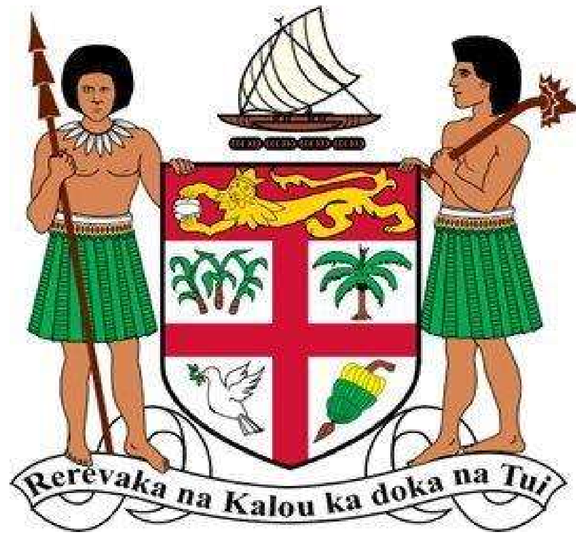

GOVERNMENT OF FIJI

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FISCAL YEAR 2024-2026

MINISTRY OF FINANCE, STRATEGIC PLANNING,

NATIONAL DEVELOPMENT & STATISTICS

SUVA

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FOREWORD

The Government of Fiji ('GoF') through the Ministry of Finance, Strategic Planning, National Development and Statistics, has developed a Medium-Term Debt Management Strategy ('MTDS') for fiscal years ('FY') 2024 – 2026. The MTDS outlines GoF's debt objectives and the framework for formulation and implementation of a prudent borrowing program in the medium-term. It provides guideline on financing options, debt servicing at the lowest possible cost and ensure debt sustainability is considered for Fiji's public debt.

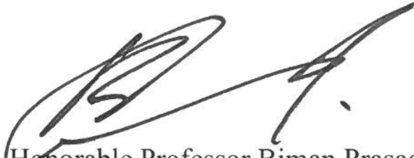
The 2023-2024 national budget approved in July 2023 provided a much needed clarity on the Coalition Government's plan to reduce public debt with a substantial reduction of fiscal deficit. One of the immediate priorities of the Coalition Government was to restore financial discipline, rebuild fiscal buffers and put the public debt situation on a sustainable path. The medium-term fiscal strategy 2024-2026 was released as part of Government annual budget process and will constitute a pillar for GoF's borrowing strategy in the medium-term. In addition, the principles of responsible financial management mandate the GoF to ensure that sovereign debt remains within a prudent level.

The economic contribution in 2019 and the COVID-19 pandemic has left Fiji with consecutive years of economic contractions, elevated debt levels and increased sensitivity to the pricing of financing options. Maintaining debt sustainability is critical for vulnerable countries, and for Fiji to continue its development path while addressing climate adaptation and mitigation, access to larger volumes of concessional resources will be essential.

Fiji's economy began its recovery in 2022 with notable growth by 20 percent, primarily led by the solid rebound in the tourism sector and the economy is forecasted to return to pre-pandemic levels of growth by the end of 2023. Growth forecast in 2023 has been revised upwards to 8.2 percent from the earlier forecast of 8.0 percent. Growth is projected to slow down at around 3.4 percent in 2024 and 3.0 percent respectively, in 2025 and 2026. The services and industrial sectors are poised to be the leading drivers of growth in the medium-term while the primary sector is expected to remain broadly flat.

I would like to acknowledge the Asian Development Bank for the technical assistance provided on the formulation of the MTDS for FY 2024-2026. Government will continue to support

stakeholders on debt management, strengthen public financial management and conduct annual review of the MTDS targets to ensure its successful implementation.



Honorable Professor Biman Prasad

Deputy Prime Minister and Minister for Finance, Strategic Planning, National Development and Statistics

ABBREVIATIONS AND DEFINITIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
ATM	Average Time to Maturity
ATR	Average Time for Re-fixing
CNY	Chinese Renminbi Yuan, the currency of the People's Republic of China
CSD	Central Securities Depository
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
FMA	Financial Management Act 2004
FJD or $	Fijian Dollars, the currency of the Republic of Fiji
FNPF	Fiji National Provident Fund
FX	Foreign Exchange
FY	Fiscal Year for Government of Fiji
GDP	Gross Domestic Product of Fiji for a fiscal year
GoF	Government of Fiji
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
JICA	Japan International Cooperation Agency
JPY	Japanese Yen, the currency of Japan
LIBOR	London Interbank Offered Rate
LMO	Liability Management Operations
MOF	Ministry of Finance
MTDS	Medium Term Debt Management Strategy
NBFI	Non-Bank Financial Institutions
RBF	Reserve Bank of Fiji
SOE	State Owned Enterprises
SOFR	Secured Overnight Financing Rate
TC	Tropical Cyclone
T-bills	Treasury Bills
T-bonds	Treasury Bonds
USD	United States Dollars, the currency of the United States of America
WAIR	Weighted Average Interest Rate
WB	World Bank

INTRODUCTION

The Ministry of Finance, Strategic Planning, National Development and Statistics (Ministry of Finance) prepares the MTDS every three years. This is in fulfillment of provisions stipulated in Section 59 of the Financial Management Act ('FMA') 2004, which provides the legal framework for the Minister responsible for Finance to borrow money on behalf of the Government of Fiji and the requirement under Section 59 A of the FMA (Amendment) ('FMA 2021') for the Ministry to prepare the debt management strategy which sets out GoF's plan to source financing, manage associated costs and risks and pursue its objectives. Furthermore, Section 5 of the FMA 2004 stipulates the principles of responsible financial management, which includes managing revenue and expenditure in such a way as to achieve prudent levels of debt and to manage contingent liabilities in a prudent manner.

The key debt policies for the fiscal year 2023-2024 as outlined in the Government Budget Supplement includes the following:

- to lower the cost of debt through concessional financing from bilateral and multilateral lenders;
- change the maturity profile through a gradual reduction in Treasury Bills and issuances of short and medium-term bonds (2-5 year tenors)
- continued issuances of long-dated bonds (10-20 year tenors);
- development of the domestic bond market to focus more on transparency, secondary market trading, settlement mechanisms and investor diversification;
- consider callbacks, bonds buybacks and switch operations; and
- minimise risks associated with on lending and contingent liabilities.

Pursuant to Section 59 of the FMA, the above policies have been incorporated in the formulation of the MTDS for fiscal years 2024-2026 ('FY2024-2026') which aims to achieve the following debt management objectives:

i. to minimise the medium to long-term cost of debt for the GoF within a prudent level of risk; and
ii. to support the development of a well-functioning domestic market for Government debt securities.

