NATIONAL BUDGET BRIEF 2023 - 2024

30 June 2023

The Deputy Prime Minister and Minister for Finance, Strategic Planning, National Development and Statistics, Hon. Professor Biman Prasad, presented the 2023 - 2024 National Budget on 30 June 2023.

The theme of the 2023-2024 Budget is "***Rebuilding Our Future Together***".

The Minister stated that *"Everything is connected to everything else. We cannot progress until we have rebuilt trust and unity".*

For 2023-2024, the total estimated revenue is $3.7 billion and the total expenditure is $4.3 billion, resulting in an estimated net deficit of $639 million - or 4.8 percent of GDP.

The Minister also commented that *"it is a tough but a fair budget which have laid down a strong foundation for future recovery, growth and prosperity".*

This resume provides a brief outline of certain aspects of Fiji Government's August 2023 - July 2024 National Budget and is based upon a quick analysis of the Budget Address and Economic and Fiscal Update Supplement to the 2023 – 2024 Budget Address.

We trust that you find this resume useful. If you would like to discuss any aspect of the Budget, please do contact us.

Contents

ECONOMIC OUTLOOK AND OVERVIEW

Key Indicators of Economic Outlook

	Calendar Year 2024 (Forecast)	Calendar Year 2023 Forecast	Calendar Year 2022 Estimate	Calendar Year 2021 Provisional	Calendar Year 2020 Revised	Calendar Year 2019 Revised
Nominal gross domestic product – million dollars	13,141	12,394	11,099	8,896	9,710	11,843
Real gross domestic product – million dollars	11,168	10,756	9,963	8,404	8,857	10,671
GDP growth / - contraction – real %	3.8	8.0	18.6	-5.1	-17.0	-0.6
Total exports – million dollars (excluding aircraft)	2,553	2,434	2,322	1,847	1,755	2,158
Total imports – million dollars (excluding aircraft)	6,886	6,789	6,586	4,176	3,738	5,074
Visitors' arrival – numbers	921,000	894,000	636,000	32,000	147,000	894,000
Tourism earnings - million dollars	2,167	2,142	1,499	37	315	2,065
Imports – Food – million dollars	1,062	1,109	1,071	783	738	787
Imports – Mineral fuel – million dollars	1,736	1,716	1,626	721	657	1,124
Imports – Machinery and transport equipment – million dollars	1,648	1,563	1,426	1,252	838	2,316
Exports - Sugar and molasses - million dollars	167	148	160	90	122	114
Exports - Mineral water – million dollars	407	388	362	313	223	294
Exports – Gold – million dollars	111	72	101	133	134	109
Re-exports (including Mineral Fuels, excluding aircraft) – million dollars	1,073	1,052	948	596	612	991
Current account balance (excluding aircraft), net deficit – million dollars	-1,202	-1,187	-1,889	-1,111	-1,303	-574
Inflation (All items – year end) - %	2.3	2.8	3.1	3.0	-2.8	-0.9

FY2023 – 2024 Budget

In line with the Medium-Term Fiscal Strategy (MTFS) and the positive economic outlook for 2023, the net deficit for the FY2023-2024 is budgeted at $639.1 million or -4.8 percent of GDP. This is based on an estimated total revenue of $3,700.7 million and total expenditure of $4,339.9 million. The targeted fiscal deficit for FY2023-2024 will be financed with a combination of domestic and concessional external borrowing. Given the lower deficit, Government debt will fall to 79.3 percent of GDP from 81.2 percent of GDP estimated for FY2022-2023.

Quote - *"In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of."*

- *Confucius*

MEDIUM TERM FISCAL FRAMEWORK

The Medium-Term Fiscal Framework (MTFF) provides the broad revenue, expenditure, deficit, and debt targets for the medium term. With expected revenue collections of $3,700.7 million and expenditure level of $4,339.9 million, Government is projected to achieve a net deficit target of $639.1 million, equivalent to -4.8 percent of GDP in the FY2023-2024. Accordingly, Government debt will fall to 79.3 percent of GDP from 81.2 percent of GDP anticipated for FY2022-2023.

The anticipated net deficit target of -4.8 percent of GDP for the FY2023-2024 is slightly higher than the MTFS net deficit of -4.5 percent of GDP that was initially approved by Cabinet in January 2023. This is attributed to the Government's plan to develop infrastructure, improve the health and education systems, increase social protection assistance, higher pension for Aftercare and Government pensioners. In addition, costs have escalated due to increase in interest payments, VAT rate and the FNPF contribution rate.

The table below provides the fiscal framework for the FY2023-2024 Budget and the medium-term.

	2022-2023 (Revised)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
***Revenue* (\$M)**	**2,685.4**	**3,700.7**	**3,868.1**	**4,004.0**
as a % of GDP	22.1	27.9	27.6	27.3
Tax Revenue	2,252.3	3,107.7	3,321.3	3,487.3
Non Tax Revenue	433.1	593.1	546.9	516.7
***Expenditure* (\$M)**	**3,435.7**	**4,339.9**	**4,361.6**	**4,440.1**
as a % of GDP	28.2	32.7	31.2	30.2
***Net Deficit* (\$M)**	**-750.3**	**-639.1**	**-493.4**	**-436.0**
as a % of GDP	-6.2	-4.8	-3.5	-3.0
***Debt* (\$M)**	**9,882.3**	**10,521.4**	**11,014.9**	**11,450.9**
as a % of GDP	81.2	79.3	78.7	77.9
***GDP at Market Prices* (\$M)**	**12,176.8**	**13,266.6**	**13,991.9**	**14,691.4**

(Source: Ministry of Finance)

The medium-term net deficit targets for FY2024-2025 and FY2025-2026 are set at -3.5 percent and -3.0 percent, respectively. Hence, debt as a percentage of GDP will fall to 78.7 percent in FY2024-2025 and 77.9 percent in FY2025-2026. Given this deficit target, the primary balance is expected to improve from -2.4 percent of GDP in FY2022-2023 to 1.0 percent by the end of FY2025-2026.

The Ministry of Finance is currently working on a 15-year fiscal management plan and details will be released later after careful consideration by the Government on the pace of fiscal consolidation and growth and development.

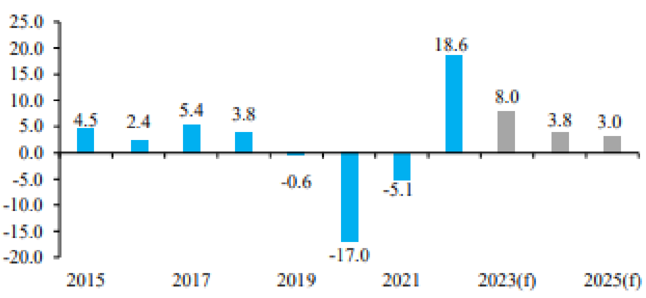
> *Quote* - *"Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek."*
>
> - *Barack Obama*

DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK

Overview 2022

- Following three consecutive years (2019-2021) of contraction, the domestic economy rebounded strongly by an estimated 18.6 percent in 2022. The broad-based recovery was driven by the services sector backed by better-than-expected performance in tourism and related sectors. Other sectors that have contributed positively to the growth include wholesale and retail, manufacturing, finance, agriculture, and improved net tax collections during the year.

Figure 1.3: Real GDP Growth



Sources: FBOS and Macroeconomic Committee

Overview 2023

- In 2023, the domestic economy is projected to grow further by 8.0 percent largely driven by the anticipated full recovery in visitor arrivals to pre-pandemic levels. Accordingly, tourism related sectors such as accommodation and food services, transport and storage, wholesale and retail sales, and administration services are expected to be the key drivers of growth this year. In addition, positive contributions are also expected from agriculture, forestry, manufacturing, electricity, construction and net taxes.

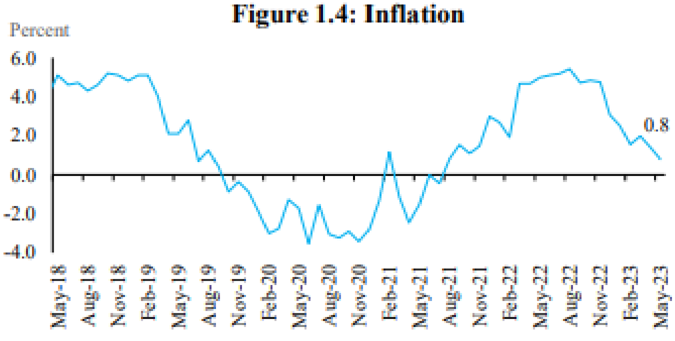
Overview 2024 and 2025

- Growth is forecast to return to the pre-pandemic trend in the medium term. AS such, a broad-based growth of 3.8 percent and 3.0 percent is forecast for 2024 and 2025 respectively.

