FIJIAN GOVERNMENT

2020/2021
ANNUAL DEBT REPORT

MINISTRY OF ECONOMY

SUVA

FIJI

Foreword

At the end of FY2020-2021 ('fiscal year'), Government total outstanding debt stood at $7.7 billion, equivalent to 79.8 percent of Gross Domestic Product ('GDP'). This was $592.7 million lower than the earlier projected debt of $8.3 billion or 83.4 percent of GDP. The lower than projected debt for the end of July 2021 mirrors the lower fiscal deficit estimated for the fiscal year.

The following are the key highlights for the fiscal year:

- Government successfully refinanced the US$200 million global bond on 2 October 2020 through funding secured from Subprogram 3 of the Sustained Private Sector-Led Growth Reform Program ('Subprogram 3').

- Following the successful implementation of agreed policy reform actions for Subprogram 3, Government managed to access funding from the Asian Development Bank ('ADB') and the Asian Infrastructure Investment Bank ('AIIB') amounting to US$200 million ($424.5 million) and US$50 million ($106.2 million), respectively.

- To mitigate the impact of the COVID-19 crisis on the income of the unemployed and the underemployed, and increase efficiency and adaptability of the social protection system, Government negotiated a total sum of US$50 million from the International Development Association ('IDA') in relation to the Fiji Social Protection COVID-19 Response and System Development Project.

- To further support the Fijian Government's COVID-19 pandemic efforts, policy reform actions were achieved which enabled the drawdown of funding from the World Bank's Fiji Recovery and Resilience First Development Policy Operation with a Catastrophe Deferred Drawdown Option ('Cat-DDO'). Total financing of US$145 million was provided which comprises of US$120 million ($243.7 million) in concessional financing from IDA and US$25 million ($51 million) from the International Bank for Reconstruction and Development ('IBRD').

- The Japan International Cooperation Agency ('JICA') provided JPY10 billion ($187.4 million) financing for COVID-19 Crisis Response Emergency Support and JPY2.8 billion ($55 million) as the final drawdown of the Stand-by loan for Disaster Recovery and Rehabilitation, to support recovery and rehabilitation efforts in the aftermath of Tropical Cyclone Yasa.

- The Fijian Government had participated in the Debt Service Suspension Initiative ('DSSI') rolled out by the G20 member countries and the Paris Club. The main objective was to create fiscal space to channel funds into COVID-19 responses in the form of social, health and economic programs.

- Government had published its first Medium Term Debt Management Strategy ('MTDS') for fiscal years 2021 to 2023 which articulates Government's debt objectives and intention to source financing needs and payment obligations at the lowest possible cost, balanced with acceptable levels of risks.

Furthermore, total Government guaranteed debt stood at $1.1 billion or 11.0 percent of GDP at the end of the fiscal year.

The Government debt report is structured into the following sections: Government Debt Strategy, Government Debt Position, Domestic and External Debt, Portfolio Risk Analysis, Contingent Liabilities and Risk Profiles of Publicly Guaranteed Liabilities.

Shiri K. Gounder
Acting Permanent Secretary for Economy

ABBREVIATIONS AND DEFINITIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ATM	Average Time to Maturity
ATR	Average Time for Re-fixing
CRB	COVID-19 Response Bonds
CNY	Chinese Renminbi Yuan, the currency of the People's Republic of China
DSSI	Debt Service Suspension Initiative
EFL	Energy Fiji Limited
EIB	European Investment Bank
EUR	Euro, the currency of the Eurozone nations
EURIBOR	European Interbank Offered Rate
EXIM China	The Export-Import Bank of the People's Republic of China
FA	Fiji Airways
FMA	Financial Management Act 2004
FBCL	Fijian Broadcasting Corporation Pte Limited
FDL	Fiji Development Bonds
FDB	Fiji Development Bank
FIB	Fiji Infrastructure Bonds
FGB	Fiji Green Bonds
FHCL	Fiji Hardwood Corporation Limited
F or $	Fijian Dollars, the currency of the Republic of Fiji
FNPF	Fiji National Provident Fund
FPL	Fiji Pine Limited
FRCS	Fiji Revenue and Customs Services
FSCL	Fiji Sugar Corporation Limited
FSC	Fiji Sports Council
HA	Housing Authority of Fiji
GDP	Gross Domestic Product of Fiji for a fiscal year
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
JICA	Japan International Cooperation Agency
JPY	Japanese Yen, the currency of Japan
LIBOR	London Interbank Offered Rate
MTDS	Medium Term Debt Management Strategy
PAFCO	Pacific Fishing Company Pte Limited
RBF	Reserve Bank of Fiji
T-Bills	Treasury Bills
TIISP	Transport Infrastructure and Investment Sector Project
UWSWMP	Urban Water Supply and Wastewater Management Program
USD	United States Dollars, the currency of the United States of America
World Bank Group	Referring to IBRD and IDA

