

Minister of Finance, National Planning, Public Enterprise and Sugar Industry

2007 Budget Address

1.0 INTRODUCTION

Prime Minister,
Your Excellencies, Members of the Diplomatic Corps,
Fellow Ministers
Distinguished Guests,
Ladies and Gentlemen.

Let me first of all welcome you to this function this morning for the presentation of the revised 2007 Budget of the Interim Administration.

His Excellency the President, in giving his mandate to the Interim Administration, asked us to restore financial stability, rebuild the economy and take this country forward. This revised 2007 budget begins this process. It is a process that will take time. The challenges that we face are enormous. The solutions will not be easy. But I am glad to say that we are unanimous that we need to move forward now.

It is also an effort that will require national commitment and cooperation. It is a time for us to join hands. It is a time for us to come together as a nation and share in the burden of adjustment.

Challenges

I am forced to stand before the nation today to carry out the unenviable task of tackling the financial and economic challenges that have been with us for a long time. These challenges have been neglected for 6 years because of poor financial management and governance. This revised budget will undoubtedly come as a bitter pill to many of our people. But frankly, I am left with no other choice. I will explain today that our state of finances and the national economy are in an extremely critical situation.

We are at a juncture where we either sink or swim as a nation. I intend to make sure that we swim. To do this, we will have to make some sacrifices. We will need to address these challenges now. If we leave these to continue they will spell doom for the country and our economy.

What then are the challenges that the country faces? I will elaborate fully on these later on but let me outline them clearly to you now.

- The state of government finance is at its worse state ever. This has been the result of irresponsible spending, high borrowing, wastage, inefficiencies and rising corruption. It has been compounded by leakages in taxes and inadequate compliance. In other words, we have been indulging in a champagne lifestyle on a beer budget. The cost of maintaining the civil service is not sustainable. We are starting the process of reducing Government's operating expenditures and allocating more resources to the productive sectors of the economy.
- One of Fiji's pressing challenges at this time is to reverse the widening trade deficit which is imposing persistent pressures on our foreign reserves. Imports are rising compounded by the high oil prices which have more than trebled our oil bill. However, the basic problem is that our exports have been a big disappointment. Exports have been at best stagnant in the last six years.

Economic growth has been built on the wrong foundation. Consumption demand has predominated, partly funded by large budget deficits, when exports are falling. This is not the way to generate growth in a small open economy like Fiji. Growth built on such a foundation will not last. Indeed it is dangerous. It will only lead to pressure on our balance of payments and higher debt. This is exactly what we are now facing. We are introducing measures to support our foreign reserves immediately and raise exports in the medium term.

- Our economic growth in the last six has been volatile and too low to adequately absorb our school leavers into the labour market. Unemployment is therefore rising. Poverty is now widespread.

In this Budget we are introducing measures to raise long term growth. More importantly, we are changing the policies of the previous government that were anti poor like the higher VAT and at the same time retaining the allocation to poverty alleviation programs.

- Governance has been seriously deteriorating in almost all spheres of government operations including statutory bodies and agencies. This has led to lower efficiencies, poor budget management and misuse of public funds. Ultimately the tax payers carry the burden for this lack of governance.

We are now introducing measures to tighten budget management and cut the cost of doing business.

Let me emphasise again we do not have the luxury of time anymore. We were simply living beyond our means. Otherwise the whole nation will suffer more and the solutions will become even more painful. The extent of our challenges is such that there is really no easy solution. Believe me, if there were, I would be the first one to promote them. The adjustment needed will carry costs. However, we can all share in bearing this burden. In sharing these costs, we should be mindful that we protect the poor and the disadvantaged amongst us.

I am therefore calling for sacrifice in this budget. I am appealing to your understanding, support and goodwill to help put the economy back on an even keel and to grow at a faster pace for our lasting prosperity.

2.0 BUDGET THEME - “SECURING FINANCIAL AND ECONOMIC STABILITY”

Ladies and Gentlemen, in a nutshell, let me outline the three objectives of this budget.

- First, it ensures that Government finances are protected and stabilized
- Second, it ensures that Government resources are redirected to productive areas that will contribute to a quick recovery of our economy.
- Third, it lays down a solid platform for fiscal and economic sustainability through responsible financial management and building exports in the medium to long term.

We believe that this is the right path to “**Securing Financial and Economic Stability**” which is the theme of this revised 2007 budget.

3.0 ECONOMIC PERFORMANCE

Ladies and Gentlemen, before I elaborate on the strategies and details of this Budget, let me briefly review our economic conditions.

Global Economy

It is encouraging to note that the global economy remains strong and growth is expected at around 3 to 4 percent. Our major trading partners, Australia, New Zealand, the United States, Japan and the Euro-zone all project solid growth performances. These solid performances, in turn, augur well for Fiji, in terms of demand for our exports and tourism.

