Republic of Fiji: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Fiji

INTERNATIONAL MONETARY FUND

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REPUBLIC OF FIJI

December 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF FIJI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Republic of Fiji, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 29, 2021 consideration of the staff report that concluded the Article IV consultation with the Republic of Fiji.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 29, 2021, following discussions that ended on October 8, 2021, with the officials of the Republic of Fiji on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 8, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Fiji.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Fiji

FOR IMMEDIATE RELEASE

Washington, DC – December 3, 2021: On November 29, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Fiji.

Fiji has been hard hit by the COVID-19 pandemic. Real GDP contracted by an estimate 15.7 percent in 2020 and is projected to contract by a further 4 percent in 2021 in the wake of the Delta variant outbreak. The fiscal deficit reached a record 13.1 percent of GDP in FY20-21 and is projected around the same level for FY21-22, with an accompanying rise in public debt to 89.8 percent of GDP by the end of the current fiscal year. Year-on-year consumer price inflation reached -2.8 percent at end-2020. Increases in international commodity prices and local food prices are expected to contribute to rise in consumer price inflation to 1.4 percent by end-2021. Both lending and deposit rates have decreased, and private sector credit contracted by 3.1 percent in 2020 and is expected to shrink by a further 3.6 percent by end-2021. Non-performing loans have risen to record levels.

While Fiji's COVID-19 Delta variant outbreak was largely confined to one island, infection rates were at one point among the highest in the world. Contributions of AstraZeneca vaccine from Australia and New Zealand enabled an aggressive vaccination campaign. As of mid-October, more than 95 percent of eligible Fijians (those over 18) had received their first dose and 80 percent were fully vaccinated. Passing these milestones, the government announced an easing of local curfew and business restrictions. Fiji's borders will be reopened to fully vaccinated travelers from a select group of countries, including Australia, New Zealand, the U.S., UK, Japan, and other Pacific Islands starting December 1, 2021.

A gradual recovery is expected to emerge in 2022 but will hinge on how the reopening and resumption of tourism unfolds. Based on the authorities' announced border reopening and protocols for international tourist arrivals real GDP is projected to rise to 6.2 percent in 2022 and by a further 8.3 percent in 2023. There remain significant risks to the outlook. Fiji remains highly vulnerable to natural disasters—particularly the effects of tropical cyclones. The recovery and medium-term outlook hinge on a full recovery of tourism, but it is unclear whether pre-pandemic tourism and spending patterns will reestablish themselves. Contingent liabilities have surged during the pandemic, posing a quasi-fiscal risk. The sustainability of the economic outlook will also rest critically on the government's ability to embark on the policy reforms necessary for macro-fiscal stabilization and to begin reducing public debt.

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

Executive Board Assessment[2]

Executive Directors noted that Fiji has been severely impacted by the COVID-19 pandemic given its reliance on tourism. Directors commended the authorities for their swift actions to cushion the impact of the crisis and to accelerate vaccinations, which, together with the reopening of borders, have improved economic prospects. Given heightened uncertainty, macroeconomic imbalances, and vulnerability to climate shocks, Directors stressed the importance of policy adjustments and macro-structural reforms aimed at facilitating stronger, greener, and more sustainable growth.

Directors underscored that, as the recovery strengthens, fiscal consolidation will be needed to safeguard sustainability and place the public debt-to-GDP ratio on a steady downward path. They recommended a roadmap to guide the implementation of phased revenue reforms and expenditure rationalization, in line with the economic recovery. Directors emphasized the need to address the increase in contingent liabilities related to state-owned enterprises, develop contingency plans, and strengthen governance and transparency. They also encouraged further building climate resilience and mainstreaming climate adaptation considerations into fiscal policy planning.

Directors agreed that the accommodative monetary policy stance is appropriate at the current juncture but that a careful monitoring of financial conditions is warranted as support measures are gradually withdrawn. They recommended close supervision of the financial sector, especially non-banks, given rising vulnerabilities and non-performing loans. Directors called for further progress in implementing the recommendations of the 2018 Financial Sector Assessment Program and enhancing the effectiveness of the AML/CFT framework. They called on the authorities to phase out existing exchange restrictions for payments on current international transactions, as conditions allow.

Directors welcomed recent structural reform measures to underpin the recovery and foster private investment and economic diversification, notably the new Investment Act. They encouraged further efforts to develop the domestic debt market and a digital national payment system, address skills gaps and labor mismatches, and simplify labor market regulations. Directors welcomed continued efforts to raise female labor force participation, including by focusing on early childhood care and education.

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

Table 1. Fiji: Selected Economic Indicators, 2018-26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
Output and prices (percent change)									
Real GDP	3.8	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4
GDP deflator	3.0	2.4	-2.6	1.2	2.5	3.0	2.8	2.7	2.5
Consumer prices (average)	4.1	1.8	-2.6	1.2	2.5	3.0	2.8	2.7	2.5
Consumer prices (end of period)	4.8	-0.9	-2.8	1.4	2.6	3.2	2.7	2.5	2.4
Central government budget (percent of GDP)									
Revenue	26.9	27.3	20.4	21.4	22.2	23.8	25.0	25.4	25.7
Expenditure	32.4	29.9	33.2	37.2	33.2	30.2	28.9	28.5	28.3
Overall balance	-5.5	-2.7	-12.8	-15.8	-11.0	-6.4	-4.0	-3.1	-2.6
Primary balance	-2.8	0.1	-9.1	-11.8	-7.0	-2.5	-0.2	0.6	1.2
Central government debt	46.4	48.9	70.8	86.7	89.4	85.9	82.3	79.8	78.0
External sector (percent of GDP)									
Current account balance	-8.4	-12.6	-13.4	-15.7	-8.8	-7.0	-6.7	-7.4	-7.8
Trade balance	-24.2	-25.2	-14.7	-14.8	-18.7	-20.0	-21.1	-21.6	-21.8
Services balance	16.6	14.9	-1.7	-5.9	7.8	13.5	15.3	15.9	15.9
Primary Income balance	-6.4	-8.2	-6.2	-5.0	-7.0	-7.5	-8.0	-8.2	-8.4
Secondary Income balance	5.6	5.9	9.2	10.0	9.0	7.0	7.0	6.5	6.5
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (-= inflows)	-12.0	-11.8	-7.7	-18.1	-12.4	-8.7	-7.6	-7.2	-6.2
FDI	-8.5	-6.5	-5.0	-7.5	-5.4	-5.9	-7.1	-7.2	-7.2
Portfolio investment	0.6	-0.3	3.9	2.3	0.6	0.6	0.6	0.6	0.6
Other investment	-4.2	-5.0	-6.6	-12.9	-7.6	-3.4	-1.1	-0.7	0.4
Errors and omissions	-6.0	2.5	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	2.2	-1.8	0.3	-3.0	-3.7	-1.8	-0.9	0.1	1.6
Gross official reserves (in months of prospective imports)	4.1	7.3	7.7	6.9	6.8	6.5	6.3	5.8	...
External central government debt	13.1	12.7	18.9	26.4	30.7	31.7	30.8	29.8	28.7
Money and credit (percent change)									
Net domestic credit depository corporations	10.7	5.4	0.7	-3.4	...	...	...	...	...
Private sector credit	7.3	4.6	-3.1	-3.6	...	...	...	...	...
Broad money (M3)	2.8	2.6	1.3	13.2	...	...	...	...	...
Monetary base	-9.9	15.2	13.5	35.7	...	...	...	...	...
Central Bank Policy rate (end of period)	0.50	0.50	0.25	...	...	...	...	...	...
Commercial banks deposits rate (end of period)	1.32	1.10	0.54	...	...	...	...	...	...
Commercial banks lending rate (end of period)	5.69	6.30	6.12	...	...	...	...	...	...
Memorandum items									
Exchange rate, average (FJD/USD) (2021=H1 average)	2.09	2.16	2.17	2.04	...	...			
Real effective exchange rate, average (2021=H1 average)	112.7	113.3	107.6	104.2	...	...			
GDP at current market prices (in millions of Fiji dollars)	11,651	11,874	9,747	9,466	10,307	11,491	12,566	13,480	14,281
GDP at current market prices (in millions of U.S. dollars)	5,581	5,496	4,494	4,641	5,054	5,635	6,162	6,610	7,003
GDP per capita (in U.S. dollars)	6,273	6,143	4,995	5,130	5,556	6,160	6,699	7,146	7,450
Real output gap	2.8	-0.8	-12.9	-17.8	-14.5	-9.2	-5.7	-3.9	-3.1

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

November 8, 2021

KEY ISSUES

Fiji has been among the hardest hit by the pandemic—with infection rates at one point among the highest in the world. Despite swift action by the government to close borders, protect the population, and mitigate the worst economic effects, the economic contraction was the worst in Fiji's history. The crisis has come at a heavy social cost, including large-scale layoffs, surging unemployment, and high non-performing loans. Multilateral and bilateral support has been critical in helping Fiji weather the worst of the crisis and has facilitated a strong government response—including rapid acceleration of the government vaccination program underpinning Fiji's reopening to international tourism.

A gradual recovery is expected to emerge in 2022 but will hinge on how the reopening and resumption of tourism unfolds. Based on the authorities' October announcement regarding border reopening and protocols for international tourist arrivals, real GDP growth could rise to 6.2 percent in 2022 and further to 8.3 percent in 2023. However, the margin of uncertainty is high, and two years of unprecedented hardship have left Fiji in a precarious position. Vulnerabilities have been exacerbated by scarring and diminished fiscal space. Contingent liabilities have surged during the pandemic as the government extended loan guarantees to state enterprises. Fiji remains vulnerable to external shocks—particularly natural disasters and the effects of climate change. Upcoming national elections will be an important part of the backdrop over the next year.

Fiscal, monetary, and financial support will need to continue in the short-term as Fiji weathers the remaining months of the pandemic. However, as tourism resumes gradually and a recovery takes hold, policy adjustments to address macroeconomic imbalances and reduce vulnerability will be a clear priority. As part of a COVID-19 support package, the FY20-21 budget introduced measures that reduced the overall revenue envelope by about 5 percent of GDP—creating a structural imbalance in the fiscal framework. Fiscal consolidation will be needed to put public debt on a sustained downward path and ensure a sustainable macro-fiscal trajectory.

Main Policy Recommendations

- Providing targeted public support in the near term but setting out a roadmap for phased revenue reforms and fiscal consolidation, with the objective of achieving a sustainable primary surplus by the end of the medium term.

- Preparing a contingency plan in the event that contingent liabilities in the form of guarantees to state owned enterprises need to be partially or fully taken onto the government's books.

- Maintaining the current accommodative monetary stance but planning for a phased withdrawal of other means of support.

- Close monitoring of the financial sector for vulnerabilities as support unwinds and scarring effects are more visible.

- Establishing a financing plan for climate adaptation and integrating it with the medium-term macro-fiscal framework.

Approved By
Krishna Srinivasan and Geremia Palomba

Discussions took place by video conference during September 27 to October 8, 2021. The staff team comprised Todd Schneider (Head), Muhammad Shamil Akbar, Robin Koepke, and Mouhamadou Sy (all APD), Leni Hunter (Resident Representative in Fiji). Cory Hillier and Adrian Wardzynski (LEG) joined selected meetings. Kristine Laluces and Yadian Chen provided support from headquarters. Firman Mochtar, Son Thanh Nghiem, and Selene Yoe (all OED) also joined the discussions.

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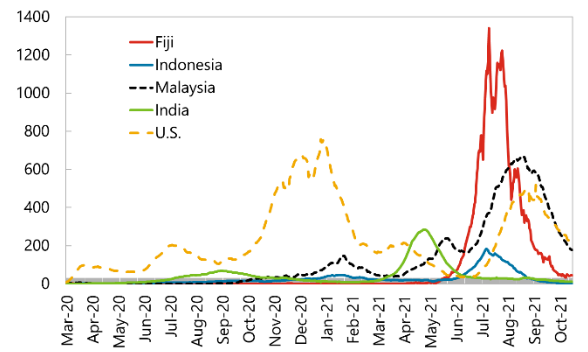
CONTEXT AND RECENT DEVELOPMENTS

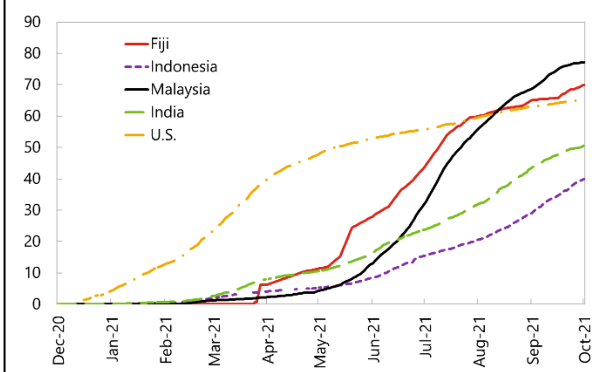
1. **After keeping COVID-19 at bay for a full year, an outbreak of the COVID Delta variant emerged in Fiji in April 2021**. While the outbreak was largely confined to one island, infection rates were at one point among the highest in the world. Contributions of AstraZeneca vaccine from Australia and New Zealand enabled an aggressive vaccination campaign. As of mid-October, more than 95 percent of eligible Fijians (those over 18) had received their first dose and 80 percent were fully vaccinated. Passing these milestones, the government announced an easing of local curfew and business restrictions. The government has also announced that Fiji's borders will be reopened to fully vaccinated travelers from a select group of countries, including Australia, New Zealand, the U.S., UK, Japan, and other Pacific Islands.

COVID-19 Infections per Million Residents
(7 day average)



Source: Our World in Data.

Number of People Vaccinated for COVID-19 per 100



Sources: Our World in Data and IMF staff estimates.

2. **A need for significant policy adjustment in the post-pandemic is set against upcoming national elections.** A wave of financing from bilateral and multilateral partners sustained public spending as revenues dwindled, but public debt has surged. Policies to support the private sector and bolster tourism—mainly through tax, tariff, and excise cuts—have significantly reduced the overall revenue envelope. Measures to recoup revenues, rationalize recurrent spending, and put debt on a downward path will be needed as recovery takes hold. As a backdrop, national elections must be held sometime between July 2022 and January 2023. The Fiji First party (Fiji's current government) won the first post-coup national election in 2014 and was reelected in 2018 with a reduced majority. The political process behind these elections may complicate the government's ability to undertake reforms in the short term.

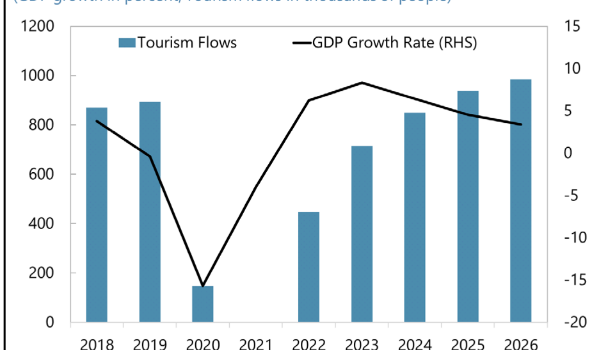
3. **The impact of the pandemic on Fiji has been severe**. Real GDP contracted by an estimated 15.7 percent in 2020 and is projected to contract by a further 4 percent in 2021 in the wake of the Delta variant outbreak. The fiscal deficit reached a record 13.1 percent of GDP in FY20-21 and is projected around the same level for FY21-22, with an accompanying rise in public debt to 89.8 percent of GDP by the end of the current fiscal year. Year-on-year consumer price inflation reached -2.8 percent at end-2020. Increases in international commodity prices and local food prices are expected to contribute to a rise in consumer price inflation to 1.4 percent by end-2021.

4. Monetary policy has been accommodative, and financial conditions remain relatively loose. Both lending and deposit rates have decreased, and private sector credit contracted by 3.1 percent in 2020 and is expected to shrink by a further 3.6 percent by end-2021. Non-performing loans have risen to record levels. The current account deficit widened to 13.4 percent of GDP in 2020 and is expected to expand to 15.7 percent in 2021—driven by the sharp drop in the services balance from the loss of tourism. The overall balance of payments has been cushioned by the influx of external financial flows (loans and grants) in 2020, strong growth in inward remittances, and the new SDR allocation in 2021. The Fiji dollar depreciated by 4 percent on average in real effective terms in 2020, reflecting Fiji's lower inflation relative to its trading partners. Foreign exchange reserves are expected to be around $1.2 billion by end-2021, equivalent to about 7 months of prospective import cover.

OUTLOOK AND RISKS

5. A gradual recovery is expected to emerge in 2022 but will hinge on how the reopening and resumption of tourism unfolds. Based on the authorities' October announcement regarding border reopening and protocols for international tourist arrivals, the baseline macroeconomic framework assumes tourist arrivals reach 50 percent of 2019 levels in 2022 and 95 percent of 2019 levels in 2023. On this basis, real GDP is projected to rise to 6.2 percent in 2022 and by a further 8.3 percent in 2023. Consumer price inflation is expected to rise to 2.6 percent in 2022 and 3.2 percent in 2023. However, per capita GDP is not projected to recover to 2019 levels before 2023. Critically, this outlook is based on the authorities' commitment to reduce the fiscal deficit to around 2 percent of GDP over the medium term. It incorporates a gradual fiscal consolidation starting next fiscal year and aimed at achieving a sustainable primary budget surplus of 1-2 percent of GDP by the end of the medium-term.

GDP Growth Rate and Tourism Flows
(GDP growth in percent, Tourism flows in thousands of people)



Source: Fiji Authorities.

6. While the outlook is generally positive, the balance of risks remains tilted to the downside (Annex 1). The Fijian economy remains in a precarious position given pandemic-related uncertainty. Vulnerabilities have been exacerbated by scarring and diminished fiscal space. Fiji remains at high risk from natural disasters—particularly the effects of tropical cyclones. The recovery and medium-term outlook in the baseline scenario also hinge on a full recovery of tourism, but it is unclear whether pre-pandemic tourism and spending patterns will reestablish themselves. Contingent liabilities have surged during the pandemic as the government extended loan guarantees to state enterprises—some of which could potentially end up on the government's books, depending on the pace and depth of recovery and/or emergence of new shocks. Finally, the sustainability of the economic outlook will rest critically on the government's ability to embark on the policy reforms necessary for macro-fiscal stabilization and to begin reducing public debt. On the

upside, it is also possible that border reopening and tourism arrivals could move more quickly and lead to a stronger recovery than expected.

Authorities' Views

7. The authorities generally agreed with staff's outlook but cited the high degree of uncertainty surrounding projections in the near term and the possibility of upside risks. The authorities concurred that the emergence of the Delta variant outbreak in April and resulting restrictions on movement and business operations had significantly dampened economic prospects for 2021, and that a second year of economic contraction was likely. However, they pointed to the rapid acceleration of vaccination, the easing of movement and business restrictions in recent months, and evidence of significant pent-up demand. Combined with the phased reopening of borders and resumption of international travel in November-December, they suggested that the fourth quarter might be more positive and could lift 2021 real GDP growth above -4 percent. For 2022-23, the authorities' growth projections were largely in line with those of staff.

ENGINEERING A SUSTAINABLE RECOVERY

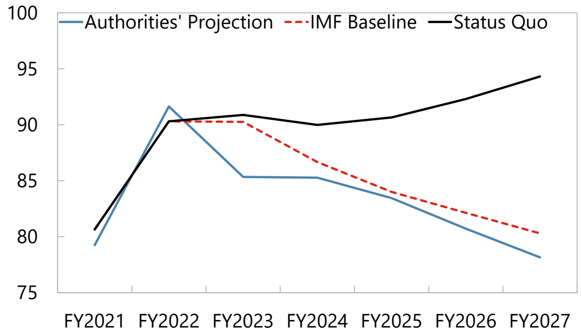
A. Fiscal Policies: A Roadmap for Consolidation

8. Fiji's fiscal policy response to the pandemic has been instrumental in cushioning the macroeconomic impact of the crisis and protecting vulnerable segments of the population. However, while the policy response has been timely, the level of fiscal stimulus (relative to peer countries) has been large and the heavy emphasis on tax and tariff cuts was not fully appropriate from staff's perspective (Annex IV). Critically, the wide-ranging and likely permanent reductions in taxes, tariffs, and excises embedded in the FY20-21 budget and continued in the FY21-22 budget have reduced the government's overall revenue envelope by about 5 percent of GDP. This has exacerbated the pandemic-induced expansion of the fiscal deficit. The overall fiscal deficit reached about 13 percent of GDP in FY2020-21, up nearly 10 percentage points from pre-pandemic levels, while the debt-to-GDP ratio jumped 32 percentage points to 81 percent. More importantly, these measures created a structural reduction in Fiji's revenue profile for the medium-term (assuming these policies remain unchanged).