GOVERNMENT DEBT STRATEGY

The key strategies outlined in the MTDS for fiscal years 2021 to 2023 are:

- to maximise budget support financing from bilateral and multilateral lenders;
- to change the maturity profile through a gradual reduction in Treasury Bills ('T-Bills') and issuances of short and medium-term bonds (2 – 5 year tenors);
- to continue the issuance of long-dated bonds (10 – 20 year tenor;
- to refinance the global bond with floating rate policy-based loans; and
- to consider bond buybacks and bond switches in this period.

During the fiscal year, Government had successfully executed budget support financing from external lenders with concessional terms, continued issuances of long-dated bonds and refinanced the global bond via more favourable policy-based loan facilities.

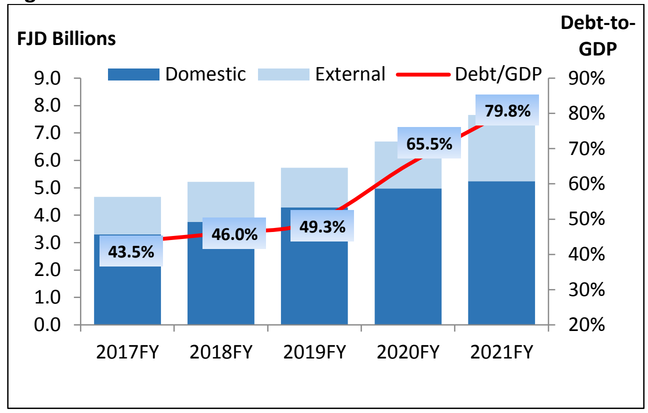
GOVERNMENT DEBT POSITION

Government total debt stock at the end of the fiscal year was $7.7 billion, recording a 14.6 percent increase from $6.7 billion in the previous fiscal year. Debt as a percentage of GDP[1], stood at 79.8 percent compared with 65.5 percent in July 2020. (Refer Figure 1)

Domestic debt stock stood at $5.2 billion which comprises 68.4 percent of the total Government debt. External debt was recorded at $2.4 billion and comprises 31.6 percent of total Government debt.

Government maintains its targeted ratio of 70:30 (+/-5), domestic to external debt which reflects the adoption of debt strategies that develops the domestic capital market while taking advantage of available low-cost financing facilities from external lenders.

Figure 1: Central Government Debt and Debt to GDP ratio



Source: Reserve Bank of Fiji & Ministry of Economy

Government raised a total sum of $1.6 billion during the fiscal year, of which $1.1 billion was borrowed from external sources while $0.5 billion was borrowed domestically. This was lower than the approved gross financing needs of $2.7 billion due to the lower than projected net deficit, which is estimated at around 11.5 percent as compared with 20.2 percent that was budgeted for the year. The lower fiscal deficit was mainly attributed to the higher than expected revenue collections, largely arising from divestment receipts, budget support grants and the lower than budgeted public spending.

With the exception of the Export-Import Bank of the People's Republic of China ('EXIM China') loans which were covered under the DSSI agreement, Government continued to meet all debt obligations during the fiscal year. At the end of the fiscal year, total debt servicing amounted to $1.1 billion, a substantial increase of 72.4 percent as compared to the previous year mainly due to the settlement of the US$200 million global bond.

