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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/20-2

11:35 a.m., February 24, 2020

2. Republic of Fiji—2019 Article IV Consultation

Documents: SM/20/31, and Cor. 1, and Cor. 2, and Sup. 1, and Sup. 1, Cor. 1

Staff: Lopez Murphy, APD; Goodman, SPR

Length: 35 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	A. Nainda (AE), Temporary
	T. Nguema-Affane (AF), Temporary
	B. Lischinsky (AG)
	C. White (AP)
	P. Fachada (BR)
	K. Lok (CC), Temporary
	M. Tabora (CE), Temporary
L. Levonian (CO)	
R. Kaya (EC)	
	P. Rozan (FF)
	K. Merk (GR)
	Y. Indraratna (IN)
	L. Cerami (IT), Temporary
	K. Chikada (JA)
	S. Alavi (MD), Temporary
	M. Choueiri (MI), Temporary
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
	S. Potapov (RU), Temporary
	R. Alkhareif (SA)
A. Mahasandana (ST)	
	A. Urbanowska (SZ), Temporary
	J. Freeman (UK), Temporary
	P. Pollard (US), Temporary

O. Vongthieres, Acting Secretary
V. Sola, Summing Up Officer
B. Zhao, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: R. Koepke, P. Lopez Murphy, J. Ostry, T. Schneider, N. Tawk. Legal Department: I. Luca. Strategy, Policy, and Review Department: M. Goodman. World Bank Group: S. Pradhan. Senior Advisors to Executive Directors: P. Harvan (EC), Z. Mahyuddin (ST), Z. Mohammed (BR), C. Sassanpour (MD). Advisors to Executive Directors: A. Arevalo Arroyo (CE), T. Iona (AP), N. Vaikla (NO), J. Al Saud (SA).

2. REPUBLIC OF FIJI—2019 ARTICLE IV CONSULTATION

Ms. Mahasandana and Mr. Anwar submitted the following statement:

On behalf of our Fiji authorities, we would like to thank the IMF mission team for the comprehensive and constructive policy dialogue during the 2019 Article IV consultation. The consultation provided valuable opportunities to discuss the progress of home-grown policies as well as reforms that Fiji is currently undertaking. We appreciate staff's understanding of the domestic economy and acknowledgement of the country-specific challenges, as well as the authorities' policies and objectives. The authorities broadly concur with the thrust of staff's appraisal and will carefully consider the relevant recommendations.

Recent Economic Development and Outlook

After recording strong economic growth from 2013 to 2018, Fiji experienced a sharp slowdown in 2019. The Fijian economy is estimated to have grown by 1.0 percent in 2019 compared to 3.5 percent in 2018, owing to lower capital spending by the Government, the global economic downswing and subdued domestic demand. Growth for the year was driven mainly by resilient tourism earnings and remittances, with the former growing by 3.7 percent (Jan-Sep 2019) and the latter by 4.2 percent in 2019. Weaker domestic demand and steady service income led to an improvement in the current account deficit to 5.5 percent of GDP in 2019, compared to 8.5 percent of GDP in 2018. Subdued domestic demand and the decline in certain commodity prices resulted in a significant decline in inflation from 4.8 percent in December 2018 to -0.9 percent in December 2019. The average inflation rate for 2019 dropped to 1.8 percent from 4.1 percent in 2018.

The outlook remains positive with growth expected to pick up in the medium-term. Economic growth is projected at 1.7 percent in 2020, underpinned by resilient tourism and remittances growth, recovery in domestic demand amid accommodative financial conditions, and an improvement in business confidence. In the medium term, broad-based growth of 2.9 percent and 3.0 percent is projected for 2021 and 2022, respectively. Inflation is also forecasted to rebound to an average of around 2.0 percent in the medium term.

Risks to the economic outlook are tilted to the downside. Risks stem from slower growth in major trading partners, potential adverse impact of the COVID-19 outbreak and the Australian bushfires on the tourism industry, and delays in implementing structural reforms to boost business confidence and mobilize private investment. Against this backdrop, the authorities commit to achieve sound macroeconomic management and advance the comprehensive reform agenda to enhance the country's productivity as well as promote inclusive long-term economic growth and financial stability.

Fiscal Policy

Fiscal policy has played an instrumental role in Fiji's economic growth. Expansionary fiscal policy to rejuvenate the economy and bring back Fiji to normalcy after the devastation caused by tropical cyclone Winston in 2016, helped restore consumer and business confidence. However, the lower revenue collections due to business and economic activity disruptions along with the post-disaster reconstruction works have resulted in a higher fiscal deficit of 5.6 percent of GDP in 2018. The fiscal deficit declined to 4.3 percent of GDP in 2019 as a result of expenditure adjustment together with continued focus on strengthening revenue administration. Nonetheless, the debt to GDP ratio rose to 48.0 percent in 2019, from 46.2 percent in 2018.

Fiscal consolidation is a key focus of the Government's medium-term fiscal strategy. The Government will ensure that expenditure growth is contained and that the public sector wage-bill is kept stable. Capital spending will be guided by prioritizing high-impact investments and balancing the need to enhance inclusive socio-economic development and build resilience against climate change and natural disasters. To enhance revenue collection, the Fiji Revenue & Customs Services (FRCS) will undertake various measures to improve revenue administration through the adoption of new IT system and providing additional resources to enhance tax compliance. The medium-term fiscal framework is geared towards reducing the fiscal deficit to around 1.5 percent of GDP and bringing down the debt-to-GDP ratio to 45.9 percent by 2021-22.

Monetary Policy

We take positive note of staff appreciation that our monetary policy stance remains appropriate. Going forward, monetary policy will remain accommodative to support economic activity in 2020, while ensuring price stability and adequate foreign reserves. At the same time, the Fijian authorities are considering to rationalize certain price controls, including tariffs in the water sector.

External Sector and Exchange Rate

The external sector position improved due mainly to lower imports as a result of lower public investment and more moderate domestic demand. The decline in the trade deficit in the first eleven months of 2019 from the reduction in imports of goods, coupled with increases in remittances and tourism earnings supported Fiji's overall external position in 2019. The current account deficit is expected to continue to narrow from 5.5 percent of

GDP in 2019 to around 5.0 percent of GDP in 2024. The improvement in the external position is also reflected in the adequate level of foreign reserves, equivalent to 5.2 months of retained imports (MORI) of goods and non-factor services, well above the 3 months minimum level of the international reserve adequacy standard.

The authorities' strong commitment to fiscal consolidation and stable domestic inflation would help maintain external stability. Fiscal consolidation will help lower import demand and consequently reduce the current account deficit. This is critical in the face of a global slowdown which pose risks to Fiji's exports and tourism sectors as well as the country's foreign exchange revenue. The authorities agree to consider gradually phasing out exchange restrictions for payments on current international transactions and welcome technical support from the Fund for appropriate measures and sequencing.

Financial Sector

Fiji's financial sector remains sound, with adequate capital, strong earnings and liquidity positions. In 2019, the banking sector remained stable underpinned by the operation of foreign banks that were funded by their parent banks' capital and liquidity. Liquidity in the banking system remained adequate and supportive of credit growth. Access to credit has improved since the launch of the Personal Property Securities Registry in 2019 and will be enhanced when the Credit Reporting Agency licensed in 2018 starts its operation in early 2020. The relevant legal framework pertaining to the credit bureau is also being enhanced.

The authorities continue to strengthen financial sector supervision and are addressing gaps in the legal frameworks underpinning financial sector oversight. While commercial banks' non-performing loans (NPLs) have been edging upwards recently, the overall ratio remains relatively low at 3.0. Nonetheless, the authorities remain vigilant in monitoring this development. The authorities will also undertake scenario-based solvency stress testing this year and publish its findings in the Financial Stability Review report. In addition, the new revised Credit Unions Act that places credit unions and financial cooperatives under the oversight of the RBF is planned to be finalized this year. The improvement of the governance of public non-bank financial institutions (NBFIs) has commenced with the RBF's full supervision of the Fiji Development Bank.

Structural Reform

The authorities will continue to pursue long-term structural policies to diversify the economy and reduce impediments to Fiji's economic growth reaching its potential. Key reforms are focused on improving the ease of doing business and strengthening governance. With technical support from the

Singapore Corporation Enterprise (SCE) and the International Financial Corporation (IFC), the administrative requirements and permits for starting a business are being streamlined, relevant information are to be centralized to a single on-line platform, with digitization of business processes. The IFC also supported the drafting of the new Investment Bill, which will align the investment regime to the international best practices. The Bill was endorsed by Cabinet in September 2019 and is expected to be presented to Parliament in 2020. The authorities' commitment to enhancing access to finance and overall economic stability will support domestic and foreign investment and improve productivity and competitiveness. Tackling the gender gap in labor force participation in order to boost growth and make it more inclusive will remain a key priority. On improving data quality to better guide policy making, the authorities plan to publish quarterly national accounts and report fiscal outcomes according to the GFS 2014 standards in 2020, with support from the Pacific Financial Technical Assistance Center (PFTAC).

On climate change, the authorities have submitted Fiji's long-term climate action plan under the Paris Agreement to the secretariat of the UN Framework Convention on Climate Change (UNFCCC), aiming to reach net zero carbon emissions across all sectors of its economy by 2050. Additionally, the authorities plan to introduce a carbon credit scheme, reward climate-friendly infrastructure projects, and make 30 percent of its exclusive economic zone a marine protected area by 2030.

