Commodore Josaia Voreqe Bainimarama, CF(Mil), OStJ, MSD, jssc, psc

Prime Minister and Minister for Finance and National Planning

2010 Revised Budget Address

Cabinet Ministers;

Your Excellencies;

Distinguished Ladies and Gentlemen; and,

Fellow Fijians.

Bula Vinaka and Good Morning to you all.

In my 2010 Budget Address on 27 November last year, I emphasized that we must all collaborate “*To Strengthen the Foundation of our Economic Growth and Prosperity”.*

I also announced that we needed to be prudent with our finances. Therefore, notwithstanding the need to modernize, to carry out major infrastructural works, provide a support net for the poor, and spur economic activity, we had to cap the deficit at 3.5 percent of GDP.

These two objectives have remained the same.

So what has changed? What requires this revision that I am going to announce today?

Let me explain.

As you are aware Government has been in discussions with the IMF. The visit in April by the IMF mission triggered negotiations on a possible IMF-supported programme for a standby arrangement or commonly known as SBA. Further consultations are necessary this respect. Government of course will make its own decision after carrying out its own assessment of the implications of taking up such a facility, placing paramountcy on what is in the best interest for Fiji and her people.

What however the various IMF consultations and technical assistance have revealed, is that, accounting standards adopted by previous Government's have not been compliant with international best practice.

Therefore, in order to provide the true picture of government finances we need to commence adopting international public sector accounting standards.

To move from cash to accrual accounting it is imperative that we adopt such practices.

Put simply we have to recognize and set as our foundation the true position of Government finances.

Accordingly, foreign financed projects paid directly to contractors, which were hitherto excluded, will now be included as part of Government's capital budget. These, for example, include ADB funded projects.

Therefore, the original 2010 deficit would shift from 3.5% of GDP to 4.9%. In other words you would have an expenditure budget of 1.790 billion dollars as opposed to the forecast of 1.706 billion dollars, raising the deficit to 304 million dollars.

In addition, the un-anticipated expenditures which I will elaborate on later would have pushed the deficit levels in excess of 5%. Given my Government's objective to maintain prudent financial management, this would have been an untenable situation.

As I mentioned earlier, there have been some un-anticipated expenditures. In December last year Cyclone Mick struck. A few months later in March, Cyclone Tomas affected most of Vanua Levu, Lau and other regions, in particular in the maritime zone. The aggregate cost of the damage caused by these two natural disasters was approximately 143 million dollars.

The unexpected termite infestation and the urgent need to dredge waterways such as the Rewa River necessitated the need to expand expenditure.

Given these imperatives and the need to put in place proper practices to consolidate economic growth, a revision of the budget became imperative.

Such a revision will not only give the true position but it will create transparency, ensure that policies are made using sound and accurate financial records and practices.

Before I announce the revised budget framework, let me briefly capture some of the salient issues and the activities over the previous 6 months.

Our reserves position remains healthy at above 1 billion dollars. However, we need to sustain and grow our reserve level by reducing our current account deficit. This means concerted effort is needed to raise our exports, increase food security by growing more local foods and in the process reduce imports.

Our Agriculture and Tourism sectors have greater potential to raise our export earnings. The land reforms which I shall discuss later will be crucial to developing and encouraging commercial farming and general investor and small farmer confidence.

With improved liquidity in the financial system and the effect of devaluation on import prices, inflation continued to rise until April this year. Price increases are expected to stabilize since the maximum impact of devaluation has now been realized, with the year-end inflation projected at five (5) percent.

The control of interest rate spread has been relaxed by the Reserve Bank of Fiji (RBF). However, we expect that the financial sector will act responsibly and maintain its interest rates within a reasonable band that is conducive to savings, investment, national development and sustained economic growth.

The RBF will continue its focus to ensure that the monetary policy objectives of low inflation and adequate reserves are adhered to.

While the GDP growth rate is revised to 1.8 percent, the improvements in the economies of our trading partners are expected to spur the re-growth of exports. We, however, need to be vigilant about the rate of imports outstripping exports.

Some of the key measures implemented over the past 6 months have included the commercial management of Government quarters and properties beginning in the Central Division. The reform of Fiji Sugar Corporation has also commenced. The reorganization of the Government Supplies Department into the Fiji Procurement Office (FPO) is underway and is expected to be fully operational by September this year.

The Water Authority of Fiji (WAF) is now fully operational and the transfer of assets and liabilities to WAF from the Water and Sewerage Department will be completed by August of this year.

The reorganization of the Fiji Islands Maritime and Safety Authority and the Quarantine Department into commercial statutory authorities is expected to be completed within this year.

Preparatory works have begun on the reorganisation of the Fiji Electricity Authority (FEA). Restructure of the electricity tariff rates have commenced which will buffer the poor but concomitantly reflect market prices and incentivize independent power producers (IPPs). It should be noted that IPPs generally use renewable energy to supply to the national grid. This has an added advantage as it reduces our dependency on fossil fuel and is better for the environment.

