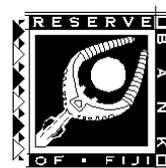


RESERVE BANK OF FIJI



PRESENTATION TO THE STANDING COMMITTEE ON ECONOMIC AFFAIRS BY ACTING GOVERNOR MR ARIFF ALI

RESERVE BANK OF FIJI JANUARY-JULY 2016 REPORT

1. INTRODUCTION

- Thank you Honourable Chair and Honourable Members for the invitation to present the Reserve Bank of Fiji's January-July 2016 Report to the Standing Committee on Economic Affairs.
- Governor Whiteside and the management team made a presentation to the Committee on 20 September last year on the Bank's annual reports for 2014 and 2015.
- Let me begin by saying that central banks are unique institutions. Each country has only one central bank or monetary authority with similar but distinct monetary policy objectives.
- Honourable Chair, central banks are high impact organisations. Our decisions or indecisions and our actions or inactions have major and far reaching repercussions and consequences on the economic well-being of the public at large and the entire spectrum of businesses in the nation. The responsibility and accountability is immense and central banking is therefore not for the faint of heart.
- Section 4 of the RBF Act lists down the core functions of the Bank. In addition, section 153 of the 2013 Constitution of the Republic of Fiji includes provisions on the primary objectives of the Bank.
- Honourable Chair, central banking, in very simple terms is responsible for the preservation of three aspects of stability:
 - [i] Price stability;
 - [ii] External (currency) stability; and
 - [iii] Financial stability.

2. BACKGROUND

- Section 54 of the Reserve Bank of Fiji Act [1983] states that "the financial year of the Bank shall coincide with the financial year of the Government".
- Therefore, the financial year of the Bank now ends on 31 July instead of 31 December, in line with the recent change in Government's fiscal year.

- In addition, section 56 of the RBF Act states that the audited accounts must be completed within three months following the end of the year. In this regard, I am pleased to inform the Honourable Members of the Committee that the Board of the Reserve Bank of Fiji confirmed and signed off on the Bank's annual audited financial statements for the seven months ending 31 July 2016 on 29 September 2016. This means that our annual audited financial accounts were completed within two months after the end of the financial year.
- Following the signing of the audited accounts and in line with the provisions of the RBF Act, the Bank provided to the Honourable Minister for Economy, Mr Aiyaz Sayed-Khaiyum, a certified auditor's copy of the accounts along with the operations report of the Bank for the seven months period ending 31 July 2016.
- Previously when the Government's financial year was the calendar year, the RBF's Annual Report would be submitted to the Minister by March 31 each year. Last year was the first time that the audited accounts and operations report were presented for the period 1 January 2016 to 31 July 2016. Both the accounts and report only cover the first seven months of the 2016 financial year as the last five months (August to December 2015) are accounted for in the Bank's 2015 Annual Report.

3. KEY OUTCOMES

- The objective of central banks is not to maximise profit. Its key role is to support economic growth by ensuring that there is price stability, external stability and financial system stability. I will shortly highlight the key outcomes in relation to these three KPIs.

Financial Performance

- Before I elaborate on the three stability objectives, please allow me to quickly highlight our financial performance for the seven month period ending 31 July 2016.
- The RBF made a profit of \$13.9 million for the seven month period. However, the total amount transferred to Government was \$16.9 million as it included \$3.0 million of the revaluation reserve account (RRA).
- This is in accordance with sections 8(3) and 34 of the RBF Act which states that one fifth of the RRA is to be transferred to the Government along with our profits.
- This compares with a transfer of \$32.2 million to Government for the twelve month period ended 31 December 2015.
- It may not be appropriate to compare the Bank's financial performance in 2016 with 2015 as the periods covered are not the same i.e. seven months in 2016 against 12 months in 2015.
- The total profit and revaluation reserve transferred to Government in the past five years totalled \$160.0 million.

