RESERVE BANK OF FIJI

FINANCIAL

STABILITY REVIEW

OCTOBER 2017

The charts and tables in the appendix to this Report use data available at 30 June 2017.

More recent statistics may be used in the main body of the Report.

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

The Financial Stability Review is prepared annually in October.

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Abbreviations

ATM	Automated Teller Machine
BES	Business Expectation Survey
EFTPOS	ELectronic Funds Transfer at Point of Sale
CAR	Capital Adequacy Ratio
CCS	Credit Conditions Survey
COP23	23rd Conference of Parties to the United Nations Framework Convention on Climate Change
ESA	Exchange Settlement Account
FBOS	Fiji Bureau of Statistics
FDB	Fiji Development Bank
FNPF	Fiji National Provident Fund
FSR	Financial Stability Review
FX	Foreign Exchange Risk/ Foreign Currency
GDP	Gross Domestic Product
HA	Housing Authority
HQLA	High Quality Liquid Assets
IMF	International Monetary Fund
LCIs	Licensed Credit Institutions
LHS	Left Hand Side
LVR	Loan to Value Ratio
NBFIs	Non-Bank Financial Institutions
NPLs	Non-performing loans
PFTAC	Pacific Technical Assistance Center
RBA	Reserve Bank of Australia
RBF	Reserve Bank of Fiji
RBNZ	Reserve Bank of New Zealand
RHS	Right Hand Side
SIFIs	Systemically Important Financial Institutions
TC	Tropical Cyclone
UK	United Kingdom
US	United States
WALR	Weighted Average Lending Rate
WEO	World Economic Outlook

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 overall 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. 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 the Fijian financial system is dominated by the commercial 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 the insurance industry, with the assessments aimed at identifying systemically important changes and emerging risks to the financial system.

Executive Summary

With the downside risks faced by the world economy slowly moderating, there is growing optimism on global economic growth prospects largely on the backdrop of a stronger rebound in the advanced economies, led by faster growth in domestic demand and output. However, geopolitical risks remain elevated which could have negative implications for the financial markets and global growth prospects. Nevertheless, such developments in the global economy are expected to not pose any direct threat to the near-term growth prospects of the Fijian economy.

The domestic outlook is positive as macroeconomic conditions remain stable. Financial system liquidity continues to register adequate levels. The Government's commitment to "rebuilding better" after TC Winston is expected to provide an impetus for increased economic activity and growth in the short to medium term. However, Fiji's vulnerability to natural disasters remains a great concern as negative macroeconomic developments as a result of natural disasters can significantly impact the domestic growth prospects and in turn, the stability of the financial system.

Macroprudential assessments currently do not indicate any build-up of systemic risk in the financial system. The current credit cycle continues to moderate and remains below the historical high point. The recent credit conditions survey indicated that credit standards have somewhat tightened, in the absence of a credit reporting agency.

Furthermore, commercial banks have continued to maintain capital adequacy ratios above the requirement, and pricing behaviour has not been excessively aggressive, particularly on the lending side when compared to the pricing of deposits. Repricing risks on short-term negative mismatches continue to increase and as such, the commercial banks' liquidity positions and particularly funding profile are being closely monitored.

RBF Financial System Policy Committee Discussion Summary

The Reserve Bank's Financial System Policy Committee met and discussed the report on Financial Stability on 24 October, 2017. The Governor and Chair of the Committee made the following remarks during the meeting.

- The Committee generally shared the assessment of global environment risk with improved global economic conditions and outlook and how this affects the Fijian economy moderately via tourism, remittances and trade.
- Noting the rebuilding efforts post Tropical Cyclone (TC) Winston, on fiscal policy on capital spending, tax incentives, and accommodative interest rate conditions, Committee members generally agreed to upgrade the assessment for macroeconomic risks. However, with the expectation that growing incidences of natural disasters due to climate change will inherently remain a high risk exposure to the macro-economy.

Committee members noted that even though credit risk indicators pointed to a slowdown in credit, current developments need to be monitored. It further noted that the current credit cycle has further moderated with a negative credit to GDP gap, and credit growth shown by the corporate and household sectors at present, are not of systemic concern. Non-performing loans (NPLs) levels, although showing a slight increase, at this point does not link to a credit risk concentration in any particular sector.

In reviewing risk appetite, the Committee linked the developments in credit growth to somewhat tightened credit standards. It noted that the main factors contributing to the tightening in credit standards were liquidity, funding costs and credit worthiness of customers (mainly due to the absence of a credit reporting agency in the last 12 months).

The Committee agreed that risk appetite needs to be closely monitored. With the developments noted in credit growth and risk appetite, the Committee concluded that systemically important financial institutions posed low to moderate risk, and capital and profitability outcomes remained buoyant. As such, the need for additional capital buffers is not warranted at this time.

Although improved, the Committee agreed that market and liquidity risk was to remain at closer monitoring stance, observing current developments of higher reliance on short term wholesale funds.

The Committee also reviewed the policy framework in place, to improve how we monitor, assess and mitigate against key risks to macroeconomic and financial stability. Committee members reminded on their role of safeguarding financial stability, ensuring the fluidity of system liquidity and the Reserve Bank's twin objectives of supporting a healthy level of foreign reserves and stable inflation.

Overview

An improvement in global outlook is anticipated to continue largely on the back of a stronger rebound in advanced economies, led by faster growth in domestic demand and output. Developments in the global economy do not pose any direct threat to the near-term growth prospects of the Fijian economy.

Global Economy

The global outlook has improved since the October 2016 Financial Stability Report (FSR) as projected growth has been revised upward. The outlook is mainly attributed to the broad based upward revisions in the Euro area, Japan, emerging Asia, emerging Europe and Russia.

Developments in the global economy currently do not pose any direct threat to the near-term growth prospects of the Fijian economy.

Domestic Economy

Macroeconomic conditions remain stable with the expectations of accelerated economic growth to 4.2 percent for 2017, after the slowdown in 2016 due to the impact of TC Winston. Government's commitment towards rebuilding efforts; salary increments for civil servants; increase in income tax threshold; among other initiatives announced in the 2017-2018 National Budget, is expected to provide an impetus for increased economic activity and growth in the short term. Nevertheless, risks to projected growth remain on the downside mostly from external developments and Fiji's exposure to natural disasters.

On the external sector, Fiji's current account deficit continued to widen, largely driven by the increase in total imports (excluding aircraft) to 11.4 percent, while total exports are expected to grow at a slower pace of 4.1 percent. Overall, inflationary pressures in 2017 continued to be driven by domestic factors, with year-end inflation projected to be around 2.5 percent.

Foreign reserves are expected to remain adequate in the short to medium term. As at 31 October 2017, foreign reserves were around $2,409.2 million, sufficient to cover 5.8 months of retained imports of goods and non-factor services. These outcomes support the soundness of the Fijian financial system.

Soundness of Financial System

Fiji's financial system remains sound, while the concerns on commercial banks' funding profile remain. Deposit growth of commercial banks picked up and stood at 12 percent in September 2017, surpassing the commercial banks' credit growth rate of 8 percent.

The slowdown in credit growth for commercial banks is partly attributed to the tightening of credit standards as applied to the approval of loans, according to the June 2017 Credit Conditions Survey.

Measures of credit risk do not indicate a build-up in systemic risk, however developments will be closely monitored.

Non-performing loans ratio shows a modest increase from 1 percent in 2015 to 2.1 percent at the end of September 2017.

The current credit cycle has further moderated to 10.9 percent in June 2017 from its high of 14.7 percent in 2014 (See Section One on Buoyancy of the Financial System for further discussion on credit risk).

Countercyclical capital buffers are not required at this stage in response to the credit cycle.

The recent downward trend in commercial banks' capital adequacy ratio links to their cyclical behaviour. The ratio started increasing at the end of 2015 as the credit cycle moderated. The assessment of credit risk therefore does not require countercyclical buffers at this stage.

Liquidity indicators improved in the second quarter of 2017 however, concerns over excessive reliance on short-term wholesale funds remain, given its impact on the maturity transformation role of commercial banks.

Interest rates on short-term funds (roll-over funding costs) have gradually increased over the past three years, from their sensitivity towards negative short-term mismatches, indicative of a heightened interest rate risk environment where there is a greater possibility of an upward spike in lending rates in the medium to long term. In terms of foreign exchange risk (FX), commercial banks have continued to satisfactorily hedge their foreign exchange positions to limit losses from FX risk.

SIFIs do not pose any major systemic risk to the financial system.

The Fiji National Provident Fund and the three largest commercial banks which are considered systemically important financial institutions (SIFIs) continued to be assessed as satisfactory under the micro-prudential assessment framework.

Section 1 – Financial Stability in 2017

Key Risks to Financial Stability on the Horizon

Sound financial positions of financial institutions, moderating debt concerns of the household and corporate sectors; together with the strong external (foreign reserves) position have contributed to the stability of the Fijian financial system. However, with the economy still recovering from the aftermath of TC Winston, and preparing for another cyclone season, potential risks to financial stability from possible natural disasters remain.

