RESERVE BANK OF FIJI

FINANCIAL
STABILITY REVIEW

OCTOBER 2018

The charts and tables in the appendix to this Report use data available at 30 June 2018.

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

ANZ	Australia New Zealand Bank
APRA	Australian Prudential Regulation Authority
BES	Business Expectation Survey
BIS	Bank for International Settlements
BSP	Bank South Pacific
CBs	Commercial Banks
CCB	Consolidated Commercial Banks
CCS	Credit Conditions Survey
CL	Crown Lease
DC	Debt Consolidation
DSR	Debt Serviceability Ratio
ELGI	Excess Loan Guarantee Insurance
ESA	Exchange Settlement Account
FNPF	Fiji National Provident Fund
FSI	Financial Soundness Indicators
FSR	Financial Stability Review
FSSR	Financial Sector Stability Review
GDP	Gross Domestic Product
HL	Housing Authority Lease
HP	Hodrick-Prescott
HQLA	High Quality Liquid Assets
IMF	International Monetary Fund
LHS	Left Hand Side
LVR	Loan to Value Ratio
N/A	Not Available
NL	Native Lease
NPLs	Non-Performing Loans
PSBE	Private Sector Business Entities
RBF	Reserve Bank of Fiji
RHS	Right Hand Side
SIB	Systemically Important Bank
SIFI	Systemically Important Financial Institution
SME	Small Medium Enterprise
TC	Tropical Cyclone
UMI	Uncommitted Monthly Income
USA	United States of America
WBC	Westpac Banking Corporation
WEO	World Economic Outlook
WRHR	Wholesale, Retail, Hotels & Restaurants
WALR	Weighted Average Lending Rates

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 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 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 key industry developments and emerging risks to the financial system.

Executive Summary

Global economic and financial conditions remained relatively favourable, however fluctuations in commodity prices, geopolitical tensions and increased trade tensions between the United States and China resulted in an elevation of risk. Against this setting, the Fijian financial system remained stable largely supported by sound financial institutions.

Domestically, macroeconomic risks remained subdued despite the upcoming elections on 14 November 2018, and a favourable outlook for the economy is anticipated for the short to medium term. System liquidity remained adequate, consistent with the level of foreign reserves which surpassed the $2 billion mark.

In comparison to 2016 and 2017, market, liquidity and funding risks remained unchanged while credit risk indicators showed signs of moderation due to the slowdown of banks' credit growth. No significant risk is expected to emanate from the real sector in the near term as household and corporate debt remain below concerning levels.

With banks tightening their credit conditions as noted from the bi-annual survey conducted by the Reserve Bank, prudent practices will continue to ensure sustainable credit growth of the real sector.

The thematic credit risk review conducted on banks concluded that while there are vulnerabilities in the financial system specifically in relation to the mortgage market, these do not support macroprudential intervention at this stage. However, risks from exogenous factors such as adverse weather conditions remain high for the Fijian economy and financial system.

The strong capital position of banks as assessed from the stress tests conducted, indicated that they are well capitalised to withstand adverse shocks in the short to medium term. However, specific areas of concern at an institutional level will continue to be closely monitored by the Reserve Bank.

RBF Financial System Policy Committee Discussion Summary

The Reserve Bank's Financial System Policy Committee meeting to discuss the report on Financial Stability was conducted on 18 September, 2018. The Governor of the Reserve Bank and Chair of the Committee made the following points during the meeting:

- Noting the improvements in credit risk conditions with corporates and households, continued expectation of tightened credit risk conditions and risk appetite, growth trends and results of the recent thematic credit risk review of the banking industry, the ensuing improvement in credit risks and risk appetite ratings were confirmed.
- The assessment on global environment risk and macroeconomic risk was generally noted, and similarly the directional sentiments for credit risk, risk appetite and market and liquidity risk, noting potential vulnerabilities identified.

Notwithstanding the improved risk ratings, the Committee members highlighted the need to continuously monitor developments given intermittent institutional liquidity constraints (and continued reliance on short term wholesale funds) and non-performing loans trends. The credit growth trends of the households and corporate sectors at present are not of systemic concern, however NPLs levels are beginning to trend upward.

Similar to the sentiments contained in the 2017 Financial Stability Review, the Committee concluded that systemically important financial institutions posed low to moderate risk, and capital and profitability outcomes remained buoyant, therefore did not point toward a need for capital buffers.

The Committee took note of the enhancements to the framework suggested in the IMF FSSR Report of February 2018, and the need for the prioritised implementation of these recommendations that will improve how the Reserve Bank monitors, assesses and mitigates against key risks to macroeconomic and financial stability. Finally, the Committee agreed that the Reserve Bank's twin objectives of a healthy level of foreign reserves and stable inflation, including the important role of safeguarding financial stability and ensuring adequate system liquidity, were met during the review period.

Overview

With global conditions for the 2018-2019 period expected to remain similar to 2017 levels, adverse implications to Fiji's financial stability are not expected in the short term.

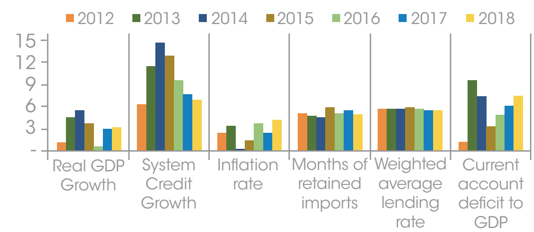
Global Economy

The global growth outlook for 2018 and 2019 is expected to be around its 2017 level of 3.7 percent. Nevertheless, downside risks to global growth remain, emanating from the worsening trade stand-off between the United States and China, geo-political tensions and increasing import bills for emerging and developing countries. The envisaged downside risks are expected to have a moderate effect on global economic and financial conditions, mainly affecting the trade and tourism sectors (see International Developments, Pg. 9).

Domestic Economy

Macroeconomic developments and risks to domestic growth are largely expected to arise from global oil price hikes, fiscal policy uncertainty in view of the November 2018 election period and exposure to adverse weather conditions.

Figure 1: Macroeconomic Indicators



Source: The Reserve Bank of Fiji, FBOS

The economy is expected to grow for the ninth consecutive year in 2018 at a pace of 3.2 percent, similar to the projections in May 2018 (Figure 1). Growth this year is envisaged to be driven by the wholesale and retail trade, accommodation and food services, public administration and defence and the construction sectors.

The twin objectives of maintaining price stability and a comfortable level of foreign reserves were met.

In terms of inflationary pressures, these have increased to 5.2 percent in October 2018 from 2.6 percent in the same period last year, on account of an increase in the prices of kava, alcohol, fruit and vegetables and fuel. Tourism earnings remain positive and foreign reserves remain comfortable at $2,126.8 million as of 31 October 2018, sufficiently covering 4.9 months of retained imports of goods and non-factor services.

As Fiji approaches the cyclone season, possible negative impacts of adverse weather conditions on the prices of agricultural market items, the real sector and in turn the financial system are expected. Historical impacts of natural disasters and political instability factored into stress testing for commercial banks indicated that banks, with current capital levels, are able to weather these effects (see Box C, Pg. 25).

Soundness of Financial System

The Fijian financial system remains sound and resilient, however closer monitoring continues on banks' reliance on short-term wholesale funding, the coverage level of core liquid assets, and the rising level of non-performing loans (NPLs).

Commercial banks' credit growth remained slow in the first half of 2018, largely attributed to the continued tightening of credit standards as applied to the approval of loans, according to the June 2018 Credit Conditions Survey (see Box A, Pg.13).

Credit risk indicators do not indicate a build-up in credit, however cyclical indicators continue to be monitored.

In line with this, aggregate credit (including for banks and other credit providers) displayed a slight growth in the first half of 2018 of 7.8 percent; attributed to the upward trend showed by other credit providers.

The commercial banks' NPLs ratio registered a modest rise from 2.1 percent in June 2017 to 2.6 percent in June 2018 which was largely driven by non-financial corporation loans (see Buoyancy of the Financial System for further discussion on credit risk, Pg. 17).

Commercial banks' capital adequacy ratio remains well above the minimum requirements.

The aggregate commercial banks' capital adequacy ratio improved to 16.1 percent from 15.1 percent in June 2017, remaining well above the minimum requirement of 12.0 percent. The assessment of credit risk does not point to a requirement for countercyclical buffers at this stage.

The funding profile and liquidity conditions have slightly improved, however some indicators remain close to historical stress points.

The short term wholesale funding mix remained below the historical stress points, while funding profile and liquidity indicators moved closer to the historical stress point and remaining concerns relating to interest rates for short term funds.

Systemically Important Financial Institutions (SIFI) do not pose any major systemic risk to the financial system.

The Fiji National Provident Fund (FNPF) and the three largest banks continued to be assessed as satisfactory under the micro-prudential assessment framework.

Section 1: Financial Stability in 2018

Key Risks on the Horizon

Slowing credit growth has dampened prior year's concerns of complications from the credit growth cycle however, lagged credit indicators are beginning to show some asset quality issues that are being monitored. The Fijian financial system now braces for any impact of the 2018/2019 cyclone season and expectations surrounding the November 2018 national elections, with the support of a strong banking sector.

International Developments

Potential risks emanating from the international environment do not pose any major threat to the Fijian financial system.

The International Monetary Fund revised its global growth forecast for 2018-2019 from 3.9 percent to 3.7 percent, largely on the backdrop of the increasing trade tensions between the United States and China, tighter financial conditions, geopolitical tensions and higher crude oil prices[1]. From financial stability perspective for Fiji, the areas of concern are the risks in the international environment that may put pressure on foreign reserves and system liquidity levels.

The higher price of crude oil (as oil price futures averaged around US$78.80 per barrel for September – November 2018 higher than the price recorded at the end of 2017), the worsening trade standoff mentioned above, coupled with the strengthening US dollar, ultimately has a negative effect on Fiji's inflation, foreign reserves and balance of payment position, through its major trading partners. However, the current level of foreign reserves of $2.2 billion (although a decreasing trend has been noted in recent months) remains adequate to cushion any negative impacts in the short run.

In terms of Fiji's major trading partners, the general outlook is for moderate paced growth.

The United States[2] economy grew by 4.1 percent in the second quarter of 2018 (2.2 percent in the first quarter) and is expected to expand by 2.9 percent by the end of 2018, on the backdrop of strong fiscal stimulus after 8 consecutive years of expansion and accommodative financial conditions. However, the 2019 growth rate has been revised downward to 2.5 percent as a result of the recently introduced trade measures.

In the Asia-Pacific Region, Australia[3] continues to expand without interruption, with a growth rate forecasted to be above 3 percent in 2018 and 2019, driven by growth in exports, non-mining business investments and public demand.

New Zealand's economic growth slowed in the first quarter of 2018 to 2.6 percent; however was faster in the second quarter (2.8%) and expected to increase to 3.4 percent in 2019, supported by fiscal and monetary stimulus.[4]

China's economy is forecasted to grow at a rate of 6.6 percent in 2018 before moderating to 6.2 percent in 2019; reflecting slowing external demand growth and financial regulatory tightening.[5]

[1] World Economic Outlook Global Prospects and Policies, International Monetary Fund, October 2018.
[2] World Economic Outlook Global Prospects and Policies, International Monetary Fund, October 2018.
[3] Statement on Monetary Policy, Reserve Bank of Australia, November 2018.
[4] Monetary Policy Statement for November 2018, Reserve Bank of New Zealand.
[5] World Economic Outlook Global Prospects and Policies, International Monetary Fund, October 2018.

Developments in the global economy are currently assessed to have a moderate effect on the Fijian economy and at this stage, are not expected to directly threaten the stability of the Fijian financial system in the short term.

Household Sector Developments

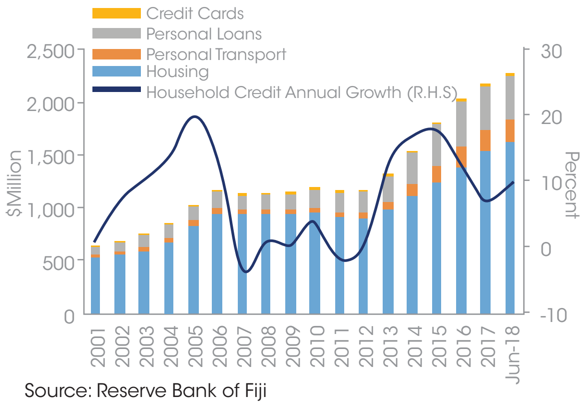
Non-performing loans of the household sector have shown a gradual increase, although still considered low at 2.2 percent.

The household sector's debt growth slowed to 7.1 percent towards the end of 2017, before a slight increase was noted in the first half of 2018; increasing to 9.4 percent (Figure 2). Borrowing for housing purposes continued to dominate the sector's credit portfolio.

The increase in credit has been attributed to the increase in the taxable personal income threshold from $16,000 to $30,000 coupled with the Government's assistance to first home buyers, consequently increasing the sector's ability to afford homes. The current level of credit is expected to increase further, as the June 2018 Credit Conditions Survey responses had indicated increased demand for house purchases towards the end of 2018 (Box A: CCS results).

