REPUBLIC OF FIJI

MEDIUM TERM FISCAL STRATEGY
FY2024-2025 to FY2026-2027

Rerevaka na Kalou ka doka na Tui

Ministry of Finance, Strategic Planning, National Development and Statistics

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1.0 BACKGROUND

1.1 Section 12 of the Financial Management Act 2004 ('**FMA**') requires the Minister responsible for finance to submit a medium-term fiscal strategy to Cabinet. Following Cabinet approval, the Minister must table the fiscal strategy at the next sitting of Parliament for information purposes and the Permanent Secretary must simultaneously publish it on an official Government website for public consumption.

1.2 One of the immediate priorities of the Coalition Government was to restore financial discipline, re-build fiscal buffers, put the public debt situation on a path of sustainability and reorient economic policies for sustainable economic growth. This agenda also resonates well with the outcomes of the National Economic Summit, the key recommendations from the World Bank's Public Expenditure Review and the Report of the 2023 Fiscal Review Committee. The 2023-2024 National Budget has already outlined this intent.

1.3 Apart from addressing the fiscal situation, Government had to carefully balance the task of supporting economic recovery and investing in infrastructure maintenance and development and provision of improved public services in areas like health, water and sanitation, social protection, education and national security. Given the limited fiscal space, the private sector had to take the lead role in driving growth and economic diversification with Government providing an enabling environment.

1.4 This medium-term fiscal strategy ('**MTFS**') covering the period FY2024-2025 to FY2026-2027 is a continuation of our Government's commitment to restore fiscal sustainability, reduce debt, improve fiscal transparency and accountability, ensure quality and targeted expenditure and grow the economy. The FY2023-2024 National Budget of July 2023 laid the foundation for fiscal consolidation with a sizeable reduction in the fiscal deficit through carefully calibrated revenue and expenditure measures.

1.5 The revenue reforms implemented in the FY2023-2024 National Budget permanently added around 5 percentage points of GDP to Government revenues, mainly through returning the VAT rate on most goods and services from 9 percent to 15 percent. This was politically unpopular but critical to the stability of Government finances, which had been left under-funded since the reduction of the VAT rate to 9 percent in 2016.

1.6 The revenue reforms were broadly aligned with the previous Fiscal Strategy and were built on the principles of fairness, simplicity, and revenue adequacy. Following these reforms, the revenue to GDP ratio was increased to around 28 percent. On the other hand, expenditures focussed on improving efficiency in public service delivery, strengthening social protection, maintenance of critical infrastructure and addressing human resource challenges to better achieve our socio-economic and other development goals.

1.7 For the medium term, apart from a delicately balanced fiscal consolidation strategy, a private sector led economic rejuvenation remains an important pillar to ensure sustainable growth. Economic growth is critical to put the debt to GDP ratio on a consistent downward path, complementing the planned fiscal deficit reductions. However, this requires a number of structural reforms to ensure private sector growth and development is supported in a business-friendly environment.

1.8 The overall fiscal strategy includes the medium-term fiscal framework ('**MTFF**'), with measurable fiscal objectives and targets to guide the preparation of the FY2024-2025 Budget and beyond. It also provides broad guidelines for expenditure and revenue policy formulation, debt management and the timelines for the preparation of the upcoming Budget (**Annex 1**).

1.9 The formulation of the fiscal strategy is guided by the principles of responsible fiscal management in line with Section 5 of the FMA 2004 which includes accountability, comprehensiveness, fiscal discipline, specificity, sustainability, transparency and value for money. The information contained in this document is based on the latest available data as of 31 December 2023.

1.10 Section 2.0 provides an overview of the economic performance and outlook while section 3.0 reviews the fiscal performance of the current fiscal year and previous two years. Section 4.0 outlines the objectives of the medium-term fiscal strategy and the medium-term fiscal framework for the next three fiscal years and Section 5.0 highlights the fiscal risks and challenges.

2.0 ECONOMIC PERFORMANCE AND OUTLOOK

International and Domestic Economy

2.1 This medium-term fiscal strategy sets the tone for the FY2024-2025 National Budget and takes into account both global and domestic developments.

2.2 On the international front, global economic growth remains uneven, slow and hindered by multiple headwinds. The International Monetary Fund ('**IMF**') in its October 2023 World Economic Outlook projected global growth to decelerate from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The growth profile for 2023 and 2024 is below the historical (2000-2019) average of around 3.8 percent.

