



RESERVE BANK OF FIJI

COUNTRY PAPER

Presented at

**ASIAN DEVELOPMENT BANK  
CONCLUDING WORKSHOP ON**

**RETA 5869: STRENGTHENING AND COLLECTION OF  
FINANCIAL AND MONETARY STATISTICS**

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The views expressed herein are those of the authors and do not necessarily reflect those of the Reserve Bank of Fiji. Authors are grateful to staff of various units of the Economics Department, Financial Institutions Department and the Capital Markets Development Authority for their contributions, comments and assistance. The usual disclaimer applies.

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## **INTRODUCTION**

The Asian Development Bank (ADB) started the Regional Technical Assistance (RETA) 5869: “Strengthening and Collection of Financial and Monetary Statistics in Selected DMCs”, project with an Inception Workshop in April 2000 at ADB Headquarters in Manila, Philippines.

The purpose behind strengthening and collection of such statistics emerged from the Asian crisis. In view of the Asian financial crisis, there was an increasing need not only for accurate, timely and relevant statistics but also for more frequently available, easily accessible, disaggregated and diversified statistical information. The emerging need covered additional financial and monetary statistics (particularly banking and stock market statistics and financial statistics), many of which were not available on regular basis and are not traditionally covered by activities of most statistical offices of ADB’s developing member countries (DMCs). Prior to this project, it was believed that the coverage of statistics available in most DMCs was not adequate to comprehensively address financial and monetary problems and issues. To some extent, this view still holds.

As asset and financial markets are highly vulnerable to instability and systemic risk, monitoring these markets assumes great importance in light of the recent financial crisis. One of the crucial prerequisites is availability of appropriate and adequate information, particularly a set of key banking, financial, and monetary indicators that can be used to monitor the health of asset and financial markets. The availability of additional statistics and a key set of crisis monitoring indicators could play a significant role in addressing the vulnerability of asset and financial markets and thus significantly reducing the risk of crisis recurrence. Therefore, ADB decided to provide Regional Technical Assistance (RETA) on “Strengthening and Collection of Financial and Monetary Statistics in Selected DMCs.

As part of this project, Reserve Bank of Fiji (the implementing agency) coordinated the preparation and collection of 67 indicators (see Appendix 1), some which were readily available and the rest which were additionally produced. Various institutions contributed towards this project and at present, there is a set of metadata and time series data for the past 5 years (where available) for the 67 indicators under this project.

Upon the completion of the concluding workshop, these data will be available to users to assist them in making informed decisions and to avoid contributing to financial distress. Upon its correct analysis and interpretation, these indicators will play an important role for the Reserve Bank of Fiji in developing appropriate policies aimed at minimising or avoiding the risk of financial crises in the country.

## **1.0 Present Status of Monetary, Financial and Banking Statistics**

### **1.1 Dimensions, Source and Coverage of Financial and Monetary Indicators and Statistics**

#### **1.1.1 Monetary**

Monetary data is produced by the Economics Department of Reserve Bank of Fiji (RBF). The raw commercial bank data comes from the Banking Supervision (BS) unit (Financial Institutions (FI) Department) of RBF and the assets and liabilities data of the central bank is produced by RBF's Accounting Unit. Monetary data is available on the Economics Department database from January 1979 to current. The broad categories of these data include Net Foreign Assets, Domestic Credit, Broad Money and their components.

#### **1.1.2 Banking**

Information as presented in country paper at Inception Workshop (P1).

#### **1.1.3 Non Bank Financial Institutions (NBFIs)**

Licensed NBFIs submit information ('assets and liabilities' and 'classification of loans and advances') to the BS Unit while non-licensed NBFIs are requested for their data. This is updated by the BS unit, which in turn provides tables to the Economics Department for their analysis. This information is also used by the BS Unit for supervisory and prudential purposes.

#### **1.1.4 Stock Markets**

A comprehensive set of stock market data is available with Capital Markets Development Authority (CMDA), an organisation formed to develop and to regulate the capital market in Fiji. CMDA's functions include licensing and supervising intermediaries such as brokers, dealers, investment advisers, and the South Pacific Stock Exchange (SPSE), based in the capital city, Suva.