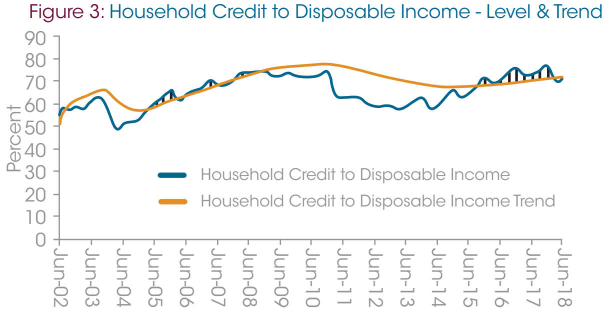
The current credit growth rate is not deemed excessive as the ratio of household credit to disposable income moved below its long-term trend (Figure 3), resulting in a negative credit gap of 0.5 percent in June 2018 (Figure 4). While positive gaps were noted for 2016 and 2017, these did not signify excessive credit growth, rather it was due to a slower growth in GDP (compared to credit) as a result of

Figure 2: Household Credit



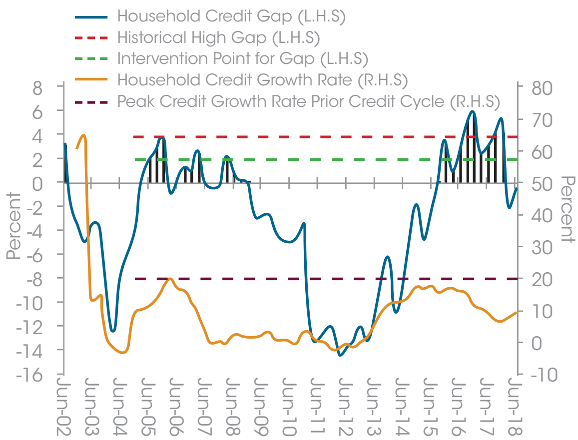
Source: Reserve Bank of Fiji

Figure 3: Household Credit to Disposable Income - Level & Trend



Source: Reserve Bank of Fiji, FBOS

Figure 4: Household Credit Gap & Growth Rate



Source: Reserve Bank of Fiji, FBOS

the natural disasters experienced. This can be further confirmed by the discord of the credit growth and credit gap lines for these periods (Figure 4).

Arising from the sector's creditworthiness assessment, there is heightened monitoring as the level of household non-performing loans (NPLs) has shown a gradual rise in the last 4 years (Figure 5). In the first half of 2018, the level of NPLs had increased by $10.0 million of which 59 percent were from personal loans and credit card; and largely emanating from a single institution.

Despite the upward trend, the current level of NPLs for the sector remained within satisfactory levels, as the NPLs ratio stood at 2.2 percent as at June 2018, far less compared to the highest ratio of 6.8 percent in 2009. Furthermore, the composition of NPLs for households is weighted to housing loans at 58 percent (Refer to Section 2 for a more detailed focus on residential mortgage lending practices in Fiji, Pg. 26).

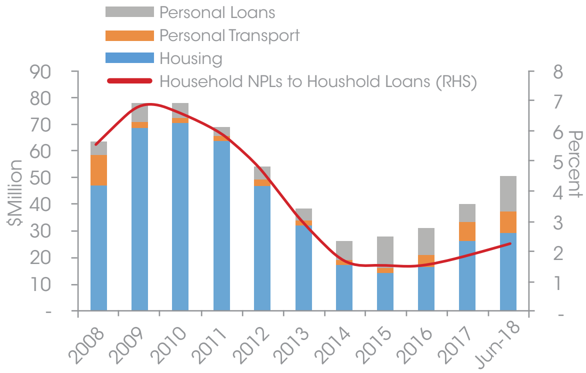
Corporate Sector Developments

The corporate sector continued to report subdued credit growth and a gradual increase in non-performing loans.

The corporate sector displayed a slower credit growth in the past year, from 16.7 percent in June 2017 to 6.3 percent in June 2018 (Figure 6), attributed to the tightening of credit standards (see Box A: June 2018 CCS Results, Pg. 13).

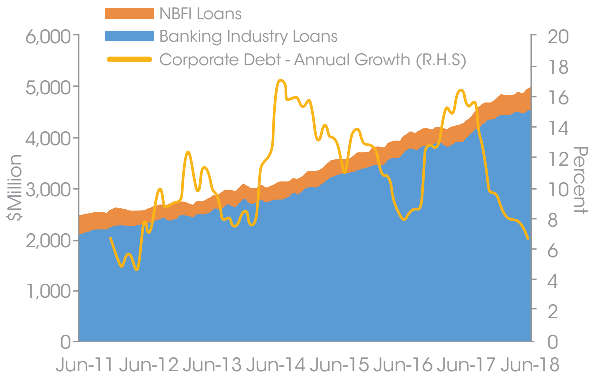
However, it is expected that business credit will increase in the short to medium term based

Figure 5: Household Non - Performing Loans



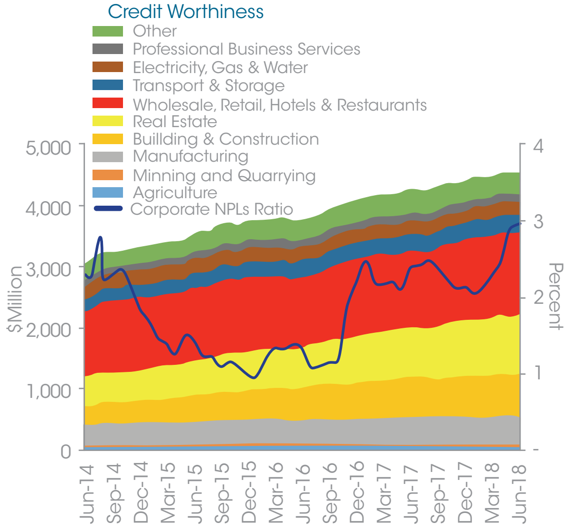
Source: Reserve Bank of Fiji

Figure 6: Corporate Credit



Source: Reserve Bank of Fiji

Figure 7: Corporate Credit Concentration and Credit Worthiness



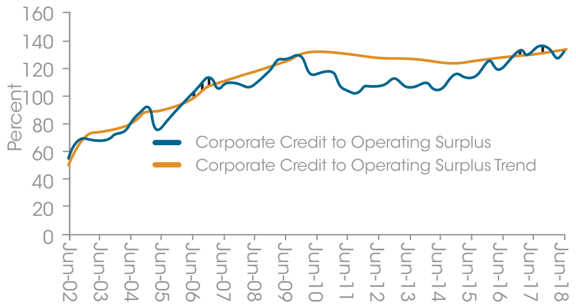
Source: Reserve Bank of Fiji

on the June 2018 Credit Conditions Survey responses which indicated a slowdown in tightening of credit standards and increased demand for loans from businesses.

Over 80 percent of corporate sector loans are with commercial banks, of which (Figure 6), 30 percent are concentrated within the wholesale, retail, hotels and restaurants (WRHR) sector (Figure 7). In terms of non-performing loans, the ratio for the corporate sector has shown an increasing trend, rising in the first half of 2018 to 3.0 percent, from 2.1 percent in December 2017.

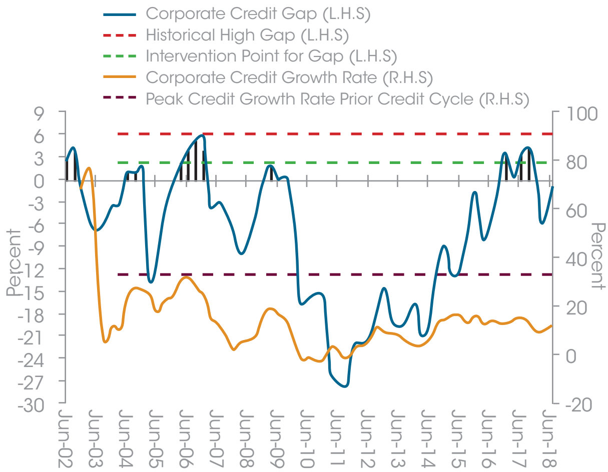
In terms of indebtedness, the ratio of corporate credit to operating surplus moved below its long-term trend (Figure 8) resulting in a negative credit gap of 1.0 percent (Figure 9), therefore indicating that the current build-up in credit in the corporate sector does not pose any systemic concerns.

Figure 8: Corporate Credit to Operating Surplus - Level & Trend



Source: Reserve Bank of Fiji, FBOS

Figure 9: Corporate Credit Gap & Growth Rate



Source: Reserve Bank of Fiji, FBOS

Box A: June 2018 Credit Conditions Survey Results[6]

ENTERPRISES

The overall responses indicate tightening of credit standards and increase in demand for loans.

Net Credit Standards

The tightening of credit standards for loans or credit lines to enterprises were confirmed by most respondents in the first half of 2018 (Figure A1). However, credit standards tightening is expected to somewhat slowdown in the next six months to December 2018.

Factors Affecting Credit Standards

Risk on collateral demanded has been the major element contributing towards the greater ratio for net tightening of credit standards, as it increased from 20 percent to 26 percent, while other factors have remained within tightening level. In relation to the conditions and terms of credit, fewer respondents indicated that all the components of price and other conditions and terms such as non-interest rate charges, size of loan, collateral requirements, loan covenants and maturity contributed to tightening standards for approval of loan.

Net Demand for Loans

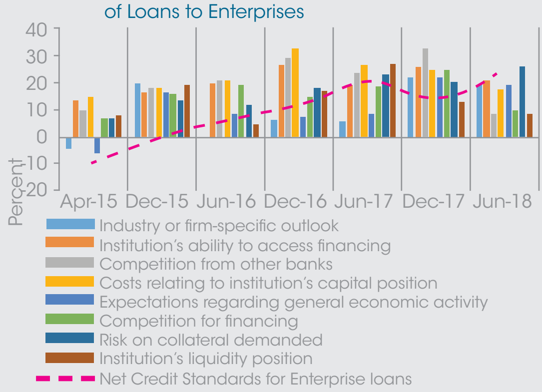
Majority of the respondents stated that with the exception of "internal financing", all other components have contributed to the increase in demand.

Data on loan growth rates confirm that funding demands of enterprises have decelerated over the first half of 2018 with the loan growth rate for enterprises at 1.0 percent as at June 2018, compared to 4.2 percent in December 2017. Nevertheless, most of the respondents have anticipated a rise in demand in the next six months with positive contributions to loan demand across all firm sizes and loan types (Figure A2).

Rejection of Loans

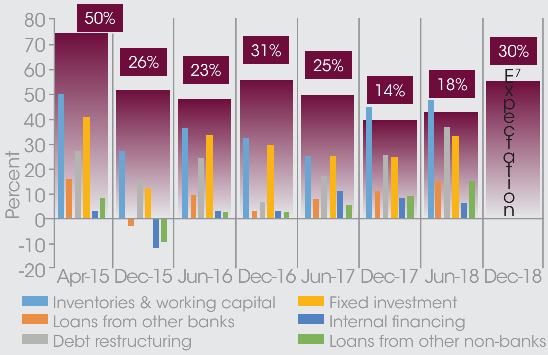
In comparison with the results of December 2017, June 2018 has noted greater increases in loan rejections, mainly in loans to small and medium enterprises (increased to 23 percent) and long term loans (increased from

Figure A1: Net Credit Standards for Enterprise Loans and Factors Affecting Credit Standards for Approval of Loans to Enterprises



Source: Reserve Bank of Fiji

Figure A2: Net Demand for Enterprise Loans

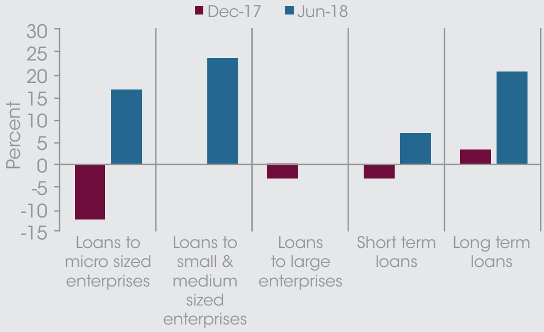


Source: Reserve Bank of Fiji

[6] Refer to Annex 3 for the CCS Results

[7] Indicates expectation for the next six months. Refer to Annex 3 for the CCS Results

Figure A3: Loan Rejections for Enterprises



Source: Reserve Bank of Fiji

HOUSEHOLDS

The consolidated responses stipulate increases in demand for loans and tightening of credit standards.

Net Credit Standards

The credit standards as applied to approval of housing loans have stirred to a net tightening stage as compared to a net easing phase in December 2017 (Figure A4).

The tightening of credit standards applied to the approval of loans for consumer credit and motor vehicle lending increased as at June 2018 (Figure A5).

Factors Affecting Credit Standards

Housing market prospects and cost of funds and balance sheet constraints have contributed towards tightening of credit standards for housing loans as it increased by 1 percent and 4 percent, respectively.

Additionally, the contributing components to an increase in net tightening of credit standards for approval of consumer credit and vehicle loans are cost of funds and balance sheet constraints, and high risk on collateral.

With regards to the conditions and terms of credit for house purchase, less respondents reported that the net tightening of credit standards was mainly due to the decline in the loan to value ratios as well as collateral requirements as it decreased from 19 percent to 10 percent and 22 percent to 7 percent, respectively.

The respondents have stated that the tightening standards for conditions and terms for approving vehicle and other household lending are mainly due to the institution's margins on riskier loans in price (increased by 2 percent) along with maturity requirements (increased by 12 percent) in other conditions and terms.

Net Credit Standard Expectations

Furthermore, in the upcoming months as per the expectations of the respondents, the credit standards for housing loans will be assessed at an easing phase (Figure A 6) while consumer credit and motor vehicle loans will be maintained along the somewhat tightening phase (Figure A7).

Net Demand of Loans

The decrease in net demand for housing loans, as stated by respondents, were caused by the decline in consumer confidence, non-housing related consumption expenditure and housing market prospects (Figure A8). Responses also indicate that demand for housing loans are expected to increase slightly in the next six months to December 2018.

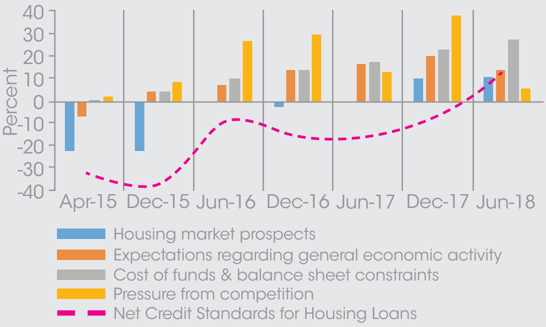
Similarly, net demand for consumer credit and vehicle loans decreased in comparison to December 2017. This was due to reductions in consumer confidence and household savings. However, an increase in demand is projected by many respondents (Figure A9).

