FIJIAN GOVERNMENT

2019/2020
ANNUAL DEBT REPORT

MINISTRY OF ECONOMY

SUVA

FIJI

Foreword

The COVID-19 pandemic has forced Governments around the world to increase borrowings in order to contain the devastating impact of the pandemic on people's health and livelihood, strengthen health infrastructure whilst stimulating their economies. Fiji is no exception as Government announced its COVID-19 Response Budget on 26 March 2020, to adjust for the significant increase in gross financing needs of Government, from $604.4 million pre-COVID to $1.5 billion. The pandemic presents significant challenges to Government as financing requirements are likely to exceed all past experiences, due to the overnight evaporation of the tourism industry, increased uncertainty surrounding the reopening of international borders and the significant impact on revenue and domestic activities.

At the end of the 2019/2020 fiscal year, Government total outstanding debt stood at $6.7 billion, equivalent to 65.5 percent of GDP. Debt to GDP has increased significantly in this fiscal year due to the massive contraction in nominal GDP coupled with an increased borrowing requirement to finance the COVID-19 Response Budget.

Government is appreciative of the support received from its development partners during this pandemic, which has enabled sourcing of financing facilities, providing a boost to banking system liquidity and foreign reserves. These include the drawdown of World Bank (IBRD & IDA) financing facilities for subprogram 2 of the Fiscal Sustainability & Climate Resilience Development program amounting to $144.3 million, the ADB subprogram 2 for Sustained Private Sector-Led Growth Reform Program of $142.3 million and the JICA Stand-by Loan for Disaster Recovery and Rehabilitation of $44.1 million.

As an active contributor to the development of Fiji's financial market, Government has maintained a consistent level of issuances for both short and long term domestic debt instruments. At the end of the fiscal year, yields on domestic securities have reduced significantly, mainly attributed to the liquidity level rising to $770.3 million on 30 July 2020. Government anticipates a further reduction in yields as liquidity is expected to hit the $1 billion mark in the next fiscal year, following the drawdown of approved external loans as per the 2020/2021 Budget.

Furthermore, total Government guaranteed debt stood at $939.0 million or 9.2 percent of GDP at the end of the fiscal year.

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

Makereta Konrote
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
CDB	China Development Bank
CRB	COVID-19 Response Bonds
CNY	Chinese Renminbi Yuan, the currency of the People's Republic of China
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
EXIM Malaysia	The Export-Import Bank of Malaysia Berhad
FA	Fiji Airways
FMA	Financial Management Act 2004
FBC	Fiji Broadcasting Corporation 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
FPC	Fiji Ports Corporation Limited
FRCS	Fiji Revenue and Customs Services
FSC	Fiji Sugar Corporation Limited
FSPC	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
PAFCO	Pacific Fishing Company Limited
RBF	Reserve Bank of Fiji
T-Bills	Treasury Bills
TIISP	Transport Infrastructure and Investment Sector Project
TC	Tropical Cyclone
UWSWP	Urban Water Supply and Wastewater Management Program
USD	United States Dollars, the currency of the United States of America

GOVERNMENT DEBT STRATEGY

Maintaining a sustainable debt path is a key medium-term focus for Government. During the 2019/2020 fiscal year ('year'), the debt strategies were:

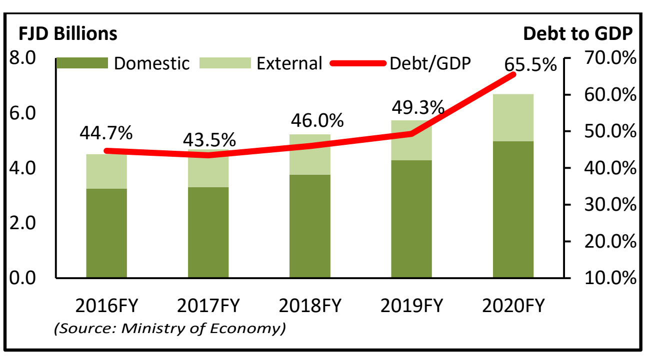
- to continue with the development of the domestic capital market as a major source of funding;
- maintain prudent cost and maturity structure for the total debt portfolio;
- actively pursue opportunities to refinance debt at lower costs, including the refinancing of the global bond in October 2020;
- continue to monitor cost and risk indicators of the existing debt portfolio; and
- minimise risks associated with on-lending/lending and contingent liabilities.