DOMESTIC DEBT

Total domestic debt at the end of the fiscal year rose by 5.3 percent to $5.2 billion and is equivalent to 54.6 percent of GDP.

[1]Source: 2021/2022 Budget Supplement: Fiscal Year Nominal GDP, Page 85.

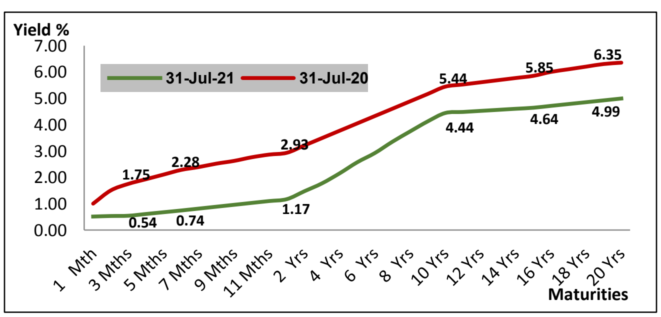
Domestic debt comprised of $5.0 billion in Government bonds and $0.3 billion in T-Bills. The Fiji National Provident Fund ('FNPF') is the largest holder of Government bonds (70.8 percent), followed by insurance companies (15.4 percent), RBF (7.3 percent) and commercial banks & others (6.5 percent). T-Bills are mostly held by commercial banks.

Government raised a total of $0.5 billion in Fiji Infrastructure Bonds ('FIB') during the fiscal year. A total sum of $0.2 billion was redeemed during the year for domestic bonds and interest paid amounted to $0.4 billion. Additionally, a sum of $26.5 million was paid to FNPF for the call on the government guarantee in relation to FSCL bonds.

Market yields on Government domestic securities have significantly declined when compared to the same period last year. This was mainly due to excess liquidity[2] in the banking system which has surged past $1.0 billion. Market appetite for longer-term bonds remained subdued while shorter-term T-bills continued to be in higher demand.

Yields on T-Bills for 3-month, 6-month and 12-month instruments have significantly reduced by 121, 154 and 176 basis points, respectively. Similar declines were recorded for bonds where yields for the 10 year, 15 year and 20 year had reduced by 100, 121 and 136 basis points, respectively. (Refer Figure 2)

Figure 2: Government Yield Curve



Source: Reserve Bank of Fiji & Ministry of Economy

[2] Total excess liquidity in the banking system stood at $1.5 billion. Source: RBF Economic Review for the month ended 30 August 2021.

EXTERNAL DEBT

Total external debt recorded an annual increase of 41.7 percent to $2.4 billion and is equivalent to 25.2 percent of GDP.

The ADB dominates the external debt composition (38.5 percent), followed by the World Bank Group (26.8 percent), EXIM China (18.4 percent), JICA (12.0 percent), AIIB (4.3 percent) and IFAD (0.03 percent).

In terms of currency debt composition, the USD denominated debt (69.6 percent) continues to dominate the external debt portfolio, followed by CNY (18.4 percent), JPY (12.0 percent) and EUR (0.03 percent).

Approximately $1.1 billion was sourced externally, of which the breakdown is as follows:

- a total of $1.0 billion was disbursed through budget support loans, which includes $424.5 million from ADB, $106.2 million from AIIB, $51.0 million from IBRD, $223.3 million from IDA and $242.4 million from JICA;
- a total amount of $73.5 million was disbursed in tranches by IDA for two projects related to the COVID-19 response: (i) the Fiji Social Protection COVID-19 Response and System Development Project ($71.8 million); and (ii) the Fiji COVID-19 Emergency Response Project ($1.7 million);
- a total of $23.1 million was channelled towards infrastructure projects: $16.5 million for the TIISP and $6.7 million was disbursed for the UWSWMP.