Government is currently assessing proposals on public private collaboration regarding the management of Post Fiji.

It is expected that Government Printing shall be available on the market within this year.

The Fiji Meteorological Services Department has been identified for reorganization with an assessment in train to determine the best option forward.

Major works have been undertaken to improve the country's infrastructure, particularly road networks, water and sewerage systems, and bridges.

Naim of Malaysia has been contracted for the rehabilitation of the seriously deteriorated sections of the highway between Suva and Nadi and Nadi and Rakiraki. This project will be funded by a US40 million dollar facility through the Exim Bank of Malaysia.

Contracts have also been awarded for the rehabilitation of the Nausori Highland Road and the sealing of Lodoni Road. Works are progressing on the widening of the Ratu Dovi and Kings Road in the Suva-Nausori corridor, which are expected to relieve traffic congestion for the large population residing in that area.

The rehabilitation work in Wailada subdivision in Lami has been facilitated.

Through the grant assistance from the Chinese Government, the construction of the Naqali and Navuso Bridges were completed early this year providing improved access for the communities in those respective areas.

The Housing Authority, through the support from Government, has secured a loan of US50million dollars from the EXIM Bank of China for the construction low cost housing in the Central Division.

A symposium for resource based sectors was held in mid-April. About 350 stakeholders drawn mainly from the private sector, particularly farmers, participated in it. Based on the deliberations a number of initiatives were proposed and are being implemented including the availability of credit for agricultural purposes at concessional rates of interest and incentives for honey production.

Government has also focused on liberalizing the economy by way of, for example, removing price control where appropriate. At the same time Government has referred matters to the Commerce Commission where collusion and anti-competitive behavior exists. In this respect I will ensure for the benefit of all our citizens that businesses through anti-competitive behavior do not hinder our ability to grow our economy.

The removal of price control on chicken has meant that the Poultry Industry will invest approximately 7 million dollars within the next 12 months, more small farmer chicken holdings will be created, export opportunities will be realized and the recipients of food vouchers will be able to purchase certain chicken products at discounted prices.

Ladies and Gentlemen, the framework for the Revised 2010 Budget takes into account the various achievements, the un-anticipated challenges and the need to maintain monetary and fiscal discipline.

While at the same time it recognizes the need for Government to provide impetus to the economy; facilitate collaboration with and provide incentives to the private sector; to ensure continued Government responsibility to reduce operational costs; facilitate competition to create robustness within the economy; ensure that we look after the poor and those on the margins; improve service to the public; and, to continue to modernize and reform.

Therefore, the food voucher programme initiated this year will be continued and expanded to cover all recipients of the Family Assistance Scheme. In addition, bus fare subsidy targeted at low income families and text book assistance to students and schools will continue.

Government remains committed to infrastructure development. Therefore, decrease in capital expenditure is minimized. Reductions in this area are based on anticipated savings or under-spending in project allocations due to delays in implementation, as well as those projects that are deemed not ready for commencement in the next six months.

Reductions have also been made to foreign financed projects in the capital budget where loan disbursements are unlikely to be fully drawn down during this financial year.

Before I elaborate further, I wish to reaffirm that my Government remains committed to the mandate given by His Excellency the former President, Ratu Josefa Iloiloivatu Uluivuda. That is, to strengthen the foundations of economic growth and prosperity for Fiji and all Fijians, based on common and equal citizenry, through a responsible and transparent Government.

We believe that fiscal accountability and prudent financial management is central to fulfilling this mandate. The sacrifices we make today will reinforce the foundation for future growth and economic stability.

Ladies and Gentlemen, taking into account the revenue measures and expenditure cuts, the 2010 Revised Budget framework estimates total revenue at $1.496 billion and a total estimated expenditure of $1.715 billion. The original 2010 Budget framework estimated a revenue of $1.486 billion and a total expenditure of $1.790 billion.

The Revised Budget projects operating expenditure at $1.283 billion and capital expenditure at $385 million, of which $32.0 million accounts for foreign financed projects.

The estimated net deficit is $218.0 million or 3.5 per cent of the nominal GDP at $6.188 billion.

In this Revised Budget, Government will reduce expenditure by about $75 million in total, comprising of a 44 million dollar reduction in operating expenditure and a $24 million dollar reduction in capital expenditure whilst 7 million dollars is the reduction in the VAT component.

In addition to reductions in expenditure, we expect to generate additional revenue of about 10 million dollars through new measures which I shall detail later.

In terms of operating expenditure, we have reduced salary and wage related expenses by about 40 million dollars. Strategies are being employed to limit filling of vacancies within Ministries and Departments to only essential technical positions. We have also applied across the board cuts on controllable expenses such as telecommunications, printing, stationery and other day-to-day operating costs.

Ladies and Gentlemen, the structure of the Fijian economy has changed quite rapidly with the GDP contribution of resource-based sectors declining over the last two decades. However, my Government has and will continue to focus on the resource based sector including agriculture. We believe through well planned, targeted and paradigm shifts, we will be able to arrest the decline. In fact we expect growth.

