REPUBLIC OF FIJI

ECONOMIC AND FISCAL UPDATE:
SUPPLEMENT TO THE 2009 BUDGET ADDRESS

"RAISING ECONOMIC GROWTH AND ALLEVIATING POVERTY"

Ministry of Finance and National Planning
November 2008

FOREWORD

The 2009 Economic and Fiscal Update provides an overview of Fiji's economic and financial performance in 2009, examines the general outlook for Fiji's economic and financial performance and outlines Government's economic strategy for the medium term.

The Ministry of Finance and National Planning compiled this report with invaluable assistance from various Government Ministries and the Reserve Bank of Fiji. The update incorporates all the available economic and fiscal information as of 20th November 2008.

The Economic and Fiscal Update is a "Supplement to the 2009 Budget Address", and as such spells out in more detail the economic and financial policies underlying the 2009 Budget.

Peceli Vocea
Permanent Secretary for Finance and National Planning
20 November 2008

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Introduction

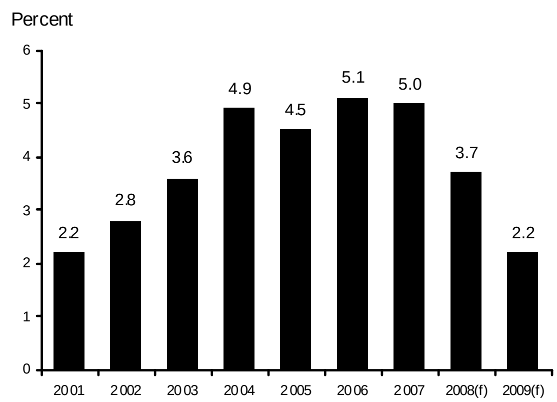
1.1 This chapter assesses the current world economic outlook and economic prospects of Fiji's major trading partner countries.

International Outlook

1.2 Global financial instability has increased, economic activity has slowed, and growth prospects for 2008 and 2009 have deteriorated. The financial crisis that first erupted with the US sub-prime mortgage collapse in mid-2007 has entered a new troubled phase in the past few weeks. Considered the most severe shock in financial markets since the Great-Depression of the 1930s, the crisis is expected to result in a major downturn in the world economy.

1.3 Consequently, the IMF has revised global growth down to 3.7 percent this year and a further slowdown to 2.2 percent in 2009 is forecast (from earlier projections of 3.9 percent and 3.0 percent respectively). Activities in advanced economies are now expected to slow further while expansions in emerging and developing economies are expected to lose steam.

Figure 1.1 World GDP Growth



Source: IMF World Economic Outlook - November 2008

1.4 Coordinated policy actions by major economies are being implemented. Central banks have moved to cut interest rates and have also injected substantial amounts of liquidity into the banking system, in an effort to limit the effects of the financial stress, revive investor confidence and support demand.

1.5 In addition, Governments of the major economies have approved billions of dollars in rescue packages in the form of loan and deposit guarantees, and capital to bolster the banking system. Even with their rapid implementation, financial stress is likely to deepen and be more protracted than envisaged.

Fiji's Trading Partners

1.6 Latest indicators continue to signal subdued economic conditions for most of our major trading partners, given recent downward growth revisions. Economic growth in all of Fiji's major trading partners is expected to slow in 2008.

1.7 The Australian economy is projected to expand by 2.5 percent in 2008, after achieving a growth of 4.2 percent in 2007. The anticipated decline in consumer spending and business investment is expected to underline the slowdown.

1.8 The US economy is expected to slow to 1.4 percent growth in 2008, largely attributed to expected slowdowns in private consumption, investment and industrial production. The US economy grew by 2.0 percent in 2007.

1.9 Growth in the New Zealand economy is forecast at 0.7 percent in 2008, after a 3.2 percent growth in 2007. This anticipated slowdown in activity is underpinned by slowing household consumption.

1.10 Japan is projected to grow by a slower 0.5 percent in 2008, driven by the anticipated slowdown in industrial production, business investment and private consumption. This is compared to 2.1 percent growth in 2007.

1.11 For the Eurozone economy, growth is forecast at 1.2 percent for 2008, in comparison to 2.6 percent growth achieved in 2007. The lower growth is due to the expected slowdown in industrial production and private consumption.

1.12 For 2009, growth for our major trading partners is expected to be sluggish and negative for some. Economic growth for the US, Eurozone and Japan is expected to be negative at -0.7 percent, -0.5 percent and -0.2 percent, respectively. Growth in the Australian economy is projected to slow to 2.2 percent while the New Zealand is expected to recover to 1.5 percent.

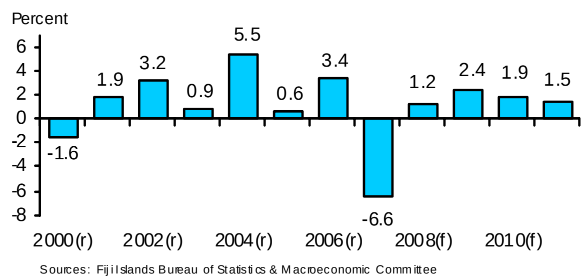
Domestic Outlook

1.13 Economic growth has been volatile. The contraction of 1.7 percent experienced in 2000 was followed by increasing growth in 2001 and 2002. This growth declined slightly in 2004, but the economy rebounded the following year with a peak of 5.4 percent growth. Similar, to previous trends this high was not maintained, and growth fell again in 2005 to 0.7 percent. In 2006 growth was 3.6 percent.

Overview: 2007

1.14 Fiji's economy is estimated to have contracted by 6.6 percent in 2007. The contraction was driven by poor performances in nearly all sectors except for the manufacturing and electricity & water sectors, which recorded marginal growth.

Figure 1.2: Real GDP Growth



1.15 A decline of 13.9 percent recorded by the community, social & personal services sector was mainly a result of lower operating spending by the Government in 2007.

1.16 Similarly, the building & construction sector had registered a significant decline of 20.6 percent in 2007 driven by poor investor confidence in the private sub-sector coupled with a fall in Government/statutory capital spending.

1.17 The wholesale & retail trade and hotels & restaurants sector also noted a weak performance in 2007 (-5.0 percent). The hotels & restaurants industry, in particular, contracted by 9.4 percent - visitor arrivals in 2007 declined by 1.0 percent on an annual basis while annual hotel turnover fell by 9.7 percent. In addition, the wholesale & retail trade industry recorded a fall of 3.9 percent.

1.18 Declines in sugarcane production and poor performance in the fishing and forestry industries contributed to the contraction of 5.7 percent in the agriculture, forestry, fishing & subsistence sector.

1.19 The transport & communication sector noted a decline of 4.0 percent in 2007 mainly driven by a contraction of 7.0 percent in the communication industry. Moreover, in line with the lower tourism arrivals, the air transport and services allied to transport industries noted declines of 2.0 percent and 7.9 percent, respectively.

1.20 On 5 December 2006, Emperor Gold Mining (EGM) Company Limited announced the closure of the Vatukoula gold mine. Thus, the mining & quarrying sector recorded a significant contraction of 97.9 percent producing only 932 ounces of gold in 2007.

1.21 In addition, the finance, insurance, real estate & business services sector is estimated to have declined by 1.8 percent as a result of lower activity in the monetary institutions, other financial institutions and insurance industry sub-sectors.

Overview: 2008

1.22 In 2008, the domestic economy is projected to grow by 1.2 percent. Growth is expected to be broad based with the exception of expected contractions in the electricity & water and community, social & personal services sectors. The wholesale & retail trade and hotels & restaurants; transport & communication; mining & quarrying; agriculture, forestry, fishing & subsistence; manufacturing and building & construction sectors are forecast to drive growth.

1.23 The wholesale & retail trade and hotels & restaurants sector is anticipated to grow by 3.0 percent. In particular, the hotels & restaurants industry is projected to expand by 6.0 percent. Visitor arrivals next year are expected to grow by an annual 8.0 percent.

1.24 As a result, the growth of 3.2 percent in the transport & communication sector is underpinned by expected increases in air transport and services allied to transport activity coupled with projected growths in the land transport, water transport and communication industries.

1.25 The mining & quarrying sector is forecast to expand significantly by 2045.9 percent – a statistical result due to the lack of production in 2007.

1.26 In addition, the 1.2 percent growth in the agriculture, forestry, fishing & subsistence sector is envisaged to be driven by expansions in the forestry, other crops, livestock and fishing industries.

1.27 The manufacturing sector is forecast to expand by 0.9 percent underpinned by expected increases in the beverages & tobacco and other food industries.

1.28 A subdued performance is expected in the building & construction sector with expected growth at 0.2 percent.

Overview: 2009

1.29 The Fiji economy is forecast to grow by 2.4 percent in 2009. All sectors of the economy are forecast to contribute to this growth. The key factors underpinning this positive growth relate to projected increases in operating and capital expenditure by Government.

1.30 Projected growth in the sugarcane industry, coupled with an envisaged expansion in the forestry, other crops, livestock and fishing industries is forecast to contribute to a 4.6 percent rise in the agriculture, forestry, fishing & subsistence sector.

1.31 A projected increase in tourist arrivals is anticipated to provide the impetus for positive performances in the transport & communication and wholesale & retail trade and hotels & restaurants sectors. In addition, the land transport, water transport and communication industries are also forecast to underpin growth in the in transport & communication sector.

1.32 Forecast growth within the sugar, other food, beverage & tobacco and other non-food industries is expected to drive a 2.4 percent growth in the manufacturing sector.

1.33 Growth in the electricity & water sector is forecast at 2.3 percent while the finance, insurance, real estate & business services and building & construction sectors are both forecast to grow marginally by 0.4 percent.

Overview: 2010 and 2011

1.34 Growth in 2010 and 2011 is currently projected at 1.9 percent and 1.5 percent, respectively. Growth is forecast to be underpinned by most sectors of the economy, except for the community, social & personal services sector. With the implementation of the measures presented in the 2009 Budget it is expected that these growth rates will be revised upwards.

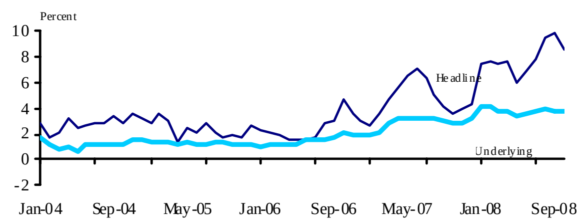
Other Macroeconomic Indicators

Inflation

1.35 The year-end inflation rate for 2007 was 4.3 percent, higher than the 3.1 percent recorded in 2006. There has been a general upward trend to inflation for most of 2008 with the rate peaking at a 20-year high of 9.8 percent in September. This increase was mainly driven by higher food and oil prices coupled with its second round effects (e.g. transport costs) across all categories. However, in October, inflation eased to 8.5 percent due to comparatively lower domestic oil prices.

1.36 Underlying inflation, measured by the trimmed mean[1], fell marginally to 3.7 percent in October, 0.1 percentage points lower than in September and compared to the 3.2 percent recorded at the end of 2007.

Figure 1.3: Inflation



Source: Fiji Islands Bureau of Statistics and Reserve Bank of Fiji

1.37 Recently, inflationary pressures around the world have abated to some extent, mainly emanating from lower commodity prices, as a result of the slowing global economy. This was contrary to earlier in the year where exorbitant global energy prices reached an all time high of over US$140 per barrel and coupled with its second-round effects, ultimately led to an inflation rate of close to 10 percent. However, the impact of the latest downward trend in crude oil prices, which is currently around US$55 per barrel (from an average of around US$112 in the first nine months of this year), has not fully passed through to domestic prices, given the lag of two months that is present. These lower prices will be reflected in the beginning of 2009. The 2008 year-end inflation forecast remains at 7.5 percent.

1.38 In the medium term, inflationary pressures are likely to ease. This is attributed to the ease in global energy and commodity prices during the last quarter of 2008, which is set to continue into 2009. The year-end inflation for 2009 and 2010 is projected at 4.5 percent.

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[1] The trimmed mean is calculated by removing 15 percent of the lowest and highest price changes and then computing the mean of the remaining price changes.

Exports & Imports

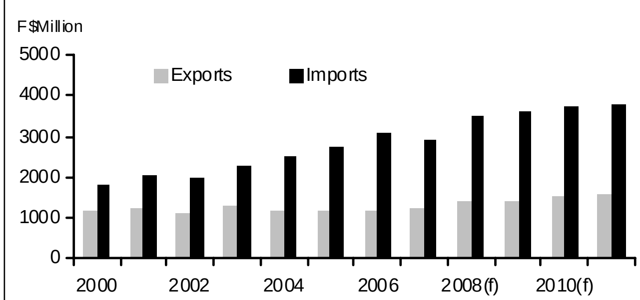
1.39 Total export earnings in 2007 rose by 0.7 percent, however, domestic exports[2] fell by 0.7 percent compared with a fall of 1.6 percent in 2006. Leading the increase in export receipts were mineral water, re-exports, timber, fish, fruits & vegetables, sweet biscuits, flour, uncooked pasta, yaqona and other domestic exports. These more-than-offset the declines recorded in the export of gold, sugar, molasses, corned meat of bovine animals and coral & similar materials.

1.40 For 2008, exports (excluding aircraft) are forecast to grow by 17.9 percent. The projected increase is driven by expected increases in sugar, gold, mineral water, fish, timber, coconut oil, molasses, garments, re-exports and other domestic exports, while earnings from fruits & vegetables and textiles, yarn & made-up articles are projected to decline.

1.41 In 2009, exports (excluding aircraft) growth is projected to ease to 0.8 percent. The slowdown in exports growth is expected to be driven by decline in earnings of sugar and molasses, as well as, lower increases from gold, re-exports, mineral water, fish and other domestic exports. In 2010, exports (excluding aircraft) are projected to expand by 5.5 percent, driven by pickups in re-exports, gold, mineral water, sugar, fish and other domestic exports.

1.42 For 2011, exports (excluding aircraft) are projected to expand by 5.2 percent with all categories of exports expected to increase, in particular, mineral water, re-exports, gold, sugar, fish, timber and other domestic exports.

Figure 1.4 Total Exports and Imports



Source: Fiji Islands Bureau of Statistics & Macroeconomic Committee

1.43 Imports (excluding aircraft) declined by 7.2 percent in 2007 after growing by 13.7 percent in 2006. The decrease was led by lower payments for machinery & transport equipment, mineral fuels, manufactured goods, miscellaneous manufactured goods, beverages & tobacco, chemicals and crude materials, which more-than-offset the rise in payments for food, oils & fats and other commodities.

[2] Domestic exports = total exports –re-exports

1.44 In 2008 imports are forecast to grow by 21.8 percent mainly led by higher payments for mineral fuels, food, chemicals, machinery & transport equipment, manufactured goods and miscellaneous manufactured goods.

1.45 For 2009, imports (excluding aircraft) are projected to rise by 3.3 percent, led by increases in mineral fuels, food, machinery & transport equipment and manufactured goods. Imports (excluding aircraft) are expected to slow to 2.7 percent in 2010. Commodities expected to support import growth in 2010 include: machinery and transport equipment, mineral fuels, food, chemicals and manufactured goods.

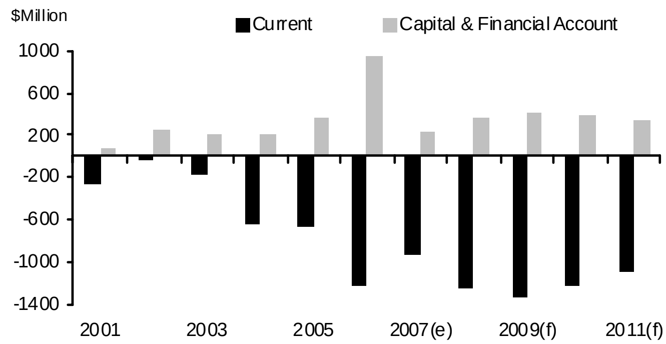
1.46 For 2011, the growth forecast for imports (excluding aircraft) is 2.6 percent led by mineral fuels, food, manufactured goods, machinery & transport equipment, chemicals and oils & fats.

Balance of Payments

1.47 Fiji's overall balance of payments position is estimated to have improved to a surplus of $93.1 million in 2007, from a $57.5 million surplus in 2006. This was mainly underpinned by large unaccounted inflows,[3] a lower trade deficit compared to 2006, and a marginal surplus in the capital account balance.

1.48 For 2008, the current account deficit is expected to worsen to 21.0 percent of GDP compared with a deficit of 17.3 percent of GDP estimated for 2007. The deterioration in the current account deficit reflects higher trade and income imbalances. However, including the unaccounted inflows, the current account deficit is 6.3 percent of GDP. The capital and financial account is forecast to record a surplus of 6.3 percent of GDP. The overall balance of

Figure 1.5 Balance of Payments



Source: Fiji Islands Bureau of Statistics & Macroeconomic Policy Committee

[3] Shown by the positive errors and omissions.

payments deficit is projected at 0.2 percent of GDP, resulting from the anticipated higher current account deficit.

1.49 For 2009, the current account deficit is projected at 21.3 percent of GDP, mainly owing to the increase in the merchandise trade deficit, and the lower surpluses from the current transfers balance. However, including unaccounted inflows, the current account deficit is expected to be 6.3 percent of GDP. The capital account and financial account (excluding reserves assets) surplus on the other hand is projected at 6.1 percent of GDP, owing to the projected lower foreign investment into Fiji.

1.50 For 2010, the current account deficit is projected to widen to 18.4 percent of GDP, mainly owing to a higher merchandise trade deficit and lower surplus from transfers balance. Including unaccounted inflows, the current account deficit is expected to be 5.8 percent of GDP. The capital account and financial account (excluding reserves assets) surplus is projected at 5.5 percent of GDP. The deterioration in the surplus was attributed to expected lower foreign investments into Fiji.

1.51 The current account deficit for 2011 is projected to narrow to 15.3 percent of GDP, driven by expected increases in receipts from the services and transfers balance. Including unaccounted inflows, the current account deficit is expected to be 5.0 percent of GDP. The capital and financial account (excluding reserve assets) surplus on the other hand is projected to remain at 4.7 percent of GDP. The surplus is anticipated to narrow mainly due to projected lower foreign investment into Fiji.

Monetary Policy

1.52 The formulation of monetary policy by the Reserve Bank continues to be aimed at maintaining an adequate level of foreign reserves and keeping inflation low. However, the management of inflationary pressures has been challenging recently due to the external shocks that have affected the domestic economy. Nevertheless, monetary conditions remain relatively tight, so as not to exacerbate demand-driven inflationary pressures. Moreover, mitigating policies have been introduced to address rising prices and complement fiscal measures introduced by the Government.

1.53 In the second half of 2007, acute pressure on foreign reserves gradually abated following the swift action of the Reserve Bank in December 2006, with the imposition of the credit ceiling on commercial banks' private sector lending and the tightening of various capital controls.

1.54 In 2008, as foreign reserves levels stabilised, the Reserve Bank relaxed key exchange controls to encourage investment and mitigate rising prices. To stimulate private sector investment, the Reserve Bank relaxed restrictions on local borrowing by non-resident businesses and individuals. This supplemented the policy in place for prioritised lending under the credit ceiling, to export-oriented businesses, investment-related projects and small-to-medium enterprises. Moreover, the approval limits delegated to foreign exchange dealers for import prepayments was raised to $1 million, while travel allowances and the credit and debit card limits were increased to $10,000 and $15,000, respectively.

1.55 Over the years, former Fiji residents have contributed enormously to the economy by way of remittances and investment. In line with Governments' policy to encourage and facilitate further participation of former Fiji residents in the development of the economy, the Reserve Bank made the necessary amendments to recognise former Fiji residents with permanent resident visas under the exchange control guidelines.

1.56 As earlier indicated, given that the factors driving inflation are due to global supply shortages among other things, monetary policy is not able to directly influence and temper price increases. However, to mitigate the impact, the Reserve Bank relaxed parts of its Forward Foreign Exchange Cover Facility to allow importers of some essential food items to hedge against future price increases. This measure, alongside the fiscal measures put in place by Government, will assist the public during these challenging times.

1.57 The Reserve Bank has decided to leave the current credit ceiling policy in place to address the prevailing risks to the balance of payments. However, special approvals continue to be granted for commercial banks to lend above the credit ceiling for investment-related projects. Consequently, the credit ceiling is not restraining investment. Since the imposition of the credit ceiling and up until 31 October 2008, a total of $293 million in approvals was granted by the Reserve Bank, where 53 percent of this was for building and construction purposes alone.

Money and Credit

1.58 Annual growth in broad money (M2) retreated further to 1.2 percent in September, a 6-year low, on account of a notable slowdown in narrow money[4] (M1) – which expanded by 2.7 percent in September, compared to 39.3 percent in the same period in 2007. The slowdown in narrow money was underpinned by sluggish growth in demand deposits.

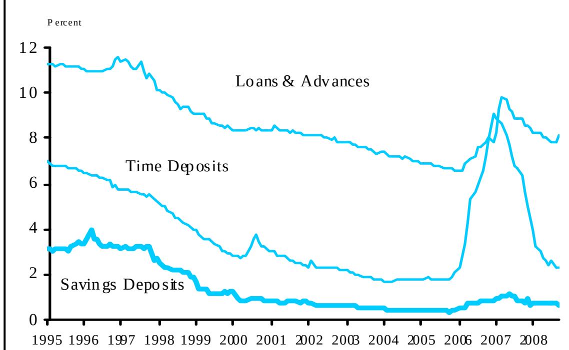
1.59 The annual growth rate in domestic credit also slowed in September to 3.6 percent, compared to 8.4 percent in the same period in 2007. The slowdown was driven by a decline in claims against Government, coupled with a slowdown in private sector and official entities' credit.

Interest Rates

1.60 Given the high level of liquidity in the financial system, interest rates remain relatively low.

1.61 At the end of September 2008, the weighted average lending rate was 8.16 percent while the weighted average interest rate on time and savings deposits were 2.29 percent and 0.64 percent, respectively.

Figure 1.6 Interest Rates



Source: Commercial Banks

Exchange Rates

1.62 Movements in the domestic currency have been relatively stable. Up until September 2008, the Nominal Effective Exchange Rate (NEER)[5] had fallen by over 0.7 percent, indicating a marginal depreciation of the Fiji dollar against our major trading partner currencies.

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[4] M1 = notes and coins plus deposits in current accounts; M2 = M1 plus most savings accounts, money market accounts and small denomination time deposits.

[5] The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

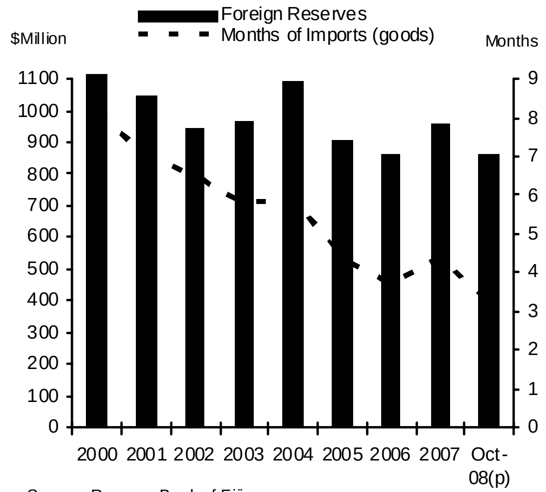
1.63 The Real Effective Exchange Rate (REER)[6] rose on an annual basis by 2.2 percent, indicating a decline in our international competitiveness against our major trading partners. The increase in REER largely reflects higher domestic inflation outcomes, compared with our major trading partners. Domestic inflation was 8.5 percent in September, compared to a weighted average inflation of 4.4 percent recorded by our major trading partners.

1.64 Bilateral exchange rate movements showed that the Fiji dollar strengthened on an annual basis, against the Australian (15.7%) and New Zealand dollars (11.0%), but weakened against the US dollar (14.0%), the Japanese Yen (26.0%) and the Euro (4.0%).

Foreign Reserves

1.65 Foreign reserves remained at adequate levels in 2007, with year-end foreign reserves at approximately $958.7 million, sufficient to cover 4.4 months of import payments of goods. The widening trade deficit continues to be a concern for our balance of payments and thus, foreign reserves. At the end of October 2008, foreign reserves were at $860.8 million (provisional), sufficient to cover 3.2 months of imports of goods.

Figure 1.7 Foreign Reserves



Source: Reserve Bank of Fiji

[6] The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in REER index indicates an improvement in Fiji's international competitiveness.

CHAPTER 2: EXTERNAL SHOCKS

Increase in World Prices of Commodities (Food and Crude Oil)

Introduction

2.1 2008 saw the world gripped by rapidly increasing prices of crude oil and food commodities. In terms of crude oil, an increasing trend in the world price eventually peaked at USD$147 per barrel in June 2008. This has had a direct impact on the prices of refined fuel products of which Fiji imports for domestic consumption.

2.2 The conditions prevalent in the crude oil market have been driven by increases in demand from emerging economies, reductions in excess capacity and political instability in oil producing nations – factors of which are likely to remain in the future.

2.3 Crude oil prices have recently reduced and are currently at US$49[7] per barrel, but are still subject to drastic fluctuation. The global economic slowdown should exert continued downward pressure on oil prices, however they may rebound should OPEC cut production.

2.4 In terms of world food prices, the prices of cereals (e.g. wheat and corn) have risen significantly due to competition from biofuels, changing consumer preferences increasing demand and adverse weather conditions that have affected global output and levels of stockpiles. The world market price of rice rose exponentially early in 2008 due to perceived supply shortages and made worse by export bans of major rice exporters.

Effects on the Domestic Economy

2.5 Due to the linkages that exist, the increase in the price of fuel has had a wide-ranging impact on the domestic economy. In terms of direct effects, the increasing cost of fuel has affected the cost of production as well as transport costs, both for businesses and households. A downward trend to food commodity prices is being experienced due to expected supply responses kicking in, but prices still remain at inflated levels.

