FIJIAN GOVERNMENT

2018/2019
DEBT
ANNUAL REPORT

MINISTRY OF ECONOMY

SUVA

FIJI

ABBREVIATIONS AND DEFINITIONS

ADB	Asian Development Bank
ATM	Average Time to Maturity
ATR	Average Time for Re-fixing
CNY	Chinese Renminbi Yuan, the currency of the People's Republic of China
EIB	European Investment Bank
EUR	Euro, the currency of the Eurozone nations
EXIM China	The Export-Import Bank of the People's Republic of China
EXIM Malaysia	The Export-Import Bank of the Federation of Malaysia
FDL	Fiji Development Loans
FDB	Fiji Development Bank
FIB	Fiji Infrastructure Bonds
FJD or $	Fijian Dollars, the currency of the Republic of Fiji
FMA	Financial Management Act (2004)
FRCS	Fiji Revenue & Customs Authority
FSC	Fiji Sugar Corporation
GDP	Gross Domestic Product of Fiji for a fiscal year
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IFAD	International Funding for Agricultural Development
IFC	International Financing Corporation
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JPY	Japanese Yen, the currency of Japan
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
MOE	Ministry of Economy of the Republic of Fiji
RBF	Reserve Bank of Fiji
SDR	Special Drawing Rights, the currency of the IMF
T-Bills	Treasury Bills
USD	United States Dollars, the currency of the United States of America

FOREWORD

At the end of the 2018/2019 financial year total outstanding Government debt stood at $5.7 billion or 48.4 percent of the GDP. Government maintains a mix between domestic and external borrowing[1] to ensure that the portfolio risks are diversified, to take advantage of funding available at relatively lower costs, as well as to ensure that domestic borrowings do not crowd-out the private sector.

Nonetheless, the domestic market remains the main source of financing for Government at an outstanding value of $4.3 billion, an increase of 13.7 percent from the preceding year. External debt outstanding marginally declined by 0.1 percent to $1.4 billion.

From the approved gross borrowing of $708.4 million for the 2018/2019 financial year, $644.2 million was the actual raised – $630.8 million domestically and $13.4 million from external sources.

Contingent liabilities increased by $0.1 billion to $1.3 billion or 10.6 percent of GDP over the year. The increase was underpinned by Government guarantees provided for new borrowings by statutory corporations. An exchange rate impact resulted in a minor increase in the value of subscriptions to multilateral agencies which was partially offset by a fall in implicit contingent liabilities.

Given that Government guarantees have a possible impact on the fiscal budget in future years, these are subject to strong governance frameworks as established by the FMA 2004. These frameworks have been adhered to for existing contingent liabilities and will be retained or strengthened further in the medium term, in alignment with the Fiscal Risk Monitoring Framework.

During the financial year, discussions with a mix of multilateral and bilateral lenders reached advanced stages, where funding is subject to policy reforms in the areas of financial management, institutional and legal frameworks for state-owned entities and also improving the private sector business environment.

Bilateral partners including New Zealand and Australia have also expressed interest in participating in this financing program. These funds are earmarked for the refinancing of the global bonds due and maturing in October 2020.

To maintain sustained economic growth and ensure financial stability, Government intends to maintain borrowings over the medium term to meet its fiscal strategy targets. As such achieving Government financing needs at optimal costs while ensuring prudent levels of risk remains the main focus in managing Government debt. In the 2018/2019 financial year, Government successfully met the financing needs and serviced all its debt obligations on time. Active participation by Government in the domestic securities market is critical to ensuring continued development in the financial markets.

A key highlight for 2018/2019 financial year was the inclusion of Fiji as a member of the International Development Agency or IDA under the World Bank Group. The membership comes with access to concessional funds. Under the current IDA cycle, Government can access up to SDR21 million at zero interest on an annual basis with repayment terms of 40 years, including a 10-year grace period. The annual debt report is structured into four sections, namely Government Debt Position, Domestic Debt and External Debt, Contingent Liabilities and Portfolio Risk.