Final Remarks

Sound macroeconomic management and structural reform policies have continued to serve Fiji well in supporting economic growth and stability as well as safeguarding the economy against risks and vulnerabilities. Going forward, our authorities will continue to pursue robust policies and fiscal consolidation to promote sustainable and inclusive growth and maintain macroeconomic stability. Our authorities will remain vigilant in monitoring domestic and international economic developments and potential downside risks to the Fijian economy and financial system and will deploy appropriate policies accordingly. The authorities remain committed to advance the comprehensive structural reform agenda that would enable the Fijian economy to reach its potential growth in the medium-term.

The authorities acknowledge the support and assistance provided by the Fund through PFTAC, World Bank, IFC, Asian Development Bank and other development partners in their collective bid to lift the economic welfare of all Fijians. The authorities commit to strengthening collaboration and partnership with the Fund, and continue close engagement through regional forums, training and surveillance missions.

Finally, the authorities wish to thank the Mission Chief, Mr. Pablo Lopez-Murphy and his team for an insightful analysis and useful policy suggestions presented in the Staff Report.

Mr. Obiora and Ms. Nainda submitted the following statement:

Economic activity has slowed considerably in Fiji, with near-term growth outlook facing several risks. These risks and vulnerabilities mainly stem from weather-related shocks as well as the structural impediments to economic competitiveness. In order to address these and lift potential growth, authorities should focus on rebuilding fiscal space to strengthen resilience and implement a credible fiscal adjustment that will help put public debt firmly on a downward path and create the necessary space for growth-oriented reforms.

Some measure of fiscal consolidation is needed to better cope with external shocks and put debt back on a more sustainable path. We welcome the authorities' plans to focus on achieving fiscal consolidation as part of the government's medium-term strategy. We concur with staff that consolidation efforts should be geared towards expenditure rationing given the limited scope for further revenue increases. In this regard, we welcome the government's plans to contain expenditure growth, particularly to stabilize the public wage-bill as captured in Ms. Mahasandana's Buff. Additionally, we also take note of the improvements in infrastructure management which has reduced exposures to natural disasters. On the measurement of the fiscal deficit for 2019, we note the discrepancy between staff and authorities in the treatment of the SOE assets since privatization and would appreciate some description of the impact of this on the deficit and how this discrepancy should be resolved going forward.

Staff advice on monetary policy appears appropriate. We concur with staff that the Reserve Bank of Fiji (RBF) should strive to maintain adequate foreign reserves and continue to rely on the automatic stabilizing mechanism of the peg to manage liquidity. Given the identified vulnerabilities in the non-bank financial institutions (NBFIs), we urge the authorities to swiftly adopt the new Credit Union Act that will enable credit unions and financial cooperatives to be brought under the regulatory purview of the RBF. Furthermore, the authorities' intent to undertake scenario-based solvency stress testing and subsequent plans to publish the findings is a welcome step. Enhancing the AML/CFT framework remains essential to safeguard financial stability. We thus urge the authorities to step-up efforts to improve compliance in the flagged areas.

Further structural reforms are needed to boost the economy's productive capacity and better withstand climate-related shocks. We urge the authorities to revamp their structural priorities through implementation of actions aimed at widening the fiscal space for infrastructure projects resilient to natural disasters, easing price controls, enhancing efficiency of land use, improving human capital development, and setting an appropriate set of incentives to unlock more private sector development. We are encouraged by efforts underway to introduce a carbon credit scheme, reward climate-friendly infrastructure projects and designate 30 percent of the exclusive economic zone as marine protected area. We further welcome the ongoing efforts to improve the business environment and strengthen governance. This will gradually ease the bottlenecks to economic competitiveness and reduce current impediments to doing business.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the informative report and Ms. Mahasandana and Mr. Anwar for the useful Buff statement. Following a period of relatively high growth in 2017-18, economic activity in Fiji slowed notably as a result of both domestic and external factors. As Fiji faces downside risks to the outlook and high vulnerability to natural disasters and climate change, strong efforts are needed to build buffers and bolster economic resilience. We broadly agree with staff's appraisal and would like to limit our comments to the following.

Rebuilding fiscal buffers is a key priority and should be done in a growth-friendly manner. Greater fiscal space would allow the authorities to more readily respond to shocks including natural disasters. At the same time, a sound consolidation strategy underpinned by strong management would also help enhance the efficiency of public expenditures and ensure debt sustainability. Staff has suggested a number of different measures to consolidate through containing current spending, including keeping public employment and transfer recipients constant, reducing transfers to SOEs, rationalizing tertiary education spending, and targeting social programs. Could staff elaborate on the potential social impact of these measures and the authorities' receptiveness to these recommendations? In the meantime, we welcome Fiji's active efforts to strengthen public financial management, including undergoing the 2019 Public Expenditure and Financial Accountability (PEFA) assessment, and look forward to positive results from these efforts. We also encourage the authorities to enhance public investment management, with the technical support of developmental partners where needed.

The banking sector remains sound, but areas of vulnerability associated with non-bank financial institutions (NBFIs) warrant vigilance. While we see merit in staff's suggestion to shift focus from bank branches that are subject to robust home supervision to NBFIs, we believe that this should be complemented by strong cooperation and communication with the home supervisory authorities. Could staff shed light on the mechanisms in place to facilitate home-host cooperation? Meanwhile, we look forward to the adoption of the new Credit Unions Act, which would place credit unions and financial cooperatives within the regulatory perimeter. Finally, we are encouraged by the authorities' progress in improving the AML/CFT framework and look forward to further enhancements ahead.

Structural reforms are essential for ensuring strong, sustainable, and inclusive growth in the longer term. We encourage further measures to improve the business environment, including by reducing policy and legal uncertainty and addressing governance weaknesses. While there are benefits to rationalize existing price controls, it is critical that low-income households continue to be sufficiently protected. Could staff share on possible measures to mitigate potential adverse impact to low-income households that may arise from the removal of price controls? Stronger actions to promote female labor force participation would also help raise Fiji's potential. Meanwhile, could staff comment on the ways through which digitization (e.g. digitalFIJI) and technology could support the authorities' structural reform efforts?

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Inderbinen, Ms. Levonian, Mr. Merk, Mr. Psalidopoulos, Mr. Rashkovan and Ms. Pollard submitted the following joint statement:

We thank staff for their well-written report as well as Ms. Mahasandana and Mr. Anwar for their helpful Buff statement. We agree with the thrust of staff's analysis and offer the below comments for emphasis.

Fiji is a small island economy that is highly vulnerable to natural disasters and climate change and has large investment needs. At the same time, Fiji has limited fiscal space and low scope for additional revenue mobilization. Public debt is on an unsustainable trajectory, and external imbalances are rising. Given these constraints, pursuing growth-friendly fiscal consolidation is crucial to rebuilding buffers, increasing scope to prepare for and respond to natural disasters, and maintaining debt sustainability. We agree with staff that a concrete strategy to reduce current spending—including by keeping real current spending constant for five years—can create space for priority investments and safeguard fiscal sustainability. The results of the ongoing PEFA assessment should inform future reforms to enhance fiscal transparency and budget credibility.

Strengthening Fiji's resilience to natural disasters and climate change is macro-critical. We appreciate staff's detailed description of Fiji's natural disasters risk management regime in Annex IV and welcome the authorities' progress in enhancing the disaster risk management framework with strong institutional arrangements and capacity. The establishment of the National Disaster Management Office (NDMO) and the adoption of additional resilience strategies are important steps moving forward. Notwithstanding these improvements, we encourage the authorities to strengthen ex ante resilience, including by making greater use of disaster risk transfer mechanisms. These efforts will help preserve medium-term fiscal sustainability and strengthen ex ante resilience while building on the experience from the issuance of their first sovereign green bond to finance projects.

The RBF should continue to rely on the automatic stabilizing mechanism of the peg and stand ready to tighten domestic credit to support it. We support staff's calls for further measures to strengthen the operational independence of the central bank, including prohibiting central bank financing of the fiscal deficit. Although we recognize the authorities' commitment to the peg, during previous Article IV consultations, staff recommended the authorities take advantage of favorable conditions to move toward exchange rate flexibility. Can staff comment on the potential benefits of greater exchange rate flexibility in Fiji and on the status of their discussions with the authorities?

Productivity-enhancing reforms are necessary to boost potential growth and competitiveness amid the ongoing cyclical downswing. We welcome the authorities' efforts to strengthen governance, improve the business environment, and boost female labor force participation (FLFP). As staff point out, Fiji has one of the lowest rates of FLFP in Asia. We welcome the authorities' extension of paid maternity leave and agree with staff that a coherent policy framework to ensure high quality childcare services can boost FLFP and mitigate the economic impact of slowing population growth.

Increasing openness will complement the structural reform agenda. While we recognize the risks from a too rapid capital account liberalization, greater openness can enhance intertemporal consumption and investment smoothing, facilitate technological transfer, promote trade and macroeconomic policy discipline; and boost inclusion. We look forward to the adoption of the new legislation, which will align the foreign investment regime with international best practices. Further relaxation of exchange restrictions and compliance with Fiji's Article VIII obligations would promote trade and encourage foreign investment. Can staff provide a reasonable timeframe for Fiji to comply with Article VIII?