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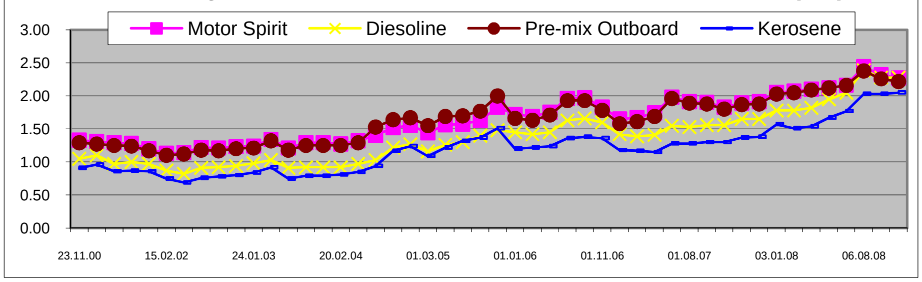
[7] Brent Spot, Bloomberg 19 November 2008

2.6 Indirect effects are also generated as the prices of other goods can increase if they have a significant transport component in their costing and this is particularly true of goods imported into the country. The cost of electricity is also affected, particularly as a large proportion of Fiji's electricity is produced using diesel generators. This again has impacts on the cost of production as well as on households' budgets.

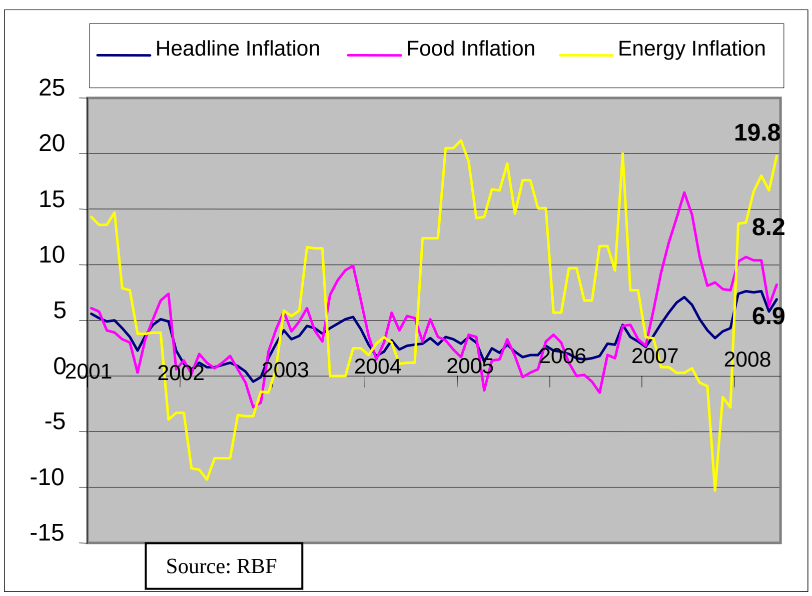
Figure 2.1: Retail Prices of Selected Fuel Products ($/lt)



Source: Prices and Incomes Board

2.7 The rising cost of basic food products is cause for concern as it has a disproportionate effect on the poor and low-income earners, as this groups tends to spend a higher proportion of their total household income on food. While households switch to consuming other domestically produced food items, this can also have an inflationary impact as the increase in demand (without an increase in supply) leads to higher prices.

Figure 2.2 Headline, Food and Energy Inflation



2.8 Due to Fiji's complete dependence on imported mineral fuels, the increase in world prices has had a dramatic effect on the import bill - mineral fuel imports are forecast to amount close to 37 percent of total imports in 2008 (a value of F$1.3 million) and this is set to increase further in 2009 and 2010 as economic growth continues to pick up.

2.9 As a result of the increase in the import bill, the trade (in goods) deficit is forecast to deteriorate in 2008 by approximately 12% and this trend is set to continue in 2009 and 2010. While foreign exchange reserves have generally been maintained over the year due to tight monetary policy and exchange controls, a marginal deterioration has been experienced and this is reflected in the Balance of Payments forecast.

Temporary Measures to Mitigate the Domestic Effects

2.10 During 2008 Government implemented a number of policies to attempt to mitigate the effects of the rising price of food and fuel, these included:

- Reductions in the fiscal duties on basic food stables (peas, beans and other leguminous vegetables, canned fish, white rice and meat) from 27% to 15% were announced in the 2008 Budget. In addition, the income tax threshold was increased from $8,840 to $9,000;

- A further package of policies became effective on 1st June 2008:

  - Duties for edible oil, white rice, and canned fish where further reduced to 0%.
  - The income tax threshold was further increased from $9,000 to $15,000.
  - Locally produced eggs were zero-rated for VAT purposes.

- Duties were reduced by 10 cents/litre for motor spirits and 9 cents/litre for diesel and pre-mix for a period of 3 months, effective from the 15th of August.

2.11 Government remains committed to addressing the domestic effects of external shocks of which we have no control and in particular, if they have negative consequences for the livelihoods of our poor or put at risk our economic growth.

1.12 From a positive point of view, the price of the commodities discussed above have started to decrease and are showing a downward trend and Government policy has been reviewed and will alter to reflect this.

Medium Term Measures

Boosting Local Production and Improving Food Security

1.13 Government efforts to counter rising world food prices will be spearheaded by the Ministry of Primary Industries. Budgeted agricultural programmes and schemes will be targeted towards boosting capacity to raise domestic food production, particularly for staple foods such as rice and taro, fruits and vegetables and dairy products. Promoting extensive production for these commodities should address current food security and imported inflation issues and also encourage opportunities for import substitution and exports.

1.14 An integral part of this strategy involves securing strategic partnerships with the private sector, through attractive incentives, to invest in large-scale commercial farming and agro-processing. Government has considered policy packages that will target all agricultural commodities. These packages will encompass appropriate performance-based tax incentives, low-cost financing, budget assistance, market (commercial) support, technical aid and the provision of appropriate capital and infrastructural requirements.

1.15 Government's medium-term strategy is expected to provide further impetus to advancements in agricultural and land reforms. This strategy will foster strategic management and planning, and ensure better cohesion amongst stakeholder agencies in enhancing overall domestic agricultural output. It also induces Government to be more assertive in identifying suitable arable land for commercial agricultural purposes and presents opportunities for cooperative companies such as Rewa Dairy Cooperative Limited and Rewa Rice Company Limited to raise production levels and take advantage of current worldwide shortages for rice and dairy products.

Renewable Energy

1.16 Government's strategy for averting high fuel and energy prices in the future is focused on facilitating exploration and production of alternative energy sources, which are efficient and environmentally friendly. In this regard, policy initiatives highlighted under the four strategic areas of Government's National Energy Policy framework will be given due prominence. The areas include: (1) Energy Planning; (2) Energy Security; (3) Power Sector; and (4) Renewable Energy.

1.17 Particular emphasis will be placed on developing renewable energy sources and as such, continued support will be accorded to 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, such as solar, wind and geothermal energy.

1.18 In addition to the above, Government will continue to support FEA's proposed new energy developments, such as the Nadarivatu Hydro project.

1.19 The 2009 Budget offers a number of incentives for promoting the use of renewable energy and more energy efficient technology and these are outlined in Chapter 12.

Global Financial Crisis

Introduction

2.20 The fallout from the sub-prime mortgage[8] market collapse in the US has had knock-on effects on the financial systems of many developed economies throughout the world and has resulted in a global financial crisis.

2.21 Financial institutions that invested heavily in mortgage backed securities and collaterised debt obligations have seen these investments become worthless and this has had a severe impact on their balance sheets. Governments have stepped in to protect them from possible bankruptcy, as well as shoring up liquidity levels to prevent a tightening of credit markets.

2.22 Investor confidence is at an all time low, both due to the uncertainties surrounding the financial security of institutions and companies, but also for fear of an impending global recession. In reaction to this, Governments and Central Banks across the developed world have been injecting billions of US dollars of capital into their respective financial systems, offering similarly sized economic stimulus packages and rapidly reducing the key interest rate to stave of recession, which is currently forecast to be particularly long and arduous.

[8] Sub-prime lending is the practice of lending to borrowers who do not qualify for the best market interest rates because of their poor credit history or inability to prove their income. As such, sub-prime loans are risky for both creditors and debtors due to the combination of high interest rates and the applicant's bad credit history or unstable financial situation.

Potential Impact on Fiji

2.23 Given the uncertain nature of the crisis it is difficult to predict the next event in the timeline and as an external shock to our economy, Fiji has little control over the overall global situation. In addition, due to the lack of a quantitative model, only qualitative assessments of the impact can be made, based on hypothetical outcomes.

Direct Impact[9]

2.24 In terms of a direct impact, Fiji's financial sector is quite isolated from the financial markets abroad and the banking, insurance and other financial institutions remain sound. Our financial system currently has excess liquidity with a corresponding low interest rate. Banking institutions have virtually no direct exposure to US sub-prime mortgages or related credit products. Unlike the foreign banking system, the domestic financial system is financed from local depositors and credit is extended to domestic entities and in this respect, Fiji may not experience any direct effects from the crisis.

2.25 RBF will continue to closely monitor domestic financial institutions in order to ascertain the possible future impact of head office developments on branches and subsidiaries in Fiji. In addition, there will also be a closer liaison with fellow supervisors in countries that have interests in Fiji[10].

Indirect Impact

2.26 While the economy remains relatively isolated from the direct effects of the global financial crisis, there are a number of ways that Fiji may be affected indirectly:

(i) **Demand for Exports Abroad**: As foreign economies start to experience decreases in domestic demand (which ultimately leads to reductions in economic growth) for both domestically produced and imported goods, Fiji may eventually experience a decline in exports;

[9] Assessment carried out by the Reserve Bank of Fiji
[10] Australia, India and Papua New Guinea

(ii) **Foreign Investment Inflows:** Due to increased requirements for borrowing and higher applicable interest rates, credit will be more difficult to access by investors. Due to the possible global economic decline and resulting uncertainty, investors will be reluctant to carryout normal investment activities. As a result, foreign direct investment into Fiji may fall. Given that Fiji is currently experiencing low investment levels, rather than an added shock a longer recovery period is more likely;

(iii) **Remittances:** With economic growth set to decline in many of the countries where Fiji citizens choose to emigrate to, this is likely to have a negative impact on overseas remittance inflows. However, official remittances have displayed a downward trend over recent years and while the current crisis may reduce flows further, it will be difficult to determine whether future declines can be linked to the financial crisis or are just a continuation of this trend;

(iv) **Visitor Arrivals:** Much of our improved growth in future years lies with continued positive performance from our tourism industry, and unfortunately this is most likely to be a sector that is affected by the decline in global economic growth. With growth forecasts revised downwards in many of our source markets[11], potential visitors are likely to experience declines in disposable incomes that will affect their expenditure on luxury items, foreign holidays being one of them. Alternatively, potential visitors who may still have the resources to go on holiday, may instead choose to go to short-haul rather than long-haul destinations and thus Fiji may become more attractive and benefit positively;

(v) **Impact via Exchange Rate:** Despite the financial crisis originating in the US, the US dollar is appreciating while weakening other currencies, such as the Australian and NZ dollars. The appreciation of the US dollar will augur well for export earnings of goods to the US or goods priced in this currency, but this will be offset by earnings losses from exports to Australia and New Zealand. There is general agreement that the US dollar will continue to strengthen against Fiji's major trading partner currencies; and

(vi) **Impact on Government Budget:** The current downturn in financial markets, which will make accessing credit more difficult and expensive, as well as corresponding movements in exchange rates may lead to a worsening of Government's debt position. In addition, the level of revenue collected may fall due to declines in the real sector. Should this occur,

[11] Australia, NZ, US, Europe, Korea and Japan

negative effects on Government’s fiscal deficit and borrowing targets may be experienced.

Policy Responses

2.27 In terms of **fiscal policy,** Governments of the countries directly affected by the financial crisis have intervened significantly in their financial markets and are increasing government expenditure to stave off impending recessions of their own economies and the global economy as a whole. Government will continue to exercise fiscal discipline (as outlined in Chapter 3) and continue to ‘trim’ low priority expenditure and improve revenue collections. Fiscal space is considered in Budget 2009 and this allows resources to be made available to counter the further effects of a global economic slowdown.

2.28 From a **monetary policy** perspective, with the expected decline in world economic growth, inflationary pressures are likely to reduce as well, which provides some justification for the gradual easing of monetary policy. However, the protection of the foreign reserves position being the other objective of monetary policy, there may be little room for expansionary monetary policy due to continued downside risks to Fiji’s exports.

2.29 **Structural reform** will continue to be an important policy action by Government. While fiscal discipline is necessary, efforts will continue to be focused on a continuing programme of structural reform – one of the means for lessening the downside risks that the global slowdown may cause. Within this overarching heading of reform, the priority will be to address constraints to private sector-led economic growth. Government has shown commitment to this issue by following through with recommendations by the private sector at the Mini-Economic Summit held in September 2008.

CHAPTER 3: MEDIUM-TERM STRATEGY

Introduction

3.1 This chapter discusses Government's economic and fiscal strategy for the short and medium term. The chapter begins by highlighting Government's macroeconomic objectives and fiscal targets; it then details current challenges confronting the domestic economy before proposing broad fiscal measures that aim to achieve Government's overarching policy objectives. It concludes by highlighting the anticipated direction and focus of structural reforms for the medium term.

3.2 In 2007 and 2008 Government strategy was to secure stability in public finances and this has been achieved. The strategy will now focus on setting the platform for sustained economic growth and poverty alleviation. Due to recent global challenges, the strategy will also address the domestic effects of the rising food and energy prices and the rapidly developing global financial crisis (refer to Chapter 2).

Medium Term Macroeconomic Objectives

3.3 Table 3.1 displays Government's macroeconomic targets for the medium-term, which ultimately determine policy direction and take into account prevailing macro-economic conditions, as well as other potential risks.

3.4 Achieving these targets, will provide a platform for a stable economic environment - conducive for investment and increased economic activity, creating employment opportunities, higher incomes and standards of living.

Table 3.1 Macroeconomic Targets for the Medium Term

Macroeconomic Indicator	Targets
Economic Growth	5 percent per year
Inflation	Less than 3 percent over a 5-year period
Foreign Exchange Reserves	4-5 months of import cover
Government Deficit	Achieving a Balanced Budget by 2012
Government Debt	Reducing debt to a sustainable level of 45 percent of GDP or below by 2011
Investment	Above 25 percent of GDP

Source: Ministry of Finance and National Planning

Medium Term Fiscal Framework

3.5 Table 3.2 lays out Government's Medium Term Fiscal Framework (MTFF). The framework sets out the fiscal aggregates underpinning Government's debt and deficit targets for the medium term. The actual outcome for 2007 and estimates for 2008 are provided for comparative purposes.

Table 3.2 Medium Term Fiscal Framework

	2007 (A)	2008 (EST)	2009(B)	2010(T)	2011(T)
Revenue	**1,391.3**	**1,435.9**	**1,522.4**	**1,591.6**	**1,695.2**
% of GDP	*26%*	*24%*	*24%*	*24%*	*24%*
Expenditure	**1,487.4**	**1,527.9**	**1,712.8**	**1,726.1**	**1,766.4**
% of GDP	*27%*	*26%*	*27%*	*26%*	*25%*
Net deficit	**(96.2)**	**(92.0)**	**(190.4)**	**(134.6)**	**(71.2)**
% of GDP	*-1.8%*	*-1.5%*	*-3.0%*	*-2.0%*	*-1.0%*
Debt	**2,734.8**	**2,851.3**	**3,041.7**	**3,176.3**	**3,247.5**
% of GDP	*50%*	*48%*	*48%*	*47%*	*46%*
GDP at Market Price ($m)	5,435.9	5,958.1	**6,348.0**	**6,730.5**	7,115.7

Source: Ministry of Finance and National Planning; Key: A: Actual; Est: Estimate; B: Budget; T: Targets

Note: The 2007, 2010 and 2011 fiscal targets in this table will not match with comparable figures in other tables or Budget documents.

3.6 The framework reveals a budget deficit target of 3.0 percent for 2009 before proposing a path of fiscal consolidation over the medium term. The proposed deficit for 2009 avails sufficient resources to boost investment levels, drive economic recovery and also safeguard against recent global economic shocks. Over the medium term, the framework strives to secure stability in Government finances by ensuring that resource allocation decisions are disciplined by financial constraints.

3.7 Government achieved a net deficit of $96.2 million or 1.8 percent of GDP in 2007. The revised deficit for 2008 is forecast at $92.0 million or 1.5 percent of GDP. Government's 2009 deficit target is 3.0 percent of GDP which equates to $190.4 million. In addition, revenue receipts are expected to amount to $1,522.4 million, or 24.0 percent of GDP. Given these two factors, Government budget expenditure programmes have been formulated within an overall ceiling of $1,712.8 million. Expenditure and revenue projections for 2010 and 2011 are based on Government's desired deficit targets of 2.0 percent and 1.0 percent of GDP respectively.

Medium Term Challenges and Risks

3.8 In the wake of the December 2006 events, Government's immediate fiscal policy goal was to stabilize and protect public finances. This objective was achieved in 2007, with Government managing to restrain deficits to below the budget target of 2.0 percent. As a consequence, debt was reduced to approximately 50.3 percent of GDP (previously at 52.2 percent). Despite tight financial constraints, Government still managed to prudently manage resources to support essential public services, maintain debt servicing obligations and deal with unexpected economic shocks such as spiraling world crude oil prices.

3.9 Similarly, the Reserve Bank 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 Banks stringent monetary measures comprised of upward adjustments to the policy indicator rate, tighter capital controls on foreign exchange transactions and lower credit ceilings on commercial bank lending. Together with a general slowdown in demand and a marginal growth in exports, these measures managed to stabilize Fiji's external accounts in 2007.

3.10 On the basis of developments of fiscal and monetary policy as highlighted above, the next preferred course of action is to build on the success of the 2007 Budget result and progressively move towards sustaining overall debt levels in the medium term. However, this may take slightly longer than desired due to extraordinary global economic pressures on the domestic economy.

3.11 The years 2007 to 2008 saw dramatic increases in world food and crude oil prices[12] (refer to Chapter 2). The existence of persistent high global inflationary pressures is a major threat to the growth prospects of Fiji's present weak economy; causing undue hardship for businesses and consumers alike. As a small import-led economy about two thirds of our inflation is imported. The pass-through of high international prices caused domestic inflation climb to as high as 9.5 percent in September this year, the highest rate since 1998.

[12] World crude oil prices surpassed the US$100 per barrel mark in January 2008 and peaked at US$147 per barrel in June 2008. Prices have since fallen to below the US$100 mark.

3.12 More recently, 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. Developing economies, such as Fiji can expect to be affected, if not directly, almost certainly indirectly from the significant downturns expected in advanced economies and our trading partners. This development poses additional risks to Fiji's currently under-performing domestic economy.

3.13 Notwithstanding prevailing international economic pressures, a host of other fundamental challenges and constraints continue to linger on Government's policy agenda. The ensuing paragraphs highlight these challenges.

3.13.1 Political climate: Political stability is a fundamental precondition for sustainable economic growth. Bearing this in mind, Government will continue to formulate appropriate policies to attract investments and boost private sector confidence.

3.13.2 Major pillars of growth still underperforming: Since the events of 1987 and 2000 Fiji's major economic pillars, tourism and sugar, have recorded unimpressive performances. The trend over this period has been one of decline and stagnation with the overall erosion of confidence in the economy. However, tourism showed signs of recovery towards the end of this year with tourist arrival numbers showing an increase over the same period last year. This is largely attributed to highly discounted holiday packages offered by hotels and resorts to counter negative travel advisories from major source markets such as, Australia and New Zealand.

3.13.3 Nevertheless, hoteliers have recently warned that this discounting is unsustainable in the long-term as full costs cannot be recovered, although given the forecast global economic slowdown these packages may be around for a little while longer.

3.13.4 Sustainability of External Financial Position: Fiji's trade balance is now in deficit by around $1.8 billion compared to $670 million in 2000. For the past 8 years, we have witnessed increased the growth of imports relative to exports which has severely threatened our balance of payments and foreign reserves position. Most recently, a major contributing factor has been rising global prices of oil and other commodities. Imports of mineral fuels represent around one-third of Fiji's total imports. Between 2005 and 2007, growth in mineral fuel imports increased by 22 percent. Export growth has not managed to match that of imports and thus the widening trade deficit. More decisive measures are necessary to raise exports and increase domestic production of goods that we currently import, in order to ensure long-term stability in Fiji's external accounts.

3.13.5 Sugar reforms remain a major challenge: The sugar industry continues to face challenges despite Government and industry stakeholders continued efforts to implement reform initiatives to increase industry competitiveness. As a direct consequence of December 2006, the European Union suspended aid assistance of 60 million Euros (F$132 million) for Fiji's 2008-2010 Multi-Annual Indicative Programme (MIP), until progress on a number of commitments was achieved by Government, specifically the staging of democratic elections in early 2009. This programme, which focuses mainly on improving on-farm cultivation, developing rural infrastructure and supporting agricultural diversification, is critical for the survival of the industry as it embraces the withdrawal of EU preferential treatment.

3.13.6 In spite of EU trade pressures, present industry performance is highly worrying with sugar production levels reaching a new low of just 240,000 tonnes in 2007, due predominantly to frequent mill stoppages and an inadequate supply of cane. Consequently, the industry was forced to import sugar from India to supply the domestic and regional market as total output was only sufficient to meet the EU quota.

3.13.7 In 2006 the EU undertook its first phase reduction of preferential sugar prices, cutting prices by 5.1 percent. Further cuts of 9.2 percent and 21.7 percent are anticipated for 2008 and 2009 respectively. Given recent industry performances, critical concerns have surfaced on the industry's ability to endure given these imminent price reductions.

3.13.8 International trade liberalization: Over the past five years, the move towards trade liberalization has been accelerated through the establishment of regional trade agreements (MSG & PICTA) and negotiations with the EU over the Economic Partnership Agreement. Full activation of all these agreements is expected to significantly erode customs revenues and which may lead to an influx of foreign competition directly impacting domestic industries. On the other hand, international trade arrangements also offer opportunities for a wider variety of commodities to enter the domestic market and it opens doors for export market access with advanced trade facilitation facilities and technical support (quarantine, accreditation, testing etc).

3.13.9 Debt sustainability: the international "rule of thumb" states that a debt level above 40 percent of GDP is unsustainable, particularly for economies that are not well diversified or are restricted with a narrow economic base. In 2006, Government's debt level stood at 52.2 percent of GDP. However, this was later reduced to 50.3 percent in 2007 through tight financial restraint. Fiji has a narrow based economy that relies heavily on two major sectors: tourism and sugar, a collapse in either of these sectors would trigger negative flow-on-effects throughout the economy resulting in corresponding reductions in Government revenues, and thus resources available for obligatory debt servicing payments.

3.13.10 Improvements to quality of Government expenditure: The improved fiscal position achieved in 2007 was due to reductions in both operating expenditure and also capital expenditure. To drive economic growth more resources must be directed towards capital outlays, particularly for infrastructure projects relating to roads, water and electricity. These investments set the platform for private sector development and generate long term economic returns. As equally important is the need to ensure proper planning and faster implementation of budgeted projects that will improve the effectiveness of allocated funds.

3.13.11 Future risks to Government expenditure: Looking ahead, Government has identified a number of downside risks for future national budgets. These include:

- Continuing to manage and rationalize Government's wages and salaries bill;
- Potential significant expenditure pressures could arise if Government fails to fulfill its commitments with the EU. That is, the full adjustment costs for the EU sugar reforms will have to be shouldered by Government; and

- Negotiations are currently underway for securing a substantive Economic Partnership Agreement with the EU and should these not succeed, this may result in significant adjustment costs relating to initial support for domestic industries and sectors affected through the trade liberalization.

Revenue Policy

3.14 The guiding framework to Government's revenue policy is underpinned by the following key principles: (i) strengthening compliance; (ii) broadening the revenue base; (iii) improving collection efficiency by strengthening tax administration; (iv) ensuring a simple, transparent and equitable tax system; (v) maintaining integrity of the VAT system; and (iv) promoting the user pay principle.

3.15 These principles govern the formulation of revenue policies which are aimed at achieving the following objectives:

- Facilitating investment and sustainable economic growth;
- Supporting the poor and disadvantaged;
- Optimizing revenue collections;
- Boosting exports and competitive import substitution;
- Stabilizing external accounts;
- Safeguarding against economic shocks;
- Protecting local and infant industries; and
- Ensuring fees, fines and charges reflect the cost of producing public services.

3.16 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 percent to 29 percent in the 2009 Budget, with a further reduction to 28 percent in 2010.

3.17 In addition, the Budget offers a range of investment incentives to support growth in key economic sectors with particular emphasis on resource and agro-based industries. Growth in these sectors will generate further employment and contribute effectively towards sustaining livelihoods in rural and outer island communities.

3.18 The 2009 Budget introduces a 10 year tax holiday for commercial agriculture and agro-processing investments, and also avails duty concessions for raw materials and other key inputs for the dairy and fishing industries, as well as the ICT sector.

3.19 Focus on the agro-based sector supports Government's strategy of boosting domestic food production to curb inflation and improve food security. Also, given its competitive advantages, this sector has the potential to raise exports and drive import substitution, and in doing so contribute towards stabilizing Fiji's external accounts. In line with the strategy to support renewable energy production, refer to Chapter 12 for the relevant 2009 Budget measures.

3.20 Government also realizes the need to urgently stimulate growth and investments in economically depressed regions. In striving to achieve this objective, the 2009 Budget has declared the following Tax Free Regions (TFR) for 13 years: Vanua Levu, Rotuma, Kadavu, Levuka, Lomaiviti and Lau. In addition, any new hotel development on Vanua Levu will be able to extend its tax free status by another 7 years if it acquires at least 25 percent Indigenous Fijian land owner participation.

3.21 Whilst designing tax incentives and concessions, Government took into consideration other key enabling factors for facilitating high value investments. These factors include, among other things: efficiencies of current business approval processes; current capacity of existing infrastructure; simplicity of tax administrative processes; costs and ease of doing business; and conduciveness of relevant legislations for commercial development. These factors play a significant role in determining investment decisions. Recent deregulations in the telecommunications sector have provided further impetus for much needed investment. To support this achievement, Government will take a more proactive approach over the medium term to strengthen other areas of investment facilitation. Ultimately, this should help enhance the overall effectiveness of current incentives.

