) attended some of the meetings. To-Nhu Dao, Connor Kinsella, and Shikha Atul Rao (all APD) contributed to the preparation of this report and supported the mission. The mission met with the Deputy Prime Minister/Minister for Finance Biman Chand Prasad, the Governor of the Reserve Bank of Fiji Ariff Ali, other senior government officials, development partners, and private sector representatives.

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CONTEXT

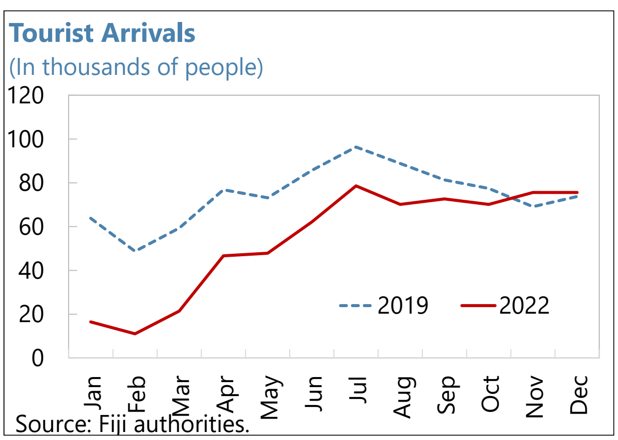
1. As a small and tourism-dependent island country, Fiji's economic fortunes have fluctuated with travel restrictions. Following a cumulative real GDP contraction of 21.2 percent in 2020-21, Fiji reopened its borders in December 2021[1]. The economy has since rebounded strongly, driven by a resumption of tourism.

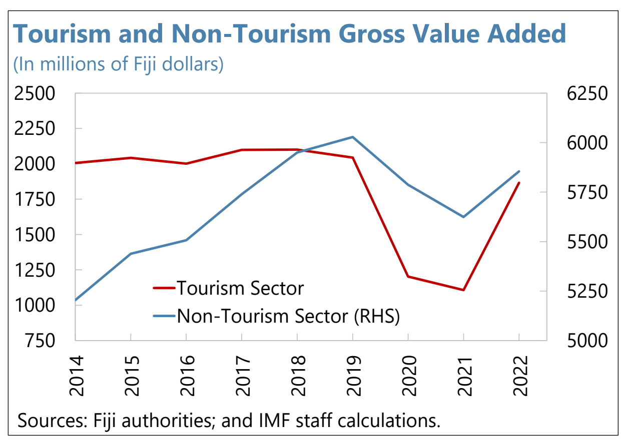
2. While the pandemic's economic and health impacts are subsiding, it substantially worsened the government's fiscal position and banks' asset quality. Due to tax cuts, higher spending, and the economic contraction related to the pandemic, the public debt surged from 49 percent of GDP at end-2019 to 87 percent at end-2022[2]. While the Non-Performing Loan (NPL) ratio has declined recently, it remains well above pre-pandemic levels (going from 4 percent to 7.9 percent at end-2022). The traction of past Article IV advice has been mixed, particularly on fiscal adjustment, in the context of commodity price shocks (Annex IV).

3. A new government installed in late December has expressed a strong commitment to economic reforms, including fiscal consolidation to address Fiji's high public debt. In the first constitutional transfer of power since 2007, a three-party coalition came to office in December 2022. In April 2023, the government held a multi-stakeholder National Economic Summit to discuss its economic policy agenda and priorities, especially growth, fiscal sustainability, and inclusion.

RECENT DEVELOPMENTS

4. Economic growth rebounded strongly in 2022 as tourism recovered rapidly. Helped by its early reopening of borders, Fiji's tourist arrivals in 2022 reached 71 percent of 2019 levels (Text Figure). This bounce back has boosted activity across sectors and improved labor market conditions, yielding GDP growth of an estimated 16.0 percent in 2022 (Text Figure).



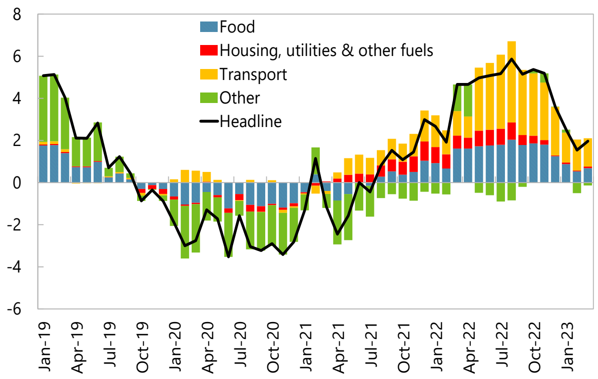


[1] 76 percent of the total population is vaccinated. Overall deaths have remained comparatively low at 95 per 100,000 population.

[2] External financing was provided by official creditors, including the World Bank, Asian Development Bank, and bilateral creditors.

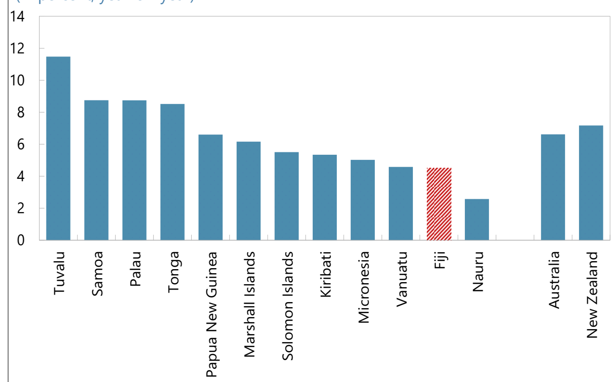
5. Inflationary pressures have eased since end-2022. Inflation remained well-contained relative to other countries in the region at an average 4.3 percent y/y in 2022, due in part to the dampening effect of administered price controls and fiscal measures (Text Figures).[3] As global commodity prices have fallen from their 2022 highs, inflation slowed to 2.0 percent y/y in March 2023.

Contribution to Headline Inflation
(In percentage points)



Sources: Fiji authorities; and IMF staff calculations.

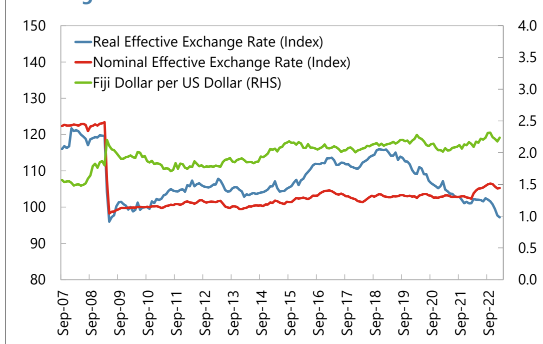
Inflation, 2022
(In percent, year-on-year)



Source: Fiji authorities; and IMF World Economic Outlook.

6. The current account deficit remained elevated in 2022, while foreign exchange (FX) reserves continue to be at comfortable levels. The current account deficit widened further to 17.5 percent of GDP in 2022, as improving tourism receipts and continued momentum in remittances were more than offset by the impact of higher commodity prices and rising import demand. Buoyed by emigration and the rise of mobile money networks, remittances have doubled since 2017, reaching 9.6 percent of GDP in 2022.[4] Notwithstanding this increase, the secondary income surplus narrowed in 2022 as official grants and aid-in-kind eased from the pandemic highs. Supported by large external concessional financing, foreign exchange reserves increased in 2022, staying ample at 6.2 months of prospective imports. With inflation in Fiji lower than in trading partners, the REER continued to depreciate in 2022 (Text Figure). According to the EBA-lite current account model, Fiji's external position in 2022 is assessed to be substantially weaker than the level implied by fundamentals and desirable policies (Annex II).

Exchange Rates



Sources: IMF INS database and IMF staff calculations.

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[3] Food, transport, housing, utilities, and fuel together account for 61 percent of the CPI basket. About 36 percent of the items in the CPI basket, including food, transport, utilities, and rent, come under administered prices. Sixteen price-controlled items also have a zero VAT rate.

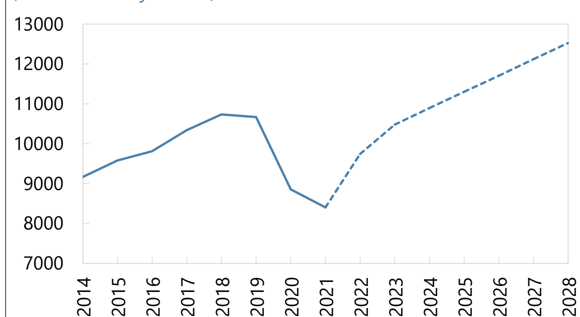
[4] The share of remittances (which include personal transfers and migrant transfers) transferred via mobile network operators went from 1.7 percent in 2017 to 32.2 percent in 2022 (money transfer operators and commercial banks accounted for 49.4 percent and 18.4 percent of remittance transfers respectively).

7. The fiscal deficit narrowed only slightly in 2022. To address inflation and its impact on the most vulnerable, the previous government adopted a revised budget in April 2022, which: introduced zero VAT rate on essential consumer items; raised the VAT rate on select items; and removed the fiscal duty on fuel introduced during the pandemic. These measures partially offset the revenue gains from the economic recovery. The overall fiscal deficit declined to 12.2 percent of GDP in FY2022 from 13.6 percent in FY2021. Public debt-to-GDP ratio declined slightly but remained at worrisome levels (87 percent of GDP end-2022).

OUTLOOK AND RISKS

8. The economy is projected to grow above trend in the near term. With the ongoing resumption of air travel routes and removal of Covid restrictions in China, tourist inflows are expected to approach pre-pandemic levels in 2023 and revert to the long-term trend thereafter. This tourism rebound will support momentum in the economy, with real GDP projected to grow by 7.5 percent in 2023 and 3.9 percent in 2024. Economic output is expected to surpass its pre-pandemic levels by 2024 (although GDP will remain about 14 percent below the pre-pandemic trend level in the medium-term) (Text Figure). Inflation is projected to remain contained at 2.5 percent during 2023 and 2024. The current account deficit is projected to narrow somewhat in 2023 and 2024 but remain high, as the recovery in tourism receipts is offset by strong tourism-led import demand. FX reserve cover is projected to decline slightly, in part because external official financing will fall from the pandemic highs.

Real GDP
(In millions of Fiji dollars)



Sources: Fiji authorities; and IMF staff projections.

9. The global outlook and domestic developments continue to pose downside risks. Weaker growth in tourism-source countries, delayed recovery in hotel capacity, and high prices could weigh on tourist inflows. Renewed acceleration in global commodity prices and sharp increases in wages owing to skilled labor shortages could raise supply-side price pressures. Recent moves toward increased flexibility for immigration in Australia and New Zealand raise the risk of a "brain drain" exacerbating skilled labor shortages. Delays in establishing and implementing a fiscal consolidation framework could limit the fiscal space to respond to future shocks, especially given Fiji's vulnerability to frequent natural disasters and climate change (Risk Assessment Matrix, Annex I). On the upside, reduced policy uncertainty and reform momentum post-elections could improve the business climate and encourage private investment projects currently in the pipeline.

Authorities' Views

10. The authorities broadly agreed with the staff's near-term outlook but highlighted uncertainty around the medium-term prospects. The authorities concurred that better-than-expected tourism performance could lead to strong GDP growth in 2023. While investment could pick up once policy uncertainty reduces, the authorities cautioned that any increase in taxes could weigh on economic growth. The authorities emphasized that higher investment and productivity are required to raise potential growth in the medium-term. The authorities highlighted that wage pressures due to labor shortages, tighter financial conditions in tourism-source countries, high global commodity prices, and natural disasters and climate change pose downside risks to the economic outlook.

POLICY DISCUSSIONS

With a strong economic recovery underway, policies should focus on promoting medium-term growth, rebuilding buffers, and enhancing resilience. A key priority is to reinforce the balance sheet of the government to provide space to manage future shocks. Monetary policy should start now to gradually unwind the accommodative policy stance, while close attention to NPLs is required to maintain strong financial sector soundness. Continued ambitious structural reforms are critical to enhancing productivity, promoting private sector growth, and advancing economic diversification. Increasing investment in climate adaptation and renewable energy can reinforce Fiji's ability to absorb related shocks.

A. Fiscal Policy: Rebuild Fiscal Space and Safeguard Sustainability

11. **The fiscal deficit is expected to improve in FY2023, but fiscal sustainability remains at risk over the medium term.** The FY2022–23 budget left the overall tax structure broadly unchanged, maintaining most relief measures from April 2022. Nevertheless, fiscal revenue as a proportion of GDP is expected to increase in FY2023, supported by continued economic recovery. Staff projects a fiscal deficit of 7.7 percent of GDP for FY2023, compared with 12.2 percent in FY2022. However, tax revenue-to-GDP is expected to remain below pre-pandemic levels by 3-4 percentage points due to the use of aforementioned permanent tax cuts to deal with temporary shocks. While the fiscal balance is expected to slowly improve in the baseline (reflecting in part continued economic recovery), overall deficits are projected to remain around 5.5 percent of GDP over the medium-term under current policies.[5] Public debt-to-GDP is projected to stay above 85 percent, a vulnerable level. While the risk of debt distress is assessed as moderate (thanks to low-cost domestic and official external debt), Fiji's large exposure to macroeconomic, climate, and other shocks makes it vitally important to reduce public debt and rebuild fiscal buffers (Annex III).

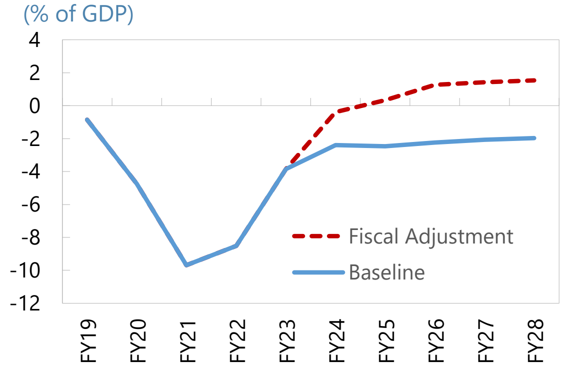
12. **With a strong recovery underway, the FY2024 budget is a critical opportunity to embark on a sustained strategy to bring down the public debt-to-GDP ratio over time.** The strategy should be founded on a credible medium-term framework, for example, a commitment to a fiscal anchor targeting debt-to-GDP (e.g., below 72 percent by FY2028 and below 50 percent by FY2034), with an operational target for the primary budget surplus (e.g., -0.4 percent of GDP in

[5] The current policies include expiration of pandemic and cost-of-living spending measures (by the end of FY2023) and the authorities' policies to contain the wage bill. They do not include the authorities' announced intentions to undertake fiscal consolidation and the fiscal targets in the Medium-Term Fiscal Strategy (MTFS). The MTFS envisages a deficit reduction of 4.4 percent of GDP over FY2023-FY2026, of which 4.9 percent of GDP is from spending restraint, while revenue to GDP is expected to decline by 0.6 percentage point following an increase in FY2024.

FY2024 and 1.5 percent of GDP in FY2028). The fiscal anchor and operational target could be adopted in Fiji's Financial Management Act to strengthen the medium-term fiscal framework[6]. Staff's simulations suggest that an adjustment of around 3.5 percent of GDP by 2028 (with some front-loading) would be sufficient to achieve this target (Text Figures). This adjustment will also help strengthen the external position (¶6).

Primary Balance

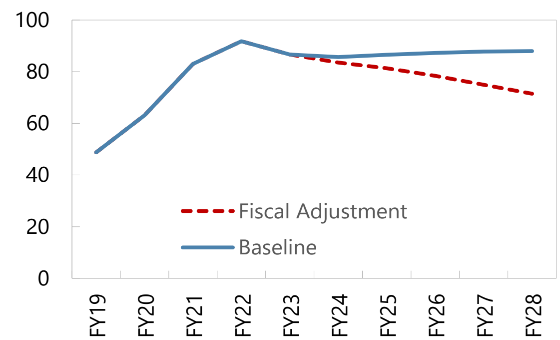
(% of GDP)



Source: IMF staff estimates

Public Debt

(% of GDP)



Source: IMF staff estimates

13. Fiscal consolidation should rely primarily on a comprehensive and growth-friendly tax reform strategy. Given the revenue loss due to prior tax measures, bringing tax revenue-to-GDP back to pre-pandemic levels would lead to deficits consistent with a steady reduction in debt. In addition, moving to a more efficient, simple, and competitive tax system will support economic growth. For example, a phased series of revenue measures could include unifying and increasing VAT rates; raising the corporate income tax rate; simplifying the structure of the personal income tax and lowering tax-free thresholds; raising the departure tax; and reducing tax exemptions and incentives for corporate taxes (for illustrative purposes, Text Table 1 provides projections of the impact of selected measures). The higher tax rates needed to achieve this mobilization in revenue remain within historical ranges (Text Figure).

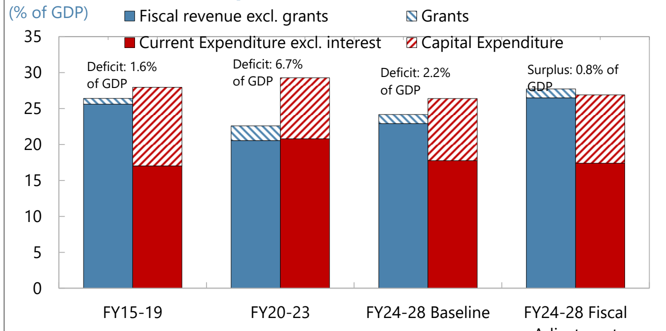
Text Table 1: Revenue Impact of Selected Tax Measures

	FY23-24	FY24-25	FY25-26
	In percent of GDP		
Unify VAT to 11.5%	1.65		
Raise VAT from 11.5% to 12.5%		0.66	
Raise VAT from 12.5% to 14%			0.99
Raise CIT to 23%	0.50		
Raise CIT from 23% to 25%		0.33	
Simplify PIT Structure and Lower Threshold		0.42	
Raise Fringe Benefit Tax to 35%			0.15
Introduce Dividend Withholding Tax at 10%			0.29
Increase Excise Tax on Alcohol	0.37		
Discontinue Export Incentive			0.13
Raise Departure Tax from F$100 to F$125		0.13	
Raise Departure Tax from F$125 to F$150			0.13
Total FY Increase in Revenue	***2.52***	***1.54***	***1.69***

Source: IMF staff estimates.

[6] The proposed medium-term fiscal framework could include explicit escape clauses to allow significant flexibility for shocks such as natural disasters and global slowdowns.

14. Increases in public revenue should be accompanied by a reorientation of expenditure that promotes growth, resilience, and inclusion. In addition to the expiration of inflation mitigation and Covid-related spending measures, the authorities should review the scope for re-orienting spending, for example, to well-targeted transfers to the most vulnerable (e.g., 0.5 percent of GDP), by finding savings in other current spending and re-orienting these resources to priority spending areas (by about 1 percent of GDP), including public investment and inclusion (especially education, training, and health). Potential savings include:



Sources: Authorities; and IMF staff calculations
1/ Deficit shows primary balance.

- Assessment and rationalization of the overall public wage bill, based on a potential public employment review;
- A careful benefit-cost review of transfer payments—including those to state enterprises;
- Developing the capacity for better targeting the most vulnerable groups (staff advises devoting some of the increased revenue from the above tax measures to these efforts, including to cushion the impact of VAT increases);
- Achieving a higher level of cost efficiency, including through continued expansion of digitalization;
- Improving the management and efficiency of government capital spending to ensure that projects are planned, selected, and executed with a view to maximizing growth potential and climate resilience.

15. Further improvements in public financial management, particularly fiscal transparency can help assess and manage fiscal risks. Sizable contingent liabilities (17 percent of GDP at end-FY2022) continue to pose risks to public finances (60 percent are government guarantees to public corporations (PCs))[7]. While the government has strengthened oversight of PCs, further progress can help contain the fiscal risks, including: timely release of, and easy access to, PC financial statements, improving the debt statistics of PCs, and enhanced financial monitoring of PCs (as recommended by recent IMF technical assistance (TA)[8]). The authorities should firmly implement measures to avoid and/or restrict the provision of new guarantees and adopt plans to reduce existing guarantees,

[7] The annual budget and debt documents publish the information on central government's contingent liabilities, including the size of government guarantees to individual entities. Fiji Airways (FA), Fiji Development Bank, and Fiji Sugar Corporation (FSC) are the main entities that receive government guarantees. In the 2021-2022 Debt Report, FA and FSC were assessed as high risk to guaranteed liabilities, although the financial performance of FA is currently improving with the recovery of tourism.

[8] Government Finance Statistics and Assessing Selected Fiscal Risks (2022).

including by setting guarantee limits and an *ex ante* review of new or additional borrowing by the guaranteed entities. The authorities should also enhance the risk analysis for contingent liabilities, finalize the SOE Health Check tool, and improve the analysis of the drivers of deviations of fiscal balance outturns from budget forecasts. The authorities regularly publish related information regarding public procurement and have conducted independent audits of pandemic-related spending through the Office of the Auditor-General.[9] They should further enhance transparency measures in the context of ongoing review of procurement regulations, including publishing more procurement information, including beneficial ownership information for awarded procurement contracts, and enhancing access.

Authorities' Views

16. The authorities agreed with the importance of rebuilding fiscal buffers and reiterated their commitment to fiscal consolidation over the medium term. The government has recently formulated its Medium-term Fiscal Strategy (MTFS) covering the period FY2023–2026, which envisages an ambitious fiscal consolidation to reduce the debt burden (the MTFS envisages more spending restraint and less revenue increases than staff's recommendations). To build public support, the government created a multi-stakeholder Fiscal Review Committee to examine fiscal policy and make recommendations. The authorities also emphasized the need to strike a balance between ensuring fiscal sustainability and supporting inclusive economic growth. They are still considering the pace and specifics of measures, which will be reflected in the proposed budget due to parliament in July. In this context, they concurred with the desirability of adopting a comprehensive and growth-friendly tax reform strategy, accompanied by a reorientation of expenditure that promotes growth, resilience, and inclusion.

17. The authorities also agreed that fiscal risks related to contingent liabilities including public guarantees to PCs should be closely monitored. They highlighted that the financial situation of PCs, in particular Fiji Airways, is improving with the economic recovery. They are also making progress in strengthening fiscal risk analysis through utilizing the IMF SOE health check and stress test tools, assisted by the ongoing TA from the IMF's Pacific Financial Technical Assistance Center (PFTAC).

