

THURSDAY, 27TH AUGUST, 2015

The Parliament resumed at 11.20 a.m.

MADAM SPEAKER took the Chair

REFINANCING INTERNATIONAL DEBT

HON. ROKO T.T.S. DRAUNIDALO.- Madam Speaker, point of order. The Opposition would just like clarification on why this is being held in private, Madam Speaker. Could you give us reasons now that everything is turned off, so that we know, and if more notice could have been given to us?

MADAM SPEAKER.- Thank you. The reason will be explained to you by the Honourable and learned Attorney-General in his presentation. Attorney-General, please continue.

HON. A. SAYED-KHAIYUM.- Madam Speaker, I move a motion that Parliament approves:

- a) pursuant to Section 59 of the Financial Management Act 2004 that the Minister responsible for Finance is authorised to borrow money by raising loans not exceeding US\$200 million for the purpose of refinancing current international debt of US\$250 million on such terms and conditions as the Minister thinks fit; and
- b) the details of this motion be kept confidential until the raising of funds by the Government is announced to the market.

Thank you, Madam Speaker.

MADAM SPEAKER.- Is there a seconder?

HON. LT. COL. I.B. SERUIRATU.- Madam Speaker, I beg to second the motion.

HON. RATU I.D. TIKOCA.- Point of Order.

MADAM SPEAKER.- Point of Order.

HON. RATU I.D. TIKOCA.- Can I ask the Honourable and learned Attorney-General to specifically state there that this \$200 million is in US or Fijian currency?

MADAM SPEAKER.- That is not a point of order. A point of order should be directed at the speaker, but he will be explaining this in his presentation.

I now call upon the honourable and learned Attorney-General and Minister of Finance, Public Enterprises, Public Service and Communications to speak on the motion.

HON. RATU I.D. TIKOCA.- Point of Order.

Can we be given some time, just 5 or 10 minutes, just to re-group to see whether we collectively agree to be here?

(silence)

MADAM SPEAKER.- Thank you. The motion has already been submitted to us and we had agreed to it, and that it needs to be passed at this sitting.

I call on the Honourable and learned Attorney-General to have the floor.

HON. A. SAYED-KHAIYUM.- Thank you Madam Speaker. Madam Speaker, under Section 59 of the Financial Management Act, 2004, Parliament is required to approve the raising of loans by a resolution.

Madam Speaker, the Government is planning to issue notes in the international markets and I will be moving a motion today, to seek approval from Parliament for the raising of the loans.

The Government has been advised of the first announcement regarding the proposed issue that should only occur at a time the notes are offered to the market, and I will explain this in a lot more detail. This is to ensure that no speculation occurs regarding the price of the notes.

And (b), Fiji obtains the best possible price for the notes.

Accordingly, Madam Speaker, confidentiality is required regarding the proposed issue of the notes, and I urge all Members, including Members from the other side, to respect this because we need to take a bipartisan approach to ensure that Fiji gets the

(Chorus of interjections from the Opposition)

MADAM SPEAKER.- Please carry on.

HON. A. SAYED-KHAIYUM.- ... best possible price for these notes. Notes are not normal notes, these are bonds we are talking about, Madam Speaker.

Madam Speaker, if I can elaborate now. I can understand the drama that is involved in closing the House, but I will explain exactly why we have done this, and this is for the betterment of Fiji.

Madam Speaker, the Government is intending to borrow US\$200 million in the international bond market, to refinance the US\$250 million bond issued in 2011, which matures in March, 2016 next year.

The borrowing will be conducted offshore through the issue of global bonds in the international market, with the initial public offering of US\$200 million, equivalent to approximately FJ\$400 million. These bonds, Madam Speaker, will be redeemable in 2020.

The US\$50 million of savings from the sinking fund that we have will be used to repay the 2011 bond. In other words, we have a US bond exposure of \$250 million, but we are going to the market to only seek \$200 million because we are paying off the \$50 million from the sinking fund. As we are only seeking to raise funds of US\$200 million, this will reduce Government's overall external debt by US\$50 million.

Madam Speaker, by way of background, the first global bond was issued in 2006 under the SDL Government, with initial public offering of US\$150 million, equivalent to FJ\$259 million. The 2006 bond had a five year tenor and a coupon rate of 6.875 per cent. The 2006 bond proceeds were used to support Fiji's balance of payments and to finance the previous government's operating and capital expenditure.

Madam Speaker, it must be noted that when the first global bonds were raised by the SDL-Government in September 2006, we were informed that prior Parliamentary approval was not sought as required under the Financial Management Act. In fact, Parliament was only informed retrospectively when the 2007 Budget was presented before Parliament in November, 2006. So they went out, raised the bond, did not inform Parliament but only when they delivered the budget for 2007 in November, then they came back and told Parliament we have done this. We are obviously not doing that.

Prior to maturity of the 2006 bond in 2011, the Government successfully raised US\$250 million, equivalent to FJ\$485 million in Fiji's second global bond issue. There was immense interest in the market for the 2011 bond, which was oversubscribed, with offers received for approximately US\$650 million, probably only took \$250 million from the market. The 2011 bond was a five year tenor and a 9 per cent coupon rate is due for maturity in March 2016, as I said earlier on.

The higher coupon rate for the 2011 bond was in part due to the global financial debt crisis that pushed interest rates higher for emerging market debt securities, such as the Fijian Government bond.

The current conditions in the international market are very conducive for borrowing offshore as global interest rates are at historical lowest at the moment. It is relatively cheaper for the Government to raise bonds in international market as rates are attractive. It is likely that the coupon rate in today's market will be lower than the 2011 bond. In other words, it will be a lot cheaper for us to go in now.