3.22 The plight of the poor and disadvantaged is also a central feature of this Budget. To continue its support for the poor and low income earners Government will maintain the temporary policy measures which were introduced earlier this year to cushion external inflationary effects on consumer budgets. That is, the income tax threshold will continue to remain at $15,000 and duty will still be exempt on selected basic food items (tinned fish, rice and edible oil). Other ongoing measures such as the exemption of VAT on essential food items and kerosene will be maintained in 2009 (Chapter 7 contains a full list of pro-poor tax measures).

3.23 Government will continue to strengthen compliance by simplifying tax administrative processes and procedures, as well as improve efficiency in the collection of tax arrears. FIRCA will continue to be adequately resourced to review and clamp down on potential areas of tax evasion or tax avoidance, and tighten up its monitoring on applications of customs tariff concessions to avoid misuse and loss of revenue.

3.24 Government is fully aware of the likely social and economic implications of impending international trade agreements. In upcoming negotiations, a regional approach will be pursued with other Pacific Island countries to secure a gradual and flexible path towards trade liberalization. Progress towards trade reforms will be guided by the following key objectives:

- Customs revenue losses must be offset by alternative revenue sources identified through well planned reforms on Government's fiscal system;

- Necessary resources and technical assistance for internal structural reforms to boost domestic competitiveness should be sourced from dominant international trading partners;

- Longer timeframes for removal of trade barriers should be secured for infant and highly vulnerable industries, particularly for those agro-based industries that support the livelihoods of rural dwellers;

- Special exemptions should be accorded to economically depressed regions;

- Overall agenda for trade reforms must be aligned to policy objectives of Government as inscribed in its strategic development plan; and

- All efforts must be focused on taking full-advantage of market access opportunities. This includes the securing of trade facilitation support from major trading partners to facilitate compliance with prescribed standards and requirements.

3.25 External consultants were engaged this year to undertake a comprehensive review of Government's fees, fines and charges. The review is being conducted in 2 phases with phase 1 expected to be finalized before the end of 2008. This phase focuses primarily on assessing the commensurateness of public charges after considering current efficiency and capacity levels of line agencies. The completion of this phase should see the formulation of new public charges which are more reflective of the costs of, and improvements in public service delivery. The second phase of the review will be more comprehensive in nature, focusing mainly on corporate service reforms to bring about greater efficiencies and overall enhancements of standards in public services.

3.26 Chapter 12 highlights specific taxation and revenue policy measures of the 2009 Budget.

Expenditure Policy

3.27 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. This will ensure that economic benefits spread across rural and underdeveloped regions and in the process provide sustainable livelihoods for the disadvantaged.

3.28 Increases in operating expenditures must continue to be managed within the growth in operating revenues. The most effective way to achieve this is to manage the increases in wages and salaries - the main contributor to recent increases in operating expenditures. In this regard, Government, through the Public Service Commission, issued a directive for all Ministries and Departments to reduce operating expenditures by 10 percent this year. The Commission will also pursue a comprehensive review of Government's machinery assessing manpower needs and providing a coherent roadmap for civil service reforms.

3.29 Government will continue to shift more resources from operating to capital expenditure over the medium term to achieve its operating to capital expenditure mix target of 70:30. This shift should assist Government to drive overall investment levels to the desired level of 25 percent of GDP and simultaneously contribute to raising economic growth to at least 5 percent. The 2009 Budget places particular emphasis on infrastructural projects relating to roads, water and electricity as these have the potential to stimulate widespread investments, particularly in under-developed regions.

3.30 Current low investment levels have prompted Government to fast-track implementation of capital projects through its Public Sector Investment Programme[13] (PSIP). This effort will be supported by the reactivation of agency tender boards to hasten approvals of project proposals within Ministries and Departments. The identification of viable projects for funding through Public Private Partnerships (PPP) should also hasten implementation and lead to the construction of high quality projects.

3.31 Further advancements in Government's Public Sector Reforms are expected to improve the efficiency and effectiveness of public expenditures. A key part in this regard, is the implementation of on-line FMIS[14] across Government under the Financial Management Reforms. The full rolling out of FMIS has reinforced the Ministry of Finance and National Planning's efforts to introduce performance budgeting. Performance budgeting aims to strengthen accountability for the use of public resources by ensuring that resource allocation is based on the delivery of core outputs, which is to be monitored through associated Key Performance Indicators.

3.32 The following expenditure guidelines will be adopted by Government to ensure that it achieves its budget deficit target of 3.0 percent for 2009:

- On salaries and wages, no new posts will be created in 2009 in line with the objective of reducing overall operating expenditures within Government. The creation of new post(s) will be considered on a selective basis for priority areas.

- To reduce the escalating cost of the 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 within 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

[13] PSIPS is a three year rolling investment programme which contains a pipeline of well-designed projects to be financed by Government through the annual budget.
[14] Financial Management Information System

percent of the total budget. 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. Submissions will be assessed on the basis of its clear linkage and contribution to national development outcomes; and

- All proceeds from the future Sale of Government Assets will be directed towards debt servicing.

Debt Policy

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

- reduce net deficits;
- increase operating savings;
- ensure that the net deficit is wholly devoted to capital expenditures;
- control contingencies and the rate of default;
- secure appropriate domestic-external debt compositions, bearing in mind the opportunities and risks; and
- implement well-formulated debt and risk management strategies.

3.34 Government has set itself a target debt level of 45.0 percent of GDP in the medium term. To effectively achieve this, Government has committed itself to consistently reduce the net deficit (as a percentage of GDP) over the medium to long-term. A sustainable reduction in the net deficit and hence the debt level is largely achievable if Government's operating savings increase over time, thus reducing the need to borrow to finance the net deficit.

3.35 Moreover, it is also critical that over the medium term the growth rate of the economy is more than the growth in the debt level. This reinforces the strategy that the net deficit must wholly finance the capital expenditures of the Budget. Productive capital expenditures will directly contribute to economic performance and ultimately reduce the rate of growth of debt vis-à-vis GDP.

3.36 Contingencies are debts owed by public enterprises, Government Commercial Companies (GCCs) and Commercial Statutory Authorities (CSAs) outside the Central Government budget system. Government is partly or wholly responsible for the settlement of these agencies' debt should they default on the repayment of their loans. To manage the risks inherent in such contingencies, Government has put in place rigorous due diligence requirements for any additional contingency. These include: the need for audited financial reports to verify commercial viability and the payment of guarantee fees.

3.37 Government debt management policy will continue to improve the issuance of domestic and foreign debt to reduce debt-servicing costs. Furthermore, Government will continue to build capacity and adhere to well-formulated debt and risk management strategies. Government is examining its domestic-external debt composition and will examine opportunities and comparative advantages, bearing in mind the risks.

3.38 Government will continue to set aside US$30 million per year from 2007 until 2011 in order to meet the repayment of the Global Bond valued at US$150 million. Deposits are being accumulated in US dollars and are being kept in an overseas account which actively earns interest.

The Draft People's Charter for Change, Peace and Progress

3.39 The 2009 Budget has reflected to some extent issues raised through draft People's Charter. Budgetary allocations have been made in the major task areas of: Good Governance; Growing the Economy; and Social, Cultural Identity and Nation Building.

3.39.1 *Good Governance:* The draft Charter addresses issues relating to governance, legal and constitutional reforms, leadership and institutional reforms, public sector reforms and the role of Fiji's Security Forces in national development.

3.39.2 *Growing the Economy:* A number of initiatives under this heading are included in the draft Charter. They cover issues relating to: the role of Government; the private sector and civil society; growth, equity and sustainability; development of the financial services sector; and the development of resource based sectors, which includes the better utilisation of land. A number of these areas were also addressed in the Mini-Economic Summit that was held in September, 2008.

3.39.3 *Social, Cultural Identity and Nation Building:* Access to education, health and a clean, safe environment are the building blocks of a sound and stable economy. Policies and programmes to ensure these fundamentals are met are covered in the draft Charter.

Economic Restructuring Programme (ERP)

3.40 During ADB's Pre-Programming Mission on 18-21 April 2006, the Government requested a small scale technical assistance (SSTA) to support the preparation of an economic restructuring program that would identify the specific policy actions needed to ensure effective public sector restructuring and to promote private sector-led development.

3.41 The ERP is focused on achieving macroeconomic stability, fast economic recovery and sustainable growth through fiscal consolidation; improving the efficiency and effectiveness of public resource use through the implementation of public sector restructuring; and encouraging private investment and export development through improving the overall enabling environment for business.

3.42 The ERP is an economic management and planning tool. It provides an umbrella statement of the choices available and aims to prioritise, sequence and coordinate economic policy. It is to intended to be used as a practical guide to initiatives that should be presented in the national budget, agency corporate plans etc.

3.43 The draft Policy Matrix or Road Map for the ERP comprises of three separate maps, Red, Yellow and Green[15], which together provide a sequence to the overall process of economic restructuring. The draft matrix has been developed taking into account the SEEDS 2008-2010 policy priorities, the 2008 Budget Policies and the Mini-Economic Summit recommendations. The World Bank Assessment Report and IMF Article IV Mission recommendations will also be factored into the Matrix.

3.44 The matrix focuses on the following key priority areas:

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[15] The Red Map sets out policy objectives i.e. what is to be accomplished. It defines the problem to be addressed (e.g. the required change in economic condition and improvements to systems, agencies or institutions etc.).

The Yellow Map sets out the strategies and actions. The strategies are the reforms/changes that need to be made to reach the policy objective.

The Green Map sets out who is responsible for each action, when they are to take action and the costs. Actions already in place need to be built-on. Once the Green Map is prepared, the new policy framework would be ready for use.

- macro-economic stability,
- cross-cutting issues and actions affecting public service delivery;
- the business environment; and
- sectoral reforms.

3.45 Consultations and discussions with relevant line ministries and agencies will be undertaken to discuss the draft Policy Matrix further. This will be carried out in order to ensure its coherence with internal agencies' Corporate Plans prior to finalisation.

Structural Reforms

3.46 Government will continue on its programme of structural reforms in 2009. The ensuing paragraphs outline the progress to date, as well as the focus for the medium term.

Civil Service Reforms

3.47 The focus of Civil Service Reforms in 2009 will continue with the process of restructuring ministries and departments to rationalise functions and operations, to enable a reduction in employment cost.

3.48 In line with Government's objective to reduce overall operating expenditures PSC has embarked on an exercise to reduce civil service salaries and wages by 10 percent. All Permanent Secretaries have been instructed to identify effective means of achieving this target, specifically the removal of vacant positions. The reduction in Standard Expenditure Groups 1 and 2 (wages and salaries) is expected to have a significant impact on direct costs, in addition to reductions in other operational SEGs such as telecommunications, stationery and equipment and vehicle usage. Government will continue to formulate cost-effective strategies for reducing its operating expenditure, without affecting the quality of service delivery.

3.49 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. Permanent Secretaries of Ministries will be required to undertake internal reviews, which will be guided by the Public Sector Reform Steering Committee (PSRSC). These reviews will focus on: strengthening corporate and work processes within agencies;

increasing capacity through well-designed training programmes; and ensuring accountability through performance-based systems.

Public Enterprise Reforms

3.50 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. With this in mind, the Department of Public Enterprises and Public Sector Reforms will continue to provide advice and implement strategies for reforming the operations of viable public entities.

3.51 In 2009, Government's restructure programme will encompass continuing reform initiatives in the following agencies: Department of Water & Sewerage, Fiji Islands Maritime Safety Administration, Quarantine & Inspection Department; Government Supplies Department, and Department of Office and Accommodation.

3.52 *Water Reforms:* The promulgation of the Water Authority of Fiji Bill in August 2007 has set the legal framework for the establishment of the Water Authority of Fiji. In 2009, Government plans to engage external consultants to review the current water supply system and undertake preparatory works for corporatizing the Water & Sewerage Department.

3.53 *Fiji Islands Maritime Safety Administration (FIMSA):* The reorganization of FIMSA into a commercial statutory authority is viewed as an essential component of reform within the ports sector. Corporate reforms within FIMSA have been facilitated by the transfer of the former Maritime Ports Authority of Fiji's (MPAF) regulatory role to the Administration and the consolidation of all seaport commercial activities under Fiji Ports Corporation Limited (FPCL). In addition the reform will involve a comprehensive review of the Marine Act to ensure its consistency with International Maritime Standards. This should strengthen the regulatory supervision of maritime services to enhance safety at sea and facilitate regular shipping services to outer-lying islands. The latter is expected to contribute to increased economic activity and development in maritime zones.

3.54 *Department of Quarantine:* Government's endorsement of the Biosecurity Law (2008) has paved the way for the establishment of the Biosecurity Authority of Fiji - a commercial statutory authority. This reorganization is envisaged to generate improvements in Fiji's quarantine services and ensure its compliance with internationally accepted practices.

Further, enhancements in the Department's plant and animal import/export services should support Government's objective of increasing exports of local produce.

3.55 *Government Supplies Department (GSD) and the administration of Government Quarters:* In 2007, Government reviewed the afore-mentioned agencies with a view to enhancing returns on Government assets and supplies. With the establishment of an independent Procurement Agency, Government will be able to formulate efficient and effective policies for procurement with leaner processes. Thus reducing wastage and stock-holding costs, and addressing bottlenecks in the current system. The establishment of a Government commercial company to own and manage Government Quarters will ensure adequate returns from the rent and leasing of Government properties.

3.56 Reorganization of the above mentioned agencies should bring about further reductions in the size and costs of the civil service. Government is fully aware of the implications of these reforms on its workforce and is committed to ensuring that the concerns of affected employees' are adequately addressed during the implementation phase.

3.57 The operations of public enterprises will continue to be closely monitored by the Department of Public Enterprises and Public Sector Reforms to ensure that they employ good corporate governance practices in line with internationally accepted standards. The operations of entities will be dictated by Government's policy directives and the achievement of key performance targets.

Labour Market Reforms

3.58 The Employment Relations Reform was implemented with the enactment of the new Employment Relations (ER) Promulgation on 1st October 2007, which came into force on 2nd April 2008. A six (6) months grace period was granted by Cabinet for stakeholders to prepare themselves for full compliance.

3.59 The new ER Promulgation demands a paradigm shift in the way that industrial conflicts are resolved; from the current adversarial industry relations approach, towards the designed consultative approach where both parties as partners in development rather than adversaries.

3.60 To facilitate this culture change, a Code of Good Faith in Collective Bargaining was introduced to guide employers and trade unions to amicably resolve their employment problems at the enterprise level. This new approach is underscored by the introduction of Mediation Services as the primary-problem solving institution at the national level under the Ministry of Labour, Industrial Relations and Employment. The litigation processes are relegated to the secondary institutions of the newly created Employment Relations Tribunal and Employment Relations Court.

3.61 To support the Employment Relations Promulgation, the following seven subsidiary legislations have been promulgated:

- Employment Relations (Administration) Regulations 2008 (Legal Notice No. 52);
- Employment Relations (Labour-Management Consultation and Cooperation Committees) Regulations 2008 (Legal Notice No. 53)
- Code of Good Faith for Collective Bargaining 2008 (Legal Notice No. 54);
- Code of Ethics for Mediators 2008 (Legal Notice No. 55)
- National Policy on Sexual Harassment in the Workplace 2008 (Legal Notice No. 56);
- National Code of Practice for HIV/AIDS in the Workplace 2008 (Legal Notice No. 57); and
- Employment Relations (Employment Agencies) Regulations 2008 (Legal Notice No. 58).

3.62 The Employment Relations 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.

Workers' Compensation Reform

3.63 The Ministry of Labour, Industrial Relations and Employment is finalizing the policy framework for drafting the new Workers' Compensation Bill.

3.64 The Bill seeks to integrate the current National OHS Service, the Environment Department and the new Workers Compensation Service into an executive agency or statutory body under one enabling legislative framework, in order to increase efficiency and cost-effectiveness. The authority would be self-financing, thus contributing to overall civil service reform.

Workplace Productivity Reform

3.65 The Workplace Productivity Reform is one component of the Employment Relations Promulgation (2007), which seeks to demonstrate the commitment shown by Government and stakeholders to implement the "Programme of Action" (Article 2) of the Fiji Productivity Charter 2005.

3.66 It is designed to strengthen the delivery capacity of the Training and Productivity Authority of Fiji (TPAF) and to improve productivity at the enterprise level, covering both the public and private sectors, through the establishment and functioning of workplace Labour-Management Consultation and Cooperation Committees (LMC). This will strengthen the partnership of the Ministry of Labour, social partners and TPAF in achieving the strategic goals of The Productivity Charter.

Financial Sector Reforms

3.67 Despite the downturn in the domestic economy in 2007 and continued weak performance in 2008, the key indicators of the financial system remain favourable. This satisfactory performance of the industry is reflected in:

- High level of capitalization;
- Adequate liquidity;
- Lending growth, albeit at reduced levels;
- Adequate solvency surplus for the insurance companies; and
- Satisfactory profits.

3.68 *Financial System Policy Development:* The Reserve Bank, as supervisor to all licensed financial institutions and the Fiji National Provident Fund (FNPF), continues to work on financial supervision policies to safeguard our financial system and align it with international practices and standards. Several additional policies were developed and implemented in 2008, applicable to commercial banks, credit institutions, insurers and insurance intermediaries.

3.69 *The Financial Sector Assessment Program (FSAP)*: The FSAP for Fiji was conducted in 2006 by a joint Mission of the International Monetary Fund (IMF) and the World Bank. The Mission identified conditions and challenges facing Fiji's financial system, making recommendations on steps to be taken to strengthen it. The RBF continues to coordinate the implementation of the FSAP recommendations as laid out in the Mission Report. Relevant organizations and Government departments responsible for implementing the different recommendations have been assigned tasks under the monitoring and guidance of the Reserve Bank.

3.70 *Deregulation of the superannuation industry:* As a component of financial sector reform, Government continues to explore the possibility of deregulating the superannuation industry. The main objective of such a reform is to promote competition, widen the choices available to contributors and improve members' returns. Preparation towards the deregulation of the superannuation industry began with the supervision of the FNPF in 2004 by the RBF and most recently, the drafting of separate Superannuation legislation. It is anticipated that a detailed study will be undertaken on advancing the deregulation of this industry. Technical Assistance (TA) was received from the World Bank in September 2008 to facilitate the process. The final report of this Mission is still to be received.

3.71 As part of its responsibilities under the Insurance (Amendment) Act 2003, the Reserve Bank continues to develop a risk based supervisory framework for the Fiji National Provident Fund. In addition, the RBF will work towards developing a regulatory framework under a draft Superannuation Supervision Act. The Superannuation Supervision Act will place under regulation all entities which play a superannuation function. This legislation will enable the formation of a supervisory and policy structure, which will govern the conduct of superannuation entities or entities that are involved in superannuation products.

3.72 *Real Time Gross Settlement System (RTGS):* In 2007, the Reserve Bank launched the state-of-the-art, RTGS system known as FIJICLEAR. The launch effectively made Fiji the first country in the Pacific to have a modernized payment system. FIJICLEAR enables payments to be settled immediately and funds to be available for use on the same day by customers. All customers of commercial banks are able to use FIJICLEAR to settle payments.

3.73 *Rural Banking:* The Reserve Bank continues to work closely with commercial banks towards the provision of basic banking services in rural and 'unbanked' areas. At present, the Colonial National Bank and ANZ Bank provide banking services in remote areas, through postal agencies and the ANZ Rural Banking Initiative respectively. In 2009, the Reserve Bank will be further engaging all stakeholders in an effort to further develop this initiative.

3.74 *Micro, Small and Medium Enterprise (MSME) Development:* The Reserve Bank is working with the necessary stakeholders in exploring how

MSMEs can be developed further and the role that the Reserve Bank can play in this regard. Work on this will continue in 2009.

3.75 *Priority Lending by Commercial Banks:* The Reserve Bank continues to have in place priority lending guidelines for commercial banks. These guidelines were issued in 2006 as part of monetary policy tightening and target nine priority areas.

3.76 *Financial Sector Ombudsman:* The Government is working with stakeholders towards introducing a Financial Sector Ombudsman. The Financial Sector Ombudsman will be an independent, timely and cost-effective dispute resolution mechanism for customers of financial service providers. Extensive consultation will be held between Government and relevant stakeholders on this matter. Work on this is expected to continue in 2009.

3.77 *Anti-Money Laundering/Combating the Financing of Terrorism:* As part of Regulations issued under the Financial Transactions Reporting Act, the Financial Intelligence Unit, the Reserve Bank and the Capital Markets Development Authority are working towards developing an effective supervisory framework for the purposes of anti-money laundering and combating the financing of terrorism.

3.78 *Capital Market Development:* As per the recommendations of the IMF/World Bank FSAP Report of 2007 and an IMF TA in 2006, the Reserve Bank continues to explore measures to develop the secondary bond market in Fiji. Work on this will continue in 2009.

Land Reforms

3.79 The Department of Lands and Surveys and other key stakeholders, such as the NLTB, Ministry of Primary Industries and the Committee for the Better Utilisation of Land (CBUL), will continue to pursue reform initiatives that aim to improve access to, and utilization of land. Some of these initiatives include:

- The review of ALTA by stakeholders, entailing the formulation of proper legislative and institutional arrangements to facilitate productive dialogue and cooperation between landowners and tenants, resulting in maximum returns for all concerned;

- Identifying suitable land for commercial and agricultural development and facilitating ready access to systems for sharing information on land development strategies;
- More effective monitoring of activities of current lessees will be undertaken to ensure fair and equitable returns for all parties;
- Processing of land application and land dealings will be reviewed and streamlined;
- Pursuing leasing and rent fixing arrangements that are performance-based and which enhance security of tenure, through consultation with relevant stakeholders;
- Reviewing Policies on State and Native Land Administration and Management through wide consultation with major stakeholders;
- Implementing newly recommended fees and charges that reflect actual costs;
- Surveying of all fourteen mahogany plantations in Fiji, Government institutions and unsurveyed national roads that are on native land; and
- Continuing to consult with the Department of Housing, the Housing Authority and other concerned agencies on avenues to secure land for housing and sustenance for displaced families and communities.

CHAPTER 4: GOVERNMENT'S FISCAL POSITION

Introduction

4.1 This chapter summarises Government's fiscal position over the period 2007 to 2011. The chapter begins with an overview of Government's fiscal performance for 2007 and 2008 and then highlights the projected revenue, expenditure, and budget deficit for 2009.

2007 Overview

4.2 ***'Securing Economic and Financial Stability'*** was the theme of the 2007 revised Budget. The budget was built on to ensure that Government finances were protected and stabilized, and that resources were directed to productive areas that would contribute to a quick economic recovery. The targeted net deficit for 2007 was set at 2.0 percent of GDP.

4.3 Government redeployed $6.4 million during the course of the year (VAT inclusive), to cater for the cost of storm damage on the national road network infrastructure.

4.4 At the closure of the 2007 Accounts, Government recorded a net under-spending of $84.9[16] million. Total actual expenditures for the year, excluding principal repayments, stood at $1,384.5[17] million, whilst actual total revenue collections stood at $1,288.3[18]million. A net deficit of $96.2 million or 1.8 percent of GDP was recorded for the period.

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[16] excluding principal repayment
[17] VAT exclusive
[18] VAT exclusive

2008 Budget

4.5 With a theme of ***'Building A Platform for Quick Recovery and Sustainable Growth'*** the objective of the 2008 budget was to provide an accommodative platform for sustainable growth and investment.

4.6 The targeted net deficit for 2008 stood at $116.5 million or 2.0 percent of GDP. This was derived from total budgeted expenditures of $1,572.9 million against total budgeted revenues of $1,411.5 million.

4.7 The revised revenue forecast for 2008 stands at $1,388.7 million (VAT exclusive). On the other hand, total expenditure, excluding principle repayments, is anticipated at $1.480.7 million (VAT exclusive). Thus, the revised net deficit for 2008 is now expected to stand at $92.0 million, equivalent to 1.5 percent of GDP.

2009 Budget

4.8 Government's cash flow is shown in Table 4.1. Government's fiscal position is the net result of receipts (revenue) and payments (expenditure). The table separates cash flows associated with operating activities and those associated with investing activities. All figures in the cash flow are VAT exclusive[19]. The 2007 data illustrates actual outturn where as 2008 data shows recent revisions to budgeted revenue and expenditure. The 2009-2011 data show cash flow projections.

Table 4.1: Statement of Cash Flows, 2007-2011

$M	2007	2008(R)	2009(B)	2010(B)	2011(B)
Cash Flows from Operating Activities					
Receipts					
Direct taxes	438.34	442.35	**471.74**	498.06	524.57
Indirect taxes	689.00	757.97	**803.65**	839.07	903.64
VAT	*362.81*	*407.10*	***413.28***	*434.27*	*469.09*
Customs	*312.81*	*328.73*	***365.29***	*378.30*	*406.63*
Hotel Turnover Tax	*13.38*	*22.14*	***23.58***	*25.00*	*26.42*
Water Resource Tax			***1.50***	***1.50***	***1.50***
Fees, Fines, Charges & Penalties	64.19	107.97	**107.83**	110.48	113.05
Sales Revenue	0.03	0.03	0.03	0.03	0.03

[19] This means, the VAT Government pays to itself is excluded from expenditure and a similar amount is excluded from revenue.