Currently, there are only 10 companies<sup>1</sup> listed on the SPSE. CMDA currently does not have information on foreign ownership in stocks (this has been replaced by the indicator *foreign share in trading*). CMDA will try to provide data on foreign ownership in stocks in future. The composite price index used is developed and published by Kontiki Capital Limited (KCL), a licensed investment adviser. The index is known as the Kontiki South Pacific Stock Exchange Index (KSPX). The KSPX is composed of the market-weighted average of all the companies listed on the SPSE and is constructed on a base of 100 set at 4<sup>th</sup> January 2000.

CMDA is unable to provide the composite stock price index in US currency as it is not aware of the methodology used by KCL to construct the KSPX. CMDA is looking at constructing a stock market index themselves and will provide this information in future.

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<sup>1</sup> Atlantic & Pacific Packaging Co. Ltd., Carlton Brewery (Fiji) Ltd., Fiji Television Ltd., Flour Mills of Fiji Ltd., Fiji Sugar Corporation Ltd., Rice Company of Fiji Ltd., South Pacific Distilleries Ltd., Toyota Tsusho (South Sea) Co. Ltd., Fijian Holdings Ltd., and FijiCare Insurance Ltd.

CMDA has substituted the Price Earning Ratio (PER) for the individual companies with an overall market PER, calculated using the PERs of each listed company weighted against its market capitalisation.

CMDA regularly releases latest information on the country's stock market and its participants on its website ([www.cmda.com.fj](http://www.cmda.com.fj)). Under the RETA 5869 project, RBF will regularly receive stock market data from CMDA. This will also be used for analysis purposes by RBF.

#### **1.1.5 Bond Markets**

The Financial Markets (FM) Department, as the registrar of Government debt, keeps a record of bonds and treasury bills transactions in the economy. Information received from the FM Department is updated in the database kept by the Economics Department for analysis purposes.

#### **1.1.6 Other Financial Markets**

All information related to the domestic inter-bank market is also prepared by the FM Department and jointly used by them and the Economics Department. This information pertains to transactions conducted for the central bank paper (the RBF Notes), promissory notes and statutory bodies' bonds.

### **1.2 Past and Present Issues/Problems concerning these statistics**

#### **1.2.1 Economics Department**

Any queries and clarifications concerning monetary data is sorted with the BS unit (which liaises directly with the banks), while other data (such as Government Finance and Consumer Price Index etc, which are obtained from external institutions) are clarified with the respective institutions. While there are some delays to data used by the Department for analysis and policy formulation purposes, this occurs mostly due to delay from the original data sources (external institutions, such as commercial banks). Other inconsistencies are clarified amongst the Departments, and if necessary revisions are made to data.

#### **1.2.2 Banking Supervision Unit (Financial Institutions Department)**

A lot of problems are encountered by Banking Supervision with regards to the collection and compilation of banking statistics and financial indicators.

##### *AJ Late Returns*

Some institutions do not submit their returns on the required time and date. These may be due to computer system problems or absence of the contact person responsible for filling out the return. The late returns would delay the production of the Banking Statistics to the Economics Department and prudential analysis report.

*B] Inaccurate data*

Inaccuracies are a common problem with regards to returns. This is attributed to the lack of understanding of the returns by the institutions. Furthermore the problem is exacerbated by the lack of coordination in the various departments of the institutions that submit the returns, as data supplied are not consistent and do not tally with what has been reported in other returns. Verification delays the production of the Banking Statistics to the Economics Department and prudential analysis report, however, this process is necessary to ensure accuracy.

*C] Late Confirmation on Data Supplied*

In carrying out the verification process, examiners query any large movement in the data supplied when compared to the previous data. To ascertain accuracy, financial institutions are required to explain large variances. At times, the financial institutions may take more than two days in confirming and explaining the large variance.

*D] Data entry*

With more than 15 types of monthly returns received from licensed financial institutions, data entry consumes a lot of time. The Banking Supervision Unit is looking at ways to shorten the process of data entry and is working towards obtaining soft copies of the returns.

