GOVERNMENT DEBT REPORT

FOR THE YEAR ENDING DECEMBER 2013

MINISTRY OF FINANCE

SUVA

FIJI

JANUARY 2014

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1.0 INTRODUCTION

The Government Debt Report outlines the government debt position as at 31st December, 2013. The debt position reflects government's domestic and external debt portfolio which contains short and long term debt instruments.

In 2013, the budget adopted the theme "Investing in our Future" with substantial capital investment to improve infrastructure nationwide. This has major implication on the government budget as it compels an expansionary fiscal stance with a deficit level targeted at 2.8 percent.

Through better management of its cashflow, the government was able to achieve its target by remaining within its borrowing limits while meeting all its obligations for the year.

This paper is structured into three main areas as follows:

(i) Total Government Debt position;
(ii) Government Domestic Debt; and
(iii) Government External Debt.

The paper also identifies some major highlights for 2013, discusses few opportunities and provides a summary on the performance of government's debt portfolio for the year end, 2013.

2.0 GOVERNMENT DEBT POSITION

The debt position of the Fiji Government stood at **$3.83 billion** as at 31st December 2013, representing an annual increase of 4.0 percent during the year. This comprised of $2.74 billion domestic debt and $1.08 billion of external debt, respectively. (Table 1)

The notable increase in government debt was mainly attributed to external debt borrowings which have significantly increased over the year.

Table 1: Total Debt Stock ($M)

	2009	2010	2011	2012	2013
Govt Debt	**3,132.2**	**3,383.2**	**3,566.5**	**3,679.5**	**3,825.3**
Domestic	2,605.0	2,834.7	2,734.4	2,744.0	2,744.2
External	527.2	548.5	832.1	935.5	1,081.1
Total Debt % of GDP	**55.8%**	**56.2%**	**54.5%**	**53. 4%**	**51.4%**
Domestic to Total Debt	**83.2%**	**83.8%**	**76.7%**	**74.6%**	**71.7%**
External to Total Debt	**16.8%**	**16.2%**	**23.3%**	**25.4%**	**28.3%**

Source: MOF

The total debt as a percent of GDP stood at 51.4 percent, of which domestic debt comprised 36.9 percent and external debt of 14.5 percent.

3.0 FIJI GOVERNMENT DOMESTIC DEBT

3.1 Domestic Debt Stock

The domestic debt stock is mostly comprised of the Fiji government debt securities. Debt securities include financial instruments such as T-bills and Bonds with maturities ranging from 14 days to 1 year and from 3 years to 15 years, respectively.

The Bonds are called FIB (Fiji Infrastructure Bonds) which are issued through public tenders and Viti Bonds which are issued on tap.

Table 2: Domestic Debt ($M)

Year	2009	2010	2011	2012	2013
Bonds	2,505	2,759	2,663	2,622	2,635
T-Bills	99.9	75.4	71.1	112.4	102.6
Loan				9.5	6.3
Total Domestic Debt	2,605.00	2,834.70	2,734.40	2,744.0	2,744.20
% of GDP	46.4%	47.1%	41.8%	39.8%	36.9%

Source: MOF

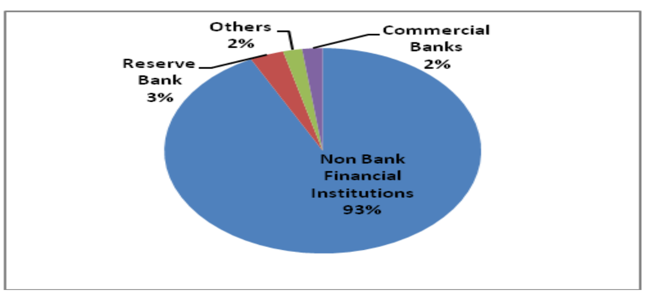
The domestic debt stock grew slightly during the review period, mainly attributed to the net increase in domestic bond financing by $13.2 million (1%) as compared to the net reduction in T-bills financing by $9.8 million (9%).

However, the domestic debt to GDP decreased to 36.9 percent in 2013.

