

**EXECUTIVE
BOARD
MEETING**

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To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Fiji—Staff Report for the 2017 Article IV Consultation—
Informational Annex**

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Questions:	Mr. Lopez Murphy, APD (ext. 37647)
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***At the time of circulation of this paper to the Board, the authorities 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.**



REPUBLIC OF FIJI

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 10, 2018

Prepared By

Asian and Pacific Department
(In consultation with other departments)

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FUND RELATIONS

(As of December 31, 2017)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	98.40	100.00
Fund holdings of currency	74.58	75.79
Reserve position in Fund	23.84	24.23

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	67.09	100.00
Holdings	44.03	65.63

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

Overdue Obligations and Projected Payments to Fund:¹

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

	Forthcoming				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17	0.17

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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

Since April 1975, the exchange rate of the Fiji dollar has been linked to a basket of currencies of Fiji's five major trading partners: the U.S., Australian, and New Zealand dollars; the pound sterling (replaced by the Euro at the beginning of 1999); and the Japanese yen. The weights used in the basket, based mainly on the value of trade and tourist transactions are reviewed annually. The exchange rate of the Fiji dollar against U.S. dollar, the intervention currency, is determined daily by the Reserve Bank of Fiji (RBF) in relation to the currency basket. The RBF's buying and selling rates for transactions in U.S. dollars are communicated to commercial banks. The exchange rate was F\$2.05 per U.S. dollar as of December, 2017.

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

Approval of most current payments was delegated to commercial banks and foreign exchange dealers in the late 1990s. However, the extent of delegation was tightened during periods of stress on foreign exchange reserves, most recently in April 2009. In December 2009, the RBF announced an increase in the delegated ceilings for commercial banks and foreign exchange dealers for most current payments, effective January 1, 2010, and further increases in delegated limits were announced to come into effect in January 2014. Banks have also been allowed to have net forward contracts of up to F\$40 million, and the delegated limit on dividends and profits for companies per annum was raised from F\$500,000 to F\$1,000,000 per invoice. In November 2015, the RBF announced further exchange control relaxations effective January 1, 2016, to include further increases to the delegated limits of certain payments and offshore investment by Fiji residents. Deposits into external accounts were raised from up to \$500 per month to \$2,000 per month, ceilings on offshore investment by Fiji residents were raised from \$15,000 per family per annum to \$25,000. In August 2017, RBF relaxed the exchange controls on the limits of advanced import payments (from \$1 million per invoice to \$2 million per invoice), subscriptions (from \$10,000 per annum to \$20,000 per annum) and wages paid in foreign currency of foreign crew (from \$500 to \$10,000 per beneficiary).

Last Article IV Consultation: The 2015 Article IV consultation discussions were held in Suva during October 15–28, 2015. The consultation (Country Report No. 16/54) was completed by the Executive Board on February 15, 2016. Fiji is on a 12-month cycle.

Safeguards Assessment: The first-time safeguards assessment of the Reserve Bank of Fiji (RBF) was finalized in January 2011 and found key safeguards elements in place. The RBF publishes annual financial statements that are both prepared and audited in accordance with internationally recognized standards. The assessment confirmed, however, that the level of autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments would address some but not all of these weaknesses; alternative measures were

recommended by the staff for others. An action plan has been put in place where there is capacity to prepare IFRS financial statements and commenced with the financial statements for the year ended 2010 during 2011.

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

WORLD BANK-IMF COLLABORATION

(As of December 31, 2017)

The Fund and the Bank teams maintain close cooperation in various areas. During the current cycle, the Bank staff has joined the IMF missions, including the 2015 Article IV mission. The Fund and the Bank have also been engaged in provision of technical assistance and advice in public financial management and debt management policy. The two institutions extensively shared information and closely coordinated policy advice during the preparation of the World Bank's post-Cyclone Winston emergency budget support (see below).

