



MINISTRY OF ECONOMY

Government Debt Bulletin

Quarter 1 – 2018/2019 Fiscal Year

1.0 INTRODUCTION

- The domestic economy financial conditions remain supportive of the economic growth momentum. This was indicated by new consumption lending and partial indicators noted for investment activities which have picked up during the review period.
- Liquidity in the banking system rose in October by 9.2 per cent largely due to an increase in foreign reserves. In terms of foreign currency for the October month end, showed that the Fiji dollar strengthen against the Euro (+1.9 per cent), but weakened against the Japanese Yen (-1.1 per cent) and the US dollar (-0.7 per cent)¹.
- During the first quarter ending 31 October 2018, the Government managed to raise total bonds of \$138.78 million to finance expenditures and settled debts of a total of \$177.23 million.
- The key highlights for the first quarter debt bulletin for FY2018/19 are as follows:
 - ❖ Total debt to GDP declined to 47.3 per cent from the last quarter reporting in July 2018, comprised of domestic debt 34.2 per cent and external debt of 13.1 per cent;
 - ❖ A slight increase in the overall Central Government's debt of around 0.9 per cent when compared to the end of FY2017/18; this is mainly attributed to the increase in domestic bond issuance in the domestic market;
 - ❖ External debt figure have decreased slightly over the quarter due to repayments made for the EXIM China loans. Disbursements on the other hand were not as significant with only \$2.7 million channeled from reimbursements from IBRD for the Connectivity project.
- This bulletin will continue to show the trend of Government's overall debt changes on total outstanding debt for domestic and external as well as the contingent liability update for the quarter ending October 2018.

Total Government Debt Stock

- Government's debt stock as at the end of first quarter showed a slight increase of 0.9 per cent, from \$5,220.5 million in July 2018 to \$5,267.5 million at the end of October 2018.
- Debt as a proportion of GDP subsequently declined to 47.3 per cent when compared to a 50.0 per cent at the end July 2018. In terms of debt mix (domestic/external), Government has still maintained its target ratio of 70/30 (+5 / -5) at the end of quarter one FY2018/19. This is illustrated in Table 1.

¹ Reserve Bank of Fiji Economic Review Vol.35-November 2018

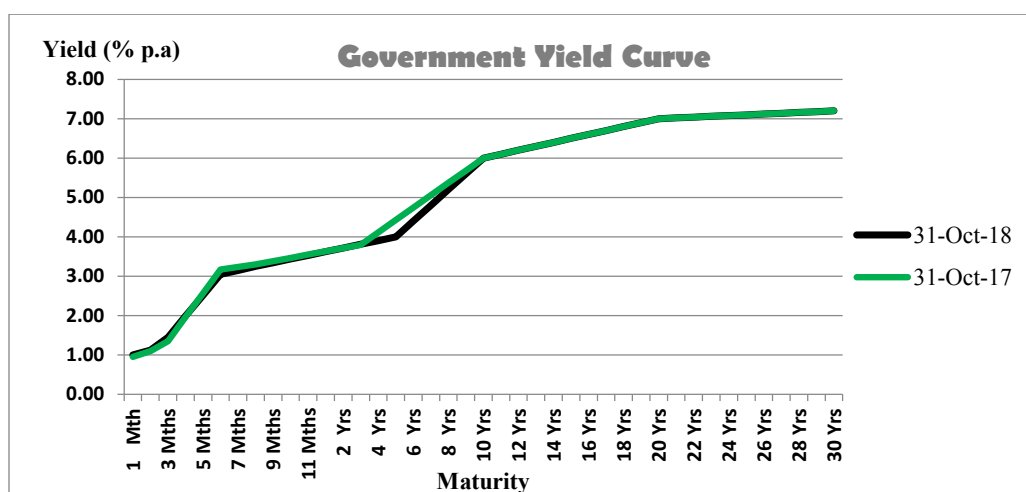
Table 1: Central Government Debt Outstanding

