

2006 Budget Brief

4 November 2005



Hon. Ratu Jone Y. Kubuabola
*Minister for Finance &
National Planning*

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The Honorable Minister for Finance and National Planning, Honorable Ratu Jone Y. Kubuabola, presented the National Budget today.

This resume provides a brief outline of the major aspects of the Government's Budget for the year 2006 and is based upon a quick analysis of the Budget.

The theme of the 2006 Budget is "***Building a Stronger Economic Platform***" by promoting and ensuring sustainable growth and consolidating future economic fundamentals. Through a combination of fiscal and policy initiatives, the Government has sought to foster investment and economic development.

The Minister acknowledged that whilst recognising that many challenges remain, the Government is firmly committed to achieving growth.

As this is a general guide, we recommend that you seek professional advice before taking action on specific topics. We emphasise that the full impact of the Budget will be known after a detailed analysis of the Budget and our firm will issue further reports based upon such analysis.

We trust that you find this resume useful. If you would like to discuss any aspect of the impact of the Budget on your organisation, please take the opportunity to contact:

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Disclaimer

Before readers take any action, we recommend that specific questions on subjects covered in this publication be directed to your financial, tax and legal advisers. We accept no responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. The advisers listed above will be pleased to provide you with further information.

OVERVIEW

Minister of Finance and National Planning, Honorable Ratu Jone Y Kubuabola presented the 2005 Budget with the theme of “*Building a Stronger Economic Platform*”.

With the theme of “Building a Stronger Economy Platform”, the Minister announced that the Government will continue to pursue growth, but at the same time build a stronger foundation that will deliver better growth prospects.

The Minister stated that 2006 budget is still pro growth, and it also consolidates future economic fundamentals.

The Minister further stated that “*the selected mix of an expansionary fiscal stance and an accommodative monetary policy has worked well to restore growth very quickly. This policy package has raised domestic demand, which has driven the economy in the last four years. This has been achieved in a non-inflationary environment and comfortable level of foreign reserves.*”

The Minister acknowledged that international challenges are beyond the Government and the country’s control, and in particular the increase in global oil prices and restrictions on preferential access to international markets. The Minister stated that “our import bills are already rising and escalating oil imports will worsen our trade deficit. Inflation and ultimately growth will be affected. Again we cannot do anything about the rise in global oil prices. But we are doing something locally. Government is exploring various renewal energy sources in particular, bio-fuels. We will also embark on cogeneration of energy through sugar mills and will further develop wind and hydro energy generation.”

The Minister announced that the Government is committed to lifting this growth scenario with number of measures that will help lift growth, including:

- Continuing support to the tourism industry.
- Continuing support to the sugar industry.
- Assistance to Information Communication Technology (ICT) and audio-visual industries.
- Resource based sectors.
- Micro enterprise development.
- Reforms to raise productivity and efficiency.

Quote - *Seven sins of life:
Politics without principle. Commerce without morality. Wealth without work. Education without character. Science without humanity. Pleasure without conscience. Worship without sacrifice.*

Anonymous

Economic Outlook

Key indicators of economic outlook are summarised below:

	2002	2003	2004	2005 Forecast	2006 Estimate
Gross domestic product – million dollars	\$3,961	\$4,251	\$4,539	\$4,620	\$4,950
GDP Growth – real	4.3%	3.0%	4.1%	1.7%	2.0%
Expenditure – million dollars	\$1,261	\$1,322	\$1,322	\$1,435	\$1,549
Revenue –million dollars	\$1,038	\$1,067	\$1,176	\$1,231	\$1,347
Net budget deficit – million dollars	\$223	\$255	\$146	\$204	\$202
Net budget deficit as a % of GDP	5.6%	5.9%	3.2%	4.3%	4.0%
Import cover – months	3.5	3.7	3.8	3.9	3.9
Inflation – estimates	2.5%	4.2%	3.3%	3.0%	4.0%
Visitors' arrival – numbers	397,000	431,000	507,000	532,000	565,000
Government debt level – million dollars	\$1,892	\$2,137	\$2,283	\$2,487	\$2,689
Government debt level as % to GDP	47.7%	50.3%	50.3%	52.6%	53.4%
Sugar production – thousand tonnes	317	309	314	308	321
Sugar exports – million dollars	\$131	\$192	\$178	\$197	\$197
Garment exports – million dollars	\$233	\$243	\$226	\$142	\$119
Total exports – million dollars	\$1,133	\$1,272	\$1,175	\$1,206	\$1,301
Total imports – million dollars	\$1,970	\$2,285	\$2,501	\$2,616	\$2,848

Medium Term Macroeconomic Targets

The medium term macroeconomic targets of the Government are:

	Targets
Economic Growth	5% per year
Poverty Reduction	5% per year
Inflation	2% -3% per year on average over a 5 year period
Foreign Exchange Reserves	4 – 5 months of import cover
Government Deficit	Less than 3% of GDP in 5 years
Government Debt	Less than 50% of GDP in 5 years
Investment	Above 25% of GDP

Government's Fiscal Targets

Government's fiscal targets in the medium term are:

	2005 Revised	2006 Budget	2007 Projected	2008 Projected
GDP Growth – real	1.7%	2.0%	2.4%	2.2%
Net Deficit as % of GDP	3.5%	4.0%	4.0%	3.5%
Debt as % of GDP	52.6%	53.4%	54.3%	54.8%

