# FIJIAN GOVERNMENT DEBT REPORT

**FOR THE YEAR ENDING DECEMBER 2015**

**MINISTRY OF ECONOMY (MoE)**

**SUVA**

**FIJI**

November 2016

# Table of Contents

## 1.0 INTRODUCTION

Fiji's growth momentum has been exceptionally strong, with Fiji recording its third year of above 4 per cent consecutive annual economic growth. GDP is projected to expand gradually, propelled by strong growth in tourism earnings and remittances, robust credit growth, and low oil prices, as well as high public and domestic private investment. This momentum is expected to continue in 2016.

Government is committed to sustaining Fiji's economic growth through timely and effective implementation of reforms, supported by robust private sector led investment and increase in the overall productivity of the Fijian economy. Maintaining macro-economic stability is also a key focus for Government to boost investor confidence and promote sustained growth.

The 2015 Government Debt Report provides an overview of the government debt position as of 31 December 2015. The debt position reflects Government's domestic and external debt which constitutes short and long term debt instruments.

The report also provides a snapshot of Government's guarantee outlook.

## 2.0 GOVERNMENT DEBT POSITION

Government debt to GDP has gradually declined over the past years; fiscal year 2015 debt to GDP was recorded at 46.3 per cent, down from 47.7 per cent in 2014, 49.7 per cent in 2013 and 51.7 per cent in 2012. Government will continue to maintain its medium term fiscal consolidation path in order to reduce debt to GDP further. The steady decline in debt to GDP reflects strong growth performance and favorable debt dynamics.

As a percentage of total debt, domestic debt comprised 70.5 per cent ($2.98 billion) while external debt consists of 29.5 per cent ($1.25 billion) at the end of 2015. (Table 1)

**Table 1: Total Debt Stock ($M)**

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| **Total Govt Debt** | **3,679.5** | **3,838.3** | **4,083.2** | **4,227.9** |
| **Domestic** | **2,744.0** | **2,744.2** | **2,829.0** | **2,982.1** |
| **External** | **935.5** | **1,094.1** | **1,254.3** | **1,245.8** |
| **Govt Debt % of GDP** | **51.7%** | **49.7%** | **47.7%** | **46.3%** |
| **Domestic to Total Debt** | **74.6%** | **71.5%** | **69.3%** | **70.5%** |
| **External to Total Debt** | **25.4%** | **28.5%** | **30.7%** | **29.5%** |

***Source: Ministry of Economy***

The total debt has been maintained at the desired domestic to foreign debt mix of 70:30 (+/- 5%), consistent with Government's key debt objectives. This will assist to cushion against foreign exchange rate risks and also encourage the development of the domestic debt market in order to stimulate increased trading and secondary market activities.

## 3.0 FIJIAN GOVERNMENT DOMESTIC DEBT

### 3.1 Domestic Debt Stock

The domestic market has predominantly been the key source of financing for Government. Table 2 shows a steady decline on domestic debt to GDP for the past 3 years; from 38.5 per cent in 2012, 35.5 per cent in 2013, 33.1 per cent in 2014 and 32.7 per cent in 2015.

Government debt securities were issued with maturities ranging from 14 days to 1 year for T-bills and from 2 years to 15 years for bonds.

On a year-on-year basis, the weighted average interest rate on domestic debt has reduced from 7.4 per cent to 7.3 per cent in 2015. (Table 6)

