

## **2008 BUDGET ADDRESS**

1.0	INTRODUCTION	3
2.0	ECONOMIC PERFORMANCE	5
2.1	International Economy	5
2.2	Domestic Economy	5
3.0	MAJOR ECONOMIC CHALLENGES	10
4.0	MEDIUM TERM POLICY DIRECTION	12
5.0	BUILDING A PLATFORM FOR QUICK RECOVERY AND SUSTAINABLE GROWTH	14
6.0	FINANCIAL POLICY FRAMEWORK	27
7.0	FISCAL POLICY FRAMEWORK	32
8.0	MEDIUM TERM FISCAL POLICY FRAMEWORK	32
	Debt	33
	Revenue	35
	Tax Concessions	35
	Expenditure	36
9.0	PRIORITY SECTORS FOR ECONOMIC RECOVERY	37
9.1	Sugar	37
9.2	Agriculture	39
9.3	Forestry	40
9.4	Fisheries	42
9.5	Infrastructure	43
9.6	Audio-visual Industry & Information Communication Technology	44
9.7	Tourism	44

9.8	Rural and Regional Development	45
10.0	<b>PRIORITY SECTORS FOR SOCIAL DEVELOPMENT</b>	<b>46</b>
10.1	Education	46
10.2	Health	47
10.3	Small and Micro-Enterprise Development	48
10.4	Women	48
10.5	Housing Programme	49
10.6	Care for the Elderly	49
10.7	Disaster Management	50
10.8	Culture and Heritage	50
10.9	Sports	50
10.10	Law and Order	51
10.11	Good Governance	52
10.12	General Elections	53
11.0	<b>REVENUE MEASURES</b>	<b>54</b>
12.0	<b>CONCLUSION</b>	<b>62</b>

## 1.0 INTRODUCTION

Prime Minister,

Your Excellencies, Members of the Diplomatic Corp,

Fellow Ministers,

Distinguished Guests,

Ladies and Gentlemen.

It is my pleasure to welcome you this morning to the presentation of Budget 2008.

Earlier this year, in March, I had faced the onerous task of tabling a revised Budget 2007, the main aim of which was to avert the financial and economic crisis facing us as a nation, and set the nation on a steady course of sustainable growth and development.

The revised Budget was delivered against the backdrop of six years of economic decline and, financial indiscipline and mismanagement, which had left the nation precariously perched at the precipice of financial bankruptcy. In short, we were living beyond our means.

I faced the unpopular task then of imposing severe measures to curb consumption and to drastically trim government expenditure in a bid to stabilize State finances and our Foreign Reserves. We had to cut back pays in the Public Sector by 5 percent, reduce the

size of government and impose import duties on a wide range of luxury consumer items.

A bitter pill to swallow, maybe, but unavoidable, nonetheless. I am pleased to report that this rescue prescription was successful in averting immediate disaster. Nine months later, despite the odds, Government finances have been stabilized, Foreign Reserves are holding well, our exports are rising for the first time in many years, interest rates are down and inflation is on the decline. In brief, our economy is on the mend.

Within this short span of time, the Interim Government has achieved the mandate handed down by His Excellency the President to restore immediate financial stability and economic growth.

With the 2008 national Budget we can now look forward to a new future as a nation.

I would like to tag Budget 2008 as a *Budget of Hope* ... it aims to lay solid foundations, hitherto lacking, for strong and sustainable economic growth and development underpinned by strong and sensitive leadership, and the principles of social justice and good governance.

Budget 2008 is moulded on the Interim Government's vision for a modern, prosperous and progressive multiracial society with equal opportunities and a level playing field for all. This means providing the opportunities to improve living standards, providing greater access to education for our children, and efficient health care facilities for our poor, creating more investment opportunities and, thereby jobs, and empowering our people with opportunities and skills to better their lives and those of their families.

It is our vision to “*Build a Better Fiji*”... benefits that can only be accrued from a robust economy and a unified, politically stable society.

## **2.0 Economic Performance**

Unfortunately, our small island economy is highly vulnerable to external factors, influences and pressures which coupled with domestic problems, present major challenges for a developing nation. They seem grossly unfair when viewed against a global economy that is booming.

### **2.1 International Economy**

According to International Monetary Fund estimates, the world economy expanded by 5.4 % in 2006 and is expected to grow by 5.2 % in 2007. Although growth in US slowed in the first quarter, recent indicators suggest that the American economy regained momentum in the second quarter. In Japan and the Euro area, growth has remained above trend with some welcome signs that domestic demand is taking a more central role in the expansion. Emerging market countries have continued to expand robustly, led by rapid growth in China, India, and Russia.

### **2.2 Domestic Economy**

On the domestic front, the economy has grown, on average, by 2.8 percent over the last 5 years. A record growth of 5.4 % in 2004 was followed by a slump in 2005 with growth down to a minimal 0.7%.

This low average growth rate is clearly insufficient to fuel future prosperity. Moreover, the large swings in our medium term performance indicate the unsustainability of our past economic policies.

## **Overview – 2006**

Growth in 2006 is provisionally estimated at 3.6 % driven largely by growth in the finance, insurance, real estate, business, wholesale & retail trade and hotels & restaurants services.

The real productive areas of mining & quarrying, transport & communication, agriculture, forestry, fishing & subsistence sectors contributed negatively to growth in 2006.

## **Overview – 2007**

For 2007, the domestic economy is expected to decline by 3.9 %. Lower Government spending, the impact of the flash floods earlier this year that damaged the 2007 sugar cane crop followed by the drought in the cane areas, the slowdown in the building & construction sector, the absence of gold production at the Vatukoula Mines and lower tourist arrivals have all contributed to the projected contraction for this year. In addition, activity within the finance sector has so far remained subdued this year.

## **Monetary Policy**

Over the past 2 years, the Reserve Bank had to tighten monetary policy against the backdrop of a widening trade deficit driven by a combination of stagnant exports and rising imports.

At the same time, private sector credit was growing at an unsustainable rate - at one stage close to 30 percent on an annual basis.

To dampen import and credit growth, the Reserve Bank moved to progressively raise its policy indicator rate to 4.25 percent in 2006 and the statutory reserve deposit ratio to 7 percent from 5 percent.

Following the political events of 5 December 2006, the Reserve Bank moved swiftly to:

- impose a credit ceiling on individual commercial bank lending.
- raise interest rates on its lending facilities to commercial banks.
- tighten Exchange control measures with the objective of restraining speculative capital outflows and to preserve Foreign Reserves.

But in May 2007, with reduced risks to credit growth as a result of the credit ceiling, the Bank lowered the statutory reserve deposit ratio from 7 percent to 6 percent. This was aimed at injecting liquidity into the banking system and easing upward pressure on interest rates so as to facilitate investment and growth.

The Reserve Bank also took steps to encourage commercial banks to lend to priority sectors, above the credit ceiling, to export oriented business, investment related projects and to the small business sector.

More recently, improvements in the Foreign Reserves levels has allowed the Reserve Bank to relax certain exchange controls and to review the criteria for lending to non-resident businesses and individuals by domestic banks.

As a result of recent policy measures, market interest rates have declined in the last six months. Deposit and lending rates have consistently fallen due to a build up of liquidity in the banking system.

At the end of September, the weighted average commercial bank lending rate was 8.89 percent, while the weighted average interest rate on savings and time deposit was 0.85 percent and 6.32 percent, respectively.

## **Inflation**

It is Government's firm view that a low and stable price level is, ultimately, the best way to promote economic efficiency, and improve standards of living.

Government is conscious of the growing social distress of our people and the inequalities besetting our society – clearly evident from the fact that more than 50% of our people struggle to live in dire poverty, or at the brink of poverty.

A sensitive government will take measures to alleviate such suffering. In the months following the events of December 5, we noticed a sharp increase in prices of certain staple food items and other household consumer products.

As a result, inflation in the first half of this year rose sharply, reaching 7.1 percent in June. The increases were beyond our control, due both to international and domestic factors. Internationally, the higher prices of wheat and dairy products as well as the renewed surge in global crude oil prices filtered through to fuel domestic inflation. Domestically, weather related supply shocks and higher export demand for local produce, saw a surge in the prices of market items.

Nevertheless, Government saw it as its social duty to step in and soften the impact of such increases on the poor. In August, the Interim Administration ordered a reduction in the mark-up charged by importers, wholesalers and retailers on all basic items under the control of the Prices and Incomes Board.

Added to this, fortunately, market supply conditions have since normalised. I am happy to report that in the last four months

inflation has fallen sharply, down to 3.4 percent last month. The year end inflation forecast now stands at 3.5 percent.

It is expected to further decline to 2.5 percent in 2008 in line with the slowdown in wage and income increases this year, and the modest economic recovery expected next year.