Direct Taxation Measures

- A 100% write-off on expenditure in the year incurred for water storage facilities and renewable energy plant will be made available in 2006.
- Accelerated depreciation at the rate of 20% per annum on new buildings will be extended from 31 December 2007 to 31 December 2010.
- Approved ICT industries, including Software Development and Call Centres, will be provided with certain income tax incentive effective 1 January 2006 for a period of 7 years.
- Amendments will be made to Hotels Aid Act, including amendments to provide clarity, as follows:
 - Investors can either enjoy 55% Investment Allowance or Short Life Investment Package (SLIP) Incentive. The amendment will confirm that no investor will be allowed both Part I and Part II of the Hotels Aid Act.
 - SLIP incentive is available to hospital and retirement resorts.
 - Import duty concession under Section 16 of the Act will be applicable to capital plant and machinery. Any items, other than capital plant and machinery, will be subject to the normal rate of duty.
- Investors engaged in fisheries and agriculture will qualify for a 200% deduction on capital expenditure for a period of 5 years effective from 2006.
- Mandatory annual reporting system will be introduced to improve compliance and accuracy of reporting tax position. It is expected that the system will require reporting of gross rent collected, payment of expenses on behalf of clients, and amount disbursed to clients.
- Amendments will be made to Section 50 of the Income Tax Act to allow authorized officers of FIRCA to enter taxpayers' premises at any time to obtain records. The amendment will remove the word "reasonable time" and insert "any time".
- A new provision will be inserted in the Income Tax Act to allow garnishee of bank deposits and bank balance of taxpayer.

Indirect Taxation Measures – Valued Added Tax and Customs

- Effective from 1 January 2006, VAT would be removed from the following 6 basic food items:
 - Edible oil;
 - Tin fish;
 - Rice;
 - Flour and sharp;
 - Tea;
 - Powdered milk and
 - Kerosene.

- To mitigate the impact of some of the changes in tariff revenue, Government introduces a new import excise tax which will be levied on selected goods. These include:
 - 10 percent on alcohol and tobacco.
 - Specific rates on imported cigarettes.
 - 10 percent on motor vehicles.
 - 5 percent on imports of some goods which are locally manufactured.
 - 5 percent on imports and white goods and other luxury items.

The import excise tax is in addition to existing tariffs imposed on these items.

- The Short Term Investment Package will be extended for another 12 months to exempt duty on raw materials for manufacturing businesses.
- A 5% surcharge specifically on bed usage or hotel rooms will be introduced in 2006. Other charges in the hotel will be excluded.
- To improve compliance, the DPO is also extended to the Customs legislation to ensure alignment of provisions in all FIRCA administered legislations.
- To improve compliance and debt recovery, customs clearance will be disallowed for any tax liability.

Others

- **Tourism**
 - Government will continue to support the tourism sector.
 - A marketing grant of \$13 million to Fiji Visitors Bureau and \$500,000 for eco-tourism.
 - \$5.5 million to continue work on water infrastructure to Natadola.
 - \$2 million to Fiji Institute of Technology for a new school of hospitality in Nadi.

- **Renewable Energy**
 - Government is exploring various renewable energy sources, in particular bio-fuels.
 - Government to promote on cogeneration of energy through sugar mills and further develop wind and hydro energy generation.

GOVERNMENT POLICY AND STRATEGY

With the theme of “Building a Stronger Economy Platform”, the Minister announced that the Government will continue to pursue growth, but at the same time build a stronger foundation that will deliver better growth prospects.

The Government’s broad policy framework that underlines the theme of the Budget, including the Government’s strategies and initiatives are summarized below:

Monetary Policy

On the monetary policy front, the Reserve Bank has signaled its clear intention to safeguard economic stability by raising its official interest rate by 0.5% to 2.5% to slow demand. The strong consumer spending of the last four years is being fuelled by growth in commercial bank credit. The Reserve Bank has highlighted the need to raise export performance in order to match the increase in imports now exacerbated by the rise in oil prices. The Minister re-confirmed that the Government fully endorses this call.

The Minister stated that while the Reserve Bank has raised rates, the general level of interest rates in Fiji remains historically low and competitive. This low interest rate environment will continue to support Government’s efforts to promote growth and investment. Inflation is expected at 3 percent at the end of the year and foreign exchange reserves are forecast to remain at adequate levels.

Fiscal Policy

The Minister acknowledged that the Government realize that an expansionary policy would lead to higher debt levels, and that the Government could have aimed at maintaining a conservative debt level and achieved little growth. The Government’s aim was for higher growth immediately and then moderate debt level in the medium term under a growth environment.

The Minister announced that it is now time to moderate the growth rate in our debt level. In 2004, the budget deficit was reduced to 3.2 percent of GDP from close to six percent in 2003. The operating balance was in surplus in 2004 and the Government expect the same this year. These deficit positions in 2004 and 2005 have been achieved without asset sales.

Revenue Policy

The Minister announced strengthening revenue collections through improved compliance and encouraging investment as the guiding principles of the Government’s revenue policies in 2006.

These principles also recognize the need to formulate and implement revenue policies that are conducive to economic development and foreign trade, and compliant with international obligations.

To strengthen the capacity of Fiji Islands Revenue and Customs Authority to improve compliance and border control, Government has allocated a sum of \$40 million to the Authority in 2006.

Expenditure Policy

The Minister announced that the Government's expenditure policy will focus on improving the livelihoods of the people by:

- Supporting the core priority sectors of health, education, poverty assistance and infrastructure;
- Raising investment levels and export opportunities, particularly in the resource-based sectors;
- Maintaining support for law and order; and
- Rural development and affirmative action.

The Government will ensure that an increasing proportion of its total resources are directed towards productive investments, and will also focus towards increasing the efficiency and effectiveness of public expenditure.