Offshore Developments

Global economic outlook continued to improve with the rebound of some of the major advancing economies. Potential risks relating to political and policy uncertainty remain subdued. Improved global economic conditions, particularly in our major trading partner economies, continue to augur well for the Fijian economy.

The global outlook has improved as projected growth has been revised to 3.6 percent for 2017 and 3.7 percent for 2018. This improved projection has also been reflected by expectations of our major trading partners.

The United States[1] economy is projected to expand at 2.2 percent in 2017 and 2.3 percent in 2018; this is despite the three hurricanes, Harvey, Irma and Maria. Rebuilding activity is expected to facilitate rehabilitation with inflation projected at 2.1 percent. The Federal Reserve's 'balance sheet normalisation' program is underway, using a gradual and predictable approach, which has limited its effect to the market and economy[2].

The Australian[3] economy, in its 26th year of consecutive economic growth, and the home jurisdiction of our two largest branch commercial banks, is expected to grow to 2.2 percent in 2017, and further grow in 2018 by 2.9 percent. This is a positive for Fiji financial stability particularly with the strength of its financial sector.

Similarly, New Zealand[4] our closest neighbour, is expected to grow in 2017 by 3.5 percent and by 2.9 percent in 2018.

China[5] is also expected to grow to 6.8 percent in 2017 and slow to 6.5 percent in 2018. The growth is driven by strong economic activity and consumption activity.

There is anticipation of a smooth changeover from a global accommodative monetary policy regime to a normal cyclical rate. However, geopolitical risks remain elevated and can be a cause of concern if not addressed.

Moreover, persistent low import commodity prices and improved food supplies continue to bode well for Fiji. Environmental risks that span weather related events, including climate change is a global risk that Fiji is not immune. The COP23 talks are expected to bring more certain global solutions to climate change concerns. Downside risks relating to the international economy are not expected to pose any major direct threat to financial stability for Fiji, in the short term.

1 World Economic Outlook Update, October 2017: Seeking Sustainable Growth, Short Term Recovery, Long Term Challenges, IMF. 2017
2 Quarterly Report on Federal Reserve Balance Sheet Developments November 2017, Board of Governors of the Federal System
3 https://www.rba.gov.au/publications/fsr/2017/apr/pdf/financial-stability-review-2017-04.pdf
4 Monthly Economic Review: October 2017; New Zealand Parliament
5 Regional Economic Outlook Update: Asia and Pacific Department, Making the Most of the Upswing: October 2017, Washington DC October 13, 2017

Household Developments

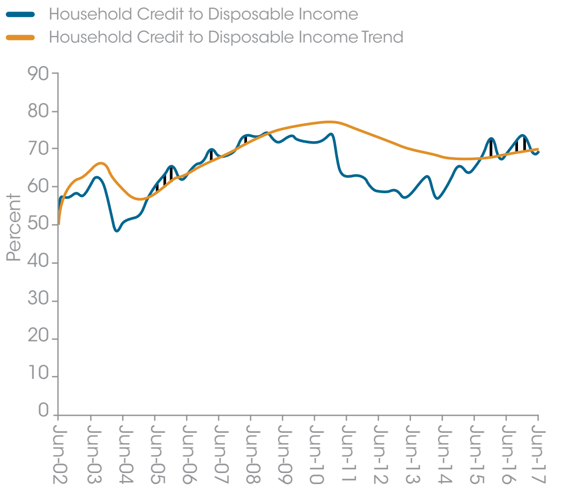
Household sector remained resilient amid worsening prospects of debt serviceability, particularly for low-income households.

The concerns related to household debt moderated after the devastating impact of TC Winston in 2016, as the financial position of households remained fairly resilient. With the inflationary pressures which emerged following temporary domestic supply shortages post TC Winston now waning, the strain on household disposable income and debt serviceability has gradually lifted.

This is confirmed as household indebtedness (as measured by the ratio of household credit to disposable income) stabilised in recent months largely due to lower credit growth (Figure 1). The positive credit gap in 2016 for households is an indication of the impact of TC Winston on households' disposable income[6]. As was the case for the overall private sector credit gap in 2016, this can be confirmed by the harmonisation of credit growth and credit gap lines (Figure 2).

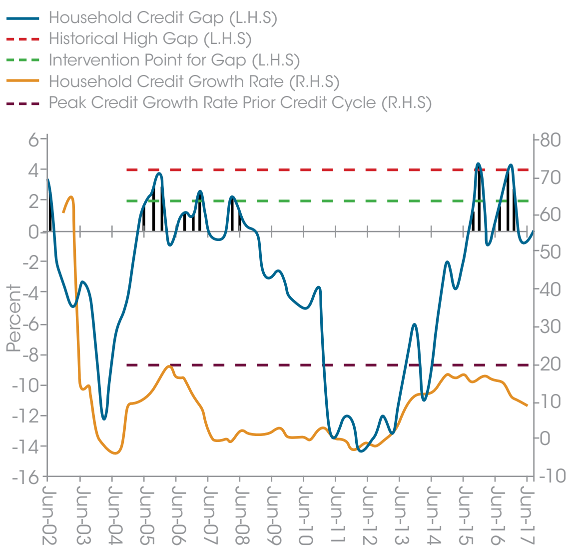
However, during the 2016 period when the positive credit gap was evident for the households, the prevalent low interest rate environment continued to help offset the cost of servicing larger amounts of loans particularly mortgage loans. Additionally, following TC Winston, commercial banks introduced assistance packages whereby customers could defer loan repayments,

Figure 1: Household Credit to Disposable Income-Level & Trend



Source: Reserve Bank of Fiji, FBOS

Figure 2: Household Credit Gap & Growth Rate



Source: Reserve Bank of Fiji, FBOS

[6] Salaries & wages is used as a proxy for disposable income. Salaries and wages are components of GDP sourced from FBOS. The figures for 2017 and 2016 are based on prior five-year moving average of share of GDP.

request loan restructuring without incurring additional costs and other various incentives to assist households.

Subsequently, with the rebound in GDP for 2017, household credit to disposable income moved below its long-term trend, resulting in a negative credit gap and suggesting that the build-up in credit for households does not presently pose systemic concerns.

Furthermore, the household serviceability level is expected to improve further with the recent announcements in the 2017-2018 National Budget. Some of the key announcements which are expected to help boost household disposable incomes are; increase in taxable income thresholds of individuals from $16,000 to $30,000, increase in income level of Government employees by an average of 14 percent, and increase in national minimum wage threshold for unskilled workers from $2.32 per hour to $2.68 per hour.

Housing Concerns

Housing market has an important bearing on the soundness of the overall household and banking sector.

Housing loans predominantly make up 70 percent of the total household loan portfolio (Figure 3) and 20 percent of the banking industry's loan book. While asset quality indicators are not an early warning indicator of systemic risk, they can be particularly helpful in signalling when systemic risks have been realised.

Barring any abrupt shocks to the financial sector, long term increases in NPLs indicate a deteriorating ability of borrowers to repay debt, and may also signal build-up of systemic risks with collaborating information from other indicators.

The household non-performing loans ratio has been on a gradual long term decline and is expected to remain below 2.5 percent in the short to medium term, and below the historical signal stress point.

In recent years, some areas in Fiji, mostly in Viti Levu have experienced significant increases in house prices, largely driven by non-residents. With the high prices along with the shortage in supply for housing, the risk of ballooning collateral values was perceived.

The Government has taken steps to increase the supply of housing to locals by introducing housing assistance programs for low and middle income earners and restricting non-residents from buying properties for residential purposes in any area within the boundary of any town or city.

Additionally, the Government housing facility administered through the Reserve Bank of Fiji which is accessible by the commercial banks and the Housing Authority, offers housing loans for first time home buyers at the lowest interest rates to assist in house ownership (Figure 4).

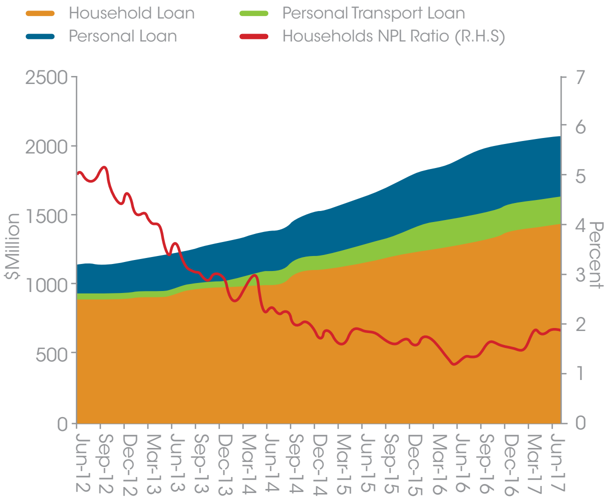
While initiatives to assist with the supply side issues are acknowledged, the increase in house prices is not expected to level off in the near term given the high demand for housing in the market and as such, the risks associated with the housing market remain.

Continuous monitoring of the behaviour of the market, particularly credit conditions is therefore required.

