



STANDING COMMITTEE ON ECONOMIC AFFAIRS

Reserve Bank of Fiji August 2016 – July 2017 Report



PARLIAMENT OF THE REPUBLIC OF FIJI
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Chair's Foreword

For the period August 2016 to July 2017 the Reserve Bank of Fiji (RBF or Bank) successfully met its core objectives of maintaining low inflation and an adequate level of foreign reserves, whilst ensuring a sound financial system.

The Bank was able to generate sufficient income from foreign reserves despite low interest rates prevailing in all markets.

Also of note was the growing asset portfolio which rose from \$16.8 billion in August 2016 to \$18.5 billion in July 2017, and further increased to \$19.4 billion by the end of 2017. This was almost twice the size of Fiji's GDP and the committee commends the RBF for this impressive achievement.

The Committee was pleased to learn that the First Home Owner Facility qualifying threshold has increased from \$30k combined household income to \$50k, and that interest rates are capped at 5% and can be rolled over.

Finally, the Committee would like to acknowledge and thank the former Governor, Mr Barry Whiteside, for his service and leadership during his 40 years at the Bank.

I thank the Hon. Vijay Nath, the Hon. Alvick Maharaj, the Hon. Viliame Gavoka and the Hon. Prem Singh who were 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 or Bank) is the central bank of the Republic of Fiji established in 1984 through an Act of Parliament – the “*Reserve Bank of Fiji Act 1983*”. Under the Companies Act 2015, the Bank is also responsible for regulating, supervising and developing the capital markets in Fiji. The RBF is the sole entity responsible for the printing of notes, minting of coins and the destruction and disposal of used and unserviceable notes and coins. The Bank also determines the denominational structure, design, content, material and composition of Fiji’s currency, subject to the approval of the Minister for Economy.

The RBF operates with the vision of leading Fiji to economic success. It 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.

On a financial year (FY) basis, the RBF recorded an estimated growth of 2.4 per cent in the Fijian economy for the 2016 – 2017 period. By the end of the FY in 2017, RBF recorded a profit of \$28.3 million. A healthy performance from the tourism sector is believed to be a major contributor to the recorded profit.

Findings and Recommendations

1. The Committee is fully supportive of the National Financial Inclusion Strategic Plan and would wish to see it gain momentum. A particular area that has been highlighted by other agencies, such as the Fiji Development Bank, is the lack of financial literacy which is part of the strategic plan. The Committee recommends a stronger focus be placed on financial literacy in terms of monitoring through the core set of indicators by the RBF.
2. The Committee notes that the RBF has in place facilities, to address specific areas that may be impeding economic development and growth such as the National Disaster Recovery Facility, Import Substitution and Export Finance Facility and the Housing Facility. The Committee recommends that the RBF maintains adequate measures to continue to review the demand for funds in the various sectors of the economy, and assist wherever it can.
3. The Committee notes that the proposed pensions savings scheme is under review and would recommend that it is clearly defined that this scheme is optional, as opposed to FNPF which will remain mandatory.
4. The Committee is pleased to note that the guidelines for First Home Owner Facility as monitored by RBF has now increased from the previous combined household income threshold of \$30,000 to \$50,000 and that interest rates are capped at 5% for 5yrs, and can be rolled over. The Committee notes that the approved lender list has been extended to include commercial banks, licensed credit institutions and the Fiji Development Bank. The Committee recommends that this worthy facility be promoted extensively through the usual outreach programs to create more awareness.
5. The Committee notes that certain quarters have expressed concern that the Governor of the Reserve Bank is involved with institutions that may be deemed a conflict of interest. The Committee notes that a key mission statement of RBF is 'to enhance their role in the development of the economy' which mandates the call for the Governor to play a wider role in the economy and the community. The Committee also notes that on those Boards where the Governor is a member or a Chair, that these institutions are not licensed or regulated by the Bank. The Committee is assured that the role of the Governor remains intact in serving the priorities of the Reserve Bank of Fiji and also meets the expectations of the Shareholders, hence no conflict of interest exists.

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 satisfactory gender balance prevalent amongst Reserve Bank of Fiji with the Executive Management Team in the year ending August 2016-July 2017. The Executive Management Team comprised of 62.5% females and 37.5% males.

Conclusion

At the end of deliberations, the Committee was satisfied with the work being done by the Bank and its contribution to the overall vision of leading Fiji to economic success.

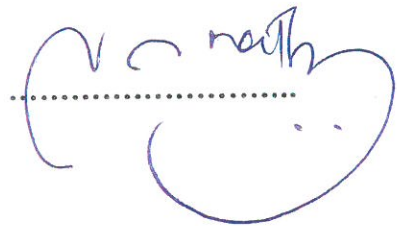
The Committee noted the involvement of the RBF in financial inclusion and the recognition that the RBF received by being jointly awarded with the Central Bank of Mongolia the 2016 Global Inclusion Award for the Asia Pacific region by Child Youth & Finance International in December 2016, and would encourage the Bank to continue its participation in such events.

Also, as part of the historical achievement at the Rio 2016 Olympics, the Committee applauds the special issuance of the \$7.00 note to commemorate the achievement of the Fiji Rugby 7's team in winning Fiji's first ever Olympic Gold medal.

Hon. Lorna Eden (Chair)

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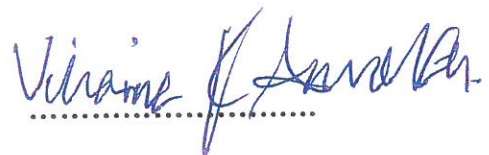
Hon. Vijay Nath (Deputy Chair)

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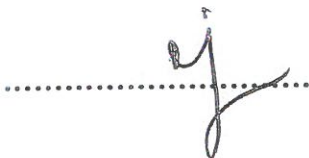
Hon. Alvick Maharaj (Member)

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Hon. Viliame Gavoka (Member)

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Hon. Prem Singh (Member)

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APPENDIX 1

SUBMISSION

(RBF)

RESERVE BANK OF FIJI



**Presentation to the Standing Committee on Economic Affairs by the
Governor of the Reserve Bank of Fiji, Mr Ariff Ali on the
Reserve Bank of Fiji August 2016-July 2017 Annual Report
05 April 2018**

1. INTRODUCTION

Thank you Honourable Chair, and Honourable Members for the invitation to present the Reserve Bank of Fiji's Annual Report for the period 1 August 2016 to 31 July 2017, to the Standing Committee on Economic Affairs.

I had presented an extensive background to the Standing Committee last year on the role of central banks, and the functions of the RBF as stated in the RBF Act and the 2013 Constitution. However, I would wish to re-iterate as stated last year that central banking is not for the faint of heart as Alice Rivlin so aptly said, **"The job of the central banks is to worry"**.

Honourable members, as I had highlighted in my presentation to you in 2017, the RBF is tasked to maintain:

- (i) Price stability – ensuring that inflation is low and stable;
- (ii) External (currency) stability – that foreign reserves level are comfortable;
and
- (iii) Financial stability – that our financial system is strong and robust.

2. KEY OUTCOMES

Honourable Chair, please allow me to first provide highlights of the outcomes of our 2016/2017 operations, before I respond to the questions from the Standing Committee:

(i) Financial Performance

As we have highlighted previously, the objective of the central bank is not to maximise profit. While profit maximisation is not our goal, making losses is also not acceptable. As an important policy making institution, financial losses often results in reputational risk which then translates into loss of confidence from our key stakeholders.

Honourable Chair, for the financial year in review, the RBF made a profit of \$28.3 million and transferred to Government a total of \$29.4 million which included one-fifth or \$2.1 million of the revaluation reserve account (RRA). Of the \$28.3 million in profits, the RBF Board with the approval of the Minister transferred \$1.0 million to the General Reserve Account to strengthen the Reserve Bank's capital base. This is similar to how private companies retain dividends or earnings to strengthen their capital positions.

This compares with a transfer of \$16.9 million to Government (\$13.9 million profits and one-fifth RAA totalling \$3.0 million) for the seven month period ended 31 December 2015 with no transfers to the General Reserve Account.

