FIJIAN GOVERNMENT

DEBT
STATUS REPORT

FOR THE YEAR ENDING JULY 2017

MINISTRY OF ECONOMY (MoE)

SUVA

FIJI

October 2017

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1.0 EXECUTIVE SUMMARY

Total Outstanding debt of the Fijian Government as at July 2017 increased to $4,683.7 million, from $4,507.7 million registered in the same period last year. The 3.9 per cent increase in outstanding debt was driven by a combined growth in domestic and external borrowing. On the other hand, the Debt to GDP ratio recorded 45.6 per cent, down from 47.3 per cent registered in July 2016

The gross borrowing limit of the Fijian Government for 2016/17 financial year was $620.6 million as approved by the Parliament under the Appropriation Act No.15 of 2016.

Of the total gross borrowing approved by Parliament, $291.5 million is associated with Domestic borrowing and the balance of $329.1 million to be sourced from overseas. Actual borrowing totalled $447.2 million, maintained within the approved annual borrowing limits for the 2016/17 financial year.

Outstanding domestic debt rose by 1.7 per cent to $3,300.8 million over the year. Likewise, the external debt composition rose to $1,382.8 million, an increase of 9.5 per cent from $1,262.6 million recorded last year.

Interest rate movement in the local market conditions favoured Government, with excess liquidity in the banking system a major factor in this decrease. Yields for long term bonds were slightly lower when compared to same period last year. The weighted average of the domestic loan portfolio is 7.2 per cent and the weighted average for external loan portfolio is 3.2 per cent which largely reflects low concessional interest rate loans from foreign lenders.

Total contingent liabilities fell by 19.0 per cent to $1,019.8 million when compared to July 2016; attributed mainly to decreases in explicit contingent liabilities underpinned by the settlement of various entities liabilities. As a percentage of GDP, this comprised 9.9 per cent. The total guaranteed debt (explicit liabilities) fell to $562.2 million in July 2017 from $787.4 million recorded a year ago, which is equivalent to 5.5 per cent of GDP.

2.0 INTRODUCTION

Maintaining a sustainable level of debt and an appropriate mix between foreign loans and domestic loans has been internal target benchmarks of the Ministry of Economy. This was a main challenge of the Government following the devastation impact of TC Winston in the early part of the year. Nevertheless, the focus of government debt management in 2016/17 was centred on successful implementation of prudential debt strategies to ensure that the government's financing needs are met at a cost efficient manner with a prudent degree of risk. Accordingly, the average interest cost of market borrowing requirement to meet budgetary needs was maintained at a low level and the Average Time to Maturity (ATM) of domestic public debt portfolio was successfully extended by lengthening the issuance of bonds, while at the same time improving the share of short term debt to total.

As evident from the 2016/17 debt indicators outturn, there is alignment of sound debt management practice with the strategy being adopted. The medium-term debt to GDP target is set at 45 per cent of GDP; this is achieved during the period under review. At the end of July 2017, the Fiji Government had a relatively low proportion of external debt with almost 70 per cent of the Government's debt denominated in FJD.

Government's fiscal policy continues to focus on growing the productive sector of the Fijian economy through infrastructure development, provision of social services and maintaining a more conducive environment for private sector development. As evident from previous years and again this year, Government's borrowing contributed significantly to growing the economy whereby funds were devoted to capital expenditure to thrive and drive future growth. The Fijian economy is anticipated to rebound by 3.8 per cent and growth is anticipated to be broad based and driven mainly by manufacturing, construction as well as financial and insurance activities.

Ensuring Government financing needs are met at low possible cost while maintaining prudent level of risk remains the focus of Government Debt management. During the 2016/2017 financial year, Government successfully met its financing needs and serviced all its debt obligations on time. Government's active participation in the domestic market is vital to ensure development of the primary market as well as the secondary market. The introduction of re-opening of Government bonds in 2016/2017 also enhanced the liquidity of the bond market, which is beneficial to both the investor (buyer) and the Government (seller).

The gross borrowing limit of the Fijian Government for 2016/17 financial year was $620.6 million. This borrowing was approved by Parliament under the Appropriation Act No.15 of 2016. Of the $620.6 million, domestic borrowing comprised of $295.1 million and external borrowing $329.1 million. As mandatory under the Fiji First Government, all borrowings are utilised on infrastructure projects, with external loans specifically taken for roads and water sanitation projects.

