CHAPTER 1: FIJI'S DEBT PROFILE AND DYNAMICS

At its peak, Fiji's unprecedented public debt was nearly the size of its entire economy, and has become the most pressing economic issue of the day. News of debt defaults in other developing countries such as Sri Lanka and Ghana—and the ensuing economic upheavals—has heightened the urgency and fear that a similar fate awaits the country. Fijians are rightfully perturbed by their country's sizeable debt burden and what this means for the economy and their livelihoods.

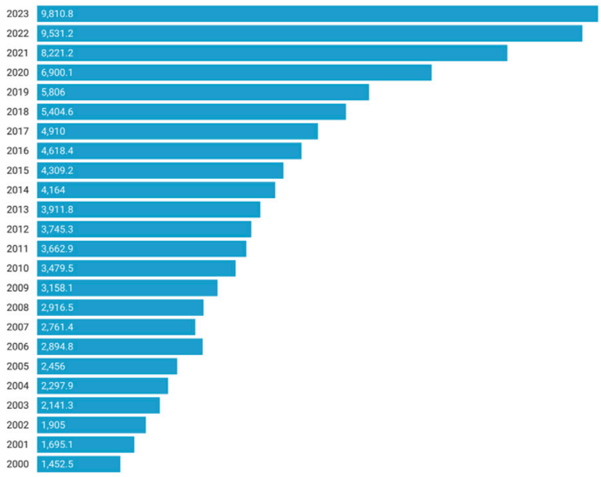
Fiji's debt situation has been worsening ever so slightly over the years as a result of its persistent fiscal deficits. However, like many other developing countries, its debt skyrocketed and its economy virtually collapsed because of the Covid-19 pandemic. It is now stuck with very elevated debt levels, which, if poorly managed, will continue to drain limited fiscal resources, amplify its susceptibility to shocks, and weaken macroeconomic variables and in turn, business outlook.

While the ramifications of excessive debt are similar, exacting punitive and painful social, economic, and political costs that will take a long time to fully recover from, the specific routes to this predicament vary.

It is therefore important to understand the intricacies of the country's debt profile and composition when trying to identify the most strategic and tactical interventions to make, in order to continually reduce the cost of borrowing, avoid increasing its risk profile, and ensure that the benefits of borrowing are indeed accrued.

Fiji's total public debt has crept up over the decades, growing at an average rate of 4.85% between 2006-16, driven primarily by persistent but modest fiscal deficits. Debt accumulation picked up pace to about 7.7% between 2016-18, as Fiji had to rebuild its economy and infrastructure from the devastation wrought by Cyclone Winston

Figure 1-1: Fiji's Total Public Debt[1]



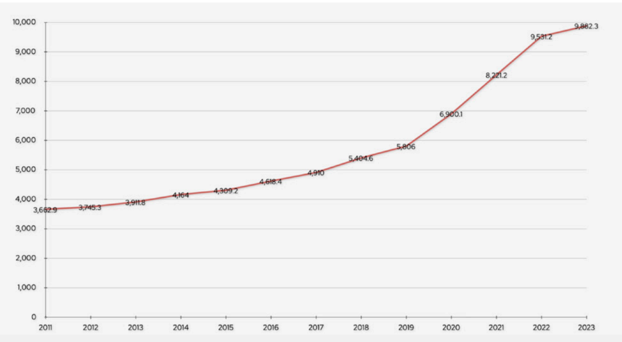
Source: RBF • Created with Datawrapper

which was estimated to have cost the country approximately US$1.2bn[2].

Figure 1-1 shows the acceleration of debt build up over the last several years compared to previous periods of gentler debt accumulation.

More recently, because of Covid-19 and the consequent lockdown, the government had to borrow even more aggressively at an average rate of 17.7% year on year between 2019-22, spiking total national debt to unprecedented levels of FJ$9.88bn by the end of fiscal year 22/23.[3] Figure 1-2 below illustrates the increasing rate of borrowing over the decade.

Figure 1-2: Total Public Debt (2011-23)[4]



As a result of Fiji's growing and large debt burden, its debt-to-GDP ratio, a commonly-used dipstick to crudely determine the sustainability of a country's public debt and financial health, has invariably deteriorated.

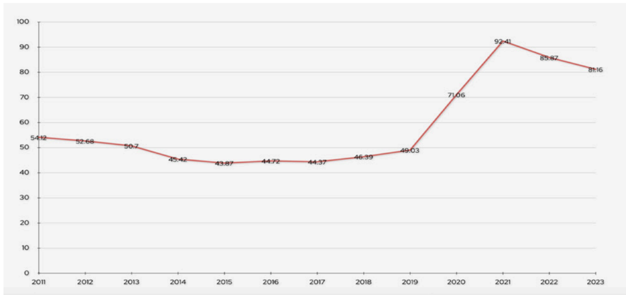
Under the IMF's debt sustainability framework for low-income countries (LICs), countries classified with "strong" debt-carrying capacity can handle public debt of up to 70% of GDP. For countries falling into the "weak" category, the debt threshold is far lower at 35% of the country's GDP.[5]

While Fiji is not a LIC, it was reclassified in 2019 by the World Bank as a "Blend" country, granting it access to concessional financing having satisfied the small island economy exceptions.[6] Nonetheless, it was treated by the IMF as a middle-income country in its most recent debt sustainability analysis using the framework for emerging market economies in the context of its Article IV consultation.[7] As such there was no direct and explicit judgement by the IMF on Fiji's debt sustainability, unlike other LICs.

However, the IMF found that Fiji's "public debt stays at a level with considerable risks"[8] and its debt tool indicates a high level of risk, leaving the country "vulnerable to large economic shocks, including those related to natural disasters and contingent liabilities".[9]

Fiji's debt-to-GDP ratio had breached the 70% threshold by 2020 at the start of the Covid-19 pandemic to reach an all-time high of 91.1% by July 2022.[10] It has since climbed down to about 81.2% by the middle of 2023.[11]

Figure 1-3: Debt-to-GDP Ratio (2011-23)[12]

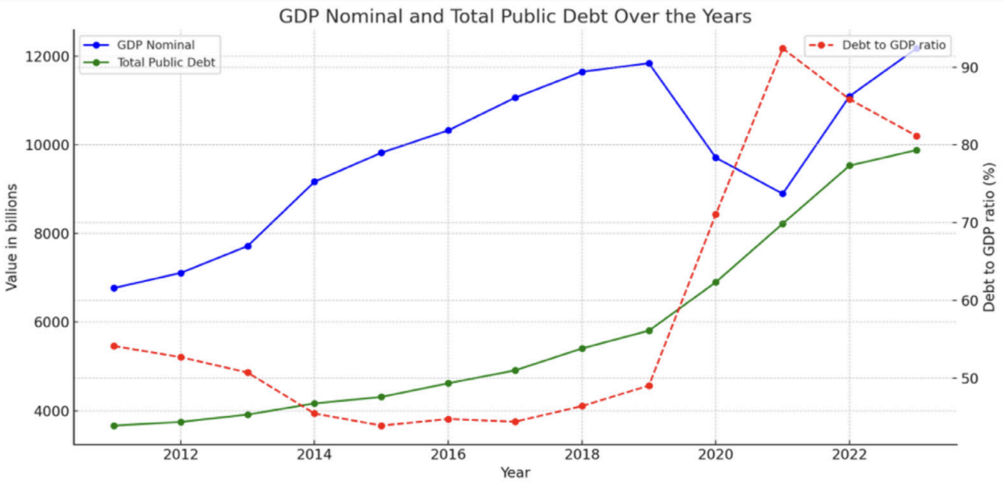


According to IMF and World Bank baseline scenarios, debt levels are expected to remain elevated at well over 85% in the medium and long term (up to 2032) unless the government undertakes adjustment measures.[13] (This will be discussed in greater detail in the following chapter.)

