



# **MINISTRY OF ECONOMY**

## **Mid-Year Government Debt Bulletin**

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***Quarter 2 – 2018/2019 Fiscal Year***

*Prepared by the Debt Management Unit of the Ministry of Economy*

## 1.0 INTRODUCTION

- Based on the Reserve Bank of Fiji's Economic Review for the month of January, commercial bank's new lending for consumption purposes grew by 10.8 per cent while new lending for investment purposes fell by 5.9 per cents underpinned by a contraction in lending to both the real estate and building and construction sectors. However, ongoing private sector projects and higher government capital expenditures are anticipated to provide incentive to investment/construction sentiments going forward.
- Monetary conditions remain supportive of growth as private sector credit expanded by an annual 8.1 per cent in January. Commercial bank's weighted average new lending rate fell to 5.88 per cent in January. Liquidity, as measured by the bank's demand deposit, rose during the review period by 30.1 percent to \$398.1 million. In terms of foreign exchange currencies, the Fiji dollar appreciated against the US dollar (+1.5 per cent), Euro (+1.2 per cent), and the Japanese Yen (+0.2 per cent), but depreciated against the Australian (-1.3 per cent) and NZ (-1.2 per cent) dollars<sup>1</sup>.
- This report deliberates on Government's debt position for the period covering 01 August 2018 to 31 January 2019. Floatation of debt instruments in the domestic capital market increased during this period with Government being the dominant player in the primary market, floating a mix of bonds and treasury bills.
- Government managed to raise total bonds (FIB and Viti bonds) of \$300.6 million to finance expenditures with a remaining borrowing ceiling of \$330.2 million. This represents 47.7 per cent of the approved borrowing limit over the first half of the financial year, indicating a favorable level of absorption capacity in the domestic bonds market.
- The debt to GDP ratio stands at 44.2 per cent and this is within the debt management objectives, however, Government aims to reduce this in the medium term.
- This bulletin outlines the trajectory of Government's overall debt position, changes in total outstanding debt for domestic and external portfolio as well as contingent liability position of Government.

### **Total Government Debt Stock**

- Total Central Government debt stock stood at \$5,326.3 million as at 31 January, a 1.1 per cent increase as compared to the previous quarter. The increase is attributed to the increase in Government borrowings through issuance of domestic securities.
- Similarly, Debt as a proportion of GDP recorded a 1.1 per cent growth to 44.2 per cent when compared to 43.7 per cent in the last quarter.
- In terms of debt mix (domestic / external), Government has maintained its target ratio of 70/30 (+5/-5) at end of second quarter.

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<sup>1</sup> Reserve Bank of Fiji Economic Review – Vol. 36 - February 2019