Inflation

- Inflation stood at 0.8 percent in May 2023, significantly lower than most of our trading partner economies. The relatively low inflation is largely driven by the recent moderation in imported inflation as a result of softening global food and oil prices and stabilising of domestic prices.

Figure 1.4: Inflation



Source: FBOS

- Year-end inflation is forecast at 2.8 percent, slightly lower than the 3.1 percent at the end of 2022. The annual average inflation rate is anticipated to moderate to 2.0 percent from the 4.3 percent in 2022, in tandem with the expected fall in energy prices. Over the medium term, inflation is forecast at 2.3 percent in 2024 and 2.5 percent in 2025.

Exports

- In 2022, total exports expanded by 25.7 percent to an all-time high of $2,322.2 million, following a 5.0 percent growth in 2021. The outcome was driven by growth in re-exports of mineral fuel on account of higher prices and higher demand from Pacific Island Countries (PICs), while higher domestic exports were led by mineral water, sugar and fish. The gradual relaxation of restrictions in trading partner economies and robust demand for certain commodities have supported Fiji's domestic exports.
- In 2023, total exports are forecast to grow by 4.8 percent to $2,433.8 million, largely due to the growth in re-exports (10.8 percent) coupled with a slight expansion in domestic exports (0.6 percent). The strong growth in re-exports is driven by the economic rebound in PICs. However, the slowdown in Fiji's major trading partners coupled with waning prices of gold and sugar could weigh on export receipts in 2023.
- Total exports are forecast to grow by 4.9 percent to $2,553.1 million and 4.1 percent to $2,657.9 million in 2024 and 2025, respectively. The anticipated growth is in line with the expected improvement in domestic production of mineral water, gold and sugar. Additionally, the continued recovery in PICs should bolster re-exports over the medium-term.

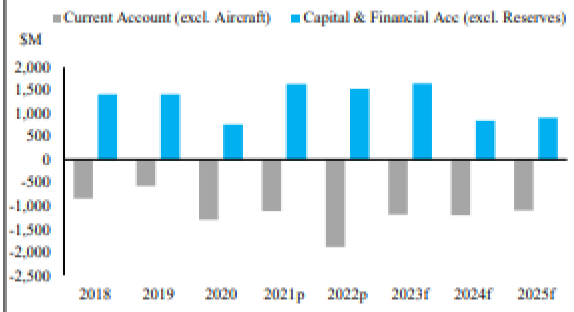
Imports

- In 2022, total imports grew significantly by 57.7 percent to $6,586.2 million, after an expansion of 11.7 percent in 2021. The strong growth was underpinned by increases in all major categories with the largest contributors being mineral fuels, machinery and transport equipment (excluding aircraft), food and live animals and manufactured goods. The sharp increase in domestic demand following the opening of international borders as well as the rise in global commodity prices, higher freight charges and supply chain disruptions contributed to the substantial increase in imports last year.
- In 2023, total imports are projected to rise by 3.1 percent to $6,789.0 million, led by growth in mineral fuel, machinery and transport equipment and food imports. Although import costs are expected to moderate from easing supply disruptions and lower commodity prices, the demand for imported items is expected to remain elevated given the pickup in domestic economic activity.
- In 2024 and 2025, total imports are forecast to increase by a modest 1.4 percent to $6,885.7 million and 1.0 percent to $6,957.5 million respectively. Global commodity prices and inflationary pressures in trading partners are anticipated to moderate, while domestic demand is expected to return to pre-pandemic trend.

Balance of Payments (BOP)

- The current account deficit (CAD) widened to $1,888.9 million (equivalent to -17.0 percent of GDP) in 2022. The significant deterioration in the CAD was largely underpinned by the widening trade deficit and increases in the primary income deficit (due to profit and dividend repatriation) which more than offset the positive services balance and secondary income surplus.
- In 2023, the CAD (excluding aircraft) is forecast to narrow by 37.1 percent to $1,187.4 million (equivalent to -9.6 percent of GDP) led by the projected increase in services and secondary income surpluses amid strong travel appetite and tourism activity and higher remittances. The higher surpluses from the services and secondary income accounts will partially offset the expected deficits in the primary income (higher profit repatriation and re-invested earnings) and trade accounts.

Figure 1.5: Balance of Payments



Sources: FBOS and Macroeconomic Committee

DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK (CONT'D)

Remittances

- In 2022, inward remittances rose strongly by 23.1 percent to $1,040.8 million, due to increase in Fijians working abroad under various labour mobility schemes coupled with the growing diaspora abroad and ease of remitting money via mobile money platforms. Cumulative to April this year, inward remittances grew by 25.2 percent to $379.5 million, driven by higher personal transfers. Inward remittances are projected to grow by 16.3 percent to $1,209.9 million by year-end. For 2024 and 2025, remittances are forecast to rise moderately to $1,248.5 million and $1,288.5 million, respectively.

Tourism Earnings

- In 2022, tourism earnings totalled $1,499.3 million or 72.6 percent of 2019 levels. The strong rebound in visitor arrivals after reopening of borders in December 2021 combined with higher spending by tourists given pent-up demand underpinned the favourable outcome. In 2023, tourism earnings are expected to reach $2,142.3 million based on expected increase in visitor arrivals. In 2024 and 2025, tourism earnings are forecast to increase to $2,166.8 million and $2,190.8 million, respectively. Although tourist per-diems are expected to normalize to pre-pandemic levels, this is projected to be offset by continued growth in visitor arrivals.

Foreign Reserves

- In 2022, foreign reserve stood at $3,430.6 million, sufficient to cover 6.9 months of retained imports. As at 28 June 2023, foreign reserves (RBF holdings) were around $3,461.9 million, equivalent to 6.1 months of retained imports.

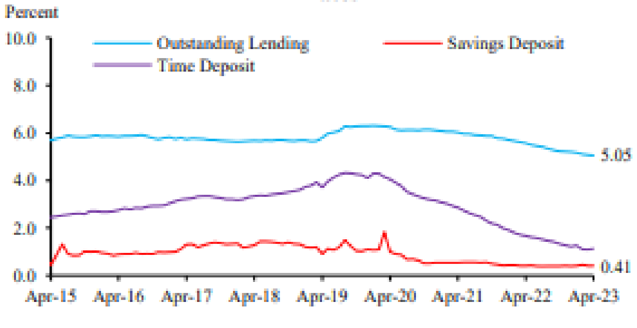
Money and Credit

- The growth in money supply has moderated with the slowdown in the growth of foreign reserves. The recovery in labour market conditions and the subsequent improvement in debt serviceability has led to an annual increase in credit activity. Lending has been mostly driven by commercial banks noting an increase in lending to both households and corporates.

Interest Rates

- Interest rates remains low supported by ample liquidity conditions which currently stands at around $2.3 billion as of May 2023. The weighted average outstanding time deposit dipped from 1.68 percent in April 2022 to 1.14 percent (54 basis points (bp)) in April 2023. Lending rates dropped from 5.57 percent in April 2022 to 5.05 percent in April 2023 (52 bp).

Figure 1.6: Commercial Banks' Outstanding rates



Source: Reserve Bank of Fiji

DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK (CONT'D)

Exchange Rates

- The Fiji dollar (FJD) strengthened against the Australia dollar (AUD) and the New Zealand dollar (NZD) while it weakened against all other trading partner currencies over the year in April. However, on a monthly basis, the FJD strengthened against NZD, AUD and the Japanese Yen (JPY) but it weakened against the Euro and the USD.

- In March, the nominal effective exchange rate (NEER) fell both, over the month (-0.1 percent) and year (-0.4 percent), mostly driven by the USD and Euro. Consequently, the real effective exchange rate (REER) also weakened over the year (-2.7 percent) denoting an overall gain in competitiveness, however, remained broadly unchanged on a monthly basis.

Monetary Policy

- The Reserve Bank of Fiji (RBF) has maintained an accommodative monetary policy stance with the Overnight Policy Rate (OPR) unchanged at 0.25 percent since March 2020. However, ongoing geopolitical tensions, tight financial conditions, and eroding confidence in the global financial system pose a risk to the RBF's monetary policy objectives in the medium term.

Quote - *"I think the tendency for successful companies to fail to innovate is just that: a tendency. If you're too focused on your current business, it's hard to change and concentrate on innovating."*

- *Bill Gates*

MEDIUM TERM FISCAL STRATEGY

The government fiscal policy going forward will be geared towards reducing the deficit level with the aim of putting the debt to GDP ratio on a downward path and further enhancing long term debt sustainability. This will be supported by revenue reforms guided by the principles of fairness, simplicity and revenue adequacy complemented by major control on overall public expenditure, including reprioritisation of fiscal resources to better achieve our socio-economic and other development goals.

Apart from this, a private sector led economic rejuvenation is also an important pillar to ensure sustained economic growth which is critical to put the debt to GDP ratio on a consistent downward trajectory.

