

Fiji Budget Report 2018 - 2019

28 June 2018



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The 2018 – 2019 Fiji Budget was delivered this evening by the Attorney-General and Minister for Economy, Public Enterprises, Civil Service and Communications, Acting Minister for Education, Heritage and Arts, the Honourable Aiyaz Sayed-Khaiyum.

The Fijian economy is expected to grow by 3.2% in 2018 and 3.4% in 2019.

There are a number of initiatives directed towards:

- ✓ 'Family' welfare, protection and having an 'educated' Fiji;
- ✓ Having sustainable and environmentally friendly development;
- ✓ Civil Service reforms;
- ✓ Digital transformation and connectivity;
- ✓ Infrastructure development; and
- ✓ Nurturing new and emerging growth sectors.

Some of the key announcements and highlights are as follows:

- 22% of the budget (approximately \$1 billion) for education;
- Housing reforms include strengthening partnerships between Government and the private sector to provide affordable housing;
- Maternity Leave increased from 84 days to 98 days with the introduction of 5 days of Paternity Leave and 5 days of Family Care Leave;
- Expanding the telecommunications infrastructure, access to Information Communication and Telecommunications (ICT) services and promoting the use of green technology;
- 250% tax deduction introduced for Research and Development expenditure on ICT;
- \$1.25 million threshold for Service Turnover Tax and Environmental and Climate Adaptation Levy now extend to all prescribed services
- Substantial allocations to support the sugar industry;
- New insurance package for civil servants and social welfare recipients;
- Duty has been reduced from 5% to 0% for imported fruits and vegetables; and
- Further relaxations of the exchange control policies.

As noted in the budget documents the challenges for Government include maintaining acceptable debt levels and effective implementation and monitoring compliance of the various initiatives announced.

Further information and analysis of the various features and budget announcements are detailed in the following pages.

A handwritten signature in dark ink, appearing to read 'Nitin Gandhi'.

Nitin Gandhi

Senior Partner, PwC Fiji

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1 *Spotlight on the Budget*

1.1 *Budget Estimates*

| | 2017/2018 Budget \$m | 2017/2018 Revised \$m | 2018/2019 Budget \$m | 2019/2020 Target \$m |
|--------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
| Revenue | 3,857.3 | 3,372.2 | 4,236.4 | 4,008.3 |
| Expenditure | 4,356.8 | 3,869.5 | 4,650.5 | 4,376.6 |
| Net (Deficit) | (499.5) | (497.3) | (414.1) | (368.3) |
| Loan Redemption | (217.4) | N/A | (294.3) | N/A |
| Budget Gross Surplus (Deficit) | (716.9) | N/A | (708.4) | N/A |

1.2 *Economic Indicators*

| | 2017/2018 Budget \$m | 2017/2018 Revised \$m | 2018/2019 Budget \$m | 2019/2020 Target \$m |
|------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
| GDP at market prices | 10,980.1 | 10,989.1 | 11,673.5 | 12,274.0 |
| GDP at constant prices | 7,275.6 | 7,090.7 | 7,317.4 | 7,546.8 |
| Growth rate | 3.8% (e) | 3.4% (r) | 3.2% (f) | 3.1% (f) |
| Debt | 5,216.1 | 5,169.1 (r) | 5,583.2 | 5,951.4 |
| Debt as a % of GDP | 47.5% | 47.0% (r) | 47.8% | 48.5% |

| | | | | |
|---|-----------|-----------|-----------|-----|
| Interest payments | 298 (f) | 298 (r) | 332.2 (B) | N/A |
| Interest payments - % of total operating expenditure | 11.80% | 13.0% (r) | 12.2% (B) | N/A |
| Revenue from sale of Government Assets | 371.9 (B) | 0.6 (r) | 395.4 (B) | N/A |

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| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|-------------|
| Visitor arrivals | 792,320 (p) | 831,936 (p) | 880,814 (f) | 924,854 (f) | 971,097 (f) |
| Inflation | 3.9% | 2.8% (r) | 5.1% (May) | 2.5% (f) | 2.5% (f) |
| Anticipated sugar export quantity - tonnes ('000s) | 143.0 (p) | 198.3 (p) | 141.4 (f) | 179.1 (f) | 191.6 (f) |

| | 2014 | 2015 | July 2016 | July 2017 |
|------------------------------------|-----------|-----------|------------|-----------|
| Government Guarantees (\$m) | 832.6 | 824.5 | 787.4 | 562.2 |
| Total Contingent Liabilities (\$m) | 847.6 (r) | 867.8 (r) | 1259.2 (r) | 1,019.8 |

Source: 2018 – 2019 Budget Supplement

Key:

(f) Forecast

(r) Revised

(p) Provisional

N/A Data not available

B Budgeted

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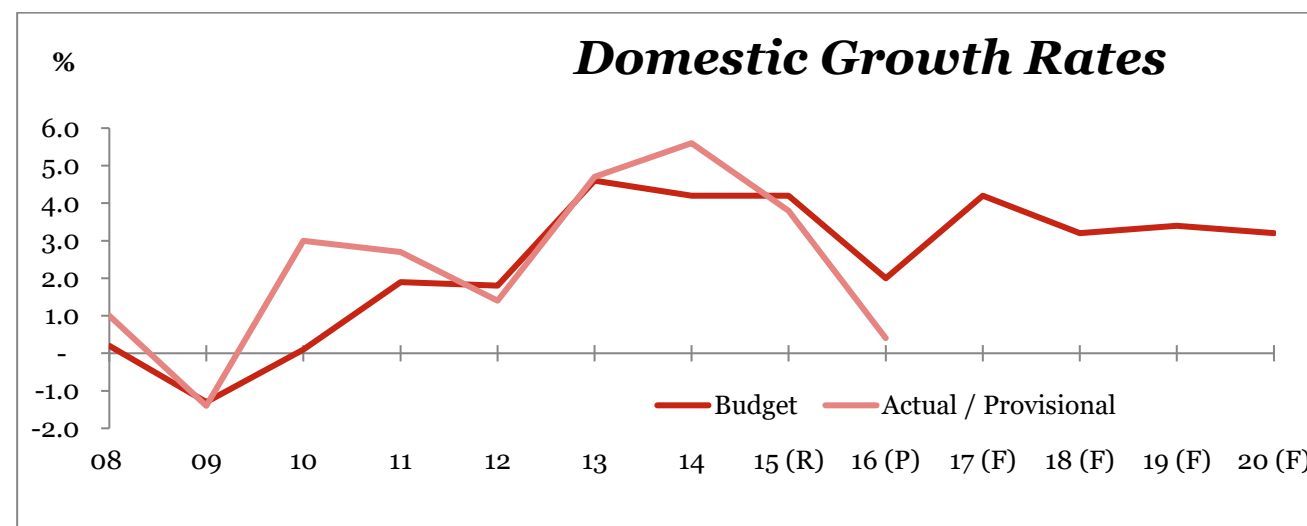
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2 *State of the Nation*

2.1.1 *Growth rate*

Growth of 3.2% is anticipated for 2018 despite the negative impact of Tropical Cyclones Josie and Keni, and floods in April. The Fijian economy is expected to grow by 3.4% in 2019 and 3.2% in 2020.



Source: 2018/2019 Budget Supplement

International Outlook

The International Monetary Fund (IMF) has projected global economy growth of 3.9% in 2018 and 2019.

Domestic Outlook

The domestic economy expanded by 0.4% in 2016 and 4.2% in 2017.

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Overview 2018

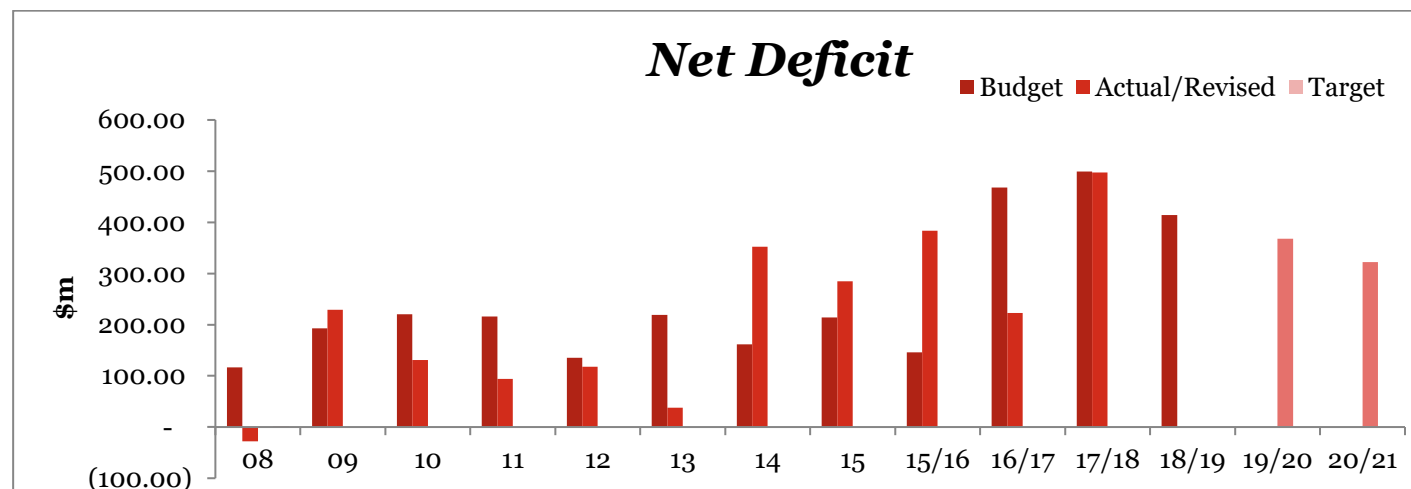
Growth is expected in the public administration & defence, wholesale & retail trade, construction, information & communication, and accommodation & food service sectors while agricultural production and related manufacturing activities are expected to negatively affect growth in 2018.

