



STANDING COMMITTEE ON ECONOMIC AFFAIRS

Consolidated Review Report of the Reserve Bank of Fiji 2018/19, 2019/ 20, 2020/2021 Annual Reports



PARLIAMENT OF THE REPUBLIC OF FIJI
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Chairperson's Foreword

The Standing Committee on Economic Affairs is pleased to submit to Parliament, the Consolidated Review Report of the Reserve Bank of Fiji 2018/19, 2019/ 20, 2020/2021 Annual Reports.

While the 2018 and 2019 period was business as usual for the Reserve Bank of Fiji, the year 2020 brought about its own unique challenges due to trade tensions between USA and China during the first half of the Financial Year and Fiji being hit with COVID-19 cases during the second half.

Like many other countries, Fiji too had to face the brunt of the pandemic as global economic activity had dwindled significantly. Proactive measures were taken by the Fijian Government to avoid a large-scale outbreak and with Borders closing around the globe, the number of inbound tourists dramatically dropped which led to negative economic ramifications in the country. While deliberating on the reports, the Committee noted the various policies that RBF had introduced during the 2019-20 and 2020-21 period to mitigate the economic impacts of Covid-19 and commended the Bank for its swift action.

The Committee noted a shift towards digital methods of transactions which was triggered by COVID-19 restrictions, with more people using services such as M-Paisa and Internet Banking. Fijians living abroad used Mobile Money Services to send money to relatives living in Fiji which contributed towards the significant increase in remittances. While the Committee appreciates the shift towards cashless transactions, it also recommended for RBF to continue working with key stakeholders such as FFIU to strengthen its cyber security capabilities.

The havoc caused by the COVID-19 Pandemic was also an opportunity to explore other prospects, one of it being the huge potential of Business Process Outsourcing and the many benefits Fiji could gain with more international businesses outsourcing their services to Fiji.

I would like to take this opportunity to extend our appreciation to the Governor of the Reserve Bank of Fiji and his team members for being prompt in answering the various queries and questions raised by the Committee.

Finally, I would like to thank our Committee Members who were part of the team that produced this report: - Deputy Chairperson Hon. Veena Bhatnagar, Hon. George Vegenathan, Hon. Inosi Kuridrani and Hon. Ro Filipe Tuisawau. I also take this opportunity to acknowledge and thank the Parliamentary Staff who have given us invaluable support.

On behalf of the Standing Committee on Economic Affairs, I commend the Review of the Reserve Bank of Fiji 2018/19, 2019/ 20, 2020/2021 Annual Reports to Parliament.

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Chairperson – Hon. Vijay Nath

ACRONYMS

BPO	Business Process Outsourcing
DRCF	Disaster Rehabilitation and Containment Facility
FFIU	Fiji Financial Intelligence Unit
GDP	Gross Domestic Product
ISEFF	Import Substitution and Export Finance Facility
MCTTT	Ministry of Commerce Trade, Tourism and transport
MSME	Micro Small and Medium Enterprises
PPSR	Personal Properties Securities Registry
SCEA	Standing Committee on Economic Affairs

1.0 Introduction

1.1 Background

The Reserve Bank of Fiji (RBF) is the central bank of the Republic of Fiji established in 1984 through an Act of Parliament - the RBF Act of 1983.

Under section 4(b) of the RBF Act (1983), the Bank is required to promote monetary stability through low and stable inflation and to maintain an adequate level of foreign reserves. The Bank is mandated to promote a sound financial structure. In undertaking this function, the Bank licenses and supervises banking, insurance, superannuation and capital markets institutions, as well as foreign exchange dealers.

Committee Remit and Composition

The Committee is made up of five (5) Members of Parliament, three (3) of which are Government members and two Opposition members. According to Section 109(2) (a) the Standing Committee is responsible to look into matters related to economic development, finance, banking and taxation.