Revenue Strategy

Government's revenue strategy for the medium-term will focus on a holistic review of the tax administration system including streamlining taxes and re-evaluating tax & duty exemptions and incentives.

In FY2023-2024, VAT rates will be reduced to two rates of 0 and 15 percent, with the potential to increase tax revenues in the medium-term by aligning the VAT rate to a single rate to bring more simplicity to the tax regime. However, the timing of this will be carefully considered including adequate targeted expenditure support to protect the vulnerable.

Similarly, there is also opportunity for reintroduction of a dividend tax regime or alternatively increase in the corporate tax rate further based on the revenue needs of the Government. Apart from this, there is scope to further increase the departure tax in the future given that tourism specific taxes like STT and ECAL has been completely abolished.

Further improvements will be made to tax exemptions to streamline processes and reduce tax expenditures. Non-tax revenues for certain public services will also be reviewed based on the principle of cost-recovery to boost overall revenue.

The following will be the guiding policy principles in the medium term:

- Widen the tax base by gradually removing exemptions and other distortions;
- Improve tax compliance and collection of tax arrears;
- Make the tax regime and tax administration even simpler to encourage tax compliance; and
- Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected.

The underlying revenue policy framework focuses on macro-fiscal stabilisation measures that will put Government debt to GDP ratio on a sustainable and downward path and increase revenue to GDP ratio to pre-pandemic levels. Based on the tax policies and economic growth projections, the medium-term revenue forecasts are expected to normalise to around 27.0 percent of GDP. Key revenue measures for the FY2023-2024 are summarised later.

Quote - Public service means service to the public, not services the public has to put up with.

- John Major

MEDIUM TERM FISCAL STRATEGY (CONT'D)

Expenditure Strategy

To improve the effectiveness and quality of public services, Government will focus on zero-based budgeting in the medium-term. This will help reduce unproductive spending, review transfers to extra budgetary units, streamline operations and prioritise high impact capital projects. A capital operating mix of at least 30:70 will be targeted in the medium-term.

In the medium-term, expenditure allocations will be guided by the following:

- Undertake a holistic review to right-size the civil service and contain the public sector wage bill;
- Tighten control on operational expenditures, including travel, communications, trainings, workshops, fuel & maintenance, and purchase of supplies with KPIs of agency heads and Permanent Secretaries linked to these targets;
- Conduct proper investment appraisal and project selection for all new capital projects as per Public Sector Investment Program and National Infrastructure Investment Plan;
- Resources must be allocated based on a multi-year perspective and the implementation capacity of agencies, considering the need to meet competing expenditure demands;
- Major existing programmes to be reviewed and Government should ensure that all financial resources allocated are used prudently to derive value for money;
- Encourage more private sector participation in public infrastructure projects and delivery of other public services through Public-Private Partnerships (PPP) and other innovative arrangements;
- Proper and effective monitoring of projects and budget utilisation through the Ministry of Finance; and
- Funding for ongoing programmes to be based on assessment of current and past performance and progressive achievement of planned outputs.

Debt Management Strategy

The broad objectives of Government debt strategy in the medium-term will remain as follows:

- Minimise the medium to long-term cost of Government debt within prudent levels of risk; and
- Support the development of a well-functioning domestic market for debt securities.

To achieve the above objectives, Government will focus on the following debt management policies to guide its borrowing in FY2023-2024 and onwards:

- Lower the cost of debt through concessional financing from bilateral and multilateral lenders;
- Change the maturity profile through a gradual reduction in Treasury Bills and issuances of short and medium-term bonds (2-year to 5-year tenor);
- Continue issuance of long-term bonds (10-year to 20-year tenor) to finance deficits;
- Develop the domestic bond market to focus more on transparency, secondary market trading, settlement mechanisms and investor diversification;
- Consider call-backs, bond buybacks and switch operations; and
- Minimise risks associated with on-lending and contingent liabilities.

GOVERNMENT DEBT

- Government debt is projected to reach $9,882.3 million or 81.2 percent of GDP by the end of July 2023, slightly lower than the earlier projection of $10,003.7 million. This comprises $6,218.2 million in domestic debt and $3,664.1 million in external debt.

  The table below depicts Government's debt position from FY2018-2019 to FY2022-2023:

Particulars	July-19	July-20	July-21	July-22	July-23(f)
Domestic Debt ($M)	4,278.5	4,976.5	5,241.2	5,767.4	6,218.2
External Debt ($M)	1,456.8	1,709.5	2,422.5	3,364.1	3,664.1
Total Debt ($M)	**5,735.2**	**6,686.0**	**7,663.7**	**9,131.5**	**9,882.3**
Debt (as a % of GDP)	***48.8%***	***62.4%***	***83.6%***	***88.8%***	***81.2%***
Domestic Debt to Total Debt (%)	75.0%	74.0%	68.4%	63.2%	62.9%
External Debt to Total Debt (%)	25.0%	26.0%	31.6%	36.8%	37.1%
Nominal GDP ($M)	*11,757.5*	*10,710.2*	*9,163.6*	*10,280.9*	*12,176.8*

(Source: Ministry of Finance)

- The impact of the dual shocks of the COVID-19 pandemic and a series of natural disasters that struck Fiji from 2019 to 2021 resulted in the large increase in borrowings towards emergency support, recovery measures and rehabilitation. External financing increased significantly during this time, however, terms and conditions of the new borrowings are concessionary.

- Government will publish its Medium-Term Debt Management Strategy (MTDS) for FY2023-2024 to FY2025-2026 by July 2023. This will outline Government's debt strategies in the medium term, targeted financing needs, payment obligations and assessment on cost and risk indicators in line with the MTFS and responsible financial management policies to ensure public debt is maintained at sustainable levels.

Domestic Debt

- Domestic debt is expected to reach $6,218.2 million, equivalent to 51.1 percent of GDP, by the end of July 2023. This comprises $5,921.0 million in domestic bonds and $297.2 million in Treasury bills ('T-Bills').

  The table below depicts Government's domestic debt position from FY2018-2019 to FY2022-2023.

Government's Domestic Debt ($Million)

Particulars	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23 (f)
Bonds	3,971.0	4,681.0	4,967.7	5,483.9	5,921.0
Treasury Bills	307.5	269.7	273.5	283.5	297.2
Loan	-	25.8	-	-	-
Total Domestic Debt	**4,278.5**	**4,976.5**	**5,241.2**	**5,767.4**	**6,218.2**
Domestic Debt to GDP (%)	**36.4**	**46.5**	**57.2**	**56.1**	**51.1**

(Source: Ministry of Finance)

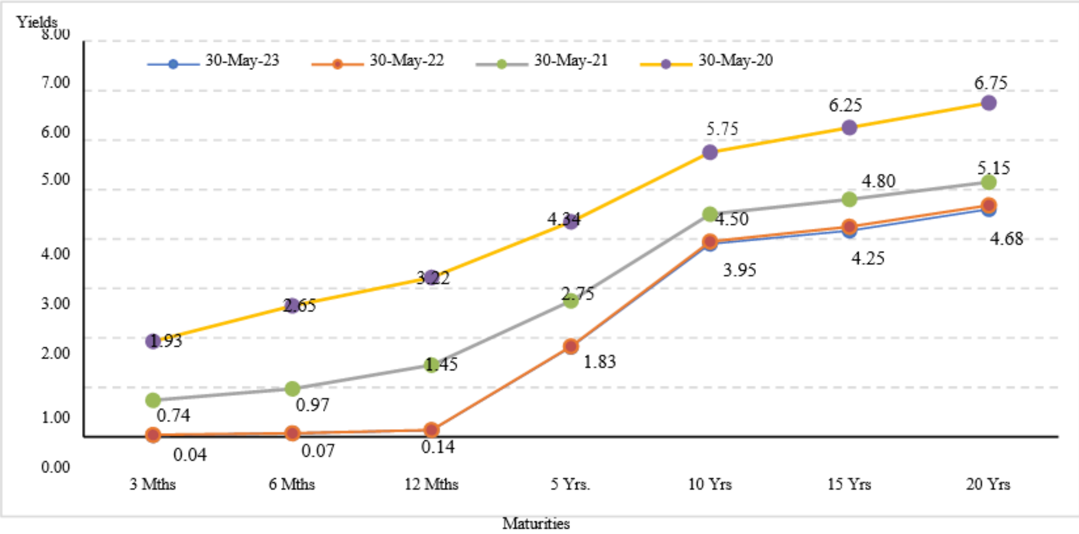
- The domestic debt market remains the main source of Government debt financing. During the FY2022-2023, domestic debt instruments issued consisted of Fiji Infrastructure Bonds (FIB) and Viti Bonds. Viti bonds are retail bonds which are on high demand as evidenced by the full utilisation of the approved limit. On the other hand, T-Bills are also an important tool for Government in developing the domestic market through regular issuances to develop the yield curve and to provide temporary financing.

