

**FOR  
AGENDA**

SM/12/4

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**

Attached for consideration by the Executive Directors is the staff report for the 2011 Article IV consultation with the Republic of Fiji, 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, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link 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

January 5, 2012

### KEY ISSUES

**Fiji's economy** expanded by about 2 percent in 2011 after several years of very low growth. Political uncertainty and slow structural reforms have suppressed potential growth, and this, coupled with fiscal stimulus during the global financial crisis, has pushed Fiji's public debt ratio to one of the highest levels in the region, leaving limited room to respond to future shocks. The economic outlook appears stable, but there are downside risks related to the political situation, structural weaknesses, and the global environment.

**Macroeconomic policies** are broadly appropriate. The 2012 budget has proposed much needed fiscal consolidation, though marginal income tax rate reductions will make it difficult to achieve deficit targets. Monetary policy is accommodative, given the currently benign inflation outlook, but continued vigilance against future inflationary pressure is critical, and credit growth targets should be avoided. The Fijian dollar is broadly in line with fundamentals, and the financial sector is well regulated and supervised, although the Fiji National Provident Fund requires reform.

**Structural reforms** are key to boosting growth and sustainability. Policy changes regarding the land system, public enterprises, the sugar sector, exchange controls, pensions, and the civil service are in the right direction, and recent political developments should boost investor confidence, but rigorous implementation is essential for success. A significant reduction in price controls, more consultation in the policymaking process, including in handling labor relations, and continued resolution of political uncertainties, including establishment of a concrete plan leading up to the 2014 election, will also be critical.

Approved By  
**Hoe Ee Khor and  
Claire Waysand**

Discussions took place in Suva during October 24–November 4, 2011. The team comprised Koshy Mathai (head), Niamh Sheridan, Jade Vichyanond (all APD), and Yongzheng Yang (Resident Representative), as well as Lai Tora (ADB) and Lucy Pan (World Bank). The mission was joined by Ernando de Leon (OED) and coordinated with Matt Davies (PFTAC).

## CONTENTS

<b>CONTEXT</b>	<b>4</b>
<b>RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK</b>	<b>4</b>
<b>POLICY DISCUSSIONS</b>	<b>7</b>
A. Macroeconomic Policies	7
B. Structural Policies	9
<b>STAFF APPRAISAL</b>	<b>13</b>
<b>TABLES</b>	
1. Selected Economic Indicators, 2007–12	26
2. Monetary Accounts, 2007–12	27
3A. Central Government Finances, 2007–13	28
3B. Central Government Finances, 2007–13	29
4. Balance of Payments, 2007–16	30
5. Selected Medium-Term Indicators, 2007–16	31
<b>FIGURES</b>	
1. Macroeconomic Developments	19
2. Exchange Rate and Inflation Developments	20
3. Fiscal Indicators	21
4. Balance of Payments	22
5. Monetary Indicators	23
6. Financial Soundness Indicators	24
7. External Vulnerabilities	25

**BOXES**

1. Poverty in Fiji and Policy Responses _____	15
2. Exchange Rate Assessment _____	16
3. Fiji National Provident Fund _____	17
4. Land Reform _____	18

**APPENDICES**

I. External Debt Sustainability Framework, 2006–16 _____	32
II. Public Sector Debt Sustainability Framework, 2006–16 _____	34
III. Progress on Structural Reforms and Future Plans _____	36
IV. Draft Public Information Notice _____	40

## CONTEXT

1. **Fiji's economy is growing at a very slow pace, and that overshadows all other economic concerns.** After averaging nearly 2¾ percent during the 1990s as well as the first five years of the new millennium, growth dropped to just 0.1 percent over the last five years, and although urban poverty has declined, rural poverty remains stubbornly high (Box 1). In 2010, while developing Asia roared ahead at 9½ percent growth, Fiji contracted by ¼ percent, worse even than other Pacific islands. And while growth should improve in 2011 and beyond, it seems unlikely, given political and economic constraints, to substantially exceed 2 percent unless structural reforms are accelerated. Against this background, policies to promote investment and growth are the focus of this year's Article IV consultation.

2. **The political context is complex and presents challenges for the economy.** The current government took power in a 2006 coup, relations with traditional donors are strained, and FDI has dropped sharply, though emerging donors remain engaged and have provided assistance. Elections planned for 2009 and 2010 did not occur, but the government has subsequently announced plans for an election in 2014 and provided an allocation in the 2012 budget for electoral preparations. Consultations on a new constitution have just been announced for 2012 and should be facilitated by the lifting of the emergency regulation placing restrictions on the media and on free assembly.

## RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **After contracting for two years, the economy rebounded in 2011.** Annual growth could be about 2 percent, broadly in line with the estimate of the Reserve Bank of Fiji (RBF), and by far the best result of the past five years. Agriculture contributes the lion's share, with sugarcane production rising sharply from last year's record low and other subsectors recovering from cyclone damage.

4. **Medium-term prospects, however, appear to be relatively weak unless structural reforms can be accelerated.** Growth should slow in 2012, as the natural bounce-back from 2009-10 fades, and while trend growth could improve modestly thereafter, reflecting the reforms that the authorities have already put in place, moving to a significantly higher level of potential

growth would require an improved business and political climate and a more aggressive structural-reform effort. While there are new mining and other projects on the horizon, some of these have not yet been confirmed and will take time to produce results.

5. **Risks around the outlook are tilted to the downside.** These relate to political uncertainties and structural weaknesses, but also the fragile global economy. While disruptions in world financial markets would have little direct impact on Fiji's financial system, the resulting global downturn could slow Fijian growth to some extent, mostly through declines in tourism, remittances, and foreign direct investment, though concomitant declines in oil and food prices would soften the blow for this commodity-importing island nation. Fiji also benefits from its close economic links with Australia, whose current growth is supported by idiosyncratic factors, such as a mining boom, which would be expected to be fairly resilient to a moderate global shock. Of course, in a real tail risk scenario, no economy would be unaffected, including those in the region, and Fiji could face a sharp downturn.

6. **Inflation has risen sharply but should moderate soon.** Headline inflation hovered around 10 percent y/y for several

months in 2011, driven by imported food and fuel prices as well as increases in the VAT, various administered prices, and the electricity tariff. There is little evidence of generalized price pressures, and core inflation remains moderate. Commodity prices are now falling, and the one-off factors will soon drop out. Inflation should start 2012 at around 6 percent and fall toward 3½ percent over the medium term, reflecting the anemic growth outlook, projected small declines in oil prices, and tightly controlled public wages.

7. **Monetary conditions are accommodative.** The system is awash with liquidity on account of foreign exchange inflows, but credit growth has been slow, and banks' loan-deposit ratio remains below 90 percent. While lending to the private sector is now rising at about 6 percent, the RBF is concerned that SMEs and other businesses are being shut out. After holding steady for six months, the RBF cut its policy rate in October by 100 basis points, to ½ percent. It is also considering an SME loan guarantee scheme, among other measures, to spur lending.

8. **Higher commodity prices have contributed to weak external balances.** Fiji's current account deficit is estimated at 12 percent of GDP in 2011. Over the medium term, however, as remittances, tourism

receipts, and goods exports, including sugar, grow while oil imports flatten out and nonoil imports grow moderately, the current account deficit could narrow to around 8 percent of GDP, leaving the overall balance in a small surplus. Gross reserves thus should remain healthy, despite increased dividend repatriation and some offshoring of Fiji National Provident Fund (FNPf) investment. Econometric estimates suggest that the exchange rate is broadly in line with fundamentals (Box 2).

9. **The fiscal deficit is estimated to have widened to 3½ percent of GDP in 2011 and projected to fall again in 2012, reflecting trends in Fiji Sugar Corporation (FSC) restructuring costs.** The authorities plan a substantial capital expenditure boost in 2012, but the deficit is budgeted to fall to 2 percent of GDP on account of a reduction in FSC restructuring costs and a projected increase in revenues. Debt is currently 54 percent of GDP—relatively high for a small economy vulnerable to shocks—and the government also faces contingent liabilities exceeding 15 percent of GDP, as well as unfunded FNPf liabilities. The authorities' planned fiscal trajectory, which would keep deficits at 1½ percent of GDP from 2013 onward, would reduce the debt ratio steadily, but additional

measures may be needed to achieve that trajectory.

10. **The financial sector is stable, but FNPf finances are unsustainable over the long run.** The banks are well capitalized, with low NPLs and adequate loan loss provisioning.<sup>1</sup> The finance-company and insurance sectors are stable, but the largest nonbank financial institution, the FNPf, is actuarially unsustainable: its current pension annuitization rates, which vary from 15 to 25 percent for different pensioners, imply negative net cash flows by 2030 and depleted assets by 2056 (Box 3).

## Authorities' Views

11. **While agreeing that the economy faces challenges, the authorities had a more positive outlook than staff.** They expect that structural reforms already in train would lift growth by around ½ percentage point on average above the staff's forecast over the medium term. More significantly, they saw the economy's potential growth rate at about 5 percent, substantially above staff's estimate. In terms of inflation, the authorities expected a

<sup>1</sup> As seen in Figure 6, NPLs are higher at Bank of South Pacific (BSP) than at other banks. This, however, is a legacy from the Colonial Group, which it bought in 2009, and BSP is, in any case, one of the smaller banks in the system.



more rapid drop, with average inflation falling to 3½ percent as early as 2012, and flattening

## POLICY DISCUSSIONS

### A. Macroeconomic Policies

12. **The mission suggested a lower fiscal deficit path than the one proposed by the authorities.** Balancing the need to strengthen the fiscal position against the need to support growth, the authorities said they planned to move from what was then expected to be a 2½ percent of GDP deficit in 2011 to 3 percent in 2012, and then to reduce the deficit by ½ percent in 2013 and again in 2014, with the eventual aim of balancing the budget. Staff noted that: (i) this would imply a substantial *widening* of the underlying deficit, excluding FSC costs, in 2012, which would be inappropriate given Fiji's high public debt; and (ii) the debt ratio would hardly improve over a five-year period. Staff suggested that structural reform, not fiscal stimulus, was needed to boost potential growth and that fiscal space should be retained to deal with potential shocks.

13. **The 2012 budget—which came out after the mission—contained the welcome news that the authorities plan additional consolidation.** The authorities target the deficit at 2 percent of GDP in 2012 and 1½ percent from 2013 onward, despite an

out at 3 percent thereafter.

increase in capital expenditure, civil service wage increases ranging from 3 to 9 percent (following a multiyear wage freeze), and some tax policy changes, including:

- a cut in the corporate tax from 28 to 20 percent;
- a substantial cut in personal income tax for most taxpayers, offset by a new levy of 23 percent or more on the highest earners;
- a broadening of the 5 percent Hotel Turnover Tax to cover restaurant and other services;
- increases in the departure tax and tobacco and alcohol excises; and
- new levies on telecommunications, credit cards, and insurance.

14. **While the budget is growth friendly, the tax changes could threaten the revenue base and require compensating measures to ensure deficit targets are met.**

The increase in public investment and reduction in marginal tax rates are important measures that could boost competitiveness and support growth, but they entail a significant fiscal cost. That cost is partially

masked in 2012 by a bringing forward of corporate tax collections from 2013, as well as the fact that the rate cuts are felt for only part of the year. Starting in 2013, however, staff project revenues to be markedly lower. The authorities' revenue projections seem overly optimistic, and while there could be some underexecution of the capital budget, deficit targets would be difficult to achieve without further fiscal measures.

15. **The mission urged that discretionary tax concessions be curbed.** While import VAT is performing strongly this year, customs duties are not, even though they share the same tax base, reflecting the authorities' discretion to grant customs concessions. Tightening the scope for discretionary concessions would make the system more transparent and create fiscal space for well-targeted investment incentives. While the authorities had no disagreement, the 2012 budget unfortunately contained no steps in this direction. Base broadening for the VAT and income tax would also be desirable to offset the reduction in marginal rates.

16. **Staff did not object to the RBF's accommodative monetary policy, given the benign inflation outlook, but questioned its likely effectiveness.** While some businessmen reported tight bank lending standards, the

banks noted a lack of good projects and argued that the investment climate, rather than the cost of funds, was the main constraint to credit growth. They also—echoing a general finding in the region that transmission mechanisms are impaired—said that their lending rates are not highly sensitive to the policy rate. The mission emphasized that the RBF should clearly communicate its intent to tighten policy should inflation pick up, a view that the RBF fully shared. The mission expressed concerns about the RBF's credit-growth targets, which could lead to lower asset quality and distort lending decisions. And while the RBF is also contemplating an SME credit-guarantee facility, the mission cautioned that the international experience with such facilities has been spotty. The authorities shared these concerns but noted the need to support growth.

17. **The mission recommended that exchange rate policy should be subject to periodic review and adjustment if necessary.** The peg has served a useful role as a nominal anchor, but in light of the partner-country inflation differential, its level should be reviewed regularly in order to prevent creeping overvaluation. This flexible approach will help avoid the need for large devaluations like that seen in 2009. The mission emphasized that fiscal and monetary policy must be consistent

with the peg. The authorities agreed with these views. There was also some discussion of other options, including a trading band, for introducing more flexibility into exchange rate management.

18. **There was agreement that the policy space to respond to a global downturn is limited.** High government debt constrains the recourse to fiscal stimulus, while the weak transmission mechanism limits the usefulness of monetary easing. In an extreme scenario, however—in which, for instance, leading regional economies slow dramatically, hurting Fijian tourism, exports, remittances, and FDI—there would be scope for some fiscal stimulus. Depending on the shock, exchange rate adjustment could also be warranted.

## B. Structural Policies

20. **Removing structural impediments to growth is critically important.** Many of the mission's interlocutors suggested that relaxing the emergency regulation and establishing a clear path toward a 2014 election would be the key measures to boost investor confidence. In this context, the recent announcement that the emergency regulation would be lifted on January 7 so as to facilitate national consultations on a new constitution is most welcome. Interlocutors also expressed concerns about what they saw as *ad hoc* and

19. **The mission agreed with the authorities that the key financial-sector priority is reforming the FNPf.** An adjustment in the pension annuitization rate is clearly needed to preserve the fund's sustainability. Some transitional mechanism, however, could be offered for those already in, or near, retirement. The authorities' earlier plan to cut the rate from as high as 25 percent to 9 percent is on hold, and the 2012 budget announced that an actuarially sound pension rate, along with transitional arrangements, would be introduced on March 1, 2012; no details, however, are available at this point. While not offering specific investment advice, staff endorsed the FNPf's efforts to rehabilitate its investment portfolio and diversify by investing abroad.

sometimes inconsistent policymaking—making decisions too frequently, without adequately consulting civil society, and without any lead time for implementation; changing these practices would also improve the business climate. Staff also noted the importance of several sector-specific reforms to unlock the economy's potential, welcomed the authorities' efforts in these areas, and urged that further reforms be expedited.<sup>2</sup> A strict

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<sup>2</sup> Appendix III provides a summary of progress and plans regarding structural reforms.

prioritization of measures is difficult without more in-depth study, but the following assessment of the various reform measures provides a general sense.