**Table 1**

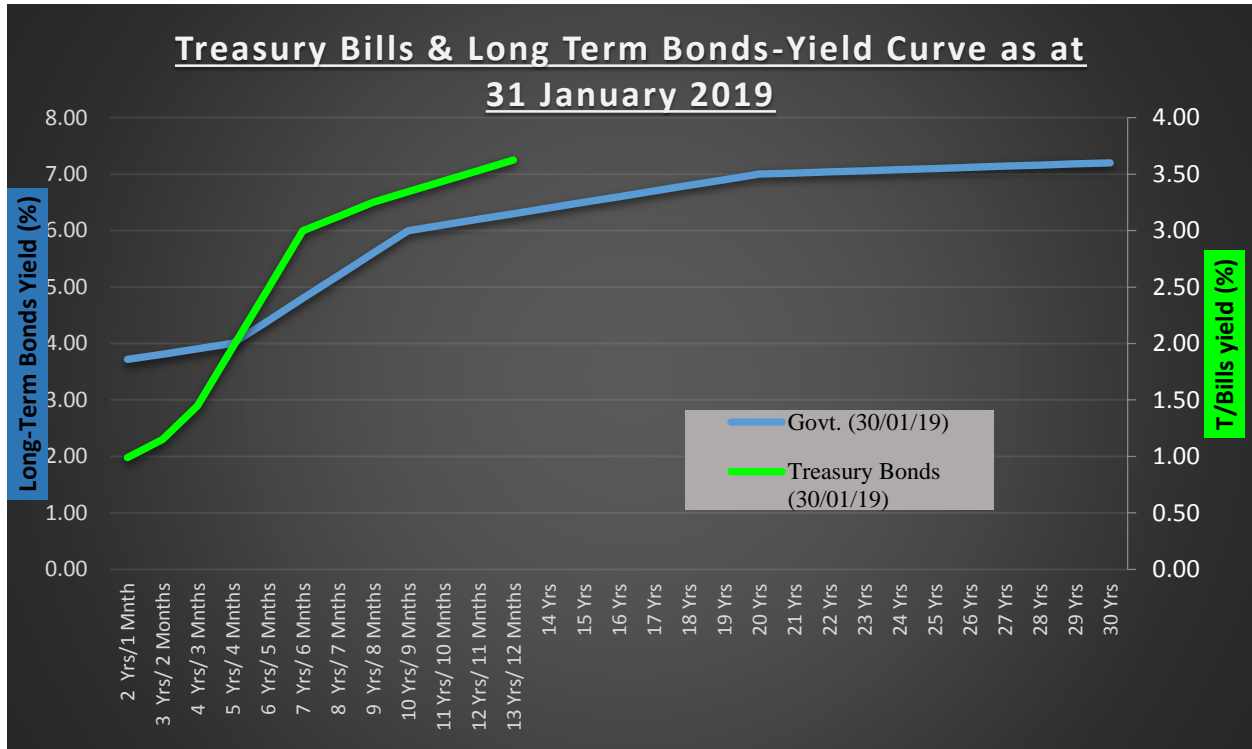
Debt Stock (\$m)	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19(r)	% Change	
						Qtr to Qtr	Yr to Yr
<b>TOTAL</b>	<b>4,824.6</b>	<b>4,962.0</b>	<b>5,220.5</b>	<b>5,267.5</b>	<b>5,326.3</b>	<b>1.1%</b>	<b>10.4%</b>
Domestic Debt	3,437.7	3,555.4	3,763.0	3,810.3	3,879.3	1.8 %	12.8 %
External Debt	1,386.9	1,406.5	1,457.5	1,457.2	1,447.0	(0.7 %)	4.3%
% of Domestic Debt to Total Debt	71.3%	71.7%	72.1%	72.3%	72.8%	0.7%	2.2%
% of External Debt to Total Debt	28.7%	28.3%	27.9%	27.7%	27.2%	(1.8%)	(5.5%)
% Domestic Debt to GDP	30.3%	31.3%	33.1%	31.6%	32.2%	1.8%	6.3%
% External Debt to GDP	12.2%	12.4%	12.8%	12.1%	12.0%	(0.7%)	(1.7%)
<b>TOTAL Debt to GDP</b>	<b>42.5%</b>	<b>43.7%</b>	<b>45.9%</b>	<b>43.7%</b>	<b>44.2%</b>	<b>1.1%</b>	<b>4.0%</b>

Source: Ministry of Economy

## 2.0 DOMESTIC DEBT

- The domestic market remains the major source of borrowing for Government. During the six months period ended 31 January 2019, Government raised a total of \$297.5 million of long term bonds, a significant increase by 54.1 per cent from the amount of \$193.1 million raised in the corresponding period last year.
- At the end of January 2019, 47.6 per cent of the approved domestic borrowing budget was issued. This comprised of \$297.5 million Fiji Infrastructure Bonds (FIBs) and \$3.1 million in Viti Bonds. A total of \$190.5 million was raised from the issuance of Treasury Bills with \$141.5 million outstanding as at end of January.
- Domestic debt outstanding rose by 1.8 per cent per cent from \$3,810.3 million to \$3,879.3 million over the quarter. Of the total outlay, bonds comprise \$3,737.8 million and \$141.5 million in Treasury Bills (T-bills).
- Treasury bills outstanding noted a decline by 16.5 per cent over the quarter. This indicates a prudent cash flow management which has reduced the need to borrow short term instruments for the first six months of FY 2018/2019.
- During the same period, the 20 year, 15 year and 10 year Benchmark FIBs were issued and re-opened.

