



FINANCIAL

STABILITY REVIEW

OCTOBER 2016





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There is limited analysis in some sections of the report, due to partial data availability.

The Financial Stability Review is prepared annually in September.

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Abbreviations

AML/ ML	Anti Money Laundering/ Money Laundering
BIS	Bank for International Settlements
CAR	Capital Adequacy Ratio
CTF/ TF/ CFT	Counter Terrorist Financing/ Terrorist Financing/ Combating the Financing of Terrorism
EU	European Union
FDB	Fiji Development Bank
FNPF	Fiji National Provident Fund
FX	Foreign Exchange Risk/ Foreign Currency
FYE	Financial Year Ending
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFSR	Global Financial Stability Report
HA	Housing Authority
IMF	International Monetary Fund
KYCC	Know Your Customer's Customer
LCIs	Licensed Credit Institutions
LHS	Left Hand Side
LVR	Loan to Value Ratio
MSBs	Money Service Bureaus
NBFIs	Non-Bank Financial Institutions
NDRF	National Disaster Rehabilitation Fund
NPLs	Non-performing loans
PSBEs	Private Sector Business Entities
RBA	Reserve Bank of Australia
RBF	Reserve Bank of Fiji
RBNZ	Reserve Bank of New Zealand
RHS	Right Hand Side
RTGS	Real Time Gross Settlement System
SME	Small and Medium Enterprises
SPSE	South Pacific Stock Exchange
SIFIs	Systemically Important Financial Institutions
TC	Tropical Cyclone
UK	United Kingdom
US	United States
WEO	World Economic Outlook

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Preface

The Reserve Bank of Fiji is mandated with the responsibility of promoting a sound financial structure. A sound financial structure safeguards the stability of individual financial institutions and the financial system.

The Reserve Bank of Fiji defines financial stability as the ability of the financial system to adequately fulfil its key economic functions of efficient allocation of financial resources and effective mitigation of risks, through the provision of a well-functioning financial structure at all times. The risks to the Fijian financial system are monitored by considering

the following key areas: global environment, macroeconomic risk, credit risk, market and liquidity risk, systemically important financial institutions risk, risk appetite and, capital and profitability.

While Fiji's financial system is dominated by the banking industry and the Fiji National Provident Fund, ongoing assessment of the stability of the financial sector is also focused on other lending institutions and insurers, with the assessments aimed at identifying systemically important changes and emerging risks to the financial system.



Executive Summary

The downside risks faced by the world economy presents moderate risk to the domestic financial system through its effects on the domestic economy. Negative impacts from recent natural disasters have had a major drag on the economy but implications on the financial system so far have been minimal. Nevertheless, as discussed in this report, negative macroeconomic developments as a result of natural disasters can have significant consequences for financial stability.

In terms of macroprudential policy, developments in the financial system do not indicate a build-up of systemic risk. The upswing

in the credit cycle has not been excessive and has decelerated faster-than-expected. Regardless, the credit cycle is reaching closer to its long-term trend, suggesting that developments need to be closely monitored. Data on credit conditions indicate that credit standards have not excessively loosened, given the upward trend in asset prices and feedback to the credit cycle. Further, banks' capital adequacy has remained above requirement, and pricing behaviour has not been excessively aggressive. On the market and liquidity front, banks' funding profile, liquidity condition and repricing risks on short-term negative mismatch pose moderate risk.



RBF Financial System Policy Committee Discussion Summary

The following remarks were made by the Governor and Chair of the Reserve Bank's Financial System Policy Committee during the Committee's discussion of the Financial Stability Review on 21 September, 2016.

- The Committee broadly shared the assessment of global environment risk with increased downside risks and the expectation that it would affect the Fijian economy moderately.
- Committee members broadly concurred on the need for continued monitoring of macroeconomic developments such as domestic supply shortages caused by natural disasters and its trajectory effects on the macro-economy and on financial stability. The Committee acknowledged that the damage caused by Tropical Cyclone (TC) Winston was sizeable with much of it being uninsured. Due to the periphery effects of the path of TC Winston, much of the tourism and central business areas were spared, but with growing climate change factors, natural disasters remain a high risk area for the macro-economy.

In noting the developments in credit risk, the Committee agreed that developments in credit growth are to be monitored. It noted in particular that credit growth in the current credit cycle has moderated with a negative credit to GDP gap. Non-performing loans (NPLs) are expected to remain low in the short-term.

The Committee recognised that much of the credit risk stemmed from increased risk appetite. Factors taken into account in surveying risk appetite include, relaxation in credit standards, continued business optimism and upbeat economic conditions. Committee members understood that financial institutions' capital and profitability outcomes were key to ensuring the financial system remained viable, and noted that additional capital buffers were not required at this stage. Similarly, systemically important financial institutions' were noted to pose low to moderate risk at this time.

The Committee agreed to the moderate risk stance on market and liquidity risk - noting that developments in funding profiles would need to be monitored and that the core liquidity ratios and the wholesale funding mix, at present remain within historical stress points.

The Committee highlighted the importance of conserving financial stability, ensuring system liquidity remains accessible and the meeting of the Reserve Bank's twin objectives of maintaining a healthy level of foreign re-serves and stable inflation.

The Committee recognised the policy framework in place, that has allowed robust monitoring, assessment and mitigation of key areas towards meeting the Reserve Bank's key mission of macroeconomic and financial stability.

Section 1: Financial Stability in 2016 Overview

The recent downside risks faced by the global economy pose moderate risk to Fiji's financial system from its impact on the domestic economy through trade, remittances and tourism.

The International Monetary Fund in its 'World Economic Outlook Update October 2016' retained the global growth forecast for 2016 at 3.1 percent. This takes into account the uncertainty surrounding the Brexit, prolonged weak global economic activity amidst increasing financial turbulence, falling asset and commodity prices and longer-than-expected rebalancing of the Chinese economy.

The moderate risk assessment of the global environment reflects Fiji's proximity to the negative factors mentioned above and potential downside risks posed to the Fijian economy through trade, remittances and tourism. Developments in the economy extend to affect the financial system and this is further discussed under – Macroeconomic Risks.

Fiji's economy also remains vulnerable to global oil price movements, but oil prices are expected to remain low in the immediate-term.

Macroeconomic developments as a result of natural disasters need to be closely monitored for consequences on financial stability.

While macroprudential supervision focuses on curbing the build-up of systemic risks from within the financial sector to limit its consequences on the real economy, it is also

important to consider the risks faced by the financial sector from developments in the real economy.

The participants in the production chain of the real economy hold various positions with the financial sector. Therefore, disruptions to the production chain extend to affect the financial system. Consequently, and notwithstanding the consequence of systemic risk from within the financial system, robust and resilient economic conditions transpire into a stable financial system through access to stable funds and improved credit performance. The opposite is true during economic downturns.

In the case of the Fijian economy, the production process, is largely vulnerable from its exposure to natural disasters. The recent TC Winston and TC Zena related flooding in April caused significant losses in output, which led to a downward projection of economic growth to 2.4 percent in 2016 from an earlier anticipated 3.5 percent. Domestic supply shortages further resulted in inflation rising to 5.6 percent in September, although year-end inflation is expected to taper-off as supply normalises. Adequate foreign reserves helped Fiji withstand the balance of payment pressure from the increase in imports. As at September, foreign reserves totalled \$1,902.9 million,



sufficient to cover 5.3 months of retained imports of goods and non-factor services.

The trend in the NPLs ratio (from 1.1% in 2015 to 1.2% in June 2016) so far suggests that the impact on the financial system has been minimal. This is largely because major industries such as tourism, retail, manufacturing, building & construction and real estate, which have a significant exposure to the financial system, were not directly impacted by TC Winston. Further, liquidity conditions were adequate to respond to emergency related withdrawals and increased import payments. The deceleration of the credit cycle however suggests that the impact may have dampened business sentiments.

Nonetheless, if a cyclone of a similar force strike areas in which industries have significant exposure to the financial system, then the impact on the financial system will be significantly higher.

Commercial banks have half of their loan book (50.1%) concentrated in tourism, agriculture, retail, building & construction, real estate and retail which may be directly vulnerable to natural disasters. This means that macroeconomic developments as a result of natural disasters need to be closely monitored for their consequences on financial stability as discussed earlier.