[7] The RBF surveys lending standards of commercial banks and credit institutions twice a year. The first survey was conducted in April 2015. The respondents provide their past and future perception on lending standards on a 5-point grading system. The 5-point grading system are as follows: tightened considerably, tightened somewhat, remained basically unchanged, eased somewhat and eased considerably. A 'considerable easing' of credit standards may indicate excessive risk taking

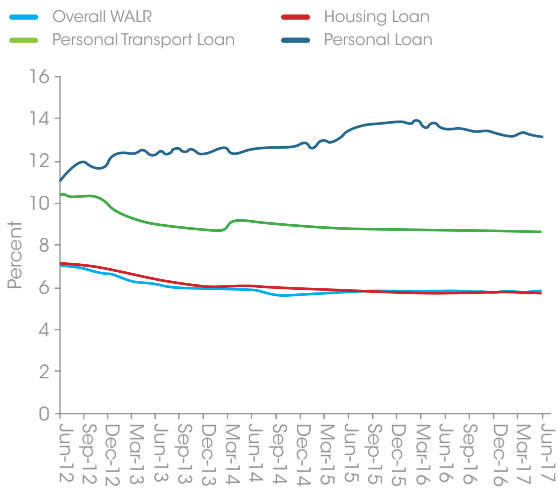
The Reserve Bank of Fiji monitors the behaviour of the market through its surveys; the June 2017 Credit Conditions Survey results for the household and business sectors are provided in Box A.

Figure 3: Household Credit Concentration and Credit Worthiness



Source: Reserve Bank of Fiji

Figure 4: WALR offered by Commercial Banks to Households



Source: Reserve Bank of Fiji

Corporate Sector Developments

Corporate debt levels have stabilised compared to the prior year, as large corporates maintain healthy financial positions.

Corporates' indebtedness as measured by the ratio of corporate credit to operating surplus show similar conclusions as the household credit gap for the prior credit cycle (Figure 5 and Figure 6).

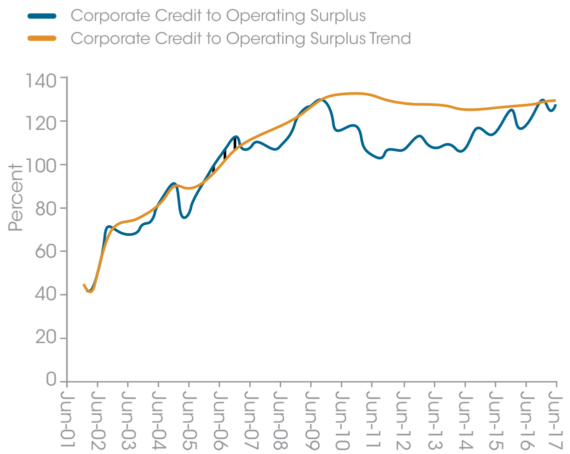
The positive credit gap in 2016 for corporates is an indication of the impact of natural disasters on firms' operating surplus, rather than an indication of unsustainable indebtedness arising from credit growth.

Consequently, with the rebound of the economy from the impact of TC Winston, corporate credit to operating surplus moved below its long-term trend, resulting in a negative credit gap and indicating that the build-up in credit for corporates does not pose any systemic risk.

Business loans continue to be predominantly concentrated under the wholesale, retail, hotels and restaurants sector. Given that this sector is highly vulnerable to the effects of natural disasters, the credit risk associated is high.

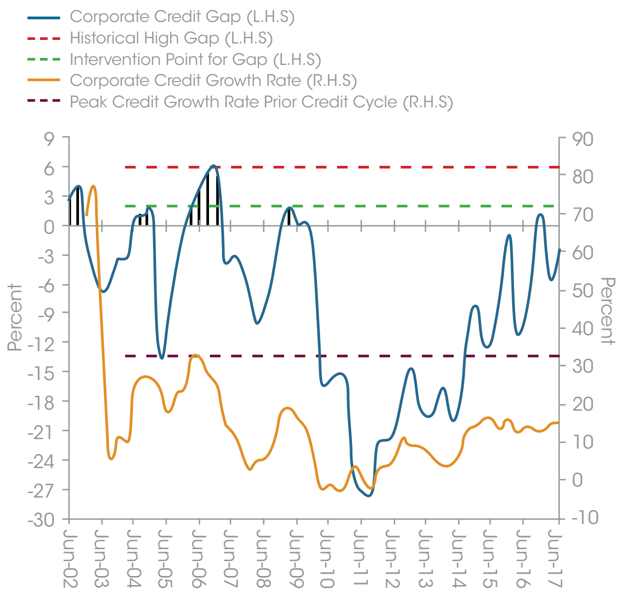
During 2016, the NPL ratio had a sharp increase which showed the impact of TC Winston on the business sector (Figure 7). The Reserve Bank of Fiji's accommodative monetary policy stance together with commercial banks' assistance packages (similar to the ones offered to the households) lowered the burdens of the business sector and ensured non-performing loans remain within manageable levels.

Figure 5: Corporate Credit to Operating Surplus-Level & Trend



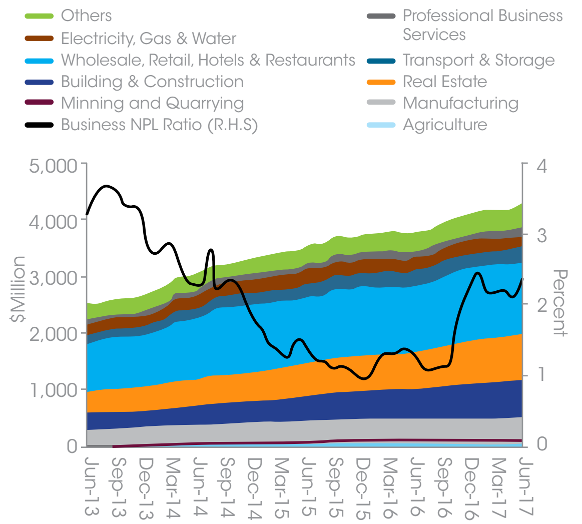
Source: Reserve Bank of Fiji, FBOS

Figure 6: Corporate Credit Gap & Growth Rate



Source: Reserve Bank of Fiji, FBOS

Figure 7: Business Credit Concentration and Credit Worthiness



Source: Reserve Bank of Fiji

Box A: June 2017 Credit Conditions Survey Results

The main objective of the Credit Conditions Survey (CCS) is to enhance our understanding of trends and developments in credit conditions within the banking sector. The survey is a bi-annual study and takes the form of a questionnaire containing 22 qualitative questions on past and expected future developments regarding lending policies. Questions distinguish between loans to enterprises and households; addresses issues such as credit standards for approving loans, changes in credit terms and conditions and factors affecting credit demand.

The respondents provide their past and future perception on lending standards on a 5-point grading system. The 5-point grading system are defined as: tightened considerably, tightened somewhat, remained basically unchanged, eased somewhat and eased considerably. A 'considerable easing' of credit standards may indicate excessive risk taking. The responses to questions are analysed by focusing on the "net percentage[8]".

The June 2017 Credit Conditions Survey (CCS) which refer to the first half of 2017, indicated a continued net tightening of credit standards for loans to businesses (Figure A1). Tightening of credit providers' ability to access financing, costs relating to capital position and the expectations regarding general economic activity underpinned the somewhat net tightening of credit standards. While credit standards for loans to households generally remain unchanged (Figure A2).

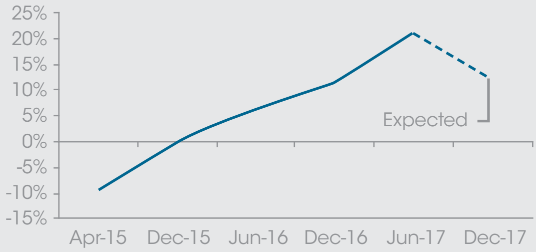
With the credit standards remaining within tightening level for the enterprises, the demand for loans noted a slight decrease to 25 percent from 31 percent in December 2016, while remaining within positive levels (Figure A3). The decrease in demand for loans by enterprises mainly related to lower demand for funds for working capital, inventories and fixed investment.

On the other hand, the demand for loans by households remained marginally unchanged for housing loans. However, there was a significant decline in demand for consumer credit and vehicle loans from 50 percent in December 2016 to 30 percent in June 2017, largely attributed to the level of household savings and absence of a credit reporting agency (Figure A4).

The overall outlook is expected to remain generally optimistic as the tightening of credit standards is expected to slowdown in the coming six months, and is expected to boost business and household demand for loans.

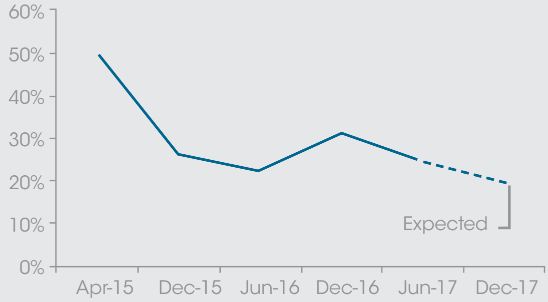
[8] Net percentage is defined as the difference between the sum of the percentages for the "tightened considerably" and "tightened somewhat" and the sum of the percentages for the "eased somewhat" and "eased considerably". For e.g. -ve represents net easing while +ve represents tightening. Similarly, positive net percentage for loan demand represents an increase in demand while negative net percentage represents a decline in demand.