*E] Non Bank Financial Institutions Statistics*

Unlike licensed financial institutions, the non-bank financial institutions [NBFIs] are not required by law to submit financial returns to the Reserve Bank. While an informal arrangement exists with these institutions, returns submissions have been inconsistent. With regards to the accuracy of the data, RBF has to rely on the data submitted.

It should be noted that these institutions are important, as some of them are major players in the financial market like the Fiji National Provident Fund and Fiji Development Bank.

## **2.0 Data Collection and Compilation**

As initially presented in P1.

## **3.0 Nature of Data Analysis and Its Use in Policy Formulation**

Four of the five online units of the Economics Department<sup>2</sup> collects data, analyses it and prepares it for presentation to the Economics Department's Policy Coordinating Committee (PCC) meeting. The analysis is based on respective section's methodology, which includes both qualitative and quantitative analysis. Qualitative data also comes from several surveys (see P1) conducted by different units in the Economics Department. Most of the information from the surveys is used to fine-tune or revise projections for economic data, such as GDP growth and inflation forecasts. Consistency checks are also performed to see whether a particular indicator behaves in line with another. After all the units have presented their information for the month, the meeting discusses the monetary policy stance that needs to be adopted for the next month.

The Economics Department's view from this meeting is then taken to the Monetary Policy Committee (MPC) meeting, where policy papers from other Departments are also discussed. After the discussion, a monetary policy stance is agreed on and recommended to the board, for their approval. Upon approval, the Financial Markets (FM) Department of RBF, implements the (new) monetary policy stance, effective from the date that the RBF Board approves the policy.

In the Financial Institutions Department, after the data has been verified and ratios compiled, the Banking Supervision Unit then analyses these data and rates the institutions accordingly. Depending on the analysis and ratings of the financial institutions, recommendations are made on the supervisory actions to take on institutions with higher risk profiles. These recommendations are forwarded to the Financial System Policy Committee for approval.

Furthermore, if there are identifiable trends in the indicators compiled by Banking Supervision, which are identifying weakness in the banking system, then recommendations are made to the Financial System Policy Committee to amend, tighten, or issue new policy guidelines.

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<sup>2</sup> External Conditions Unit, Financial Conditions Unit, Prices and Wages Unit and Domestic Activity and Forecasting Unit.

#### 4.0 Workplan and Time Schedule for Compilation, Analysis and Interpretation of Commonly Agreed ADB Macroprudential Indicators (MPIs) under RETA 5869

Upon the completion of the Inception Workshop in April 2000, RBF's attempts to compile the metadata and time series on the agreed indicators faced a setback as the country experienced a coup in May 2000. The hostage situation in the country lasted for around three months.

However, the project was revived and a draft metadata and time series data (monthly, quarterly and annual (as available)) were forwarded to ADB in December 2000. A more detailed time schedule is presented below (Table 1):

Table 1

<b>Date</b>	<b>Activity</b>
4-6 April 2000	Inception Workshop
22 June 2000	Presented Economics Department Seminar on RETA 5869
August 2000	Filled in definitions of time series (metadata) and collected data
29 December 2000	First Draft of metadata and time series submitted to ADB
January 2001	Received funds for project assistance from ADB
February 2001	2 <sup>nd</sup> submission of data updates to ADB
19-23 March 2001	RETA 5869 Review Mission to Fiji (Mr. Bhattacharyay) Signing of Memorandum of Agreement
April 2001	Preparation of final metadata and time series for RETA 5869. Preparation of country paper, including analysis and interpretation of RETA 5869 indicators
16-18 May 2001	Concluding Workshop
<i>Mid Year 2001</i>	<i>Country data posted on ADB website (expected)</i>
July 2001 onwards	Regular monthly submission to ADB of time series

Given that both Economics Department and Banking Supervision Unit are now aware of several new indicators that can be used to assess the health of the financial system as well as to gauge distressful economic developments, these indicators will be given more emphasis together with others that are currently being used.

These indicators will now be monitored on a regular basis to identify and abnormal developments. Corrective measures will then be implemented accordingly to counter its effects.

