REPUBLIC OF FIJI

MEDIUM TERM FISCAL STRATEGY 2024-2026

Ministry of Finance, Strategic Planning, National Development and Statistics

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1.0 BACKGROUND

1.1 Section 12 (2) of the Financial Management (Amendment) Act 2021 ('**FMA 2021**') requires the Minister responsible for finance to submit a medium-term fiscal strategy to Cabinet for approval before the annual budget. Following Cabinet endorsement, the Minister must table the fiscal strategy in Parliament.

1.2 This medium-term fiscal strategy covering the period FY2023-2024 to FY2025-2026 is a critical one as there is an urgent need to address the high public debt situation which is a great concern for the Coalition Government. As such, the overriding objective of the medium-term fiscal strategy is to bring back fiscal discipline. Government will have to cut on wastages and ensure a return to fiscal sustainability. However, Government needs to strike a delicate balance between ensuring fiscal sustainability and having the flexibility to manoeuvre fiscal policy to support economic growth and inclusive development.

1.3 Fiscal consolidation is at the heart of this medium-term fiscal strategy by the Coalition Government. This has to be supported by revenue reforms guided by the principles of fairness, simplicity and revenue adequacy and complemented by a major restraint on overall public expenditures, including reprioritisation of fiscal resources to better achieve our socio-economic and other development goals.

1.4 Apart from fiscal consolidation, a private sector led economic rejuvenation is also an important pillar to ensure sustainable economic growth which 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.

1.5 The overall fiscal strategy includes the medium-term fiscal framework, with measurable fiscal objectives and targets to guide the preparation of the FY2023-2024 Budget and beyond. It also provides broad guidelines for expenditure & revenue policy formulation, debt management and the timelines for the preparation of the upcoming Budget.

1.6 The formulation of the fiscal strategy is guided by the principles of responsible fiscal management in line with Section 5 of the FMA 2021 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 2022.

1.7 Section 2.0 provides an overview of the economic performance and outlook and risks while section 3.0 reviews the fiscal performance for the last budget and previous 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.

2.0 ECONOMIC PERFORMANCE AND OUTLOOK

International and Domestic Economy

2.1 The medium-term fiscal strategy is set against the backdrop of a looming global recession and a domestic economy which is recovering from three consecutive years of decline, including the largest ever economic contraction of over 17.0 percent in 2020. Despite a strong rebound in 2022, the domestic economy will not return to pre pandemic levels by 2024. It is important to take into considerations these economic conditions now and moving forward as it has direct and indirect implications on the overall design and execution of the medium-term fiscal strategy.

2.2 On the global front, the International Monetary Fund ('**IMF**') in its January 2022 World Economic Outlook had estimated global growth to slow down from 6.2 percent in 2021 to 3.4 percent in 2022 and weaken further to 2.9 percent in 2023. Similarly, the World Bank has downgraded its global growth projection for 2023 to 1.7 percent, from its previous estimate of 3.0 percent.

2.3 The downward revision reflects synchronized monetary policy tightening in developed economies to tame inflation, tightening financial conditions, growing geopolitical tensions and the ongoing spillover effects of the Russia Ukraine conflict. Moreover, the US and the Euro area are undergoing simultaneous weakening, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies. The near-term outlook is marred by persistent inflation (particularly for food and energy), escalating geopolitical tensions and the ongoing climate crisis.

2.4 On the domestic front, the Fijian economy showed strong recovery with an estimated 15.6 percent GDP growth in 2022 after experiencing three consecutive years of 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 & retail, administrative & support services, manufacturing, finance, agriculture, and improved net tax collections during the year.

2.5 Given that tourism accounts for roughly 40 percent of GDP, a quick tourism recovery is critical for our wider recovery prospects. Better-than-expected rebound in visitor arrivals in 2022 suggests that last year's growth estimate is slightly upward biased. In 2022, visitor arrivals totalled 636,312 about 71 percent of pre-pandemic levels with relatively higher yields supporting strong growth in tourism earnings. Based on current trends and encouraging feedback from industry stakeholders, visitor arrivals are projected to reach 760,231 or 85 percent of pre-pandemic levels by 2023, with a full return to pre-pandemic levels by 2024. A further growth of 3.0 percent is projected for 2025.