21. **Land reform is widely perceived to be among the most important structural measures to boost the economy.** Making more productive use of the nation's lands has been a major, and appropriate, focus of the authorities' reform efforts (Box 4). Maximum allowable lease tenures have been extended, and a Land Bank has recently been set up to better deploy the nation's assets. There is a complex bureaucracy responsible for different parts of land policy, and rationalizing its functions over time would be desirable. There have also been some complaints about inadequate consultation with native landowners, and addressing this could make the reforms more sustainable.

22. **Price decontrol could also provide a fillip to investment and growth.** Staff see the current system of price controls as overly extensive and as a deterrent to investment. Anticompetitive practices are not uncommon in a small economy, and given the difficulties in prosecuting such behavior, there may be a case for regulating prices of a few basic commodities, for the benefit of the poor. In Fiji, however, the Commerce Commission

regulates 24 food items, 460 hardware items, 74 pharmaceuticals, utility rates, wholesale cement and steel, fuel, and rental properties. Maximum prices are tailored to each retailer's costs and updated as often as weekly. The criteria for entering and leaving the controlled list are unclear. The authorities noted that controls were a temporary solution and were being reduced. The mission felt that the authorities needed to tackle anticompetitive practices directly and scale back price controls faster, as such micromanagement distorts price signals, creates uncertainty, absorbs staff resources, gives vendors incentives to reduce product quality or not supply at all, and reduces incentives for investment. The pace of price decontrol would, however, need to be moderated somewhat to smooth the inflation path.

23. **Sugar-sector reform, which is already underway, is another critical step.** In 2010, the government committed to reforming the industry and returning FSC to profitability. This included assuming FSC debt and taking full ownership and control of the company. The Task Force has now laid out a comprehensive strategy (addressing farm productivity, mill efficiency, and pricing strategy) to turn around the sugar sector which, though it now contributes only two percent of GDP, still supports a large

proportion of Fiji's population. The strategy is sensible and could help the industry survive in a post-preferential-price era, but the option of privatization could also be considered.

24. **Staff noted that an improved environment for labor relations could have broad-ranging positive impacts on the economy.** The recent Essential National Industries Decree, which cancelled existing labor agreements in several sectors, has strained labor relations and sparked boycott threats from Australian unions. The mission expressed concern that the resulting situation could lead to a perception of a worsening investment climate and a fall-off in demand facing some of Fiji's key industries. The authorities argued that the decree was needed to resolve some outdated and anomalous agreements that were hampering productivity and dampening growth.

25. **Civil service reform is in train, but more remains to be done.** Wages have been increased between 3 and 9 percent in the 2012 budget following a freeze lasting more than five years; there is also a hiring freeze with limited exceptions. Some payroll and establishment-control reforms are needed. The authorities have tried to outsource certain functions, with mixed results. There is a need to attract and retain more senior talent, so as

to improve the civil service's ability to handle hoped-for land transactions and investment applications. Many of these goals and measures appear sensible but need to be part of a comprehensive strategy that has widespread buy-in. The authorities agreed with this assessment.

26. **Staff applauded the government's extensive reform plans for public enterprises but urged that the pace of implementation be accelerated.** Many enterprises are slated for divestment, corporatization, or some other type of reform, with the emphasis being on improving services—many of which are enjoyed by the poor—and reducing fiscal costs. Implementation, however, has been slow, and the SOEs, which still face a soft budget constraint, continue to generate very low returns. The authorities agreed that SOE reforms were critical.

27. **The government's emphasis on building infrastructure throughout Fiji seems well placed and should continue.** The mission heard very positive comments on the acceleration of public-sector investment in infrastructure, which would clearly enhance productivity and help boost economic growth.

28. **Further exchange control liberalization would also be desirable.**

Despite streamlining, some investor uncertainty lingers. Banks have recently been allowed net forward contracts of up to F\$20 million, and individuals can take out up to F\$10,000 for overseas investment. Banks reported that restrictions on dividend repatriation seem to be less binding than before (partly because much of the stock of earlier-year profits has already been remitted), and the 2012 budget has increased delegated limits, expanding banks' authority to conduct various transactions without RBF approval.<sup>3</sup> Capital transactions are still allowed only if the Fiji Revenue and Customs Authority (FRCA) issues a tax clearance, which is sometimes delayed. Trade transactions are always approved. The authorities agreed that exchange control liberalization was desirable and said that it would continue, especially now that RBF reserves are healthy.

29. **The mission constructed an “upside scenario” to illustrate the possible benefits of a more aggressive pace of reforms.** This scenario assumes that the improved investment climate leads to an investment boom—realization of all the mining and other projects currently in the pipeline, plus an increase in tourism investment on the scale

seen in 2006-07. Investment and growth rise substantially in 2013, the current account balance improves markedly in the outer years (once mining production starts), reserves build up, and the debt ratio falls. Inflation, however, rises temporarily, before potential growth picks up. The authorities found this to be a useful exercise.

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<sup>3</sup> Staff are in the process of following up with the authorities to assess whether these or any other measures have jurisdictional implications.

## STAFF APPRAISAL

30. **Fiji's macroeconomic policies are generally appropriate.** The planned deficit path should help lower the public debt ratio, though the costs of tax rate reductions are likely to exceed estimates in the budget, and more fiscal effort will be needed if deficit targets are to be achieved. Discretionary tax concessions also need to be curbed. Against a benign inflation outlook, the authorities' attempt to boost growth by easing monetary policy is understandable, although attempts to force matters through credit growth targets are undesirable. The exchange rate is broadly in line with fundamentals but should be reviewed and adjusted more frequently to avoid the need for big step devaluations. There is little policy space to respond to a global downturn, but in an extreme scenario, fiscal stimulus and possibly an exchange rate adjustment could be considered. The financial sector is stable, and the authorities are appropriately focused on FNPf reform.

31. **Growth outcomes have been, and may remain, disappointing.** While it may not be realistic for a Pacific island country, hampered by a remote location and a small population, to strive for growth rates seen in large emerging markets, Fiji's performance—with growth averaging just 0.1 percent since 2007—has been

particularly dismal. And while urban poverty has declined significantly, rural poverty has scarcely moved. Boosting growth should be, and indeed is, policymakers' top priority.

32. **Improving the investment climate is a key ingredient in raising economic growth.**

The current political environment has chilled relations with some development partners and introduced uncertainty for both domestic and foreign investors. The announced lifting of the emergency regulation on January 7 and plans for national consultations in 2012 on a new constitution are positive steps that will give comfort to investors, as will other concrete steps toward the promised 2014 election, going beyond the welcome electoral allocation in the 2012 budget. A more consultative approach to policymaking would also foster more confidence.

33. **The authorities are pursuing appropriate structural reforms, but faster progress is needed.** The establishment and operation of the Land Bank is a promising step in facilitating development of idle lands, but landowner consultation needs to be improved. The sugar sector reform strategy is welcome, but steadfast implementation is now needed. Civil service reform must continue, to reduce costs and, especially, to increase the effectiveness of service delivery. Government plans to reform and

restructure loss-making state enterprises should be carried out without delay.

34. **Price controls are pernicious and should be scaled back sharply.** The current regime is excessive and likely to deter investment. Price fixing and other anticompetitive behaviors should be monitored directly and punished appropriately without resorting to crude price restrictions that hobble one of the key signals in a market economy.

35. **A number of exchange restrictions are subject to Fund approval under**

**Article VIII.** Restrictions arise from tax certification requirements before foreign companies can remit profits, and direct limits on large payments. These should be eliminated. While staff sympathize with the desire to promote tax compliance, exchange restrictions are not the appropriate means to this end, as they weaken the business climate and dampen foreign investment.

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



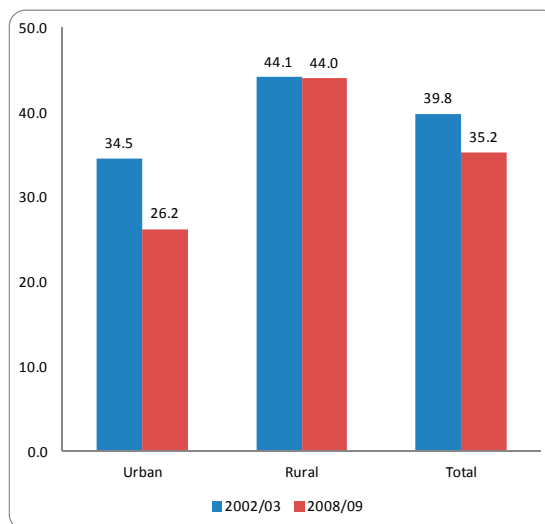
### Box 1. Poverty in Fiji and Policy Responses

Expenditure-based poverty estimates suggest that 35 percent of the Fijian population—with substantial variation across the different divisions and provinces—lived in poverty in 2008/09, down from 40 percent in 2002/03. While there has been considerable improvement in urban areas, rural areas have shown none.

These observed trends are consistent with known patterns of economic growth, including, in particular, the decline in agriculture output over the last few years. Most of the decline in poverty came from the growth of non-agricultural sectors in urban areas. It also appears that rural-urban migration contributed.

Poverty in Fiji is correlated with factors including old age, the number of children, and the education and employment status of household heads. Government spending on social assistance is quite small, at around ½ percent of GDP, and its impact on poverty at the national level is thus limited. Eligibility criteria for targeted social assistance need to be more clearly defined, and access to the Family Assistance Program should be widened while targeting the extremely poor. An increase in the social assistance budget would be desirable, but transfer programs are just one instrument in a multipronged approach to reducing poverty.

Poverty Incidence across the Urban and Rural Areas, 2003-2009



Source: World Bank estimates using 2002/03 and 2008/09 HIES

## Box 2. Exchange Rate Assessment

Staff estimates suggest that the Fiji dollar is broadly in line with fundamentals. The three standard methods show overvaluation ranging from 1 to 6 percent. Qualitatively, these results are consistent with staff's baseline projection of stable reserves coverage over the medium term.

Under the MB approach, the current account deficit norm is estimated at 6¾ percent of GDP, based on demographic factors, relative income growth, and the oil trade balance. The projected current account deficit lies slightly above this norm, and assuming a semi-elasticity of -0.3, it is estimated that a 4½ percent real depreciation would be sufficient to bring the projection in line with the norm.

The ERER estimates are broadly in line with the MB approach. The model explains the REER largely on the basis of the tourism-based terms of trade (i.e., using average expenditure per tourist as a price proxy for this key export). Assuming a slight improvement in the terms of trade over the medium term (with tourist spending flat, and import prices declining as per the WEO), the exchange rate is estimated to be 6 percent overvalued.

The ES approach implies that the exchange rate is roughly in equilibrium, assuming nominal GDP growth of just over 7 percent on average over the medium term and stabilization of net foreign liabilities (NFL) at 120 percent of GDP.

Exchange Rate Assessment 1/

	CA/GDP		REER Overvaluation
	Norm	Proj. 2/	
MB approach 3/ Current account balance (CAB)	-6.8	-8.2	4.6
ERER approach 4/	...	...	6.0
ES approach 5/ NFA stabilizing CAB	-7.9	-8.2	1.1

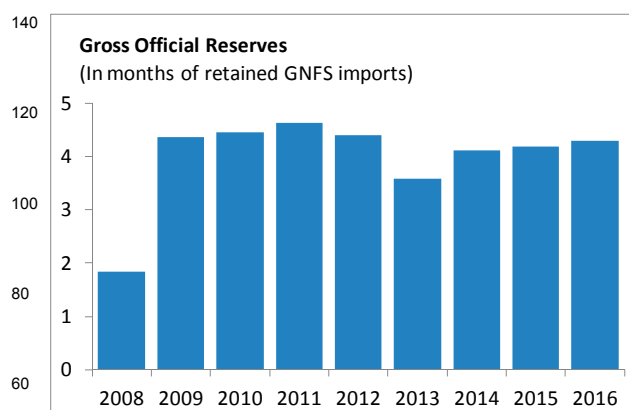
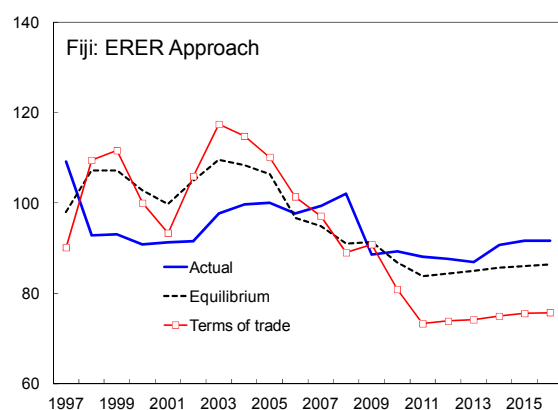
1/ All results are expressed in percent.

2/ Staff projection of the underlying CA/GDP in 2016.

3/ Based on a semi-elasticity of the CA/GDP with respect to the REER of -0.3

4/ Overvaluation is assessed relative to October 2011.

5/ Current account deficit that stabilizes net foreign liabilities, estimated at 120 percent of GDP in 2016.



### Box 3. Fiji National Provident Fund

FNPF is a public pension fund in which formal-sector employees are required to participate. Member contributions are retained in individual accounts and pooled for investment purposes. Members can make pre-retirement withdrawals for specified purposes, and upon retirement at 55, they have the choice between a lump-sum and a lifetime annuity.

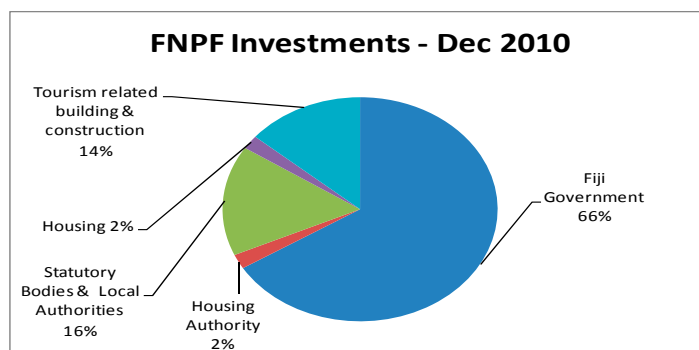
FNPF suffers from a substantial actuarial imbalance on account of high annuitization rates (from 15 to 25 percent). These large annuities imply that pensioners exhaust their savings before death, and FNPF must fill the gap using the "Pension Buffer Fund," which relies on current members' contributions but is being depleted rapidly. According to the 2012 budget, a new age-based, pension rate will be implemented in March 2012.

