4 Fiji

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I. Introduction

Fiji lies in the heart of the Pacific Ocean midway between the Equator and the South Pole and between longitudes 1740 East and 1780 West of Greenwich and latitudes 12^0 S and 22^0 South. Fiji islands in the South West Pacific Ocean are at about 1,960 miles (3,152 kilometers) from Sydney, Australia. 'Fiji's Exclusive Economic Zone" contains approximately 330 islands of which about a - third are inhabited. This covers about a 1.3 million square kilometers of the South Pacific Ocean. Fiji's total Land area is 18,333 square kilometers. There are two major islands - Viti Levu which is 10,429 square kilometers and Vanua Levu 5,556 square kilometers. The capital is Suva and it is one of the two cities in Fiji. The other is Lautoka City and both are located on the island of Viti Levu.

Geography, Climate and Natural Resources

Fiji comprises 332 islands of which some 105 are inhabited. Viti Levu, the largest, constitutes half the land area and is the seat of Suva. The other important islands are Vanua Levu (the 2nd largest), Taveuni, Kadavu, Koro, Gau and Ovalau. The larger islands are volcanic and mountainous. There are dense tropical forests on the windward sides of the islands and grassy plains and clumps of panadanus on the leeward sides, mangrove forests are abundant and hot springs are common in the mountain regions. The chief towns are generally seaports, Suva and Lautoka on Viti Levu and Levuka on a small island east of Viti Levu.

Fiji enjoys a tropical condition through the year with gentle trade winds tempering the heat and humidity. Each of the main islands are divided by mountain ranges and both have a "wet" side to the south and east and "dry" side to the north and west. Resorts tend to the West and south coasts of the larger islands. Fiji receives 100 inches of annual rainfall, Fiji seasons are just the opposite of those in the northern hemisphere, as "spring" is September to November, "summer" is December-February, "fall" is March-May and "winter" is June-August. Fiji enjoys a tropical South Sea maritime climate without great extremes of heat or cold. The islands lie in area which 'is occasionally traversed by tropical cyclones, and mostly confined between the months of November to 'April every year. Temperatures average 22^0 Celsius for the cooler months [May to October] while November to April temperatures are higher with heavy down pours.

Fiji, endowed with forest, mineral and fish resources, is one of the most developed of the large pacific island economies though still with a large subsistence sector. Fiji economy depends on its innumerable natural resources like, flora and fauna, fishing and also mineral resources. The other factors that are important in the economy of Fiji are the agricultural sectors, sugar industries and also the growing travel and tourism industries. Fiji economy is much developed in comparison with the other Pacific island economies though it is still a developing nation.

Fiji's fertile soil yields sugarcane, coconuts, cassava, rice, sweet potatoes, bananas, pineapples and timber. Cattle, pigs, horses and goats are raised. Sugar, whose processing accounts for a third of Fiji's industrial production is the main export. The industry has suffered since the late 1990's because of low world prices, drought and inefficiencies, and the government is seeking to diversify the islands commercial agriculture. Tourism and mining are important are important to the economy, as are remittances from Fijians working abroad. Sugar, clothing, timber, fish, molasses, copra and coconut oil are exported. Imports consists largely of manufactured goods, machinery and equipment, petroleum products, foodstuffs, and chemicals Australia, Singapore, the United States and New Zealand are the main trading partners

Demography

Indigenous Fijians, the native inhabitants of Fiji, are a mixture of Polynesian and Melanesian, resulting from the original migrations to the South Pacific many centuries ago. The Indo-Fijian population has grown rapidly from the 61,000 workers brought from India between 1879 and 1916 to work in the sugarcane fields, who later on ended up leasing/owning the sugar cane plantations. Thousands more Indians migrated voluntarily in the 1920s and 1930s and formed the core of Fiji's business class. The native Fijians live throughout the country, while the Indo-Fijians reside primarily near the urban centers and in the cane-producing areas of the two main islands. The population of Fiji follows many religions. 52 percent are Christians, 38percent are Hindu, 8percent are Muslims and 2percent follow other religion. Roman Catholic, Assemblies of God and Seventh-day Adventists are significant as well. The total population of 905,949 people can be divided into three age structures such as 0-14 years; 31.1percent, 15-64 years;64.6 percent and 65 years and above;4.3 percent. The median age of the population is around 24.6 years. The population growth rate of Fiji is 1.4 percent birth rate is 22.5 births/1,000 populations and death rate is 5.65 deaths/1,000 populations. The fertility rate is 2.73 children born woman. The life expectancy of Fiji population is 69.82 years. Though English and Fijian are the official language, people also speak Hindustani. People above 15 years can read and write. 93.7percent of the total population is literate; 95.5 percent male and 91.9 percent female are educated. Fiji people are hospitable, joyful and very friendly.

History

Polynesians presumably arrived in the islands more than 3000 years ago; they were largely conquered and absorbed by Melanesian invaders c1500 B.C. The first Europeans to visit Fiji were the Dutch navigator Abel Tasman in 1643 and British Captain James Cook in 1774. In the early 1800's, the first European settlement was established at Levuka, which became an important whaling port in the mid-1800s. A Fijian national government with a tribal chief as King was established in Levuka in 1871, but in 1874, at the request of Fiji's tribal chiefs, Great Britain annexed the islands. In the 1880's large scale cultivation of sugarcane began. Over the next 40 years, more than 60,000 indentured laborers from India were brought to the island to work the plantation. The capital was moved to Suva from Levuka in 1882. During World War II, the islands were an important supply point .By 1920, all indentured servitude had ended. Racial conflict between Indians and the indigenous Fijians has been central to the small island history. Fiji became independent on October 10, 1970.

Political Situation

In 1970, Fiji gained independence as a member of the Commonwealth with Ratu Sir Kamisese Mara as prime minister. In 1987; Colonel Sitiveni Rabuka led 2 coups that wrested control of the racially divided nation's government from the ethnic Indians. Fiji was declared a republic. It also was expelled (1987 - 1997) from the commonwealth. In 1990 a new constitution granted non-urban native Fijians a disproportionate say in the government, two years later Rabuka became prime minister, and in 1994 was appointed president.

The constitution was amended in 1997 to give non ethnic Fijians a larger voice and in May 1999, Labor Party leader Mahendra Chaudhary was the first ethnic Indian to become prime minister of Fiji, replacing Rabuka. A May 2000 coup attempt led by a Fijian businessman George Speight took Chaudhary hostage and demanded an end to Indian participation in Fijian politics; the crisis led the army to seek Ratu Mara's resignation and briefly take power. The army appointed (July 2000) and ethnic Fijian dominated government headed by Prime Minister Laisenia Qarase. Ratu Josefa Iloilo became president. Speight after releasing his hostages, demanded a strong influence in the new government but was arrested by the army, and his insurgency was quashed. In 2002, he pled guilty to treason and was sentenced to life in prison.

Qarase's government was subsequently ruled illegally by the courts, and Ratu Tevita Momoedonu was appointed prime minister of a caretaker government in March 2001. New parliamentary elections in August-September resulted in a victory for the Fiji United Party (SDL) which formed a Fiji-nationalist coalition government with the conservative alliance; Mr. Qarase again became prime minister. The post -

coup period saw many Indo-Fijians forced off leased farms when ethnic Fijian landowners, who control roughly 90 percent of the land, did not renew leases. In July 2003, Qarase's government was ruled unconstitutional because it did not include members of the opposition Labor party. In September the labor party refused to join the government when Qarase excluded Chaudhary and the situation remained un-resolved until late in 2004 when Chaudhary decided to lead the opposition.

A government proposal in mid- 2005 to offer amnesty to persons involved in the coup marked protests from the opposition and from the army whose commander threatened to intervene if such a law was passed. The Great Council of Chiefs, however, supported the proposal. Tensions between the government and army continued in 2006. The military chief, Commodore Voreqe was accused by the Qarase's party of illegal campaigning against it, and later in the year Bainimarama called for Qarase's government to drop ethnically divisive legislation or resign. Meanwhile, President Ratu Iloilo was re-elected in March 2006. Qarase's coalition won the May parliamentary elections and the Labor party subsequently agreed to participate in the multiparty cabinet, although Chaudhary did not accept a post. In November Qarase agreed to drop the coup amnesty proposal, but relations between the government and military remained tense; the preceding month Qarase had attempted to replace Bainimarama as military chief but the proposed replacement refused the post. The military ultimately overthrew the government in December, and Bainimarama initially assumed the post of interim president. In December 2006, Fiji's military commander, Commodore Frank Bainimarama announced he had assumed executive power, from deposed Prime Minister Qarase and appointed Jona Senilagakali, a medical doctor, as interim prime minister. It was the country's fourth coup since 1987. Tensions had built up over several years between the military and Qarase over a corruption scandal and issues regarding the 2000 coup- the military accused the prime minister of excessive leniency toward those who had orchestrated that coup. In January 2007, Bainimarama reinstates Ratu Josefa Iloilo as president. Mr. Senilagakali resigned as prime minister and Bainimarama succeeded him. Bainimarama and the military grabbed more power in April of 2009. Reacting to a ruling by Fiji's Court of Appeal which stated that the military government was illegally appointed after the 2006 coup and that democratic elections should be held as soon as possible, Bainimarama refused to step down and instead increased censorship of Fiji media expelled foreign journalists and announced that elections would not be held until 2014. President Ratu Iloilo announced the repealing of the constitution. He is now replaced by Ratu Epeli Nailatikau. In September 2009, the Commonwealth of Nations, an association of Great Britain and its dependencies and former dependencies suspended Fiji, saying the country had failed to make progress toward returning to a democracy.

Administrative Divisions

Traditionally, Fiji is divided administratively into four divisions, which are further subdivided into fourteen provinces, the self -governing island of Rotuma. The 4 divisions are Central, Eastern, Northern and Western. The provinces are Ba, Bua, Cakaudrove, Kadavu, Lau, Lomaiviti, Macuata, Nadroga/Navosa, Naitasiri, Namosi, Ra, Rewa, Serua and Tailevu. Each division is headed by a commissioner appointed by the Fiji government. The divisions are basically agglomerations of provinces and have few administrative functions of their own, but serve to foster cooperation among the member provinces for providing services. Each province has a provincial council which may make by laws and impose rates (local taxes) subject to the approval of the Fijian Affairs Board (Ministry of I Taukei), a government department. The board must also approve the appointment of the Roko Tui, or exeutive head of the provincial council who is usually a high chief, although in recent years commoners have sometime been chosen. The provinces have direct input into national affairs through the Great Council of Chiefs (GCC) and the senate. The GCC is a traditional body which advises the government on indigenous affairs and also functions as an electoral college to elect the president and vice president. (Note: The GCC was removed by the Military after the 2006 coup).42 of the 52 members of the GCC are chosen by the provincial councils, three from each province. In addition, 14 of the 32 members of the senate, the upper house of the Fijian Parliament are chosen by the provincial councils (one senator each) and confirmed by the GCC.

Additionally, the island of Rotuma, north of the main archipelago is self- governing according to the Rotuma Act, promulgated in 1927. The Fiji government includes it in the Eastern Division for statistical purposes (such as the census), but it has its own council which is empowered to legislate on most local matters. Like a province, Rotuma chooses (through its council 3 members of the GCC and one senator).

Below the provincial level, districts and villages, based on extended family networks, have their own chiefs and councils. Indigenous Fijian administration is based on the koro, (or village), heralded by a turaga ni koro (headman) elected or appointed by the villagers. Several koro's combine to form a tikina, two or more of which comprise a province. In addition, municipal governments have been established for the cities of Suva and Lautoka and for ten towns. Each has a city or town council elected for a 4 year term, presided over by a mayor (currently by an administrator, since the changes brought about by the 2006 coup).

Provincial administrators and its subdivisions cater for ethnic Fijians, town and city councils cater for urban residents of all races outside the provincial structure. The Ministry of Regional Development ensures that Fiji's rural areas are provided with the access to opportunities and basic amenities that are enjoyed by the urban areas. This is done through its administration which is involved in community capacity building, coordinating the development projects like upgrading of rural roads for access to cash crops and other capital programs in their respective districts. They also attend to some statutory functions such as registration of births, deaths, and marriages, liquor licenses and acting as Third Class Magistrate.

Fiji is divided into seventeen districts each with a district officer and five sub districts with assistant district officers. The districts are generally based around towns and cities, but some follow provincial or tikina boundaries.

II. Overview of Macroeconomic Activity and Fiscal Position

The high hopes the people of Fiji held at the time of Independence have been dashed. The reality they face is a country scarred by the consequences of political instability and repeated coups, a stagnant economy, a general lack of trust and confidence, growing unemployment and poverty, increasing religious and racial intolerance and divisiveness, the emigration of many talented citizens and a rising tide of crime and violence.

Investors, both local and foreign, seek stability and certainty because these reduce the risks of their investment decisions. Political instability scares investors away. This, in turn, is one of the reasons why Fiji's economic growth rate is so low: there has not been enough capital investment to generate the new jobs needed by the growing number of school leavers and the large numbers of unemployed who are seeking employment. Improving productivity (i.e. producing more with less) is central to the growth process. Economic growth could be negatively affected by volatility in global commodity prices, natural disasters, investor confidence, the complexities of structural reform, and the uneven global recovery. Fiji's economy contracted by 3 percent in 2009 due to the on-going decline of the sugar industry and the global crisis. Medium-term growth prospects are likely to remain weak in the absence of fiscal consolidation, structural reforms, and an improved business climate. Inflation, after rising to over 10 percent one year after the April 2009 devaluation, declined by 1 percent by September 2010 due to steady commodity prices, sluggish domestic demand, and the government's efforts to contain the public sector wage bill. Fiji faces a considerable downside risks given its vulnerability to shocks.

II.1 Macroeconomic Activity

II.1.1 International Environment

Trade Balance

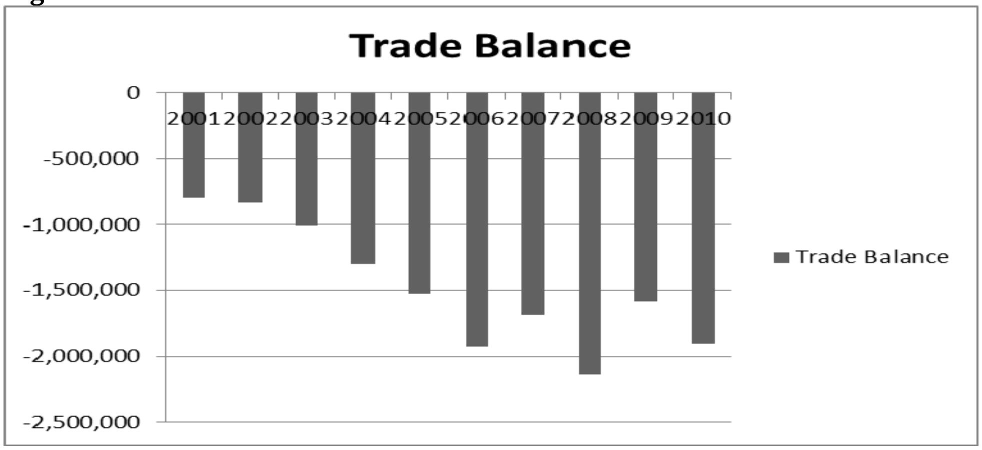
Fiji has had many challenges since Independence over 40 years ago. We have made some progress and rank well compared to other developing countries. Imbalances of Fiji's trade in goods and services have become increasingly more pronounced since 2000. During 2001-2006, there has been a steady decline in the country's traditional exports of sugar, a sharp fall in the exports of garments following the expiry of the Multifibre Agreement from 2005, and a decrease in the exports of gold due to operational problems. Further, there has been a surge in imports of capital goods and machinery for the building and construction industry, due to expansionary fiscal and monetary policies adopted during 2001-2006 and consequent upsurge in private sector credit. As a result, there have been rising current account deficits in its balance of payments since 2001. Hence, the subject of sustainability of trade deficits has once again become an important policy area for further investigation. Fiji's overall trade performance improved in 2010, largely underpinned by a strong growth in exports relative to imports. Cumulative to November 2010, exports rose annually by 13.3 percent compared to a 14.4 percent contraction during the same period in 2009. The trade deficit cumulative to November 2010, improved to $1,415 million from $1,460 million in the same period in 2009.

Table 1: Summary of Merchandise Trade Statistics (FJD 000)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Domestic Export	991	874	958	951	848	834	829	983	894	1.004
Re-Exports	231	258	311	255	345	367	381	488	335	545
Total Exports	1.221	1.132	1.269	1.205	1.193	1.201	1.210	1.471	1.230	1.550
Total Imports	2.017	1.970	2.284	2.501	2.723	3.124	2.890	3.601	2.808	3.450
Trade Balance	- 796	-838	-1.015	-1.296	-1.530	-1.923	-1.680	-2.130	-1.578	-1.901

Source: Bureau of Statistics.

Figure 1: Trade Balance



Being a small, open island economy, Fiji's macroeconomic performance (Table 1) is closely linked to its export sector. Fiji is a signatory to a number of bilateral, regional and multilateral trading agreements. The most significant is membership of the WTO, which offers opportunities to benefit from increased access to foreign markets. On a regional level, SPARTECA offers duty free access to the products of Forum Island Countries (FICs) to the markets of Australia and New Zealand. Furthermore, in addition to the Melanesian Spearhead Group and bilateral trade agreements, the Pacific Island Countries Trade Agreement (PICTA) has been successfully negotiated and is expected to allow free trade amongst all FICs by 2012. The Pacific Agreement on Closer Economic Relations (PACER) with Australia and New Zealand has also been successfully negotiated and is awaiting ratification. In addition, the ACP-EU Cotonou Agreement provides preferential prices for sugar and duty free access to the EU market. A new trade chapter under the Agreement will be negotiated during the Plan period. Nonetheless, Fiji has an opportunity to secure niche and new market opportunities for domestic products and services especially in Asia. Freer global trade poses dramatic challenges. It leads to greater competition for domestic market producers (especially those which lack efficiency), and an erosion of the preferences that Fiji export industries currently enjoy, such as, sugar and garments. Trade is also constrained by market access restrictions due to non-tariff barriers that are applied by many countries under the guise of quality standards and quarantine procedures. Furthermore, a lack of adequate national trade facilitation capacity, trade standards, negotiation and advocacy capacity are additional constraints. The last decade has seen Fiji adopt an export oriented, outward looking approach to trade relations.

Fiji's domestic exports, which largely comprises of agricultural and fisheries commodities include sugar, fish, coconuts, taro, pawpaw and ginger. Other major exports include garments, mineral water and gold which are part of the main pillars of domestic exports which earns a huge amount of foreign currency for Fiji. Fiji also has extensive mahogany timber reserves, which are only now being exploited. In terms of value adding, the most important manufacturing activities are the processing of timber for furniture, canning and semi-process of fish, value adding and preserving of fruits and vegetables for the export markets. Another growing export is furniture made of palm wood.

Potential for the agriculture can be found in the production and export of high value niche agricultural produce.

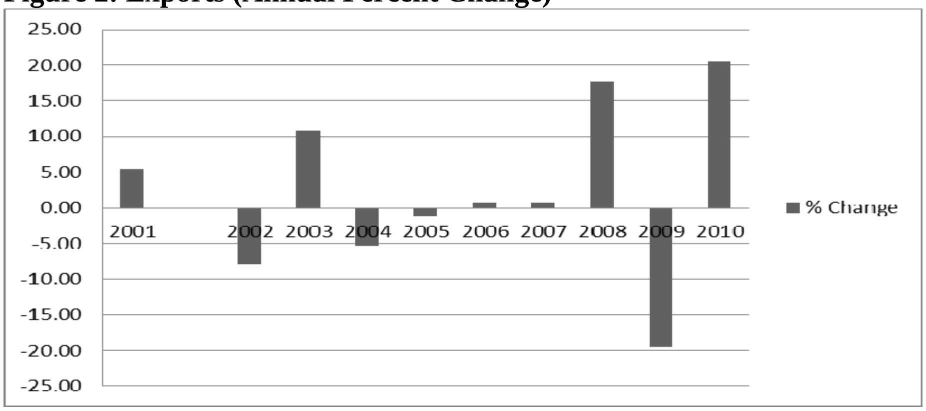
Given the enormous export potential within the agriculture sector Government plans to intensify its Export Promotion Programme. To facilitate the programme Government has allocated $2 million to the Ministry of Primary Industries for the development of products geared towards export such as papaya, taro, cassava, ginger, pulses and vegetables.

Table 2: Merchandise Exports ($Million Dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sugar	225.2	234.4	225.7	209.2	223.7	215.1	185.0	248.2	187.1	70.1
Gold	85.4	67.8	76.5	88.5	59.3	43.1	2.6	26.7	41.0	89.9
Garment	305.2	222.9	243.2	226.4	120.4	94.9	97.1	100.1	83.9	95.8
Fish	91.2	78.4	79.4	81.4	82.9	97.9	101.3	134.2	156.7	206.0
Lumber	39.6	38.9	30.8	42.0	45.1	37.6	47.7	59.3	36.7	79.6
Molasses	12.3	12.4	6.9	9.7	9.9	19.2	10.1	13.6	20.8	22.6
Coconut oil	2.4	5.9	5.0	3.7	3.8	2.5	5.3	9.3	7.4	5.5
Others	229.4	213.4	290.9	290.0	302.9	324.3	380.6	392.6	361.3	434.7
Total	990.7	874.1	958.1	950.7	848.0	834.5	829.7	982.7	894.8	1,004
Re-exports	230.6	258.1	310.1	254.8	345.0	367.1	380.1	487.1	335.5	545.4
TOTAL	1,221.3	1,132.2	1,269.2	1,205.5	1,192.5	1,201.5	1,209.8	1,471.0	1,230.2	1,549.5

Source: Bureau of Statistics

Figure 2: Exports (Annual Percent Change)



The sugar industry is an important lifeline to the economy. It contributes some seven per cent of GDP, generates on average 30 per cent of total domestic exports and provides direct and indirect employment to around 51,000 people, consisting of approximately 18,000 growers, 3,000 Fiji Sugar Corporation (FSC) employees and 17,000 cutters and drivers. Unlike other export-orientated industries, almost all factors of production are domestic and have a high regional impact and cross-sectorial linkages. The industry was encouraged to develop during the early colonial period as the main basis of the cash economy, given that it was recognised that sizeable areas of the northern and western parts of the two main islands had very suitable soil and climate for cane cultivation. Throughout its existence the industry has been sustained by preferential access to the United Kingdom (UK) market, assured since 1975 under the Sugar Protocol. Data over the last 30 years (figure 4) show a general trend of declining production, more profound from the mid-1990s. This decline reflects a particular sharp deterioration in productivity at the field level, both in terms of cane yield per hectare and in cane quality. . This situation is best illustrated by the ratio of a tonne of cane needed to produce tonne of sugar (TCTS) which was in the range of 9.1 to 11.1 from 1990 to the present. These figures show that the industry today on average, at least 15.2 percent more cane to produce a ton of sugar, compared to 30 years ago. This need translates into increased cost for both grower and miller. The decline in sugar output had been attributed also to the movement of people off farms, the lower fertility of land due to unsustainable use and the ongoing use of low sugar content varieties of cane. The expiry of leases under ALTA since 1997 has seen the movement of a large number of cane farmers and their families into informal settlements in the periphery of urban centers. While new farmers (predominantly indigenous landowners) have taken over some farms, they need support to lift farm productivity. A large number of farms remain uncultivated and overgrown. The FSC estimates a loss of about 16,000 hectares in the area now planted under cane since leases began expiring in 1997. In addition to domestic difficulties, the external environment is also changing. As part of its Common Agricultural Policy reform, and in response to a 2005 World Trade Organisation (WTO) ruling on European Union

(EU) sugar exports, the EU agreed to reform its internal sugar market conditions by providing for price reductions over a four-year period, starting by a five per cent cut in 2006-2007 and increasing to the full 36 percent by 2009-10. Since the EU internal price is linked directly to Sugar Protocol prices, the price of Fiji's exports to the EU will be cut by the same proportions

Economic Partnership Agreements (EPA) came into effect last October, when previous agreements that had long governed the export of sugar to Tate & Lyle of the United Kingdom came to an end. As dictated in the agreement for 2010/11 season Fiji will be required to deliver 190,000 metric tons of raw sugar to the United Kingdom. Fiji is expected to export this entire quantity from the Pacific Region

The Economic Partnership Agreement (EPA) came with it the final reduction to the preferential price under the Special Preferential Agreement from €448.0 per metric ton to €335.0 per metric ton. This final price will be effective until EPA comes to an end in 2015.

