

Savenaca Narube: Reserve management in Fiji

Opening remarks by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the IMF PFTAC Workshop on Foreign Exchange Reserve Management Framework for Strategic Asset Allocation, Suva, 17 September 2007.

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Dr Susan Adams, PFTAC Coordinator

Resource Persons (Jay Surti from the IMF, Kristian Flyvholm from the IMF and, Tørres Trovik, Senior Advisor (Research) and formerly Senior Advisor (Investment Strategy), Norges Bank; Board of Trustees of the East Timor Pension Fund.

Participants

Ladies and Gentlemen

Introduction

Good Morning, Bula and Welcome to Fiji.

Let me thank the International Monetary Fund for bringing this important workshop to the Pacific. I thank the resource persons and the workshop coordinators for your contribution to this workshop. I thank you, the participants for taking time to attend this workshop. I am told that such a workshop is very expensive to mount as it is usually coordinated by investment houses. I am therefore glad to see so many participants from the region here today.

Reserves management

Reserve management, as you will no doubt know, is a complex set of processes, guidelines and strategies. They are made more complex by the financial crises that seem to be happening now and then in the global financial markets. The recent crisis on sub prime mortgages in the United States is a classical example. While this crisis appears to have a long tail, we are somewhat insulated from its impact by our fixed exchange rate and the narrow range of our allocation of foreign assets.

You see for Fiji we only have cash in our investment portfolio. This is not entirely by choice. While we have a benchmark of 60 percent cash and 40 percent bond we have not been able to replicate this benchmark. As a result, the average duration of our currency portfolio is well short of the benchmark. This is largely because of our difficulty in dealing with the flow on impact of valuation losses from falling bond prices on our profit at year end. Our valuation dilemma arose because of the accounting classification of our bond holding. While we had classified these as **“held for trading”** and we were marking to market, we were in fact holding these bonds to maturity. Hence, by marking to market, we sometimes were booking unrealized losses on our bonds at the end of the year. We have resolved this by reclassifying the bonds as **“available for sale”**. Our external auditors have advised us that under this new accounting classification, we do not have to take the unrealized losses to the profit and loss statement of the Bank. Very recently, we therefore decided to liquidate all of our bond holdings. We will then reclassify the new bonds that we are going to buy under the new classification.

This example shows some of the issues around reserve management and the allocation of assets. As I have said, we have a benchmark which is anchored on the maintenance of value of our foreign reserves. We have liquidity guidelines. The question that is normally posed is: What about return? This becomes more critical when reserves are falling as what is

happening in Fiji now. The temptation is perhaps to abandon your benchmark in search for higher return. To me this is a dangerous road to take. You may end up in a win-win situation. But you may also end up in a loose-loose situation too! My risk-averse nature as a central banker compels me to keep to our benchmark and protect values then look for return in the better allocation of assets.

This workshop addresses many of these asset allocation issues and I am certain will add value to how we manage our foreign reserves. The contents of your workshop are relevant and interesting. I know that you will have an interesting 5 days. We may have different levels when it comes to reserve management methods and capacities. Therefore, please freely share your country experience during the course of the workshop and in the case studies. I find that this sharing is one of the best parts of what we take home after such workshop. And please keep your network intact after the workshop so you may be able to help your colleagues in some way.

There is also the related issue of how important is the central bank's profits. Reserve management is the major source of our revenue. While we predominantly spend this revenue on the important role of monetary policy and financial stability, I am of the view that we cannot totally ignore the strength of our balance sheets. Not so much from the point of view of funding the government budget, but more so from the confidence that a strong balance sheet gives to the financial system.

Conclusion

I wish you all a fruitful week of discussions and deliberations.

Please also take some time away from your workshop to enjoy Suva.

Once again, I thank the IMF, the resource persons and the organizers for putting together this workshop.

Official opening

I have much pleasure in declaring this Workshop open.

Thank you.