



2009 National Budget

Special Report – 21 November 2008

The Acting Finance Minister and Interim Prime Minister, Josaia Bainamarama, this morning delivered the 2009 Budget Address.

In the following pages, the Kontiki Weekly summarises the main elements of the Budget. The emphasis of this report is on measures that directly affect the **capital markets** and other measures that might be of interest in the context of the broader **investment** environment. For readers requiring information on other aspects of the Budget, please contact the *Kontiki Weekly* team.

Overview

With the theme of “*Raising Economic Growth and Alleviating Poverty*” the budget sees a slight shift in emphasis from stabilising the economy post-2006 coup to moving further along the road of economic growth. Readers may recall that last year’s budget emphasised:

- **Stabilisation** of Government finances and the economy by limiting the deficit and shifting funding from operational to capital expenditure.
- **Recovery** and **sustainable growth** by targeting productive areas of the economy through budget allocations and incentives.

The 2009 Budget acknowledges that the stabilisation (as opposed to growth) policies have been effective overall, and therefore seeks to build on this by adopting a more “traditional” three-pronged approach:

- Stimulating **economic growth** by targeting infrastructure, private investment promotion and enhancing productivity and innovation.
- **Reducing poverty** particularly access to infrastructure, health services, housing, education and food production.

Fiji Budget Estimates (\$'000)					
	2009B	2008E	2007A	Change	Change
	A	B	C	A - B	A - C
Estimated Revenue :					
Direct Taxes	471,740	442,346	438,337	7%	8%
Indirect Taxes	859,469	805,242	792,026	7%	9%
Others	189,382	185,225	150,239	2%	26%
Total Operating Receipts	1,520,591	1,432,812	1,380,602	6%	10%
Total Investing Receipts	1,798	3,108	10,652	-42%	-83%
Total Estimated Revenue	1,522,389	1,435,921	1,391,254	6%	9%
Estimated Expenditure:					
Operating	1,333,704	1,210,281	1,203,771	10%	11%
Capital	325,705	269,224	197,277	21%	65%
Value Added Tax	55,817	48,402	103,023	15%	-46%
Total Estimated Expenditure	1,715,225	1,527,907	1,504,072	12%	14%
Estimated Net Deficit	(192,836)	(91,986)	(112,818)	110%	71%
Debt Repayments	(329,645)	(253,741)	(222,119)	30%	48%
Gross Deficit	(522,481)	(345,727)	(334,936)	51%	56%
Net deficit as a Percentage of GDP	3.0%	-1.5%	-1.8%	-300.0%	NA
Nominal GDP	6,347,900	5,958,100	5,435,900	7%	17%
Real GDP Growth	2.4%	1.2%	-6.6%	100.0%	NA
Inflation - estimates	4.5%	7.5%	4.3%	-40.0%	5%

B = Budget E = Estimate A = Actual



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- **Public Sector Reform**

Overall the Budget appears to be a genuine attempt to innovate through some bold new measures for example, reduced corporate tax rates and tax free zones. At the same time Government has tried not to ignore the fundamentals, addressing a diverse range of issues such as poverty alleviation, infrastructural development and a more rational approach to revenue collection. However a number of areas lack clarity on Government's plans, and we await more details going forward.

2009 National Budget Allocation (\$'000)						
Sector	2009B	2008E	2007A	Change	Change	% of Total
	A	B	C	A - B	A - C	
Education, Youth and Sports	283,900	309,490	318,123	-8%	-11%	17%
Infrastructure	301,727	244,078	185,351	24%	63%	18%
Law & Order	213,477	189,468	299,305	13%	-29%	12%
<i>Military</i>	96,840	81,353	126,285	19%	-23%	
<i>Police</i>	76,381	72,816	73,590	5%	4%	
<i>Prisons Department</i>	15,960	13,758	13,589	16%	17%	
<i>Judiciary</i>	12,814	12,384	1,761	3%	627%	
<i>Legislature</i>	1,796	1,020	11,574	76%	-84%	
<i>Other Law & Order Areas</i>	9,685	8,137	72,505	19%	-87%	
Health, Women and Social Welfare	179,510	166,552	174,711	8%	3%	10%
Primary Industries (Agriculture, Fisheries and Forest)	75,560	56,615	53,148	33%	42%	4%
Industry, Tourism, Trade and Communications	48,098	29,196	26,728	65%	80%	3%
Provincial Development, Indigenous and Multi-Ethnic	48,121	49,457	36,821	-3%	31%	3%
Finance and National Planning	81,656	88,667	89,040	-8%	-8%	5%
Labour, Industrial Relations and Employment	8,535	7,882	5,032	8%	70%	0%
Other Areas	474,642	386,502	315,812	23%	50%	28%
TOTAL	1,715,225	1,527,907	1,504,072	12%	14%	100%

