REPUBLIC OF FIJI

MEDIUM TERM FISCAL STRATEGY FY2025-2026 to FY2027-2028

Ministry of Finance, Strategic Planning, National Development and Statistics

March 2025

PARLIAMENTARY PAPER NO. 16/25

Table of Contents

1.0 BACKGROUND

1.1 The Medium-Term Fiscal Strategy **('MTFS')** for the period FY2025-2026 to FY2027-2028 is prepared in accordance with Section 12 of the Financial Management (Amendment) Act 2021 **('FMA')** which requires the Minister responsible for Finance to submit a medium-term fiscal strategy to Cabinet for approval no later than six months before the annual budget. This will be the third MTFS to be tabled to Parliament and subsequently made available to the public for information.

1.2 The FY2025-2026 MTFS has been developed in alignment with the new National Development Plan (NDP) 2025-2029 and Vision 2050. The NDP is a strategic framework that combines a 3-year and 5-year plan with a 25-year vision for Fiji's national development, establishing the foundation for long-term economic growth. The NDP's guiding vision rests on three core pillars: (1) Economic Resilience, (2) Empowerment of People, and (3) Good Governance. These pillars emphasize creating a supportive environment to foster economic growth and diversification, reduce poverty, assist vulnerable populations, strengthen social cohesion, empower communities, protect the environment, and restore confidence in democratic institutions and the rule of law.

1.3 Beyond these broad objectives, the NDP specifically focuses on enhancing macroeconomic stability by addressing the trade deficit in the balance of payments, ensuring price stability through prudent monetary and fiscal policies, and improving the fiscal position via a more strategic expenditure approach that aligns with revenue and debt management goals.

1.4 In the 2023-2024 and 2024-2025 national budgets, the Coalition Government has demonstrated its commitment to fiscal responsibility, underpinned by a well-calibrated fiscal consolidation plan that has supported Fiji's economic recovery and strengthened overall macroeconomic stability. Initiatives to boost revenue through major tax reforms and improved compliance mechanisms have been implemented, alongside investments in infrastructure maintenance and development, which ensure the continuity of essential public services for vulnerable populations while managing public debt.

1.5 The Fijian economy has shown great resilience despite the global uncertainties caused by factors such as stagnating global growth, elevated inflation and commodity prices, supply chain disruptions, and escalating geopolitical tensions and geo-economic fragmentation. Moreover, domestic challenges associated with loss of skilled workers, diminishing productivity, lacklustre performance in resource-based sectors and risks associated with climate change and climate induced disasters continue to pose downside risks to the growth outlook and additional challenges to fiscal and debt sustainability. In view of this, maintaining the growth momentum is critically important together with a well-balanced fiscal consolidation plan to ensure overall macroeconomic stability in the medium to long term.

1.6 This MTFS is aligned with the 15-year fiscal framework that was presented in the FY2024-2025 National Budget with the primary objective of reducing the fiscal deficit further to sustainable levels, ensuring that public debt follows a declining trajectory towards long-term fiscal sustainability. To achieve these objectives, the strategy will prioritize fiscal discipline while optimizing public spending to maintain essential services. It will also focus on investments in critical infrastructure and social programs to uplift vulnerable populations, alongside promoting environmental sustainability through green initiatives.

1.7 To ensure the debt to GDP ratio continues a downward path, a net deficit of 3.7 percent of GDP is recommended for the FY2025-2026 Budget. Subsequently, the debt to GDP ratio is projected to fall to 77.5 percent at the end of July 2026 and below 75 percent in the next 3 fiscal years. With this level of deficit and projected revenue, the expenditure envelope is set at around $4.6 billion for the next budget. While major tax reforms have undertaken in the last two budgets to increase revenues, there is an urgent need for expenditure reprioritisation with reallocation of funding towards high impact capital projects.

1.8 The development of the fiscal strategy is guided by the principles of responsible fiscal management set out in Section 5 of the FMA. These principles include accountability, comprehensiveness, fiscal discipline, specificity, sustainability, transparency, and value for money. Transparency and accountability in fiscal management will remain central to the strategy, fostering public trust and encouraging community participation in the budgeting process. By aligning these priorities with the broader goals of the NDP, the MTFS aims to establish a resilient economic framework that supports long-term stability and prosperity. The information in this document is based on the most current data available as of 31 December 2024.

1.9 Section 2.0 provides an overview of the recent global and domestic macroeconomic developments and the medium-term growth forecasts for 2024-2026. Section 3.0 analyses the fiscal performance of the current fiscal year and previous two years. It also reports on progress in achieving the fiscal targets of Government in recent years. Section 4.0 outlines the measures for achieving the objectives of the medium-term fiscal strategy, which include revenue-enhancing and expenditure management measures as well as debt management policies. It also presents the Medium-Term Fiscal Framework to guide the preparation of the FY2025-2026 Budget and beyond. Section 5.0 addresses the various fiscal risks and challenges ahead while Annex 1 provides a timeline for the preparation of the upcoming Budget.

