GOVERNMENT DEBT REPORT

FOR THE YEAR ENDING DECEMBER 2012

MINISTRY OF FINANCE

SUVA

FIJI

JANUARY 2013

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1.0 INTRODUCTION

A Government's debt portfolio is usually the largest financial portfolio in the country, which often contains complex and risky financial structures and can generate substantial risk to the Government's balance sheet and to the country's financial stability.[1]

The 2012 Budget adopted an expansionary stance with the deficit level targeted at 1.9 percent of Gross Domestic Product (GDP). The expansionary fiscal stance was adopted mainly to boost economic activity, given the low private sector investment and foreign direct investments (FDI). The budget deficit was financed through domestic bonds and drawdown from external loans.

The 2012 Government Debt Report presents the actual debt position and the debt portfolio for the Fiji Government as at the end of 2012. In this Report, a greater emphasis is placed on the efforts by the Government to achieve a sustainable debt level for the medium term, with the debt to GDP ratio falling to 50.3% in 2012.

2.0 GOVERNMENT DEBT POSITION

The debt position of the Fiji Government stood at **$3,679.5 million,** as at 31st December 2012 – an annual increase of 3.2 percent. This amount comprised of $2,744.0 million of domestic debt and $935.5 million of external debt, respectively. (Table 1)

[1] Guidelines for Public Debt Management- IMF and World Bank, 2001

Table 1: Total Debt Stock ($M)

Year	2008	2009	2010	2011	2012
Domestic Debt	2,411.0	2,605.0	2,834.7	2,734.4	2,744.0
External Debt	476.0	527.2	548.5	832.1	935.5
Total Debt	**2,887.0**	**3,132.2**	**3,383.2**	**3,566.5**	**3,679.5**
% of GDP	**50.0%**	**54.7%**	**54.7%**	**53.0%**	**50.3%**

Source: MOF

3.0 GOVERNMENT DOMESTIC DEBT

3.1 Domestic Debt Stock

Domestic debt is the sum of outstanding Treasury Bills and Bonds at any given point in time. In Fiji, the two main types of bonds issued are the Infrastructure Bonds and Viti Bonds.

The domestic market continues to be the major source of funding for Government over the years. On a year-on-year (y-o-y) basis, total domestic debt slightly increased by $9.6 million to $2,744.0 million in 2012. (Table 2)

Table 2: Domestic Debt ($M)

Year	2008	2009	2010	2011	2012
Bonds	2,346.3	2,505.1	2,759.3	2,663.3	2,622.1
Treasury Bills	64.7	99.9	75.4	71.1	112.4
FSCGC[2] Loan					9.45
Total Domestic Debt	**2,411.0**	**2,605.0**	**2,834.7**	**2,734.4**	**2,744.0**
% of GDP	**41.7%**	**45.5%**	**45.8%**	**40.6%**	**37.5%**

[2] Government eventually has to pay for the Fiji Sugar Cane Growers Council loan, which was a government guaranteed loan.

Source: MOF

The increase in domestic debt was mainly attributed to a significant increase of Treasury Bills of $41.3million and reduced reliance on financing via bonds. Consequently, finance raised via bonds fell by $41.2million.

3.2 Domestic Debt by Holder Category

The Government's bond holding at the end of 2012 totalled $2,622.1 million, whereby 92 percent was held by the Non Bank Financial Institutions (NBFI's), followed by 4 percent by the Reserve Bank of Fiji (RBF). The remaining were held by the Commercial Banks and other investors, including individuals. (Table 3)

Table 3: Government Bond Holders-December 2012

Investor	$M
Non Bank Financial Institutions	2,414.4
Reserve Bank	113.1
Others	58.8
Commercial Banks	35.8
Total Bonds Outstanding	**$2,622.1**

Source: MOF

In addition, an analysis of short term debt holdings as of December 2012 saw the Commercial banks holding 60 percent while NBFI's held 40 percent, respectively. (Table 4)

Table 4: Government T-Bill Holders-December 2012

Investor	$M
Commercial Banks	67.3
Non Bank Financial Institutions	45.1
Others	-
Total T-Bills Outstanding	**$112.4**

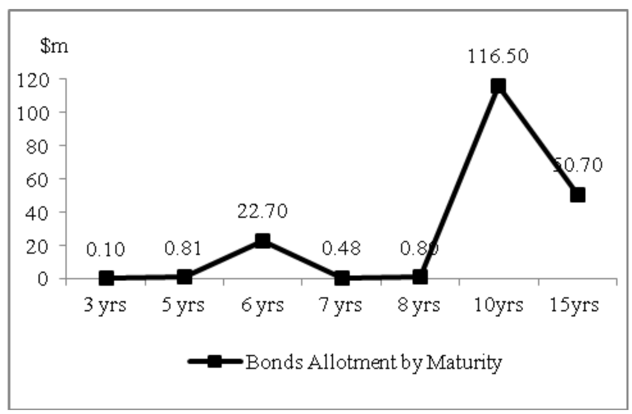
Source: MOF

3.3 Bond Allotment

Infrastructure Bonds is issued through public tenders with maturities ranging from 3 years to 15 years while Viti Bonds are issued on tap. The coupon rates are fixed at 4.00 percent for 5 years, 4.50 percent for 7 years and 5.00 percent for 10 years.