B = Budget E = Estimate A = Actual

Specific Measures for the Capital Markets

Measures directly affecting the Capital Markets include the following:

- Allocations for the **Capital Markets Development Authority** (\$810,400) and the **South Pacific Stock Exchange** (\$250,000) have remained unchanged.

Additional funding is always welcome in an industry still at an embryonic stage and having to contend with a difficult political and economic environment which until only recently, had severely depressed market activity. However given the state of Government's finances, the unchanged budget allocation was expected.

- The income tax exemption for the following entities has been reinstated:
 - **Colonial First State Income Fund**
 - **Colonial First State Income & Growth Fund**
 - **Fijian Holdings Property Trust Fund**
 - **Unit Trust of Fiji**

We note that the **Fijian Trust Fund** has been excluded from this list.

The reinstatement is a welcome move which should encourage grassroots investment in the capital markets. This reverses the decisions in the last two budgets which appeared to be driven by Government's quest for more revenue, a move which unfortunately in our view hit the wrong section of the community.

- Curiously, in a move linked to the above point, FIRCA will limit the number of entities registering as **trusts**. To us, this is an unnecessary move since the approval of unit trusts is already subject to Capital Market

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Development Authority licensing regulations. Ultimately, the unit trust industry services the needs of investors, many of whom fall in the “mums and dads” category. We are of the view that well-regulated, competition in this industry can only benefit the common people and that any attempts to limit numbers in order to limit leakage from exemptions would be illogical. We would be interested in further details on this issue.

- Although the Interim Minister mentioned **privatisations** as a means of raising funds and reducing debt, specific names were not mentioned. Furthermore, whilst we noted that \$200,000 is budgeted for “sale expenses” in 2009, with the same projected through to 2011, no specific cash inflows from privatisations appear in the Budget Estimates.

We hope that Government will commit to the privatisation process. The right privatisations would catalyse capital market growth and investment, as well as ease the financial burden on Government. As international experience has shown, the economic growth which Government is targeting can be greatly enhanced by a vibrant capital market.

- Government again reiterated its commitment to deregulate the **superannuation** industry, announcing that studies on this would continue in 2009.

Deregulation would promote competition, widen the choice of fund managers and hopefully improve member returns. Importantly, this could be one of the biggest boosts to economic growth. We have always maintained that mobilising the massive funds currently held by FPNF into productive sectors of the economy could be the key to unlocking Fiji’s potential. Growth has to be fuelled by investment dollars and FPNF is by far the single largest potential source of such funds.

- There were no tax incentives for **listed companies**. In view of Government’s latest decision to reduce corporate tax rates (see below), we would have welcomed special rates for listed companies as this could have provided major impetus for stock exchange and capital market development.

For several years, the capital markets industry has called unsuccessfully for limited-life income tax incentives for listed companies as a means to promote listings. Dividends paid by listed companies are currently tax exempt. However readers may recall that this “advantage” was effectively wiped out when Government introduced the “no double taxation” laws for all companies a number of years ago (i.e. dividends are not taxed to the extent that tax is paid at the corporate level).

- A study by the RBF on the development of a **secondary bond market** in Fiji will continue in 2009.
- **Other incentives** such as the 150% tax deduction for **listing expenses** have been left untouched. In view of FIRCA’s recent drive to increase revenue collections and reduce incentives, this is to be commended.

