

# 2009 Fiji Islands Budget Summary

An Overview of the Fiji Government 2009 Budget  
21<sup>st</sup> November 2008



\*connectedthinking

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Should you wish to discuss any aspect of the budget or any other matter, please contact us.

*This Fiji Budget commentary has been prepared to provide a prompt overview of the general issues raised in the 2009 Fiji Budget. It does not cover exhaustively the subjects discussed. When specific issues occur in practice it may be necessary to refer to the laws and regulations and to obtain appropriate professional advice.*

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21 November 2008

**2009 Fiji Budget**

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**“Raising Economic Growth and Alleviating Poverty”**

The Interim Government’s third Budget was presented to the nation by the Prime Minister and Acting Minister of Finance & National Planning, Commodore Voreqe Bainimarama. The Budget builds continuity from the 2008 Budget with the theme of **“Raising Economic Growth and Alleviating Poverty”**.

The Minister reiterated that the Budget has been prepared against the backdrop of unprecedented developments in the global financial systems and the world economy in general.

The Budget targets a net deficit of 3 % of GDP and has embarked on a plan to give attention to infrastructure development.

Some of the major initiatives which are to be commended are in the tourism industry with continued incentives for development and marketing Fiji.

The economic growth forecast for 2009 is estimated at 2.4% (1.7% estimate for 2008). For the medium term the Government targets economic growth of 5% per year. The achievement of this projection may be challenging in view of the unprecedented turbulent developments in the global financial system and expected down turn in the global economy.

The Budget attempts to provide greater thrust towards commercial agriculture and regional development by declaring tax free region in parts of Fiji. Other sectors that would benefit from this budget include the ICT industry, audio visual, bio-fuel production and incentives to former Fiji citizens to return home.

One significant factor that appears to be neglected is manufacturing which may continue to struggle in light of global challenges.

PricewaterhouseCoopers is pleased to provide a commentary and analysis of the 2009 Budget. Should you have any queries on the Budget or our analysis, please do not hesitate to contact any of the partners.



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## SPOTLIGHT ON THE 2009 BUDGET

### (a) Economic Indicators

	<b>2009 Budget</b>	<b>2008 Revised</b>	<b>2008 Budget</b>
✚ Real GDP	\$2,975m	\$2,906m	\$3,030m
✚ Expected growth/(decline)	2.4%	1.2%	2.2%
✚ Net budget deficit – amount	\$192.8m	\$92m	\$117m
- % of Nominal GDP	3.0%	1.5%	2.1%
✚ Anticipated sugar production	245,000 tonnes	223,000 tonnes	281,000 tonnes
✚ Visitor arrivals	599,800	580,000	540,000
✚ Total government debt – amount	\$3,041.7m	\$2,851.3m	\$2,957m
- % of nominal GDP	48.0%	48.0%	50.8%
✚ Overall balance of payments surplus	\$12.7m	\$12.7m	\$94m
✚ Foreign reserves (includes cash with agencies abroad) – October 2007	N/A	\$861m	N/A
✚ Inflation	4.5%	7.5%	2.5%
✚ Revenue from sale of interests in State Owned Enterprises	\$25.1m	\$25.1m	\$12m
✚ Interest payments – amount	\$186.9m	\$179.2m	\$179.2m
- % of total operating expenditure	14.0%	14.8%	14.8%
	<b>2007</b>	<b>2006</b>	
✚ Contingent liabilities	\$3,328.1m	\$3,036.7m	

**(b) Revenue Measures**

***Income Tax and Value Added Tax (effective from 1 January 2009)***

- ✚ The corporate tax rate will be reduced from 31% to 29% in 2009 and 28% in 2010.

*Consideration should be given to aligning the highest individual tax rate with the above.*

- ✚ Introduction of “Fiji My Second Home” programme incentives to allow foreigners to stay in Fiji on a multiple entry social visit pass. To qualify, the applicant should fulfill the following criteria:

- Age below 50 years old - Minimum deposit of \$300,000 and maintain the deposit in Fiji for a minimum of two years. Interest income from this deposit will be exempt from tax.
- Age 50 years and above - Minimum deposit of \$200,000 and maintain the deposit for a minimum of two years. Interest income from this deposit will also be exempt from tax.

- ✚ Foreign Currency Account Scheme to be introduced to attract non-residents, including former Fiji citizens to hold funds in Fiji bank accounts. The following incentives will be available:

- For amounts held in foreign currency, interest income on deposits the equivalent of \$300,000 will be exempt from tax.
- For Fiji Dollar accounts, interest income will also be exempt from tax.

- ✚ ***Exemption of dividends from Unit Trusts***

- In order to encourage the level of investments in unit trusts, the dividend tax exemption for the following unit trusts will be reinstated:

- ✚ Colonial First State Income Fund;
- ✚ Colonial First State Income and Growth Fund;
- ✚ Fijian Holdings Property Trust Fund;
- ✚ Fijian Holdings Unit Trust; and
- ✚ Unit Trust of Fiji.

- Section 17 (55) of the Income Tax Act (ITA) will also be amended to reflect this change. However, the FIRCA will limit the number of entities registering as Unit Trusts.

 ***Deduction for Dividends***

- The term “charged to tax” in Section 21A of ITA will be amended.

*It is expected that the Income Tax (Dividend Regulations) 2001 will be similarly amended.*

 ***Branch Profit Remittance Tax***

- The term “branch” will be defined.
- Section 7C (3) of ITA will be amended to clarify that the tax shall be levied on profits paid or credited for remittance. Profits refer to the after tax earnings to the extent that the Head Office does not retain such amounts in the Fiji branch.

*Detailed guidelines should be released on this provision so as to avoid double taxation of branch profits given this change in the definition of profits. This can potentially lead to the same profits being taxed more than once.*

- Section 7C (1) of ITA will be corrected by including the word “by” between the words “Fiji” and “a non-resident”.


 ***Head Office Expenses***

- The term “Head Office Expenses” will be defined in Section 19A of the 1TA.

*The definition is likely to impose a limit on the extent of head office expenses which may be claimed.*

 ***Refund of Income Tax and VAT cheques***

- With effect from 1 January 2009, the FIRCA will progressively cease the postal issuance of cheques for VAT/Income Tax Refund.
- All VAT refunds are to be paid through bank accounts. All companies will now have to forward their bank accounts to the FIRCA for any VAT refunds.
- All VAT returns must be accompanied by a VAT input schedule.
- The policy on income tax refunds will not apply to salary and wage earners.

 ***Amendment to Section 9A of ITA - Resident Interest Withholding Tax (RIWT)***

- Section 9A of the ITA will be amended to require that financial institutions to deduct RIWT notwithstanding the supply of Tax Identification Numbers (TIN) by taxpayers. Section 9A (3) (a) will be repealed.
- The exemption from RIWT for each account earning less than \$120 interest under Section 9A (3) (d) and (e) will be amended to \$200, aligning it to the interest exemption under Section 17 (72) (1) of the ITA.

 ***Amendment to Section 36(1) of ITA — Offshore Placement of Insurance***


- Section 36(1) of the ITA will be amended to clarify that withholding tax will also be applicable to insurance brokers and off-shore placement of insurance.


 ***Amendment to Section 51 of ITA – Partnerships***


- The proviso to section 51 of the ITA disqualifying a husband and wife carrying on a business as partners for taxation purpose will be removed, subject to conditions as approved by the Commissioner.


 ***Provisional Tax***


- Provisional Tax Regulations will be amended to clarify that Certificate of Exemption (COE) will only be issued if directors'/shareholders' tax returns and payments are in order.
- Withholding Tax to Non-Resident Contractors - Amendment to Legal Notice No. 70, incorporating the applicability of withholding tax on non-resident contractors. Clarification in the definition of contract for services.
- Provisional Tax Regulation will be amended to state that real estate agents should deduct and remit 15% provisional tax on rental income.

 ***Export Income Deduction*** will remain at 50% in 2009 and 2010.

 ***Employment Taxation Scheme*** will be extended to 31 December 2010.


 ***40% Investment Allowance*** on qualifying expenditure for an agricultural, forestry or marines resources business, an information technology business, or a rural manufacturing business will be extended to 31 December 2010.

 ***60% Investment Allowance*** will be allowed for infrastructure investment in Fixed Line Next Generation Network.

 ***Accelerated Depreciation*** - 100 percent write off will also be available in the year the expenditure was incurred for Fixed Line Next Generation Network.