As at 30th June, 2015, the level of foreign debt was approximately \$1.3 billion and the total debt level now stands at approximately FJ\$4.3 billion. This is about 49 per cent of GDP and is lower than the debt percentage of GDP as at 31 December, 2014, which was 50.8 per cent, as we mentioned in Parliament the other day.

Even though the 2011 Bond, Madam Speaker, does not mature as I said until March 2016, the Government intends to repay the 2011 Bond early, through what we call a “bond switch”. This effectively means that Government will tender to buy back the existing notes in the market, issued as part of the 2011 Bond, which are due for repayment in March 2016, and offer Note holders an option to invest in the new bond.

Once the decision is made to tap the global markets for funding a bond rollover, it is logical for the new issue to be as close as possible to the date of maturity of the existing bond. How early is always a consideration, taking into account several factors, key amongst that, which is the assessed state of the global financial markets and their outlook going forward.

We also need to factor in the lead time for due diligence documentation and in this, there are marketing processes involved in a global market offering.

In the current global market, Madam Speaker, conditions with interest rates are at historically low levels around the world, and including in the United States of America. The only way for interest rates to go up from here is up, and indeed, the US Bond is always used as a benchmark. Indeed, the US Federal Reserve is expected to hike rates in the not too distant future as its economy has been showing signs of finally recovering from the global financial crisis in 2008. The moment the US puts their bond up, internationally the Bond Market rates go up. We want to get in before they actually put it up. The US, of course as I mentioned, uses a benchmark, so if it all goes up, all interest rates go up in the world. So, this is the ideal time, Madam Speaker, and such the urgency of this matter.

Markets, of course, in some areas are volatile, some are speculating about some issues in China, and softness in the commodity prices, these all have an impact on the bond issue. This is on top of the ongoing Euro and Japan issues. Despite all of these though, the base pricing is of historically low rates, so by going to the market now, we will be likely to obtain relatively low rates.

Additionally, if Government leaves the refinancing of the 2011 Bond to the last minute, which is in March next year, investors would then be able to dictate their prices by increasing interest rates because they know that you want to raise it, you do not have much time, so they can start dictating their prices to you. We, obviously, do not want to do that, we do not want to be a price-taker in that sense.

By borrowing early and at a lower cost brings about certainty in policy formulation. In this regard, with no adverse impact on foreign reserves, RBF can continue its accommodating monetary policy stance to complement the fiscal policy and to stimulate growth.

Fiji's credit rating has improved since the last bond issue, Madam Speaker. In addition, the Government has met all the conditions highlighted in its Roadmap. With strong economic performance, it is likely that interest rate on the new bond will be lower than the existing one at the moment.

Madam Speaker, the cost savings that we will gain by going to the market now: The way that Government is structuring this global bond rollover with an early redemption of the existing bond and issuing the new bond, it is envisaged that at its worst, there would be no savings and at its best, there will savings to Government of up to US\$13.5 billion or FJ\$27 million. We currently anticipate a cost saving of US\$5 million being extremely conservative.

The Notes from the 2011 Bond will be bought back by the Government at a premium, but the overall cost savings in repaying early is likely to be US\$5 million, as I had stated. The calculations through the coupon payment on the 2011 Bond at nine percent is US\$11.25 million, the cost of the 'switch over' is \$6.25 million and we expect anticipated savings of \$5 million.

Madam Speaker, more importantly, Fiji's headline (overall) debt will reduce by US\$50 million or FJ\$106.4 million or 1.25 per cent of GDP, given that US\$50 million will be channelled from the Sinking Fund for the Buy Back Exercise.

What are the fiscal and economic implications? With the early redemption of the existing bond, Madam Speaker, and issuing a smaller sized bond, because we are reducing from \$250 to \$200, the debt level, as I said, will fall by a more than one per cent. In other words, it is good statistics. The Government intends to repay US\$50 million or \$100million from the sinking fund and the sinking fund, Madam Speaker, at the moment, has a balance of \$81.9 million. So, we will still have in the sinking fund, a balance of about US\$31.9 million. This is a fiscal discipline as it means reducing overall debt levels.

The improvement in the credit rating will likely provide better interest rates on the new bond. By successfully raising the Bond, it will provide a further boost to the existing business confident and support further economic expansion. Refinancing the Bond locally would result in a significant rise in interest rates, affecting the cost of borrowing, both to the Government and to the private sector, which could significantly dampen the economic activity which is very robust at the moment.

It is proposed that the sinking fund be maintained, to assist in repaying the new bond which matures in 2020.

Madam Speaker, I am also happy to announce that the Government's 2014 Debt Record is now available on the Ministry of Finance's website, and this information is accessible to all. That Debt Report details the Government's debt position as at 31st December, 2014, and includes the details of the Government's Contingent Liabilities. It is all up and live on the website.

Madam Speaker, to assist the Government with the bond issue, the Government will engage ANZ as its lead manager and book runner. The last 2006 Bond was undertaken by JP

Morgan and the 2011 Bond by ANZ. Expediency and cost are the main reasons for choosing ANZ as the lead manager.

Comparing the past experience of 2006 and 2011 global bond floats, we have found that going with the lead manager which has a local presence, has enormous benefits. Another key advantage is ANZ's knowledge of local protocols which means shorter lead times for communications and queries.

In addition, ANZ's fees are favourable to Government, as its fees have not changed, Madam Speaker, from 2011. ANZ also has highly experienced professionals, who have been selected from the global capital houses such as JP Morgan, Barclays, Deutsche Bank, HSBC and City Bank. Additionally, ANZ has worked on a number of sovereign bonds, including the recent Philippines Sovereign Bond Issuance. It has a large Asia/Pacific Bond Sales Force, providing platforms for the regions with more than 300 institutional investors, as well as a wide array of private bank distribution channels.