During the current cycle, the Bank's engagement with the Fiji government has deepened. On July 1, 2016, the World Bank's Board approved the \$50 million post-Cyclone Winston emergency development policy operation to support Fiji's recovery from the immediate impact of Cyclone Winston and help finance the post-disaster social protection to the most vulnerable. On November 30, 2016, the Board approved the \$6 million Fiji Connectivity Project to finance a fiber optical cable spur to the northern island of Vanua Levu. In addition to the IBRD operations, the Bank mobilized the \$8.5 million Global Environment Fund to finance Sustainable Energy Finance Project which aims to increase the use of renewable energy by providing a risk-sharing facility to encourage local financial institutions to provide financing to households and small businesses to adopt sustainable energy technologies. The Bank is also providing technical assistance in areas of geothermal energy and the design and implementation of Fiji's civil service reforms. On the analytical front, the Bank has collaborated with the government to update the poverty assessment based on the 2013/14 household survey data, and completed the Fiji Systematic Country Diagnostic (SCD), which identifies the key opportunities and challenges to accelerating growth and poverty reduction in Fiji and priorities for policy reforms. The SCD provides the analytical basis for the new 5-year Country Partnership Framework for 2018-22. The Public Expenditure Review is underway to analyze the efficiency and effectiveness of public spending programs in recent years and to identify potential sources of expenditure adjustment to restore fiscal sustainability.

The Bank's team view is that Fiji's main macroeconomic challenges are to safeguard fiscal and external stability and raise potential growth through structural reforms. The authorities have accelerated reforms in recent years, but the key policy challenge remains to raise the potential growth, create productive jobs, and increase resilience to shocks. Although poverty rates in Fiji are among the lowest in the Pacific and have been falling in the last decade, the averages mask divergence within the country. In particular, between the 2008/09 and 2013/14 surveys, urban poverty has increased (from 12 to 13 percent based on the \$3.20 per day international poverty line) even as the aggregate poverty and rural poverty have declined (from 17 to 14 percent and 22 to 16 percent, respectively). Despite the above-trend growth in recent years, continued structural reform is needed to unlock Fiji's potential and sustain growth. Key structural reforms needs as seen by the Fund and the Bank as critical include:

- **Investment climate reform.** Encouraging private sector growth by providing a more supportive business environment remains a priority. Fiji's overall *Doing Business* ranking continues to decline—down to 97 in 2017 from 84 in 2016. Challenges remain in areas of

starting a business, getting permits, paying taxes, and registering property. Fiji scores particularly poorly in starting a business—159th of 190 countries—with 40 days required to start one.

- **Public enterprise reform.** The pace of SOE reforms aimed at improving services and reducing fiscal costs needs to be accelerated. These reforms will help reduce direct and contingent liabilities of the government, help expand and improve the quality of service delivery, and promote growth.
- **Tax policy and administration reform.** Efforts to broaden the tax base should continue, including review of the tax incentive regime. Fiji continues to benefit greatly from TA in this area provided by the Pacific Financial Technical Assistance Center (PFTAC) located in Suva.
- **Strengthening statistical capacity and statistics.** Fiji should ensure that it continues to develop personnel with the capacity to produce accurate and timely economic statistics. Good statistics are important both for macro policy formulation and good public financial management (e.g. establishment payroll and wage bill control). Fiji continues to benefit from a broad range of statistical advice from PFTAC.

Fiji: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas

	Products	Expected Delivery
Bank Work Program	<ul style="list-style-type: none"> • Regional GEF sustainable energy financing project to support commercial banks to lend to businesses and households for renewable energy. • IFC TA for improving business environment • Public Expenditure Review to identify options for fiscal consolidation • Development Policy Operation 	<ul style="list-style-type: none"> • Ongoing • Ongoing • FY2017/18 • FY2017/18
Fund Work Program	<ul style="list-style-type: none"> • Tax policy and administration TA • Statistics TA 	<ul style="list-style-type: none"> • Ongoing • Ongoing

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)¹

(As of December 31, 2017)