Ladies and Gentlemen, the higher international oil prices have worsened our trade deficit. It is a relief that oil prices have fallen from their peak last year. But the threat of high oil prices and the ensuing high import bill remains. We are actively pursuing investment in renewable energy projects to significantly reduce our dependence on imported oil in the energy sector.

Domestic Economy

Fiji's economy grew at an average rate of 2 percent in the past 5 years. While growth has been positive, the rate of economic growth was low.

Ladies and Gentlemen, current estimates suggest that economic growth last year was around 3.4 percent, an improvement from the under 1 percent growth recorded in 2005.

Looking ahead, the Macroeconomic Policy Committee projects the economy to decline by 2.5 percent this year. The Committee which is chaired by the Governor of the Reserve Bank and comprises of the relevant Government Ministries and Agencies has recently improved this forecast from an earlier 4 percent decline.

The Committee has also forecast that the economy will turn around to a positive growth rate of 2 percent within one year. In my view, this quick turnaround reflects the proactive steps that we are taking in this budget.

4.0 ECONOMIC ROAD MAP

Let me now turn to elaborate on the policy package that we believe will take us forward.

Balance of Payments.

As I have already mentioned, one of our major challenges is to reverse the widening trade deficit and stabilize our foreign reserves position. Let me itemize what we are doing on this front:

On promoting exports:

- We have allocated \$2.5 million for selected recommendations in the National Export Strategy Report that are necessary to kick-start the turn around in exports. Allocations for this purpose will be gradually increased in subsequent budgets

- Government has identified certain priority sectors to drive the desired growth in exports. These include Forestry, Agro-Business, Marine Products, Audio-Visual, Information and Communications Technology, and Mineral Water.
- The reforms in the sugar industry will be pursued vigorously to lift sugar cane production from the present level of around 3 million tonnes to 4 million tonnes in the next 3 years, thus increasing our sugar exports.
- Government will explore the option of returning the ownership of mahogany plantations to landowners. The Fiji Hardwood Corporation could then purchase logs from the landowners and carry out necessary processing. In addition, Government will look at engaging a strategic partner for the Corporation in downstream processing.
- In the medium to long term, Government will establish industrial zones. The objective is to expand our manufacturing base and encourage local entrepreneurs to set up their small and medium enterprises in these zones. The Vatuwaqa and Valelevu Industrial zones were established this way, and I believe that this is the approach to take.
- To further develop the audio-visual industry, continued support will be provided to a reorganised Fiji Audio-Visual Commission (FAVC) in promoting Fiji as a movie location.
- The establishment of the Audit Compliance Programme (ACP) will be pursued with urgency to ensure that our garment exporters benefit from a reduction in local area content for garment products and opportunities under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).
- Tourism related investment will be assisted and encouraged and greater effort made to enhance the rate of retention of the tourist dollar.

We believe that while export promotion is important, import substitution will also go a long way to improve our trade deficit and save foreign exchange. Our actions on this front will include:

- An assessment of the demand for vegetables and meat products required by our hotels and resorts and determine how best to organize our farmers to provide consistent and reliable supply through mutually agreed contracts. We will also encourage strategic partnerships in greenhouse farming throughout Fiji.
- Rationalisation of the role of the Agricultural Marketing Authority and its merger with Food Processors Limited with a view to privatising as soon as practically possible.
- Linking import substitution to government incentives where relevant.

Foreign Reserves

However, we are at the same time realistic that we cannot turn exports around or achieve import substitution immediately. This will obviously take time. There are a host of things that need to come together before exports can start to grow. In the meantime, we need to minimize the effect of the widening trade gap on foreign reserves. We need to buy time. The Reserve Bank has moved over the last four years to dampen import demand by raising interest rates and tightening liquidity. This has been necessary in the face of falling reserves.

Interest rate however is a tool that affects all aspects of spending, including investment at a time when we need to encourage investment. Higher interest rate also affects the survival of small businesses which are critical to the livelihoods of many of our people. They also raise debt servicing charges and the cost of doing business.

Interest rates are being driven upwards by the tight liquidity in the financial system. In order to ease the pressure on interest rate, the financial system needs to be supplied

with adequate liquidity. This is the role of the Reserve Bank as the lender of the last resort. The Reserve Bank has given the assurance that adequate liquidity will be injected into the system when needed.

But understandably we can only bring interest rate down further if we can adequately support our foreign reserves by other measures. We will therefore share the burden of safeguarding our external financial position by the following measures:

- We will explore government borrowing from offshore rather than domestically in 2007 and 2008, thus easing financial liquidity in the local market.
- We will examine raising the minimum requirement of foreign exchange that foreign investors bring when setting up businesses in Fiji
- We will examine the requirement that the rate of corporate taxes be linked to retention of profits in Fiji.
- We will tighten the leakages of export earnings out of Fiji.

With this support in place, I expect foreign reserves to stabilize, liquidity to ease and upward pressures on interest rate to reduce over time. In three years we expect our export strategies and import substitution policies to start bearing fruit and exports to rise.

