

FIJIAN GOVERNMENT

**2021-2022
ANNUAL DEBT REPORT**

MINISTRY OF ECONOMY

SUVA

FIJI

Foreword

Total outstanding debt for Government stood at 9.1 billion in fiscal year (FY) 2022 (compared to \$7.7 billion in FY 2021), equivalent to 91.1 percent of Gross Domestic Product (GDP). The increase in debt is attributed to the COVID-19 induced increase in public borrowings and the unprecedented contraction in the Fijian economy. As we move beyond the pandemic, the domestic economy is poised for a strong rebound in the new fiscal year following three consecutive years of decline. Since the re-opening of international borders and the resumption of tourism in December 2021, the economy is showing signs of a strong recovery with GDP projected to grow by 12.4 percent in 2022. Recent data indicates that the actual growth for 2022 will be much higher.

The key highlights for the fiscal year are as follows:

- Following the successful completion of the Asian Development Bank (ADB) Fiji Sustainable and Resilient Recovery Program (Program), a total of \$637.2 million was received through the Program. This was made possible through budget support grants and loans received from development partners to strengthen Fiji's economic and fiscal position including:
 - Government of Australia provided AUD 85.0 million (\$128.8 million) through general budget support grant in December 2021;
 - Japan International Cooperation Agency (JICA) provided financing amounting to JPY 10 billion (\$176.8 million) in March 2022 through Phase 2 of the COVID-19 Crisis Response Emergency Support loan. The financing supported the implementation of economic, fiscal and health countermeasures to strengthen public financial management, policy-making, business/investment climate and health systems; and
 - ADB provided USD 150.0 million (\$331.6million) in June 2022 for the Program, which aims to restore fiscal sustainability and

inclusive climate-resilient economic growth, which have been adversely affected by the COVID-19 pandemic and coinciding disasters.

- The Asian Infrastructure Investment Bank (AIIB) and the New Zealand Government will also co-finance the Program in FY 2023 with a loan of USD 50.0 million (approximately \$110.3 million) and a grant of NZD 2.5 million (approximately \$3.4 million), respectively.
- Additional loan financing of USD48.9 million (\$108.6 million) was secured from International Development Association (IDA) in May 2022 for the Fiji Social Protection COVID-19 Response and System Development Project. The project will help mitigate the impacts of the pandemic on the incomes of the unemployed and underemployed and will increase the efficiency and adaptability of the social protection system.
- The World Bank Group provided loan financing amounting to USD 98.71 million (\$221.1 million) in July 2022 for the Fiji Recovery and Resilience Second Development Policy Operation to support Fiji in its efforts towards ensuring sustainable and resilient recovery.

Government guaranteed debt stood at \$1.1billion or 10.7 percent of GDP at the end of FY 2022.

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



Shiri K. Gounder
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
EXIM Bank of China	The Export-Import Bank of the People's Republic of China
FA	Fiji Airways
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
FJD 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
FY	Fiscal Year
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
MTDS	Medium Term Debt Management Strategy
PAFCO	Pacific Fishing Company Pte Limited
RBF	Reserve Bank of Fiji
SOFR	Secured Overnight Financing Rate
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
WAIR	Weighted Average Interest Rate
World Bank Group	Referring to IBRD and IDA

GOVERNMENT DEBT STRATEGY AND DEBT POSITION

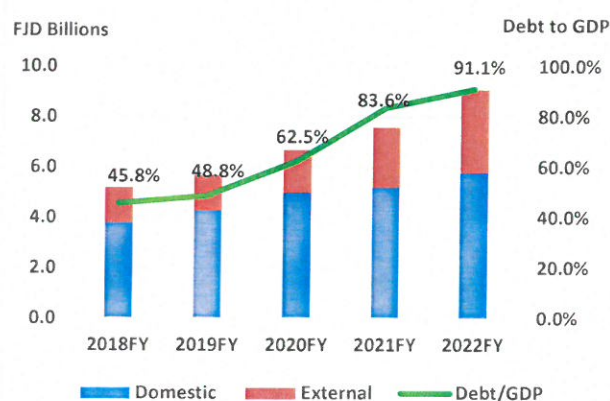
During the fiscal year, Government had successfully executed key strategies within the Medium Term Debt Management Strategy (MTDS) including:

- budget support financing from external lenders with concessional terms;
- continued issuances of long-dated bonds of 10 years to 20 years tenor; and
- considering bond buybacks and bond switches in the medium term following the finalisation of the Liability Management Operations policy.

