



How integrated are financial sectors of the South Pacific within the region and with Australia?

A joint Reserve Bank of Fiji—Griffith University study

Seruwaia Cagilaba¹ and Kalolaini Ranadi of the Reserve Bank of Fiji (RBF) have jointly completed a research working paper with Griffith University’s Victor Wong, Eduardo Roca, Parmendra Sharma and Nirodha Jayawardena.

The study is one of the five research projects commenced during the 2018 Department of Foreign Affairs and Trade’s (DFAT) Australian Awards Fellowship program convened by Griffith in Brisbane².

The paper was also presented at the inaugural South Pacific Central Banks—Griffith University research conference in Suva, in December 2018. Key stakeholders attending the conference included the Reserve Bank of Australia, the Reserve Bank of New Zealand, ADB, World Bank, IMF/PFTAC and DFAT.

This is the first study to investigate the extent of financial integration in open, small economies of the South Pacific, focusing on the banking sector. The study applies advanced econometric techniques as well as a number of qualitative indicators and data for the period 1992 to 2016. Countries covered are Fiji, Papua New Guinea, Vanuatu, Tonga, Australia and the United States.

Literature shows that if adequately facilitated, directed and managed, the rewards of integration—such as deepening of markets, efficiency gains, and risk management are likely to outweigh potential drawbacks—such as external shocks and negative growth.

The following are key findings and policy recommendations of the research paper:

- There is strong evidence of integration within the Pacific Island Countries (PICs), and the PICs regionally with Australia as well as globally (with the US);
- Fiji and Vanuatu appear to be most integrated, regionally as well as globally, especially with Australia;
- The results are not surprising given the high level of trade, investment, tourism and other linkages as well as the very long and dominant presence of Australian banks in the region;
- The question now is: “How can these linkages be converted into the rewards of integration—deepening and development of financial systems, efficiency gains, risk management, etc.” This question requires a policy debate at the state level.

The full article may be accessed from the following links: <https://www.griffith.edu.au/asia-institute/our-research/south-pacific-centre-central-banking/working-papers> and

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² The views and opinions expressed in this study are those of the authors and do not reflect those of the Reserve Bank of Fiji and its Board or that of the Market Development Facility.



[https://www.rbf.gov.fj/Publications-\(1\)/Working-Papers/Reserve-Bank-of-Fiji-and-Griffith-University-Worki](https://www.rbf.gov.fj/Publications-(1)/Working-Papers/Reserve-Bank-of-Fiji-and-Griffith-University-Worki)

To date, the RBF has published the following working papers jointly with Griffith University:

1. An Assessment of Fiji's Banking Sector on a Global Scale: 2000 – 2011;
2. Trilemma or Quadrilemma - the case of a Pacific Island Country;
3. Developing Fiji's Microfinance Sector: some policy implications;
4. Technical Efficiency and Total Factor Productivity of Banks in Fiji: Empirical Analysis and Policy Implications; and
5. Finance and Socio-economic Development in Fiji: Some Stylized Facts.

The following joint RBF-Griffith research papers have been published or accepted for publication in peer-reviewed international journals:

- Su, J. J., L. Cocker, D. Delana and P. Sharma, 2018. A first look at the trilemma vis-à-vis quadrilemma monetary policy stance in a Pacific Island country context, *Review of Pacific Basin Financial Markets and Policies*, 21(1) (March), DOI:10.1142/S0219091518500029; and
- Sharma, P., S. Manoa, S. Taleniwesi, S. Nghiem, 2019. Technical efficiency of banking institutions in a Pacific Island Country: A distance function stochastic frontier analysis, *Journal of the Asia Pacific Economy* [forthcoming].

There are a number of other joint RBF-Griffith working papers in progress, including those commenced in 2019, which will be published in due course. Joint working papers are also in progress between Griffith and other South Pacific central banks.