The MTDS will focus on the Central Government's debt portfolio that is managed by the Ministry of Finance and linked to the Annual Borrowing Plan and the Medium-Term Fiscal Strategy. The MTDS aims at facilitating borrowing at the lowest cost together with a prudent degree of risk. It will encompass the current debt portfolio as of 31 July 2023 and consider the utilisation of securities and financing instruments that are available to the GoF within FY2024-2026.

In line with the principle of prudent and sustainable debt management, the MTDS has been produced to guide GoF´s debt management decisions and operations, while stipulating how it intends to borrow and manage sovereign debt to achieve a portfolio that reflects its cost and risk preferences, while meeting financing needs. Some of the costs and risks to be managed include: (i) the foreign currency (FX) risk; (ii) interest rate risk; and (iii) refinancing risk.

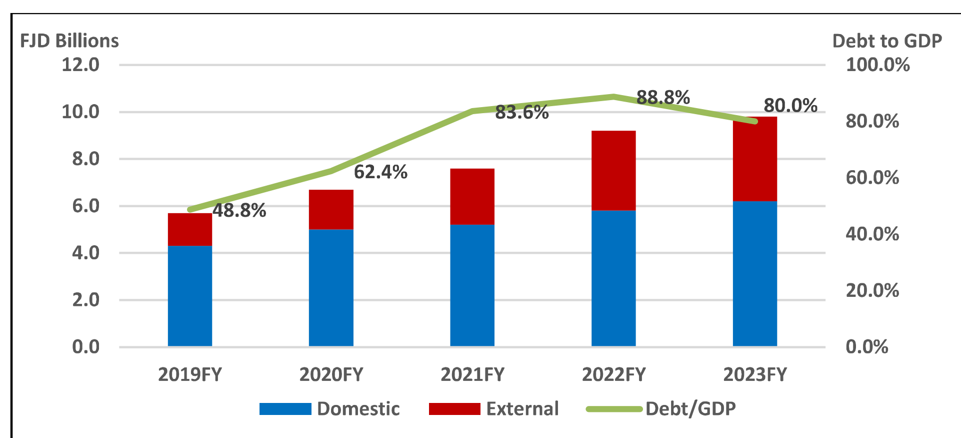
The FY 2024-2026 MTDS will guide GoF's borrowing to ensure a well-balanced composition of Central Government debt portfolio in terms of costs and risks.

EXISTING GOVERNMENT DEBT PORTFOLIO

GoF's total debt stock as at 31 July 2023 was $9.7 billion, recording a 6.7 percent increase compared to the previous fiscal year (FY2022: $9.1 billion). Debt as a percentage of GDP[1] stood at 80.0 percent (FY2022:88.8 percent). (Refer to Figure 1)

Domestic debt stock stood at $6.2 billion, representing 63.3 percent of total GoF debt. External debt stood at $3.6 billion representing 36.7 percent of total GoF debt.

Figure 1: Central Government Debt and Debt to GDP ratio for FY 2019-2023



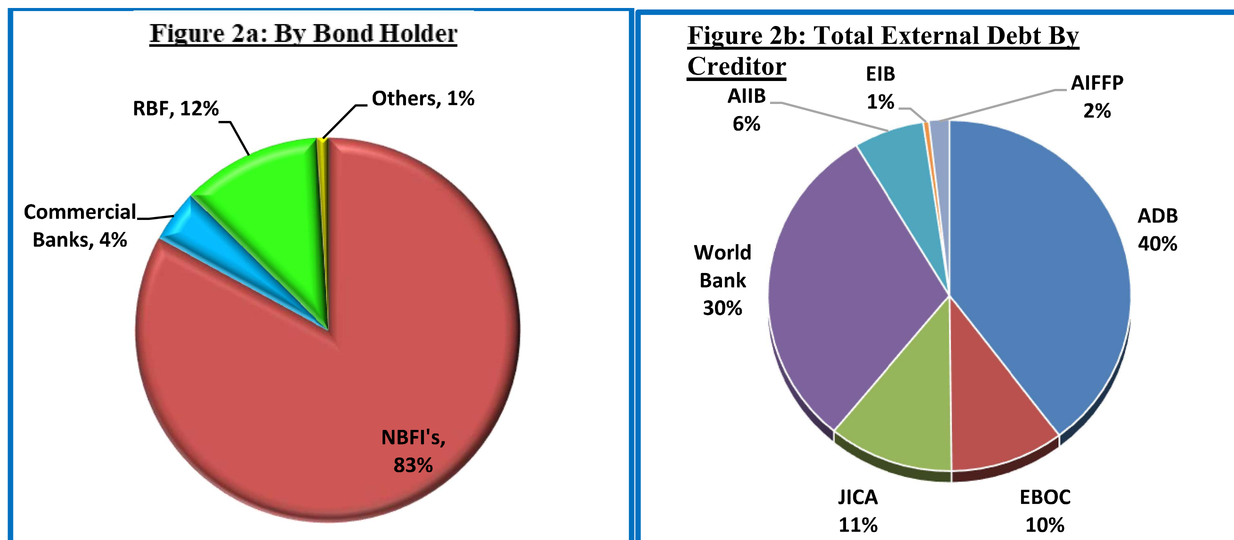
Source: Ministry of Finance and Reserve Bank of Fiji

Debt Composition

The primary source of financing for the GoF in recent years has been the issuance of domestic bonds mainly to the Fiji National Provident Fund ('FNPF'). In relation to short-term Treasury Bills, commercial banks have been the dominant participants in auctions. (Refer Figure 2a) for the domestic long term bond holders.

In terms of external debt holders, ADB is the largest external creditor (39.7 percent), followed by the World Bank Group (30.4 percent), JICA (11.1 percent), EXIM China (10.1 percent), AIIB (6.3 percent), AIFFP (1.8 percent) and EIB (0.6 percent). (Refer Figure 2b)

[1]Source: Annual Debt Report FY2023.



Source: Ministry of Finance & Reserve Bank of Fiji

By Currency Type

Domestic currency debt continues to dominate the composition of Government debt at 63.3 percent followed by the USD with 28.9 percent, the JPY with 4.1 percent and CNY holding the balance of 3.7 percent.

By Interest Type

Fixed rate debt comprises 82.0 percent of total debt, and mostly relates to domestic bonds and bilateral and multilateral external loans. The remaining 18.0 percent are subject to variable Secured Overnight Financing Rate ('SOFR') which relates to loans from multilateral lenders.