The respondents have also revealed that borrowers with low and high loan to value ratios, that is 75 percent or less and more than 75 percent respectively, are expected to increase in the next six months (Figure A10).

Rejected Loan Applications

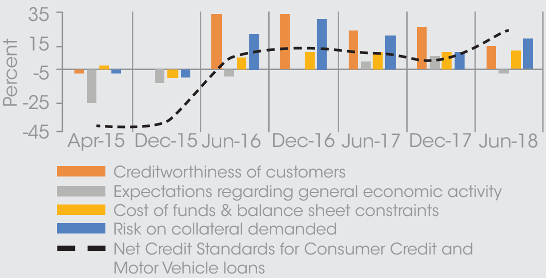
Majority of the respondents indicated that loan rejections for housing loans as well as consumer lending and vehicle loans have increased over the months, housing loans being the core component increased to 33 percent (Figure A11).

Figure A4: Net Credit Standards for Housing Loans and Factors Affecting Credit Standards as Applied to Approval of Housing Loans



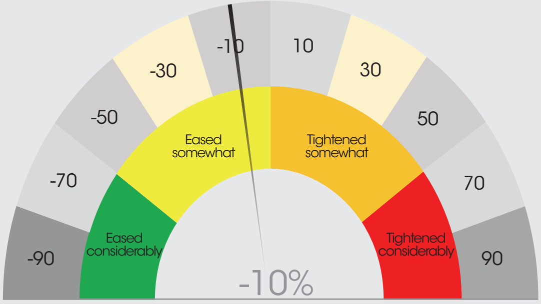
Source: Reserve Bank of Fiji

Figure A5: Net Credit Standards for Consumer Credit and Motor Vehicle Loans and Factors Affecting Credit Standards as Applied to Approval of Consumer Credit and Motor Vehicle Loans



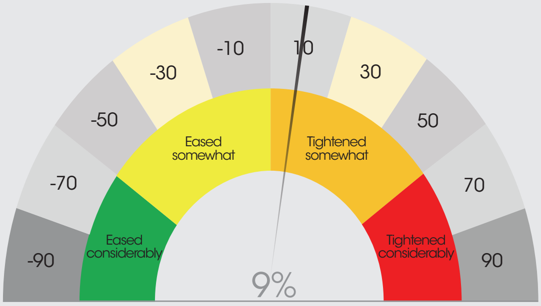
Source: Reserve Bank of Fiji

Figure A6: Net Credit Standards - Housing Loans: Dec - 2018 Expectations



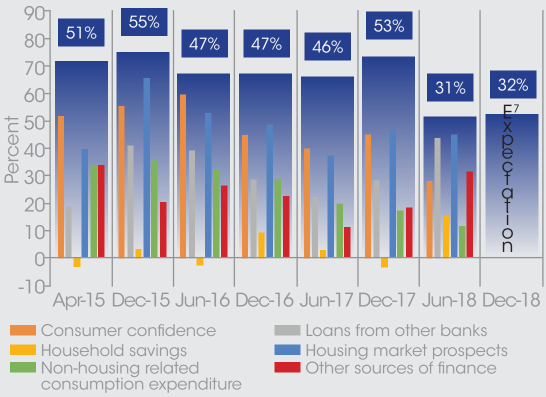
Source: Reserve Bank of Fiji

Figure A7: Net Credit Standards - Consumer Credit & Motor Vehicle Loans: Dec - 2018 Expectations



Source: Reserve Bank of Fiji

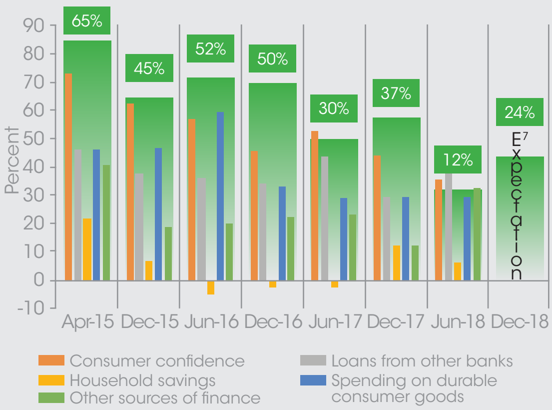
Figure A8: Net Demand for House Purchase Loans



Source: Reserve Bank of Fiji

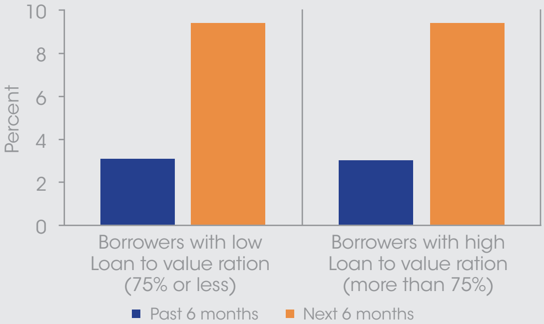
[7] Indicates expectation for the next six months. Refer to Annex 3 for the CCS Results

Figure A9: Net Demand for Consumer Credit & Vehicle Loans



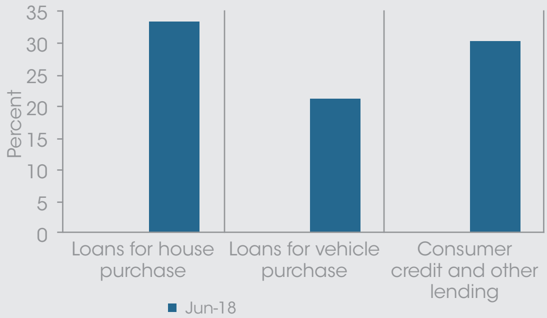
Source: Reserve Bank of Fiji

Figure A10: Changes in the availability of household secured credit (the willingness and ability to supply credit)



Source: Reserve Bank of Fiji

Figure A11: Loan Rejections for Households



Source: Reserve Bank of Fiji

[7] Indicates expectation for the next six months. Refer to Annex 3 for the CCS Results

Buoyancy of the Fijian Financial System

The Fiji National Provident Fund (FNPF), Australia & New Zealand Bank (ANZ), Bank South Pacific (BSP) and Westpac Banking Corporation (WBC), are considered Fiji's SIFIs due to their size and level of interconnectedness.

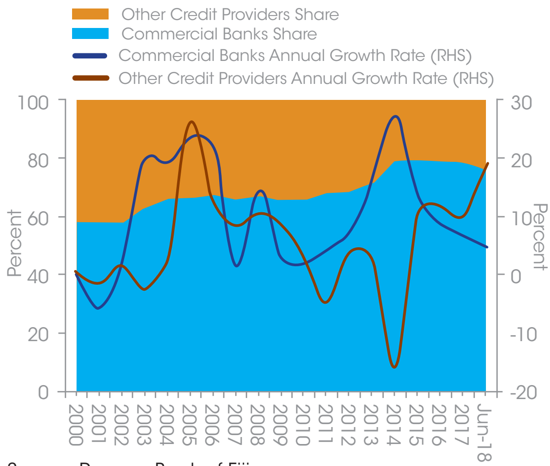
As at June 2018, the total financial system gross assets stood at around $22.6 billion of which, FNPF represented 28.9 percent (more than a quarter of the financial system - Table 1), while the three largest commercial banks also considered systemically important banks (SIB) represented 34 percent of the financial system. Collectively, these four institutions represent 62.3 percent of the Fijian financial system.

The banking sector continued to be the "preferred" channel for funding indicated by its larger share of the financial system aggregate credit, at 76.2 percent. However, the commercial banks' relative share reduced from 78.5 percent in June 2017 to 76.2 percent in June 2018.

In contrast, the share of other credit providers' increased to 23.8 percent in June 2018 (June 2017: 21.5%), largely due to an increase in customer term loans provided to large private sector businesses by the FNPF[8].

The total credit provided by other credit providers now stands at $2.13 billion, an increase of 18.8 percent over the year (Figure 10).

Figure 10: Credit Intermediation - Bank vs Non-Bank Lending



Source: Reserve Bank of Fiji

Table 1: Composition of Financial System as at June 2018

Category	Composition (%)
Reserve Bank of Fiji	11.8
Commercial Banks	44.0
Credit Institutions	2.8
Fiji Development Bank	2.5
Housing Authority	0.9
Insurance Companies	7.4
Fiji National Provident Fund	28.9
Unit trusts	1.4
Insurance Brokers	0.2

Source: Reserve Bank of Fiji

In terms of concentration, loans by commercial banks continued to be largely concentrated in the private non-financial corporations, which make up 65.1 percent of total loans, followed by the household sector at 29.2 percent (Figure 11).

[8] The Fiji National Provident Fund provides commercial loans to eligible investment sectors; https://myfnpf.com.fj/index.php/investments/commercial-loans

Credit risk indicators do not suggest a build-up in credit and therefore the current cycle does not pose any systemic concerns, however closer monitoring is necessary for developments in this area.

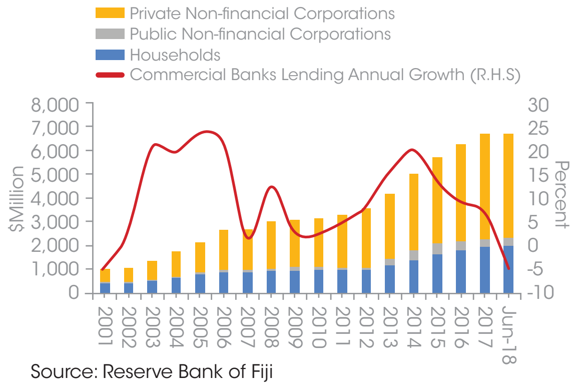
The financial system's aggregate credit growth displayed a slight resurgence in the first half of 2018 to 7.8 percent, following a period of slow growth since 2014 (Figure 12). The increase in system credit growth has been attributed to an expansion in credit provided by other credit providers, registering an annual growth rate of 18.8 percent.

While commercial bank lending accounted for the largest share in the financial system's aggregate credit level, commercial banks' credit growth continued to slow in the first six months of 2018 to 4.7 percent (Figure 13), attributed to the continued tightening of credit standards, as applied to the approval of loans (see Box A: June 2018 CCS Results, Pg. 13).

Following the revision of nominal GDP figures for 2016 and 2017, the private-sector-credit-to-GDP[9] moved below its long term trend (Figure 14), resulting in a negative 0.8 percent[10] private-sector-credit to GDP gap, a turnaround from a positive 2.5 percent in June 2017 (Figure 15).

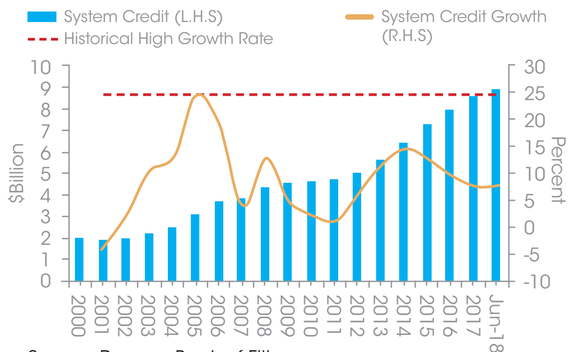
The negative credit gap at 0.8 percent indicates that there is no build-up of credit at present and therefore the current cycle does not pose any systemic concerns. However, these developments need to be closely monitored as the credit-to-GDP gap is showing signs of reaching and surpassing its long term trend, and given that credit is expected to increase further in the short-to-medium term.

Figure 11: Commercial Banks' Lending



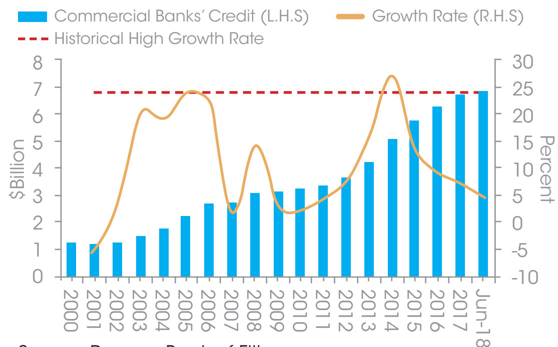
Source: Reserve Bank of Fiji

Figure 12: Aggregate Credit Growth



Source: Reserve Bank of Fiji

Figure 13: Commercial Banks' Credit Growth

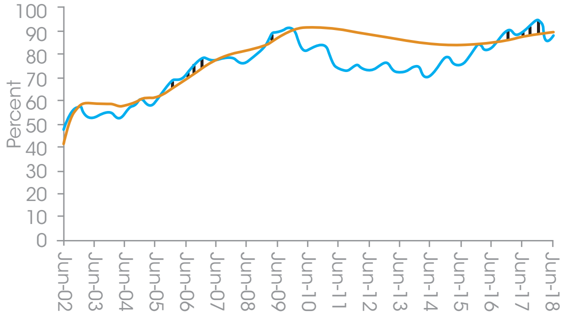


Source: Reserve Bank of Fiji

[9] The total private-sector-credit to GDP helps to determine if the output of an economy is increasingly produced by taking on excessive debt and an increase in the credit-to-GDP ratio above three percentage points, year-on-year, could serve as an early warning signals, one to two years prior to a financial crisis . Refer International Monetary Fund (2011): "Toward Operationalising Macroprudential Policies: When to Act? Global Financial Stability Report, September, Chapter 3.

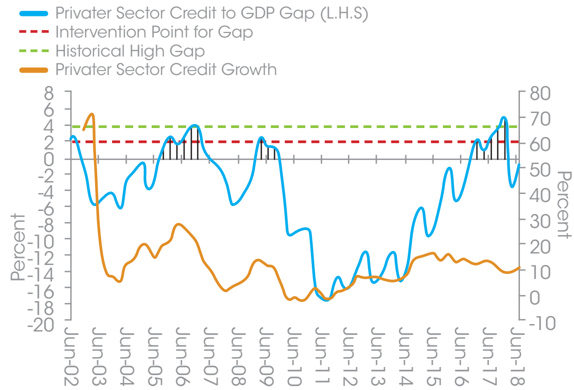
[10] The Bank for International Settlements (BIS) recommends macroprudential intervention when the gap is greater than 2.0 percent.