Figure A1: Changes in Credit Standards as applied to the Approval of Loans to Enterprises



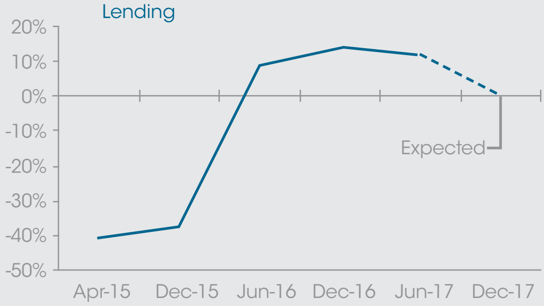
Source: Reserve Bank of Fiji

Figure A3: Changes in Demand for Loans - Enterprises



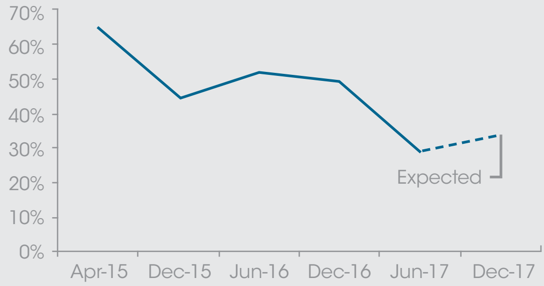
Source: Reserve Bank of Fiji

Figure A2: Changes in Credit Standards as applied to the Approval of Consumer Credit, Vehicle and Other Lending



Source: Reserve Bank of Fiji

Figure A4: Changes in Demand for Consumer Credit, Vehicle & Other Loans



Source: Reserve Bank of Fiji

Buoyancy of the Fijian Financial System

The commercial banks predominantly account for the largest share of the Fijian financial system, comprising 45 percent of the financial system gross assets (Annex 2); followed by the Fiji National Provident Fund (FNPF) with 27.2 percent.

The FNPF, given that it is a single institution covering more than a quarter of the financial system is considered a SIFI and the three large commercial banks are considered systemically important commercial banks, as they collectively cover 80 percent of the total banking assets. Understanding and monitoring the developments of FNPF is a priority of the Reserve Bank of Fiji (refer Box C).

There is an evident competitive advantage that commercial banks hold over other credit providers in terms of funding, as the banking sector accounts for the largest share (79.5%) of the total credit intermediated in the financial system, representing 61 percent of GDP. While the banking sector's relative share in funding has grown over the years, lending by other credit providers, on the contrary have shown a decreasing trend (Figure 8).

Other credit providers include the Fiji Development Bank (FDB), the Housing Authority of Fiji, credit institutions, and life insurance companies and they account for 20.5 percent of intermediated credit. The decline from 40 percent in the year 2000 to its current relative share, has been attributed to a licensed credit institution transitioning to a commercial bank.

Bank lending has been largely concentrated in the business sector, accounting for 64.8 percent of the loan book; followed by the household sector at 28.2 percent (Figure 9).

The rise in lending to the business and household sectors in recent years is a probable reflection of the low interest rate environment amidst rising business optimism (RBF Expectation Survey) and increased demand for loans to fund projects and asset purchases.

However, bank lending to the business and household sectors, somewhat slowed in the first six months of 2017; attributed to the tightening of credit standards as applied to the approval of loans; discussed earlier in the CCS results (refer Box A).

Credit risk indicators do not suggest a build-up in systemic risk, however developments need to be closely monitored.

The rate of credit growth is a very useful predictor of financial instability[9]. The current credit cycle has further moderated to 10.9 percent in June 2017 from its high of 14.7 percent in 2014 (Figure 10). Commercial banks have been the major driver of the current credit cycle with the 2014 boom surpassing the levels of the prior credit cycle (Figure 11).

While it is difficult to tell "bad" from "good" credit booms, bad booms tend to be larger and last longer (roughly half of the booms

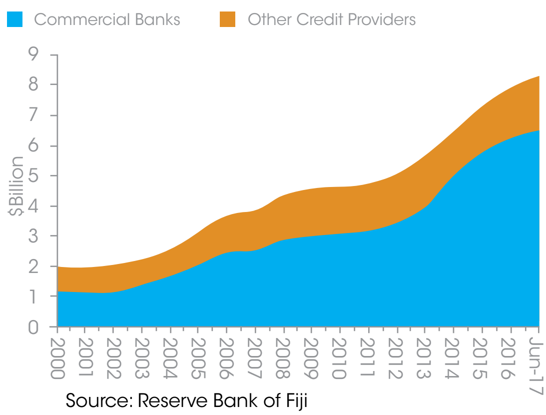
[9] Jorda, Oscar, Moritz Schularick and Alan M Taylor, 2010, "Financial Crises, Credit Booms, and External Imbalances: 140 Years of Lessons", NBER Working Paper, No. 16567.

[10] Bakker, Bas, Giovanni Dell'Ariccia, Luc Laeven, Jerome Vandenbussche, Deniz Igan, Hui Tong, 2012, "Policies for Macrofinancial Stability: How to Deal with Credit Booms", IMF Staff Discussion Note, SDN/12/06

lasting longer than six years end up in a crisis)[10]. The boom in the current credit cycle has been shorter in that it lasted for four years (2011 to 2014) than the boom in the prior credit cycle which lasted for six years (2001 to 2006). Although the rate of credit growth provides lead information on growing financial imbalances, it is important to study other credit measures as credit may expand for a number of reasons including its response to the increasing productivity of the economy.

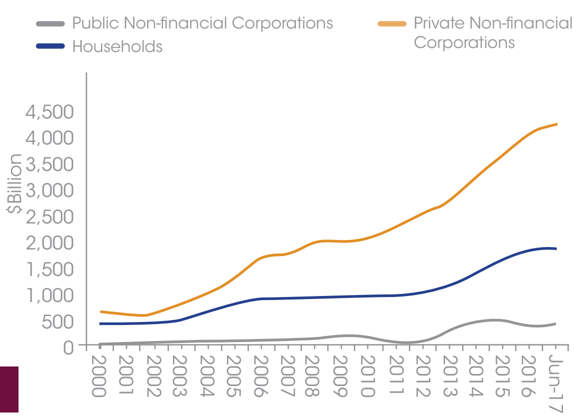
Credit to GDP may also help indicate whether

Figure 8: Credit Intermediation Bank vs Non-Bank



Source: Reserve Bank of Fiji

Figure 9: Commercial Banks' Lending



Source: Reserve Bank of Fiji

a trend increase in credit is sustainable. An increase in the credit to GDP ratio above three percentage points, year-on-year, could serve as early warning signals one to two years before a financial crisis[11].

There was a sharp increase in the private sector credit to GDP ratio well above three percentage points in the prior credit cycle. While the percentage increase in the ratio in the current credit cycle has been above three since September 2014, it has not been as sharp as experienced in the prior credit cycle (Figure 12).

Further, an average increase of 4.9 percent in 2016 was largely from a slower growth in GDP (compared to credit) due to the negative impact of the 2016 natural disasters and may not be indicative of a build-up in systemic risk. Subsequently, the increase in the credit to GDP ratio eased to 4.2 percent in June 2017 based on the expected economic recovery. The credit to GDP ratio is also influenced by factors such as financial deepening and fiscal expansion.

Private Sector Credit to GDP gap is the single most powerful indicator of systemic risk (provides at least 3 year ahead signal) as it is able to measure systemic risk after accounting for cyclical influences and other factors such as financial deepening[12].

The prior credit cycle had resulted in the credit gap of greater than 2 percent between late 2005 to early 2007 resulting from high credit growth as illustrated by the harmonisation of credit gap and credit growth lines in Figure 13.

This period of sustained positive credit gap was then able to provide a 3 year ahead signal of financial system stress in mid-2009.

[11] International Monetary Fund (2011): "Toward Operationalising Macroprudential Policies: When to Act? Global Financial Stability Report, September, Chapter 3.

For the current credit cycle, private sector credit to GDP has been growing below its long term trend until the positive gap of 2.4 percent in December 2016 (Figure 13).

However, this positive credit gap above the intervention point is not a sign of unsustainable credit boom but rather attributed to a slower growth in GDP reflecting the negative impact of natural disasters (including TC Winston) in 2016. Subsequently, based on the expected rebound in GDP for 2017, the private sector credit to GDP has now (June 2017) moved below its long term trend resulting in a negative credit gap of 1.1 percent, reaffirming that the current credit cycle at the moment does not pose any systemic concern.

Commercial banks have historically maintained their capital adequacy ratio well above the minimum requirements; countercyclical capital buffers are not required at this stage in response to the credit cycle.

The trends in capital adequacy ratio may indicate the banking system's capacity to absorb risks to the extent that buffers are able to withstand the realisation of credit losses in periods of financial stress.

