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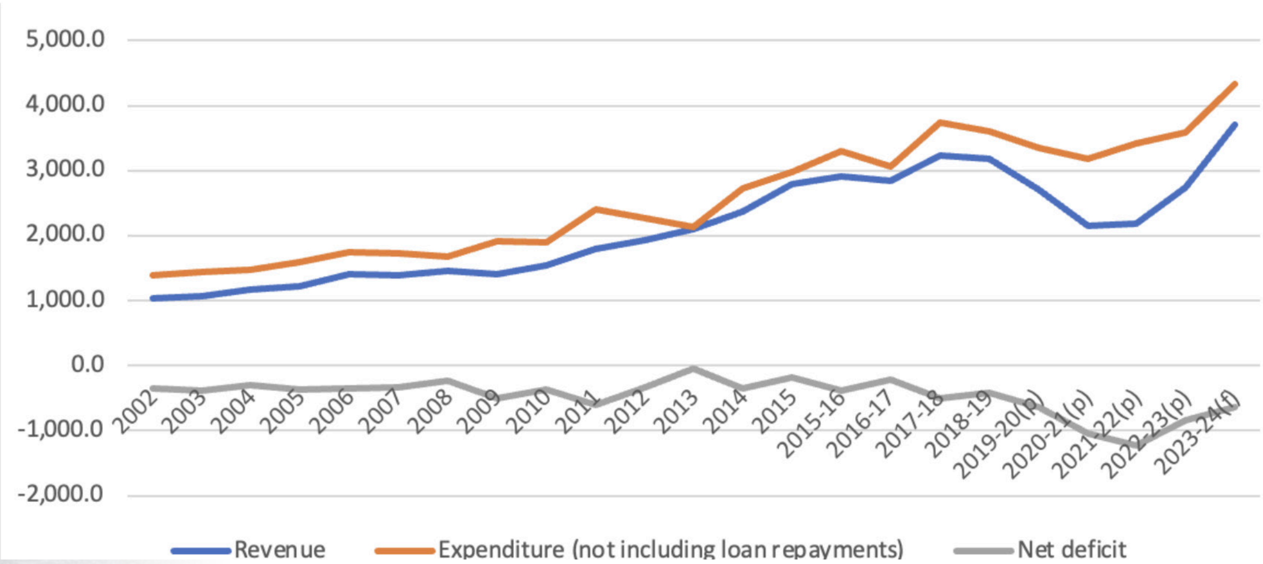
CHAPTER 2: FISCAL AND DEBT SUSTAINABILITY

Fiji has not run a net fiscal surplus in the last 20 years. For the most part, the country has maintained a gap between spending and revenue of around -3% of GDP on average from 2002-2019. The deficit started to noticeably worsen in 2017, dipping to -4.4%, inching further to -5.9% in 2019, and fell off the cliff when Covid-19 hit in 2020, plunging to a net fiscal deficit to GDP of -12.2% in fiscal year 2021/22 (Figure 2-1).

The deficit picture worsens when debt repayments are factored in. Gross fiscal deficit shows the total financing needed by the government to meet all its obligations, not just what is required for its typical business-as-usual spending. Even before Covid, Fiji was running a persistent gross fiscal deficit to the tune of approximately -7% of GDP on average every year from 2010 to 2019. The earlier spikes in deficits during this period were due to large loan repayments in 2011 and 2016. (See Figure 2-2.)

With the onset of Covid-19 and its debilitating impact, government responses in the form of tax reliefs and transfer payments, sent the gross fiscal deficit soaring to 17.3% of GDP over the last two years (2020-2022). (See Figure 2-2).

Figure 2-1: Fiscal Deficit (F$, in mn)[1]



It would have been worse if the government had not been able to defer some of its repayments under the G20's Debt Service Suspension Initiative (DSSI). As the economy recovered from the ravages of Covid-19, gross fiscal deficit in fiscal year 2022/23 has also recovered in tandem, although settling at higher levels than before at 9.6% of GDP.

Subtracting the loan repayments from the gross deficits, the net fiscal balance observes a similar pattern and remains staunchly negative and in deficit over the same time period from 2010 to 2023 (see Figure 2-1). Interestingly, in certain years the government did manage to have primary fiscal surpluses—when interest payments and charges on debt were removed from the net fiscal deficits.