Debt Stock (\$m)	Oct-17	Jan-18	Apr-18	Jul-18	Oct-18	% Change	
						Qtr to Qtr	Yr to Yr
TOTAL	4,758.9	4,824.6	4,962.0	5,220.5	5,267.5	0.9%	10.7%
Domestic Debt	3,354.0	3,437.7	3,555.4	3,763.0	3,810.3	1.3%	13.6%
External Debt	1,404.9	1,386.9	1,406.5	1,457.5	1,457.2	0.0%	3.7%
% of Domestic Debt to Total Debt	70.5%	71.3%	71.7%	72.1%	72.3%	0.4%	2.6%
% of External Debt to Total Debt	29.5%	28.7%	28.3%	27.9%	27.7%	-0.9%	-6.3%
% Domestic Debt to GDP	32.1%	32.9%	34.0%	36.0%	34.2%	-5.1%	6.5%
% External Debt to GDP	13.5%	13.3%	13.5%	14.0%	13.1%	-6.3%	-2.8%
TOTAL Debt to GDP	45.6%	46.2%	47.5%	50.0%	47.3%	-5.4%	3.8%

Source: Ministry of Economy

2.0 DOMESTIC DEBT

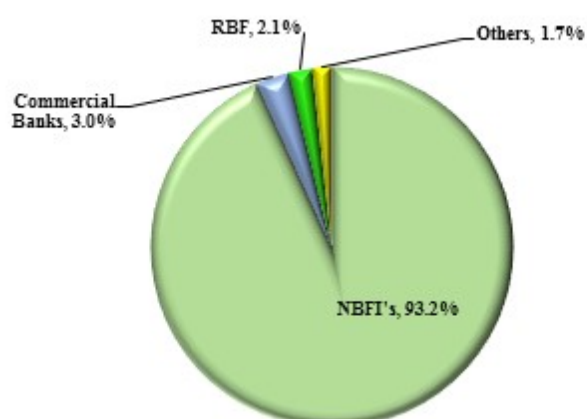
- The investor appetite for Government securities issued in the domestic bond market shows an increasing trend over the past years. As at the first quarter of this fiscal year, Government raised \$138.8 million of long term bonds, an increase of approximately 32.5 per cent when compared to a \$104.7 million issued in the same period last year.
- Outstanding domestic debt rose by 1.3 per cent from \$3,763.0 million to \$3,810.3million over the quarter. Of the total outlay, bonds comprise \$3,640.8 million and \$169.5 million in Treasury Bills (T-Bills).
- As of October 2018, approximately 22.0 per cent of the approved domestic borrowing budget was raised through Fiji Infrastructure Bonds and Viti Bonds. Total borrowing for the first quarter comprised of \$137.0 million Fiji Infrastructure Bonds (FIBs) and \$1.8 million Viti Bonds.
- A total of \$74.5 million was raised from the issuance of Treasury Bills.
- The 20 year benchmark FIB bonds was issued followed by re-opening during the quarter. For Viti Bond, majority of the investors have opted for 5 and 10 years respectively.
- The domestic market yield curve continues to show a relatively increasing trend with Government securities trading at higher coupons for long term bonds, which implies that investors estimated rate of return increases with long term Government debt securities.



Source: Reserve Bank of Fiji

- Yields on Government bonds are anticipated to continually drop across the maturity spectrum in 2018/2019 due to the excess liquidity in the banking system and a high likelihood for interest rates to decline further during this fiscal year.
- Of the \$3,640.8 million Government bonds outstanding, the non-bank financial institutions (NBFI's) held 93.2 per cent, followed by the commercial banks holding 3.0 per cent, the Reserve Bank of Fiji (RBF) at 2.1 per cent and the remaining 1.7 per cent held by other investors including individual households as depicted by the below chart.
- Non-banking sectors are the major subscribers for bonds over the years, shows increase in appetite for long term securities while commercial bank's preference is shorter tenure securities.

Government Bond Holders²



Source: Reserve Bank of Fiji

² Excludes short term bonds (Treasury Bills). These bonds include Fiji Development Loan (FDL) bonds, Fiji Infrastructure Bonds (FIB), Fiji Green Bonds (FGB) and retails bonds (Viti Bonds).