On Wednesday, 2 days ago Cabinet approved the Land Use Decree. Essentially this law provides the legal framework for leasing of iTaukei and State owned land at market rates. The law allows for the establishment of a land bank from which potential investors and farmers can sub-lease or lease land from the State for a lease period up to 99 years. It will provide certainty of tenure, improved rental return to the iTaukei landowners and to the State. It will provide the much needed trajectory to the economy. It will provide numerous opportunities.

In addition the Mahogany Industry Decree has been finalized and expressions of interest have already been received. The Mahogany Council will over the next few months issue licences. Already a number of exciting proposals and opportunities have been identified to create a Mahogany Industry based on value adding and employment creation.

Revenue Measures

Ladies and Gentlemen, I now turn to the new revenue measures in this Revised Budget of 2010.

The revenue measures are targetted to strengthen and support policies that:

1. Promote export and import substitution;

2. Promote local production to support food security;

3. Reduce importation of fuel through reduction of duty on fuel-efficient vehicles;

4. Broaden the revenue base;

5. Support the development of capital markets in Fiji and promote Fiji as a financial centre for the region;

6. Strengthen compliance;

7. Provide assistance to the poor and those on the margins; and

8. Provide improved primary and maternal health care.

Direct Tax Measures

Dividend Paid by Listed Companies Under South Pacific

Stock Exchange (SPSE)

To further encourage listing of companies on the South Pacific Stock Exchange (SPSE) and position Fiji as a regional financial centre, the distribution of dividend from listed companies to shareholders will be treated as deemed tax paid. This incentive is in addition to the recently announced reduced corporate tax rate of 20 percent for listed companies.

Indirect Tax Measures

Value Added Tax (VAT) on General Insurance

To augment the VAT net, the 12.5 percent VAT will be levied on General Insurance with the exception of Medical, Term Life and Workers Compensation. The imposition of VAT on general insurance is consistent with practices in jurisdictions such as Australia and New Zealand.

Motor Vehicles

To assist low and middle income earners in purchasing new fuel efficient motor vehicles, the fiscal duty on new motor cars and other passenger vehicles with capacity not exceeding 1500cc will be reduced from 32 percent to 15 percent.

The age limit for used or reconditioned motor vehicles imports will be reduced from 8 to 5 years.

These measures will also assist in reducing fossil fuel imports and minimize pollution.

New Buses

To improve quality and safety of public service transport, the fiscal duty on new buses for the transport of 23 persons or more will be reduced from 32 percent to 5 percent and import excise reduced from 15 percent to 5 percent - a total of 10 percent. I encourage all bus proprietors to take advantage of this reduction as soon as possible.

New Trucks

To ensure the availability of affordable transport for commerce, the fiscal duty on new trucks of gross vehicle weight not exceeding 3 tonnes will be reduced from 32 percent to 15 percent.

Jetski

To further Government’s policy of creating a tangible marine and water based industry and to create opportunities in the tourism sector, the duty rate for jetskis will be reduced from 32 percent to 5 percent.

Tariff Changes

To encourage local production of vegetables, the duty on all imported fresh vegetables currently under the 5 percent duty band will be increased to 15 percent.

To assist companies engaged in the processing of peas, the fiscal duty on shelled peas will be reduced from 5 percent to 0 percent. As you are aware, split peas, rice and tin fish were zero rated following world commodity and food price increases. These ratings will be maintained to assist low income earners.

Increase in Airport Departure Tax

The Airport departure tax will be increased from $75 to $100.

FIRCA Compliance

FIRCA's compliance initiatives include the introduction of e-payment from today; the door to door registration which has already commenced; the mandatory requirement to have all business licences, bank accounts and other business registrations to have a tax identification number; and the rewrite of the Income Tax Act with the assistance of IMF, to bring about clarity, simplicity and transparency. Work will commence in September of this year and it is expected that the new tax laws will be effective from 1st June, 2011.

Ladies and Gentlemen, the Revised Budget I have presented this morning is aimed at maintaining macroeconomic stability as the economy continues to recover from global as well as domestic challenges.

The Revised Budget presents the true picture of our finances. Just as the write down in the FNPF books was essential to capture the true value of the Members funds, so it is necessary to do so with Government finances. However, as seen from the FNPF experience, the recognition and acceptance of the true position of finances while initially difficult to swallow does instill confidence. It ensures that decisions are based on sound analysis, on a sound foundation. By adopting best practices, it also means that international institutions are comfortable and have the confidence in dealing with us.

In this respect Government will continue to engage with its traditional development partners and explore new opportunities with its new friends under the Look North Policy.

It is on this basis, Ladies and Gentlemen, that I challenge you all, and you all and not only those in this room but every single citizen of our beloved country to work in collaboration to ensure that we realize our true potential. We are in an exciting phase of the development of our country. A phase that has policies that will lay the foundations of long term and sustained economic growth for the well being of Fiji and all her people.

I thank you for your attention. I now commend with the support of Cabinet the Revised 2010 Budget to the Nation.

Vinaka Vakalevu.