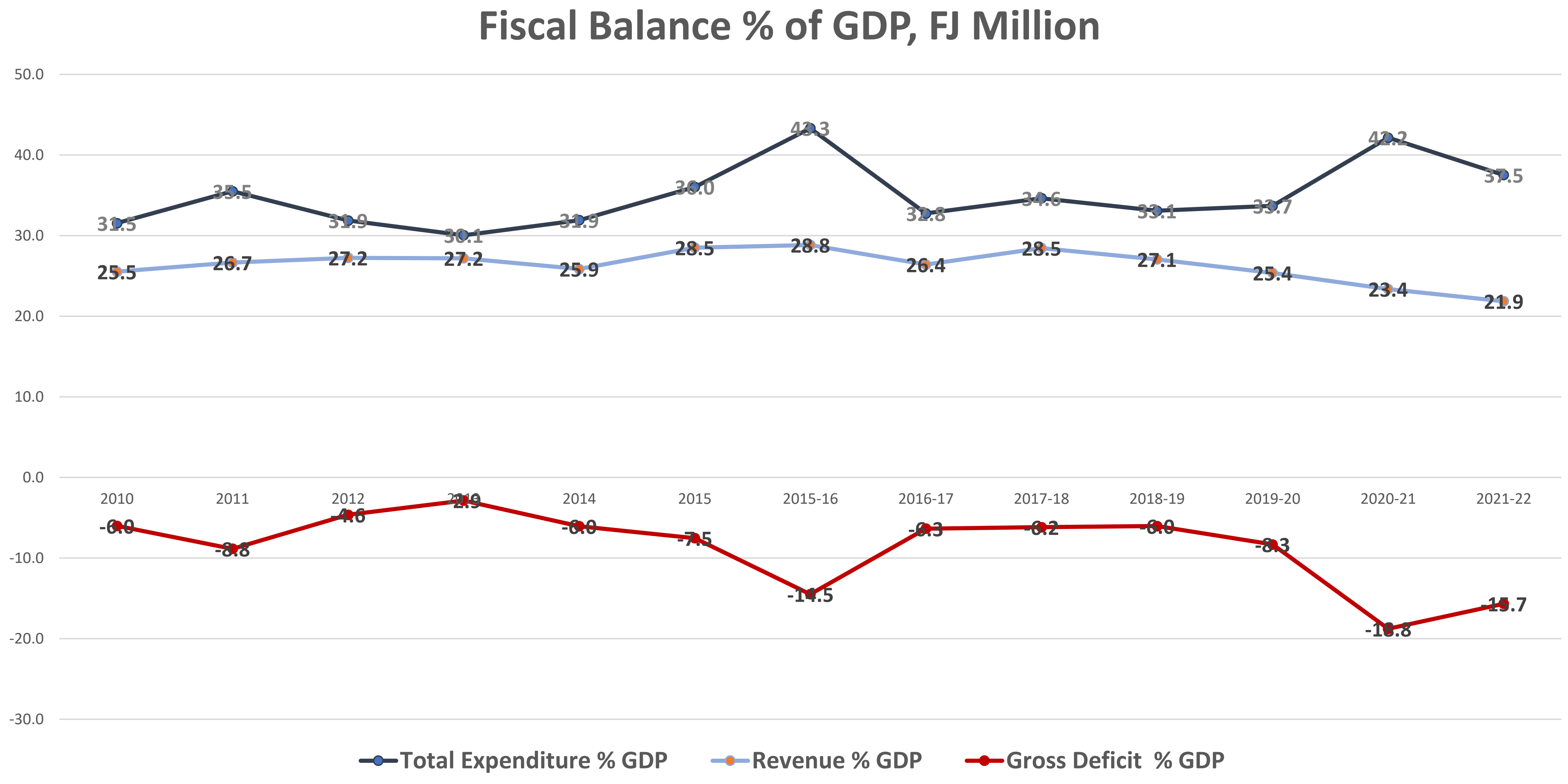
Debt Driver - Fiscal

Debt Sustainability

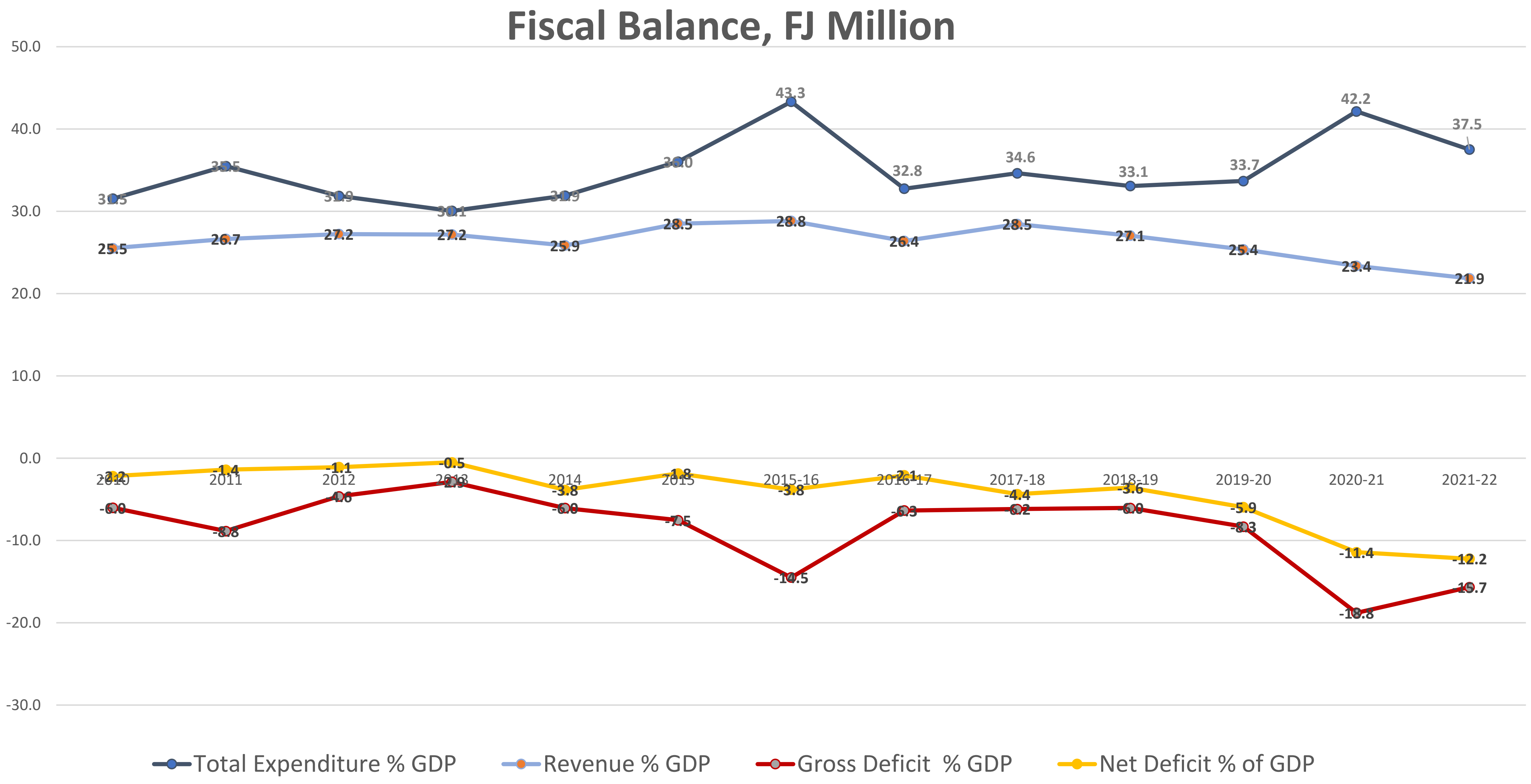
$$dt = d_{t-l}[(l + r_t)/(1 + g_t)] - p_t$$