3.0 EXTERNAL DEBT

- External borrowings are directly channeled to finance infrastructure projects. For quarter 1 of the 2019 fiscal year, funds drawn were mobilised towards the Information Technology and Communication projects.
- At the end of Quarter 1, the external debt stock stood at \$1,457.2 million, decreasing by 0.02 per cent over the quarter, but increasing by 3.7 per cent when compared to the corresponding period last year.
- The growth in external portfolio over the year is mainly attributed to disbursements of new commitments from multilateral funded projects.

Creditor Category Composition

- In the lender category, multilateral lenders now dominate the portfolio at 37.4 per cent followed closely by bilateral lenders at 33.1 per cent with the global bond holding 29.5 per cent. The increase in the multilateral lenders portfolio is attributed to the disbursements of new commitments while the decline in bilateral lenders reflects the repayments of loans to EXIM China.
- At the end of Quarter 1 a total of \$2.7 million was disbursed to facilitate the Information and Communication Technology projects funded by the International Bank for Reconstruction and Development.

Creditor Composition (\$m)	Oct-17	Jan-18	Apr-18	Jul-18	Oct-18	yr.-to-yr. %chg.	Qtr.-to-Qtr. %chg.
Asian Development Bank	350.3	341.5	345.9	383.6	385.4	10.0%	0.5%
International Bank for Reconstruction and Development	110.9	107.5	116.3	150.6	157.0	41.5%	4.2%
International Fund for Agricultural Development	2.2	2.2	2.3	2.2	2.2	1.0%	-0.8%
EXIM China	514.3	522.2	517.5	489.3	471.8	-8.3%	-3.6%
JICA	12.2	12.3	11.5	11.5	10.4	-15.0%	-9.4%
Global Bond	414.9	401.3	413.1	420.1	430.3	3.7%	2.4%
Total	1,404.9	1,386.9	1,406.5	1,457.5	1,457.2	-6.6%	32.9%

Source: Ministry of Economy

Currency Composition

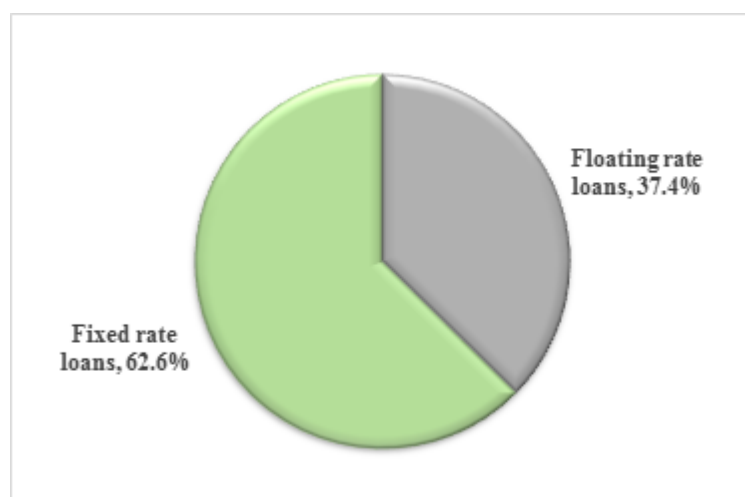
- As of 31 October 2018, the external debt portfolio is dominated by the USD denominated loans at 66.8 per cent, followed by the CNY at 32.4 per cent while the JPY and the Euro trail at 0.2 per cent and 0.7 per cent respectively.

- In the USD portfolio, the global bond holds the highest proportion at 29.5 per cent followed by ADB 26.5 per cent and finally the IBRD at 10.8 per cent.

Currency Composition as at 31/10/2018 (\$m)	Oct-17	Jan-18	Apr-18	Jul-18	Oct-18	% of Portfolio
USD	876.2	850.2	875.3	945.5	972.7	66.8%
CNY	514.3	522.2	517.5	489.3	471.8	32.4%
EURO	2.2	2.2	2.3	2.2	2.2	0.7%
JPY	12.2	12.3	11.5	11.5	10.4	0.2%
TOTAL	1,404.9	1,386.9	1,406.5	1,457.5	1,457.2	100.0%

Source: Ministry of Economy

Interest Rate Structure



Source: Ministry of Economy

- The interest rate structure for Government's external debt portfolio is floating and fixed interest with the majority of the external debt portfolio having fixed interest rates. Fixed interest rate loans are linked to the bilateral lenders together with the global bond while variable interest rate loans are linked to the multilateral lenders.