2.0 Findings and Recommendations

1. The Committee is aware that the Reserve Bank of Fiji had introduced a number of policies during the 2019-20 and 2020-21 period to mitigate the economic impacts of Covid-19 and commends the Bank for its proactive measures.
2. The Committee was pleased to note that there was a significant increase in remittances during the 2020-21 Financial Year through the Mobile Money services which saw a substantial increase of 283.5% thus positively contributing towards the economy.
3. The Committee noted that under the Housing Facility for Low Income Earners Scheme, 1,011 households were assisted since its inception. Out of the allocation of \$100m, \$58.6M is outstanding for 1,004 first homeowners whilst \$24.7m is pending drawdown for 302 first homeowners, leaving \$16.7m available for lending. The Committee recommends that funds allocated for this facility should be fully utilized as intended for the review periods.
4. The Committee recognizes and acknowledges the huge potential of Business Process Outsourcing as a key economic sector given the challenges faced by Tourism and the Sugar Industries. The Committee noted the current contributions of BPO with key actors such as Mindpearl, and fully supports further development and growth of the BPO sector given its potential for substantial growth of Fiji's GDP.
5. The Committee noted that RBF had partnered with UNCDF to review the National Financial Inclusion Strategic Plan. The Committee recommends for RBF to continue working with stakeholders such as the UNCDF to further identify other priority areas.
6. The Committee noted that RBF, through the MSME Technical Working Group, liaised with MCTTT to advance initiatives that support the development of MSME sector. Given the impact of COVID-19 on MSMEs, the Committee recommends for the Working Group to continuously work in collaboration with relevant stakeholders to provide support to affected MSMEs.
7. The Committee noted a significant increase in digital transactions and therefore recommends that the bank continues to strengthen its cybersecurity capabilities with relevant stakeholders such as FFIU.

3.0 Sustainable Development Goals

The Committee was pleased to acknowledge the Bank's commitment to the UN Sustainable Development Goals. This was presented via a thorough and detailed report prepared by the relevant RBF team to elucidate to the SCEA members the strides that the organization has taken in facilitating more inclusive and sustainable economic growth.

On that note, we also acknowledge the challenges faced by the Reserve Bank in light of the Covid-19 pandemic namely: balancing spending, debt and taxation measures in the face of rising unemployment, global supply chain bottlenecks and, price volatility, and commend the RBF's organizational resilience in light of these global challenges. All in all, we remain optimistic about the Reserve Bank's vision to lead Fiji towards economics success and, by extension, continuing to contribute to the UN SDGs.

We also concur with the Reserve Bank that macroeconomic stability has a cross-cutting impact on the SDGs.

With that established, we are pleased to recognize that in carrying out its mandate the RBF directly and indirectly promotes the following Sustainable Development Goals:

SDG3 – Good Health & Well-being and SDG5 – Gender Equality

Having promoted enhanced digitization, 60% of the bank employees were able to engage in work from home during the Covid-19 wave in the interests of lowering the incidence of the virus and consequently promoted towards the well-being of staff. Policies such as this also benefit working people who take care of dependents such as children and the elderly especially during a pandemic.

Additionally, we note that the female to male ratio is 46:54 with a more equal ratio in executive and middle management levels and we thus commend the bank for its role in ensuring equal opportunities for women in decision-making and leadership spaces.

SDG4 – Quality Education and SDG17 – Partnerships for the Goals.

We also note that the Bank made efforts to enhance financial inclusion and literacy by collaborating with stakeholders namely: Alliance for Financial Inclusion (AFI), National Financial Inclusion Taskforce and Financial Literacy Working Group.

In order to support financial literacy of Fijians, the bank developed the “Noda i Lavo” TV program which was launched on FBC TV in the i-taukei language featuring episodes on investments in capital markets, insurance, agricultural programmes and so on. Such initiatives are truly

commendable and we encourage the RBF to continue developing innovative methods of enhancing financial literacy and financial inclusion for the benefit of all Fijians.

It is also pleasing to note that the RBF has partnered with the United Nations Capital Development Fund (UNCDF) and commenced a review of the National Financial Inclusion Strategic Plan 2016-2020.

SDG 8 – Decent Work and Economic Growth and SDG9 – Industry Innovation and Infrastructure

In March 2020 the Reserve Bank reduced the Overnight Policy Rate by 25 basis points with the goal to stimulate demand by lowering the cost of borrowing and encouraging consumption and investment. Such accommodative monetary policies are sure to benefit Fijians especially those engaged in Medium, Small and Micro Enterprises to enhance the scale of their operations and increase economic activity.

As the designated registrar of the Personal Properties Securities Registry (PPSR), an online platform that allows for the searching and filing of notices of security interest in movable property, the bank facilitated 75,000 cumulative filings as at July 2021, to the benefit of lenders and other users. The significance of such innovative infrastructure is underpinned by the need to promote online services as Covid-19 protocols prevented non-essential movement.

