Fiji’s Debt Management Strategy 2023

DRAFT

there is an urgent need to address the high public debt situation which is a great concern for the Coalition Government

Fiscal consolidation is at the heart of this medium-term fiscal strategy by the Coalition Government

Government will have to cut on wastages and ensure a return to fiscal sustainability.

a major restraint on overall public expenditures, including reprioritisation of fiscal resources

This has to be supported by revenue reforms

Given the unprecedented increase in debt levels, the fiscal space has been exhausted. In fact, the room for any further increase in debt is almost non-existent.

a private sector led economic rejuvenation is also an important pillar to ensure sustainable economic growth which is critical to put the debt to GDP ratio on a consistent downward path

this requires a number of structural reforms to ensure private sector growth and development is supported.

The RBF is pursuing an accommodative monetary policy stance by maintaining its Overnight Policy Rate at 0.25 percent. This will continue to play an important role in our post-pandemic recovery.

Excerpts from MTFS 2023

"Given the unprecedented increase in debt levels, **<u>the fiscal space has been exhausted</u>**. In fact, the room for **<u>any further increase in debt is almost non-existent</u>**. As such, Government needs to consolidate its fiscal position to rebuild fiscal buffers and reprioritize resources towards infrastructure development, expand social protection and improve overall services and at the same time **<u>ensure debt to GDP ratio is sustainable and on a downward trajectory in the medium term</u>**. In view of this, post-pandemic economic recovery must be driven by the private sector and policies and reforms should be targeted towards **<u>removing bottlenecks and bureaucracy and creating an enabling environment for investment</u>**."

HOWEVER

"the speed and timing of consolidation must be carefully managed with a delicate balance between ensuring fiscal sustainability and supporting economic recovery. Any premature withdrawal of fiscal support could potentially derail the recovery that is anticipated for the medium-term."

Excerpts from MTFS 2023

The Plan

In FY2023-2024, a net deficit target of $573.6 million or -4.5 percent of GDP will ensure continuity of public services without any major disruptions and can be easily financed domestically with some concessional external borrowing (**Table 3**). Consequently, Government debt will fall to 82.6 percent of GDP from 84.6 percent of GDP estimated for FY2022-2023.

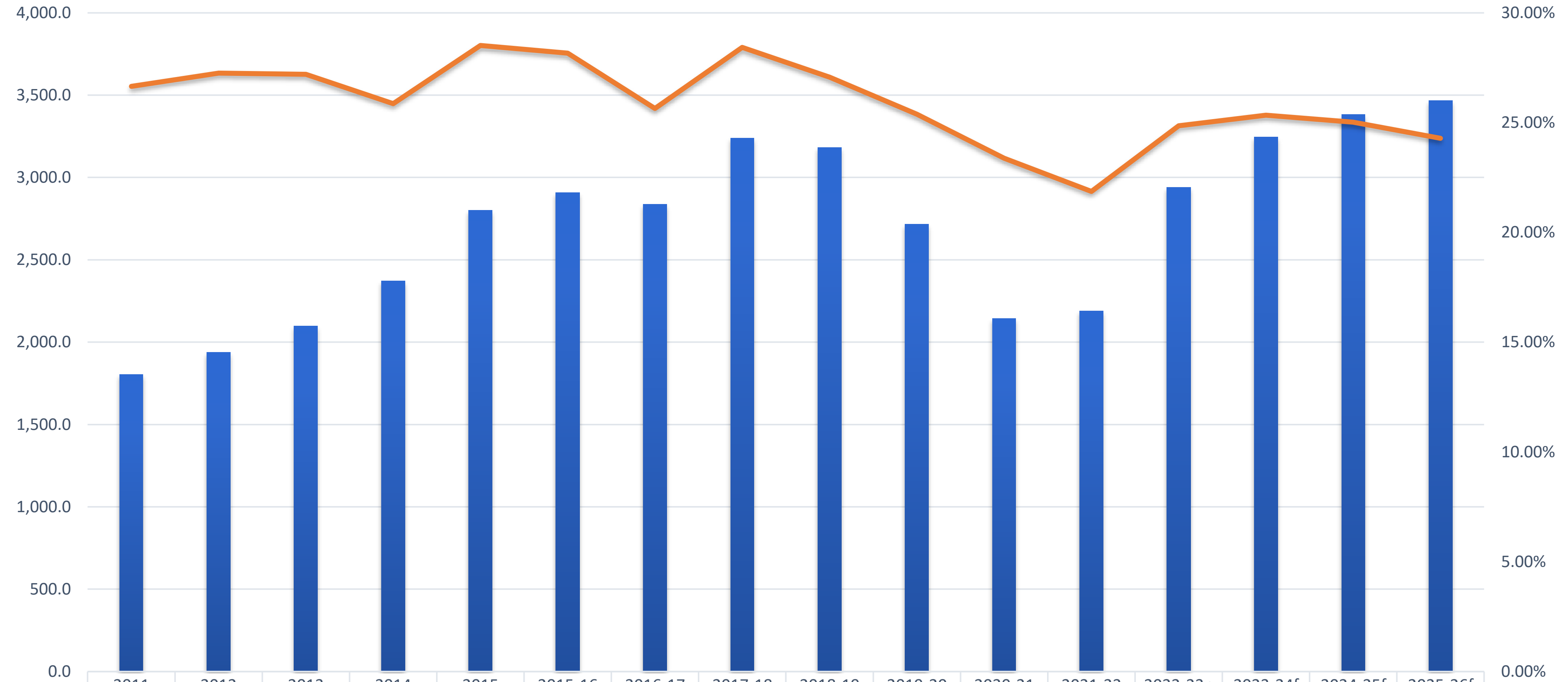
Table 3: FY2023-2024 Fiscal Framework

($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

In FY2024-2025 and FY2025-2026, net deficit targets of $479.4 million (-3.5% of GDP) and $425.6 million (-3.0% of GDP) can be easily financed domestically. Given these deficit targets, primary balance is projected to improve from -3.6 percent of GDP in FY2022-2023 to less than -0.1 percent by the end of FY2025-2026. Consequently, government debt as a percent of GDP will fall from 84.6 percent of GDP in FY2022-2023 to 80.4 percent by FY2025-2026.

Excerpts from MTFS 2023

Actual Revenue and Forecasts, FJ Million and % of GDP



	2011	2012	2013	2014	2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23p	2023-24f	2024-25f	2025-26f
Total Revenue	1,804.1	1,937.1	2,098.4	2,370.8	2,800.2	2,908.3	2,837.4	3,239.5	3,183.0	2,716.3	2,143.0	2,190.8	2,939.9	3,246.1	3,383.0	3,466.2
Total Revenue as % of GDP	26.66%	27.25%	27.20%	25.86%	28.51%	28.16%	25.64%	28.42%	27.07%	25.38%	23.38%	21.86%	24.86%	25.34%	25.01%	24.28%

Total Revenue   Total Revenue as % of GDP

Chart created by author. Source: RBF, Ministry for Economy and Stats Department

Revenue

The COVID-19 stimulus package also included some major tax policy changes. These included removing Service Turnover Tax (STT), stamp duty, and Environment & Climate Adaptation Levy (ECAL). In addition, departure tax was halved (from $200 to $100), significant reduction in excise taxes on alcohol and notable decreases in fiscal duty and import excise rates across around 2,000 tariff lines of the Customs Tariff Act.

While such bold measures produced intended results to revive tourism, it resulted in a **permanent loss in revenues of around 4 to 5 percentage points of GDP**.

Total tax to GDP ratio averaged 24 percent between 2014 to FY2019-2020 period and fell sharply to 15.4 percent in FY2020-2021

Over the years, non-tax revenue has also played an important role in the revenue base. While core non-tax revenues have been generally stable, the relatively large budget support grants from Australia and New Zealand and other bilateral and multilateral partners as well as the divestment of Energy Fiji Limited shares helped sustain overall revenues during the COVID-19 period. Given the large decline in tax revenues, total Government revenues fell to 21.9 percent of GDP at the end of FY2021-2022 compared to 27.1 percent pre-COVID.

Excerpts from MTFS 2023

Recent Structural Loss in Tax Revenue

FY2020-21 Official Budget

3. In July 2020, the government released the official FY2020-21 budget, enacting a sweeping overhaul of Fiji's tax regime as a means of providing immediate stimulus and bolstering business competitiveness. Key revenue features included the following:

- Removal of the Services Turnover Tax.
- Removal of the Stamp Duty.
- Repeal of VAT reverse charges on supplies received from abroad.
- Reduction of the Social Responsibility Tax (SRT) from 10 percent to 5 percent.
- Reduction of the Environmental and Climate Adaptation Levy (ECAL) from 10 percent to 5 percent together with an increase in the business turnover threshold for ECAL from F$1.25 million to F$3 million.
- Making permanent the 100 percent write-off for purchase of fixed assets up to F$10,000 for business purposes and the 100 percent write-off for construction of new commercial and industrial buildings.
- Airport departure tax halved from F$200 to F$100.
- Reduction in tariffs on vehicles, consumer goods, and a 50 percent reduction in local excise duties on alcohol.

4. The FY2020/21 revenue loss resulting from policy changes is estimated at F$483 million (5 percent of GDP), mainly reflecting customs duties (F$190 million), the departure tax (F$90 million), and the Environment & Climate Adaptation Levy (F$90 million).

Source: IMF Art IV Consultation

Revenue Mobolisation Measures

The following will be the guiding policy principles in the medium term:

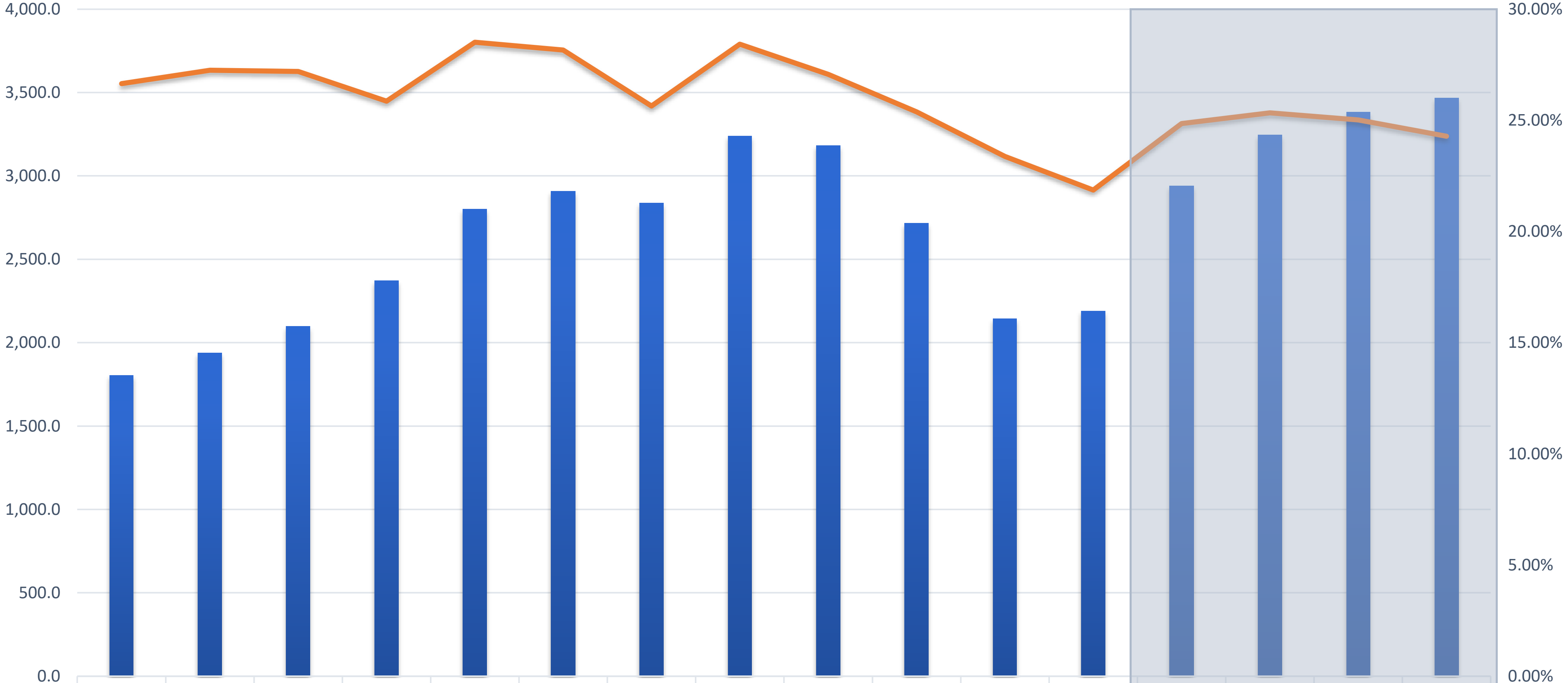
- Widen the tax base by gradually removing exemptions and other distortions;
- Improve tax compliance and collection of tax arrears;
- Make the tax regime and tax administration even simpler to encourage tax compliance; and
- Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected.