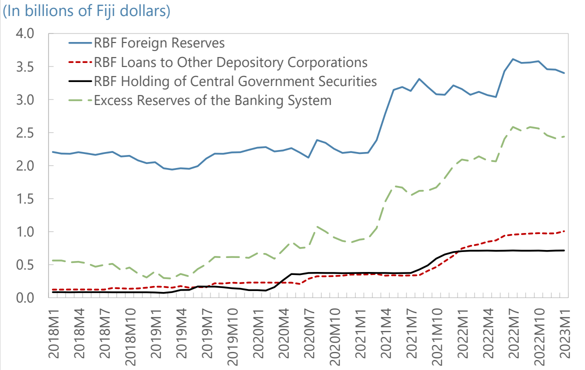
B. Monetary and Financial Sector Policies: Maintain Vigilance to Inflationary Pressures and Preserve Financial Sector Soundness

18. Monetary policy remains accommodative under an exchange rate peg, and staff recommends that the Reserve Bank of Fiji (RBF) begin now to gradually unwind this stance.

[9] The government releases the public tender documentation (accessible to registered users; the registration is free and open to the public) and the names of awarded bidders (accessible without registration) on its eTender portal: www.tenderlink.com/economyfiji/. The government also publishes standing offers, along with the names of awarded companies and their respective prices, on the website of Fiji's Procurement Office: : Annual Contracts - Fiji Procurement Office (fpo.gov.fj). The audit report relating to covid response was submitted to the Parliament and is available to the public: https://www.parliament.gov.fj/wp-content/uploads/2020/12/OAG-Audit-Report-on-Compliance-Audits-Relating-to-COVID-19-Response.pdf.

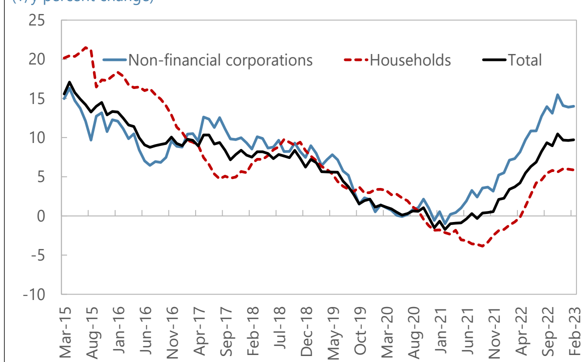
Banking system liquidity increased significantly since the pandemic, with excess reserves around 22 percent of GDP end-2022, mainly reflecting RBF's accommodative monetary policy stance[10] and foreign reserves accumulation due to the largely unsterilized influx of external financing (Text Figure). High liquidity levels have kept interest rates near historic lows despite rising rates elsewhere (Text Figures). Meanwhile, although the near-term outlook for both inflation remains stable, staff sees risks of inflationary pressures (¶19), especially from strengthening domestic demand and closing output gap. Moreover, the effects of import prices may come with lags given Fiji's many administered prices. Accordingly, staff advised the RBF to begin now to address the historically high levels of liquidity and low interest rates and to move progressively to a more neutral stance, to be in a position to manage demand pressures when they emerge. In addition, monetary tightening, combined with fiscal consolidation, would help strengthen the external position and support reserves.

Banking Liquidity
(In billions of Fiji dollars)



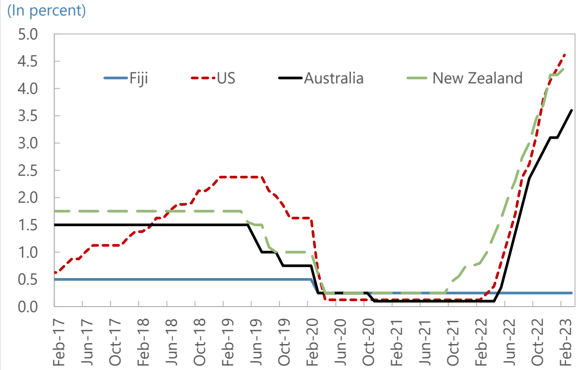
Sources: Reserve Bank of Fiji; and IMF staff calculations.

Banks' Credit Growth
(Y/y percent change)



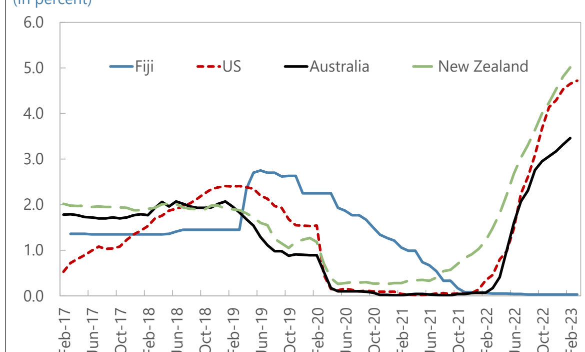
Sources: RBF; and IMF staff calculations.

Policy Rates
(In percent)



Source: Haver Analytics.

Short-Term Rates
(In percent)



Source: Haver Analytics.

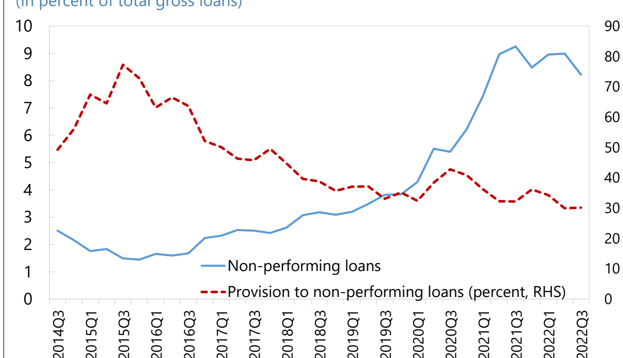
19. Improving external sector conditions should pave way for completing the reversal of the tightening of exchange restrictions and capital flow management measures (CFMs) introduced in April 2020. Fiji maintains various exchange controls – some of which constitute exchange restrictions subject to approval under Article VIII, Section 2(b) of the Fund's Articles of

[10] Increasing holdings of government securities and lending to banks after reducing the cost of its special lending facilities to 0.25 percent from 1 percent.

Agreement and some of which constitute CFMs – which were tightened further at the onset of the pandemic. In April 2023, the authorities reversed restrictions on some exchange controls back to the pre-pandemic levels, such as on emigration transfers and offshore investment by companies and NBFIs. Restrictions on other exchange controls were eased but not to the pre-pandemic levels, such as on profit repatriation, loan repayments, investment withdrawal via shares and asset sale, and asset sale and insurance maturity deposits into Fijian Dollar (FJD) external accounts. Such restrictions hamper cross-border transactions and discourage FDI, while imposing costs on businesses. Staff welcomes the partial reversal of the exchange controls tightened during the pandemic, as well as the simplification of administrative processes. As current account pressures are expected to moderate in 2023 and FX reserves are projected to remain at adequate levels, staff urges the authorities to reverse the remaining recently tightened measures in the near term, as well as to develop a plan to gradually phase out the pre-pandemic exchange restrictions on current transactions. These measures could be sequenced based on the nature of transaction, such as those hampering foreign investment, and the establishment of favorable conditions, including liquidity and continued stability in FX reserves. Staff's recommendation to tighten monetary conditions would help create appropriate conditions for liberalization.

20. The banking sector appears well capitalized and liquid, although non-performing loans (NPLs) merit close attention (Table 5)**.** The banking sector is profitable, well capitalized (well above the minimum regulatory requirement of 12 percent), and liquid. However, NPLs remain well above pre-pandemic levels, as ratios worsened following the end of loan repayment holidays in March 2022. The NPL ratio of commercial banks had risen to 7.9 percent in December 2022, compared to 7.0 percent at end-2021. As economic conditions have improved, the level of provisioning for NPLs by commercial banks has declined, with the ratio of net NPLs-to-capital worsening to 29.2 percent in end-2022 (from 21.7 percent in end-2021), which raises questions about the adequacy of provisioning (Text Figure). While financial sector stability is underpinned by dominance of large foreign banks and the Fiji National Provident Fund (FNPF), other financial institutions, including credit unions, the Housing Authority, and Fiji Development Bank, need improved oversight. The exposure of banks to sovereign debt appears manageable (less than 5 percent of total assets). Staff urged the authorities to further strengthen measures to address the risks of NPLs, including accurate asset classification, adequate provisioning, and enhanced prudential oversight for banks with high NPLs.

Non-Performing Loans
(In percent of total gross loans)



Source: IMF Financial Soundness Indicators.

21. The authorities have made progress in strengthening financial sector infrastructure to support financial soundness and inclusion. The RBF recently launched a new Central Securities Depository and the upgraded Real Time Gross Settlement System. The new infrastructure and systems will facilitate electronic fund transfers, boost access to affordable payment services, and enhance financial sector efficiency. The authorities also adopted the National Financial Inclusion Strategy 2022–2030, aiming to promote financial inclusion, digital financial services, MSME Finance, and consumer protection. The authorities intend to review the Fair Reporting of Credit Act 2016 to improve ease of access to bank credit.

22. Fiji has strengthened its anti-money laundering and countering-financing of terrorism (AML/CFT) framework and needs to continue addressing remaining weaknesses. Fiji is making progress in strengthening AML/CFT regulation[11], with new IT systems for intelligence collection, compliance, and enforcement functions. The Asia/Pacific Group on Money Laundering (APG) noted that Fiji had made progress in rectifying deficiencies identified in its FATF mutual evaluation report (MER), but this was not sufficient to lead to a re-evaluation of the technical compliance ratings.[12] Fiji remains in enhanced follow-up due to its MER effectiveness results and will continue to report to the APG on progress to strengthen its implementation of AML/CFT measures.[13] Staff encouraged the authorities to pursue steps to address lingering AML/CFT deficiencies, particularly on entity transparency, and beneficial ownership, and AML/CFT risk-based supervision of the financial sector, including non-bank financial institutions, and other key gatekeepers that can facilitate financial crimes (e.g., lawyers, accountants, tax advisors, Trust and Company Service Providers). In relation to virtual assets, the legal framework should be updated to ensure compliance with the new international AML/CFT standards relating to Virtual Asset Service Providers.

23. The authorities need to prioritize the remaining key recommendations of the 2018 Financial Sector Stability Review (FSSR) to strengthen financial sector oversight (Annex IV)**.** The authorities have made progress in enhancing supervisory stress tests, developing macroprudential policies, and strengthening the supervision of statutory non-bank financial institutions. They should continue their efforts in implementing the outstanding recommendations including reviewing and amending the Banking Act, establishing a Financial Stability Committee, and advancing measures to enhance crisis management.

Authorities' Views

24. The authorities agreed with the broad thrust of staff's assessment, while differing on the timing of some measures. The RBF emphasized caution on the timing of monetary policy tightening, as premature action might harm confidence and hamper the current economic recovery; further clarity on the government's budget and reform plans would mitigate this concern. Moreover, the RBF pointed out the level of liquidity was related to banks' cautious liquidity management and would fall as they resumed profit repatriation. In particular, banks are holding liquidity because they have already approved but not disbursed credit equaling around 10 percent of GDP. Nevertheless,

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[11] The authorities are reviewing existing laws and drafting new legal provisions to strengthen targeted Financial Sanctions related to Terrorist Financing and Proliferation. Authorities are also reviewing regulations and procedures to address AML CFT gaps in Non-Profit Organizations and to strengthen transparency and Beneficial Ownership of Legal Persons and Legal Arrangements.

[12] Fiji: 5th Follow-Up Report 2021, APG.

[13] Fiji also remains on the list of EU's non-cooperative tax jurisdictions.

the RBF will continuously monitor the risks to inflation and foreign reserves, revising monetary policy as needed, including by raising the Overnight Policy Rate and through open market operations.

25. The authorities agree on the desirability of gradually relaxing exchange controls and reducing their burden, provided that these measures do not raise pressure on FX reserves. The authorities pointed out that the RBF has been approving the applications for certain transactions while managing the level of FX reserves.

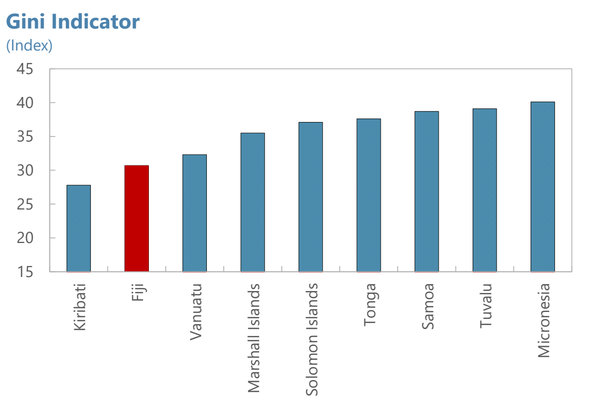
26. The authorities concurred on the need for continued close supervision and monitoring of the financial sector, particularly of banks with high NPLs. Regular onsite and offsite supervision of licensed banks and credit institutions has resumed after the end of regulatory forbearance in March 2022. Enhanced offsite supervision was conducted on some institutions in 2022, which collected additional information on NPLs, including internal benchmarks and recovery strategies. The RBF will continue close supervision of institutions with higher-than-normal NPLs, including follow-up onsite examinations. The RBF will also closely monitor banks' application of credit underwriting standards, given the historically low margins and high levels of liquidity (which may encourage excessive risk undertaking).

C. Structural Policies: Boost Economic Diversification and Growth Potential

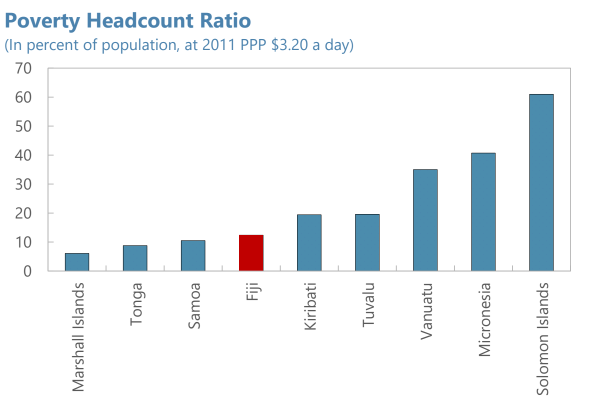
27. The medium-term growth outlook depends critically on the implementation of a well-designed comprehensive reform and growth strategy. The development and communication of coherent economic strategy will boost confidence, a key variable for investment, migration, and consequently growth potential (Annex VII). The objectives should include promoting productivity growth, reducing the cost of doing business, improving governance, enhancing social inclusion, supporting diversification, and meeting the economy's investment needs against the backdrop of fiscal consolidation. The priorities for continued reforms include the following areas:

- **Diversification**. Diversifying activity both within and beyond the tourism sector will enhance the resilience and long-term growth potential of Fiji's economy. Within the tourism sector, reforms should enable the development of new markets, segments, and linkages, such as: more air routes for new source countries, increased provisions for eco-tourism, medical tourism, and transit tourism; and improved supply of domestic inputs, especially agricultural products. Beyond tourism, enhancing the enabling environment for non-tourism sectors, such as the BPO sector, agriculture and agro-processing industries, remains central to improving employment and competitiveness. Accordingly, improving rural infrastructure and agriculture productivity (including through greater economies of scale) could help boost domestic production, reduce food import dependence, and stimulate the development of lower-income rural areas (Text Figures).

- **Investment climate:** Continued efforts to improve the business environment is key to attract private and foreign investment, including to expand tourism sector capacity; priorities include further measures to reduce red tape (including company taxation and administered prices), streamline the investment process, and improve access to infrastructure, including transport, utilities, and ICT.



Sources: World Bank's *World Development Indicators.*



Source: World Bank's *World Development Indicators.*

- **Digitalization.** Continued measures to increase financial inclusion and digitalization across the economy, including by improving access to credit information, would enhance access to credit, help advance targeted transfer systems, and yield productivity gains.

- **Administered prices.** Although administered price controls[14] can help protect households from price shocks and anti-competitive behavior, they can distort price signals, disincentivize supply responses, inhibit competition, and create an administrative burden for both government and businesses. In connection with developing competition policy and well-targeted transfers to protect vulnerable groups, the authorities should review the price control processes, with a view to rationalize them and gradually move to an oversight role. The authorities should ensure full pass-through from global prices to domestic goods and services to ensure cost recovery for producers, including any impact on margins merited by cost increases.

- **Skilled labor.** The supply of labor, especially skilled workers, can be an important determinant of growth potential. While remittances have supported FX reserves and household consumption, overseas emigration has limited the supply of workers, especially in skilled jobs, which could become a headwind to future growth. In response, the authorities should focus on increasing technical training and apprenticeships; they could consider easing immigration based on sector-specific needs and boosting female labor force participation. In addition,

[14] Fiji maintains price controls for fuel, certain imported and local food products, generic pharmaceuticals, cement, public transport, electricity, and residential and land rent. The price control mechanism intends to keep producer profit margins fixed, such that any change in final prices is entirely due to changes in costs. However, to request a price change, producers (except for fuel) need to submit an application to the regulator, who approves or rejects the application after verifying the costs incurred. Hence, the pass-through from global/input prices to domestic good and services (except for fuel) would take place only when producers submit an application and the regulator approves it, which could lead to lagged effects.

improving the quality of education and health care services while increasing targeted safety nets (especially for the informal sector) would be conducive for human capital development, bringing more workers into the formal economy and increasing resilience to climate shocks.

- **State-owned enterprises.** The financial and operational performance of SOEs has been mixed, with weaknesses exacerbated by the pandemic.[15] The authorities should continue efforts to improve the transparency, productivity, and competitiveness of SOEs and non-bank financial institutions (NBFIs), including enhanced transparency and accountability. Improved operational performance can enhance investment and growth – by, for example, reducing the lead time for electricity connections. Continued reforms can also help create a level-playing field between SOEs and private-owned enterprises to promote private investment.

- **Governance**. Further strengthening governance and the anti-corruption framework could help boost confidence, attract investment, reduce corruption vulnerabilities, and promote growth. In order to align with international best practices and promote greater transparency, the authorities should move forward with passing the legislation on the national anti-corruption policy and on establishing the Accountability and Transparency Commission, which would include provisions for strengthening asset declaration and disclosure by public sector officials. Including provisions for declaring beneficial ownership information, along with enforcement and negative list mechanisms, under the procurement regulations of the Financial Management (Amendment) Act 2021 would enhance fiscal transparency.

Authorities' Views

28. The authorities stressed that they are working on a comprehensive economic strategy that includes the priorities for inclusive growth and diversification. In their view, it is imperative to raise private and residential investment, improve labor and public sector productivity, and diversify the economy in order to increase potential growth. While acknowledging the need to review administered price controls, the authorities pointed out that price controls on essential items aim to prevent price speculation and cushion households during price volatility, while preserving producers' profit margins.

29. Accelerating climate adaptation and mitigation will help Fiji enhance its resilience.

- **Climate adaptation and relocation.** Relocation is an important element of Fiji's national adaptation plan for climate change. Additional financing is needed for Fiji to further relocate villages with urgent needs (Box 1).

- **Renewable energy production.** Fiji has set a goal of increasing electricity generation from renewable energy sources to 100 percent by 2036 (from 55 percent currently, mostly hydropower), which would cut its greenhouse gas emissions and dependence on imported

[15] The budget documents publish financial performance of SOEs (aggregated by sectors). SOEs' overall financial performance had been positive before the pandemic but experienced a significant drop during the pandemic, particularly in the infrastructure and transport sectors. SOEs in the agriculture sector have losses in most years.

fossil fuels. To achieve this goal, Fiji needs to increase investments in other renewable energy sources (including wind and solar) and strengthen its grid. The authorities should also work with development partners and the private sector to address obstacles to this goal, especially financing and investment capacity.

Box 1. Fiji's Relocation Plan and Implementation

With approximately 90 percent of the population living within 5 km of the coast, extreme weather events and rising sea levels pose significant risks to Fiji's economy and people. Rural communities residing along the coast are particularly vulnerable to sea level rise, storm surges, and cyclones. Relocation is one important part of Fiji's climate adaptation strategy to protect people from the impact of climate change.

Fiji is also one of the first countries to develop Planned Relocation Guidelines. Forty-two villages have been identified for relocation in the next five to ten years, and 17 of them are assessed with urgent relocation needs. As of March 2023, Fiji has fully relocated three villages and partially relocated other three villages. Funding is one of the main challenges to implement Fiji's relocation plan. Based on the government's estimation, the cost of relocating one village ranges from FJD 1.5 to 3.5 million. In 2019, Fiji established a special fund (Fiji's Climate Relocation and Displaced Peoples Trust Fund) to enable relocation funding and has received donation from the New Zealand government. However, given Fiji's high public debt and limited fiscal space, additional financing from development partners is needed to further implement the relocation plan. In the meantime, cost-effective investment in climate-resilience infrastructure such as natural seawalls could be scaled up to shelter coastal communities.

Authorities' Views

30. The authorities agree with the importance of accelerating climate adaptation and mitigation while stressing the financing constraint. They pointed out that identified needs far exceed Fiji's current tight fiscal space and limited access to concessional climate financing. They highlighted their focus on prioritizing climate-related investment projects, including through Fiji's National Climate Finance Strategy that was released in 2022. The authorities are also updating the National Adaptation Plan and initiating a climate investment process plan to better identify priority projects and investment needs.

CAPACITY BUILDING

31. Fiji benefits significantly from capacity development (CD), including notably through the PFTAC. Continued improvements to capacity and data quality, including specifically the capacity of statistical authorities, could help to better guide policymaking (Informational Annex). Going forward, priority areas for CD include improving government finance statistics; public sector debt analysis; national accounts and balance of payments statistics; fiscal risk analysis; macro-fiscal modeling; GDP and inflation forecasting; strengthening revenue administration; liquidity stress testing; and review of the Banking Act. Other key areas of focus include the thematic review of cyber risks in the financial sector, as well as payment system regulation and supervision.

STAFF APPRAISAL

32. With the rapid rebound in tourism, the economy is experiencing a strong recovery. Nevertheless, significant risks to growth remain both on the demand side – due to the global outlook – and on the supply side – due to capacity constraints and price competitiveness. Inflation has eased since end-2022, but risks are tilted to the upside, given strengthening domestic demand, growing wage pressures, and volatile global commodity prices. Increasing policy certainty through a coherent strategy for economic reform and fiscal consolidation should help reinforce sustainability and promote growth.