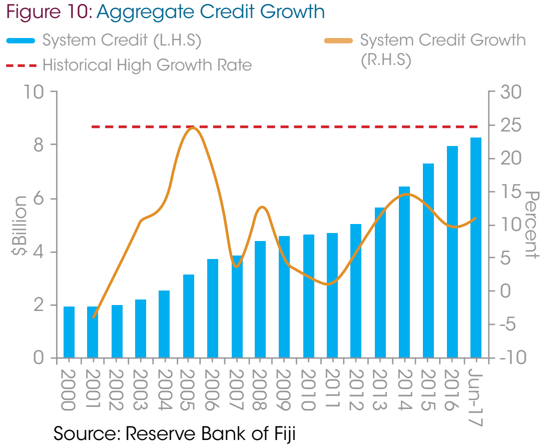
Historically, commercial banks' resilience in withstanding periods of financial stress has been reinforced by adequate capital levels, as they have maintained their capital adequacy ratio well above the minimum requirement (Figure 14).

The recent trend in commercial banks' capital adequacy ratio indicates their cyclical behaviour as shown by the ratio's downward trend from 2011, that is commensurate with the credit cycle upswing (around 2015).

However, earlier assessments of credit risk suggest that countercyclical buffers are not required at this stage (Figure 15).

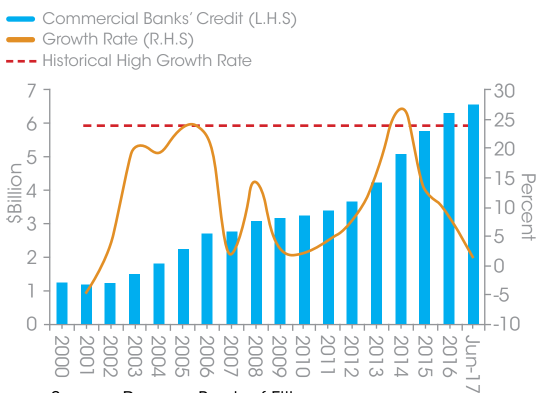
The aggregate capital adequacy ratio declined from 16 percent in 2016 to 15.7 percent in June 2017. The sensitivity tests conducted revealed that the current levels of capital held by commercial banks can withstand a range of substantial shocks however, will need to be strengthened over time, should there be a need to absorb losses without becoming financially distressed.

Figure 10: Aggregate Credit Growth



Source: Reserve Bank of Fiji

Figure 11: Commercial Banks' Credit Growth



Source: Reserve Bank of Fiji

[12] Basel Committee on Banking Supervision (2010): "Basel III: A global regulatory framework for more resilient banks and banking systems", December, pp 54-60.

Further supporting the resilience of the financial system are profits, which act as a first line of defence and help to build capital buffers to absorb losses from credit and market exposures. Commercial banks may compete aggressively on price in periods of credit booms, which may act against profits. Developments in commercial banks' net interest margin may help to judge if pricing behaviour has been excessive.

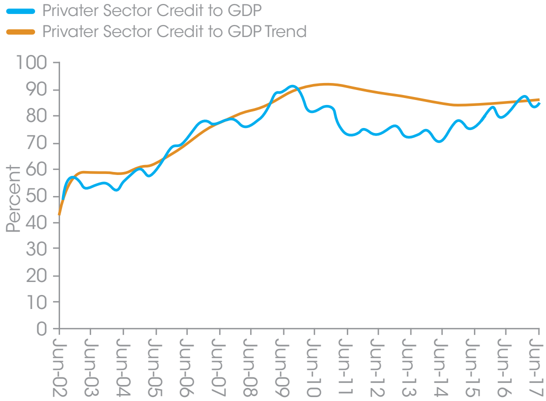
Competition on loan pricing for the current credit cycle has not been aggressive as shown by the relatively stable trends in net interest margin however, there is price competition in funding as indicated by the gradual increase in interest rates for deposits (Figure 16). The gradual narrowing of spread has been recuperated by growing non-interest income (mostly foreign exchange income, Figure 17).

Commercial banks' funding profiles remain at concerning levels.

Commercial banks may place greater reliance on short-term wholesale funds to finance longer-term loans, in periods of credit cycle upswings and buoyant liquidity conditions however, short-term wholesale funds are volatile in nature which can be withdrawn at short notice. The increasing reliance on short-term wholesale finance to fund long term loans may create vulnerabilities for commercial banks in the form of maturity mismatches and amplified liquidity risk.

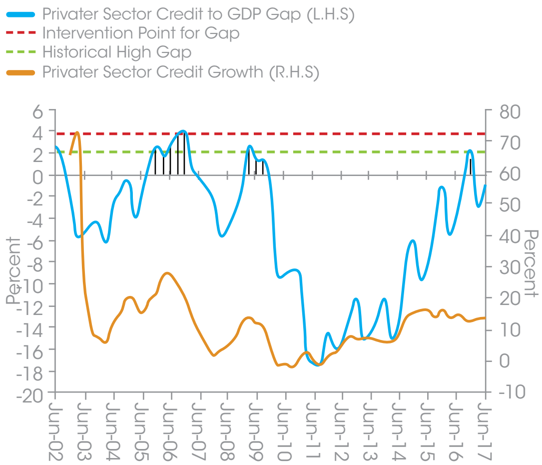
The current liquidity indicators have slightly improved as the commercial banks' reliance on short-term wholesale funds slightly reduced in the first half of 2017, with the wholesale funding mix decreasing to 52 percent from 54 percent in December 2016 (Figure 18).

Figure 12: Private Sector Credit to GDP Level & Trend



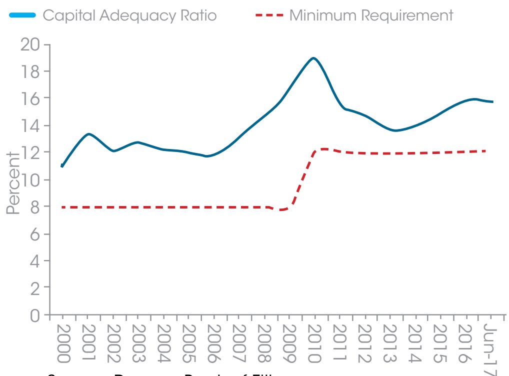
Source: Reserve Bank of Fiji, FBOS

Figure 13: Private Sector Credit to GDP Level & Trend



Source: Reserve Bank of Fiji, FBOS

Figure 14: Commercial Banks' Capital Adequacy Ratio



Source: Reserve Bank of Fiji

The commercial banks' core liquid assets were able to meet 16.6 percent run-offs of short-term wholesale funds, an improvement from 12.3 percent in December 2016.

The improvement emanated from an increased holding of high quality liquid assets attributed to increased ESA balances, as a result of increases in foreign reserves (Figure 19 and Figure 20).

A further increase in foreign reserves in August 2017[13] led to the growth in high quality liquid assets (HQLA) to $929.8 million from $877.5 million in June 2017.

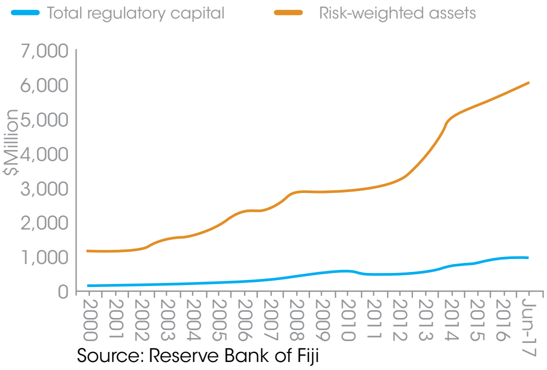
Historical analysis showed that commercial banks were increasingly vulnerable to interest rate risk on large negative short-term mismatches in terms of roll-over funding costs (Figure 21).

To limit effects on the net interest margin, lending rates needed to out-match rollover funding costs, which transpired into non-performing loans in the immediate subsequent periods. The effect on capital was controlled by slowing the offshore remittance of profits.

Finally on the foreign exchange risk (FX) component of market risk, analysis show that commercial banks over the years have been satisfactorily hedging their foreign exchange positions to limit losses from FX risk (Figure 22).

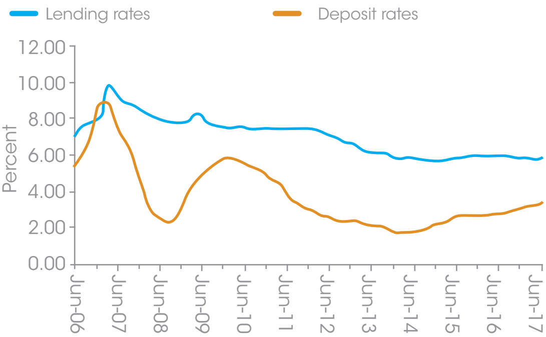
The Reserve Bank of Fiji continues its work on the development of the domestic debt market, including the recent issuance of Fiji Green Bonds (refer Box B).