There is a dedicated Legal and Transaction Management Service Team which is integrated into ANZ's Capital Markets Team to ensure efficient documentation process. It of course has a very long standing presence in Fiji, and it is willing to provide the ground resources throughout their transaction, to ensure speedy and efficient completion of the transaction and, indeed, the documentation. As such, ANZ can market Fiji to potential investors, as ANZ is a foreign investor with their ongoing commitments to Fiji. This could assist in garnering investor confidence, as ANZ has an appreciation of the potential that exists in Fiji.

Having been on these roadshows, Madam Speaker, it is always very good when you go and talk to these potential people who will be buying your bond, people who know exactly what is happening in Fiji, as opposed to having an offshore agency doing that for you.

For all the sovereign bond issuance, the rating agencies are required to provide a Bond Credit Rating prior to the issuance of the international bond. The last two bond issuances – Moody's, Standard and Poor's, were the two Agencies engaged to perform this task. These Rating Agencies have been providing annual credit ratings to the Government for the last five years, and the Government will utilise their services, considering their understanding and know-how of the Fijian economy.

Madam Speaker, as occurred in 2011, the Government will promote the new bond to the market by way of a roadshow. I will be accompanied on the roadshow, Madam Speaker, by the Deputy Governor of the Reserve Bank of Fiji (RBF), Mr. Arif Ali; the Permanent Secretary for Finance, Mr. Filimoni Waqabaca; the Acting Deputy Secretary Finance, Mr. Isikeli Voceduadua; the Chief Manager, Financial Markets, RBF; Mr. Esala Masitabua; and Acting Director, Debt Management, Mr. Pankaj Singh. We will promote the new bonds in Singapore, Hong Kong and London, attending these three cities in three days, the same as Government did in 2011.

Madam Speaker, to specifically address as to why we are having a closed session, and as you know that we are allowed under the Standing Orders and the Constitution to do so, Parliamentary approval obviously is necessary now as it is better to go into the market early.

The main reason for the closed parliamentary session this morning under Standing Order 24(1) and Section 72(2) of the Constitution is to keep the proposed bond issue confidential until it is formally announced in the market, and I will tell you there are two legs to this. This is to ensure that no speculation occurs regarding the price of the notes and to ensure that Fiji obtains the best possible price for the new bond issue and re-financing of the 2011 bond. Confidentiality requires the Members of Parliament to not disclose Government's plan to re-finance early, Government's plans to raise bonds, including the amount Government is planning to raise and the details of the roadshow or our advisers at this point in time.

Keeping this information confidential, Madam Speaker, will enable Fiji to obtain the most favourable price in the market. I urge all our fellow Members of this House to take an approach where it puts Fiji first because we want to get the best price. If we get the best price, obviously it is less of a burden on the country as a whole, and to please keep the details surrounding the bond confidential.

The reality is, Madam Speaker, the bond needs to be repaid in March 2016. The reality is, we have to raise the bond. The reality is, we are paying off \$50 million and the reality is, that if we do not go into the market now, Madam Speaker, the price of the issuance will be a lot higher.

There are two legs to it: we announce the tenders to buy back the current bonds at 7.00 p.m. Hong Kong time today, however, in light of the current volatility in the international financial markets, driven mainly because of the concern on the slow-down in some of the key growth areas, we may re-assess our position, given the advice we are given, regarding the timing, which may not be 7.00 p.m. our time or Hong Kong time, it could be tomorrow morning at 9 a.m., because that is how they do it. They check the volatility in the market. As soon as they find the right time, then they go into the market. That is one aspect.

The other aspect, whilst the buyback of the author of the 2011 bonds may be announced today, the market will not know and must not know the details of the new issuance and the amount, including the fact that we are only seeking to raise US\$200 million, as opposed to the current \$250 million. Although we are reducing the debt, we do not want them to know that because the price fluctuations can take place. As I mentioned, Madam Speaker, we will reduce the debt by US\$50 million, and given that the US\$50 million will be channelled from the sinking fund, we ask that Parliament keeps the details of this motion confidential until such time as the tender offer for the new bond is announced to the market, which will most likely be on 7th September.

At the moment, Madam Speaker, we are planning to leave Fiji on 5th September. We are planning to do the Roadshows beginning of that week in Singapore, Hong Kong and then London. The itinerary is such, Madam Speaker, that we spend one day in one city essentially. So in London, we arrive from Hong Kong at 6.00 in the morning, and we leave London at 6 in the afternoon. So we are only there for the twelve hours. Similarly in Hong Kong, we get there late at night, we then have the meetings with the market and then we leave the next evening. So it is a very tight show, Madam Speaker, and we will then go into the market at the right time and thus the urgency, we would have raised this money next year in March, we would have to you in the Budget. All we are

asking, Madam Speaker, is that for us to go into the market, to get the best interest rate, so we are then able to obviously reduce our overall exposure in the debt markets.

Madam Speaker, given the above, I move that the motion tabled by me, be passed by Parliament through a vote.

MADAM SPEAKER.- Thank you. The motion is now open for debate.

HON. DR. B.C. PRASAD.- Madam Speaker, I thank the honourable Minister for the motion. There are several issues. The first issue is a matter of principle. When you take something for approval, whether it is in Parliament or in a committee, and I know this used to happen quite a lot in my previous assignments, it is always the interest of the organisation, and in this case, it is in the interest of the country. As the Honourable and learned Attorney-General said, "it is in the interest of Fiji".