Financial stability and transparency should be promoted while enhancing regulatory capacity. The authorities should undertake scenario-based stress testing while tackling vulnerabilities among non-banks, and we welcome continued Fund capacity development in bank supervision. We concur with staff on the financial sector reform priorities and urge the authorities to broaden the regulatory perimeter of the RBF and close supervisory gaps. More efforts are needed to strengthen the AML/CFT regime to bring Fiji into compliance with FATF standards while promoting financial transparency and preventing pressures on corresponding banking relationships.

Mr. Alkhareif, Mr. Chikada, Ms. Al Saud and Ms. Mori submitted the following joint statement:

We thank staff for the informative report and Ms. Mahasandana and Mr. Anwar for their informative buff statement. We commend the authorities for developing a disaster risk management framework to quickly and effectively respond to natural disasters and their efforts to recover from 2016 cyclone. However, Fiji is facing a challenging situation with declining growth and rising external and fiscal imbalances after the relatively strong growth supported by expansionary fiscal policy, strong tourism, and loose financial conditions. We agree with staff that a key priority is to rebuild fiscal buffers in a growth-friendly way to create space to respond to future natural disasters and to ensure public debt sustainability. As we broadly concur with the thrust of the staff appraisal, we will limit our comments to the following:

Fiscal consolidation is warranted to rebuild buffers to respond to future natural disasters and to maintain public debt sustainability. Under current policies, the public debt-to-GDP ratio is projected to continue increasing in the medium term, posing major risks to debt sustainability. We take positive note of the remarkable recent increase in tax revenues and agree with staff that fiscal consolidation should be primarily based on rationalizing current spending. In this regard, could staff elaborate on the cause of the rapid increase in current spending in recent years and whether the authorities' medium-term fiscal strategy includes measures to constrain current spending?

The automatic stabilizing mechanism of the peg works well, and the monetary policy stance remains appropriate. The independence of the Reserve Bank of Fiji (RBF) should be strengthened by prohibiting monetary financing to safeguard the sustainability of the peg and the robustness of the monetary policy framework.

Regulation and supervision for non-bank financial institutions (NBFIs) should be strengthened. While we welcome that the overall banking sector remains sound and profitable, careful monitoring and risk-based supervision approach are needed given the increasing NPLs. We note with concern that NBFIs are not properly regulated and some of them have governance shortcomings. We encourage the authorities to adopt appropriate regulation and supervision. In this context, could staff elaborate more on the NBFIs, such as an overview of soundness of operation and volume of NBFIs in the financial sector and whether there are immediate risks to the economy? We also encourage the authorities to continue their reforms to fill the gaps on compliance with the international AML/CFT standards.

Enhancing business environment and strengthening governance are crucial to foster private investment and boost potential growth. While we recognize the authorities' efforts so far to facilitate doing business, more needs to be done to increase competitiveness and stimulate private investment by reducing impediments to doing business and adopting new legislation for foreign investment while having close communication with the private sector. Also, to encourage trade and foreign investment, we agree with staff that the exchange restrictions for payments on current international transactions should be phased out in a sequenced manner. Given the demographic changes, addressing the low female labor force participation is important and we support the staff's recommendation to establish a coherent policy framework.

We commend the authorities for strengthening the disaster risk management framework and responding quickly and effectively to natural disasters. Indeed, strong institutional arrangements and capacity and coordination mechanisms supported quick recovery. In addition to the current framework, we agree with staff that Fiji should develop a disaster resilience strategy within a macroeconomic framework with a view to enhance the country's resilience to natural disasters.

With these remarks, we wish the authorities further success.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the report and Ms. Mahasandana and Mr. Anwar for their informative statement. Fiji's real GDP growth slowed markedly last year after experiencing relatively high rates between 2013 and 2018. Nevertheless, the medium-term outlook remains positive as growth is anticipated to pick up with the recovery of business confidence, more favorable domestic financial conditions and resilient tourism activities. We commend the authorities for their commitment to keep Fiji on a sustainable macroeconomic path and encourage the successful implementation of measures to rebuild fiscal buffers, safeguard financial stability, improve the business environment and strengthen resilience to natural disasters.

Fiscal consolidation is necessary to rebuild fiscal buffers and put the public debt ratio on a clear downward path. We welcome the use of a medium-term fiscal strategy as detailed in the FY2019/20 budget to anchor the authorities' consolidation efforts. Given the relatively narrow scope for further revenue mobilization, their focus on constraining expenditure is appropriate. We take note that a Public Expenditure and Financial Accountability (PEFA) assessment is currently ongoing and look forward to its recommendations. This should be complemented by structural fiscal reforms to enhance sustainability and help build fiscal buffers required to deal with risks of natural disasters.

Strengthening the financial sector supervision is essential to safeguard financial stability. We welcome the adoption of the new Credit Union Act to enhance the supervision of non-bank financial institutions. We also see merit in strengthening the supervision and governance of the three large public non-banks. The authorities are encouraged to remain steadfast in strengthening their AML/CFT framework in line with FATF recommendations. We take positive note that Fiji continues to be resistant to correspondent banking relationship withdrawals.

Increasing the role of private investment would boost potential growth. Invigorated efforts to improve the country's business environment complemented by strengthened governance would benefit Fiji. It is essential that impediments to doing business are addressed to improve competitiveness and foster private investment. In this regard, we welcome the authorities' efforts to create a single online platform and digitalize business processes, among other initiatives. We recognize the authorities' efforts to raise female labor force participation and echo staff's view that this should be supported by a coherent policy framework for quality childcare.

Fiji remains highly susceptible to natural disasters and climate change. We appreciate staff's emphasis on Fiji's high vulnerability to natural disasters and climate change, as well as their work in including natural disaster shocks in their debt sustainability analysis. We commend the authorities on the progress made in building resilience to natural disasters and encourage them to develop a broad resilience strategy while preserving public debt sustainability.

Mr. Guerra, Mr. Tabora Munoz and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for the insightful report, and Ms. Mahasandana and Mr. Anwar for their informative buff statement. We broadly concur with the thrust of the staff's appraisal. Fiji's economy decelerated sharply in 2019 and business confidence declined. The outlook remains positive in the medium term, but going forward, macroeconomic stability needs to be pursued by adopting sound policies that allow fiscal consolidation while supporting sustainable and inclusive economic growth. We welcome the authorities' commitment to pursue sound macroeconomic management and move forward with the comprehensive agenda of structural reforms.

Rebuilding fiscal buffers using growth-friendly measures is paramount to create space to respond to future natural disasters and ensure public debt sustainability. We encourage authorities to focus on fiscal consolidation, put debt-to-GDP ratio on a downward trajectory and contain external stability risks. It is critical to rationalize current spending to protect public investment, enhance operational efficiency and contain the expansion of the wage bill.

Implementing a credible strategy to increase revenue mobilization is also important to create the fiscal space required to prioritize building infrastructure resilient to natural disasters and to boost economic activity. Having a credible medium-term fiscal strategy will help restore business confidence and recover economic growth.

The monetary policy stance remains appropriate to support economic activity. Ensuring price stability and building an adequate level of international reserves are critical efforts to reduce the risk posed by the high current account deficit. We welcome authorities' willingness to rationalize certain price controls, particularly tariffs in the water sector, and encourage them to gradually replace these price controls with sound market regulations. Close monitoring of the automatic peg stabilizing mechanism to manage liquidity is critical. We consider greater exchange rate flexibility can contribute to address external risks and lower the reliance on international reserve accumulation. In line with the joint statement by Ms. Levonian et. al., we would like staff to comment on the benefits and costs of greater exchange rate flexibility in Fiji. We concur with staff that the RBF should avoid financing the government to safeguard the integrity of the monetary policy framework. More importantly, this will contribute to strengthen the independence of the central bank.

We emphasize the relevance of steadfast implementation of structural reforms to improve business environment and diversify the economy. Enhancing the business environment and strengthening governance are essential to foster private investment, reduce vulnerabilities and sustain economic growth. We welcome the new legislation aimed to align the investment regime with international best practices, especially important to reduce the risks of expropriation of assets without compensation and to enable private sector participation in some strategic areas. Reducing requirements for starting new businesses and lowering tax compliance costs are fundamental. We also welcome the authorities' commitment to undertake measures to increase female labor force participation, especially from rural areas. We concur with staff's recommendation regarding the need to gradually phase out exchange restrictions for payments on current international transactions. Fund's collaboration to determine the sequencing and the measures needed for this purpose is very important.

Adopting a more risk-based supervision approach will reduce financial sector vulnerability. Banking sector supervision should focus on implementing the new Credit Unions Act to improve governance of public non-financial institutions (NBFIs) and strengthen the framework to undertake the scenario-based solvency stress testing in line with IMF's technical assistance recommendations. We encourage authorities to accelerate and strengthen the AML/CFT supervisory efforts to improve compliance with

AML/CFT preventive measures by financial institutions and designated non-financial businesses and professions, in line with FATF recommendations.

We welcome the authorities' focus on long-term climate change initiatives. We thank staff for the very useful Annex on Fiji's Natural Disasters Risk Management Framework. We commend authorities for submitting the long-term climate action plan to the UN Framework Convention on Climate Change (UNFCCC), as well as the initiative to introduce a carbon credit scheme to reduce carbon emissions, and for strengthening Fiji's resilience to climate change.