The damage to public finances has been done. The measures taken to deal with the pandemic in running a necessary fiscal deficit has created a huge debt burden and left it at unprecedented levels. The government's debt-to-GDP ratio peaked in fiscal year 2021/22 at around 92%, up from 49% just before the pandemic. This has led the new coalition government to conclude that there is no "room for any further increase in debt" and "fiscal space has been exhausted," as proclaimed in its medium-term fiscal strategy for 2024-2026.[2] As such, "fiscal consolidation is at the heart"[3] of its plans.

Survey of Proposed Pathways To Fiscal and Debt Sustainability - Nona Tamale[4]

In the aftermath of the Covid-19 pandemic, the IMF has advised Fiji to undertake adjustments to bring down its fiscal deficit and debt burden through a range of revenue and expenditure reforms (see Figure 2-3). The new Fiji government has adopted some of the recommendations in its recent 2023 budget (Figure 2-3). Specifically, it is projected that the proposed reforms will reduce the debt-to-GDP ratio to 70% in the medium term.

Prior to adopting these reforms, the World Bank and the 2023 Fiji Fiscal Review Committee also proposed several measures for a fiscal consolidation plan. These recommendations ultimately shaped the government's economic prioritisation of debt and consequently its fiscal adjustment, both revenue and expenditure measures (Figure 2-3). The Fiscal Review Committee in particular recommended setting a target of reducing debt to below 70% of GDP by 2033.

Figure 2-2: Fiscal Balance as Percentage of GDP (FJ$, in mn)[5]

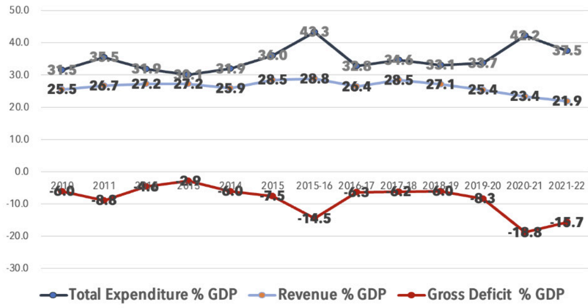


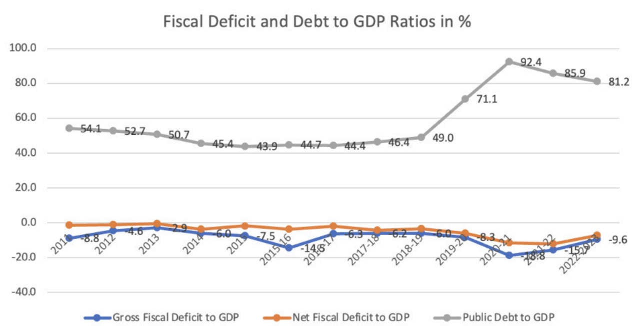
Figure 2-3: Various Proposals for Reducing Fiji's Fiscal and Expenditure Burden

