FIJIAN GOVERNMENT

DEBT
STATUS REPORT

FOR THE YEAR ENDING JULY 2018

MINISTRY OF ECONOMY (MoE)

SUVA

FIJI

DECEMBER 2018

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1.0 EXECUTIVE SUMMARY

The domestic market remained the major source of borrowing for the Government, sourcing over 70 per cent of borrowing requirements for the year 2017/18. Due to increase in borrowing, central Government debt rose by 11.7 per cent over the year. Total Outstanding debt of the Fijian Government as at July 2018 increased to $5,220.47 million, from $4,671.72 million registered in the same period last year. Notably, the Debt to GDP ratio recorded 50.0 per cent compared with 47.4 per cent in the preceding year.

The gross borrowing limit of the Fijian Government for 2017/18 financial year was $716.92 million as approved by the Parliament under the Appropriation Act No.22 of 2017.

Of the total gross borrowing approved by Parliament, $532.81 million is associated with Domestic borrowing and the balance of $184.11 million to be sourced from overseas. Actual borrowing totalled $605.98 million, in line with the approved borrowing for the 2017/18 fiscal year.

Movements in Government bond yields fluctuated during the financial year. Yields were generally lower for the short term duration but edged higher for the upper end of the maturity spectrum driven by higher long term debt issuance. The 2017/2018 fiscal year saw an increase in issuances of short-term securities, to cover for shortfall in revenue and other cash flow needs. On a positive note, the overall weighted average interest rate of the domestic loan portfolio declined to 6.9 per cent from 7.2 per cent recorded in 2016-2017 fiscal year. This is largely attributed to the reduction in the portfolio of high coupon bonds. On the other hand, weighted average interest rate for external loan portfolio is 3.3 per cent which largely reflects concessional interest rate loans from foreign lenders.

Furthermore, total contingent liabilities increased by 9.8 per cent to $1,119.61 million when compared to July 2017 attributed to increases in explicit contingent liabilities underpinned by new guarantees granted. As a percentage of GDP, this comprised 10.7 per cent.

2.0 INTRODUCTION

Government bonds continued to grow the fixed income market with the further allotment of $531.80 million in Fiji Infrastructure and Viti bonds during the 2017/18 fiscal year. With the rise in issuance of domestic securities, the consequence of outstanding long-term bonds also rose over the years. A key debt policy target of the Ministry is to maintain a sustainable level of debt and an appropriate mix between foreign and domestic loans, this was achieved during the year with debt mix maintained at 70:30 (+/- 5). 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 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 debt.

Borrowing for the 2017/18 fiscal year was executed based on the Medium Term Fiscal strategy targets. Fiscal policy for medium term is geared towards sustaining Fiji's current positive economic growth momentum and securing financial stability. To achieve this, more resources will be channeled to priority sectors that focus on raising the productive capacity while at same time maintain debt at sustainable levels.

Ensuring Government financing needs are met at the lowest possible cost while maintaining prudent level of risk remains the focus of Government Debt management. During the 2017/2018 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.

In the pretext that Government has operating savings; all borrowings are channelled towards infrastructure projects, with external loans specifically facilitating roads and water sanitation projects.

The annual 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.

In summation, the paper also highlights key initiatives that the Ministry of Economy is undertaking, together with plans to maintain debt sustainability.

3.0 TOTAL GOVERNMENT DEBT POSITION

As at 31 July 2018, total Government Debt stood at $5,220.47 million, an increase of 11.7 per cent when compared to the same period last year. The increase was mainly underpinned by combined growth in external and domestic borrowing. The debt to GDP ratio stood at 50.0 per cent.

Government continues to maintain its key debt management objectives with total debt mix been maintained at the desired domestic to foreign debt mix of 70:30 (+/- 5 per cent).

As a percentage of the total debt, domestic debt comprises 72.1 per cent ($3.76 billion) while external debt consists of 27.9 per cent ($1.46 billion) at the end of July 2018.