9. Charting a course back toward macro-fiscal equilibrium is a clear priority. The authorities have announced the objective of reducing the overall fiscal deficit to about 2 percent of GDP by 2026 to put the debt-to-GDP ratio on a downward trajectory (although detailed measures have yet to be specified). Staff simulations indicate that under a scenario of unchanged fiscal policies, the fiscal deficit would remain above 7 percent throughout the forecast horizon, and public debt would rise above 94 percent of GDP by FY2026-27. This suggests that without revenue reforms, the macro-fiscal trajectory would be either unsustainable or would require such draconian cuts to expenditures as to damage prospects for growth. Fiji's limited access to financing further highlights the importance of fiscal consolidation. While short-term support remains necessary in the remaining

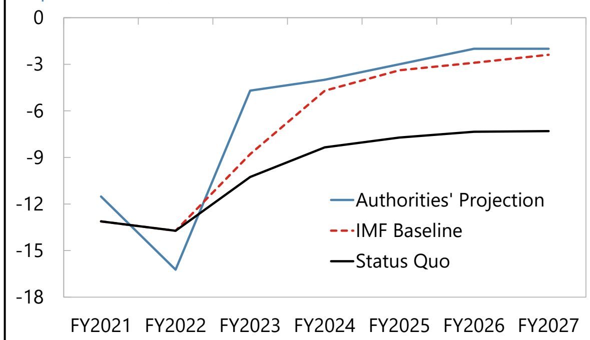
months of the pandemic, a clear roadmap for fiscal reform will be essential to ensure fiscal and debt sustainability over the medium term.

Alternative Debt Projections
(In percent of GDP)



Sources: Ministry of Economy and IMF staff projections.

Alternative Fiscal Balance Projections
(In percent of GDP)



Sources: Ministry of Economy and IMF staff projections.

10. The staff proposed a roadmap for fiscal adjustment that would target a sustainable primary budget surplus of 1-2 percent of GDP by the end of the medium-term. The proposed roadmap comprises a phased series of policy measures to raise selected tax and excise rates, scale back tax holidays, broaden the tax base, and increase the efficiency of revenue collection (Table 1). Staff estimates suggest that full implementation of these reforms would raise government revenue by about 4.3 percentage points of GDP—somewhat less than the policy-related revenue losses in FY20 and FY21. Revenue reforms would need to be accompanied by a steady reduction in overall government spending—primarily recurrent expenditure. It is also recommended to undertake an analysis of government capital spending, including a Public Investment Management Assessment (PIMA) to ensure that capital projects are planned, selected, and executed with a view to maximizing growth potential and climate resilience. In this context, developing a financing plan for climate adaptation and integrating it with the medium-term macro-fiscal framework will be essential.[1] Importantly, the roadmap works almost exclusively with instruments that are already part of Fiji's revenue framework and are guided by past experience with tax rates and revenue collection—suggesting a high degree of confidence in both their feasibility and revenue gain.

11. Recognizing that fiscal consolidation efforts should increase as the economy recovers, implementation of these reforms should remain state contingent. The proposed phasing would initially target measures with the greatest potential gains and the least direct impact on household incomes—leaving broader reforms to FY23-24 or beyond. Increases to the VAT, elimination of tax expenditures and expanding the base for the personal income tax would be expected to yield the

[1] Fiji has done significant groundwork, together with multilateral and bilateral partners, in making adaptation to climate change a key policy focus, including a Climate Vulnerability Assessment with the World Bank, a detailed assessment of natural disaster impact with the UN, a National Adaptation Plan, and making Fiji Development Bank an accredited entity for direct access to the Green Climate Fund. Future work should focus on shaping the capital expenditure budget to target projects that add to climate resilience and developing a clear financing plan.

greatest revenue gains and offer a less distortionary approach to rebuilding revenue than reversing the tax and other measures taken over the last 18 months.

12. Implementation of measures in the roadmap would also help align Fiji's tax regime with international practice and enhance the efficiency of taxation. For example, raising the fringe benefit tax would reduce the preferential treatment of fringe benefits relative to wage remuneration, raising additional revenue while reducing potential distortions to compensation practices. Similarly, introducing a dividend withholding tax on non-residents of 10 percent and phasing out the export income incentive would help align Fiji's tax regime with standard international practices while keeping its tax system competitive.

Text Table 1. Roadmap for Fiscal Reform

	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Revenue Measures			*in percent of GDP*		
Simplify PIT Structure; Lower Threshold to F$20,000		0.16			
PIT Structure: Lower Threshold to F$15,000			0.26		
Raise VAT from 9% to 10%	0.66				
Raise VAT from 10% to 12%		1.32			
Raise Fringe Benefit Tax to 35%	0.15				
Introduce Dividend Witholding Tax at 10%	0.29				
Increase Excise Tax on Alcohol		0.37			
Cut Film Tax Rebate by 50%	0.68				
Discontinue Export Incentive		0.13			
Raise Departure Tax from F$100 to F$125			0.16		
Raise Departure tax from F$125 to F$150				0.16	
Total FY Increase in Revenue	***1.78***	***1.98***	***0.42***	***0.16***	***0***
Direct Taxes	0.68	0.29	0.26	0	0
Indirect Taxes	1.1	1.69	0.16	0.16	0
Reduced Current Spending	**0.1**	**0.3**	**0.4**	**0.3**	**0.2**

Source: IMF staff estimates.

13. Overall, these measures should help reverse much of the policy-related drop in Fiji's structural revenue profile. On the expenditure side, the fiscal profile will be helped by a phasing out of crisis-related transfers, notably the unemployment assistance scheme (2.1 percent of GDP). Together with a steady reduction in recurrent spending and improved fiscal performance resulting from the projected recovery, the measures in this roadmap should be sufficient to create a primary surplus between 1-2 percent of GDP on a sustainable basis (Table 2). Revenue and expenditure

levels in this range have been achieved in the past, and staff assess the adjustment path as feasible in the absence of large new shocks. Importantly, the relatively benign fiscal outlook under staff's baseline hinges on implementation of a consolidation strategy at least as ambitious as that laid out in staff's roadmap. Incomplete implementation is a key risk to the outlook.

Text Table 2. Decomposition of Fiscal Consolidation

	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
	in percent of GDP				
Revenue Measures	1.8	2.0	0.4	0.2	0.0
Expenditure Measures	0.1	0.3	0.4	0.3	0.2
Unwinding of Pandemic Expenditure Measures	1.9	0.8	0.0	0.0	0.0
Cyclical Improvement (incl. Denominator Effect)	1.3	0.8	0.4	0.2	0.2
Other Factors	-0.2	0.1	0.0	-0.1	0.2
Total Change in Primary Balance	**4.9**	**4.0**	**1.2**	**0.5**	**0.6**
Primary Balance Forecast	**-4.9**	**-0.9**	**0.3**	**0.8**	**1.4**

Source: IMF staff estimates.

14. Even with full implementation of proposed reforms, risks remain high. The debt sustainability analysis (DSA) suggests high levels of risk from the recent surge in public debt, including sizeable gross financing needs in the near term that could be associated with budget financing risks. Domestic financing remains heavily concentrated on the Fiji National Provident Fund (FNPF), with limited absorption capacity in the private financial sector. That said, FNPF is assessed to have a robust financial position with comfortable cash reserves, supported by a healthy financial performance thus far in the pandemic. Moreover, given the likelihood that one or more external shocks will materialize over the medium-term horizon, the overall sustainability of the outlook rests critically on implementation of fiscal adjustment as envisaged in the baseline macroeconomic framework. Absent such measures to put the ratio of public debt to GDP firmly on a downward trajectory, the fiscal trajectory and medium-term outlook appear unsustainable.

15. The pandemic has exacerbated public financial management and macro-fiscal risks. Of particular concern is the increase in contingent liabilities since 2017, and the surge in these liabilities during the pandemic. Total contingent liabilities rose nearly 70 percent over the last four years, reaching about 19 percent of GDP in October 2021. The government has made progress in SOE reform in recent years.[2] But the recent surge in guarantees to Fiji Airways[3] and Fiji Development

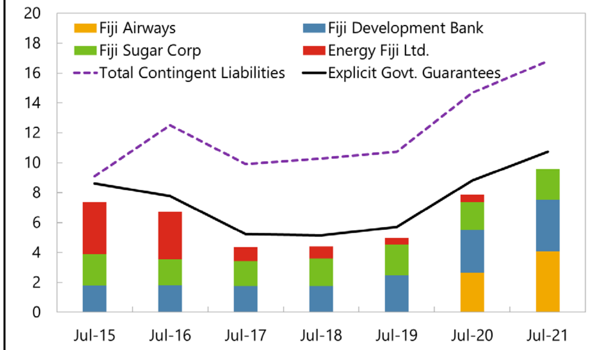
[2] Progress includes passage of the Public Enterprise Act in 2019 to strengthen oversight of majority owned government companies, sale of shares in Energy Fiji Limited (EFL), and reducing guarantees to Fiji Sugar As of June 2021, the government settled the FSC's defaulted bonds held by FNPF by taking them on balance sheet and converting the FSC's debts into a direct loan from the government.

[3] In May 2020, the government announced it would guarantee F$455 million in loans to Fiji Airways (about 4.2 percent of GDP) for a period of three years (this was extended until the loan is discharged under the FY21-22 budget). The guarantee is intended to counter the airline's ongoing liquidity pressures. Fiji Airways has been profitable over the past seven years.

Bank[4] are sizeable (albeit not surprising given the pandemic's impact on air travel and a general rise in NPLs in the banking system). Contingent liabilities in problem sectors could increase further, particularly if the tourism recovery is slower than projected under the baseline. Overall, fiscal risks from the guarantees are considerable. The staff recommends continued efforts to manage public guarantees transparently, and for the authorities to prepare contingency plans in the event that some of these contingent liabilities need to be taken on to the public balance sheet. Further progress on strengthening the management of SOEs, clarifying the relationship vis-à-vis government, and setting a high bar for transparency and governance will be essential to minimizing future risks.[5]

Contingent Liabilities, 2015-2021

(In percent of GDP)



Source: Fiji authorities.

Authorities' Views

16. **The authorities agreed with the need to support the recovery in the near term and reiterated their commitment to fiscal consolidation over the medium term.** They intend to maintain an accommodative fiscal stance in the current fiscal year if financing conditions allow, to bolster confidence in the private sector as the economy reopens to international tourism. The authorities agreed that fiscal consolidation must be a cornerstone of macroeconomic policies post-pandemic given the high level of public debt and constraints on domestic financing. The authorities highlighted the consolidation objectives included in the medium-term framework accompanying the FY21-22 budget. They agreed that a small primary surplus target is a desirable anchor to guide fiscal policy and would help ensure a steady decline in the debt-to-GDP ratio. They concurred that measures to expand the revenue base will be needed, combined with a tight rein on current spending. They appreciated the recommendations from staff's roadmap and the potential benefits of targeting a growth-friendly and broad-based revenue framework rather than more sector-specific taxation, to help protect the competitiveness of tourism and other key sectors. They highlighted the need to move deliberately, as growth recovers, and with due attention to the impact on vulnerable households. They noted that the expansion of public support to key enterprises such as Fiji Airways and Fiji Development Bank does raise some risks but was essential given the unprecedented impact of the pandemic.

[4] In May 2021, a government guarantee for $170 million (1.8 percent of GDP) was extended to Fiji Development Bank. Total guarantees to FDB were 3.5 percent of GDP as of July 2021. FDB's focus is on economic development investments that cannot attract private capital and on graduating low-income borrowers to commercial sources of funds as their incomes and creditworthiness rise.

[5] Balasundharam et al (2021) lay out key principles to manage associated risks in Pacific Island Countries, including a strong legislative framework that clearly defines ownership and management responsibilities; transparent publication of budgeted inflows and outflows; and early notification of significant anticipated deviations from plan. See: *Managing Risks from National Airlines in Pacific Island Countries*, IMF Working Paper No. 2021/183.

B. Monetary and Exchange Rate Policies

17. At the current juncture of low inflation and a negative output gap, the RBF should continue to maintain an accommodative monetary stance. The RBF reduced the policy interest rate from 0.5 percent to 0.25 percent in March 2020. Financial conditions have remained loose, and private sector credit has contracted through the pandemic. Liquidity in the banking system has increased significantly, due to the large inflow of foreign exchange from bilateral and multilateral loans and grants. With inflation likely to remain subdued for at least the remainder of 2021, maintaining the current stance is appropriate. However, careful review will be needed as economic growth resumes, and in the face of shifting commodity prices (although the effects of the latter may be muted by Fiji's relatively extensive price controls).

18. The exchange rate has remained relatively resilient during the pandemic, and reserves are at record highs. The Fiji dollar is pegged to a basket of currencies amid capital mobility. The exchange rate depreciated by about 4 percent in real effective terms in 2020 and by about 1.5 percent as of August 2021. Fiji's external position in 2020 is assessed to be substantially weaker than the level implied by fundamentals and desirable policies based on the External Balance Assessment approach (Annex III). Given the significant build-up in international reserves related to increased pandemic related financing flows, reserve cover hit a record high (7.7 of prospective imports) and is adequate for credit-constrained economies. The IMF's 2021 SDR allocation to Fiji of about USD 133.8 million further boosted foreign reserves. But foreign reserves are expected to decline over the medium-term towards the adequate level of reserves once Fiji's vulnerability to natural disasters is considered. Fiscal adjustment will contribute to restoring external balance.

19. The tightening of Fiji's exchange controls should be phased out as conditions allow. Fiji maintains various exchange controls which constitute capital flows measures (CFMs) in accordance with the Fund's Institutional View on the Liberalization and Management of Capital Flows (IV). Some of these controls also constitute an exchange restriction subject to approval under Article VIII, Section 2(b) of the Fund's Articles of Agreement (i.e., the limit on large payments). At the onset of the COVID outbreak the authorities made changes to the exchange controls[6] to cope with the crisis. Staff assessed these as an intensification of the exchange restriction and tightening of CFMs, but no new measures were introduced. However, as the exchange restriction is not consistent with Fiji's obligations under the Fund's Articles of Agreement and hinders international trade and foreign direct investment, it should be phased out. The same applies to the tightening CFM changes, but while staff has assessed the introduction as appropriate given Fiji's crisis situation, the changes should be phased out as crisis conditions abate.

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[6] Effective April 2, 2020, the following changes to Fiji's exchange controls were made: (i) delegated limits on emigration allowance and loan repayments were reduced; (ii) delegated limits on withdrawal of investments (including dividend payments) and deposits into external accounts were replaced with a RBF approval requirement; (iii) delegated limits for offshore investment were suspended; and (iv) limits requiring deed of gift were reduced.

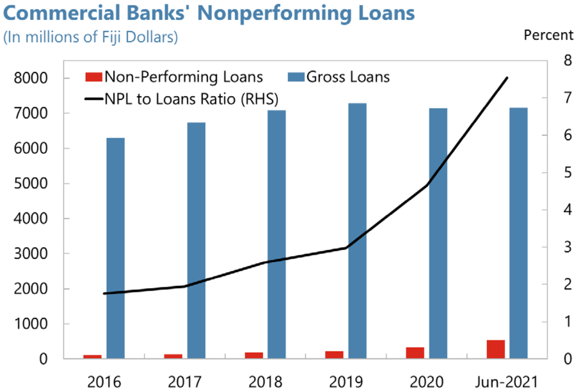
Authorities' Views

20. The authorities broadly agreed with staff's assessment. The RBF saw the current monetary stance as appropriate and were comfortable with the current level of liquidity as inflation is subdued. They noted that the balance of payments has been particularly affected by the COVID crisis through the loss of tourism on the one hand and the influx of foreign financing on the other. There are no plans to change the current exchange rate peg framework, but there is a regular review of the currency basket to ensure the current exchange regime works well (e.g., does not hinder competitiveness), and to update the allocation of foreign reserves. The authorities broadly agreed with staff's assessment of the external sector (including the REER) and the need to maintain higher levels of reserves given Fiji's vulnerability to external shocks. The recent SDR allocation will be maintained with the RBF to further boost foreign reserves. Regarding exchange rate controls, the authorities noted that the pandemic was the first crisis in recent history that did not entail pressure on the exchange rate, and that tightening of conditions in April had been precautionary. While no further measures are planned and easing of existing controls will be considered as the recovery takes shape, they emphasized the need for a cautious approach. They also noted that, from an operational perspective, there had been no significant application of these measures given large capital inflows and a resilient exchange rate.

C. Financial Sector Stability

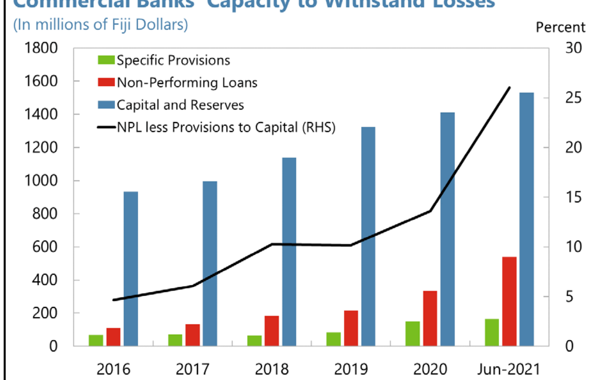
21. The banking sector remains sound overall, but the level of risk has increased with the effects of the pandemic. The stability of the banking system is underpinned by the dominance of large foreign banks that operate as branches and have access to their parent banks for capital and liquidity.[7] However, the effects of the pandemic and the sharp contraction in economic activity are visible in banks' balance sheets. NPLs as a share of total loans have risen to a record high of 7.5 percent as of June 2021 compared to 3 percent at end-2019 (and to 30 percent for credit institutions, compared to 25.7 percent at end-2019). These levels are likely to rise further after loan

Commercial Banks' Nonperforming Loans
(In millions of Fiji Dollars)



Source: RBF

Commercial Banks' Capacity to Withstand Losses
(In millions of Fiji Dollars)



Source: RBF

[7] Commercial banks and the FNPF account for about 80 percent of total financial system assets. Other financial system institutions include credit institutions, credit unions, Fiji Development Bank, Housing Authority, and insurance companies. The four credit institutions are significantly smaller than commercial banks, with restricted banking licenses that forbid them to open checking accounts, offer demand deposits, and conduct foreign exchange business.

repayment holidays phase out in March 2022. However, banks have thus far made significant provisions to withstand credit risk shocks, and the capital adequacy of the banking sector has strengthened to 20.8 percent—well above the prudential minimum of 12 percent.

22. Enhanced supervision will be needed as Fiji enters the post-pandemic and support measures are reduced. The latest stress tests indicate all banks are capable of withstanding moderate credit risk shocks while still complying with minimum capital requirements. Under a "severe" shock scenario where the entire COVID relief portfolio (almost 19 percent of banks' total loans) is added to existing NPLs, four banks would need to strengthen their capital adequacy. The RBF needs to continue to bolster its off-site and on-site supervisory framework and closely monitor the asset portfolio and liquidity positions of all banks and ensure sufficient provisioning. It also needs to enhance microprudential supervision by consulting banks bilaterally to help mitigate idiosyncratic shocks. The RBF has already enhanced on-site examination of banks and credit institutions—prioritizing asset quality and provisioning standards—and has mandated prudential reporting specifically on loans under repayment holidays. In terms of macroprudential surveillance, the RBF has yet to deploy tools to address potential systemic issues arising from the pandemic. The RBF has made some progress towards adopting the recommendations made under Financial Sector Assessment Program 2018 (Annex V), but additional efforts are needed, particularly with respect to crisis management.