the immediate sustainability of fiscal targets rests critically on the Government's ability to immediately embark on the tax policy measures for macro-fiscal stabilization to put Government debt to GDP ratio on more sustainable and downward path. In this regard, Government will consider the following revenue policies in the upcoming budgets to increase revenues to pre-pandemic levels;

- Review the corporate tax rate and other tax incentives accorded to businesses;
- Review the departure tax in light of the removal of a whole list of tourism sector taxes like ECAL and STT;
- Review the excise tax on alcohol;
- Review the Export Income Deduction with a view to remove Fiji out of the EU blacklist;
- Review the VAT regime to move towards a single rate when the time is appropriate.

Excerpts from MTFS 2023

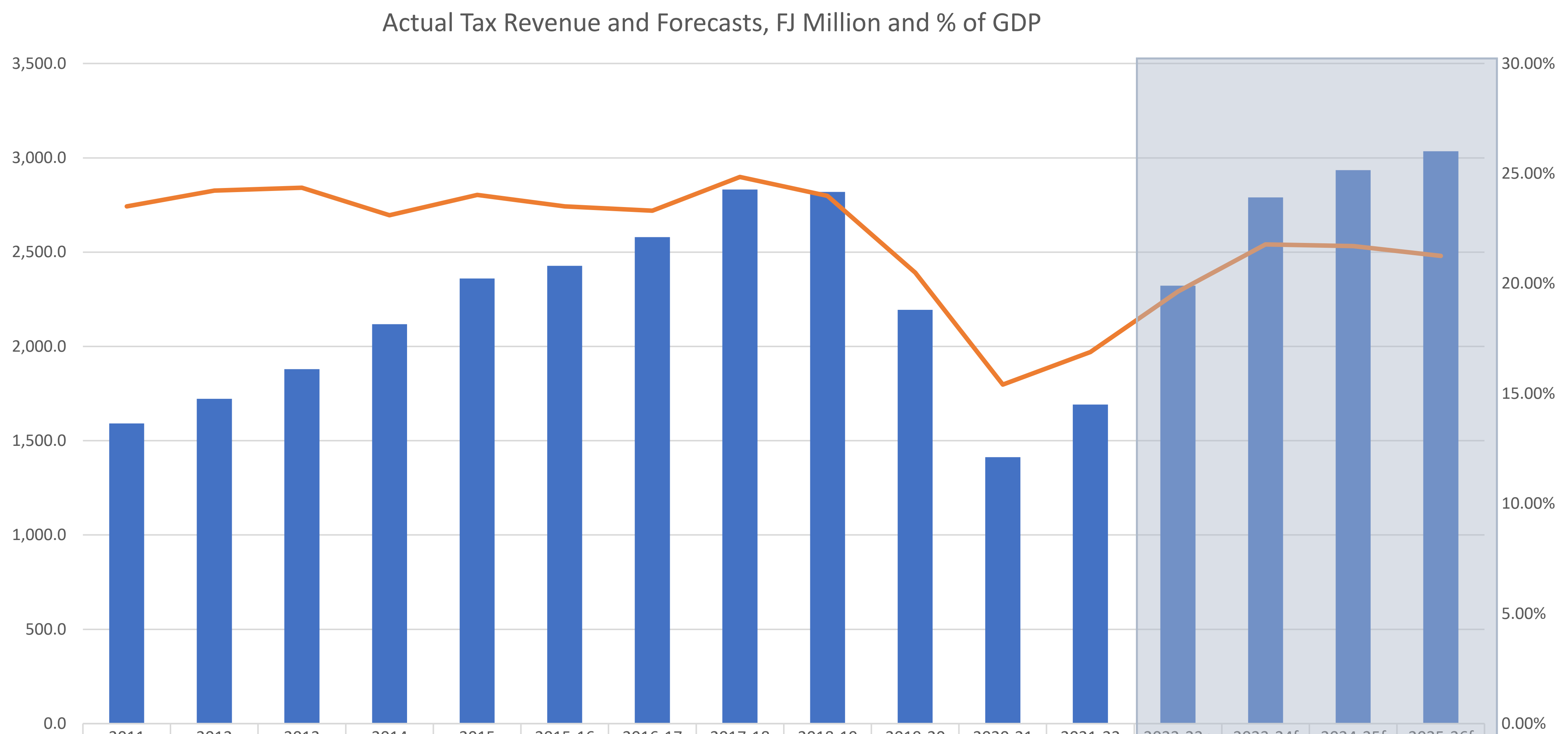
Actual Revenue and Forecasts, FJ Million and % of GDP



	2011	2012	2013	2014	2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23p	2023-24f	2024-25f	2025-26f
Total Revenue	1,804.1	1,937.1	2,098.4	2,370.8	2,800.2	2,908.3	2,837.4	3,239.5	3,183.0	2,716.3	2,143.0	2,190.8	2,939.9	3,246.1	3,383.0	3,466.2
Total Revenue as % of GDP	26.66%	27.25%	27.20%	25.86%	28.51%	28.16%	25.64%	28.42%	27.07%	25.38%	23.38%	21.86%	24.86%	25.34%	25.01%	24.28%

Total Revenue   Total Revenue as % of GDP

Revenue as %GDP appears to be a relatively realistic forecast from a historic standpoint, however nominal GDP projections is somewhat on the higher side. Dip in revenue in 2020-2022 was due to covid induced economic slowdown which resulted in a sharp fall in tax collection. This was mitigated by exceptional budget support in the form of grants. If tax revenues are unable to recover to the same extent due to tax reforms in 2020-2021, and grants mean revert, the anticipated and forecasted sizeable increase in revenue may not materalise.



	2011	2012	2013	2014	2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23p	2023-24f	2024-25f	2025-26f
Total Tax Revenue	1,591.2	1,722.3	1,879.5	2,117.7	2,359.9	2,427.4	2,579.2	2,831.6	2,819.8	2,194.0	1,412.6	1,692.0	2,322.1	2,789.9	2,934.6	3,034.4
Tax Revenue as % of GDP	23.51%	24.23%	24.36%	23.10%	24.03%	23.50%	23.31%	24.84%	23.98%	20.50%	15.41%	16.88%	19.63%	21.78%	21.70%	21.26%

Total Tax Revenue   Tax Revenue as % of GDP

Bulk of the tax revenue typically come from indirect rather than direct taxes. The planned increase in taxes will have to be apportioned equitably and the impact on the most vulnerable especially (women and youth) taken into active consideration

Expenditure Trajectory

While the large reconstruction works post TC Winston and other natural disasters demanded substantial fiscal outlays, growth in expenditures was also attributed to increases in the public sector wage bill, higher transfers to off-budget entities like the Fiji Roads Authority and Water Authority of Fiji, large capital investments in public buildings and schools, large social sector spending and increased funding for a wide range of new expenditure initiatives over the years.

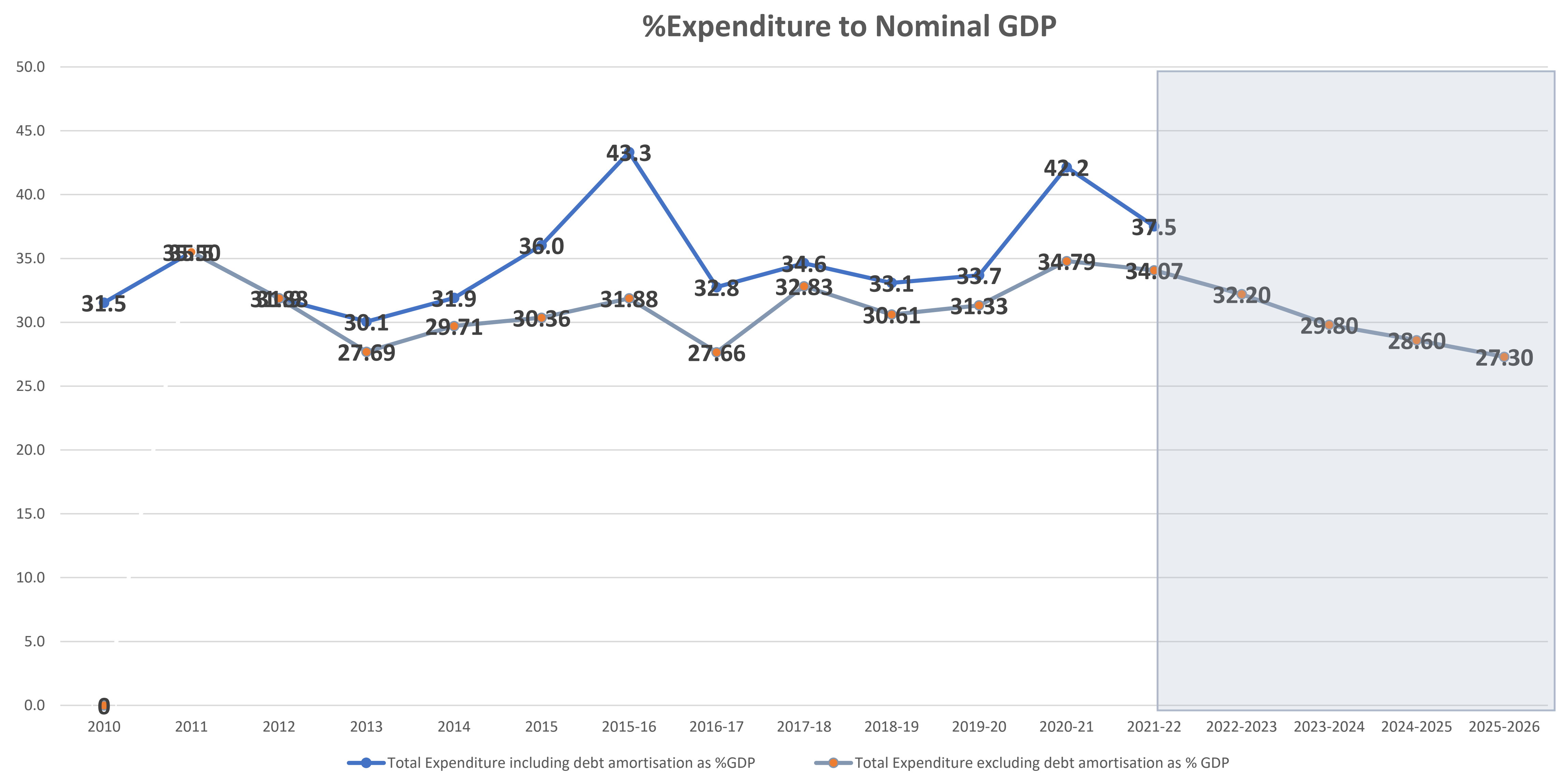
The largest component of operating expenditure is personnel cost or wages & salaries which accounts on average 41.8 percent of operating expenditures(which constitutes 66% of total govt expenditure) or 27.9 percent of total Government expenditure.