We understand that, Madam Speaker, and we appreciate what the reality is and what the reality might be in the future. But this is a very important motion, Madam Speaker, a very important undertaking by Parliament because what we are going to do, whether it is a situation where we really have no choice, or even if we had a choice, we did go this way, there are inherent risks in this kind of approach, in settling debts that we ought not to have gone even in the beginning, which was by the SDL Government and then further compounded by the last government in borrowing further from the international market.

Madam Speaker, I remember, we had some discussions about why Government had gone ahead and borrowed, it had 9 per cent, instead of looking at other alternatives of funding to support our debt situation. I think at that time, Madam Speaker, there was an offer from the IMF and I am told that the interest rate on offer at that point in time was 3 per cent. This was indicated by an IMF official in a public meeting at the University of the South Pacific where we were discussing the issue.

Now, the issue at hand, Madam Speaker, and I think Honourable Members of Parliament need to understand before we actually vote on this, that is, there is always a cost. I appreciate what the Honourable Minister of Finance is saying about reduction in debt, taking \$15 million out of the sinking fund, and I think, Madam Speaker, in future, we need to build that sinking fund as a priority or as a strategy so that we do not have a situation where we have to continue to borrow from outside.

When we borrow, Madam Speaker, there is always a cost of borrowing and the cost of borrowing invariably has to be paid by the people of this country, the taxpayers of this country, every individual in the country will have to pay that. So, borrowing is not necessarily a bad thing, we all borrow, governments around the world borrow, but borrowing always has a cost and if we are not careful, that cost could be passed to future generations and that always has inter-generational inequity. We may be borrowing today, but someone else, our great grandchildren and others might pay for this. So it is a very important motion, a motion that we need to think carefully.

Madam Speaker, when we borrowed in 2011 to re-finance the borrowing that we did before that of US\$150 million, our calculation shows (and I think this is in the Government fiscal update that between the time of the borrowing and when we will actually pay in March 2016) if we do that earlier as the Honourable and learned Attorney-General said quite rightly, we may make some savings. But if we were to settle the debt by March 2016, we would have paid \$207 million in

interest alone. Maybe, the honourable and learned Attorney-General can suggest what might be the savings on that interest, I think he said \$5 million, \$207 million interest for that five year period, from the time that we borrowed.

Madam Speaker, if I can continue, overseas borrowing will require us to think about interest payment in a big way.

The other point that I want to make is, over the past years, our domestic debt component was always high compared to the external debt. If I heard the honourable and learned Attorney-General correctly, the 2014 projected external debt to GDP ratio given the fiscal update, Madam Speaker, is 28 per cent. So I assume that, that is going to come down after we pay the \$50 million from the sinking fund. But the fact remains, Madam Speaker, that external debts between 2011 and 2014 have continued to increase as a percentage of GDP.

One other point that I want to make, Madam Speaker, and this is in relation to the Budget and the revenue. I think Government had a plan for asset sales, which is about \$415 million in 2014, much of it was not realised. I noticed in the 2015 Budget, we again had \$507 million from asset sales and I do not think we have had much success there. So, Madam Speaker, the issue at hand is, we are in a situation and I think the honourable and learned Attorney-General is right that the reality is that, we have to pay this bond because it is there and as a country, we cannot afford to default. So, that is the reality, Madam Speaker, in front of us.

The other reality, of course, Madam Speaker, is we know that, I think the honourable and learned Attorney-General quite rightly said that, there is, whenever we hold bonds in US dollars, it is always a risky proposition and it depends on the volatility of the market, how things move in the international global bond market and the international currency movements can have significant impact on a small country like ours. So, the issue here is that, we have not been able to see through the sale of the assets and one of the concerns that I had, Madam Speaker, in my Budget response last year was, it is alright for Government to keep talking about spending and then we end up with a situation where we have to continue to borrow, of course, there are areas where we cannot avoid.

As I said, Madam Speaker, we have always had a deficit Budget, borrowing is always a feature of this country, like many other developing countries, so that is not an issue. I think we need to look at our overall fiscal position. GDP to ratio or GDP to debt ratio is a good official measurement, Madam Speaker, but also we have had a GDP increase and so in percentage terms, it may look good. But sometimes, you also have to look at the dollar value and the honourable and learned Attorney-General gave that dollar value of \$4.3 billion. That is a large sum of money for a country like Fiji.

Madam Speaker, the warning or the signal to us is that, we have to work towards a situation where we continue to reduce our external debt. I know the economy has grown over the last two or three years but a lot of that growth is indeed from borrowing, consumption driven over that last two years, there has been, of course, increase in private sector investment and that is a positive thing. I hope that we are able to sustain this growth over the next several years and I know the honourable Minister is supposed to give a Ministerial Statement on the economy and I will have an opportunity to speak on that when he does so.

These are the issues that are in front of us and we need to look at our spending, our revenue and some of the spending that Government actually had put in the 2014 Budget and indeed 2015 Budget, and if it is taken into account the revenue from asset sales that either we are not going to

spend what we said or we are going to spend and if we save that is okay, we do not necessarily have to spend just because it is in the Budget. Because if we do not, we are not able to implement it efficiently and effectively then it is better to save that and not incur debt because we have not realised the asset sale.

These are questions, Madam Speaker, that we will need to raise and debate when we look at the 2016 Budget and I am sure the issue of a much broader discussion on the debt level, revenue, deficit, asset sales would be undertaken. Thank you, Madam Speaker.

HON. RATU I.D. TIKOCA.- Madam Speaker. We are just requesting now since the experts on finance on either side have spoken, if we can be given a recess of 10 minutes so that we can regroup and discuss this very important issue and then will come in collectively with our...

