REPUBLIC OF FIJI

ECONOMIC AND FISCAL UPDATE:
SUPPLEMENT TO THE 2010 BUDGET ADDRESS

"STRENGTHENING THE FOUNDATIONS FOR ECONOMIC GROWTH AND PROSPERITY"

Rerevaka na Kalou ka doka na Tui

Ministry of Finance
November 2009

FOREWORD

The 2010 Economic and Fiscal Update provides an overview of Fiji's economic and financial performance in 2010, examines the general outlook for Fiji's economic and financial performance and outlines Government's fiscal strategy for the medium term.

This report was compiled by the Ministry of Finance with contributions from various Government Ministries and the Reserve Bank of Fiji. The update incorporates all the available economic and fiscal information as of November 2009.

The Economic and Fiscal Update is a "Supplement to the 2010 Budget Address", which details the economic and financial policies underlying the 2010 Budget.

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Permanent Secretary for Finance
November 2009

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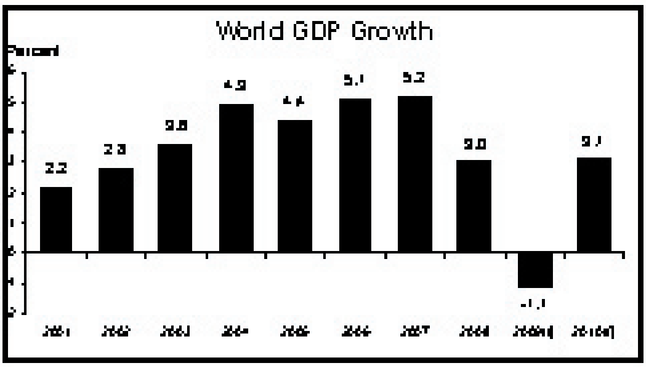
CHAPTER 1: ECONOMIC PERFORMANCE AND OUTLOOK (2009-2011)

Introduction

1.1 This chapter assesses the current world economic outlook and economic prospects of Fiji's major trading partner countries. This is followed by an assessment of the domestic economy.

International Outlook

1.2 The world economy is stabilizing, helped by unprecedented macroeconomic and financial policy support. Consequently, financial conditions have improved more than expected. The International Monetary Fund (IMF) expects the world economy to contract by 1.1 percent in 2009, followed by a recovery of 3.1 percent in 2010.



1.3 Advanced economies are expected to contract by 3.4 percent in 2009 before growing by 1.3 percent in 2010. Although the projections have been revised upwards for all economies, growth in 2010 is likely to fall short of potential until later in the year, implying a rise in unemployment. The major advanced economies gains in activity are now being seen more broadly and growth rates have been marked up for next year.

1.4 Despite the positive economic outlook, recovery is expected to be slow, as financial systems continue to gain strength with the gradual phasing out of stimulus packages.

Fiji's Trading Partners

1.5 All our major trading partner economies, except Australia, are expected to contract this year. However, according to the IMF, the global economy is expanding again and financial conditions have improved markedly.

1.6 The Australian economy is projected to expand by 0.7 percent this year and by 2.0 percent in 2010. Recent economic indicators suggest that growth is expected to accelerate from now and into next year led by an improvement in exports and the housing market.

1.7 Similarly, the Japanese economy is expected to contract by 5.4 percent in 2009. However, in 2010, the economy is projected to grow by 1.7 percent, due to expected gains in industrial output and real household spending.

1.8 The Euro-zone, economy is projected to contract by 4.2 percent in 2009 but will grow modestly by 0.3 percent in 2010. Improved financial conditions and the return of Germany, France and Italy to a path of positive growth, are underpinning the forecast for 2010.

1.9 The US economy is expected to contract by 2.7 percent in 2009 while a 1.5 percent growth is envisaged for 2010. The broad based expansion of the economy in the third quarter of 2009 is anticipated to continue into 2010.

1.10 The New Zealand economy is projected to contract by 2.2 percent in 2009 while a 2.2 percent growth is expected in 2010. The growth forecast for 2010 is attributed to improvements in business sentiment and indications of a pickup in the property sector.

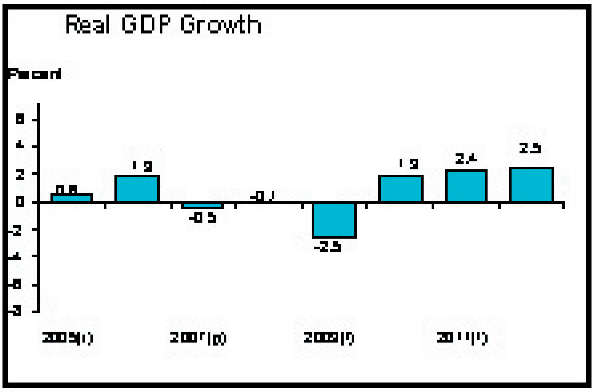
Domestic Outlook

1.11 The Fiji Islands Bureau of Statistics (FIBOS) recently released revised GDP data for 2006-2008 under a new base year of 2005. The 2005 GDP rebase take into account structural changes to the economy from 1995 (previous base year) to 2005. In real terms, GDP will now be reported in 2005 prices.

1.12 The revised figures show that the economy, on average, grew by 0.4 percent in the last 3 years. Economic growth in 2006 is now revised to 1.9 percent contrary to the 3.4 percent growth estimated under the 1995 base.

In 2007, the economy is estimated to have contracted by a smaller magnitude of 0.5 percent than the 6.6 percent estimated earlier. In 2008, the economy is estimated to have contracted by 0.1 percent as opposed to the 0.2 percent growth forecasted under the 1995 base.

Overview: 2009



1.13 In 2009, Fiji's economy is expected to contract by 2.5 percent. The flash floods at the beginning of the year and the global economic contraction have adversely affected the domestic economy.

1.14 Major sectors expected to lead the contraction in 2009 are the transport, storage & communication; wholesale & retail trade; agriculture & forestry; manufacturing; public administration & defence; education; health & social work; and hotels & restaurants.

1.15 In contrast, the sectors that are expected to grow in 2009 are construction; mining & quarrying; financial intermediation; fishing; real estate & business services; electricity & water; and other community, social & personal services.

Overview: 2010

1.16 In 2010, the domestic economy is expected to recover from the 2.5 percent decline and grow by 1.9 percent. This recovery is also expected to be supported by recovery in our trading partner economies which should increase demand for our exports and boost visitor arrivals.

1.17 Growth is expected to be broad-based with the exception of expected contractions in the public administration & defence; education; and the health & social work sectors which may continue to be affected by lower government spending in real terms.

1.18 The major sectors expected to boost economic activity in 2010 are the agriculture & forestry; manufacturing; financial intermediation; wholesale & retail trade; hotels & restaurants; construction; mining & quarrying;

real estate; fishing; and other community, social & personal services sectors.

1.19 The agriculture & forestry sector is projected to grow by 3.9 percent in 2010 on account of an expected increase in the agriculture sector by 2.4 percent, despite a flat outlook for cane production. The forestry sub-sector is also expected to recover by 23.0 percent as demand for our mahogany, woodchips and forestry products improve.

1.20 In 2010, the manufacturing sector is anticipated to grow by 3.6 percent due mainly to a growth in the food products sub-sector in areas other than the manufacturing of sugar. The beverages & tobacco sub-sector is also expected to grow by 7.5 percent as export demand for mineral water picks up.

1.21 With the pick-up in economic activity, there is expected to be a greater demand for financial services. Thus, a growth of 3.7 percent is projected in the financial intermediation sector in 2010.

1.22 The wholesale & retail trade sector is anticipated to grow by 3.6 percent in 2010 as the tourism industry recovers. A projected increase in tourist arrivals is also expected to drive the hotels & restaurants sector to expand by 5.1 percent. A total of 600,000 visitor arrivals are forecast for 2010.

1.23 In addition, the construction sector is envisaged to expand by 3.5 percent in 2010. The mining & quarrying sector is expected to grow by 35.5 percent as gold production improves. Value added in the fishing sector is also expected to continue to improve, growing by 2.0 percent in 2010.

1.24 The other community, social & personal services is projected to expand by 1.3 percent while the real estate & business services sector is forecast to grow by 0.8 percent on account of expected increases in owner occupied dwellings, other real estate and other business activities.

Overview: 2011 and 2012

1.25 For 2011 and 2012, the economy is expected to grow by 2.4 and 2.5 percent, respectively. Growth is expected to be broad based for both years.

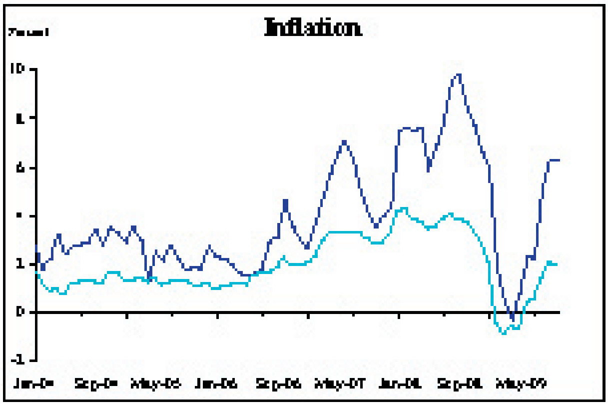
1.26 The major sectors expected to underpin the 2.4 percent growth in 2011 are manufacturing; financial intermediation; agriculture & forestry; transport, storage & communications; hotels & restaurants; construction; wholesale

& retail; mining & quarrying; real estate and business services; and other community, social & personal services.

1.27 In contrast, the public administration & defense; education; fishing; health & social work; electricity & water sectors are expected to decline.

1.28 For 2012, the agriculture & forestry; manufacturing; financial intermediation; transport, storage & communication; wholesale & retail trade; construction; hotels & restaurants; real estate and business services; fishing; mining & quarrying; other community, social & personal services; and electricity & water sectors are expected to drive the 2.5 percent growth. On the other hand, public administration; education; and health & social work sectors are expected to contract.

Inflation



1.29 The 2008 year-end inflation stood at 6.6 percent. By April 2009, inflation had subsided to -0.3 percent as fuel and food prices eased from the highs experienced in 2008. However, price pressures re-emerged after the April devaluation and inflation reached 6.3 percent in October. Underlying inflation, measured by the trimmed mean[1], also rose to 1.9 percent in October compared to -0.9 percent in May. The 2009 year-end inflation is forecast to reach 7.0 percent compared with an earlier forecast of 9.5 percent.

1.30 For 2010, inflation is expected to ease to 2.0 percent. This is largely attributed to base-related effects as the devaluation effect diminishes. On the other hand, the average trading partner inflation is expected to increase to 1.8 percent from 0.8 percent this year[2]. In addition, crude oil prices are increasing once again while the expected economic recovery may result in upward price pressures.

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[1] The trimmed mean is calculated by removing 15 percent of the lowest and highest price changes and then computing the mean of the remaining price changes.
[2] Based on October Consensus Forecast.

1.31 For 2011, inflation is projected at 2.5 percent. This is mainly driven by the slightly higher economic growth as well as crude oil price futures and average trading partner inflation projections.

Exports & Imports

1.32 For 2009, exports are anticipated to decline by 17.6 percent compared to a growth of 21.6 percent in 2008. This is underpinned by an expected decline in earnings from re-exports, sugar, other domestic exports, timber and garments, which more than offset the expected increases from gold and fish.

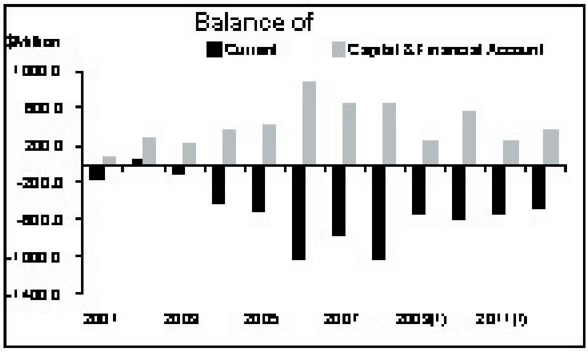
1.33 However, in 2010, exports are projected to grow by 8.9 percent. The higher outcome is driven by higher earnings anticipated from re-exports, gold, other domestic exports and fish, which are expected to more than offset the decline in earnings from sugar. The rebound in exports next year is consistent with the recovery in external demand as the global economy recovers, as well as better production in certain industries.

1.34 For 2011 and 2012, exports are forecast to increase by 7.2 percent and 6.7 percent, respectively, with all categories of exports projected to increase.

1.35 For 2009, imports (excluding aircraft) are forecast to contract by 19.0 percent compared to a 23.0 percent growth in 2008. This is due to the expected decline in imports of mineral fuels, machinery & transport equipment, manufactured goods and chemicals.

1.36 In 2010, imports are projected to rise by 11.0 percent, led mainly by higher payments for mineral fuels, machinery & transport equipment, food and manufactured goods. The rebound in mineral fuel payments is in line with the global oil price uptrend as the global economy recovers. Public capital projects are also expected to drive the imports of machinery & transport equipment.

1.37 In 2011 and 2012, growth in imports is expected to slow to 2.3 percent and 3.5 percent, respectively, with mineral fuels, food and manufactured goods underpinning growth.



Balance of Payments

1.38 For 2009, the current account deficit is expected to improve to 8.9 percent of GDP from a 17.7 percent deficit in 2008. The capital and financial account (excluding reserves) is forecast to record a surplus of 10.9 percent of GDP compared to a surplus of 6.6 percent of GDP last year.

1.39 For 2010, the current account deficit is projected at 9.7 percent of GDP, widening by $81 million. This is due mainly to the larger merchandise trade deficit and the lower surplus from the current transfers balance, led by reductions in EU sugar transfers. These more than offset the higher surplus in the services balance. The capital and financial account surplus (excluding reserves) on the other hand is projected at 7.4 percent of GDP.

1.40 The current account deficit for 2011 is projected to narrow to 7.8 percent of GDP, mainly on account of the expected increase in the services surplus. The capital and financial account surplus (excluding reserves) on the other hand is projected at 4.0 percent of GDP.

1.41 The current account deficit for 2012 is projected to narrow further to 6.8 percent of GDP, largely owing to the higher surplus in the services account. The capital and financial account surplus (excluding reserves) on the other hand is projected to improve to 5.6 percent of GDP.

Monetary Policy

1.42 Monetary policy continues to be set by the Reserve Bank of Fiji with the twin objectives of safeguarding the country’s foreign reserves and maintaining stable prices that will create an environment conducive for growth and investment.

1.43 To cushion the negative impact of the global financial crisis and the floods early in 2009, the RBF undertook various policy measures during the year. In January 2009, the RBF reduced its lending interest rates to the banks and lowered the Statutory Reserve Deposit (SRD) ratio, primarily to inject liquidity into financial system and ease upward pressure on interest rates. RBF also introduced a $20 million Flood Rehabilitation Facility in April 2009.

1.44 In view of the continued worsening of the global economy and its possible negative impact on Fiji, the RBF tightened exchange control policies and devalued the Fiji dollar by 20 percent.

1.45 These mitigating policies were critical in the immediate stabilization of foreign reserves and improvement of liquidity levels. Consequently, by September 2009, foreign reserves increased substantially to around $1.059 billion, while bank liquidity significantly rose to around $374 million.

1.46 While the impact of the devaluation on inflation is expected to heighten in the short term (raising 2009 inflation to 7.0 percent), the surge in prices is anticipated to be temporary and should moderate to around 2.0 percent by December 2010.

1.47 Furthermore, in April 2009, RBF announced its regulation of interest rates. This includes the setting of a ceiling on interest rate margins of the banks and lending rates of banks and other lending institutions. These policies aim at improving the availability of credit at affordable rates to support domestic investment and economic activity.

1.48 With the recent improvement in foreign reserves, the RBF removed its credit ceiling policy in September, although banks are still expected to comply with strict lending guidelines to priority sectors. Moreover, the RBF raised the SRD rate, effective December 2009, to maintain bank liquidity at adequate levels. Apart from interest rate policies, banks have been directed to set up specialised micro-finance service centres to improve the access to capital by small and rural businesses, to help empower the micro and rural sector to be more actively involved in the economic activity of the country.

1.49 Overall, the RBF continues to maintain lending and interest rate policies, aimed at improving the availability of credit at affordable rates to support investment and economic activity.

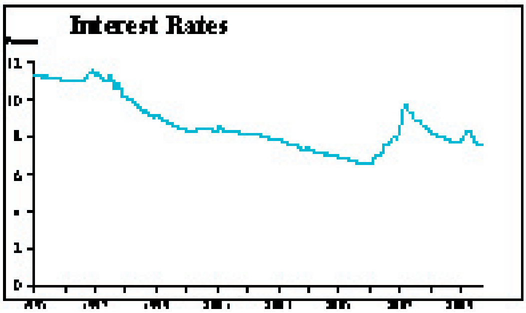
Money and Credit

1.50 Monetary aggregates continued to decline over the year due to decreases in demand deposits and local bills payable. In the year to September, Broad Money (M2) declined by 1.6 percent compared to a 1.2 percent growth in the same period last year. This was attributed to a steady decline in narrow money, resulting from falling demand deposits. Demand deposits fell further by 27.3 percent in the year to September compared to a 1.8 percent growth in the same period last year.

1.51 Domestic credit rose by 4.2 percent in the year to September, higher than the 3.7 percent growth in the same period last year. The growth was driven by a rise in private sector credit and official entities credit, which expanded by 4.4 percent and 8.7 percent, respectively, in the review period. However, this increase was partially offset by a 1.7 percent contraction in Government credit over the same period.

Interest Rates

1.52 Consistent with the Reserve Bank's lending and interest rate policies, commercial banks' lending rates continued to decline while deposit rates continued to rise during the year.



Source: Commercial Banks

1.53 At the end of September 2009, the commercial banks' weighted average outstanding and new lending rates were at 7.64 and 8.42 percent, respectively. Both interest rates were lower than the levels in September 2008 by 8 and 3 basis points respectively. Since April, the outstanding and new bank lending rates have fallen by 68 and 45 basis points, respectively. The weighted average lending rate at the end of 2008 was 7.72 percent.

1.54 Over the year to September 2009, the existing and new bank time deposit rates rose by 311 and 248 basis points to 5.40 and 5.75 percent, respectively. Since April 2009, the existing time deposit rate has risen by 94 basis points, while the new time deposit rate has fallen by 64 basis points. The bank savings deposit rate rose by 8 basis points to 0.81

percent over the same period. Over the year to September, the savings rate rose by 17 basis points.

Exchange Rates

1.55 Movements in the domestic currency have remained relatively stable, with marginal movements recorded on a monthly basis. However, annual changes show substantial depreciations of the Fiji dollar against Fiji's major trading currencies, due to the 'one-off' impact of the devaluation on 15 April 2009. Bilateral exchange rate movements showed that the Fiji dollar depreciated against all its trading partner currencies over the year to September 2009. Specifically, the Fiji dollar depreciated against the Australian dollar (-29.9 percent), NZ dollar (-24.0percent), Japanese Yen (-18.1 percent), the Euro (-12.9percent) and the US dollar (-6.1percent).

1.56 The Nominal Effective Exchange Rate (NEER)[3] index fell by 18.8 percent in the year to October, implying a significant depreciation of the Fiji dollar against the basket of major trading partner currencies. Since May, the NEER has risen slightly by 1.4 percent.

1.57 Similarly, the Real Effective Exchange Rate (REER)[4] index fell on an annual basis by 13.8 percent largely on account of the decline in the NEER. However, this was offset to some extent by the increase in the relative price differentials against all major trading partners during the same period. The fall in the REER index indicates an improvement in Fiji's international competitiveness. Since May, the REER index has increased notably by 7.5 percent, indicating erosion in Fiji's international competitiveness, led by rising domestic inflation.

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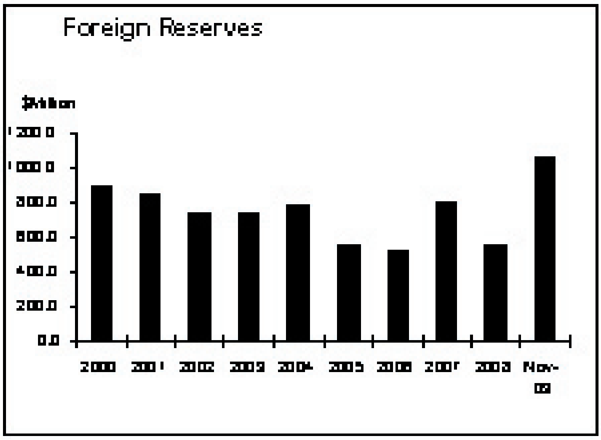
[1]The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation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

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

Foreign Reserves



1.58 By November 2009, foreign reserves were recorded at $1,059 million, a significant increase from the $559 million at the end of 2008.

1.59 The significant increase resulted from the positive impact of the 20 percent devaluation and tight exchange control policies put in place in April, coupled with the additional Special Drawing Rights allocation by the IMF in August and September totaling $188 million.

CHAPTER 2 : EXTERNAL SHOCKS

Global Financial Crisis and World Commodity Prices

Introduction

2.1 The global financial crisis that started in September 2008 has seen various economies fall into recession, unprecedented in the post World War II era. The crisis initially began as a banking-sector crisis and eventually erupted as a full-blown financial crisis in mid September 2008 after the failure of Lehman Brothers. The failure of such a key player in the international monetary system shook the confidence of bankers, investors and households throughout the global economy. The subsequent slowdown in global economic activity continued into the first half of 2009.

2.2 According to the IMF, the global economy is now showing signs of improvement. Financial conditions have improved markedly, aided by strong public policies across advanced and emerging economies together with sound measures initiated by the IMF at the international level.

2.3 However, it will still take some time for employment conditions to improve significantly. Given the output losses, the recovery in 2010 is unlikely to be robust enough to quickly eliminate the excess capacity already generated.

Effects on the Domestic Economy

Trade

2.4 The global financial crisis has weakened the demand for Fiji's exports, particularly those destined for markets worst hit by the crisis. Cumulative to August 2009, total exports (excluding aircraft) has declined by 21.5 percent. Given that the US is a major destination market, mineral water exports was severely affected by the recession in the US.