The implementation of the above strategies have been greatly challenged by the COVID-19 pandemic. However, Government remains focused on its primary objective to ensure that financing needs are met at minimal cost, subject to prudent levels of risk.

GOVERNMENT DEBT POSITION

Government debt stock stood at $6.7 billion at the end of July 2020, registering a 16.6 percent increase from $5.7 billion in July 2019. As a percentage of GDP[1], debt stood at 65.5 percent compared with 49.3 percent in the previous year. (Refer Figure 1)

Figure 1: Central Government Debt and Debt to GDP ratio



Domestic debt continues to dominate the composition of Government debt at 74 percent, while approximately 26 percent is held through external borrowings. This reflects Government's policy decision to enhance the domestic capital market through continued issuances of domestic debt instruments, while taking advantage of low cost financing facilities that is available through external lenders.

From the approved gross financing need of $1.5 billion, Government raised a total sum of $1.3 billion, of which $904.1 million was borrowed domestically and $358.9[2] million through external sources.

Government has successfully met its financing needs during the year and continued to settle all debt obligations in a timely manner. At the end of the fiscal year, total debt servicing amounted to $609.2 million, comprising $252.8 million in principal repayments and $356.4 million in interest payments.

DOMESTIC DEBT

Domestic debt rose by 16.3 percent to approximately $5.0 billion or 48.7 percent of GDP.

Domestic debt is composed of $4.7 billion in Government bonds, $269.7 million in T-bills and a $25.8 million debt to FNPF. The debt to FNPF, which was realised during the fiscal year due to FSC defaulting on its bond redemptions to FNPF, will be fully settled by Government in the 2020/2021 fiscal year.

FNPF is the largest holder of domestic bonds (72.2 percent), followed by insurance companies (15.6 percent), RBF (7.7 percent) and commercial banks & others (4.5 percent). T-bills are mostly held by commercial banks.

[1]Source: 2020/2021 Budget Supplement: Fiscal Year Nominal GDP, Page 141.

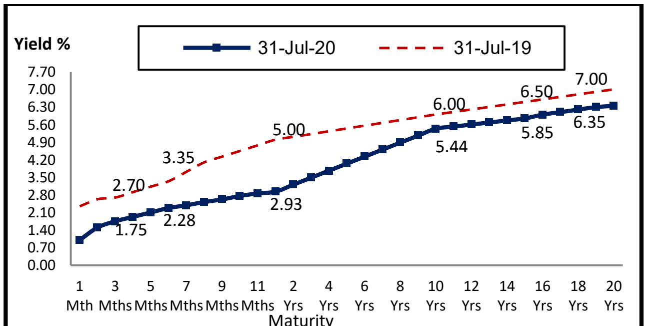
[2] Excludes capitalised interest and other fees.

From the $904.1 million borrowed domestically, $804.1 million was raised from Fiji Infrastructure Bonds (FIB), $90.0 million through COVID-19 Response Bonds (CRB) and $10.0 million from Viti Bonds.

A total sum of $194.1 million was redeemed during the year on domestic bonds, while interest costs amounted to $300.5 million.

Furthermore, yields on domestic debt securities have significantly reduced when compared to the same period last year, mainly due to the high level of liquidity[3] in the market. The shorter-term T-bills provide an avenue for commercial banks to manage liquidity risk while actively developing the market yield curve.

Figure 2: Government Yield Curve



(Source: Reserve Bank of Fiji and Ministry of Economy)

For T-bills, yields on 3-month, 6-month and 12-month instruments have reduced significantly by 95, 107 and 207 basis points, respectively. Similar declines were experienced for bonds where yields for the 10 year bond had reduced by 56 basis points whilst a 65 basis points decline was recorded for both the 15 year and 20 year bond. (Refer Figure 2)

EXTERNAL DEBT

External debt recorded an annual increase of 17.3 percent to $1.7 billion as of 31 July 2020. As a percentage of GDP, external debt stood at 16.7 percent.

In terms of the composition of external debt, ADB is the largest external creditor (30.7 percent), followed by the global bond (24.8 percent), EXIM China (23.9 percent), IBRD (17.4 percent), JICA (3 percent) and IFAD (0.2 percent).