Table 1: Total Debt Stock ($M)

Year	July 2015	July 2016	July 2017	July 2018
Total Debt	**4,382.82**	**4,507.67**	**4,671.72**	**5,220.47**
Domestic	2,997.51	3,245.04	3,300.82	3,762.99
External	1,385.31	1,262.63	1,370.90	1,457.48
Debt/GDP	49.4%	47.9%	47.4%	50.0%
Domestic/ Total Debt	68.4%	72.0%	70.5%	72.1%
External/ Total Debt	31.6%	28.0%	29.5%	27.9%

Source: Ministry of Economy

4.0 DOMESTIC DEBT

4.1 Domestic Debt Stock

Fiji Infrastructure Bonds, Fiji Green Bonds, Viti Bonds and Treasury Bills ("Government Securities") are Fijian domestic debt-securities denominated in Fijian dollars. The fiscal year 2017/18 period highlights an achievement of the Government towards the domestic bond market development with the successful issuance of Green Bonds to a tune of FJD$100 million in the market together with the re-opening of bonds. The domestic market continues to be major source of funding for Government with various appetites of investors investing in domestic securities based on their investing needs. On a year to year basis, the total domestic debt increased by $462.17 million or 14.0% from $3.30 billion the previous year to $3.76 billion at the end of July 2018.

Tabulated below is the 5 year trend for Domestic Debt.

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

Year	July 2014	July 2015	July 2016	July 2017	July 2018
Bonds	2,761.84	2,831.81	3,079.84	3,204.42	3,575.49
T-Bills	82.60	165.70	165.20	96.40	187.50
Loan	3.15	0.0	0.0	0	0
Total	**2,847.59**	**2,997.51**	**3,245.04**	**3,300.82**	**3,762.99**
% of GDP	33.6%	33.8%	34.5%	33.5%	36.0%
Domestic debt service o/w:	370.69	362.45	339.40	328.89	403.88
Principal	162.71	151.09	121.31	99.64	160.73
Interest	207.97	211.37	218.09	229.25	243.15

Source: Ministry of Economy

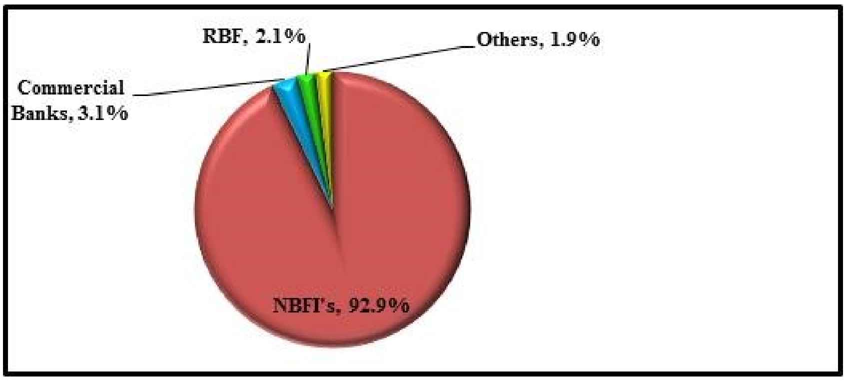
4.2 Domestic Debt Servicing

The total value of domestic debt that were retiring during 2017/18 fiscal year amounted to $160.73 million compared to $99.64 million for the previous year, indicating an increase of $61.09 million. Similarly, interest payment for 2017/18 financial year grew to $243.15 million from $229.25 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 $3,575.49 million Government bonds outstanding, the non-bank financial institutions (NBFI's) held 92.9 per cent, followed by the commercial banks holding 3.1 per cent, the Reserve Bank of Fiji (RBF) at 2.1 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

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

Fiji's only superannuation company, the Fiji National Provident Fund 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.

An analysis of short term debt holdings as of July 2018 saw the Commercial banks holding 100 per cent indicating a higher preference of short term Government securities by the banks.

4.3 Bond Allotment

Domestic debt is mainly comprised of government bonds with maturities ranging from 3 years to 20 years. Apart from issuing short tenor instruments to meet the budget deficit, the issuance of medium to long term bonds is also vital for the development of the domestic financial markets. On the other hand treasury bills are issued to cover shortfall in revenue collections.