 ***Tax exemption for New Independent Power Producers***

- 5 years tax holiday will be granted to companies undertaking renewable energy projects and those pursuing investment on power cogeneration. To qualify, an investment amount of \$250,000 will be required.

 ***Commercial Agriculture and Agro-Processing Incentives***

- 10 year tax holiday will be granted to companies undertaking new projects on agricultural farming and agro-processing between 1 January 2009 to 31 December 2014.

- To qualify for income tax exemption, the following requirements must be met:
  - ✚ Minimum level of investment of \$2 million is required; and
  - ✚ Employment of 30 local employees or more for any 6 months within the income year.

✚ ***Investment in Bio-Fuel Production Incentives***

- 10 year tax holiday for companies that are involved in processing agricultural commodities (sugar, coconut etc) into Bio-Fuels.
- To qualify for income tax exemption, the company must invest a minimum of \$1 million and employ at least 20 local employees for any 6 months within the income year.
- 10 year tax holiday will be available for investment made from 1 January, 2009 to 31 December, 2014.

✚ ***Information, Communication and Technology (ICT) Incentives***

- Amendments will be made to the current ICT incentives available under Section 17 (63) of the ITA as follows:
  - ✚ The term ICT will now be defined to mean “Information Communication Technology business includes software development, call centres and internet service provision, but does not include retail or wholesale of information technology products and the repair, sale or service of any such product”
  - ✚ The anomaly with respect to the incentives available inside and outside the Kalabu Tax Free Zone will be rectified.

*Presumably this will align the tax exemption period for those operating inside and outside the Kalabu Tax Free Zone for existing ICT operators.*

- ✚ The 10 year tax exemption currently granted to ICT operators will be increased to 13 years for new ICT operators.

✚ ***Donations to the Fiji International Film Festival***

- Fiji will host “The Fiji International Film Festival” in 2010. 200% tax deduction will be granted for any corporate contribution made for the Fiji International Film Festival.





✚ ***Audio Visual Incentive*** - The tax rebate of 15% will be raised to 35% in 2009.

✚ ***Setting up of Tax Free Regions*** - Vanua Levu, Rotuma, Kadavu, Levuka, Lomaiviti and Lau will be declared as Tax Free Regions (TFR)


- TFR incentives will include - 13 year corporate tax holiday; and import duty exemption on machinery and equipment in so far as they are required for the establishment and factory operation of the trade, business or manufacture to be carried out in the TFR.
- Companies will only qualify for the incentives provided that the establishment of the trade or business is carried out in the TFR and initial level of investment is more than \$2 million.
- Companies that start new projects with at least 25 percent equity participation by indigenous Fijians will be granted an additional five years of corporate tax holiday that is, a total tax free status of 18 years.

 **Tourism Incentives**

**1. 11<sup>th</sup> Schedule of ITA — Hotel Investment Tax Incentives**


-  The term “amenities” will be defined under Section 2.
-  Provisional approval will be mandatory for grant of the 55% Standard Allowance.
-  The project plan certified by the local authority and other relevant Agencies must be submitted to obtain provisional approval.
-  A new provision will be inserted to allow revocation of the Standard Allowance if there is a breach of the conditions of the provisional or final approval or of any of the requirements of the 11th Schedule.

**2. 2009 Hotel Incentive Package:**

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

**3. Vanua Levu Hotel Development:**


Any hotel development in Vanua Levu with minimum of 25% equity by indigenous Fijians, will qualify for another 7 years of tax holiday in addition to the 13 year tax exemption under the TFR.

 **Poverty Relief Fund for Education (PRFE)** - To support access of education for poor children of the PRFE will be established by Government in 2009.

- 200 percent tax deduction to be available for cash contribution to the relief fund in excess of \$50,000.

 **Section 2 of the VAT Decree — Interpretation**

- The definition of “Constitution” will be amended in the VAT Decree to include 1997 Constitution.

 **Shareholders/Directors will also be liable for VAT defaults** - The Shareholders and Directors of a private company will be liable for the VAT liability of the company.


 **Second Schedule of the VAT Decree — Zero-Rating of Goods**

- Amendment will be made to the VAT Decree to state that zero rating of goods will only be allowed when funds for export of goods/services is remitted to Fiji and evidence is provided to the Commissioner. This provision will be similar to that of Section 21B (7) of the ITA.


*Exporters will be disadvantaged in that proceeds of sales are not usually within the same period upon which export sales must be returned for VAT purposes and RBF approval may allow funds to be retained offshore.*

 **Restriction of amendments and refunds of VAT**

- VAT Decree will be amended to limit VAT return amendments to six years and VAT refunds to three years. This provision will be aligned to Section 78 of the ITA.

 **Restriction on VAT Refunds** - Offsetting of VAT refunds amongst companies and entities engaged in a Project will be disallowed.

**Hotel Turnover Tax Act (HTT Act)**

 The HTT Act will be amended to include a similar trust provision currently under the Gambling Turnover Tax Decree. The tax held by an accountable person (owner, manager, sole precedent partner and, otherwise the person who is responsible for the day to day management of the hotel) is deemed to be held in trust for the State.

**Gambling Turnover Tax Decree**

 **Imposition of Gambling Turnover Tax (GTT) on Mobile Phone Texting**

- Amendment will be made to the Gaming Act, GTT Decree and Commerce Act to enable application of GTT on all mobile texting promotions.

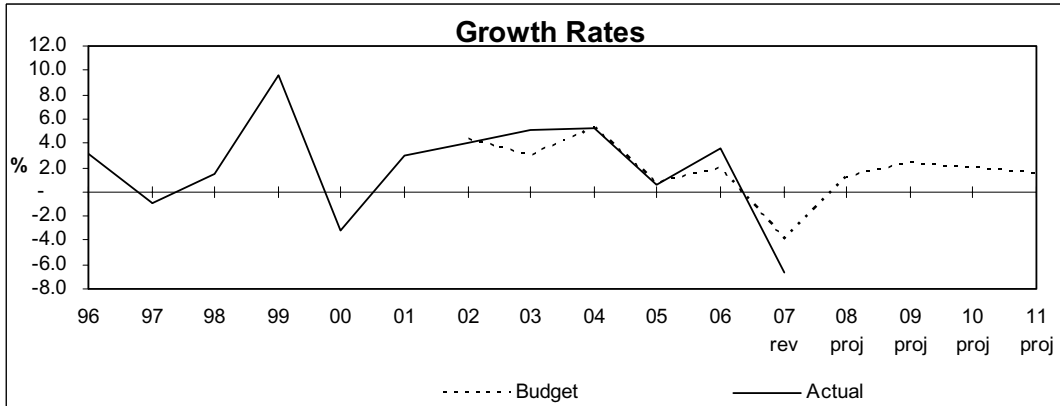
**Road User Levy**

 A road user levy will be introduced effective 1 January 2009 on all vehicles.

**A. STATE OF THE NATION**

**1. Growth Rate**

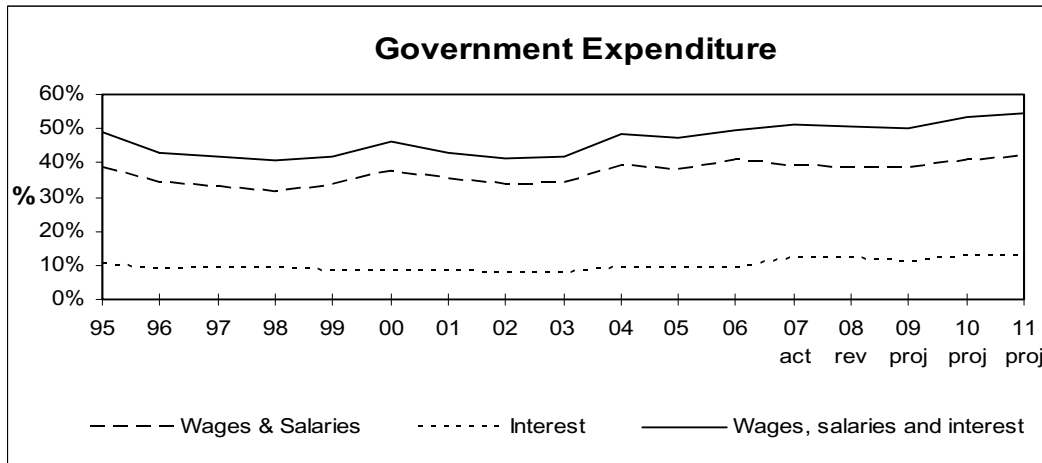
2009 = 2.4% (2008 Revised budget = 1.2 %)



Source: 2005-2009 Budget Address Supplements  
 1996-2003 : Reserve Bank of Fiji Press Release 18/2003  
 RBF October 2008 Economic Review

Real GDP forecast of \$2,975 million in 2009. Tourist arrivals of 599,800 (2008 projected – 571,260) and sugar production of 245,000 tonnes expected for 2009 (2008 revised – 223,000 tonnes).