The Government will continue to monitor Ministries and Departments expenditure levels to ensure that they are within their budgeted allocation.

Debt Policy

Government's debt policy is based on five key objectives in the medium-term:

- Reduce the net deficit;
- Increase operating savings;
- Ensure that the net deficit is wholly devoted to capital expenditures;
- Control contingencies and the rate of default; and
- Implement well-formulated debt and risk management strategies.

Government has set itself a target debt level of 50 percent of GDP in the medium term.

Exports

Due to the size and structure of the Fiji's economy, exports hold the key to sustained growth. The Minister announced some of the measures that Government is pursuing to promote our exports are:

- Earlier this year, the Reserve Bank undertook a survey to identify the needs of exporters. In this regard, Government will be working with all stakeholders to address the findings of this survey;
- The survey has also identified the need for an export credit guarantee facility, and the Government will continue discussions towards the establishment of such a facility;
- Government will continue to support the tourism industry;
- Working with all stakeholders to reform the sugar industry;
- Introducing incentives for the development of the ICT industry; and
- Introducing incentives to lift the performance of agriculture, fishing, forestry and other resource based industries.

Remittances

Increased inward remittances have been a boon in terms of foreign exchange earnings. Remittances have continued to increase over the last four years reaching \$300 million in 2004 from \$50 million five years ago.

Remittances are now equivalent to 7 percent of GDP, and this has become the second largest source of foreign exchange earnings for Fiji.

Government recognizes the important role that remittances now play in our lives, and that a large portion of our rural communities benefit from these remittances. In the next twelve months, Government will examine ways to better understand the nature of these flows, facilitate their transactions and re-channel their use to investment, businesses and micro finance.

Reforms

The Minister announced that in the public sector, the underlying theme of the reforms undertaken is to improve our delivery of services to the people of Fiji and account for the use of resources.

The Government's initiatives are:

- In pursuit of better service deliveries, the Government will continue to reform **public enterprises**.
- On ports reform, the Fiji Ports Corporation Limited has been established to manage all ports to allow better coordination and improved service delivery in major ports.
- The Immigration Department to focus and improve the delivery of its core functions.
- In 2006, the Public Trustee Office is expected to be corporatised to improve its effectiveness, transparency and accountability.
- The implementation of the Financial Management Act will make more efficient use of government resources and strengthen Government's accountability to the people. The implementation of the **Financial Management Information System** is on target, and the system will provide information to assist budgeting and expenditure control.
- The accountability of Chief Executive Officers will be strengthened in 2006 through performance portfolio statements and annual corporate plans which will clearly outline key deliverables and expectations.
- Government will convene an advisory group from the private sector to advise Government on ways to lift service delivery to levels expected by the public on a cost recovery basis. Such a user pay system will guarantee a shift toward a more customer focused approach to service delivery.
- **E-government** programmes to complement efforts to improve public service delivery.
- Regulatory Reform Taskforce, including private sector representatives, is coordinating work to improve performance of key agencies such as, the Immigration Department, Fiji Islands Trade and Investment Bureau and the Office of the Registrar of Companies.
- Government is determined to reform the **sugar industry**, which sustains the livelihoods of many of our rural people.
- On **land reforms**, Government will pursue to come to an agreement for the benefit of the landowners, the tenants and the nation. The Government land policy is based on the need to productively use arable land for the benefit of both landowners and tenants.

Financial Sector

The Government's initiatives in the financial sector are:

- The FNPF is exploring the feasibility of a medical insurance scheme for members and their families to be introduced in 2006.
- The **deregulation of the superannuation industry** in Fiji is still very much on our agenda. Such action will promote competition not only in the industry itself, but in the financial system as a whole, as well as improve returns and widen choices available to contributors.
- The **Fiji Development Bank** will continue to focus on development financing. In 2006, the Bank will lend a further \$20 million for projects in the agricultural sector and rural areas.
- The Reserve Bank has been working with the Association of Banks in Fiji to set up an **electronic payment system** for high value transactions. The System will enable faster and cheaper transfer of funds between transaction parties and is expected to be launched in 2006.
- Fiji has agreed to participate in a joint International Monetary Fund and World Bank assessment of our financial sector early next year. The assessment will make financial system resilient and more responsive.
- The development of the **capital market** is an important agenda for Government. Government is examining ways to deepen the market in fixed income securities, help increase trading and enhance the attraction to list on the South Pacific Stock Exchange. The possibility of a preferential tax regime to encourage companies to list on the stock exchange will be explored. To further support capital market development, Government will divest some shares in selected entities in 2006.

Private Sector Development

The Minister announced that the "Government has created the right environment for private sector development. Confidence is rising. The consistency in Government's intentions and policies has provided the private sector with certainty that is important in running businesses and investment."

The Minister stated that Fiji has succeeded in attracting major international names in hotel management, including Sofitel, Hilton, Marriott and InterContinental.

The Minister announced some of the initiatives put in place to facilitate private sector development as follows:

- Amendments have been made to the **Foreign Investment Act** to improve transparency of regulations required for investing in Fiji.
Significant improvement has been made in the timeliness of the **approvals process** on all aspects of investment applications.
- Reduce the average time taken to process work permits for new applications to 14 working days.
- A roadmap for further reform targeted at reducing the cost of doing business will be progressively implemented in consultation with stakeholders.
- Through its **Public Sector Investment Programme**, Government is able to better plan and deliver quality infrastructure such as roads, jetties, electricity and water to support private sector development.