Other Measures Affecting Investment

Direct and Indirect Tax Measures

- In a significant move **the corporate tax rate** will reduce from 31% to 29% in 2009 and to 28% in 2010. This is a bold but very positive move. We believe the significant incentivisation generated by reduced taxes could well result in positive elasticities for revenue collection.
- **Export income deductions** will remain at 50% for 2009 and for 2010.
- Following the furore earlier in the year over water export taxes and excise duty, Government has compromised with a **water resource tax** and levied on water extraction. This ranges from 0.11 cents – 0.33 cents per litre depending on the monthly extraction rate. Compared with the 20 cents per litre tax/duty initially imposed, this small tax is a positive outcome for all concerned.
- **Foreign residents** with foreign currency accounts will be exempt from tax applied to interest income higher than the equivalent of FJD\$300,000 while interest income from accounts in Fiji dollars will be exempt from tax altogether. In addition, foreign residents will be eligible for indefinite multiple-entry visas.

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- **Bio-fuel companies** with a minimum investment of \$1m and at least 20 local employees will get a 10 year tax holiday. The exemption will be from January 2009 until December 2014. Duty free concession will apply on plant, machinery and chemicals required for initial establishment.
- **New independent power producers** undertaking renewable energy projects and investing on power cogeneration will be granted a 5 year tax holiday. A start-up investment of \$250,000 is required for exemption.
- **New ICT operators** will be granted a 13 year tax holiday, an increase of 3 years than previous ICT operators.
- Approved **ICT/BOP** operators will be exempt from fiscal duty for the importation of computers, computer parts and accessories, specialised plant, equipment and fittings, and specialised furniture for initial set-up.
- New **tourism** incentives include:
 - For all capital investments \$7m and more, a 10 year tax will be given.
 - Capital goods importation will be exempt from import duty.
 - 55% investment allowance remains.
- Extension of tax exemption by 7 years for **hotel developments in Vanua Levu** with 15% ownership by resource owners, taking the total tax holiday period to 20 years, including the 13 years granted under the TFR.
- Vanua Levu, Rotuma, Kadavu, Levuka, Lomaiviti and Lau have been designated as **Tax Free Regions**. The incentives are a 13 year corporate tax holiday and import duty exemption on machinery and equipment that are necessary for initial set-up and trade operations. To qualify, an initial investment of at least \$2m is required. Companies that commence new projects with a minimum of 25% equity ownership by indigenous Fijians get an extend tax holiday of 5 years.
- Gaming Act will be amended to apply the **Gambling Turnover Tax** on mobile phone texting. Fiscal duty on mobile phones will increase from 15% to 32%.
- The age limit for the importation of **used and reconditioned motor vehicles** will increase from 6 years to 8 years.

Other Measures

In an effort to encourage private sector investment and raise total investment above the target threshold of 25% of GDP, the Budget announced various measures to create a more conducive investment environment:

- In a welcome move, the Budget contains plans for **e-government** initiatives designed to facilitate investment project tracking and computerise various Government registries.
- **Government reform** will include the following:
 - A move to a “**contracting out**” model to cover road, water and sewerage maintenance as well as **public-private partnerships**.
 - Continuation of **Financial Management Reform** including the **Financial Management Information System** implementation.
 - Continuation of **Public Enterprise Reform**. Departments designated for reform include Water & Sewerage, Quarantine & Inspection, Maritime Safety Administration, Government Supplies and Office & Accommodation. However no timeframe for these reforms has been given.
- The Acting Minister announced a push for partnerships with **commercial banks** to finance pro-growth and pro-poor initiatives. We would prefer that commercial banks be left to operate commercially and that Government look to fund non-commercial activities through separate means. To this end, the **Fiji Investment Corporation** was recently revived and will continue in its role of kick-starting suitable business ventures.

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- Support for similar initiatives including **rural banking** and **micro/small/medium business** finance was announced but details have yet to be provided.
- There is a renewed emphasis on public sector **capital expenditure**, especially infrastructure, up 21% on last year's budget. This, if achieved, would be a remarkable change as anecdotally even last year's capital budget was underspent and/or delayed in an effort to shore up public finances.

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