2.0 ECONOMIC PERFORMANCE AND OUTLOOK

International and Domestic Economy

2.1 This MTFS sets the broad parameters for the FY2025-2026 National Budget and takes into account both global and domestic developments.

2.2 Globally, economic growth continues to be uneven, with some nations facing significant downward revisions due to ongoing conflicts. The International Monetary Fund (IMF), in its October 2024 World Economic Outlook, maintained its global growth forecast at 3.2 percent for both 2024 and 2025, consistent with the forecast released in April. This year's growth prospects are largely fuelled by better-than-expected United States' (US) consumer spending and strong underlying fundaments in India and Brazil, which offset downgraded growth forecast for China and other advanced economies.

2.3 According to IMF, the war on inflation has been largely won as major central banks have begun lowering their policy rates, shifting toward a more neutral stance as annual inflation rates align with their target ranges. Notably, the central banks of Fiji's key trading partners, including the US, New Zealand, China, and the Euro Area, have started reducing interest rates, with further monetary normalization expected in the near future.

2.4 Domestically, Fiji's economy fully recovered to its pre-pandemic GDP level in 2023, surpassing earlier expectations with a growth rate of 7.5 percent. This strong recovery was largely driven by tourism and related sectors, and a rebound in consumer spending and investment activity. In 2024, a strong pick-up in activity was noted in the latter half of the year, following the announcement of the National Budget and the continued growth in tourism. As a result, the 2024 growth projection has been revised upward from 2.8 percent to 3.8 percent.

2.5 Tourism remains a crucial driver of growth for Fiji, with visitor arrivals exceeding expectations and set to reach new highs by the end of 2024. As of November 2024, visitor arrivals increased by 6.2 percent compared to the same period in 2023. Visitors from key markets, including Australia, the US, and New Zealand, have continued to rise. Moreover, with trends pointing upward, Fiji is expected to hit the one million mark in visitor arrivals by 2025, helped by the addition of the Dallas flight and potential new routes to Asia and the Americas.

2.6 The economic momentum is anticipated to continue in 2025, as such the growth for this year has been revised up to 3.4 percent from an earlier forecast of 3.0 percent. The broad-based growth will be led by tourism and related services and industrial sectors. Activity is expected to be further supported by buoyant consumer spending and strengthening investment activity on the back of key large private and public sector projects.

2.7 However, risks to the outlook remain, primarily stemming from global growth slowdowns, tight labour markets, rising commodity prices, and high inflation. Domestically, challenges such as capacity constraints in resource-based sectors including tourism, waning productivity largely due to loss of skilled workers, and the potential for climate-induced disasters present significant downside risks to growth projections.

Investment and Consumption Activity

2.8 Consumption activity has been strong, supported by the positive flow-on effects from increased tourism activity, rising incomes as reflected by the rise in Pay As You Earn (PAYE) tax collections and higher remittance inflows. Latest partial indicators of consumption such as PAYE collections (+25.1%), net VAT collections (+32.6%) and new consumption lending (+33.8%) recorded annual increases up to November 2024. Remittances receipts rose by 6.9 percent year-on-year to $978.2 million till September 2024.

2.9 Although there have been some improvements recently, the labour market continues to remain relatively tight as demand for labour continues to rise. This is reflective of the rebounding economic activity while labour supply has been hindered by recent rapid increases in emigration. Over 80,000 people have left Fiji since 2022 mostly for employment purposes, education and permanent emigration. While some may return, it is likely that many will settle abroad eventually.

2.10 Investment activity has recently picked up as indicated by the growth in commercial banks' new lending for investment purposes by 25.9 percent in the year to November 2024, driven by an increase in lending for construction and real state sectors. Domestic cement sales have also increased by 11.2 percent cumulative to October 2024. Overall, investment activity is expected to gain momentum as major tourism projects currently in the preparatory stages are implemented.

Inflation

2.11 Annual headline inflation stood at 1.3 percent in December 2024 compared to 5.1 percent in December 2023, driven by lower prices in transport, housing, electricity, water, gas & other fuels, recreation & culture coupled with slower increase in prices of food and non-alcoholic beverage, education and clothing and footwear categories. Inflation for 2025 is projected at around 3.0 percent.

Trade (Exports and Imports)

2.12 In 2024, total exports is projected to grow by 4.6 percent to $2,513.2 million, attributed to the continued growth in re-exports particularly for gas oil (diesel), aviation or turbine oil, light oils & preparations (spirits) and residuals/heavy fuel oil which offset the decline in domestic exports. The expected pick up in aviation activity along with strong fishing and cruise line activity elevated, is poised to benefit Fiji's export. Total exports are forecast to expand by 4.8 percent to $2,632.8 million and 5.5 percent to $2,776.7 million in 2025 and 2026 respectively. The anticipated growth is in line with the growth of domestic exports and re-exports.

2.13 In 2024, imports are forecast to expand by 3.5 percent to $7,110.9 million. The expansion is mainly driven by higher imports of machinery and transport equipment as well as mineral fuel, food and live animals and manufactured goods. Global inflation remains broadly elevated and is expected to be higher for longer than earlier anticipated. In 2025 and 2026, total imports are forecast to increase by 1.8 percent to $7,238.3 million, and by 2.9 percent to $7,450 million, respectively.