2.3 The slowdown in global growth reflects the impact of tight monetary policy, which has weakened overall demand in major economies coupled with growing geopolitical tensions and geo-economical fragmentation. The near-term outlook is marred by persistent inflation (particularly for food and energy), worsening geopolitical tensions and the ongoing climate crisis. Recently, the credit rating agency Moody's has cut China's credit outlook to negative, raising concerns on high debt and risk to the economy from property market downturn.

2.4 Domestically, the Fijian economy bounced back strongly from its Covid-19 contraction with a 20.0 percent recovery growth in GDP in 2022, following three consecutive years of economic decline. The broad-based recovery was underpinned by the services sector, largely driven by better-than-expected rebound in tourism and related sectors. Other sectors that have contributed positively to the growth include transport, wholesale and retail, administrative and support services, manufacturing, finance, agriculture, fishing, information & communication and improved net tax collections during the year.

2.5 The tourism sector has performed exceptionally well in 2023, with relatively high yields supporting strong growth in tourism earnings. Visitor arrivals were higher by 4.0 percent in 2023 when compared to the same period in 2019 and 46.1 percent higher than same period in 2022.

2.6 In 2024, visitor arrivals are projected to rise by 3.0 percent on the expectation that tourism demand will continue to grow, corroborated by the increase in forward bookings recorded by Fiji Airways. However, this is slightly below the pre-pandemic average (2016-2019) growth rate of around 5.0 percent.

2.7 With the projected recovery in tourism and related industrial and services sectors in the medium term, a broad-based growth of 8.2 percent is estimated for 2023, revised upward from the earlier forecast of 8.0 percent. Growth is projected at 3.4 percent in 2024 and 3.0 percent in 2025 and 2026. However, downside risks to these forecasts remain, largely emanating from the slowdown in global growth, tight labour markets, rising commodity prices and elevated inflation. On the domestic front, the ongoing capacity constraints in the tourism sector, loss of labour due to high emigration, rising cost of doing business, and the threat of climate induced disasters also pose downside risks to the 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 (+20.1%), net VAT collections (+28.1%) and new consumption lending (+14.4%) recorded annual increases up to November 2023. Remittances receipts rose by 21.7 percent in the year to November 2023 and based on the current trend it is expected to reach $1.3 billion by end of 2023.

2.9 The labour market conditions remain tight as demand for labour continues to rise, reflective of the rebounding economic activity while labour supply has been hindered by recent rapid increases in emigration. Over 50,000 people have left Fiji since 2022 mostly for employment purposes (30,593) followed by education (15,872) and permanent emigration (8,064).

2.10 Investment indicators to date have shown signs of recovery but at a gradual pace. Commercial banks' new lending for investment purposes rose annually by 29.6 percent cumulative to November, driven mainly by higher lending to the private individuals, 2 building & construction, and real estate categories. The value of work put-in-place also picked up (7.8%) into the third quarter of this year when compared to the same period last year. Leading indicators for construction activity, such as the number of building permits issued, also improved by 17.1 percent cumulative to the third quarter. However, cement sales recorded an annual decline of 4.9 percent cumulative to November. Nonetheless, investment activity is expected to gain momentum once major tourism projects currently in the preparatory stages are implemented. This is also consistent with the Reserve Bank of Fiji's June 2023 Business Expectations Survey, which suggests increase in investment in building and plant and machinery in next twelve months.

Inflation

2.11 Fiji's annual average inflation stood at 2.4 percent in 2023, led primarily by imported inflation due to higher global food and fuel prices. The headline inflation rate stood at 5.1 percent in December 2023 as higher prices were noted in food and non-alcoholic beverages, transport, housing and utilities, alcoholic beverages, tobacco, narcotics, furnishings, household equipment and routine household maintenance, restaurants and hotels, recreational activities and health categories.

2.12 Notably, inflation started picking up following changes to VAT and other tax and duties announced in the FY2023-2024 National Budget. Year-end inflation for 2023 is now 5.1 percent, slightly below compared to the forecast of 6.0 percent.

Foreign Reserves, Monetary Policy and Financial Sector

2.13 Foreign reserves remained comfortable at around $3.4 billion at the end of December 2023 (equivalent to 5.7 months of retained imports) on the back of high tourism receipts, remittances, and external grants and loan drawdowns by 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.

2.14 The financial sector remains sound and continues to support domestic economic activity. Private sector credit expanded for the eleventh consecutive month in November 2023, largely reflecting the rebound in domestic aggregate demand. Banking system liquidity remained high at around $2.1 billion (as of December 2023), while outstanding deposit and lending rates remain at historically low levels.