Overview 2019

In 2019, the economy is projected to grow by 3.4% with major contributions from the manufacturing, transport, financial & insurance and wholesale & retail trade sectors. In addition, the agriculture sector is anticipated to recover from the natural disasters in 2018.

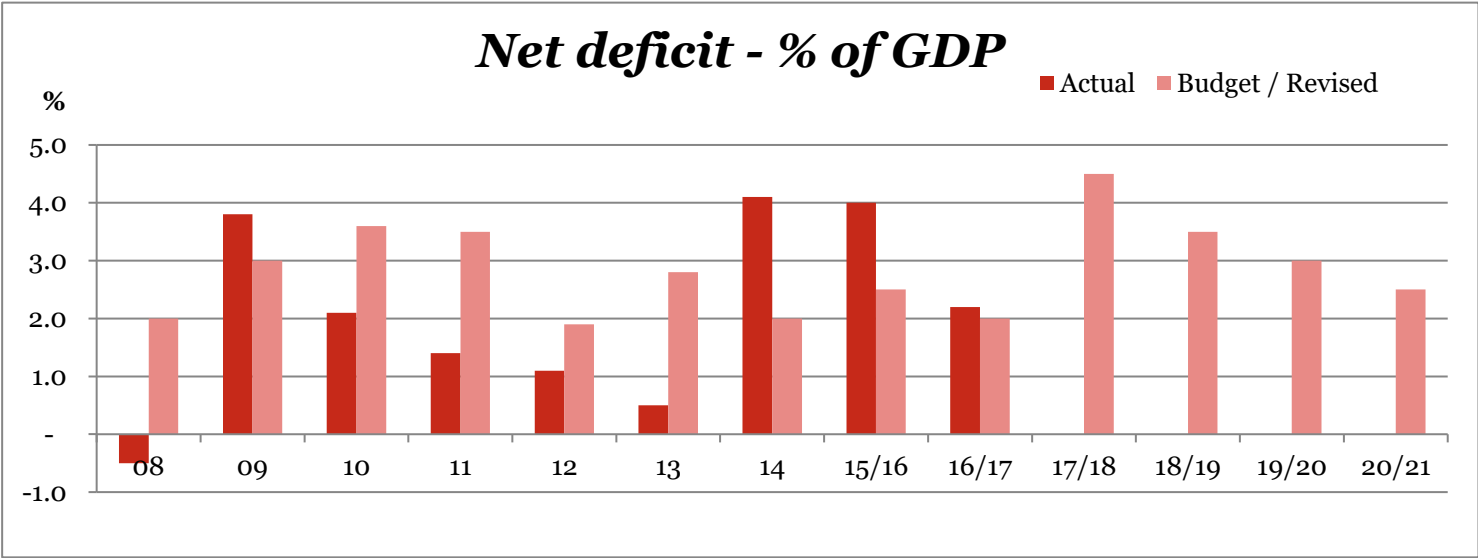
In 2020, a broad based growth of 3.2% is envisaged with positive growth expected in the manufacturing, transport and storage, accommodation and food services, wholesale and retail trade and construction sectors.

2.1.2 Budget Deficit



Source: 2018/2019 Budget Supplement

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Source: 2018/2019 Budget Supplement

2016/2017 Actual Performance

Government recorded a net deficit of \$222.8 million which was equivalent to 2.2% of GDP in FY 2016-2017. Total actual revenues amounted to \$2,837.4million, with total expenditures at \$3,060.3 million.

2017/2018 Revised Projection

Based on current fiscal performance, the net deficit for the FY 2017-2018 is projected to be around \$497.4 million or 4.5% of GDP. This is derived from estimated total revenues of \$3,372.2 million and total expenditures of \$3,869.5 million.

2018/2019 Budget Estimates

The net deficit for the FY 2018-2019 is budgeted at \$414.2 million or 3.5% of GDP. Total revenues are projected at \$4,236.4 million against total expenditures of \$4,650.5 million. The net deficit for 2018-2019 includes capital expenditure of \$1,852.2m.

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2.1.3 Balance of payments

Fiji recorded a current account deficit of \$623.4 million in 2017, equivalent to 5.9 percent of GDP. The deficit stemmed from a deterioration in the trade account and primary income account balances, which more than offset the improvements to the balances for service account and secondary income account. The capital and financial account (excluding reserves) recorded an increased balance of \$1,024.1 million.

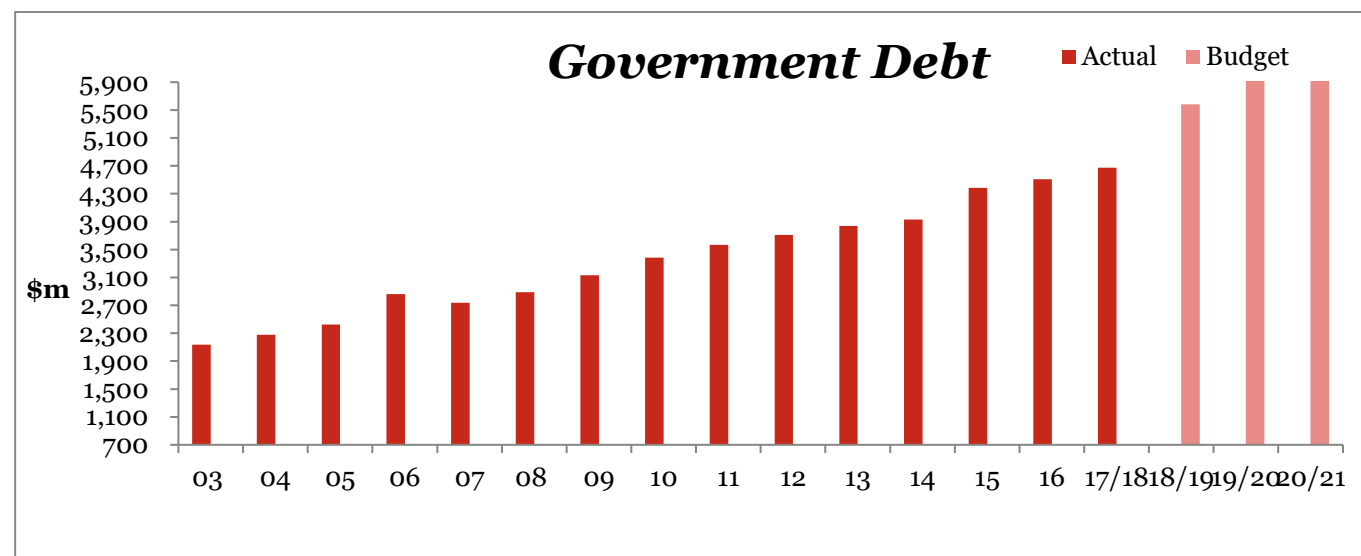
The current account is expected to register a deficit of \$798.8m in 2018 (7.1% of GDP) and is largely due to the widening of the trade deficit, driven mainly by higher valued mineral fuel imports.

In 2019, the current account deficit is projected to decrease to \$696.3 million or around 5.8 percent of GDP; and decline further to 4.5 percent of GDP in 2020.

2.1.4 Government debt

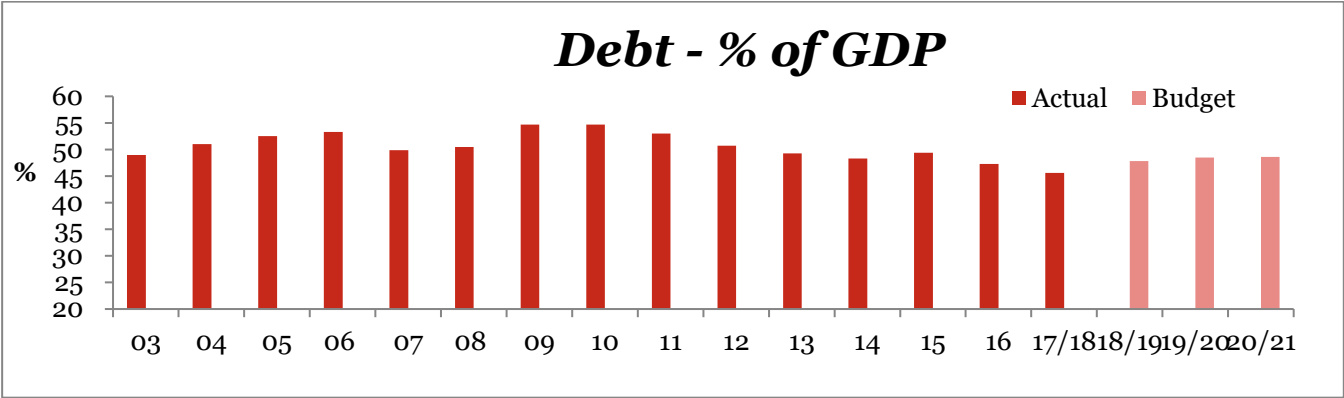
The nominal value of Government's total debt stood at \$4.7 billion at end of July 2017. The Debt to GDP ratio has declined from 47.3% in July 2016 to 45.6% at end of July 2017.

The medium term target for Government is to maintain debt at below 40.0% of GDP and to 35% of GDP by 2036 as committed in the National Development Plan (NDP).