where g is the growth rate, p the ratio of primary surplus to GDP, and

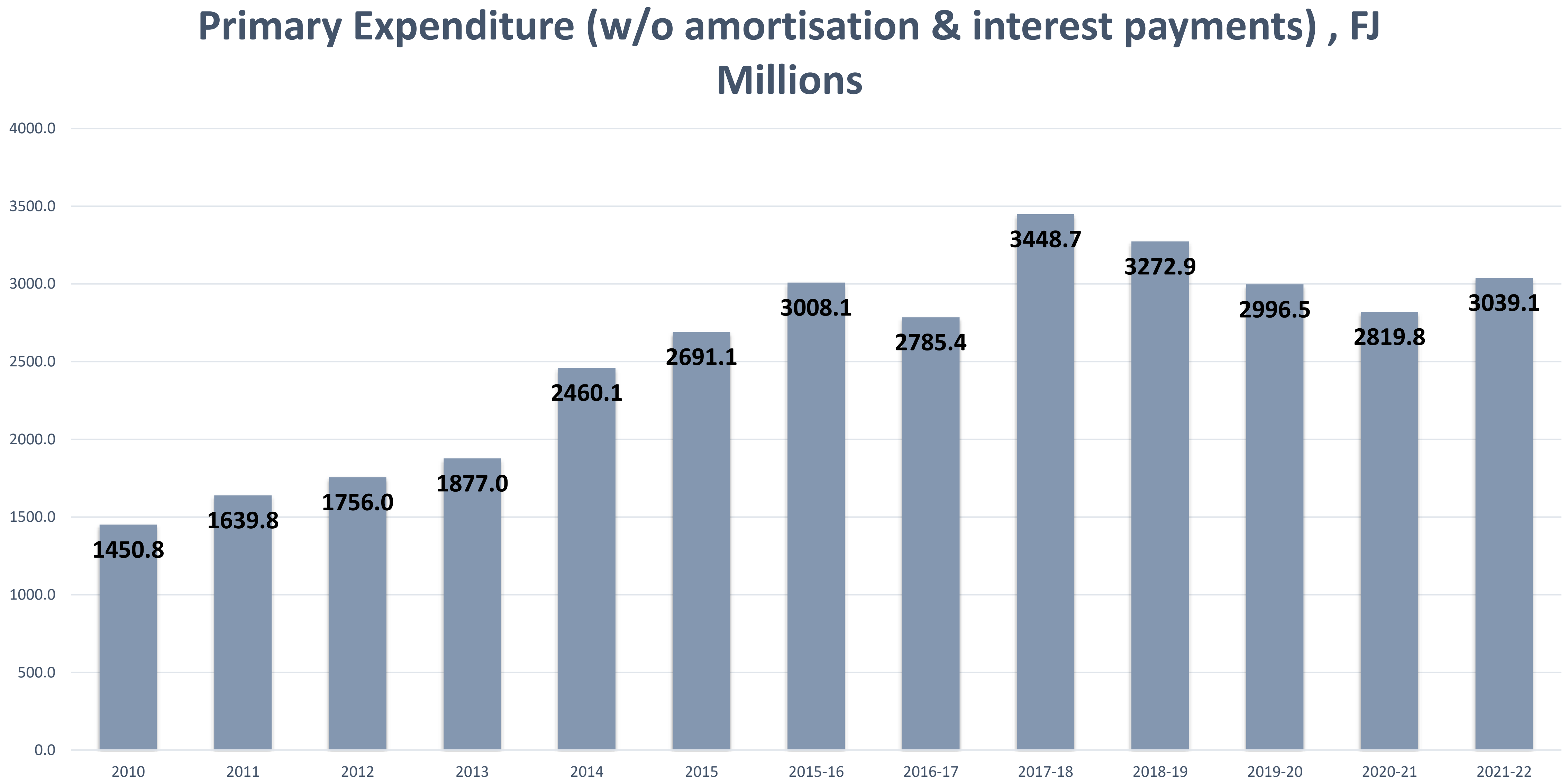
d is the debt to GDP ratio ***r*** Interest rate

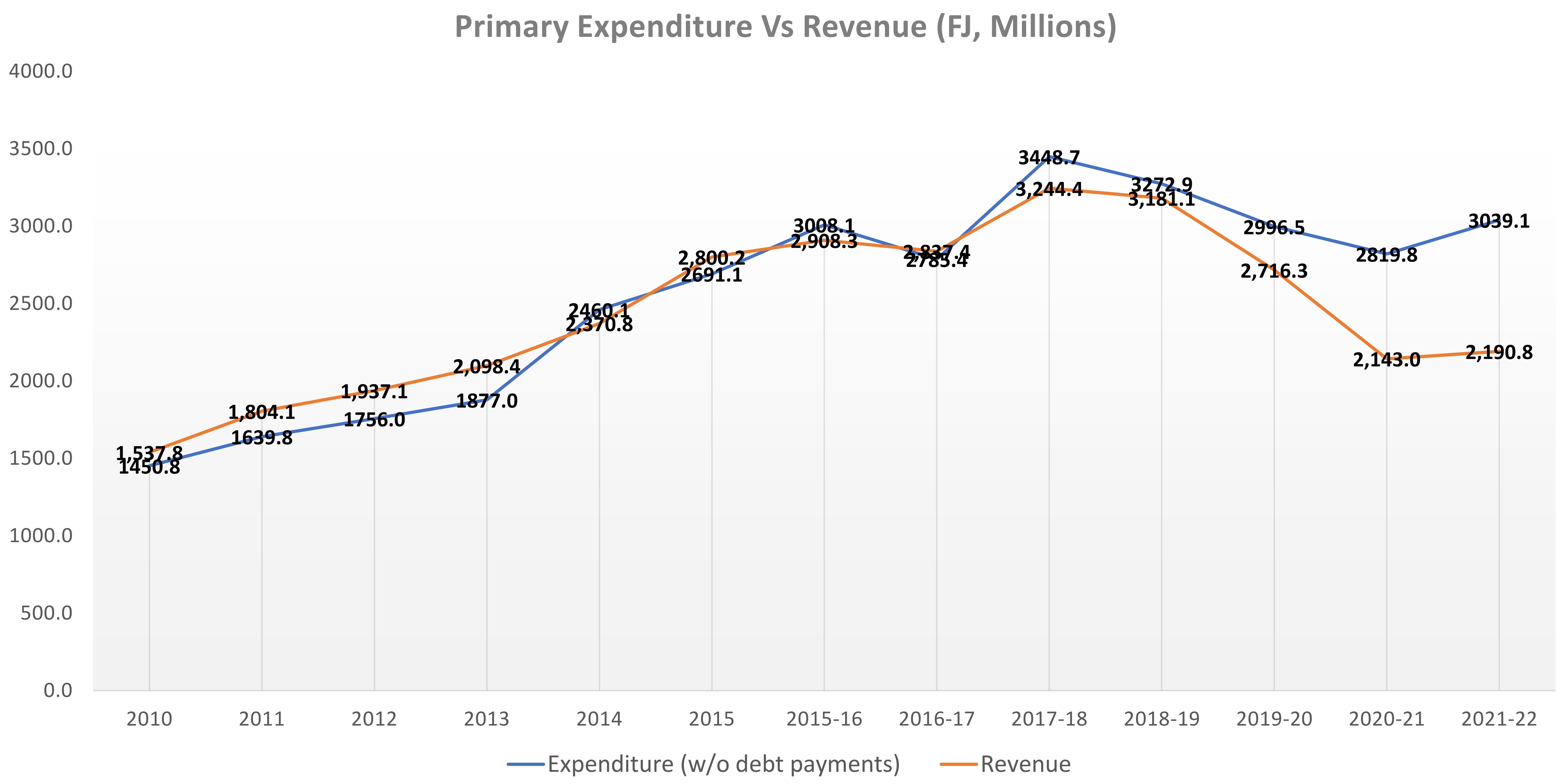


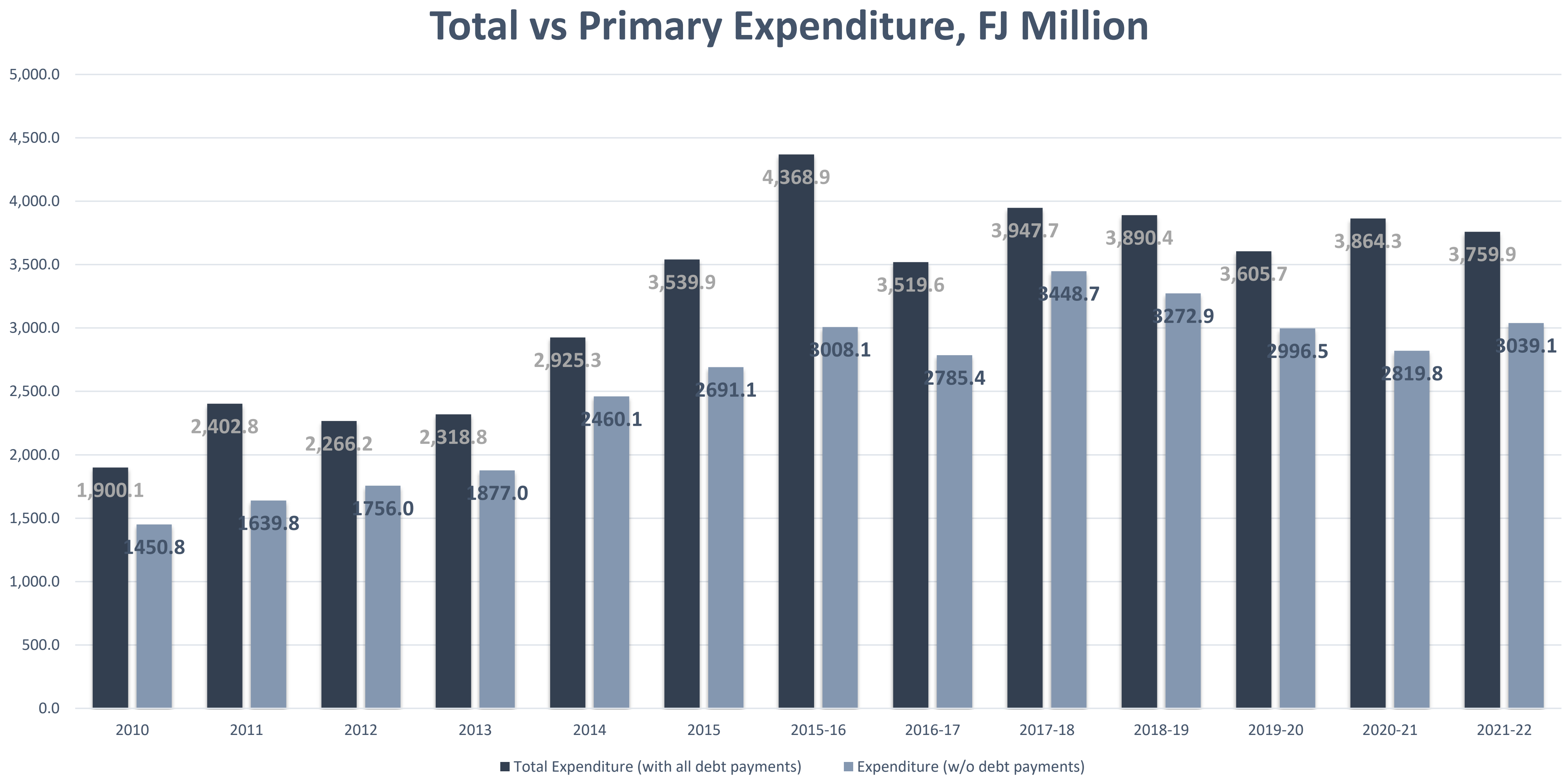
Fiscal Balance % of GDP, FJ Million
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
-20.0
-30.0
2010
2011
2012
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Total Expenditure % GDP
Revenue % GDP
Gross Deficit % GDP