Figure 15: Commercial Banks' Capital Adequacy Components



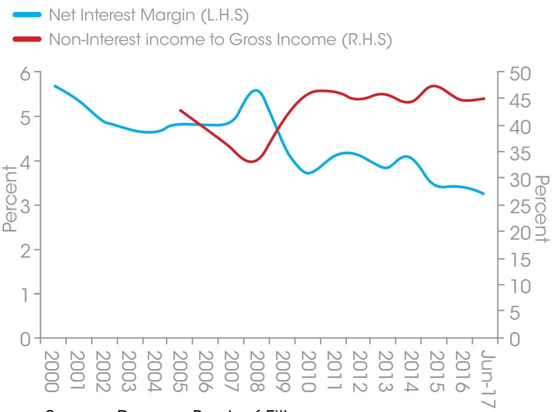
Source: Reserve Bank of Fiji

Figure 16: Commercial Banks' Interest Rates



Source: Reserve Bank of Fiji

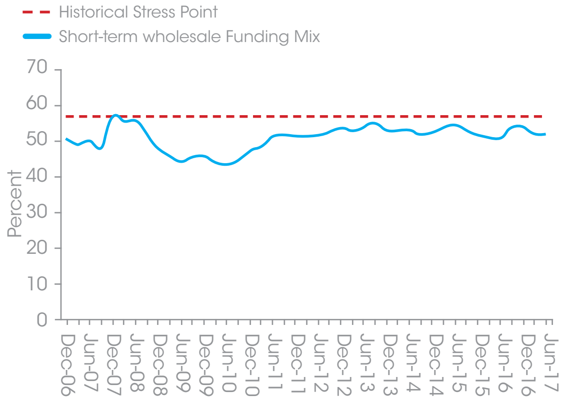
Figure 17: Commercial Banks' Net Interest Margin



Source: Reserve Bank of Fiji

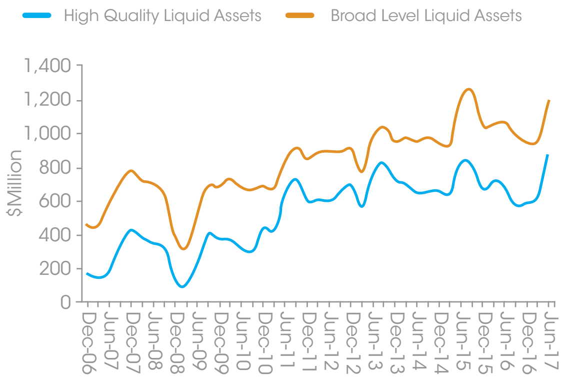
[13] The core liquidity ratio on the other hand can only be calculated quarterly based on data input from quarterly returns to calculate the denominator (short term liabilities). However, based on July 2017 HQLA and June 2017 short term liabilities, the core liquidity ratio stood at 17.6 percent.

Figure 18: Ratio of Short-term Wholesale Funding



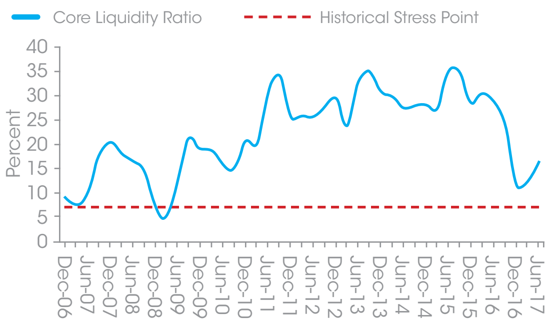
Source: Reserve Bank of Fiji

Figure 19: Commercial Banks' Liquid Assets



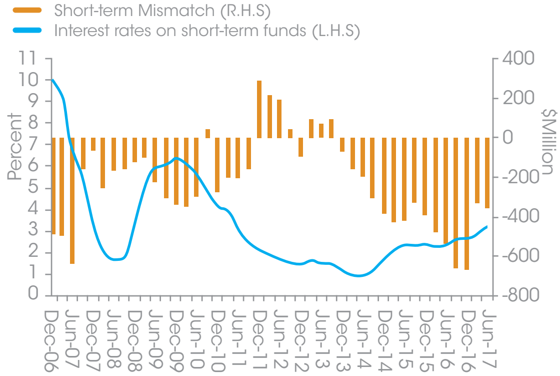
Source: Reserve Bank of Fiji

Figure 20: Core Liquidity Ratio



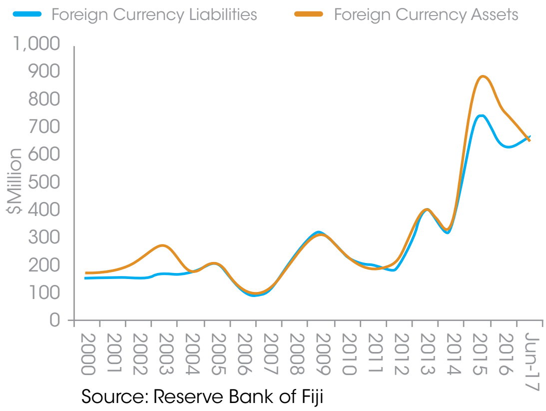
Source: Reserve Bank of Fiji

Figure 21: Commercial Banks' Maturity Profile & Interest Rate risk



Source: Reserve Bank of Fiji

Figure 22: Commercial Banks' Foreign Exchange Risk



Source: Reserve Bank of Fiji

Box B: Fiji Green Bonds

Fiji became the first developing economy to issue a green bond to raise FJD100 million to finance projects that contribute to climate change mitigation and adaptation, sustainable land use and biodiversity protection.

The first phase was issued on 1st November 2017 while the remaining FJD60 million of green bonds are expected to be rolled out in the coming months. A total bid of FJD87.71 million was received for the first issue. However, as determined, only FJD40 million was to be allocated in this first issue, which was made to successful bidders.

Of the bonds allocated, 50 percent had a maturity of 5 years with a fixed coupon of 4.00 percent per annum, while the other 50 percent was issued with a maturity of 13 years with a fixed coupon of 6.30 percent per annum. Interest earned on the Green Bonds is subject to tax.

Bondholders are entitled to sell or transfer their Green Bonds to any person prior to their maturity date. The Reserve Bank of Fiji will purchase the Green Bonds at market price from bondholders wishing to sell their holdings at any time.

(Source: http://www.rbf.gov.fj/Left-Menu/Financial-Market-Operations/Domestic-Markets/Green-Bond-Prospectus)

Box C: Fiji National Provident Fund Reforms

The Fiji National Provident Fund was set up to provide financial security for workers when they retire at the age of 55. This box provides an overview of the major reforms that the FNPF undertook to ensure the Fund's sustainability going forward.

In 1975, a pension rate of 25 percent for a sole pension, and 16.7 percent for a joint pension was set, based on the attainment of the age of 55. Reforms to reduce the pension conversion rate from 25 percent were introduced in 1998, over a 10 year period. In its 2007 report, the Financial Sector Assessment Program (FSAP) of the IMF and World Bank, had identified that the FNPF needed to make its annuity business actuarially sound. In 2010, the FNPF announced major reforms including business process reengineering, institutional strengthening and capacity building, and the review of the FNPF Act (1966).

In 2017, the FNPF reported key structural reforms completed as follows:

1. New FNPF Act 2011, with improved governance framework and modern scheme design to ensure that the Fund is managed in line with international best practices.
2. Pension Reform to ensure the pension fund is equitable, fair and sustainable for current and future members. These included the adoption of a new actuarially-sound pension scheme, and the separation of the pension business from members' business with proper solvency requirements.
3. Rehabilitation of Investments to ensure a steady return on all of the Fund's investments inclusive of non-performing assets. Some of the projects that have been rehabilitated successfully include the Grand Pacific Hotel, My FNPF Center, Natadola residential land sales and the Marriott Fiji Resort.
4. New IT System to ensure that the Fund has a system which complies with its legislative functions and provide 'excellent' customer services using the e-platforms.
5. Organisation Restructure to right size and streamline the Fund's human capital to support the above-mentioned reform measures to ensure the Fund and its people perform to their optimal best.

(Extract from FNPF Media Releases: FNPF Begins Reforms January 2010; FNPF Restructure Compliments Reform Objectives March 2017; Fiji Financial Sector Assessment Report for Fiji – October 2007, World Bank/IMF)

Section 2: Unsecured Market and Interchange Activity in Fiji

Lending for Purposes Other Than Housing or Motor Vehicles

Fiji's lending activity for purposes other than housing or motor vehicles, termed in this section as the unsecured credit market, has been growing rapidly over the past years, largely fuelled by the growing demand for unsecured loans with the prevalent low interest rate environment. However, since January 2017, a slowdown in unsecured lending has been noted in the banking industry which may be owed to the tightening of credit standards by commercial banks after the closure of the data bureau.

The risks relating to the acceleration in the growth of unsecured lending by the banking sector over the past years have been a potential concern for financial stability, especially as the unsecured credit growth rate had been hovering around 30 percent (Figure 23).

However, as at June 2017, the unsecured credit growth rate decelerated to negative 4 percent, indicating a significant slowdown in unsecured lending. The slowdown could be attributed to the tightening of credit standards by commercial banks after the closure of the data bureau as indicated in the Credit Conditions Survey June 2017.