Inflation

Low inflation is also important to our Recovery Plan. At the end of December, inflation was 3.1 percent and is expected to remain around this level through the year. We will strive to ensure that people's hard work is not undermined by high inflation.

5.0 FINANCIAL SYSTEM

Let me now turn to the financial system.

The comprehensive review by the World Bank and the International Monetary Fund last year confirms that Fiji's financial system is sound.

Through the Reserve Bank of Fiji, we will continue to develop and modernize the financial system. The Reserve Bank will install an automated payment system this year which will further add to the efficiency of payments between banks.

A concern that has been raised many times is that of fees and charges of financial institutions. I wish to announce that we will now examine the most effective way of regulating the increase in these fees and charges and their rationale.

Our commercial banks are now all foreign owned. There is nothing much wrong with this. To provide a little balance, however, it would be of interest to have a locally owned commercial bank in Fiji. I therefore throw this challenge to large local companies. Going by the level of profits of commercial banks, I believe that such a venture can be very lucrative. For a locally owned bank, at least the profit gets to stay in Fiji.

Over the years, there have been considerable complaints received by customers of financial institutions. Unfortunately, there is not a proper body that can competently process these complaints. We will therefore revisit the recommendation of the 1998 Financial Review Committee to establish a Financial Ombudsman and we will be holding consultations on this matter with the relevant agencies in 2007.

I wish to announce today that the Asset Management Bank which was set up to manage the non-performing assets of the National Bank of Fiji will shortly cease operations. The AMB has achieved all that it could do and I thank the Board and management for their work. I am asking the Reserve Bank of Fiji to manage the small amount of asset that remains.

Finally, we will continue to promote the development of capital market in Fiji. The market plays a critical role in the intermediation of funds between savers and investors.

6.0 RAISING GROWTH AND REFORMS:

Let me turn to the next challenge of raising growth and reform. One of the major reasons why economic growth has been too low is the lack of progress on reforms. Without these reforms, we will not be able to consistently lift our growth rate to where we want it to be. Over the years, a lot has been said about reforms but nothing much has been done. We are going to change that. We are committed to driving forward the important reforms in the sugar industry, the public service and public enterprises. In fact, we have started to move already on some of these areas.

Civil Service Reforms

This Interim Administration has already embarked on civil service reforms.

- We have now reduced the number of Ministries to 16 from 23. These Ministries will be headed by 16 Permanent Secretaries rather than CEOs.
- We will next rationalize Ministries and Departments to facilitate a leaner structure which is currently being driven from the top.
- We will remove wasteful duplication by centralizing generic functions within agencies - such as corporate services - where possible.
- Government will establish a taskforce on change management in the public service to drive and maintain this focus on productivity and efficiency.

Public Enterprises and Privatization

On public enterprises, the focus in 2007 will be on enhancing their operational efficiency and financial viability.

- Government will also divest itself of its shares in these entities. We believe that profit-oriented enterprises are best operated by the private sector.
- We will encourage more public participation in the stock market.
- We will strengthen regulatory bodies to better monitor the operations of these enterprises. Unfair trade practices, anti competitive behaviour, unfair monopoly practices and sale of substandard products will be regulated by Government.
- I must emphasize that our economic growth potential has been severely constrained by monopolies. Government intends to dismantle monopolies and

encourage new companies to enter our domestic economy, build our capital stock and create employment.

- In addition, I state that while our private sector must be allowed to trade in a freely competitive market environment and make profits, they must also adhere to sound corporate governance practices and discharge their corporate responsibility in an ethical manner.

Sugar

Government will continue with restructuring and reform of the sugar industry by focusing on 4 critical areas. Firstly, to upgrade our mill facilities, which should increase mill capacity and operational efficiency. Secondly, to improve the transportation system to the mill, which should reduce the cost of carting cane. Thirdly, to modernize farming methods which should improve cane farming productivity. Lastly, to diversify into value adding opportunities, such as cogeneration of electricity and ethanol production.

Government intends to continue with its sugarcane crop rehabilitation programme through its current restructuring while the EU support to the sugar industry is awaited. In this regard, a cane quality based payment system will be introduced in the current crushing season.

This year, Fiji is expecting to host the African Caribbean and Pacific Sugar Minister's Meeting. This is anticipated to present further opportunities to our sugar industry.

7.0 INVESTMENT

Ladies and Gentlemen, investment remains below the average of 20 percent for developing countries. Of particular concern has been the low rate of private sector investment which is currently 7 percent of GDP.

The following improvements in the investment approval process will be prioritized:

- i. The re-organization of the office of the Registrar of Companies and the physical securitization of the title records held in the Ministry of Justice.
- ii. The rationalization of the physical planning process currently under various agencies of Government;
- iii. The rationalization of the property registration process.
- iv. The streamlining and reform of the contract enforcement process to allow creditors to recover debts more efficiently and cost effectively; and
- v. The reforms of the process for winding up bankrupt businesses efficiently in order to allow creditors to recover as much of the debts they are owed as quickly as possible to maintain adequate levels of working capital.

