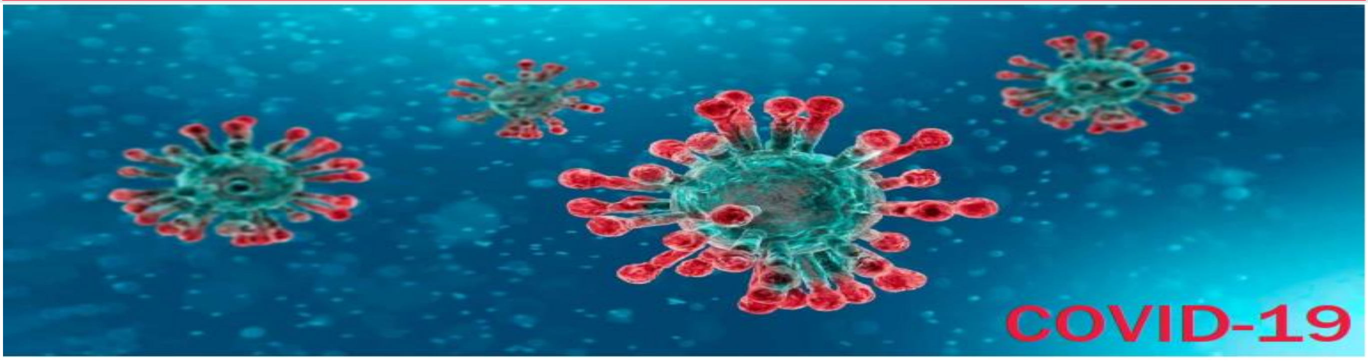
# FIJI
# COVID-19 Response Budget




26 March 2020

The Attorney-General and Minister for Economy, Civil Service and Communications, Honourable Aiyaz Sayed-Khaiyum, presented COVID-19 Response Budget this evening, 26 March 2020.

The Minister stated that "given the devastating nature of this crisis and the unprecedented blows to our revenue, our economy is contracting and we are borrowing substantially more than we planned for. ***These are extraordinary times that call for extraordinary measures.*** As a result, our debt to GDP ratio will increase to 60.9%. As soon as the clouds of this pandemic part, we expect an economic rebound and stronger revenues that allow us to reign down our debt".

This resume provides a brief outline of certain aspects of the Government's COVID-19 Response Budget and is based upon a quick analysis of the Budget Address.

As this is a general guide, we recommend that you seek professional advice before taking action on specific topics. We emphasize that the full impact of the Budget will be known after a detailed analysis of the Budget and our firm will issue further reports based upon such analysis.

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

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## Inside This Budget Brief

## ECONOMIC OUTLOOK AND OVERVIEW

**These are extraordinary times that call for extraordinary measures.**

### *INTRODUCTION*

***The novel coronavirus (COVID-19) pandemic presents not only a public health crisis for Fiji, but also an economic crisis of unprecedented scale***

- The implications of COVID-19 on the Fijian economy are enormous, particularly its devastating effects on the tourism industry, severe disruptions to trade flows, major slowdown in business activities and its drastic impact on public finances.

- In response, the Fijian Government is allocating substantial resources for containment and treatment of the virus and also providing the necessary fiscal support to minimise economic disruptions. This includes targeted spending and fiscal measures to boost disposable incomes, assist business cash flows, protect employment and sustain livelihoods of those adversely affected by the crisis.

***Fiji recorded its first confirmed case of COVID-19 on 19 March 2020, which has increased to five positive cases as of 25 March 2020***

- A number of measures are in place with all passenger flights to and from Fiji being suspended, movement restricted in and out of the affected area and limitation placed on non-essential gatherings. Apart from this, other measures were also put in place to ensure the safety and wellbeing of Fijians.

### *IMPACT OF COVID-19 ON THE FIJIAN ECONOMY*

***Aside from the severe ramifications for public health and safety, COVID-19 poses an unparalleled threat to Fiji's domestic economy***

- There are several channels through which COVID-19 is expected to affect the domestic economy, including:

  - a drastic drop in visitor arrivals and tourism earnings,
  - disruptions to global supply chains & subdued trade flows,
  - major slowdown in business activity,
  - potential layoffs and unemployment as businesses cut costs to stay afloat during these difficult times,
  - reduced remittances inflow, and
  - a devastating blow to Government tax collections.

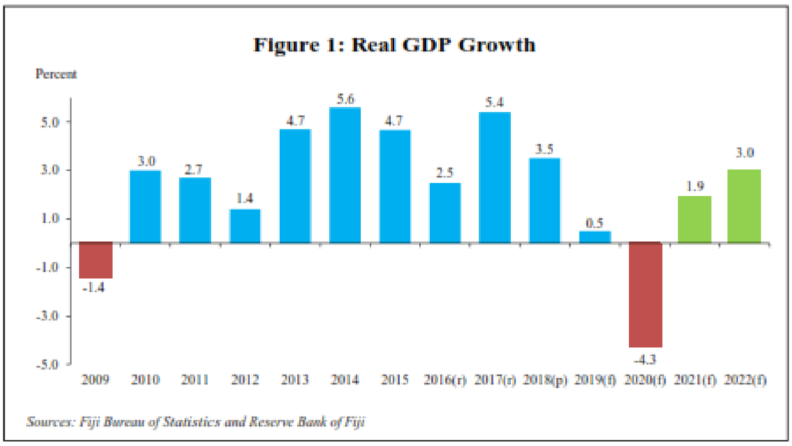
*Quote* - *I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts.*