MADAM SPEAKER.- I think the presentations that you heard are very comprehensive and give us a much wider understanding on the motion. I had given my approval that this motion is discussed at this time with all the rulings that I enforced, and I think, giving a 10 minutes break will change what is being tabled at the moment. But you are given as much time as you like now to comment on this motion, a motion that we need to vote on.

HON. DR. B.C. PRASAD.- Madam Speaker, on a Point of Order, can I suggest, I think it is a good suggestion because if we want a bipartisan support to the motion, and as I said, these are realities, it might be a good idea for other Members to actually, I am sure you have had your discussion in your caucus, but this is where proper discussion and perhaps, we will have time to and it would be a good idea to have a bipartisan, unless you want a vote and railroad your majority and you do not want this bipartisan - what is your problem?

MADAM SPEAKER.- Thank you, can I ask the Honourable and learned Attorney-General to just enlighten us on the advantages, disadvantages and I can give you another 10 minutes.

HON. A. SAYED-KHAIYUM.- Sorry, Madam Speaker, advantages of ...

MADAM SPEAKER.- Of giving them another 10 minutes break for them to have a look. Will that benefit?

HON. A. SAYED-KHAIYUM.- Madam Speaker, the Opposition spokesperson on Finance has already spoken, and in fact, he has said in his roundabout manner that this is an inevitability. He said in a roundabout manner that we do need to go to the market early. He has touched on other aspects, et cetera, et cetera, which I am quite happy to respond to in my Ministerial of Statement or even in this, but as far as the motion itself is concerned, I did not hear him raise any objections to it.

Madam Speaker, the motion itself essentially is seeking Parliamentary approval for us, to put it very simply, is to raise the US\$200 million that we will have to raise next year in any case to raise it earlier, so we get a better interest rate. We have to pay the debt, Madam Speaker.

Fiji has a very unblemished record. We have never defaulted on any loan. We do not intend to, but what we must do is to be smart about how we repay our loans and how we get loans in the future.

The ten minutes break, Madam Speaker, is not going to add any value to that. What we can do, Madam Speaker, is, if there anyone else who wants to speak, then I will have the right of reply to cover some of the points that have been raised. Indeed, including the fact that there was the issue of availability of other institution, and I would like to address that also. Thank you, Madam Speaker.

HON. RO T.V. KEPA.- We are requesting a 10 minutes break, we do not have to go outside, we would just like to discuss here because this is a bit of a shock to us on this side, maybe the other side knows about it more than we do, but we do need that 10 minutes break, just to discuss what we have heard here this morning so that we can come back with an appropriate response. We appreciate the emergency situation, the urgency of the matter and we would like to have that time to discuss because they would like us to agree to this. That is what we are requesting, Madam Speaker.

HON. A. SAYED-KHAIYUM.- Madam Speaker, if the Honourable Members want to stay here, they want their 10 minutes, we are agreeable to them to stay here and have their discussion. We will also stay inside, you can talk in hushed tones. We will not leave.

MADAM SPEAKER.- As had been requested, yes, you can have your discussions here. So I will give you 10 minutes, which is up to 12.10 p.m. You can remain on your side.

HON. A. SAYED-KHAIYUM.- And not to talk on the `phone.

MADAM SPEAKER.- I adjourn the sitting for ten minutes until 12.10pm.

The Parliament adjourned at 12.04 p.m.

The Parliament resumed at 12.17 p.m.

MADAM SPEAKER.- Honourable Members, you may be seated.

Honourable Members, we will continue, and the Motion is still on the floor for debate.

HON. V.R. GAVOKA.- Madam Speaker, thank you for giving us 10 minutes. As can be appreciated, it came as a shock to us, the 10 minutes following from the responses from our Shadow Minister of Finance, has enabled us to understand the Motion with a bit more clarity.

HON. S.B. VUNIVALU.- Madam Speaker, I rise on a Point of Order. My point of order is that, I wonder if some honourable Members from the Opposition are recording these proceedings on their mobiles.

HON. ROKO T.T.S. DRAUNIDALO.- We have children, Madam Speaker.

MADAM SPEAKER.- Could all mobiles be switched off?

Thank you, Honourable Member, for that Point of Order. You may continue now, Honourable Gavoka.

HON. V.R. GAVOKA.- Madam Speaker, for the comfort of my colleague, I only know how to say; "hello" on this phone, I do not know how to operate this, so be assured that nothing is being recorded.

Madam Speaker, we appreciate the gravity of the situation and we are also watching the market. We know that the US interest rate is due to go up later this year, so it is a corrective move by Government and it is something we have to pay.

Madam Speaker, before we get into that, let us clarify a few issues so that we are all clear on how this borrowing came about in 2006. It was raised by the SDL-Government at \$150 million. It was approved by Cabinet but before it went to Parliament, the SDL Government was overthrown. So, let us be very clear on that, Madam Speaker. We have gone to great pains to say, Madam Speaker, that it was never intended for operational needs, never! You have said that many times over, it was never for operational needs, it was for CAPEX.

Madam Speaker, if you look at the world right now, it is going through some turmoil. China, we would like to understand better, we were assured by the Honourable Minister of Finance yesterday that China is solid, that is according to a briefing from a colleague from Westpac that China is alright. But we know that China has not been meeting its target for the last 12 months in many areas of its economic activities, and China has been described by some people as an economy that has to be travelling at top speed. If it was a bicycle, it has to be travelling at top speed. Once it slows down, China will have problems recovering, and that is what is happening today and having reverberations across the globe.

What is happening now, Madam Speaker, is that, while China is beginning to soften, the Americans now are gaining strength. They are in a very strong position. Hence, the strength of the US dollar, which worries us about this borrowing, Madam Speaker. Sometimes it is not so much the interest rates, but the strength of the currency from where we are borrowing and we would like this to be factored in the consideration, in the way Government is going about this.