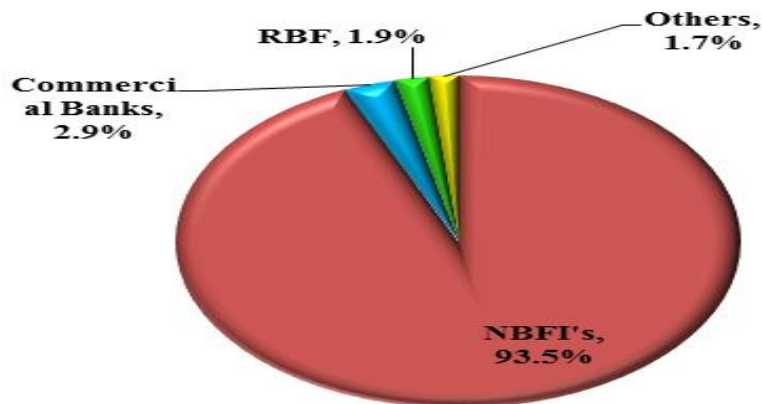
- For Viti Bonds, demands of investors are in the 5 and 10 year maturities. A total of \$3.09 million was raised during the six months, an increase of 10.3 per cent as compared to the same period of last year. This indicates increase in demand of Government’s securities and confidence of investment from the public.
- As at end of second quarter, the domestic market yield curve continues to show increasing trend with Government securities trading at higher coupons for long term bonds. This indicates that investors estimated rate of return rises with long term Government debt securities.



Source: Reserve Bank of Fiji

Of the \$3,737.8 million Government bonds outstanding, the non-bank financial institutions (NBFI’s) held 93.5 per cent, followed by the commercial banks holding 2.9 per cent, the Reserve Bank of Fiji (RBF) at 1.9 per cent and the remaining 1.7 per cent held by other investors including individual households as depicted by the below chart.

## Government Bond Holders



Source: Reserve Bank of Fiji

### 3.0 EXTERNAL DEBT

- External borrowings are directly channeled towards infrastructure projects. For the 2018/19 fiscal year, offshore funds will be mobilized towards roads, water, agriculture and Information Technology and Communication (ICT) projects.
- External debt stock stood at \$1,447.0 million at mid - year, a marginal decrease by 0.7 per cent over the quarter, however, increasing by 4.3 per cent when compared to the same period last year.
- The growth in external portfolio mainly attributed to disbursements of new commitments from multilateral funded projects.
- In terms of external loans disbursements for some active loans, the rate of disbursement is generally slow as compared to budget due to project delays.

#### Creditor Category Composition

- In the lender category, multilateral lenders now dominate the external portfolio at 36.9 per cent with bilateral lenders tracked closely at 33.9 per cent and global bonds holding 29.2 per cent. The recent increase in the multilateral lenders portfolio is a result of disbursement of new commitments and on the other hand repayment of loans to EXIM China have resulted in decline in bilateral lenders.
- The multilateral lender category is expected to increase further in the medium term as disbursements of new commitments continue to facilitate capital infrastructure development.

- At the end of the second quarter a total of \$2.8 million was disbursed to facilitate work done for the Connectivity Project and the Fiji Agricultural Partnership Project (FAPP).

COMPOSITION BY CREDITOR	Jan/18	Apr/18	Jul/18	Oct/18	Jan/19	%age of Portfolio
Asian Development Bank	341.45	345.90	383.60	385.43	378.04	26.1%
International Bank for Reconstruction and Development	107.47	116.33	150.64	157.01	154.22	10.7%
International Fund for Agricultural Development	2.24	2.25	2.21	2.20	2.28	0.2%
Exim Bank of China	522.17	517.48	489.29	471.84	479.95	33.2%
Japan International Cooperation Agency	12.31	11.49	11.48	10.40	10.58	0.7%
3rd Global Bond	401.28	413.05	420.26	430.29	421.94	29.2%
<b>TOTAL</b>	<b>1386.92</b>	<b>1406.51</b>	<b>1457.48</b>	<b>1457.17</b>	<b>1447.00</b>	<b>100.0%</b>