The committee notes the Reserve Bank's efforts to enhance e-money platforms in a bid to boost remittances which have become Fiji's largest foreign exchange earner, via the E-money taskforce which is responsible for monitoring and advocacy for mobile money development. We are confident that by improving access of average Fijians to modern technology and mobile money services, the Bank will effectively equip citizens especially vulnerable groups with the tools for financial independence.

SDG10 – Reduced Inequalities, SDG11 – Sustainable Cities and Communities and SDG13 – Climate Change

The Committee is pleased to note that the Reserve Bank increased lending allocations for the Import Substitution and Export Finance Facility (ISEFF) to \$300 million. The facility targets large-scale commercial agricultural farming and businesses with a focus on renewable energy to obtain credit from approved lending agencies at reduced interest rates. We note that funding is also available for operators of public transport such as buses to encourage purchase of public transport that are energy efficient, safe and reliable – and this will contribute to creating sustainable communities. We are positive that by targeting renewable and energy efficiency businesses, the bank will enhance Fiji's Climate Action goal to achieve net zero emissions by 2050.

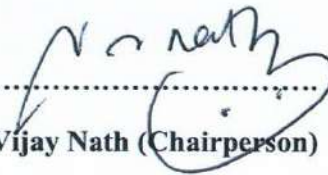
Funding for the Disaster Rehabilitation and Containment Facility (DRCF) was also increased to \$350 million, with the aim to offer guarantees to Micro, Small and Medium Enterprises (MSMEs)

in addition to streamlining debt recovery processes and removal of related fees charged by participating financial institutions.

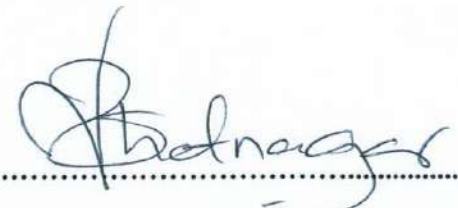
4.0 Conclusion

The Committee commends the overall performance of RBF during the period under review, especially given the various challenges posed due to the pandemic. The Committee understands that a lot of work and effort will go towards Fiji's economic recovery and that RBF will play a crucial role towards it through its various policies and initiatives.

Members Signature



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Hon. Vijay Nath (Chairperson)



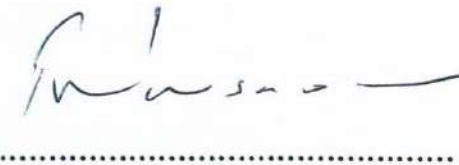
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Hon. Veena Bhatnagar (Deputy Chairperson)



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Hon. George Vegnathan (Member)



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Hon. Inosi Kuridrani (Member)



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Hon. Ro Filipe Tuisawau (Member)

Annexure

RESERVE BANK OF FIJI



WRITTEN SUBMISSION TO THE STANDING COMMITTEE ON ECONOMIC AFFAIRS

THE RESERVE BANK OF FIJI ANNUAL REPORTS

FINANCIAL YEARS: 2018-19, 2019-20 & 2020-21

A. INTRODUCTION

1. Thank you Honourable Chair, and Honourable Members for the invitation to submit to you today highlights of the Reserve Bank of Fiji's (RBF) Annual Reports for the past three financial years (FY) (2018-19 FY, 2019-20 FY, 2020-21 FY).
2. At the outset, the 2019-20 FY and 2020-21 FY were profound years for the Reserve Bank as the COVID-19 pandemic brought new experiences and unprecedented challenges to economic and monetary policy formulation. To mitigate the impact of the pandemic, the Reserve Bank implemented numerous policy measures to stabilise the economy whilst ensuring that its core mandates remained intact.

B. RBF ANNUAL REPORT HIGHLIGHTS

3. Honourable Members, as I had highlighted in my recent presentation to you in November 2021 on the Bank and the United Nation's Sustainable Development Goals (SDGs), the RBF is tasked to maintain the following core mandates:
 - (i) Currency Management
 - a. To regulate the issue of currency, and the supply, availability and international exchange of money;
 - (ii) Monetary stability
 - a. Price stability in ensuring that inflation is low and stable; and
 - b. External (currency) stability, in that foreign reserves levels are comfortable.
 - (iii) Financial and Payment system stability.
 - a. to promote a sound financial structure; and
 - b. To foster credit and exchange conditions conducive to the orderly and balanced economic development of the country.
4. I will therefore discuss the highlights of our Annual Reports under the key outcomes we achieved in ensuring the protection of these mandates, particularly those on monetary,

financial and payment system stability. I will also briefly cover how these mandates link to the Sustainable Development Goals followed by some updates of our financial performance.