We are also serious in reducing the cost of doing business in Fiji in the following way:

- On the telecommunication front, Government is promulgating the Telecommunications Bill. The Bill will facilitate the liberalisation of our telecommunications sector and establish the Telecommunications Authority of Fiji to regulate the sector. We intend to see new companies entering our telecommunications industry in the next few years. However, our approach is to introduce controlled competition in the industry.
- We will review concessions to place everyone on a level playing field. Many of these concessions have been in place for years. They cost the taxpayers a lot of money. Multilateral agencies have called in vain for these concessions to be reviewed.

At this point let me reassure everyone particularly investors that the Interim Administration believes in private sector led development. We are and will continue to support businesses and investments. Our intentions are to ensure that the climate is conducive, the policies are consistent, everyone is treated uniformly and that incentives if any are effective.

LAND TENURE

Ladies and Gentlemen, the land tenure issue remains a significant challenge for the access and use of land by potential farmers. Government together with NLTB will develop an equitable framework for this which will benefit both the land owner and the tenant farmer. This will give the prospective tenant secure access to land, and a fair and consistent return to the landowner. We are confident that this will clear up a lot of the uncertainty that clouds this area.

Government is also intending to create commercial agricultural subdivisions to increase the utilization and productivity of total land resource. Our intention is to identify, develop and apportion available arable land into manageable sizes, which can be leased out to potential farmers. Government would engage and seek concurrence from all stakeholders to facilitate this intention. It is intended to be a partnership project between the Government, landowners and the NLTB. An allocation of \$1 million is provided for this purpose.

GOVERNANCE

Let me turn to the important issue of governance.

Government is concerned with incidences of abuse and corruption which have cost our taxpayers and the economy significantly in wasted resources, deteriorating services and lost development opportunities. One of the key agenda of this Government is to weed out corruption by minimizing opportunities to engage in such behaviour. Let me outline what we are doing in this area:

- We are establishing the new Fiji Independent Commission against Corruption with powers to investigate corruption and report directly to His Excellency the President.
- Additionally, a Special Unit has been set up in the Ministry of Finance to carry out investigations on all allegations of abuse of public funds identified by the

Independent Commission. The special unit will be equipped with competent and experienced auditors who will be empowered to visit agencies unannounced, conduct spot checks, and prepare timely audit reports.

The new Unit will complement the role of the existing Internal Audit Unit under the Ministry of Finance. While the Internal Audit Unit will focus on regulatory audits, the Special Audit Unit will focus on performance audits and identify pre-emptive measures to prevent abuse before they occur and ensure that the value of public expenditure is maximized.

- Large capital projects will be regularly monitored to ensure that disbursement of funds are matched with physical progress. Engineering expertise will be engaged to independently check cost estimate against engineering designs for each project and to validate project implementation against fund disbursement. This is necessary where large capital projects are concerned.
- Our commitment to principles of good governance is shown in our support to those agencies which uphold these. In 2007, the Office of the Auditor General will receive \$2.9 million. The office of the Ombudsman together with the Fiji Human Rights Commission is allocated \$1.4million. Further, \$12.1 million is provided to the Judiciary.

8.0 CODE OF CONDUCT AND FREEDOM OF INFORMATION PROMULGATION

In compliance with His Excellency the President's mandate, the Attorney General's Chambers is in the process of finalising the Code of Conduct and Freedom of Information Promulgations. The formalisation of these provisions should lead to accountability on the part of holders of high public office and to wider access by our citizens to Government information and processes.

Again, as mandated by His Excellency the President and as stated by the Prime Minister, we shall in the next few weeks finalise the formalisation of the Fiji

Independent Commission Against Corruption or (FICAC). The Government has set aside \$1.5 million for the Commission in this Budget.

The Commission which shall report to His Excellency is modeled primarily on the extremely effective Corruption Commission in Hong Kong and, to a lesser extent, the Corruption Commission in New South Wales. FICAC will have its own prosecutorial and investigative powers. It will investigate all major corrupt practices by individuals and companies in an effort to bring all offenders to account and to curb corrupt practices.

In tandem with FICAC the Government will also introduce a Prevention of Bribery Promulgation. This Promulgation will overcome the current woeful provisions in the Penal Code. It will address the systemic corruption which existed under the previous Government.

The introduction of FICAC and the Prevention of Bribery Provisions should create a level playing field for investors, enhance the administration of justice, assist in providing better services to the ordinary men and women of our country and curtail the millions of dollars lost in Government revenue through corrupt practices.

9.0 POVERTY ALLEVIATION

Ladies and Gentlemen, the welfare of our people, particularly the poor deserves to get much more attention. Therefore adequate resources will be channeled to income generating and livelihoods programmes that will effectively lift these people out of poverty in the short to medium term.