**2. Wages, Salaries and Interest (% of Government expenditure)**

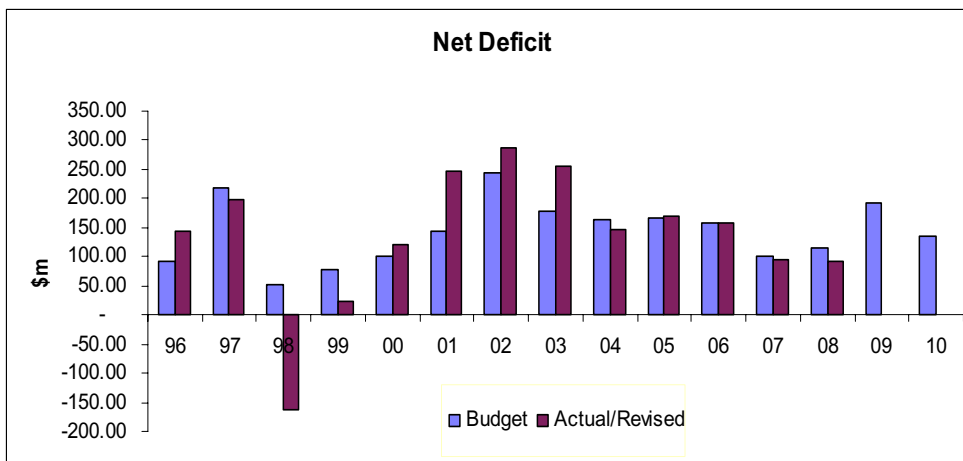


Source: 1994-2003 data: Reserve Bank of Fiji Quarterly Review, June 2005  
 2004 data: Budget Estimates 2006  
 2005 data: Revised Budget Estimates 2007  
 2006-2010 data: Budget Estimates 2008  
 2007-2011 data: Budget Estimates 2009

The wages, salaries and interest component of total government expenditure is expected to be 50% for 2009, increase to 53% and 55% in 2010 and 2011 respectively.

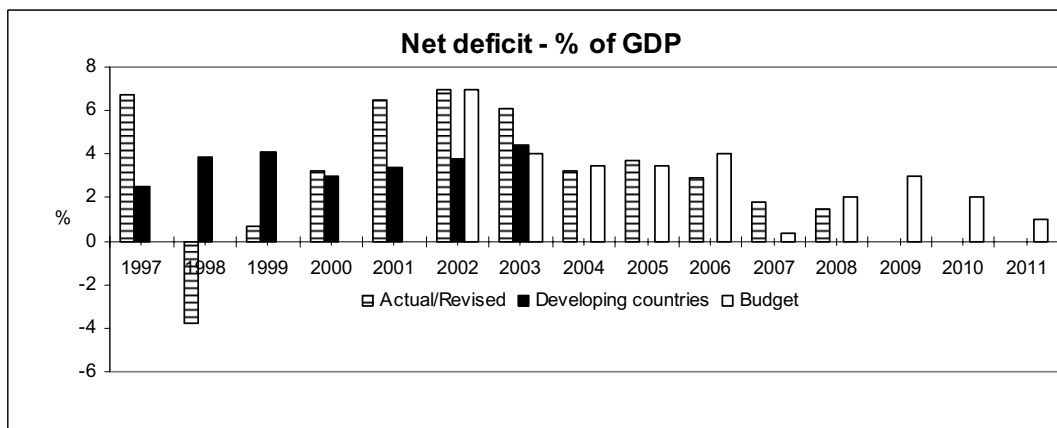
### 3. Budget Deficit

The gross deficit for 2009 is projected at \$522 million and the net deficit for 2009 is budgeted at \$193 million or 3% of GDP. In comparison, the 2008 net deficit of \$117m has been revised to \$92 million.



*In 2009, the net deficit is projected to be \$193 million.*

Source: 2009 Budget Estimates



Source: 2009 Budget Supplement

**4. Balance of Payments**

Fiji’s overall balance of payments position is estimated to have declined to a deficit of \$93 million in 2007 from a deficit of \$58 million in 2006.

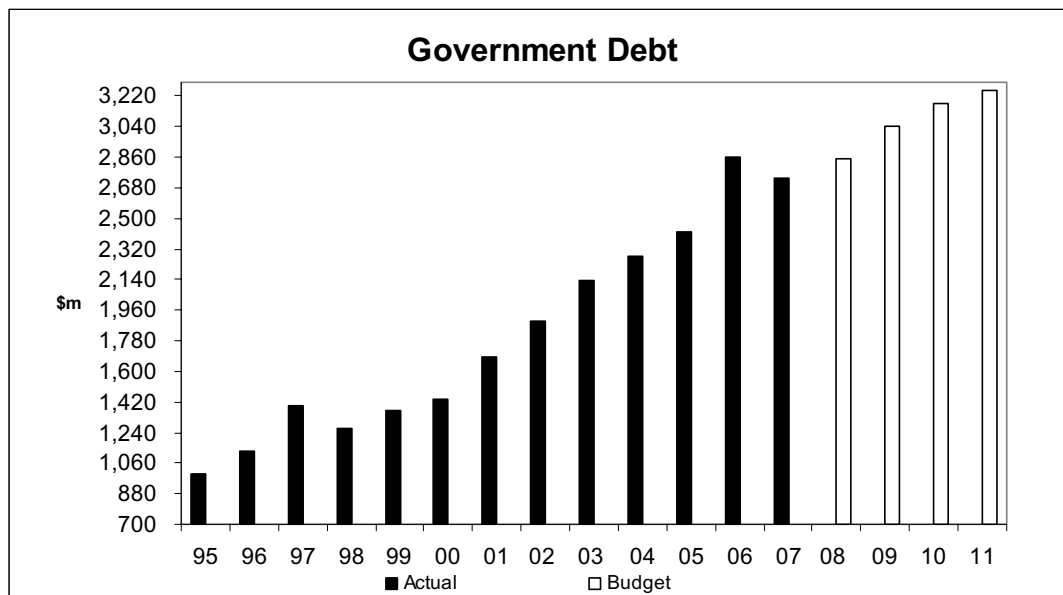
The government has indicated that the current account deficit is expected to worsen in 2008 to 21% of GDP compared to 17.3% estimated in 2007, however including the unaccounted inflows, the current account deficit is 6.3% of GDP. The capital and financial account is forecast to record a surplus of 6.3% in GDP. The overall balance of payment deficit is projected at 0.2% of GDP.

In 2009, current account deficit is expected to be 6.3% of GDP however the capital account and financial account is project at 6.1% of GDP. For 2010, current account deficit is projected at 5.8% of GDP with capital account and financial account expected at 5.5% of GDP. In 2011 current account deficit is expected to be 5% of GDP with capital account and financial account is project at 4.7 % of GDP.

*We note that there are adjustments for errors and omissions of \$703m, \$880m and \$948m in 2007, 2008 and 2009 respectively in the determination of the balance of payments.*

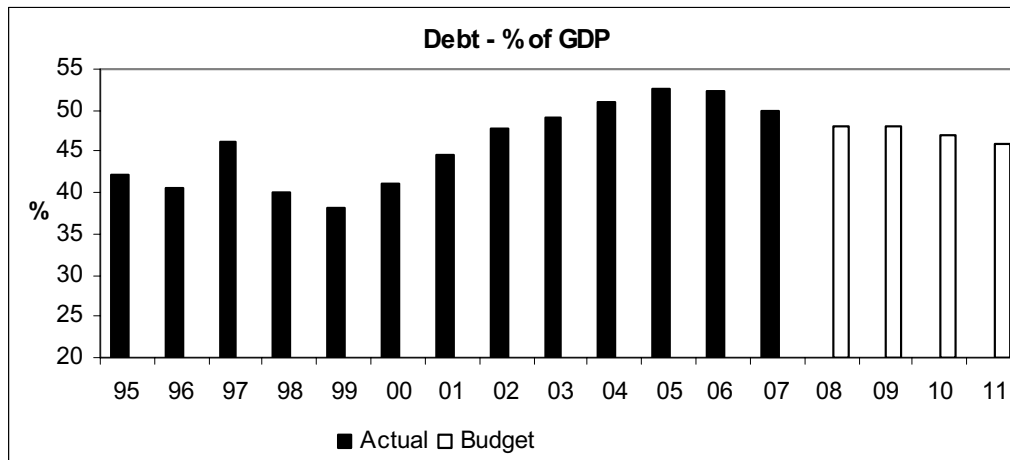
**5. Government Debt**

The government debt is expected to be \$3,042 million in 2009. The debt estimate for 2008 is \$2,851 million.