USD denominated debt (73.0 percent) continues to dominate the external debt portfolio, followed by CNY (23.9 percent), JPY (3.0 percent) and EUR (0.1 percent), hence the foreign currency risk exposure of the external debt portfolio is largely concentrated on the US dollar. Over the year, the Fiji dollar had strengthened against the USD (2.1 percent) and the CNY (3.7 percent) but weakened against the EUR (-3.9 percent) and JPY (-1.6 percent)[4].

During the year, a total of $330.7 million was disbursed through budget support, which includes $13.6 million from IBRD, $130.7 million from IDA, $142.3 million from ADB and $44.1 million from the JICA Stand-by loan facility.

Additionally, Government managed to secure a US$200 million budget support facility from ADB, for subprogram 3 of the Sustained Private Sector-Led Growth Reform Program ('Program'). As a result of the successful implementation of the reform actions under the Program, AIIB has also provided a US$50 million budget support loan facility. This will be AIIB's first financing operation in Fiji, which brings the total budget support for subprogram 3 to US$250 million. This will be drawn in the 2020/2021 fiscal year.

Furthermore, a total of $28.2 million was disbursed for capital projects, of which TIISP was co-financed by ADB and IBRD amounting $14.5 million and $4.9

[3] As at 30 July 2020, total excess liquidity in the banking system stood at $770.3 million, RBF Economic Review for the month ended July 2020.

[4] RBF External Markets and RBF Economic Review for the month ended August 2020.

million respectively, while UWSWP was funded by ADB amounting to $8.8 million.

Total external debt servicing amounted to $114.6 million, comprising $58.7 million in loan repayments and $55.9 million in interest payments.

PORTFOLIO RISK ANALYSIS

Table 1 below provides a summary of the cost and risk indicators of the total debt portfolio as at 31 July 2020.

The ATM reflects the weighted average time to maturity of all the principal payments in the debt portfolio. The ATM for the total debt portfolio has gradually increased from 7.5 years to 8.7 years on a year-on-year (y-o-y) basis, mainly attributed to longer repayment terms provided by IDA and JICA, and increased issuances of bonds with longer maturities, thus minimising refinancing risks to Government.

Table 1: Cost and Risk Indicators as of 31 July 2020

Risk Indicators		FY2018/2019			FY2019/2020		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Amount (in billions of FJD)		1.5	4.3	**5.7**	1.7	5	**6.7**
Nominal debt as percent of GDP		12.5	36.8	**49.3**	16.7	48.7	**65.5**
Refinancing risk	ATM (years)	5.7	8.1	**7.5**	7.2	9.3	**8.7**
	Debt maturing in 1 year (% of total)	4.0	11.8	**9.8**	28.3	9.9	**14.6**
Interest rate risk	ATR (years)	2.4	8.1	**6.6**	2.4	9.3	**7.5**
	Debt refixing in 1 year (% of total)	40.4	11.8	**19.1**	75.6	9.9	**26.9**
	Weighted Av. IR (%)	3.3	6.9	**6.0**	2.3	6.7	**5.6**
Foreign Exchange (FX) rate risk	FX debt (percent of total debt)		**25.4**			**25.6**	

Source: Ministry of Economy

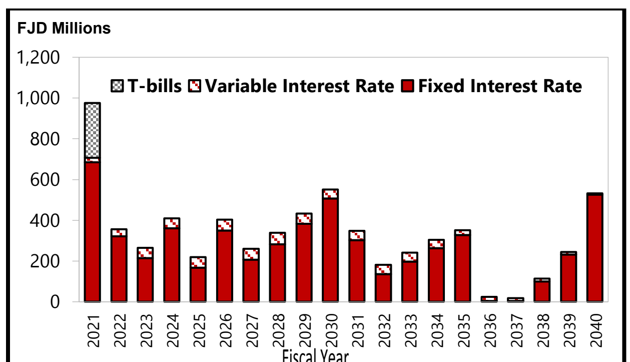
The significant increase in external debt ratio maturing in 1 year reflects the maturing of the global bond in October 2020, which will be refinanced with funds secured from multilateral lenders.

The ATR reflects the weighted average time until all the principal payments in the debt portfolio become subject to a new interest rate. When compared to the same period last year, ATR for the total debt portfolio has slightly increased from 6.6 years to 7.5 years, reflecting the extended maturity structure for both domestic and external borrowings.