We intend to enable people to walk out of poverty and enjoy a dignified life. We must end the practice of handouts and empower our poor to engage in sustainable livelihoods. We have maintained the rate of welfare payments in the Budget. \$19 million has been allocated for poverty alleviation and family assistance grants. In addition, we will also focus on improving our people's access to micro-finance and

support services by the National Center for Small and Micro Enterprises Development.

Government's assistance towards improving the livelihoods of our people in rural areas will be enterprise focused. A Rural and Outer Island Programme has been setup. This will enable our rural communities to submit viable investment proposals to access the Rural and Island Outer Island Fund and subsequently obtain further financial assistance from the Fiji Development Bank and other domestic financial institutions. For the programme to be sustainable, project proponents should submit a business plan, undergo micro enterprise training with the National Centre for Small and Micro Enterprises and provide some form of equity contribution, where possible.

Ladies and Gentlemen, our strategy for small and micro enterprise development needs an overhaul. We have observed the existence of several small and medium enterprises programmes for poverty alleviation hosted under various agencies. Government will undertake a review of these programmes with a view to avoiding duplication and consolidating all small and micro enterprises programmes under one agency. The viability of establishing a Micro Finance Bank in Fiji will also be explored.

10.0 FISCAL POLICY

Let me now turn to fiscal policy.

In six years, government expenditure exploded from \$1.2 billion in 2002 to a budget of \$1.6 billion in 2006—a steep increase of 33 percent or \$0.4 billion. Government resorted to raising taxes and more borrowing to meet its rising costs. Despite the substantial increase of borrowing over the years, expenditure on real capital investment projects actually declined. This shows that the government was borrowing heavily not to finance capital projects or create assets to boost the economy but to fuel consumption. Often money actually allocated for capital works were redeployed to meet increased recurrent expenditure. When public borrowing rose to unacceptable level, government began to raise VAT from 10 percent to 12.5 percent and then 15

percent. Tax hikes were the most lazy and insensitive means of raising revenue to meet rising government expenditure.

From 2001 to 2003, the budget deficit was running at 6 percent of GDP, almost double the acceptable ratio of 3 percent. Even more alarming, the previous government was borrowing far in excess of what it really needed to finance the budget deficit through both short and long term instruments.

This Budget restores financial responsibility. We plan to bring back the level of government debt to around 45 percent of GDP in the medium term from the current level of 53 percent. The only way to do this is to reduce the deficit. This Budget restricts the government deficit to 2 percent of GDP in 2007.

Let me try to answer those that say that we need to pump-prime the economy by spending more and letting the deficit rise. I do not subscribe to this philosophy. This strategy would probably be affordable if debt and the costs of raising debt are low. This is clearly not the case. If we continue to spend our way out, we will end up with a huge debt burden which will chew up an increasing chunk of government revenue leaving very little for everything else. It will ultimately lead to debt default and economic ruin. There are many examples of such cases around the world. We are not allowing Fiji to get into that kind of situation.

We have therefore decided to take the prudent and sensible approach and keep the deficit low. However, at the same time, we are raising the effectiveness of how we spend taxpayers' money by progressively switching spending away from operating into much needed capital expenditure. In this manner, we moderate the increase in debt and direct more revenue to development and growth. I believe that this win-win strategy is the right thing to do.

Civil Service Salary

Ladies and Gentlemen, there has been some considerable hype about the retrenchment of civil service pay, which is being reduced by 5 percent across the board compared to 15 percent in 1987 and 12.5 percent in 2000. The bald truth is that the State simply

cannot afford to meet the pay package promised by the previous government. This Interim Administration is adamant that the civil service will not be paid more at the expense of the poor. This is why we did not allow the VAT to increase to 15 percent. Indeed, the driving force behind the VAT increase was to raise enough revenue to fund civil service pay increase under the Partnership Agreement entered into between the public sector unions and the SDL Government, on the eve of the 2006 General Elections.

Let me explain that the cost of maintaining the civil service at the current level of pay accounts for a little over 40 percent of government expenditure; debt servicing accounts for another 45 percent and together they constitute some 85 percent of recurrent expenditure which leaves a mere 15 percent for national development programmes.

To continue to bear the cost of the civil service is irresponsible. Government will have to borrow more and we will plunge the country more and more in to debt. We will not allow this to happen.

The alternative to reducing the pay of civil service is redundancy and a total loss of jobs. This will be more unsavory than accepting a pay cut. In this regard let me remind the public sector that they had accepted a massive pay cut of 12.5 percent in 2000. I expect the Trade Unions to act just as responsibly and with restraint this time around because Government's financial position is critical.

However, the interim administration wishes to emphasise that the pay reduction will be restored as soon as government is able to afford it. Meanwhile, I invite the public sector unions to participate in the process of stabilizing government finances in the long-term interest of their members.

Fiscal Consolidation

In the medium term, I believe Government should move towards a surplus budget, if we are to achieve our objective of lower deficit and debt levels. There is no other way, nor any magic formula, except to move towards more savings.

