

REPUBLIC OF FIJI

**ECONOMIC AND FISCAL UPDATE:
SUPPLEMENT TO THE 2008 BUDGET ADDRESS**

*“BUILDING A PLATFORM FOR QUICK RECOVERY AND
SUSTAINABLE GROWTH”*

Ministry of Finance, National Planning and Sugar Industry
23 November 2007

FOREWORD

The 2008 Economic and Fiscal Update provides an overview of Fiji's economic and financial performance in 2008, 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, National Planning and Sugar Industry 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 23 November 2007.

The Economic and Fiscal Update is a "Supplement to the 2008 Budget Address", and as such spells out in more detail the economic and financial policies underlying the 2008 Budget.

Peceli Vocea
Permanent Secretary for Finance, National Planning and Sugar Industry
23 November 2007

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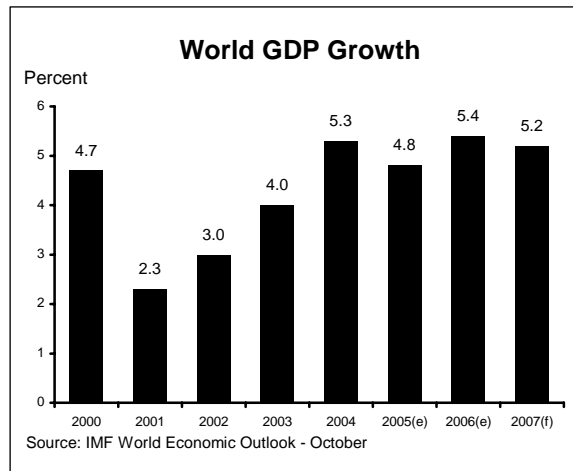
CHAPTER 1: ECONOMIC PERFORMANCE AND OUTLOOK (2007-2010)

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 economic and financial conditions remain upbeat, with great optimism for this year's outlook. China continues to be the engine for world growth, helped by emerging markets such as India and Russia. These three economies have to some extent emerged onto the international scene as significant contributors to global growth.



1.3 World growth is also supported by above-trend performances in the Euro area and Japan, where domestic demand is driving the expansion. The United States (US) is recovering from the effects of the slump in its housing market. However, recent indicators suggest that the US economy managed to regain some momentum in the second quarter. However, the sub-prime mortgage crisis is expected to hinder growth in the third and fourth quarters.

1.4 The International Monetary Fund estimates that the world economy will expand by 5.2 percent this year. For 2008, the global growth outlook has been lowered to 4.8 percent, however, this is still well above the long-run average.

1.5 There are a few factors that could derail global growth prospects in the medium term. Supply constraints are tightening and inflation risks have edged up, with sustained strong global growth increasing the likelihood that central banks will further tighten monetary policy. The risk of further oil price spikes remains a concern, especially in light of the limited spare production capacity. Finally, geo-political tensions could also disrupt global growth prospects.

Fiji's Trading Partners

1.6 Positive growth is envisaged for our trading partners in 2007 in spite of a slowdown in the US economy. Economic growth rates for Australia and New Zealand for 2007 are expected to be stronger than last year.

1.7 The Australian economy is projected to expand by 4.4 percent this year, after achieving a growth of 2.7 percent in 2006. The higher growth is expected to be supported by business investment, rising exports and household consumption.

1.8 Japan is projected to grow by 2.0 percent this year, supported by private consumption and industrial production. Growth is expected to be marginally lower when compared with the 2006 expansion of 2.2 percent.

1.9 For the Euro-zone economy, growth is forecast at 2.5 percent, slightly lower when compared to a 2.8 percent growth in 2006, supported by industrial production and retail sales.

1.10 The growth of the US economy is expected to slow to 1.9 percent this year, largely attributed to expected declines in private consumption, business investment and industrial production. The US economy grew by 2.9 percent in 2006.

1.11 For the New Zealand economy, growth is forecast to pick up to 2.8 percent this year, after a 1.6 percent growth last year. Anticipated increases in business investment and, despite some recent signs of slowing, household consumption underpin this growth outlook.

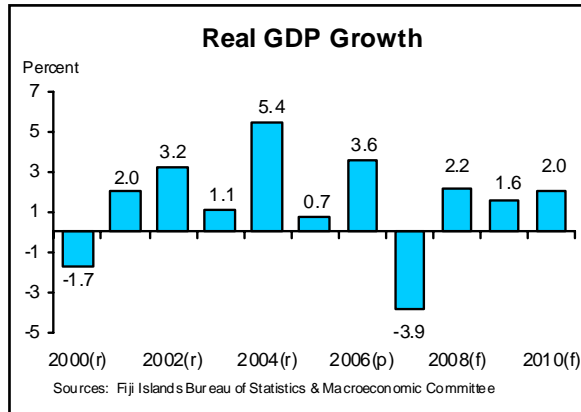
1.12 Looking ahead, growth for all our major trading partners is expected to stagnate or slow in 2008. US economic growth is expected to be at the same rate of 1.9 percent, while for Japan and the Euro region,

growth is projected to slow to 1.7 percent and 2.1 percent, respectively. Growth in the Australian and New Zealand economies are also projected to slow to 3.8 percent and 2.3 percent, respectively.

Domestic Outlook

Overview: 2006

1.13 Fiji's economy is estimated to have grown by 3.6 percent in 2006, an improvement from the marginal growth of 0.7 percent registered in 2005. Growth was mainly driven by robust performance in the finance, insurance, real estate & business services; wholesale & retail trade, hotels & restaurants; manufacturing and building & construction sectors. Other sectors estimated to have performed well were the community, social & personal services and electricity & water sectors. However, declines were recorded in the mining & quarrying; transport & communication and agriculture, forestry, fishing & subsistence sectors.



1.14 The finance, insurance, real estate & business services sector is estimated to have grown by 15.6 percent as a result of increased activity in the monetary, other financial and real estate industries.

1.15 A 6.7 percent rise in the wholesale & retail trade and hotels & restaurants sector was primarily due to growth in the wholesale & retail trade industry. The hotels & restaurants industry registered a marginal growth of 0.1 percent. Visitor arrivals in 2006 declined by 0.9 percent on an annual basis while annual hotel turnover growth slowed to 6.0 percent last year compared to the 15.4 percent increase registered in 2005.

1.16 Despite a 27.6 percent decline in the clothing & footwear sub-category, the entire manufacturing sector grew by 7.7 percent. This was largely underpinned by strong growth within the beverage & tobacco, other non food and other food industries.

1.17 Positive performances in both the private and public construction sub-sectors supported the building & construction sector's growth of 11.3 percent. In 2006, private sector construction projects included the Carpenters Tower, the Fiji Islands Revenue & Customs Authority's (FIRCA) head office, and the Great Council of Chiefs (GCC) complex, Mid City Plaza, the Fiji National Provident Fund (FNPF) /Tappoo Retail Outlet, Sofitel Island Resort & Spa, Port Denarau Retail & Commercial Centre and the Hilton Fiji Beach Resort & Spa.

1.18 Additionally, the electricity & water sector grew by 5.3 percent due to a substantial increase in activity within the water industry.

1.19 In contrast, contractions in the other crops, fishing and forestry industries contributed to a decline of 0.6 percent in the agriculture, forestry, fishing & subsistence sector.

1.20 Output in the mining & quarrying sector deteriorated significantly in 2006. Last year, gold production totaled close to 46,000 ounces, 49.2 percent lower than the level in 2005. On 5 December, Emperor Gold Mining (EGM) Company Limited announced the closure of the Vatukoula gold mine, citing it was no longer viable to continue mining.

1.21 Similarly, the transport & communication sector registered a contraction of 3.3 percent in 2006. The decline was mainly due to lower activity in the services allied to transport; communication and water transport industries.

Overview: 2007

1.22 This year, the domestic economy is forecast to contract by 3.9 percent. The contraction for 2007 is expected to be sectorally broad-based, with the exception of the electricity & water sector, which is projected to grow by 2.3 percent. The major sectors envisaged to drive the anticipated economic decline for this year are the community, social & personal services; building & construction; wholesale & retail trade, hotels & restaurants; and finance, insurance, real estate & business services sectors.

1.23 The decline of 6.1 percent projected for the community, social & personal services sector is mainly a result of expected lower operating

spending by Government as the Interim Administration aims to consolidate its fiscal position this year.

1.24 Lower investor confidence coupled with the winding down and completion of several large private sector construction projects underpin the expected 14.8 percent decline in the building & construction sector for this year. Major projects that are ongoing include construction work at the Carpenters Tower, FNPF/Tappoo Retail Outlet, GCC complex, the FIRCA new headquarters, Laucala Island Resort and Funworld Centre. In addition, construction work at the Natadola Bay Project has recommenced after being held up for nearly half the year.

1.25 The estimated slowdown in imports and projected declines in tourist arrivals and hotel turnover for this year are expected to have a negative impact on the performance of the wholesale & retail trade and hotels & restaurants and transport & communication sectors. The wholesale & retail trade, hotels & restaurants sector is projected to decline by 4.3 percent, on account of a 3.5 percent contraction in the wholesale & retail trade industry and a decline of 8.0 percent in the hotels & restaurants category. Furthermore, the transport & communication sector is expected to contract by 2.9 percent underpinned by envisaged declines in the air transport; communication; and services allied to transport sub-sectors.

1.26 Similarly, projected declines in the number of commercial bank deposits, a slowdown in the number of loans extended combined with annually lower credit to other financial institutions and slower lending to the real estate industry underline the 4.2 percent decline envisaged for the finance, insurance, real estate & business services sector.

1.27 In terms of the mining & quarrying sector, Westech Gold Fiji Limited has taken over the operations of the EGM and the new company has started rehabilitation and maintenance work at the mine to facilitate commencement of mining activity at Vatukoula. At this stage, no gold production is envisaged for 2007. The re-opening of the mine has resulted in the re-employment of around 150 people, which is expected to increase further as operations at the mine gain momentum.

1.28 The agriculture, forestry, fishing & subsistence sector is expected to contract by 2.0 percent this year on account of an anticipated decline in the sugarcane industry which was affected by flash floods and drought conditions earlier this year. Lower sugar production as a result of the poor 2007 cane crop underpins the 1.0 percent contraction projected for the

manufacturing sector as well. In addition, expected declines in the beverage & tobacco and clothing & footwear industries are also influencing the negative performance of the manufacturing sector in 2007.

Overview: 2008

1.29 The Fiji economy is forecast to grow by 2.2 percent in 2008. The growth outlook for 2008 is predominantly based on a projected turnaround in the sugar and tourism industries, which is anticipated to provide the impetus for positive performances in the agriculture, forestry, fishing & subsistence; manufacturing; transport & communication; and wholesale & retail trade and hotels & restaurants sectors. In addition, the electricity & water and building & construction sectors are expected to be the other drivers of growth next year.

1.30 Projected growth in the sugarcane industry, coupled with an anticipated expansion in the livestock, other crops, fishing and forestry industries is expected to contribute to a 4.1 percent rise in the agriculture, forestry, fishing & subsistence sector.

1.31 The manufacturing sector is forecast to expand by 3.1 percent underpinned by expected increases in the production of sugar, beverages & tobacco, frozen chicken, biscuits, flour, printing paper and plastic products.

1.32 In addition, a growth of 2.5 percent is envisaged for the transport & communication sector on account of projected increased activity in the services allied category; water transport; and communication industries.

1.33 The wholesale & retail trade and hotels & restaurants sector is anticipated to grow by 1.6 percent. In particular, the hotels & restaurants industry is projected to expand by 2.8 percent. Visitor arrivals next year is expected to total 540,000, representing nearly 6.0 percent growth over the 510,000 visitors projected for 2007.

1.34 Growth in the electricity & water sector is forecast at 5.0 percent. In addition, the building & construction sector is envisaged to grow by 1.7 percent on the back of improved construction activity by the private sector.

Overview: 2009 and 2010

1.35 Growth in 2009 and 2010 is currently projected at 1.6 percent and 2.0 percent, respectively. Growth over this period is forecast to be mainly underpinned by the manufacturing; agriculture, forestry, fishing & subsistence; transport & communication; wholesale & retail trade and hotels & restaurants sectors.

Percentage Change	2002(r)	2003(r)	2004(r)	2005(r)	2006(p)	2007(f)	2008(f)	2009(f)	2010(f)
Agriculture, Forestry, Fishing & Subsistence	4.9	-4.0	5.1	1.1	-0.6	-2.0	4.1	3.5	3.2
Agriculture	4.6	-2.3	2.1	0.2	0.7	-3.2	3.9	4.0	5.4
Crops	6.1	-4.8	2.5	-0.2	-1.1	-6.4	5.8	7.4	8.8
Sugarcane	2.4	-2.9	1.0	-6.1	5.5	-13.0	5.0	7.0	8.0
Other Crops	13.3	-7.9	5.2	10.0	-10.8	5.0	7.0	8.0	10.0
Livestock Products	13.0	5.0	9.3	0.0	16.6	5.0	5.0	3.0	3.0
Subsistence	0.7	1.2	0.6	1.0	0.8	1.1	0.6	0.8	0.8
Public Sector	10.8	-9.0	-1.3	-0.2	-0.3	-19.2	11.4	-23.8	0.0
Fishing	10.7	-19.8	24.1	7.4	-4.2	1.1	4.6	1.4	-6.2
Fishing	17.6	-32.8	44.5	11.4	-6.9	1.0	7.0	2.4	-10.0
Subsistence	0.7	1.2	0.6	1.0	0.8	1.1	0.6	0.8	0.8
Public Sector	-24.8	137.3	1.4	-0.3	-7.2	4.5	-5.1	-45.0	0.0
Forestry	-4.4	15.0	0.2	-4.2	-4.5	2.8	5.3	2.8	3.0
Forestry	-9.2	30.3	-0.2	-8.5	-9.3	5.0	10.0	5.0	5.0
Subsistence	0.7	1.2	0.6	1.0	0.8	1.1	0.6	0.8	0.8
Public Sector	-3.1	-5.8	4.2	-0.3	-4.7	-8.2	-1.5	-11.3	0.0
Mining and Quarrying	-3.6	-5.6	14.7	-30.7	-49.8	-100.0	0.0	0.0	0.0
Manufacturing	0.8	-1.0	12.8	-15.4	7.7	-1.0	3.1	3.8	3.4
Sugar	2.3	-2.8	1.0	-6.1	5.5	-13.0	5.0	7.0	8.0
Beverage and Tobacco	12.3	17.4	15.1	28.5	36.0	-3.0	2.0	2.0	3.0
Other Food Industries	10.8	4.4	6.7	-3.2	3.5	3.0	5.0	5.0	5.0
Non Food Industries	-2.4	-4.7	16.1	-29.0	-2.0	2.5	3.1	3.9	2.3
Clothing and Footwear	-12.2	-10.9	24.6	-54.9	-27.6	-5.0	0.0	0.0	0.0
Other Non Food Industries	12.0	2.4	7.6	1.0	11.2	5.0	4.0	5.0	3.0
Informal Sector	2.5	2.5	2.7	2.6	2.8	2.0	2.0	2.0	2.0
Electricity & Water	4.3	4.1	3.9	1.3	5.3	2.3	5.0	3.2	5.0
Electricity	4.4	4.1	2.5	1.2	3.3	2.0	5.0	3.0	5.0
Water	2.4	4.4	24.7	2.7	30.7	5.0	5.0	5.0	5.0
Building &	8.0	8.2	4.2	26.3	11.3	-14.8	1.7	0.2	2.3

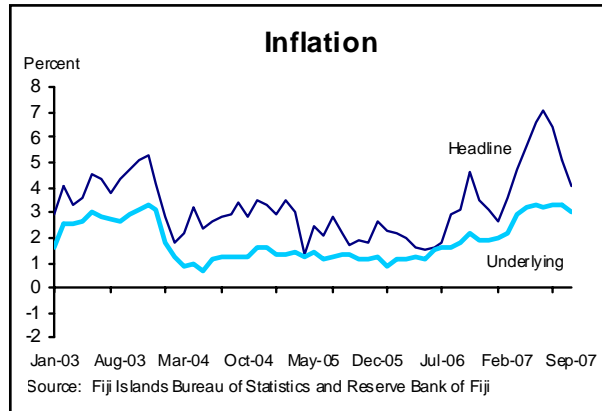
Percentage Change	2002(r)	2003(r)	2004(r)	2005(r)	2006(p)	2007(f)	2008(f)	2009(f)	2010(f)
Construction									
Private Sector	2.4	35.0	29.9	88.8	17.1	-20.0	3.0	0.0	0.0
Public Sector	21.9	1.0	-10.9	-12.4	12.4	-20.0	0.0	0.0	0.0
Own Account & Self Employment	-0.7	0.7	0.5	0.9	0.0	1.1	0.6	0.8	8.0
Wholesale & Retail Trade, Hotels & Restaurants	0.2	2.4	12.7	-1.0	6.7	-4.3	1.6	2.3	1.9
Wholesale & Retail Trade	-3.0	1.9	11.2	-5.7	9.8	-3.3	1.0	2.0	1.0
Hotels & Restaurants	8.9	3.5	16.4	10.0	0.5	-6.4	2.8	2.8	3.7
Transport & Communication	8.5	3.4	-1.7	7.1	-3.3	-2.9	2.5	4.4	3.0
Transport	10.2	3.3	2.1	8.7	-3.0	-2.5	2.7	4.6	3.4
Communication	4.7	3.6	-10.9	2.7	-4.3	-4.0	2.0	4.0	2.0
Finance, Insurance, Real Estate & Business Services	-1.6	-11.6	3.9	10.1	15.6	-4.2	-0.7	1.3	1.3
Finance	-7.7	-21.8	6.9	22.7	24.9	-16.0	-6.7	0.5	0.3
Monetary Institution	-6.7	-13.9	-2.4	21.4	16.8	-14.2	-9.1	0.4	0.1
Other Financial Institution	-10.9	-49.1	61.5	27.2	52.3	-20.8	0.0	0.6	0.6
Insurance	8.7	-24.8	3.3	5.2	0.0	-0.1	2.0	2.4	2.4
Real Estate & Business Services	-3.3	2.4	2.8	6.2	17.2	1.3	1.2	1.3	1.3
Community, Social and Personal Services	3.4	7.3	-0.7	6.3	2.6	-6.1	-0.2	-4.6	-2.2
Personal & Household Services	2.8	2.4	2.4	2.4	2.5	0.7	1.5	1.5	1.5
Social & Related Community Services	3.5	8.0	-1.1	6.8	2.6	-7.0	-0.5	-5.5	-2.8
<i>less Imputed bank service charges</i>	-7.7	-21.8	6.9	22.7	24.9	-16.0	-6.7	0.5	0.3
Grand Total	3.2	1.1	5.4	0.7	3.6	-3.9	2.2	1.6	2.0

Sources: Fiji Islands Bureau of Statistics and Macroeconomic Committee

Other Key Macro-Economic Indicators

Inflation

1.36 Consumer prices eased in January this year to 2.6 percent after reaching 3.1 percent at the end of 2006. Since then, inflation trended upwards in the first half of the year, reaching its peak in June at 7.1 percent. However, inflation



began to ease from July and fell to 3.4 percent in October. This was largely underpinned by an improved supply of market items and lower prices of food items, a factor which featured notably in the high inflation numbers in the earlier months. The reduction in mark up prices of basic food items by the Prices and Incomes Board also lowered prices further in October.

1.37 The trimmed mean, a measure of underlying inflation ranged from 2.0 percent to 3.3 percent during the January-October period of this year.

1.38 In the approaching months, price pressures emanating from higher global crude oil prices and average trading partner inflation are expected to be mitigated by lower domestic inflation and a relatively weaker US dollar.

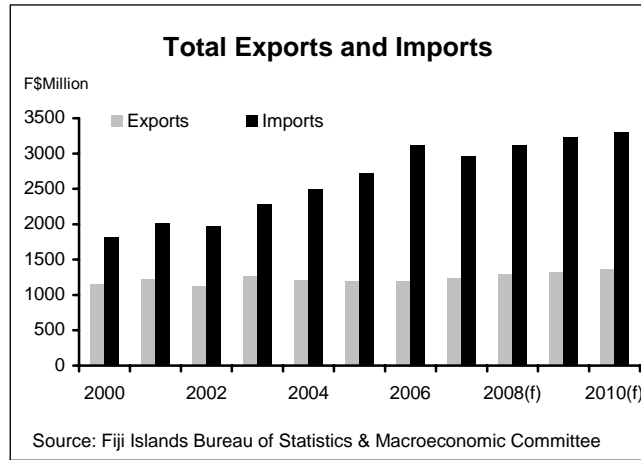
1.39 Balancing the above factors, year end inflation is projected to be around 3.5 percent.

1.40 Inflationary pressures are likely to ease next year given the spare capacity in the economy in line with the contraction estimated for this year. Therefore, year-end inflation for 2008 is projected at around 2.5 percent.

Exports & Imports

1.41 Exports (excluding aircraft) rose by a marginal 0.8 percent in 2006 compared with a decline of 1.1 percent in 2005. Leading the growth in exports were re-exports, mineral water, fish, molasses, other domestic exports,

fruits and vegetables and yaqona, which more than offset negative contributions from garments, gold, sugar, timber, footwear and headgear, textiles and coconut oil.



1.42 In 2007, exports (excluding aircraft) are projected to expand by 2.7 percent. Export receipts from, mineral water, garments and other domestic exports are expected to contribute positively to this growth outlook, while inflows from re-exports, timber and fish are projected to decline.

1.43 In 2008, exports (excluding aircraft) are expected to record a growth of 5.6 percent driven by increased inflows from re-exports, mineral water and other domestic exports. In 2009, exports (excluding aircraft) are anticipated to grow at a slower pace of 1.4 percent led by mineral water, other domestic exports, timber and garments. Exports are expected to pick up in 2010 by 3.3 percent. This increase is expected to be driven by increased earnings from mineral water, other domestic exports, sugar and timber albeit reduced earnings from re-exports and fruits & vegetables.

1.44 Imports (excluding aircraft) rose by 13.8 percent in 2006 after growing by 8.8 percent in 2005. The increase was led by higher payments for mineral fuels, machinery & transport equipment, food, chemicals, manufactured goods and crude materials, which more-than-offset the decline in payment for miscellaneous manufactured goods. In 2007, imports are forecast to decline by 5.1 percent mainly led by declines in

imports of machinery & transport equipment, manufactured goods, mineral fuels, miscellaneous manufactured goods and crude materials.

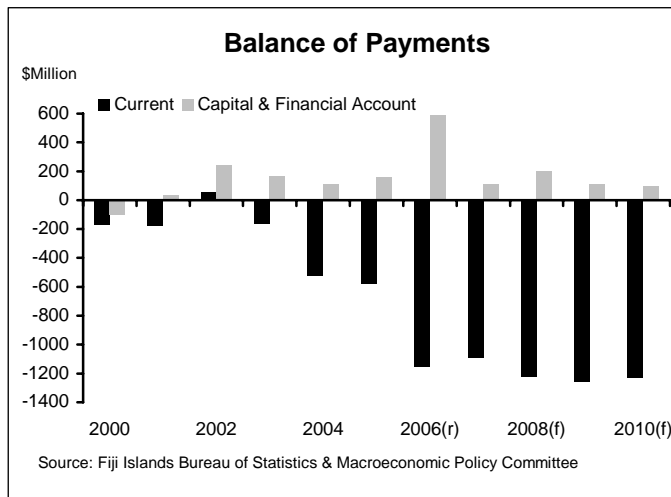
1.45 For 2008, imports (excluding aircraft) are projected to rise by 6.3 percent, led by increases in mineral fuels manufactured goods, food and chemicals. Imports (excluding aircraft) are expected to slow to 3.4 percent in 2009. Sectors expected to support import growth in 2009 include mineral fuels, food, machinery and transport equipment, manufactured goods and chemicals.

1.46 For 2010, the growth forecast for imports (excluding aircraft) is envisaged at 2.1 percent led by food, chemicals and manufactured goods.

Balance of Payments

1.47 Fiji’s overall balance of payments position improved to a surplus of \$58 million last year, from a deficit of \$223 million in 2005. This was due to a large surplus in the financial account¹ compared with a deficit in 2005, and a lower deficit in the capital account.