Summary of Key Indicators					
	FY2006*	FY2007	FY2008	FY2009	FY2010
Investment Portfolio (\$ billions)	3.15	3.16	3.12	3.21	3.43
Interest rate credited to Members	6.5%	6.3%	6.0%	5.0%	5.0%
Interest paid to members (\$ millions)	124.57	128.35	131.07	113.63	121.17
Employers	6227	6647	6701	6944	7105
Membership	331,050	343,453	352,358	357,662	364,717
Contributions (\$ millions)	267.66	289.63	281.68	288.49	292.27
Members Funds (\$ billions)	2.32	2.47	2.61	2.68	2.85
Investment Income (\$ millions)	240.04	199.29	194.04	227.39	219.53
Total Assets (\$ billions)	3.25	3.38	3.5	3.33	3.54
Withdrawals (\$ millions)	250.62	292.33	297.70	352.30	277.49

\* FY is July 01 to June 30

Source: FNPF 2010 Annual Report

The FNPF's investment portfolio would also benefit more from greater diversification and more profitable investments. Fiji government securities account for nearly two-thirds of the portfolio, and there are substantial restrictions on overseas investments. Funds not in government bonds have in the past often been funneled into low-yielding domestic tourism and real estate projects. FNPF is currently aiming to boost profits by increasing its offshore investments to 25 or 30 percent of the portfolio.



Given the fund's size (approximately 60 percent of GDP), FNPF has implications for the conduct of monetary policy, by keeping Treasury yields down and by depositing in banks and lending substantially to the private sector and quasi-government agencies.

#### Box 4. Land Reform

Eighty-eight percent of land in Fiji is “native land,” owned by tribal groups; another eight percent is individually owned; and the remaining four percent is state land.

Native land cannot be sold but can be leased with the landowners’ consent. The iTaukei Land Trust Board (TLTB) handles such transactions and sets rents—typically 2½ to 3 percent of the land’s unimproved capital value (UCV), and no more than 6 percent by law. Obtaining a TLTB lease is fairly cumbersome, and much native land has sat idle.

Seeking to deploy land more effectively, the government in 2010 established a Land Use Unit which essentially competes with TLTB. The Unit operates a Land Bank in which native landowners (as well as the Government for state land) can voluntarily register land for the Unit to administer. Once the land has been transferred from TLTB to the Land Bank, the Unit must survey and value the land and advertise its availability.

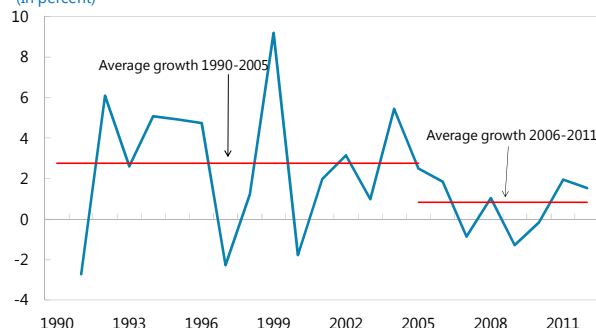
The Land Bank offers native landowners more beneficial terms than TLTB, including a higher rental rate (up to 10 percent of UCV, and no diversion of 15 percent of the rent to the tribal chief, as is the case with TLTB) and longer lease periods (up to 99 years for any type of land, versus a maximum of 30 years for TLTB’s agricultural land).

So far, seven tracts of land have been registered with the Unit, exceeding the 2011 target of 2,000 hectares, a further 11,000 hectares have been volunteered for registration, and one lease has been issued, to a Chinese company pursuing bauxite mining. Although this is still a very small portion of total native land, it represents a positive start and appears also to have pushed TLTB to improve its competitiveness.

Going forward, institutional capacity at the Unit must be strengthened, and more consultation with native landowners will be necessary to ensure their buy-in and thus the reform’s sustainability. In due course, some rationalization of the multiple bureaucracies handling land issues would also be desirable.

**Figure 1. Fiji: Macroeconomic Developments***Fiji's growth has slowed substantially...***Real GDP Growth**

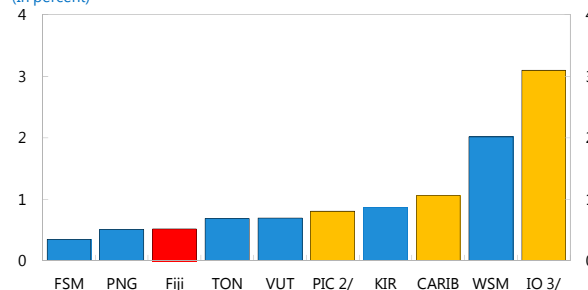
(In percent)



Sources: Fiji authorities; and IMF staff calculations.

*...and per capita GDP has stagnated for more than a decade.***Growth in Real GDP per Capita, 1995-2011 1/**

(In percent)

Sources: *World Economic Outlook* database; and Fund staff calculations.

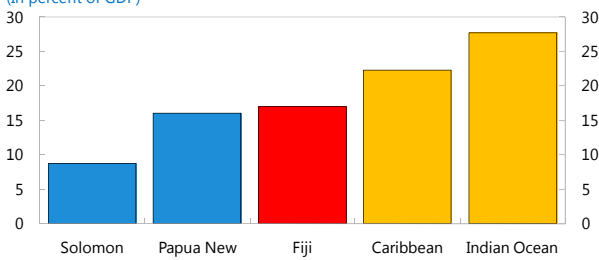
1/ Geometric average.

2/ Average for PIC countries included in chart.

3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

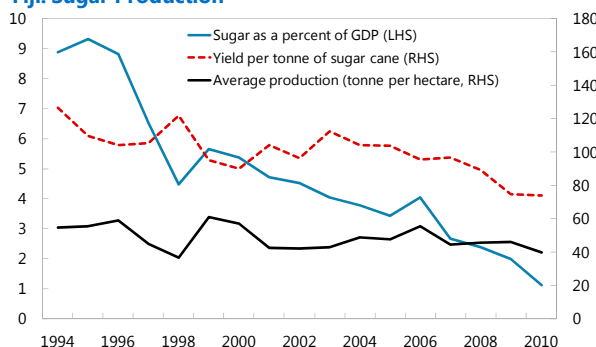
*Investment remains low by international standards.***Investment, 1995-2011 1/**

(In percent of GDP)

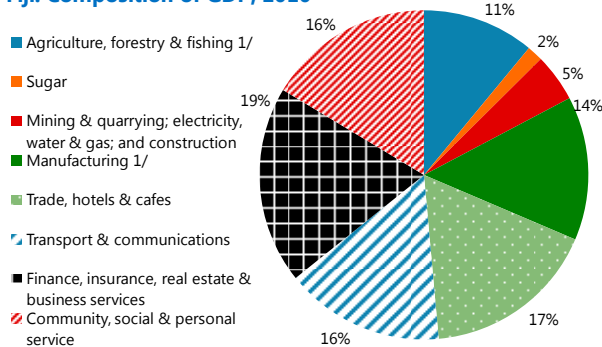
Sources: *World Economic Outlook* database; and Fund staff calculations.

1/ Simple average.

2/ Indian Ocean: Mauritius, Seychelles, and Maldives.

*Sugar production is in steady decline.***Fiji: Sugar Production**

Source: Fiji Islands Bureau of Statistics.

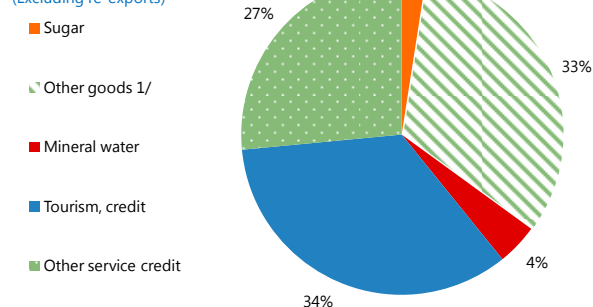
*While production is relatively diversified...***Fiji: Composition of GDP, 2010**

Sources: Fiji authorities; and IMF staff calculations.

1/ Excluding sugar.

*...exports are less so.***Fiji: Composition of Exports of Goods and Nonfactor Services, 2010**

(Excluding re-exports)



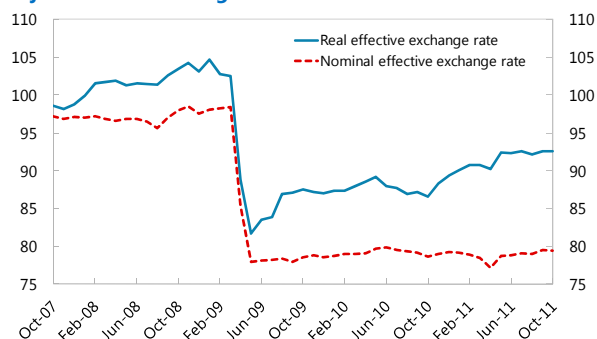
Sources: Fiji authorities; and IMF staff calculations.

1/ Fish, garments, gold, timber, and others.

**Figure 2. Fiji: Exchange Rate and Inflation Developments**

The April 2009 devaluation resulted in significant competitiveness gains, but the REER has since appreciated.

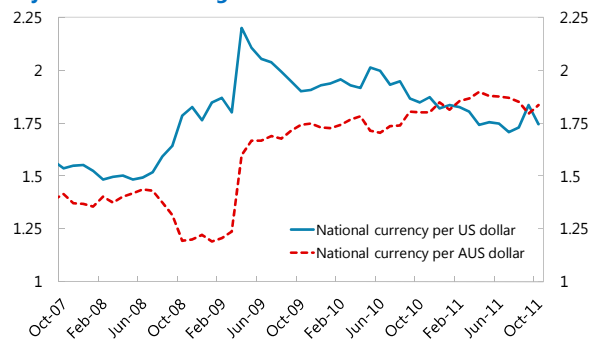
#### Fiji: Effective Exchange Rates



Sources: IMF Information Notice System; and IMF staff estimates.

In nominal terms, the Fiji dollar has appreciated against the US dollar but depreciated against the Australian dollar.

#### Fiji: Nominal Exchange Rates

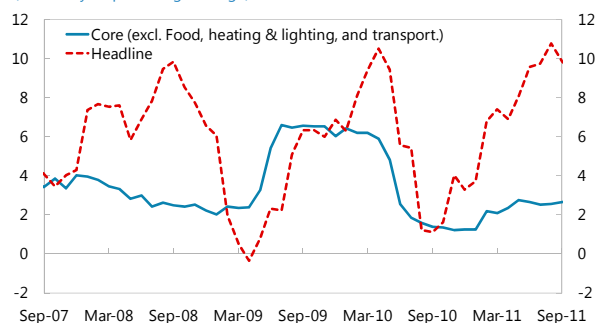


Sources: Reserve Bank of Fiji; and IMF staff estimates.

Headline inflation has increased recently...

#### Fiji: Headline and Core Inflation

(Year-on-year percentage change)

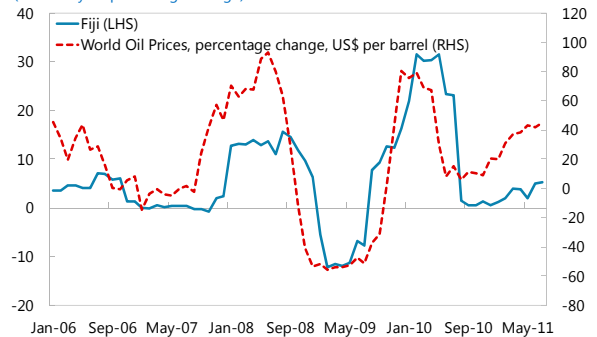


Sources: Fiji Islands Bureau of Statistics; and IMF staff calculations.

But the increase in inflation has been driven by commodity prices...

#### Fiji: Transportation Costs

(Year-on-year percentage change)

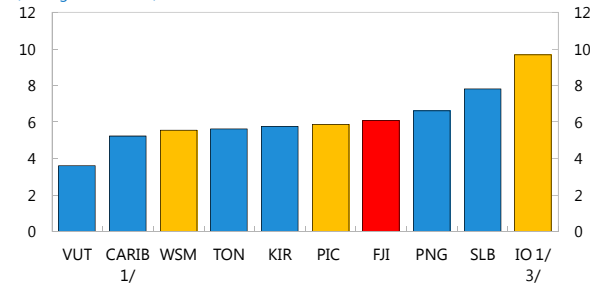


Sources: World Economic Outlook database; and IMF staff calculations

...and is now relatively high in international comparison.

#### CPI Headline Inflation

(Average 2007-2011)



1/ Simple average.

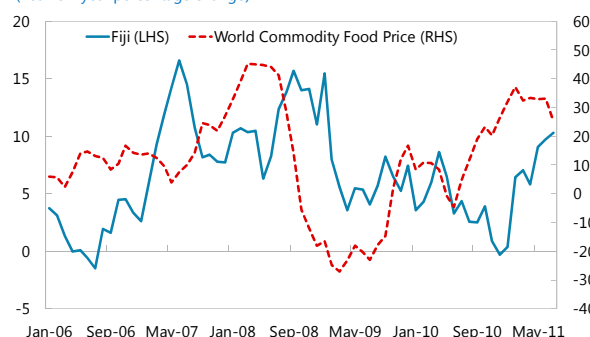
2/ Average for PIC countries included in chart.

3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

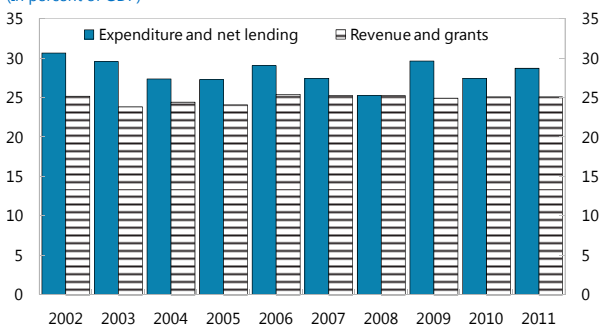
...especially food prices.

