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Bond markets in Fiji

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A press release this week that government has sought advice from the Commonwealth Secretariat (COMSEC) on Fiji's domestic market for bonds and treasury bills is of interest to general readers and students of money and banking in particular.

Public borrowing by private sector as well as by public sector for the purpose of financing long term investment is not new. In Fiji, private sector depends on family funds and loans from banks to a large extent and less on equity financing. There is no public borrowing by private sector.

On the other hand, floating bonds by big private sector companies in developed countries is common. Known as corporate bonds, they assure the buyer of a specified rate of interest, called coupon payment. The interest payments are made semiannually or annually. On maturity dates, the bond holder gets the face value of the bond. Private sector bonds vary widely in their characteristics: credit ratings, maturities and yields as well as credibility and risks. Risky bonds understandably pay high interest rates.

Private sector bonds carry greater risk than bonds issued by government and government agencies. They pay relatively lower interest rates on bonds of different maturities relative to corporate bonds.

Both are for the purposes of long term investment. Corporate bonds are for construction purposes in terms of factories or expansion of existing manufacturing facilities. Government bonds are for the purposes of public infrastructure facilities.

Two categories

The two categories of government bonds in Fiji are: Fijian Infrastructure Bonds and Viti Bonds. Infrastructure Bonds are meant for large investors and Viti bonds are for retail or small investors. Viti bonds are income tax free. Viti bond has become popular as an alternative option to other investments such as term deposits, shares or units in a trust fund.

As for short term financing, government issues Treasury Bills of short maturity period, always less than one year to bridge temporary gaps between recurrent expenditures and revenues. Known as short terms bills, they fall under the description of money market instruments. Bonds are long term instruments known as capital market securities.

These bonds have become important in Fiji in recent years for mopping up excess liquidity in the economy since 2006. They contribute to lessening domestic inflationary pressures. They provide outlets for investment by savers. They have played a leading role during the periods when private sector was reluctant to invest for various reasons.

Bonds as fiscal policy tool

In developed countries, since 2009 central banks have pumped in enormous funds and lowered benchmark interest rate to near zero percent. Economic conditions did not improve in UK, Europe and Japan. Inflation has been low. Depressed commodity prices and oil glut are also contributing factors. European Central Bank and Bank of Japan have imposed a negative interest on excess reserves of commercial banks kept with them, which would be working as a penal rate. The purpose is to make banks lend. The US Federal Reserve chair told the legislators last week that the Fed would not rule out a similar negative rate if circumstances warrant.

Due to unwillingness to lend or absence of any signs of soaring "animal spirits", the average growth rate in developed countries, according to *UN Report on World Economic Situation and Prospects 2016*, has dipped by 55% since 2009 crisis; and 44 million people are unemployed.

Ultra–conservatives believed increases in money supply and fiscal retrenchment would stimulate household consumption, investment and growth. Writing in a syndicated column, Professor Stiglitz, former senior vice president and chief economist of the World Bank and a former chair of the US President's Council of Economic Advisers, says:

"Given a low interest rate environment, governments should have borrowed and invested in infrastructure, education and social sectors. Increasing social transfers would have boosted aggregate demand and smoothed out consumption."

Fiji has done what the 2001 Nobel Prize winner says.

Current debt level

The latest RBF Quarterly Review of September 2015 reports that "given ample liquidity in the banking system, the overnight interbank money was inactive". So, the benchmark interest is still 0.5%. Given this low interest rate, government has been borrowing. For example, the outstanding bonds were FJ$2.3 billion in 2006, the year of the last coup; and in 2014 they were FJ$ 2.7 billion. The rise over 8 years is 17% and the annual rate of growth is 1.4%.

As Fiji has been growing at more than 4% each year for the past 4 years, total debt remains below 48% of GDP, domestic debt being 33% and external debt is 15%.

While external debt has an exchange rate risk attached to it, domestic debt is free from posing any such problem.

Fiji's bond market is dominated by the Provident Fund. There is no secondary trading. Once bonds are purchased they are held until maturity. Further, there have been new series and the question is whether the matured ones can be redeemed. Furthermore, there is no facility of bond buybacks and bond exchanges. These are some issues which are the focus of the study by COMSEC experts.

Once the report is made available to wider public, we will re-visit the topic.

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