1.48 In 2007, the current account deficit is expected to improve to 19.6 percent of GDP compared with a deficit of 21.1 percent of GDP in 2006. This improvement of the current account deficit reflects the lower



trade and income imbalances and the higher current transfers’ surplus, which is expected to more than offset the lower services account surplus. The capital and financial account is now forecast to record a surplus of 2.0 percent of GDP in 2007. The overall balance of payment deficit in 2007 is projected at 0.7 percent of GDP, as a result of the higher outflows and the lower surplus in the financial account.

¹ Excluding reserve assests.

1.49 For 2008, the current account deficit is projected at 21.0 percent of GDP, while the capital account deficit is also forecast to improve to 0.1 percent of GDP. The narrower current account deficit is underpinned by the notable contraction in the merchandise trade deficit, the improvement in the income deficit and the projected higher surplus in the services balance. The financial account (excluding reserve assets) is anticipated to slow, from the 3.9 percent surplus envisaged earlier, to 1.8 percent of GDP, due to a decline in foreign investment into Fiji. The overall position is expected to worsen to a deficit of 1.6 percent of GDP.

1.50 For 2009, the current account deficit is projected at 20.7 percent of GDP, mainly owing to a decline in the merchandise trade and income deficit. The capital account deficit is expected to narrow to 0.1 percent of GDP. The surplus recorded in the financial account (excluding reserve assets) is anticipated to narrow to 1.9 percent of GDP, compared to 3.5 percent forecast in the previous round, owing to a projected decline in foreign investments into Fiji. The overall position is expected to be in balance in 2009.

1.51 For 2010, the current account deficit is projected at 19.4 percent of GDP, mainly owing to a decline in the merchandise trade and income deficit. The capital account deficit is expected to narrow to 0.1 percent of GDP, underpinned by the projected increase in capital transfers inflow and the decline in capital transfers outflow. The surplus recorded in the financial account (excluding reserve assets) is anticipated to narrow to 1.6 percent of GDP, owing to a projected decline in foreign investments into Fiji. The overall position is expected to be in balance in 2010.

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.

1.53 In 2006, the Bank continued to maintain a tightening bias in its monetary policy stance. This was against the backdrop of a widening trade deficit, driven by a combination of stagnant exports and rising imports. At the same time, private sector credit was growing at an unsustainable rate of close to 30 percent on an annual basis.

1.54 In order to dampen credit growth and import demand, the Bank implemented two major policies in 2006. In May, it raised the statutory reserve deposit ratio from 5 percent to 7 percent and in June, the Bank raised the policy indicator rate by 100 basis points to 4.25 percent. These policies proved successful and credit growth began to decelerate from its peak. However, at the end of 2006, credit growth was still above 20 percent.

1.55 Following the political events of 5 December 2006, the Reserve Bank moved swiftly to impose a credit ceiling on individual commercial bank lending. It also raised interest rates on its lending facilities to commercial banks. Exchange control measures were also tightened with the objective of restraining speculative capital outflows and preserve foreign reserves levels.

1.56 In May 2007, the Bank reduced the statutory reserve deposit ratio from 7 percent to 6 percent. This was aimed at injecting liquidity into the banking system and easing the upward pressure on interest rates to facilitate investment and growth. The Reserve Bank also took steps to encourage commercial banks to lend to priority sectors. Moreover, special loan approvals outside the ceiling were given to commercial banks for investment projects, exports and to the small business sectors. More recently, an improvement in the foreign reserves levels has allowed the Reserve Bank to relax certain criteria for lending to non-resident businesses and individuals by domestic banks. The Bank also made changes to the Export Finance Facility (EFF) that will enable more exporters to access the facility.

Money and Credit

1.57 Money and credit aggregates continue to grow at a slower pace. The annual growth in broad money supply (M2) was 14.3 percent in August 2007 compared to 16.0 percent recorded in the same period last year. The growth in money supply was largely attributed to increases in demand and time deposits.

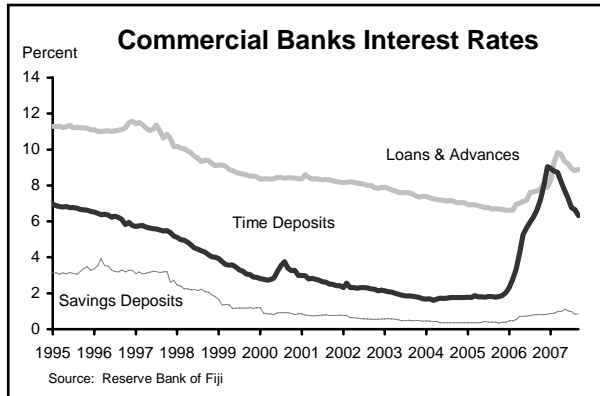
1.58 Private sector credit growth slowed to 8.1 percent in the year to August compared to 27.4 percent registered in the same period last year. Post imposition of the credit ceiling, average monthly private sector credit growth from December 2006 to August 2007 stood at 0.2 percent compared to 2.1 percent in the same period last year. The slowdown in private sector credit growth is attributed to the deceleration in commercial

bank lending to the building and construction, private individuals and manufacturing sectors.

Interest Rates

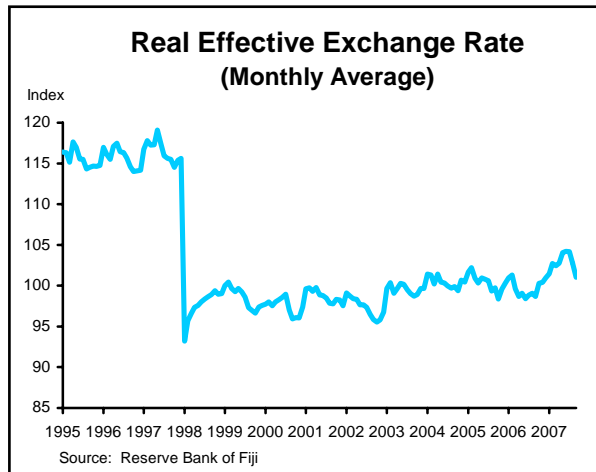
1.59 Following recent policy actions and the build up in liquidity in the banking system, deposit and lending rates have declined.

1.60 At the end of September, the weighted average commercial bank lending rate was 8.89 percent, while the weighted average interest rate on savings and time deposit was 0.85 percent and 6.32 percent respectively.



Exchange Rates

1.61 Movements in the domestic currency have been relatively stable. The Nominal Effective Exchange Rate Index (NEER), which reflects aggregate exchange rate movements between the Fiji dollar and Fiji’s major trading partner currencies, rose by 0.2 percent in the year to September. The rise in the NEER indicates an appreciation of the Fiji dollar against the basket of currencies.



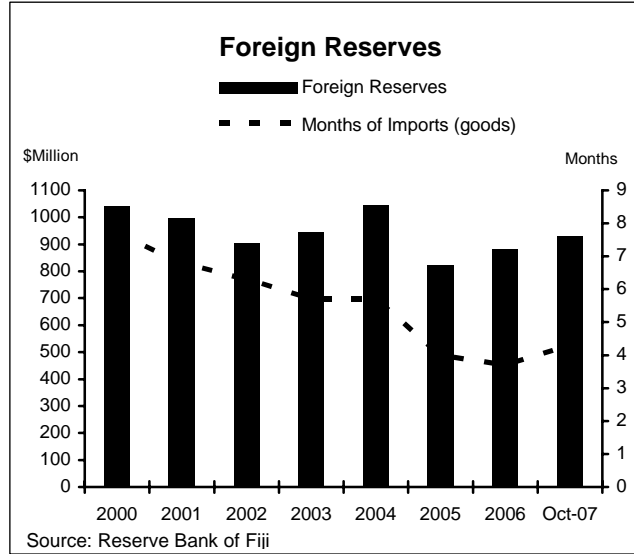
1.62 The Real Effective Exchange Rate Index of the Fiji dollar, which adjusts the NEER for inflation differentials across Fiji’s major trading partners, also rose by 2.4 percent in the same period. The increase indicates a deterioration in Fiji’s international competitiveness and was

largely attributed to higher domestic inflation, particularly in the first half of the year.

1.62 Bilateral exchange rate movements showed that over the month to September 2007, the Fiji dollar strengthened against the Yen, the US dollar and the Euro but weakened against the Australian and the New Zealand dollars.

Foreign Reserves

1.63 Foreign reserves remained at adequate levels in 2006, with year-end foreign reserves around \$879.9 million, sufficient to cover 3.7 months of import payments of goods. Foreign reserves have stabilised over the year, attributed to falling imports and exchange control



policy restrictions. At the end of October 2007, foreign reserves were at \$930.6 million (provisional), sufficient to cover 4.3 months of imports of goods.

CHAPTER 2: MEDIUM-TERM STRATEGY

Introduction

2.1 This chapter discusses Government's economic and fiscal strategy for the medium term addressing its macro-economic targets and 2008 medium term fiscal policy framework. It also highlights specific fiscal measures for achieving Government's overall policy objectives and concludes by highlighting the anticipated course of structural reforms for the medium term.

Medium Term Macroeconomic Objectives

2.2 Table 2.1 defines Government's medium term macroeconomic targets. These targets are congruent with Government's overarching strategic policy objectives in the new strategy. It is also consistent with the provisions of the Presidential Mandate to the Interim Administration to manage and steer the country forward through sustained economic growth.

2.3 Achieving these targets, will provide a platform for a stable economic environment that is conducive for investment and increased economic activity, thus creating opportunities for employment, higher incomes, and better standards of living.

Table 2.1: 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	Balanced Budget by 2011
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, National Planning and Sugar Industry.

2.4 The above targets take into consideration the prevailing macro-economic climate and imminent risks and challenges on the local economy. These targets set the direction for the overall focus of Government's policies in the medium term.

Medium Term Fiscal Framework

2.5 Table 2.3 lays out the central aspects of Government's Medium Term Fiscal Framework (MTFF). The framework essentially sets out the fiscal aggregates that are associated with achieving Government's deficit and debt targets over the medium term. The actual outcome for 2006 and estimates for 2007 are provided for comparative purposes.

Table 2.3: Medium Term Fiscal Framework

	2006 (Act)	2007 (Est.)	2008 Budget	2009 (Targets)	2010 (Targets)
Revenue	1,401.3	1,356.8	1,411.5	1,456.3	1,502.1
% GDP	25.6%	24.4%	24.2%	24.0%	23.7%
Expenditure	1,558.5	1,334.4	1,527.9	1,546.9	1,565.1
% GDP	28.4%	24.0%	26.2%	25.5%	24.7%
(Net Deficit)/Surplus	(157.2)	22.4	(116.5)	(90.7)	(63.0)
% GDP	2.9%	0.4%	2.0%	1.5%	1.0%
Debt	2,863.1	2,803.4	2,957.1	3,047.7	3,110.7
% GDP	52.2%	50.3%	50.8%	50.3%	49.1%
*GDP at Market Prices (\$m)	5,483.3	5,568.8	5,826.2	6,057.6	6,339.3

* Source: Ministry of Finance, National Planning and Sugar Industry

Notes: The 2009 and 2010 fiscal targets in this table will not match with comparable figures in other tables or Budget documents.

2.6 The above framework aims to secure and stabilize Government finances whilst ensuring sufficient resources for supporting investment and growth over the medium. The framework ensures that future resource allocation decisions are managed within current fiscal and macroeconomic constraints.

2.7 Government achieved a net deficit of \$157.2 million or 2.9 percent of GDP in 2006. The revised surplus outcome for 2007 is forecast at \$22.4 million or 0.4 percent of GDP.

2.8 Government's 2008 deficit target is 2.0 percent of GDP which equates to \$116.5 million. As well, revenue receipts are expected to amount to \$1,411.5 million, or 24.2 percent of GDP. Given these two factors, Government budget expenditure programmes have been formulated within an overall ceiling of \$1,527.9 million. Expenditure and revenue projections for 2009 and 2010 are based on Government's desired deficit targets of 1.5 percent and 1.0 percent of GDP.

Medium Term Challenges and Risks

2.9 The current economic and political environment presents a host of challenges on the management of Government's financial affairs and the overall stability of the domestic economy. Moreover, the economy is increasingly confronted by ongoing global challenges such as trade liberalization and rising global market prices.

2.10 Government's overall debt stock rose from 44.6 percent of GDP in 2001 to around 52.2 percent of GDP by the end of 2006. This significant growth in debt is attributed to successive deficits over the years, particularly during the post 2000 coup expansionary period of 2001-2003. Given the rapid growth in public debt burden, Government must apply prudent fiscal measures to maintain its compliance with debt repayment schedules and preserve its credit worthiness in the international market.

2.11 The international "rule of thumb" is 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. With the recent loss of market access in the Garment industry, the general fall in exports and falling revenue receipts, the sustainability of Government's debt stock and the overall economy is predominantly reliant on the performance of the sugar and tourism sectors. However, these two economic pillars are being exposed to external factors which are beyond Government's control.

2.12 The imposition of adverse travel advisories by Fiji's major tourism markets has reduced visitor arrival numbers and foreign exchange earnings. Also, the impending reductions in preferential sugar prices through the European Union sugar reforms pose a major challenge to

Government and industry stakeholders in terms of sustaining the competitiveness of Fiji's sugar exports internationally.

2.13 Obviously, under prevailing economic and political circumstances, Fiji's narrow-based economy runs a high risk of being severely affected, should one of the above sectors deteriorate further.

2.14 Government is keenly aware of the emergence of other macro-economic risks on the local economy. The Reserve Bank of Fiji has continued to highlight challenges that have an impact on monetary policy, particularly with regards to the sustainability of Fiji's balance of payments and foreign reserves.

2.15 Foreign reserves are being continuously pressured into uncomfortable levels through the existence of widening trade deficits; mainly due to the continuing poor performance in the export sector and less than commensurate reductions in imports. Inflation is also on the rise, owing largely to the existence of persistent high crude oil prices and a general surge in world market prices. These factors are a major threat to growth prospects of the domestic economy and also the sustainability of Fiji's external accounts.

Medium Term Fiscal Strategy

2.16 The overall focus of Government's fiscal strategy for the medium term is aimed at achieving gradual reductions in budget deficits to attain sustainable debt levels whilst simultaneously ensuring adequate support for much-needed investment and economic recovery. Priority will also be given towards the provision of sufficient resources for essential goods and services.

2.17 Government adopted an expansionary fiscal strategy after the 2000 crisis to generate economic activity and build investor confidence. This was possible at the time as the macro-economic conditions then were conducive for such a strategy. However, this time around such a strategy may not seem viable due to the emergence of critical economic and fiscal challenges.

2.18 With current economic projections and risks, Government is resolute in working towards fiscal consolidation by reducing the size of its debt relative to the size of the economy. It is critical that Government's

financial stability is bolstered, strengthening its ability to withstand future economic shocks and also protect against driving debt to critical levels.

2.19 Attaining a budget deficit target of 2.0 percent of GDP in 2008 enables Government to keep debt at manageable levels. It will also allow Government to divert additional resources towards investible expenditures to build productive capacity and progress towards sustainable economic growth. Government envisages a consistent path towards fiscal consolidation over the medium term with the primary objective of attaining a debt level of 45 percent of GDP by 2011.

2.20 Government understands that an attempt to simply increase revenues by imposing higher taxes or expanding the revenue base could be counterproductive as such measures may deter private investment and other prospects for increased economic activity. With the current economic downturn, there is a high risk of choking private sector investment through over-taxation. At the same time, much emphasis will be placed on improving the efficiency of revenue collections through strengthening compliance and recovery of arrears.

2.21 Whilst formulating revenue and taxation policies for the 2008 Budget, much thought was given towards the implications of various policy measures on desired fiscal targets, overall growth objectives, as well as possible repercussions on Fiji's international trade obligations. Due emphasis was also placed on addressing the plight of the poor and underprivileged from the current economic fallout. This was necessary in ensuring that revenue measures are well-balanced, focused, and effective in terms of addressing critical concerns in the Fiji economy.

2.22 Given pressing economic and fiscal constraints, Government is of the view that the most effective way to manage public finances and achieve its desired fiscal targets is to confine increases in operating expenditures at or below the growth in operating revenues. This central strategy will prevent Government from borrowing to finance recurrent expenditure and frees up additional resources for capital expenditures and debt repayments. Capital expenditures are more sustainable given their ability to generate economic returns which assist in settling debt over the medium to long-term.

2.23 Notwithstanding the importance of fiscal consolidation, Government remains mindful of its responsibility to provide the necessary fiscal stimulus for reinvigorating economic growth and investment,

particularly in times when private investments are not forthcoming. In this regard, Government has opted to take a gradual approach towards reducing budget deficits over the next three years.

2.24 This ensures that sufficient resources are made available to stimulate economic activity in the short-run by raising aggregate demand and also contributes towards establishing a solid economic foundation for regaining investor confidence in the long-run by building up real resources within the local economy.

2.25 As part of its strategy for generating quick economic recovery, Government will direct sufficient resources and support towards sectors and industries which have the potential and capacity to generate immediate returns and contribute effectively towards sustainable growth, investment and employment. Moreover, particular emphasis will be placed on stabilizing Fiji's balance of payments and foreign reserves through specific fiscal measures aimed at boosting exports and import substitution, with particular focus on resource-based sectors and commodities with comparative advantages.

2.26 As international experience has shown, successful fiscal consolidation is undertaken within a broader reform programme to enhance the overall effectiveness and success of Government's efforts towards fiscal consolidation. Government appreciates that its capacity to manage and achieve the full potential of its budget policy agenda depends on its ability to implement cohesive and strategic improvements in its public sector reform programme.

2.27 As such, Government will accelerate structural reforms to strengthen accountability and improve efficiency in the utilization of public resources. Productivity gains evolving from such reforms are expected to have multiplier benefits throughout the economy, complementing Government's efforts towards fiscal consolidation by ensuring commensurate returns through cost effective practices.

2.28 Government's fiscal consolidation strategy is supported by the tight monetary policy stance being adopted by the Reserve Bank of Fiji to safeguard foreign reserve levels and control current inflationary pressures.

2.29 The ensuing sections outline specific revenue, expenditure and debt policy measures that will be pursued by Government to help achieve its overall policy objectives over the medium term. These measures have

been endorsed by the International Monetary Fund and have been deemed appropriate for addressing current fiscal and economic constraints.

Revenue Policy

2.30 Government's revenue and taxation policies are guided by the following conventions:

- Maintaining the integrity of the VAT system;
- Minimizing the level of distortions;
- Ensuring a simple, transparent and equitable tax system;
- Simplifying and streamlining bureaucratic tax administrative processes;
- Tightening compliance within the tax system;
- Improving collection of tax arrears; and
- Promoting the user pay principle.

2.31 These principles set the basis for the formulation of Government's revenue policies aimed at achieving the following objectives:

- Facilitating investment and sustainable economic growth;
- Optimizing revenue collections;
- Broadening the tax base;
- Boosting exports and competitive import substitution;
- Stabilizing the balance of trade accounts;
- Supporting the poor and disadvantaged;
- Protecting local and infant industries; and
- Formulating appropriate fees, fines and charges that reflect the cost of producing various public services.

2.32 A central feature of Government's taxation and revenue policy for the medium term involves the formulation of strategic performance-based measures to stimulate much needed economic recovery. In this respect, Government has formulated specific measures to back "quick winners" in sectors that could generate immediate returns in areas of: investment and employment; export and import substitution; foreign exchange earnings; rural development and poverty alleviation. The extension of the 10 year tax holiday to areas outside the Kalabu ICT Zone is expected to encourage

ICT development across Fiji and generate much-needed investment and employment.

2.33 The 2008 Budget is also focused on providing adequate policy measures to cushion the impact of the current economic downturn on the poor and disadvantaged. The increase in the income tax threshold to \$9,000 will eliminate more low income earners from the tax net, thus increasing disposable income and softening the effect of current inflationary pressures on low wage earners. The reduction of tariff rates on food items such as tinned fish, dhal, white rice, pork, beef and chicken will make these items affordable the poor.

2.34 Focus is also placed on the resource and agro-based sector considering its impact on supporting the livelihoods of farmers and commercial development of rural communities. Accordingly, in the 2008 Budget, Government has extended the coverage of the income tax exemption for Small Micro-Enterprises to include staple root crops such as cassava, dalo and yams, and other nature-based tourism projects.

2.35 FIRCA and the Ministry of Finance, National Planning and Sugar Industry will continue to review existing tax concessions to improve effectiveness and ensure a level playing field for all taxpayers. Following a thorough assessment of existing tax concessions, Government has removed certain discretionary measures from Section 10 of the Customs Tariff Act which were distortionary and ineffective in terms of achieving policy objectives.

2.36 Government realizes that the overall effectiveness of tax concessions and incentives are dependent on other key factors such as: the simplicity of tax administration; the efficiency of the business approval process; proper infrastructural facilities; an accommodative legal framework; and other pre-requisites for investment generation. Therefore, in designing tax incentive packages such factors will be thoroughly accommodated to ensure that policy objectives and targets are fully realized.

2.37 FIRCA will be adequately resourced to review and clamp down on potential areas of tax evasion. Monitoring of tax concessions and related processes and procedures will be strengthened to limit abuse and minimize associated revenue losses. The reduction of the customs warehousing period to 4 months for vehicles and heavy machinery with the intent to

have it phased out exemplifies Government's intention to remove administrative loop holes.

2.38 Tax administrative processes and legislations will be reviewed regularly to simplify and reduce processing costs, strengthen compliance and improve efficiencies in tax collections. In 2008, FIRCA will commence with preparatory works for making Pay as You Earn as a final tax for salary and wage earners which should result in the removal of the requirement to lodge tax returns. This undertaking is expected to streamline cumbersome administrative procedures for lodging tax returns, reduce costs and improve collections by diverting excess resources into compliance activities.

2.39 Other initiatives being pursued by FIRCA include the introduction of a Taxpayer Portal, which will allow taxpayers to access tax information on-line. FIRCA is also finalizing a Taxpayer's Charter which should clearly define the rights and responsibilities of taxpayers and the Authority. A Transfer Pricing Unit will be established to strengthen compliance and counter revenue leakages. In addition, a new Revenue Administration Law will be introduced to simplify tax administration by harmonizing the administrative provisions of the Income Tax Act, VAT Decree and the Customs Tariff Act.

2.40 Government will also continue to monitor its compliance with WTO obligations and other international trade agreements whilst pursuing avenues to sustain its tariff structures and safeguard the development of local and infant industries. With the anticipated finalization of the Economic Partnership Agreement in 2008, Government has taken a regional approach along with other Pacific ACP countries in negotiating market access under the Trade in Goods Agreement of the EPA. In upcoming EPA negotiations, Government is committed to ensuring a gradual and flexible approach to trade liberalization and securing a longer timeframe for protecting domestic industries to ensure sufficient time for undertaking fiscal reforms to mitigate potential revenue losses and take advantage of market excess opportunities.

2.41 Government has promulgated relevant amendments to the Customs Tariff Act and the Excise Act to ensure conformity to international trade supply chain security requirements. The new supply chain security amendments are generally aimed at strengthening safety and security at each stage of the trade transport cycle. The introduction of these new customs laws are necessary to avoid any mass rejection of Fiji's exports

from mandated foreign destinations and ensure detection of any international movement of illegal items or persons such as terrorists and weapons of mass destruction in Fiji's ports.

2.42 Government's Fees, Fines and Charges will continue to be indexed to inflation to reflect the true cost of providing public services. In addition to this, in 2008 Government will engage external support to undertake a comprehensive review of all fees, fines and charges levied by Ministries and Departments. The review will provide practical recommendations on ways to improve the quality and efficiency of chargeable public services and ensure that public charges are commensurate with the cost of, and improvements in public service delivery.

2.43 As part of its financial management reform programme for 2008, Government will consider introducing the much-anticipated Revenue Retention provision of the Financial Management Act 2004, whereby Permanent Secretaries will be authorized to retain certain types of revenue generated by their agencies. The objectives of the revenue retention initiatives are: (i) to encourage agencies to act in a more commercially oriented manner; and (ii) to recover costs of providing goods, works or services.

2.44 The specific taxation and revenue policy measures of the 2008 Budget are outlined in Appendix 2.

Expenditure Policy

2.45 Government's expenditure policy will focus on supporting the livelihoods of the people by: directing adequate resources towards the core priority sectors of health, education, poverty assistance, infrastructure; raising investment levels and export opportunities, particularly in the resource-based sectors; and maintaining support for law and order, and rural development. Appendix 3 provides a comparative summary of budget expenditure allocations by sectors for the years 2007 and 2008.

