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Another Successful Bond Issue

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Fiji made it.

Fiji's second international bond issue for US$ 250 million was fully subscribed, early this week. In fact it was oversubscribed by midday, with the order book closing almost 3 times oversubscribed within 12 hours of launch.

It is a clear indication of the recognition of Fiji's credibility as a credit worthy nation.

It also heralds a new dawn of opportunities and challenges for a nation that has been hit by shocks of all kinds since 2006, both domestic and external, including the ongoing Great Recession since 2007.

The improvement in S&P's rating of Fiji two weeks ago from "stable" to "positive" in regard to level of international currency reserves was a major factor in influencing overseas investors' decision.

International reserves stand at F$ 1.3 billion at the end of January 2011. The reserves are equivalent to about four months' imports of goods and services. This is due to reduction in trade deficits and rise in export earnings.

Despite the odds, better export performance by gold, and mineral water subsectors and soaring tourist arrivals, establishing a new record in 2010, in response to competitive pricing and discounts offered by the hotel industry and remittance inflows, enhanced the credibility of the country and established that it can still survive and thrive!

The data on external debt available until 2008 shows that Fiji's external debt was low at 11.1% of its national output and debt servicing is less than one percent of its export earnings. These low ratios have also contributed to the good image of Fiji in the eyes of overseas investors.

Opportunities

The new bond issue, which would bring in US$ 250 million, would add to real resources of the country.

As we all know, if the same equivalent amount in Fiji dollars (F$ 500 million) were to be raised by domestic borrowing for financing budget deficits and infrastructure investments, it would only be a transfer from private sector to public sector. On the other hand, external borrowing is not only a net addition to total availability of resources but also an addition to the country's external reserves.

Country's exchange rate will no longer be under pressure as it was in the months prior to devaluation of the currency in April 2009.

If the currency appreciates in value, it also helps the country to keep inflationary pressures under control, as most of the inflation is due to exchange rate pass through.

Further, in a fixed exchange rate regime, rise in foreign assets leads to automatic rise in money supply, unless sterilized. That leads to a fall in interest rate. Other things remaining the same, it would encourage investment. In any case, private investment would not be discouraged. In fact, a growing level of confidence in the economy would kick up the "animal spirits" among the investors and consumers of durable goods.

Rise in investment would no doubt lead to imports of capital and intermediate goods. However, additional imports can be comfortably met by increased foreign exchange, now helped by the second bond issue of US$250 million.

Opportunities give rise to challenges as well.

Challenges

The highly reputed international ***Journal of Policy Modeling*** in its recent issue, meant primarily for policy makers carried an article on "External Debt and Growth in Pacific Island countries". The study stresses the need for caution in the utilization of external loan proceeds.

Prudent utilization means valuable foreign exchange has to be spent only on growth enhancing sectors of the economy, especially in the export sectors. The externally raised loan has to be eventually paid back in foreign currency. Better performance by foreign exchange earning sectors lowers the opportunity cost of transfer of resources involved in debt servicing and repayment of loan proceeds.

Public sector reforms and re-vamping or privatization of government undertakings and closure of non-performing enterprises now assume greater importance than ever before.

The prime need is to cut the ratio of recurring expenditure to capital expenditure. It is now in the range of 70 to 30. It should be cut to 40 to 60. The ministries and agencies have to be reduced to a reasonable number. Junkets for civil servants have to be reduced to zero. Overseas trips, unless funded by international agencies or bilaterals, should not be undertaken. There should be a freeze on civil service wages and salaries.

If Fiji had taken a loan from International Monetary Fund (IMF), these very reforms would have been imposed through conditionalities. All standby loans or structural adjustment loans from IMF and other agencies, which are funded by tax payers in advanced countries, carry these harsh conditionalities. .

That is their job.

Presently, Ireland, Greece and other troubled member countries of the rich nations 'club, Eurozone, are going through it. Remember the placard carried by the protestors in Dublin streets: *Imposed Misery Forever* (IMF).

Fiji has successfully avoided these conditionalities by not resorting to IMF Standby arrangement.

So, the country has to implement the reforms on its own. Just as charity begins at home, austerity too begins at home.

The successful second bond issue has opened up a vista of opportunities: bright future! That should not lull the nation into inaction.

If the decision makers implement the needed reforms, this new debt would end all future debts!

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