Private Sector Development (Cont'd)

- The **Fiji Investment Corporation** in partnership with the private sector will pursue investment opportunities in the tourism, ICT and natural resource sectors.
- **Incentives** have been put in place to promote broader development as well as support emerging industries.
- To enhance **skills** required to improve the implementation of projects, Government has allocated \$600,000 to the Training and Productivity Authority of Fiji for an apprenticeship-training scheme specifically for the construction industry and \$400,000 has been set aside for apprenticeship training for other industries.
- There is potential for greater partnership between Government and the private sector in the provision of public infrastructure and services. The Government is putting in place an appropriate legislation to facilitate **Public-Private Partnership**.

Quote - History teaches us that men and nations behave wisely once they have exhausted all other alternatives.

Abba Eban

DIRECT TAXATION MEASURES

The Government will continue to optimize revenue collections through improved compliance, broadening the tax base and encouraging investment.

Direct taxation measures announced for 2006, together with some proposed measures to simplify the tax systems, are as follows:

Depreciation for Water Storage Facilities and Renewable Energy Plant

A 100% write-off on expenditure in the year incurred for water storage facilities and renewable energy plant will be made available in 2006.

Accelerated Depreciation on Buildings - Extension

Accelerated depreciation at the rate of 20% per annum on new buildings will be extended from 31 December 2007 to 31 December 2010.

ICT Incentive

Incentives under the Sixth Schedule of the Income Tax Act, which include a 10 year tax holiday, are available to ICT companies operating in temporary studio city zones.

Government has approved 2 temporary studio city zones in Suva. A Tele-business Park has been established as such a zone.

Approved ICT industries, including Software Development and Call Centres, will be provided with the following income tax incentive effective 1 January 2006 for a period of 7 years:

- 80% Income Tax exemption for business employing more 100 employees;
- 60% Income Tax exemption for business employing 60 – 100 employees; and
- 40% Income Tax exemption for business employing 10 – 59 employees.

The incentive will be available to new ICT businesses as well as existing business in the event of significant increase in capacity and the number of employees.

Amendments to the Hotel Aids Act

Amendments will be made to Hotels Aid Act, including amendments to provide clarity, as follows:

- Investors can either enjoy 55% Investment Allowance or Short Life Investment Package (SLIP) Incentive. The amendment will confirm that no investor will be allowed both Part I and Part II of the Hotels Aid Act.
- SLIP incentive is available to hospital and retirement resorts.
- Import duty concession under Section 16 of the Act will be applicable to capital plant and machinery. Any items, other than capital plant and machinery, will be subject to the normal rate of duty.

Agriculture - Incentives

Investors engaged in fisheries and agriculture will qualify for a 200% deduction on capital expenditure for a period 5 years effective from 2006.

The activities and capital goods under this incentive will include items listed under paragraph 32 of Part V of the Depreciation Schedule. It includes the purchase of farm implements, plant and machinery and cost of irrigation.

Incentives for new investment or re-investment for food processing and forestry

100% of the amount of investment will be available as deduction. Re-investment will also be allowed for expansion purposes.

In order to qualify, the investor should utilize 50% of local produce in its production process.

Small and Micro Enterprises (SME's)

Income tax exemptions will be available to certain sectors with maximum turnover threshold is \$200,000.

The sectors include:

- **Agriculture and Fishing**
Sugarcane farmers, coconuts, rice, ginger, yaqona, fishing, raising livestock and bee keeping.
- **Tourism**
Sea Cruise and River tour operators; and sea tour operators;
- **Community and Social Services**
Amusement, recreation services, traditional handicraft and producers (excluding “middlemen” or “agents”).

Inducement Payments – Non-Deductibility

A new provision will be inserted in the Income Tax Act to disallow deductibility of inducement payments by the businesses.

Reporting System for Real Estate Agents

Mandatory annual reporting system will be introduced to improve compliance and accuracy of reporting tax position. It is expected that the system will require reporting of clients gross rent collected, payment of expenses on behalf of clients, and amount disbursed to clients.

Transfer Pricing Provisions

Amendments will be made to Income Tax Act to strengthen transfer pricing provisions.

Contractual Provisional Tax System

The 15% contractual provisional tax system will be simplified and inserted into the Income Tax Act to assist with the enforcement and administration of this provision.

Increase in Power of Commissioner of Inland Revenue

Amendments will be made to Section 50 of the Income Tax Act to allow authorized officers of FIRCA to enter taxpayers' premises at any time to obtain records. The amendment will remove the word “reasonable time” and insert “any time”.

Debt Recovery

A new provision will be inserted in the Income Tax Act to allow garnishee of bank deposits and bank balance of taxpayer.

Amendments to the Sixth Schedule of the Income Tax Act (Film Making and Audio-Visual Incentives)

Definition of company, partnership and sole-proprietor will be amended to provide clarity.

Amendments will also be made to clarify that all audio-visual activities has to be in the gazetted temporary studio city zone. A licensee will not be allowed to have part of its operation in the temporary studio city zone and partly outside the studio city zone.

VAT Tribunal and Income Tax Court of Review

Enhance the requirements for appointment of the Court of Review. It is felt that the current requirement is not effective to obtain the services of an appropriately qualified and knowledgeable person in the area of taxation.

Legislate Tax Identification Numbers

Proper authority will be provided in issuing of tax identification number.

Repeal of Section 21(1)(p) and 21(1)(i)

The 3rd, 5th and 7th Schedules have been repealed in 2004. Any reference made in the legislations to these provisions will be repealed as well. This will not affect the current concessionaries.

Quote - An economist's guess is likely to be as good as anyone else's.

