



2013 National Budget

Special Report – 22 November 2012

The Finance Minister, Commodore Voreqe Bainimarama, this afternoon delivered the 2013 Budget Address.

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

Overview

With the theme of “*Investing in Our Future*” the budget understandably examined the outlook for Fiji’s economic and financial performance and outlines Government’s fiscal strategy for the medium term.

Fiji Budget Estimates (\$'000)					
	2013B A	2012RE B	2011A C	Change A-B	Change A-C
Estimated Revenue:					
Direct Taxes	433,750.8	496,041.1	478,807.3	(13%)	(9%)
Indirect Taxes	1,418,872.3	1,246,277.2	1,112,416.7	14%	28%
Others	180,012	181,321.8	212,494.7	(1%)	(15%)
Total Operating Receipts	2,032,634.7	1,923,640	1,803,719	6%	13%
Total Investing Receipts	75,774.2	36,403.2	425.7	108%	17,700%
Total Estimated Revenue	2,108,408.9	1,960,043	1,804,144	8%	17%
Estimated Expenditure:					
Operating	1,550,989.8	1,463,906	1,359,745	6%	14%
Capital	722,674.5	554,344	494,604	30%	46%
Value Added Tax	53,721.1	59,679	43,979	(10%)	22%
Total Estimated Expenditure	2,327,385.4	2,077,929	1,898,328	12%	23%
Estimated Net Deficit	(218,976.5)	(117,886)	(94,183)	86%	133%
Debt Repayments	179,997.0	203,314.5	504,493.6	(11%)	(64%)
Gross Deficit	(38,979.5)	85,428	410,310	(146%)	(110%)
Net Deficit as a Percentage of GDP	2.8%	1.6%	1.4%	75%	102%
Norminal GDP	7,744,976	7,316,564	6,730,759	6%	15%
Real GDP Growth	2.4%	2.7%	2.5%	(11%)	(4%)
Inflation - estimates	7.7%	3.5%	3.0%	120%	157%
B = Budget RE = Revised Estimate A = Actual					



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The budget contained a number of significant measures, with announcements of new tax, excise rates and custom duty amendments, as well as investment incentives.

Below is a summary of allocations for the major economic sectors.

2013 National Budget Allocation (\$'000)						
	2013B A	2012RE B	2011A C	Change A- B	Change A- C	% of Total
Education, National Heritage,Culture and Arts	268,490	256,664	252,281	5%	6%	12%
Infrastructure	622,973	424,996	334,758	47%	86%	27%
Law & Order	254,842	247,811	221,306	3%	15%	11%
<i>Military</i>	106,836	112,517	109,233	(5%)	(2%)	
<i>Police</i>	92,177	84,820	77,973	9%	18%	
<i>Judiciary</i>	28,946	21,200	13,636	37%	112%	
Parliament	2,236	1,526	851	47%	163%	
<i>Other Laws & Order Areas</i>	24,647	27,749	19,613	(11%)	26%	
Health, Social Welfare, Women and Poverty Alliviation	206,613	191,611	185,205	8%	12%	9%
Primary Industries (Agriculture, Fisheries and Forestry)	68,187	66,748	54,759	2%	25%	3%
Industry & Trade, Public Enterprises, Communication, Civil Aviation and Tourism	49,768	49,811	42,294	(0%)	18%	2%
Provincial Development,Natural Disaster Management & Sugar	48,606	41,135	29,688	18%	64%	2%
Finance and Strategic Planning, National Development & Statistcs	89,154	77,594	65,204	15%	37%	4%
Labour, Industrial Relations and Employment	8,525	8,034	8,911	6%	(4%)	0%
Other Areas	710,227	713,526	703,923	(0%)	1%	31%
TOTAL	2,327,385	2,077,929	1,898,328	12%	23%	100%

B = Budget RE = Revised Estimate A = Actual

Again, as in last year's budget announcement, some policy announcements were preliminary and we await more details going forward.

Specific Measures for the Capital Markets

Measures directly affecting the Capital Markets include the following:

- **Foreign companies** that establish/relocate their headquarters to Fiji will be subject to a lower corporate tax rate of 17.0%.
- **Companies listed on the South Pacific Stock Exchange (SPSE)** will enjoy a decreased corporate tax rate of 18.5% (previously 20%) provided the company has 40% local shareholding.
- **Capital Gains Tax (CGT)** Decree section 15 was amended to now require the lodgement of CGT returns in all cases regardless of whether CGT is payable. FRCA will retain the powers to demand returns for both the exempt or non-payable cases. Additionally the time period to keep records for CGT purposes will increase from 5 years to 7 years from the date of disposal of the asset.

We anticipate that the lower tax incentive will assist in encouraging listings on the stock market. However, several taxation-related issues remain, especially the application of the old section 11 regime in the Income Tax Act which has been the cause of much uncertainty for investors selling shares on the



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stock exchange. We understand this is under review and we look forward to further clarification by FRCA.

Other Measures Affecting Investment

Direct and Indirect Tax Measures

- Increase in income tax threshold from \$15,600 to \$16,000 and removal of all personal taxable allowances.
- The expansion of the tax free region to now include Korovou to Tavua, applicable to agricultural sector.
- To promote the growth in the exports sector, the Export Income Deduction will be retained at 40% in 2013.
- In an attempt to provide an opportunity for non-resident taxpayers to claim foreign tax credit, Social Responsibility Levy (SRL) to be renamed Social Responsibility Tax (SRT) to allow taxpayers to claim foreign tax credits. The SRT for both resident and non-resident taxpayers will now be calculated using an incremental system.
- Externally funded projects which are channelled through Ministry of Finance will be exempt from VAT.
- Stamp duty rates on all instruments will be increased threefold. No major review of the rates has taken place prior to the 2013 Budget. However the current exemption for stock market transactions remains.
- Companies will now be made responsible for shareholders liability. The announcement did not clarify the scope of application of this measure and we await further details.
- Minimum threshold of \$250,000 for foreign investors setting up operations in Fiji has been removed.
- Exchange control policy changes effective from 1 January 2013:
 - Dividends and profits - \$500,000 per business per annum
 - Withdrawal of Investments - \$500,000 per applicant per annum
 - Offshore Investment by Individuals - \$15,000 per family per annum (currently \$10,000)

Other Measures

- Government will continue to add momentum to its Public Service Reform in an effort to improve Government efficiency and service. Other reform initiatives in the pipeline include:
 - FEA restructure to separate regulatory and commercial functions and divestment of shares in the commercial entity via public offerings. Government will retain partial ownership and allow entry of Individual Power Producers (IPP) in the generation of electricity.
 - Corporatisation of the Meteorological Services Department in 2012/2013.
 - Request for expressions of interest for full or partial privatisation of 7 GCCs
 - Possible merger of the Housing Authority & Public Rental Board.

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