Madam Speaker, we would like to know if the IMF is also willing to lend this money to us to under-write this. We go back to 2011, we believe that the interest rate offered by IMF was better than what the ANZ was securing for us. We would like to know the conditions on which the IMF is willing to lend this, as opposed to ANZ and also if there are other institutions who are willing to lend at this time to us. Because very simply, Madam Speaker, if you look at the world today, over the last couple of weeks or months, borrowing is a frightening option. A lot of small economies in the world today, like Fiji, will have difficulties borrowing from the US in US dollars and will have difficulties. We need to be very careful that the option of rolling it over, or the option through other institutions, Madam Speaker.

Madam Speaker, equally important is the ability to raise this on the conditions that he wants. We understand that you have to go in now, before October, before the interest rates increases and if you go in now, then you understand the confidentiality and you are going to sense the sensitivity around this.

But, Madam Speaker, the eyes of the buyers, the under-writers will be on Fiji. This is not the time, Madam Speaker, to be seen to be having internal turmoil. I would urge the Government to do all it can to bring about peace with our people in this country. They should not be seen on media of our troops in the streets, this will send the wrong message. Our people are going to go to Singapore, Hong Kong and London, they will be talking to buyers who will want to know whether we are stable, whether the security situation is under control. This is very important, Madam Speaker.

We are worried about tourism, because from tourism and foreign exchanges, it gives us the ability to repay all these foreign loans. I know we can arrange this locally, if it was up to us, if we had the liquidity in the market, we would rather do it locally, we know we can. That is our concern that exposure to overseas borrowing right now is quite frightening. We would like to know, Madam Speaker, whether IMF has been considered and we would like to know the conditions and if any other institution is willing to help us.

Madam Speaker, we are willing to consider this jointly with you, but there is also a lot of spending that is out of control right now. It is very simple, simple economics, if you want to go and borrow, if you are going to expose yourself, if you are going to carry this burden, cut back on your spending. Some of these spending on projects are a bit too ambitious on projects that are a bit too grandeur. It is important for us to know what we can cut back on. Wherever we can cut back, let us cut back. Let us not forget, Madam Speaker, the El Nino effect. We do not know how that will affect us, is it going to take a couple of months, is it going to take years to recover from this, if it is going to take two or three years to recover, then that reduce economic activities, instability and incur these kinds of debts, Madam Speaker, we are exposing ourselves and becoming very vulnerable.

Those are some of the issues that we have, Madam Speaker, and very clearly, we will support it, if we can be convinced that efforts have been made to deal with IMF or other institutions to provide this funding for us. If not, Madam Speaker, I am afraid we will say no to this.

HON. S.V. RADRODRO.- Madam Speaker, thank you for the opportunity to contribute to this debate which I believe is very important to the country. May I just again highlight and remind us that in my Budget response, I had quoted, “Turning promises into Deeds or are we going to turn Promises into Debts”. Because, Madam Speaker, at that point in time, I believe the budget was a bloated one and I know to fund this budget, we will need to look for money, either revenue or in loans. Madam Speaker, I also recall that in 2011, there was also a similar approach whereby there was also a Roadshow (if I am correct), it also went to Hong Kong, Singapore and London. If I am correct, I believe \$500 million was raised. The honourable Minister is shaking his head, maybe the amount is wrong, but the trip was made and money was also raised. Similar trend is happening here, Madam Speaker, whereby we are going to borrow to pay off loans or we going to borrow to fund an overly bloated budget. Madam Speaker, from a woman’s perspective, from a mother’s perspective that will bear the children, the generation of tomorrow, this is what our children, the future generation will inherit from us.

HON. A.T. VADEI.- Born with debts.

HON. S.V. RADRODRO.- They will inherit these debts from us. But, Madam Speaker, I hear, “yes, we need the money, we are in some kind of desperate situation,” but we must be also mindful of our future; the future generation that will inherit these debts. So, I am urging the Government to please, relook at its expenditures, expenditures on capital works because, if I am correct, part of this money will pay off existing debts and also part of this money will fund this budget and this budget which is composed majorly of capital works and freebies. It is time that we relook at or review the budget, I know borrowing will facilitate the future growth of the economy, but yet, we must borrow sensibly, keeping that in mind that we also have to look after Fiji’s future generation through developing an economy that is sustainable and a loan, a country, a developing country with a big bloated budget, funding through a loan is not a wise step to be taking. However, we hear the other side because we are all equally concerned about the future of this country.

So, Madam Speaker, on that note, I urge the Government that we seriously consider acquiring new loan to pay off existing loans or it is just going to be a roll over loan that we are going to be acquiring for the development projects that we inflate our budget with. Thank you, Madam Speaker.

HON. S. PATEL.- Madam Speaker, I rise to speak on the motion that has been put to the floor. First of all, if you see out in the market now the no interest rate that we are having. This is due to the fact that Government has worked and put a liquidity in the market and now we are able to borrow. If you understand well, the money that was borrowed, the bond that was raised, the extra bond that was brought in was to pay the \$150 million that was borrowed before and the \$100 million was to build the infrastructure. Due to that, we have seen that the low interest rate that we have faced. If we had borrowed internally, the interest rate would have gone up and everyone would have suffered.