Medium Term Debt Portfolio Analysis

The cost and risk indicators for the Central Government´s debt portfolio for FY2023, followed a similar approach to the last fiscal year in managing the overall risk due to increased Government borrowings to facilitate COVID-19 recovery efforts while ensuring that key Government expenditures are met.

Overall, the cost and risk indicators for the Central Government's debt portfolio remain within most of the targets set in the MTDS, reflecting the effective implementation of debt management transactions aimed at achieving objectives like target concessional borrowings and lengthening maturities of new loans to mitigate debt cost and refinancing risk.

Table 1 provides a summary of the cost and risk indicators of Government's total debt portfolio as at end of FY 2023 compared to the 2021-2023 MTDS targets.

Table 1: Cost and Risk Indicators (FY2022-2023)

Cost and Risk Indicators		FY 2022	MTDS Target	FY 2023
Nominal debt as percentage of GDP		88.8	83	80.0
Cost of Debt	Weighted Av. IR (percent)	4.6	4.7	5.1
Refinancing risk	ATM (years)	10.7	9.9	10.5
	Debt maturing in 1 year (percent of total)	6.2	6.5	7.8
Interest rate risk	ATR (years)	9.3	8	9.1
	Debt re-fixing in 1 year (percent of total)	25.3	30	27.3
FX risk	FX debt (percent of total debt)	36.8	32.2	36.7

The weighted average cost of debt increased by 50 basis points when compared to the last fiscal year, underpinned by the increase in the SOFR as market conditions changed within the financial year resulting in increased interest payments for external loans. On a positive note, domestic market conditions were favorable with yields not deviating so much as liquidity in the market remained high. WAIR for external debt is at 3.6 percent and 5.9 percent for domestic debt.
Average Term to Maturity ('ATM') at the end of FY2023 was 10.5 years, slightly lower than the previous year. Debt maturing within a year as a percentage of total debt showed an increase from 6.3 percent last year to 7.8 percent in the current reporting year, due to an increase in redemptions in the next financial year.

Similarly, the Average Term to Refixing ('ATR') at the end of July 2023 was nearly the same as in the last fiscal year. The ATR considers the weighted average time it takes for the debt portfolio to be subject to a new interest rate after principal payments are made; at the end of FY2023 the 9.1 years indicates that Government has ample time to adjust its interest costs should there be any shocks arising from SOFR's hiking at any point in time. The ATR for external debt was 6.9 years and 10.3 years for domestic debt, both indicates improvements over the year. Moreover, debt

refixing in a year as a percentage of total debt stood at 27.3 percent compared to 25.3 percent in the previous year.

Foreign exchange rate risk, measured as the percentage of external debt over total debt, is still above the 35 percent benchmark despite slightly decreasing by 10 basis points at 36.7 compared to 36.8 percent in the last fiscal year. This decrease is attributable to lower external borrowings in FY2023. The GoF will continue to manage foreign currency exposure over the medium-term by reducing external borrowings and focusing on domestic market development. The GoF remains mindful of the exchange rate risk associated with external borrowings and will work towards achieving an external to domestic debt ratio of 30:70 (+/-5).

Furthermore, the Ministry has assessed and identified the potential benefits of undertaking Liability Management Operations ('LMO') both in mitigating refinancing risk, cashflow management and in enhancing market liquidity through bond switches, buy backs and call options. A LMO policy is in place, published in 2022 and the Ministry plans to implement this during FY2024 to FY2026.

ENVIRONMENT FOR DEBT MANAGEMENT

General Macroeconomic Environment

Fiji's economic performance and recovery have been quite strong, with tourism numbers now surpassing pre-pandemic levels. After contracting by 17 percent in 2020 and 5.1 percent in 2021, Fiji's economy rebounded impressively by 20 percent in 2022. The growth forecast for 2023 have been revised upwards to 8.2 percent, a slight increase from the 8.0 percent growth expected earlier.

Inflation has been contained, averaging to 4.3 percent in 2022.. The annual headline inflation noted a ten-year-end peak of 5.1 percent in 2023, attributed to higher prices for most categories, with the top three contributors being food and non-alcoholic beverages, transport and alcoholic beverages, tobacco and narcotics. The increased inflation rate reflects higher import commodity prices as well as the increase in VAT and tariff rates from the national budget for FY 2023/2024.

Although the short-term domestic outlook remains favorable, Fiji's economy will not return to pre-pandemic levels until at least 2024. Downside risks to the outlook remain, including at global level on the deepening of China's real estate crisis, higher commodity prices, prolonged geopolitical conflicts and climate events. The domestic level includes a slower investment project uptake, expected slowdown in tourism and advance warnings of a few natural disasters as Fiji heads into cyclone season which also pose risks to inflation and growth.[2]

Exchange Rate and Balance of Payment

Fiji has a fixed exchange rate regime, where the value of the Fiji dollar is fixed to a basket of currencies, namely the Australian (AUD), New Zealand (NZD) and United States Dollars (USD), the Euro (EUR) and the Japanese Yen (JPY).

The overall balance of payments up to November 2023 is $51.1 million and is expected to be negative for 2024, 2025 and 2026 at $26.8 million $216.6 million and $313.7 million respectively.

[2] Reserve Bank of Fiji – Economic Review for October 2023

Policy and Budget Environment

In line with the medium-term fiscal strategy, the Government has embarked on a journey of fiscal consolidation with the aim to put the debt to GDP ratio on a downward path. While revenue prospects have improved as Fiji's economy quickly recovers, expenditure growth has also been controlled. The GoF will continue to ensure that the speed of the economic recovery is improved further to support a quicker rebound in tax revenue, while tight expenditure controls will be maintained to ensure that the fiscal deficit is maintained at or below the target.

To support the economy during the COVID-19 pandemic, the RBF maintained an accommodative monetary behavior by leaving its policy rate unchanged at 0.25 percent since March 2020.

Infrastructure Development

The National Payment System Act (2021) and its related regulations (Section 50) mandates the dematerialization of public sector securities and sets the legal framework for the implementation of the Central Securities Depository ('CSD').

The CSD was launched on 30 November 2022 and trades of Government securities have been made on electronic platform since enabling the trading and settlement of securities on a real time basis. This should develop the domestic market further with increase participation of investors, encourage secondary market trading and inspire overseas investors to invest in bond domestically.