**[1]Table 2: Domestic Debt Stock ($M)**

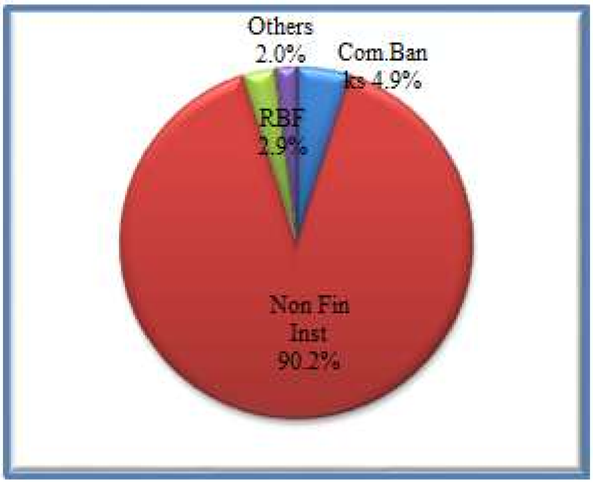
| Year | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| **Bonds[2]** | 2,622.1 | 2,635.3 | 2,695.2 | 2,836.5 |
| **T-Bills** | 112.4 | 102.6 | 130.6 | 145.6 |
| **Loan** | 9.455 | 6.30 | 3.15 | 0.00 |
| **Total** | 2,744.0 | 2,744.2 | 2,829.0 | 2,982.1 |
| **% of GDP** | **38.5%** | **35.5%** | **33.1%** | **32.7%** |
| **Domestic debt service o/w:** | **443.8** | **381.0** | **386.2** | **329.6** |
| **Principal** | 233.3 | 173.5 | 176.7 | 119.2 |
| **Interest** | 210.5 | 207.5 | 209.5 | 210.4 |

***Source: Ministry of Economy***

## 3.2 Distribution of Domestic Debt by Holders

Bonds: As at 31 December 2015, Government bonds outstanding stood at $2,836.5 million. The non-bank financial institutions (NBFI's) held 90.2 per cent, followed by the commercial banks and Reserve Bank of Fiji (RBF) at 4.9 per cent and 2.9 per cent, respectively. The remaining 2.0 per cent is held by other investors which includes individual households (Figure 1). Changes in the domestic debt holders distribution over the years is mainly influenced by the issuance and redemption of bonds.

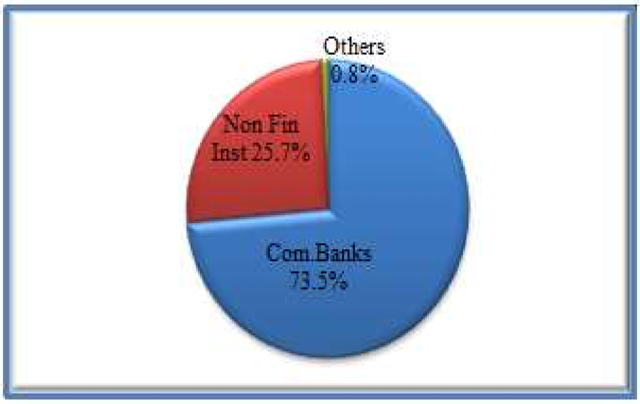
**Figure 1: Fijian Government Bond Holders**




***Source: Ministry of Economy***

T-Bills: Commercial banks held 73.5 per cent of T-bills; the NBFIs comprise 25.7 per cent, while the remaining is held by other investors (Figure 2). Major changes were noted in the percentage movement of treasury bill holdings for NBFIs and commercial banks over the year which have been mainly influenced by the issuance and redemption of these short term instruments.

**Figure 2: Fijian Government T-Bills Holders**




*Source: Ministry of Economy*

Loan: The balance of $3.2 million of the Fiji Sugar Growers Council loan with FDB was fully repaid in January 2015.

## 3.3 Fijian Government Bond Allotment

Based on the financing program for the 2015 calendar year, Government floated $250.4 million worth of bonds in the domestic market

[1] Bonds and T-bills figures reflect amounts payable on maturity; excludes unamortised premium and discount on bonds.
[2] Bonds and T-bills issued at a premium or discount were amortised[2] using the straight line method. The carrying amount of Bonds and T-bills outstanding as of Dec-2015 are $2,836.5 million and $143.3 million, respectively, mainly attributed to the amortisation of Bonds and T-bills issued in 2015.

to finance the government deficit. Of this amount, a total of $523.6 million was tendered and $250.4 million or 47.4 per cent was successfully allotted.

In 2015, investors' bond preferences were for 8, 10 and 15 year maturities, indicating investor confidence in Government's long term debt securities.