Figure 14: Private Sector Credit to GDP Level & Trend



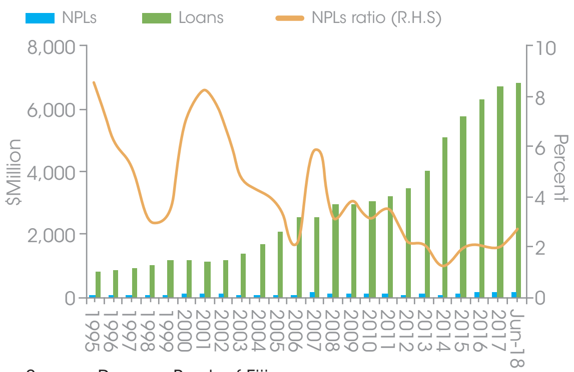
Source: Reserve Bank of Fiji, FBOS

Figure 15: Private Sector Credit Gap



Source: Reserve Bank of Fiji, FBOS

Figure 16: Commercial Banks' NPLs Ratio



Source: Reserve Bank of Fiji

While the positive private-sector-credit-to-GDP gap reported for December 2016 and December 2017, do not signify excessive credit growth, it was attributed to a slower growth in GDP (compared to credit) for these periods, as a result of the negative impacts of natural disasters.

NPLs may not be an early warning indicator of systemic risk, however it can be helpful in signalling when systemic risks have been realised from assessment of early warning indicators in prior periods. Historically, commercial banks' NPLs ratios have been high in stress periods of 1995, 2001 and 2007 (Figure 16).

In June 2018, the commercial banks' NPLs ratio showed a modest increase from 2.1 percent in June 2017 to 2.6 percent; which was largely driven by non-financial corporations loans (Figure 17). This however was within satisfactory levels with the non-performing loans collateralised and provided for. Commercial banks' loans are mainly spread across four major sectors; households, wholesale and retail, real estate and building, and construction (Figure 18).

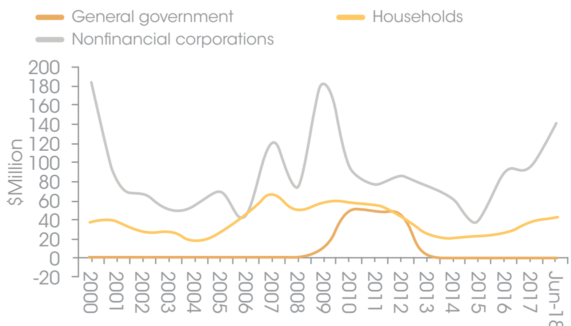
Commercial banks' resilience to shocks have been strengthened as the aggregate total regulatory capital rose to over a billion dollars in June 2018 (capital adequacy ratio: 16.1%: Figures 19, 20). The increase has been underpinned by higher retained earnings driven by two large banks, followed by higher levels in Tier 2 capital largely from an increase in term subordinated debts.

Trends in net interest margin show a steady decline since 2010 (Figure 21), signifying that competition on pricing has not been aggressive, further depicted in Figure 22 with the stable movement in lending rates. On the contrary, interest rates on deposits have shown a gradual increase indicating competition on funding. Non-interest income, mainly from fee charges and overseas exchange transactions has remained relatively steady.

In assessing market and liquidity risk, the major indicators summarized in Table 2 analyses the stress points, the "good" and current level of performance.

As at June 2018, the commercial banks' short term wholesale funding has slightly picked up compared to the March 2018 quarter, by $62.7million with retail funding also increasing by $53.5million, whilst long term wholesale funding decreased by $1.1million. The current wholesale funding mix increased to 48 percent in June 2018 (Figures 23 and 24). Relative to

Figure 17: Sectoral Distribution of NPLs



Source: Reserve Bank of Fiji

Figure 18: Credit Concentration by Sector (June 2018) - $6.642b

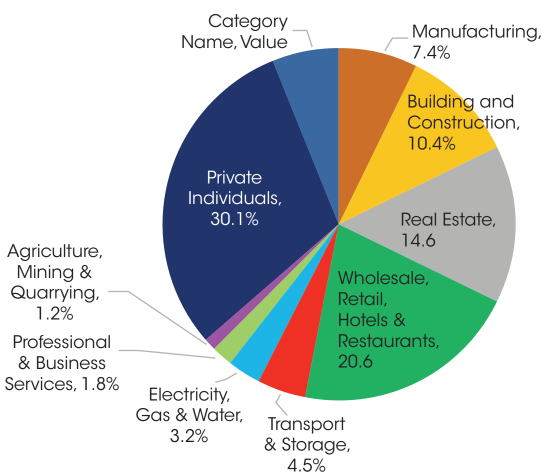
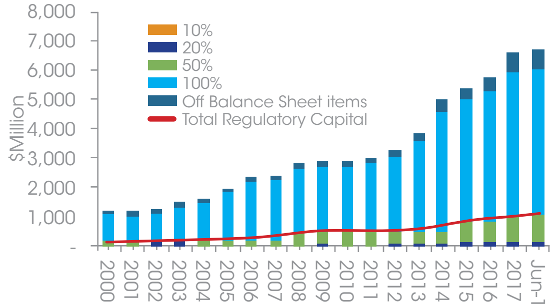
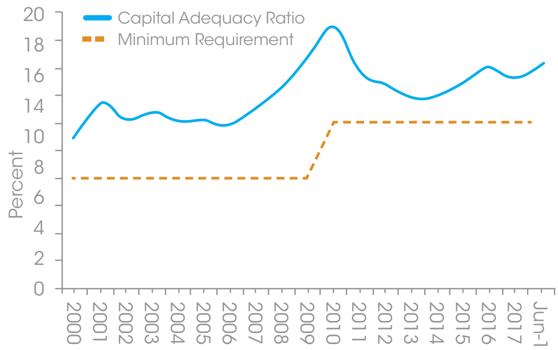


Figure 19: Commercial Banks' Capital Adequacy Components



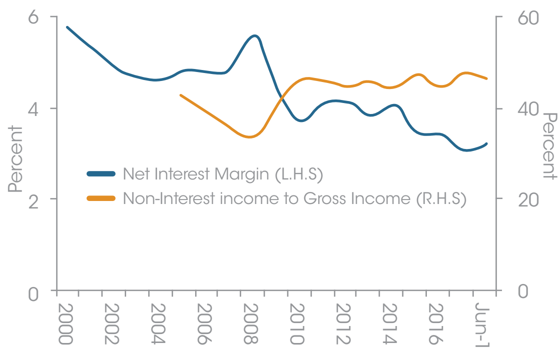
Source: Reserve Bank of Fiji

Figure 20: Commercial Banks' Capital Adequacy Ratio



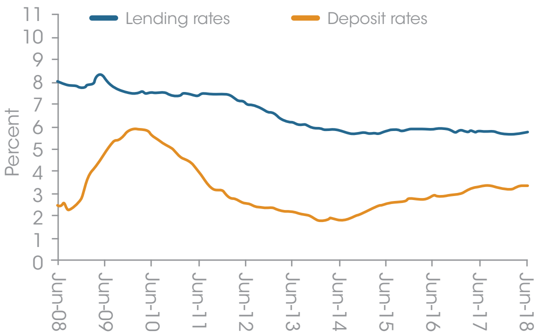
Source: Reserve Bank of Fiji

Figure 21: Commercial Banks' Net Interest Margin



Source: Reserve Bank of Fiji

Figure 22: Commercial Banks' - Interest Rates



Source: Reserve Bank of Fiji

the same period in 2017, short-term funds and funding mix stood at around 52 percent.

High Quality Liquid Assets (HQLA) and Broad Level Liquid Assets (Figure 25) remain at relatively high levels, however a drop in ESA balances was noted in June 2018 which had resulted in the core liquidity positions of commercial banks moving toward the historical stress point (Figure 26).

Historical analysis of the maturity transformation of commercial banks has shown their vulnerability to interest rate risk on large negative short-term mismatches in terms of roll-over funding costs (Figure 27).The interest rates on short- term funding increased in June 2018 as the level of negative short-term mismatches increased to around $359 million. Interest rates on short term funds continued its upward trend to 3.25 percent. With the increase in interest rates on short-term funds despite the improvement in levels of short-term mismatches, lending rates are forecasted to trend upward in the short to medium term, however the expected increase is not anticipated to be significant.

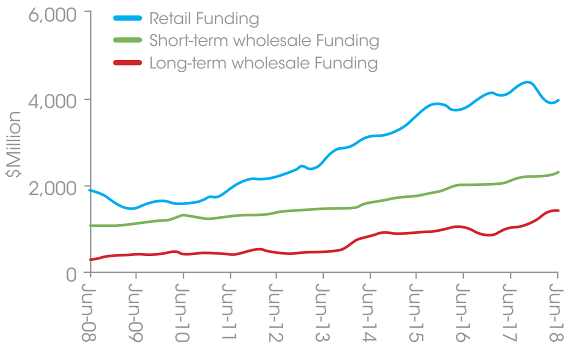
It is a prudent requirement that the single foreign currency net open positions of commercial banks must not exceed 12.5 percent of total capital, and overall foreign currency net open position must not exceed 25 percent of total capital. As at June 2018, the consolidated net open position was within these maximum limits (Figure 28).

Table 2: Summary of Market and Liquidity Indicators

Indicators	**Historically Stress Points/ Slump Period**	**Best or "Boom" Period**	**Current Performances**
Short- Term Wholesale Funding Mix	57 percent (Dec07)	44 percent (Jun-09, Mar-10-Sep 10)	48 percent
High Quality Liquid Asset	$131m (Dec08)	$821m - $829m (Sep13, Jun-15-Sep-15)	$658m
Core Liquidity Ratio	7 percent (Dec08)	35 percent (Sep -13)	12.8 percent
Foreign Reserves Position	$409m (Sep06)	$2,409m(Oct17)	$2,139m
Broad Level Liquid Assets	$353m(Sep06)	$1,340m (Oct17)	$1,119m
Net Open Position to Capital Ratio	23.7 percent (June 13)	0.2 percent (Mar-10)	3.5 percent

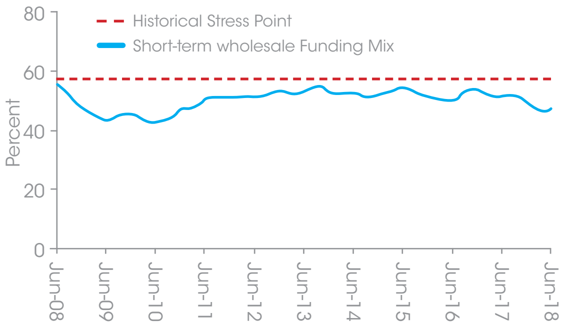
Source: Reserve Bank of Fiji

Figure 23: Commercial Banks' Funding Profile



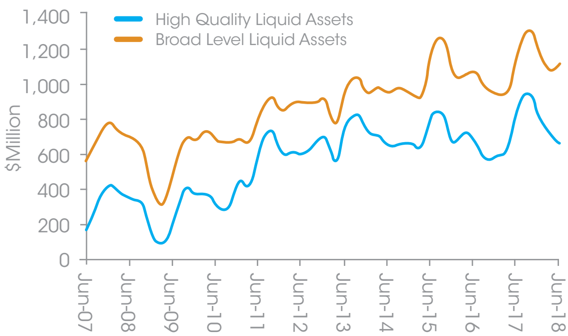
Source: Reserve Bank of Fiji

Figure 24: Ratio of Short-term Wholesale Funding



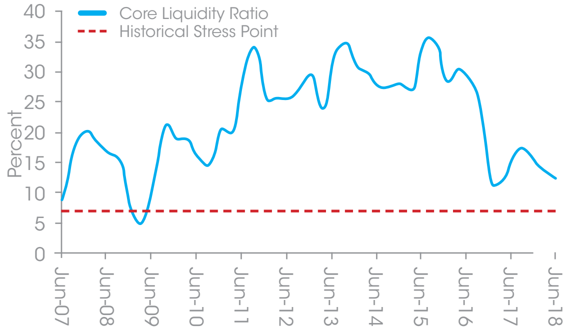
Source: Reserve Bank of Fiji

Figure 25: Commercial Banks' Liquid Assets



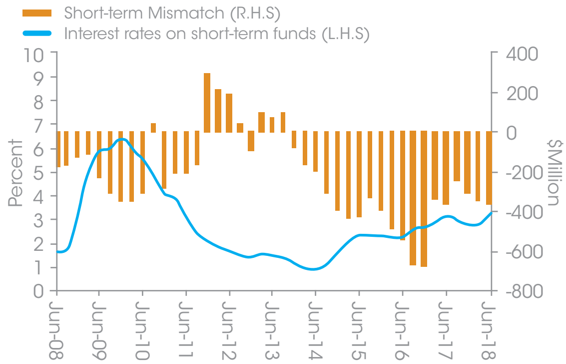
Source: Reserve Bank of Fiji

Figure 26: Core Liquidity Ratio



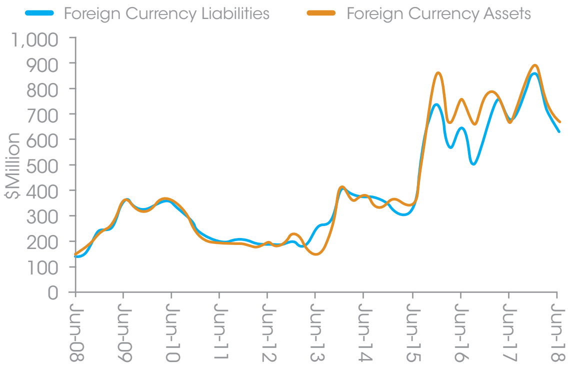
Source: Reserve Bank of Fiji

Figure 27: Commercial Banks' Maturity Profile & Interest Rate Risk



Source: Reserve Bank of Fiji

Figure 28: Commercial Banks' FX Risk



Source: Reserve Bank of Fiji

Box B: Financial Sector Stability Review

The Reserve Bank's responsibility of safeguarding financial stability has continued to increase in line with the financial system's increasing sophistication and depth. This role is strengthened with periodic independent reviews by relevant qualified technical experts. On 28 February 2018, the IMF completed an independent review termed the Financial Sector Stability Review (FSSR), for Fiji. The FSSR provides relevant authorities assistance in identifying vulnerabilities in the financial system, and through follow-up technical assistance by subject matter experts, assists in strengthening capacity, and the regulatory framework. This box provides brief information on the key areas for improvement identified by the IMF FSSR Technical Assistance Report.