2.6 With the projected recovery in tourism and related sectors in the medium term, a broad-based growth of 6.0 percent is forecast for 2023, followed by 3.8 percent in 2024 and 2.4 percent in 2025. However, downside risks to these forecasts have increased with the impending global recession and subsequent slowdown in Fiji's major tourism source markets.

Investment and Consumption Activity

2.7 Consumption spending has been strong in 2022 as reflected by strong PAYE, domestic and import VAT collections, with Net VAT collections recovering to near-2019 levels. Latest partial indicators of consumption such as PAYE collections (+16.6%), net VAT collections (+90.3%), new consumption lending (+37.9%), vehicle registrations (+24.4%), and electricity consumption (+15.8%) also show strong annual gains up to November 2022.

2.8 Consumption spending has also been supported by the strong growth in remittances in the year to December (+23.1%) supported by greater participation of Fijian workers in international labour market schemes, and the rollout of inflation mitigation transfers by Government to low-income families. Remittances receipts account for the second largest source of foreign exchange and has crossed the billion-dollar mark in 2023.

2.9 The labour market remained resilient and strengthened throughout 2022, largely supported by higher recruitment intentions in the tourism-related sectors. The number of jobs advertised was higher by a massive 153.8 percent in the year to November, while formal sector employment returned to over 90 percent of comparable pre-pandemic levels. Just over 17,000 people have moved abroad up to the third quarter, with a majority leaving for employment purposes (12,852), of which 2,482 Fijians left under the various seasonal employment schemes to Australia and New Zealand while the remainder emigrated (4,153).

2.10 Forward-looking construction indicators such as value of building permits issued, and domestic cement sales (+33.2 percent) cumulative to September point to an increase in investment activity. Despite this, investment and construction activity remain hampered by high building material prices. On an annual basis, the Building Material Price Index (BMPI) show that building material prices have grown by more than 5.0 percent, on average, in both the June and September quarters of 2022. Moreover, there has been a slowdown in the issuance of completion certificates and the value-of-work-put-in-place in June, while new investment lending by banks rose by 26.2 percent in the year to November. In 2023, investment is expected to remain modest consistent with global and domestic developments.

Inflation

2.11 Fiji's annual average inflation stood at 4.3 percent in 2022, led primarily by imported inflation due to higher global food, and fuel, prices. Domestic inflation remained relatively stable mostly owing to policy actions by Government such as zero-rated VAT on basic household consumables and stricter monitoring of prices and other price control measures. In 2023, inflation is forecast at 3.0 percent with significant upside risks. The synchronized tightening of monetary policy around the globe, coupled with subdued global demand, has helped put downward pressure on global commodity prices lately, although they remain well above pre-pandemic levels.

2.12 Risks to the outlook include the direct and indirect impacts of the prolonged conflict in Ukraine; the growing tensions between China and Taiwan; spillovers from the monetary tightening in advanced economies; the appreciation of the U.S. Dollar, persistently high global and domestic inflation; and the onset of the cyclone season in Fiji.

Foreign Reserves, Monetary Policy and Financial Sector

2.13 Foreign reserves remained comfortable at around $3.4 billion at the end of December (equivalent to 6.9 months of retained import cover) bolstered by high tourism receipts, remittances, and earlier external Government loan drawdowns and budget support from Australia and New Zealand. Foreign reserves are expected to remain adequate in the near to medium-term, however, proactive measures are needed to address Fiji’s underlying balance of payment challenges. Domestic exports must be sustainably increased, new foreign direct investment enticed, and the tourism sector rebuilt and diversified. More urgently, productivity improvements are needed across the economy to enhance our competitiveness and long-term economic growth prospects.

2.14 Financial sector conditions reflected the on-going recovery in the real sector last year. Private sector credit continued its annual ascent for the eleventh straight month in November (+7.0%), while new loans by both commercial banks and licenced credit institutions grew by 57.1 percent and 81.2 percent, respectively, in the same span. Liquidity in the banking system remains all time high at $2,413.5 million (as of 30 December) while outstanding deposit and lending rates have generally trended downwards.

2.15 The RBF is pursuing an accommodative monetary policy stance by maintaining its Overnight Policy Rate at 0.25 percent. This will continue to play an important role in our post-pandemic recovery.