Furthermore, Government participated in the DSSI rolled out by the G20 member countries and the Paris Club during the fiscal year. The suspension windows of the DSSI were from 1 May 2020 to 31 December 2020 and from 1 January 2021 to 30 June 2021. Bilateral creditors eligible under the DSSI are EXIM China and JICA. At the end of the fiscal year, Government finalised the DSSI Agreement with EXIM China which resulted in the suspension of debt servicing amounting to CNY144.6 million (equivalent to $46.7 million).

Total external debt servicing amounted to $0.5 billion, comprising $452.1 million in loan repayments and $26.7 million in interest payments.

PORTFOLIO RISK ANALYSIS

The risk indicators for the fiscal year remained favourable. Over the year, the Average Term to Maturity ('ATM') for the total debt portfolio had increased to 10.1 years compared with 8.7 years in the last fiscal year. This was mainly attributed to the longer repayment terms for new borrowings provided by IDA and JICA, and the continued issuances of bonds with longer maturities, thus minimising refinancing risks to Government.

Table 1 provides a summary of the cost and risk indicators of the total debt portfolio as at 31 July 2021.

Table 1: Cost and Risk Indicators as of 31 July 2021

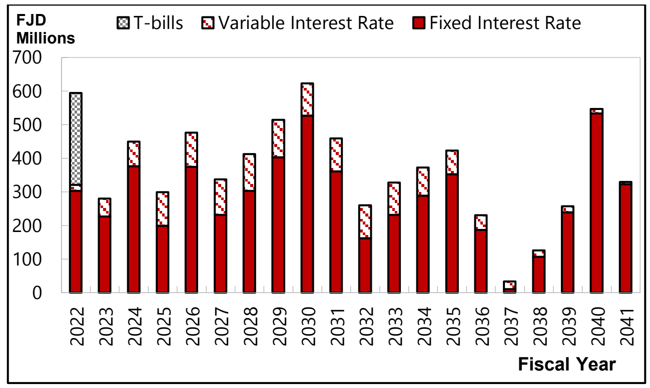
Risk Indicators		FY2019/2020			FY2020/2021		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Amount (in millions of FJD)		1,709.5	4,976.5	6,686.0	2,422.5	5,241.2	7,663.7
Amount (in millions of USD)		805.9	2,345.9	3,151.8	1,162.3	2,514.7	3,677.0
Nominal debt as percent of GDP		16.7	48.7	65.5	25.2	54.6	79.8
Refinancing risk	ATM (years)	7.2	9.3	8.7	11.3	9.5	10.1
	Debt maturing in 1yr (percent of total)	28.3	9.9	14.6	1.5	10.6	7.7
Interest rate risk	ATR (years)	2.4	9.3	7.5	6.9	9.5	8.7
	Debt refixing in 1yr (percent of total)	75.6	9.9	26.9	55.7	10.6	25.1
	Weighted Av. IR (percent)	2.3	6.7	5.6	0.8	6.4	4.7
Foreign Exchange rate risk	FX debt (percent of total debt)	25.6			31.6		

Source: Ministry of Economy

The significant decline in external debt ratio maturing in 1 year is attributed to the maturing of the global bond in October 2020. This was also reflected in the significant decline in the external debt refixing ratio in 1 year; from 75.6 percent to 55.7 percent as at July 2021.

Average Time to Refixing ('ATR') reflects the weighted average time it will take for changes in the market interest rates to have effect on total debt. When compared to the same period last year, ATR for the total debt portfolio has slightly increased from 7.5 years to 8.7 years.

Figure 3a: Redemption Profile by Cost of Debt at end-July 2021



Source: Ministry of Economy

As a percentage of total debt, fixed-rate debt stood at 82.3 percent, which mostly comprised of domestic bonds and concessional external loans. The remaining 17.7 percent are subject to variable 6 months US LIBOR[3] and EURIBOR interest rates, which relates mostly to loans from multilateral lenders. (Refer Figure 3a)