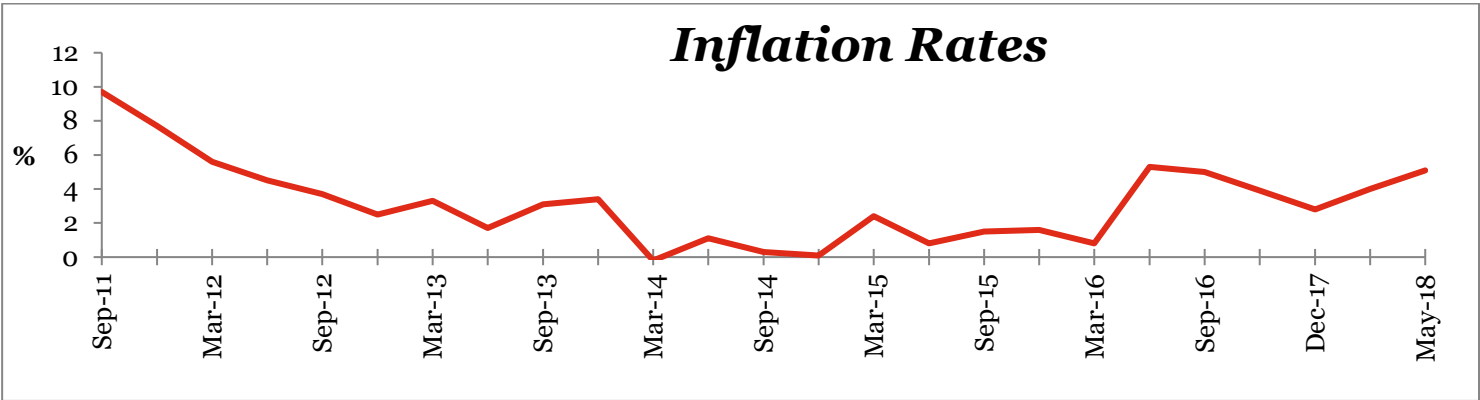
Source: 2018/2019 Budget Supplement

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Source: 2018/2019 Budget Supplement

2.1.5 Inflation



Source: RBF Quarterly/ Economic Reviews and 2018/2019 Budget Supplement

Year-end inflation was 2.8% in 2017, lower than 3.9% at the end of 2016. The lower prices in 2017 were largely supported by the replenishment of agriculture market supplies following the aftermath of TC Winston. Soft trading partner inflation and persistent weakness in global commodity prices also contributed to the lower inflation in 2017.

Inflation was at 5.1% in May 2018 driven by the aftermath of TC Josie and Keni; instantaneous price increases were felt for fruits and vegetables, kava, alcohol and tobacco. Nevertheless, as experienced in the past, prices would stabilise in the coming months once market supplies increase.

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Inflationary pressures for the remainder of 2018 are expected to be driven mostly by higher fuel prices and trading partner inflation, as well as higher domestic demand. Year-end inflation is forecast at 3.0% for 2018, this is expected to reduce to 2.5% in 2019 and 2020, barring any further supply-side shocks.

2.1.6 Exports and Imports

Total exports in 2017 grew by 6.0%, underpinned by increases in higher exports of sugar, mineral water, molasses, fruit & vegetables, kava, non-petroleum re-exports and other domestic exports. These offset the lower exports of timber, fish and re-exported petroleum products. The growth in sugar and molasses exports emanated from post-TC Winston recovery efforts to rejuvenate production, while timber exports fell due to lower woodchip and mahogany exports.

In 2018, total exports are expected to grow by 7.5%, led by higher exports of timber, mineral water, gold, fish, fruits & vegetables, re-exports and other domestic exports.

Total exports are projected to grow by 4.7% in 2019, and by 4.0% in 2020.

Total imports for 2017 grew by 2.2%, supported by higher imports of mineral fuels, manufactured goods, chemicals and oil & fat commodities.

In 2018, total import growth is expected to grow by 10.2%, by positive contributions from all categories of imports, particularly mineral fuel imports

Import growth for 2019 and 2020 is projected at 3.7% and 3.5% respectively.

2.1.7 Monetary Policy

The Reserve Bank of Fiji (RBF) maintained its policy focus on safeguarding its twin objectives of low inflation and adequate foreign reserves. Given comfortable growth outlooks, the RBF continued with its accommodative monetary policy stance and maintained the Overnight Policy Rate at 0.5% in the first five months of 2018.

Foreign reserves remained at comfortable levels throughout the first five months of 2018, averaging around five months of retained imports of goods and non-factor services. Foreign reserves levels stood at \$2,163.3 million as at end of May 2018.

2.1.8 Interest Rates

Commercial banks' lending rates have trended downwards in the year to March 2018 while deposit rates rose.

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The commercial banks' weighted average outstanding lending rate fell to 5.68% in April 2018, from 5.74% a year earlier. In the same period, the commercial banks' weighted average outstanding time deposit rate rose to 3.34 % from 3.30%, while the weighted average savings rate increased from 1.22% to 1.29%.

2.1.9 Exchange Rates

The Nominal Effective Exchange Rate (NEER) fell by 1.1 % over the year to April 2018. This indicated a general weakening of the Fiji dollar against its major trading partner currencies.

The Real Effective Exchange Rate (REER), on the other hand, rose by 0.9 % over the year, reflecting a rise in Fiji's domestic inflation rate relative to most trading partner countries.

2.2 Government Revenue

2.2.1 Direct taxes

Direct taxes make up 27.4% of the Government's operating revenue. In 2016/2017, total direct tax collection amounted to \$763.7 million, while the projection for 2017/2018 is \$887.8million. The collection is forecast to increase to \$1,011.3 million in 2018/2019.

2.2.2 Indirect taxes

Total collections for 2016/2017 amounted to \$1,779.6 million. The collection is anticipated to increase to \$2,046.4 million in 2017/2018 and to \$2,331.2million in 2018/2019.

The key changes in indirect taxes include:

- The ECAL and STT will be applicable to all prescribed services with an annual turnover above \$1.25 million. STT and ECAL continues to apply to luxury vehicles, superyachts and income above \$270,000 for individuals as before.
- The plastic bag levy however, has been increased from 10 cents to 20 cents per bag.

2.2.3 Other Government Revenue

The Government is expected to generate receipts of \$15.1 million in 2017/2018 and \$413.1 million in 2018/2019 as investing receipts. Majority of the receipts relate to the sale of Government assets.

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2.3 Government Expenditure

2.3.1 Operating Payments

The budget details indicate that personnel costs are expected to be the largest component of the Government's operating expenditure being 41.4% and 40.1% of Government's operating expenditure for 2017/2018 and 2018/2019 respectively. For 2018/2019, transfer payments follows (refer below) at 30.8%, interest payments at 12.2%, supplies and consumables at 11.7%, special expenditures at 4.9% and other operating payments at 0.3%.

2.3.2 Personnel Costs

Wages and salaries expenditure during 2016/2017 amounted to \$854.0 million, while the projection for 2017/2018 is \$953.3 million. This is expected to increase to \$1,093.2 million in 2018/2019 due to the remuneration realignment following the Jobs Evaluation Exercise, the filling of vacant positions together with hiring of additional teachers, increased budget for the Police Force and the introduction of a PMF within Government.

2.3.3 Transfer Payments (Operating Grants)

Total operating transfers during 2016/2017 stood at \$553.3 million. This is expected to increase to \$718.5 million during 2017/2018 and \$839.9 million in 2018/2019.

The major operating grants provided in the Budget include:

| | |
|--|--------------------|
| Water Authority of Fiji | - \$ 102.8 million |
| Judiciary | - \$ 69.2 million |
| Fiji Revenue and Customs Service | - \$ 68.8 million |
| Fiji National University | - \$ 65.1 million |
| Social Pension Scheme | - \$ 47.4 million |
| Poverty Benefit Scheme | - \$ 38.1 million |
| Free Education Year 1-8 | - \$ 35.0 million |
| University of the South Pacific | - \$ 33.0 million |
| Free Education Year 9-13 | - \$ 31.4 million |
| Fiji Roads Authority | - \$ 29.6 million |
| Land Transport Authority | - \$ 28.3 million |
| Bus Fare Assistance | - \$ 25.0 million |
| Fiji Elections Office | - \$ 20.4 million |
| Grant to Fiji's Servicemen's After Care Fund | - \$ 11.7 million |
| Parliament | - \$ 10.8 million |

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| Tourism Fiji | - \$ 10.4 million |
| Legal Aid Commission | - \$ 10.4 million |
| Child Protection Allowance | - \$ 9.3 million |
| Fiji Independent Commission Against Corruption | - \$ 8.5 million |
| Office of the Director of Public Prosecutions | - \$ 7.7 million |
| Public Service Commission | - \$ 7.3 million |
| Allowance for Persons with Disability | - \$ 6.9 million |
| Office of the Auditor General | - \$ 6.6 million |

2.3.4 Supplies and Consumables

During 2016/2017, total expenditure on supplies and consumables amounted to \$246.8 million. The allocation for 2017/2018 is \$244.2 million and is expected to increase to \$320.2 million in 2018/2019.

2.3.5 Special Expenditures

During 2016/2017, spending on special expenditures such as trainings, consultancies and other capacity building initiatives amounted to \$67.9 million. Projections for 2017/2018 and 2018/2019 are \$76.6 million and \$134.0 million, respectively. The allocation for 2018/2019 includes the hosting of the 2019 Annual ADB Meeting of \$10.0 million.

2.3.6 Interest Payments

Total interest payments during 2016/2017 amounted to \$274.9 million. For 2017/2018 the expected interest payment is \$298.0 million whilst \$332.2 million, is expected for 2018/2019.

2.4 Investing Activities

Investing revenue in 2016/2017 is at \$11.2 million. Government has projected around \$413 million from investing revenues during 2018/2019, mainly from the sale of government assets.

In 2016/2017, around \$807.6 million was provided as capital grants and transfers, while the anticipated spending for 2017/2018 is \$1,098.3 million. For 2018/2019, Government has allocated \$1,308.2 million for capital projects.

