

**FOR
AGENDA**

SM/12/4
Supplement 1

January 6, 2012

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Fiji—Staff Report for the 2011 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2011 Article IV consultation with the Republic of Fiji (SM/12/4, 1/6/12), which is tentatively scheduled for discussion on **Friday, January 20, 2012**. At the time of circulation of this paper to the Board, the authorities of the Republic of Fiji have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Mathai (ext. 39996) and Ms. Sheridan (ext. 35681) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, January 17, 2012; and to the Asian Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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REPUBLIC OF FIJI

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 5, 2012

Prepared By

Asia and Pacific Department
(In consultation with other departments)

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ANNEX I. FIJI: FUND RELATIONS

(As of November 30, 2011)

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

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	70.30	100.00
Fund holdings of currency	53.96	76.76
Reserve position in Fund	16.39	23.31

III. SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	51.09	76.15

IV. Outstanding Purchases and Loans:
None

V. Financial Arrangements: None

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

	Forthcoming			
	2012	2013	2014	2015
Principal				
Charges/Interest	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.03	0.03

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound

sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. On April 15, 2009, the Fiji dollar was devalued by 20 percent against the basket. The exchange rate was F\$1.8205 per U.S. dollar as of December 30, 2011.

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

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010, and further increases in delegated limits were announced in November 2011. Banks have also been allowed to have net forward contracts of up to F\$20 million, and individuals are allowed to take out up to

F\$10,000 for overseas investment. There are also restrictions in Fiji dollars on offshore portfolio and direct investments by the Fiji National Provident Fund and other nonbank financial institutions, companies, and individuals.

VIII. Last Article IV Consultation: The 2010 Article IV consultation discussions were held in Suva during October 28–November 12, 2010. The consultation (Country Report No. 11/85) was completed by the Executive Board on February 2, 2011. Fiji is on a 12-month cycle with the concurrence of the authorities.

IX. Safeguards Assessment: The first-time safeguards assessment of the Reserve Bank of Fiji (RBF) was finalized in January 2011 and found key safeguards elements in place. The RBF publishes annual financial statements, albeit with some delay, that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of

autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were recommended by the staff for others. Other priority recommendations include: (i) establishing an inter-departmental working group to develop procedures for compilation of monetary program data, and (ii) adopting an action plan for establishing RBF capacity to prepare IFRS financial statements.

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

ANNEX II. FIJI: WORLD BANK-IMF COLLABORATION

(As of December 30, 2011)

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

Cooperation over the past year has included World Bank participation in the November 2011 Article IV mission to Fiji. The Bank's participation facilitated discussions with the authorities in areas of mutual interest such as structural reforms.

Based on the above cooperation, the Bank and Fund teams agree that Fiji's main macroeconomic challenges are to safeguard fiscal and external stability, as well as address structural obstacles that are impeding growth. These obstacles are detailed in the main text of the report, but some of the structural reforms seen by the Bank and the Fund as macro-critical include:

- **Land reform**, which is critical for Fiji's growth prospects and economic diversification. In addition to making further progress with land reform, there is a need to streamline the administration of land policy.
- **Price decontrol**, to re-establish price signals and encourage investment.
- **Sugar reform**, to revitalize a key sector. The Fiji Sugar Corporation needs to be restructured and returned to profitability, and wide ranging sugar sector reforms need to be implemented to make the sugar industry viable. To date, the poor performance of FSC has created a large burden on the budget and significantly reduced Fiji's growth.
- **FNPF reform**, which is key to financial sector stability. FNPF should be made actuarially sound, including through reducing the conversion rates of benefits to annuities. FNPF's investment portfolio would also benefit from greater diversification and more profitable investments.
- **Civil service reform**. The authorities have made some progress with civil service reform, but further work is required to ensure that the wage bill is fiscally sustainable and the civil service is efficient and effective. Wage restraint will be necessary to increase the fiscal space for essential non-wage public expenditure and realign public sector salaries with private sector comparators. Maintaining the partial hiring freeze—with exceptions for essential positions—is necessary to facilitate employment reductions through attrition and to rebalance the civil service toward higher-skilled personnel. Over the medium term, functional reviews are required to identify core service areas and help rationalize the overall size and structure of the public sector.
- **Public enterprise reform**. The pace of implementation of reforms of other public enterprises aimed at improving services and reducing fiscal costs needs to be accelerated. These reforms

will help reduce the government's direct and contingent liabilities, help ensure fiscal sustainability, and promote growth.

- **Exchange decontrol**, to enhance the attractiveness of the business climate and encourage more foreign investment.
- **Review of the social safety net.** Fiji's social safety net needs to be reviewed to enhance the definition of eligibility criteria and the protection of the most vulnerable segments of the population. A stronger safety net will help to ensure the success of Fiji's reform agenda.
- **Tax policy and administration reform.** VAT and income tax legislation should be strengthened and simplified to increase efficiency, transparency and broaden the tax base. This should include tightening the scope for discretionary concessions, which would make the system more transparent while also creating fiscal space. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.
- **Debt management.** Debt management procedures should be followed strictly and Fiji should develop a debt-management strategy to prevent a rapid build-up of public debt.