The current build-up in credit is not considered 'excessive' but developments need to be closely monitored.

The financial sector is undergoing a credit cycle up-swing with a sustained period of credit growth since 2011. The financial system's

aggregate credit growth stood at 8.9 percent at the end of June 2016, moderating from its recent highest level of 14.7 percent in 2014.

This cycle has been underpinned by a sustained period of rapid credit growth from commercial banks going back to 2010. However, the growth rate has slowed to 9.2 percent at the end of June 2016 after soaring to 27.1 percent in 2014. The current build-up in credit is not excessive at the moment or not a source of build-up in systemic risk. See section on Buoyancy of the Financial System for further discussion on credit risk.

Commercial banks' capital adequacy remains above minimum requirements.

Banks have historically maintained their capital adequacy ratio above the minimum requirements implying buffers were able to weather historical periods of financial stress for example in years 2007 to 2009.

However the recent trend in commercial banks' capital adequacy ratio also shows that the banks are inclined (or vulnerable) towards the financial cycle. On close examination, there has been a build-up in risk weighted assets since 2011. Relative capital levels were not maintained, however, the ratio levelled-off at the end of 2015 as the credit cycle moderated.

Developments in banks' funding profile in response to the current credit cycle poses moderate systemic risk.

During credit cycle upswings and buoyant liquidity conditions, banks may place greater reliance on short-term wholesale funds to fund

longer term loans. Short-term wholesale funds are volatile in nature, and can be withdrawn at short notice. This run-off is intensified during subsequent periods of financial stress, which may threaten banks' liquidity positions and their access to stable funds to underwrite loans. It is therefore important to study developments in banks' funding profile (particularly during a credit cycle) and benchmark core liquid assets against short-term wholesale funds.

Historical evidence show that the liquidity crisis in late 2008 to early 2009 was preceded by a sharp increase in wholesale funding mix to fund the credit cycle between the years 2002 to 2006. Liquidity conditions were buoyant during this credit cycle, but core liquid assets to meet run-off of short-term wholesale funds fell sharply .

The analysis also shows that the current credit cycle is not funded by a greater reliance on short-term wholesale funds as experienced during the prior credit cycle. Hence, the current wholesale funding mix remains far below the historical stress point.

In addition, banks' core liquid assets are currently sufficient to meet 22 percent run-offs of short-term wholesale funds, and have not declined as sharply as experienced during the prior credit cycle. The core liquidity ratio remains well above the historical stress point when compared to Asian and Pacific countries.

Moreover, the downside risks posed by the funding scenario explained above extends to the maturity transformation role of the commercial banks. During such periods,

historical analysis indicates that banks' are increasingly vulnerable to interest rate risk on large negative short-term mismatches, in terms of roll-over funding costs.

Interest rates on short-term funds have marginally increased in the last three years, but roll-over funding costs (interest rate risk) on the increased negative short-term mismatch in the same period were not significant. This is given banks' lower reliance on short-term wholesale funds and their satisfactory liquidity positions.

Lastly, on the foreign exchange (FX) risk component of market risk, analysis shows that commercial banks have been satisfactorily hedging their FX positions to limit losses from FX risk.

Systemically Important Financial Institutions (SIFIs) pose low to moderate systemic risk based on the latest microprudential assessments.

The Fiji National Provident Fund (FNPF) is considered a SIFI as it comprises more than a quarter of the financial system (27.1%), while the three largest commercial banks are considered systemically important banks, adding to the tally of SIFI, as they comprise 81 percent of total banking assets and 36 percent of the financial system. Collectively, these four institutions represent 63 percent of the financial system. SIFIs are assessed using the underlying micro- prudential assessment framework. All SIFIs attracted a 'satisfactory' rating and a 'normal monitoring' supervisory stance in the latest microprudential assessment.

BOX A: OLYMPICS GOLD FOR FIJI RUGBY SEVENS – implications on financial stability

The First Gold at the Summer Rio Olympics 2016. It was on 12 August 2016, that the Fiji Seven's Rugby Team ploughed through the Finals, securing a first Gold medal for Fiji at a Summer Olympics event.

Amidst the contagious celebrations in all parts of the world populated by Fijians, but never more pronounced in Fiji, a commemorative public holiday was announced for 22 August 2016. What are the possible implications on Fiji's financial stability, if any, of this historic win?

The initial comments that have been aired, are those that relate to the lack of productivity within the final two days of the Olympics event. A lower level of productivity for two days out of the 250 working days in a year is roughly a ratio of 0.8 percent in a given year. In monetary terms, using GDP at current market prices of \$8,552.9 million, at 0.8 percent, this would roughly be \$34.2 million, assuming half a day's productivity is compromised for both days.

On the flipside, the win has generated a lot of awareness on the world stage, about Fiji. This

is expected to increase future tourist arrivals, as well as demand for exported Fijian made products. In addition to the demand for Fijian made products, we also expect more exports of Fijian rugby players, that would add to future remittance levels. This may counter the earlier expected effects on productivity.

The social effect from the win - a general feeling of celebration and pride in the team and in Fiji, with the added bonus of a public holiday, has effects on consumer spending. Anecdotal evidence suggests that with increased celebratory moods in consumers, there is increased consumer spending (for example, with food and beverages (especially alcohol)). The exact quantum of this would be difficult to measure and so is not explored here. Hand in hand with the expected upside in consumer spending, would be utilisation of borrowing sources and therefore a very slight increase in consumer lending. This is not anticipated to show in lending growth levels.

To sum up, the win is expected to have a stimulating effect on the macro-economy, with anticipated increased visitor arrivals and demand for Fiji made products balancing lower productivity, and upbeat consumer spending/lending — therefore its anticipated short-term effect on financial stability is positive.

Key Risks to Fiji Financial Stability on the Horizon

In terms of systemic risks emanating from within the financial system, developments in the credit cycle and application of credit standards do not pose a significant risk at this time. Offshore developments are not expected to have any significant impact at this time. Developments in the macro-economy as a result of recent natural disasters, are also not considered significant for their consequences on financial stability in the short-term.

Offshore Developments: Implications for Fiji's Financial System

Risks to global financial stability are on the incline, as uncertainty surrounding the global economic outlook continues. The IMF notes that risks in emerging market and developing economies have also been affected by tighter global financial conditions and the weaker commodity market outlook (GFRS, 2016). Global growth has been retained at 3.1 percent and 3.4 percent for 2016 and 2017 respectively (IMF WEO Update, October 2016). The following international developments are monitored for their expected effect on financial stability:

Impact to Fiji's financial system of uncertain global financial markets has been limited.

United States: Current political developments with the upcoming presidential elections, may have an effect on global financial stability. However, the impact to Fiji's financial system of uncertain global financial markets has been limited to date, due to the insulated nature of Fiji's economy and limitations on capital outflows. Due to the currency mix in Fiji's basket of currencies, US currency fluctuations are expected to be acceptable.

Direct knock-on effects to Fiji's financial system are not envisaged, should negative risks spiral.

Euro zone: Following the Brexit vote, European Union (EU) leaders have been in discussion on trade and other related exchanges. In addition, the pressures arising from the refugee situation are affecting political and social relations. The issues surrounding sovereign debt of some European countries and recent terrorist attacks, have also increased potential political instability risks. Direct knock-on effects to Fiji's financial system are not envisaged, should negative risks spiral.

Similar to New Zealand and Australia, no immediate downside risks for Fiji's tourism and exports/imports to and from China are envisaged.

Australia: The slowdown in Australia's major trading partners, particularly China, has had a flow-on effect on Australia's performance. Financial system stability continues to be maintained supported by the strong



performance of the banking system (RBA FSR, 2016). Australian financial institutions represent 26 percent of Fiji's financial system. No immediate downside risks to the financial system are apparent from Australia in the short-term.

New Zealand: The economy maintained a 0.9 percent growth in the final quarter of 2015 from the previous quarter. This was underpinned by the services sector and construction activity. New Zealand's financial system remains sound, however, faces risks to imbalances in the housing market and the potential effects of the slowdown in the Chinese economy (RBNZ FSR, 2016). There are no New Zealand banking institutions at present, and no immediate downside risks are seen for Fiji's tourism and exports/imports to and from New Zealand in the short-term.