Background

Fiji continues to be one of PFTAC's largest TA users. More than 70 percent of PFTAC assistance to Fiji is fiscal related. Investments in revenue administration capacity development have delivered strong results through more effective core functional capacities such as audit and taxpayer services, and introduction of innovative approaches more common in advanced administrations such as tax rulings, programs for high-wealth individuals, and application of risk management. Assistance across a broad array of PFM topics is guided by the government's PFM reform roadmap. The imminent release of quarterly GDP-by-production estimates has benefited from PFTAC National Accounts TA, and PFTAC is now providing capacity development in GFS following the conclusion of a regional Japanese funded IMF program. The emphasis of the financial sector supervision program is expanding beyond credit union TA to the insurance sector, and Fiji plays a key role in PFTAC's regional financial sector efforts. The PFTAC macroeconomic program is helping strengthen the tools and capacity for robust policy making through better medium-term economic and fiscal forecasting.

With respect to Public Financial Management (PFM), assistance has continued to focus on remedying weaknesses identified in the 2012 PEFA assessment that are reflected and prioritized in the Ministry of Economy's approved 2016 – 2019 PFM Reform Roadmap. In the near term, areas of specific PFTAC follow-up assistance include strengthening accounting and financial reporting consistent with IPSAS; developing a framework for assessing fiscal risks arising from state-owned enterprises and statutory authorities; developing an internal audit charter and internal control assessment framework; revision of financial instructions; and further improvements to budget documentation. In the medium to longer-term, additional areas of PFTAC assistance could include improving cash management, debt management, budget execution controls, public investment management, and medium-term budgeting. PFTAC coordinates closely with other development partners also providing PFM support to Fiji.

In the area of revenue administration, PFTAC has continued to assist in the modernization of the Fiji Revenue and Customs Service (FRCS) by providing TA to help improve taxpayer services; build audit capability; introduce a public and private tax rulings regime; improve the management of tax arrears and outstanding returns; and introduce a High Net Worth Individual Strategy. A compliance improvement strategy, first introduced in 2016, has been updated annually and is fast becoming the tool driving organizational performance. A review of progress resulting from the TADAT diagnostic

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

assessment in 2015 has shown strong commitment to addressing priority issues including the creation of a new unit to deal with tax disputes. The procurement of a new IT system is nearing completion with implementation anticipated before the end of 2017.

In statistics, support has been ongoing to further develop the national accounts that are broadly consistent with the *2008 SNA*. Following recent PFTAC assistance, the Fiji Bureau of Statistics (FBoS) is expected to publish new quarterly estimates of GDP by production by the end of 2017. These will complement annual GDP by production and expenditure, the latter published since December 2015. A rebase to 2014 is planned in 2018. The Australian Bureau of Statistics continues to assist the development of the producer price index, published experimentally since 2014. Through October 2015 Fiji received TA on government finance statistics (GFS) and external sector statistics (ESS) under the IMF HQ Japan Administered Account (JSA1), but following the conclusion of that program, PFTAC has assumed capacity development support to Fiji in GFS. This support aims at expanding coverage and compiling GFS for the general government in Fiji. PFTAC also funded an ESS mission in FY16.

In financial sector supervision, PFTAC's work with the Reserve Bank of Fiji (RBF) has focused on credit union supervision in recent years, with PFTAC continuing to provide support to the RBF in developing a credit union supervisory regime. The RBF will attend PFTAC's upcoming workshop on insurance regulation, at which a technical assistance plan for the enhancement of the RBF's insurance regulation and supervision will be developed. PFTAC continues to engage with the RBF through the Association of Financial Supervisors of Pacific Countries (AFSPC) on regional initiatives, which currently include a proposed IT Risk Examination assistance program and AML/CFT supervision assistance.