Similar to past years, RBF's profit is underpinned by the income earned from our foreign reserves holdings which are invested in safe and liquid assets offshore. In the 2017 financial year, the Bank earned \$41.7 million in net foreign exchange income, boosted by elevated levels of foreign reserves.

I wish to further inform the Standing Committee that we again managed to sign off on the Bank's annual audited financial statements for the twelve months ending 31 July 2017, on 28 September 2017, within two months after the end of our 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 a certified auditor's copy of our financial accounts along with the operations report of the Bank, on 29 September 2017.

(ii) Price Stability

Honourable Members, as you are well aware, Fiji was hit by Tropical Cyclone (TC) Winston in February 2016. It negatively impacted the supply and prices of fruits, vegetables, root crops and kava thereby placing upward pressure on domestic prices. Consequently, inflation averaged 5.2 percent in the first half of the fiscal year 2016-2017 and was something beyond our control.

However, supplies began to normalise in 2017 resulting in a decline in headline inflation from 6.8 percent in January 2017 to a low 2.0 percent by July 2017. The subdued global prices of key imports such as oil and food also contributed to this outcome.

(iii) External Stability

As a small open economy dependent on imports of a variety of goods, we need to maintain a sufficient level of foreign reserves, otherwise there will be pressures on our exchange rate.

The International Monetary Fund (IMF) has set a benchmark on the level of foreign reserves which states that it should be sufficient to cover 3 months of imports. Given the external shocks and risk we face such as natural disasters like the one we experienced a few days ago, we built in an additional buffer above this benchmark.

I am therefore pleased to inform that Fiji's foreign reserves remained well above the benchmark throughout the review period. At the end of July 2017, our foreign reserves level stood at \$2,313.7 million and was sufficient to cover 5.5 months of retained imports. In addition, there was approximately \$591 million in foreign reserves held by non-bank financial institutions.

Honourable Members, it may be worth noting that our foreign reserves level broke a number of records last year and reached a high of \$2.445 billion on 18 September 2017.

(iv) Financial Stability

It is paramount that we continue to have a sound, stable and healthy financial system to ensure confidence, and the efficient allocation of resources, and distribution of risks across the economy. You may recall that the Minister for Economy made a Ministerial Statement on the importance of safeguarding the stability of Fiji's financial system in the recent sitting of Parliament and therefore, I will be brief on this outcome.

I am pleased to inform the Standing Committee that the Fijian financial system remains safe and sound supported by a growing asset portfolio which rose from \$16.8 billion in August 2016 to \$18.5 billion in July 2017 and a further increase to \$19.4 billion by the end of 2017. This is almost twice our GDP.

The growth and importance of our financial system was validated by the recent findings of the Financial Sector Stability Review (FSSR) for Fiji which was undertaken by the IMF. It is important for me to highlight that Fiji was only the fifth country in the world and the first in the Pacific region to undergo a financial

sector stability review. The 7-member mission team was here from 14-27 February 2018.

Honourable Members, the IMF has concluded the 2018 FSSR for Fiji with its stress test assessment indicating that the banking system in Fiji as a whole appears to be resilient to shocks similar to those experienced in the last 15 years. However, to further ensure the ongoing safety and soundness of our financial system, the 2018 FSSR mission has made some key recommendations for the continued strengthening of the RBF's regulatory role on which we will commence work shortly.

3. RESPONSES TO QUESTIONS BY THE STANDING COMMITTEE

Let me now respond to the list of questions posed by the Standing Committee.

[i] We note that the Housing Facility to assist low income first time home owners has increased to \$60 million from \$25 million. Can we be given a number of how many have benefitted from this facility? Will this facility progressively increase in line with demand?

Honourable Members, please allow me to preface my response by saying that the Reserve Bank grants special lending facilities to address specific areas that may be impeding economic development and growth. From a national or macro perspective, these facilities do provide positive benefits. We have our National Disaster Recovery facility which we reactivated recently in light of the recent floods, and the Import and Export Substitution Facility. The Housing Facility was introduced to help address the housing affordability issue.

Funds for the initial \$25.0 million Housing Facility for low income households was channeled through the Housing Authority (HA). The amount was increased to \$60.0 million given the need to assist first home buyers, and broaden the coverage to include commercial banks, licensed credit institutions and the Fiji Development Bank. To date, the Reserve Bank has approved a total of 142 first home applications with a total value of \$12.5 million in addition to the 635 that benefited initially from the Facility through HA. The maximum interest rate charged on this Facility for home owners is 5.00 percent, and financial institutions borrow funds from the RBF at 1.00 percent. Therefore, a total of \$22.8 million remain available for lending to new first home buyers and we expect this to be utilised in the next 12-18 months.

In line with the expected buoyant economic activity and rising need for housing, the Reserve Bank will continue to review the demand for funds in meeting the objective of the Housing Facility.

[ii] Please provide an update on the status of Fiji's Green Bond?

Fiji floated its first Green Bond on 1 November 2017 attracting interest from both local and foreign investors. The participation rate recorded was three times more than were normally associated with the Fiji Government Infrastructure Bonds.

Of the total of \$40.0 million floated on 1 November, a sum of \$87.7 million was received in tenders, for the two tenors of 5 and 13 years. A second issuance of \$20.0 million was made on 28 December which was also oversubscribed with \$31.5 million received in tenders, for the 13 year tenor. A total of \$100.0 million is targeted to be raised for this financial year for which we have received \$60.0 million with the remaining \$40.0 million expected to be raised in April and June this year.

In line with the Green Bond Principles, these Green Bond proceeds are being channeled towards eligible projects such as the maintenance of drainage and flood protection, the construction of the new Labasa weather office and the rehabilitation and construction of schools destroyed by Tropical Cyclone Winston.

Fiji's Green Bond Framework is guided by the Green Bond Principles which sets out process guidelines for best practices: which include the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. An external independent verifier had confirmed that Fiji's Green Bond Framework is credible, transparent and aligns with the core principles. In addition, we are developing reporting and monitoring guidelines to ensure compliance with the Green Bond Framework and any environmental and social risk assessments. A key outcome would be the release of periodical reports on both the use of green bond proceeds and expected climate and/or environmental impacts of eligible projects.

Given Fiji's success story and experience on its green bonds, the International Finance Corporation has released a report titled "*Guidance for Sovereign Green Bond Issuers*" which focuses on lessons from Fiji's example as the first emerging economy to issue a sovereign green bond, and which can be applied by any future

green bond issuer. In addition, Fiji was also awarded a prestigious Green Bond Pioneer Award at the recent Climate Bonds Initiative's Conference in London. To further leverage our position on the global scale and bolster awareness and interest from foreign investors and stock exchanges, Fiji Green Bonds will be listed on the International Securities Market of the London Stock Exchange on 18 April 2018.

[iii] On page 50 under 'Reserve' we note that \$1.0 million was transferred to General Reserve whereas no such transfer was made in 2016. Can this be explained?

In accordance with the RBF Act, all the profits of the Reserve Bank are distributed annually to Government together with one-fifth of the foreign currency revaluation reserve account. Over the years, the total capital and reserves of the Bank have been declining and stood at around \$82.0 million as at the end of July 2017.

As explained earlier, it is prudent to set aside a small portion of the profits to the General Reserves to strengthen the Bank's capital base similar to what is practiced by private companies. The Reserve Bank had written to the Minister for Economy on 17 August 2017 recommending the transfer of \$1.0 million from the 2016-17 financial year profits to the General Reserve Account.

The request for the transfer of profits is in line with the provision of section 8 of the RBF Act. The last transfer to the General Reserve Account was made for the financial year ended 31 December 2007 when the Minister approved that \$1.0 million be set aside from the profits distributable to Government.

[iv] On page 33 relating to the development of the economy; we note that these are not the core functions of the RBF and we would like to know how much resources are devoted to these areas.