In 2012, Government allotted a total of $192.1million in bonds.Figure 1 below shows the distribution of bond allotment by maturity, with $117million allotted under the 10 year maturity, $50.7million for the 15 years, $22.7milion for Cc 6 years,$0.8milliion for 8 years,$0.5million for 7 years,$0.8million for 5 years and $0.1million for 3years.

Figure 1: Bond Allotment in 2012



3.4 Domestic Debt to GDP

As depicted in Figure 2, Government's domestic debt to GDP decreased significantly over the last year, with Domestic Debt to GDP falling from 40.6 percent in 2011 to 37.5 percent in 2012. As a result of sourcing most of its deficit externally, Government was able to contain domestic debt to GDP ratio below 40 percent.

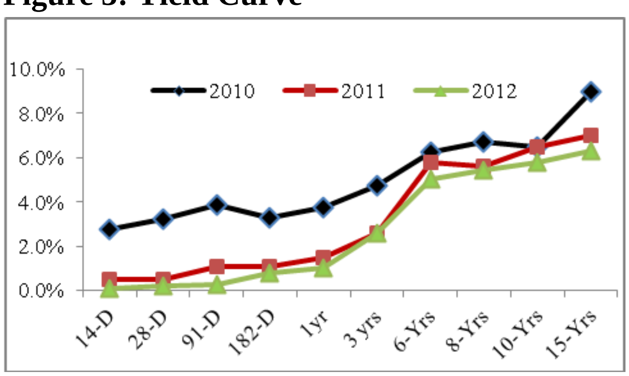
Figure 2: Domestic Debt to GDP

3.5 Domestic Interest Rates Structure

In 2012, interest rates for both short and long term debt instruments declined progressively during the year. This was largely attributed to Government's lower domestic funding requirement and surplus liquidity in the banking system. The latter in particular resulted in an oversubscription of tenders which exerted downward pressure on rates.

The yield curve in Figure 3 depicts the reduction in interest rates for Government securities.

Figure 3: Yield Curve



Treasury Bills as a means of short term borrowings for Government were raised with the maturities of 14 days, 28 days, 56 days, 91 days, 182 days and 245 days.

4.0 GOVERNMENT EXTERNAL DEBT

As at December, 2012, the total external disbursed outstanding debt stood at $935.5million, an increase of $103.4million as compared to the the same period last year. The increase was mainly attributed to the disbursements of on-going capital projects financed by the Asian Development Bank, Exim Bank of China and the Exim Bank of Malaysia.(Table 5)

Table 5: Government External Disbursed Outstanding Debt ($M)

	2009	2010	2011	2012
External DOD Central Govt	527.5	548.5	832.1	935.5
Total External Debt Service of which:	45.6	41.3	331.6	65.6
Principal Payment	21.2	17.6	285.0	19.3
Interest Payments	24.4	23.7	46.5	46.3
External Debt to GDP Ratio	9.2%	8.9%	12.4%	12.8%
External Debt Service as % of Export of goods.	1.8%	1.3%	9.4%	1.9%

Source: MOF

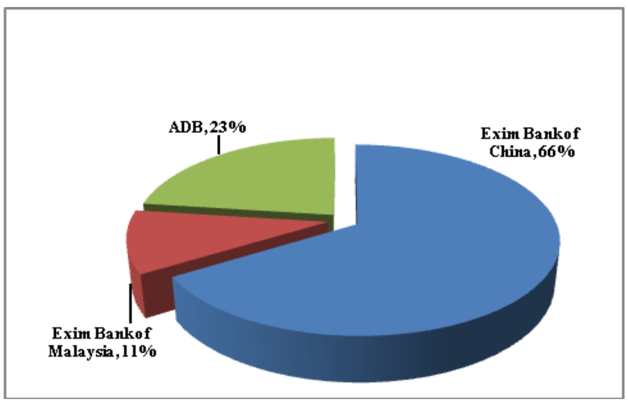
External Debt to GDP stood at 12.8 percent in 2012, increasing by a mere 0.4 percent compared to the same period last year. External debt service as a percentage of export stood at 1.9 percent, reducing by a significant 7.5 percent from the previous year.