Source: Ministry of Economy

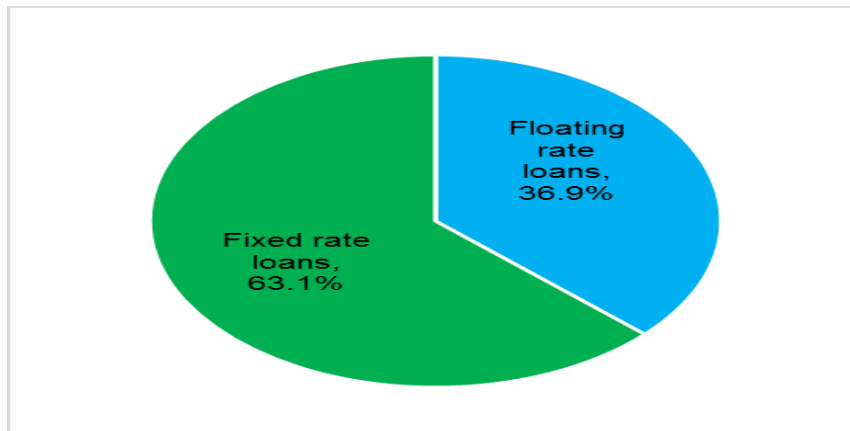
### Currency Composition

- The USD denominated loans have been dominating the external debt portfolio. As at 31 January 2019, USD denominated loans stood at 65.9 per cent, followed by the CNY at 33.2 per cent while the JPY and the Euro constitute 0.7 per cent and 0.2 per cent respectively.
- In the USD portfolio, the Global Bond holds the highest proportion at 29.2 per cent followed by ADB and IBRD at 26.1 per cent and 10.7 per cent respectively.

COMPOSITION BY CURRENCY	Jan/18	Apr/18	Jul/18	Oct/18	Jan/19	%age of Portfolio
USD	850.2	875.3	954.5	972.7	954.2	65.9%
CNY	522.2	517.5	489.3	471.8	480.0	33.2%
JPY	12.3	11.5	11.5	10.4	10.6	0.7%
EURO	2.2	2.3	2.2	2.2	2.3	0.2%
<b>TOTAL</b>	<b>1,386.9</b>	<b>1,406.5</b>	<b>1,457.5</b>	<b>1,457.2</b>	<b>1,447.0</b>	<b>100.0%</b>

Source: Ministry of Economy

## Interest Rate Structure



Source: Ministry of Economy

- The interest rate structure for Government's external debt portfolio ranges from floating and fixed interest with majority of the external debt portfolio having fixed interest rates. Fixed interest rate loans were offered by the bilateral lenders together with the global bond while variable interest rates were offered by the multilateral lenders.

## 4.0 RISK ANALYSIS

- The key risk indicators and costs associated with Government debt over the last six (6) months showed a relatively consistent shift of the overall refinancing risk, interest rate risk and foreign exchange risk.
- Slight increases to the average time to maturity of the total debt portfolio from 7.2 years in July 2018 compared to 7.5 years six months later is a result of the re-opening of long tenor benchmark bonds in the domestic market. On the other hand, a notable increase in debt refixing of interest rates for external debt maturing within a year increased to 39.7 per cent compared to a 37.1 per cent recorded in July 2018. This is due to the upcoming repayment of the Global Bond in October 2020. Refer to below table for the risk indicators and costs associated with Government debt over the past six months.

Risk Indicators as at January 2018-2019		External Debt	Domestic Debt	Total Debt
Amount (in millions of FJD)		1,447.0	3,879.3	<b>5,326.3</b>
Amount (in millions of USD)		685.9	1,838.8	<b>2,524.7</b>
Refinancing Risk	ATM (years)	6.0	8.1	<b>7.5</b>
	Debt maturing in 1 yr (% of total)	3.8	8.8	<b>7.5</b>
Interest rate risk	ATR (years)	2.7	8.1	<b>6.6</b>
	Debt refixing in 1 yr (% of total)	39.7	8.3	<b>17.3</b>
	Weighted Av. IR ( % )	3.3	7.0	<b>6.0</b>
Foreign Exchange risk	FX debt ( % of total debt)	<b>27.2</b>		

Source: Ministry of Economy

**Note:**

*Av. IR* – Average Interest Rate  
*ATM* – Average Term to Maturity  
*ATR* – Average Time to Refixing  
*FX* – Foreign Exchange