Honorable Members, the definition of 'core role' of central banking has blurred over time. Central Banking has evolved quite significantly, but we continue to refer to the conduct of monetary policy to achieve price stability as well as financial stability, as the heart or 'core' of what a central bank does. Other functions such as the development role we play complement our core functions and contribute to our overall vision of **"Leading Fiji to Economic Success"**.

The development function of the Reserve Bank is driven by the Financial System Development Group. The Group was established in 2009 to drive sustainable and

inclusive economic growth initiatives. This Group is headed by a Chief Manager with a total staff complement of 21. In the 2018 financial year, the Group has a budget allocation of \$1.9 million or 7.4 percent of the Bank's Total Operating Budget.

[v] Page 8 outlines the roles played by the Governor, some of which are outside the core responsibilities within RBF. Can we be given the assurance that these extra roles are not in conflict with what is expected of the Governor and that they do not impact on the performance of his core duties?

Thank you for this question as I had actually planned to address this issue to clear what appears to be mis-information that has been raised both inside and outside Parliament.

Under section 15 of the RBF Act, the Duties of the Governor are stated accordingly. In particular, section 15(2) states:

The Governor shall devote the whole of his or her professional services to the Reserve Bank and shall not, without the approval of the Minister –

- (a) Receive any salary or supplement thereto from any other source other than the Reserve Bank;
- (b) Occupy any other office or employment, whether remunerated or not except as nominee of the Reserve Bank except that he or she may –
 - (i) Act as a member of any statutory, committee or commission established by the Government;
 - (ii) Become a governor, director or member of the board of any international financial institution of which Fiji is a member.

In the Reserve Bank of Fiji August 2016-July 2017 Report, you will note on Page 8 that I am also the:

- Alternate Governor for Fiji at the International Monetary Fund;
- Alternate Governor for Fiji at the Asian Development Bank;
- Chairman of the Monetary Policy Committee;
- Chairman of the Macroeconomic Committee;
- Chairman of the Capital Markets Advisory and Development Taskforce;
- Chairman of the National Financial Inclusion Taskforce;
- Chairman of the Government Tender Board;
- Chairman of the Sugar Cane Growers Fund; and
- Board Director of the Fiji Sugar Corporation Limited.

I assumed all positions except for the last three by virtue of being the Governor of the Reserve Bank of Fiji. The Hon Attorney-General and Minister for Economy appointed me to serve on those boards when I was the Deputy Governor. Since the Report was published, I have also been appointed Chairman of the Accident Compensation Commission Fiji by the Hon Attorney-General and Minister for Economy.

The Standing Committee on Economic Affairs can be rest assured that the role of the Governor remains intact in serving the priorities of the Reserve Bank and also meeting the expectations of stakeholders. Issues of conflict of interest have been highlighted in some circles and I wish to clarify that contrary to such statements; none of these institutions that I serve on as a board member or chair are licensed or regulated by the RBF.

Notwithstanding the assurance I have given, I further wish to reflect on the vision of the Reserve Bank of Fiji of *Leading Fiji to Economic Success* and one of our key mission statements to “*Enhance our role in the development of the economy*”. This mandate calls for the Governor to play a wider role in the economy and the community allowing for knowledge and expertise sharing. I also wish to highlight that the RBF has an approved policy on external board appointments which supports the conduct of a transparent process in approving staff participation in external boards.

[vi] We note that since the report was published Mr. Esala Masitabua has been appointed the new Deputy Governor, making RBF an institution that has fully localised all its positions from Governor, senior managers, etc. We also note that of your 8 Executive Managers 5 are female and 3 are male – this is highly commendable. In your opinion, how can other institutions follow suit and possibly learn from RBF’s example?

Thank you for noting our fully localised management team and the high composition of female members in this regard. I wish to add that the RBF have a long history of fully localised management team.

We take pride in developing a corporate culture that rewards our people on merit. This drives us to ensure that our leaders are those who have the capacity to lead with integrity and commitment to our vision and missions. Having more females in our leadership team was not made a special consideration as sometimes promoted by some gender based propositions. The female members of our team

have made it to the senior positions that they hold, through merit, and they are supported the same way as we support our male members.

However, like many other organisations, we also have our share of challenges and continue to invest in empowered and accountable leadership through tailor made leadership training programmes, as well as receiving regular guidance from the board and the Governors.

We also wish to highlight that the RBF continues to promote merit based individuals into its leadership team while ensuring gender diversity in its key roles. In line with this, the RBF had issued a press release on 3 February 2017 on a call to action for greater participation and representation by women of merit on the boards of listed companies of the South Pacific Stock Exchange. We believe that gender diversity is a key indicator for good corporate governance, and the Bank will continue to collaborate with stakeholders in support of Fiji's National Gender Policy and the achievement of SDG 5 of Gender Equality.

For other local institutions, it would be of immense benefit if a merit based culture is inculcated in the organisation, and fairness and honesty guide decision making on leadership positions. Institutions will also need to invest in high-quality leadership training and be specific with leadership qualities they wish to have. The top echelon of the organisation structure will have to show interest in the continuous development of their senior and middle management, and ensure that effective succession planning is in place.

[vii] On page 60 – Statement of Cash flows – there seems to be a lot of movement between the figures of the seven month period ended 31 July 2016 and Year ended 31 July 2017 i.e. Net movement in Short Term Commercial Paper, Net movement of Domestic Securities, Net movement in Demand Deposits. We realise that one report is just a 7 month period and the other covers 12 months, however, the differences are still large. Please give us some insight into why the big differences.

The movements noted in the statement of cash flow reflect the changes (increases/decreases) in the Bank's financial position as at 31 July 2017 compared to the same period in 2016. The underlying reason for the movement in cash flow is the increase in total external reserves which rose from \$1,982 million to \$2,314 million (Page 68 Note 5).

The reduction in short term commercial papers from \$376.2 million to \$257.8 million can be explained by a rise in the current account (\$124.4 million to \$241.3 million).

On the other hand, domestic securities declined by \$8.4 million as RBF holdings of Government bonds matured (Page 68 Note 6).

Unlike short-term papers and domestic securities which are assets of the Bank, demand deposits are a liability and rose significantly over the year directly correlating to the level of foreign reserves. The demand deposits are commercial bank's settlement balances placed with the RBF and they are paid equivalent Fiji dollar when they sell their surplus foreign currency to RBF.

[viii] Also along the same lines – Page 67 – Interest Expense ‘International Monetary Fund’ 66 against 604 for 2017.

All central banks have an account with the International Monetary Fund (IMF). The RBF receives interest on Special Drawing Rights (Asset) and in the year received \$579,000 compared with \$53,000 in the previous financial year (page 67). Central Banks also have Liability – SDR Allocation where we pay interest to IMF. In the latest financial year, the RBF paid \$604,000 compared with \$66,000 in the previous year. The RBF tries to maintain its SDR Assets and Liabilities in a similar amount so that the interest received and paid are netted off.

The SDR is a basket of currency used by IMF and includes the US dollar, Euro and Japanese Yen. The interest paid/received is the weighted average short-term market interest rate in the three currencies and the increase in interest paid/received is due to two main factors:

- On 1 October 2016, the IMF announced the inclusion of the Chinese renminbi in the SDR basket of currencies. With the renminbi rate higher than the other currencies, this pushed the average interest rate higher; and
- Over the course of 2017, the short-term US interest rates have risen reflecting the interest rate hike by the US Federal Reserve as well as the tightening bias by the financial market.

[ix] We notice that there is a lot of emphasis on financial inclusion. Can we be given an update on how we are reaching out to the section of our population that does not have access to the banking system?

Work on financial inclusion is guided by the National Financial Inclusion Strategic Plan (2016 -2020). The overall target of this Strategic Plan is to increase access and usage of formal financial services from 64 percent to 85 percent (an additional 130,000 adults), of which 50 percent are women. In terms of geographical distribution, it is anticipated that 6 percent will be from the Eastern Division, 22 percent from the Northern Division, 40 percent from the Western Division and 32 percent from the Central Division.

