Deficits, debt and the fiscal reckoning ahead

by Satish Chand

20 July 2026

Fiji's Finance Minister Esrom Immanuel delivered the 2026-27 National Budget on 26 June 2026
Photo Credit: Fiji Government

The 2026–27 Budget tabled in Fiji's Parliament last month projects total government expenditure of $4.9 billion against revenues of $3.8 billion, leaving a net deficit of approximately $1 billion (all dollar figures in this article are Fijian dollars; AUD1 is approximately FJD1.55). Including debt repayments pushes the overall financing gap to around $1.5 billion. This shortfall is expected to be financed through domestic borrowing of $854 million and foreign borrowing of $628 million.

By this time next year, public debt is projected to exceed $12 billion — three times its level a decade ago — and debt-servicing costs alone will amount to $436 million. Debt repayments now constitute the government's third-largest expenditure item after education and health. Public debt is set to reach 85% of GDP. As Finance Minister Esrom Immanuel recently noted, it costs around $9 million every day simply to keep government services operating.

The uncomfortable truth is that deficits and debt are not going away. The challenge is not whether they can be eliminated overnight, but whether their growth can be contained before markets impose the adjustment for us. Such restraint is rarely achievable on the eve of national elections, but the government that emerges from the polls will face difficult choices. If those choices are postponed, they will eventually be made by creditors, investors and economic realities. The purpose of this article is to offer a warning — to both policymakers and the public — about the fiscal pressures building beneath the surface.

The problem is that there is very little room to reduce spending. Indeed, expenditure demands are likely to intensify, while debt-servicing costs will continue to rise as borrowing accumulates. Without a significant increase in government revenue, Fiji is heading towards not only a fiscal crisis but potentially a balance-of-payments crisis as well. It is always preferable to heed the warning signs than to wait for the crisis itself.

The momentum behind public spending growth is likely to persist for many years.

Nearly all of the $708 million allocated to the Ministry of Education — about 14% of total expenditure — is devoted to operating costs. These expenses represent commitments that will endure for decades. The same pattern is evident in health, where $477 million has been allocated, around 95% of it for recurrent expenditures. The Fiji Police Force receives $226 million, almost entirely for operating costs, while the Ministry of Women, Children and Social Protection receives $211 million, again largely for ongoing commitments.

These expenditures are politically and socially difficult to reduce. Children will remain in schools, teachers will continue to draw salaries, social welfare recipients — numbering some 130,000 — will depend on public support, and demand for public services will not diminish. Any government attempting to make substantial cuts in these areas would face an immediate political backlash.

At the same time, pressure for additional spending continues to mount. The healthcare system remains under-resourced, and the government has already committed itself to the construction of new hospitals, ports, bridges and associated infrastructure. Concerns over law and order have intensified, particularly with regard to drug abuse, generating calls for increased policing and enforcement. Sugarcane farmers are seeking greater subsidies, public servants are demanding higher wages, and advocates for low-income workers are pushing for increases in the minimum wage. Meeting even a fraction of these demands would push total expenditure above the budgeted $4.9 billion.

Revenue growth, meanwhile, remains uncertain. Economic activity is vulnerable to adverse international developments and weather-related shocks, including the forecast El Niño event. The principal revenue measure announced in the budget is the new 5% tourism services tax to be paid by hotel and cruise operators for the next 12 months with turnover exceeding $2 million, the proceeds of which will help support Fiji Airways. The rationale is understandable: tourism remains the backbone of the economy, and Fiji Airways serves as a critical link to international visitors who underpin much of the country's economic activity.

Yet the tax highlights the dangers of seeking revenue through narrowly targeted measures. Taxing tourists may appear politically attractive because tourists do not vote. What is often overlooked, however, is that they can choose alternative destinations. Hotel operators argue that they will ultimately bear much of the burden of the tax, and there is merit in their concern.

Consider the arithmetic. An exceptionally profitable business may earn a profit margin of 20 cents for every dollar of turnover, while a more typical business may earn only 10 cents. A turnover tax of five cents per dollar therefore represents a tax equal to 25% of profits for the highly profitable operator and 50% for the less profitable one. Combined with Fiji's company tax rate of 25%, the effective tax burden can become exceptionally high, particularly for businesses operating on thin margins. The result is that turnover taxes tend to penalise less profitable firms disproportionately and can discourage investment and expansion.

Existing hotel operators may have little choice but to absorb the additional burden, but prospective investors can simply postpone or redirect their capital elsewhere. Although the government has described the tax as temporary, experience suggests that temporary taxes often outlive their original justification. Investors are aware of this risk, and it inevitably affects investment decisions.

The reality is that the long-term solution lies elsewhere. Some savings may eventually be achieved through better targeting of pensions, transfers and subsidies, although significant reform is unlikely before the election. On the revenue side, there is scope to broaden the tax base and potentially increase VAT, though neither option is politically attractive in an election year.

The greatest untapped source of revenue, however, may lie in personal income taxation. At present, only around 10,000 people out of an estimated 400,000 wage and salary earners pay income tax. This outcome stems largely from Fiji's tax-free threshold of $30,000 — more than twice the country's per capita GDP. By international standards, this threshold is unusually high. In Australia, for example, the tax-free threshold is roughly one-quarter of per capita GDP, while marginal income tax rates are generally higher than those prevailing in Fiji.

Broadening the income tax base would not only strengthen revenue collections but also improve public accountability. Citizens who contribute directly to government revenues tend to take a greater interest in how those revenues are spent. Wider participation in the tax system can therefore strengthen democratic scrutiny and improve governance.

Budget deficits and rising public debt will remain features of Fiji's fiscal landscape for the foreseeable future. The country's capacity to borrow more is increasingly constrained, leaving only two sustainable options: moderate the growth of public expenditure or generate additional revenue.

Neither path will be painless. The next government is likely to confront a much tighter fiscal environment than the current one. Future budgets may require difficult expenditure restraint, politically unpopular tax reforms, or some combination of both. Delaying these choices will not make them easier. It will only increase the likelihood that Fiji faces a far more painful fiscal reckoning in the years ahead.

Author/s:

Satish Chand
Satish Chand was the Chair of the National Security and Defence Review Taskforce for the Fijian Government. He is a Professor of Economics at the University of New South Wales, specialising in public finance, governance and economic development.

Link: https://devpolicy.org/deficits-debt-and-the-fiscal-reckoning-ahead-20260720/