2.5 In the first eight months of 2009, mineral water exports declined by an unprecedented 65.7 percent, compared to a 13.7 percent growth in the same period last year.

2.6 Timber exports were also adversely affected by the global financial crisis, as external demand fell. Cumulative to August 2009, timber earnings fell by 44.5 percent compared to a 29 percent growth in the same period last year. In particular, the recession in the Japanese economy affected exports of wood chips.

2.7 The recent pickup in global demand, coupled with exchange rate gains from the devaluation is expected to help mitigate these effects in the short term. Consequently, exports growth is expected to pick up from 2010 onwards.

Tourism

2.8 Visitor arrivals reached a peak in 2008 and as a result, tourism earnings also peaked at $802 million. For 2009, visitor arrivals remained subdued for most of the year. Nonetheless, the turnaround in the global economy, coupled with the massive discounting by hotels (and operators) and the exchange rate gains from the recent devaluation is anticipated to augur well for the industry. Cumulative to August 2009, visitor arrivals have declined by 13 percent.

2.9 In line with the rebound in the global economy, both visitor arrivals and tourism earnings are projected to rise in the coming years.

World Commodity Prices

2.10 The eruption of the financial crisis resulted in a massive decline in global trade and global commodity prices, abruptly ending the commodity price boom of the past few years. Oil prices plummeted to US$42 at the end of December 2008, compared to a peak of US$146 per barrel in early July 2008, as the global financial crisis affected demand. Food prices also show a downward trend.

2.11 However, recent signals of a recovery in global economic activity and improved market sentiment have seen commodity prices rising from the lows reached earlier. Oil prices recently soared to a one year high of US$74 per barrel by the end of October.

2.12 On the other hand, gold prices generally rose amidst the global recession due to increased demand, as investors bought the precious metal to shield their wealth from the global financial crisis. This year, gold prices rose further due to a weaker US dollar. The price of the bullion reached a record high in October this year at US$1,040 per ounce.

Potential Impacts on Fiji

2.13 Given Fiji's heavy dependence on imported mineral fuels, the pickup in oil prices in light of growing optimism for global recovery, is expected to increase payments for mineral fuels imports, putting pressure on the balance of payments.

2.14 On the other hand, higher gold prices are expected to result in higher earnings for Fiji's gold exports. In the first seven months of 2009, gold exports rose by around 315 percent. The growth is also attributable to higher production and exchange rate gains due to the devaluation of the Fijian dollar in April this year.

CHAPTER 3: ROADMAP FOR DEMOCRACY AND SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT 2009-2014

Introduction

3.1 This chapter provides an overview of the "**Roadmap for Democracy and Sustainable Socio-Economic Development 2009-2014**". It also outlines the monitoring mechanism that will be adopted to facilitate the implementation of the plan over the next five years.

3.2 With a theme of '**A Better Fiji for All**', the Roadmap encompasses various areas of reforms and policies that are necessary for rebuilding Fiji into a non-racial, culturally vibrant, well governed and truly democratic nation that seeks prosperity through equal opportunity for all.

3.3 The Roadmap provides an overarching framework for achieving sustainable democracy, good and just governance, socio-economic development and national unity based on the 11 pillars articulated in the Peoples Charter for Change, Peace and Progress.

3.4 To ensure effective implementation and ownership of the Roadmap, intensive consultations will be undertaken with the private sector, civil societies, Government agencies and other relevant stakeholders.

3.5 The Roadmap has been set against the backdrop of current socio-political and economic challenges, including the negative flow-on-effects of the recent global recession.

Medium Term Strategy

3.6 The medium-term strategic focus of the Roadmap is to: (i) strengthen good and just governance; (ii) raise economic growth; and (iii) improve socio-cultural development. **Table 3.1** highlights specific strategies under each of these broad categories:

Table 3.1 - Medium Term Strategy

STRENGTHENING GOOD GOVERNANCE	ECONOMIC DEVELOPMENT	SOCIO-CULTURAL DEVELOPMENT
• Formulate a new Constitution • Implement Electoral and Parliamentary reforms • Strengthen law and order • Strengthen accountability and transparency • Ensure effective and responsible leadership • Enhance efficiency and effectiveness of service delivery within the public sector • Formulate an integrated development structure at the divisional level	• Maintain macroeconomic stability • Promote development of export • Encourage import substitution • Raise investment levels • Avail more land for social and economic development • Enhance global integration and strengthen international relations	• Reduce poverty to a negligible level • Develop Fiji into a knowledge-based society • Improve health service delivery • Promote a common national identity and encourage social cohesion

Strengthening Good Governance

3.7 Good governance as defined by the United Nation Economic and Social Commission for Asia and Pacific (UNESCAP), is a system of governance that has the following major characteristics:

- Accountability;

- Transparency;
- Responsiveness;
- Equitable and Inclusive;
- Effective and Efficient;
- Adhering to the rule of Law;
- Participatory; and
- Consensus oriented.

3.8 Government will continue to seek ways in which the above characteristics can be effectively enforced within the Civil Service. This should help improve current work ethics, raise professional standards and ensure greater efficiencies within the public sector. As such, the following strategies and initiatives will be implemented to promote good governance practices:

- formulation of a new constitution;
- electoral and parliamentary reforms;
- strengthening law and order;
- promoting accountability and transparency;
- ensuring effective and responsible leadership;
- enhancing public sector efficiency and service delivery; and
- formulating an integrated development structure at the divisional level.

Formulation of a New Constitution

3.9 The formulation of a fair and transparent Constitution should provide a solid legislative framework for pursuing the visions and principles of the Peoples Charter. In formulating the new Constitution, a wide participatory approach will be adopted through comprehensive consultations with all key stakeholders including political parties, civil societies, non-government organizations, and all citizens of Fiji.

3.10 The new Constitution will incorporate basic constitutional principles that have existed in Fiji since independence. These include: the recognition of national sovereignty; parliamentary democracy; the separation of powers and protection of basic human rights; and the supremacy of the rule of law.

Electoral and Parliamentary Reforms

3.11 The electoral process will be reviewed to eliminate ethnic-based politics and promote racial tolerance. Necessary steps will be undertaken to ensure that the new Constitution captures the main features of the newly reformed electoral and parliamentary system. Other associated issues to be addressed include the size and composition of Parliament; compulsory voting; determination of voting age; eligibility of candidates; residency restrictions on voting rights; electoral regulations for ensuring free and fair elections; and strengthening capacity of electoral agencies.

Strengthening Law and Justice

3.12 The maintenance of law and order will continue to be a priority. In this respect, appropriate actions will be undertaken to strengthen the independence and accountability of the judiciary. This will entail the adoption and enforcement of code-of-conduct standards for judges, magistrates and other judicial officers that are consistent with provisions under the Administration of Justice Decree 2009.

3.13 In addition, the efforts of the Police force to combat and reduce crime will be strengthened through upgrading of telecommunications equipment, transport and forensic facilities. A further review of the Penal Code will be pursued to ensure fair and just penalties for criminal offenses.

Strengthening Accountability and Transparency

3.14 Effective capacity building initiatives will be established to strengthen the accountability and transparency of Government's processes. Legislation for freedom of information will be formulated to enhance transparency and ensure wider accessibility to government information.

Ensuring Effective, Enlightened and Accountable Leadership

3.15 Effective and visionary leadership is critical for Fiji. Leadership training and development at all levels, including women and youths, will continue to be a priority for Government. A proper code-of-conduct will be enforced to instill sound values and ethics amongst current and future leaders.

Enhancing Public Sector Efficiency, Effectiveness and Service Delivery

3.16 Generally, Government's reform programmes aim to improve the overall efficiency and productivity of the public service. Reforms should bring about a service-oriented culture within the civil service, one that values high productivity, smarter and effective work systems and enforces merit based appointments (refer to Chapter 4 for details on Public Sector and Structural Reforms).

Developing an Integrated Development Structure at Divisional Level

3.17 In 2010, Government plans to decentralize its functions to various regions/divisions, whereby Divisional Commissioners will be delegated special authority to administer rural and outer-island development programmes that are aligned to national development plans.

3.18 Non-Government and Community-Based Organizations will be engaged to reinforce current efforts and strategies for implementing outreach programmes and projects. This will encourage more local participation, and improve the effectiveness of development programmes in raising standards of living in rural and outer island communities. Development programmes mainly focus on providing adequate training and resources for income-generating activities that will help communities make optimum use of their resources.

ECONOMIC DEVELOPMENT

3.19 Economic activity in Fiji has been relatively volatile over the past decades. This is largely attributed to mixed performances in key sectors of the economy particularly agriculture, tourism, trade and investment. Recent economic performance has been affected by the global economic recession and also compounded by flash floods earlier this year.

3.20 In light of these issues, the Roadmap emphasizes the need to maintain macroeconomic stability, increase exports, raise domestic production and improve foreign and domestic investments.

Maintaining Macroeconomic Stability

3.21 Both monetary and fiscal policy will be prudently managed over the medium term to raise foreign exchange reserves, control inflation, increase investments and ensure sustainable (fiscal) deficit and debt levels. The immediate objective is to raise export earnings and minimize imports to help reduce current trade account deficits and safeguard balance of payments.

Export Promotion

3.22 Efforts to boost export levels will be implemented through the National Export Strategy with a prime focus on resource-based industries. Sugar Industry Reforms are also critical on Government's agenda, including co-generation and the development of bio-fuel industry. Import substitution strategies, including domestic value addition, will be pursued to reduce reliance on imports, and ensure self sufficiency and food security.

Import Substitution

3.23 Government will ensure greater cohesion and effective implementation of import substitution programmes to increase self reliance and reduce imports. A demand driven approach for boosting exports and import substitution has been adopted by the Ministry of Primary Industry. This approach strives to address the following critical areas: intensifying farm commercialization; strengthening agri-business networks; promotion of young farmer training; identifying industry priorities based on market-demand assessments; securing export market protocols; and boosting support towards medium-sized entrepreneurs.

Raising Investment Levels

3.24 In recent years, overall investment levels have remained well below the average investment level for developing countries which currently stands at 20 percent of GDP. The Roadmap proposes an investment target of 25 percent of GDP to be achieved over the medium term.

3.25 The present low rate of private sector investments has been a concern. To bolster investment, appropriate reforms will be undertaken to streamline Government's business approvals processes. This will involve the revision of laws relating to town and country planning, land development and investment approval processes. Moreover, the implementation of major public capital expenditure programmes, including donor funded projects, will provide the necessary impetus for private sector development.

Making More Land Available for Productive and Social Purposes

3.26 Lack of accessibility to, and under utilization of land has continued to constrain efforts to fully realize the commercial potential of land in Fiji. To address this impediment, suitable land reforms will be pursued through an inclusive consultative process with all stakeholders. Major issues to be addressed include:

- establishment of a mutually beneficial system that guarantees equitable returns for landowners and ensures security of tenure for tenants;
- encourage land leasing arrangement for all purposes;
- provide incentives for the productive utilization of land; and
- pursue land leasing and rent fixing arrangements that are performance-based.

Enhancing Global Integration and International Relations

3.27 Government perceives the strengthening of international relations with trade and donor partners as essential for improving trade and developmental assistance, including technical assistance and aid for trade.

3.28 In light of current WTO commitments and impending trade agreements, emphasis of trade negotiations will focus on mitigating the impact of trade liberalization through internal reforms and protection of vulnerable industries.

SOCIO–CULTURAL DEVELOPMENT

3.29 Promoting social cohesion and cultural tolerance is essential for uniting various ethnic groups in Fiji with diverse social, economic and cultural backgrounds. The strategic priorities for enhancing social development include: reducing poverty to a negligible level; making Fiji a knowledge based society; improving health service delivery; and building a common national identity.

Reducing Poverty to a Negligible Level

3.30 Reducing poverty has been a core policy objective of Government over the years. However, the overarching challenge is to determine how best we can reduce poverty while at the same time grow the economy.

3.31 The Roadmap, with its overall objective of reducing poverty to a negligible level by 2015, provides effective poverty reduction strategies that take into consideration incidence of poverty and distribution of income. With the assistance of civil society organizations, capacity building programs will be devised to assist communities in obtaining greater access to social services and economic opportunities. Accordingly, adequate public resources will be directed towards priority sectors such as health, education, housing, micro-finance and infrastructural development in under-developed regions.

Making Fiji a Knowledge Based Society

3.32 Access to quality and affordable education will always be a key priority for Government. In order to have an educated and skilled workforce, Government must raise overall teaching standards and develop a curriculum that is responsive to employment demands.

3.33 Introduction of a modular education system at secondary schools should provide broad-based education and enable students to develop potential in their areas of interests. To strengthen the informal education sector, strategic programmes will be introduced through the National Youth Service Scheme and other Vocational and Community based centers.

Improving Health Service Delivery

3.34 Fiji has experienced slow progress towards the achievement of its health related Millennium Development Goals (MDGs).

3.35 Health service delivery in Fiji can be improved through the following initiatives: ensuring adequate level of manpower; upgrading of medical facilities; outsourcing of non-essential services; encouraging more private sector and donor assistance; and identification of alternative sources for health financing.

Developing a Common National Identity and Building Social Cohesion

3.36 Having a common national identity encourages social cohesion and racial harmony in Fiji. Efforts to build social integration and national unity has already commenced with the introduction of civic and multicultural education, covering teaching of vernacular languages and comparative studies on religion and culture. Furthermore, this will be enforced with the enactment of an Anti-Discrimination Decree.

Implementation and Monitoring Framework

3.37 The monitoring of initiatives in the Roadmap is spearheaded by a National Peoples Charter Council (NPCC) comprising of key representatives from the private sector, religious organizations, provincial councils, civil societies and Government agencies.

3.38 All stakeholders and implementing agencies, including Ministries and Departments will have to ensure that all key initiatives and major outputs are achieved within the Roadmap timeframe.

3.39 The successful implementation of the Roadmap will depend to a large extent on a robust and effective implementation and monitoring framework. The framework to ensure a systematic and coherent approach to implementation will include the following:

(i) Roadmap - based on the Strategic Framework for Change and will outline the outputs and respective strategies and programmes;

(ii) Action Plans - based on the Roadmap, Ministries and Departments are required to develop Action Plans which will be basis for the formulation of their Annual Corporate Plans;

(iii) Nationwide Effort - all stakeholders including Ministries and Departments will contribute positively to the implementation programme; and

(iv) Implementation and Monitoring – an implementation and monitoring framework will be established to ensure systemic and effective implementation.

3.40 The Roadmap monitoring mechanism will involve the National Peoples Charter Council (NPCC), sub-committees, a secretariat, Ministries and Departments, private sector and civil society. The Council will have representatives from Government, recognized private sector organizations, non-government organizations, religious organizations, provincial councils, advisory councils and other community-based organizations.

3.41 In light of this necessity and the need for greater public inclusiveness, dialogue and participation, the NPCC, shall be actively engaged in performing the role of facilitator, setting and shaping the ongoing agenda for change.

3.42 Specifically, the NPCC will monitor the outputs and their respective Key Performance Indicators (KPIs), as contained in the Roadmap. Additionally, the NPCC and sub-committees will be assessing the relevance of outcomes and KPIs and the quality of information sought so that the adequacy of all KPIs is kept under review.

The key functions of the NPCC are summarized as follows:

- Monitor Roadmap implementation focusing on the outputs and key performance indicators;

- Provide forums for consultation and dialogue for consensus building on national development issues;

- Carry out civic education on governance issues, national identity and other issues considered relevant and important;

- Evaluate and review performance of implementing agencies;

- Review of the Roadmap when necessary for the purpose of updating and adjustment; and

- Provide policy advice and support to the Prime Minister and Cabinet on issues pertaining to the Roadmap.

CHAPTER 4: MEDIUM-TERM STRATEGY

Introduction

4.1 This chapter discusses Government's fiscal strategy for the medium-term. The chapter begins with an overview of Government's macroeconomic objectives and fiscal targets; and lays out the broad fiscal measures that aim to build a solid platform for sustainable economic growth. The chapter concludes with an update on the progress, and anticipated course of reforms over the medium term.

Medium Term Macroeconomic Objectives

4.2 **Table 3.1** lists Government's medium-term macroeconomic targets, which take into account prevailing risks and challenges, including the impact of the recent global economic recession. Essentially, these targets set the parameters for the overall direction and focus of Government's fiscal policies for the medium-term.

4.3 Achieving these targets, will provide a solid economic platform - conducive for investment and increased economic activity, creating employment opportunities and improved living standards.

Table 3.1: Government's Macroeconomic Targets

Macroeconomic Indicator	Targets
Economic Growth	Increase to 5 percent over the medium-term
Inflation	To be reduced to 3 percent over 5 years
Foreign Exchange Reserves	5 months of import cover
Government Deficit	Gradually reduce budget deficit to below 3.5 percent
Government Debt	Reduce debt to a sustainable level of 40 percent over the medium-term
Investment	Raise investment to above 25 percent of GDP
Employment	Increase annual employment rate by 3 percent

Source: Ministry of Finance

Medium Term Fiscal Framework

4.4 **Table 4.2** highlights the Medium Term Fiscal Framework (MTFF) which presents the fiscal aggregates for Government's deficit and debt targets in the medium-term. The actual outturn for 2008 and estimates for 2009 are provided for comparative purposes.

Table 4.2: Medium Term Fiscal Framework ($M)

	2010(B)	2011(T)	2012(T)
Revenue	**1,486.5**	**1,673.6**	**1,854.3**
% of GDP	*23.6%*	*25.0%*	*26.0%*
Expenditure	**1,706.6**	**1,841.0**	**1,996.9**
% of GDP	*27.1%*	*27.5%*	*28.0%*
Net deficit	**(220.1)**	**(167.4)**	**(142.6)**
% of GDP	*-3.5%*	*-2.5%*	*-2.0%*
GDP at Market Price	**6,288.1**	**6,694.4**	**7,131.8**

Source: Ministry of Finance. Key: A: Actual; R: Revised; B: Budget; T: Targets.

Note: The figures in this table will not necessarily match comparable figures in other tables or Budget documents.

4.5 For the 2010 Budget, net deficit is set at 3.5 percent of GDP or $220.1 million. This deficit target provides Government the necessary resources to drive economic recovery, thereby *'strengthening the foundations for economic growth and prosperity'*. At the same time, efforts will focus on ensuring that resource allocation decisions are contained within the approved expenditure limits. Government is also mindful of the impact of high expenditure on its overall debt position. As such, resuming a path of fiscal consolidation is proposed for the medium-term to enable Government to move closer towards its goal of reducing debt to sustainable levels.

4.6 Revenue receipts for 2010 are projected at $1,486.5million, or approximately 24.0 percent of GDP. Accordingly, Government's expenditure programmes in the 2010 Budget have been formulated within a ceiling of $1,706.6 million.

Fiscal Policy

4.7 Over the medium-term, Government's fiscal strategy will mainly focus on achieving gradual reductions in budget deficits to attain a sustainable debt level whilst simultaneously, allocating adequate resources for investment and essential public services. As stated earlier, Government must work towards strengthening its financial position by resuming fiscal consolidation. This will safeguard Government against future economic shocks and prevent debt from spiraling to critical levels.

4.8 With this in mind, expenditure and revenue projections for 2011 and 2012 are based on desired deficit targets of 2.5 percent and 2.0 percent of GDP respectively.

Revenue Policy

4.9 Revenue and taxation policies in the 2010 Budget are aimed at setting a stable platform for economic recovery. In view of prevailing economic conditions, measures will be geared towards enhancing the effectiveness of current incentives to stimulate growth and investments and support balance of payments by boosting exports and curtailing imports.

4.10 Revenue and taxation policies for the 2010 Budget are guided by the following key principles: (i) maintaining the integrity of the VAT system; (ii) minimizing the level of distortions; (iii) Ensuring a simple, transparent and equitable tax system; (iv) Simplifying and streamlining bureaucratic tax administrative processes; (v) Tightening compliance within the tax system; (vi) Improving collection of tax arrears; and (vii) Promoting the user pay principle.

4.11 In line with Government's revenue policy direction, revenue measures in the 2010 Budget have been designed to achieve the following key policy objectives:

(i) Support the private sector to recover from economic shocks experienced this year;

(ii) Support export development with particular focus on resourced-based sectors and industries, and promote value-adding activities;

(iii) Strengthen compliance through, mandatory reporting and simplification of tax administration processes and procedures;

(iv) Assist the private sector through timely processing and payment of VAT refunds;

(v) Implement new Government fees, fines and charges on cost recovery basis;

(vi) Continue close monitoring of trade liberation obligations and its impact on Government revenues with a view to safeguarding national interests;

4.12 Chapter 10 highlights specific taxation and revenue policy measures of the 2010 Budget.

Expenditure Policy

4.13 For the 2010 Budget, expenditure will focus on improving the quality and delivery of Government services in the key sectors of: health; education; infrastructure; law and order; tourism; poverty assistance; and rural development. At the same time, Government will ensure that adequate resources are made available to sectors that have the potential to spur growth, raise exports, create employment and facilitate private sector investments.

4.14 Over the medium term, Government will continue to work towards achieving a target operating to capital expenditure mix of 75:25. In pursuing this target, the Public Sector Investment Programme (PSIP) will be refined to enhance the quality of planning and design, so as to expedite implementation of capital projects. Furthermore, Government will consider outsourcing more of its capital works programme to private entities which should help fast-track key projects at reasonable costs. In turn, this is expected to assist in driving overall investment levels to the desired target of 25.0 percent of GDP and eventually, propel growth to at least 5.0 percent per annum.

4.15 The full roll-out of on-line FMIS across all Ministries and Departments has enabled Government to effectively monitor the expenditure levels of agencies and ensure that they remain within their budgeted allocations. This milestone achievement complements current efforts to introduce a performance budgeting system. Performance budgeting aims to strengthen accountability and transparency on the use of public resources by ensuring that resource allocation is based on the delivery of core outputs, which is to be monitored through associated Key Performance Indicators.