These 2020 targets are based on findings from the 2015 Fiji Financial Services Demand Side Survey which highlighted that around 221,077 (36%) of the adult population are underserved.

This Strategic Plan focuses on 7 key areas: Empowerment of Women, Youth and those living with disabilities; Financial Infrastructure; Digital Finance; Services and Products; Financial Literacy and Consumer Protection; Public and Private Sector partnership and Data Measurement.

The RBF closely monitors the financial inclusion core set of indicators which include the following:

- Number of cash-in cash-out financial access points per 10,000 adults;
- Percentage of new account(s) at a formal financial institution;
- Percentage of adults that have an active mobile money account (used in the last 90 days);
- Percentage of adults using formal credit products;
- Percentage of adults with an insurance product; and
- Percentage of adults with a FNPF membership account.

Some achievements made to date include the launch of a bundled insurance product that has enabled 12,500 sugar cane farmers to be insured. An alternative affordable low cost life and health insurance product was launched in 2016 which customers can purchase using their mobile phones. A survey of the subscribers to this product showed 80 percent previously never had any form of insurance.

Financial inclusion has been achieved through the collaboration of public and private sector partners working together to remove the barriers that deter people from engaging with the formal financial system. Hence financial education is now embedded into the school curriculum and free community financial literacy training and media awareness programmes are some of the initiatives that have

been made widely available to the public to assist them in making informed financial decisions.

4. SUMMARY

Honourable Members, before I end, I wish to highlight a few key points for your noting:

- [1] The inflation rate has been below 3.0 percent since August 2017 and was 2.6 percent in March 2018. While we expect the end year inflation to be around 3.0 percent, we anticipate a rise in inflation over the next few months due to the impact of TC Josie on the supply of fresh fruits and vegetables;
- [2] Foreign reserves are currently just below \$2.2 billion, sufficient to cover 4.9 months of retained imports and reflect the seasonal outflow as well as venting of reserves to non-bank financial institutions; and
- [3] We had projected the economy to grow by 3.6 percent in 2018, and this is currently being reviewed. This will be our 9th consecutive year of growth – a record not achieved since independence.

Finally Honourable Members, I would like to acknowledge the great team that we have at the Bank and I wish to thank them, including our former Governor Whiteside who also contributed towards the 2016/2017 financial year, and the RBF Board for their leadership and guidance.

I hope these remarks are helpful background for the Committee's review of the Reserve Bank of Fiji's August 2016-July 2017 Report and we would be happy to answer any further questions.

Reserve Bank of Fiji

5 April 2018

APPENDIX 2

VERBATIM

VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON ECONOMIC AFFAIRS HELD IN THE COMMITTEE ROOM (EAST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON THURSDAY, 5TH, APRIL, 2018 AT 9:55 A.M.

Submittee: Reserve Bank of Fiji

In Attendance:

- | | | |
|----|-----------------------|---------------------------------|
| 1) | Mr. Ariff Ali | Governor |
| 2) | Ms. Caroline Waqabaca | A/ Deputy Governor |
| 3) | Ms. Lorraine Seeto | Chief Manager Governor's Office |
| 4) | Ms. Susan Kumar | Chief Manager Currency |
| 5) | Mr. Petaia Tuimanu | Acting Chief Manager Economics |
| 6) | Ms. Subrina Anif | Board Secretary |
| 7) | Mr. Mervin Singh | Manager Corporate Communication |
| 8) | Mr. Viliame Tagilala | Personal Assistant |

MADAM CHAIRPERSON.- Good morning everyone and welcome to the Standing Committee on Economic Affairs. We are here this morning to discuss your Annual Report of August 2016 to July 2017. With us this morning we have on our team Honourable Viliame Gavoka, Honourable Alvick Maharaj, myself, Honourable Prem Singh and Honourable Vijay Nath both away at the moment due to flooding and problems in the West.

From what we could see from this report we can see that RBF has met the objectives of maintaining low inflation adequate levels of foreign reserves and ensuring sound financial system. These are the core objectives of Reserve Bank of Fiji (RBF). So, from that point of view as a Committee we can say that RBF has been successful and meeting its core objectives during the period of this report. The Bank, we note was able to generate sufficient income from foreign reserves overseas despite the low interest rates prevailing in all markets. So, all in all Governor you and your team have been doing a great job and we are very thankful for that. We did send you a list of nine questions so what I would like to do is give you the floor and we quickly go through those questions one by one and when you are done with that we have got a few more questions that we have come up since yesterday. So, I will give you the floor, thank you.

MR. A. ALI.- Thank you, Madam Chair and Honourable Members for the invitation to present the Reserve Bank's Annual Report for the period 1st August 2016 to 31st July, 2017 to the Standing Committee on Economic Affairs.

Let me first introduce my team here. On my right in Caroline Waqabaca, Acting Deputy Governor as Esala Masitabua is in Jordan attending a workshop on SME. On my left in Lorraine Seeto, Chief Manager in Governor's Office, Susan Kumar, Chief Manager Currency and Corporate Services, Petaia Tuimanu, Acting Chief Manager Economics, Subrani Hanif, Board Secretary, Mervin Singh, Manager Corporate Communication.

I remember I had presented an extensive background to the Standing Committee last year on the role of central banks and the functions of the RBF as stated in the RBF Act and the 2013 Constitution. However, I would wish to just re-iterate as stated last year that central

banking is not for the faint of heart as Alice Rivlin so aptly said, “the job of the central banks is to worry”.

Honourable Members, as I had highlighted in my presentation to you in 2017, the RBF is tasked to maintain:

- i) Price stability which is to ensure that inflation is low and stable;
- ii) External (currency) stability that is a foreign reserves are comfortable so therefore we do not have to devalue; and
- iii) Financial stability that is the financial system is strong and robust.

Madam Chair, please allow me to first provide the highlights of the outcomes of the 2016/2017 operations before I respond to the questions from the Standing Committee.

Financial Performance

As we have highlighted previously, the objective of the central bank is not to maximise profit. While profit maximisation is not our goal, making losses is also not acceptable. As an important policy making institution, financial losses often results in reputational risk which then translates into loss of confidence from our key stakeholders.

Madam Chair and Honourable Members, for the financial year in review, the RBF made a profit of \$28.3 million and transferred to Government a total of \$29.4 million which included the one-fifth revaluation reserve totalling \$2.1 million. Of the \$28.3 million in profits, the RBF Board with the approval of the Minister transferred \$1 million to the General Reserve Account to strengthen the Reserve Bank’s capital base. This is similar to how private companies retain dividends or earnings to strengthen their capital base.

This compares with a transfer of \$16.9 million to Government, in the previous financial year was only for seven months and this \$16.9 million included \$13.9 million worth profits and one-fifth revaluation reserve of \$3 million. There were no transfers to the General Reserve in the previous financial year.

Similar to past years, RBF’s profits is underpinned by the income earned from our foreign reserves holdings which are invested in safe and liquid assets offshore. In the 2017 financial year, the Bank earned \$41.7 million in net foreign exchange income, boosted by elevated levels of foreign reserves.

I wish to further inform the Standing Committee that we again managed to sign off the RBFs annual audited financial statements for the twelve months ending 31st July on 28 September, which means we are able to sign it within two months at the end of the financial year while the Act provides us that it should be done within three months so we did it within two months.

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 a certified auditor’s copy of our financial accounts along with the operations report to the Minister on 29th September, 2017.

Price Stability

Honourable Members, as you are well aware, Fiji was hit by *Tropical Cyclone Winston* in February 2016. It negatively impacted the supply and prices of fruits, vegetables, root crops and kava thereby placing upward pressure on domestic prices. Consequently, inflation averaged 5.2 percent in the first half of the fiscal year 2016-2017 and this was something beyond our control.

However, supplies began to normalise in early 2017 resulting in a decline in headline inflation from 6.8 percent in January 2017 to a low of 2.0 percent by July 2017. The subdued global prices of key imports such as oil and food also contributed to this outcome.

