



STANDING COMMITTEE ON ECONOMIC AFFAIRS

Reserve Bank of Fiji January – July 2016 Report



PARLIAMENT OF THE REPUBLIC OF FIJI
Parliamentary Paper No. 96 of 2017

March 2018

Published and Printed by the Department of Legislature, Parliament House, SUVA

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Chair's Foreword

In line with the Government's change in fiscal year, the Reserve Bank of Fiji, in accordance with section 54 of the Reserve Bank of Fiji Act 1983 (RBF Act), subsequently adopted the 31 July period end to ensure that its financial year coincided with the Fijian Government's financial year. This Report covers the seven month period from 01 January 2016 to 31 July 2016 and it is important to note that these results are not comparable to the 2015 comparatives due to the difference in the number of months comprising the financial periods.

Overall, the Bank's performance during this seven month period has been positive despite various setbacks earlier in the year, namely the devastating effects of Tropical Cyclone Winston in February and the after effects of heavy rains caused by Tropical Cyclone Zena in April.

At the end of July 2016, foreign reserves stood at \$1.982 billion which is the equivalent of 5.5 months of retained imports. This is highly commendable in light of the fact that the International Monetary Fund states that a benchmark of 3.0 months is quite sufficient.

The principal activities of the Reserve Bank of Fiji are:-

1. to regulate the issue of currency, and the supply, availability and international exchange of money;
2. to promote monetary stability;
3. to promote a sound financial structure;
4. to foster credit and exchange conditions, conducive to the orderly and balanced economic development of the country;
5. to regulate the insurance industry; and
6. to regulate the capital markets and securities industry.

The Committee also noted with interest that:-

- In accordance with the RBF Act the sum of \$16.929 million was payable to the Fijian Government for the period 01 January 2016 to 31 July 2016.
- As at 31 July 2016 there were 10,623 inward remittances conducted via the Mobile Money Channel – an increase of 201.3% for the same period in 2015.
- As at 31 July 2016, total currency in circulation was \$751.0 million. The value of notes in circulation rose by 2.3% and the value of coins in circulation rose by 5.7%. The \$100 note recorded the highest growth whilst the \$50 note was the highest circulated note.
- The Fiji Dollar is fixed to a basket of five currencies (USD, AUD, NZD, JPY and EUR) and setting the exchange rate is a daily responsibility of the Bank. The mid-rate of the Fiji Dollar against the USD is disseminated by 9 am each business day and is used by commercial banks to set rates with which they transact foreign exchange with customers.

- Of the 5.5% inflation outcome by July 2016 end, 2.0% was driven solely by higher kava prices even though kava constitutes only 2.5% of our Consumer Price Index (CPI) basket.

I thank the Hon. Members involved in the production of this Report and also the Parliamentary Staff who assisted.

On behalf of the Standing Committee on Economic Affairs, I commend this Report to Parliament.



HON. LORNA EDEN
CHAIRPERSON

Introduction

The Reserve Bank of Fiji (RBF) is the central bank of the Republic of Fiji established in 1984 through an Act of Parliament – the Reserve Bank of Fiji Act 1983 (RBF Act). Section 153(2) of the Constitution of the Republic of Fiji, states that, “In pursuing its primary objects, the Reserve Bank of Fiji must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Reserve Bank of Fiji and the Minister responsible for finance”.

The RBF operates with the vision of leading Fiji to economic success. The RBF aims to enhance its role in the development of the economy, provide proactive and sound advice to Government, develop an internationally reputable financial system, conduct monetary policy to foster economic growth and disseminate timely and quality information.

The RBF Report highlights the difficulty faced due to the natural disasters, namely Tropical Cyclone Winston and Tropical Cyclone Zena which struck in Fiji in early 2016. Scrutinising this Report is of utmost importance as it in great detail highlights the contribution of various sectors that have led to Fiji’s economic growth.