Balance of Payments

2.14 In 2024, the current account deficit (CAD) is forecast to narrow by 32.2 percent to $633.5 million (equivalent to 4.7 percent of GDP) from $935.4 million (equivalent to 7.4 percent of GDP) in 2023 led by the projected improvement in services and secondary income balance and lower trade deficit, which offset the expected higher primary income deficit. The anticipated decline in the trade deficit is due to a rise in exports combined with a slight fall in imports. The surplus in the service account is attributed to higher tourism earnings and transport receipts, while the secondary income balance is strengthened by stronger personal transfers. The Capital & Financial account (excluding reserve assets) is forecast to rise by 7.8 percent to $656.8 million, backed by anticipated recovery in Foreign Direct Investment. The overall BOP balance is projected to be positive, consequently the reserve assets are expected to rise by $408.5 million in 2024.

2.15 CAD is anticipated to slightly fall by 1.7 percent to $623.0 million in 2025, before rising to $766.4 million in 2026. In 2025, the improvements in secondary income (Government grant), trade deficits and services (tourism earnings and transport receipts) were more than compensated for the decrease in primary income (higher profit repatriation). However, in 2026 higher deficits in primary income (profit repatriation and re-invested earnings) and trade accounts are expected to contribute a rise in CAD. The Capital & Financial Account (excluding reserve assets) is forecast to fall $532.8 million (3.7 percent of GDP) in 2025 before rising to $766.4 million in 2026. Net Government loan drawdowns are expected to be negative from 2025 onwards, while FDI inflows are anticipated to continue to rise in the two years. The overall BOP balance is projected to be negative and reserve assets are expected to fall by $132.1 million and $238.3 million in 2025 and 2026, respectively.

Foreign Reserves, Monetary Policy and Financial Sector

2.16 Foreign reserves remained comfortable at around $3.7 billion at the end of December 2024 (equivalent to 6.0 months of retained imports) on the back of high tourism receipts, remittances, and external grants and loan drawdowns by the Government. Foreign reserves are expected to remain adequate in the medium-term, however, proactive measures are needed to address Fiji's underlying balance of payment challenges.

2.17 The financial sector remains sound and continues to support domestic economic activity. Private sector credit expanded by 11.4 percent in November 2024, largely reflecting the increase in domestic money demand. Banking system liquidity remained high at around $2.4 billion (as of December 2024), while outstanding deposit and lending rates remain near historical lows.

2.18 The Reserve Bank of Fiji is pursuing an accommodative monetary policy stance by maintaining its Overnight Policy Rate at 0.25 percent which will be helpful in steering growth in the medium term.

3.0 FISCAL PERFORMANCE

FY2022-2023

3.1 In FY2022-2023, the Government collected a total revenue of $2,749.8 million (23.5 percent of GDP), higher by $559.0 million or 25.5 percent compared to FY2021-2022. Tax revenues of $2,285.0 million increased by $593.0 million or 35.0 percent while non-tax revenues of $464.8 million decreased by $34.0 million or -6.8 percent **(Table 1)**. The increase in tax revenues was largely due to higher collections in indirect taxes such as VAT, import taxes and custom duties, and departure tax on the back of strong recovery in the domestic economy while non-tax revenues declined due to lower collections from grants in aid.

3.2 However, total revenue was below the FY2022-2023 Budget estimate of $2,939.9 million by $190.1 million or -6.5 percent. Tax revenues were below budget by $37.1 million or -1.6 percent, while non-tax revenues underperformed by $153.0 million or -24.8 percent.

3.3 Total Government expenditure totalled $3,589.2 million (30.7 percent of GDP) in FY2022-2023, an increase of $175.1 million or 5.1 percent compared to the previous fiscal year. Operating expenditure increased by $304.9 million or 13.5 percent to $2,566.4 million while capital expenditure decreased by $139.4 million or -12.4 percent to $983.7 million. The increase in operating expenditure was driven by higher interest payments, purchase of outputs, transfer payments, supplies and consumables and salaries and wages, while decrease in capital expenditure was due to reduced budget allocations aligned with national priorities. The capital operating mix stood at 28:72.

3.4 Despite the growth in spending, total expenditure was underutilised by $222.9 million, or 5.8 percent compared to the budgeted estimate of $3,812.1 million. Operating expenditure was lower by $34.4 million or -1.3 percent, while capital expenditure was lower by $176.9 million or -15.2 percent.

3.5 The net deficit for FY2022-2023 stood at $839.4 million or -7.2 percent of GDP. This was much lower from the $1,223.3 million (-12.1 percent of GDP) recorded in FY2021-2022. Moreover, the actual net deficit was lower by $32.8 million than the budgeted net deficit of $872.2 million (-7.4 percent of GDP).