Makereta Konrote
Permanent Secretary for Economy

[1] A 70 percent to 30 percent (+/- 5 percentage points) ratio between Domestic and External Debt is targeted.

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GOVERNMENT DEBT STRATEGY

Strategic debt management outcomes for Government are linked to the broad strategies for fiscal consolidation and building of buffers so that a sustainable debt path is maintained. The key success indicators of these strategies are:

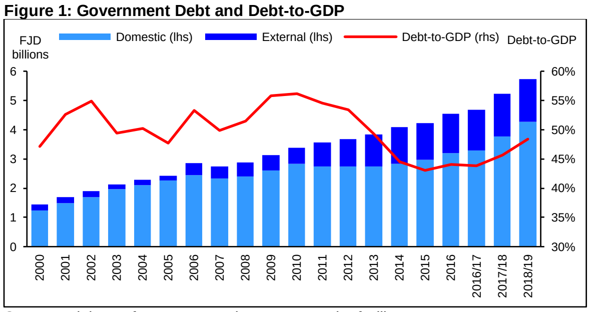
- reduce debt to around 45 percent of GDP by 2021/2022;
- development of domestic capital markets to enable greater domestic funding so that risks associated with offshore borrowings are contained. This will also entail the focus on liquidity, transparency, secondary market trading, settlement mechanisms and broadening the investor base;
- maintain an optimal cost and maturity structure for the debt portfolio while actively pursuing opportunities to refinance debt at lower costs;
- manage foreign debt repayments to minimise exchange rate risks; and
- minimise risks associated with on-lending and contingent liabilities.

The implementation of these strategies is aimed at achieving greater prudence in debt management within the desired levels of portfolio risks.

GOVERNMENT DEBT POSITION

Government debt outstanding at the end of the 2018/2019 financial year was $5.7 billion, rising from $5.2 billion at the end of July 2018. The increase reflects implementation of the National Budget which required financing a net deficit of $0.4 billion.

Figure 1: Government Debt and Debt-to-GDP



Source: Ministry of Economy and Reserve Bank of Fiji

The ratio of government debt to the GDP is a measure to assess the ability of a country to repay its debt. Government debt as a percentage of GDP at the end of the 2018/2019 financial year stood at 48.4 percent, rising from 45.6 percent a year earlier. The Debt-to-GDP ratio has been on an uptrend over the past three years owing largely to additional spending on rehabilitation works from Tropical Cyclone Winston in 2016 and other natural disasters between 2016 and 2018. The rehabilitation efforts amounted to almost $500 million. Nonetheless, Government has rolled out consolidation measures to reign in debt towards 45 percent of GDP over the medium term.

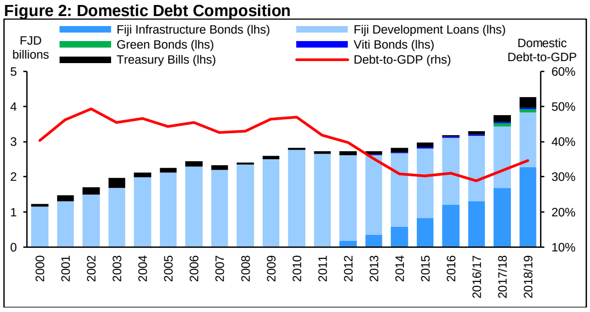
Government has retained the targeted mix of around 70 percent of financing domestically and 30 percent externally. This composition ensures that there is sufficient activity to support the domestic securities markets while diversifying the portfolio to avoid over-reliance on a single source of financing. Additionally the adverse effects to financial stability as a result of a high prominence of public lending on the books of financial institutions are mitigated.