Between FY2017-2018 and FY2021-2022, transfer payments averaged 28.6 percent of total operating expenditures, followed by interest payments (14.7%) and supplies and consumables (11.5%), while the remaining 3.4 percent of operating expenditures comprised of purchase of outputs and other operating payments.

Spending on the social services sector accounts for a substantial portion of Government's total expenditure. Between FY2017-2018 and FY2021-2022, around 27.5 percent of the budget was spent on health, education and social protection programmes. In the same period, on average 8.0 percent was spent on economic services sector (dominated by the transport sector support and agricultural sector) and 14.2 percent to miscellaneous services

Between FY2017-2018 to FY2021-2022, around 32.3 percent of Government's expenditure (10.6% of GDP) was channelled towards capital projects, which included the construction and maintenance of roads, bridges, water and sanitation facilities as well as the purchase of machinery & equipment. Although Fiji has a high degree of access to infrastructure, significant gaps and challenges remain especially in terms of implementing and managing capital projects. As such, prudently managing capital spending so that we can also reduce wastage and making public investment more resilient to climate change will ensure value for money and adequate return on investment.

Excerpts from MTFS 2023



For the forecasted expenditure from 2023-2026, expenditure should include debt repayment based on amortization schedule. When debt repayments are included, the expenditure to nominal GDP can be significantly higher as seen in the last decade especially after 2012.

Chart created by author. Source: RBF, Ministry for Economy and Stats Department

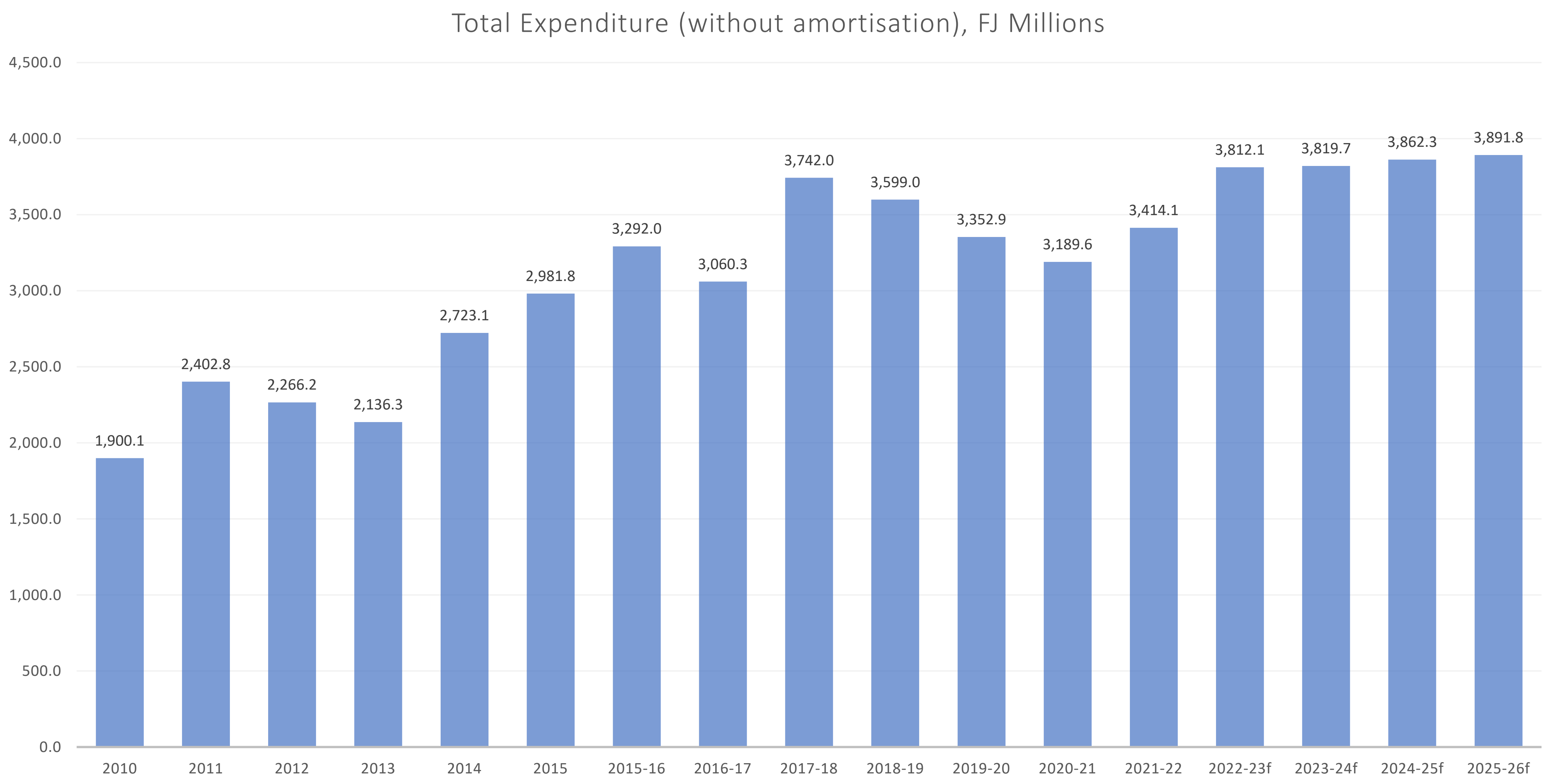
Expenditure Management measures

Government needs to cap expenditures or scale it back by reducing unproductive spending, reviewing/reducing transfers to extra budgetary units, streamlining operations and prioritizing high impact capital projects. In view of this, total expenditure in the medium-term should be reduced to below 30 percent of GDP with a capital operating mix of at least 30:70. Therefore, Government's expenditure plans must be guided by these strategies;

- Undertake a holistic review to right-size the civil service and contain the public sector wage bill;
- Tighten control on operational expenditures, including travel, communications, trainings, workshops, fuel & maintenance and purchase of supplies with KPIs of agency heads and Permanent Secretaries linked to these targets;
- Conduct proper investment appraisal and project selection for all new capital projects;

Resources must be allocated based on a multi-year perspective and the implementation capacity of agencies, considering the need to meet competing expenditure demands;

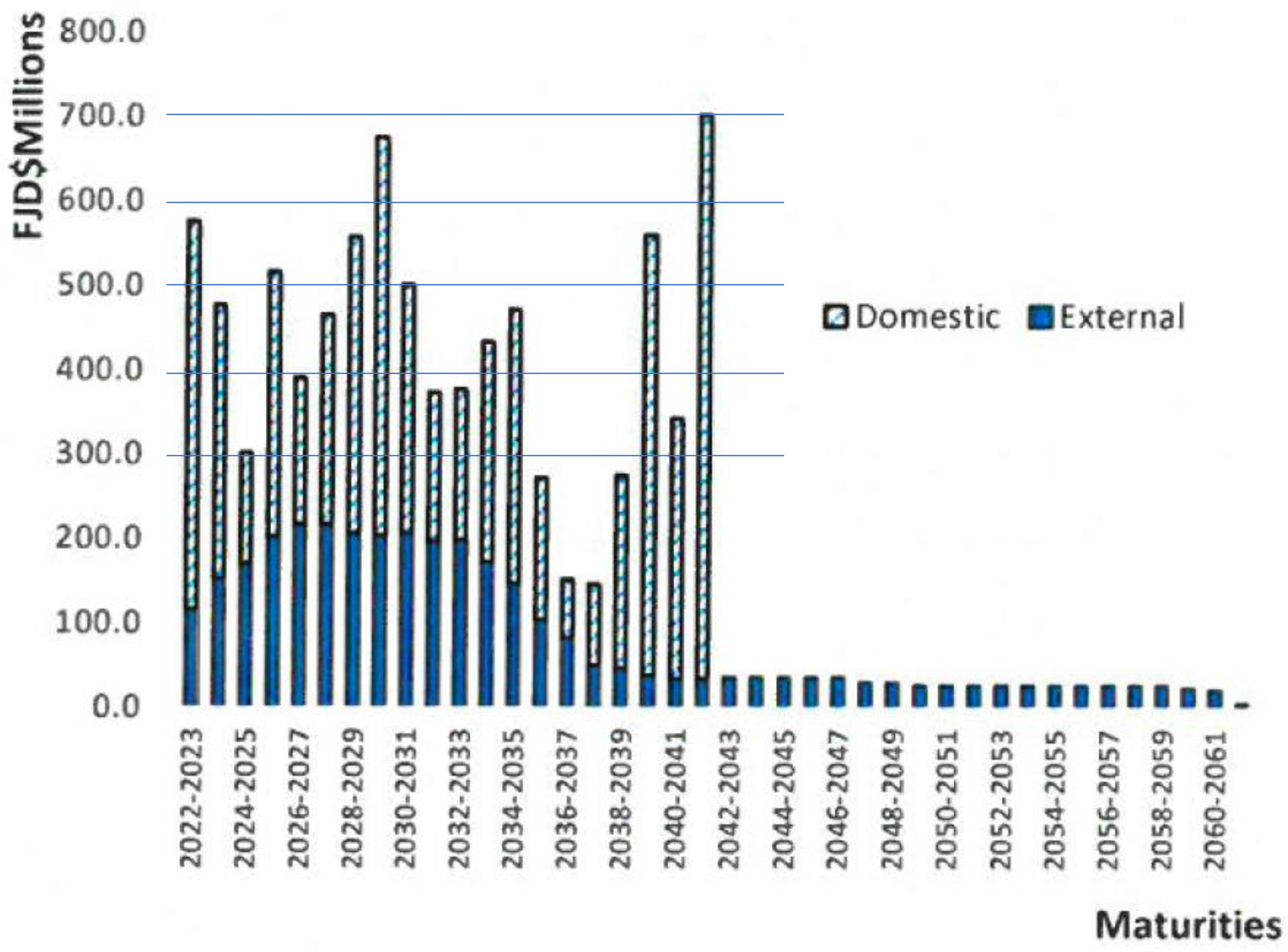
- Major existing programmes to be reviewed and Government should ensure that all financial resources allocated are used prudently to derive real value for money;
- All new initiatives to be rolled out in phases to manage costs and pilot testing should be done for the rollout of major initiatives;
- Encourage more private sector participation in public infrastructure projects and delivery of other public services through Public-Private Partnerships (PPP) and other innovative arrangements;
- Proper and effective monitoring of projects and budget utilisation through the Ministry of Finance; and
- Funding for ongoing programmes to be based on assessment of current and past performance and progressive achievement of planned outputs.