Other operations and borrowing activities are highlighted in this paper. The debt status report is structured into four main areas as follows:

(i) Total Government Debt position;

(ii) Government Domestic Debt and External Debt;

(iii) Contingent Liabilities;

(iv) Risk Analysis.

Finally the paper also highlights key initiatives that the Ministry of Economy is pursuing as integral part of Public Financial Management improvement plan and ensuring sound management of Government debt portfolio.

3.0 TOTAL GOVERNMENT DEBT POSITION

The Government debt position comprises of all outstanding domestic debt and external loans during the review period. As at July 2017, total Government Debt stood at $4,683.7 million, an increase of 3.9 per cent when compared to the same period last year. The increase was mainly driven by combined growth in external and domestic borrowing. In contrast, the debt to GDP ratio recorded 45.6 per cent, down from 47.3 per cent registered in July 2016. More importantly, the overarching objective is to maintain an optimum debt mix and ensure sustainability of the debt. The steady decline in debt to GDP reflects strong growth performance and favorable debt dynamics.

Consistent with Government's key debt management objectives, total debt has been maintained at the desired domestic to foreign debt mix of 70:30 (+/- 5 per cent). Maintaining this debt composition will assist in the development of the domestic debt market and keep the foreign exchange risk for Government at a prudent level.

As a percentage of the total debt, domestic debt comprises 70.5 per cent ($3.30 billion) while external debt consists of 29.5 per cent ($1.38 billion) at the end of July 2017. (Table 1)

Table 1: Total Debt Stock ($M)

Year	July 2014	July 2015	July 2016	July 2017
Total Debt	**3,929.1**	**4,382.8**	**4,507.7**	**4,683.7**
Domestic	2,847.6	2,997.5	3,245.0	3,300.8
External	1,081.5	1,385.3	1,262.6	1,382.8
Debt/GDP	48.3%	49.4%	47.3%	45.6%
Domestic/ Total Debt	72.5%	68.4%	72.0%	70.5%
External/ Total Debt	27.5%	31.6%	28.0%	29.5%

Source: Ministry of Economy

4.0 DOMESTIC DEBT

4.1 Domestic Debt Stock

Development of the domestic debt market is a key objective in debt management as it focuses more on liquidity, transparency, secondary market trading, settlement mechanism and investor diversification. 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 Fiji Infrastructure Bonds. Government introduced retail bonds in 2012 commonly known as the Viti Bond, which is issued on tap with fixed interest rates.

For 2016/17 financial year, Parliament approved total domestic borrowing of $291.5 million. Actual borrowing was $224.2 million, well within the approved ceiling. The Government floated bonds targeting both institutional investors and individuals with maturities ranging from 3 years to 15 years.

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

Year	July 2014	July 2015	July 2016	July 2017
Bonds	2,761.8	2,831.8	3,079.8	3,204.4
T-Bills	82.6	165.7	165.2	96.4
Loan	3.2	0.0	0.0	0
Total	**2,847.6**	**2,997.5**	**3,245.0**	**3,300.8**
% of GDP	35.0%	33.8%	34.1%	32.1%
Domestic debt service o/w:	370.7	362.5	339.4	328.8
Principal	162.7	151.1	121.3	99.6
Interest	208.0	211.4	218.1	231.1

Source: Ministry of Economy

[1] Bonds and T-bills figures reflect amounts payable on maturity; excludes unamortised premium and discount on bonds.

The outstanding Domestic Debt at the end of July was $3,300.8 million compared with $3,245.0 million recorded on same period last year. Of the total outstanding, Bonds comprised $3,204.4 million and T-bills $96.4 million. While domestic debt level continues to increase due to net issue of bonds, the domestic debt to GDP declined to 32.1 per cent from 34.1 per cent recorded in same period last year.

The weighted average interest rate for domestic debt as at July 2016 is 7.2 per cent, indicating more fixed interest rate instruments in the domestic debt portfolio that are issued at higher rates compared to the external debt loans with favourable concessional terms.