Findings and Recommendations

1. For ease of doing business and clarity in terms of overseas remittances, the Committee recommends that there needs to be more synergy between RBF, the Fiji Revenue and Customs Service and the commercial banks for individual everyday transactions by the general public.
2. All profits can be repatriated by foreign banks as long as they retain their capital adequacy ratio of 12% in Fiji. This applies to all foreign banks and credit institutions. The Committee recommends that RBF maintains this stringent policy.
3. On currency exchange rates, RBF sets the base each morning against a basket of 5 other countries, USA being the predominant one. Traders then set their rates within a spread of 5 points either way. With the influx of new currency traders, the Committee recommends that the stringent control measures in place continue, to ensure that external reserves and currency are protected.
4. The impact of post cyclone activities has seen agriculture and construction sectors decline. This led to the downward revision in projected growth for 2016 from 3.5% to 2%. Consumption being a bigger share of growth in the economy was boosted by measures put in place such as the FNPF stimulus package and Government's Help for Homes initiative. However, on investments, whilst domestic investors have been quite positive, many projects are still in the pipeline and not yet realised. The Committee recommends that to boost domestic investments all projects in the pipeline must be closely monitored and brought to fruition.
5. The Committee notes that to date some \$80 million has been loaned on the Small and Medium Enterprises (SME) Credit Guarantee Scheme and that only 3 cases of default have been registered since its inception in 2012. The Committee believes this scheme should be continued in line with global trends in the area of SME lending and its impact on the economy.
6. The Committee noted from the report that inflation rose to 5.5% and one of the main contributors was our national drink, kava. It was surprising to know that almost 2.0 percentage points of the 5.5% inflation outcome at July end was driven by higher kava prices. Even though kava constitutes only 2.5% of our Consumer Price Index (CPI) basket, it contributed substantially to the inflation out-turn. Without kava, our inflation would have been around 3%.
7. The Committee noted that the makeup of the Board is in accordance with the provisions of the RBF Act.

8. The Committee notes the International Monetary Fund has set a benchmark on the level of foreign reserves which states that it should be sufficient to cover 3 months of imports. However, Fiji has built an additional buffer above this benchmark which currently sits at 5.5 months (\$1.982 billion) of retained imports. This is a situation dictated by our vulnerabilities to natural disasters behoving us to have a buffer above IMF benchmarks.
9. The Committee noted that high levels of liquidity in the financial system, although ongoing, are manageable as the fundamentals i.e. inflation, interest rates, etc., are all under control. In any event, measures are in place by RBF to mitigate any negative impact on the economy due to the high liquidity.
10. The Committee notes that a Pensions Savings Bill which may provide options for pensioners has been drafted and is currently under review and consideration.
11. The Committee notes that the current threshold for RBF Housing Facility for First Home Owners is at \$25,000. This is an important initiative which should continue to be encouraged given the escalating cost of housing prices, which is making it more difficult for people wishing to buy their first home. The Committee recommends the Bank should be encouraged to increase the threshold to \$50,000 from the current \$25,000.

Gender Analysis

Gender is a critical dimension to parliamentary scrutiny. Under Standing Order 110 (2) the Committee is required to ensure full consideration to the principle of gender equality so as to ensure all matters are considered with regard to the impact and benefit on both men and women equally.

Taking into consideration the principle of gender equality, the Committee noted that there was a good gender balance prevalent amongst the staff of the Reserve Bank of Fiji with the Executive Management Team comprising of 50% males and 50% females. Overall, the Bank comprised of 57% male and 43% female staff.

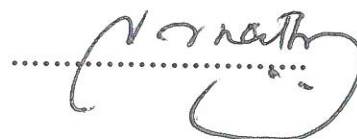
Conclusion

At the end of deliberations, the Committee was satisfied with the work being done by the Reserve Bank of Fiji. Despite the challenges faced by the country in the first half of 2016, the Bank had put in place effective measures to ensure a speedy recovery post Tropical Cyclones Winston and Zena.