33. The recovery and ongoing broad consultations make the upcoming budget a critical opportunity to begin rebuilding Fiji's fiscal space and reducing vulnerability. While the risk of debt distress is currently moderate, high debt levels leave Fiji vulnerable to future shocks, with little space to respond. The authorities' commitment to fiscal consolidation is therefore highly welcome, and it is vital to follow through with the necessary measures. Staff recommends setting a fiscal rule—for example, an anchor based on debt-to-GDP—and pursuing a front-loaded consolidation relying mostly on a comprehensive tax reform strategy which raises revenue, simplifies the tax system, and enhances efficiency. Revenue mobilization should be accompanied by increased spending on inclusion (including targeted transfers to offset any impact of tax hikes on low-income households) and growth-enhancing reforms, such as cutting red tape. Overall, spending should be disciplined and gradually re-oriented to boost growth, enhance resilience, and promote inclusion. To safeguard progress, the authorities should closely monitor and address fiscal risks, including from contingent liabilities related to financially weak public companies.

34. Monetary policy needs to begin shifting now to a more neutral stance, amidst growing uncertainty to the outlook for inflation and foreign reserves. While the outlook for near-term inflation and foreign reserves remains stable, pressures may resurge as the output gap narrows with the economic recovery. The RBF should be closer to neutral stance to be in a position to manage pressures. Similarly, with external sector pressures easing, the tightening of exchange restrictions and CFMs at the onset of the pandemic should be reversed. In addition, gradually phasing out the long-standing restrictions on current transactions, which constitute an exchange restriction subject to approval under Article VIII, Section 2(b) of the Fund's Articles of Agreement, would help reduce impediments to cross-border transactions and encourage foreign investment.

35. Financial sector soundness remains strong exiting from the pandemic, although staff advises reinforcing financial sector supervision as the economy recovers. The RBF should closely monitor NPLs and further enhance ongoing efforts to address them. Efforts to strengthen the financial supervision framework should continue. Staff urges continuing follow-up on key recommendations of the 2018 FSSR—particularly those related to corrective action, and bank recovery, coordination with home authorities, and bank resolution.

36. Following the strong economic rebound, the medium-term outlook hinges on the implementation of a well-designed and comprehensive growth strategy. With the public support that broad consultations can bring, pro-growth reforms and medium-term fiscal consolidation can be mutually reinforcing. Boosting business confidence can also help jumpstart numerous private investment projects that are already planned and financed. Reforms should aim to enable diversification, both within and beyond the tourism sector; increasing the domestic value-added in tourism could promote agriculture and rural development, with benefits for job creation and inclusion. With potential headwinds from a "brain drain," it is a priority to enhance training, education, and health care programs to bolster the supply of skilled labor. Promotion of sector-specific immigration to target any skill shortages could complement these efforts. Further efforts to reduce the overall cost of doing business are also a priority to attract private and foreign investment, including in the tourism sector.

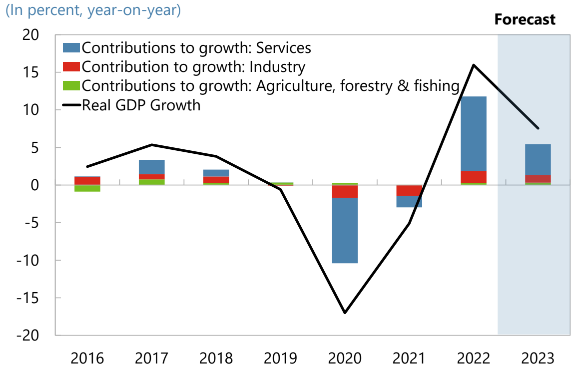
37. Addressing the implementation challenges of Fiji's climate plans will require increased efforts and financing. Advancing climate adaptation plans will help Fiji transition to a more sustainable and resilient growth model. Accelerating investments on renewable energy will help Fiji diversify its energy sources and reduce external imbalances. However, Fiji's climate adaptation and mitigation plans faces significant challenges, including shortfalls in climate financing, implementation capacity, and investment management. The authorities should intensify their efforts, working with development partners and private sector, to address the challenges.

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

Figure 1. Fiji: Recent Developments

GDP growth is estimated to have rebounded strongly in 2022

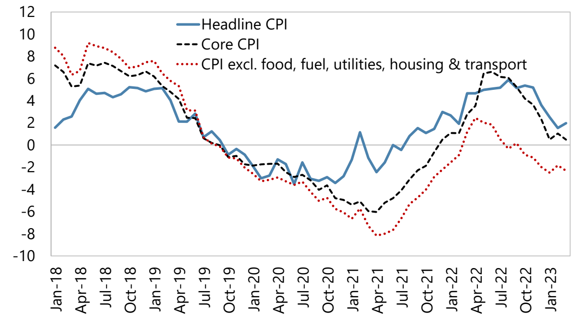
Real GDP Growth
(In percent, year-on-year)



Sources: Fiji authorities and IMF staff calculations.

Inflation has begun to ease and core inflation remains contained

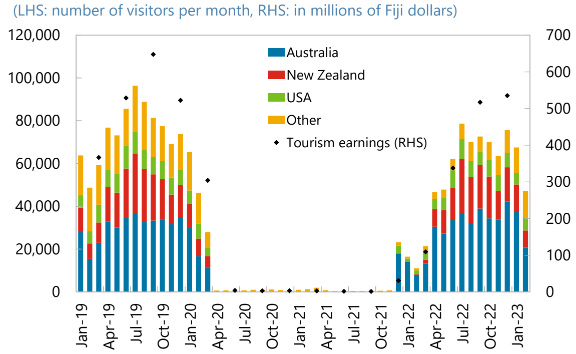
Inflation
(In percent, year-on-year)



Sources: RBF; and IMF staff estimates.
Core CPI excludes food, fuel, utilities and housing.

Tourist arrivals have bounced back led by Australia

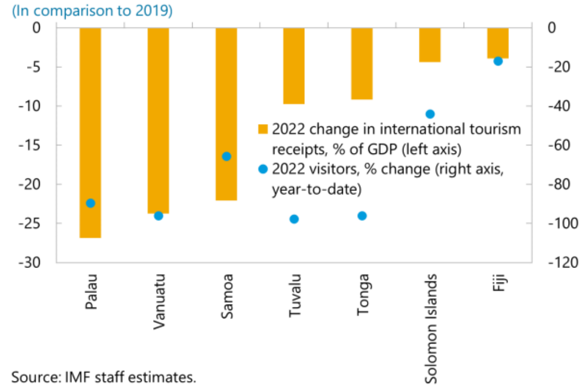
Visitor Arrivals, by Origin
(LHS: number of visitors per month, RHS: in millions of Fiji dollars)



Source: Country authorities.

Tourism has rebounded better than peers

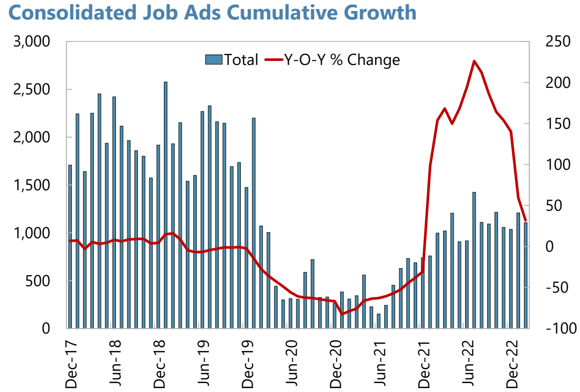
PICs Tourism Estimates for 2022
(In comparison to 2019)



Source: IMF staff estimates.

Labor market has begun to recover

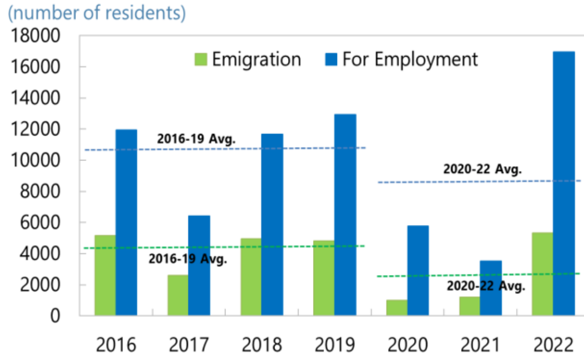
Consolidated Job Ads Cumulative Growth



Sources: RBF, and IMF staff calculations.

Continued outflow of workers has led to skill shortages

Departure of Fiji Residents
(number of residents)



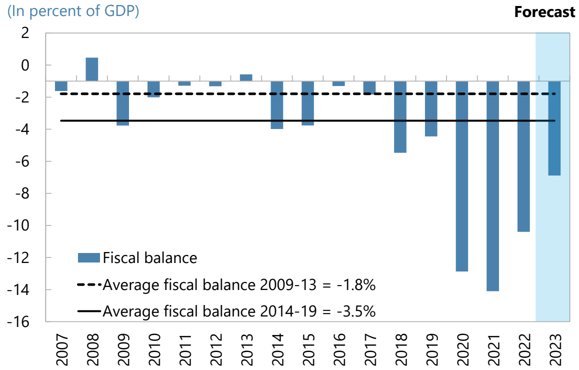
Sources: Fiji authorities; and IMF staff calculations.

Figure 2. Fiji: Fiscal Sector Indicators

Fiscal deficit has narrowed but remains high

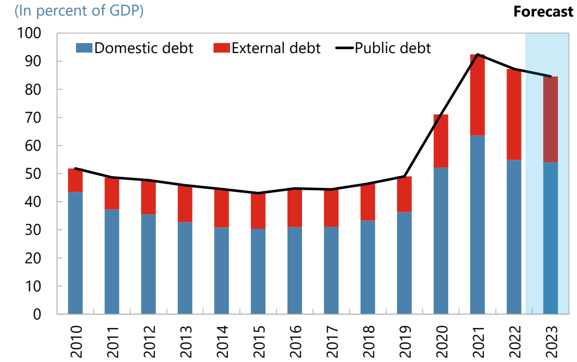
Public debt remains elevated following sharp increase during the pandemic

Fiscal Balance
(In percent of GDP)



Sources: Fiji authorities, and IMF staff calculations.

Public Debt
(In percent of GDP)

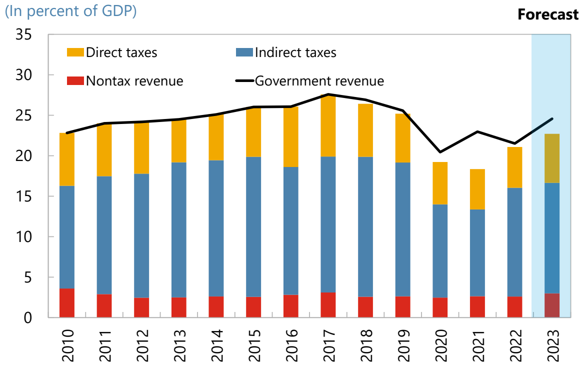


Sources: Fiji authorities and IMF staff calculations.

Fiscal revenue is lower than pre-pandemic levels…

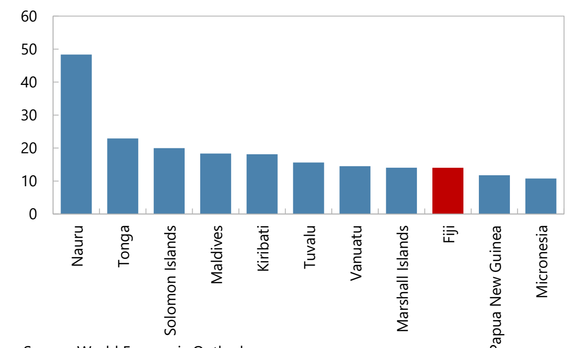
…and than in most PICs.

Government Revenues
(In percent of GDP)



Sources: Fiji authorities, and IMF staff calculations.

Tax Revenue of Pacific Islands Countries, 2021
(In percent of GDP)

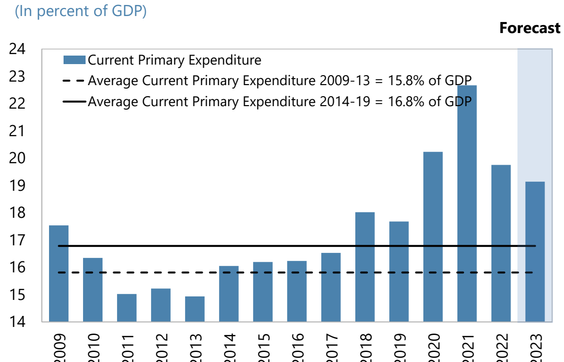


Source: World Economic Outlook

Fiscal expenditure has increased since pandemic…

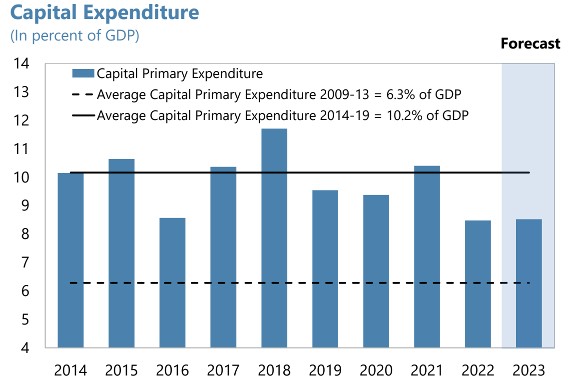
…while capital expenditure is lower than past decade

Current Primary Expenditure
(In percent of GDP)



Sources: MoE, and IMF staff calculations.

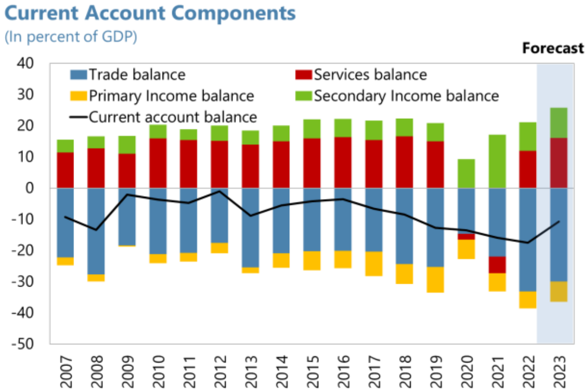
Capital Expenditure
(In percent of GDP)



Sources: MoE, and IMF staff calculations.

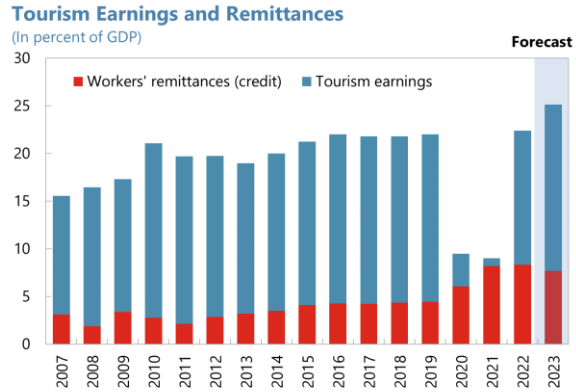
Figure 3. Fiji: External Sector Indicators

Current account deficit remains high



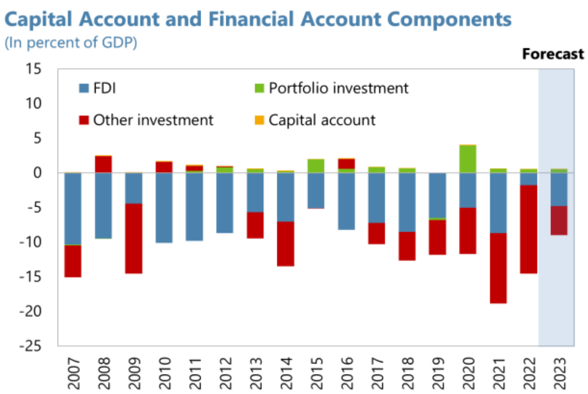
Sources: RBF and IMF staff calculations.

Tourism receipts have rebounded while remittances have remained resilient



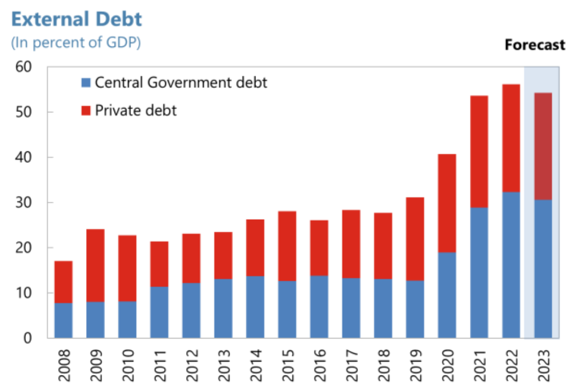
Sources: RBF and IMF staff calculations.

Pandemic-related financial inflows are starting to moderate



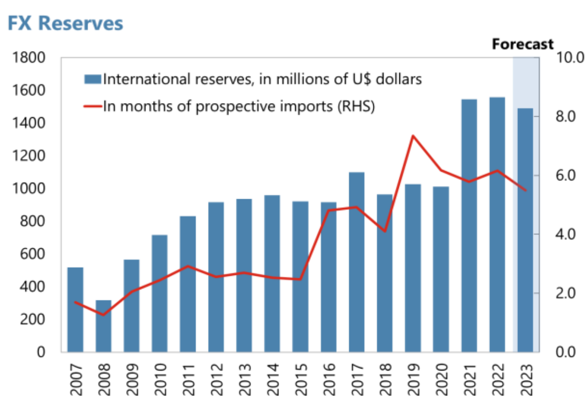
Sources: RBF and IMF staff calculations.

External debt has risen significantly driven by public sector



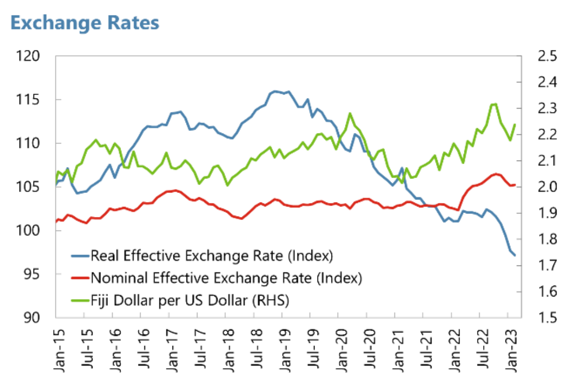
Sources: RBF and IMF staff calculations.

International reserves are above adequate levels.



Sources: RBF and IMF staff calculations.

The REER has weakened due to relatively higher trading partners' inflation

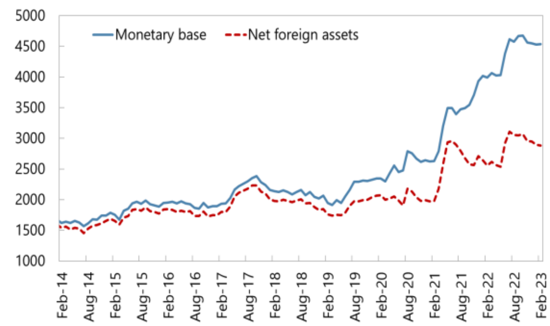


Sources: IMF INS database and IMF staff calculations.

Figure 4. Fiji: Monetary and Financial Indicators

Monetary conditions are accommodative….

Monetary Base and Net Foreign Assets

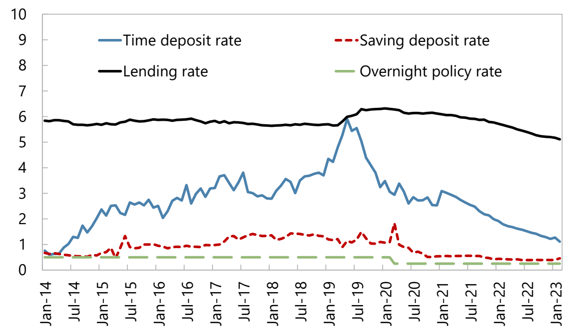


Source: Reserve Bank of Fiji.

…and help keep interest rates at low levels

Interest Rates

(In percent)

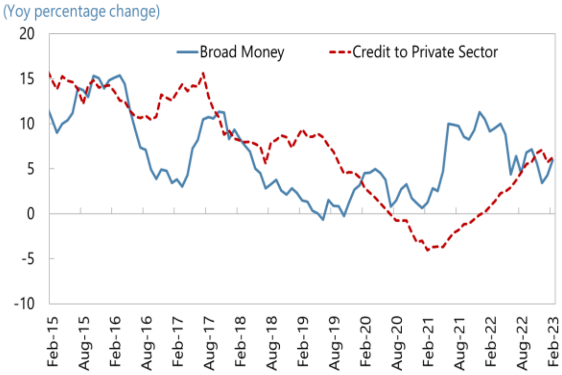


Source: Reserve Bank of Fiji.

Credit to private sector is recovering

Credit to Private Sector and Broad Money

(Yoy percentage change)

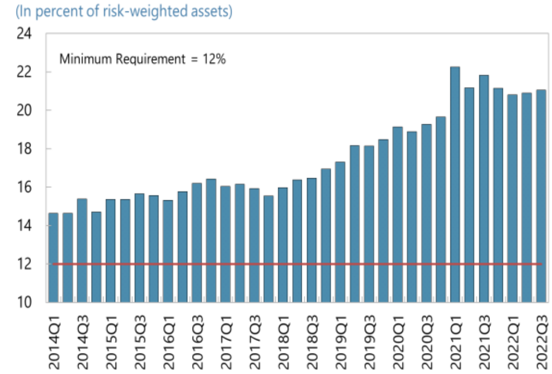


Source: Reserve Bank of Fiji.

Banks are adequately capitalized

Commercial Banks' Capital

(In percent of risk-weighted assets)

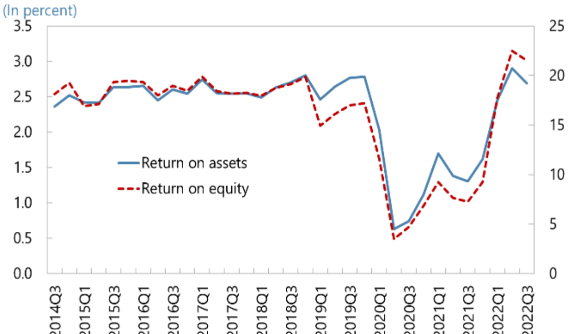


Source: IMF Financial Soundness Indicators.