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The allocations for major capital grants and transfers during 2018/2019 include:

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| Fiji Roads Authority | - \$471.8 million |
| Water Authority of Fiji | - \$238.9 million |
| Tertiary Education Loan Scheme | - \$205.6 million |
| Rehabilitation and Construction of Schools and Public Buildings | - \$ 90.0 million |
| Rural Electrification Project | - \$ 50.8 million |
| National Toppers Scholarship Scheme | - \$ 49.5 million |
| Tourism Fiji Marketing Grant | - \$ 29.8 million |
| Grant to Walesi | - \$ 19.0 million |
| Fertiliser Subsidy – FSC | - \$ 15.4 million |
| Sugarcane Development and Farmers Assistance – FSC | - \$ 15.4 million |
| First Home Purchase | - \$ 15.0 million |
| iTaukei Land Development | - \$ 12.0 million |
| Fiji Revenue and Customs Service | - \$ 10.0 million |

Total purchase of physical non-current assets, including spending on capital construction and purchases, during 2016/2017 amounted to \$131.5 million. The spending is anticipated to increase to \$248.9 million in 2017/2018 and further increased to \$338.5 million in 2018/2019.

Net investing deficit of \$1,014.4 million was recorded for 2016/2017. Government has projected a net investing deficit of \$1,491.2 million and \$1,439.1 million for 2017/2018 and 2018/2019, respectively.

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2.5 Government Debt

The following table summarises total Government debt:

| | Jul 2014 \$m | Jul 2015 \$m | Jul 2016 \$m | Jul 2017 \$m | Projected Jul 2018 \$m |
|------------------------------|-----------------|-----------------|-----------------|-----------------|------------------------------|
| Domestic debt | 2,847.6 | 2,997.5 | 3,245.0 | 3,300.8 | 3,691.6 |
| External debt | 1,081.5 | 1,385.3 | 1,262.6 | 1,370.9 | 1,477.5 |
| Total debt | 3,929.1 | 4,382.8 | 4,507.6 | 4,671.7 | 5,169.1 |
| <i>Debt (as a % of GDP)</i> | <i>48.3%</i> | <i>49.4%</i> | <i>47.3%</i> | <i>45.6%</i> | <i>47.0%</i> |
| <i>Domestic/Total Debt %</i> | <i>72.5%</i> | <i>68.4%</i> | <i>72.0%</i> | <i>70.5%</i> | <i>71.4%</i> |
| <i>External/Total Debt %</i> | <i>27.5%</i> | <i>31.6%</i> | <i>28.0%</i> | <i>29.5%</i> | <i>28.6%</i> |

Source: 2018/2019 Budget supplement

2.5.1 Domestic Debt Stock

The domestic capital market remains the major source of borrowing for Government, with institutional investors like FNPF, insurance companies, commercial banks and other non-bank financial institutions playing an active role. Major debt instruments for the domestic market include Fiji Infrastructure Bonds, Fiji Green Bonds, Viti Bonds and Treasury Bills.

Total domestic debt in 2017 was equivalent to 32.1% of GDP. Fiji issued its first-ever sovereign green bond in November 2017, becoming the first developing country in the world to pursue such an initiative. Government had planned for a \$100 million Green Bond issuance with \$86.2 million raised by June 2018 with tenors of 5 years and 13 years. Fiji has also listed the green bond on the London Stock Exchange. Projects financed from the Fiji green bond will focus primarily on climate change adaptation and building resilience.

2.5.2 External Debt Stock

The external debt stood at \$1.4 billion, equivalent to 13.3 % of GDP as of July 2017. This is projected to increase to \$1.5 billion by end of July 2018.

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Global bonds comprised around 29.3% of the total external debt portfolio, bilateral loans constituted 37.5% and multilateral loans 33.1%. Majority of the external debt is denominated in US dollars (62.3%) followed by the Chinese Yuan (36.3%), Japanese Yen (1%) and the Euro (0.2%).

2.5.3 Contingent Liabilities

Government's explicit contingent liabilities are around \$1.0 billion as of July 2017, equivalent to 9.9% of GDP. This comprised of Government guarantees at \$562.2 million equivalent to 5.5% of GDP and other contingent liabilities at \$457.6 million.

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3 Tax Measures

Unless otherwise specified, excise tax, fiscal import duty and import excise duty changes are effective from 29 June 2018. All other tax changes will be effective from 1 August 2018.

3.1 Direct Tax Measures

| Policy | Description |
|--|--|
| 1. Aligning Resident Interest Withholding Tax ("RIWT") Exemption Threshold to Income Tax | ▪ The current RIWT will be increased from \$16,000 to \$30,000 to be consistent with the existing individual income tax exemption threshold. |
| 2. Tax Deduction for Salaries/Wages Paid during Paternity and Family Care Leave. | ▪ Introduction of 150% tax deduction for salaries/wages paid to employees during paternity and family care leave. |
| 3. Amend the definition of Information Communication Technology ("ICT") | ▪ The definition of ICT in the Income Tax Regulations will be amended to include customer contact centres, engineering and design, research and development, animation and content creation, distance learning, market research, travel services, finance and accounting services, human resource services, legal procedure, compliance and risk services and other administrative services (e.g. purchasing, etc.). The above services will need to be ICT enabled. |
| 4. Accelerated Depreciation Provision | ▪ All greenhouse and nursery buildings, research labs and pack houses will be included under the Accelerated Depreciation Provision. |
| 5. Incentive Package for Electric Vehicle (EV) Charging Stations | ▪ The minimum capital investment for setting up of EV charging stations will be further reduced from \$500,000 to \$100,000. |
| 6. Tax Incentive for 2019 Asian Development Bank ("ADB") Annual Meeting in Fiji | ▪ A 150% tax deduction be provided for cash contribution above \$10,000 by corporate sponsors towards the hosting of the event. |

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| Policy | Description |
|--|---|
| 7. Application of Medical Incentive Package for Government Private Public Partnership ("PPP") Arrangements | <ul style="list-style-type: none">▪ The Income Tax (Medical Investment Incentives) Regulations will be amended to include hospitals under PPP arrangements to be eligible for the medical tax incentives. |
| 8. Modernisation of buildings in towns/cities | <ul style="list-style-type: none">▪ For capital investments above \$1 million (excluding interior furnishings, furniture and fittings), the following will apply:<ul style="list-style-type: none">- 125% tax deduction on total expenditure incurred for renovation and redevelopment; and- 25% investment allowance on total capital expenditure incurred for extension or redevelopment.▪ This incentive will be available to buildings that are 5 years or older. |
| 9. Incentive package for Research and Development ("R&D") | <ul style="list-style-type: none">▪ Introduction of 250% tax deduction on any expenditure incurred by an eligible company investing in R&D. This will only be applicable to ICT and Renewable Energy Industries. |
| 10. Investments in Electric Buses | <ul style="list-style-type: none">▪ A tax deduction of 55% will be allowed to investments in electric buses. |
| 11. Tax Deduction for salaries/wages paid for staff training through accredited training providers. | <ul style="list-style-type: none">▪ A 150% tax deduction will be provided to employers for cost of staff training through accredited training providers. |
| 12. CGT and Income Tax Exemption for South Pacific Stock Exchange Listing | <ul style="list-style-type: none">▪ The Income Tax Act will be amended to grant exemption for any gain made by a resident person from the sale of any capital asset including shares where the company undergoes listing.▪ The Income Tax (Exempt Income) Regulations will be amended to extend the current exemption which is applicable to the 'income made from the gain from the sale of shares by resident private companies arising from the re-organisation, restructure or amalgamation of a company for the purpose of listing on the South Pacific Stock Exchange' to include 'any income' in addition to gain made.▪ The exemption will be extended to public companies. |

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3.2 Service Turnover Tax (“STT”)

| Policy | Description |
|---|--|
| 1. Introduce a threshold for application of STT | ▪ Threshold of \$1.25m which is currently levied for licensed restaurants, bars, clubs, bistros and coffee shops, will now be aligned to all other prescribed services for the application of STT. |

3.3 Environment and Climate Adaptation Levy (“ECAL”)

| Policy | Description |
|--|---|
| 1. Introduce a threshold for application of ECAL | ▪ Threshold of \$1.25m which is currently levied for licensed restaurants, bars, clubs, bistros and coffee shops, will now be aligned to all other prescribed services for the application of ECAL. |
| 2. Increase Plastic Bag Levy | ▪ To discourage use of plastic bags and promote the use of reusable bags in line with government's commitment towards environment initiatives, plastic bag levy will be increased to 20 cents. |

3.4 Value Added Tax (“VAT”)

| Policy | Description |
|---|---|
| 1. Time of Supply rule for land development | ▪ Section 18(2)(e) of the Act to be amended to include the word 'land development'. This provision allows special time of supply rules to various industries where payment of VAT becomes applicable whenever any payment in respect of a supply becomes due. This is to support the current commercial basis of how Land Development Business is moving. |

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3.5 Tax Administration Act

| Policy | Description |
|---|---|
| 1. Offences relating to Tax Agents Registration | ▪ Section 116 of the Act will be amended to hold Tax Agents liable for non-compliance. This is similar to Section 137 of the Customs Act whereby Customs Agents are held liable and penalised. |
| 2. Offences for making false or misleading statement | ▪ Section 53 of the Act will be amended to include 'fraudulent conduct' apart from misleading/false statement in relation to Taxation Offences. |
| 3. Jurisdiction of Tax Tribunal | ▪ Section 81 of the Act will be amended to increase jurisdiction of Tax Tribunal from \$50,000 to \$500,000. |
| 4. Offence of failure to file a tax return | ▪ Section 49(1)(a) of the Act will be amended to include the word 'in the approved form' after the word 'due date'. |
| 5. Issue of Tax Identification Number ("TIN") | ▪ Section 38 of the Act will be amended to make TIN Registration mandatory and failure to comply will be treated as an offense. |
| 6. Offences for failure to comply with obligations under this Act | ▪ Section 50(1)(a) will be amended to insert a new provision "(vii) comply with section 38" |
| 7. TIN Registration | ▪ To insert a new section 38A or 38B for business taxpayer to update their details if there are any changes. Similar to section 24 of the VAT Act. |
| 8. Strengthen Self-Assessment Regime | ▪ FRCS is rolling out the New Tax Administration System ("NTIS") that will mainly be using the self-assessment provisions. The Tax Administration Act will be amended to strengthen the Self-Assessment Regime for a smooth transition and operation. |
| 9. Issuance of Infringement Notice for Offences under the Act | ▪ To amend the Act to include the issuance of the infringement notice for offences under the Act. |
| 10. Mandatory declaration of assets by all tax payers | ▪ All business and commercial taxpayers will be required to declare their assets along with their Income Tax Returns in the approved form. The taxpayers will also have to declare any assets paid for by them – even if held in any other person's name. ▪ A penalty of \$250,000 will be charged for failure to declare or making a false declaration. |