23. While there has been a steady decline in correspondent banking relationships (CBRs) in the Pacific region, Fiji is not facing pressure on CBRs. Most of the banks operating in Fiji are branches of large overseas banks and have good track records on AML/CFT compliance. Further, the banking sector has strong licensing requirements and operates under prudential regulations and compliance with the AML/CFT requirements of the Financial Transaction Reporting (FTR) Act. All the remittance transactions are reported in the FTR system and compliance is monitored. In addition, Fiji has been in discussions with the European authorities regarding blacklisting Fiji as a non-cooperative jurisdiction for tax matters.

Authorities' Views

24. The authorities concurred that close supervision and monitoring of the financial sector will be needed in the year ahead. They highlighted that supervisory standards have not been loosened, save for the regulatory space given for the accommodation of loans subject to repayment holidays. On-site examinations have been re-established (albeit virtual), with close dialogue continuing with regulated entities. At the institutional level, more detailed prudential reporting has been required from the banking sector (commercial banks and credit institutions) specifically on exposures that have been offered repayment holidays, and their monitoring and supervision has been enhanced for specific institutions that were of concern. While highlighting the high levels of capital adequacy in the system as a whole, the authorities acknowledged that the full extent of problem assets is yet to be revealed. In that context, credit growth has declined, and banks have adopted a conservative stance due to the pandemic. Moreover, the rise in the NPL ratio to 7.5 percent is not alarming, is still low compared with historical levels, and banks can sustain further deterioration without significant hit to their capital adequacy.

D. Macro-Structural Issues

25. **To support the recovery and enhance prospects for diversification, continued emphasis on structural reforms will be needed.** The recent passage of the new Investment Act 2021 is a welcome step in this regard.[8] However, there remain a number of important opportunities to improve Fiji's competitiveness and business environment. Development of a digital national payment system would broaden financial inclusion and enhance the efficiency of government transfers while reducing corruptions risks. Further development of the domestic debt market could support a broadening of the investor base and funnel capital to new medium and long-term investments. Addressing skills gaps and labor mismatches and simplifying labor market regulations would also help boost employment and facilitate the creation of new small and medium-size enterprises.

26. **Staff also recommended a continued focus on raising female labor force participation as a way of helping create a sustained economic recovery**. While women in Fiji are a growing majority in higher education, their participation in the labor force is lower than males. This gap is wider than observed in neighboring Pacific Island countries and in countries with similar levels of GDP per capita. This gap also suggests a lost opportunity in terms of productivity and challenges in recruiting skilled employees. In this context, staff recommend continued focus on early childhood care and education as a means of facilitating greater female participation in the work force.

Authorities' Views

27. **The authorities agreed that a continued focus on macro structural reforms would be essential to promoting diversification and sustained growth.** They noted that the pandemic has temporarily slowed progress on macro structural reforms in some areas given the need to divert government resources to meeting crisis-related needs. However, they highlighted the passage of the new Investment Act, and progress under "Digital Fiji" for the digitalization on tax, fee and license payments and issuance of permits and government documents. Work continues on easing processes on starting new businesses and encouraging foreign investment. They agreed on the need to raise female labor force participation and the potential benefits to productivity and highlighted the establishment of a National Taskforce on Early Childhood Care and Education, charged with developing a policy and regulatory framework and identifying and implementing strategies to expand the supply of childcare services.

TRANSPARENCY AND GOVERNANCE

28. **The authorities have made efforts to provide detailed information on crisis-related expenditures to the public.** The majority of COVID-19 related expenditures were transfers under

[8] The Investment Act, which was published on 3 June 2021 as Act 5 of 2021, replaces the Foreign Investment Act of 1999. The new Act introduces a broader range of treatment and protection guarantees for foreign investors and removes the requirement to apply for a Foreign Investor Registration Certificate. It also imposes the same reporting obligations on foreign and local investors.

the unemployment assistance scheme, for which the authorities have periodically published granular data detailing the number and composition of beneficiaries as well as the amounts disbursed. Moreover, information on procurement contracts is available via a web portal, albeit with certain access restrictions. Staff encourages the government to further enhance transparency and accountability safeguards by making available details on crisis-related expenditures to the general public, including on companies winning procurement contracts and their beneficial owners. The government is similarly advised to undertake independent audits of COVID-related expenditures.

29. Fiji has made progress toward strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. The authorities upgraded their legal framework to address the gaps identified by the Asia/Pacific Group on Money Laundering (APG) in the 2016 Mutual Evaluation Report (MER) of Fiji.[9] While significant improvements were made, Fiji should tackle remaining legal issues related to terrorism and proliferation financing and – with the assistance of the APG – enhance the regulation and monitoring of the non-profit sector. Moreover, to bolster entity transparency and make beneficial ownership information available and easily accessible, the authorities are reviewing the Companies Act and related regulations to meet the Financial Action Task Force requirements.

30. Implementing the legal framework and ensuring the effectiveness of the AML/CFT framework is essential. Effectiveness is overall assessed as weak. In this regard, Fiji's Financial Intelligence Unit (FIU) in liaison with the RBF and consultations with external donors has been engaged with financial institutions to provide guidance, training to enhance reporting of money laundering and terrorism financing suspicious transactions and to ensure that banks are able to respond to information requirements of their correspondent banks when it comes to due diligence checks. In parallel, RBF is also enhancing its AML/CFT risk-based supervision of banks.

31. The authorities should improve the current governance and supervisory framework in non-bank financial institutions (NBFIs) and strengthen the anti-corruption framework. The authorities should take steps to make boards independent and make procedures regarding tenure, qualifications, and selection of the board members in the NBFIs. While some progress has been made by the authorities by making changes in the Public Enterprise Act and Companies Act to strengthen regulations related to the Board of Directors regulations and to align the conflict of interest and governance framework with international best practices, the authorities also need to develop regulations to promote transparency and anti-corruption in the SOEs. In this regard, the Fiji Independent Commission against Corruption (FICAC) has proposed various amendments and changes in the legislation to improve the legal framework against corruption. Most notably, a separate, specialized anti-corruption court has been created within the judicial system. Further work

[9] A significant number of recommendations made in that report have been already addressed and Fiji remains rated partially compliant (second lowest in a four-category rating system) on only 6 out of 40 recommendations in the MER. Originally Fiji was rated non-compliant / partially compliant on 23 recommendations.

is needed with respect to developing an asset declaration mechanism for government officials and meeting the requirements of the United Nations Convention against Corruption.

CAPACITY DEVELOPMENT

32. Fiji is an intensive user of IMF capacity development, especially through PFTAC, where it is the second largest user among PICs. Recent technical assistance has focused primarily on revenue administration, public financial management, government financial statistics, and financial sector supervision. In addition, the current work plan includes capacity development in the areas of macroeconomic programming and analysis, real sector statistics, and payment systems and infrastructure.

STAFF APPRAISAL

33. Fiji has been one of the hardest hit by the pandemic among the Pacific Islands given its heavy reliance on tourism. The Delta variant outbreak which began in the spring and quashed hopes for a mid-year reopening suggests another economic contraction this year. Notwithstanding government efforts to provide public support, the pandemic has also come with a heavy social cost. Widespread layoffs have occurred as firms sought to cut costs and weather the downturn, resulting in a surge in estimated unemployment and a displacement of labor from tourism to other sectors and subsistence agriculture. Livelihoods have been deeply affected. The economic scars of the crisis and the impact on Fiji's productivity and potential output will not likely be understood until well into next year.

34. Swift efforts to accelerate vaccinations, facilitated by vaccine donations from bilateral partners has fundamentally changed the outlook. Fiji is now among the leaders in the Pacific with respect to vaccination ratios and is the first of the Pacific Islands to reopen its borders to international tourism and inter-island travel. The rapid progress in vaccine rollout has been made possible through a combination of timely in-kind assistance from bilateral partners, together with the use of public and private vaccine mandates. Assuming the government's announced reopening of the border is successful and met with a positive response by tourism source countries, a rebound in economic growth in 2022 and beyond is expected. However, the degree of uncertainty surrounding this outlook is high. Successfully reopening the economy involves a complex set of investment decisions for businesses, and a carefully balanced approach by government health authorities to COVID-19 protocols and case management. Both downside and upside risks to the outlook are present.

35. Fiscal, monetary, and financial support will need to continue in the short-term, but as economic recovery takes hold, policy adjustments to address macroeconomic imbalances and reduce vulnerability will be a clear priority. The large fiscal response to the pandemic was timely and appropriate from a cyclical point of view given the sharp contraction of growth. Nonetheless, the heavy emphasis on permanent cuts to taxes, tariffs, and excises was not entirely appropriate

from staff's perspective given the need to preserve the revenue framework for the post-pandemic and debt sustainability. Fiscal consolidation will be needed to put public debt on a sustained downward path, accompanied by eventual normalization of monetary policy and removal of support measures. Absent corrective actions—particularly on the fiscal side—staff assess the medium-term macroeconomic outlook to be unsustainable.

36. Fiscal consolidation should be based on efforts to raise government revenues in a growth friendly manner. In light of the revenue losses associated with the FY20-21 budget but bearing in mind both the desire to maintain a competitive tax environment and support the incipient economic recovery, staff see merit in a phased series of measures to boost public revenue by an estimated 4.3 percent of GDP, with a view to bringing total tax revenue up to at least 22.5 percent of GDP by the end of the medium-term. Increases in the VAT hold the greatest potential for overall revenue gain and represent a more broad-based, efficient, and growth-friendly alternative to taxes that impacted mainly the tourism sector. However, the staff see merit in prioritizing the near-term measures that will have less impact on domestic demand—such as eliminating tax expenditures, taxing dividend income, and raising the fringe benefit tax. Careful management of public expenditure—including both recurrent and capital spending—will also be critical. To put debt firmly on a downward path, it will be essential for fiscal policy to be anchored around generating and sustaining a small primary budget surplus.

37. Contingent liabilities represent a potential risk to the government's balance sheet. The recent spike in government guarantees—particularly to Fiji Airways and Fiji Development Bank—reflects the severe stress induced by the pandemic and associated economic contraction. Importantly, the most notable increases in government guarantees have been linked to Fiji's COVID response (maintaining Fiji Airways in anticipation of an eventual recovery and supporting Fiji Development Bank given its concentration of activities in micro and small and medium enterprises). Nonetheless, these new contingent liabilities add to Fiji's overall fiscal vulnerability. Given uncertainty regarding the speed and depth of economic recovery and continued downside risks that shadow the outlook, staff recommends a systematic and transparent approach to reducing or eliminating the need for government guarantees—including contingency plans in the event that some of these liabilities cannot be repaid and need to be taken onto the government's books or otherwise resolved.

38. Monetary policy is appropriately accommodative but continued close supervision of financial risks is needed in the months ahead. Given low inflation and a large output gap, monetary policy should remain accommodative to help support economic recovery. Careful review will likely be needed as economic growth resumes, and in the face of shifting commodity prices.

39. Close financial sector supervision is needed as Fiji enters the post-pandemic. The evolution of NPLs should be closely monitored and the financial supervision framework should be bolstered. Follow-up on key recommendations of the 2018 FSAP is advised—particularly those related to corrective action, and bank recovery, coordination with home authorities, and bank resolution. The expansion of RBF's financial sector supervision to include the Fiji Development Bank is welcome.

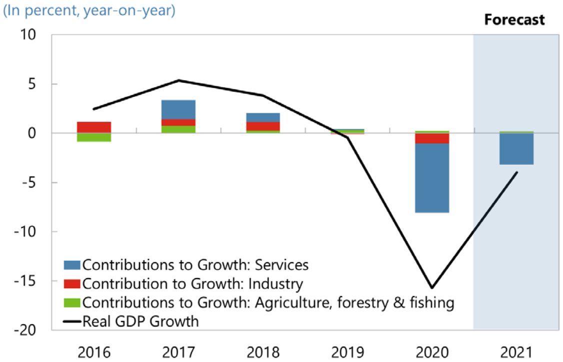
40. Further tightening of exchange restrictions for payments on current international transactions should be avoided, and existing restrictions should be phased out as the recovery gains ground. These restrictions on large external payments and tax certification requirements for certain international transactions are inconsistent with Article VIII, hamper Fiji's international trade, and discourage foreign investment.

41. Macro-structural reforms should continue to help underpin the recovery and strengthen prospects for economic diversification. The recent passage of the new Investment Act is a welcome step in this regard. Further development of the domestic debt market will be needed to support a broadening of the investor base and funnel capital to new medium and long-term investments. And addressing skills gaps and labor mismatches and simplifying labor market regulations would also help boost employment and facilitate the creation of new small and medium-size enterprises. In this context, staff welcome continued efforts to raise the female labor force participation rate, including through a focus on early childhood care and education.

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

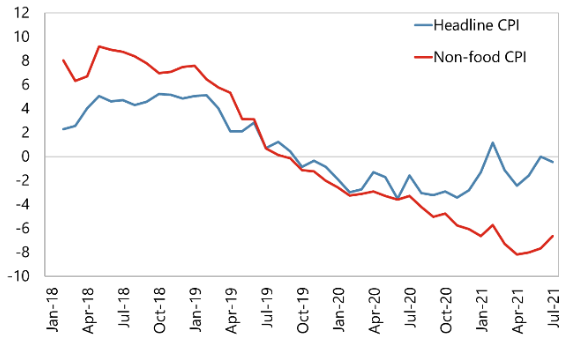
Figure 1. Fiji: Recent Developments

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



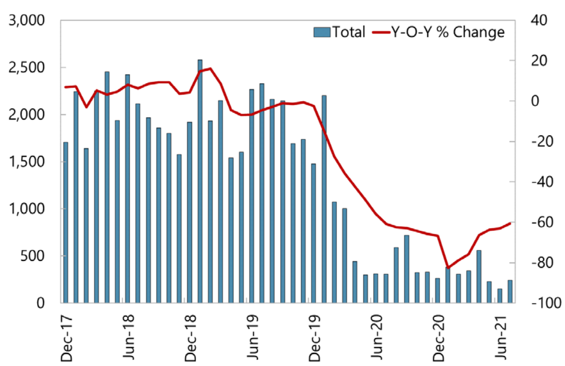
Sources: Fiji authorities and IMF staff calculations.

Inflation
(In percent, year-on-year)



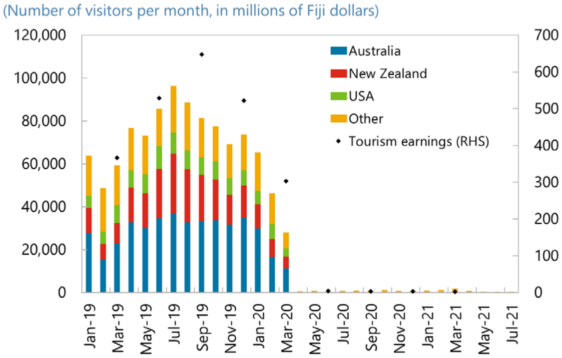
Source: RBF

Consolidated Job Ads Cumulative Growth



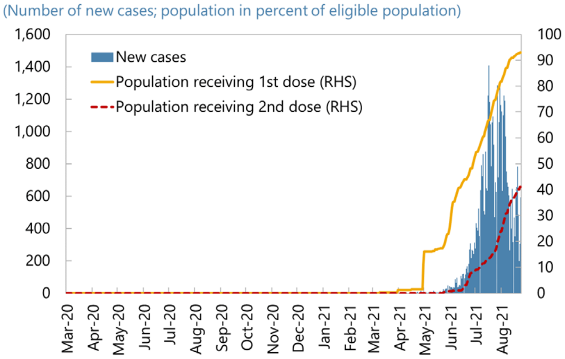
Sources: RBF, and IMF staff calculations.

Visitor Arrivals, by origin
(Number of visitors per month, in millions of Fiji dollars)



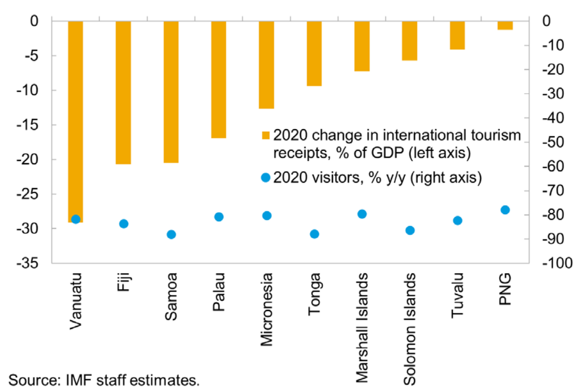
Source: Country authorities.

COVID-19 Cases and Vaccination Rates
(Number of new cases; population in percent of eligible population)



Sources: Tupaia, and World Health Organization.

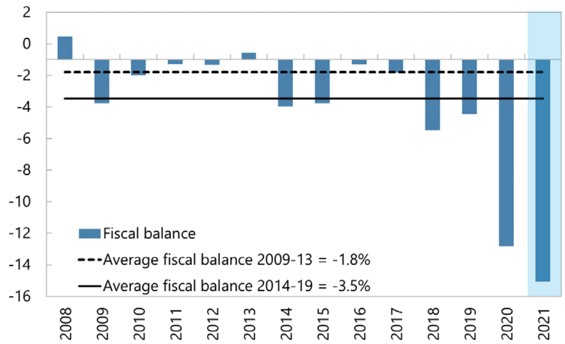
PICs Tourism Estimates for 2020



Source: IMF staff estimates.

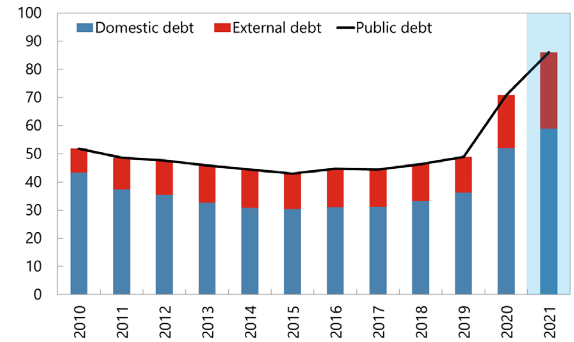
Figure 2. Fiji: Fiscal Sector Indicators

Fiscal Balance
(In percent of GDP)



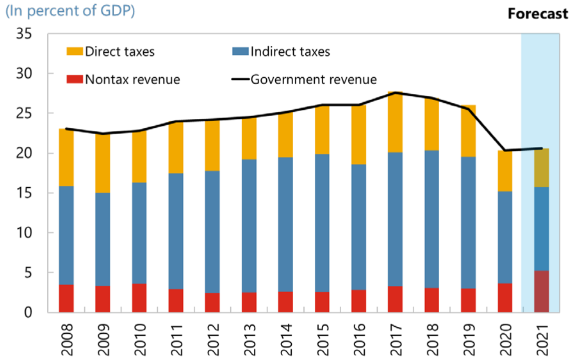
Sources: Fiji authorities, and IMF staff calculations.

Public Debt
(In percent of GDP)



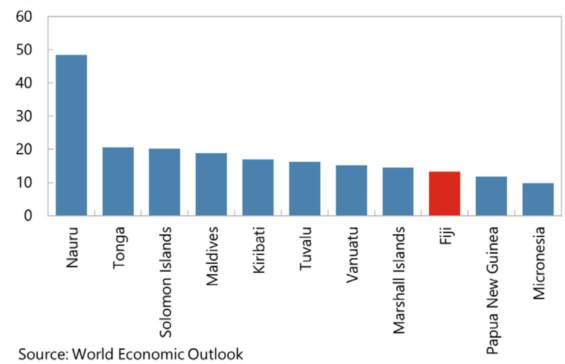
Sources: Fiji authorities and IMF staff calculations.

Government Revenues
(In percent of GDP)



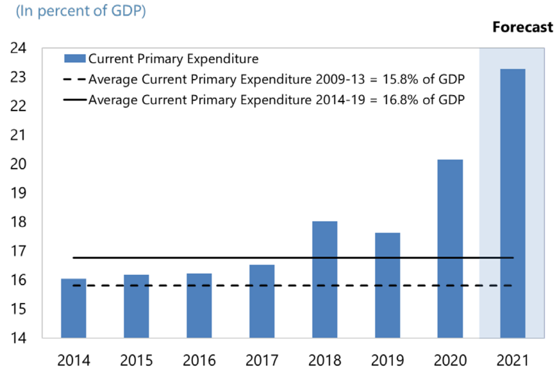
Sources: Fiji authorities, and IMF staff calculations.