ANALYSIS AND STRATEGY

Description of Analysis

In formulating the MTDS, the MOF assessed the costs and risks of four candidate debt management strategies covering the fiscal years 2024 to 2026 both under baseline economic projections and shocks to the baseline. These include increasing/reducing the tenor of the domestic securities and increasing/reducing the proportion of external debt in the portfolio. In addition to cost and risk, other factors were considered in assessing candidate strategies such as their impact on the development of the domestic debt market and on foreign reserves, and the feasibility of carrying out each of the strategies considering country-specific structural factors and those related to the global context. From this analysis, a preferred strategy was then selected.

Key Assumptions and Forecasts

The MTDS for FY 2024-2026 was developed in accordance with the Government's medium-term fiscal framework released in the Medium-Term Fiscal Strategy 2024-2026 with financing needs determined by the overall deficit plus principal payments. Various borrowing strategies were analysed under the baseline macroeconomic and financing assumptions and alternative shocks to interest and exchange rates. The MTDS analytical tool allows the definition of four risk scenarios: two shocks to interest rates; an FX rate shock; and a combined interest rate and FX rate shock.

Baseline Projections of market variables

In this MTDS, the baseline projections of market variables are based on the exchange rate trends and the interest rate movements in both the domestic and international markets. The baseline projections are as follows:

- Baseline exchange rates are estimated to be constant throughout the entire analysis period.
- Baseline interest rates:
    - for floating rate external debt instruments SOFR forward rates were used, as published on the Federal Reserve Bank of New York portal, plus a spread.

- fixed rate external debt instruments (which are loans from multilateral and bilateral official creditors) are determined by the lending policies of those institutions and are treated as fixed despite changes in market conditions.
- for domestic debt instruments the forward yields were estimated based on indicative T-bills and bond prices published by the RBF[3].

The MTDS analysis considers the Government's preferred debt strategy as well as three alternative strategies that pursue different objectives. The debt strategies represent alternative ways of financing the Government during the period FY2024 - FY2026. Table 1 below summarizes the main features of each strategy concerning the debt instruments utilized and their respective assessment:

Table 1: Strategies' assessment

	Debt Instruments Utilised	Assessment
Strategy 1(S1)	External loan disbursements are aligned with the financing flows envisaged in the FY2024 Budget all throughout the strategy period (FJD 281 million average per year). Outstanding stock of T-bills is preserved stable all throughout the strategy period by means of rolling over all maturities as they fall due (FJD 265 million in stock). Short and medium-term T-bonds issuances are scaled up relative to the financing flows secured in recent years. (FJD 130 million average per year). Long-term T-bonds issuances are maintained. (FJD 602 million average per year). Issuances of thematic bonds-[4] within the domestic borrowing limit and within the current bonds term, that is either short-term or long-term.	This strategy: (i) takes advantage of concessional (and some non-concessional) financing provided by multilateral and bilateral lenders; (ii) increases the public debt portfolio's exposure to refinancing and interest rate risks by preserving the outstanding T-bills and expanding the issuances of short-term T-bonds—which may only be partly offset by the short-term securities' lower interest costs; (iii) supports the development of the domestic capital market by building the yield curve.

[3] https://www.rbf.gov.fj/category/bond-price-list-new/

[4] As outlined in the Fiji Bond Sustainability Framework launched in Nov 2022

Strategy 2(S2)	External loan disbursements are concentrated in bilateral and multilateral lenders on concessional terms. (FJD 278 million average per year). The outstanding stock of T-bills is preserved stable all throughout the strategy period by means of rolling over all maturities as they fall due. (FJD 265 million in stock). Short- and medium-term T-bonds issuances are scaled down to a minimum. (only FJD 50 million in 2024 and nil thereafter). Long-term T-bonds issuances are scaled up relative to the financing flows secured in recent years (FJD 714 million average per year).	This strategy: (i) significantly increases concessional financing provided by multilateral and bilateral lenders - which may be optimistic in view of their own lending envelope for Fiji; (ii) increases the public debt portfolio's exposure to refinancing and interest rate risks by preserving the outstanding T-bills; (iii) increases the public debt portfolio's duration and supports the development of the domestic yield curve.
Strategy 3(S3)	Compute external loan disbursements for FY2024 as in the Budget and minimize inflows in FY2025-2026. (FJD 101 million average per year). The outstanding stock of T-bills is reduced by 25 percent in 2025 and maintained onwards (Stock falls from FJD 265 to FJD 200 million). Short- and medium-term T-bonds issuances are dispensed in this strategy. Long-term T-bonds issuances are significantly scaled up relative to the financing flows secured in recent years. (FJD 920 million average per year).	This strategy: (i) Minimizes external financing aiming to mitigate foreign exchange (FX) risk; (ii) reduces the public debt portfolio's exposure to refinancing and interest rate risks by gradually replacing T-bills with long-term T-bonds—which may be largely offset by the T-bonds' higher interest costs, and may certainly be optimistic in view of domestic investors' appetite for securities with longer tenors; (iii) increases the public debt portfolio's duration and supports the development of the domestic yield curve.
Strategy 4(S4)	External loan disbursements are increased to maintain historical debt composition by currency. (FJD 434 million average per year)	This strategy: (i) takes advantage of concessional financing provided by multilateral and

	Outstanding stock of T-bills is preserved stable all throughout the strategy period by means of rolling over all maturities as they fall due (FJD 265 million in stock) Short and medium-term T-bonds issuances are dispensed in this strategy. Long-term T-bonds issuances are timidly scaled down relative to the financing flows secured in recent years. (FJD 562 million average per year)	bilateral lenders. It involves increased foreign currency risks; (ii) increases the public debt portfolio's exposure to refinancing and interest rate risks by preserving the outstanding T-bills (iii) increases the public debt portfolio's duration and supports the development of the domestic yield curve;

Figure 1 below illustrates the composition of the financing flows raised from the debt instruments utilized in each strategy—expressed as the average annual share of total gross borrowings during the three years of the strategy period. Strategies 1 and 2 present similar reliance on external financing, although the former envisages a more realistic mix of concessional and non-concessional sources.

Strategy 1 and 2 pursue the containment of refinancing risk by avoiding net financing in the form of T-bills but the former contemplates a more rational combination of tenures, with a higher share of short and medium-term domestic borrowing as compared to the latter. Strategy 2, though, is much more aggressive when it comes to extending maturities. Strategy 3 depends heavily on domestic long-term borrowing that may not be consistent with the supply of financing from market investors and significantly increases borrowing costs. Strategy 4 requires the most external borrowing that may exceed the supply of financing from concessional and bilateral lenders.