China: Growth in China slowed to 6.7 percent in the first quarter of 2016. The IMF recently commented through the Article IV consultation that the "medium-term outlook is clouded by factors including high and rising corporate debt, structural excess capacity and the increasingly large, opaque and interconnected financial sector." However, we envisage no immediate downside risks for Fiji's tourism and exports/imports to and from China.

Recent movements in domestic fuel prices and associated low global commodity prices have largely been positive for our macro-economy, however downside risks remain for Fiji.

BOX B: ASSESSMENT OF POSSIBLE DIRECT IMPACT OF BREXIT ON FIJI'S FINANCIAL SYSTEM

Background and Approach

The UK voted on 23 June, to leave the EU, and we saw large movements on the stock markets reacting to the vote. What remains now is formal notification for Brexit. The IMF had said that Brexit may "cause contagion and a severe market reaction". The most direct and measurable impact is from possible volatility in the FX market. The Bank of England argues that 50 percent of the fall in the British Pound in the past six months is due to Brexit concerns. We assume the extreme FX market volatility during the height of Global Financial Crisis (GFC) and apply this shock on current foreign currency positions of SIFIs with the results discussed below.

Scope of Assessment

The quantitative assessment takes into account possible volatility in the FX market and possible valuation changes (gain/loss) on SIFI foreign currency positions. This is the primary and direct impact expected to be realised and can be reliably measured.

The following is a qualitative assessment of impact, with Brexit unfolding:

There is not expected to be any significant impact in the performance of SIFIs in Fiji as they are not directly linked to financial markets in UK and Europe. Contagion from foreign parent and correspondent banks are covered through their open positions. Developments

with foreign parent and correspondent banks may be monitored through ongoing supervision of commercial banks.

Direct macroeconomic impacts are expected to be through one of Fiji's major export commodities - sugar. At the moment, there are no direct macroeconomic impacts on commodity prices and tourism earnings. Other macroeconomic impacts depend on how much Fiji's direct trading partners get affected through linkages to possible contraction in the UK and EU economies. Impacts may be through import prices/shortages, currency fluctuations and export and tourism earnings. However, at the moment, these are currently not regarded as having any significant impact.

Moreover, at this stage, there is not expected to be a significant impact on performance and valuation of RBF foreign reserves.

Assessment Outcome

Possible turbulence in the FX Market will have a minimal or almost insignificant impact on SIFIs from their current foreign currency positions.

Prudential limits on foreign currency positions and/ investment policies of licensed financial institutions (LFIs), Fiji's exchange regime and workings of the basket, limit losses from foreign currency exposure. Macroeconomic impact on Fiji, at this stage, is also considered as not being significant.

Note: The term Brexit is a blend of two terms - Britain, and exit. It refers to the United Kingdom's withdrawal from the European Union following the vote of 23 June in which 52 percent voted in favour of exiting the EU.

Source: RBF Staff Estimates

BOX C: De-risking – implications on financial access

In the Pacific, tightening of international standards for anti-money laundering (AML) and counter-terrorist financing (CTF) has become a key issue.

Remittances are one of the major sources of revenue for many small island economies in the Pacific and these flows support economic activity and livelihoods. Remittance streams from family members living overseas form an essential source of money for many people living in the Pacific, and a significant proportion of the GDP of many Pacific Islands.

A global trend has emerged in which banks are closing accounts deemed high risk, which are often those of nongovernmental organisations, foreign embassies, correspondent banks, and money transfer businesses. In the recent past (beginning in 2013) banks have started to terminate relationships with Money Service Bureaus in the Pacific, impacting on the ability of the grassroots individual to send and receive money easily and at a low cost.

The issue is heightened where countries depend on foreign bank branches to provide such financial services. In countries with

only one foreign branch bank providing this service, subsequent action to close accounts of Money Service Bureaus (MSB) by the banks would ensure the formal remittances industry is driven to a complete standstill.

The practice of de-risking however, is an inevitable response from the financial services industry, given the ascendance of AML/CFT in recent years. Together with the 2008 financial crisis, this has prompted the sector to rethink the way it defines and manages risk such as the KYCC (know your customer's customer) requirements. Given that banks are unable to view customer details of MSBs, KYCC is not able to be performed, in addition to the banks' competitive relationships with MSBs.

However, there remains ambiguity around the criteria for de-risking actions and a lack of uniformity in its implementation across jurisdictions and financial institutions.

Foreign currency dealers in the Pacific may differ in comparison to other jurisdictions, due to the fact that these dealers are licensed and subject to ongoing regulation and supervision.

It has been noted that countries with heightened risk of ML or TF are tightening AML/CTF standards. This tightening however has stretched beyond their jurisdictions, through correspondent banking relationships.



Global banks have terminated correspondent banking relationships, including in Pacific operations. Banks in many countries have chosen to maintain relationships with the correspondent banks, rather than the MSBs.

AML/CFT measures are necessary to protect the stability of the international financial system and to cut off resources to violent extremist groups, but need to be implemented with care, so as not to exacerbate financial exclusion.

Six commercial banks currently operate in Fiji. Four of which are branch operations, one locally incorporated, and one locally incorporated and locally owned. Two branch

banks have closed the accounts of foreign exchange dealers in Fiji, an action considered as de-risking. Further to this, a branch bank has also closed accounts of pay day lenders (commonly known as money lenders) in Fiji, and this action has also been considered as de-risking.

De-risking also presents challenges for financial inclusion goals, limiting access to formal bank accounts for potential customers who may not meet requirements because they lack a prior banking history, and to money transfer operators who cannot operate without a centralised account to temporarily hold funds.

Household Developments

Increasing debt level for the sector is a growing concern.

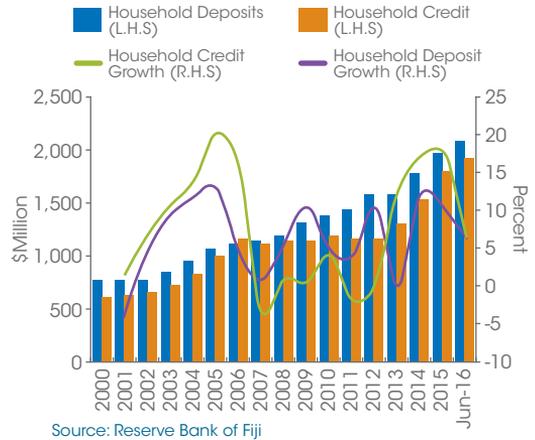
As the net saver in the economy, the household sector continues to maintain a reasonable gap between its deposits and loans over the years. However, the increasing debt level for the sector is a growing concern. Since 2000 household loans have grown rapidly at an average rate of 7.2 percent annually, while deposits have grown steadily at average rate of 6.0 percent annually (Figure 1).

It is envisaged that household borrowing will continue to increase in the short to medium-term given the effect of recent TC Winston.

Consequently, the share of household borrowing as a percentage of GDP in June 2016 stood at 20 percent, 4 percent less than the historical high of 24 percent in 2008 (Figure 2). Innovation in consumer finance products, including the aggressive promotion and marketing of such products, amidst the low interest rate environment, are some of the major contributing factors in the growth of household debt, as it has resulted in relaxed borrowing constraints, allowing households more access to credit. It is envisioned that household borrowing will continue to increase in the short to medium-term given the effect of recent TC Winston.