Now, if you compare debt to GDP, if you look at countries like Japan, their debt to GDP is 230 per cent; if you look at Greece, it is 180 per cent; if you look at Belgium, it is 100 per cent; and USA, it is 100 per cent. We are looking at 48 per cent to 49 per cent. We are in a

very good condition. I do not know why there is a call that we are going to be in a very troubled situation. I do not know where you get that from. Right now, the banks are willing to lend money, there is a lot of liquidity in the market, so what are we worried about. We are saying that we are worried for our children because this is a debt that is incurring from before. So, we are also paying this debt and a lot of countries borrow money. There is nothing wrong with borrowing money. Get that right, every country borrows money and that is done for the development of infrastructure for our children. If you develop, that is how we go forward. This is the only way that countries are run. It is not like we are going to borrow for the first time, it is done many times and it continues so that we do the development in a country, we keep the interest rates low and we make sure that the development happens.

With this, I support the motion.

MADAM SPEAKER.- There being no other inputs, I will now ask the honourable and learned Attorney-General to present his right of reply.

HON. A. SAYED-KHAIYUM.- Thank you, Madam Speaker. I thought with the 10 minutes break, we might get some very good submissions from the other side. That has actually not happened.

HON. RATU I.D. TIKOCA.- All that you are giving to us is your debt.

(Laughter)

HON. A. SAYED-KHAIYUM.- Madam Speaker, the honourable Member has a very short-term memory. Extremely short term memory...

HON. RATU I.D. TIKOCA.- This country is full of debts because of you. You are the Minister responsible.

MADAM SPEAKER.- Honourable Member, please refrain from making frivolous interjections because really, it is taking a lot of our time.

HON. A. SAYED-KHAIYUM.- Madam Speaker, like I said, the contribution from the other side has been minimal, if anything at all. Madam Speaker, the moment we say that, they gets riled up, in particular that honourable Member who personalises matters. The problem is, they cannot speak to the issues. If I can speak and give them the facts, the reality is, in a way for the first time empathises with the SDL Government. That they went out and raised this bond, they raised the bond without going to Parliament first.

(Chorus of interjections)

Madam Speaker, they raised the bonds, they went out to the market, it was issued on 15th September, 2006. That is the fact. It was raised on 15th September, 2006, the events of 5th December took place on 5th December. It was issued on 15th September, this is the fact, Madam Speaker. They believe in mythologies.

Madam Speaker, the point is this, they went and raised it without telling Parliament, probably precisely for this reason with probably that is the kind of opposition they have on the other side when it came to these type of issues. This is a matter for the country. These people are taking cheap shots, they are not focussed on issues. They forget the fact that right from the Alliance Government days, we have had deficits in this country. Right from the Alliance

Government, we have been borrowing money. The way they are talking is if the debt issue has only arisen now. That is how they are talking, they forget the fact that the debt to GDP ratio is now 49 per cent.

The Honourable Dr. Biman Prasad, who used to talk about debt to GDP ratio now wants to talk about nominal figures. Madam Speaker, the point is that debt to GDP ratio in Fiji has dropped and in fact, through this particular bond raising that we are going to carry out, it will drop again by \$50 million. Is it not a good thing? Are they are saying, it is the wrong thing?

Madam Speaker, they talked about IMF...

HON. RATU I.D. TIKOCA.- (inaudible)

HON. A. SAYED-KHAIUM.- Madam Speaker, he called me inapt. What did you say? I want to know, Madam Speaker, through you, what did he call me. If he is personalising matters, he need to say it.

HON. RATU I.D. TKOCA.- Where are your ears?

HON. A. SAYED-KHAIYUM.- Right on my head, you obviously your head is missing. I got my ears on my head, his head is missing because he cannot utter anything without thinking.

MADAM SPEAKER.- Order,

HON. RATU S. MATANITOBUA.- A Point of Order under Standing Order 60.

HON. RO T.V. KEPA.- Speech must be relevant and he must not point and gesture to people. Thank you, Madam Speaker.

MADAM SPEAKER.- I must remind you, there is a lot of frivolous interjections that is happening. Please bring back decorum in the House. Let us hear the right of reply and move on, on this motion. This frivolous interventions will not have any positive impact on the motion at hand.

SUSPENSION OF STANDING ORDERS

HON. LEADER OF GOVERNMENT IN PARLIAMENT.- Madam Speaker, allow me to move that Standing Order 23(1) be suspended to allow the House to sit beyond 12.30 p.m., to complete the debate on the motion before the House.

HON. CDR. S.T. KOROILAVESAU.- Madam Speaker, I beg to second the motion.

RESUMPTION OF DEBATE ON REFINANCING INTERNATIONAL DEBT

HON. A. SAYED-KHAIYUM.- Madam Speaker, with that drama now over, they talked about IMF. The IMF comes with conditions. They do not simply give you money, it is not only about interest rate and even in the event that IMF was going to give us money previous in 2011, they would not have given it to Government, they would have actually given the money to RBF and Government would have had to borrow from RBF at the rates that were available at that time. RBF also wants price control removed on all items. Do we want price

control removed on all items because they believe in a completely free market system? They do not believe there should be price control. They wanted VAT increase, Madam Speaker.

These are some of the conditions they wanted in place. They want control in foreign exchange removed, completely liberalise it because their approach is a completely laissez-faire approach to the economy. We are a developing country, we need to be able to control certain aspects of our economy in the manner in which we want. If we were to go tomorrow and remove price controls, what will happen? We do not believe that there is no healthy competition in certain sectors of the economy to have removed price control. There is cartel still going on in this country, that is one of their conditions.

Madam Speaker, they would also want things like reduction in tariff. We need to control that. These were some of the conditions that they want to know about what IMF was doing.

Madam Speaker, the reality is this. The debt to GDP ratio has decreased, it is reducing. Madam Speaker, the other aspect as we had spoken about, why are we not borrowing locally. Madam Speaker, the reality is, the fact that we went out and borrowed internationally, through a global bond issue, it does lift the profile of the country. It does interest the markets in the country. It also means, it puts far less pressure on the domestic market. In other words, if you were to suck in all the money from the local markets, then the interest rates go up for - house borrowing, businesses to borrow, it slows down the economy.