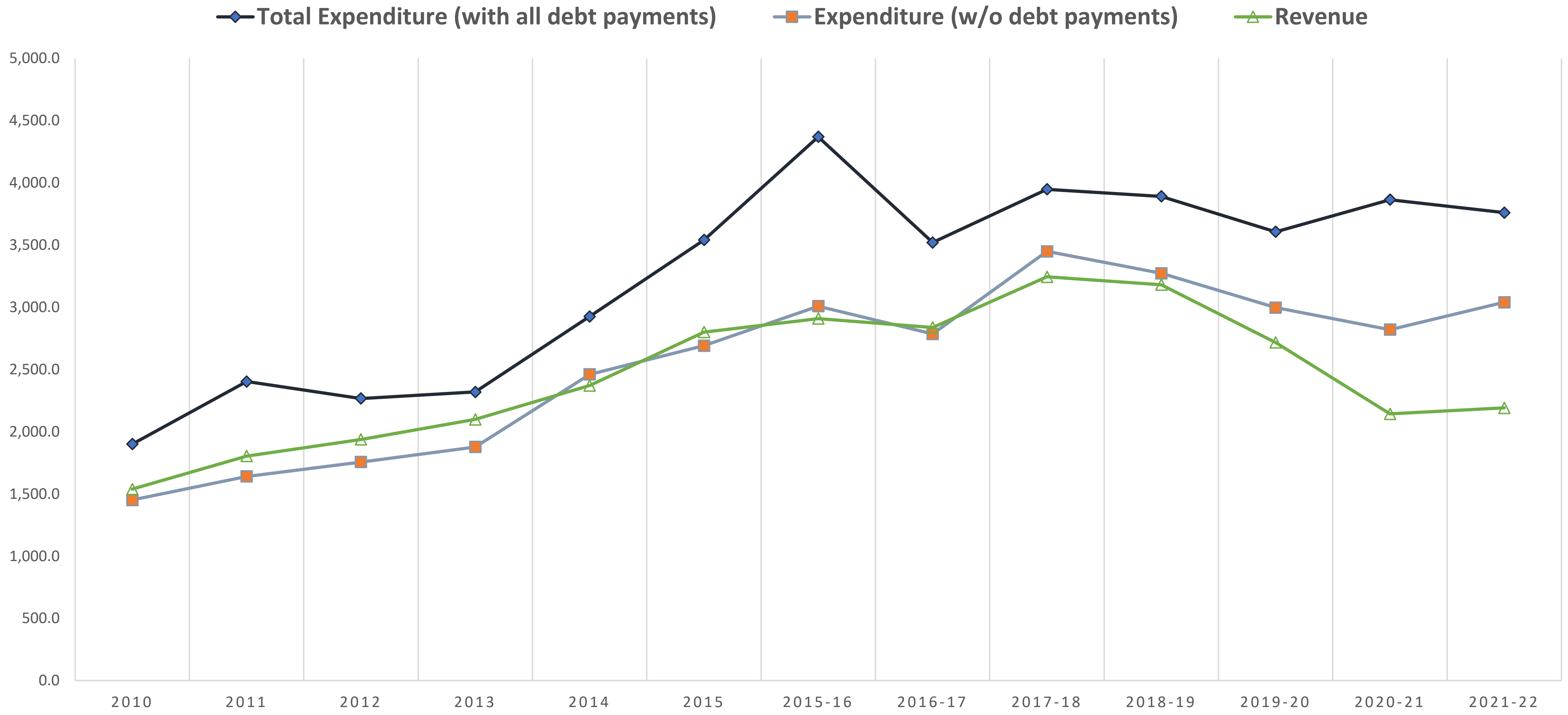
Net deficit excludes debt amortization but includes interest payments according to notes in official stats


Primary Expenditure (w/o amortisation & interest payments) , FJ Millions
4000.0
3500.0
3000.0
2500.0
2000.0
1500.0
1000.0
500.0
0.0
1450.8
1639.8
1756.0
1877.0
2460.1
2691.1
3008.1
2785.4
3448.7
3272.9
2996.5
2819.8
3039.1
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22


Primary Expenditure Vs Revenue (FJ, Millions)
4000.0
3500.0
3000.0
2500.0
2000.0
1500.0
1000.0
500.0
0.0
1,537.8
1450.8
1,804.1
1639.8
1,937.1
1756.0
2,098.4
1877.0
2460.1
2,370.8
2,800.2
2691.1
3008.1
2,908.3
2,837.4
2785.4
3448.7
3,244.4
3272.9
3,181.1
2996.5
2,716.3
2819.8
2,143.0
3039.1
2,190.8
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Expenditure (w/o debt payments)
Revenue

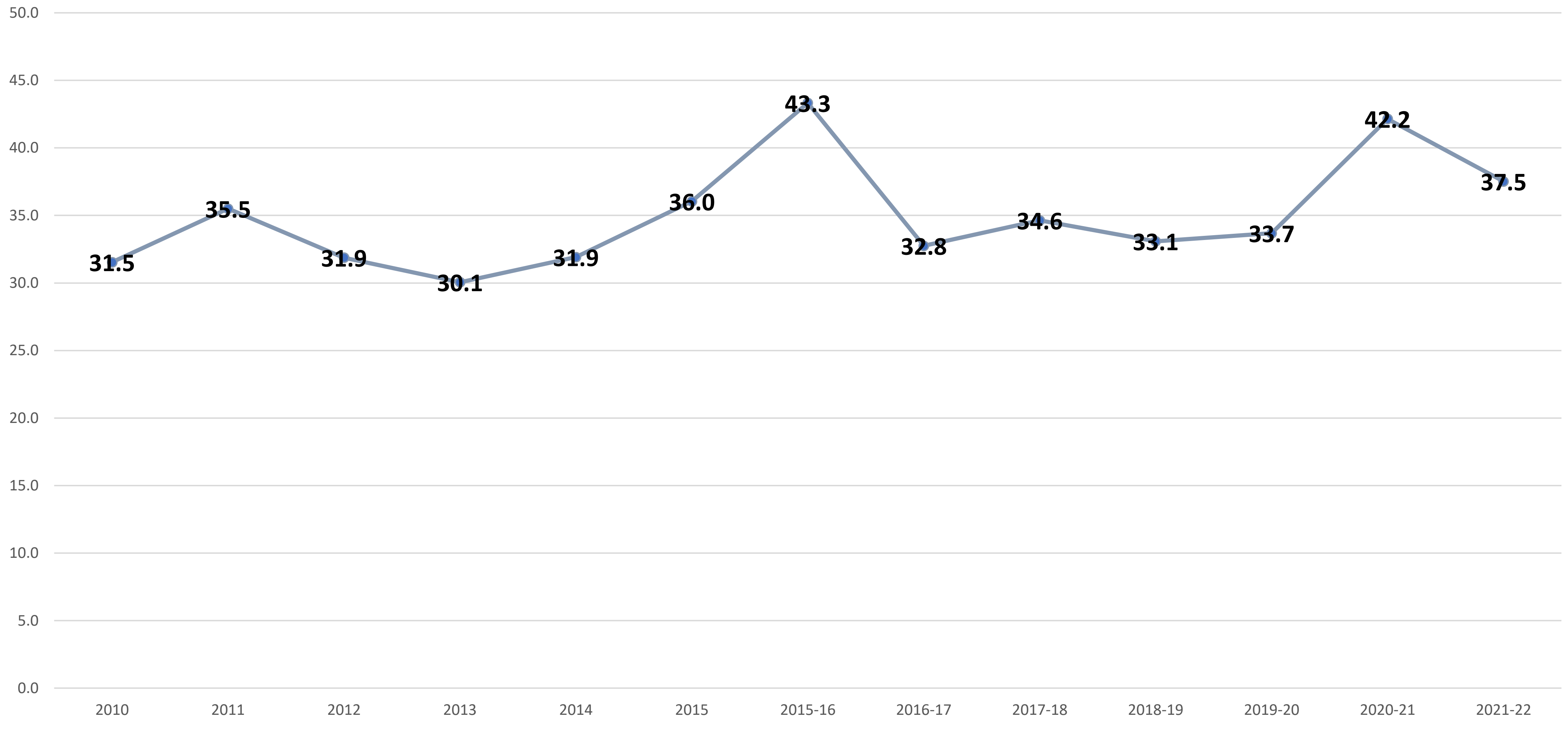

Total vs Primary Expenditure, FJ Million
5,000.0
4,500.0
4,000.0
3,500.0
3,000.0
2,500.0
2,000.0
1,500.0
1,000.0
500.0
0.0
1,900.1
1450.8
2,402.8
1639.8
2,266.2
1756.0
2,318.8
1877.0
2,925.3
2460.1
3,539.9
2691.1
4,368.9
3008.1
3,519.6
2785.4
3,947.7
3448.7
3,890.4
3272.9
3,605.7
2996.5
3,864.3
2819.8
3,759.9
3039.1
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Total Expenditure (with all debt payments)
Expenditure (w/o debt payments)