Government's total debt stock at the end of the fiscal year was \$9.1 billion (FY2021:\$7.7 billion), recording a 19.2 percent increase compared to the previous fiscal year. Debt as a percentage of GDP¹ stood at 91.1 percent (FY2021:83.6 percent). (Refer to Figure 1)

Domestic debt stock stood at \$5.8 billion, representing 63.2 percent of total Government debt. External debt stood at \$3.4 billion representing 36.8 percent of total Government debt.

Figure 1: Central Government Debt and Debt to GDP ratio



Source: Reserve Bank of Fiji and Ministry of Economy

¹Source: Revision to GDP following approval by the Macroeconomic Committee on 1 November 2022

During the fiscal year, Government raised a total sum of \$1,748.0 million (FY2021:\$1,627.5 million), of which \$949.0 million was sourced externally while \$799.0 million from domestic sources. Borrowing was lower than the approved gross financing needs of \$1,809.5 million due to the lower than projected net deficit, which is estimated at around 14.2 percent.

The lower fiscal deficit was mainly attributed to the improved collection in Government revenues from budget support grants received from the Governments of Australia and New Zealand, strong pick-up in tax collections largely due to the resumption of international tourism from December 2021 and the tighter controls on public spending.

Government met all its debt obligations during the fiscal year with total debt servicing amounting to \$718.7 million (FY2021:\$1,050.3 million). This comprised of \$637.9 million domestic debt servicing and \$80.8 million external debt servicing.

DOMESTIC DEBT

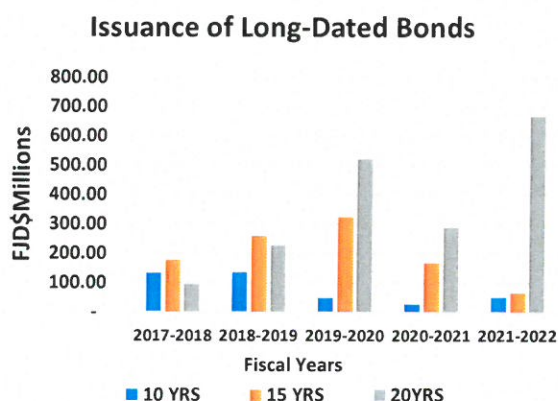
Domestic debt rose by 10.0 percent to approximately \$5.8 billion (FY2021: \$5.2 billion) or 57.6 percent of GDP. This comprised \$5.5 billion in Government bonds and \$283.5 million in T-Bills.

FNPF is the largest holder of domestic bonds (66.9 percent), followed by Other Non-Bank Financial institutions (16.1 percent), RBF (12.7 percent) and commercial banks & others (4.3 percent) while T-Bills are mostly held by commercial banks.

From the \$799.0 million borrowed domestically, \$788.9 million was raised through Fiji Infrastructure Bonds (FIB) and \$10.0 million through Viti Bonds. Government will continue to issue bonds with longer tenors to manage refinancing risk and this is evident

when comparing FY2021 to FY2020 with the increased issuance of 20 year maturity bonds in comparison to other tenors (refer to figure 2). Government is also considering the issuance of shorter to medium term bonds.

Figure 2: Bond Issuance trends for the last five years



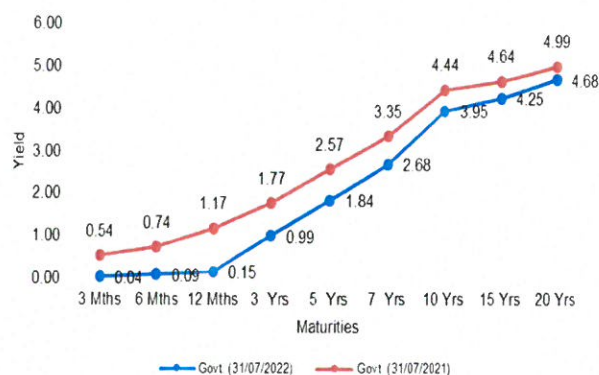
Source: Ministry of Economy

A sum of \$282.8 million in domestic bond redemptions was paid during the year, while interest costs amounted to \$355.2 million.

Furthermore, yields on domestic debt securities have significantly declined when compared to the same period last year, mainly due to the high level of liquidity in the market. T-Bills provide an avenue for commercial banks to manage liquidity risk while actively developing the market yield curve.