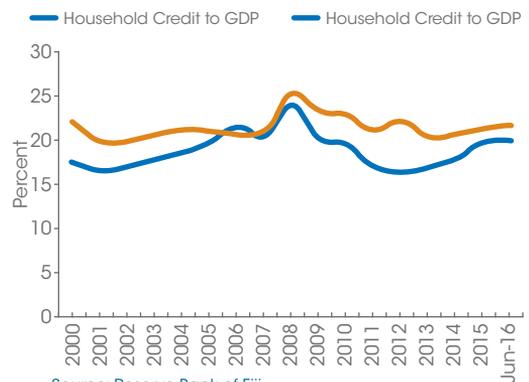
Looking at the composition of household debt from the banking sector, as at June 2016 housing loans accounted for around 67 percent of total household loans, while other personal loans and cars, motorcycles and personal transport loans accounted for 23 percent and 10 percent respectively (Figure 3). Housing loans are generally considered

Figure 1: Growth of Household Deposits and Loans



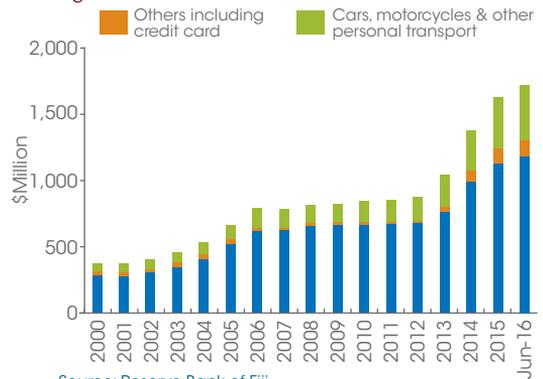
Source: Reserve Bank of Fiji

Figure 2: Household Credit and Household Deposits to GDP



Source: Reserve Bank of Fiji

Figure 3: Household Debt - Commercial Banks



Source: Reserve Bank of Fiji

to be of less risk, as most housing loans are secured by fixed collateral. However, any ballooning of collateral values is a concern as during an economic boom, lending standards and requirements are expected to be loose and such collateral values act as a propellant for further lending. These factors are further compounded where supply inadequacies push house prices higher. Government housing assistance programs that have incentivised construction of new homes are an appropriate response to lift supply. The supply side issues in Fiji are not expected to level off in the short to medium-term.

Credit standards have eased somewhat for the household sector.

The Reserve Bank of Fiji carried out a Credit Conditions Survey in 2016 to ascertain if any of the assumptions mentioned were true. As anticipated, the survey response had indicated that the credit standards have eased somewhat for the household sector, particularly for the housing and personal transport lending. However, there is less concern for housing lending as banks on average maintain an 80 percent Loan-to-Value ratio (LVR) which is deemed adequate.

The quality of household debt continues to improve from the 2011 NPLs of \$54.9 million down to \$24.1 million as at June 2016 (Figure 4). Given the upswing in the credit cycle experienced by the economy, it is normal for the NPLs level to look healthy as borrowers are generally meeting the repayments due to low interest rates (Figure 5). Based on historical data, should the financial system experience an interest rate shock as it did in 2007, the household sector's NPLs is likely to increase by almost 20 percent from its current level.

Fijian households pose minimal to moderate threat to the financial sector.

Figure 4: Non-performing Loans – Household Sector

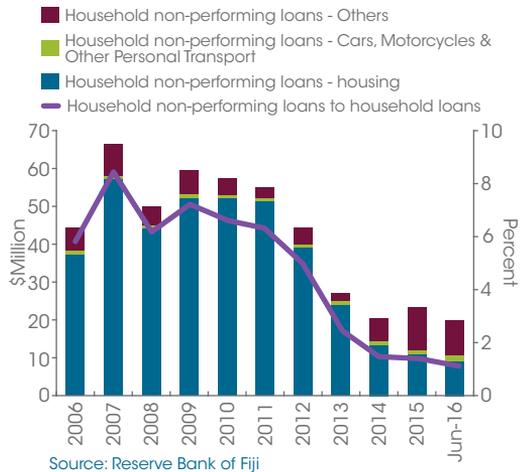
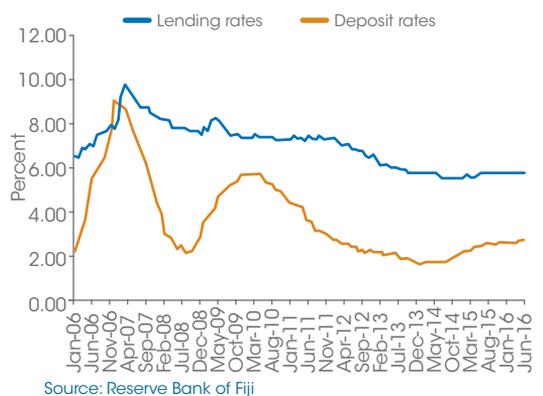


Figure 5: Commercial Banks' -Interest Rates



From a financial stability perspective in the short-term, the household sector poses minimal threat to the financial sector. As indicated by their deposit and growing loan levels, the households may face risk if the deposit to loan gap contracts. However, considering our analysis excludes total household income and non-financial assets due to data unavailability, it can be said that households are in a good position as they are able to meet their liabilities solely based on deposits held with banks.

Box D: Fiji's Housing Market

There has been growing demand for housing particularly from the first home buyers' perspective, but the increase in house prices has fueled the overall increase in housing indebtedness. Recent housing sales valuation data, together with the historically low interest rates on housing products and the increasing levels of debt consolidation, suggest that the vulnerability from rising household indebtedness identified for March 2016 is likely to continue.

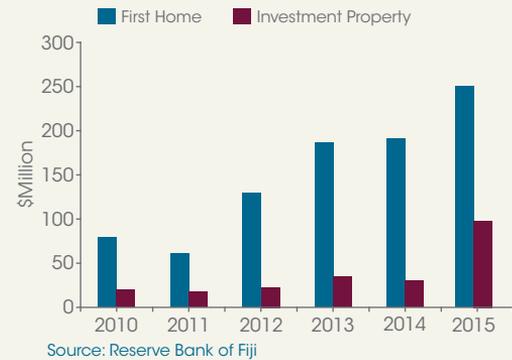
The average sale price per house has steadily increased over the years. The average home loan value from commercial banks was \$73,000 in 2008, compared to \$107,000 in 2015. The increasing level of housing demand is largely reflected in the uptake of home loans by individuals over the past years (Figure C1). The total number of new loans taken by individuals in 2015 stood at 6,423 or 185 percent higher than the 2,256 in 2010. The value of new home loans (Figure C2) has also increased more than three times over the five year period (2015: \$351m, 2010: \$100m).

The high levels of new loans have significantly contributed to the overall increase in household indebtedness. However, given the low interest rate environment there is less likelihood of any major home loan defaults considering the consistent levels of repayments currently reported by banks. Even after applying an

Figure D1: Total Number of New Loans by Sector



Figure D2: Total Value of New loans by sector



interest rate shock (as experienced in the year 2007) to the current levels of housing loans, housing NPLs level increased by 20 percent, which is deemed manageable as all banks' post shock capital levels were within required levels.

The banking system remains resilient to risks associated with the property market. As



reported by banks, an adequate buffer against property price fluctuations is maintained by most banks, with an average LVR of 80 percent

Government's housing assistance programs² that encourage construction of homes for new home owners through incentives are noted to help with supply shortages.

Note:

1. Data on Housing loans by value and number are derived from licensed commercial banks and credit institutions,

Fiji Development Bank, Housing Authority and Fiji National Provident Fund.

2. Fijians with annual incomes of less than FJD50,000 are eligible for a FJD10,000 grant to construct a new house, while a grant of FJD5,000 is provided to purchase an existing house. Including Government funding through the National Housing Implementation Plan, Housing Assistance Relief Trust and the PRB Simla Development Project.

Buoyancy of the Fijian Financial System

Commercial banks and FNPF dominate the financial system.

The Fijian financial system is largely dominated by commercial banks which comprise 45.2

Table 1: Composition of Financial System as at June 2016

Category	Composition (%)
Reserve Bank of Fiji	12.8
Commercial Banks	45.2
Credit Institutions	2.0
Fiji Development Bank	2.4
Housing Authority	1.0
Insurance Companies	8.0
Fiji National Provident Fund	27.1
Unit trusts	1.2
Insurance Brokers	0.3

Source: Reserve Bank of Fiji

Table 2: Commercial Bank's Assets FYE 2015

Commercial Bank	Relative Size (%)
ANZ	36.1
WBC	23.4
BSP	22.6
BOB	8.3
HFC	6.7
BRED	2.8

Source: Key Disclosure Statements

percent of financial system gross assets (Table 1), followed by the Fiji National Provident Fund (FNPF) with 27.1 percent.

'Too-big-to-fail' phenomenon is present.

The FNPF is considered a SIFI as it comprises more than a quarter of the financial system,

Note for Table 1: Excluding unregulated finance companies, credit unions, microfinance institutions, foreign exchange dealers and South Pacific Stock Exchange.

while the three largest commercial banks are considered systemically important banks, comprising 81 percent of total banking assets.

Banks account for a large proportion of credit.