2.46 Given current economic and political uncertainties, Government realizes that most sustainable way to stabilize public finances is to contain the increases in operating expenditures within the growth in operating revenues. A major challenge in this regard, is the need to maintain stringent controls over the growth in wages and salaries; the largest contributor towards Government's operating expenditures.

2.47 Government will take an integrated approach to reduce the escalating cost of the civil service. Firstly, negotiations will be undertaken with Unions towards the phased payment of COLA arrears, as well as the right sizing of civil service. Secondly, the provisions of the Employment Relations Bill will be utilised in these negotiations for consensual and mutually acceptable outcomes. Thirdly, the reorganization of some public entities will identify and remove excess labour capacity. Lastly, Government will pursue the formulation of ‘productivity/performance-based’ systems for salaries and wages increments, with simple and clear measurable indicators.

2.48 Government will strive for more sustainable reductions in budget deficits by progressively increasing its operating savings over the medium term. Consequently, by reducing operating expenditures relative to operating revenues, Government is able to divert additional resources towards capital expenditures and debt repayments. In turn, this increases the quality of deficits by providing additional resources for boosting investment and economic growth.

2.49 Over the medium term Government will continue to transfer a larger share of available resources towards investible expenditures to achieve its medium term target for operating and capital expenditure mix of 70:30. In pursuing this target, the Public Sector Investment Programme will be refined to enhance the quality of planning and design, and fast track the implementation of capital projects and basic infrastructure.

2.50 With respect to Financial Management Reform, Government will continue to pursue the full adoption of the performance budgeting system to improve transparency and accountability in the use of public resources. This would involve agencies being allocated financial resources based on their outputs which will be monitored through associated key performance indicators.

2.51 As required under the 2004 Financial Management Act, the Minister of Finance will table quarterly appropriation and mid year fiscal statements in Cabinet. This requirement will increase the scrutiny of Ministries’ expenditure levels to ensure that they remain within budgeted allocations, and that resources are appropriately utilized towards achieving core outputs and objectives.

2.52 The full implementation of on-line FMIS across whole of Government in November, 2007 has enhanced the accuracy, reliability and timeliness of financial information and, therefore improve the quality of decision-making.

2.53 In order to achieve the targeted 2.0 percent deficit for 2008, Government will adopt the following expenditure guidelines:

- The reinstatement of the remaining 4 percent of the civil service pay cut will be subject to Government's revenue performance and the emergence of other priorities and demands;
- No new posts are to be created in 2008. Posts should only be created if there is a trade off of posts;
- No expenditure variation to be undertaken following the announcement of the 2008 Budget, as this has a distortionary effect on the structure of the Budget and the Civil Service;
- All proceeds from the Sale of Government Assets are directed towards debt servicing;
- With the devolution of virement approvals to Permanent Secretaries, Ministries will be monitored regularly through on-line FMIS to better manage controllable expenditures such as telecommunications, fuel and oil, stationary, spare parts and maintenance, supplies and services;
- Operating transfers/grants (SEG 6) will be thoroughly scrutinized with the objective of enhancing the effectiveness of total grant levels, given that it accounts for 12 percent of the total budget. The reinstatement of the 5 percent cut in operating grant will be done on a selective basis; and
- Thorough scrutiny of requests for new operating and capital expenditure. Submissions will be assessed on the basis of its clear linkage and contribution to SDP outcomes, clarity of output, performance measures and economic returns as per the Portfolio Performance Statements.

Debt Policy

2.54 With the escalation of public debt over the years, Government understands the critical importance of having effective debt and risk measures in place to both reduce the size of debt, and maintain consistency in debt servicing obligations.

2.55 Government is committed to pursuing its debt level target of 45 percent of GDP over the medium term. This will be achieved through consistent reductions in deficits with the ultimate objective of registering a balanced budget in the medium term. A sustainable reduction in net deficit is achievable if Government's operating savings increase over time, removing the need to borrow to finance the net deficit.

2.56 The focus of Government's debt policy for 2008 onwards is geared towards improving the issuance of domestic and foreign debt to reduce loan servicing costs. Thorough consideration will be accorded towards formulating appropriate domestic-external debt compositions, bearing in mind the opportunities and risks. Debt strategies will consider sourcing funds externally to help safeguard balance of payments. However, depending on domestic interest and liquidity conditions, Government will also take into account local financing opportunities.

2.57 External Debt management strategies will be refined regularly to reduce exchange rate losses and other costs associated with borrowing abroad. Government's domestic debt policies and guidelines will focus on developing the domestic capital market which is currently characterized by limited investment opportunities.

2.58 Government is working towards strengthening its cashflow management to provide a more transparent and systematic approach to its borrowing. With better and enhanced cashflow techniques, Government should be able to borrow within the approved ceiling and also ensure sufficient support for contingencies and priority expenditures.

Structural Reforms

2.59 Government's structural reforms will address bottlenecks that prevent the economy from realising its full potential. These build on the platform of improvements to date, whilst learning from past experiences.

2.60 The following sections provide an update on structural reforms undertaken or in the process of implementation by Government, and lay out the medium term direction. The major areas of structural reforms are:

- (i) Civil Service Reforms;
- (ii) Public Enterprise Reforms;
- (iii) Labour Market Reforms;
- (iv) Financial Sector Reforms; and
- (v) Agriculture and Land Reforms.

Civil Service Reforms

2.61 The Civil Service Reform (CSR) program in 2008 focuses on the review and restructure of ministries and departments to streamline functions and operations, and enabling a reduction in employment cost.

2.62 The PSC's Strategic Plan, includes a prominent goal of reducing public service operating expenditure by 10 percent. This is in line with Government's overall intent to reduce operating expenditure and increase capital expenditure. It is also a Key Performance Indicator (KPI) under the new strategy to reduce the size of the public service and the employment cost of Government relative to GDP. This strategic goal has been conveyed to all Permanent Secretaries, with the expectation that this exercise commence this year.

2.63 PSC has already embarked on such an exercise and expects to gain a 10 percent reduction in salaries and wages expenditure by the end of 2007. The reduction in Standard Expenditure Groups 1 and 2 (wages and salaries) is seen as having the greatest impact on direct cost as well as flow on savings in other operational SEGs such as telecommunications, stationery and equipment and vehicle usage.

Review of Government Machinery – 10 percent reduction in salaries and wages cost

2.64 The Review of Government Machinery, administered by the PSC will focus on a specific number of ministries in clusters, at a time for review and restructure. It will be impractical to conduct these reviews across all ministries in one year. Permanent Secretary's of ministries are required to undertake their own internal reviews, with the Public Sector

Reform Steering Committee to select the agencies to focus the reviews upon. This approach will ensure that reviews are done effectively and systematically.

2.65 This exercise requires appropriate systems improvement training within departments, to methodically review and appraise work processes, enabling them to improve systems and processes on their own. The Service Excellence framework will be used as a basis for total organization improvement, and departments now have the feedback reports from 2006 evaluations.

2.66 The PSC will undertake sufficient consultation to ensure that departments take ownership of the outcome of reviews and its implementation. Government will be required to agree to restructure proposals to ease the implementation process.

2.67 A possible option is to link the three reforms in finance, public enterprise and civil service utilising one budget and consolidating the reform message. The single Public Sector Reform Steering Committee overseeing the three reforms can effect this coordination, providing the public with a unified view of the reform process and progress in Government.

Program of Work for the Review of Government Machinery

2.68 The following three phases may be utilized for the review of Government machinery. The preliminary work requires the establishment of Review Committee (Central Agencies & some Ministries); preliminary consultations with Ministries and Departments; establishment of Ministry/Department Functions Database; data capture and documentation of existing services; and data analysis.

2.69 Formulation of Proposal follows after the preliminary works, and involves developing and refining functional / roles and proposed structures in consultations with Ministries and Stakeholders. The implementation would involve developing a programme on the proposed structure, and guiding Ministries in implementing these reforms.

Public Enterprise Reforms

2.70 Government continues its reforms agenda in the public sector to improve service delivery as well as efficient and effective use of

resources. The Ministry of Public Enterprise continues to develop implementation strategies and provide expert advice on particular aspects of the reforms. Some Ministries and Departments earmarked for restructure in 2008 include Water Authority, Fiji Islands Maritime Safety Administration, Quarantine Department; Government Supplies Department, and Film & Television Unit.

2.71 Water Reforms – The Water Authority of Fiji Bill was promulgated by His Excellency the President on 24th August, 2007. This paves the way for the establishment of the Authority which will ensure the provision of safe and consistent water supply to consumers.

2.72 Fiji Islands Maritime Safety Administration (FIMSA) – The re-organization of FIMSA, is part of the reform of the port sector. The separation of the regulatory role of the former Maritime Ports Authority of Fiji (MPAF) to FIMSA and the consolidation of all commercial activities to be undertaken by Fiji Ports Corporation Limited (FPCL) is an essential component of the reform process. This ensures that Government Commercial Companies have clear objectives and operate as profitable and efficient enterprises.

2.73 In view of the need to ensure that Government assets are put to optimum use, a review of the operations of the Government Shipping Services and the Fiji Shipping Corporation was also part of the process. It is expected that the establishment of FIMSA into a Commercial Statutory Authority would adequately address the regulation of the maritime services and address critical areas that will benefit the outlying islands through strengthening safety at sea and promote economic activities in these areas by the provision of more regular shipping services. The restructure will necessitate the review of the existing FIMSA Act.

2.74 Department of Quarantine - The re-organisation of the Department of Quarantine and the promulgation of a new Bio-Security Act is envisaged to bring about improvements in the services offered by the Department and ensure that Fiji's quarantine services are in accordance with internationally accepted best practices.

2.75 The corporatization of the Department will support Government's objective of increasing exports of local produce. The Biosecurity Bill, is expected to become operative in 2009, to allow for wide consultations on the Bill.

2.76 Reviews on the operations of the Government Supplies Department (GSD) and the administration of Government Quarters were carried out in 2007 to ensure that investments in Government assets and supplies provide adequate returns - the establishment of a leaner Procurement Agency that specializes in policy formulation overseeing whole of Government's procurement system is expected to improve efficiency and effectiveness. Streamlining this process is envisaged to reduce wastage and unnecessary stock holding costs. More importantly, it will contribute to a significant reduction in the size and costs of the public service.

2.77 In addition, the establishment of a Government Commercial Company to own and manage Government Quarters will ensure that Government quarters are managed commercially to ensure that these assets are better utilized to provide some returns to Government.

2.78 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.

2.79 Reorganization of the Film and Television Unit - the Ministry of Public Enterprises is carrying out a Scoping Study to examine the financial viability of merging the functions of the FTU with the Fiji Audio Visual Commission. The proposed merger is expected to improve the utilisation of resources and audio visual technology held by FTU.

2.80 Improving Monitoring of Performance of Public Enterprises - the Department of Public Enterprises and Public Sector Reforms will continue to monitor the operations of public enterprises to ensure that entities demonstrate good corporate governance practices that are in line with internationally accepted standards. More emphasis would also be placed on ensuring that the operations of entities are focused on Government's policy directives and the achievement of key performance targets, including the provision of at least 10 percent returns on shareholder's funds.

Labour Market Reforms

2.81 Five years after the inception of the Employment Relations Bill, it was promulgated on 1st October 2007 with the implementation targeted for early April next year. All the preparatory work has been done to

develop such instruments as the Employment Relations Regulations, the code of Good faith, and the Code of Ethics to guide the conduct of Mediators who are expected to administer and apply the laws once the ER Bill is enacted.

2.82 The new Employment Relations Legislation provides the legislative framework to restore confidence, stability and encourage growth, in the labour market. The Bill has been endorsed by the Interim Cabinet for promulgation on 1st October this year and it is envisaged that it will:

- Promote good faith in the negotiations and interactions between the involved parties; and
- Allow the Ministry expand its scope and capacity into new areas of employment grievances and dispute resolution regarding discrimination in the workplace, sexual harassment and duress, aligned with the Strategic Development Plan outcome on Equitable Participation of all (in Socio Economic Development) and promoting gender sensitive policies.

2.83 The Employment Relations Bill is a progressive framework, promoting consensual resolution of disputes. It presents a much needed improvement from the historically adversarial relationship between aggrieved parties, to a more inclusive and balanced dispute resolution system.

2.84 This is expected to enable the smooth operation of the labour market, by reducing costly strikes and work stoppages, with this overall benefit contributing to the development of our economy.

2.85 The Employment Relations Call Centre, which is also the Mediation Information centre, has linked via an IT Network, all the divisional and district offices to headquarters. The priority of the call centre is to promote awareness among workers and employers on their rights and responsibilities under the new working environment.

2.86 The Employment Relations Bill will consolidate the inspectorate responsibilities and the industrial relations functions under its Mediation Services. The call centre will also augment information storage and sharing capacities; and improve employment disputes settlement, and the processing of workmen's compensation cases.

2.87 Arrangements are also currently being put in place for the reform of the workmen's compensation law and practice from 2008.

2.88 The reform will change the focus to focus to addressing the need of all workers at home and in the workplace and will eliminate the need to prove liability through litigation. The no fault scheme will cut the pressure on the social security system to cater for the welfare of the injured and the dependents of the deceased.

2.89 The reform is in line with current universal trends and the national socio economic capability so as to ensure that the new scheme to be in place is fair, just and equitable to all stakeholders. The review of the legislation on workmen's compensation is in line with the fourth phase of the OHS Reform which will be the final phase of the labour reforms.

Financial Sector Reforms

2.90 Despite a forecast downturn in the domestic economy in 2007, the key prudential indicators of the financial system remain favourable. This satisfactory performance of the industry is reflected in:

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

2.91 The Reserve Bank continues to work on financial supervision policies to safeguard our financial system and align it with international practices and standards. During the year, the Bank developed a number of policies for commercial banks, credit institutions, insurers, insurance intermediaries as well as the Fiji National Provident Fund (FNPF).

2.92 The Financial Sector Assessment Program (FSAP) for Fiji was conducted in Suva from 29 June – 13 July 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 final Mission Report has been received, and the RBF is coordinating the implementation of the FSAP recommendations. Relevant organizations and government departments responsible for implementing the different recommendations

have been assigned tasks under the monitoring and guidance of the Reserve Bank.

2.93 Deregulation of the superannuation industry - as part of its financial sector reform, Government has been exploring for some time, the possibility of deregulating the superannuation industry. The main objective of such a reform would be 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 now the drafting of separate Superannuation legislation. It is anticipated that a detailed study will be undertaken on furthering the deregulation process of this industry. To facilitate this, Technical Assistance (TA) is currently being sought from the World Bank.

2.94 Additionally, the RBF continues to work on the draft Superannuation Supervision Act as the corresponding regulatory framework in Fiji. The Reserve Bank will carry out consultations with stakeholders on the draft, once it is completed. The Superannuation Supervision Act will place under supervision all entities which play a superannuation function. This legislation will enable the formation of a supervisory and policy structure that will govern the conduct of superannuation entities or entities that are involved in superannuation products. As part of this supervisory structure, all such entities must satisfy licensing requirements, and fulfill all prescribed standards by the supervisory authority.

2.95 Real Time Gross Settlement System (RTGS) – In 2005, the RBF, in collaboration with the Association of Banks in Fiji, began developing a state of the art payment system for Fiji. The system went live on the 30th August 2007 making Fiji the first island nation in the South Pacific to have an RTGS system. This automated payment system will significantly improve the reliability and efficiency of the existing financial infrastructure, thus bringing banking services on par with international standards. In addition, the RTGS system enables payments to be settled immediately and funds to be available for use on the same day by customers, a considerable improvement when compared with cheque payments which can take up to 7 days to clear.

2.96 Rural Banking - The Reserve Bank continues to work closely with commercial banks towards the provision of basic banking services in the rural areas. At present, the Colonial National and ANZ banks

provide banking services in remote areas, through postal agencies and the ANZ Rural Banking Initiative respectively. In 2008, the Reserve Bank will continue to work closely with all stakeholders in taking forward this initiative and also examine greater involvement by banks in microfinance initiatives.

2.97 Exporter Assistance – Mindful of the importance of the export sector, the Reserve Bank enabled changes to its Export Finance Facility to allow more exporters access to credit at relatively low interest rates. Under this facility, commercial banks and the Fiji Development Bank (FDB) are able to obtain back-to-back finance from RBF to on-lend to exporters. The Reserve Bank is currently examining ways to enable more exporters to benefit from the Facility. In addition, the Bank is in the process of finalising a proposal on an export credit insurance/guarantee scheme that should further assist the country's exporters.

2.98 Capital Market Development – In the latter part of 2006, the RBF obtained TA from the IMF on the development of the secondary bond market in Fiji. Work on implementation of the TA's recommendations commenced in 2007 and will continue in 2008.

Agriculture & Land Reforms

2.99 Agriculture is a priority sector for Government which will assist towards the Presidents mandate of generating quick economic recovery. This will be specifically achieved by increasing exports and enhancing import substitution opportunities.

2.100 The Ministry's activities are prescribed in approximately 33 Acts covering regulatory, advisory and land management responsibilities, as well as commercial undertakings.

2.101 A number of challenges exist confronting the sector which will be addressed by reforms and relevant budget allocations in 2008 in the areas of staffing, transport and resources constraints, and communications difficulties.

2.102 Performance will be improved through comprehensive planning, incorporating of the individual functions and agencies which combine to deliver agricultural services. This will improve alignment with, and achievement of SDP priorities, for a better coordinated agricultural sector.

2.103 Nevertheless, an important challenge remains with regards to ensuring that private sector interests are addressed, especially industry regulation, marketing, information and technical services.

2.104 Accordingly, Government seeks to promote private sector investment to create sustainable employment and livelihoods and to raise exports by increasing the competitiveness and productivity of economic activity in Fiji. At the same time, these measures should reduce poverty and promote development in the deprived, poor rural and outer island areas.

Priorities at the agriculture sector level include:

- Planning for economic development of the sector needs to be strengthened through leadership by the private sector in priority setting. This requires strengthening and responding to the priorities expressed by major industry representative organizations, and directly involving them in implementing industry development activities, including through PPPs;
- Restructure of the Ministry;
- Non-core CSA's and GCC's must be divested to allow proper funding of core functions and services, including through PPPs;
- Human resources structure must be smaller and more professional. Management systems, incentives and facilities must be re-organized or established which result in professional and cost-efficient services and functions;
- Simplification of legislation relevant to the Ministry and aggregation with other Government services or functions should be identified.

In regards to Land Reforms, based on the mandate provided to the Ministry of Lands and Mineral Resources under the People's Charter, the Ministry will be looking at undertaking Land Reform to gain better access to the land and improving utilisation, as identified below:

1. Review ALTA and recommend legislative and institutional arrangements that will enhance constructive dialogue, cooperation as well as better access to and more effective and productive utilization of land for the mutual development of landowners and tenants as stakeholders,

2. Identify suitable land for commercial and agricultural development, and mechanisms for facilitating ready access and systems for sharing information on land development strategies,
3. Recommend leasing and rent fixing approaches that will be fair and just and enhance security of tenure, and
4. Recommend measures to provide land for housing and sustenance for displaced families and communities.

CHAPTER 3: GOVERNMENT'S FISCAL POSITION

Introduction

3.1 This chapter provides a summary of Government's fiscal position over the period 2006 to 2010. The chapter begins with an overview of Government's fiscal performance for 2006 and 2007 and then outlines the projected revenue, expenditure, and deficit for 2008.

2006 Overview

3.2 With a theme of *'Building a Stronger Economic Platform'* the 2006 Budget was built on past achievements and aimed to solidify Fiji's economic base to achieve sustained growth and development. The targeted net deficit for 2006 was set at 4.0 percent of GDP.

3.3 Government redeployed \$35.2 million during the course of the year (VAT inclusive), to cater for additional demands from Ministries and Departments.

3.4 At the closure of the 2006 Accounts, Government recorded a net overspending of \$9.9² million. Total actual expenditures for the year, excluding principal repayments, stood at \$1,444.8³ million, whilst actual total revenue collections stood at \$1,287.6⁴ million. A net deficit of \$157.2 million or 2.9 percent of GDP was recorded for the period.

2007 Revised Budget

3.5 *'Securing Economic and Financial Stability'* was the theme of the 2007 revised Budget. The objective of the budget was to ensure that Government finances were protected and stabilized, and that resources were directed to productive areas that will contribute to quick economic recovery.

² excluding principal repayment

³ VAT exclusive

⁴ VAT exclusive

3.6 The targeted net deficit for 2007 stood at \$100.7 million or 2.0 percent of GDP. This is derived from total budgeted expenditures of \$1,572.4 million against total budgeted revenues of \$1,471.6 million.

3.7 The revised revenue forecast for 2007 stands at \$1,261.4 million (VAT exclusive). On the other hand, total expenditures excluding principle repayments is anticipated at \$1,239.0 million (VAT exclusive). Thus, in 2007 Government expects a revised net surplus of \$22.4 million, equivalent to 0.4 percent of GDP.

2008 Budget

3.8 Government's cashflow is shown in Table 3.1. Government's fiscal position is the net result of payments (expenditure) and receipts (revenue). The table separates cashflows associated with operating activities and cashflows associated with investing activities. All figures in the cashflow are VAT exclusive. This means, the VAT Government pays to itself is excluded from expenditure and a similar amount is excluded from revenue. The 2006 data illustrates actual outturn where as 2007 data shows recent revisions to budgeted revenue and expenditure. The 2008-2010 data show cashflow projections.

Table 3.1: Statement of Cashflows (2006-2010)

\$M	2006	2007(R)	2008(B)	2009(B)	2010(B)
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts					
Direct taxes	446.09	436.76	456.91	477.89	498.64
Indirect taxes	667.44	678.37	746.75	772.14	794.10
<i>VAT</i>	<i>358.95</i>	<i>353.24</i>	<i>373.95</i>	<i>388.24</i>	<i>401.34</i>
<i>Customs</i>	<i>301.60</i>	<i>311.54</i>	<i>348.93</i>	<i>359.07</i>	<i>366.76</i>
<i>Hotel Turnover Tax</i>	<i>6.89</i>	<i>13.59</i>	<i>23.87</i>	<i>24.83</i>	<i>26.00</i>
Fees, Fines, Charges & Penalties	60.66	63.42	84.79	86.23	87.90
Sales Revenue	0.03	0.01	0.01	0.01	0.01
Grants in aid	6.40	3.52	2.13	0.00	0.00
Dividends from Investment	43.04	29.32	25.22	23.22	23.22
Reimbursement & Recoveries	2.95	15.98	9.83	9.91	10.00
Other	32.66	32.01	35.40	36.09	36.87
Total operating receipts	1,259.26	1,259.39	1,361.05	1,405.47	1450.74
Payments					
Personnel	631.53	570.25	589.54	596.96	604.05
Transfer payments	220.83	201.06	229.09	231.98	234.73

\$M	2006	2007(R)	2008(B)	2009(B)	2010(B)
Supplies and consumables	176.84	145.86	153.84	155.77	157.62
Purchase of outputs	59.68	22.47	52.21	52.87	53.49
Interest paid	140.94	173.60	179.21	181.46	183.62
Other operating payments	2.36	3.31	6.40	6.48	6.55
Total operating payments	1,232.18	1,116.56	1,210.28	1,225.52	1240.07
Net cash flows from operating activities	27.08	142.83	150.77	179.96	210.67
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts					
Sale of government Assets	28.00	0.00	0.00	0.00	0.00
Interest from Bank Balance	0.14	0.21	0.21	0.00	0.00
Repayment of term loans	0.24	0.16	0.16	0.16	0.16
Return of Surplus Capital from Investment	0.00	1.63	1.63	1.63	1.63
Total investing receipts	28.37	2.00	2.00	1.79	1.79
Payments					
Loans	0.98	1.50	1.50	1.52	1.54
Transfer payments	66.92	41.00	86.45	87.54	88.58
Purchase of physical non-current assets	144.74	79.94	181.27	183.55	185.73
Total investing payments	212.64	122.44	269.22	272.61	275.85
Net cash flows from investing activities	(184.27)	(120.44)	(267.22)	(270.82)	(274.06)
NET (DEFICIT)/SURPLUS	(157.2)	22.4	(116.5)	(90.86)	(63.39)
<i>as a % of GDP</i>	-2.9%	0.4%	2.0%	1.5%	1.0%
UNDERLYING (DEFICIT)/SURPLUS	(185.2)	22.4	(116.5)	(90.86)	(63.39)
<i>as a % of GDP</i>	-3.4%	0.4%	2.0%	1.5%	1.0%

Source: Ministry of Finance National Planning and Sugar industry

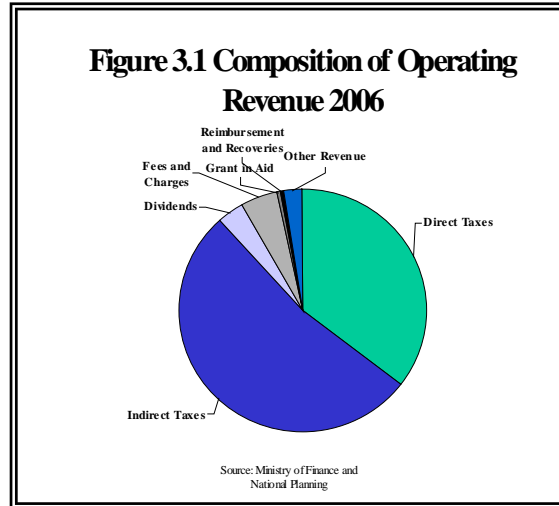
Notes: The 2007, 2009 and 2010 fiscal targets in this table will not match with comparable figures in other tables or Budget documents.