### 3.4 Viti Bonds Allotment

The cumulative total for Viti Bonds allotted amounts to $22.2 million for fiscal year 2015, implying greater public awareness of the instrument, which is tailor made to cater for pensioners and retail investors. The Viti Bonds returns are fixed at the rates tabulated below.

**Table 3: Terms of the Viti Bonds**

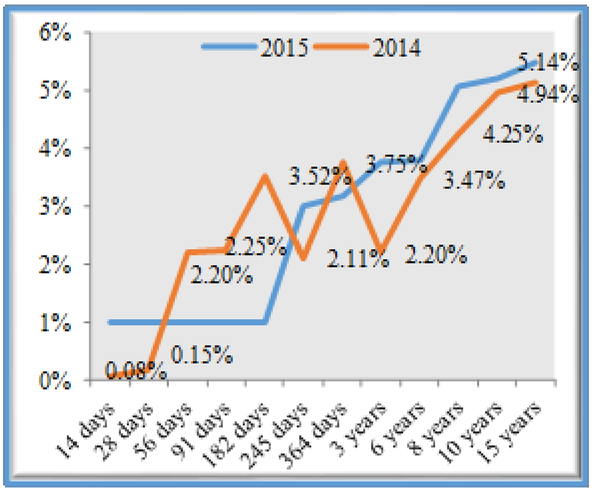
| Term | Rate of Return |
|---|---|
| **5 years** | 4.0% |
| **7 years** | 4.5% |
| **10 years** | 5.0% |

*Source: Ministry of Economy & Reserve Bank of Fiji*

### 3.5 Domestic Interest Rates Structure

Figure 3 provides a comparison on the borrowing costs for T-Bills and Bonds in years 2014 and 2015.

**Figure 3: Yield Curves-T-Bills and Bonds**




*Source: Ministry of Economy & Reserve Bank of Fiji*

The trend for the domestic yield curves for 2015 shows a relatively increasing trend as compared to 2014.

## 4.0 FIJIAN GOVERNMENT EXTERNAL DEBT

### 4.1 External Debt Stock and Servicing

External borrowing has also increased over the years with a large component of it being linked to capital investments, which is part of the Government's focus on modernizing Fiji's infrastructure. Majority of external borrowings are sourced from multi-lateral agencies which offer concessional rates and thus is cost-effective in terms of overall debt servicing. On the same note, Government is mindful of the exchange rate risks associated with external borrowings. It intends to maintain a domestic debt to external debt composition within the range of 65-70 per cent: 30-35 per cent of the total debt. The borrowing structure is within this range.

Government's major external creditors are China Development Bank (CDB), EXIM Bank of China (EXIM China), EXIM Bank of Malaysia (EXIM Malaysia), the Japan International Cooperation Agency (JICA) and the Asian Development Bank (ADB).

In 2015, total loan drawdown from all ongoing projects amounted to FJ$44.5 million, of which 95.4 per cent was attributed to the Chinese loan projects and the remaining 4.6 per cent for the ADB funded projects.

A key highlight for fiscal 2015 was the successful rollover of the global bond from US$250 million to US$200 million at a coupon rate of 6.625 per cent which is relatively lower compared to the 9.0 per cent coupon rate issued in 2011.

External debt to GDP has also slightly decreased to 13.7 per cent in 2015, as compared to 14.7 per cent recorded in 2014.

**Table 4: Government External Disbursed Outstanding Debt ($m)**

| Particulars | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| **External DOD Central Govt** | 935.5 | 1,094.1 | 1,254.3 | 1,245.8 |
| **Loans** | 488.7 | 619.6 | 757.4 | 805.8 |
| **Bonds**[3] | 446.8 | 474.5 | 496.9 | 440.0 |
| **Total External Debt Service of which:** | 65.5 | 71.6 | 79.3 | 635.6 |
| **Principal** | 19.3 | 19.7 | 25.5 | 558.1 |
| **Interest** | 46.3 | 52.0 | 53.8 | 77.5 |
| **External Debt to GDP Ratio** | **13.1%** | **14.2%** | **14.7%** | **13.7%** |