Figure 1 – Financing Sources for each Strategy

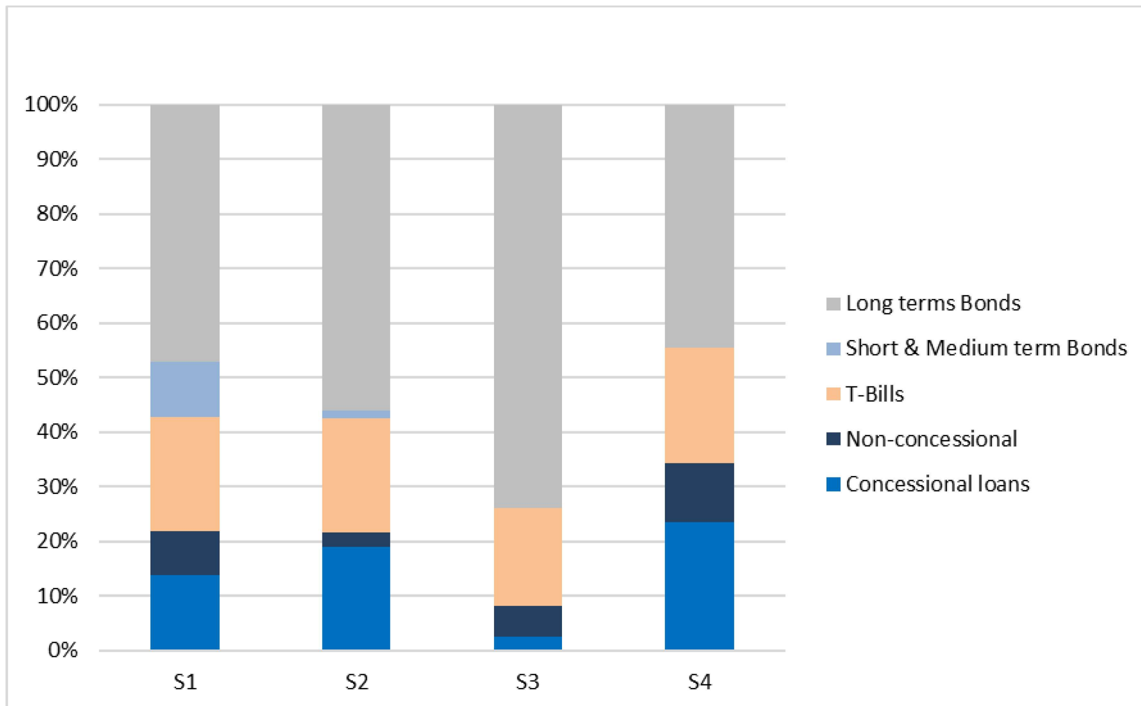
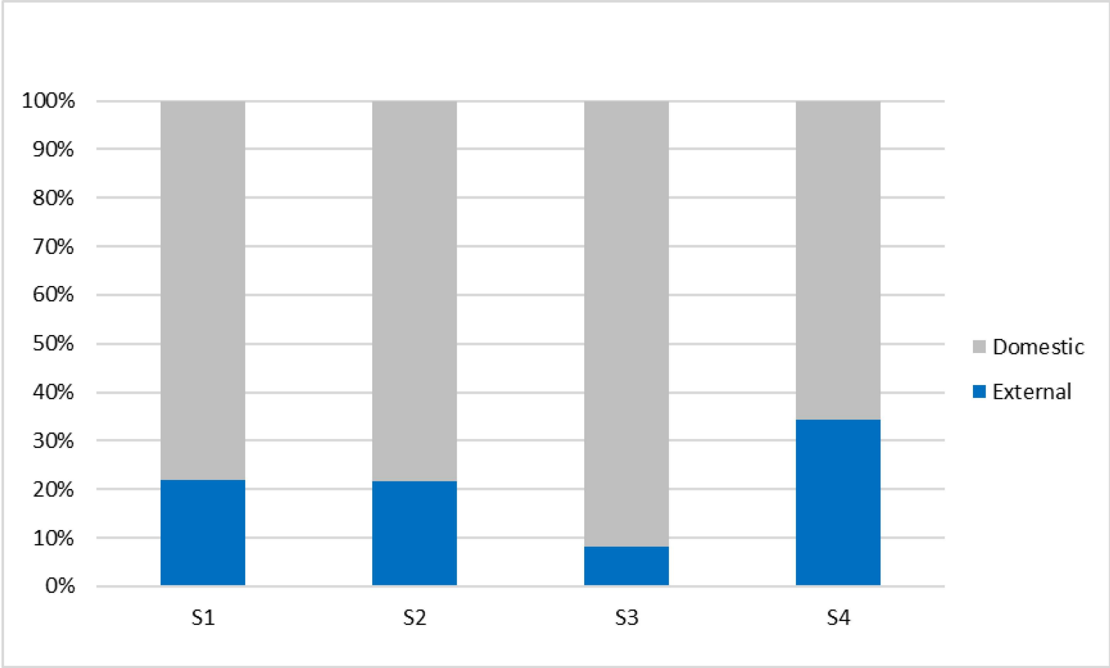


Figure 2 below illustrates the composition of the financing flows raised from domestic and external sources corresponding to each strategy—expressed as the average annual share of total gross borrowings during the three years of the strategy period. While domestic sources provide financing in local currency, external sources do so in foreign currencies. Strategy 1 and 2 entail a mix of 78/22 between domestic and external financing, in line with historical patterns. On the contrary, strategy 4 relies slightly more on external financing—with a 66/34 mix—while strategy 3 is considerably more dependent on domestic financing—with a 92/8 mix.

Figure 2 – Financing by Currency and Strategy



Cost and Risk of the Alternative Strategies for the Baseline Scenario

The cost-risk trade-offs of the four alternative strategies are key to informing the selection of an adequate strategy to be adopted by the Government of Fiji (GoF) in the medium term. Table 2 summarizes the main cost and risk indicators corresponding to the public debt portfolio that would be outstanding by FY2026 if: (i) the GoF pursues each of the strategies over the next three years, and (ii) the baseline scenario materializes as expected. An analysis of said indicators is presented below.