Government Operating Receipts

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

- Direct Taxes (Corporate taxes, PAYE, Others);
- Indirect Taxes (VAT, Customs);
- Hotel Turnover Tax;
- Fees, Fines, Charges and Penalties;
- Sales Revenue;
- Dividend from Investments;
- Grants in Aid;
- Reimbursement & Recoveries; and
- Other Revenue and Surpluses.

3.10 The bar graph shown right indicates the composition of each form of revenue in 2006. Government's largest source of revenue comes in the form of indirect taxes, which comprises 53.0 percent of total operating revenue. Direct taxes provides 35.4 percent of operating revenue, with the remaining 11.6 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.



Direct Taxes

3.11 Direct taxes are income taxes comprising of corporate taxes, personal or PAYE taxes, dividend taxes and a host of minor taxes. The 2007 revised forecast for direct taxes stand at \$436.8 million, down 2.1 percent or \$9.3 million from the 2006 outturn of \$446.1 million.

3.12 The variance is due to expected decreases in revenue from PAYE taxes, Provisional taxes and other miscellaneous taxes in 2007. The lower PAYE collection is largely attributed to the 5 percent salary cut for all civil servants in the revised 2007 Budget.

New Direct Tax Measures for 2008

3.13 Some of the new direct tax measures in 2008 Budget are listed below are:

- Income tax threshold raised from \$8,840 to \$9,000;
- Introduction of tax deduction allowance, maximum of up to \$400 for Interest on Housing Mortgage; and
- Small and medium enterprises (SME) incentives – increase turnover threshold from \$200,000 to \$300,000. Incentive to include dalo, cassava and other root crop production, and supportive projects to the tourism industry.

3.14 A complete list of all new direct tax policy measures is outlined in Appendix 1. The list also includes measures that aimed at simplifying tax processes and minimizing loop holes within the tax system.

3.15 Direct taxes in 2008 is expected to total \$456.9 million, which is about \$20.2 million or 4.6 percent above the expected collections for 2007. The increase is due to the expected higher collections from PAYE tax, provisional tax, company tax and the introduction of a host of positive revenue measures in the 2008 Budget. A general improvement in compliance and collection efficiency is also expected to boost direct tax collections in 2008.

Indirect Taxes

3.16 Indirect taxes encompass VAT collections, Hotel Turnover Tax, and revenue from customs duties comprising fiscal, excise, import excise, export duties and other customs fees and charges. Revised indirect taxes for 2007 are expected to exceed the 2006 collections by \$10.9 million or 1.6 percent.

3.17 VAT collections for 2006 amounted to \$359.0 million and are forecast to stand at \$353.2 million in 2007, a decrease of 5.7 percent over 2006 collections. This is largely attributed to a slow down in consumer spending in 2007 which has been caused by weak labour market conditions and moderate credit growth.

3.18 Collections from customs duties are expected to total \$311.5 million for 2007. This is an increase of \$9.9 million relative to collections of \$301.6 million in 2006. This variance is partially due to the increase in duty on plant, machinery and equipment, PVC flexible tubes, importation of prawns, imported meat, and vegetables, new/second hand LPG vehicles, luxury items and lamp and lighting.

3.19 Receipts from customs duties in 2007 are expected to comprise the following:

- Fiscal Duty (\$203.6 million);
- Excise Dues (\$80.7 million);
- Export Duty (\$7.0 million);
- Import Excise Duty (\$15.6 million); and

- Miscellaneous Fees (\$4.6 million).

New Indirect Tax Measures for 2008

3.20 In 2008, Government will restructure the tariff bands from the current structure of (0%, 3%, 15%, 27%) to (0%, 5%, 15%, 27%). All items attracting 3 percent fiscal duty will now move to the 5 percent band. Duty on raw material will remain at a concessionary rate of 3 percent under code 236 of Customs tariff Act (CTA).

3.21 A full list of new indirect tax revenue measures for 2008 is contained in Appendix 2.

3.22 Total indirect taxes are expected to amount to \$746.8 million in 2008. Of this, \$374.0 million is expected from VAT, \$ 23.9 million from Hotel Turnover Tax and \$348.9 million from Customs duties.

3.23 For 2008, VAT collections is expected to amount to \$374.0 million which is about \$20.7 million or 5.8 percent above the revised VAT receipts for 2007.

3.24 A Hotel Turnover Tax of 3 percent was implemented in June 2006. From 2008 the rate will be increased to 5 percent. Expected collections from Hotel Turnover Tax for 2008 are expected to amount to \$23.9 million.

3.25 Customs collections for 2008 are expected to comprise the following:

- Fiscal Duty (\$230.4 million);
- Excise Dues (\$88.8 million);
- Export Duty (\$6.6 million);
- Import Excise Duty (\$18.8 million); and
- Miscellaneous Fees (\$4.4 million).

3.26 Projected collections from Customs in 2008 are \$348.9 million or 12.0 percent above the 2007 revised projections. This is due to the increase in duty on a number of specific items and the change in the tariff bands. Fiscal duty is expected at around \$230.4 million in 2008 relative to a 2007-revised forecast of \$208.0 million.

3.27 Excise rates have been revised upwards in line with the inflation forecast for 2007. Fiscal duties on cigarettes and spirits have also been adjusted accordingly. These are detailed in Appendix 2 (Section 9).

3.28 Import excise duty is anticipated to retrieve \$18.8 million in 2008, an increase of \$3.2 million or 20.5 percent above the 2007 revised projection. This increase is due to an increase in import excise tax on selective items in 2008 such as: new/used and reconditioned trucks; cab and chassis and trailers; and new/used and reconditioned earthmoving equipment.

3.29 Export duty collection is estimated to amount to \$6.6 million in 2008, a decrease of 5.8 percent over the 2007 revised collections of \$7.0 million. This variance is mainly due to gold export which is assumed to be zero for 2008.

3.30 Refer to Section 3 of Appendix 2 for the full list of Customs Tariff changes.

Fees, Fines, Charges and Penalties

3.31 Fees, fines, charges and penalties include collections from revenue items such as water rates, departure tax, sale of passports and court fines. In 2006, \$60.7 million was generated through fees, fines, charges and penalties while \$63.4 million is expected for 2007. In keeping with the user-pay principle, fees and charges will be indexed to inflation each year to reflect to cost of providing such services.

3.32 The forecast for 2008 is \$84.8 million, an increase of \$ 21.4 million over 2007 collections. The variance is largely from the LTA revenue. As from 2008 all LTA revenue will be deposited into Government's consolidated fund. The forecast for LTA revenue in 2008 is \$17.0 million.

Sales Revenue

3.31 There are two types of sales revenue. The first type records sales between Government agencies. That is, it shows collections received by a Government agency for goods or services rendered to another Government department. The second, records sales proceeds collected by Government departments for goods or services sold to other agencies outside

Government. In 2006 \$0.03 million was collected from sales revenue, while \$0.01million is expected for 2007 and 2008 respectively.

Grants in Aid

3.33 Grants in aid come in two forms, namely, cash and aid-in-kind. Government received \$6.4 million as cash grants in 2006. The revised forecast for 2007 is \$3.52 million while \$2.13 million has been projected for 2008.

Table 3.2: Grants from Donors

(\$m) Donor	2006 (A)	2007(R)	2008(F)
Australia	17.43	21.76	20.92
Canada	0.00	0.00	0.00
China	1.41	0.50	17.30
EU	8.39	16.6	17.40
Japan	0.00	0.00	0.00
Korea	0.00	0.00	0.00
New Zealand	2.61	6.68	4.07
UNDP	0.01	0.80	0.43
Others	6.75	2.36	5.53
Total	36.60	48.70	65.65
Comprising			
Cash	6.40	3.52	2.13
Aid-in-Kind	30.20	45.18	63.52

Source: Ministry of Finance, National Planning and Sugar Industry
Key: A= Actual; R=Revised; F=Forecast

3.34 Major sectors and projects expected to be funded through cash and aid-in-kind Grants in 2008 are listed below:

Education - \$27.7 million

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

Health - \$6.7 million

- Fiji Health Sector Improvement Programme
- Medical Treatment Scheme
- UNFPA assistance for Reproductive health, piloting of family life education in schools

Infrastructure - \$13.0million

- Navuso Linking Bridge
- Somosomo Mini Hydro Project

Law and Justice - \$ 6.1 million

- Fiji Community Justice Programme

Others - \$12.1million

- Taiwanese Grant – Village Improvement/Small Grant Scheme
- Supply of Multi-Purpose Fisheries Vessel
- Rehabilitation of Lami Dump
- National Trust Eco-Tourism
- Terminal Phaseout Management plan for ODS
- National Capacity Needs Self Assessment (NCNSA)
- National Bio-Diversity Strategic Action Plan
- ACIAR Assistance to the Agriculture Sector
- Support to Quarantine

Dividend from Investment

3.35 This category records dividend receipts from annual net profits of Government Commercial Companies and Commercial Statutory Authorities, such as ATH, AFL, Air Pacific, and FINTEL. In 2006, total dividends received amounted to \$43.0 million. Dividend collections for 2007 and 2008 are expected to amount to \$29.3 million and \$25.2 million, respectively.

Reimbursement and Recoveries

3.36 Reimbursement and recoveries include 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 in 2007

are expected to exceed 2006 collections by \$13.0 million. The projected receipts for 2008 amounts to \$9.8 million, \$3.2 million below the 2007 revised forecast. The decrease is largely attributed to lower expected contributions from Multinational Force and Observers (MFO) troops The composition for 2008 is as such:

- ♣ Reimbursements of services: \$1.4 million;
- ♣ Refund of Government payments: \$1.8 million;
- ♣ Contributions for capital projects: \$0.08 million; and
- ♣ Contribution for peace keeping: \$6.5 million

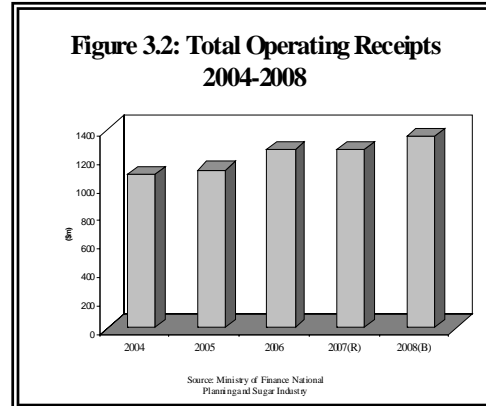
Other Operating Revenue and Surpluses

3.37 Other operating revenue and surpluses takes into account proceeds from rent of Government property, surplus from Government agencies, commission revenue and other miscellaneous revenue.

3.38 In 2006, other revenue and surpluses collected \$32.7 million where as, the projected revenue for 2007 and 2008 are expected to amount to \$32.0 million and \$35.4 million, respectively.

Total Operating Revenue

3.39 Total operating revenue in 2006 amounted to \$1,259.3 million. This is \$138.3 million above collections in 2005. The expected outturn for 2007 is \$1,259.4 million. This is an increase of \$0.1 million compared to the 2006 outturn. The variance is mainly due to the expected higher collections in indirect tax, fess, fines and charges and reimbursements and recoveries.



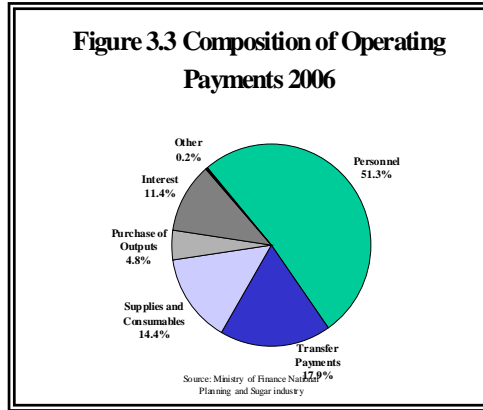
3.40 For 2008, total operating revenue is forecast at \$1,361.1 million. This is an increase of \$101.7 million or 8.1 percent relative to 2007. This variance emanates largely from direct, indirect taxes and non-tax revenue sources.

3.41 Figure 3.2 shows the level of operating revenue in the period 2004 to 2008. The graph shows an upward trend indicating an average growth of 4.8 percent per year. In 2008, total operating revenue is expected make up almost 99.9 percent of total revenue.

Operating Payments

3.42 Government’s operating expenditure includes:

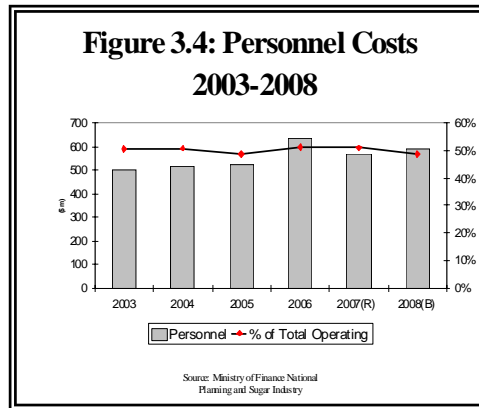
- Personnel payments;
- Transfer payments;
- Supplies and consumables;
- Purchase of outputs;
- Interest payments; and
- Other operating payments.



3.43 The largest component of operating expenditure in 2006 comprised personnel costs which accounted for 51.3 percent of total operating expenditure (see Figure 3.3). Transfer payments accounted for 17.9 percent, supplies and consumables 14.4 percent and interest payments 11.4 percent. The purchase of outputs and other operating payments make up the remaining 5 percent.

Personnel

3.44 Personnel costs are the salaries and wages of Government’s established and unestablished staff. Figure 3.4 provides a summary of personnel expenditure since 2003. Personnel cost as a percentage of total operating expenditure averaged at around 50.2 percent for the period 2003 - 2008.



3.45 In 2006, personnel costs were \$631.5 million, an increase of 20.2 percent over 2005 costs. This increase was due to the following additional payments to civil servants:

- 2 percent across the board merit payment;
- 2 percent COLA arrears for awards 52-57; and
- 4 percent Industrial Relations Framework payment.

3.46 In 2007, personnel costs are expected to be \$570.3 million, a decrease of 9.7 percent over 2006 payments.

3.47 It has become increasingly difficult to sustain across-the-board pay rises that does nothing to improve efficiency in Government. Personnel costs are Government's largest expenditure-around 50 percent of total operating expenditures over the past decade. Sustaining this increase negates efforts to improve resource allocation, in that it shifts funds from productive capital investments, as it is difficult to divert funds from operating expenses.

3.48 The 2008 budget estimates personnel costs at \$589.5 million or 48.7 percent of total operating expenditure.

Transfer Payments

3.49 Transfer payments are made to external entities which are not expected to accrue direct returns back to Government. Social welfare payments and pensions are two examples of transfer payments.

3.50 In 2006, transfer payments worth \$220.8 million were made, equivalent to 17.9 percent of total operating expenditure. In 2007, transfer payments are expected to reach \$201.1 million, a decrease of 8.9 percent over transfer payments made in 2006.

3.51 The 2008 Budget allocates \$229.1 million for transfer payments, of which \$38.6 million comprises of pensions. Operating grants, which make up the other portion of transfer payments, are expected to total \$190.5 million. Some major grants include:

- FIRCA Grant (\$31.0 million);
- Family Assistance (\$18.0 million);
- Tuition Fees – Forms 1 - 7 (\$11.7 million);

- Fijian Affairs Scholarships (\$8.5 million);
- USP Grant (\$36.4 million);
- FIT Grant (\$8.0 million);
- FSM Scholarship Grant (\$4.0 million);
- FSCL - Shipping Franchise Scheme (\$1.75 million);
- Fiji Servicemen's After-Care Fund (\$5.6 million);
- Fee-Free Education – Classes 1-8 (\$4.2 million);
- CMDA (\$1.06 million);
- Multi-Ethnic Scholarships (\$5.5 million);
- Prices and Incomes Board Grant (\$1.2 million);
- Fiji Visitors' Bureau Grant (\$2.0 million);
- Naboro Landfill Subsidy (\$1.0 million);
- Public Service Broadcast [Radio] \$1.2 million);
- National Fire Authority (\$1.6 million);
- Public Rental Board Subsidy (\$1.0 million);
- Lieu of Rates to Crown Land Grant (\$1.5 million);
- PSC Training and Scholarship Grant (\$2.1 million);
- FAB (\$2.4 million);
- Provincial Council (\$1.4 million);
- Grant to FSM (\$2.6 million);
- LTA Operating Grant (\$10.1 million);
- VAT Aid-In-Kind Refunds (\$4.5 million);
- University of Fiji (\$1.8 million);
- FTIB (\$1.5 million);
- Fiji Audio Visual Commission (\$1.0 million); and
- Civil Aviation Authority of Fiji Grant (\$1.0 million).

Supplies and Consumables

3.52 Supplies and consumables are inputs that are used in the production of Government's goods and services. They include travel, communications, maintenance, operations, and the purchase of goods and services.

3.53 In 2006, supplies and consumables cost Government \$176.8 million, or 14.4 percent of total operating expenditure. In 2007 total projected expenditures on supplies and consumables are expected to cost \$145.9 million equivalent to 13.1 percent of total operating expenditure.

3.54 For 2008, the Budget forecast is for supplies and consumables to be \$153.8 million, 12.7 percent of total operating expenditure. Relative to the 2007 estimate, the expenditure on supplies and consumables in 2008 has increased by around \$8.0 million or 5.5 percent.

Purchase of Outputs

3.55 The purchase of outputs is composed of special expenditures unique to a Ministry or Department, such as conferences, reviews or training for staff. In 2006, Government purchased outputs to the value of \$59.7 million, which is 4.8 percent of total operating expenditure. In 2007, output purchases are expected to amount to about \$22.5 million, which is 2.0 percent of total operating expenditure.

3.56 The forecast for purchase of outputs in 2008 stands at \$52.2 million, or 5.3 percent of total operating expenditure. This represents an increase of \$29.7 million from 2007 expenditures.

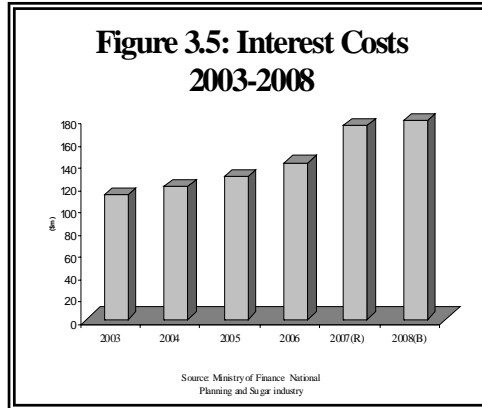
3.57 Some outputs to be purchased in 2008 include:

- Workmen's Compensation (\$1.0 million);
- Duty on Government Purchases (\$1.0 million);
- Voter Registration Exercise (\$3.35 million);
- Fiji Independent Commission Against Corruption (\$3.0 million);
- Trade Office – Taiwan (\$0.5 million);
- Apprentice Scheme – (\$1.06 million);
- Household Income and Expenditure Survey (\$1.0 million);
- Implementation of Employment Relations Bill (\$0.8 million);
- Grant to TAF and Policy Unit (\$0.7 million);
- Integrated Human Resource Development (\$1.5 million);
- Management Fees to ATH (\$2.0 million);
- Civil Service Reform (\$3.1 million);
- Implementation of the Tuna Management Plan (\$0.5 million);
- Trade Commissioner – Los Angeles (\$0.5 million);
- Trade Commissioner – Taiwan (\$0.5 million);
- Aircraft Accident Investigation (\$0.5 million);
- Bus Fare Subsidy (\$1.46 million)
- National Youth Service Scheme (\$1.0 million); and
- National Export Strategy (\$2.0 million).

Interest Paid

3.58 In 2006, interest payments amounted to \$140.9 million. The expected outturn for 2007 is \$173.6 million, an increase of 23.2 percent relative to 2006.

3.59 Figure 3.5 shows the increasing trend in cost of borrowing, thus this has taken up much of the available funds which could be directed to other activities.



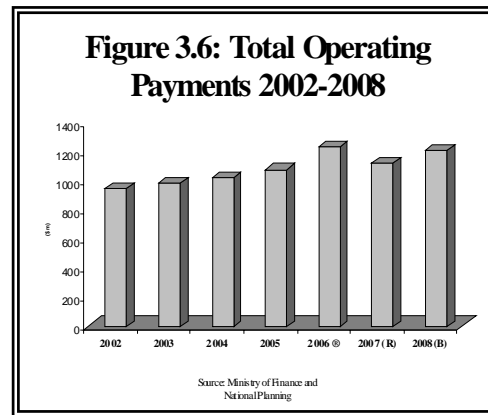
3.60 Interest payments for 2008 are expected to amount to \$179.2 million; up 3.2 percent from 2007 levels.

Other Operating Payments

3.61 Other operating payments are those miscellaneous expenditures associated with debt repayments. In 2006, miscellaneous expenditures reached \$2.4 million and the 2007 revised forecast stands at \$3.3 million. Other operating payment is projected at 6.4 million for 2008.

Total Operating Payments

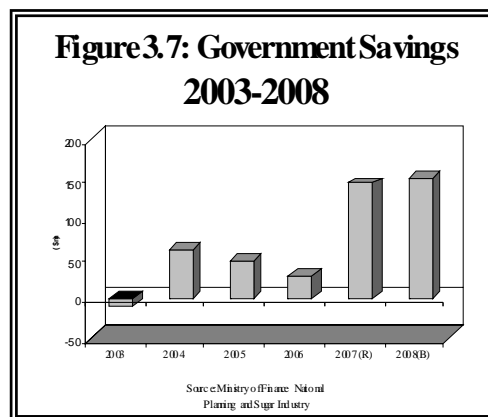
3.62 In 2006, total operating payments are expected to account for 85.3 percent of total expenditures, an increase of \$156.1 million over 2005. In 2007, total operating payments are expected to total \$1,116.6 million equivalent to 90.1 percent to total expenditure.



3.63 The operating expenditure forecast for 2008 is tagged at \$1,210.3 an increase of 8.4 percent relative to 2007. This is due to anticipated increases in expenditures in all categories of expenditure.

Government Savings

3.64 Government savings is simply the net flows from operating activities and is measured by the difference between operating revenue and operating expenditure. Figure 3.7 shows Government savings over the period 2003-2008.



3.65 In 2006, Government savings amounted to \$27.1 million, representing 0.5 percent of GDP. In 2007, it is expected that there will be an operating cash flow surplus of \$142.8 million or 2.6 percent of GDP. The higher surplus relative to the 2006 position is due to buoyancy in tax collections with lower operating expenditure.

3.66 Government savings for 2008 is projected at a surplus of \$150.8 million or 2.6 percent of GDP. The expected saving is due to significant increases in collections in direct, indirect taxes and non tax revenue.

Government Investing Receipts

3.67 Total investing receipts, consist of: sale of Government equities; interest from bank balance; repayment of term loans; and return of surplus capital from investment. In 2006, total-investing receipts amounted to \$28.4 million. In 2007, the estimate for total investing receipts is \$2.0 million. The 2008 forecast stands at \$2.0 million.

Sale of Government Assets

3.68 In terms of the sale of Government equities, \$30.0 million⁵ worth of Governments shares in Fiji TV and Colonial National Bank [CNB] were originally forecasted for sale in 2006. However, only \$28 million worth of proceeds were received from the sale of CNB shares in 2006. No share sale is expected for 2007 and 2008.

⁵ \$4m – Fiji TV, \$26m – CNB

Repayment of Term Loans

3.69 This refers to the repayment of loans from statutory bodies, public enterprises, and other public institutions. In 2006, Government received \$0.24 million in loan repayments. Repayments on term loans in 2007 and 2008 are both projected at \$0.16 million.