	World Bank[46]	Fiji Fiscal Review Committee[47]	IMF 2023 Article IV Consultation[48]	Fiji Budgetary Measures FY2023/24[49]
Fiscal Targets	Deficit of less than 3% by 2027 Debt-to-GDP ratio of 65% by 2032 (moderate consolidation)	Adopt a target to reduce debt to below 70% of GDP by 2033	Reduce the fiscal deficit to 2.1% of GDP over the medium term (by 2026) Attain a (primary?) budget surplus of 0.4% of GDP in 2024 and 1.5% of GDP in the medium term (2028) Commit to a fiscal anchor targeting debt-to-GDP ratio of 72% by 2028 and below 50% by 2034 Commit to a fiscal adjustment of around 3.5% of GDP by 2028 Raise tax revenues by 3-4 percentage points	Net deficit of 4.8% in FY2023/24 Net deficit of below 3% in the medium term
Revenue Reforms	Unify the value-added tax (VAT) rate at 15% Remove zero rating of VAT on essential items Apply a standard corporate income tax (CIT) rate of 20% Discontinue export incentives Introduce dividend withholding tax of 10% Increase excise tax on alcohol Reverse fuel duty reduction Introduce excise duty on sugar products Simplify personal income tax (PIT) structure and lower threshold to FJ$20,000 Raise fringe benefit tax to 35% Raise departure tax from FJ$100 - 125 in FY2024/25 and then to FJ$200 with a small annual increase	Increase VAT (between 12.5% and 15%, no zero rating on essential items) Increase corporate tax (from 20% to 25%) Increase departure tax to $150 and then $200 by 2025 Increase customs and excise revenue by returning to (near) pre-COVID rates including alcohol	UNify VAT to 11.5% Increase VAT from 11.5% to 12.5% in FY2024/25 and 12.5% to 14% in FY2025/26 Raise CIT to 23% in FY2023/24 and 25% in FY2024/25 Simplify the PIT structure and lower the threshold Raise the fringe benefit tax to 35% Introduce dividend withholding tax of 10% Increase excise duty tax on alcohol Discontinue export incentive Raise departure tax from FJ$100 - 125 in FY2024/25 and then to FJ$150 in FY2025/26	Plans to unify the VAT rates (two rates applicable - 15% and 0%) Zero-rated items maintained Increase CIT rate to 25% Increase departure tax (in future) Review of tax exemptions (e.g. resident interest withholding tax, tax deductions under the employment taxation scheme etc) Increase in departure tax to FJ$125 in 2023 and FJ$140 in 2024 Increase in excise duty by 5% on motor vehicles Increase in excise duty for selected items including alcohol and tobacco Reduction in fiscal duty for selected food items Increase in water resource tax rate
Expenditure Reform	Control the wage bill Prudently manage capital outlays and make public investment more efficient Phase out sugar sector subsidies Phase out pandemic support and restrain other current spending Compensate low-income households for negative effects from reversal of VAT zero rating Improve targeting of social protection schemes Introduce additional social assistance spending Reform teritary education scholarships (improve targeting of financing)	Increase social welfare spending Directed targeted assistance Increase expenditure, with urgent capital expenditure on infrastructure and health	Allow inflation mitigation and Covid-19 spending measures (zero tax rate on consumer items, removal of fiscal duty on fuel) to expire Implement rationalisation of the public wage bill Do a cost-benefit review of transfer payments Improve management and efficiency of government capital spending Well-targeted transfers to the most vulnerable groups (0.5% of GDP) and priority spending areas (1% of GDP)	Wage bill reforms Limit government operational expenditure Review of capital spending by conducting proper investment appraisal and project selection Support for the vulnerable through social protection programme and increase in pension funding by 15%

As illustrated in Figure 2-3, the Fiji government has to a greater extent adopted majority of the recommendations in the latest annual budget (fiscal year 2023/24), demonstrating its commitment to reducing its deficit and debt levels. In other areas, contrary to the recommendations, the Government has taken a firm stance, for instance maintaining zero-rated VAT on basic items given the rise in inflation. Importantly, due consideration should be given to the impact of fiscal adjustments on low-income households and vulnerable persons who typically face the brunt of indirect tax increases and budget cuts when countries are facing economic strain.

In regard to social expenditure, the government pledged to continue support for the vulnerable through social protection programmes (US$160mn, up from US$125 mn in fiscal year 2022/23) and an increase in pension funding by 15% to provide a cushion during an economic downturn.[6] This is in line with the Fiscal Review Committee recommendations to increase social welfare spending. The budget allocation to the health sector increased by FJ$69.1mn to FJ$453.7mn, with more than half allocated to capital expenditure.[7] However, the allocated sums fall below the proposed target of FJ$200mn, thus more resources will need to be allocated to health spending to realise universal health coverage as recommended by the Fiscal Review Committee.[8]

Figure 2-4: Net Deficit Trajectories[9]



The goal of the government's fiscal plan is to reduce net deficits and put debt on a downward path to ensure sustainability. To achieve this, the government plans to restore revenues to pre-pandemic levels and place limits on its expenditure, and has provided a schedule for doing so.

From its peak, debt-to-GDP ratio has climbed down to 81% in fiscal year 2022/23, but is projected to remain aloft at around 78-81%[10] on average for the foreseeable future, even with the new fiscal measures aimed at bringing it down.