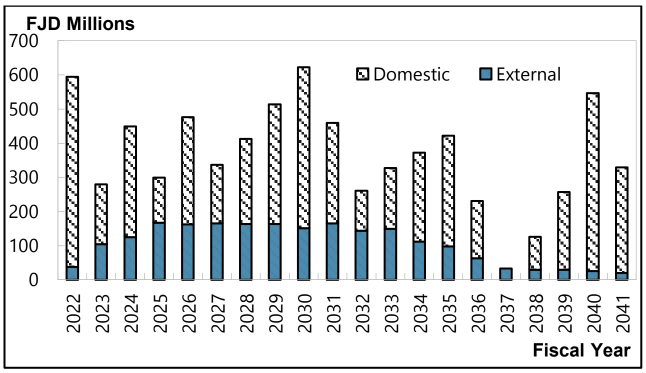
The weighted average interest rate of the total debt portfolio is 4.7 percent. This was a reduction of 90 basis points as compared to the same period last year, attributed to an increase in concessional financing and declining yields in the domestic securities market. External borrowing costs are much lower on average (0.8 percent) when compared to the weighted average cost of domestic debt (6.4 percent). Nevertheless, Government remains mindful of the foreign exchange risks associated with

[3] LIBOR will be phased out at the end of December 2021 and a similar phase-out may be expected with respect to EURIBOR in the future. Government is working closely with ADB, WB and AIIB to ensure a smooth transition into the new indicative reference rate for affected loans.

external borrowings and continues to maintain an external to domestic debt ratio of 30:70 (+/-5).

Foreign currency debt as a percentage of total debt has increased to 31.6 percent as of 31 July 2021 from 25.6 percent in the last fiscal year attributed to increased external borrowings consistent with the MTDS.

Figure 3b: Redemption Profile by Composition at end-July 2021



Source: Ministry of Economy

Figure 3b above provides an illustration of the redemption profile by the composition of debt.

CONTINGENT LIABILITIES

The 2013 Constitution and the Financial Management Act 2004 provides the legal framework for Government to guarantee the financial liability of an entity. Government contingent liabilities are classified into three categories: (i) Government guarantees (explicit); (ii) other explicit contingent liabilities; and (iii) implicit contingent liabilities. Whilst explicit contingent liabilities arise from contractual arrangements, implicit contingent liabilities do not involve any contractual obligation but rather a moral obligation that may arise for Government.

At the end of the fiscal year, Government guaranteed debt stood at $1.1 billion, equivalent to 11.0 percent of GDP. This represents a 1.8 percent increase over the quarter and a significant increase of 11.9 percent when compared to the same period last year. The increase was mainly attributed to the utilisation of approved guarantee facilities for Fiji Airways ('FA'), Fiji Development Bank ('FDB') and the Housing Authority of Fiji ('HA').

During the fiscal year, the Fijian Broadcasting Corporation Pte Limited ('FBCL') and Energy Fiji Limited ('EFL') had fully settled their guaranteed loans which had an outstanding balance of $8.0 million and $6.9 million respectively.

In addition to Government guarantees, other explicit contingent liabilities marginally declined by 1.1 percent to $504.8 million. A significant decline was also recorded for other implicit contingent liabilities by 18.7 percent to $91.1 million at the end of the fiscal year.

RISK PROFILES OF PUBLICLY GUARANTEED LIABILITIES

During the fiscal year, Government guarantee facilities for the following entities were utilised: FA, PAFCO, HA, FSCL, FDB and FHCL.

Risk assessment of guaranteed entities are undertaken annually to ensure guaranteed entities are performing satisfactorily within their target. This report assessment is based on: (i) a three-year historical performance; (ii) most current financial performance and cash flow projections of the respective entities; and (iii) general industry assessments including economic conditions and the impact of the COVID-19 pandemic.

The entities are classified by budget sectors and risks are assessed using a 3-tier risk assessment approach with their respective outcomes tabulated in Table 2.