4.0 CONTINGENT LIABILITY

- At the end of the first quarter for the financial year 2018/19, total Contingent Liabilities (CL) increased by 3.6 per cent to \$1,160.2 million compared to \$1,119.6 million registered last financial year. This increase is attributed to new loan guarantees taken by the Fiji Development Bank, Fiji Sugar Corporation and the Housing Authority.

- The guaranteed issued for the quarter totaled \$68.02 million while guarantee reduction (loan repayments) recorded at \$38.40 million.
- To strengthen the monitoring of guaranteed entities, Government will continue to undertake financial analysis of SOEs in line with Fiscal Risk Framework which focuses on the perceived fiscal risk to Government. This fiscal risks assessment will also cover implicit guarantees and high risk entities will be closely monitored.

Contingent Liability

<u>Year</u>	<u>Oct-17</u>	<u>Jan-18</u>	<u>Apr-18</u>	<u>Jul-18</u>	<u>Oct-18</u>
	<u>(\$m)</u>	<u>(\$m)</u>	<u>(\$m)</u>	<u>(\$m)</u>	<u>(\$m)</u>
Government Guarantee (Explicit)	525.3	517.6	531.3	586.7	618.1
As % of GDP	5.3%	5.0%	5.1%	5.6%	5.5%
Total Contingent liabilities	995.3	969.0	994.3	1,119.6	1,160.2
As % of GDP	10.1%	9.3%	9.5%	10.7%	10.4%

Source: Ministry of Economy

5.0 SUMMARY

- The overall increase of central government debt over the quarter by 0.9 per cent to \$5,267.5 million is a result of increase in new borrowings in the domestic bond market together with a slight increase in external borrowings. When compared to the same period last year, debt stock increased by 10.7 per cent indicating increased development plans in place for Government.
- The superannuation fund and insurance industries continue to demand more long term Government securities as it suits its investment appetite and Asset – Liability Management.
- This is evident over the quarter with short term debt securities declining by 9.6 per cent as investors' appetite is more on longer term bonds rather than short term treasury bills.
- External loans on the other hand indicated a net decrease over the quarter when comparing borrowings of \$2.7 million to a total redemption of \$26.8 million. This resulted in an overall decrease of external debt stock by 0.02 per cent over the quarter.
- As at the end of quarter 1 2018/19, there is no Green Bonds issued in the bonds market however, additional publicity and awareness of Fiji's Green Bond is projected to increase its demand in the primary and secondary market.

- Total Contingent Liabilities increased by 3.6 per cent over the quarter and Government will continue to closely monitor the operations of SOE, under the Fiscal Risk Framework high risk entities and implicit guarantees.

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Ministry of Economy
December 2018