\- *Abraham Lincoln*

## ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

***The Fijian economy is expected to contract by 4.3 percent in 2020 after a 0.5 percent growth in 2019***

- The economic decline will be much sharper depending on the duration of the pandemic and the economic impact will be much severe if border closures by key trade partners are prolonged.
- The economy is projected to recover in 2021 and 2022 with a broad based growth forecast of 1.9 percent and 3.0 percent, respectively.
- Real GDP growth from 2009 to 2022 is summarized below:




### *DISRUPTIONS TO TOURISM*

***A massive decline in visitor arrivals and tourism earnings is expected for 2020***

- If the pandemic is not contained and border closures continue into the second half of the year, the decline in both visitor arrivals and tourism earnings will be even larger with the potential of a double digit contraction in the Fijian economy.
- Further developments on this front will be closely monitored and adequately reflected in future revisions to the macroeconomic forecasts.
- The closure of Fiji's borders to COVID-19 "hot spots" and travel restrictions imposed by Fiji's major source markets will significantly affect visitor arrivals and tourism earnings in 2020. Disruptions to Fiji's source markets like Australia, New Zealand and USA which account for 75 percent of total visitor arrivals will create a sizeable downturn as the industry accounts for over a third of Fiji's economy.
- This will result in lower revenues not only for Fiji Airways and the tourism sectors, but also other tourism-dependent businesses such as restaurants and bars, handicraft stores & gift shops, travel agencies, guided tours, and vehicle hire & rental companies, to name a few. It will also have rippling effects on the overall economy as almost all other sectors have deep linkages with the tourism industry.
- Moreover, given the number of Fijians that are either directly or indirectly employed in the tourism sector, the negative spill-over effects on the Fijian economy will have considerable fiscal implications for Government not only through reduced tax collections, but also through higher COVID-19 related spending.

*Quote - When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity.*

*- John F. Kennedy*

## ECONOMIC OUTLOOK AND OVERVIEW (CONT'D)

### *DISRUPTIONS TO TRADE FLOWS*

***The pandemic has affected most of the advanced economies, waning global demand and supply bottlenecks have led to widespread trade disruptions***

- Global air freight has been depressed by the widespread travel bans and flight cancellations, while sea freight has been affected to some extent from countries that are under lockdown. This will affect Fijian businesses with direct linkages to China and other major trading partners like Australia, New Zealand and USA.

***Exports in 2020 is projected to contract by 3.4 percent on account of projected global economic slowdown and reduced export demand from China and other trading partners***

- Almost all categories of export are anticipated to decline as the outbreak drags down demand and commodity prices.

***Imports in 2020 is also projected to fall by 9.3 percent led by declines anticipated in imports of mineral fuel due to fall in prices of crude oil, machinery & transport equipment, manufactured goods and food & live animals***

- The muted global demand for oil amidst weaker global activity, widespread airline grounding, and recent moves by state actors to flood the market with supply have pushed down oil prices to around US$25 per barrel, with the likelihood of further declines in the coming weeks.

Given that mineral fuels make up one third of our import bill, this will have a positive, albeit temporary impact on our trade balance. However, the recent strengthening of the US dollar and the temporary increase in the duty of fuel will to some extent offset the decline in fuel prices locally.

***The trade deficit is expected to narrow to $2,509 million in 2020, equivalent to 22.4 percent of GDP as the fall in imports is much larger than the fall in exports***

Apart from trade, with the anticipated slowdown in global activity, the volume and frequency of personal remittances from Fijians abroad is expected to drop in 2020 with negative implications on foreign reserves (remittances comprise Fiji's second largest source of foreign reserves), household disposable incomes and consumption activity.

***As such, the current account deficit is expected to widen to 4.0 percent of GDP***

- This is on account of larger deterioration in services and secondary income balances which more than offsets the expected improvement in trade deficit and primary income deficit.
- The capital and financial account balance (excluding reserve assets) is projected to decline to 11.2 percent of GDP.
- The overall balance of payments for 2020 is forecast to be in deficit and reserve assets are projected to fall.
- However, foreign reserves are estimated to remain above 4 months of retained imports benchmark cover by year end.

***Fiscal implications***

- Major Government revenues, particularly VAT, corporate taxes, PAYE, STT, ECAL and departure tax are expected to be hard-hit as business and consumption activities decline. Given the resulting fiscal constraints, the Fijian Government will reprioritise spending and temporarily increase fiscal deficit and borrowing levels.
- Funding for non-essential programmes will be redeployed, and major capital projects that have not commenced are being deferred.
- An effective economic response to the COVID-19 crisis will require the right blend of targeted Government fiscal stimulus and monetary easing by the Reserve Bank of Fiji (RBF) which is discussed in the following sections.