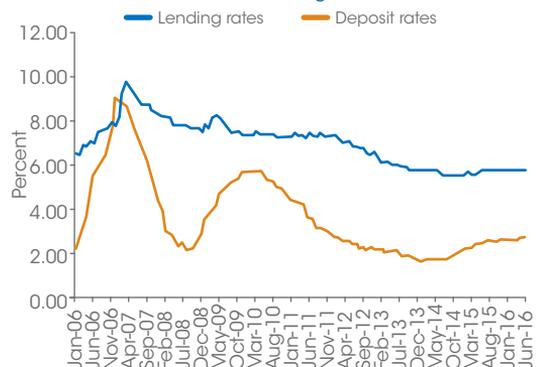
Commercial banks account for almost 80 percent of total credit intermediated by the financial system (Figure 5), representing 63 percent of GDP. This has increased over time from 60 percent in the year 2000, which is indicative of the competitive advantage banks hold over other credit providers in terms of funding, leading to their deepening financial coverage.

In contrast, other credit provider's relative share has significantly declined (due to a licensed credit institution becoming a bank) from 40 percent in the year 2000, to 20 percent currently, with FNPF taking 37 percent of this share. These include the Fiji Development Bank (FDB), the Housing Authority of Fiji, LCIs, and life insurance companies.

Business lending dominates commercial banks' lending portfolio.

Business lending accounts for 63 percent of commercial banks' loan book while household lending accounts for only 28 percent. There

Figure 5: Credit Intermediation - Bank vs Non-Bank Lending



Source: Reserve Bank of Fiji

has been a substantial increase in business lending over time (Figure 6) with businesses and households, holding 50 and 33 percent respectively in the year 2000.

Rising business and household optimism (RBF Business Expectation Survey) during the current period of economic expansion and accommodative monetary conditions have led to an increased demand for loans to fund projects and asset purchases. Therefore, the increase in business and household lending is an indication of procyclical behaviour.

The current build-up in credit is not considered 'excessive' but developments need to be closely monitored.

There is a surge in credit activity in the financial sector, with a sustained period of credit growth since 2011 (Figures 7 and 8). Aggregate credit growth stood at 12.9 percent at the end of 2015, although moderating from its level of 14.7 percent in 2014.

Underpinning this cycle is growth in commercial banks' lending since 2010. However, growth has dropped to 13.5 percent at the end of 2015 after soaring to 27.1 percent in 2014. A sustained period of credit growth may show growing financial imbalances if build-up in credit is excessive, however this should not be relied upon on its own, as credit may be expanding in response to the increasing productive capacity of the economy.

The ratio of credit relative to income is used in this report as a complimentary indicator to credit growth. At the economy level, total system credit relative to GDP helps to determine if output in the economy is being increasingly produced by taking on excessive debt. However long-term increases in the ratio may not necessarily indicate increasing

Figure 6: Credit Intermediation – Banks vs Non-Bank Lending

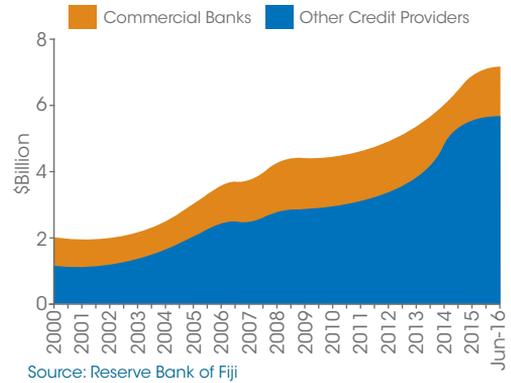


Figure 7: Commercial Banks' Lending

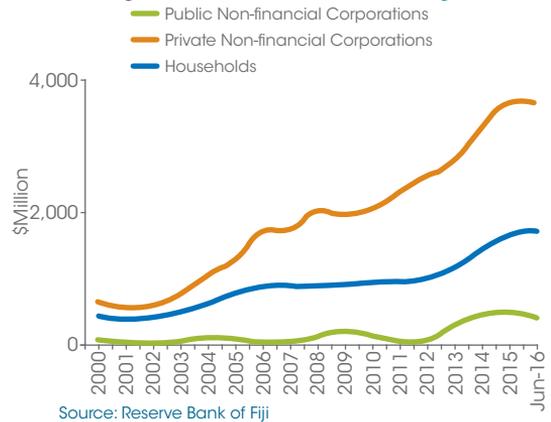
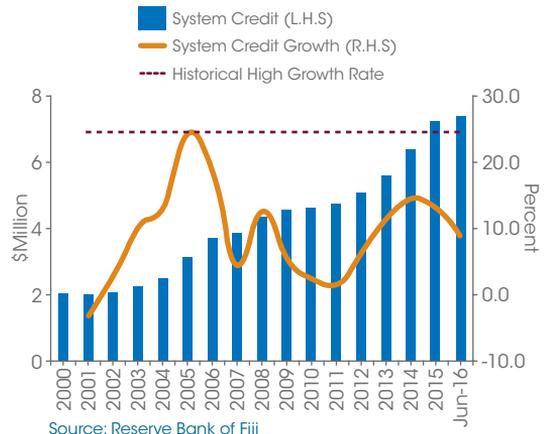


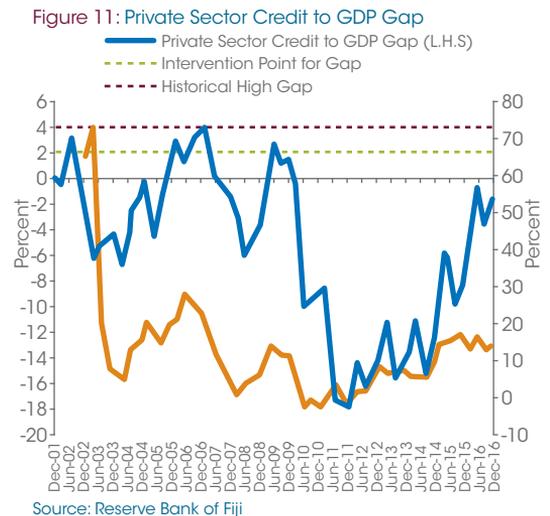
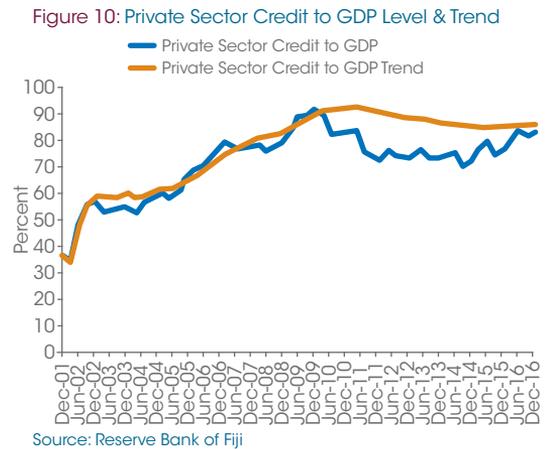
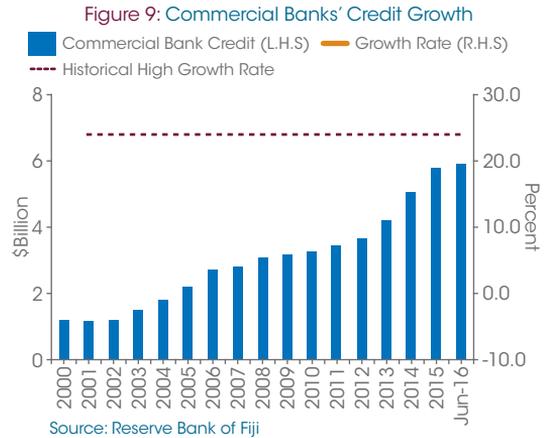
Figure 8: Aggregate Credit Growth



imbalance as the ratio may increase for reasons unrelated to systemic risk such as increasing financial inclusion.