$M	2007	2008(R)	2009(B)	2010(B)	2011(B)
Grants in Aid	3.52	2.13	**3.00**	0.11	0.21
Dividends from Investment	32.73	33.24	**35.46**	40.09	48.83
Reimbursement & Recoveries	17.98	9.33	**9.07**	9.08	9.14
Other	31.81	32.52	**33.99**	34.62	35.25
Total Operating Receipts	**1,277.60**	**1,385.54**	**1,464.77**	**1,531.54**	**1,634.73**
Payments					
Personnel	584.65	589.54	**663.00**	667.19	682.77
Transfer Payments	211.42	232.14	**246.93**	248.49	254.29
Supplies and Consumables	183.19	161.34	**181.62**	182.77	187.04
Purchase of Outputs	40.08	45.58	**48.77**	49.08	50.22
Interest Paid	181.04	179.21	**186.93**	188.11	192.51
Other Operating Payments	2.43	6.40	**6.45**	6.49	6.64
Total Operating Payments	**1,202.82**	**1,214.20**	**1,333.70**	**1,342.13**	**1,373.47**
Net Cash Flows from Operating Activities	**74.78**	**171.34**	**131.07**	189.40	261.26
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts					
Interest from Bank Balance	8.98	2.26	**0.90**	2.65	1.90
Interest on Term Loans and Advances	0.04	0.05	**0.10**	0.10	0.10
Return of Surplus Capital from Investment	1.63	0.80	**0.80**	1.00	1.00
Total Investing Receipts	**10.65**	**3.11**	**1.80**	**3.75**	**3.00**
Payments					
Loans	0.58	1.50	**1.00**	1.01	1.03
Transfer Payments	74.46	93.59	**108.56**	109.24	111.79
Purchase of Physical Non-Current Assets	106.55	171.34	**216.15**	217.51	222.59
Total Investing Payments	**181.59**	**266.44**	**325.70**	**327.76**	**335.42**
Net Cash Flows from Investing Activities	**(170.94)**	**(263.33)**	**(323.91)**	**(324.01)**	**(332.42)**
NET (DEFICIT)/SURPLUS	**(96.2)**	**(92.0)**	**(192.8)**	**(134.6)**	**(71.2)**
as a % of GDP	**-1.8%**	**-1.5%**	**-3.0%**	**-2.0%**	**-1.0%**

Source: Ministry of Finance and National Planning

Notes: The 2007, 2010 and 2011 fiscal targets in this table will not match with comparable figures in other tables or Budget documents.

Government Operating Receipts

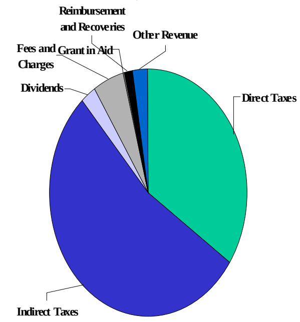
4.9 The major components of Government's operating revenue are:

- Direct Taxes (Corporate taxes, PAYE, Others);
- Indirect Taxes (VAT, Customs);
- Hotel Turnover Tax;
- Water Resource Tax;
- Fees, Fines, Charges and Penalties;

- Sales Revenue;
- Dividend from Investments;
- Grants in Aid;
- Reimbursement & Recoveries; and
- Other Revenue and Surpluses.

4.10 Figure 4.1 indicates the composition of each form of revenue in 2007. Government's largest source of revenue comes in the form of indirect taxes, which comprises 53.9 percent of total operating revenue. Direct taxes provides 34.3 percent of operating revenue, with the remaining 11.8 percent emanating from other non-tax revenues such as: fees, fines, charges and penalties; interest from dividends; grants in aid; reimbursement and recoveries; and other revenue and surpluses.

Figure 4.1 Composition of Operating Revenue 2007



Direct Taxes

4.11 Direct taxes are income taxes comprising of corporate taxes, personal or PAYE taxes, dividend taxes and a host of minor taxes. The 2008 revised forecast for direct taxes stand at $442.4 million, up 0.9 percent or $4.0 million from the 2007 outturn of $438.3 million.

4.12 The variance is due to expected increase in revenue from company taxes, provisional taxes and other miscellaneous taxes in 2008.

New Direct Tax Measures for 2009

4.13 Direct taxes in 2009 are expected to total $471.7 million, approximately $29.4 million or 6.6 percent above the expected collections for 2008. The increase is due to the expected higher collections from PAYE tax, provisional tax and company tax. The increase is also expected through increased compliance and collection efficiency in general.

4.14 A complete list of all new direct tax policy measures is outlined in Chapter 12 (Section 1). Measures designed to modernize, simplify and minimize loop holes within the tax system in 2009 are also outlined.

Indirect Taxes

4.15 Indirect taxes comprise of VAT collections, Hotel Turnover Tax, Water Resource Tax and revenue from customs duties comprising of fiscal, excise, import excise, export duties and other customs fees and charges. Revised indirect taxes for 2008 are expected to exceed the 2007 collections by $69.0 million or 10.0 percent.

4.16 VAT collections for 2007 amounted to $362.8 million and are forecast to stand at $407.1 million in 2008, an increase of 12.2 percent over 2007 collections. This is largely attributed to higher import VAT collections from the increased prices of fuel and food items globally.

4.17 Collections from customs duties are expected to total $328.7 million for 2008. This is an increase of $15.9 million relative to collections of $312.8 million in 2007. This variance is largely due to restructure of the tariff bands, where the 3 percent band was increased to 5 percent.

4.18 Receipts from customs duties in 2008 are expected to comprise the following:

- Fiscal Duty ($222.9 million);
- Excise Dues ($75.5 million);
- Export Duty ($8.1 million);
- Import Excise Duty ($17.7 million); and
- Miscellaneous Fees ($4.5 million).

New Indirect Tax Measures for 2009

4.19 In 2009, Government will restructure the tariff bands from the current structure of (0%, 5%, 15%, 27%) to (0%, 5%, 15%, 32%). All items attracting 27 percent fiscal duty will now face a rate of 32 percent. Generally, the broad composition of goods in each band are as follows:

- 0% - Raw Materials, Pharmaceutical products;
- 5% - Production items and Capital goods;
- 15% - Intermediate goods (including most luxury items); and
- 32% and Specific-Finished goods and Protective items.

4.20 A full list of new indirect tax revenue measures for 2009 is contained in Chapter 12 (Section 2).

4.21 Total indirect taxes are expected to amount to $803.7 million in 2009. Of this, $413.3 million is expected from VAT, $ 23.6 million from Hotel Turnover Tax and $365.3 million from Customs duties.

4.22 For 2009, VAT collections are expected to amount to $413.3 million which is about $6.2 million or 1.5 percent above the revised VAT receipts for 2008.

4.23 Expected collections from Hotel Turnover Tax (HTT) for 2009 are expected to amount to $23.6 million. The HTT rate was increased from 3 to 5 percent in 2008 Budget.

4.24 Customs collections for 2009 are expected to comprise of the following:

- Fiscal Duty ($258.2 million);
- Excise Dues ($78.6 million);
- Export Duty ($6.5 million);
- Import Excise Duty ($17.2 million); and
- Miscellaneous Fees ($4.8 million).

4.25 Projected collections from Customs in 2009 are $365.3 million or 11.1 percent above the 2008 revised projections. This is due to the increase in duty on specific items, including the increase in duty rate for all goods at 27 percent to 32 percent. Fiscal duty is expected at around $258.2 million in 2009 relative to a 2008-revised forecast of $222.9 million.

4.26 Excise rates for 2009 will remain unchanged from 2008 rates. Fiscal duties on cigarettes and spirits will remain unchanged in the 2009 budget.

4.27 Import excise duty is anticipated to generate $17.2 million in 2009, a decrease of $0.4 million or 2.5 percent from the 2008 revised projection.

4.28 Export duty collection is estimated to amount to $6.5 million in 2009, a decrease of 6.0 percent over the revised collections of $8.1 million in 2008. This variance is mainly due to the expected decline in the value of sugar and molasses exports for 2009.

Fees, Fines, Charges and Penalties

4.29 Fees, fines, charges and penalties include collections from revenue items such as water rates, departure tax, sale of passports and court fines. In 2007, $64.2 million was generated through fees, fines, charges and penalties while $108.0 million is expected for 2008.

4.30 The forecast for 2009 is $107.8 million, an increase of $43.8 million over 2007 collections. The variance is largely due to expected higher collections from the LTA (fees and fines revenue), stamp duties and departure tax. Departure tax has increased to $75.00 in the 2009 Budget.

Sales Revenue

3.31 There are two types of sales revenue. The first type records sales between Government agencies[20]. The second, records sales proceeds collected by Government departments for goods or services sold to other agencies outside Government. In 2007 $0.03 million was collected from sales revenue, and $0.03million is expected for 2008 and 2009 respectively.

Grants in Aid

4.31 Grants in aid come in two forms, namely, cash and aid-in-kind. Government received $3.5 million as cash grants in 2007. The revised forecast for 2008 is $2.1 million while $3.0 million has been projected for 2008. Table 4.4 highlights the major Grants from Donors.

Table 4.4: Grants from Donors

Donor ($m)	2007(P)	2008(R)	2009(F)
Australia	21.2	20.9	16.3
China	10.0	17.3	11.8
EU	15.8	17.4	25.9
Japan	0.0	0.0	15.0
Korea	0.0	0.0	1.3
New Zealand	0.9	2.9	1.7
UNDP	2.8	1.4	1.2
Others	2.3	4.3	3.9

[20] That is, it shows collections received by a Government agency for goods or services rendered to another Government department.

Donor ($m)	2007(P)	2008(R)	2009(F)
Total	**53.0**	**64.2**	**77.1**
Comprising			
Cash	3.5	2.1	3.0
Aid-in-Kind	49.5	62.1	74.1

Source: Ministry of Finance and National Planning; Key: P = Provisional; R= Revised; F= Forecast

4.32 Major sectors and projects expected to be funded through cash and aid-in-kind. Grants in 2009 are listed below:

Education – $45.4 million

- Fiji Education Sector Programme (AusAID)
- Fiji Education Sector Programme (EU)
- Australian Development Scholarship/Australian Regional Development Scholarship
- New Zealand Development Scholarship
- National Initiative for Civic Education EU/NZAID
- In Schools Civic Education Programme
- USP ICT Project (Japan)

Health – $14.9 million

- Fiji Health Sector Improvement Programme (AusAID)
- Improvement of Emergency & Community Health Care Systems in Vanua Levu (Korea)
- Relocation & Construction of New Navua Hospital (China)
- Medical Treatment Scheme (NZAID)
- Assistance for Reproductive Health (UNFPA)
- Child Protection Programme (UNICEF)
- Health & Sanitation Programme (UNICEF)
- HIV/AIDS Programme (UNICEF)
- WHO Assistance to Ministry of Health

Infrastructure – $4.3 million

- Navuso Linking Bridge (China)
- Somosomo Mini Hydro Scheme (China)

Law & Justice – $1.2 million

- Assistance to Elections Office (EU)

Others – $11.3 million

- Supply of Multipurpose Fishing Vessels
- Rehabilitation of the Lami Dump
- National Capacity Needs Self Assessment (NCSA)
- National Bio-Diversity Strategic Action Plan
- ACIAR Assistance to the Agriculture Sector
- Support to Quarantine
- Assistance to National Authorising Officer's Office

Dividend from Investment

4.33 This category comprises of dividend receipts from annual net profits of Government Commercial Companies and Commercial Statutory Authorities, such as ATH, AFL, Air Pacific, and FINTEL. In 2007, total dividends received amounted to $32.7 million. Dividend collections for 2008 and 2009 are expected to amount to $33.2 million and $35.5 million, respectively.

Reimbursement and Recoveries

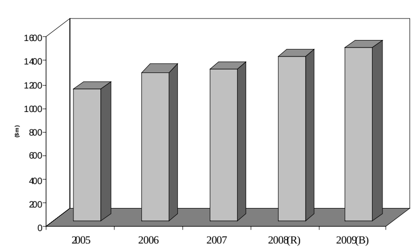
4.34 This category comprises of revenues from: contributions for capital projects; reimbursed funds for Government services; refund of Government payments and contributions for overseas peacekeeping duties. Receipts from reimbursement and recoveries are expected to be $9.3 million in 2008, $8.7 million lower than the 2007 collection. The decrease is largely attributed to lower expected contributions for Multinational Force and Observers (MFO) troops. The composition for 2009 is as such:

- Reimbursements of services: $1.1 million;
- Refund of Government payments: $1.9 million;
- Contributions for capital projects: $0.08 million; and
- Contribution for peace keeping: $6.0 million

Other Operating Revenue and Surpluses

4.35 Other operating revenue and surpluses encompasses proceeds from rent of Government property, surplus from Government agencies, commission revenue and other miscellaneous revenue.

Figure 4.2: Total Operating Receipts 2005-2009



Source: Ministry of Finance and National Planningy

4.36 In 2007, other revenue and surpluses collected $31.8 million whereas, the projected revenues for 2008 and 2009 are expected to amount to $32.5 million and $34.0 million, respectively.

Total Operating Revenue

4.37 Total operating revenue in 2007 amounted to $1,277.6 million. This is $18.3 million above collections in 2006. The expected outturn for 2008 is $1,385.5 million. This is an increase of $107.9 million compared to the 2007 outturn. The variance is mainly due to the expected higher collections in direct tax, indirect tax, fees, fines and charges, other revenue and surpluses and dividends.

4.38 For 2009, total operating revenue is forecast at $1,464.7 million. This is an increase of $79.2 million or 5.7 percent relative to 2008. This variance emanates largely from direct, indirect taxes and non-tax revenue sources.

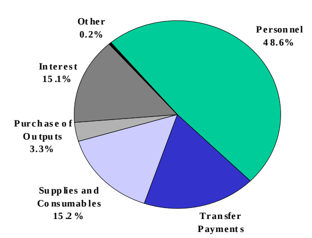
4.39 Figure 4.2 illustrates the level of operating revenue in the period 2005 to 2009. The graph shows an upward trend indicating an average growth of 6.3 percent per year. In 2009, total operating revenue is expected make up almost 96.2 percent of total revenue.

Operating Payments

4.40 Government's operating expenditure includes:

- Personnel payments;
- Transfer payments;
- Supplies and consumables;
- Purchase of outputs;
- Interest payments; and
- Other operating payments.

Figure 4.3 Composition of Operating Payments 2007



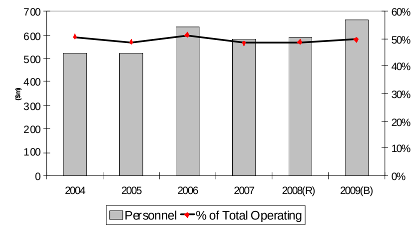
Source: Ministry of Finance and National Planning

4.41 The biggest component of operating expenditure in 2007 comprised of personnel costs which accounted for 48.6 percent of total operating expenditure (see Figure 4.3). Transfer payments accounted for 17.6 percent, supplies and consumables 15.2 percent and interest payments 15.0 percent. The purchase of outputs and other operating payments make up the remaining 3.6 percent.

Personnel

4.42 Personnel costs are the salaries and wages of Government's established and unestablished staff. Figure 4.4 provides a summary of personnel expenditure since 2004. Personnel cost as a percentage of total operating expenditure averaged at around 49.6 percent for the period 2004 - 2009.

Figure 4.4: Personnel Costs 2004-2009



Source: Ministry of Finance and National Planning

4.43 In 2007, personnel costs were $584.7 million, a decrease of 7.4 percent over 2006 costs.

4.44 In 2008, personnel costs are expected to be $589.5 million, a decrease of 0.8 percent over 2007 payments.

4.45 The 2009 budget estimates personnel costs at $663.0 million or 49.7 percent of total operating expenditure.

4.46 The increase for 2009 reflects the full restoration of the five percent pay cut that was affected in 2007. The five percent pay cut was restored in the following phases:

- 1 percent in December 2007, backdated to March 2007;
- 2 percent restored in July 2008;
- 2 percent restored in December 2008.

4.47 The increase in 2009 also accounts for the provision of merit and performance pay, the continued implementation of the Job Evaluation Review (JER) for the disciplinary forces, and commencement of its implementation for the civil service.

4.48 Personnel costs are Government's largest expenditure, accounting for around 50 percent of total operating expenditures over the past decade.

Sustaining this increase negates efforts to improve resource allocation, as funds from productive capital investments can be more easily diverted than from operating expenses.

4.49 As part of the move to address the increase in operating costs, the personnel budget for 2009 reflects the first steps in Government's efforts to curtail costs in the public service. The 2009 personnel budget is reflective of the de-establishment of some vacant posts. The savings to Government is expected to be fully realised in the near future when Government completes the rightsizing of the civil service.

Transfer Payments

4.50 Transfer payments are made to entities outside Government, for which Government does not expect to receive any direct returns. Social welfare payments and pensions are two examples of these payments.

4.51 In 2007, transfer payments worth $211.4 million were made, equivalent to 17.6 percent of total operating expenditure. In 2008, this is expected to reach $232.1 million, an increase of 9.8 percent over payments made in 2007.

4.52 Transfer payments of $246.9 million are budgeted for in 2009. This includes $38.6 million for pensions. Operating grants, which make up the other portion of transfer payments, are expected to total $208.3 million. Some major grants are highlighted in Table 4.5.

Table 4.5: Major Grants (SEG 6)

Programmes	2009 Budget
FIRCA Grant	$33.0 million
Family Assistance	$20.0 million
Tuition Fees – Forms 1 - 7	$11.7 million
Fijian Affairs Scholarships	$8.5 million
USP Grant	$38.0 million
FIT Grant	$9.0 million
FSCL - Shipping Franchise Scheme	$1.5 million
Fiji Servicemen's After-Care Fund	$5.6 million
Fee-Free Education – Classes 1-8	$4.6 million
Multi-Ethnic Scholarships	$5.5 million
Prices and Incomes Board Grant	$1.1 million
Grant to Tourism Fiji	$2.5 million
Naboro Landfill Subsidy	$1.2 million
Public Service Broadcast [Radio]	$1.2 million
National Fire Authority	$1.6 million

Programmes	2009 Budget
Public Rental Board Subsidy	$1.0 million
Lieu of Rates to Crown Land Grant	$1.4 million
PSC Training and Scholarship Grant	$3.0 million
Grant to FAB	$2.4 million
Provincial Council	$1.4 million
FSM Grant	$2.0 million
LTA Grant	$12.0 million
University of Fiji	$2.0 million
Fiji Trade and Investment Bureau	$1.5 million
Fiji Audio Visual Commission	$1.0 million
Telecom Authority of Fiji and Policy Unit	$2.0 million
Fiji Human Rights Commission	$1.1 million
FICAC	$5.4 million
NCSMED	$0.9 million
Grant to Agriculture Marketing Authority	$0.8 million

Supplies and Consumables

4.53 Supplies and consumables are those inputs that are used for the production of Government's goods and services. They are the sum of travel, communications, maintenance, operations, and the purchase of goods and services.

4.54 In 2007, supplies and consumables cost Government $183.2 million, or 13.8 percent of total operating expenditure. In 2008 total projected expenditures on supplies and consumables are expected to cost $161.3 million equivalent to 13.3 percent of total operating expenditure.

4.55 For 2009, supplies and consumables are budgeted at $181.6 million - 13.6 percent of total operating expenditure. Relative to the 2008 estimate, the expenditure on supplies and consumables in 2009 has increased by around $20.3million or 12.6 percent.

Purchase of Outputs

4.56 The purchase of outputs comprises of special expenditures unique to a Ministry or Department, such as conferences, reviews or training for staff. In 2007, Government purchased outputs to the value of $40.1 million, which is 3.3 percent of total operating expenditure. In 2008, output purchases are expected to amount to about $45.6 million, which is 3.8 percent of total operating expenditure.

4.57 The purchase of outputs in 2009 is forecast at $48.8 million, or 3.7 percent of total operating expenditure. This represents a increase of $3.2 million from 2008 expenditures.

4.58 Some outputs to be purchased in 2009 are highlighted in Table 4.6:

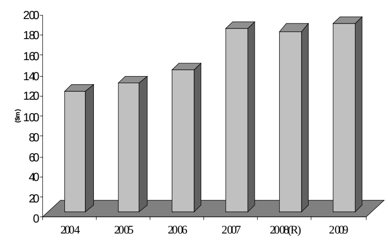
Table 4.6: Major Purchase of Outputs (SEG 7)

Programmes	2009 Budget
Workmen’s Compensation	$2.1 million
Duty on Government Purchases	$1.0 million
Voter Registration Exercise	$3.0 million
Apprentice Scheme	$1.06 million
Household Income and Expenditure Survey	$0.7 million
Implementation of Employment Relations Bill	$1.2 million
Integrated Human Resource Development	$1.5 million
Management Fees to ATH	$2.0 million
Implementation of the Tuna Management Plan	$0.5 million
Trade Commissioner – Los Angeles	$0.53 million
Trade Commissioner – Taiwan	$0.55 million
Trade Commissioner – Shanghai	$0.45 million
National Youth Service Scheme	$1.0 million
National Export Strategy	$2.0 million
Commonwealth Telecommunication Authority Regional meeting	$0.3 million
Pacific Youth Festival	$0.9 million
Agriculture Census	$1.5 million
Population Census	$0.6 million
Investment Approval Process/Computerisation of Companies Office and Other Registries	$0.95 million

Interest Paid

4.59 In 2007, interest payments amounted to $181.0 million. The expected outturn for 2008 is $179.2 million, a decrease of 1.8 percent relative to 2007.

Figure 4.5: Interest Costs 2004-2009



Source: Ministry of Finance and National Planning

4.60 Figure 4.5 shows the increasing trend in the cost of borrowing, this has taken up much of the available funds which could be directed to other activities.

4.61 Interest payments for 2009 are expected to amount to $186.9 million; up 4.3 percent from 2008 levels.

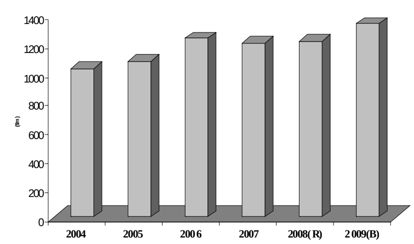
Other Operating Payments

4.62 Other operating payments are those miscellaneous expenditures associated with debt repayments. In 2007, miscellaneous expenditures reached $2.4 million and the 2008 revised forecast stands at $6.4 million. Other operating payments are projected at 6.5 million for 2009.

Total Operating Payments

4.63 In 2007, total operating payments are expected to account for 86.9 percent of total expenditures, a decrease of $29.4 million over 2006. In 2008, total operating payments are expected to total $1,214.2 million equivalent to 82.0 percent to total expenditure.

Figure 4.6: Total Operating Payments 2004-2009



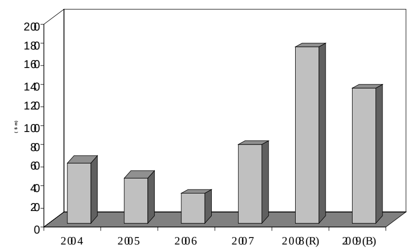
Source: Ministry of Finance and National Planning

4.64 The operating expenditure forecast for 2009 is tagged at $1,333.7 - an increase of 9.8 percent relative to 2008. This is due to anticipated increases in expenditure categories.

Government Savings

4.65 Government savings is simply the net flows from operating activities and is measured by the difference between operating revenue and operating expenditure. Figure 4.7 shows Government savings over the period 2004-2009.

Figure 4.7: Government Savings 2004-2009



Source: Ministry of Finance and National Planning

4.66 In 2007, Government savings amounted to $74.8 million, representing 1.4 percent of GDP. In 2008, an operating cash flow surplus of $171.3 million or 2.9 percent of GDP is expected. The higher surplus relative to the 2007 position is due to buoyancy in tax collections with lower operating expenditure.

4.67 Government savings for 2009 are projected at a surplus of $131.1million or 2.1 percent of GDP. The expected saving is due to significant increases in collections in direct, indirect taxes and non tax revenue.

Government Investing Receipts

4.68 Total investing receipts, comprises of: the sale of Government equities, interest from bank balances, repayment of term loans, and return of surplus capital from investment. In 2007, total-investing receipts amounted to $10.7 million. In 2008, the estimate for total investing receipts is $3.1 million. The 2009 forecast stands at $1.8 million.

Interest on Term Loans and Advances

4.69 This refers to the interest received on term loans and advances from statutory bodies, public enterprises, and other public institutions. In 2007 Government received $0.04 million in loan repayments. Repayments on term loans in 2008 are expected to be around $0.05 million and projected at $0.10 million in 2009.

Return of Surplus Capital from Investment

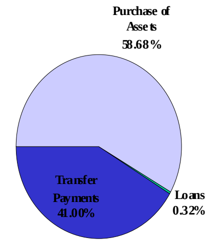
4.70 Return of surplus capital from investment comprises of revenue earned from Government Trade and Manufacturing Accounts (TMA). A value of $1.6 million was received from TMAs in 2007. The return of surplus capital from investments is projected at $0.8 million for both 2008 and 2009.

Government Investing Payments

4.71 Figure 4.8 shows the composition of investing expenditure in 2007, which comprises of:

- Loans;
- Transfer payments; and
- Purchase of physical non-current assets.

Figure 4.8 Composition of Investing Payments, 2007



Source: Ministry of Finance and National Planning

Loans

4.72 In 2007, loans of $0.6 million were made to tertiary students. Loans receipts are expected to be approximately $1.5 million for 2008 and $1.0 million in 2009. Recovery of student loan receipts has been improving since 2008.

Transfer Payments

4.73 Transfer payments under investing expenditure refer to grants and transfers for capital purposes. Expenditures under this classification amounted to $74.5 million in 2007 and are expected to total $93.6 million in 2008. The 2009 allocation is $108.6 million. Some of the major transfers are highlighted in Table 4.7.

Table 4.7: Major Transfer Payments (SEG 10)

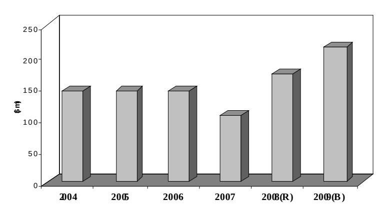
Programmes	2009 Budget
Tourism Fiji Marketing Grant	$23.5 million
Rural Electrification Projects	$7.8 million
FIRCA Capital Grant	$10.0 million
Northern Development Programme	$3.0 million
Sugar Industry Support Programme	$5.0 million
Farm Improvement and Land Resettlement	$4.0 million
Grant to Self-Help Projects	$3.0 million

Programmes	2009 Budget
Divisional Development Projects	$1.5 million
Tax Free Port Development	$2.0 million
FIT Grant	$6.0 million
Poverty Alleviation Projects	$1.0 million
Rural Housing Assistance	$1.0 million
HART	$1.0 million
Rural & Outer Island Agriculture Development Programme	$2.5 million
AFL – Upgrading of Rural Airstrips	$3.7 million
Maintenance on Non-PWD Roads	$1.0 million
Grant to Coconut Industry Development Authority	$0.7 million
Disaster Rehabilitation Fund	$1.5 million
Community Development Projects	$1.6 million
Development Assistance Scheme	$1.4 million
Agriculture Marketing Authority	$1.0 million
Infrastructure Development for Electrification in Rural Areas	$2.0 million
Committee on Better Utilization of Land Rental Subsidy	$3.6 million
Farm Gate Subsidy for Milk Supplied to RCDC[21]	$2.0 million
Subsidy Under Drainage & Irrigation Activity	$2.0 million
Grant to Statutory Bodies	$7.9 million
Miscellaneous Grant-in-Aid	$2.5 million
VAT Aid-in-Kind Refunds	$2.5 million

Purchase of Physical Non-Current Assets

4.74 The purchase of physical non-current assets is the largest component of Government's investments. This category includes investment in new roads, schools and hospitals. Figure 4.9 shows spending on non-current assets in the period 2004-2009.