As observed in the graph below, the deteriorating debt-to-GDP ratio is the result of not just how much debt the country has, but also how economic activity collapsed at the same time. As countries imposed restrictions to stem the spread of the pandemic, Fiji's externally-dependent economy cratered.

The country relies heavily on tourism, which according to some measures, directly and indirectly account for more than 40% of the economy and 70% of the services industry.[14] When tourists stopped coming,[15] Fiji's GDP fell

Figure 1-4: GDP Nominal and Total Public Debt Over the Years[76]



by 7% in 2021 and 20% in the following year,[16] dealing an economic blow far worse than Cyclone Winston.

Debt levels rose exponentially and fiscal deficits ballooned to unprecedented levels as the government grappled with the pandemic and the economic fallout by implementing a swathe of tax cuts and cash transfers to help jumpstart and sustain the business sector and livelihoods. At the same time, the Covid-induced economic lockdown shrunk fiscal revenue collection. Measures taken by the previous government to help stimulate the economy also ended with lost revenue of about 5% of GDP,[17] compounding the fiscal deficit (see Figure 1-5).

Public and Public Guaranteed (PPG) Debt and Contingent Liabilities

The situation is even more dire when government guaranteed debt and the contingent liabilities of the government are added to the mix. Overall, contingent liabilities have increased to about 17% since 2020, compared to a historic average of around 10-11% between 2015-19.[19] In particular, explicit loan guarantees made by the government for state-owned enterprises, pose further risks to fiscal and debt sustainability.

Figure 1-5: Fiscal Balance (FJ$, in mn)[18]

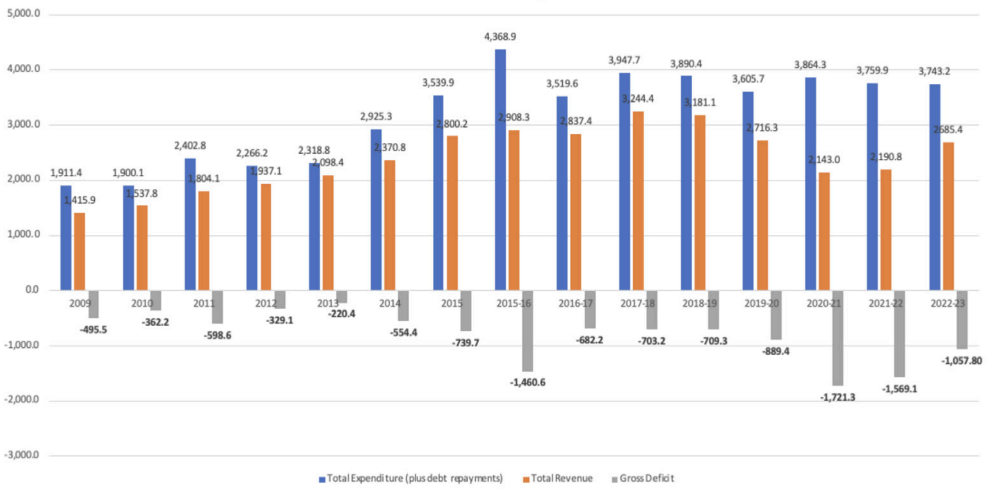
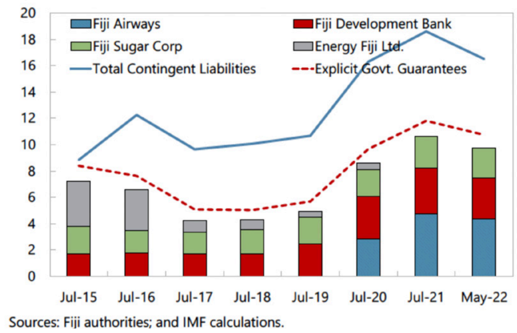


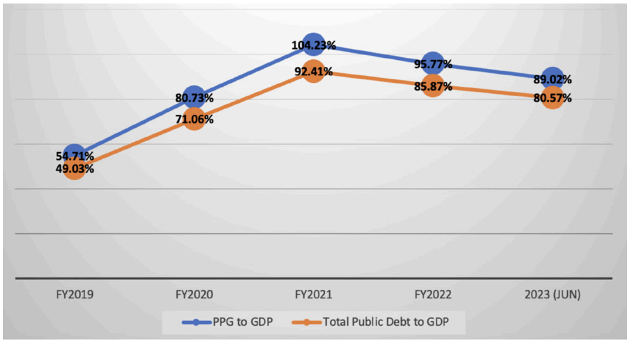
Figure 1-6: Fiji's Contingent Liabilities



Source: IMF "Fiji Article IV Consultation", p. 51

If such guarantees are included, this will push public- and state-guaranteed (PPG) debt-to-GDP ratio a lot higher—by almost 10 percentage points—compared to when such government guarantees are not factored in (see Figure 1-7).

Figure 1-7: PPG to GDP Ratio[20]



As of April 2023, total contingent liabilities stood at FJ$1.6bn, roughly equivalent to 14% of GDP, with the government's explicitly guaranteed debt portion of FJ$1.09bn taking up to 61% of the total.[21]

The government has provided guarantees to a number of state-owned enterprises (Figure 1-8) including Fiji Airways, Fiji Sugar Corporation, and the Fiji Development Bank, which are the biggest users of the guarantee facilities.

Figure 1-8: Government Guarantees to State-owned Enterprises

Government Guarantees ($Million)	Jul-19	Jul-20	Jul-21	Jul-22	Apr-23
Air Pacific Limited trading as Fiji Airways		279.0	421.7	438.5	369.6
Fiji Development Bank	291.9	307.8	308.8	309.9	284.3
Energy Fiji Limited (EFL)	53.9	50.2	-	-	-
Fiji Hardwood Corporation Limited (FHCL)	3.6	1.7	0.7	-	-
Fiji Pine Limited (FPL)	-	-	-	-	-
Fiji Sugar Corporation Limited	241.3	199.2	216.9	273.0	264.5
Housing Authority (HA)	68.0	90.2	102.2	76.7	109.1
Fijian Broadcasting Corporation Limited (FBCL)	10.5	8.3	-	-	-
Pacific Fishing Company Pte Limited (PAFCO)	4.1	2.5	0.8	-	1.1
Total Explicit Government Guarantees (A)	**673.3**	**939.0**	**1,051.0**	**1,098.1**	**1,028.6**
% of Government Guarantees to GDP	5.7	8.8	11.5	10.7	8.4

Source: Ministry of Finance," Economic and Fiscal Update Supplement to 2023-2024 Budget Address," p. 43

However, not all the guaranteed entities pose the same level of risk. They are assessed and classified presumably by the Debt Management Unit (DMU), on three levels of risk: high, medium and low. The risk assessment is based on three broad considerations: 1) the latest three-year historical performance; 2) interim financial statements and cashflow projections; and 3) general industry assessments including economic conditions.