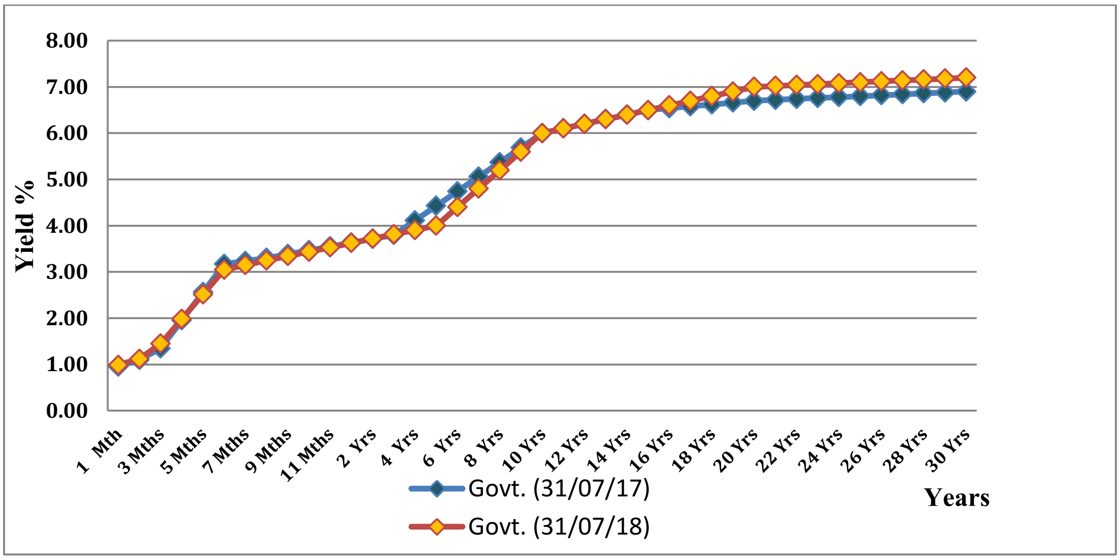
In the financing mix for the 2017/2018 Government Budget, approximately $531.80 million was allocated for the domestic financing of the government deficit. Of this, $100 million was sourced through Green bonds; $9.40 million through Viti bonds and the balance of $422.40 million were from Fiji Infrastructure bonds.

4.5 Domestic Interest Rates Structure

Interest rate for the 10, 15 and 20 year bonds remained at 6.00 per cent 6.50 per cent and 7 percent respectively at the end of July 2018. 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.

The Viti bonds coupon rates are fixed at 4.00 percent for 5 years, 4.50 percent for 7 years and 5.00 percent for 10 years.

Figure 2: Government Domestic Yield Curve



Source: Reserve Bank of Fiji

5.0 EXTERNAL DEBT

External borrowings are directly channeled to finance infrastructure projects. For the 2017/18 fiscal year, offshore funds were mobilized towards roads, water and agriculture projects and were mainly funded by multilateral institutions.

In the 2017-2018 Fiscal Year, the economy suffered damages to its Agricultural sector after two consecutive cyclones followed by major flooding, hit the country. The external debt stock stood at $1,457.48 million at the end of July 2018 increasing by 3.6 per cent over the quarter and by 6.3 per cent when compared to the same period last year.

5.1 Creditor Category Composition

A notable change was noted in the trajectory of Government external borrowing whereby multilateral lenders have now dominated with 36.8 per cent of the portfolio as bilateral lenders decline to 34.4 per cent while the global bond holds a 28.8 per cent share.

ADB as the largest multilateral lender holds 71.5 per cent of the category while EXIM China holds 97.7 per cent of the bilateral category.

Over the quarter the multilateral lender category increased by 15.5 per cent and by 18.2 per cent when compared to the same period last year. This increase is attributed to the disbursement of new commitments; this trend is expected to continue over the next medium to long term.

The bilateral lender category declined by 5.3 per cent over the quarter and by 2.7 per cent when compared to the same period last year. The decrease reflects the redemption of the bilateral loans held mostly by EXIM China.

At the end of July 2018, overseas borrowing for the period stood at $74.18 million; 84.4 per cent of this amount was directed towards emergency recovery projects, 15.6 per cent facilitated the Pacific Regional Connectivity project (7.5 per cent), 6.8 per cent towards Roads Upgrade and the remaining 1.2 per cent for Water Supply and Sanitation projects.