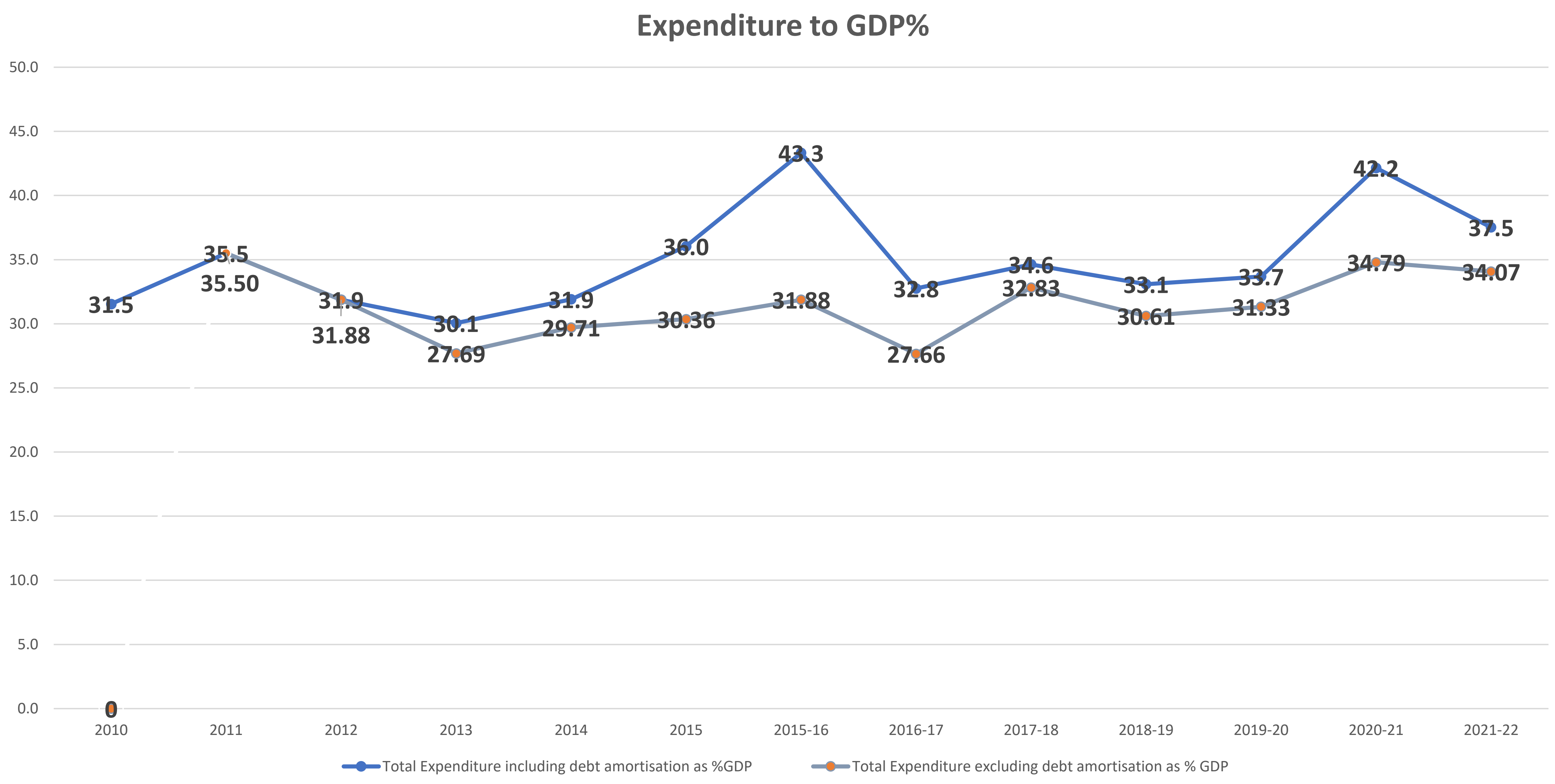
TOTAL EXPENDITURE VS PRIMARY EXPENDITURE VS REVENUE

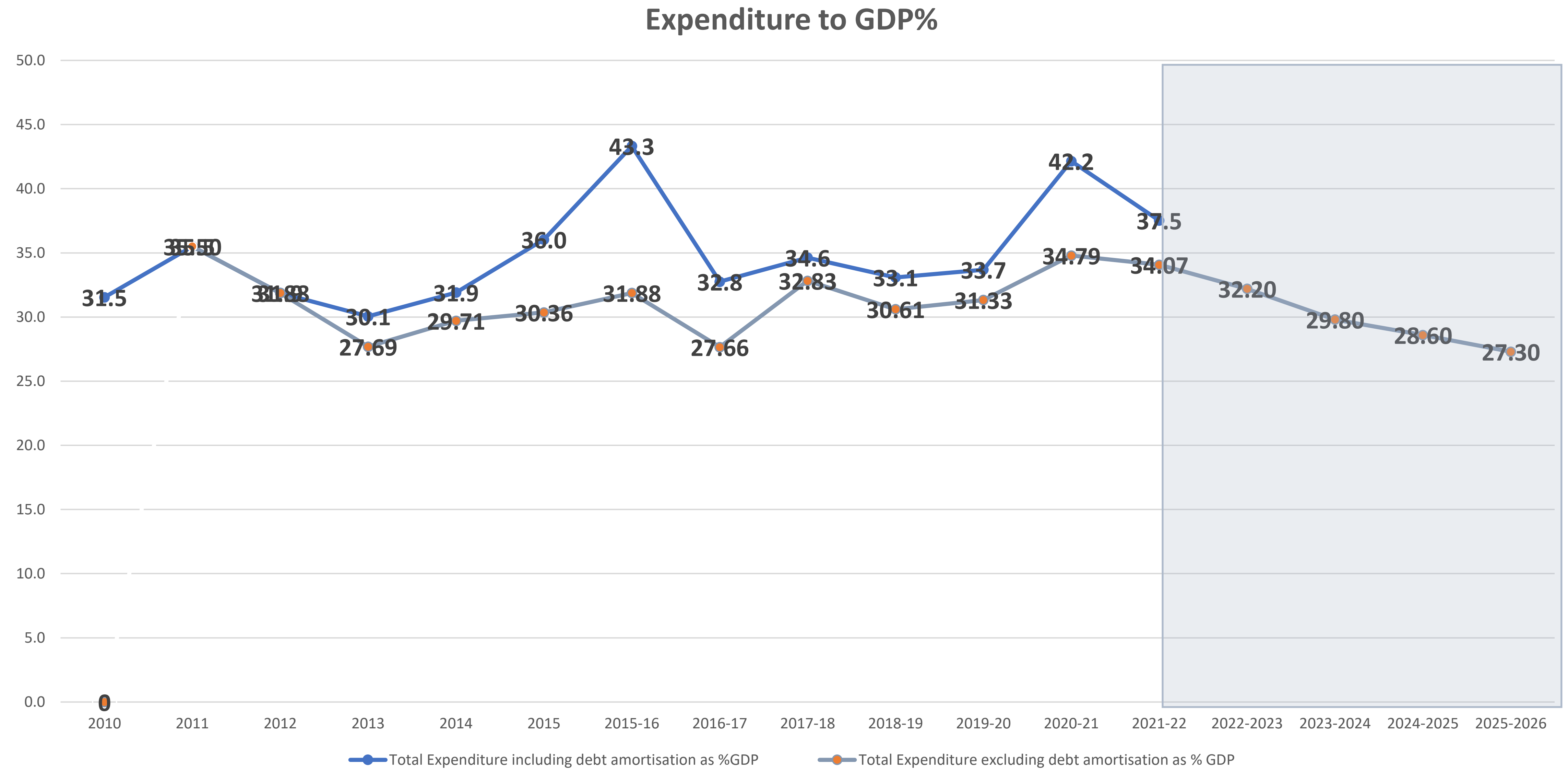


Big spike in FY2015-2016 in total expenditure due to a large debt repayment. Gap between total expenditure and revenue widened from that point due more to falling revenue, leading to a growing and persistent gross fiscal deficit. The fall in revenue was largely due to a sharp decline in indirect taxes receipts from 2018 to 2020. See chart below.