Figure 1-9: Risk Assessment of Guaranteed Entities

Budget Sectors	Tier 1 Low	Tier 2 Medium	Tier 3 High
Infrastructure			
Social Services		HA	
Economic Services	PAFCO		FA, FSCL
General Administration		FDB	

Source: Ministry of Economy

Source: Ministry of Economy, "Fijian Government 2021-2022 Annual Debt Report," Nov 2022, p. 8

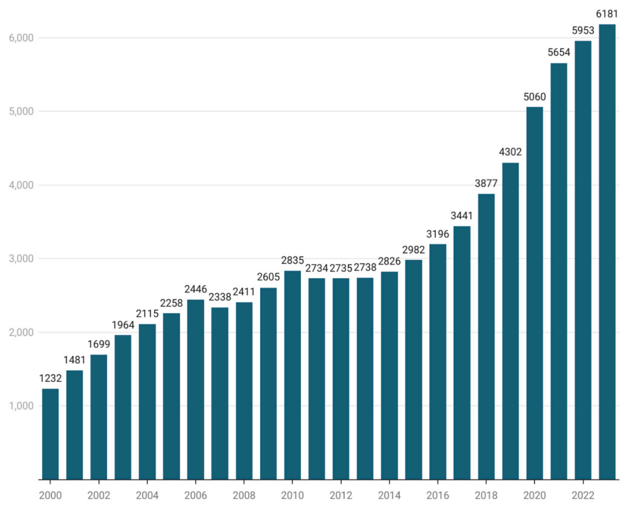
In their evaluation published in the 2021-2022 Annual Debt Report,[22] the DMU noted Fiji Sugar Corporation's "continuous net losses, cash overdraft and positive net debt over the past five years", deeming it high risk.

Given the significance of contingent liabilities to overall debt sustainability, the performance of state-owned enterprises should be monitored. In addition, risk assessments should be made regularly and communicated to stakeholders and parliament as part of the government's public debt reporting.

Public Domestic Debt

Domestic borrowing is the main source of government debt financing and it now stands at about 51% of the country's GDP.

Figure 1-10: Total Domestic Debt (FJ$, in mn)[23]



Source: RBF • Created with Datawrapper

Public domestic debt held steady averaging FJ$3.16bn per annum over the most part of the last decade (2010-19). It started to pick up from 2016 and accelerated after that, more than doubling to FJ$6.2bn by the end of July 2023.[24] This comprises overwhelmingly of FJ$5.92bn of longer term domestic bonds and FJ$297.2mn in short-term (less than a year) Treasury bills.

Between 2017-21, public domestic debt grew rapidly at an average annual rate of 12.2%, compared to 3.6% per annum from 2007-16. The cost of borrowing or the interest rate on these bonds, as reflected in their yields over this period of domestic debt expansion, was a lot higher across all tenures, long- and short-term government bonds, compared to their current rates. According to Figure 1-11, 15- and 20-year bonds issued in 2018 and 2019 would have had to presumably pay an interest rate of 6.5% or 7% respectively to the bondholder. By May 2022 and continuing into 2023, the interest rate is 4.25% and 4.68% for similarly tenured bonds[25] (see figure 1-13 below).

As such, the government, in its annual borrowing plans, is considering whether to "refinance or re-open government securities in the market with lower yields",[26] given the more favourable financing conditions.

Domestic Cost of Borrowing: Data on Government Bond Yields 2016 to 2023

In the current fiscal year 2023-24, the government plans to raise FJ$765.2mn through domestic bond issuances, specifically Fiji Infrastructure Bonds (FIB) and Viti Bonds, in order to meet its financing needs of FJ$1.15bn.[27] FIBs are the main financing instruments, accounting for the lion's share of the domestic debt while Viti Bonds typically amounting to FJ$10mn will be set aside for the retail market. The government will be issuing FJ$755.2mn of FIBs with varying maturities (two to five,10, 15 and 20 years).[28]

As with the previous government, one of the key objectives of the current government's domestic debt management strategy is to lengthen the maturity profile of its domestic debt portfolio through a "gradual reduction in T-Bills", which mature in less than a year, and increase the issuances of medium- (two to five years) and long-dated (10 to 20 years) bonds.[29]

Figure 1-11: Trends in Issuance of Long-dated Bonds

Source: Fijian Government 2021-2022 Annual Debt Report, Nov 2022, p. 5

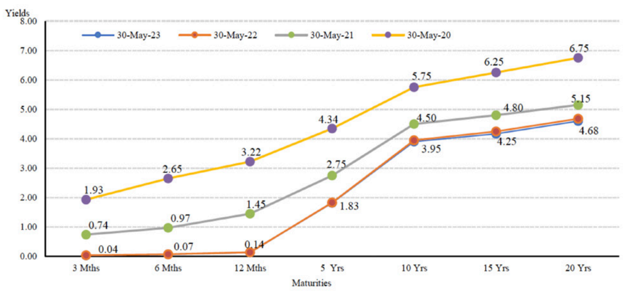
Over the last few years, the previous government has substantially increased the issuance of its longest dated FIBs. However these 20-year bonds are also the most expensive for the issuer, attracting the highest yield vis-à-vis other shorter term bonds, even though it fell from 7% in 2019 to about 4.68% in 2023, as shown in the table below (Figure 1-12).

Figure 1-12: Government Securities Yields (2016-23)

Financial Year	1m	2m	3m	6m	9m	12m	10y	15y	20y
2016	0.75	1.10	1.30	3.20	3.30	3.45	6.15	6.64	6.79
2017	0.95	1.10	1.35	3.17	3.38	3.63	6.00	6.50	6.70
2018	0.99	1.12	1.45	3.05	3.34	3.63	6.00	6.50	7.00
2019	2.35	2.63	2.70	3.35	4.10	5.00	6.00	6.50	7.00
2020 May	-	-	1.93	2.65	-	3.22	5.75	6.25	6.75
2021 May	-	-	0.74	0.97	-	1.45	4.50	4.80	5.15
2022 May	-	-	0.04	0.07	-	0.14	3.95	4.25	4.68
2023 May	-	-	0.04	0.07	-	0.14	3.95	4.25	4.68

Source: Ministry of Economy, RBF and Ministry of Finance, Budget Supplement.

Figure 1-13: Government Bond Yields



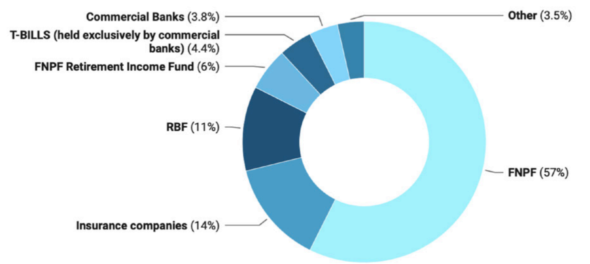
Source: Ministry of Finance, Budget Supplement, p. 38

It is important to pay attention to how domestic bonds of varying tenors are spread over the years, to avoid unevenly concentrated, or "lumpy" redemptions, while at the same time taking advantage of the best possible cost of borrowing (current and expected) for the different issuances. Low government yields offer bond buyback opportunities.

Finally, it is worth noting that Fiji's domestic bonds are denominated in local currency and held by residents, with the Fiji National Pension Fund being the largest bondholder accounting for 57% directly, followed by insurance companies at 14% and the RBF at 11% (see Figure 1-14). The bulk of the domestic debt is also of a longer tenure/duration as shown in Figure 1-11). Short-term treasury bills, which make up only 4.4% of the total domestic debt, are almost exclusively held by the commercial banks (Figure 1-14).

As such this makes the debt composition far less risky and more benign compared to many other developing countries such as Ghana, Sri Lanka, and Belize, where a large part of their debts are denominated in foreign currencies and held by non-residents.