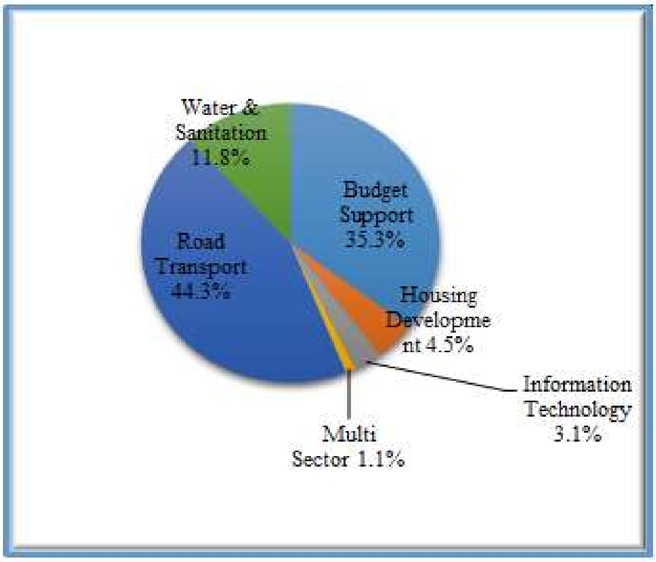
***Source: Ministry of Economy***

As at 31 December 2015, approximately $350.5 million of committed foreign loans remained undisbursed. This comprised of loans from ADB and EXIM China amounting to $214.5 million and $136 million, respectively. Of the total undisbursed sum, Government anticipates to cancel $63.6 million in the next fiscal year, as projects reach completion.

## 4.2 External Loans by Economic Sectors

At the end of fiscal year 2015, the road transport sector comprised the largest share of funding by economic sector basis (44.3 per cent), followed by the budget support sector (35.3 per cent), water and sanitation (11.8 per cent), housing development (4.5 per cent), IT (3.1 per cent) and multi-sector (1.1 per cent) (rounded to one decimal point). (Figure 4)

**Figure 4: Distribution of Debt by Economic Sector**



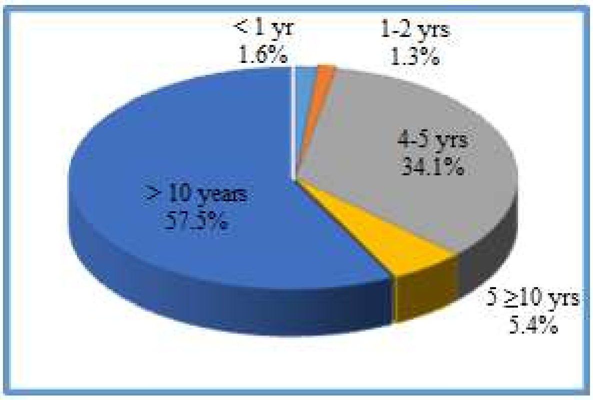

***Source: Ministry of Economy***

## 4.3 By Debt Maturity Profile

In terms of the amortization profile, 57.5 per cent of foreign debt will mature over 10 years, 34.1 per cent within 4-5 years, 5.4 per cent between 5-10 years, 1.6 per cent in less than 1 year and 1.3 per cent between 1-2 years (Figure 5). The average time to maturity on external debt stood at 7.3 years as of 31 December 2015 compared to 6.4 years at the end of fiscal year 2014. (Table 6)

This reflects a slight increase in the external refinancing risk, which is mainly attributed to the rollover of the 3rd global bond.

**Figure 5: Maturity Structure of External Outstanding Debt**



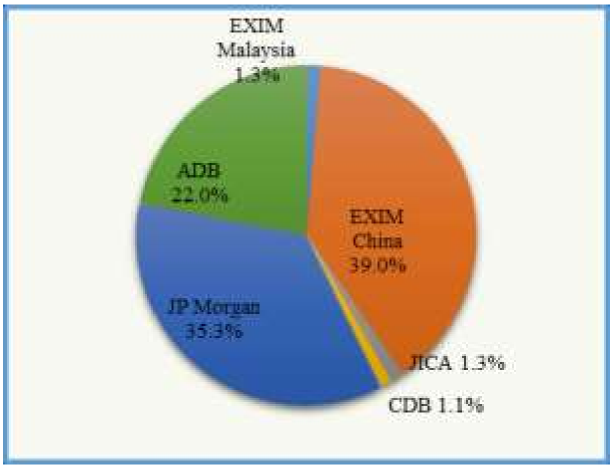

***Source: Ministry of Economy***

[3] Bonds figures reflect amounts payable on maturity. The carrying amount of the 3rd global bond issued in October 2015 was $420.9 million.