GOVERNMENT DEBT (CONT'D)

Domestic Interest Rate Structure

- At the end of May 2023, liquidity levels remained high at $2.3 billion and is projected to remain at adequate levels in 2023. This has pushed yields for Government debt instruments to historic low resulting in slow intake for long-term Government securities.
- Trends in FY2021-2022 and FY2022-2023 is similar for the short-term T-Bills with market yields dropping significantly below the RBF overnight policy rate. Similarly, market yields for long-term bonds have significantly dropped when compared to four years ago. The shorter end of the yield curve (3-months, 6-months and 12-months) fell by 190 basis points, 258 basis points and 309 basis points, respectively, while the longer end (10-year, 15-year and 20-year) fell by 185 basis points, 208 basis points, and 215 basis points, respectively.

Government Bond Yields



(Source: Ministry of Finance)

External Debt

- External debt stock is projected to increase to $3,664.1 million by the end of July 2023, equivalent to 30.1 percent of GDP.

  The table below depicts Government's external debt position from FY2018-2019 to FY2022-2023.

Government External Debt ($Million)

Particulars	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23(f)
Loans	1,023.8	1,285.3	2,422.5	3,364.1	3,664.1
Global Bonds	433.0	424.2	-	-	-
Total External Debt	**1,456.8**	**1,709.5**	**2,422.5**	**3,364.1**	**3,664.1**
External Debt to GDP (%)	***12.4***	***16.0***	***26.4***	***32.7***	***30.1***

(Source: Ministry of Finance)

- The increase in external debt is attributed to the increase in external financing accessed during and post COVID-19 periods to support Government finances of which majority were on concessional terms. At the end of May 2023, a total of $1,027.5 million or 29.2 percent of external debt are concessional, while the remaining 70.8 percent are non-concessional loans. The appreciation of US dollar against the Fiji dollar is also a contributing factor to the rise in the value of external debt as 78.2 percent of the external debt portfolio is denominated in US dollar.
- Government continues to drawdown external borrowings that finances key Government infrastructural projects such as transport, water supply and sanitation and projects supporting Government's recovery works post COVID-19 pandemic. Recovery works focused on the strengthening of the national systems in public health preparedness including works to enhance the social protection systems.

GOVERNMENT DEBT (CONT'D)

Government Debt Redemption Profile

- Government's debt portfolio has shown improvement over the years, reflecting the increase in Government borrowings under concessional terms and conditions. Figure below indicates the maturity structure that FY2029-2030, FY2039-2040 and FY2041-2042 are relatively higher than other years, attributed to the significant proportion of domestic bonds maturing in those respective periods. FY2023-2024 also shows a higher maturity structure due to the presence of shorter- term T-Bills. Exercising the liability management operations such as bond buybacks will enable Government to actively manage the refinancing risk that is associated with large maturities in a year.

Cost and Risk Indicators

- The table below summarises the cost and risk indicators of Government debt portfolio for FY2021-2022 and forecast for FY2022-2023.

Risk Exposure

		FY2021-2022			FY2022-2023 (f)		
		External debt	**Domestic debt**	**Total debt**	**External debt**	**Domestic debt**	**Total debt**
Amount (FJ$ Million)		3,364.1	5,767.4	**9,131.5**	3,664.1	6,218.2	**9,882.3**
Amount (US$ Million)		1,525.5	2,614.9	**4,140.4**	1,640.5	2,783.9	**4,424.4**
Nominal debt (% of GDP)		32.7	56.1	**88.8**	30.1	51.1	**81.2**
Refinancing risk	ATM (years)	11.4	10.3	**10.7**	10.5	10.5	**10.5**
	Debt maturing in 1 year (% of total)	3.4	8.0	**6.2**	5.0	9.4	**7.8**
Interest rate risk	ATR (years)	7.5	10.3	**9.3**	6.8	10.5	**9.1**
	Debt re-fixing in 1 year (% of total)	54.4	8.0	**25.3**	57.1	9.4	**27.4**
	Weighted Av. IR (%)	1.9	6.1	**4.6**	3.8	6.1	**5.2**
FX risk	FX debt (% of total debt)	**36.8**			**37.2**		

Source: Ministry of Finance

Contingent Liabilities

- Total contingent liabilities stood at $1,678.6 million or 13.8 percent of GDP as at April 2023. Government guaranteed debt accounted for 61.3 percent, while other explicit contingent liabilities and implicit contingent liabilities accounted for the remaining 33.5 percent and 5.2 percent, respectively.

- Total Government guaranteed debt stood at $1,028.6 million, equivalent to 8.4 percent of GDP at the end of April 2023. This represents a decline of 6.2 percent when compared to the previous financial year ending July 2022 attributed to the settlement of guaranteed loans and utilisation of approved guaranteed facilities by the Fiji Airways, FDB and FSC.

Quote - *"Innovation no longer remains a choice but has become an imperative."*

\- *Narendra Modi*

GOVERNMENT'S FISCAL FRAMEWORK

In this budget, Government is focusing on fiscal consolidation and economic recovery. Higher spending in key priority sectors will further enhance the growth momentum while the reforms and realignment of tax policies and incentives will provide a conducive environment for investment, rebuild confidence and consequently ensure sustainable inflows of Government revenues.

FY2022-2023 Fiscal Performance

- At the end of FY2022-2023, Government is expected to record a net deficit of around $750.3 million, equivalent to -6.2 percent of GDP, lower than the budgeted net deficit of -7.4 percent and -11.9 percent net deficit for FY2021-2022. This is derived from estimated total revenues of $2,685.4 million (22.1 percent of GDP), and total expenditures of $3,435.7 million (28.2 percent of GDP).
- The revised revenue estimates are lower than the original budget, largely due to lower collections from non-tax revenue such as Grants in aid, Reimbursement & Recoveries, and Dividends from Investment as well as lower collections from Customs and Water Resource Tax.

($M)	2021-2022 (Actual)	2022-2023 (Budget)	2022-2023 (Revised Estimate)
Revenue	**2,190.8**	**2,939.9**	**2,685.4**
as a % of GDP	21.3	25.1	22.1
Tax Revenue	1,692.0	2,322.1	2,252.3
Non-Tax Revenue	498.8	617.8	433.1
Expenditure	**3,414.1**	**3,812.1**	**3,435.7**
as a % of GDP	33.2	32.6	28.2
Net Deficit	**-1,223.3**	**-872.2**	**-750.3**
as a % of GDP	-11.9	-7.4	-6.2
Debt	**9,132.0**	**9,976.7**	**9,882.3**
as a % of GDP	88.8	85.2	81.2
GDP at Market Prices	**10,280.9**	**11,708.0**	**12,176.8**

(Source: Ministry of Finance)

- Tax revenue for FY2022-2023 is expected to be $2,252.3 million, lower by $69.8 million (-3.0 percent) compared to the initial Budget as a result of lower-than- expected collections from indirect taxes largely from fiscal duties, excise duty, export duty, water resource tax and departure tax. While comparing it to the actuals for FY2021-2022, the estimated tax revenue for FY2022-2023 is above by $560.3 million (33.1 percent).
- Non-tax revenue is estimated at $433.1 million, lower by $184.7 million (-29.9 percent). This is largely attributed to lower collections from grants in aid, reimbursement and recoveries and interest income. When compared to the actuals for FY2021-2022, non-tax revenue is lower by $65.7 million (-13.2 percent). The collection from non-tax revenue at the end of May 2023 is $258.5 million, representing 59.7 percent of the total non-tax revenue that is expected to be collected by the end of July 2023.
- Total Government spending is estimated at $3,435.7 million, lower by $376.4 million (-9.9 percent) for FY2022-2023. This is largely based on lower utilisation in the first 10 months of this fiscal year.
- Consequently, Government debt is estimated to be around $9,882.3 million or 81.2 percent of GDP at the end of July 2023.

GOVERNMENT'S FISCAL FRAMEWORK (CONT'D)

FY2023-2024 Budget

- In line with the Medium-Term Fiscal Strategy (MTFS) and the positive economic outlook for 2023, the net deficit for the FY2023-2024 is budgeted at $639.1 million or -4.8 percent of GDP. This is based on an estimated total revenue of $3,700.7 million and total expenditure of $4,339.9 million. The targeted fiscal deficit for FY2023-2024 will be financed with a combination of domestic and concessional external borrowing. Given the lower deficit, Government debt will fall to 79.3 percent of GDP from 81.2 percent of GDP estimated for FY2022-2023.

- Tax revenue collections are projected at $3,107.7 million for FY2023-2024, an increase of $855.4 million (38.0 percent) relative to revised FY2022-2023 estimate. The higher tax revenue forecast is driven by the increase in VAT rate, corporate tax, departure tax, and customs and excise duties. Tax collections will be further boosted by the streamlining of tax incentives and concessions as well as the broad-based growth anticipated for the next fiscal year.