#### Fiji: Food Prices

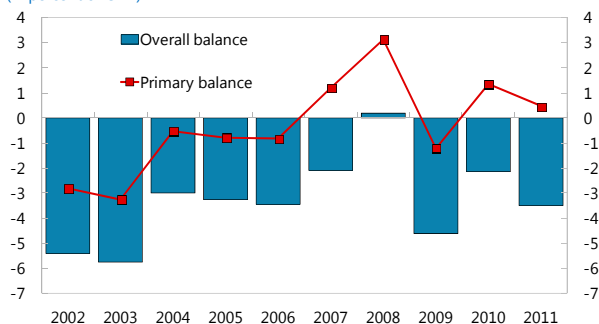
(Year-on-year percentage change)



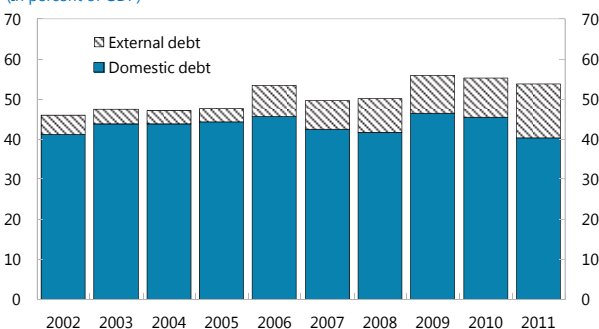
Sources: World Economic Outlook database; and IMF staff calculations

**Figure 3. Fiji: Fiscal Indicators***Revenues and expenditures have been stable...***Expenditure***(In percent of GDP)*

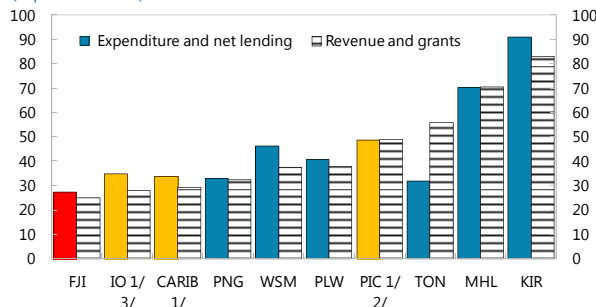
Sources: Reserve Bank of Fiji; and IMF staff calculations.

*Fiji has generally run overall and primary deficits...***Fiscal Balances***(In percent of GDP)*

Sources: Fiji authorities; and IMF staff estimates.

*Public debt is mostly domestic...***Central Government Debt***(In percent of GDP)*

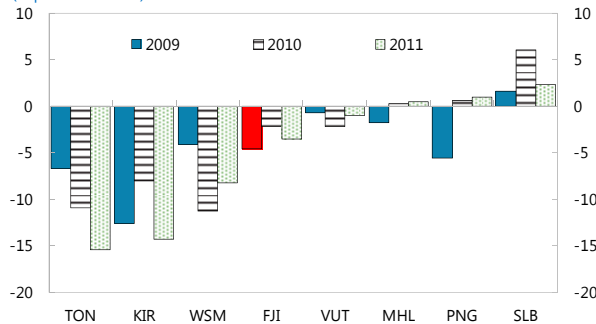
Sources: Fiji authorities; and IMF staff estimates.

*...and lower than in most comparator countries.***Revenue and Expenditure, 2010***(In percent of GDP)*

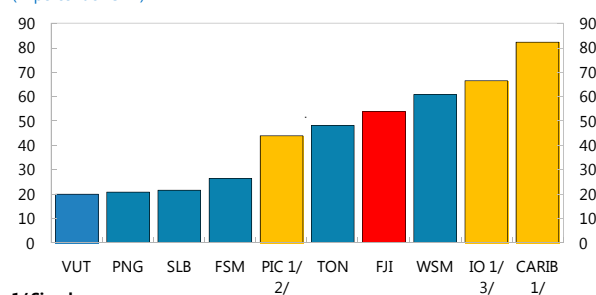
1/ Simple average.

2/ Average for PIC countries included in chart.

3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

*...though its performance is not out of line with that of comparators.***Fiscal Balance***(In percent of GDP)*

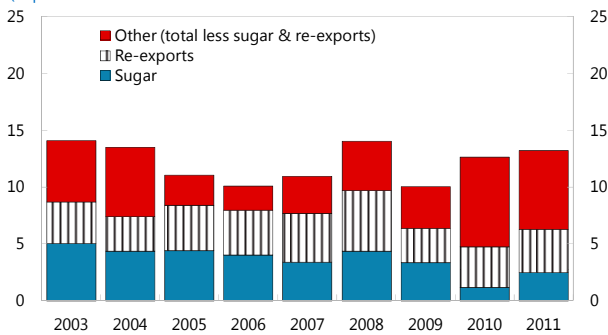
Source: IMF APDLISC database.

*...and is high by regional standards.***Public Debt, 2011***(In percent of GDP)*

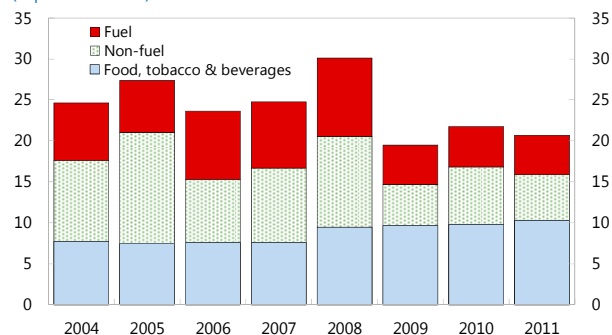
1/ Simple average.

2/ Average for PIC countries included in chart.

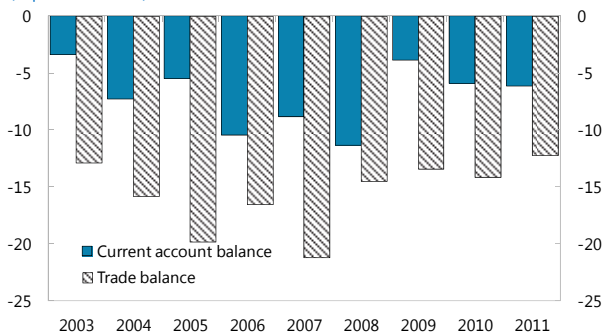
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

**Figure 4. Fiji: Balance of Payments***Exports increased in 2010 and 2011....***Fiji: Exports**  
(In percent of GDP)

Sources: Fiji authorities; and IMF staff estimates.

*...as did imports...***Fiji: Imports, excluding re-exports**  
(In percent of GDP)

Sources: Fiji authorities; and IMF staff estimates.

*...and the trade deficit remains stable.***Fiji: Trade Balance and Current Account**  
(In percent of GDP)

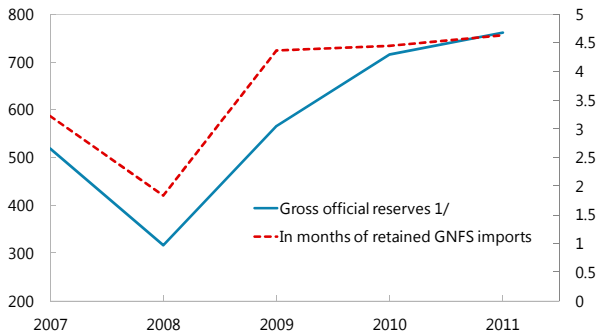
Sources: Fiji authorities; and IMF staff estimates.

*Other key components of the current account have also been stable...***Workers' Remittances and Tourism Credit**  
(In percent of GDP)

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

*FDI has dropped sharply since the 2006 coup...***Fiji: Foreign Direct Investment**  
(In percent of GDP)

Sources: Fiji authorities; and IMF staff estimates.

*...while reserves have improved, partly reflecting the 2009 devaluation and other capital account flows.***Fiji: Gross Official Reserves**  
(In millions of U.S. dollars)Sources: Reserve Bank of Fiji; and IMF staff estimates.  
1/ Reserve Bank of Fiji holdings only.

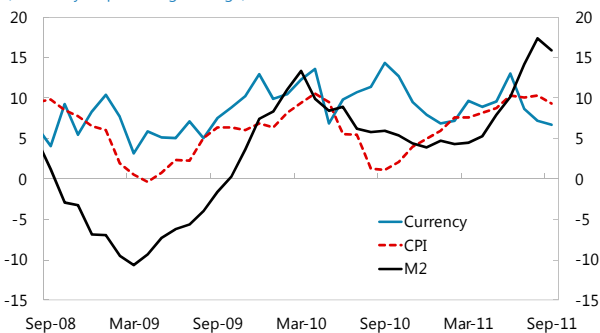


**Figure 5. Fiji: Monetary Indicators**

*Money growth and inflation have both picked up.*

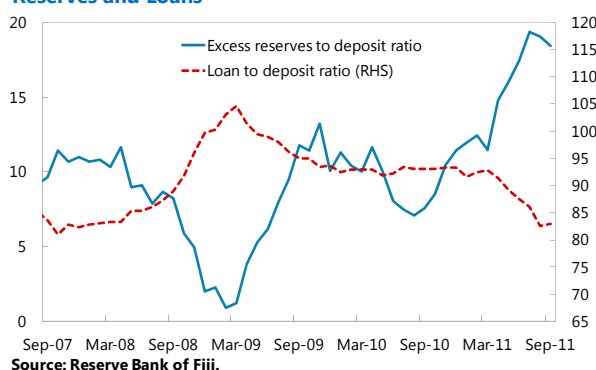
#### Money and Inflation

(Year-on-year percentage change)



*High banking-system liquidity has just started to decline...*

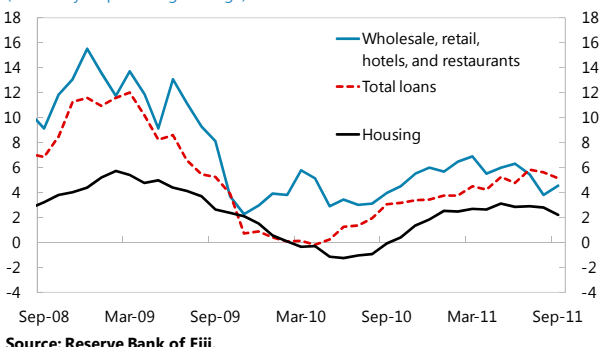
#### Reserves and Loans



*...given moderate private-sector loan growth.*

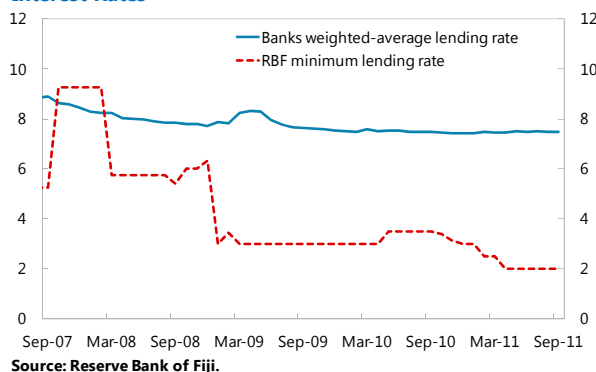
#### Loans

(Year-on-year percentage change)



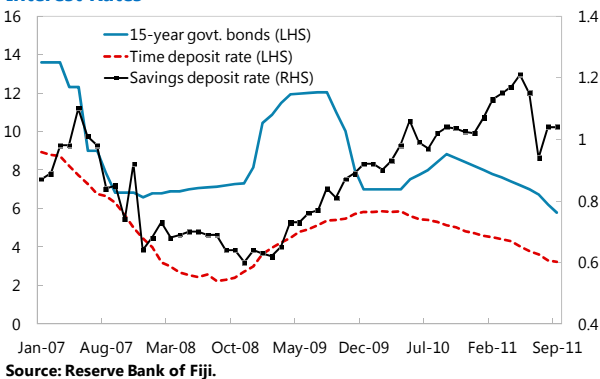
*Bank lending rates have been flat despite policy rate cuts...*

#### Interest Rates



*...though deposit rates have been more responsive.*

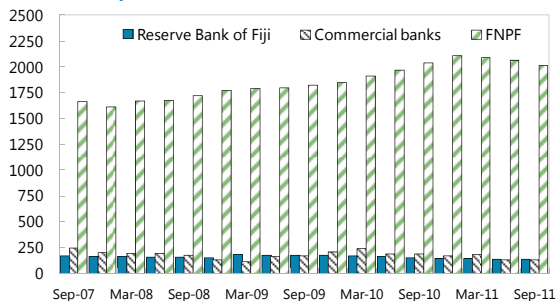
#### Interest Rates



*The FNPF remains the largest holder of government securities.*

#### Outstanding Government Securities by Holder

(In millions of Fiji dollars)

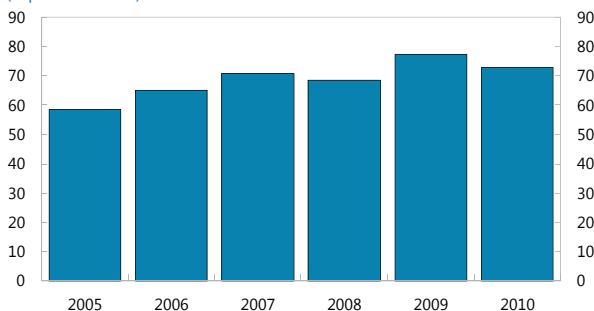


**Figure 6. Fiji: Financial Soundness Indicators**

*Commercial bank assets have risen to 70 percent of GDP.*

### Commercial Bank Assets

(In percent of GDP)

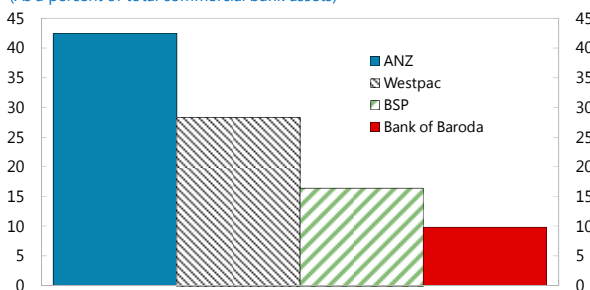


Sources: Reserve Bank of Fiji; and IMF staff calculations.

*Two Australian-owned branches (ANZ and Westpac) make up more than 70 percent of total bank assets.*

### Size: Share in Total Assets, 2010 1/

(As a percent of total commercial bank assets)



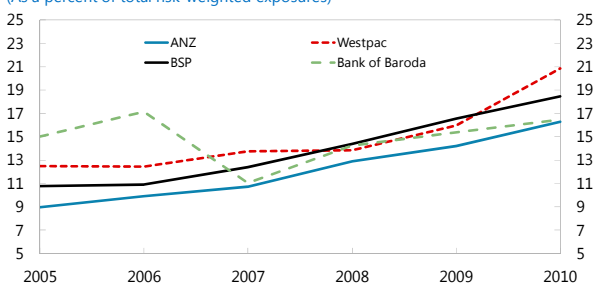
Sources: Reserve Bank of Fiji; and IMF staff calculations.

1/ Twelve months up to September for ANZ and Westpac, up to June for BSP, and up to March for Bank of Baroda.