Will Rogers

INDIRECT TAXATION MEASURES – VAT AND CUSTOMS

Indirect taxation measures announced today are summarised as follows:

Removal of VAT on 6 Basis Food Items and Kerosene

Effective from 1 January 2006, VAT would be removed from the following 6 basic food items:

- Edible oil;
- Tin fish;
- Rice;
- Flour and sharp;
- Tea;
- Powdered milk and
- Kerosene.

Import Excise Duty – New Duty

To mitigate the impact of some of the changes in tariff revenue, Government introduces a new import excise tax which will be levied on selected goods. These include:

- 10 percent on alcohol and tobacco.
- Specific rates on imported cigarettes.
- 10 percent on motor vehicles.
- 5 percent on imports of some goods which are locally manufactured.
- 5 percent on imports and white goods and other luxury items.

The import excise tax is in addition to existing tariffs imposed on these items.

Duty Exemption on Raw Materials

The Short Term Investment Package will be extended for another 12 months to exempt duty on raw materials for manufacturing businesses.

Hotel Room Surcharge Tax

A 5% surcharge specifically on bed usage or hotel rooms will be introduced in 2006. Other charges in the hotel will be excluded.

Secrecy Provision – the Customs Act

Provision will be created in the Customs Act to ensure that Customs Officers having access to tax records in the course of their work shall not release confidential information.

Departure Prohibition Order (DPO) - Customs

To improve compliance, the DPO is also extended to the Customs legislation to ensure alignment of provisions in all FIRCA administered legislations.

Debt Recovery / Customs Clearance

To improve compliance and debt recovery, customs clearance will be disallowed for any tax liability.

Customs Bonded Warehouse

The period of retention of goods has been reduced from 5 years to 3 years.

Supply Chain Security

Legislative changes will be introduced to strengthen the new initiative. The amendment will also ensure that FIRCA legislations are not in conflict with other Government agencies legislations.

Tax Identification Number for Customs Entries

To improve compliance and administration, Agent, Importer and Exporter (AIE) code will be removed and replaced by single TIN.

Quote - The great men and women of history are remembered, not because they never made mistakes or never failed, but because they didn't let their failures stop them. They kept on until they succeeded.

Maria d Fontaine

EXCHANGE CONTROL RELAXATIONS

No further relaxations or restrictions were announced by the Minister in his budget address in relation to exchange controls.

The relaxation of exchange controls which were introduced during recent years will continue, and these include:

- Increase in delegated limits to commercial banks and authorized dealers of revenue transactions.
- Increase in delegated limits to commercial banks and authorized dealers of capital transactions.
- Increase in delegated limits for cashflows.
- Delegation of foreign currency borrower to commercial banks.

Quote - Alcohol is a very necessary article... It enables Parliament to do things at eleven at night that no sane person would do at eleven in the morning

G. B. Shaw

GOVERNMENT EXPENDITURE

Affirmative Action

\$56.4 million is set aside for affirmative action programs.

Education

\$301 million has been allocated for education. Major provisions for primary and secondary education include:

- \$35.8 million for the University of the South Pacific.
- \$10 million for Fiji Institute of Technology.
- \$4.4 million for Fiji School of Medicine.
- \$16.2 million for Free Education for class 1 to 8 and Tuition Fee Assistance for forms 1 to 7.
- \$3.6 million for higher education scholarships.
- \$1.5 million for Student Loan Schemes.
- \$8 million for Fijian Affairs Board Scholarships and \$4 million for Multi-Ethnic Scholarships.
- \$1.7 million for upgrade of facilities in Government schools and continuation of the Centres of Excellence program.
- \$9.3 million for rural schools to improve infrastructure, staffing and tuition support.

Health

A total of \$147 million has been allocated for health. The major initiatives include:

- \$2.2 million for upgrade of health centres and nursing stations around the country and \$300,000 for construction of new nursing school in Lautoka and a new sub-divisional hospital in Ba.
- \$1.3 million in support of preventive health programmes including HIV/AIDS.

Infrastructure

\$211 million has been allocated for infrastructure.

The major allocations are:

- \$24 million for Fiji Road Upgrading Programme.
- \$62 million for regional water supply schemes.
- \$18 million for sewerage systems.
- \$12 million for maintenance of the national road network.
- \$6 million for rural electrification.

Tourism

The major allocations to this sector include:

- \$13 million as marketing grant to the Fiji Visitor's Bureau.
- \$500,000 for eco-tourism development.
- \$5.5 million for water supply to Natadola.
- \$2 million to Fiji Institute of Technology for a new school of hospitality in Nadi.

Agriculture

Major allocations to this sector include:

- \$720,000 for smallholder farms for agriculture livestock production.
- \$95 million over next 6 years for implementation of Alternative Livelihood Project aimed at providing income opportunities for those affected by restructure of sugar industry.

Marine Resources

A combination of institutional and developmental support will be provided through:

- \$400,000 for development of aquaculture and \$420,000 in support of mariculture and related research and development.
- \$4.3 million for purchase of multi-purpose vessel for fisheries training.
- \$200,000 for fisheries resource inventory survey.

Forestry

Major allocations to this sector include:

- \$300,000 for undertaking inventory of national forests.
- \$100,000 for community forest development and \$50,000 for landowner awareness and training on sustainable forest management.
- \$200,000 for improved monitoring and surveillance of logging operations.
- \$150,000 for portable saw mills and forest certification.
- \$600,000 for Fiji Pine Trust and \$200,000 for Fiji Mahogany Trust.
- \$18 million for completion of construction of Wairiki Port.
- \$500,000 for Seed Capital Programme.