Source: 2009 Budget Supplement

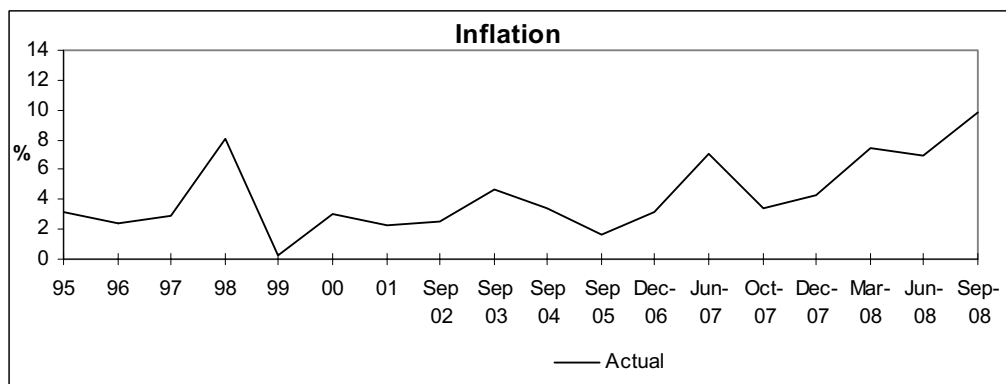
The Government’s medium term fiscal strategy is to reduce the Government debt to a sustainable level of 45% of GDP or below by 2011. For 2009, it is projected to be 48%. The government has a target to achieve a balanced budget by 2012.



Source: 2009 Budget Supplement

## 6. Inflation

There has been a general upward trend in most of 2008. As at September 2008, the rate peaked at a 20 year high at 9.8% and eased to 8.5% in October. The year end inflation rate is projected to be around 7.5% and 4.5% for 2009 and 2010 respectively.



Source: 2009 Budget Address Supplement

## **B. GOVERNMENT STRATEGIC DIRECTION**

### **1.0 STRATEGY FOR THE 2009 BUDGET**

A three-prong strategy was announced by the Interim Government for the 2009 Budget with the dual objective of raising economic growth and alleviating poverty. These are:

- Rebuild and revitalize confidence, particularly of the private sector, to invest more;
- Ensure that economic growth is pro-poor; focus on reducing poverty, improving access to service delivery and improving the basic living conditions of the people; and
- Reform and restructure the public sector in terms of both its role and performance orientation.

### **2.0 2009 BUDGET FRAMEWORK**

For 2009, the fiscal deficit will be increased to three percent. However, the share of the operating expenditure will be reduced to 80 percent of total expenditure in 2009 as against 84 percent in 2008. The Budget is forecasted at \$1.715 billion for 2009.

*There would be a ten percent increase in operating expenses compared to 2008 (i.e. from \$1,214,200 in 2008 to \$1,333,704 in 2009).*

The Government intends to pursue Public Private Partnership arrangements to finance infrastructure programs and resort more to outsourcing to the private sector. A capital projects workshop for senior civil servants in key agencies will also be convened.

The Government also intends to increase resources available to support the livelihoods of the people in certain rural areas and regions. The Government also plans to direct resources towards the core priority sectors of health, education, housing and poverty assistance.

The Government has also decided to lease vehicles and office equipment as much as possible.

The Government is projecting revenue of \$1.522 billion, of which \$1.331 billion is from taxes and \$191.2 million from non-tax revenue. The rise in non-tax revenue will come from a review of the fees and charges, divestment of Government shares and sale of Government assets. Revenues from the sale of assets and shares are intended to be utilised to finance the debt repayments.

### **3.0 PRIORITIES UNDER THE STRATEGIC THRUSTS FOR 2009**

#### **3.1 Pro Growth Initiatives and Measures**

The Government plans to rely on the private sector to achieve higher growth through increased investment.

The Government is giving priority to the rehabilitation and development of infrastructure. The Government has committed funding for major road development, water supply and sanitation and the upgrading of the ports. In addition, the Government is fast-tracking e-government projects. These initiatives and measures include the following:

- Negotiated a self-funding road development and rehabilitation program with a major foreign entity;
- Improve the supply of water and sewerage services for all in Fiji;
- Progress the transition from the Water and Sewerage Department to the Water Authority of Fiji;
- Complete the Rotuma Airstrip and upgrade of the Matuku Airstrip;
- Initiate the development of the modern port facilities for the Northern Division to support the Tax Free Region initiative;
- Facilitated the renewal of 77 percent of the expired land leases through the Committee for Better Utilisation of Land;
- Review the merits of having such an extensive price control and monitoring to foster competition and level the playing field in the market;
- Reduce the current financial threshold for foreign investors; and assist the Fiji National Provident Fund (FNPF) to expedite the development of the Grand Pacific Hotel and Momi Bay Hotel projects.

The Government will give emphasis to strategic sectors such as tourism, commercial agriculture, fisheries, forestry and Information, Communication and Technology (ICT).

The Government is in the process of finalising the transfer of the ownership of mahogany plantations to the indigenous landowners through the Fiji Mahogany Trust. The scheme will include the licensing of approved harvesters. The Fiji Hardwood Corporation Limited will be redirected to become a mahogany and forest manager.

The Government and the Reserve Bank of Fiji (RBF) has had consultations with the five commercial banks in Fiji. The Government and the RBF will closely monitor and consult the banks on interest rates, interest rates spread, fees, charges and other determinants.

Former Fiji citizens will be entitled to an indefinite permanent residency status at a cost of \$3,000 per person to entice them to invest in Fiji.

The Government will pursue the liberalisation of major sectors of the economy. This process has begun with the telecommunications sector.

### **3.2 Pro-Poor Measures and Initiatives**

The Government has taken action on some small-scale projects in 2008. The Government has earmarked \$12.13 million in 2009 to implement further small-scale projects.

A Poverty Relief Fund For Education (PRFE) is anticipated to be jointly established through the Prime Minister's office involving the Government, private sector, civil society, charitable organisations and external donors.

### **3.3 Pro-Public Sector Efficiency and Effectiveness**

The Government will resume the Job Evaluation Review and introduce a merit pay system.

Government has also commenced the leasing of vehicles.

*The Government has acknowledged that the efficiency and effectiveness of the public service needs to be enhanced. The initiatives of reducing the cost and size of the civil service have been repeatedly announced in prior years. It is essential that these initiatives are actually implemented by the Government.*

## **4.0 ECONOMIC PERFORMANCE AND OUTLOOK**

### **4.1 Domestic outlook**

In his budget address, the Minister projected the domestic economy to grow by 1.2% in 2008 and 2.4% in 2009 with growth expected in wholesale and retail trade, hotels and restaurants, transport and communication, mining and quarrying; agriculture, forestry, fishing and subsistence, manufacturing and building and construction sectors. Contractions are expected in electricity and water, community, social and personal services sectors.

*The achievement of this projection may be challenging in view of the unprecedented turbulent developments in the global financial system and expected down turn in the global economy.*

### **4.2 Inflation**

There was an upward trend in inflation in 2008 mainly driven by higher global energy and commodity prices with the rate peaking at a 20 year high of 9.8% in September 2008. Inflation eased in October to 8.5% as a result of the decrease in crude oil prices. This decline is yet to be reflected in domestic prices.

The 2008 year-end inflation forecast is 7.5% with 2009 projected to ease to 4.5%.

#### **4.3 Exports & Imports**

The Minister stated that export earnings in 2007 rose by 0.7% and are projected to continue - attributable to increases in export receipts for mineral water, re-exports and other domestic exports. Imports declined by 7.2% (compared to growth of 13.7% in 2006) due to lower payments for machinery and transport equipment, mineral fuels, manufactured goods, beverages and tobacco, chemicals and crude materials. The decline was offset by increase in payments for food, oil and other commodities. However, imports are forecast to increase in coming years.