2.15 The RBF 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

FY2021-2022

3.1 In FY2021-2022, total Government revenue stood at $2,190.8 million (21.7 percent of GDP) slightly higher ($47.8 million) than the previous fiscal year. Tax revenues rose by $279.4 million or 19.8 percent while non-tax revenues fell significantly by $231.6 million or -31.7 percent **(Table 1)**. The increase in tax revenues were largely due to the higher VAT collections as economic activity picked up following easing of COVID-19 related restrictions and the resumption of tourism activity in the second half of the fiscal year. In contrast, non-tax revenues declined due to lower investment receipts[1].

3.2 However, total revenue was below the FY2021-2022 Revised Budget[2] estimate of $2,253.1 million by $62.3 million or -2.8 percent. Tax revenues were below budget by $18.5 million or -1.1 percent while non-tax revenue was also below by $43.8 million or -8.1 percent.

3.3 Total expenditure stood at $3,414.1 million (33.9 percent of GDP) in FY2021-2022 which was higher by 7.0 percent ($223.8 million) compared to the previous fiscal year. Operating expenditure rose by 3.3 percent to $2,261.5 million while capital expenditure increased by 15.5 percent to $1,123.0 million. The increase in operating expenditure was driven by higher transfer payments, and purchase of outputs while increases in capital expenditure was underpinned by capital construction, capital purchase and transfers and grants. The capital operating mix stood at 33:67.

3.4 In contrast, total expenditure, in comparison to the FY2021-2022 Revised Budget estimate of $3,715.1 million, was lower by $301.0 million or -8.1 percent. Operating expenditure was lower by $141.2 million or -5.9 percent while capital expenditure was also lower by $142.7 million or -11.3 percent.

3.5 In FY2021-2022, the net deficit stood at $1,223.3 million or -12.1 percent of GDP. This was much higher than the $1,047.3 million (-11.5 percent of GDP) recorded in FY2020-2021. The net deficit was lower when compared to the net deficit of $1,462.0 million (-14.2 percent of GDP) announced in the Revised Budget.

3.6 At the end of FY2021-2022, Government debt stood at $9,131.5 million or 90.6 percent of GDP. This was much higher than $7,663.7 million (84.2 percent of GDP) recorded in FY2020-2021 **(Table 2)**. Domestic debt was $5,767.4 million (57.2 percent of GDP) while external debt stood at $3,364.1 million (33.4 percent of GDP). In terms of the debt mix, 63.2 percent of total Government debt was domestic debt while 36.8 percent was external debt in the review period.

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[1] Sale of Energy Fiji Limited shares in FY2020-2021 netted around $210 million.
[2] Revised Budget announced on 24 March 2022.

Table 1: Fiscal Performance

($Million)	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024 Budget
Total Revenue	**2,717.1**	**2,143.0**	**2,190.8**	**2,749.8**	**3,700.7**
As a % of GDP	25.5	23.6	21.7	23.2	28.0
Tax Revenue	**2,194.0**	**1,412.6**	**1,692.0**	**2,285.0**	**3,107.7**
As a % of GDP	20.6	15.5	16.8	19.3	23.5
Non-tax Revenue	**523.1**	**730.4**	**498.8**	**464.8**	**593.1**
As a % of GDP	4.9	8.0	4.9	3.9	4.5
Expenditure	**3,353.5**	**3,190.3**	**3,414.1**	**3,589.2**	**4,339.9**
As a % of GDP	31.5	35.1	33.9	30.2	32.9
Operating	**2,333.6**	**2,189.0**	**2,261.5**	**2,566.4**	**3,036.9**
As a % of GDP	21.9	24.1	22.4	21.6	23.0
Capital Expenditure	**988.1**	**973.3**	**1,123.0**	**983.7**	**1,192.1**
As a % of GDP	9.3	10.7	11.1	8.3	9.0
SEG 13 VAT	31.7	28.0	29.6	39.2	110.9
Overall balance	**-636.4**	**-1,047.3**	**-1,223.3**	**-839.4**	**-639.1**
As a % of GDP	**-6.0**	**-11.5**	**-12.1**	**-7.1**	**-4.8**
Nominal GDP	**10,660.7**	**9,098.8**	**10,082.4**	**11,868.7**	**13,208.8**

FY2022-2023

3.7 In FY2022-2023, total Government revenue stood at $2,749.8 million (23.2 percent of GDP). This was higher by 25.5 percent ($559.0 million) compared to the previous fiscal year. Tax revenues rose by $593.0 million or 35.0 percent while non-tax revenues declined by $34.0 million or -6.8 percent. The increase in tax revenues was largely due to higher collections in direct and indirect taxes such as VAT, import taxes and custom duties, and departure tax on the back of strong recovery in the domestic economy. However, non-tax revenues declined as lower collections from grants in aid more than offset the increase in dividends from investments.