4.16 Performance budgeting methods for measuring output-costs have been adopted by Ministries and Departments in their Annual Corporate Plans. This should allow Government to gauge the extent to which agencies have delivered their outputs given allocated resources and financial flows over time. With its enhanced reporting features, the FMIS provides accurate, timely and reliable financial information which should improve the quality of decision making.

Debt Policy

4.17 Government's debt policy is focused in achieving the following key objectives over the medium term: (i) reducing the net deficit; (ii) increasing operating savings; (iii) ensuring that the net deficit is wholly devoted to capital expenditures; (iv) control contingencies and the rate of default; and (v) implement well-formulated debt and risk management strategies, including strategies to minimize foreign exchange losses for financing external debt.

4.18 Government is committed towards achieving a debt level target of 40 percent of GDP over the medium term. To effectively achieve this, Government must register consistent reductions in net deficits (as a percentage of GDP) over the medium term. A sustainable reduction in the net deficit and hence the debt level is largely achievable if Government's operating savings increases over time, thus reducing the need to borrow to finance the net deficit.

4.19 Debt management policy will continue to focus on improving the issuance of domestic and foreign debt to reduce debt servicing costs. As a result of the recent dollar devaluation, debt servicing costs on foreign borrowings have gradually escalated through increased foreign exchange losses. To mitigate such losses, Government will re-examine its domestic-external debt compositions with a view to identifying comparative advantages and cost-saving opportunities. This includes the securing of favorable terms and conditions for future external loans taking into account possible implications on external accounts (balance of payments and foreign reserves).

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

4.21 The following critical factors will be taken into consideration when formulating debt and risk management strategies over the medium term:

- Impact of the recent 20.0 percent devaluation on cost of foreign debt and its maturity profile;

- Impact of the global economic crises on overall debt sustainability as well as Government's international debt-sovereign ratings;

- Risks associated with Government's over-reliance on the domestic financial market for debt financing, including high interest rates; and

- Impact of externally financed projects/investments on debt levels and the ability of such projects to generate returns and effectively contribute towards desired policy goals.

Structural Reforms

4.22 Reforms are critical for achieving sustained growth and development in the long term. The ensuing paragraphs provide an update on the progress of structural reforms to date, as well as the focus for the medium term:

Civil Service Reforms

4.23 The ongoing Civil Service Reform will improve efficiency, productivity, accountability and transparency for the provision of public goods and services. The three key components of the civil service reform are: (i) Human Resources Management; (ii) Productivity Management; and (iii) Organizational Management.

4.24 In terms of implementation, the exercise is being undertaken in three phases. The focus of the first phase was on right sizing of the public service through a reduction of operation costs by 10 percent. This exercise has seen the reduction in the overall civil service establishment with corresponding savings on personnel costs. This phase is fundamental for rationalizing the size of the public service in proportion to the economy. The recent promulgation to reduce the retirement age from 60 years to 55 years is a positive development that will assist in further reducing operating costs of the civil service.

4.25 The second phase involves restructuring and reorganization of ministries and departments to align staff establishments against outputs and identify opportunities for further reduction. To date, work on 10 ministries and departments have been completed.

4.26 The third phase is Business Process Re-engineering (BPR), which is a component of the e-Government Project. The BPR is a management tool aimed at reinforcing efficiencies and updating businesses processes across ministries and departments.

Public Enterprise Reforms

4.27 Reform programmes for public enterprises are geared towards improving service delivery, and ensuring efficient and effective use of resources. The Public Enterprise Department continues to provide sound and practical advice on strategies for reforming public enterprises into commercially viable entities. Furthermore, the operations of public enterprises are closely monitored to ensure that entities are managed with effective corporate governance practices in line with internationally accepted standards.

4.28 The ensuing paragraphs outline the progress of reforms for the following agencies:

- Department of Water & Sewerage;
- Fiji Islands Maritime Safety Administration;
- Government Shipping Services;
- Fiji Shipping Corporation Ltd;
- Quarantine & Inspection Department;
- Fiji Meteorological Office;
- Land Transport Authority;
- National Road Safety Council;
- Department of National Roads; and
- Fiji Electricity Authority.

4.29 *Water Reforms:* Reforms within the Water and Sewerage Department has been progressing well with the establishment of the Water Authority of Fiji expected in 1st January, 2010. Such reforms are envisaged to bring about improvements to water supply and sewerage services.

4.30 *Fiji Islands Maritime Safety Administration (FIMSA):* The reorganization of FIMSA into a commercial statutory authority is an essential part of reform within the ports sector. A comprehensive review of the Marine Act with other maritime related legislations will be undertaken to ensure conformity with International Maritime Standards. This should provide a suitable regulatory framework for supervising maritime services to enhance safety at sea and improve shipping services to outlying islands.

4.31 *Government Shipping Services and Fiji Shipping Corporation Ltd:* In line with current reform plans for the maritime sector, Government plans to embark on an extensive programme to restructure and streamline the functions of Government Shipping Services and Fiji Shipping Corporation Ltd. The restructure will result in better utilization of resources and ensure provision of efficient sea-transport services to outer islands. In turn, this is expected to contribute towards increased economic activity and development in maritime regions.

4.32 *Department of Quarantine:* The promulgation of the Biosecurity Law (2008) provides the legal framework for establishing the Biosecurity Authority of Fiji. This reorganization is expected to bring about general improvements to quarantine services and ensure its compliance to international practices and standards. The latter should also assist in the facilitation of commodity exports to overseas markets

4.33 *Fiji Meteorological Office:* Government plans to reorganize the Fiji Meteorological Office into a Commercial Statutory Authority. This reorganization should allow the Office to operate independently on newly devised charges for its meteorological services and also enable the provision of state-of-the-art technology for improving services such as weather forecasting.

4.34 *Land Transport Authority, National Road Safety Council and Department of National Roads:* Government is considering the consolidation of LTA, NRSC and DNR under one body responsible for developing the transport sector. This body will take on the functions of these three organizations, which include the responsibilities of: regulating all land transport; ensuring road safety; and upgrading and developing national road infrastructure.

4.35 *Fiji Electricity Authority:* In line with its commitment to reform the energy sector, Government will consider a restructure of FEA to separate the Authority's regulatory functions from its commercial arm. This move would enable deregulation within the energy sector and pave the way for more competition, resulting in the provision of better and affordable energy services to consumers.

Financial Management Reforms

4.36 Financial Management Reforms (FMR) has been progressively implemented since 2005, with the prime focus of strengthening Government's financial management system to improve performance, accountability and transparency in the management of public funds.

4.37 The review of the Finance Instructions (FI) is expected to be completed at the end of 2009. This review mainly focuses on accommodating new accounting procedures and processes that have been brought about through the automation of Governments Financial Management Information System (FMIS).

Financial Management Information System (FMIS)

4.38 The development of human resource capacity to meet the needs of the FMR presents a significant challenge. The success and sustainability of FMIS, largely depends on the ability of operational personnel and management to implement the reforms. In this regard, the FMIS Unit within the Ministry of Finance has been tasked to provide both functional and technical support to agency users through strategic training and capacity building programmes.

4.39 Presently, the Department of National Roads and the Ministry of Health have their own financial management systems which work independently from Government's FMIS. However, these agencies are synchronizing their data output in line with the reporting requirements of FMIS and these are transferred to Government's system at the end of each month. The Ministry of Finance, in conjunction with *Infor Global,* is examining the possibility of integrating the systems of these two agencies into Government's financial management information system.

Transition towards Accrual Accounting

4.40 With technical assistance provided by the Pacific Financial Technical Assistance Center (PFTAC), Government will work towards the transition from Cash to Accrual Accounting. The following recommendations have been provided by PFTAC:

(i) Implementation of a full accrual accounting system to be contingent upon improvements to the existing cash-based accounting system, and establishment of a fixed asset recording system; and

(ii) A six-phased approach to be adopted to facilitate systematic transition to an accrual accounting system.

Proposed Activities for 2010

4.41 To further improve the effectiveness of Government's overall accounting system, the following activities or exercises are earmarked for 2010:

- Implementation of new National Standards for Cash Accounting across Government;

- Implementation of FMIS within the Ministry of Health and Department of National Roads;

- Devise customised reports to improve whole of government and agency reporting; and

- Continuation of FMR and FMIS training and capacity building programs.

Land Reforms

4.42 Land Reforms over the medium-term will focus on following key broad areas:

- *Review of Existing legislative frameworks and policies to enhance accessibility, security of tenure and improve utilization of land:* This process will involve a comprehensive review of the following legislations – Crown Lands Act, Property Act, Land Transfer Act, Rivers & Streams Act, Acquisition of Lands Act, Native Lands Trust Act and the Mining Act;

- *Review and formulation of Policy Framework for Mineral Resource Development* – this will specifically encompass: the formulation of a National Water Policy; introduction of policy guidelines for exploration and exploitation; the formulation of a Foreshore and Coastal Development Policy; the licensing and registration of surveyors; policy for reversion of Crown Grants and Native Grants to Indigenous Landowning Units; drafting of an appropriate policy for valuation of land and property; and review of fees for land development and issuance of land leases.

- *Review of Organizational Structure within the Ministry of Lands & Mineral Resources* - to facilitate the utilization of land for commercial purposes:

  (i) Introduce an efficient land leasing system for state land;

  (ii) Ensure accuracy of surveys conducted through adoption of International Terrestrial Reference Systems and WGS84;

  (iii) Establish a Fiji Land Spatial Data Infrastructure that will provide and use data considered necessary for determining best use of land;

  (iv) Maintain Land and Mineral Resource Data Base; and

  (v) Accelerate specialized training for staff on new land and resource technology.

Financial Sector Reforms

4.43 Despite the weak economic environment, the key indicators of the financial system remain favorable. This satisfactory performance of the financial sector is reflected in the following:

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

4.44 *Financial System Policy Development:* The Reserve Bank of Fiji continues to work on financial supervision policies to safeguard the financial system and align it with international practices and standards. Several additional policies were developed in 2008 and implemented across commercial banks, credit institutions, insurers and insurance intermediaries.

4.45 Draft policies on the establishment of microfinance units by commercial banks and the creation of a local advisory board to advise commercial banks on community and economic development issues has been drafted and sent to banks for further comments and consultations. In addition, a complaints management policy has been issued to banks and credit institutions. These policies are expected to be implemented in the first quarter of 2010.

4.46 The Reserve Bank continues to develop policies to support its role of maintaining a sound financial structure in Fiji. This includes the introduction of an *Operational Risk Management Policy* for Banks and Credit Institutions and the setting up of *Minimum Guidelines for Risk Management Frameworks* of Licensed Insurers.

4.47 In addition, RBF has made amendments to the Loans Classification Policy for Banks and Credit Institutions, aligning the policy to the requirements of the International Financial Reporting Standards (IFRS), and also revised the Off-shore Insurance Placement Policy. A comprehensive review of the Disclosure of Fees and Charges Policy was also conducted in 2009 and the draft amendments will be submitted for industry consultation in early 2010.

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

4.49 The Reserve Bank notes that work priorities may have shifted in 2009 and with the limited resources and manpower in the different agencies, the implementation of the FSAP recommendations has been delayed. Agencies have however provided updates on the timelines for implementing the recommendations.

4.50 From the FSAP recommendations, the Reserve Bank of Fiji has taken on the role of actively engaging with stakeholders on Microfinance and SME development in Fiji. In 2009 partnerships were formed with the Pacific Financial Inclusion Programme (PFIP) that conducted a microfinance workshop to develop a medium strategy for financial inclusion in Fiji. In 2010 a National Financial Inclusion Committee consisting of various stakeholders is anticipated to be formed and to be initially led by the Reserve Bank to implement the medium term strategy for financial inclusion in Fiji over the next 4 years.

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

4.52 The risk-based supervision framework is now in place, not only for the Fiji National Provident Fund, but for all supervised institutions. The Reserve Bank continues to document the new processes implemented as part of the risk-based approach.

4.53 *Financial Intelligence Unit (FIU)*: The FIU will continue to be housed and managed by the Reserve Bank of Fiji in 2010 under a delegation of authority by the Minister for Justice to the Governor of the Reserve Bank of Fiji. This arrangement was reviewed by the National Anti-Money Laundering Council in 2009. The FIU's future administration and budgetary arrangements is being considered for implementation in 2011.

4.54 Law enforcement agencies benefit from the information and intelligence that is provided by the FIU. The Fiji Islands Revenue and Customs Authority (FIRCA) also benefits by using FIU's information for tracking tax evaders and additional tax revenues have been collected as a result of this assistance. In addition, FIU has relaxed the requirements on customer identification under the FTR Act to allow easier access to financial services in Fiji by farmers, rural dwellers, students, elders and the micro-finance sector and will work with FIRCA to strengthen Fiji's border currency reporting framework in 2010.

4.55 *Capital Market Development:* The development of the capital markets in Fiji remains a priority. As an emerging market, Fiji's capital markets face a special set of challenges which must be addressed by the Reserve Bank as regulator and policy maker. However, despite these challenges capital markets have a potential to accelerate economic growth by raising capital for financing domestic investment, making risk diversification easier for investors and strengthening corporate governance.

4.56 As per the recommendations of the IMF/World Bank FSAP Report of 2007 and IMF technical assistance in 2006, the Reserve Bank continues to explore measures to develop the secondary bond market in Fiji. Work on this will continue in 2010.

4.57 A 10 year Master Plan for the capital markets, mapping out the developments to date and the direction for development and growth for the next 10 years, will be completed in 2010. Moreover, a draft capital markets stock take report has been prepared and will be finalized in the first quarter of 2010.

CHAPTER 5: GOVERNMENT'S FISCAL POSITION

Introduction

5.1 This chapter summarizes Government's fiscal position over the period 2008 to 2010. The chapter begins with an overview of Government's fiscal performance for 2008 and 2009 and then highlights the projected revenue, expenditure, and budget deficit for 2010.

2008 Overview

5.2 *'Building A Platform for Quick Recovery and Sustainable Growth'* was the theme of the 2008 Budget. The budget aims at providing an accommodative platform for sustainable growth and investment, with intent to contribute to a quick economic recovery. The targeted net deficit for 2008 was set at 2.0 percent of GDP.

5.3 At the closure of 2008 Accounts, Government recorded a net under spending of $101.1 million. The total actual expenditures for the year, excluding principal repayments, stood at $1,426.8 million, whilst actual total revenue collections amounted to $1,454.9 million. This resulted in a net surplus of $28.2 million or 0.5 percent of GDP.

2009 Budget

5.4 The 2009 Budget theme focused on *"Raising Economic Growth and Alleviating Poverty"*.

5.5 The targeted net deficit for 2009 is $192.8 million or 3.0 percent of GDP. This was derived from total budgeted expenditures of $1,715.2 million (VAT incl.) against total budgeted revenues of $1,522.4 million (VAT incl.).

2010 Budget

5.6 Government's cash flow is shown in **Table 5.1** below. Government's fiscal position is the net result of receipts (revenue) and payments (expenditure). The table separates cash flows associated with operating activities from those associated with investing activities. All figures in the cash flow are VAT exclusive[5]. The 2008 data illustrates actual outturn whereas 2009 data shows recent revisions to budgeted revenue. The 2008-2010 data show cash flow projections.

Table 5.1 Statement of Cash-flows, 2008-2010

$M	**2008 (A)**	**2009 (R)**	**2010(B)**
Cash Flows From Operating Activities			
Receipts			
Direct taxes	438.55	**431.91**	424.66
Indirect taxes	753.07	**697.71**	786.57
VAT	*401.50*	***342.63***	*423.93*
Customs	*331.49*	***330.34***	*329.00*
Hotel Turnover Tax	*20.08*	***24.45***	*25.84*
Water Resource Tax	-	***288.83***	*0.31*
Super yacht Charter Fee	-	**-**	*7.50*
Fees, Fines, Charges & Penalties	109.29	**100.80**	117.11
Sales Revenue	0.04	**0.04**	0.04
Grants in aid	12.62	**5.43**	8.95
Dividends from Investment	40.89	**50.50**	35.04
Reimbursement & Recoveries	12.89	**10.14**	10.72
Other	34.50	**26.26**	47.55
Total Operating Receipts	**1,401.85**	**1,322.81**	**1,430.64**
Payments			
Personnel	564.75	**630.98**	600.21
Transfer payments	227.43	**247.13**	265.07
Supplies and consumables	159.17	**187.04**	172.91
Purchase of outputs	36.97	**45.42**	57.82
Interest paid	168.74	**186.93**	225.51
Other Operating payments	5.52	**6.45**	5.86
Total Operating Payments	**1,162.57**	**1,303.95**	1,327.37
Net Cash Flows from Operating Activities	**239.29**	**18.86**	**103.26**
as a % of GDP	**4.2%**	**0.3%**	1.6%
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts			
Interest from Bank Balance	0.11	**0.24**	0.70

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

Interest on term loans and advances	0.00	**0.00**	0.00
Return of Surplus Capital from Investment	0.80	**1.16**	1.16
Gain from Foreign Missions	0.72	**0.00**	0.00
Total Investing receipts	**1.64**	**1.70**	1.86
Payments			
Loans	1.24	**1.50**	1.00
Transfer payments	77.79	**115.91**	122.82
Purchase of physical non-current assets	133.71	**235.39**	201.39
Total Investing payments	**212.75**	**352.80**	325.21

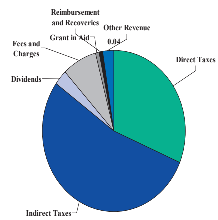
Source: Ministry of Finance. Key: A: Actual; R: Revised: B: Budget.

Note: The figures in this table will not necessarily match comparable figures in other tables or Budget documents.

Government Operating Receipts

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

Figure 5.1 Composition of Operating Revenue 2008



Source: Ministry of Finance Planning

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

5.8 **Figure 5.1** indicates the composition of each form of revenue in 2008. Government's largest source of revenue comes in the form of indirect taxes, which comprises 53.7 percent of total operating revenue. Direct taxes provides 31.3 percent of operating revenue, with the remaining 15.0 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

5.9 Direct taxes are income taxes comprising of corporate taxes, personal or PAYE taxes, dividend taxes and a host of minor taxes. The 2009 revised forecast for direct taxes stands at $431.9 million, 1.5 percent or $6.6 million below the 2008 outturn of $438.6 million. The variance is due to expected decreases in revenues from company and personal taxes in 2009.

5.10 Direct taxes in 2010 are expected to total $424.7 million, approximately $7.3 million or 1.7 percent below the expected collections for 2009. The decrease is due to expected decline in company taxes as a result of a further reduction in the corporate tax rate from 29 percent to 28 percent in 2010.

5.11 A complete list of all new direct tax policy measures is outlined in Chapter 10 (Section 1). Measures to modernize, simplify and minimize loop holes within the tax system in 2010 are also outlined.

Indirect Taxes

5.12 Indirect taxes of VAT collections, Hotel Turnover Tax, Water Resource Tax and revenue from customs duties comprising of fiscal, excise, import excise, export duties and other customs fees and charges. Revised indirect taxes for 2009 are expected to be lower than the 2008 collections by $55.4 million or 7.4 percent.

5.13 VAT Collections for 2008 amounted to $401.5 million and are forecast to stand at $342.6 million in 2009, a decrease of 14.7 percent over 2008 collections. This is largely attributed to the slowdown in economic activity and subdued consumption spending.

5.14 Collections from customs duties are expected to total $330.3 million for 2009.

5.15 Receipts from customs duties in 2009 are expected to comprise the following:

- Fiscal Duty ($226.9 million);
- Excise Duty ($72.2 million);
- Export Duty ($8.4 million);
- Import Excise Duty ($18.0 million); and
- Miscellaneous Fees ($4.9 million).

5.16 Indirect taxes in 2010 are expected to total $786.6 million, approximately $88.9 million or 12.7 percent above the expected collections for 2009.

5.17 For 2010, VAT collections are expected to amount to $423.9 million which is about $81.3 million or 23.7 percent above the revised VAT receipts for 2009.

5.18 Other indirect tax collections for 2010 are expected to comprise of the following:

- Hotel Turnover Tax ($25.8 million);
- Fiscal Duty ($218.4 million);
- Excise Duty ($77.3 million);
- Export Duty ($8.2 million); and
- Import Excise Duty ($19.7 million).

5.19 In 2010, with the introduction of a new super yacht charter policy, Government is expected to collect $7.5 million from charter fees.

Fees, Fines, Charges and Penalties

5.20 Fees, fines, charges and penalties include collections from revenue items such as water rates, departure tax, sale of passports and court fines. In 2008, $109.3 million was generated through fees, fines, charges and penalties while $100.8 million is expected for 2009.

5.21 The forecast for 2010 is $117.1 million, an increase of $16.3 million or 16.2 percent over 2009 collections. The variance is largely due to expected higher collections from stamp duties, registration fees and recovery of outstanding land rates.

Sales Revenue

5.22 There are two types of sales revenue. The first type records sales between Government agencies[6]. The second, records sales proceeds collected by Government departments for goods or services sold to other agencies outside Government. In 2008, $0.04 million was collected from sales revenue, and similar amounts are expected for 2009 and 2010, respectively.

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

Grants in Aid

5.23 Grants in aid come in two forms, namely, cash and aid-in-kind. Government received $12.6 million as cash grants in 2008. The revised forecast for 2009 is $5.4 million while $8.9 million has been projected for 2010. **Table 5.2** highlights the major Grants from Donors.