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| Policy | Description |
|---|---|
| 11. ECAL/STT | ▪ A new provision will be included to deal with offences for those who are not supposed to charge ECAL/STT. |
| 12. Offences and Penalty for Specified Offences | ▪ A new provision in Section 71 and 72 of the Act will be added to deal with offences for those who are not supposed to charge VAT. |

3.6 *Fiji Revenue and Customs Service Act*

| Policy | Description |
|--------------------------|--|
| 1. Institute proceedings | ▪ Section 51 of the Act will be amended to allow CEO, FRCS to amend or withdraw charges. |

3.7 *Customs and Excise Changes*

Please click on the button below to go to **Appendix A** which contains details of the Customs and Excise change.

Appendix A

3.8 *Exchange Control Relaxations*

Please click on the button below to go to **Appendix B** which contains details of the exchange control relaxations.

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4 Strategic Direction

4.1 Medium Term Fiscal Strategy

Government's fiscal policy will focus on sustaining current positive economic growth momentum and securing financial stability through tax policies which continue to support private sector investments, channelling of more resources to priority sectors that focus on raising the productive capacity, and management of deficits and debt within budgeted levels.

Government will continue to maintain the following medium term macroeconomic targets:

- Growth of 4-5% on an annual basis;
- Total investments level above 25% of GDP;
- Manage inflation at around 3%;
- Maintaining foreign reserves to cover 4-5 months of retained imports of goods and non-factor services;
- Maintain budget deficits at sustainable levels; and
- Reduce debt stock to 40% of GDP.

The following table summarises Government's medium term fiscal targets:

| Fiscal Targets | 2018/2019 Budget (\$m) | 2019/2020 Target (\$m) | 2020/2021 Target (\$m) |
|----------------------|---------------------------|---------------------------|---------------------------|
| Revenue: | 4,236.4 | 4,008.3 | 4,202.8 |
| – As a % of GDP | 36.3% | 32.7% | 32.6% |
| Expenditure: | 4,650.5 | 4,376.6 | 4,525.3 |
| – As a % of GDP | 39.8% | 35.7% | 35.1% |
| Net Deficit | (414.1) | (368.3) | (322.5) |
| – As a % of GDP | (3.5%) | (3.0%) | (2.5%) |
| Debt: | 5,583.2 | 5,951.4 | 6,273.9 |
| – As a % of GDP | 47.8% | 48.5% | 48.6% |
| GDP at Market Prices | 11,673.5 | 12,274.0 | 12,900.0 |

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4.1.1 Government Policies

Government's policies relating to revenue, expenditure and debt are summarised as follows.

Revenue

- Maintain competitive tax rates and broadening the tax base;
- Streamline tax administrative processes and tighten compliance by clamping down on tax evaders and tax cheats;
- Strengthen capacity within Fiji Revenue and Customs Service (FRCS) to minimise revenue leakages and improve the efficiency of tax collection;
- Ensure customs administrative processes are simple, streamlined and aligned to international best practices;
- Provide adequate resources to monitor prices of imported tariff concession items and ensure the prices of commodities are reduced to reflect adjustments to tariff rates;
- Review current tax legislation to be in line with the rapidly changing commercial environment;
- Adopt new technologies to digitalise taxation services, including the new roll-out of Electronic Fiscal Devices to capture VAT dues and other taxable incomes;
- Make tax incentives more attractive to draw new private investments in priority areas like ICT development, housing, SME development and resource-based sectors;
- Address environmental challenges and financing of climate adaptation and green projects;
- Combat non-communicable diseases by promoting healthy lifestyles and discouraging consumption of harmful health products;
- Review current fees and charges for Government services on a cost recovery basis whilst taking into account improvements to service delivery.

Expenditure

- Ensure adequate funding is provided for infrastructure development to continue to upgrade roads, bridges and jetties, and improve access to isolated regions;
- Improve access to quality education in Fiji through continuation of free education, hiring of additional teachers, transportation assistance and funding support for tertiary education;
- Continue to improve health services in Fiji by hiring more qualified doctors & nurses, extending access to private general practitioners, upgrading existing health facilities and supporting new public-private partnerships (PPP) in the health sector;
- Ensure the entire country is provided with safe drinking water, consistent power supply and effective sewerage disposal services;
- Continue support towards SME development, including the Youth Entrepreneurship Scheme, in order to empower people to raise incomes with innovative business ideas;
- Continue to fine tune social protection programmes so that they are well-targeted and sensitive to the special needs of the poor, disabled, elderly and the disadvantaged;
- Promote land development for residential purposes, encourage home ownership through funding support and explore options for securing feasible PPPs for housing developments;

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- Expand the provision of legal services to all districts and towns in the country;
- Accelerate the implementation of new public sector reform initiatives in the civil service, SOEs and public financial management;
- Set aside contingency resources for disaster rehabilitation & recovery and pursue risk-sharing initiatives by providing house insurance, crop insurance, and bundled insurance packages;
- Allocate sufficient budgetary resources to progress the implementation of various commitments related to climate change;
- Invest in Fiji's primary industries as a strategy to reduce poverty, manage urban migration, expand exports, create employment, promote food security and progress rural development;
- Ensure sufficient resources are allocated for Fiji's hosting of the Asian Development Bank (ADB) Annual Meeting in 2019;
- Ensure remuneration rewards for civil servants are based on productivity improvements and improved service delivery;
- Maintain law & order and strengthen border security; and
- Promote investments in other priority sectors identified in Fiji's National Development Plan ("NDP") and Green Growth Framework.

Debt

- Prudently manage fiscal deficits to reduce debt to below 40 percent of GDP in the medium term;
- Prioritise the domestic capital market for financing annual deficits to prevent risks associated with offshore borrowings and develop the domestic market;
- Manage foreign debt repayments to minimise risks associated with exchange rate fluctuations;
- Actively explore opportunities to refinance expensive debt with lower-cost financing facilities;
- Promote growth in the domestic bond market by encouraging secondary market trading and diversification;
- Encourage subscription of green bonds to raise funds for green projects and climate change related initiatives; and
- Prudently manage risks associated with on-lending to State entities and contingent liabilities.

4.1.2 Reform Programmes

Government has implemented a number of reform initiatives over the past few years. This includes the civil service reforms, public enterprise reforms, financial management reforms, labour reforms, land reforms and financial sector reforms.

Please click on the button below to go to **Appendix C** which contains details on these reforms.

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5 *Budget Allocations*

Please click on the icons for more details.



Department of Housing and Community Development - \$41.42 million



Ministry of Education, Heritage and Arts - \$535.37 million, an increase of \$50.76 million over the 2017/2018 revised estimate
Higher Education Institutions - \$123.79 million, an increase of \$20.29 million from the revised estimate for 2017/2018



Ministry of Health and Medical Services - \$334.96 million, an increase of \$13.9 million over the 2017/2018 revised estimate



Fiji Roads Authority ("FRA") - \$563.06 million, an increase of \$85.5 million over the 2017/2018 estimate
Water Authority of Fiji - \$349.26 million compared to \$306.9 million in the 2017/2018 revised estimate
Ministry of Infrastructure and transport - \$165.23 million
Ministry of Waterways and Environment - \$69.96 million



Ministry of Agriculture - \$96.84 million compared to \$86.3 million over the 2017/2018 revised estimate
Ministry of Sugar Industry - \$62.33 million.

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Ministry for Women, Children and Poverty Alleviation - \$133 million, an increase of \$19.6 million over the revised 2017/2018 estimate.

Ministry of Youth and Sports - \$24.1 million



Fiji Police Force - \$193.51 million, compared to \$148.8 million in the revised 2017/2018 estimate.

Republic of Fiji Military Forces - \$103.25 million, a slight increase from the \$96 million allocation in the 2017/2018 estimate



Ministry of Industry, Trade and Tourism - \$99.26 million



Ministry of Civil Service - \$51.99 million

Please click on the button below to go to **Appendix D** for full details of budget allocations and Government's other key initiatives.