### 4.4 External Debt by Creditor Category – 2015

The bilateral lenders held 42.7 per cent of the external stock followed by the global bond at 35.3 per cent and multilateral lenders at 22.0 per cent. (Figure 6)

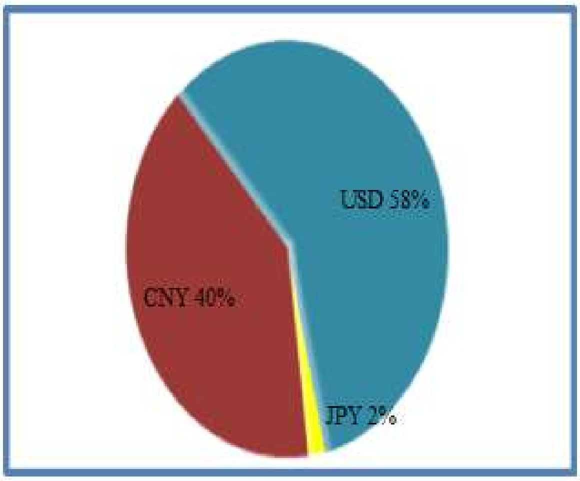
**Figure 6: External Debt by Creditor – 2015**




***Source: Ministry of Economy***

Moreover, in terms of the portfolio's currency composition, the US Dollar continues to dominate at 58.2 per cent, followed by the Chinese Yuan (CNY) at 40.1 per cent and Japanese Yen (JPY) holding the least at 1.7 per cent. (Figure 7)

**Figure 7: External Debt by Currency Composition**

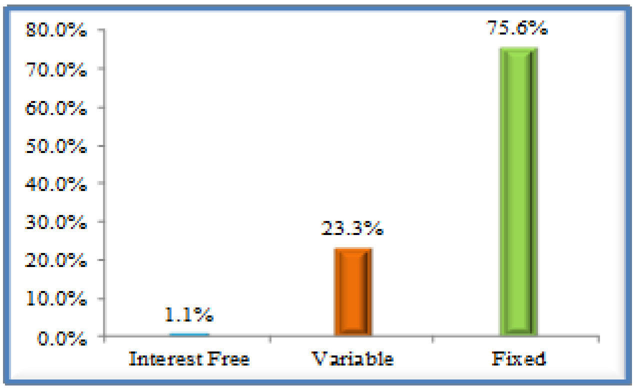



***Source: Ministry of Economy***

### 4.5 Interest Rates on the External Debt Portfolio

As depicted in Figure 8 below, 75.6 per cent of the debt stock is contracted at fixed interest rates and 23.3 per cent is at floating interest rates. The remaining 1.1 per cent of the external debt stock is interest free, which was accessed through the CDB loans.

**Figure 8: External Debt Interest Rate Structure**




***Source: Ministry of Economy***

The weighted average interest rate on external loans has also improved from 4.5 per cent in December 2014 to 3.5 per cent at year end. (Table 6)

## 5.0 CONTINGENT LIABILITIES

Contingent liabilities included herein consist of Government guaranteed debt of state owned entities, including statutory authorities' debt which contributes to the overall public sector risk.

Total contingent liabilities had increased remarkably by 9.6 per cent to $2.8 billion in 2015, attributed to increases in implicit contingent liabilities underpinned by increased member contribution of the Fiji National Provident Fund. As a percentage of GDP, this comprised 30.7 per cent. Total guaranteed debt (explicit liabilities) comprised $824.5 million; equivalent to 9.0 per cent of GDP.