3.6 As of the end of FY2022-2023, total Government debt stood at $9,747.5 million or 83.4 percent of GDP, an increase of $616.0 million or 6.7 percent compared to the previous fiscal year, while the debt-to-GDP declined by 7.3 percentage points, reflecting a combination of GDP growth and fiscal measures (**Table 2**). Domestic debt accounted for $6,170.5 million (52.8 percent of GDP) while external debt stood at $3,577.0 million (30.6 percent of GDP). The debt mix comprised 63.3 percent domestic debt and 36.7 percent was external debt during the review period.

Table 1: Fiscal Performance

Particulars ($Millions)	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025 Budget
Total Revenue	**2,143.0**	**2,190.8**	**2,749.8**	**3,646.2**	**3,916.7**
As a % of GDP	23.6	21.8	23.5	28.1	27.9
Tax Revenue	**1,412.6**	**1,692.0**	**2,285.0**	**3,096.8**	**3,299.0**
As a % of GDP	15.5	16.8	19.5	23.8	23.5
Non-tax Revenue	**730.4**	**498.8**	**464.8**	**549.4**	**617.7**
As a % of GDP	8.0	5.0	4.0	4.2	4.4
Expenditure	**3,190.3**	**3,414.1**	**3,589.2**	**4,093.8**	**4,552.2**
As a % of GDP	35.1	33.9	30.7	31.5	32.4
Operating Expenditure	**2,189.0**	**2,261.5**	**2,566.4**	**2,999.3**	**3,235.7**
As a % of GDP	24.1	22.5	22.0	23.1	23.1
Capital Expenditure	**973.3**	**1,123.0**	**983.7**	**1,016.3**	**1,199.4**
As a % of GDP	10.7	11.2	8.4	7.8	8.5
SEG 13 VAT	28.0	29.6	39.2	78.2	117.1
Overall balance	**-1,047.3**	**-1,223.3**	**-839.4**	**-447.6**	**-635.5**
As a % of GDP	-11.5	-12.1	-7.2	-3.4	-4.5
Nominal GDP	**9,098.8**	**10,069.5**	**11,690.9**	**12,988.6**	**14,028.7**

FY2023-2024

3.7 In FY2023-2024, total Government revenue stood at $3,646.2 million (28.1 percent of GDP), higher by $896.3 million or 32.6 percent than the previous fiscal year. Tax revenues of $3,096.8 million drove this growth, rising by $811.8 million or 35.5 percent, while non-tax revenues increased by $84.6 million or 18.2 percent (**Table 1**). The strong tax collections were largely driven by the changes in key tax measures including VAT, corporate tax, departure tax and fiscal and customs duties. This performance was further supported by the buoyant performance in key economic sectors such as tourism and other resource-based sectors which had positive spill-over effects on the wider economy.

3.8 However, total revenue was slightly below the FY2023-2024 Budget estimate of $3,700.7 million, lower by $54.6 million or -1.5 percent. Tax revenues underperformed by $10.9 million or -0.3 percent while non-tax revenue fell short by $43.7 million or -7.4 percent.

3.9 Total expenditure amounted to $4,093.8 million (31.5 percent of GDP) in FY2023-2024, higher by $504.6 million or 14.1 percent compared to the previous fiscal year. Operating expenditure rose by 16.9 percent to $2,999.3 million while capital expenditure increased by 3.3 percent to $1,016.3 million. The increase in operating expenditure was driven by higher spending on salaries & wages, purchase of goods & services, operating grants & transfers and special expenditures while the increase in capital expenditure was underpinned by capital construction, capital purchase and transfers and grants. The capital-to-operating mix stood at 25:75.

3.10 In contrast, total expenditure, was lower than the FY2023-2024 Budget estimate of $4,339.9 million, by $246.1 million or -5.7 percent. Operating expenditure was lower by $37.6 million or -1.2 percent while capital expenditure was lower by $175.8 million or -14.7 percent.

3.11 The net deficit in FY2023-2024 narrowed significantly to $447.6 million or -3.4 percent of GDP, compared to $839.4 million (-7.2 percent of GDP) recorded in FY2022-2023. The net deficit was also lower than budgeted net deficit of $639.1 million (-4.8 percent of GDP).

3.12 At the end of FY2023-2024, Government debt stood at $10,309.2 million or 79.4 percent of GDP, higher than $9,747.5 million recorded in FY2022-2023 **(Table 2)** while the debt-to-GDP declined by 4.0 percentage points from 83.4 percent of GDP in FY2022-2023. Domestic debt amounted to $6,587.9 million (50.7 percent of GDP), while external debt stood at $3,721.3 million (28.7 percent of GDP). The debt mix was 63.9 percent in domestic debt while 36.1 percent was external debt in the review period.

Table 2: Government Debt

Particulars ($Millions)	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Debt	**6,686.0**	**7,663.7**	**9,131.5**	**9,747.5**	**10,309.2**
As % of GDP	62.7	84.2	90.7	83.4	79.4
Domestic Debt	**4,976.5**	**5,241.2**	**5,767.4**	**6,170.5**	**6,587.9**
As % of GDP	46.7	57.6	57.3	52.8	50.7
External Debt	**1,709.5**	**2,422.5**	**3,364.1**	**3,577.0**	**3,721.3**
As % of GDP	16.0	26.6	33.4	30.6	28.7

FY2024-2025 Budget

3.13 For FY2024-2025, Government has budgeted a net deficit of $635.5 million, or -4.5 percent of GDP. This is based on an estimated total revenue of $3,916.7 million or 27.9 percent of GDP and total expenditure of $4,552.2 million or 32.4 percent of GDP. Government debt is projected at $10,911.6 million or 77.8 percent of GDP by the end of July 2025.