A critical aspect of fiscal policy is the distribution of government's resources. In this regard, we all should recognize the limitations of resources. At the same time, we are mindful of the competing priorities from various sectors. We cannot satisfy everyone. The allocation is driven by several principles. We need more funds for development. We need to provide adequate funds to the poor. We need to share development to all of Fiji.

The broad measures we have taken to achieve our goals include the following:

- a 5 percent salary and wages cut for all civil servants. The salary reduction would be reviewed when stronger economic growth and revenue is realized;
- the review of the Partnership Agreement with the Unions. We recognize the huge cost this agreement imposes on Government. We believe that it was negotiated and agreed to without the interest of the nation at heart;
- the deferment of the implementation of the Job Evaluation Review for the disciplinary forces;
- a freeze on all new recruitments and creation of new posts; and
- we have reduced allocations to some non priority sectors. In many of these sectors, more resources are not the answer but the efficiency and better management are the keys.

11.0 REVENUE

Ladies and Gentlemen, the total resources available for distribution is mainly driven by the revenue Government expects to collect. Lower collections are expected for 2007. These are mainly due to recent policy announcements and reduced economic activity. We have announced that Government will maintain the VAT rate at 12.5 percent. Increasing it will inflict additional burden on the poor and the underprivileged. In addition, VAT will be exempted on the first \$30 of the bill electricity bills for residential dwellings.

We can live without an increase in VAT. We have other compensatory fiscal measures to offset the revenue loss. I would now like to announce the following new revenue measures for 2007:

11.1 **Direct Tax**

- In order to assist the export industries, the Export Income Deduction will be maintained at 50 percent in 2007. This will be reviewed in 2008 after evaluating the effectiveness of the provision and its impact to the economy;
- The declaration of the Kalabu Tax Free Zone as an Information Technology (ICT) Zone. ICT Operators operating in the Zone will be able to enjoy tax holiday for ten years with effect from 1 January 2007;
- To ensure the leveling of the playing field for all taxpayers, the Income Tax Exemption enjoyed by Fijian Holdings Property Trust Fund will be removed. Further, dividend exemption enjoyed by the Colonial First State Income Fund or the Colonial First State Income and Growth Fund as well as Fijian Holdings Property Trust Fund will be removed; and
- Furthermore, minor amendments will be made to the Hotel Turnover Tax Act, to assist in the administration and facilitation of record keeping, refunds and offences.

11.2 **Indirect Taxes**

The following duty measures will be effective immediately:

- The duty on luxury goods (watches, gold, silversmith wares, beauty/make up preparations and others) will be increased from 3% to 15%;
- Specific duty rate of potato chips will be reduced from \$4.45 per kg to \$3.00 per kg;
- Fiscal duty on breakfast cereals will be reduced to 3%;
- Fiscal duty on Lamp and lighting fittings will be increased from 3% to 15%;
- Fiscal duty on liquid milk will be reduced from 27% to 15%;
- Reduction of imported goat meat from 27% to 15%;
- Fiscal duty on imported lamb will be increased from 3% to 15%;
- 10% import excise duty will be imposed on Recorded DVDs and reception apparatus for television (black & white and color);
- Fiscal duty on cheese bulk will be reduced from 27% to 3%;
- Fiscal duty on retail cheese will be reduced from 27% to 15%;
- Fiscal duty on yogurt will be reduced from 27% to 15%;

- Imposition of 15% fiscal duty and 10% import excise on cinematographic films. Further, the valuation rates have been increased to \$15,000 and \$20,000 for English and Hindi films respectively;
- Removal of excise duty on carbonated drinks but 3% fiscal duty will be payable on raw materials; and
- Reduction of warehouse storage period from the current three years to twelve months. This is to minimize leakage and assist revenue collection.

Ladies and Gentlemen, other changes to fiscal and import excise duty include:

- Fiscal duty on used or second hand motor vehicles to be licensed as taxis which will operate on Liquefied Pressure Gas (LPG) will be increased to 27% plus 15% import excise;
- Fiscal duty on new or used licensed mini buses with 7 passengers or more but not exceeding 16 passengers will be reduced from 27% fiscal duty and 15% import excise to 15% fiscal duty and 10% import excise;
- Fuel concession to the fishing industry will be maintained whilst 3% fiscal duty plus VAT will be imposed on bait and specialised fishing equipment; and
- Fuel grant for the bus industry will be reduced to 10 cents per litre in 2007.

Lastly, to assist government revenue the departure tax rate will be increased to \$40.00 with effect from 1 May, 2007.

12.0 PRIORITY SECTORS

12.1 Law and Order

Ladies and Gentlemen, the maintenance of law and order is critical for political stability and economic recovery. We will continue to provide adequate support to our security forces in this regard. In 2007, the Fiji Military Forces will receive \$80.7 million, with \$69.9 million allocated to the Fiji Police Force. The Fiji Prisons Service is provided with \$13.5 million for managing prisons and rehabilitation activities. The Director of Public Prosecution's Office will receive \$3.9 million.