4.1 External Loan Disbursements

External loan disbursements in 2012 included disbursements from the Exim Bank of China, Exim Bank of Malaysia, and the Asian Development Bank. Bulk of the disbursements were made for Roads and Water related projects. In 2012, a total of 10 loans were disbursed during the year. Of these 10 loans, 4 were from ADB, 5 from Exim Bank of China and 1 from Exim Bank of Malaysia.

At the end of December, 2012 the total value of all disbursements received from all on-going capital projects amounted to FJD$136.5million. The Exim Bank of China comprised 66 percent of the total disbursements, followed by the Asian Development Bank (ADB) at 23 percent, and Exim Bank of Malaysia at11 percent. These disbursements were paid directly into the contractors account. (Figure 4)

Figure 4: External Loan Disbursement Breakdown – December 2012



The Chinese and Malaysian Loans were contracted with a predetermined exchange rate which was to be used to convert loan amount into Fiji Dollar. In contrast, ADB loans utilised the market rates to determine the calculations of disbursements into the Fiji Dollar.

4.2 External Debt Servicing

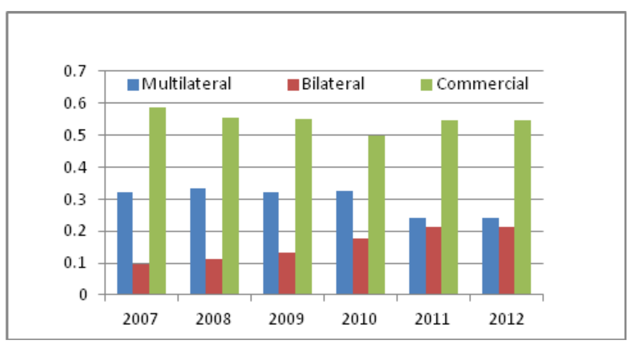
External debt servicing for the year totalled $65.6million, of which principal repayment amounted to $19.3million and interest to $46.3million. During the year, external debt servicing included the settlement of principal and interest payments only with no major highlights such as prepayments. Interest repayments continues to account for most of external debt servicing especially in the servicing of the second Global Bond.

4.3 External Debt Composition

4.3.1 By Creditor Category

At the end of December, 2012, the distribution of debt by creditor category continued to be driven by the Commercial Lenders which registered an outstanding debt of FJD$446.8million (48 percent), followed by Bilateral Lenders of FJD274.2million (29 percent) and Multilateral Lenders of FJD$214.5million (23 percent).

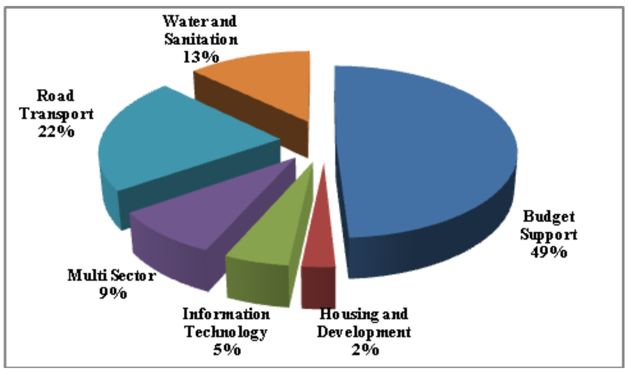
Figure 5: Distribution of Debt Creditor Category – December 2012



4.3.2 By Economic Sectors

Distribution of external debt by economic sectors saw the largest being allocated for budget support activities (49 percent), followed by the Road/ Transport sector (22 percent), Water & Sanitation (13 percent), IT sector (5 percent), Multisector (9 percent) and the remaining for Housing Development (2 percent).

Figure 6: Distribution of Debt by Economic Sector – December 2012

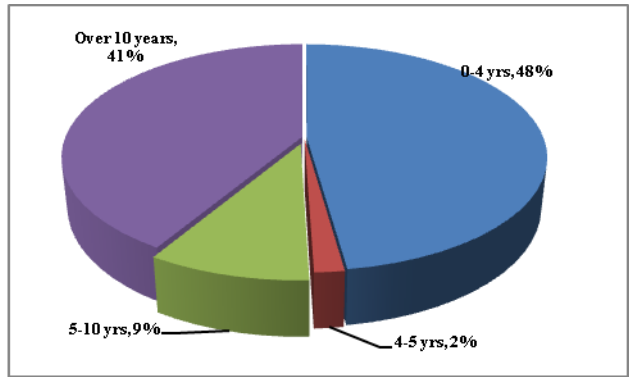


Development of infrastructural services in the country continues to be a major priority for Government with bulk of the funding channelled towards the Road and Water & Sanitation sectors.