Table 2: Risk Assessment of Guaranteed Entities as at 31 July 2021

Budget Sectors	Tier 1 Low	Tier 2 Medium	Tier 3 High
Infrastructure			

Social Services		HA	
Economic Services		FHCL, PAFCO	FA, FSCL
General Administration			FDB

Source: Ministry of Economy

Features that contributed to the risk assessments are outlined below:

i. **Impact of COVID-19 pandemic** – The prolonged duration of the crisis with its associated uncertainties has continued to place FA at high risk. On a positive note, plans are underway to open Fiji's border when the country reaches the target of having 80 percent of its eligible population fully vaccinated by 31 October 2021. Accordingly, Fiji is noted to be on track to meet this deadline with 98.0 percent of the eligible population having received the first dose of the COVID-19 vaccine and 66.0 percent fully vaccinated as at 20 September 2021. This should generate some positive impact for the industry.

The aviation and travel industry together with the general administration sectors have been the hardest hit during the pandemic. FDB and HA have been providing loan repayment holidays to their affected customers and are undertaking loan provisioning to account for the increased likelihood of payment defaults due to the COVID-19 crisis.

Going forward, the reopening of borders and resumption of international travel will be crucial for the recovery of the economy.

ii. **Low or negative profit margin** – Despite recording a profit in the fiscal year 2019/2020, FSCL continues to rely heavily on Government for assistance. Government support is necessary to ensure long term sustainability of the sugar industry. It has been classified as a high-risk entity given its serious liquidity and profitability challenges. FSCL noted a change in management and board which should bring about some positive developments and changes to the entity.

iii. **Adequate profitability and liquidity** – HA, PAFCO and FHCL provided reasonable financial performance. However, Government will continue to monitor these entities to ensure that there is no significant deviation from their respective financial forecast/targets.

FHCL in its recent financial update recorded an improvement in its financial performance and the servicing of its debts. The company has fully settled a loan with one of its creditors during the fiscal year and plans to settle the remaining guaranteed balance in the 2021/2022 fiscal year.

Government will continue to provide stringent monitoring on the performance of all guaranteed entities to ensure that associated fiscal risks are mitigated.

Debt Management Unit
September 2021

Appendix

CENTRAL GOVERNMENT DEBT STATISTICS (FJ$ Millions)					
PARTICULARS	**Jul-17**	**Jul-18**	**Jul-19**	**Jul-20**	**Jul-21**
DEBT STOCK					
TOTAL GOVERNMENT DEBT (% of GDP)	**43.5%**	**46.0%**	**49.3%**	**65.5%**	**79.8%**
ANNUAL GROWTH (%)	*3.6%*	*11.7%*	*9.9%*	*16.6%*	*14.6%*
TOTAL GOVERNMENT DEBT	**4,671.7 (R)**	**5,220.5**	**5,735.2**	**6,686.0**	**7,663.7**
DOMESTIC DEBT	**3,300.8**	**3,763.0**	**4,278.5**	**4,976.5**	**5,241.2**
BONDS:	**3,204.4**	**3,575.5**	**3,971.0**	**4,681.0**	**4,967.7**
FDL	1,864.1	1,752.7	1,545.1	1,415.6	1,235.8
FIB	1,304.6	1,680.3	2,278.6	3,019.3	3,488.0
FGB	-	100.0	100.0	100.0	100.0
CRB	-	-	-	90.0	90.0
Viti Bonds	35.7	42.5	47.3	56.2	54.0
T-BILLS	**96.4**	**187.5**	**307.5**	**269.7**	**273.5**
LOANS:	**-**	**-**	**-**	**25.7**	-
FNPF	**-**	**-**	**-**	25.7	-
% of Domestic Debt to Total Debt	**70.7%**	**72.1%**	**74.6%**	**74.4%**	**68.4%**
% Domestic Debt to GDP	**30.7%**	**33.2%**	**36.8%**	**48.7%**	**54.6%**
EXTERNAL DEBT	**1,370.9**	**1,457.5**	**1,456.8**	**1,709.5**	**2,422.5**
BONDS (Global Bond)	**402.3**	**420.3**	**433**	**424.3**	-
LOANS:	**968.6**	**1,037.20**	**1,023.80**	**1,285.20**	**2,422.5**
ADB	344.3	383.6	389.3	525.4	932.4
AIIB	-	-	-	-	104.2
EXIM China	501.3	489.3	462.0	409.0	444.9
JICA	13.2	11.5	9.7	50.9	290.3
World Bank Group	107.6	150.6	160.3	297.6	650.1
IFAD	2.1	2.2	2.5	2.3	0.7
% of External Debt to Total Debt	**29.3%**	**27.9%**	**25.4%**	**25.6%**	**31.6%**
% External Debt to GDP	**12.8%**	**12.8%**	**12.5%**	**16.7%**	**25.2%**
DEBT SERVICING & BORROWING					
TOTAL DEBT SERVICING	**423.7**	**498.5**	**617.2**	**609.2**	**1,050.3**
Domestic Bonds & Loans	**330.6**	**406.7**	**508.0**	**494.6**	**573.4**
Principal	99.6	160.7	235.3	194.1	222.5
Interest	231.0	246.0	272.7	300.5	350.9