At the end of the 2018/2019 financial year, external funding accounted for 25.4 percent of the portfolio and is within the +/- 5 percent deviation from the targeted 30 percent. This figure has fallen from 27.9 percent at the end of the previous financial year. The composition of external debt in the portfolio has increased in prominence over the past decade as accessibility to bilateral and multilateral partners have increased. Furthermore, since external debts entails relatively lower financing costs and are primarily for specific investment projects, this trend is expected to continue over the medium to long term.

DOMESTIC DEBT

Domestic debt comprises of government bonds and treasury bills, with the former used primarily to finance capital projects and the latter short term financing gaps. The issuance of bonds in the domestic market is the primary source of financing for Government projects and participation is dominated by institutional investors, namely the Fiji National Provident Fund, insurance companies, unit trusts and credit intuitions. On the other hand, commercial banks are the dominant participants in the treasury bills market.

Figure 2: Domestic Debt Composition



Source: Ministry of Economy and Reserve Bank of Fiji

FIBs are the current series of these bonds issued by Government while FDLs were issued until 2012 for similar projects. Green bonds, which are also listed on the London

Stock Exchange were issued in 2017 for the funding of projects that mitigate the impact of climate change. Retail investors are catered for by the issuance of Viti Bonds for which the RBF provides an avenue for holders to sell securities.

Outstanding domestic debt at the end of the 2018/2019 financial year was $4.3 billion compared to $3.8 billion at the end of the prior financial year. The rise in the domestic debt is reflective of the increase in the overall outstanding debt to support implementation of the National Budget and is composed of a combined increase in the FIBs and Viti Bonds of $0.6 billion and fall in FDLs by $0.2 billion. Treasury bills outstanding was increased by $0.1 billion and the portfolio size is anticipated to be conducive for promotion of secondary market activity and an avenue for commercial banks to mitigate liquidity risks.

Given that the domestic markets are the main financing source for Government, the costs of borrowing are highly sensitive to movements in domestic interest rates. However, with the issuance of FIBs for 10, 15 and 20 years only and the fixing of coupon rates prior to issuance, the cost of financing has largely been driven by interest rates on treasury bills. As a result of this issuance strategy and a lack of secondary market trades, price discovery is only in the very short and long term securities. Thus, extraction of a reliable relationship between interest rates and the entire spectrum of terms to maturity for securities is not possible. Therefore a combination of calculated and actual interest rates have been used to illustrate this relationship in Figure 3.

Figure 3: Yields on Government Securities

Financial Year	1m	2m	3m	6m	9m	12m	10y	15y	20y
2019	2.35	2.63	2.70	3.35	4.10	5.00	6.00	6.50	7.00
2018	0.99	1.12	1.45	3.05	3.34	3.63	6.00	6.50	7.00
2017	0.95	1.10	1.35	3.17	3.38	3.63	6.00	6.50	6.70
2016	0.75	1.10	1.30	3.20	3.30	3.45	6.15	6.64	6.79

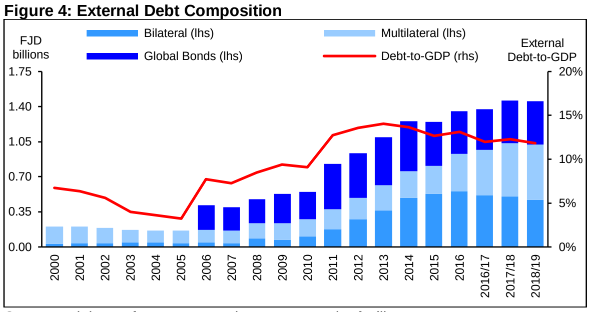
Source: Ministry of Economy and Reserve Bank of Fiji

Short term interest rates tend to be more susceptible to movements in the commercial banks' holdings of notes and coins and balances with the RBF. The notably higher interest rates for these securities relative to previous periods reflects a general upward movement in market interest rates as a result of the fall in foreign reserves that ultimately led to lower balances held by commercial banks with the RBF. Interest rates for long term securities were unchanged as the market participants tend not to deviate from interest rates that were fixed when these securities were initially issued.