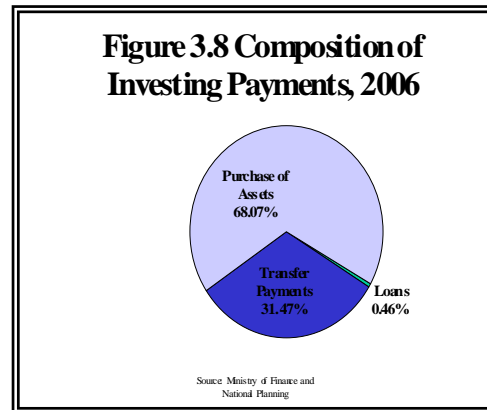
Return of Surplus Capital from Investment

3.70 Return of surplus capital from investment accounts for revenue earned by Government TMAs. No Surplus revenue was received from TMAs in 2006. Return of surplus capital from investment are projected at \$1.63 million for both 2007 and 2008.

Government Investing Payments

3.71 Figure 3.8 shows the composition of investing expenditure in 2006. Investing expenditure comprises:

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



Loans

3.72 In 2006 loans of \$0.98 million were made to tertiary students. Loans are projected at \$1.5 million for both 2007 and 2008. Recovery of student loans will be strengthened from 2008 onwards.

Transfer Payments

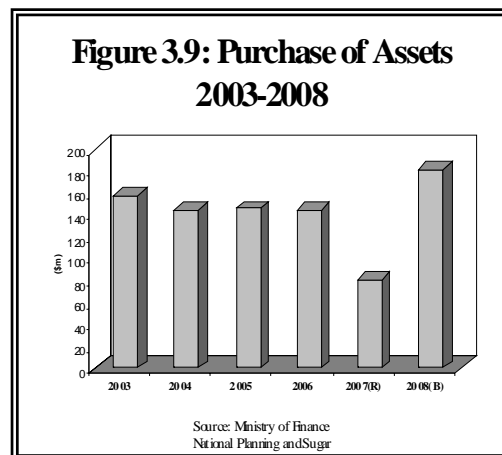
3.73 Capital transfer payments refer to grants and transfers made for capital purposes. Expenditures under this classification amounted to \$66.9 million in 2006 and are expected to total \$41.0 million in 2007. The 2008 allocation is \$88.0 million. Some of the major transfers in 2008 include:

- Fiji Visitors Bureau Marketing Grant (\$12.0 million);
- Rural Electrification Projects (\$6 million);

- FIRCA Capital Grant (\$10.0 million);
- Northern Development Programme (\$5.0 million);
- Sugar Industry Reform (\$5.0 million);
- Farm Improvement and Land Resettlement (\$1.0 million);
- Grant to Self-Help Projects (\$1.5 million);
- Divisional Development Projects (\$1.5 million);
- FIT Grant (\$3.0 million);
- Poverty Alleviation Projects (\$1.0 million);
- HART (\$1.0 million);
- Rural & Outer Island Agriculture Development Programme (\$2.7 million);
- AFL – Maintenance of Rural Airstrips (\$1.0 million);
- Maintenance on Non-PWD Roads (\$1.0 million);
- Grant to Coconut Industry Development Authority (\$1.0 million);
- Disaster Rehabilitation Fund (\$5.0 million);
- Community Development Projects (\$1.6 million).
- Village Improvement Scheme (\$0.8 million);
- Development Assistance Scheme (\$1.4 million);
- Grant-Self-Help Projects (\$1.5 million);
- Provisional Development Projects (\$1.5 million)
- Agriculture Marketing Authority (\$1.0 million); and
- Drainage Funding Support (\$2.0 million).

Purchase of Physical Non-Current Assets

3.74 The purchase of physical non-current assets comprises the largest proportion of Government's investments. This category includes investment in new roads, schools and hospitals. Figure 3.9 shows spending on non-current assets in the period 2003-2008.



3.75 In 2006 the total purchase of physical assets amounted to \$144.7 million. Purchases in 2007 are expected to reach \$79.9 million, 64.8 million below the 2006 outturn. The significant decrease is due to the late implementation of capital projects following the announcement of the revised Budget in March 2007.

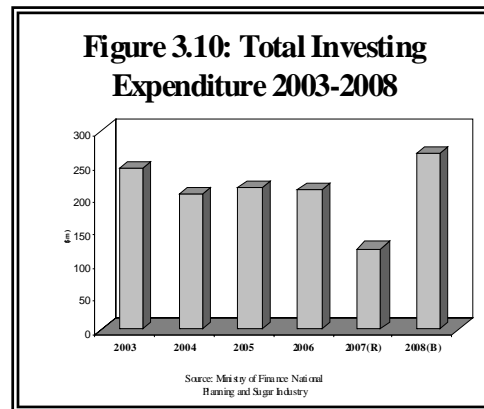
3.76 In 2008, \$181.3 million is allocated for this category. This is an increase of \$101.3 million relative to 2007. Some of the major purchases include:

- ITC Relocation (\$6.0 million);
- Upgrading - Existing Cane Access Road (\$2.0 million);
- Non-Destructive Testing Equipment (\$0.5 million);
- National Archives Building (\$0.8 million);
- Relocation of 4FIR Camp, Nadi (\$0.5 million);
- Maintenance and Upgrading of Schools & Institutional Quarters (\$1.2 million);
- Squatter Upgrading & Resettlement (\$5.0 million);
- Sigatoka Valley Development (\$1.0 million);
- Research & Development (Export Promotion) (\$2.0 million);
- Research & Development (Import Substitution) (\$1.3 million);
- Refurbishment of Timber Research Facility (\$0.5 million);
- Coastal Fisheries Development (\$1.5 million);
- Aquaculture, Brackishwater and Seaweed Developments (\$1.3 million);
- Fiji Integrated Meteorological Systems (Servers and Workstation Replacement) (\$1.5 million);
- Somosomo Hydro Power Project (\$3.0 million);
- Nabouwalu Hybrid Power Systems Upgrade (\$0.44 million);
- Water Supply and Sewer Line (\$1.0 million);
- Purchase of New Plants and Vehicles (\$1.0 million);
- Land Acquisition and Final Survey (\$0.5 million);
- Renovating Extensions and Upgrading of Police Institutions (\$0.5 million);
- Upgrading/Replacement of Quarters (\$0.5 million);
- Suva/Nausori Regional Water Supply (\$17.9 million);
- Tavua/ Vatukoula Regional Water Supply (\$0.5 million);
- New Meter Connections (\$0.7 million);
- Nadi/Lautoka Regional Water Supply (\$3.0 million);
- Navua/Deuba Regional Water Supply (\$1.0 million);
- Sigatoka Regional Water Supply (2.0 million);
- Labasa Regional Water Supply (2.0 million);
- Korovou Regional Water Supply (\$1.0 million);
- Rural and Settlement Water Supply (\$5.0 million);
- Repair and Upgrading of Public Buildings (\$8.9 million);

- Microsoft and Fiji Government Licensing Agreement (\$1.7 million);
- Fiji Road Upgrading Projects Stage III (\$17.0 million);
- Periodic Maintenance – Roads and Jetties (\$14.0 million);
- FMIS Costs (\$0.87 million);
- Land Drainage and Flood Protection (\$5.4 million);
- Outer Island Jetties (\$3.0 million);
- Maintenance of Health Centers and Nursing Stations (\$1.0 million); and
- Fiji E-Government (\$2.0 million).

Total Investing Payments

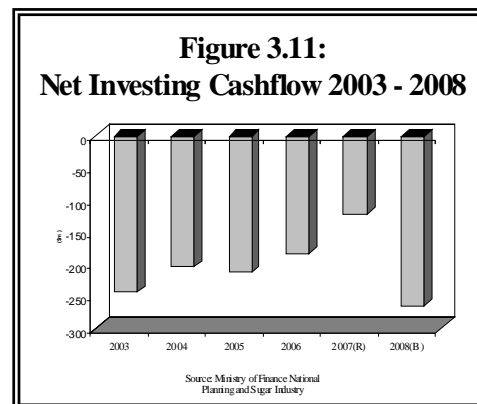
3.77 Total investing payments were \$212.6 million in 2006 or 14.7 percent of total expenditure. This is expected to decrease by \$90.2 million in 2007 due to decreases in transfer payments and purchase of physical non current assets. Total investing payments in 2008 are expected to amount to \$269.2 million.



3.78 Figure 3.10 shows total investing payments since 2003. The higher levels of investing payments between 2003 and 2006 reflect Government’s expansionary fiscal strategy after the events of 2001.

Net Cash Flows from Investing Activities

3.79 The net cash flow position represents the difference between Government investing revenue and investing payments. Figure 3.11 summaries the net cash flows from investing activities from 2003 to 2008.

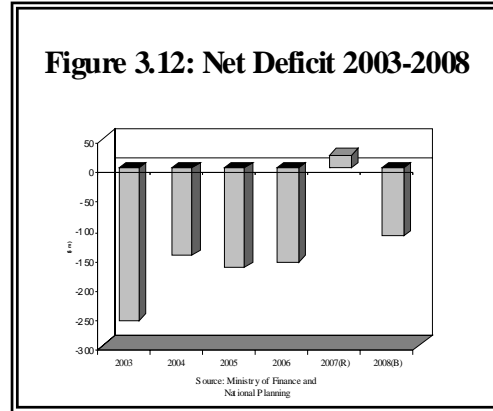


3.80 In 2006, Government

posted a net investing deficit of \$184.3 million. In 2007 and 2008, the forecast deficit cash positions are \$120.4 million and \$267.2 million, respectively.

Net Deficit

3.81 The net cashflow 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 has to be raised to finance Government’s activities.

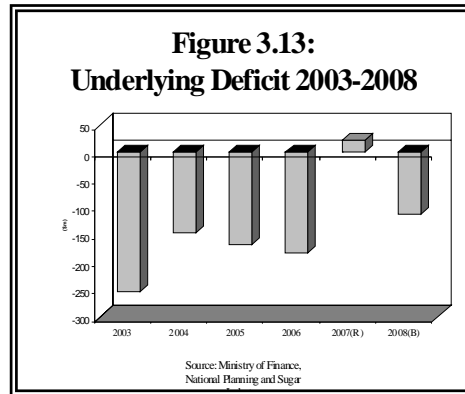


3.82 Figure 3.12 shows the net deficits that Government has been posting since 2003.

3.83 In 2006, Government registered a net deficit of \$157.2 million or 2.9 percent of GDP. In 2007, a net surplus is forecasted at \$22.4 million or 0.4 percent of GDP. The forecast for 2008 is \$116.5 million or 2.0 percent of GDP.

The Underlying Net Deficit

3.84 Figure 3.13 reveals the underlying net deficit since 2003. The underlying deficit for 2006 netted off at \$185.2 or 3.4 percent of GDP. Government anticipates an underlying surplus of 0.4 percent of GDP in 2007. An underlying net deficit of 2.0 percent is expected for 2008.



CHAPTER 4: SUGAR INDUSTRY

Update on Sugar Reform Programme

4.1 The main objective of the sugar industry reform programme is to enable the industry to make necessary efficiency and productivity adjustments to accommodate the planned reduction of European Union preferential sugar prices to the African, Caribbean, Pacific (ACP) sugar producing countries due to the reforms of the EU sugar regime.

4.2 These adjustments will be aimed at sustaining the competitiveness of sugar exports by improved production efficiency, product quality and minimizing associated unit costs. To enable the above, there will be an overhaul of transport infrastructure, major upgrade of mill equipment, modernized farming techniques and planting high yielding cane varieties.

4.3 Government will continue to adopt the Sugar Technology Mission's (STM) roadmap for reforming the sugar industry, which aims to increase cane production to 4.25 million tonnes by 2009/10. The roadmap anticipates an improvement in the cane yield to around 75 tonnes per hectare from 2009 through increased milling efficiency and field productivity.

4.4 A crucial part of the restructure programme involves refurbishing the ageing mills through an Indian Government loan package of \$86 million. The upgrading project aims to optimize capacity and improve plant efficiency and reliability in Fiji's 4 major sugar mills. The Rarawai, Lautoka and Labasa mills will be refurbished under the STM programme whilst the Penang mill will be upgraded with unused machinery from the three mills.

4.5 Up until now, seventy five percent of the mill upgrading project has been completed. The newly installed plants and machines at the restructured mills are expected to be commissioned by the end of April 2008, in time for the 2008 crushing season.

Production Level

4.6 Sugar production in 2006 was recorded at 310,140 tonnes, an increase of 21,140 tonnes over the 2005 yield of 289,000 tonnes. Similarly, cane production in 2006 improved to 3.22 million tonnes compared to 2.78 million tonnes in 2005. For 2007, both sugar and cane productions are projected to decline to around 250,000 tonnes and 2.50 million tonnes respectively.

4.7 The unfavorable production outlook for 2007 is attributed to poor weather conditions, particularly the drought experienced during the year. Total sugar exports for 2007 are projected at \$224 million, a \$46 million decline from the 2006 export figure of \$270 million. Sugar export projections for 2008 and 2009 currently stand at \$242.0 million and \$214.0 million, respectively.

Cane Development Plan

4.8 The industry will undertake an Accelerated Cane Replanting Programme in 2007 as part of the endorsed strategies outlined in the National Adaptation Strategy to restructure the industry in the next 8 years. The programme will be co-funded by the farmers through the Sugar Cane Growers Fund, and the EU (accounting for 60 percent) through the 2006 grant intervention under its accompanying Measures Programme. The programme will introduce better husbandry methods that are aimed at replanting new sugarcane crops on 70 percent of total cane area (64,000 hectares) over the next 5 years. The cost of the overall replanting programme is expected to amount to \$FJ20.7 million.

4.9 The first phase of programme will see the replanting of new cane crop varieties in 3141 hectares of specifically designated land from October to November 2007. This is anticipated to improve the cane yield to 75 tonnes per hectare and increase the TCTS (tonnes cane to tonnes sugar) ratio to 9.1. In 2008, a total of 9600 hectares is expected to be replanted with new cane with a farm yield of 70 tonnes per hectare and TCTS of 10.1. An anticipated 12,940 hectares will be replanted in 2009, yielding 70 to 65 tonnes per hectare and TCTS of 9.5.

4.10 Over the period 2007-2010, the industry expects to produce an additional 1.74 million tonnes of cane under its re-planting programme, which will supplement current average annual production levels of 3 million tonnes. This target will be achieved by improving the sugar cane farm production ratio from 5 tonnes per hectare to 7 tonnes per hectare.

4.11 In the past 5 years, only 3-5 percent of the total sugar cane farmed area was replanted with new-sugarcane crops. Consequently, this led to the reduction in cane farm production, which averaged at around 50 tonnes per hectare. This level of yield is uneconomical for farmers and will need to be increased to 60-75 tonnes per hectare.

4.12 The cost of establishing a hectare of a new cane crop is \$FD2, 151. It is calculated that through the various measures for improvements, the production cost per tonne of cane should be reduced over 5 years from FJ\$39 to FJ\$20.

Fertilizer

4.13 As part of efforts to reduce farm production costs and supplement fertilizer supply to farmers, the industry plans to procure a bio-composting plant which will produce fertilizer from mill waste including mud, ash and distillery effluent. The new plant will be operational in April 2008 and is anticipated to reduce fertilizer costs by 30 percent.

Irrigation

4.14 To help improve the productivity and quality of farm yield, the industry plans to setup an efficient irrigation scheme, which will abate the impact of adverse drought conditions and ensure consistent production and supply of sugar-cane. The recommendations of the 2005 ADB Irrigation Report titled “Water Resources Development for Sugarcane Irrigation in Fiji” will be used as the basis for mapping a successful the way forward for implementing the scheme.

Mechanisation

4.15 The introduction of prototype mechanical harvesters, particularly for farms on flat lands, is an essential part of the Industry’s development agenda for the medium term. A pilot project will

commence in the 2008 season to determine the impact of mechanical harvesters on harvesting and transportation costs, and reliability of cane supply to the mills. The current cost for harvesting and transportation of sugar cane averages at around \$20 per tonne of cane. This is equivalent to about 45 percent of the total production cost per tonne.

Railway System

4.16 A recent study by the Asian Development Bank recommended retention of the rail transport system. Based on the study's recommendation, the industry is committed to maintaining the current 30:70 tramway/lorry cane transportation ratio. Further, farmers will be provided with a conversion allowance to supplement the cost of lorry usage.

4.17 At the same time Government has allocated \$1.5 million for the maintenance of cane access roads to support farmers using lorry transportation. This mode accounts for 65 percent of cane transportation. Currently, it costs FSC \$12 million per annum to service and maintain the railway system.

Cogeneration and Ethanol Production

4.18 An important aspect of the mill upgrading programme is to enable the Fiji Sugar Corporation to expand its existing cogeneration capacity of electrical power and produce ethanol fuel from molasses for commercial sale. Electricity generated from bagasse will be sold to supplement the national grid.

4.19 The cogeneration project at the Lautoka, Rarawai and Labasa Mills will have the potential to generate 50 MW of electricity for their own power needs during the crushing season and a surplus 30 MW to be sold to the Fiji Electricity Authority. However, during the off season, 40 MW of energy may be produced, of which 34 MW will be sold.

4.20 In dollar terms, it is estimated that the projects at the Rarawai and Lautoka mills will generate a surplus of F\$14.17 million through cogeneration.

EU Accompanying Measures

4.21 Over the reform period, Fiji is expected to receive a total of €120 million under the EU Action Plan of Accompanying Measures for Sugar Protocol countries. The Action Plan provides development assistances for ACP sugar producing countries to enable them to successfully adapt to the reform of the EU Sugar Regime.

4.22 The €4.2 million EU grant for 2006 is designated for the upgrading of the industry's research and extension services, the accelerated cane planting programme and establish the Programme Management Unit (PMU).

4.23 The PMU will also oversee and administer as a sub-project, the economic diversification component of the national sugar adaptation strategy (NAS). This will assist farmers exiting the industry to set up commercially viable ventures in several fields, including small and micro enterprises.

4.24 As the timely release of the EU grants are contingent on the prevailing political climate, the Government has put in place a back up plan to assist the sugar sector achieve its targeted outcomes. The plan includes the allocation of FJ\$5.0M for the sugar industry support programme in the 2008 Budget.

Sugar Protocol in the Economic Partnership Agreement (EPA)

4.25 Under the Sugar Protocol negotiations in the context of the EPA, the ACP group has agreed to adopt a two-tiered approach whereby certain fundamental issues must be discussed at an all-ACP level, and other specific issues may be negotiated at the regional level.

4.26 Fiji maintains its position which is generally consistent with the stance of the all-ACP Group, that is, to have the benefits of the sugar protocol transposed into future regional EPAs. The benefits comprised inter alia are:

- guaranteed market access with agreed quantities;
- the market access should build on the acquis of the Sugar Protocol and that no ACP country should be made worse off;

- a guaranteed price negotiated and reviewed annually within the range of prices prevailing in the EU;
- the minimum price should not be less than the reference prices fixed under the current EU sugar regime;
- guaranteed price must apply for the entire life of the EU sugar regime till 2015;
- due consideration of all relevant economic factors;
- indefinite duration;
- exemption from the safeguard mechanism; and
- the obligation of the EU to be the buyer of last resort.

Marketing

4.27 As part of ongoing discussions in relation to the review of the Long-Term Agreement for the sale of Fiji's sugar to the EU, potential buyers Tate and Lyle and British Sugar have indicated their willingness to consider providing technical assistance, financial support, and to consider investments in certain areas of the industry's operation. Furthermore, Tate and Lyle, and various potential buyers including British Sugar have expressed interest in entering into a long-term commercial agreement with FSC.

Conclusion

4.28 The implementation of farm and mill upgrades through the EU accompanying measures supported by Government, gives Fiji's sugar industry optimism in managing the challenges of the EU's sugar regime reform. It also provides confidence to achieve a sustainable, diversified and viable sugar industry.

CHAPTER 5: GOVERNMENT'S BALANCE SHEET

Introduction

5.1 This chapter covers the Government's Balance Sheet which highlights the major items of assets and liabilities affecting Government's financial position. It also features Government's investments in Public Enterprises and strategies for managing its assets, liabilities and associated risks.

5.2 A significant portion of reporting is confined to cash transactions and since Government is in transition towards a full accrual accounting system, certain assets such as fixed assets, debtors or arrears of revenue are not captured in the Balance Sheet.

5.3 For this reason the Government's Balance Sheet cannot completely convey 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 Financial Management Reforms under the new accrual accounting system.

Arrears of Revenue

5.4 Arrears of revenue refer to outstanding amounts owed to Government. Total arrears of revenue in 2006 increased by \$54.3 million to \$237.2 million from 2005 levels, a growth of 29.7 percent. Bulk of revenue in arrears comprise of personal income tax, corporate income tax and value added tax, amounting to 72 percent of the total. Table 5.1 below depicts total revenue arrears and its proportion to total operating revenues.

5.5 Government will continue to recover its debt arrears through measures contained in its debt policy recovery framework. On non-tax revenue, the completion of the review of Government's 32 Trading and Manufacturing Accounts (TMAs) is expected to assist in the recovery of non-tax arrears.

Table 5.1: Arrears of Revenue – 2002 to 2006

	2002	2003	2004	2005	2006
Total amount owed (\$m)	196.0	225.6	187.6	182.9	237.2
As % of Total Operating Revenue	28.5%	32.9%	24.3%	15.0%	18.0%
The major components were:					
FIRCA	127.29	165.8	129.04	122.3	170.4
Public Utilities & Infrastructure	21.55	24.32	24.6	25.3	27.8
UNTAET, UNIFIL and MFO Sinai	4.47	5.25	2.65	3.33	4.4

Source: Ministry of Finance, National Planning and Sugar Industry

5.6 FIRCA's Debt Management Unit will be adequately resourced to enable them to improve collections of tax arrears. The Ministry of Finance will also 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.

5.7 Table 5.2 below reflects the age of major arrears of revenue, bulk of which are still recoverable.

Table 5.2: Age of Major Arrears of Revenue as at 31 December 2006

(\$M)	1-yr	1-2yrs	2-5 yrs	+5yrs	Total
FIRCA	52.1	61.6	32.6	27.5	173.2
Public Utilities & Infrastructure	4.1	3.7	4.6	15.4	27.8
MFO	4.4	-	-	-	4.4
Judicial Department	0.6	0.5	2.6	5.4	9.1
Lands and Survey Dept.	3.3	1.9	3.3	0.6	9.1
Ministry of Agriculture	-	0.1	0.2	3.8	4.1
Meteorological services	0.7	1.6	2	1.8	6.1

Source: Ministry of Finance, National Planning and Sugar Industry

5.8 Debt recovery measures as outlined in the 2005 Finance Manual have been introduced within Government agencies to

minimize arrears of revenues aging up to 5 years. Accounting Officers will be empowered to aggressively pursue collections, with appropriate penalties for offenders.

5.9 The much-anticipated review of Government's fees, fines and charges in 2008 is expected to provide feasible recommendations that will boost the recovery of arrears and strengthen efficiency in non-tax collections.

Government Investments

5.10 The Ministry of Public Enterprise and Public Sector Reforms with the Ministry of Finance will monitor the performance of public investments to ensure Government gets maximum returns.

5.11 The following major developments were recorded in Government's investment portfolio in 2006:

- Divestment of shares in Colonial National Bank - divested 49 percent of its shares in CNB which netted about \$18.0 million ;
- Port Industry Restructure – Establishment of Fiji Ports Corporation Limited by merging Ports Terminal Limited with Maritime Ports Authority of the Fiji Islands;
- Food Processor (Fiji) Limited – acquisition of NATCO with transfer of all assets and liabilities;
- Public Trustee classification as a Government Commercial Company;
- Fiji Meats Industry Board classified as a Commercial Statutory Authority and would be regulated under the Public Enterprise Act 1997; and
- Civil Aviation Authority of the Fiji Islands was de-listed as a CSA.

Fiji Investment Corporation Limited

5.12 Since the formation of Fiji Investment Corporation Limited [FICL] in 2004 as a catalyst for facilitating investment growth and development, the entity managed to support the following investments by the end of 2006:

- | | | |
|-------------------------|-------------|-----------------|
| • Grand Pacific Hotel | \$2,500,000 | Tourism |
| • Tossa Bussan Fiji Ltd | \$3,600,000 | Fish Processing |

- Savusavu Harbourside Complex \$ 500,000 Tourism
- City Farming \$552,348 Agriculture
- Navua Holdings \$700,000 Prawn Farming
- Matanivusi Beach Eco Resort \$799,900 Tourism

5.13 Apart from the above investments, FICL had given a loan to Fiji Hardwood Corporation Limited amounting to \$1.9 million of which \$934,000 has been paid out.