3.14 Tax revenue collections are projected at $3,299.0 million, an increase of $202.2 million or 6.5 percent compared to FY2023-2024, while non-tax revenues are estimated at $617.7 million, an increase of $68.3 million or 12.4 percent compared to FY2023-2024.

3.15 Operating expenditure is estimated at $3,235.7 million, an increase of $236.5 million or 7.9 percent compared to FY2023-2024, while capital expenditure is estimated at $1,199.4 million, an increase of $183.1 million or 18.0 percent compared to FY2023-2024.

3.16 The net deficit of $635.5 million or -4.5 percent of GDP, marks an increase from the net deficit target of $494.5 million or -3.5 percent of GDP that was approved by Cabinet and tabled to Parliament earlier this year.

3.17 The deviation from the approved fiscal strategy reflects the performance observed in FY2023-2024, resulting in a lower outturn of -3.4 percent of GDP compared to the budgeted net deficit of -4.8 percent of GDP. With this fiscal space amidst ongoing global and domestic challenges, an expansionary fiscal policy was adopted by the Government for FY2024-2025. This was aimed to prioritise economic growth, accommodate some of the major expenditure initiatives that could not be delayed, the need to provide additional fiscal impetus including fair and equitable pay rise for civil servants to improve public service delivery.

FY2024-2025 Quarter 1 Performance

3.18 In the first quarter of FY2024-2025 (August – October), Government achieved a net surplus of $131.2 million, equivalent to 0.9 percent of GDP. This marks a notable improvement compared to the same period last financial year (August-October 2023), when a net deficit of $21.5 million or -0.2 percent of GDP was recorded. At the end of October 2024, Government debt stood at $10,575.7 million or 75.4 percent of GDP.

3.19 Total revenue at the end of October 2024 stood at $1,087.5 million (7.8 percent of GDP), driven by higher than forecast collections of both tax revenue and non-tax revenue. Tax revenue was higher by $88.4 million or 11.1 percent, while non-tax revenue was higher by $18.7 million or 10.2 percent. Compared to the same period last financial year, tax revenues increased by $140.9 million or 19.0 percent, and non-tax revenues increased by $53.2 million or 35.7 percent.

3.20 Total Government expenditure during the review period amounted to $956.3 million, representing 21.0 percent of the total budgeted spending level for the year. Operating expenditure of $734.9 million and capital expenditure of $211.6 million, resulted in an expenditure mix of 78:22. When compared to the same period last year, total expenditure rose by $43.4 million or 4.8 percent, with operating expenditure increasing by $68.6 million or 10.3 percent while capital expenditure decreased by $24.4 million or -10.3 percent.

Contingent Liabilities

3.21 As of 31 July 2024, total contingent liabilities of Government stood at $1,658.7 million (FY2022-2023: $1,754.3 million), equivalent to 11.8 percent of GDP. This comprises of:

i. Government guaranteed debt (explicit guarantees) stood at $1,016.1 million (FY2022-2023: $1,088.5 million), equivalent to 7.2 percent of GDP. The existing guaranteed entities are Fiji Airways ($427.7 million), Fiji Development Bank ($200.4 million), Fiji Sugar Corporation Limited ($293.0 million), Housing Authority ($93.9 million) and Pacific Fishing Company Limited ($1.1 million);

ii. total other explicit contingent liabilities stood at $587.2 million (FY2022-2023: $576.4 million), equivalent to 4.2 percent of GDP comprising Government shares held with multilateral banks (IBRD, ADB and AIIB); and

iii. total other implicit contingent liabilities stood at $55.4 million (FY2022-2023: $89.6 million), representing 0.4 percent of GDP.

4.0 MEDIUM TERM FISCAL FRAMEWORK

Policy Objectives

4.1 Fiji's macroeconomic fundamentals remain robust, supported by recent upward revisions to growth projections for 2024 and 2025, easing inflationary pressures, and improvements in labour market. The financial system remains sound, characterized by strong balance sheets of commercial banks and other financial institutions, declining non-performing loans, increased credit growth, and historically low interest rates amidst high liquidity levels. Despite a large trade deficit, the current account balance remains sustainable, largely due to increased tourism receipts and remittances, while the overall balance of payments is expected to remain stable, bolstered by healthy foreign reserve levels.

4.2 The domestic economic recovery post-pandemic has been impressive, primarily driven by a strong rebound in the tourism sector, which has positively impacted other sectors of the economy. The rebound in aggregate demand, particularly consumption, is supported by a strong labour market recovery, higher remittance inflows, and increased household incomes, owing to recent wage increases for both the private sector and civil servants. While investment activity has been positive, it has progressed slowly due to bottlenecks, bureaucratic approval processes, and capacity constraints. A key factor in the rapid economic recovery has been the fiscal stimulus provided by the Coalition Government over the past two years, which has immensely supported a better-than-expected recovery.