Table 5.2: Grants from Donors

Donor ($m)	2008(P)	2009(R)	2010(F)
Australia	20.9	16.3	21.7
China	17.3	11.8	9.3
EU	17.4	25.9	20.3
Japan	0.0	15.0	3.0
Korea	0.0	1.3	0.4
New Zealand	2.9	1.7	9.6
UNDP	1.4	1.2	0.6
Others	4.3	3.9	8.9
Total	**64.2**	**77.1**	**73.8**
Comprising			
Cash	12.6	5.4	8.9
Aid-in-Kind	51.6	71.7	64.9

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

5.24 Major sectors and projects expected to be funded through cash and aid-in-kind. Grants in 2010 are listed below:

Education – $ 28.8 million

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

Health – $ 17.9 million

- Fiji Health Sector Improvement Programme (AusAID)
- Relocation & Construction of New Navua Hospital (China)

- Medical Treatment Scheme (NZAID)
- Assistance for Reproductive Health (UNFPA)
- Child Protection Programme (UNICEF)
- Health & Sanitation Programme (UNICEF)
- WHO Assistance to Ministry of Health
- Adolescent Health and Development(UNFPA)
- Assistance for Malaria and TB – Global Fund

Infrastructure – $1.9 million

- Somosomo Mini Hydro Scheme (China)
- Technical Assistance to Water Sector (EU & SOPAC)
- Sustainable Energy Financing Project (World Bank)

Others – $25.2 million

- Supply of Multipurpose Fishing Vessels
- Rehabilitation of the Lami Dump
- ACIAR Assistance to the Agriculture Sector
- Support to Quarantine
- Assistance for Floods Recovery (AusAID & NZAID)
- Support for Informal Settlements (NZAID)

Dividend from Investment

5.25 This category comprises of dividend receipts from annual net profits of Government Commercial Companies and Commercial Statutory Authorities, such as ATH, AFL, Air Pacific, and FINTEL. In 2008, total dividends received amounted to $40.9 million. Dividend collections for 2009 and 2010 are expected to amount to $50.5 million and $35.0 million, respectively.

Reimbursement and Recoveries

5.26 This category comprises of revenues from: contributions for capital projects; reimbursed funds for Government services; refund of Government payments and contributions for overseas peacekeeping duties. Receipts from reimbursement and recoveries are expected to be $10.14 million in 2009; $2.8 million lower than the 2008 collection. The decrease is largely attributed to lower expected contributions for Multinational Force and Observers (MFO) troops. For 2010, total receipts of $10.7 million are expected from reimbursement and recoveries.

Other Operating Revenue and Surpluses

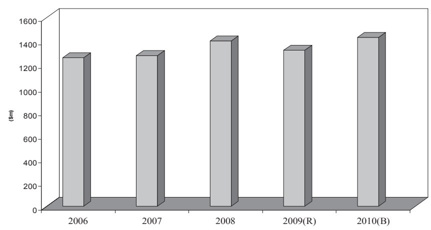
5.27 Other operating revenue and surpluses encompasses proceeds from rent of Government property, surplus from Government agencies, commission revenue and other miscellaneous revenue.

5.28 In 2008, other revenue and surpluses collected $34.5 million whereas, the projected revenues for 2009 and 2010 are expected to amount to $26.3 million and $47.6 million, respectively.

Total Operating Revenue

5.29 Total operating revenue in 2009 amounted to $1,322.8 million. This is $79.05 million below collections in 2008. The variance is mainly due to the expected lower collections in indirect tax and fees, fines and charges.

Figure 5.2: Total Operating Receipts 2006-2010



Source: Ministry of Finance

5.30 For 2010, total operating revenue is forecast at $1,430.6 million. This is an increase of $107.8 million or 8.2 percent relative to 2009. This variance emanates largely from indirect taxes and non-tax revenue sources.

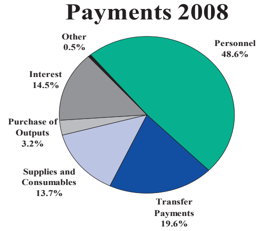
5.31 **Figure 5.2** illustrates the level of operating revenue in the period 2006 to 2010. The graph shows a reduction in operating receipts in 2009 owing mainly to underperformances in tax revenues as well as lower receipts from general non-tax revenues.

Operating Payments

5.32 Government's operating expenditure includes:

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

Figure 5.3 Composition of Operating Payments 2008



Source: Ministry of Finance

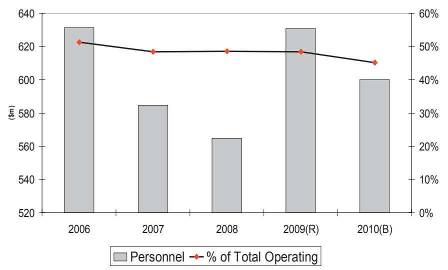
- Other operating payments.

5.33 The biggest component of operating expenditure in 2008 comprised of personnel costs which accounted for 48.6 percent of total operating expenditure (see **Figure 5.3).** Transfer payments accounted for 19.6 percent, supplies and consumables 13.7 percent and interest payments 14.5 percent. The purchase of outputs and other operating payments make up the remaining 3.6 percent.

Personnel

5.34 Personnel costs are the salaries and wages of Established Staff and Government Wage Earners. **Figure 5.4** provides a summary of total personnel costs over the period 2006-2010. The low expenditures experienced in 2008 reflect the outcome of stringent measures undertaken by Government to rationalize overall civil service costs.

Figure 5.4: Personnel Costs 2006-2010



Source: Ministry of Finance

5.35 In 2009, personnel costs are expected to be $631.0 million, an increase of $66.2 million or 11.7 percent over 2008 payments. The 2010 budget estimates personnel costs at $600.2 million which is below 2009 levels by $30.8 million or 4.9 percent.

5.36 As part of the move to address the increase in operating costs, the personnel budget for 2010 reflects the first steps in Government's efforts to curtail costs in the public service. The 2010 personnel budget is reflective of the de-establishment of some vacant posts. The savings to Government is expected to be fully realized in the near future when Government completes the rightsizing of the civil service.

Transfer Payments

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

5.38 In 2008, transfer payments worth $227.4 million were made. In 2009, this is expected to reach $247.1 million, an increase of 19.7 percent over payments made in 2008.

5.39 For 2010, transfer payments are budgeted at $265.1 million. This is around $17.9 million or 7.3 percent above 2009 levels. The major operating grants are highlighted in **Table 5.3** below.

Table 5.3: Major Grants (SEG 6)

Activity	2010 Allocation
FIRCA Grant	$33.0 million
Family Assistance	$15.0 million
Tuition Fees – Forms 1 - 7	$11.7 million
Fijian Affairs Scholarships	$10.0 million
USP Grant	$37.6 million
FIT Grant	$9.0 million
FSCL - Shipping Franchise Scheme	$1.5 million
Fiji Servicemen's After-Care Fund	$5.8 million
Fee-Free Education – Classes 1-8	$5.6 million
Multi-Ethnic Scholarships	$5.5 million
Prices and Incomes Board Grant	$1.1 million
Grant to Tourism Fiji	$3.0 million
Naboro Landfill Subsidy	$1.2 million
Public Service Broadcast [Radio]	$1.2 million
Public Service Broadcast (TV)	$1.6 million
Public Rental Board Subsidy	$1.0 million
Lieu of Rates to Crown Land Grant	$1.23 million
PSC Training and Scholarship Grant	$4.9 million
Grant to FAB	$2.0 million
Provincial Council	$1.4 million
FSM Grant	$2.0 million
LTA Grant	$10.0 million
University of Fiji	$3.6 million
Fiji Trade and Investment Bureau	$1.2 million
FICAC	$8.2 million
Fiji National University	$6.5 million
Food Voucher Programme	$7.4 million

Supplies and Consumables

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

5.41 In 2008, supplies and consumables cost Government $159.2 million, or 13.7 percent of total operating expenditure. In 2009 total projected expenditures on supplies and consumables are expected to cost $187.04 million equivalent to 14.3 percent of total operating expenditure.

5.42 For 2010, supplies and consumables are budgeted at $172.9 million, 13.0 percent of total operating expenditure. Relative to the 2009 estimate, the expenditure on supplies and consumables in 2010 has decreased by around $14.1 million or 7.6 percent.

Purchase of Outputs

5.43 The purchase of outputs comprises of special expenditures unique to a Ministry or Department, such as conferences, reviews or training for staff. In 2008, Government purchased outputs to the value of $37.0 million, which is 3.2 percent of total operating expenditure. In 2009, output purchases are expected to amount to about $45.4 million, which is 3.5 percent of total operating expenditure.

5.44 The purchase of outputs in 2010 is forecast at $57.8 million, or 4.4 percent of total operating expenditure. This represents an increase of $12.4 million over 2009 expenditures.

5.45 Some outputs to be purchased in 2010 are highlighted in **Table 5.4** below:

Table 5.4: Major Purchase of Outputs (SEG 7)

Activity	2010 Allocation
Workmen's Compensation	$2.0 million
Duty on Government Purchases	$1.0 million
Voter Registration Exercise	$1.0 million
Apprentice Scheme	$0.9 million
Household Income and Expenditure Survey	$0.2 million
Implementation of Employment Relations Bill	$1.0 million
Integrated Human Resource Development	$1.5 million
Implementation of the Tuna Management Plan	$0.5 million

Activity	2010 Allocation
Trade Commissioner – Los Angeles	$0.63 million
Trade Commissioner – Taiwan	$0.66 million
Trade Commissioner – Shanghai	$0.45 million
National Youth Service Scheme	$0.8 million
National Export Strategy	$1.0 million
Commonwealth Telecommunication Authority Regional meeting	$0.72 million
Investment Approval Process/Computerisation of Companies Office and Other Registries	$0.5 million
Land Reform Pogramme	$15.0 million

Interest Paid

5.46 In 2008, interest payments amounted to $168.7 million. The expected outturn for 2009 is $186.9 million, an increase of 18.2 million or 10.8 percent relative to 2008.

5.47 Interest payments for 2010 are expected to amount to $225.5 million; up 20.6 percent over 2009 levels.

Other Operating Payments

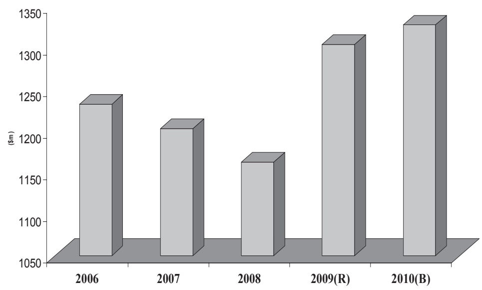
5.48 Other operating payments are those miscellaneous expenditures associated with debt repayments. In 2008, miscellaneous expenditures reached $5.5 million and the 2009 revised forecast stands at $6.5 million. Other operating payments are projected at $5.9 million for 2010.

Total Operating Payments

5.49 In 2009, total operating payments are expected to total $1,304.0 million equivalent to 78.9 percent to total expenditure.

5.50 **Figure 5.5** highlights Government's operating payments for the period 2006-2010. The operating expenditure forecast for

Figure 5.5: Total Operating Payments 2006-2010



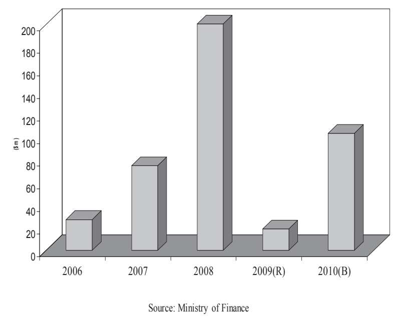
Source: Ministry of Finance

2010 is tagged at $1,327.4 million, an increase of $23.4 million or 1.8 percent relative to 2009. This is due to anticipated increases in transfer payments, purchase of outputs and interest paid on domestic and external borrowings.

Government Savings

5.51 Government savings is simply the net flows from operating activities and is measured by the difference between operating revenue and operating expenditure. **Figure 5.6** shows Government savings over the period 2006-2010.

Figure 5.6: Government Savings 2006-2010



5.52 In 2008, Government savings amounted to $239.3 million or 4.2 percent. In 2009, an operating cash flow surplus of $18.9 million or 0.3 percent of GDP is expected.

5.53 Government savings for 2010 are projected at a surplus of $103.3 million or 1.6 percent of GDP. The expected saving is due to expected increase in tax and non-tax collections.

Government Investing Receipts

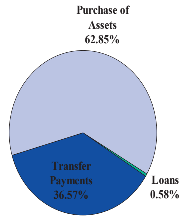
5.54 Total investing receipts, comprises of: the sale of Government equities, interest from bank balances, repayment of term loans, and return of surplus capital from investment. In 2008, total-investing receipts amounted to $1.6 million. In 2009, the estimate for total investing receipts is $1.7 million and the forecast for 2010 stands at $1.9 million. Anticipated receipts in 2010 stem from interest earned from bank balances and returns from Trade and Manufacturing Accounts (TMA).

Government Investing Payments

5.55 **Figure 5.7** shows the composition of investing expenditure in 2008, which comprises of:

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

Figure 5.7 Composition of Investing Payments, 2008



Source: Ministry of Finance

Loans

5.56 In 2008, loans of $1.24 million were made to tertiary students. Loans receipts are expected to be approximately $1.5 million for 2009 and $1.0 million in 2010.

Transfer Payments

5.57 Transfer payments under investing expenditure refer to grants and transfers for capital purposes. Expenditures under this classification amounted to $77.8 million in 2008 and are expected to total $115.9 million in 2009. The 2010 allocation is $122.8 million. Some of the major capital transfers are highlighted in **Table 5.5** below.

Table 5.5: Major Transfer Payments (SEG 10)

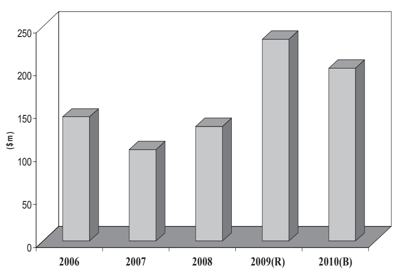
Activity	2010 Allocation
Tourism Fiji Marketing Grant	$23.5 million
Rural Electrification Projects	$5.0 million
FIRCA Capital Grant	$2.0 million
Northern Development Programme	$1.0 million
Sugar Industry Support Programme	$8.0 million
Farm Improvement and Land Resettlement	$2.2 million
Grant to Self-Help Projects	$3.0 million
Divisional Development Projects	$1.5 million
FIT Grant	$5.0 million
Poverty Alleviation Projects	$0.6 million
Rural Housing Assistance	$1.0 million
HART	$1.0 million
Rural & Outer Island Agriculture Development Programme	$1.5 million

Activity	2010 Allocation
AFL – Upgrading of Rural Airstrips	$4.8 million
Maintenance on Non-PWD Roads	$1.0 million
Grant to Coconut Industry Development Authority	$0.5 million
Disaster Rehabilitation Fund	$1.0 million
Community Development Projects	$1.5 million
Agriculture Marketing Authority	$0.5 million
Committee on Better Utilization of Land Rental Subsidy	$8.4 million
Farm Gate Subsidy for Milk Supplied to RCDC[7]	$2.0 million
Subsidy Under Drainage & Irrigation Activity	$1.6 million
Grant to Statutory Bodies	$6.9 million
Miscellaneous Grant-in-Aid	$2.0 million
VAT Aid-in-Kind Refunds	$2.5 million
National Fire Authority	$1.0 million
Small Grants Projects	$1.0 million
Subsidy to South Pacific Fertilizer Limited	$9.8 million
Housing Assistance for First Home Buyers	$10.0 million

Purchase of Physical Non-Current Assets

5.58 The purchase of physical non-current assets is the largest component of Government's investments. This category includes investment in new roads, schools and hospitals. Figure 5.8 shows spending on non-current assets in the period 2006-2010.

Figure 5.8: Purchase of Assets 2006-2010



Source: Ministry of Finance

5.59 In 2008 the total purchase of physical assets amounted to $133.7 million. Purchases in 2009 are expected to reach $235.4

7 Rewa Co-operative Dairy Company

million, $101.7 million above the 2008 outturn.

5.60 In 2010, $201.4 million is allocated for this category. This is a decrease of $34.0 million relative to 2009. Some of the major purchases are highlighted in **Table 5.6** below.

Table 5.6: Major Purchase of Physical non-Current Assets (SEG 8 and 9)

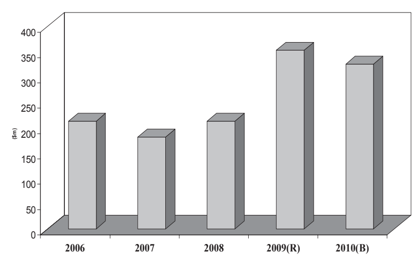
Activity	2010 Allocation
Upgrading - Existing Cane Access Road	$1.8 million
Non-Cane-Access Roads	$1.8 million
Relocation of 4FIR Camp, Nadi	$1.0 million
Maintenance and Upgrading of Schools & Institutional Quarters	$1.2 million
Squatter Upgrading & Resettlement	$1.5 million
Sigatoka Valley Development	$1.0 million
Export Promotion Programme	$2.0 million
Import Substitution Programme	$2.0 million
Refurbishment of Timber Research Facility	$0.3 million
Coastal Fisheries Development	$0.5 million
Aquaculture, Brackishwater and Seaweed Developments	$0.6 million
Fiji Integrated Meteorological Systems (Servers and Workstation Replacement)	$0.53 million
Somosomo Hydro Power Project	$0.25 million
Renovating Extensions and Upgrading of Police Institutions	$0.3 million
Upgrading/Replacement of Police Quarters	$0.3 million
Suva/Nausori Regional Water Supply	$23.0 million
Tavua/ Vatukoula Regional Water Supply	$1.0 million
New Meter Connections	$1.0 million
Nadi/Lautoka Regional Water Supply	$6.0 million
Navua/Deuba Regional Water Supply	$0.2 million
Ba Regional Water Supply	$1.0 million
Savusavu Regional Water Supply	$5.0 million
Replacement of Water Meters	$2.0 million
Natadola Water Infrastructure	$1.0 million
Nabouwalu Regional Water Scheme	$1.0 million
Sigatoka Regional Water Supply	$2.0 million
Labasa Regional Water Supply	$2.5 million
Korovou Regional Water Supply	$0.5 million
Other Rural Water Supply	$2.5 million

Activity	2010 Allocation
Lautoka Regional Sewerage Scheme	$2.5 million
Suva Regional Sewerage Scheme	$5.0 million
Nadi Regional Sewerage Scheme	$1.0 million
Labasa Sewerage Scheme	$2.0 million
Tavua Sewerage Scheme	$0.5 million
Savusavu Regional Scheme	$0.3 million
Navua Regional Sewerage scheme	$0.3 million
Repair and Upgrading of Public Buildings	$1.0 million
Fiji Road Upgrading Projects Stage III	$17.0 million
Periodic Maintenance – Roads and Jetties	$12.0 million
FMIS Costs	$0.3 million
Drainage and Flood Protection	$6.0 million
Upgrading of Outer Island Jetties	$2.4 million
Maintenance of Health Centers and Nursing Stations	$0.7 million
Fiji E-Government	$2.0 million
Upgrading and Maintenance of Urban Hospitals and Institutional Quarters	$3.7 million
Extension of CWM Mortuary & Others	$0.2 million
Bio-Medical Engineering Equipment-Urban and Rural Hospitals	$2.0 million
Development of Naboro Landfill Phase 1	$0.8 million
Road Rehabilitation Works	$2.0 million
Upgrading of Cell Blocks	$0.8 million

Total Investing Payments

5.61 Total investing payments were $212.8 million in 2008 or 15.5 percent of total expenditure. This is expected to increase by $140.1 million in 2009 due to increases in transfer payments and purchase of physical non-current assets. Total investing payments in 2010 are expected to amount to $325.2 million. Figure 5.9 shows total investing payments since 2006.

Figure 5.9: Total Investing Expenditure 2006-2010



Source: Ministry of Finance

2010 Net Deficit Target

5.62 The net cash flow position, or the net deficit or surplus, is a key indicator of the financial performance of Government. It indicates the amount of new borrowings that have to be raised to finance Government's activities. The net deficit forecast for 2010 is $220.1 million or 3.5 percent of GDP.

CHAPTER 6: GOVERNMENT'S BALANCE SHEET

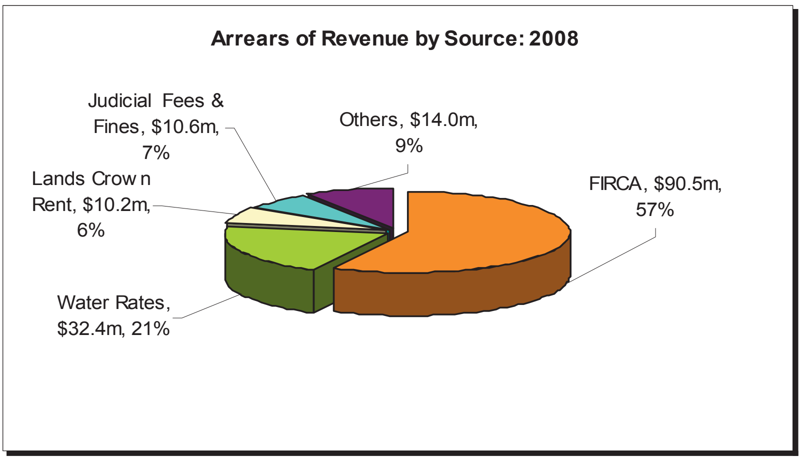
Introduction

6.1 This chapter summarizes the main components of Government's Balance Sheet, covering the major items of assets and liabilities, arrears of revenue and Government's investments in State-Owned Enterprises. Liabilities consist of government's debt stock and contingent liabilities

Arrears of Revenue

6.2 Arrears of revenue refer to debts owed to Government. Total arrears of revenue in 2008 decreased from $172.4 million to $157.8 million, a decline of 8.4 percent or $14.6 million. A significant portion of outstanding revenues stems from personal income tax, corporations' income tax, and value added tax totalling 54.7 percent of total. **Figure 6.1** displays the composition of arrears of revenue.

Figure 6.1: Compositions of Arrears



6.3 **Table 6.1** shows the composition of arrears of revenue for the year since 2006-2008. In 2008, the Outstanding Taxes from FIRCA constitutes $90.5 million or 57 percent of total arrears. Approximately $32.4 million is owed to Government in the form of unpaid water rates, $10.2 million in uncollected crown lease rentals and $10.6 million in court fees, fines and charges.