**Table 5: Contingent Liabilities**

| Year | 2013 ($m) | 2014 ($m) | 2015 P[4] ($m) |
|---|---|---|---|
| **Government Guarantee (Explicit)** | 812.4 | 842.1 | 824.5 |
| **As % of GDP** | 10.5% | 9.8% | 9.0 |
| **Total Contingent liabilities** | 2,191.4 | 2,556.70 | 2,797.2 |
| **As % of GDP** | 28.4% | 29.9% | 30.7% |
| **Total Debt to GDP** | 49.7% | 47.7% | 46.3% |
| **Total Exposure % of GDP** | 78.1% | 77.6% | 77.0% |

***Source: Ministry of Economy***

## 6.0 RISK ANALYSIS

### 6.1 Risk Indicators

This section provides a brief assessment of the risks associated with Government's existing debt stock. Table 6 provides a summary analysis of the current structure of the portfolio and the risks involved.

The key risk indicators measured were refinancing risk[5], interest rate risk[6] and exchange rate risk[7].

**Table 6: Risk Indicators as at Fiscal Year End 2015**

| Risk Indicators | | External debt | Domestic debt | Total debt |
|---|---|---|---|---|
| Amount (in millions of FJD) | | 1,245.8 | 2,982.1 | 4,227.9 |
| Amount (in millions of USD) | | 585.70 | 1,401.90 | 1,987.60 |
| Nominal debt as % GDP | | 13.70 | 32.70 | 46.30 |
| PV as % of GDP | | 12.20 | 32.7 | 44.8 |
| Cost of debt | Weighted Av. IR (%) | 3.5 | 7.3 | 6.2 |
| Refinancing risk | ATM (years) | 7.3 | 8.2 | 8.0 |
| | Debt maturing in 1yr (% of total) | 5.0 | 7.9 | 7.1 |
| Interest rate risk | ATR (years) | 5.5 | 8.2 | 7.4 |
| | Debt refixing in 1yr (% of total) | 26.3 | 7.9 | 13.3 |
| | Fixed rate debt (% of total) | 76.7 | 95.1 | 89.7 |
| FX risk | FX debt (% of total debt) | | | 29.5 |

***Source: Ministry of Economy & MTDS Model-Dec 2015***

**Note:**

Av. IR – Average Interest Rate
ATM – Average Time for Maturity
ATR – Average Time to Refixing
FX – Foreign Exchange

Refinancing risk remains low as reflected in the average term to maturity (ATM) of 8 years; ATM for domestic debt equals 8.2 years whilst external debt, 7.3 years. A shortening of this indicator implies that the portfolio is being rolled over more frequently, thus is more exposed to refinancing shocks.

The Average Time to Refixing (ATR) of interest rates is 5.5 years for external and 8.2 years for domestic debt. The ATR describes the time taken in years to fix the interest rates thus a shorter ATR implies that the portfolio is more exposed to refinancing shocks. The existing portfolio shows a favourable ATR of 7.4 years.

In terms of exposure to foreign exchange rate risk, approximately 29.5 per cent of the total debt portfolio is exposed to exchange rate volatility, decreasing from 30.7 per cent in

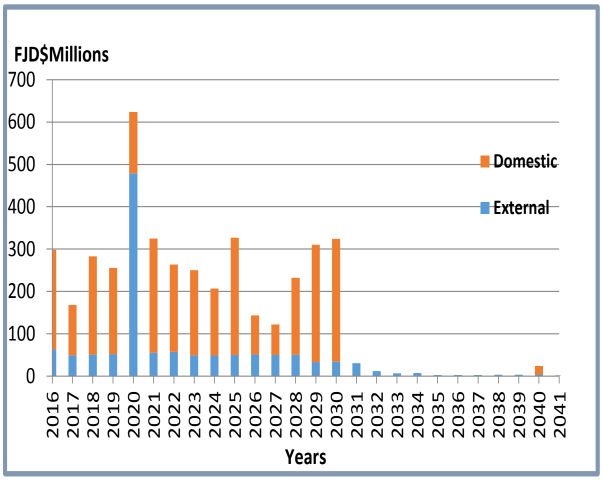
[4] P denotes provisional amounts for 2015.
[5] Rollover risk (refinancing risk) is the possibility of having the debt to be rolled over at a higher interest.
[6] Risks associated with variable costs of borrowing.
[7] Risks associated with fluctuations of exchange rates.