The message to our people is clear: the Interim Government is sympathetic to, and ever-vigilant of your needs. It will step in, when necessary, to check or cushion the impact of unfair, and unreasonable price increases; or provide relief where it can.

One of the first acts of the Interim Administration when it took office was to scrap the 15% VAT imposed by the previous government. Critics of the government tend to forget this: had the current price increases come on top of the 15% VAT, it would have caused far greater hardship!

Government is also reviewing existing Quarantine regulations some of which have roots in our colonial past, so that we can source cheaper goods from countries other than Australia and New Zealand.

### **Foreign Reserves**

In recent years, Fiji's trade deficit had widened to the extent that we were exporting only about a third of what we were importing. In other words, we were living beyond our means.

This put tremendous pressure on our Foreign Reserves. Late last year, official foreign reserves were around \$880 million, sufficient to cover around 3.7 months of imports of goods.

I am pleased to note that Foreign Reserves stabilised during the course of the year as a result of falling imports and a small improvement in exports. In addition, the Reserve Bank's policy actions in the form of exchange control regulations and credit ceiling together with a tight fiscal policy, helped stabilise the level of reserves.

At the end of October 2007, official Foreign Reserves were at \$931 million, sufficient to cover 4.3 months of imports of goods.

### **Economic Outlook - 2008**

The measures taken in 2007 have now set a platform for the economy to turn around in 2008. It is projected to grow by 2.2 percent and driven, not by consumption, but by the productive sectors of agriculture (including sugar), forestry and fisheries. The manufacturing, transport & communication, wholesale & retail trade, hotels & restaurants sectors are also anticipated to support next year's growth on the back of an expected improvement in tourist arrivals. Other sectors forecast to contribute positively to the 2008 growth outlook include the electricity & water and building & construction sectors.

In the mining & quarrying sector, our officials have not projected any gold production for next year. I am, however, optimistic that the Vatukoula Mines will resume production and add to growth next year, as well as raise employment.

### **3.0 Major Economic Challenges**

While the economy is set to grow in 2008, we remain mindful of existing economic challenges which cannot be overcome overnight. Our economy has for long been shackled by structural constraints which need to be addressed. As a small island nation, we remain vulnerable to external shocks.

We face significant challenges in the following fronts:

- low and volatile economic growth
- high unemployment, and low wage rates, contributing to greater poverty;
- exports continue to be stagnant creating undue pressures on our Balance of Payments position. Higher oil prices have raised our import bill;
- Our preferential trade agreements are being dismantled
- Our debt stock remains at unsustainably high levels;
- The size of government is high by international standards. This has resulted in insufficient resources spent on capital development to properly maintain existing assets, let alone build new ones;
- Investment as a percentage of GDP remains well below 25 percent, which is an investment target that can lift growth to acceptable levels of 6% per annum; and
- Productivity growth has been extremely low by world standards.

These challenges are not new. They have been with us for many years, indeed, allowed to worsen, without being properly addressed.

The Interim Administration is putting a stop to this inaction. If we do not address them, they will derail all our efforts to move this country forward.

Reforms are now imperative, and, Budget 2008 lays the long term foundations to address these fundamentals. It builds on the successes of policies and strategies that we adopted in the revised 2007 budget. We are now keenly focused on “***building a platform for quick recovery and sustainable growth***”. Ladies and Gentlemen, this is the theme of our 2008 Budget.

## 4.0 Medium Term Policy Direction

How do we achieve our desired goals and build the required policy platform? Our starting point is the Government's long term vision for *Building a Better Fiji*. Immediately cascading down from this Vision is the Government's new policy direction for 2008 to 2010 of "**Sustainable Economic Empowerment Development Strategies**" or "**SEEDS**" *as we call it*.

SEEDS now charts the country's broad development direction for the medium term. It lays the foundation for higher economic growth, social justice and cohesion, empowerment and environmental sustainability.

It will empower our people in all communities to achieve greater economic successes, to live harmoniously side by side with each other, and contribute towards the common good of building a better Fiji.

Ladies and Gentlemen, SEEDS transforms His Excellency's mandate into **six policy platforms** to guide development initiatives in the medium term:

**One:** it commits to returning Fiji back to democratic rule, strengthening good governance, weeding out corruption and modernizing existing administrative systems;

**Two:** it commits to growing the size of the economy;

**Three:** it commits to reforming Fiji's public sector with the objective to reduce its size and increase efficiency and productivity;

**Four:** it commits to the reform of public financial institutions. This includes the further development of Fiji's capital markets, the promotion of rural banking and the establishment of a Financial Services Commission;

**Five:** it commits to the greater and more effective utilization of Fiji's land resource. This includes putting in place a system that promotes fairness to tenants and landlords, and which encourages maximum return from the potential value of our land resource; and

**Six:** SEEDS commits to Social and Community development that promotes national unity, better health and education services, rural development, poverty eradication and social equity and environmental sustainability.

SEEDS, above all, lays the foundation for inclusive development for the medium term... foundations that will be fully incorporated into the corporate plans of all Ministries.

Budget 2008 begins work on the medium term strategies contained in SEED and provides the financial resources to implement these plans and to achieve the intended results.

It supports investors who wish to generate wealth in our country. It is an instrument that aims to ensure that the benefits of growth filter down to all, on an equitable basis, and will lay the seeds for greater economic freedom in the future.

I stress again that this Budget builds on the successes of the 2007 budget – the solid financial and economic stability that we have achieved which has restored the confidence of our people and the marketplace.

## **5.0 Building A Platform for Quick Recovery and Sustainable Growth**

Ladies and Gentlemen, I have outlined to you the key development strategies that we believe will achieve this platform for growth. These strategies will be further discussed and refined where necessary in the deliberations of the National Council for Building a Better Fiji (NCBBF).

I will now list the policy instruments through which we aim to achieve our targeted goals:

### **Exports**

Government will continue with the implementation of the National Exports Strategy programme to address the widening gap between imports and exports, and boost foreign exchange earnings.

Fiji's economy has been seriously constrained by its narrow export base. Over the years, exports have stagnated resulting in pressures on the Balance of Payments position. The Government is serious in reversing this trend. Our export strategy is three pronged:

- First, we will place significant emphasis on raising non-traditional exports;
- Second, we will encourage strategic investment in export oriented industries that add value to our resource based sectors; and
- Third, we will create the enabling environment for private sector investment and export promotion.

In the short term however, we will introduce selective incentives with specified time frames to assist in jump starting the economy as part of government's economic recovery package.

In recognising the importance of the export sector to the economy, the Reserve Bank has recently made certain changes to its Export Finance Facility (EFF). These changes will allow exporters to access finance from commercial banks and the Fiji Development Bank at very concessionary interest rate. I urge exporters to take maximum advantage of this facility.

The Government is concerned about the fact that a substantial part of our export income is not brought into the country. This has implications on our Balance of Payments and Foreign Reserves as well as on Government revenue.

The Reserve Bank and FIRCA will work closely to monitor and encourage inflow of export receipts.

### **Import Substitution**

Government will embark on a policy of building our capacity to replace imports. This will be carried out on a selective basis. We will review specific import excise duties to support this policy, while protecting selected domestic industries.

However, the level of duty protection to local manufacturers in the import substitution sector will need to be carefully balanced to protect consumer interests as well.

A major concern here is the lack of action in producing domestically grown food products for the hotel industry. Government plans to put in place measures and initiatives whereby the hotel industry will work with our local farmers and

manufacturers to reduce the tourist industry's reliance on imports of fruits, vegetables, meat and marine products.

Government intends to reduce the import content in the hotel industry by 50% from current levels, in the next 5 years.

In addition, we will continue with the rationalisation of the role of the Agricultural Marketing Authority and its merger with Food Processors Limited with a view to privatising the merged entity as soon as practically possible.

## **Energy**

I am concerned at the risks to the economy and our Balance of Payments position from growth in the fuel imports bill.

Our fuel imports bill has risen strongly over the years due to both increased demand as well as the escalating world price for oil. In 2000, we paid \$332 million for oil imports - about 18 percent of our total imports. Last year, Fiji's oil import bill was just over \$1 billion - one-third of our total import bill.

This illustrates the phenomenal rise that has occurred over the years. Oil consumption by the Fiji Electricity Authority accounted for 10 percent of total oil imports last year.

It is obvious that steps have to be taken to reduce this heavy dependence on imported fossil fuels. To help facilitate this, Government will do the following:

- continue with its renewable energy investments and assist in securing financing of the construction of an additional hydro-power facility in Nadarivatu;
- At the same time, Government will work closely with the World Bank to identify and implement small renewable energy projects around the country, particularly in the

Northern division where off-grid schemes are more viable at this stage; and

- Lastly, government is pushing ahead aggressively with investments on power cogeneration and ethanol production.