3.8 Total revenue was lower by $190.1 million or -6.5 percent when compared to the FY2022-2023 Budget estimate of $2,939.9 million. Tax revenues were below budget by $37.1 million or -1.6 percent while non-tax revenue was also below budget by $153.0 million or -24.8 percent.

3.9 Total expenditure stood at $3,589.2 million (30.2 percent of GDP) in FY2022-2023, higher by 5.1 percent ($175.5 million) when compared to the previous fiscal year. Operating expenditure rose by 13.5 percent to $2,566.4 million, while capital expenditure decreased by 12.4 percent to $983.7 million. The increase in operating expenditure was attributed to higher interest payments, transfer payments and purchase of outputs while decreases in capital expenditure was due to lower spending in capital transfer payments and purchase of non-current assets. The capital operating mix stood at 28:72 at the end of the fiscal year.

3.10 In contrast, total expenditure in comparison to the FY2022-2023 Budget estimate of $3,812.1 million, was lower by $222.9 million or -5.8 percent. Operating expenditure was lower by $34.4 million or -1.3 percent while capital expenditure was also below by $176.9 million or -15.2 percent.

3.11 In FY2022-2023, the net deficit stood at $839.4 million or -7.1 percent of GDP, much lower than the $1,223.3 million (-12.1 percent of GDP) recorded in FY2021-2022. The net deficit was slightly lower than the $872.2 (-7.4 percent of GDP) announced in the FY2022-2023 National Budget.

3.12 In FY2022-2023, Government debt stood at $9,747.5 million or 82.1 percent of GDP, compared to $9,131.5 million (90.6 percent of GDP) recorded in FY2021-2022. Domestic debt was $6,170.5 million (52.0 percent of GDP) while external debt stood at $3,577.0 million (30.1 percent of GDP). In terms of the debt mix, 63.3 percent of total Government debt is domestic debt while 36.7 percent was external debt.

Table 2: Government Debt

Particulars	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024 Budget
Debt ($m)	**6,686.0**	**7,663.7**	**9,131.5**	**9,747.5**	**10,386.7**
As % of GDP	62.7	84.2	90.6	82.1	78.6
Domestic Debt	**4,976.5**	**5,241.2**	**5,767.4**	**6,170.5**	**6,611.6**
As % of GDP	46.7	57.6	57.2	52.0	50.1
External Debt	**1,709.5**	**2,422.5**	**3,364.1**	**3,577.0**	**3,775.1**
As % of GDP	16.0	26.6	33.4	30.1	28.6

FY2023-2024 Budget

3.13 For FY2023-2024, Government has budgeted for a net deficit of $639.1 million, equivalent to -4.8 percent of GDP. This compares with the net deficit target of $573.6 million or -4.5 percent of GDP that was initially approved by Cabinet in January 2023. Total revenue is budgeted at $3,700.7 million while total expenditure is estimated at $4,339.9 million. The slightly higher deficit is attributed to Government's plans to develop infrastructure, improve the health and education systems, increase social protection assistance, higher pension for Aftercare and Government pensioners. In addition, costs have escalated due to increase in interest payments, VAT rate and the FNPF contribution rate.

3.14 Total debt is expected to be $10,386.7 million or 78.6 percent of GDP by the end of July 2024.

3.15 At the end of first quarter (August-October) of FY2023-2024, Government recorded a net deficit of $21.5 million, equivalent to -0.2 percent of GDP, lower than the net deficit target of -2.6 percent for the same period. Total revenue stood at $891.4 million (6.7 percent of GDP), whilst total expenditure amounted to $912.9 million (6.9 percent of GDP). In the same period last financial year

(August 2022 to October 2022), the net deficit was $289.5 million, equivalent to -2.4 percent of GDP.