Government Equity Investment in GCCs and CSAs

5.14 Government Commercial Companies (GCC) and Commercial Statutory Authorities (CSA) are normally financed through Government grant and/or debt and Government anticipates receiving interest income and dividend income in return for these commitments.

5.15 In 2004, Government received a total of \$20.83 million as dividends from investments in GCCs and CSAs. Similarly, dividends received in 2005 and 2006 totaled \$23.7m and \$27.6m respectively.

5.16 Government's investments in GCCs and CSA's fell from \$877.3 million in 2005 to \$822.7 million in 2006, a decrease of 6.2%. The lower investment level is attributed to significant losses incurred by most Public Enterprises.

Table 5.4: Dividends from Government Majority and Minority Owned Entities

	2004	2005	2006
	\$M	\$M	\$M
Majority owned	8.02	13.50	9.76
Minority owned	9.17	6.99	9.15

Source: Ministry of Finance, National Planning and Sugar Industry

5.17 Table 5.4 above illustrates the level of dividends paid to Government over the period 2004-2006 from majority and minority owned entities. Dividends from majority owned companies increased by \$5.48 million from 2004-2005 but fell by \$3.74 million in 2006. On the other hand, dividend from minority owned increased by \$2.16 million in 2006 when compared to dividends generated in 2005.

5.18 In 2006 the ATH dividends contributed 31.7 percent of total dividends whilst FINTEL and LTA contributed 21.6 percent and 14.5 percent, respectively. However a number of public enterprises have not been able to pay dividends to Government including, Rewa Rice, Fiji Pine, Fiji Sugar Corporation, Daily Post, Rewa Dairy and Air Fiji.

Financial Performance of Public Enterprises

Table 5.5: Return on Assets and Return on Shareholders Fund

	2004		2005		2006	
	ROA	R/SF	ROA	R/SF	ROA	R/SF
GCC's	0.01%	0.02%	1.1%	1.6%	0.2%	-0.3%
CSA's	-1.1%	-2.0%	0.3%	0.6 %	1.1%	-2.0%

Source: Ministry of Public Service, Public Enterprises & Public Sector Reforms

5.19 As shown in Table 5.5 above, the Average Return on Assets (ROA) for GCCs increased substantially by 109 percent from 2004 to 2005, but slightly fell by 1.18 percent in 2006. This fall in ROA's is attributed to significantly decreased profits before tax from GCCs.

5.20 Furthermore, there was a significant decrease in Average Return on Shareholders' Fund (R/SF) for GCC's from 2005 to 2006, falling from 1.6 percent to -0.3 percent. The decrease is despite a rise in total equity for GCCs over this period.

5.21 The ROA for CSAs also decreased significantly from 0.3 percent for 2005 to -1.1 percent in 2006. This loss is largely due to a significant decrease in returns from CSAs. The most significant loss was generated by FEA which incurred \$12.3 million net loss after tax in 2006 as compared to \$1.6 million net loss in 2005.

5.22 Similarly, the R/SF for CSAs significantly decreased to -2.0 percent from a figure of 0.6 percent in 2005. The decrease is caused by a fall in before tax profits by 400 percent. Total Net loss after tax for CSAs in 2006 totaled \$8.5 million and this is a decrease from a total CSA profit after tax of \$2.8 million in 2005.

5.23 As a policy, Government's requires GCCs and CSAs to achieve 10 percent R/SF and remit 50 percent of net profit after tax as dividend. In 2006 Unit Trust of Fiji achieved a 19.3 percent R/SF.

5.24 Given the failure of GCC's and CSA's to achieve 10 percent ROS/F to Government, the revised target is for these entities to improve performance by 2 percent each year.

5.25 One of the major reasons for the Government owned entities not performing effectively is the presence of non-commercial obligations. These are subsidized by Government. CSAs and GCCs are being encouraged and monitored to improve performance and service delivery through cost effective management and business practices.

5.26 To this end, a Non-Commercial Obligations [NCO] Steering Committee has been set up within the Ministry of Public Enterprises to address the above issues and compensate Government owned entities which have NCOs.

Government Debt

5.27 Government debt comprise of domestic and external debt. Domestically, Government borrows through the issuance of treasury bills (short-term papers) and long dated bonds with maturities ranging from 3 years to 15 years. On the external front, loans are predominately 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 5.6 Government Debt Stock at the End of Year (\$Million)

	2004	2005	2006	2007(P)
Govt Debt Stock	2,280.2	2,422.8	2,863.1	2,803.4
Domestic	2,114.8	2,258.4	2,446.4	2,322.2
External	165.4	164.4	416.7	481.2
Debt Servicing Obligation	275.6	329.7	328.3	394.6
Domestic	258.3	305.2	308.2	355.1
External	17.3	24.5	20.1	39.5
GDP at Market Prices	4,473.8	4,614.6	5,483.3	5,568.8
Debt (% of GDP)	51.0%	52.5%	52.2%	50.3%

Source: Ministry of Finance, National Planning & Sugar Industry

5.28 Table 5.6 above shows the Government's debt stock performance for the last three years, from 2004 to 2006 and projection for 2007. As at the end of 2006, Government debt stock stood at \$2,863.1 million or registering an increase of 18.17 percent from the previous year. As compared to 2004, debt stock increased by 25.56 percent. Debt to GDP for 2006 was 52.21 percent. The net deficits over the last three years have had a direct impact to the increase in the level of debt stock. In 2007, debt stock is expected to decline by 2.08 percent and the expected Debt to GDP to be 50.3 percent.

5.29 The Debt & Cashflow Policy Committee within the Ministry of Finance will continue to provide directions on the issuance of domestic and foreign debt and advice on the guidelines for setting up debt and risk management policies. The Government's debt & risks management framework will be in place in 2007 and following this will be the formulation of debt and risks management policies and strategies in 2008. The framework, policies and strategies will be in line with Government's fiscal stance over the medium term as well as focusing on developing the domestic bond market.

Government Financing Activities

5.30 Effective cashflow management remains a key aspect of Governments financial obligations to provide a transparent and systematic approach to its borrowing. With better cash flow management, Government should be able to borrow within the approved ceiling.

5.31 2006 witnessed a tight liquidity situation with little market interest shown towards the float of Government bonds and treasury bills. The increase in RBF policy indicator contributed to hikes in interest rates and raising the cost of borrowing by Government to 7 percent.

5.32 Additionally, the fluctuating performance in Government's revenue collections in 2006 had posed a major challenge for cashflow forecasting and management. As an expenditure control measure, Government imposed lower approved spending levels of \$20,000 a day for each department. This was to ensure that payments would not

exceed revenue collections, avoid unnecessary borrowing, and to institute financial prudence during the period.

5.33 The Government bond of US\$150 million raised in the international bond market in 2006 was intended to finance Government's budget deficit in 2007.

Domestic Debt

5.34 The domestic market continues to be a major source of funding for Government over the years. As shown in Table 5.7 below, total outstanding domestic debt at the end of 2006 was \$2,446.4 million or rose by 8.32 percent over 2005 and increased by 15.68 percent over 2004 respectively. There was an increase of 6.79 percent between 2005 and 2004. However in 2007, total domestic debt is expected to decrease by \$185.4 million or 7.5 percent and this is attributed to the deviation of Government's source of funds from domestic to external respectively.

5.35 As a percentage of GDP, total domestic debt dropped to 44.62 percent in 2006 from a level of 48.94 percent in 2005. A further decrease to 40.60 percent is anticipated in 2007.

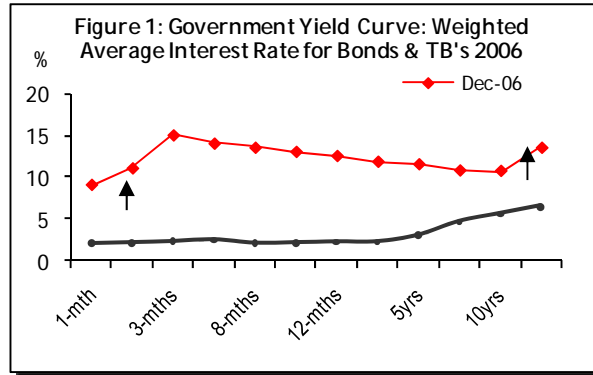
Table 5.7: Government's Domestic Debt Stock [\$ Million]

	2004	2005	2006	2007 (P)
Domestic Debt	2,114.8	2,258.4	2,446.4	2,261.0
- Bonds	1,986.5	2,121.4	2,300.7	2,111.0
- Treasury Bills	128.3	136.0	145.7	150.0
GDP	4,473.8	4,614.6	5,483.3	5,568.8
D/Debt to GDP Ratio	47.3%	48.9%	44.6%	43.5%

Source: Ministry of Finance, National Planning and Sugar Industry

Development in Domestic Interest Rates

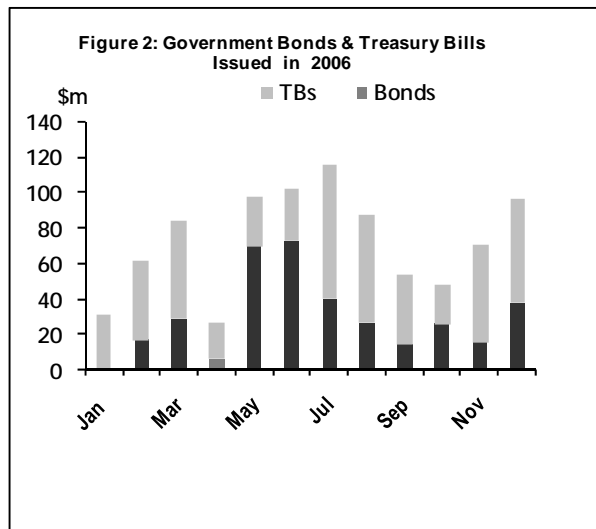
5.36 Interest rates reached a record high in 2006 for both short and long-term securities. Some of the benchmark interest rates like the 3-months T-Bills registered 7.50 percent in 2006



compared with 1.90 percent in the previous year. Similarly, the 5-years bond rate stood at 8.90 percent compared with 2.75 percent from previous years. All points in the yield curve rose by 4 to 6 percentage point in 2006.

Bonds & Treasury Bills Issuance

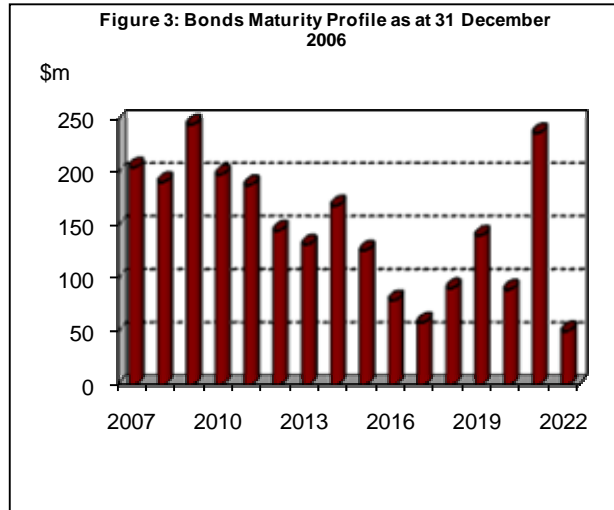
5.37 Government Bonds and Treasury Bills are issued in the market with due consideration to the forecast budget and actual shortfall in the Government cashflow.



5.38 At the end of 2006, Government issued securities worth a total of \$875 million, of which \$357 million was in Bonds and \$519 million was in Treasury Bills.

Issues were mostly concentrated in the second quarter of the year., primarily due to the rollover of redeeming bonds. Under subscriptions of Bonds saw the increased issuance of Treasury Bills over the same period.

5.39 In terms of the domestic maturity structure, the bulk of outstanding bonds will mature in the next 5 years. As shown in **Figure 3**, Total principal repayments for 2008 were projected at \$191 million. As such, over the medium to long term prudent cash management must be put in place for payments of securities which are approaching maturity.



External Debt

5.40 Table 5.8 below shows that by the end of 2006, Government’s external debt stock amounted to \$416.7 million, an increase of 153 percent over 2005. External Debt to GDP was 7.6 percent in 2006 compared to 3.6 percent the previous year. The increase was due to the issuance of the first ever Government bond in the international bond market, worth US\$150.0 million or FJ\$250.0 million. In 2007, the external debt stock is projected to rise to \$481.2 million, equivalent to 8.5 percent of GDP. The increase is due to further disbursements from the three loans contracted under the Asian Development Bank⁶.

5.41 The proportion of Government’s external debt stock to the total value of exports indicates the sustainability of a country’s external debt servicing ability. The international benchmark for an unsustainable external debt position is 18 percent. With a projected external debt servicing ratio of 3.1 percent in 2007, Fiji is still within the acceptable range.

⁶(a) Suva-Nausori Water and Sewerage Project; (b) Fiji Road Upgrading Project (FRUP 3); (c) Alternative Likelihood Project (ALP).

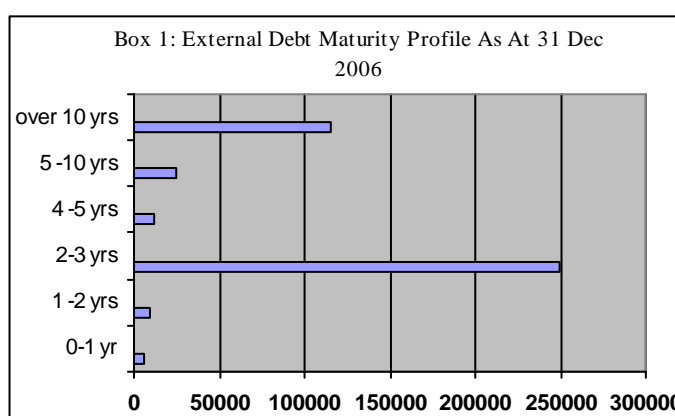
Table 5.8 – Government’s External Debt Stock

(\$Million)	2004	2005	2006	2007 (P)
External Debt	165.4	164.4	416.7	481.2
Debt Servicing	17.3	24.5	20.1	39.5
Ext. Debt % of GDP	3.7	3.6	7.6	8.5
Ext. Debt Servicing % of Exports	1.4	1.9	1.7	3.1
GDP	4,473.8	4,614.6	5,483.3	5,568.8

Source: Ministry of Finance, National Planning and Sugar Industry

External Debt Maturity Profile

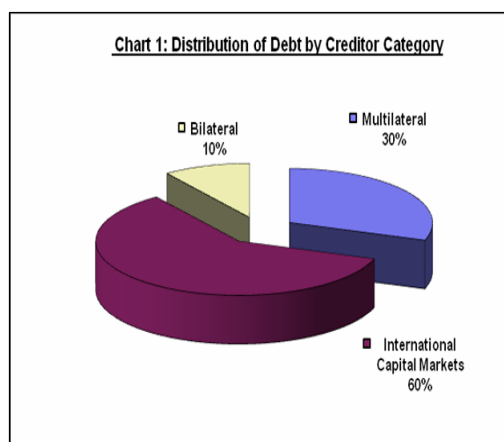
5.42 As shown in Box 1, approximately 59 percent of total external debt will mature in the next 2 to 3 years. A large portion is attributed to the redemption of



the Government’s \$250.0 million global bond in 2011. About 27 percent or \$115.4 million will be redeemed after 10 years, which comprise mostly long term multilateral and bilateral loans.

External Lenders

5.43 Chart 1 shows the distribution of external debt by Creditor category of which the international bond market accounts for 60 percent of the total external debt.



5.44 The issuance of Government’s first international bond worth

approximately FJ\$250.0 million had expanded Fiji's sources of external borrowing.

5.45 In September 2006, Government successfully contracted its first ever global bond worth US\$150 million or FJ\$250.0 million. The bond was priced with a coupon of 6.875 percent, and is due for redemption via a lump sum payment in 2011.

5.46 Multilateral creditors accounts for approximately 30 percent or around \$121.9 million of the total external debt. The Asian Development Bank remains the key creditor for the Government at \$97.8 million or 79 percent of the multilateral debt stock. Other debt obligations that includes the International Bank for Reconstruction and Development (IBRD) and the European Investment Bank (EIB) amounts to 15.06 percent respectively.

5.47 The external debt outstanding in respect of bilateral creditors stood at \$45.2 million or 10 percent of total external debt. The Japan Bank of International Corporation (JIBC) accounts for 81 percent of the total bilateral arrangement whilst the existing old loans that include the Government of France termed loans accounts for 19 percent of the total bilateral creditors respectively.

5.48 Given that the Government's external source of financing has been earmarked for the economic sector development, the composition of external debt financing to this sector includes: (a) Transport at 56 percent; (b) Water and Sewerage at 29 percent; (c) Agriculture at 4 percent and others at 11 percent respectively.

5.49 In terms of external currency composition, 77 percent of external loans are dominated in US dollars; the Japanese Yen accounts for 15 percent; with Euro and the remaining currencies accounting for about 6.0 percent.

Interest Rates

5.50 Most of Government's recent loans are contracted with variable interest rates and this applies predominantly to those engaged with multilateral lenders. Loans contracted from Government's bilateral lenders usually have fixed loan interest rates below 5 percent.

The weighted average interest rate on external loans was around 3.5 percent in 2006.

Contingent Liabilities

5.51 Contingent liabilities constitute two major components, the Guarantee on State-Owned Entities and International Agency Subscriptions. Government has become increasingly concerned about the size of its contingent liabilities, which reached \$3, 036.7 million or close to 53.6 percent of GDP by the end of 2006. This is an increase of 9 percent over 2005. The increase was largely because of Government's annual provision of guarantee to FNPF.

5.52 A revised guarantee policy came into effect in April 2004. This policy contains requirements such as agreements to supplement existing Deeds and a new fee structure. Annual financial assessments are carried out for Government Commercial Companies (GCC) and Commercial Statutory Authorities (CSA), which are eligible for guarantee issuance. Guarantee fees of up to 2 percent were later included as a minimum premium for the financial risk that Government will accommodate. The guarantee policy will be reviewed again in 2007.

5.53 In terms of financial performance, a guarantee issuance criterion is set according to the historical performance of GCC and CSA entities over the past 3 years. Approximately 21 percent, 36 percent, 43 percent of these are classified are placed under the Tier 1⁷, Tier 2⁸ and Tier 3⁹ categories respectively. A total of 14 entities are under consideration in these Tier categories.

5.54 Table 5.9 displays the extent of Government's exposure to guarantees and other contingent liabilities.

⁷ *Tier 1 or High Performing Entities* are those entities that are performing very well in terms of adequate profitability and liquidity levels. 1.5% to 2% in guarantee fee and accorded to these entities.

⁸ *Tier 2 or Medium Performing Entities* are those entities that are on the improving trend, whereby entities profitability and liquidity are on or just above the break-even point. 0.5% to 1.0% in guarantee fees are accorded to these entities.

⁹ *Tier 3 or Low Performing Entities* are those entities that are not financially viable with low or negative profit margin and there is a substantial disparity between leverage and equity ratios. 0% to 0.5% in guarantee fees is accorded to these entities.

Table 5.9: State Guarantees and Contingent Liabilities

	2002	2003	2004	2005	2006
Loans & Other Gleans	2,233.0	2,342.6	2,467.3	2,728.2	2,984.13
<i>Of which the main components are:</i>					
FNPF	1,761.8	1,891.2	2,034.6	2,186.4	2,347.72
FEA	80.4	75.9	60.4	120.8	165.60
FDB	211.4	150.6	176.0	231.9	271.57
HA	127.4	129.7	110.1	110.1	118.80
FSC	6.9	16.6	18.0	12.0	22.60
MPAF	1.7	3.2	25.4	47.0	45.30
Other CL 1/	58.6	53.5	45.4	51.8	52.6
Total	2,291.6	2,396.1	2,512.7	2,780.0	3,036.7

Source: Ministry of Finance, National Planning and Sugar Industry

5.55 Fiji National Provident Fund (FNPF) members' contributions accounts for nearly 77 percent of the total contingent liabilities. Term Loans account for 21 percent, while Depositors/Mortgages and International Subscriptions comprise the remaining 2.2 percent. Excluding FNPF, Government's term loan and total guarantees outstanding with GCCs and CSA's is approximately \$630 million.

5.56 One of the key issues for clarification under Government's guarantee policy in 2007 is the determination of the real value of guarantee for FNPF member contributions in contingent liabilities. There is perception that this is double counting, given that annual issuance of Government bonds purchased through FNPF's members funds are already Government guaranteed.

5.57 In view of the above, a revaluation of Government's outstanding liabilities in FNPF is expected to reduce its total annual contingent liabilities to approximately 30 percent of GDP as opposed to the current 53.6 percent figure.

CHAPTER 6: FINANCIAL MANAGEMENT REFORM

Introduction

6.1 This chapter reports on the progress of the Financial Management Reform (FMR), which introduces improvements in financial management practices for more performance focus and strengthened accountability.

Background

6.2 The Financial Management Act (2004) which became operational on 1 January 2005 provides the legal and administrative framework to effect the changes under the FMR. The key changes include:

- (i) The transition towards performance budgeting, integrating planning, budgeting and performance management;
- (ii) Strengthening accountability mechanisms by clarifying the roles and responsibilities of the designated officers;
- (iii) Increased devolution of authorities to Permanent Secretaries (PSs) accompanied by a reporting mechanism that strengthens their accountability and transparency;
- (iv) The introduction and implementation of an integrated Financial Management Information System (FMIS) by facilitating timely, up to date financial information, thereby assisting in monitoring financial performance at agency and whole of government levels; and
- (v) Transition to accrual accounting.

6.3 These changes are introduced in a progressive manner, in view of the capacity level within Government. This allows essential training to be undertaken methodically, in alignment with the roll out of the changes.

Status of FMR Implementation

Performance Budgeting

6.4 Government will continue with the phased implementation of performance budgeting, now in its second year of use. This new budgeting system ensures that financial resources are allocated to agencies, to produce outputs that contribute to attaining the broad outcomes of Government.

6.5 A core feature of performance budgeting is the use of Performance Portfolio Statements. These present the outputs produced by each Agency, and the associated performance targets along with a summary distribution of funding and staff associated with the production of each output. The statements clearly link the outputs of agencies to the outcomes in the Strategic Development Plan (SDP).

6.6 The PPS is an essential component of the Annual Corporate Planning process. Whilst the ACP spells out how agencies will produce their outputs, the PPS defines the targets and also the outcomes which agencies must deliver. In this regard, the ACP will clearly link the PPS outputs with agencies' organizational structure and allocated resources.

6.7 Currently, output costing calculations in the PPS are based on the budget allocation. An exact costing of outputs will be made possible with the full implementation of accrual accounting, supported by comprehensive capital asset schedules with associated depreciation programs.

6.8 As this is a recent initiative, it is expected to take a few years before all agencies are proficient with this system, and are able to provide satisfactory reports on the utilisation of public funds.

Shift to More Accountability

6.9 The Financial Management Act (2004) clarifies the roles and responsibilities of line Ministers, their Permanent Secretaries and designated officers in the utilisation and administration of public resources. This is complemented by appropriate revisions to the

reporting templates. The overall benefit is significantly improved accountability and transparency in the use of public resources.

6.10 In practice, line Ministers are responsible for oversight of their agency policies. Their Permanent Secretaries control the Budget Head, being accountable for the delivery of agency outputs and management of financial and resource allocations.

6.11 The designated roles of Permanent Secretaries under the Finance Management Act are follows:

- Instituting effective controls and systems for proper accounting for allocated resources;
- Formulating suitable fees or charges for agency revenues;
- Improving collections of agency and state revenues and recovery of arrears;
- Authorization of expenditures following proper scrutiny; and
- Ensuring compliance with the Financial Management Act and Finance Instructions and other applicable laws.

Devolution of Financial Authority

6.12 As Permanent Secretaries are given more autonomy in the disbursement of agency resources, they are also bound by strict guidelines and stringent reporting requirements to ensure transparent and optimal allocation of resources. This devolution allows them greater scope to make cost effective decisions in the achievement of agency outcomes.

6.13 The following authorities are expected to be reinstated with Permanent Secretaries on a progressive basis over the medium term:

- New procurement limits;
- Approvals for virements within designated expenditure groups;
- Writing off irrecoverable debts within specified limits; and
- Establishment of Agency Tender Boards.