The Honourable Sanjit Patel talked about how it is good for business. Today, the lending by the banks is in excess of \$2 billion, not to government, but to the private sector. This is why, Madam Speaker, we see a lot of construction taking place, a lot of investments taking place, because the availability of funds is there at a reasonable rate. So by borrowing from the international market, it also does have its merits.

At the moment, the ratio is 70:30. Seventy per cent of our borrowings, Madam Speaker, is domestically borrowed, 30 per cent is externally borrowed. Normally, our benchmark has been plus or minus five per cent with those ratios. Now, we are not borrowing money for expenditure purposes, Madam Speaker, as was highlighted by one of the other Honourable Members from the other side.

Today, of the total expenditure, 40 per cent, Madam Speaker, is on capital works, 60 per cent is on operating costs. Under the SDL-Government, 15 per cent was for capital and 85 per cent was on operating. So what is better? It is better to borrow money to invest in assets because by having borrowing into assets, you are leaving something for the future. If you are borrowing money to build bridges, it is going to last 80, 90 years, if you are going to build roads, with new market access, that is good for the economy. If you are building new hospitals, you are building assets, it is the same way if I go to the bank to borrow money, so I can have a big drinking party, as opposed to if I am borrowing money to build my new bedroom for my house, the latter is the better. That is how governments need to be run and that is precisely what we are doing, Madam Speaker.

Madam Speaker, it has been highlighted by Honourable Patel that there are certain countries that adapt to GDP ratios, enormously out of whack, compared to ours. Of course, of course, it should be the goal and ambition of any government to reduce the debt to GDP ratio – it must be, and we are also focussed on that.

All developing countries have their limitations, all developing countries have a challenge. As highlighted by the Honourable Gavoka about climate mitigation, about droughts, yes, these are the realities, and we must face up to that, but when we spend our money, where are we spending our money too, have an impact to be able to mitigate those issues, whether we build irrigation schemes, et cetera.

Madam Speaker, the reality is that, what has actually happened, previous governments (a lot of them) you have these treasury notes that are issued, they are being issued at 15 to 20 per cent interest rates. Again, going back to the point, if we have borrowed locally, the interest rates would have been pushed up, we would have borrowed the interest rates that have been highlighted by the Honourable Dr. Biman Prasad, but if you compare that, if we had borrowed locally, it would have been at 15 per cent, and again, you would have had the impact of sucking money from the system.

Madam Speaker, we have seen, yes consumption led growth is good, but you must have the right mix also, and we are now seeing a huge amount of investment to capital growth, to investment growth and this is why, after a long period of time, as you will hear my ministerial statement, we have now seen that the private sector is investing more than Government. At one stage, the ratio was on the flip. So these are all very positive signs.

Madam Speaker, on the issue about the asset sales, yes, some of the asset sales that had been budgeted before last year did not come to realisation. The reality being, Madam Speaker, is we did not want to really nearly sell and diversify any of our shares. There was, because of the fact that we had Elections, people are trying to get things for a song, we do not want to do that. At the moment, there is about three asset sales that are on foot at the moment, we are negotiating to get the best price, not just the best price, but the best deal. So deal in the sense what will be good for the Fijian economy, whether it is going to lead to more exports. These are the overall objectives that we have to take into consideration, Madam Speaker.

So, Madam Speaker, I again implore the Members on the other side that this is an inevitability. This debt needs to be paid, as everyone says. It is inevitable, it needs to be paid. The motion simply, Madam Speaker, is seeking Parliament's approval for us to go into the market now and raise US\$200 million and the reason why we are doing this is so we can get the better interest rates. By getting a better interest rate, the debt burden that the other side has spoken about will in fact be further reduced because we will have to pay less and it just makes common sense to go into the market now.

Madam Speaker, one last point that was raised about internal turmoil, this is not a good time to go in the market. Madam Speaker, there is no internal turmoil, in fact, with respect the Honourable Gavoka has been making statements saying that he is somehow or the other supportive of what is happening. It is recorded on *Fiji Village*. We, as Members of this House, Madam Speaker, have a responsibility to ensure that there is stability in the country because yes, if we have people fighting in a civil war, it will affect the economy.

HON. MEMBER.- There is no civil war here.

HON. A. SAYED-KHAIYUM.- Exactly, there is no civil war here, that is my point. I am using it as an example. I am using it as a good example. If, Madam Speaker, in any country, that there is a turmoil, it will affect your pricing. It will affect your economy, but as Members of this august House, we all have a responsibility to condemn anything that will even give the

impression that we will do so. And I am afraid, Madam Speaker, no one from the other side of the House has uttered a word on it. No one from the other side of the House has uttered a word on it.

Madam Speaker, we are all focussed on going into the market, the market forces, the response we are getting is that it is extremely positive and this is the time that Fiji needs to go into the market, and I implore again to the Honourable Members from the other side to support this motion, but also more importantly, even if they do not support the motion, which would be a pity, to make sure that we keep this confidential. It must be kept confidential, Madam Speaker, and I support the motion.

MADAM SPEAKER.- Thank very much, Parliament will now vote.

Question put.

Votes cast:

Yes	:	31
Noes	:	14
Not Voted	:	5

Motion agreed to.

I thank you all for a very robust debate and we will now adjourn for lunch and during lunch hour, please, Members of the Business Committee, we can have a meeting in the same meeting place.

The Parliament is now adjourned for lunch and we will meet again at 2.30 p.m.

The Parliament adjourned at 12.49 p.m.