Contingent Liabilities

3.16 At the end of October 2023, total contingent liabilities stood at $1.7 billion, equivalent to 13.0 percent of GDP. This comprises of:

(i) Government guaranteed debt which stood at $1,041.6 million, equivalent to 7.9 percent of GDP, declined by 4.9 percent over the quarter. The existing guaranteed entities are Fiji Airways ($447.8 million), Fiji Development Bank ($248.1 million), Fiji Sugar Corporation Limited ($233.1 million), Housing Authority ($109.1 million) and Pacific Fishing Company Limited ($3.5 million);

(ii) total other explicit contingent liabilities which stood at $592.9 million, equivalent to 4.5 percent of GDP comprising Government shares held with multilateral banks (IBRD, ADB and AIIB); and

(iii) total other implicit contingent liabilities stood at $88.9 million, equivalent to 0.7 percent of GDP which represents a decline of 0.7 percent over the quarter. This is attributed to the timely servicing of debt.

4.0 MEDIUM TERM FISCAL FRAMEWORK

Policy Objectives

4.1 Fiji is a small open economy, remotely located with high dependency on imports and tourism, and very vulnerable to climate change and developments in the global economy. With the onset of the COVID-19 pandemic in early 2020 and subsequent closure of international borders, activity in tourism and related sectors which accounts for around 40 percent of GDP halted. Consequently, the economy recorded its sharpest ever economic contraction of 17.0 percent in 2020 followed by a further decline of 4.9 percent in 2021.

4.2 The domestic economy rebounded strongly by 20.0 percent in 2022 driven by robust recovery in the services sector primarily led by tourism and related sectors with positive spillovers to the rest of the economy.

4.3 With an 8.2 percent growth estimated for 2023, the post pandemic economic recovery in Fiji will be complete as the economy will return to slightly above 2019 level of GDP by the end of this year. However, the medium-term growth outlook is expected to return to pre-pandemic trend and average around 3.0 percent as binding constraints relating to skills loss and capacity constraints in tourism and other productive sectors creep in.

4.4 Moreover, risks on the global front have escalated largely fuelled by geo-political tensions, rising commodity prices, tightening financial conditions due to increase in interest rates by major central banks in response to inflationary pressures and consequent economic weakness across most advanced and emerging economies. Any further slowdown in particularly Fiji's major tourism source and export markets poses serious risks to the domestic macroeconomic conditions going forward.

4.5 While fiscal and debt sustainability is a key priority of Government, the emergence of new risks on the global front coupled with existing challenges associated with climate change pose significant downside risks to the medium-term macroeconomic outlook.

4.6 Hence, Government will have to strike a delicate balance between rebuilding fiscal buffers and supporting growth through allocating adequate resources in key priority sectors, investing in resilient infrastructure and strengthening social safety nets for the vulnerable and low-income households. Fast tracking key structural reforms, improving efficiency in public service delivery and reducing wastages, cutting bureaucracy by streamlining processes and implementing high impact public and private sector projects will not only contribute towards growth but lift the overall growth potential of the domestic economy in the near term.

4.7 The primary objective of this medium-term fiscal strategy is to safeguard macroeconomic stability by promoting sustainable and resilient growth, addressing socio-economic challenges, nurturing inclusive development and building economic and fiscal safeguards to respond to future shocks.

4.8 In line with Fiji's commitment to advancing gender equality, this fiscal strategy places a strong emphasis on Gender Responsive Budgeting ('**GRB**'). Through targeted allocations and policies, the Government aims to address gender disparities, foster inclusivity, and promote sustainable development. This proactive approach underscores Fiji's dedication to ensuring that budget decisions positively impact all genders, fostering a more equitable and resilient society (for more information refer to **Annex 2**).

4.9 These broad objectives are principally unchanged from the previous fiscal strategy approved in January 2023. Despite the recent developments on both the global and domestic fronts, the mix of actions required to achieve these objectives does not warrant any major change to the overall fiscal strategy.

4.10 The revenue and expenditure measures proposed in this MTFF aims to reduce the fiscal deficit further to levels that can be realistically financed and at a reasonable cost. This MTFF proposes five fiscal anchors that can be instrumental in guiding policy and measuring the extent to which the fiscal objectives are achieved in future.

i. Reduce budget deficit to around 3.0 percent of GDP and move towards a primary surplus (fiscal deficit, excluding interest expenditure);

ii. Maintain Government debt as a percent of GDP (excluding contingent liabilities) on a downward trend to around 75 percent of GDP in the next 3 years;

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

iv. Borrow only for capital or investment spending; and

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

Medium-term Revenue Forecasts

4.11 Based on the key policy measures implemented in the FY2023-2024 National Budget and revised economic growth projections, total Government revenue is now projected to increase to around 27.0 percent of GDP in the medium term, similar to pre-COVID levels. Significant changes to tax rates have been implemented in the current budget. Government must demonstrate its intention to ensure that the tax regime is kept stable and predictable, to allow investors and consumers to plan with confidence. This means there is little opportunity for subsequent changes in tax rates in the near to medium-term. The focus therefore will shift towards improving compliance through tax education and self-regulation, streamlining and re-evaluating some of the tax exemptions and incentives and putting in strategies to counter deliberate tax evasion and avoidance.