*Capital adequacy appears to be relatively high and improving...*

### Total Capital Adequacy 1/

(As a percent of total risk-weighted exposures)



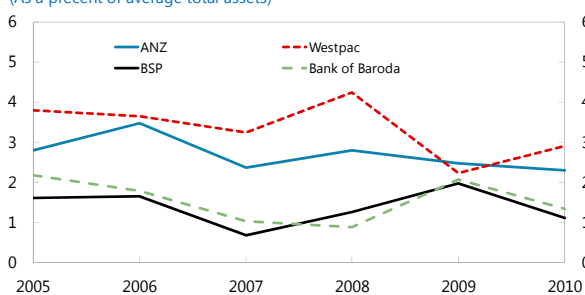
Source: Reserve Bank of Fiji.

1/ Twelve months up to September for ANZ and Westpac, up to June for BSP, and up to March for Bank of Baroda.

*...and profits remain healthy.*

### Profitability 1/

(As a percent of average total assets)



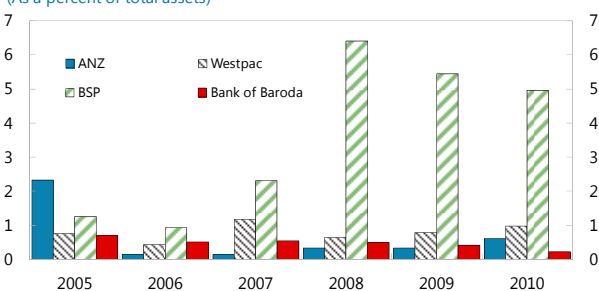
Source: Reserve Bank of Fiji.

1/ Twelve months up to September for ANZ and Westpac, up to June for BSP, and up to March for Bank of Baroda.

*Asset quality at three of the four banks is generally adequate...*

### Nonperforming Loans 1/

(As a percent of total assets)



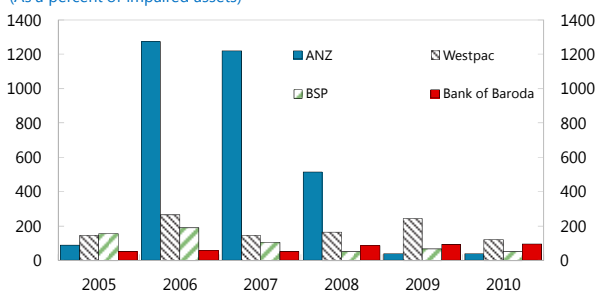
Source: Reserve Bank of Fiji.

1/ Twelve months up to September for ANZ and Westpac, up to June for BSP, and up to March for Bank of Baroda.

*...and while provisioning seems sufficient, it has been declining.*

### Total Provisions 1/

(As a percent of impaired assets)

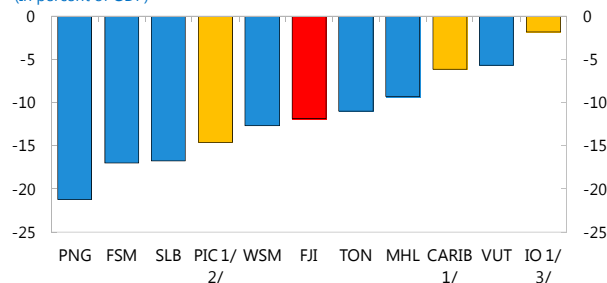


Source: Reserve Bank of Fiji.

1/ Twelve months up to September for ANZ and Westpac, up to June for BSP, and up to March for Bank of Baroda.

**Figure 7. Fiji: External Vulnerabilities***The current account deficit is moderate...***Current Account Balance, 2011**

(In percent of GDP)



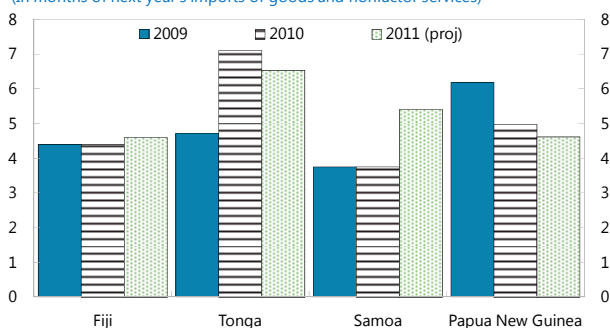
1/ Simple average.

2/ Average for PIC countries included in chart.

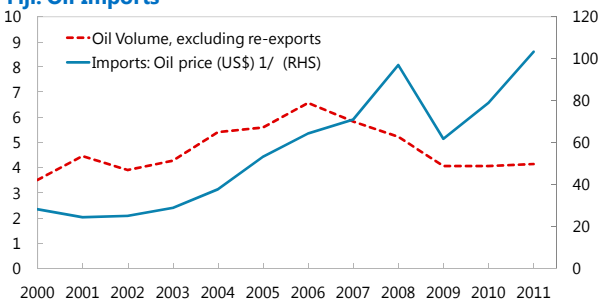
3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

*...and reserve coverage adequate...***Gross Official Reserves**

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



Source: IMF APDLISC database.

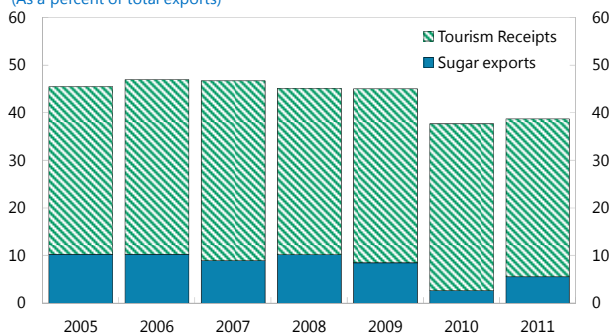
*...but oil demand is substantial and inelastic...***Fiji: Oil Imports**

Sources: Global Assumptions Database; and IMF staff calculations.

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

*...and exports remain poorly diversified, despite some recent improvement.***Fiji: Sugar Exports and Tourism Receipts**

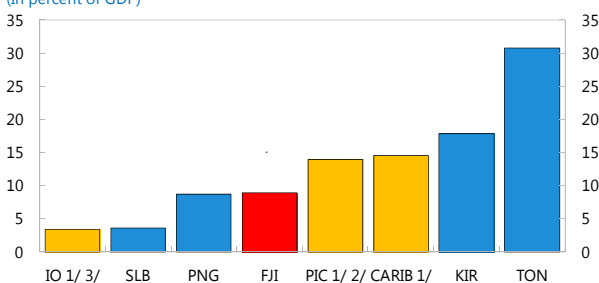
(As a percent of total exports)



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

*External public debt is lower than in other Pacific Island countries...***External Debt, 2011**

(In percent of GDP)



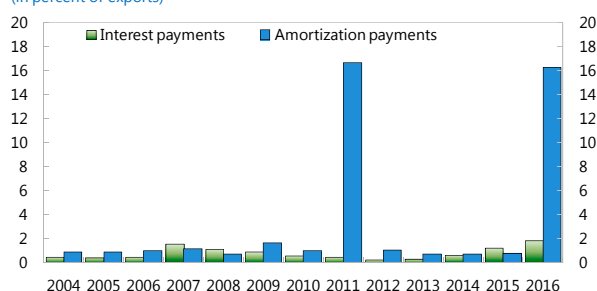
1/ Simple average.

2/ Average for PIC countries included in chart.

3/ Indian Ocean: Mauritius, Seychelles, and Maldives.

*...but Fiji faces a large external bond payment in 2016.***Fiji: External Payments 1/**

(in percent of exports)



Source: Fiji Islands Bureau of Statistics.

1/ Exports of goods, f.o.b., and nonfactor services.

Table 1. Fiji: Selected Economic Indicators, 2007–12

Nominal GDP (2010): US\$3,173 million

Population (2010): 890,016

GDP per capita (2010): US\$3565

Quota: SDR 70.3 million

	2007	2008	2009	2010	2011 Est.	2012 Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	-0.9	1.0	-1.3	-0.2	2.0	1.5
GDP deflator	3.3	4.3	0.4	7.6	10.2	4.7
Consumer prices (average)	4.8	7.7	3.7	5.5	8.6	4.9
Consumer prices (end of period)	4.3	6.6	6.8	4.9	7.0	4.8
Central government budget (percent of GDP) 1/						
Revenue	25.3	25.5	25.0	25.3	25.2	25.6
Expenditure	27.4	25.3	29.6	27.4	28.7	28.1
Of which: Net acquisition of nonfinancial assets, excluding FSC	3.5	4.1	6.4	4.9	6.0	6.7
Net lending (+)/borrowing (–)	-1.1	-0.1	-4.5	-2.4	-3.5	-1.9
Total debt outstanding	49.7	50.1	55.9	55.3	53.9	53.5
Money and credit (percent change)						
Domestic credit	3.2	4.8	4.2	-1.7	4.4	8.1
Government (net)	-15.0	-38.0	65.0	-37.3	-14.0	3.4
Broad money (M2)	10.4	-6.9	7.4	3.9	11.6	9.5
Reserve money	37.4	-30.0	50.5	21.8	13.6	7.2
Reserve Bank of Fiji's minimum lending rate 2/	5.8	6.3	3.0	3.0	2.0	...
Commercial bank lending rate 2/	8.5	7.7	7.5	7.4	7.5	...
External sector (in millions of U.S. dollars)						
Trade balance	-956	-1,177	-677	-773	-856	-816
(In percent of GDP)	-28.1	-32.8	-23.5	-24.3	-24.1	-22.2
Exports, f.o.b.	599	803	565	769	904	941
Imports, f.o.b.	1,556	1,980	1,242	1,541	1,759	1,757
Current account balance	-484	-649	-219	-358	-421	-361
(In percent of GDP)	-14.2	-18.1	-7.6	-11.3	-11.9	-9.8
Capital/financial account balance	589	319	489	304	416	288
Government bond, amortization	...	...	...	...	-150	...
Errors and omissions	104	128	-20	205	50	50
Overall balance	209	-202	249	151	45	-23
Gross official reserves (in millions of U.S. dollars)	519	317	565	716	761	738
(In months of retained imports)	3.2	1.8	4.4	4.4	4.6	4.4
External central government debt (in millions of U.S. dollars)	256	270	274	324	538	571
(In percent of GDP)	7.5	7.5	9.4	9.0	14.1	14.5
Miscellaneous						
Real effective rate (average) 3/	99.4	102.1	90.3	87.9	91.3	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.61	1.59	1.96	1.92	1.93	1.98
GDP at current market prices (in millions of Fiji dollars)	5,483	5,722	5,636	6,087	6,837	7,271
Oil price (U.S. dollars per barrel)	71.1	97.0	61.8	79.0	103.2	100.0

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

1/ IMF staff scenario for 2011.

2/ For 2011, interest rates as of August.

3/ 2005 REER = 100. Data for 2011 is the period average through June 2011.

Table 2. Fiji: Monetary Accounts, 2007–12

	2007	2008	2009	2010	2011 Est.	2012 Proj.
<b>Reserve Bank of Fiji (RBF)</b>						
	(In millions of Fiji dollars)					
Net foreign assets 1/	805	559	1091	1303	1492	1476
Net domestic assets	103	76	-135	-139	-169	-59
Domestic credit	173	154	227	175	166	167
Claims on government (net) 2/	173	154	201	151	143	144
Claims	179	160	203	162	154	155
Government deposits	5	7	2	11	11	11
Claims on official entities			26	24	23	23
Claims on commercial banks	0	0	0	0	0	0
Other items (net)	-71	-77	-362	-314	-336	-226
Reserve money	908	635	956	1164	1322	1418
Currency in circulation	382	391	431	479	460	519
Deposits	525	244	524	685	862	899
<b>Deposit Money Banks</b>						
	(In millions of Fiji dollars)					
Net foreign assets	-73	-92	-128	-109	-53	-46
Net domestic assets	3,108	2,875	3,101	3,183	3,541	3,864
Domestic credit	2,847	3,013	3,072	3,067	3,219	3,492
Net credit to the government 2/	129	34	109	43	24	29
Claims on official entities	238	221	201	172	172	172
Claims on the private sector	2,479	2,757	2,763	2,852	3,023	3,291
Other items (net)	261	-137	29	116	322	373
Demand deposits	1324	985	905	1036	1507	1651
Quasi money	1711	1798	2067	2036	1981	2168
<b>Monetary Survey</b>						
	(In millions of Fiji dollars)					
Net foreign assets	732	466	963	1194	1439	1431
Domestic credit	3020	3166	3299	3242	3385	3659
Claims on government (net) 2/	303	188	310	194	167	173
Of which: RBF	173	154	201	151	143	144
Claims on official entities	368	221	227	195	195	195
Claims on private sector	2479	2757	2763	2852	3023	3291
Broad money (M2)	3326	3098	3327	3456	3856	4223
Narrow money (M1)	1639	1317	1280	1437	1892	2085
Of which: Currency outside banks	290	315	355	384	385	434
Quasi-money	1687	1781	2048	2019	1964	2138
Other items (net)	426	535	934	980	968	867
	(12-month percent change)					
Domestic credit	3.2	4.8	4.2	-1.7	4.4	8.1
Claims on government (net)	-15.0	-38.0	65.0	-37.3	-14.0	3.4
Claims on official entities	13.4	-39.8	2.3	-13.9	-0.1	0.0
Claims on private sector	2.8	11.2	0.2	3.2	6.0	8.9
Broad money (M2)	10.4	-6.9	7.4	3.9	11.6	9.5
Narrow money (M1)	43.5	-19.7	-2.8	12.3	31.7	10.2
Quasi-money	-9.8	5.6	15.0	-1.4	-2.7	8.9
Reserve money	37.4	-30.0	50.5	21.8	13.6	7.2
<b>Memorandum items:</b>						
Money velocity (M2) 3/	1.7	1.8	1.75	1.79	1.87	1.80
Money multiplier (M2) 4/	3.7	4.9	3.5	3.0	2.9	3.0
Claims on the private sector to GDP (percent)	45.2	48.2	49.0	46.9	44.2	45.3
Real Credit to the Private Sector (percent change, end of period)	-0.1	7.7	0.4	-4.6	-3.8	3.9
Loan-to-Deposit ratio	0.82	0.99	0.93	0.93	0.87	0.86
Excess Reserves (In millions of Fiji dollars)	332	55	297	348	480	480
<b>Interest rates (in percent, end of period)</b>						
RBF minimum lending rate 5/	5.8	6.3	3.0	3.0	2.0	...
Savings deposit 5/	0.8	0.6	0.9	1.0	1.2	...
Commercial bank lending rates 5/ 6/	8.6	7.7	7.5	7.4	7.5	...

Sources: IMF, Economic Information System; Reserve Bank of Fiji, *Quarterly Review*; and IMF staff estimates.

1/ RBF holdings of net foreign assets only.

2/ Holdings of government bonds are recorded at market value.

3/ Ratio of GDP to average M2.

4/ Ratio of M2 to reserve money.

5/ For 2011, interest rates as of August.

6/ Weighted average rate charged by commercial banks on loans.