Total Expenditure including debt amortisation as %GDP

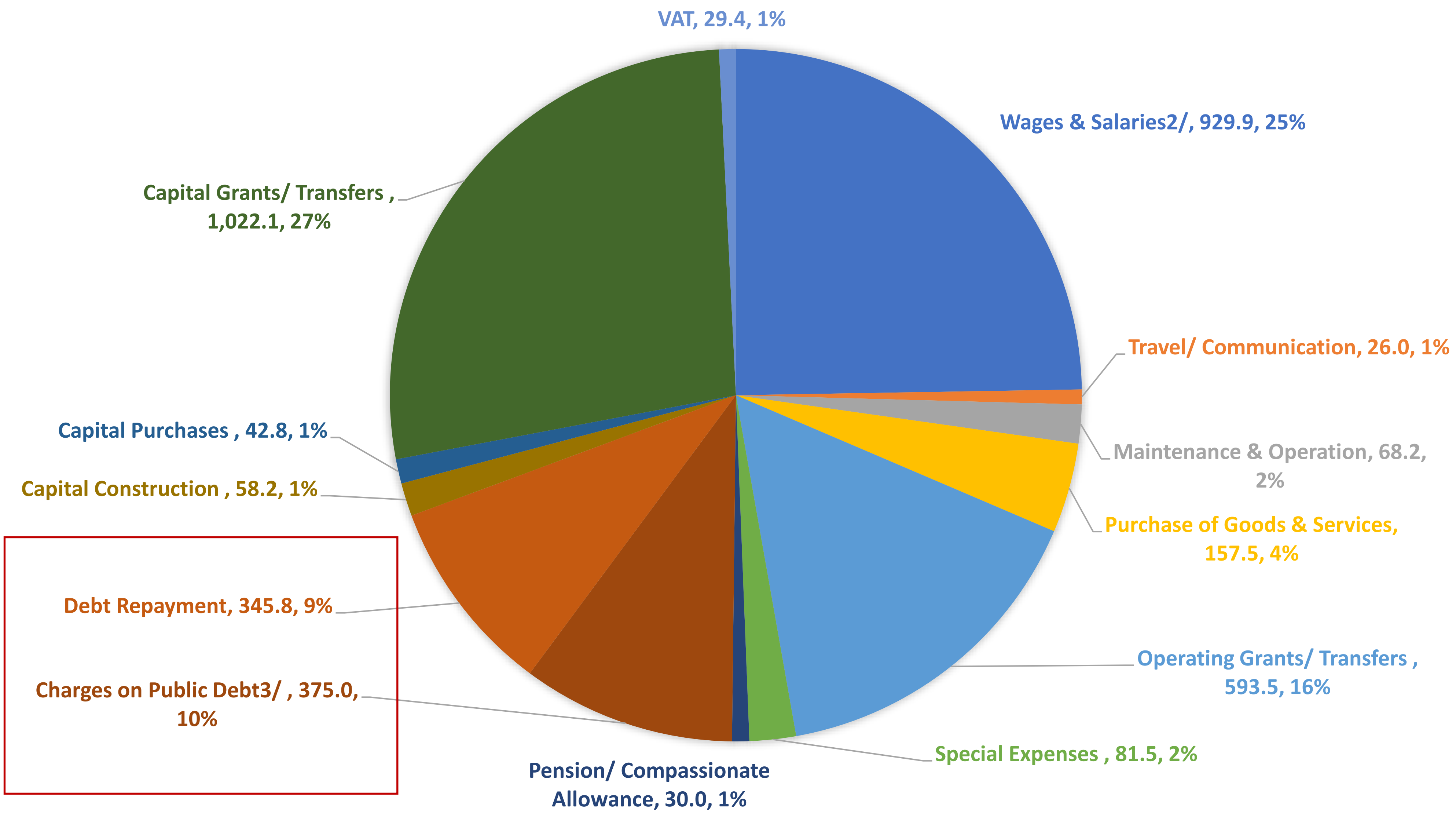


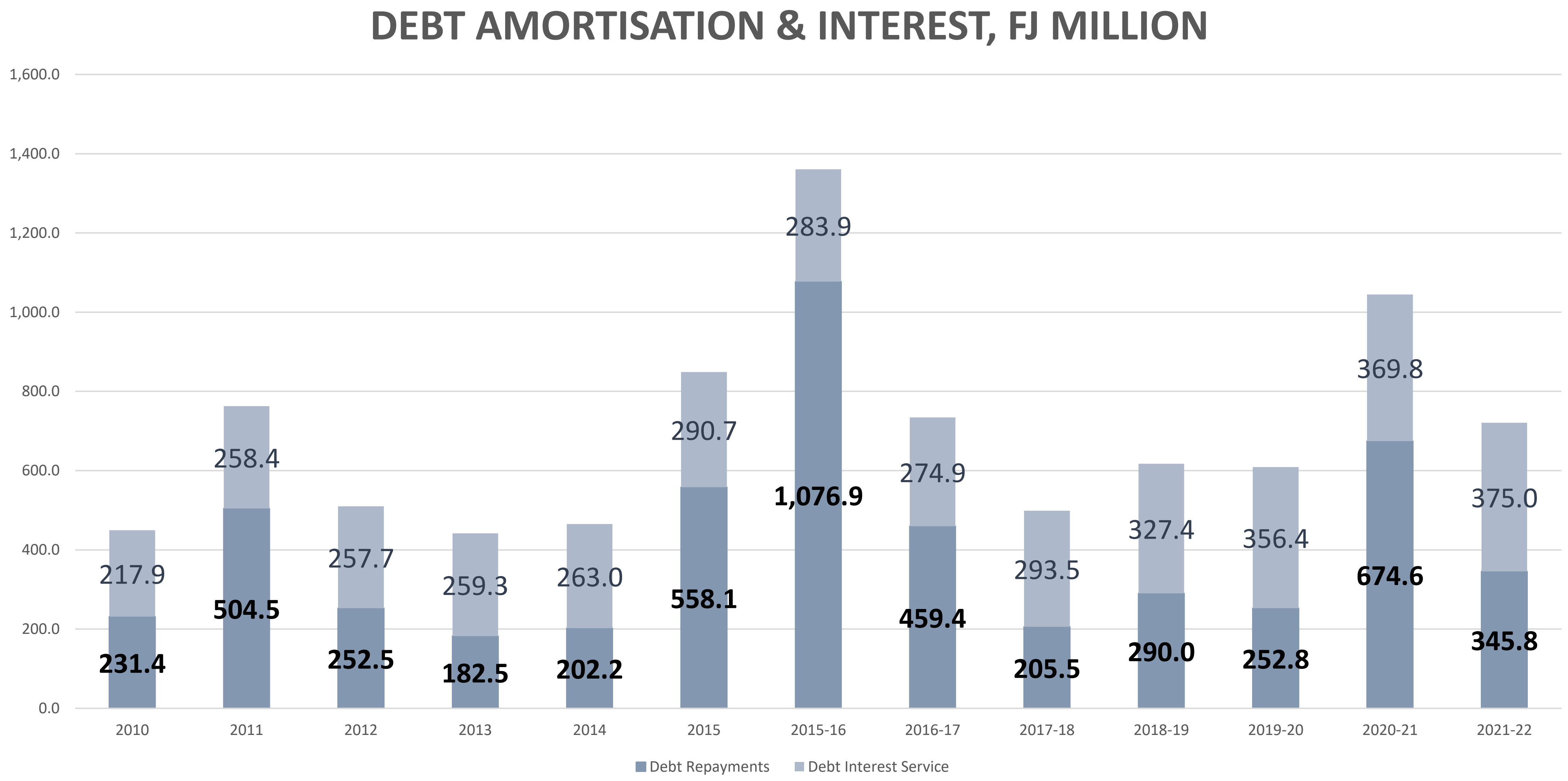

Expenditure to GDP%
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
31.5
35.5
35.50
31.9
31.88
30.1
27.69
31.9
29.71
36.0
30.36
43.3
31.88
32.8
27.66
34.6
32.83
33.1
30.61
33.7
31.33
42.2
34.79
37.5
34.07
0
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Total Expenditure including debt amortisation as %GDP
Total Expenditure excluding debt amortisation as % GDP