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

- Explore broadening of the tax base with better targeting of current exemptions and other distortions and bringing in provisions to collect revenues from e-commerce transactions;

- Review, in consultation with the business community, the wide range of current tax incentives with a view to eliminating those that are unnecessary and re-orienting others to ensure better targeting in line with current economic and social policy goals (for example, low-cost housing, renewable energy, and environmentally sustainable tourism);

- Improve tax compliance and collection of tax arrears;

- Implement a dividend tax (in keeping with the Fiscal Review Committee recommendations) both as a revenue-raising measure and to improve equity in the tax system;

- Make the tax regime and tax administration even simpler to encourage tax compliance;

- Review the VAT regime and the economic social implications of moving towards a single rate when the time is appropriate;

- Review the departure tax as part of an ongoing strategy of balancing Government revenues from tourism, in consultation with the tourism industry (and ensuring that significant changes are clearly signalled);

- Engage with the European Union on necessary changes to the tax regime to ensure that Fiji is removed from its international tax “blacklist”;

- Frame a clear and consistent policy on customs and excise measures to ensure stability and predictability for importers and taxpayers; 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 The expenditure policy outlined in this MTFF aims to maintain a level of spending that can be financed at a reasonable cost, considering prevailing economic conditions and anticipated revenue. In the medium term, operating expenditures must be capped, service delivery to be improved through increasing efficiency, reducing unproductive spending[3], reviewing/reducing transfers to extra budgetary units, streamlining operations and at the same time prioritizing high impact capital projects.

4.14 In view of this, total expenditure in the medium-term should be reduced to below 30 percent of GDP with a capital operating mix maintained at least 30:70. Government's expenditure plans will be guided by these strategies:

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

- Comprehensively review outdated Government processes, including those which directly affect citizens and investors, to reduce waiting times and Government's own personnel costs;

- Undertake a holistic review to right-size the civil service and contain the public sector wage bill, including ensuring appropriate pay and conditions in line with current labour market conditions;

- Tighten control on operational expenditures, including travel, communications, trainings, workshops, fuel and 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 inefficient and poorly-targeted subsidy mechanisms;

- Improve the effectiveness of social programmes (both in capital and operating expenditure) through effective partnerships with non-government organisations (NGOs);

[3] To improve the effectiveness and quality of public services, Government will focus on zero-based budgeting in the medium-term. Zero-based budgeting requires that all Ministries and agencies provide proper justification for every dollar of funding requested. The process of zero-based budgeting starts from a "zero-base," and every activity within an appropriation head is thoroughly analysed.

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

- Ensure resources are allocated based on a multi-year perspective and the implementation capacity of agencies to improve their ability to plan and commit to longer-term projects, considering the need to meet competing expenditure demands;

- Review major existing programmes to ensure that all financial resources allocated are used prudently to derive real value for money;

- In terms of new initiatives – involving private sector users in initial development and design, rolling out in phases to manage costs and effectively using pilot testing and user feedback to ensure timely and effective improvements in delivery;

- 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.

Medium-term Deficit Target & Financing Plans

4.15 A net deficit target of $494.5 million equivalent to -3.5 percent of GDP is set for FY2024-2025 (**Table 3**). Consequently, Government debt will fall to 77.2 percent of GDP from 78.6 percent of GDP estimated for FY2023-2024. Total revenue is projected at $3,845.4 million or 27.3 percent of GDP comprising of tax revenues of $3,345.3 million or 23.7 percent of GDP and non-tax revenues of $500.1 million or 3.5 percent of GDP. Total expenditure has been capped at $4,339.9 million or 30.7 percent of GDP which is sufficient for public service delivery and capital works.