Figure 1-14: Domestic Debt Creditors (% holdings)[30]



Source: RBF • Get the data • Created with Datawrapper

Figure 1-15: Domestic Debt Creditors (FJ$, in mn)[31]

FNPF	3,518
FNPF Retirement Income Fund	352
FNPF Special Death Benefit Fund	69
Insurance companies	846
Commercial Banks	234
RBF	696
Trust Fund	22
Unit Trust of Fiji	20
Merchant Finance	2
Kontiki Finance Limited	51
Others	54
T-BILLS (held exclusively by commercial banks)	272

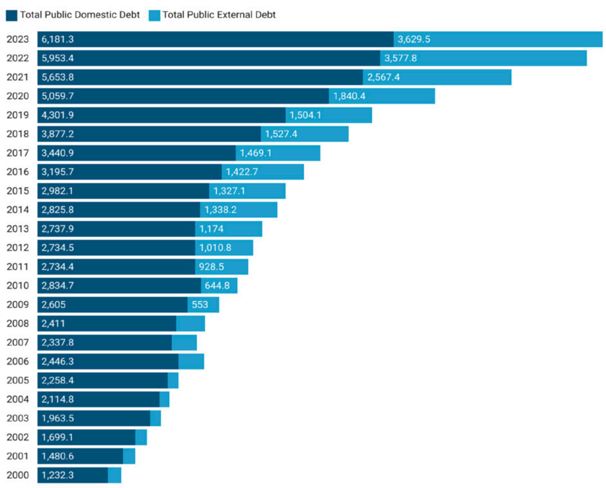
Source: RBF • Get the data • Created with Datawrapper

Public External Debt

Nonetheless, over the decades, the composition of public debt has undergone a fundamental shift from what was almost exclusively domestic to a more substantial mix of external and local liabilities. Currently, about 63% of total debt is local while 37% is external. This mix is about several percentage points higher than what the government considers to be a more ideal profile between external and domestic debt,[32] as external debt carries additional risks that domestic debt does not.

Fortunately for now, Fiji's public external debt is less exposed to volatile and costly market dynamics as it appears to be entirely official, in other words, owed only to multilateral development banks and official bilateral creditors. This was not always the case.

Figure 1-16: Public Domestic and External Debt Over the Years[33]

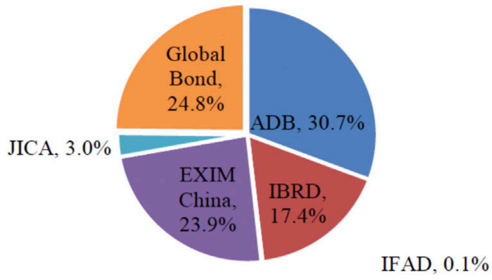


Source: RBF • Created with Datawrapper

Fiji had in the past issued commercial sovereign bonds. This US$200mn "global bond" was redeemed in October 2020[34] and refinanced on more favourable and safer financing terms from multilateral lenders, such as lower costs of borrowing and longer repayment schedules.

The global bond, which constituted about a quarter of Fiji's external debt in 2020 (see Figure 1-17), would have complicated its debt dynamics with commercial bondholders and creditors as its debt-to-GDP ratio and other financial indicators worsened. Fiji could have been implicated by the same global market sentiment that has soured and continues to be pessimistic towards many developing countries with high levels of debt.

Figure 1-17: Fiji's External Public Debt Creditors in 2020

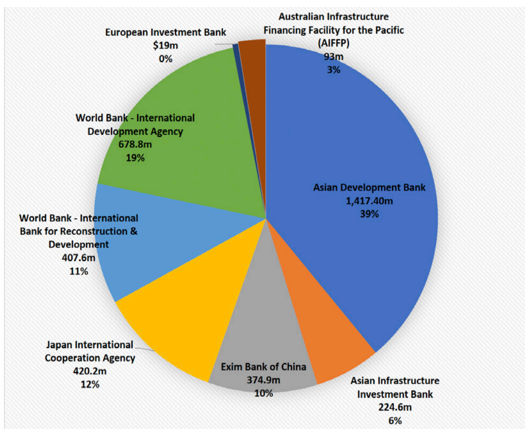


Source: Ministry of Economy, RBF

To qualify for more favourable financing, Fiji was re-classified as an IBRD-IDA "Blend" country and a "Group B" country in Asian Development Bank (ADB) parlance, which permitted the country to access loans on more concessional terms.[35] However, it is not clear whether this comes with other policy and geopolitical conditionalities. In any case, the commercial sovereign bond or Fiji's only "global bond" is no longer on its books.

Hence Fiji's current external creditors are all official lenders with multilateral development banks, accounting for about 76% of its public external debt. Chinese debt has also been significantly reduced in this regard from almost 24% to just about 10% of its external debt. (See Figure 1-18.)

Figure 1-18: Fiji's External Debt Creditors as of June 2023[36]



However, despite the official character of its external debt, only 29% or about FJ$1bn out of the FJ$3.66bn is deemed to be concessional in nature, according to the government.[37] It will be beneficial to review each of these loans to ascertain whether the benefits are indeed accrued and better terms could be sought.

External debt stock is forecasted to reach FJ$3.66bn by the end of July 2023, which is equivalent to about 30% of the country's GDP. As mentioned, the size and share of Fiji's external debt has been growing over the decade, however it jumped exponentially over the last three years from 2020-22, more than doubling since 2019. The government tapped external financing to deal with the economic and social impact of the global pandemic. While the majority of this recent increase in external debt was on concessional terms, almost 71% of the country's total external debt remained non-concessional.[38]

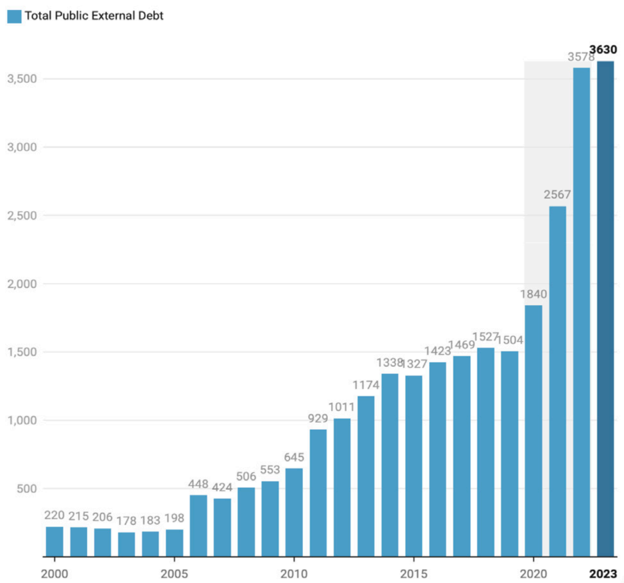


Figure 1-19: Total External Public Debt[39]

Over the last two fiscal years (ending July 2022 and July 2023), the government secured the following external borrowings:[40]

- A policy-based loan of US$50.3mn (FJ$117mn) from the Asian Infrastructure Investment Bank (AIIB).
- A US$40mn (FJ$93mn) loan with Export Finance Australia, Fiji's first-ever loan under the Australian Infrastructure Financing Facility for the Pacific (AIFPP).
- A US$200mn (FJ$454.3mn) financial package for a 10-year term from IDA, part of the World Bank Group, for the development of tourism in Vanua Levu.

For the current fiscal year 2023/24, the government intends to potentially borrow FJ$359mn[41] from external sources,[42] although it "may increase its overseas borrowing limit simultaneously [while](sic) reducing its domestic limit and vice versa."[43]

From the planned total external debt that will be incurred in fiscal year 2023/24, FJ$269.4mn will be new financing while the remainder is made up of project loan drawdowns which is elaborated in the table below (Figure 1-20).

However, the government has also approved FJ$136.5mn to be drawn down in fiscal year 2023/24 as phase one of the IDA's FJ$454.3mn financing package for tourism development.[44] It is not clear where this is reflected in the latest Annual Borrowing Plan.