The weighted average cost of the total debt portfolio is 5.6 percent. This was a reduction of 40 basis points as compared to the same period last year, attributed to a decrease in external borrowing cost and declining yields in the domestic market. Although external borrowing costs are lower (2.3 percent) than cost of domestic debt (6.7 percent), Government remains mindful of the foreign exchange risks associated with 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 slightly increased to 25.6 percent as of 31 July 2020.

Figure 3a: Redemption Profile by Cost of Debt at end-July 2020



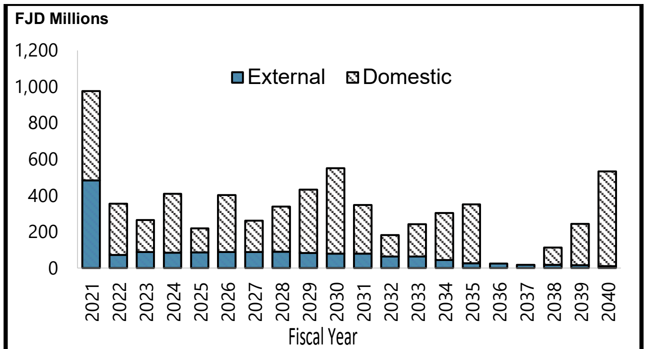
(Source: Ministry of Economy)

Furthermore, Figure 3a above provides an illustration of Government's redemption profile by cost of debt. As a percentage of total debt, fixed rate debt stood at 88.6 percent, which mostly comprised of domestic bonds, the global bond and bilateral external loans. The remaining 14.4 percent are subject to variable 6 months LIBOR[5] and EURIBOR

[5] LIBOR is expected to phase 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 and WB to ensure a

relates to loans from multilateral lenders. (Refer Figure 3a)

Figure 3b: Redemption Profile by Composition at end-July 2020



(Source: Ministry of Economy)

Figure 3b above provides an illustration of the redemption profile by composition of debt. The redemption profile should show a smoother trend post refinancing of the global bond in October 2020.

CONTINGENT LIABILITIES

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 Government may have to certain entities.

As at 31 July 2020, Government guaranteed debt stood at $939.0 million or 9.2 percent of GDP. This represents a 39.5 percent increase as compared to the previous year, mainly attributed to FA utilising $279.0 million of its newly approved guarantee[6] facility.

Other explicit contingent liabilities recorded $510.6 million, comprising of callable subscriptions to ADB and IBRD of $204.7 million and $305.9 million respectively, whereas implicit contingent liabilities recorded $112.0 million.

Total contingent liabilities stood at $1.6 billion, equivalent to 15.3 percent of GDP as of 31 July 2020.

RISK PROFILES OF PUBLICLY GUARANTEED LIABILITIES

The Constitution[7] and the Financial Management Act 2004 (FMA) provides the legal framework for Government to guarantee the financial liability of an entity. The Government guarantee policy, approved on 19 March 2019, guides Government in managing fiscal risks from Government guarantees.

Government currently provides guarantees for the following entities: Fiji Airways (FA), Energy Fiji Limited (EFL), Pacific Fishing Company Limited (PAFCO), Housing Authority of Fiji (HA), Fiji Sugar Corporation Limited (FSC), Fiji Broadcasting Corporation Limited (FBC), Fiji Development Bank (FDB) and Fiji Hardwood Corporation Limited (FHCL). Table 2 below shows the classification of these entities using a 3-tier risk assessment approach and given its varying nature, the entities are further classified into the following sectors: infrastructure, social services, economic services and general administration.

Table 2: Risk Assessment of Guaranteed Entities as of 31 July 2020[8]

Sectors	Low	Medium	High
Infrastructure	EFL		
Social Services		HA	
Economic Services		PAFCO	FA,FHCL, FSC
General Administration		FBC, FDB	

[6] In May 2020, Parliament approved that Government provide a guarantee facility amounting to $455.0 million to Fiji Airways.

[7] The 2013 Constitution of the Republic of Fiji.

[8] The entities are charged guaranteed fees based on the overall risk profile of the entity unless advised otherwise by the Ministry of Economy in exceptional cases.

For the purpose of this report[9], risk assessments are based on: (i) a three year historical performance; (ii) current and on-going financial performance and cash flow projections of the respective entities; and (iii) general assessments of industry and economic conditions. It is to be noted that the medium-term will be very challenging for these entities given the impact of the COVID-19 pandemic on revenue and the entities bottom line.