Figure 2-5: FY2023/24 Fiscal Framework

($Million)	2022-2023 (Budget)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	2,939.9	3,246.1	3,383.0	3,466.2
As a % of GDP	24.9	25.3	25.0	24.3
Tax Revenue	2,322.1	2,789.9	2,934.6	3,034.4
Non-Tax Revenue	617.8	456.2	448.4	431.8
Expenditure	3,812.1	3,819.7	3,862.3	3,891.8
As a % of GDP	32.2	29.8	28.6	27.3
Net Deficit	**-872.2**	**-573.6**	**-479.4**	**-425.6**
As a % of GDP	**-7.4**	**-4.5**	**-3.5**	**-3.0**
Debt	10,003.7	10,577.3	11,056.6	11,482.2
As a % of GDP	**84.6**	**82.6**	**81.8**	**80.4**
GDP at Market Prices	11,827.3	12,811.8	13,524.2	14,276.1

Source: Ministry of Finance, "Medium Term Fiscal Strategy 2024-2026," p.15.[11]

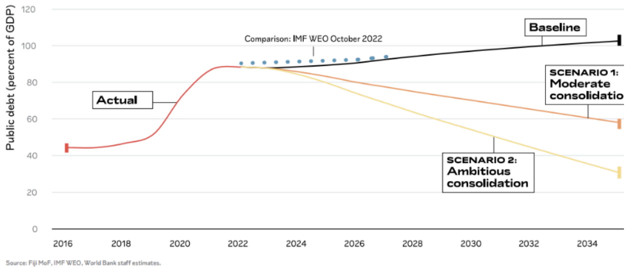
Net deficit is targeted to eventually fall to -3% of GDP in 2026 from -7.1%[12] in the past fiscal year FY2022-23. As a result, debt-to-GDP ratio will also gradually decline over the next few years as fiscal deficits are reined in, decelerating the pace of debt accumulation. To be clear, the amount of debt in absolute terms will continue to grow, although at a slower rate. And with the anticipated economic recovery and growth, the debt-to-GDP ratio will therefore start coming down.

According to the IMF's calculations, if net deficits were to remain high at around 5.5% of GDP over the medium term, the public debt-to-GDP ratio is projected to stay above 85%, a precariously high level.[13]

More simulations conducted by the World Bank[14] demonstrate how even if the net fiscal deficit improved organically from -12% in 2022[15] and ended up at -7.3% in 2027, the debt-to-GDP ratio will be on an unsustainable trajectory, distending to reach 100% of GDP by 2032. Only by constricting the net fiscal deficit to no more than -3% by fiscal year 2027 will Fiji be on a downward, "more sustainable" path towards a 65% debt-to-GDP ratio.

The Fiji Fiscal Review Committee[16] has recommended a gentler pace of reaching a debt-to-GDP ratio of 70% in 10 years' time, which will translate into less stringent fiscal measures than the ones envisaged by the World Bank in its "moderate consolidation" scenario.[17]

Figure 2-6: Fiscal Consolidation Pathways and Their Impact on Public Debt



Source: World Bank, "Public Expenditure Review" April 2023, p .6

Constantly Changing Targets

In any event, the government in its updated medium term fiscal targets, plans to arrive at the destination sooner than FY27 of no more than 3% of GDP by fiscal year 2025/26 (see Figure 2-7). This will, according to government projections, lead to a gradual fall in the country's debt-to-GDP ratio from 81.2% at the end of fiscal year 2022/23 to 77.9% by fiscal year 2025/26.

It is not certain this would and should in some ways act as "a commitment to fiscal anchor targeting debt-to-GDP with operational targets"[18] for its revenue, expenditure and fiscal balance.

These targets have already been changed once by the new government, between its medium term fiscal strategy issued in Feb 2023 (Figure 2-5), and its national budget in June 2023 (Figure 2-7).

Furthermore, as pointed out in its supplement to the budget, the Ministry of Finance is "currently working on a 15-year fiscal management plan", taking into "careful consideration on the pace of fiscal consolidation and growth and development."[19]

Projections about the future should warrant caution. While these figures suggest a potentially stable economic trajectory, they hinge on several variables that could shift, affecting the accuracy of these forecasts. Assumptions about tax revenue growth and the impact of fiscal policy changes are not guaranteed, and thus, a degree of scepticism may be warranted when considering these projections.