For T-Bills, yields on 3-month, 6-month and 12-month instruments have decreased significantly by 50 basis points, 65 basis points and 102 basis points, respectively. Similar declines were experienced for bonds where yields for the 10 year bond had reduced by 49 basis points, while yields for the 15 year bond and 20 year bond had declined by 39 basis points and 31 basis points, respectively. (Refer to Figure 3)

Figure 3: Government Yield Curve



Source: Reserve Bank of Fiji and Ministry of Economy

EXTERNAL DEBT

Total external debt increased by 38.9 percent to \$3.4 billion (FY2021:\$2.4 billion) representing 33.6 percent of GDP.

In terms of currency composition, the USD remains the largest component of the portfolio holdings at 74.9 percent, followed by CNY and JPY at 12.8 percent and 12.3 percent, respectively. The USD portfolios have increased over the years due to policy-based programmatic loans and ongoing infrastructure loans with multilateral lenders. Similarly, the CNY portfolio has risen due to the exchange rate movements rather than new loans denominated in the CNY currency.

A sum of \$949.0 million was raised through overseas borrowings and were sourced from the following:

- \$729.6 million was disbursed under policy-based programmatic loans which includes ADB (\$331.6 million), JICA (\$176.8 million), IBRD (\$112.0 million) and IDA (\$109.1 million);
- \$107.0 million was disbursed through IDA under the COVID-19 related projects: (i) Fiji Social Protection COVID-19 System Response and Development project (\$103.8 million) and the (ii) COVID-19 Emergency Response project (\$3.2 million); and
- \$112.4 million was channeled towards Government's key infrastructural development

projects: TIISP (\$83.3 million), UWSWMIIP (\$26.4 million) and Connectivity project (\$2.7 million).

Total external debt servicing amounted to \$80.8 million with \$63.1 million in principal repayments and \$17.7 million in interest payments.

PORTFOLIO RISK ANALYSIS

The cost and risk indicators for the central Government debt portfolio continued to improve in FY 2022 reflecting the prudent approach adopted by Government in managing the overall risk given the increase in Government borrowings to assist with post COVID-19 recovery efforts while at the same time maintaining Government expenditure.

The overall refinancing risk noted a favorable result as Government took advantage of the long-term concessional borrowings from IDA and JICA together with the issuances of longer-term securities in the domestic market.

Table 1 provides a summary of the cost and risk indicators of Government's total debt portfolio as at end of FY 2022 compared to the MTDS targets. (Refer to the Appendix for breakdown by debt composition)

Table 1: Cost and risk Indicators Summary FY2021-FY2022

<u>Cost and Risk Indicators</u>		FY 2021	Target	FY 2022
Nominal debt as a percentage of GDP		83.6	83	91.1
Cost of Debt	Weighted Av. IR (percent)	4.7	4.7	4.6
Refinancing risk	ATM (years)	10.1	9.9	10.7
	Debt maturing in 1 year (percent of total)	7.7	6.5	6.2
Interest rate risk	ATR (years)	8.7	8	9.3
	Debt re-fixing in 1 year (percent of total)	25.1	30	25.3
FX risk	FX debt (percent of total debt)	31.6	32.2	36.8

Source: Ministry of Economy

The weighted average cost of debt declined by 10 basis points to 4.6 percent when compared to the last fiscal year. This was attributed to the concessional loans accessed by Government from IDA and JICA as well as the drop in yields for Government securities. WAIR for external debt is at 1.9 percent and 6.1 percent for domestic debt.

Average Term to Maturity (ATM) at the end of FY 2022 was 10.7 years which is an improvement compared to 10.1 years in the previous fiscal year. This was due to the issuances of long-term bonds in the domestic market as well as accessing longer-term loans from the external market. Debt maturing within a year as a percentage of total debt reflected the decline from 7.7 percent for the same period last year to 6.2 percent in the current year mainly due to the redemption of the global bond in FY 2021.