External Stability

As a small open economy dependent on imports of a variety of goods, we need to maintain a sufficient level of foreign reserves, otherwise there will be pressures on our exchange rate.

The International Monetary Fund (IMF) has set a benchmark on the level of foreign reserves which states that it should be sufficient to cover 3 months of imports. Given the external shocks and risk we face such as natural disasters like the one we experienced a few days ago, we built in an additional buffer above this benchmark.

I am therefore pleased to inform that Fiji's foreign reserves remained well above the benchmark throughout the review period. At the end of July 2017, our foreign reserves level stood at \$2,313.7 million and was sufficient to cover 5.5 months of retained imports. In addition, there was approximately \$591 million in foreign reserves held by non-bank financial institutions; that is not included in this \$2.3 million.

Honourable Members, it may be worth noting that our foreign reserves level broke a number of records last year and reached a high of \$2.445 billion or \$55 million short of the \$2.5 million mark on 18th September 2017.

Financial Stability

It is paramount that we continue to have a sound, stable and healthy financial system to ensure confidence, efficient allocation of resources, and distribution of risks across the economy. You may recall that the Minister for Economy made a Ministerial Statement on the importance of safeguarding the stability of Fiji's financial system in the recent sitting of Parliament and therefore, I will be brief on this outcome.

I am pleased to inform the Standing Committee that Fiji's financial system remains safe and sound supported by a growing asset portfolio which rose from \$16.8 billion in August 2016 to \$18.5 billion in July 2017 and has further increased to \$19.4 billion by the end of 2017. This is almost twice the size of our GDP.

The growth and importance of our financial system was validated by the recent findings of the Financial Sector Stability Review (FSSR) for Fiji which was undertaken by IMF. It is important for me to highlight that Fiji was only the fifth country in the world and the first in the Pacific region to undergo a financial sector stability review. The seven-member mission team was here from 14th to 27th February, 2018.

Honourable Members, the IMF has concluded the 2018 FSSR for Fiji with its stress assessment indicating that the banking system in Fiji as a whole appears to be resilient to shocks similar to those experienced in the last 15 years. However, to further revamp our financial system, the 2018 FSSR mission has made some key recommendations for the continued strengthening of RBF regulatory role on which we will commence work shortly.

Let me now respond to the list of questions posed by the Standing Committee.

Question No. 1

We note that the Housing Facility to assist low income first home owners has increased to \$60 million from \$25 million. Can we be given a number of how many have benefited from this facility and will this facility progressively increase in line with demand?

Honourable Members please allow me to preface my response by saying that Reserve Bank grants special lending facilities to address specific areas that may be impeding economic development and growth. From a national or macro perspective, these facilities do provide positive benefits. We have our National Disaster Recovery facility which was reactivated just two days ago in light of the recent floods and we also have the import and export substitution facility. The Housing Facility was introduced to help address the housing affordability issue.

Funds for the initial \$25 million Housing Facility for low income households was channelled through the Housing Authority. The amount was increased to \$60 million given the need to assist first home buyers and broaden the coverage to include commercial banks, licensed credit institutions and the Fiji Development Bank.

To date, the Reserve Bank has approved a total of 142 first home applications with a total value of \$12.5 million in addition to the 635 that benefited initially from the facility through the Housing Authority. The maximum interest rate charged on this facility for home owners is 5 percent and the financial institutions borrowed funds from the Reserve Bank of Fiji at 1 percent. Therefore a total of \$22.8 million remain available for lending to first home buyers and we expect this to be fully utilised in the next 12 to 18 months.

In line with the expected growing economy activity and rising need for housing, the Reserve Bank will continue to review the demand for funds in meeting the objective of the Housing Facility.

Question No. 2

Please provide an update on the status of Fiji's Green Bond

Fiji floated its first Green Bond on 1st November, 2017 attracting interest from both local and foreign investors. The participation rate recorded was three times more than were normally associated with Fiji Government Infrastructure Bonds.

Of the total \$40 million floated on 1st November, 2017, a sum of \$87.7 million was received in tenders for the two tenors which is the 5 and the 13 years maturity. A second

issuance of \$20 million was made on 28th December, 2017 which was also oversubscribed with \$31.5 million received in tenders for the 13-year maturity. A total of \$100 million is targeted to be raised in this financial year for which we have received \$60 million with the remaining \$40 million expected to be raised later in April and in June. In line with the Green Bond principles, these Green Bond proceeds are being channelled towards eligible projects such as the maintenance of drainage and flood protection, the construction of the new Labasa Weather Office and the rehabilitation and construction of schools destroyed by *Tropical Cyclone Winston*. Fiji's Green Bond framework is guided by the Green Bond Principles which sets out process guidelines for best practices: which includes the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. An external independent verifier confirmed that Fiji's Green Bond Framework is credible, transparent and aligns with the core principles. In addition, we are developing reporting and monitoring guidelines to ensure compliance with the Green Bond Framework and any environmental and social risk assessments. A key outcome would be the release of periodical reports on both the use of Green Bond proceeds and expected climate and/or environmental impacts on eligible projects.

Given Fiji's success story and experience on its green bond the International Finance Corporation has released a report titled "*Guidance for Sovereign Green Bond Issuance*" which focus on lessons from Fiji's example as the first emerging economy to issue a sovereign green bond, and which can be applied by any future green bond issuer. In addition, Fiji was also awarded a prestigious Green Bond Pioneer Award at the recent Climate Bonds Initiative's Conference in London. To further leverage our position on the global scale and bolster awareness and interest from foreign investors and stock exchanges, Fiji's Green Bond will be listed on the International Securities Market of the London Stock Exchange on 18th April.

Question No. 3

On page 50 under "Reserve" we note that \$1 million was transferred to General Reserve whereas no such transfer was made in 2016. Can this be explained?

In accordance with the Reserve Bank Act 1983, all profits are distributed annually to Government together with one-fifth of the foreign currency revaluation reservation account. Over the years, the total reserves of the Bank have been declining and it is currently around \$82 million as at the end of 2017. As explained earlier, it is prudent to set aside a small portion of the profits to the General Reserves to strengthen the Bank's capital base similar to what is practiced by private companies. The Reserve Bank had written to the Minister for Economy on 17th August, 2017 recommending the transfer of \$1 million from the 2016-2017 financial year profits to the General Reserve.

The request for the transfer of profits is in line with the provision of Section 8 of the Reserve Bank Act. The last transfer to the General Reserve Account was made for the financial year ending 31st December, 2007 when the Minister approved \$1 million to be set aside from the profits that was distributed to Government.

Question No. 4

On page 33 relating to the development of the economy, we note that these are not core functions of the RBF and would like to know how much resources are devoted to this area?

Honourable Members, the definition of “core role” of central banking has been blurred overtime. Central banking has evolved over time but we continue to refer to the conduct of monetary policy to achieve price stability as well as financial stability as the heart or “core” of what central bank does. Other functions such as a development role complement our core functions and contribute to our overall vision of leading Fiji to economic success.

The development function of the Reserve Bank is driven by the financial systems development group. This group was established in 2009 to drive sustainable and inclusive economic growth initiatives. This group is headed by a Chief Manager with a total staff complement of 21. In the 2018 financial year, the group has a budget allocation of \$1.9 million or 7.4 percent of the Bank’s total operating budget.

Question No. 5

Page 8 outline the roles displayed by the Governor, some of which are outside the core responsibilities within the RBF. Can we be give assurance that these extra roles are not in conflict with what is expected of the Governor and that they do not impact on the performance of his key duties?

Thank you for this question as I had actually planned to address this issue to clear what appears to be mis-information that has been raised both inside and outside Parliament. Under Section 15 of the Reserve Bank Act, the duties of the Governor are stated accordingly. In particular Section 15(2) states the following:

“The Governor shall devote the whole of his or her professional service to the Reserve Bank and shall not, without the approval of the Minister:

- a. Receive any salary or supplement thereto from any other source other than the Reserve Bank.
- b. Occupy any other office or employment, whether remunerated or not except as nominee of the Reserve Bank except that he or she may:
 - i. Act as a member of any statutory committee or commission established by the Government
 - ii. Become a governor, director or member of the board of any international financial institution of Fiji is a member.”