4.3.3 By Debt Maturity & Currency Profile

At the end of December 2012, the maturity structure for Government's external debt portfolio showed that 48 percent of its external debt will mature between 0-4 years, 2 percent within the next 4-5 years, 9 percent in the next 5-10 years and the remaining 41 percent over the next 10 years.

Figure 7: Maturity Structure of External Outstanding Debt - December, 2012



Moreover, in terms of its currency composition, the US dollar (USD) continues to dominate the external debt portfolio with 80.2 percent, followed by the Chinese Yuan (CNY) at 13.5 percent and Japanese Yen (JPY) at 6.3 percent.

4.4 Exchange Rate Gains & Losses

With the continuous weakening of the US Dollar against the Fiji Dollar over the period, the USD denominated loans saw a net reduction to its portfolio by a significant $16.3 million at the end of last year. Similarly, the JPY loan experienced a net reduction of $3.4 million to its portfolio. On the flip side, the CNY denominated loans saw a net increase of $4.8 million to its potfolio, depicting weakening of the Fiji dollar against the Chinese Yuan. This resulted in a net decrease of $14.9[3] million in the total external debt portfolio at the end of last year.

[3] Unrealized exchange rate gain.

3.5 External Debt Servicing in the next 7 years

External debt servicing will be very crucial to Government in the next 3 years. In 2016, the Fiji Global Bond will be the major loan due for repayment, coupled with most of the Chinese Loans.

Table 6: External Debt Payment Forecast ($M)

Year	Principal	Interest	Total
2014	24.4	57.5	81.9
2015	26.2	58.7	84.9
2016	**497.7**	**38.1**	**535.8**
2017	58.3	17.0	75.3
2018	65.2	15.7	80.9
2019	66.4	14.3	80.6
2020	67.6	12.8	80.5

Source: MOF

Furthermore, it should also be noted from Table 6 above that after 2016, principal repayment continues on an increasing trend, and this is due to the completion of the current ongoing projects which will begin repayments in 2012.

4.0 MAJOR HIGHLIGHTS IN 2012

4.1 Early Redemption of Expensive Bonds

In 2012, the Ministry of Finance pursued the refinancing of expensive bonds via issuance of Treasury Bills amounting to $50m.

This initiative was considered given the low domestic interest rates which led to huge benefits to Government in terms of savings totaling to $5.2million. Furthermore, this was expected to reduce domestic debt level, following the early redemption.

4.2 External Loans Contracted in 2012

In 2012, Government contracted its biggest loan from the Exim Bank of China valued at CNY837.0 billion (FJD$228.00 million). The loan was to finance the upgrading of the 79km stretch between Nabouwalu and Dreketi and is expected to complete within the next 5 years.

The purpose of the project was to enhance economic activity in the Northen Division, by providing greater road accessibility for busineses operating in the Nabouwalu Dreketi area.

5.0 OPPORTUNITIES

5.1 Prudent Cashflow Management

In terms of cash management, the Government is very stringent with the utilisation and release of funds. Close collaboration within the Ministry of Finance, respective Government agencies and departments and external stakeholders have resulted in the improvement of cashflow management on a daily basis for whole of the Government. The healthy cashflow position in 2012 allowed Government to meet its operational, capital, refunds and debt servicing payment on a timely basis, while reducing its short term debt.

5.2 Increasing the Offshore Sinking Fund

Currently, Government has reached a total of USD$101 million in its offshore sinking fund account and it will continue to transfer any surplus funds in 2013.

6.0 SUMMARY

Governmet debt management continues to face numerous challenges bearing in mind the risks associated with public debt.

In 2012, the prudent management of cashflow allowed the Government to settle all its repayments, as well as transfer access savings to its sinking fund account abroad.

Moreso, budget financing for 2012 was through Bonds while T-Bills were set aside mainly to cover for revenue shortfalls during the year. In 2012, the outstanding T-Bills were $112.4m, which was below the $150m limit. For Bonds, $195 million was allocated in the Budget, while only $192.1 million was alloted.

In the medium term, should there be improvements in the key macroeconomic variables such as decline in interest rates and appreciation of the Fiji dollar, the Government will continue to have savings in the budget through reduced cost in debt servicing and may therefore, direct these savings to retire its expensive loans or divert it to other priority sectors of the economy in order to stimulate economic development, in line with the projected annual growth of 2.7 percent[4] for this year.

For further enquiries, please contact the

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[4] Macroeconomic Committee's Forecast.