



# 2010 National Budget

## Special Report – 27 November 2009

The Finance Minister and Interim Prime Minister, Commodore Voreqe Bainimarama, this morning delivered the 2010 Budget Address.

In the following pages, the Kontiki Weekly summarises the main elements of the Budget with emphasis on measures that directly affect the **capital markets** and other measures that might be of interest in the context of the broader **investment** environment. For readers requiring information on other aspects of the Budget, please contact the *Kontiki Weekly* team.

### Overview

With the theme of “*Strengthening the Foundations for Economic Growth and Prosperity*” the budget understandably focused on bringing it through the after-effects of the global financial crisis and the 2006 coup in Fiji.

Again the Budget took a similar three-pronged approach to that of last year with emphasis being placed on:

- Stimulating **economic growth** by targeting infrastructure, land tenure and private investment.
- **Reducing poverty** through a range of targeted assistance to the poor.
- **Public sector reform.**

Fiji Budget Estimates (\$'000)					
	2010B	2009RE	2008A	Change	Change
	A	B	C	A - B	A - C
<b>Estimated Revenue:</b>					
Direct Taxes	424,657	431,914	438,547	-2%	-3%
Indirect Taxes	840,582	756,193	804,510	11%	4%
Others	219,411	194,880	211,878	13%	4%
<b>Total Operating Receipts</b>	<b>1,484,650</b>	<b>1,382,987</b>	<b>1,454,935</b>	<b>7%</b>	<b>2%</b>
Total Investing Receipts	1,865	1702.4	1,638	10%	14%
<b>Total Estimated Revenue</b>	<b>1,486,515</b>	<b>1,384,690</b>	<b>1,456,573</b>	<b>7%</b>	<b>2%</b>
<b>Estimated Expenditure:</b>					
Operating	1,327,373	1,303,945	1,162,569	2%	14%
Capital	325,210	352,802	212,748	-8%	53%
Value Added Tax	54,015	58,479	51,443	-8%	5%
<b>Total Estimated Expenditure</b>	<b>1,706,598</b>	<b>1,715,226</b>	<b>1,426,759</b>	<b>-1%</b>	<b>20%</b>
<b>Estimated Net Deficit</b>	<b>(220,083)</b>	<b>(91,986)</b>	<b>(112,818)</b>	<b>139%</b>	<b>95%</b>
<b>Debt Repayments</b>	<b>(276,807)</b>	<b>(329,645)</b>	<b>(253,731)</b>	<b>-16%</b>	<b>9%</b>
<b>Gross Deficit</b>	<b>(496,889)</b>	<b>(421,631)</b>	<b>(366,549)</b>	<b>18%</b>	<b>36%</b>
<b>Net Deficit as a Percentage of GDP</b>	<b>3.5%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>127%</b>	<b>77%</b>
<b>Norminal GDP</b>	<b>6,288,077</b>	<b>5,965,100</b>	<b>5,693,500</b>	<b>5%</b>	<b>10%</b>
<b>Real GDP Growth</b>	<b>1.9%</b>	<b>-2.5%</b>	<b>-0.1%</b>	<b>-176%</b>	<b>-2000%</b>
<b>Inflation - estimates</b>	<b>2.0%</b>	<b>7.0%</b>	<b>6.6%</b>	<b>-71%</b>	<b>-70%</b>

B = Budget RE = Revised Estimate A = Actual



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However the budget also contained a number of bold measures, with announcements of new tax and duty concessions, investment incentives and the relaxation of some exchange control measures.

This was somewhat of a surprise given the pressure on Government's revenue streams and the very recent concerns over the state of the nation's foreign reserves. Whether revenues can grow sufficiently to maintain the stated 2.5% deficit targeted remains to be seen but for now, there are several measures that will be warmly welcomed by the capital markets and business community.

Again, as in last year's announcement, a number of policy announcements were preliminary and/or lacked clarity, and we await more details going forward.

2010 National Budget Allocation (\$'000)						
	2010B	2009RE	2008A	Change	Change	% of Total
	A	B	C	A - B	A - C	
Education, National Heritage, Culture and Arts	250,454	252,548	238,834	-1%	5%	15%
Infrastructure	265,933	310,459	214,178	-14%	24%	16%
Law & Order	189,213	191,928	181,014	-1%	5%	11%
<i>Military</i>	92,570	96,829	84,045	-4%	10%	
<i>Police</i>	78,404	76,381	80,773	3%	-3%	
<i>Judiciary</i>	1,671	1,271	1,280	31%	31%	
<i>Legislature</i>	1,275	1,796	948	-29%	34%	
<i>Other Laws &amp; Order Areas</i>	15,293	15,650	13,968	-2%	9%	
Health, Social Welfare, Women and Poverty Alleviation	182,107	176,509	162,341	3%	12%	11%
Primary Industries (Agriculture, Fisheries and Forestry)	65,912	84,972	48,295	-22%	36%	4%
Industry & Trade, Public Enterprises, Tourism and Communications	45,472	47,348	26,644	-4%	71%	3%
Provincial Development, Natural Disaster Management, Indigenous and Multi-Ethnic Affairs	52,190	56,363	45,303	-7%	15%	3%
Finance and National Planning	80,980	85,493	83,155	-5%	-3%	5%
Labour, Industrial Relations and Employment	9,661	8,535	6,897	13%	40%	1%
Other Areas	564,677	501,070	420,098	13%	34%	33%
<b>TOTAL</b>	<b>1,706,598</b>	<b>1,715,226</b>	<b>1,426,759</b>	<b>-1%</b>	<b>20%</b>	<b>100%</b>

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### Specific Measures for the Capital Markets

Measures directly affecting the Capital Markets include the following:

- In the most significant move this year for the capital markets, **listed companies** with at least 40% local shareholding will pay a concessionary tax rate of 20%. This compares with a 28% corporate tax rate from 2010 (the last step in the progressive tax rate reduction from 31% as announced in the 2009 budget).