Monetary and Financial Stability

5. Honourable Members, as the pandemic took hold, tourism activity dwindled and eventually collapsed, triggering a negative knock-on effect on other major sectors of the economy. In its efforts to maintain macroeconomic and financial stability, the Bank introduced several response measures during the review period.
 - a. As an initial response, the RBF on 18 March 2020 reduced the OPR by 25 basis points (bp) to stimulate demand by lowering the cost of borrowing and supporting consumption and investment. This accommodative stance has been maintained since.
 - b. The RBF also injected additional liquidity into the financial system through quantitative easing measures. Funding for the Import Substitution and Export Finance Facility (ISEFF) was increased by \$100 million to \$300 million (30 April 2020). Similarly, the recalibrated and renamed Disaster Rehabilitation and Containment Facility (DRCF) allocation was raised to \$350 million from the previous funding of \$150 million (2020-21 FY). The DRCF also offers a limited and tiered guarantee targeting Micro, Small and Medium Enterprises (MSMEs), streamlining debt recovery processes with the removal of related fees and charges by participating financial institutions for two years. Overall, these facilities aim to assist businesses in accessing concessional finance through their respective bankers during the crisis period and place further downward pressure on market interest rates.
 - c. Furthermore, the RBF invested \$300 million in Government bonds between March and July 2020 to support Government revenue and ensure the continued functioning of Government operations. Mindful that the persistence of the crisis will drastically reduce fiscal revenue, the statutory limit of the RBF's exposure to Government and statutory corporations was raised from 30 percent to 50 percent of the average total revenue of the Government for the past three years.

- d. The RBF also provided guidance on the prudential classification of loans on repayment moratoriums and the provisioning treatment of COVID-19 loans. The RBF continuously monitors the FNPF in light of the COVID-19 assistance provided to ensure the Fund's sustainability.
6. Through these measures and other policy initiatives, the Bank's twin monetary policy objectives of low inflation and an adequate level of foreign reserves – which will be briefly discussed next - remained intact during the FY.

Price Stability

7. Honourable Members, inflation in Fiji has subsided notably since the average 3.8 percent recorded in the 2018-19 FY. Inflation averaged -1.3 percent and -1.8 percent in the 2019-20 FY and 2020-21 FY, respectively, mainly driven by lower prices of alcoholic beverages, tobacco & narcotics, clothing & footwear and housing, water, electricity, gas & other fuels category.
8. More recently, Honourable Members would note that inflation has slowly picked up over the last year, with annual inflation at -0.4 percent in July 2021, rising from -1.6 percent in July 2020. This reflects supply chain disruptions stemming from the impact of the COVID-19 pandemic which is beyond the control of the central bank.

External Stability

9. Honourable Chair, I reiterate past presentations that Fiji, as a small open economy, is dependent on imports of a variety of goods. Therefore, Fiji needs to maintain a sufficient level of foreign reserves, to transact internationally. A comfortable level of reserves also ensures that there is limited pressure on our exchange rate.
10. The RBF moved swiftly in response to the pandemic by tightening exchange control measures to prevent sudden or large outflows in foreign reserves and protect the balance of payments position as the tourism industry collapsed and the broader economy weakened. Due to these actions and inflows, I am pleased to inform you that Fiji's foreign reserves have remained above the benchmark throughout the review periods. Over the recent

financial year (2020-21 FY), foreign reserves increased by \$1,006.7 million to \$3,113.7 million in July 2021, sufficient to cover 9.7 months of retained imports.

11. Honourable Members, over the past two financial years, reserves inflows was drastically impacted by the loss of tourism earnings. This loss was cushioned by Government's drawdown of its external loans and higher inflow of supportive grants from Fiji's key development partners during the COVID-19 crisis. Lower import payments and foreign direct investment in Energy Fiji Limited also underpinned the financial year outturn.
12. Inward personal remittances have also provided a welcome boost to foreign reserves. It is noteworthy that remittances have grown steadily since the onset of the pandemic with a significant increase in the transfer of funds via the mobile money platform, namely M-PAiSA by Vodafone Fiji and MyCash by Digicel. The industry also noted a few significant developments driven by consumer demand for affordable and safer means of making payments in light of the COVID-19 pandemic, as well as direct transfers by Government and donor agencies. Inward remittances (including international mobile money transfers) in the 2020-21 FY grew by 15.4 percent to total \$740.0 million, compared to a 6.8 percent growth in 2019-20 FY.
13. Currently (19/01/22), foreign reserves are around \$3,162.1 million, sufficient to cover 8.7 months of retained imports.