The reforms in the EU market will have a wide-ranging effect on the local sugar industry and the economy, especially in the rural sector. The loss in foreign exchange arising from lower EU prices is estimated at F$65 million per year from 2009-10 onwards. This reduction in preferential prices will translate into lower domestic cane prices given to farmers from the current $55-60 to an estimated $35-40 per ton.

Faced with the phasing out of EC sugar preferences and lower export prices, Fiji is attempting to enhance the industry's competitiveness to compete more in these and other possible emerging export markets, including reforms intended to arrest declining production by improving efficiency in growing, processing, marketing, and transportation, including upgrading of mills.

Table 3: Cane Production Statistics

		2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Cane Crushed	(000 t)	2,247	2,321	2,479	3,226	2,789	3,001	2,610	3,442	2,805	3,786
Sugar Produced	(000 t)	168	206	237	310	289	314	294	330	293	341
Molasses Produced	(000 t)	136	120	115	157	118	113	107	149	106	164
Tonnes Cane/Tonnes Sugar		13	11	10	10	10	10	9	10	10	11

Source: Fiji Sugar Corporation.

Figure 3: Cane Production/Sugar Produced

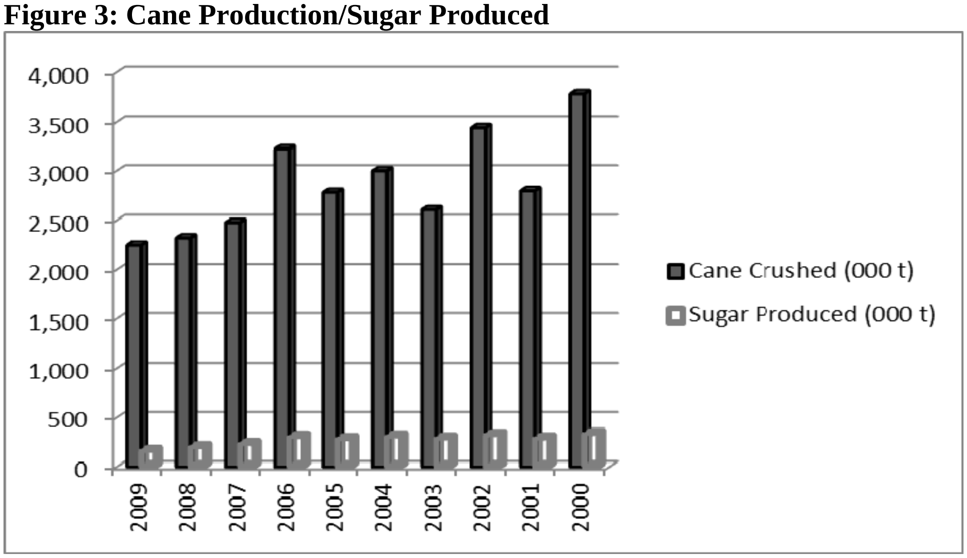


Table 4:Sugar Exports- Destinationa & Quantities (000 metric tonnes)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
UK/EU	152	208	188	209	178	171	168	176	152	164
Malaysia										22
USA			9	13	10	9	9	9	9	9
Japan			20	40	57	62	37	59	47	19
Korea										15
China							25	25		
Indonesia						25				
Special Preferential Market						6		20	39	33
Taiwan										28
Portugal							17			
Total	152	208	217	262	245	273	256	289	247	290

Source: Fiji Sugar Corporation.

The non-sugar component of the agriculture sector, comprising crops and livestock, contributes around six per cent of GDP and accounts for 14 per cent of agriculture exports. The sector constitutes traditional food crops (dalo, cassava, yams, kumala and yaqona), tropical fruits (pineapple, pawpaw and mango), vegetables, pulses, ginger, tobacco, rice, spices, cocoa, coconut products, beef, dairy, pork, poultry meat, eggs, sheep, goat and bee products. The major export commodities are fruits (papaya) and vegetables including dalo. Cut flowers are also exported.

The overall trade of agricultural products remained in deficit for the period under review. For the past seven years, it was observed that there has been a trade surplus which is mainly dominated by the sugar sector. However, the surplus ratio has declined significantly showing 8% deficit in 2010 compared to a surplus of 21% in 2005. Value of non-sugar trade also remained in deficit for the period under review as a result of increasing imports of meat, vegetables and prepared food.

The value of total agricultural exports has been rising since 2002. The major factors contributing towards the increase in exports was due to expansion in production of major commodities such as cassava, dalo, sugar, tuna and mackerel. Dalo export markets particularly New Zealand, Australia, Canada and USA continue to expand. However, a decline in exports was recorded during 2010 by approximately 3.5percent and by 10 percent in 2009. This was reflected by a declining trend in quantity exported over the years. This decline was mainly underpinned by a decline in exports of prepared foodstuffs, particularly sugar. Production was being affected by the flash flood and cyclones during the year, affecting cultivation of most of the crops. This resulted into lower exports, with some price fluctuations.

Table 5: Agricultural Exports

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports (000 tonnes)	514	464	331	364	660	590	566	321	727	537	489
Exports ($m)	419	470	331	415	448	511	526	554	670	602	581

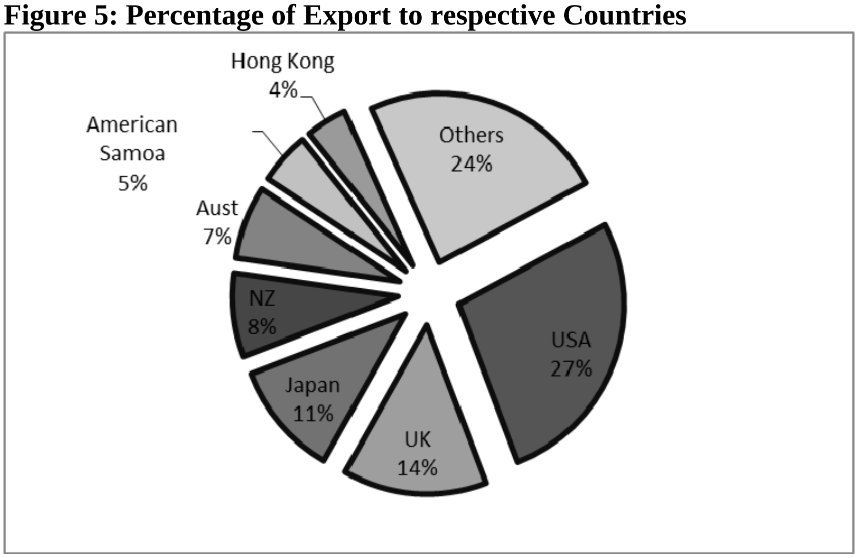
Ministry Of Agriculture (Annual Report)

Figure 4: Agricultural Exports (Tonnes/Dollars)

Major commodities that attribute to our exports include sugar, fish products, Fiji water and other root crops and vegetables. It is important to increase agriculture sector's contribution to GDP and reduce food import which now stands at 18percent of Total National Imports. United States, United Kingdom, Japan, New Zealand, Australia and American Samoa remain to be our major export market. USA, where nearly 27 percent of our exports go remains to be our major mineral water export market with UK now being the second largest export market in terms of sugar exports.

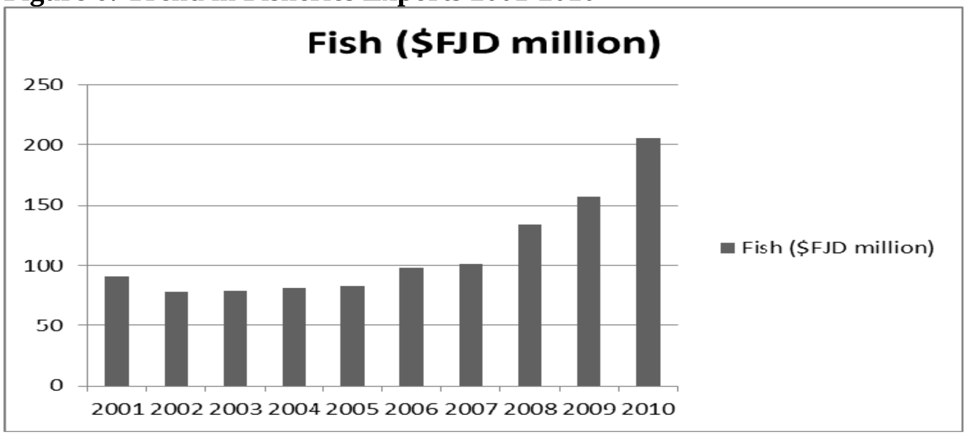
Main markets for fresh fruits and vegetables remain to be Australia and New Zealand while Japan and American Samoa purchase bulk of our Tuna.

Figure 5: Percentage of Export to respective Countries



The Fishing sector contributes an average 2.8 per cent of GDP and generates on average nine per cent of total domestic exports. The bulk of the contribution from the industry is attributed to the harvesting sector (85 per cent) of inshore and offshore fisheries and aquaculture. Processors (10 per cent) and input suppliers (five per cent) make up the other contributors. The tuna industry dominates the sector in terms of output and exports. . It is estimated that about 42 per cent of total catch is sold to canneries, 37 per cent as fresh fish exports, and 21 per cent as domestic sales. Large fishing companies such as Fiji Fish Limited, market, package, transport, and export tuna. An estimated 17 per cent of fresh fish exports are to the sashimi market in Japan (graded yellow fin and big eye), 58 per cent to the United States of America, and the remaining 25 per cent to China, Australia and Canada. Export data for the past 15 years (Table 2 & figure 6) show a generally upward trend in fisheries exports.

Figure 6: Trend in Fisheries Exports 2001-2010

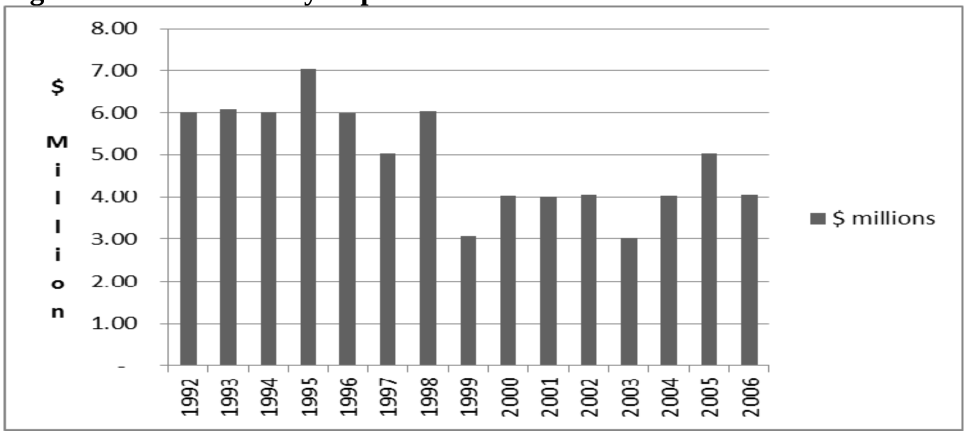


The forest sector is an integral part of the economic sector of Fiji. Export earnings from forest products rank third, behind the agricultural sectors, which continue to be overtaken by other sectors as has occurred over recent years. The existing forest sector is, however, underdeveloped. The failure to capitalize on the forest sector in developing industrial capacity, together with Fiji's continuing dependence on primary commodities, especially for major export earnings, has constrained Fiji's economic growth. In particular, growing uncertainty in the outlook for sugar has combined with a slow expansion of the undercapitalized forest industries, to limit growth below its potential.

The forestry sector has been dominated by pine and indigenous (native) timber logging during recent decades. The sector contributes an average 1.3 per cent of GDP and generates on average 5.2 per cent of total domestic exports. Exports from forest products over the past decade have been on a generally declining trend as shown in Figure 8. Woodchips is the biggest export earner for the sector, comprising on average about 54 per cent of total timber export earnings, while sawn timber comprises 26 per cent, veneer 11 per cent, plywood eight per cent and other exports making up the total. All woodchips are exported to Japan, while Australia and New Zealand are major export markets for sawn timber. Other export markets include the United States of America, Malaysia, Indonesia, Philippines and neighboring Pacific Islands nations. Fiji's wood chip market will continue to increase in the near future and beyond 2020. The future plan for New Zealand to divert its wood chip exports towards strengthening its own domestic fibre board production capacity should help to keep markets for Fijian woodchips open. Export earnings from timber and other wood-based products averaged $46.3 million between 2004 and 2008. Export earnings in 2008 were $59.3 million.

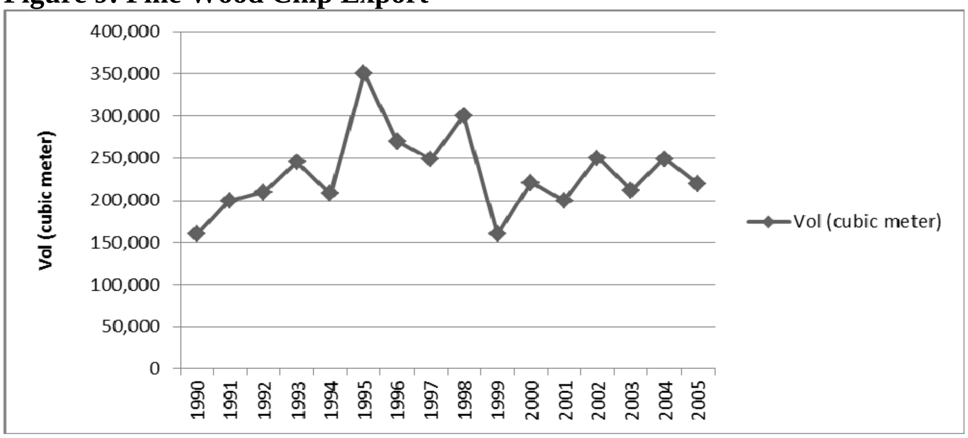
Logs are mainly processed into sawn timber, veneer, plywood, block board, molding, poles and posts, and woodchips with total export volumes averaging 266,000m3 each year. Most of the wood products are sold to Australia and New Zealand, whilst wood chips are sold exclusively to Japan. The American market absorbs approximately 40 percent of all veneer products.

Figure 8: Trend Forestry Exports 1992-2006



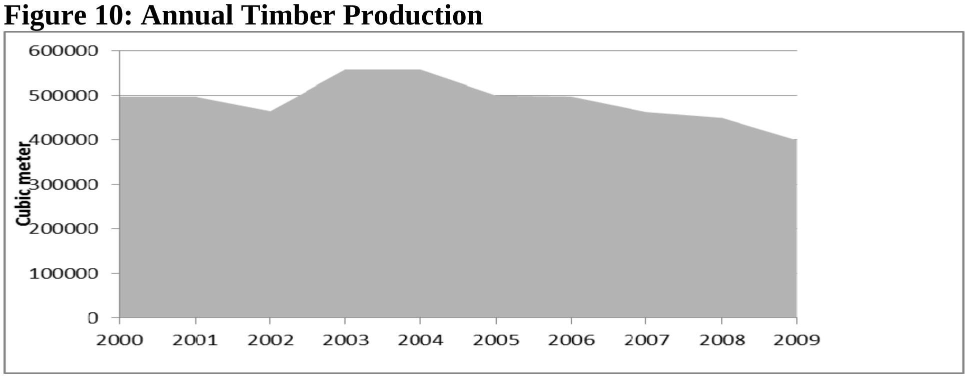
Source: Ministry of Finance.

Figure 9: Pine Wood Chip Export



Source:FAO.

Figure 10: Annual Timber Production



Source: Reserve Bank of Fiji.

Fiji, known better for its sandy beaches and tourist attractions, is a consistent exporter of minerals, primarily gold for over 75 years now. Other minerals exported are copper, manganese, lead and zinc. More recently, industrial minerals (gravel/aggregates) are being produced for South Pacific island neighbors to assist in infrastructure development. As resilient as the precious or metalliferous minerals produced, Fiji's mineral sector has survived its share of fluctuations including a temporary production halt to its largest gold mine at Vatukoula in 2006.

In 2008, gold production resumed bringing in export earnings to Fiji's economy. During Fiji's history, the Minerals sector has been ranked consistently amongst the Top 5 in export earnings annually.

Recently, there has been a surge in mineral water exports led by the internationally popular "Fiji Water" brand. The success of water exports has further given confidence to entrepreneurs to develop bottling plants indicating market growth potential for groundwater from Fiji.

With an increasing global conscience for green productivity and renewable energy, the sector is primed to further grow with a number of international companies applying for rights to explore for geothermal resources.

Further, being surrounded by water, the islands of Fiji are proving attractive to investors in emerging technologies such as offshore or undersea mining with companies actively lobbying government for opportunities to pioneer a new age of mineral exploration and production – minerals from the sea!

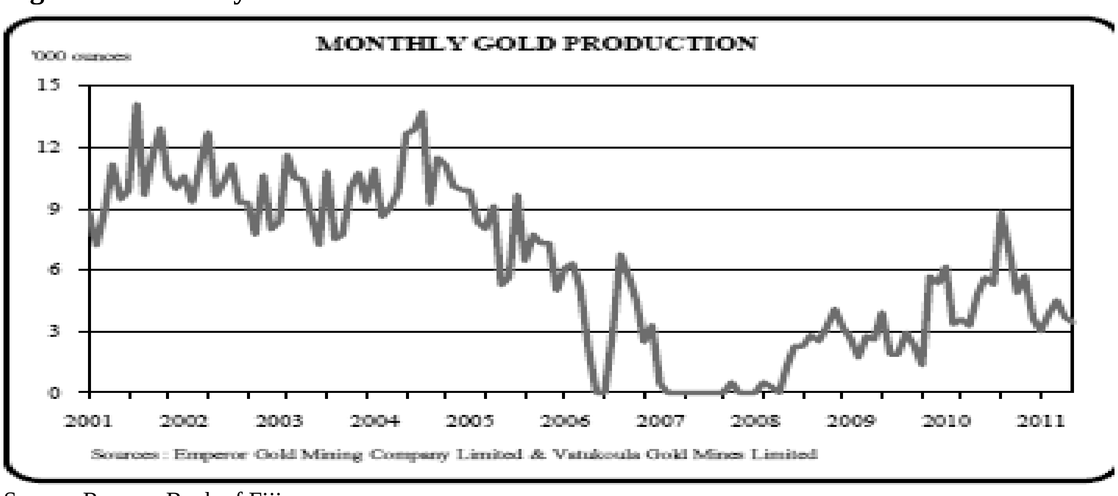
Potential for Mineral and Groundwater Resources

The potential for expansion of the mineral sector in Fiji is quite promising given its geological formation and location in the Pacific. Groundwater resources on the other hand, show significant potential for mineral water production.

Mining and exploration in Fiji has been dominated by gold production from Vatukoula mine by Emperor Gold Mines (EGM), although other sector revenues come from industrial minerals such as sand and gravel, quarried stone and coral sand. The sector contributes on average 1.5 percent of GDP, generates and average 8.5 percent of total domestic exports, and at its peak supported a workforce of over 1.700 personnel as well as 350 directly employed contractors. Gold presently remains the only mineral export with the Vatukoula mine the sole current operator. Subsidiary silver is a valuable by product. In 2007, the Emperor Gold Mining Company (EGM) announced that continued operations of the mine were no longer economically viable; therefore the mine was to cease production.

Since ten months of production has already taken place, the closure of the mine would have a significant impact on next year's economic growth. The contraction in gold output that year was estimated to be around 56 percent, compared with 44 percent envisaged earlier. Due to Fiji's location along the Pacific "Rim of Fire" there is good geological potential of additional "significant" ore deposits

Figure 10: Monthly Gold Production



Source: Reserve Bank of Fiji.

Natural Waters of Viti Limited ('Fiji Water') is the dominant player in the local bottled water industry. The company has been rapidly increasing its production since its establishment in 1996 with export receipts from the commodity increasing from just below $6 million in 1999 to just over $100 million in 2007. Robust growth is expected to continue as the product makes headway in the American market. In recent years, FIJI Water has accounted for about 20% of Fiji's exports and has been Fiji's fastest growing export product. Our business is a significant source of income and investment funds for this developing, resource-deficient nation and empowers Fijians to participate in the global economy through a product that is renewable and sustainable.

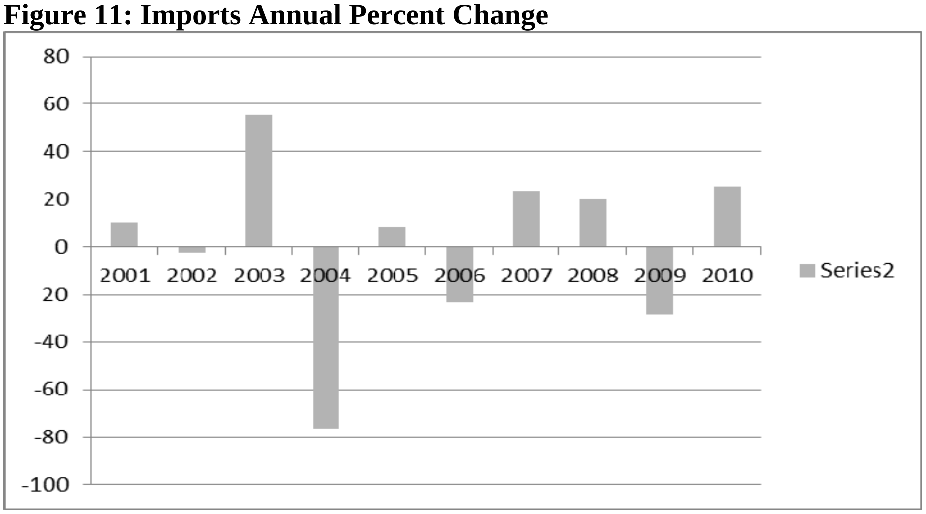
Table 2: Merchandise Imports ($million dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Food	313.1	314.8	335.2	351.7	355.5	386.0	394.3	519.9	521.5	610.5
Beverage & Tobacco	14.8	16.3	17.5	20.4	21.7	22.7	21.6	21.7	22.5	34.8
Crude Material	13.7	13.8	16.3	20.2	21.7	32.1	24.4	31.0	25.0	31.5
Minerals Fuel	443.5	435.4	463.0	587.0	784.0	104.5	958.2	1222.1	720.4	1180
Oils & Fats	16.10	15.4	20.9	15.8	18.1	17.4	24.8	37.0	29.1	32.2
Chemicals	144.8	147.5	162.8	196.5	206.2	224.1	218.5	274.7	225.4	325.6
Manufacturing Goods	423.1	384.9	445.5	486.2	452.2	464.1	422.5	460.8	404.3	514.6
Machinery, Transport & Equipment	420.5	429.1	579.4	559.1	591.1	688.1	568.8	726.5	604.9	681.0
Miscellaneous Manufacturing Articles	217.9	206.2	2367.7	253.5	264.0	258.3	246.0	278.6	240.6	325.5
Miscellaneous Transactions	9.5	6.6	7.4	11.3	8.3	10.0	10.9	29.4	14.2	19.1
TOTAL	2017	1970	4415.7	2501.5	2722.8	2207.3	2890.1	3601.4	2807.9	3754.8

Source: Bureau of Statistics.

