

This page intentionally left blank

INTERNATIONAL MONETARY FUND

FIJI

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Staff Representatives for the 2010 Consultation with Fiji
(In consultation with other departments)

January 20, 2011

	Contents	Page
I.	Fund Relations.....	2
II.	World Bank-IMF Collaboration.....	5
III.	Relations with the Pacific Financial Technical Assistance Centre	7
IV.	Relations with the Asian Development Bank.....	9
V.	Statistical Issues.....	10

ANNEX I. FIJI—FUND RELATIONS

As of December 31, 2010

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

II. General Resources Account:	SDR million	% Quota
Quota	70.30	100.00
Fund holdings of currency	54.08	76.92
Reserve position in Fund	16.25	23.11

III. SDR Department:	SDR million	% Allocation
Net cumulative allocation	67.09	100.00
Holdings	51.10	76.16

IV. Outstanding Purchases and Loans: None**V. Financial Arrangements:** None**VI. Projected Obligations to Fund:**

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal					
Charges/Interest	0.04	0.05	0.05	0.05	0.05
Total	0.04	0.05	0.05	0.05	0.05

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. On April 15, 2009, the Fiji dollar was devalued by 20 percent against the basket. The exchange rate was F\$1.8195 per U.S. dollar as of December 31, 2010.

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

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010. There are also restrictions in Fiji dollars on offshore portfolio and direct investments by the Fiji National Provident Fund and other nonbank financial institutions, companies, and individuals.

VIII. Last Article IV Consultation

The 2009 Article IV consultation discussions were held in Suva during Nov 10–24, 2009. The consultation (Country Report No. 10/136) was completed by the Executive Board on January 11, 2010. Fiji is on a 12-month cycle with the concurrence of the authorities.

IX. Technical Assistance from Headquarters

Fiscal Affairs Department (FAD):

- The Report on the Observance of Standard and Codes on Fiscal Transparency for Fiji was published on March 3, 2004.
- Assistance on review of tax and customs organization and operations, March–April, 2008.
- Assistance on investment tax incentives, January–February, 2009.

Monetary and Capital Markets Department (MCM):

- Long-term policy advisor with the Reserve Bank of Fiji, July 1993–November 1996.
- Assistance on monetary management, money and securities markets, and foreign exchange operations, September 1994.
- Assistance on bank supervision and monetary management, February 1996.
- Assistance on exchange rate arrangement and capital account liberalization, November 1997.
- Assistance on bank supervision, August 1998–August 1999.
- Assistance on insurance sector supervision, March 2002.
- Assistance on risk based framework for supervision of National Provident Fund and Pension funds, November–December 2005, March 2006.
- FSAP mission with World Bank, June–July 2006.
- Assistance on monetary operations and secondary market development, August 2006.

- Assistance on pension fund supervision, April–May 2007.
- Assistance on stress testing and financial stability analysis, March 2009.
- Comments provided from HQ on new draft Reserve Bank of Fiji Act, November 2009.

Statistics Department (STA):

- Assistance on Government Finance Statistics, January–February 2004.
- Monetary and Financial Statistics based on the GDDS framework, November–December 2005
- Multisector statistics advisor, 2005–2009.
- Balance of payments statistics, September 2006.
- Monetary and Financial Statistics under the MFS project for PFTAC members, January–February 2008.
- Import price index statistics, February 2008 and October–November 2008.
- Consumer price statistics, May 2008.

Legal Department (LEG):

- AML/CFT as part of Pacific project, December 2001.
- Assistance on Draft Financial Transactions Reporting Act, Financial Intelligence Unit and Proceeds of Crime Act, Mutual Assistance in Criminal Matters Act, November 2002–August 2004.
- Comments provided from HQ on new draft Reserve Bank of Fiji Act, November 2009.

X. Safeguards Assessment: The first-time safeguards assessment of the Reserve Bank of Fiji (RBF) was finalized in January 2011 and found key safeguards elements in place. The RBF publishes annual financial statements, albeit with some delay, that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were recommended by the staff for others. Other priority recommendations include: (i) establishing an inter-departmental working group to develop procedures for compilation of monetary program data, and (ii) adopting an action plan for establishing RBF capacity to prepare IFRS financial statements.

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

ANNEX II. FIJI: WORLD BANK-IMF COLLABORATION

(As of December 31, 2010)

The Bank and Fund country teams led by Ms. Rosa Alonso I Terme (World Bank Task Team Leader, Public Service Reform), Mr. Vivek Suri (World Bank Lead Economist, East Asia and the Pacific) and Mr. Jonathan Dunn (IMF Mission Chief for Fiji) maintain a close working relationship and have an ongoing dialog on a range of macroeconomic and structural issues.