Domestic Outlook and Risks

2.16 While the recovery in the domestic economy has been strong, there are a number of risks that has to be managed carefully in the immediate to medium term. The economy is forecast to expand by 6.0 percent in 2023 and another 3.8 percent in 2024 when it rebounds to the same level of real GDP as in 2019. Although a broad-based growth is expected over the next two years, the main catalyst will still be the rebound in tourism activity as it gradually returns to the pre-pandemic level by 2024.

2.17 However, sustaining tourism and overall economic growth beyond 2024 will prove challenging. Fiji had benefited from the "first mover advantage" in 2022 due to a higher vaccination rate and earlier opening of borders relative to competitor countries, although these benefits are expected to wane throughout this year.

2.18 In the two years before the pandemic, there was a consecutive slowdown in the growth of visitor arrivals owing to high taxation and the rising cost of holidaying in Fiji. Whilst some of these issues have been subsequently dealt with through a reduction in tourism-related taxes and duties, the current high inflationary environment has eroded these benefits.

2.19 Therefore, Fiji remains vulnerable to price competition from South-East Asian destinations where cost structures are lower. The tourism industry needs to position itself as a high-quality destination and attract high-yielding guests to create a differentiated market from South-East Asia and possibly other Pacific destinations with a greater focus on staycation packages, sports, eco-tourism and business & conference markets. From a policy perspective, continued and sustainable growth post-2024 requires structural reforms that support a private sector and export-led growth.

2.20 Secondly, the broad-based deceleration in the global economy and monetary policy tightening across most of the globe will bring in additional challenges. The recent global growth projection of below 2.0 percent by the World Bank suggests that the global economy is headed for a recession unless supply side disruptions and labour market tightness dissipate. A global recession will have flow on effects on the domestic economy.

2.21 The ongoing geopolitical tensions led by the Russian invasion of Ukraine indicate that inflationary pressures could persist. According to the IMF, the global economic slowdown has failed to arrest inflationary pressures. Global inflation peaked at 9.5 percent last year and is expected to decelerate to 4.1 percent by 2024. Core inflation is also rising globally, and price pressures are now spilling over from food and energy. These global price developments are expected to pass through to Fiji and keep inflation relatively elevated this year, albeit lower than last year and may warrant a continuation of fiscal support for the poor and vulnerable.

2.22 Finally, Fiji is currently in the cyclone season, and we need to watch out for any major natural disaster which will have impact on the infrastructure, economy, livelihoods and lives of Fijians.

3.0 <u>FISCAL POLICY DEVELOPMENTS</u>

3.1 Government managed to maintain the debt ratio within internationally accepted benchmark of around 45 percent of GDP prior to 2016. However, since then overall public expenditures grew strongly at an unsustainable rate leading to a spike in debt levels. The COVID-19 pandemic exposed these fiscal vulnerabilities and made the debt situation even worse.

3.2 While the large reconstruction works post TC Winston and other natural disasters demanded substantial fiscal outlays, growth in expenditures was also attributed to increases in the public sector wage bill, higher transfers to off-budget entities like the Fiji Roads Authority and Water Authority of Fiji, large capital investments in public buildings and schools, large social sector spending and increased funding for a wide range of new expenditure initiatives over the years.

3.3 In light of this, Government embarked on a short-lived medium-term fiscal consolidation in the FY2019-2020 Budget. The focus was put on increasing revenues, reducing fiscal deficits by controlling expenditures, and to build fiscal buffers to respond to future shocks. However, Government's fiscal consolidation plans were cut short due to the dual shocks of the COVID-19 pandemic and a series of natural disasters (TC Harold, TC Yasa and TC Ana) which had devastating impact on the Fijian economy, jobs, public finance and socio-economic conditions.

3.4 With the onset of the COVID-19 pandemic in early 2020, countries around the globe closed borders and imposed travel restrictions. Consequently, activity in Fiji's tourism and related sectors ground to a halt and private sector confidence deteriorated significantly. As such, fiscal policy had to be re-calibrated, and a large counter cyclical fiscal response was implemented to keep the economy afloat and provide assistance to unemployed and vulnerable households with various income support measures.