## **Investment**

Despite some encouraging signs in recent years, private investment is still not at the level required to allow sustained economic growth. Productive private sector investment has greater impact on jobs and growth than public sector investment, whether in infrastructure or public enterprises.

The key, therefore, to growth and greater job opportunities is increased private sector investment. Government encourages the private sector to take the lead role in raising investment levels while it provides a facilitating role. To do this, Government will improve the business environment to a more dynamic and responsive level through comprehensive reforms and enabling measures.

The Reserve Bank's monetary policy will be aimed at managing liquidity to achieve market-based interest rates which are attractive for investment, and at the same time mobilize savings. This is the most effective way of channeling domestic savings into productive sectors of the economy.

An area of continuing concern is the time taken to process investment approvals. Under the Foreign Investment Amendment Act, the Fiji Trades and Investment Bureau is required to register projects within 5 days of receiving proposals. FTIB is currently averaging 3 days, and working towards reducing this to 2 days.

But registering a project is one thing while getting it off the ground is another. This is where the challenge is and where criticisms abound.

I would like to assure our investors and potential investors, that we are addressing existing bottlenecks in the approvals process which will be reflected in tangible results very shortly.

We have allocated a total of \$1.25 million to the Department of Town and Country Planning, the Office of the Registrar of Companies, and the Rural Local Authorities to boost their capacity in processing investment applications. The Department of Immigration has been allocated additional staff to process work applications. All these measures should assist in achieving a business friendly approvals process.

FTIB is continuing its shift to the “one stop shop” goal of investment facilitation and approval. Key implementing agencies comprising the Revenue and Customs Authority, the Reserve Bank, and various Government departments are being co-opted as Board members with a view to further expedite the entire investment approvals process.

### **Infrastructure Upgrade and Development**

You will agree that the current appalling state of our infrastructure is a major constraint to investment, and needs addressing urgently.

It is our strategy to embark on Public Private Partnerships to promote the development of infrastructure facilities through mutually beneficial agreements, aimed primarily at supplying public goods. This policy will give Government flexibility with regards to debt financing, by deferring costs.

The PPP policy and legal framework (2006 Act) provides guidelines on critical issues in PPP development, and for the efficient and transparent implementation of these agreements. A

special unit has been established to promote PPP effectively in conformity with the key principles of accountability, value for money and appropriate risk transfer.

Negotiations and preparatory works are underway to implement additional PPP projects in 2008.

PPP can potentially be more efficient than traditional methods of procurement of assets and services, but can also entail substantial risks, especially if accounting and reporting systems do not transparently disclose the fiscal implications of PPPs.

Hence, effective management of fiscal implications is a must. The prior assessment of the Ministry of Finance on each PPP project will be a requirement. This is to ensure that our debt targets and contingent liabilities are not further compromised.

### **Private Sector Development**

Ladies and Gentlemen, the private sector plays a critical role in our development. Government's role is to set a conducive climate and provide appropriate incentives for it to thrive. The strategies that we are putting in place to promote private sector development are as follows:

- Improve the approval process of investment as I had mentioned already;
- Remove the monopolistic structures that we have in utilities, communications and other areas;
- Rationalize tax structures and incentives to promote new industries and the small and micro enterprises;
- Help find markets for our agriculture and other products;
- Help bring down the cost of doing business by streamlining public enterprises and public service delivery; and very importantly

- Promote good governance.

## **Productivity and Competition**

We recognize that competition and efficiency are fundamental prerequisites for a dynamic and responsive business environment.

To improve overall competitiveness, Government is monitoring the implementation of the competition policy framework which promotes competition within the private sector. This will allow consumers a wider choice of quality goods and services, at reasonable prices.

Another important aspect is the deregulation of the telecommunications industry. Government is strongly committed to this, and I am pleased to announce that agreement was reached on 20<sup>th</sup> November between the Government and Telecom companies to dismantle the exclusivity arrangements which had existed for the last 18 years and which had been strangling the development of the industry by its high cost structure.

I am sure that the business community as well as all other users of this vital service would now breathe a sigh of relief. I wish to thank the representatives of the Telecom companies, the members of the Government team and the World Bank mediators for a job well done. Ladies and Gentlemen, you can chalk this down as a major achievement on the part of the Interim Government.

Appropriate legal and regulatory framework will be installed to:

- promote competition and improve the range of telecommunication services;
- reduce the cost of doing business;
- support diversification of the domestic economy; and

- promote Fiji's integration with the regional and global economy.

I am aware that our growth in productivity has severely lagged behind the rest of the world. Reforms we are currently undertaking will help lift national productivity levels. Government will continue to work with all stake holders to promote greater productivity in the public as well as the private sector.

### **Trade Reforms**

Ladies and Gentlemen, reforming Fiji's trade regime is fundamental to our continued co-existence with the rest of the world. As a small island nation, we are vulnerable to sudden and unexpected changes in the international trading environment.

Fiji's export oriented trade regime will continue to be pursued at the multilateral, regional and bilateral level.

We must also endeavour to meet international standards prescribed by the WTO, among others. Fiji's participation as a member of the Small and Vulnerable Economies Group (SVEs) places us in a better and stronger bargaining position as evidenced by the successful negotiations by the group on the extension of the TFF/TFZ scheme to 2015.

We are mindful of the benefits, requirements and implications of entering into an economic partnership agreement with the EU. We intend to proceed judiciously on this, keeping in mind the complexities involved.

Our aim is to secure favourable rules of origin interpretation within the trade in goods agreement, allowing our goods duty and quota free access to EU markets. As for the trade in services

agreement, the four sectors being considered for liberalisation include tourism, financial services, business and transport.

At the regional level, we will continue negotiations to include services in the Pacific Island Countries Trade Agreement (PICTA) which will create opportunities for labour mobility at all levels.

PACER (Pacific Agreement on Closer Relationships) is a framework agreement that sets the basis for closer economic relations among the Pacific Island countries and assumes that a free trade area emanating from PICTA would form the basis for a free trade arrangement with New Zealand and Australia.

We are equally mindful of the revenue implications that free trade will imply with the removal of tariffs which represent a significant proportion – around 20 percent – of our revenue base.

Moreover, Government will also need to meet the cost of adjustments domestically for the affected industries.

### **Labour Reforms**

We will continue to focus on restoring confidence, stability and growth in the labour market and contribute to the creation of a business environment conducive to increased private investment and business activity, further increasing employment opportunities. Up-skilling and short term courses are important for a labour force with up to date and industry relevant skills.

The Employment Relations Act will be fully enforced in early 2008. It will establish mediation courts and Tribunals throughout Fiji to expedite the resolution of labour disputes. This will promote the smooth operation of industries by addressing the need for effective labour dispute resolution machinery. A sum of \$800,000 is allocated for this purpose.

The Code of Good Faith is an important instrument within the Employment Relations Bill. The code encourages the parties to be sincere, proactive, constructive and open in collective agreement bargaining. Rulings made in the Employment Relations Court and Tribunal are contingent on compliance with the Code of Good Faith.

### **Land Reforms**

I now come to touch on an aspect of development policy that has been a major constraint to robust economic growth and development ... I refer to the accessibility of land for development.

Government is undertaking reforms to facilitate the easy use of land by commercial and business operators. Reforms currently underway within the Native Land Trust Board will create an institution more responsive and proactive to safeguarding landowner interests while providing secure land access to tenants in an uncomplicated and transparent manner.

This is necessary to ensure a stable yet accommodating business environment.

Reforms and restructure will continue within our Fijian custodian institutions to improve their internal efficiency as well as addressing the needs of their stakeholders and customers.

### **Public Sector Reforms**

The Prime Minister had announced measures earlier this year to reform the Public Sector.

He axed the number of Ministries from 23 to 17, now further cut to 13, in an effort to reduce the burden on our tax payers of paying for a bloated public service. Chief Executive Officers were replaced

by Permanent Secretaries, membership of statutory boards were streamlined, and procedures and generic functions within agencies rationalized to remove wasteful duplication.

Further reforms are essential to reduce the cost of Government operations which, if left unchecked, become fiscally cumbersome and unsustainable.

### **Civil Service Reform**

Government will stringently control and right size our cumbersome civil service to an appropriate, sustainable level without compromising the provision of reliable, efficient services to the public.

The emphasis will be on reducing recurring operating expenditure - in particular the salary and wage bill - to enable sufficient funding for Government's capital expenditure programme. This entails a reduction in non-critical areas of Government expenditure which would allow savings to be diverted towards productive capital programmes.

Ministries have been directed to identify areas for reduction by 10 % in 2008. Cabinet has established a Steering Committee of key stakeholders to drive productivity and improve efficiency within the public service.