Cooperation over the past year has included World Bank participation in the 2009 Article IV and April 2010 SBA negotiation missions and overlap (separate Bank missions on public service reform) with the April 2010 SBA negotiation mission and September 2010 IMF staff visit to Fiji. The Bank's participation facilitated discussions with the authorities in the areas of public service, public financial management, and land reforms.

The Bank and Fund teams agree that Fiji's main macroeconomic challenges are to put government finances on a sustainable path to reduce Fiji's public debt-to-GDP ratio and help safeguard external stability, and to address structural obstacles that are impeding growth. The Bank and Fund share the view that the following structural reforms are important to achieve the above objectives and are therefore deemed macro-critical:

- **Civil service reform.** A well-designed civil service reform would identify non-core service areas that could be privatized or outsourced to help rationalize public sector employment. Initial steps would include freezing wages and limiting hiring to key positions such as IT and HR pending an audit of civil service positions to identify overall government employment needs. Other key steps include establishing control over civil service payroll and hiring procedures and, if needed, designing adequate redundancy packages to facilitate the right-sizing of government.
- **Public enterprise reform.** The Fiji Sugar Corporation needs to be restructured and returned to profitability, and wide ranging sugar sector reforms need to be implemented to make the sugar industry viable. Tariffs for electricity and other goods and services provided by public enterprises should be raised to full cost recovery levels. FNPF should be made actuarially sound, including through reducing the conversion rates of benefits to annuities, limiting non-pension withdrawals and increasing the independence of FNPF's management. These reforms will help reduce the government's direct and contingent liabilities and help ensure fiscal sustainability and promote growth. Poor performance on the part of FSC has already created a large burden on the budget and significantly reduced Fiji's growth, highlighting the need for urgent and credible reforms in the sugar sector.
- **Review of the social safety net.** Fiji's social safety net needs to be reviewed to reduce inefficiencies and enhance protection of the most vulnerable segments of the population. A stronger safety net will help to ensure the success of Fiji's reform agenda.

- **Tax policy and administration reform.** VAT and income tax legislation should be strengthened and simplified to increase efficiency and broaden the tax base. This should include eliminating tax holidays, removing most tax exemptions, and introducing a simplified investment allowance scheme. Tax administration reforms will improve compliance and taxpayer services. These reforms should increase revenue and reduce discretion, thereby helping to achieve fiscal consolidation and to improve the business climate and prospects for growth. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.
- **Debt management.** Debt management procedures should be followed strictly and Fiji should develop a debt-management strategy to prevent a rapid build-up of public debt.
- **Land reform.** Land leases should be redesigned and procedures for the use of land as collateral need to be streamlined. Land reform is critical for Fiji's growth prospects and economic diversification.
- **Strengthening statistical capacity and statistics.** Fiji should ensure that it continues to develop personnel with the capacity to produce accurate and timely economic statistics. Good statistics are important both for macro policy formulation and good public financial management (e.g. establishment payroll and wage bill control). Fiji continues to benefit from a broad range of statistical advice from PFTAC.

The Bank and Fund teams agreed to continue close collaboration going forward. Appendix I details those activities that the Bank and Fund will work on over the coming year. The teams agreed, in consultation with the Asian Development Bank (AsDB), that the AsDB will lead on public enterprise reform and analysis of the social safety net in connection with the possible reform of the sugar industry.

Appendix I: Fiji: Bank and Fund planned activities in macro-critical structural reform areas, September 2010-September 2011

	Products	Expected Delivery Date
Bank Work Program	<ul style="list-style-type: none"> • Needs assessment for Public Service reform • Public Service reform • Actuarial assessment and capacity building of FNPF • Poverty mapping • Assessment of Family Assistance Program • Land reform (potential assistance) 	<ul style="list-style-type: none"> • October 2010 • Ongoing FY2011 • Ongoing FY2011 • Ongoing FY2011 • Ongoing FY2011 • FY2011/12
Fund Work Program	<ul style="list-style-type: none"> • Article IV staff report to the board • National Accounts Statistics (PFTAC) • Income Tax and VAT legislation (PFTAC) • Internal audit and accounting reform (PFTAC) • Implementation of simplified investment allowance scheme (potential assistance) • Debt strategy and debt management (potential assistance) 	<ul style="list-style-type: none"> • January 2011 • Ongoing FY2011/12 • Ongoing FY2011/12 • Ongoing FY2011/12 • FY2011/12 • FY2011/12

**ANNEX III: FIJI—RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE
CENTRE¹**
(As of December 31, 2010)

Public Financial Management

PFM TA to Fiji has mainly focused on accounting and control based, in part on a 2006 PFTAC review of Treasury operations that provided advice on the appropriate structure, functions and accounting procedures, as well as interim measures for strengthening internal controls. This has been supplement by a scoping study on Accrual Accounting in September 2009, following which a consultant worked, in November 2009, on the next steps to improve IPSAS based cash accounting, before moving toward accrual accounting. The consultant further worked on this issue in September 2010 as a result of which, for the first time, Fiji's IPSAS based cash accounts shall be submitted to the Auditor General by mid-December 2010. Fiji also requested a review of their IFMIs system and this is being undertaken in December 2010.