- Based on the revenue reforms, the tax revenue projection takes into account additional tax revenues of around $596.4 million, which is expected to be generated from the measures listed below. This would increase the tax to GDP ratio to 23.4 percent compared to 18.5 percent in FY2022-2023. The following revenue measures are considered in the Budget:

  - Increase in net VAT collections of around $445.6 million from the alignment of the VAT rate from 9 percent to 15 percent whilst maintaining zero-rated VAT on 21 basic items with the addition of prescribed medicines to the zero- rated list (Sugar, Flour, Rice, Dhal, Tea, Potatoes, Onions, Garlic, Canned Fish, Cooking Oil, Salt, Liquid Milk, Powdered Milk, Baby Milk, Sanitary Pads, Soap, Soap Powder, Toilet Paper, Toothpaste, Cooking Gas, Kerosene and Prescribed Medicines). The realignment of VAT rates will eliminate issues of ambiguity around application of VAT, unnecessary administrative issues for businesses, boost revenue collections and remove the risks of non-compliance. Government will maintain zero-rating on 22 essential items given the increase in the price of basic items. The VAT revenues foregone from this zero-rating is estimated at around $237.6 million;

  - Increase in the corporate tax rate from 20 percent to 25 percent while for companies eligible for lower tax rate as part of SPX tax incentive, the tax rate will be increased from 10 percent to 15 percent. The increase in corporate tax rate is expected to generate additional revenues of around $73.5 million;

  - Increase in departure tax from $100 to $125 from 1 August 2023 and to $140 from 1 January 2024. The departure tax was significantly reduced from $200 to $100, while the Service Turnover Tax (STT) and Environment and Climate Adaptation Levy (ECAL) were phased out as part of COVID-19 recovery measures. Given the recovery in visitor arrivals, the gradual increase in departure taxes is expected to raise $30.8 million in additional revenues;

  - Increase in excise duties on alcohol and tobacco products by 5 percent and an increase in excise tax of 5 cents per litre on carbonated/sugar-sweetened beverages, which is expected to result in additional revenues of $7.6 million. A domestic excise duty of 40 cents per kilogram or per litre and an import excise duty of 15 percent would also be levied on products such as sweet biscuits, juice, ice cream, snacks and sugar confectioneries;

  - Increase in the import excise duty by 5 percent for passenger motor vehicles (for both new and used vehicles) along with reductions in the fiscal duty for food products is expected to result in a net revenue loss of around $2.0 million. This includes reduction in fiscal duty for the following items:

    - Reduction in fiscal duty from 32 percent to 15 percent for corned mutton, corned beef & beef, canned mackerel, duck and prawns;
    - Reduction in fiscal duty from 5 percent to 0 percent for sheep/lamb meat;
    - Reduction in fiscal duty from 15 to 5 percent on canned tomatoes; and
    - Reduction in import excise duty from 10 percent to 0 percent on chicken portions.

FY2023-2024 Budget (Cont'd)

- Reduction of the SRT by 5 percent effective from 1 January 2024 along with the simplification of the structure by merging with the PAYE structure. This would reduce the marginal tax rate while maintaining progressivity in the tax structure, resulting in an estimated revenue loss of $2.1 million for a period of 12 months; and
- Increase in the water resource tax rate from 18 cents per litre to 19.5 cents per litre for every litre of water extracted exceeding 10,000,000 litres per month, which would generate additional net revenues of $2.0 million after accounting for income tax foregone from water bottling.
- Other tax reforms include the review of the customs concessions and tax incentives regime aimed at reducing costs, removing protectionism and harmonising the rates. This is anticipated to contribute around $36.6 million in customs collections. This includes but is not limited to removal of certain concessions available on the importation of raw materials, packaging materials, biodegradable products, LED lamps and lighting and smart phones. In addition, duty concessions that are currently available for fuel, broadcasting and internet service provisions as well as for hotels and resorts involved in the importation of materials, furnishings and fittings and equipment that are not manufactured and available in Fiji will be ceased.
- Non-tax revenues are estimated at $593.1 million, an increase of $159.9 million or 36.9 percent compared to FY2022-2023. Government anticipates to receive around $216.8 million in cash grants and around $124.6 million in dividends from State Owned Enterprises (SOEs) and profits from the RBF in FY2023-2024. Around $35.0 million in reimbursement and recoveries from various existing trust fund accounts is expected to be received by Government.
- Based on the above, the total revenue projection for FY2023-2024 is $3,700.7 million. This includes tax revenue of around $3,107.7 million and $593.1 million in non-tax revenue. A detailed breakdown of revenues is provided in the 2023-2024 Budget Estimates.
- Total Government expenditure for FY2023-2024 is budgeted at $4,339.9 million, around $904.2 million higher than the revised estimate for FY2022-2023. The increase in total expenditure accounts for increases in both current and capital expenditure, including increased funding for social protection, education, health and infrastructure. The operating capital mix for the 2023-2024 Budget stands at 72:28.
- Table below outlines the fiscal framework for FY2023-2024. The projected total gross deficit, which is the sum of the net deficit and principal debt repayments, is around $1,155.4 million. The gross deficit will be financed through domestic market and external borrowings from multilateral and bilateral development partners. The financing details are provided in the 2023-2024 Budget Estimates.

Particulars	FJ $m
Revenue	3,700.7
As a % of GDP	27.9
Tax Revenue	3,107.7
Non-Tax Revenue	593.1
Expenditure	4,339.9
As a % of GDP	32.7
Net Deficit	-639.1
As a % of GDP	-4.8
Gross Deficit	-1,155.4
Debt	10,521.4
As a % of GDP	79.3
GDP at Market Prices	3,266.6

(Source: Ministry of Finance)

INFRASTRUCTURE DEVELOPMENT AND OTHER INITIATIVES

Health

- To achieve quality healthcare and to meet the current growing demand, Government has allocated $453.7 million to Ministry of Health and Medical Services, an increase of $69.1 million from FY2022-2023. Around $39.6 million has been allocated for capital expenditures, of which $11.6 million is specifically budgeted for upgrading and refurbishment of health facilities around the country. Additional funding has been allocated to the Ministry to address some of the human resource challenges, including allocations for overtime pay and increase in nurses' salary.

Fiji Roads Authority (FRA)

- Government has allocated a total of $387.6 million to FRA, of which $372.9 million is provided for capital expenditure. The programmes include maintenance of the road network, renewal & resurfacing of roads, ongoing bridges & renewal and replacement of existing crossings and rural & coastal roads programme.

Public Works Department

- Government has re-established the Public Works Department with the sole intent to improve the condition of rural roads in Fiji. A sum of $5.0 million is allocated for the purchase of plant, machinery and materials for the construction of rural roads. A sum of $2.0 million has been allocated for the maintenance, upgrade and refurbishment of public structures, water and sewer lines.

Water Authority of Fiji (WAF)

- Government has allocated $250.8 million, of which $53.8 million is specifically allocated to improve water sources and implement resilient infrastructures such as water treatment facilities.

- A sum of $4.6 million has been allocated for Digital Transformation Programme to ensure minimal disruption of WAF's operations and services, while a further $51.2 million as blended funding from various bilateral partners has been allocated for the Rewa River Water Supply Project, which is expected to be completed by July 2023.

Northern Development Programme

- This is an integrated programme providing business training and technical support and generating funds from business owners and financial institutions in a Public- Private Partnership. Government has allocated $1.0 million to fund the MSME development in Vanua Levu to improve livelihoods and facilitate growth in rural communities.

Vanua Levu Tourism Project

- Government has embarked on a 10-year US $200 million Tourism Development Programme in partnership with the World Bank to support an integrated, resilient and sustainable tourism development in Vanua Levu. The proposed financing is a Multi Phased Programmatic Approach with World Bank International Development Association (IDA). A sum of $5.0 million is allocated in 2023-2024 Budget.

Termite Control Assistance Programme

- Government has allocated $3.0 million to assist families affected by termites in the Western and Northern Division. The guidelines on accessing the assistance will be provided in due course.

Immigration

- A sum of $1.5 million has been allocated for modernising immigration processes through the procurement of ePassports to ensure security and protection against forgery and identity theft. Government has further allocated $0.3 million for the installation of ePassport Enrolment Kits at immigration offices and overseas missions to ensure people residing overseas do not have to travel to Fiji to obtain or renew their passports, and procurement of printers to address high demand and avoid long queues to acquire a passport.

INFRASTRUCTURE DEVELOPMENT AND OTHER INITIATIVES (CONT'D)

Climate Change and Risk Mitigation

- Fiji is highly vulnerable to tropical cyclones, floods and other climate related disasters which causes extensive damages to our infrastructure, affects livelihoods and imposes huge financial burden on Government almost every year.