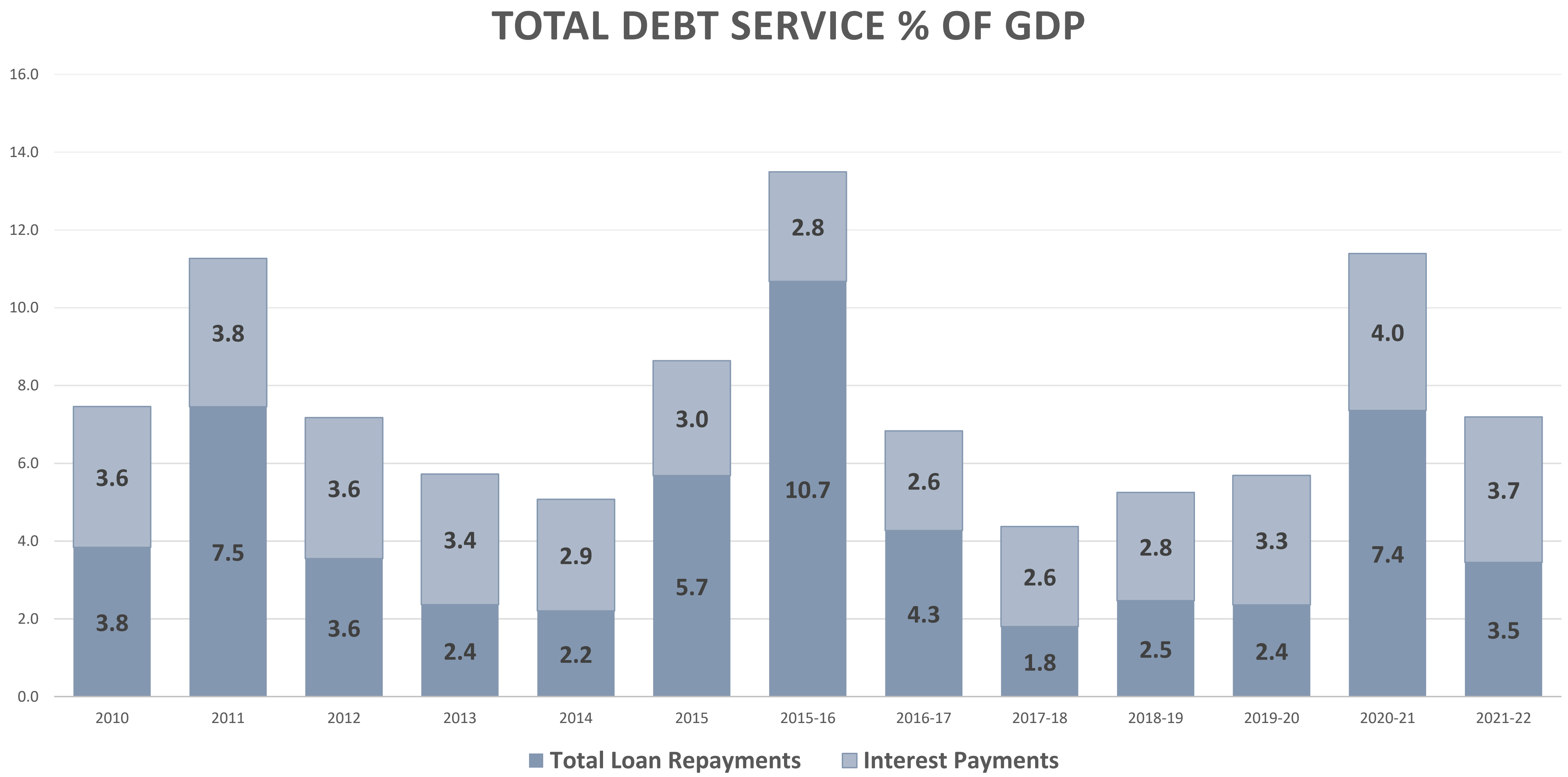


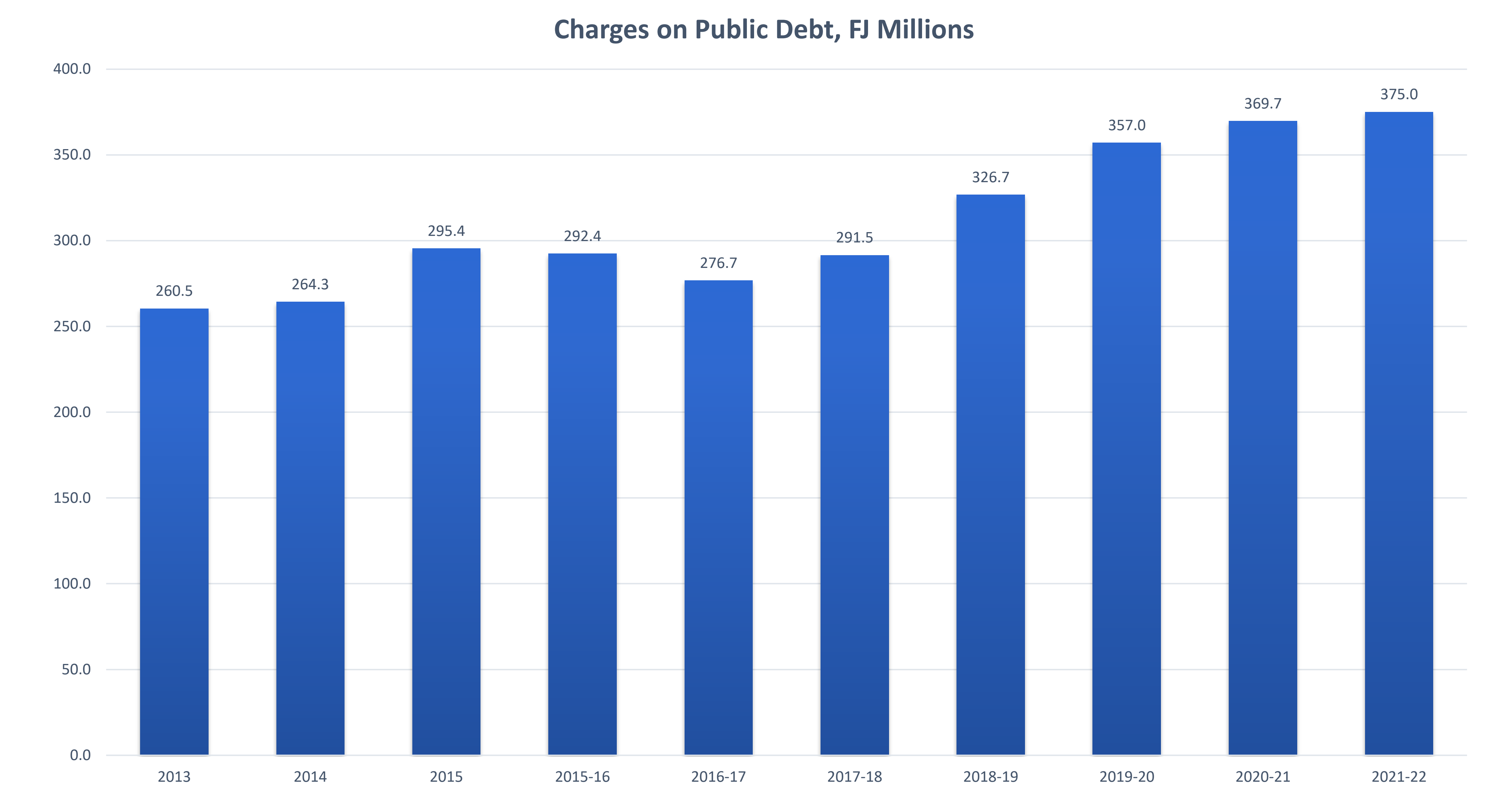
For the forecasted expenditure from 2023-2026, it should include debt repayment based on amortization schedule

TOTAL EXPENDITURE BREAKDOWN FY2021-22, (FJ, MILLIONS)