Some of the specific features that contributed to the risk assessments are outlined below:

i. **High profitability and liquidity levels -** EFL's low risk assessment reflects the company's strong financial performance. The entity had settled a total sum of $42.2 million of its outstanding guaranteed debt in August 2020 and intends to settle the remaining $8 million by December 2020.

ii. **Adequate profitability and liquidity** - HA, PAFCO, FBC and FDB's medium risk assessment reflects the entities satisfactory financial performance. Government will continue to monitor these entities to ensure that there are no significant deviations from their respective financial forecast/targets.

iii. **Low or negative profit margin -** FHCL and FSC have been classified as high risk as the entities have recorded low or negative profit margins and are highly leveraged. Although there has been substantial assistance by Government to FSC and the sugar industry for several years, FSC still faces serious liquidity and profitability challenges. In 2019, FSC defaulted on a debt to FNPF and there are concerns of further defaults which Government is currently assessing. Additionally, FHCL has had challenges servicing its debt on a timely basis which has been raised by its creditors. Government is working closely with FHCL and its creditors to mitigate the situation.

iv.

v. **Impact of the COVID-19 pandemic on the aviation and travel industry and the uncertainty surrounding international travel and borders reopening -** The economic services sector was severely affected by the pandemic, as the economic contraction is mostly realised from the absence of international tourism and border closures. Despite FA's strong financial performance over the past three years, FA has been classed as high risk mainly due to the pandemic's significant impact on FA's profitability and liquidity outlook and the ongoing uncertainty around borders reopening and the normalising of international travel.

Government will stringently assess and monitor the performance of all guaranteed entities and review the risk profiles on an annual basis, to ensure that associated fiscal risks are mitigated and debt obligations are met in a timely manner.

Debt Management Unit
November 2020

[9] The document has been renamed to "Fijian Government 2019/2020 Annual Debt Report", from "Government Debt Status Report for the Year ending July 2020".

Appendix

CENTRAL GOVERNMENT DEBT STATISTICS (FJ$ Millions)					
PARTICULARS	**Jul-16**	**Jul-17**	**Jul-18**	**Jul-19**	**July-20**
DEBT STOCK					
TOTAL GOVERNMENT DEBT (% of GDP)	**44.7%**	**43.5%**	**46.0%**	**49.3%**	**65.5%**
ANNUAL GROWTH (%)	*2.8%*	*3.6%*	*11.7%*	*9.9%*	*16.6%*
TOTAL GOVERNMENT DEBT	**4,507.7**	**4,671.7 (R)**	**5,220.5**	**5,735.2**	**6,686.0**
DOMESTIC DEBT	**3,245.0**	**3,300.8**	**3,763.0**	**4,278.5**	**4,976.5**
BONDS:	**3,079.8**	**3,204.4**	**3,575.5**	**3,971.0**	**4,681.0**
FDL	1,933.9	1,864.1	1,752.7	1,545.1	1,415.6
FIB	1,118.9	1,304.6	1,680.3	2,278.6	3,019.3
FGB	-	-	100.0	100.0	100.0
CRB	-	-	-	-	90.0
Viti Bonds	27.0	35.7	42.5	47.3	56.2
T-BILLS	**165.2**	**96.4**	**187.5**	**307.5**	**269.7**
LOANS:	**-**	**-**	**-**	**-**	**25.8**
FNPF	**-**	**-**	**-**	**-**	**25.8**
% of Domestic Debt to Total Debt	**72.0%**	**70.7%**	**72.1%**	**74.6%**	**74.4%**
% Domestic Debt to GDP	**32.2%**	**30.7%**	**33.2%**	**36.8%**	**48.7%**
EXTERNAL DEBT	**1,262.6**	**1,370.9**	**1,457.5**	**1,456.8**	**1,709.5**
BONDS (Global Bond)	**415.7**	**402.3**	**420.3**	**433.0**	**424.3**
LOANS:	**846.9**	**968.6**	**1,037.2**	**1,023.8**	**1,285.3**
ADB	261.1	344.3	383.6	389.3	525.4
EXIM China	545.4	501.3	489.3	462.0	409.0
CDB	12.5	-	-	-	-
EXIM Malaysia	10.9	-	-	-	-
JICA	16.8	13.2	11.5	9.7	50.9
IBRD	0.3	107.6	150.6	160.3	297.6
IFAD	0.0	2.1	2.2	2.5	2.3
% of External Debt to Total Debt	**28.0%**	**29.3%**	**27.9%**	**25.4%**	**25.6%**
% External Debt to GDP	**12.5%**	**12.8%**	**12.8%**	**12.5%**	**16.7%**
DEBT SERVICING & BORROWING					
TOTAL DEBT SERVICING	**875.0**	**423.7**	**498.5**	**617.2**	**609.2**
Domestic Bonds & Loans	**338.9**	**330.6**	**406.7**	**508.0**	**494.6**
Principal	121.3	99.6	160.7	235.3	194.1
Interest	217.6	231.0	246.0	272.7	300.5
External Loans	**653.0**	**93.1**	**91.8**	**109.2**	**114.6**
Principal	583.1	49.3	44.8	54.8	58.7
Interest	69.9	43.8	47.0	54.4	55.9
TOTAL BORROWING	**894.2**	**447.2**	**606.0**	**645.7**	**1,265.8**
FIB Bonds/Viti Bonds/FGB/CRB	369.3	224.2	531.8	630.8	904.1
External loans (includes Cap. Interest)	520.1	223.0	74.2	14.9	361.7
TERMS	**YIELDS ON GOVERNMENT SECURITIES (%)**				
3 months	1.30	1.35	1.45	2.70	1.75
6 months	3.20	3.17	3.05	3.35	2.28
12 months	3.45	3.63	3.63	5.00	2.93
10 year	6.15	6.00	6.00	6.00	5.44
15 year	6.64	6.50	6.50	6.50	5.85
20 year	6.79	6.70	7.00	7.00	6.35