Projects	External Financing FY2023-2024 (US$million)	FY 20232024 (FJ $million)	Drawdown Date
Newly Proposed Multilateral Financing :	120.0	269.4	
Urban Water Supply and Wastewater Management Investment Program: • European Investment Bank (EIB) • Asian Development Bank (ADB) – Direct Payments	3.2 4.4	7.1 10.0	August 2023
Direct Payments (Project loans) **Transport Infrastructure Investment Sector Project:** • ADB • IBRD • AIFFP	14.2 9.3 10.7	31.8 20.8 24.1	As and when a request for drawdown is submitted by the Implementing Agencies (IA's)
Fiji COVID-19 Emergency Response Project: • International Development Association (IDA)	3.2	7.1	
Fiji Social Protection COVID-19 Response and System Development Project: • IDA • IDA – additional financing	1.9 4.8	4.2 10.7	
Fiji Tourism Development Project – Vanualevu • IDA 7369	2.2	5.0	
TOTAL	**US$173.9**	**FJ$390.2**	

Source: Ministry of Finance. *Numbers may not be precise due to rounding.*

Figure 1-20: Sources of External Financing

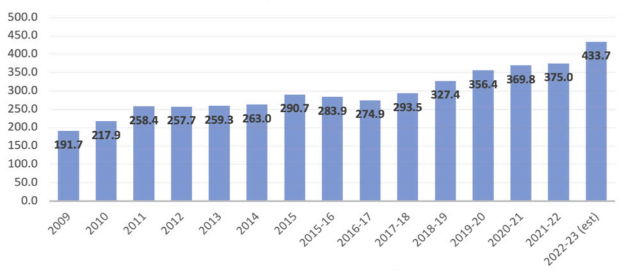
Source: Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024", p. 8.

As such, to keep the public external debt composition as benign as possible, the government should stick to less risky terms with the lowest cost, and with conditionalities that do not run contrary to nationally-determined economic priorities and autonomy, and respect the country's policy space and autonomy.

Debt Servicing: Debt Repayments and Debt Interest Payments

Invariably, the high debt levels entail high debt interest payments. According to the government in the supplement to its latest Budget,[45] Fiji is at present paying approximately 3.8% for its external debt and 6.1% for its domestic liabilities, with the weighted average interest rate for both at 5.2%.[46] In the previous fiscal year, the interest rate on external debt was 1.9%[47] while the domestic debt interest rate was 6.1%, resulting in a lower overall interest rate of 4.6%.

Figure 1-21: Interest Payments (FJ$, in mn)[48]



The increase in the external debt's interest rate could be due to the fact that variable interest rates account for about 21% of Fiji's total public debt, comprising mostly of external multilateral loans.[49] The variable interest rate loans are subject to the Secured Overnight Financing Rate (SOFR), which replaced the London InterBank Offered Rate (LIBOR) as the benchmark rate for dollar-denominated loans, and it has been on the rise. At the same time, the Fijian dollar has also depreciated against the US dollar, making debt servicing more expensive.[50] US dollar denominated debt constitutes about 78%[51] of public external debt, followed by the Japanese yen and the Chinese yuan .

Figure 1-22: External Debt by Currency (in mn)

Particulars	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23(f)
USD	982.6	1,247.3	1,686.7	2,519.0	2,865.0
CNY	462	409.0	444.8	431.4	378.9
JPY	9.7	50.9	290.3	413.7	420.2
EUR	2.5	2.3	0.7	-	-
Total External Debt	**1,456.8**	**1,709.5**	**2,422.5**	**3,364.1**	**3,664.1**

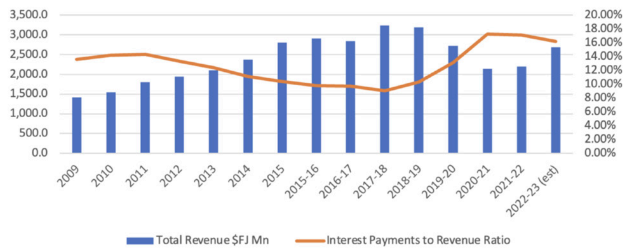
Source: Ministry of Finance

Source: Economic and Fiscal Update Supplement to the 2023-24 Budget Address, p. 39

The upshot is the government is now paying roughly in fiscal year 2022/23, FJ$433.7mn,[52] and it estimates that it will hit FJ$536.6mn in the current fiscal year.[53]

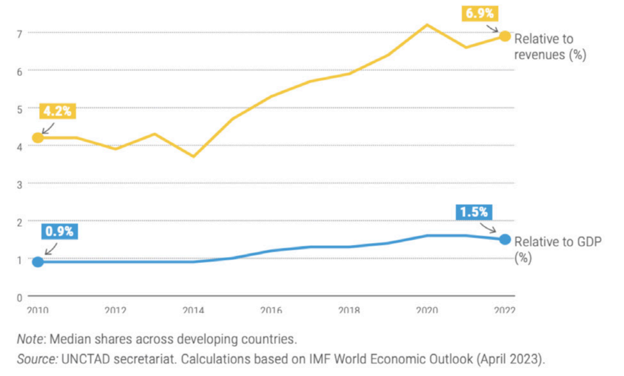
This means that almost 16% of its revenue is now spent on paying interest on its debt[54]—approximately what the government spends on health, social services etc and works out to about 3.9% of its GDP.[55]

Figure 1-23: Relationship Between Interest Payments and Revenue (FJ$, in mn)[56]



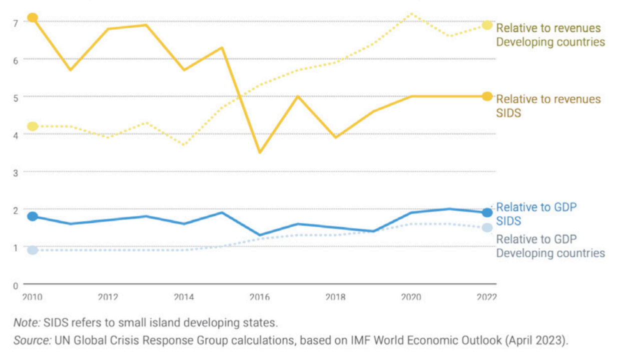
This places Fiji on the higher end of the spectrum when compared to other developing countries which have also ended up with higher debt burdens as a result of the pandemic. Currently, half of developing countries devote more than 1.5% of its GDP and 6.9% of its government revenues for interest payments, a sharp increase over the last decade.

Figure 1-24: Net Interest Payments of Developing Countries on Public Debt



Source: https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development

Figure 1-25: Net Interest Expenditures as a Share of Revenues and GDP

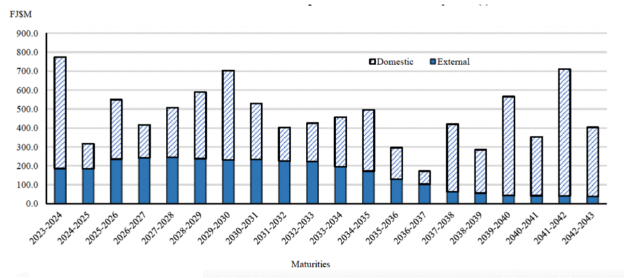


Source: https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development

The siphoning of limited resources to make debt interest payments is a widespread problem. In 2020, the number of developing countries where interest spending represented 10% or more of public revenues increased from 29 in 2010 to 55.[57]

Apart from diverting much needed and limited revenue for interest payments, the government also has to pay for upcoming debt repayments. According to the Ministry of Finance, it has a sizeable debt redemption in fiscal year 2023/24 and has therefore sought to raise another FJ$516mn on top of what is needed for its fiscal deficit in its latest annual borrowing plan.[58] The debt repayments comprise FJ$324.1mn and FJ$192.1mn for domestic and external debt respectively. While the bulk of the redemption is for domestic debt, external debt repayments for Fiji will also be at its highest levels for the next decade before trending down in fiscal year 2032/33.