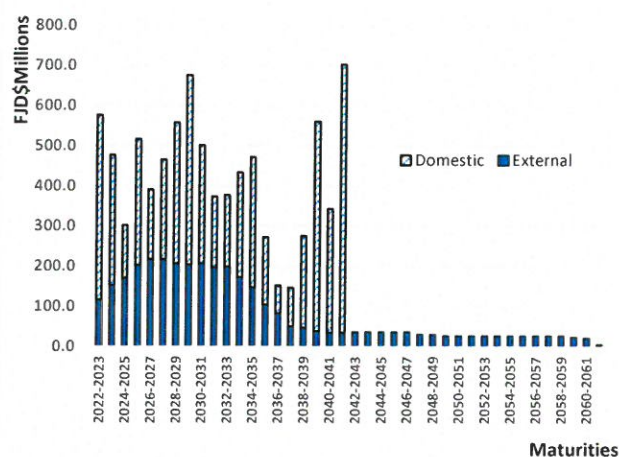
Alternatively, the Average Term to Refixing (ATR) improved to 9.3 years compared to 8.7 years in the previous fiscal year. This improvement reflects more time until all the principal payments in the debt portfolio become subject to a new interest rate. The ATR for external debt as at end of FY 2022 was 7.5 years and 10.3 years for domestic debt, with both showing improvements over the year. Moreover, debt refixing in a year as a percentage of total debt stood at 25.3 percent compared to 25.1 percent in the previous year.

Variable interest rate account for 20.8 percent of total debt comprising mostly external multilateral loans while 79.2 percent of the debt portfolio has fixed interest rates. The variable interest rate loans are subject to the new variable Secured Overnight Financing Rate (SOFR) benchmark interest rate for dollar-denominated derivatives and loans.

Foreign exchange rate risk measured as a percentage of external debt composition has deviated from the 35 percent benchmark to 36.8 percent due to the increase in external debt borrowings during FY 2022. In the medium term, Government will focus on the development of domestic market activities to reduce

foreign currency exposure. Additionally, Government is actively exploring exercising the embedded options within all its financing facilities from multilaterals such as the possibility of converting foreign currency debt to FJD denominated debt and fixing interest rates.

Figure 4: Central Government Debt Redemption Profile as at end-July 2022



Source: Ministry of Economy

Figure 4 shows the redemption profile by debt composition through to the end of FY 2061. All of the domestic redemptions will mature within FY 2042 of around \$669.0 million and the highest external loan repayments are in FY 2027 of around \$217.2 million. Government will ensure a smooth transition of redemptions for both domestic and external debt to avoid high refinancing risk in any particular year. This will be further addressed through liability management operations such as buybacks, switches and call options that may be undertaken.

CONTINGENT LIABILITIES

Government guaranteed debt (explicit guarantees) stood at \$1.1 billion as at 31 July 2022, equivalent to 10.7 percent of GDP. This represents a 1.7 percent increase when compared to the same period last year. The increase over the year was attributed to the utilisation of approved guarantee facilities by Fiji Airways (FA) and Fiji Sugar Corporation Limited (FSCL).

During the fiscal year, Parliament approved that Government guarantee the following:

- FDB borrowings for the 12 month period from 1 March 2022 to 28 February 2023 for the sum of \$200 million and that a guarantee fee of 0.075 percent be applied on the cumulative utilised guarantee credit; and
- FSCL domestic borrowings from 1 August 2022 to 31 May 2028 for a guarantee limit of \$75 million and that FSCL be exempted from paying the guarantee fee.

Other explicit contingent liabilities increased by 5.0 percent to \$551.6 million while other implicit contingent liabilities declined by 2.7 percent to \$76.0 million as at 31 July 2022 when compared to the same period last year.

The total contingent liabilities of Government as at 31 July 2022 stood at \$1.7 billion, which is equivalent to 16.9 percent of GDP. This represents a 2.5 percent increase when compared to the same period in the previous fiscal year.

RISK PROFILES OF PUBLICLY GUARANTEED LIABILITIES

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

Guaranteed entities are classified by budget sectors and simultaneously using a 3-tier risk assessment approach. The risk assessment is based on (i) latest three-year historical performance; (ii) interim financial statements and cash flow projections; and (iii) general industry assessments including economic conditions.

Table 2: Risk Assessment of Guaranteed Entities as at 31 July 2022

Budget Sectors	Tier 1 Low	Tier 2 Medium	Tier 3 High
Infrastructure			
Social Services		HA	
Economic Services	PAFCO		FA, FSCL
General Administration		FDB	

Source: Ministry of Economy

Features contributing to the risk assessments are outlined below:

- i. **Financial Risk:** FSCL is assessed as high risk as it has shown continuous Net Losses, cash overdraft and positive Net Debt² over the past five years. FSCL continues to rely heavily on Government financial support to ensure business continuity.