- Fiji is an active member of the Pacific Catastrophe Risk Insurance Foundation (PCRIF), which enables Fiji to immediately access full suite of existing insurance products (Tropical Cyclone, Earthquake/Tsunami). The Government of Fiji is considering two insurance covers – 'Cat-in-a-Circle' and 'Excess Rainfall' in the next fiscal year. Under the Cat-in-a-Circle product, Government is eligible to receive a payout for cyclones Category 3 and above. An allocation of $2.5 million has been set aside in the 2023-2024 Budget for the subscription of parametric insurance cover. However, Government is in discussion with development partners on the possibilities of premium subsidy.

Increase in FNPF Contribution Rates

- The FNPF rates will be reverted to pre-COVID rates of 10 percent employer and 8 percent employee contribution, effective from 1 January 2024. The reinstatement of the contribution rates will replenish member account savings and provide FNPF with additional funds for investment purposes.

Education Assistance

- Effective 1 August 2023, the Tertiary Scholarships and Loans Service (TSLS) will be replaced with the Fijian Scholarship Scheme and all outstanding Tertiary Education and Loan Scheme (TELS) debt will be forgiven.

TELS Debt Forgiveness

- TSLS Act will be amended to include the conversion of loan agreement to a bond arrangement for all students under various schemes of TELS excluding In-Service scheme. Additionally, all outstanding TELS debt (except in-service scheme) as at 31 July 2023 will be converted to a bond. Under this new arrangement, all students will be bonded to serve the country for a period of 1.5 multiplied by number of years of study. The bond period is inclusive of years that the students has already served. For example, if a student has studied for three years, his/her bond period is 4.5 years and if the student has already served three years so far, he/she will be required to serve only the remaining 1.5 years.

Fijian Scholarship Scheme

- In the 2023-2024 Budget, Government has allocated $148.3 million to sponsor 10,920 new students (inclusive of study grants), and fund 9,148 existing students. New scholarship schemes will replace study loans.

Improving the Ease of Doing Business

- In the FY2023-2024, a sum of $9.0 million is allocated towards the Ease of Doing Business initiative. Government recognises investment is critical for creating jobs, boosting productivity, and improving social and economic well-being. It is committed to promote Fiji as an attractive investment destination for both local and foreign investors with business friendly and conducive environment.

- Government has also established the Investment Facilitation Committee that has been tasked to provide a platform for investors and established businesses to raise concerns on recurring or unresolved issues that hinder investment and business.

Quote - *"Statistics are like ventriloquists' dolls – experts can make them say whatever they want them to say."*

\- *Anon.*

GOVERNMENT'S CASHFLOW

Government's Cashflow Statements

The table below provides Government's Cashflow Statements.

	2021-2022 (Actual)	2022-2023 (Revised)	2023-2024 (Budget)
Operating Receipts			
Direct Taxes	464.6	646.6	816.4
Indirect Taxes (excluding SEG 13 VAT)	1,197.9	1,559.3	2,180.3
- *Value Added Tax*	*630.6*	*947.6*	*1,422.2*
- *Customs Taxes*	*442.0*	*467.3*	*556.0*
- *Service Turnover Tax*	*0.1*	*0.1*	-
- *Water Resource Tax*	*83.6*	*73.3*	*91.6*
- *Departure Tax*	*16.4*	*61.4*	*99.8*
- *Stamp Duty*	*0.5*	*0.1*	-
- *Telecommunication Levy*	*0.8*	*0.9*	*0.9*
- *Environment and Climate Adaptation Levy*	*23.9*	*8.7*	*9.8*
Fees, Fines, Charges & Penalties	148.7	158.9	166.6
Grants in Aid	232.6	157.9	216.8
Dividends from Investments	61.7	66.9	124.6
Reimbursement & Recoveries	15.1	9.4	46.7
Other Revenue & Surpluses	33.4	36.5	31.7
Total Operating Receipts	**2,153.9**	**2,635.4**	**3,583.2**
Operating Payments			
Personnel	929.9	959.4	1,064.0
Transfer Payments	623.5	619.4	874.4
Supplies and Consumables	251.7	261.8	335.1
Purchase of Outputs	81.3	128.3	226.7
Interest Paid	370.3	454.3	529.4
Other Operating Payments	4.7	1.7	7.2
Total Operating Payments	**2,261.5**	**2,424.9**	**3,036.9**
Net Cashflows from Operating Activities	**(107.6)**	**210.5**	**546.3**
As % of GDP	-1.0%	1.7%	4.1%

(Source: Ministry of Finance)

Quote - "Change is never easy, but always possible."

- Barack Obama

GOVERNMENT'S CASHFLOW (CONT'D)

Government's Cashflow Statements (Cont'd)

	2021-2022 (Actual)	2022-2023 (Revised)	2023-2024 (Budget)
Investing Receipts			
Sale of Government Assets	1.8	2.0	5.2
Interest from Bank Balance	1.1	0.5	0.5
Interest on Term Loans and Advances	0.7	0.9	0.9
Return of Surplus Capital from Investment	3.9	0.1	0.1
Total Investing Receipts	**7.4**	**3.5**	**6.7**
Investing Payments			
Transfer Payments	1,022.1	838.3	965.6
Purchase of Physical Non-Current Assets	100.9	126.0	226.5
Total Investing Payments	**1,123.0**	**964.4**	**1,192.1**
Net Cashflows from Investing Activities	**(1,115.7)**	**(960.8)**	**(1,185.4)**
As % of GDP	***-10.9%***	***-7.9%***	***-8.9%***
Net (Deficit)/Surplus	**(1,223.3)**	**(750.3)**	**(639.1)**
As % of GDP	***-11.9%***	***-6.2%***	***-4.8%***

(Source: Ministry of Finance)

Quote - *"Any woman who understands the problems of running a home will be nearer to understanding the problems of running a country."*

- *Margaret Thatcher*

DIRECT TAX MEASURES

Income Tax Act 2015

Policy	Description
1. Corporate Income Tax Rate	• Corporate income tax rate will increase from 20% to 25%. • This will be effective from tax year 2023.
2. Corporate Income Tax Rate for South Pacific Stock Exchange Listed Companies	• Corporate income tax rate of 10% available to companies listed on the South Pacific Stock Exchange will increase to 15%. • This will be effective from tax year 2023.
3. Social Responsibility Tax (SRT)and Pay As You Earn (PAYE)	• SRT will be incorporated into the Pay As You Earn (PAYE) tax bracket. • There will be a 5% reduction for PAYE income brackets above $270,000. • This policy will be effective from 1 January 2024. • The new PAYE tax table is as follows:

Resident Individual

Chargeable Income ($)	Income Tax ($)
0 – 30,000	Nil
30,000 – 50,000	18% of excess over $30,000
50,001 – 270,000	$3,600 + 20% of excess over $50,000
270,001-300,000	$47,600 + 33% of excess over $270,000
300,001-350,000	$57,500 + 34% of excess over $300,000
350,001-400,000	$74,500 + 35% of excess over $350,000
400,001-450,000	$92,000 + 36% of excess over $400,000
450,001-500,000	$110,000 + 37% of excess over $450,000
500,001-1,000,000	$128,500 + 38% of excess over $500,000
1,000,001 +	$318,500 + 39% of excess over $1,000,000

Non-Resident Individual

Chargeable Income ($)	Income Tax ($)
0 -30,000	20% of excess over $0
30,001-50,000	$6,000 + 20% of excess over $30,000
50,001-270,000	$10,000 + 20% of excess over $50,000
270,001-300,000	$54,000 + 33% of excess over $270,000
300,001-350,000	$63,900 + 34% of excess over $300,000
350,001-400,000	$80,900 + 35% of excess over $350,000
400,001-450,000	$98,400 + 36% of excess over $400,000
450,001-500,000	$116,400 + 37% of excess over $450,000
500,001-1,000,000	$134,900 + 38% of excess over $500,000
1,000,001 +	$324,900 + 39% of excess over $1,000,000

Policy	Description
4. First Residential Property – Capital Gains Tax (CGT) Exemption	• CGT exemption on a gain made on the disposal of the first residential property which is limited to sole ownership or co-ownership with spouse including a spouse living in a de-facto relationship, will be extended to include ownership with siblings, parents, children, grandchildren, and grandparents.