Figure 1-26: Projected Government Debt Redemption Profile



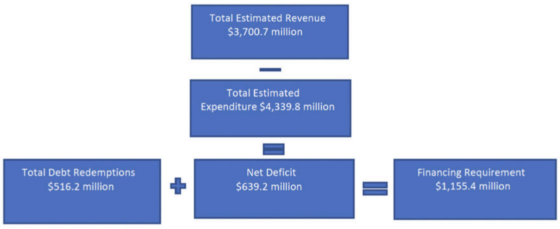
Source: Ministry of Finance, "Update Supplement to FY23-24 Budget," p. 40

According to the government, there is a "higher maturity structure" for the current fiscal year 2023/24, due to the presence of shorter-term treasury bills. The government will continue to face off against a "wall of payment" until the end of the decade in 2026, '29 and '30 which it needs to address to ensure that the country will be able to comfortably meet its obligations and manage attendant risks. The government plans to repurchase bonds to actively manage the refinancing risk that is associated with large maturities in a year.

For the fiscal year 2023/24, the government anticipates a budgetary shortfall of FJ$639.2mn and debt repayments of FJ$516.2mn. On July 13 2023, Parliament approved the Appropriation Act, sanctioning the Government's financing requirements of FJ$1.15bn for fiscal year 2023/24.

Together with the interest payments of FJ$529mn, the government anticipates total debt servicing of just slightly over a billion dollars (FJ$1.05bn) in fiscal year 2023/24. Arguably, the vast majority of the planned borrowing for the current fiscal year is eaten up by debt servicing.

Figure 1-27: Government Borrowing Requirements for fiscal year 2023/24 (in FJ$, mn)



Source: Ministry of Finance, "Annual Borrowing Plan FY2023-2024", p. 4.

This comprises funding necessary to cover the estimated net deficit of FJ$639.1mn and estimated debt redemptions of FJ$516.2mn to refinance maturing government debt securities and loans.

Consequently this will lead to a higher absolute amount of debt, but the government forecasts that the debt-to-GDP ratio will stop rising and start to gradually climb down starting over the next few years, on the backs of higher nominal GDP growth and a shrinking fiscal deficit.[59]

In its latest medium-term fiscal targets, the government anticipates a 37.8%[60] increase in revenue from the last to current fiscal year. This substantial jump is premised on the menu of tax increases introduced in the recent budget (this will be dealt with in greater detail in the following chapter), and the expectation that the economy will continue to rebound from the pandemic years as tourists and visitors return in droves. As the increase tapers off, fiscal revenues are expected to continue to grow to FJ$4bn by fiscal year 2025/26.

However government expenditure is also expanding quite dramatically, increasing by 26.3%[61] between this and last fiscal year, before stabilising at around FJ$4.38bn in the subsequent years. Consequently, its forecasts for net deficit are higher than the previous government's forecasts (see Figure 1-29) over the same time period, despite the higher expected revenue.

This in turn translates into higher debt stock in absolute terms (see Figures 1-28 and 1-29).

Figure 1-28: Forecasts from Current Government (FJ$, in mn)

$Million	2022-2023 (Revised)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	**2,685.4**	**3,700.7**	**3,868.1**	**4,004.0**
As a % of GDP	*22.1*	*27.9*	*27.6*	*27.3*
Tax Revenue	*2,252.3*	*3,107.7*	*3,321.3*	*3,487.3*
Non-Tax Revenue	*433.1*	*593.1*	*546.9*	*516.7*
Expenditure	**3,435.7**	**4,339.9**	**4,361.6**	**4,440.1**
As a % of GDP	*28.2*	*32.7*	*31.2*	*30.2*
Net Deficit	**-750.3**	**-639.1**	**-493.4**	**-436.0**
As a % of GDP	*-6.2*	*-4.8*	*-3.5*	*-3.0*
Debt	**9,882.3**	**10,521.4**	**11,014.9**	**11,450.9**
As a % of GDP	*81.2*	*79.3*	*78.7*	*77.9*
GDP at Market Prices	**12,176.8**	**13,266.6**	**13,991.9**	**14,691.4**

Source: Ministry of Finance

Source: Ministry of Finance, "Budget Supplement FY2023-24," p. 34

Figure 1-29: Forecasts from Previous Government (FJ$, in mn)

($M)	2022-2023 (Budget)	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Revenue	**2,939.9**	**3,354.0**	**3,503.5**	**3,595.4**	**3,693.9**	**3,799.4**	**3,912.5**	**3,948.4**
As a % of GDP	25.1	26.3	26.2	25.6	25.0	24.5	24.1	23.1
Expenditure	**3,812.1**	**3,800.0**	**3,838.0**	**3,876.4**	**3,915.1**	**3,954.3**	**3,993.8**	**4,033.8**
As a % of GDP	32.6	29.8	28.7	27.6	26.5	25.5	24.6	23.6
Net Deficit	**(872.2)**	**(446.0)**	**(334.5)**	**(281.0)**	**(221.3)**	**(154.9)**	**(81.3)**	**(85.4)**
As a % of GDP	**(7.4)**	**(3.5)**	**(2.5)**	**(2.0)**	**(1.5)**	**(1.0)**	**(0.5)**	**(0.5)**
Debt	**9,976.7**	**10,422.7**	**10,757.3**	**11,038.3**	**11,259.5**	**11,414.4**	**11,495.8**	**11,581.2**
As a % of GDP	85.2	81.8	80.4	78.6	76.3	73.7	70.7	67.8
GDP at Market Prices	**11,708.0**	**12,743.7**	**13,380.9**	**14,050.0**	**14,752.5**	**15,490.1**	**16,264.6**	**17,077.8**

Source: Ministry of Economy, "Economic and Fiscal Update Supplement to the 2022-2023 Budget Address," 15 July 2022, p. 36

Despite that, the debt-to-GDP ratio will decline more steeply under the current government's projections, as GDP growth resumes and is expected to perform according to historic trends over the medium term.

While on a very gradual downward trend, Fiji's debt-to-GDP ratio nonetheless remains highly elevated, averaging 78.6%[62] over the next three fiscal years, which leaves little headroom to deal with shocks and surprises.

The current government has taken the bitter pill of fiscal consolidation in order to put the brakes on the pace of debt accumulation and improve its sustainability. This issue of fiscal and debt sustainability will be explored in greater detail in the following chapter. Given that much of the decline in debt as a percentage of GDP is premised on a certain rate of growth, the paper will also delve into the drivers of the Fijian economy and the challenges it faces.

Fiji is also facing huge financing needs for its planned climate actions. In Chapter 5, the paper analyses the potential impact and implications of these actions on the already high debt levels, and makes several suggestions on how this could be managed, before ending with a recap of recommendations made throughout the paper in Chapter 6.

Proposals to Reduce Debt Burden

Ensure lowest possible cost of borrowing

- Fiji should maintain its status, and not be prematurely graduated from this classification, as an IBRD-IDA Blend country and as a Country B member of ADB, given its inherent vulnerabilities in order to have access concessional finance despite being a middle-income country.

- Fiji should prioritise concessional finance for its economic development and climate adaptation and mitigation needs. External borrowing on non-concessional and commercial terms exposes the country to the vagaries of the market and its associated risks, including volatile market sentiments, sudden reversals in capital flows, high interest rates and exchange rate changes that could exacerbate the country's debt standing.

- Despite the official character of its external debt, only 29% or about FJ$1bn out of FJ$3.66bn is deemed to be concessional in nature, according to the government.[63] It will be beneficial to review each of these loans to ascertain whether the benefits are indeed accrued, and potentially seek better terms.