Creditor Composition	17-Jul	17-Oct	18-Jan	18-Apr	18-Jul	%age of Portfolio	yr.-to-yr. %chg.	Qtr.-to-Qtr. %chg.
Asian Development Bank	344.32	350.33	341.45	345.90	383.60	26.3%	11.4%	10.9%
International Bank for Reconstruction and Development	107.56	110.93	107.47	116.33	150.64	10.3%	*40.1%*	29.5%
International Fund for Agricultural Development	2.13	2.18	2.24	2.25	2.21	0.2%	4.1%	-1.8%
Export Import Bank Of China	501.31	514.26	522.17	517.48	489.29	33.6%	*-2.4%*	-5.4%
Japan International Cooperation Agency	13.24	12.24	12.31	11.49	11.48	0.8%	-13.3%	-0.1%
JP Morgan	402.33	414.94	401.28	413.05	420.26	28.8%	*4.5%*	1.7%
Total	**1,370.90**	**1,404.88**	**1,386.92**	**1,406.51**	**1,457.48**	**100.0%**	**44.3%**	**34.8%**

Source: Ministry of Economy

5.2 Currency Composition

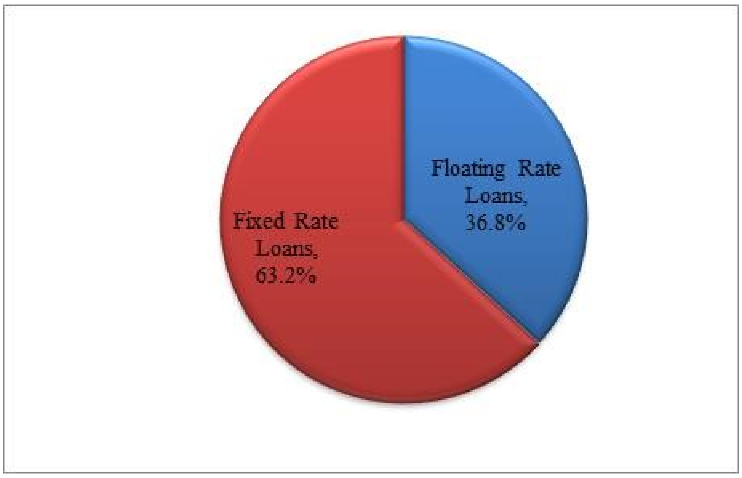
The external debt portfolio is dominated by the USD denominated loans at 65.5 per cent, followed by the CNY at 33.6 per cent while the JPY and the Euro trail at 0.8 per cent and 0.2 per cent respectively.

In the USD portfolio, the multilateral category holds the highest proportion at 56.0 per cent followed by the global bond at 44.0 per cent of the currency.

Currency Composition	31-Jul-17	30-Oct-17	31-Jan-18	30-Apr-18	31-Jul-18	%age of Portfolio
USD	854.22	876.20	850.21	875.28	954.50	65.5%
CNY	501.31	514.26	522.17	517.48	489.29	33.6%
EURO	2.13	2.18	2.24	2.25	2.21	0.2%
JPY	13.24	12.24	12.31	11.49	11.48	0.8%
TOTAL	**1,370.90**	**1,404.88**	**1,386.92**	**1,406.51**	**1,457.48**	**100.0%**

Source: Ministry of Economy

5.3 Interest Rate Structure



Source: Ministry of Economy

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

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 2018, total contingent liabilities increased by 9.8 per cent to $1,119.61 million compared to July 2017, attributed to increases in explicit contingent liabilities underpinned by new guarantees granted. As a percentage of GDP, this comprised 10.7 per cent. The total guaranteed debt (explicit liabilities) comprises of $586.74 million at the end of July 2018, compared with $562.18 million in preceding year. This increase in explicit guarantee was mainly associated with new guarantees taken by various entities. As a percentage of GDP, this is equivalent to 5.6 per cent.

[2]Table 4: Contingent Liabilities

Year	2015	July 2016	July 2017	July 2018
	($m)	($m)	($m)	($m)
Government Guarantee (Explicit)	824.50	787.35	562.18	586.74
As % of GDP	9.3%	8.4%	5.7%	5.6%
Total Contingent liabilities	867.80	1,259.20	1,019.82	1,119.61
As % of GDP	9.8%	13.4%	10.3%	10.7%

Source: Ministry of Economy

7.0 RISK ANALYSIS

7.1 Risk Indicators

The Fijian Government has set out its key considerations in terms of cost and risk trade-offs of its debt portfolio and this will be part of the Medium Term Debt Strategy (MTDS). The MTDS 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[3,] interest rate risk[4] and exchange rate risk[5] and this is tabulated below;