In the Reserve Bank of Fiji’s August 2016 to July 2017 report, you will note that on page 8 I am also the:

- Alternate Governor for Fiji at the International Monetary Fund;
- Alternate Governor for Fiji at the Asian Development Bank;
- Chairman of the Monetary Policy Committee;
- Chairman of the Macroeconomics Committee;
- Chairman of the Capital Markets Advisory and Development Taskforce;

- Chairman of the National Financial Inclusion Taskforce;
- Chairman of the Government Tender Board;
- Chairman of the Sugar Cane Growers Fund; and
- Board Director of the Fiji Sugar Corporation Limited.

I assumed all position except for the last three by virtue of being the Governor of the Reserve Bank of Fiji. The Honourable Attorney-General, Minister for Economy appointed me to serve on these last three Boards when I was the Deputy Governor. Since the report has been published, I have also been appointed the Chairman of the newly formed Accident Compensation Commission Fiji by the Honourable Minister.

The Standing Committee on Economic Affairs can be rest assured that the role of Governor remains intact in serving the priorities of the Reserve Bank and also meeting the expectations of the shareholders. Issues of conflict of interest have been highlighted in some circles and I wish to clarify that contrary to such statements, none of these institutions that I serve on as a board member or Chair are licensed or regulated by the Reserve Bank.

Notwithstanding the assurance I have given, I further wish to reflect on the vision of the Reserve Bank of *Leading Fiji to Economic Success* and one of our key mission statements is to “*Enhance our role in the development of the economy*”. This mandate calls for the Governor to play a wider role in the economy and the community allowing for knowledge and expertise sharing.

I also wish to highlight that the RBF has an approved policy on external board appointments which support the conduct of a transparent process in approving staff participation in external boards. Finally, I just wish to add that out of all the board’s I am in, I do not receive any fees or allowance. I do not claim for any transportation allowance and in most instances for all the board meetings in the West, I use my personal time, I take annual leave to attend these meetings. In fact I have encouraged the Minister and the PS Economy that Reserve Bank can assist in a lot of other strategic corporations and encourage that some of the Senior Executive Management be also appointed to the relevant boards.

Question No. 6

We note that since the report was published, Mr. Esala Masitabua has been appointed as a new Deputy Governor, making RBF an institution that has fully localised all its positions from Governor, Senior Managers, et cetera. We also note that of your eight Executive Managers positions, five are females and three are males. This is highly commendable. In your opinion, how can other institutions follow suit and possible learn from RBF’s example?

Thank you for noting our fully localised management team and the high composition of female members in this regard. I wish to add that RBF has a long history of fully localised management team. We take pride in developing a corporate culture that rewards our people on merit. This drives us to ensure that our leaders are those who have the capacity to lead with integrity and commitment to our vision and mission.

Having more females in our leadership team was not made a special consideration as sometimes promoted by some gender based propositions. The female members of our team and some of them are sitting here, have made it to senior positions that they hold through

merit. They are supported the same way as we support our male members. However, like many other organisations we also have our share of challenges and continue to invest in empowered and accountable leadership, through tailor made leadership training programme, as well as receiving regular guidance from the board as well as the Governors. We also wish to highlight that the RBF continues to promote merit based individuals in this leadership team while ensuring gender diversity in its key roles.

In line with this, the RBF issued a press release on 3rd February, 2017 on a call to action greater participation and representation by women of merit, on the board of listed companies on the South Pacific Stock Exchange. We believe that gender diversity is a key indicator for good corporate governance and the Bank will continue to collaborate with stakeholders in support of Fiji's National Gender Policy and the achievement of the Sustainable Development Goal 5 of "Gender Equality". For other local institutions, it will be immense benefit if a merit based culture is inculcated in the organisation, and fairness and honesty guide decision making or leadership positions. Institutions will also need to invest in high-quality leadership training and be specific with leadership qualities they wish to have. The top echelon of the organisation structure will have to show interest in the continuous development of senior and middle management and ensure that effective succession planning is in place.

Question No. 7 on page 60 - Statement of Cash flow

There seems to be a lot of movement between the figures of seven months period that ended on 31st July, 2016 and year ended 31st July, 2017, and this include the net movement in Short Term Commercial Paper, net movement of Domestic Securities and net movement in Demand Deposits. We realise that one report is just seven months and the other is 12 months, however the difference is still large, please give us some insight as to why that big difference.

The movements noted in the statement of cash flow reflects the changes which is either increase or decreases in the Bank's financial position as at 31st July compared with the same period in 2016. The underlying reason for the movement in cash flow is the increase in total external reserves which increased from about \$1.98 million to \$2.3 million and this is something that you see on Page 68 Note 5.

The reduction in short term commercial papers from \$376.2 million to \$257.8 million can be explained by a rise in the current account, which increased from \$124.4 million to \$241.3 million which is again on page 68. On the other hand, domestic securities declined by \$8.4 million as RBF holdings of Government bonds matured - this is page 68 note six.

Unlike short term papers and domestic secretaries which are assets of the Bank, demand deposits are a liability and rose significantly over the year directly correlating to the level of foreign reserves. The demand deposits are commercial bank's exchange settlement balances placed with the Reserve Bank and they are paid the equivalent Fijian dollars when they sell their surplus foreign currency to the Reserve Bank.

Question No. 8

Also along the same lines - page 67 - Interest Expense 'International Monetary Fund' \$66,000 against \$604,000 for 2017.

All central banks in the world have an account with the International Monetary Fund.

The Reserve Bank receives interest on what we call the “Special Drawing Rights” which is the currency that is used by the IMF and in the year it receives \$579,000 in interest compared with \$53,000 the previous year - this is on Page 67. Central Banks also have a liability which is the SDR Allocation where we pay interest to IMF. In the latest financial year, we paid interest of \$604,000 compared with \$66,000 in the previous year. The RBF tries to maintain this SDR Assets and Liability in a similar amount so that the interest received and the interest paid are netted off.

The SDR is something like a virtual currency, it is a basket of currency used by IMF and includes the US dollar, Euro and the Japanese Yen.

The interest paid/received is the weighted average short-term interest rate of these currencies, and the increase in interest rate paid/received in the last financial year is because of two factors:

- On 1st October, 2016, the IMF announced its inclusion of the Chinese Renminbi in the SDR basket, because Chinese is becoming a world super power. The Chinese currency rate or Renminbi interest rate is higher than the other currencies which push the average interest rate that we paid or received higher; and
- In addition, over the course of 2017, the short-term US interest rates have risen reflecting the interest rate hike by the US Federal Reserve as well as the tightening bias by the financial markets.

Question No. 9

We notice that there is a lot of emphasis on financial inclusion. Can we be given an update on how we are reaching out to the section of the population that does not have access to banking system.

Work on the financial inclusion is guided by the National Financial Inclusion Strategic Plan and I understand that we have given you a copy of this strategic plan. The overall target of this Strategic Plan is to increase access and usage of formal financial services from 64 percent to 85 percent (an additional of about 130,000 adults) of which 50 percent are women. In terms of geographical distribution, it is anticipated that 6 percent will be from the Eastern Division, 22 percent from the Northern Division, 40 percent from the Western Division and 32 percent from the Central Division.

These 2020 targets are based on the findings from the 2015 Fiji Financial Services Demand Side Survey which highlighted that around 221,077 or 36 percent of the adult population are underserved. This Strategic Plan focusses on seven key areas which includes, Empowerment of Women, Youth and those living with disabilities, Financial Infrastructure, Digital Finance, Services and Products, Financial Literacy, Consumer Protection, Public and Private Sector Partnership and Data Management.

The RBF closely monitors the financial inclusion core set of indicators which includes the following;

- Number of cash-in cash-out finance access points per 10,000 population;
- Percentage of new accounts at formal financial institutions;
- Percentage of adults that have an active mobile money accounts;
- Percentage of adults using formal credit products;
- Percentage of adults with an insurance product; and
- Percentage of adults with FNPF membership account.