Appendix

Central Government Debt Statistics							
Particulars (\$000)	Oct-17	Jan-18	Apr-18	Jul-18	Oct-18	qtr-to-qtr %chge	yr-to-yr %chge
Debt Stock							
TOTAL GOVERNMENT DEBT (\$M)	4,758.9	4,824.6	4,962.0	5,220.5	5,267.5	0.9%	10.7%
DOMESTIC DEBT	3,354.0	3,437.7	3,555.4	3,763.0	3,810.3	1.3%	13.6%
BONDS:	3,275.5	3,392.7	3,480.4	3,575.5	3,640.8	1.8%	11.2%
FNPF	2,041.7	2,100.8	2,162.6	2,265.6	2,308.8	1.9%	13.1%
FNPF Retirement Income Fund	285.0	294.9	297.8	297.8	305.5	2.6%	7.2%
FNPF Special Death Benefit Fund	32.0	40.0	41.4	41.4	48.4	16.9%	51.3%
Insurance companies	616.1	628.5	635.9	650.3	665.2	2.3%	8.0%
Commercial Banks	99.6	119.3	134.2	110.2	110.1	-0.1%	10.5%
RBF	75.1	75.6	75.7	75.7	75.5	-0.4%	0.5%
Trust Fund	30.1	29.8	29.9	28.4	27.2	-4.3%	-9.7%
Unit Trust of Fiji	23.9	24.7	24.7	25.7	29.5	15.1%	23.3%
Merchant Finance	9.3	9.3	9.3	9.6	8.6	-10.5%	-7.6%
Credit Corporation	1.4	1.4	1.4	1.4	0.9	-35.7%	-35.7%
Others	61.3	68.5	67.7	69.4	61.1	-11.9%	-0.3%
T-BILLS	78.5	45.0	75.0	187.5	169.5	-9.6%	115.9%
Commercial Banks	78.5	38.2	68.2	179.0	163.2	-8.8%	107.9%
FNPF	0.0	4.5	4.5	4.5	0.0	-100.0%	-
Insurance companies	0.0	0.0	0.0	0.0	0.0	-	-
Others	0.0	2.2	2.2	4.0	6.3	58.7%	-
EXTERNAL DEBT	1,404.9	1,386.9	1,406.5	1,457.5	1,457.2	-0.02%	3.7%
BONDS (Global Bond)	414.9	401.3	413.1	420.3	430.3	2.4%	3.7%
LOANS	989.9	985.6	993.5	1,037.2	1,026.9	-1.0%	3.7%
ADB	350.3	341.5	345.9	383.6	385.4	0.5%	10.0%
EXIM China	514.3	522.2	517.5	489.3	471.8	-3.6%	-8.2%
JICA	12.2	12.3	11.5	11.5	10.4	-9.4%	-15.0%
IBRD	110.9	107.5	116.3	150.6	157.0	4.2%	41.5%
IFAD	2.2	2.2	2.3	2.2	2.2	-0.8%	1.0%
Debt Servicing							
DEBT SERVICING (Cumulative)	Oct/17	Jan/18	Apr/18	Jul/18	Oct/18	qtr-to-qtr %chge	yr-to-yr %chge
TOTAL	121.4	227.8	332.0	496.0	177.2	-64%	46.0%
Domestic Bonds & Loans	82.8	186.1	260.6	404.1	128.1	-68%	54.7%
<i>Principal</i>	33.6	67.6	89.3	160.7	73.5	-54.3%	118.6%
<i>Interest</i>	49.2	118.5	171.3	243.4	54.7	-77.5%	11.1%
External Loans	38.6	41.7	71.3	91.8	49.1	-46.5%	27.2%
<i>Principal</i>	17.7	17.9	26.7	44.8	26.8	-40.1%	51.3%
<i>Interest</i>	20.9	23.8	44.6	47.0	22.3	-52.6%	6.7%
BORROWING (Cumulative)	106.3	285.2	461.3	875.0	216.0	-75.3%	103.2%
FIB Bonds/Viti Bonds/Fiji Green Bonds/T-Bills	104.7	280.9	450.3	800.8	213.3	-73.4%	103.7%
External loans	1.6	4.3	11.0	74.2	2.7	-96.3%	70.7%

Source: Ministry of Economy

<u>Debt Ratios</u>							
	<u>Oct-17</u>	<u>Jan-18</u>	<u>Apr-18</u>	<u>Jul-18</u>	<u>Oct-18</u>	<u>qtr-to-qtr</u> <u>%chge</u>	<u>yr-to-yr</u> <u>%chge</u>
% of Domestic Debt to Total Debt	70.5%	71.3%	71.7%	72.1%	72.3%	0.4%	2.6%
% of External Debt to Total Debt	29.5%	28.7%	28.3%	27.9%	27.7%	-0.9%	-6.3%
% Domestic Debt to GDP	32.1%	32.9%	34.0%	36.0%	34.2%	-5.1%	6.5%
% External Debt to GDP	13.5%	13.3%	13.5%	14.0%	13.1%	-6.3%	-2.8%
Total Government Debt to GDP	45.6%	46.2%	47.5%	50.0%	47.3%	-5.4%	3.8%

Source: Ministry of Economy