### **Contracting out of services**

Government is also committed to outsourcing the provision of selected Government services. The aim is to improve efficiency and achieve cost savings.

Government intends to contract out the maintenance of roads, water and sewerage infrastructure to private operators as soon as practically possible.

This will also be applied to the maintenance of existing infrastructure as well as to design-build and turnkey operations. We will be undertaking further consultations with PSC and the Unions on the implementation of this policy. Our people deserve quality roads, water and sewerage services which have deteriorating over the years to appalling standards.

Alternative modalities which are more efficient and cost-effective must now be seriously considered for the delivery of these services.

### **Financial Management Reforms**

Ladies and Gentlemen, significant progress has been made in reforming financial management within Government.

Each Ministry and department has now been given better control of its funds and physical assets. The reforms are designed to minimise wastage, eliminate misuse of resources and corrupt practices.

The new integrated Financial Management Information System will improve operational process efficiency and provide access to timely, accurate financial information and improved budgetary expenditure control. I am pleased to report that all ministries and departments are now technically on-line under the Financial Management Information System.

In 2008, further work will be undertaken to:

- progressively review and reinstate the financial authorities of Permanent Secretaries, withdrawn in December 2006, procurement limits in particular;
- establish a framework on Government's Accrual Accounting;

- establish a cost recovery framework;
- review implemented financial policies, and address gaps identified; and
- implement new financial management initiatives on the:
  - Central Tender Board;
  - Procurement policy and
  - Carryover of appropriation policy.

### **Public Enterprise Reform**

Reforms in the Public Enterprise sector will continue aimed at greater productivity in the use of assets owned or managed by the public sector commercial entities.

Government will accelerate the designation of departments as re-organisation enterprises to increase efficiency through improved operational systems, contracting out and privatisation.

A number of Government departments have already been designated for reorganization - water and sewerage utilities, quarantine, maritime safety, Government residential quarters, Government Supplies, and film and television broadcasting.

Existing Government commercial companies and commercial statutory authorities will be closely monitored to improve their financial performance and service delivery.

Ladies and gentlemen, I have so far outlined our major strategies to promote sustained growth. To support these strategies, we will, of course, need appropriate fiscal and monetary policy framework. These policies must be properly coordinated. I will now elaborate on these policy settings.

## 6.0 Financial Policy Framework

Ladies and gentlemen, let me move on now to Fiji's financial policy. Financial services are essential to creating an environment conducive to private sector investment and economic growth.

Well managed financial services contribute to the national priorities of maintaining macroeconomic stability, restructuring to promote competition and efficiency, raising export earnings and raising investment levels for jobs and growth.

Resilient, well regulated financial systems are essential for macroeconomic and financial stability in a world of increased capital flows.

Fiji is the first country in the South Pacific to voluntarily participate in the *Financial Sector Assessment Program* of the International Monetary Fund and the World Bank. This comprehensive review is now complete. It has concluded that Fiji's financial system is sound and stable.

The relevant agencies are implementing the findings and recommendations of the Mission. The Government has agreed to publish the FSAP report.

The Government will continue to support further modernisation of our financial system. In 2005, the RBF, in collaboration with the Association of Banks in Fiji, began to develop a state of the art *payment system* for Fiji.

The system went live on 30 August 2007 and was officially launched on 16 October 2007. I must congratulate all those involved in launching this initiative, particularly as Fiji is the first

island nation in the South Pacific to have a Real Time Gross Settlement System (RTGS) which is known as FIJICLEAR.

I am told that this automated payment system is expected to greatly improve the reliability and efficiency of the existing financial infrastructure, putting our banking services on par with international standards. In addition, the RTGS system enables payments to be settled immediately and funds to be available for use on the same day by customers, a considerable improvement when compared with cheque payments which can take up to 7 days to clear.

### **Financial Intelligence Unit**

Government will continue to support the work of the Financial Intelligence Unit (FIU) - the government agency responsible for the implementation and enforcement of anti-money laundering and combating the financing of terrorism framework in Fiji.

The FIU also assists in the detection, investigation and prosecution of serious financial crimes including corruption and money laundering.

The FIU will work closely with the supervisory and law enforcement agencies to ensure the safety and integrity of Fiji's financial system. The following additional measures will be implemented in 2008 to further strengthen this framework:

- Introduction of \$10,000 cash transaction reporting and all international funds transfer transaction reporting by banks, foreign exchange dealers and other financial institutions that are covered under the Financial Transactions Reporting Act;
- Introduction of \$10,000 Border Currency Reporting by all inbound and outbound passengers;

- Full implementation of Financial Transactions Reporting Act and Regulations;
- Providing ongoing awareness and training to the financial institutions; and the
- Introduction of an online electronic reporting and database management system for cash, funds transfer and suspicious transaction reports.

### **Currency notes and coins**

Fiji's new currency notes were unveiled in March 2007 and a new \$100 bill introduced. The new banknote series continued the tradition of reflecting Fiji's cultures and the economy, and are equipped with the very latest security features.

For the first time, Fiji's banknotes now vary in length as a recognition feature for the visually impaired. These new notes have been well received.

In addition, the Reserve Bank has commenced a review of Fiji's coin structure. A nationwide survey was conducted and the views of the public are being considered. The project which will take about a year to complete will review the structure of our coins, their size and their metal composition .

### **Rural Banking**

Government continues to promote the extension of *banking services to the rural sector*.

In this regard, I am glad to note that the ANZ Bank and Colonial National Bank currently provide banking services in remote and rural Fiji so that our people in these areas are better able to establish and expand businesses and meet social needs.

The Colonial National Bank provides this through postal agencies via an agreement with Government and ANZ through the ANZ

Rural Banking Initiative. In 2008, the Reserve Bank will continue to work closely with all stakeholders in taking forward this initiative and will also examine greater involvement by banks in small- and micro-finance initiatives.

### **Financial Services Commission /Ombudsman**

Ladies and Gentlemen, for some time now, there has been a loud and clear call from the business community and the public at large for the monitoring of fees and charges levied by banks, and other financial institutions, including entities engaged in the hire-purchase and leasing activities.

These calls remained unheeded for years. However, this Government has moved to take action in this matter by agreeing to establish a Financial Services Commission/Ombudsman scheme. A budget of \$200,000 is allocated in 2008 for this purpose. Government will now move to formulate an appropriate legislative framework in this regard.

I wish to assure the financial institutions that they will be fully consulted in the formulation of this new legislation.

### **Fiji National Provident Fund**

I wish to assure everyone that the Fiji National Provident Fund remains financially sound. Its assets continue to grow and the return to members is competitive to other return on investment in Fiji.

As part of its financial sector reform, Government has been exploring for some time, the possibility of deregulating the *superannuation industry*. The main objective of such a reform will be to promote competition, widen choices available to contributors and improve members' returns. Preparation towards the deregulation of the superannuation industry began with the

supervision of the Fiji National Provident Fund in 2004 by the Reserve Bank of Fiji. It is anticipated that a detailed study will be undertaken on furthering the deregulation process of this industry.

### **Capital Market Development**

The Capital Markets Development Authority is undertaking a public awareness exercise to educate people on the benefits of investing, and to maintain confidence in our capital markets.

Next year the Authority will study the impact of real time settlement on market trading activities. The Authority will be changing its regulation approach to be risk-based to anticipate and deter illicit activities. The CMDA and the Ministry of Finance will set up a Committee to progressively review legislations impacting on the development of capital markets.

### **Remittances**

Remittances have grown in recent years to become a major source of support for our Balance of Payments. Many families in Fiji were able to raise their standards of living with this foreign stream of income. However, we have now noted a sharp decline in remittances by as much as 30 percent on an annual basis.

The Government is concerned with the high costs incurred by people remitting money to Fiji. It is reported that in some cases such costs could be in the order of 30% of the sum remitted.

This is clearly not acceptable and I have asked the RBF to look into the matter with due urgency.

Given the growing importance of remittances to the economy, we will examine appropriate policies to grow and sustain these flows, as well as ensure that remittances are put to better use by recipients.

## **7.0 Fiscal Policy Framework**

I now turn to Government's fiscal policy framework.

Government had targeted a net deficit of 2 percent of GDP in its revised 2007 Budget.

This translated to a total budgeted expenditure of \$1.57 billion against total projected revenue of \$1.47 billion.

The October outturn estimates total revenue to be around \$100 million lower than expected. This shortfall is mainly due to lower than expected collections from indirect taxes and customs duties.

Realizing this eventual shortfall in revenue collection, the Ministry of Finance has moved to tighten its rein on Government spending. Even so, disruptions to the delivery of critical Government services has been minimal and major development projects continue.

This approach was necessary to cap Government spending at a level that will still deliver a net deficit target of 2 percent of GDP. The new financial management information system has greatly assisted us to closely monitor expenditure trends through the minimization of wasteful spending.