Hon. Lorna Eden (Chair)

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Hon. Vijay Nath (Deputy Chair)

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Hon. Brij Lal (Member)
(Member)

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Hon. Viliame Gavoka

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Hon. Prem Singh (Member)

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APPENDICES

RESERVE BANK OF FIJI



PRESENTATION TO THE STANDING COMMITTEE ON ECONOMIC AFFAIRS

RESERVE BANK OF FIJI JANUARY- JULY 2016 REPORT

1. INTRODUCTION

- Thank you Honourable Chair and Honourable Members for the invitation to present the Reserve Bank of Fiji's January-July 2016 Report to the Standing Committee on Economic Affairs.
- Governor Whiteside and the management team made a presentation to the Committee on 20 September last year on the Bank's annual reports for 2014 and 2015.
- Let me begin by saying that central banks are unique institutions. Each country has only one central bank or monetary authority with similar but distinct monetary policy objectives.
- Honourable Chair, central banks are high impact organisations. Our decisions or indecisions and our actions or inactions have major and far reaching repercussions and consequences on the economic well-being of the public at large and the entire spectrum of businesses in the nation. The responsibility and accountability is immense and central banking is therefore not for the faint of heart.
- Section 4 of the RBF Act lists down the core functions of the Bank. In addition, section 153 of the 2013 Constitution of the Republic of Fiji includes provisions on the primary objectives of the Bank.
- Honourable Chair, central banking, in very simple terms is responsible for the preservation of three aspects of stability:
 - [i] Price stability;
 - [ii] External (currency) stability; and
 - [iii] Financial stability.

2. BACKGROUND

- Section 54 of the Reserve Bank of Fiji Act [1983] states that "the financial year of the Bank shall coincide with the financial year of the Government".
- Therefore, the financial year of the Bank now ends on 31 July instead of 31 December, in line with the recent change in Government's fiscal year.

- In addition, section 56 of the RBF Act states that the audited accounts must be completed within three months following the end of the year. In this regard, I am pleased to inform the Honourable Members of the Committee that the Board of the Reserve Bank of Fiji confirmed and signed off on the Bank's annual audited financial statements for the seven months ending 31 July 2016 on 29 September 2016. This means that our annual audited financial accounts were completed within two months after the end of the financial year.
- Following the signing of the audited accounts and in line with the provisions of the RBF Act, the Bank provided to the Honourable Minister for Economy, Mr Aiyaz Sayed-Khaiyum, a certified auditor's copy of the accounts along with the operations report of the Bank for the seven months period ending 31 July 2016.
- Previously when the Government's financial year was the calendar year, the RBF's Annual Report would be submitted to the Minister by March 31 each year. Last year was the first time that the audited accounts and operations report were presented for the period 1 January 2016 to 31 July 2016. Both the accounts and report only cover the last seven months of the 2016 financial year as the first five months (August to December 2015) are accounted for in the Bank's 2015 Annual Report.

3. KEY OUTCOMES

- The objective of central banks is not to maximise profit. Its key role is to support economic growth by ensuring that there is price stability, external stability and financial system stability. I will shortly highlight the key outcomes in relation to these three KPIs.

Financial Performance

- Before I elaborate on the three stability objectives, please allow me to quickly highlight our financial performance for the seven month period ending 31 July 2016.
- The RBF made a profit of \$13.9 million for the seven month period. However, the total amount transferred to Government was \$16.9 million as it included \$3.0 million of the revaluation reserve account (RRA).
- This is in accordance with sections 8(3) and 34 of the RBF Act which states that one fifth of the RRA is to be transferred to the Government along with our profits.
- This compares with a transfer of \$32.2 million to Government for the twelve month period ended 31 December 2015.
- It may not be appropriate to compare the Bank's financial performance in 2016 with 2015 as the periods covered are not the same i.e. seven months in 2016 against 12 months in 2015.
- The total profit and revaluation reserve transferred to Government in the past five years totalled \$160.0 million.