Strengthening collaboration with the IMF and other development partners to help in Fiji's policy advice and capacity building is a crucial priority. In that sense, it is key to improve the quality and timely provision of data to address specific needs and the country's priorities.

We wish authorities success in confronting challenges ahead.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for a well-written report and Ms. Mahasandana and Mr. Anwar for an informative Buff statement. The economy is currently experiencing a slowdown driven by weak business confidence and significantly slower government spending. Meanwhile, financial conditions have become tighter, which further constrains economic growth potential. While GDP growth is expected to pick up gradually over the medium term, the economy remains vulnerable to global economic developments, natural disasters, and climate change effects. We share the views expressed in the staff appraisal and offer the following remarks for emphasis.

We agree with staff on the need to rebalance the budget and rebuild fiscal buffers. While the budget deficit in 2019 is expected to improve slightly compared to the previous year, the projected 4.9 percent deficit is still considered high. This is especially relevant in the context of the up-trending debt-to-GDP ratio, which poses risks to debt sustainability. We welcome the medium-term fiscal framework that is geared towards reducing the fiscal deficit to manageable levels and bringing the debt-to-GDP ratio down to 45.9 percent by 2021-22. We agree with staff that the key priority for the authorities is to rebuild fiscal buffers in a growth-friendly manner to protect initiatives aimed at building resilience to natural disasters and improving potential growth. Fiscal consolidation should be based on reducing current expenditures and enhancing operational efficiency.

Monetary policy should be focused on maintaining adequate foreign reserves. The overall monetary policy stance should remain accommodative to support economic pick-up and to ensure price stability. Considering the recent recovery of foreign reserves, the Central Bank should use automatic stabilizers to protect the peg. We echo staff′s recommendation that the Central Bank should avoid financing the government to safeguard the peg and integrity of the monetary policy framework.

Further efforts are needed to safeguard financial stability. We welcome the authorities' commitment toward strengthening financial sector supervision and addressing gaps in the legal framework underpinning financial sector oversight. We encourage the authorities to closely monitor NPLs and further enhance financial supervision by introducing scenario-based stress tests.

We encourage the Fijian authorities to make progress with the structural reform agenda to unlock growth potential. This is especially relevant in the context of a contractionary fiscal policy. Structural reforms should be aimed at improving the business environment and the functioning of product and labor markets to foster private investment. In this regard, we welcome the new Investment Bill, which will align the investment regime to international best practices. We also encourage the authorities to reduce extensive price controls and phase-out exchange restrictions on current transactions to support investment. In addition, we agree with staff that reforms are needed to increase female labor market participation.

We welcome Fiji's long-term climate action plan, which aims to reach net zero carbon emissions across all sectors of the economy by 2050. We also take positive note of the authorities' plan to introduce a carbon credit scheme, reward climate friendly infrastructure projects, and make 30 percent of its exclusive economic zone a marine protected area by 2030.

Mr. Ronicle, Mr. Rozan, Ms. Freeman and Mr. Sode submitted the following joint statement:

We thank staff for their assessment of the Republic of Fiji, and thank Ms Mahasandana and Mr Anwar for their informative buff statement. After many years of positive growth, Fiji is suffering an economic slowdown and associated policy challenges, though we note that both the staff and authorities expect a medium-term recovery in growth. Nevertheless, with limited fiscal space, significant debt sustainability risks, and significant vulnerability to climate change and natural disasters, we encourage the authorities to rebuild fiscal buffers, while preserving investment in resilient infrastructure. We agree with the broad thrust of staff's appraisals and offer the following comments.

Encouraging investment. We note that Fiji ranks significantly below regional peers in terms of business environment. Addressing this issue should be a high priority, notably by upgrading the foreign investment legal regime. We are encouraged by plans for the Investment Act. Given the need to diversify the economy and bring in the private sector, we hope that the new Act can be implemented as soon as possible this year. We also support staff's recommendation to rationalize price controls and to phase out exchange restrictions for payments on current international transactions.

Gender. The economic empowerment of women in Fiji should be a priority of reforms and could significantly increase productivity and economic output. Female labor force participation of 39 per cent is particularly low compared to peers. We agree with staff that addressing childcare needs will help address this problem. Childcare is only one part of addressing many complex factors, including addressing the social aspects of women's underemployment. Could staff comment on specific, further policy recommendations for addressing the other factors inhibiting female employment? More widely, there remains a need to invest in Fiji's Human Capital to meet economic growth and the sustainable development goals. Could staff comment on priority areas of focus.

AML/CFT and Corruption We are pleased with the actions that Fiji has taken on AML/CFT that have seen its removal from the FATF grey list. Fiji should continue to focus on reforms to close remaining gaps on compliance with international standards. We strongly support staff's call for strengthening the transparency of legal persons and arrangements by making related beneficial ownership information available. We also hope that the anti-corruption regime can be strengthened this year, in line with Staff's recommendations to bring the regime in line with UN Convention against Corruption standards.

Climate Change. Climate change is a macrocritical risk for Fiji and for many small island states. We support staff's focus on the need to build a fiscal buffer to deal with future natural disasters and to invest in resilience; but would have appreciated more information from Staff on how Fiji should do this: How much fiscal space should Fiji set aside? Where should priority areas be for investment in resilience to reduce the impacts of a natural disaster? What is the likelihood of another natural disaster and what should we assume in terms of the impact on GDP; and how will this impact debt sustainability? We think Fiji would benefit from a future Climate Change Policy Assessment and Disaster Risk Management Strategy; could staff comment on whether these have been considered?

Lastly, we offer congratulations to Fiji for already submitting to the UNFCCC its revised NDC commitments, fulfilling obligations under the Paris Agreement. They have shown strong leadership in committing to net zero by 2050, and we hope they can be an example to others.

Mr. Lischinsky and Mr. Dips submitted the following statement:

We thank staff for the reports and Ms. Mahasandana and Mr. Anwar for their helpful Buff statement. We recognize strong institutional arrangements and capacity developed by Fiji's government to respond quickly and effectively to natural disasters demonstrated during the reconstruction after the effects of Cyclone Winston. Nevertheless, we agree with staff on the importance of rebuilding fiscal buffers and debt sustainability to create space to respond to future natural disasters focusing on structural and financial resilience.

The economy of Fiji experienced a sharp slowdown in 2019 but undoubtedly there are improvements in some macroeconomic indicators. Although the estimated GDP growth of 1 percent for 2019 fell from 3.5 percent in 2018 and became the lowest GDP growth in the past five-year period, we acknowledge that amid government declining spending there has been an improvement in the current account deficit from 8.5 percent of GDP in 2018 to 7.2 percent in 2019, the fiscal deficit decreased from 5.5 percent of GDP to 4.9 percent in 2019, there was a drop in the average inflation rate from 4.1 percent in 2018 to 1.8 percent in 2019, and an increase in the foreign reserves. Could staff comment on the adequacy of reserves and the need to build external buffers when reserves are close to 15 percent of GDP?

The outlook should remain positive in the medium term underpinned by resilient tourism and private sector dynamism. Growth is projected at 1.7 percent in 2020, supported by tourism, remittances, more helpful financial conditions and the path to improving the business environment and governance.

Risks are tilted to the downside from an increasing debt-to-GDP ratio in the medium term, weaker-than-expected global growth, delays in implementing structural reforms, and higher oil prices. To deal with risks, the authorities are committed to improving macroeconomic management, enhancing productivity, and promoting inclusive growth in the long-term along with financial stability.

Measures to rationalize public spending are key in the government's medium-term fiscal strategy. Although the expansionary public spending policy has played an important role in the growth of GDP during reconstruction, it should now be aimed at restoring fiscal consolidation, warranting stronger fiscal buffers and maintaining public debt sustainability.

Although the banking sector remains sound, we agree with staff that banking sector supervision should be strengthened by undertaking scenario-based solvency stress testing and summarizing the results in the Financial

Stability Review, in line with the recommendations from the IMF's technical assistance.

With these comments, we wish Fiji and its people success in their future endeavors.

Mr. White and Mr. David submitted the following statement:

We thank staff for their report and Ms. Mahasandana and Mr. Anwar for their informative Buff statement. We commend the Fijian authorities for their commitment to sound macroeconomic management and structural reforms given the ongoing challenges of natural disasters and climate change, as well as global economic conditions. We broadly agree with the thrust of staff's assessment and offer the following comments.

Growth has slowed down in Fiji during 2018 and 2019 but is expected to pick up in the medium-term. We note that risks to the expected recovery are mainly to the downside but also that staff considers increased tourist arrivals as an upside risk. We take note that tourism is a major industry in Fiji, contributing about a quarter of its GDP and appreciate that Australia and New Zealand are Fiji's leading source of tourists; however, in light of the novel Coronavirus outbreak we wonder how exposed Fiji is to the Asian tourist market? Further, as noted in the Buff statement, the Australian market could be impacted by the bushfires there. While it may be too early to assess, has staff done any preliminary assessments of the impact these factors could have on the tourism industry and growth in the medium-term?