The net deficit position for 2007 therefore remains at 2 percent of GDP.

## **8.0 Medium Term Fiscal Policy Framework**

Government's medium-term fiscal strategy is to consolidate its fiscal position and reduce debt to sustainable and manageable levels. This is critical in protecting government finances and our economy from internal and external shocks in the medium term.

It is also critical in raising investor confidence and providing a solid platform for sustained economic growth. High fiscal deficits in the past led to a ballooning debt position which has severely constrained our capacity to promote growth through fiscal policy.

In 2005, the net deficit level was 3.75 of GDP and 3.8 % in 2006. We cannot continue to go on like this.

After our 2% of GDP net deficit this year, Government's fiscal strategy will continue down the path of fiscal consolidation in the medium term. This is a wise and appropriate fiscal path, which received support from an IMF Mission to Fiji in September this year. The Mission agreed with Government that the centerpiece of this fiscal consolidation strategy is controlling salary and wage increases for Government over the medium term.

The 2008 Budget net deficit will remain at 2 percent of GDP. Economic pundits may argue that an expansionary policy is a more appropriate stance in light of the modest growth projected next year. My simple response to this is that our high debt levels have closed this option on us.

Instead, we will push growth through the strategies that I have already outlined, and by switching more spending to capital rather than operating expenditure.

### **Debt**

To say Government is concerned about the current level of debt stock inherited from the previous government, it to understate the

issue. The point is that Government's debt stock has reached an unsustainable level.

Following the recommended view of those advocating an expansionary fiscal policy would:

- push Government's debt beyond \$2.8 billion which would be unsustainable given the size of our economy;
- reduce our credit rating further and affect the lenders perception of Government's ability to repay its debt;
- crowd out private sector investment initiatives in the domestic capital markets; and
- eventually burden the future generations with servicing massive debt repayments. Increasing our debt stock further will have enormous implications for our children, who will basically be working to pay off our debt rather than growing the economy. We cannot allow this to happen.

Government has now taken steps to adopt debt strategies to manage these downside risks. We will:

- restructure the debt portfolio to reduce debt servicing obligations. The options of prepayments, loan conversions, interest rates management, and so forth will be explored;
- continue to build up the sinking fund established this year to cushion the repayment obligation of the US\$150 million overseas bond issued in 2006;
- prudently manage currency, liquidity, and interest rate risks; and
- progressively promote a deep end liquid market on short and long term bond securities.

To contain our ballooning debt levels, Government will pursue the prudent dictate that “*revenue must continue to drive the budget*”.

## **Revenue**

Government’s revenue policies for the medium term will focus on ensuring a taxation system that is simple, broad based, and provide a level playing field to stimulate investment and growth.

Increased tax compliance will continue to be the main focus of broadening our revenue base. To support this objective a special unit is now set up at FIRCA to review VAT refunds. The Audit Unit will be strengthened to promote good practices and eliminate fraudulent activities.

Government would like to warn that the axe will come down heavily on those tax payers found guilty of flaunting our tax system and laws. Efforts to recover arrears of revenue will be intensified in 2008 with a target to reduce it by 50%.

A full review of all fees, fines and charges levied by various Government agencies will be undertaken in 2008. Where feasible they will be charged on a user-pays basis, bearing in mind not to penalise the poor.

## **Tax Concessions**

Ladies and gentlemen, most international financial institutions such as the World Bank, International Monetary Authority and the Asian Development Bank have recommended the imposition of a non-discriminatory tax system.

As I said we will opt for a simple, fair and efficient tax system. Incentives are necessary, but need to be targeted, be performance based and implemented within a set time frame. Our current tax

system is rife with concessions, some of which in my view, have outlived their usefulness.

They were allowed to change forms over time and have sheltered a select few for a long time. They have discouraged risk takers, which is what we need to increase investment levels.

Government will progressively phase-out these distortions. This process we believe will reduce the misallocation of investment money, and restore fairness to our tax regime.

## **Expenditure**

Ladies and Gentlemen on the expenditure front, Government strategy will be three-pronged:

- firstly, we will continue to target increasing allocations for capital development;
- secondly, we will strictly monitor spending and strengthen expenditure management; and
- finally, we will support key economic and social sectors.

The medium term target is to increase Government's capital allocation to 25 percent of the total Budget. This is to support more capital formation and to switch the driver of economic growth from consumption to investment, to sustain growth in the long term. This strategy will augment public services and facilitate private sector development.

To assist in the effective use of Government resources, closer monitoring will be undertaken centrally from the new information system. Ministries will be required to improve their expenditure planning in line with their implementation plans.

Government will continue to pursue reforms towards performance based budgeting in line with the Financial Management Act 2004. This reform will bear fruits by raising efficiency and accountability in the utilization of public resources. At all times, Government expenditure will continue to focus on improving the delivery of basic social services, particularly to the poor and the disadvantaged.

This Government will avoid borrowing to finance operating expenditure. Our aim is to consistently achieve operating savings which can be mobilized to fund parts of our capital investment commitments. The aim is to reduce our debt stock and increase our productive capacity

I have outlined the broad monetary and fiscal policy framework, which is fundamental to the protection of our financial system.

## **9.0 Priority Sectors for Economic Recovery**

Let me now turn to the key initiatives to be undertaken in our priority economic sectors. These are sectors which will contribute towards Fiji's economic recovery in 2008, and beyond.

### **9.1 Sugar**

The sugar industry remains a crucial part of our economy.

Government will continue with its sugar restructure programme to modernise and improve productivity in the industry. Several major areas are already being addressed under the sugar restructure. These include mill efficiency enhancements, upgrading of the transport infrastructure, improvements in cane farming productivity, and diversification such as power cogeneration and ethanol production.

Government is keen to implement the National Sugar Adaptation Strategy Project in tandem with the European Union. The current sugarcane replanting program is part of this joint initiative to achieve reliable and increasing levels of cane production.

In the event that the funding from the European Union is delayed, government will seek alternative sources. A sum of \$5 million has been allocated in 2008 to provide the necessary support to the industry.

The cane replanting programme is anticipated to produce an additional 236,000 additional tonnes of cane in 2008.

The total yield expected is 3.5 million tonnes through the replanting of new high yielding varieties, and existing ratoon crop. The 2007 harvest of cane dropped due to drought in Viti Levu mill areas but will be reversed towards a sustained upward trend in cane production due to the ongoing restructure programme.

To assist all farmers, Government will abolish the drainage levy from 2008 and assume responsibility for drainage of their fields. A sum of \$2 million has been allocated for this purpose.

On the international front, Government will continue to advocate the protection and transposition of the sugar protocol benefits into a regional Economic Partnership Agreement.

Government's position on minimum access quantities in the EPA is 300,000 metric tonnes of sugar.

Ladies and gentlemen, we are positive that Fiji can sustainably produce 4.2 million tonnes of sugarcane and commit 300,000 tonnes of sugar to the EU market, with the balance to satisfy our domestic and regional requirements.

## **Resource Based Industries**

Our resource based industries offer significant opportunities for raising the economic development of our rural and outer islands.

Offering viable employment in the rural areas is a key component of government's plans For a Better Fiji and will go a long way in curbing rural-urban drift and the consequent overcrowding of our urban centres.

### **9.2 Agriculture**

The agricultural sector offers significant potential in this area. To harness this, we need a genuine and concerted effort from all stakeholders to remove impediments that hinder the development of commercial agriculture.

We are all mindful, for instance, of the opportunities that exist in the supply of market produce to the tourism industry. However, unless adequate land is made available, farmers are able to consistently produce to required specifications and quality, and hotels willing to open their doors to purchasing more locally, this potential that we all speak of is in danger of becoming pure rhetoric.

Government, on its part, has already demonstrated its commitment to addressing these impediments.

Reforms in the administration of native land currently underway will ensure fair benefits to the native landowners for the leasing of their land and likewise certainty and security of tenure for the tenant on the terms of conditions of the lease.

For 2008, the Ministry of Agriculture will be provided \$1.3million to fund Government's Import Substitution Programme and \$2million for the Export Promotion Programme. The Export Promotion Programme is closely linked to Government's National Export Strategy and geared towards consolidating and increasing our current agricultural exports.

The Import Substitution Programme will spearhead a partnership approach between farmers and the hotel industry to target crops that can be consistently produced locally to market specifications. Examples of crops that can be targeted include off-season papaya, pineapples, melons and mangoes, vegetables, fresh ginger, pulses, vanilla and other spices.

This scheme will be complemented by the river dredging, farm drainage and irrigation activities for which \$5.2million is allocated. The Coconut Industry Development Authority is allocated \$1million.