Table 3: FY2024-2025 Fiscal Framework

($Million)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)	2026-2027 (Budget)
Total Revenue	**3,700.7**	**3,845.4**	**4,009.0**	**4,149.3**
As a % of GDP	28.0	27.3	27.0	26.6
Tax Revenue	3,107.6	3,345.3	3,538.4	3,727.7
As a % of GDP	23.5	23.7	23.9	23.9
Non-Tax Revenue	593.1	500.1	470.6	421.7
As a % of GDP	4.5	3.5	3.2	2.7
Total Expenditure	**4,339.9**	**4,339.9**	**4,450.1**	**4,622.2**
As a % of GDP	32.0	30.7	30.0	29.6

($Million)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)	2026-2027 (Budget)
Operating Expenditure	3,036.9	3,036.9	3,063.7	3,080.8
As a % of GDP	23.0	21.5	20.7	19.8
Capital Expenditure	1,192.1	1,192.1	1,275.6	1,430.5
As a % of GDP	9.0	8.5	8.6	9.2
Net Deficit	**-639.2**	**-494.5**	**-441.1**	**-472.9**
As a % of GDP	**-4.8**	**-3.5**	**-3.0**	**-3.0**
Total Debt	**10,386.7**	**10,881.1**	**11,322.2**	**11,795.1**
As a % of GDP	**78.6**	**77.2**	**76.3**	**75.7**
GDP at Market Prices	**13,208.8**	**14,102.6**	**14,833.6**	**15,575.3**

4.16 With a net financing requirement of less than $500 million in the next fiscal year, deficit financing is not expected to be an issue given the appetite of local financial institutions such as FNPF and the availability of concessional financing from multilateral development banks and development partners.

4.17 In FY2025-2026 and FY2026-2027, net deficit targets of $441.1 million (-3.0% of GDP) and $472.9 million (-3.0% of GDP) can be easily financed domestically.

4.18 Given these deficit targets, primary balance is projected to improve from -0.8 percent of GDP in FY2023-2024 to 0.6 percent by the end of FY2026-2027. Consequently, Government debt as a percent of GDP will fall from 78.6 percent of GDP in FY2023-2024 to 75.7 percent of GDP by FY2026-2027.

Debt Management Strategy

4.19 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.

4.20 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.

5.0 FISCAL RISKS

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 has been set with baseline assumptions for key economic variables such as growth, inflation, interest rates and exchange rates which are subject to both domestic and external risks. On the external front, slowdown in global growth especially in major trading countries and escalation in geopolitical tensions will impact Fiji's tradable sectors including tourism and remittances, while higher commodity prices can push domestic inflation. Moreover, the exodus of skilled workers poses serious downside risks to potential growth and development. Any slowdown in the domestic economy will eventually lead to lower tax collections which can put undue pressure on Government finances and have implications on Government's ability to channel resources to priority sectors that can further compromise public service delivery and growth.

Financing Risks

5.3 The sharp increase in interest rates in the US has led to an appreciation of the USD against major currencies, including the Fiji dollar. Also, higher interest rates have pushed up the Secured Overnight Financing Rate (SOFR) which stood at 5.04 percent in May 2023 compared to 2.28 percent in August 2022. Given Fiji's high exposure to US dollar denominated debt (78.2 percent of external debt), the rise in interest rates and the appreciation of the USD has significantly increased debt servicing cost.

Contingent Liabilities

5.4 Government's total contingent liabilities as of October 2023 stood at 13.0 percent of GDP. This poses risks to public finances as around 61.2 percent of contingent liabilities are Government guarantees of public corporation debt. Some of these public corporations such as FSC have already been assessed as high risk. The materialisation of these contingent liabilities poses substantial fiscal risk and cost to Government.

5.5 Financial performance of SOEs is strongly linked to the risk exposure to Government in terms of realisation of contingent liabilities. Poor performing SOEs can be costly for public finances and reduce Government's net worth. Fiscal risks can arise from multiple sources, including Government subsidising operations of SOEs using taxpayer funds for repayment of SOE loans, continuously increasing guarantees, equity injections to cover previous losses and converting past loans into equities. These can easily derail Government's fiscal consolidation plans and put additional pressure on public finances.

Natural Disasters and Climate Change

5.6 Public finances are also exposed to frequent extreme events such as the tropical cyclones, drought and flooding that can have large fiscal costs. In the last 7 years, Government has spent over $600 million in recovery and rehabilitation efforts.

ANNEX 1: FY2024-2025 BUDGET TIMELINE

The table below provides the broad preparation timelines for the FY2024-2025 Budget process.