In the macroeconomic area, work is focusing on building macroeconomic modeling and analysis capacity with the aim of having medium-term economic and fiscal projections to feed into policy making. Key projects include an upgrade of the Fiji macroeconomic programming framework to undertake external and debt sustainability analysis, estimation of potential output, and improvements to government expenditure and revenue forecasting methodology and processes.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of December 31, 2017)

The Asian Development Bank (ADB) has been working with the Government of Fiji since 1970. As of 30 June 2017, \$562.0 million in loans, \$37.0 million in grants and \$32.2 million in technical assistance has been committed to the country, largely supporting infrastructure development in the transport (roads) and urban water and sanitation sectors. Current ADB operations in Fiji are delivered under the country partnership strategy (CPS), 2014–2018. Fiji, a borrowing member, has access to indicative financing of \$275 million available during 2017–2020 for sovereign operations. ADB is also exploring the possibility of Fiji dollar denominated lending to Fiji, in addition to other diversified lending products. Indicative cofinancing sources will also be explored to support Fiji's financing needs.

Consistent with the priorities of successive governments, ADB engagement in Fiji has focused on (i) raising Fiji's growth potential, (ii) building resilience and reducing vulnerability, and (iii) reducing poverty through more inclusive growth and better service delivery. Strides have been made toward these goals through direct investments in transport and urban water and sanitation infrastructure, and improved public sector management. Road transport investments in Fiji over a 20-year period have helped disadvantaged groups participate in the cash economy by reducing transport costs and traveling times. This has increased access to employment opportunities and social services. An improved transport system in Fiji has helped to bolster market efficiencies, and to broaden access to education, health, and business services.

As of 30 June 2017, the ADB portfolio consisted of (i) a \$100 million transport sector loan, approved in December 2014 (with an additional \$50 million cofinancing from the World Bank); (ii) a \$153.2 million two phase loan for an urban water supply and wastewater management project, with the first \$42.1 million approved in December 2016 (with additional \$31.0 million cofinancing from Green Climate Fund and \$70.8 million cofinancing from the European Investment Bank); and (iii) \$50.0 million for emergency assistance following tropical cyclone Winston (with additional \$50 million cofinancing from the World Bank), which was disbursed in early 2017. ADB is currently discussing a proposed policy-based loan of up to \$180 million to facilitate private-sector-led growth, with \$50 million in cofinancing from the World Bank.

The transport sector investment will upgrade and rehabilitate roads, wharfs and jetties in line with priorities identified in the Government's 20-year National Transport Plan. The Urban Water Supply and Wastewater Management Project will ensure that residents of some of Fiji's most densely populated areas have improved access to safe piped water and an environmentally friendly sewerage system. In February 2016, tropical cyclone Winston caused \$1.36 billion in damage and losses, equivalent to 31% of GDP. In response to the disaster, ADB provided a \$2 million grant to support relief efforts and additional financing toward recovery and rehabilitation. The proposed policy based loan will support public financial management reforms, state-owned enterprise reforms and assist the government improve the business and investment environment.

Fiji also continues to participate in ADB technical assistance projects in the region, covering areas such as building capacity for economic and financial management, providing economic policy advice, mitigating climate change impacts, planning for investment in the ports and energy sectors, and promoting private sector development through business environment reform.

ADB's presence in Fiji has been enhanced by the location of its Pacific Sub-regional Office in Suva, strong coordination and harmonization with other development partners, and significant analytical work. However, Fiji faces similar operational and implementation challenges to other Pacific island countries, with limited public sector capacity and frequent staffing changes in key public and private sector positions. These constraints are reflected in the design of ADB projects, and accompanying technical assistance is an important component of the overall support package.

ADB maintains ongoing dialogue on country operations with the Government of Fiji and its key development partners. This ensures that external support is coordinated and reflects the comparative advantages of individual partners. ADB has a strong track record of cooperative programming in Fiji and will continue to seek opportunities to support poverty reduction and development. ADB cooperates with the private sector and civil society organizations in the implementation of national and regional operations involving Fiji.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance. Macroeconomic data are improving, owing in part to the considerable technical assistance provided by the Fund and PFTAC in recent years.

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

Formal participation in the GDDS (now e-GDDS) commenced on May 9, 2000, marked by the posting of the metadata on the IMF's Dissemination Standards Bulletin Board. The metadata were last updated in November 2002.