## **5.0 Presentation of Compendium (Yearly, Quarterly, Monthly) on time series of ADB MPI, metadata and source of data on MPI**

RBF has produced most of the data under the RETA 5869 project on monthly, quarterly and annual basis. All changes are on a year-on-year basis and presented across the monthly, quarterly and annual tables uniformly. Exchange rate averages are based on monthly, quarterly and annual periods, hence their difference from other tables. Weighted average interest rates reported in monthly tables (monthly weighted averages) are also reported in the quarterly and annual tables for the respective periods. Various changes were made to the set of indicators during discussions with the relevant units and organisations during the Review Mission to Fiji. These changes include:

### External Debt and Financial Flows

- Long and Short Term Debt (% of Total Debt) – were replaced with ‘total debt (% of GDP)’ as all debt is long-term external debt only
- Use of IMF credit (% of GDP) – removed as Fiji has not used this facility
- Foreign Direct investment (% of GDP) – was redefined to mean greater than 10% foreign share in a company.

### Money and Credit

- Money Base Growth (%) – definition for Money Base was requested. Money Base is the sum of currency in circulation, reserve requirement and excess reserves (with the central bank)
- Growth of Domestic Credit (%) – clarification was sought on the composition of domestic credit. Domestic credit includes loans and advances by the commercial banks only. It does not include loans by non-bank financial institutions such as the Fiji National Provident Fund (pension fund) and the Fiji Development Bank.
- Liquidity ratio (%) – a proper definition of this was sought. Liquidity ratio (%) refers to the ratio of liquid assets to total liabilities (liquid assets include demand deposits with central bank and investment securities)

### Banking

- Loan-Loss Provision (% of non-performing loan) – definition was revised to read ‘ratio of total provisions to classified loans. Classified loans include substandard, doubtful and loss account’.
- Loan-Loss Provision (% of Total Assets) - [separated into specific provision and general provision] and defined as the total of the specific and general provision.
  - Specific Provision (% of Total Assets) – refers to the ratio of specific provision to total assets
  - General Provision ((% of Total Assets) – refers to the ratio of general provision to total assets

### Interest Rates

- Money Market Rate/Inter-Bank Rate (a.o.p) – was replaced by Inter-Bank rate and referred to value-weighted average interest rate at which short-term borrowings are effected between financial institutions. Participants in this market include the commercial banks and Fiji Development Bank.

- Real Deposit and Lending Rates – the inflation rate used to calculate these are the consumer price index
- Treasury Bill Yield (Short-Term) – clarification was sought on issuer. Treasury Bills are issued by the Government of Fiji
- Bond Yield (Long-Term) – the long-term bonds refer to 10-year bonds issued by the Government of Fiji
- 91-day RBF Note rate – This was an additional indicator requested in the category. This refers to the value weighted monthly average yield on the 91-day central bank paper (used for open market operations). The interest rate is currently used as the indicator rate by RBF.

#### Stock Markets and Bonds

- Foreign Share in Trading (% of total volume of trading) – was replaced by foreign ownership in stocks (% of market capitalisation). This data is unavailable at the moment but CMDA will try to provide this in future.
- Composite Stock Price Index (Capital City, NCU) – the index provided is one which is produced by a licensed investment adviser. It is called the Kontiki South Pacific Index (KSPX). The KSPX is composed of the market weighted average of the companies listed on the South Pacific Stock Exchange and is constructed on a base of 100 set at 4<sup>th</sup> January 2000. CMDA will produce an index of its own in the future, when it will also be able to provide the composite index in US currency as well.
- Stock Price Earning Ratio - An aggregate PER replaced Price Earnings Ratio for individual companies. This is the Market Price of Stock divided by Earning Price Per Share (EPS). EPS is the Net Profit after Tax divided by the number of shares.

#### Trade Exchange and International Reserves

- Trade data – while monthly figures can only be made available after some time, quarterly data is now available under this project.
- Real Effective Exchange Rate – a proper definition was requested for this indicator. It has now been redefined to ‘the real effective exchange rate (REER) index is the nominal effective exchange rate index adjusted for relative movements in prices (consumer price index) in Fiji and trading partner countries. The nominal exchange rate is a weighted index of the basket of trading partner currencies. Trading partner countries include Australia, New Zealand, United States, Japan and the Euro region. [REER as reported in line *rec* of IMF's IFS].’