## 2019-2020 REVISED FISCAL PROJECTIONS

The unprecedented nature and scale of the challenges posed by the COVID-19 pandemic has necessitated the Government to relook at fiscal priorities to ensure the associated economic and fiscal risks are mitigated.

In this regard, a number of new funding allocations are provided in the COVID-19 Response Budget to contain the spread of the virus and support those adversely affected.

- With the severe negative impact on Fiji's tourism industry and its widespread impact on other sectors, Government revenue is expected to significantly decline for the remaining months of financial year 2019-2020.

  This fast growing pandemic has created great uncertainty amongst businesses and consumers alike, and is expected to further dampen economic activity, putting pressure on Government's fiscal position.

- The decline in tourism and other related businesses have a direct impact on major tax revenues such as VAT collections, departure tax, STT and ECAL.

  The substantial decline in business activities is expected to significantly affect income streams of businesses, resulting in lower corporate tax and personal income tax collections.

- Apart from the services sector, other major sectors of the economy such as construction, manufacturing, wholesale & retail and real estate will also be impacted, consequently affecting relevant tax collections.

  The supply chain disruptions and delay in the importation of construction materials, raw materials for manufacturing, and goods for wholesale & retail has affected collection of trade taxes by Government.

- Individuals and investors are also anticipated to hold back investments in areas like real estate, which is expected to impact stamp duties and capital gains tax collections.

  To mitigate this, stamp duty on mortgages has been temporarily reduced to support new investments in real estate.

- Overall tax collections are projected at $2,022.0 million for financial year 2019-2020.

  This is expected to be lower than the original budget by $1,058.2 million, a decline of 34.4 percent.

  Compared to the collections in financial year 2018-2019, tax revenue will be $797.7 million lower (28.3 percent decline).

  Major reductions are expected from VAT collections, income taxes and customs revenue due to reasons explained above.

- Dividends from state-owned enterprises are expected to decrease together with lower collections from various fees, fines and charges.

  This decline is compensated by the one-off $206.1 million divestment proceeds from EFL.

- While the pandemic has a major impact on Government revenues, it has also necessitated new expenditure allocations in the COVID-19 Response Budget.

*Quote* - *You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before.*

\- *Rahm Emanuel*

## 2019-2020 REVISED FISCAL PROJECTIONS (CONT'D)

***Direct Budget Funding for COVID-19***

| Details | $ million |
|---|---|
| Ministry of Health | 40.0 |
| Fiji Police Force | 0.7 |
| Republic of Fiji Military Forces | 0.15 |
| Ministry of Agriculture | 1.0 |
| Fiji Competition and Consumer Commission | 0.1 |
| Unemployment Benefit – Tourism Sector | 5.6 |
| Unemployment Benefit – Lockdown Areas (Formal Sector) | 7.0 |
| Unemployment Benefit – Lockdown Areas (Informal Sector) | 3.0 |
| Unemployment Benefit – General | 5.0 |
| Assistance to SME's | 5.0 |
| Contingency Funds (Unemployment) | 5.0 |
| Contingency Funds (General) | 27.5 |
| **Total** | **100.0** |

- A total of $3,536.4 million has been allocated in the COVID-19 Response Budget.

  The revised total expenditure takes into account the current spending trend, reprioritisation of capital expenditures, anticipated operational savings and new COVID-19 related allocations.

- Based on a projected total revenue of $2,507.6 million, the net deficit stands at $1,028.7 million for the COVID-19 Response Budget, equivalent to 9.0 percent of GDP.

  The deficit will be financed through both domestic and external borrowings from the Asian Development Bank and the World Bank.

*Quote - Unfortunately, in a recession, the people who suffer the most aren't the rich, but the wanna-be rich and the poor.*

*- Robert Kiyosaki*

## GOVERNMENT RESPONSE TO COVID-19

The recent developments surrounding COVID-19, its implications on global supply chain disruptions, reduced international demand, subsequent impact on the global economy, plummeted tourism travel and major negative consequences for tax revenues has necessitated a revision and refocus of the 2019-2020 Budget.

The COVID-19 Response Budget focuses on redirecting funds to relevant front-line agencies that require additional resources for prevention and containment activities, ensuring food security and maintaining support for the disadvantaged.

An economic package of over $1.0 billion, equivalent to around 8.7 percent of GDP is announced in the COVID-19 Response Budget.

The measures are as follows:

***Fiji National Provident Fund (FNPF)***

- To support all employers in Fiji:
  - the statutory FNPF employer contribution is halved from 10 percent to 5 percent effective from 1 April 2020 to 31 December 2020.
  - this will provide a $130 million relief to employers for the next 9 months.
- Employee Contribution is reduced from 8 percent to 5 percent effective from 1 April 2020 to 31 December 2020. This will put around $80 million back in the pockets of Fijian employees for the next 9 months.
- A lump sum assistance of $1,000 through FNPF will be provided to employees who have lost jobs or are on reduced hours in the tourism and hospitality industry.

  For FNPF members who have less than $1,000 in their FNPF General Account, Government will subsidise the remaining balance to make it $1,000.
- A lump sum assistance of $500 through FNPF will be provided to employees who are affected by the lockdown/travel restriction due to COVID-19.