- The refinancing risk for Government at the end of the second quarter is relatively low with an ATM of 7.5 years. This shows that Government has an average of 7.5 years to refinance its debt portfolio with 6.0 years for external and 8.1 years for domestic debt, respectively. On the other hand, 7.5 per cent of the total debt portfolio will be redeemed within a year with 3.8 per cent for external debt and 8.8 per cent for domestic debt.
- The ATR for total debt is 6.6 years with external debt at 2.7 years and domestic debt at 8.1 years. In addition, the 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 7.0 per cent compared to external at 3.3 per cent. There is still enough room for Government to fix rates and cushion itself against interest rate vulnerabilities. A higher debt refixing within a year for external debt is due to the variable interest rates related to multilateral loans as well as the imminent Global Bond repayment.
- In terms of exposure to foreign exchange rate risk, 27.2 per cent of the total debt portfolio is exposed to exchange rate volatility. This is in line with Government's debt management objective to keep within the debt composition of 70:30 (+-5) and keep the foreign exchange rate risk at conventional levels as well as mitigating the risk against unexpected exchange rate movements.

## 5.0 CONTINGENT LIABILITY

- Total Contingent liabilities stood at \$1,194.0 million, recorded an upward movement by 3 per cent or \$33.8 million since the last quarter reporting in October 2018. This is expressed as **9.9 per cent of GDP**. New loan guarantees drawdown by entities during the review period contributed to the increase, that includes; Fiji Development Bank, Housing Authority, PAFCO and Fiji Sugar Corporation.
- The new guarantees issued for the quarter totaled \$84.0 million, an increase of 23.5 per cent from the last quarter reporting while guarantee reduction (loan repayments) recorded at \$38.2 million.
- The Ministry will continue to strengthen monitoring of guaranteed entities by adopting Fiscal Risk Analysis Framework in its analysis of guaranteed entities. Implementation of this framework will ensure that medium to high risk entities are closely monitored and discussion with Management on other necessary action should the need arise.



**Contingent Liability summary from January 2018 – January 2019:**

	Jan-18 (\$m)	Apr-18 (\$m)	Jul-18 (\$m)	Oct-18 (\$m)	Jan-19 (\$m)
<b>Government Guarantees (Explicit)</b>	517.6	618.1	586.7	618.1	662.9
<b>As % of GDP</b>	4.7%	5.1%	5.2%	5.1%	5.5%
<b>Other Contingent Liabilities (Explicit and Implicit)</b>	451.5	542.2	532.9	542.2	531.1
<b>Total Contingent Liabilities</b>	969.0	1,160.2	1,119.6	1,160.2	1,194.0
<b>As % of GDP</b>	8.8%	9.6%	9.9%	9.6%	9.9%

*Source: Ministry of Economy*

**6.0 SUMMARY**

Taking into account borrowings executed in the first six months of FY 2019, Government has a balance of \$330.2 million bonds to raise in the next six months in the domestic market. Correspondingly, approximately \$74.8 million is available for drawdown from external loans however, this will be contingent on project implementation on the ground.

During the six months, appetite for Government securities continues to record increasing trend specifically for superannuation and insurance industry, for longer end maturity, while commercial banks demanded for shorter end term.

Overall, the total Government Debt is upward trending and stands at \$5.3 billion or 1.1 per cent over the quarter, nonetheless, the Debt to GDP ratio has reduced to 44.2 per cent compared to 45.9 per cent recorded at the end of July 2018 fiscal year. Total Contingent Liabilities registered at \$1,194.0 million expressed as 9.9 per cent of GDP. However the explicit liability (Government Guaranteed Loans) is hovering around \$662.9 million. Government will continue to monitor the operations of State Owned Enterprises particularly the high risk entities such as the Fiji Sugar Corporation Limited.