Nearly one third of Fiji's imports is mineral fuels, followed by machinery and transport equipment and other capital goods and manufactured goods. Food and beverages have been hovering around 15 percent to 17 percent of total imports. However, mineral fuel imports, as a proportion of total imports have risen from 11 percent in 1993 to 33 percent in 2006. Imports rose by only 4.1 percent in the same period, compared to a 28.0 percent decline in 2009

Figure 11: Imports Annual Percent Change



Source: Reserve Bank of Fiji

Import restrictions have been lifted in favor of export promotion, and as a result, Fiji now has a more open economy with increased volumes of both exports and imports.

Balance of Payments/ Current Account Balance

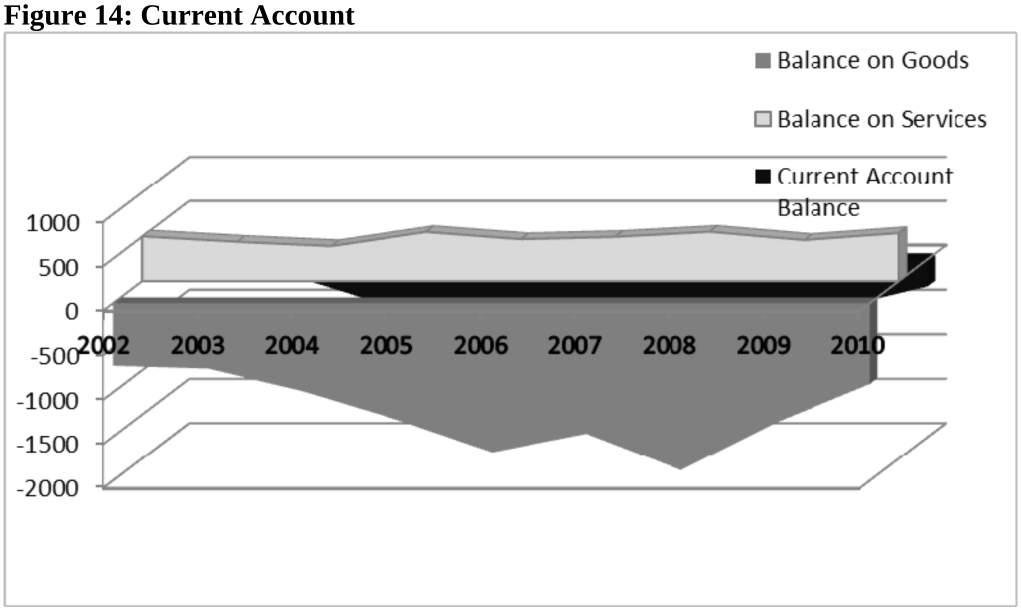
For 2009, the current deficit narrowed to 8.1 percent of GDP from an 18 percent deficit in 2008. The capital and finance account (excluding reserves) was 13.2 percent of GDP (6.6% in 2008). The strengthening of the 2009 balance of payments can largely be attributed to the devaluation of the Fiji dollar in April 2009. For 2010, the current account deficit was forecasted to further narrow to around 2.3% of GDP.

Table 3: Current Account ($ million Dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports (fob)	1042.7	1278.4	1237.9	1151.8	1148.5	1169.41	1388.6	1022.6	1199.5
Imports (fob)	1745.1	2013.5	2226.7	2464.0	2828.8	2639.5	3271.3	2545.5	1929.2
Balance on Goods	-702.4	-735.1	-988.8	-1312.2	-1680.3	-1470.1	-1882.7	-1346.0	-906.4
Balance on Services	503.0	441.4	393.2	552.5	470.8	497.1	554.8	461.3	540.4
Balance on Income	10.8	-19.7	-18.1	105.2	-190.1	-149.9	-138.8	-22.4	-116.1
Balance on Current Transfers	231.5	219.2	185..4	293.8	342.2	292.5	288.6	175.5	342.9
Current Account Balance	42.9	-94.2	-428.3	-571.1	-1057.4	-830.4	-1178.1	-564.2	-306.8
Current Account % of GDP	1.1	-2.1	-9.1	-11.2	-19.7	-15.1	-20.7	-10.2	-5.2

Source: Bureau of Statistics

Figure 14: Current Account



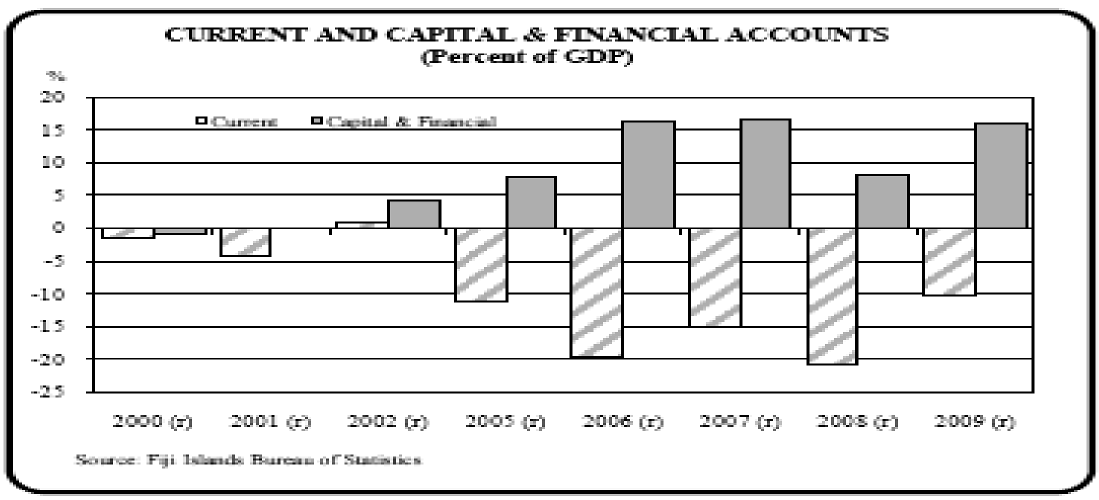
Source: Reserve Bank of Fiji

Table 4: Capital and Financial Account

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Capital Account Balance	-34.0	-9.5	-3.3	9.7	5.3	13.3	-0.8	21.3	0.25	52.9
Financial Account										
Fiji Investment Abroad										
Direct Investment	-4.8	-6.0	-3.8	-7.2	-5.5	-17.5	-1.0	10.4	12.1	-5.9
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.2	0.0	0.0
Other Investment	102.2	-56.3	64.7	-104.9	122.4	11.3	-145.5	149.2	-275.6	1.6
Total	97.4	-62.3	60.9	-112.1	116.9	-6.2	-146.7	159.8	-263.5	-4.3
Foreign Investment										
Direct Investment	6.3	93.7	66.6	75.5	433.3	269.8	640.4	605.3	564.4	223.0
Portfolio Investment	0.0	0.0	3.5	0.5	-0.6	2.9	252.3	7.7	2.2	-2.3
Other Investment	-98.3	-24.9	46.6	259.0	-80.8	111.9	134.2	120.6	130.5	614.8
Total	-92.0	68.8	116.7	335.0	351.9	384.6	1026.9	733.6	697.1	835.5
Balance on Financial Account	-119.0	59.4	259.9	184.8	340.3	558.0	1170.9	590.6	714.8	445.5
Reserve Assets	-124.4	52.9	82.3	-38.1	-128.5	179.6	290.7	-302.8	281.2	-385.7
Net Errors & Omissions	210.4	104.4	-299.5	-100.3	82.7	-0.2	-112.7	218.5	437.6	66.0

Source: Bureau of Statistics

Figure 15: Current and Capital & Financial Accounts (Percent of GDP)



Source: Reserve Bank of Fiji

Foreign reserves, continued to increase throughout the year, reaching a new historical high of $1,307.4 million in November 2010, before falling slightly to $1,302.7 million at the end of 2010. The end of year reserves were equivalent to 4.1 months imports of goods and non- factor services. Foreign reserves were around $1,470.0 million at the end of May, 2011, sufficient to cover 4.7 months of imports of goods and non-factor services.

Exchange Rate and Exchange System

A stable and appropriate exchange rate is essential for sustained growth and development. Fiji is a small, open economy and for a small country, foreign inflation will be fully imported in the long run under a regime of fixed exchange rates. In effect, a small country with a fixed exchange rate has very little choice but to accommodate foreign shocks to prices. Fiji's pegged exchange rate regime provides stability for traders. Exporters and importers can plan ahead with some confidence without the risk of regular, substantial swings in the exchange rate.

The pegged exchange rate also helps to keep inflation low by linking inflation to that of Fiji’s trading partners. Low inflation in Fiji’s trading partner countries, three of which explicitly target inflation (Australia, New Zealand, and the Euro-zone), continues to benefit Fiji through this pegged exchange rate arrangement.

The Reserve Bank sets the FJD/USD exchange rate daily. On each business day, the prevailing market rates of Fiji’s trading partner currencies against the USD are sourced from Reuters. The FJD rate against the USD is derived by multiplying the prevailing value of those currencies together with the use of the currency weights as determined by the Reserve Bank. This rate, normally referred to as the mid-rate against the USD, remains unchanged throughout the day and is sent to commercial banks by 9.00am through Reuters and Bloomberg. The commercial banks then use the mid-rate to set their own exchange rates for the day, within regulated spread limits.

While the bilateral movement of the FJD against major trading partner currencies was mixed in 2010, the increase in the Nominal Effective Exchange Rate (NEER) Index suggested that the FJD generally appreciated against the basket of currencies in the review period. The NEER, which indicates the aggregate movements in the FJD vis à- vis the currencies of Fiji's major trading partners, rose by 2.7 percent, implying a slight appreciation of the domestic currency. The Real Effective Exchange Rate (REER) Index, a gauge of Fiji's international competitiveness, rose by 2.9 percent during the same period, indicating erosion in Fiji's international competitiveness.

In 2010, selected exchange control policies were relaxed in light of higher levels of foreign reserves. In this regard, the Reserve Bank increased the delegated limits to authorized foreign exchange dealers for certain transactions as well as reviewed and amended its policy on local borrowing, following discussions with stakeholders.

There was a devaluation of the dollar 3 years ago. The April 2009 devaluation was justified on the ground that it was long overdue. There was a deviation from the fundamentals for long and it needed correction. Pressures on exchange rate, owing to low international reserves level, fuelled rumors and there were capital outflows. The Fiji government blamed the global financial crisis for the slump. This exercise was an attempt also to bring the Fijian Dollar into line with its majority trading partners, Australia and New Zealand. The Fijian Dollar had appreciated significantly by around 20% since 2007/2008, which made it unsustainable. This devaluation was an effort to also boost tourism and assist exporters (by correcting the value). At about this time as well, the Government also stopped cash reserves leaving the country.

The recommendation is apparently based on IMF's evaluation of the size, timing and impact of the April 15, 2009 devaluation of Fiji dollar on the economy. The devaluation was by 20 per cent; from US$0.57 (FJ$1.04) on April 14, 2009 to US$0.45 (FJ$0.82) on April 15 2009.In order to maintain the peg, the RBF will always need to ensure that there are always adequate foreign reserves in the system. Economists refer to the measure as expenditure switching effort, as devaluation makes imports more expensive and consumers would reduce consumption of imports and switch to local products. Foreigners would find exports of the devaluing country cheaper and so exports would rise. The balance of trade would then dramatically improve.

That did not happen. The reasons are Fiji is heavily dependent on imports from food and fuel to manufactured goods and its range of exports is narrow and small. Foreigner’s dependence on Fiji's exports is not as high as Fiji's dependence on import

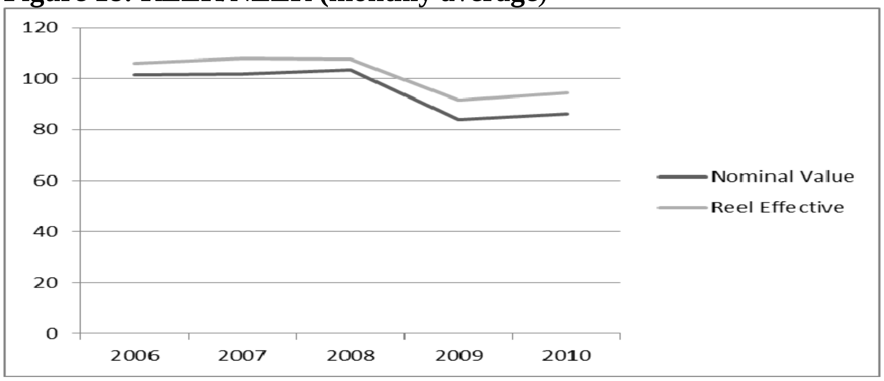
Further, if the monetary authority aims at price stability, as one of the major objectives besides growth, fixed exchange rate regime is advisable .The move towards greater flexibility remains in consideration by the Reserve Bank. While the benefits of a more flexible exchange rate regime are clear, the timing needs to be carefully considered.

Table 5: Exchange Rates (Middle Market Rate per Fiji Dollar)

	2006	2007	2008	2009	2010
US$	0.6009	0.6447	0.5669	0.5185	0.5496
STG	0.3062	0.3232	0.3932	0.3226	0.3564
A$	0.7605	0.7351	0.8201	0.5796	0.5411
NZ$	0.8521	0.8315	0.9818	0.7184	0.7128
Yen	71.45	72.50	51.1911	47.9146	44.8391
Euro	0.4570	0.4379	0.4029	0.3615	0.4132
Nominal Value	101.51	101.64	103.32	83.79	86.09
Reel Effective	105.87	108.00	107.45	91.65	94.26

Source: Bureau of Statistics.

Figure 18: REER/NEER (monthly average)



Source: Reserve Bank of Fiji

Foreign Direct Investments

According to data provided by the Fiji Islands Trade and Investment Bureau, total foreign investment proposals approved in 2006 and 2007 amounted to F$1.05billion (US$630.5 million) and F$536.6million (US$327.1million) respectively. In the same period, U.S.-based investments approved in 2006 and 2007 totaled F$203.9million (US$122.5million) and F$51.4million (US$31.3million). Although approval is a precondition, it does not necessarily mean that an actual investment will be made. The Reserve Bank of Fiji estimates that in 2007 foreign direct investment was the equivalent of 15% of GDP. Fiji's investment projects implemented in 2010 totaled about $230million. Fiji, was ranked 62nd in the world on the ease of doing business and could better this as Fiji was once ranked 34th globally.

Borrowings from Abroad

Table 6 External Debt ($ million)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Outstanding Debt										
Statutory Bodies	199.4	194.8	169.9	165.5	164.4	416.7	397.0	476.0	527.5	548.5
Private Sector	15.1	11.1	7.9	96.3	33.1	31.7	26.6	29.6	25.5	96.3
TOTAL	520.0	504.2	466.9	462.6	499.7	756.9	727.0	792.5	828.5	885.1
Amortization										
Government	20.3	21.9	15.8	11.2	12.8	14.3	42.0	33.2	48.1	47.8
Statutory Bodies	3.8	1.5	1.5	0.1	0.1	0.2	0.4	0.7	1.1	0.0
Private Sector	6.0	7.3	13.5	17.9	14.2	23.4	8.9	11.7	23.1	35.7
TOTAL	30.1	30.7	30.8	29.2	27.1	37.9	51.3	45.5	72.2	83.5
Interest Payments										
Government	9.5	8.7	8.3	5.9	5.5	5.8	47.4	63.9	75.0	69.7
Statutory Bodies	0.4	0.4	0.2	0.1	0.0	0.0	0.4	1.6	1.1	0.0
Private Sector	1.3	2.4	0.5	0.5	0.9	1.2	0.6	0.7	9.7	6.7
TOTAL	11.2	11.5	9.0	6.5	6.4	6.4	7.1	48.5	66.2	85.8

Source: Bureau of Statistics

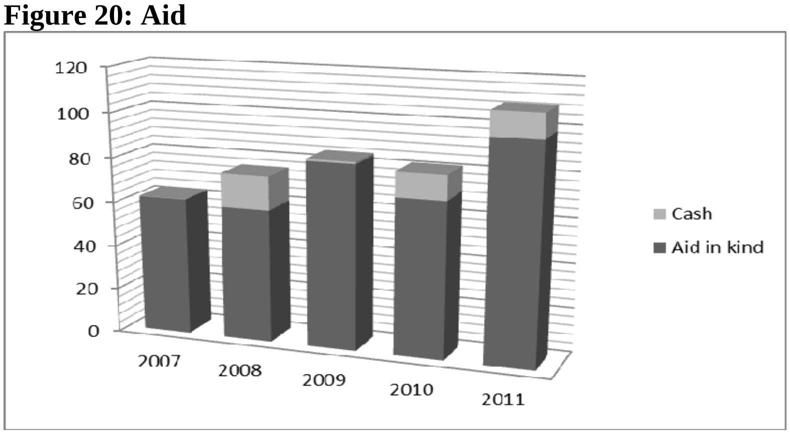
Aid

Increasing integration with the global economy is an essential element in response to the challenge of globalisation. As a small island open economy prone to natural disasters, and given its geographical location, it is important for Fiji to strengthen its bilateral or multilateral relationship with other countries to further develop its trade and enjoy maximum opportunities in terms of available assistance.

Overseas Development Assistance (ODA) to Fiji is set to reach $110million by next year if assistance from our development and donor partners and our relationship continues to strengthen. Currently, ODA to Fiji stands at a little more than $90m with infrastructure, health care, education and disaster rehabilitation getting most of the assistance. The ODA is very critical and goes in line with Government's aim to improve various sectors. "The Roadmap 2010 to 2014 set out government's strategic framework to achieve sustainable democracy, good and just governance, socioeconomic development and national unity. ODA to Fiji are in the forms of: Cash grants, aid in kind, technical cooperation/ assistance, and concessional soft loans. Since 2006, development assistance has generally fluctuated, with the annual value ranging from $60m to $77m. For 2011, there has been a significant increase from $73m (2010's level) to $101m, an increase of $28m. A large proportion of aid is aid in kind which on average accounts for 90 per cent of total donor assistance with cash grant making up the remaining 10 per cent. For 2011, assistance to the social sector represents about 63 per cent of total ODA. The balance of 37 per cent is spread equally among the economic, infrastructure and general administration sectors. There are some donors who have significantly increased their contributions to Fiji over the years like China. For 2011, China is projected to be the largest donor, followed by Australia, Japan, New Zealand and the EU.

According to the Joint WTO/OECD database, Fiji received trade-related assistance from international donors totalling US$9.89 million from 2001-06. Assistance jumped from US$0.775 million in 2005 to US$6.288 million in 2006, reflecting an increase from US$0.49 million to US$5.95 of trade development assistance from Japan, France, Korea, New Zealand, the EC, and UNESCAP. Fiji has received minimal assistance on trade policy and regulations (US$0.333 million in 2006), mainly from Japan, Korea, New Zealand, UNESCAP, and the WTO, which provided trade-related training education through the "Geneva week" and regional workshops, seminars, and training courses.

Figure 20: Aid



Source: Fiji Focus.

II. 1.2 Domestic Environment

Economic Growth Rate

Despite its richness in resources and huge potential, Fiji's economic situation over the past two decades has been characterised by low economic growth, low investments, and deteriorating balance of payments (BOP). On the one hand, we have been prone to factors out of our control which include natural disasters, adverse global developments such as the recent financial crisis, and the erosion of preferential market access. On the other hand, but within our control, our sluggish growth over the past years has been largely due to our slow progress on economic and structural reforms and declining terms of trade, which are essential to support a balanced economic growth path. Our economy has been contracting over the last 3 years. A number of factors have contributed to this 3-year contraction in the economy. The significant impact the global crisis has had on our economy. In addition to that, we had several natural disasters that we had to contend with. Fiji also saw during this period, some of its large projects getting into financial difficulties not because of any domestic issues but because of the difficulties foreign developers had with their financiers offshore. And a number of construction projects were affected in this way which had significant negative effects on the economy. In 2010, the domestic economy is estimated to have grown marginally by 0.6 percent, following a 3.0 percent contraction in 2009. The marginal growth in 2010, was underpinned by increased activity in the manufacturing; hotels and restaurants; mining and quarrying, financial intermediation; real estate and business services; construction; education; electricity and water; public administration and defence, other community; social and personal services, activities and the wholesale and retail sectors. The improved performances in these sectors were partly off - set by restrained activity in the transport, storage and communication; agriculture; fishing and the health and social - work sectors.

While tourism and manufacturing picked up, in 2010, the sugar industry declined. However, other exports did pick up significantly in 2010 due to a rebound in global demand and also improvement in terms of trade for certain resource commodities such as gold, forestry and fish products

Table: 7 Gross Domestic Product 2005 Base

	2005	2006	2007	2008	2009	2010	2011
Current Prices							
GDP @ current factor cost($m)	4327.3	4545.0	4648.6	4861.4	4761.1	5069.1	5587.6
Growth of GDP (%)	nan	5.0	2.3	4.6	-2.1	6.5	10.2
Estimated Mid- Year Population(000)	826.6	829.7	832.6	837.9	843.4	848.1	852.5
GDP @ current factor cost/capita ($)	5234.8	5478	5583.46	5801.6	5645.0	5977.2	6554.4
Growth of GDP/Capita (%)	nan	4.6	1.9	3.9	-2.7	5.9	9.7
Constant Price (2005 Base)							
Real GDP ($m)	4327.3	4407.5	4370.0	4379.2	4248.8	4275.8	4391.5
Growth of GDP (%)	nan	1.9	-0.9	0.2	-3.0	0.6	2.7

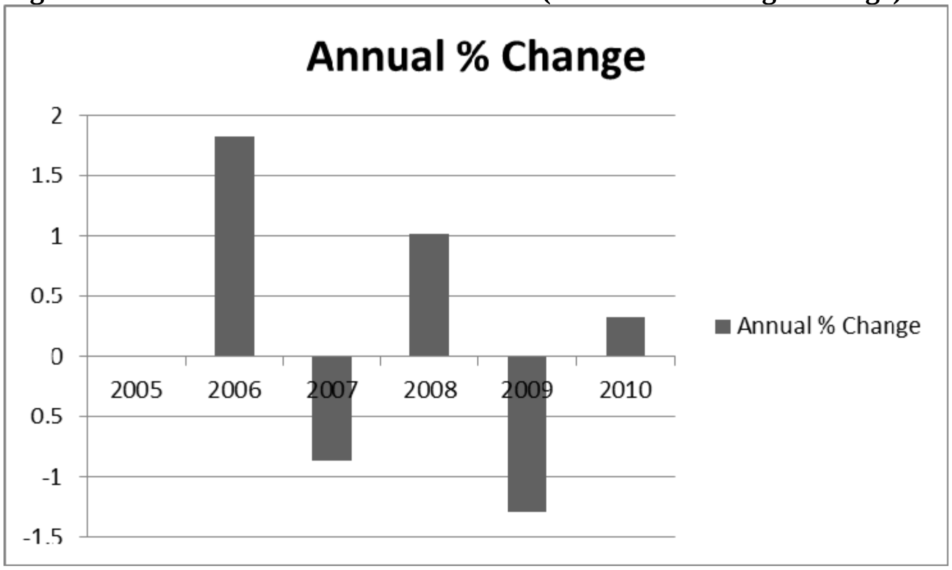
Source: Bureau of Statistics.