Table 2: Cost and Risk Indicators as of 31 July 2026

Risk Indicators		2023	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		80.0	77.1	77.0	77.2	77.1
Present value debt as percent of GDP		75.4	72.7	71.0	73.6	71.5
Interest payment as percent of GDP		4.1	3.6	3.6	3.7	3.6
Implied interest rate (percent)		5.2	4.8	4.7	4.9	4.8
Refinancing risk2	Debt maturing in 1yr (percent of total)	7.9	6.9	6.0	5.4	6.0
	Debt maturing in 1yr (% of GDP)	6.3	5.3	4.6	4.2	4.6
	ATM External Portfolio (years)	10.2	10.2	11.7	9.2	10.7
	ATM Domestic Portfolio (years)	10.3	9.8	10.3	10.6	9.9
	ATM Total Portfolio (years)	10.3	9.9	10.8	10.2	10.2
Interest rate risk2	ATR (years)	9.1	9.1	10.1	9.5	9.3
	Debt refixing in 1yr (percent of total)	24.8	20.5	17.8	18.1	20.5
	Fixed rate debt incl T-bills (percent of total)	82.0	85.1	86.9	86.1	84.3
	T-bills (percent of total)	2.7	2.3	2.3	1.8	2.3
FX risk	FX debt as % of total	36.7	33.6	33.6	28.9	37.7
	ST FX debt as % of reserves	7.8	9.4	9.4	9.4	9.4

Source: MTDS Analytical Tool Output

Cost Indicators

Debt Stock (as percent of GDP): The ratio of debt to GDP at the end of the strategy period (i.e., end of FY2026) is projected to fall to around 77 percent of GDP from 80.0 percent in FY2023 under the four strategies, mainly driven by solid economic growth.

Present Value (PV) of Debt Stock (as percent of GDP): The Present Value (PV) of Debt Stock at the end of FY 2023 was 75.4 percent of GDP. This indicator is also projected to fall during the strategy period, reaching around 71 percent of GDP under strategies 2 and 4, 72.7 percent under strategy 1, and 73.6 percent under strategy 3.

Interest Payments (as percent of GDP): Interest payments are 4.1 percent of GDP for existing debt and are projected to fall to around 3.6 percent under all strategies.

Risk Indicators

Debt maturing in 1-year (as a percentage of total debt): At the end of FY 2023, debt maturing in 1-year was 7.9 percent of the total debt and 6.3 percent of GDP. While all strategies improve this indicator, the worst performer is strategy 1, for which it falls to 6.9 percent of total debt and 5.3 percent of GDP, due to a higher issuance of short and medium-term bonds. The best performing strategy is 3, with debt maturing in 1-year falling to 5.4

percent of total debt and 4.2 percent of GDP, mainly explained by the reduction of outstanding T-bills and the extreme reliance on long-term domestic financing.

Average Time to Maturity (ATM, in years): The average maturity period of existing debt at the end of FY 2023 was 10.3 years, with 10.2 years for external debt, and 10.3 years for domestic debt. During the strategy period, instruments with longer maturity are preferred over shorter tenures for strategies 2, 3 and 4. As a result, the ATM is projected to increase in these strategies, reaching 10.8 years with strategy 2, and 10.2 years with strategy 3 and 4. Strategy 1, on the contrary, projects a slight reduction in the indicator (down to 9.9 years), due to a higher reliance on short and medium-term domestic bonds.

T-bills Stock (as percentage of total debt): Treasury bills represent a minor portion of total debt (only 2.7 percent) but compute a significant share of yearly gross borrowing requirements and are issued for short-term cash management purposes. These instruments are expected to reduce their share of total debt in all four strategies, with the largest reduction projected for strategy 3 falling to 1.8 percent of the debt stock. The reason for this higher drop responds to T-bills stock being reduced in nominal terms in Strategy 3, while they are kept constant in all other strategies.

External Debt (as percentage of total debt): External debt represented a little more than one-third of the total existing debt (36.7 percent) by the end of FY 2023. This share is projected to fall to 33.6 percent for strategies 1 and 2, and 28.9 percent for strategy 3 while it is expected to increase to 37.7 percent for strategy 4.

Analysis of Results: Cost and Risk of the Alternative Strategies for Risk Scenarios

Complementing the baseline scenario, built upon the macroeconomic framework and pricing assumptions presented, an analysis of risk scenarios is conducted. Risk scenarios are used to evaluate the performance of strategies under adverse market conditions—including the calculation of cost and risk indicators. These scenarios are formulated with shocks to exchange rates and interest rates that may hit the Fijian economy. There are four shocks analysed:

The shocks to the baseline projections are detailed below:

1. **Risk scenario with *large* shock to exchange rates**: To assess the effect of a devaluation of the FJD against foreign currencies (USD, EUR, CNY and JPY), a 30 percent shock to the exchange rate is introduced in the first year of projection.
2. **Risk scenario with *moderate* shock to interest rates**: To evaluate the impact of tightening conditions in domestic financial markets, a 150-basis-point increase in coupon rates of domestic securities issued is introduced all throughout the projection period.
3. **Risk scenario with *large* shock to interest rates**: To evaluate the impact of tightening conditions in domestic financial markets, a 300-basis-point increase in coupon rates of domestic securities issued is introduced all throughout the projection period.
4. **Risk scenario with *combined* shocks to exchange rates and interest rates**: To evaluate the impact of both currency depreciation and tightening conditions in domestic financial markets, a 15 percent shock to the exchange rate is introduced in the first year, and a 150-basis-point increase in coupon rates of domestic securities issued is considered all throughout the projection period.

Figures 3 and 4 summarise a key cost indicator which is the Interest Payments (as percent of GDP) for the public debt portfolio that would be outstanding by FY2026 if: (i) the GoF pursues each of the strategies over the next three years, (ii) either baseline or risk scenarios materialize. Figure 3 exhibits the value of said indicator for each strategy and scenario. Borrowing costs are minimized with strategy 1, 2 and 4 (where interest payment are about 3.6 percent of GDP by FY2026) and maximized with strategy 3 (interest payment are about 3.7 percent of GDP). Notably, shocks impact all strategies similarly, with the large interest-rate shock triggering the strongest deterioration in the cost indicator.