EXTERNAL DEBT

External debt is composed of loans from bilateral partners, multilateral agencies and the US dollar denominated global bonds. While the bilateral and multilateral loans are project-specific and related mainly to construction or upgrade of infrastructure, the global bonds were issued initially in September 2006 for overall budgetary support and rolled over in March 2011 and October 2015.

Figure 4: External Debt Composition

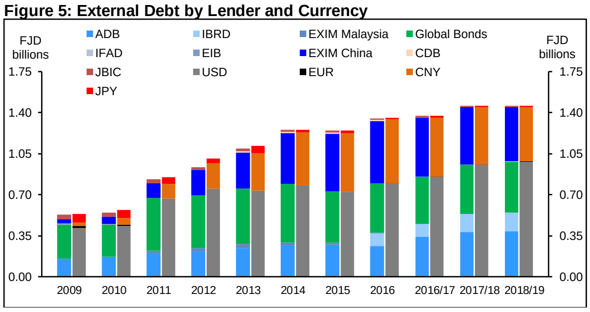


Source: Ministry of Economy and Reserve Bank of Fiji

Outstanding external debt at the end of the 2018/2019 financial year was $1.5 billion and declined from the end of the previous financial year, albeit marginally. Loans from multilateral agencies, namely the ADB, IBRD, IFAD and the EIB are the largest components of the external debt portfolio.

The EXIM Malaysia, EXIM China and the JBIC have been the bilateral lenders and this component of the portfolio has been declining steadily as multilateral agencies have availed funds in the lead-up to and following the 2014 elections. This trend is expected to continue as the bilateral commitments are fulfilled and financing from multilateral agencies are preferred given the better loan conditions of the latter.

Figure 5: External Debt by Lender and Currency



Source: Ministry of Economy and Reserve Bank of Fiji

External debt denominated in USD remains a large majority of the portfolio followed by debt denominated in CNY. Other currencies are relatively small components of the portfolio. The currency exposures is expected to change as new loans from multilateral agencies are denominated mostly in the USD.

Interest commitments on external debt are both based on fixed and variable rates. At least 60 percent of the interest commitments are at fixed rates, thus assisting in the budgeting process while variable interest rates are attached to commitments in USD and derived from the 6 month USD LIBOR.

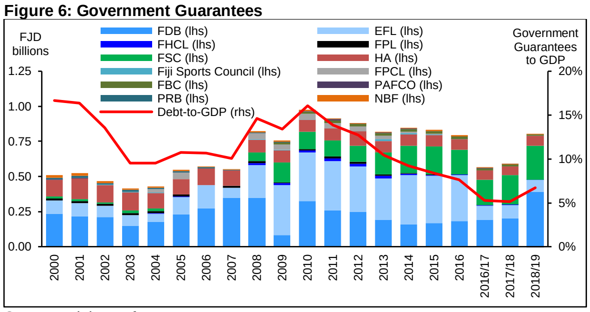
CONTINGENT LIABILITIES

Contingent liabilities of Government can be explicit by way of guarantees or implicit whereby Government may be morally obligated to undertake liabilities of entities to protect public interest, as was the case in the collapse of the National Bank of Fiji.

The FMA 2004 allows Government to guarantee the financial liabilities of a statutory corporation or a Government company in which the State holds at least one-half of the voting rights, provided that prior Parliamentary approval has been granted. Thus, implicit liabilities need to be converted to guarantees and formalised in the budgetary process prior to their repayment.

Government guarantees provided increased to $0.8 billion in the 2018/2019 financial year compared to $0.6 billion at the end of the previous financial year. The increase is attributed to new guarantees provided to the Housing Authority, FDB and the FSC, while the value of guarantees to other entities declined. As a result, government guarantees as a percentage of GDP also increased from 5.1 percent to 6.7 percent.