NB: Primary expenditure does not include interest payments. Expenditure or total expenditure used interchangeably does include interest payments but does not include loan repayment. Hence when total expenditure includes amortisation pls be explicit

Chart created by author. Source: RBF, Ministry for Economy and Stats Department

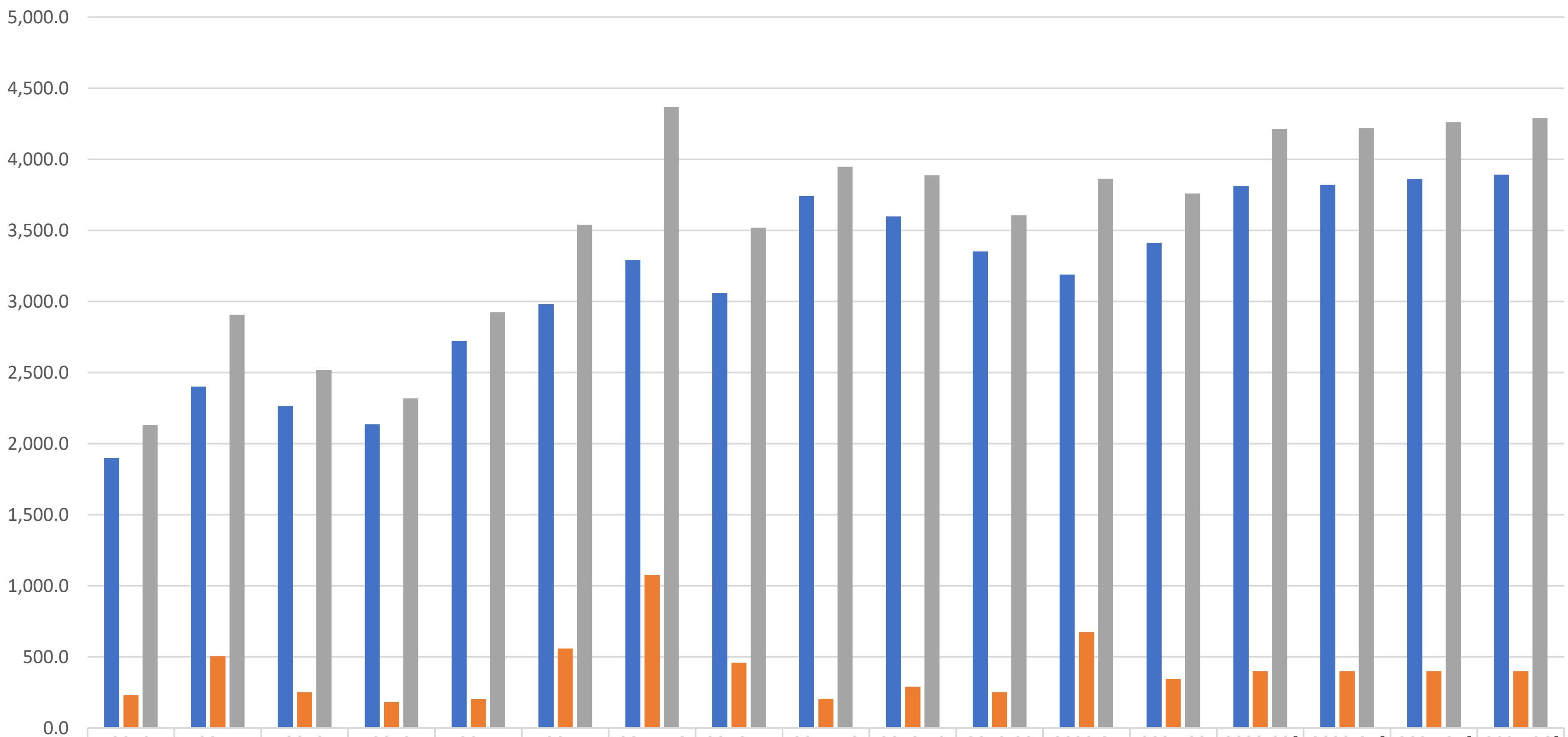
Figure 4: Central Government Debt Redemption Profile as at end-July 2022



Source: Ministry of Economy

Excerpted from Fijian Government 2021-2022 Annual Debt Report by the Debt Management Unit. Nov 2022, pg 7

Total Expenditure with Debt Repayment, in FJ Million



	2010	2011	2012	2013	2014	2015	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23f	2023-24f	2024-25f	2025-26f
Total Expenditure (without amortisation)	1,900.1	2,402.8	2,266.2	2,136.3	2,723.1	2,981.8	3,292.0	3,060.3	3,742.0	3,599.0	3,352.9	3,189.6	3,414.1	3,812.1	3,819.7	3,862.3	3,891.8
Total Loan Repayment	231.4	504.5	252.5	182.5	202.2	558.1	1,076.9	459.4	205.5	290.0	252.8	674.6	345.8	400.0	400.0	400.0	400.0
Total Expenditure including debt amortisation	2,131.5	2,907.2	2,518.8	2,318.8	2,925.3	3,539.9	4,368.9	3,519.6	3,947.5	3,889.0	3,605.7	3,864.3	3,759.9	4,212.1	4,219.7	4,262.3	4,291.8

■ Total Expenditure (without amortisation) ■ Total Loan Repayment ■ Total Expenditure including debt amortisation

My estimates on loan repayments schedule from 2023f-2026f

Chart created by author. Source: RBF, Ministry for Economy and Stats Department

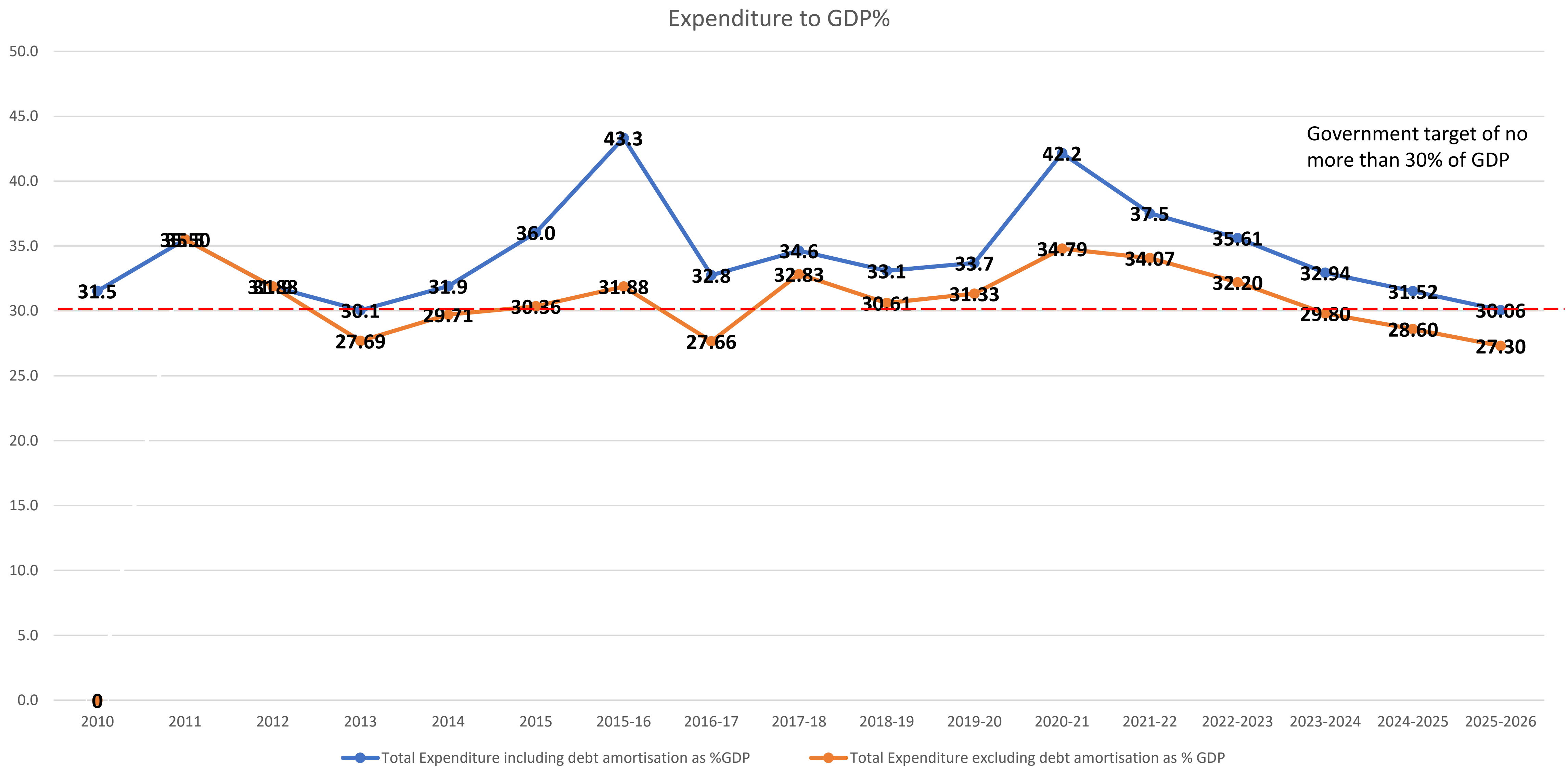


Chart created by author. Source: RBF, Ministry for Economy and Stats Department

OVERALL FISCAL BALANCE

"…….Government budgeted for a smaller **deficit of $872.2 million or 7.4 percent of GDP for FY2022-2023, with total revenue at $2,939.9 million and expenditure at $3,812.1 million. "**

In FY2024-2025 and FY2025-2026, net deficit targets of $479.4 million (-3.5% of GDP) and $425.6 million (-3.0% of GDP) can be easily financed domestically. Given these deficit targets, primary balance is projected to improve from -3.6 percent of GDP in FY2022-2023 to less than -0.1 percent by the end of FY2025-2026. Consequently, government debt as a percent of GDP will fall from 84.6 percent of GDP in FY2022-2023 to 80.4 percent by FY2025-2026

NB: Primary balance is total revenue minus total expenditure (excluding interest payments)

Excerpts from MTFS 2023

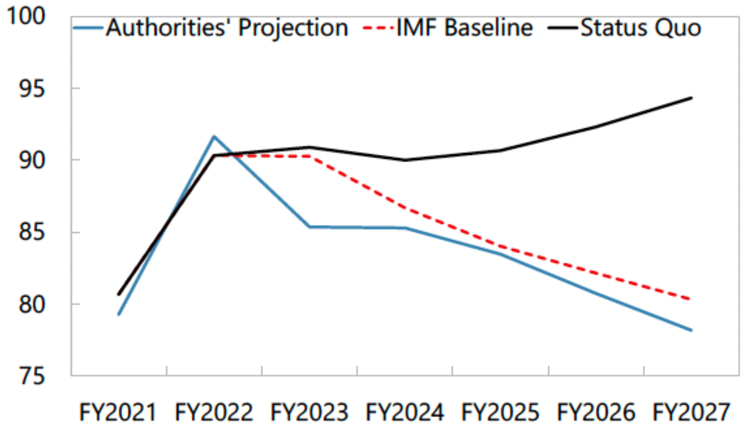
- Debt obligations are sizeable
- When debt obligations are taken into account, the government ends up always running a persistent and large fiscal deficit
- For some years primary expenditure tracks revenue closely, it more recent time, it has started to diverge with revenue not keeping pace with increase in expenditure
- From 2017, revenue has been persistently below primary expenditure and diverging, creating a larger deficit. Revenue as share of GDP has dipped to a low of 21.5% in 2022. Granted that economic activity slowed over the covid lockdown, it has however been on a downward trend since 2017.
- Revenue contribution from direct taxes appear to be low, could be higher
- Overall revenue to GDP ratio started its gradual decline from its historic average of about 27% of GDP to 21% currently for FY2021-2022. In the meantime, government continues to spend more, peaking to 42.2% in FY20-21, the second highest since the 90s. While it may appear to be covid related, it was actually due to a sizeable debt repayment that year.
- To close the gap and manage fiscal balance, (according to the IMF primary surplus should
    - debt amortization should be spread out
        - For official debt, payment duration could be spread out more. As in the case with some bilateral official debt under DSSI
    - Debt interest payments could be reduced
        - Through liability operations – most costly debt held by certain creditors could be purchased and expired such as the Fiji green bonds, through issuing cheaper debt
    - External official bilateral debt could be reduced through
        - Some haircut from bilateral creditors
        - Grant from bilateral donors (Australia, NZ, US, Japan, Taiwan?)
        - Fresh borrowings from multilateral at lower costs than Chinese debt
    - Broaden and deepen the revenue base - Increase revenue sources
        - Increase direct taxes
        - Grant commitments
            - Aust, NZ
            - MDBs
    - Cheaper debt financing (concessional lending)
        - Climate from MDBs, Bilaterals
        - SDGs from MDBs, bilaterals