On a positive note, FSCL's current strategies which includes the increase in sugar tariff during the fiscal year, proposed asset sales and the debt to equity conversion of the \$173.8 million debt, will improve FSCL's financial position in the medium term.

Similarly, FA has also been assessed as high risk over the past two financial years due to the impact of COVID-19 on tourism and air travel. However, the re-opening of Fiji's borders and easing of border entry requirements have led to positive improvements in FA's financial performance in recent months. FA's recovery is on track, and is essential to Fiji's overall post-pandemic economic recovery. It is expected that FA's financial performance and position will further improve in the next 6 months, which will be closely monitored by Government.

- ii. **Adequate profitability and liquidity:** PAFCO, FDB and HA indicated reasonable financial

performance. FDB profitability and liquidity level showed reducing trend mainly due to the impact of COVID-19 and this is anticipated to improve from 2022. HA financial performance overall is reasonable while PAFCO financial performance fluctuates. Overall, the three entities have strong cash flow positions.

- iii. **Recovery from the impacts of COVID-19 and recent natural disasters:** Entities have reinvented themselves by adopting new technologies and revising their business strategies and projections to adapt to the 'new normal'. Given the varying sizes of the entities, the effects of the pandemic and recent natural disasters across the different sectors, there is expected to be an uneven post-COVID-19 recovery and subsequent improvements in financial performance across the entities under review.
- iv. Government through the Ministry of Economy will continue to stringently assess and monitor all guaranteed entities to ensure that any possible fiscal exposure is mitigated.

**Debt Management Unit
November 2022**

² Positive Net Debt refers to more debt than liquid assets in the entity's balance sheet (Total debt– cash/cash equivalents)

Appendix

CENTRAL GOVERNMENT DEBT STATISTICS (FJ\$ Millions)					
PARTICULARS	Jul-18	Jul-19	Jul-20	Jul-21	Jul-22
DEBT STOCK					
TOTAL GOVERNMENT DEBT (% of GDP)	45.8% (r)	48.8% (r)	62.5% (r)	83.6% (r)	91.1%
<i>ANNUAL GROWTH (%)</i>	11.7%	9.9%	16.6%	14.6%	19.2%
TOTAL GOVERNMENT DEBT	5,220.5	5,735.3 (r)	6,686.0	7,663.7	9,131.5
DOMESTIC DEBT	3,763.0	4,278.5	4,976.5	5,241.2	5,767.4
BONDS:	3,575.5	3,971.0	4,681.0	4,967.7	5,483.9
FDL	1,752.7	1,545.1	1,415.6	1,235.8	1,081.7
FIB	1,680.3	2,278.6	3,019.3	3,488.0	4,150.3
FGB	100.0	100.0	100.0	100.0	100.0
CRB	-	-	90.0	90.0	90.0
Viti Bonds	42.5	47.3	56.2	54.0	61.8
T-BILLS	187.5	307.5	269.7	273.5	283.5
LOANS:	-	-	25.7	-	-
FNPF	-	-	25.7	-	-
% of Domestic Debt to Total Debt	72.1%	74.6%	74.4%	68.4%	63.2%
% Domestic Debt to GDP	33.0% (r)	36.4% (r)	46.5% (r)	57.2% (r)	57.6%
EXTERNAL DEBT	1,457.5	1,456.8	1,709.5	2,422.5	3,364.1
BONDS (Global Bond)	420.3	433	424.3	-	-
LOANS:	1,037.20	1,023.80	1,285.20	2,422.5	3,364.1
ADB	383.6	389.3	525.4	932.4	1,349.4
AIIB	-	-	-	104.2	110.3
EIB	-	-	-	-	18.6
EXIM China	489.3	462.0	409.0	444.9	431.4
JICA	11.5	9.7	50.9	290.3	413.7
World Bank Group	150.6	160.3	297.6	650.1	1,040.8
IFAD	2.2	2.5	2.3	0.7	-
% of External Debt to Total Debt	27.9%	25.4%	25.6%	31.6%	36.8%
% External Debt to GDP	12.8%	12.4% (r)	16.0% (r)	26.4% (r)	33.6%
DEBT SERVICING & BORROWING					
TOTAL DEBT SERVICING	498.5	617.2	609.2	1,050.3	718.7
Domestic Bonds & Loans	406.7	508.0	494.6	573.4	637.9
<i>Principal</i>	160.7	235.3	194.1	222.5	282.8
<i>Interest</i>	246.0	272.7	300.5	350.9	355.2