Table 8: Gross Domestic Product by Activity at Constant Prices of 2005 at Factor Cost [FJ mill]

	2005	2006	2007	2008	2009	2010
Activity						
GDP	**4327.3**	**4407.5**	**4370.0**	**4415.1**	**4359.0**	**4372.8**
Agriculture & Forestry	503.5	513.2	494.0	499.2	434.7	407.5
Fishing	105.0	125.8	113.7	138.4	120.4	119.7
Mining & Quarrying	16.6	9.5	-5.4	14.3	24.1	31.0
Manufacturing	615.6	658.8	619.2	606.7	593.1	656.2
Electricity & Water	59.1	32.0	57.3	33.2	49.8	56.7
Construction	137.8	134.3	120.4	126.1	110.2	117.7
Wholesale & Retail	548.1	516.8	542.2	511.4	481.2	480.2
Hotels & Restaurants	184.3	166.0	191.0	230.5	235.4	266.0
Transport, Storage & Communication	648.3	667.0	660.0	626.1	684.2	681.6
Financial Intermediation	341.6	314.1	427.0	483.3	431.1	436.5
Real Estate & Business Service	401.6	417.6	412.8	404.9	403.6	407.0
Public Administration & Defence	241.0	326.0	286.0	287.3	344.2	281.7
Education	223.0	233.0	223.0	233.2	232.1	226.5
Health & Social Work	92.0	91.5	98.5	86.0	93.7	84.3
Other community, social & personal Services	210.8	202.4	125.0	135.0	121.1	121.6

Source: Bureau of Statistics

Figure 22: Real Growth Domestic Product (Annual Percentage Change)

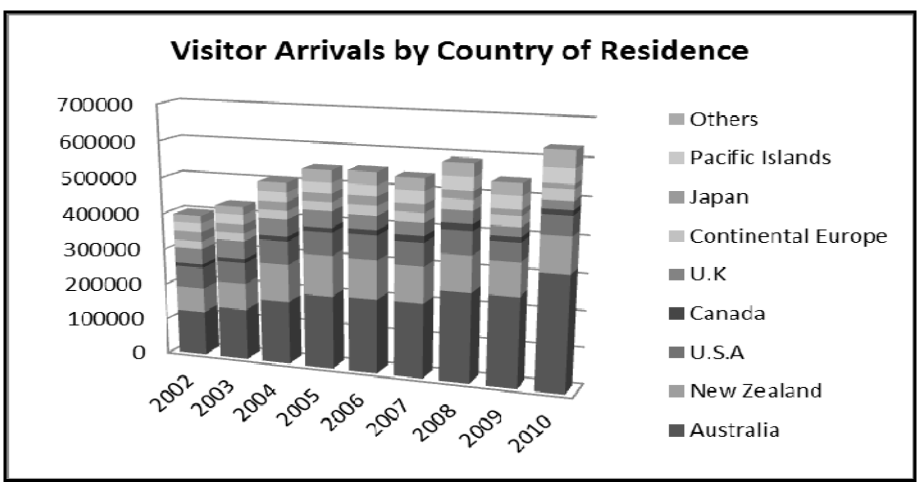


In contrast, record visitor arrivals throughout the year underpinned the strong performance of the tourism industry, feeding through to improved outcomes in tourism-related activities.

Table 9: Visitor Arrivals by Country of Residence

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia	123606	141873	176195	203250	206529	207001	247608	248589	318185
New Zealand	68293	75016	103900	112932	107277	99744	100018	90898	97857
U.S.A	58,815	58,323	65,211	62,640	66,631	64,687	63,667	51,592	53,122
Canada	9,802	10,990	12,435	12,625	14,372	16,992	17,871	13,452	12,970
U.K	43,393	49,794	47,668	44,472	38,239	34,785	33,935	26,213	23,813
Continental Europe	21,654	21,847	22,720	25,123	26,801	26,311	29,512	28,926	29,115
Japan	26,382	23,464	24,392	22,304	23,794	22,800	21,918	14,975	12,011
Pacific Islands	24,051	28,167	26,182	28,476	29,725	34,221	35,936	35,078	39,198
Others	21,863	21,326	25,372	33,323	35,221	33,340	34,566	32,463	45,597
TOTAL	397,859	430,800	504,075	545,145	548,589	539,881	585,031	542,186	631,868

Source: Bureau of Statistics



Tourism earnings averaged around $820 million in the last three years, compared with $250 million for remittances, $200 million for sugar exports and $130 million for fish receipts. Earnings from other exports such as garments and mineral water averaged around $100 million. The tourism sector holds huge promise for our country given that most of the other sectors are not performing as well. However, there are challenges moving forward. One area that could easily become a constraint to future tourism growth would be the availability of a good mix of hotel rooms.

Table 10: Hotel Statistics

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Hotel Turnover ($F mill)	307	327	397	458	485	438	528	518	649
Gross Tourism Earnings ($F mill)	563	646	725	813	823	784	854	817	980
Hotel Turnover to Gross Tourism Earnings (%)	54.6	50.6	54.7	56.3	59.0	55.9	61.9	63.4	66.2

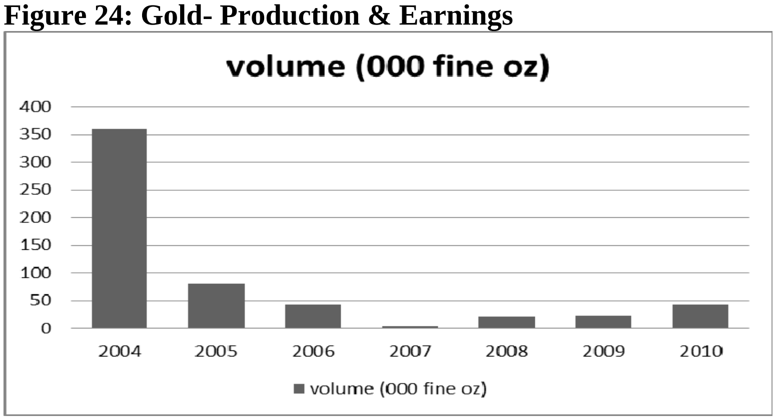
Source: Reserve Bank of Fiji

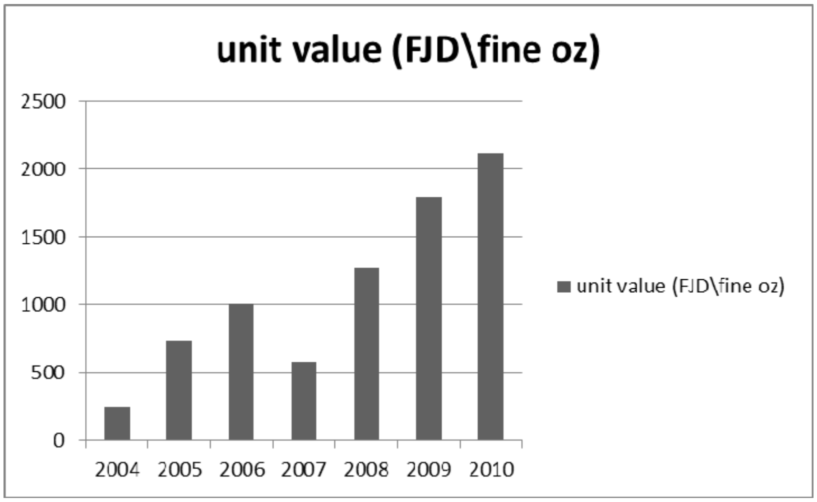
Figure 23: Tourism Earnings

Source: Reserve Bank of Fiji.

In the mining sector, the increased productive capacity at the Vatukoula Gold mine and record huge international gold prices, underlying the 77.2 percent annual growth in gold production of 62,114 ounces. However, the 2010 outcome is still below an all- time high of 150,400 ounces produced in 1997.

Figure 24: Gold- Production & Earnings





Source: Bureau of Statistics.

Broadly, indicators of economic activity, including measures of consumer and business confidence coupled with industry liaison, suggest some growth in economic activity-although still below 2001-2004 trends. Consumer demand appeared to have improved, modestly, consistent with the slight improvement in economic activity in 2010.

Inflation

The RBF remains committed to its twin objectives – that is to maintain low inflation and an adequate level of foreign reserves. Inflation has been high at the moment and reached 10.4 percent in October, 2011. The inflation outcome has been influenced by external and policy related factors – most of which are beyond the control of monetary policy. Imported inflation alone accounts for more than 60 percent of our domestic inflation outcome. With the current demand side inflationary pressures weak at the moment, it is more appropriate that monetary policy remain accommodative to support some growth in the economy while at the same time vigilant on the potential second-round impact on inflation. Inflation is forecast to subside to 7 percent by the end of this year and further to 4.5 percent by the end of next year.

b. On to core inflation – in principle monetary policy should only respond to persistent price movements. The Reserve Bank has two core inflation measures which are the trimmed mean and excluding food and energy items inflation, both are widely accepted and used in many central banks to exclude temporary price pressures. Universally, it is hard to determine when that “temporary” impact will come to an end as there are a lot of factors that come into play at almost the same time. In Fiji, the big increase in food inflation from June 2010 to June 2011 to 11.3 percent was attributed to many factors. If we compare food inflation from June 2010 to December 2010, food prices only rose by around 2.0 percent which can be regarded as quite stable. As such most of the increase in food inflation only came about this year on account of the VAT rate change and the high food prices noted across the world during this period. By January 2012, Fiji should see the impact of VAT fall from the core inflation measure. As to the impact of high world food prices, as soon as prices of these food commodities normalize abroad, core inflation should return to normal levels.

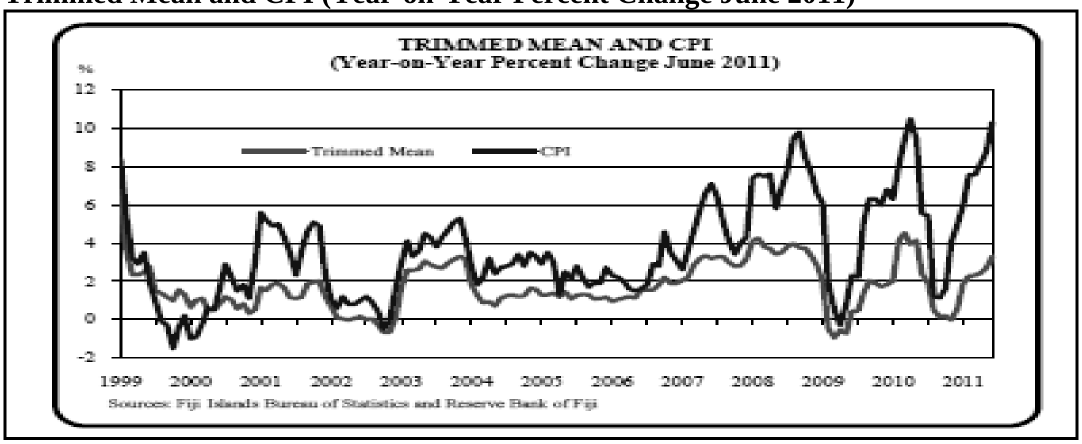
Inflation spiked in the early months of 2010, peaking at 10.5 percent in April, the highest in 22 years. This reflected both the impact of the 2009 devaluation and tropical cyclones Mick and Tomas, on market items. Nevertheless, from June 2010, inflation slowed, underpinned by the reduction in the electricity tariff rate to lifeline consumers in June. However, soaring global prices coupled with the incremental impact of the electricity tariff rate restructure towards the end of 2010 resulted in higher inflation over the last quarter. Consequently, the 2010 year-end inflation was 5.0 percent compared to 6.8 percent in 2009. Inflation in July eased marginally to 10.1 percent, from 10.3 percent registered in June. On an annual basis, apart from durable household goods, prices in all other categories rose, reflecting the rising global commodity prices, especially food and oil which have fuelled the surge in consumer prices. Excluding volatile items (food, heating & lighting and transport items) inflation declined to 2.4 percent compared to 2.7 percent in June

Table 11: Consumer Price Index (January 2005=100)

		2006	2007	2008	2009	2010
	Weight					
Section						
All items	1000	2.5	4.7	7.7	3.7	5.5
Food	402.9	1.8	9.8	11.4	6.7	4.1
Alcoholic Drinks	54.2	2.5	4.0	4.0	6.9	4.6
Housing	99.3	2.5	2.9	0.9	1.5	0.7
Heating & Lighting	92.2	6.6	-0.9	12.2	-5.3	5.2
Durable Household Goods 21.2		1.8	2.5	3.6	10.4	6.0
Clothing & Footwear	29.6	1.4	2.9	2.1	3.8	4.1
Transport	162.4	4.4	0.4	12.4	-0.7	15.0
Services	86.3	1.3	1.5	0.4	1.6	10.7
Miscellaneous	51.9	2.9	7.7	9.2	1.7	7.3

Source: Bureau of Statistic.

Trimmed Mean and CPI (Year-on-Year Percent Change June 2011)



Source: Reserve Bank of Fiji

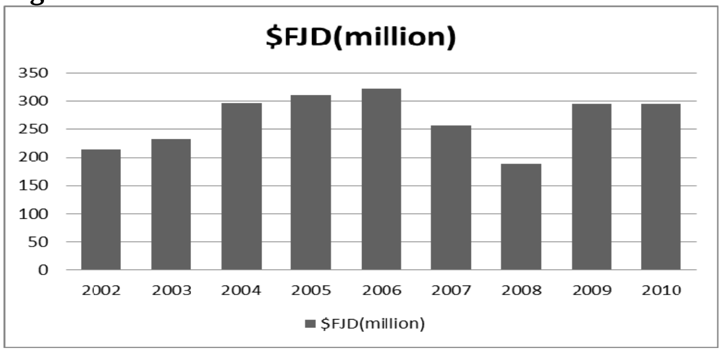
Consumption

Partial indicators of consumption, such as net Value Added Tax (VAT) collections recorded an annual growth of 23.1 percent in 2010. Inflows of remittances totaled $295.4 million dollars in 2010, a rise of 0.5 percent during the year. However, an annual contraction by 12.5 percent in new consumption lending in the year to December and a marginal 1.9 percent increase in imports of consumption goods in the first 11 months of 2010, suggested some restraint in consumer spending. In addition, survey data showed expected retail sales growth for 2010 to be below pre-2006 levels. As at end of July 2011, mixed results were also noted for consumption indicators. Net Value Added Tax (VAT) collections, rose annually by 37.5 percent, partly on account of the VAT rate increase in January 2011 and average inflation in the review period. However, new lending for consumption purposes dipped over the year by 16.6 percent for the third consecutive month. Looking ahead, any restoration in public sector wage increases and continued remittance inflows should bolster consumer confidence. The slight improvement in consumer spending is supported by rise in individual incomes as indicated by the increase in Pay As You Earn (PAYE) collections and inward remittances which rose annually by 11.8 percent and 10.5 percent cumulative to June and May 2011 respectively.

Table 12

	2002	2003	2004	2005	2006	2007	2008	2009	2010
$FJD(million)	213	232	297	311	322	256	188	294	295

Figure 26: Personal Remittances



Source: Reserve Bank of Fiji.

Personal remittances continue to be an important source of foreign exchange for the economy, with official inflows totaling $295.4 million in 2010. The growth in remittances is encouraging and should support consumer spending, particularly in a time of sluggish economic growth. Looking ahead, it would be prudent for such funds to also be directed towards investment spending. Ongoing financial literacy education by the Reserve Bank of Fiji, financial institutions and others, could encourage families who are recipients of remittance funds, to invest this money in income and revenue generating activities**.**

Investments

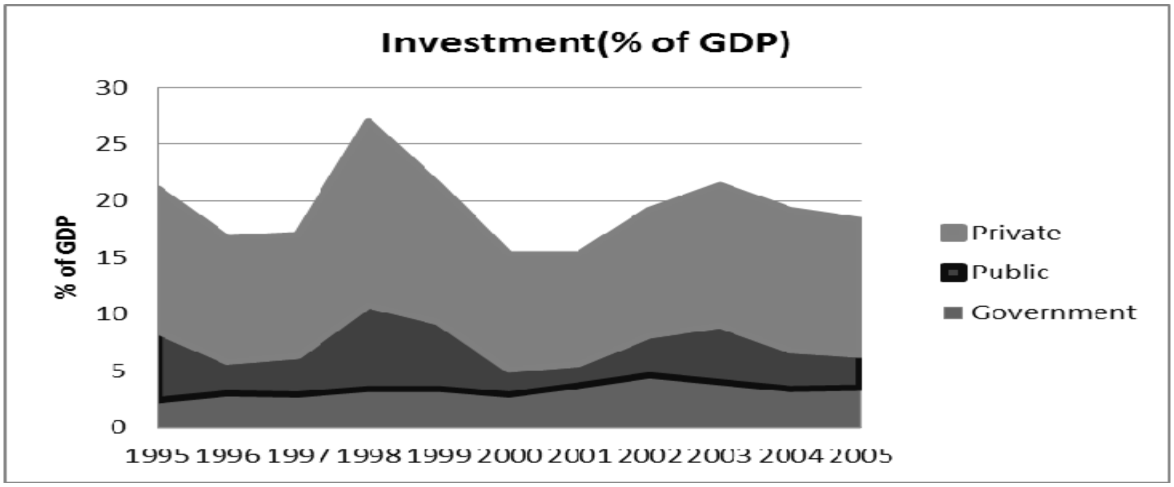
The latest foreign investment regulations, effective July 2008, removed all foreign equity limits, except on fishing where the 30 percent cap was retained; for example, the 40percent foreign equity cap in agriculture was replaced with a minimum cash investment of F$250,000. A minimum FDI level of F$250,000 was introduced for all activities, unless specifically subject to higher limits, some of which were raised and extended to cover additional activities, mainly services. The range of activities reserved for Fijians was seemingly slightly increased. Fiji has no bilateral investment treaties.

It reached about 20 - 22per cent of GDP in 2004- 2006 but since then has fallen to around 15per cent of GDP. Investment conditions remained broadly subdued in2010 as revealed in the below trend growth of imports of investments goods and value of work put in place by the construction sector. Imports of investment goods, cumulative to November, increased over the year by 0.5 percent work put in place. In addition the total value of work put in place in the year to December increased annually by 3.2 percent, while new lending by commercial banks for investment purposes rose yearly by 11.1 percent in 2010; this followed a 64.1 percent contraction in 2009. Investment intentions revealed in the Bank Business Survey, while positive remained relatively weak on average suggesting restrained investment in 2010. Notwithstanding some investment activity in the electricity, tourism and mining industries, private and public capital spending remained generally weak during the year. For the year till July, 2011, investment conditions remained subdued in the year to June. Small increases were noted in the value of work put-in-place (1.8 percent) and in imports of investment goods (5.6percent) in the first quarter of 2011. In June 2011, new lending for investment purposes grew by 139.4 percent over the month and by 6.0 percent over the year. The year ago growth rate was 29.7 percent

Figure 27: Investment if Fiji

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Government	2.4	3	2.9	3.4	3.4	2.9	3.7	4.6	4	3.4	3.5
Public	6.1	2.8	3.4	7.4	5.9	2.2	1.9	3.5	5	3.4	2.9
Private	12.6	10.9	10.7	16.2	12.1	10.2	9.7	11.1	12.4	12.4	11.9

Bureau of Statistics



Capital Stock

Fiji's capital market consists of three business segments: equities, debt and the managed funds industry. The equities market comprises the stock exchange, over-the-counter registry, public capital raising and private placement activities by commercial companies. The debt segment incorporates the bond market, listed convertible notes and promissory notes. The managed funds industry includes the unit and property trusts. The value of the capital markets totaled $4.1 billion, an increase of 2.1 percent over the previous year.

Table 12: Composition of the Capital Markets

	2006	2007	2008	2009	2010
Equities Market	1,060	810	1,002	902	778
Unit Trust Market	165	148	138	116	115
Bonds Market	2,733	2,750	2,827	3,003	3,212
Total	3,958	3,708	3,967	4,021	4,105

Source: Reserve Bank of Fiji.

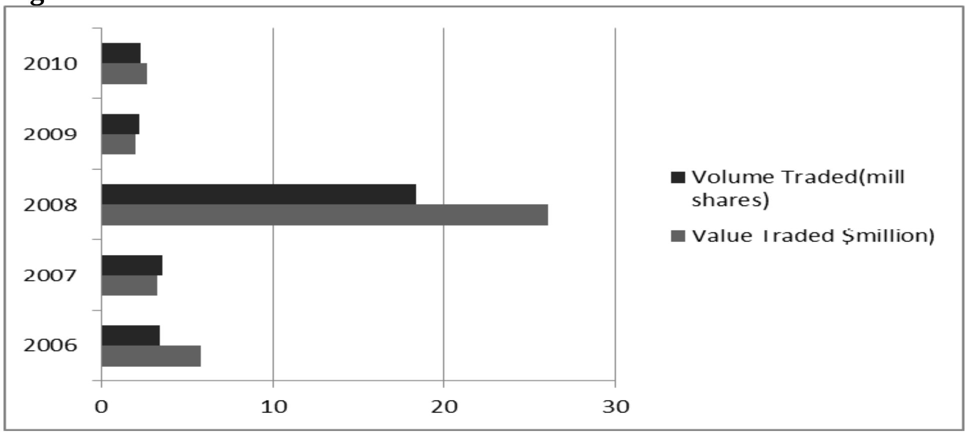
The South Pacific Stock Exchange (SPSE) registered an improvement in stock market trading when compared with the previous year. The total volume of shares traded rose by 41.2 percent to 2.3 million. In 2010, the number of transactions fell to 711 trades, valued at $2.7 million, compared to 777 trades, valued at $2.2 million in 2009. The volume and value of the 12 special crossings executed in 2009 was 4.5 million shares and $41.3 million, respectively, bringing the total value for the years to $43.5.