CONTINGENT LIABILITIES (FJ$ Millions)					
PARTICULARS	**2016**	**2017**	**2018**	**2019**	**2020**
Government Guarantees (Explicit) (A)					
% of Government Guarantees to GDP	**7.8%**	**5.2%**	**5.2%**	**5.8%**	**9.2%**
Annual Growth (Government Guarantees) (%)	*-4.5%*	*-28.6%*	*4.4%*	*14.8%*	*39.5%*
Total Government Guarantees	**787.4**	**562.2**	**586.7**	**673.3**	**939.0**
Fiji Airways (FA)	-	-	-	-	279.0
Fiji Development Bank (FDB)	183.9	190.6	200	291.9	307.8
Energy Fiji Ltd (EFL)	324.5	99.2	94.5	53.9	50.2
Fiji Hardwood Corporation Ltd (FHCL)	5.2	5.1	5.2	3.6	1.7
Fiji Pine Ltd (FPL)	3.2	2.5	1.8	-	-
Fiji Sugar Corporation Ltd (FSC)	173.3	178.2	210.2	241.3	199.2
Housing Authority of Fiji (HA)	74.6	69.4	59.7	68.0	90.2
Fiji Broadcasting Corporation Ltd (FBC)	16.5	14.6	12.6	10.5	8.3
Fiji Sports Council (FSPC)	2.1	-	-	-	-
Fiji Ports Corporation Ltd (FPC)	1.4	-	-	-	-
Pacific Fishing Company Ltd (PAFCO)	2.6	2.6	2.7	4.1	2.5
Other Explicit Contingent Liabilities (B)					
International Bank for Reconstruction & Development (IBRD)	237.5	229.9	303.0	312.2	305.9
Asian Development Bank (ADB) (*disclosure commenced in 2016*)	198.6	193.9	202.2	204.2	204.7
Implicit Contingent Liabilities (C)					
Other Implicit contingent liabilities*	42.2	81.7	81.3	74.8	112.0
**includes provincial & municipal councils' debt and FRCS litigation claims*					
Total Other Contingent Liabilities (B+C)	**478.3**	**505.4**	**586.5**	**591.2**	**622.6**
% of Other Contingent liabilities to GDP	**4.7%**	**4.7%**	**5.1%**	**5.1%**	**6.1%**
Total Contingent Liabilities (A+B+C)	**1,265.6**	**1,067.6**	**1,173.2**	**1,264.6**	**1,561.6**
% of Total Contingent Liabilities to GDP	**12.6%**	**9.9%**	**10.3%**	**10.9%**	**15.3%**