3.2 Domestic Debt by Holder Category

a) Bonds: As at 31st December, 2013, the government's bond holding stood at $2.64 billion, whereby 93 percent were held by the Non Bank Financial Institutions (NBFI's), followed by the Reserve Bank of Fiji (RBF) at 3 percent. The remaining was held by the Commercial Banks and other investors, including individuals. (Figure 1)

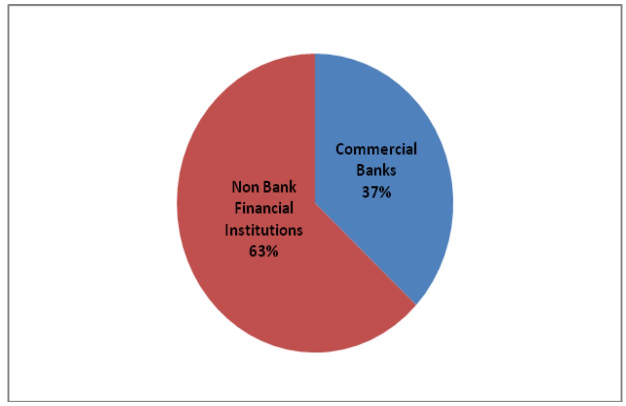
Figure 1: Government Bond Holders-2013



Source: MOF

b) T-Bills: Short term debt holdings saw that NBFI's hold 63 percent of T-bills while Commercial banks held 37 percent, respectively. (Figure 2)

Figure 2: Government T-Bills Holders-2013



Source: MOF

c) Loan: Through cabinet decision, government agreed to repay the Fiji Development Bank (FDB) the loan balance of $25.2 million by the Sugar Cane Growers Council. The current balance of the loan is $6.3 million (Dec-2013) which would be fully repaid in 2015.

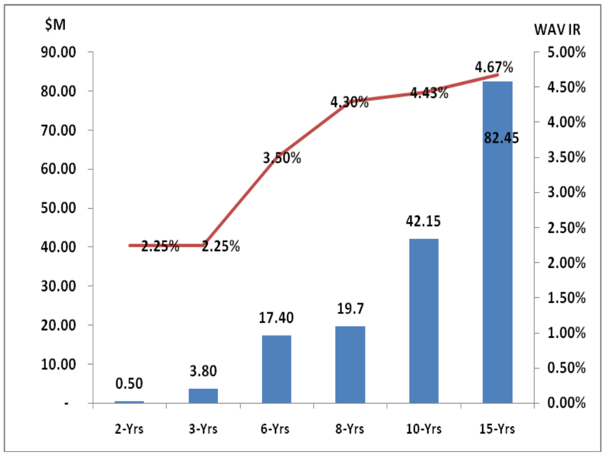
3.3 Fiji Government Bond Allotment

In the revised financing mix[1] for the 2013 Government Budget, approximately $173 million was allocated for the domestic financing of the government deficit. Of this amount, a total of $855.5 million was tendered by investors of which only $172.8 million was allotted.

Figure 3 below illustrates the distribution of FIB allotment by maturity, with the longer maturities receiving a more favorable response from investors as compared to the other terms.

[1] The financing mix was revised as per cabinet decision.

Figure 3: FIB Allotment- 2013



Source: RBF

Viti Bonds Allotment

The Viti bonds coupon rates are fixed at 4.00 percent for 5 years, 4.50 percent for 7 years and 5.00 percent for 10 years. A total of $10 million was floated for Viti Bonds during the year, of which $6.82 million was tendered and allotted.

3.4 Domestic Interest Rates Structure

In 2013, significant decline was noted in the borrowing costs of both the short term and long term debt instruments. 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. (RBF Economic Review- $598.3 million)

The yield curves in Figure 4 depicts the reduction in interest rates for Government securities.