- One of the key challenges for Fiji is mobilising new concessional financing for climate-related investments. Fiji was the first developing country to issue a green bond of US$50mn.[64] The coupon terms of the bond issued in domestic currency were five years at 4% per annum and 13 years at 6.3% per annum with respective maturities of 2022 and 2030.[65] The government was required to make two biannual payments on May 1 and Nov 1 every year from issuance to maturity. The current government is planning to issue blue bonds following the previous government's initial announcement in 2022, with the aim of raising US$50mn.[66] It is important to note the cost implications associated with debt instruments of this nature. There are concerns that these bonds tend to be more expensive to issue than conventional bonds,[67] (see Chapter 5 for more analysis on this issue) including the case of Fiji's green bond as noted by the OECD.[68] Governments and international organisations usually provide subsidies to meet the costs associated with issuances, including consulting and verification of green credentials.[69]

- The high costs of issuing such bonds can wipe out any associated "greeniums" if any, and in the event of a default , restructuring could be very costly. Reputational risk from souring market sentiment could also worsen the country's macroeconomic variables, leading to capital flight and exacerbating the debt problem. This will have a magnified impact especially for Fiji, which is highly dependent on positive perception of tourists and visitors to the country.

- The assessment on climate financing (and how it could be sequenced to manage financial costs and risk) and its instruments will be dealt with in greater detail in Chapter 5.

- As such, to keep the external debt composition as benign as possible, the government should stick to less risky terms with the lowest cost, and with conditionalities that do not run contrary to nationally-determined economic priorities, and respect the country's policy space and autonomy.

- With regard to domestic debt, apart from reducing its issuances of short-term bonds (treasury bills) in favour of long-term bonds, the government could consider bond buybacks and bond switches to reduce the pressure on its resources, especially before significant debt payments are due. This is among the proposals in the government's "Medium Term Debt Management Strategy 2021-2023" and "Medium Term Fiscal Strategy 2024-2026" to manage the debt burden.

- In practical terms, it would be similar to the arrangement in which Fiji replaced its global bond with concessional finance from the ADB and World Bank in 2020, and consideration can be given for such options to reduce the debt burden in the medium term.

- As such, the RBF can consider purchasing domestic government bonds from primary and secondary markets, especially when the government is faced with high pending debt payment obligations. Central banks in some developing countries, such as Indonesia and Philippines, took this route to support the financing needs of the government and reduce the debt servicing pressures amid the economic crisis caused by the pandemic.[70] Indonesia eventually passed the Financial Sector Development and Strengthening Law in 2023 requiring its central bank to purchase government bonds in the primary market during crises in the future.[71] While there are concerns around the independence of the central bank and the powers given to the president under the law, this option should be exercised under only defined instances and in accordance with the principles of good governance, particularly transparency and accountability.[72]

- Given the significance of contingent liabilities to overall debt sustainability, the performance of state-owned enterprises should be monitored. In addition, risk assessments should be made regularly and communicated to stakeholders and parliament as part of the government's public debt reporting.

Build in debt pauses or suspension mechanisms in all its borrowing

Automatic debt pauses or suspension mechanisms

- The Fiji government could consider negotiating clauses in all its borrowing transactions whereby debt suspension will be automatically triggered when the country is hit with exogenous shocks including pandemics, natural calamities, political upheaval, and civil war, among others. The value of having such buffers in place was demonstrated regrettably by its absence. The Debt Service Suspension Initiative (DSSI)[73] was established after several low-income countries struggled to continue with their heavy debt repayments after being hit hard economically by the Covid-19 pandemic.

Natural disaster clauses

- These were adopted by both Grenada and Barbados in their debt restructurings in 2013 and 2015 respectively. There is increasing global support for inclusion of such clauses in debt contracts, including from the World Bank, which recently announced that it will launch these clauses in its loan programmes for climate-vulnerable countries.[74] While they are designed to allow more fiscal space for countries to adequately respond to climate shocks,[75] they are limited to only specified natural disasters and typically have high monetary thresholds which have to be met before they can be triggered.

- Therefore, for Small Island Developing States (SIDS) like Fiji, the value in debt moratoriums cannot be overstated and natural disaster clauses are only a bare minimum. The key issue for Fiji will be designing clauses which provide sufficient fiscal space for the country to respond to a range of possible shocks.

ENDNOTES

1 Author's calculations using data available from Reserve Bank of Fiji (RBF) and Fiji Bureau of Statistics (FBoS) data. Please note that the debt data may not be identical across various datasets and official documents, as sometimes it is supplied according to the fiscal year and others in the calendar year. Not all data is available on a month-on-month level which can then be reconciled. Older data may be aggregated; however it is not always clear to the author whether it was based on the calendar or fiscal year. All errors of interpretation are those of the author. Nonetheless, the debt data is generally consistent across the various sources.

2 Sandra Tarte, "Fiji emerges from 2016 undaunted by disaster,", East Asia Forum, December 17, 2016, https://www.eastasiaforum.org/2016/12/17/fiji-emerges-from-2016-undaunted-by-disaster/

3 Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023, p. 34. As of Oct 2023, based on the latest figures available for external debt (July 2023) and domestic debt (Aug 2023) from the RBF website, the country's total public debt stands at FJ$9.9bn.

4 Author's calculations, using RBF data.

5 IMF, "The Debt Sustainability Framework for Low-Income Countries," July 13, 2018, https://www.imf.org/external/pubs/ft/dsa/lic.htm

6 Development Finance Corporate IDA and IBRD, "Republic of Fiji Eligibility for Blend Country Borrower Status," World Bank Group, April 9, 2019, https://documents1.worldbank.org/curated/pt/471291563195931804/pdf/Fiji-Eligibility-for-Blend-Country-Borrower-Status.pdf

7 IMF, "Republic of Fiji: 2023 Article IV Consultation," June 28, 2023, https://www.imf.org/en/Publications/CR/Issues/2023/06/28/Republic-of-Fiji-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-535377

8 IMF, "Fiji Article IV Consultation", supra, p. 50.

9 Ibid., pp. 35 and 40.

10 Ministry of Economy, "Fijian Government 2021-2022 Annual Debt Report", June 2023, p. 2.

11 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 34.

12 Author's calculations, using RBF and FBoS data.

13 IMF, "Fiji Article IV Consultation," supra, p. 38. See also "Fiji Public Expenditure Review," World Bank, April 2, 2023, p. 27.

14 Asian Productivity Organisation, "Fiji National Productivity Master Plan 2021-2036," 2019, p. 38-39.

15 Visitor arrivals plummeted from around 895,000 in 2019 to 147,000 in 2020, and to a mere 31,000 in 2021. Fiji Bureau of Statistics (FBoS), "Visitor Arrival Statistics," accessed January 29, 2024, https://www.statsfiji.gov.fj/index.php/statistics/tourism-and-migration-statistics/visitor-arrivals-statistics

16 FBoS, " Fiji's Gross Domestic Product (GDP) 2022," August 31, 2023, p. 13. Real GDP for 2020 and 2021 were -17% and -4.9% respectively.

17 IMF, "Fiji Article IV Consultation," supra, p. 51.

18 Author's calculations. Total/gross expenditure figures before 2023 are from RBF. Total/gross expenditure (include debt repayments) for 2023 is pieced together from the Ministry of Finance's "Budget Supplement 2023-2024" and "Annual Borrowing Plan Fiscal Year 2022-2023", from the previous government's estimate of debt redemption of FJ$307.5mn in fiscal year 2022/23.