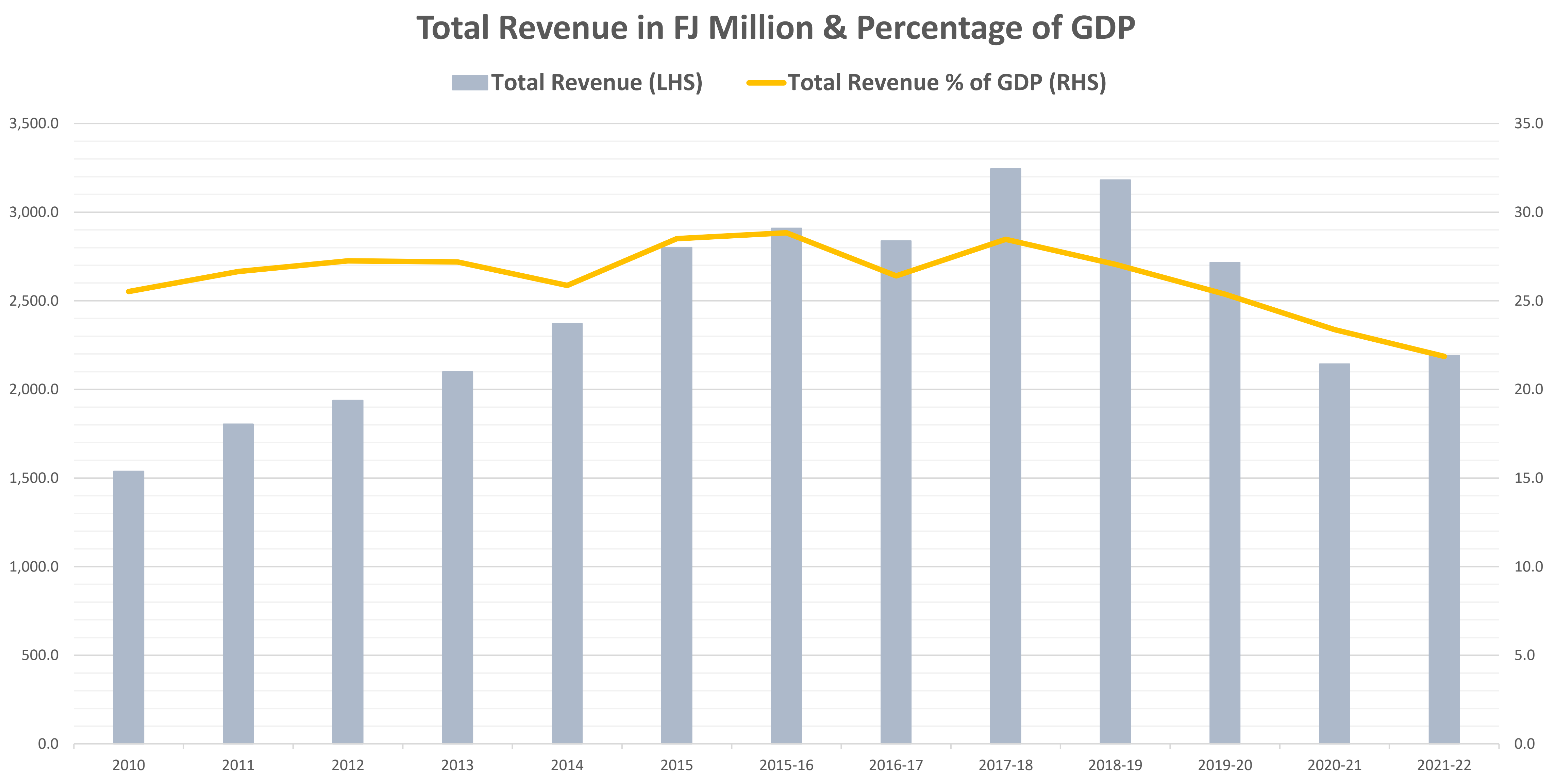


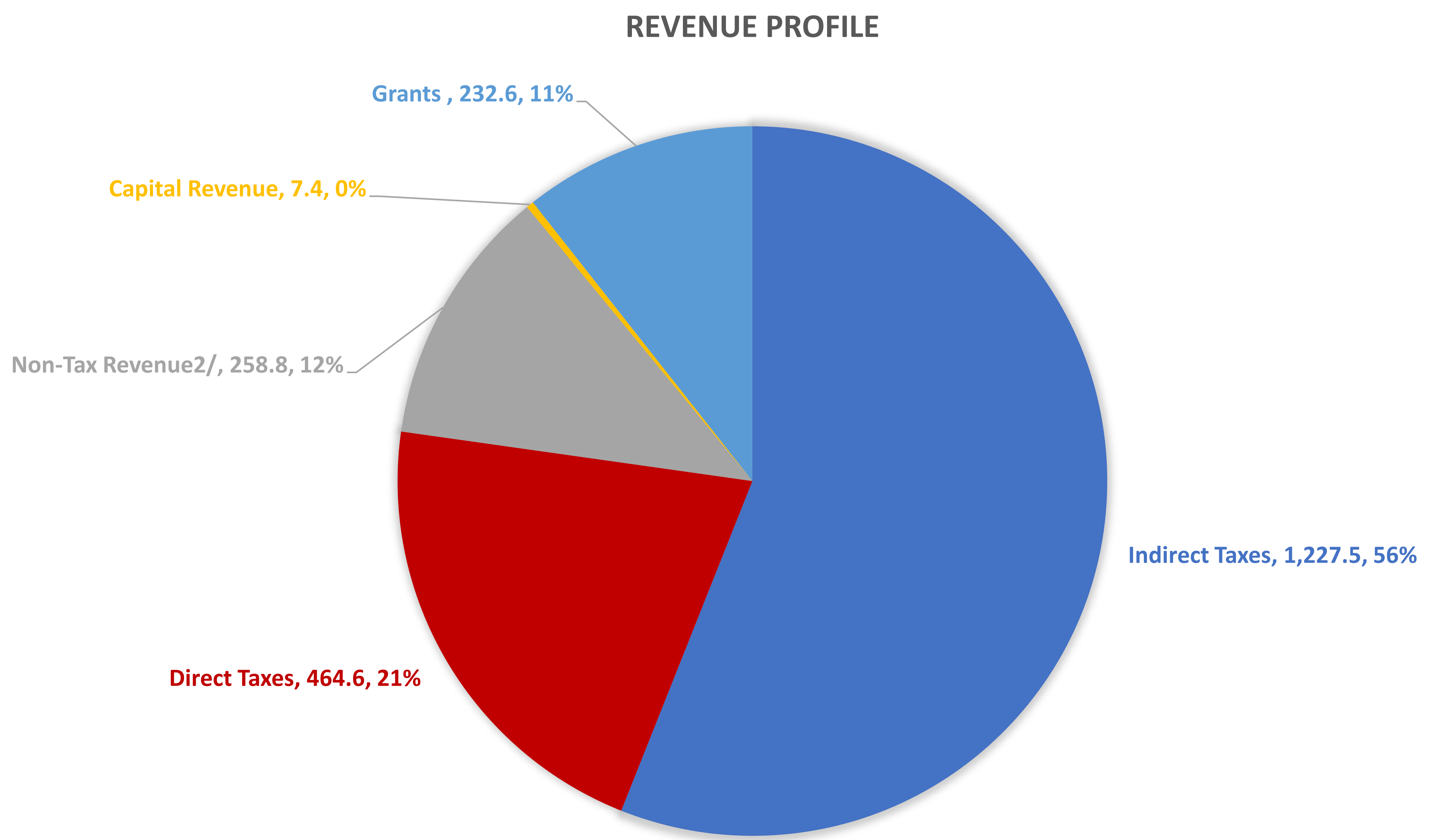

DEBT AMORTISATION & INTEREST, FJ MILLION
1,600.0
1,400.0
1,200.0
1,000.0
800.0
600.0
400.0
200.0
0.0
217.9
231.4
258.4
504.5
257.7
252.5
259.3
182.5
263.0
202.2
290.7
558.1
283.9
1,076.9
274.9
459.4
293.5
205.5
327.4
290.0
356.4
252.8
369.8
674.6
375.0
345.8
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Debt Repayments
Debt Interest Service

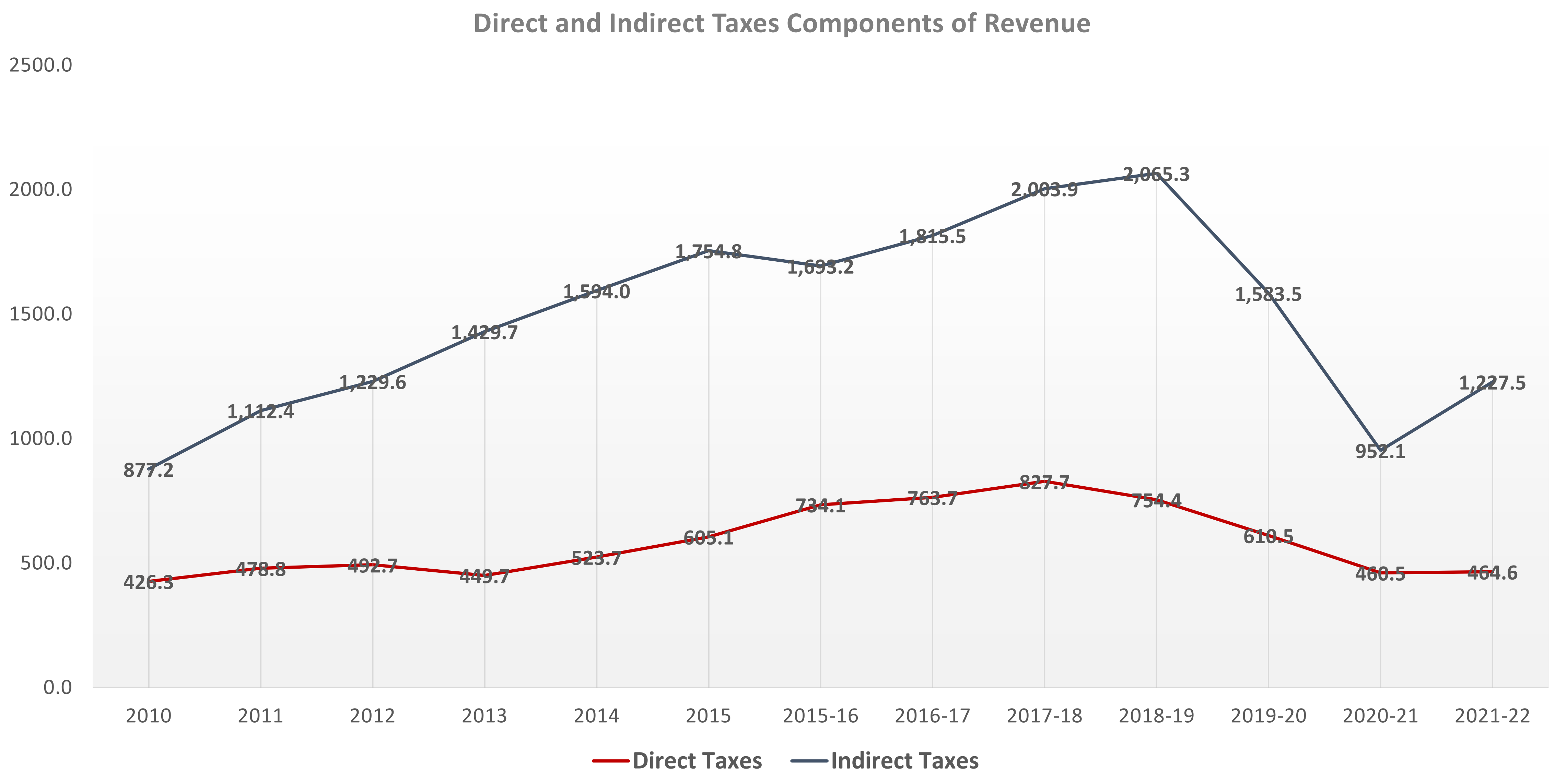

TOTAL DEBT SERVICE % OF GDP
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
3.8
3.6
7.5
3.8
3.6
3.6
2.4
3.4
2.2
2.9
5.7
3.0
10.7
2.8
4.3
2.6
1.8
2.6
2.5
2.8
2.4
3.3
7.4
4.0
3.5
3.7
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Total Loan Repayments
Interest Payments