Table 6.1: Arrears of Revenue:200 - 2008 – ($ million)

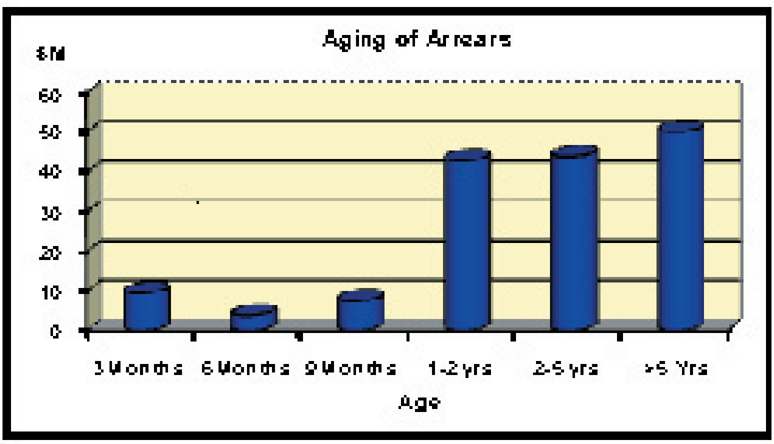
	2006(R)	**2007 (R)**	**2008 (P)**
Total amount owed	237.2	172.5	157.1
As % of Total Operating Revenue	**18.0%**	**12.0%**	**10.8%**
The major components were:			
FIRCA	170.4	105.4	90.5
Water Rates	27.8	29.6	32.4
Lands Crown Rent	9.1	11.2	10.2
Judicial Fees & Fines	9.1	9.5	10.6

6.4 The significant reduction in arrears for 2008 was attributed to the Tax Amnesty introduced by FIRCA which saw the recovery of $20 million in unpaid taxes. Arrears from Water rates and crown land-leases have progressively increased over the past 5 years, challenging current recovery measures within the relevant departments.

6.5 Government is fully committed to recovering its debt arrears through stringent measures outlined in its debt policy recovery framework. This includes the adoption of effective internal controls by Ministries and Departments to ensure robust collection of arrears.

6.6 Submissions for write-offs will be thoroughly assessed by the Ministry of Finance to ensure validity and to substantiate the exhaustion of all avenues for recovery. **Figure 6.2** reflects the age of arrears of revenue.

Figure 6.2: Aging of Arrears of Revenue



6.7 The Ministry of Finance will continue to strengthen capacity in its Internal Audit, Surcharge and Compliance Section and the Debt & Cash

Flow Management Unit to enforce tighter internal credit control policies in the management of Government's debts. Moreover, FIRCA has been adequately resourced to enhance compliance and accelerate the collection of arrears.

Government Investments

6.8 Investments in State-Owned Entities (SOEs) feature as a prominent asset item in Government's balance sheet. SOEs have the potential to generate significant revenues that could be utilized to supplement government funding in priority sectors.

The Fiji Investment Corporation Limited (FICL)

6.9 In July 2009, Cabinet approved the transfer of FICL to Fiji Development Bank, given the Bank's capacity to effectively manage investments within its existing administrative facility. FICL investments to date are shown in **Table 6.2** below.

Table 6.2: FICL Investments

INVESTMENT	INVESTED SUM [$]	TYPE OF PROCESSING
Grand Pacific Hotel	2,500,000	Tourism
Tossa Bussan Fiji Ltd	3,600,000	Fish Processing
Savusavu Harbour side Complex	500,000	Tourism
City Farming	552,348	Hydroponics/Agriculture
Navua Holdings	700,000	Prawn Farming
Matanivusi Beach Eco Resort	799,900	Tourism
Fiji Hardwood Corporation Ltd	934,000	Agriculture

Source: Ministry of Finance

Government Equity Investment in Government Commercial Companies (GCCs) and Commercial Statutory Authorities (CSAs)

6.10 GCCs and CSAs are normally financed through government grant or through debt financing from financial institutions and commercial banks by way of government guarantees. In return, Government receives interest and dividend incomes for these commitments.

6.11 Average investments in GCCs and CSAs increased slightly by 8.0 percent in 2008 relative to 2007 resulting in an increase of overall Government investment.

6.12 Government investments in GCCs decreased slightly by about 5 percent in 2008. Similarly, investments in minority owned entities decreased substantially in 2008 given the notable decrease in dividends from Amalgamated Telecom Holdings in 2007.

6.13 On the other end, majority owned entities recorded a notable increase in dividends by about 36 percent in 2008 as dividends from Air Pacific increased quite substantially in 2008 when compared to 2007. Table 6.3 below shows the dividends received from 2006-2008.

Table 6.3: Dividends Received from GCCs, Majority and Minority Owned Entities

	2006 [$M]	**2007** [$M]	**2008** [$M]
GCCs	4.70	3.23	3.06
Majority owned	9.76	9.36	12.77
Minority owned	9.15	9.37	5.43

Source: Ministry of Finance

6.14 In 2008, significant dividends were received from FINTEL ($6.4M), Air Pacific ($6.35M), ATH ($5.17M), Fiji Ports Corporation Limited ($2.02M) and Airports Fiji Limited ($1.0M), whilst a number of entities have not been able to pay dividends to Government.

6.15 In 2008, Government received $21.51 million in dividends compared to $21.97 million in 2007 as total dividends from investments in GCCs, CSAs, majority owned and minority owned entities. This is a decline of 2.0 percent from 2007.

Financial Performance of Public Enterprises

6.16 There was some improvement in the performance of GCCs in 2008 as compared to the year 2007 even though it is not reflected in the total dividend. It is noted that the performance continues to fluctuate over the years.

Table 6.4: Return on Assets and Return on Shareholders Fund*

	2006		2007		2008	
	ROA (%)	**R/SF (%)**	**ROA (%)**	**R/SF (%)**	**ROA (%)**	**R/SF (%)**
GCC's	1.0	0.6	1.9	2.5	3.2	3.4
CSA's	7.1	-8.6	3.2	2.8	0.1	-0.1

Source: Annual Reports Submitted

6.17 Table 6.4 depicts that the average **Return on Assets** (ROA) for GCCs improved steadily over the period 2006-2008. Since ROA is dependent on a number of key variables such as total assets and profits before tax, it continually fluctuates. The consistent increase in ROA depicts an improvement in terms of asset utilization to generate income for most GCCs in 2008, as compared to 2007. Similarly, there was an improvement in average return on shareholders' fund from 2.5 percent to 3.4 percent for 2007 and 2008 respectively.

6.18 On the other hand, the average ROA for CSAs continued to decrease from 2006-2008. This is largely attributed to the decline in ROA for FEA, whereby profits before and after taxes decreased substantially due to high fuel costs and CSAs inability to better utilize their assets to generate operational income.

6.19 Currently, the objective of restructuring Government entities is to achieve at least 10 percent Return on Shareholders Fund. The Government, through the Department of Public Enterprises, has revised the policy whereby GCCs and CSAs strive to improve their financial performance by 2 percent each year.

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

6.21 To date, the financial obligation for all GCCs and CSAs remains, including payment of Corporate Tax. In addition, at least 10 percent

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

return on Shareholders Fund and 50 percent of net profit after tax should be remitted to Government as dividends.

Government Debt

6.22 Sound and effective management of public debt remains a key focus of Government. Overall, Government's debt policy seeks to ensure sustainable debt and deficit levels through the mitigation of associated risks.

6.23 Government's debt is predominantly financed by the domestic financial market through the issuance of bonds, treasury bills and other financial instruments. This strategy has proved successful as it minimizes foreign exchange risks and reduces the impact of volatilities in global financial markets. External borrowings are largely sourced for capital and infrastructural projects.

6.24 Even though Contingent liabilities are not recognized in the overall debt stock calculations, it poses significant risks on the sustainability of Government debt. The potential risks associated with Contingent liabilities are discussed in the latter part of this chapter.

Table 6.5: Total Government Debt Stock ($ million)

	2006 (R)	**2007 (R)**	**2008 (R)**	**2009 (E)**
Domestic Debt	2,446.4	2,337.8	2,411.0	2,533.7
External Debt	416.7	397.0	476.0	564.4
Total Debt	**2,863.1**	**2,734.8**	**2,887.0**	**3,098.1**
Percent Inc/Dec	+18.2%	(4.4%)	+ 5.6%	7.1
Debt (% of GDP[8])	53.3%	49.9%	50.7%	51.9%

Source: Ministry of Finance

6.25 As depicted in **Table 6.5** above, Government's debt stock stood to $2,887.0 million in 2008, an increase of $152.2 million or 5.6 percent over 2007 levels. The increase was induced by net increases to both domestic and external borrowings. In recent years, aggregate debt in nominal terms has progressively increased due to increases in deficit financing.

[8] GDP figures are revised based on 2005 prices and approved by the Macro-economic Policy Committee.

6.26 In terms of debt sustainability, the debt to GDP ratio for 2008 stood at 50.7 percent and is expected to increase to 51.9 percent in 2009.

6.27 The Ministry of Finance through the Debt & Cashflow Policy Committee continues to provide advice on domestic and foreign debt issuance and formulate strategies that are tailored to minimize risks and effectively manage the overall debt stock.

Domestic Debt Stock

6.28 Borrowing from the domestic market remains the major source of funding for Government over the years. These comprise issuance of domestic debt instruments in the form of Treasury Bills (short term) and Government bonds (long-term).

6.29 Majority of Government securities are held by the Fiji National Provident Fund which currently holds 81.0 percent of total Government bonds and 48.0 percent of outstanding treasury bills (T-bills). The remaining 52.0 percent of T-bills are held by the Commercial banks, insurance companies and non-banking financial institutions.

Table 6.6: Government's Domestic Debt Stock [$ Million]

	2006 (R)	2007 (R)	2008 (R)	2009(E)
Domestic Debt	**2,446.4**	**2,337.8**	**2,411.0**	**2,533.7**
- Bonds	2,300.7	2,196.2	2,346.3	2,468.7
- Treasury Bills	145.7	141.6	64.7	65.0
D/Debt to GDP Ratio	45.5%	42.6%	42.3%	42.5%

Source: Ministry of Finance

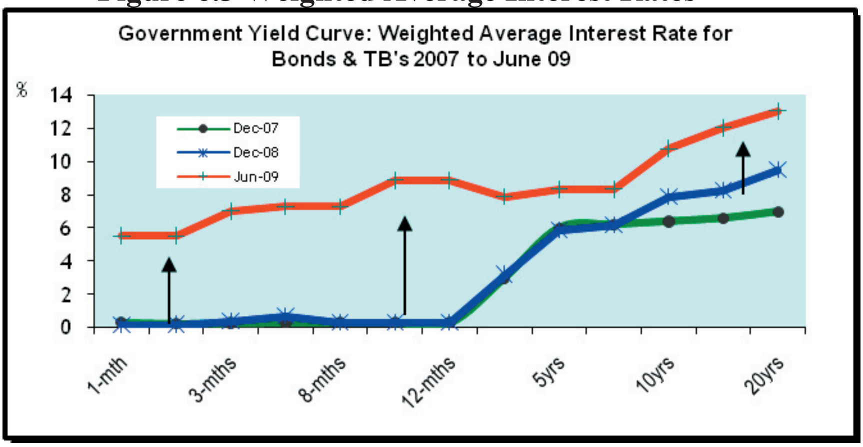
6.30 As shown in **Table 6.6**, total outstanding domestic debt at the end of 2008 stood at $2,411.0 million, surpassing the 2007 level by $73.2 million or 3.1 percent.

6.31 In 2009, total outstanding domestic debt is expected to increase to $2,533.7 million, of which $2,468.7 million is held in long-term bonds and the balance through Treasury bills.

Domestic Interest Rates

6.32 Remarkable increases in interest rates for short and long-term debt instruments were experienced in 2009. **Figure 6.3** depicts the weighted average interest rates for bonds and t-bills.

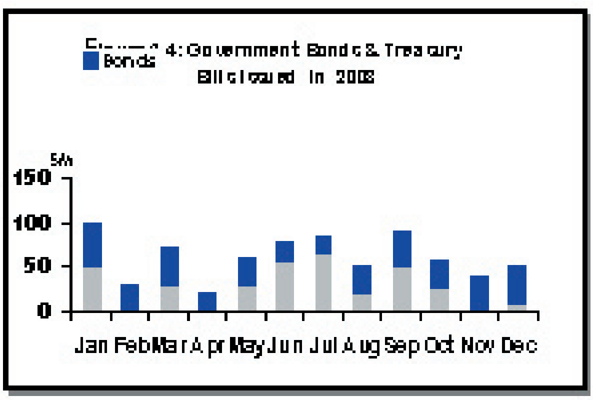
Figure 6.3 Weighted Average Interest Rates



6.33 The 91 days T-Bill rate rose from 0.4 percent in December 2008 to 6.98 percent in 2009 whilst the 20 year-bond rate increased from 12 to 13 percent. Given that Government's debt is largely sourced from the domestic market, the increase in domestic interest rates would result in higher borrowing costs for Government. Monetary policy changes by RBF with the introduction of fixed coupon bonds in the last quarter of

Government Financing Activities - Bonds & Treasury Bills Issuance

6.34 Domestic bond issuance increased by 6.8 percent in 2008 whilst T-bill issuance fell by 54.0 percent.



6.35 **Figure 6.4** shows that in 2008, a total of $341 million was issued in

Government bonds, whilst at the same time, $191.0 million worth of bonds reached maturity, resulting in a net increase of $150 million.

6.36 Total T-Bills issued amounted to $392.0 million compared to total redemptions of $468.0 million. This resulted in a net reduction of $76.0 million in T-Bills outstanding at the end of 2008.

6.37 T-Bills, which normally have high interest rates, are mainly raised to cover for unexpected revenue short-falls. In effect, such borrowings impose more risks on debt financing. Over the years, Government has systematically strengthened its debt and cash management systems to avoid excessive short-term borrowings.

6.38 By reducing short-term borrowings, Governments minimizes exposure to risks associated with interest-rate adjustments, debt roll-over and changes to liquidity levels.

6.39 A sound and effective cash flow management system is essential for ensuring the timely financing of Government expenditures and reducing the need for expensive short-term borrowings.

External Debt Stock

6.40 As depicted in **Table 6.7,** the Government's total external debt stock recorded for the year end 2008 was $476.0 million, an increase of 20 percent from the 2007 level. The increase was mainly attributed to the strengthening of Japanese Yen, the US dollar and the Euro against Fiji dollar. In addition, the disbursements of loan for the Third Road Upgrading Project (FRUP 3) and the Suva-Nausori Water Supply & Sewerage Project were other contributing factors.

	2006	2007	2008(A)	2009 (B)
	($Millions)			
External Debt	416.7	397.0	476.0	564.4
Bilateral	40.6	37.4	53.6	71.8
Multilateral	126.3	126.9	157.8	193.3
Global Bond	249.6	232.7	264.6	299.3

Debt Servicing	20.1	39.3	33.3	38.4
External Debt as a % of GDP	7.8	7.2	8.4	9.5

Table 6.7 – Government's External Debt Stock

Source: Ministry of Finance. (*2009 Figures is as at 31 August 2009)*

6.41 The total external debt servicing for 2008 was valued at $33.3 million (inclusive of the Global Bond Interest Payment), a reduction of $6.0 million or 15.0 percent from 2007. This was mainly attributed to the appreciation of the Fiji Dollar against the US Dollar in 2008.

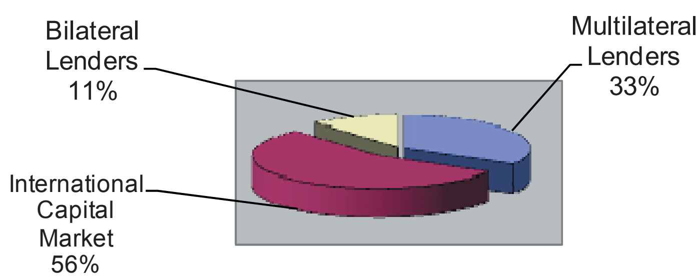
6.42 Total loan disbursements amounted to $20.0 million, of which 82.0 percent or $16.4 million were disbursed under direct payment methods and 18.0 percent or $3.6 million was paid through reimbursement to Government.

6.43 FRUP 3 project accounted for $7.3 million, Suva-Nausori Water Supply & Sewerage Project accounted for $7.6 million and the remaining $5.1 million was disbursed for the e-Government project. These drawdown were disbursed under the reimbursement and the direct payment methods correspondingly.

External Lenders

6.44 **Figure 6.5** below illustrates the distribution of Government's external disbursed outstanding debt. The distribution is dominated by the Global Bond, which accounts for 56 percent of Government's external debt, followed by the multilateral and bilateral lenders at 33 percent and 11 percent respectively.

Fig 6.5 External Debt Composition



6.45 Under the bilateral lenders category, China is now the second leading bilateral lender following Japan Bank for International Cooperation (JBIC). The current e-Government project is funded through the EXIM Bank of China. **Table 6.8** illustrates the breakdown of Government creditor's category.

Table 6.8: External Debt by Creditor Category for 2008

DOD by Bilateral Institution		
Creditors	**F$ Million**	**%**
DNIB	0.9	2.0
JBIC	37.7	70.0
GOFR	2.8	5.0
EIBC	12.2	23.0
Total	**53.6**	**100.0**
DOD by International Commercial Bank		
JP Morgan	264.6	100.0
Total	**264.6**	**100.0**
DOD by Multilateral Institution		
ADB	140.6	89.0
EU	5.8	4.0
IBRD	2.2	1.0
EIB	9.3	6.0
Total	**157.8**	**100.0**

Source: Ministry of Finance

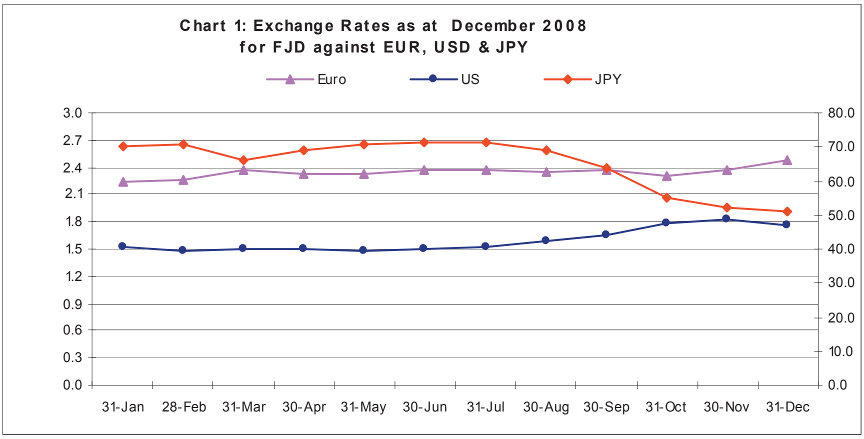
6.46 At the end of 2008, ADB and JBIC continue to lead in terms of outstanding debt under the multilateral and bilateral category.

Global Bond

6.47 The strengthening of the US dollar against the Fiji Dollar in 2008 resulted in the significant increase of 13.7 percent in the value of US Global Bond from $232.7 million in 2007 to $264.6 million by end of 2008. However, the market value of the Bond is anticipated to decline following the 20 percent devaluation of the Fiji Dollar in April 2009.

Exchange Rates

6.48 As shown in Chart 1, unlike the Japanese Yen, the US dollar and Euro showed relatively stable movements against the Fiji Dollar for the most part of 2008. However, during the last three months of the year, the Fiji Dollar gained strength against the Japanese Yen and weakened against the Euro and US dollars causing external debt to escalate, as bulk of Government's overseas loans is contracted in Euro and US dollars.



6.49 In terms of currency composition, 78.0 percent of Government's external loans are dominated in US dollar, followed by the Japanese Yen which constitutes 15.0 percent, with the Chinese Yuan and the Euro making up the remainder.

Government's Debt Servicing

6.50 Debt servicing comprises interest and principal repayments of Government's matured securities and loans. Over the past 3 years, a significant portion of Government's expenditure has been taken up by domestic debt servicing (both principal and interest repayments) as opposed to external debt servicing.

6.51 However, it must be noted that, recently external debt servicing has increased significantly, mainly due to additional interest costs accruing from the US$150million Global bond issued in 2006.

6.52 The Global bond carries an annual fixed interest rate of 6.875 percent. The maturity of the Global bond in 2011 will require a bullet payment of US$150 million, thus exerting pressure on external debt financing.

6.53 **Table 6.9** indicates the total debt servicing costs for the period 2007-2008 as well as anticipated repayments for 2009-2011.

Table 6.9: Government Debt Servicing: 2007-2011 ($m)

	2007	2008	2009 (B)	2010 (B)	2011 (B)
FDL-Principal Payment	204.9	191.2	255.3	199.3	213.4
FDL-Interest	148.0	147.3	156.7	169.0	156.6
T-Bill Interest	10.8	0.6	3.0	3.0	3.0
Total Domestic Debt Service	***363.7***	***339.2***	***415.0***	***397.4***	***422.6***
Principal Payment	17.1	62.5	74.4	199.3	213.4
Interest	5.5	5.7	22.2	198.1	209.2
Total External Debt Service	***39.3***	***83.3***	***101.7***	***104.8***	***390.6***
Total Debt Service	**403.0**	**422.5**	**516.7**	**502.2**	**813.2**

6.54 **Table 6.9** shows the maturity structure of Government's debt portfolio for the next 2-3 years. As depicted, around 59.0 percent of Government foreign debt will mature over the next 2-3 years. A substantial amount of this relates to the redemption of the Global bond.

Contingent Liabilities

6.55 Consistent with the need to reflect the outstanding liabilities of government at any given time, Table 6.10 reflects the Contingent liabilities outstanding for government with respect to the net members' contribution with the Fiji National Provident Fund (FNPF) and government guarantee facilities to State Owned Enterprises.

6.56 As at the end of 2008, contingent liabilities reached **$1.755 billion** which is equivalent to 31 percent of GDP. When compared to 2007, contingent liabilities marginally rose by 2.1 percent as a result of increase of the total guarantee cover issued to the Fiji Electricity Authority.