Banks profitability is also improving

Return on Assets and Equity

(In percent)

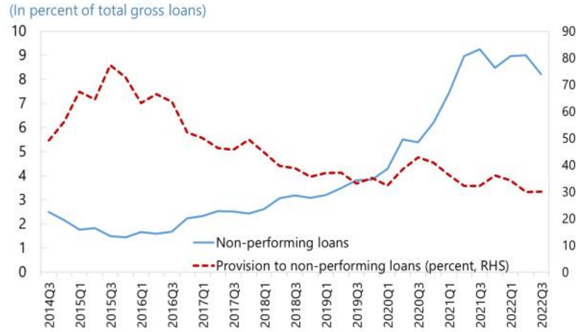


Sources: IMF Financial Soundness Indicators, Reserve Bank of Fiji.

But NPLs remain elevated with NPL coverage declining

Non-Performing Loans

(In percent of total gross loans)



Source: IMF Financial Soundness Indicators.

Table 1. Fiji: Selected Economic Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est.		Proj.				
Output and prices (percent change)									
Real GDP	-17.0	-5.1	16.0	7.5	3.9	3.7	3.5	3.5	3.3
GDP deflator	-1.2	-3.4	5.1	3.3	2.9	2.6	2.8	3.0	3.0
Consumer prices (average)	-2.6	0.2	4.3	2.5	2.5	2.6	2.8	3.0	3.0
Consumer prices (end of period)	-2.8	3.0	3.1	2.5	2.6	2.7	2.9	3.0	3.0
Central government budget (percent of GDP)									
Revenue	20.4	23.0	21.5	24.6	24.3	24.1	24.2	24.3	24.3
Expenditure	33.3	37.1	31.9	31.5	30.3	30.0	29.9	29.7	29.6
Overall balance	-12.9	-14.1	-10.4	-6.9	-6.0	-5.8	-5.6	-5.4	-5.3
Primary balance	-9.2	-10.1	-6.7	-3.1	-2.4	-2.3	-2.1	-2.0	-1.8
Central government debt	71.1	92.4	87.2	84.6	85.1	86.0	86.7	87.1	87.3
External sector (percent of GDP)									
Current account balance	-13.6	-16.0	-17.5	-10.7	-10.4	-9.6	-8.8	-8.3	-7.7
Trade balance	-14.6	-22.0	-33.2	-29.9	-28.8	-27.8	-26.9	-25.9	-25.1
Services balance	-1.9	-5.2	11.9	16.0	16.2	16.6	16.9	16.8	16.7
Primary Income balance	-6.3	-5.8	-5.4	-6.5	-6.7	-6.9	-7.2	-7.5	-7.5
Secondary Income balance	9.2	17.1	9.2	9.7	8.9	8.6	8.4	8.3	8.2
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financial account balance (-= inflows)	-7.8	-18.3	-14.0	-8.5	-8.4	-8.8	-8.8	-8.8	-8.9
FDI	-5.1	-8.7	-1.8	-4.8	-5.7	-6.1	-6.5	-6.8	-7.0
Portfolio investment	4.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other investment	-6.6	-10.1	-12.8	-4.2	-3.2	-3.2	-2.8	-2.6	-2.4
Errors and omissions	4.7	7.0	5.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	0.3	-11.3	-2.1	2.2	1.9	0.7	0.0	-0.6	-1.3
Gross official reserves (in months of prospective imports)	6.2	5.8	6.2	5.5	4.9	4.5	4.4	4.3	…
External central government debt	17.4	27.8	34.9	32.0	31.2	31.0	30.6	30.1	29.5
Money and credit (percent change)									
Net domestic assets of depository corporations	0.8	2.8	3.3	23.2	9.3	…	…	…	…
Claims on private sector	-3.1	-0.1	6.7	10.0	8.0	…	…	…	…
Broad money (M3)	1.2	11.1	3.1	14.7	5.0	…	…	…	…
Monetary base	13.5	48.8	15.8	11.1	7.0	…	…	…	…
Central Bank Policy rate (end of period)	0.25	0.25	0.25	…	…	…	…	…	…
Commercial banks deposits rate (end of period)	0.5	0.5	0.4	…	…	…	…	…	…
Commercial banks lending rate (end of period)	6.1	6.1	5.2	…	…	…	…	…	…
Memorandum items									
Exchange rate, average (FJD/USD)	2.17	2.07	2.20	…	…	…	…	…	…
Real effective exchange rate, average	108.3	103.5	101.5	…	…	…	…	…	…
GDP at current market prices (in millions of Fiji dollars)	9,710	8,896	10,844	12,047	12,886	13,717	14,601	15,572	16,577
GDP at current market prices (in millions of U.S. dollars)	4,477	4,296	4,926	5,558	5,925	6,277	6,630	7,002	7,381
GDP per capita (in U.S. dollars)	4,970	4,740	5,403	6,060	6,422	6,762	7,129	7,488	7,849

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

Table 2. Fiji: Balance of Payments, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
	(In millions of U.S. dollars)								
Current account	-608	-685	-864	-596	-617	-600	-582	-580	-565
Trade balance	-656	-947	-1,635	-1,663	-1,704	-1,742	-1,781	-1,817	-1,852
Exports, f.o.b.	819	888	1,053	1,120	1,195	1,272	1,344	1,418	1,495
Imports, f.o.b.	1,474	1,835	2,688	2,783	2,898	3,014	3,126	3,234	3,347
Services (net)	-84	-225	584	889	958	1,041	1,120	1,179	1,236
Primary Income (net)	-281	-250	-265	-364	-400	-436	-480	-524	-553
Secondary Income (net)	413	737	452	541	529	538	559	581	603
Private transfers	312	518	432	442	450	468	485	502	520
Capital account (net)	4	3	3	3	3	3	3	3	3
Financial account (net) (-=inflows)	-347	-787	-691	-470	-500	-552	-582	-618	-657
FDI (net)	-227	-375	-88	-267	-339	-385	-428	-474	-515
Portfolio investment (net)	177	24	25	29	30	32	34	36	38
Other investment (net)	-297	-436	-629	-232	-192	-199	-188	-180	-179
Errors and omissions	210	301	274	0	0	0	0	0	0
Overall balance	-47	406	104	-122	-113	-45	2	40	95
Financing	47	-406	-104	122	113	45	-2	-40	-95
Change in official reserve assets (-=increase)	12	-487	-104	122	113	45	-2	-40	-95
	(In percent of GDP)								
Current account balance	-13.6	-16.0	-17.5	-10.7	-10.4	-9.6	-8.8	-8.3	-7.7
Trade balance	-14.6	-22.0	-33.2	-29.9	-28.8	-27.8	-26.9	-25.9	-25.1
Exports	18.3	20.7	21.4	20.2	20.2	20.3	20.3	20.2	20.3
Imports	32.9	42.7	54.6	50.1	48.9	48.0	47.1	46.2	45.3
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Financial account balance	-7.8	-18.3	-14.0	-8.5	-8.4	-8.8	-8.8	-8.8	-8.9
	(Annual percent growth)								
Tourism receipts	-84.8	-88.4	3925.8	40.6	4.0	3.8	2.8	2.7	2.6
Workers' remittances (credits)	11.7	23.8	23.6	3.0	4.0	6.0	6.0	6.0	6.0
Imports of goods and services	-38.3	13.5	56.2	1.8	4.4	4.4	5.0	5.0	4.9
Memorandum items:									
External debt (in percent of GDP) 1/	43.3	52.5	55.6	54.2	54.3	54.6	54.5	54.1	53.9
External central government debt (in percent of GDP)	17.4	27.8	34.9	32.0	31.2	31.0	30.6	30.1	29.5
Gross official reserves (in millions of U.S. dollars)	1,076	1,512	1,543	1,458	1,339	1,286	1,277	1,304	1,393
Gross official reserves (in months of prospective imports)	6.2	5.8	6.2	5.5	4.9	4.5	4.4	4.3	…
Nominal GDP (in millions of U.S. dollars)	4,477	4,296	4,926	5,558	5,925	6,277	6,630	7,002	7,381

Sources: RBF and IMF staff estimates.

1/ External Debt=Central Government External Debt+External Private Debt.

Table 3a. Fiji: Central Government Operations, CY2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est.			Proj.			
			(In millions of Fiji dollars)						
Government Revenue	**1,984**	**2,043**	**2,332**	**2,960**	**3,128**	**3,311**	**3,540**	**3,778**	**4,028**
Tax revenue	1,627	1,397	2,003	2,374	2,573	2,750	2,944	3,144	3,353
Direct taxes	509	443	546	730	789	840	899	962	1,024
Indirect taxes	1,119	954	1,457	1,644	1,784	1,910	2,045	2,182	2,328
Grants	117	411	47	225	180	161	171	183	195
Other nontax revenue	240	235	282	361	376	400	425	452	481
Government Expenditure	**3,235**	**3,297**	**3,460**	**3,789**	**3,906**	**4,112**	**4,359**	**4,626**	**4,906**
Primary expenditure	2,875	2,942	3,061	3,333	3,433	3,627	3,846	4,084	4,331
Current	1,965	2,017	2,142	2,306	2,320	2,441	2,583	2,738	2,897
Personnel	957	925	943	1,053	1,112	1,164	1,220	1,281	1,346
Transfers	663	774	803	824	781	832	886	944	1,006
Supplies and consumables	275	254	271	308	315	326	350	378	402
Other	69	63	125	121	111	119	126	135	143
Capital	910	925	919	1,027	1,113	1,186	1,263	1,346	1,434
Interest	360	355	399	457	473	485	512	542	575
Overall balance	**-1,250**	**-1,254**	**-1,128**	**-830**	**-777**	**-802**	**-818**	**-848**	**-878**
Primary balance	-890	-899	-729	-373	-305	-316	-306	-306	-303
Financing	1,250	1,254	1,128	830	777	802	818	848	878
Net change in public debt	1,094	1,321	1,238	730	772	836	866	902	911
Domestic	694	585	162	462	573	626	685	735	740
Foreign	400	736	1,076	268	199	210	181	167	171
Borrowing	871	774	1,180	385	373	400	400	400	400
Amortization	471	38	104	117	173	190	219	233	229
Privatizations	5	210	3	30	29	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
			(In percent of GDP)						
Government Revenue	**20.4**	**23.0**	**21.5**	**24.6**	**24.3**	**24.1**	**24.2**	**24.3**	**24.3**
Tax revenue	16.8	15.7	18.5	19.7	20.0	20.0	20.2	20.2	20.2
Direct taxes	5.2	5.0	5.0	6.1	6.1	6.1	6.2	6.2	6.2
Indirect taxes	11.5	10.7	13.4	13.6	13.8	13.9	14.0	14.0	14.0
Grants	1.2	4.6	0.4	1.9	1.4	1.2	1.2	1.2	1.2
Other nontax revenue	2.5	2.6	2.6	3.0	2.9	2.9	2.9	2.9	2.9
Government Expenditure	**33.3**	**37.1**	**31.9**	**31.5**	**30.3**	**30.0**	**29.9**	**29.7**	**29.6**
Primary expenditure	29.6	33.1	28.2	27.7	26.6	26.4	26.3	26.2	26.1
Current	20.2	22.7	19.8	19.1	18.0	17.8	17.7	17.6	17.5
Personnel	9.9	10.4	8.7	8.7	8.6	8.5	8.4	8.2	8.1
Transfers	6.8	8.7	7.4	6.8	6.1	6.1	6.1	6.1	6.1
Supplies and consumables	2.8	2.9	2.5	2.6	2.4	2.4	2.4	2.4	2.4
Other	0.7	0.7	1.1	1.0	0.9	0.9	0.9	0.9	0.9
Capital	9.4	10.4	8.5	8.5	8.6	8.6	8.7	8.6	8.7
Interest	3.7	4.0	3.7	3.8	3.7	3.5	3.5	3.5	3.5
Overall balance	**-12.9**	**-14.1**	**-10.4**	**-6.9**	**-6.0**	**-5.8**	**-5.6**	**-5.4**	**-5.3**
Primary balance	-9.2	-10.1	-6.7	-3.1	-2.4	-2.3	-2.1	-2.0	-1.8
Financing	12.9	14.1	10.4	6.9	6.0	5.8	5.6	5.4	5.3
Public debt	11.3	14.9	11.4	6.1	6.0	6.1	5.9	5.8	5.5
Domestic	7.1	6.6	1.5	3.8	4.4	4.6	4.7	4.7	4.5
Foreign	4.1	8.3	9.9	2.2	1.5	1.5	1.2	1.1	1.0
Borrowing	9.0	8.7	10.9	3.2	2.9	2.9	2.7	2.6	2.4
Amortization	4.8	0.4	1.0	1.0	1.3	1.4	1.5	1.5	1.4
Privatizations	0.1	2.4	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP)									
Central government debt	**71.1**	**92.4**	**87.2**	**84.6**	**85.1**	**86.0**	**86.7**	**87.1**	**87.3**
Domestic	52.1	63.6	54.9	53.9	54.7	55.8	56.9	57.8	58.6
External	19.0	28.9	32.3	30.6	30.3	30.2	29.9	29.4	28.7

Sources: Ministry of Economy and IMF staff estimates.

Table 3b. Fiji: Central Government Operations, FY2020–28

	FY 2019–20	FY 2020–21	FY 2021–22	FY2022-23	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28
				Proj.					
				(In millions of Fiji dollars)					
Revenue	**2,475**	**1,905**	**2,160**	**2,871**	**3,056**	**3,210**	**3,430**	**3,669**	**3,908**
Tax revenue	2,163	1,385	1,663	2,268	2,494	2,664	2,850	3,051	3,250
Direct taxes	611	466	465	688	759	810	862	926	987
Indirect taxes	1,553	918	1,198	1,580	1,735	1,854	1,988	2,124	2,263
Grants	68	284	233	245	196	157	167	178	189
Other nontax revenue	244	236	264	358	366	389	414	440	468
Expenditure	**3,322**	**3,162**	**3,385**	**3,761**	**3,829**	**4,014**	**4,250**	**4,511**	**4,789**
Primary expenditure	2,977	2,799	3,014	3,315	3,357	3,540	3,749	3,983	4,226
Current	2,031	2,049	2,171	2,329	2,273	2,385	2,519	2,672	2,830
Personnel	988	929	930	1,026	1,091	1,141	1,195	1,254	1,318
Transfers	698	804	903	870	760	810	863	919	979
Supplies and consumables	276	255	252	304	314	317	338	368	393
Other	69	62	86	130	108	115	123	131	140
Capital	945	750	843	986	1,083	1,155	1,230	1,311	1,396
Interest	345	363	370	446	472	474	501	528	562
Overall balance	**-847**	**-1,257**	**-1,225**	**-891**	**-773**	**-804**	**-820**	**-842**	**-881**
Primary balance	**-502**	**-895**	**-855**	**-445**	**-301**	**-330**	**-318**	**-314**	**-319**
Cyclically adjusted primary balance	-387	-490	-450	-300	-190	-233	-289	-128	-146
Financing	847	1,257	1,225	891	773	804	820	842	881
Net change in public debt	951	978	1,223	876	723	804	820	842	881
Domestic	649	191	304	547	541	581	629	673	715
Foreign	302	787	919	329	182	223	190	169	166
Borrowing	361	1,248	982	408	353	400	400	400	400
Amortization	59	461	63	79	171	177	210	231	234
Privatizations	211	210	2	15	50	0	0	0	0
Other	-315	0	0	0	0	0	0	0	0
				(In percent of GDP)					
Government Revenue	**23.4**	**20.6**	**21.5**	**24.9**	**24.4**	**24.0**	**24.1**	**24.2**	**24.2**
Tax revenue	20.4	15.0	16.6	19.6	19.9	19.9	20.0	20.1	20.1
Direct taxes	5.8	5.0	4.6	6.0	6.1	6.1	6.1	6.1	6.1
Indirect taxes	14.7	9.9	11.9	13.7	13.8	13.9	14.0	14.0	14.0
Grants	0.6	3.1	2.3	2.1	1.6	1.2	1.2	1.2	1.2
Other nontax revenue	2.3	2.6	2.6	3.1	2.9	2.9	2.9	2.9	2.9
Government Expenditure	**31.3**	**34.2**	**33.7**	**32.6**	**30.5**	**30.0**	**29.9**	**29.7**	**29.6**
Primary expenditure	28.1	30.3	30.0	28.7	26.8	26.5	26.3	26.3	26.2
Current	19.2	22.2	21.6	20.2	18.1	17.8	17.7	17.6	17.5
Personnel	9.3	10.1	9.3	8.9	8.7	8.5	8.4	8.3	8.2
Transfers	6.6	8.7	9.0	7.5	6.1	6.1	6.1	6.1	6.1
Supplies and consumables	2.6	2.8	2.5	2.6	2.5	2.4	2.4	2.4	2.4
Other	0.7	0.7	0.9	1.1	0.9	0.9	0.9	0.9	0.9
Capital	8.9	8.1	8.4	8.5	8.6	8.6	8.6	8.6	8.6
Interest	3.3	3.9	3.7	3.9	3.8	3.5	3.5	3.5	3.5
Overall balance	**-8.0**	**-13.6**	**-12.2**	**-7.7**	**-6.2**	**-6.0**	**-5.8**	**-5.6**	**-5.5**
Primary balance	**-4.7**	**-9.7**	**-8.5**	**-3.9**	**-2.4**	**-2.5**	**-2.2**	**-2.1**	**-2.0**
Financing	8.0	13.6	12.2	7.7	6.2	6.0	5.8	5.6	5.5
Public debt	6.0	11.3	12.2	7.6	5.8	6.0	5.8	5.6	5.5
Domestic	6.1	2.1	3.0	4.7	4.3	4.3	4.4	4.4	4.4
Foreign	2.8	8.5	9.2	2.8	1.5	1.7	1.3	1.1	1.0
Borrowing	3.4	13.5	9.8	3.5	2.8	3.0	2.8	2.6	2.5
Amortization	0.6	5.0	0.6	0.7	1.4	1.3	1.5	1.5	1.5
Privatizations	2.0	2.3	0.0	0.1	0.4	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government debt	**63.1**	**83.0**	**91.7**	**86.6**	**85.7**	**86.5**	**87.3**	**87.8**	**88.0**
Domestic	47.0	56.8	57.5	54.7	54.7	55.6	56.7	57.6	58.5
External	16.1	26.2	34.3	31.9	31.0	30.9	30.6	30.1	29.5

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

Table 4. Fiji: Monetary Survey, 2020–24

	2020	2021	2022	2023 (est.)	2024 (proj.)
	(in millions of Fiji dollars; end of period)				
Reserve Bank of Fiji					
Net foreign assets	1,994	2,707	2,952	2,687	2,441
Net domestic assets	647	1,223	1,598	2,370	2,969
Net claims on central government	347	620	653	615	568
Claims on other depository corporations	352	638	976	1,164	1,305
Other items, net	(52)	(35)	(31)	591	1,096
Monetary base	2,640	3,930	4,552	5,057	5,409
Currency in Circulation	932	992	1,045	1,161	1,242
Liabilities to other depository corporations	1,708	2,938	3,507	3,896	4,167
Depository corporations					
Net foreign assets	2,048	2,831	2,993	2,732	2,489
Net domestic assets	6,676	6,861	7,085	8,732	9,545
Net claims on central government	216	486	405	394	303
Claims on other sectors	8,520	8,588	9,141	9,597	10,077
in which, claims on private sector	8,062	8,054	8,595	9,453	10,210
Other items	(2,061)	(2,213)	(2,461)	(1,259)	(835)
Broad money	8,724	9,692	9,991	11,465	12,035
Currency outside depository corporations	701	762	790	878	939
Transferable deposits	4,854	6,066	6,608	7,706	8,014
Other deposits	3,052	2,763	2,525	2,805	3,000
Securities other than shares	117	99	68	76	81
Monetary Survey					
Monetary base	2,640	3,930	4,552	5,057	5,409
Narrow money (M1)	5,555	6,852	7,418	9,244	10,537
Quasi Money (M2)	7,906	8,830	9,200	10,557	11,082
Broad Money (M3)	8,724	9,692	9,991	11,465	12,035
	(in percent, unless otherwise noted)				
Memorandum items					
Money velocity (GDP/M2)	1.2	1.0	1.2	1.1	1.2
Money multiplier (M2/Monetary base)	3.0	2.2	2.0	2.1	2.0
Claims on private sector to GDP	83.0	90.5	79.3	78.5	79.2
Commercial Banks Loan to Deposit Ratio	87.5	79.0	81.5	77.9	80.3
RBF Policy rate (end-period)	0.25	0.25	0.25	…	…
Interest rates on saving deposits (end of period) 1/	0.5	0.5	0.4	…	…
Interest rates on time deposits (end of period) 1/	2.5	3.1	1.2	…	…
Lending rates (end of period) 1/	6.1	6.1	5.2	…	…

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

1/ Weighted average.