Figure 4.9: Purchase of Assets 2004-2009



Source: Ministry of Finance and National Planning

4.75 In 2007 the total purchase of physical assets amounted to $106.5 million. Purchases in 2008 are expected to reach $171.3 million, 64.8 million above the 2007 outturn.

4.76 In 2009, $216.2 million is allocated for this category. This is an increase of $44.8 million relative to 2008. Some of the major purchases are highlighted in Table 4.8.

Table 4.8: Major Purchase of Physical non-Current Assets (SEG 8 and 9)

[21] Rewa Co-operative Dairy Company

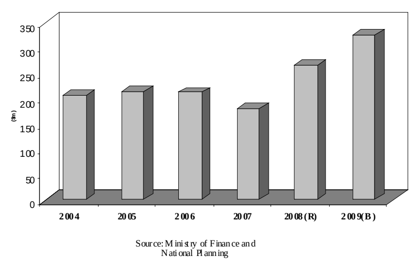
Programmes	2009 Budget
Upgrading - Existing Cane Access Road	$1.8 million
Non-Cane-Access Roads	$2.0 million
National Archives Building	$0.3 million
Relocation of 4FIR Camp, Nadi	$0.5 million
Maintenance and Upgrading of Schools & Institutional Quarters	$1.5 million
Squatter Resettlement	$2.0 million
Sigatoka Valley Development	$1.0 million
Export Promotion Programme	$2.0 million
Import Substitution Programme	$3.0 million
Refurbishment of Timber Research Facility	$0.5 million
Coastal Fisheries Development	$0.75 million
Aquaculture, Brackishwater and Seaweed Developments	$0.8 million
Fiji Integrated Meteorological Systems (Servers and Workstation Replacement)	$0.6 million
Somosomo Hydro Power Project	$3.0 million
Water Supply and Sewer Line	$1.0 million
Purchase of New Plants and Machineries	$1.0 million
Renovating Extensions and Upgrading of Police Institutions	$0.5 million
Upgrading/Replacement of Police Quarters	$0.75 million
Suva/Nausori Regional Water Supply	$20.0 million
Tavua/ Vatukoula Regional Water Supply	$0.55 million
New Meter Connections	$1.0 million
Nadi/Lautoka Regional Water Supply	$7.0 million
Navua/Deuba Regional Water Supply	$2.5 million
Ba Regional Water Supply	$1.0 million
Savusavu Regional Water Supply	$4.0 million
Replacement of Water Meters	$2.7 million
Natadola Water Infrastructure	$4.0 million
Nabouwalu Regional Water Scheme	$2.5 million
Sigatoka Regional Water Supply	$3.0 million
Labasa Regional Water Supply	$2.5 million
Korovou Regional Water Supply	$2.0 million
Other Rural Water Supply	$3.5 million
Lautoka Regional Sewerage Scheme	$7.0 million
Suva Regional Sewerage Scheme	$5.0 million
Nadi Regional Sewerage Scheme	$1.0 million
Labasa Sewerage Scheme	$2.0 million
Tavua Swerage Scheme	$1.0 million
Savusavu Regional Scheme	$1.0 million
Navua Regional Sewerage scheme	$1.0 million
Repair and Upgrading of Public Buildings	$1.5 million
Fiji Road Upgrading Projects Stage III	$17.0 million
Periodic Maintenance – Roads and Jetties	$16.0 million
FMIS Costs	$0.7 million
Drainage and Flood Protection	$6.0 million

Programmes	2009 Budget
Upgrading of Outer Island Jetties	$2.5 million
Maintenance of Health Centers and Nursing Stations	$1.3 million
Fiji E-Government	$2.0 million
Upgrading and Maintenance of Urban Hospitals and Institutional Quarters	$3.3 million
Extension of CWM Mortuary	$0.2 million
Bio-Medical Engineering Equipment-Urban and Rural Hospitals	$1.9 million
Development of Naboro Landfill Phase 1	$0.8 million
Road Rehabilitation Works	$4.0 million
Upgrading of Cell Blocks	$1.0 million

Total Investing Payments

4.77 Total investing payments were $181.6 million in 2007 or 13.1 percent of total expenditure. This is expected to increase by $84.9 million in 2008 due to increases in transfer payments and purchase of physical non-current assets. Total investing payments in 2009 are expected to amount to $325.7 million. Figure 4.10 shows total investing payments since 2004.

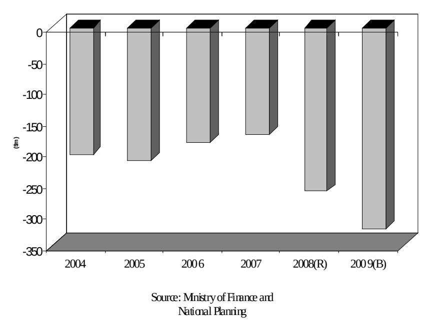
Figure 4.10: Total Investing Expenditure 2004-2009



Net Cash Flows from Investing Activities

4.78 The net cash flow position represents the difference between Government investing revenue and investing payments. Figure 4.11 summaries the net cash flows from investing activities from 2004 to 2009. In 2007, Government posted a net investing deficit of $170.9 million. In 2008 and 2009, the forecast deficit cash positions are $263.3 million and $323.9 million, respectively.

Figure 4.11: Net Investing Cashflow 2004 - 2009

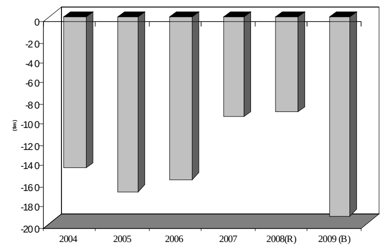


Net Deficit

4.79 The net cash flow position, or the net deficit or surplus, is a key indicator of the financial performance of Government. It indicates the amount of new borrowings that have to be raised to finance Government's activities.

4.80 Figure 4.12 shows the net deficits that Government has been posting since 2004.

Figure 4.12: Net Deficit 2004-2009



Source: Ministry of Finance and National Planning

4.81 In 2007, Government registered a net deficit of $96.2 million or 1.8 percent of GDP. In 2008, a net deficit is forecasted at $92.0 million or 1.5 percent of GDP. The forecast for 2009 is $192.8 million or 3.0 percent of GDP.

CHAPTER 5: GOVERNMENT'S BALANCE SHEET

Introduction

5.1 This chapter presents the main features of Government's Balance Sheet, which ultimately determines Government's overall financial position. Government's investments in Public Enterprises and efforts made to manage and monitor its assets, liabilities and associated risks are also presented.

5.2 A significant portion of reporting is limited to cash transactions only and since Government is slowly moving into full accrual accounting system certain assets such as fixed assets, debtors or arrears of revenue are not reflected in the Balance Sheet.

5.3 For this reason the Government's Balance Sheet cannot realistically reflect the aggregate value of assets and liabilities for the whole of Government at any particular point in time. This limitation is expected to be addressed in the full implementation of an accrual accounting system under the Financial Management Reforms.

Arrears of Revenue

5.4 Arrears of revenue refer to debts owed to Government. Total arrears of revenue in 2007 decreased from $237.2 million to $172.4 million, a decline of 27.3 percent or $64.8 million. This decline reflects the lowest arrears of revenue in the last 5 years and is largely an outcome of the Tax Amnesty granted by FIRCA. A significant proportion of revenue in arrears comprises of personal income tax, corporations' income tax and value added tax totalling 61 percent of the total. Table 5.1 below depicts total arrears as a percentage of Operating Revenue.

5.5 Government is fully committed to recovering its debt arrears through stringent measures stipulated in its debt recovery policy framework. Tight recovery controls have been introduced to minimize arrears of revenue aging over 5 years. These controls have empowered accounting officers to be aggressive in collections and impose appropriate actions if there is failure to meet debt obligations.

Table 5.1 Arrears of Revenue, 2003 to 2007

($ M)	2003	2004	2005	2006	2007
Total Amount Owed	225.6	187.6	182.9	237.2	172.4
As % of Total Operating Revenue	32.9%	24.3%	15.0%	18.0%	12.0%
The major components were:					
FIRCA	165.8	129.04	122.3	170.4	105.4
Water Rates	24.32	24.6	25.3	27.8	29.6
Lands Crown Rent	7.6	6.7	7.1	9.1	11.2
Judicial Fees & Fines	8.6	9.1	8.9	9.1	9.5

Source: Ministry of Finance and National Planning

5.6 The Ministry of Finance and National Planning is in the process of assessing submissions for write-off of arrears of revenues over 5 years old and where avenues of recovery have been fully exhausted. Table 5.2 below highlights the age of major arrears of revenue as at 31st December 2007.

Table 5.2 Age of Major Arrears of Revenue as at 31 December 2007

($M)	3 Months	6 Months	9 Months	>1 Year	2-5 Years	>5 Years	Total
FIRCA	0	13.6	3.6	42.0	23.2	23.0	**105.4**
Water Rates	1.0	1.0	1.9	2.9	4.9	17.9	**29.6**
Lands	1.1	1.0	1.9	2.3	3.9	1.0	**11.2**
Other Rev	2.5	0.7	0.1	1.7	10.2	11.0	**26.2**
TOTAL	**4.6**	**16.3**	**7.5**	**48.9**	**42.2**	**52.9**	**172.4**
% of total	3%	9.2%	4.5%	28.4%	24.4%	30.5%	

Source: Ministry of Finance and National Planning

5.7 The Ministry of Finance will continue to strengthen capacity in its Surcharge and Compliance Section and Debt & Cashflow Management Unit, to enforce tighter internal credit control policies in the management of Government's debts. Moreover, FIRCA will be adequately resourced to expedite collection of arrears.

Government Investments

5.8 Government's investments in state-owned entities have the potential to generate significant revenues as well as contribute effectively towards priority areas of Government. Assistance for state-owned companies is in the form of share investments or loans for capital expansion programmes.

5.9 The Fiji Investment Corporation Limited (FICL) is a Government owned entity established in 2004 to provide seed capital for startup ventures and development capital for existing projects. Its operations and administration were suspended in 2006 and transferred to the Asset Management Unit of the Ministry of Finance. A new board for FICL was appointed on 15th July 2008 chaired by the Permanent Secretary for the Prime Minister's Office, which will continue to manage and administer FICL's investment portfolio and consider feasible options for divestments.

Government Equity Investment in Government Commercial Companies (GCC) and Commercial Statutory Authorities (CSA).

5.10 Average Government Investment in GCCs and CSAs decreased marginally by around 2.0 percent in 2007 compared to 2006. The decrease largely stemmed from a decrease in equity investments in FEA despite other entities showing increasing equity gains.

5.11 GCC's and CSA's are generally financed through Government grant and/or debt. In return, Government anticipates receiving interest and dividend income for these commitments. In 2007, Government received a total of $21.97m as total dividends from investments in GCCs and CSAs compared to $27.6m in 2006.

Table 5.3 Dividends Received from Majority and Minority Owned Entities

	2005	2006	2007
	$m	$m	$m
Majority owned	13.50	9.76	8.99
Minority owned	6.80	8.89	9.37

Source: Ministry of Finance & National Planning

5.12 Majority owned entities are more than 51 percent owned by Government and minority owned entities are where Government's share is less than 50 percent. Dividends from both majority and minority owned entities are illustrated in Table 5.3 above. FINTEL (minority owned), ATH (minority owned) and Air Pacific (majority owned) contribute significantly to total dividends.

Financial Performance of Public Enterprises

5.13 An improvement in the performance of GCCs was seen in 2007 compared to 2006, however this performance continues to fluctuate on a yearly basis.

Table 5.4 Return on Assets and Return on Shareholders Fund*

	2005		2006		2007	
	ROA	**R/SF**	**ROA**	**R/SF**	**ROA**	**R/SF**
GCC's	1.1%	1.6%	-0.2%	-0.3%	0.1%	0.07%
CSA's	0.3%	0.6%	-1.1%	-2.0%	0 .03%	0.02%

Source: Ministry of Public Enterprises

5.14 The average **Return on Assets** (ROA) for GCC's improved marginally in 2007 when compared to 2006. ROA continues to fluctuate as the ratio is dependent on variables such as, profits before tax and total assets. There was also an improvement in average Return on Shareholders' Funds (R/SF) from negative 0.3 percent in 2006 to 0.07 percent in 2007.

5.15 Similarly, the average ROA for CSA's also improved to 0.03 percent in 2007 from negative 1.1 percent in 2006. This is attributed to better utilization of assets by CSAs. The average Return on Shareholders' Funds (R/SF) also increased in 2007 when compared to 2006.

5.16 Currently, the objective of restructuring Government entities is to drive them to ultimately achieve at least a 10% R/SF, this will require GCCs and CSAs achieving a 2 percentage point increase in R/SF annually.

5.17 The lack of commercial obligations for a number of these Government owned entities is leading to their inability to perform more effectively and efficiently. As a result, a Non Commercial Obligations [NCO] Steering Committee has been set up spearheaded by the Ministry of Public Enterprises to address this.

5.18 The obligation for all GCCs and CSAs to pay Corporate Tax as well as dividends on profits after taxes still remains. In addition, at least 10% ROSF[22]

[*] It must be noted that the tables are based on figures submitted by GCCs and CSAs of which most are unaudited figures. The failure of GCCs and CSAs to submit timely Annual Reports and non submission of Annual Reports was a common problem.

[22] In 2007 the Unit Trust of Fiji managed to achieve the 10% R/SF requirement with an actual R/SF of 25.96%.

must be achieved and 50% of net profit after tax should be remitted to Government in the form of dividends – both are Public Enterprise Reform Policies.

Government Debt

5.19 Government debt comprises of domestic and external debt. Borrowing by Government domestically is through the issuing of Treasury Bills and Government Bonds with maturities ranging from 3 years to 20 years. External loans are undertaken through bilateral and multilateral arrangements with a term of more than 20 years. External loans, in most instances are solely for capital and infrastructure projects.

Table 5.5 Government Debt Stock (2005-2008) $m

	2005	2006	2007	2008(B)
Government Debt Stock	**2,422.8**	**2,863.1**	**2,734.8**	**2,851.3**
Domestic	2,258.4	2,446.4	2,337.8	2,414,.3
External	164.4	416.7	397.0	437.0
Debt Servicing	**329.7**	**328.3**	**406.1**	**432.9**
Domestic	305.2	308.2	366.0	345.6
External	24.5	20.1	40.1	87.3
Debt (% of GDP)	**47.8%**	**52.2%**	**50.3%**	**47.9%**

Source: Ministry of Finance and National Planning

5.20 Central Government debt registered a 4.4 percent decline in 2007 when compared to the previous year. The reduction was due to a decline in both domestic and external borrowing to fund operational and capital expenditures. The borrowing to fund the 2007 Budget deficit was undertaken in 2006 through the issuance of the Global Bond.

5.21 The Ministry of Finance through the Debt and Cash Flow Policy Committee continues to provide directions on the issuance of domestic and foreign debt and provides advice on debt and risk management policies aimed at achieving a sustainable debt level.

5.22 In terms of debt sustainability, the debt to GDP ratio for 2007 stood at 50.3 percent and is expected to contract slightly to 47.9 percent in 2008. In recent years, Government debt in nominal terms has continued to increase primarily due to the need to finance the net deficit (Refer Table 3.2).

Government Financing Activities

5.23 Effective cash flow management remains the key to meet all of Government's financial obligations and minimize borrowing. The first half of 2007 saw improved liquidity conditions with a marginal decrease in interest rates, consequently more interest was shown by the financial institutions on the flotation of Government papers. The lowering of the RBF policy indicator resulted in the lowering of interest rates, thus reducing the cost of borrowing for Government.

5.24 Strictly maintaining the payment approval levels for each Ministry and Department to $20,000 per day was another tool used to control cash flows. This was used to instill financial discipline during uncertain periods and ensure that payments would match revenue collections to avoid unnecessary borrowing.

Domestic Debt

5.25 The domestic market continues to be the major source of funding for Government. The floatation of T-Bills and Bonds was well received by market players resulting in oversubscriptions of tenders throughout 2007.

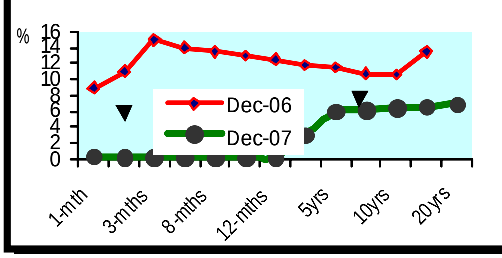
Table 5.6 Government's Domestic Debt Stock ($m)

	2005	2006	2007	2008 (B)
Domestic Debt	**2,258.4**	**2,446.4**	**2,337.8**	**2,414.3**
- Bonds	2,121.4	2,300.7	2,196.2	2,344.3
- Treasury Bills	136.0	145.7	141.6	70.0
D/Debt to GDP Ratio	**44.5%**	**44.6%**	**43.0%**	**40.5%**

Source: Ministry of Finance & National Planning

5.26 As evident from Table 5.6 total Government domestic debt outstanding at the end of 2007 fell by 4.4 percent or $109 million. Similarly, the Debt to GDP ratio also declined to 43.0 percent in 2007 from 44.6 percent recorded in 2006.

Figure 5.1 Yield Curve: Weighted Average Interest Rate for Bonds and TB's 2007



Development in Domestic Interest Rates

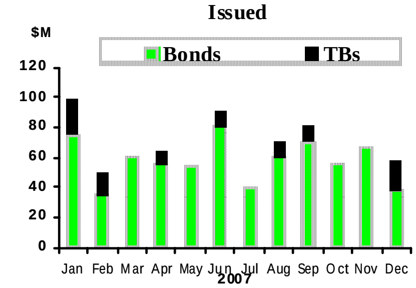
5.27 Interest rates gradually fell from a record high in 2006 for both T-Bills and Bonds as evident in Figure 5.1. The 3 month, 6 month and 9 month interest rates for T Bills ranged from 0.2 percent to 0.32 percent in December 2007 compared with 9.20 percent to 14.93 percent in December 2006.

5.28 Similarly 15 year bond rates fell from 13.49 percent in December 2006 to 6.58 percent in December 2007. The excess liquidity in the banking system resulted in the drastic decline in domestic interest rates in 2007 with short term rates further declining in the first 6 months of 2008.

Bonds & Treasury Bills Issuance

5.29 Bonds and T-Bills are issued in the market with due consideration to the forecast budgeted and actual shortfall in Government cash flow. As a result, Government is strengthening its cash flow management in order to provide a more transparent and indicative approach to domestic borrowing.

Figure 5.2 Government Bonds and TBs Issued



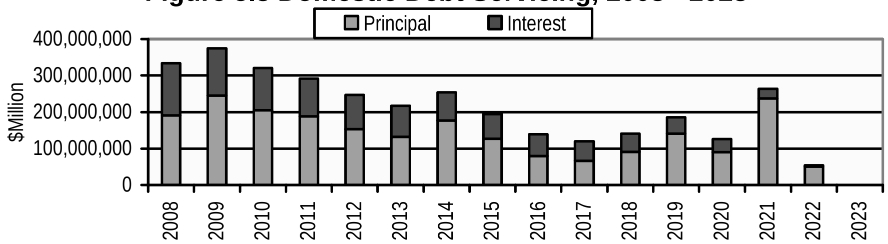
5.30 At the end of 2007, a total of $793 million was issued in Government securities of which $101 million was in Bonds and $692 million was in Treasury Bills. Figure 5.2 above shows the borrowing per month in 2007.

5.31 In terms of maturity structure, the bulk of outstanding bonds will mature in next 5 years. Prudent cash management must be put in place for payments of securities due for redemption. Total principal repayments for 2009 are forecast at $329.6 million.

Debt Servicing Commitments over the Next 15 Years

5.32 For the next 15 years, fulfilling debt servicing obligations presents one of Government's major challenges. As shown in Figure 5.3, the future interest and principal repayments on domestic loans will form a considerable portion of future Government Expenditure. Efforts have been directed towards reducing the overall debt level and undertaking alternative cheaper forms of borrowing.

Figure 5.3 Domestic Debt Servicing, 2008 - 2023



Source: Ministry of Finance and National Planning

External Debt

5.33 Table 5.7 below shows that at end of December 2007, Government's outstanding external debt was $397.0 million, equivalent to 7.3 percent of GDP and 0.7 percent of total exports. The total outstanding debt is projected to rise to $437.0 million by the end of 2008 which is estimated to be equivalent to 7.4 percent of GDP.

Table 5.7 Government's External Debt Stock, 2005-2008

($MILLIONS)	2005	2006	2007	2008
External Debt	170.4	416.7	397.0	437.0
Debt Servicing	24.5	20.1	39.9	34.0
External Debt as a % of GDP	3.4	7.6	7.3	7.3
External Debt Servicing as a % of Exports	1.9	1.7	0.7	2.7

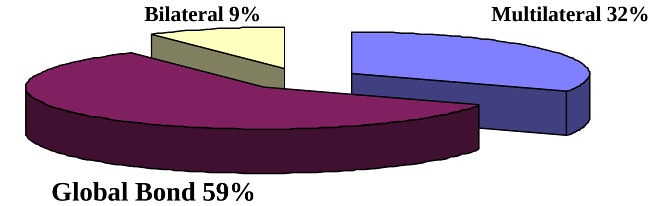
Source: Ministry of Finance and National Planning; a = actual, b= budget

5.34 In 2007, the total loan funds drawn down were $9.3 million for the Suva-Nausori Water Supply & Sewerage Project and $9.0 million for the Third Road Upgrading. The projects are expected to draw down remaining loan funds from 2008 until project completion.

External Lenders

5.35 As shown in Figure 5.4 below, the distribution of external Disbursed Outstanding Debt (DOD) is dominated by the Global Bond accounting for 59 percent; multilateral lenders, 32 percent; whilst the remaining 9 percent is lending by bilateral lenders.

Figure 5.4 Distribution of Debt by Creditor Category



Source: Ministry of Finance and National Planning

5.36 The bulk of Government's holdings of foreign loans were contracted from multilateral lenders with the exception of the Global Bond. The Fiji Government has one outstanding loan from a bilateral lender and three loans outstanding from multilateral lenders.

5.37 In terms of currency composition: 79 percent of loans are denominated in US dollars, 14 percent in Japanese Yen; and the remaining 7 percent in Euros and other currencies.

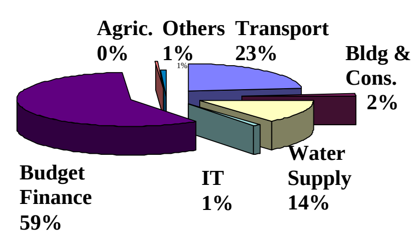
Global Bond

5.38 The weakening of the US dollar against the Fiji dollar in 2007 saw the local dollar value of the USD150 million Global Bond drop to FJD232.7 million. It was valued at FJD260.5 million when first offered in September 2006.

Interest Rates

5.39 The bulk of Government's annual debt servicing is for loans with a variable interest rate. Rates charged range from 1.5 percent to 7.0 percent for most of Government's multilateral lenders. The funding for the e-Government project contracted with EXIM Bank of China carries a fixed interest rate of 2 percent payable over a 20 year period.

Figure 5.5 Loans by Sector



Distribution of Loans by Economic Sector

5.40 Figure 5.5 shows that 59.0 percent of loans were for funding the Government deficit; 23 percent for the road sector; and 14 percent for water supply and drainage. Allocations for building and construction, and agriculture projects were less than 3 percent of the total.

Contingent Liabilities

5.41 Contingent liabilities constitute two major components: Guarantees on State Owned Entities and International Agency Subscriptions. The size of its contingent liabilities reached $3.33 billion as at December 2007 or 56 percent of GDP. The extent of Government's exposure to guarantees and other contingent liabilities is shown in Table 5.9.

5.42 Government's new Guarantee Policy provides a revised guarantee fee structure and requires Guarantee Agreements to supplement deeds of existing guarantees. Annual financial assessments are carried out for GCCs and CSAs who are eligible to be issued a guarantee. Guarantee fees of up to 2 percent were later included as a minimum premium for the financial risk that Government is undertaking. The policy was reviewed in 2008 and is currently being finalised.

Table 5.8 State Guarantees and Contingent Liabilities

$M	2003	2004	2005	2006	2007P
Loans & Other Guarantees	**2,342.6**	**2,467.3**	**2,728.2**	**2,984.13**	**3,276.35**
Of which the main components are:					
FNPF	1,891.2	2,034.6	2,186.4	2,347.72	2,481.08
FEA	75.9	60.4	120.8	165.60	156.17
FDB	150.6	176.0	231.9	271.57	415.17
HA	129.7	110.1	110.1	118.80	106.51
FSC	16.6	18.0	12.0	22.60	32.65
MPAF	3.2	25.4	47.0	45.30	41.43
Other CL 1/	53.5	45.4	51.8	52.6	51.71
Total	**2,396.1**	**2,512.7**	**2,780.0**	**3,036.7**	**3,328.1**

Source: Ministry of Finance and National Planning

Fiji National Provident Fund (FNPF) members' contributions account for nearly 75 percent of the total contingent liabilities, Term Loans 24 percent and Depositors/Mortgages and International Subscriptions make up the remaining 1.7 percent.

5.43 One of the key areas for clarification under Government's guarantee policy is the determination of the real value of guarantee for FNPF member contributions in contingent liabilities. There is a belief that double counting is taking place and as such, Government's outstanding liabilities may be halved.

5.44 The gradual increase in total guarantees was largely due to the increase in the rolling over of guarantees provided to FNPF, Fiji Development Bank and the Housing Authority, as well as the guarantee provided to Fiji Sugar Corporation for short-term borrowings of $25 million (for the mill upgrade programme). Government received approximately $0.5 million in 2007 as fees on its state guarantees.