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Appendix A: Customs and Excise Import Changes

Customs Tariff Act – Fiscal Duty Changes

| Policy | Description |
|---|---|
| 1. Reducing fiscal duty on used vehicles less than 2 years old (from the year of manufacture) | <ul style="list-style-type: none">Fiscal duty on used cars below 2 years will be reduced from 32% to 15% or half the current specific rate. |
| 2. Concessionary duty incentive for Public Transportation | <ul style="list-style-type: none">The concessionary duty rates for taxis will be extended to used diesel/petrol vehicles with an age of 2 years or less (7.5% or quarter of the existing specific rate, whichever is greater, applied on used vehicles will be applicable).This incentive will be extended for another 2 years (until 30 June 2021), including the concessionary duty regime for bus industry and inter-island shipping. |
| 3. Concession Code 245 – Inter Island Shipping | <ul style="list-style-type: none">Will be amended to include 'marine paints not manufactured or available locally' at 15% Fiscal, Free Import Excise and 9% VAT. |
| 4. Concession Code 236 - Manufacturers | <ul style="list-style-type: none">To amend column 2 by replacing the word 'Minister' with 'Comptroller'. |
| 5. Duty free on fresh fruits and vegetables | <ul style="list-style-type: none">Reduce Duty from 5% to 0% on Apples, Carrots, Tea, Grapes, Oranges, Pears, Mixed Vegetables, Celery, Capsicum, Mushrooms, Kiwi Fruits, Asparagus, Strawberries, Leeks, Spinach, Apricot, Peaches, Plum, Grapefruit, Raspberries, Cranberries, Pomegranate, Cauliflower, Broccoli and Brussel sprouts. |
| 6. Breakdown of Chassis Classification | <ul style="list-style-type: none">To create a local breakdown for Chassis which is to be classified separately in the Customs Tariff Act. |
| 7. Importation of photocopying apparatus (Full colour) | <ul style="list-style-type: none">CPIER to be amended to remove the requirement of an import licence on colour photocopy apparatus from Schedule 3, Item 4 of the CPIER. |
| 8. New Concession Code for Food Grade Plastic Pallets | <ul style="list-style-type: none">To create a separate concession code for importation of Food Grade Plastic Pallets. The duty rates applicable will be Free Fiscal, Free Import Excise and 9% VAT. |

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| Policy | Description |
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| 9. Expanding Concession Code 275 to include importation of noodle taste makers (flavours) in bulk. | <ul style="list-style-type: none">▪ To expand concession code 275 to include importation of noodle taste makers (flavours) in bulk for repacking. The duty rates applicable will be Free Fiscal, Free Import Excise and 9% VAT. |
| 10. New Concession Code (Code 217A) | <ul style="list-style-type: none">▪ To create a separate concession code (Code 217(A)) for local airline companies involved in international flights:▪ The list of items are as follows:<ul style="list-style-type: none">- Inclusion of the following aircraft consumables under Concession code 217(A):<ul style="list-style-type: none">(i) Aircraft paints, paint thinner and paint hardener(ii) Aircraft cleaning chemicals (various specialised chemicals for aircraft cleaning for e.g. lavatory chemical, sink cleaning, etc.)(iii) Aircraft adhesives and sealants (various to be used on board)(iv) Aircraft disinfection spray – aerosol and liquid (for fumigation and disinfectant purposes)(v) Aircraft biocide chemicals (used to clean aircraft fuel tank to eliminate fungus)(vi) Aircraft seat cover material – fabric and leather(vii) Aircraft decals and placards (signage used on the aircraft)(viii) Aircraft pre-mask spray set (stencils for aircraft logo, design, etc.)(ix) Aircraft manuals – books and compact discs(x) In-flight audio tapes, compact discs and on-board media loaded drives.(xi) Aircraft fuel tank treatment kits (to check fuel samples before and after biocide cleaning)(xii) Oil sample kits (Oil is filled in the kits and sent to laboratory abroad for testing)(xiii) Water finding paste to test for any leakages. Comes in the form similar to “plasticine” or “crystals”.(xiv) All kinds of tapes used for aircraft maintenance (Aluminium Tapes, Ducting Tape, High Speed Tape etc.) |

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| | (xv) Grease for aircraft servicing (current concession is on oil, fuel and grease used in the production of cooling agent). |
| 11. Amendment in the Customs Tariff Act to Separate Telecom and Electrical Cables | ▪ The Customs Tariff will be amended to Separate Telecom and Electrical Cables and provide a duty reduction on telecommunications cables from 15% to 5%. |
| 12. New concession code 231A | ▪ To create new Code 231A to grant a concession on packaging material to approved exporters of local fresh produce. |
| 13. Increase fiscal duty on Linear Low Density Polyethylene (LLDPE) Stretch Wraps | ▪ Fiscal duty on Linear Low Density Polyethylene (LLDPE) Stretch Wraps will be increased from 5% to 32%. |
| 14. Increase fiscal duty on structural floor (decking) sheets. | ▪ Fiscal duty on structural floor (decking) sheets will be increased from 5% to 32%. |
| 15. Increase fiscal duty on imported sweetened and carbonated drinks | ▪ A higher specific rate of duty of 32% or \$2 per litre will be applied to imported sweetened and carbonated drinks. |

Import Excise Duty

| Policy | Description |
|--|--|
| 1. Increase in Import Excise Duty on Cigarettes, Tobacco and Alcohol | ▪ Increase in import excise duty by 15% on Cigarettes, Tobacco and Alcohol |

Local Excise Duty

| Policy | Description |
|---|--|
| 1. Increase in Local Excise Duty on Cigarettes, Tobacco and Alcohol | ▪ The Local Excise Duty on Cigarettes, Tobacco and Alcohol will be increased by 15%. |

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New local excise rates for tobacco and alcohol are as follows:

| | 2017 - 2018 Rates | 2018 - 2019 Rates |
|--|----------------------------|----------------------------|
| Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less | \$2.98/litre | \$3.43/litre |
| Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more | \$3.47/litre | \$3.99/litre |
| Potable Spirit Not Exceeding 57.12 GL | \$65.63/litre | \$75.47/litre |
| Potable Spirit Exceeding 57.12 GL | \$114.93/litre | \$132.17/litre |
| Still Wine | \$4.63/litre | \$5.32/litre |
| Sparkling Wine | \$5.28/litre | \$6.07/litre |
| Other fermented beverages: Still | \$4.63/litre | \$5.32/litre |
| Sparkling | \$5.28/litre | \$6.07/litre |
| Ready to Drink Mixtures of any Alcohol and non-alcoholic beverages of an alcoholic strength by volume of 11.49% or less | \$2.13/litre | \$2.45/litre |
| Cigarettes from local tobacco per 10 sticks | \$2.01/10 sticks | \$2.31/ 10 sticks |
| Cigarette from imported tobacco per 10 sticks | \$3.02/10 sticks | \$3.47/10 sticks |
| Manufactured tobacco containing tobacco grown outside Fiji | \$174.31/kg | \$200.45/kg |
| Manufactured tobacco containing tobacco grown in Fiji | \$102.40/kg | \$117.76/kg |
| Manufactured tobacco containing tobacco grown outside Fiji and tobacco grown in Fiji: <ul style="list-style-type: none">▪ Tobacco grown outside Fiji▪ Tobacco grown in Fiji | \$174.31/kg \$102.40/kg | \$200.45/kg \$117.76/kg |

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Customs Legislation

| Policy | Description |
|---|---|
| 1. Loading without Customs Entry (Pre-Shipment) | ▪ Section 66 of the Customs Act to be amended to include “\$100 per day per entry to be imposed for failure to perfect SAD for a pre-shipment within the required period”. |
| 2. Provisional Entries | ▪ The Customs Act will be amended to impose penalty at an initial rate of 25% on the export value with a 5% compounding rate. |
| 3. Definitions | ▪ Section 2 of the Customs Act will be amended to include definition of Authorised Economic Operator (“AEO”). |
| 4. Deferred Payment System | ▪ The Customs Act will be amended to exclude AEO. |
| 5. Entries for Export (Late Penalty Fine) | ▪ Customs Regulation 82(3) will be amended to exclude AEO. |
| 6. Customs Act Section 92 | ▪ Section 92 of the Customs act will be amended to include 25% penalty on late payment for AEO. |
| 7. Drawback allowed on re-export | ▪ Section 98(1)(b) of the Customs Act will be amended to reduce the 2-year duty-drawback claim period to 1 year. |
| 8. All Licensing under Customs Act | ▪ The Customs Regulation will be amended for the validity of licenses to be changed to 3 years from the current 1-year period. The annual renewal fee will be thrice the amount of current licence renewal fee. |
| 9. Miscellaneous | ▪ Section 114 of the Customs Act to be amended to allow Customs Officers to retrieve sample of goods already cleared. |
| 10. Auction Sale | ▪ To amend the Customs Act by removing the word ‘AUCTION SALE’ and replace with ‘SALE’. This will mean that the method of disposal of goods will depend on FRCS. |
| 11. Customs Agent Code of Conduct | ▪ Similar to Tax Agents Code of Conduct, FRCS will introduce a Code of Conduct for the Customs Agents. |

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The changes to the exchange control policies to be effective from 1 August 2018 are as follows:

| Category of Payments | | Current Delegated Limit | New Delegated Limit |
|----------------------|--|--------------------------|-----------------------------------|
| 1 | Charges/Services/Fees | \$500,000 per invoice | \$1,000,000 per invoice |
| 2 | Opening of Foreign Currency Accounts (FCA) for film production | Not Delegated | Full Delegation |
| 3 | Opening of Retained Foreign Currency Accounts(RFCA) | Not Delegated | \$100,000 per company |
| 4 | Advance Import Payments made to Individuals | Not Delegated | \$2,000 per invoice |
| 5 | Reimbursement of Rental Bond/Immigration Bond/Other | \$2,000 per month | \$10,000 per month |
| 6 | Withdrawal of Foreign Currency for Foreign Vessels | \$10,000 per beneficiary | \$50,000 per withdrawal |
| 7 | Lubricant/Engine Oil/Hydraulic Oil | Not Delegated | \$10,000 per invoice |
| 8 | Local Foreign Currency Loans | Not Delegated | \$2,000,000 per company per annum |

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Civil Service Reforms

The Government announced that the Civil Service Reform Management Unit (“CSRMU”) had implemented several reform activities to modern management practices and principles in the civil service.

The Open Merit Recruitment and Selection (“OMRS”) Guideline was rolled out in 2016. The OMRS Guideline was updated in 2017 with the inclusion of a new Procedure Review Process to allow job applicants to lodge appeals against job selection decisions.

The Discipline Guideline was introduced in January 2017 following extensive consultations with the World Bank in 2016 and introduces the international best practice with “positive management”. The CSRMU has engaged new Core Facilitators to provide training across the civil service on the new discipline guidelines.