IMF Art IV Consultation with FIJI in Dec 2021

- **Charting a course back toward macro-fiscal equilibrium is a clear priority**. The authorities have announced the objective of reducing the **overall fiscal deficit** to about **2 percent of GDP by 2026** to put the debt-to-GDP ratio on a downward trajectory (although detailed measures have yet to be specified). Staff simulations indicate that under a scenario of unchanged fiscal policies, the fiscal deficit would remain above 7 percent throughout the forecast horizon, and public debt would rise above 94 percent of GDP by FY2026-27. This suggests that without revenue reforms, the macro-fiscal trajectory would be either unsustainable or would require such draconian cuts to expenditures as to damage prospects for growth. Fiji's limited access to financing further highlights the importance of fiscal consolidation. While short-term support remains necessary in the remaining months of the pandemic, a clear roadmap for fiscal reform will be essential to ensure fiscal and debt sustainability over the medium term.

Alternative Debt Projections

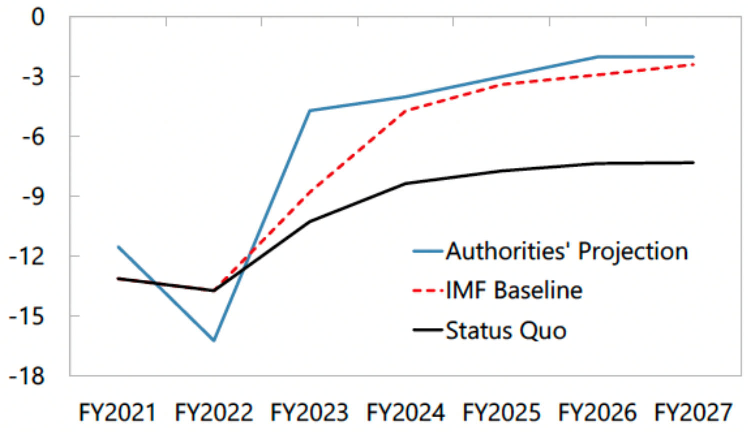
(In percent of GDP)



Sources: Ministry of Economy and IMF staff projections.

Alternative Fiscal Balance Projections

(In percent of GDP)



Sources: Ministry of Economy and IMF staff projections.

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	46.3	48.9	70.8	86.0	88.7	85.3	81.7	79.3	77.4
Public gross financing needs	9.3	7.6	20.4	18.8	16.7	11.6	8.9	7.7	6.9
Real GDP growth (in percent)	3.7	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation (GDP deflator, in percent)	4.0	2.4	-2.6	1.2	2.5	3.0	2.8	2.7	2.5
Nominal GDP growth (in percent)	7.5	1.9	-17.9	-2.9	8.9	11.5	9.4	7.3	5.9
Effective interest rate (in percent) [4/]	6.8	6.1	6.2	5.3	5.1	4.9	4.8	4.9	5.1

10. The staff proposed a roadmap for fiscal adjustment that would target a sustainable primary budget surplus of 1-2 percent of GDP by the end of the medium-term. The proposed roadmap comprises a phased series of policy measures to raise selected tax and excise rates, scale back tax holidays, broaden the tax base, and increase the efficiency of revenue collection (Table 1). Staff estimates suggest that full implementation of these reforms would raise government revenue by about 4.3 percentage points of GDP—somewhat less than the policy-related revenue losses in FY20 and FY21. Revenue reforms would need to be accompanied by a steady reduction in overall government spending—primarily recurrent expenditure. It is also recommended to undertake an analysis of government capital spending, including a Public Investment Management Assessment (PIMA) to ensure that capital projects are planned, selected, and executed with a view to maximizing growth potential and climate resilience

The proposed phasing would initially target measures with the greatest potential gains and the least direct impact on household incomes—leaving broader reforms to FY23-24 or beyond. Increases to the VAT, elimination of tax expenditures and expanding the base for the personal income tax would be expected to yield the greatest revenue gains and offer a less distortionary approach to rebuilding revenue than reversing the tax and other measures taken over the last 18 months

Text Table 1. Roadmap for Fiscal Reform

	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Revenue Measures			*in percent of GDP*		
Simplify PIT Structure; Lower Threshold to F$20,000		0.16			
PIT Structure: Lower Threshold to F$15,000			0.26		
Raise VAT from 9% to 10%	0.66				
Raise VAT from 10% to 12%		1.32			
Raise Fringe Benefit Tax to 35%	0.15				
Introduce Dividend Witholding Tax at 10%	0.29				
Increase Excise Tax on Alcohol		0.37			
Cut Film Tax Rebate by 50%	0.68				
Discontinue Export Incentive		0.13			
Raise Departure Tax from F$100 to F$125			0.16		
Raise Departure tax from F$125 to F$150				0.16	
Total FY Increase in Revenue	***1.78***	***1.98***	***0.42***	***0.16***	***0***
Direct Taxes	0.68	0.29	0.26	0	0
Indirect Taxes	1.1	1.69	0.16	0.16	0

Implementation of measures in the roadmap would also help align Fiji's tax regime with international practice and enhance the efficiency of taxation. For example, raising the fringe benefit tax would reduce the preferential treatment of fringe benefits relative to wage remuneration, raising additional revenue while reducing potential distortions to compensation practices. Similarly, introducing a dividend withholding tax on non-residents of 10 percent and phasing out the export income incentive would help align Fiji's tax regime with standard international practices while keeping its tax system competitive.

IMF Art IV

Text Table 2. Decomposition of Fiscal Consolidation	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
	in percent of GDP				
Revenue Measures	1.8	2.0	0.4	0.2	0.0
Expenditure Measures	0.1	0.3	0.4	0.3	0.2
Unwinding of Pandemic Expenditure Measures	1.9	0.8	0.0	0.0	0.0
Cyclical Improvement (incl. Denominator Effect)	1.3	0.8	0.4	0.2	0.2
Other Factors	-0.2	0.1	0.0	-0.1	0.2
Total Change in Primary Balance	**4.9**	**4.0**	**1.2**	**0.5**	**0.6**
Primary Balance Forecast	**-4.9**	**-0.9**	**0.3**	**0.8**	**1.4**

Source: IMF staff estimates.

- **Overall, these measures should help reverse much of the policy-related drop in Fiji's structural revenue profile.** On the expenditure side, the fiscal profile will be helped by a phasing out of crisis-related transfers, notably the unemployment assistance scheme (2.1 percent of GDP).Together with a steady reduction in recurrent spending and improved fiscal performance resulting from the projected recovery, the measures in this roadmap should be sufficient to create a primary surplus between 1-2 percent of GDP on a sustainable basis (Table 2).

Even with full implementation of proposed reforms, risks remain high. The debt sustainability analysis (DSA) suggests high levels of risk from the recent surge in public debt, including sizeable gross financing needs in the near term that could be associated with budget financing risks. Domestic financing remains heavily concentrated on the Fiji National Provident Fund (FNPF), with limited absorption capacity in the private financial sector. That said, FNPF is assessed to have a robust financial position with comfortable cash reserves, supported by a healthy financial performance thus far in the pandemic. Moreover, given the likelihood that one or more external shocks will materialize over the medium-term horizon, the overall sustainability of the outlook rests critically on implementation of fiscal adjustment as envisaged in the baseline macroeconomic framework. Absent such measures to put the ratio of public debt to GDP firmly on a downward trajectory, the fiscal trajectory and medium-term outlook appear unsustainable.

According to the IMF tax revenue to GDP ratio should be raised to at least 22.5%

Table 1: Fiscal Performance

($Million)	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023 Budget
Total Revenue	**3,244.4**	**3,180.5**	**2,717.1**	**2,143.1**	**2,190.9**	**2,939.9**
As a % of GDP	28.5	27.1	25.4	23.4	21.9	24.9
Tax Revenue	**2,831.6**	**2,819.7**	**2,193.8**	**1,412.7**	**1,692.0**	**2,322.1**
As a % of GDP	24.8	24.0	20.5	15.4	16.9	19.6
Non-tax Revenue	**412.8**	**360.8**	**523.3**	**730.4**	**498.9**	**617.8**
As a % of GDP	3.6	3.1	4.9	8.0	5.0	5.2
Expenditure	**3,742.7**	**3,600.1**	**3,353.4**	**3,190.4**	**3,414.1**	**3,812.1**
As a % of GDP	32.8	30.6	31.3	34.8	34.1	32.2
Operating Expenditure	**2,322.0**	**2,428.9**	**2,333.7**	**2,189.0**	**2,261.7**	**2,600.7**
As a % of GDP	20.4	20.7	21.8	23.9	22.6	22.0
Capital Expenditure	**1,383.2**	**1,133.1**	**988.1**	**973.4**	**1,123.0**	**1,160.6**
As a % of GDP	12.1	9.6	9.2	10.6	11.2	9.8
SEG 13 VAT	37.5	38.1	31.6	28.0	29.4	50.8
Overall balance	**-498.3**	**-419.6**	**-636.3**	**-1,047.3**	**-1,223.2**	**-872.2**
As a % of GDP	**-4.4**	**-3.6**	**-5.9**	**-11.4**	**-12.2**	**-7.4**
Nominal GDP	11,399.1	11,757.5	10,703.3	9,167.6	10,020.9	11,827.3

Table 3: FY2023-2024 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

Staff see merit in a phased series of measures to boost public revenue by an estimated 4.3 percent of GDP, with a view to bringing total tax revenue up to at least 22.5 percent of GDP by the end of the medium-term. **Increases in the VAT hold the greatest potential for overall revenue gain and represent a more broad-based, efficient, and growth-friendly alternative to taxes that impacted mainly the tourism sector**. However, the staff see merit in prioritizing the near-term measures that will have less impact on domestic demand—such as eliminating tax expenditures, taxing dividend income, and raising the fringe benefit tax. Careful management of public expenditure—including both recurrent and capital spending—will also be critical. To put debt firmly on a downward path, it will be essential for fiscal policy to be anchored around generating and sustaining a small primary budget surplus. Pg 22 of Article IV Dec 2021

Growth Assumptions and Projections

With the projected recovery in tourism and related sectors in the medium term, **a broad-based growth of 6.0 percent is forecast for 2023, followed by 3.8 percent in 2024 and 2.4 percent in 2025**. However, downside risks to these forecasts have increased with the impending global recession and subsequent slowdown in Fiji's major tourism source markets.