Table 5. Fiji: Financial Soundness Indicators, 2017–22

Ratios in percent	2017	2018	2019	2020	2021	2022Q3
Capital Adequacy						
Regulatory capital to risk-weighted assets	15.54	16.94	18.49	19.66	21.14	21.06
Tier 1 capital to risk-weighted assets	12.86	13.81	15.54	16.57	17.78	16.75
Capital to assets (leverage ratio)	8.87	9.94	10.96	11.39	10.78	9.70
Asset Quality						
Nonperforming loans net of provisions to capital	8.08	12.10	13.83	19.32	26.61	28.98
Nonperforming loans to total gross loans	2.42	3.09	3.84	6.21	8.48	8.22
Provisions to nonperforming loans	49.52	35.71	35.13	40.88	36.14	30.15
Earnings and Profitability						
Return on assets	2.55	2.80	2.79	1.12	1.62	2.79
Return on equity	18.26	19.84	17.20	6.84	9.23	17.50
Interest margin to gross income	56.46	57.95	58.53	66.54	70.38	66.12
Noninterest expenses to gross income	49.12	48.82	46.51	52.01	52.50	46.97
Liquidity						
Liquid assets to total assets	18.90	15.10	17.07	18.84	27.61	29.83
Liquid assets to short-term liabilities	81.16	61.61	70.61	78.77	161.78	206.39

Source: IMF Financial Soundness Indicators.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact	Recommended Policy Responses
External Risks			
Abrupt global slowdown or recession.	**High:** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, markets fragmentation.	**High:** Global economic slowdown could negatively affect the GDP prospects in Fiji particularly via the tourism and remittances channels, particularly from Fiji's main trading partners such as Australia and New Zealand.	Targeted fiscal support as needed, to most impacted groups. Seek official financing for any additional financing needs.
Commodity price volatility.	**Medium:** A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand weakness causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium:** Increased global commodity prices would deteriorate the current account balance and inflation rate (and/or put pressure on administered prices and current subsidy regimes).	Preemptive and gradual adjustments in policy mix adequate to deal with shock of uncertain duration. Revisit subsidies on fuel and energy. Increase renewable energy. Reduce reliance on food imports.
Domestic Risks			
Extreme climate events.	**High:** Fiji is highly vulnerable to natural disasters (tropical cyclones and flooding) and effects of climate change on agriculture, marine ecosystems, and coastal settlements.	**High:** Major disasters can cause damage up to 20 percent of GDP. Average annual damages estimated at 5-6 percent of GDP with highest impact on the poor, women, and youth.	Invest in infrastructure resilience and adaptation to climate change risks in line with the National Adaptation Plan. Rebuild fiscal and external buffers.
Social discontent.	**Medium:** Supply shocks, high inflation, and real wage drops worsen inequality, trigger social unrest, and give rise to economically damaging populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	**High:** Beyond immediate economic disruption and adverse confidence effects, political polarization, and instability complicate implementation of policies for sustained economic recovery.	Continue to support most vulnerable households and businesses by targeted fiscal and financial measures. Continue efforts to communicate transparently with public on economic policies.
Further Increase in non-performing loans (NPLs).	**Medium**: Banks asset quality further deteriorate with a spike in ratios given the end of forbearance measures or if the recovery is jeopardized.	**Medium**. Banks could deleverage to rebuild capital buffers and subsequently tighten credit conditions.	Guide banks to adequately accumulate provisioning. Improve macroprudential framework.
Confidence falters due to high debt to GDP ratio	**Medium**: A reduction in fiscal revenues and increased current expenditure has led to a surge in public debt and reduced Fiji's fiscal buffers to deal with new shocks.	**High:** A sustained increase in the debt-to-GDP ratio could negatively affect business confidence and hamper private investment.	A credible fiscal consolidation strategy focused on rebuilding revenues and rationalizing current spending would put the debt-to GDP ratio on a gradual downward path and move toward public debt sustainability.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex II. External Sector Assessment

Overall Assessment: *Fiji's external position in 2022 was* substantially *weaker than the level implied by fundamentals and desirable policies, as the global commodity price shock and domestic economic recovery raised import costs. External sector assessment suggests that, notwithstanding the depreciation witnessed in recent years, the real effective exchange rate remained overvalued in 2022. Supported by external government financing, strong remittances and recovering tourism receipts, FX reserves were well above adequate levels in 2022. However, FX reserve cover could come under pressure due to Fiji's vulnerability to shocks.*

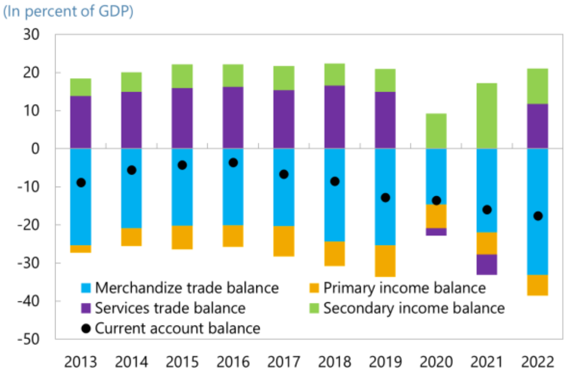
Potential Policy Responses: *Fiji's* current account gap and REER overvaluation *could be attributed in part to large fiscal deficits, indicating the need to tighten fiscal policy to support the stability of the external position. Fiscal consolidation along with structural policies to improve tourism and export competitiveness would help reduce structural current account deficits.*

Current Account

Background. Fiji's geographical remoteness and small production base raise shipping costs and import dependence, particularly for food and fuel, which account for 35 percent of total imports. As a result, Fiji runs persistent merchandise trade deficits of more than 20 percent of GDP. These deficits are somewhat mitigated by large surpluses in the services trade balance (led by tourism) and positive secondary income balances (driven by remittances).

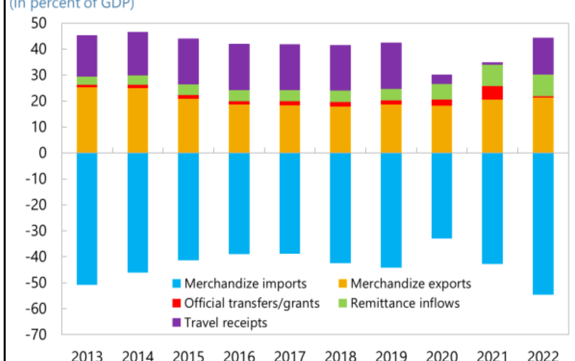
Fiji's current account deficit worsened somewhat during the Covid-19 pandemic, going from 12.7 percent of GDP in 2019 to 16.0 percent of GDP in 2021, as border closures dried up tourism receipts. The widening current account deficit-to-GDP ratio also emanated from the sharp contraction in GDP. However, the current account was cushioned by the pandemic-related surge in remittances, as well as bilateral and multilateral grants.

Current Account Developments
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Merchandize Imports and Key Credit Items in Current Account
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Notwithstanding the revival in tourism earnings and strong remittances, the current account deficit widened further in 2022 to 17.5 percent of GDP due to higher import costs from the global commodity price shock and rising import demand. In the near term, the current account deficit is projected to narrow relative to 2022 as tourism receipts recover to pre-pandemic levels but remain elevated around 10 percent of GDP.

Assessment. In the EBA-lite current account (CA) model, adjustments are made to the 2022 current account balance to account for cyclical factors and temporary shocks in order to estimate an 'adjusted current account balance'. These adjustments include the Covid-19 related adjustment to account for its negative impact on tourism receipts and positive impact on remittances, and adjustments to account for the terms-of-trade shock and the impact of frequent natural disasters on the current account. The EBA-lite model estimates Fiji's 2022 'CA balance adjusted for cyclical and temporary shocks' at -14.9 percent of GDP, against a model-determined 'CA norm' of -9.1 percent of GDP, implying a 'CA gap' of -5.8 percent of GDP. The assessment suggests that Fiji's current account in 2022 was substantially weaker than the level implied by fundamentals and desirable policies. The 'CA gap' is in part explained by the policy gap, which in turn is largely driven by the fiscal policy gap, highlighting the need for fiscal consolidation to help reduce the external imbalance.

Fiji: EBA-lite Model Results, 2022

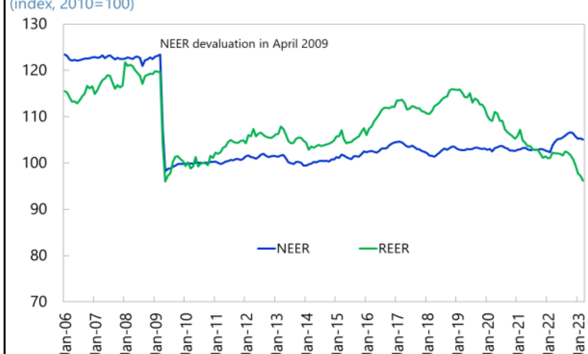
	CA model 1/ (in percent of GDP)
CA-Actual	**-17.5**
Cyclical contributions (from model) (-)	-0.4
COVID-19 adjustors (-) 2/	-1.7
Natural disasters and conflicts (-)	-0.5
Adjusted CA	**-14.9**
CA Norm (from model) 3/	**-9.1**
Adjusted CA Norm	**-9.1**
CA Gap	**-5.8**
o/w Relative policy gap	-3.4
Elasticity	-0.3
REER Gap (in percent)	**16.8**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of pandemic on tourism (-1.9 percent of GDP) and remittances (+0.2 percent of GDP).
3/ Cyclically-adjusted, incl. multilateral consistency adjustments.

Real Exchange Rate

Background. Fiji's exchange rate is pegged to a weighted basket of currencies comprising of the USD, AUD, NZD, EUR, and JPY. With monetary tightening by major central banks leading to cross-currency movements, the NEER appreciated by 2.0 percent in 2022, after staying broadly stable during 2020-21. On the other hand, the depreciation trend in the REER witnessed during 2020-21 continued into 2022, albeit at a slower pace of 1.7 percent, as Fiji's inflation remained relatively lower than trading partners' inflation.

Effective Exchange Rates
(index, 2010=100)

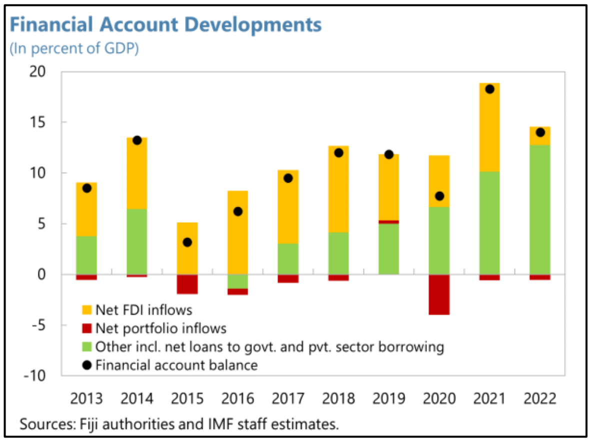


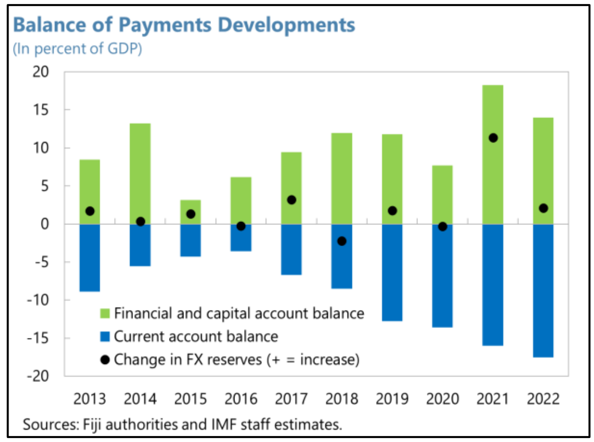
Sources: Fiji authorities and IMF staff estimates.

Assessment. In the EBA-lite CA model, the estimated 'CA gap' and the elasticity of trade balance to the REER imply that Fiji's REER is overvalued by 16.8 percent. However, it should be noted that the REER gap does not automatically imply the need for a nominal exchange rate adjustment. Instead, it could reflect the need for policies to reduce internal imbalances and improve tourism and export competitiveness.

Capital and Financial Accounts

Background: The financial account surplus narrowed somewhat in 2022 from the 2021 highs. While private sector external borrowing recovered, FDI inflows slowed markedly ahead of the elections and pandemic-related official concessional financing eased slightly from the 2021 highs.

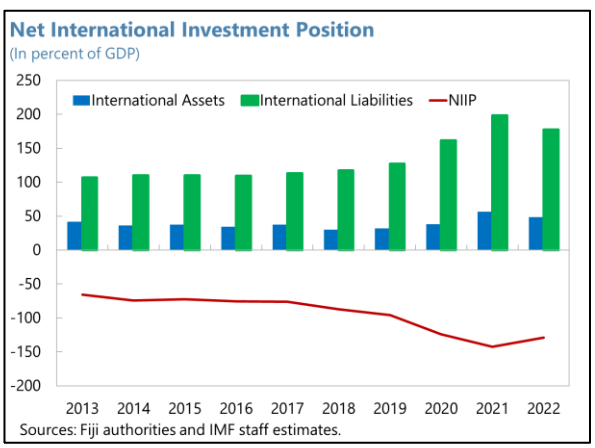


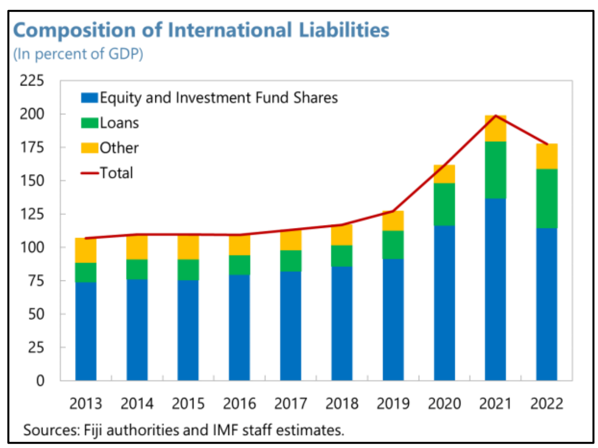


Assessment: In the near term, the financial account surplus is expected to continue narrowing as the recovery in FDI inflows is more than offset by the normalization in pandemic-related concessional financing.

Foreign Assets and Liabilities: Position and Trajectory

Background: Fiji's Net International Investment Position (NIIP) has deteriorated since the pandemic from -96 percent of GDP in 2019 to an -129 percent of GDP in 2022. International assets have edged somewhat higher relative to 2019 owing to the increase in FX reserves during 2021-22. On the other hand, international liabilities have ballooned from 127 percent of GDP in 2019 to a 178 percent of GDP in 2022.





This increase has been driven by the rise in external loans, mainly pandemic-related official concessional loans. Equity and investment fund shares-related FDI inflows account for the largest share of outstanding international liabilities (65 percent of total in 2022), given that reinvested earnings are a significant share of total FDI inflows into Fiji, and consequently, a key driver of the primary income deficit (-5.4 percent of GDP in 2022) and current account deficit.

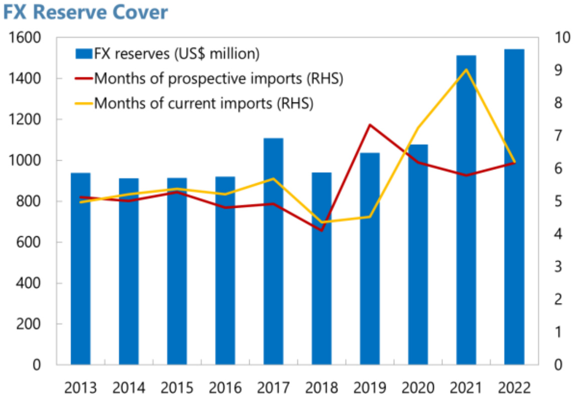
Assessment: Although FX reserves are projected to decline somewhat, the NIIP is expected to stabilize in the near term as official concessional financing normalizes from the pandemic highs. The large share of FDI-related liabilities and the concessional nature of the recent increase in international liabilities reduce vulnerabilities to the NIIP.

FX Reserves Level

Background. FX reserves continued to increase during 2022 owing to pandemic-related factors, reaching a record high of US$1,543 million. This rise was driven by the large official concessional financing, resilient remittances and recovering tourism receipts, which together kept the FX reserve cover above 6 months of prospective and current imports.

Assessment. The Assessing Reserve Adequacy (ARA) metric for small state credit-constrained economies, with fixed exchange rates and 50 percent probability of a large shock, is based on a cost-benefit analysis of holding FX reserves. Based on this metric, the adequate level of FX reserves for Fiji is estimated to be 3.3 months of current imports. In 2022, Fiji's FX reserves remained well above the adequate levels implied by the ARA metric. However, if Fiji's high vulnerability to natural disasters is incorporated in the ARA metric by raising the probability of a large shock to 75 percent, the adequate level of FX reserves is estimated to be 5.2 months of current imports.

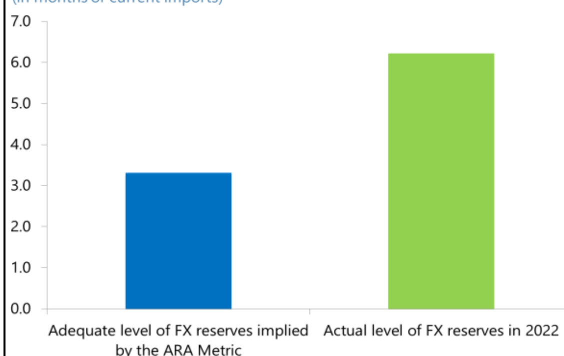
FX Reserve Cover



Sources: Fiji authorities and IMF staff estimates.

ARA Metric and FX Reserve Cover

(in months of current imports)



Sources: Fiji authorities and IMF staff estimates.

Annex III. Debt Sustainability Analyses

A. Public Sector Debt Sustainability Analysis

Figure 1. Fiji: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting a relatively consistent level of vulnerability in the near-term and moderate levels of vulnerability in the medium-, and long-term horizons.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate. This reflects Fiji's debt path and composition of investor base.
Fanchart	High	…	
GFN	Low	…	
Stress test	Cont. Liab. Exch Rate Nat. Dis.	…	
Long term	…	Moderate	Long-term risks are moderate. While the debt path is expected to gradually decline, risks including those from climate change feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: Risks of sovereign stress are moderate. This assessment is based on a baseline scenario under unchanged policies that envisages improvements in the primary balance because of continued economic recovery, lower post-pandemic transfers, and authorities' continued plans to contain the wage bill. As illustrated by the large width of the debt fanchart, Fiji remains vulnerable to large macroeconomic shocks, including those related to natural disasters and contingent liabilities. Over the longer run, Fiji should continue with reforms to tackle risks arising from climate change. However, the long time horizon at which these risks would materialize and the authorities' planned measures will help contain risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Fiji: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	

2. Subsectors included in the chosen coverage in (1) above:

Sector levels		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

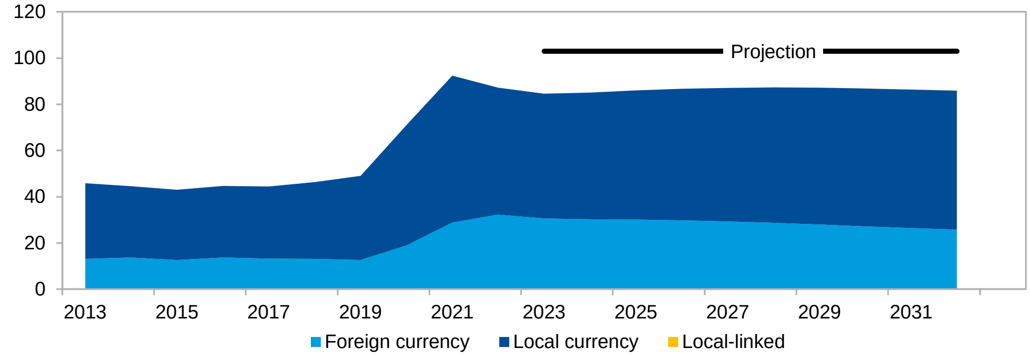
Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the central government, but the authorities are taking efforts to expand the perimeter of public debt statistics. The data that is used for the DSA is based on calendar years.

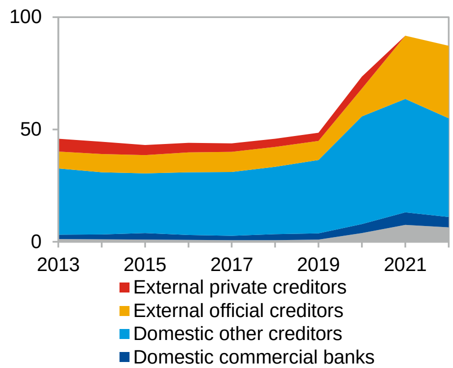
Figure 3. Fiji: Public Debt Structure Indicators

Debt by currency (percent of GDP)



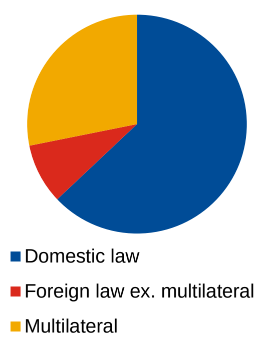
Note: The perimeter shown is central government.

Public debt by holder (percent of GDP)



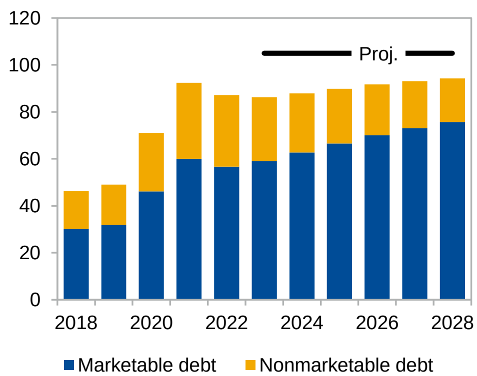
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



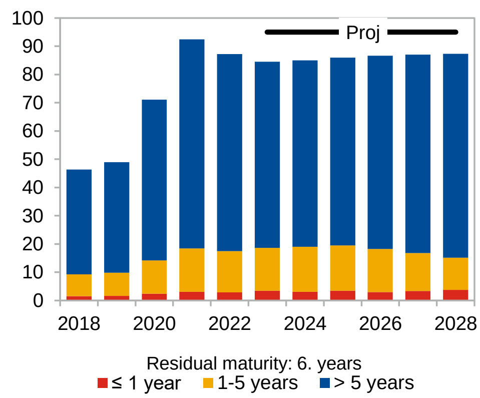
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: The majority of public debt will remain local currency-denominated instruments, average maturities are expected to remain above 5 years. Marketable instruments form the bulk of public debt and it is held by domestic creditors. Fiji's public debt is two-thirds domestic and is concentrated on the Fiji National Provident Fund. The FNPF and insurance companies remain able to absorb most domestic financing with their strong financial position, while the absorption capacity of the rest of the private financial sector is unclear. Public external debt is held by almost entirely by official creditors. Average term to maturity of total debt at FY2022 was 10.7 years.