Revenue

3.5 The COVID-19 stimulus package also included some major tax policy changes. These included removing Service Turnover Tax (STT), stamp duty, and Environment & Climate Adaptation Levy (ECAL). In addition, departure tax was halved (from $200 to $100), significant reduction in excise taxes on alcohol and notable decreases in fiscal duty and import excise rates across around 2,000 tariff lines of the Customs Tariff Act.

3.6 While such bold measures produced intended results to revive tourism, it resulted in a permanent loss in revenues of around 4 to 5 percentage points of GDP. Total tax to GDP ratio averaged 24 percent between 2014 to FY2019-2020 period and fell sharply to 15.4 percent in FY2020-2021 (**Table 1**). This reflected the combined impact of the economic contraction and the large tax cuts.

3.7 During the pandemic, Government finances were under immense pressure as monthly tax revenues declined by almost 50 percent on average with losses in tax revenues accumulating to over $2.6 billion in just two financial years.

3.8 Over the years, non-tax revenue has also played an important role in the revenue base. While core non-tax revenues have been generally stable, the relatively large budget support grants from Australia and New Zealand and other bilateral and multilateral partners as well as the divestment of Energy Fiji Limited shares helped sustain overall revenues during the COVID-19 period. Given the large decline in tax revenues, total Government revenues fell to 21.9 percent of GDP at the end of FY2021-2022 compared to 27.1 percent pre-COVID.

3.9 In the FY2022-2023 Budget, further changes to taxes were announced largely to address rising inflationary pressures and streamline taxes to bring about greater efficiency and recoup some of the lost revenues. For instance, the implementation of a three-tiered VAT structure (zero rated on 21 basic items, 15% on 21 non-essential items and 9% for remaining items) was engineered to provide relief to households, while corporate tax (for companies listed on South Pacific Stock Exchange) was aligned to 20 percent and the extremely generous film tax incentives were reduced.

Table 1: Fiscal Performance

($Million)	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023 Budget
Total Revenue	**3,244.4**	**3,180.5**	**2,717.1**	**2,143.1**	**2,190.9**	**2,939.9**
As a % of GDP	28.5	27.1	25.4	23.4	21.9	24.9
Tax Revenue	**2,831.6**	**2,819.7**	**2,193.8**	**1,412.7**	**1,692.0**	**2,322.1**
As a % of GDP	24.8	24.0	20.5	15.4	16.9	19.6
Non-tax Revenue	**412.8**	**360.8**	**523.3**	**730.4**	**498.9**	**617.8**
As a % of GDP	3.6	3.1	4.9	8.0	5.0	5.2
Expenditure	**3,742.7**	**3,600.1**	**3,353.4**	**3,190.4**	**3,414.1**	**3,812.1**
As a % of GDP	32.8	30.6	31.3	34.8	34.1	32.2
Operating Expenditure	**2,322.0**	**2,428.9**	**2,333.7**	**2,189.0**	**2,261.7**	**2,600.7**
As a % of GDP	20.4	20.7	21.8	23.9	22.6	22.0
Capital Expenditure	**1,383.2**	**1,133.1**	**988.1**	**973.4**	**1,123.0**	**1,160.6**
As a % of GDP	12.1	9.6	9.2	10.6	11.2	9.8
SEG 13 VAT	37.5	38.1	31.6	28.0	29.4	50.8
Overall balance	**-498.3**	**-419.6**	**-636.3**	**-1,047.3**	**-1,223.2**	**-872.2**
As a % of GDP	**-4.4**	**-3.6**	**-5.9**	**-11.4**	**-12.2**	**-7.4**
Nominal GDP	11,399.1	11,757.5	10,703.3	9,167.6	10,020.9	11,827.3

Expenditure

3.10 Government expenditure generally trended upwards after the 2014 elections, dipped slightly in FY2016-2017 but rose sharply by 22.3 percent in FY2017-2018. This was largely driven by higher investment spending, increased outlays in health and education sectors and significant disaster-related reconstruction spending. Moreover, introduction of social pension, disability allowance and bus fare support schemes also led to higher spending in the social sector and improved social safety nets.