Figure 3: Interest to GDP for Different Strategies and Scenarios

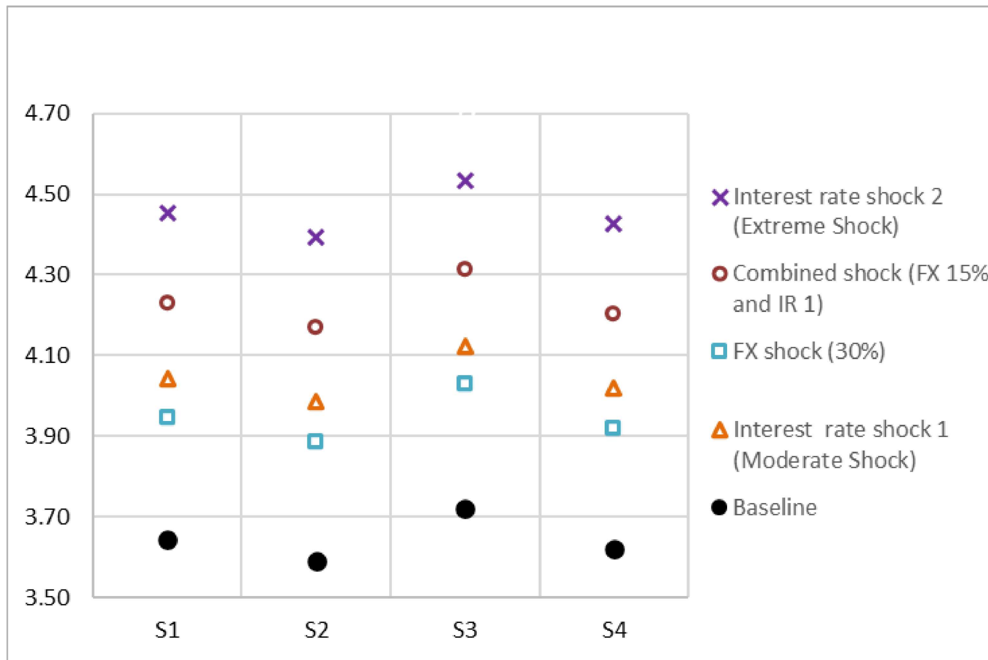


Figure 4 presents two metrics: (i) the value in the baseline scenario—which is a measure of the expected cost of borrowing—in the vertical axis; and (ii) the variation between values corresponding to the baseline and worst-shock scenario (which happens to be the large interest-rate shock)—a measure of risk that quantifies the maximum deterioration in the cost of borrowing whenever a shock occurs—in the horizontal axis. Maximum risk, accordingly, is measured as the percentage points that separate the cost indicator for the most-extreme shock scenario from the baseline cost indicator. Strategies 1, 2 and 4 present a similar level of expected borrowing costs in the baseline scenario, well below the level for strategy 3. In the margin, strategy 2 and 4 outperforms strategy 1 in terms of risk—i.e., the deterioration in the borrowing costs induced by a shock to interest rates. Strategy 3 carries both the highest cost and risk among the four strategies.

Figure 4: Cost and Risk of Strategies (interest to GDP)

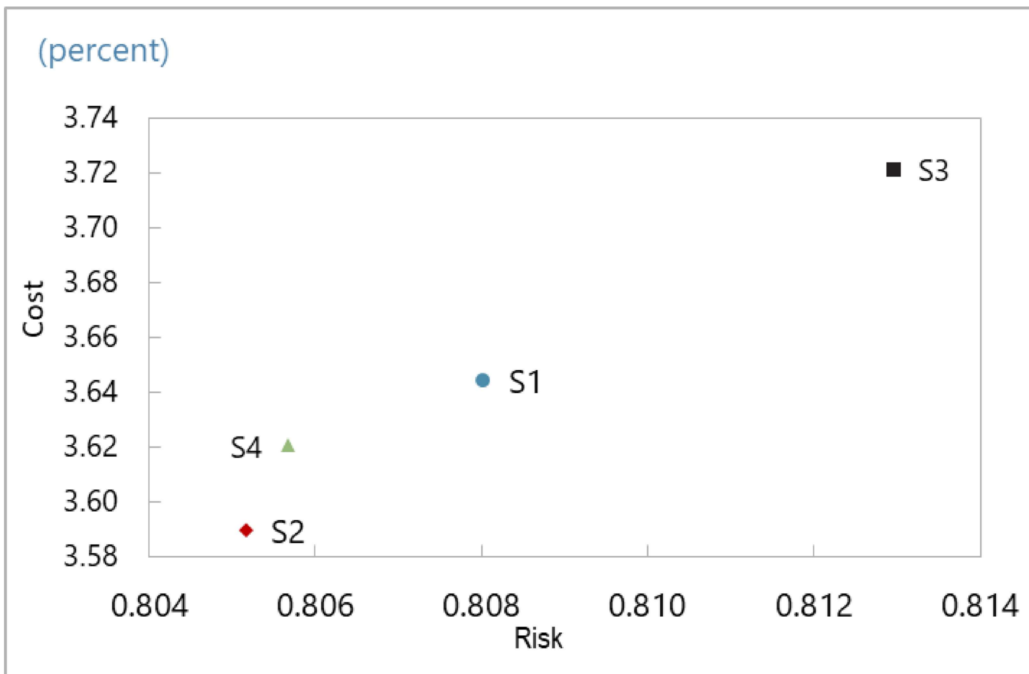
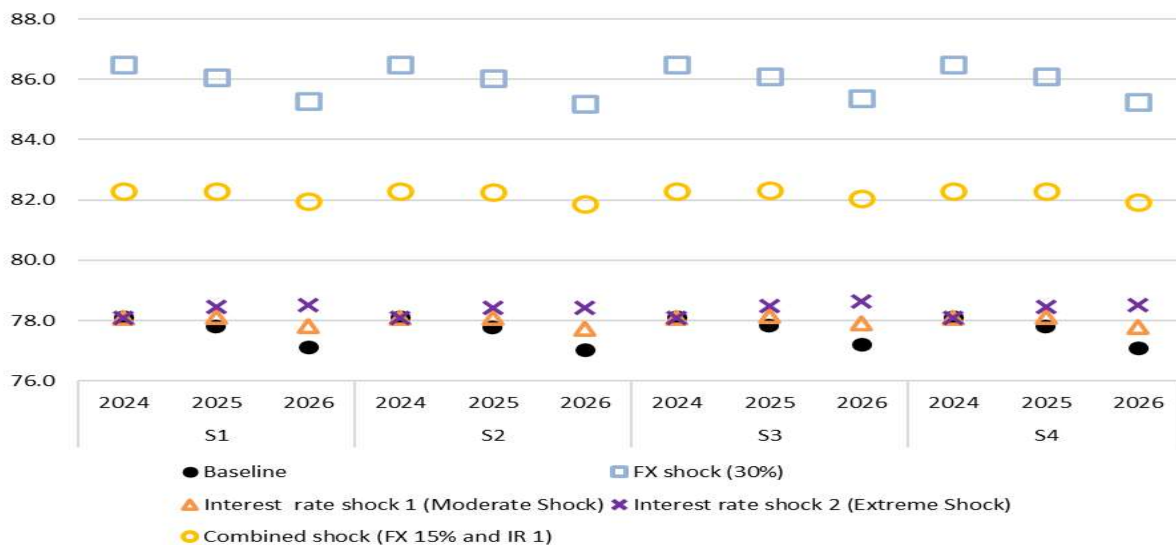


Figure 5 exhibits another key cost indicator—the Debt Stock (as percent of GDP)—for the public debt portfolio that would be outstanding by FY2026 for each strategy and scenario. The expected debt ratio trajectory is fairly similar across the four strategies in the baseline scenario, with the decreasing trend driven by macroeconomic and fiscal variables—not by the debt management strategies themselves.