Figure 4A: Yield Curves – T-Bills

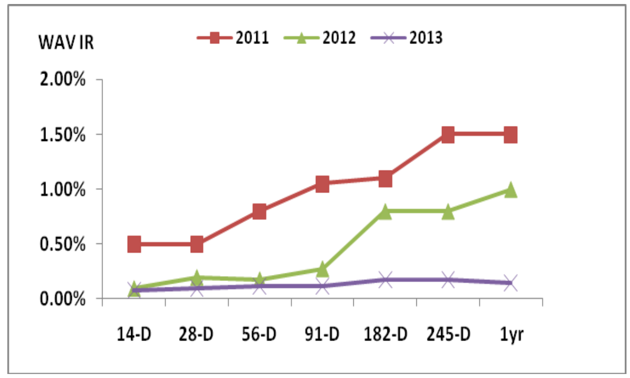
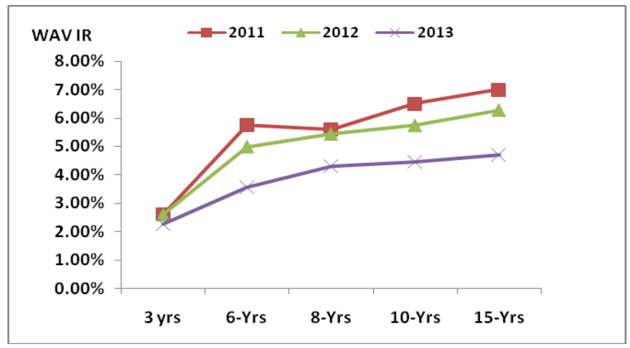


Figure 4B: Yield Curves - Bonds

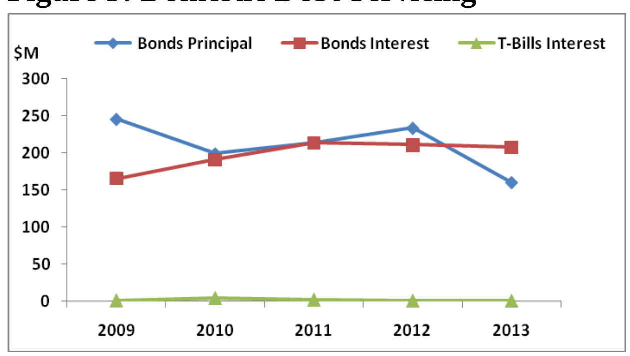


Source: RBF

3.5 Domestic Debt Servicing

In 2013, the Government managed to settle all domestic Principal and Interest payment that falls due during the year.

Figure 5: Domestic Debt Servicing



Source: MOF

The graph above depicts steady growth in bonds interest payments, while principal repayments show fluctuating trend. As can be noted, the high repayment in 2012 reflects the refinancing of some of government's expensive bonds through cheaper short term financing (T-bills).

4.0 FIJI GOVERNMENT EXTERNAL DEBT

4.1 External Debt Stock and Servicing

The external debt portfolio is comprised of external loans and bonds from Fiji's bilateral and multilateral lenders. The portfolio show significant increase (15.6 percent) in 2013, mainly attributed to the flow in the execution of on-going infrastructure projects; construction works and rehabilitation of roads and bridges around the country.

Table 3: Government External Disbursed Outstanding Debt ($M)

Particulars	2010	2011	2012	2013
External DOD Central Govt	548.5	832.1	935.5	1,081.1
Total External Debt Service of which:	**41.3**	**331.5**	**65.5**	**71.6**
Principal Payment	17.6	285	19.3	19.7
Interest Payments	23.7	46.5	46.3	52.0
External Debt to GDP Ratio	9.4%	12.1%	13.6%	14.5%
External Debt Service as % age of Export of goods.	2.6%	17.3%	3.0%	3.2%

Source: MOF

On external debt servicing, a steady growth can be noted since the settlement of the Global Bond of USD150 million in 2011. The trend is expected to continue until the redemption of the 2nd major Global Bond in 2016.

On an annual basis, external debt servicing had increased by 9.4 percent to $71.6 million in 2013, owing to the increase in borrowing costs associated with the increase in disbursements of loan funds.

External debt servicing as a percentage of exports of goods/services was 3.2 percent, slightly increasing by 0.2 percent in 2013.

Overall, the external debt to GDP had increased to 14.5% in 2013.