Table 5: Risk Indicators as at Fiscal Year End July 2018

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of FJD)		1,457.48	3,762.99	**5,220.47**
Amount (in millions of USD)		693.6	1,790.8	**2,484.4**
Refinancing risk	ATM (years)	6.4	7.5	**7.2**
	Debt maturing in 1yr (% of total)	3.7	11.2	**9.1**
Interest rate risk	ATR (years)	3.2	7.5	**6.3**
	Debt refixing in 1yr (% of total)	37.1	11.2	**18.5**
	Weighted Av. IR (%)	3.3	6.9	**5.9**
FX risk	**FX debt (% of total debt)**	**27.9**		

Note:

Av. IR – Average Interest Rate

ATM – Average Term to Maturity

ATR – Average Time to Refixing

FX – Foreign Exchange

Source: Ministry of Economy

Over the fiscal period July 2018,

[2] Contingent liability extracted for new fiscal year beginning July 2016. Past years still reflect calendar year amounts as per the available certificate of balances.

3 Rollover risk (refinancing risk) is the possibility of having the debt rolled over at a higher interest.

4 Risks associated with variable costs of borrowing.

5 Risks associated with fluctuations of exchange rates.

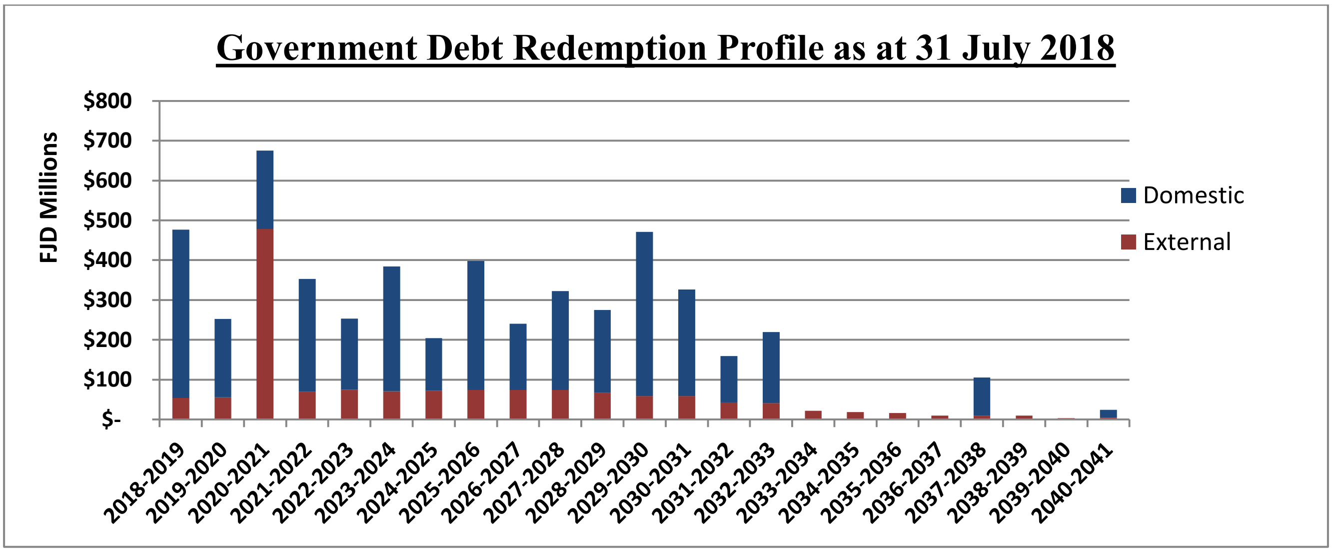
The Average Term to Maturity is moderately low with an ATM of 7.2 years. This shows that Government has an average of around 7 years to refinance its debt portfolio with 6.4 years for external and 7.5 years for domestic debt, respectively. Debt maturing within a year as a percentage of total debt is 9.1 per cent. External debt to be refinanced within a year as a percentage of total debt is 3.7 per cent compared to domestic debt at 11.2 per cent. More of Government's domestic debt will be redeemed within a year when compared to external debt which signifies the scale of the domestic debt portfolio and its cumulative developments.

In terms of the interest rate risk of Government's debt portfolio, there is still enough room for Government to fix rates and to cushion itself against interest rate vulnerabilities. Given a longer ATR of around 6 years, this indicates that Government has a lower share of debt that will be re-fixed in the near future and less exposure to interest rate vulnerabilities. The ATR for external debt is 3.2 years and domestic debt at 7.5 years. Furthermore, the debt refixing in a year as a percentage of total debt is 18.5 per cent with domestic showing a relatively lower percentage of 11.2 per cent compared to a 37.1 per cent for external debt. A higher external debt refixing within a year is mainly due to the variable interest rates pertinent with the multilateral loans.