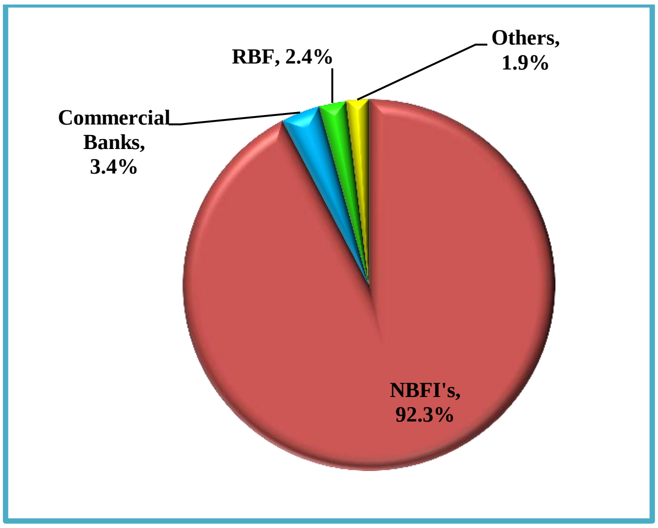
4.2 Domestic Debt Servicing

Total domestic debt redemption as at July 2017 amounts to $99.6 million compared to $121.3 million for the previous year, indicating a reduction of $21.7 million due to different maturities. In contrast, interest payment for 2016/17 financial year grew to $229.2 million from $218.1 million. This reflects new issuance undertaken during first half of the year. The Ministry of Economy is ensuring that a stable and affordable maturity structure is maintained at all times to reduce any refinancing risk exposure.

4.3 Holdings of Government Securities

Bonds: Of the $3,204.4 million Government bonds outstanding, the non-bank financial institutions (NBFI's) held 92.3 per cent, followed by the commercial banks holding 3.4 per cent, the Reserve Bank of Fiji (RBF) at 2.4 per cent and the remaining 1.9 per cent held by other investors including individual households (Figure 1).

Figure 1: Fijian Government Bond Holders



Source: Ministry of Economy

The Superannuation industry still holds majority of the bonds with longer maturities due to their preference and appetite and to match their long term liabilities and needs while Commercial banks' prefer shorter tenor bonds to suit their operations and liquidity needs.

T-Bills: Commercial banks held 100 per cent of T-bills that were outstanding at the end of July 2017, thus indicates a higher preference of short term Government securities by the banks, as this will assist them in their operations and liquidity management.

4.4 Bond Allotment

With a view towards developing the local capital markets and having efficient volume of debt instruments to float for the fiscal year 2016/2017, Government issued $224.2 million worth of bonds. Of this total amount issued, $214.7 million comprised Fiji Infrastructure Bonds (FIBs) and $9.5 million for Viti Bonds.

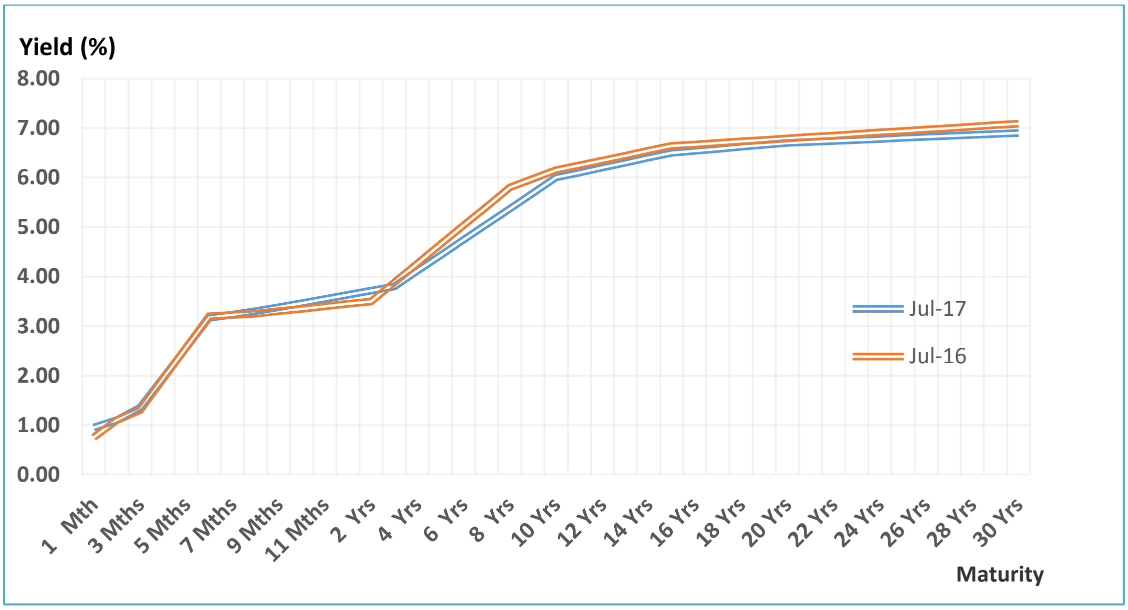
Viti Bonds issuances have increased over the years implying greater public awareness of the instrument, which is tailor made to meet pensioners and retail investors' preferences. This retail bond offers fixed returns of 4.0 per cent for 5 years, 4.5 per cent for 7 years and 5.0 per cent for 10 years respectively.