Financial Stability

14. Honourable Chair, the Reserve Bank is mandated to promote financial stability conducive for sustainable economic growth, discharged by ensuring that the financial system is resilient throughout the economic cycle and is able to withstand shocks.
15. Despite the significant challenges brought on by some natural disasters and the prolonged COVID-19 pandemic, the Fijian financial system continues to be assessed as stable on the back of strong capital and liquidity positions. While licensed financial institutions were able to support eligible customers through the provision of relief packages, the extension of these relief packages in light of the prolonged border closures and depressed economic

activity has increased the need for closer monitoring by the RBF of the financial positions of licensed financial institutions.

16. The Fijian financial system continues to expand, with total assets of \$24.1 billion in July 2021, growing by 5.4 percent. Except for the licensed credit institutions industry, all other players contributed to this growth.
17. The banking industry continued to report a satisfactory capital and liquidity position, with marginal asset quality. The insurance industry registered a strong consolidated solvency position and satisfactory levels of earnings and liquidity. The Fiji National Provident Fund (FNPF) continued to report positive operating results over the reporting period and adequately met its legislated solvency requirement.

Payment System stability

18. Honourable members, payment and settlement systems are critically important in maintaining financial stability and monetary policy.
19. To support the national development strategy of digital transformation, the Bank has embarked on the reform of the National Payment System (NPS) in Fiji with the objective of achieving a safe and efficient payment system, considered vital to the country's financial stability and economic growth. The RBF and the Fijian Government, with assistance from the World Bank Group/International Finance Corporation (WBG/IFC) and the Commonwealth Secretariat, have embarked on a 36-month programme to reform Fiji's NPS. The programme commenced in September 2019 and is currently in its implementation phase. The broad objective of the NPS reform is to modernise Fiji's payment systems law and infrastructure to effectively and efficiently meet the growing needs and aspirations of Fiji's economy. This reform is expected to be completed in 2022.

Relevant Updates on RBF's Other Functions

20. Honourable Members, amid the challenges of the 2020-21 FY, the Bank marked a significant milestone for the nation by launching the specially designed \$50 note and 50 cent coin to commemorate Fiji's 50th year of independence in October 2020. There were two million pieces of \$50 banknotes and 50 cent coins produced for issuance into

circulation. In support of climate preservation efforts, the Bank and the banknote's printer De La Rue jointly pledged to offset carbon emissions from the banknote production by contributing to the Ministry of Waterways and Environment for the construction of nature-based ecoseawall projects earmarked by the Government.

21. The Bank also maintained its lead role in the national financial inclusion agenda and as part of the secured transactions reform, Fiji's Personal Properties Securities Registry (PPSR) was launched in May 2019 with the commencement of the Personal Property Securities Act 2017 (PPSA). The Registry allows lenders to file their security interests on moveable assets pledged by borrowers aiding in reducing the cost of finance to enterprises and individuals. The Reserve Bank has now shifted focus to Phase III, which is assisting lending institutions to develop credit products that will enable the flow of funds to borrowers, especially the MSME sector. The PPSR operated seamlessly throughout the COVID-19 period, especially during the lockdown of the Suva area. In a bid to provide relief to clients in light of the economic challenges during the period, the RBF extended its fee-free period for all PPSR services for an additional 24 months until 31 May 2023.
22. For our mission to develop, empower and retain a professional team, to deliver the RBF's vision of Leading Fiji to Economic Success, the RBF promotes equal employment opportunities. An organically developed staff development framework identifies training needs and supports a continuous learning culture in the Bank through on-the-job training, job rotations, full-time study leave with/without pay, part-time studies, correspondence and short courses at both local and overseas institutions. As at 31 July 2021, the Reserve Bank staff complement was 195, consisting of 46:54 female to male ratio, with almost equal female to male ratios in executive and middle management levels.
23. In addition, the benefits of the Bank's ongoing digitisation of work processes, and resilience against risk and cybersecurity threats, were quite evident during the lockdown, whereby approximately 60 percent of the Bank's employees worked from home and continued to deliver on essential services via remote access to the corporate network.