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

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

Fiji: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas, November 2011–November 2012

	Products	Expected Delivery
Bank Work Program	<ul style="list-style-type: none"> • Poverty mapping • Options for Reform of Family Assistance Program • Telecommunications Regulatory Strengthening • PIC Payments Systems Reform TA (with IFC) 	<ul style="list-style-type: none"> • November 2011 • November 2011 • Ongoing FY2011/12 • Ongoing FY2011/12
Fund Work Program	<ul style="list-style-type: none"> • Tax policy and administration TA • Debt management TA • Statistics TA 	<ul style="list-style-type: none"> • Ongoing • FY2013 • Ongoing

ANNEX III. FIJI: RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

(As of December 30, 2011)

Background

Fiji has faced a difficult macroeconomic environment in recent times. Growth has been anemic for a number of years and the external position is vulnerable. Reserves have recovered since the 2009 devaluation but high public debt and contingent liabilities arising from state-owned enterprises constrain the space for fiscal stimulus. The financial sector is sound but monetary policy transmission has been weak—credit growth is slow despite reductions in policy rates and high liquidity in the banking sector. Political developments have meant that few development partners are active in PFTAC's focus areas.

Fiji has been PFTAC's largest user of TA in recent years. The revenue sector has been the main area of focus. PFTAC has supported FIRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures. There has also been significant progress made in the Statistics area with improved national accounts balance of payments and price statistics. In the PFM area, support has been focused on building internal audit and accounting capacity while in macroeconomics the focus has been on building modeling skills, including for potential natural resource revenues.

Strategy 2011–13

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the

results framework for the current PFTAC funding cycle (Annex).¹

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

In the **Public Financial Management** area, PFTAC will discuss with the authorities assisting in taking stock of systems and the institutional environment through a PEFA assessment in mid-2012 (1.1). This process may also include assistance in looking at the roles, responsibilities and structure of the Ministry of Finance, perhaps drawing on IMF HQ expertise. Areas or specific follow-up assistance will be influenced by the action plan drawn up following the PEFA (1.2) but are likely to be focused on accounting and budget execution (1.4). Assistance in cash and debt management may also be a focus (1.6), if resources are available. PFTAC will coordinate closely with the AsDB's PEM TA project.

In the **revenue** area, Fiji is one of the regional leaders in terms of administrative processes but is keen to improve revenue performance. PFTAC assistance in the near-term will focus on

¹ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (1.6), where 1.6 is the code in the result framework in the program document.

bringing to fruition a number of initiatives: a thorough modernization and simplification of the income tax law that will pave the way for effective self-assessment; and the implementation of PAYE as a final tax (2.1, 2.4). Some further support to the implementation of the new corporate plan may also be required (2.2, 2.5) PFTAC will also contribute to the development of a fiscal regime for the mining sector (2.1), although HQ-financed resources will also be needed on the policy and drafting side. Following the completion of these projects, potential areas for assistance include building capacity in dealing with transfer pricing (2.6) and implementing the 2009 FAD recommendations on streamlining tax incentives (2.1). The authorities have also expressed interest in support in the customs area, which is unlikely to be possible given resource constraints.

In **statistics**, the focus of support will be further development of the national accounts. The ultimate aim is to have quarterly national accounts being produced by 2013 (4.4), but in advance of that PFTAC will support the implementation of recommendations from the recent review of national accounts methodology, including the rebase planned in 2012 (4.1, 4.2) PFTAC will also support HQ-

financed work on the further development of GDP-E (4.1). Contingent on resource availability, support will also be provided for enhancing balance of payment statistics, in particular and additional price indices (4.9).

In **financial sector supervision**, the PFTAC advisor will continue to be available for consultations with RBF staff and will work on regional issues with the RNF's head of bank supervision who is executive director of AFSPC. No substantive TA in this area is anticipated as Fiji is largely self-reliant and receives APRA support.

In the **macroeconomic** area, work will focus on building macroeconomic modeling and analysis capacity in RBF (5.1, 5.2) with the aim of having better inflation and external forecasts to feed into monetary policy making. Work on developing fiscal forecasts, including for the natural resource sector will continue with the Ministry of Finance (5.3, 5.5). Subject to inputs from the PEM TA project, capacity building in debt-sustainability analysis may take place in 2012 (5.4). PFTAC has recently provided support in modeling and exchange rate issues.