The Discipline Guideline outlines the processes and conditions by which Permanent Secretaries can institute disciplinary action for civil servants which must be executed fairly, consistently and transparently. Extensive training will continue to be conducted on the Discipline Guideline with supervisors and managers across the civil service.

Civil Service Pay Review has been completed and implemented after the job evaluation exercise. Fifteen new broad salary bands (A to O) have been implemented through the review, capturing all job professions across the civil service. Ongoing evaluations are conducted by trained evaluators for any job changes and when new jobs are created in ministries and will now be part of the ongoing work of Human Resource Departments.

Performance Management Framework (“PMF”) consultations was convened from November 2017 to January 2018. The framework adopts an evidence-based PMF system for the civil service designed to reward civil servants with pay increments or bonuses for satisfactorily delivering key outputs that are outlined in the Strategic Operational Plans of line Ministries. PMF training sessions have been undertaken in all line ministries.

Learning & Development Guideline sets the criteria for taking study leave (with & without pay) within the civil service. While Ministries and Departments are committed to investing in building internal capacity, the guideline ensures priority is offered to training in scarce skill areas.

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Public Enterprise Reforms

The paragraphs below discuss updates on key State Owned Enterprise (“SOE”) reforms.

Energy Fiji Limited (EFL): The Fiji Electricity Authority was corporatised on 16 April 2018 into a public limited liability company and renamed as Energy Fiji Limited (EFL). Government offered 5% of the shares in EFL to individual domestic account holders as non-voting shares. Government plans to divest a maximum of 44% of its shares to institutional investors as voting shares in forthcoming year. The Electricity Act 2017 was passed by Parliament in March 2017. Once the legislation is enacted, it will form the basis for deregulating the energy sector by separating EFL’s commercial and regulatory functions.

Government Printing & Stationery Department (GPSD): An Expression of Interest for the sale of the GPSD assets was advertised in 2015. Government has signed a Letter of Intent with the preferred consortium and discussions are currently underway to execute a sale agreement. This is expected to be finalised in the forthcoming year.

Kalabu Tax Free Zone (KTFZ) properties: Government will continue to market the sale of its remaining two properties at KTFZ to investors.

Savusavu Industrial Zone (SIZ): SIZ is situated on a 5.2 acre land area, consisting of 18 vacant lots. An Expression of Interest (EOI) was advertised in November 2017 inviting potential investors to secure vacant lots under 99-year lease arrangements. The EOI closed on 26 January 2018 with the final decision on land sale expected to be made by the end of 2018.

Review of Public Enterprises Act 1996: This review is currently being pursued with technical assistance from the ADB. The review aims to strengthen the existing legislation with provisions to effectively monitor SOEs and ensure they achieve desired financial targets whilst delivering key policy goals.

Financial Management Reforms

Public Expenditure Financial Accountability (PEFA) assessment carried out in 2013 provided recommendations to improve Fiji’s Public Financial Management (PFM) System. Government sought assistance from the Pacific Financial Technical Assistance Centre (PFTAC) and ADB to effectively implement the recommendations. The following PFM initiatives are earmarked for implementation in 2018-2019:

- i) Review of the Financial Management Act 2004, the Finance Instructions 2010, and the Procurement Regulations;
- ii) Formulation of the Financial Reporting Guideline for Ministries and Departments in line with International Public Sector Accounting Standards (IPSAS);
- iii) Continue to verify and update Government’s National Fixed Asset Register;
- iv) Review of the Chart of Accounts for Whole of Government;
- v) Undertake a Public Expenditure Review (PER); and
- vi) Assess Fiji’s readiness to move towards medium term expenditure budgeting.

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Labour Reforms

The labour reforms include the following:

New Leave Entitlements – increase in the maternity leave period from 84 days to 98 days. In addition, five days paternity leave and five days family care leave will also be introduced and a 150% tax deduction will be applicable for wages and salaries paid for these leave entitlements.

Workers Compensation Reform - The 1% National Training & Productivity Centre (NTPC) levy payable by employers will be restructured with 0.5% to expanding access to private medical services, 0.4% as workers compensation levy and 0.1% to be maintained as NTPC levy. The 0.4% workers compensation levy will be redirected to the Accident Compensation Commission of Fiji (ACCF) to cover costs of no-fault accident compensations at the workplace and injury at schools. Government will also be introducing a 150% tax deduction on employee training costs.

From 2015 to May 2018, a total of 781 Fijians found jobs under the New Zealand Recognised Seasonal Employers Programme. During the same period, around 469 workers were able to secure employment under the Australian Seasonal Worker Programme.

The Fiji Volunteer Service (FVS) has provided opportunities for many of Fiji's retirees to serve in various countries such as Nauru, Marshall Islands, Vanuatu and Tuvalu. A total of 53 volunteers are currently working in the education and health sectors in these countries.

Land Reforms

Government continues to promote the productive use of idle land through the land bank initiative.

A sum of \$2.0 million has been provided in the 2018-2019 Budget to support development of iTaukei land under the land bank initiative.

Financial Sector Reforms

Pensions Savings Legislation: RBF will continue to work towards finalising a comprehensive pensions savings legislation to strengthen the supervision of pension fund activities in Fiji. The newly-drafted legislation proposes to widen the scope of supervision beyond FNPF and include other pension savings providers.

Credit Union Legislation: The draft legislation will be presented in Parliament in 2019. RBF will be consulting all credit union industry players, to clearly articulate the Bank's new supervisory role, as well as new financial requirements for strengthening the governance of Credit Unions.

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Review of Banking Legislation: Based on the IMF recommendations, RBF will review the Banking Act 1995 in 2019 to ensure it remains relevant in today's changing business environment.

Review of Insurance Legislation: A full review of the Insurance Act 1998 and the Insurance Regulations will be implemented soon to respond to new changes in Fiji's business environment and accommodate an increasing demand for insurance coverage.

Fair Reporting of Credit Act: The Fair Reporting of Credit Act and its subsidiary regulations came into force in May 2016. On 29 March 2018, RBF issued a licence to Credit Information Reporting Agency PTE Limited (CIRA) to commence operations as a credit reporting agency in Fiji.

Personal Properties Securities Act: This new legislation was passed in Parliament last year to provide an institutional framework that would allow moveable property to be used as collateral for credit purposes. As part of this reform, a Personal Properties Securities Registry will be developed for lenders to register their charge of interest over movable property.

Small and Medium Enterprises (SME) Credit Guarantee Scheme: This scheme provides full guarantees on loans rendered to small and medium enterprises. By the end of February 2018, a total of 1,712 loans valued at over \$99.5 million were approved under the scheme. Losses under this scheme have been less than 1.0 percent of the scheme's total loan portfolio.

Import Substitution & Export Finance Facility: This facility offers concessional loans to promote investments in exports, import substitution, renewable energy and sustainable public transportation. By the end of April 2018, the Facility had disbursed a total of \$119.9 million, of which \$34.1 million has been repaid.

Housing Facility: This facility aims to improve accessibility to housing credit by low-income earners through the Housing Authority, commercial banks, licensed credit institutions and Fiji Development Bank. The total funds available for lending was increased from \$35 million to \$60 million in 2017. Utilisation of funds under the facility has increased from \$25 million in July 2017 to around \$37.8 million to date.

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Poverty Alleviation, Social Empowerment and Rural Development

The poverty alleviation programmes, and key social empowerment initiatives of the Government are as follows:

Social Protection

| Key initiatives | |
|---|--|
| Poverty Benefit Scheme | Budget allocation of \$38.1 million. |
| Social Pension Scheme | Provides a social safety net for elderly citizens who currently do not receive any form of Government assistance or pension support. A sum of \$47.4 million has been allocated. |
| Food Voucher Programme for Rural Pregnant Mothers | Budget allocation of \$1.65 million. |
| Child Protection Allowance | Programme provides allowances for children from low-income families, single-parent families and prisoner dependents. Budget allocation of \$9.3 million. |

Women

| Key initiatives | |
|------------------------------|---|
| Women's Plan of Action (WPA) | The taskforce would review the WPA, conduct activities under its five thematic areas and establish a new thematic area, 'Gender and Climate Change'. Budget allocation \$1.2 million. |
| Fiji National Women's Expo | The Expo provides a platform for rural women to sell their produce and gain access to potential urban market. Budget allocation \$0.5 million |

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Key initiatives

| | |
|----------------------------|--|
| Domestic Violence Helpline | A sum of \$0.2 million to support the operations of the 24 hour Domestic Violence Helpline which will provide a platform for reporting domestic violence and sexual assault to the relevant Authorities. |
| Fiji "Barefoot College" | This is a joint initiative between Government and Barefoot College International to construct a vocational college targeted at a rural-based women. Budget allocation \$2.5 million. |

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Housing

Key initiatives

| | |
|---------------------------------------|--|
| Upgrade of Informal Settlements | A sum of \$4.47 million for on-going upgrading works at four squatter settlements. |
| First Home Purchase Programme | <p>\$5 million allocation for eligible household with a combined annual income below \$50,000 to receive a grant of \$10,000 if they buy a house or \$15,000 if they build a house.</p> <p>\$10 million allocation for eligible household with a combined annual income between \$50,001 to \$100,000 to receive a grant of \$5,000 if they buy a house or \$10,000 if they build a house.</p> |
| First Land Purchase Programme | \$5 million allocation to support home ownership by subsidising the cost of lots developed by the Housing Authority and Fiji National Provident Fund ("FNPF") for Fijians with a combined family income less than \$50,000. |
| Survey of Land Services | \$750,000 is allocated for Government to outsource the survey of land services for the survey of unsurveyed land. |
| Interest Subsidy for Home Loans | \$1 million allocated for first home buyers with a combined income of less than \$50,000 that have financed their home loan through the Concessional Finance Facility under the Reserve Bank of Fiji. |
| City Wide Informal Settlement Upgrade | A sum of \$0.3 million for the upgrading of squatter settlements in urban and peri-urban areas. |