The economy is forecast to expand by 6.0 percent in 2023 and another 3.8 percent in 2024 when it rebounds to the same level of real GDP as in 2019. Although a broad-based growth is expected over the next two years, the main catalyst will still be the rebound in tourism activity as it gradually returns to the pre-pandemic level by 2024.

Fiji remains vulnerable to price competition from South-East Asian destinations where cost structures are lower. The tourism industry needs to position itself as a high-quality destination and attract high-yielding guests to create a differentiated market from South-East Asia and possibly other Pacific destinations with a greater focus on staycation packages, sports, eco-tourism and business & conference markets.

From a policy perspective, continued and sustainable growth post-2024 requires structural reforms that support a private sector and export-led growth

Excerpts from MTFS 2023

Growth Assumptions and Projections

Consumption spending has been strong in 2022

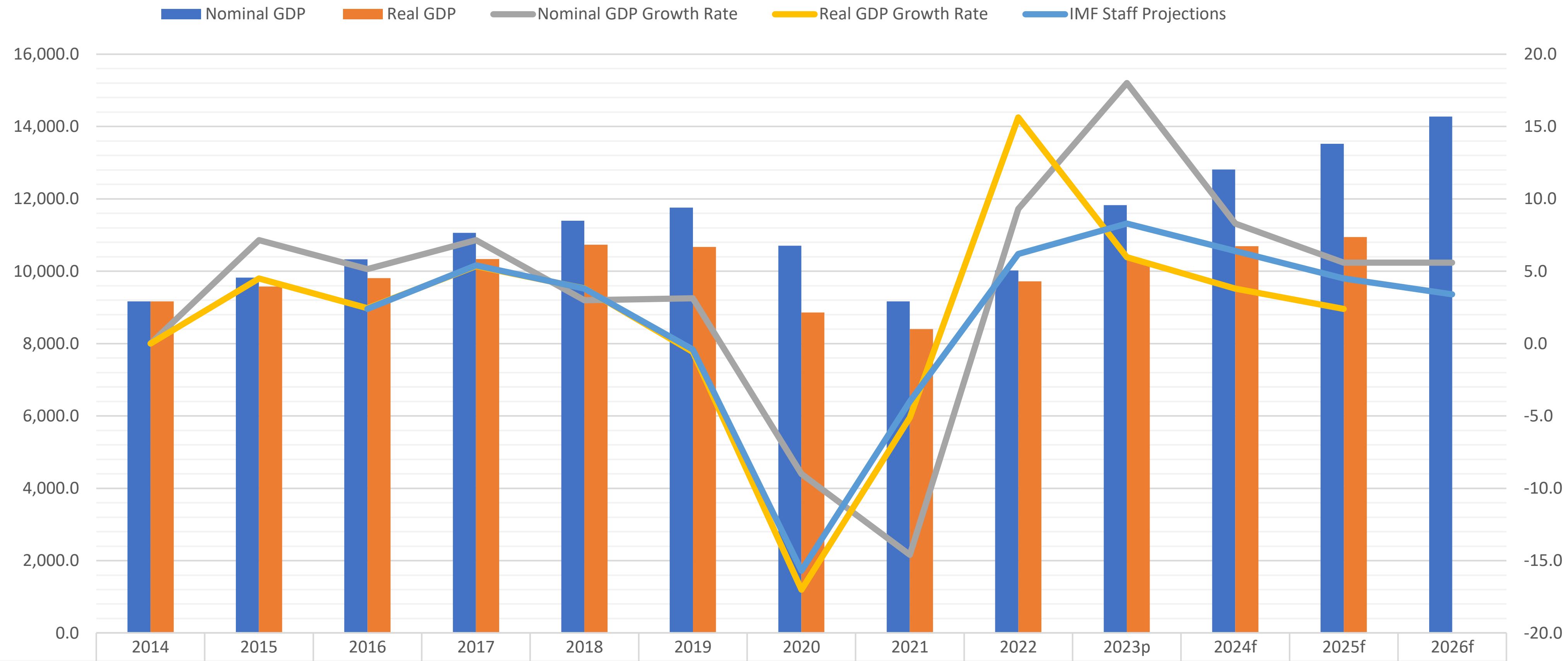
Consumption spending has also been supported by the strong growth in remittances in the year to December (+23.1%) supported by greater participation of Fijian workers in international labour market schemes, and the rollout of inflation mitigation transfers by Government to low-income families. Remittances receipts account for the second largest source of foreign exchange and has crossed the billion-dollar mark in 2023.

new consumption lending (+37.9%)

investment and construction activity remain hampered by high building material prices.

In 2023, investment is expected to remain modest consistent with global and domestic developments

GDP, FJ Million and Growth Rate

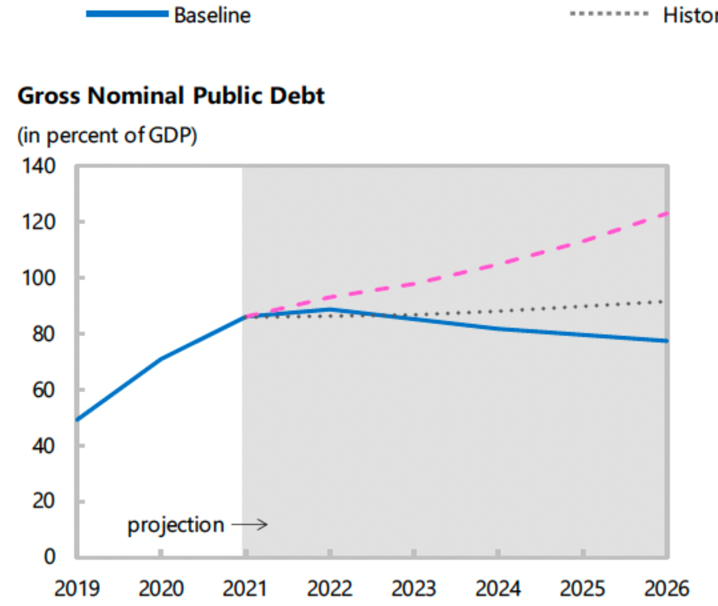


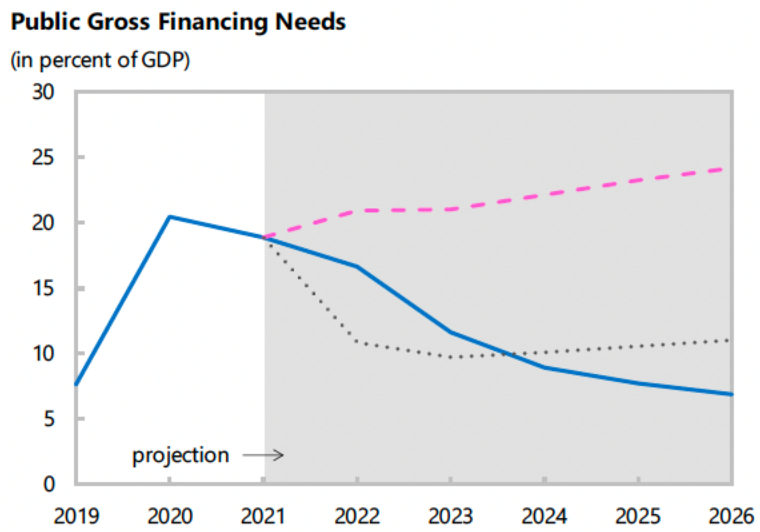
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023p	2024f	2025f	2026f
Nominal GDP	9,167.0	9,822.1	10,327.3	11,065.0	11,399.1	11,757.5	10,703.3	9,167.6	10,020.9	11,827.3	12,811.8	13,524.2	14,276.10
Real GDP	9,167.0	9,579.7	9,813.9	10,339.3	10,733.5	10,671.0	8,856.9	8,404.2	9,718.3	10,298.8	10,690.4	10,946.8	
Nominal GDP Growth Rate	0.0	7.1	5.1	7.1	3.0	3.1	-9.0	-14.6	9.3	18.0	8.3	5.6	5.6
Real GDP Growth Rate	0.0	4.5	2.4	5.4	3.8	-0.6	-17.0	-5.1	15.6	6.0	3.8	2.4	
IMF Staff Projections			2.4	5.4	3.8	-0.4	-15.7	-4	6.2	8.3	6.4	4.5	3.4

NB: Nominal GDP data from 2014-2017 data is sourced from RBF and Stats Department published data towards end of 2022. Data from 2018 onwards including up to 2026 forecasts is taken from MTFS 2024-2026, published in Feb 2023. Real GDP figures are taken from RBF and Stats Department. Note that the real rate is also used in the MTFS 2023 but not in the debt projections in the MTFS 2023 which used nominal GDP. IMF staff projections are taken from Fiji's Article IV consultation published in Dec 2021. IMF Staff projections are for real GDP and used in their baseline scenario for Fiji's debt sustainability assessment.

- As observed in table above, IMF's real GDP projections are more optimistic than Fiji's past and recent experience, except for 2022 when the economy rebounded from a negative base. These projections are used to underpin a scenario where Fiji's debt will be deemed sustainable moving towards less than 80% of its economy by 2026.
- Official estimates (by RBF and Stats department at the end of 2022) of real GDP from 2022 to 2025 is considerably lower than that of the IMF's
- While the MTFS used the real GDP growth rate in describing where growth is headed, in its estimates of debt to gdp projections it used nominal GDP instead of real GDP. Hence when measured against real GDP, the debt to gdp ratio will be higher since the denominator will be smaller

Alternative Scenarios





Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-7.0	-2.5	-0.2	0.6	1.2
Effective interest rate	5.3	5.1	4.9	4.8	4.9	5.1
Constant Primary Balance Scenario						
Real GDP growth	-4.0	6.2	8.3	6.4	4.5	3.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-11.2	-11.2	-11.2	-11.2	-11.2
Effective interest rate	5.3	5.1	4.8	4.6	4.5	4.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-4.0	1.4	1.4	1.4	1.4	1.4
Inflation	1.2	2.5	3.0	2.8	2.7	2.5
Primary Balance	-11.2	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	5.3	5.1	5.1	5.2	5.3	5.5

Current official govt estimates is more optimistic on fiscal reforms and less hopeful about growth compared to IMF's baseline scenario's underlying assumptions made in Dec 2021. Similar reality check critique applies. However, new govt with fresh political will and opportunity.

New debt schedule assumptions

- Nominal gdp growth is high vs historic average (need to factor in inflation? Which is forecasted at 3% for 2023)
- Check against IMF’s DSA scenario assumptions and projections
- revenue growth rate does it sync with historic (granted that Govt is now trying to raise rather than reduce it)
- Expenditure hardly changed is that realistic, even with inflation only factored in, and no actual increase, projections seems to suggest that it will fall if inflation is taken into account
- Also does expenditure projections here include debt amortisation and not just interest. Check against debt re-payment schedule
- All these assumptions will have to pan out for debt to gdp ratio to be on a downward trajectory
- Check against IMF DSA assumptions/ projections
- How will the absolute increase be financed?
- Domestic will cost, especially if new debt is to be issued
- Concessional loan from whom
- Need to ensure that grants/ budget support are maintained or increased
- For it to be sustainable, structural growth needs to take place
- Shocks can throw things off easily. Especially when the pace of change is slow and shallow. And puts the country easily back on debt unsustainable trajectory

Analytical approach

1. debt burden is crippling- high interest and amortisation- hence paying back will mean cutting back in other areas. Where? What has the Govt said in its Feb paper
2. How to reduce this burden apart from belt tightening? -Can debt burden be lightened thru stretching it out, reduce payments by repurchases, early redemption either with lower costs financing (shorter term reissues, concessional loans?)
3. -Increase revenue collection
4. Increase budget support
5. Allow mild currency depreciation

As found in previous MTDS

Debt Management Strategy

4.12 The medium-term fiscal strategy will complement debt sustainability and fiscal discipline. The broad objectives of Government debt strategy in the medium-term will remain as follows:

- minimise the medium to the long-term cost of Government debt within prudent levels of risk; and
- support the development of a well-functioning domestic market for debt securities.