  This is only available to employees who are not able to go to work or are not able to work from home (thus not paid by employers).

  Those who have less than $500 in their General Account, the balance will be subsidised by Government.

***Government Relief Payment and Government Supply***

- For those affected in the informal sector in the lockdown areas, Government will provide a relief payment of $150.
- Government will reimburse directly to employers 21 days of COVID-19 leave for employees that test positive and are certified by the Ministry of Health and Medical Services.

  This will only be applicable to those with less than $30,000 annual income.
- Fijians employed in the informal sector and tested positive for COVID-19 and are certified by the Ministry of Health and Medical Services will receive a Government assistance of $1,000.
- For employers who continue to pay their employees under self- quarantine due to a directive from the Ministry of Health and Medical Services are eligible for a 300 percent tax deduction. Employees will also be required to take paid family care leave.

  Anyone that is not compensated during this 14 day self- quarantine period will be paid $100 by Government.

  This will only be applicable to those with less than $30,000 annual income.

***Ministry of Health and Medical Services***

- The Ministry of Health and Medical Services is provided an additional budget of $40 million for the procurement of supplies & consumables, personal protective equipment, thermal scanners, set up of isolation facilities, media awareness, infection control, contact tracing, emergency response and other contingencies.

## GOVERNMENT RESPONSE TO COVID-19 (CONT'D)

***Students***

- For students repaying Tertiary Education Loans, repayments will be suspended until 31 December 2020.

  This will provide a relief of around $10 million.

***Commercial Banks***

- All commercial banks in Fiji will offer loan repayment holidays on principal and interest for up to 6 months for businesses and individual customers facing hardship with mortgages and loan repayments due to the COVID-19 pandemic.

  This is expected to provide a relief of around $400 million.

***National Disaster Rehabilitation Facility***

- To support businesses affected by the economic downturn and rebuild confidence in the economy, the RBF is expanding the Natural Disaster Rehabilitation Facility by $60 million to assist those affected by COVID-19.

  Commercial banks, Fiji Development Bank and licenced credit institutions can access funds from RBF with an interest rate of 1 percent per annum and lend to eligible businesses at a maximum interest rate of 5 percent. The SME Credit Guarantee Scheme is expanded to assist small entities affected by COVID-19.

***Taxation and Customs***

- A number of taxation and customs policy changes will be implemented to provide immediate relief to businesses and individual taxpayers, revive investment & business activity, support exports & the tourism industry and protect employment.

  This will provide assistance of over $150 million. Further specific details are provided under Taxation section.

*Quote - Our first goal is to stop the recession and start with recovery.*

*- Antonis Samaras*

## GOVERNMENT DEBT AND FINANCING

***Government debt is projected at $6,988.9 million, equivalent to 60.9 percent of GDP by end of July 2020.***

- The sharp increase in the debt to GDP ratio is due to the large increase in deficit level as Government revenue is expected to decline significantly accompanied by a sizeable downward revision to nominal GDP (9.6 percent lower than original budget forecast).
- Moreover, the increase in debt levels is also attributed to $224.9 million (2 percent of GDP) loans drawn in anticipation of refinancing the global bond due in October 2020 and these funds are kept in Government's offshore account.

Fiscal measures will be undertaken in the years ahead to bring down the debt level.

### *Government Debt Position*

| Particulars | July 2016 | July 2017 | July 2018 | July 2019 | July 2020 Forecast |
|---|---|---|---|---|---|
| Domestic Debt ($m) | 3,245.0 | 3,300.8 | 3,763.0 | 4,278.5 | 4,992.9 |
| External Debt ($m) | 1,262.6 | 1,370.9 | 1,457.5 | 1,456.8 | 1,996.0 |
| **Total Debt** ($m) | **4,507.7** | **4,671.7** | **5,220.5** | **5,735.2** | **6,988.9** |
| **Debt (as a % of GDP)** | **44.6** | **43.9** | **46.0** | **48.9** | **60.9** |
| Domestic to Total Debt | 72% | 71% | 72% | 75% | 71% |
| External to Total Debt | 28% | 29% | 28% | 25% | 29% |

*(Source: Ministry of Economy)*

Government targets a domestic and foreign borrowing mix of 70:30 (+/-5 percent).

Government is refinancing the US$200 million global bond in October 2020 with policy based loans from the Asian Development Bank (ADB) and the World Bank. Government has completed a series of sub-programmes as part of the entire policy-based reform programme and has secured US$65 million from ADB and US$35 million from World Bank.

Government is currently in the advanced stages of the final sub-programme which will result in an additional loan financing of US$200 million by ADB towards global bond refinancing (US$100 million) and budget support for COVID-19 (US$100 million).

### *Debt Management Objectives*

The key Government debt management objectives:

- focus on domestic capital markets as a major source of financing the 2019-2020 Revised Budget and explore offshore borrowings while managing exchange rate and interest rate fluctuations;
- maintain an optimal cost and maturity structure for Government's debt portfolio to ensure prudent liability management;
- actively pursue opportunities to refinance debt at lower cost, like the refinancing of the Global Bond due in October 2020;
- develop the domestic bond market to focus more on liquidity, transparency, secondary market trading, settlement mechanism and investor diversification;
- minimise risks associated with on-lending and contingent liabilities; and
- manage foreign debt repayments to minimise foreign exchange rate risks.