Table 3A. Fiji: Central Government Operations, 2007–13  
(In millions of Fiji dollars)

	2007	2008	2009	2010	2011 Est.	2012 Budget	2012 Proj.	2013 Proj.
Revenue	1,389	1,458	1,411	1,538	1,724	1,942	1,864	1,872
Taxes	1,228	1,246	1,207	1,303	1,543	1,729	1,669	1,687
Indirect tax	790	807	756	877	1,092	1,252	1,202	1,284
Of which: VAT	466	451	403	496	599	669	637	675
Direct tax	438	439	452	426	451	477	467	403
Social contributions								
Grants	4	13	6	9	8	18	18	15
Other revenue	157	199	197	225	172	196	178	170
Expenditure	1,504	1,447	1,671	1,669	1,962	2,077	2,047	2,033
Expense	1,310	1,214	1,310	1,329	1,444	1,524	1,521	1,576
Compensation of employees	585	565	597	564	567	594	594	594
Interest	181	169	192	214	270	263	260	276
Other expense	545	481	521	551	607	666	666	706
Net acquisition of nonfinancial assets	194	233	361	340	518	553	526	457
Acquisitions of nonfinancial assets	194	233	361	340	518	553	526	457
Investment	107	134	203	163	212	284	255	164
Grants and transfers	87	79	132	177	305	325	271	293
Of which: Fiji Sugar Corporation (FSC)	...	...	...	40	110	41	41	0
Additional measures to meet fiscal targets	...	...	...	...	...	...	-45	-48
Gross Operating Balance [= revenue minus expense (excluding consumption of fixed capital)]	79	244	101	209	280	419	299	248
Net lending (+)/borrowing (–) (= revenue minus expenditure)	-115	11	-260	-131	-238	-135	-137	-113
Net lending/borrowing minus interest	66	180	-68	83	32	128	123	163
Net lending/borrowing excluding FSC	-115	11	-260	-91	-128	-94	-96	-113
Net acquisition of financial assets	-191	56	-20	9	39	0	51	0
Domestic 1/ 2/	0	0	0	0	0	0	0	0
Foreign 1/ 2/	-191	56	-20	9	39	0	51	0
Currency and deposits	-191	56	-20	9	39	0	51	0
Net incurrence of liabilities	-131	60	202	237	277	135	188	113
Domestic 1/ 2/	-134	48	194	192	-9	13	57	49
Other accounts payable	...	...	-29	85	0	0	0	0
Foreign 1/ 2/	3	12	8	45	286	122	130	64
Loans	3	12	8	45	286	122	130	64
Borrowing	20	24	29	61	598	143	150	79
Amortization	17	13	21	16	311	20	20	14
Statistical discrepancy	-55	16	-38	97	0	0	0	0

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

1/ For financing, the *GFSM2001* allows for a classification, under each instrument, by the sector of the counterparty. For residents (domestic), these are: general government, central bank, deposit-taking financial corporations except the central bank, other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households. For nonresidents (foreign), these are: general government, international organizations, financial institutions except international organizations, and other nonresidents.

2/ The instrument classification is consistent with the *2008 System of National Accounts*.

Table 3B. Fiji: Central Government Operations, 2007–13  
(As percent of GDP)

	2007	2008	2009	2010	2011 Est.	2012 Budget	2012 Proj.	2013 Proj.
Revenue	25.3	25.5	25.0	25.3	25.2	26.7	25.6	24.3
Taxes	22.4	21.8	21.4	21.4	22.6	23.8	23.0	21.9
Indirect tax	14.4	14.1	13.4	14.4	16.0	17.2	16.5	16.7
Of which: VAT	8.5	7.9	7.1	8.1	8.8	9.2	8.8	8.8
Direct tax	8.0	7.7	8.0	7.0	6.6	6.6	6.4	5.2
Social contributions								
Grants	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Other revenue	2.9	3.5	3.5	3.7	2.5	2.7	2.4	2.2
Expenditure	27.4	25.3	29.6	27.4	28.7	28.6	28.1	26.4
Expense	23.9	21.2	23.2	21.8	21.1	21.0	20.9	20.5
Compensation of employees	10.7	9.9	10.6	9.3	8.3	8.2	8.2	7.7
Interest	3.3	2.9	3.4	3.5	4.0	3.6	3.6	3.6
Other expense	9.9	8.4	9.2	9.1	8.9	9.2	9.2	9.2
Net acquisition of nonfinancial assets	3.5	4.1	6.4	5.6	7.6	7.6	7.2	5.9
Acquisitions of nonfinancial assets	3.5	4.1	6.4	5.6	7.6	7.6	7.2	5.9
Investment	2.0	2.3	3.6	2.7	3.1	3.9	3.5	2.1
Grants and transfers	1.6	1.4	2.3	2.9	4.5	4.5	3.7	3.8
Of which: Fiji Sugar Corporation (FSC)	...	...	...	0.6	1.6	0.6	0.6	0.0
Additional measures to meet fiscal targets	...	...	...	...	...	...	-0.6	-0.6
Gross Operating Balance [= revenue minus expense (excluding consumption of fixed capital)]	1.4	4.3	1.8	3.4	4.1	5.8	4.1	3.2
Net lending (+)/borrowing (–) (= revenue minus expenditure)	-2.1	0.2	-4.6	-2.2	-3.5	-1.9	-1.9	-1.5
Net lending/borrowing minus interest	1.2	3.1	-1.2	1.4	0.5	1.8	1.7	2.1
Net lending/borrowing excluding FSC	-2.1	0.2	-4.6	-1.5	-1.9	-1.3	-1.3	-1.5
Net acquisition of financial assets	-3.5	1.0	-0.4	0.1	0.6	0.0	0.7	0.0
Domestic 1/ 2/	0	0	0	0	0	0	0	0
Foreign 1/ 2/	-3.5	1.0	-0.4	0.1	0.6	0.0	0.7	0.0
Currency and deposits	-3.5	1.0	-0.4	0.1	0.6	0.0	0.7	0.0
Net incurrence of liabilities	-2.4	1.1	3.6	3.9	4.1	1.9	2.6	1.5
Domestic 1/ 2/	-2.4	0.8	3.4	3.2	-0.1	0.2	0.8	0.6
Other accounts payable	...	...	-0.5	1.4	0.0	0.0	0.0	0.0
Foreign 1/ 2/	0.1	0.2	0.1	0.7	4.2	1.7	1.8	0.8
Loans	0.1	0.2	0.1	0.7	4.2	1.7	1.8	0.8
Borrowing	0.4	0.4	0.5	1.0	8.7	2.0	2.1	1.0
Amortization	0.3	0.2	0.4	0.3	4.5	0.3	0.3	0.2
Statistical discrepancy	-1.0	0.3	-0.7	1.6	0.0	0.0	0.0	0.0
Memorandum items:								
Central government debt	49.7	50.1	55.9	55.3	53.9	53.4	53.5	52.4
Domestic (excluding Fiji Sugar Corporation)	42.6	42.1	46.6	46.3	41.1	39.3	39.4	37.8
External	7.1	7.9	9.4	9.0	12.8	14.1	14.1	14.5
Net central government debt 3/	47.4	46.2	52.4	51.3	49.7	48.7	48.8	48.0
Contingent liabilities from public enterprises 4/	14.5	14.4	18.2	17.4	17.4	16.5	16.5	16.1

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

1/ For financing, the *GFSM2001* allows for a classification, under each instrument, by the sector of the counterparty. For residents (domestic), these are: general government, central bank, deposit-taking financial corporations except the central bank, other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households. For nonresidents (foreign), these are: general government, international organizations, financial institutions except international organizations, and other nonresidents.

2/ The instrument classification is consistent with the *2008 System of National Accounts*.

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

4/ Debt guaranteed by the government, excluding FSNPF liabilities.

Table 4. Fiji: Balance of Payments, 2007-16

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					Est.			Proj.		
(In millions of U.S. dollars)										
Trade balance	-956	-1177	-677	-773	-856	-816	-1198	-862	-902	-952
Exports, f.o.b.	599	803	565	769	904	941	953	998	1037	1071
Of which: Sugar 1/	115	156	96	54	72	86	99	113	112	111
Re-exports	237	306	172	218	260	239	238	238	240	243
Other exports	248	341	298	497	572	616	617	647	685	717
Imports, f.o.b. 2/	1,556	1,980	1,242	1,541	1,759	1,757	2,151	1,860	1,939	2023
Of which: Retained imports (excluding fuels)	912	1,173	827	1,021	1,083	1,110	1,507	1,217	1,288	1364
Mineral fuels for domestic consumption	443	547	270	334	456	444	441	441	447	452
Imports for re-exports	201	260	146	185	221	203	202	202	204	206
Services and income (net)	291	338	274	294	298	305	334	347	374	403
Nonfactor services (net)	384	425	286	393	457	465	497	505	529	553
Of which: Tourism credit	487	536	417	511	534	556	581	610	643	678
Factor income (net)	-93	-87	-11	-100	-159	-160	-164	-158	-154	-150
Transfers (net)	182	190	183	121	137	150	157	171	185	200
Private	139	111	135	66	82	95	107	121	135	150
Of which: Workers' remittances	115	72	150	200	210	221	232	243	255	268
Official	43	79	48	55	55	55	50	50	50	50
Current account	-484	-649	-219	-358	-421	-361	-707	-344	-342	-350
Capital account (net)	35	47	41	39	54	53	51	50	50	49
Financial account (net)	555	272	448	265	362	235	580	266	288	311
FDI (net)	382	362	134	189	200	185	193	200	223	246
Portfolio investment (net)	5	1	-1	0	0	0	0	0	0	0
Net loans to the government	120	-28	14	19	128	40	32	22	22	113
Disbursements	12	15	15	32	310	76	39	29	30	192
Amortization	-11	-8	-11	-8	-161	-10	-7	-7	-8	-169
Repayment of sovereign bond	...	...	...	...	-150	...	...	...	...	-250
Change in Sinking Fund (net)	118	-35	10	-5	-20	-26	0	0	0	91
Other investment (net) 2/ 3/	47	-64	301	57	34	9	355	44	42	-49
Errors and omissions	104	128	-20	205	50	50	50	50	50	50
Overall balance	209	-202	249	151	45	-23	-26	22	45	60
Financing	-209	202	-249	-151	-45	23	26	-22	-45	-60
Change in gross reserves (- = increase)	-209	202	-249	-151	-45	23	26	-22	-45	-60
(In percent of GDP)										
Trade balance	-28.1	-32.8	-23.5	-24.3	-24.1	-22.2	-31.6	-21.8	-22.0	-22.3
Exports	17.6	22.4	19.6	24.2	25.5	25.6	25.1	25.3	25.3	25.1
Imports	45.7	55.2	43.1	48.6	49.6	47.9	56.7	47.1	47.3	47.4
Current account balance	-14.2	-18.1	-7.6	-11.3	-11.9	-9.8	-18.6	-8.7	-8.3	-8.2
Capital/financial account	17.3	8.9	17.0	9.6	11.7	7.8	16.6	8.0	8.2	8.4
Overall balance	6.1	-5.6	8.6	4.7	1.3	-0.6	-0.7	0.6	1.1	1.4
(Annual growth)										
Tourism receipts	9.8	10.0	-22.1	22.3	4.6	4.1	4.4	4.9	5.4	5.4
Workers' remittances	-20.5	-37.5	109.1	33.0	5.0	5.0	5.0	5.0	5.0	5.0
Imports of goods and services	1.2	23.4	-34.2	20.5	10.4	0.5	16.6	-9.8	4.2	4.4
Oil prices	10.7	36.4	-36.3	27.9	30.6	-3.1	-0.5	-2.0	-1.0	-1.0
Memorandum items:										
External debt (in millions of U.S. dollars)	461	449	430	464	612	672	857	891	923	959
External debt over GDP	13.5	12.5	14.9	14.6	17.3	18.3	22.6	22.6	22.5	22.5
External central government debt (in millions of U.S. dollars)	256	270	274	324	470	538	571	594	617	641
External central government debt over GDP	7.5	7.5	9.4	9.0	12.8	14.1	14.5	14.4	14.5	14.4
Central government debt-service ratio	2.4	1.9	2.2	1.4	16.6	1.2	1.0	1.3	1.9	17.8
Gross official reserves (in millions of U.S. dollars) 4/	519	317	565	716	761	738	712	734	779	839
(In months of retained GNFS imports)	3.2	1.8	4.4	4.4	4.6	4.4	3.6	4.1	4.2	4.3
GDP (in millions of U.S. dollars)	3,405	3,590	2,882	3,173	3,546	3,671	3,795	3,947	4,099	4,270
Trading partners' real GDP growth	3.0	1.2	-2.3	2.3	1.9	2.5	2.8	2.9	3.2	2.9
Trading partners' import volume (goods and services)	5.6	2.0	-11.8	12.5	5.6	4.2	4.2	5.5	5.8	5.9
Oil price (U.S. dollars per barrel)	71.1	97.0	61.8	79.0	103.2	100.0	99.5	97.5	96.5	95.5

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

1/ Including EU sugar transfer payments. It also includes re-exports of sugar purchased abroad to comply with the EU quota.

2/ Includes planned purchase of aircraft by Air Pacific in 2013.

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

4/ Reserve Bank of Fiji holdings only.