4.13 To achieve the above objectives, Government will focus on the following debt management policies to guide its borrowing in FY2023-2024 and onwards:

- lower the cost of debt through concessional financing from bilateral and multilateral lenders;
- change the maturity profile through a gradual reduction in Treasury Bills and issuances of short and medium-term bonds (2-year to 5-year tenor);
- continue issuances of long-term bonds (10-year to 20-year tenor) to finance deficits;
- develop the domestic bond market to focus more on transparency, secondary market trading, settlement mechanisms and investor diversification;
- consider callbacks, bond buybacks and switch operations; and
- minimise risks associated with on-lending and contingent liabilities.

Contingent Liabilities

As at 31 December 2022, total contingent liabilities stood at $1.8 billion, equivalent to 14.8 percent of GDP. This comprises of: 3.20.1 Government guaranteed debt which stood at $1,125.2 million, equivalent to 9.5 percent of GDP for which existing guaranteed entities constitutes Fiji Airways ($476.1 million), Fiji Development Bank ($297.0 million), Fiji Sugar Corporation Limited ($268.6 million), Housing Authority ($81.7 million) and Pacific Fishing Company Pte. Limited ($1.1 million). Total guaranteed entities increased by 5.3 percent when compared to the outstanding balance as at 31 July 2022 and by 1.5 percent when compared to the same period last year. The increase was attributed to the utilization of approved guaranteed facilities by Fiji Airways, Fiji Sugar Corporation Limited and Pacific Fishing Company Pte Limited;

3.20.2 Total other explicit contingent liabilities stood at $554.4 million, equivalent to 4.7 percent of GDP comprising Government shares held with multilateral banks (IBRD, ADB and AIIB). This represents an increase by 0.5 percent when compared to 31 July 2022 and 3.8 percent increase when compared to the same period last fiscal year attributed to the appreciation of US exchange rate; and

3.20.3 Total other implicit contingent liabilities stood at $75.1 million, equivalent to 0.6 percent of GDP, representing a decline of 1.2 percent when compared to July 2022 and a sharp decrease of 16.1 percent when compared to the same period last fiscal year attributed to the timely servicing of provincial council's, municipal councils and FRCS's debt.
Source: MTFS, Feb 2023

Table 2: Risk Assessment of Guaranteed Entities as at 31 July 2022

Budget Sectors	Tier 1 Low	Tier 2 Medium	Tier 3 High
Infrastructure			
Social Services		HA	
Economic Services	PAFCO		FA, FSCL
General Administration		FDB	

Source: Ministry of Economy

Excerpted from Annual Debt Report 2021-22. Pg 8

FSCL and FA deemed to be high risk. "FSCL continues to rely heavily on government financial support to ensure business continuity. FA under financial stress due to Covid lock down, however expected to recover with resumption of travel and tourism. Pg 8

Foreign reserves remained comfortable at around FJ$3.4 billion at the end of December (equivalent to 6.9 months of retained import cover) bolstered by high tourism receipts, remittances, and earlier external Government loan drawdowns and budget support from Australia and New Zealand. Foreign reserves are expected to remain adequate in the near to medium-term, however, proactive measures are needed to address Fiji's underlying balance of payment challenges. Domestic exports must be sustainably increased, new foreign direct investment enticed, and the tourism sector rebuilt and diversified. More urgently, productivity improvements are needed across the economy to enhance our competitiveness and long-term economic growth prospects.

(please note that even according to the IMF, primary income account deficit is due to heavy repatriation of profits, a result of significant increase in capital inflows such as FDI leading to a deteriorating net international investment position for Fiji where its liabilities far outstrips its foreign assets.

- Need to analyse debt as portfolio
  - Break it down into its specific instruments (IMF, ADB, Bilaterals, domestics of various kinds etc)– according to its features
    - Cost of funds
      - Total cost over lifetime and currency and inflation – NPV
      - Effective interest rates calculated as interest payments over debt stock (excluding guarantees) at the end of the previous year . Pg 34 (footnote 4), IMF Art IV Dec 2021.
    - Maturity
    - Currency
    - Creditors
    - Covenants and terms
  - To shape each instrument towards lower cost and risk and improve overall profile of portfolio and to guide liability operation
  - This will also determine how much headroom for fresh financing

Table 1. Fiji: External Debt Sustainability Framework, 2016-26

(in percent of GDP unless otherwise indicated)

	Actual					Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Baseline: External debt	23.4	23.4	25.5	29.1	38.8	**51.2**	**55.3**	**53.5**	**50.7**	**48.5**	**45.8**
Change in external debt	-1.8	0.0	2.0	3.7	9.7	12.4	4.1	-1.8	-2.8	-2.2	-2.7
Identified external debt-creating flows (4+8+9)	-5.9	-2.4	-1.0	6.5	14.9	9.6	0.5	-3.0	-3.5	-1.9	-0.9
Current account deficit, excluding interest payments	1.9	5.5	7.2	11.1	11.1	13.2	6.3	4.7	4.7	5.5	6.3
Deficit in balance of goods and services	3.9	5.0	7.6	10.3	16.4	20.7	10.8	6.5	5.7	5.7	5.9
Exports	46.6	46.0	47.9	48.1	27.5	23.1	38.0	43.9	45.5	46.1	46.9
Imports	50.5	50.9	55.5	58.4	43.9	43.7	48.8	50.3	51.2	51.8	52.8
Net non-debt creating capital inflows (negative)	-8.2	-7.2	-8.5	-6.5	-5.0	-7.5	-5.4	-5.9	-7.1	-7.2	-7.2
Automatic debt dynamics 1/	0.5	-0.7	0.3	1.9	8.8	4.0	-0.4	-1.8	-1.1	-0.2	0.0
Contribution from nominal interest rate	1.7	1.2	1.2	1.5	2.3	2.5	2.5	2.3	2.0	1.9	1.5
Contribution from real GDP growth	-0.6	-1.2	-0.9	0.1	5.6	1.5	-2.9	-4.1	-3.1	-2.1	-1.5
Contribution from price and exchange rate changes 2/	-0.7	-0.7	-0.1	0.3	0.9	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	4.1	2.4	3.1	-2.9	-5.2	2.8	3.6	1.2	0.7	-0.3	-1.8
External debt-to-exports ratio (in percent)	50.2	51.0	53.1	60.5	141.1	222.0	145.6	121.8	111.5	105.3	97.7
Gross external financing need (in billions of US dollars) 4/	0.7	0.7	0.9	1.1	1.2	1.3	1.2	1.2	1.3	1.4	1.5
in percent of GDP	13.3	13.2	16.3	20.1	27.4	27.4	23.1	21.8	21.3	21.3	21.2
Scenario with key variables at their historical averages 5/						**51.2**	**56.2**	**59.4**	**62.2**	**63.7**	**63.2**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	2.4	5.4	3.8	-0.4	-15.7	-4.0	6.2	8.3	6.4	4.5	3.4
GDP deflator in US dollars (change in percent)	2.8	3.1	0.4	-1.1	-3.0	7.6	2.5	3.0	2.8	2.7	2.5
Nominal external interest rate (in percent)	7.3	5.5	5.5	5.7	6.5	6.6	5.3	4.6	4.1	4.0	3.4
Growth of exports (US dollar terms, in percent)	0.6	7.0	8.6	-1.1	-53.3	-13.3	79.4	28.8	13.4	8.6	7.8
Growth of imports (US dollar terms, in percent)	1.6	9.5	13.6	3.6	-38.6	2.9	21.5	15.0	11.2	8.5	8.0
Current account balance, excluding interest payments	-1.9	-5.5	-7.2	-11.1	-11.1	-13.2	-6.3	-4.7	-4.7	-5.5	-6.3
Net non-debt creating capital inflows	8.2	7.2	8.5	6.5	5.0	7.5	5.4	5.9	7.1	7.2	7.2

Sources: Country authorities and staff estimates and projections.

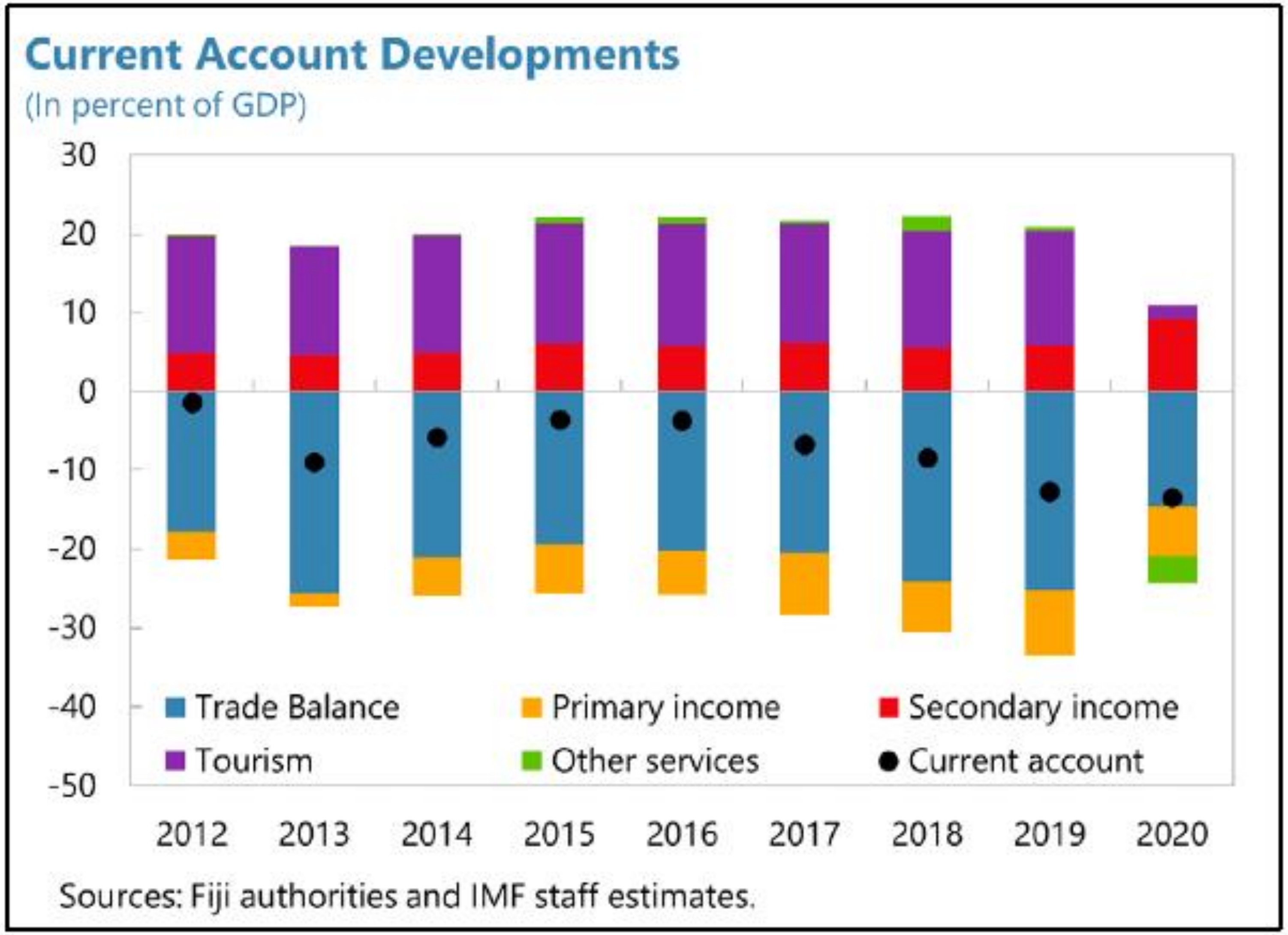
1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = rea GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