Law and Order

Major allocations to this sector include:

- \$70 million for Fiji Police Force, including:
 - \$300,000 for renovations, extensions and upgrading of police institutions.
 - \$75,000 for relocation of Nabouwalu police station, \$100,000 for Vanuabalavu police station and \$170,000 for Nacula police post.
 - \$500,000 for purchase of vehicles.
 - \$6.6 million for implementing job evaluation exercise.
- \$13.6 million for Prisons Department of which, \$800,000 is for implementing job evaluation exercise and \$1 million for upgrade of prison quarters and institutions including relocation of Suva Prison to Naboro and upgrading cell blocks in Labasa, Levuka, Taveuni and Ba.
- \$76 million for Fiji Military Forces, including:
 - \$17 million for peacekeeping missions in Iraq and Sinai.
 - \$10.9 million for implementing job evaluation exercise.
 - \$450,000 for relocation of 4th FIR in Nadi and \$160,000 for new communication equipment.
- \$3.8 million for Office of the Director of Public Prosecutions.
- \$120,000 for establishment of Anti Corruption Unit.

Good Governance

Major allocations are:

- \$3.3 million for the Office of the Auditor General.
- \$11.6 million for the Financial Transactions Reporting Act in combating money laundering activities.
- \$1.5 million for the Office of the Ombudsman and the Fiji Human Rights Commission.
- \$12.7 million for the Judiciary of which \$400,000 is for establishment of Family Law Courts and \$200,000 for upgrade of existing courts around the country.

Poverty and Social Welfare

Major allocations are:

- \$16 million for Family Assistance Scheme and \$4 million for Poverty Alleviation Programme.
- \$4.5 million for housing projects.
- \$1.5 million for Squatter Resettlement Programmes.

Women and Care for the Elderly

Major allocations are:

- \$300,000 in support of Women's social and economic development.
- \$100,000 for women and gender development programs.
- \$36 million for payment of pensions to retired civil servants, widows, orphans and war veterans.
- \$919,000 for Old People's Homes, \$30,000 for Father Law Home and \$20,000 for Channel Home of Compassion.
- \$5.6 million for Fiji Servicemen's Aftercare Fund.

Sports and Youth

Major allocations include:

- \$500,000 for additional rural playing fields and facilities.
- \$290,000 to Netball Fiji for preparation towards 2007 World Netball Championship.
- \$500,000 to Fiji Rugby Union for preparation towards 2007 Rugby World Cup.
- \$400,000 for preparation towards Commonwealth Games.
- \$600,000 to Ministry of Youth in support of small enterprises development programmes.
- \$400,000 for construction and upgrade of Youth Training Centres and \$380,000 set aside for Youth Training Centre in Tutu.

Rural and Outer Island Development

Major allocations to this sector include:

- \$2.5 million for Rural Housing Scheme.
- \$3 million for Rural Water Supply Project.
- \$6 million for Rural Electrification Scheme.
- Almost \$2 million for Shipping Franchise Scheme and \$370,000 to improve air access for uneconomical routes.
- \$1.5 million to complete the Vunisea jetty and upgrading a jetty in Moala and \$4 million for purchase of new landing barge.
- \$1 million for upgrade of airstrips.
- \$5 million for Self Help Scheme and \$1.4 million for Village Improvement Scheme.
- \$3 million for Divisional Development Projects and \$1.6 million for Community Development Projects.
- \$2 million for Agricultural Marketing Authority and \$1.2 million for Rural Fisheries Development.
- \$2.7 million to upgrade Farm and Cane Access Roads and \$1 million to upgrade rural roads.
- \$1.5 million for Integrated Human Resources Development Programme for Employment Promotion.

Environment

Major allocations include:

- \$60,000 for Department of Environment to implement the provisions of the Environment Management Act.
- \$1.6 million for operations of the new Naboro Landfill.
- \$600,000 for rehabilitation of Lami Dump.
- \$200,000 for Fiji International Waters Project aim to improve waste water management.

Disaster Management

Major allocations include:

- \$2 million for Disaster Rehabilitation Fund and \$40,000 for Disaster Awareness Programmes.
- \$5 million for dredging works in Navua, Nadi and Labasa in relation to the long-term dredging and riverbank protection programme for rural areas.

Others

Major allocations include:

- \$1.3 million for further development of the audio-visual industry.
- \$2 million for continued implementation of E-government programmes to improve public service delivery.
- \$380,000 for administration of National Trust of Fiji and to upgrade national sites in Momi, Levuka and other historical and traditional sites.
- \$800,000 for completion of the new National Archives building and \$310,000 for administration and upgrade of Fiji Museum.
- \$112,000 for the Institute of Fijian Language and Culture, \$70,000 for cultural mapping programmes and \$42,000 for Fiji Arts Council.
- \$170,000 for multi-ethnic cultural programmes.
- \$1.4 million to host the Melanesian Arts Festival.
- \$1.5 million for National Centre for Small and Micro-Enterprises Development and \$500,000 for Small Enterprises Development.
- \$600,000 to Training & Productivity Authority of Fiji for apprenticeship training scheme for construction industry and \$400,000 for apprenticeship training for other industries.
- \$1.2 million for Public Works Department for apprenticeship training.