Financial Reporting

6.14 Under the 2004 FMA, agencies are required to table monthly, quarterly and annual financial reports. This ensures more accountability and timely feedback on the utilisation of public

resources and enables agencies to compare their outputs against the performance targets stipulated in their Annual Corporate Plans.

FMR Capacity Building

6.15 Capacity building is an important aspect of the whole FMR. The development of a human resource capability to meet the needs of the FMR represents a significant challenge. The success and sustainability of the reform, largely depends on the ability of operational personnel and management to implement the reforms.

6.16 The goal of FMR capacity building is to deliver quality training that will facilitate the successful introduction of the new processes and systems under the Financial Management Reform.

6.17 Capacity building programmes will range from basic skills training to strategic decision making for senior officers. These programmes are prerequisites for the change towards accrual accounting.

Financial Management Information System

6.18 The Financial Management Information System (FMIS) is a government-wide application and is viewed as the cornerstone for improved financial effectiveness and financial operational reliability. The reliability and quality of financial reports generated through FMIS largely depends on the timeliness, completeness and the accuracy of the inputs entered by the users at agency level.

6.19 In 2007, Government has implemented the FMIS across whole of Government. This will enable all agencies to comply with reporting requirements in terms of timeliness and accuracy. This is expected to provide an effective platform for more informed decision making.

6.20 However, agencies such as the Ministry of Health, Departments of Roads and the Department of Water and Sewerage have their own information systems. These agencies are also synchronizing their data output in line with the FMIS whole of government reporting requirements. Government is committed towards ensuring the integration of these systems into the main FMIS over the medium term.

Sustainability of FMIS

6.21 With the successful completion of FMIS in November this year, an on-going challenge will be the sustainability of FMIS across government. An application of this scale requires continuing support to ensure its sustainability and success for years to come.

6.22 For the medium term, the way forward is to develop a strategic framework that guides and sustains the operation of FMIS across whole Government and within the individual agencies.

6.23 In this regard, the sustainability of FMIS will be driven by two main factors:

- i) Consistent technical support to ensure minimal FMIS disruption:
and
- ii) Capacity and commitment of agencies to ensure that their operational requirements under FMIS are fulfilled consistently.

Technical Support

6.24 An important aspect of FMIS sustainability is the on-going monitoring/support through the provision of functional and technical backup by ITC services and the Ministry of Finance FMIS team. Important features of which include:

- FMIS helpdesk facility; and
- Monthly user group meetings with Ministry of Finance FMIS team.

Capacity Building

6.25 Capacity building is vital for the sustainability of FMR. Accordingly, its implementation is dependent on competency of Government Officers in operating the system. As such, natural attrition, the inevitable promotion and recruitment process within the service requires the existence of an effective “base capacity” as well as strategies to train officers in view of those changes.

6.26 The broad FMIS training strategy comprises the following:

- Re-training of FMIS team to enhance its capacity in: aspects of General Ledger administration and other technical systems; and developing customized reports using the enterprise reporting tools.
- Development of an on-going training plan from 2008 onwards, the objective of which is to promote and build up FMIS capacity across Government and for continuity and sustainability of the system.

Conclusion

6.27 The completion of the FMIS roll out across whole of Government is a major milestone achievement as it has improved the quality, timeliness and presentation of financial information to all users within Government. The FMR will also facilitate the efficient and accountable use of financial resources of government.

6.28 Government is committed to the Reforms in the public sector. The setting up of a single committee called the Public Sector Reforms Committee should enhance greater coordination and monitoring of all the reforms namely the Civil Service Reform, Public Enterprise Reform and the Financial Management Reform.

CHAPTER 7: POVERTY ALLEVIATION AND RURAL DEVELOPMENT

Introduction

7.1 An important aspect of Government's social and economic policies for the medium term involves the formulation of adequate measures to address the plight of the poor and disadvantaged. Government firmly believes that "high quality" economic growth can only be achieved if its benefits are distributed equally amongst all citizens, particularly the underprivileged.

7.2 As such, Government's poverty alleviation programmes for 2008 will focus on ensuring that the poor and disadvantaged have better access to education and training, social welfare schemes, finance and credit, and improved social services and physical infrastructure.

7.3 Furthermore, the 2008 Budget also provides various taxation measures aimed at reducing the cost of living for low income earners, and promoting commercial development through small micro-enterprises. These measures are expected to cushion the impact of prevailing economic conditions on vulnerable members of the community, and create livelihoods and income generating opportunities for potential small business operators, farmers, landowners, and rural and outer island communities.

Background

7.4 The 2002-2003 Household Income and Expenditure Survey and the 2003 assessment of poverty and hardship has given Government and relevant stakeholders more direction and focus in its policies and programmes on poverty alleviation.

7.5 Results of the survey indicated that 34.4% of the population lived below the basic needs poverty line¹⁰ (BNPL), indicating a 5 percent increase from the 1990-91 Household Income Expenditure Survey (HIES). The poverty gap is estimated to have been \$2,616.64

¹⁰ BNPL = Food Poverty Line + Non-Food Poverty Line = \$155 per week per household

per year for an average household. The poverty gap is the difference between the national poverty line (estimated at \$8062.60 in 2002), and the average income of a poor household (\$5,445.96 per year).

7.6 The HIES focuses on measuring income poverty but this is just one aspect of poverty or hardship. In 2003, ADB assisted the Government of Fiji to conduct a Participatory Assessment on Poverty and Hardship. The Assessment indicated that most of Fiji's communities faced varying degrees of "hardships", based on lack of access to opportunities.

Poverty Alleviation Objectives

7.7 Government's poverty alleviation programmes and policies for the medium term will strive to achieve the following objectives:

- Ensuring a safety net to support the livelihoods of those that are genuinely poor and are unable to support themselves, particularly those with permanent disabilities;
- Creation of sustainable employment and income-generating opportunities for the poor and disadvantaged; and
- Improving the productive capacity and professional capabilities of the poor and underprivileged to take advantage of employment and commercial opportunities.

7.8 In improving the effectiveness of its poverty alleviation programmes, Government will seek to strengthen and better coordinate its efforts with non-Governmental and civil society organizations (NGO's) in the implementation and monitoring of poverty alleviation policy initiatives.

7.9 Table 1 shows the major expenditure programmes earmarked for poverty alleviation in the 2008 Budget.

Section 1: Government Assistance Towards Poverty Alleviation

Poverty Alleviation Projects	2007 (R) (\$m)	2008 (B) (\$m)
Women, Social Welfare and Housing		
Upgrading of Squatter Settlement and Existing Subdivisions	1.00	5.00
HART Support	1.50	1.00
Poverty Alleviation Projects	1.00	1.00
Grant to Voluntary Organizations (Capital)	0.25	0.50
Family Assistance Scheme	18.00	18.00
Care and Protection Allowance	0.30	0.22
Women's Plan of Action	0.30	0.30
Rental Subsidy – PRB	1.00	1.00
Commerce		
Micro Finance	0.70	0.34
Education		
Remission of Fees	0.40	0.40
Building Grant	1.20	1.70
Compulsory Education	0.40	0.40
Tuition Fee-Free Education (Primary)	4.10	4.20
Tuition Fee-Free Education (Secondary)	11.37	11.66
Multi-Ethnic Affairs		
Multi-Ethnic Scholarships	4.23	5.5
Agriculture		
Farm Improvement & Land Resettlement	1.00	1.00
Youth Development		
Rural Sporting Facilities	0.20	0.20
Miscellaneous		
Students Loan Scheme	1.50	1.50
FDB – Interest Subsidy (Northern Division Projects)	0.55	0.55
FDB –Subsidy for Fijians	5.56	5.56
TOTAL (\$)	54.56	60.03

Source: Ministry of Finance and National Planning

Rural Development and Outer Island Development

7.10 A large part of Fiji's population still lives in the rural areas and outer islands. However, the expiry of farm leases in recent years and

the lack of alternative livelihoods have led to an increased movement of rural dwellers into the urban centers in search for employment and better living standards.

7.11 This trend has prompted Government to intensify its infrastructural development programme and facilitate more commercial opportunities in the rural and outer islands to reduce the opportunity and accessibility gaps that exist between the rural and urban population.

7.12 **Table 2** below highlights major rural and outer island development programmes to be funded in the 2008 Budget.

Section 2: Rural Development and Outer Island Development

Rural Development & Outer Island Development	2007 (R) (\$m)	2008 (B) (\$m)
Fijian Affairs		
Grant to CATD ¹¹	0.92	0.90
Prime Minister's Office		
Village Improvement Scheme and Small Grant Scheme (excluding Taiwanese components)	1.12	0.80
Agriculture		
Extension Agriculture	0.10	0.10
Maintenance of Completed Irrigation Services	0.20	0.20
Livestock Extension and Research	0.80	0.45
Land Drainage & Flood Protection	5.00	5.00
Water Shed Management	0.50	0.40
Agricultural Marketing Authority	1.00	1.00
Grant to CIDA ¹²	0.95	1.00
Export Promotion	0.00	2.00
Import Substitution	0.00	1.30
Drainage Subsidy	0.00	2.00
Rural and Outer Island Development	2.00	2.70
Fisheries & Forests		
Mariculture	0.40	0.25

¹¹ Centre for Appropriate Technology & Development

¹² Coconut Industry Development Authority

Rural Development & Outer Island Development	2007 (R) (\$m)	2008 (B) (\$m)
Coastal Fisheries	0.50	1.00
Portable Sawmills	0.10	0.10
Freshwater Aquaculture	0.20	0.50
Brackishwater	0.20	0.35
Seaweed	0.40	0.20
Provincial Development		
Grant to Self-Help Projects	4.00	1.50
Divisional Development Projects	2.50	1.50
Maintenance of Non-PWD Roads	1.00	1.00
Upgrading of non-Cane Access Roads	1.50	1.50
Upgrading of Existing Cane Access Roads	1.50	2.50
Emergency Water Supply	0.40	0.40
Multi Ethnic Affairs		
Community Development Projects	1.60	1.60
Lands & Mineral Development		
Ground Assessment – Small Islands	0.11	0.11
Fiji Groundwater Assessment and Development	0.12	0.12
Health		
Maintenance: Sub-Divisional Hospitals, Health Centres, Nursing Stations	1.50	3.00
Equipment for Health Centres and Nursing Stations	0.40	0.50
Dental Equipment for Sub-Divisional Hospitals	0.50	0.70
Bio Medical Engineering Equipment	1.40	1.00
Tourism		
Eco-Tourism Projects	0.30	0.30
Infrastructure and Works		
Rural Electrification Programmes	6.00	6.00
FRUP ¹³ III	21.00	17.00
Outer Island Jetties	1.00	3.00
Grant to Telecom Fiji Limited (Rural Telecom Service)	0.50	0.10
Shipping Franchise Scheme	1.50	1.80
Upgrade of Shipping Vessels	0.30	0.30
Regional Water Supply	46.7	36.85
Capital Grant to Post Fiji Ltd (Rural	0.10	0.10

¹³ Fiji Road Upgrading Project

Rural Development & Outer Island Development	2007 (R) (\$m)	2008 (B) (\$m)
Postal Infrastructure)		
Upgrading of Rural Roads	1.00	10.00
Other Rural Water Supply	2.00	5.00
Transport and Civil Aviation		
Grant to AFL for Maintenance of Rural Airstrips	0.50	1.00
Miscellaneous		
Rural Postal Services	0.30	0.30
Banking Services for Non-Economical Rural Areas	0.10	0.10
Total (\$)	112.22	117.53

Source: Ministry of Finance and National Planning

Conclusion

Providing alternative livelihood opportunities will be Government's strategy to assist the poor and under privileged to graduate out of poverty. The findings of the HIES sets the basis for the formulation of relevant policies and programmes to reduce poverty, improve living standards and ensure equal distribution of resources to all citizens. The HIES will be used in conjunction with the findings of the recent population census by the Fiji Islands Bureau of Statistics to enhance the focus and effectiveness of Government's poverty alleviation strategies.

APPENDICES

Appendix 1: Statistical Tables

**Table 1: Gross domestic Product (GDP) by Sector (Growth rates),
2004-2010 Exports by Major Commodities (\$ million), 2004-2010**

ACTIVITY (\$M)	2004	2005	2006	2007(F)	2008 (F)	2009(F)	2010(F)
1. Agriculture, Fishing and Forestry	460.4	465.3	462.5	453.1	471.8	488.2	503.8
<i>Agriculture</i>	<i>344.6</i>	<i>345.3</i>	<i>347.6</i>	<i>336.4</i>	<i>349.5</i>	<i>363.7</i>	<i>383.4</i>
<i>Crops</i>	<i>193.1</i>	<i>192.6</i>	<i>190.6</i>	<i>178.3</i>	<i>188.7</i>	<i>202.6</i>	<i>220.5</i>
Sugarcane	122.3	114.8	121.2	105.4	110.7	118.4	127.9
Other crops	70.8	77.8	69.4	72.9	78.0	84.2	92.6
Livestock	20.5	20.5	23.9	25.1	26.4	27.2	27.9
Subsistence	123.3	124.4	125.5	126.8	127.6	128.6	129.7
Public Sector	7.7	7.7	7.7	6.2	6.9	5.3	5.3
<i>Fishing</i>	<i>77.5</i>	<i>83.2</i>	<i>79.7</i>	<i>80.6</i>	<i>84.3</i>	<i>85.4</i>	<i>80.1</i>
Fishing	48.4	53.8	50.2	50.7	54.2	55.5	50.0
Subsistence	28.2	28.4	28.7	29.0	29.2	29.4	29.6
Public Sector	1.0	1.0	0.9	0.9	0.9	0.5	0.5
<i>Forestry</i>	<i>38.4</i>	<i>36.8</i>	<i>35.1</i>	<i>36.1</i>	<i>38.0</i>	<i>39.1</i>	<i>40.3</i>
Forestry	20.7	18.9	17.2	18.0	19.8	20.8	21.9
Subsistence	17.0	17.2	17.3	17.5	17.6	17.7	17.9
Public Sector	0.7	0.7	0.6	0.6	0.6	0.5	0.5
2. Mining & Quarrying	43.4	30.0	15.1	0.0	0.0	0.0	0.0
3. Manufacturing	506.5	428.3	461.4	456.9	471.2	489.1	505.8
Sugar	60.7	57.0	60.1	52.3	54.9	58.7	63.4
Beverage and Tobacco	71.1	91.3	124.2	120.5	122.9	125.4	129.1
Other Food Industries	38.1	36.9	38.1	39.3	41.3	43.3	45.5
<i>Non- Food Industries</i>	<i>323.8</i>	<i>229.9</i>	<i>225.4</i>	<i>231.0</i>	<i>238.1</i>	<i>247.3</i>	<i>253.1</i>
Clothing and Footwear	173.6	78.3	56.7	53.8	53.8	53.8	53.8
Other Non- Food	150.2	151.7	168.7	177.1	184.2	193.4	199.2
Industries							
Informal Sector	12.9	13.2	13.6	13.9	14.1	14.4	14.7
4. Electricity & Water	112.9	114.4	120.5	123.2	129.4	133.5	140.2
Electricity	104.7	106.0	109.5	111.7	117.3	120.8	126.8
Water	8.2	8.4	11.0	11.5	12.1	12.7	13.3
5. Building & Construction	141.6	178.8	199.0	169.6	172.5	172.9	176.9
Private Sector	47.6	89.9	105.3	84.2	86.8	86.8	86.8
Public Sector	45.0	39.5	44.4	35.5	35.5	35.5	35.5
Own Account & Self	48.9	49.4	49.4	49.9	50.2	50.6	54.7
Employment							

ACTIIVITY (\$M)	2004	2005	2006	2007(F)	2008 (F)	2009(F)	2010(F)
6. Wholesale, Retail Trade Hotels & Restaurants	537.6	532.2	567.8	543.4	552.0	564.4	574.9
Wholesale & Retail Trade	376.3	354.8	389.4	376.4	380.3	387.9	391.9
Hotel & Resturant	161.3	177.5	178.4	166.9	171.7	176.5	183.0
7. Transport & Communication	394.3	422.3	408.3	396.6	406.6	424.6	437.5
Transport	290.0	315.2	305.9	298.3	306.3	320.2	331.1
Communication	104.3	107.1	102.5	98.4	100.3	104.4	106.4
8. Finance, Insurance, Real Sector & Business Services	338.6	373.0	431.2	413.1	410.0	415.4	420.7
Finance	85.1	104.4	130.4	109.5	102.2	102.6	102.9
Insurance	77.3	81.3	81.3	81.3	82.9	84.9	86.9
Real Estate & Business Services	176.2	187.2	219.4	222.3	225.0	227.9	230.9
9. Community, Social & Personal Services	515.1	547.3	561.4	527.3	526.0	501.9	490.8
less imputed bank service charges	91.0	111.7	139.6	117.2	109.3	109.9	110.2
GDP at constant prices (1995) Prices	2,959.4	2,979.9	3,087.5	2,966.0	3,030.1	3,080.0	3,140.4
GDP at factor cost	3,990.7	4,296.7	4,647.7	4,666.8	4,882.4	5,076.3	5,312.4
GDP at Market Prices	4,727.7	5,069.4	5,483.3	5,568.8	5,826.2	6,057.6	6,339.3

Source: FIBOS, Macro Policy Committee. Key: F = Forecast.

Table 2: Exports by Major Commodities (\$ million), 2004-2010

COMMODITIES	2004	2005	2006	2007(F)	2008(F)	2009(F)	2010(F)
Sugar	209.2	223.7	215.1	215.2	203.4	175.7	195.2
Molasses	9.6	9.9	19.2	14.9	15.9	17.5	20.1
Gold	88.5	59.3	43.1	2.6	0.0	0.0	0.0
Timber, Cork & Wood Manufacturers	42.0	45.1	37.6	43.6	48.0	51.3	54.9
Fish	81.4	82.9	97.9	102.6	111.8	116.3	108.1
Fruits & Vegetables	31.0	29.0	32.8	36.3	39.6	43.5	47.9
o/w Dalo	18.7	19.0	20.9	23.0	24.9	27.4	32.9
Copra		0.0	0.0	0.0	0.0	0.0	0.0
Yaqona	2.2	2.6	3.7	4.1	4.4	4.8	5.8
Coconut Oil	3.6	3.5	2.1	3.9	4.3	4.3	4.3
Textiles, Yarn & Made up Article	6.3	13.1	9.8	9.8	10.0	10.2	10.4
Garments	226.4	120.4	94.9	97.3	99.2	101.2	103.2
Footwear	19.2	8.5	4.2	3.2	3.2	3.3	3.4
Mineral Water	52.3	67.9	86.9	99.2	109.2	120.1	132.1
Other Domestic Export	178.9	181.9	187.0	223.2	227.7	232.2	236.8
Re- Exports	254.8	345	367.3	378.0	426.2	440.8	441.9
Total	1205.5	1192.6	1201.6	1233.7	1302.8	1321.2	1364.2

Source: FIBOS, Macro Policy Committee. Key: F = Forecast

Table 3: Imports (\$million), 2004 - 2010

ECONOMIC CATEGORY	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Food	351.6	355.5	386.0	383.5	395	406.8	423.1
Beverage & Tobacco	20.4	21.7	22.7	20.4	21.5	22.5	23.7
Crude Materials	20.2	21.7	32.1	25.7	27	28.6	30
Mineral Fuels	587.0	784.0	1021.5	999.0	1148.8	1183.3	1171.5
Oil & Fats	15.8	18.1	17.5	21.3	22.6	23.9	25.4
Chemicals	196.5	206.2	224.1	206.3	218.7	231.8	245.7
Manufactured Goods	486.2	452.2	464.1	426.2	442.7	460.1	478.2
Machinery & Transport Equipment	559.1	591.1	683.6	628.0	592.6	611.9	633.4
Miscellaneous Manufactured Goods	253.5	264	258.3	241.3	246.1	251	256
Other Commodities	11.3	8.3	10	11.0	11.6	12.2	12.8
Total	2501.6	2722.8	3119.9	2962.6	3126.5	3232.2	3299.8

FIBOS, Macro Policy Committee. Key: F = Forecast.

Table 4: Balance of Payments (\$million), 2004 - 2010

ITEMS	2004	2005	2006	2007(F)	2008(F)	2009(F)	2010(F)
BALANCE ON GOODS	-975.3	-	-	-	-	-1547.4	-
exports f.o.b	1253.3	1273.6	1306.3	1203.3	1312.5	1377.1	1417.1
imports f.o.b	2228.6	2471.8	2839.4	2684.0	2834.0	2924.5	2981.8
BALANCE ON SERVICES	350.6	481.1	400.3	296.9	285.1	324.8	367.5
Export of Services	1192	1369.0	1339.5	1166.3	1190.7	1243.2	1297.0
Import of Services	841.5	887.9	939.2	869.4	905.6	918.4	929.5
BALANCE ON INCOME	-19.1	-77.3	-203.9	-130.8	-137.3	-137.3	-137.3
Income from non-residents	252.0	135.8	115.1	132.3	125.8	125.8	125.8
Income to non-residents	271.1	213.1	319.0	263.1	263.1	263.1	263.1
BALANCE ON CURRENT TRANSFERS	123.2	218.6	182.2	225.3	150.5	104.5	107.9
Inflow of current transfers	289.3	391.5	374.9	378.0	304.5	258.5	261.9
Outflow of current transfers.	166.1	172.9	192.7	152.7	154.0	154.0	154.0

CURRENT ACCOUNT BALANCE	-520.6	-575.7	- 1154.7	- 1089.4	- 1223.2	-1255.4	- 1226.7
CAPITAL ACCOUNT BALANCE	-20.1	-30.1	-9.7	-4.1	-4.1	-4.1	-4.1
FINANCIAL ACCOUNT BALANCE	129.1	185.8	596.0	116.3	200.4	116.3	101.7
Errors & Omissions	411.6	420.1	568.4	977.2	1026.9	1143.1	1129.1
OVERALL BALANCE	-102.1	223.2	-57.5	36.8	94.0	0.0	0.0

Source: FIBOS, Macro Policy Committee. Key: F = Forecast.