The overall drop in the banking sector's unsecured lending was largely contributed to the decrease in unsecured lending by commercial banks only (Figure 24) as credit institutions' unsecured lending continued to increase rapidly (Figure 25).

The sharp increase in unsecured lending by credit institutions was mainly driven by a new entrant in the credit institutions industry.

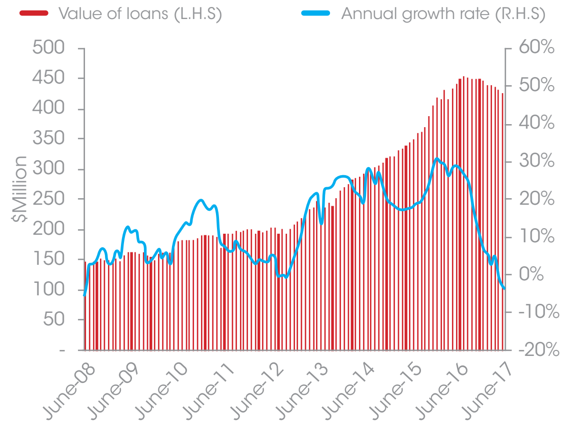
High unsecured credit extension by the credit institutions over the past two years has led to higher defaults (Figure 26). This may be largely fuelled by the absence of a credit reporting agency, which resulted in unsecured borrowers defaulting on their existing payments, and customers who were financed from the non-banking sector turned into delinquent customers.

As at June 2017, the non-performing unsecured loans as a percentage of total unsecured loans for the banking sector stood at 2.7 percent, which is considered within manageable levels and does not pose a major threat to the Fijian financial system.

While the risks relating to the unsecured market within the regulated banking industry is identified easily, it becomes difficult to ascertain the same for the unregulated non-banking sector where the risks might be developing.

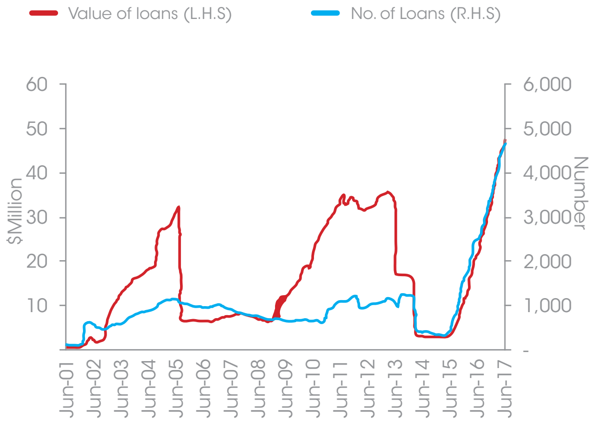
Therefore, the Reserve Bank of Fiji in June 2017 initiated discussions with some major finance companies currently not under the Bank's regulatory ambit (refer Box D).

Figure 23: Unsecured Lending in the Banking Sector



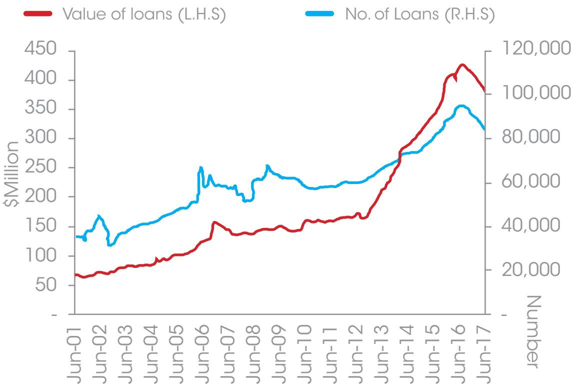
Source: Reserve Bank of Fiji

Figure 25: Unsecured Lending by Credit Institutions



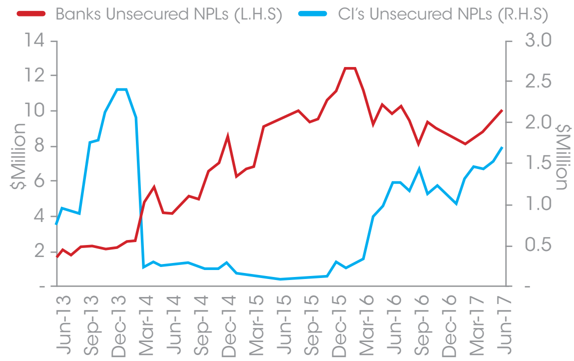
Source: Reserve Bank of Fiji

Figure 24: Unsecured Lending by Commercial Banks



Source: Reserve Bank of Fiji

Figure 26: Non-performing Unsecured Lending



Source: Reserve Bank of Fiji

Box D: Non-Banking Sector

Fiji's unsecured lending market is generally divided into two categories: (1) the banking sector[14] and (2) the non-banking sector[15].

To gauge the size of the non-banking sector, the RBF in June 2017 conducted a survey with a group of finance companies. This box discusses the results of this survey.

Market Size

The non-banking sector contributed the highest number of loans of 157,000 or 62 percent of total loans (Table D1). For the banking sector, the low number of loans point towards a 'somewhat tightening' in lending standards corresponding to the results of the 2016 Business Expectation Survey (BES) and December 2016 Credit Conditions Survey (CCS). One of the main factors in tightening of credit standards was credit worthiness of the customers, attributed to the absence of a credit reporting agency.

The total loan value as at 31 December 2016 stood at $638 million (Table: D1), with the banking sector contributing the highest loan value of $450 million or 71 percent of total loans. This is anticipated given that commercial banks comprised 45 percent of the total gross assets of the financial system as at June 2017. The remaining $188 million or 29 percent was made up by the non-banking sector.

Demand for Credit

The general sentiments obtained from the non-banking sector are that demand for credit has increased significantly in 2016, the major drivers being customer behavior and seasonal trends. This is expected given they target a specific niche market that consists primarily of private individuals and businesses that may not qualify to obtain credit from commercial banks and credit institutions.

Table D1: Unsecured Lending Market as at 31 December 2016

Financial System	No (000)	Value ($M)
Banking Sector	94	450
Non-Banking Sector	157	188
Total	251	638

Source: Reserve Bank of Fiji

While the trend in the first half of 2017 has been generally slow and gradual, they anticipate an increase in demand as we near the festive seasons (Diwali and Christmas) and the start of the new school year in 2018.

The impact of TC Winston in February 2016 also led to a decrease in demand for credit in the non-banking sector (based on the number of applications received). The decreasing trend was underpinned by the $275.5 million[16] paid out to eligible members of the Fiji National Provident Fund as TC Winston assistance; corresponding also with the decrease in value of loans in the banking sector for the month of February 2016.

In contrast, the hire purchase finance companies experienced an upturn in demand and consumer spending attributed to the increase in purchases of household furniture, white goods and electrical appliances.

[14] Comprises of licensed commercial banks and credit institutions that carry out 'banking business' as defined in the Banking Act 1995

[15] Currently not under RBF regulatory coverage and comprises of Other Financial Corporations such as finance companies, hire purchase finance companies and microfinance institutions.

[16] FNPF Annual Report 2016

Non-performing Loans

Generally, the absence of a credit reporting agency has had an impact on both the banking and non-banking sectors.

The increase in value of loans from April 2016 to July 2016 is attributed to the absence of a credit bureau[17] and in the last quarter of 2016, the non-banking sector in general experienced an upward trend in non-performing loans.

While the banking sector was better positioned in terms of size, resources and capacity to react[18], it has been particularly challenging for the non-banking sector due to the niche market that they target. Consequently, both sectors have had to introduce tighter credit standards and documentation requirements for approving credit.

Whilst credit growth is normally associated with increased access to finance and greater support for investment and economic growth, when expansion is too fast, such booms may lead to vulnerabilities.

Noting the upward trend in demand for credit and non-performing loans in the non-banking sector, it is important that credit growth, movement and build-up of financial activities and its possible implications on Fiji's financial stability is closely monitored. The Reserve Bank of Fiji continued assisting the Credit Union sector which is currently under the non-banking sector, with its reforms.

Credit Union Reforms

The credit union industry has been in existence in Fiji for more than 60 years evidenced by its legislation enacted in 1954. The last revision of the Credit Union Act (Cap.251) was in 1979, and the industry has since continued to be regarded as operating in the non-banking sector.

In line with the financial inclusion initiatives of the Reserve Bank and various calls for the Reserve Bank to take up the regulation and supervision of credit unions, the reform of the industry was necessary to ensure continued financial sustainability and relevance within the Fiji financial system.

In 2014, the reform began through the conduct of a national survey on 24 active credit unions.

Table D2: Key Financial Information from the Credit Union Survey as at March 2014

Total Assets	$125.1m
As a % of FS Gross Assets	0.8%
Total Loans	$68m
No. of members	15,709

Source: Reserve Bank of Fiji

Issues arising from the survey include weakness in governance, internal audit and risk management, were also noted together with the exposure of member funds in non-traditional activities – for example, insurance, real estate, agriculture and tourism.