The Government floated bonds with maturities ranging from 2 to 15 years, with the majority of the uptake on the longer end of the maturity structure, indicating investor confidence in Government's long term debt securities. The 10 and 15 year benchmark bond were also issued followed by re-opening.

4.5 Domestic Interest Rates Structure

Interest rate for the 10 and 15 year bonds fell to 6.00 per cent and 6.50 per cent respectively at the end of July when compare to the same period last year. The domestic market yield curve showed a relatively increasing trend with Government securities trading at higher coupons for long term bonds. This implies that investors estimated rate of return increases with long term Government debt securities.

Figure 2: Government Domestic Yield Curve



Source: Reserve Bank of Fiji

5.0 EXTERNAL DEBT

5.1 External Debt Stock

External borrowings were mainly utilised for infrastructure projects, budget support, emergency and disaster assistance. Following the severe impacts of TC Winston in February of 2016, Fiji's development partners willingly offered concessional loans to support the nation in the rebuilding process. With frequent occurrences of tropical cyclones over the years, 2016/17 saw Government increasing its level of external borrowing following the damage left after TC Winston. Government took advantage of the concessionary terms offered by multilateral and bilateral lenders.

Table 3: Government Outstanding External Debt ($m)

Particulars	**July 2014**	**July 2015**	**July 2016**	**July 2017**
External DOD Central Govt.	**1,081.5**	**1,385.3**	**1,262.6**	**1,382.8**
Loans	617.8	849.6	846.9	980.5
Bonds	463.7	535.7	415.7	402.3
Total External Debt Service of which:	**79.0**	**84.2**	**650.4**	**93.3**
Principal	25.2	27.2	580.5	49.3
Interest	53.8	56.9	69.9	44.4[2]
% of GDP	13.3%	15.6%	13.3%	13.5%

Source: Ministry of Economy

[2] Total external Interest payment excludes amortisation on the International Bond and front-end fee payments.

As at July 2017, total External loans outstanding stood at $1,382.8 million, an increase from $1,262.6 million registered in the last fiscal year.

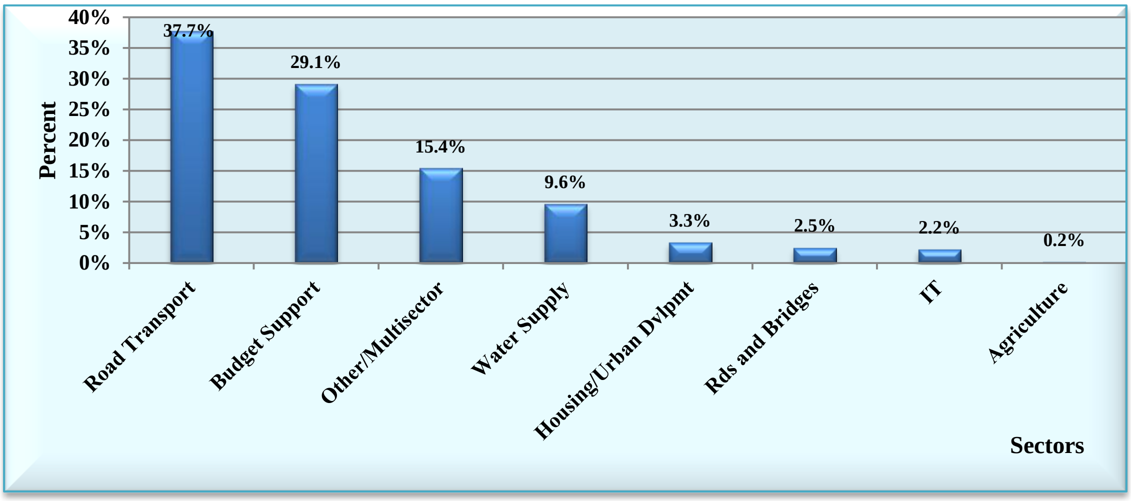
The growth in external debt was reflected with an increase in loan drawdown of $223.0 million, which were mainly taken for emergency and disaster assistance amounting US$100 million. These were equally borrowed from ADB (US$50m) and IBRD (US$50m).