Tax Revenue of Pacific Islands Countries, 2020
(In percent of GDP)



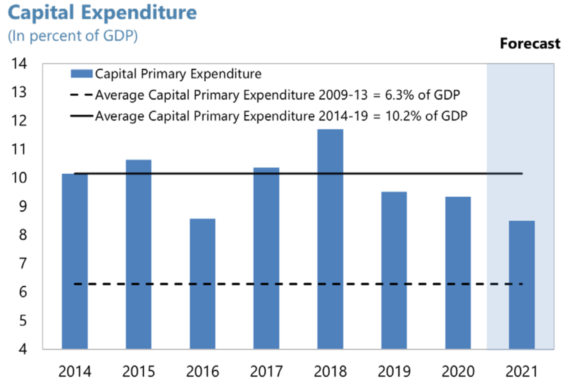
Source: World Economic Outlook

Current Primary Expenditure
(In percent of GDP)



Sources: MoE, and IMF staff calculations.

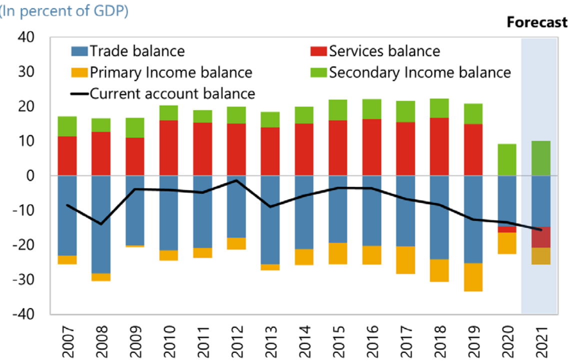
Capital Expenditure
(In percent of GDP)



Sources: MoE, and IMF staff calculations.

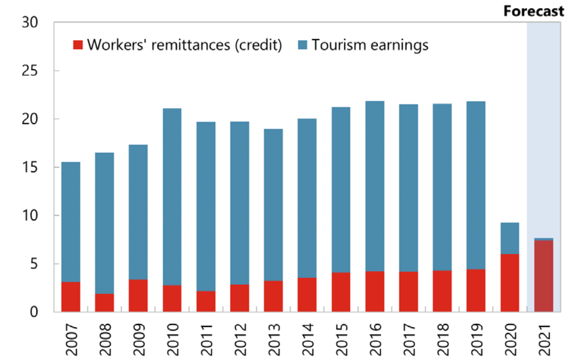
Figure 3. Fiji: External Sector Indicators

Current Account Components
(In percent of GDP)



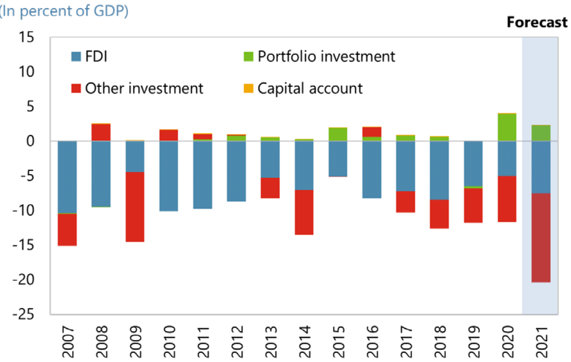
Sources: RBF and IMF staff calculations

Tourism Earnings and Remittances



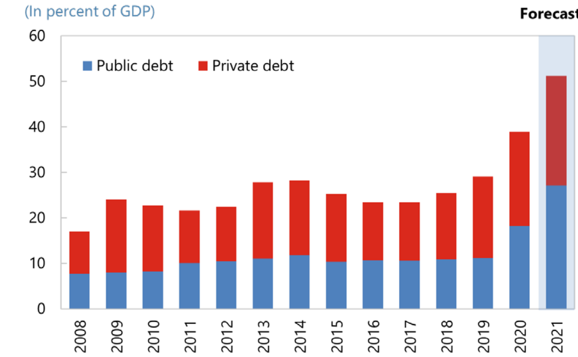
Sources: RBF and IMF staff calculations.

Capital Account and Financial Account Components
(In percent of GDP)



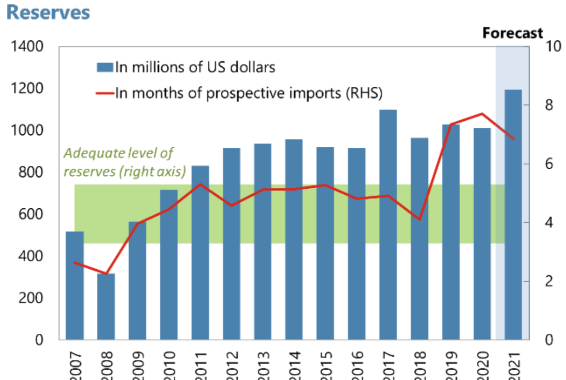
Sources: RBF and IMF staff calculations.

External Debt
(In percent of GDP)



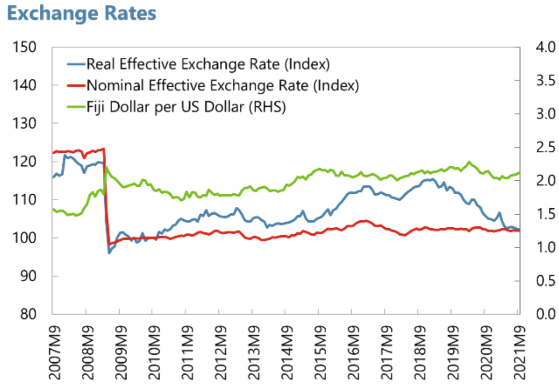
Sources: RBF and IMF staff calculations.

Reserves



Sources: RBF and IMF staff calculations.

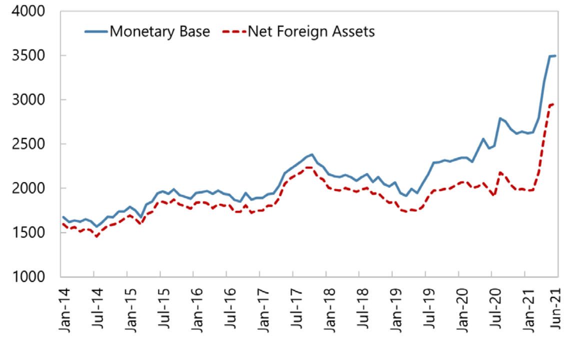
Exchange Rates



Sources: IMF INS database and IMF staff calculations.

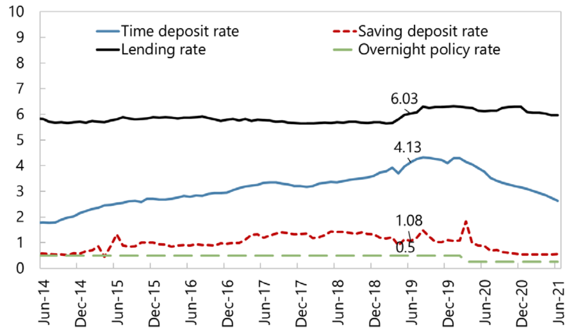
Figure 4. Fiji: Monetary and Financial Indicators

Monetary Base and Net Foreign Assets
(In millions of F$)



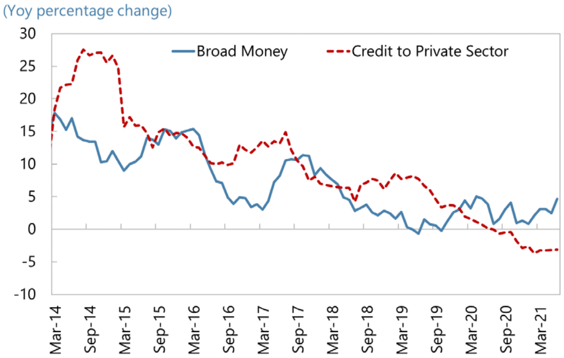
Source: RBF.

Interest Rates
(In percent)



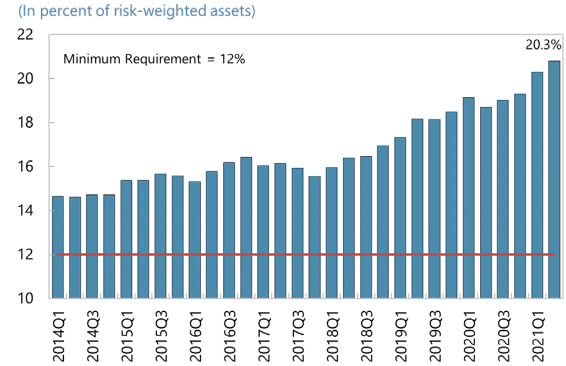
Source: RBF.

Credit to Private Sector and Broad Money
(Yoy percentage change)



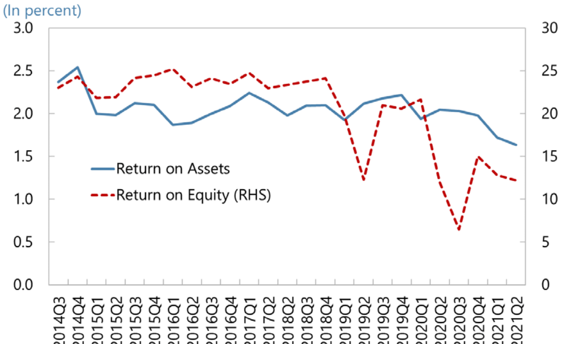
Source: RBF.

Commercial Banks' Capital
(In percent of risk-weighted assets)



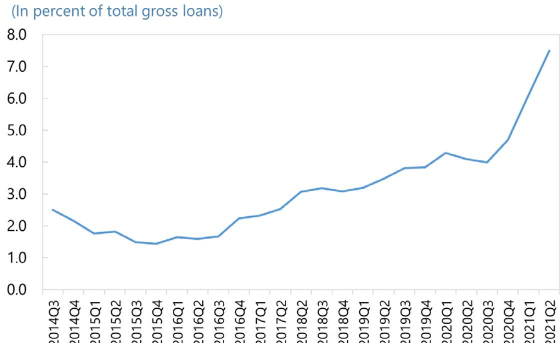
Source: IMF Financial Soundness Indicators.

Return on Assets and Equity
(In percent)



Sourc: IMF Financial Soundness Indicators.

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



Source: IMF Financial Soundness Indicators.

Table 1. Fiji: Selected Economic Indicators, 2018-26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
Output and prices (percent change)									
Real GDP	3.8	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4
GDP deflator	3.0	2.4	-2.6	1.2	2.5	3.0	2.8	2.7	2.5
Consumer prices (average)	4.1	1.8	-2.6	1.2	2.5	3.0	2.8	2.7	2.5
Consumer prices (end of period)	4.8	-0.9	-2.8	1.4	2.6	3.2	2.7	2.5	2.4
Central government budget (percent of GDP)									
Revenue	26.9	27.3	20.4	21.4	22.2	23.8	25.0	25.4	25.7
Expenditure	32.4	29.9	33.2	37.2	33.2	30.2	28.9	28.5	28.3
Overall balance	-5.5	-2.7	-12.8	-15.8	-11.0	-6.4	-4.0	-3.1	-2.6
Primary balance	-2.8	0.1	-9.1	-11.8	-7.0	-2.5	-0.2	0.6	1.2
Central government debt	46.4	48.9	70.8	86.7	89.4	85.9	82.3	79.8	78.0
External sector (percent of GDP)									
Current account balance	-8.4	-12.6	-13.4	-15.7	-8.8	-7.0	-6.7	-7.4	-7.8
Trade balance	-24.2	-25.2	-14.7	-14.8	-18.7	-20.0	-21.1	-21.6	-21.8
Services balance	16.6	14.9	-1.7	-5.9	7.8	13.5	15.3	15.9	15.9
Primary Income balance	-6.4	-8.2	-6.2	-5.0	-7.0	-7.5	-8.0	-8.2	-8.4
Secondary Income balance	5.6	5.9	9.2	10.0	9.0	7.0	7.0	6.5	6.5
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (-= inflows)	-12.0	-11.8	-7.7	-18.1	-12.4	-8.7	-7.6	-7.2	-6.2
FDI	-8.5	-6.5	-5.0	-7.5	-5.4	-5.9	-7.1	-7.2	-7.2
Portfolio investment	0.6	-0.3	3.9	2.3	0.6	0.6	0.6	0.6	0.6
Other investment	-4.2	-5.0	-6.6	-12.9	-7.6	-3.4	-1.1	-0.7	0.4
Errors and omissions	-6.0	2.5	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	2.2	-1.8	0.3	-3.0	-3.7	-1.8	-0.9	0.1	1.6
Gross official reserves (in months of prospective imports)	4.1	7.3	7.7	6.9	6.8	6.5	6.3	5.8	...
External central government debt	13.1	12.7	18.9	26.4	30.7	31.7	30.8	29.8	28.7
Money and credit (percent change)									
Net domestic credit depository corporations	10.7	5.4	0.7	-3.4	...	...	...	...	...
Private sector credit	7.3	4.6	-3.1	-3.6	...	...	...	...	...
Broad money (M3)	2.8	2.6	1.3	13.2	...	...	...	...	...
Monetary base	-9.9	15.2	13.5	35.7	...	...	...	...	...
Central Bank Policy rate (end of period)	0.50	0.50	0.25	...	...	...	...	...	...
Commercial banks deposits rate (end of period)	1.32	1.10	0.54	...	...	...	...	...	...
Commercial banks lending rate (end of period)	5.69	6.30	6.12	...	...	...	...	...	...
Memorandum items									
Exchange rate, average (FJD/USD) (2021=H1 average)	2.09	2.16	2.17	2.04	...	...			
Real effective exchange rate, average (2021=H1 average)	112.7	113.3	107.6	104.2	...	...			
GDP at current market prices (in millions of Fiji dollars)	11,651	11,874	9,747	9,466	10,307	11,491	12,566	13,480	14,281
GDP at current market prices (in millions of U.S. dollars)	5,581	5,496	4,494	4,641	5,054	5,635	6,162	6,610	7,003
GDP per capita (in U.S. dollars)	6,273	6,143	4,995	5,130	5,556	6,160	6,699	7,146	7,450
Real output gap	2.8	-0.8	-12.9	-17.8	-14.5	-9.2	-5.7	-3.9	-3.1

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

Table 2. Fiji: Balance of Payments, 2018-26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Proj.					
	(In millions of U.S. dollars)								
Current account	-470	-693	-604	-727	-445	-393	-414	-491	-547
Trade balance	-1,351	-1,387	-660	-687	-943	-1,126	-1,298	-1,428	-1,530
Exports, f.o.b.	1,013	1,031	817	925	967	1,010	1,076	1,142	1,239
Imports, f.o.b.	2,365	2,418	1,477	1,612	1,910	2,137	2,374	2,570	2,769
Services (net)	927	820	-76	-272	396	762	946	1,050	1,116
Primary Income (net)	-360	-451	-279	-232	-354	-423	-493	-542	-588
Secondary Income (net)	315	323	411	464	455	394	431	430	455
Private transfers	221	239	310	302	342	277	309	302	321
Capital account (net)	5	3	4	4	4	4	4	4	4
Financial account (net) (-=inflows)	-672	-649	-347	-841	-627	-493	-468	-479	-434
FDI (net)	-475	-357	-227	-349	-273	-332	-435	-473	-504
Portfolio investment (net)	34	-17	177	105	29	32	35	38	40
Other investment (net)	-232	-275	-297	-597	-383	-193	-68	-44	29
Errors and omissions	-333	138	236	0	0	0	0	0	0
Overall balance	-127	97	-17	118	185	104	58	-8	-109
Financing	126	-94	17	-118	-185	-104	-58	8	109
Change in official reserve assets (-=increase)	125	-96	13	-137	-185	-104	-58	8	109
	(In percent of GDP)								
Current account balance	-8.4	-12.6	-13.4	-15.7	-8.8	-7.0	-6.7	-7.4	-7.8
Trade balance	-24.2	-25.2	-14.7	-14.8	-18.7	-20.0	-21.1	-21.6	-21.8
Exports	18.2	18.8	18.2	19.9	19.1	17.9	17.5	17.3	17.7
Imports	42.4	44.0	32.9	34.7	37.8	37.9	38.5	38.9	39.5
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-12.0	-11.8	-7.7	-18.1	-12.4	-8.7	-7.6	-7.2	-6.2
	(Annual percent growth)								
Tourism receipts	4.5	2.7	-84.8	-91.7	3874.0	60.0	18.8	10.5	4.8
Workers' remittances (credits)	8.8	5.5	10.7	20.0	10.0	6.0	6.0	5.0	5.0
Imports of goods and services	14.8	7.3	-38.4	-3.2	21.5	15.0	11.2	8.5	8.0
Memorandum items:									
External debt (in percent of GDP) 1/	24.8	29.3	41.2	51.2	55.3	53.5	50.7	48.5	45.8
External central government debt (in percent of GDP)	13.1	12.7	18.9	26.4	30.7	31.7	30.8	29.8	28.7
Gross official reserves (in millions of U.S. dollars)	964	1,027	1,011	1,212	1,397	1,501	1,559	1,551	1,442
Gross official reserves (in months of prospective imports)	4.1	7.3	7.7	6.9	6.8	6.5	6.3	5.8	...
Nominal GDP (in millions of U.S. dollars)	5,581	5,496	4,494	4,641	5,054	5,635	6,162	6,610	7,003

Sources: RBF and IMF staff estimates.