Figure 5: Debt-to-GDP Ratio for Different Strategies and Scenarios



Selection of Financing Strategy for Implementation

As per the assessment of the four debt management strategies in relation to their consistency with the expected supply of financing from lenders and market investors in the next few years, compliance with policy ceilings and targets, and cost-risk profile, strategy 1 is selected as the optimal financing path to be adopted by the GoF in the medium term.

The government understands that strategy 1 best conducts to ensuring adequate foreign reserves and liquidity in the banking sector while also developing the domestic bond market and guaranteeing financing needs are met at minimal cost, subject to prudent levels of risk. The selected strategy targets an appropriate mix between domestic (80%) and foreign (20%) borrowing through the strategy period.

Market investors' appetite for Government securities and lending availability from international lenders is key to determine the feasibility of securing the financing flows required by any given strategy. Strategy 1 envisages disbursements by creditors that replicate the pattern observed in the last fiscal year, thus providing a more realistic outlook compared to the other three strategies. The external creditors have strong commitment towards Fiji and they are willing to provide sizable credit facilities; however, the actual disbursements will be largely based on the progress of the projects they finance.

Compliance with policy ceilings and/or targets on debt stocks, financing flows, or other variables, is another requirement that any strategy must accommodate. Strategy 1 complies relatively better with the debt management objectives and goals set by the GoF, compared to the other three strategies. Strategy 1 does rely on realistic volumes of concessional financing, especially from multilateral partners which generally offer better credit terms. Strategy 1 also takes into account market preferences. Considering the volatile liquidity and interest rates, market participants prefer to allocate a portion of their investments in short to medium-term instruments. This should support the development of the yield curve, reduce refinancing risk and diversify the investor base for Government bonds. The government will consider bond buybacks and bond switches during this period.

Adequate cost-risk profile of any given strategy is also desirable to strengthen public finances in the baseline outlook as well as in the risk scenarios. Strategy 1 offers the preferable outcomes for the GoF. The cost-risk analysis of selected strategy 1 has the following outputs

as of the end of strategy period FY 2026 in baseline scenario: nominal debt as percent of GDP will reach 77.1 percent while present value of debt as percent of GDP will reach 72.7 percent; Interest payment as percent of GDP will be 3.6 percent with implied interest rate reaching 4.8 percent; debt maturing in 1-year will reach 6.9 percent of total debt and 5.3 percent of GDP; average time to maturity will reach 9.9 years for total portfolio with 10.2 years for external and 9.8 years for domestic; T-bills will come down to 2.3 percent of total while, average time to refixing will reach 9.1 years and, 20.5 percent of total GDP will need to be refixed in 1-year; 33.6 percent of total debt will be foreign exchange denominated debt.

Potential Constraints and Remedies for Implementation of Strategy 1

The main constraints to implement Strategy 1 are described below:

Significant levels of concessional financing are expected to be available from International Financial Institutions. However, competition among nations for resources can create a situation of tight conditionality for borrowing. Besides, as Fiji´s income level increases, the access to concessional resources will narrow and terms will harden.

Macro-fiscal risks: Projected growth rates may not materialise, affecting GDP and tax collection. Revenue shortfalls during the strategy period could widen the fiscal deficit, resulting in increased gross borrowing requirements, and deteriorating the cost and risk indicators.

Non-economic risks: The macroeconomic assumptions under the strategy are formulated based on the projections made by the MOF for the baseline scenario. The projections do not consider non-economic factors, such as strikes and natural disaster risks. These factors may also have an impact on the economy and could produce different outcomes of debt management from those expected in the baseline scenario.

Market Dynamics: Strategy 1—as well as others—entails a combined use of T-bills and short- to long-term T-bonds in the domestic market. Shifting from short-term borrowing to long-term borrowing might imply higher costs. Moreover, the domestic market depends on the macroeconomic scenario, liquidity conditions, and the willingness of potential investors to participate in auctions.

Furthermore, Government do not assess the contingent liability risks as one of the shocks in to the MTDS as the current information is purely on central Government debt. Contingent liability may increase borrowing requirement in future if it materialise. Government is taking proactive actions to monitor this and the document is subject to review and updates annually should there be a material deviation from the targets.

Conclusion

This MTDS document covers three fiscal years (from FY 2024 to FY 2026) and was prepared to fulfill one of the requirements for risks assessment and monitoring stipulated in Section 59 A of the FMA (Amendment). This document has outlined the financing strategy, based on rigorous cost and risk analysis, to help achieve the financing needs of the country at the lowest possible cost with a prudent level of risk in the medium term.

Four alternative strategies have been explored. Strategy 1 has been selected based on analysis of three dimensions: i) Market appetite for Government securities and lending availability from International Creditors, ii) Compliance with policy target, iii) analysis of cost-risk trade-off outcomes in baseline and shock scenario. Under strategy 1, projected borrowings in the domestic market and disbursements from external sources better reflect the capacity of potential creditors, better complies with the policy objective set by the GoF and outcomes (in terms of cost and risk) outperform those achieved with the other three strategies.

Strategy 1 intends to take advantage of concessional financing and simultaneously develop the yield curve by issuing T-bonds with short- and medium-term tenures. Specifically, this strategy continues the expected growth in external loan disbursements and choice of borrowing source as per the budget announced by the GoF for FY 2024 and maintains a similar pattern of disbursement in the strategy period. Regarding domestic financing, this strategy plans to maintain the stock of T-bills (meaning no new financing) during the strategy period, scale up short and medium-term T-bonds issuances relative to the financing flows secured in recent years and replicate past long-term T-bonds issuances to continue developing the domestic yield curve.

The government, through MOF, will implement an annual borrowing plan consistent with the MTDS and integrate it into the medium-term fiscal strategy. MOF will publish the information on the cost and risk indicators in the Quarterly Debt Bulletin to track progress on the implementation of the MTDS.

The strategy will be reviewed annually in light of changing economic and market conditions.

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