External debt to GDP Ratio rose slightly to 13.5 per cent in July 2017, as compared to 13.3 per cent recorded in July 2016.

5.2 External Loans by Economic Sectors

The external loans classification by economic sector illustrates the percentage allocation of external loan funds to various sectors of the economy as shown in the Fig 3 graph below.

Figure 3: Distribution by Sectors



Source: Ministry of Economy

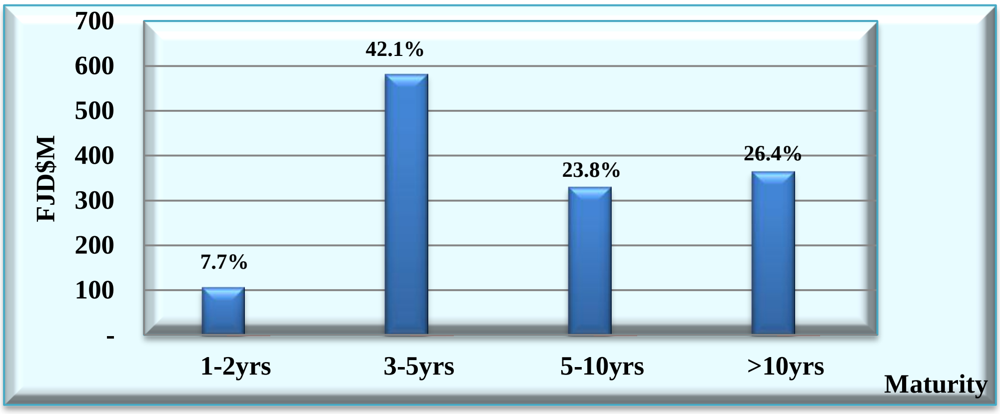
At the end of fiscal 2017, the road transport sector comprised the largest share of funding by economic sector basis (37.7 per cent) due to the commitment of new transport loans and drawdowns made for road projects. The budget support sector comprised (29.1 per cent), followed by multi sector (15.4 per cent), water supply (9.6 per cent), housing development (3.3 per cent), road and bridges (2.5 per cent), IT (2.2 per cent) and Agriculture (0.2 per cent).

5.3 External Debt Maturity Profile

In terms of the amortization profile, 42.1 per cent of foreign debt will mature between 3-5 years, 26.4 per cent over 10 years, 23.8 per cent between 6-10 years and 7.7 per cent between

1-2 years. Debt maturing between 3-5 years shows the highest percentage due to the bullet payment for the US$200 million bond in October 2020.

Figure 4: External Loan Maturity Profile



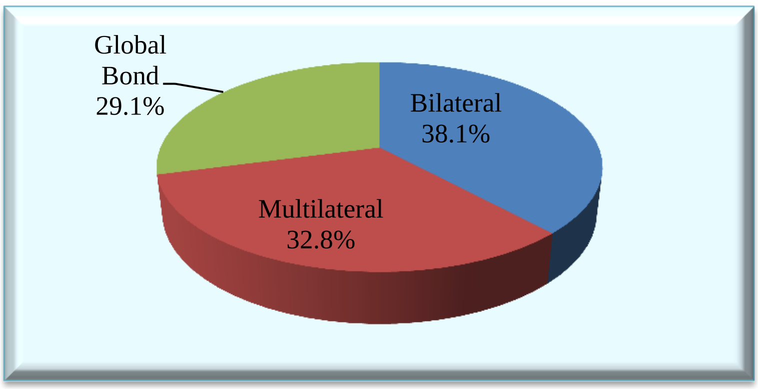
Source: Ministry of Economy

The average term to maturity on external debt stood at 6.9 years as of 31 July 2017 compared to 6.6 years at the end of July 2016. This will result in a slight decrease in refinancing risk for the external debt portfolio over the medium term; however this can still be managed by Government through refinancing the global bond with cheaper policy based loans offered by the multilateral and bilateral lenders.

5.4 External Debt by Creditor Category

Government's major external creditors are the Export Import Bank of China (EXIM China), the Asian Development Bank (ADB), the International Bank for Reconstruction and Development (IBRD), the Japan International Cooperation Agency (JICA), the China Development Bank (CDB), the International Fund for Agricultural Development (IFAD) and the Export Import Bank of Malaysia (EXIM Malaysia).