Table 13: Trading Statistics for the individual companies

	2006	2007	2008	2009	2010
Market Capitalisation	1060	810	1002.3	960	778
Number of Trades	954	613	757	477	711
Value Traded $million)	5.8	3.3	26.1	2	2.7
Volume Traded(mill shares)	3.4	3.6	18.4	2.2	2.3

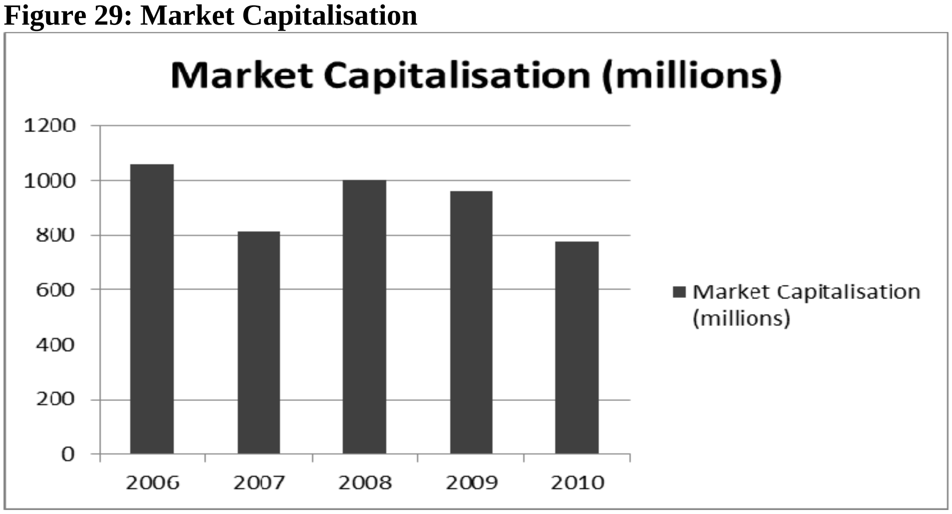
Source: CMDA 2010 Annual Report.

Figure: 28: Value and Shares Traded



Market Capitalisation declined by 13.7 percent in 2010 underpinned by a reduction in the prices of 11 out of 17 securities listed on the SPSE. The buy-to-sell ratio averaged 1:16 during the 2010 year, signifying bear market with a huge dominance of sellers exerting downward pressure on share prices.

Figure 29: Market Capitalisation



Source: Reserve Bank of Fiji.

The Kontiki Price Matching Service, which provides an over-the-counter trading registry for four unlisted public companies, recorded a total of 12 trades throughout the year, the total value being just below $0.1 million dollars. The SPSE Total Return Index (STRI), introduced in 2009, is an aggregate market capitalisation index which reflects the aggregate market value of all its components relative to their aggregate value on the base day. In 2010, the STRI declined by 11.7 percent to 1,677.4 due to negative price returns. In the same year, the average capital growth of the market was -9.5 percent compared to -6.9 percent in 2009. The average dividend yield slightly improved to 3.9 percent, compared to 3.4 percent the year before. For the same period, however, the total average market returns stood at -5.0 percent, compared to -3.0 percent in 2009.

In 2010, the unit trust market in Fiji, which consists of two unit trusts and one property trust, contracted by 2.8 percent as funds under management declined from $115.5 million dollars to $112.3 million. This was mainly due to large redemption, the decline on the value of listed securities and revaluations of unlisted securities by the unit trusts. Competitive interest rates on term deposits offered by commercial banks also contributed to the contraction of managed funds. The number of unit holders however, increased by 1.6 percent to 16,415 compared to a total of 16,162 in 2009.There was no activity recorded in the secondary bond market in 2010, compared to 10 trades valued at $2.6 million dollars in the previous year. This was a result of ample liquidity in the banking system and limited reinvestment opportunities for investors. Furthermore, there were no additions to the Reserve Bank's domestic bond portfolio. However, $29.8 million worth of bonds were redeemed. However, $29.8 million worth of bonds were redeemed. Consequently, the nominal value of the portfolio fell to $93.0 million from $122.8 million in 2009. The net income earned from the portfolio fell by 8.9 percent to $7.2 million in 2010.

Money Supply

Developments in money and credit aggregates largely reflected the favorable outturn in foreign reserves in 2010. On an annual basis, broad money rose by 3.9 percent, underpinned by increases in demand deposits and currency in circulation by 14.5percent and 7.9percent respectively, in the year to December. On monetary aggregates, the annual growth in broad money (M2) rose to 10.2 percent in June, from 8.0 percent at the end of May, underpinned primarily by the growth in net foreign assets by 37.9 percent, which more than offset the decline in domestic credit (-2.4%). Up until July 2011, in the same period, the commercial banks' weighted average time deposit rate fell to 4.73 percent from 5.83 percent in December 2009 while the savings deposit rate increased by 10 basis points to 1.02 percent. Banks demand deposits held with the Reserve Bank rose further in July to $660.3 million from $580.4 million in June, driven mainly by an increase in foreign reserves ($63.1 million).

Table 14: Monetary ($ million)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Currency in Circulation (1)	0.19	0.16	0.18	0.20	0.23	0.25	0.28	0.29	0.3	0.31	0.35	0.38
Demand Deposits (2)	0.48	0.41	0.42	0.49	0.65	0.74	0.89	0.83	1.32	0.98	0.90	1.04
Local Bills Payable (3)	0.22	0.13	0.14	0.15	0.23	0.22	0.23	0.17	0.24	0.16	0.19	0.17
Money Supply (mill) (4)=1+2+3	0.89	0.70	0.74	0.84	1.11	1.21	1.40	1.29	1.85	1.45	1.44	1.59
Change in [M1]% (5)	40.60	-14.50	4.60	14.70	26.40	13.10	17.60	-4.60	43.50	-19.70	-2.80	12.30
Savings Deposits (6)	0.43	0.44	0.44	0.46	0.50	0.56	0.62	0.61	0.65	0.69	0.74	0.78
Time Deposits (7)	0.42	0.48	0.40	0.41	0.58	0.61	0.70	1.26	1.04	1.09	1.31	1.24
Total Deposits [M2] Quasi Money(8)=6+7	0.85	0.92	0.85	0.87	1.08	1.17	1.32	1.87	1.69	1.78	2.05	2.02
Change in Quasi Money	-1.00	8.00	-8.00	2.90	24.10	8.10	12.80	42.00	-9.80	5.60	15.00	-1.40
Broad Money Supply [M3] (10)=4 +8	1.74	1.62	1.59	1.71	2.19	2.38	2.72	3.16	3.54	3.23	3.49	3.61
Change in [M3] % (11)	14.20	-2.10	-3.10	7.90	25.10	10.40	15.00	19.80	10.40	-6.90	7.40	3.90

Source: Bureau of Statistics.

Figure 30: Money Supply (M1)

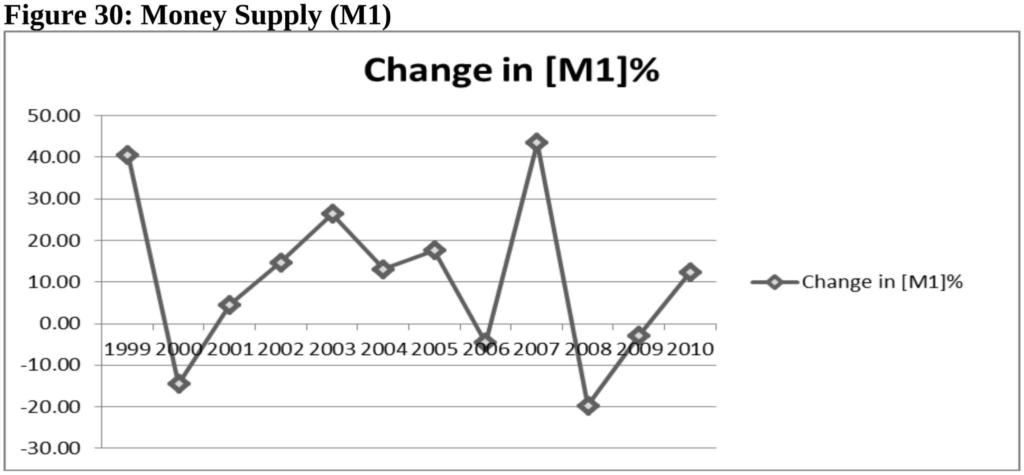


Figure 31: Quasi Money [M2]

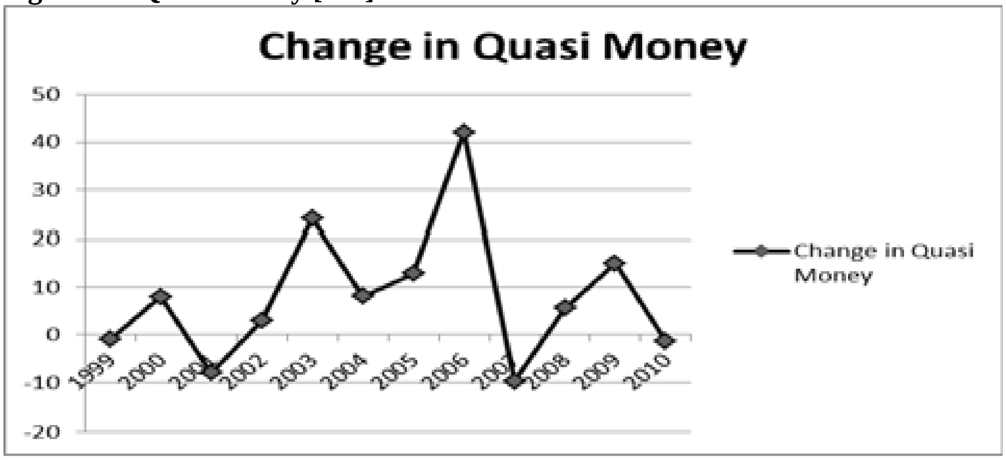
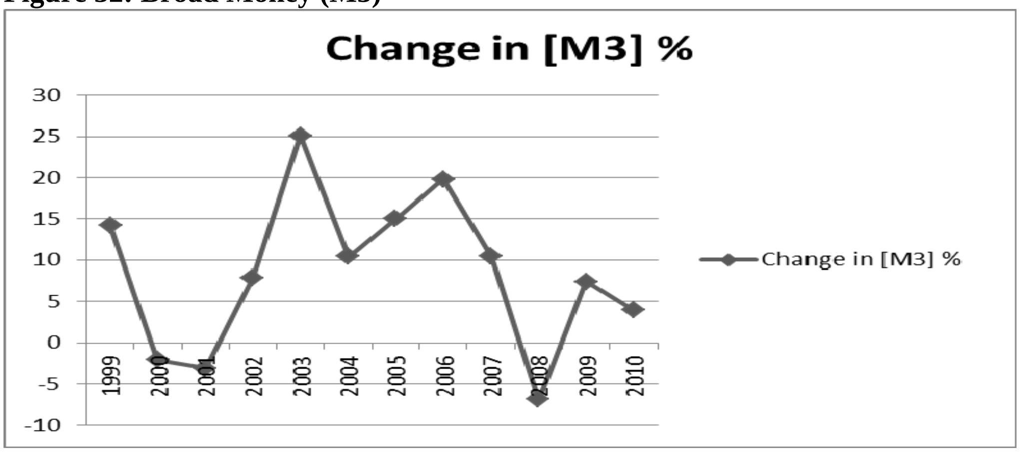


Figure 32: Broad Money (M3)



Notes: [a] Notes and coins issued less Local Currency held with commercial banks.

[b] Demand deposits with commercial banks and the Reserve Bank of Fiji less cheques in transit. Demand deposits of the Central Government are excluded.

Definitions:

Time Deposit: Bank savings deposits with scheduled maturity dates. If funds are withdrawn prior to maturity dates, some interest is lost as penalty.

Source: Reserve Bank of Fiji

Saving Deposit: Interest-bearing bank account from which funds can be withdrawn at any time without penalty.

Money Supply: Includes currency in circulation and all the deposits of the private sector and non-financial public enterprises that can be used to make payments.

Quasi-Money: Various deposits held with banks. Quasi-money cannot be used as a direct means of payment but in practice can be readily converted into money

with little delay or financial.

Currency in Circulation: Currency that is in the hands of the public, or currency outside banks. It is measured by subtracting cash held by deposit money banks

from the amount of currency

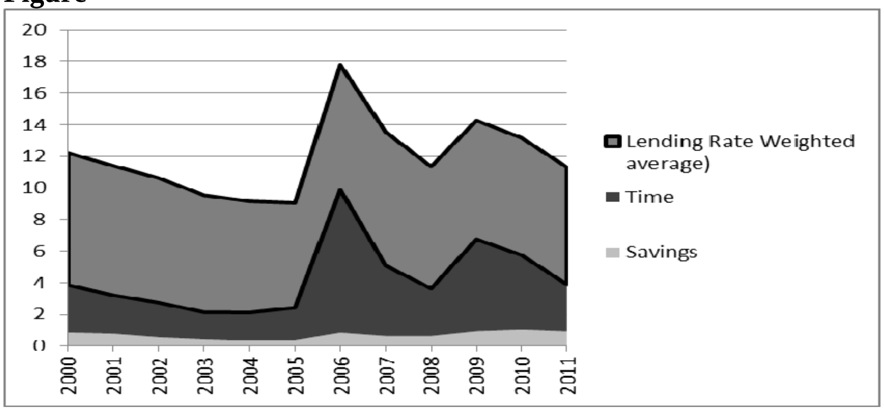
Demand Deposits: Funds held in an account with a bank that is transferrable by cheque.

However, domestic credit contracted by 1.7 percent in 2010, as result of significant declines in net credit to the Government and official entities. These declines more than offset the 3.2 percent increase in private sector credit, which in turn was attributed to the 3.5 percent growth in commercial banks' credit over the year to $2,883.3 million dollars. The growth in commercial bank credit in 2010 was on account of higher lending to the wholesale, retail, hotel, restaurant; real estate and private individual sectors. Reflecting the high liquidity in the banking system, interest rates generally trended downwards in 2010. The commercial banks' weighted average lending rate fell to 7.42 percent in December 2010, compared to 7.52 percent at the end of 2009.

Figure 33: Outstanding Bank Lending and Deposit Rates

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Savings	0.85	0.78	0.57	0.45	0.36	0.4	0.84	0.64	0.64	0.92	1.02	0.91
Time	3.00	2.43	2.17	1.7	1.77	2.03	9.05	4.45	3.00	5.83	4.73	2.97
Lending Rate Weighted average)	8.37	8.19	7.89	7.39	7.03	6.63	7.9	8.46	7.72	7.52	7.42	7.42

Figure



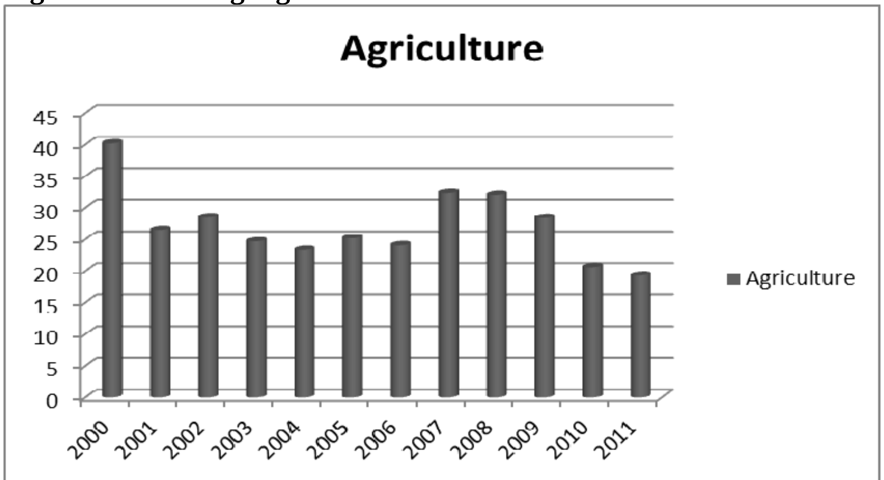
Source: Reserve Bank of Fiji.

Table 15: Commercial Bank's ($millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sugarcane Growing	18.9	14.9	12	9.3	7.4	4.7	2.8	2.3	2.1	1.5	0.9	0.6
Forestry & Loggings	11.20	3.4	3.5	2.1	2.3	1.9	1.5	11	11.60	9.7	6.8	10.2
Fisheries	2.7	1.8	3	5.6	6.6	11.1	9.5	9.5	8.2	6.3	6.3	7.1
Others	10.1	8.2	13	13.3	13.7	18.6	19.8	19.1	18.4	17.2	12.9	8.5
Mining & Quarrying	5.2	5	5.1	4.6	1.5	2.2	1.8	1.9	3.4	4.3	4.9	5.2
Food & Beverage & Tobacco	57.9	59	68.9	84.8	111	97.2	116.1	109.7	114	116	94.7	85.3
Textiles ,Clothing & Footwear	27.3	20.8	14.8	24.1	28.4	25.6	32.9	31.3	30.6	31.6	35.3	34.4
Metal Products & machinery	9.6	5.8	5.8	5.3	13.6	8.3	15.7	14.8	21.3	22.7	22.6	23.4
Others	52.5	54.7	51.8	59.7	76.9	84.6	14.8	113.3	132	126	108	117.3
Building & Construction	37	29.7	32.5	41.2	57	93.1	202.2	180.6	200.8	217	201	192.7
Real Estate	47.2	58.2	52.4	71.5	122.1	167.2	94.3	245.6	286.7	286	317	350.7
Non- Bank Financial Institutions	0.3	0.3	2.4	0.6	0.5	1.5	6.3	7.6	8.6	2.2	3.8	3.4
Public Enterprises	49.5	47.2	24.8	44	75	80.1	67.4	65.3	70	80.6	75.1	61.6

Source: Bureau of Statistics.

Figure 34: Lending-Agriculture



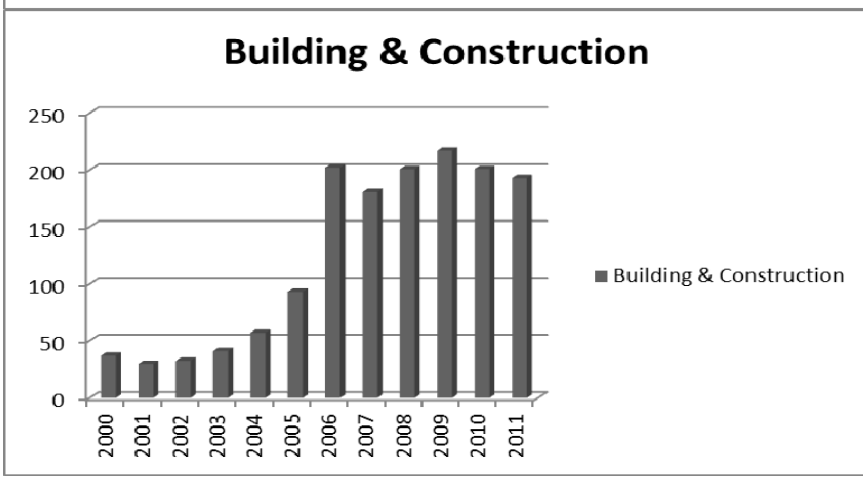
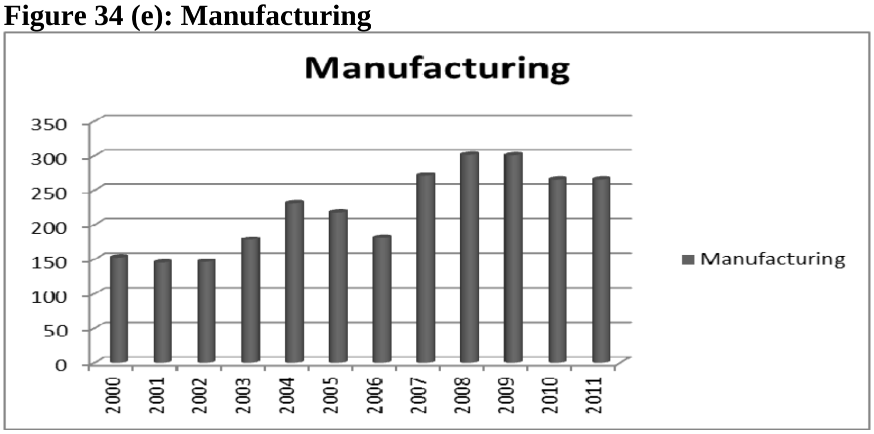


Figure 34 (e): Manufacturing



Source: Reserve Bank of Fiji

Employment

Employment conditions picked up during the latter part of 2010. The Reserve Bank's Job Advertisements Survey, a partial indicator of employment, registered an annual increase of 5.9 percent. However, the improvement was biased towards tourism-related sectors as performances in all other sectors remained subdued.

Employment prospects remained weak in the year to June 2011 as reflected by the Job Advertisements Survey, a partial indicator for employment conditions. The number of vacant positions advertised during the period, declined annually by 5.1 percent. This was mostly underpinned by a fall in demand for labour in the electricity & water, mining & quarrying and transport, storage & communication sectors. Nonetheless, with the commencement of sugar harvesting and the peak tourism season in the coming months, employment prospects for seasonal labour are anticipated to improve.

II.2 Fiscal Position

In Fiji, previous Governments have persistently run deficits and it seems to be very difficult for any Government in Fiji to avoid doing so particularly as the Fiji National Provident Fund provides a ready source of 'captive' funds. In part, this situation reflects the 'weight' of the wages and salaries bill in the Budget; after accounting for personnel costs, debt servicing and other fixed charges, there is relatively little for capital expenditure.

Government Expenditure

Government's expenditure policy is driven by its dual role of redistributing wealth and of developing the nation. Government spending can be categorized into operational and capital expenditure. Operational expenditure largely deals with the administration of government, of which the biggest component has been salaries and wages. Government's 2010 budget deficit was initially estimated at $220.1 million, equivalent to 3.5 percent of GDP. Unanticipated expenditures in the first half of the year, particularly towards rehabilitation works on infrastructure damaged by Cyclone Mick and Tomas and Government's financial support towards the Fiji Sugar Corporation (FSC) led to the revision of the 2010 Budget in July, 2010. As a result of continuous fiscal deficits, Government debt has risen over the last two decades. Currently, it stands at around 52 percent of GDP. For Fiji it is estimated that a more sustainable level should be around 45 percent of GDP fiscal discipline is very critical for sustainable economic growth. If Government continues to run large deficits then not only the debt levels increase, it crowds out the private sector and statutory bodies from borrowing in the domestic market thus putting pressure on interest rates. Chronic fiscal deficits also tend to seriously undermine the bop as has been the case in Fiji for last two decades or so. It is therefore very important that the Government budget deficit is kept in check and reigned in to well below 3 percent in the medium term. Despite the enormous pressures on Government revenue in recent years, due to the contracting economy, the Government has kept a reasonably tight reign on Government expenditure. This discipline must continue and more should be done to reign in non-essential expenditures

Table 16: Operating Expenditure ($million)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Wages & Salaries	403.2	429.1	440.7	467.7	497.9	519.3	525.3	631.5	584.7	564.7	597.2
Travel /Communication	14.0	14.2	16.8	20.9	18.6	20.9	20.7	21.0	19.0	17.3	18.4
Maintenance	25.5	32.2	33.9	37.1	36.6	37.0	77.6	94.6	90.1	87.2	93.2
Purchase of Goods & Services	64.7	78.5	79.5	91.0	87.8	85.7	52.9	61.3	74.5	54.7	67.4
Operating Grants/Transfers	101.1	107.0	138.7	156.1	153.8	165.9	182.2	184.3	177.0	191.9	202.6
Special Expenses	55.0	25.2	33.7	32.3	40.8	39.2	49.5	59.7	43.0	37.0	46.7
Pension/Compassionate Allowance	32.0	35.5	37.3	35.8	36.2	34.9	37.2	36.5	35.6	35.5	36.1

Source: Bureau of Statistics.