3.11 Total expenditure as a percent of GDP averaged around 30.3 percent from 2014 to FY2016-2017 and increased to 32.8 percent in FY2017-2018. Government commenced an expenditure-driven consolidation in FY2019-2020 with a strong focus on improving operational efficiency and building fiscal buffers following the substantial reconstruction spending post TC Winston and the successive natural disasters in 2018. Total expenditure to GDP ratio fell slightly to 31.3 percent over the ensuing two years but recovered by over three percentage points in FY2020-2021 (34.8%) and FY2021-2022 (34.1%). The increase was largely unavoidable as expenditure demands for targeted unemployment support (over $500 million), and continuation of critical public services were prioritised. Social spending accounted for a significant fiscal injection totalling close to 5.0 percent of GDP. In the FY2022-2023 Budget, total expenditure is budgeted at 32.2 percent of GDP.

Operating Expenditure

3.12 Operating expenses escalated over the last several years and on average accounted for around 66.8 percent of the total government expenditure between FY2017-2018 and FY2021-2022. The largest component of operating expenditure is personnel cost or wages & salaries which accounts on average 41.8 percent of operating expenditures or 27.9 percent of total Government expenditure. Personnel costs rose on average by 8.8 percent between 2014 and FY2018-2019 before declining by 2.9 percent and 6.0 percent in FY2019-2020 and FY2020-2021, respectively. This decline was mainly attributed to nominal cuts in superannuation contributions and alignment of allowances, while overall civil servants pay was maintained during the pandemic. For FY2022-2023, personnel costs are expected to increase to $1,025.6 million to cater for increased superannuation contributions.

3.13 Between FY2017-2018 and FY2021-2022, transfer payments averaged 28.6 percent of total operating expenditures, followed by interest payments (14.7%) and supplies and consumables (11.5%), while the remaining 3.4 percent of operating expenditures comprised of purchase of outputs and other operating payments.

3.14 Spending on the social services sector accounts for a substantial portion of Government's total expenditure. Between FY2017-2018 and FY2021-2022, around 27.5 percent of the budget was spent on health, education and social protection programmes. In the same period, on average 8.0 percent was spent on economic services sector (dominated by the transport sector support and agricultural sector) and 14.2 percent to miscellaneous services (for unexpected events and crisis). The increased allocations in these areas were largely to help mitigate the effects of rising inflationary pressures on household incomes and includes post-pandemic financial support measures such as electricity and water subsidies, social welfare support, access to GPs and medical practitioners, support for transportation and waiver of certain fees and charges.

Capital Expenditure

3.15 Between FY2017-2018 to FY2021-2022, around 32.3 percent of Government's expenditure (10.6% of GDP) was channelled towards capital projects, which included the construction and maintenance of roads, bridges, water and sanitation facilities as well as the purchase of machinery & equipment. Although Fiji has a high degree of access to infrastructure, significant gaps and challenges remain especially in terms of implementing and managing capital projects. As such, prudently managing capital spending so that we can also reduce wastage and making public investment more resilient to climate change will ensure value for money and adequate return on investment.

Fiscal Balance

3.16 Fiscal deficits grew over the years. Fiscal deficit as a percent of GDP averaged -7.5 percent between FY2017-2018 and FY2021-2022. More precisely, double-digit deficits were incurred during the COVID-19 pandemic as significant declines were noted in revenues while Government maintained expenditures to around pre-COVID levels to deliver essential services and assist affected households. For instance, deficit rose sharply from -3.6 percent of GDP in FY2018-2019 to -11.4 percent in FY2020-2021 and -12.2 percent of GDP in FY2021-2022.

3.17 Given the rebound in economic activity driven by strong recovery in tourism and related sectors, Government budgeted for a smaller deficit of $872.2 million or 7.4 percent of GDP for FY2022-2023, with total revenue at $2,939.9 million and expenditure at $3,812.1 million.

Government Debt

3.18 Prior to the pandemic, the debt to GDP ratio remained below the generally accepted benchmark of 50 percent despite increased public spending on rehabilitation and reconstruction in the wake of TC Winston and other severe natural disasters experienced during that period. The debt trajectory was projected to improve in line with the fiscal consolidation plans in FY2018-2019, however was cut short by the onset of the COVID-19 pandemic.