December 2014. This is in line with Government's debt management objective which is to maintain foreign debt at an optimum level in order to reduce risks arising from the fluctuation of foreign exchange rates.

### 6.2 Government Debt Redemption Profile

The redemption profile provides the outstanding debt stock that falls due in a given period of time. Figure 9 shows an evenly distributed maturity structure, with the exception of 2020 where 14.8 per cent of the total debt will be due for repayment. The relatively smooth amortisation profile indicates that refinancing or rollover risks have been well managed.

**Figure 9: Redemption Profile of Government Debt in FJD millions as at Fiscal Year End 2015**




*Source: Ministry of Economy*

## 7.0 MAJOR HIGHLIGHTS IN 2015

### 7.1 The Rollover of the 3rd Global Bond of $US200 Million

As highlighted above, the successful floatation of the US$200 million global bond in the international bond market at the coupon rate of 6.625 per cent compared to 9.0 per cent for the previous issuance in 2011 for US$250 million was a milestone achievement. This not only underscores investor confidence in the Government's public financial management but the strong outlook of the Fijian economy.

### 7.2 Technical Support and Debt Management Reforms

The Commonwealth Secretariat (COMSEC) in partnership with the Fijian Government facilitated a regional workshop on the latest version (V.2.0) of the Commonwealth Secretariat Debt Recording Management System (CS-DRMS) from June 3-12 2015. Debt managers and officials from the Pacific island countries participated in the workshop. Distinguished speakers from the World Bank and ADB were also invited to speak on a wide range of topics on debt fundamentals and the new features available on the latest version of CS-DRMS.

On 17-19 August 2015, a mission from the World Bank visited Fiji to assist in the Medium Term Debt Strategy Framework, focusing mainly on the refinancing options of the US$250 million global bond due in March of 2016.

In the final Quarter of the 2015 fiscal period, DCFMU in consultation with PFTAC developed a Debt Accounting Policy and Manual for Government which is in line with the Government's Public Financial Management Reform Roadmap. The implementation of the debt accounting policy will be rolled out progressively, consistent with the Ministry of Economy (MOE) transition plan. The details of the transition plan are intended to be mainstreamed in MOE's Annual Corporate Plan. Furthermore, the Debt and Cashflow Management Unit (DCFMU) has begun consultation with line ministries and departments, especially with the Ministry of iTaukei Affairs and the Ministry of Local Government, with regards to provincial and municipal councils' borrowings. DCFMU will continue consultation on the 2015 Debt Accounting Policy in the 2016/17 fiscal year. Going forward, DCFMU will be formulating a fiscal risk assessment framework for Government and also assist in the revision of Government's Chart of Accounts. These exercises will be carried out in the 2016/17 fiscal year in consultation with PFTAC. DCFMU will also seek further support from COMSEC in the development of the secondary bond market (Re-opening of Domestic Securities).

## 8.0 SUMMARY

The increase in debt level was mainly attributed to the net increase in domestic debt securities during the year to finance the budget deficit, combined with increases in disbursements of external project loans.

Overall, the Government debt stock as at the end of the 2015 fiscal year stood at $4,227.93 million; $2,982.08 million of which comprised domestic debt and $1,245.84 million external debt. Debt to GDP ratio reduced to 46.3 per cent at fiscal year end while total debt level grew by 3.5 per cent ($144.7 million) on a year-on-year basis. Government will continue to strive to maintain the debt level at below 50 per cent of GDP in the medium term and also closely monitor guaranteed entities to ensure any emerging material risk is well managed.

In terms of cash management for Whole of Government, more proactive planning and monitoring will be carried out to effectively utilise idle cash and minimise any unnecessary borrowing. In addition, Government will continue to maximise returns on idle cash through short term investments and explore options for overnight investments in financial institutions.

-END-

**For further enquiries, please contact the**

**Debt and Cashflow Management Unit**

**Ministry of Economy, Suva**