Creating fiscal space is important given Fiji's vulnerability to natural disasters and need to ensure debt sustainability. We agree with staff that the authorities need to do this in a growth-friendly manner. We commend the authorities for adopting a medium-term fiscal strategy that achieves some consolidation, but support staff's view that there is room to do more both in terms of limiting current spending and strengthening public investment management. We note the differences in measuring the fiscal deficit between the authorities and staff and urge ongoing engagement with the authorities to improve fiscal strategy and data. We support the call for TA from PFTAC to improve capital expenditure and commend the authorities on their efforts, including setting up the Construction Implementation Unit, to ensure the reconstruction after Cyclone Winston is of the highest resilience standards.

The fixed exchange rate regime with a pegged currency has served Fiji well. The automatic stabilizing mechanism has been effective in managing domestic liquidity. With low inflation and the high current account deficit, we agree with staff that monetary policy should focus on ensuring sufficient foreign reserves. We agree that structural reforms to improve governance and the business environment should assist in strengthening the external position.

Here, we take note that two pieces of past advice from the Fund remain outstanding—the upgrading of the foreign investment regime and the removal of exchange restrictions for payments on current international transactions. In respect of the former, we encourage the authorities to take forward the new draft Investment Act which would increase certainty for foreign investors. Staff's comments on the challenges to implementing this past advice would be welcomed.

Financial sector reforms would contribute towards ensuring macroeconomic stability and enhancing the country's resilience to shocks. We note that Fiji has a sound banking sector with low NPLs. We are however concerned with the vulnerabilities of the non-bank financial institutions and low compliance with the AML/CFT standards. We acknowledge the efforts by the authorities to improve the supervisory framework, including plans to introduce the new Credit Union Act, adopt a more risk-based supervision framework, introduce scenario based-stress testing and improve the AML/CFT framework.

Accessing cheaper financing for development and enhancing resilience is important for small states. Notwithstanding Fiji's experiences in accessing financing through the international financial markets with its global and green bonds, these have proven to be expensive. The authorities now plan to replace the global bond when it is due in October 2020 with cheaper loans from the ADB and World Bank following Fiji's inclusion as an IDA-eligible economy in 2019. Here, we see a role for the Fund more broadly in assisting small state authorities to tap into available global climate change funds that are a relatively cheaper source of financing.

Mr. Kaya and Mr. Harvan submitted the following statement:

We thank staff for the well-focused report, and Ms. Mahasandana and Mr. Anwar for their informative Buff statement. Fiji is facing fiscal and external imbalances amid a slowdown of economic growth and significant investment needs. We broadly agree with the staff appraisal and would like to add the following comments for emphasis.

The fiscal outlook is subject to increased vulnerabilities and additional efforts to rebuild buffers are needed while at the same time safeguarding growth. As debt has started to rise following the 2016 Cyclone reconstruction efforts, the planned measures to reduce debt are welcome. We note however, that the debt target was revised up to 45.9 percent of GDP by 2021-22, from 35 percent of GDP in 2018 and would appreciate staff's comment on this revision. Fiscal consolidation is warranted to rebuild fiscal buffers and should focus on reducing personnel costs and current transfers which increased substantially over the last four years while public investment fell. We welcome the Fiji Revenue and Customs Service's focus on voluntary compliance. We note that the DSA points out external financing requirements risks together with additional risks from contingent liabilities of SOEs and weather events. Could staff comment on the plans to tackle contingency risks of SOEs given extended state guarantees?

Monetary policy should focus on external vulnerabilities while strengthening the independence of the Reserve Bank of Fiji (RBF). Amid continued widespread price controls inflation remains low while the current account deficit broadened. Extensive price controls should be replaced by sound market regulations as they discourage new entrants and investment in critical sectors. Could staff comment on the progress in reducing the role of price controls and regulation?

We note that existing exchange restrictions for payments on current international transactions are inconsistent with Article VIII and encourage the authorities to remove them with Fund support.

Further efforts are needed to support financial stability. We agree with staff on the need for a speedy adoption of the Credit Union Act to broaden the oversight mandate of the RBF. We note the limited progress on strengthening the governance of public nonbank financial institutions. We welcome the progress on the AML/CFT framework and urge the authorities to comply with the remaining recommendations of the 2016 FATF.

Structural policies should aim to achieve inclusive growth and reduce the current account gap. Improving the business environment and boosting female labor force participation, in particular through availability of affordable childcare facilities, would be conducive to that avail. We encourage the authorities to bring the anti-corruption laws in line with the requirements of the United Nations Convention against Corruption and develop a comprehensive asset declaration system for senior public officials.

Mr. Raghani and Mr. Nguema-Affane submitted the following statement:

We thank staff for the set of interesting papers and Ms. Mahasandana and Mr. Anwar for their helpful Buff statement.

Fiji's economic growth is poised to accelerate following the slowdown in 2019. Growth decelerated sharply in 2019 with the unwinding of accommodative policies adopted in the aftermath of the Cyclone Winston. Inflation declined as a result of improved food supply and lower domestic demand. The fiscal deficit narrowed with lower public spending and foreign reserves are recovering thanks to resilient remittances and tourism receipts. Fiji's growth outlook is positive supported by sustained remittances and tourism growth, and improved confidence. Higher-than-expected tourist arrivals following the expansion of code-sharing and air routes by the national carrier present a notable upside risk. Yet, downside risks include a weaker global growth, natural disasters and the coronavirus epidemic, which could affect flows of tourist arrivals from main source countries. Policies going forward should be geared towards further reducing fiscal and external imbalances and increasing the country's resilience to climate change. In this regard, we welcome the authorities' commitment to achieve sound macroeconomic management and implement reforms to enhance the country's productivity and promote inclusive long-term economic growth. We broadly share staff policy recommendations and wish to make the following comments for emphasis.

Pursuing growth-friendly fiscal consolidation is essential to rebuild the buffers needed to cope with natural disasters and put public debt on a downward trajectory. We welcome the planned measures in the budget in this regard. The focus on containing the wage bill and prioritizing capital spending is appropriate, given the limited space for further domestic revenue mobilization. That said, we encourage the authorities to press ahead with the envisaged modernization of the Fiji Revenue and Customs Services to further improve revenue collection. Fiscal consolidation should preserve key social and infrastructure expenditure needed to strengthen resilience against natural disasters. Fiscal reforms should also emphasize enhancing public financial management to improve the quality of spending. Steps already taken in that regard, including the establishment of the Construction Implementation Unit, are encouraging.

Monetary policy should continue to be guided by data considerations and foreign exchange developments. We note the authorities' continued commitment to the automatic stabilizing mechanism of the basket peg which has been instrumental in managing liquidity. However, the central bank should refrain from financing fiscal deficits to support the mechanism. Given the current environment of low inflation, low interest and adequate reserves, we find appropriate the authorities' consideration to reduce reserve requirements to ease downward pressure on interest rates and support economic activity.

Further strengthening the financial sector supervision, notably regarding non-bank financial institutions (NBFIs), is needed. We commend the authorities for the continued soundness of the banking sector and the steady strengthening of financial supervision over the past years, including the adoption of new supervisory ranking framework. We also encourage them to reinforce the supervision of non-bank financial institutions, with the finalization of the revised Credit Union Act that would place those financial institutions under the supervision of the central bank. Progress made in reinforcing the AML/CFT framework with the implementation of the FATF recommendations in 2016 is particularly praiseworthy and should continue. In addition, the governance of Fiji National Provident Fund (FNPF) should be enhanced, through notably a greater compliance with the provisions of the FNPF Act and the adoption of clear investment guidelines.

The authorities' efforts to improve the business climate should be pursued to promote private sector-led growth. We appreciate the ongoing efforts to facilitate doing business, notably the digitalization of business and tax processes and the preparation of a new foreign investment legislation. We commend the authorities for the measures taken to increase female labor force participation and advance female economic empowerment. Going forward, the authorities should continue to reduce impediments to doing business. The public policy consultation process should be improved to avoid surprises. In addition, addressing the obstacles preventing banks from joining the credit bureau needs to be accelerated. We also encourage the authorities to make further progress on streamlining price controls and phasing out exchange restrictions which could deter foreign investment.

With these remarks, we wish the Fijian authorities every success in their future endeavors.

Mr. Bhalla and Ms. Indraratna submitted the following statement:

We thank the staff for the insightful reports and Ms. Mahasandana and Mr. Anwar for their helpful buff statement.

After a few years of high growth with rising external and fiscal imbalances, the Fijian economy slowed down in 2019 with a deceleration in GDP growth as lower government spending, tight financial conditions, low business confidence and slower global growth weighed on economic activity. The external sector had a large current account deficit, overvalued real exchange rate and declining foreign reserves, although reserves rose towards the latter part of the year with a substantial reduction in the trade deficit aided by subdued economic activity, tight financial conditions and lower global energy prices. The steady growth in tourism receipts and remittances also improved external sector stability. Looking forward, in the medium term, growth is expected to pick up with a rebound in economic activity underpinned by accommodative financial conditions, increased business confidence and resilient tourism and remittance inflows. We broadly concur with the staff appraisal and the recommendations proposed and make the following comments for emphasis.

We call upon the Fijian authorities to restore macroeconomic stability by reducing fiscal and external imbalances. In this regard, we welcome the medium-term fiscal consolidation strategy in the budget FY2019/2020 where emphasis is placed on building fiscal buffers to create more space to respond to emergency expenditures such as natural disasters while ensuring debt sustainability. As revenue levels are relatively high in comparison to regional peers, we agree with the staff recommendation that fiscal consolidation should be based on expenditure restraint with measures to keep current expenditures at constant levels in real terms. Public investments should be safeguarded to build resilience to natural disasters and boost potential growth. We echo the staff sentiments on monetary policy. Given the fixed exchange rate regime, low inflation and the high current account deficit, monetary policy should focus on maintaining international reserves. Monetary financing of fiscal deficits should be avoided, and the independence of the central bank strengthened. Are there plans to introduce legislation to increase the independence of the central bank?