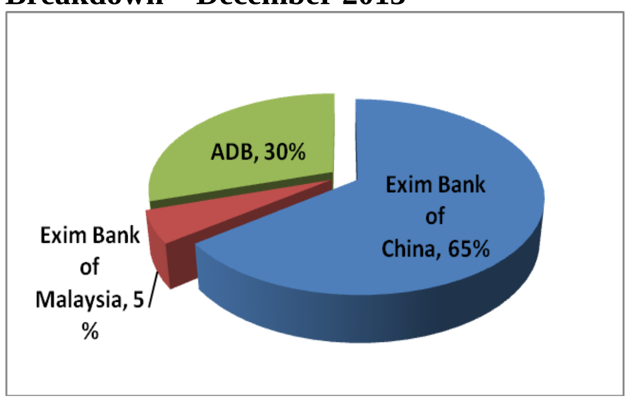
4.2 External Loan Disbursements

In 2013, total loan drawdown for all on-going projects amounted to FJD$99.9 million. The Chinese funded projects consisted 65 percent of this total drawdown, followed by ADB at 30 percent and the remaining 5 percent by the Malaysian funded projects.

In May-2013, the remaining undisbursed loan balance from the Exim Bank of Malaysia was cancelled; hence uncompleted portion of the upgrading of Queens Highway was funded through domestic financing.

The ADB funded projects are expected to complete by mid-2014 whilst all on-going Chinese funded projects are expected to complete by 2015 and 2017, respectively.

Figure 6: External Loan Disbursement Breakdown – December 2013



Source: MOF

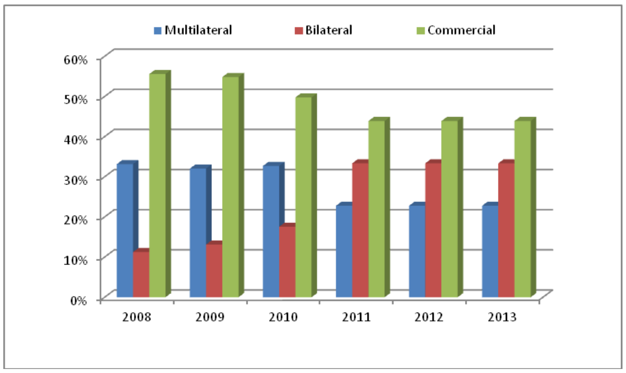
4.3 External Debt Composition

4.3.1 By Creditor Category

The 2nd Global Bond from JP Morgan continues to hold the highest percentage of external debt by creditor category (44 percent), followed by bilateral lenders (33 percent) and the remaining by multilateral lenders (23 percent).

Significant increases can be noted for the bilateral category since 2010, due to the sourcing of concessional loans from the Exim Bank of China and the Exim Bank of Malaysia, for the development Roads and Housing.

Figure 7: Distribution of Debt by Creditor Category – 2013



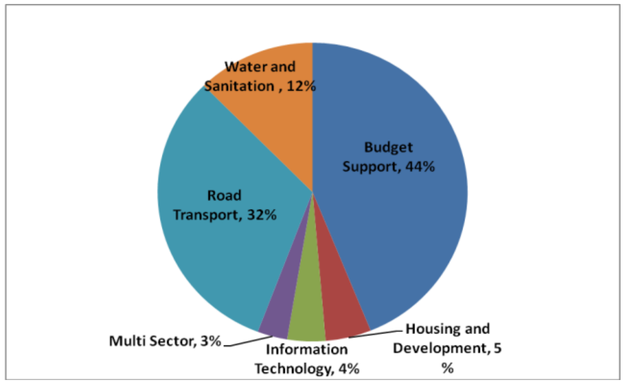
Source: MOF

Furthermore, there were no new external loans contracted in 2013.

4.3.2 By Economic Sectors

The Budget sector continues to hold the largest portion of funding on an economic sector basis (44 percent), followed by the Road and Bridges development (32 percent), Water and Sanitation (12 percent), Housing development (5 percent), IT (4 percent) and Multi sector (3 percent). Hence, besides the Budget financing, bulk of government borrowings from external sources were contracted mainly to finance major infrastructure developments within the country (56 percent).

Figure 8: Distribution of Debt by Economic Sector – 2013



Source: MOF

4.3.3 By Debt Maturity & Currency Profile

At the end of Dec-2013, the maturity structure for Government's external debt portfolio showed that 48 percent of its external debt will mature over 10 years, 45 percent between 2 to 3 years and 7 percent in the next 5-10 years.