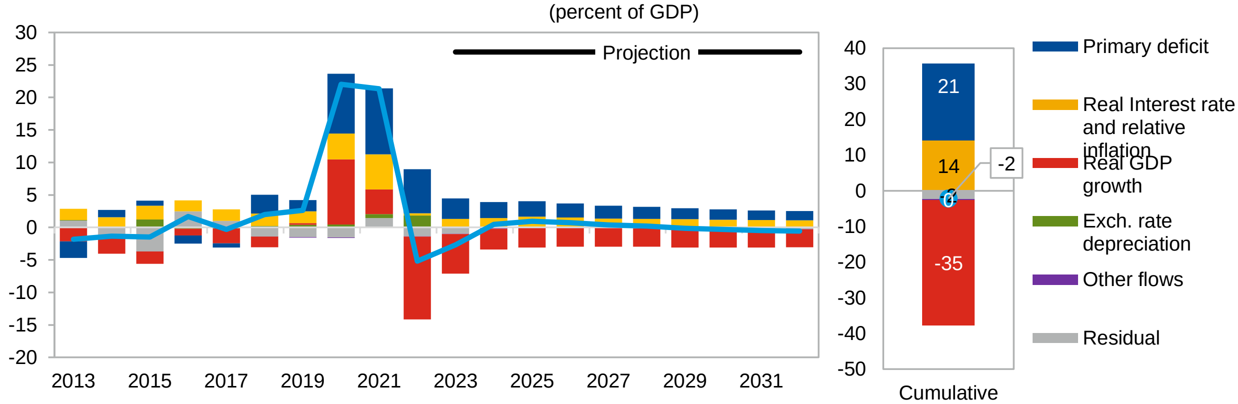
Figure 4. Fiji: Baseline scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	87.2	84.6	85.0	86.0	86.7	87.1	87.3	87.2	86.9	86.4	85.9
Change in public debt	-5.2	-2.7	0.5	0.9	0.7	0.4	0.2	-0.1	-0.3	-0.5	-0.6
Contribution of identified flows	-3.8	-1.7	0.5	0.9	0.7	0.4	0.4	0.1	0.0	-0.2	-0.3
Primary deficit	6.8	3.2	2.4	2.4	2.1	2.0	1.9	1.7	1.6	1.5	1.4
Noninterest revenues	21.5	24.5	24.2	24.1	24.2	24.2	24.3	24.3	24.3	24.3	24.4
Noninterest expenditures	28.2	27.7	26.6	26.4	26.3	26.2	26.1	26.0	25.9	25.8	25.7
Automatic debt dynamics	-10.5	-4.8	-1.8	-1.5	-1.5	-1.6	-1.5	-1.6	-1.7	-1.7	-1.7
Real interest rate and relative inflation	0.4	1.3	1.5	1.6	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Real interest rate	-0.2	1.0	1.3	1.5	1.2	1.0	1.0	1.0	0.9	0.9	0.9
Relative inflation	0.5	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Real growth rate	-12.7	-6.1	-3.2	-3.1	-2.9	-3.0	-2.8	-2.8	-2.8	-2.8	-2.8
Real exchange rate	1.8	-0.5	-0.1	0.0	0.0	0.0	-1.1	-0.3	-1.3	-0.3	-1.2
Other identified flows	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-1.4	-1.0	-0.1	0.1	0.1	0.0	-0.1	-0.3	-0.3	-0.3	-0.3
Gross financing needs	13.1	9.5	9.2	8.7	8.8	8.3	8.4	8.6	8.2	7.1	6.5
of which: debt service	6.4	6.4	6.8	6.4	6.7	6.3	6.6	6.9	6.7	5.6	5.1
Local currency	5.1	4.7	4.8	4.4	4.7	4.2	4.7	5.2	5.0	4.1	3.7
Foreign currency	1.3	1.6	2.0	2.0	2.1	2.1	1.9	1.8	1.7	1.6	1.5
Memo:											
Real GDP growth (percent)	16.0	7.5	3.9	3.7	3.5	3.5	3.3	3.3	3.3	3.3	3.3
Inflation (GDP deflator; percent)	5.1	3.3	2.9	2.6	2.8	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	21.9	11.1	7.0	6.4	6.4	6.7	6.4	6.4	6.4	6.4	6.4
Effective interest rate (percent)	4.9	4.6	4.5	4.4	4.3	4.3	4.2	4.2	4.1	4.1	4.1

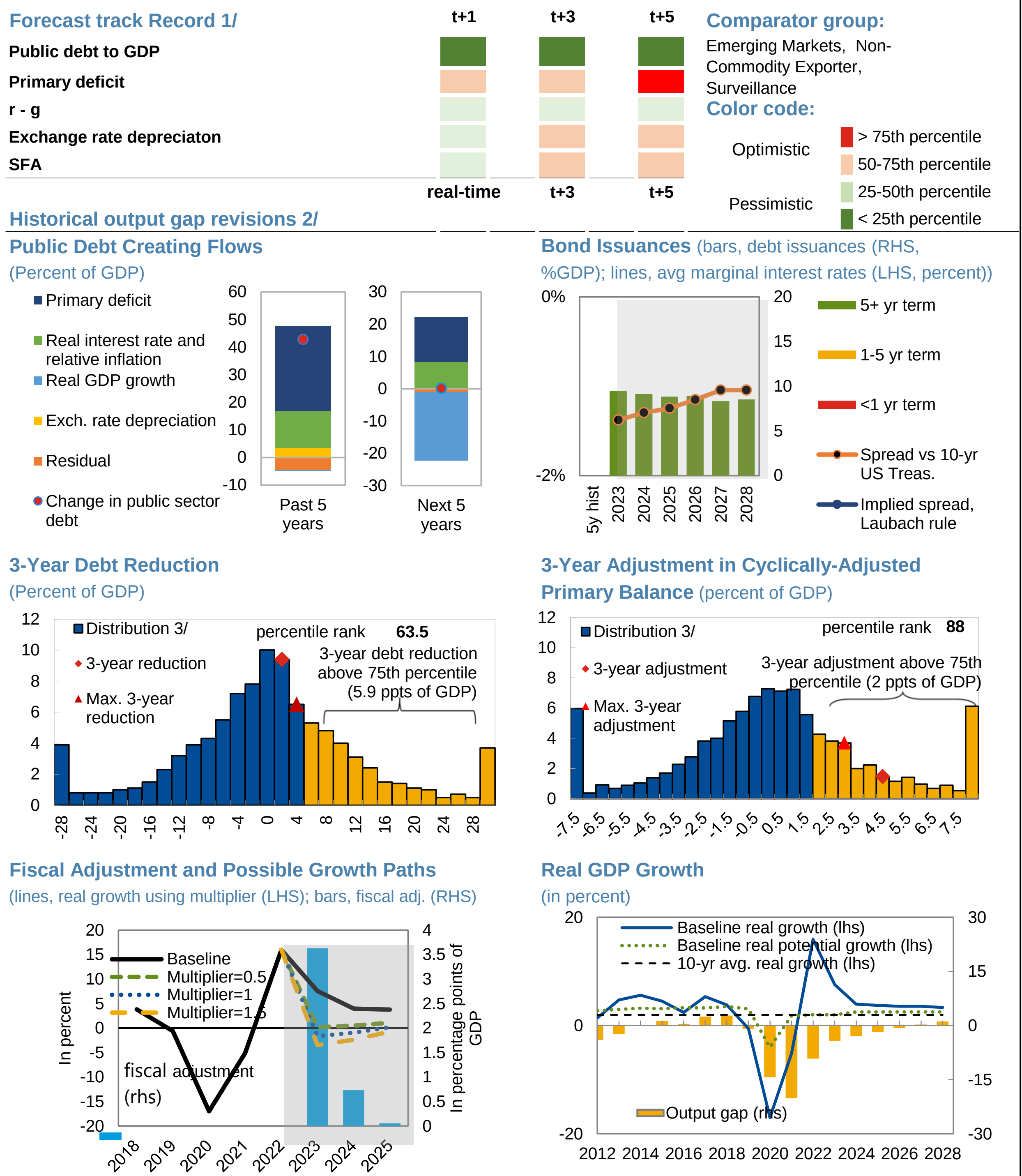
Contribution to change in public debt

(percent of GDP)



Staff commentary: Despite stable economic conditions, public debt to GDP ratios are expected to remain elevated, reflecting high fiscal deficits.

Figure 5. Fiji: Realism of Baseline Assumptions



Commentary: The recovery from COVID-19 will impart complicated effects on the growth path. Realism analysis points to some concerns: past forecast errors do not reveal any systematic biases and the projected debt reduction are well within norms. However, the projected fiscal adjustment are in the top-quartile of cross-country database.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 6. Fiji: Medium-Term Risk Analysis

Debt fanchart and GFN financeability indexes

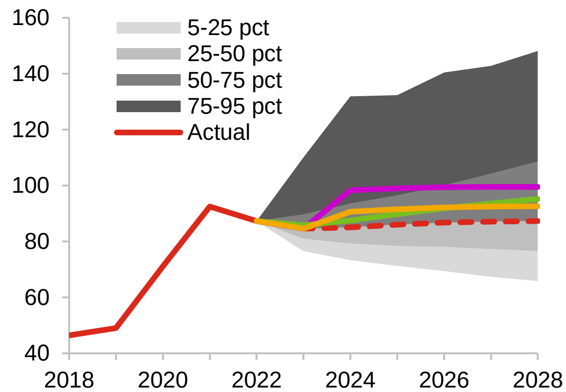
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	82.3	1.2	…
	Probability of debt not stabilizing (pct)	54.1	0.5	…
	Terminal debt level x institutions index	44.8	1.0	…
	Debt fanchart index	**…**	**2.6**	**High**
GFN finance-ability module	Average GFN in baseline	8.8	3.0	…
	Bank claims on government (pct bank assets)	3.6	1.2	…
	Chg. in claims on govt. in stress (pct bank assets)	1.3	0.4	…
	GFN financeability index	**…**	**4.6**	**Low**

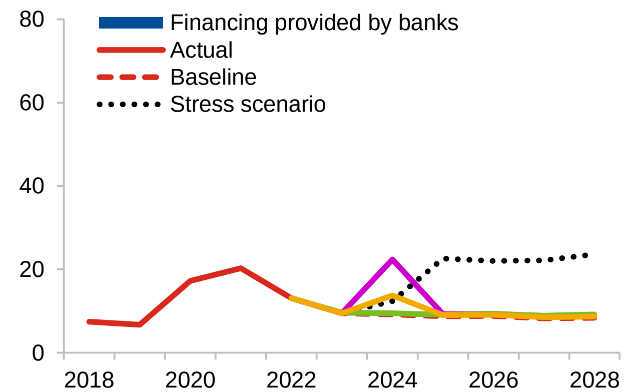
Adv. Econ., Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Fiji

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

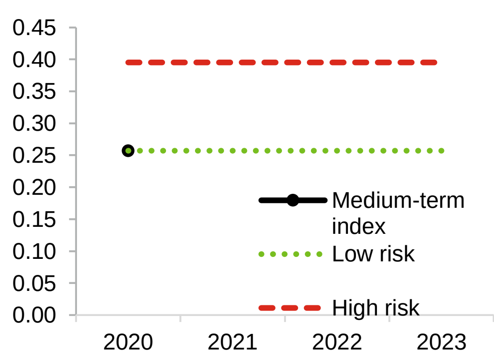


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.6
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 21.6 pct.

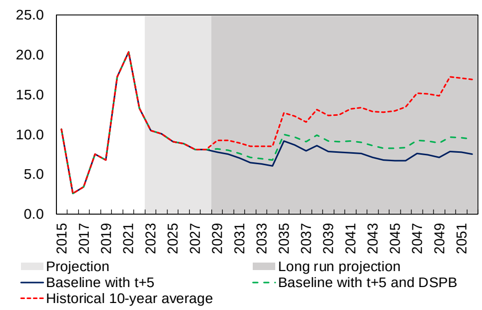
Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN Financeability Module suggests low level of risk.

Figure 7. Fiji: Long-term Risk Analysis: Large Amortization

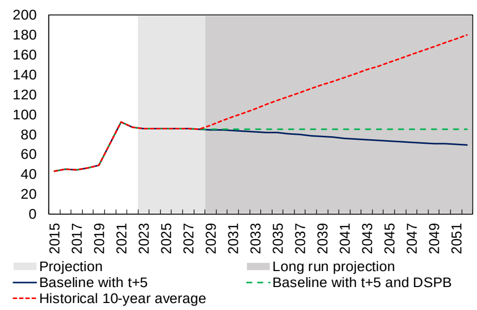
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP ratio



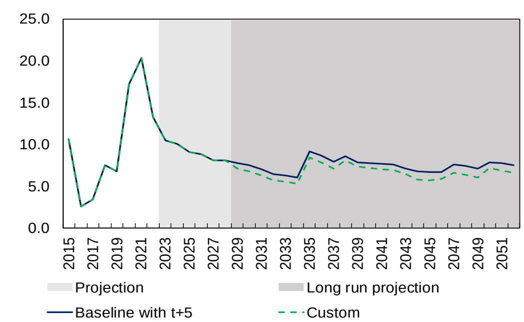
Total public debt-to-GDP ratio



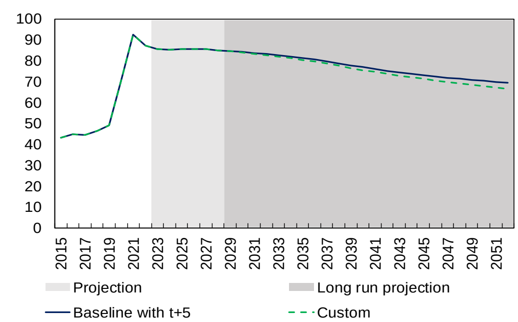
Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.3%	3.3%
Primary Balance-to-GDP	-1.9%	-1.6%
Real depreciation	2.0%	0.0%
Inflation (GDP deflator)	3.0%	3.0%

GFN-to-GDP ratio



Total public debt-to-GDP ratio



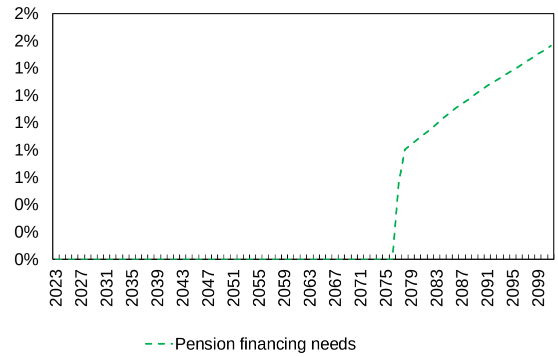
Commentary: Over the long-run, Fiji is subject to risks from climate change adaptation, health, pensions, and large amortization. While the debt path is expected to gradually decline, these risks feed into debt dynamics. Fiscal reforms and economic diversification to identify new sources of fiscal revenues and growth will be critical over the longer run. Fiji National Provident Fund (FNPF), which manages Fiji's pension scheme, is assessed to have a robust financial position with comfortable cash reserves.

Figure 8. Fiji: Long-term Risk Analysis: Demographics

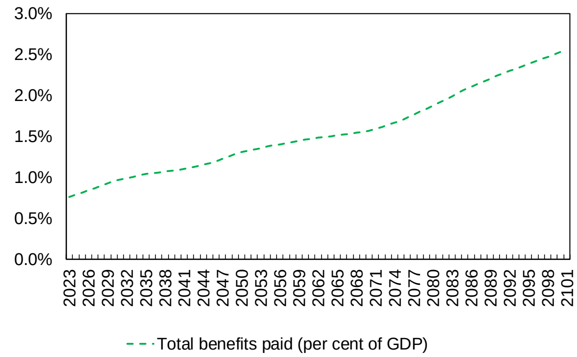
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.00%	0.00%	0.44%

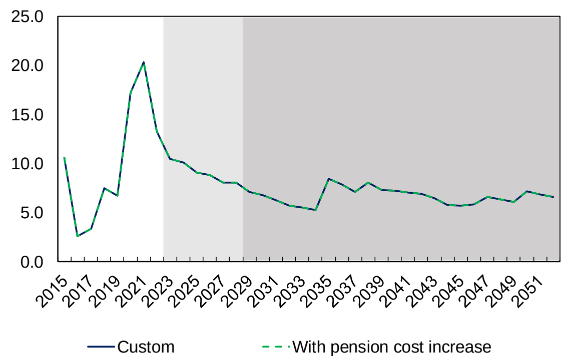
Pension Financing Needs



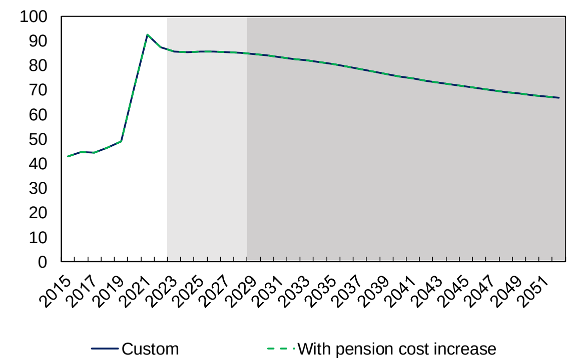
Total benefits paid



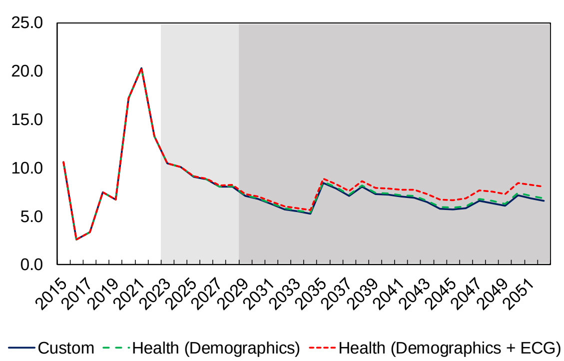
GFN-to-GDP ratio



Total public debt-to-GDP ratio



GFN-to-GDP ratio



Total public debt-to-GDP ratio

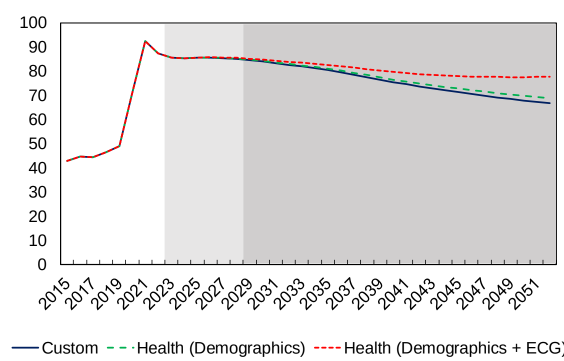
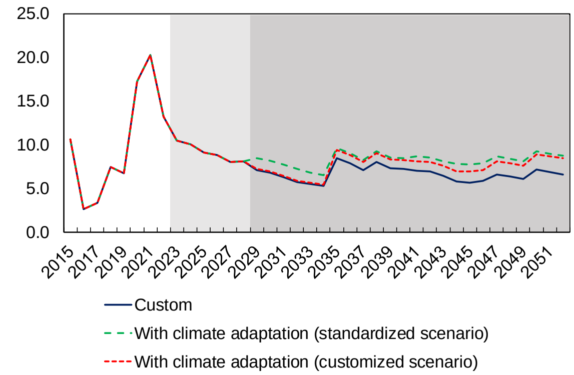


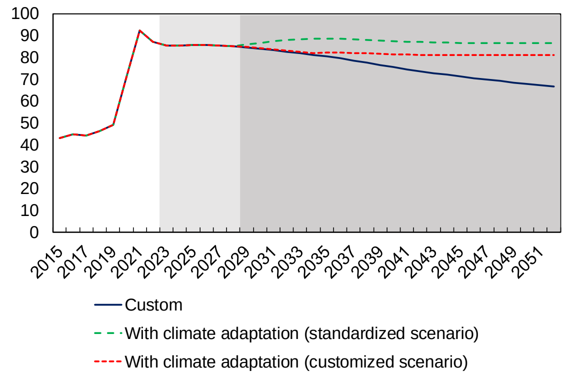
Figure 9. Fiji: Long-term Risk Analysis: Climate Change

Climate Change: Adaptation

GFN-to-GDP ratio

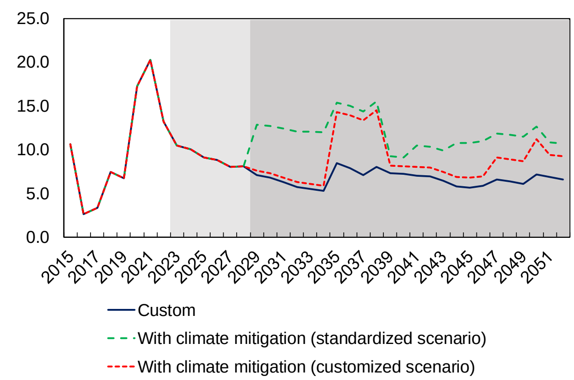


Total public debt-to-GDP ratio

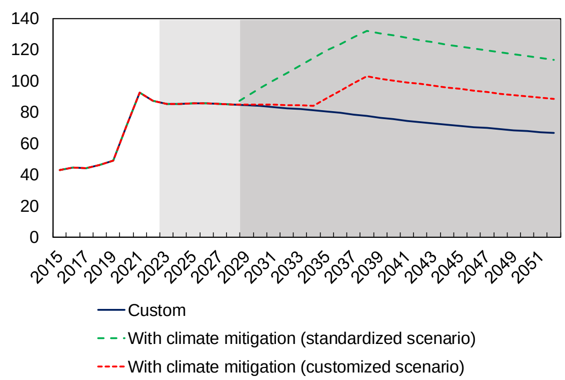


Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



B. External Debt Sustainability Analysis

The external debt sustainability analysis provides a framework to examine a country's external public and private debt sustainability and complements the External Sector Assessment (Annex II). Fiji's external debt has witnessed a sharp increase in recent years owing to the impact of the Covid-19 pandemic, rising to an estimated 55.6 percent of GDP in 2022. Under the baseline scenario, external debt is projected to peak in 2022 and stabilize around 53.9 percent of GDP in the medium-term. However, given Fiji's exposure to external shocks and frequent domestic natural disasters, the external debt trajectory remains vulnerable to GDP growth, current account, and exchange rate shocks.

1. Background. Fiji's external debt has jumped since the onset of the Covid-19 pandemic, doubling from 27 percent of GDP in 2018 to an estimated 55.6 percent of GDP in 2022 (Table 1). The significant rise in external debt has been driven by the increase in external bilateral and multilateral loans, in light of the concessional government borrowings amidst the pandemic. The external debt service-to-exports ratio deteriorated significantly during 2020-21 as exports weakened and debt service obligations increased. Mitigating factors to external debt include the concessional nature of the recent increase in external government borrowings, high shares of medium- and long-term debt (81 percent of total external debt in 2022) and public sector debt (58 percent of total external debt in 2022), and a gradual rise in Fiji's foreign assets over the years.

2. Assessment. Under the baseline scenario, Fiji's external debt trajectory is projected to peak at 55.6 percent of GDP in 2022, before stabilizing around 53.9 percent of GDP over the medium-term. This is expected to be driven by some normalization in external government borrowing from its pandemic highs. This would also be helped by the projected improvement in the non-interest current account balance as the impact of the pandemic on tourism receipts and the effect of global commodity price shock on imports gradually dissipate. In addition, the external debt dynamics would be supported by a relatively more favorable growth-interest rate differentials as the economy continues to witness tourism-led growth. However, given the impact of the Covid-19 shock, Fiji's external debt in the medium-term will remain well above the pre-pandemic average of about 28percent of GDP. Meanwhile, the strong recovery in exports, in particular tourism receipts, would help stabilize the external debt service-to-exports ratio in the coming years, although at high levels.