We also call upon the Fijian authorities to engage in structural reforms to boost growth by overcoming challenges such as low female labour force participation and lack of competitiveness. We welcome the efforts taken by the authorities to improve the ease of doing business ranking of the country. We are encouraged by the measures taken by way of streamlining and digitalizing business processes and the launch of the information portal BizFiji. We note very positively the goal of 2 days and 2 procedures set by the authorities to improve the doing business environment of the country. We take note of steps taken to increase maternity leave, introduce paternity leave and provide opportunities to rural women to gain access to urban markets in order to improve the country’s low female labour force participation rate. However, we echo the views of the staff on the need to increase safe and affordable childcare services in the country to enable more women to join the labour force. Addressing these issues would improve productivity while increasing competitiveness and growth.

We wish the Fijian authorities’ success in all their endeavors

The Acting Chair (Mr. Zhang) made the following statement:

The subject of this session is the Republic of Fiji, 2019 Article IV consultation. World Bank staff is also attending this session. Twenty Directors issued 13 gray statements. Fiji’s economic performance has been good in recent years, but in 2019, the growth has had a sharp slowdown. In staff’s view, the medium-term outlook looks favorable. However, there are significant risks ranging from the rising fiscal and external imbalances and, of course, the climate-related or natural disasters risk.

To address these challenges, of course, as highlighted in your gray statements, you emphasized the need to consolidate the fiscal position and implement structural reforms to boost potential growth and build a resilience to weather-related shocks.

Ms. Levonian made the following statement:

Like many in our constituency, Fiji is highly susceptible to natural disasters and climate change and has huge development needs. The economy is currently undergoing a difficult period which has exposed serious weaknesses and vulnerabilities, including unsustainable debt dynamics, insufficient fiscal buffers, limited room for further domestic revenue mobilization, and rising external imbalances. We issued a gray statement with five other chairs, so I am just going to emphasize two points.

First, building resilience to natural disasters and climate change is of paramount importance to Fiji. This point was actually featured prominently in almost all the gray statements, and we commend the authorities for their efforts in this regard, including through the issuance of their first sovereign green bond to finance projects. We concur with staff that there is scope for investing more in building resilience ex ante as opposed to ex post, by focusing on structural and financial resilience, and we encourage the authorities to continue to strengthen their capacity to respond to natural disasters and climate change along the lines articulated in the Board-approved disaster resilience strategy framework.

Mr. White and Mr. David alluded to the possible role of the Fund in helping small states to tap available global climate funds for building resilience in small states. We would be very interested in staff's comment on this.

Second point, accelerating structural reforms to boost growth potential and competitiveness is crucial. The report highlights many areas that could be leveraged to strengthen governance and improve the environment for simulating private sector development. Boosting female labor force participation appears to be kind of low-hanging fruit, and we encourage the authorities to pursue reforms to improve the functioning of the labor market, including to increase the participation of women in the labor force. With that, I wish the authorities well.

Mr. White made the following statement:

Like most developing countries, Fiji relies on capacity development (CD) activities, training, and technical assistance (TA) to help build its capacity and its institutions and to build its human resources. CD resources are limited, so it is important that they are directed to the most valuable activities that are going to make the biggest difference. One way to achieve this is to ensure that surveillance and capacity development are really well integrated. Surveillance identifies policy priorities. CD moves to support them, creates outcomes that then come back and are analyzed and reported in future surveillance, and so on, so it is a virtuous circle that supports development.

The 2018 Article IV report had a very helpful table on this in Box 1 that set out the links, really mapped the links between the Fund's surveillance conclusions, policy conclusions, and the CD actions and plans undertaken by various agencies, not just the Fund, but also the World Bank and the ADB. We just note that that was not repeated this year, and we found that table very useful. We appreciate that it is a piece of work that takes time and some resources, but is there any intention to build on that in future reports?

Ms. Pollard made the following statement:

I just want to address two points based on staff's answers to the technical questions. The first is on the answer to the coronavirus. We certainly understand that it is too soon to assess the economic impact on Fiji or in most places, but would encourage staff to remain vigilant on this. Given Fiji's reliance on tourism, it could be quite devastated if there is a worldwide drop in tourism as fears of the virus spread, and that will affect its fiscal sustainability. We would encourage both the country teams and the Research Department to look at various scenarios and how to advise small countries that could be affected by this.

The second is on the Article VIII violations, and here we would like some additional information. Staff note that the concern is with the tax certification requirements and how to meet tax compliance or minimize the tax compliance risk from eliminating the exchange restrictions. If you could just give us a little bit more information on what the authorities see those risks are, and are there ways to address those and do not violate Article VIII?

Mr. Fachada made the following statement:

First, let me commend the authorities for the prudent policy implementation, and at this point I just wanted to raise one question to staff about countercyclical policies, and this is related to the issue raised by Ms. Pollard.

In the Risk Assessment Matrix (RAM), staff, of course, attributes a high risk of weaker-than-expected global growth as a risk of high probability, which is consistent with our Global Risk Assessment Matrix (GRAM); but in terms of policy recommendation, in case of materialization of the risk, staff is recommending tightening fiscal monetary policy.

My question is, given the recent news and the risk that we are going to a scenario of weaker growth and the risk of abrupt deceleration, especially for tourism-dependent economies, does staff see any room for countercyclical policies to compensate in the short term the deterioration of the global scenario? If staff could comment on its opinion about this, it would be welcome.

Finally, I just wanted to support the point raised by Ms. Levonian to say that we are also interested in the elaboration by staff on the point about how the Fund can help countries tackle climate financing more generally and not only in the case of Fiji.

Mr. Alkhareif made the following statement:

First, we support the current exchange rate peg. We think it is serving the economy well. We agree with staff that the central bank should continue relying on the automatic stabilizing mechanism of the peg. We also encourage the authorities to focus on ensuring an adequate reserves level to avoid any speculation against the currency.

Second, we note from the staff report that the potential GDP has been volatile recently. If you look at the numbers in the table, potential GDP was at 3 percent in 2017 and went down significantly to only 0.7 percent and then rebounded again. We would welcome staff's insights on the reasons behind the volatility of the potential GDP, and I think Ms. Levonian raised the point of building resilience. Is this volatility in the potential GDP related to infrastructure damage from hurricanes and other natural disasters? In this context, ex ante reforms will be important to strengthening the country's resilience to natural disasters.

The last point I would like to raise is to agree with Mr. White's comment on the relationship between surveillance and capacity development. I think this is important to a lot of countries, including Fiji. The linkages should be strengthened in line with the IMF mandate to build capacity for a lot of countries facing difficult challenges, including the weather-related challenges. I further agree with him on the point on enhancing the relationship with the World Bank in these areas. With these remarks, we wish the authorities continuing success in their future endeavors.

The staff representative from the Asia and Pacific Department (Mr. Lopez Murphy), in response to questions and comments from Executive Directors, made the following statement: [1]

The first question is the issue about integration between surveillance and technical assistance. It is correct that in the previous Article IV we issued a separate table describing exactly all the links between surveillance and capacity development. We had the same in mind this time, and we always try

[1] The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

to think how exactly it should be implemented whenever we make a policy recommendation. In some areas, the IMF does not have expertise, for example, in strengthening the business environment. We emphasize the help of IFC or the World Bank or the Asian Development Bank, and we really work closely with all of them. We take note of your suggestion to always have this table. It is not complicated to do it. We thought that repeating the same table perhaps was too much, but we take note of that comment.

Then there was a question about Article VIII violations and a request for more information about this issue. We have been discussing this issue carefully with the people from the tax administration in Fiji. As you all know, they made quite significant progress in improving tax compliance in the last few years. There is a very substantial increase in the tax revenue ratio for Fiji, and most of it could be attributed to the improvement in tax compliance.

They have this tax certification requirement that they consider a key element of the safeguards to protect tax compliance. During the last mission, I said to them, OK, but you are modernizing your tax administration, so it is very likely that down the road, you will be able to get rid of this tax certification requirement. The authorities responded that they wanted to develop a strategy with milestones that could explain how to eventually get rid of this. They want something that is holistic and that takes into account these tax compliant risks that for them are so important.

There was a question about the scope for countercyclical fiscal policy in the current adverse circumstances. Unfortunately, we do not have much good news in the sense that much of the fiscal space available was used in 2018, which was also an election year. So, unfortunately, we think that given what we have seen last year in terms of the tax revenue shortfalls and the upward trend in public debt, we think that it is very important for the Fijian authorities to stabilize public debt as soon as possible.

There was a question about GDP growth and GDP growth potential volatility. Last year or the previous year, we did estimates about potential growth in Fiji, and it is around 3 percent. That is what we estimated. I think 0.7 is our estimate of actual growth, but now there is a current slowdown, so we still think that potential growth is around 3 percent, but given a series of domestic shocks and weakening in confidence, there was a clear slowdown in growth in 2019. But we hope that they will gradually converge to 3 percent in the medium term, as you can see in our projections.