CHAPTER 6: PUBLIC FINANCE MANAGEMENT REFORM

Introduction

6.1 Financial Management Reform (FMR) is a major initiative to improve financial management in Government with a focus on strengthening performance, accountability and transparency. Reforms have been progressively implemented since 2005.

Status of Implementation

6.2 Progress on each of these reform measures is set out below:

Performance Budgeting

6.3 A Performance Portfolio Statement (PPS) was implemented as part of the budget process in 2006, summarizing agency outputs, associated performance targets and the distribution of staff and funding associated with the production of each output. The PPS was reviewed in 2008 and developed into a more simplified version focusing on one or two key outputs.

Devolution of Financial Authorities to Permanent Secretaries

6.4 In December 2006, the financial authorities of Permanent Secretaries were withdrawn as part of Government's strategy to control expenditures and maintain debt levels. With Government finances now stabilized these authorities are being progressively restored. Permanent Secretaries now have a procurement limit of $20,000. The release of the Agency Tender Boards will follow through the establishment of a Central Tender Board and revenue retention arrangements.

Strengthened Accountability and Reporting

6.5 With the devolution of financial authorities comes the need to strengthen reporting and accountability mechanisms in agencies. 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.

6.6 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.

Implementation of the Financial Management Information System (FMIS)

6.7 Agencies are now equipped with a new FMIS, that will assist them 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.

FMR Capacity Building Initiatives

6.8 The continuous provision of functional and technical support for agency users and capacity building is necessary for the sustainability of the FMIS. 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.

6.9 The successful implementation of the reforms rests on the commitment and capacity within agencies. Whilst capacity building is crucial, Government will align its implementation to capacity availability with a progressive stance to ensure effective implementation. Thus, a review of reforms implementation is necessary in order to determine whether processes need to be re-strategised to ensure full implementation

Transition from Cash to Accrual Accounting

6.10 The Financial Management Act (2004) allows for the progressive adoption of accrual accounting policies and principles for both the whole-of-government and agency reporting. Technical assistance will be sought to draft a roadmap for the transition towards accrual accounting.

CHAPTER 7: POVERTY ALLEVIATION AND RURAL DEVELOPMENT

Introduction

7.1 One of the key focus points of the 2009 Budget is to address the issue of poverty in Fiji through the implementation of well-designed and well-funded projects, as well as ensuring that key agencies have the necessary resources to best serve the poor and low-income earners. Poverty is of growing concern in Fiji and Government is resolved to tackle this as a major national priority.

Background

7.2 Using the Basic Needs Poverty Line (BNPL)[23], which is based on data collected from the 2002-2003 Household and Income Expenditure Survey (HIES), it is found that approximately 35 percent of the population of Fiji was living in poverty[24] over this period. The incidence of poverty is greater in rural areas; where this proportion increases to 40 percent and slightly lower in urban areas, where 29 percent people live below the BNPL. In addition, the incidence of poverty is different between ethnic groups, with 37 percent of Indo-Fijians living below the BNPL, 34 percent of Fijians and 24 percent of Others.

7.3 In addition to the above, the poorest sub-ethnic group was rural Indo-Fijians of whom 44 percent lived below the BNPL. The incidence of poverty was greater in the Northern Division where 53 percent of the population lived in poverty. Even more cause for concern was that 60 percent of rural Indo-Fijians in the Northern Division lived below the BNPL.

7.4 In addition, from the results of the 2004-2005 Employment and Unemployment Survey, there is evidence to suggest that female workers had a much higher incidence of poverty of 40 percent when compared to male workers at 29 percent.

Policies for Poverty Alleviation

7.5 The underlying objective for poverty alleviation is ensuring that all categories of the poor are able to sustainably and affordably meet their basic needs. Government strategy for poverty alleviation and improved standards of living will focus on: creating income-earning opportunities for the poor,

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[23] Basic Needs Poverty Line: the monetary value of the minimum cost of living

[24] Narsey, W. (2008) The Quantitative Analysis of Poverty in Fiji

reviewing housing and poverty related policies and encouraging effective partnerships with civil society organizations.

7.6 Government firmly believes that it has a social responsibility to its citizens to put in place policies that will achieve prosperity, for all races including the poorest, disadvantaged and most vulnerable citizens. Prosperity and decent living standards can only be achieved when the economy is growing. The economic recovery measures on enhancing investments and exports announced in the 2009 Budget are expected to provide revenue generating opportunities for the poor and low-income earners.

Poverty Alleviation Projects

7.7 Projects that will continue to receive budgetary support within the Ministry of Health, Women and Social Welfare include:

7.7.1 *Family Assistance Allowance Scheme (FAAS)*

The FAAS was set up to provide financial support for the destitute and those clearly living in poverty. Under the scheme, the recipients receive benefits and are encouraged to set up or be involved in small projects that will help them earn income. The FA Allowance is only paid out to applicants who meet the following criteria:

- Elderly people over 60 years;
- Dependents of people who are in jail;
- Breadwinners who are chronically ill;
- Breadwinners who are severely disabled;
- Widows with dependents; and
- Women who have been deserted by their spouse and have children.

Poverty Alleviation Project (PAP)

7.7.2 The PAP programme is specifically designed to ease the financial burden of individuals through housing assistance and income-generating projects.

Care and Protection Allowance

7.7.3 The Care and Protection Allowance is allocated to residential homes that provide foster care, adoption, residential care facilities and other supportive services to orphans, abandoned and neglected children. Some of the allowances are also paid directly to individuals.

Capital Grants to Voluntary Organizations

7.7.4 These grants are directed towards Voluntary Organisations, whose work supplement activities undertaken by the Ministry regarding the welfare of Fiji's under-privileged citizens. Current organisations being assisted cover: the disabled, orphanages, senior citizens, family support & counselling, training institutes, special schools and those involved in providing/constructing homes for the homeless.

Women's Plan of Action

7.7.5 The Women's Plan of Action reflects the five priority areas that Fiji committed to at the Fourth World Conference for Women in Beijing in 1995. This programme was reviewed in 2006 and the revised areas are as follows:

- Women and the law;
- Advancing women in decision making;
- Eliminating all forms of discrimination and violence against women;
- Promoting and supporting formal sector employment and livelihoods; and
- Women's health-reproductive health and HIV.

7.7.6 These areas of concern are aligned to key international conventions and agreements including: the Convention on the Elimination of All Forms of Discrimination and Violence against Women [CEDAW], Beijing Platform of Action, Millennium Development Goals and regional agreements such as the Pacific Plan of Action.

7.7.7 It is also implemented via projects at the micro level through field services. Over the years, this programme has been able to generate formal sector employment and livelihoods to women, especially those living in the rural areas.

7.8 Projects that will continue to receive budgetary support within the Ministry of Local Government, Urban Development and Housing include:

Upgrading of Squatter Settlement and Existing Subdivisions

7.8.1 This project is designed to address the problem of the increasing number of squatters on state land and other land that has been identified for housing sub-divisions. It entails the design and development of suitable subdivision schemes with the necessary back up services, such as water supply, road access and electricity. Generally, the objective of the project is to contain and upgrade squatter settlements in Fiji.

HART

7.8.2 HART is a non-governmental organisation, which was established in 1972 to assist in providing housing for the poor. To date, HART has established 26 villages, that is, two in Labasa, four in Rakiraki, Ba, Lautoka, Nadi and Navua and sixteen villages in the Suva and Nausori corridor.

PRB Subsidy

7.8.3 The Public Rental Board is a fully owned Government entity. The grant to PRB caters for rent subsidies for financially disadvantaged tenants. These tenants are those that have insufficient net savings to meet the full charge of their rental flats.

7.9 The *Students' Loan Scheme* assists students from poor and disadvantage families in accessing further education and who would not have been able to under normal circumstances. The recipients of this scholarship are those whose parents' or guardians' income does not exceed $12,000 per annum.

7.10 Table 7.1 below presents some of Government's assistance towards poverty alleviation.

Table 7.1: Government Assistance for Poverty Alleviation 2009

PROGRAMMES	2009 BUDGET ($M)
Local Government, Urban Development & Housing	
Squatter Resettlement Programme	2.00
HART	1.00
Commerce	
Micro Finance	0.50
Northern Development Programme	3.00
Multi-Ethnic Affairs	
Multi-Ethnic Scholarships	5.50
Education	
Poverty Relief Fund	0.20
Social Welfare	
Poverty Alleviation Projects	1.00
Capital Grant to Voluntary Organizations	0.40
Family Assistance Scheme	20.00
Care and Protection Allowance	0.40
Women's Plan of Action	0.35
Cottage Industry Development	0.25
Miscellaneous	
Students Loan Scheme	1.00
FDB - Subsidy Grants to All Citizens	5.60
FDB - Interest Subsidy (Northern Division Projects)	0.55
TOTAL ($)	**41.75**

Source: Ministry of Finance and National Planning

Pro-Poor Tax Measures

7.11 In addition to the above, the following tax measures will be implemented in 2009 to assist the poor and disadvantaged:

- Increase in Income Tax Threshold from $9000 to $15,000;
- Exemption of tax on savings up to $200.00;
- VAT exemption of essential food items – tinned fish, flour and sharps, powdered milk, edible oil, rice and tea;
- VAT exemption of the first $30 of electricity bill for residential consumers;
- Continuation of reduced duty for essential food items for example, rice, dhal, tinned fish, edible oil;

- 100% deduction for any cash donation by a tax payer to any approved charitable organization not exceeding $100,000; and
- Tax exemption of dividends from trusts.

Rural and Outer Island Development

7.10 Promoting rural development sets the platform for increased economic activity in rural areas thus discouraging rural-urban migration. The acquisition of the Chinese Government's concessional loan facility will provide additional resources to Government for the upgrading of rural infrastructure - roads, maritime transportation, water and low cost housing.

7.11 Table 7.2 below presents some of Government's assistance towards rural and outer island development programmes in 2009.

Table 7.2: Rural and Outer Island Development Programmes in 2009

PROGRAMMES	2009 BUDGET ($M)
Fijian Affairs	
Grant to CATD[25]	0.90
Agriculture	
Extension Agriculture	0.10
Sugar Development	5.00
Maintenance of Completed Irrigation Services	0.25
Land Drainage & Flood Protection	6.00
Watershed Management	0.50
Agricultural Marketing Authority	1.75
Grant to CIDA[26]	1.30
Farming Improvement & Land Resettlement	4.00
Rural and Outer Island Development	2.50
Fisheries & Forests	
Coastal Fisheries	0.75
Portable Sawmills	0.10
Seaweed	0.30
Provincial Development	
Grant to Self-Help Projects	3.00
Divisional Development Projects	1.50
Rural Housing Assistance	1.00
Multi Ethnic Affairs	
Community Development Projects	1.60
Lands & Mineral Development	

[25] Center for Appropriate Technology & Development
[26] Coconut Industry Development Authority

Ground Assessment – Small Islands	0.20
Fiji Groundwater Assessment and Development	0.20
Youth Development	
Rural Sporting Facilities	0.20
Health	
Maintenance: Sub-Divisional Hospitals, Health Centers, Nursing Stations	1.30
Bio Medical Engineering Equipment for Health Centers and Nursing Stations	0.90
Dental Equipment for Sub-Divisional Hospitals	0.30
Infrastructure and Works	
Maintenance of Non-PWD Roads	1.00
Non-Cane Access Roads	2.00
Upgrading of Existing Cane Access Roads	1.80
FRUP (Fiji Road Upgrading Project)	17.00
Upgrading of Outer Jetties	3.00
Natadola Marine Resort – Water Infrastructure	4.00
Shipping Franchise Scheme	1.50
Upgrade of Government Shipping Vessels	0.20
Capital Grant to Post Fiji Ltd (Rural Postal Infrastructure)	0.20
Other Rural Water Supply	3.50
Transport and Civil Aviation	
Upgrading of Rural Airstrips	3.70
Rural Postal Services	0.30
Banking Services for Non-Economical Rural areas	0.10
TOTAL ($)	**71.95**

Source: Ministry of Finance and National Planning

Rural and Outer Island Tax Measures

7.14 To support the growth and development in the Northern Division (Vanua Levu, Taveuni, Rabi, Kioa and other islands) and maritime islands (Rotuma, Kadave, Levuka, Lomaiviti and Lau) will be declared a tax free region (TFR). Refer to Chapter 12 for specific details on these incentives.

CHAPTER 8: AGRICULTURE

Introduction

8.1 Agriculture, including subsistence farming, remains vital to the economy despite its small contribution to GDP. However, its contribution has increased marginally over time, from 10.9 percent in 2001 to 11.6 percent in 2007 and this is predominantly due to structural changes in other sectors of the economy.

8.2 Its comparatively low productivity reflects many factors, such as small subsistence farms, low mechanisation, inadequate inputs, poor husbandry and other farming practices, inadequate infrastructure, marketing deficiencies, and high production costs due to the lack of scale economies and expensive farm inputs.

8.3 Land tenure reform is essential for the greater productivity and sustainability of the industry and current measures within this area are outlined in Chapter 3.

Industry Overview

8.4 Sugar production remains the most important agribusiness in Fiji, contributing approximately 6% of total GDP, 25% of total domestic exports, and employing 40,500 people. The phasing out of EU preferential treatment and in particular, lower export prices, is forcing many cane farms to diversify into alternative cash crops.

8.5 The agriculture industry is dominated by small farms, with more than half being less than 5ha and only 19 percent being classed as medium-sized or larger. Given the large number of smallholders that currently characterize the industry, it is necessary that the emphasis on commercialisation and diversification provides viable options for these farmers.

Table 7.1 Agricultural Production, 2007-2010

DOMESTIC PRODUCTION (KG)	2007A	2008F	2009F	2010F
Papaya	9,091,000	10,000,000	11,000,000	12,100,000
Ginger	3,110,500	3,735,000	4,108,000	4,519,000
Cassava	61,379,000	67,517,000	74,269,000	81,695,000
Dalo	61,662,000	67,828,000	74,611,000	82,072,000
Rice	14,870,000	16,357,000	17,993,000	19,792,000
Beef	1,958,000	2,154,000	2,369,000	2,606,000

DOMESTIC PRODUCTION (KG)	2007A	2008F	2009F	2010F
Dairy	11,000,000	12,000,000	13,000,000	15,000,000

Source: Department of Agriculture, Ministry of Primary Industries; a = actual, f = forecast

Policy Framework – 'Demand Driven Approach'

8.6 Agriculture is viewed by Government as central to the further growth of the economy and its necessary restructure into a commercially viable, efficient and sustainable industry is a priority. Policy goals include:

- facilitating private sector development;
- accelerating agricultural diversification into areas of competitive advantage (e.g. high value niche export and traditional crops);
- promoting food security, including rice and milk; and
- enhancing tourism-agriculture linkages.

8.7 Agricultural policy is intent at replacing "top-down" supply driven institutions with demand driven service delivery, such as extension and farm management advisory services, to promote commercial farming. This "Demand Driven Approach to Project Implementation" was implemented in 2008, and is predominantly led by the private sector. The approach has two components: the *Import Substitution Programme* and the *Export Promotion Programme*.

Import Substitution Programme

8.8 Food imports have significantly increased over the years, from $225.1 million in 2000 to $394.3p million in 2007[27]. The Government has allocated $3.0 million in 2009 for agricultural projects aimed at reducing Fiji's growing reliance on imports, particularly of rice, livestock products, and vegetables.

Table 7.2 Major Agricultural Import Commodities, 2004 - 2007

		2004	2005	2006	2007
Rice	Production (t)	14,358.5	15,189.0	12,732.2	14,869.5
	Imports (t)	36,107.6	n/a	25,739.6	32,757.6
	Import Value ($)	**22,338,420**	**21,943,563**	**24,210,908**	**24,553,296**
Beef	Production	2,233.0	2,252.0	2,252.0	1,958.0

[27] FIBOS

		2004	2005	2006	2007
	(t)				
	Imports (t)	3,364.0	3,182.2	3,347.0	3,137.6
	Import Value ($)	**9,686,097**	**10,634,367**	**10,707,063**	**10,751,759**
Dairy	Production (mil.lts)	11.77	11.85	11.89	11.1
	Imports (t)	10,277.1	10,986.3	11,552.0	12,241.0
	Import Value ($)	**37,623,492**	**38,690,467**	**40,632,693**	**49,286,103**

Source: Department of Agriculture, Ministry of Primary Industries; a = actual, f = forecast

Export Promotion Programme

8.9 The Asian Development Bank (ADB) and the Food and Agriculture Organisation (FAO) have both identified the enormous export potential present within the agriculture sector, particularly in high value niche export and traditional food crops areas. Government has allocated $2 million in 2009 for the further development of products geared towards export, such as papaya, taro, cassava and ginger.

Table 7.3 Major Agricultural Export Commodities, 2004 - 2007

		2004	2005	2006	2007
Papaya	Production (t)	2,757.0	1,871.0	2,767.5	9,091.3
	Exports (t)	298.1	284.2	662.5	463.4
	Export Value ($)	**1,085,369**	**994,351**	**2,435,925**	**1,993,739**
Cassava	Production (t)	47,374.0	59,648.0	50,021.1	61,379.0
	Exports (t)	1,184.3	1,799.1	1,714.3	1,710.0
	Export Value ($)	**1,867,196**	**1,819,772**	**2,068,827**	**2,441,155**
Dalo	Production (t)	65,545.0	83,751.0	76,155.7	61,662.2
	Exports (t)	9,637.9	9,959.5	11,434.8	11,949.4
	Export Value ($)	**18,690,004**	**19,006,178**	**20,935,701**	**23,647,269**
Ginger	Production (t)	3,679.5	3,652.0	3,209.5	3,110.5
	Exports (t)	1,539.9	1,533.3	1,202.1	1,228.2
	Export Value ($)	**7,415,490**	**7,118,086**	**5,752,755**	**5,474,352**

Source: Department of Agriculture, Ministry of Primary Industries; a = actual, f = forecast

Agriculture and Tourism

8.10 Improving the links between domestic agriculture and tourism is fast becoming a priority for the Ministry of Primary Industries. Imported agricultural produce for tourist consumption represents a loss of scarce foreign revenue and represents the opportunity cost of potential employment and income that could have been generated domestically. As such, methods to increase backward economic linkages including utilizing local food products must be found and developed, ultimately leading to an industry that consistently provides a sufficient quantity of high quality produce.

Further Areas of Consideration

8.11 As the agricultural sector continues to develop it is expected that the production of agricultural by-products and high-value processed goods e.g. oils, creams, juices, jams, chutneys and processed foods, will become more important.

8.12 Proposals are underway for the development of a bio-fuel facility that produces ethanol from cassava, providing good incentive for the expansion of existing cassava plantations. Likewise, the private sector is showing increased interest in the coconut industry for its by-products, which will provide increased employment opportunities in Vanua Levu and the outer islands.

8.13 The use of domestically-available resources for animal feed is yet to be fully explored. Local substitutes for imported feed would allow for the development of subsidiary industries that use agricultural by-products otherwise wasted. This would also improve efficiency of the domestic livestock sub-sector.

Specific Incentives

8.14 In addition to the policies outlined above to be carried out by the Department of Agriculture, the 2009 Budget will provide additional fiscal measures to create the necessary environment for further development of the agriculture industry. Listed below are the various tax measures available for agriculture, which includes new measures introduced in the 2009 Budget:

Direct Tax Incentives

Tax Holiday

- 10 year tax holiday granted to new companies undertaking agricultural farming and agro-processing. To qualify, a minimum level of investment of $2 million is required. Refer to Chapter 12 for further details.

- Tax exemption for a period of ten years for companies that are involved in processing agricultural commodities (sugar, coconut etc) into bio-fuels. To qualify, a minimum level of investment of $1 million is required. Refer to Chapter 12 for further details.

Tax Deduction

- 200 percent deduction on capital expenditure for purchase of farm implements and plant & machinery used on farms as well as cost of irrigation. The concession is available for 5 years effective from 1 January 2006.

Small and Micro Enterprises (SME's)

- Income tax exemption[28] is applicable to the following agricultural sectors/commodities with a maximum turnover threshold of $300,000: sugarcane; coconuts; rice; ginger; yaqona; fishing; raising livestock; vegetable; dalo, cassava and other root crops production; and bee keeping.

[28] This policy is also applicable to tourism support services.

CHAPTER 9: TOURISM

Introduction

9.1 The Tourism industry has grown significantly over the past 30 years and contributes significantly to the country's GDP. The economic benefits of this industry are wide-spread throughout the country and there is great potential to generate rural and outer island development through its further expansion. It has become one of Fiji's largest sources of foreign exchange and is almost wholly private sector driven.

Industry Performance

9.2 On average tourism contributes approximately 17 percent to GDP and provides employment directly and indirectly to an estimated 40,000 people. In terms of tourism earnings and tourist arrivals, the industry showed great resilience in recovering from the political crisis of 2000.

9.3 Following the political events of December 2006 tourism arrivals declined marginally by 1 percent to 539,255 in 2007 when compared to the previous year. But due to the offers and discounts given by the industry during that period, tourism earnings are estimated to have fallen by 7 percent to $685.6 million.

9.4 Table 8.1 below compares foreign exchange earnings from the tourism industry with that of remittances and the sugar industry, from 2000 to 2007.

Table 8.1 Foreign Exchange Earnings, 2000 - 2007

F$M	2000	2001	2002	2003	2004	2005	2006	2007
Tourism	**387.2**	**447.9**	**554.9**	**638.8**	**717.6**	**733.2**	**741.7**	**685.6**
Remittances	121.9	215.7	235.4	248.1	307.4	329.3	324.3	262.8
Sugar	237.1	225.2	234.4	225.7	209.2	223.7	215.1	185.0

Source: RBF

9.5 For 2008 and 2009, improvements are expected and it is estimated that visitor arrivals will grow by 5.9 and 5.0 percent respectively. It is therefore anticipated that tourism earnings will surpass $1.0 billion by 2011.

Table 8.0 Visitor Arrivals, 2005 – 2010

	2005P	2006P	2007P	2008F	2009F	2010F
Visitor Arrivals	549,911	545,168	539,255	571,260	599,800	654,054

Source: FIBOS and Macroeconomic Technical Committee; p = provisional, f = forecast

Policy Framework

9.6 Government is committed to further developing the sector and ensuring that the industry performs to its full potential through a partnership approach with the private sector.

9.7 Given tourism's substantial and wide-reaching contribution to the economy, focus will be placed on further expanding the industry, particularly to less-developed tourist areas, while ensuring that all growth is sustainable. Efforts will also be directed at increasing the participation of resource owners in the industry, with particular emphasis placed on ecotourism.

The Fiji Tourism Development Plan 2007-2016

9.8 The Fiji Tourism Development Plan 2007 – 2016, was developed in 2007 and provides a framework for the sustainable growth of tourism in Fiji. The Plan is supported by a rolling Action Plan and a series of Regional Strategies, on the basis that 2007 and 2008 will be a recovery phase from the events of 2006 and a managed growth phase for the remaining period.

9.9 The Plan aims to achieve a target of 1.1 million visitors or an industry valued at $1.2 billion by 2016. Other aims and objectives include:

- supporting the improvement and extension of infrastructure;
- ensuring a constant supply of trained staff;
- instigating a 'team' approach by industry, government and community;
- addressing additional capacity requirements on existing airline routes, plus establishing new routes; and
- establishing and ensuring an overall integrated approach, including sustainability, risk management and community benefit.

Current Initiatives

9.10 The industry faces tough competition from other international markets, with regional players becoming ever more influential. Therefore, it is necessary that the industry, led by the private sector and facilitated by Government, effectively position itself to be able to meet global demands to ensure its continued growth.

Consolidation of Fiji Islands Visitors' Bureau (FIVB)

9.11 In order to improve efficiency of the operations and the effectiveness of services provided by the FIVB, the Suva office will close and staff and duties moved to Nadi. The relocation should be completed by 31st December 2008.

"Tourism Fiji"

9.12 The effective branding and market segmentation of the tourism industry is necessary and as part of this process, the FIVB has been re-branded as Tourism Fiji. In changing the image of tourism in Fiji within the global market, expected benefits include:

- creating an image and using a name that is more accessible to visitors, particularly as new markets are targeted;
- changing the perception of visitors about Fiji as we forge ahead in nation building;
- facilitating direct bookings while supporting existing wholesalers; and
- enhancing the internet search capabilities of tourists intending to visit Fiji.

Presence of the Department of Tourism Staff in Nadi

9.13 Given that a large majority of tourism activities are based in the Western Division, the Department of Tourism will increase its presence at the Tourism Fiji office in Nadi in order to provide direct support for the industry.

Formulation of a Yacht Charter Policy

9.14 A working committee comprising of relevant agencies (Immigration, Quarantine, FAB, Police, FIRCA, Ministry of Finance etc.) and to be chaired by the Ministry of Tourism, Commerce and Trade will be established to develop a yacht charter policy to be ready for implementation on 1 January 2009.

Tourism Incentives

9.15 Recognising the fact that the Tourism industry is a major source of growth for the economy and that it may face additional challenges in the coming year due to developments in the global environment, Government's incentive package for the industry includes:

9.16 The new hotel incentive package contains the following:

(i) 10 year tax holiday for SLIP investments capital investments not less than $7 million;

(ii) 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;

(iii) 55 percent investment allowance on total capital expenditure provided there is no shift of revenue offshore;

Vanua Levu Hotel Development

(iv) Any hotel development in Vanua Levu and the maritime islands 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. In total, tax holiday will be 20 years.

9.17 Listed below are existing tourism related duty concessions under 235 of Part III of the Customs Tariff Act:

Customs Incentives

(i) Building material, furnishing and fittings: 10 percent fiscal duty; free import exercise; and 12.5 percent VAT;

(ii) Specialized boat and vessels: 10 percent; free import exercise; and 12.5 percent VAT; and

(iii) Heavy plant and machinery for project development work: 5 percent fiscal duty; free import exercise; and 12.5 percent VAT.

CHAPTER 10: PRIVATE SECTOR-LED INVESTMENT

Private Sector-Led Investment

10.1 The Fiji Trade and Investment Bureau (FTIB) is mandated to promote, stimulate and facilitate trade and investment in Fiji under the Foreign Investment Act (2004), as well as registering foreign direct investment (FDI). The Bureau has adopted policies and aligns its work programme to directly support and complement the national policies on investment and exports.