Price Stability

- All central banks have the same mandate to ensure that inflation is low and stable. This is no different even for small central banks like us.
- As you are well aware, Fiji was hit by Tropical Cyclone (TC) Winston in February 2016. Consequently, the supply of fresh fruits and vegetables and for some of us, the supply of our favourite national drink, kava, was affected. Consequently, inflation rose to 5.5 percent at the end of July 2016 from 1.6 percent at the end of December 2015.
- Honourable Members, you may be surprised to know that almost 2.0 percentage points of the 5.5 percent inflation outcome at July end was driven by higher kava prices. Even though kava constitutes only 2.5 percent of our Consumer Price Index (CPI) basket, it contributed substantially to the inflation out-turn. As a result, while yaqona farmers benefitted from the high prices, kava consumers had to fork out significantly more for their favourite brown label drink as prices almost doubled by July and rose three-fold by January this year.
- For those of us who don't drink kava, our inflation was effectively around 3 percent.

External Stability

- As a small open economy dependent on imports of a variety of goods such as medicine, food, fuel, machinery, etc. we need to maintain a sufficient level of foreign reserves otherwise there will be pressures on our exchange rate.
- The International Monetary Fund has set a benchmark on the level of foreign reserves which states that it should be sufficient to cover 3 months of import.
- For Fiji, we like to build in an additional buffer above this benchmark as we are prone to natural disasters, which can affect our export sector as well as external shocks which can significantly increase our import bill, and in turn significantly impact our foreign reserves.
- Honourable Members, I am pleased to inform that in regards to external stability, Fiji's foreign reserves remained well above the benchmark throughout the review period.
- At the end of July 2016, our foreign reserves were \$1,982 million, just \$18 million shy of the \$2 billion mark and was sufficient to cover 5.5 months of retained imports.
- These foreign reserves are what the RBF holds in its accounts. In addition, we have allowed a number of non-bank financial institutions to invest offshore. At the end of July 2016, foreign reserves held by other institutions amounted to more than \$500 million.

Financial Stability

- Honourable Members, it is paramount that our financial system is safe and sound whereby depositors, pensioners, policyholders and unit holders' funds are protected. The safety and soundness of our financial system is also crucial in ensuring the confidence of investors and international agencies.
- In this regard, I am pleased to inform the Committee that the Fijian financial system remains safe and sound supported by a growing asset portfolio which rose marginally from the end of 2015 to July 2016 to just over \$16 billion. This is almost twice our GDP.
- As at 31 July 2016, the banking sector accounted for 53 percent of the total assets, followed by FNPF at 31 percent and the insurance industry at 9 percent.
- The RBF uses international best practices and standards to assess the safety and soundness of the financial system, based on a composite index of a number of indicators such as earnings, capital or solvency, liquidity, quality of management, asset quality, governance and risk management. A primary objective of the prudential supervision role of the RBF is prevention, rather than rectification, so a risk-based approach to supervision is undertaken where risks to the operations of individual institutions and the financial system as a whole are closely monitored.
- The RBF undertakes offsite and targeted onsite examinations of all supervised institutions in the system, and continuously reviews prudential supervision policies in line with recent developments and international best practices. We have also produced an annual Financial Stability Report on Fiji's financial system.

What is the outcome of this?

- Honourable Members, by meeting its KPIs the Bank is effectively contributing towards sustainable economic growth. We estimate that the economy grew by 2.0 percent in 2016 despite the substantial damage caused by TC Winston and we forecast further economic expansion in the coming years. Economic growth in turn translates to more income, more jobs, more tax revenue for Government, a reduction in poverty and increased standards of living.
- Honourable Members, before I end I wish like to highlight a number of key points for your noting:
 - [1] Inflation at the end of May this year was down to 2.5 percent and we expect inflation to be around similar levels for the remainder of the year;
 - [2] Foreign reserves reached a number of new highs recently and peaked at \$2.25 billion last week; and
 - [3] We project the economy to grow for an 8th consecutive year in 2017 and the growth rate was recently revised upwards to 3.8 percent.
- Finally Honourable Members, I would like to acknowledge the great team that we have at the Bank and I wish to thank them, including Governor Whiteside and the

RBF Board for their leadership and guidance, and for the efforts that went into producing the Bank's January- July 2016 Report.

- I hope those remarks are helpful background for the Committee's review of the Reserve Bank of Fiji's January-July 2016 Report and we would be happy to answer your questions.

Thank you

8 June 2017