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**Appendix**

Central Government Debt Statistics							
Particulars (\$000)	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19	qtr-to-qtr %chge	yr-to-yr %chge
<b>Debt Stock</b>							
<b>TOTAL GOVERNMENT DEBT (\$M)</b>	<b>4,824.6</b>	<b>4,962.0</b>	<b>5,220.5</b>	<b>5,267.5</b>	<b>5,326.3</b>	<b>1.1%</b>	<b>10.4%</b>
<b>DOMESTIC DEBT</b>	<b>3,437.7</b>	<b>3,555.4</b>	<b>3,763.0</b>	<b>3,810.3</b>	<b>3,879.3</b>	<b>1.8%</b>	<b>12.8%</b>
<b>BONDS:</b>	<b>3,392.7</b>	<b>3,480.4</b>	<b>3,575.5</b>	<b>3,640.8</b>	<b>3,737.8</b>	<b>2.7%</b>	<b>10.2%</b>
FNPF	2,100.8	2,162.6	2,265.6	2,308.8	2,398.1	3.9%	14.2%
FNPF Retirement Income Fund	294.9	297.8	297.8	305.5	309.5	1.3%	4.9%
FNPF Special Death Benefit Fund	40.0	41.4	41.4	48.4	48.4	0.0%	21.0%
Insurance companies	628.5	635.9	650.3	665.2	680.8	2.3%	8.3%
Commercial Banks	119.3	134.2	110.2	110.1	110.1	0.0%	-7.7%
RBF	75.6	75.7	75.7	75.5	72.3	-4.2%	-4.3%
Trust Fund	29.8	29.9	28.4	27.2	24.1	-11.3%	-18.9%
Unit Trust of Fiji	24.7	24.7	25.7	29.5	26.0	-11.9%	5.4%
Merchant Finance	9.3	9.3	9.6	8.6	5.6	-35.1%	-40.0%
Credit Corporation	1.4	1.4	1.4	0.9	0.9	0.0%	-35.7%
Others	68.5	67.7	69.4	61.1	62.0	1.4%	-9.5%
<b>T-BILLS</b>	<b>45.0</b>	<b>75.0</b>	<b>187.5</b>	<b>169.5</b>	<b>141.5</b>	<b>-16.5%</b>	<b>214.5%</b>
Commercial Banks	38.2	68.2	179.0	163.2	139.2	-14.7%	263.9%
FNPF	4.5	4.5	4.5	0.0	0.0	0.0%	-100.0%
Insurance companies	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Others	2.2	2.2	4.0	6.3	2.3	-63.0%	4.8%
<b>EXTERNAL DEBT</b>	<b>1,386.9</b>	<b>1,406.5</b>	<b>1,457.5</b>	<b>1,457.2</b>	<b>1,447.0</b>	<b>-0.70%</b>	<b>4.3%</b>
<b>BONDS (Global Bond)</b>	<b>401.3</b>	<b>413.1</b>	<b>420.3</b>	<b>430.3</b>	<b>421.9</b>	<b>-1.9%</b>	<b>5.1%</b>
<b>LOANS</b>	<b>985.6</b>	<b>993.5</b>	<b>1,037.2</b>	<b>1,026.9</b>	<b>1,025.1</b>	<b>-0.2%</b>	<b>4.0%</b>
ADB	341.5	345.9	383.6	385.4	378.0	-1.9%	10.7%
EXIM China	522.2	517.5	489.3	471.8	480.0	1.7%	-8.1%
JICA	12.3	11.5	11.5	10.4	10.6	1.7%	-14.1%
IBRD	107.5	116.3	150.6	157.0	154.2	-1.8%	43.5%
IFAD	2.2	2.3	2.2	2.2	2.3	3.7%	1.8%

Source: Ministry of Economy

Mid-Year Government Debt Bulletin 2018-2019

<u>Debt Servicing</u>							
DEBTSERVICING (Cumulative)	Jan/18	Apr/18	Jul/18	Oct/18	Jan/19	qtr-to-qtr %chge	yr-to-yr %chge
<b>TOTAL</b>	<b>227.8</b>	<b>332.0</b>	<b>496.0</b>	<b>177.2</b>	<b>324.1</b>	<b>83%</b>	<b>42.3%</b>
<b>Domestic Bonds &amp; Loans</b>	<b>186.1</b>	<b>260.6</b>	<b>404.1</b>	<b>128.1</b>	<b>270.3</b>	<b>111%</b>	<b>45.2%</b>
<i>Principal</i>	67.6	89.3	160.7	73.5	138.3	88.2%	104.5%
<i>Interest</i>	118.5	171.3	243.4	54.7	132.0	141.4%	11.4%
<b>External Loans</b>	<b>41.7</b>	<b>71.3</b>	<b>91.8</b>	<b>49.1</b>	<b>53.8</b>	<b>9.7%</b>	<b>29.1%</b>
<i>Principal</i>	17.9	26.7	44.8	26.8	27.0	0.8%	50.9%
<i>Interest</i>	23.8	44.6	47.0	22.3	26.8	20.4%	12.7%
<b>BORROWING (Cumulative)</b>	<b>285.2</b>	<b>461.3</b>	<b>875.0</b>	<b>216.0</b>	<b>493.9</b>	<b>128.6%</b>	<b>73.2%</b>
FIB Bonds/Viti Bonds/Fiji Green Bonds/T-Bills	280.9	450.3	800.8	213.3	491.1	130.2%	74.8%
External loans	4.3	11.0	74.2	2.7	2.8	3.5%	-34.2%