4.3 On the fiscal front, the Coalition Government has managed to reduce the debt to GDP ratio from 90.7 percent in FY2021-2022 to 79.4 percent in FY2023-2024. The ratio is projected to fall further to around 77.8 percent by July 2025. This has been largely possible due to the rapid recovery in GDP level as well as the Coalition Government's strong commitment to reduce fiscal deficits as part of the fiscal consolidation plan. This plan has focused largely on tax reforms, including increases in VAT, corporate taxes, departure taxes, and various customs and excise duties.

4.4 While the growth outlook for 2024 and 2025 have been revised upwards to 3.8 percent and 3.4 percent, respectively, the baseline projections for 2026 and 2027, under 3.0 percent, indicate that Fiji's long-term growth potential remains sluggish and well below the target set in the NDP. Apart from this, the downside risks to the outlook have increased following the outcome of the US elections as inward policies of the Trump administration particularly around trade tariffs could disrupt global trade and reignite inflation.

4.5 Therefore, it is important that the Government focuses on growth-enhancing policies, expedite critical reforms hindering private sector investment, and improve the quality of public spending. The capacity for additional fiscal stimulus in the medium term is limited, given the significant increase in Government expenditure in the last two years, as such a private sector led growth will be crucial.

4.6 To continue the debt reduction trajectory, a recalibration of the fiscal consolidation strategy is essential and must be implemented immediately, as the Government has nearly exhausted the potential for further tax reforms to generate additional revenue to spend in the medium term. This fiscal strategy recommends the urgent need for expenditure rationalization, improving the quality of public spending, and prioritizing high-impact projects to stay on track with fiscal consolidation plan and reduce debt further.

4.7 In this respect, the primary objective of the FY2025-2026 MTFS is to strike a fine balance between fiscal prudence and maintaining macroeconomic stability by fostering sustainable and resilient growth, addressing socio-economic challenges, promoting inclusive development and building economic and fiscal safeguards to effectively respond to future shocks.

Fiscal Targets and Anchors

4.8 The proposed Medium-Term Fiscal Framework ('**MTFF**') outlines revenue and expenditure measures aimed at reducing the fiscal deficit to manageable levels that can be realistically financed and at a reasonable cost. Consistent with the previous MTFF, this year's MTFF is guided by five fiscal anchors that can be instrumental in setting broad fiscal targets and objectives.

i. **Budget Deficit**: Reduce budget deficit to around 3.0 percent of GDP and move towards a primary surplus (fiscal deficit, excluding interest expenditure) in the medium term;

ii. **Public Debt**: Maintain Government debt as a percent of GDP (excluding contingent liabilities) on a downward trend to around 75 percent of GDP in the next three years;

iii. **Expenditure**: Maintain recurrent/operating expenditures at levels that do not exceed Government's operating revenue;

iv. **Borrowing**: Borrow only for major capital or investment spending; and

v. **Capital-Operating Mix**: Target the capital-operating mix ratio at 30:70 to allow adequate funding for infrastructure development.

Medium-term Revenue Forecasts

4.9 The tax to GDP ratio improved significantly, rising from 19.5 percent in FY2022-2023 to 23.8 percent in FY2023-2024. Tax revenues rose by $811.8 million, reaching $3,096.8 million in FY2023-2024, up from $2,285.0 million in FY2022-2023. Tax revenues is projected to rise further by $202.2 million, reaching

$3,299.0 million (23.5 percent of GDP) in FY2024-2025. The increase in total tax revenues in two fiscal years (FY2022-2023 to FY2024-2025) is around $1,014.0.

4.10 Based on the key policy measures implemented in the FY2023-2024 and FY2024-2025 National Budgets, along with revised economic growth projections, total Government revenue is projected to average 27.1 percent of GDP in the medium term, similar to pre-COVID levels. Tax revenues are forecast at 23.8 percent of GDP, while non-tax revenues are expected to average around 3.3 percent of GDP, over the medium term.

4.11 It is crucial that the current tax structure be maintained and focus to shift towards improving compliance through tax education and fostering a culture of self-regulation. Additional measures include streamlining and re-evaluating existing tax exemptions and incentives to ensure they align with national priorities as well as implementing strategies to counter deliberate tax evasion and avoidance.

4.12 The following policy principles will guide the revenue strategies in the medium term:

- Widen the tax base by gradually removing exemptions and other distortions and bringing provisions in place to collect revenues from E-commerce transactions;
- Improve tax compliance and collection of tax arrears by implementing digital tools and streamlined tax reporting methods, such as e-filing and simplified tax systems, to simplify compliance and broaden the tax net;
- Continue efforts to make the tax regime and tax administration simpler to encourage voluntary compliance;
- Review the VAT regime to move towards a single rate when the time is appropriate, including expenditure strategies to support the vulnerable;
- Introduce targeted tax policies in potential inelastic markets to generate sufficient revenue required for developmental goals;
- Regularly report and budget tax expenditures on exemptions and concessions to promote transparency and build support for rationalizing such incentives;
- Review the Export Income Deduction incentive with a view to remove Fiji out of the EU blacklist;
- Introduce environmentally focused taxes and incentives, such as carbon taxes or incentives for sustainable businesses aligning with NDP;

- Strengthen the property tax system by assessing properties regularly and reducing tax evasion in this sector could provide a significant revenue boost; and

- Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected.