DIRECT TAX MEASURES [CONT'D]

Income Tax Act 2015

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>5. Capital Gains Tax (CGT) on Sale of Shares</td><td>• CGT exemption on gains made on the disposal of shares if the shares were held by the person before 1 May 2011 will be repealed.
• This will be effective from 01 July 2023. All applications still under consideration as at 01 July 2023 will be treated in accordance with the new law.</td></tr>
<tr><td>6. Warehouse Incentive Package</td><td>• Warehouse Incentive Package will be repealed.
• This will be effective from 01 July 2023 and any applications received before 01 July 2023 will be accepted.</td></tr>
<tr><td>7. ICT Incentive</td><td>• ICT Incentive Regulations will be amended with new definitions of the ICT business with qualifying conditions such as minimum investment levels and minimum number of employees. The conditions are summarized below:
<table>
<tr><th>Capital Investment</th><th>Tax Holiday</th><th>Minimum Employees</th></tr>
<tr><td>$100,000 to $250,000</td><td>5-year tax holiday</td><td>25</td></tr>
<tr><td>$250,001 to $500,000</td><td>7-year tax holiday</td><td>50</td></tr>
<tr><td>$500,001 to $1,000,000</td><td>10-year tax holiday</td><td>75</td></tr>
<tr><td>Greater than $1,000,000</td><td>13-year tax holiday</td><td>100</td></tr>
</table>
• This will be effective from 01 July 2023.</td></tr>
<tr><td>8. Resident Interest Withholding Tax (RIWT) Exemption</td><td>• To improve the ease of doing business for the banking sector, the Resident Interest Withholding Tax exemption on interest income less than $1,000 will be removed.
• The RIWT exemption which is available to senior citizens, pensioners, or individuals with a gross annual income of $30,000 will still be available.
• This will be effective from 01 January 2024.</td></tr>
<tr><td>9. Employment Taxation Scheme (ETS)</td><td>• 300% tax deduction available for wages or salaries paid for hiring of first-time employees will be removed.
• The remaining incentives under the ETS scheme such as the incentive for work placements, apprenticeship, hiring of part-time workers and hiring of persons with disabilities will be maintained.</td></tr>
<tr><td>10. Tax Deduction for Companies Sponsoring Tertiary Education</td><td>• 100% tax deduction available to companies on the amount of tuition and living expenses paid for student(s) at a higher education institution will be removed.</td></tr>
<tr><td>11. Income Tax Exemption for Water Extraction & Bottling Business</td><td>• Income of entities involved in the extraction and bottling of water will be exempt from Income Tax for 7 years. This will be applicable to existing and new businesses.</td></tr>
<tr><td>12. Film Rebate</td><td>• To promote transparency in governments revenue and expenditure reporting, the film rebates will now be issued as part of governments expenditure initiatives and not through governments tax revenue refunds.</td></tr>
<tr><td>13. Application of Non- Resident Withholding Taxes</td><td>• To discourage treaty shopping, Section 10(8) of the Income Tax Act will be deleted.</td></tr>
<tr><td>14. Definition of 'SLIP'</td><td>• Definition of Short Life Investment Package (SLIP) under the Hotel Incentives Regulations will be amended to limit newly incorporated entities to qualify for the incentive only.</td></tr>
</table>

DIRECT TAX MEASURES [CONT'D]

Income Tax Act 2015

Policy	Description
15. Filing of Withholding Tax Certificate	• Due to the automation of the FRCS tax system, Regulation 18 (2) of the Income Tax Withholding Tax Regulations will be amended to remove the requirement for employers to file a manual copy of the withholding certificate.
16. ICT Start Up Incentive	• ICT incentive has undergone various changes in the last few budgets including changes to the qualifying criteria and the level of benefits. As a result of these changes, Para 14, Part 9 of the ITA is now redundant therefore, this provision will be deleted from the ITA. • Para 14 provides exemptions to the income of Information Communications Technology start-ups involved in application design or software development for a period of 13 years from the date of approval by the CEO.

Quote - The Positive Thinker sees the Invisible, feels the Intangible, and achieves the Impossible.

- Winston Churchill

TAX ADMINISTRATION MEASURES

Tax Administration Act 2009

Policy	Description
1. Alternative Dispute Resolution	• A new provision will be introduced to allow the taxpayers and FRCS to seek resolution for matters under dispute through an Alternative Dispute Resolution process.
2. Arrival Alert	• TAA will be amended to allow FRCS to place arrival alerts at the border for returning taxpayers who have outstanding tax obligations.
3. Tax Agents Board (TAB)	• To ensure tax agents' ongoing professional development, the qualifying criteria for a new tax agents license, TAA will be amended to include the following: - The applicant must be a chartered accountant (CA) of the Fiji Institute of Chartered Accountants (FICA) or - Hold membership of a similar recognized body. - The new criteria will not apply to existing tax agents. • TAB will be empowered to conduct verification such as additional reference checks, qualification or any other verification deemed necessary. • The fees for applications and renewals of Tax Agents license will be increased which will come into effect from 01 January 2024. The new rates are as follows: a) New applications: $436 to $500 b) Renewals: $218 to $350 • The term "Prescribed fee" will be removed and replaced with "Approved fee." which would allow TAB to set the fees.

Quote - "Quality is remembered long after the price is forgotten."

- Gucci Family

INDIRECT TAX MEASURES

Value Added Tax Act 1991

Policy	Description
1. VAT Rates	• The three VAT rates will be replaced with a simplified two-VAT rate system. The new rates are as follows: - 9% VAT will increase to 15%, 0% will be maintained. - The 21 zero-rated items will be increased to 22 items with the addition of prescribed medicine. • This policy will be effective from 01 August 2023.
2. VAT Monitoring System	• The planned further implementation of the VAT Monitoring System will be paused whilst the entire system is reviewed

Airport Departure Tax Act 1986

Policy	Description
1. Airport Departure Tax	• The Airport Departure Tax will increase to: - $125 effective from 01 August 2023 - $140 effective from 01 January 2024

Customs Tariff Act

Policy	Description
1. Fuel Rebate for Bus Companies operating in Vanua Levu and Taveuni	• A 10 cents per liter fuel rebate will be provided to bus companies operating in Vanua Levu and Taveuni. • The existing 2 cents per liter will be maintained for all other regions.
2. Duty on Motor Vehicles	• Import Excise Duty on new and used passenger motor vehicles will increase by 5%.

Motor Vehicle Duty Rate Changes

Cylinder Capacity	Hybrid Category	Old Rates		New Rates	
		Fiscal Duty	Import Excise	Fiscal Duty	Import Excise
Less than 1,500cc	New	5%	Free	5%	5%
	Used	$2,000	Free	$2,000	5%
1,500cc to 2,500cc	New	5%	Free	5%	5%
	Used	$2,250	Free	$2,250	5%
2,500cc to 3,000cc	New	5%	Free	5%	5%
	Used	$2,500	Free	$2,500	5%
Exceeding 3,000cc	New	5%	Free	5%	5%
	Used	$4,250	Free	$4,250	5%

INDIRECT TAX MEASURES (CONT'D)

Customs Tariff Act (Cont'd)

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>2. Duty on Motor Vehicles (Cont'd)</td><td>Motor Vehicle Duty Rate Changes
<table>
<tr><th rowspan="2">Cylinder Capacity</th><th>Non-Hybrid</th><th colspan="2">Old Rates</th><th colspan="2">New Rates</th></tr>
<tr><th>Category</th><th>Fiscal Duty</th><th>Import Excise</th><th>Fiscal Duty</th><th>Import Excise</th></tr>
<tr><td rowspan="2">Less than 1,000cc</td><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>15% or $2,750 /unit</td><td>Free</td><td>15% or $2,750 /unit</td><td>5%</td></tr>
<tr><td rowspan="2">1,000cc to 1,500cc</td><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>15% or $3,875 /unit</td><td>Free</td><td>15% or $3,875 /unit</td><td>5%</td></tr>
<tr><td rowspan="2">1,500cc to 2,500cc</td><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5% or $5,000 /unit</td><td>Free</td><td>5% or $5,000 /unit</td><td>5%</td></tr>
<tr><td rowspan="2">2,500cc to 3,000</td><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5% or $6,750 /unit</td><td>Free</td><td>5% or $6,750 /unit</td><td>5%</td></tr>
<tr><td rowspan="2">Exceeding 3,000cc</td><td>New</td><td>5%</td><td>5%</td><td>5%</td><td>10%</td></tr>
<tr><td>Used</td><td>5% or $8,125 /unit</td><td>Free</td><td>5% or $8,125 /unit</td><td>5%</td></tr>
</table></td></tr>
<tr><td>3. Fiscal Duty on Concession codes 231, 231A, 231B, 235, 235A, 236, 236A and 236B</td><td>• A 3% fiscal duty will be imposed on all goods imported under the following concession codes:
a. Concession code 231, applicable for Packaging materials for a Producer or manufacturer.
b. Concession code 231A, applicable for an approved exporter of local fresh produce.
c. Concession code 231B, applicable for an approved importer or exporter of locally manufactured/produced goods.
d. Concession code 235, applicable to existing hotels and resorts.
e. Concession code 235A applicable for new hotels and resorts granted approval under Short Life Investment Package (SLIP) as per the Income Tax (Hotel Investment Incentives) Regulations 2016.
f. Concession code 236, applicable to a manufacturer or producer approved by the comptroller.
g. Concession code 236A applicable to a manufacturer or producer approved by the Comptroller importing food-grade plastic pallets.
h. Concession code 236B, applicable to a manufacturer or producer approved by the Comptroller for the processing of finished goods through assembly, mixing or blending.</td></tr>
<tr><td>4. Removal of Concession Codes 137, 138, 140, 117, 272 and 302.</td><td>• The following concession codes will be removed:
a. Concession code 137, which provides for duty-free importation on kitchenware and tableware products.
b. Concession code 138, which provides for duty-free importation on biodegradable and environmentally friendly detergents.
c. Concession code 140, which provides for duty-free importation of Led lights and lightning.
d. Concession code 117, which offers fuel concessions for resorts, manufacturers, cruise vessels and mining industries.
e. Concession code 272, which provides for duty-free importation of smartphones.
f. Concession code 302, which provides for duty-free importation to companies involved in broadcasting and internet services.</td></tr>
</table>