Figure 6: Government Guarantees



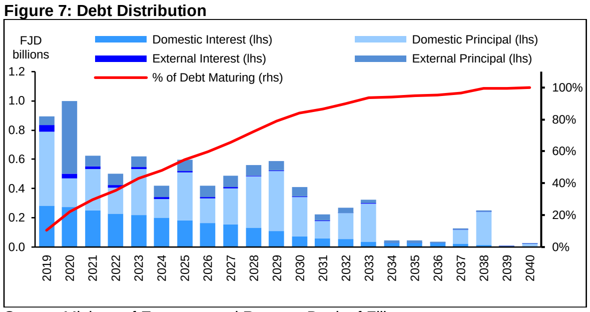
Source: Ministry of Economy

Implicit contingent liabilities are primarily composed of subscriptions to the ADB and IBRD at $0.5 billion. Other implicit contingent liabilities include liabilities of provincial and municipal councils and the FRCS and total less than $0.1 billion at the end of the 2018/2019 financial year.

PORTFOLIO RISKS

The ability to refinance maturing obligations at reasonable costs is the main risk for Government, followed by the exposure to exchange rate movements. The profile for Government debt illustrates that at least 50 percent of the portfolio needs to be refinanced over the next 6 years and 80 percent in the next 10 years. This structure is expected to change as loans with longer terms are included in the portfolio. While this risk is not actively managed at this stage because of an underdeveloped secondary market, strategies will be implemented to mitigate refinancing risk over the medium term.

Figure 7: Debt Distribution



Source: Ministry of Economy and Reserve Bank of Fiji

The ATM indicates refinancing risk for the portfolio and has declined since 2015 as external debt moved closer to maturity and new commitments are for shorter terms. The issuance of long term domestic bonds has resulted in higher ATM for domestic debt over the past three years.

Figure 8: Average Time to Maturity (Years)

Year	External Debt	Domestic Debt	Total Debt
2015	7.3	8.2	8.0
2016	6.6	7.7	7.4
2016/2017	6.9	7.4	7.3
2017/201/8	6.4	7.5	7.2
2018/2019	5.7	8.1	7.5

Source: Ministry of Economy

Interest rate risk is embedded in the refinancing risk of the portfolio and can be indicated by period taken to re-fix the interest rate at refinancing. The ATR can be used as a measure of this risk. Given that the domestic debt are issued at fixed interest rates, the ATR and ATM of domestic debt are the same. On the other hand, certain external debt have variable interest rates which require re-fixing every six months. Therefore, the ATR for external debt is lower than the ATM but follow the same downtrend.

Figure 9: Average Time to Re-fixing (Years)

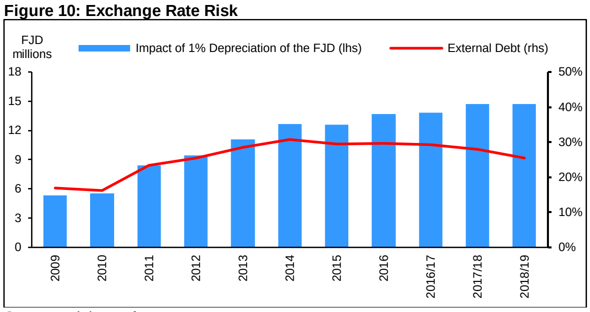
Year	External Debt	Domestic Debt	Total Debt
2015	5.5	8.2	7.4
2016	4.9	7.7	6.9
2016/2017	3.6	7.4	6.3
2017/201/8	3.2	7.5	6.3
2018/2019	2.4	8.1	6.6

Source: Ministry of Economy

While external borrowings have benefits in terms of diversification and competitive interest rates, it exposes

Government to exchange rate risk. The target of 30 percent in external debt with the possibility of increasing to 40 percent is maintained. As the portfolio of external debt has risen, the impact of a 1 percent depreciation of the FJD has also risen.

