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Statement at the Conclusion of the IMF Mission to Fiji

November 4, 2011

An International Monetary Fund (IMF) team led by Mr. Koshy Mathai visited Fiji during October 24—November 4 to hold discussions with the Fijian authorities and other stakeholders on the 2011 Article IV Consultation.[1] The team met with Attorney General Aiyaz Sayed-Khaiyum, Reserve Bank of Fiji (RBF) Governor Barry Whiteside, and other senior public officials, as well as representatives from the private sector, academia, the development-partner community, and other parts of civil society. Staff from the Asian Development Bank and the World Bank joined the mission. The team expresses its appreciation to the authorities and other stakeholders for the frank and constructive discussions. The mission issued the following statement today in Suva:

"The Fijian economy is expected to grow by about 2 percent in 2011, by far the best result of the past five years, in part reflecting a bounce-back after two consecutive years of contraction. Medium-term growth prospects, however, appear to be relatively weak, unless structural reforms are accelerated, and the business climate and political situation improved. High food and oil prices, as well as various one-off factors like the increases in Value Added Tax (VAT) and the electricity tariff, have pushed inflation up recently, but it should moderate to 5 percent in 2012 and could edge further down over the medium term. High import prices have also kept the current account deficit high this year, although foreign reserves are healthy and projected to remain so. The financial sector is sound, but the Fiji National Provident Fund needs to carry out a pension reform—with appropriate transitional provisions for those in or nearing retirement—in order for it to be made sustainable over the long term.

With regard to macroeconomic policy, the RBF's monetary stance is accommodative, intended to encourage the banks to lend more in order to stimulate the economy. This policy appears to be consistent with the current context of low underlying inflation and weak growth. Given that the financial system is awash with liquidity, the mission would encourage the RBF to remain vigilant to any signs of incipient inflationary pressure. The fiscal position could be strengthened. Debt is 55 percent of GDP—relatively high for a small, open economy vulnerable to shocks—and the government also faces contingent liabilities of more than 15 percent of GDP, as well as unfunded FNPF liabilities. The fiscal deficit is likely to remain broadly stable this year at around 2½ percent of GDP, which is commendable, and further reductions over time would be prudent. This would increase the authorities' room to maneuver

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members. A staff team visits the country (typically on an annual basis) to collect economic and financial information and discuss with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

in case they need to respond to a severe shock emanating from today's uncertain global environment. Absent such a case, efforts to solve Fiji's longstanding problem of low growth could better focus on structural reforms.

The mission sees such structural reforms—along with resolution of political uncertainties—as the key priority in spurring investment and raising Fiji's growth rate. There have been many promising initiatives, including on land policy, the sugar sector, the civil service, and public enterprises, and steadfast implementation of these initiatives is now of critical importance. While recognizing that price controls have been reduced, continued controls on a range of products could deter investment and should be scaled back further to yield economic benefits, while still ensuring protection of the poor. Exchange controls have been relaxed, and further moves in this direction could also help attract investment by reducing uncertainty. And in all areas of policymaking, the mission would encourage broad consultation with key stakeholders, including civil society, in order to improve the quality, consistency, and sustainability of decisions."

The mission will be preparing a report that the IMF's Executive Board will discuss in January 2012.