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

Table 3A. Fiji: Central Government Operations, CY2018–26

(In millions of Fiji dollars)

	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Government Revenue	**3,135**	**3,029**	**1,983**	**1,948**	**2,289**	**2,733**	**3,142**	**3,418**	**3,671**
Tax revenue	2,777	2,670	1,627	1,454	1,822	2,281	2,697	2,985	3,232
Direct taxes	763	714	509	462	562	744	883	960	1,034
Indirect taxes	2,013	1,957	1,118	992	1,260	1,537	1,814	2,025	2,198
Grants	57	46	117	264	243	224	201	176	171
Other nontax revenue	301	312	239	230	224	228	244	256	269
Government Expenditure	**3,772**	**3,556**	**3,234**	**3,376**	**3,422**	**3,469**	**3,638**	**3,838**	**4,046**
Primary expenditure	3,464	3,223	2,874	3,007	3,006	3,021	3,163	3,331	3,500
Current	2,100	2,093	1,964	2,203	2,124	2,002	2,023	2,111	2,206
Personnel	1,005	1,010	957	954	947	931	934	975	1,028
Transfers	727	722	663	863	804	707	716	751	782
Supplies and consumables	283	275	275	254	251	247	250	261	270
Other	85	87	69	133	122	117	123	125	126
Capital	1,364	1,130	910	804	882	1,019	1,141	1,220	1,294
Interest	308	332	360	369	416	447	475	507	546
Overall balance	**-637**	**-527**	**-1,251**	**-1,427**	**-1,133**	**-735**	**-496**	**-421**	**-375**
Primary balance	-329	-194	-891	-1,059	-717	-288	-22	86	171
Financing	637	527	1,251	1,427	1,133	735	496	421	375
Net change in public debt	491	401	1,246	1,242	1,004	656	467	421	375
Domestic	471	421	845	517	339	172	238	271	296
Foreign	20	-20	400	725	665	484	229	150	78
Borrowing	74	36	871	764	745	574	319	242	171
Amortization	54	56	471	39	80	90	90	92	93
Privatizations	1	211	5	185	129	79	29	0	0
Other	146	-86	0	0	0	0	0	0	0
			(In percent of GDP)						
Government Revenue	**26.9**	**25.5**	**20.3**	**20.6**	**22.2**	**23.8**	**25.0**	**25.4**	**25.7**
Tax revenue	23.83	22.5	16.7	15.4	17.7	19.9	21.5	22.1	22.6
Direct taxes	6.6	6.0	5.2	4.9	5.5	6.5	7.0	7.1	7.2
Indirect taxes	17.3	16.5	11.5	10.5	12.2	13.4	14.4	15.0	15.4
Grants	0.5	0.4	1.2	2.8	2.4	1.9	1.6	1.3	1.2
Other nontax revenue	2.6	2.6	2.5	2.4	2.2	2.0	1.9	1.9	1.9
Government Expenditure	**32.4**	**29.9**	**33.2**	**35.7**	**33.2**	**30.2**	**28.9**	**28.5**	**28.3**
Primary expenditure	29.7	27.1	29.5	31.8	29.2	26.3	25.2	24.7	24.5
Current	18.0	17.6	20.2	23.3	20.6	17.4	16.1	15.7	15.4
Personnel	8.6	8.5	9.8	10.1	9.2	8.1	7.4	7.2	7.2
Transfers	6.2	6.1	6.8	9.1	7.8	6.2	5.7	5.6	5.5
Supplies and consumables	2.4	2.3	2.8	2.7	2.4	2.1	2.0	1.9	1.9
Other	0.7	0.7	0.7	1.4	1.2	1.0	1.0	0.9	0.9
Capital	11.7	9.5	9.3	8.5	8.6	8.9	9.1	9.0	9.1
Interest	2.6	2.8	3.7	3.9	4.0	3.9	3.8	3.8	3.8
Overall balance	**-5.5**	**-4.4**	**-12.8**	**-15.1**	**-11.0**	**-6.4**	**-4.0**	**-3.1**	**-2.6**
Primary balance	-2.8	-1.6	-9.1	-11.2	-7.0	-2.5	-0.2	0.6	1.2
Cyclically adjusted primary balance	-3.5	-1.4	-5.9	-6.7	-3.3	-0.2	1.3	1.6	2.0
Financing	5.5	4.4	12.8	15.1	11.0	6.4	4.0	3.1	2.6
Public debt	4.2	3.4	12.8	13.1	9.7	5.7	3.7	3.1	2.6
Domestic	4.0	3.5	8.7	5.5	3.3	1.5	1.9	2.0	2.1
Foreign	0.2	-0.2	4.1	7.7	6.5	4.2	1.8	1.1	0.5
Borrowing	0.6	0.3	8.9	8.1	7.2	5.0	2.5	1.8	1.2
Amortization	0.5	0.5	4.8	0.4	0.8	0.8	0.7	0.7	0.6
Privatizations	0.0	1.8	0.1	2.0	1.3	0.7	0.2	0.0	0.0
Other	1.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP)									
Central government debt	**46.4**	**48.9**	**70.8**	**86.0**	**88.7**	**85.3**	**81.7**	**79.3**	**77.5**
Domestic	33.3	36.2	51.9	58.9	57.4	53.0	50.3	48.9	48.3
External	13.1	12.7	18.9	27.1	31.3	32.3	31.4	30.4	29.2
Contingent Liabilities from State Enterprises	5.8	5.7	10.1	10.4	9.5	8.5	7.8	7.3	6.9
Nominal GDP (F$ million)	11,651	11,874	9,747	9,466	10,307	11,491	12,566	13,480	14,281

Sources: Ministry of Economy and IMF staff estimates.

Table 3B. Fiji: Central Government Operations, FY2018–27

(In millions of Fiji dollars)

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22	FY2022-23	FY2023-24	FY2024-25	FY2025-26	FY2026-27
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**3,139**	**2,473**	**1,905**	**2,103**	**2,421**	**2,956**	**3,274**	**3,520**	**3,779**
Tax revenue	2,781	2,162	1,385	1,632	1,958	2,512	2,829	3,096	3,329
Direct taxes	754	611	466	487	616	836	917	990	1,065
Indirect taxes	2,027	1,552	918	1,145	1,342	1,676	1,912	2,106	2,264
o/w VAT	832	628	477	713	835	1043	1191	1311	1409
o/w ECAL	161	127	30	37	44	55	63	69	74
o/w Departure Tax	147	114	1	17	36	49	56	61	65
Grants	42	68	284	250	238	214	191	166	174
Other nontax revenue	316	243	236	221	226	230	253	258	276
Expenditure	**3,561**	**3,321**	**3,162**	**3,470**	**3,387**	**3,526**	**3,718**	**3,925**	**4,132**
Primary expenditure	3,238	2,976	2,799	3,073	2,958	3,066	3,233	3,402	3,570
Current	2,106	1,988	1,975	2,243	2,039	1,975	2,057	2,151	2,246
Personnel	1,017	988	929	949	946	921	943	997	1,050
Transfers	720	656	729	907	730	691	734	763	796
Supplies and consumables	277	276	255	248	253	242	255	265	274
Other	91	69	62	139	110	121	124	126	126
Capital	1,132	988	824	830	920	1,091	1,176	1,251	1,324
Interest	323	345	363	397	429	460	485	523	562
Overall balance	**-421**	**-848**	**-1,257**	**-1,366**	**-966**	**-570**	**-444**	**-405**	**-353**
Primary balance	**-98**	**-503**	**-895**	**-970**	**-537**	**-110**	**41**	**118**	**209**
Financing	421	848	1,257	1,366	966	570	444	405	353
Net change in public debt	515	925	1,047	1,216	866	520	444	405	353
Domestic	501	624	97	168	304	263	235	297	296
Foreign	13	301	950	1,048	563	257	209	107	57
Borrowing	73	360	1,410	1,111	655	345	300	200	150
Amortization	59	59	461	63	93	88	91	93	93
Privatizations	5	211	210	150	100	50	0	0	0
Other	-99	-288	0	0	0	0	0	0	0
			(In percent of GDP)						
Government Revenue	**26.6**	**23.3**	**19.9**	**21.1**	**22.0**	**24.4**	**25.0**	**25.2**	**25.5**
Tax revenue	23.6	20.3	14.4	16.4	17.8	20.7	21.6	22.2	22.5
Direct taxes	6.4	5.7	4.9	4.9	5.6	6.9	7.0	7.1	7.2
Indirect taxes	17.2	14.6	9.6	11.5	12.2	13.8	14.6	15.1	15.3
o/w VAT	7.1	5.9	5.0	7.2	7.6	8.6	9.1	9.4	9.5
o/w ECAL	1.4	1.2	0.3	0.4	0.4	0.5	0.5	0.5	0.5
o/w Departure Tax	1.2	1.1	0.0	0.2	0.3	0.4	0.4	0.4	0.4
Grants	0.4	0.6	3.0	2.5	2.2	1.8	1.5	1.2	1.2
Other nontax revenue	2.7	2.3	2.5	2.2	2.1	1.9	1.9	1.9	1.9
Government Expenditure	**30.2**	**31.2**	**33.0**	**34.8**	**30.8**	**29.1**	**28.4**	**28.1**	**27.9**
Primary expenditure	27.5	28.0	29.2	30.9	26.9	25.3	24.7	24.4	24.1
Current	17.9	18.7	20.6	22.5	18.5	16.3	15.7	15.4	15.2
Personnel	8.6	9.3	9.7	9.5	8.6	7.6	7.2	7.2	7.1
Transfers	6.1	6.2	7.6	9.1	6.6	5.7	5.6	5.5	5.4
Supplies and consumables	2.4	2.6	2.7	2.5	2.3	2.0	2.0	1.9	1.9
Other	0.8	0.6	0.7	1.4	1.0	1.0	1.0	0.9	0.9
Capital	9.6	9.3	8.6	8.3	8.4	9.0	9.0	9.0	9.0
Interest	2.7	3.2	3.8	4.0	3.9	3.8	3.7	3.8	3.8
Overall balance	**-3.6**	**-8.0**	**-13.1**	**-13.7**	**-8.8**	**-4.7**	**-3.4**	**-2.9**	**-2.4**
Primary balance	**-0.8**	**-4.7**	**-9.3**	**-9.7**	**-4.9**	**-0.9**	**0.3**	**0.8**	**1.4**
Financing	3.6	8.0	13.1	13.7	8.8	4.7	3.4	2.9	2.4
Public debt	4.4	6.0	10.9	12.2	7.9	4.3	3.4	2.9	2.4
Domestic	4.3	5.9	1.0	1.7	2.8	2.2	1.8	2.1	2.0
Foreign	0.1	2.8	9.9	10.5	5.1	2.1	1.6	0.8	0.4
Borrowing	0.6	3.4	14.7	11.2	6.0	2.8	2.3	1.4	1.0
Amortization	0.5	0.6	4.8	0.6	0.8	0.7	0.7	0.7	0.6
Privatizations	0.0	2.0	2.2	1.5	0.9	0.4	0.0	0.0	0.0
Other	-0.8	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	**48.7**	**62.6**	**80.6**	**89.8**	**89.2**	**85.2**	**82.2**	**80.1**	**77.9**
Domestic	36.3	46.6	55.1	54.8	52.3	49.7	47.7	47.0	46.3
External	12.4	16.1	25.5	35.1	36.8	35.6	34.5	33.2	31.7
Contingent Liabilities from State Enterprises	5.7	6.3	10.2	9.9	8.9	8.1	7.5	7.0	6.6
Nominal GDP (F$ million)	11,781	10,633	9,583	9,957	10,998	12,118	13,099	13,947	14,795

Sources: Ministry of Economy and IMF staff estimates.

Table 4. Fiji: Monetary and Financial Statistics, 2018-21

	2018	2019	2020	Jul-21	2021 Projected
Reserve Bank of Fiji	(in millions of Fiji dollars)				
Net foreign assets	1,835	2,036	1,994	2,896	2,857
Net claims on central government	66	96	347	205	410
Claims on other depository corporations	152	231	352	339	373
Monetary base	2,020	2,326	2,640	3,395	3,584
Currency in Circulation	910	898	932	932	951
Liabilities to other depository corporations	1,109	1,428	1,708	2,463	2,633
Others	33	37	52	46	56
Deposit Money Banks					
Net foreign assets	1,873	1,996	2,048	2,943	2,332
Net claims on central government	(155)	(101)	216	113	230
Claims on private sector	7,958	8,324	8,062	8,029	7,769
Broad money	8,397	8,621	8,724	9,397	9,671
Currency outside depository corporations	649	668	700	727	835
Transferable deposits	4,364	4,359	4,854	5,578	5,675
Other deposits	3,258	3,473	3,052	2,966	3,032
Securities other than shares	108	120	117	125	129
Monetary Survey					
Monetary Base	2,020	2,326	2,640	3,395	3,584
Narrow Money (M1)	5,030	5,027	5,554	6,036	6,288
Quasi Money (M2)	7,640	7,832	7,906	8,545	8,983
Broad Money (M3)	8,397	8,621	8,724	9,397	9,671
Memorandum items	(percent)				
Money velocity (M2) 1/	1.5	1.5	1.2	1.1	1.1
Money multiplier (M2) 2/	3.8	3.4	3.0	2.5	2.5
Claims on private sector to GDP	68.3	70.1	82.7	84.8	82.1
Commercial Banks Loan to Deposit Ratio	89.6	89.5	87.5	81.3	81.5
RBF Policy rate (end-period)	0.5	0.5	0.25	0.25	…
Interest rates on saving deposits (end of perioc	1.32	1.10	0.54	0.56	…
Interest rates on time deposits (end of period)	3.61	4.10	3.16	2.55	…
Lending rates (end of period) 3/	5.69	6.30	6.12	5.92	…

Source: Reserve Bank of Fiji

1/ Ratio of GDP to M2

2/ Ratio of M2 to Monetary Base

3/ Weighted average lending rates on commercial banks loans

Table 5. Fiji: Financial Soundness Indicators, 2017-21

Ratios in percent	2017	2018	2019	2020	Jun-21
Capital Adequacy					
Risk Weighted CAR	14.7	16.6	18.3	19.3	20.8
Tier 1 Capital to RWA	12.4	13.6	15.5	16.3	17.7
Capital to Total Assets	10.0	11.3	12.5	13.2	13.2
Asset Quality					
NPLs to Total Loans	1.9	2.6	3.0	4.6	7.5
Provision to NPLs	55.2	36.2	38.9	45.0	30.4
Net NPLs to Net Loans	0.9	1.7	1.8	2.6	5.4
Net NPLs to Capital	6.0	10.2	10.2	13.6	26.0
Earnings and Profitability					
Return on Assets (Before Tax)	2.1	2.1	2.2	2.0	1.6
Return on Assets (After Tax)	1.6	1.6	1.7	1.8	0.7
ROE (Avg. Equity& Surplus) (Before Tax)	20.3	19.6	18.3	15.4	6.1
ROE (Avg. Equity &Surplus) (After Tax)	15.5	15.2	14.1	14.1	5.0
Net Interest Income to Gross Income	52.6	53.3	53.5	62.4	67.3
Cost to Income	50.3	50.2	47.5	54.3	54.4
Liquidity					
Liquid Assets to Total Assets	19.1	15.4	17.5	19.1	25.5
Liquid Assets to Total Deposits	27.9	23.0	25.7	27.6	37.5
Advances to Deposits	98.8	105.6	101.0	97.0	90.7

Source: Reserve Bank of Fiji

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Expected Impact	Recommended Policy Responses
External Risks			
Resurgence of the Covid-19 pandemic	Medium: A global resurgence of the pandemic through new vaccine resistant variants may affect the domestic economic recovery and may require costly containment measures.	High: Resurgence of global pandemic would undercut economic recovery, delay fiscal adjustment, increase stress on social safety nets and may further exacerbate social discontent and socio-economic hardship.	Increase investment in public health infrastructure, strengthen safety nets targeting affected populations, and secure additional multilateral and donor support.
Rising commodity prices amid bouts of volatility.	**Medium:** Global supply disruptions may lead to increasing and volatile domestic prices.	**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).	Temporary shocks should be financed while permanent shocks should be adjusted. Preemptive and gradual adjustments in policy mix adequate to deal with shock of uncertain duration. Revisit subsidies on fuel and energy.
Domestic Risks			
Uncontrolled Covid-19 local outbreak and subpar/volatile growth	Medium: Infection rates in Viti Levu have been among the world's highest. Spread to Vanua Levu is also a risk, as is importation of new variants. However, vaccination is progressing well.	**High:** New outbreaks or variants would prolong border closure—dampening growth and increasing pressure on healthcare and social welfare support schemes.	Accelerate vaccine rollout to inoculate the adult population and provide fiscal / social welfare support to affected households.
Higher frequency and severity of natural disasters related to climate change	**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.
Widespread social discontent and political instability.	**Medium:** Economic contraction, high unemployment, and social hardship together with discontent over policy response. Heightened instability risk in runup to 2022 general elections.	**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 pandemic and economic policies.
Confidence falters due to 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 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 clear downward path and secure public debt sustainability.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood 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.

Annex II. Debt Sustainability Analysis

A. Public Debt Sustainability Analysis

Fiji's public debt situation worsened significantly in the wake of the COVID-19 pandemic. With a record economic contraction and sizeable fiscal deficits, public debt increased to 70.8 percent of GDP by end-2020—an increase of about 22 percentage points. A further rise to 86 percent of GDP is expected by end-2021. The ratio of public debt to GDP is projected to decline over the medium term assuming: (i) a steady recovery in economic growth; (ii) implementation of a phased fiscal consolidation plan targeted at achieving a small primary surplus by 2026; and (iii) no new major shocks. However, even if these three assumptions hold, public debt may remain above 75 percent of GDP by 2026 (although a faster decline could be possible depending on the speed of economic recovery and the scope of revenue and expenditure reforms). As a small island economy, Fiji remains vulnerable to macroeconomic shocks, particularly those related to natural disasters and contingent liabilities. Staff assess debt to be sustainable—but subject to significant risks—under a scenario where the authorities deliver on fiscal consolidation at least as ambitious as that envisioned in the baseline scenario.

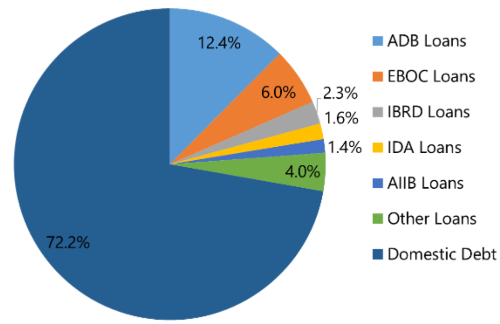
1. **The baseline macroeconomic scenario assumes that GDP will contract by 4 percent in 2021 but rebound to about 6 and 8 percent growth in 2022 and 2023—driven mainly by a recovery in tourism**. Tax and tariff cuts enacted in March and August 2020 to support the economy during the crisis are assumed to be partially sustained through the forecast horizon. However, the baseline assumes that the authorities implement a phased revenue reform plan over the years 2022 to 2026, raising revenue by approximately 4.3 percent of GDP relative to FY2021-22. Spending—particularly recurrent expenditure—is assumed to be kept on a tight leash. Recurrent spending is projected to be 2.2 percentage points of GDP lower in 2026 than pre-covid (2019).

2. **Under the baseline scenario, the debt-to-GDP ratio peaks at 89 percent of GDP in 2022 before receding to 77 percent by 2026**. This debt ratio is high by historical standards and well above the benchmark of 70 percent. Arithmetically, the decline in the debt-to-GDP ratio over the medium term is driven almost entirely by projected robust economic growth, averaging 5.6 percent over the period from 2023 to 2026 (with nominal GDP rising above its 2019 level by 2024). High primary deficits projected for the next several years mean that gross financing needs are considerable under this baseline, exceeding the MAC DSA threshold of 15 percent of GDP for three consecutive years (2020-22). Fiscal consolidation will need to remain the key objective of the government's medium-term fiscal strategy, with a focus on rebuilding buffers, broadening the revenue base, and streamlining recurrent expenditures.

3. **The composition of Fiji's investor base in government debt is associated with moderate levels of risk**. Public debt held by non-residents by the end of FY2020/21 was 32 percent while the remaining 68 percent was held by domestic residents. About 41 percent of total public debt (68 percent of domestic debt) was held by the Fiji National Provident Fund. Short-term public

debt was about 3.6 percent of the total and was held by domestic residents. Although Fiji is a middle-income economy, the World Bank approved its inclusion as an IDA-eligible economy in March 2019, making it eligible for concessional financing. The authorities replaced their global bond of USD 200 million in October 2020 with loans from the ADB and the World Bank.

Text Figure 1. Fiji: Public Debt Holders
(In percent of total, April 2021)



Source: RBF.
Note: Other loans includes loans from JICA and IFAD.

4. Since the COVID-19 pandemic, public debt is more vulnerable to macroeconomic shocks. Standardized stress tests indicate that Fiji's debt profile is particularly sensitive to a contingent liability shock or a natural disaster.

- ***The constant primary balance scenario*** assumes that the estimated primary balance in 2021 remains constant in the medium term. This scenario suggests that if the government's fiscal position were to remain at the current stressed level through the projection horizon, the debt-to-GDP ratio would increase rapidly, reaching 123 percent of GDP in 2026, with debt on an unsustainable trajectory.

- ***The historical scenario*** assumes that GDP growth and primary balances in 2022-26 are at the 2011-20 average. Under this scenario the public debt-to-GDP ratio in the medium term reaches 91 percent of GDP—about 14 percentage points higher than in the baseline. The average primary balance during 2011-20 (-0.7 percent of GDP) is higher than the average projected primary balance during 2022-26 (-1.6 percent of GDP), but this is more than offset by GDP growth remaining lower than the projected rebound in the baseline forecast.

- ***The natural disaster scenario*** assumes that a shock hits in 2021 reducing GDP growth by 4 percentage points and increasing the primary deficit to 8.9 percent of GDP in 2022 and 4.8 percent of GDP in 2023. The debt-to-GDP ratio reaches 95 percent of GDP in 2022 and eases to 84 percent by 2026, with debt sustainability at risk. This scenario highlights that rebuilding fiscal buffers should be a key policy priority once the crisis is over, given Fiji's vulnerability to frequent natural disasters.

- ***The contingent liability shock scenario*** is highly relevant because the central government guaranteed state-owned enterprises' debt of 16.8 percent of GDP as of April 2021, up from 11 percent of GDP before the pandemic. [1] The scenario assumes that 70 percent of these contingent liabilities materialize over the course of 2022 to 2023, while GDP growth is about

[1] The perimeter of central government debt does not currently include state-owned enterprises because they are considered market producers, notwithstanding various subsidies and guarantees extended by the central government. Similarly, the national pension fund (FNPF) is not included in the central government definition because it is considered sufficiently separate from government control and essentially acts as an investment manager for its members, who have individual account balances with the fund.

