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## INVESTING IN GOVERNMENT BONDS



### Mandate to Borrow

The Solomon Island Government, through the Ministry of Finance and Treasury, possesses the legal mandate to borrow funds as required to finance government operations. This mandate is enshrined in the Constitution of SI (section 100 (1); the PFM Act 2013 and the Securities and Guarantees Act. Taken together, other than establishing the Government's authority to borrow, these pieces of legislation delineate broad parameters for external and domestic borrowing, stipulate debt ceilings as well as outline rules to guide the issuance of sovereign guarantees for SOE. To support infrastructure development, strengthen economic activity and improve business condition, Government has to invest/spend in order for economy to grow. With limited revenue base, borrowing is an alternative financing window available to Government to carry out its role effectively

### SIG Development Bonds

The Government is issuing **\$432.5 million** worth of bonds in the market, through a public auction. The bond maturities are mix, some are medium term (2 yrs, 3 yrs and 5 yrs) and long-term (7 yrs, 10 yrs and 15 yrs). The main purpose of raising finance through bonds is to support the SIG in improving the infrastructure like roads, water pipeline and upgrading of building. Most importantly for 2023, Government is investing significantly as the Nation is hosting regional events such as Pacific Games and upcoming National General elections in April 2024.





# What are SIG Development Bonds?

The SIG development bonds is a type of Government securities. Government securities are financial debt instruments which the Government issues/sells to investors to borrow cash and finance its budget deficit. The Government is like a business, it must have enough revenue to meet its expenditure. As the flow of revenue and spending may not always equal at any time, the Government may issues these securities to raise funds to finance the times when it spends more than it receives. The Government security that is available for investments is SIG Development bonds

## WHO CAN PURCHASE OR INVEST IN SIG DEVELOPMENT BONDS?

Investing in Development Bonds is open to the general public. This includes Financial institutions (e.g commercial banks, Finance companies, insurance companies and superannuation funds), Non Financial institutions and individuals.

## HOW CAN ONE PURCHASE OR INVEST IN BONDS?

The Central Bank of Solomon Islands (CBSI) is currently the only Agent authorised by the Government to conduct the sale/ issuance of Bonds. Hence, bonds can be purchased at the CBSI through the monthly auction/tender dates only.

CBSI conducts the Development Bonds auction on Bi-Monthly basis. For 2023, the auction will be conducted on these dates:

- ◆ 18th May 2023—\$200m [Auction Dates: 8-17 May'23]
- ◆ 15th Jun 2023 -\$200m [Auction Dates 5-14Jun 23]
- ◆ 13th July 2023—\$200m [Auction Dates: 3-12 July'23]
- ◆ 17th Aug 2023—\$200m [Auction Dates: 2-16 Aug 23]
- ◆ 14th Sept 2023—\$50m [Auction Dates: 4-13 Sept 23]
- ◆ 12th Oct 2023—\$50m [Auction Dates 02-11 Oct 23]

The general public is encouraged to participate on the auction dates above. Details of Tender will be published on CBSI website and on Island Sun and Solomon Star.

## WHAT ARE TYPES OF TENDER FORMS AVAILABLE?

The two types of Tender forms available are (i) **Non Competitive Tender** - the minimum amount to invest under this category is \$10,000 with additional investments of \$1,000. For example, \$10,000 or \$11,000 or \$16,000 depending on your preference. As a general rule, all Non-Competitive Tenders are accepted by Government at the ongoing rate.

(ii) **Competitive Tender**—the minimum amount under this category is \$100,000 and in multiples of \$10,000. Bidder s in this category will submit an amount with a preferred rate. Government underlying objective is to borrow at least cost.

## HOW IS INTEREST ON MY DEVELOPMENT BONDS INVESTMENT PAID?

Interest is paid every six months (semi-annually) direct to the holder by bank cheque or credited to the nominated bank account. Interest or the coupon earned is calculated as simple interest (Principal X interest rate/2). More information can be obtained by contacting Domestic Division, CBSI on telephone number 21791, ext.1717

## WHAT IS THE PROJECTED BOND YIELDS?

SIG anticipates investors to bid at or close to the proposed rates, which are tentative benchmark at:

- 2-years—2.00%
- 3-years—2.5%
- 5-years—4%
- 7-years —5%
- 10-years—6%
- 15-years—7%

## HOW WILL GOVERNMENT SPEND BORROWING?

All borrowings by Government is to support infrastructure development in our Nation. For 2023, Government plans to improve roads, building and upgrading existing infrastructure.

Hosting the 2023 South Pacific Games is a major expenditure item for SIG in fiscal year 2023. To ensure the Games is successful, Government is investing significantly in the infrastructure and sports facilities. The economic benefit to the SI economy is huge, sports tourism is likely to be boosted with potential opportunity for SIG to host more games with its high-class facilities. Other infrastructure projects include roads and improvement and upgrading of existing facilities .