Government will work to further restructure the Fiji Sugar Corporation (FSC) with a view to strengthening its balance sheet and to ensure that the entity becomes commercially viable.

In addition to a $50 million budget support to FSC for cane delivery payments, Government loans to FSC will be converted to equity. Similarly, Government will also convert its loans to PAFCO, Fiji Rice Limited, Food Processors Limited and Viti Corp Company Limited into equity.

## MONETARY POLICY

In light of the global effects of the COVID-19 pandemic and its implications on GDP growth, foreign reserves and inflation, the RBF reduced its overnight policy rate to 0.25 percent from 0.50 percent in March 2020.

The reduction is expected to stimulate aggregate demand through reduced cost of borrowing and support consumption and investment activity. Going forward, the RBF will continue to monitor international and domestic developments and align monetary policy accordingly.

Monetary policy will continue to focus on supporting the domestic economy through safeguarding foreign reserves and inflation. Foreign reserves levels are around $2.2 billion, equivalent to 5.7 months of retained imports cover.

Inflation stood at a historical low of negative 3.0 percent in February 2020 and is forecast to be close to zero percent by year end.

The Reserve Bank of Fiji (RBF) on 18 March 2020 had announced 25 basis points reduction in Overnight Policy Rate, from 0.5 per cent to 0.25 percent, in which the central bank signalled its intention to ease monetary policy to support economic activity.

In RBF's Press Release dated 26 March 2020, the Governor, Mr Ariff Ali stated that:

- The Fijian economy is currently in unchartered waters and headed for a recession this year. The coronavirus (COVID-19) pandemic has led to the cessation in tourism activity and transmitted significant negative knock-on effects to the broader economy. While precautionary and containment measures adopted by the authorities and the general population will drastically affect consumption spending and government revenue, they are appropriate and crucial to avoid longer-term social and economic damage.

- Amid the synchronised recession on the global and domestic front, an accommodative monetary policy stance along with policy initiatives to support the private sector and households are warranted. To this effect, the RBF will expand its Natural Disaster and Rehabilitation Facility to include businesses affected by epidemics/pandemics and be renamed the Disaster Rehabilitation and Containment Facility. Total allocation for this facility has been raised to $60 million. Businesses affected by the COVID-19 pandemic can access funds under this facility through their respective commercial banks, licenced credit institutions or the Fiji Development Bank at an interest rate of up to a maximum of 5.0 percent.

- ***The magnitude of the domestic economic contraction will depend on the duration and the spread of the pandemic, which continues to unfold.*** That said, financial conditions remain accommodative with ample liquidity, stable interest rates and modest credit growth. Notably, the reduction in interest rates and various other reprieve measures announced by commercial banks' to assist customers should support businesses during this downturn.

- For now, the financial system is sound and the RBF's twin monetary policy objectives of low inflation and adequate foreign reserves remain intact. Annual inflation was registered at a historic low of -3.0 percent in February while foreign reserves were around $2,228.2 million as at 26 March, sufficient to cover 5.7 months of retained imports of goods and services.

*Quote* - *So I think the winners in recession are the people who produce new technology that does things better, which people really want.*

*- James Dyson*

## GOVERNMENT'S CASHFLOW STATEMENT

Government's Cashflow Statements for the FY 2018-2019 to FY 2019-2020 is summarized below:

| ($M) | 2018-19 (Actual) | 2019-20 (Budget) | 2019-20 (Revised Budget) |
|---|---|---|---|
| **Receipts** | | | |
| Direct Taxes | 754.4 | 804.8 | 546.0 |
| Indirect Taxes *(excluding SEG 13 VAT)* | 2,026.9 | 2,221.9 | 1,430.4 |
| - *VAT (excluding SEG 13 VAT)* | 799.6 | 855.5 | 502.7 |
| - *Customs Duties* | 669.8 | 746.0 | 540.4 |
| - *Service Turnover Tax* | 89.6 | 93.5 | 59.3 |
| - *Water Resource Tax* | 73.6 | 82.8 | 49.5 |
| - *Departure Tax* | 147.2 | 163.3 | 106.2 |
| - *Stamp Duty* | 85.2 | 105.4 | 55.5 |
| - *Fish Levy* | 0.05 | 0.1 | 0.1 |
| - *Telecommunication Levy* | 1.0 | 1.1 | 0.9 |
| - *Environment & Climate Adaptation Levy* | 160.9 | 174.1 | 115.7 |
| Fees, Fines, Charges & Penalties | 133.1 | 163.2 | 118.2 |
| Grants in Aid | 42.0 | 13.8 | 29.1 |
| Dividends from Investments | 106.6 | 87.2 | 55.6 |
| Reimbursement & Recoveries | 12.7 | 14.4 | 36.6 |
| Other Revenue & Surpluses | 42.8 | 38.1 | 29.6 |
| **Total Operating Receipts** | **3,118.6** | **3,343.5** | **2,245.5** |
| | | | |
| **Payments** | | | |
| Personnel | 1,017.0 | 1,038.4 | 990.1 |
| Transfer Payments | 719.9 | 732.1 | 673.9 |
| Supplies and Consumables | 277.4 | 282.7 | 264.6 |
| Special Expenditures | 87.4 | 119.0 | 102.6 |
| Interest | 322.8 | 353.4 | 349.7 |
| Other Operating Payments | 3.9 | 9.2 | 11.8 |
| **Total Operating Payments** | **2,428.4** | **2,534.8** | **2,392.7** |
| | | | |
| **Net Cashflows from Operating Activities** | **690.1** | **808.7** | **(147.3)** |
| **As % of GDP** | **5.9%** | **6.4%** | **-1.3%** |
| **Receipts** | | | |
| Sale of Government Assets | 5.4 | 80.0 | 206.1 |
| Interest from Bank Balance | 1.4 | 1.2 | 1.2 |
| Repayment of Term Loans and Advances | 10.9 | 7.1 | 4.3 |
| Return of Surplus Capital from Investments | 6.4 | 6.4 | 4.9 |
| **Total Investing Receipts** | **24.1** | **94.7** | **216.5** |
| | | | |
| **Payments** | | | |
| Loans | 101.0 | 138.0 | 138.0 |
| Transfer Payments | 871.3 | 897.7 | 796.0 |
| Purchase of Physical Non-Current Assets | 161.2 | 216.9 | 163.9 |
| **Total Investing Payments** | **1,133.5** | **1,252.6** | **1,097.9** |
| | | | |
| **Net Cashflows from Investing Activities** | **(1,109.4)** | **(1,157.9)** | **(881.5)** |
| ***As % of GDP*** | ***-9.5%*** | ***-9.1%*** | ***-7.7%*** |
| | | | |
| **Net (Deficit)/Surplus** | **(419.2)** | **(349.2)** | **(1,028.7)** |
| ***As % of GDP*** | ***-3.6%*** | ***-2.7%*** | ***-9.0%*** |

*(Source: Ministry of Economy)*

## GOVERNMENT'S CASHFLOW STATEMENT (CONT'D)

The revised fiscal framework for 2019 – 2020 is summarized below:

| | 2018-2019 (Actual) | 2019-2020 (Budget) | 2019-2020 (Revised Budget) |
|---|---|---|---|
| ***Revenue:*** | ***3,181.1*** | ***3,491.7*** | ***2,507.6*** |
| *As a % of GDP* | *27.1* | *27.5* | *21.8* |
| *Tax Revenue* | *2,819.8* | *3,080.2* | *2,022.0* |
| *Non-Tax Revenue* | *361.3* | *411.5* | *485.6* |
| ***Expenditure:*** | ***3,600.3*** | ***3,840.9*** | ***3,536.4*** |
| *As a % of GDP* | *30.7* | *30.2* | *30.8* |
| ***Net Deficit*** | ***(419.2)*** | ***(349.2)*** | ***(1,028.7)*** |
| *As a % of GDP* | ***(3.6)*** | ***(2.7)*** | ***(9.0)*** |
| **Debt** | **5,735.2** | **5,978.6** | **6,988.9** |
| *As a % of GDP* | *48.9* | *47.1* | *60.9* |
| ***GDP at Market Prices*** | ***11,725.8*** | ***12,703.8*** | ***11,479.9*** |

*(Source: Ministry of Economy)*

*Quote* - *I consider the fact that thousands of children die each day from starvation and a lack of medicine a crisis for humanity and a problem we must collectively attempt to solve.*

*- Alice Walker*

## DIRECT TAX MEASURES

### I. Income Tax

<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>1. Export Income Deduction Incentive</td><td>• The Export Income Deduction (EID) will be increased from 50% to 60% for the tax years 2020, 2021 and 2022.</td></tr>
<tr><td>2. New Hotel Investment Incentive Package</td><td>• The existing package will be repealed and replaced with the following:<br><br>i) Short Life Investment Package (SLIP)<br><br>Income tax exemption for the construction of new hotels based on the following capital investment levels:<br><br><table>
<tr><th>Capital Investment ($)</th><th>Tax Holiday</th></tr>
<tr><td>$250,000 - $1,000,000</td><td>5 Years</td></tr>
<tr><td>$1,000,000 - $2,000,000</td><td>7 Years</td></tr>
<tr><td>More than $2,000,000</td><td>13 Years</td></tr>
</table><br>ii) Standard Allowance<br><br>➢ An Investment allowance of 25% will be allowed on the capital expenditure incurred for the construction, renovation, refurbishment and extension.<br><br>➢ This applies to new and existing hotels.<br><br>• The new Hotel Investment Incentive Package will be applicable from 1 April, 2020 to 31 December 2022.</td></tr>
<tr><td>3. Business losses</td><td>• Business losses of up to $20,000 will be allowed to be deducted against employment income to compute the chargeable income and the overall tax position of the personal income taxpayers.</td></tr>
<tr><td>4. Provisional Tax</td><td>• The certificate of exemption will be reintroduced for the 5% Provisional Tax.</td></tr>
<tr><td>5. Advance Payments of Tax</td><td>• The rule for advance payment of tax for companies and other taxpayers will be relaxed from the current 3 payments at a rate of 331% to 9 payments at a rate of 33 $^{1}/_{3}$ to 9 payments at a rate of 11 $^{1}/_{9}$%.<br><br>➢ Penalties on estimated tax will also be removed.<br><br>➢ The policy will be valid until 31 December 2020.</td></tr>
<tr><td>6. Debt Forgiveness</td><td>• Debt forgiveness will not be subject to income tax.<br><br>• Applies to forgiving of any outstanding debt. This will be applicable from 01 April 2020 to 31 December 2020.</td></tr>
<tr><td>7. Thin Capitalization</td><td>• Thin capitalization rules will be suspended for borrowings undertaken from 01 April 2020 up to 31 December 2020</td></tr>
<tr><td>8. Tax deduction for salary/ wages paid for quarantined/ isolated employees</td><td>• A 300% tax deduction will be allowed to employers for wages/ salary paid to employees who are self-quarantined and approved by Ministry of Health and Medical Services.</td></tr>
</table>