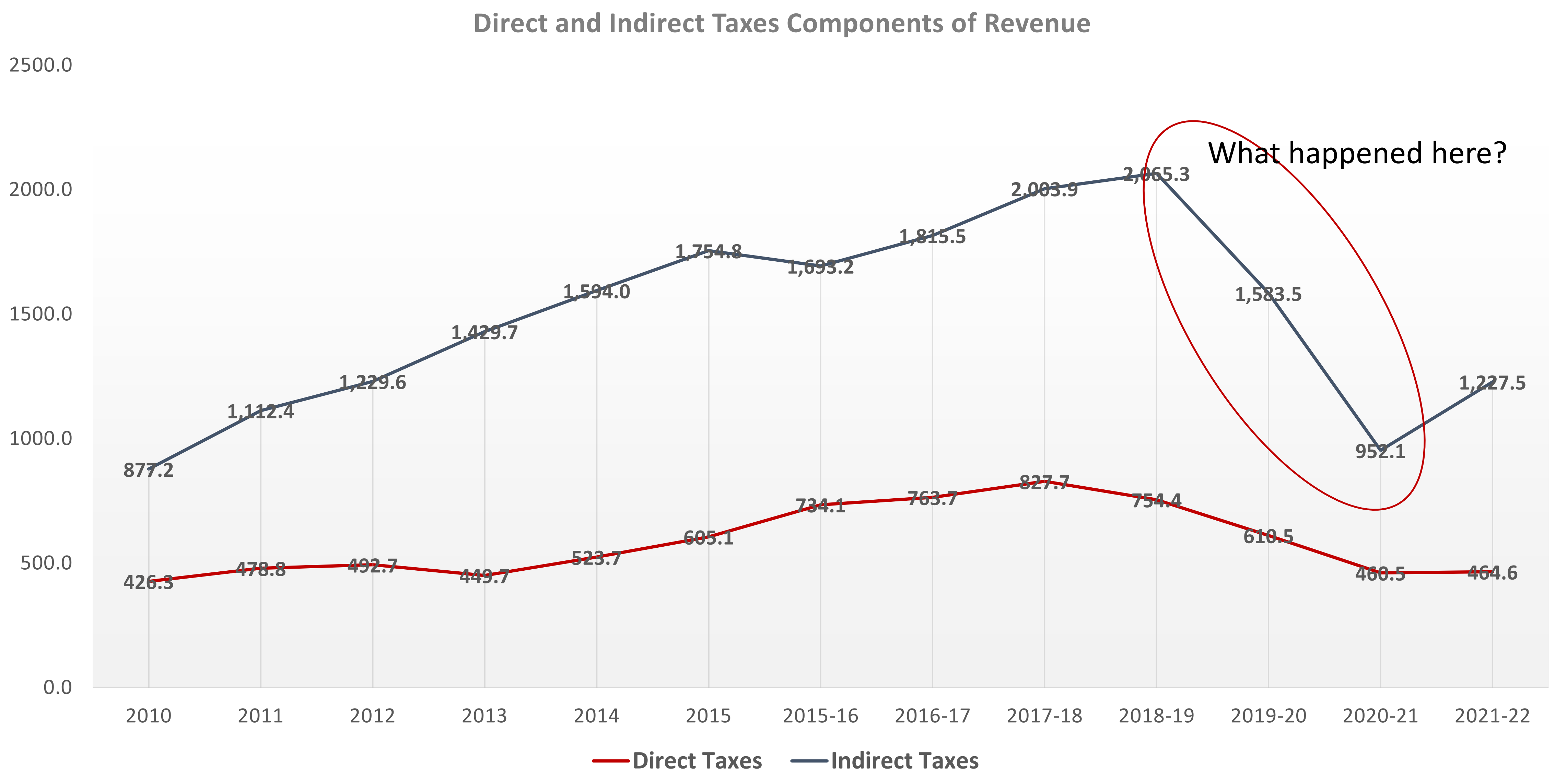
NB: From official source data file it states that, “From 2013, Charges on Public Debt only includes interest payments and miscellaneous charges associated with debt repayments


Total Revenue in FJ Million & Percentage of GDP
Total Revenue (LHS)
Total Revenue % of GDP (RHS)
3,500.0
3,000.0
2,500.0
2,000.0
1,500.0
1,000.0
500.0
0.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22

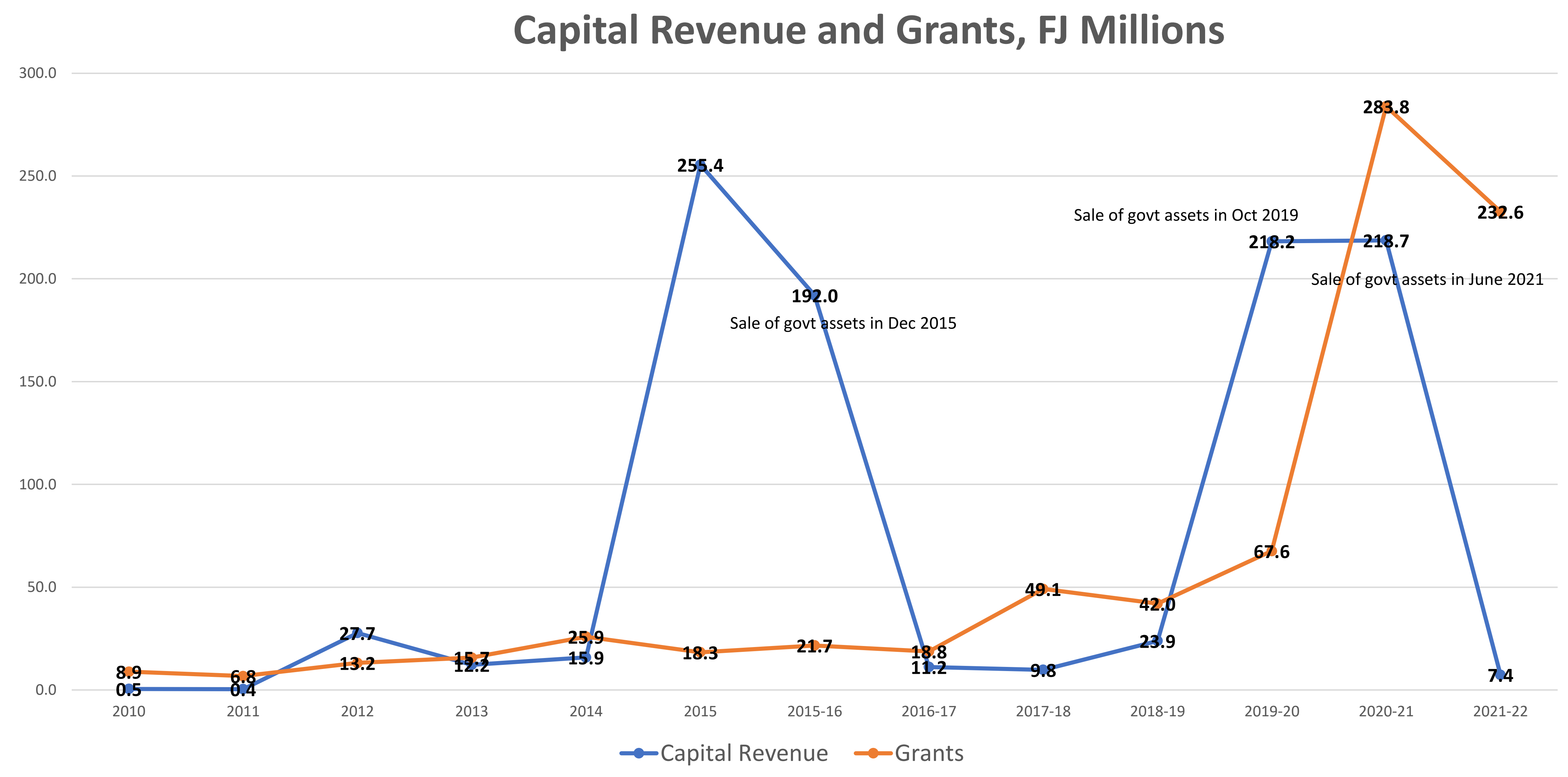

REVENUE PROFILE
Grants , 232.6, 11%
Capital Revenue, 7.4, 0%
Non-Tax Revenue2/, 258.8, 12%
Indirect Taxes, 1,227.5, 56%
Direct Taxes, 464.6, 21%



Revenue from direct taxes is historically low, after picking up some steam from from 2015 and rising steadily to FY2017-18, it started to mean revert falling by to where it was more than a decade ago.



Direct and Indirect Taxes Components of Revenue
What happened here?
2500.0
2000.0
1500.0
1000.0
500.0
0.0
877.2
1,112.4
1,229.6
1,429.7
1,594.0
1,754.8
1,693.2
1,815.5
2,003.9
2,065.3
1,583.5
952.1
1,227.5
426.3
478.8
492.7
449.7
523.7
605.1
734.1
763.7
827.7
754.4
610.5
460.5
464.6
2010
2011
2012
2013
2014
2015
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Direct Taxes
Indirect Taxes



These sources of revenue are historically lumpy and volatile. Capital revenue in so far that it is coming from sale of state assets is a one time transaction. Grants are unpredictable and subject to political and geopolitical considerations. Nonetheless, if not for the upsurge in capital revenue and grants over the covid period from 2020 to 2022, the already yawning deficit would have been much wider.

- Debt obligations are sizeable
- When debt obligations are taken into account, the government ends up always running a persistent and large fiscal deficit
- For some years primary expenditure tracks revenue closely, it more recent time, it has started to diverge with revenue not keeping pace with increase in expenditure
- From 2017, revenue has been persistently below primary expenditure and diverging, creating a larger deficit. Revenue as share of GDP has dipped to a low of 21.5% in 2022. Granted that economic activity slowed over the covid lockdown, it has however been on a downward trend since 2017.
- Revenue contribution from direct taxes appear to be low, could be higher
- Overall revenue to GDP ratio started its gradual decline from its historic average of about 27% of GDP to 21% currently for FY2021-2022. In the meantime, government continues to spend more, peaking to 42.2% in FY20-21, the second highest since the 90s. While it may appear to be covid related, it was actually due to a sizeable debt repayment that year.
- To close the gap and manage fiscal balance, (according to the IMF primary surplus should
    - debt amortization should be spread out
        - For official debt, payment duration could be spread out more. As in the case with some bilateral official debt under DSSI
    - Debt interest payments could be reduced
        - Through liability operations – most costly debt held by certain creditors could be purchased and expired such as the Fiji green bonds, through issuing cheaper debt
    - External official bilateral debt could be reduced through
        - Some haircut from bilateral creditors
        - Grant from bilateral donors (Australia, NZ, US, Japan, Taiwan?)
        - Fresh borrowings from multilateral at lower costs than Chinese debt
    - Broaden and deepen the revenue base - Increase revenue sources
        - Increase direct taxes
        - Grant commitments
            - Aust, NZ
            - MDBs
    - Cheaper debt financing (concessional lending)
        - Climate from MDBs, Bilaterals
        - SDGs from MDBs, bilaterals

- Total expenditure for a financial/fiscal year includes debt repayment (amortization) and interest payments due on total debt liabilities, in the way this research uses it.
- However, Fijian authorities uses total expenditure to sum operating expenditure with capital expenditure.
- Operating expenditure, as defined by Fijian authorities, does not include repayments (amortization) but includes interest payments which it describes as charges on debt
- Primary expenditure as used in the literature is total expenditure without interest payments (not sure whether debt amortization is included) (tbc)