Weighted average interest rate is relatively low at 5.9 per cent for the total debt stock with domestic debt having an average interest rate of 6.9 per cent compared to external at 3.3 per cent, largely reflecting the presence of concessional financing in the external portfolio with low floating rate debt and low interest rates.

In terms of exposure to foreign exchange rate risk, 27.9 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 and reduce the risk and costs of unexpected foreign exchange rate movements.

Figure 7: Government Debt Maturity Profile



The government debt maturity profile as at July 2018 shows a relatively smooth transition with the exception for the Global bond redemption payment in fiscal year 2021. Refinancing risk is relatively low, however, Government will continue to review its loan and debt instruments in line with the new Government fiscal year to avoid excessive maturities within short time periods and maintain an optimum debt level.

8.0 MAJOR HIGHLIGHTS

8.1 Issuance of First Fiji Green Bond (FGB)

A major highlight in the 2017-2018 financial year is the issuance of Fiji Green Bond (FGB) with an issuance amount of $100 million. A total of $80 million was issued for 13 years and $20 million for 5 years carrying a coupon rate of 6.30% and 4.00% respectively.

Fiji is the first country in the Southern Hemisphere, first in an emerging economy, and just third globally after France and Poland to issue Green Bond whereby the proceeds will go towards climate mitigation and environmental protection programs. The issuance of Fiji's green bond was overseen by a high level steering committee chaired by the Governor of the Reserve Bank of Fiji and made up of officials from the Ministry of Economy, the Office of the Solicitor General and experts from the International Finance Cooperation (IFC). IFC provided crucial technical assistance to the Fijian Government to issue the green bond under a broader Capital Markets Development Project supported by the Australian Government. The Fijian Government developed its Green Bond Framework (GBF) soon after the decision was made to venture into the global green bond market. Fiji's GBF was created to ensure transparency, disclosure and accountability of Fiji's green bond issuance. Sustainalytics, an independent Environment, Governance and Social research and ratings company was hired by the Fijian Government for the Second Party opinion and to validate the Framework for its sustainable and green qualities as well as its alignment to the Green Bonds Principles (GBP).

8.2 New External Loans for Budget Support

Government undertook new external borrowings from the Asian Development Bank and World Bank for budget support purposes in the 2017/18 fiscal year. Amount undertaken with ADB was US$15 million in June for the purpose of promoting Fiji's private sector-led economic growth through the Sustained Private Sector-Led Growth Reform Program. On the other hand, Government borrowed additionally USD$15 million from World Bank in April for the purpose of supporting Fiji's reform efforts to strengthen medium-term fiscal sustainability while undertaking structural reforms to improve the business climate and resilience to climate change. The proposed USD$15 million follows the post-Cyclone Winston emergency loan taken earlier to assist in the formulation of a recovery plan and the provision of post-disaster social protection to the most vulnerable. These new borrowings are aimed to benefit the nation as a whole, both economically and socially.

8.3 Multilateral Lenders Overtake Bilateral Lenders

Over the years, bilateral lenders comprised the larger share in the external debt portfolio; however, the 2017/18 fiscal year saw the multilateral Lenders dominating the overall external debt portfolio. In a collective approach to support Government's emergency recovery plans the Asian Development Bank and the World Bank made available facilities of US$30.0 million from their ordinary capital resources. These new commitments brought the total overseas borrowing to $74.2 million compared to $223.0 million in the previous year, pushing the multilateral lender category ahead of bilateral lenders for the first time since 2012.

9.0 SUMMARY

The outstanding Central government debt as at 31 July 2018 increased to $5,220.47 million from $4,671.72 million registered in the same period last year. The 11.7 per cent increase in outstanding debt was driven by a combined growth in domestic and external borrowing. Notably, the Debt to GDP ratio recorded 50.0 per cent.

In line with increase in total debt stock, the domestic and external borrowing recorded increases, growing by 14 per cent and 3.6 per cent respectively. 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 5.9 per cent for July 2018. Likewise, ATM and ATR increase slightly which implies government has sufficient time to repay its debt.

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 Strengthening Fiscal oversights of public entities and statutory authorities 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's 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