The FSSR concluded amongst other things, that "the financial sector has benefited from eight consecutive years of economic expansion", and that "financial sector stability is underpinned by the presence of large regional foreign banks and active supervision," with considerable progress made since the 2007 Financial Sector Assessment Program (FSAP) review[11]. The FSSR's key recommendations are classified under the five areas of banking supervision, corporate governance, macroprudential supervision, stress testing and crisis management and resolution.

Since receiving the final report in June 2018, the Reserve Bank of Fiji has established an FSSR Oversight and Implementation Committee (FSSR OIC) tasked with ensuring a timely and structured review and implementation of the Fiji FSSR recommendations. The FSSR OIC is chaired by the Governor, with membership comprised of the Deputy Governor, and Chief Managers of the Financial Institutions, Economics, Financial Markets, Financial System Development and Risk Management and Communication Groups.

The first technical assistance mission of the IMF to assist Fiji in its implementation of the FSSR recommendations is scheduled for December 2018.

[11] In October 2007, the Financial Sector Assessment report for Fiji, based on the joint IMF-World Bank Financial Sector Assessment Program (FSAP), was released. The assessment was based on work by the FSAP team conducted in Fiji from 29 June to 13 July, 2006. Key areas identified by the FSAP included improvements needed in the Reserve Bank's banking supervision, monetary policy framework and transparency, Government securities market development and changes needed at the Fiji National Provident Fund (FNPF).

Table 3: Key Recommendations of the Fiji FSSR - February 2018

	Recommendation
Banking supervision	• Review supervisory ranking framework to better identify foreign branch risks and recalibrate complexity factors to account for risk management at LFI.
	• Conduct a broad review of the Banking Act and determine amendments required to ensure compatibility with powers required to implement supervision.
	• Seek to amend the Banking Act to address related parties, consolidated supervision, major acquisitions, and establish definitions of significant ownership and controlling interest.
	• Enhance the quantitative analysis to take into account and quantify the level of reliance of branches on their parent groups.
	• Enhance the integration of supervisory knowledge of the financial institution into stress testing and, conversely, relate the analytical outputs to potential supervisory actions including establishing early warning indicators.
Corporate governance	• Focus the strategies of statutory NBFIs on core competencies and missions.
	• Develop performance frameworks for statutory NBFIs, particularly the identification of relevant performance and disclosure benchmarks.
	• Strengthen the oversight of nonbank financial sector, particularly in the light of efforts to strengthen financial deepening.
Macroprudential	• Assign the macroprudential authority to the RBF with powers to identify and assess risks to financial stability; and to implement macroprudential policies.
	• Develop a detailed macroprudential toolkit, mapping policy instruments to intermediate policy objectives and to risk indicators.
	• Strengthen the domestic coordination arrangements by establishing a Financial Stability Committee (FSC).
Stress testing	• Enhance the depth of microprudential supervisory stress tests by supplementing the existing liquidity and credit sensitivity analysis with balance sheet and income projections.
Crisis management and resolution	• Assess the costs and benefits of deposit insurance and possible design options.
	• Develop comprehensive bank resolution policies and procedures and establish bank recovery planning requirements.
	• Develop ELA policy and processes.
	• Enhance crisis management cross-border coordination with home authorities.
	• Strengthen the framework and capacity for the early detection of bank stress and early intervention actions, and to introduce recovery planning for banks.

Box C: Banking Sector Solvency Stress Test

In February 2018, the Reserve Bank's stress testing framework and analysis capacity was strengthened with technical assistance from the IMF as part of the Fiji FSSR Mission (see Box B Financial Sector Stability Review, Pg. 23). This included incorporating a comprehensive forecasting element to the existing framework.

Improvements include the aggregation of credit, liquidity and funding risks with integrated results. Two important factors used in the stress test are, the level of net interest income and the level of non-performing loans (NPLs) with resulting credit losses. Using assumptions based on historical experience, these factors are used in projections for each bank's balance sheet, profit and loss, and capital position for the immediate three years.

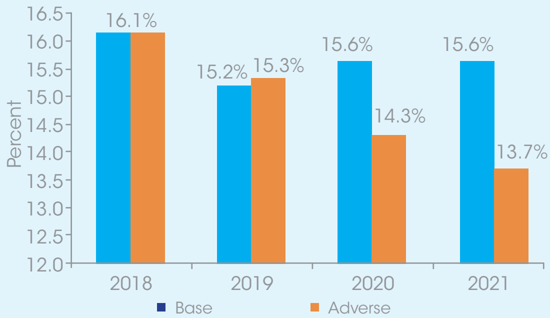
Baseline scenario: The baseline scenario is before any adjustments/assumptions are incorporated into data, assuming that there is no distress in the economy and financial system. Economic growth, inflation and the exchange rate is assumed to be constant.

Adverse scenario: The adverse scenario was constructed from historic loss data for the 10 year period to 2017 and estimated the relative slowdown across the household sector and various commercial sectors. It assumes a natural disaster, political uncertainty and resulting economic downturn similar in impact to that experienced during the period.

Second round effects are factored into the framework via increased provisioning rates, combining deteriorating collateral values and additional work out cost. An increase in NPLs in the retail sector was included as a supplementary sensitivity test.

Using June 2018 data, the stress test was conducted indicating a resilient banking system. Under an adverse shock, the resulting capital adequacy ratio remained above the minimum requirement of 12 percent, including for the forecasted years to 2021 (Figure C1).

Figure C1: Banks' Aggregate Capital Stress Test Results



Source: Reserve Bank of Fiji

However, certain institutions remained vulnerable to downturns in specific sectors due to concentrations in their lending to specific economic sectors and large commercial exposures. Regulation and supervision of these vulnerable banks continue.

Section 2: Thematic Credit Risk Review of Commercial Banks

In recent years, the Reserve Bank has observed a significant rise in property prices, on the back of sustained growth in banks' mortgage lending. A thematic credit risk review of commercial banks' mortgage portfolios has indicated that vulnerabilities exist where collateral values are inflated, however these are not prevalent to require macroprudential intervention at this stage.

Between 2015 and 2017, the Reserve Bank noted the continued growth in banking industry credit, and from its micro and macro prudential surveillance also specifically observed a significant rise in property prices, on the back of sustained growth in banks' mortgage lending. To ensure the balance between system and institutional risk management, specifically on property prices and mortgage portfolios of commercial banks (banks), a thematic credit risk review was conducted in 2018.

Objective of the review

In order to better understand the vulnerabilities in the banking industry's credit growth, specifically in residential mortgages, the Reserve Bank undertook a thematic credit risk review of all commercial banks from 02 March to 01 June 2018. The findings of the thematic review will primarily assist the Reserve Bank in promoting a culture of good risk management in the banking industry, and to better identify and utilise appropriate macroprudential tools when required.

The review also i) formed part of the survey for macroprudential comprehension of property prices and asset price growth; ii) ascertained banks' compliance with their internal policies, and; iii) observed prudential measures taken by banks when approving retail housing and investment property loans.

Background factors

Fiji's household sector experienced a strong growth in credit during the 2011 to 2015 period (Figure 29) followed by a slower growth pattern from 2016. Housing loans were the main component driving overall growth of household credit.

The increase in lending to the household sector in recent years is a probable reflection of the prevailing low interest rate environment (Figure 30) amidst rising business optimism, increased demand for loans to fund asset purchases and overall, buoyed by eight years of consecutive growth of the Fijian economy.

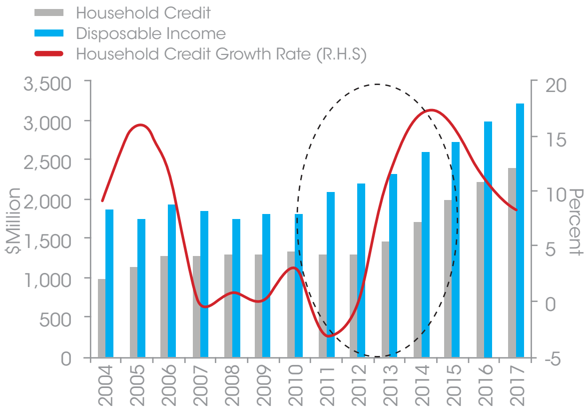
There is also anecdotal evidence of external variables contributing to the marked increase in house prices, fuelling the growth in household credit.

Notwithstanding these growth factors, residential mortgage exposures have exhibited low default and loss rates, as a lagged indicator of credit risk (refer Figure 31).

Methodology

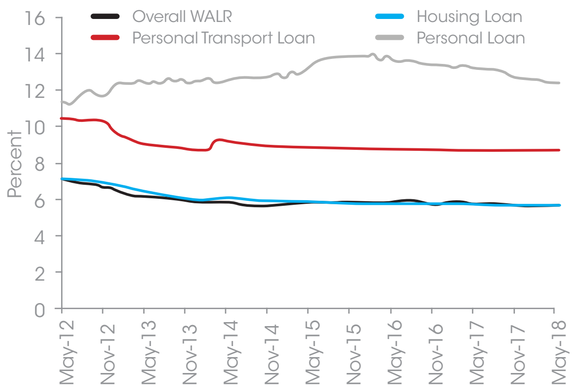
The thematic review was undertaken primarily with a review of sample credit files at each bank, selected based on a cross section of all types of mortgage credits prevalent in the industry, approved and disbursed from 31 December 2015 to 31 December 2017 (relates

Figure 29: Household Credit



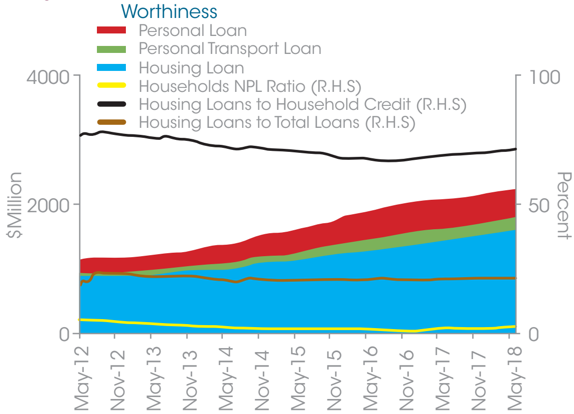
Source: Reserve Bank of Fiji

Figure 30: WALR offered by Commercial Banks to Households



Source: Reserve Bank of Fiji

Figure 31: Household Credit Concentration and Credit Worthiness



Source: Reserve Bank of Fiji

to the period of significant rise in lending to households).

This included an assessment of banks' compliance to their Loan to Value Ratio (LVR) requirements, particularly assessments during additional borrowing and/or debt consolidations for other purposes such as automobiles, credit cards and personal loans.

Due consideration was made to effective verification of income and other financial information, reasonableness of debt service coverage, and effectiveness of collateral management. The sample size of 1,519 files represented 12.7 percent of banks' aggregate number of private individuals' housing and real estate loans as at 31 December 2017.

Observations and Recommendations

Observations and recommendations from the thematic credit risk review are categorised into five parts: LVR, serviceability assessments, sensitivity analysis, loan amalgamations and property valuation, discussed in detail below:

1. Loan to Value Ratio[12] (LVR)

This part discusses 1) the spread of actual LVRs in the sample and a stress test result to show the extent of vulnerabilities in the industry, 2) the range of property types linked to LVRs and the number in the sample with more than one property as collateral, and 3) the geographical concentration indicated by the sample property locations.

On the LVR levels prevalent in the sample: five of the banks reviewed lend at the maximum LVR of 80 percent, while one has a maximum

[12] Total aggregate exposure as a percentage of the aggregate market value of collaterals, used by financial institution to determine the level of debt against securities pledged, and the safety gap in case of properties being sold under mortgagee sale.

LVR of 90 percent which is supported by mandatory Excess Loan Guarantee Insurance (ELGI) cover. Exceptions to the above limits are approved on a case by case basis in line with the banks' internal credit policies, guidelines, and risk appetite.

From the sample, 81 percent of retail files reviewed had LVRs below 80 percent (Figure 32). Approximately nine percent of the sample had LVRs between the 81 percent and 90 percent range which was underpinned by the one bank with ELGI. Furthermore, five percent of the sample had LVRs between 91 – 100 percent including policy exceptions, with full security.

The remaining five percent had LVRs above 100 percent[13], indicating that commercial banks were lending beyond the market value of collaterals. While justification was provided for this activity, vulnerabilities may materialise should there be a decline in property prices. To determine the extent of vulnerabilities, a stress test was conducted on the LVR data collected, applying a 10 percent reduction in the market value of residential properties used as collateral. Results show that the sample of retail loans categorised as under-secured (LVR > 100%), increased to 10 percent from 5 percent. For retail loans with LVRs between 81 percent and 90 percent, increased to 17 percent from 9 percent, while the LVRs between 91 percent and 100 percent increased to 9 percent from 5 percent.

The above analysis indicates that should a scenario eventuate leading to a progressive decline in property prices, there would be a deterioration in collateral coverage exposing the banks to potential losses.

In terms of the type of property taken as collateral, freehold land makes up approximately 40 percent of LVRs in all ranges (Figure 33). The remaining 60 percent comprises of leaseholds (i.e. Housing Authority Lease (HL), iTaukei Land Trust Board (NL), and Crown Lease (CL), indicative of the recent trend in the domestic supply of such property types.