Figure 10: Exchange Rate Risk



Source: Ministry of Economy

The portfolio risk matrices evolve as the categories of debt change. Given that the portfolio of external debt is expected to increase over the medium term as large infrastructure projects are completed, the risks associated would need to be targeted, monitored and managed.

Debt Management Unit
Ministry of Economy
January 2020

APPENDIX

A1

Central Government Debt Statistics					
Particulars ($000)	**Jul-15**	**Jul-16**	**Jul-17**	**Jul-18**	**Jul-19**
Debt Stock					
TOTAL GOVERNMENT DEBT ($M)	**4,382.8**	**4,507.7**	**4,671.7**	**5,220.5**	**5,735.2**
DOMESTIC DEBT	**2,997.5**	**3,245.0**	**3,300.8**	**3,763.0**	**4,278.5**
BONDS:	**2,831.8**	**3,079.8**	**3,204.4**	**3,575.5**	**3,971.0**
Fiji Development Loans (FDLs)	2,050.3	1,933.9	1,864.1	1,752.7	1,545.1
Fiji Infrastructure Bonds (FIBs)	762.0	1,118.9	1,304.6	1,680.3	2,278.6
Fiji Green Bonds	0.0	0.0	0.0	100.0	100.0
Viti Bonds	19.5	27.0	35.7	42.5	47.3
T-BILLS	**165.7**	**165.2**	**96.4**	**187.5**	**307.5**
EXTERNAL DEBT	**1,385.3**	**1,262.6**	**1,370.9**	**1,457.5**	**1,456.8**
BONDS (Global Bond)	**535.7**	**415.7**	**402.3**	**420.3**	**433.0**
LOANS	**849.6**	**846.9**	**968.6**	**1,037.2**	**1,023.8**
Asian Development Bank	280.7	261.1	344.3	383.6	389.3
Exim Bank of China	516.2	545.4	501.3	489.3	462.0
China Development Bank	14.0	12.5	0.0	0.0	0.0
Exim Bank of Malaysia	22.0	10.9	0.0	0.0	0.0
Japan International Cooperation Agency	16.8	16.8	13.2	11.5	9.7
International Bank for Reconstruction and Development	0.0	0.3	107.6	150.6	160.3
International Fund for Agricultural Development	0.0	0.0	2.1	2.2	2.5
Debt Servicing					
DEBT SERVICING (Cumulative)	**Jul-15**	**Jul-16**	**Jul-17**	**Jul-18**	**Jul-19**
TOTAL	**446.6**	**875.0**	**422.0**	**496.0**	**617.2**
Domestic Bonds & Loans	**362.5**	**222.0**	**328.9**	**404.1**	**508.0**
Principal	151.1	60.3	99.6	160.7	235.3
Interest	211.4	161.7	229.2	243.4	272.7
External Loans	**84.2**	**653.0**	**93.1**	**91.8**	**109.2**
Principal	27.2	583.1	49.3	44.8	54.8
Interest	56.9	69.9	43.8	47.0	54.4
BORROWING (Cumulative)	**335.7**	**894.2**	**688.9**	**875.0**	**1,283.3**
FIB Bonds/Viti Bonds/Fiji Green Bonds/T-Bills	217.9	374.1	465.8	800.8	1,269.8
External loans	117.8	520.1	223.0	74.2	13.5
Debt Ratios					
	Jul-15	**Jul-16**	**Jul-17**	**Jul-18**	**Jul-19**
% of Domestic Debt to Total Debt	68.4%	72.0%	70.7%	72.1%	74.6%
% of External Debt to Total Debt	31.6%	28.0%	29.3%	27.9%	25.4%
% Domestic Debt to GDP	31.3%	32.1%	31.0%	32.9%	36.1%
% External Debt to GDP	14.5%	12.5%	12.9%	12.8%	12.3%
Total Government Debt to GDP	**45.8%**	**44.6%**	**43.9%**	**45.7%**	**48.4%**

Source: Ministry of Economy and Reserve Bank of Fiji