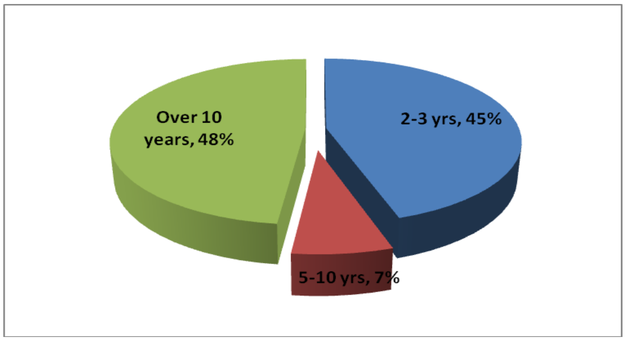
4.3.4 Interest Rates on External Debt

All external loans from ADB are under variable US LIBOR rates. The variable rate is currently set at 0.60 percent with the exception of FRUP II loan which is pegged to Japanese LIBOR at 0.30 percent.

Similarly, loans from Exim Bank of China are fixed at 2.0 percent for the entire loan period. The same applies for the JBIC loan which is fixed at 2.4 percent.

The most expensive loan in Government external debt stock is the global bond; the interest rate is fixed at 9.0 percent.

Figure 9: Maturity Structure of External Outstanding Debt – 2013



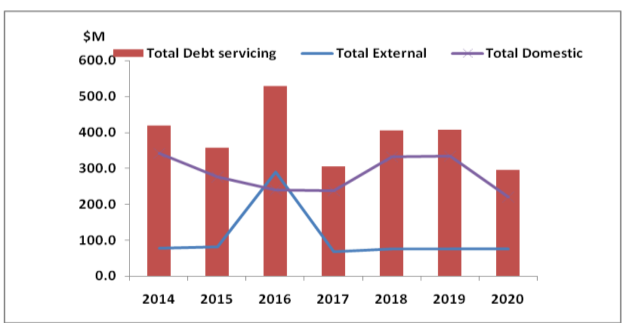
Source: MOF

Moreover, in terms of its currency composition, the US dollar (USD) continues to dominate the external debt portfolio, holding 70.9 percent of the stock, followed by the Chinese Yuan (CNY) at 26.4 percent and Japanese Yen (JPY) at 2.8 percent.

5.0 DEBT SERVICING FORECASTS

Figure 10 below illustrates cashflow forecasts on debt servicing in the next 7 years (2014-2020), with a major payment falling due in 2016; the JP Morgan Global Bond which has a current value of FJ$474.5 million (Dec-2013).

Figure 10: Government Debt Servicing Forecasts (2014-2020)



Source: MOF

A sinking fund account was established to finance this major overseas Bond, which currently maintains a balance of US$140 million (approx.FJ$265.7 million-Dec 2013).

Accordingly, government targets to transfer the remaining US$110 million (approx. FJ$209) balance in 2014 for the servicing of this US$250 million Bond in March, 2016. This is reflected in Figure 10 above.

Furthermore, while domestic debt servicing forecasts a fluctuating trend, the external debt servicing, with the exception of period 2016, show a low but rather steady trend.

Overall, the total debt servicing forecasts for the next 7 years show fluctuating trends as at 31st December 2013, and with the exception of the JPM global bond servicing in 2016, government is expected to spend an average of $400 million per annum on debt servicing.

6.0 GOVERNMENT GUARANTEE EXPOSURE

Contingent liabilities represents government guarantees of state owned entities and statutory authorities' debt, which could have potential implications to government cashflow. Table 4 below reflects the level of Contingent liabilities outstanding for Government for periods 2009 to 2013.

Table 4: Guarantee v GDP

Year	2009 ($m)	2010 ($m)	2011 ($m)	2012 ($m)	2013 P($m)
Contingent liabilities	**1,953.1**	**1,791.0**	**1,925.8**	**2,133.4**	**2,191.4**
As % of GDP	**34.7%**	**29.7%**	**29.4%**	**30.9%**	**29.4%**
Total Debt to GDP	**55.8%**	**56.2%**	**54.5%**	**53. 4%**	**51.4%**
Total Exposure % of GDP	**90.5%**	**85.9%**	**83.9%**	**84.3%**	**80.8%**

As at 31st December 2013, contingent liability balance stood at $2.19 billion; equivalent to 29.4 percent of GDP.