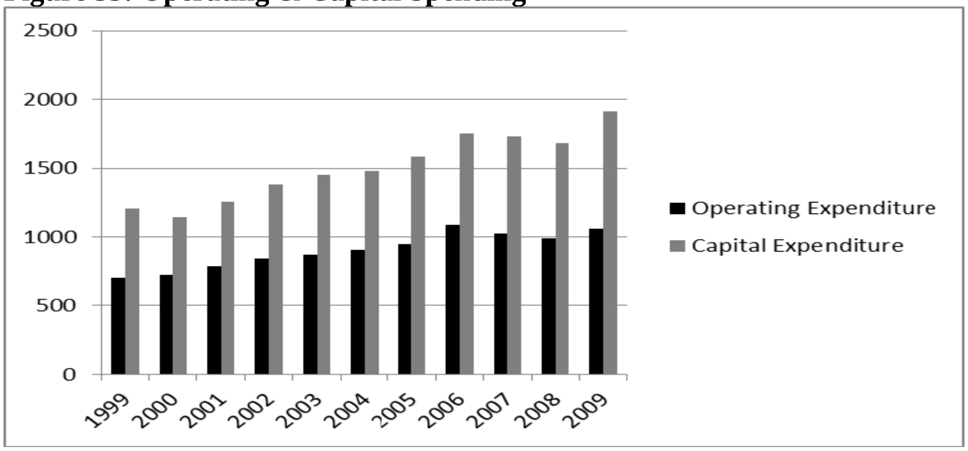
Nonetheless, the revised 2010 deficit stood at $211.8 million, equivalent to 3.6 percent of GDP, with funds from the operating budget redirected towards capital grants and transfers for much-needed post-cyclone capital works. The government of Fiji had invested substantially in new current assets in 2009 spending $335 million compared to $212 million in 2008 (a 58 percent) increase. Capital expenditure is expected to be $525 million in 2011

Table 17: Capital Expenditure ($million)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Charges on Public Debt	287.8	214.0	208.8	229.4	237.5	278.0	328.5	334.3	405.6	428.0	463.1
Capital Construction	87.9	81.1	104.4	134.4	146.9	130.2	120.9	128.9	95.2	116.3	162.6
Capital Purchase	33.2	15.4	21.8	31.4	10.7	14.3	24.1	15.9	12.0	17.4	40.2
Capital Grants/Transfers	38.8	49.7	60.5	72.9	86.1	61.1	68.5	67.9	86.5	79.0	132.2
VAT	60.8	59.8	64.1	64.2	93.7	92.8	100.8	113.7	103.1	51.4	51.6
Others			13	9.4	1.3	0.1	0.6	1.0	0.9	1.2	0.0
Total Expenditure	1,204.1	1,141.6	1,253.7	1,382.5	1,447.9	1,479.1	1,588.8	1,749.5	1,726.2	1,680.5	1,911.4

Source: Bureau of Statistics.

Figure 35: Operating & Capital Spending



Source: Reserve Bank of Fiji.

Public Borrowings

For 2009, Government adopted an expansionary fiscal stance. As such, Government's position was budgeted for a headline deficit of $192.8 million, equivalent to 3% of GDP for the year. The fiscal performance during the year did not turn out as expected especially in revenue performance thus resulting in provisional net deficit of 4.0 percent estimated as the actual outcome. The weak fiscal performance resulted in higher debt level as government continued to borrow to finance the operational and capital expenditure. Total debt outstanding grew by 8.5 percent over the year and at same time, sourcing funds from domestic market was getting expensive with the cost of borrowing averaging between 5.35% and 7.12% respectively for Treasury-Bills and Bonds

On the external front, there were no new lenders; however the impact of the 20% devaluation resulted in a higher external disbursed outstanding debt value at the end of 2009. Overall, the domestic market remained a major source of financing the deficit budget of the government in 2009 and this trend is expected to continue in years to come. Amortization of loans always has a huge impact on net deficit, with $191 million recorded for 2009 and this is likely to increase in 2010 with the rise in cost of borrowing during the year under review. Government and Reserve Bank of Fiji have embarked on a strategy of issuing fixed coupon bonds to maintain costs below 8% or even lower.

Total Government Debt

The total Government debt stock at the end of 2009 was $3.1 billion, an increase of 8.5 percent from the preceding year. The major factors attributed to the increase were the net issuance of domestic debt instruments and the impact of exchange rate movement on the value of external debt stock.

Table 17: Total Debt Stock $(000)

	2006	2007	2008	2009
Domestic Debt	2,446.3	2,337.8	2,411.0	2,605.0
External Debt	416.7	397.0	476.0	527.5
Total Government Debt	2,863.0	2,734.8	2,887.0	3,132.5

Source: Ministry of Finance

Of the total outstanding debt, $527.5 million is associated with external borrowing while the balance was raised domestically through issuance of bonds and T-bills. In spite of net redemption of external debt by $18 million, the value of external debt stock rose because of revaluation arising from devaluation of the Fiji Dollar in 2009.

With a gross deficit of around $522 million set at beginning of year, government managed to raise only $404 million domestically. This was in line with revision to the expenditure as a result of downturn in revenue collection.

Costs of Borrowing

Costs of borrowing have been computed to identify the costs associated with all borrowings (short/long) domestically and abroad. As evident from Table 18, costs of borrowing in the domestic market has increased for both T-bills and bonds. Costs of borrowing by T- bills grew by 4.57 percentage point while bonds grew by 42 basis points. The increase reflects the high bids submitted by institutional investors considering the quantum of debt instruments issued by the Fiji Government. In contrast to the domestic borrowing, the weighted average costs of borrowing from abroad fell by 2 percentage point after effects of global financial crisis begin to melt down as well as high liquidity in the international financial system.

Table 18: Cost of Borrowing (%pa)

	2007	2008	2009
Weighted Average Short term (Domestic)	6.20%	0.78%	5.35%
Weighted Average Long Term (Domestic)	6.60%	6.70%	7.12%
Weighted Average Long term (External)	6.41%	5.48%	3.49%

Source: Ministry of Finance.

Domestic Debt Composition

Apart from fulfilling its borrowing requirements, Government is also tasked with developing the domestic capital market with its frequent issue of bonds and Treasury Bills. Moreover, the limited investment opportunities available locally have raised institutional appetite for government securities. Government borrowings are in accordance with the borrowing provisions in the 2009 approved Budget. Table 19 below shows the domestic debt composition for the last 3 years

Table 19: Domestic Debt ($M)

	2007	2008	2009
Bonds	2,196.2	2,346.3	2,505.1
Treasury Bills	141.6	64.7	99.9
Total Domestic Debt	2,337.8	2,411.0	2,605.0

Source: Ministry of Finance.

Domestic debt outstanding at the end of 2009 increased by $194.0 million or 8.0 percent when compared to 2008. This increase was attributed by a net increase of $159m in bonds and $35million in treasury bills holdings.

Figure 37: Bond Holders

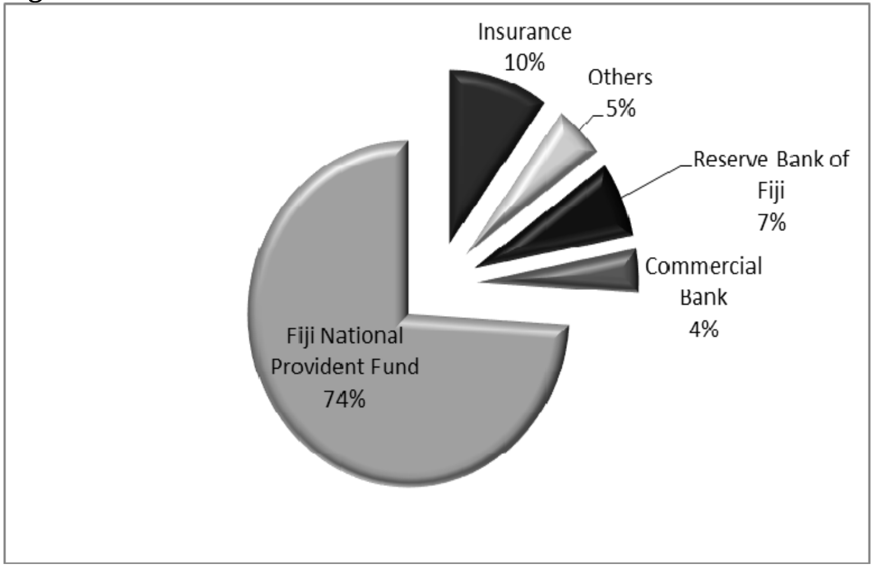
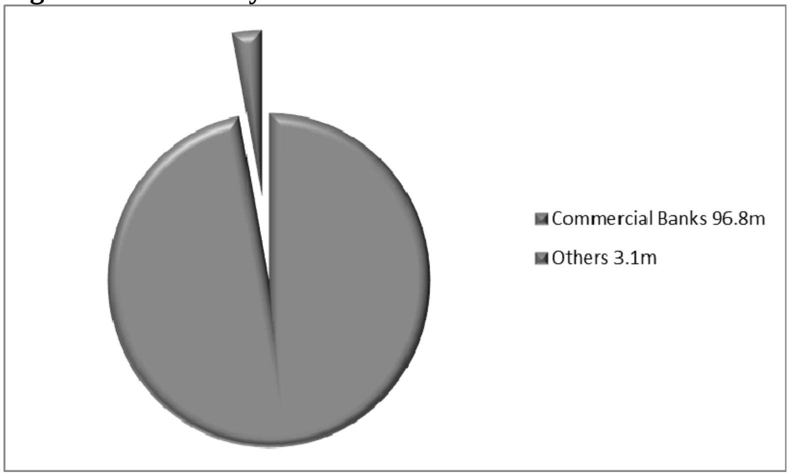


Figure 38: Treasury Bill Holders



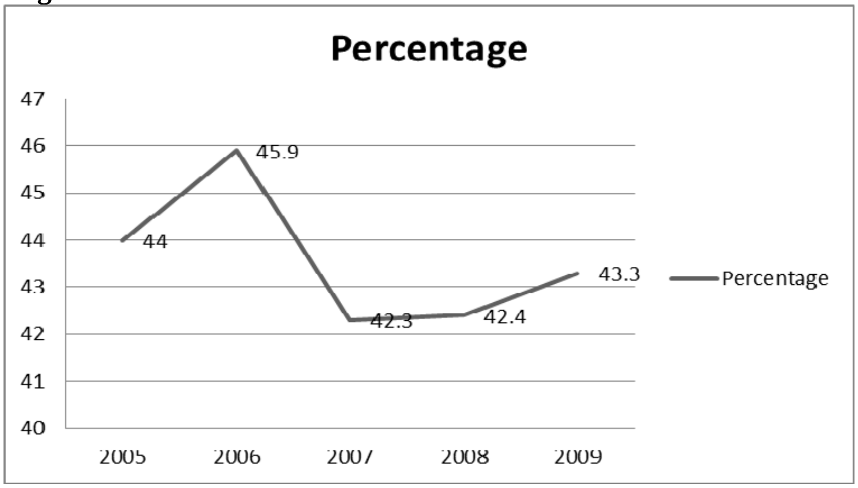
Source: Ministry of Finance

Borrowing in the domestic market was dominated by a few market players with the Fiji National Provident Fund accounting for 74.0 percent of total long term debt in the form of Government Bonds. Treasury Bills saw the commercial banks holding 97 percent of the $99.9 million outstanding whilst individuals and other holders make up remaining 3 percent.

Domestic Debt to GDP

As a share of GDP, the Government's domestic debt increased steadily over the past 2 years with Domestic Debt to GDP rising from 42.4 percent in 2008 to 43.3 percent in 2009 as represented in Figure 39. It must be noted that Government relied heavily on domestic borrowings to finance its budget deficit between 2008 and 2009 and this trend is likely to continue in 2010 as the budget deficit is to be mainly financed from domestic borrowings.

Figure 39: Domestic Debt to GDP



Source: Ministry of Finance.

Domestic Interest Rates

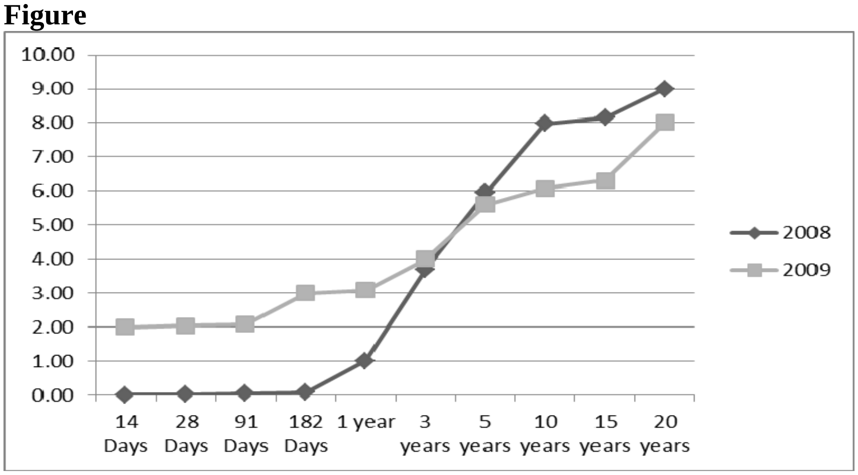
Figure 40 below shows the government yield curves representing the structure of interest rates from the short term to long term. The yield curve depicts the increase in interest rates in 2009 which called for an intervention by the Reserve Bank of Fiji in consultation with the Ministry of Finance to regulate interest rates in the market to curb the progressive increase in rates in the domestic market. The impact of an introduced ceiling on interest rates is evident from the graph whereby the rates for the long term instruments in December 2009 were lower than weighted averages rates in December 2008

Figure 40: Weighted Average Interest Rates

	2008	2009
14 Days	0.00	2.00
28 Days	0.02	2.04
91 Days	0.04	2.08
182 Days	0.07	3.00
1 year	1.00	3.08
3 years	3.70	4.00
5 years	5.95	5.60
10 years	7.98	6.08
15 years	8.15	6.30
20 years	9.00	8.00

Source: Ministry of Finance

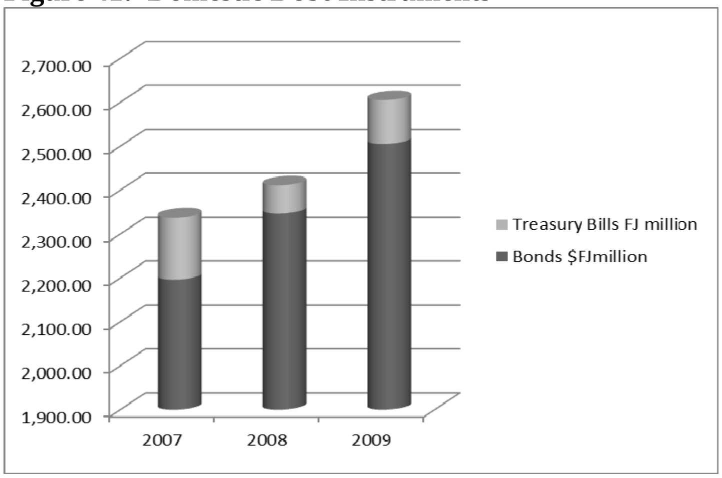
Figure



Domestic Debt Instruments

At the end of 31 December 2009, Government bonds outstanding stood at $2.505 billion, an increase of 6.8 percent compared to 2008. Treasury Bills outstanding increased significantly by $35.2 million or 54.4 percent when compared to 2008. Treasury Bills were raised mainly to cover revenue shortfall and to offset timing differences between inflows of revenue and major payments by Government.

Figure 41: Domestic Debt Instruments



Source: Ministry of Finance.

Government External Debt

External borrowing grew by 10.8 percent to $527.5 million at end of last year. The increase was mainly attributed by the appreciation of the three (3) major servicing currencies of the loans against the Fiji dollar, an increase equivalent to 8.8% of the GDP.

The existing lenders namely the Asian Development Bank (ADB), two existing bilateral lenders; Japan Bank for International Cooperation (JBIC) and the Export and Import Bank of the Republic of China (EIBRC), and the balance was kept in the form of Global Bond with JP Morgan. To date, government's largest multi-lateral lender, ADB, holds approximately $167.8 million of outstanding debt, whereas the largest bilateral lender holds $38.4 million.

Table 20: Government External Disbursed Outstanding Debts (F$M)

	2007	2008	2009
External DOD Central Government Total External Debt Service of which:	397.0	476.0	527.5
Principal Payment	17.1	12.5	21.2
Interest Payments	22.2	20.8	24.4
External Debt to GDP Ratio	7.1%	8.0%	8.8%
External Debt Service as % of Export of Goods & Services	1.4%	1.0%	1.0%

Source: Ministry of Finance.

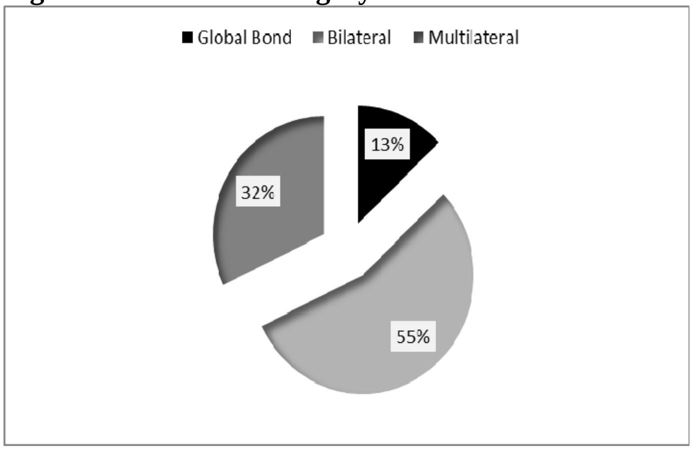
Debt servicing when compared to the preceding year increased by $12.3 million. This was mainly due to the prepayment of four of Governments oldest loans; the 1979 EEC-Outer Island Jetties Loan, 1979 EEC Regional Telecommunication Network loan, 1984 Netherland Investment Bank loan and the 1989 French Treasury loan.

Debt Composition

By Creditor Category

Overall, the outstanding debt forecast rose by approximately $52.0 million from 2008; the global bond value increasing by $25 million (9.3%), multi- lateral loans by $11 million (7.1%) and the bilateral loans by $15.7 million (29.4%).

Figure 43: Creditor Category

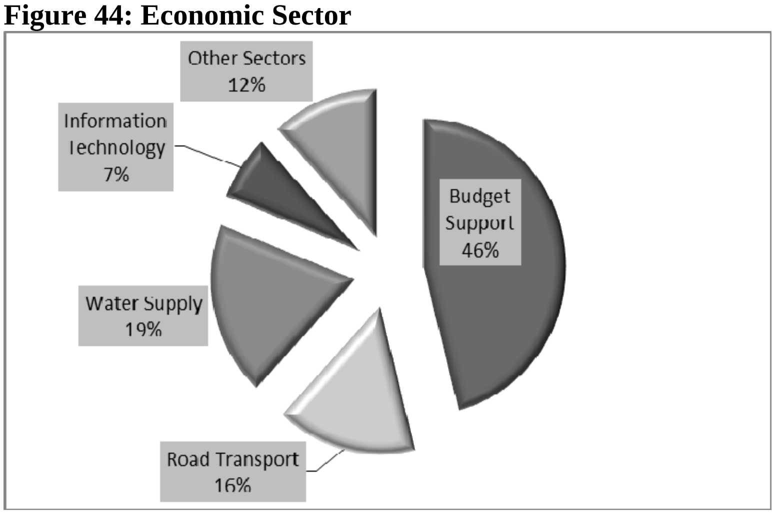


Source: Ministry of Finance

By Economic Sector

In terms of distribution by sectors, the global bond dominates with 46%, followed by the Road Transport sector 16 percent, Water 19 percent; the IT sector (E-Gov.) of 7 percent and the remaining sectors (Telecom, rural development, forestry & agriculture) by 12 percent.

Figure 44: Economic Sector



Source: Ministry of Finance

Contingent Liabilities

Contingent Liabilities represents government guarantees of other state owned entities and statutory authorities' debts which would have to be settled by government should these entities fail to pay. At the end of 2010, contingent liabilities reached $1.969 billion which is equivalent to 33.5% of GDP. When compared to 2009, contingent liabilities marginally rose by 0.7 %.

Table 21: Contingent Liability

	2005	2006	2007	2008	2009
Loans to other Guarantees F($M) of which the main components are :	1,222.8	1,362.8	1,718.6	1,755.7	1,680.0
Fiji National Provident Fund (FNPF)	629.1	643.7	873.3	874.7	866.0
Other Institutions	541.8	666.4	793.6	822.7	750.9
Subscriptions to Foreign Institutions	51.9	52.6	51.7	58.3	63.1
Contingent Liabilities as a percentage of GDP	25%	25%	32%	30%	26%

Source: Ministry of Finance.

Guaranteed Institutions

Of the outstanding contingent liabilities, $354 million was for the Fiji Electricity Authority (FEA), $140 million for the Fiji Sugar Corporation (FSC), $84 million for the Fiji Development Bank (FDB) and $86 million for the Housing Authority (H.A) Loans

Guaranteed loans for the FEA as well as the FSC are mainly for loans to fund their respective capital projects and mill upgrades.

Revenue

The Government revenue has been substantially affected by depressed trading conditions in2009 contracting by 5.3 percent compared to 2008. Forecast revenue is expected to increase 13 percent in 2011. Reductions in 2009 were recorded in indirect taxes particularly VAT off set by one off revenue collected for water resources tax. Major growth in revenue in2010 is expected from growth in VAT revenues and other indirect taxes off setting expected reductions in direct tax revenue. For 2011, a further 100million dollars in indirect tax is expected to be collected as a result the increase in VAT for 12.5 percent to 15 percent effective from 1 January 2011 and the Fiji Revenue and Customs Authority (FRCA) collecting also the Airport Departure Tax. This exercise was previously handles by the Airports of Fiji Limited

Personnel and interest costs continues to dominate Government expenditure comprising 50 percent of government revenue in 2010. Based on the figures there appears to be large variances in yearly personnel costs ranging from 48 percent of revenue in 2007 to 41percent of revenue forecast in 2011. Of concern is the increasing cost of interest costs from 12percent of government revenue in 2008 and 17percent of government revenue in 2011.

