

PANG/TWN Debt Workshop

Session 1: Overview of Fiji's Medium-Term Fiscal Strategy

Why a strategy?

- Financial Management (Amendment Act) 2021 requires Minister of Finance to submit a medium-term fiscal strategy to cabinet before annual budget
- Acts as a guide for budget preparations
- Need for fiscal consolidation
- Revenue reforms, private sector led growth

Economic Outlook

- COVID massive impact on economy and government revenues
- Bounce back in growth – Tourism better than expected, consumption up, VAT collection and remittances
- Cooling international environment and risks
 - Ukraine conflict, slowdown in Global North, inflation, cyclone season etc

Fiscal Developments

- Prior to 2016, Debt:GDP 45%
- Increased spending due to post-Winston, public sector wages, capital spending
- Previous Govt started fiscal consolidation but then COVID hit

MTFS

- 'Right size' civil service
- Proper investment appraisals
- Encourage PPPs in infrastructure
- Project monitoring

- HEALTHY, EDUCATED EMPLOYED POPULATION GENERATES REVENUE
- PRIVATE SECTOR LED RECOVERY

- Civil service wages
- Other operating expenses
- Capital works

- VAT
- Excise Tax
- Income Tax
- Tourism Tax
- Corporate Tax
- Custom Tax
- Remittances
- Budget Support
- Grants
- Investment Income

EXPENDITURE

REVENUE

DEBT REPAYMENTS

FOREIGN

DOMESTIC

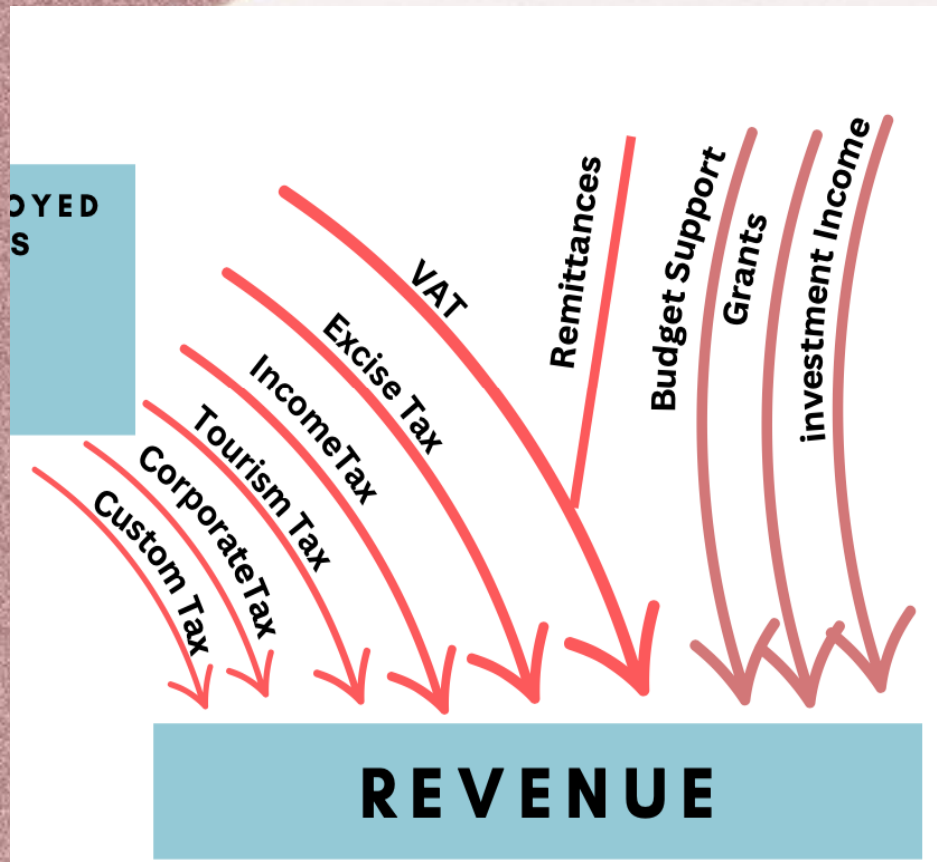
MTFS REFORMS

- Review corporate tax rate
- Review departure tax
- Review VAT towards a single rate
- Review excise on alcohol
- Widen tax base
- Improve tax compliance

MTFS REFORMS

- Aim for concessional loans
- change maturity of treasury Bills to 2-5 years
- Continue with boards with 10-20 year duration
- Develop domestic bond market
- No room for more debt

Fiscal Developments - Revenue



- COVID saw revenue drop dramatically
- Increase in budget support from A/NZ
- Revenue as % of GDP
 - 2018/19 – 27.1%,
 - 2021-22 – 21.9%
- Stimulus included cuts to tourism taxes, alcohol excise, over 2,000 import taxes
 - Result in permanent loss of 4-5% of revenue from tourism
- 3-tiered VAT, Corporate taxes 20%, import taxes cut

Fiscal Developments – Expenditure



EXPENDITURE

- Rising before COVID hit
- Spending just above 30% of GDP
- Operating Expenses 2/3rd Govt spending
 - Wages, social services, supports, health, education etc
- Capital Expenses
 - road, bridges, water, sanitation

Government Debt

- Pre-pandemic below benchmark of 50% of GDP
- COVID pushed this up to 91.1%
- This year down to 84.6%
- Repayments FJD\$346m
- State-Owned Enterprises as a debt liability

Medium Term Fiscal Framework

- 15% economic growth in 2022, down to 6% for 2023
- Risks from global economic slowdown
- No space to increase debt
- Economic recovery driven by private sector, enabling environment
- Fiscal consolidation – increased revenue, reduced but efficient spending

MTFF Revenue raising

Guiding principles:

- Widen tax base by gradually removing exemptions
- Improve tax compliance
- Make tax administration simpler
- Review non-tax revenue on a cost recovery bases

Possible policies

- Review corporate tax rate; departure tax; excise on alcohol; VAT regime towards a single rate

MTFF Expenditure

Guiding strategies:

- Undertake review to “right-size” civil service
- Tighten govt operational spending
- Better investment appraisals
- Encourage Public-Private partnerships
- Proper monitoring of projects

MTFF Debt

- Lower cost of debt through concessional financing
- Change maturity of Treasury Bills to 2-5 year duration
- Continue with Govt Bonds with 10-20 year duration
- Develop domestic bond market