Investment Reforms

10.2 Investment reforms began in 2004 with the amendment of the Foreign Investment Act (1999) requiring FTIB to be a registration agency rather than an investment approval agency. A major achievement resulting from this change was the reduction in turnaround time for registration of investment projects from 15 to within 2 to 3 working days.

10.3 Additionally, a review of the list of restricted and reserved activities under the new Foreign Investment Regulation 2008 saw reductions in local equity participation requirements and an increase in the capital equity contribution of foreign nationals.

Foreign Investment Regulation 2008

10.4 The main features of the Foreign Investment Regulation 2008 are the identification of open, reserved and restricted activities. Reserved activities are prescribed for Fiji citizens only; while restricted activities have conditions that must be met by potential foreign investors. All other activities are open to foreign investors, but with a minimum equity investment threshold required to be brought in from offshore.

10.5 The following are the new features of the revised 2008 Foreign Investment Regulation:

- Under Reserved Activity, activities include: Bakery[29]; Backpacker Operations; Nightclub[30]; Liquor Bar[6]; Boat Building; Tobacco Production; and Laundry.

[29],[5],[6] other than those operated within the vicinity of a hotel/resort and/or operated by foreign owned hotels/resorts.

- Veterinary Services, previously a Reserved Activity is now to be treated as an Open Activity.
- All Restricted Activities, with the exception of fishing (where at least 30% equity must be held by a Fiji Citizen(s)), requires a separate minimum investment threshold.
- All other activities are classed as Open, but require a minimum equity level of investment of $250,000 in cash to be brought in from offshore.

Foreign Direct Investment (FDI) Registration

10.6 A decrease in the value of FDI registration over the last 3 years has been experienced. In 2005, registrations were valued at $1,047 million, this decreased marginally in 2006 to $1,014.6 million, but in 2007 a 51% decline was experienced to a value of $495.1 million.

10.7 From 2005-2007 the majority of registrations, approvals and implementation of projects were in the tourism and service sectors.

Table 9.1 FDI Proposal Registration, 2005-2007

	2005	2006	2007
Number of Investment Applications Approved	515	441	398
Value of Investment Applications Approved ($m)	1,047.1	1,014.60	495.1
Expected Employment Created Through Approved Project	8,061	10,340	7,178

Source: FTIB

10.8 A company issued with a Foreign Investment Registration Certificate (FIRC) is required to implement its project within 12 months from the date of issuance and after having obtained all the necessary approvals from the relevant investment approval agencies.

Project Implementation

10.9 Project implementation is affected by many factors: the length of time to get other agencies' approval, financing and the business climate in general.

10.10 After the 12 months, investors are required to complete the Foreign Investment Survey (FIS), which indicates their level of project implementation.

This information is used by FTIB to determine the total value of investment implemented; however, they are reliant on investors completing the Survey.

Table 9.2 FDI Proposals Implemented between 2005 and 2007

	2005	2006	2007
Number Investment proposals implemented	201	250	121
Value of Investment implemented($m)	258.7	288.5	110.8
Expected employment created through implemented projects	3,458	4,744	1,240

Source: FTIB

10.11 Previous forecasted implementation levels for 2008 are set to be surpassed due to a new policy of canceling outstanding FIRCs. Forecasts for 2009 and 2010 could also see some improvement due to this new policy, and an improved economic and business climate.

Investment Facilitation and Monitoring

10.12 The FTIB Board membership comprises of Executives/CEOs of key approving agencies namely; FIRCA; Immigration; Department of Town Planning; NLTB; Lands Department; Ministry of Finance; and Ministry of Commerce.

'One-Stop-Shop'

10.13 The FTIB objective to become a 'one-stop-shop' has not been fully realised because of constraints in the corresponding regulatory and legislative framework. With 22 agencies involved in the investment approval process who must comply with their various legislation and regulations - co-ordination is a difficult task. The Bureau works through its Investment Facilitation Unit in liaising with its inter-agency network to facilitate project implementation.

Case by Case Approach

10.14 Due to the above, a case by case approach is being pursued and is characterised by a two-tier system of facilitating investment. The first tier ensures investors are provided with all basic information and support services expected from the Bureau. The second-tier deals with approvals from the other approval agencies such as Department of Land, NLTB and the Department of

Town and Country Planning (DTCP), which require a longer time period to process[31].

E-Gov Project

10.15 Under the E-Gov project the Investments Approval Tracking System (IATS) was approved as one of the pilot projects. The tracking system is geared towards tracking the approvals process with the 22 investment approving agencies. The first phase of the IATS targets the first tier approving agencies which include: FTIB, FIRCA, RBF and the Department of Immigration, while phase two will target the remaining 17 agencies.

Web-based Database

10.16 The Bureau has also started work on developing an internal web-based investment tracking system for registration, facilitation and monitoring of registered projects. This will ensure that the required follow up work is undertaken and provide investors with more time to implement their projects. The database is scheduled to be operational by November 2008.

Investment Incentives

10.17 To boost investment in export-led sectors the National Export Strategy (NES) targets the following six sectors: forestry, marine products, agro-business, mineral water, audio-visual, and information, communication and technology (ICT).

10.18 Specific investment incentives in 2009 Budget are listed in Chapter 12.

[31] Approval from this second tier is necessary for the project to proceed.

CHAPTER 11: EXTERNAL TRADE POLICY

Introduction

11.1 While trade liberalization offers the opportunity for Fiji to further integrate itself into the global economy and access new import and export markets, import tariffs provide an important source of government revenue and offer some protection to domestic industries from foreign competition. As a result, Government will take a gradual approach to further trade liberalization.

11.2 Advancements towards freer trade will be dictated by the pace of internal adjustments to fiscal systems and structural reforms. Such a strategy will not only safeguard against rapid revenue deterioration, but also allow currently uncompetitive industries to adjust accordingly and compete on a more even platform with foreign competitors, thus averting potential drastic outcomes, such as increases in unemployment and a decline in domestic production through the collapse of certain industries.

11.3 Recently, Fiji has come under immense pressure to sign a substantive Economic Partnership Agreement (EPA) with the EU. Even though preliminary assessments reveal that the consequential revenue losses will be manageable, our concerns lie more towards precedents that are set under the EPA that will have consequences for the upcoming negotiation of the Pacific Agreement for Closer Economic Relations (PACER) with Australia and New Zealand (ANZ).

11.4 Under PACER, Fiji is obliged to offer ANZ the same "trade treatment" it permits to any other of its external trading partners. This effectively means that all privileged treatment accorded under the EPA must also be extended to PACER. The possibility for larger revenue losses under PACER is higher due to overall trade with ANZ being larger than that with the EU.

External Trade Agreements

Economic Partnership Agreement (EPA)

11.5 The negotiation of an EPA by the Pacific Island States with the EU is as a result of the expiry of a WTO waiver on a ruling which declared the trade chapter of the Cotonou Agreement to be non-compliant with WTO trade rules.

11.6 In November 2007, Fiji (with PNG) initialled an Interim EPA (I-EPA) with the EU. A decision fostered by the fact that Fiji and PNG faced the imminent loss of their continued preferential market access into the EU from 1st January 2008.

11.7 The initialling led to a continuation of trade (in goods) for Fiji under the Cotonou conditions, pending the proposed signing of a Comprehensive EPA (to include trade in services) by the end of 2008.

11.8 EPA negotiations reconvened in mid-September 2008 and it is envisaged that Fiji, with other Pacific Island states will sign off on the I-EPA and progress with the EPA negotiations towards a Comprehensive Agreement subject to resolving issues on key sectors.

11.9 In addition, the Pacific Island states have agreed to activate a 'rendezvous clause' for the current negotiations, which states that no further negotiations will take place on the Comprehensive Agreement until the EC commit to agree to proposals on labour mobility schemes.

Pacific Island Countries Trade Agreement (PICTA)

11.10 From the 1st of January 2009, Fiji will be able to benefit from the preferential tariff arrangement under PICTA when trading with fellow signatories. As a non-LDC (Least Developed Country), Fiji had a two year waiting period before it could access PICTA markets using the preferential tariff arrangement.

11.11 Currently PICTA only deals with trade in goods. On the Trade in Services component, there have already been two rounds of negotiations where Fiji's focus is on liberalizing the tourism, business services, telecommunications and finance sectors.

11.12 The rationale behind the offer of the above services sectors (apart from tourism) is to create an enabling business and investor-friendly environment for Fiji. Tourism has already been committed under the WTO which means that Fiji would have already gone through the transition period relating to changes in policies and other related adjustments.

South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)

11.13 SPARTECA came into effect in 1981 and is a non-reciprocal trade agreement between the Forum Island countries (FICs) and their developed Forum partners, Australia and New Zealand, who provide duty-free access to all products originating in the FICs (with the exception of sugar by Australia).

11.14 The preferential market access is conditional upon the satisfaction of the Rules of Origin set out in the agreement. SPARTECA adopts the value-added approach where at least 50% of the allowable costs of manufacturing and the last process of manufacture must be incurred in the exporting FIC.

11.15 Fiji also has a bilateral subsidiary agreement under SPARTECA which deals only with the Textiles, Clothing and Footwear industry (S-TCF). Efforts are under way to further reduce the Minimum Local Area Content (MLAC) from 35% to 25%, which should allow our TCF exporters to qualify more of their products under this subsidiary agreement. However, there are a number of pre-requisites that need to be fulfilled first. These include:

- Improvements in productivity of Fiji's TCF industry as per the targets identified by the Australian Government,
- Increased utilisation of the training opportunities under the Structural Adjustment Package (SAP), and
- The establishment of a credible audit and compliance system.

11.16 The S-TCF expires in 2011. The SPARTECA agreement will be superseded by the PACER-Plus agreement which is currently undergoing informal consultations.

Pacific Agreement on Closer Economic Relations (PACER)

11.17 The PACER Agreement is not in itself a trade agreement, but a framework agreement for the negotiations of PACER Plus.

11.18 PACER Plus negotiations were triggered when the Pacific Island countries participated in the negotiations of an EPA with the EU. Currently, PACER negotiations are on an informal basis only as the PICs are awaiting the selection and establishment of the office of a regional Chief Trade Negotiator (CTN).

11.19 Australia and New Zealand have offered to fund three further informal discussions on PACER Plus; the first to be held within the region towards the end of 2008.

Melanesian Spearhead Group Trade Agreement (MSG)

11.20 Signatories include: Fiji, Papua New Guinea, Solomon Islands and Vanuatu. The MSG Agreement came into effect on 22 July 1993 and Fiji became a formal member on 14 April 1998.

11.21 With MSG members being the larger of the Pacific Island countries, the majority of intra-regional trade in goods is conducted under MSG rather than PICTA.

11.22 Compatible with the WTO, a 'negative listing' approach has recently been adopted where all products, except those on the negative list are deemed to qualify for preferential tariffs. With approximately 180 tariff lines under scrutiny, this amendment should facilitate increased trade under the agreement.

11.23 Further trade facilitation developments under MSG include the expansion of the tariff schedule from 4-digit to 6-digit tariff headings – providing better identification of traded products qualifying for preferential tariff treatment at the ports of entry.

CHAPTER 12: 2009 BUDGET TAX POLICIES

12.1 This Chapter highlights the 2009 Budget tax policies. It includes new and amended direct and indirect tax measures, which aim to support the core objectives of the 2009 Budget: providing a platform for sustainable economic growth and private sector-led investment, as well as addressing the needs of the poor and disadvantaged.

Section 1: DIRECT TAX MEASURES

POLICY	DESCRIPTION
1. Corporate Tax Rate	To encourage investment in Fiji, **corporate tax rate will be reduced from 31 percent to 29 percent in 2009 and 28 percent in 2010.**
2. "Fiji My Second Home" Programme Incentives	♣ The programme will be open to foreigners to stay in Fiji for as long as possible on a multiple entry social visit pass. To qualify, the applicant should fulfill the following criteria: **Age below 50 years old:** ♣ Minimum deposit of **$F300, 000 and maintain the deposit in Fiji for a minimum of two years.** ♣ Interest income from this deposit will be exempt from tax. **Aged 50 years and above:** ♣ Minimum deposit of **$F200, 000 and maintain the deposit in Fiji for a minimum of two years.** ♣ Interest income from this deposit will be exempt from tax.
3. Foreign Currency Account Scheme	♣ To attract non-residents, including former Fiji residents to hold funds in Fiji bank accounts the following incentive will be available: ♣ For foreign currency accounts, interest income for deposits above the equivalent of

POLICY	DESCRIPTION
	FJD$300,000 will be exempt from tax. ♣ For Fiji Dollar accounts, interest income will be exempt from local tax.
4. Exemption of dividend from Trusts	♣ In order to encourage the **level of investments in unit trusts**, the **dividend exemption** for the following will be reinstated: **1. Exemption of dividend paid from Colonial First State Income Fund** **2. Exemption of dividend paid from Colonial First State Income and Growth Fund.** **3. Exemption of dividend paid from Fijian Holdings Property Trust Fund** **4. Exemption of dividend paid from Fijian Holdings Unit Trust.** **5. Exemption of dividend paid from Unit Trust of Fiji** ♣ In addition, Section 17 (55) of Income Tax Act (ITA) will also be amended to reflect this change ♣ FIRCA **will limit the number of entities registering as Trusts**.
5. Deduction for Dividends	♣ The term "charged to tax" in Section 21A of ITA will be amended.
6. Branch Profit Remittance Tax	**1.** The term **"branch"** will be defined. **2.** Section 7C (3) of ITA will be amended to clarify that the tax shall be levied on profits paid or credited for remittance. Profits refers to the after tax earnings to the extent the head office does not reinvest such amount to the Fiji branch. **3.** Section 7C (1) of ITA will be amended to include the word "by" between the words "Fiji" and "a non-resident".
7. Head Office Expenses	♣ The term **"Head Office Expenses"** will be defined in Section 19A of the ITA to provide clarity.

POLICY	DESCRIPTION
8. 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.**
9. Refund of Income Tax and VAT Cheques	♣ With **effect from 1 January 2009**, FIRCA will progressively cease the postal issuance of cheques for VAT/Income Tax Refund. ♣ All **VAT refunds** are to be paid through the **bank accounts**. All companies will now have to forward their bank accounts to FIRCA for any VAT refunds. ♣ All Company, business and sole traders' refunds are to be paid through their bank accounts and they will have to submit their bank accounts to FIRCA. ♣ This policy will not apply to salary and wage earners
10. Amendment to Section 9A of ITA - Resident Interest Withholding Tax (RIWT)	♣ Section 9A of ITA will be amended to state that the financial institution will deduct RIWT notwithstanding the supply of Tax Identification Numbers (TIN) by taxpayers. Section 9A (3)(a) will be repealed. ♣ The $120 interest under Section 9A (3) (d) and (e) will be amended to $200, aligning it with the provisions under Section 17 (72) (1) – tax exemption of interest received by resident individual up to $200.
11. Amendment to Section 36(1) of ITA – Offshore placement of insurance	♣ Section 36(1) of ITA will be amended to clarify that withholding tax will also applicable on insurance brokers and off-shore placement of insurance.
12. Amendment to Section 51 of ITA - Partnerships – return of partners	♣ Husband and wife carrying on a business will be deemed to be partners for taxation purpose only under conditions as approved by the Commissioner
13. 11th Schedule of ITA – Hotel Investment Tax Incentive Amendments	**1.** The term **"amenities"** will be defined under Section 2 to provide clarity. **2.** Section 5 will be amended to state that provisional approval will be mandatory for standard allowance.

POLICY	DESCRIPTION
	3. Section 5 will be amended to state a new requirement to be submitted with the application for provisional approval i.e. the project plan must be certified by the local authority and other relevant Agencies. **4.** A new provision will be inserted to allow revoking of 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.
14. 11th Schedule of ITA –Rectification of errors	**1.** Amend Section 7 by deleting section 21 (a”) and substituting with section 21 (1) (a)” **2.** Amend the term “hotel” by deleting the word “of” and replacing it with “for”. **3.** Amend para 4(1) (c) by deleting the second “part” and replacing it with “parts”. **4.** Amend para 4(2) by inserting the word “the” between “account” and “following”. **5.** Amend para 4(5) by deleting the word “despite” and replacing it with “notwithstanding”. **6.** Amend para 5(b) by deleting the word “recent” and replacing it with “current”. **7.** Amend para 6(1) by inserting the word “to” after the word “entitled”. **8.** Amend para 6(6) by inserting the word “a” before the word “hotel”. **9.** Amend para 10(5) by deleting the word “despite” and replacing it with “notwithstanding”. **10.** Amend para 11(2) by correcting the spelling of the word “satisfaction” **11.** Amend para 13(6) by deleting “s” from the word “followings” **12.** Amend para 21 by inserting the words “that the” between “Minister” and the comma.
15. Provisional Tax Regulation	**1.** Provisional Tax Regulation will be amended to verify that Certificate of Exemption (COE) will only be issued if Directors/Shareholders tax returns and

POLICY	DESCRIPTION
	payments are in order. **2.** 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. **3.** Provisional Tax Regulation will be amended to state that real estate agents should deduct and pay 15% provisional tax on rental income.
16. Hotel Turnover Tax (HTT) Act	♣ The HTT Act will be amended to include a similar trust provision currently under the GTT 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.
DIRECT TAX INCENTIVES	
17. Export Income Deduction – Section 21B	♣ Export **income deduction** will remain at **50% in 2009 and 2010.**
18. Employment Taxation Scheme	♣ Employment Taxation Scheme will be **extended to 31 December, 2010**
19. 40% Investment Allowance – Section 21C	♣ **40% Investment Allowance will be extended to 31 December, 2010**
20. Investment allowance for infrastructure investment in Fixed Line Next Generation Network (NGN)	♣ **60% investment allowance will be allowed for infrastructure investment in Fixed Line investment in Internet Protocol (IP) and Broadband core networks.**
21. Accelerated Depreciation in investment in fixed line service	♣ **100% write off will be available in the year the expenditure was incurred for infrastructure investment in fixed line (NGN) service**

POLICY	DESCRIPTION
22. Tax exemption **for new independent power producers**	♣ To encourage energy conservation and development of alternative fuel, **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.
23. Commercial Agriculture and Agro-processing Incentives	♣ To encourage private sector investment in the agriculture sector, a 10 year tax holiday will be granted companies undertaking new projects on agricultural farming and agro-processing. To qualify for **income tax exemption**, the following requirements should 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.** ♣ **10 year tax holiday** will be available for investment made from **1 January, 2009 to 31 December 2014**
24. Investment in bio-fuel production incentives	♣ To encourage investment in bio-fuel production given the considerable benefits in reducing mineral fuel imports, **Government will provide tax exemption for a period of 10 years for companies that are involved in processing agricultural commodities (sugar, coconut etc) into Bio-Fuels.** To qualify for **income tax exemption**, **the company should invest a minimum of $1miilion and employ at least 20 local employees or more 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**
25. Information,	♣ Amendments will be made to the current **ICT**

POLICY	DESCRIPTION
Communication and Technology (ICT) Incentives	**incentives available under Section 17 (63) of ITA:** (1) The term ICT will 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" (2) The anomaly with respect to the incentives available inside and outside the Kalabu Zone will be rectified. ♣ The **10 year tax exemption** currently granted to ICT operators will be increased to 13 years for new ICT operators.
26. Tax deduction for donation to the Fiji International Film Festival	♣ Fiji will be hosting "**The Fiji International Film Festival" in 2010 aimed at raising the profile of Fiji.** To encourage corporate sponsorship of this event, **200 percent tax deduction** will be granted for any corporate contributions made for the Fiji International Film Festival.
27. Audio Visual Incentive	♣ In order to attract Fiji's competitiveness in attracting foreign film makers, the current **film tax rebate of 15 percent will be raised to 35 percent in 2009.**
28. Setting up of Tax Free Region	♣ To **support development in the North and other maritime islands, (Vanua Levu, Rotuma, Kadavu, Levuka, Lomaiviti and Lau) will be declared as Tax Free Region (TFR)** ♣ TFR incentives will include: ➢ **13 year corporate tax holiday**; and ➢ **Import Duty Exemption** on raw materials, machinery and equipment in

POLICY	DESCRIPTION
	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 Tax Free Region and initial level of **investment is more than $2million**. ♣ 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 of tax free status of 18 years. ♣ Vanua **Levu includes Taveuni, Rabi, Kioa and other islands generally included for government's administrative purpose as being in the Northern Division**
29. Tourism Incentives	♣ In view of the need to ensure sustainable growth of the **tourism industry over the next ten years,** the following **incentives will be available from 1 January 2009. Hotel development in Vanua Levu will attract more generous incentives than those in other areas.** **1) <u>2009 Hotel Incentive Package:</u>** ♣ 10 years tax holiday for capital investments not less than $7million; ♣ 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. ♣ The 55% investment allowance under Part 2 of Eleventh Schedule will continue in 2009.

POLICY	DESCRIPTION
	<u>2) Vanua Levu Hotel Development</u> **Any hotel development in Vanua Levu and the maritime islands 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. In total, tax holiday will be 20 years.**
30. Poverty Relief Fund for Education (PRFE)	♣ To support access of education for the children of poor families, the PRFE will be established by Government in 2009. ♣ To encourage funding support for the PRFE, a **200 percent tax deduction to be available for cash contribution in excess of $50,000** by taxpayers.

<u>Section 2: INDIRECT TAX MEASURES</u>

Value Added Tax (VAT) Measures

POLICY	DESCRIPTION
1. Section 2 – Interpretation	♣ The definition of "Constitution" will **be** amended in the VAT Decree to include 1997 Constitution.
2. Submission of Input Tax Schedule with VAT Return	♣ Amendment will be made to the VAT Decree making it mandatory for a **taxpayer** to submit VAT return form with the accompanying Input Tax Schedule.
3. Shareholders/Directors will be liable for VAT liability	♣ The Shareholders and Directors of a private company will be liable for VAT liability of the company. ♣ Insert an amended provision (Section 41B of ITA) into the VAT Decree - *"A director of a private company is*

	answerable for anything done by that company under this Act, and in case of default of the company, is liable to the same penalties and to account for the taxation debts of that company……
4. 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 fund 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.
5. 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.
6. Restriction on VAT Refunds	♣ Offsetting on VAT refunds amongst companies and entities engaged in a Project will be disallowed.

Customs Tariff Changes – Fiscal Duty

POLICY	**DESCRIPTION**
1. Restructure of tariff band	♣ **Increase duty rates of all goods currently attracting 27% to 32%**
2. Increase fiscal duty of light bulbs	♣ **Increase fiscal duty from 5% to 32%**
3. Increase fiscal duty of multi-wick kerosene stoves and spare parts	♣ **Increase fiscal duty from 5% to 32%**
4.Increase fiscal duty of mobile phones	♣ **Increase fiscal duty from 15% to 32%**
5. Reinstatement of duty rates of diesel, motor spirits and premixed	♣ **Reinstatement of fiscal duty on diesel from 9 cents per litre to 18 cents per litre and increase fiscal duty on motor spirits from**

outboard fuel	**34c/litre to 44c/litre and premix outboard fuel from 17c/litre to 27c/litre.** ♣ Current fuel rebates to various industries be aligned appropriately to the fiscal duty rates.
6. Increase fiscal duty of golf cars and similar vehicles	♣ Increase the fiscal duty from **15% to 32%** for goods falling under tariff item 8703.10.00
7.Increase fiscal duty of chicken and chicken products	♣ Increase fiscal duty of **chicken and chicken products from 15% to 32%**
8. Rectification of error	♣ Delete the expression "1.12.5%" appearing in description column 2 of tariff items under the headings 2204, 2205 and 2206 and substituting it with the expression "1.15%"
	♣ Delete tariff item 11042100
	♣ Delete tariff item 14020000
	♣ Delete tariff item 14030000
9. Reduce specific duty rate of used/reconditioned concrete mixture lorries	♣ Reduce specific duty rate from $16,948 per unit to $6,057 per unit for tariff item 8705.40.90
10. Reduce specific duty rate of used/reconditioned lorries fitted with ladders	♣ Reduce specific duty rate from $57,921 per unit to $8,635 per unit for tariff item 8705.90.20
11. Remove the specific duty rate on pasta and biscuits	♣ The specific rates of pasta of $1.50 per kg and specific rate on biscuits of $1.48 per kg will be removed.

Customs Tariff Changes – Import Excise Duty

POLICY	DESCRIPTION
Prime movers and specialized moving machinery	♣ **Remove import excise duty of 15% on the following items:** **1**. Ships Derricks, cranes, Mobile lifting frames, Straddle carriers and work trucks fitted with a crane. **2.** Fork-lift trucks, other Trucks fitted with lifting or handling Equipment.