Figure 2-7: Medium-term Fiscal Targets

$Million	2022-2023 (Revised)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	**2,685.4**	**3,700.7**	**3,868.1**	**4,004.0**
As a % of GDP	*22.1*	*27.9*	*27.6*	*27.3*
Tax Revenue	*2,252.3*	*3,107.7*	*3,321.3*	*3,487.3*
Non-Tax Revenue	*433.1*	*593.1*	*546.9*	*516.7*
Expenditure	**3,435.7**	**4,339.9**	**4,361.6**	**4,440.1**
As a % of GDP	*28.2*	*32.7*	*31.2*	*30.2*
Net Deficit	**-750.3**	**-639.1**	**-493.4**	**-436.0**
As a % of GDP	*-6.2*	*-4.8*	*-3.5*	*-3.0*
Debt	**9,882.3**	**10,521.4**	**11,014.9**	**11,450.9**
As a % of GDP	*81.2*	*79.3*	*78.7*	*77.9*
GDP at Market Prices	**12,176.8**	**13,266.6**	**13,991.9**	**14,691.4**

Source: Ministry of Finance,"Economic and Fiscal Update Supplement to 2023-24 Budget Address" June, 2023. p. 34

Therefore, it would seem ill-advised to lock these or any targets and thresholds into legislation under the country's Financial Management Act, as the IMF had recommended. Furthermore, this will curtail the fiscal and policy space needed to respond swiftly to changing circumstances and modify these measures after their socio-economic impact is better known.

Current Fiscal Year 2023/24

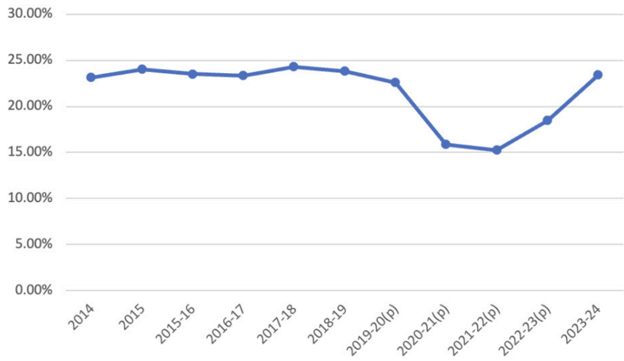
For the current fiscal year 2023/24, the government's budgetary plan, consistent with its latest medium-term fiscal strategy, projects a net deficit of FJ$639.1mn, which is about 4.8% of the GDP (Figure 2-7). This figure emerges from a projection of total revenue at FJ$3.7bn against expenditure of FJ$4.34bn. (Figure 2-7)

Tax revenues are forecast at FJ$3.11bn for the fiscal year, which would be a substantial increase of FJ$855.4mn from the year before. This would raise the tax-to-GDP ratio to 23.4% compared to 18.5% in the previous fiscal year, putting it roughly back to its historic average before the disruption caused by Covid-19.

However, the bulk of the tax revenue burden will be shouldered by VAT payers. Out of the additional tax revenue of around FJ$596mn, VAT collections will contribute FJ$455.6mn to the total.[20] On its own, indirect taxes are regressive and indiscriminate, and more importantly, they add to the mounting costs of living. To mitigate the effects, the government has maintained zero-rating VAT on 22 essential basic items.[21]

Fiji's indirect taxes (mostly VAT and custom duties) have always contributed more to the state coffers. However, its share vis-à-vis direct taxes has largely stayed the same until about 10 years ago, when it started to diverge significantly. By 2019, indirect tax receipts were 2.7 times larger than collection from direct taxes.

Figure 2-8: Tax revenue to GDP[22]

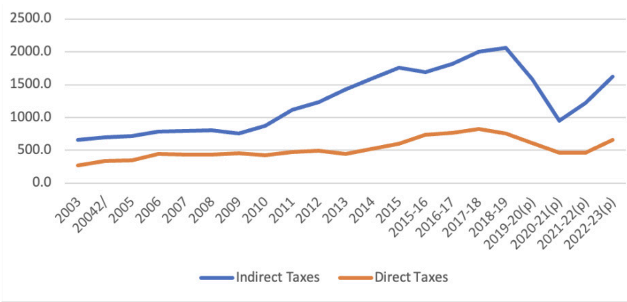


In this regard, the government needs to ensure that there is equity in the overall tax regime and structure even as it pursues debt and fiscal sustainability. Its stated revenue principles in the medium term of widening the tax base and enhancing collection are focused on augmenting its receipts.[23] While this is important, how the debt burden is alleviated and shared cannot be overlooked. In the review of the tax system, there should be a commitment to not just a more effective but also a fairer and thus a fiscally more sustainable one.