Quarantine programmes are scheduled to enhance our protection against invasive pathogens and pests and to safeguard our status as a safe environment. A sum of \$150,000 is designated in 2008 for quarantine monitoring and surveillance.

### **9.3 Forestry**

Ladies and Gentlemen, the finalization of the National Forest Policy and National Forest Inventory are significant milestones for the sector.

The National Forest Policy underwent extensive consultation over the past 2 years before it was approved by Cabinet. In 2008, \$100,000 will be provided to complete the National Forest Inventory. This will be a significant concession given that similar inventories in developing countries are usually funded by Donor agencies.

It is a testament to Government's commitment to ensuring sustainable management and development of our forest resources. The information from the Inventory will prove invaluable to the industry and policy makers. The inventory has also incorporated cultural and environmental dimensions in the classification and capturing of our forest resources.

An allocation of \$500,000 is also given for the upgrading of the Timber Utilisation and Research Division located in Nasinu. The facility would complement the industry and landowner training currently being undertaken at the Departments two training centers in Colo-i-Suva and Nasinu.

The recently completed Wairiki port in Bua will become fully operational next year and is expected to generate an additional \$25m in export receipts annually. Through this facility, the plantations in Vanua Levu are expected to contribute an additional 200,000 m<sup>3</sup> towards pine production, increasing total production in 2008 to 500,000 m<sup>3</sup>.

Contract employment in the pine industry is expected to increase by 70 percent when the Fiji Pine Limited diversifies into new ventures such as pine resin tapping operations and establishes the supply of fuel wood to its subsidiary Tropik Energy Limited from 2008. This will create employment opportunities for rural communities, in particular rural women.

I now focus on Mahogany - Fiji has one of the largest stocks of world mahogany forests. We are very mindful of the sensitivity and importance that all stakeholders play in the development of this industry.

We are committed to genuine engagement with the landowners towards a mutually beneficial leasing arrangement to ensure the

resource is developed to its fullest potential, and landowners participate meaningfully in the benefits that accrue.

Government has already announced its intention to deregulate the industry. However, we would like to reassure stakeholders that any deregulation will be undertaken following extensive consultations and assessments of the impact on each segment of the industry.

To assist in the development of our mahogany resource, Government will guarantee a loan finance to the Fiji Hardwood Corporation Limited.

In the meantime, we will be calling expressions of interest from strategic investors including the landowners through the Fiji Mahogany Trust, in order to engage in the downstream processing of our mahogany resource.

This illustrates Government's serious and genuine intent to achieve a reasonable return on its investments over the years, while providing landowners an opportunity to earn a fair share of benefit from value added production. We anticipate that sales of mahogany logs and sawn timber in 2008 will gross over \$25m - an increase of more than \$8m over the 2007 figure.

#### **9.4 Fisheries**

The Fisheries sector provides significant export earnings specifically from the tuna industry. The industry is private sector driven and Government is content to play a facilitative role, limited to regulatory and resource management functions.

In 2008, Government is keen to build on the successful breeding of hybrids at the Galoa hatchery in the brackishwater programme after years of trials. \$400,000 is provided in 2008 for the upgrading of the hatchery to be able to expand on this success.

\$400,000 is also been provided for the Pearl Development Programme and \$400,000 Seaweed Development Programme in recognition of their export potential and also for income generating capacity for the rural communities.

## **9.5 Infrastructure**

Infrastructure and public utilities is a key determinant in the development, growth and operation of our economy. The current dilapidated condition of our essential infrastructure has been due to years of neglected maintenance. Correcting this situation cannot be done overnight.

Government is undertaking an upgrading programme within its resource capacity to ensure no individual is overlooked in the provision of the most basic of services.

A sum of \$56 million is provided for upgrading regional water supplies and regional sewerage services, and \$40 million is provided for road infrastructure.

Running in tandem are the current reforms taking place in the Departments of Roads and Water. The reforms are driven by the recognition that Governments' services to the general public in these two critical areas need to be drastically improved.

Engagement in Public Private Partnerships will be encouraged for the development of our national infrastructure programme, including our ports and airports.

The implementation of these programmes will set the ground for economic recovery and lay the platform for continued growth and expansion.

## **9.6 Audio-visual Industry & Information Communication Technology**

The audio-visual and ICT industry has great potential for further development with numerous projects which have been in the pipeline for too long. It is time now to get some of them off the ground. Efforts will be intensified to achieve this objective. Funding for the Fiji Audio Visual Commission is continued in 2008.

The development of the ICT sector is also critical under the National Export Strategy. Incentives similar to those available to operators in the Kalabu Tax Free Zone will be extended to ICT operators intending to set up outside the Zone, provided they employ a minimum of 50 workers.

## **9.7 Tourism**

Government will support the recovery and growth of the tourism industry. For 2007, the industry is expected to have contracted by 7.5 percent, based on estimated decline in visitor arrivals of 8.3 percent and decline in hotel turnover by 6.6 percent.

Nevertheless, Tourism is projected to rebound in 2008 with anticipated recovery in visitor arrivals of about 10%.

The \$12 million allocated to the Fiji Visitors Bureau is intended for destination Fiji marketing to benefit all segments of the hotel industry, including our small eco-tourism establishments owned by landowners.

Our diplomatic missions will continue dialogue with Australia and New Zealand for the removal of negative travel advisories on Fiji.

The endorsement of the Tourism Development Plan 2007-2016 after extensive consultations, provides a comprehensive guide to development in the industry over the next 10 years. In this regard,

I would also like to acknowledge and thank the Ministry of Tourism and stakeholders for a job well done.

The Government has provided \$100,000 towards the implementation of the Tourism Development Plan.

### **9.8 Rural and Regional Development**

The development of our rural areas and the creation of opportunities is a key component of Government's development strategies. This has led to the formulation of the Rural and Outer Island Programme. Its purpose is to improve market access and connectivity by upgrading infrastructure and the provision of basic services and amenities.

The programme will also identify income generating opportunities using locally available resources and encouraging public private partnerships.

The Rural and Outer Island Development Programme is allocated \$2.5 million in 2008 beginning with small infrastructure work such as upgrading of farm access roads, drainage, and upgrading of jetties.

Similarly, the Northern Division programme is allocated \$5 million in 2008. The Programme is part of Government's '**Help North**' policy and will support enterprises in the Northern Division through equity financing.

Provincial Development, Self Help, and Community Development Projects are allocated a total of \$4.6 million to raise the living standards of our rural communities.

The deregulation of the telecommunications industry, which I mentioned earlier in this address, will significantly improve

tele-density; which is the penetration of telecom network especially in our rural areas. This will stimulate business activity, in particular small and micro-enterprises in the rural sector.

At this juncture, I wish to thank the Chinese Government for offering a concessional loan facility of around \$242 million. Government intends to tap this facility for upgrading rural infrastructure such as roads, maritime transportation, water and for low cost housing. Negotiations are currently underway on the details and of this loan with EXIM Bank-China. Government intends to phase out implementation of these rural projects and I am certain these projects will go a long way in lifting the living standards of our rural dwellers.

## **10.0 Priority Sectors for Social Development**

### **10.1 Education**

Ladies and Gentlemen, the Education of our people is another major priority for Government in recognition of the fact that the development of our human resources is a critical factor in national development.

In 2008, the Ministry of Education is allocated a total of \$296 million.

Government will continue reforms in the Education sector which include the following:

- a reform of Technical/Vocational Education and Training (TVET);
- reform of the Affirmative Action Programme for equitable education of all our people;

- establishment of a Higher Education Commission to regulate and prescribe standards for the growing tertiary education industry;
- merger of technical tertiary institutions;
- compulsory teaching of the Fijian and Hindi languages in all primary schools. This is a major step forward in our multiracial society;
- restoration of the per capita grant to primary schools removed in year 2000 by the previous government; and
- removal of \$10,000 family income cap on eligibility for Multi-ethnic scholarships.

Major allocations for Education in 2008 include a \$36 million grant to the University of the South Pacific, and \$8 million grant to the Fiji Institute of Technology. In 2008, Government will, for the first time, provide a grant of \$1.8 million to the University of Fiji.

## **10.2 Health**

Government is committed to the upgrading of our Health Care facilities to ensure reliable and efficient health services to our people.

The Ministry of Health is allocated a budget of \$139.5 million in 2008. Major allocations include \$9.5 million for pharmaceuticals, \$2.9 million for consumables, \$500,000 for HIV/AIDS prevention, \$2 million for upgrading urban hospitals, \$2.5 million grant to the Fiji School of Medicine, and \$1.7 million for the maintenance of health centres and nursing stations countrywide.

In 2008, Government will evaluate the possibility of contracting out the upgrading and maintenance of urban and rural hospitals,

health centres and nursing stations. Laundry and boiler services will also be considered for outsourcing.