	3. Self Propelled bulldozers, Angle dozers, graders, levelers, Scrapers, Mechanical Shovels, Excavators, Shovel loaders, Tamping machines and Road rollers. **4.** Other types [not self propelled] grading, leveling, scrapping, compacting, extracting or boring – machineries for earth, mineral ores etc, pile drivers, pile extractors, snow ploughs etc. **5.** Tractors [Prime movers] **6.** Special purpose Motor Vehicles eg. Breakdown lorries, crane lorries, Fire fighting vehicles, concrete mixers lorries, road sweeper lorries, spraying lorries, Mobile Workshops, Mobile radiological Unit. **7.** Trailers and semi-trailers of various types of heading 8716

Customs Concession under Part II & III Customs Tariff Act (CTA)

POLICY	DESCRIPTION
1. Duty concession on galvanized purlins (300mm to 400mm)	♣ Insert a new concession code in Part II of the Customs Tariff Act (CTA) to provide concessionary duty rate of 5%
2. Duty concession on MPVC pipe series 2 and large diameter pipes 300-600mm series	♣ Insert a new concession code in Part II of the Customs Tariff Act (CTA) to provide concessionary duty rate of 5%
3. Amend Code 228 in Part III of the Customs Tariff Act (CTA) – Concession on yacht	♣ The length of stay by tourist ships & aircrafts will be increased from 9 months to 18months. ♣ The extension provisions of 3 months will be repealed. ♣ Removal of the 9 months re-entry conditions for tourist ships & crafts.
4. Formulation of **yacht charter policy**	♣ A working committee comprising of relevant agencies (Immigration, Quarantine, FAB, Police, FIRCA, MOF, etc) chaired by Ministry of Tourism, Commerce and Trade will be established to develop the yacht charter policy to be

	ready for implementation on 1 January, 2009.
5. 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%**
6. Concession on breakfast food: Amend Code 123 of Part II of the Customs Tariff Act (CTA)	♣ **Increase the fiscal duty rate from 3% to 5%**
7. 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	♣ The wording in Column (3) to be changed from specialized boats to specialized water sports equipment (e.g. water jet-ski, water bike, and such other descriptions as the Comptroller may approve.
8. Concession on goods used in the assembly of the approved goods: Rectification of error of Code 236 (iii) of Part III of Customs Tariff Act (CTA)	♣ Delete 3% in column 4 for goods under Code 236 (iii) and substitute it with 5%.
9. Concession on goods for international and local air service – Code 217 of Part III of Customs Tariff Act (CTA)	♣ Amend Colum 2 – approved by the minister to approved by the Minister responsible for Civil Aviation
10. Concession to Cable & Wireless or any other similar specialized approved by the Minister – Code 237 of Part III of Customs Tariff Act (CTA)	♣ Amend Column 2 – Delete current wording and replace “ Approved companies for International cable laying and maintenance”

Customs Concession under Section 10 of Customs Tariff Act (CTA)

POLICY	DESCRIPTION
1. ICT/BOP Business Operators (Approved	♣ Zero fiscal duty and import excise duty for importation of computers, computer parts &

POLICY	DESCRIPTION
Companies)	accessories, specialized plant, equipment & fittings, and specialized furniture for **initial establishment**
2. Educational materials and stationery	♣ Remove "envelopes", "padded envelopes" and tariff item 4820.10.00 ♣ **Normal duty rate of 32% will apply**
3. Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) for public service vehicles	♣ Reduction in fiscal duty from 27% or 60% of specific rates whichever is greater to 0% ♣ Reduction in import excise duty from 15% to 0%
4. Bus Industry	♣ Free fiscal duty on ticketing machines and ticketing machines parts ♣ Free import excise duty on ticketing machines and ticketing machines parts
5. Fishing Industry	♣ Reduction in fiscal duty on fuel from 8 cents per litre to 2 cents per litre ♣ Reduction in fiscal duty on specialized fishing gear & equipment from 3% to 0% ♣ Reduction in fiscal duty on specialized fishing vessel from 10% to 0% ♣ Reduction in fiscal duty on fish baits from 3% to 0%
6. Rewa Dairy Company Limited	♣ Reduction in fiscal duty from 5% to 0% on full cream powdered milk in bulk, liquid milk in bulk and bulk butter. ♣ Concessions to Rewa Dairy have been ongoing over the years and this will be phased out in the next 2 years.
7. Fiji Electricity Authority	♣ **Fuel rebate of 10 cents per litre will be granted.**
8. Bio-fuel projects – companies involved in the production of bio-diesel and ethanol	**Duty free concession on the following items:** ♣ Plant, machinery and equipments for the initial establishment of the factory; and ♣ Chemical required for bio-fuel production.
9. Water Storage Tanks	**Free fiscal duty and free import excise**
10. Energy Conservation goods	**Free fiscal duty and import excise duty on the following items:** ♣ Energy efficient lamps with ratings less than

POLICY	DESCRIPTION
	25watts ♣ Fluorescent tubes and bulbs less than 25watts
11. Renewable Energy Goods	**Free fiscal duty and import excise duty on the following items:** **Wind:** ♣ Wind Resource Monitoring Equipment; and ♣ Wind Turbines and related accessories. **Hydro:** ♣ Hydro Resource Monitoring Equipment; ♣ Hydro Turbines; and ♣ Alternators and related accessories. **Solar:** ♣ Solar Resource Monitoring Equipment; ♣ Solar Panels; ♣ Batteries for Power Supply or Electrification Purposes; ♣ Solar Lights; ♣ Solar Prepayment Meters and other related accessories; ♣ Solar Hot Water Heater and related equipment; and ♣ Solar Water Pumps and related accessories. **Geothermal:** ♣ Drilling Equipment and other related equipment relating to the harnessing of electricity from geothermal sources. **Biomass:** ♣ Steam Cogeneration Plants (Gasifiers) and related technology accessories for power or electricity generation.
12. Returning residents	♣ Removal of duty concession of 27% on used motor vehicles for returning residents ♣ Normal duty rates will apply

Amendment to the Customs Act

POLICY	DESCRIPTION
1. Imports of used and reconditioned motor vehicles (cars, trucks and buses)	♣ Increase age limit for import of used and reconditioned motor vehicle from six years to eight years
2. Trailers	♣ Removal of trailers from Item No. 5 of the 3rd Schedule to Customs (Prohibited Imports and Exports) Regulations

Progressive Resource Tax on Extraction of Water

POLICY	DESCRIPTION
1. Introduction of water resource tax	♣ With effect from 1 January, 2009, water resource tax will be levied for the extraction of water in its natural state for the purpose of bottling for human consumption. ♣ The rates are as follows:

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

Amendment to Export Duty

POLICY	DESCRIPTION
1.Export duty on unprocessed fish	♣ **Export duty of 3 % will be levied on export of unprocessed fish**
2. Export duty on timber	♣ **Export duty of 3% will be levied on raw and unprocessed timber**

APPENDICES

Appendix 1: Statistical Tables

Table 1: Gross Domestic Product (GDP) by Sector ($million)

ACTIVITY ($M)	2005	2006	2007f	2008f	2009f	2010f	2011f
1. Agriculture, Fishing & Forestry	**465.3**	**462.5**	**432.8**	**437.9**	**457.9**	**471.3**	**484.4**
Agriculture	***345.3***	***347.6***	***332.3***	***332.9***	***350.1***	***361.5***	***373.5***
Crops	*192.6*	*190.6*	***178.1***	***177.3***	***193.3***	***203.0***	***213.1***
Sugarcane	114.8	121.2	**94.4**	**87.8**	**96.6**	**101.4**	**106.5**
Other crops	77.8	69.4	**83.7**	**89.5**	**96.7**	**101.6**	**106.6**
Livestock	20.5	23.9	**24.2**	**25.4**	**26.6**	**27.9**	**29.4**
Subsistence	124.4	125.5	**122.8**	**123.4**	**123.9**	**124.5**	**125.1**
Public Sector	7.7	7.7	**7.2**	**6.8**	**6.3**	**6.0**	**5.8**
Fishing	***83.2***	***79.7***	***66.4***	***68.3***	***69.2***	***70.1***	***71.0***
Fishing	53.8	50.2	**37.3**	**39.1**	**39.9**	**40.7**	**41.5**
Subsistence	28.4	28.7	**28.1**	**28.2**	**28.3**	**28.5**	**28.6**
Public Sector	1.0	0.9	**1.1**	**0.9**	**0.9**	**0.9**	**0.87**
Forestry	***36.8***	***35.1***	***34.1***	***36.6***	***38.6***	***39.7***	***39.9***
Forestry	18.9	17.2	**16.5**	**18.9**	**20.9**	**21.9**	**22.2**
Subsistence	17.2	17.3	**16.9**	**17.0**	**17.1**	**17.2**	**17.3**
Public Sector	0.7	0.6	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
2. Mining & Quarrying	**30.0**	**15.1**	**0.3**	**6.7**	**12.1**	**16.7**	**20.1**
3. Manufacturing	**428.3**	**461.4**	**440.9**	**444.8**	**455.7**	**472.9**	**481.3**
Sugar	57.0	60.1	**46.8**	**43.5**	**47.9**	**50.3**	**52.8**
Beverage and Tobacco	91.3	124.2	**121.9**	**130.5**	**134.4**	**139.8**	**142.6**
Other Food Industries	36.9	38.1	**36.2**	**37.5**	**39.4**	**41.4**	**43.4**
Non- Food Industries	*229.9*	*225.4*	***222.1***	***219.1***	***219.6***	***226.8***	***227.5***
Clothing and Footwear	78.3	56.7	**59.6**	**56.6**	**53.7**	**52.7**	**51.6**
Other Non- Food Industries	151.7	168.7	**162.6**	**162.6**	**165.8**	**174.1**	**175.8**
Informal Sector	13.2	13.6	**13.8**	**14.1**	**14.4**	**14.7**	**14.9**
4. Electricity & Water	**114.4**	**120.5**	**122.6**	**122.0**	**124.8**	**127.7**	**130.6**
Electricity	106.0	109.5	**111.5**	**110.3**	**112.6**	**114.8**	**117.1**
Water	8.4	11.0	**11.1**	**11.7**	**12.3**	**12.9**	**13.5**
5. Building & Construction	**178.8**	**199.0**	**152.3**	**152.6**	**153.1**	**153.4**	**153.6**
Private Sector	89.9	105.3	**77.5**	**77.5**	**73.6**	**73.6**	**73.6**
Public Sector	39.5	44.4	**28.5**	**28.5**	**32.8**	**32.8**	**32.8**
Own Account & Self Employment	49.4	49.4	**46.3**	**46.6**	**46.8**	**46.9**	**47.2**
6. Wholesale, Retail	**532.2**	**567.8**	**528.8**	**544.8**	**548.8**	**560.7**	**572.9**

ACTIVITY ($M)	2005	2006	2007f	2008f	2009f	2010f	2011f
Trade Hotels & Restaurants							
Wholesale & Retail Trade	354.8	389.4	**364.9**	**372.2**	**370.7**	**374.5**	**378.4**
Hotel & Restaurant	177.5	178.4	**163.9**	**172.6**	**178.2**	**186.2**	**194.6**
7. Transport & Communication	**422.3**	**408.3**	**391.8**	**404.2**	**418.9**	**431.8**	**445.1**
Transport	315.2	305.9	**296.6**	**307.0**	**317.9**	**328.7**	**339.9**
Communication	107.1	102.5	**95.3**	**97.2**	**101.1**	**103.1**	**105.1**
8. Finance, Insurance, Real Sector & Business Services	**373.0**	**431.2**	**420.6**	**420.5**	**421.9**	**427.7**	**435.2**
Finance	104.4	130.4	**120.0**	**111.9**	**108.9**	**106.8**	**106.1**
Insurance	81.3	81.3	**79.6**	**81.2**	**83.2**	**85.2**	**87.2**
Real Estate & Business Services	187.2	219.4	**220.9**	**227.3**	**229.9**	**235.7**	**241.9**
9. Community, Social & Personal Services	**547.3**	**561.4**	**50 9.3**	**492.7**	**497.9**	**484.0**	**468.6**
less imputed bank service charges	111.7	139.6	**441.1**	**423.4**	**427.7**	**412.7**	**396.2**
GDP at constant prices (1995) Prices	**2,979.9**	**3,087.5**	**2,871.0**	**2,906.3**	**2,974.6**	**3,031.8**	**3,078.2**
GDP at factor cost	**4,296.7**	**4,647.7**	**4,555.3**	**4,992.9**	**5,319.7**	**5,640.3**	**5,963.0**
GDP at Market Prices	**5,069.4**	**5,483.3**	**5,435.9**	**5,958.1**	**6,347.1**	**6,730.5**	**7,115.6**

Source: FIBOS, Macro Policy Committee; f = forecast

Table 2: GDP Growth (% change) by Sector, 2005-2011

ACTIVITY	2005r	2006r	2007p	2008f	2009f	2010f	2011f
Agriculture, Forestry, Fishing & Subsistence	**0.8**	**-0.5**	**-5.7**	**1.2**	**4.6**	**2.9**	**2.8**
Agriculture	**0.0**	**0.8**	**-3.7**	**0.2**	**5.2**	**3.3**	**3.3**
Sugarcane	-6.1	5.5	-22.1	-7.0	10.0	5.0	5.0
Other Crops	10.0	-10.8	20.6	7.0	8.0	5.0	5.0
Livestock Products	0.0	16.6	1.1	5.0	5.0	5.0	5.0
Subsistence	0.4	0.6	0.5	0.5	0.4	0.5	0.5
Public Sector	-0.2	10.0	-15.1	-6.1	-7.2	-3.7	-3.8
Fishing	**7.3**	**-4.3**	**-15.9**	**2.9**	**1.2**	**1.3**	**1.3**

ACTIVITY	2005r	2006r	2007p	2008f	2009f	2010f	2011f
Fishing	11.3	-6.9	-25.7	5.0	2.0	2.0	2.0
Subsistence	0.4	0.6	0.5	0.5	0.4	0.5	0.5
Public Sector	-0.3	-5.2	17.5	-6.3	-4.7	-3.7	-3.8
Forestry	**-4.5**	**-4.6**	**-1.6**	**7.4**	**5.3**	**2.9**	**0.7**
Forestry	-8.5	-9.3	-3.8	15.0	10.0	5.0	1.0
Subsistence	0.4	0.6	0.5	0.5	0.4	0.5	0.5
Public Sector	-0.3	-0.1	1.1	-7.6	-4.7	-3.7	-3.8
Mining and Quarrying	**-30.7**	**-49.8**	**-97.9**	**2045.9**	**80.0**	**38.9**	**20.0**
Manufacturing	**-15.4**	**2.7**	**0.2**	**0.9**	**2.4**	**3.8**	**1.8**
Sugar	-6.1	5.5	-22.1	-7.0	10.0	5.0	5.0
Beverage and Tobacco	28.5	12.4	18.8	7.0	3.0	4.0	2.0
Other Food Industries	-3.2	3.3	-4.8	3.5	5.0	5.0	5.0
Non Food Industries	-29.0	-1.9	-1.6	-1.3	0.2	3.3	0.3
Clothing and Footwear	-54.9	-27.6	5.1	-5.0	-5.0	-2.0	-2.0
Other Non Food Industries	1.0	11.4	-3.8	0.0	2.0	5.0	1.0
Informal Sector	2.6	2.8	2.0	2.0	2.0	2.0	2.0
Electricity & Water	**1.3**	**6.7**	**0.4**	**-0.5**	**2.3**	**2.3**	**2.3**
Electricity	1.2	4.8	0.3	-1.0	2.0	2.0	2.0
Water	2.7	30.7	1.3	5.0	5.0	5.0	5.0
Building & Construction	**26.2**	**8.0**	**-20.6**	**0.2**	**0.4**	**0.2**	**0.2**
Private Sector	88.8	17.1	-26.4	0.0	-5.0	0.0	0.0
Public Sector	-12.4	2.2	-29.4	0.0	15.0	0.0	0.0
Own Account & Self Employment	0.2	-4.2	0.5	0.5	0.4	0.5	0.5
Wholesale & Retail Trade, Hotels & Restaurants	**-1.0**	**4.6**	**-5.0**	**3.0**	**0.7**	**2.2**	**2.2**
Wholesale & Retail Trade	-5.7	6.9	-3.8	2.0	-0.4	1.0	1.0
Hotels & Restaurants	10.0	-0.1	-7.6	5.3	3.2	4.5	4.5

ACTIVITY	2005r	2006r	2007p	2008f	2009f	2010f	2011f
Transport & Communication	**7.1**	**-3.3**	**-4.0**	**3.2**	**3.6**	**3.1**	**3.1**
Transport	**8.7**	**-3.0**	**-3.0**	**3.5**	**3.5**	**3.4**	**3.4**
Communication	2.7	-4.3	-7.0	2.0	4.0	2.0	2.0
Finance, Insurance, Real Estate & Business Services	**10.0**	**15.7**	**-1.8**	**0.0**	**0.4**	**1.4**	**1.7**
Finance	22.7	24.9	-7.9	-6.7	-2.7	-1.9	-0.7
Monetary Institution	21.4	16.8	-4.8	-2.7	-4.2	-3.4	-1.8
Other Financial Institution	27.2	52.3	-16.1	-18.8	2.8	2.8	2.8
Insurance	5.2	0.0	-2.1	2.0	2.4	2.4	2.4
Real Estate & Business Services	5.9	17.2	2.1	2.9	1.1	2.5	2.6
Community, Social and Personal Services	**6.3**	**8.1**	**-13.9**	**-3.3**	**1.1**	**-2.8**	**-3.2**
Personal & Household Services	2.4	2.5	1.9	1.5	1.5	1.5	1.5
Social & Related Community Services	**6.8**	**8.9**	**-16.0**	**-4.0**	**1.0**	**-3.5**	**-4.0**
less Imputed bank service charges	**22.7**	**24.9**	**-7.9**	**-6.7**	**-2.7**	**-1.9**	**-0.7**
Total	**0.6**	**3.4**	**-6.6**	**1.2**	**2.4**	**1.9**	**1.5**

Sources: Fiji Islands Bureau of Statistics and Macroeconomic Committee; r = revised, p = provisional, f = forecast

Table 3: Exports by Major Commodities ($million), 2005-2011

COMMODITIES	2005	2006	2007p	2008f	2009f	2010f	2011f
Sugar	223.7	215.1	185.0	231.3	165.4	174.2	180.0
Molasses	9.9	19.2	10.4	12.2	9.4	6.6	7.3
Gold	59.3	43.1	2.6	26.7	41.2	58.1	72.1
Timber, Cork & Wood	45.1	37.6	47.7	56.3	61.9	66.9	70.2
Fish	82.9	97.9	101.3	116.6	122.5	128.6	135.0
Fruits & Vegetables	29.0	32.8	35.5	33.3	37.3	40.7	44.3
o/w Dalo	19.0	20.9	23.6	23.5	24.7	25.9	27.2
Copra	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yaqona	2.6	3.7	4.2	4.4	4.7	5.2	5.7
Coconut Oil	3.5	2.1	4.4	11.3	12.7	15.0	16.8
Textiles, Yarn & Made Up Articles	13.1	9.8	9.6	8.7	8.7	8.8	9.0
Garments	120.4	94.9	97.1	99.5	99.5	100.5	102.5
Footwear	8.5	4.2	2.9	2.3	2.3	2.4	2.4
Mineral Water	67.9	86.9	105.4	122.4	134.7	148.2	163.0
Other Domestic Export	181.9	187.0	222.7	240.6	252.7	265.3	278.6
Re- Exports	345	367.3	381.0	472.8	484.5	502.9	516.2
Total	**1192.6**	**1201.6**	**1209.8**	**1438.6**	**1437.5**	**1523.2**	**1603.1**

Source: FIBOS, Macro Policy Committee; f = forecast, p = provisional

Table 4: Imports by Category ($million), 2005-2011

ECONOMIC CATEGORY	2005	2006p	2007p	2008f	2009f	2010f	2011f
Food	355.5	386.0	394.3	529.8	561.6	584.0	607.4
Beverage & Tobacco	21.7	22.7	21.6	23.3	24.2	25.2	26.2
Crude Materials	21.7	32.1	24.5	26.1	27.4	28.8	30.3
Mineral Fuels	784.0	1021.5	958.2	1293.6	1358.2	1385.4	1413.1
Oil & Fats	18.1	17.5	24.8	33.4	35.7	38.2	40.9
Chemicals	206.2	224.1	218.5	252.5	257.6	265.3	273.3
Manufactured Goods	452.2	464.1	422.5	450.2	455.7	463.7	471.8
Machinery & Transport Equipment	591.1	688.0	568.8	603.3	622.7	660.4	670.2
Miscellaneous Manufactured Goods	264.0	258.3	246.0	267.1	268.7	270.4	272.0
Other Commodities	8.3	10.0	10.9	28.1	10.4	10.5	10.6
Total	**2722.8**	**3124.3**	**2890.1**	**3507.4**	**3622.2**	**3731.9**	**3815.7**

Source: FIBOS, Macro Policy Committee; f = forecast, p = provisional

Table 5: Balance of Payments ($million), 2005 – 2011

ITEMS	2005	2006	2007f	2008f	2009f	2010f	2011f
BALANCE ON GOODS	**-1291.8**	**-1607.9**	**-1408.7**	**-1789.9**	**-1847.6**	**-1842.1**	**-1847.9**
exports f.o.b	1180.0	1231.5	1214.8	1407.2	1454.5	1557.5	1626.3
imports f.o.b	2471.8	2839.4	2623.5	3197.1	3302.1	3399.5	3474.2
BALANCE ON SERVICES	**481.1**	**400.3**	**367.6**	**439.6**	**455.8**	**575.0**	**715.4**
Export of Services	1369.0	1339.5	1261.1	1376.4	1410.5	1555.6	1719.1
Import of Services	887.9	939.2	93.2	936.8	954.7	980.5	1003.7
BALANCE ON INCOME	**-78.1**	**-209.3**	**-123.3**	**-150.2**	**-152.3**	**-153.7**	**-154.2**
Income from non-residents	135.8	111.9	112.6	109.5	110.2	111.0	110.6
Income to non-residents	213.9	321.2	235.9	259.7	262.5	264.7	26.8
BALANCE ON CURRENT TRANSFERS	**218.5**	**178.8**	**223.1**	**246.9**	**192.7**	**181.6**	**192.9**
Inflow of current transfers	391.4	371.6	342.2	387.7	333.4	322.3	**333.6**
Outflow of current transfers.	172.9	192.8	119.1	140.7	140.7	140.7	140.7
CURRENT ACCOUNT BALANCE	**-670.**	**-1238.1**	**-941.3**	**-1253.6**	**-1351.4**	**-1239.1**	-1093.8

CAPITAL ACCOUNT BALANCE	**-30.1**	**-29.8**	**0.9**	**5.7**	**5.7**	**5.7**	**5.6**
FINANCIAL ACCOUNT BALANCE	**432.9**	**971.1**	**236.7**	**368.2**	**397.5**	**385.0**	349.1
Errors & Omissions	**267.5**	**296.8**	**703.7**	**879.7**	**948.2**	**848.4**	**739.1**
OVERALL BALANCE	**223.2**	**-57.5**	**-93.1**	**12.7**	**12.7**	**12.7**	**12.7**

Source: FIBOS, Macro Policy Committee. Key: f = forecast

Table 6: Tourism Statistics, 2005 – 2011

	2005p	2006p	2007p	2008f	2009f	2010f	2011f
Visitors (000)	**549.9**	**545.2**	**539.3**	**580.0**	**599.8**	**654.1**	**713.2**
o/w Business	39.4	39.1	37.7	40.6	41.9	45.8	49.9
o/w Personal	510,499	506,107	501,507	539,400	557,814	608.280	663,300
Average length of stay (days)	**8.9**	**8.9**	**8.9**	**8.9**	**8.9**	**8.9**	**8.9**
Business	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Personal (tourism purposes)	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Visitors days (millions)	**4.8**	**4.9**	**4.8**	**5.1**	**5.3**	**5.7**	**6.2**
o/w Business	0.3	0.3	0.3	0.3	0.3	0.3	0.3
o/w Personal	4.6	4.6	4.5	4.8	5.0	5.4	5.8
Earnings ($million)	**733.2**	**741.7**	**682.6**	**753.7**	**791.9**	**907.4**	**1039.2**
o/w Business	48.4	49.1	44.3	48.7	51.0	58.1	66.3
o/w Personal	684.8	692.6	638.3	705.0	740.9	849.2	972.9

Source: FIBOS, Macro Policy Committee; f = forecast, p = provisional

Table 7: Sugar Production, Export and Price, 2005 – 2011

	2005	2006	2007f	2008f	2009f	2010f	2011f
Cane Production (million tonnes)	2.8	3.1	2.4	2.2	2.5	2.6	2.7
Sugar Production (000 tonnes)	289	308	240	223	245	257	270
Cane to Sugar Ratio(per tonne)	9.7	10.1	10.3	10.4	9.0	9.0	9.0
Export Quantity Sugar (000 tonnes)	303.0	250.0	220.0	243.8	245.5	257.8	270.7
Unit Value (FJ$/tonne)	738.2	860.3	840.9	948.6	673.6	675.6	665.1
Sugar Export Earnings (FJ$m)	223.7	215.1	185.0	231.3	165.4	174.2	180.0

	2005	2006	2007f	2008f	2009f	2010f	2011f
Molasses Production (000 tonnes)	94.5	116.0	114.8	123.0	135.0	128.8	128.8
Molasses Export Earnings (FJ$m)	9.9	19.2	10.4	12.2	9.4	6.6	7.3
Price Paid to Growers (FJ$/tonne)	55.48	58.12	59.05	46.26.	46.26	46.26	46.26

Source: FIBOS, Fiji Sugar Corporation, Macro Policy Committee

Table 8: Inflation Rates (2004 – September 2008)

	2004	2005	2006	2007	2008 (Oct)
All items	2.8	2.4	2.5	4.8	8.5
Food	3.8	1.7	1.8	5.2	14.0
Alcohol Drinks & Tobacco	4.3	3.7	2.5	3.9	4.4
Housing	1.2	1.1	2.5	1.9	1.0
Heating & Lightning	8.3	14.3	6.6	3.7	14.8
Durable Household Goods	0.8	-0.6	1.8	0.5	3.2
Clothing & Footwear	-1.1	1.0	1.4	-1.8	1.5
Transport	1.5	4.5	4.4	-1.1	11.8
Services	3.2	1.5	1.3	3.1	0.4
Miscellaneous	1.4	-3.4	2.9	2.0	6.1
Memorandum Items: Annual Average inflation rates	**2.8**	**2.4**	**2.5**	**4.8**	**8.5**

Source: FIBOS

Table 9: Employment by Sector, 2001-2006 (in thousands of persons)

ECONOMIC ACTIVITY	2001e	2002e	2003e	2004e	2005e	2006e
Agriculture, forestry & Fishing	1.7	1.7	1.7	1.7	1.7	1.8
Mining & Quarrying	1.8	1.8	1.9	1.9	1.9	1.9
Manufacturing	24.7	24.8	25.1	25.3	25.4	25.5
Electricity, Water & Gas	2.3	2.3	2.3	2.3	2.3	2.4
Construction	6.7	6.8	6.8	6.9	6.9	6.9
Distribution (incl. Tourism)	23.3	23.3	23.7	23.8	23.9	24.0
Transport & Communication	9.6	9.6	9.8	9.8	9.8	9.8
Finance, Insurance & Business Services	7.0	7.0	7.1	7.1	7.2	7.2
Other Services	36.9	37.1	37.5	37.7	37.9	38.0
Total	**114.0**	**114.4**	**115.9**	**116.5**	**117.0**	**117.5**