In addition, a peripatetic consultant assisted the government in 2006 to set up a system of Performance Budgeting, and this work was continued in 2007 and 2008 by the PFTAC PFM Advisor. A short-term mission to develop staff capacity in Debt Strategy and Sustainability Analysis was undertaken in July–August 2007. In addition, the PFTAC Advisor conducts regular monthly training courses in PFM for the staff of the Budget Division. Permanent Secretary Finance also participated in the PFTAC organized study visit to the US Treasury, in August 2008.

A Fiji participant attended the two-week PFM program in September 2009, organized by PFTAC in India.

Tax Administration and Policy

In March 2008, FAD recommended changes to FIRCA (Fiji Islands Revenue and Customs Authority) operations, i.e., reorganize core tax and customs functions; review all tax procedures, especially the burdensome assessment regime; develop effective business processes; customs to develop a comprehensive reform plan and review business processes under the new organizational proposals; increase and unify the VAT threshold; and strengthen audits.

FIRCA have adopted all but a few of the recommendations. Terms of reference for the implementation have been finalized and steering committee and project teams formed. PFTAC has provided assistance to review the business processes and identify process enhancements. PFTAC has also assisted with development of a new corporate plan incorporating implementation of the new business processes and modernization of the income tax legislation. The rewritten income tax

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

legislation, drafted with PFTAC assistance, and will include self-assessment principles and make PAYE a final tax. The IMF Legal has provided assistance to review and modernize the VAT legislation.

Financial Sector Regulation and Supervision

In 2008, TA in respect of supervision of the national provident fund was provided by MCM. In September 2009, RBF hosted a regional training seminar by STA on Financial Soundness Indicators and reporting requirements under the IMF Monetary and Financial Statistics Manual. In March 2009, RBF and PFTAC hosted a regional training seminar by MCM on Stress Testing and in October 2010 participated in a regional training seminar organized by the Advisor on Liquidity Risk in Banking Operations.

Recently, assistance to the RBF has been provided through its participation in AFSPC activities, for which the Advisor serves as Secretariat. As a result of the RBF's participation in the June 2010 meeting of the AFSPC working group to standardize prudential returns, the Advisor provided recommendations to the RBF for strengthening prudential bank reporting requirements. Additionally, the RBF was an active participant in the October 2010 annual meeting of the AFSPC, which included training presentations on Basel III and the possible implications for the Pacific, and supervisory cost recovery schemes being used by PIC supervisory authorities.

Macroeconomic Frameworks

In December 2009, PFTAC provided assistance to the RBF on reform of monetary policy operations and the exchange rate arrangement. PFTAC's new macroeconomic advisor is following up with assistance in building forecasting and financial programming techniques in RBF.

Economic and Financial Statistics

GDSD metadata for Fiji, prepared with assistance from PFTAC, are posted on the IMF website. A multi-year action plan developed in 2002 was reviewed and updated in early 2008, to strengthen both the organization and content of statistics. In response to subsequent requests by the authorities, assistance has been, and will continue to be, provided to assist the transition of balance of payments (BOP), government finance, monetary and national accounts statistics to the latest international standards, and to improve the quality of these statistics. During 2007 and early 2008 a series of STA expert missions focused on strengthening monetary and financial statistics.

The PFTAC Advisor and experts have undertaken 11 missions since 2008 to assist in improving balance of payments, national accounts, and prices statistics. As a result, the Fiji Islands Bureau of Statistics has recently released quarterly BOP estimates up to September 2009 and annual international investment position statistics. The coverage and quality of national accounts estimates have been significantly improved and constant price estimates have been rebased to 2005 prices. Work has also begun on developing quarterly GDP estimates and an expenditure measure of GDP. The CPI has been rebased to 2005, an imports' prices survey has been implemented to begin compiling import price indexes and development of producer price indexes is underway.

ANNEX IV: FIJI—RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of December 31, 2010)

The Asian Development Bank (AsDB) has approved 18 loans totaling \$303.6 million. The AsDB has approved 80 TA projects, totaling \$27.0 million since 1970. AsDB opened a Pacific sub-regional office in Suva in June 2004, servicing Fiji Islands and five other Pacific nations.