Price Stability

- All central banks have the same mandate to ensure that inflation is low and stable. This is no different even for small central banks like us.
- As you are well aware, Fiji was hit by Tropical Cyclone (TC) Winston in February 2016. Consequently, the supply of fresh fruits and vegetables and for some of us, the supply of our favourite national drink, kava, was affected. Consequently, inflation rose to 5.5 percent at the end of July 2016 from 1.6 percent at the end of December 2015.
- Honourable Members, you may be surprised to know that almost 2.0 percentage points of the 5.5 percent inflation outcome at July end was driven by higher kava prices. Even though kava constitutes only 2.5 percent of our Consumer Price Index (CPI) basket, it contributed substantially to the inflation out-turn. As a result, while yaqona farmers benefitted from the high prices, kava consumers had to fork out significantly more for their favourite brown label drink as prices almost doubled by July and rose three-fold by January this year.
- For those of us who don't drink kava, our inflation was effectively around 3 percent.

External Stability

- As a small open economy dependent on imports of a variety of goods such as medicine, food, fuel, machinery, etc. we need to maintain a sufficient level of foreign reserves otherwise there will be pressures on our exchange rate.
- The International Monetary Fund has set a benchmark on the level of foreign reserves which states that it should be sufficient to cover 3 months of import.
- For Fiji, we like to build in an additional buffer above this benchmark as we are prone to natural disasters, which can affect our export sector including tourism as well as external shocks which can significantly increase our import bill, and in turn significantly impact our foreign reserves.
- Honourable Members, I am pleased to inform that in regards to external stability, Fiji's foreign reserves remained well above the benchmark throughout the review period.
- At the end of July 2016, our foreign reserves were \$1,982 million, just \$18 million shy of the \$2 billion mark and was sufficient to cover 5.5 months of retained imports.
- These foreign reserves are what the RBF holds in its accounts. In addition, we have allowed a number of non-bank financial institutions to invest offshore. At the end of July 2016, foreign reserves held by other institutions amounted to more than \$500 million.

Financial Stability

- Honourable Members, it is paramount that our financial system is safe and sound whereby depositors, pensioners, policyholders and unit holders' funds are protected. The safety and soundness of our financial system is also crucial in ensuring the confidence of investors and international agencies.
- In this regard, I am pleased to inform the Committee that the Fijian financial system remains safe and sound supported by a growing asset portfolio which rose marginally from the end of 2015 to July 2016 to just over \$16 billion. This is almost twice our GDP.
- As at 31 July 2016, the banking sector accounted for 53 percent of the total assets, followed by FNPF at 31 percent and the insurance industry at 9 percent.
- The RBF uses international best practices and standards to assess the safety and soundness of the financial system, based on a composite index of a number of indicators such as earnings, capital or solvency, liquidity, quality of management, asset quality, governance and risk management. A primary objective of the prudential supervision role of the RBF is prevention, rather than rectification, so a risk-based approach to supervision is undertaken where risks to the operations of individual institutions and the financial system as a whole are closely monitored.
- The RBF undertakes offsite and targeted onsite examinations of all supervised institutions in the system, and continuously reviews prudential supervision policies in line with recent developments and international best practices. We have also produced an annual Financial Stability Report on Fiji's financial system.

What is the outcome of this?

- Honourable Members, by meeting its KPIs the Bank is effectively contributing towards sustainable economic growth. We estimate that the economy grew by 2.0 percent in 2016 despite the substantial damage caused by TC Winston and we forecast further economic expansion in the coming years. Economic growth in turn translates to more income, more jobs, more tax revenue for Government, a reduction in poverty and increased standards of living.
- Honourable Members, before I end I wish like to highlight a number of key points for your noting:
 - [1] Inflation at the end of May this year was down to 2.5 percent and we expect inflation to be around similar levels for the remainder of the year;
 - [2] Foreign reserves reached a number of new highs recently and peaked at \$2.25 billion last week; and
 - [3] We project the economy to grow for an 8th consecutive year in 2017 and the growth rate was recently revised upwards to 3.8 percent.
- Finally Honourable Members, I would like to acknowledge the great team that we have at the Bank and I wish to thank them, including Governor Whiteside and the

RBF Board for their leadership and guidance, and for the efforts that went into producing the Bank's January-July 2016 Report.

- I hope those remarks are helpful background for the Committee's review of the Reserve Bank of Fiji's January-July 2016 Report and we would be happy to answer your questions.

Thank you

8 June 2017