Figure 5: Creditor Category



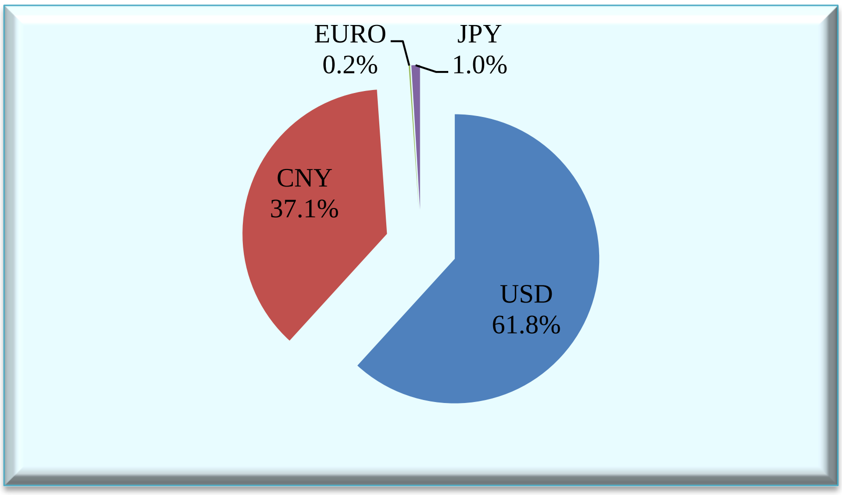
Source: Ministry of Economy

As at July 2017, bilateral lenders still held the largest share of external debt stock at 38.1 per cent, followed by the multilateral lenders at 32.8 per cent and the remaining 29.1 per cent for the global bond amounting to US$200 million. (Figure 5)

5.5 External Debt by Currency Composition

In terms of the external debt portfolio's currency composition, the US Dollar continues to dominate at 61.8 per cent, followed by the Chinese Yuan (CNY) at 37.1 per cent with Japanese Yen (JPY) and the EURO holding the least at 1.1 (round off per 100) per cent.

Figure 6: Currency Composition



Source: Ministry of Economy

6.0 CONTINGENT LIABILITIES

The Fijian Government under Section 62 of the FMA 2004 provides the legal framework for Guarantee whereby Government may guarantee the financial Liabilities of an entity in respect of a loan or otherwise, but only if the giving of the guarantee is authorized by the parliament.

Government Contingent Liabilities as recognized by the Ministry of Economy is classified into two categories:

1. Government guarantees (explicit);
2. Other contingent liabilities (implicit)

The 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.

As at 31 July 2017, total contingent liabilities declined by 19.0 per cent to $1,019.8 million compared to July 2016, attributed to decreases in explicit contingent liabilities underpinned by the settlement of various entities liabilities. As a percentage of GDP, this comprised 9.9 per cent. The total guaranteed debt (explicit liabilities) comprises of $562.2 million at the end of July 2017, compared with $787.4 million in preceding year. This reduction in explicit guarantee was mainly associated with maturing of outstanding loans. As a percentage of GDP, this is equivalent to 5.5 per cent.

[3]Table 4: Contingent Liabilities

Year	2014	2015	July 2016	July 2017
	($m)	($m)	($m)	($m)
Government Guarantee (Explicit)	832.6	824.5	787.4	562.2
As % of GDP	**9.9%**	**9.0%**	**8.3%**	**5.5%**
Total Contingent liabilities	**847.6**	**867.8**	**1,259.2**	**1,019.8**
As % of GDP	**10.0%**	**9.4%**	**13.2%**	**9.9%**

Source: Ministry of Economy

7.0 RISK ANALYSIS

7.1 Risk Indicators

The Fijian Government in line with the debt management objectives has formulated various strategies to minimise the cost and risks associated in relation to the overall debt portfolio and at the same time achieving its overall debt objectives.

Government has set out its key parameters that will be part of the Medium Term Debt Strategy and aims to achieve the desired level of debt sustainability through adopting strategies that will provide the lowest possible cost and risk in the medium to long term.

The key risk indicators measured were refinancing risk[4,] interest rate risk[5] and exchange rate risk[6.]

[3] Contingent liability extracted for new fiscal year beginning July 2016. Past years still reflect calendar year amounts as per the available certificate of balances.
4 Rollover risk (refinancing risk) is the possibility of having the debt rolled over at a higher interest.
5 Risks associated with variable costs of borrowing.
6 Risks associated with fluctuations of exchange rates.