#### Business Survey Data

- General definitions were sought for current/present tendency and expected/future tendency. The former refers to 3 months and the latter to 12 months.
- Capacity Utilisation (Present Situation) – was redefined to the percent of respondents who are producing above 50 percent capacity level.
- Four more indicators were identified to be added to the list:
  - Financial Situation - Borrowing Requirements (next 3 months) - Measured as the net percent of respondents who indicate that borrowing requirements will rise (+) or fall (-) in the next three months.

- Future Sales Prospects (next 3 months) - Measured as the net percent of respondents who indicate that future sales will rise (+) or fall (-) in the next three months.
- Employment - Future employment plans (next 12 months) - Measured as the net percent of respondents who indicate that employment will rise (+) or fall (-) in the next twelve months.
- Selling Price - Simple average of input prices (12 months) - measured as the net percent of respondents who indicate that input prices (wages, raw materials and imports) will rise (+) or fall (-) in the next twelve months

Please refer to Appendix 1 for detailed metadata, time lags, and source of data.

## **6.0 Problems and Issues in Compilation of ADB MPI**

When the project was initially incepted, the Reserve Bank of Fiji had clarified that the project could easily be implemented. This was largely due to the maintenance of a sound database both by the Financial Institutions and the Economics Department of the Bank. As at April last year, the RBF was not compiling some of the indicators required for the project. Most of these new indicators were nevertheless derived from existing indicators.

In this respect, RBF did not face any major problem in the compilation of ADB MPIs. One problem that existed was the coordination among several institutions which needed to provide data for the project. During the course of preparation for the concluding workshop, RBF faced some problems in accessing data from these institutions, apart from the reasons of re-prioritisation of work by almost all institutions due to the political instability.

Much ground was however gained during the Review Mission conducted by ADB's Project Officer (RETA 5869). Following discussions as part of the mission work, institutions such as the South Pacific Stock Exchange, Capital Markets Development Authority and the Bureau of Statistics agreed to support the project in terms of more cooperation in providing data.

At the completion of the mission, several indicators were deleted (those that were deemed unnecessary), changed or revised and new ones added. Since then, all indicators have been received in a timely manner and requests by Reserve Bank to concerned institutions have been entertained well.

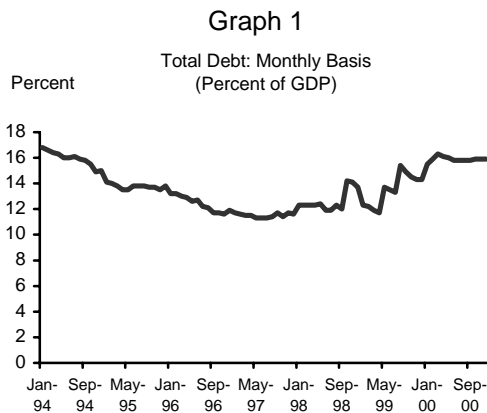
## 7.0 Interpretation and Analysis of MPIs and Related Problems and Issues:

### 7.1 Interpretation and Analysis

#### 7.1.1 External Debt and Financial Flows

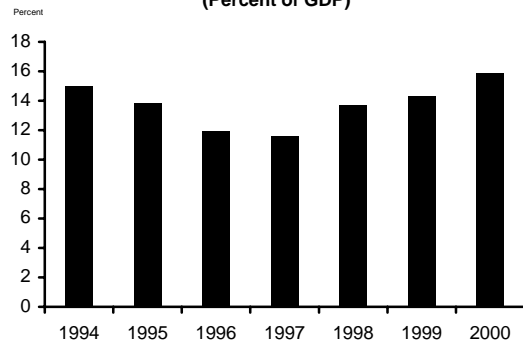
##### *Total External Debt*

Throughout 1994 to 1999, external debt as a ratio to GDP (Graph 1) averaged around 13.4 percent. During the same period, government debt averaged 6.7 percent, private sector debt averaged 5.7 percent and statutory authority debt averaged 1.0 percent.