Table 22: Sources of Revenue Collections by Fiji Revenue & Customs Authority [FJD000]

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal Tax	16,012	18,616	17,295	18,679	25,758	28.986	34,627	40,760	34,062	27,475	28,069
Company Tax	135,392	121,800	116,195	121.002	127,225	147,551	172,498	188.038	198,293	202,971	160,772
Dividend Tax	14,226	8,822	10,359	11,563	10,831	13,211	16,592	29,286	35,851	63,965	73,241
PAYE	139,640	132,084	148,491	155,093	175,703	180,403	215,163	213,136	200,338	177,706	183,960
HTT							8,392	13,590	22,666	24,956	30,595
LST	54	40	64	281	452	1985	3,594	682	549	273	412
Other Tax	3,050	5,506	5,119	7,096	6,712	7038	10,905	10,998	12,621	9,938	10,720
Miscellaneous	710	411	346	355	324	359	321	313	733	1,189	1,777
VAT	207,848	252,223	276,693	369,920	411,193	416,200	469,760	464,171	402,653	402653	495,734
Total	516932	539502	574562	563108	758198	795733	931853	947384	883381	911126	985280

Source: Bureau of Statistics

Table 23: Government Revenue Analysis by Source

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Customs Duties & Port Duties	426878	464355	525985	671331	714582	733506	799744	806562	822589	775242	876599
Income Tax	293451	284835	275071	269340	334609	352498	446091	438337	438547	451943	426297
Fees,Royalties	74323	49983	66447	49765	36309	48124	45017	67645	104148	82672	148,483
All other income	116313	101783	171293	75836	90677	87754	110472	78710	89651	105999	84,893
Total	910965	900506	1038796	1066272	1176177	1221882	1401324	1391254	1454856	1415856	1536272

Source: Bureau of Statistics

Arrears of Revenue

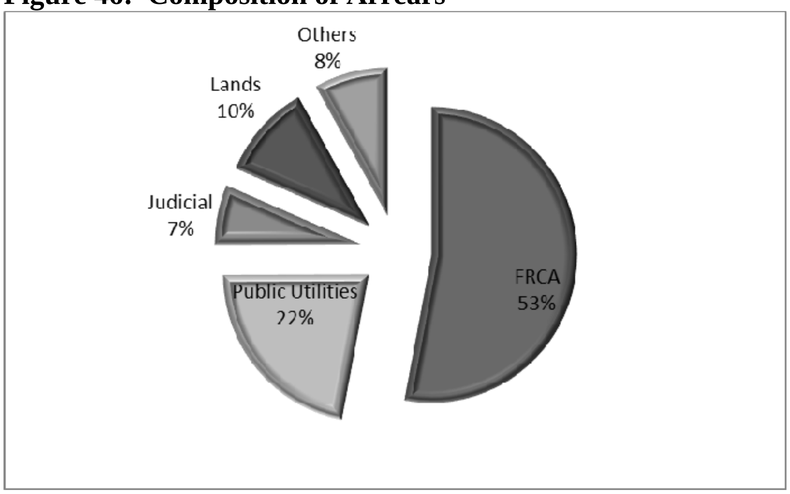
Arrears of revenue represent dues in the form of fines, penalties, rates, fees and charges in respect of goods and services provided by Government through the various ministries and departments. The total outstanding revenue in 2009 amounted to $167.4 million which is an increase of $9.7 million or 6.2 percent compared to 2008 which recorded $157.7 million of outstanding arrears.

Table 24: Trend in Arrears

Ministry/Department	2008	2009
FRCA	90,518,552	88,679,627
Public Utilities	32,730,039	36,755,411
Judicial	10,574,640	10,828,342
Lands	10,223,341	17,486,273
Others	13,637,285	13,629,736
TOTAL	$157,683,857	167,379,390

Source: Ministry of Finance

Figure 46: Composition of Arrears



Source: Ministry of Finance

Figure 46 shows the four agencies which make a significant portion of the outstanding arrears for 2009 which included FRCA, Public Utilities, Judicial and Land, FRCA recorded $88.7 million of outstanding taxes. Approximately $36 million was owed to the Government in the form of unpaid water rates, $10.8 million in terms of court fees, fines and charges and $17.48 million were from the outstanding arrears of land rent.

III. Tax Structure: Institutions and the Reality

The overriding objective of a tax system is to help develop a fiscal strategy which promotes economic growth with macro-economic stability. To achieve this objective, tax system must be made more efficient, through better administration, broader tax bases and limited tax exemptions.

About the Authority

The Fiji Revenue and Customs Authority (FRCA) was established as a statutory authority under the FRCA Act 1998 and encompass the operations of the former Inland Revenue and the Customs Service. FRCA commenced operations on January 01, 1999. The organization has been undergoing a series of change since its establishment, under the guidance of the FRCA Board and in accordance with the Government's strategic direction for the Authority. The new entity enhances autonomy, improves efficiency and permits the introductions of a more service and business oriented style of operation.

Revenue collected by FIRCA has contributed to more than 86% of total Government revenue in the past five years.

The various legislations that FRCA administers include the Income Tax Act (Cap 201), Capital Gains Tax Decree 2011, Value Added Tax Decree 1991, Customs Act 1986, Customs Tariff Act 1986, Excise Act 1986, Gambling Turnover Tax Decree 1991, Merchandise Marks Act (Cap 241), Wreck and Salvage Act (Cap 198), Hotel Turnover Tax Act 2006, Tax Administration Decree 2009, Airport Departure Tax, Water Resource Tax and Super Yacht Charter Decree 2010.

Functions of the Authority

The functions of the Authority are defined as following;

- To act as agent of the State and to provide services in administering and enforcing the laws specified in the first schedule of the Act.
- Generally to exercise all functions and perform all duties carried out by the former Inland Revenue Department and the Fiji Islands Customs Service.
- To advise the State on matters relating to taxation and customs and excise and to liaise with appropriate Ministers and statutory bodies on such matters.
- To represent the state internationally in respect of matters relating to taxation or customs and excise.
- To perform such other functions as the Minister may assign to the Authority.

The Fiji Islands Revenue & Customs Authority core functions are performed under the three separate divisions highlighted below;

1. **Corporate Division**
- Policy
- Internal Assurance
- Human Resources, Records Management Unit, Training, Business Development, Board Secretary

2. **Customs Division**
- Risk & Compliance
- Border Control
- Revenue Collection

3. **Taxation Division**
- Revenue Collection
- Risk & Compliance
- Debt Management

Tax Estimates

Internationally there is no standard method of revenue forecasting. This may be due to the differences in each country's tax system, tax types, tax rates, economic system etc. The FRCA model is based on empirical evidence that not all the sectors contribute an equal proportion of revenue. Some sectors may be large in GDP value but actually contribute a little percentage to revenue – and vice versa. It is envisaged that this model address these issues. Revenue is projected based on the elasticities, that is, responsiveness of revenue growth to a change in sectoral.

Table 25: FRCA Revenue Collection

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FRCA Revenue $mill	711.8	716.9	794.6	938.9	1024.4	1064.4	1199.1	1234.5	1244.5	1212.2	1303.3
Revenue Growth (%)	10.6	0.7	10.8	18.2	9.1	3.9	12.7	2.9	0.8	2.0	
Government Revenue ($mill)	909.4	877.0	1043.7	1075.3	1167.3	1220.5	1373.3	1392.1	1454.9	1382.9	1536.3
Percentage of Government Revenue	78.3	81.7	76.1	87.3	87.8	87.2	87.3	88.7	85.5	87.9	84.9

Source: Fiji Revenue & Customs Authority.

Taxation Division

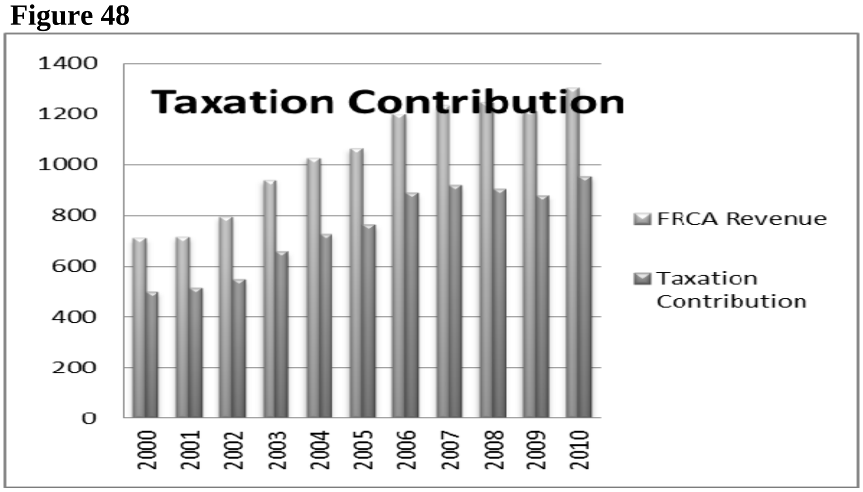
The Taxation Division is led by the General Manager Taxation, and is supported by the National Managers, each of whom is responsible for their respective units. These are namely the Debt Management/Lodgment Enforcement Units, The Audit/Compliance and the Revenue Collections. This division is responsible for administering the Income Tax Act, The Tax Administration Decree, Value Added Tax Decree (VAT), Hotel Turnover Tax (HTT), and Capital Gains Tax (GCT) which replaced Land Sales Tax in 2011. To effectively, implement and enforce the various legislations, there are 2 regional offices across the country in addition to the main office at the capital city, Suva.

Table 26: Tax Revenue

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FRCA Revenue	711.8	716.9	794.6	938.9	1,024.4	1,064.4	1,199.1	1,234.5	1,244.5	1,212.2	1,303.3
Taxation Revenue	497.8	512.2	547.3	655.3	727.9	763.5	888.7	919.3	906.2	879.5	952.5
Percentage	69.9	71.4	68.9	69.8	71.1	71.7	74.1	74.5	72.8	72.6	73.2

Source: Fiji Revenue and Customs Authority

Figure 48



Details of revenue collection in 2010 in comparison to that of 2008 and 2009 is shown in Table 26.

Table 26: Breakdown of Revenue Collected by Revenue Categories

	2008 ($)	2009 ($)	2010 ($)
Income Tax			
PAYE Tax Collection	200,339,174	177,705,834	183,959,738
Dividend & Withholding Tax	35,851,195	63,964,489	73,240,874
Company Tax	198,292,340	202,971,158	160,773,258
Other Taxes	34,080,877	27,475,324	28,069,405
Provisional Tax	12,619,117	9,938,212	11,020,132
Other Miscellaneous Tax	1,291,209	1,504,310	2,851,974
Gross Income Tax	482,473,912	483,559,327	459,915,382
Less: Refunds	-46,502,989	-31,616,444	-33,663,124
Less: Tax Rebates	-3,180,488	-	
Net Income Tax	**432,790,435**	**451,942,883**	**426,252,258**
Value Added Tax			
Import VAT	323,137,372	298,211,855	328,534,117
Domestic VAT	248,395,643	261,745,003	295,291,922
Other Government Departments	16,475,371	26,453,906	21,783,374
Gross VAT	588,008,386	586,410,764	645,609,414
Less: VAT Refunds	-137,281,947	-183,757,158	-149,875,786
Net VAT	**450,726,439**	**402,653,606**	**495,733,627**
Hotel Turnover Tax	**22,665,514**	**24,955,241**	**30,594,983**

Source: 2010 Draft (2) Annual Report.

Figure 49

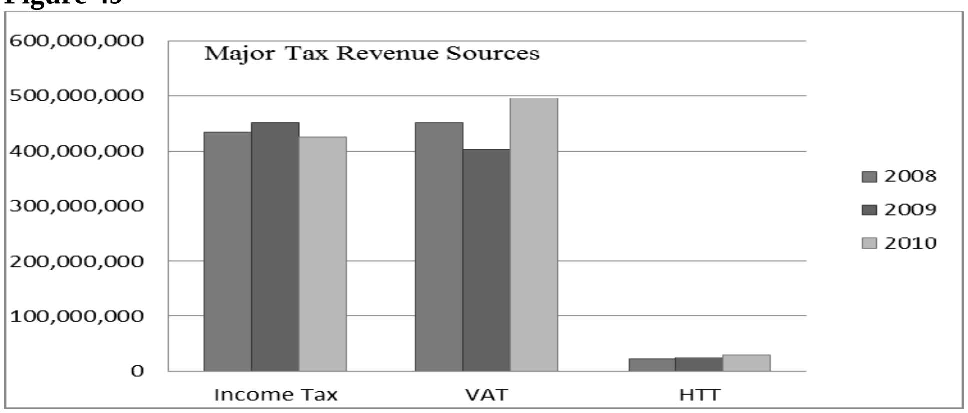
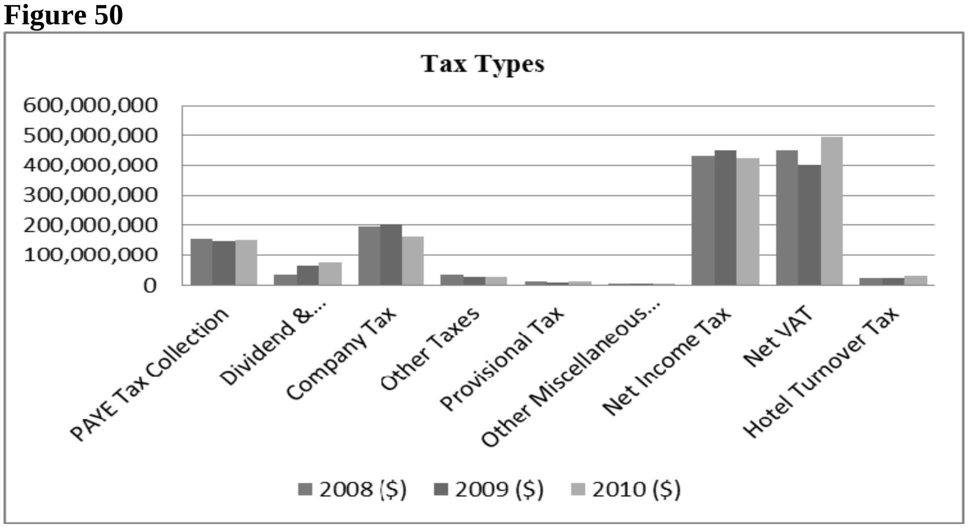


Figure 50



Taxpayer Population

Total taxpayers registered as per taxpayer type and are considered to be "active" is as listed in table 22.

Taxpayer Registration

For the purposes of tax related measures, a taxpayer is required to register for Income Tax, VAT, and HTT with the Tax Office depending on the types of source of income(s). A computer generated 9 digits tax identification number (TIN); a unique identifier is given to the taxpayer. Individuals (salary & wage earners and sole traders) are given TIN between 01-26, partnerhsips-30, Estates & Trusts-75, Corporates 50 and 7 other digits, e.g. 18-21001-1-2 (individual).

Who should file a return?

1. Income Tax
    - a person liable for income tax on chargeable income for a year of assessment
    - is a person who has chargeable income for a year of assessment but who has no income tax liability in respect of the chargeable income
    - is a person who has zero chargeable income or loss for a year of assessment
    - a person liable for withholding tax
    - and includes any other person that the CEO believes to be liable to pay tax imposed by an tax law is required to file a tax return under a tax law, in addition to any requirements under the law, file the return in the approved form and in the manner required by the Chief Executive Officer.

A person as defined under the Income Tax Act means an individual, company, partnership, body of persons, trust, estate, government, political subdivision of a government , statutory bodies or public international organization.

2. Value Added Tax
    - Registered Person

A registered person is any person who is registered or is liable to be registered required to charge tax, has charged tax, or has represented to charge tax on a supply of goods and services.

3. Hotel Turnover Tax
    - Accountable Person, that is, whose name appears on the hotel licence issued under the Hotels & Guest House Act.
4. Capital Gains Tax
    - Responsible person only if there is a liability for CGT in respect of the disposal.

Table 26: Taxpayer Population

No.	Number of Taxpayers	Taxpayer Type	Tax Type	Tax Return Type (Form)
1	277,590	Salary & Wage Earners, directors	Income Tax	Form S
2	38,251	Sole Traders(self-employed), partners in a partnership beneficiaries of Trusts, Estates	Income Tax	Form B
3	12,234	Corporates	Corporate Tax	Form C
4	19,143	Sole Traders (self-employed), Corporates Partnerships,	VAT	Form V
5	6900	i. Various taxpayer types who are required to lodge the respective returns, however, are not assessed under any tax type. They are examined and tax ascertained is then assessed to either the partners or the beneficiaries as outlined above. ii. Included in this number also are the HTT registered persons, that lodge HTT return Form		

Source: Fiji Revenue & Customs Authority.

Rights of the Taxpayers

A taxpayer can enjoy the following rights;

- Taxpayer is entitled to receive professional service and assistance from the tax office.
- Taxpayer may either represent him or herself or engage a registered tax agent to deal with any tax matters.

- The Tax authorities are required to act impartiality and use their powers in a fair and professional manner.
- The taxpayer has the right to appeal any tax decision issued by the Commissioner
- The taxpayer is entitled to get refund as soon as it becomes due
- Taxpayer is assured a confidentiality (secrecy) privilege on any tax information that they submit to the tax office
- Taxpayers performing as withholding agents are indemnified for deduction or retention or payment of tax on behalf of any taxpayers
- An opportunity to submitting documentary evidence to support his claims on tax issues, within a specified time period.
- On application in writing by a taxpayer, request for a private ruling regarding the application of a tax law to a transaction entered into or proposed to be entered into, by the taxpayer.
- On application in writing by a taxpayer request for an extension of time to file annual returns, to amend a return.
- To refuse a tax auditor who does not show his Warrant Card,

Taxpayers Obligations

- To register his business for tax and other related matters
- Taxpayer is required to file a true and correct return by disclosing all his income, expenses, deductions and wealth, provide evidence of these claims by the due date
- To sign a Declaration Form stating that all income and deductions made are true and correct
- A taxpayer is required to pay all dues by the due date
- A corporate and business taxpayer is required to make advance and provisional payments respectively on the due dates
- A taxpayer is required to maintain proper records at all times. Statutory Limitation for up to 7 years.
- A taxpayer or his representative is required to and sign a declaration to declare that he has declared all his true income.
- To submit required Financial Statements, like Profit & Loss, Balance Sheets and other related documentary evidence, for example, Exports Certificates to qualify for exemptions.

In a significant reform, the authorities intend to make PAYE the final tax, thus eliminating the need for most taxpayers to lodge returns and reducing the costs of administration and compliance.

INCOME TAX (IT)

Tax Rates

The tax threshold for resident individual and sole trader taxpayers is FJ$15,000 and is based on a progressive tax rates.

	Chargeable Income	Tax Payable
1	0-15,000	NIL
2	15,001-15,600	25% of excess over $15,000
3	15,601-22,000	150 + 31% of excess over 15,600
4	22,001+	2134 + 31% of excess over 22,000

Non- resident Individuals

	Chargeable Income	Tax Payable
1	0-9,000	20% of excess of $0
2	9000-10,000	1800 + 25% of excess over 9000
3	10,001-20,000	2,050 + 30% of excess over 10,000
4	20,001+	5,050 + 31% of excess over 20,000

Progressive personal income tax rates differ between residents and non-residents. For residents, there are three rate bands: 25% (tax free threshold of F$15,000, increased from F$8,840 in June 2008), and 31% (income above F$15,600-F$22,000). Non-residents receive no tax-free threshold and are subject to four rate bands: 20%, 25%, 30%, and 31% (income above F$20,000).

Residency Rule
A resident is a person, other than a company, who resides in Fiji, and includes
(a) a person—

- whose domicile is in Fiji, unless the Commissioner is satisfied that his permanent place of abode is outside Fiji;
- (ii) who has actually been in Fiji, [continuously] or intermittently, during more than one-half of the income year, unless the Commissioner is satisfied that his usual place of abode is outside Fiji and that he does not intend to take up residence in Fiji;

(b) in the case of a company, a company which is incorporated in Fiji, or in the case of a company not incorporated in Fiji, a company which carries on business in Fiji and has either its [practical] management and control in Fiji or its voting power controlled by shareholders who are residents.
Sub categories of Tax that fall under the Income Tax

- Pay As You Earn (PAYE) – Imposed on salary & wage earners
- Dividend Withholding Tax – considered as a final tax, but should the taxpayer declare the gross dividend received in his income tax return, and then a credit to the amount not exceeding the withholding tax amount is granted. Imposed on any dividends received by the recipient. The tax shall be recoverable from the company paying or crediting the dividend Exemptions are however, imposed on those dividends received from companies that are listed under the South Pacific Stock Exchange and the Unit Trust of Fiji. The rate is 15%.
- Interest Withholding Tax- same application as the dividend withholding tax. This is charged on interest earned on savings and term deposits held with financial institutions. The rate is 31%. Threshold is $200.
- Royalty Withholding Tax-same application as the dividend and the interest withholding tax regimes. The rate is also 15%. A dividend imputation system introduced from 2001 avoids "double taxation" of company dividends by exempting them from shareholders' personal income tax, provided they have been fully subject to company tax. There is no withholding tax on dividends, except on those paid by a Fiji incorporated company to a non-resident shareholder (rate of 15%)
- Gambling Turnover Tax- 10 percent is charged on expected sales of any lottery tickets.

Due Dates for Lodgment of Return (other than Self- Assessment)

- 31 March

Due Dates for Payment of Tax

- PAYE – On the 31 of the month following the statutory deductions from employees. These are normally considered as Trust Funds.
- Dividend, Interest and Royalties Withholding Tax- Same due date and principle as the PAYE deductions.
- For Sole traders (self -employed), there are 3 provisional payments required to be made and is calculated by reference to the amount of tax payable in the preceding year and is divisible by three (3). Due dates are i) 30 April, ii) 31 August and iii) 30 November.

Taxable Income
The aggregate of all sources including;

- Remunerations and any benefits received
- Net profits from business
- Interest, Dividend and Royalties

- Rents
- Net gains from the sale of properties if in the business of selling/transferring properties.

Exempt Income

Not all income is subject to tax and is therefore exempted from the computation of normal tax. Among others, some examples are;

- Pension income
- Any dividend from a company incorporated in Fiji received by or accrued to a resident company other than a unit trust
- any dividend which has been subjected to non-resident dividend withholding tax from a company incorporated in Fiji received by a non-resident
- any dividend which has been paid or credited in favour of a resident individual by a company holding an operating licence granted under the provisions of the Tax Free Zones Decree 1991 out of its profits attributable to export earning
- The income of prescribed small and micro enterprises engaged in Agriculture, Fisheries or Tourism which have a gross turnover not exceeding [$300,000.]
- any interest received by a resident individual during the income year from any financial institution in Fiji not exceeding $200; or
- any dividend received by a resident individual during the income year from any Unit Trust in Fiji not exceeding $200

Deductions and Allowances

The taxable income is determined after deducting allowable deductions/allowances from the gross income. Expenses which are personal and capital in nature are not allowable for taxation purposes when determining a taxpayer's final chargeable income. Some examples are;

- Repairs & maintenance of fixed assets of the business that is not capital in nature.
- Entertainment expenses for the purpose of business.
- Accounting fees paid to registered tax agents.
- Bad debts written off where the taxpayer has exhausted all avenues in recovering the debts.
- Depreciation on capital assets and buildings.
- Employers' contributions to an approved fund or the Fiji National Provident Fund.
- 150% of the amount of any contributions by taxpayers carrying on business in Fiji to the Fiji Visitors Bureau.
- Donations to approved charities – any amount paid up to a maximum of FJ$100,000.
- 150% income tax deduction on capital investment (excluding motor vehicles/furniture and fittings) as from 1st January 2008
- Prior years losses

Deductible allowances include allowances for wife, children, elderly dependents, FNPF and insurance. These allowances can only be claimed by sole proprietors, partners in a partnership business and directors of a company.

Corporate Income Tax (CIT)

Corporates Tax revenue contributes to about approximately 40 percent of the total Income Tax revenue.
It decreased in 2010, to about 34 percent of the total income tax revenue due to the reduction in the tax rate from 29 to 28 percent. It is set at 30 percent on income of mutual insurance companies in relation to life insurances, and 2 percent for non-resident shipping companies
Due Date of Return - Any company, the fiscal year of which is not the calendar year, shall make a return within 3 months of the end of its fiscal year. Other than that, the statutory due date is 31 March.