Some achievements made to date include the launch of a bundled insurance product that has enabled 12,500 sugarcane farmers to be insured. An alternative affordable low cost life and health insurance product was launched in 2016 which customers can purchase using their mobile phones. The subscribers of this product shows that 80 percent previously never had any form of insurance. Financial inclusion has been achieved through the collaboration of public and private sector partners working together to remove the barriers that deter people from engaging with the formal financial system. Hence financial education is now embedded into the school curriculum and free community financial literacy training programme and media awareness programmes are some of the initiatives that have been widely available to the public to assist them to make informed financial decisions.

Honourable Members before I end, I wish to highlight a few key points for your noting:

1. The inflation rate has been below 3 percent since August last year and was 2.6 percent in March. While we expect the end year inflation to be around 3 percent, we anticipate a rise in inflation over the next few months due to *Tropical Cyclone Josie* on the supply of fresh fruits and vegetables.
2. Foreign reserves are currently just below \$2.2 billion, sufficient to cover 4.9 months of retained imports and reflect the seasonal outflow as well as venting of foreign reserves to some non-bank financial institutions over the last few months.
3. We had projected the economy to grow by 3.6 percent in 2018 and we are currently reviewing our forecast and this forecast should be released early next month. However, at this stage we feel that we will record nine consecutive years of growth, a record not achieved since Independence.

Finally Honourable Members, I would like to acknowledge the great team that we have here at the Bank and I wish to thank them including the former Governor Mr. Barry Whiteside who also contributed towards the 2016-2017 financial year and the RBF Board for their leadership and guidance. I hope these remarks are helpful, background for the Committee's review of the Reserve Bank of Fiji's Annual Report and would be happy to answer any further questions. Thank you.

MADAM CHAIRPERSON.- Thank you very much for that Governor. Honourable Members do you have any questions that you want to go back on from the original 9 or you happy with all those answers?

HON. V.R. GAVOKA.- Apologies, Madam Chairperson.

MADAM CHAIRPERSON.- I said do you have any more questions on the original 9 that you need further clarification.

HON. V.R. GAVOKA.- Yes, I bit clarification.

MADAM CHAIRPERSON.- Okay, you can go ahead.

HON. A.A. MAHARAJ.- Thank you, Governor for that wonderful presentation and answering our questions and queries. Going back to question No. 1 on Housing Facility assistance given to the first home buyers, who actually sets this criteria whether it is actually set by the Bank which is lending it to the customers or is it set by RBF? Who monitors it? Is there any maximum interest rate that the Bank can charge to the first home buyers? If these three things can be clarified.

MR. A. ALI.- The guidelines are set by the Reserve Bank of Fiji. We know that there are some financial institutions you can borrow at close to 4.99 percent but that is fixed for a year. Thereafter it becomes variable and it could go as much at 7 percent of 8 percent or even higher. So, in setting this policy, we set the guidelines and the guideline includes; the maximum interest rate of 5 percent and this is set for 5 years because the maximum loan that we can give based on our Act is for 5 years and we can then thereafter rollover.

In terms of other guidelines, it is for first home buyers so our guideline very specifically states for first home buyers and initially when we had this facility through Housing Authority, we had a cap on the income. So, it was targeted for low income; people with a combined income of \$30,000, only for those below \$30,000 and we have since extended and increased this to about \$50,000 with the new facility simply because house prices have gone up and there are a lot of people who are earning a total combined income of \$50,000 are still not able to afford houses. So, the guideline is set by the Reserve Bank of Fiji and the RBF closely monitors this.

HON. V.R. GAVOKA.- Thank you, Madam Chairperson and thank you Governor and your team. I echo what our Chairperson had observed from the opening that everything appears to be in good hands in terms of our economy with the RBF and relative to this report. As I have said in the past, it is always a joy being briefed in this Committee by your team.

If I can take you to page 48 where you highlighted some of the legislations that were at that time pending to be presented to Parliament and the ones that are still under process. I note that Personal Property and Securities Bill, National Switch have gone through, become Acts except for the Consumer Credit Bill, Trade Union Bill and the famous Pension Savings Bill. As you know there was a bit of a dialogue in Parliament on this one lately. One of the concerns that we have is that the belief by some that this Pension Scheme will be challenging the integrity of FNPF. Can you give us some assurance that the way the Bill is crafted today, it will not be a threat to FNPF? I think that is what the concern is with Parliamentarians. We have our concern about FNPF, some of us want this Bill to become an Act of Parliament and set up a Pension Scheme but there is that concern that it may be threatening FNPF. So, how are you structuring this Bill?

MR. A. ALI.- Thank you for that question. We have been working on this draft Pension Savings Scheme. The key issue first of all is, we have got this Insurance Act and we supervise or regulate or licence the insurance based on this legislation. We have got the

Banking Act, we supervise all the banking institutions based on this Act. Currently, FNPF was not in our ambit for a very long time then what we did was, we tweaked with the Insurance Act so that it comes under our ambit and then when the FNPF Decree came, our powers to supervise was under the FNPF Decree or Act.

So, what we are saying is that it would be good to have a Pension Legislation, that is, our legislation that gives us the powers to supervise and regulate the FNPF. So, it is just the powers, it should not change anything on the ground but it gives us the power. Currently, our powers come from the FNPF legislation, what we feel is it would be good to have a legislation to give us the powers. Private pension companies will not be compulsory so the FNPF will still remain the compulsory pension institution. So, that means we still have to pay our 8 percent and the employer pays 10 percent, it still goes to FNPF.

Other than that, if people have more income and they would like to part some money, currently they part it in either life insurance, term deposit equity, they may want to take another pension which is over and above what is compulsory, then this legislation will allow them to be licensed and operate.

HON. V.R. GAVOKA.- So, I take it that it will not be threatening FNPF in the sense that it is not going to be compulsory. It is not going to be set up in a system that is mandatory for people. I think the concern is this, you join the work force and you are given a choice whether to put your provident fund into FNPF or a new pension scheme. That is where the concern is.

MR. A. ALI.- So, the draft pension legislation means that you still have to put your compulsory contribution to FNPF.

HON. V.R. GAVOKA.- The compulsory nature of it will not be given to anyone else.

MR. A. ALI.- No, it will not be given to anyone else. That is Government's call and we cannot make the decision. Our decision is to have a legislation where it gives us the powers to supervise, that is the standard all over the world rather than the powers given in their legislation that we supervise them, so that is the slight change.

HON. V.R. GAVOKA.- All right. I think it is clear now. The concern here is that come a time where people would say, there is going to be a compulsory one, and people choose where they put their provident fund. So, as we sit here today, people can find their own scheme outside of FNPF through the institutions that are already in place.

MR. A. ALI.- Yes, but there is no private pension company right now operating in Fiji.

HON. V.R. GAVOKA.- I was referring to the insurance

MR. A. ALI.- Yes so basically, if you are earning and you have some savings left after you pay your contributions for FNPF, your normal chores and if you have extras, currently people put some money in their life insurance, they put some money in the banks, they put some money in equities or they hide it under the mattress. So what this simply means is that, if these private pension funds are for, people might say, "hey, there is some

merit for me to put some money there because it is like an insurance.” Something happens, you will get money, it is for your benefit.

HON. V.R. GAVOKA.- That is very clear now. We do not have to allay the fear that someone will make the decision to set up something to compete against Fiji National Provident Fund (FNPF).

MR. A. ALI.- No.

HON. V.R. GAVOKA.- Right. Excellent.

MADAM CHAIRPERSON.- Go ahead.

HON. A.A. MAHARAJ.- Governor, we are actually on legislation, would you be able to provide an update on National Switch Bill that has been passed by Parliament. What is the update and what is the expected time for the roll over?