A sum of \$300,000 is provided for the upgrading of key police stations around the country. To improve Police mobility, an allocation of \$200,000 is set aside for the

purchase of additional vehicles. A sum of \$200,000 has been set aside for the much needed upgrading of prison quarters and institutions.

12.2 Tourism

Government will continue to support the recovery of the tourism industry through funding of TAG and the FVB. In addition to this, Government is actively engaged in dialogue with Australia and New Zealand through our foreign missions, for the lowering and eventual removal of travel advisories imposed against Fiji. This is the key impediment to a fully recovered tourism industry. Alternative, tourism marketing frameworks using the Public and Private Partnership approaches will be evaluated by Government.

Ladies and Gentlemen, we must engage our hotels and resorts in jointly funding the Fiji Visitors Bureau's marketing efforts. Government will establish a fund under the Bureau whereby each dollar contributed by the taxpayers for the Bureau's marketing efforts, should be matched by a dollar contribution from the tourism industry.

In the medium term, FVB will be directed to increase its marketing efforts away from our traditional markets, looking to Asia. Diversifying our main source markets will strengthen our visitor arrivals base and safeguard the industry from adverse impacts when one or two markets turn hostile towards us. In this regard, our national airline, Air Pacific, will be asked to seriously examine flying to destinations well past Australia.

Government has also noted the concern of the industry on the need to remain competitive among other competing destinations. Current import duties on key inputs into the industry, particularly food and beverage, do increase the cost of a holiday in Fiji. However, a balance also needs to be established with Government's initiative to create opportunities for our farmers to supply fresh produce of the quality required by the industry.

Government will encourage strategic partnerships in developing tourism-agriculture linkages further through turn key packages.

12.3 Rural and Regional Development

Ladies and Gentlemen, Government is mindful of the particular needs of our rural communities, who do not have access to many of the services available in urban areas. Many of these are basic services and utilities. In 2007, a sum of \$2 million is allocated for rural water supply, \$6 million for rural electrification, \$1 million for rural roading projects, \$1.7 million for rural shipping services, and \$0.5 million for maintenance of rural airports.

Government will also improve market access for our rural people so that they may derive an income form the sale of their produce. The Agriculture Marketing Authority will receive \$1 million. The Rural and Outer Island Development Programme is allocated \$2 million.

12.4 Vanua Levu Development

Government is further committed to the development of Vanua Levu under its Northern Division Development Programme. To complete the Wairiki Port in Bua, an allocation of \$4.4 million is provided. This port should facilitate the processing of pine plantations in the Northern Division. \$5 million is also committed for the Northern Division Development Programme.

Government will prepare an integrated regional development programme for the Northern Division, which will form the basis for the disbursement of the fund allocated for the region and assist in its sustainable economic and social rehabilitation and development. In particular, Seaqaqa will be a focal centre to be revived in order to boost the Northern economy.

Another area of focus will be the Tavua and Vatukoula region in light of the imminent closure of the Emperor Gold Mines. The region is largely dependent on the mine for its livelihood, and Government is developing strategies for alternative livelihoods and development opportunities. An allocation of \$600,000 is provided to fund an assistance package for displaced mine workers.

12.5 Education

Ladies and Gentlemen, education is an important investment in our people enabling continued social and economic development in our nation. In support of this the Ministry of Education is allocated \$320.6 million in 2007.

This includes a \$38 million grant to the University of the South Pacific, and \$10 million to the Fiji Institute of Technology. A total of \$11.4 million is set aside for tuition fees from Form 1 to Form 7.

Government will review its grant to the USP against its expected returns in certain fields of study. This arises from the need to offer non-mainstream courses for skills which are currently in high demand such as civil and marine engineers and architects to name a few. For many years, our people have had to undertake costly travel overseas to be trained in these specialized areas. Government intends to rationalise other tertiary institutions for operational efficiency, cost effectiveness and higher standards of learning. The Fiji Institute of Technology (FIT) and the Training and Productivity Authority of Fiji (TPAF) will feature in this exercise. A small nation like ours with limited resources must avoid waste of resources through duplication.

12.6 Health

Good health and well being of our citizens is another important area for Government. We intend to provide a comprehensive national health service that is of good quality, responsive to people's needs, equitable, accessible, affordable and cost effective.

We are committed to maintaining current services and facilities, and also improving on these where needed. The Ministry of Health is provided \$150.8 million in 2007. Key allocations include \$9.5 million for the purchase of drugs, \$2.9 million for consumables, \$0.5 million for HIV/AIDs prevention, \$1.5 million for upgrading urban hospitals, \$4 million for the grant to the Fiji School of Medicine, \$1.5 million for the maintenance of health centres and nursing stations, and \$100,000 for preparatory work on the new Ba hospital.

In addition, we will encourage private healthcare providers to expand the services available locally, and improve standards. Government will also undertake an audit of medical technology and equipment which are required for specialized medical services in our hospitals. This is to avoid our people incurring significant medical expenses abroad. As well, our Pacific neighbours could use these services as a cheaper and viable alternative to going to Australia and New Zealand.