Table 5: Risk Indicators as at Fiscal Year End July 2017

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of FJD)		1,382.8	3,300.8	**4,683.7**
Amount (in millions of USD)		687.4	1,640.8	**2,328.2**
Refinancing risk	ATM (years)	6.9	7.4	**7.3**
	Debt maturing in 1yr (% of total)	3.8	7.8	**6.6**
Interest rate risk	ATR (years)	3.6	7.4	**6.3**
	Debt refixing in 1yr (% of total)	35.6	7.8	**16.0**
	Weighted Av. IR (%)	3.3	7.2	**6.0**
FX risk	**FX debt (% of total debt)**			**29.5**

Note:

Av. IR – Average Interest Rate

ATM – Average Term to Maturity

ATR – Average Time to Refixing

FX – Foreign Exchange

Source: Ministry of Economy

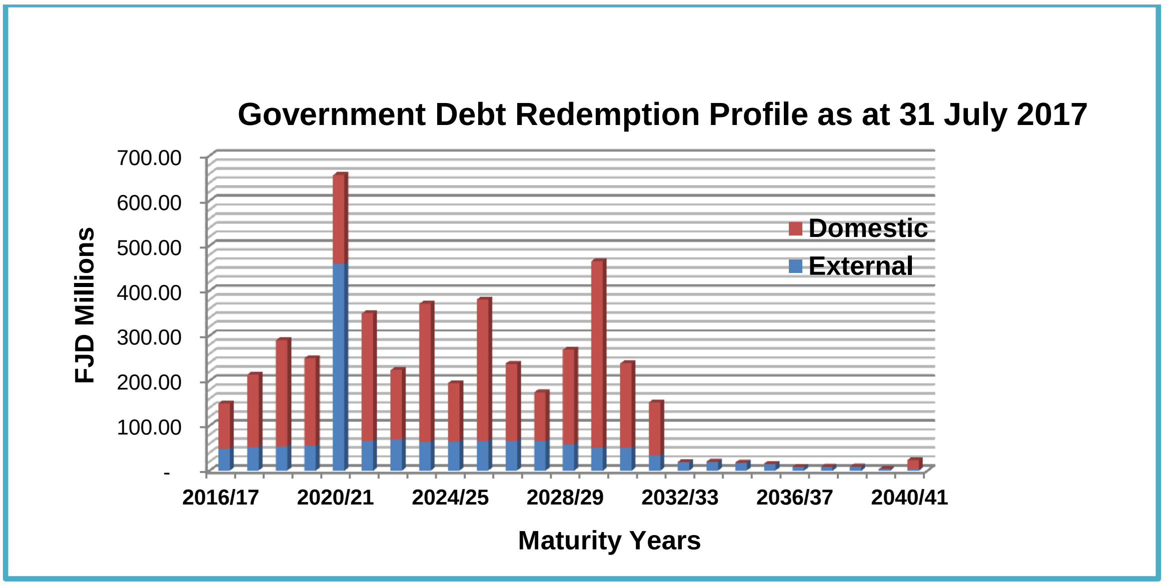
The refinancing risk for Government for fiscal period July 2017 is relatively low with an ATM of 7.3 years. This shows that Government has an average of 7.3 years to refinance its debt portfolio with 6.9 years for external and 7.4 years for domestic debt, respectively. Debt maturing in 1 year as a percentage of total debt is 6.6 per cent. External debt to be refinanced within a year as a percentage of total debt is 3.8 per cent compared to domestic debt at 7.8 per cent. This is due to the composition of debt and the different maturity terms.

The interest rate risk dictates the viability of interest rates under the various interest structures. 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 variable interest rate shocks. The ATR for total debt is 6.3 years with external debt at 3.6 years and domestic debt at 7.4 years. This implies that Government has adequate time to fix the interest rates in terms of interest rate shocks. The debt refixing in a year as a percentage of total debt is 16.2 per cent with domestic showing a relatively low percentage of 7.8 per cent compared to a 35.6 per cent for external debt due to variable interest rates applicable to the multilateral loans under the external portfolio.

Weighted average interest rate is relatively low at 6.0 per cent for the total debt stock with domestic debt having an average interest rate of 7.2 per cent compared to external at 3.3 per cent, largely reflecting the presence of concessional financing in the external portfolio with floating rate debt and low interest rates.