Table 6.10 Contingent Liabilities Outstanding: 2005-2008 [F$ million]

	2005	2006	2007	2008 (P)
Total Portfolio:	**1,222.83**	**1,362.77**	**1,718.57**	**1,755.7**
Loan Guarantee	541.8	666.4	793.6	822.7
Net FNPF Contributions	629.13	643.77	873.27	874.7
F/Subscriptions	51.9	52.6	51.7	58.3
CL to GDP (%)	**24%**	**25%**	**31%**	**31%**

6.57 To minimize the risks of default by guaranteed entities, the Ministry of Finance has strengthened its risk management strategies to mitigate the actual call on Government guarantees, which could have an unfavorable impact on government's finances.

CHAPTER 7: POVERTY ALLEVIATION AND RURAL DEVELOPMENT

Introduction

7.1 Growing the economy and addressing poverty are key challenges that Government continues to grapple with. Government firmly believes that a "high quality" growth can only be achieved if its benefits are distributed amongst all citizens, particularly the underprivileged.

7.2 The 2010 Budget poverty alleviation programmes will focus on mobilizing adequate resources to core priority sectors of health, education, housing, micro-finance initiatives and infrastructure development, particularly in the depressed and under developed areas. In addition, more emphasis will be placed on improving implementation and monitoring mechanisms to ensure the effective delivery of Government's poverty alleviation programmes to its targeted group.

Policies for Poverty Alleviation

7.3 The key objective of Government's poverty alleviation programmes is to provide a safety net for all categories of the poor to enable them to sustain and affordably meet their basic needs.

7.4 Government in its effort to achieve its desired poverty reduction outcomes will continue to review its poverty related policies and encourage effective partnerships with all key stakeholders.

Poverty Alleviation Projects

7.5 The 2010 Budget will continue to provide budgetary allocation for the implementation of the Poverty Alleviation Programmes through various Government agencies:

Family Assistance Allowance Scheme (FAAS)

7.6 The FAAS was set up to provide financial support for the destitute and the poor. Under the scheme, families receive benefits and are encouraged to set up or participate in micro-finance projects that will help them earn income. The FA Allowance is only paid out to applicants who meet the following criteria:

- Elderly people over 60 years;
- Dependants of prisoners;
- Breadwinners who are chronically ill;
- Breadwinners who are severely disabled;
- Widows with dependants; and
- Single mothers with dependants.

Food Voucher Programme

7.7 Government will introduce a Food Voucher Program in 2010 to supplement allowance currently provided under the FAAS and the Care and Protection (C&P) Allowance Programme. The $30 monthly food voucher is targeted to assist the chronically ill, elderly and permanently disabled group under FAAS. The same will also be issued to children under foster care in the C&P Allowance Program.

Poverty Alleviation Projects (PAP)

7.8 The Poverty Alleviation Projects aims to uplift the general welfare of recipients of Family Assistance Allowance through housing assistance and income generating projects. The scheme is implemented in partnership with reputable voluntary organizations to improve execution and monitoring.

Care and Protection Allowance

7.9 The Care and Protection Allowance is a cash grant allocated to residential homes that provide foster care, adoption, residential care facilities and other supportive services to orphans. Some of the allowances are paid directly to individuals. Currently, there are a total of 422 families assisted through the Care and Protection allowance programme.

Capital Grants to Voluntary Organizations

7.10 This direct funding support to Non-Government Organizations (NGOs) supplement poverty related activities undertaken by the Department of Social Welfare. A total of 18 NGOs were assisted with grants in 2009.

Women's Plan of Action

7.11 The Women's Plan of Action (1999-2008) addresses the five priority areas that Fiji committed to at the Fourth World conference for Women in Beijing in 1995. It reflected the areas of critical concern to the women of Fiji. The WPA was reviewed in 2005 focusing on the structure and functions of the department and more so, on its program and objectives to address changes at international, regional and national level.

7.12 The priority areas are as follows:

- Mainstreaming Women and Gender Concerns;
- Women and Law;
- Micro-Enterprise Development;
- Balancing Gender in Decision Making; and
- Elimination of Violence against Women and Children.

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

7.14 The Department for Women implements projects that emphasizes on the social and economic empowerment of women and it worked in close partnership with women NGOs in the field through the four divisions throughout Fiji.

7.15 **Outlined below is Government's assistance towards poverty alleviation programmes in 2010**.

Table 7.2: Government Assistance for Poverty Alleviation 2009 – 2010

	2009 REVISED ($M)	**2010 BUDGET ($M)**
Local Government, Urban Development and Housing		
Squatter Upgrading and Resettlement Programme	2.00	1.50
HART	1.00	1.00
National Planning		
Northern Development Programme	3.00	1.00

Multi-Ethnic Affairs		
Multi-Ethnic Scholarships	5.50	5.50
Education		
Education Relief Fund	0.20	0.25
Social Welfare		
Food Voucher Program	-	7.44
Poverty Alleviation Projects	1.00	0.60
Capital Grant to Voluntary Organizations	0.40	0.40
Family Assistance Scheme	20.00	15.00
Care and Protection Allowance	0.40	4.40
Women's Plan of Action	0.35	0.30
Cottage Industry Development	0.25	0.10
Ministry of Finance		
Miscellaneous		
FDB-Subsidy Grants to All Citizens	5.60	4.00
Students Loan Scheme	1.00	1.00
FDB – Interest Subsidy (Northern Division Projects)	0.55	0.55
TOTAL ($)	**41.25**	**43.04**

Source: Ministry of Finance

Rural and Outer Island Development

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

Table 7.3: Rural and Outer Island Development Programmes: 2009 – 2010

	Revised 2009 $	2010 Est. $
Sugar Industry Support Scheme	5.00	8.00
Grant to CATD[9]	0.90	0.90
Extension Agriculture	0.10	0.15
Maintenance of Completed	0.25	0.30

[9] Center for Appropriate Technology & Development

Irrigation Services		
Land Drainage & Flood Protection	6.00	6.00
Watershed Management	0.50	0.80
Grant to Self-Help Projects	3.00	3.00
Divisional Development Projects	1.50	1.50
Rural Housing Assistance	1.00	1.00
Maintenance of Non-PWD Roads	1.00	1.00
Upgrading of Existing Cane Access Roads	1.80	1.80
Fiji Groundwater Assessment and Development	0.12	0.16
Rural Sporting Facilities	0.20	0.20
Dental Equipment for Sub-Divisional Hospitals	0.30	0.30
FRUP (Fiji Road Upgrading Project)	17.0	17.0
Shipping Franchise Scheme	1.50	1.50
Upgrade of Government Shipping Vessels	0.20	1.40
Purchase of Replacement Vessels	-	6.00
Other Rural Water Supply	3.50	4.00
Upgrading of Rural Airstrips	3.70	4.80
Rural Postal Services	0.30	0.30
Banking Services for Non-Economical Rural areas	0.10	0.10
TOTAL ($)	**47.97**	**60.21**

Source: Ministry of Finance

Rural and Outer Island Development Tax Measures

7.17 To entice investment in the Northern Division (Vanua Levu, Taveuni, Rabi, Kioa and other islands) and maritime islands (Rotuma, Kadavu, Lomaiviti and Lau), Government has revised the minimum threshold for tax free region(TFR) incentive package, which will be extended for another three years (Refer to Section 1 of Chapter 10). At the same time, more emphasis will be placed on revamping infrastructure development in the region.

CHAPTER 8: IMPORT-SUBSTITUTION AND EXPORT PROMOTION PROGRAM

AGRICULTURE

Introduction

8.1 Agriculture, including subsistence farming continues to play an integral part in the overall development of the economy as it provides foreign exchange earnings, food security, income and basic infrastructure for rural communities.

8.2 However, due to structural changes in other sectors of the economy, the agricultural sector's contribution to growth has fluctuated marginally, from 10.9 percent in 2001 to 11.6 percent in 2007 and is slightly down to 10.5 percent in 2008.

8.3 Productivity in this sector has been constrained by many factors such as land tenure, inadequate infrastructure, poor husbandry and farming practices, high production and transportation costs and inability to access to key markets. Furthermore, frequent occurrences of natural disasters continue to affect overall sector performance.

Industry Overview

Sugar

8.4 Despite recent poor industry performances and the erosion of EU preferential prices, sugar continues to remain an important agri-business in Fiji, contributing approximately 6 percent of total GDP, 25 percent of total domestic exports, and employs about 40,500 people.

8.5 Export volume has decreased from 217,000 metric tonnes (mt) in 2007 to 208,000 mt in 2008 with the value of $201 million in 2007, and $204 million in 2008. While Fiji has experienced a decline in sugar export volume, the corresponding value has relatively increased due to the preferential prices provided by the European Union.

8.6 The phasing out of EU preferential treatment and in particular, lower price per tonne paid to growers, milling efficiency (input of cane per tonne of sugar 8.9 in 2003 to 11.2 in 2008), is forcing many cane farms to diversify into alternative cash crops or exit the industry.

Non-Sugar

8.7 The non-sugar agriculture sector is largely dominated by small farms (less than 5 ha), with only 19 percent being classed as medium-sized or larger. Given the large number of smallholder farms, it is vital that enabling environment is provided to encourage commercialization and diversification.

8.8 Government investment in agriculture rose from $20 million in 2007 to $31 million in 2009, aimed at increasing exports and reducing imports through demand driven projects.

Table 8.1 Agricultural Production, 2007-2010

DOMESTIC PRODUCTION (KG)	2007A	2008A	2009F	2010F
Papaya	9,091,000	7,264,850	6,990,000	7,340,000
Ginger	3,110,500	2,488,000	2,737,000	2,874,000
Cassava	61,379,000	55,773,000	50,750,000	55,825,000
Dalo	61,662,000	74,008,600	70,500,000	74,025,000
Rice	14,870,000	11,594,800	11,100,000	11,655,000
Beef	1,958,000	1,866,000	1,959,000	1,998,000
Dairy	11,000,000	10,300,000	10,800,000	11,000,000

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

Policy Framework

8.9 Agriculture has the potential to induce growth in the economy and its necessary restructure into a commercially viable, efficient and sustainable industry is a priority. In this regard, the 2010 Budget provides specific provisions towards import substitution and export promotion programmes. Moreover, Government will continue to monitor the effectiveness of the various tax incentives for agriculture, which were introduced in the 2009 Budget.

Demand Driven Approach (DDA)

8.10 The Department has embarked upon the training of its officers on this new "Demand Driven Approach" This is part of the efforts to try and implement the Department's roadmap of developing agriculture to achieve quick economic recovery, food and income security, poverty alleviation, sustainable management of natural resources, thus, lifting overall performance of the agriculture sector. This demand and market driven approach should help to address failures in the supply chain. It also calls for partnerships amongst stakeholders and encourages their participation in the planning and formulation of project priorities. This should lead to greater sense of ownership and eventually successful implementation of agricultural development projects.

8.11 Government's *'demand driven approach'* focuses on attaining the following policy objectives:

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

Import Substitution Programme (ISP Programme)

8.12 Food imports have significantly increased over the years, from $355.5 million in 2005 to $520 million in 2008. Government has allocated $3 million in 2010 for agricultural projects aimed at reducing Fiji's growing reliance on imports, particularly rice, livestock products, fruits and vegetables. This is also expected to improve current trade imbalances.

Table 8.2 Major Agricultural Import Commodities, 2005 - 2008

Commodity		2005	2006	2007	2008
Dairy	*Production (t)*	11,840	11,792	11,100	10,300
	Imports (kg)	11,220,431	12,094,523	12,648,811	14,840,499
	Import value ($)	40,774,405	44,942,001	53,179,593	62,393,093
Potato	*Production (t)*	*n/a*	*n/a*	*n/a*	*n/a*
	Imports (kg)	17,993,205	19,999,504	18,515,963	16,762,879
	Import value ($)	11,431,569	13,555,319	14,981,556	16,818,460
Beef	*Production (t)*	2,252	2,252	1,958	1,866
	Imports (kg)	3,169,388	3,338,356	3,128,352	2,979,779
	Import value ($)	10,548,481	10,638,524	10,661,395	10,765,678
Sheep	*Production (t)*	46	50	33	56
	Imports (kg)	9,288,281	10,033,218	7,813,256	8,101,834
	Import value ($)	29,398,455	30,815,164	28,856,801	28,496,040
Rice	*Production (t)*	15,189	12,732	14,870	11,595
	Imports (kg)	25,405,055	25,739,578	32,757,624	49,784,072
	Import value ($)	21,943,563	24,210,908	24,553,296	39,784,101

Source: Agriculture MIS 2009 and verified by FIBOS 2009

Export Promotion Programme (EPP- Programme)

8.13 Given the enormous export potential within the agriculture sector, Government plans to intensify its Export Promotion Programme in 2010.

8.14 To facilitate this, a sum of $2 million is allocated in the 2010 Budget for the further development of products geared towards export, such as papaya, taro, cassava, ginger, pulses and vegetables.

Table 8.3 Major Agricultural Export Commodities, 2005 - 2008

Commodity		2005	2006	2007	2008
Dalo	*Production (t)*	83,751	76,156	61,662	74,009
	Export (kg)	9,959,468	9,434,808	11,949,411	10,795,807
	Value ($)	19,006,178	20,935,701	23,647,269	22,175,115
Cassava	*Production (t)*	59,648	50,021	61,379	55,773
	Export (kg)	1,799,063	1,714,305	1,709,949	1,800,526
	Value ($)	1,819,772	2,068,827	2,441,155	2,185,006
Ginger	*Production (t)*	3,652	3,209	3,110	2,488
	Export (kg)	1,533,271	1,202,149	1,228,211	1,394,738
	Value ($)	7,118,086	5,752,755	5,474,352	5,818,251
Papaya	*Production (t)*	1,871	2,768	9,091	7,265
	Export (kg)	122,619	183,422	174,162	184,276
	Value ($)	994,351	2,435,925	1,993,739	1,387,090
Kava	*Production (t)*	2,259	1,700	3,349	3,286
	Export (kg)	284,211	662,458	463,396	392,898
	Value ($)	994,351	2,435,925	1,993,739	1,387,090

Source: Ministry of Primary Industries

Agriculture and Tourism

8.15 The tourism industry imports around 80 percent of its total food supplies. This represents a significant outflow of foreign income and denies the opportunity for potential employment and income for local farmers.

8.16 As such, Government plans to introduce effective mechanisms that will address prevailing supply side constraints. This will be pursued through strategic partnerships between the private sector and land owning units and ensuring proper technical training and infrastructural support to farmers.

Other Policy Initiatives

8.17 With increased development in the agricultural sector, more emphasis will be placed on the production of agricultural by-products and high-value processed goods.

8.18 Recent developments of bio-diesel pilot projects through donors' assistance have provided the opportunity to rejuvenate the Coconut Industry and promote value-adding of coconut oil. Whilst these projects have the potential to provide sustainable livelihoods for rural dwellers they also generate alternative sources of energy to minimize demand for fossil fuel consumption.

8.19 Bulk of livestock feed are still imported. As such, it is crucial that necessary support is directed towards facilitating research initiatives in feed technology to support investment in this area.

8.20 In line with its policy objective, Government will continue to pursue import substitution initiatives. Focus will be directed towards enhancing rice and potato productions which currently dominate food imports. Other targeted import substitution commodities include dairy, sheep and beef.

8.21 To promote access to high quality trading in hotels and export niche markets, efforts towards improving the Supply Chain of agro-produce marketing will be pursued to raise the quality standards of produce and address post-harvest technology.

8.22 In line with Government's efforts to boost exports of agricultural products, negotiations on market access and Bilateral Quarantine Agreement (BQA) will be vigorously explored. To this effect, the Ministry of Primary Industries will engage assistance of multilateral trade agencies to facilitate market access arrangement for commodities.

TOURISM

8.23 Despite being faced with insurmountable challenges over the past decade, the tourism industry has shown resilience in terms of its contribution to overall economic growth.

8.24 On average, tourism contributes approximately 18 percent to GDP and provides employment directly and indirectly to an estimated 40,000 people. Visitors' arrival figures for 2009 are estimated to reach 540,000.

With the anticipated recovery in the global economy and the introduction of new airline services, arrival numbers are expected to increase further in 2010.

The Fiji Tourism Development Plan 2007-2016

8.25 In view of the tourism sector's substantial contribution to the economy, the Fiji Tourism Development Plan 2007 – 2016, was developed in 2007 which provides a framework for the sustainable growth of tourism in Fiji.

8.26 The Plan is supported by a rolling Action Plan and a series of Regional Strategies, which includes the decentralization of tourism infrastructure and project monitoring to Regional Commissioners. As part of the decentralisation approach, Regional Commissioners will be responsible for coordinating tourism development in the four regions.

Current Tourism Initiatives

8.27 The industry faces tough competition from other international markets, with regional players becoming more influential. Therefore, it is necessary that the industry strategically positions itself to be able to meet global demand and ensure continued growth.

Super Yacht Charter Policy

8.28 In 2010, Government will introduce a legislative framework for regulating the operations of Super Yacht in Fiji waters. The new Policy provides the requisite arrangement to accommodate this high end segment of the Tourism Industry. Government anticipates that this will generate substantial revenue.

New Marketing initiatives – CNN

8.29 Tourism Fiji will participate in a three to six months campaign in promoting Fiji to overseas markets. Thus, CNN has been selected with the National Geographic as the two major global media outlets to spearhead the campaign and execute the 'Fiji Me' branding globally. Further assistance has been tendered by CNN who has offered to finance all production costs in the shooting campaign.

The Tourism Fiji Marketing Grant and Operation Fund.

8.30 To reaffirm its commitment in promoting Fiji as a prime Tourism destination, Government has maintained its marketing grant to Tourism Fiji at $23.5m in the 2010 Budget.

8.31 To strengthen systematic planning in the Tourism Industry, Government will introduce a Tourism Industry Act to ensure improved coordination and management of all tourism related activities.

CHAPTER 9: EXTERNAL TRADE POLICY

Introduction

9.1 Although trade liberalisation offers opportunity for Fiji to integrate itself into the global economy, it also brings with it challenges particularly in terms of negotiating favourable trade conditions with major trading partners.

9.2 In this respect, it is vital that trade policies are tailor-made to extract maximum benefits out of the global trading system, as well as mitigate unavoidable losses of trade liberalisation.

9.3 Fiji's approach towards trade negotiations will be guided by the following key policy objectives:

a) adopt an integrated regional approach to strengthen trade negotiations;
b) overall agenda for trade reforms must be aligned to policy objectives of government as prescribed in the Roadmap for Democracy and Sustainable Socio-Economic Development;
c) longer timeframes for removal of trade barriers should be secured for infant and vulnerable industries, particularly for agro-based industries that support the livelihood of rural dwellers;
d) special exemptions should be accorded to economically depressed regions;
e) alternative revenue sources must be identified through well planned reforms by government fiscal system to offset the customs revenue losses;
f) seek necessary resources and technical assistance for trade negotiations and internal structural reforms from multilateral trade organisations; and
g) take full-advantage of market access opportunities and secure trade facilitation support from major trading partners to ensure compliance with prescribed standards and requirements.

9.4 Fiji's recent exclusion from the Pacific Islands Forum Secretariat (PIFS) has prevented its participation in regional trade negotiations - PICTA and PACER Plus.

9.5 Further challenges also include being the giver of Special and Differential Treatment (SDT) in certain Agreements, particularly under PICTA, compared to being the receiver of SDT under the global trading system of the WTO. With formula tariff reductions towards duty free status over a specified period of time being an intrinsic objective of Regional Trade Agreements in particular, Fiji's revenue base is confronted with the serious risks of possible unmitigated losses.

Fiji's Regional Trade Agreements

Economic Partnership Agreement (EPA)

9.6 In November 2007, Government *initialled* an interim EPA (Trade in Goods only) with the EU to ensure the continuation of preferential market access of sugar exports into the EU market. Both Fiji and Papua New Guinea were given a two year grace period to sign the Interim Agreement (IA) by end of 2009. Although Papua New Guinea has already ratified the IA in July, 2009, Fiji's decision to sign the IA will be subject to full exhaustion of stakeholder consultations and Cabinet's endorsement.

9.7 Government is committed to engaging with the EC at the highest level on the signing of the Agreement. These consultations will cover the outstanding contentious issues in the EPA negotiations which include, inter alia:

a) Most Favoured Nation provision;
b) Services negotiations;
c) Export Taxes;
d) Non-execution Clause; and
e) Inclusion of 0304 and 0305 in the Global Sourcing provisions.

9.8 The eventual signing of IA will progress negotiations for a Comprehensive EPA to also include Trade in Services (Temporary Movement of Natural Persons (TMNP) or labour mobility schemes, Competition Policy, Labour and the Environment, and Intellectual Property Rights).

Melanesian Spearhead Group Trade Agreement (MSGTA)

9.9 The MSG Trade Agreement came into force on 22 July 1993 and Fiji became a signatory five years later on 14 April 1998. The Parties to the Agreement are Fiji, Papua New Guinea, Solomon Islands and Vanuatu. The first three are members of the WTO whilst Vanuatu is in the final stages of acceding to the WTO. The FLNKS (of New Caledonia) currently hold observer status to this Agreement.

9.10 Bulk of intra-regional trade in the Pacific is facilitated through the MSGTA. All MSG countries are relatively endowed with more resources than their other Pacific counterparts hence, compared to PICTA, MSG has the capacity to engage in more voluminous trade.

9.11 With the revision of the Agreement in 2004, MSG agreed to expand the scope for trade by increasing the number of tariff lines to around 180. In addition, the Tariff Heading (CTH) for Rules of Origin has been increased to six-digits for ease of administration.

9.12 The MSG has recently established its Secretariat in Vanuatu with the recruitment of officials from member countries. This has been regarded as crucial for the effective administration of the Agreement to foster greater flow of trade between member countries.

9.13 Over time, the MSG Secretariat plans to strengthen relations with international donors, and develop capacity within its existing institutional framework to administer assistance from development partners including Aid for Trade initiatives. In 2010, the MSG intends to form a Services Cooperation between the four member countries.

Pacific Island Countries Trade Agreement (PICTA)

9.14 After a two year stand down period, Fiji gained access to PICTA markets using the preferential tariff arrangement from 1 January 2009. However, this did not eventuate due to a unilateral decision to suspend Fiji from the Pacific Islands Forum. At the last Forum Leaders Summit in Cairns, Australia, Government had sought the support of State Parties to reconsider Fiji's inclusion in PICTA consultations. However, if arrangements for consultations are not agreed to by end of 2009, Fiji will eventually seek mediation under Article 22.2 of the Agreement.