Table 5: Tourism Statistics, 2004 – 2010

	2004 (P)	2005(P)	2006(P)	2007(F)	2008(F)	2009(F)	2010(F)
Visitors (000)	498.5	549.9	545.2	510.0	540.0	560.0	576.0
o/w Business	35.5	39.4	39.1	35.7	37.8	39.2	40.3
o/w Personal	462,975	510,499	506,107	474,300	502,200	520,800	535,680
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)	8.7	8.0	8.0	8.7	8.7	8.7	8.0
Visitors days (millions)	4.7	4.8	4.9	4.5	4.7	4.9	5.0
o/w Business	0.2	0.3	0.3	0.2	0.3	0.3	0.3
o/w Personal	4.4	4.6	4.6	4.3	4.5	4.6	4.8
Earnings (FJ\$millions)	717.6	733.2	741.7	637.4	663.5	705.4	744.0
o/w Business	42.8	48.4	49.1	41.4	42.7	45.6	48.3
o/w Personal	674.8	684.8	692.6	596.0	620.8	659.9	695.7

Source: FIBOS, Macro Policy Committee

Table 6: Sugar Production, Export and Price, 2004 - 2010

	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Cane Production (millions tonnes)							4.2
	3.0	2.8	3.1	2.7	2.9	3.1	
Sugar Production (000 tonnes)							
	314	289	308	268	281	301	420.0
Cane to Sugar Ratio(per tonnes)							

	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
	9.6	9.7	10.1	10.1	10.2	10.1	10.0
Export Quantity Sugar (000 tonnes)	262.0	303.0	250.0	241.6	239.2	255.9	276.4
Unit Value (FJ\$/tonne)	798.5	738.2	860.3	890.6	850.4	686.5	706.5
Sugar Export Earnings (FJ\$m)	209.2	223.7	215.1	215.2	203.4	175.7	195.2
Molasses Production (000 tonnes)	117.9	94.5	116.0	114.8	123.0	135.0	155.0
Molasses Export Earnings (FJ\$m)	9.6	9.9	19.2	14.9	15.9	17.5	20.1
Price Paid to Growers (FJ\$/tonne)	55.5	57.1	42.8	56.4	51.7	40.7	40.7

Source: FIBOS, Fiji Sugar Corporation, Macro Policy Committee

Table 7: Inflation Rates (2004 - OCTOBER 2007)

	2004	2005	2006	2007 (OCT)
All items	2.8	2.4	2.5	3.4
Food	3.8	1.7	1.8	8.4
Alcohol Drinks & Tobacco	4.3	3.7	2.5	6.1
Housing	1.2	1.1	2.5	1.9
Heating & Lightning	8.3	14.3	6.6	-14.1
Durable Household Goods	0.8	-0.6	1.8	2.4
Clothing & Footwear	-1.1	1.0	1.4	3.4
Transport	1.5	4.5	4.4	-0.8
Services	3.2	1.5	1.3	1.4
Miscellaneous	1.4	-3.4	2.9	10.3
Memorandum Items: Annual Average inflation rates	2.8	2.4	2.5	4.7

Source: Fiji Islands Bureau of Statistics (FIBOS)

Table 8: Employment By Sector (2001 - 2006)
(In Thousands of Persons)

ECONOMIC ACTIVITY	2001EST	2002EST	2003	2004EST	2005EST	2006EST
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

Source: Fiji Islands Bureau of Statistics (FIBOS)

Appendix 2: 2007 Revenue Policies

Section 1: Direct Tax Policy Measures

Policy	Description
1. Income Tax Threshold from \$8,840 to \$9,000	<ul style="list-style-type: none"> To relieve taxpayers whose income is less than \$9,000 from paying PAYE.
2. Export Income Deductions	<ul style="list-style-type: none"> To be maintained at 50 percent in 2008 to assist export industries. The exporter must satisfy the Commissioner of Inland Revenue that substantial export earning is remitted to Fiji.
3. Head Office Expenses of Non-resident Companies	<ul style="list-style-type: none"> FIRCA to put a cap on Head Office Expenses repatriated to home country.
4. Dividend Regulations	<ul style="list-style-type: none"> Review of Dividend Regulations. FIRCA to investigate international practice and consider placing a cap up to which dividends are to be exempted.
5. FIRCA's IT System	<ul style="list-style-type: none"> FIRCA to enhance its IT system with the provision of taxpayer portal from 2008.
6. General Entertainment Expenses	<ul style="list-style-type: none"> FIRCA to put a cap on Entertainment Expenses allowable for tax deduction.
7. Withholding Tax Concession	<ul style="list-style-type: none"> Removal of withholding tax concession (For TNT).
8. SMEs	<ul style="list-style-type: none"> Amendments to Small and Micro Enterprises tax incentive provision: <ul style="list-style-type: none"> Threshold to increase from \$200,000 to \$300,000; To be also applicable to Dalo, Cassava and Other Root Crops production; To be also applicable to supportive projects to Tourists Industry.
9. Introduction of tax deduction allowance for Interest on Housing Mortgage	<ul style="list-style-type: none"> Maximum of up to \$400 tax deduction allowance for interest on Housing Mortgage for first home buyers.
10. Gambling Turnover Tax (GTT)	<ul style="list-style-type: none"> Increase in GTT rate from 10 to 25 percent Remittance (P 4 summary) to be done weekly and not monthly Tax on winnings to be deducted at source.
11. Land Transport Authority (LTA) exemption from paying Income Tax	<ul style="list-style-type: none"> From 2008 Land Transport Authority will be exempt from paying Income Tax as all its revenue would be paid into the consolidated fund
12. ICT	<ul style="list-style-type: none"> Incentives available to the Kalabu ICT Zone

Policy	Description
	<p>(10 years tax holiday) will also apply to investment outside the zone.</p> <ul style="list-style-type: none"> • 10 year tax holiday will be available to ICT investment made before 31 December 2010. • Incentives will be granted for businesses employing more than 50 employees. • FIRCA will have some licensing requirement
13. Exporters Club	<ul style="list-style-type: none"> • Tax exemption status to Exporters Club Limited.
14. Tax deduction for vehicles for Police Force	<ul style="list-style-type: none"> • Removal of 150% tax deduction relating to donations of Police Vehicles
15. Tax deduction for Sports sponsorship	<ul style="list-style-type: none"> • 150% tax deduction for cash contributions of more than \$100,000 made to the Sports Fund approved by the Commissioner of Inland Revenue based on specific criteria.
16. 150% tax deduction on Capital Investment (excluding Motor Vehicles/Furniture and Fittings)	<ul style="list-style-type: none"> • Tax deduction allowed to approved companies engaged in import substitution activities as a compensating measure for customs duty protection rate being reduced from 27% to 15%
17. Employee Benefits	<ul style="list-style-type: none"> • Amendments to Valuation of Employee Benefits (re: tax on benefits such motor vehicle, housing, electricity, water, telephone, etc).
18. Unit Trust	<ul style="list-style-type: none"> • To ensure consistency of the treatment of trusts, tax exemption of dividend from Unit Trust of Fiji will be removed. • Repeal of section 17(56) of ITA.
19. Fijian Trust Fund	<ul style="list-style-type: none"> • To ensure consistency of the treatment of trusts, income tax exemption of the Fijian Trust Fund will be removed. • Repeal of section 17(61) of ITA.
20. Introduction of tax exemption on interest on savings.	<ul style="list-style-type: none"> • Introduction of interest on savings of up to \$200 be exempt from tax.
21. Fiji TV	<ul style="list-style-type: none"> • Removal of income tax exemption • Repeal of section 17 (60) of ITA
22. 11 th Schedule Amendment	<ul style="list-style-type: none"> • Insert a new provision in the 11th Schedule of the Income Tax Act to define “Minister” as Minister responsible for Finance. • Amend sub section 18(1) by deleting paragraph 14 and substituting paragraph 16.
23. The definition of “pension” in the ITA	<ul style="list-style-type: none"> • The word “pension” to be defined in Section 2 of the Income Tax Act to avoid

Policy	Description
	misunderstanding in application of section 110 and 17(50).
24. Amendments to section 44 of ITA	<ul style="list-style-type: none"> • Section 44A of the Income Tax to be amended to include a provision dealing with presumption as to debt in properties that is under joint tenancy and not tenancy in common. • Section 44 of the Income Tax Act be amended to include a provision to include Accountants and/or Tax Agent to be held liable for the delay of outstanding.
25. Introduction of Section 31 of the VAT Decree to be inserted in the Income Tax Act.	<ul style="list-style-type: none"> • Liability of new Companies for tax payable by former companies with substantially the same shareholders or under the same control
<u>26. Husband & Wife to be registered as partnership</u>	<ul style="list-style-type: none"> • Section 51(1) of the Income Tax Act to be amended to allow husband and wife to be registered as partnership for tax purposes.
27. Notification for change of Address/status	<ul style="list-style-type: none"> • Taxpayers to advise CIR of change of address/status (similar to s. 24 of the VATD); Rationale – To enable CIR to update records, especially on cessation of business or where taxpayer will no longer derive any income in Fiji
28. Amendments to Section 9A of ITA	<ul style="list-style-type: none"> • To amend section 9A by replacing “(d) in the year of assessment 2004 – at the rate of 31%.” With ... in every subsequent year of assessment – at the rate of 31%”
<u>29. Withholding Tax to be deductible at source</u>	<ul style="list-style-type: none"> • Introduce new provision to provide provision for crediting of withholding tax deducted at source. Section 104 simply allows a rebate or abatement.
<u>30. Withholding Tax Assessment</u>	<ul style="list-style-type: none"> • Legislation to have provision for taxpayers to lodge annual summaries of payments made to non-residents.
<u>31. Late Lodgment Penalty</u>	<ul style="list-style-type: none"> • Section 94 Late Lodgment Penalty to include reports required to be lodged under section 47A (Rental income reporting system)
32. Amendments to section 54 of ITA	<ul style="list-style-type: none"> • Section 54 of the Income Tax Act be amended

Policy	Description
	<p>to allow lodgment of details relating to taxes collected under section 8A and 10A. Return of withholding tax or dividend tax deducted.</p> <ul style="list-style-type: none"> • Section 8A non resident miscellaneous withholding tax, Section 10A royalty withholding tax. This should apply to all persons that make payments for services to non-residents rather than only to those that deduct withholding tax. Such persons should lodge returns so that assessments can be issued where any discrepancy is discovered (e.g. PAYE annual summaries posted to PAYE ledger – a notification of discrepancy is issued if the employer deducted less tax) NOA for tax payable needs to be issued so that the payer can exercise his right to object to the assessment.
<p>33. Amendments to 6th schedule of ITA</p>	<ul style="list-style-type: none"> • Definition of “production activity” in paragraph needs to be redefined as the current definition is very wide; • Legislation to be clarified to state that ONE Audio Visual production should have ONE application. • Actual local spending must be provided at the end of each project; • “production” needs to be defined. Legislation needs to be clarified to answer questions such as: what is production?; when does production begin?; what is pre-production stage? • Legislation to be clarified to state that investors can apply for ONE final approval. ONE provisional approval (even though consisting of many episodes) will mean ONE final approval; • VAT Decree to be amended to state that “live broadcast” will deem to be export of services – hence will be zero rated. Issues on “live broadcast” and “recorded” will be clarified; • Legislation to be clarified to distinguish between the Audio Visual License and the Studio operators license; • Legislation to be clarified that temporary Studio City Zone license must be used within the 12 months from the date of the issuance of the

Policy	Description
	license (use it or lose it!)
34. Amendment to the Land Sales Act	<ul style="list-style-type: none"> Clarity on the land sales tax exemption to be allowed ONLY to the “predecessor in title” and NOT “any predecessor in title”. Section 5(b) of Land Sales Tax Act
35. Remittance of Profits	<ul style="list-style-type: none"> Measures will be looked at to encourage reinvestment of profits, which aligns the tax treatment of foreign companies incorporated in Fiji and branch operations.
36. 150 percent tax deduction on retained earnings	<ul style="list-style-type: none"> The deduction will be allowable to companies including a branch which reinvest their earnings or profits in Fiji. 150 % tax deduction will be applicable on capital investment (excluding motor vehicles and furniture & fittings) which creates additional employment.

Section 2: Indirect Tax Policy Measures

A: Value Added Tax (VAT)

Policy	Description
1. VAT Exemption on Government Salaries & Wages	<ul style="list-style-type: none"> VAT not to be levied on salaries and wages (SEG 1 & 2).
2. VAT refund for new Dwelling House	<ul style="list-style-type: none"> Removal of VAT Refund for new dwelling house.
3. Introduction of Section 41A of the Income Tax Act in the VAT Decree	<ul style="list-style-type: none"> Liability for tax payable by companies left with insufficient assets.
4. Introduction of Section 74A of the Income Tax Act in the VAT Decree	<ul style="list-style-type: none"> Directors of a company may be personally sued.
5. Amendment of section 3(10) of the VAT Decree	<ul style="list-style-type: none"> For clarity to deem a supply made from an employer to an employee as a benefit under the ITA.
6. Amendment of section 22 of the VAT Decree	<ul style="list-style-type: none"> To require registration within 30 days to be consistent with other Acts administered by FIRCA.

B: Hotel Turnover Tax amendments

Policy	Description
1. Hotel Turnover Tax (HTT)	<ul style="list-style-type: none"> • Increase in Hotel Turnover Tax rate from 3% to 5%. • Amendments to HTT Act and VAT Decree to reflect HTT and VAT component to be shown separately on Invoice.

Section 3: Customs Tariff Changes

A. Fiscal Duty

Policy	Description
1. Restructure of Tariff bands	<ul style="list-style-type: none"> • From (0%, 3%, 15% & 27%) to (0%, 5%, 15% & 27%) • Increase all items currently at 3% Fiscal Duty to 5% (New band) • Duty on raw material will remain at concessionary rate of 3% under code 236 of Customs Tariff Act (CTA)
2. Inspection traps, drain covers, gratings & the like	Increase Fiscal Duty rate from 3% to 15%
3. PCs & units thereof including parts & accessories other than for schools	Increase Fiscal Duty rate from 0% to 5%
4. Monitors & projectors excluding TV apparatus	Increase Fiscal Duty rate from 0% to 5%
5. Laptops	Increase Fiscal Duty rate from 0% to 15%
6. Mobile phones	Increase Fiscal Duty rate from 3% to 15%
7. Coconuts fresh or dried	Increase Fiscal Duty rate from 3% to 15%
8. Pineapple	Increase Fiscal Duty rate from 3% to 15%
9. Guavas, mangoes & mangosteens	Increase Fiscal Duty rate from 3% to 15%
10. Oranges	Increase Fiscal Duty rate from 3% to 15%
11. Mandarins	Increase Fiscal Duty rate from 3% to 15%
12. Lemons	Increase Fiscal Duty rate from 3% to 15%
13. Pontoons/landing stages	Increase Fiscal Duty rate from 3% to 15%
14. New Trucks, cab & chassis and trailers	Increase Fiscal Duty rate from 15% to 27%

Policy	Description
15. Used & Recondition Trucks, cab & chassis and trailers	Impose Specific Fiscal Duty rates instead of the 15% current duty rate
16. New Earthmoving Equipment	Increase Fiscal Duty from 3% to 5%
17. Used & Reconditioned Earthmoving Equipment	Increase Fiscal Duty from 3% to 27%
18. White rice	Decrease Fiscal Duty rate from 27% to 15%
19. Paper bags, sacks & bio-degradable plastics	Decrease Fiscal Duty rate from 27% to 15%
20. Bicycles	Decrease Fiscal Duty rate from 15% to 5%
21. Copper cables	Decrease Fiscal Duty rate from 27% to 15%
22. Rigid plastic pipes	Decrease Fiscal Duty rate from 27% to 15%
23. Flexible pipes, tubes & hoses	Decrease Fiscal Duty rate from 27% to 15%
24. Kitchenware including Bombay pots	Decrease Fiscal Duty rate from 27% to 15%
25. Peas (Pisum Sativum)	Decrease Fiscal Duty rate from 27% to 15%
26. Beans (Vigna, spp., Phaseolus spp)	Decrease Fiscal Duty rate from 27% to 15%
27. Other leguminous vegetables	Decrease Fiscal Duty rate from 27% to 15%
28. Dried Leguminous vegetables split – split of peas (e.g. dhal)	Decrease Fiscal Duty rate from 15% to 5%
29. Salmon	Decrease Fiscal Duty rate from 27% to 15%
30. Herring	Decrease Fiscal Duty rate from 27% to 15%
31. Sardines	Decrease Fiscal Duty rate from 27% to 15%
32. Tuna, skipjack	Decrease Fiscal Duty rate from 27% to 15%
33. Mackerel	Decrease Fiscal Duty rate from 27% to 15%
34. Anchovies	Decrease Fiscal Duty rate from 27% to 15%
35. Other canned fish	Decrease Fiscal Duty rate from 27% to 15%
36. Other prepared or preserved fish	Decrease Fiscal Duty rate from 27% to 15%
37. Cement	Decrease Fiscal Duty rate from 27% to 15%
38. Meat of Beef fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
39. Meat of pork fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%
40. Meat of chicken fresh, chilled or frozen	Decrease Fiscal Duty rate from 27% to 15%

Policy	Description
41. Plastic Bags	Imports of plastic bags will be banned
42. Used & reconditioned Buses	Decrease number of duty bands & reduce specific duty rates as follows: <ul style="list-style-type: none"> • More than 10 persons including driver not exceeding 15 to \$10,400 • More than 16 persons including driver not exceeding 22 to \$12,400 • 23 and more persons including driver to \$16,500
43. Used or reconditioned motor cars & other passenger vehicles	Decrease number of duty bands & amendments to specific duty rates as follows: <ul style="list-style-type: none"> • Not exceeding 1000cc to \$5,550 • Exceeding 1000cc but not exceeding 1500cc to \$7,350 • Exceeding 1500cc but not exceeding 3000cc to \$11,150 • Exceeding 3000cc to \$15,000

B. Import Excise

Policy	Description
1. New Trucks, cab & chassis and trailers	Impose Import Excise rate of 15%
2. Used & Recondition Trucks, cab & chassis and trailers	Impose Import Excise rate of 15%
3. New Earthmoving Equipment	Impose Import Excise rate of 5%
4. Used & Reconditioned Earthmoving Equipment	Impose Import Excise rate of 15%

Section 4: Customs Concession under Part II & III Customs Tariff Act (CTA)

Policy	Description
1. Repeal of Code 113 (b) in Part II of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Code 113 (b) to be repealed to remove the exemption on Golf buggy or cart • Normal Duty Rate of 15% will now apply
2. Expand Code 124 in Part II of	<ul style="list-style-type: none"> • Code 124 to be expanded to provide a

Policy	Description
the Customs Tariff Act (CTA)	concessionary rate of 15% on bio-degradable cornstarch bags
3. Amend Code 228 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Reduce tourist ships & crafts period from 12 months to 3 months • Reduce extension period from 6 months to 3 months upon Minister's discretion
4. Amend Code 215 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Modification of the statement "All goods" in column 3 to read "Goods as approved by the comptroller"
5. Amend Code 230 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Column 3 to be re-worded to read "Goods as approved by the comptroller"
6. Amend Code 235 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Modification with additional statement and paragraph number. Adding paragraph No. (i) before the word Building" in column 3 and the statement" which are not manufactured or available in Fiji" after the word utensils in column 3.
7. Code 236 in Part III of the Customs Tariff Act (CTA)	<ul style="list-style-type: none"> • Raw material to remain at 3% duty rate

Section 5: Customs Concession under Section 10 of Customs Tariff Act (CTA)

Policy	Description
1. Bus Industry	<ul style="list-style-type: none"> • Reduction in Fiscal duty rate on New Buses for public transport from 27% to 5% imported by registered Bus operators on or before 31 December 2010 • Reduction in Import Excise rate on New Buses for public transport from 15% to 5% imported by registered Bus operators on or before 31 December 2010 • Removal of concession on tyres
2. Registered Minibus operators	<ul style="list-style-type: none"> • Amend to include concessionary rate to be 27% or 60% of the existing specific rate whichever is greater.
3. Liquefied Pressure Gas (LPG)	<ul style="list-style-type: none"> • Amend to include concessionary rate to

Policy	Description
Vehicles	be 27% or 60% of the existing specific rate whichever is greater.
4. Fiji Electricity Authority (FEA)	<ul style="list-style-type: none"> • Reduce the fuel rebate from 18 cents to 10 cents per litre. • Duty must be paid upfront and refund claims must be made from FIRCA
5. Inter-Island Shipping Vessels	<ul style="list-style-type: none"> • Duty free fuel concession remains on ADO and IFO • Full duty must be paid upfront and refund claims must be made from FIRCA
6. Manufacturers	<ul style="list-style-type: none"> • Remove 2 cents/kg concession on Butane Gas
7. Educational Materials and Stationery	<ul style="list-style-type: none"> • Remove “paper plates” and “disposable ball pen refill” from the list • Add “ball pens” to the list • Increase concessionary rate from 3% to 5%
8. Duty free concession on fabrics used in the manufacture of diaper	<ul style="list-style-type: none"> • Remove duty free concession on fabrics used in the manufacture of diaper • New duty rate of 5% will now apply
9. Duty concession to Industries	<ul style="list-style-type: none"> • Increase duty concession on copper cables and plastic pipes from 3% to 5%
10. Rewa Dairy Co-operative Ltd (RDCL)	<ul style="list-style-type: none"> • Remove duty free concession and apply a duty concession of 5% on full cream powdered milk in bulk; liquid milk in bulk; and Bulk butter.

Section 6: Amendments to Rectify Anomalies in the Customs Tariff Act (CTA)

Policy	Description
Tariff rectifications in chapter 4 and chapter 85	Ghee – HS 04051010 Mobile phone – HS 85256010

Section 7: Amendments to the Customs Act (CA)

Policy	Description
Warehousing period on all Motor vehicles, plant & machinery	Warehousing period for all motor vehicles, plant and machinery imported on or after the Budget announcement will only be warehoused for 4 months.
Imports of motor vehicles (cars, trucks and buses)	Imports of motor vehicles (cars, trucks and buses) of more than 4 years of age will be banned.

Section 8: New Tourism Incentive Package (effective from 1 January 2009)

Policy	Description
Implementation of a new Tourism Sector Package	<ul style="list-style-type: none"> Investors will be allowed either standard allowance or Hotel Investment Package.
STANDARD ALLOWANCE	<ul style="list-style-type: none"> 55% Investment Allowance on total capital expenditure provided there is no shift of revenue offshore; 150% tax deduction on expenditure for environmental protection and community support. Environmental protection activities include sewage treatment, potable water treatment, reforestation, erosion control. Community support includes wharves, roads, water supply. 125% tax deduction on expenditure for upgrade of public infrastructure such as roads, sewage systems and water supplies
HOTEL INCENTIVE PACKAGE	<ul style="list-style-type: none"> 7 years tax holiday for SLIP investments capital investments not less than \$10m; 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.

Section 9: Excise Rates

Description	2007 Rates	2008 Rates
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	\$1.31/litre	\$1.35/litre
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	\$1.52/litre	\$1.57/litre
Potable Spirit Not Exceeding 57.12 GL	\$28.79/litre	\$29.65/litre
Potable Spirit Exceeding 57.12 GL	\$50.42/litre of alcohol	\$51.93/litre of alcohol
Wine:		
Still	\$2.04/litre	\$2.10/litre
Sparkling	\$2.32/litre	\$2.39/litre
Other fermented beverages:		
Still	\$2.04/litre	\$2.10/litre
Sparkling	\$2.32/litre	\$2.39/litre
Ready to Drink Mixtures of Any Alcoholic Beverages of any Alcoholic Strength by volume 11.49% or less	\$0.94/litre	\$0.97/litre
Cigarettes from local tobacco by 3.20cents per 10 sticks	88.48 cents	91.13 cents
Cigarette from imported tobacco by 4.81 cents per 10 sticks	132.73 cents	136.71 cents
Manufactured tobacco containing tobacco outside Fiji	\$76.48/kg	\$78.77/kg
Manufactured tobacco containing tobacco in Fiji	\$44.92/kg	\$46.27/kg
Manufactured tobacco containing tobacco in foreign and tobacco grown in Fiji:		
Foreign portion	\$76.48/kg	\$78.77/kg
Local portion	\$44.92/kg	\$46.27/kg
Carbonated Drinks	3 cents/litre	??? cents/litre

Section 10: Fiscal Rate Changes due to Excise Changes

Description	2007 Rates	2008 Rates
Beer and Stout of an alcoholic strength by volume 3% volume or less	\$2.04/litre	\$2.10/litre
Beer and Stout of an alcoholic strength exceeding 3% by volume	\$2.76/litre	\$2.84/litre

Description	2007 Rates	2008 Rates
Liqueurs exceeding 11.49% but not exceeding 57.12% of volume	\$43.26/litre	\$44.56/litre
Liqueurs not exceeding 11.49% by volume	\$1.71/litre	\$1.76/litre
Liqueurs exceeding 57.12%	\$75.76/litre of alcohol	\$78.03/litre of alcohol
Spirituos beverages exceeding 11.49GL but not exceeding 57.12% of volume	\$43.26/litre	\$44.56/litre
Spirituos beverages exceeding 57.12%	\$75.76/litre of alcohol	\$78.03/litre of alcohol
Other fermented beverages of alcoholic strength exceeding 1.15% by volume but not exceeding 6% by volume	\$2.64/litre	\$2.72/litre
Other fermented beverages of alcoholic strength exceeding 6% by volume	\$4.21/litre	\$4.34/litre
Still Wine of alcoholic strength exceeding 1.15% by volume	\$3.82/litre	\$3.93/litre
Sparkling Wine of alcoholic strength exceeding 1.15% by volume	\$4.31/litre	\$4.44/litre
Alcoholic preparations of a kind used in the manufacture of various alcoholic beverages of an alcoholic strength by volume exceeding 11.49% by volume but not exceeding 57.12% by volume	\$43.26/litre	\$44.56/litre
Alcoholic preparations of a kind used in the manufacture of various alcoholic beverages of an alcoholic strength by volume exceeding 57.12% by volume	\$75.76/litre of alcohol	\$78.03/litre of alcohol
Unmanufactured tobacco	\$132.73/kg	\$136.71/kg
Manufactured tobacco, Cigar, cheroots and cigarillos	\$85.45/kg	\$88.01/kg
Cigarettes	\$140.71/kg or 1,000 cigarettes which ever is greater	\$144.93/kg or 1,000 cigarettes which ever is greater

Appendix 3: Expenditure by Sector

Expenditure Sector	2007 (R) (\$m)	2008 (B) (\$m)
General Administration	369.2	381.0
Social Services	472.8	475.6
Economic Services	128.3	124.2
Infrastructure	210.3	230.6