Table 5. Fiji: Selected Medium-Term Indicators, 2007–16

	2007	2008	2009	2010	2011 Est.	2012	2013	2014 Proj.	2015	2016
Output and prices (percent change)										
Real GDP (at constant factor cost)	-0.9	1.0	-1.3	-0.2	2.0	1.5	1.7	1.9	2.3	2.3
GDP deflator	3.3	4.3	0.4	7.6	10.2	4.7	4.2	4.0	3.0	3.3
Consumer prices (average)	4.8	7.7	3.7	5.5	8.6	4.9	4.5	4.0	3.5	3.5
Savings and investment 1/										
National savings	1.0	-3.1	6.4	3.7	4.6	6.7	6.6	7.3	7.7	7.8
Public	1.4	4.3	1.8	3.4	4.1	4.7	3.8	4.0	4.1	4.1
Private	-0.5	-7.3	4.6	0.3	0.5	1.9	2.7	3.3	3.5	3.7
Gross investment 2/	15.2	15.0	14.0	15.0	16.5	16.5	25.2	16.0	16.0	16.0
Public	3.5	4.1	6.4	4.9	6.0	6.7	5.9	5.9	5.9	5.9
Private	11.7	10.9	7.6	10.1	10.5	9.8	19.3	10.1	10.1	10.1
Foreign savings	14.2	18.1	7.6	11.3	11.9	9.8	18.6	8.7	8.3	8.2
Central government budget (in percent of GDP)										
Revenue	25.3	25.5	25.0	25.3	25.2	25.6	24.3	24.2	24.1	23.9
Expenditure	27.4	25.3	29.6	27.4	28.7	28.1	26.4	26.2	25.9	25.6
Net acquisition of nonfinancial assets	3.5	4.1	6.4	4.9	6.0	6.7	5.9	5.9	5.9	5.9
(As a percent of total expenditure)	14.8	19.2	21.6	18.0	20.8	23.7	22.5	22.7	22.9	23.2
Of which: Fiji Sugar Corporation	...	...	...	0.6	1.6	0.6	0.0	0.0	0.0	0.0
Expense	23.9	21.2	23.2	21.8	21.1	20.9	20.5	20.2	20.0	19.8
Compensation of employees	10.7	9.9	10.6	9.3	8.3	8.2	7.7	7.7	7.7	7.7
Interest	3.3	2.9	3.4	3.5	4.0	3.6	3.6	3.3	3.1	2.9
Other	9.9	8.4	9.2	9.1	8.9	9.2	9.2	9.2	9.2	9.2
Additional measures to meet fiscal targets							-0.6	-0.6	-0.5	-0.3
Overall balance 3/	-1.1	-0.1	-4.5	-2.4	-3.5	-1.9	-1.5	-1.5	-1.5	-1.5
Primary balance	1.2	3.1	-1.2	1.4	0.5	1.7	2.1	1.8	1.6	1.2
Central government debt outstanding	49.7	50.1	55.9	55.3	53.9	53.5	52.4	51.0	50.2	47.0
Balance of payments (in percent of GDP)										
Trade balance	-28.1	-32.8	-23.5	-24.3	-24.1	-22.2	-31.6	-21.8	-22.0	-22.3
Services plus income (net)	8.5	9.4	9.5	9.3	8.4	8.3	8.8	8.8	9.1	9.4
Transfers (net)	5.3	5.3	6.4	3.8	3.9	4.1	4.1	4.3	4.5	4.7
Current account balance 2/	-14.2	-18.1	-7.6	-11.3	-11.9	-9.8	-18.6	-8.7	-8.3	-8.2
Capital/financial account balance	17.3	8.9	17.0	9.6	11.7	7.8	16.6	8.0	8.2	8.4
Of which: FDI (net)	11.2	10.1	4.6	6.0	5.6	5.1	5.1	5.1	5.5	5.8
Of which: Portfolio investment (net)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Other investment (net) 2/	4.9	-2.5	10.9	2.4	4.6	1.4	10.2	1.7	1.6	1.5
Errors and omissions	3.0	3.6	-0.7	6.5	1.4	1.4	1.3	1.3	1.2	1.2
Overall balance	6.1	-5.6	8.6	4.7	1.3	-0.6	-0.7	0.6	1.1	1.4
External central government debt	7.2	8.3	9.4	9.7	13.5	14.8	15.3	15.1	15.2	15.1
Memorandum items:										
Gross official reserves (in millions of U.S. dollars) 3/	519	317	565	716	761	738	712	734	779	839
(In months of retained GNFS imports)	3.2	1.8	4.4	4.4	4.6	4.4	3.6	4.1	4.2	4.3

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

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

2/ Includes planned purchase of aircraft by Air Pacific in 2013.

3/ Reserve Bank of Fiji holdings only.

Appendix Table 1. Fiji: External Debt Sustainability Framework, 2006-2016  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -5.9
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Baseline: External debt</b>	14.4	13.5	12.5	14.9	14.6	17.3	18.3	22.6	22.6	22.5	22.5	
Change in external debt	4.9	-0.8	-1.0	2.4	-0.3	2.7	1.0	4.3	0.0	0.0	-0.1	
Identified external debt-creating flows (4+8+9)	5.7	1.7	7.2	5.9	4.0	6.0	4.5	13.3	3.2	2.4	1.9	
Current account deficit, excluding interest payments	17.9	13.7	17.7	7.3	11.0	11.6	9.6	18.4	8.3	7.8	7.4	
Deficit in balance of goods and services	20.9	16.8	20.9	13.6	11.9	11.2	9.6	18.5	9.0	9.1	9.4	
Exports	45.9	44.8	51.2	45.6	52.7	52.7	52.5	51.5	51.6	51.8	51.6	
Imports	66.9	61.7	72.2	59.1	64.7	63.9	62.0	69.9	60.7	60.9	61.0	
Net non-debt creating capital inflows (negative)	-11.9	-11.2	-10.1	-4.6	-6.0	-5.6	-5.1	-5.1	-5.1	-5.5	-5.8	
Automatic debt dynamics 1/	-0.3	-0.8	-0.4	3.3	-1.0	0.0	-0.1	-0.1	0.0	0.1	0.3	
Contribution from nominal interest rate	0.2	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.4	0.6	0.8	
Contribution from real GDP growth	-0.2	0.1	-0.1	0.2	0.0	-0.3	-0.3	-0.3	-0.4	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-0.3	-1.4	-0.7	2.8	-1.3	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-2.5	-8.2	-3.6	-4.3	-3.3	-3.5	-9.0	-3.2	-2.4	-2.0	
External debt-to-exports ratio (in percent)	31.3	30.2	24.4	32.7	27.7	32.8	34.9	43.9	43.7	43.5	43.5	
<b>Gross external financing need (in millions of U.S. dollars) 4/</b>	628.1	540.9	717.0	283.2	414.5	628.5	418.9	758.4	382.1	381.1	551.3	
In percent of GDP	20.2	15.9	20.0	9.8	13.1	17.7	11.4	20.0	9.7	9.3	12.9	
<b>Scenario with key variables at their historical averages 5/</b>						17.3	17.0	11.8	12.3	13.5	15.1	-6.9
<b>Key Macroeconomic Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	1.9	-0.9	1.0	-1.3	-0.2	2.0	1.5	1.7	1.9	2.3	2.3	
GDP deflator in U.S. dollars (change in percent)	3.8	11.0	5.4	-18.2	9.7	9.6	1.9	1.7	2.0	1.5	1.8	
Nominal external interest rate (in percent)	2.3	3.8	3.2	2.3	2.5	2.0	1.2	1.1	1.9	2.7	3.7	
Growth of exports (U.S. dollar terms, in percent)	-4.6	7.1	20.5	-28.6	27.5	11.6	3.1	1.4	4.3	4.2	3.9	
Growth of imports (U.S. dollar terms, in percent)	10.2	1.2	23.4	-34.2	20.5	10.4	0.5	16.6	-9.8	4.2	4.4	
Current account balance, excluding interest payments	-17.9	-13.7	-17.7	-7.3	-11.0	-11.6	-9.6	-18.4	-8.3	-7.8	-7.4	
Net non-debt creating capital inflows	11.9	11.2	10.1	4.6	6.0	5.6	5.1	5.1	5.1	5.5	5.8	

Note: Imports increase significantly in 2013 due to an aircraft purchase.

1/ Derived as  $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)] / [(1+g+\rho+g\rho)]$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $\rho$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,

$\varepsilon$  = nominal appreciation (increase in dollar value of domestic currency), and  $\alpha$  = share of domestic-currency denominated debt in total external debt.

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

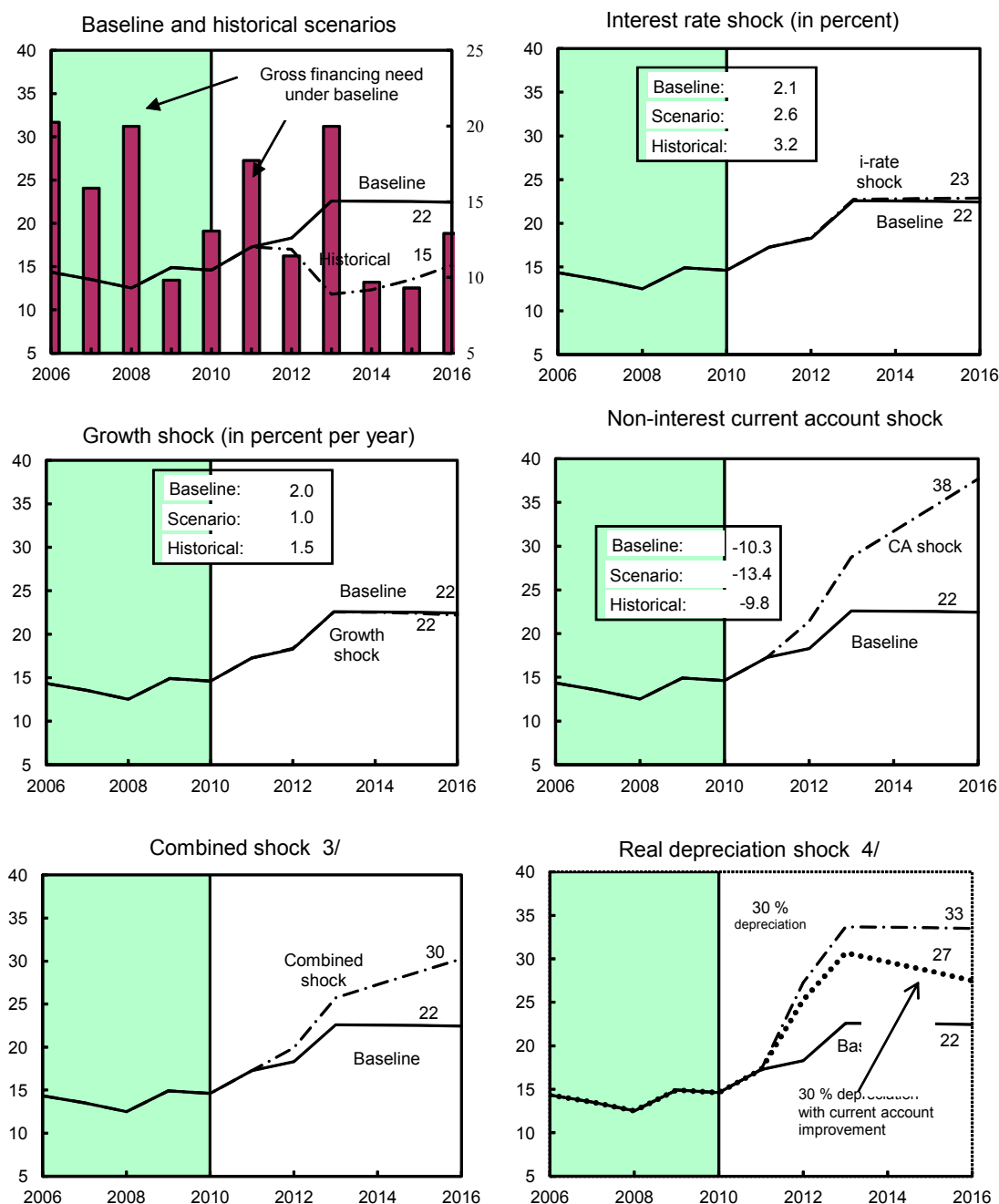
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Appendix Figure 1. Fiji: External Debt Sustainability: Bound Tests 1/ 2/  
(External debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and IMF 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 10-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. The middle line corresponds to a 30% real depreciation with an associated improvement in the current account, assuming a semi-elasticity of 0.3.

2. NAME: Sector Debt Sustainability Framework, 2006-16

Appendix Table 2. Fiji: Public Sector Debt Sustainability Framework, 2006-2016  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Baseline: Public sector debt 1/</b>	53.5	49.7	50.1	55.9	55.3	<b>53.9</b>	<b>53.5</b>	<b>52.4</b>	<b>51.0</b>	<b>50.2</b>	<b>47.0</b>	<b>0.4</b>
Of which: Foreign-currency denominated	7.7	7.1	7.9	9.4	9.0	12.8	14.1	14.5	14.4	14.5	14.4	
Change in public sector debt	5.8	-3.7	0.4	5.8	-0.6	-1.4	-0.4	-1.2	-1.3	-0.9	-3.2	
Identified debt-creating flows (4+7+12)	-0.9	0.3	-1.8	5.8	-2.2	-1.1	-0.7	-0.9	-1.0	-0.8	-1.1	
Primary deficit	0.8	-1.2	-3.1	1.2	-1.4	-0.5	-1.1	-1.5	-1.4	-1.3	-1.3	
Revenue and grants	25.6	25.3	25.5	25.0	25.3	25.2	25.6	24.3	24.2	24.1	24.1	
Primary (noninterest) expenditure	26.4	24.1	22.3	26.2	23.9	24.7	24.6	22.8	22.8	22.8	22.8	
Automatic debt dynamics 2/	-1.2	1.5	1.3	4.6	-0.8	-2.1	0.4	0.6	0.4	0.5	0.2	
Contribution from interest rate/growth differential 3/	-1.1	2.1	0.4	3.8	-0.3	-2.1	0.4	0.6	0.4	0.5	0.2	
Of which: Contribution from real interest rate	-0.2	1.6	0.8	3.2	-0.4	-1.1	1.1	1.4	1.3	1.6	1.3	
Of which: Contribution from real GDP growth	-0.8	0.4	-0.5	0.6	0.1	-1.0	-0.8	-0.9	-1.0	-1.1	-1.1	
Contribution from exchange rate depreciation 4/	-0.1	-0.5	1.0	0.8	-0.5	...	...	...	...	...	...	
Other identified debt-creating flows	-0.5	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	6.7	-4.0	2.2	0.0	1.6	-0.3	0.3	-0.2	-0.3	-0.1	-2.1	
Public sector debt-to-revenue ratio 1/	209.2	196.3	196.7	223.4	218.8	213.8	208.7	215.4	211.0	208.1	194.9	
<b>Gross financing need 6/</b>	9.6	8.8	5.8	11.5	7.3	12.6	6.4	5.3	5.5	4.5	7.6	
In millions of U.S. dollars	296.5	299.8	209.8	331.3	232.6	447.4	233.7	200.6	217.0	185.6	325.9	
<b>Scenario with key variables at their historical averages 7/</b>						<b>53.9</b>	<b>55.2</b>	<b>55.9</b>	<b>56.5</b>	<b>57.4</b>	<b>56.3</b>	<b>0.5</b>
<b>Scenario with no policy change (constant primary balance) in 2011-2016</b>						<b>53.9</b>	<b>54.1</b>	<b>54.0</b>	<b>53.6</b>	<b>53.6</b>	<b>51.3</b>	<b>0.4</b>
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	1.9	-0.9	1.0	-1.3	-0.2	2.0	1.5	1.7	1.9	2.3	2.3	
Average nominal interest rate on public debt (in percent) 8/	5.8	6.3	6.2	6.7	6.8	8.0	7.1	7.1	6.8	6.4	6.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.4	3.0	1.8	6.3	-0.8	-2.1	2.3	2.9	2.8	3.4	2.8	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	4.8	7.3	-12.1	-8.5	6.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.2	3.3	4.3	0.4	7.6	10.2	4.7	4.2	4.0	3.0	3.3	
Growth of real primary spending (deflated by GDP deflator, in percent)	5.9	-9.6	-7.4	15.3	-8.6	5.5	0.8	-5.6	1.9	2.3	2.3	
Primary deficit	0.8	-1.2	-3.1	1.2	-1.4	-0.5	-1.1	-1.5	-1.4	-1.3	-1.3	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as  $[(r - \pi(1+g) - g + \alpha\epsilon(1+r))/(1+g+\pi+\alpha\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\epsilon$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\epsilon(1+r)$ .