By applying a smoothing technique (in this case Hodrick-Prescott filter with a lambda of 400,000) on the time series data of debt to income levels, cyclical components and other influences such as financial deepening is removed, to yield its long-term trend. The difference then between the level and its long-term trend results in a credit gap measure. The Basel Committee suggests that a large positive gap provide a useful early warning indicator (at least three year ahead signal) of future periods of financial system stress. For an economy that is not highly indebted in terms of credit to GDP ratio, the Bank for International Settlements (BIS) recommends macro-prudential intervention when the gap is in the range of 2-10 percent. Historical analysis (Figures 10 and 11) of the Fijian financial system shows that the interpretation of the gap measure holds true to some extent. A sustained period of rapid credit growth between the years of 2002 to 2006 had already resulted in the credit to GDP ratio rise above its long-term trend at the end of 2006. The gap was then amplified to a large positive gap between the years of 2007 to 2009 from a contraction in GDP during this period largely caused by the 2006 year-end political crisis and 2008 global downturn. Accordingly, 2007 to 2009 was a period of financial system stress.

For the current period of sustained credit growth since 2011, analysis shows that credit to GDP has been growing below its long-term trend resulting in a negative credit gap during this period. The analysis concludes that the current build-up in credit is not excessive at



the moment or not a source to the build-up in systemic risk, if any.

Relaxation in credit standards had further propelled credit growth, but relaxations are not excessive and LVRs remain at safe margins.

The results of the February 2016 Credit Conditions Survey point towards a 'somewhat easing' lending standards, which has helped to further propel credit growth, as credit providers respond to a low level of NPLs and rising value of borrowers' collateral (for example, house price increases) underpinned by buoyant economic conditions.

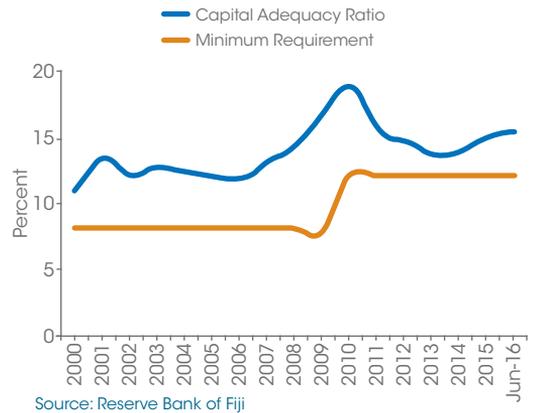
Relaxation in LVRs (for example, >80%) indicate that credit providers are increasingly vulnerable to boom bust cycles. Sample data gathered during on-sites of major lenders indicate that LVRs at origination for business and household lending have remained within safe margins.

Commercial banks have historically maintained their capital adequacy ratio well above the minimum requirements.

Regulatory capital requirements act like shock absorbers by enabling banks to absorb losses in a downturn without threatening their underlying solvency. RBF regulatory capital requirement for commercial banks was increased from 8 percent to 12 percent in 2010. Banks have historically maintained their capital adequacy ratio well above the minimum requirements (Figure 12) implying buffers were able to weather historical periods of financial stress for example in the years 2007 to 2009.

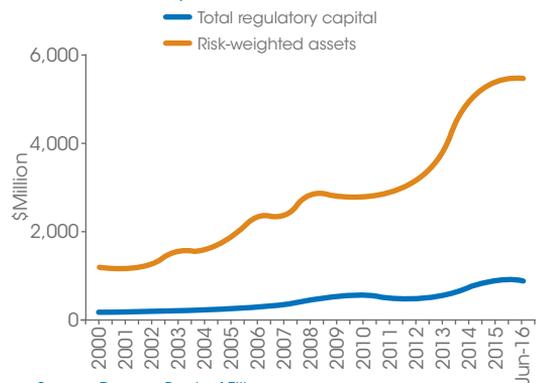
However the recent trend in commercial banks capital adequacy ratios also shows that banks are vulnerable towards the financial cycle. The declining capital adequacy ratio since 2011

Figure 12: Commercial Banks' Capital Adequacy Ratio



Source: Reserve Bank of Fiji

Figure 13: Commercial Banks' Capital Adequacy Components



Source: Reserve Bank of Fiji

indicates buffers were not raised relative to the build-up in risk weighted assets (or credit cycle upswing) (Figures 12 and 13). The ratio levelled-off at end of 2015 as the credit cycle moderated.

Lower levels of buffers relative to the upswing in credit cycle may lead to impairment of financial services in subsequent periods of financial stress, or in an extremely difficult condition, threaten banks solvency. However, countervailing this argument is the earlier assessment on the current credit cycle not being a source to systemic risk.

Section 2: Climate Change – Implications for the Fijian Financial System

“The combination of the weight of scientific evidence and the dynamics of the financial system suggest that, in the fullness of time, climate change will threaten financial resilience and longer-term prosperity” (Mark Carney).

The IMF had warned that with the “increased frequency of natural disasters”, possibly related to climate change, there was a need for “stronger macroeconomic buffers”. Recently, TC Winston considered the strongest to make landfall in the Southern Hemisphere, caused widespread damage in Fiji. This most recent occurrence draws out this area of analysis on whether climate change poses a risk to financial system stability, which we attempt to answer for Fiji.

Fiji remains highly vulnerable to climate change. Since 1950, Fiji’s temperatures have increased in both Suva and Nadi at a rate of 0.15°C and 0.18°C respectively per decade. Average sea level has risen by about 6mm per year since 1993; larger than the global average of 2.8–3.6mm per year. Data also indicates that since the 18th century, the level of ocean acidification has been slowly increasing in Fiji’s waters (Pacific Climate Change Science Program, 2011).

So is climate change a risk to Fiji’s financial stability?

Using historical data and drawing on experiences of other countries, the major industries in Fiji’s financial system, are exposed to climate change risks.

Banking Industry

Literature makes the following conclusions on the effect of climate change on the banking

industry:

- Coinciding trends make the prediction of the impact of climate change on the banking business difficult (Llewellyn, 2007).
- A key issue would be the correct assessment of asset quality, company valuations & due diligence via increased input and output costs (for example, energy supply, carbon emissions) and regulatory costs of compliance (Furrer, Hoffman and Swoboda, 2009).

The banking industry currently represents almost half of the Fijian financial system’s gross assets, with net domestic credit growth mainly driven by commercial banks’ loans to the household, wholesale and retail, building and construction, hotel and restaurants, and real estate sectors.

Credit Risk in Key Economic Sectors

When linked to credit risk in banks, financial system exposure is significant. The value of the top 15 large exposures for commercial banks represents 21.2 percent of total credit; and is mainly concentrated in the wholesale, retail, hotels and restaurants sector. Tourism is an important industry for Fiji. “The industry provides employment directly and indirectly to an estimated 40,000 people (15% of the labor force) and contributes approximately 17%

of total production in the economy” (Pacific Adaption to Climate Change, 2009).

Although tourism related infrastructure is covered through insurance, exposures in the tourism industry are highly vulnerable to climate change in terms of its locations on coastlines and islands. Existing insurance coverage may not be adequate for extreme weather events. Under these circumstances, the flow on effect of climate risks in the tourism industry may be more pronounced, as it impacts other related economic sectors.

Similarly, the agriculture sector also plays an important role in Fiji’s economy. Of the top 15 large exposures, one is in the (1.5% of total loans) agriculture sector.

The agriculture sector remains highly vulnerable to climate change, as there is a direct effect through cyclones, flooding and droughts to name a few. In these circumstances, there is a high chance of increased default risk, which may result in asset quality issues. Broader indirect effects include those on inflation and food security.

Together with tourism and agriculture, the energy and transport sectors are also vital to Fiji’s economy and exposures in these sectors are also vulnerable to climate change. Fiji’s domestic energy requirements are met from a number of sources including hydroelectricity, fuel wood, bagasse, and coal and petroleum products. Of these major energy sources, coal and petroleum products are imported, while others are produced locally. The energy sector works in conjunction with the transport sector, where the development of infrastructure for the transport sector (airlines industry, roads, jetties and airstrips) is heavily reliant on energy (Climate Change – The Fiji Islands Response, 2005).

Climate risks to the energy and transport sectors in Fiji’s banking industry can contract lending and revenues, through climate change or carbon restrictions. Currently, one of the large exposures is in the energy sector. The extent of damage arising from climate risks on this exposure is wide-spread, as all sectors are reliant on energy.

Mortgage assets are also at risk to the effects of climate change. Due to their locality, properties in flood-prone areas or near coastlines are significantly vulnerable to the effects of climate change, as evidenced in recent natural disasters.

