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Understanding Viti Bonds 2013

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The last week announcement of Viti Bonds 2013 marks the government's borrowing efforts for 2013. The issue of Viti Bonds 2013, which is expected to raise $10 million, is for attracting small investors.

The 2013 budget deficit, which is estimated to be 2.8 percent of gross domestic product (GDP) is due to a bold public expenditure programme, largely aimed at improvements in infrastructure. More than $700 million or about 9 percent of gross domestic product (GDP) is expected to be devoted to capital expenditure. This also marks a 30 percent increase from last year. nt.

Deficit financing

Financing the deficit leads to public borrowing, comprising domestic and external borrowing. Among the two, domestic borrowing is preferable, when private sector is hesitant, with liquidity in the banking system being more abundant than normal. It is in a way, "we owe it to ourselves" kind of debt. If the debt is incurred for financing growth enhancing productive investment, public revenues would eventually rise as taxable capacity increases with benefits flowing from debt-financed expenditure. Hence, hence repayment would not be a burden for the future.

Since the domestic debt is resorted to in an excess liquidity context, there would not be a rise in domestic interest. Therefore, domestic borrowing would not crowd out private sector investment. The interest rates for both short and long term debt instruments have decreased steadily due to excess surplus liquidity in the banking system. In 2012, the yield on both short term and long term securities also fell in the first nine months. The 91-day treasury bill interest rate was 0.3 percent while the ten year bond rate was 5.95 percent.

External debt has serious implications, mostly because of uncertainties about future world economic conditions, which are beyond the control of a small island state. Servicing and repayment obligations have to be effected in the same foreign currency in which it was incurred. There will be a heavy demand on foreign exchange earning capacity of the country, including exports and tourism and inward remittances. Further, there are always uncertain risks in exchange rate movements.

According to the 2013 Budget Supplement, total debt (domestic debt: $2,756.9 million and and external debt $ 952.7 million) in 2012 is around $ 3709.6 million, having declined from the total debt of F$3,383.2 million (domestic debt $2,843.7 million and external debt $ 548.5

million) in 2010. As percentages of GDP, total debt in 2010 was 54.7 percent, which decreased to 50.7 percent in 2012.

External debt in 2010 was 8.9 percent of GDP. It went up to 13.0 percent of GDP in 2012 reflecting the second international bond for US$ 250 million, which was floated in 2011. The external debt stock in 2012 was $952.7 million.

Fiji's external debt in terms of percentage of total debt is lower than the corresponding figures of other Pacific Island countries. For example, external debt of Tonga, which is presently facing severe repayment problems, is 90 percent of total debt as compared to 26 percent in the case of Fiji.

Government's bond holding at the end of 2011 was around $2.7 billion which was held by non-bank financial institutions (90%), Reserve Bank of Fiji (5%) and the balance by commercial banks and other retail investors.

Viti Bonds for Small Investors

The issue of Viti Bonds 2013 is an extended programme of Viti Bonds 2012, which was for a total of $ 3 million. It was issued for encouraging small investors with investments ranging from a minimum of $1,000 to a maximum of $100,000. This was primarily targeted at pensioners opting for lump sum payouts from the Fiji National Provident Fund and other retail investors. The interest income from Viti Bond is exempt from income tax.

Thus, Viti Bonds are an alternative option to other investments such as term deposits, shares or units in a trust fund.

The 2013 Viti Bonds has an important change. Individual investor limits have been raised to $200,000 from $100,000.Viti Bonds 2013 are available for 5, 7 and 10 year terms with competitive fixed interest rates of 4.00 percent, 4.50 percent and 5.00 percent respectively. Benefits of investing in Viti Bonds continue to remain the same: tax free interest income and quarterly interest payments. They are available for a minimum investment of $1,000.

Since all over the world there is a gold fever, Viti Bonds are timely and they are expected to lure away domestic investors from gold to more productive, nation building investments.

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