The Reserve Bank and the SDGs

24. Honourable Members, in my November 2021 presentation, I emphasised that these mandates have a cross-cutting economic and social impact, laying a supportive foundation to meet the SDGs.
25. Briefly, in ensuring Fiji's macroeconomic stability, that is monetary, financial and payments stability discussed earlier, the RBF facilitates the efficient allocation of resources within an economy and promotes growth and development, which in turn allows for higher government revenue collections and more available funds for SDG spending. Monetary stability (stable and low prices, comfortable level of foreign reserves) also protects the purchasing power of individual's incomes and safeguards Fiji's ability to purchase imports and maintain a stable exchange rate. The RBF through its functions, contributes directly and indirectly to SDG4 on quality education; SDG8 on decent work and economic growth; SDG9 on Industry Innovation and infrastructure; SDG10 reduced inequalities; SDG11 on sustainable cities and communities; SDG13 on climate change; and SDG17 on partnerships for the goals. Nonetheless, the RBF notes that the achievement of the SDGs requires consistent collaborative efforts of all stakeholders.

Financial Performance

26. Honourable Chair, please now allow me to provide some highlights on the financial performance and operations of the Bank.
27. As we have stated in past presentations, while the central bank's objective is not to maximise profit, making losses is also not acceptable given the high reputational risks related to our key stakeholders' loss of confidence in our ability to effectively carry out our mandates.
28. As expected, RBF's profit is underpinned by the income earned from our foreign reserves holdings invested in safe and liquid assets offshore and domestic bond investments. This was complemented by the Bank's cost prioritisation and containment efforts, which has offset the fall in revenue to a great extent, for the second year running.

29. For the 2020-21 FY, the Reserve Bank reported a net profit of \$31.7 million, slightly higher than the \$30.1 million recorded in the preceding financial year despite the challenging global economic and financial conditions. In accordance with sub-section 34(3) of the RBF Act, a transfer of \$32.9 million was made to Government which accounts for \$1.0 million transfer to the General Reserve Account and inclusive of \$2.2 million being one-fifth of the Revaluation Reserve Account. This compares with a transfer of \$29.4 million to Government (\$27.3 million profits and one-fifth RAA totalling \$2.1 million) for the financial year ended 31 July 2017 with a transfer of \$1.0 million to the General Reserve Account.
30. In the past three years, despite challenging years in global economic and financial markets with a substantially low-interest rate environment, the Reserve Bank has managed to transfer profits totalling of \$92.4 million to the Government.
31. As a public institution aspiring to best governance and disclosure practices, the RBF was again able to sign off on its annual audited financial statements for the twelve months ending 31 July 2021, on 23 September 2021, within two months of the ending 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 a copy of our financial accounts certified by the auditors along with its Operations Report, on 24 September 2021.

C. SUMMARY

32. Honourable Members, in closing, I wish to highlight a few key points for your noting as an update on the current economic environment:
 - (i) While noting an uptick to the end of 2021, the inflation rate remains at an acceptable level. The recent developments in trading partner inflation and the rise in global commodity prices will be a monitored concern going forward.
 - (ii) Foreign reserves continue to remain above the benchmark, and as of 19 January 2022, foreign reserves were around \$3,162.1 million, sufficient to cover 8.7 months of retained imports.

- (iii) Before the onset of Omicron, we projected that the economy would grow by 11.3 percent in 2022. However, this will be reviewed and possibly slightly downgraded in the coming months.
 - (iv) The financial system is stable, with gross assets rising to \$24.1 billion at the end of 2021.
33. Domestically, risks are elevated, brought about by new variants of COVID-19 and natural disasters as we are currently in the cyclone season and the recent volcanic eruptions in Tonga. While the RBF has no control over risks emanating from global developments, we continue to engage with relevant stakeholders in Government and the private sector on actions to mitigate domestic risks. The RBF continues to review and implement necessary strategies to mitigate these risks.
34. I would like to conclude by thanking the excellent team we have at the Bank under the able oversight and guidance of our Board of Directors. We hope these remarks are a helpful background for the Standing Committee's review of our annual reports.

Reserve Bank of Fiji

19 January 2022