As for non-tax revenue, it is important to obtain as much funding as possible through grant funding. While grant funding has increased over the years as part of non-tax revenue, peaking in the Covid years, it dipped in fiscal year 2022/23; however the Fiji government seems assured that it will be able to secure FJ$216.8mn.[24] The government should continue to garner as much overseas development aid (ODA) and grant funding as it can at least for now, since it does not create financial liabilities. However, there is no free lunch and there is a need to ensure the network of interests among its official partners is balanced and aligned with Fiji's.

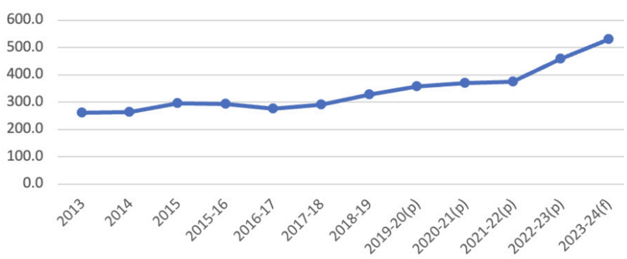
The government plans to spend a total of FJ$4.3bn in the current fiscal year 2023/24, which is an increase of FJ$904.2mn from the revised estimate for the previous fiscal year. Personnel expenses are the most significant part at approximately FJ$1bn. This represents an increase of FJ$104.6mn or 10.9%, which will address the need for more staff and higher superannuation contributions.

Figure 2-9: Tax Revenue (FJ$, in mn)[25]



This is not particularly high when benchmarked against peers and its own historic wage bill. The civil service wage bill has also been effectively frozen since the start of the pandemic. What is high—and has become the government's third biggest expense item—is debt interest payments and charges, which stand at FJ$529.4mn, an increase of 16.5% from the previous year's FJ$454.3mn.[26]

Figure 2-10: Debt Interest Payments and Charges (FJ$, in mn)[27]



As shown in Figure 2-10, debt interest payments and charges have been increasing over the years, in line with the growing debt stock. Debt service obligations compete directly with other public expenditure for available resources. Indeed, public debt interest payments are projected to increase from almost FJ$400mn in 2019 to almost FJ$500m in 2023. Over the same period, public expenditure on healthcare and education as a share of GDP, has remained stable. Further increases in debt-servicing costs may induce declines in government expenditure in these areas and other social spending. Again, this raises the question of equitable burden sharing and fiscal priorities when limited resources are being allocated and spent.

Borrowing to Improve Fiscal Space

More importantly, how borrowed resources are used has implications for the ability to repay debt. Productive investments in the economy and UN Sustainable Development Goals (SDGs) can generate future growth and in turn fiscal revenue; and contribute to lowering debt ratios over time and create a positive feedback loop. It can be helpful to differentiate how borrowed resources are used. Well-designed public sector investments that boost the productive capacity of an economy can result in higher income for the government and help offset the associated debt service.

Such investments increase fiscal space when the return on public capital exceeds financing costs. Debt financing should be channelled to projects with clear and large returns that would not tip the country's debt indicators into distressed levels or trajectories.

To this end, the government should proactively incorporate these considerations as it seeks to better manage and be more accountable for its spending. Some of the stated guiding principles in its expenditure strategy include: 1) requiring all ministries to provide "proper justification for every dollar of funding requested"; 2) the need for all new capital projects to undergo a "proper investment appraisal" and selection process; and 3) major programmes are to be assessed to ensure that they do "derive value for money."[28]

Unfortunately, this is not all the financing the government needs for the year. The projected total gross deficit, which is the sum of the net deficit and principal debt repayments, is around FJ$1.16bn, which the government plans to fund through a mix of domestic and external borrowing.[29]

With a raft of fiscal measures introduced in the latest budget for fiscal year 2023/24, it remains to be seen whether these targets will be adhered to. The impact of these measures on economic growth will also need to be ascertained. After all, these targets are premised on a certain rate of growth ranging from 3-5%, which might be impacted by these fiscal measures themselves, or derailed by some other macroeconomic or exogenous event (see more about this in Chapter 4).

Conclusion and Recommendations

The government and policymakers will have to find a balance between keeping the lid on fiscal deficits, while prudently pushing ahead with the necessary spending and investments to ensure growth does not sputter. It will continue to face difficult trade-offs between maintaining fiscal sustainability and investing in structural transformation, including productive investment, climate action and SDGs. For example, forgoing investments in sustainable transformations not only undermines development progress but could also amplify vulnerabilities—to disasters, other external shocks and ultimately debt sustainability—down the line.