INDIRECT TAX MEASURES (CONT'D)

Customs Tariff Act (Cont'd)

Policy	Description
5. Reduction in Fiscal Duty	• To reduce costs and ensure a consistent supply of products in the market, the duty rates on the following products will be reduced: a. The fiscal duty on the importation of sheep/lamb meat will be reduced from 5% to 0%. b. The fiscal duty on the importation of beef will be reduced from 32% to 15%. c. The fiscal duty on the importation of prawns will be reduced from 32% to 15%. d. The fiscal duty on the importation of ducks will be reduced from 32% to 15%. e. The fiscal duty on the importation of corned meat of lamb/sheep will be reduced from 32% to 15%. f. The fiscal duty on the importation of corned meat of beef will be reduced from 32% to 15%. g. The fiscal duty on the importation of canned mackerel will be reduced from 32% to 15%. h. The fiscal duty on the importation of canned tomatoes will be reduced from 15% to 5%.
6. Reduction in Import Excise Duty	• The Import Excise Duty on the importation of chicken portions will be reduced from 10% to 0%.
7. Non-alcoholic wine	• A new breakdown will be made under the Customs Tariff Act to record the importation of non-alcoholic wine.
8. Tariff Alignment	• The Customs Tariff Act will be amended to remove the 'cc' ratings from the electric vehicle categories.
9. Tariff Alignment	• Sub-heading 0306 for HS codes 0306.11.00 to 0306.19.00 will be amended from "live, fresh or chilled" to "frozen"
10. Sugar Classification	• Alignment of sugar classification rates to capture sugar imports above 99.5 degrees at 32% fiscal duty.

Excise Act

Policy	Description
1. Excise Duty	• In line with the government's direction to control Non-Communicable Diseases (NCDs), the following changes will be implemented: a. Domestic Excise Duty on alcohol will be increased by 5%. b. Domestic Excise Duty on tobacco will be increased by 5%. c. Domestic Excise Duty on carbonated or sugar-sweetened beverages will be increased from 35 cents per liter to 40 cents per liter. • A corresponding increase to the import excise on the above products will also be imposed.
2. New Excise Duty on snacks and drinks	• A 40 cents per kg/liter domestic excise duty or 15% import excise duty will be imposed on the following products: a. Sweet biscuits b. Imported fruit juices c. Ice cream d. Snacks obtained by roasting, frying, baking, swelling, etc. e. Sugar confectioneries • This policy will be effective from 01 January 2024.

INDIRECT TAX MEASURES (CONT'D)

Excise Act (Cont'd)

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>3. Certificate Fees under the Excise Act</td><td>• The fees for certificates under the Excise Act will be increased to $50 effective from 1 August 2023. The details are as follows:
<table>
<tr><th>No.</th><th>Document</th><th>Fee ($)</th></tr>
<tr><td>1.</td><td>Certificate of weight for each consignment</td><td>50</td></tr>
<tr><td>2.</td><td>Any other certificate issued by the Comptroller</td><td>50</td></tr>
<tr><td>3.</td><td>Certified copy of any document (for each 100 words or part of 100 words)</td><td>50</td></tr>
</table>
</td></tr>
<tr><td>4. Apparatus for measuring alcohol strength</td><td>• The currently authorized instrument for measuring alcohol strength "Gay Lussac Hydrometer" will be extended to include other "approved apparatus".</td></tr>
</table>

Water Resource Tax Act

Policy	Description
1. Increase in the Water Resource Tax Rate	• The water resource tax rate for extraction above 10 million liters per month will increase from 18 cents per liter to 19.5 cents per liter.

Customs Act

Policy	Description
1. Goods Warehousing Period	• The goods warehousing period will revert to pre-COVID practice. • The warehousing period for items under Chapter 84 (machinery & mechanical appliances) and Chapter 87 (motor vehicles) will only be for 1 year and with no extensions. • Other goods can be warehoused for 1 year with an extension of 6 months.
2. Import VAT Deferral	• Section 92 of the Custom Act will be amended to remove the policy on Import VAT deferral for 60 days available to Gold Card Companies. This was a measure introduced during the pandemic to assist businesses with cash flow issues.
3. Customs Entry Post Modification Fee	• A $15 post-modification fee will be imposed on all post-customs post entry modifications.
4. Definition of "Cargo Reporter"	• A new definition of "cargo reporter" will be incorporated in the Customs Act. The new definition has been provided below: - "cargo reporter" in relation to a ship or aircraft and in relation to a particular voyage or flight means the operator of the ship or the aircraft; a Shipping Agent in respect of the ship; or a freight forwarder in respect of the ship or aircraft; for the voyage or flight."
5. Advance Notification of Cargo Information	• A new provision will be made for the advance notification of cargo information. • This provision will provide for the requirement of cargo reporters to produce the advance cargo information on cargoes prior to the ship or aircraft arriving in Fiji.
6. Electronic Data Access	• Section 111 of the Customs Act will be amended to enable FRCS to access electronic data under the 'Power of Search' provisions.
7. Remittance of Court Matters	• The Customs Act will be amended to allow the court to remit matters to the Comptroller.
8. Objections and Appeals Provisions	• The Customs Act will be amended to allow FRCS to recover disputed duty despite the matter being in court.

EXCHANGE CONTROL RELAXATIONS

In April 2023, the Reserve Bank of Fiji had announced further Exchange Control Relaxations effective from 1 June 2023.

The Governor of Reserve Bank of Fiji, Mr Ariff Ali, while announcing the new measures in April 2023, highlighted that the changes are in line with the current strong performance of the Fijian economy and its favorable growth prospects moving forward.

The changes include further increases in the delegated limits to commercial banks and foreign exchange dealers, the re-delegation of certain capital transactions that were pulled back in 2020 and the streamlining of documentary requirements for offshore payments. These changes would facilitate operational efficiency for businesses and personal transactions.

Exchange Control Transactions and New Delegated Limits

The following increases to delegated limits of authorised foreign exchange dealers effective from 1 June 2023:

Payment	Delegated Limit until 31 May 2023 (Amount in FJD)	New Delegated Limit Effective 1 June 2023 (Amount in FJD)
1. Credit Cards ➢ Credit Card Payments. ➢ Corporate Credit Cards.	• $5,000 per month. • $10,000 per month.	• $10,000 per month. • $20,000 per month.
2. Emigration	• $150,000 per annum.	• $250,000 per annum.
3. Non-Resident Transfers Offshore ➢ Applies to Dual citizens and non- residents holding resident accounts.	• None.	• $250,000 per annum.
4. Deposits into External Account ➢ Proceeds of sale of household items, personal effects and motor vehicles. ➢ Insurance maturity proceeds.	• Not delegated.	• Not delegated.
5. Withdrawal of Investment ➢ Sale of shares in local company. ➢ Sale of company assets.	• Not delegated.	• $250,000 per annum.
6. Profit	• Not delegated.	• $250,000 per annum.
7. Loan Repayment	• $50,000 as per repayment schedule.	• $250,000 as per repayment schedule.
8. Foreign Currency Loans offered by local banks	• $2,000,000 per annum.	• $10,000,000 per annum.
9. Travel Allowance	• $5,000 per trip on a one-way ticket.	• $10,000 per trip on one-way ticket for travelers on overseas valid work permits.
10. Education-Student Allowance	• $20,000 per annum.	• $50,000 per annum.
11. Offshore investment ➢ Companies ➢ Non-Bank Financial Institutions.	• Suspended.	• Requires Reserve Bank approval.

Changes to the Documentary Requirements and Other Policy Guidelines

Effective from 1 June 2023, changes were also made to the documentary requirements by the authorised dealers or the Reserve Bank of Fiji (for payments which are outside the delegated limits or requires RBF approvals). Generally, the documentary requirements have been reduced or removed for certain payments.

(Source : Reserve Bank of Fiji, April 2023 Media Release)

We trust that you find this resume useful. If you would like to discuss any aspect of this Budget Brief, please do contact us.

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