3. Stress test scenarios: Fiji's external debt dynamics remain vulnerable to macroeconomic shocks, which could be induced by external factors as well as domestic factors, including natural disasters. Under the historical scenario—in which key macroeconomic variables are set equal to their historical averages—external debt would rise significantly over the medium-term to reach 75 percent of GDP by 2028. Fiji's external debt is highly vulnerable to a real exchange rate depreciation shock, which would lead to a permanent increase in the external debt-to-GDP ratio (Figure 11). The external debt trajectory is also vulnerable to growth shocks and non-interest current account shocks, which would result in an increase in the external debt-to-GDP ratio over the medium-term. Meanwhile, the impact of an interest rate shock on external debt seems well-contained.

Table 1. Fiji: External Debt Sustainability Framework, 2018–28
(In percent of GDP, unless otherwise indicated)

	Actual				Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline: External debt*	**27.0**	**31.4**	**43.3**	**52.5**	**55.6**	**54.2**	**54.3**	**54.6**	**54.5**	**54.1**	**53.9**
Change in external debt	-1.6	4.4	11.9	9.2	3.2	-1.4	0.1	0.3	-0.1	-0.4	-0.3
Identified external debt-creating flows (4+8+9)	-1.2	6.7	15.6	9.0	8.5	2.2	2.7	1.5	0.5	-0.3	-1.0
Current account deficit, excluding interest payments	6.9	11.1	10.9	13.1	15.1	8.3	8.1	7.3	6.5	6.1	5.5
Deficit in balance of goods and services	7.7	10.4	16.5	27.3	21.3	13.9	12.6	11.2	10.0	9.1	8.3
Exports	47.7	48.1	27.6	27.3	48.6	50.2	49.9	50.2	50.5	50.4	50.3
Imports	55.5	58.5	44.1	54.6	69.9	64.1	62.5	61.3	60.5	59.5	58.7
Net non-debt creating capital inflows (negative)	-8.5	-6.5	-5.1	-8.7	-1.8	-4.8	-5.7	-6.1	-6.5	-6.8	-7.0
Automatic debt dynamics 1/	0.4	2.2	9.8	4.7	-4.9	-1.3	0.3	0.3	0.4	0.4	0.5
Contribution from nominal interest rate	1.6	1.7	2.7	2.8	2.4	2.4	2.3	2.3	2.2	2.2	2.2
Contribution from real GDP growth	-1.0	0.2	6.5	2.3	-7.3	-3.7	-2.0	-1.9	-1.8	-1.8	-1.7
Contribution from price and exchange rate changes 2/	-0.1	0.3	0.5	-0.5	0.6	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	-2.3	-3.7	0.1	-5.3	-3.6	-2.5	-1.2	-0.6	-0.1	0.8
External debt-to-exports ratio (in percent)	56.6	65.3	157.1	192.1	114.4	108.0	108.8	108.8	107.9	107.3	107.1
External debt service-to-exports ratio (in percent)	20.7	20.0	64.7	45.4	27.2	30.9	28.6	28.6	28.5	28.7	28.8
Gross external financing needs (in billions of US dollars) 4/	0.9	1.1	1.3	1.1	1.3	1.2	1.3	1.3	1.3	1.4	1.4
in percent of GDP	16.8	20.7	28.7	25.5	26.6	22.1	21.5	20.9	20.2	19.8	19.2
Scenario with key variables at their historical averages 5/					**55.6**	**57.1**	**58.5**	**61.2**	**64.8**	**69.4**	**75.5**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	3.8	-0.6	-17.0	-5.1	16.0	7.5	3.9	3.7	3.5	3.5	3.3
GDP deflator in US dollars (change in percent)	0.4	-1.2	-1.6	1.1	-1.1	4.9	2.6	2.1	2.0	2.0	2.0
Nominal external interest rate (in percent)	5.7	6.1	7.1	6.3	5.3	4.8	4.5	4.4	4.3	4.3	4.3
Growth of exports (US dollar terms, in percent)	8.1	-1.0	-53.2	-4.9	104.0	16.5	6.1	6.4	6.4	5.4	5.2
Growth of imports (US dollar terms, in percent)	13.4	3.6	-38.5	18.9	46.9	3.4	4.0	3.9	4.2	3.9	3.9
Current account balance, excluding interest payments	-6.9	-11.1	-10.9	-13.1	-15.1	-8.3	-8.1	-7.3	-6.5	-6.1	-5.5
Net non-debt creating capital inflows	8.5	6.5	5.1	8.7	1.8	4.8	5.7	6.1	6.5	6.8	7.0

Sources: Country authorities and staff estimates and projections.

*Includes central government external debt and private sector external debt.

1/ Derived as [r - g - π(1+g) + ea(1+r)]/(1+g+π+gπ) times previous period debt stock, with r = nominal effective interest rate on external debt; π = 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.

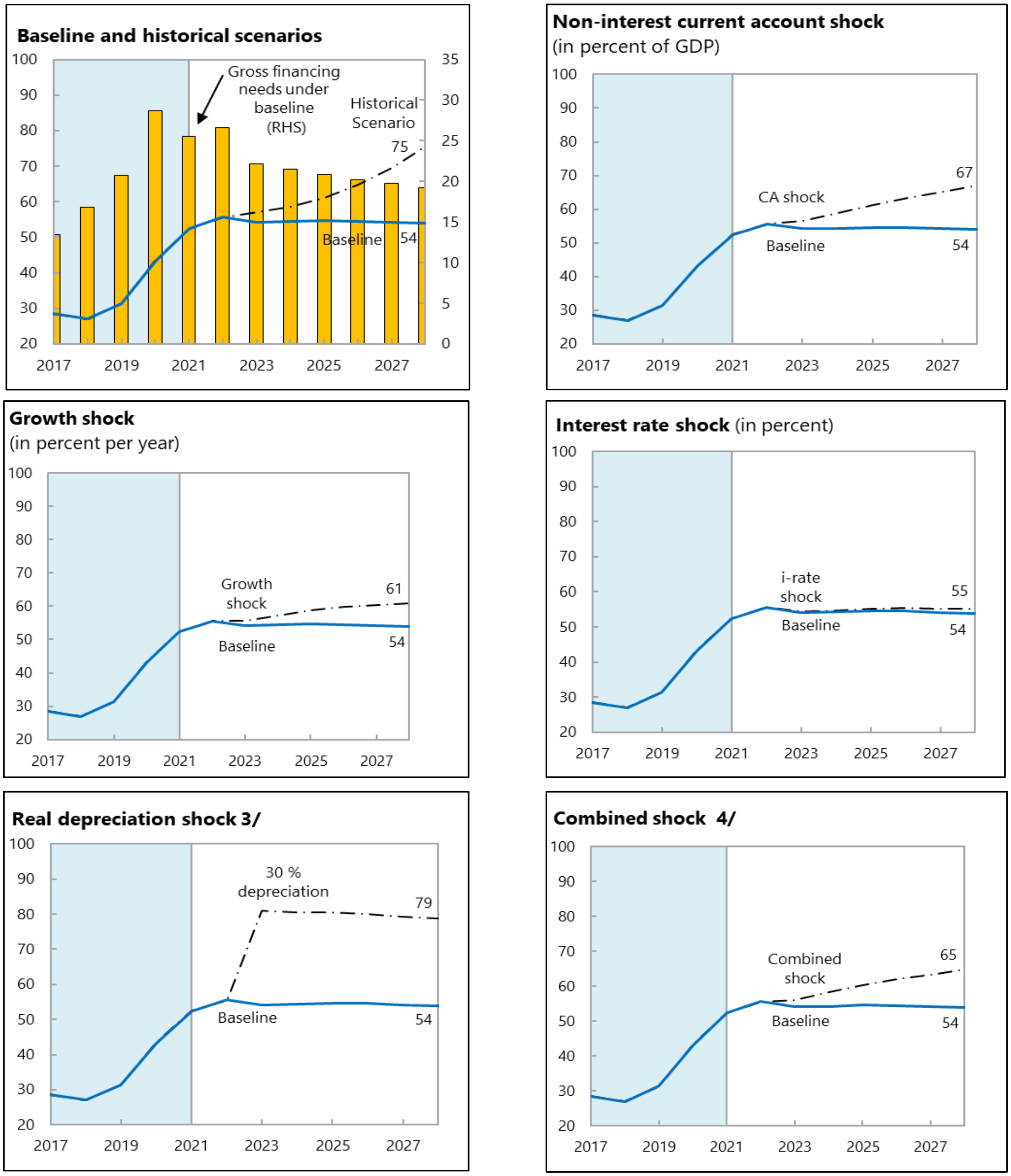
2/ The contribution from price and exchange rate changes is defined as [-π(1+g) + ea(1+r)]/(1+g+π+gπ) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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 the end of previous period.

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

Figure 10. External Debt Sustainability: Stress 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 a ten-year period, and the information is used to project debt dynamics six 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 2023.

Annex IV. Implementation of Past Article IV Recommendations

Fund Recommendations	**Policy Actions**
Fiscal adjustment to put public debt on a sustained downward path.	Some progress. Overall deficit has declined but the decline is mainly driven by the economic recovery and the deficit only stabilizes debt at vulnerably high levels.
Raising government revenues in a growth friendly manner.	No progress. Most of the tax cuts implemented during the pandemic have been extended. The government introduced additional cuts to offset rising cost-of-living: zero VAT on essential consumer items; eliminated ECAL; and removed the fiscal duty on fuel.
Reducing contingent liabilities and government guarantees.	limited progress. Public guarantees for certain SOEs have been reduced, but the total size of contingent liabilities and government guarantees have been broadly unchanged by FY2022.
Enhancing fiscal transparency and improving fiscal reporting.	Some progress. The authorities are making progress with the compilation of a GFS time series for other sub-sectors of the general government and the public sector.
Phasing out the tightening of exchange controls during the pandemic	Some progress. In April 2023, the authorities partially reversed the controls tightened in April 2020 and simplified administrative processes.
Improving competitiveness and business environment	Some progress. Investment Act 2021 was adopted in 2022, which streamlines the business registration process and provides equal treatment for foreign investors.
Improving financial system infrastructure	Some progress. The authorities in 2022 launched a new Central Securities Depository and upgraded Real Time Gross Settlement System, which facilitate electronic fund transfers, boost access to affordable payment services, and enhance financial sector efficiency.
Improve the governance and supervisory framework in non-bank financial institutions (NBFIs) and strengthen the anti-corruption framework	Some progress. FICAC continues to deepen cooperation with international partners, including the UNDP, to fight corruption. Progress in improving the supervisory framework is limited.

Annex V. 2018 Financial Sector Stability Review Outstanding Recommendations

Recommendations	Authorities Response[1]
Conduct a broad review of the Banking Act and determine amendments required to ensure compatibility with powers required to implement supervision.	IMF PFTAC plans to do a desktop review of the Banking Act, and further details are yet to be confirmed.
Seek to amend the Banking Act to address related parties, consolidated supervision, major acquisitions, and establish definition of significant ownership and controlling interest.	
Enhance the quantitative analysis to take into account and quantify the level of reliance of branches on their parent groups.	Scheduled for World Bank TA by March 2023 following up from the World Bank Financial Sector Support program in October 2022, which focused on streamlining and strengthening the RBF's early intervention framework.
Enhance the integration of supervisory knowledge of the financial institution into stress testing and, conversely, relate the analytical outputs to potential supervisory actions including establishing early warning indicators (EWIs).	Paper on EWIs is planned to be discussed at RBF's Policy Committee in Q2 2023.
Assign the macroprudential authority to the RBF with powers to identify and assess risks to financial stability; and to implement macroprudential policies.	RBF has drafted regulations in the absence of a direct legislation on this. The World Bank Financial Sector Support Program in October 2022 offered to develop a charter and TOR for the FSC via TA by March 2023. A draft TOR was prepared by RBF. The World Bank TA will also be reviewing the RBF Act for this purpose by April 2023.
Develop a detailed macroprudential toolkit, mapping policy instruments to intermediate policy objectives and to risk indicators.	The draft macroprudential toolkit has been developed and is under review targeted for finalizing in March 2023.
Strengthen the domestic coordination arrangements by establishing a Financial Stability Committee (FSC).	A proxy FSC is in place which includes the RBF Board, the Permanent Secretary of Finance, and the Governor. The formal establishment of the FSC is pending and will be assisted via World Bank TA tentatively scheduled for April 2023. Expected completion is within two years. The World Bank TA also offered to review the RBF Act for this purpose by April 2023.
Assess the costs and benefits of deposit insurance and possible design options.	The World Bank Financial Sector Support program TA is currently working on a paper that would assist in the assessment of the costs and benefits of a national deposit insurance scheme. The RBF is expected to consider options in its assessment by July 2023.

<table>
<tr><th>Recommendations</th><th>Authorities Response[1]</th></tr>
<tr><td>Develop comprehensive bank resolution policies and procedures and establish bank recovery planning requirements.</td><td>Under the World Bank Financial Sector Support program, TA is scheduled by May 2023 for the development of a comprehensive set of guidance on bank resolution, including resolution options by category of bank; resolution option selection criteria; implementation guidance; communications; identification of advisers and administrators; and cross-border coordination arrangements.</td></tr>
<tr><td>Develop ELA policy and processes.</td><td>Under the World Bank Financial Sector Support program, TA will be provided by April 2023 to review and provide recommendations for the strengthening of the RBF Act (which is expected to also address this recommendation).</td></tr>
<tr><td>Enhance crisis management cross-border coordination with home authorities.</td><td rowspan="2">Research in progress. As per the World Bank Financial Sector Support program, TA is scheduled by May 2023 to develop a comprehensive set of guidance on bank resolution, including resolution options by category of bank; resolution option selection criteria; implementation guidance; communications; identification of advisers and administrators; and cross-border coordination arrangements.</td></tr>
<tr><td>Strengthen the framework and capacity for the early detection of bank stress and early intervention actions, and to introduce recovery planning for banks.</td></tr>
<tr><td>Focus the strategies of statutory NBFIs on core competencies and missions.</td><td rowspan="2">Both the Fiji Development Bank and the Housing Authority of Fiji have been placed under the full supervision of the RBF. The RBF is working towards establishing a supervisory framework for the Housing Authority, after completing the initial onsite examination for which the recommendations are being addressed.</td></tr>
<tr><td>Develop performance frameworks for statutory NBFIs, particularly the identification of relevant performance and disclosure benchmarks.</td></tr>
<tr><td colspan="2">[1] Reference relates to update of outstanding FSSR recommendations compared with the 2021 Article IV consultation.</td></tr>
</table>

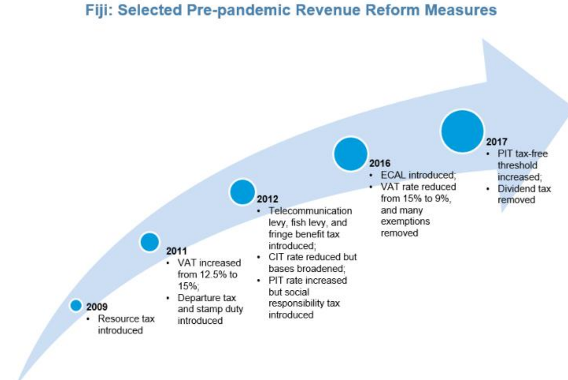
Annex VI. Rebuilding Fiscal Sustainability After the Pandemic

While countercyclical fiscal policies cushioned the macroeconomic impact of the COVID-19 pandemic and helped to protect vulnerable segments of the population, they led to a sharp increase in Fiji's fiscal deficit and public debt. Fiscal space has been largely eliminated, and without corrective policy actions the public debt stays at a level with considerable risks. As Fiji's economy is now enjoying a significant rebound, the FY23–24 budget is a critical opportunity to set needed fiscal adjustment in motion in the context of a credible medium-term framework.

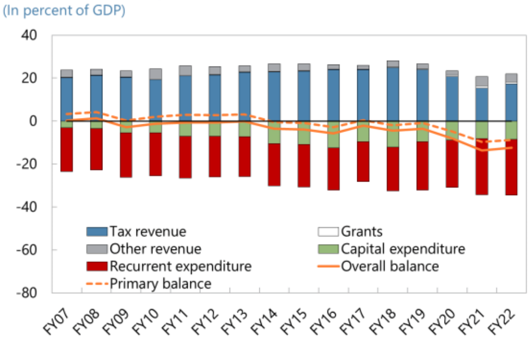
A. Pre-pandemic Background

1. **Fiji's fiscal performance during FY2007–19 can be divided into two periods: FY2007–13, and FY2014–19.** Fiscal performance during FY2007–13 was characterized by an overall fiscal deficit averaging 0.6 percent of GDP, but primary budget surpluses on the average of about 2.7 percent of GDP. The succession of primary fiscal surpluses was achieved mainly through the implementation of tax reforms. The authorities also rewrote the income tax law and introduced the Tax Administration Act (FY2009) and established "Pay as You Earn" (PAYE) system with mandated e-filing (FY2012). In the 2014-19 phase, changes in growth and development strategies led to an increase in the average overall fiscal deficit to 3.9 percent of GDP and a notable deterioration of the primary balance to an average deficit of 1.1 percent of GDP. The VAT rate was reduced from 15 percent to 9 percent in FY2016. The decline in VAT collection was partially offset by the introduction of the Environment and Climate Adaptation Levy (ECAL). The PIT tax-free threshold was increased in FY2017.

Fiji: Selected Pre-pandemic Revenue Reform Measures

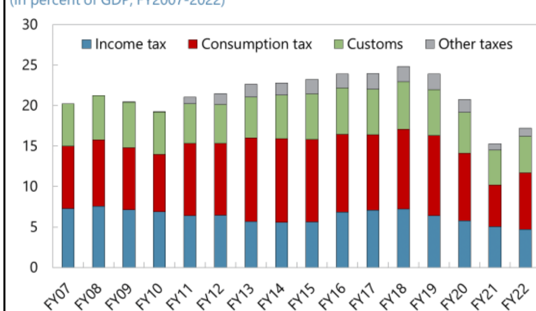


Fiji: Fiscal Development (FY2007-2022)
(In percent of GDP)



Sources: Fiji authorities; and IMF staff calculations.

Fiji: Tax Collections
(In percent of GDP, FY2007-2022)



Sources: Fiji authorities; and IMF staff calculations.
Note: Other taxes include resource tax, departure tax, and fish levy.

B. Pandemic and Post-Pandemic Shifts in Fiscal Policy

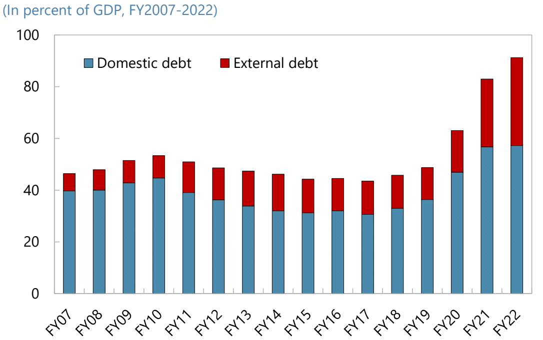
2. Fiji's fiscal response to the pandemic was large and relied heavily on reducing taxes, tariffs, and excises, rather than increasing expenditures. The first stage of support was a stimulus package of FJ$1 billion (9 percent of GDP) introduced as a FY2020 supplemental budget, with most of the stimulus coming from non-budgetary support but also including transfers and health expenditures as well as tax reductions. The second stage of support through the FY2021 budget included major changes to Fiji's tax and tariff regimes including removing the services turnover tax; removing stamp duties; reducing the ECAL rate (reversing prior increases) and raising its taxable threshold; reducing the local excise tax on alcohol; reducing customs duty rates; and halving the departure tax, which collectively reduced tax revenue by about 5 percent of GDP.

3. The government adopted a revised budget in April 2022 to address the impact of rising prices. Key measures included introducing zero rating on 21 essential consumer items while raising the VAT rate from 9 to 15 percent on select items (mostly large electrical goods and luxury goods), eliminating the ECAL, and removing the 20 cents per liter fiscal duty on fuel introduced during the pandemic. These policies were maintained in the FY2023 budget.

C. Public Debt Dynamics and Restoring a Sustainable Fiscal Equilibrium

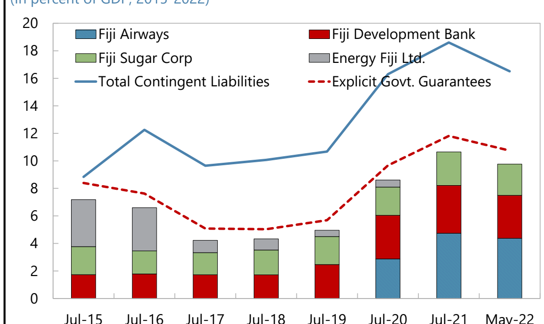
4. The pandemic and the ensuing fiscal response created a surge in Fiji's public debt. Prior to the onset of the pandemic, Fiji's public debt was relatively steady (averaging about 47 percent of GDP. However, with a record economic contraction and sizeable fiscal deficits, public debt jumped to 92 percent of GDP in FY2022 from 49 percent of GDP in FY2019. Contingent fiscal liabilities for the government—largely in the form of loan guarantees for such key state enterprises as Fiji Airways—also increased substantially, adding to fiscal risks. While the level of public debt has risen sharply, the level of risk attached to the overall debt portfolio has remained moderate given the dominance of domestic and official debt, as well as improved debt management.

Fiji: Public Debt
(In percent of GDP, FY2007-2022)



Sources: Fiji authorities; and IMF staff calculations.

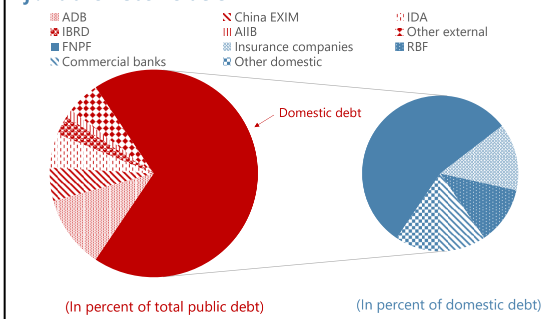
Fiji: Contingent Liabilities
(In percent of GDP, 2015-2022)



Sources: Fiji authorities; and IMF calculations.