External Loans	**93.1**	**91.8**	**109.2**	**114.6**	**478.8**
Principal	49.3	44.8	54.8	58.7	452.1
Interest	43.8	47.0	54.4	55.9	26.7
TOTAL BORROWING	**447.2**	**606.0**	**645.7**	**1,265.8**	**1,627.5**
FIB Bonds/Viti Bonds/FGB/CRB	224.2	531.8	630.8	904.1	483.5
External loans (includes Cap. Interest)	223.0	74.2	14.9	361.7	1,144.0
TERMS	**YIELDS ON GOVERNMENT SECURITIES (%)**				
3 months	1.35	1.45	2.70	1.75	0.54
6 months	3.17	3.05	3.35	2.28	0.74
12 months	3.63	3.63	5.00	2.93	1.17
10 year	6.00	6.00	6.00	5.44	4.44
15 year	6.50	6.50	6.50	5.85	4.64
20 year	6.70	7.00	7.00	6.35	4.99
CONTINGENT LIABILITIES (FJ$ Millions)					
Government Guarantees (Explicit) (A)					
% of Government Guarantees to GDP	**5.2%**	**5.2%**	**5.8%**	**9.2%**	**11.0%**
Annual Growth (Government Guarantees) (%)	*-28.6%*	*4.4%*	*14.8%*	*39.5%*	11.9%
Total Government Guarantees	**562.2**	**586.7**	**673.3**	**939.0**	**1,051.0**
Fiji Airways (FA)	-	-	-	279.0	421.7
Fiji Development Bank (FDB)	190.6	200	291.9	307.8	308.8
Energy Fiji Ltd (EFL)	99.2	94.5	53.9	50.2	-
Fiji Hardwood Corporation Ltd (FHCL)	5.1	5.2	3.6	1.7	0.7
Fiji Pine Ltd (FPL)	2.5	1.8	-	-	-
Fiji Sugar Corporation Ltd (FSCL)	178.2	210.2	241.3	199.2	216.9
Housing Authority of Fiji (HA)	69.4	59.7	68.0	90.2	102.2
Fiji Broadcasting Corporation Ltd (FBC)	14.6	12.6	10.5	8.3	-
Pacific Fishing Company Pte Ltd (PAFCO)	2.6	2.7	4.1	2.5	0.8
Other Explicit Contingent Liabilities (B)					
International Bank for Reconstruction & Development (IBRD)	229.9	303.0	312.2	305.9	300.6
Asian Development Bank (ADB)	193.9	202.2	204.2	204.7	204.2
Implicit Contingent Liabilities (C)					
Other Implicit contingent liabilities*	81.7	81.3	74.8	112.0	91.1
**includes provincial & municipal councils' debt and FRCS litigation claims*					
Total Other Contingent Liabilities (B+C)	**505.4**	**586.5**	**591.2**	**622.6**	**595.9**
% of Other Contingent liabilities to GDP	**4.7%**	**5.1%**	**5.1%**	**6.1%**	**6.2%**
Total Contingent Liabilities (A+B+C)	**1,067.6**	**1,173.2**	**1,264.6**	**1,561.6**	**1,646.9**
% of Total Contingent Liabilities to GDP	**9.9%**	**10.3%**	**10.9%**	**15.3%**	**17.2%**