#### **4.4 Monetary Policy**

In 2008, the Reserve Bank of Fiji (RBF) relaxed key exchange controls to encourage investments. This was to mitigate rising prices and continues to provide encouragement to commercial banks to lend above the credit ceiling to priority sectors, such as export oriented business, investment related projects and the small business sector. It also relaxed parts of its Forward Foreign Exchange Cover Facility to allow importers of some essential food items to hedge against future price increases.

The approval limits delegated to foreign exchange dealers for import prepayments was raised to \$1 million while travel allowances and credit and debit card limits were increased to \$10,000 and \$15,000 respectively.

#### **4.5 Money and Credit**

The Minister stated a decline in the growth of money due to sluggish growth in demand deposits. The growth rate in domestic credit also declined - 3.6% in September compared to 8.4% for the same period in 2007 driven by a decline in claims against Government, slowdown in private sector and official entities' credit.

#### **4.6 Interest Rates**

Given the high level of liquidity in the financial system, interest rates remain relatively low. The Minister stated that as at September 2008 the weighted average lending rate was 8.16% while interest rate on time and saving deposits were 2.29% and 0.64% respectively.

#### **4.7 Exchange Rates**

As stated in RBF's October 2008 Economic Review, in September the Nominal Effective Exchange Rate fell on an annual basis by 0.2% indicating a marginal depreciation of the Fijian dollar against major trading partner currencies, while the Real Effective Exchange Rate (REER) increased by 4.6% on an annual basis indicating a decline in international competitiveness against major trading partners. The increase in REER mainly reflects a higher domestic inflation outcome compared to our major trading partners.

In contrast, the Minister acknowledged the strengthening Fiji dollar against the Australian and New Zealand dollar but weakened against the US dollar, Japanese yen and Euro.

#### **4.8 Foreign Reserves**

The Minister indicated that the widening trade deficit continues to be a concern for balance of payment and foreign reserves. At the end of October 2008, foreign reserves were at \$860.80 million, sufficient to cover 3.2 months of imports of goods.

#### **5.0 EXTERNAL SHOCKS**

The unpredicted increase in the world prices of crude oil and food commodities have affected the domestic economy. The Government instituted the following temporary measures in 2008 to mitigate the effect, which include:

- Reduction in duties on certain basic food staples, edible oil and fuel;
- Increase in the income tax threshold from \$8,840 to \$15,000; and
- Locally-produced eggs were zero-rated for VAT purposes.

The Government's medium term measures to mitigate the increase in prices are as follows:

- Programmes and schemes targeted to boosting capacity to raise domestic food production;
- Securing strategic partnerships with the private sector to invest in large-scale commercial farming and agro-processing;
- Continued support of the following renewable energy programmes of the Department of Energy:
  - Renewable Energy Development Programme;
  - Bio-Fuels Development Unit; and
  - Establishing public-private partnerships to develop other renewable energy sources;
- Continue to support the Fiji Electricity Authority's proposed new energy developments; and
- Granting incentives for promoting the use of renewable energy and more energy efficient technology.

#### **6.0 MEDIUM TERM STRATEGY**

##### **6.1 Medium term macroeconomic objectives**

The interim Government has announced that it will now focus on setting the platform for sustained economic growth and poverty alleviation, compared with the strategy in 2007 and 2008 which was to secure stability in public finances.

The table below summarizes the Government's macroeconomic targets for the medium term which it states will provide a platform for stable economic environment – conducive for investment and increased economic activity, creating employment opportunities, higher incomes and standards of living.

<i>Macroeconomic Indicator</i>	<i>Targets</i>	<i>Notes</i>
Economic Growth	5% per year	<i>Growth in real GDP budgeted for 2009 is 2.4%, revised for 2008 is 1.2%. It is noted that the 2008-09 Australian Budget forecasts economic growth of 2.75%, while the New Zealand economic growth to March 2009 is expected to be 1.5%</i>
Inflation	Less than 3% over 5 years	<i>Inflation budgeted for 2009 is 4.5%, revised for 2008 is 7.5% and was 4.3% in 2007</i>
Foreign Exchange Reserves	4 – 5 months of import cover	<i>Foreign exchange reserves were 4.4 months of import in 2007</i>
Government Deficit	Achieving a Balanced Budget by 2012	<i>Gross Budget Deficit budgeted for 2009 is (540.0m), revised for 2008 is (345.7m) and was (318.3m) in 2007</i>
Government Debt	Reducing debt to a sustainable level of 45% of GDP or below 2011	<i>Outstanding government debt as a % of nominal GDP is budgeted at 47.9% in 2009, revised is 47.9% in 2008 and was 50.3% in 2007</i>
Investment	Above 25% of GDP	<i>Per the FTIB surveys of Foreign Direct Investment (FDI) projects implemented in 2007, the investments as a % of nominal GDP was 2%</i>

## 6.2 Medium term challenges and risks

The Government's immediate fiscal policy goal had been to stabilize and protect public finances, which the Government states was achieved in 2007 with the Government managing to restrain deficits to below the budget target of 2.0%. (It is noted that the net budget deficit as a % of nominal GDP was budgeted at 3.0% and is revised as 1.5% in 2008). Debt was also reduced to approximately 50.3% of nominal GDP in 2007.

Similarly, the Reserve Bank has also tightened monetary policy in a bid to stem any speculative outflow of foreign reserves and prevent a sudden deterioration in Fiji's external accounts.

The dramatic increases in world food and crude oil prices in 2007 and 2008, and the existence of persistent high global inflationary pressures is a major threat to the growth prospects of Fiji's presently weak economy. Being an import-led economy, the high

international prices have caused domestic inflation to reach up to 9.8% in September 2008, the highest since 1998.

The global financial crisis is having devastating effects on both the financial and real sectors of most developed economies in the world and as a result, the prospect of a global economic recession is very real. Fiji can expect to be affected, directly and indirectly from the significant downturns expected in advanced economies and our trading partners. This crisis poses additional risks to Fiji's currently under-performing domestic economy.

### **6.3 Revenue policy**

The Government announced that its revenue policy is underpinned by the following key principles:

- Strengthening compliance;
- Broadening the revenue base;
- Improving collection efficiency by strengthening tax administration;
- Ensuring a simple, transparent and equitable tax system;
- Maintaining integrity of the VAT system; and
- Promoting the user pay principle.

With the dual theme of pro-growth and pro-poor, the 2009 Budget attempts to create the environment for attracting new and further investment. In order to facilitate this, the corporate tax rate will be reduced from 31% to 29% in 2009, with a further reduction to 28% in 2010.

The Budget introduces a 10 year tax holiday for commercial agriculture and agro-processing investments, and also avails duty concessions for raw material and other key inputs for the dairy, fishing and ICT industries. (Further incentives and concessions are summarized in the 'Revenue Measures').

The Government has announced that it will continue to strengthen compliance by simplifying tax administrative processes and procedures as well as improve efficiency in the collection of tax arrears. The FIRCA is to be adequately resourced to review and clamp down on potential areas of tax evasion or tax avoidance and tighten its monitoring on applications of customs tariff concessions to avoid misuse and loss of revenue. However, specific details of these measures were not announced.

### **6.4 Expenditure policy**

The Government's expenditure policy focuses on supporting the core priority sectors of health, education, poverty assistance, and infrastructure. More emphasis will be placed on investment and export oriented initiatives, particularly in the resource and agro-based sectors to ensure that economic benefits spread across rural and underdeveloped regions and the process provide sustainable livelihoods for the disadvantaged.

The following expenditure guidelines are proposed by the Government to ensure that it achieves its budget deficit target of 3.0% in 2009 (as a percentage of nominal GDP):

- On salaries and wages – no new posts will be created in 2009 in line with the objective of reducing overall operating expenditures within the Government. The creation of new jobs will be considered on a selective basis for priority areas;
- To reduce the escalating cost of civil service, efforts will continue to be geared towards formulating a “productivity/performance-based” salaries and wages increments system, with simple, clear measurable indicators used;
- More emphasis will be placed on better managing daily operational expenditures with Ministries by implementing effective cost cutting initiatives;
- Operating transfers/grants will be thoroughly scrutinized with the objective of reducing total grant levels, given that it accounts for 12 % of the total budget. The Government will also re-look at its role and support for some of these entities;
- There will be thorough scrutiny of requests for new operating and capital expenditures.
- All proceeds from the future Sale of Government Assets will be directed towards debt servicing.