Over the review period, total external debt levels have been relatively the same (Graph 2). Government debt has been rising marginally whilst statutory authorities' external debt has been falling over the years. Private sector debt has also been decreasing but with the purchase of aircrafts in 1999, the private sector debt figures rose substantially hence taking the ratio to GDP to 8.4 percent from 5.2 percent in 1998.

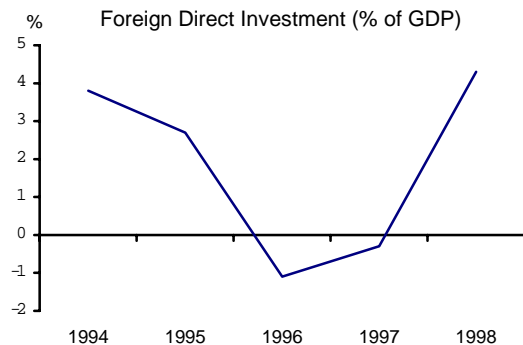
Graph 2  
Annual Total Debt  
(Percent of GDP)



##### *Foreign Direct Investment (FDI)*

Foreign direct investment (FDI) as a percentage of GDP has largely been positive except for 1996 and 1997 (Graph 3). The deficit in these years reflected increased investment overseas by Fiji residents as well as repayment of overseas loans by private companies.

Graph 3

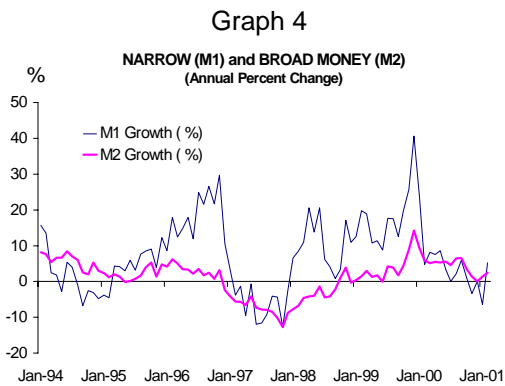


The positive FDI is mainly attributed to the reinvestment of earnings of companies. On average, FDI for Fiji has been around 2 percent of GDP.

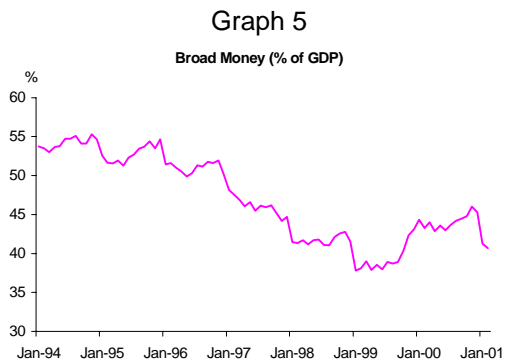
## 7.1.2 Money and Credit

### Money

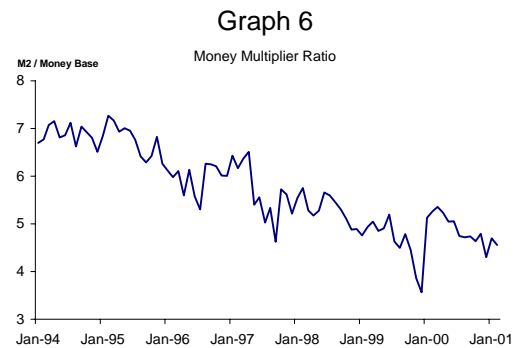
The growth in narrow money (M1) has been more volatile than the growth in broad money (M2) (Graph 4). In 1996, narrow money accelerated due to a substantial growth in demand deposits of statutory bodies. Currency in circulation also rose as a result of a pay rise awarded to civil servants at the end of 1996. In 1997, however, the contraction in M1 was led by the fall in statutory bodies' demand deposits. Currency grew weakly too, consistent with the weak domestic demand.