In terms of exposure to foreign exchange rate risk, 29.5 per cent of the total debt portfolio is exposed to exchange rate volatility. This is in line with Government's debt management objective which is to maintain foreign debt at an optimum level in order to cushion the risks arising from the fluctuation of foreign exchange rates

Figure 7: Government Debt Maturity Profile



The government debt maturity profile is shown in the graph above. It can be noted that bulk of the debt maturing are denominated in Fijian dollars. The maturity of external debt is evenly spread out over this period with the only exception for the Global bond redemption payment in 2020-21. As at July 2017, refinancing risk is relatively low, however, Government will continue to review its loan and debt instruments to maintain an optimum maturity structure and avoid excessive maturities within short time periods.

8.0 MAJOR HIGHLIGHTS

8.1 Re-Opening of Fiji Infrastructure Bonds

A key highlight of the 2016/2017 fiscal year is the launching of re-opening of Fiji Infrastructure Bond. The 10 year and 15 year benchmark FIB were issued at 6.00% and 6.50% respectively and both bonds were successfully reopened in June and July. Reopening a bond issue is issuing additional amounts of a previously issued bond. Reopened bonds have the same maturity date and interest rate as the original bonds, but they are sold on different dates and usually at a different price. The objective is to build securities series with a large amount outstanding. Reopening enhances the liquidity of the bond market, which is beneficial to both the investor (buyer) and the Government (seller). In addition, limiting the number of maturities outstanding (reducing the number of bond series) and standardizing the features of the issued financial instruments. By reducing the bond serious line, will enhance the management of Government bond, thus reducing the operational risks.

8.2 Strengthening Fiscal Oversight of Public Enterprises (PEs) and Statutory Authorities (SAs) - PFTAC Technical Assistance

PFTAC undertook a mission in May 2017 at the request of the Ministry of Economy to develop a framework for identifying, assessing, and reporting of fiscal risks arising from public enterprises (PEs) and statutory authorities (SAs). The technical assistance has also looked at institutional arrangements to strengthen fiscal oversight of these entities. The mission met with officials from the Ministry Economy, Ministry of Public Enterprises (MPE), the Auditor-General's Office, the Public Accounts Committee, selected PEs/SAs (Pacific Fishing Corporation, Public Trustee Corporation, Fiji Electricity Authority, Fiji Development Bank, Housing Authority, Roads Authority, and line Ministries (Ministries of Fisheries, Housing, and Infrastructure) and the Asian Development Bank (ADB) office in Fiji. The mission held a presentation on international standards and good practices on fiscal oversight of autonomous government agencies. In addition a workshop was conducted with MOE and MPE staff to discuss the proposed framework and indicators for the analysis of fiscal risks based on financial statements and other sources of relevant information.

8.3 ADB and World Bank-Tropical Cyclone Winston Emergency Assistance

The severity of TC Winston in 2016 has resulted in the successfully negotiation of ADB and World Bank loans amounting to US$50 million respectively. Both loans were fully disbursed during the 2016/2017 financial year as Budget support for Emergency Assistance for TC Winston.

9.0 SUMMARY

In summary, the increase in government debt position was driven by rise in domestic and external loans as Government tries to recover from the impacts of TC Winston which occurred in the early part of 2016. However on a positive note, Debt to Gross Domestic

Product (GDP) ratio dropped to 45.6 per cent, compared to the same period last year which was 47.3 per cent.

Interest rate movement in the local market conditions favoured Government, with excess liquidity in the banking system a major factor in this decrease. The weighted average interest for the overall loan portfolio was at 6.0 per cent for July 2017. Likewise, ATM and ATR increase slightly which implies government has sufficient time to repay its debt.

Total contingent liabilities fell by 19.0 per cent to $1,019.8 million when compared to July 2016; attributed mainly to decreases in explicit contingent liabilities underpinned by the settlement of various entities liabilities. As a percentage of GDP, this comprised 9.9 per cent. The total guaranteed debt (explicit liabilities) fell to $562.2 million in July 2017 from $787.4 million recorded a year ago, which is equivalent to 5.5 per cent of GDP.

In ensuring an aggregate debt and guarantee position is tabulated, Government is developing the Medium Term Debt Strategy for fiscal year 2018/19 and the Implementation of the Fiscal Risks Technical Assistance Report. This will further result amongst other things the reporting of risks in debt reporting and coordination with fiscal policy.

Overall, with positive outlook on the state of the Nation economic performance, this is likely to drive Debt to GDP ratio downwards.

– END –

For further enquiries, please contact the

Debt Management Unit

Ministry of Economy, Suva