9.15 Currently, the PICTA Agreement only covers trade in goods. In 2008, Forum Island Countries Trade Ministers endorsed the expansion of PICTA to include Trade in Services with the introduction of Temporary Movement of Natural Person (Mode 4). Consultations are currently underway for the adoption of a two tier TMNP scheme which comprise professional and semi-skilled workers.

South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)

9.16 In February 2009, Australian Government agreed to lower the Local Area Content (LAC) for Textile, Clothing and Footwear (TCF) export from 35 to 25 percent. Technically, this should give TCF exporters greater flexibility to qualify their exports for duty free access into the Australian market. However, the continued exclusion of wool and wool-blend exports by the Australian government remains the biggest market access challenge for Fiji's TCF exporters under SPARTECA.

Pacific Agreement on Closer Economic Relations (PACER)

9.17 Forum Leaders mandated the PACER Plus trade negotiations during the Forum Leaders Summit in Cairns in August 2009. Fiji's participation however, has been relegated through its forced exclusion from formal negotiations.

9.18 Fiji strongly maintains that it will not be bound by any decisions made by the State Parties to PACER Plus in its absence nor will it be signatory to any such Agreement that will compromise its national interests.

PRIVATE SECTOR-LED INVESTMENT

Fiji Islands Trade and Investment Bureau (FTIB)

9.19 FTIB is mandated under the Foreign Investment Act (2004) to serve as a marketing arm of Government in promoting and facilitating trade and investments in Fiji. The Bureau's work programme is directly linked to national strategies and policies on investments and exports.

Role of FTIB

9.20 The specific role of FTIB focuses on three broad categories including policy and market research, export development and marketing, and investment registration.

Policy and Market Research

9.21 Firstly, the Bureau undertakes market research on trade and investment opportunities abroad, covering both new and emerging markets. Based on its research findings, the Bureau then provides policy advice to the FTIB Board and Government on areas for potential investments.

9.22 In addition, it pursues strategic partnerships with both domestic and overseas stakeholders to expand its marketing reach and attract lucrative investments that will generate economic activity and much needed employment.

Export Development and Marketing

9.23 Secondly, FTIB is also tasked with promoting and developing existing and potential exports in line with the National Export Strategy and Government's 'priority' sectors which includes:

a) ICT;
b) Audio Visual;
c) Mineral Water;
d) Agro-Business;
e) Forestry; and
f) Marine Products.

9.24 Promotional activities are mainly carried out through overseas trade missions, seminars, industry consultations, road shows, 'one-to-one' meetings with investors, and site visits.

Investment Registration, Facilitation & Monitoring

9.25 Finally, FTIB is responsible for investment registration, facilitation and monitoring. Investment Registration entails the issuance of Foreign Investment Registration Certificates (FIRC). Foreign investors are required to obtain FIRC prior to any business engagement in Fiji.

9.26 Through its Investment Facilitation and Monitoring role, the Bureau has adopted a *'Case-by-Case'* approach in which investors are assisted in obtaining all necessary approvals from relevant agencies, within the terms and conditions specified in the FIRC.

9.27 There has been a downward trend in the value of FDI registration over the past 3 years. Registrations recorded for 2006 were valued at $1,014.6 million which decreased to $495.1 million and $405.5 million in 2007 and 2008, respectively.

Table 9.1: FDI Proposal Registration, 2006 – 2008

	2006	2007	2008
Number of Investment Applications Approved	441	398	245
Value of Investment Applications Approved ($m)	1,014.6	495.1	405.5
Expected Employment Created Through Approved Project	10,340	7,178	3,637

Investment Reforms

9.28 The investment reforms focused on streamlining the investment approval processes in order to fast track inflow of investments, including the amendment of the 1999 Foreign Investment Act. As part of this reform, the role of FTIB shifted away from the *"one stop shop"* concept and focused mainly on registration and *facilitation* of projects.

9.29 The objective of these reforms was to enhance efficiency and to make the approvals process more investor friendly. Measures undertaken included: the simplification of application forms and processing rules; permitting investors to hold certificates for multiple economic activities; and alignment of investment guarantees to international standards. These measures enabled the processing of foreign investment applications within the maximum 5 day turnaround time as stipulated under the Foreign Investment Act.

9.30 Furthermore, FTIB has taken a more proactive role in coordinating approvals with other relevant authorities/agencies to assist investors in obtaining timely approvals. Approval conditions vary according to the nature and size of projects, with larger projects usually requiring more comprehensive assessments from key agencies such as Department of Town and Country Planning, Lands Department, NLTB and the Department of Environment.

9.31 To help expedite approvals, the membership of the FTIB Board was reviewed in 2007 to include the Heads of various approving agencies, including the Permanent Secretary for Finance, the Director Immigration, CEO - FIRCA, Director Town and Country Planning, a representative from Native Land Trust Board and the Permanent Secretary for Commerce.

9.32 Although there has been a notable improvement in the turnaround time for obtaining investor registration, the Bureau, in collaboration with key stakeholders, will continue to pursue measures that address factors currently impeding the timely approval of investments.

CHAPTER 10: 2010 BUDGET REVENUE POLICIES

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

SECTION 1: DIRECT TAX MEASURES

<table>
<tr><th>POLICY</th><th>DESCRIPTION</th></tr>
<tr><td>1. Corporate Tax Rate</td><td>To encourage investment in Fiji, corporate tax rate will be reduced from 29 percent to 28 percent in 2010.

Listed companies in the South Pacific Stock Exchange will be subjected to a reduced corporate tax rate of 20 percent in 2010 provided the companies have more than 40 percent local equity shareholding.</td></tr>
<tr><td>2. Resident Individuals Income Tax rates</td><td>♣ Resident Individuals Income Tax rates will be amended to address anomaly in the existing tax rates. The following rates will apply for assessment year 2010 and every subsequent year:
<table>
<tr><th>Chargeable Income</th><th>Tax Payable</th></tr>
<tr><td>0 – 15,000</td><td>NIL</td></tr>
<tr><td>15,001 – 15,600</td><td>25% of excess over $15,000</td></tr>
<tr><td>15,601 – 22,000</td><td>$150 + 31% of excess over $15,600</td></tr>
<tr><td>22,001 +</td><td>$2,134 + 31% of excess over $22,000</td></tr>
</table></td></tr>
</table>

POLICY	DESCRIPTION
3. Branch Profit Remittance Tax	♣ Section 7C of the Income Tax Act (ITA) will be repealed.
4. 150% deduction on capital expenditure by a non-resident company for reinvestment of profits in Fiji	♣ Section 21(1) (zg) of ITA will be repealed.
5. Head Office Expenses	♣ The cap on Head Office Expenses will be reduced from 5% to 3%.
6. Amendment to Section 8 of ITA – Non-resident dividend withholding tax	♣ Section 8 will be amended to make the portion of retain earnings included in the net asset value deemed to be dividends distributed to shareholders in the case of sale of assets or shares.
7. Amendment to Section 8A of ITA – Non-resident miscellaneous withholding tax	♣ Section 8A (2) will be amended to capture all professional services. ♣ Section 8A (3) will be amended to bring it to par with technological changes e.g. compact disc, digital video discs, video compact discs etc ♣ New paragraphs will be inserted to define "management payments", "professional services" and "supply".
8. Amendment to Section 10A of ITA – Royalty Withholding Tax	♣ Section 10A will be amended to address scientific and technological changes in view of E-Commerce and to provide more clarity on royalty withholding tax issues.
9. Accounting Basis	♣ ITA will be amended to insert a similar provision as in Section 36 of the VAT Decree to clearly state the accounting basis for income tax purpose.

POLICY	DESCRIPTION
10. Amendment to Section 47(1) of ITA – Return by employers of salary and by companies of dividends, etc.	♣ Section 47(1) will be amended to make it compulsory for employers to lodge PAYE annual summaries in electronic format.
11. Amendment to Sixth Schedule of ITA – Film-Making and Audio-Visual Incentives	♣ Paragraph 36(2)(b) will be amended to reduce the level of qualifying expenditure for F1 Audio-Visual Production Incentives. The following new levels of expenditure will apply: (i) **40%** instead of 55% of the total production budget for large format films, feature films or broadcast television programmes; (ii) **50%** instead of 75% of the total production budget for direct to video programme or video disk programme; and (iii**) 55%** instead of 80% of the total production budget for an audio recording or computer software.
12. Amendment to Eighth Schedule of the ITA – Maritime Vessels Investment Allowance	♣ The Eighth Schedule will be amended to insert the approved vessel requirements administered under Fiji Islands Maritime & Safety Administration (FIMSA).
13. Amendment to Eleventh Schedule of ITA – Hotel Investment Tax Incentives	♣ Paragraph 2 will be amended to: i) define the term "island resort"; and ii) include a local consultant in the definition of "consultant fees".
14. Amendment to Twelve Schedule of ITA – Tax Free Region Incentives	♣ Paragraph 7(1)(a) will be amended to reduce the qualifying investment level from $500,000 to $250,000. ♣ Paragraph 12(1)(a) will be amended to extend the tiered qualifying investment levels

POLICY	DESCRIPTION
	currently only applicable in 2009 to 2014.
15. Refund of Income Tax, VAT and Customs cheques	♣ With effect from 1 January 2010, FIRCA will cease the postal issuance of cheques for all Income Tax, VAT and Customs refunds. ♣ It will be mandatory for all refunds issued by FIRCA to be paid directly into the bank accounts of all businesses and all individuals including salary and wage earners.

SECTION 2: INDIRECT TAX MEASURES

VALUE ADDED TAX (VAT) MEASURES

POLICY	DESCRIPTION
1. Tourist VAT Refund Scheme (TVRS)	♣ A Tourist VAT Refund Scheme will be implemented on 1 February 2010 to provide departing tourists a refund of 12.5% VAT on their purchases above $500.
2. VAT Registration Threshold	♣ Section 22 of the VAT Decree will be amended to increase the VAT threshold for registration from $30,000 to $50,000 for the supply of goods and from $15,000 to $50,000 for supply of services. ♣ Voluntary registration provisions below the threshold will be removed.
3. First Schedule – Exempted Supplies	♣ First Schedule of the VAT Decree will be amended to clarify the supply of

	accommodation in residential dwelling.
4. VAT on locally produced eggs	♣ Second Schedule of the VAT Decree will be amended to remove zero rating of VAT on locally produced eggs.
5. VAT on Forfeited Deposits	♣ Section 3 of the VAT Decree will be amended to address the VAT implication on forfeited deposits.

CUSTOMS TARIFF ACT CHANGES – FISCAL DUTY

POLICY	**DESCRIPTION**
1. Corrugated paper and paper boards	♣ Increase fiscal duty from 5% to 32%
2. Office machines that perform two or more functions	♣ Re-structure and align fiscal duty rate to 15%
3. Magnetic & Optical media	♣ Decrease fiscal duty from 32% to 5%
4. Perfume	♣ Decrease fiscal duty from 15% to 0%
5. Cosmetics	♣ Decrease fiscal duty from 15% to 0%
6. Pre-shave, shaving, or after-shave preparations	♣ Decrease fiscal duty from 15% to 0%
7. Cameras & camcorders	♣ Decrease fiscal duty from 15% to 0%
8. Sunglass	♣ Decrease fiscal duty from 15% to 0%
9. Binoculars	♣ Decrease fiscal duty from 15% to 0%
10. Video & electronic games	♣ Decrease fiscal duty from 5% to 0%
11. Watches	♣ Decrease fiscal duty from 15% to 0%
12. Laptops	♣ Decrease fiscal duty from 15% to 0%
13. IPod, MP3 & MP4 players	♣ Decrease fiscal duty from 15% to 0%

14. Jewelry	♣ Decrease fiscal duty from 15% to 0%
15. USB Wireless Modems	♣ Decrease fiscal duty from 5% to 0%
16. Printed calendar backs with or without illustrations; cinema theater, concerts and other tickets	♣ The description of HS code 4911.99.10 will be amended by inserting the word "similar" after the word "other" for clarity.

CUSTOMS TARIFF ACT CHANGES – IMPORT EXCISE DUTY

POLICY	DESCRIPTION
1. Magnetic & Optical media	♣ Impose 10% import excise duty.
2. Plastic bags (non-biodegradable)	♣ Impose 15% import excise duty.
3. Cameras & camcorders	♣ Removal of 10% import excise duty.
4. IPod, MP3 & MP4 players	♣ Removal of 10% import excise duty.

CUSTOMS TARIFF ACT CHANGES – EXPORT DUTY

POLICY	DESCRIPTION
1. Export duty on unprocessed fish	♣ Removal of 3% export duty on unprocessed fish.
2. Export duty on timber	♣ Removal of 3% export duty on raw and unprocessed timber.

CUSTOMS TARIFF ACT CHANGES

POLICY	DESCRIPTION
1. Section 10 – Minister may grant remission or refund of duty in certain cases	♣ Section 10 will be amended to insert the words "and import excise duty" after the words "fiscal duty".

2. Penalties in the Customs Tariff Act	♣ All penalties in the Customs Tariff Act will be increased.

CUSTOMS CONCESSION UNDER PART II & III CUSTOMS TARIFF ACT

POLICY	DESCRIPTION
1. Amend Code 115 in Part II of Schedule 2 to the Customs Tariff Act – Vessels	♣ Reduce the fiscal duty rate of 10% to 5% for all vessels including yachts as approved by the Comptroller.
2. Amend Code 213 in Part III of Schedule 2 to the Customs Tariff Act – The Concessionaire	♣ Insert an additional condition that requires the concessionaire to pay duty on all goods missing, damaged, or any other deficiencies found in stock at the packing store or at the dispatch & sale centers.
3. Amend Code 213A in Part III of Schedule 2 to the Customs Tariff Act – Licensed Duty Free operators at an export warehouse	♣ Insert an additional condition that requires the concessionaire to pay duty on all goods missing, damaged, or any other deficiencies found in stock at the packing store or at the dispatch & sale centers.
4. Amend Code 222 in Part III of Schedule 2 to the Customs Tariff Act – A hospital or medical	♣ Insert the word "institution" after the word "medical" in column (2).
5. Amend Code 231 in Part III of Schedule 2 to the Customs Tariff Act – A producer or manufacturer in Fiji	♣ Insert the words "including labels" after the word "goods" in column (3).
6. Amend Code 236(iii) in Part III to the Customs Tariff Act – A producer or manufacturer approved by the Minister	♣ Delete Code 236(iii) columns (3), (4), (5), (6), (7) & (8).

CUSTOMS CONCESSION UNDER SECTION 10 OF CUSTOMS TARIFF ACT (CTA)

POLICY	DESCRIPTION
1. Pearl Farming	♣ Reduce fiscal duty to 3 % on the following items: 1. Rope specifically (DAN lines – 6mm, 10mm, 12mm, 16mm and 24mm); 2. Floats – 300mm; 3. Mono filament – 100mm; 4. Spat collector lines; 5. Protective plastic mesh; 6. Panel and pocket nets; and 7. Scientific equipments: a) Bag filter vessel and bag filters b) UV sterilizer c) Chemicals (for hatchery).

AMENDMENTS TO THE CUSTOMS ACT

POLICY	DESCRIPTION
1. Section 2 – Interpretation	♣ Subsection (1) will be amended to define the following terms: "assembly process"; "blending"; "break bulk"; "conversion process"; "manufacture"; "manufacturer"; "material"; "mixing"; "produce"; "producer"; and "substantial transformation".
2. Advanced notification of arrival of aircraft or ship	♣ Section 11A will be amended so that the advance notification on arrival requirements are not applied to in relation to an aircraft or a ship which is compelled by accident, distress of weather or any unavoidable cause to

	call at a place other than an airport or port.
3. Penalties in the Customs Act	♣ All penalties appearing in the Customs Act will be increased.
4. Particulars of Entries	♣ Section 32 will be amended to allow duty payments in installments over a period not exceeding 9 months from the date of first importation for yachts with a value for duty exceeding $2 million.
5. Licensing of warehouses	♣ Section 37 will be amended to extend warehousing to 70km from a port area.
6. Directors/Shareholders will be liable for Customs duty, charge or fee due and payable under the Customs Laws.	♣ Section 95 will be amended to make Directors, Shareholders and Associates of a private company personally liable for Customs duty, charge or fee due and payable under the Customs Laws.
7. Power to detain and search persons	♣ Section 109 will be amended to give a Customs Officer the powers to detain and search any person, vehicle, packages or otherwise concealed or carried on any person without a warrant.
8. Power to detain without warrant	♣ Section 109A will be amended to allow provisions for a Customs Officer to deal with persons who have been taken into custody without a warrant.
9. Power to detect	♣ Section 109B will be inserted to allow a Customs Officer to conduct inquiries into an offence committed or about to be committed against the Customs Laws.

EXCISE ACT AMENDMENTS

POLICY	DESCRIPTION
1. Carbonated soft drinks	♣ Impose 5 cents per litre excise duty on all carbonated soft drinks.
2. Penalties in the Excise Act	♣ All penalties in the Excise Act will be increased.

WRECK & SALVAGE ACT AMENDMENTS – PENALTIES

POLICY	DESCRIPTION
Penalties in the Wreck & Salvage Act	♣ All penalties in the Wreck & Salvage Act will be increased.

CUSTOMS REGULATIONS AMENDMENTS – PENALTIES

POLICY	DESCRIPTION
Penalties in the Customs Regulations	All penalties in the following Regulations will be increased: - Customs Regulations; - Customs (Prohibited Imports and Exports) Regulations; - Customs Tariff (Industrial Rebates) Regulations; - Excise Regulations; - Excise (Industrial Rebates) Regulations; and - Excise (Valuation of Excisable Goods) Regulations.

APPENDICES

Appendix 1: Statistical Tables

Table 1: Gross Domestic Product by Sector, Base year 2005, ($ million)

ACTIVITY ($M)	BASE WEIGHT	2006 (R)	2007 (P)	2008 (P)	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Agriculture & Forestry	11.64	513.2	494.0	501.0	477.4	495.9	518.5	545.0
Agriculture	10.56	471.2	454.9	459.6	443.5	454.1	472.2	494.2
Subsistence	2.74	119.4	119.9	120.5	121.4	122.2	122.8	123.6
Growing of Crops, Market Gardening & Horticulture	7.59	278.7	252.5	251.6	234.4	241.3	261.1	285.0
Sugar cane	3	149.2	106.5	98.0	88.2	88.2	99.6	114.6
Taro	1.66	65.4	53.0	63.6	60.6	63.6	66.8	70.1
Farming of animals	0.85	38.9	41.1	41.4	43.2	43.9	44.7	45.5
Forestry	1.08	42.0	39.1	41.4	33.9	41.7	46.3	50.8
Fishing	2.43	125.8	113.1	118.6	120.5	123.0	121.0	124.4
Offshore fishing	1.21	70.8	63.9	64.0	63.8	65.6	62.7	64.7
Mining & Quarrying	0.38	9.5	-5.4	7.9	12.2	16.6	19.7	22.9
Manufacturing	14.23	658.9	619.3	592.5	569.7	590.5	620.7	645.6
Informal activities	3.12	135.3	140.5	141.3	144.1	147.0	149.9	152.9
Food products	3.26	172.3	138.2	130.7	126.6	130.4	141.4	152.3
Sugar	1.02	68.3	39.9	39.2	35.3	35.3	39.8	45.8
Beverages and tobacco	2.06	91.7	95.6	91.2	83.4	89.7	96.3	101.4
Non Food Products	5.78	257.8	243.1	227.4	215.6	223.4	233.1	239.0
Wearing apparel	1.32	57.8	57.1	54.1	42.8	41.4	41.0	40.7
Electricity and Water	1.37	32.0	57.4	53.0	53.7	50.1	49.4	50.3
Production, collection and distribution of electricity	1.15	20.7	47.8	43.0	43.7	40.4	39.8	40.9
Construction	3.18	134.3	120.4	129.2	174.2	180.3	186.6	193.4
Wholesale and Retail	12.67	516.8	542.2	532.0	488.2	505.6	511.8	520.5
Informal activities	2.93	99.0	129.7	130.4	133.0	135.7	138.4	141.1

Sale, Maintenance, Repair of Motor Vehicles/Cycles; Retail Sale of Auto Fuel	12.67	96.8	100.6	80.5	70.0	71.4	73.1	76.7
Retail sale - Auto Fuel	1.26	46.4	49.9	36.6	27.3	31.0	30.2	30.0
Wholesale Trade	3.04	98.0	92.6	95.2	80.2	91.5	90.5	90.4
Solid, liquid, gaseous fuels & related products	1.37	56.2	54.1	58.9	50.2	56.9	55.3	54.8
Retail Trade	4.42	176.5	174.4	176.8	202.6	204.7	207.5	209.9
Non-specialised stores with food & beverages predominating.	1.05	42.0	41.0	39.9	38.1	38.3	39.3	40.1
Hotels & Restaurants	4.26	166.0	191.1	193.8	192.3	201.8	209.9	216.1
Hotels; camping sites and other provision of short-stay accommodation	3.97	134.0	160.9	162.6	161.1	169.3	176.3	181.5
Transport Storage & Communication	14.98	666.6	659.5	626.6	571.5	568.8	585.0	598.1
Land Transport	1.38	59.8	61.3	54.3	59.4	60.9	62.6	62.6
Air Transport	2.33	94.6	99.3	120.0	103.4	101.5	104.7	104.7
Supporting & Auxiliary Activities	4.17	186.0	165.3	152.4	134.5	146.2	147.7	149.9
Other supporting transport activities	1.45	63.8	58.4	58.1	49.1	54.7	54.2	54.2
Activities of other transport agencies	1.26	54.8	45.4	36.8	33.9	36.0	37.1	38.2
Post & Telecommunication	6.01	279.1	290.5	268.4	242.5	227.8	237.5	248.1
Telecommunications	5.89	274.3	285.9	264.0	238.5	223.9	233.6	243.7
Financial Intermediation	7.89	314.1	440.8	470.3	473.2	490.6	512.0	533.0