The staff representative from the Strategy, Policy, and Review Department (Ms. Goodman), in response to questions and comments from Executive Directors, made the following statement:

Just commenting on the more general policy question of staff's role in supporting members and tapping international vehicles for assistance and supporting climate resiliency, the Fund staff does not have a direct role in intermediating or providing a support that is directly linked to tapping specific international facilities, but obviously in the context of surveillance for members, particularly those exposed to climate-change risks, we feel that the work that staff does will in many ways indirectly provide necessary and important support for members.

In this aspect, I would mention specifically the coverage of climate in Article IVs and the approach that staff has taken. I think Fiji, like many other small island economies, is a case where staff really has focused on these climate risks and incorporating this into the fiscal analysis, Debt Sustainability Analysis, and into its policy advice in a very meaningful way over a course of several years. I think you see that in this staff report.

Beyond that, there is more technical analysis, which can range from the Climate Change Policy Assessments (CCPAs) to Disaster Resilience Strategies (DRS) analysis that is done for some members, but it is also not only Fund staff who is undertaking very specific work in this regard.

So in the case of Fiji, Fiji has had very recently a climate vulnerability assessment that was undertaken by the World Bank in 2018, and I think staff works very closely with the Bank in our climate efforts, and that thorough assessment of adaptation needs and financing gaps probably contains many of the same elements that would be found in the technical work that Fund staff does in these areas. So, again, we think those efforts are working to the same objective, and it is part of the overall strategy that staff is taking to support members in meeting these challenges. But as I said, staff does not have a direct role in intermediating access to these international funds.

Ms. Mahasandana made the following concluding statement:

On behalf my Fijian authorities, let me first thank Mr. Lopez Murphy and his team for their constructive engagements and candid discussions with the authorities during the Article IV missions. I also thank Executive Directors for their insightful comments and constructive advice in the grays and in today's meeting, which I will convey to my Fijian authorities.

Our authorities broadly concur with the staff assessments and will carefully consider the relevant recommendations. Last year, Fiji experienced marked economic slowdown mainly due to global economic slowdown and subdued domestic demand. Looking ahead, the outlook remains positive. Growth is expected to gradually pick up, and inflation is expected to rebound modestly. That said, risk has tilted to the downside from weaker-than-expected global growth and domestic challenges, including fiscal and current account deficits, high public debt, vulnerabilities to climate change, and structural impediments to achieve potential growth. Our authorities commit to continue pursuing sound macroeconomic policy and making progress on the comprehensive reform agenda to create resilience to climate change, enhance country productivity, and strengthen long-term economic performance and financial stability for more sustainable and inclusive growth in the medium term.

In this regard, I would like to highlight four key policy priorities that will help Fiji achieve its medium-term objective of sustainable and inclusive growth.

First, on fiscal policy, the authorities will continue to implement their medium-term fiscal strategy to achieve fiscal consolidation, rebuild fiscal buffers, and bring public debt down to a more sustainable level. The fiscal consolidation path will try to strike the right balance between fiscal sustainability and the need to promote inclusive growth. The key focus of fiscal policy is containing public expenditure growth by keeping the wage bill stable while enhancing public investment efficacy and allocating capital budget to priority sector. The authorities' effort to enhance revenue collection will also continue, focusing on modernizing the tax system for greater predictability and compliance. Measures to improve public financial management and strengthen debt management will also be implemented. Growth-friendly fiscal consolidation and efficiency in public debt management will help bring Fiji's public debt on a downward path, securing longer-term debt sustainability, and provide buffers for future adverse shocks.

Second, on monetary and exchange rate policy, the Reserve Bank of Fiji (RBF) will continue to maintain its accommodative monetary policy stance to support economic growth while keeping a close eye on internal and external stability. They will continue to monitor, in turn, international and domestic development and align its policy accordingly. Our authorities would like to ensure that the government funding will be sourced from the market, and the Reserve Bank of Fiji financing will be the last resort.

Our authorities also commit to the current basket peg exchange rate regime, which have served the Fijian economy well in anchoring price and external stabilities. They agree to consider gradually phasing out the existing exchange restriction for payment on current international transactions and welcome the Fund technical support to formulate the liberalization plan.

Third, on the financial sector, the Fijian financial system is sound with strong financial performance in 2019. Stress tests conducted on licensed commercial banks show they are well capitalized to withstand possible shock in the short to medium term. While banks remain healthy, the authorities will continue to monitor risk development closely, especially among nonbank financial institutions. They are committed to enhance its supervisory role by strengthening the governance of public nonbank financial institutions. The improvement of governance of the public non-bank financial institutions (NBFIs) has commenced with the Reserve Bank of Fiji for supervising of the Fiji Development Bank. Our authorities also commit to continue making steady progress in addressing the recommendation from the FATF to strengthen the implementation of AML/CFT measures.

Fourth, the authorities recognize the need to pursue structural reform to accelerate productivity and diversify the economy. The authorities have been working on several initiatives, such as online company registrations to improve Ease of Doing Business and private sector participation. They are also implementing many initiatives to further revamp the governance architecture to ensure that public resources are utilized efficiently and raise the quality of service delivery. The authorities are firmly committed to the 5-year and 20-year National Development Plan (NDP) launched in 2017 that focused on improving fiscal infrastructures, increasing quality of education and healthcare, and addressing critical crosscutting issues, such as climate change, job and economic transformations, green growth, gender equality and disability, to make further progress in achieving the objective of 2030 Sustainable Development Goals (SDGs) and Paris Agreement on Climate Change.

Finally, let me conclude by expressing our authorities' appreciation to the Fund for their constructive engagement over the years. The Fund's policy advice and technical assistance has been valuable in supporting Fiji's effort to achieve sustainable and inclusive economic development. I also would like to once again thank the mission chief, Mr. Lopez Murphy, and his team for the productive engagement during the Article IV missions. Their interactions with our authorities were candid and pragmatic. The earnest efforts to deepen the close partnership between the Fund and the Fijian authorities are very much appreciated. This is also Mr. Lopez's last meeting from Fiji, and on behalf of my Fiji authorities, I would like to sincerely thank him for his three years of fruitful engagement with the Fijian authorities. I wish him all the best in his next assignment. Our authorities look forward to continuing this longstanding cooperation and close engagement with the Fund in the years to come.

The Acting Chair (Mr. Zhang) made the following statement:

The Republic of Fiji is an Article VIII member but maintains exchange restrictions subject to Fund approval. Staff is not recommending approval of these exchange restrictions at this time, therefore no decision is proposed. The 2019 Article IV consultation with the Republic of Fiji is hereby concluded.

The following summing up was issued:

Executive Directors agreed with the staff appraisal. They welcomed the recent pickup in activity after a sharp slowdown in 2019. Directors noted that the medium-term growth outlook is favorable but subject to significant risks, including rising fiscal and external imbalances, and natural disasters. They emphasized the need to consolidate the fiscal position, boost potential growth, and build resilience to weather-related shocks.

Directors stressed the importance of growth-friendly fiscal consolidation to rebuild buffers and ensure debt sustainability. In this context, they encouraged the authorities to rationalize current spending and protect priority investments and social programs. They agreed that a credible medium-term fiscal strategy would help underpin the consolidation efforts and place the debt-to-GDP ratio firmly on a downward path.

Directors noted that the stance of monetary policy is appropriate and should continue to focus on maintaining adequate foreign reserves. They agreed that the central bank should continue to rely on the automatic stabilizing mechanism of the peg, avoid financing the government, and strengthen its operational independence. Directors also encouraged the authorities to gradually relax the remaining exchange restrictions, with technical support from the Fund.

Directors underscored the need to safeguard financial stability, including by upgrading the supervision of nonbank financial institutions, adopting the Credit Union Act, and closely monitoring nonperforming loans. They looked forward to further progress in strengthening the AML/CFT framework in line with the recommendations of the FATF.

Directors welcomed the authorities' structural reform initiatives. They encouraged sustained efforts to improve the business environment, foster private sector investment, and strengthen governance. Directors recommended reforms to improve the functioning of the labor and product markets, including measures to boost female labor force participation and rationalize price controls. They also highlighted the importance of aligning the investment regime with international best practices, and upgrading the disaster risk management framework.

It is expected that the next Article IV consultation with the Republic of Fiji will be held on the standard 12-month cycle.

APPROVAL: September 26, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***In light of the novel Coronavirus outbreak we wonder how exposed Fiji is to the Asian tourist market? Further, as noted in the Buff statement, the Australian market could be impacted by the bushfires there. While it may be too early to assess, has staff done any preliminary assessments of the impact these factors could have on the tourism industry and growth in the medium-term?***

- It is too early to say but we are following developments closely. The repercussions of the novel coronavirus and the bushfires in Australia could present a major headwind to Fiji's economy. The outbreak is likely to weigh on tourism from several important source markets, including China (5.3 percent of 2019 visitor arrivals) and Europe (5.9 percent). If the outbreak is contained soon, the impact should be manageable aided by terms of trade gains from lower commodity prices. However, if the outbreak continues and spreads to Fiji and/or key source countries for tourism, the impact could be more significant. If the Australian economy slows down because of the impact of the bushfires, the impact on tourism would be significant given that Australia visitors account for more than 40 percent of total visitors to Fiji.