Additionally, data collated on loans with more than one property taken as collateral stood at approximately 18 percent, comprised mainly of private individuals' investment/second home loans (Figure 34).

From the sample reviewed, the geographical locations of the collateral indicates a concentration in areas that are deemed to have stable demand for properties thus, banks second way out is plausible without significantly impacting asset prices (refer Figure 35).

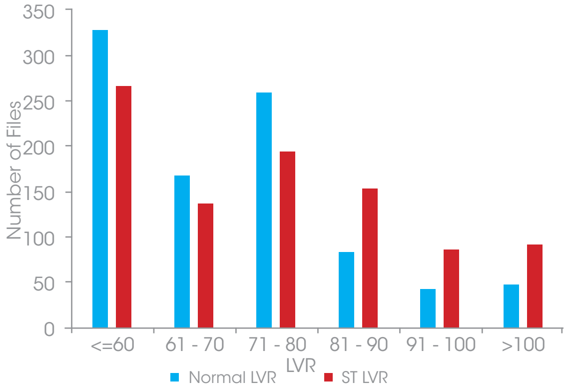
The findings of this review on banks' current practices on the application of the Loan to Value Ratio as a prudent measure of assessing debt serviceability does not indicate a cause for concern, nonetheless, vulnerabilities may exist where there is over reliance on inflated collateral values as discussed in Part 5 below on Property Valuation.

2. Serviceability Assessments

This part discusses the serviceability assessment approaches prevalent in the banking industry, including 1) the debt serviceability ratio (DSR) distribution, 2) banks' loan terms relative to borrower age, and 3) bank's assessment and verification of living expenses.

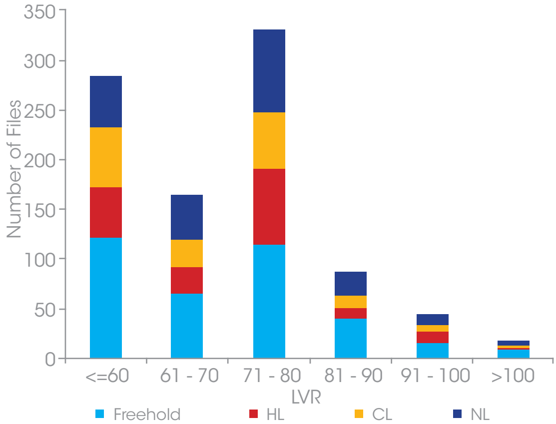
13 Files with LVRs in excess of 100 percent are considered to be under-secured.

Figure 32: Recalculated LVR and Stressed (ST) LVR



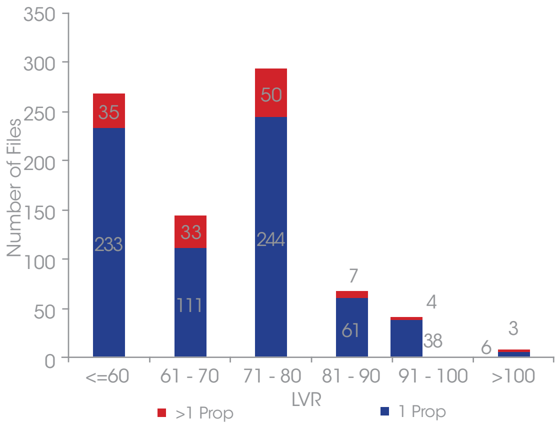
Source: Reserve Bank of Fiji

Figure 33: LVR by Property Type



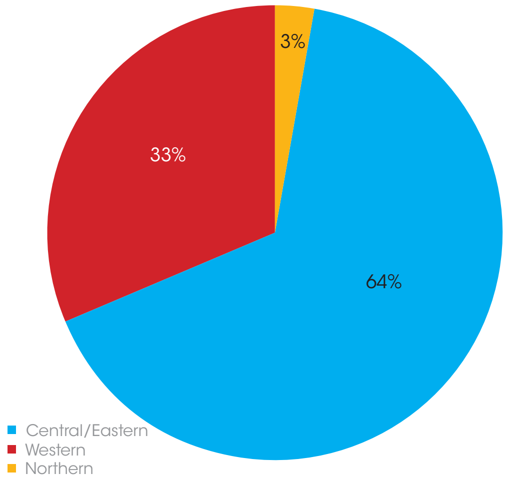
Source: Reserve Bank of Fiji

Figure 34: LVR Distribution by Security Type



Source: Reserve Bank of Fiji

Figure 35: Geographical Distribution



Source: Reserve Bank of Fiji

Banks have in place credit risk management frameworks which include specific policies and procedures for evaluating loan serviceability for both retail and corporate customers, as well as respective serviceability models to assess a borrower's ability to repay a residential mortgage. The most commonly used serviceability ratio is the DSR, used primarily by four banks. Other ratios used include the uncommitted monthly income (UMI) and the net surplus ratio (NSR). The analysis provided below is based on the DSR aspect of serviceability assessments.

Generally, the serviceability calculation for a residential mortgage loan is derived by assessing a borrower's gross income against living expenses, residential mortgage loan repayments (interest plus principal) and other debt commitments. In practice, the median DSR benchmark is 40 percent with exceptions extending up to 45 percent according to the bank's risk appetite.

Additionally, three banks considered applying a two to three percentage points increase from prevailing variable interest rates in place to calculate "stressed" DSRs that provide borrower capacity to absorb future interest rate increases.

DSR Distribution

Around 68 percent of the sample retail files reviewed had DSR within 40 percent, while another 13 percent recorded DSRs between 40 to 45 percent comprised mainly of approved exceptions based on the banks' credit risk appetite levels and to an extent, a higher benchmark for joint borrowers. The remaining 19 percent was mainly attributed to one bank, which has a DSR requirement of 60 percent (refer Figure 36).

Term of Loans

DSR is also impacted by the loan term, as a longer loan term will result in lower monthly repayments, and vice versa. Ideally, loan terms should also consider the borrower's age so that loans are repaid before the borrower retires. It was noted that commercial banks have an indicative retirement age of 55 to 65 years, generally aligned to the public and private sector retirement age.

An assessment[14] of borrowers' age against the terms of their loans (Table 4) revealed that 70 percent of borrowers aged 40 years and below will repay their loans before reaching the retirement age of 65 years.

However, around 14 percent of the retail loans have terms that would result in borrowers paying off their debt after the age of 65, but before 70 years.

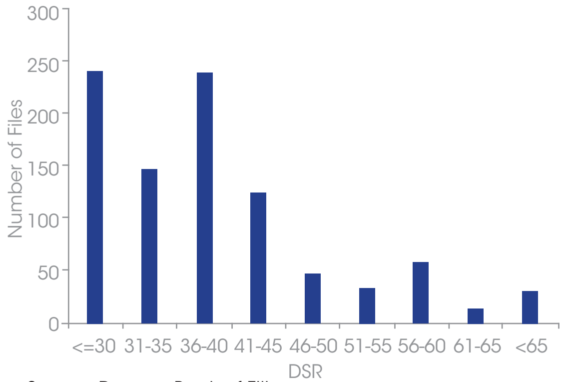
Table 4: Assumption 1: Retirement Age is 65 years

% of Retail File Sample		Term			
		< 15 years	15 - 19 years	20 - 25 years	26 - 30 years
Age	< = 30 years	3%	5%	15%	4%
	31 - 40 years	7%	10%	26%	5%
	41 - 55 years	9%	7%	1%	1%
	56 - 65 years	2%	1%	1%	0%
	> = 65 years	1%	0%	0%	0%

- well within retirement age of 65
- just within retirement age of 65
- just above retirement age of 65<70
- well above retirement age of 65

Source: Reserve Bank of Fiji

Figure 36: DSR Distribution



Source: Reserve Bank of Fiji

Similarly, the remaining 16 percent of the sample would continue to pay their debts beyond the age of 70 years (i.e. under the normal repayment schedule).

Using the assumption of a maximum retirement age of 60 years (Table 5), approximately 44 percent of the borrowers would repay their loans within the retirement age. On the other

[14] The analysis used the lower age for the assessment of joint borrowers, and higher term in case of more than one loan facility.

Table 5: : Assumption 2: Retirement Age is 60 years

% of Retail File Sample		Term			
		< 15 years	15 - 19 years	20 - 25 years	26 - 30 years
Age	< = 30 years	3%	5%	15%	4%
	31 - 40 years	7%	10%	26%	5%
	41 - 55 years	9%	7%	1%	1%
	56 - 65 years	2%	1%	1%	0%
	> = 65 years	1%	0%	0%	0%

- well within retirement age of 60
- just within retirement age of 60
- just above retirement age of 60<65
- well above retirement age of 60

Source: Reserve Bank of Fiji

hand, 26 percent would pay off their debt after the age of 60 but before 65 years. The remaining 30 percent would continue to pay their debts beyond the age of 60 years (i.e. under the normal repayment schedule).

Based on the retirement age of 55 years (Table 6), 30 percent of the borrowers would repay their loans within this retirement age. Similarly, 14 percent of the retail loans have loan terms that would result in the borrowers paying off their debt after the age of 55 but before 60 years. On the contrary, 56 percent of the sample would continue to pay their debts beyond the age of 55 years (i.e. under the normal repayment schedule). However, it is to be noted that the borrowers in this category have additional sources of cash flow including rental income, and are considered within the banks' risk appetite levels.

Table 6: : Assumption 3: Retirement Age is 55 years

% of Retail File Sample		Term			
		< 15 years	15 - 19 years	20 - 25 years	26 - 30 years
Age	< = 30 years	3%	5%	15%	4%
	31 - 40 years	7%	10%	26%	5%
	41 - 55 years	9%	7%	1%	1%
	56 - 65 years	2%	1%	1%	0%
	> = 65 years	1%	0%	0%	0%

- well within retirement age of 55
- just within retirement age of 55
- just above retirement age of 55<60
- well above retirement age of 55

Source: Reserve Bank of Fiji

The results of different scenarios support the importance of determining the correct loan term against the retirement age and/or working life of the borrower from the loan origination process. These findings reiterate the need for banks to ensure that serviceability assessments also take into consideration the borrower's age relative to the remaining term of the loan.

Assessment and Verification of Living Expenses

Banks use a combination of proxy living expenses and/or judgment in their serviceability models as mentioned above. The review noted that proxies for living expenses did not always accurately reflect a borrower's actual living expenses. For models using credit judgment, it was noted that living expenses used for some customers were not realistic when compared with a borrower's background regarding number of dependents, rental expenses by geographical location, and the reasonableness of the level of basic utility expenses applied to calculate serviceability ratios such as the DSR and/or UMI.

The Reserve Bank acknowledges that while it is possible to verify income, it is much more difficult to verify a borrower's outgoings in terms of living expenses. These 'actual' expenses, if not factored initially, can materially affect the ability of a borrower to meet repayments.

Historical trends indicate that interest rates generally increase at a gradual pace, and the overall impact on the DSR may be subdued as there is a possibility of the principal amount outstanding also reducing over time. Furthermore, serviceability assessments also consider other sources of income and multiple collaterals that may confirm loan repayments. Notwithstanding the interest rates trend and additional sources of income, banks must ensure effective credit procedures are in place to prudently verify prospective borrowers' income, financial and non-financial commitments, taking into account the productive/working age for debt serviceability purposes.

3. Sensitivity Analysis

Borrowers are susceptible to interest rate hikes with income levels held constant. The use of stress test results in credit decision making is considered by the Reserve Bank to be an alignment with best practice. This approach ensures that potential increases in interest rates do not adversely impact a borrower's capacity to repay a mortgage loan and in turn the bank's cash flow and asset quality. It is also good practice that banks use a combination of buffers and other adjustments in serviceability models to ensure that the residential mortgage portfolio in aggregate, would be able to absorb probable stresses, such as in an economic downturn or subdued sectoral performances, without producing unexpectedly high loan default losses.

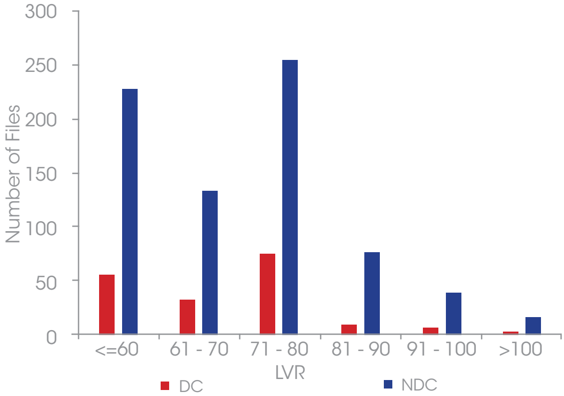
Five banks stress their variable interest rates by two to three percentage points to reflect potential increases in mortgage interest rates and assess a borrower's serviceability capabilities under these stressed scenarios. However, only three banks apply these buffers or adjust filters into the DSR calculation when making credit decisions. The Reserve Bank supports the practice of conducting applicable stress tests, of at least a three percentage points increase in interest rates as part of banks' serviceability assessments and credit decision making for mortgage loans.

4. Loan Amalgamations

Credit facilities such as consolidated loans, which constitute a higher risk element relative to a normal credit facility, were part of the sample reviewed. A consolidated loan enables a borrower to restructure different debts such as a car loan, personal loan and credit card, under one loan. Banks offering debt consolidation indicated that housing loan interest rates and longer loan terms were used, as opposed to higher interest rates with shorter loan terms.