## **6.5 Structural reforms**

### ***Civil service reforms***

The focus of this reform in 2009 will continue with the process of restructuring ministries and departments to rationalize functions and operations, to enable a reduction in employment cost.

In line with the Government’s objective to reduce overall operating expenditure, PSC has embarked on an exercise to reduce civil service salaries and wages by 10%. All Permanent Secretaries have been instructed to identify effective means of achieving this target, specifically the removal of vacant positions.

The medium term objective is to implement an overall review of Government machinery. This encompasses the restructuring and realignment of Ministries and Departments on a gradual basis.

### ***Public enterprise reforms***

The Government’s agenda for public enterprise reforms continues to focus on improving service delivery, as well as ensuring the efficient and effective use of resources.

In 2009, the Government’s restructure programme will encompass continuing reform initiatives for the Department of Water and Sewerage, Fiji Islands Maritime Safety Administration, Quarantine and Inspection Department, Government Supplies Department and the Department of Office and Accommodation.

### ***Labour market reforms***

The employment relations reform was implemented with the enactment of the new Employment Relations (ER) Promulgation on 1<sup>st</sup> October 2007, which came into force on 2<sup>nd</sup> April 2008.

The ER Promulgation and its subsidiary legislations in the form of Regulations and Codes are designed to promote good faith employment relationships with productivity improvements at all levels, through a single national policy framework.

The Ministry of Labour, Industrial Relations and Employment is finalizing the policy framework for drafting the new Workers' Compensation Bill, which would seek to integrate the current National OHS Service into an executive agency or statutory body under one enabling legislative framework, in order to increase efficiency and cost-effectiveness.

### ***Financial sector reforms***

Despite the downturn in the domestic economy in 2007 and continued weak performance in 2008, the key indicators of the financial system remained favourable.

The RBF, as supervisor of all licensed financial institutions and the Fiji National Provident Fund (FNPF) continues to work on financial supervision policies to safeguard the financial system and align it with international practices and standards.

As a component of financial sector reform, the Government continues to explore the possibility of deregulating the superannuation industry. The main objective of this is to promote competition, widen the choices available to contributors and improve members' returns. It is anticipated that a detailed study will be undertaken in advancing the deregulation of this industry. Technical assistance was received from the World Bank in September 2008 to facilitate the process; the final report in this respect is yet to be received. In addition, the RBF will work towards developing a regulatory framework under a draft Superannuation Supervision Act which will place under regulation all entities which play a superannuation function.

The Government is working with Stakeholders towards introducing a Financial Sector Ombudsman

The Government announced that the RBF continues to explore measures to develop the secondary bond market in Fiji and work on this will commence in 2009. No further details on these measures were announced.

### ***Land reforms***

The Department of Lands and Surveys and other key stakeholders, such as the NLTB, Ministry of Primary Industries and the Committee for the Better Utilization of Land, will continue to pursue reform initiatives that aim to improve access to, and utilization of land.

## **7.0 PUBLIC FINANCE MANAGEMENT REFORM**

The Minister announced that progress has been made in reforming financial management within the Government. The major focus of the reform initiatives is to strengthen performance, accountability and transparency.

### **7.1 Performance of Budgeting**

The Performance Portfolio Statement (PPS) summarises agency outputs, associated performance targets and the distribution of staff and funding associated with the production of each output. The budget supplement indicated that the PPS was reviewed during the year and developed into a more simplified version focusing on one or two key outputs.

### **7.2 Devolution of Financial Authorities to Permanent Secretaries**

Financial authorities of Permanent Secretaries are being progressively restored. Permanent Secretaries now have a procurement limit of 20,000. The release of the Agency Tender Board will follow through the establishment of a Central Tender Board and revenue retention arrangements.

### **7.3 Strengthened Accountability and Reporting**

The Annual Reporting template was amended in 2008 to incorporate both Ministry of Finance and PSC requirements. The Ministry intends to closely monitor these reporting arrangements to improve accountability and transparency.

In addition, the Ministry intends to revise the format of the whole of Government's financial statements to comply with the International Public Sector Accounting Standards (IPSAS) for Financial Reporting under the Cash Basis of Accounting.

### **7.4 Implementation of the Financial Management Information System (FMIS)**

The Government indicated that agencies are now equipped with a new FMIS, that is expected to assist in budgetary controls and reporting through:

- Improvement in financial processing efficiencies;
- Data consistency and accuracy;
- Real-time information on commitments and expenditures;
- Improved methods of financial and management visibility;
- System driven budget control;
- Consistent Government approach for managing/reporting data; and
- Accurate and timely management reports

### **7.5 FMR Capacity Building Initiatives**

Two local training providers have been contracted to provide training on new FMR initiatives and other skills required to improve both operational and financial performance in the public sector.

Government will align its implementation of reforms to capacity availability with a progressive stance to ensure effective implementation.

### **7.6 Transition from Cash to Accrual Accounting**

Government intends to seek technical assistance to draft a roadmap for the transition towards accrual accounting.

## **8.0 EXTERNAL TRADE POLICY**

Whilst trade liberalisation will allow Fiji to integrate itself into the global economy and open up new import and export markets, import tariffs will continue to provide government with an important source of revenue and protection for the local industries.

Government will adopt a gradual approach towards expanding trade to allow local industries to establish an even platform with foreign competitors and cushion any loss in government revenue.

Government is mindful of the fact that negotiations under the Economic Partnership Agreement (EPA) with the European Union (EU) will set precedents towards the upcoming negotiations on Pacific Agreement for Closer Economic Relations (PACER) with Australia and New Zealand (ANZ). Larger losses in government revenue may exist under PACER as trade with ANZ is higher than that with the EU.

The following trade agreements exist or are being negotiated between the Government and Fiji's trading partners.

### **8.1 External Trade Management**

#### ***Economic Partnership Agreement (EPA)***

Pacific Island States (including Fiji) and the EU are negotiating an EPA due to the expiry of a WTO waiver on a ruling that declared preferential market access rights to the EU as non-compliant with WTO trade rules. In response to this, Fiji initialled an Interim EPA (I-EPA) in November 2007 to allow trade with the EU to continue under the Contonou Agreement conditions throughout 2008 prior to the signing of a comprehensive EPA.

At the moment, all Pacific Island States have agreed that no further negotiations on the comprehensive EPA will take place until the EU commits to agree to proposals on labour mobility.

***Pacific Island Countries Trade Agreement (PICTA)***

Fiji should benefit from the preferential tariff arrangement under PICTA for trading of goods. Negotiations are being undertaken for Trade in Services focusing on tourism, business services, telecommunications and finance sectors.

***South Pacific regional Trade and Economic Cooperation Agreement (SPARTECA)***

SPARTECA came into effect in 1981 and allows Fiji a non-reciprocal trade agreement with other Forum Island Countries (FICs) and Australia and New Zealand. FIC's preferential market access to Australia and New Zealand is dependent on the satisfaction of the Rules of Origin requiring that 50% of the costs of manufacturing are to be incurred in the exporting FIC.

Under SPARTECA, Fiji has a bilateral subsidiary agreement with Australia covering Textiles, Clothing and Footwear (S-TCF). Efforts are underway to further reduce the Minimum Local Area Content (MLAC) from 35% to 25% and allow TCF exporters to qualify more of their products. Under SPARTECA, S-TCF expires in 2011 and is expected to be superseded by the PACER-Plus agreement.

***Pacific Agreement on Closer Economic Relations (PACER)***

A framework agreement for the negotiations of PACER Plus which was initiated following the Pacific Island Countries (PIC) involvement in an EPA with the EU.

Currently negotiations are on an informal basis as the PICs are in the process of establishing an office of a Regional Chief Trade Negotiator.

***Melanesian Spearhead Group Trade Agreement (MSG)***

MSG includes Fiji, Papua New Guinea, Solomon Islands and Vanuatu. It recently adopted a "negative listing" approach where all products not on the negative listing are deemed to qualify for preferential tariffs. Approximately 180 tariff line items are currently under scrutiny.

**9.0 POVERTY ALLEVIATION AND RURAL DEVELOPMENT**

The Government has indicated that poverty is of growing concern in Fiji and has resolved to tackle this as a major national priority. Government strategy for poverty alleviation and improved standards of living will focus on:

- Creating income earning opportunities for the poor;
- Reviewing housing and poverty related policies; and
- Encouraging effective partnerships with civil society organization.