19 IMF, "Fiji Article IV Consultation," supra, p. 51, and Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 43.

20 Author's calculations based on data from "Medium Term Fiscal Strategy 2024-2026," (MTFS) Ministry of Finance, February 17, 2023.

21 Ministry of Finance, "Budget Supplement 2023-2024," supra, pp. 42-43. Please note that contingent liabilities are broken down into: 1) explicit government guarantees; 2) other explicit contingent liabilities; and 3) implicit contingent liabilities. What is of material and practical importance is the explicit government guarantees portion of total contingent liabilities.

22 Ministry of Economy (DMU), "Annual Debt Report 2021-2022," November 2022, p. 8.

23 Created by author with data from RBF and FBoS.

24 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 36.

25 Yield is an indication to the bond issuer of what the market will demand to take on the risk and expected return of lending (investing).

26 Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024," August 2023, p. 5.

27 Ibid., pp. 4-5.

28 Ibid., p. 6.

29 As articulated by previous and current governments in their respective Annual Borrowing Plans (2020-21, 2021-22, 2022-23, 2023-24)

30 Created by author using RBF data.

31 Created by author using RBF data.

32 Ministry of Economy, "Medium Term Debt Management Strategy Fiscal Years 2021-2023," (MTDS) p.

19. In the document, the ministry noted: “Therefore external debt will be maintained at 30 percent (+/- 5%) of total debt.” MTDS has a target borrowing mix of 70:30 (+/- 5%), according to the previous government in “Economic and Fiscal Update Supplement to the 2022-2023 Budget Address,” p. 37.
33 Created by author using RBF data.
34 Ministry of Economy, “MTDS 2021-2023,” supra, p. 18.
35 Asian Development Bank (ADB), “Country Classification: Fiji,” November 2021. It is important to note that the ADB classified Fiji as a Group B developing member country (DMC) in its latest review of the country, given that ADB is Fiji’s largest official creditor, accounting for almost 40% of its external debt. As a Group B DMC, Fiji is eligible for a blend of concessional and regular loans as well as limited access to grants. The reasons for the ADB classification, similar to those considered by the World Bank, are namely Fiji’s vulnerabilities as a small island state, its deteriorating debt profile, high economic concentration, and its sovereign credit risk rating of “highly speculative” by credit rating agencies. It was reclassified as an IBRD-IDA “Blend” country by the World Bank with effect from July 2019.
36 Created by author using RBF data.
37 Ministry of Finance, “Budget Supplement 2023-2024,” p. 38.
38 Ibid.
39 Created by author using RBF data.
40 Ministry of Finance, “Budget Supplement 2023-2024,” supra, pp. 38-39.
41 This amount is derived from FJ$390.2mn, which is the total amount the government intends to raise externally, minus FJ$31.2mn, which are reimbursements made by the European Investment Bank and the AIFPP to the Fijian government. Ministry of Finance, “Annual Borrowing Plan 2023-2024,” supra, p. 8.
42 Ibid,p. 4.
43 Ibid.
44 Ministry of Finance, “Budget Supplement 2023-2024 ,” supra, p. 39.
45 Ministry of Finance, “Budget Supplement 2023-2024 ,” supra, p. 41.
46 Ibid.
47 Ministry of Economy, “Annual Debt Report 2021-2022,” supra, p. 6. According to the previous government, the 1.9% weighted average interest rate for external debt was due to the use of concessional loans from World Bank’s IDA and JICA.
48 Created by author using data from RBF and FBoS
49 Ministry of Economy, “Annual Debt Report 2021-2022,” supra, p. 6.
50 In the words of the government, “given Fiji’s high exposure to the US denominated debts (78.2% of external debt), the rise in interest rates (SOFR) from 2.28% in Aug 2022 to 5.04% in May 2023) and the appreciation of the US dollar has significantly increased debt servicing costs.”
51 Ministry of Finance, “Budget Supplement 2023-2024,” supra, p. 39.
52 Ibid., 10.
53 Ibid.
54 Author’s calculation.
55 Author’s calculation.
56 Created by author with data from RBF and FBoS. Note that the total revenue for fiscal year 2022/23 have been revised by the government in its budget supplement issued in June 2023. The interest payment-to-revenue ratio is an estimate however, as available data from RBF is only up to April 2023. The author has averaged the July 2023 interest payments from previous quarters, and also compared it against total debt and weighted average interest for fiscal year 2022/23, which is reported to be 5.2% in the budget supplement. A straightforward calculation from this would have resulted in interest payments of approximately FJ$518mn (5.2% x FJ$9.88bn).
57 https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development
58 Ministry of Finance, “Annual Borrowing Plan 2023-2024,” supra, p. 4.
59 Ministry of Finance, “Budget Supplement 2023-2024,”supra, p. 34.
60 Author’s calculations.
61 Author’s calculations.
62 Author’s calculation made by averaging the government’s debt-to-GDP projections over the next three fiscal years.
63 Ministry of Finance, “Budget Supplement 2023-2024,” p. 38.
64 OECD, “Financing for a sustainable ocean economy and blue recovery,” in Towards A blue recovery in Fiji: COVID-19 Appraisal Report (OECD Publishing, 2022), https://www.oecd-ilibrary.org/sites/54c8d06f-en/index.html?itemId=/content/component/54c8d06f-en
See also, Pacific Islands Forum and UN Development Programme (UNDP), “Green and blue bonds for the Pacific Region,” 2022. https://www.undp.org/sites/g/files/zskgke326/files/2022-08/demystifying-green-and-b

lue-bonds-for-the-pacific.pdf
65 RBF, “Fiji Sovereign Green Bond 2019 Update,” 2020. https://www.rbf.gov.fj/wp-content/uploads/2020/03/Fiji-Sovereign-Green-Bond-Impact-Report-2019.pdf
66 OECD, “Financing a sustainable ocean economy,” p. 59.
67 Ibid.
68 Jochen M. Schmittmann and Yun Gao, “Green bond pricing and greenwashing under asymmetric information,” IMF, 2022. See also, OECD, “Financing a sustainable ocean economy,” p. 59.
69 Ibid.
70 Bloomberg, “Bank Indonesia agrees to buy government debt to fund budget,” Gulf Times, July 6, 2020, https://www.gulf-times.com/story/667515/bank-indonesia-agrees-to-buy-govt-debt-to-fund-budget. See also, Claire Jiao and Ditas B. Lopez, “Philippines joins EM central banks unorthodox bond-buying club,” Bloomberg, August 12, 2020, https://www.bloomberg.com/news/articles/2020-08-12/philippine-central-bank-buys-almost-half-of-government-borrowing#xj4y7vzkg
71 Stefanno Sulaiman, “Indonesia expands central bank mandate to support stability, growth,” Reuters, December 15, 2022, https://www.reuters.com/world/asia-pacific/indonesias-new-finance-laws-expand-central-banks-mandate-2022-12-15/
72 IMF, “Indonesia: 2023 Article IV Consultation,” June 25, 2023, https://www.imf.org/en/Publications/CR/Issues/2023/06/22/Indonesia-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-535060
73 Established in May 2020 by the G20, “the DSSI helped countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. Forty-eight [including Fiji] out of 73 eligible countries participated in the initiative before it expired at the end of December 2021.” https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative. This was superseded by the G-20’s Common Framework.
74 World Bank, “World bank group announces comprehensive toolkit to support countries after natural disasters,” June 22, 2023, https://www.worldbank.org/en/news/factsheet/2023/06/22/comprehensive-toolkit-to-support-countries-after-natural-disasters
75 IMF, “State-Contingent Debt Instruments for Sovereigns,” May 22, 2017, https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/05/19/pp032317state-contingent-debt-instruments-for-sovereigns
76 Author’s calculations.