## I. Income Tax (Cont'd)

| Policy | Description |
|---|---|
| 9. Employment Taxation Scheme | • Employment Taxation Scheme (ETS) to be incentivised further as follows:<br><br>a. Tax deduction on wages paid on first full-time employee will be increased from 200% to 300%.<br>b. Tax deduction on wages paid for work placements in the related area of study up to 6 months in a year before graduation, as part of the course requirements will be increased from 200% to 300%.<br>c. Tax deduction on wages paid to students employed on a part- time basis (in the related area of study up to 3 months in a 12- month period) will be increased from 200% to 300%.<br>d. Tax deduction on wages paid in the employment of disabled people employed for 3 consecutive years will be increased from 300% to 400%.<br><br>• ETS has been extended till 2023. |
| 10. Contribution to the COVID-19 Fund | • A 300% tax deduction will be available for donation made to the COVID-19 Fund. |
| 11. Depreciation Write-off Incentive | • A 100% write-off will be available on purchases of fixed assets of up to $10,000 for business purposes.<br><br>• This will be applicable on purchases up to 31 December 2020. |
| 12. Accelerated Depreciation | • A 100% write-off available for the construction of a new commercial and industrial buildings provided approvals are obtained prior to 31 December 2020. |
| 13. Film Making and Audio-Visual Incentives | • Processing of new provisional applications for the Film Tax Rebate as well as pending payments will be suspended until further notice.<br><br>• The provisions under the Income Tax (Film-Making and Audio Visual incentive) Regulations remain unchanged. |
| 14. Tax deduction for reduction of commercial rent | • A tax deduction will be accorded to landlords for reduction of commercial rent. The reduction refers to the rent payable after 01 April 2020 to 31 December 2020.<br><br>• The deduction will only apply to existing rental contracts.<br><br>• Landlord will have to provide record of rental income received for the past 6 months. |

## DIRECT TAX MEASURES (CONT'D)

### II. Tax Administration Act

| Policy | Description |
|---|---|
| 1. Waiver of penalty for late lodgement | • Waiver of penalty for failure to file a tax return or lodge other documents by the due date.<br>• The waiver will apply to all late lodgement penalties incurred after 01 April 2020 until 31 December 2020. |

### III. Stamp Duty

| Policy | Description |
|---|---|
| 1. Stamp duty on mortgages | • Stamp duty levied on mortgages for resident tax payers will be reduced from 1.75% to 0%.<br>• Stamp duty levied on mortgages for foreign tax payers will be reduced from 5% to 0%.<br>• Effective from 01 April 2020 to 31 December 2020. |
| 2. Air Waybills | • $10 Stamp Duty on Air Waybills for any goods, merchandise, or effects exported from Fiji will be removed. |

*Quote - People don't walk away from their homes unless they can't make the payments. That's an indication that we are in a recession.*

*- Eugene Fama*

## INDIRECT TAX MEASURES

### I. Value Added Tax

| Policy | Description |
|---|---|
| 1. VAT Monitoring System (VMS) | • The implementation of VMS as captured in the Electronic Fiscal Device (EFD) Regulations will be deferred to 01 January 2021.<br>• The VMS will be applicable on gross turnover of more than $100,000.<br>• The taxpayers who voluntarily register for VAT (that is, those presently below $100,000) will not be captured in VMS. |
| 2. VAT exemption on medical supplies | • To assist the medical sector during the COVID-19 crisis, importation of the following items will be exempt from Import VAT:<br>➢ Hand sanitizers and antibacterial hand wash;<br>➢ Gloves (surgical, medical, knitted, crocheted with plastic coating);<br>➢ Masks;<br>➢ Disposable hair nets;<br>➢ Disinfectant wipes;<br>➢ Tissue papers;<br>➢ Face shield;<br>➢ Medical goggles and spectacles (used in the lab and medical facilities);<br>➢ Protective plastic garments for surgical and medical use;<br>➢ Protective garments of textiles or rubberised textiles;<br>➢ Long sleeve medical gowns;<br>➢ Scanners and cameras used in medical examination;<br>➢ Ethanol for companies involved in hand sanitizer production;<br>➢ Disinfectants;<br>➢ Vaccinations and Medicaments of Chapter 30 of the Customs Tariff;<br>➢ Air purifier;<br>➢ Boots – specifically used in medical environment;<br>➢ Hospital beds;<br>➢ Hydrogen peroxide;<br>➢ Paper bed sheets;<br>➢ Thermometers; and<br>➢ Medical equipment under Chapter 90 of the Customs Tariff. |