MR. A. ALI.- At this stage, we cannot say when this will commence. But I am pleased to inform you that there has been a lot of positive development since then. One of the key issues at that time was that the smaller banks did not have interchange with the larger banks. At that time when this Bill was introduced, BredBank, Bank of Baroda and Home Finance Company Ltd (HFC) did not have interchange with the large banks.

As of today, all the small banks have interchange with at least one large bank and they are currently working on making sure that they have interchange with the others.

Hopefully that will happen in the next 12-24 months. The other important thing that has happened is that when this Bill was introduced, the Automated Teller Machine ((ATM) interchange fee was around \$1.50. If you have an ANZ card and you withdraw at some other bank, there was a charge of around \$1.50. As of today, I think most banks have reduced their charges to 50 cents; so that is very positive.

MADAM CHAIRPERSON.- Thank you, Governor. We received a copy of the Press Release on 3rd April announcing that the *Credit Information Reporting Agency PTE Limited* had been granted a licence to act as a credit reporting agency. Could you let us know what happened to the original company that was doing this - Data Bureau or whatever they were called. What happened to them and what happened to all the data that they had?

MR. A. ALI.- I am sure you all in Parliament voted for the *Fair Reporting of Credit Bill*. Basically what that that meant is that the old Credit Bureau could not operate because of that Bill and part of the reason why this Bill was introduced is because there is no regulator for the old Credit Bureau. No one was regulating and supervising.

Under the Bill now, anyone who offers this service needs to be approved and licenced by the Reserve Bank of Fiji. Any one that provides data to the Credit Bureau needs to be approved by the RBF. So under the old system, there was no supervisor and no regulator. Under the current system, these are regulated and supervised by the RBF. As the Act says, I am not wrong I think, that data cannot be used.

MADAM CHAIRPERSON.- All right. So they did close down and all the data went with them. Is it possible for other companies to also start up?

MR. A. ALI.- Yes.

MADAM CHAIRPERSON.- This is the first one.

MR. A. ALI.- This is the first one. I mean if you go to Australia, Singapore and New Zealand, there are a number of them and they compete amongst themselves. One thing we see whether there is economies of scale here to have more than one, but if they meet our requirements, they would be given the licence.

MADAM CHAIRPERSON.- All right. That is good. How do they pronounce their name?

MR. A. ALI.- CIRA.

MADAM CHAIRPERSON.- All right. CIRA. We had all different kinds of ways yesterday.. Do you have another question?

HON. V.R. GAVOKA.- Also on the same day there was this one on the assistance that you are providing to the flood victims; home owners and businesses. I get the impression with the bank that at a time like this you need to prod them to lend to the distressed. Do I get the impression that without your prodding, nothing much happens or ...

MR. A. ALI.- No. On the contrary I think most banks, what they do is immediately after such a natural disaster, they talk to their clients or the clients talk to them and most times, they may not go public because everyone will demand. But what they do is, they give an amnesty to most of their business clients who have been affected, not to service their loan repayments for three months or one month. Sometimes they make announcements and sometimes they do not.

In addition to that, this is a facility that we have introduced when Mr. Narube was the Governor. We introduced it at that time because we had a flood. We introduced this facility so that businesses can borrow, if they needed to borrow. Sometimes what they need is just an amnesty in terms of repayment but sometimes because their stock has been depleted and buildings damaged, they need some cash flow, they are able to get additional funds at lower interest rates.

HON. V.R. GAVOKA.- Sounds wonderful. I just got the impression that the banks would be shutting their doors during emergencies and it is you who will say, "there is something here, go out and lend money." All right. It is clear now. Thanks.

MADAM CHAIRPERSON.- Do you have any other questions?

HON. A.A. MAHARAJ.- Just a last one from me. Governor, you actually mentioned about devaluation of currencies. Can you actually elaborate on the impact of devaluation on a country in both positive and negative ways?

MR. A. ALI.- I think there are more negatives than positives on devaluation. Devaluation is a very sharp instrument. It cuts across everything. So in instances we have devalued, the first thing is prices of all goods and services go up and the vulnerable are affected most, particularly if you have to devalue by 20 percent. Prices of goods go up, prices of basic foods, in particular, goes up faster than others and the cost of living gets affected.

Unfortunately, it is one of those things that no Governor of RBF would like to do, but sometimes it becomes necessary. The key thing is making sure that your reserves are comfortable. As I highlighted, our reserves are very close to \$2.2 billion. If our reserves are comfortable then the need for devaluation is significantly diminished. Of course, devaluation, you talk to people in the tourism sector, they will say a lower Fiji dollar is good for them because it means it makes Fiji more attractive. On the other hand, the cost of goods go up. It makes them attractive at least in room rates but prices of wine and foods all go up.

So there are pros and cons of devaluation. I think the more severe thing is because it is a sharp fall in the currency, immediately it gets filtered into the cost of goods or services and everybody bears that cost. The poor gets affected more because their income does not rise. Normally devaluation happens and it is not accompanied by a rise in income.

Of course, the RBF looks good somewhat because our reserves then increases and secondly we make big revaluation gains. The revaluation gains are then passed over to Government over time; one-fifth gets done. As I said, no Governor at the RBF devalues just so that a bottom line looks good.

HON. A.A. MAHARAJ.- So, what would the scenario be like as you stated that there are more negatives? Where would we be standing today had the two devaluations that took place, not taken place in the first place?

MR. A. ALI.- First of all is, when did you devalue? The last devaluation was in 2009. Our foreign reserves had fallen very close to \$400 million. In fact, it was propped up because we had to ask FPNF to bring back the \$300 million - \$400 million they had offshore. If it was not for that, our reserves would be much less than that. If you have very little reserve, what happens is this. No exporter in the rest of the world would like to deal with you because they are worried about you not being able to meet the payments.

If that happens, it simply means that we will not have fuel and medicine. It affects economic activity and I am sure the best example is a country like Zimbabwe. They have devalued their currency many times. What was \$1 say 10 years ago, currently we pay at least a million Zimbabwe currency in today's terms, so you lose credibility. So it is a hard instrument but it becomes necessary and sharp, devaluation means that everyone adjusts, prices have gone up, so you then reduce your consumption and therefore, that helps with reducing your import debt.

HON. V.R. GAVOKA.- In the last question you spoke about financial inclusion to include financial literacy with our people. This is an observation because we also scrutinised the Annual Report of FDB and when you talk about the delivery of service by FDB in terms of the timeline and approving loans and all that which continues to be contentious with people. And they say that one of the major issues is the literacy of the people, the application, how they fill out the forms and we would be recommending to them to take up jointly with the other agencies to try and improve literacy at that level. I am glad that that is

part of the programmes that you have. So I think we are in the right course here, Honourable Chair, which FDB can link up with you and other agencies to improve financial literacy across the country.

MR. A. ALI .- Most of the commercial banks are well ahead in that so they conduct Financial Literacy Workshops for most of their SME clients for prospective clients, even for depositors. They go to rural areas and do this very extensive awareness programme on financial literacy. FNPF does the same thing, we have a National Financial Inclusion Taskforce that focuses on financial literacy and a lot of other areas. So there is already a working group that is working on that and I am sure that FDB can learn a lot from this.

MADAM CHAIRPERSON.- All right. Thank you again Governor and your team for a very good presentation this morning. Thank you also for getting your reports in a very timely fashion. Before I close, I would just like to congratulate all your employees, all the bank's employees who have achieved long service and I was just having a read of it now and according to this report there were 13 in total that have done more than 15 years and so I wanted to say congratulations to all of them and a big congratulations to Lorraine who has achieved 36 years this year and to the previous Governor who did 40 years. So it is quite an achievement.

Just one little thing before I finish. I have picked up a typo error on Page 45, talking about the Paris Agreement and it says there that Fiji was amongst the first countries in the world to 'rectify' the Paris Agreement. I think that is supposed to be 'ratify'. So I just thought it was quite funny, but thank you again. It is always a pleasure to sit with your team and yourself and hear how the Bank is doing and as usual it is doing very well.

We are going to break for morning tea, so please stay back and join us. Thank you.

The Committee adjourned at 10.48 a.m.