FY2024-2025 Budget Preparation Timelines

	Budget Phase	Date
1.	Fiscal Strategy tabled to Cabinet	February 2024
2.	Fiscal Strategy tabled in Parliament	March 2024
3.	Circular on the Fiscal Strategy to be sent to all the Ministries	February 2024
4.	Invitation for Submissions from the Private Sector/Civil Society/General Public advertised in the Dailies	February 2024
5.	Budget submissions due from Ministries and Departments	April 2024
6.	Assessment of submissions from Ministries and Departments	April/May 2024
7.	Budget consultations with Ministries and Departments	May 2024
8.	Finalisation of budget documents for printing	June 2024
9.	Tabling of Budget documents to Cabinet	June 2024
10.	Parliamentary Budget Announcement	June 2024

ANNEX 2: GENDER RESPONSIVE BUDGETING

Gender Responsive Budgeting ('**GRB'**) was introduced in 2020 as part of the "whole of government" initiative to support gender equality work and gender-responsive programming across multiple sectors and government agencies. Since its inception, the initiative has been introduced to 18 line Ministries/agencies namely: Education, Health, Women, Children and Social Protection, Youth and Sports, Housing, Fisheries, Forests, Agriculture, iTaukei Affairs, Employment, Productivity and Industrial Relations, Civil Service, Rural and Maritime Development and Disaster Management, Republic of Fiji Military Forces, Fiji Police Force, Trade, Co-operatives, SMEs and Communications, Local Government, Multi-Ethnic and Sugar Industry, and Public Works, Meteorological Services & Transport.

Gender analysis was undertaken in the selection of two programmes by each ministry for each financial year. This is a crucial exercise for Government-funded programs because it helps identify and address gender-specific issues, ensuring that policies and interventions are inclusive and effective. Better understanding of how programmes impact different genders promotes equality, social justice, and inclusive services that enhance the quality of life for both women and men, boys and girls. A review of the programs selected by Ministries for GRB work during the three years of implementing GRB shows that Ministries with the guidance of Ministry of Women, Children and Social Protection have prioritized programmes that can address women's economic empowerment, followed by programmes that can influence women's participation and influence.

The Ministry of Women, Children and Social Protection, in collaboration with Ministry of Finance, is leading the Institutional Capacity Development ('**ICD**') initiative to enhance technical knowledge, skills, competence, and resources in transformative gender analysis, gender mainstreaming, and gender budgeting throughout the Government. This initiative also focuses on establishing effective coordination and accountability mechanisms for sustained impact. Line Ministries that have started the GRB/ICD process have established Gender Mainstreaming Action Groups ('**GMAGs**') within their own Ministries, whose roles and responsibilities are to assist the process to transformative gender mainstreaming and implement gender responsive budgeting across the Ministry, monitor progress and ensure technical capacities in their respective Ministries.

For 2024-2025 financial year, Government will roll-out the GRB/ICD process to the remaining 10 Ministries and they will be required to submit their GRB budget submissions for a minimum of two budget programs to the Ministry of Finance. The intention is to mainstream Gender in all government's programmes and activities. These remaining ministries are: Office of the President, Office of the Prime Minister, Office of the Attorney-General, Home Affairs and Immigration, Foreign Affairs, Fiji Correction Services, Justice, Lands and Mineral Resources, Tourism and Civil Aviation, and Ministry of Waterways and Environment.

The success of GRB in Fiji is specially made in relation to improving gender responsiveness of service delivery and engendering the public finance functions. Some of these key factors are:

Using the Public Expenditure Financial Accountability ('**PEFA**') Gender Responsive Public Financial Management ('**GRPFM**') supplementary framework as a base for elaborating a GRB Action Plan has proven useful as it builds on the established public finance management processes and concepts known to all financial officers. Close and fruitful cooperation between Ministry of Finance and Ministry of Women has been essential for rolling out the process, where each has taken their specific roles and jointly provided technical guidance and capacity building. Essential support to the ministries was given through a tailor-made gender training, rolled out over a few sessions during the budget formulation period, which gave the ministries the opportunity to take certain steps, reflect on their gender budget work and receive support. Capacity building was complemented by the specific requirement from Ministry of Finance to undertake GRB for specific budget programmes, and the issuing of a specific GRB Budget submission template and GRB monitoring template.

While the incorporation of GRB in Fiji's public finance management system has yielded generally positive outcomes, some challenges still persist which the Ministry of Finance and Ministry of Women will collaborate to address and further the gender work in Fiji with the support of line Ministries and relevant NGOs and civil society including our international donor partners.