## INDIRECT TAX MEASURES (CONT'D)

### II. Customs Tariff - Fiscal Duty Changes

| Policy | Description |
|---|---|
| 1. Hand sanitizers and antibacterial hand wash | • Fiscal duty on hand sanitizers and hand wash will be reduced from 32% to 0%. |
| 2. Gloves | • Fiscal duty on medical and surgical gloves will be reduced from 5% to 0%.<br>• Fiscal duty on plastic gloves will be reduced from 32% to 0%.<br>• Fiscal duty on knitted, crocheted and textile gloves will be reduced from 32% to 0%. |
| 3. Masks | • Fiscal duty on masks will be reduced from 32% to 0%. |
| 4. Disposable hair nets | • Fiscal duty on disposable hair nets will be reduced from 15% to 0%. |
| 5. Disinfectant wipes | • Fiscal duty on disinfectant wipes will be reduced from 32% to 0%. |
| 6. Tissue papers | • Fiscal duty on tissue papers will be reduced from 32% to 0%. |
| 7. Face shield (medical use) | • Fiscal duty on face shield used for medical purposes will be reduced from 15% to 0%. |
| 8. Medical goggles and spectacles | • Fiscal duty on medical goggles and spectacles to be reduced from 5% to 0%. |
| 9. Protective garments | • Fiscal duty on protective garments for surgical and medical use will be reduced from 32% to 0%.<br>• Fiscal duty on protective garments of rubberised textiles and plastic will be reduced from 32% to 0%. |
| 10. Long sleeve medical gowns | • Fiscal duty on long sleeve medical gowns will be reduced from 32% to 0%. |
| 11. Ethanol for companies involved in hand sanitizer production | • Fiscal duty on ethanol (undenatured 80% or more ethyl alcohol) will be reduced from $198.60 to $0.<br>• Fiscal duty on ethanol (undenatured 75% or more ethyl alcohol) will be reduced from $198.60 to $0. |
| 12. Disinfectants/ sterilisation products | • Fiscal duty on disinfectants/ sterilisation products will be reduced from 32% to 0%. |
| 13. Hospital beds | • Fiscal duty on the importation of hospital beds will be reduced from 5% to 0%. |
| 14. Hydrogen peroxide | • Fiscal duty on the importation of hydrogen peroxide in bulk will be reduced from 5% to 0%.<br>• Fiscal duty on the importation of hydrogen peroxide presented as a medicament (put up for internal or external use as a medicine including as an antiseptic for the skin) will be reduced from 15% to 0%.<br>• Fiscal duty on the importation of hydrogen peroxide put up in disinfectant preparations for cleaning surfaces will be reduced from 5% to 0%. |

## INDIRECT TAX MEASURES (CONT'D)

### II. Customs Tariff - Fiscal Duty Changes (Cont'd)

| Policy | Description |
|---|---|
| 15. Paper bed sheets | • Fiscal duty on the importation of paper bed sheets will be reduced from 32% to 0%. |
| 16. Thermometers | • Fiscal duty on the importation of thermometers will be reduced from 5% to 0%. |
| 17. Air purifier | • Fiscal duty on the importation of air purifier will be reduced from 5% to 0%. |
| 18. Boots (specifically used in medical environment) | • Fiscal duty on the importation of boots (specifically used for medical environment) will be reduced from 32% to 0%. |
| 19. Fuel | • Fiscal duty on the importation of Diesel (HS: 2710.12.31, 2710.12.32, 2710.20.31, 2710.20.32) will increase by 20 cents per litre.<br>• Fiscal duty on the importation of Petrol (Benzene) (HS: 2710.12.11, 2710.12.12, 2710.12.19, 2710.20.11, 2710.20.12, 2710.20.19) will increase by 20 cents per litre. |

### III. Import Excise Duty

| Policy | Description |
|---|---|
| 1. Ethanol for companies involved in the production of hand sanitizers | • Import excise on ethanol (undenatured 80% or more ethyl alcohol) will be reduced from 15% to 0%.<br>• Import excise on ethanol (undenatured 75% or more ethyl alcohol) will be reduced from 15% to 0%. |
| 2. Boots (specifically used in medical environment) | • Import excise on the importation of boots (specifically used for medical environment) will be reduced from 10% to 0%. |

### IV. Customs Legislation

| Policy | Description |
|---|---|
| 1. Bonded Warehouse | • The warehousing period for all goods in a bonded warehouse will have a 6-month extension provision. Section 52 of the Customs Act will be amended accordingly. |