



REPUBLIC OF NAURU

DEPARTMENT OF FINANCE

2021 REPUBLIC OF NAURU

DEBT REPORT

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This report provides information on current and projected Republic of Nauru external and internal debt as contained in the 2021-22 Budget. It follows recent work, supported by technical assistance from the Asian Development Bank, to undertake a stocktake of outstanding debt liabilities.

OVERVIEW

Over 2020-21, the Government continued to implement the Debt Action Plan, taking the opportunity of windfall revenues from the Regional Processing Centre (RPC) extension to improve the Republic's balance sheet. A summary of debt related transactions is in Table 29.

Action included resolving long-standing external debt (Firebird), and Bank of Nauru (BON) liquidation payments to individual bank book holders and the Nauru Phosphate Royalties Trust (NPRT). Accounts payable arrears for Eiguu Holdings Corporation were also resolved. A new USD24.95 million EXIM Bank loan was agreed for Nauru Airlines to purchase replacement aircraft, funded in two tranches.

In 2021-22, the Government expects to draw down the second tranche of the EXIM Aircraft loan, make principal and interest payments on outstanding EXIM loans, and make payments to reduce BON creditor balances, including a NPRT payment equivalent to a 5 per cent capital distribution.

Table 29: Summary of Government debt related transactions

Description	2019-20 Preliminary Actual \$	2020-21 Revised Budget \$	2020-21 Actual \$	2020-21 Projected Actual \$	2021-22 Approved Budget \$
Revenue					
1902 - EXIM NAC Loan Proceeds	-	34,930,000	-	18,284,020	16,245,600
Total Revenue	-	34,930,000	-	18,284,020	16,245,600
Expenditure					
2545 - Debt Repayments - EXIM	-	3,539,572	-	-	3,980,613
2545 - Debt Repayments - Firebird	-	4,000,000	4,000,000	4,000,000	-
2545 - Debt Repayments - BON NPRT	-	5,833,334	5,412,125	5,833,334	5,833,334
2680 - BON Liquidation- Payment	3,013,346	7,088,142	5,490,559	7,088,142	1,000,000
2376 - Equity Purchases (EXIM NAC)	-	34,930,000	-	18,284,020	16,245,600
2802 - Loan Expend Account (Ronphos)	700,000	-	-	-	-
2681 - Prior Year Accounts Payable (GoN)	-	1,000,000	358,694	1,000,000	-
Total Debt related expenditure	3,713,346	56,391,048	15,261,378	36,205,496	27,059,547

EXTERNAL DEBT

The stock of the Republic of Nauru's external debt is summarised in Table 30. Key changes in 2020-21 relate to the resolution of outstanding Japanese Samurai Bonds, repayments of principal and interest on the EXIM Bank Ronphos equipment loan, and the expected partial draw down of the EXIM Bank loan for replacement aircraft.

Table 30: Total Government external debt

Instrument	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actual			Projected				
Original Currency								
Samurai Bond Series B (JPY millions)	4,000	4,000	4,000	-	-	-	-	-
Samurai Bond Series C (JPY millions)	5,000	5,000	5,000	-	-	-	-	-
EXIM Bank China - Ronphos (US\$'000)	-	5,000	4,500	4,000	3,500	3,000	2,500	2,000
EXIM Bank China - Aircraft (US\$'000)				13,346	22,871	20,792	18,712	16,633
Australian Dollar (A\$'000)								
Samurai Bond Series B	48,999.4	52,968.9	54,106.5	-	-	-	-	-
Samurai Bond Series C	61,249.3	66,211.1	67,633.2	-	-	-	-	-
EXIM Bank China - Ronphos	-	7,129.6	6,556.9	5,171.6	4,525.2	3,878.7	3,232.3	2,585.8
EXIM Bank China - Aircraft				17,255.2	29,569.9	26,881.7	24,193.5	21,505.4
Total:	110,248.7	126,309.7	128,296.6	22,426.8	34,095.1	30,760.4	27,425.8	24,091.2
As a share of GDP	66%	76%	75%	13%	18%	16%	14%	12%

Note: Samurai bond amounts are the Bond face value, excluding coupons in arrears and interest. The EXIM Bank Aircraft loan is assumed to be funded in two tranches, in June 2021 and December 2021. Values are estimated at 30 June. Figures may differ to other budget presentations due to difference in exchange rate assumptions.

In March 2021, the Government concluded negotiations with Firebird Global Master Fund II Ltd (Firebird) to settle the outstanding amount of two Japanese Samurai Bonds (Yen denominated bearer bonds) issued by RONFIN in the mid 1980s. The Government, as guarantor of RONFIN, defaulted on the bonds in the 1990s. Firebird held a proportion of Series B and Series C bonds. The bonds were settled for an outlay of \$4 million. This was funded by a reallocation (ISHT) from the Fiscal Cash Buffer, previously set aside for this purpose.

Resolution of this long standing external debt obligation will significantly improve the assessment of Nauru's debt sustainability, and remove a key obstacle to accessing external credit markets and donor financing in the future.