However Government should perhaps have linked the concessionary tax rate to how widely held a listed company's shares are (for example, listed companies with at least 40% *free float*). Such a measure would have encouraged wider public participation in listed companies.

Nevertheless, the tax concession is a bold and welcome move. This has been a feature of every SPSE and CMDA budget submission to Government since the general "no double taxation rule" (i.e. dividends are not taxed to the extent that tax is paid at the corporate level) effectively wiped out any tax advantage to shareholders of a listed company.

- The allocation for the **South Pacific Stock Exchange** (SPSE) was increased from \$250,000 to \$300,000. The additional funding will help fund a number of innovative developments at the SPSE including the proposed electronic trading platform.
- As expected the allocation for the **Capital Markets Development Authority** (CMDA) was removed following the CMDA's absorption into the Reserve Bank of Fiji (RBF).
- Government reiterated its commitment to reform the **superannuation** industry. On this, initiatives include:



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- The review of the operations and legislative framework of the **Fiji National Provident Fund (FNPF)** would be undertaken in 2010. The review will be assisted by the Singapore Economic Corporation.
- The continued development of a risk-based supervisory framework for FNPF by the RBF.
- Plans to develop new superannuation legislation.

Deregulation could promote competition, widen the choice of fund managers and improve member returns. It could also boost economic growth through the more efficient utilisation/investment of funds. We have always maintained that mobilising the massive funds currently held by FNPF into productive sectors of the economy could be the key to unlocking Fiji's potential. Growth has to be fuelled by investment dollars and FNPF is by far the single largest potential source of such funds.

- Government also announced plans to remove **price controls** over the next year. Despite some reservations from the public, this move could result in competition and lower prices over time. It would also give listed companies like FMF the flexibility to adjust prices to address events like the recent devaluation or commodity price movements. Until now, where the PIB pricing template has not reflected input prices, companies like FMF have been adversely impacted.
- The Finance Minister did not mention any planned **privatisations**. Whilst we noted that \$200,000 is again budgeted for "sale expenses" in 2010, with the same projected through to 2011, no specific cash inflows from privatisations appear in the Budget Estimates.

Privatisations in our view should be encouraged, as a means of raising funds and reducing public debt. It would also boost the capital markets in general and as international experience has shown, economic growth can be greatly enhanced by a vibrant capital market.

- **Other incentives** such as the 150% tax deduction for **listing expenses** have been left intact.

### Other Measures Affecting Investment

#### Direct and Indirect Tax Measures

- Continuing with the progressive reduction in the **corporate tax rate** announced in the 2009 Budget, the corporate tax rate will reduce from the current 29% to 28% in 2010. This move could well result in positive elasticities for revenue collection.
- The qualifying investment level for **tax free region** incentives has been reduced from \$500,000 to \$250,000.
- Industries receiving specific new incentives include **tourism, audio-visual production, pearl farming and information technology, fisheries, timber and shipping**.

#### Other Measures

- Implementation of the Civil Service Reform, Financial Management Reform, Public Enterprise Reform and Financial Management Information System projects will continue. The reforms are much needed, to provide the foundation for recent initiatives such as reduction in staff numbers and operational expenditure, in an effort to improve Government efficiency and service.
- Government announced that statutory bodies and other government entities would be merged where appropriate to remove duplication and improve efficiency. This has already begun with the merger of the Commerce Commission, Price & Incomes Board and the Department of Fair Trading, as well as the recent absorption of the CMDA by the RBF.
- Although no privatisations were announced, the Finance Minister specifically mentioned the reform of the FNPF, Fiji Electricity Authority, Fiji Sugar Corporation and Government Printing.



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- The Exports Proceeds Monitoring Unit (EPMU) will be set up by the RBF to monitor export earnings, transfer pricing, and other related issues.

### RBF Announcement Following the Budget Address

Immediately following the Budget Address, the Reserve Bank of Fiji (RBF) announced the removal of various direct controls that were put in place in April 2009 (these changes had also appeared in the Budget Supplement but were not mentioned in the Finance Minister's Budget Address).

Noting that foreign reserves since the devaluation had risen to close to 4 months of imports and that banking system liquidity had also recovered, RBF Governor, Mr Sada Reddy, said that it was time to remove the controls.

Thus effective from 1 January 2010:

- Specific Exchange Control transactions will be re-delegated to commercial banks and foreign exchange dealers with increased limits. The delegations cover Travel, Charges/Fees/Services, Airline Ticket Sales, Education/Medical Expenses, Loan Repayments and Lease Payments.
- The lending rate and interest rate spread policies will be removed. In April 2009, the Bank had announced that the weighted average lending rates of banks and other lending institutions should be brought down to 31 December 2008 levels. The Bank noted that all commercial banks had now complied with the lending rate policy and in addition, banks were on target to meet the 4 percent interest rate margin policy by December 2009.
- However in removing the lending rate and interest rate spread policies, Mr. Reddy stated that "all commercial banks are advised to maintain the trend in lending rate and any increase in spread above 4 percent in the future will have to be fully justified and explained to the RBF.

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