Source: Ministry of Economy

<u>Debt Ratios</u>							
	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19	qtr-to-qtr %chge	yr-to-yr %chge
% of Domestic Debt to Total Debt	71.3%	71.7%	72.1%	72.3%	72.8%	0.7%	2.2%
% of External Debt to Total Debt	28.7%	28.3%	27.9%	27.7%	27.2%	-1.8%	-5.5%
% Domestic Debt to GDP	30.3%	31.3%	33.1%	31.6%	32.2%	1.8%	6.3%
% External Debt to GDP	12.2%	12.4%	12.8%	12.1%	12.0%	-0.7%	-1.7%
<b>Total Government Debt to GDP</b>	<b>42.5%</b>	<b>43.7%</b>	<b>45.9%</b>	<b>43.7%</b>	<b>44.2%</b>	<b>1.1%</b>	<b>4.0%</b>

Source: Ministry of Economy

## Total Government Contingent Liability summary as at 31 January 2019

	Jul-17 \$m	Jan-18 \$m	Jul-18 \$m	Jan-19 \$m
Fiji Development Bank	190.6	191.6	200.0	259.8
Energy Fiji Limited	99.2	96.9	94.5	92.1
Fiji Harwood Corporation Limited	5.1	5.1	5.2	4.6
Fiji Pine Limited	2.5	2.2	1.8	-
Fiji Sugar Corporation	178.2	142.9	210.2	225.9
Housing Authority	69.4	63.7	59.7	68.0
Fiji Sports Council	-	-	-	-
Fiji Ports Corporation Limited	-	-	-	-
Fiji Broadcasting Corporation	14.6	13.7	12.6	11.6
Pacific Fishing Company Limited	2.6	1.6	2.7	0.9
<b>Total Government Guarantees (A) (Explicit)</b>	<b>562.2</b>	<b>517.6</b>	<b>586.7</b>	<b>662.9</b>
<b>% growth</b>	<b>-28.6%</b>	<b>-1.5%</b>	<b>13.4%</b>	<b>7.3%</b>
<b>As a share of GDP</b>	<b>5.3%</b>	<b>4.7%</b>	<b>5.2%</b>	<b>5.5%</b>
International Bank for Reconstruction & Development	229.9	229.3	303.0	304.2
Asian Development Bank (ADB)	193.9	193.4	202.2	203.0
<b>Total Other Explicit Contingent Liabilities (B)</b>	<b>423.8</b>	<b>422.7</b>	<b>505.2</b>	<b>507.2</b>
National Bank of Fiji	6.3	2.4	2.4	0.7
Provincial Council	1.9	1.6	1.4	1.2
Municipal Council	25.7	24.8	23.8	22.0
<b>Total Other Implicit Contingent Liabilities (C)</b>	<b>33.9</b>	<b>28.8</b>	<b>27.6</b>	<b>23.9</b>
<b>Total Other Contingent Liabilities (B+C)</b>	<b>457.6</b>	<b>451.5</b>	<b>532.9</b>	<b>531.1</b>
<b>Total Contingent Liabilities (A+B+C)</b>	<b>1,019.8</b>	<b>969.0</b>	<b>1,119.6</b>	<b>1,194.0</b>
<b>% growth</b>	<b>-19.0%</b>	<b>-2.6%</b>	<b>9.8%</b>	<b>2.9%</b>
<b>Total Contingent Liabilities to GDP (%)</b>	<b>9.58%</b>	<b>8.82%</b>	<b>9.85%</b>	<b>9.90%</b>

Source: Ministry of Economy