The credit union reforms were then undertaken as part of Government's Financial Sector Reforms Plan contained in the 2015 National

[17] Following the introduction of the Fair Reporting of Credit Act in April 2016, delinquent customers previously under the Data Bureau's radar were given a clean slate, and would now qualify for credit approval.

[18] Decreasing trend in number and value of loans since August 2016 underpinned by the tightening of credit standards due to absence of credit bureau.

Budget Supplement with the objective of reviewing and developing a regulatory and supervisory framework for the credit union industry.

A proposed draft legislation was prepared with the assistance of the Pacific Financial Technical Assistance Centre (PFTAC) in 2015 and was circulated to the industry for a first round of comments.

Capacity building exercises were also successfully conducted with 15 credit unions in 2015. Written submissions and feedback from the industry consultation were then collected in 2016, and incorporated where applicable.

The second draft will be circulated by the end of 2017 and the Reserve Bank of Fiji plans to table the proposed legislation in Cabinet in 2018.

Key changes as suggested in the proposed legislation include:

- The Reserve Bank of Fiji being the regulator and supervisor for credit unions;
- Fit and proper requirements for board, committee members and general managers;
- Compensation of directors and committee members allowed on the approval of the Annual General Meeting;
- Credit unions submitting financial returns to the Reserve Bank on a quarterly basis for on-going monitoring and supervision;
- Credit unions to comply with prudential financial ratios – Capital, Reserves and Liquidity;
- Compulsory membership to the Credit Union League;
- Ability for credit unions to charge market rates for deposits and loans; and
- Availability of administrative and judicial review for all decisions of the Reserve Bank.

Table D3: Key Financial Information from the Credit Union Industry as at December 2016

Total Assets	$172.6m
As a % of FS Gross Assets	0.9%
Total Loans	$79.2m
No. of members	20,206

Source: Reserve Bank of Fiji

The industry has been generally receptive to proposed changes and the Reserve Bank will continue to consult with the relevant stakeholders throughout the reform process.

[19] PFTAC is a technical training and assistance arm of the IMF for the Pacific.

Fiji Payment System Activity

An efficient and secure payment system is an enabler of economic activity. It provides the conduit essential for effecting payments and transmission of monetary policy. This section briefly discusses payment system activity in Fiji, for electronic and paper based transactions.

Developments

The provision of banking services has developed from the use of old passbooks, to new mediums with the use of debit and credit cards together with ATMs, EFTPOS machines, internet banking and mobile banking.

ATMs and EFTPOS machines are to a degree interoperable, meaning that a customer from one bank can use the machine of another bank to access his bank funds.

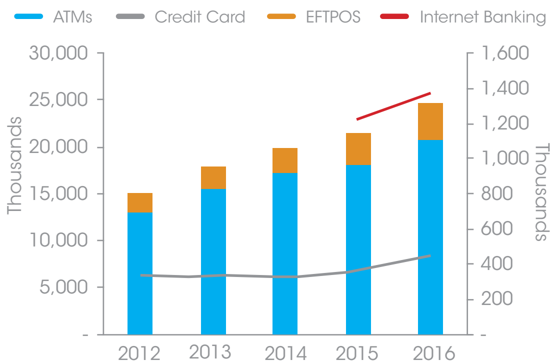
The introduction of the wireless operated EFTPOS machine which is operated without a telephone line, along with Smart Card products are some of the new technologies that have helped decentralised and make financial services more accessible. In addition, the FijiClear system allows all commercial banks to electronically clear or settle their balances with each other and with the RBF on a real time basis.

Figure 27 outlines the number of transaction for each type of electronic payment system in Fiji from 2012- 2016 (with the exception of internet banking). ATMs, EFTPOS, credit cards and internet banking have similarly depicted an upward trend annually in terms of the number of transaction handled in Fiji.

On the other hand, Figure 28 illustrates the current trend of paper based transactions, normally for savings and cheque accounts conducted at financial institutions.

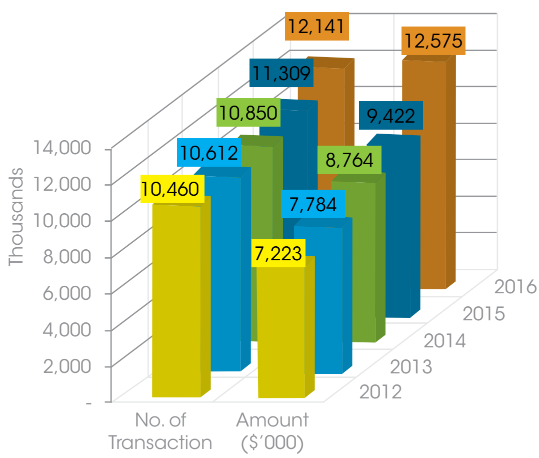
Whilst there is an upward trend in the usage of electronic payment systems, Fiji has not entirely phased out its paper based transactions.

Figure 27: Number of Transactions processed under Electronic Payment System



Source: Reserve Bank of Fiji

Figure 28: Paper based Transactions



Source: Reserve Bank of Fiji

Annexures

Annex 1: Fiji Financial Soundness Indicators

	2013	2014	2015	2016	2017 Q2
Core FSIs for Deposit takers	%	%	%	%	%
Regulatory capital to risk-weighted assets	14.90	15.32	15.56	16.43	16.14
Regulatory Tier 1 capital to risk-weighted assets	13.30	12.51	13.17	13.80	13.00
Non-performing loans net of provisions to capital	11.00	4.17	2.59	7.01	8.93
Non-performing loans to total gross loans	3.00	1.65	1.45	2.24	2.53
Sectoral distribution of loans					
Residents	99.20	99.10	99.17	99.38	99.37
Sectoral distribution of total loans: Deposit-takers	-	0.49	-	0.15	-
Sectoral distribution of total loans: Central bank	-	-	-	-	-
Sectoral distribution of total loans: Other financial corporations	0.10	0.09	0.11	0.04	0.08
Sectoral distribution of total loans: General government	7.30	7.67	8.04	5.83	6.16
Sectoral distribution of total loans: Non-financial corporations	65.10	62.53	63.00	64.63	64.89
Sectoral distribution of total loans: Other domestic sectors	26.70	28.32	28.02	28.73	28.24
Non-residents	0.80	0.90	0.83	0.62	0.63
Return on assets	2.40	2.65	2.62	2.54	2.55
Return on equity	25.20	25.52	24.35	23.47	22.97
Interest margin to gross income	60.20	58.18	55.14	58.74	56.43
Non-interest expenses to gross income	54.30	53.35	52.73	50.16	49.93
Liquid assets to total assets	21.50	18.06	20.13	16.82	16.98
Liquid assets to short-term liabilities	69.40	66.79	82.22	60.67	66.37
Encouraged FSIs	%	%	%	%	%
Deposit takers					
Capital to assets	10.20	8.31	8.52	9.17	8.69
Large exposures to capital	255.60	203.57	205.23	177.55	185.31
Trading income to total income	12.50	11.17	12.53	11.37	9.92
Personnel expenses to non-interest expenses	45.80	42.63	44.99	44.47	44.91
Customer deposits to total (non-interbank) loans	92.50	92.47	90.26	90.67	90.92
Foreign-currency-denominated loans to total loans	1.10	2.30	2.67	2.75	3.21
Foreign-currency-denominated liabilities to total liabilities	6.90	7.54	9.92	8.02	8.12
Residential real estate loans to total gross loans	19.10	18.69	18.71	18.91	19.12
Commercial real estate loans to total gross loans	9.90	10.01	10.45	11.41	11.65

Annex 2: Financial System Players

September 2017	Millions of Fiji Dollars	Percent in Subsector	Percent in Sector
Financial Corporations	**22,041**		**100.00**
Reserve Bank of Fiji[8]	2,839		12.88
Other Depository Corporations	**11,260**	**100.00**	**51.09**
Commercial Banks	9,848	87.46	44.68
Credit Institutions	530	4.71	2.40
Fiji Development Bank	512	4.55	2.32
Housing Authority	190	1.69	0.86
Credit Unions[1]	173	1.54	0.78
Microfinance Institutions[2]	7	0.06	0.03
Other Financial Corporations	**7,942**	**100.00**	**36.03**
Insurance Companies[7]	1,585	19.96	7.19
Fiji National Provident Fund	5,986	75.37	27.16
Asset Management Bank[3]	1	0.01	0.00
Unit Trusts	262	3.30	1.19
Finance Companies[4]	32	0.40	0.15
Private Money Lenders	Not Available	Not Available	Not Available
Pawn Shops	Not Available	Not Available	Not Available
Insurance Brokers[5]	49	0.62	0.22
Restricted Foreign Exchange Dealers[6]	28	0.35	0.13
Money Changers[6]	0.2	0.00	0.00

Notes:
1 As at December 2016. 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 2016
6 Latest available in September 2017
7 As at June 2017
8 As at August 2017

Annex 3: Systemic Risk Indicators

Indicator	Definition and usefulness
System and commercial banks credit growth rate	Annual percentage change in total financial system and commercial banks out-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 SIFIs	Micro-prudential stances on SIFIs

Source: 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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