Medium-term Expenditure Forecasts

4.13 Total Government expenditure increased from $3,589.2 million (30.4 percent of GDP) in FY2022-2023 to $4,096.3 million (31.5 percent of GDP) in FY2023-2024, marking a rise of $504.3 million. It is projected to increase by another $458.7 million, reaching $4,552.2 million (32.4 percent of GDP) in FY2024-2025. Over the two fiscal years (FY2022-2023 to FY2024-2025), total Government expenditure will rise by approximately $963.0 million, primarily due to a $669.4 million increase in operating expenditures. Personnel costs would rise by $224.4 million, operating transfers by $245.4 million, and interest expenses by $85.6 million within a span of two fiscal years.

4.14 Given the significant rise in operating expenditures, future spending must focus on capping operating costs and improving efficiency by better targeting social protection programs and transfers, implementing measures to right-size the civil service, and ensuring effective public service delivery. Regarding capital expenditures, priority should be given to high-impact projects that address infrastructure gaps identified in the NDP. The MTFF emphasizes the importance of disciplined spending, with expenditure ceilings set for all Ministries to guide efficient resource allocation.

4.15 The medium-term goal is to reduce total expenditure to below 30 percent of GDP while maintaining a capital operating mix of at least 30:70. The following strategies will guide Government's expenditure plans:

- Increase the efficiency of public expenditure to control the growth of expenses at sustainable levels;

- 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;

- Restructure the social protection framework to prioritize the most vulnerable segments of society, and reforming existing subsidy mechanisms;

- Conduct proper investment appraisal and project selection for all new capital projects and strictly adhering to the Public Sector Investment Programme guidelines;

- 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 PPP and other innovative arrangements;

- Allocating expenditure ceilings to all Ministries to ensure conservative and disciplined budgeting;

- Focus on effective and timely implementation of capital expenditure projects;

- 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.

Medium-term Deficit Target & Financing Plans

4.16 The net deficit target for FY2025-2026 is set at $553.3 million, equivalent to -3.7 percent of GDP (**Table 3**). As a result, Government debt is expected to fall to 77.5 percent of GDP from 78.0 percent of GDP estimated for FY2024-2025. Total revenue is projected at $4,079.8 million or 27.5 percent of GDP comprising of tax revenues of $3,590.4 million or 24.2 percent of GDP and non-tax revenues of $489.5 million or 3.3 percent of GDP. Total expenditure is budgeted at $4,633.2 million or 31.2 percent of GDP, ensuring adequate funding is for public service delivery and capital works.

Table 3: FY2025-2026 Fiscal Framework

Particulars ($Millions)	2024-2025 (Budget)	2025-2026 (Budget)	2026-2027 (Budget)	2027-2028 (Budget)
Total Revenue	**3,916.7**	**4,079.8**	**4,230.3**	**4,420.0**
As a % of GDP	27.9	27.5	27.2	27.1
Tax Revenue	3,299.0	3,590.4	3,785.3	3,963.4
As a % of GDP	23.5	24.2	24.3	24.3
Non-Tax Revenue	617.7	489.5	445.0	456.6
As a % of GDP	4.4	3.3	2.9	2.8
Total Expenditure	**4,552.2**	**4,633.2**	**4,768.4**	**4,916.6**
As a % of GDP	32.4	31.2	30.7	30.1
Operating Expenditure	3,235.8	3,250.8	3,279.8	3,280.9
As a % of GDP	23.1	21.9	21.1	20.1
Capital Expenditure	1,199.4	1,265.3	1,371.5	1,518.7
As a % of GDP	8.5	8.5	8.8	9.3
Net Deficit	**-635.5**	**-553.3**	**-538.0**	**-496.6**
As a % of GDP	**-4.5**	**-3.7**	**-3.5**	**-3.0**
Total Debt	**10,944.7**	**11,498.0**	**12,036.1**	**12,532.7**
As a % of GDP	**78.0**	**77.5**	**77.4**	**76.8**
GDP at Market Prices	**14,028.7**	**14,834.3**	**15,546.8**	**16,324.2**

4.17 The projected net deficit of $553.3 million in FY2025-2026 can be easily financed given the availability of funding from both local and international institutions and development partners.

4.18 In FY2026-2027 and FY2027-2028, the net deficit targets are set at $538.0 million (-3.5 percent of GDP) and $496.6 million (-3.0 percent of GDP), respectively.

4.19 With these deficit targets, the primary balance is expected to improve from -0.7 percent of GDP in FY2024-2025 to 0.7 percent by the end of FY2027-2028. This positive trajectory will help reduce the Government debt-to-GDP ratio from 78.0 percent of GDP in FY2024-2025 to 76.8 percent of GDP by FY2027-2028.