Following the military coup of December 2006, AsDB's disbursements and TA operations were suspended. In April 2007, AsDB adopted an *Approach to Reengagement* for Fiji Islands which allows for the completion of activities ongoing at the time of the December 2006 coup, but not approval of a new country partnership strategy or new operations until Management judges that five criteria have been met. While three criteria have clearly been met, the stance of some AsDB member countries towards the government and Fiji Islands' suspension from the Pacific Islands Forum and the Commonwealth remain problematic. Periodic reports, to update AsDB's Board on the evolving situation in the country, are prepared in line with the *Approach to Reengagement*.

ADB has three ongoing loan projects—two that were ongoing at the time of the 2006 coup and one, Emergency Flood Recovery Project for \$17.5 million, was approved in 2009 as an exception to the *Approach to Reengagement*. Supplementary financing for the Third Fiji Road Upgrading Project (\$26.8 million) and the Suva-Nausori Water Supply and Sanitation Project (\$23.0 million) was approved in 2009. The implementation of all three projects is proceeding satisfactorily with the road and water/sanitation projects expected to be substantially complete by end 2012. The flood recovery loan is also expected to be completed by 2012. Opportunities for private sector operations continue to be considered. Fiji Islands has continued to benefit from a limited amount of regional technical assistance (TA) on a case-by-case basis, but there are no ongoing country program TAs.

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

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

ANNEX V: FIJI—STATISTICAL ISSUES

As of December 31, 2010

I. Assessment of Data Adequacy for Surveillance

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

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

Formal participation in the GDDS commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002. The country has maintained its commitment to use the GDDS as a framework for statistical development.

National Accounts: Production-side estimates of GDP at current and constant prices are available up to 2009. Revised data were published in September 2010 using the 2002 Household Income and Expenditure Survey, a new business census, and estimates of the informal sector. Expenditure-side GDP data in constant prices are not available and expenditure-side GDP data in current prices are only available through 2005. In addition, GDP broken down by income is only available through 2005.

Price statistics: The BoS is updating the CPI weights from the current 1993 base using results of the 2002 Household Expenditure and Income survey. There have been persistent difficulties in compiling export and import unit value indexes, mainly due to lack of continuity that resulted from a switch to ASYCUDA for customs processing late in 1999. The BoS plans to re-introduce trade price indexes with a starting period of 2002 (to coincide with the new benchmark year for national accounts).

Government finance statistics: Public debt data remain weak. Following a PFTAC supervised project, reporting of data for publication in the *Government Finance Statistics (GFS) Yearbook* has resumed. Data include a statement of sources and uses of cash for budgetary central government, subdivisions of receipts and payments by economic category and outlays by function. Data for 2006 in the format of the *Government Finance Statistics Manual 2001* are available. Some inconsistencies remain between the GFS data and fiscal data provided to APD, especially in the areas of nontax revenue, wages and salaries, other

purchases of goods and services, and subsidies and transfers. Other problem areas include a lack of transparency in budget reporting, with some agencies outside the budget, including the Fiji Islands Revenue and Customs Authority; and an absence of published updates on the budget outcome and financing sources.

Monetary statistics: Data on the monetary authorities and the deposit money banks are comprehensive and provided to APD and STA on a regular and timely basis. Data on nonbank financial institutions, including the Fiji National Provident Fund (FNPF), are less regular, timely, and reliable. With FNPF representing a large part of the financial sector, the unavailability of a consolidated financial survey hampers economic and financial analysis. The RBF is in the process of broadening its monetary survey into a depository corporations survey and compiling a financial survey that covers nonbank financial institutions. A November 2005 expert mission, during a PFTAC monetary statistics workshop, reviewed the compilation procedures and provided training and a work plan for the RBF to comply with the methodology of the *Monetary and Financial Statistics Manual* and to report using the standardized report forms (SRFs). A follow-up February 2008 mission provided advice on introducing the SRFs and developing an integrated monetary database that will meet the data needs of the RBF, APD, and STA.

Balance of payments: The BoS is nearing the end of a major PFTAC assisted project to compile new balance of payments data and revise historical data back to 2000 consistent with the IMF *Balance of Payments Manual (fifth edition)*. Revised annual balance of payments data were published in June 2010 that significantly reduced errors and omissions in 2008 from over 10 percent of GDP to about 6 percent of GDP. Initial estimates of quarterly balance of payments data and the annual investment position were also published in June 2010. A separate project to publish data on international trade in services is also nearing completion, while technical assistance to address problems in the capital and financial accounts will start shortly. Balance of payments data for the period up to end-2006 were reported to the Statistics Department for publication in the 2007 *Balance of Payments Yearbook*. Problems remain in the measurement of external debt, due to the absence of a consistent framework and insufficient coordination between the RBF, the BoS, and the MoF.

II. Data Standards and Quality

Fiji is a GDDS participant. The statistics advisor based at PFTAC in Suva is the GDDS Project Manager for the Pacific region.