6 percentage points lower in both years relative to the baseline. Under these assumptions, the debt-to-GDP ratio jumps to 110 percent of GDP in 2023 and reaches 101 percent of GDP by 2026. Gross financing needs rise to 23 and 20 percent of GDP in 2022 and 2023, respectively, well above the benchmark of 15 percent.

5. The authorities are urged to steadfastly implement fiscal consolidation to reduce the public debt vulnerability. As illustrated by the heat map, significant vulnerabilities arise from the large gross financing needs resulting from the high level of public debt, risks related to contingent liabilities, and the continuing threat from natural disasters.

B. External Debt Sustainability Analysis

The external DSA provides a framework to examine a country's total external debt (public and private) sustainability that complement the External Sector Assessment (Annex III). Under the baseline scenario, external debt is projected to decline from 55.3 percent of GDP in 2022 to 45.8 percent of GDP in 2026. Fiji's total external debt increased by 15.5 percentage points of GDP in the last 5 years to reach 39.0 percent of GDP in 2020. But some mitigating factors include a limited share of debt in foreign currency and a high amount of foreign assets.

6. Background. External debt increased from 23.4 percent of GDP in 2016 to 39.0 percent of GDP in 2020. External loans account for about 81 percent of the external debt in 2020 while external debt securities account for another 10 percent. Fiji also holds a substantial stock of foreign assets (about 37.4 percent of GDP in 2020).

7. Assessment. Under the baseline scenario, the external debt-to-GDP ratio peaks at 55.3 percent of GDP in 2022 before declining to 45.8 percent by 2026 helped by a favorable growth-interest rate differential and an improvement in the projected non-interest current account balance. Some mitigating factors include the limited share of debt in foreign currency and the high amount of foreign assets. However, under the historical scenario—in which key macroeconomic variables are set equal to their historical averages—total external debt is expected to increase to 63.2 percent of GDP. External debt is more vulnerable to a real depreciation and a non-interest current account shocks, while the effect of a growth shock seems manageable.

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

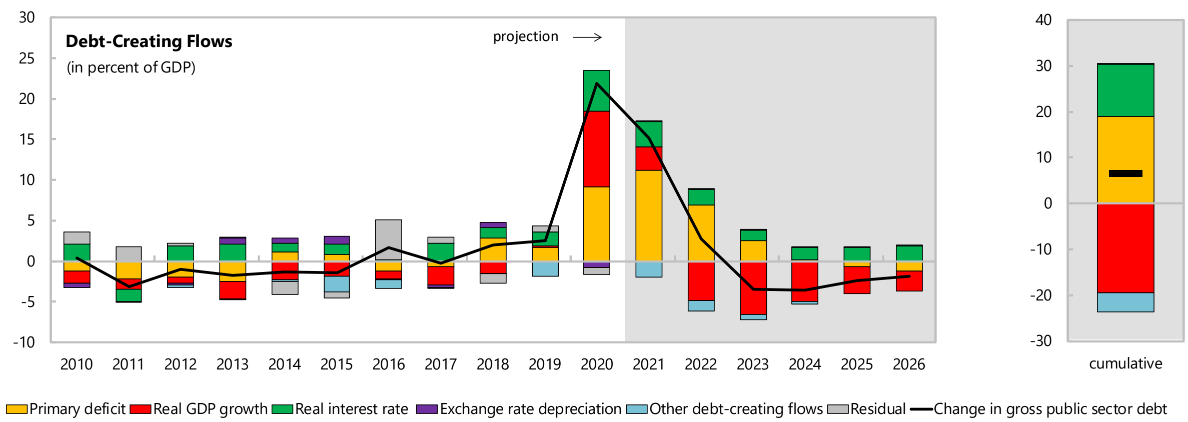
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of September 16, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026			
Nominal gross public debt	46.3	48.9	70.8	86.0	88.7	85.3	81.7	79.3	77.4	Sovereign Spreads[3]		
Public gross financing needs	9.3	7.6	20.4	18.8	16.7	11.6	8.9	7.7	6.9	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	3.7	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.0	2.4	-2.6	1.2	2.5	3.0	2.8	2.7	2.5	Moody's	B1	B1
Nominal GDP growth (in percent)	7.5	1.9	-17.9	-2.9	8.9	11.5	9.4	7.3	5.9	S&Ps	BB-	BB-
Effective interest rate (in percent) [4/]	6.8	6.1	6.2	5.3	5.1	4.9	4.8	4.9	5.1	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.6	2.5	21.9	15.2	2.7	-3.4	-3.6	-2.4	-1.8	6.6	
Identified debt-creating flows	-1.2	1.7	22.7	15.2	2.7	-3.4	-3.6	-2.4	-1.8	6.6	
Primary deficit	-0.6	1.6	9.1	11.2	7.0	2.5	0.2	-0.6	-1.2	19.0	-0.6
Primary (noninterest) revenue and grants	25.2	25.5	20.3	20.6	22.2	23.8	25.0	25.4	25.7	142.6	
Primary (noninterest) expenditure	24.7	27.1	29.5	31.8	29.2	26.3	25.2	24.7	24.5	161.6	
Automatic debt dynamics [5/]	-0.2	1.9	13.6	6.0	-3.0	-5.2	-3.5	-1.8	-0.6	-8.2	
Interest rate/growth differential [6/]	-0.4	1.9	14.4	6.0	-3.0	-5.2	-3.5	-1.8	-0.6	-8.2	
Of which: real interest rate	1.2	1.7	5.0	3.1	1.9	1.3	1.5	1.6	1.9	11.3	
Of which: real GDP growth	-1.6	0.2	9.4	2.9	-4.9	-6.6	-5.0	-3.4	-2.5	-19.5	
Exchange rate depreciation [7/]	0.2	0.0	-0.8	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.4	-1.9	0.0	-2.0	-1.3	-0.7	-0.2	0.0	0.0	-4.2	
Financing: Foreign Financing: Privatization (negative)	-0.4	-1.9	0.0	-2.0	-1.3	-0.7	-0.2	0.0	0.0	-4.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.6	0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as 0.168.

2/ Based on available data.

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

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

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

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

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

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

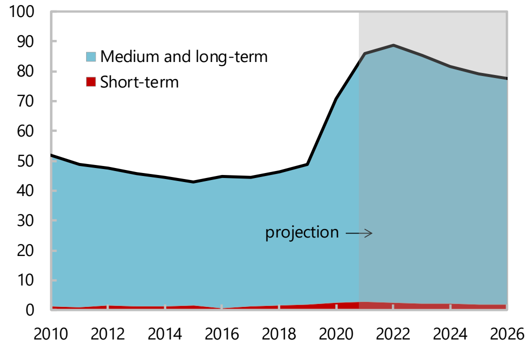
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

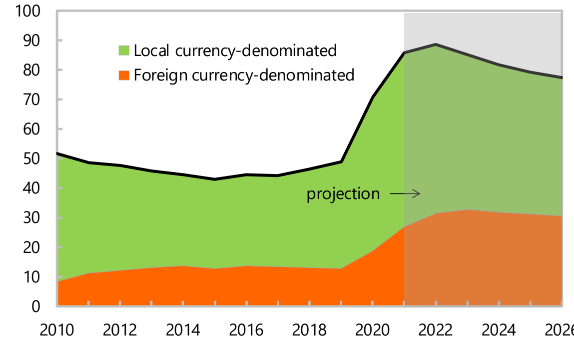
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

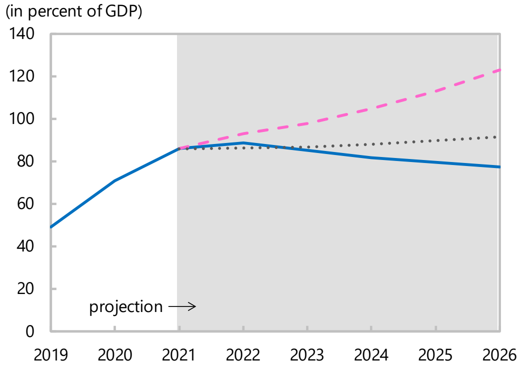


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

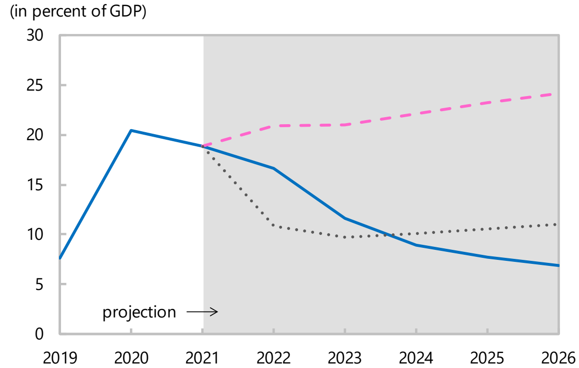
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

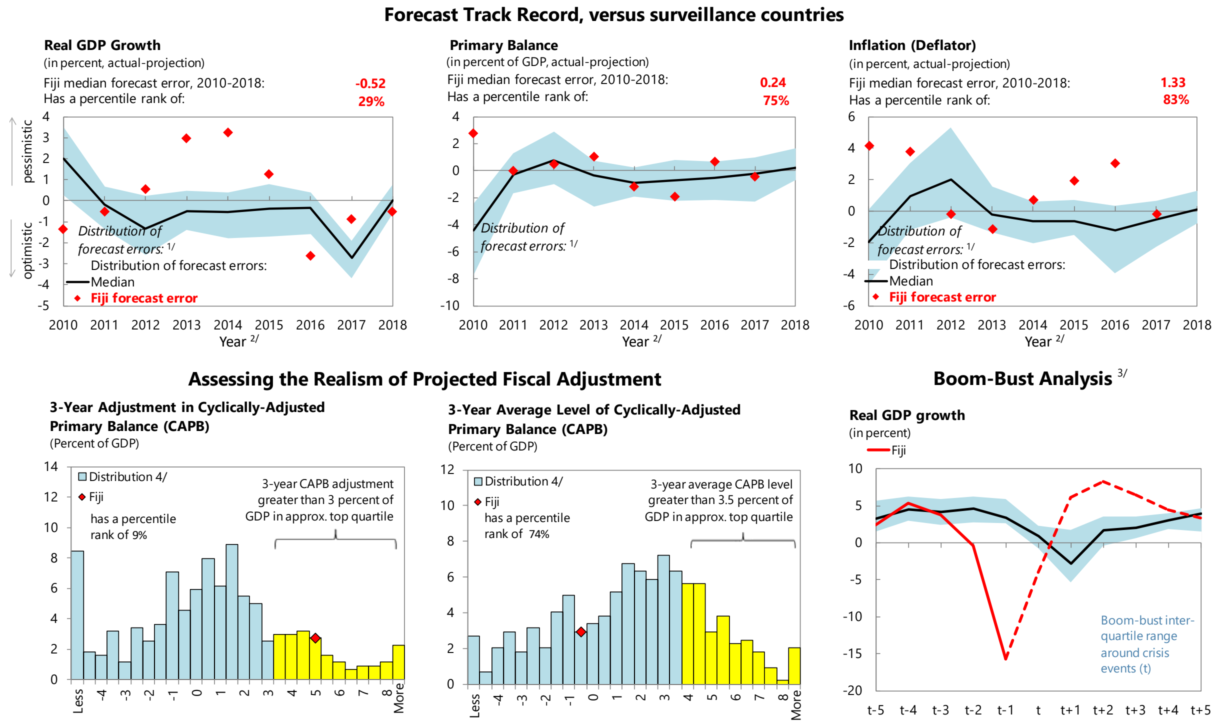
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-7.0	-2.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	4.9	4.8	4.9	5.1
Constant Primary Balance Scenario						
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-11.2	-11.2	-11.2	-11.2	-11.2
Effective interest rate	5.3	5.1	4.8	4.6	4.5	4.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-4.0	1.4	1.4	1.4	1.4	1.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	5.3	5.1	5.1	5.2	5.3	5.5

Source: IMF staff.

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



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

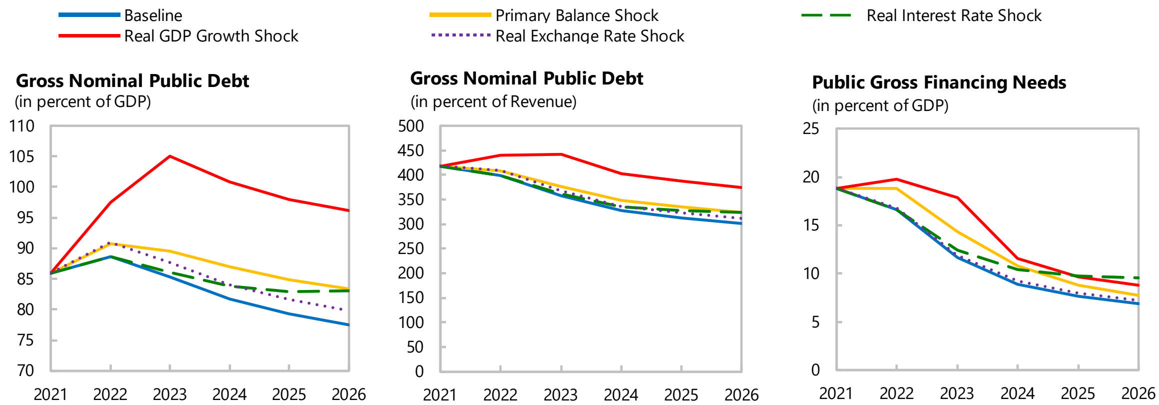
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Fiji has had a positive output gap for 3 consecutive years, 2018-2020 and a cumulative increase in private sector credit of 17 percent of GDP, 2017-2020. For Fiji, t corresponds to 2021; for the distribution, t corresponds

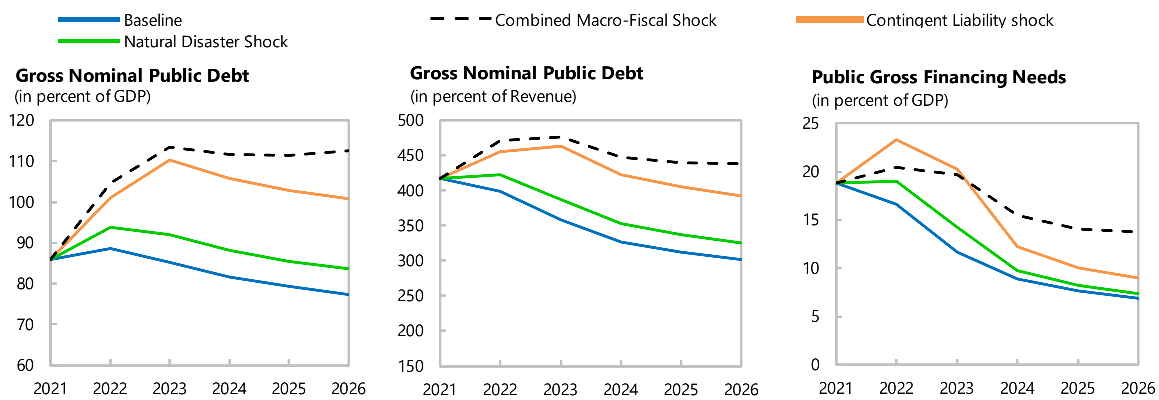
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Fiji: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary balance	-11.2	-9.1	-4.7	-1.3	0.2	0.9
Effective interest rate	5.3	5.1	4.9	4.9	5.0	5.2
Real Interest Rate Shock						
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary balance	-11.2	-7.0	-2.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	5.9	6.5	7.0	7.6
Combined Shock						
Real GDP growth	-4.0	-0.1	1.9	6.4	4.5	3.4
Inflation	1.2	1.0	1.4	2.8	2.7	2.5
Primary balance	-11.2	-9.3	-6.8	-1.3	0.2	0.9
Effective interest rate	5.3	5.7	6.1	6.7	7.3	7.8
Natural Disaster Shock						
Real GDP growth	-4.0	2.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary balance	-11.2	-9.0	-4.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	4.9	4.8	4.9	5.0

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	-4.0	-0.1	1.9	6.4	4.5	3.4
Inflation	1.2	1.0	1.4	2.8	2.7	2.5
Primary balance	-11.2	-9.3	-6.8	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	5.0	5.0	5.0	5.2
Real Exchange Rate Shock						
Real GDP growth	-4.0	5.2	8.3	6.4	4.5	3.4
Inflation	1.2	8.8	3.0	2.8	2.7	2.5
Primary balance	-11.2	-7.0	-2.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.7	5.0	4.9	5.0	5.2
Contingent Liability Shock						
Real GDP growth	-4.0	-0.1	1.9	6.4	4.5	3.4
Inflation	1.2	1.0	1.4	2.8	2.7	2.5
Primary balance	-11.2	-12.8	-2.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	5.1	4.9	5.0	5.1

Source: IMF staff.

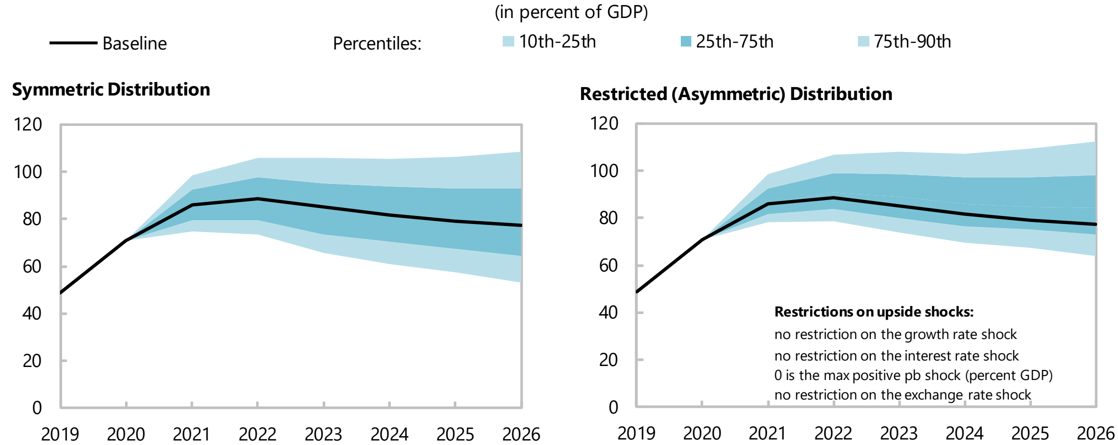
Figure 5. Fiji: Public DSA Risk Assessment

Heat Map

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

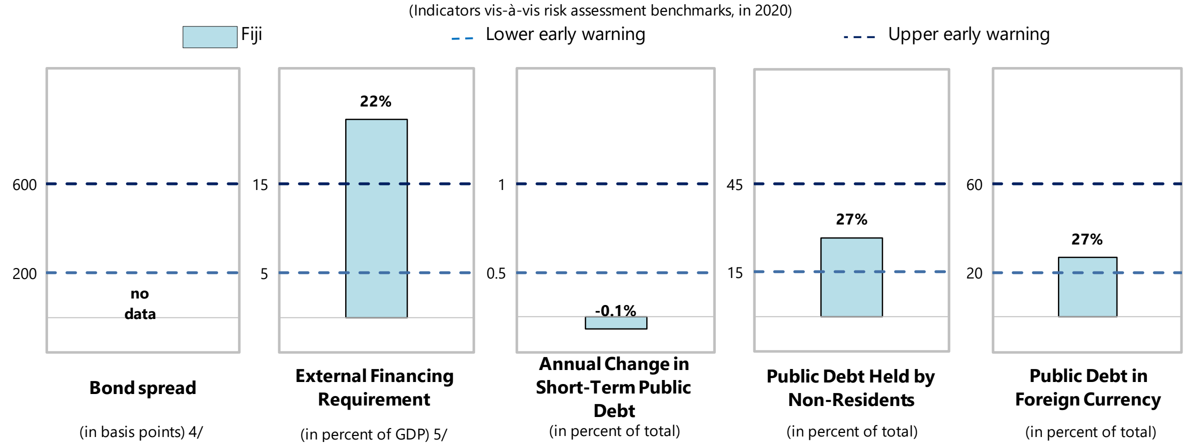
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 18-Jun-21 through 16-Sep-21.

