

INTERNATIONAL MONETARY FUND ASSESSMENT LETTER

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**FOR
INFORMATION**

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May 26, 2017

To: Members of the Executive Board
From: The Secretary
Subject: [Fiji—Assessment Letter for the Asian Development Bank](#)

Board Action:	Executive Directors' information
Publication:	Yes*
Questions:	Mr. Lopez Murphy, APD (ext. 37647)

*If the authorities consent to the publication of this assessment, it may be published by the Asian Development Bank.

Fiji—Assessment Letter for the Asian Development Bank
May 25, 2017

- 1. The economy is recovering after the impact of cyclone Winston that struck Fiji on February 2016.** Winston was the most intense cyclone on record to affect the country. The combined value of damaged assets and production losses was about 30 percent of GDP. GDP growth slowed down to about 2 percent in 2016. Headline inflation picked up to 3.9 percent in 2016, due to persistent supply shortages of food items. The current account deficit widened to about 3 percent of GDP in 2016, reflecting the deterioration in the trade balance and slow growth in tourism receipts and remittances. The credit cycle upswing during 2013–15 was slowly unwinding as private sector credit growth decelerated to 12.8 percent in 2016.
- 2. Accommodative fiscal and monetary policies have been appropriately supporting the economy after the Winston shock.** The overnight policy rate, the main monetary policy instrument, has been at 0.5 percent since November 2011 and remained unchanged after Winston. The fiscal deficit in 2016-17 is expected to increase to around 5.5 percent of GDP due to the costs related to the rehabilitation of public infrastructure including schools, health facilities, and housing. Part of the deficit is expected to be financed by privatization receipts and most of it by domestic public debt absorbed by the Fiji National Provident Fund. Public debt is expected to remain on a sustainable path peaking around 50½ percent of GDP by 2020 and declining after that. External debt remains low at around 15 percent of GDP.
- 3. GDP growth is expected to increase to 3.7 percent in 2017, led by home rebuilding, other reconstruction activities, and the recovery in the agriculture and manufacturing sectors.** Inflation is expected to gradually decline to around 3 percent, as agriculture supply levels normalize. The current account deficit would increase to around 5 percent of GDP due to the increase of construction related imports, but foreign reserves are expected to remain sufficient to cover about 5 months of imports. The credit cycle is expected to continue unwinding.
- 4. The outlook is subject to significant downside risks.** The rebalancing in China could have negative income effects on Fiji's trading partners, especially Australia and New Zealand. The Pacific region is prone to natural disasters that weigh on growth and threaten fiscal sustainability. Prolonged monetary policy accommodation could increase vulnerabilities in the financial sector. There are also some upside risks. The new Fiji Airways direct flights to Singapore and San Francisco could help the tourism sector to perform better than expected.
- 5. Policy priorities.** Monetary policy should be tightened as the recovery becomes firm, and underlying inflation picks up, as well as in the event tighter global financial conditions put pressure on international reserves. Macroprudential measures should be implemented to tame the credit cycle if credit growth accelerates and a positive credit gap emerges. Preliminary evidence suggests that credit-to-GDP was very close to its long-term trend by end 2016. Financial sector supervision should be intensified, especially in non-bank financial institutions, seeking to expand the regulatory perimeter. A medium-term growth friendly fiscal consolidation that targets an

overall deficit below 3 percent of GDP and a declining public-debt-GDP ratio is warranted to rebuild buffers, to reduce pro-cyclicality, and to reduce risks to fiscal sustainability. Restraint on current spending, especially on public wages, will be important as public investment is expected to remain high. Structural reforms should bolster resilience, protect the most vulnerable, and strengthen potential growth. A rationalization of the extensive net of price controls would help to improve the allocation of resources and could be complemented with targeted support to low-income households. Improving the predictability of government regulations will enhance the business climate and foster private investment.

6. **IMF relations.** Fiji is a surveillance country. The last Article IV consultation mission took place during October 2015, and the consultation was concluded by the Board on February 5, 2016.

Table 1. Fiji: Selected Economic Indicators, 2013-18

Nominal GDP (2016): US\$4.64 billion
GDP per capita (2016): US\$5,182
Quota: SDR 98.4 million

	2013	2014	2015	2016	2017	2018
				Est.	Proj.	Proj.
Output and prices (percent change)						
Real GDP (at constant factor cost)	4.7	5.6	3.6	2.0	3.7	3.7
GDP deflator	2.3	3.7	3.4	3.3	3.2	3.2
Consumer prices (average)	2.9	0.5	1.4	3.9	4.0	3.5
Consumer prices (end of period)	3.4	0.1	1.6	3.9	4.0	3.5
Central government budget (percent of GDP)						
Revenue	27.1	28.0	27.2	28.3	29.0	29.0
Expenditure	27.7	32.3	30.5	33.3	34.6	32.5
Fiscal deficit	-0.6	-4.3	-3.5	-5.4	-5.6	-3.6
Fiscal deficit in national convention 1/	-0.5	-4.2	-2.5	-3.0	-4.3	-3.7
Total debt outstanding	49.6	48.4	48.1	48.5	49.7	50.3
Money and credit (percent change)						
Net domestic credit	14.0	18.7	13.4	7.6	...	...
Private sector credit	9.2	15.5	14.2	12.8	...	...
Broad money (M3)	19.0	10.4	13.9	6.4	...	...
Monetary base	7.5	4.2	8.4	0.5	...	...
Reserve Bank of Fiji's discount rate	1.0	1.0	1.0	1.0	...	...
Commercial bank lending rate	5.8	5.7	5.9	5.8	...	...
External sector (in millions of U.S. dollars)						
Trade balance	-1,159	-1,029	-838	-914	-1,048	-1,096
(In percent of GDP)	-27.7	-23.0	-19.1	-19.7	-21.5	-21.4
Exports, f.o.b.	1,146	1,208	886	729	772	813
Imports, f.o.b.	2,305	2,237	1,724	1,643	1,820	1,909
Current account balance	-405	-339	-67	-133	-266	-294
(In percent of GDP)	-9.7	-7.6	-1.5	-2.9	-5.5	-5.7
Capital account balance	5	4	3	4	4	3
Financial account balance	-402	-540	-312	-130	-247	-326
Errors and omissions	74	-182	-183	0	0	0
Overall balance	76	23	65	2	-16	36
Gross official reserves (in millions of U.S. dollars)						
(In months of retained imports)	5.0	5.2	5.8	5.6	5.3	5.2
External central government debt (in millions of U.S. dollars)						
(In percent of GDP)	14.0	14.9	14.5	14.2	15.2	14.9
Miscellaneous						
Output gap	-1.6	0.8	1.2	-0.3	-0.1	0.0
Real effective exchange rate (average)	107.6	106.6	110.4	114.8	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.84	1.89	2.10	2.09	...	...
GDP at current market prices (in millions of Fiji dollars)	7,716	8,436	9,211	9,702	10,386	11,118

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.
1/ Including privatization receipts as revenue.