When compared to 2012, contingent liabilities had increased significantly by $58.0 million or 2.7 percent, owing to implicit guarantees.

Additionally, the 5 year average of 30 percent to GDP is a clear indication that the Contingent liability portfolio has accounted for one third of Fiji's GDP over the past 5 year period.

Furthermore, in 2013, two entities were classified as high risks entities, namely the Fiji Sugar Corporation (FSC) and the Fiji Hardwood Corporation.

7.0 MAJOR HIGHLIGHTS IN 2013

7.1 Cancellation of the Malaysian Loan

In May 2013, government cancelled the remaining un-disbursed loan balance of the Malaysian loan amounting to US$19.75 million, which was contracted in 2010 to finance the upgrade of the stretch roads along the Queens Highway. The decision to cancel was primarily based on the conditions imposed by the EXIM Bank of Malaysia which is explained in the ensuing discussions.

To extend the availability period of the loan facility to 31 July 2014, the Bank requested to extend the cash collateral of US$15 million placed with the JP Morgan Asset Management Unit to 31 July 2018 from 28 February 2016.

This effectively means that government would have to borrow an additional $15 million as part of the total Global Bond repayment due in March, 2016. This is in lieu of the fact that all funds in JP Morgan accounts are intended to be utilized for the Global bond repayment.

A cost effective option exercised by the Government was to cancel the remaining balance of the Malaysian Loan and utilize US$15 million from the JP Morgan Asset Management Bank while borrowing the balance of US$4.75 million domestically.

It should be noted that the US$15 million would be replenished once the collateral is released in February, 2016 and would be available for Global Bond repayment in March, 2016.

7.2 Prudent Cashflow Management

In 2013, prudent cashflow management was maintained hence healthy cashflow positions were experienced throughout the year. This was reflected in the nil utilisation of the Ways and Means facility in 2013 and government remaining within its borrowing limits while meeting its obligations.

7.3 Increasing the Offshore Sinking Fund

Currently, Government has reached a total of US$140 million (Dec-2013) in its Offshore Sinking Fund account and will continue to transfer any surplus funds in 2014.

8.0 OPPORTUNITIES

8.1 High Liquidity Position

In the current environment where the market is flushed with liquidity, Government is able to source funds at the lowest cost in the domestic bond market. The 2014 Budget has a Domestic Borrowing limit of $254.2 million and it is anticipated that investor demand for funds will place an even more downward pressure on interest rates, hence an opportune time for Government to take advantage of the low interest rates.

8.2 Market Development

Government has vested interest in developing the domestic bond market through frequent issuance of Government securities. This has lots of advantages in terms of sourcing funds domestically at low cost and minimizing exchange rate risks.

9.0 SUMMARY

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

In 2013, the prudent management of cashflow allowed the Government to settle all its obligations, as well as transfer access savings to its sinking fund account abroad which currently maintains a balance of US$140 million.

Technically, the underlying objective of the Sinking fund is to change the Government's Debt Structure which has disproportionately increased in terms of external loans, mainly intended to fund infrastructure related projects. The redemption of Global Bond through the Sinking Fund Account would relatively reduce Government's external debt portfolio.

Budget financing for 2013 was through Bonds while T-Bills were set aside mainly to cover for revenue shortfalls during the year. In 2013, the outstanding T-Bills was $102.6 million, which was well below its $150 million limit whereas for Bonds, $172.8 million was tendered and allotted as compared to the $173.9 million allocated in the Budget.

Overall, the Government debt stock as at 31st December-2013 stood at $3.83 billion; $2.74 billion of which comprised domestic debt and $1.08 billion external debt.

Debt to GDP ratio stood at 51.4 percent at the end of the year-2013, as total debt level grew by 4.0 percent on a year-on-year (y-o-y) basis ($145.8 million).

For further enquiries, please contact the

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