Tax Rate - The tax rates for resident and non- resident companies reduced from 31 to 29 percent in 2009 to 28 percent in 2010.

Due Date of Tax Payment –

Every company shall make to the Commissioner Advance payments on account of tax to be assessed upon the income of its fiscal year in the following manner, namely:—

(a) Not later than the last day of its fiscal year, [33¯] per cent of the amount of tax which it estimates will be payable upon the income of that company for that fiscal year;

(b) within 3 months after the last day of its fiscal year, [66°]4 per cent of the amount of tax estimated as aforesaid less the amount paid in terms of paragraph; and

(c) Within 7 months of the last day of the fiscal year, 100 per cent of the amount of tax estimated as aforesaid less the amount paid in terms of paragraphs (a) and (b).

Tax Incentives

The government in its efforts to improve and develop the economy attracts potential investors (national and international) via the offer of tax incentives. A taxpayer would be eligible for the incentive if they can fulfill the requirements that investment in certain sectors, industries and designated areas.

Generous investment incentives apply by way of income tax concessions (Sixth Schedule of the Income Tax Act) (Table AIII.1). Incentives are seen as an integral part of Fiji's industrial policy of increasing investment and exports, and seemingly deliver substantial assistance. Many incentives were part of the Government's Investment Incentives package introduced in 2001. Some apply more generally to businesses while more generous incentives target activities or sectors. For example, the Fiji Islands Audio-Visual Commission (FIAVC), formed in 2002 to develop the audio-visual industry (FIAVC Act 2002), administers tax incentives. The ICT/IT industries also receive general incentives from January 2006 until end-2012. Some (e.g. the audio-visual measures) are complex and administratively demanding, incorporating a range of incentives often with arbitrary limits. Fiji has notified to the WTO tax incentives for the film and audio-visual industries, and Members have agreed to their extension until end 2015.

Tax incentives are likely to distort Fiji's production and investment patterns, and, with it, resource-use efficiency, as well as resulting in tax evasion and avoidance. The Government has acknowledged their excessive use, and plans to phase out these distortions progressively by ensuring any remaining incentives are necessary, well targeted, performance based, and time bound. Although the Government indicated its intention in the 2008 Budget to phase out many of them, it also announced additional incentives, including a new package aimed in particular at information technology. Moreover, the 2009 Budget extended such incentives, including: a new tourism incentive package including 10-year tax holidays (extendable to 20 years if Fijian indigenous participation is at least 25%) to replace the previous scheme that expired at end 2008; establishment of a tax-free region in the North and Maritime islands from 2009, including a 13-year tax holiday (extendable to 18 years for firms investing at least F$2 million and having at least 25% Fijian indigenous participation), and import duty exemption on all set-up imports for new firms; 10-year tax holidays from 2009 to end 2014 for commercial agricultural farming and agri- processing investing at least F$2 million and employing 30 local employees; 10-year tax holidays as well as duty-free imports to set-up requirements for processing agricultural commodities (e.g. sugar, coconut, and cassava) into bio-fuels investing at least F$1 million and employing 20 local employees; extended tax holidays from 10 to 13 years for new ICT operators; increasing film tax rebate from 15% to 35% from 2009; and extending the 40% investment allowance to end 2010

Tax Administration Decree (TAD)

The Tax Administration Decree was enforced on 1st January 2010. This Decree harmonized and simplified all the administrative sections of the Income Tax Act, the VAT Decree and the Hotel Turnover Act.

Hotel Turnover Tax (HTT)

Is a tax that is levied on the VAT exclusive cost of turnover of hotels at the rate of 5 percent .Turnover means the cost of accommodation, refreshment and other charges that would appear on a hotel guest's bill. That is, HTT is levied

- On all services provided by the hotel and charged to a guest's bill.
- It will not apply on services provided by third parties or concessionaires.
- It will apply on any charges that the hotel levies for arranging services provided by third parties or concessionaires.

Due Date of Return and Payment

The Accountable person must account for HTT in monthly returns. A HTT return should be completed and submitted with a cheque/cash for the HTT applicable on the turnover for that month within 30 days.

Value Added Tax (VAT)

Is a tax on spending that is levied on the supply of goods and services in Fiji at the rate of 12.5 percent. The tax is collected on behalf of the Government by businesses and organizations which have been registered with the Revenue Collection Division.

Collecting the VAT

The rules governing value, place and time of supply are:

- value of supply made: this determines the VAT which should be collected & remitted to the Revenue Collection Division
- place of supply: this determines whether a supply is subject to VAT at a standard rate, zero rate, or whether not subject to VAT
- time of supply: this determines when the liability to VAT occurs

Due Date of Return

On or before the last day of the month following the last day of every taxable period.

Calculating VAT refunds or payments

A VAT registered person is responsible for filing VAT returns where he will report on:

- The amount of VAT you have collected, or you have invoiced, from your customers during each reporting period.
- the amount of VAT you paid, or owe, on business purchases made during the same period, and
- The difference between these two amounts (payable/refund).

You claim input tax credits for the VAT paid, or owing, on:

- Purchases directly related to the taxable products or services you supply to customers.
- Other items (overhead or indirect expenses) bought or rented for your business (e.g. electricity, office supplies etc.).

Payment must be accompanied with your VAT return and be received by the return's due date.

Exempt Supplies

Where a registered person does not impose the standard rate on certain goods or services. Registered person cannot claim and input credits against those exempt supplies. Some examples are;

- The supply of financial services,
- The supply of accommodation in a residential dwelling by way of hire
- The supply and provision of the right to partake in any gambling.
- The supply by any non-profit body of donated goods and services
- The supply of education by an educational institution

Zero Rate Supplies

Where a registered person does not impose the standard rate on certain goods or services and charges a zero (0) percent of VAT. The registered person, in this scenario, is eligible to claim for any input credits in relation to those zero rate supplies. Some examples are;

- where the supplier has entered the goods for export
- The supply of goods which are not situated in Fiji at the time of supply
- The supply of a taxable activity as a going concern
- The supply of services directly in connection with goods situated outside Fiji
- The supply of transport services relating to the international carriage of passengers and goods (a) from a place outside Fiji to another place outside Fiji; or
  (b) From a place in Fiji to a place outside Fiji; or
  (c) From a place outside Fiji to a place in Fiji; or
  (d) from a place in Fiji to another place in Fiji to the extent that the transport is by aircraft and constitutes "international carriage" for the purposes of the Civil Aviation Act.
- The supply of services which are physically performed outside Fiji

Capital Gains Tax (CGT)

Capital gains tax is imposed on a person who has made a capital gain, other than an exempt capital gain, on the disposal of a capital asset. Disposal includes the disposal of a part of a capital asset and occurs when a person parts with or ceases to own it. A person makes a disposal when:

a) A capital asset is sold, exchanged (e.g. a barter transaction), transferred (e.g. gift), a capital asset is distributed (e.g. dividend in kind)

b) A capital asset is cancelled, redeemed, relinquished, expired, surrendered (e.g. expiration of a contractual right), destroyed, lost (e.g. by fire). The disposal occurs at the time the person parts with the ownership or ceases to own it or ceases to have legal title. For instance, in the case of the disposal of tangible personal property, a person parts with ownership of the property at the time that the person ceases to have legal title to the asset.

c) Applies when a person creates a capital asset in another person and where at the time it was created, the first mentioned person did not own it. The disposal is deemed to have occurred at the time when the asset is created.

Tax Treaties

Residents of one country may engage themselves in business and investment in other countries too as many countries in recent years are attracting foreign investment. They can be simultaneously taxed in resident and source country basis two times for the same income leading towards double taxation. It may discourage the foreign investment especially in developing countries. Countries may have foreign tax credit provisions in their domestic tax law that may not be sufficient to avoid double taxation

Fiji's tax treaties provide for tax benefits in the form of withholding tax exemptions for service fees and for reduced withholding tax rates on dividends, interest, royalties and branch profits received by resident of a country with which Fiji has signed a tax treaty. Similarly, the exchange of information of transaction is very important and useful for tax authorities in respective countries. A resident taxpayer should be declaring his global income, whereas a non - resident is to declare his income sourced from Fiji. To qualify as an individual resident for Fiji Tax purposes, a person is required to be present for at least 183 consecutive days. An entity is said to be a resident company when its effective management and permanent establishment is in Fiji. The Income Tax Act clearly stipulates Anti Avoidance rules

The table below details the withholding tax rate that applies in respect of each of the payments to a party from one of the countries having a double tax agreement with Fiji.

Table 27: Tax Treaty Countries and Respective Tax Rates

Country	Royalty	Interest	Dividend*	Management Fees	Know-How
New Zealand	15 %	10%	15%	15%	15%
United Kingdom	15%	10%	15%	15%	15%
Japan	15%	10%	15%	15%	15%
Korea	10%	10%	15%	15%	15%
Australia	15%	10%	20%	15%	15%
Malaysia	15%	15%	15%	15%	15%
Papua New Guinea	15%	10%	15%	15%	15%
Singapore	15%	10%	15%	15%	15%

* Withholding tax will only apply to the extent that dividend are distributed out of retained earnings on which no corporate tax has been paid

Allowing of Tax Credits

In case where tax credit is given the income should be included in the calculation of total income and tax chargeable shall be abated by any withholding tax paid.

Evidence of tax paid should be submitted to substantiate claim. If evidence is lost a certified copy can be obtained otherwise no credit will be given. Under the Double Tax Agreement often member countries do exchange information where this can be sorted out.

Tax Assessments and Tax Audits

(1) Tax Assessments

Income Tax and Corporate Tax

Fiji Tax Authorities are still under the Official assessments system in so far as the Income Tax, Corporate Tax system is concerned. Income Tax and Corporate tax returns are all received at the Head office. A determination of the tax liability is done through the examination of the tax returns to verify the total income and ensuring that the correct deductions are made.

Notice of Assessment

A Notice of Assessment is issued detailing the total income, the total deductions, and the normal tax charged on the taxable income less any tax credits. The final figure could either be a liability (if payable) or a refund due to the taxpayer is then issued to a taxpayer. Should it be a liability or a payable situation, the taxpayer is given 30 days from the issue date of the Notice, to settle the amount payable.

Value Added Tax and Hotel Turnover Tax

These are self- assessment system under which taxpayers are trusted to calculate, pay and report their own taxes by themselves in accordance with the prevailing tax laws and regulations. The self -assessment return lodged by the taxpayer is treated as a notice of the assessment served by the tax office, on the date that the return was lodged.

(2). Tax Audits

Audits are undertaken for the purpose of assessing tax compliance and determining whether tax laws and regulations are adhered to by the taxpayers. Taxpayers are selected on some criteria like

- continuous refunds
- request for deregistration of Tax Identification Numbers
- Dob In’s
- Continuous losses
- Industry trends

Objection to a Tax Decision

Once a tax decision has been raised by the Authority, a taxpayer has several possible options to have that decision reviewed;

a) Formal objection
b) If he objection is disallowed or partly allowed, appeal against that decision
c) Request to amend an assessment, which is outside the objection period but inside the period for the Chief Executive Officer to re-open as assessment.(Statutory Limitation – 6 years).
d) Referral to the Tax Tribunal whose jurisdiction is to review a reviewable decision; to adjudicate on matters within its jurisdiction relating to disputes up to $50,000 and exceeding this if both parties consent.
e) Transfer proceedings to the Tax Court- if the Tribunal is of the opinion that:-
    - An important question of law is likely to arise or
    - The case is of such a nature and of such urgency that it is in the public interest that it be transferred to the Tax Court.

Tax Collection Mechanisms

A taxpayer who defaults on his tax payments obligations would normally be subject to recovery of tax actions taken by the Fiji Tax Officer to secure the Government Revenue. Some actions that could be taken are;

- Issue of Garnishee orders to the employers, Financial Institutions or to other third parties (where the taxpayer has a contractual agreement for service)
- Tax Charges on Properties
- Distress
- Temporary Closure of Business
- Seizure of Goods
- Departure Prohibition Orders.

Customs Division

The Customs Division is responsible for collection of revenue for FRCA in the customs area, acts as a principal agency for border control; and facilitates trade.

This division is responsible for administering the Customs Act 1986, Excise Act, Customs Tariff Act 1986, Merchandise Marks Act (Cap 241), Wreck & Salvage Act, Airport Departure Tax (from 2011), Water Resource Tax and Super Yatch Charter Decree 2010.

The Customs Division is led by the General Manager Customs, and is supported by the 3 National Managers, each of whom is responsible for their respective units. These are namely the Customs Revenue, Customs Compliance and Border Control.

Table 28: Customs Revenue

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FRCA Revenue	711.8	716.9	794.6	938.9	1,024.4	1,064.4	1,199.1	1,234.5	1,244.5	1,212.2	1,303.3
Customs Revenue	217.0	206.4	247.3	283.5	296.5	301.8	310.4	315.1	338.3	332.4	350.2
Percentage	30.0	28.7	31.0	30.2	28.9	28.3	25.8	25.5	27.1	27.4	26.8

Source: Fiji Revenue and Customs Authority

Figure 50

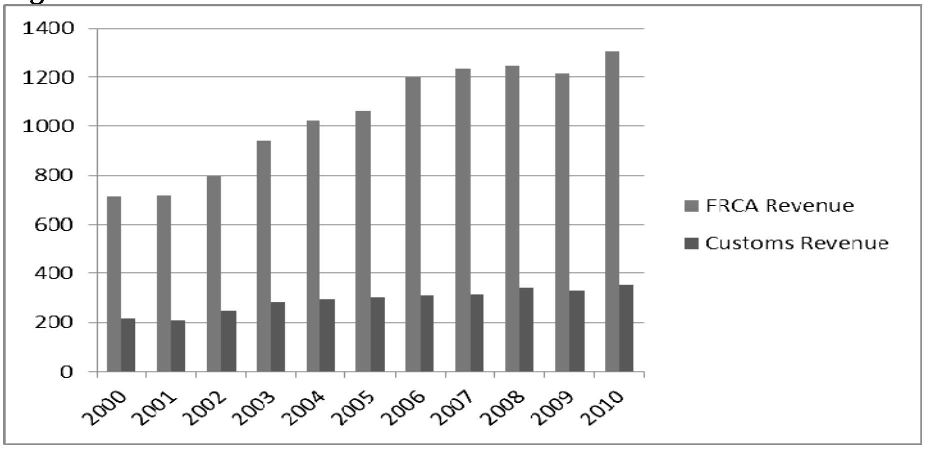


Table 29: Breakdown of Customs Revenue

Customs	2008	2009	2010
Fiscal Duty	234,920,554	240,297,925	252,416,666
Import Excise Duty	19,181,646	17,633,277	20,207,288
Excise Duty	77,397,316	74,869,225	80,929,898
Export Duty	9,986,802	9,452,288	9,492,347
Misc. Fees/Charges	4,168,632	3,918,912	4,329,608

Customs Assessment System

The Customs Division also uses ASYCUDA (Automated System for Customs Data) to facilitate an efficient approach to the processing of export and import entries

Valuation System

There are four tariff rate bands, 0%, 5%, 15%, and 27%; the latter top rate was increased to 32% for 2009. Customs continues to implement the WTO Customs Valuation Agreement, and the transaction value is used for levying tariffs on goods. Fiji's legislation mirrors the WTO rules (Clauses 1(10–12) of Schedule 1, Customs Tariff Act, 1986, inserted in 1997). Where Customs suspect under-valuation it creates an audit trail to scrutinize the goods to determine correct value, and large penalties, of up to one third of the good's value, can be imposed; valuation disputes between traders and officials are claimed to be common.

Examination of Goods, Passenger Processing and Transnational Units

Fiji does not require pre shipment inspection of imports. From July 2008, imported second-hand cars from Japan no longer need to be inspected by an authorized Japanese firm to ensure air-conditioning units contain no prohibited CFCs.

Concessions

Fiji has substantial tariff concessions in the form of partial and full exemptions and remissions. The Minister of Finance may remit tariff fully or partially, if recommended by Customs and imported by a statutory body incorporated for public purposes (e.g. charities), or if considers that the imports will benefit the country (duty remission in cases causing "serious hardship" is no longer allowed (Section 10 of the Customs Tariff Act)).

IV. Country Specific Fiscal Issues

There are many reasons for the poor performance of Fiji's economy over recent decades. The persistence of political instability, particularly in the wake of the coups, incidents of inter-communal violence, erosion of confidence and increasing crime exacerbated the country's economic problems. Investors, both local and foreign, seek stability and certainty because these reduce the risks of their investment decisions. Political instability scares investors away. This, in turn, is one of the reasons why Fiji's economic growth rate is so low: there has not been enough capital investment to generate the new jobs needed by the growing number of school leavers and the large numbers of unemployed who are seeking employment.

1) **Weakening Export Base –** as a market for garments and sugar contract. Land has been withdrawn from agricultural use due to the expiry of land leases. These have been taken back by landowners who are not utilizing its potential.
2) **High Rate of Emigration-** The impact of four coups, endemic weaknesses in governance, political interference, and the loss of key skills incurred through emigration, and ongoing corruption has seriously weakened the performance, the capacity, the independence and the professionalism of the Public**.**
3) **Increasing Government Debt** – Higher payments of interest pre –empting funds for vitally needed infrastructure such as water, roads, sewerage ,electricity and housing
4) **Maintaining macroeconomic stability -** It increases the predictability of economic conditions and hence helps to minimise personal and business risk. To maintain fiscal discipline, new fiscal rules like additional borrowing for extra Government expenditure should only be allowed if the returns are robustly estimated, have little uncertainty, and allow the Government to recoup its investment over time. The principles of fiscal responsibility (which are incorporated in Fiji's Financial Management Act) should be made more binding on the Government. The Government should maintain a progressive, broad-based but simple tax system with some incentives in strategic areas to encourage greater investment
5) **Tax Initiatives**- Self Assessment Tax Regime, PAYE as final tax and E lodgment of tax returns is said to be introduced in the very near future. These are measures that the authority would be embarking on as part of its reforms which is currently underway. Taxpayer and officials, education and training on these initiatives would be a challenge for the tax authorities.

V. Conclusion: Where we stand and where we go?

Maintenance of macroeconomic stability through sound management and strategic policy intervention will be a priority. In the real world, everything is connected to everything else and between the different change agenda items outlined above there are a lot of linkages.

The availability or non-availability of land for various purposes is an issue that has ramifications in many sectors — e.g. for agriculture, tourism, industry and social housing. Environmental degradation is imposing costs on many sectors of the economy. Poor management in some sectors of the economy like the sugar industry, agricultural marketing and various governments owned commercial companies need strong leadership and good governance structures to allow them to operate efficiently.

The Fiji economy needs major structural adjustment following the loss of preferential arrangements for garments and sugar. Confidence and investment levels have both been hit hard by the series of coups since 1987. And in addition to these exogenous factors, existing and potential entrepreneurs in Fiji face many challenges arising from deficiencies in the business and institutional environment that combine to impede access to assets and add greatly to transaction costs.

The Government has about $860 million invested in government-owned enterprises and private companies. This sum is equivalent to about 14 per cent of Fiji's GDP. There are 12 Government Commercial Companies (GCCs) (including a subsidiary), four Corporate Statutory Authorities (CSAs) and two majority owned GCCs (Pacific Fishing Company, PAFCO and Fiji Hardwood Corporation Limited). Considered as a whole, the financial performance of this portfolio of companies has been very disappointing: The total dividend to Government over the past ten years amounted to only about $14 million. Many of these companies have recorded considerable losses.

Government should be introducing policies to improve the financial performance of these entities and strengthen their corporate governance, but it should seriously consider the divestment of those companies engaged in activities that would be better owned and managed by the private sector. The proceeds from their sale would be better invested in health, education or infrastructure, i.e. in accelerating investment in public goods that only the Government can supply, as well as reducing the time and other human and material resources absorbed by the requirement to monitor and supervise the activities of these bodies

In Fiji, public sector productivity is low. The composition of public expenditure is distorted by excessive personnel costs which have squeezed out public investment and maintenance expenditure Therefore, a holistic approach, commitment and ownership

by all stakeholders are needed to achieve the desired outcome and there are some serious problems associated with the way the deficit has been funded through the sale of bonds to the FNPF. In turn, the Fiji National Provident Fund has stifled financial market development. All of these factors suggest that the conditions that would justify any significant additional borrowing for additional Government investment projects barely exist in Fiji.

Over time, the RBF has focused monetary policy on safeguarding the twin objectives of maintaining low inflation and ensuring an adequate level of foreign reserves. The rationale for focusing on these two objectives in particular is grounded both in theory and in practice. It is widely held that inflation should be the focus of monetary policy because ensuring low inflation contributes to economic stability and it is an area that monetary policy can control. The objective of ensuring an adequate level of foreign reserves originates from protecting Fiji's exchange rate regime. As Fiji's exchange rate is pegged to a basket of currencies, adequate foreign reserves are needed to ensure the stability of this peg. Therefore, by focusing on these twin objectives the broad goals listed in the Act can be safeguarded.

In terms to highlight and demonstrate the uniqueness of Fiji as a country, and a common shared identity as the people of Fiji. It is acknowledged that any changes to the exchange rate regime need to be very carefully considered, particularly calls for more flexible arrangements.

The decline in output of both cane crushed and the resultant sugar content (particularly the latter) has been much more rapid than has that of either the area planted under cane or the number of growers. This decline reflects a particularly sharp deterioration in productivity at the field level, both in terms of cane yield per hectare and in cane quality.

The impact of globalisation needs to be harnessed to promote a greater sense of national identity and being the people of Fiji. Globalisation involves mobility of people and capital. The forces of globalisation are producing new kinds of social identities and movements for political and economic change. While national boundaries are becoming less important given the increase in trade and investment, globalisation presents the opportunity for the people of

The relative frequency of coups in Fiji has given rise to the term 'coup culture'. The impacts of the coups caused political instability and uncertainty. It undermined democratic institutions and laws of the State and weakened good governance. Led to economic decline (for instance, in GDP growth), business failures and uncertainty.

It also Education lies at the crossroad between the past and the future. Its role is not only to prepare young people for change but to help determine the changes that will occur. There is a worldwide recognition and acknowledgement that the nature and provision of education is fundamental to human development, social cohesion, economic development, sustainable competitiveness, environmental sustainability and the construction of peaceful co-existence. It is, therefore, our responsibility to ensure that our system of education addresses each of these fundamentals so that individuals will experience life meaningfully and live with dignity throughout their lives a negative environment for investment.

Fiji needs a society that is well educated, optimistic, forward looking and enterprising so that Education lies at the crossroad between the past and the future. Its role is not only to prepare young people for change but to help determine the changes that will occur. There is a worldwide recognition and acknowledgement that the nature and provision of education is fundamental to human development, social cohesion, economic development, sustainable competitiveness, environmental sustainability and the construction of peaceful co-existence. It is, therefore, our responsibility to ensure that our system of education addresses each of these fundamentals so that individuals will experience life meaningfully and live with dignity throughout their lives it can take advantage of emerging opportunities and meet future challenges

Fiji should strengthen local capacity including the participation of the private sector, to engage in the global trading system.

Therefore, a holistic approach, commitment and ownership by all stakeholders are needed to achieve the desired outcome

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