

Saturday, November 26, 2011

Difficult times, but a daring budget!



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In the midst of global slowdown with new fears in Europe, budget exercise in an island economy supported only by tourism and agriculture unlike in the mineral resources-endowed Papua New Guinea with booming exports, is indeed difficult.

The 2012 budget is a daring one, as it confidently looks forward towards strengthening the economy.

Fiji, which managed to bounce back from two consecutive years of contraction with a likely growth of two percent in 2011, described by the recent IMF Mission early this month as the best result of the past five years, with a growth estimate of 2.3 per cent for 2012 is well on track with measures of fiscal consolidation.

Tax relief measures

Mindful of a persisting lull in industrial production, a soft investment activity and modest consumption spending, in line with slow growth in private sector credit during the past few years, Prime Minister and Minister for Finance in his budget proposals has included measures to boost domestic demand.

First and foremost, Government is aware that inflation in 2011 at seven per cent has been hurting low income groups. The budget measures have amply provided much needed relief measures, which would contribute to stepping up domestic demand.

The income tax threshold in 2012 will increase from \$15,000 to \$15,600. For other income groups, tax rate is lowered from 25 percent to seven per cent for \$15,601- \$22,000; from 31

percent to 18 percent for \$22,001-\$50,000; and from 31 percent to 20 percent for \$50,001-\$100,000. These tax relief measures measure “will put \$53.1 million back in the pockets of Fijians”.

For encouraging private sector investment, the budget has announced a reduction in corporate tax rate: from 28 to 20 percent, which will give the corporate sector greater opportunities to extend and expand their businesses.

For compensating the revenue loss and for equity purposes, the rich have been called upon to make their contributions. A Social Responsibility Levy will be applied on full chargeable income, starting at 23 per cent for income tax band \$270,001 to \$300,000. The top one per cent will thus contribute an estimated \$9.8 million to social welfare programmes through this Levy.

Fiscal consolidation

Other measures include Hotel Turnover Tax (HTT) which will be renamed as Service Turnover Tax (STT), would also apply to other tourism related services, including rental car operators and other services. While there have been a few increases in fiscal duties on seven items ranging from canned fish to DVDs, there are 11 items on which fiscal duties have been reduced or eliminated totally. Notable are agricultural inputs and raw materials used for industrial production outside Viti Levu.

Fiscal duty on fruits and vegetables not grown in Fiji would be reduced to five per cent from 32 per cent.

“Sin” taxes, namely excise rates on various tobacco products and liquor have been appropriately raised upwards so that “health” of the nation is promoted and protected.

While revenue measures are designed to give relief to lower income groups and encourage private sector investment, government is aware of the public debt position. Public debt is 55 per cent of GDP; and with contingent liabilities of more than 15 per cent of GDP and unfunded FNPF liabilities, it is around 70 per cent.

The budget has kept the 2012 deficit small. The estimated total revenue for 2012 is \$1.9 billion while the estimated total expenditure is \$2.1 billion. The gross deficit is estimated at 2.8 percent and the net deficit: \$135 million or 1.9 per cent of GDP. Already the IMF Mission has commended Government’s effort in keeping the 2011 fiscal deficit at 2.5 percent.

Now with additional pruning, budget deficit is smaller than the recommended two per cent of GDP.

Finally, one thing which deserves mention is the close co-ordination of monetary and fiscal policies. The Reserve Bank of Fiji has kept a very accommodative policy for encouraging investment. In late October, RBF reduced the benchmark interest rate known as Overnight Policy Rate from 1.5 percent to 0.5 percent, the lowest in recent years for providing “the environment needed to boost economic activity.”

So with proactive fiscal and encouraging monetary policies, it is time for the private sector to play its part. It should help lay, in the Prime Minister's words, "the foundation of Fiji's future-one that breaks with that which weighed down our past, yet builds upon the strengths of the Fijian people."