5/ For projections, this line includes exchange rate changes.

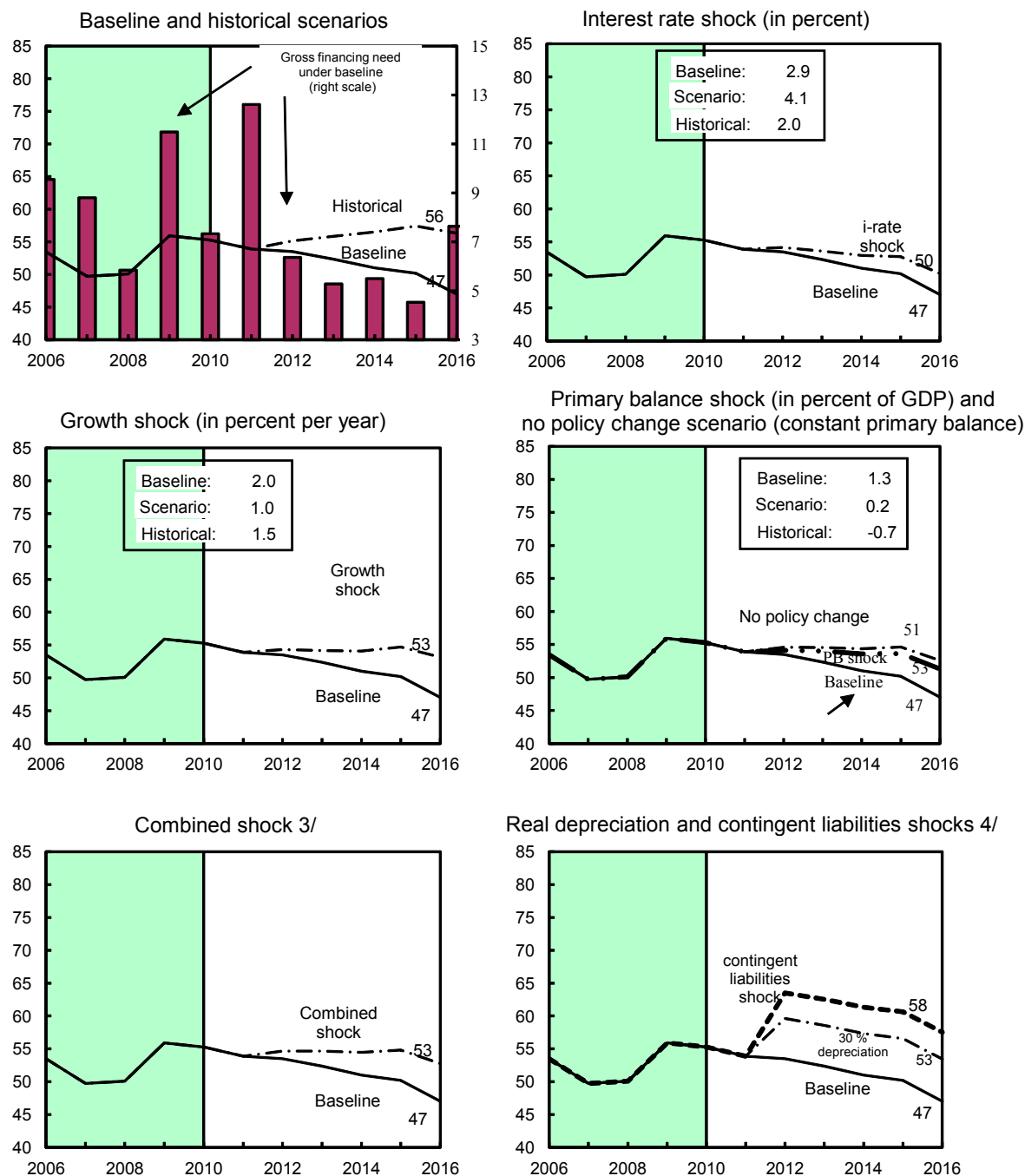
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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.

Appendix Figure 2. Fiji: Public Debt Sustainability: Bound Tests 1/ 2/  
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and IMF 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 10-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 primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

**Appendix III. Progress on Structural Reforms and Future Plans**

<b>Structural Reform</b>	<b>Progress To Date</b>	<b>Future Plans</b>
Land System	<ul style="list-style-type: none"> <li>Composition of the iTaukei Native Land Trust Board was changed through the introduction of the Native Land Trust (Amendment) Decree 2010). The Decree shifts power from Great Council of Chiefs (GCC) to the Government through the Minister for iTaukei Affairs (currently the Prime Minister) enabling Government to push through reforms to the administration of native lands (which account for 88 percent of Fiji's total land allocation).</li> <li>A competitive mechanism for leasing native land through the Land Use Decree was introduced in 2010. The Decree establishes a new Land Use Unit within the Ministry of Lands. The Unit is responsible for operating a Land Bank in which native landowners (as well as the government with respect to state land) can voluntarily register land for the government to administer.</li> </ul>	<ul style="list-style-type: none"> <li>Building institutional capacity within the Land Use Unit of the Ministry of Lands to effectively manage the Land Bank.</li> <li>Bringing land under the Agricultural Landlord and Tenant Act (around 35,000 leases) into the Land Bank (still needs to be clarified).</li> </ul>
Price Controls	<ul style="list-style-type: none"> <li>The Commerce Commission Decree 2010 consolidated the Commerce Commission's role as the key government institution responsible for encouraging competition within Fiji's marketplace and regulating prices when necessary.</li> <li>The list of controlled items has shrunk over the decades, but price controls were extended to basic hardware items such as bagged and bulk cement, concrete blocks, roofing products and electrical products.</li> </ul>	<ul style="list-style-type: none"> <li>Controls are recognized as a temporary solution and are being reduced.</li> </ul>

Sugar Sector	<p>Reforms encompass institutional arrangements, cane production, harvesting and transport systems, as well as milling operations.</p> <ul style="list-style-type: none"> <li>Budget support to FSC provided in 2011 (FJ\$110 million) and 2012 (FJ\$40.9 million) to pay for FSC's maturing debt whilst the remainder utilized as working capital.</li> <li>FSC now operates as a Commercial Statutory Authority (controlled by Government within the provisions of a Corporate Governance Framework).</li> <li>Industrial Relations Framework revised to establish a new legal framework that governs FSC's industrial relations with its workforce e.g., Essential Industries Decree.</li> <li>New Ministry for Sugar created in June 2011 to be solely dedicated to spearheading reforms.</li> <li>Measures to improve production and production management including fast tracking of cane replanting programme, compulsory planting of 3 cane varieties and utilization of fertilizer, and moratorium on all development on cane lands implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Sugar Cane Growers Fund Act (Cap. 207) to be revised to allow establishment of a Farmers Bank (Grameen model).</li> <li>FSC's organizational structure to be reviewed in 2012, which should set the direction for re-organizing FSC.</li> <li>Strategies to improve harvesting and transportation, including maintenance of rail networks being formulated.</li> </ul>
Pensions	<ul style="list-style-type: none"> <li>A reform plan was adopted in April 2010 to put the Fiji National Provident Fund (FNPF) on a sound financial and actuarial footing. It included implementing steps to reduce the pension conversion rate from 15 percent per annum to a sustainable level of 9 percent, rehabilitating some non-performing assets to ensure they are correctly valued, modernizing the FNPF Act and upgrading information</li> </ul>	<ul style="list-style-type: none"> <li>The 2012 budget announced that an actuarially sound pension rate, along with transitional arrangements, would be introduced on March 1, 2012.</li> </ul>

	<p>technology systems. The 9 percent rate has not been implemented.</p> <ul style="list-style-type: none"> <li>• In 2011, FNPF received approval from the Reserve Bank to invest up to \$150 million (or around 4 percent) of its \$3.7 billion assets in overseas markets. FNPF has responded by securing the services of an Australian fund manager and has commenced making overseas investments. It is pushing to see the overseas limit increased to up to 20 percent of its total assets on a long term basis.</li> </ul>	
Civil Service	<ul style="list-style-type: none"> <li>• The authorities implemented a wage freeze and a hiring freeze (with exceptions for essential technical and professional positions) for several years.</li> <li>• A number of reforms were made to payroll and establishment control systems in order to better manage and monitor the civil service wage bill.</li> <li>• The authorities have also taken steps to outsource certain functions previously undertaken by the civil service.</li> <li>• Functional reviews were conducted for some ministries</li> </ul>	<p>The authorities need to embed the measures taken to date in a more comprehensive civil service reform program including:</p> <ul style="list-style-type: none"> <li>• realignment of personnel with priorities and the consolidation of functions where duplication exists or fragmentation is currently impeding efficiency and effectiveness;</li> <li>• realignment of public sector salaries with private sector comparators;</li> <li>• ensuring strict adherence to merit-based appointments and promotions and due process for dismissals; and</li> <li>• continuation of efforts to strengthen the establishment control system.</li> </ul>



Public Enterprises	<ul style="list-style-type: none"> <li>• Merger of Fiji Ships and Heavy Industries Limited into Fiji Ports Corporation Ltd in 2009.</li> <li>• Corporatization of the Water and Sewage Division of the Ministry of Public Utilities into a commercial statutory authority (Water Authority of Fiji) in 2010.</li> <li>• Establishment of an Outsourcing Council in 2010 to identify government functions that could be outsourced to the private sector. An implementation plan is to be developed by mid-2012.</li> <li>• Upgrading and expansion of Fiji Broadcasting Corporation Ltd facilities and services over the period 2009 to 2010 to include television broadcasting.</li> <li>• Corporatization of the Quarantine Department (to BioSecurity Authority of Fiji) and Fiji Islands Maritime Safety Authority (to Maritime Safety Authority of Fiji).</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the Department of Fiji Meteorological Services with the aim of commencing corporatization to be undertaken.</li> <li>• Request for expressions of interest for private sector control of the Fiji Meat Industry Board, Food Processors Fiji Ltd and Post Fiji Ltd to be issued.</li> <li>• Restructuring of Fiji Hardwood Corporation Ltd (FHCL) in alignment with functions outlined in the Mahogany Industry Development Decree 2011 to be implemented.</li> </ul>
Exchange Controls	<ul style="list-style-type: none"> <li>• Forward import cover facility: each bank is now allowed to have net forward contracts of up to F\$20 million.</li> <li>• Individuals are now permitted to take out up to F\$10,000 for investment overseas.</li> <li>• Banks' delegated limits for various foreign currency payments have been increased, implying some 5,000 to 8,000 fewer applicants will need to seek RBF approval for their transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• The authorities agree that further liberalization is desirable and plan for it to continue, especially now that RBF reserves are healthy. Their specific plans, however, are not known.</li> </ul>



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Appendix IV. Draft Public Information Notice

Public Information Notice (PIN) No. 12/xx  
FOR IMMEDIATE RELEASE  
January [xx], 2012

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2011 Article IV Consultation with the Republic of Fiji**

On January 18, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with the Republic of Fiji.<sup>1</sup>

### **Background**

Fiji's economy is growing at a very slow pace, and that overshadows all other economic concerns. After averaging 2¾ percent during the 1990s as well as the first five years of the new millennium, growth dropped to just 0.1 percent over the last five years, and while urban poverty has declined, rural poverty remains stubbornly high.

After contracting for two years, the economy rebounded in 2011, growing by about 2 percent, by far the best result of the past five years. But this was partly a bounce-back from a downturn, and it seems unlikely, given political and economic constraints, that growth will exceed 1½ to 2 percent on a sustained basis unless structural reforms are accelerated. Risks around this outlook are tilted to the downside, given political uncertainties, structural weaknesses, and the fragile global economy.

Inflation has risen sharply but should moderate soon. Headline inflation hovered around 10 percent y/y for several months in 2011, driven by imported food and fuel prices as well as one-off increases in the VAT, various administered prices, and the electricity tariff. There is little

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<sup>1</sup> 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. 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>.

evidence of generalized price pressures, and core inflation remains moderate. Commodity prices are now falling, and the one-off factors will drop out. Inflation should start 2012 around 6 percent by the beginning of 2012 and fall toward 3½ percent over the medium term, reflecting the anemic growth outlook, projected small declines in oil prices, and the authorities' tight control of public wages.

Monetary conditions are accommodative and the system is awash with liquidity on account of foreign exchange inflows. However, credit growth has been slow, and banks' loan-deposit ratio remains below 90 percent. While lending to the private sector is now rising at about 5 percent, the RBF is concerned that SMEs and others being shut out. After holding steady for six months, the RBF cut its policy rate in late October by 100 basis points, to ½ percent. It is also considering an SME lending guarantee scheme, among other measures, to spur lending.

Higher food and oil prices have contributed to weak external balances. Fiji's current account deficit is expected to register around 12 percent of GDP in 2011. Over the medium term, however, as remittances, tourism receipts, and goods exports, including sugar, grow while oil imports flatten out and nonoil imports grow moderately, the current account deficit could narrow to around 8 percent of GDP, leaving the overall balance in surplus. Gross reserves are thus kept healthy, despite increased dividend repatriation and some offshoring of Fiji National Provident Fund's (FNPF) investment. Econometric estimates suggest that the exchange rate is broadly in line with fundamentals.

The fiscal deficit is expected to have widened to 3½ percent of GDP in 2011 and projected to fall again in 2012, reflecting trends in Fiji Sugar Corporation (FSC) restructuring costs. Debt is currently 54 percent of GDP—relatively high for a small economy vulnerable to shocks—and the government also faces contingent liabilities of more than 15 percent of GDP, as well as unfunded FNPF liabilities. The authorities' planned fiscal trajectory, which would put the deficit at 2 percent of GDP in 2012 and reduce it to 1½ percent of GDP from 2013 onward, would reduce the debt ratio steadily, but additional measures may be needed to achieve that trajectory.

The financial sector is stable, but FNPF finances are unsustainable over the long run. The banks are well capitalized, with low NPLs and adequate loan loss provisioning. The finance-company and insurance sectors are stable, but the largest nonbank financial institution, the FNPF, is actuarially unsustainable: its current pension annuitization rates, which vary from 15 to 25 percent for different pensioners, imply negative net cashflows by 2030 and depleted assets by 2056.

## Executive Board Assessment

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**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.