Insurance Industry

The insurance industry as a mechanism of risk transfer, is vulnerable to the impacts of climate change risk.

General insurers play the role for insuring against weather-related events in terms of physical and liability risks. Life insurers are also exposed through impacts on their investments.

General insurers in Fiji are faced with underwriting losses on their significant exposure to fire, householders and motor vehicle classes in times of catastrophic events like cyclones and flooding. This is reflected by the high loss ratios in 2012 in these classes. A similar trend was also noted in 2009 due to severe flooding in that year, and again expected after the recent severe TC Winston.

Annual data also shows that general insurers in Fiji are highly concentrated in the material damage and business interruption categories, posing a significant threat to the sector’s viability in a single catastrophic event in that class. A strong mitigant however, is the reinsurance arrangements in place for all local insurers, which help cushion the impact of such catastrophes.



While reinsurance cushioned the impact of recent natural disasters on the general insurers' solvency positions, underwriting results and profitability were negatively impacted. However, many infrastructure related losses were generally uninsured, which resulted in additional costs to Government.

Following TC Winston, it was also confirmed that rural and maritime areas were generally uninsured.

Climate change-related litigation is still an emerging and evolving area which varies considerably across different jurisdictions. The insurance industry in Fiji may face increased liability risks in terms of insureds seeking to recover losses related to climate change.

Climate change and financial stability

The three broad channels through which climate change can affect financial stability are physical, liability and transition risks.

Physical risks: the impacts today on insurance liabilities and the value of financial assets that arise from climate and weather-related events, such as floods and storms that damage property or disrupt trade.

Liability risks: the impacts that could arise tomorrow if parties who have suffered loss or damage from the effects of climate change seek compensations from those they hold responsible. Such claims could come decades in the future, but have the potential to hit carbon extractors and emitters – and, if they have liability cover, their insurers would be hit the hardest.

Transition risks: the financial risks which could result from the process of adjustment towards a lower-carbon economy. Changes in policy,

technology and physical risks could prompt a reassessment of the value of a large range of assets as costs and opportunities become apparent.

Extracted from the Speech "Breaking the tragedy of the horizon – climate change and financial stability" given by Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, at Lloyd's of London, 2015.

Superannuation Industry

The recent TC Winston triggered a national state of emergency, where the FNPF diverted its resources for Cyclone Winston assistance. This put pressure on liquidity of the Fund, with outflows on payouts reaching over \$200 million. Aside from such effects, the Fund's significant investments in physical assets and tourism ventures such as resorts, are also vulnerable to climate change risks.

BOX E: Stress Testing the Banking Industry

The Reserve Bank conducts quarterly stress tests on the banking system balance sheet against extreme shocks. The tests involve examining the impact of key risks, namely credit and liquidity risks, on a consolidated balance sheet of the banking industry.

Methodology: The tests use the latest offsite supervisory data, from the monthly and quarterly prudential returns. The main variable (baseline) used to measure the impacts of the stress tests is capitalisation (capital to risk-weighted assets), referred to as the capital adequacy ratio (CAR). The impacts of the scenarios are assessed by comparing the post or aftershock CAR against the minimum required CAR. The current minimum regulatory CAR requirement is 12 percent for commercial banks and 15 percent for credit institutions (CIs).

Stress Test Scenarios: Involves an exceptional but plausible scenario for each of the following: 1) A natural catastrophe, assuming standard loans becoming non-performing in major sectors of the economy. This scenario assesses the impacts of the following shocks to credit risks: 20 percent of the government, agriculture, forestry & fisheries and hotels & restaurants sector loans, 30 percent of the manufacturing sector loans, 15 percent of the transport sector and other wholesale and

retail trade sector loans; 2) Applying the 2007 interest rate hike shocks to banks' exposures, assuming non-performing loans will increase in proportion to these shocks; and 3) Outflow of 10 percent of deposits from the system.

Results: Of the stress testing exercise revealed the following: 1) Post shock CAR of a natural catastrophe on banks and credit institutions indicated that the stressed sectors are vulnerable to natural disasters and post shocks to capital will affect loan books, should counterparties affected by the natural disaster default on their repayments. 2) Applying the 2007 interest rate hike shocks to banks' exposures resulted in some post shock CARs falling below the minimum regulatory requirement. Whilst classified exposures to gross loans are currently at low levels, a rise in interest rates may worsen asset quality by raising borrowing costs and increasing the risk of defaults on repayments. 3) The stress test on the outflow of 10 percent of deposits from the system revealed that on aggregate, banks and credit institutions do have adequate liquid assets.

The overall stress test results revealed that the current levels of capital and liquidity held by the commercial banks and credit institutions in Fiji indicate some levels of comfort on their ability to withstand a range of substantial shocks without distress and may be strengthened over time.

Source: RBF staff estimates

BOX F: Tropical Cyclone Winston and April Floods associated with Tropical Cyclone Zena

Fiji's economy encountered a new challenge in February 2016, as the country faced the strongest tropical cyclone recorded in the Southern Hemisphere (Winston), followed by TC Zena related flooding in the Western division in April 2016. This subsequently led to the downward revision of Fiji's forecasted GDP growth from 3.5 percent to 2.4 percent for 2016¹. In terms of financial stability, the impact will be on the balance sheet of those directly

has been estimated to cost the country \$2 billion (USD1 billion)³, which is equivalent to 22.0 percent of GDP.

Given an estimated economic loss of \$2 billion and an approximate \$232.8 million in insured losses; there is an estimated \$1.77 billion of uninsured losses⁴. As at August 2016, the local insurance industry had reported \$121.0 million worth of claims and \$111.8 million by offshore insurers. The insurance industry experienced higher claims for the 2016 natural disasters compared to 2009 and 2012.

There is a high level of uninsured losses, as the majority of the household sector affected are those who reside within the rural areas.

Table E1: Insurance Claims Information — Cyclones and Floods

	TC Mick – 2009 (As at May 2009)		TC Evan – 2012 (As at May 2012)		TC Winston – 2016 (As at August 2016)	
	No. of Claims Reported	Total Claims Reported (\$m)	No. of Claims Reported	Total Claims Reported (\$m)	No. of Claims Reported	Total Claims Reported (\$m)
Fire Class	240	15.2	799	54.8	866	116.0
Motor Class			150	0.6	529	1.8
Others			28	1.3	105	3.2
Total	240	15.2	977	56.6	1,500	121.0
	Floods - 2009		Floods - 2012		Floods - 2016	
	No. of Claims Reported	Total Claims Reported (\$m)	No. of Claims Reported	Total Claims Reported (\$m)	No. of Claims Reported	Total Claims Reported (\$m)
Total	418	28.5	838	33.0	39	0.7

exposed to these losses, which include the local insurance industry, Government and uninsured households and businesses.

As a comparison, TC Evan in December 2012 caused damage with a total economic value estimated around \$194.9 million (USD108.4 million)². The damage caused by TC Winston

In addition, Fiji's involvement in insurance for the major sectors affected, such as the Agriculture, Education and the Health and Medical Services Sector has traditionally been low.

The uninsured losses within the household sector have been compensated by the

Government, the Insurer of last resort. Uninsured losses in the public sector for example, public infrastructure, exposes Government to further recovery expenses.

To assist with these losses, the Government had launched an appeal for donations, and has been successful in attaining funds and humanitarian assets, from Australia, New Zealand, France, Japan, United States, China, India and the neighbouring Pacific Island countries, to name a few. Some countries have also opted to assist via the "Adopt a School" appeal. In addition, the Fijian business community and overseas based Fijian communities have provided assistance in-kind and financial donations to households affected by the cyclone.

Further to this, homeowners had options of attaining assistance from Government through the "Help for Homes" initiatives, Social Welfare Poverty Benefit Scheme and Care and Protection Allowance, attaining loans from the commercial banks through the Natural Disaster Rehabilitation Facility, or applying for the FNPf Disaster Assistance Fund. The impact on businesses has been minimal and eased by their existing business interruption insurance, and assistance via the Natural Disaster Rehabilitation Facility provided by the Reserve Bank of Fiji through commercial banks, credit institutions and the Fiji Development Bank.