BUDGET ESTIMATES

The Government's past performance and the 2006 budget estimates are as follows:

(F\$million)	2000	2001	2002	2003	2004	2005 (Revised Estimate)	2006 (Estimate)
Budget Expenditure:							
Operating	819	882	949	983	1,024	1,087	1,146
Capital	146	187	248	245	206	237	283
Value-Added Tax	67	64	64	94	93	111	120
	1,032	1,133	1,261	1,322	1,323	1,435	1,549
Budget Revenue:							
General	897	897	958	1,067	1,175	1,231	1,316
Capital	14	4	16	-	1	-	31
Sale of Government Shares	-	-	64	-	-	-	-
	911	901	1,038	1,067	1,176	1,231	1,347
Net Budget Deficit	121	232	223	255	147	204	202
Debt Repayment – Principal	118	7	6	126	157	203	192
Gross Deficit	239	239	229	381	304	407	394
Net Deficit as a % of GDP	3.5%	6%	5.6%	5.9%	3.2%	4.3%	4%

GOVERNMENT STATEMENT OF CASH FLOWS

Whole of Government's Statement of Cashflows 2002 – 2007

(F\$million)	2002 Actual	2003 Actual	2004 Actual	2005 Revised	2006 Budget	2007 Forecast
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts:						
Direct Taxes	275.07	269.34	334.61	357.72	387.95	418.15
Indirect Taxes	450.40	566.86	605.94	623.03	656.91	707.41
Fees, Fines, Charges & Penalties	66.11	48.55	52.18	54.40	59.32	61.57
Grants in Aid	0.49	1.97	3.40	3.83	9.67	4.49
Dividend from Investments	55.12	34.52	33.65	28.61	26.14	24.01
Other Revenue and Surpluses	46.82	50.63	52.82	52.58	56.34	57.56
Total Operating Receipts	894.01	971.87	1,082.60	1,120.17	1,196.34	1,273.19
Payments:						
Personnel	467.72	497.86	519.26	530.58	554.10	551.73
Transfer Payments	191.86	190.04	200.80	225.03	231.80	229.70
Supplies and Consumables	149.03	143.03	143.55	148.02	159.95	156.29
Purchase of Outputs	32.28	40.76	39.15	48.25	59.63	31.48
Interest Paid	106.94	111.75	119.02	133.66	137.15	139.36
Other Operating Payments	1.17	0.07	2.36	1.52	3.31	3.31
Total Operating Payments	949.00	983.51	1,024.14	1,087.06	1,145.94	1,111.87
Net Cash Flows from Operating Activities	(55.00)	(11.64)	58.46	33.11	50.40	161.32
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts:						
Sale of Government Assets	64.54	0.00	0.24	0.00	30.00	0.00
Repayment of Loans	16.00	0.71	0.24	0.16	0.16	0.16
Return of Surplus Capital from Investment	0.00	0.00	0.32	0.30	0.31	0.32
Total Investing Receipts	80.54	0.71	0.81	0.46	30.47	0.48
Payments:						
Loans	9.07	1.31	0.06	1.50	1.50	1.50
Purchase of Other Financial Investments	5.11	0.00	0.00	0.00	0.00	0.00
Transfer Payments	67.82	86.13	61.06	79.51	89.19	66.87
Purchase of Physical Non-Current Assets	165.71	157.57	144.55	156.06	192.22	122.24
Total Investing Payments	247.71	245.01	205.66	237.07	282.92	190.61
Net Cash Flows from Investing Activities	(167.17))	(244.30)	(204.85)	(236.60)	(252.44)	(190.13)
NET (DEFICIT)/SURPLUS	(222.2)	(255.9)	(146.4)	(203.5)	(202.0)	(28.8)
As a % of GDP	-5.6%	-5.9%	-3.2%	-4.3%	-4.0%	-0.5%

CUSTOMS AND EXCISE MEASURES

The Customs and Excise changes with immediate effect are as summarised below:

1. Changes in Excise Rates

Item	2005 Rates	2006 Rates
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	\$1.23 per litre	\$1.27 per litre
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	\$1.44 per litre	\$1.48 per litre
Portable spirit		
- not exceeding 57.12 GL	\$27.14 per litre	\$27.95 per litre
- exceeding 57.12 GL	\$47.52 per litre of alcohol	\$48.95 per litre of alcohol
Still Wine	\$1.92 per litre	\$1.98 per litre
Sparkling Wine	\$2.18 per litre	\$2.25 per litre
Other fermented beverages:		
- Still	\$1.92 per litre	\$1.98 per litre
- Sparkling	\$2.18 per litre	\$2.25 per litre
Ready to Drink Mixtures of Any Alcoholic Beverages of Any Alcoholic Strength by volume of 11.49% or less	\$0.88 per litre	\$0.91 per litre
Cigarettes from local tobacco by 3.20 cents per 10 sticks	83.40 cents	85.90 cents
Cigarettes from imported tobacco by 4.81 cents per 10 sticks	125.11 cents	128.86 cents
Manufactured tobacco containing tobacco grown outside Fiji	\$72.09 per kg	\$74.25 per kg
Manufactured tobacco containing tobacco grown in Fiji	\$42.34 per kg	\$43.61 per kg
Manufactured tobacco containing tobacco grown in foreign and tobacco grown in Fiji:		
- Foreign Portion	\$72.09 per kg	\$74.25 per kg
- Local Portion	\$42.34 per kg	\$43.61 per kg
Carbonated Drinks	Nil	5 cents / litre