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

Table 1. Fiji: External Debt Sustainability Framework, 2016-26

(in percent of GDP unless otherwise indicated)

	Actual					Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Baseline: External debt	23.4	23.4	25.5	29.1	38.8	**51.2**	**55.3**	**53.5**	**50.7**	**48.5**	**45.8**
Change in external debt	-1.8	0.0	2.0	3.7	9.7	12.4	4.1	-1.8	-2.8	-2.2	-2.7
Identified external debt-creating flows (4+8+9)	-5.9	-2.4	-1.0	6.5	14.9	9.6	0.5	-3.0	-3.5	-1.9	-0.9
Current account deficit, excluding interest payments	1.9	5.5	7.2	11.1	11.1	13.2	6.3	4.7	4.7	5.5	6.3
Deficit in balance of goods and services	3.9	5.0	7.6	10.3	16.4	20.7	10.8	6.5	5.7	5.7	5.9
Exports	46.6	46.0	47.9	48.1	27.5	23.1	38.0	43.9	45.5	46.1	46.9
Imports	50.5	50.9	55.5	58.4	43.9	43.7	48.8	50.3	51.2	51.8	52.8
Net non-debt creating capital inflows (negative)	-8.2	-7.2	-8.5	-6.5	-5.0	-7.5	-5.4	-5.9	-7.1	-7.2	-7.2
Automatic debt dynamics 1/	0.5	-0.7	0.3	1.9	8.8	4.0	-0.4	-1.8	-1.1	-0.2	0.0
Contribution from nominal interest rate	1.7	1.2	1.2	1.5	2.3	2.5	2.5	2.3	2.0	1.9	1.5
Contribution from real GDP growth	-0.6	-1.2	-0.9	0.1	5.6	1.5	-2.9	-4.1	-3.1	-2.1	-1.5
Contribution from price and exchange rate changes 2/	-0.7	-0.7	-0.1	0.3	0.9	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	4.1	2.4	3.1	-2.9	-5.2	2.8	3.6	1.2	0.7	-0.3	-1.8
External debt-to-exports ratio (in percent)	50.2	51.0	53.1	60.5	141.1	222.0	145.6	121.8	111.5	105.3	97.7
Gross external financing need (in billions of US dollars) 4/	0.7	0.7	0.9	1.1	1.2	1.3	1.2	1.2	1.3	1.4	1.5
in percent of GDP	13.3	13.2	16.3	20.1	27.4	27.4	23.1	21.8	21.3	21.3	21.2
Scenario with key variables at their historical averages 5/						**51.2**	**56.2**	**59.4**	**62.2**	**63.7**	**63.2**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	2.4	5.4	3.8	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4
GDP deflator in US dollars (change in percent)	2.8	3.1	0.4	-1.1	-3.0	7.6	2.5	3.0	2.8	2.7	2.5
Nominal external interest rate (in percent)	7.3	5.5	5.5	5.7	6.5	6.6	5.3	4.6	4.1	4.0	3.4
Growth of exports (US dollar terms, in percent)	0.6	7.0	8.6	-1.1	-53.3	-13.3	79.4	28.8	13.4	8.6	7.8
Growth of imports (US dollar terms, in percent)	1.6	9.5	13.6	3.6	-38.6	2.9	21.5	15.0	11.2	8.5	8.0
Current account balance, excluding interest payments	-1.9	-5.5	-7.2	-11.1	-11.1	-13.2	-6.3	-4.7	-4.7	-5.5	-6.3
Net non-debt creating capital inflows	8.2	7.2	8.5	6.5	5.0	7.5	5.4	5.9	7.1	7.2	7.2

Sources: Country authorities and staff estimates and projections.

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

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

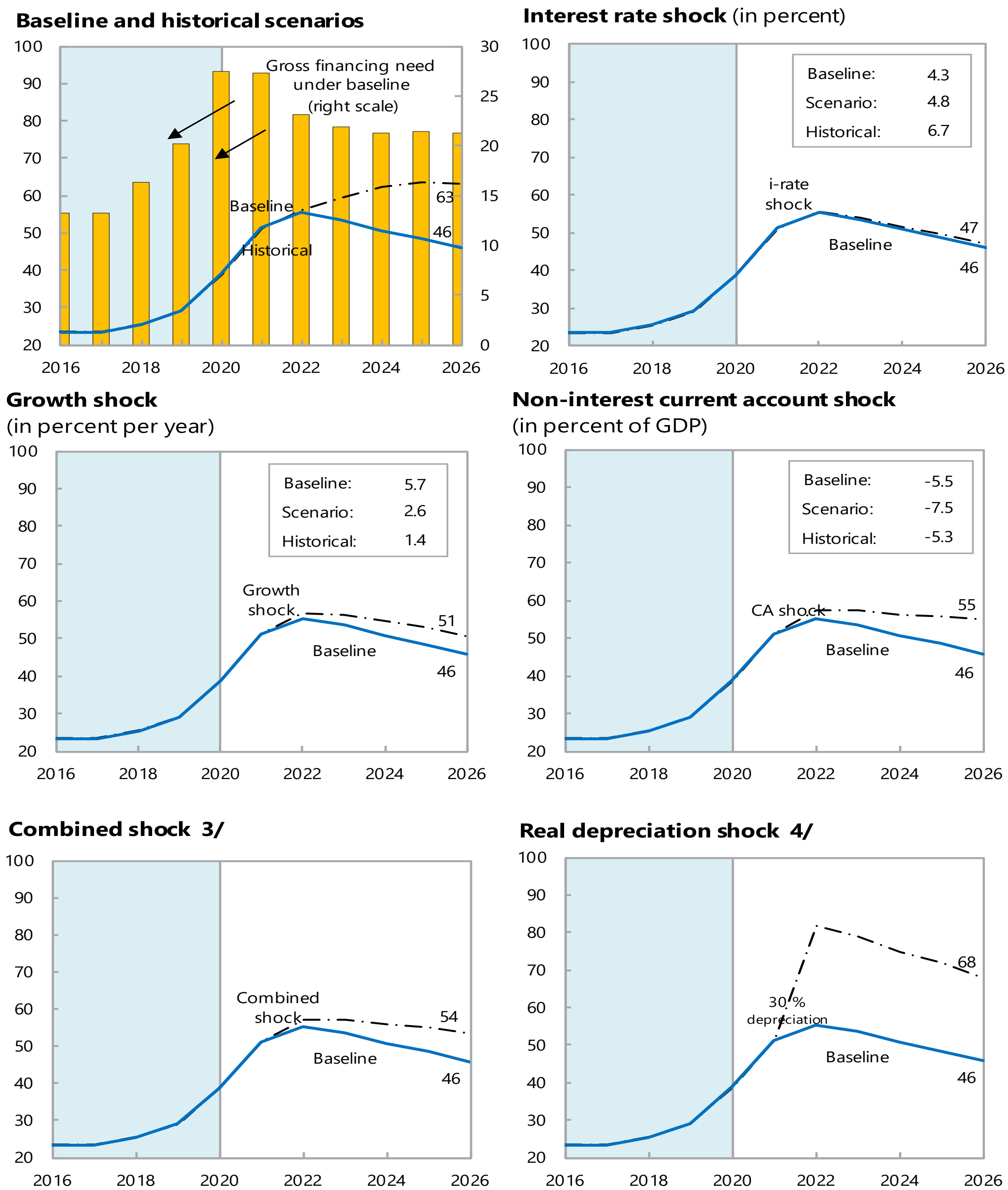
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex III. External Sector Assessment

The external sector position for 2020 is assessed to have been substantially weaker than the level implied by fundamentals and desirable policies but was affected heavily by the impact of the pandemic, protracted closure of the border, and the sharp loss in foreign exchange earnings from tourism. The real exchange rate was stronger than warranted despite recent depreciation. Reserve coverage in 2020 stood well above the desirable range.

Current Account

1. Background. Prior to the pandemic outbreak, Fiji's current account deficit averaged 7 percent of GDP over 2015-19.[1] The current account deficit widened further to 13.4 percent of GDP in 2020 because of the large drop in tourism receipts and despite import compression linked to the pandemic and a record contraction in GDP (-15.7 percent). The Net International Investment Position (NIIP) deficit reached 123.7 percent of GDP in 2020 from 72.6 percent of GDP in 2015. The deterioration of the NIIP is mostly driven by large capital inflows in the form of equity and investment fund shares (72 percent of total international liabilities). This explains the primary role of reinvested earnings in driving the current account deficits. A recent outbreak of the COVID-19 Delta variant and protracted closure of borders is expected to lead to a further contraction of real GDP this year. Together with rising imports of health-related equipment, this is expected to lead to a further deterioration of the current account deficit in 2021. Over the medium-term, the current account deficit is projected to recover slowly to pre-pandemic levels.

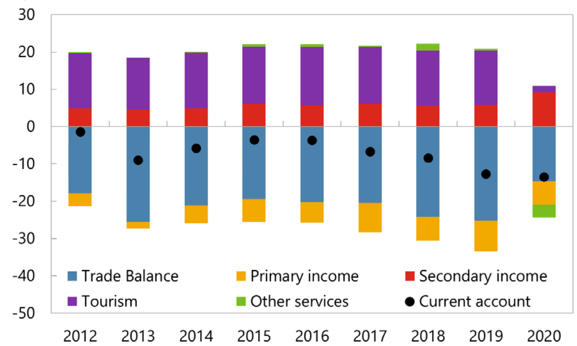
2. Assessment. The EBA-lite CA model estimates the cyclically adjusted CA balance at -11.6 percent of GDP and the CA norm at -3.7 percent of GDP (table). With a gap of -7.8 percent of GDP[2], the external position in 2020 is assessed to be substantially weaker than suggested by fundamentals and desirable policies. The policy gap accounts for a large share (7 percent of GDP) of the CA gap. The overall assessment considers the impacts of the pandemic outbreak on oil, tourism, and remittances developments. The adjusted CA incorporates a 4.9 percent of GDP adjustment due to the exceptional COVID-19 shock[3].

[1] The current account deficit widened to 12.6 percent of GDP in 2019 from 3.5 percent in 2015. Reinvested earnings (primary income balance) and imports of capital goods (trade balance) are the main drivers of recent current account deficits.

[2] See the EBA-Lite Methodology. The EBA-Lite REER model for Fiji cannot be calculated due to data limitations.

[3] The adjustment is calculated using the difference in the projected net oil trade balance, net tourism balance and net remittances balance pre-COVID19 (January 2020) and current projections.

Current Account Developments
(In percent of GDP)



Sources: Fiji authorities and IMF staff estimates.

Fiji: Model Estimates for 2020 (in percent of GDP)

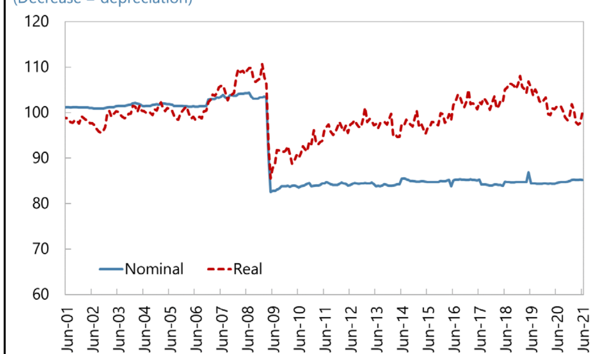
	CA model
CA-Actual	**-13.4**
Cyclical contributions (from model) (-)	1.9
COVID-19 adjustor (+) 1/	4.9
Natural disasters and conflicts (-)	1.1
Adjusted CA	**-11.6**
CA Norm (from model) 2/	**-3.7**
Adjusted CA Norm	**-3.7**
CA Gap	**-7.8**
o/w Relative policy gap	-7.0
Elasticity	-0.35
REER Gap (in percent)	**22.5**

Source: IMF staff estimates.
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-1.0 percent of GDP), on tourism (5.5 percent of GDP) and remittances (0.4 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

3. **Background**. The Fijian dollar is officially determined on the basis of a weighted basket of currencies comprising the Australian dollar, the Japanese yen, New Zealand dollar, Euro, and U.S. dollar. The real effective exchange rate (REER) depreciated by about 4 percent on average in 2020 reflecting Fiji's lower inflation relative to its trading partners. However, the REER remains appreciated by about 16 percent relative to its value in April 2009—when a large devaluation of the Fijian dollar was undertaken by the Reserve Bank of Fiji to stem the loss of foreign exchange reserves.

Nominal and Real Effective Exchange Rates
(Decrease = depreciation)



Sources: Fiji authorities, and IMF staff estimates.

4. **Assessment**. The CA gap model implied a REER overvaluation of 22.5 percent (applying an estimated elasticity of the trade balance with respect to changes in the REER of -0.35). This assessment is consistent with the recent developments in nominal exchange rate and inflation rate. However, it should be noted that the emergence of CA and REER gaps does not automatically imply a need for nominal exchange rate adjustment. Instead, the CA and REER gaps can be attributed to the increasing fiscal deficits, indicating the need for tighter fiscal policy to maintain external balance. To realign the real exchange rate with fundamentals, policies should focus on fiscal consolidation (about 5-6 percent of GDP by 2026) and improving productivity and competitiveness.

International Reserves

5. **Background**. Gross official reserves stood at US$1,011 million (7.7 months of imports) in 2020, compared to US$1,027 million (7.3 months of imports) in 2019. Reserves remained at a comfortable level thanks to the inflow of foreign loans and a notable increase in inward remittances. The reserves' coverage is projected to stay high in 2021 (6.9 months of imports), before gradually going back to the pre-pandemic trend over the medium term.

6. Assessment. A cost-benefit analysis on the level of reserves suggests an optimal level between 3.3 and 5.3 months of imports. Staff's reserves adequacy framework is tailored to small credit-constrained economies. If the probability of a large shock is set at the sample average of 50 percent, the estimated optimal level of reserves would be 3.3 months of imports – below the RBF's minimum threshold of 4 months of retained imports. However, once Fiji's high vulnerability to natural disasters is incorporated into the assessment, the estimated adequate level of reserves would rise to 5.3 months of imports.

Annex IV. Fiscal Policies During the Pandemic

Fiji's policy response to the pandemic has been primarily fiscal and quasi-fiscal support, announced in three policy packages. The first stimulus package was launched in March 2020, when COVID-19 escalated into a global pandemic. The other two packages were part of the annual budget cycle and were announced in July 2020 and 2021, respectively. Overall, stimulus measures were mainly geared towards reducing the tax burden on businesses and households, supporting the health policy response, and making available financial assistance to vulnerable parts of the population.

March 2020 Supplemental Budget

1. **On March 26, the Fijian authorities announced a supplemental budget to address the effects of COVID-19**. The budget included measures to boost capacity for detecting and treating infections, protect the most vulnerable from economic hardship, and provide support to hard-hit economic sectors. The total envelope of the announced stimulus package amounts to FJD 1 billion, equivalent to 8.7 percent of GDP (Table 1).

2. **The stimulus package included revenue measures (FJD 152 million), additional spending and transfers (FJD 100 million), and non-budgetary support from, among others, the Fiji National Provident Fund and the central bank (FJD 918 million)**. Key provisions include (i) additional funds for the Ministry of Health, (ii) reductions in employer and employee pension contributions, (iii) transfer payments to workers, (iv) loan repayment holidays, (v) tax and tariff reductions, and (vi) concessional loans to banks from the RBF.

Table 1. Fiji: Key Provisions of the March 2020 Supplemental Budget

Description of Provision	Authorities' cost estimate	Staff estimate of fiscal cost (FY)
	(In millions of Fiji dollars)	
Reduced employer/employee pension contributions from April to December	210	0
Lump sum assistance payments from FNPF (pension fund); transfer payments to informal sector workers who get infected and/or in lockdown areas; employer reimbursements of employee sick leave and self-quarantine	300	60
Additional health budget procurement, public information, and infection control	40	40
Loan repayment holidays on principal and interest for up to 6 months; student loan repayment holiday	410	0
Tax and tariff reductions to facilitate procurement of medical necessities and support economic activity	150	150
RBF concessional loans to banks at 1 percent interest	60	0
Reduced spending on capital projects and non-essential programs	-405	-405
Total	**766**	**-155**

Sources: Ministry of Economy and IMF staff calculations.

FY2020-21 Official Budget

3. **In July 2020, the government released the official FY2020-21 budget, enacting a sweeping overhaul of Fiji's tax regime as a means of providing immediate stimulus and bolstering business competitiveness**. Key revenue features included the following:

- Removal of the Services Turnover Tax.
- Removal of the Stamp Duty.
- Repeal of VAT reverse charges on supplies received from abroad.
- Reduction of the Social Responsibility Tax (SRT) from 10 percent to 5 percent.
- Reduction of the Environmental and Climate Adaptation Levy (ECAL) from 10 percent to 5 percent together with an increase in the business turnover threshold for ECAL from F$1.25 million to F$3 million.
- Making permanent the 100 percent write-off for purchase of fixed assets up to F$10,000 for business purposes and the 100 percent write-off for construction of new commercial and industrial buildings.
- Airport departure tax halved from F$200 to F$100.
- Reduction in tariffs on vehicles, consumer goods, and a 50 percent reduction in local excise duties on alcohol.

4. **The FY2020/21 revenue loss resulting from policy changes is estimated at F$483 million (5 percent of GDP), mainly reflecting customs duties (F$190 million), the departure tax (F$90 million), and the Environment & Climate Adaptation Levy (F$90 million)**.

Table 2. Fiji: Key Provisions of the FY 2020-21 Budget

Description of Provision	Staff estimate of total amount	Staff estimate of fiscal cost
	(In millions of Fiji dollars)	
Tax and tariff reductions	483	483
Tourism subsidy	60	0
Additional unemployment benefits & social protection	90	14
Additional capital spending	110	110
MSME loan program	30	0
Total	**773**	**607**

Sources: Ministry of Economy and IMF staff estimates.

5. **The budget also included significant reallocation of spending and transfers**. On the one hand, it expanded unemployment benefits (in collaboration with FNPF), created a COVID-19

contingency fund, and provided funding for Digital Fiji and several capital investment projects. On the other hand, the budget included a reduction in operating grants (largely cuts to the Fiji Revenue and Customs Service, the Water Authority, Fiji Roads Authority, Fiji National University, University of South Pacific, and the bus fare program for elderly and the disabled).

FY2021-22 Official Budget

6. **In July 2021, the authorities announced the budget for fiscal year 2021-22. The budget kept the revenue framework from the prior year in place, while boosting targeted transfers to vulnerable parts of the population**. Overall, the budget envisions an increase in the deficit (government's definition) by 4.7 pp to 16.2 percent of GDP in FY2021-22, driven by higher spending and a slight drop in revenues (Table 3). Public debt is projected to reach 92 percent of GDP in July 2022.

7. **The increase in spending is driven mainly by additional transfer payments (+F$200m), purchases of outputs (+F$100m), personnel (+F$50m), and transfers (+F$40m)**. These increases are linked to the response to the recent Delta variant outbreak and related social assistance, including: increased medical staff; supply of food and essential goods; a COVID-19 contingency fund; additional unemployment support, including for the informal sector; and transfers to the poor, elderly and disabled. However, the budget also includes support for economic diversification, including for agriculture, manufacturing, forestry, and fisheries.

Table 3. Fiji: Authorities' Fiscal Indicators in the FY2021-2022 Budget

(F$ million)	2019-20 (Actual)	2020-21 (Actual)	2021-22 (Budget)
Revenue	**2,717**	**2,111**	**2,085**
As a % of GDP	25.3	22.0	21.1
Tax Revenue	2,194	1,411	1,598
Non-Tax Revenue	523	700	487
Expenditure	**3,354**	**3,217**	**3,691**
As a % of GDP	31.2	33.5	37.3
Net Deficit	**-637**	**-1105**	**-1605**
As a % of GDP	**-5.9**	**-11.5**	**-16.2**
Debt	6,686	7,606	9,061
As a % of GDP	62.3	79.2	91.6
Nominal GDP	10,740	9,598	9,889

Source: Ministry of Economy.