Debt Management Strategy

4.20 The broad objectives of the Government's 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.

4.21 To achieve these objectives and guide borrowing strategies, the Government will focus on the following debt management policies in the medium term:

- Continue to lower the cost of debt through concessional financing from bilateral and multilateral lenders;
- Explore early repayments of loans on variable rates term;
- 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);
- Maintain issuances of long-term bonds (10-year up to 25-year tenor) to finance deficits;
- Explore the issuances of thematic bonds within the domestic borrowing limit and within the current bond term, that is either short – term or long – term;
- Develop the domestic bond market to focus more on transparency, secondary market trading, settlement mechanisms and investor diversification;
- Implement callbacks, bond buybacks and switch operations for domestic market securities; and
- Minimise risks associated with on lending and contingent liabilities.

5.0 <u>FISCAL RISKS</u>

5.1 Even though the economy has completed the post-pandemic recovery and has returned to the 2019 level of GDP, there are a number of risks that must be managed carefully in the immediate to medium term.

Macroeconomic Risks

5.2 The MTFF is anchored on assumptions for key economic indicators such as domestic and global growth, inflation, interest rates and exchange rate. However, key, macroeconomic risks remain which could affect the overall economic outlook for Fiji. Slowdown in growth for our major trading partners, particularly Australia and New Zealand could undermine tourist arrivals and export demand. In addition, geopolitical tensions and escalating conflicts could result in volatile commodity prices increasing our cost of imports and consequently domestic inflation.

5.3 The possible inward-looking policies of the incoming Trump administration to stimulate the US economy could lead to a stronger US dollar and given Fiji's high exposure to US denominated debt (22.1 percent of external debt), the appreciation of the USD will eventually place a larger burden on Government finances through increased debt servicing costs.

5.4 Further to this, given Fiji's heavy reliance on imported goods for domestic consumption and raw materials, a stronger USD will typically raise cost of imported goods and cost of production for imported raw material which may further exacerbate domestic inflationary pressures, widen Fiji's current account deficit and pose pressure on our foreign reserves.

5.5 On the domestic front, the loss of skilled workers in the last two years, and the consequent impact on productivity levels, increase in social problems largely related to drugs poses additional risks to Fiji's growth trajectory. Any slowdown in growth would impact tax revenues and overall Government finances and its ability to implement the much-needed infrastructure projects.

Financing Risks

5.6 A total of 22.1 percent ($2,341.8 million) of Government's debt portfolio is denominated in the USD of which at least 19.0 percent ($2,005.4 million) is pegged to the Secured Overnight Financing Rate (SOFR). SOFR stands at 5.24 percent as of 13 November 2024. The high federal fund rates put an upward pressure on the SOFR to over 5 percent placing a burden on our overseas debt servicing cost particularly the 17.0% of government's debt portfolio that are pegged to the SOFR.

5.7 The federal rates are slowly improving with the additional federal funds rate cut for the year of around 25bps which now stands at 4.5-4.75 percent (from 5.00-

5.25 percent since May 2023). As inflation cools down, SOFR relative to the EFFR is anticipated to reduce further as well as some improvements in the FJD/USD conversion rates.

Contingent Liabilities

5.8 At the end of July 2024, Government total contingent liabilities stood at $1,605.3 million, equivalent to 11.4 percent of GDP. This poses risks to public finances as around 60.1 percent of contingent liabilities are Government guarantees of public corporation debt. Public corporations such as Fiji Sugar Corporation Limited and Fiji Development Bank have already been assessed as high risk. This poses substantial fiscal risk and cost to Government should the contingent liabilities materialises.

Natural Disasters and Climate Change

5.9 Fiji is highly susceptible to climate change and natural disasters, particularly tropical cyclones, flood and drought which pose massive fiscal threats to the economy. Such incidents have multifaceted effects and place a considerable burden on government's finances, through immediate cost associated with emergency response and recovery to long term fiscal impacts. Apart from this, tax revenues usually decline in the event of natural hazards creating fiscal challenges for Government.

ANNEX 1: FY2025-2026 BUDGET TIMELINE

The table below provides the broad preparation timelines for the FY2025-2026 Budget process.

FY2025-2026 Budget Preparation Timelines

	Budget Phase	Date
1.	Fiscal Strategy tabled to Development Sub-Committee and Cabinet	January 2025
2.	Fiscal Strategy tabled in Parliament	March 2025
3.	Circular on the Fiscal Strategy to be sent to all the Ministries	January 2025
4.	Invitation for Submissions from the Private Sector/Civil Society/General Public advertised in the Dailies	March 2025
5.	Budget submissions due from Ministries and Departments	April 2025
6.	Assessment of submissions from Ministries and Departments	April/May 2025
7.	Budget consultations with Ministries and Departments	May 2025
8.	Finalisation of budget documents for printing	June 2025
9.	Tabling of Budget documents to Cabinet	June 2025
10.	Parliamentary Budget Announcement	June 2025