Due to the passage of time, and consistent with the terms of the bonds on the period of extinctive prescription of 10 years for the principal of the Bonds and five years for the coupon interest on the Bond, any repayment obligation related to the Samurai Bonds not covered by the Firebird agreement is now considered expired.

In October 2020, the Government announced that it would support Nauru Airlines with its aircraft replacement program, with a new USD24.95 million loan from EXIM Bank, supported by the Republic of China (ROC) Taiwan. By the end of June 2021, it is expected that Nauru Airlines will have completed the purchase of an aircraft and that the loan will be partially drawn down to an amount of USD13.3 million. The remainder of the loan (USD11.2 million) is assumed to be drawn down by June 2022. This will fund another aircraft that is yet to be identified.

Repayments of principal and interest will commence in 2021-22, supported by a general budget support grant provided by ROC Taiwan as outlined in a Memorandum of Understanding with the Government. This is a similar arrangement for the ROC Taiwan budget support for the EXIM Bank Ronphos equipment loan.

The EXIM Bank Aircraft Loan is for a total amount of USD24.95 million over 12 years at an interest rate of six month LIBOR + 0.8 per cent. The EXIM Bank Ronphos Equipment Loan was for a total amount of USD5 million, over 10 years at an interest rate of six month LIBOR + 1.5 per cent.

TOTAL GOVERNMENT DEBT SERVICE

Total debt service costs are summarised in Table 31. Costs relate to external debt only, and may differ from figures in the other budget tables due to exchange rate assumptions.

Table 31: Total Government debt service costs

Instrument	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actual			Projected				
Original Currency								
Samurai Bond Series B (JPY millions)	-	-	-	-	-	-	-	-
Principal Payments	-	-	-	N/A	-	-	-	-
Interest Payments	-	-	-	-	-	-	-	-
Samurai Bond Series C (JPY millions)	-	-	-	-	-	-	-	-
Principal Payments	-	-	-	N/A	-	-	-	-
Interest Payments	-	-	-	-	-	-	-	-
EXIM Bank China Ronphos (US\$'000)	-	-	684.0	616.5	572.9	563.5	554.1	544.7
Principal Payments	-	-	500.0	500.0	500.0	500.0	500.0	500.0
Interest Payments	-	-	184.0	116.5	72.9	63.5	54.1	44.7
EXIM Bank China - Aircraft (US\$'000)	-	-	-	-	2,141.1	2,153.5	2,146.8	2,139.7
Principal Payments	-	-	-	-	2,079.2	2,079.2	2,079.2	2,079.2
Interest Payments	-	-	-	-	61.9	74.4	67.6	60.5
Australian Dollar (A\$'000)								
Samurai Bond Series B	-	-	-	1,292.3	-	-	-	-
Principal Payments	-	-	-	1,292.3	-	-	-	-
Interest Payments	-	-	-	-	-	-	-	-
Samurai Bond Series C	-	-	-	2,707.7	-	-	-	-
Principal Payments	-	-	-	2,707.7	-	-	-	-
Interest Payments	-	-	-	-	-	-	-	-
EXIM Bank China - Ronphos	-	-	996.6	797.1	740.8	728.6	716	704
Principal Payments	-	-	728.5	646.5	646.5	646.5	646.5	646.5
Interest Payments	-	-	268.1	150.7	94.3	82.1	70.0	57.8
EXIM Bank China - Aircraft	-	-	-	-	2,768.2	2,784.3	2,775.6	2,766.4
Principal Payments	-	-	-	-	2,688.2	2,688.2	2,688.2	2,688.2
Interest Payments	-	-	-	-	80.1	96.1	87.4	78.3
Total:	-	-	996.6	4,797.1	3,509.0	3,512.9	3,492.0	3,470.7
Principal Payments	-	-	728.5	4,646.5	3,334.6	3,334.6	3,334.6	3,334.6
Interest Payments	-	-	268.1	150.7	174.4	178.3	157.4	136.1

Notes:

1. The principal and interest payments on the EXIM Ronphos loan are met by an equivalent payment under the Ronphos subsidiary loan agreement, which is in turn met by a ROC Taiwan general budget support annual grant until 31 December 2022.
2. The principal and interest payments on the EXIM Aircraft loan are met by a ROC Taiwan general budget support annual grant until 31 December 2022.
3. Samurai Bond Series B and C were settled in full by payment to Firebird on 29 March 2021 of A\$4 million.
4. Values at 30 June.

TOTAL GOVERNMENT LIABILITIES

Total Government liabilities are summarised in Table 32. The significant change in external liabilities between 30 June 2020 and 30 June 2021 relates to the resolution of legacy external debt related to Japanese Samurai Bonds issued in the 1980s.

External liabilities relate to external debt shown in Table 30 and membership arrears to international organisations that are the subject of a request to the relevant organisations for the arrears to be forgiven. This is expected to be resolved by December 2021.