ANNEX IV. FIJI: RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of December 30, 2011)

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

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

AsDB has three ongoing loan projects—two that were ongoing at the time of the 2006 coup and one, Emergency Flood Recovery Project for \$17.5 million, was approved in 2009 as an exception to the *Approach to Reengagement*. Supplementary financing for the Third Fiji Road Upgrading Project (\$26.8 million) and the Suva-Nausori Water Supply and Sanitation Project (\$23.0 million)

was approved in 2009. The implementation of all three projects is proceeding satisfactorily with the road and water/sanitation projects expected to be substantially complete by end 2013. The flood recovery loan is also expected to be completed by 2014. Opportunities for private sector operations continue to be considered. Fiji Islands has continued to benefit from a limited amount of regional technical assistance (TA) on a case-by-case basis, but there are no ongoing country program TAs.

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

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

ANNEX V. FIJI: STATISTICAL ISSUES

(As of December 30, 2011)

I. Assessment of Data Adequacy for Surveillance
<p>General: Despite significant shortcomings in some areas, especially GDP and balance of payments data, core economic and financial data provided to the Fund are generally adequate for surveillance. Macroeconomic data are slowly improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years.</p> <p>The Reserve Bank of Fiji (RBF) publishes the <i>Annual Report</i>, the <i>Quarterly Review</i>, and the <i>Monthly Economic Review</i>. The Fiji Bureau of Statistics (BoS) publishes a quarterly <i>Current Economic Statistics</i> and a monthly <i>Statistical News</i>. The Ministry of Finance and National Planning (MoF) issues the <i>Budget Address</i> and the <i>Supplement to the Budget Address</i> on an annual basis. All of these publications are received by APD on a regular basis.</p> <p>Formal participation in the GDDS commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002. The country has maintained its commitment to use the GDDS as a framework for statistical development.</p>
<p>National Accounts: Production-side estimates of GDP at current and constant prices are available up to 2010. Revised data were published in September 2010 using the 2002 Household Income and Expenditure Survey, a new business census, and estimates of the informal sector. Expenditure-side GDP data in constant prices are not available and expenditure-side GDP data in current prices are only available through 2005. In addition, GDP broken down by income is only available through 2005.</p> <p>Price statistics: The BoS is updating the CPI weights from the current 1993 base using results of the 2002 Household Expenditure and Income survey. There have been persistent difficulties in compiling export and import unit value indexes, mainly due to lack of continuity that resulted from a switch to ASYCUDA for customs processing late in 1999. The BoS plans to re-introduce trade price indexes with a starting period of 2002 (to coincide with the new benchmark year for national accounts).</p>
<p>Government finance statistics: Public debt data remain weak. Following a PFTAC supervised project, reporting of data for publication in the <i>Government Finance Statistics (GFS) Yearbook</i> has resumed. Data include a statement of sources and uses of cash for budgetary central government, subdivisions of receipts and payments by economic category and outlays by function. Data for 2006 in the format of the <i>Government Finance Statistics Manual 2001</i> are available. Some inconsistencies remain between the <i>GFS</i> data and fiscal data provided to APD,</p>

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

Monetary statistics: Data on the monetary authorities and the deposit money banks are comprehensive and provided to APD and STA on a regular and timely basis. Data on nonbank financial institutions, including the Fiji National Provident Fund (FNPF), are less regular, timely, and reliable. With FNPF representing a large part of the financial sector, the unavailability of a consolidated financial survey hampers economic and financial analysis. The RBF is in the process of broadening its monetary survey into a depository corporation survey and compiling a financial survey that covers nonbank financial institutions. A November 2005 expert mission, during a PFTAC monetary statistics workshop, reviewed the compilation procedures and provided training and a work plan for the RBF to comply with the methodology of the *Monetary and Financial Statistics Manual* and to report using the standardized report forms (SRFs). Follow-up missions in February 2008 and July 2011 provided advice on introducing the SRFs and developing an integrated monetary database that will meet the data needs of the RBF, APD, and STA.

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

II. Data Standards and Quality

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

Fiji—Table of Common Indicators Required for Surveillance
(As of December 30, 2011)

	Date of latest observation	Date received	Frequency of Data ⁵	Frequency of Reporting ⁵	Frequency of Publication ⁵
Exchange Rates	December 2011	December 2011	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	November 2011	December 2011	M	M	M
Reserve/Base Money	October 2011	November 2011	M	M	M
Broad Money	October 2011	November 2011	M	M	M
Central Bank Balance Sheet	October 2011	November 2011	M	M	M
Consolidated Balance Sheet of the Banking System	October 2011	November 2011	M	M	M
Interest Rates ²	October 2011	November 2011	M	M	M
Consumer Price Index	October 2011	December 2011	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2010	November 2011	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2010	November 2011	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	Q3, 2011	November 2011	Q	Q	Q
External Current Account Balance	Q3, 2010	November 2011	Q	A	A
Exports and Imports of Goods and Services	2010	November 2011	A	A	A
GDP/GNP	2010	November 2011	A	A	Q
Gross External Debt	2010	November 2011	A	A	A

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.

⁵ Daily (D), monthly (M), quarterly (Q), and annually (A).