3.19 Given the large deficits during the pandemic, Government's debt to GDP ratio increased from 48.8 percent pre-pandemic (FY2018-2019) to 91.1 percent of GDP ($9.1 billion) by the end of FY2021-2022 (**Table 2**). Debt is expected to further increase to around $10.0 billion by the end of July 2023, to around 84.6 percent of GDP.

Table 2: Government Debt

Particulars	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023 Budget
Debt ($m)	**5,220.5**	**5,735.3**	**6,686.0**	**7,663.7**	**9,131.5**	**10,003.7**
As % of GDP	45.8	48.8	62.5	83.6	91.1	84.6
Domestic Debt	**3,763.0**	**4,278.5**	**4,976.5**	**5,241.2**	**5,767.4**	**6,268.6**
As % of GDP	33.0	36.4	46.5	57.2	57.6	53.0
External Debt	**1,457.5**	**1,456.8**	**1,709.5**	**2,422.5**	**3,364.1**	**3,735.1**
As % of GDP	12.8	12.4	16.0	26.4	33.6	31.6

Contingent Liabilities

3.20 As at 31 December 2022, total contingent liabilities stood at $1.8 billion, equivalent to 14.8 percent of GDP. This comprises of:

3.20.1 Government guaranteed debt which stood at $1,125.2 million, equivalent to 9.5 percent of GDP for which existing guaranteed entities constitutes Fiji Airways ($476.1 million), Fiji Development Bank ($297.0 million), Fiji Sugar Corporation Limited ($268.6 million), Housing Authority ($81.7 million) and Pacific Fishing Company Pte. Limited ($1.1 million). Total guaranteed entities increased by 5.3 percent when compared to the outstanding balance as at 31 July 2022 and by 1.5 percent when compared to the same period last year. The increase was attributed to the utilization of approved guaranteed facilities by Fiji Airways, Fiji Sugar Corporation Limited and Pacific Fishing Company Pte Limited;

3.20.2 Total other explicit contingent liabilities stood at $554.4 million, equivalent to 4.7 percent of GDP comprising Government shares held with multilateral banks (IBRD, ADB and AIIB). This represents an increase by 0.5 percent when compared to 31 July 2022 and 3.8 percent increase when compared to the same period last fiscal year attributed to the appreciation of US exchange rate; and

3.20.3 Total other implicit contingent liabilities stood at $75.1 million, equivalent to 0.6 percent of GDP, representing a decline of 1.2 percent when compared to July 2022 and a sharp decrease of 16.1 percent when compared to the same period last fiscal year attributed to the timely servicing of provincial council's, municipal councils and FRCS's debt.

4.0 <u>MEDIUM TERM FISCAL FRAMEWORK</u>

Overall Fiscal Objectives

4.1 The Fijian economy is now on a double-digit recovery of 15.6 percent estimated for 2022 and a further 6.0 percent growth forecast for 2023. However, fully rebuilding the economy to pre-pandemic levels will take time as downside risks have intensified in the recent months. The anticipated slowdown in global growth and our major trading partners and tourism source countries may impede the pace of tourism recovery, while the on-going conflict between Russia and Ukraine will mostly likely keep commodity prices higher for a much longer period while natural disasters and other climate induced shocks and pandemic-related economic scarring could potentially weigh on growth in the near future.

4.2 Given the unprecedented increase in debt levels, the fiscal space has been exhausted. In fact, the room for any further increase in debt is almost non-existent. As such, Government needs to consolidate its fiscal position to rebuild fiscal buffers and reprioritize resources towards infrastructure development, expand social protection and improve overall services and at the same time ensure debt to GDP ratio is sustainable and on a downward trajectory in the medium term. In view of this, post-pandemic economic recovery must be driven by the private sector and policies and reforms should be targeted towards removing bottlenecks and bureaucracy and creating an enabling environment for investment.

4.3 While fiscal consolidation will have to be the cornerstone of fiscal strategy moving forward, the speed and timing of consolidation must be carefully managed with a delicate balance between ensuring fiscal sustainability and supporting economic recovery. Any premature withdrawal of fiscal support could potentially derail the recovery that is anticipated for the medium-term.

4.4 This medium-term fiscal framework (**'MTFF'**) focuses on making spending more efficient, streamlining taxes and working on revenue enhancing measures. Given that Government debt has increased sharply during the pandemic, any new expenditures financed through debt must ensure value for money, meets the broad development and investment objectives of the present Government, improves service delivery and continues to support post-pandemic economic recovery. This section presents the medium-term budget estimates with some policy actions that can be implemented to achieve broad fiscal targets.