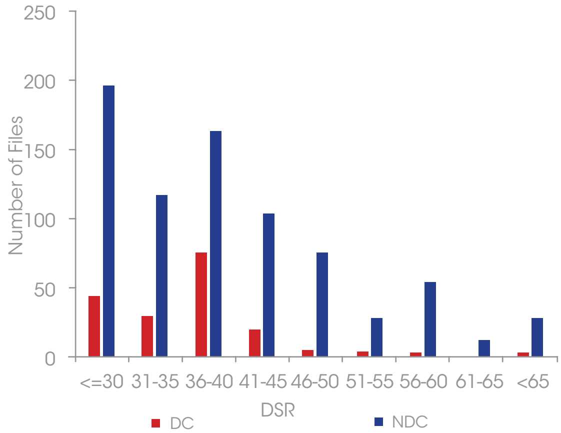
One-fifth of the retail loan files reviewed were consolidated loans, however the practice varied across banks, and the majority (89.5%) of the consolidated loans' LVRs were within the 80 percent benchmark (refer Figure 37). In addition, these consolidated loans' DSR were within the benchmark of 40 percent (refer Figure 38).

Figure 37: LVR by DC & NDC



Source: Reserve Bank of Fiji

Figure 38: DSR by DC & NDC



Source: Reserve Bank of Fiji

While the objective of loan consolidation/ amalgamation is to assist the borrower in the repayment of existing debt, there are potential downside risks on both the bank as a lender by way of increased appetite and exposure to high risk customers, and for the borrower in terms of over indebtedness.

Furthermore, loan amalgamations create a prudential reporting issue in which loans with different purposes (personal, motor vehicle, credit cards and housings) are consolidated and reported as a housing loan, distorting industry credit data.

To ensure prudent practice, banks must always strive to structure credit facilities that suitably match the cash flow requirements and repayment sources of their customers, and include appropriate covenants to safeguard their interests (e.g. the management of liquidity and repricing risks), as well as maintaining responsible lending practices.

5. Property Valuation

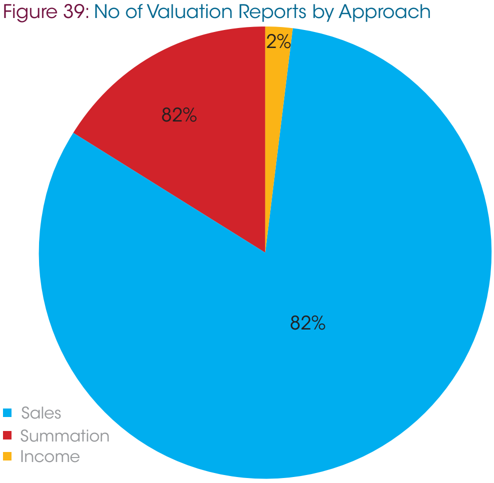
Credit worthiness of borrowers are generally assessed on the notion of the "five Cs of credit" i.e. character, capacity, capital, collateral and conditions. While most of these criterion involve the assessment of a borrower's debt serviceability and commitment levels, the collateral aspect provides an assessment on the recourse available to banks in the event of default.

Valuation Approaches and Practices

The Reserve Bank's Banking Supervision Policy Statement No. 3 on Loans Classification and Provisioning under Section 7, requires commercial banks to obtain independent valuations for credit exposures of $250,000 or more. Furthermore, the valuation of security should be done, where possible, on the basis of their net realizable value i.e. the value expected to be received by the institution from the sale of collateral on the open market within a period of not more than one year, after deducting all costs expected to be incurred in the disposal of the asset. Banks are also required to acquire independent valuations of collaterals (especially properties), which are usually undertaken by registered Valuers.

All banks have an approved bank specific panel of valuers however, it is noted that the valuers listed in the panels are largely the same across the industry.

Figure 39: No of Valuation Reports by Approach



Source: Reserve Bank of Fiji

Approximately 1,164 valuation reports were reviewed for retail loans where it was noted that the valuers generally considered the sales approach to estimate the current market value of properties (Figure 39). The observations relating to valuations are discussed below:

- The value of land and improvements are apportioned based on the valuer's judgment and as such, cases of inconsistent allocation of value to land and improvements e.g. two valuers had applied two different apportionment ratio for determining the value of improvements and land for the same property in one instance;
- The value of the same property changes significantly in a short span of time. E.g. within seven days the value of the same piece of land in the valuation reports by the same valuer increased by 30 percent; two valuations within a short span of time, the initial valuation (by a valuer not part of the bank's panel) was 43 percent more than the ensuing valuation conducted after a few months by a different valuer (part of the bank's panel);
- choice of property for comparable sales e.g. properties outside the vicinity, were used for arriving at a valuation amount;
- the current market value is dependent on the cost rationale, an aspect that can be subjective to some extent, by way of providing a builders' quote that may be on a higher side;
- while the valuers generally use similar approaches for valuations, they do not have a methodological or systematic way of applying such approaches and judgment;
- in some instances, valuation reports were brief and entailed a checklist type approach of reporting, while other reports consisted detailed analysis and descriptions for the purposes of determining the current market value;
- in some instances valuation reports recorded incorrect information, such as incorrect title references, addresses and property descriptions; and
- some valuation reports did not include important details such as the replacement insurance value, force sale value and/or market valuations.

A valuer's opinion is taken as one of the considerations for housing credit assessments. As such, details stated in the valuation reports should be accurate and relevant for credibility and dependability purposes. Incorrect valuations may have an adverse impact on the credit assessment processes such as banks lending beyond their appetite, and resultant underinsurance cases.

The Reserve Bank plans to engage in dialogue with the Institute of Valuation and Estate

Management of Fiji, on the observations raised in this report regarding valuation reports and approaches.

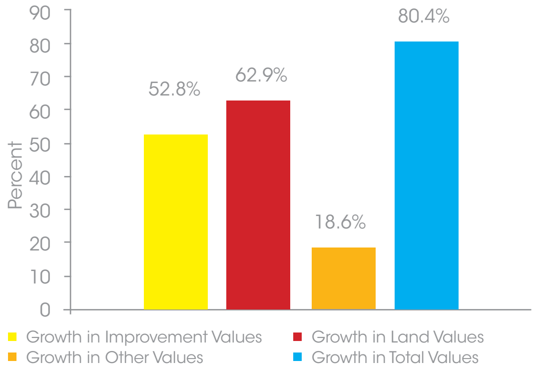
Bank Practices

Banks generally regard valuation reports to be valid for a period of three years, and fresh valuations are required to be provided thereafter. However, it was observed that fresh valuations were only requested at the time of additional/top up loan applications, despite there being a valid valuation report available with no record of renovations. There were instances where new valuation reports were noted with an increased current market value i.e. without any renovations or property improvements that were mainly driven by the adoption of the sales comparison approach.

As illustrated in Figure 40, the total market value of residential properties increased by 80 percent, amidst revaluations undertaken during an average period of 3 years, while the value of improvements and land in such cases grew by 53 percent and 63 percent, respectively.

Furthermore, offer letters by two banks included the following statement: *"the valuation of properties pledged as collaterals should not be less than the loan amount"*. This may be interpreted to mean banks require borrowers/valuers to provide a valuation report that meets the approved loan amount and/or the required LVR, and thus the resulting report may not be considered an independent valuation having been influenced by a pre-required valuation amount. Hence, there is a risk of banks approving loans beyond their credit risk appetite as well as an overvalued property held as collateral.

Figure 40: Market Value Movements



Source: Reserve Bank of Fiji

Banks are reminded to refrain from (a) requiring fresh valuation reports while valid valuation reports exist, with exception to specific case by case scenarios such as new construction/construction in progress; and (b) making statements pertaining to minimum valuation amounts in any form.

Conclusion and Way Forward

The intermediate objective of macroprudential policy is to increase the resilience of the financial system by building buffers, reducing mismatches, dampening a buildup of financial imbalance in both a time and structural dimension, and restricting excessive credit growth and exposures. Implementation of macroprudential sectoral tools such as LVR and DSR are used to address household sector vulnerabilities. The thematic review was undertaken based on red flag indicators of macroprudential supervision such as excessive mortgage credit growth and significant increases in property prices fueled by supportive macroeconomic indicators.

The 2018 Credit Risk Thematic Review concluded the following:

i. While household credit growth has decelerated since 2015, the continued growth over the last two years has been driven by housing loans;

ii. While practices relating to the implementation of the LVR limit were assessed to be within acceptable limits, banks continue to lend beyond the market value of collaterals, albeit not at a material level, however potential vulnerabilities remain especially during times of decline in property prices;

iii. Vulnerabilities may still exist where values of collaterals are inflated in relation to the observations identified under the Property Valuations section;

iv. The debt serviceability assessment whilst prudent and sound could be enhanced further by strengthening individual debt serviceability calculations and when determining the term of the mortgage loans (noting the exposure) relative to the age of the borrower;

v. The stress testing of the variable interest rates as part of the serviceability assessment must be translated to the credit decision making process and this must be adopted by all banks;

vi. Debt consolidations represented one - fifth of the mortgage loans reviewed. Licensed banks should strongly consider reviewing their risk appetite on this practice noting the potential implications and banks must ensure that they maintain responsible lending practices;

vii. The valuation approaches and practices by registered valuers indicate inherent weaknesses which could potentially undermine the validity and independence of valuation reports and have a transmittal effect on the accuracy of property prices and ultimately the collateral values;

i. Banks must refrain from the practice of requiring fresh valuation reports while valid report exists to reduce the risk of price manipulation for loan purposes; and

ii. Banks must refrain from the practice of making statements in the letter of offer pertaining to requiring a specific minimum valuation amount, so as not to compromise the independence of valuations reports.

Overall, the thematic review concluded that while there are vulnerabilities in the financial system specifically related to the mortgage market, these are not material enough to support a recommendation for macroprudential intervention at this stage.

Annexures

Annex 1: Fiji Financial Soundness Indicators

	2014	2015	2016	2017	2018 Q2
Core FSIs for Deposit takers	%	%	%	%	%
Regulatory capital to risk-weighted assets	15.32	15.56	16.43	15.26	16.38
Regulatory Tier 1 capital to risk-weighted assets	12.51	13.17	13.80	12.85	13.01
Non-performing loans net of provisions to capital	4.17	2.59	7.01	8.03	11.55
Non-performing loans to total gross loans	1.65	1.45	2.24	2.42	3.07
Sectoral distribution of loans					
Residents	99.10	99.17	99.38	99.44	99.44
Sectoral distribution of total loans: Deposit-takers	0.49	-	0.15	0.14	0.01
Sectoral distribution of total loans: Central bank	-	-	-	-	-
Sectoral distribution of total loans: Other financial corporations	0.09	0.11	0.04	0.08	0.09
Sectoral distribution of total loans: General government	7.67	8.04	5.83	5.22	4.76
Sectoral distribution of total loans: Non-financial corporations	62.53	63.00	64.63	65.36	65.11
Sectoral distribution of total loans: Other domestic sectors	28.32	28.02	28.73	28.65	29.46
Non-residents	0.90	0.83	0.62	0.56	0.56
Return on assets	2.65	2.62	2.54	2.53	2.63
Return on equity	25.52	24.35	23.47	23.02	23.38
Interest margin to gross income	58.18	55.14	58.74	56.41	57.67
Non-interest expenses to gross income	53.35	52.73	50.16	49.34	49.71
Liquid assets to total assets	18.06	20.13	16.82	18.90	16.94
Liquid assets to short-term liabilities	66.79	82.22	60.67	66.37	68.43
Encouraged FSIs	%	%	%	%	%
Deposit takers					
Capital to assets	8.31	8.52	9.17	8.86	9.20
Large exposures to capital	203.57	205.23	177.55	186.28	162.45
Trading income to total income	11.17	12.53	11.37	10.82	10.74
Personnel expenses to non-interest expenses	42.63	44.99	44.47	44.29	46.44
Customer deposits to total (non-interbank) loans	92.47	90.26	90.67	92.42	91.62
Foreign-currency-denominated loans to total loans	2.30	2.67	2.75	1.92	1.24
Foreign-currency-denominated liabilities to total liabilities	7.54	9.92	8.02	9.61	7.19
Residential real estate loans to total gross loans	18.69	18.71	18.91	19.73	20.66
Commercial real estate loans to total gross loans	10.01	10.45	11.41	12.26	13.25

Annex 2: Financial System Players

September 2018	Millions of Fiji Dollars	Percent in Subsector	Percent in Sector
Financial Corporations	**23,241**		**100.00**
Reserve Bank of Fiji	2,714		11.68
Other Depository Corporations	**11,541**	**100.00**	**49.66**
Commercial Banks	9,941	86.14	42.77
Credit Institutions	667	5.78	2.87
Fiji Development Bank	564	4.89	2.43
Housing Authority	188	1.63	0.81
Credit Unions[1]	173	1.50	0.74
Microfinance Institutions[2]	7	0.06	0.03
Other Financial Corporations	**8,987**	**100.00**	**38.67**
Insurance Companies	1,676	18.65	7.21
Fiji National Provident Fund	6,861	76.34	29.52
Asset Management Bank[3]	1.5	0.02	0.01
Unit Trusts	335	3.72	1.44
Finance Companies[4]	32	0.36	0.14
Private Money Lenders	Not Available	Not Available	Not Available
Pawn Shops	Not Available	Not Available	Not Available
Insurance Brokers[5]	52	0.58	0.23
Restricted Foreign Exchange Dealers[6]	28	0.31	0.12
Money Changers[7]	0.2	0.00	0.00
South Pacific Stock Exchange[8]	1.7	0.02	0.01

Notes:
1 As at December 2016. 21 out of 24
2 As at March 2011. 5 out of 24
3 As at June 2018
4 As at December 2010. 4 out of 8
5 As at December 2017
6 Latest available in September 2018
7 As at June 2017
8 As at December 2017