National Accounts: Production-side estimates of GDP by production at current and constant 2011 prices are available up to 2016; current price estimates of GDP by expenditure and income are available to 2015 and will be updated to 2016 by end-2017. Estimates were rebased from 2008 to 2011 in 2014 mainly using the 2013/14 Household Income and Expenditure Survey and the 2014 Business Census to derive new benchmarks. Quarterly current and constant price GDP by production was due to be published by end-2017, as well as currently internal annual Supply and Use tables.

Price statistics: CPI data are published monthly, with data available up to November 2017. The NSO has rebased the CPI weights and is currently working on connecting the 2008 base data and updated 2011 base data. Quarterly PPIs for goods and services (experimental) are available from 2011 to 2016.

Government finance statistics: While Fiji has provided metadata for central government operations and central government debt, the metadata were last updated in 2005. Fiji reported budgetary central government (BCG) GFS data for publication in the IMF's Government Finance Statistics Yearbook (GFSY) for 2006, this was followed by a time series break for 2007-2009. In 2013, Fiji commenced to submit GFS data again for the BCG, 2010-2013. The authorities are encouraged to continue its submission of GFS data from 2014 to date and to complete the data for the time series break. Advances have been made in collecting source data required to expand general government coverage. The authorities are encouraged to review and update the GDDS fiscal metadata and resume reporting data for publication in the GFSY and commence reporting in the International Financial Statistics.

Monetary and financial statistics: Data on the central bank, other depository corporations (ODCs), and other financial corporations (OFCs) are comprehensive and provided to APD and STA on a regular and timely basis. Progress has been achieved by the RBF in most areas of the

collection, compilation, and dissemination of monetary and financial statistics (MFS), leading to the introduction of the standardized reporting forms for the central bank, ODCs, and OFCs. This resulted in the publication of data aligned to the *Monetary and Financial Statistics Manual (MFSM)* in the RBF's website and *International Financial Statistics*. The full implementation of the November 2005 workshop and January 2008, July 2011, and April 2012 missions' recommendations will constitute a very important step towards the compilation in a timely and efficient manner, of monetary statistics fully consistent with the *MFSM* and *Monetary and Financial Statistics Compilation Guide*. Efforts are now concentrated in improving source data for ODCs and OFCs and compiling a financial corporations survey with full institutional coverage.

Balance of payments: Balance of payments statistics weaknesses persist and there is a need to improve the coverage, classification and compilation methodology of the external sector statistics (ESS). Fiji reports its balance of payments data for dissemination purposes in the Fund's *International Financial Statistics (IFS)* and in the *Balance of Payments Statistics Yearbook (BOPSY)*. FBoS has undertaken a number of actions that were recommended to improve timeliness in ESS dissemination and to enhance consistency with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*, albeit at a slow pace.

II. Data Standards and Quality

Fiji is an e-GDDS participant.

Fiji—Table of Common Indicators Required for Surveillance
(As of December, 2017)

	Date of latest observation	Date received	Frequency of Data ⁵	Frequency of Reporting ⁵	Frequency of Publication ⁵
Exchange Rates	12/2017	12/2017	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	11/2017	12/2017	M	M	M
Reserve/Base Money	09/2017	10/2017	M	M	M
Broad Money	09/2017	10/2017	M	M	M
Central Bank Balance Sheet	09/2017	10/2017	M	M	M
Consolidated Balance Sheet of the Banking System	09/2017	10/2017	M	M	M
Interest Rates ²	09/2017	10/2017	M	M	M
Consumer Price Index	11/2017	12/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	FY2016/17 ⁶	06/2017	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	FY2016/17	06/2017	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt	07/2017	11/2017	A	A	A
External Current Account Balance	Q3, 2017	12/2017	Q	Q	Q
Exports and Imports of Goods and Services	Q3, 2017	12/2017	Q	Q	Q
GDP/GNP	2015	10/2016	A	A	A
Gross External Debt	Q2/2017	12/2017	Q	Q	Q
International Investment Position	Q2/2017	12/2017	Q	Q	Q

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. For Fiji, General Government is the same as Central Government.

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

⁶ The reporting of fiscal data changed from calendar year to fiscal year in FY2016/17 (August 2016 to July 2017).