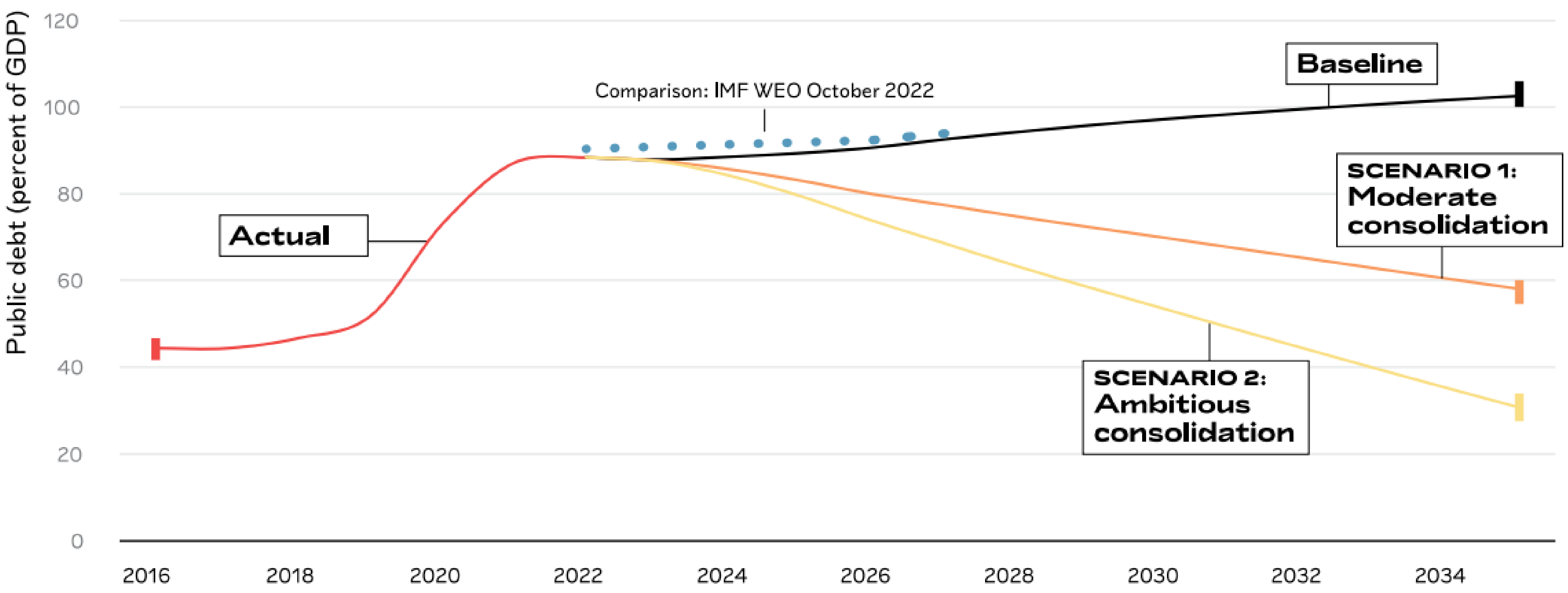
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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



Pg42, IMF Art IV Dec 2021

FIGURE 1 Fiscal Consolidation Pathways and Their Impact On Public Debt



Source: Fiji MoF, IMF WEO, World Bank staff estimates.

TABLE 2 Contributions to Fiscal Consolidation

Scenario			Baseline	Scenario 1	Scenario 2
Fiscal deficit in FY22 (percent of GDP)			-12.0	-12.0	-12.0
Cumulative reform impact by FY27 (percent of GDP)		Tax revenue	0.5	4.2	6.1
		Primary expenditure	-3.6	-4.4	-5.3
		Total consolidation	**4.1**	**8.6**	**11.4**
Recovery and other changes (net consolidation, percent of GDP)			0.6	0.5	0.6
Fiscal deficit in FY27 (percent of GDP)			-7.3	-2.9	-0.1
Public debt	Percent of GDP	2023	87.9	87.6	87.5
		2032	99.6	65.2	44.3
	Change 2023-2032	Total	11.7	-22.5	-43.2
		p.a.	1.3	-2.5	-4.8
Growth	Average annual real growth rate 2023-2027		5.3	5.1	5.0

Sources: Fiji MoF Fiscal Outturn Report FY22, World Bank staff estimates.

TABLE 3 Contributions to Fiscal Consolidation

Scenario			Baseline	Scenario 1	Scenario 2
Fiscal deficit in FY22 (percent of GDP)			-12.0	-12.0	-12.0
Cumulative reform impact by FY27 (percent of GDP)		Tax revenue	0.5	4.2	6.1
		Primary expenditure	-3.6	-4.4	-5.3
		Total consolidation	**4.1**	**8.6**	**11.4**
Recovery and other changes (net consolidation, percent of GDP)*			0.6	0.5	0.6
Fiscal deficit in FY27 (percent of GDP)			-7.3	-2.9	-0.1
Public debt	Percent of GDP	2023	87.9	87.6	87.5
		2032	99.6	65.2	44.3
	Change 2023-2032	Total	11.7	-22.5	-43.2
		p.a.	1.3	-2.5	-4.8
Growth	Average annual real growth rate 2023-2027		5.3	5.1	5.0

* This comprises non-directly reform related changes to tax revenue from the economic recovery, stabilization of non-tax revenue collections at its long-term pre-COVID-19 average (2.6 percent of GDP over FY10-FY19), a partial normalization of grant receipts following a COVID-19-related spike, and changes to interest payments as an expected result from reform implementation and corresponding changes to fiscal outturns.

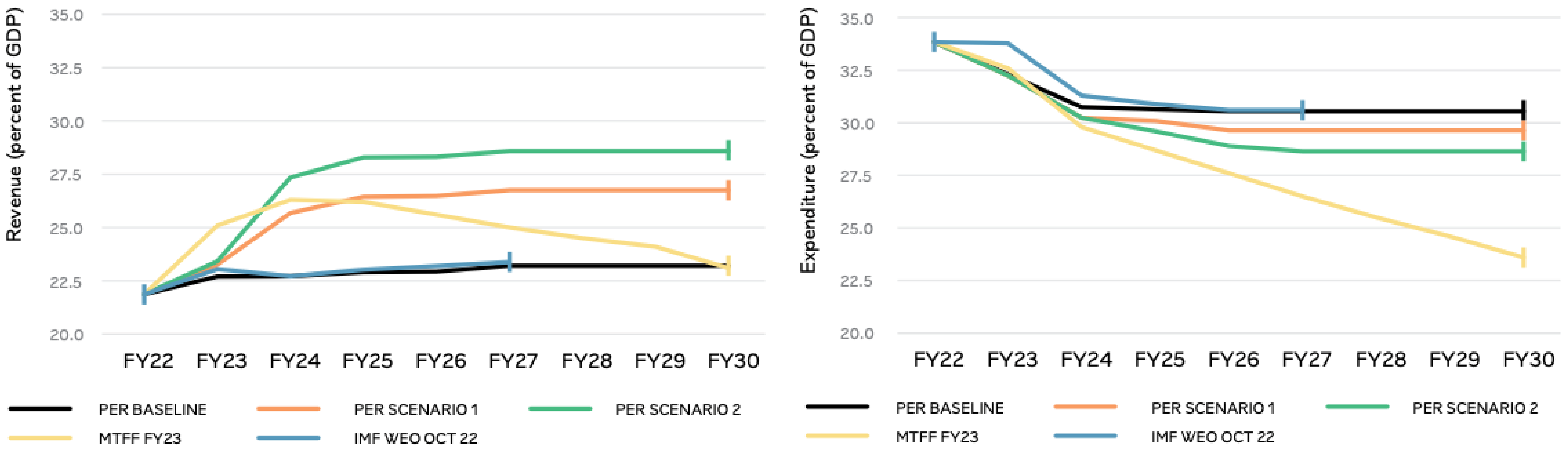
Sources: MoF Fiscal Outturn Report FY22, World Bank staff estimates.

TABLE 4 The Assessment of Scenario Outcomes Against Government Fiscal Targets Indicates the Need for an Ambitious Fiscal Consolidation

Government fiscal target (FY22 Budget Supplement)	Baseline	Scenario 1	Scenario 2
REVENUE-TO-GDP RATIO: To be maintained at 26 percent by FY23	**Not achieved** (22.7 percent in FY23 and 23.2 percent in FY27)	**Achieved** but later (23.3 percent in FY23 and above 26 percent from FY25)	**Achieved** but later (23.4 percent in FY23 and above 26 percent from FY24)
EXPENDITURE-TO-GDP RATIO: To be reduced to 30 percent by FY24	**Not achieved** (30.7 percent in FY24 and 30.5 percent in FY27)	**Achieved** but later (30.2 percent in FY24 and below 30 percent from FY26)	**Achieved** but later (30.2 percent in FY24 and below 30 percent from FY25)
PRIMARY BALANCE: Return to and maintain surplus from FY24 or earlier	**Not achieved** (ongo-ing deficits)	**Achieved** but later (-0.8 percent in FY24 and surplus from FY25)	**Achieved** (0.9 percent in FY24)
FISCAL DEFICIT			
Below 5 percent from FY23	**Not achieved** (9.6 percent in FY23)	**Achieved** but later (-9.0 percent in FY23 and below 5 percent from FY24)	**Achieved** but later (-8.8 percent in FY23 and below 3 percent from FY24)
Further reduction to 2 percent of GDP from FY27 or earlier	**Not achieved** (7.3 percent in FY27)	**Not achieved** (-2.9 percent in FY27)	**Achieved** (below 2 percent from FY25)
BORROWING: Restricted to high impact, high return and strategic capital expenditures	**Not achieved**	Achievable through prudent debt management and recommended public investment manage-ment reforms	
DEBT-GDP-RATIO			
80 percent by FY26	**Not achieved** (91 percent in 2026)	**Achieved** (80 percent)	**Achieved** (74 percent)
60 percent of GDP by FY36	**Not achieved** (103 percent in 2035)	**Achieved** (58 percent in 2035)	**Achieved** (31 percent in 2035)

Sources: Fiji MoF; World Bank staff estimates.

FIGURE 16 Revenue and Expenditure Trajectories under the Different Consolidation Pathways



Sources: Fiji FY23 Budget, IMF World Economic Outlook October 2022, World Bank staff estimates.

FIGURE 18 Overview of Reform Recommendations