To retain and expand fiscal space for SDG-related investments in this challenging context, multipronged policy action is needed, at both the national and global levels.

- Domestically, the government could rigorously include differentiating how debt financing is used, and prioritising borrowing for productive investments that can create durable economic growth and thereby more fiscal space.

- Where needed and when the debt burden becomes too onerous and debilitating, the government may seek pre-emptive debt restructuring to free up fiscal space. It should acquaint itself with pre-emptive maturity managing tools such as debt reprofiling operations or other liability management operations.

- The government should also be familiar and knowledgeable about the processes and policies around domestic debt restructuring, given that the bulk of its public debt is domestic. It should have a contingency plan in place for such an eventuality, so that the problem is not aggravated by a lack of understanding and not knowing what to do in such a situation.

- Externally, it could work with bilateral and multilateral development partners to put in place instruments and tools to create fiscal space in a time of crisis. This could include:

    - Commitments from official development partners for a standby or sinking fund that could be activated and utilised by Fiji under certain conditions or risk events.
    - All debt servicing including repayment, interest and charges are automatically suspended upon the national declaration of a crisis or emergency.
    - Debt obligations could also be scaled back depending on its ability to pay, as state contingent debt instruments are being explored.[30]

- Given that only about 28% of its external public debt are on concessional terms, the government should negotiate with its official creditors better credit terms, which includes lengthening average maturities or lowering borrowing costs, so that Fiji is not further hampered and delayed in trying to achieve its SDGs and climate objectives.

- The advocacy for better borrowing terms and debt relief measures with the support of development partners could be done regionally with other Pacific Island Countries, especially when neighbouring countries are also facing similar fiscal and national debt challenges.

- Finally, creating fiscal space, making trade-offs and ensuring that borrowings are used for the right development objectives are ongoing judgment calls that the government would have to make in consultation with its constituencies and citizenry.

Case Study - UNCTAD's SDFA Framework

The IMF's and World Bank's debt sustainability model has been criticised for its overemphasis on governments being able to meet their debt obligations and their capacity to service debt repayments. This typically translates into a diet of fiscal austerity for countries struggling with high debt burdens.[31] By focusing solely on "debt sustainability as an end in itself", and requiring that certain performance benchmarks, "defined independently of long term development goals", are met, means that domestic policy space, particularly fiscal policy, will be invariably curtailed.

As is the case with Fiji, the IMF, in its latest Article IV Consultation with the country, has also prescribed a medley of fiscal consolidation measures that the government should urgently adopt in order to place the country's debt on a more sustainable path.

The IMF avoided looking at issues and underlying factors that could have a more fundamental impact on Fiji's debt levels and long-term sustainability, such as a clear economic development plan and industrial policy that could help structurally transform the economy, improve its export earnings, raise its productivity and put the country on a higher growth trajectory beyond its historic average. On the other hand, some proposed measures could be counterproductive in reducing the debt burden and may instead lead to higher cost of borrowing, as the government was advised to tighten its monetary policy and remove capital controls.[32]

In this regard, the UN Conference on Trade and Development's (UNCTAD) Sustainable Development Finance Assessment (SDFA) framework diverges from the standard debt sustainability assessments, and presents a more complete analysis by looking at development finance as a whole to achieve structural transformation, and exploring a range of policy options beyond fiscal austerity to maintain external financial and public sector sustainability.[33]

At its heart, the SDFA framework assumes balance of payments performance is the most relevant economic constraint on growth for a developing country, i.e. what is the maximum attainable long-run economic growth given the external constraint.[34] This qualified growth rate is then used to determine the pace and extent to which the public sector can incur further liabilities without it becoming unsustainable, thereby substantiating greater fiscal space for public investments and pursuing national development agendas.[35]

In other words, "causality runs from the external position to the country's fiscal space in the medium- and long-run."[36] This "places external financial sustainability (the country's ability to service the stock of net external liabilities, including its net external debt) at the centre of the analysis."[37]

UNCTAD's Debt Sustainability Framework[38]:
- Investments in appropriate infrastructure that facilitate higher export volumes;
- Assistance to new exporters to access foreign markets;
- Diversification of exports away from sunset industries towards products encompassing new technologies; and
- Support for firms and sectors with revealed competitiveness (i.e. growing global market shares) to increase the scale of their operations and export activities.
- Reduction of the average cost of net external liabilities by progressively restructuring external debt to secure more favourable terms