## 9.1 Poverty Alleviation Projects

The Government has indicated that the projects that will continue to receive budgetary support within the Ministry of Health, Women and Social Welfare include:

- Family Assistance Allowance Scheme
- Poverty Alleviation Projects
- Care and protection allowance
- Capital grant to voluntary organisations
- Women’s plan of action

The Government has committed towards providing budgetary support to the following projects within the Ministry of Local Government, Urban Development and Housing:

- Upgrading of squatter settlement and existing subdivisions
- Housing Assistance Relief Trust (HART)
- Public Rental Board subsidy

In addition, the Government has stated that assistance will be provided under the Students’ Loan Scheme through scholarships to students from poor and disadvantaged families.

The table below presents some of the Government’s budgetary allocations towards poverty alleviation programmes in 2009:

<b>Programmes</b>	<b>2009 Budget (\$m)</b>
<b>Local Government, Urban Development &amp; Housing</b>	
Squatter Resettlement Programme	2.00
HART	1.00
<b>Commerce</b>	
Micro Finance	0.50
Northern Development Programme	3.00
<b>Multi-Ethnic Affairs</b>	
Multi-Ethnic Scholarships	5.50
<b>Education</b>	
Poverty Relief Fund	0.20
<b>Social Welfare</b>	
Poverty Alleviation Projects	1.00
Capital grant to voluntary organizations	0.40
Family Assistance Scheme	20.00
Care and protection allowance	0.40
Women’s plan of action	0.35
Cottage industry development	0.25
<b>Miscellaneous</b>	
Student’s Loan Scheme	1.00
FDB – subsidy grants to all citizens	5.60
FDB – interest subsidy	0.55
<b>Total</b>	<b>41.75</b>

## 9.2 Rural and Outer Island Development

The Government recognises that promoting rural development sets the platform for increased economic activity in rural areas thus discouraging rural-urban migration.

The table below presents some of the Government's budgetary allocations towards the major sectors with a view to promoting rural and outer island development programmes in 2009:

Programmes	2009 Budget (\$m)
Fijian Affairs	0.90
Agriculture	21.40
Fisheries & Forestry	1.15
Provincial Development	5.50
Multi-Ethnic Affairs	1.60
Lands & Mineral Development	0.40
Youth Development	0.20
Health	2.50
Infrastructure & Works	38.30
<b>Total</b>	<b>71.95</b>

To support the growth and development, the Northern Division and maritime islands will be declared a tax free region (refer to 'Revenue Measures' for specific details on these and other incentives).

## 10.0 AGRICULTURE

The Government recognises that agriculture, including subsistence farming remains vital to the economy despite its small contribution to GDP. Government's policy goals in this sector include:

- Facilitating private sector development
- Accelerating agricultural diversification into areas of competitive advantage
- Promoting food security; including rice and milk
- Enhancing tourism-agriculture linkages

### 10.1 Import Substitution Programme

The Government has allocated \$3 million in 2009 compared to \$1.3 million in 2008 for agricultural projects aimed at reducing Fiji's growing reliance on imports, particularly rice, livestock products and vegetables.

### 10.2 Export Promotion Programme

The Government has allocated \$2 million in 2009 for further development of products geared towards export such as, papaya, taro, cassava and ginger.

### **10.3 Further areas of consideration**

The Government has indicated that proposals are underway for the development of a bio-fuel facility that produces ethanol from cassava which provides good incentive for the expansion of existing cassava plantations.

### **10.4 Specific incentives**

The 2009 Budget provides for the following additional fiscal measures to promote further development of the agriculture industry:

- 10 year tax holiday granted to new companies undertaking agricultural farming and agro-processing; and
- 10 year tax exemption for companies that are involved in processing agricultural commodities into bio-fuels.

(Refer to ‘Revenue Measures’ for specific details on these and other incentives)

## **11.0 TOURISM**

The Government recognises that the tourism sector has become one of Fiji’s largest sources of foreign exchange earnings and is committed to further develop the sector.

### **11.1 Policy Framework**

The Government has indicated that efforts will be directed at increasing the participation of resource owners in the industry, with particular emphasis placed on ecotourism.

The Fiji Tourism Development Plan aims to achieve a target of 1.1 million visitors or an industry valued at \$1.2 billion by 2016.

Government’s other aims and objectives include:

- Supporting the improvement and extension of infrastructure
- Ensuring a constant supply of trained staff
- Instigating a “team” approach by the industry, government and community
- Addressing additional capacity requirements on existing airline routes, plus establishing new routes
- Establishing and ensuring an overall integrated approach, including sustainability, risk management and community benefit.

### **11.2 Current Initiatives**

The tourism industry is a major source of growth for the economy and the Government recognises that the tourism sector requires Government assistance to be able to meet global demands to ensure its continued growth.

The Government proposes the following:

- The closure of Fiji Visitors Bureau (FVB) Suva office and relocation of staff to Nadi by 31 December 2008 with a view of improving the services provided by the FVB
- Re-branding of FVB to “Tourism Fiji”
- Formulation of a Yacht Charter Policy

### 11.3 Tourism Initiatives

The Government has announced new hotel and customs incentives packages for the hotel industry. Refer to ‘Revenue Measures’ for specific details on these and other incentives.

## 12.0 SECTORAL ALLOCATIONS

### 12.1 Law and order

The allocation towards law and order has increased by \$23,371,200 compared to the 2008 budget. The following allocations have been made:

Departments	2009 Budget (\$)	2008 Budget (\$)
Fiji Prisons Service	15,959,900	13,758,000
Fiji Military Forces	96,840,300	81,521,800
Fiji Police Force	76,381,400	70,530,600
<b>Total</b>	<b>189,181,600</b>	<b>165,810,400</b>

### 12.2 Education

The Ministry of Education, National Heritage, Culture and Arts has been allocated a total of \$278.4 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy & administration	10,869,400
Primary education	119,607,000
Secondary education	133,991,400
Curriculum development	2,284,200
Tertiary technical education	1,589,700
Research development & training	5,819,400
Asset Monitoring Unit	1,041,700
Examinations	2,345,400
Library services	860,800
<b>Total</b>	<b>278,409,000</b>

In addition, the Higher Education Institutions have been allocated a total of \$55.1 million. The allocations have been made as follows:

Institutions	2009 Budget (\$)
Fiji Institute of Technology	15,000,000
University of the South Pacific	38,056,261
University of Fiji	2,000,000
<b>Total</b>	<b>55,056,261</b>

### 12.3 Health

The Ministry of Health, Women and Social Welfare has been allocated a total of \$179.5 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy & administration	17,191,000
Health services	130,546,400
Common services and training	6,693,800
Institutional services	842,700
Social welfare	22,568,700
Women & gender development	1,666,900
<b>Total</b>	<b>179,509,500</b>

### 12.4 Housing

The Ministry of Local Government, Urban Development and Housing have been allocated a total of \$8.3 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy and administration	2,959,300
Town and country planning	858,100
Housing	4,506,100
<b>Total</b>	<b>8,323,500</b>

### 12.5 Sports

The Department of Youth and Sports has been allocated a total of \$5.5 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Youth	3,081,200
Sports	2,410,200
<b>Total</b>	<b>5,491,400</b>

## 12.6 Primary industries

The Ministry of Primary Industries has been allocated a total of \$75.6 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy and administration	15,593,300
Crops	22,095,300
Livestock	7,378,400
Education and training	1,280,100
Land, drainage and flood protection	10,405,700
Land resettlement	6,024,800
Agriculture tribunal	218,000
Forestry	6,055,300
Fisheries	6,508,600
<b>Total</b>	<b>75,559,500</b>

## 12.7 Land

The Ministry of Lands, Mineral Resources and Environment has been allocated a total of \$41.9 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy and administration	380,300
Mineral resources	4,154,500
Land and surveys	33,516,500
Environment	3,855,500
<b>Total</b>	<b>41,906,800</b>

## 12.8 Tourism

The Ministry of Industry, Tourism, Trade and Communication has been allocated a total of \$48.1 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy and administration	36,277,600
Commerce and industry	4,894,800
Fair trading	1,831,000
Department of co-operatives and small business	2,002,600
Communications	3,091,900
<b>Total</b>	<b>48,097,900</b>

## 12.9 Transport

The Ministry of Works and Transport has been allocated a total of \$150.4 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Policy and administration	21,803,600
Meteorological services	5,342,000
Fiji maritime safety administration	2,216,000
Common services	28,326,700
Roads and jetties	92,690,800
<b>Total</b>	<b>150,379,100</b>

## 12.10 Utilities

The Ministry of Public Utilities and Energy has been allocated a total of \$151.3 million. The allocations have been made as follows:

Programmes	2009 Budget (\$)
Energy	16,748,500
Provision of water supplies	101,513,300
Sewerage services	33,085,800
<b>Total</b>	<b>151,347,600</b>

## 12.11 General elections

The Government has allocated \$3.9 million for the Elections Office.