Other monetary intermedi.	3.73	183.5	183.0	226.1	234.2	246.4	263.0	273.3
Insurance	1.73	70.6	98.6	64.7	66.7	69.8	73.9	76.7
Real Estate & Business Services	9.28	417.5	412.7	409.3	410.6	413.9	417.2	420.9
Owner occupied dwellings	4.27	188.9	189.8	190.7	192.0	193.3	194.2	195.6
Real Estate Activities	1.24	55.5	53.3	55.6	56.0	56.3	56.6	57.0
Other Business Activities	1.79	82.6	77.4	72.4	73.9	75.3	76.8	78.4
Public Administration	5.56	325.9	289.1	284.2	275.1	268.5	263.2	258.1
General public services	2.99	184.6	122.8	149.7	133.4	130.2	127.6	125.1
Defence activities	1.44	75.6	93.7	77.8	80.7	84.0	82.3	80.7
Public order & safety	1.13	65.7	72.6	56.6	55.7	54.3	53.3	52.2
Education	5.15	232.8	229.0	233.8	226.2	221.7	217.7	213.9
Primary	1.55	67.2	68.8	68.5	70.0	69.4	68.8	68.2
Normal secondary	1.06	45.9	48.0	47.2	46.8	44.8	42.8	40.9
Higher education	1.95	92.6	85.2	91.3	82.3	80.3	78.7	77.2
Health & Social Work	2.12	91.6	97.5	93.3	91.0	89.2	87.8	86.4
General Government	1.79	78.1	84.8	80.6	78.2	76.3	74.8	73.3
Other Community, Social and Personal Service Activities	4.87	202.5	124.9	134.8	135.1	136.8	138.6	140.6
Informal activities	1.20	53.3	35.9	44.1	45.0	45.9	46.8	47.8
Activities of Membership Organisations	2.19	75.2	31.0	34.7	34.8	34.9	35.0	35.1
Activities of political Organisations	1.85	61.8	18.5	18.4	18.4	18.4	18.4	18.4
Grand Total Real GDP		**4,407.5**	**4,385.5**	**4,380.3**	**4,271.1**	**4,353.2**	**4,459.1**	**4,569.1**
Grand Total Nominal GDP		**5,371.5**	**5,483.0**	**5,693.5**	**5,965.1**	**6,288.1**	**6,694.4**	**7,131.8**

Table 2: GDP Growth (% change) by Sector, Base Year 2005, 2006-2011

ACTIVITY	BASE WEIGHT	2006 (R)	2007 (P)	2008 (P)	2009 (F)	2010 (F)	2011 (F)	2012 (F)
Agriculture & Forestry	11.64	1.9	-3.7	1.4	-4.7	3.9	4.6	5.1
Agriculture	10.56	3.1	-3.5	1.0	-3.5	2.4	4.0	4.7
Subsistence	2.74	0.6	0.5	0.5	0.7	0.7	0.5	0.7
Growing of Crops, Market Gardening & Horticulture	7.59	0.6	-9.4	-0.3	-6.8	2.9	8.2	9.2
Sugar cane	3	14.8	-28.6	-8.1	-10.0	0.0	13.0	15.0
Taro	1.66	-9.1	-19.0	20.0	-4.7	5.0	5.0	5.0
Farming of animals	0.85	5.8	5.6	0.8	4.2	1.8	1.8	1.8
Forestry	1.08	-9.9	-6.8	5.8	-17.9	23.0	10.9	9.7
Fishing	2.43	19.9	-10.1	4.9	1.6	2.0	-1.6	2.8
Offshore fishing	1.21	31.1	-9.7	0.2	-0.3	2.9	-4.5	3.2
Mining & Quarrying	0.38	-42.4	-156.5	-246.6	55.0	35.5	18.9	16.1
Manufacturing	14.23	7.0	-6.0	-4.3	-3.8	3.6	5.1	4.0
Informal activities	3.12	0.2	3.9	0.5	2.0	2.0	2.0	2.0
Food products	3.26	22.0	-19.8	-5.5	-3.1	3.0	8.5	7.7
Sugar	1.02	54.1	-41.6	-1.8	-10.0	0.0	13.0	15.0
Beverages and tobacco	2.06	2.7	4.3	-4.5	-8.6	7.5	7.3	5.4
Non Food Products	5.78	3.8	-5.7	-6.5	3.5	-5.9	4.3	2.6
Wearing apparel	1.32	1.3	-1.3	-5.2	-20.9	-3.3	-1.0	-0.7
Electricity and Water	1.37	-45.8	79.2	-7.6	1.2	-6.7	-1.4	1.8
Production, collection and distribution of electricity	1.15	-58.2	130.3	-10.0	1.7	-7.7	-1.2	2.7
Construction	3.18	-2.5	-10.4	7.3	34.8	3.5	3.5	3.6
Wholesale and Retail	12.67	-5.7	4.9	-1.9	-8.2	3.6	1.2	1.7
Informal activities	2.93	-21.9	31.0	0.5	2.0	2.0	2.0	2.0
Sale, Maintenance, Repair of Motor Vehicles/Cycles; Retail Sale of Auto Fuel	12.67	-7.4	3.9	-20.0	-13.1	2.0	2.5	4.8
Retail sale - Auto Fuel	1.26	-15.0	7.7	-26.6	-25.5	13.5	-2.6	-0.7
Wholesale Trade	3.04	-1.0	-5.5	2.8	-15.8	14.1	-1.2	0.0

Solid, liquid, gaseous fuels & related products	1.37	-5.0	-3.7	8.9	-14.7	13.2	-2.8	-0.9
Retail Trade	4.42	0.0	-1.2	1.4	-9.2	1.0	1.4	1.2
Non-specialized stores with food & beverages predominating.	1.05	-7.7	-2.5	-2.7	-4.5	0.7	2.5	2.1
Hotels & Restaurants	4.26	-9.9	15.1	1.4	-0.7	5.1	4.1	3.0
Hotels; camping sites and other provision of short-stay accommodation	3.97	-11.8	20.0	1.0	-0.9	5.1	4.1	3.0
Transport Storage & Communication	14.98	2.8	-1.1	-5.0	-8.8	-0.5	2.9	2.2
Land Transport	1.38	0.2	2.6	-11.5	9.6	2.5	2.7	0.0
Air Transport	2.33	-6.1	4.9	20.8	-13.8	-1.8	3.1	0.0
Supporting & Auxiliary Activities	4.17	3.0	-11.1	-7.8	-11.8	8.7	1.0	1.5
Other supporting transport activities	1.45	1.8	-8.5	-0.5	-15.5	11.4	-0.9	0.0
Activities of other transport agencies	1.26	0.7	-17.2	-19.0	-7.7	6.1	3.1	3.0
Post & Telecommunication	6.01	7.3	4.1	-7.6	-9.6	-6.1	4.3	4.5
Telecommunications	5.89	7.5	4.2	-7.7	-9.6	-6.1	4.3	4.4
Financial Intermediation	7.89	-8.0	40.4	6.7	0.6	3.7	4.4	4.1
Other monetary intermedi.	3.73	13.8	-0.3	23.5	3.6	5.2	6.8	3.9
Insurance	1.73	-5.9	39.7	-34.4	3.0	4.7	5.9	3.9
Real Estate & Business Services	9.28	4.0	-1.2	-0.8	0.3	0.8	0.8	0.9
Owner occupied dwellings	4.27	2.2	0.5	0.5	0.7	0.7	0.5	0.7
Real Estate Activities	1.24	3.3	-4.0	4.2	0.7	0.7	0.5	0.7
Other Business Activities	1.79	6.5	-6.2	-6.5	2.0	2.0	2.0	2.0
Public Administration & Defence	5.56	35.4	-11.3	-1.7	-3.2	-2.4	-2.0	-2.0
General public services	2.99	42.5	-33.5	21.9	-10.9	-2.4	-2.0	-2.0
Defence activities	1.44	21.4	23.9	-16.9	10.6	-2.4	-2.0	-2.0
Public order & safety	1.13	34.5	10.4	-21.9	-1.7	-2.4	-2.0	-2.0
Education	5.15	4.4	-1.6	2.1	-3.3	-2.0	-1.8	-1.8
Primary	1.55	0.1	2.4	-0.5	2.2	-0.8	-0.9	-0.9
Normal secondary	1.06	0.0	4.5	-1.7	-0.7	-4.4	-4.4	-4.4

Higher education	1.95	9.7	-8.0	7.1	-9.8	-2.4	-2.0	-2.0
Health & Social Work	2.12	-0.1	6.5	-4.3	-2.5	-2.0	-1.6	-1.6
General Government	1.79	0.7	8.6	-4.9	-2.9	-2.4	-2.0	-2.0
Other Community, Social and Personal Service Activities	4.87	-3.9	-38.3	8.0	0.2	1.3	1.3	1.4
Informal activities	1.20	3.0	-32.6	22.8	2.0	2.0	2.0	2.0
Activities of Membership Organisations	2.19	-20.6	-58.8	11.8	0.3	0.3	0.2	0.3
Activities of political Organisations	1.85	-22.9	-70.1	-0.4	0.0	0.0	0.0	0.0
TOTAL	**100.0**	**1.9**	**-0.5**	**-0.1**	**-2.5**	**1.9**	**2.4**	**2.5**

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

Table 3: Exports by Major Commodities ($million), 2006-2012

COMMODITIES	2006 p	2007 p	2008 p	2009f	2010f	2011f	2012f
Sugar	215.1	185.0	248.2	182.7	131.7	143.3	180.3
Molasses	19.2	10.4	13.6	17.6	17.0	20.0	22.6
Gold	43.1	2.6	26.7	71.3	108.3	131.9	159.2
Timber, Cork & Wood	37.6	47.7	59.3	31.5	36.2	39.9	43.8
Fish	97.9	101.3	134.2	158.4	166.3	174.6	192.1
Fruits & Vegetables	32.8	35.5	33.2	31.9	35.1	38.6	42.5
o/w Dalo	20.9	23.6	22.2	19.3	21.2	22.9	24.7
Copra	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yaqona	3.7	4.2	4.8	4.4	4.8	5.2	5.7
Coconut Oil	2.1	4.4	8.2	4.8	9.8	10.8	11.8
Textiles, Yarn & Made Up Articles	10.1	9.6	7.8	6.7	6.7	6.8	7.0
Garments	94.9	97.1	100.1	80.4	80.4	82.0	83.6
Footwear	4.2	2.9	2.1	1.5	1.5	1.5	1.6
Mineral Water	86.9	105.4	109.9	112.9	115.5	119.0	122.5
Other Domestic Export	187.0	222.7	234.9	195.6	205.4	215.6	226.4
Re- Exports	367.3	381.0	488.2	327.8	383.7	402.9	423.0
Total	**1201.6**	**1209.8**	**1471.0**	**1227.5**	**1302.5**	**1392.2**	**1522.2**

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

Table 4: Imports by Category ($million), 2006-2012

ECONOMIC CATEGORY	2006	2007	2008f	2009f	2010f	2011f	2012f
Food	386.0	394.3	520.0	520.7	540.9	567.9	596.3
Beverage & Tobacco	22.7	21.6	21.7	21.6	21.6	21.6	21.6
Crude Materials	32.1	24.5	31.0	28.5	29.4	30.8	32.4
Mineral Fuels	1021.5	958.2	1222.1	757.2	908.7	954.1	1001.8
Oil & Fats	17.5	24.8	37.0	26.9	27.7	29.9	32.3
Chemicals	224.1	218.5	274.5	234.5	241.5	248.8	256.2
Manufactured Goods	464.1	422.5	460.8	380.0	384.5	391.2	397.9
Machinery & Transport Equipment	688.0	568.8	726.5	636.1	710.9	687.4	700.8
Miscellaneous Manufactured Goods	258.3	246.0	278.6	245.2	248.7	252.3	256.0
Other Commodities	10.0	10.9	29.2	13.4	13.5	13.7	13.8
Total	**3124.3**	**2890.1**	**3601.4**	**2864.1**	**3127.4**	**3197.7**	**3309.2**

Table 5: Balance of Payments ($million), 2005 – 2012

ITEMS	2005r	2006r	2007r	2008p	2009f	2010f	2011f	2012f
Balance on Goods	**-1308.8**	**-1677.0**	**-1471.5**	**-1878.8**	**-1361.5**	**-1490.0**	**-1466.3**	**-1438.2**
exports f.o.b	1155.2	1167.9	1167.9	1391.5	1233.6	1350.5	1440.4	1570.6
imports f.o.b	2464.0	2828.8	2639.4	3270.3	2595.2	2840.5	2906.7	3008.8
Balance on Services	**592.2**	**518.2**	**545.2**	**620.5**	**555.8**	**663.0**	**728.4**	**777.9**
Export of Services	1448.5	1420.3	1380.2	1573.1	1483.2	1630.6	1715.6	1789.7
Import of Services	856.3	902.1	835.0	952.6	927.5	967.7	987.2	1011.8
Balance on Income	**-77.3**	**-208.6**	**-135.9**	**-44.7**	**7.0**	**8.7**	**5.5**	**5.5**
Income from non-residents	137.9	114.3	111.0	113.1	130.7	130.7	130.7	130.7
Income to non-residents	215.2	322.9	246.9	157.8	123.7	122.0	125.2	125.2
Balance on Current Transfers	**298.5**	**347.2**	**297.1**	**293.5**	**281.6**	**240.2**	**240.2**	**240.2**
Inflow of current transfers	447.1	513.9	393.7	407.2	391.7	350.2	350.2	350.2
Outflow of current transfers.	148.5	166.7	96.6	113.7	110.0	110.0	110.0	110.0
Current Account Balance	**-495.4**	**-1020.3**	**-765.1**	**-1009.5**	**-517.1**	**-578.2**	**-492.2**	**-414.6**
Capital Account Balance	**13.3**	**-0.8**	**21.3**	**25.7**	**57.0**	**20.0**	**20.0**	**20.0**
Financial Account Balance	**398.3**	**884.4**	**612.2**	**617.1**	**189.8**	**556.8**	**231.4**	**321.3**

Errors & Omissions	**83.9**	**136.7**	**131.7**	**366.7**	**270.4**	**1.4**	**240.8**	**73.3**
Reserve Assets	**188.6**	**292.4**	**-297.0**	**266.3**	**-403.9**	**98.0**	**-21.4**	**-53.1**

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

Table 6: Tourism Statistics, 2005 – 2012

	2005r	2006p	2007r	2008p	2009f	2010f	2011f	2012f
Visitors (000)	**545.1**	**548.6**	**539.9**	**585.0**	**540.0**	**600.0**	**630.0**	**661.0**
o/w Business	38.3	41.6	32.5	39.6	37.8	42.0	44.1	46.3
o/w Personal	506.8	506.9	507.4	545.5	502.2	558.0	585.9	614.7
Average length of stay (days)	**9.6**	**9.8**	**9.5**	**9.6**	**9.6**	**9.6**	**9.6**	**9.6**
Business	7.5	7.7	8.3	7.6	7.9	7.9	7.9	7.9
Personal (tourism purposes)	8.6	8.6	8.3	8.5	8.5	8.5	8.5	8.5
Visitors days (millions)	**5.2**	**5.3**	**5.1**	**5.6**	**5.1**	**5.6**	**5.9**	**6.2**
o/w Business	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.4
o/w Personal	4.9	5.0	4.9	5.3	4.8	5.3	5.6	5.9
Earnings ($million)	**812.7**	**822.5**	**784.2**	**853.1**	**802.4**	**894.0**	**950.0**	**996.8**
o/w Business	47.0	54.5	44.4	53.5	53.3	59.5	63.1	66.2
o/w Personal	765.7	768.0	739.8	799.6	749.1	834.5	886.9	930.6

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

Table 7: Sugar Production, Export and Price, 2006 – 2012

	2006 r	2007 r	2008 r	2009f	2010f	2011f	20121f
Cane Production (million tonnes)	3.2	2.5	2.3	2.1	2.1	2.4	2.7
Sugar Production (000 tonnes)	310	237	208	187	187	212	243
Cane to Sugar Ratio(per tonne)	10.4	10.5	11.2	11.2	11.2	11.2	11.2
Export Quantity Sugar (000 tonnes)	250.0	220.0	260.0	177.1	179.4	195.2	243.3
Unit Value (FJ$/tonne)	860.3	840.9	954.6	1,031.6	734.2	734.2	741.2
Sugar Export Earnings (FJ$m)	215.1	185.0	248.2	182.7	131.7	143.3	180.3
Molasses Production (000 tonnes)	166.0	99.2	98.0	110.7	107.1	126.0	148.6
Molasses Export Earnings (FJ$m)	19.2	10.4	13.6	17.6	17.0	20.0	22.6
Price Paid to Growers (FJ$/tonne)	58.12	59.05	46.26.	61.17	61.17	61.17	61.17

Source: FIBOS, Fiji Sugar Corporation, Macro Policy Committee
Note: f-forecast; p- provisional; r- revised

Table 8: Inflation Rates (2004 –October 2009)

	2004	2005	2006	2007	2008	2009 (OCT)
All items	3.4	2.7	3.1	4.3	6.6	6.3
Food	2.7	3.1	3.3	7.7	11.1	6.5
Alcohol Drinks & Tobacco	4.0	3.2	1.3	7.0	2.7	9.1
Housing	1.4	0.5	3.9	1.7	1.3	1.8
Heating & Lightning	20.9	11.6	11.0	-6.9	12.7	-5.8
Durable Household Goods	1.7	-0.7	3.2	2.2	4.4	13.9
Clothing & Footwear	0.1	0.3	2.4	4.0	0.2	6.2
Transport	4.2	5.1	1.4	2.3	6.3	12.6
Services	3.3	1.6	1.3	1.4	0.4	1.8
Miscellaneous	-0.7	-3.0	5.5	10.6	6.4	16.1
Memorandum Items: Year-on Year inflation rates	**3.4**	**2.7**	**3.1**	**4.3**	**6.6**	**6.3**

Source: Fiji Islands Bureau Of Statistics

Table 9: Employment by Sector, 2001-2008 (in thousands of persons)

ECONOMIC ACTIVITY	2001 (r)	2002 (r)	2003 (r)	2004	2005 (r)	2006 (r)	2007 (r)	2008 (e)
Agriculture, forestry & Fishing	1.7	1.7	1.7	1.6	1.7	1.7	1.7	1.7
Mining & Quarrying	1.7	1.7	1.9	2.4	2.3	2.4	2.3	2.3
Manufacturing	28.9	28.9	25.5	25.0	26.3	27.1	27.7	27.9
Electricity, Water & Gas	2.7	2.7	2.3	2.2	2.7	2.5	2.6	2.5
Construction	3.6	3.5	6.4	7.1	6.2	6.7	6.9	6.8
Distribution (incl. Tourism)	21.6	24.5	25.8	26.7	26.9	27.2	27.8	29.4
Transport & Communication	10.5	10.3	10.7	9.9	10.5	10.6	10.9	10.8
Finance, Insurance & Business Services	6.7	6.4	7.8	8.0	7.9	8.0	8.7	8.8
Other Services	39.2	38.0	37.8	39.0	39.4	40.0	40.2	40.1
Total	**116.6**	**117.7**	**119.9**	**121.9**	**123.9**	**126.0**	**128.8**	**130.3**

Source: Fiji Islands Bureau of Statistics

Exchange Control Delegated Limits

Due to the rise in foreign reserves, the Reserve Bank will increase delegated limits to authorized foreign exchange dealers effective 1 January 2010 for the following transactions:

a) Travel:
- Increase delegated limit from **$5,000** to **$10,000** return trip;

b) Charges/Fees/Services
- Increase delegated limit from **$50,000** to **$100,000** per invoice

c) Airline Ticket Sales
- Increase delegated limit from **$50,000** to **$100,000** per application

d) Education/Medical Expenses
- Increase delegated limit from **$500** to **$1,000** paid to student/patient

e) Loan Repayments
- Increase delegated limit from **$50,000** to **$100,000** for scheduled principal and interest payments

f) Lease Payments
- Increase delegated limit from **$50,000** to **$100,000** per scheduled payment

The revised amounts are maximum amounts delegated to authorize foreign exchange dealers. Requests for amounts in excess of these must be referred to the Reserve Bank of Fiji.

CHANGES TO FIJI MY SECOND HOME PROGRAMME AND FOREIGN CURRENCY ACCOUNTS SCHEME IN FIJI

The following changes will be effective from 1 January 2010:

Financial Criteria:

POLICY	DESCRIPTION
1. **"Fiji My Second Home"** Programme Incentives	The Programme is open to foreigners to stay in Fiji for as long as possible on a multiple entry social pass. The applicant should fulfill the following criteria: **Age below 50 years old:** • Minimum deposit of F$150,000

	(reduced from F$300,000) and maintain the deposit in Fiji for a minimum of two years. • After two years, the participant can withdraw up to F$100,000 (reduced from $250,000) to purchase properties and meet approved expenditure. • The participant must maintain a minimum balance of F$50,000 (reduced from F$100,000) from the 3rd year onwards and throughout the entire stay in Fiji under the Programme. • Interest Income from the deposit is exempt from tax. **Aged 50 years and above:** • Minimum deposit of F$100,000 (reduced from F$200,000) and maintain the deposit in Fiji for a minimum of two years. • After two years, the participant can withdraw up to F$50,000 (reduced from $150,000) to purchase properties and meet approved expenditure. • The participant must maintain a minimum balance of F$50,000 (reduced from F$100,000) from the 3rd year onwards and throughout the entire stay in Fiji under the Programme. • Interest Income from the deposit is exempt from tax.

2.	**Foreign Currency Accounts Scheme in Fiji**	The scheme is aimed at attracting non-residents, including former Fiji residents to hold funds in Fiji bank accounts. The following incentives apply: • For foreign currency accounts, interest income for deposits above the equivalent of F$150,000 (reduced from the equivalent of F$300,000) is exempt from tax. • For Fiji dollar accounts, interest income will be exempt from tax.