The assistance provided by Fiji's only Superannuation Fund saw a rush by its members to withdraw their eligible funds. The Fund reported to have received 180,423 applications and paid out \$274.7 million to its members. The payout is expected to impact the Fund's interest credited to the members

account jointly with a reduction in members balances, positively impacting the solvency position of the Fund.

The impact on commercial banks, in terms of operations has been minimal with 65.0 percent of the banks' branches open for business, following the removal of the curfew on 22 February 2016. Electronic banking services were affected by the lack of power supply, but these were for the few branches that were directly impacted by the cyclone. The national disaster rehabilitation fund (NDRF) provided by commercial banks at an interest rate of 4.5 percent per annum, led to an overall decline in the weighted average lending rates by one basis point from February to March 2016. For the three months where commercial banks were offering the NDRF, a total of 601 applications worth \$2.79 million were received and of these, 516 applications worth \$2.39 million were approved.

While the damage left by TC Winston had been the highest ever recorded in Fiji in terms of cost and lives lost, it would however have been greater, had the Cyclone hit the major urban centres. Given the added dangers brought about by the changes in the world's climate, and the fact that Fiji is a cyclone prone country, it would be considered vital to have a disaster recovery pool; that would cover the most vulnerable, as well as important public infrastructure such as schools, hospitals and medical centres.

Fiji's economic performance is expected to remain positive as reconstruction gets underway⁵. The financial stability ramifications will be subject to the profile of recovery, but given the continuing financial and



humanitarian support from local and international communities , the impact of the natural disaster has managed quite well.

Notes:

1. Reserve Bank of Fiji Press Release 13/2016.
2. Post-Disaster Needs Assessment – Tropical Cyclone Evan, 17 December 2012.
3. <http://www.fiji.gov.fj/Media-Center/Speeches/HON-PM-BAINIMARAMA-STATEMENT-AT-THE-UN-HIGH-LEVEL-.aspx>
4. Comprises of residential properties, schools and other public infrastructures.
5. Reserve Bank of Fiji Press Release 07/2016.



Annexures

Fiji Financial Soundness Indicators

	2012	2013	2014	2015	2016 Q2
Core FSIs for Deposit takers	%	%	%	%	%
Regulatory capital to risk-weighted assets	15.80	14.90	15.32	15.56	15.81
Regulatory Tier 1 capital to risk-weighted assets	13.80	13.30	12.51	13.17	12.55
Non-performing loans net of provisions to capital	17.20	11.00	4.17	2.59	3.52
Non-performing loans to total gross loans	4.20	3.00	1.65	1.45	1.59
Sectoral distribution of loans					
Residents	99.10	99.20	99.10	99.17	99.13
Sectoral distribution of total loans: Deposit-takers	-	-	0.49	-	-
Sectoral distribution of total loans: Central bank	-	-	-	-	-
Sectoral distribution of total loans: Other financial corporations	0.00	0.10	0.09	0.11	0.04
Sectoral distribution of total loans: General government	3.50	7.30	7.67	8.04	7.56
Sectoral distribution of total loans: Non-financial corporations	69.20	65.10	62.53	63.00	62.34
Sectoral distribution of total loans: Other domestic sectors	26.30	26.70	28.32	28.02	29.18
Non-residents	0.90	0.80	0.90	0.83	0.87
Return on assets	2.80	2.40	2.65	2.62	2.45
Return on equity	25.50	25.20	25.52	24.35	22.59
Interest margin to gross income	59.10	60.20	58.18	55.14	58.47
Non-interest expenses to gross income	63.90	54.30	53.35	52.73	52.94
Liquid assets to total assets	18.90	21.50	18.06	20.13	19.11
Liquid assets to short-term liabilities	67.10	69.40	66.79	82.22	72.91
Encouraged FSIs	%	%	%	%	%
Deposit takers					
Capital to assets	10.60	10.20	8.31	8.52	8.27
Large exposures to capital	225.70	255.60	203.57	205.23	187.91
Trading income to total income	14.60	12.50	11.17	12.53	11.21
Personnel expenses to non-interest expenses	49.30	45.80	42.63	44.99	43.99
Customer deposits to total (non-interbank) loans	96.00	92.50	92.47	90.26	94.66
Foreign-currency-denominated loans to total loans	0.80	1.10	2.30	2.67	2.35
Foreign-currency-denominated liabilities to total liabilities	4.00	6.90	7.54	9.92	8.58
Residential real estate loans to total gross loans	19.70	19.10	18.69	18.71	19.08
Commercial real estate loans to total gross loans	9.80	9.90	10.01	10.45	10.62

Financial System Players

Total Assets of Financial Corporations			
		Percent in	Percent in
June 2016	\$M	Subsector (%)	Sector (%)
Financial Corporations	19,460		100.00
Reserve Bank of Fiji	2,467		12.68
Other Depository Corporations	9,905	100.00	50.90
Commercial Banks	8,724	88.08	44.83
Credit Institutions	387	3.91	1.99
Fiji Development Bank	465	4.69	2.39
Housing Authority	197	1.99	1.01
Credit Unions ¹	125	1.26	0.64
Microfinance Institutions ²	7	0.07	0.04
Other Financial Corporations	7,088	100.00	36.42
Insurance Companies	1,539	21.72	7.91
Fiji National Provident Fund	5,236	73.87	26.91
Asset Management Bank ³	0.9	0.01	0.00
Unit trusts	209	2.95	1.07
Finance Companies ⁴	32	0.45	0.16
Private Money Lenders	Not Available	-	-
Pawn Shops	Not Available	-	-
Insurance Brokers ⁵	55	0.78	0.28
Restricted Foreign Exchange Dealers ⁶	16	0.23	0.08
Money Changers ⁷	0.1	0.00	0.00

Notes:

¹ As at March 2014. 21 out of 24

² As at March 2011. 5 out of 24

³ As at February 2014

⁴ As at December 2010. 4 out of 8

⁵ As at December 2013

⁶ Periods vary between 2013 and 2014

⁷ Periods vary between 2013 and 2014

Systemic Risk Indicators

Indicator	Definition and usefulness
System and commercial banks credit	Annual percentage change in total financial system's and commercial banks out growth rate standing credit. Is a lead indicator of growing financial imbalances from excessive credit growth.
Debt to GDP, level and trend	Ratio of total system credit to annual nominal GDP. The trend is calculated using Hodrick-Prescott (HP) filter with a lambda of 400,000. Increasing ratios, particularly level above trend, indicates increased vulnerability to financial imbalance from increasing procyclical behaviour.
Credit Gap	Difference between debt to GDP level and its trend. A large positive gap is a globally proven indicator of providing a 3 year ahead signal of financial system stress.
Commercial banks' lending standards and loan to value ratios (LVRs).	Credit growth and associated risks may be amplified by excessively easing credit standards and higher LVRs.
Commercial banks capital adequacy ratio	Ratio of capital to risk weighted assets. Shows level of buffer against potential losses.
Commercial banks stable/core funding ratio	Retail funding, long-term wholesale funding and equity as a share of total loans and advances. Shows vulnerability to liquidity mismatches by determining whether credit is increasingly financed by volatile funds.
Commercial banks non-performing loans level and ratio	Ratio of non-performing loans to total loans and advances. Although a lagged indicator, increasing trend indicates deteriorating ability of borrowers to repay debt.
Source: Reserve Bank of Fiji	

Indicators used to measure cross-sectional dimension of systemic risk

Indicator	Definition and usefulness
Interconnectedness of financial institutions	Level of net financial obligation amongst the financial system to study degree of contagion risk arising from financial system interconnectedness
Common exposures within & amongst financial system	Shows degree of contagion risk arising from common financial system exposures
Sectoral non-performing loans	Ratio of non-performing loans in each sector to total loans in that sector. Indicator of concentration of credit risk.
Assessment of SIFI's	Micro-prudential stances on SIFIs
Source: Reserve Bank of Fiji	



Reserve Bank of Fiji

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable craft capable of long voyages. The tagaga (pronounced “tangaga”) or masthead, was crucial for holding in place the sails, woven from the leaves of the pandanus tree. It was the tagaga which enabled the navigators to keep their drua sailing towards their destinations.

For the Reserve Bank of Fiji, a logo based on the tagaga masthead, symbolises the Bank’s role in contributing towards a sure and steady course for Fiji’s economy.

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