## 12.12 Miscellaneous

The Government has allocated a further \$66.7 million for miscellaneous services. Miscellaneous services provide contingency funding. These allocations are released under the authority of the Permanent Secretary for Finance and National Planning.

**BUDGET ESTIMATES AND KEY INDICATORS**

	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>BUDGET ESTIMATES</b>	<b>Actual</b>	<b>Revised</b>	<b>Budget</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Revenue	1,391.3	1,435.9	1,522.4
Expenditure	1,487.4	1,527.9	1,712.8
Net (deficit)	(96.2)	(92.0)	(190.4)
Loan redemption	222.1	253.7	329.6
Budget gross (deficit)	(318.3)	(345.7)	(540.0)

<b>KEY INDICATORS</b>	<b>2007 Actual</b>	<b>2008 Revised</b>	<b>2009 Budget</b>
GDP at market prices (\$m)	5,436	5,958	6,348
Gross deficit as % of GDP	5.9%	5.8%	8.5%
Expenditure as % of GDP	27.4%	25.6%	27.0%
Real GDP (\$m)	2,871	2,906	2,975
Real GDP growth rate	-7.0%	1.2%	2.4%
Outstanding government debt (\$m)	2,735	2,851	3,042
Growth in debt	-4.5%	4.2%	6.7%
Total domestic exports (\$m)	1,210	1,439	1,438
Balance of payments (\$m)	(93)	13	13
Inflation	4.3%	7.5%	4.5%

**FISCAL RATE CHANGES AND EXCISE CHANGES  
(effective immediately)**

**1. TARIFF CHANGES**

POLICY	DESCRIPTIONS
Restructure of tariff band	Increase duty for all items currently at 27% to 32%
Light bulbs, multi-wick kerosene stoves and spare parts	Increase fiscal duty rate from 5% to 32%
Mobile phones, golf cars and similar vehicles, chicken and chicken products	Increase fiscal duty rate from 15% to 32%
Diesel, motor spirits and premixed outboard fuel	Reinstatement of fiscal duty on: - diesel from 9 cents to 18 cents per litre - motor spirits from 34 cents to 44 cents per litre - pre-mixed outboard fuel from 17 cents to 27 cents per litre  Current fuel rebates to various industries be aligned appropriately to the fiscal duties rates
Used/ reconditioned concrete mixture lorries	Decrease specific fiscal duty from \$16,498 to \$6,057 per unit
Used/ reconditioned lorries fitted with ladders	Decrease specific fiscal duty from \$57,921 to \$8,635 per unit
Pasta and biscuits	Remove specific rates on pasta of \$1.50 per kilogram  Remove specific rate on biscuits of \$1.48 per kilogram
Ships derricks, cranes, mobile lifting frames, straddle carriers; certain trucks and trailers, bulldozers and other earth moving machinery	Remove import excise duty of 15 percent

**EXPORT DUTY CHANGES**

POLICY	DESCRIPTION
Unprocessed fish, raw and unprocessed timber	Impose export duty of 3 percent

**CUSTOMS CONCESSION UNDER PART II & III OF THE CUSTOMS TARIFF ACT (CTA)**

POLICY	DESCRIPTION
Galvanized purlins (300 mm to 400 mm) and MPVC pipe series 2 and large diameter pipes 300-600 mm series	Concessionary duty rate of 5 percent
Concession to tourists: Amend Code 228 in Part III of the Customs Tariff Act (CTA)	Increase the length of stay by tourist ships & crafts period from 9 to 18 months  Remove extension provision period of 3 months
Concession on knitted fabric: Amend Code 117 (ii) of Part II of the Customs Tariff Act (CTA)	Increase the fiscal duty rate from 3 % to 5 %
Breakfast food	Increase the fiscal duty rate from 3 % to 5 %
Concession on specialized boats and vessels including water sports equipment which are not manufactured and available in Fiji – for hotels and resorts Code 235 (ii) of Part III of Customs Tariff Act	Modification of the statement “specialized boats” in column 3 to read “specialized water sports equipment”
Concession on goods used in the assembly for the approved goods: Rectification of error of Code 236 (iii) of Part III of Customs Tariff Act (CTA)	Column 4 to read “5 percent” rather than “3 percent”
Concession to Cable & Wireless or any other similar specialized approved by the Minister: Amend Code 237 of Part III of Customs Tariff Act (CTA)	Modification on the statement “Cable & Wireless or any other similar organisations approved by the Minister” in column 2 to read “Approved companies for International cable laying and maintenance”

**2. OTHER CHANGES TO FISCAL AND IMPORT EXCISE DUTY**

***CUSTOMS CONCESSIONS UNDER SECTION 10 OF THE CUSTOMS TARIFF ACT (CTA)***

<b>POLICY</b>	<b>DESCRIPTIONS</b>
ICT/BOP Business operators (approved companies)	Zero fiscal duty and import excise duty for importation of computers, computer parts and accessories, specialized plant, equipment and fittings and specialized furniture for initial establishment
Educational materials and stationery	Remove ‘envelopes’, “padded envelopes” and tariff item 4820.10.00  Normal duty rate of 32% will apply
Liquefied Petroleum Gas and Compressed Natural Gas for public service vehicles	Decrease fiscal and import excise duty to 0%
Bus Industry	Free fiscal and import excise duty on ticketing machines and ticketing machines parts
Fishing Industry	Decrease fiscal duty on fuel from 8 cents to 2 cents per litre  Decrease in fiscal duty on specialized fishing gear, equipment, fish baits and specialized fishing vessel to 0%
Rewa Dairy Company Limited	Decrease fiscal duty from 5% to 0% on full cream powdered milk in bulk, liquid milk in bulk and bulk butter  Duty concessions to Rewa Dairy Company Limited will phase out in the next 2 years.
Fiji Electricity Authority	Fuel rebate of 10 cents per litre will be granted
Bio-fuel projects –  Companies involved in the production of bio-diesel and ethanol	Duty free concession on plant, machinery and equipments and chemicals required for bio-fuel production for the initial establishment of the factory

POLICY	DESCRIPTIONS
Water storage tanks	Free fiscal duty and free import excise
Energy conservation goods - Energy efficient lamps with ratings less than 25 watts; and - Fluorescent tubes and bulbs less than 25 watts	Free fiscal duty and import excise duty
Hydro, solar and turbines and related accessories resource	Free fiscal duty and import excise duty on:  Drilling, steam cogeneration plants and equipment and other related equipment relating to the harnessing of electricity from geothermal sources
Returning residents	Remove duty concession of 27% on used motor vehicles for returning residents  Normal duty rates will apply

**AMENDMENTS TO THE CUSTOMS ACT (CA)**

POLICY	DESCRIPTIONS
Imports of used and reconditioned motor vehicles (cars, trucks and buses)	Increase age limit for import of used and reconditioned motor vehicles from 6 to 8 years

**PROGRESSIVE RESOURCE TAX ON EXTRACTION OF WATER  
(effective 1 January 2009)**

POLICY	DESCRIPTIONS								
Water resource tax	<p>Impose water resource tax for the extraction of water in its natural state for the purpose of bottling for human consumption as follows:</p> <table border="1"> <thead> <tr> <th>LITRES EXTRACTED MONTHLY</th> <th>RESOURCE TAX (CENTS PER LITRE)</th> </tr> </thead> <tbody> <tr> <td>0 – 4,999,999</td> <td>0.11</td> </tr> <tr> <td>5,000,000 – 9,999,999</td> <td>0.22</td> </tr> <tr> <td>10,000,000 and above</td> <td>0.33</td> </tr> </tbody> </table>	LITRES EXTRACTED MONTHLY	RESOURCE TAX (CENTS PER LITRE)	0 – 4,999,999	0.11	5,000,000 – 9,999,999	0.22	10,000,000 and above	0.33
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