5. Shifting to a sustainable primary budget surplus of around 1.5 percent of GDP by the end of the medium-term would facilitate a steady reduction in the ratio of public debt to GDP. Under current policies, the ratio of public debt to GDP is projected to remain around 85 percent of GDP. To shift back to such an equilibrium while maintaining public spending (particularly capital expenditure) at levels necessary to maintain growth momentum would require revenue policy and administration reforms to bring tax revenues up to around 24 percent of GDP (from 20 percent of GDP in FY2023) on a sustainable basis. At the same time, continued reforms on the expenditure side would be needed to protect most vulnerable and reorient to more growth-friendly spending.

Fiji: Public Debt Holders



Sources: RBF; and IMF staff calculations.

- **A comprehensive medium-term tax reform would center on the VAT, together with a range of other measures to broaden the tax base, reduce tax expenditures, and achieve an equitable tax burden across income groups.** The VAT remains the area where the largest gains can be made.[1] A potential reform would encompass reunification of VAT rates to a single rate between 12 and 14 percent. The structure of PIT could be simplified, and its tax-free thresholds reduced.

- **Reorientation of spending to maximize growth potential and climate resilience is a priority.** The 2019 Public Expenditure and Financial Accountability (PEFA) assessment acknowledged Fiji's improvement in public financial management but pointed out some weakness in the public investment processes (Kubasta and others, 2020). The World Bank Public Investment Management Assessment identifies many challenges, which include a lack of strategic planning framework to identify priority projects, limited coordination between government entities (including SOEs), no systematic project appraisal, and a lack of systematic maintenance allocations (World Bank, 2022).

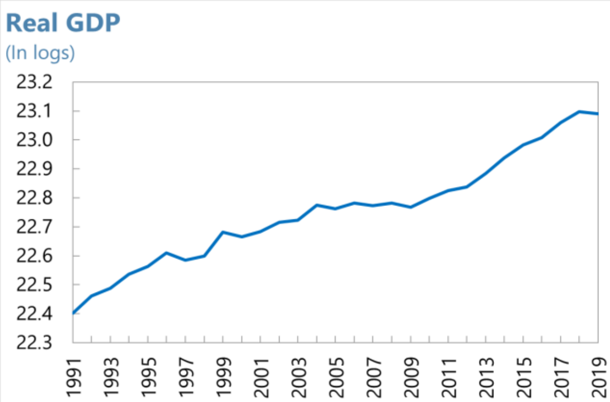
- **Registry of fiscal risks should be compiled and included in the budget.** It is a good practice to analyze and compile fiscal risks (i.e., factors that can cause fiscal outcomes to differ from the budget) and include them in the budget. This practice could ensure sound public finances and fiscal transparency, and is particularly relevant for Fiji, as large natural disasters could put pressure on its public finances.

[1] Sy et al, *Funding the Future: Tax Revenue Mobilization in the Pacific Island Countries*, IMF Departmental Paper DP/2022/015, 2022.

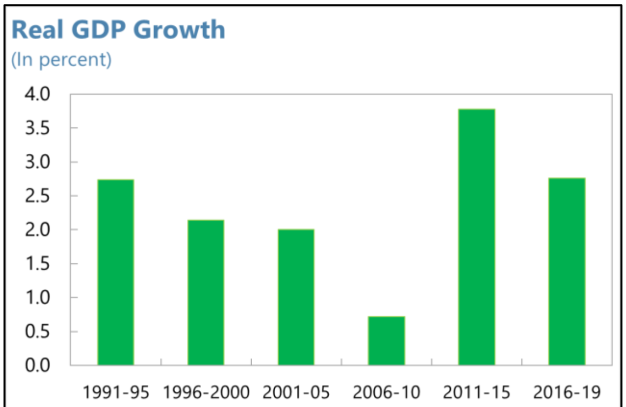
Annex VII. Growth Accounting Framework for Fiji

A. Trends in GDP Growth and its Drivers

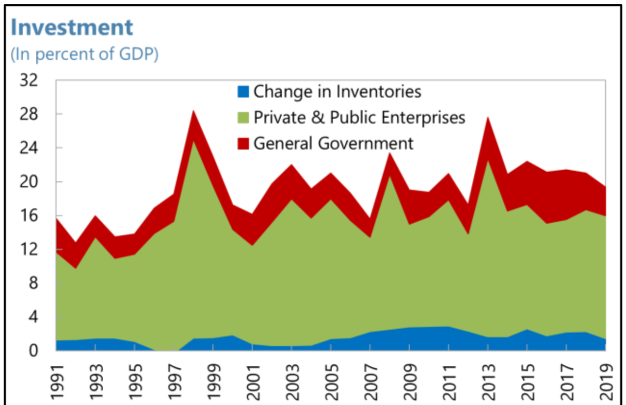
1. **Fiji has witnessed significant volatility in economic growth over the past three decades.** Swings in GDP growth have been driven by external shocks, frequent natural disasters (and subsequent reconstruction work), and political uncertainty. In addition, the sectoral significance in driving economic growth has shifted from agriculture and manufacturing in the 1980s and 1990s towards services in the following decades. The drivers of long-term economic growth have also witnessed shifts over the years due to fluctuations in public and private investment and demographic changes, in part due to emigration.



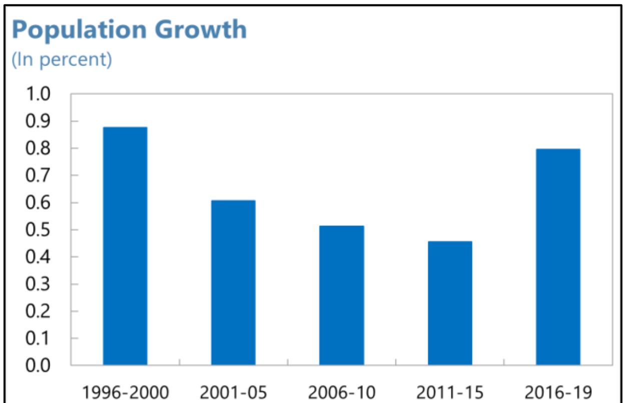
Sources: Fiji Bureau of Statistics, and IMF staff calculations.



Sources: Fiji Bureau of Statistics, and IMF staff calculations.



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



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

2. **In order to assess the drivers of GDP growth over the past three decades, a Solow growth accounting framework is developed for Fiji.** The framework uses a standard Cobb-Douglas Production Function, where real GDP (Y) is determined by factor inputs – labor (L) and capital (K), their shares in factor income (1-α, α respectively), and a residual (A) which can be attributed to changes in Total Factor Productivity (TFP):

$$Y = A\,K^{\alpha}\,L^{(1-\alpha)} \qquad (1)$$

Using historical data for real GDP[1], capital stock[2], working-age population[3] and factor income shares[4], the residual or TFP is derived from the growth accounting equation (1). The table below shows the derived TFP, real GDP growth and growth in factor inputs during 1991-2019.

GDP Growth and its Drivers

In percent	Real GDP	Labor Input	Capital Input	TFP (Residual)
1991-1995	2.7	1.9	4.5	-0.6
1996-2000	2.1	1.4	8.6	-2.5
2001-2005	2.0	1.6	4.6	-1.3
2006-2010	0.7	1.4	1.5	-0.7
2011-2015	3.8	0.0	4.9	0.8
2016-2019	2.8	0.8	4.2	-0.2

Source: Reserve Bank of Fiji, and IMF staff estimates.

B. Evolution of Potential Growth and its Drivers

3. **The Christiano-Fitzgerald (2003) statistical filter is applied to the historical data of capital stock, working-age population and derived TFP series to estimate trend capital stock, trend labor and trend TFP, respectively.** These trend values are then applied to the growth-accounting equation (1) to estimate potential GDP growth. The tables below show the derived potential GDP growth, the trend values for factor inputs, and their contributions to potential growth during 1991-2019.

Growth in Potential GDP and its Drivers

In percent	Potential GDP	Trend Labor	Trend Capital	Trend TFP
1991-1995	3.0	1.8	4.7	-0.5
1996-2000	2.2	1.5	7.7	-2.2
2001-2005	2.1	1.5	4.2	-0.9
2006-2010	0.4	1.3	1.9	-1.3
2011-2015	3.8	0.1	4.5	0.9
2016-2019	3.1	0.7	4.4	0.1

Source: IMF staff estimates.

Contributions to Potential Growth

In percentage points	Potential GDP Growth	Labor	Capital	TFP
1991-1995	3.0	0.8	2.6	-0.5
1996-2000	2.2	0.8	3.6	-2.2
2001-2005	2.1	0.6	2.3	-0.9
2006-2010	0.4	0.5	1.2	-1.3
2011-2015	3.8	0.0	2.8	0.9
2016-2019	3.1	0.3	2.8	0.1

Source: IMF staff estimates.

[1] Historical data on real GDP (Y) is from the official National Income Accounts statistics. This analysis is conducted only up to year 2019 to exclude the impact of the Covid-19 pandemic on potential growth.

[2] The initial level of capital stock (K_0) is estimated using the perpetual inventory method: $K_0 = I_0 / (I_g + \partial)$, using a depreciation rate (∂) of 10 percent (in line with literature for economies frequently affected by natural disasters), and historical investment (I_0) data from the Consolidated National Accounts. Based on this initial capital stock (K_0), the historical time series for capital stock (K) is constructed using equation: $K_1 = I_1 + (1 - \partial) * K_0$.

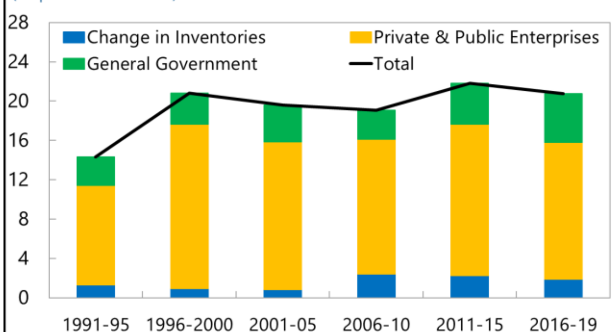
[3] Due to the unavailability of continuous historical data on labor force and employment for Fiji, the data on working-age population from the ILO modelled estimates (based on the UN estimates) is used as a proxy for the labor input (L). This analysis does not consider the human capital component separately.

[4] Data on labor's share (1- α) and capital's share (α) in factor income is obtained from the official statistics on GDP by Income Approach.

4. **Results from the growth accounting exercise suggest that Fiji's potential growth has varied somewhat over the past three decades.** Changes in potential growth could be largely attributed to swings in TFP and capital. Capital has been the main source of potential growth, although its contribution to growth has varied over the years. In comparison, the contribution of labor to potential growth has been relatively smaller and has tapered off in the past decade. While TFP was a drag on potential growth during the 1990s and 2000s, it has contributed to growth marginally in the past decade.

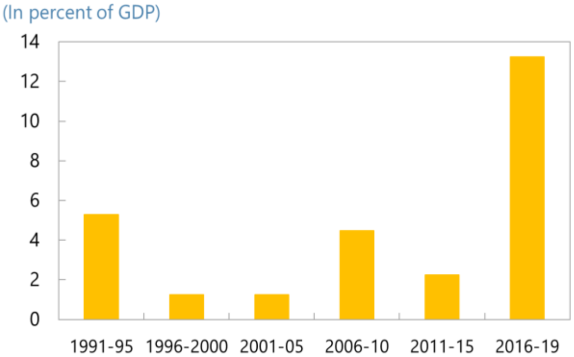
5. **Domestic and global developments have affected the performance of investment and productivity historically.** Potential growth moderated during the late-1990s and 2000s as TFP remined a drag on growth and investment slowed during the 2000s. Several developments during this period likely impacted investment and productivity, including political uncertainty, the Global Financial Crisis, frequent natural disasters, and the declining role of sugar and garments industries in the economy. With fertility rates continuing to decline, Fiji's annual population growth slowed to less than 1 percent starting the 2000s, which was also affected by the increased emigration during this period. Potential growth witnessed a rebound during 2011–15, driven by a pickup in TFP as well as public and private investment. A more conducive political environment and policy stimulus during this period, as well as reforms implemented since the mid-2000s, likely stimulated investment activity and improved productivity. During 2016–19, potential growth edged down marginally as productivity growth eased.

Investment
(In percent of GDP)



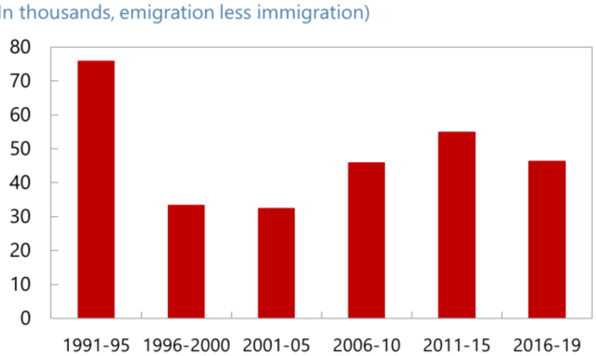
Sources: Reserve Bank of Fiji, and IMF staff calculations.

Cumulative Damages from Natural Disasters
(In percent of GDP)



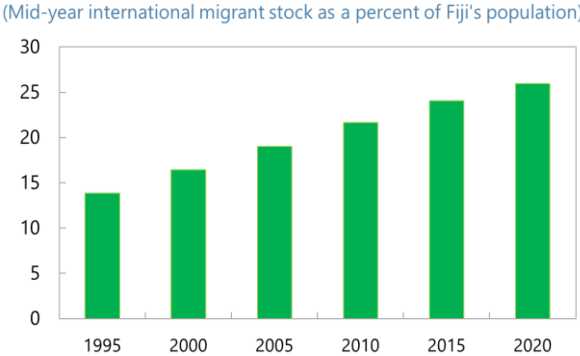
Sources: EM-DAT, CRED/UCLouvain, and IMF staff calculations.

Net Migration
(In thousands, emigration less immigration)



Sources: UN World Population Prospects, and IMF staff calculations.

Size of Fiji's Emigrant Population
(Mid-year international migrant stock as a percent of Fiji's population)



Sources: UN, Reserve Bank of Fiji, and IMF staff calculations.

6. Increasing potential growth would require continued economic reforms to sustain a high rate of investment in the coming years, raise productivity growth, and improve human capital. Re-orienting government expenditure towards public investment and social spending can yield long-term productivity gains. A stable political environment and policy certainty, along with reforms that foster a more favorable business climate, would help attract private and foreign investment and improve competitiveness. Reducing the cost of doing business should be complemented with improving the quality of infrastructure and availability of skilled workers. In addition, investing in human capital and addressing brain drain, including via greater training, better quality education and health care services, could help counter the waning contribution of physical labor to potential growth. Diversifying the sources of growth and strengthening climate resilience would also help cushion the economy from external and natural disaster shocks.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 11, 2023

Prepared By

Asia & Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2023)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	98.40	100.00
Fund holdings of currency	73.72	74.92
Reserve position in Fund	24.70	25.10

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	161.41	100.00
Holdings	138.58	85.86

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

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

	Forthcoming				
	2023	2024	2025	2024	2025
Principal					
Charges/Interest	0.59	0.79	0.79	0.79	0.79
Total	0.59	0.79	0.79	0.79	0.79

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

Since the beginning of 1999, the exchange rate of the Fiji dollar has been linked to a basket of five currencies: the U.S., Australian, and New Zealand dollars; the Euro; and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions, are reviewed annually. 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.

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).

The authorities further tightened the controls for payments of international transactions in April 2020, at the onset of the COVID-19 pandemic by reducing the delegated limits on emigrant transfers, loan repayments and gifts to non-residents, and replacing the delegated limits with an RBF discretionary approval requirement for dividend payments; offshore investment by individuals, companies and NBFIs; investment withdrawal via shares/asset sale; and deposit of asset sale/maturity proceeds into FJD external accounts. In April 2023, the authorities reversed restrictions on some exchange controls back to the pre-pandemic levels, such as on emigration transfers and offshore investment by companies and NBFIs. Restrictions on some other exchange controls were relaxed but not to the pre-pandemic levels, such as on profit repatriation, loan repayments, investment withdrawal via shares and asset sale, and asset sale and maturity proceeds deposits into FJD external accounts.

Details about current and past exchange control policies can be found in https://www.rbf.gov.fj/markets/exchange-control/

https://www.rbf.gov.fj/markets/exchange-control/ec-guidelines/ (latest)

Last Article IV Consultation: The 2021 Article IV consultation discussions were held in Suva during September 27 – October 8, 2021. The consultation (Country Report No. 2021/257) was completed by the Executive Board on November 29, 2021. Fiji is on a 12-month cycle.

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

Technical Assistance Activities:

Fiji: Capacity Development			
TA Area	**Description**	**Advisors**	**Period**
Macroeconomic programming and analysis	Assist the authorities to construct a model to forecast VAT collections by good and service type under a very wide range of economic growth and tax policy settings.	PFTAC	May-June, August 2022
	Assist the authorities to construct a model for GDP forecasting	PFTAC	Sep-Oct, 2022
	Assist the Reserve Bank of Fiji to develop and operate nowcasting and near-term forecasting tools	ICD	Jan-Feb 2023
Real Sector Statistics	Assist the authorities to compile a new dataset on constant price GDP for disemination	STA/PFTAC	May-June, 2022
Government Finance	Assist authorities to strengthen the compilation and dissemination of government finance statistics (GFS) and public sector debt statistics (PSDS)	STA/PFTAC	July, August, December 2022
Public Financial Management	Ongoing support to Ministry of Economy (MoE) Internal Audit and Good Governance (IAGG) Division, aimed at improving the internal audit framework.	PFTAC	May 2021
	Assist with the drafting of Internal Audit Charter and Internal Audit Committee Charter,and the Quality Assurance and Improvement Program	PFTAC	June/September 2022
	To review and quantify the fiscal risks, particularly those from SOEs, PPPs, and contingent liabilities.	PFTAC	October 2022
Revenue Administration	To review the implementation and functionality of the New Tax Information System (NTIS)	FAD	July 2021
	To review operations of the Fiji Revenue and Customs Service	FAD	May/June/November 2022, Feb 2023
	To provide a high-level assessment on the benefits of joining the Organization for Economic Cooperation and Development (OECD) Inclusive Framework (IF) on the Base Erosion Profit Shifting (BEPS), which aims to globally reduce tax evasion and tax avoidance.	FAD	Jan-Feb 2023

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank:
  https://financesapp.worldbank.org/countries/Fiji/
- Asian Development Bank:
  https://www.adb.org/countries/fiji/main
- Pacific Financial Technical Assistance Center:
  https://www.pftac.org/content/PFTAC/en1/countrieswp.html

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Macroeconomic data are improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years. Some key macroeconomic data releases still have significant publication lags, including the release of annual GDP. The Reserve Bank of Fiji (RBF) publishes the *Annual Report*, the *Quarterly Review,* and the monthly *Economic Review*. The Fiji Bureau of Statistics (FBoS) publishes the *Key Statistics*. The Ministry of Finance (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.
National Accounts: Production-side estimates of GDP at current and constant 2014 prices are available up to 2021; current price estimates of GDP by expenditure and income are available to 2021. Estimates were rebased from 2011 to 2014 in 2019, mainly using the 2013/14 Household Income and Expenditure Survey (HIES) and the 2014 Business Census to derive new benchmarks. Development of experimental quarterly national accounts started in 2020. **Price statistics:** CPI data are published monthly using 2014 weights derived from the 2013/14 HIES survey. The CPI weights should be updated based on the results of the 2019/20 HIES survey which was finalized in August 2021. Quarterly PPIs for goods and transportation services are available from 2015 to 2022 (Provisional).
Government finance statistics: Fiji compiles and submits annual GFS data for budgetary central government (BCG), exclusive of the classifications of the functions of government. The most recent submission was in December 2022. Re-classification of BCG expenditure data is required to improve the integrity of the fiscal data and prepare the data for general government consolidation. The authorities are in the process of reforming the financial system and the chart of accounts of BCG, which would allow an improvement on the GFS reporting. The authorities continue to make progress in collecting source data required to expand general government coverage; however, delays are experienced to obtain audited annual financial statements from statutory bodies and state-owned enterprises.
Monetary and financial statistics: Data on the central bank, other depository corporations, and other financial corporations are comprehensive and provided to APD and STA on a regular and timely basis using the standardized reporting forms. Monetary and financial statistics that are in line with the *Monetary and Financial Statistics Manual* are published on the RBF's website and *International Financial Statistics*. The RBF reports data on some key indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) of the United Nations Sustainable Development Goals.

Financial sector surveillance: Fiji reports to STA for publication on the IMF website all core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers on a quarterly basis and with one-to-two-quarter timeliness. Coverage of FSIs for other sectors needs to be improved as currently only two FSIs are reported to STA.
External sector statistics: Fiji reports its quarterly balance of payments data for dissemination purposes in the Fund's *International Financial Statistics* and in the *Balance of Payments Statistics Yearbook (BOPSY)* following the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) presentation. It also reports debt statistics to the World Bank's quarterly debt statistics database (QEDS). The FBoS has undertaken a number of actions that were recommended to improve timeliness and other quality dimensions of the external sector statistics.
II. Data Standards and Quality
Fiji participates in the IMF enhanced General Data Dissemination System (e-GDDS) and, since September 2018, disseminates key macroeconomic data in its National Summary Data Page, hosted by the RBF.

Fiji—Table of Common Indicators Required for Surveillance
(As of April 30, 2023)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	03/2023	04/2023	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/2023	04/2023	M	M	M
Reserve/Base Money	02/2023	04/2023	M	M	M
Broad Money	02/2023	04/2023	M	M	M
Central Bank Balance Sheet	02/2023	04/2023	M	M	M
Consolidated Balance Sheet of the Banking System	02/2023	04/2023	M	M	M
Interest Rates[2]	02/2023	04/2023	M	M	M
Consumer Price Index	03/2023	04/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3, 4]—General Government	n/a	n/a	n/a	n/a	n/a
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/2022	03/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	01/2023	03/2023	M	M	M
External Current Account Balance	2022	04/2023	Q	Q	Q
Exports and Imports of Goods and Services	2022	04/2023	Q	Q	Q
GDP	2021	08/2022	A	A	A
Gross External Debt	Q3, 2022	03/2023	Q	Q	Q
International Investment Position	2022	04/2023	Q	Q	Q

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