We will also explore the possibility of securing a management contract for one of our major urban hospitals in 2009. These initiatives are intended to improve the quality and efficiency of health services to our people.

### **10.3 Small and Micro-Enterprise Development**

Small and micro enterprise development is recognized as a significant avenue to generate economic activity, particularly in the rural areas. The National Centre for Small and Micro-Enterprises Development plays a major role in the provision of training programmes and micro credit to our people.

For 2008, the Center is allocated \$780,000 for its advisory and training support programmes, \$300,000 for the micro-finance capital grant, and \$200,000 is allocated to support the business incubation centre.

The Center is expected to commission a feasibility study in 2008 on the viability of setting up a Microfinance Bank which would provide our people the opportunity to help themselves and to walk out of poverty.

### **10.4 Women**

The important role women play in the development of our nation is well known and much appreciated. It is conceded that they remain disadvantaged in fully participating in the national decision making processes. This anomaly must be addressed and remedied through adequate policy initiatives enabling their full participation in all walks of national life.

To this end, Government will act to remove all forms of discrimination against women as espoused in the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW).

The Ministry of Women is allocated \$1.1 million in support of women's development programmes.

### **10.5 Housing Programme**

Government believes that our people deserve access to decent, sturdy and affordable housing. With our growing urban and peri-urban population, the demand for proper and affordable housing has never been higher.

Accordingly, Government has identified and prioritised residential areas around the country for immediate development under the Chinese concessional loan funding which is currently under negotiation.

Meanwhile, Government has earmarked \$5 million in 2008 to upgrade squatter settlements.

Grants and subsidies to HART and the Public Rental Board in 2008 total \$2 million.

### **10.6 Care for the Elderly**

Our senior citizens have provided us with opportunities for our advancement and self determination through their toil and foresight. We must honour them, and not forget their valuable contribution to the development of our nation. A provision of \$5.6 million has been allocated to the Aftercare fund for our war veterans. Government also intends to work with NGOs to set up senior citizens centers for social gathering and recreation.

## **10.7 Disaster Management**

Our country and our people are vulnerable to natural disasters, especially hurricanes and flooding which are ever present threats. Government has allocated \$40,000 to the National Disaster Management Office for its work in addressing and improving awareness of natural disasters. Likewise, \$5 million has been provided under a Disaster Rehabilitation Fund to assist communities adversely affected by natural disasters.

## **10.8 Culture and Heritage**

Ladies and Gentlemen, our rich culture and heritage unites us and distinguishes us from other people of this world. While globalisation is a pervasive and irresistible force, we must protect and preserve our unique culture as our legacy to our children, and their children after them.

The completion of the National Archives Building will provide us with a dedicated facility to house and safeguard the collective heritage of our nation, for current and future generations.

This complements the work of the Department of Culture and Heritage which is allocated \$1.3 million in 2008. The National Trust will receive \$147,000.

## **10.9 Sports**

Sport offers multiple benefits for Fiji. It promotes healthy, active lifestyles, offers employment and academic opportunities, and raises the profile of Fiji abroad. This year our national teams have taken part in the Pacific Games, The Rugby World Cup, and the Netball World Tournament.

I must commend the Rugby team in particular for their outstanding performance on the world stage this year and bringing honour to our country.

In support of sports:

- \$250,000 is allocated for Team Fiji's preparation and participation at the 2008 Beijing Olympics; and
- \$200,000 is designated for the development of rural sporting facilities.

### **10.10 Law and Order**

Ladies and Gentlemen, the security and safety of our people is of paramount importance. Government also recognizes that the rule of law is essential for social stability as well as for economic stability.

While security is primarily concerned with external terrorist, criminal and economic threats, vigilance is also required to support maintenance of internal security and to safeguard against civil unrest.

The Fiji Police Force is allocated \$70.5 million in 2008. The Fiji Military Forces gets \$81.5 million of which \$700,000 is for UN peacekeeping missions in Sinai and Iraq and is reimbursed by the United Nations. The Fiji Prisons Service will receive \$13.7 million next year.

A National Security Memorandum Of Understanding (MOU) between Government and Civil Society Groups has been drawn up for immediate implementation of the National Combined Law And Security Agency Group (NCLASAG) which have a role in maintaining security, law and order.

The Fiji Police Force will continue restructuring its operations to improve efficiency and performance. A prominent feature is community policing which promotes partnerships with our people

to quickly detect and alert the authorities of suspicious and illicit activity.

Additionally, the Force will continue reforms and rationalisation of resources and processes to reduce the time taken for detection and convictions for offences

Traffic policing also deserves a special attention to address the alarming increase in road accidents, the majority of which result from carelessness and negligence. Increasing police presence and visibility on our roads will improve the safety of our traveling public.

### **10.11 Good Governance**

Ladies and Gentlemen, the promotion of good governance has been one of the key policy pillars of Government. We have aggressively embarked on tackling corruption within the public service and public enterprises. Economic growth and social advancement can best take place in an ethical environment.

The Fiji Independent Commission Against Corruption has received a total of 1056 complaints, of which 236 cases were officially registered. I must commend the Commission for its resolve in pursuing and stamping out corruption and abuse of public office.

To accommodate the high number of complaints and pending cases, additional personnel will be engaged in 2008. FICAC will receive \$3 million in 2008.

Government will enhance legal services to the underprivileged and the poor through additional budgetary allocation to the Legal Aid Commission. This will see it open new offices in Ba and Nausori. These new offices will service these regions and nearby Provinces.

The institutions of overseeing good governance – the Office of the Auditor General, the Director of Public Prosecutions, and the Judiciary, have all been allocated additional funding in 2008.

The National Council for Building a Better Fiji is another new initiative of the Interim Government to build mutual consensus on the way forward for Fiji. The Council will produce the People's Charter for Change and Progress to guide the restructure of the social, economic and political landscape of Fiji to usher in a bright and equitable future for all our people.

It will rebuild Fiji into a non-racial, culturally vibrant and united, well-governed, truly democratic nation that seeks progress, and prosperity through merit-based equality of opportunity, and peace.

The Council will be co-chaired by the Prime Minister and Archbishop Petero Mataca. It will be supported in its work by three National Taskforces and a fulltime Technical Support Secretariat. In 2008, a sum of \$400,000 has been set aside for the establishment of the Council.

### **10.12 General Elections**

An important component of our road map is to take Fiji to democratic elections. I wish to reassure everyone that we are committed to this objective and the necessary processes are being initiated.

The 2007 Population and Housing Census has been completed. This was an immense task. The Electoral Commission has been appointed. The appointment of the Electoral Boundaries Commission will soon be finalised. A suitable candidate for the position of the Supervisor of Elections is being identified. These do take time. But they underline our commitment to the process. We therefore call again on the international community to assist

us in our endeavour to ensure that the elections are held in March 2009 as announced by the Prime Minister.

A sum of \$3.5 million is allocated for preparatory works for the upcoming General Elections.

## **11.0 Revenue Measures**

Ladies and Gentlemen, to finance the economic recovery and provision of Government services the following measures will be implemented in 2008:

Ladies and gentlemen, let me now announce the major revenue measures for this budget

### **Assistance to low income earners**

To assist low income earners, the income tax threshold will be increased to \$9000. This will remove some 500 taxpayers from the tax net.

At the same time duty rate on the following basic food items will be reduced from 27% to 15%;-

- peas, beans and other leguminous vegetables ;
- canned fish;
- white rice; and
- chicken, beef and pork..

The rate on all types of dhal including split peas will be reduced from 15% to 5%.

## **Tax Incentives**

Ladies and Gentlemen, I now turn your attention to tax incentives.

## **Export Enhancement**

The Reserve Bank and FIRCA will work closely to monitor inflow of export earnings. In this regard, export income deduction will be maintained at 50 percent but the deduction will be granted upon furnishing evidence of remittance of export earnings into Fiji.

## **Small and Micro Enterprises (SMEs)**

Government is mindful of the contribution of our Small and Micro Enterprises (SMEs). In this regard, threshold for tax exemption will be increased. Additionally, the scope of SME activities will be expanded. From 2008, SME with an annual turnover of \$300,000 or less will be exempt from income tax. SME activities will also cover production of dalo, cassava and other root crops. It will also include supportive projects to the tourism industry.

## **New Tourism Incentives Package**

I am pleased to announce that effective from 1 January, 2009, a new incentive package will replace the existing hotel incentive which expires at the end of 2008.

The new tourism sector package will be will be in two parts namely Standard Allowance and Hotel Incentive Package. The standard Allowance will consist of the following incentives-

- 55% Investment Allowance on total capital expenditure provided there is no shift of revenue offshore;
- 150% tax deduction on expenditure for environmental protection and community support.

- 125% tax deduction on expenditure for upgrade of public infrastructure such as roads, sewage systems and water supplies.