8. **The FY21-22 budget also includes several notable off-budget provisions, such as incentives for vaccination, which is now required for government workers and to receive social assistance.** The budget also introduced a new private sector loan program of F$200m with low-interest funding from the RBF to commercial banks to on-lend to businesses. The government guarantees 75 to 90 percent of these loans (depending on the size of borrowers) and pays interest for the first two years.

Annex V. 2018 FSAP Recommendations

Recommendations	Authorities Response[1/]
Review supervisory ranking framework (SRF) to better identify foreign branch risks and recalibrate complexity factors to account for risk management at LFI.	Completed. The revised SRF was approved by the Financial System Policy Committee (FSPC) in August 2019, and fully implemented. Changes incorporated complexity factors more closely as applied to each industry.
Conduct a broad review of the Banking Act and determine amendments required to ensure compatibility with powers required to implement supervision.	Review of the Banking Act to identify changes required is in progress. Due for completion in Dec-2022.
Seek to amend the Banking Act to address related parties, consolidated supervision, major acquisitions, and establish definitions of significant ownership and controlling interest.	Review of the Banking Act to identify changes required is in progress. Due for completion in Dec-2022.
Enhance the depth of microprudential supervisory stress tests by supplementing the existing liquidity and credit sensitivity analysis with balance sheet and income projections.	Completed. Stress testing model in full use, incorporates risks specific to each bank and systemic risks, with balance sheet and income projections linked to GDP.
Enhance the quantitative analysis to take into account and quantify the level of reliance of branches on their parent groups.	Research in progress to work towards an industry discussion paper addressing requirements. Discussion Paper to be finalized in Mar-2022.
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 (EWI).	Partially completed. Work on enhancing the integration of supervisory knowledge into stress testing completed. Work on linking to EWIs in progress. To be completed in Dec-2021.
Assign the macroprudential authority to the RBF with powers to identify and assess risks to financial stability; and to implement macroprudential policies.	Work in progress on further discussing an appropriate legislation to support implementation. Proposed regulations have been drafted and are expected to be finalized in June 2022.
Develop a detailed macroprudential toolkit, mapping policy instruments to intermediate policy objectives and to risk indicators.	Work in progress on the appropriate legislation to support implementation. Scope of RBF Act has been assessed as not adequate to capture macroprudential supervision by the RBF, thus the proposal of a separate regulations. A confirmation on the way forward is expected by Dec-2022.
1/ Reference relates to full update of all FSSR recommendations.	

Recommendations	Authorities Response
Strengthen the domestic coordination arrangements by establishing a Financial Stability Committee (FSC).	Work in progress on appropriate legislation to support implementation. Scope of RBF Act seen as needing strengthening via regulations. Expected to be complete by Dec-2022.
Assess the costs and benefits of deposit insurance and possible design options.	Ongoing research and internal discussions on what would the appropriate framework for Fiji. TA may be required. Expected to confirm a way forward by Sep-2022.
Develop comprehensive bank resolution policies and procedures and establish bank recovery planning requirements.	Work in progress. Research and review of current tool kit with what more can be undertaken.
Develop ELA policy and processes.	A briefing paper was prepared for discussion within relevant Groups in RBF. Following which a broader discussion paper is to be drafted for further guidance from the technical committee. Expected to be complete by Mar-2022.
Enhance crisis management cross-border coordination with home authorities.	Work in progress. Draft MOU with APRA to incorporate coordination recovery planning clauses to be discussed possibly in mid to late 2022. Discussions with BPNG have been initiated at the BSP Supervisory College. Expected to be complete by Jun-2022.
Strengthen the framework and capacity for the early detection of bank stress and early intervention actions, and to introduce recovery planning for banks.	Research in progress for a policy on early detection and recovery planning for banks. Expected to be complete by Dec-2021.
Focus the strategies of statutory NBFIs on core competencies and missions.	Both the Fiji Development Bank and the Housing Authority of Fiji have been placed under the full supervision of the RBF. Recommendation will therefore be actioned as part of supervision requirements in due course.
Develop performance frameworks for statutory NBFIs, particularly the identification of relevant performance and disclosure benchmarks.	Both the Fiji Development Bank and the Housing Authority of Fiji have been placed under the full supervision of the RBF. Recommendation will therefore be actioned as part of supervision requirements in due course.
Strengthen the oversight of nonbank financial sector, particularly in the light of efforts to strengthen financial deepening.	Completed. Normal supervision has started on FDB and preparatory works for a HA onsite examination in the last quarter of 2021.

Annex VI. Climate Adaptation and Finance Issues

Fiji is highly vulnerable to climate change because of its geography, location of its population and assets in coastal areas, and the importance of natural resources to agriculture and tourism. Fiji is especially vulnerable to floods and tropical cyclones, which already have significant impacts on the economy and society (Tropical Cyclone Winston in 2016 caused a combined damage to assets and production of about 30 percent of GDP and slowed growth to 0.4 percent). Tropical cyclones and flooding are an annual drag on growth and are responsible for internal displacement in the thousands.

1. **National Adaptation Plan**. Fiji's climate strategy is embodied in the National Adaptation Plan (NAP) issued in 2018. The NAP lays out Fiji's vulnerabilities to climate change with respect to food and nutrition security, health, human settlements, infrastructure, biodiversity, and the natural environment. The NAP also catalogues barriers to climate adaptation: (i) information, knowledge, and technology barriers; (ii) governance and institutional barriers (such as the lack of focal points in government to integrate environmental and climate risk into planning processes); (iii) financial barriers, including how to increase levels of adaptation finance and how to incorporate risk transfer mechanisms and contingency finance to ensure scarce resources are put to best use (e.g., prevention and risk reduction versus disaster recovery); and (iv) economic barriers, including the high prevalence of low incomes, Fiji's geographic remoteness, reliance on climate-dependent economic activities, and relatively low levels of investment.

2. **Cost of Adaptation**. Government and World Bank estimates place the cost of climate adaptation and resilience building in Fiji at about 10 percent of GDP over the next 10 years. This estimate covers all sectors (housing, hazard management, transport, energy, water, health and education, environment, agriculture, fisheries, and social protection). Recurrent costs are estimated at an additional 2-4 percent of GDP. Concurrently the Fijian government estimates that actual expenditures on climate adaptation and resilience-building are currently only about ¼ of estimated needs. Given Fiji's limited fiscal space (sharply reduced in the pandemic), spending needs greatly outweigh Fiji's revenue and borrowing capacity.

3. **Fiji's Access to Climate Finance**. Fiji's National Adaptation Plan explicitly recognizes the need to produce a comprehensive financing strategy. Fiji is one of the more advanced countries in the Pacific with respect to accessing global climate funds. Fiji issued a Green Bond in 2017-18 for F$100 million. The Fiji Development Bank (FDB) gained accreditation for direct access to the Green Climate Fund (GCF) in October 2017, and the GCF approved its first project in August 2020. However, Fiji's experience highlights the challenges that many PICs face with respect to accessing climate finance. Specifically:

- ***Fiji's Green Bond was relatively expensive***—with the 13-year maturity well above the average rate paid on Fiji's other external borrowing.

- ***FDB's time to direct access accreditation with the GCF was about 3.7 years***. Time to project approval after direct access accreditation was another almost 3 years, even using the Simplified Approval Process.

- ***Given Fiji's middle-income status, it is difficult for Fiji to get access to concessional loans***, which limits the amount it can borrow for climate projects without risking debt sustainability.
- ***Allowed projects are very small and the Environmental and Social Safeguards (ESS) rating is low***. The FDB is only able to secure direct access accreditation for loans up to US$10 million, which is small compared to the country's estimated adaptation needs of about US$4.5 billion.

4. A comprehensive approach to climate adaptation in Fiji will require both an increase in capacity to evaluate and create a pipeline of projects, and a realistic approach to climate finance which takes into account Fiji's borrowing constraints and debt sustainability. The government has already established a stand-alone office for the strategic development of climate projects. However, a long-term financing strategy has yet to be developed. Given Fiji's high public debt, limited fiscal space, and high spending needs for climate adaptation, new financing will need to be primarily in the form of grants and concessional loans.

INTERNATIONAL MONETARY FUND

REPUBLIC OF FIJI

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 8, 2021

Prepared By

Asia & Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 10, 2021)

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	73.87	75.07
Reserve position in Fund	24.60	25.00

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	161.41	100.00
Holdings	138.60	85.87

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				
	2021	2022	2023	2024	2025
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. The exchange rate was F$2.07 per U.S. dollar as of October 25, 2021.

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 either reducing the delegated limits to commercial banks or replacing these limits with an RBF discretionary approval requirement on large payments.

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 2019 Article IV consultation discussions were held in Suva during December 3-13, 2019. The consultation (Country Report No. 20/80) was completed by the Executive Board on February 24, 2020. Fiji is on a 12-month cycle.

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank:
  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 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.
National Accounts: Production-side estimates of GDP at current and constant 2014 prices are available up to 2019; current price estimates of GDP by expenditure and income are available to 2019. 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 which was finalized in August 2021. Quarterly PPIs for goods and transportation services (experimental) are available from 2011 to 2021:Q1 (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 2019. 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 reform in the financial system and in the chart of accounts of BCG which would allow an improvement on the GFS reporting that was originally planned for mid-August has been delayed. 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 need 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, including the compilation of the IMF's Coordinated Direct Investment Survey, the data for which have been prepared but not yet disseminated.
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 October 26, 2021)

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange Rates	9/2021	10/2021	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/2021	10/2021	M	M	M
Reserve/Base Money	08/2021	10/2021	M	M	M
Broad Money	08/2021	10/2021	M	M	M
Central Bank Balance Sheet	08/2021	10/2021	M	M	M
Consolidated Balance Sheet of the Banking System	08/2021	10/2021	M	M	M
Interest Rates[2]	08/2021	10/2021	M	M	M
Consumer Price Index	08/2021	10/2021	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	08/2021	10/2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	09/2021	10/2021	M	M	M
External Current Account Balance	Q1, 2021	7/2021	Q	Q	Q
Exports and Imports of Goods and Services	Q1, 2021	7/2021	Q	Q	Q
GDP	2020(p)	07/2021	A	A	A
Gross External Debt	Q4/2020	10/2021	Q	Q	Q
International Investment Position	Q1/2021	7/2021	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).

Statement by Rosemary Lim, Executive Director for Fiji,
Firman Mochtar, Alternate Executive Director,
Son Thanh Nghiem, Senior Advisor to Executive Director,
and Tengku Azlan Ariff, Advisor to Executive Director
November 29, 2021

On behalf of our Fiji authorities, we would like to thank the IMF mission team for the comprehensive and constructive policy dialogue during the 2021 Article IV consultation. The consultation provided valuable opportunities to discuss pertinent policy issues as well as key recommendations to overcome the impact of the pandemic in a sustainable manner. The authorities broadly concur with the thrust of staff's appraisal and will carefully consider the relevant recommendations.

Recent Economic Development and Outlook

Fiji's economy was hard-hit by the pandemic and another year of contraction is likely in 2021. The Fijian economy was estimated to have contracted by 15.7 percent in 2020 and is projected to contract by a further 4 percent in 2021. The Delta variant outbreak in April 2021 resulted in lockdowns, restrictions in movement and business operations, prolonged border closure, and subdued domestic demand. The tourism industry, a large contributor to Fiji's GDP, was heavily affected and this has led to a sharp drop in the services balance of the current account due to the loss in tourism. As a result, the current account deficit is projected by staff to expand to 15.7 percent of GDP in 2021 compared to 13.7 percent in 2020. Inflation remains subdued but rising international commodity prices are expected to contribute to a rise in consumer price inflation to 1.4 percent by end-2021, compared to -2.8 percent at end-2020. On the upside, the rapid progress of the national vaccination program, the resumption of international travel by end-2021 and evidence of significant pent-up demand has raised economic activity in Q4, although real GDP growth will likely hover around -4.0 percent in 2021.

The outlook is positive and a gradual recovery in growth is expected to take place in the medium-term as the domestic recovery becomes more entrenched. The earlier than expected re-opening of international borders and the increased appetite for travel to Fiji based on forward bookings are expected to boost the recovery, with GDP growth rebounding by 10-12 percent in 2022 and around 7-9 percent in both 2023 and 2024. Authorities note some downside risks that might affect the outlook due to uncertainties surrounding the full recovery of Fiji's tourism sector, natural disasters and economic scarring. Against the backdrop of a more diminished fiscal space and surge in contingent liabilities to support crucial state-owned enterprises, the authorities strongly commit to sound macroeconomic management, and continued focus on macrostructural and fiscal reforms that are essential to promote sustainable and inclusive growth in the medium to long-term.

Fiscal Policy

The authorities undertook timely, targeted and sizeable fiscal responses, which have been instrumental to the resilience of the economy to the pandemic. The authorities have implemented accommodative fiscal policy aimed at protecting public health, supporting economic activity particularly for vulnerable and nascent sectors, and preserving employment and household incomes. They plan to maintain this accommodative fiscal stance until the recovery is firmly entrenched and as the economy gradually reopens to international tourism.

The authorities welcome the outcome of the DSA exercise pointing to a sustainable debt level, albeit with significant risks, and note the fiscal challenges highlighted in staff's assessment. Staff estimated the implementation of wide-ranging tax and tariff reductions in the national budget to have reduced the Government's overall revenue envelope by about 5 percent of GDP, and that these tax measures could potentially create a structural reduction of the Government's revenue profile over the medium-term. The authorities are also cognizant of fiscal risks arising from contingent liabilities, particularly in the form of guarantees to affected state-owned enterprises. The fiscal deficit is estimated to have increased to 10.9 percent of GDP in FY2020-21, compared to 5.9 percent in the previous fiscal year. Meanwhile, Government debt is estimated to have increased to 79.8 percent of GDP in FY2020-21 compared to 62.3 percent in the previous fiscal year.

Recognizing these challenges, the authorities reiterate their commitment to fiscal consolidation over the medium-term. The authorities agree that fiscal consolidation and reform should be the cornerstone of their medium-term fiscal strategy and plan to chart a credible course back to macro-fiscal stability. This includes various revenue enhancement and expenditure rationalization measures, supported by a clear debt management framework as outlined in the inaugural Medium-Term Debt Management Strategy. The authorities appreciated the recommendations from staff's roadmap for fiscal consolidation and agreed that a small primary surplus target of 1-2 percent of GDP is a desirable anchor to guide fiscal policy and ensure a steady decline in the debt-to-GDP ratio. The medium-term fiscal framework is geared towards reducing the fiscal deficit to below 3 percent of GDP within the next 5 years and bringing down Government debt to around 60 percent of GDP in the next 15 years.

Monetary Policy

RBF has implemented accommodative monetary policy to continue supporting the economic recovery. In line with this, monetary policy calibration will depend on the progress of economic recovery. RBF underscored the continuation of accommodative monetary policy amid ample liquidity conditions and subdued price pressures, which will in turn, support banks and the corporate sector from the adverse impact of the pandemic.

Foreign reserves remain adequate, sufficient to finance 10.4 months of retained imports, well above the 3 months minimum level of the international reserve adequacy standard.

External Sector and Exchange Rate

The external sector position is expected to improve in line with the resumption in economic activity. The current account deficit is projected by staff to widen to 15.7 percent of GDP in 2021 from 13.4 percent in 2020, underpinned by a decline in the trade and services balances, which more than offset the increase in secondary income balances led by personal transfers, and an improvement in the primary income deficit. As tourism activities gather pace in line with meeting the vaccination target rate for the population and the re-establishment of international travel into Fiji, the current account deficit is expected to gradually recover to pre-pandemic levels over the medium-term.

The authorities' strong commitment to fiscal consolidation and price stability will contribute towards restoring the external balance over the medium-term. In relation to staff's assessment that Fiji's external position in 2020 is weaker than the level implied by fundamentals and desirable policies, the authorities noted the considerable uncertainty surrounding this assessment given the ongoing crisis, particularly for tourism-dependent economies. Authorities agreed with the need to maintain higher level of foreign reserves, given Fiji's vulnerability to external shocks, particularly natural disasters and climate change. The IMF's recent SDR allocation to Fiji of about USD 133.8 million will be maintained with the RBF to further boost foreign reserves. Authorities also commit to a regular review of the current exchange rate peg framework to ensure that it continues to serve the monetary policy framework well. Regarding exchange rate controls, the authorities emphasized the need for a cautious approach and the gradual easing of existing controls will be considered as the recovery takes shape.

Financial Sector

Fiji's financial sector remains sound, with robust capital and liquidity positions. The banking sector remained stable, underpinned by the expansive operations of foreign bank branches that have access to their parent banks' capital and liquidity. The authorities continue to monitor closely non-performing loan (NPL) rates, particularly in anticipation of the phasing out of the loan repayment holiday by March 2022. NPLs to total loans reached 7.5 percent in September 2021, compared to 3 percent at end-2019. Against this backdrop, banks have made significant provisions to withstand credit shocks, with their capital adequacy ratio strengthening to 20.6 percent as of September 2021, well above the prudential minimum of 12 percent. Therefore, banks can withstand further deterioration of NPLs without it significantly affecting their capital adequacy. While there has been a steady decline in correspondent banking relationships (CBRs) in the Pacific region, Fiji is not facing such pressures due to the good track record of banks with AML/CFT compliance.

The authorities continue to strengthen financial supervision and are monitoring developments in the financial sector very closely. Supervisory standards have not been loosened, save for the regulatory space given for the accommodation of loans subject to repayment holidays. On-site examinations have been re-established, with close dialogue continuing with regulated entities. At the institutional level, more detailed prudential reporting has been required from the banking sector (commercial banks and credit institutions) specifically on loans under repayment holidays, and their monitoring and supervision have been enhanced for specific institutions that were of concern.

Structural Reform

The authorities are committed to focus on delivering macro structural reforms on the road towards greater economic diversity and sustainability over the long-term. The passage of the new Investment Act 2021 is expected to contribute towards improving Fiji's competitiveness and business environment, aligning the investment regime to international best practices. Progress have also been made in the shift towards digitalization, including the digitalization of tax, fee and license payments and the issuance of permits and government documents. Authorities also placed emphasis on raising the female labor force participation to enhance productivity and increase the pool of skilled labor. To allow more opportunities for working parents, the National Taskforce on Early Childhood Care and Education was established, charged with developing policies and implementing strategies to expand the supply of childcare services. On climate resilience, the authorities plan to invest around 8-9 percent of GDP in blue and green climate projects, including infrastructure investment projects. They are currently working with the UN and UK Government to improve climate resilience and sustainable development.

Fiji has also made commendable progress in improving overall transparency and governance in the regulatory environment. The AML/CFT framework continues to be strengthened. Through the National AML Council, the authorities are committed to address the remaining gaps identified by the Asia/Pacific Group on money laundering (APG) in the 2016 Mutual Evaluation Framework (MER) on Fiji. The review of existing laws and drafting of legal provisions, as well as the implementation of process improvements, capacity building and strengthening of institutions are currently ongoing to improve the effectiveness at combating money laundering and terrorism financing activities. Efforts are also being made to improve the current governance and supervisory framework in non-bank financial institutions (NBFIs), including changes to the Public Enterprise Act and Companies Act, to align with international best practices and tackle corruption.

Final Remarks

Sound macroeconomic management and structural reform policies have continued to serve Fiji well in supporting economic growth and stability as well as safeguarding the economy against risks and vulnerabilities. The rapid progress of vaccination efforts bodes well for the

Fijian economy, especially for the re-opening of the tourism sector and resumption of economic activity. Absent any external shocks, prospects for a strong rebound next year have improved on the back of the resumption in tourism and its positive knock-on effects on the broader economy. Our authorities will continue to pursue robust policies and fiscal consolidation to promote sustainable and inclusive growth over the medium- to long-term. The authorities commit to strengthening collaboration and partnership with the Fund, and continue close engagement through regional forums, training and surveillance missions.

Finally, the authorities wish to sincerely thank the Mission Chief, Mr. Todd Schneider and his team for their insightful analysis and useful policy recommendations presented in the Staff Report.