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Key initiatives

| | |
|---|---|
| Upgrade of Town Wide Informal Settlements | A budget allocation of \$5.76 million to continue with construction works at Waidamudamu, Nadonumai, Wakanisila, Qauia and Tauvegavega settlements. |
| PRB Subsidy | A sum of \$1.3 million has been allocated to subsidise the rental obligations of PRB tenants |
| Housing Assistance Relief Trust (HART) | A budget allocation of \$0.5 million. |

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Priority Sectors

Education, Heritage and the Arts

Some of the budget allocations are as follows:

- Review of the national curriculum - \$0.3 million
- Implementation of a new School Scouts Programme - \$0.2 million
- School counselling services - \$0.3 million
- Training and capacity building of school librarians - \$0.05 million
- "WASH" facility to ensure the sanitation and hygiene of all schools - \$0.3 million
- Construction of teachers quarters in rural and remote schools- \$0.7 million
- Rehabilitation of Levuka World Heritage Structures- \$0.5 million
- Commemoration of the 140 year anniversary of the arrival of the first ship carrying indentured labourers from British India. This includes preparatory works for a Girmit Museum in Lautoka and a national celebration - \$0.5 million
- Beautification of Thurston Garden- \$2 million
- Tuition subsidy for Early Childhood Care and Education (ECCE) - \$2.8 million
- Free tuition programme for Year 1 to Year 13 students - \$66.4 million
- Vocational Grants for centres attached to secondary schools - \$1.25 million
- Location allowance for ECCE, primary and secondary school teachers in rural and remote schools - \$21.6 million

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- Bus Fare Assistance Programme - \$25 million
- Free Milk Programme for Year 1 students - \$3.1 million
- Cyclone Rehabilitation for schools damage by TC Winston, TC Keni, TC Josie and TC Gita - \$90 million
- FNU Labasa campus - \$6 million
- FNU Nasinu campus - \$4 million
- Tertiary Education Loan Scheme - \$205.6 million
- National Toppers Scheme - \$43.8 million
- Operating Grant to Higher Education Institutions - \$104.8 million
- National Gallery for Contemporary Art - \$3 million
- Fiji Museum Renovation - \$0.5 million

Health

Some of the programmes are as follows:

- Parenthood Assistance Payment - \$5.0 million. After child birth, Fijian mothers from families with household income below \$30,000 will be given a \$1,000 in a HFC bank account. \$500 will be available immediately and \$500 can be accessed when the child enters Year 1
- Fiji Centre for Communicable Disease Control - \$1.0 million
- Upgrade of Lodon Health Centre, Korovou Hospital, Valelevu Health Centre, Lautoka Hospital, Labasa Hospital- \$8.75 million
- New Kidney Treatment Centres in Suva and Nadi - \$2.0 million
- Kidney Dialysis Subsidy - \$3.5 million. Treatments will be offered at \$150 for patients with household income of over \$30,000 and offered at a subsidised rate of \$75 for those who fall below this income threshold.
- Doctors Salaries: caters for the filling of doctors positions that are currently vacant - \$47.6 million
- Recruitment of 61 allied and technical health professional- \$1.9 million
- Charter of aircraft for medical evacuations - \$2.55 million
- Outsourcing of janitorial and security services for health facilities - \$7.4 million
- The Public Health Services Unit in the Ministry of Health will receive a budget of \$8.1 million to address NCDs, and strengthen related programmes including HIV & AIDS, family health, adolescent health, child health, environmental health and mental health.

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- Purchase of items such as drugs and consumables, as well as the continuation of the free medicine programme available to Fijians with an annual income below \$20,000 - \$26.7 million

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Infrastructure Development and Public Utilities

Electrical Grid extensions, Bridges and Electrical project

Major allocations under the Ministry of Infrastructure and Transport budget are as follows:

- Grant to the Land Transport Authority (\$28.3 million) to provide a safe, efficient and sustainable land transport system
- Electricity grid extension to Nalawa District, Nasau in Rakiraki (\$2 million)
- Electrical grid extension to Lalakoro, Vunimako, Rokosalase & Daqau Settlement in Seaqaqa (\$2.1 million)
- Construction of permanent weighbridge at Karavi in Ba (\$3 million)
- Customs service/administration office reinstatement in Labasa (\$1.5 million)
- Installation of red light and speed cameras (\$1.5 million)
- Purchase of an additional new government vessel (\$3 million)
- Construction of a retaining wall to prevent erosion at the government wharf at Walu Bay (\$3 million)
- Upgrading of government wharf at Walu Bay (\$1.15 million)
- Rehabilitation of solar home system and diesel schemes for the relocated villagers and re-constructed homes damaged by TC Winston (\$3.8 million)
- Rural electrical project (\$50.8 million)
- Electrical Grid extension to Lagalaga settlement in Labasa (\$2.3 million)
- Electrical Grid extension to Solove Stage 1, Seaqaqa (\$1.02 million)
- Energy Fiji Limited's subsidy programme (\$4 million)

Waterways and Environment

The Ministry of Waterways and the Ministry of Environment have been combined to form the newly-established Ministry. Allocations under this Ministry budget are as follows:

- Irrigation support for farm development programme (\$2.5 million)
- Drainage for rural residential areas (\$3 million)
- Preparation and protection of Fiji's coastal communities from severe weather events and erosion (\$14 million)
- Purchase of standardised bins (\$1 million)
- Maintenance of completed irrigation schemes (\$1.95 million)
- Drainage and flood protection (\$14.5 million)
- Drainage for farmlands (\$3.0 million)
- Maintenance of drainage (\$3.8 million)

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- Watershed management (\$2.0 million)
- Additional survey for the Nadi Flood Alleviation Project (\$2.5 million)
- Construction of Naboro Landfill (\$3.3 million)

Water and Sewerage

Allocations under the Water Authority of Fiji (WAF) budget are as follows:

- Water sources and water treatment plants (\$33.7 million) to provide a safe, efficient and sustainable land transport system
- Water distribution system project (\$51.7 million)
- Wastewater treatment plant (\$18.6 million)
- Improvement and upgrade of wastewater distribution system (\$20.4 million)
- Rural water supply programme (\$27 million)
- Rural water carting to non-metered areas (\$6 million)
- Government subsidy for Rainwater harvesting systems (\$4.5 million)
- Integrated meter management (\$5.2 million)
- Non-revenue water reduction project (\$8 million)
- Water catchment management programme (\$3 million)
- Electrical upgrading project (\$17.6 million)
- Relocation of existing water and wastewater pipeline (\$3.1 million)
- Emergency response contingency (\$5 million)
- WAF facilities upgrade (\$2.7 million)

Urban water supply and wastewater management project

As part of the project, a new 40 megalitre treatment plant will be constructed in Viria, Rewa. Funding is also provided by the Asia Development Bank (\$7.6 million), European Investment Bank (\$5.5 million), a grant from Green Climate Fund (\$2.9 million) and local funding (\$21.9 million).

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Agriculture

Key allocations under the Ministry of Agriculture are as follows:

- Development assistance for sustainable rural livelihoods (\$5.5 million)
- Renewal of agricultural leases (\$7.8 million)
- Agriculture Marketing Authority (AMA) Capital Grant (\$5.6 million)
- Engaging small-scale producers in sustainable farming in remote areas (\$2.3 million)
- Maintenance of existing rural office and staff quarters (\$1.5 million)
- Ongoing cyclone rehabilitation and maintenance of existing rural offices and staff quarters (\$3.1 million)
- Rural and Outer Island Agricultural Development Programme (\$1.5 million)
- Upgrading of existing farm access roads (\$2.5 million)
- Livestock Rehabilitation Programme (\$1.5 million)

Sugar

Allocations under the Ministry of Sugar Industry budget are as follows:

- Fertiliser subsidy (\$15.4 million)
- Sugarcane development and farmers assistance (\$15.4 million)
- Cane Access roads (\$6.0 million)
- Cane Cartage which covers the transportation costs of sugarcane from Penang to the Rakiraki Mill (\$5.66 million)
- Weedicide subsidy (\$6.32 million)
- New Farmers Assistance (\$2.0 million)
- Sugarcane farm mechanization (\$1.0 million)
- Sugar individual small grants scheme (\$1.0 million)

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Development Cooperation

The total value of official development assistance (“ODA”) to Fiji in 2018-2019 is estimated to be around \$169.5 million, of which \$19.6 million will be disbursed as cash grant, whilst the remaining \$149.9 million will comprise aid-in-kind (AIK) contributions.

Aid-In-Kind

The table below highlights the sectorial distribution of AIK in 2018/2019:

| Sector | 2018-2019 (F) | |
|------------------------|---------------|--------------|
| | (\$M) | % |
| General Administration | 53.5 | 35.7 |
| Social Services | 41.9 | 28.0 |
| Economic Services | 48.4 | 32.3 |
| Infrastructure | 6.1 | 4.0 |
| Total | 149.9 | 100.0 |

Source: 2018/2019 Budget supplement

Cash Grant

The table below shows the sectorial distribution of cash grants:

| Sector | 2018-2019 (F) | |
|------------------------|---------------|------------|
| | (\$M) | % |
| General Administration | 1.4 | 7.1 |
| Social Services | 0.8 | 4.1 |
| Economic Services | 13.6 | 69.4 |
| Infrastructure | 3.8 | 19.4 |
| Total | 19.6 | 100 |

Source: 2018/2019 Budget supplement

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This Fiji Budget Report has been prepared to provide a prompt overview of the general issues raised in the 2018 – 2019 Fiji Budget. It does not exhaustively cover the subjects discussed. When specific issues occur in practice it may be necessary to refer to the laws and regulations and to obtain appropriate professional advice.

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