Medium-term Revenue Forecasts

4.5 Based on the current tax policies and economic growth projections, the medium-term revenue forecasts are expected to normalize at around 22.5 percent of GDP, around 4 percentage points lower than pre-COVID levels. On the same note, given the need to continue with fiscal stimulus in the near term, it is imperative for Government to streamline and increase taxes, re-evaluate some of the tax exemptions and incentives and encourage self-regulation to improve tax compliance to fund for any additional expenditures.

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

- Widen the tax base by gradually removing exemptions and other distortions;
- Improve tax compliance and collection of tax arrears;
- Make the tax regime and tax administration even simpler to encourage tax compliance; and
- Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected.

4.7 While the broad guiding policy principles entails medium to long term benefits of tax reforms, the immediate sustainability of fiscal targets rests critically on the Government's ability to immediately embark on the tax policy measures for macro-fiscal stabilization to put Government debt to GDP ratio on more sustainable and downward path. In this regard, Government will consider the following revenue policies in the upcoming budgets to increase revenues to pre-pandemic levels;

- Review the corporate tax rate and other tax incentives accorded to businesses;
- Review the departure tax in light of the removal of a whole list of tourism sector taxes like ECAL and STT;
- Review the excise tax on alcohol;
- Review the Export Income Deduction with a view to remove Fiji out of the EU blacklist;
- Review the VAT regime to move towards a single rate when the time is appropriate.

Medium-term Expenditure Forecasts

4.8 Government needs to cap expenditures or scale it back by reducing unproductive spending, reviewing/reducing transfers to extra budgetary units, streamlining operations and prioritizing high impact capital projects. In view of this, total expenditure in the medium-term should be reduced to below 30 percent of GDP with a capital operating mix of at least 30:70. Therefore, Government’s expenditure plans must be guided by these strategies;

- 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;
- Conduct proper investment appraisal and project selection for all new capital projects;

- 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 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

4.9 The overarching goal of this medium-term fiscal strategy will be to reduce net deficits and put debt on a downward path to ensure fiscal sustainability. As such, increasing revenues to pre-pandemic levels and capping expenditures will be key. With some re-organization of expenditures and strengthening of tax revenue streams, Government can sustainably reduce net deficits in the medium-term.

4.10 In FY2023-2024, a net deficit target of $573.6 million or -4.5 percent of GDP will ensure continuity of public services without any major disruptions and can be easily financed domestically with some concessional external borrowing (**Table 3**). Consequently, Government debt will fall to 82.6 percent of GDP from 84.6 percent of GDP estimated for FY2022-2023.

Table 3: FY2023-2024 Fiscal Framework

($Million)	2022-2023 (Budget)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	2,939.9	3,246.1	3,383.0	3,466.2
As a % of GDP	24.9	25.3	25.0	24.3
Tax Revenue	2,322.1	2,789.9	2,934.6	3,034.4
Non-Tax Revenue	617.8	456.2	448.4	431.8
Expenditure	3,812.1	3,819.7	3,862.3	3,891.8
As a % of GDP	32.2	29.8	28.6	27.3
Net Deficit	**-872.2**	**-573.6**	**-479.4**	**-425.6**
As a % of GDP	**-7.4**	**-4.5**	**-3.5**	**-3.0**
Debt	10,003.7	10,577.3	11,056.6	11,482.2
As a % of GDP	**84.6**	**82.6**	**81.8**	**80.4**
GDP at Market Prices	11,827.3	12,811.8	13,524.2	14,276.1

4.11 In FY2024-2025 and FY2025-2026, net deficit targets of $479.4 million (-3.5% of GDP) and $425.6 million (-3.0% of GDP) can be easily financed domestically. Given these deficit targets, primary balance is projected to improve from -3.6

percent of GDP in FY2022-2023 to less than -0.1 percent by the end of FY2025-2026. Consequently, government debt as a percent of GDP will fall from 84.6 percent of GDP in FY2022-2023 to 80.4 percent by FY2025-2026.

Debt Management Strategy

4.12 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.

4.13 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.