Government is encouraged by proposals submitted to it for the establishment of a specialised hospital in Lautoka. This project is being driven by private initiative and when completed will render overseas travel by our citizens for medical treatment unnecessary. The facility should also attract investment in the health tourism and retirement village sectors.

12.7 Infrastructure

Ladies and Gentlemen, infrastructure and public utilities is a major factor in facilitating the development and operation of all other sectors in our economy. An allocation of \$87.8 million is set aside for improved regional water supplies around the country, \$26.6 million for regional sewerage services, and \$63.8 million is provided for road infrastructure. A sum of \$1 million is provided for the maintenance of public buildings. The implementation of major infrastructure projects will contribute to our speedy economic recovery and set the foundation for economic growth into the future.

13.0 SECTORAL ALLOCATIONS

To continue the rebuilding and national development efforts, the following sectoral allocations are provided in 2007.

13.1 Small and Micro-Enterprise Development

The National Centre for Small and Micro-Enterprises is allocated \$0.78 million in support of the establishment and operations of small businesses through its micro-

financing, advisory and training programmes. Also, a sum of \$700,000 is provided for the micro-finance capital grant, and \$200,000 is allocated to support the business incubation centre – a total of \$1.68 million.

13.2 Information Communication Technology and Audio-Visual Industries

The potential of ICT sector to contribute to growth, investment and employment is well known. The liberalization of our telecommunications industry will stimulate the development of data processing and call centre operations and investment in Fiji.

13.3 Agriculture

Agriculture is an important sector, with exciting growth prospects. The Ministry of Agriculture is allocated \$62 million in 2007. Drainage and irrigation division is provided \$5 million. The livestock diversification programme is allocated \$800,000, while the Coconut Industry Development Authority is provided with \$950,000.

13.4 Resource Based Industries

Our resource based industries present significant opportunities for improving the economic development of our rural areas and outer islands. This allows for the raising of living standards in these areas, providing employment opportunities and helping curb the rural-urban drift.

To continue the development of our forestry resources, \$570,000 is provided for the National Forest Inventory. Coastal Fisheries development is provided with \$0.5 million.

13.5 Women

Women play a significant role in the development of our country especially regarding its human resources. In terms of labour force composition, women account for 40 percent. Government intends to create an enabling environment for women to

participate fully in the socio economic development of our country. The Ministry for Women, Social Welfare and Housing is allocated \$29 million in 2007.

13.6 Care for the Elderly

Our senior citizens have laid the foundation for the development of our nation through their hard work, sacrifice and foresight. For this we are grateful to them. In 2007, \$5.6 million is allocated for the Aftercare fund for our war veterans.

13.7 Disaster Management

Fiji is vulnerable to natural disasters, including hurricanes and flooding which present a constant threat. We have recently experienced heavy rains and flooding throughout Fiji, which have affected many families and caused damage to the national infrastructure. Government has allocated \$8million to the National Disaster Management Office for its work in dealing with and raising awareness of natural disasters. \$100,000 is for the purchase of specialised equipment. A provision of \$743,500 is allocated for the installation of servers to upgrade weather radar capabilities at the Meteorological headquarters in Nadi. This will improve the range and accuracy of weather tracking to give us advanced warning of inclement conditions.

13.8 Culture and Heritage

Ladies and Gentlemen, Fiji has a unique and distinct culture which should be protected for our future generations. In 2007 the Department of Culture and Heritage is allocated \$1.3 million for its work in preserving our unique heritage. The National Trust will receive \$299,000.

13.9 Sports

Sports is important to Fiji as a means of enjoying a healthy living, creating employment opportunities and promoting our country abroad. In 2007 \$400,000 is provided for the preparation and participation of our national rugby team to the 2007

Rugby World Cup. Similarly, \$350,000 is set aside for our national netball team to participate at the 2007 Netball World Cup. A sum of \$550,000 is provided in support of Team Fiji's participation at the Pacific Games. An allocation of \$200,000 is provided for the development of rural sporting facilities.

14.0 CONCLUSION

Ladies and Gentlemen, we respect the individual and sovereign decisions that have been taken or will be taken as reactions to recent political events. We also hope that the same respect is accorded to those who understand and accept the situation in Fiji today.

Ladies and Gentlemen, as I end my Address, I must emphasise Government's belief that we have come through well in a most difficult and testing time in our history. We are now on the path to economic recovery. This Budget lays out the strategies for getting there.

Our mission to consolidate Government finances and lay the platform for restoring the economy are clear. This budget provides an economic platform to enable our immediate and medium term goals in securing Government finances and making a quick economic recovery. We therefore call on all our citizens to assist in this undertaking in **securing financial and economic stability**. We are confident that if we tackle this task collectively, our goals are within our reach.

Let us therefore move forward with confidence. Let us work hand in hand to achieve stability and prosperity for all.

May God Bless Fiji.