The second component of the tourism sector incentive package will have the following;

- 7 years tax holiday for capital investments not less than \$10m;
- Import duty exemption on all capital goods (including capital equipment, plant and machinery) that is used in carrying out the investment project.

## **ICT**

As I have already mentioned earlier, existing ICT incentives include;

- 10 year tax holiday available to the Kalabu ICT Zone will also apply to investment outside the zone.
- This incentive will be available to ICT investments made before 31 December 2010 and will be granted for businesses employing more than 50 employees.

## **First Home Buyers**

Existing VAT refunds scheme for first home buyers is replaced by a tax deduction allowance of up to \$400 per annum on interest paid on housing mortgage.

## **Encouraging Savings**

A tax exemption of up to \$200 on interest earned on savings will be allowed from 2008.

## **Sports Fund**

150% tax deduction for donations made to approved sports events.

## **Transport Sector**

### ***Bus Industry***

Reduction in fiscal duty on New Buses for public transportation from 27% to 5%. Import Excise will also be reduced from 15% to 5%. These reductions will be available for a period of two years.

Removal of customs duty concessions on bus tyres

Reduction by 5cents per litre on fuel grant to the bus industry while retaining the 18 cents per litre fuel rebate.

Further, the specific rates on Used and Reconditioned buses will also be reduced and details are in the Budget Supplement.

Government wishes to assure bus operators that the LTA has been asked to deal with their application for fare increases.

### ***Motor Vehicles***

Tariff bands for motor vehicles have also been restructured to reduce the number of bands.

Tariff rates for Trucks, Cab and Chassis and Trailers have been reviewed as follows:

(i) Increase in fiscal duty on NEW trucks, cab & chassis and trailers for commercial purpose from 15% to 27%;

(ii) Imposition of specific rates on USED AND RECONDITIONED trucks, cab & chassis and trailers for commercial purpose.

(iii) Imposition of 15% import excise on NEW and USED AND RECONDITIONED trucks, cab & chassis and trailers for commercial purpose

Tariff rates for Earthmoving Equipment (Diggers, bulldozers, loaders, cranes, etc) have also been reviewed as follows:

(i) Increase in fiscal duty on NEW earthmoving equipment for commercial purposes from 3% to 5%;

(ii) Increase of fiscal duty on USED AND RECONDITIONED earthmoving equipment (Diggers, bulldozers, loaders, cranes, etc) for commercial purposes from 3% to 27%;

(iii) Imposition of 5% import excise on NEW earthmoving equipment for commercial purposes;

(iv) Imposition of 15% import excise on USED AND RECONDITIONED earthmoving equipment for commercial purposes.

(v) Concession rate for USED LPG vehicles to be 27% or 60% of existing specific rate for USED or RECONDITIONED vehicles, whichever is greater.

(vi) Concession rate for USED Minibus to be 27% or 60% of existing specific rate for USED or RECONDITIONED Minibus, whichever is greater.

Further, **imports of second hand motor vehicles** and machinery **aged more than 4 years** will be banned;

Effective today, **warehousing** of all motor vehicles, plant and machinery imported will be **restricted to a period of 4 months**, from the date of importation.

### **Repatriation of Profits**

Tax treatment on repatriation of profits by foreign companies incorporated in Fiji and by branch operations will be aligned.

Tax deduction incentive of 150% will be available for any capital investment funded from retained profits.

### **Hotel Turnover Tax**

The Hotel Turnover Tax rate will be increased from the current 3% to 5%, effective 1<sup>st</sup> of April, 2008.

### **Gambling Turnover Tax**

Gambling Turnover Tax rate will be increased from 10% to 25%.

### **Tourist Yachts**

Under Code 228, Part III of the Customs Tariff Act, the duration of tourism ships and crafts allowable in Fiji waters will be reduced from 12 months to 3 months. The period of extension will also be reduced from 6 months to 3 months.

### **Tariff Changes**

Tariff bands have been restructured from 0, 3, 15, 27% to **0, 5, 15** and **27%**. All items **under the 3% band** will **now attract 5% duty**. However, duty on raw materials for manufacturing will

remain at a concessionary rate of 3%. Other tariff realignment changes are mentioned in the Supplement.

Ladies and Gentlemen, I wish to state that in this Budget, Government has reduced duty protection level by reducing the tariff rates from 27% to 15%. As a compensating measure, businesses that will be affected by this policy will be allowed 150% income tax deduction as provided under the relevant part of section 21 of the Income Tax Act.

I wish to state that duty concessions and protection cannot be granted forever and is intended to be phased out over a period of time. Reduction of duty from 27% to 15% and removal of a number of concessions in the 2008 reflects this intention.

### **Excise Changes**

Ladies and Gentlemen, excise tax on alcohol and cigarettes has been increased by 3% in line with inflation. The difference between import duties and import excise rates is being maintained.

### **Revenue Compliance**

To strengthen revenue compliance, several measures will be initiated through the 2008 Budget:

Firstly, company directors will be personally liable for the company's VAT debt when the company becomes insolvent or is liquidated;

Secondly, a provision similar to that of Section 41A of the Income Tax Act is to be inserted in the VAT Decree whereby company directors will be held liable for tax payable by companies left with insufficient assets.

Thirdly, amendments will be made to ensure invoices issued by hotels state value of VAT and Hotel Turnover tax separately.

Fourthly, Section 94 of the Income Tax Act will be amended to ensure real estate agents are penalized for late lodgment of rental income reports as required in the Act.

Ladies and Gentlemen, I wish to reiterate that other compliance measures are contained in the Budget Supplement.

### **Tax Administration**

In addition to the above measures various improvements to the administration of the tax system will be undertaken by FIRCA such as:

- introducing a taxpayer portal that will allow taxpayers to access their tax information online.
- Finalize a taxpayer Charter to ensure taxpayers and FIRCA's rights and responsibilities are clearly defined.
- Establish a Transfer Pricing Unit to counter revenue and foreign exchange leakages.

Additionally, I am pleased to announce that a new Revenue Administration law will be introduced that will simplify tax administration in Fiji.

Another significant reform in Fiji will relate to making the PAYE as a final tax from 1st January, 2009. This will ensure that taxes deducted by employers on behalf of their employees are accurate thereby eliminating the need to lodge tax returns. This initiative will reduce cost to both FIRCA and the taxpayer.

Ladies and Gentlemen, the complete list of specific, fiscal and excise duty measures, contained in the 2008 Budget Supplement, will become effective immediately.

## **12.0 Conclusion**

In conclusion, I must thank, and acknowledge the support from, the Prime Minister and my Cabinet colleagues, not to mention the hardworking civil service personnel, in formulating Budget 2008. This was done in the face of stern challenges and resource constraints.

I believe that this Budget is a responsible and forward looking one. Despite our resource constraints, every sector of our economy has been given due consideration with a view to laying a strong platform for achieving the medium term goals as outlined in the Sustainable Economic Empowerment Development Strategies or SEEDS.

Ladies and gentlemen, Budget 2008 plants the seeds, and paves the way for sound economic growth and prosperity, for building confidence, improving the welfare and quality of life of our people, and laying the platform for quick economic recovery and sustainable growth. In short, it is an instrument for “*Building a Better Fiji*”.

I know that expectations are many and varied at Budget time. But the Finance Minister can only deliver within the constraints of Government finances. What I want you all to understand is that this is not a populist Budget, designed to curry short term favour. It is a responsible Budget, with a set task to get the economy and government finances right.

Even though I have said that the economy is now on the mend, you must understand that we are not yet out of the woods. The primary task of Budget 2008, just as the revised Budget 2007, is to steer the nation on a course of sturdy growth, in the long term, based on the principles of good governance and social and economic equity.

Our nation has been bleeding for the past 20 years – we have to stop the haemorrhage before it is too late – this needs drastic surgery and some fairly bitter post-op prescription. We will all have to make sacrifices for some time yet.

I call for patience and understanding. We have a duty and responsibility to our children and to posterity to weed out the cancerous cells and practices that have been slowly but surely destroying our nation.

Budget 2008 conjointly with the People's Charter for Building a Better Fiji attempts to set Fiji on the right course. It is sad that some who should be contributing to finding solutions at this critical phase in our history, have themselves become a part of the problem.

I urge them to take off their blinkers and see the realities facing us. Acknowledge that the path we were treading pre- 5 December 2006 was heading to an inevitable crash. I invite them to join us in seeking long term solutions to our national problems.

Fiji has tremendous potential waiting to be realized. With trust, commitment and our collective will, I am sure we can realize our vision for a modern, progressive, prosperous and equitable society.

Ladies and gentlemen, I thank you for your patience in hearing me out. I commend this Budget to our nation, and I do so with the support of Cabinet.

May God Bless Fiji