External Loans	91.8	109.2	114.6	478.8	80.8
<i>Principal</i>	44.8	54.8	58.7	452.1	63.1
<i>Interest</i>	47.0	54.4	55.9	26.7	17.7
TOTAL BORROWING	606.0	645.7	1,265.8	1,627.5	1,748.0
FIB Bonds/Viti Bonds/FGB/CRB	531.8	630.8	904.1	483.5	799.0
External loans (includes Cap. Interest)	74.2	14.9	361.7	1,144.0	949.0
TERMS	YIELDS ON GOVERNMENT SECURITIES (%)				
3 months	1.45	2.70	1.75	0.54	0.04
6 months	3.05	3.35	2.28	0.74	0.09
12 months	3.63	5.00	2.93	1.17	0.15
10 year	6.00	6.00	5.44	4.44	3.95
15 year	6.50	6.50	5.85	4.64	4.25
20 year	7.00	7.00	6.35	4.99	4.68
CONTINGENT LIABILITIES (FJ\$ Millions)					
Government Guarantees (Explicit) (A)					
% of Government Guarantees to GDP	5.1%(r)	5.7% (r)	8.8% (r)	11.5% (r)	10.7%
<i>Annual Growth (Government Guarantees) (%)</i>	4.4%	14.8%	39.4% (r)	12.0% (r)	1.7%
Total Government Guarantees	586.7	673.3	938.9 (r)	1,051.1 (r)	1,068.5
Fiji Airways (FA)	-	-	279.0	421.7	439.4
Fiji Development Bank (FDB)	200	291.9	307.8	308.8	301.5
Energy Fiji Ltd (EFL)	94.5	53.9	50.2	-	-
Fiji Hardwood Corporation Ltd (FHCL)	5.2	3.6	1.7	0.7	-
Fiji Pine Ltd (FPL)	1.8	-	-	-	-
Fiji Sugar Corporation Ltd (FSCL)	210.2	241.3	199.2	216.9	243.0
Housing Authority of Fiji (HA)	59.7	68.0	90.2	102.2	81.7
Fiji Broadcasting Corporation Ltd (FBC)	12.6	10.5	8.3	-	-
Pacific Fishing Company Pte Ltd (PAFCO)	2.7	4.1	2.5	0.8	3.0
Other Explicit Contingent Liabilities (B)					
International Bank for Reconstruction & Development (IBRD)	303.0	312.2	305.9	300.6	329.4
Asian Development Bank (ADB)	202.2	204.2	204.7	204.2	200.2
Asian Infrastructure Investment Bank (AIIB)	-	-	21.2	20.8	22.1
Implicit Contingent Liabilities (C)					
Other Implicit contingent liabilities*	81.3	74.8	111.8	78.1	76.0
<i>*includes provincial & municipal councils' debt and FRCS litigation claims</i>					
Total Other Contingent Liabilities (B+C)	586.5	591.2	643.6 (r)	603.7 (r)	627.6
% of Other Contingent liabilities to GDP	5.1% (r)	5.0% (r)	6.0% (r)	6.6% (r)	6.3%
Total Contingent Liabilities (A+B+C)	1,173.2	1,264.6	1,582.5 (r)	1,654.7 (r)	1,696.1
% of Total Contingent Liabilities to GDP	10.3%	10.8% (r)	14.8% (r)	18.1% (r)	16.9%

Risk Indicators		FY2020-2021			FY2021-2022		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Amount (in millions of FJD)		2,422.5	5,241.2	7,663.7	2,698.8	5,901.1	8,599.9
Amount (in millions of USD)		1,162.3	2,514.7	3,677.0	1,525.5	2,614.9	4,140.4
Nominal debt as percent of GDP		26.4	57.2	83.6	33.6	57.6	91.1
Refinancing risk	ATM (years)	11.3	9.5	10.1	11.4	10.3	10.7
	Debt maturing in 1 year (percent of total)	1.5	10.6	7.7	3.4	8.0	6.2
Interest rate risk	ATR (years)	6.9	9.5	8.7	7.5	10.3	9.3
	Debt re-fixing in 1 year (percent of total)	55.7	10.6	25.1	54.4	8.0	25.3
	Weighted Av. IR (percent)	0.8	6.4	4.7	1.9	6.1	4.6
Foreign Exchange rate ('FX') risk	FX debt (percent of total debt)	31.6			36.8		

Source: Ministry of Economy *Variance in figures is due to rounding.