Fiscal policy and debt sustainability

2. ***On the measurement of the fiscal deficit for 2019, we note the discrepancy between staff and authorities in the treatment of the SOE assets since privatization and would appreciate some description of the impact of this on the deficit and how this discrepancy should be resolved going forward.***

- Staff does not consider privatization proceeds as revenue given that privatization is an exchange of assets. As a result, staff estimates that the fiscal deficit in 2019 was 4.9 percent of GDP (instead of 3.1 percent of GDP that would result from considering privatization proceeds as government revenue). Going forward, authorities have expressed their intention to report fiscal data in line with GFS 2014 standards, which would resolve this discrepancy.

3. ***Could staff elaborate on the potential social impact of these measures and the authorities' receptiveness to these recommendations?***

- The impact of these measures on the most vulnerable should be limited. Staff underscored the importance of protecting social programs to the poor to minimize the adverse social impact from fiscal consolidation. Transfers to the Fiji Sugar Corporation and to the Water Authority of Fiji are sizable and they are not well targeted (e.g., the rich also benefit from cheap water). A study from the World Bank found that relatively rich families are benefitting from spending on tertiary education. Authorities broadly agreed on the proposed measures, such as rationalizing education spending, and keeping employment and transfers constant, though they noted the political obstacles to reducing transfers to SOEs.

4. ***Could staff elaborate on the cause of the rapid increase in current spending in recent years and whether the authorities' medium-term fiscal strategy includes measures to constrain current spending?***

- The rapid increase in current spending from 16.2 percent of GDP in 2016 to 17.7 percent of GDP in 2019 was driven by increases in public sector wages and in current transfers. The increase in public sector wages was part of a civil service reform that aimed to align public sector wages with the private sector. The 2018 election played an important role in the increase of current transfers. The authorities' medium-term fiscal strategy does not include specific measures to constrain current spending.

5. ***We note however, that the debt target was revised up to 45.9 percent of GDP by 2021-22, from 35 percent of GDP in 2018 and would appreciate staff's comment on this revision.***

- The public debt target in the budget for FY2019/20 was 45.9 percent of GDP by end of GY 2021/22. The debt target in the budget for FY2018/19 was 35 percent of GDP by 2035. Staff considers that it is preferable to have a debt target for a period no longer than 5 years.

6. ***Could staff comment on the plans to tackle contingency risks of SOEs given extended state guarantees?***

- The authorities have a Fiscal Risk Assessment and Management Framework, including close monitoring of activities of guaranteed entities. This is to ensure long term financial viability of these entities and, importantly, appraise any fiscal risks and risk of default. In addition, guarantee fees are based on the overall risk profile of the entity.

External sector and exchange rate

7. ***Can staff comment on the potential benefits of greater exchange rate flexibility in Fiji and on the status of their discussions with the authorities?***

- Staff discussed this issue during the mission and the authorities acknowledged potential benefits from greater exchange rate flexibility. Having said that, the authorities argued that the peg serves the country well and view it as an important anchor for price stability, not least given the large share of imports relative to GDP. Amid that background, staff underscored the need to ensure consistency of other policies (eg., fiscal policy) to protect the sustainability of the peg.

8. ***Could staff comment on the adequacy of reserves and the need to build external buffers when reserves are close to 15 percent of GDP?***

- The RBF's holdings of foreign reserves stood at $2.2 billion at the end of January, sufficient to cover 5.1 months of imports and well above the IMF's reserve adequacy metric. Given Fiji's vulnerability to natural disasters, maintaining reserve buffers in excess of what is recommended under the IMF's standard reserve adequacy assessment seems highly desirable. It is worth noting that imports are large relative to GDP (about 40% in 2019), meaning that reserves should also be sizeable relative to GDP.

Monetary and financial sector

9. ***While we see merit in staff's suggestion to shift focus from bank branches that are subject to robust home supervision to NBFIs, we believe that this should be complemented by strong cooperation and communication with the home supervisory authorities. Could staff shed light on the mechanisms in place to facilitate home-host cooperation?***

- The RBF banking supervision cooperates with the Australian Prudential Regulation Authority (APRA), particularly in the form of information exchange. APRA staff has also accompanied RBF to on-site inspections in the past. Moreover, the Fijian authorities have been working on a MoU with APRA to further enhance cooperation.

10. ***Could staff elaborate more on the NBFIs, such as an overview of soundness of operation and volume of NBFIs in the financial sector and whether there are immediate risks to the economy?***

- Assets of NBFIs were about (83 percent of GDP). The vast majority of NBFI assets (77 percent) are held by FNPF, the national pension fund, followed by the insurance sector (18 percent). There do not seem to be immediate risks to the economy. It is worth noting that FNPF's assets are heavily concentrated in Fiji, which seems problematic from the perspective of portfolio diversification and could create an adverse macro-financial feedback loop in a severe economic downturn.

11. ***Are there plans to introduce legislation to increase the independence of the central bank?***

- We are not aware of plans to introduce legislation that would strengthen the RBF's independence.

Structural reforms

12. ***Could staff share on possible measures to mitigate potential adverse impact to low-income households that may arise from the removal of price controls?***

- Fiji's Competition and Consumer Commission (FCCC) is gradually reducing the role of price controls in the economy. Electricity tariffs were increased in 2019 but Fiji has in place a social tariff that protects the most vulnerable households from tariff adjustments. A similar scheme could be introduced in the water sector.

13. ***Could staff comment on the ways through which digitization (e.g. digitalFIJI) and technology could support the authorities' structural reform efforts?***

- Digitization efforts can play an important role in improving the business environment and enhancing the provision of government services to the public. One particular area of application is Fiji's efforts towards allowing businesses and individuals to file taxes electronically. This will make it easier and faster for taxpayers to meet their tax liabilities while improving tax compliance and budgetary performance.

14. ***Can staff provide a reasonable timeframe for Fiji to comply with Article VIII?***

- The Team had extensive discussions with the authorities about this issue. The authorities emphasized that any strategy to remove the relevant restrictions on current international transactions should address tax compliance risks.

15. ***Could staff comment on specific, further policy recommendations for addressing the other factors inhibiting female employment?***

- A challenge Fiji is facing is to help women move out of the informal and into the formal sector. To this end, additional policy support could be helpful to provide female entrepreneurs and small business owners with financial support as well as training to hone their business skills. Cultural and historical factors may also play a role in explaining the low female labor force participation. Greater efforts towards public education could help empower women, for example by giving a voice to role models such as successful female entrepreneurs.

16. ***More widely, there remains a need to invest in Fiji's Human Capital to meet economic growth and the sustainable development goals. Could staff comment on priority areas of focus.***

- Regarding human capital development in Fiji, one area of need is to support workers in shifting from low-productivity sectors (such as the sugar industry) to high-productivity sectors (such as tourism). This issue is particularly relevant for younger workers, given that low-productivity sectors are unlikely to be sustainable in the long run.

17. ***We encourage the authorities to take forward the new draft Investment Act which would increase certainty for foreign investors. Staff's comments on the challenges to implementing this past advice would be welcomed.***

- The IMF's advice has been to adopt new legislation on foreign investment that is in line with international best practices. It appears that there remain substantive questions to resolve with respect to the draft Investment Act that is currently being contemplated, so as to ensure that all key objectives behind this foreign investment regulation will be met.

18. ***Could staff comment on the progress in reducing the role of price controls and regulation?***

- Fiji's Competition and Consumer Commission (FCCC) has made some progress towards reducing the role of price controls in the economy. Electricity tariffs were adjusted in 2019 after almost 10 years without changes. However, water tariffs have not been adjusted in over 20 years, and the shortfall in the water authority's revenues must be compensated for by the government. According to recent press reports, the FCCC received a submission from the Water Authority to review water rates.

Climate change

19. ***How much fiscal space should Fiji set aside? Where should priority areas be for investment in resilience to reduce the impacts of a natural disaster? What is the likelihood of another natural disaster and what should we assume in terms of the impact on GDP; and how will this impact debt sustainability? We think Fiji would benefit from a future Climate Change Policy Assessment and Disaster Risk Management Strategy; could staff comment on whether these have been considered?***

- Staff recommended fiscal measures to put debt on a downward path so that the debt-to-GDP ratio is 49 percent in 2024. Under current policies, staff estimates that the debt-to-GDP ratio will be 54 percent in 2024. Hence, staff is proposing a public debt buffer of 5 percent of GDP compared to the baseline.
- The first recommendation to reduce the impact of natural disasters is to ensure proper planning, operation, and maintenance of infrastructure assets, which can both increase resilience and save costs. The second recommendation is to invest in resilient infrastructure for power generation, water and sanitation, schools, bridges, and roads.
- The likelihood of another major natural disaster is 9 percent per year according to the estimates of Hideka and others (IMF Working Paper 19/52). The recent experience with Cyclone Winston suggests that the impact of such a natural disaster on the economy would

be to reduce GDP growth by 3 percentage points. Natural disaster could increase government spending by 5 percent of GDP, increase financing needs, and put debt sustainability at risk.

- The World Bank has very recently conducted a detailed Climate Vulnerability Assessment for Fiji in 2018. A CCPA assessment would potentially contain a significant overlap with that work. More generally regarding CCPAs, staff has undertaken 6 pilot CCPAs with members and is currently taking stock to assess how the instrument can best be used. It is thus premature at this juncture to consider specific members for additional CCPAs.