2. Changes in Fiscal Duty Rates

Description	2005 Rates	2006 Rates
Beer and Stout of an alcoholic strength by volume 3% volume or less	\$1.92 per litre	\$1.98 per litre
Beer and Stout of an alcoholic strength exceeding 3% by volume	\$2.60 per litre	\$2.68 per litre
Liqueurs exceeding 11.49% but not exceeding 57.12% of volume	\$40.78 per litre	\$42.00 per litre
Liqueurs exceeding 11.49% or less by 5 cents per litre	\$1.61 per litre	\$1.66 per litre
Liqueurs exceeding 57.12%	\$71.41 per litre of alcohol	\$73.55 per litre of alcohol
Spirituous beverages exceeding 11.49GL but not exceeding 57.12% of volume	\$40.78 per litre	\$42.00 per litre
Spirituous beverages exceeding 57.12%	\$71.41 per litre of alcohol	\$73.55 per litre of alcohol
Other fermented beverage of alcoholic strength exceeding 1.15% by volume but not exceeding 6% by volume	\$2.48 per litre	\$2.56 per litre
Other fermented beverages of alcoholic strength exceeding 6% by volume	\$3.97 per litre	\$4.09 per litre
Still Wine of alcoholic strength exceeding 1.15% by volume	\$3.60 per litre	\$3.71 per litre
Sparkling Wine of alcoholic strength exceeding 1.15% by volume	\$4.06 per litre	\$4.18 per litre

2. Changes in Fiscal Duty Rates (Cont'd)

Description	2005 Rates	2006 Rates
Alcoholic preparations of a kind used in the manufacturer of various alcoholic beverages of an alcoholic strength by volume exceeding 11.49% by volume but not exceeding 57.12% by volume	\$40.78 per litre	\$42.00 per litre
Alcoholic preparations of a kind used in the manufacture of various alcoholic beverages of an alcoholic strength by volume exceeding 57.12% by volume	\$71.41 per litre of alcohol	\$73.55 per litre of alcohol
Liqueurs exceeding 11.49% but not exceeding 57.12% by volumes	\$40.78 per litre	\$42.00 per litre
Liqueurs exceeding 57.12% by volumes	\$71.41 per litre of alcohol	\$73.55 per litre of alcohol
Unmanufactured tobacco	\$125.11 per kg	\$128.86 per kg
Manufactured tobacco, cigar, cheroots and cigarillos	\$80.54 per kg	82.96 per kg
Cigarettes	\$132.63 per kg or 1,000 cigarettes which ever is greater	\$136.61 per kg or 1,000 cigarettes which ever is greater

3. New Import Excise Duty

Introduction of new Import Excise Duty:

Sin goods at 10% Import Excise

- Tobacco Extracts
- Manufactured Tobacco
- Wines and Spirits

Specific Rates on cigarettes at \$128.86 per kg (import excise duty).

Motor Vehicles at 10% Import Excise

- Used motor vehicles
- New Motor Vehicles

Goods Manufactured locally at 5% Import Excise

- Powders for making beverages;
- Alcohol preparation for making alcoholic beverages;
- Cement and Clinkers;
- Steel mesh and fencing wires;
- Electronic accumulators;
- Electric cables;
- Furniture;
- Mattresses;
- Aluminium kitchenwares;
- Footwear;
- Water;
- Carbonated drinks;
- Steel pipes and tubes;
- Sawn timber.

White Goods at 5% Import Excise

- Washing machine;
- Television;
- Microwave;
- Vacuum Cleaner;
- Hair Dryer;
- Coffee Maker;
- Turn Table;
- Tape recorders;
- Video monitors and video projectors;
- DVD player;
- Video cameras and cameras – photographic
- Refrigeration;
- Freezers;
- Air-Conditioners;
- Fans;
- Dish washing machines / Dryer.

Others at 5% Import Excise

- Musical instruments;
- Pianos;
- Keyboard;
- SPA bath;
- Swimming pool;
- DVD and CD – (blanks);
- Leather goods including shoes;
- Mineral and aerated water container added sugar and flavouring;
- Pool tables, roulettes and other tables for games of chance including machines for games of chance and other articles and accessories.

4. Others

Assistance to Taxi Industry

- Reduction in fiscal duty rate on new or second hand vehicles operated on Liquefied Pressure Gas (LPG) from 27% to 15%.
- Reduction in fiscal duty rate on Taxi Meter from 3% to Free.

Assistance for Mini Buses

Passenger motor vehicle carrying 8 passengers or more but not exceeding 16 passengers inclusive of driver qualifying for assistance under this scheme as follows:

- New Vehicles from 27% to 15%.
- Second hand motor vehicle from 27% with specific rates depending on engine rating (cc) to 15%.

Assistance to Bus Industries

- An additional 20 cents per litre will be given as a grant from Government;
- The bus industry will provide concessional bus fares for the elderly and disabled; and
- There will be no fare increase in the next 12 months.

Review Concession on Motor Vehicle purchase by Religious Organisations

- Vehicle purchased by a religious organisation must be a commuter type vehicle having a seating capacity of 8 or more persons but not exceeding 16 persons including the driver.

Premix Fuel

- Reduce fiscal duty rate from 37 cents to 27 cents per litre.

Inter-Island vessels

- 100% duty rebate on fuel.

Outboard Motors

- Reduction in fiscal duty from 3% to free.

Tiles falling under Chapter 69 and 70

- Reduction in duty rate from 15% to 3%.

Realignment of Chapters 17 and 18 on sugar confectionary, chocolate confectionary and other chocolate.

- Increase in duty rate from 15% to 27%.

Excise

- A 3% increase in domestic excise rates on cigarettes and spirits in line with changes in the CPI.
- Introduction of excise duty on Carbonated Drinks at 5 cents per litre.

Importation of Precious Jewellery

- Introduction of 3% fiscal duty from 0%.

Scaffolding, Shuttering, Propping or Pit – Propping Equipment

- Increase fiscal duty from 3% to 27%.

Friction materials and articles for brakes, clutches, etc

- Increase fiscal duty from 3% to 15%.