Internal liabilities relate to the BON liquidation and payment arrears related to Eigigu Holdings Corporation. As part of the Debt Action Plan, Government is meeting arrears payments, when it is satisfied that they are legitimate and have not been previously paid.

Table 32: Total Government Liabilities

Australian Dollar (A\$'000)	2019-20 Actual	2020-21 Estimate	2021-22 Estimate
Total External and Internal	183,688.5	64,386.6	66,291.2
As a share of GDP	107%	36%	36%
External	131,226.9	25,357.1	34,095.1
As a share of GDP	77%	14%	18%
Government External Debt	128,296.6	22,426.8	34,095.1
Informal Liabilities (Payment Arrears)	2,930.3	2,930.3	-
Internal	52,461.6	39,029.5	32,196.1
As a share of GDP	31%	22%	17%
Bank of Nauru Liquidation Creditors	51,950.9	39,029.5	32,196.1
Informal Liabilities (Payment Arrears)	510.7	-	-

Notes:

1. The amounts in the table are unaudited and may change. Values estimated at 30 June.
2. External informal liabilities relate to membership arrears to international institutions

Table 32 reflects those liabilities recognised by the Government at the time the table was prepared. From time to time, other historic payment arrears may be identified. They will be included in the liability table when the Government accepts the validity of the obligation.

BANK OF NAURU LIQUIDATION

The BON went into liquidation in the mid-2000s, with the Deloitte report to the District Court in 2014 providing the source of truth for outstanding BON account balances and obligations. From time to time, the Government takes the opportunity to make payments to BON individual creditors, when it has fiscal capacity to do so. These are considered ex gratia payments at the discretion of the Government.

Over 2020-21, the Government made payments to individual bank book holders that had a verified balance with no unresolved debts to BON, and that had provided up to date bank account details to the Department of Finance. The Government also made a payment to NPRT for a distribution. Detail is in Table 5.

In 2021-22, the Government will again support NPRT with a provision of \$5.8 million from balances available from the Bank of Nauru liquidation, to assist NPRT progress the Ronwan capital redistribution. This payment equates to around 5 per cent of beneficiaries' remaining capital. Further payments are also expected to be made to BON individual bank book holders.

Table 33: Head 16 BON Payments

Description	2019-20 Preliminary Actual	2020-21 Revised Budget	2020-21 Actual	2020-21 Projected Actual	2021-22 Approved Budget
	\$	\$	\$	\$	\$
2545 - Debt Repayments - BON NPRT	-	5,833,334	5,412,125	5,833,334	5,833,334
2680 - BON Liquidation- Payment	3,013,346	7,088,142	5,490,559	7,088,142	1,000,000
Total BON Liquidation related payments	3,013,346	12,921,476	10,902,684	12,921,476	6,833,334

The impact of these payments has been to reduce outstanding BON creditor balances as estimated in Table 34.

A BON Reconciliation Project has commenced with support from the Asian Development Bank and Cor Cordis, a specialist firm, has been engaged to support the reconciliation. The work commenced in

April 2021, and is expected to be completed by December 2021. It is expected that the estimates of the outstanding balance amounts for the BON liquidation will change upon completion of this project.

Table 34: Bank of Nauru Liquidation outstanding balance estimates

Bank of Nauru Liquidation Outstanding Balance Estimates			
Year	Bank Book	NPRT	Total
	\$	\$	\$
30 June 2018	34,516,211	25,195,069	59,711,280
30 June 2019	33,691,352	21,747,809	55,439,161
30 June 2020	30,203,139	21,747,809	51,950,948
30 June 2021	23,114,997	15,914,475	39,029,472
30 June 2022	22,114,997	10,081,141	32,196,138

Note: These balances are unaudited and expected to change as reconciliations are completed.

NET DEBT

A summary of the Republic's financial assets (cash and investments) and liabilities is in Table 35.

Table 35: Republic of Nauru net debt estimates

Australian Dollar (A\$'000)	2019-20	2020-21
	Actual	Estimate
Liabilities in net debt		
Bonds	121,739.7	-
Loans	6,556.9	22,426.8
Other liabilities (BON & arrears)	55,391.9	41,959.8
Total Liabilities in net debt	183,688.5	64,386.6
Assets included in net debt		
Cash and deposits	168,968.3	203,008.5
Investments (NTF)	142,063.0	175,780.7
Lending to SOEs (Ronphos)	7,256.9	5,871.6
NAC equity (EXIM)	-	17,255.2
Total Assets included in net debt	318,288.2	384,660.8
Net Debt	(134,599.7)	(320,274.2)
As a share of GDP	79%	179%

Notes:

1. Samurai bond amounts are the Bond face value, excluding coupons in arrears and interest.
2. Values estimated at 30 June.
3. Cash and deposits includes all Bendigo Bank Accounts related to the Republic, including 'off-budget' accounts.
4. Nauru Trust Fund estimates includes audited prior year balance and current year GON contributions.

1 June 2021