Annex 3: Credit Conditions Survey Results

		Net Percentage Balance (%)						
		2015		2016		2017		2018
		Apr	Dec	Jun	Dec	Jun	Dec	Jun
1.	Over the past six months, how have your institution's credit standards as applied to the approval of loans or credit lines to enterprises changed?							
a.	Loans to micro sized enterprises	0	0	6	15	19	22	23
b.	Loans to small & medium sized enterprises	-16	-10	5	9	25	14	30
c.	Loans to large enterprises	-5	0	8	9	28	11	25
d.	Short term loans	-18	-3	5	12	14	11	28
e.	Long term loans	-8	13	8	13	19	14	19
2.	Over the past six months, how have the following factors affected your institution's credit standards as applied to the approval of loans or credit lines to Small & Medium sized enterprises?							
A.	Cost of funds & balance sheet constraints	10	11	17	19	20	18	14
i.	Costs relating to your institution's capital position	11	16	22	29	22	29	16
ii.	Your institution's ability to access financing	11	0	17	18	11	17	16
iii.	Your institution's liquidity position	8	16	11	9	28	9	10
B.	Pressure from competition	4	14	17	17	21	29	11
i.	Competition from other banks	11	19	19	26	22	31	10
ii.	Competition from other non-banks	-3	3	6	9	19	23	10
iii.	Competition for financing	5	19	25	17	22	31	13
C.	Perceptions of risk	-3	18	0	5	11	25	23
i.	Expectations regarding general economic activity	-5	13	0	3	9	26	19
ii.	Industry or firm-specific outlook	-4	23	-6	-3	3	26	19
iii.	Risk on collateral demanded	0	17	6	15	21	24	30
3.	Over the past six months, how have the following factors affected your institution's credit standards as applied to the approval of loans or credit lines to large enterprises?							
A.	Cost of funds & balance sheet constraints	14	25	13	32	28	24	17
i.	Costs relating to your institution's capital position	18	19	19	36	31	21	19
ii.	Your institution's ability to access financing	16	32	22	35	28	34	25
iii.	Your institution's liquidity position	8	23	-3	24	26	17	6
B.	Pressure from competition	7	10	15	18	19	25	7
i.	Competition from other banks	8	16	22	32	25	34	6
ii.	Competition from other non-banks	5	3	8	9	17	23	9
iii.	Competition for financing	8	12	13	13	14	18	6
C.	Perceptions of risk	0	15	13	16	14	17	20
i.	Expectations regarding general economic activity	-8	19	17	12	8	17	19
ii.	Industry or firm-specific outlook	-5	16	6	15	8	17	19
iii.	Risk on collateral demanded	13	10	17	21	25	17	22
4.	Over the past six months, how have your institution's conditions and terms for approving loans or credit lines to small and medium enterprises changed?							
A.	Price	24	23	15	25	34	35	20
i.	Your institution's margin on average loans	13	13	3	15	29	26	16
ii.	Your institution's margin on riskier loans	34	34	28	35	39	44	25
B.	Other conditions & terms	6	6	4	11	17	16	9
i.	Non-interest rate charges	5	13	3	3	3	3	3
ii.	Size of the loan or credit line	3	6	0	9	16	9	6
iii.	Collateral requirements	7	3	6	18	26	26	13
iv.	Loan covenants	5	7	8	12	31	21	13
v.	Maturity	11	3	3	12	7	20	9
5.	Over the past six months, how have your institution's conditions and terms for approving loans or credit lines to large enterprises changed?							
A.	Price	21	26	17	26	44	33	23
i.	Your institution's margin on average loans	26	17	11	26	41	29	13
ii.	Your institution's margin on riskier loans	16	34	22	25	48	37	34
B.	Other conditions & terms	7	7	5	8	20	17	13
i.	Non-interest rate charges	0	14	3	0	10	9	6
ii.	Size of the loan or credit line	8	3	6	6	23	24	13
iii.	Collateral requirements	11	7	6	0	26	19	19
iv.	Loan covenants	11	7	11	21	27	18	13
v.	Maturity	8	3	0	12	16	15	13
6.	Please indicate how you expect your institution's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next six months.							
a.	Loans to micro sized enterprises	-22	-17	-6	12	8	3	3
b.	Loans to small & medium sized enterprises	-26	-20	-16	12	3	-6	9

			Net Percentage Balance (%)						
			2015		2016		2017		2018
			Apr	Dec	Jun	Dec	Jun	Dec	Jun
	c.	Loans to large enterprises	-5	10	3	21	14	9	9
	d.	Short term loans	-28	0	5	21	16	9	9
	e.	Long term loans	-14	20	5	15	19	6	9
7.	Over the past six months, how have your institution's credit standards as applied to the approval of loans to households changed?								
	a.	Loans for house purchase	-33	-37	-9	-16	-16	-6	13
	b.	Loans for vehicle purchase	-43	-47	-8	-6	3	0	24
	c.	Consumer credit & other lending	-38	-28	25	34	21	11	33
8.	Over the past six months, how have the following factors affected your institution's credit standards as applied to the approval of loans to households for house purchase?								
	A.	Cost of funds & balance sheet constraints	0	4	9	13	17	23	27
	B.	Pressure from competition	1	7	26	29	12	38	5
	i.	Competition from other banks	-3	11	27	0	16	44	7
	ii.	Competition from other non-banks	6	4	24	16	8	31	3
	C.	Perceptions of risk	-16	-6	3	7	8	15	12
	i.	Expectations regarding general economic activity	-9	4	6	13	16	19	13
	ii.	Housing market prospects	-23	-15	0	-3	0	10	10
9.	Over the past six months, how have your institution's conditions and terms for approving loans to households for house purchase changed?								
	A.	Price	14	2	10	13	25	22	21
	i.	Your institution's margin on average loans	6	0	6	3	17	22	17
	ii.	Your institution's margin on riskier loans	23	4	15	23	33	22	24
	B.	Other conditions & terms	-23	-6	-1	2	3	11	5
	i.	Collateral requirements	-20	4	9	6	8	22	7
	ii.	Loan to value ratio	-23	0	3	10	8	19	10
	iii.	Maturity	-26	-15	-3	3	3	7	7
	iv.	Non-interest rate charges	-23	-11	-15	-10	-5	-3	-3
10.	Over the past six months, how have the following factors affected your institution's credit standards as applied to the approval of consumer credit, vehicle loans to households and other lending to households?								
	A.	Cost of funds & balance sheet constraints	3	-6	8	11	13	12	13
	B.	Pressure from competition	-5	-13	29	33	15	35	22
	i.	Competition from other banks	-8	-13	27	29	15	37	22
	ii.	Competition from other non-banks	-3	-14	31	29	15	32	22
	C.	Perceptions of risk	-11	-6	19	25	18	17	11
	i.	Expectations regarding general economic activity	-24	-10	-6	0	5	9	-3
	ii.	Creditworthiness of customers	-3	0	39	38	28	29	16
	iii.	Risk on collateral demanded	-3	-7	24	35	23	11	22
11.	Over the past six months, how have your institution's conditions and terms for approving consumer credit, vehicle loans to households and other lending to households changed?								
	A.	Price	20	3	8	11	21	21	18
	i.	Your institution's margin on average loans	16	-7	5	0	13	17	9
	ii.	Your institution's margin on riskier loans	24	13	11	23	30	26	27
	B.	Other conditions & terms	-2	-8	1	4	7	4	6
	i.	Collateral requirements	-3	-3	5	11	15	11	6
	ii.	Maturity	-3	-7	5	6	5	3	15
	iii.	Non-interest rate charges	0	-13	-8	-6	0	-3	-3
12.	How has the availability of household secured credit (defined as willingness and ability to supply credit) provided to the following types of borrower changed over the past six months?								
		Past six months	n/a	n/a	n/a	n/a	n/a	6	3
	a.	Borrowers with low Loan to value ratio (75% or less)	n/a	n/a	n/a	n/a	n/a	16	3
	b.	Borrowers with high Loan to value ratio (more than 75%)	n/a	n/a	n/a	n/a	n/a	-3	3
		Next six months	n/a	n/a	n/a	n/a	n/a	17	9
	a.	Borrowers with low Loan to value ratio (75% or less)	n/a	n/a	n/a	n/a	n/a	31	9
	b.	Borrowers with high Loan to value ratio (more than 75%)	n/a	n/a	n/a	n/a	n/a	3	9
13.	Please indicate how you expect your institution's credit standards as applied to the approval of loans to households to change over the next six months.								
	a.	Loans for house purchase	-26	-17	-9	-13	-18	-3	-10
	b.	Loans for vehicle purchase	0	-16	8	12	-5	-6	6
	c.	Consumer credit & other lending	0	-13	16	30	5	-6	12
14.	Over the next 6 months, how do you expect lending rates for the following to change?								
	a.	Loans to small and medium sized enterprises	0	35	16	31	3	11	15
	b.	Loans to large enterprises	3	30	8	26	13	13	19
	c.	Loans for house purchase to households	-9	17	3	13	-5	23	24
	d.	Loans for vehicle purchase to households	11	32	24	40	8	3	15
	e.	Consumer credit & other lending to households	19	0	30	30	13	14	21
15.	Over the past six months, how has the demand for loans or credit lines to enterprises changed at your institution, apart from normal seasonal fluctuations?								
	a.	Loans to micro sized enterprises	11	16	11	26	8	6	3

			Net Percentage Balance (%)						
			2015		2016		2017		2018
			Apr	Dec	Jun	Dec	Jun	Dec	Jun
	b.	Loans to small & medium sized enterprises	68	48	33	29	35	22	16
	c.	Loans to large enterprises	55	38	17	32	19	11	22
	d.	Short term loans	53	30	17	27	21	14	19
	e.	Long term loans	61	0	36	38	39	19	28
16.	Over the past six months, how have the following factors affected the demand for loans or credit lines to enterprises?								
	A.	Financing needs	28	15	26	17	17	28	35
	i.	Fixed investment	41	12	33	29	25	24	33
	ii.	Inventories & working capital	50	27	36	32	25	46	48
	iii.	Mergers/acquisitions & corporate restructuring	-6	3	9	-3	3	17	22
	iv.	Debt restructuring	27	16	24	7	17	26	38
	B.	Use of alternative finance	7	-10	2	1	3	7	5
	i.	Internal financing	3	-12	3	3	11	9	6
	ii.	Loans from other banks	16	-3	9	3	8	11	15
	iii.	Loans from other non-banks	8	-9	3	3	6	9	15
	iv.	Issuance of equity	0	-12	-6	-6	-11	0	-15
17.	Over the past six months, how has the number of rejected enterprise loan applications changed?								
	a.	Loans to micro sized enterprises	n/a	n/a	n/a	n/a	n/a	-13	17
	b.	Loans to small & medium sized enterprises	n/a	n/a	n/a	n/a	n/a	0	23
	c.	Loans to large enterprises	n/a	n/a	n/a	n/a	n/a	-3	0
	d.	Short term loans	n/a	n/a	n/a	n/a	n/a	-3	7
	e.	Long term loans	n/a	n/a	n/a	n/a	n/a	3	21
18.	Please indicate how you expect demand for loans or credit lines to enterprises to change at your institution over the next six months (apart from normal seasonal fluctuations).								
	f.	Loans to micro sized enterprises	51	48	43	29	22	23	22
	g.	Loans to small & medium sized enterprises	74	61	47	35	25	34	28
	h.	Loans to large enterprises	65	47	39	26	17	23	44
	i.	Short term loans	63	36	33	15	5	17	31
	j.	Long term loans	61	38	31	24	27	31	25
19.	Over the past six months, how has the demand for loans to households changed at your institution, apart from normal seasonal fluctuations?								
	a.	Loans for house purchase	51	55	47	47	46	53	31
	b.	Loans for vehicle purchase	63	52	63	63	46	38	9
	c.	Consumer credit & other lending	67	38	40	36	13	37	15
20.	Over the past six months, how have the following factors affected the demand for loans to households for house purchase?								
	A.	Financing needs	42	52	48	41	32	36	28
	i.	Housing market prospects	40	66	53	48	37	47	45
	ii.	Consumer confidence	51	55	59	45	40	45	28
	iii.	Non-housing related consumption expenditure	34	36	32	29	20	18	12
	B.	Use of alternative finance	17	22	21	20	12	15	30
	i.	Household savings	-3	3	-3	10	3	-3	16
	ii.	Loans from other banks	19	41	39	29	22	28	44
	iii.	Other sources of finance	34	21	26	23	11	19	31
21.	Over the past six months, how have the following factors affected the demand for consumer credit, vehicle loans to households and other lending to households?								
	A.	Financing needs	59	55	58	41	41	37	32
	i.	Spending on durable consumer goods	46	47	59	33	29	29	29
	ii.	Consumer confidence	73	63	57	46	53	44	35
	B.	Use of alternative finance	36	21	17	20	21	18	26
	i.	Household savings	22	6	-6	-3	-3	12	6
	ii.	Loans from other banks	46	38	36	34	44	29	41
	iii.	Other sources of finance	41	19	19	22	23	12	32
22.	Over the past six months, how has the number of rejected household loan applications changed?								
	a.	Loans for house purchase	n/a	n/a	n/a	n/a	n/a	0	33
	b.	Loans for vehicle purchase	n/a	n/a	n/a	n/a	n/a	0	21
	c.	Consumer credit and other lending	n/a	n/a	n/a	n/a	n/a	0	30
23.	Please indicate how you expect demand for loans to households to change at your institution over the next six months (apart from normal seasonal fluctuations).								
	d.	Loans for house purchase	49	47	36	28	50	42	32
	e.	Loans for vehicle purchase	42	44	35	20	34	44	18
	f.	Consumer credit and other lending	56	59	35	26	34	35	29
24.	Over the next 6 months how do you expect non-performing loans to change in your institution's lending portfolio?								
	a.	Loans to micro sized enterprises	-8	-21	-14	11	-3	-14	-3
	b.	Loans to small and medium sized enterprises	-11	-18	-20	3	0	-11	-13
	c.	Loans to large enterprises	-18	-28	-20	0	-11	-20	-16
	d.	Loans for house purchase to households	-14	-10	-3	18	15	-15	-19
	e.	Consumer credit, vehicle loans to households & other lending to households	0	15	17	40	27	0	0

Annex 4: Systemic Risk Indicators

Indicator	Definition and usefulness
System and commercial banks credit growth rate	Annual percentage change in total financial system's and commercial banks' outstanding credit. It is a lead indictor 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

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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