The SDFA has three main components:

- *External Financial Sustainability*— if growth in exports and remittances is faster than growth in net external liabilities (NEL) and its average costs, external financial sustainability will be improving. "If this ratio increases persistently, it will become necessary for the country concerned to generate a trade surplus to stabilise the growth of NEL."[39] "If the country concerned manages its [NEL] effectively and adopts policies that serve to increase the rate of growth of exports and remittances and/or reduce the country's dependence on imports in the long-run, it will raise the rate of GDP growth consistent with external financial sustainability and—in the process—create additional fiscal space to adopt policies and programmes that support sustainable development."[40]

- *Public Sector Financial Sustainability*—If the rate of GDP growth is greater than the rate at which public sector net liabilities are increasing, the public sector finances will be moving towards sustainability. "If the cost of servicing public sector net liabilities is persistently higher than the rate of GDP growth the ratio will be deteriorating. It will be necessary for the countries concerned to adopt policies that serve to increase the rate of GDP growth and/or reduce the average cost of public sector net liabilities."[41] The usual policy recommendation, ie fiscal austerity, would only reinforce the vicious cycle: growth will remain subdued and the fiscal space constrained, putting the country further away from the goal of achieving the SDGs with sustainability in the external and public sector accounts."[42]

- *Integrated External and Public Sector Financial Sustainability*— Over the longer term, public sector net liabilities will be sustainable if the rate of growth, consistent with the external financial sustainability, exceeds the average cost of public sector net liabilities. Some aspects of this have been dealt with in the preceding chapter, which proposes recommendations for reducing the costs of borrowing.

The framework highlights and underscores the primacy of the developmental needs (including SDGs) of a country and the structural transformation needed to improve export performance and enhance economic growth in a way that does not overstretch dependence on foreign capital. In the event that external debt and other liabilities of a country straitjackets its ability to develop and provide for its citizens, increased access to ODA, concessional finance and debt restructuring or cancellation would be more effective and critical than fiscal consolidation.[43] In this context, further fiscal tigthening will only exacerbate the problem of subdued growth and limited fiscal space.[44]

It is beyond the scope of this paper to provide a fuller consideration of UNCTAD's SDFA framework and apply it to Fiji's case. It is however the intent to show that there are alternative debt sustainability assessments that provide a "wider focus on a set of policies compatible with both medium- and long-run external and public debt sustainability", and take into account national development priorities.[45]

The following chapter will analyse some of the key variables used in the SDFA framework, such as economic growth, NEL and current account balance to articulate their relationship and dynamics with debt. This could provide an initial premise to apply UNCTAD's SDFA to Fiji's specific external and public accounts to ascertain the required and sustainable rate of growth, which would be instructive to all stakeholders in setting development targets and strategies.

ENDNOTES

1 Author’s calculations.
2 Ministry of Finance, “Medium Term Fiscal Strategy 2024-2026,” Strategic Planning, National Development and Statistics. February 17, 2023, p.13.
3 Ibid., p. 3.
4 Ms Nona Tamale is law lecturer at Makerere University. Ms. Tamale is an inaugural Fellow with the African Sovereign Debt Justice Network (AfSDJN) where she conducts research on sovereign debt in Sub-Saharan Africa. She is a qualified advocate of the High Court of Uganda.
5 Created by author.
6 Ministry of Finance, “Economic and Fiscal Update Supplement to the 2023-2024 Budget Address,” June 30, 2023, p. 6.
7 Ibid., p. 13.
8 2023 Fiji Fiscal Review Committee, “Report of the Committee,” May 31, 2023, p. 18.
9 Author’s calculations.
10 Figures are based on two official projections by the new coalition government. The first is in “Medium Term Fiscal Strategy 2024-2026” released in February 2023, the second is in the Ministry of Finance’s “Budget Supplement 2023-2024” released in June 2023.
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13 IMF, “Fiji Article IV Consultation,” supra, p. 7.
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23 Ministry of Finance, “Budget Supplement 2023-2024,” supra, p. 32. The report states: “The following will be the guiding policy principles in the medium term: Widen the tax base by gradually removing exemptions and other distortions; Improve tax compliance and collection of tax arrears; Make the tax regime and tax administration even simpler to encourage tax compliance; and Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected.”
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** This chapter was written with Nona Tamale