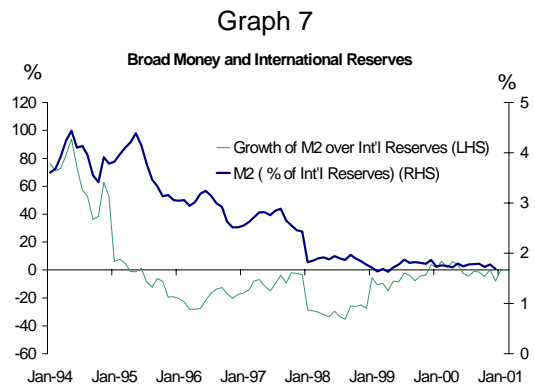
At the end of 1999, money increased substantially due to a 50% increase in demand deposits due to the Y2K bug fear. Considering that high base, money fell afterwards.



Broad Money (M2) as a ratio of GDP (Graph 5) has fallen especially since fourth quarter of 1996 as M2 experienced a broad-based decline for three straight years. Around this period, nominal GDP had also shown strong growth for some years. In 2000, the ratio increased due to contraction experienced by the economy in the year, especially after the coup.



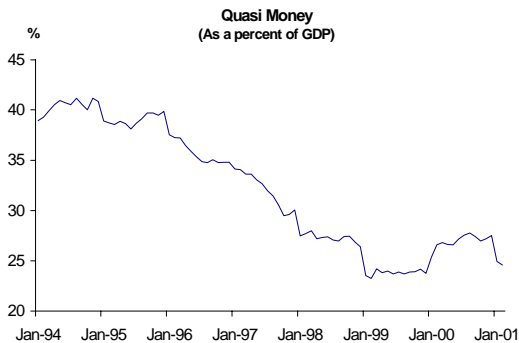
The money multiplier ratio (Graph 6) has also consistently fallen. As a ratio of international reserves (Graph 7), money is showing a similar downward trend. These downward trends are a reflection of weak growth in money in these past years.



Quasi money (as a percent of GDP) (Graph 8) has also fallen reflecting the weakness in the economy. Most of the decline is coming from the fall in time deposits. In 1999, individuals and

institutions had substituted their time deposit holdings for the more liquid demand deposits. This caused quasi money to fall as a percent of GDP.

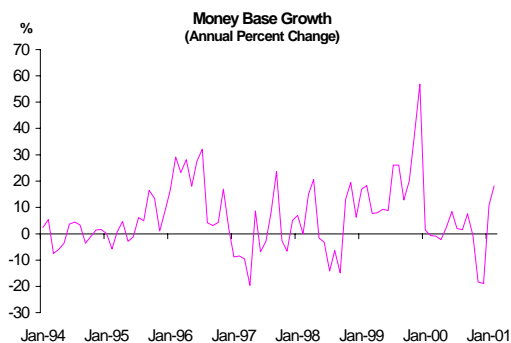
Graph 8



Nevertheless, following the coup, and the subsequent monetary policy tightening, commercial banks time deposit rate increased. This caused time deposits to grow quite rapidly. As a result of this, quasi money picked up in the latter stages of 2000.

Due to the significant changes in the level of excess reserves with the central bank, money base growth (Graph 9) is showing high volatility. In Dec 1999, money base expanded by more than 50 percent as a result of the increase in demand deposits. This was due to precautionary reasons in relation to Y2K rollover.

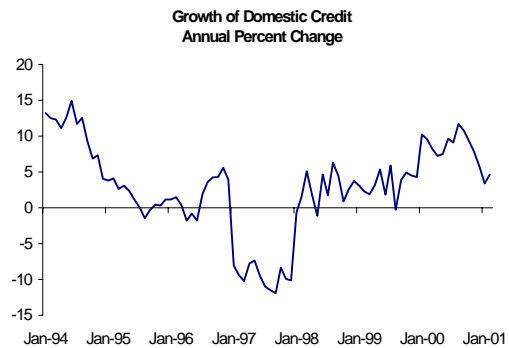
Graph 9



### Credit

Domestic credit growth (Graph 10) fell substantially as Reserve Bank of Fiji excluded the bad loan figures from total credit<sup>3</sup>. Commercial bank credit growth in Fiji has generally been weak, consistent with the weak state of the economy.

Graph 10

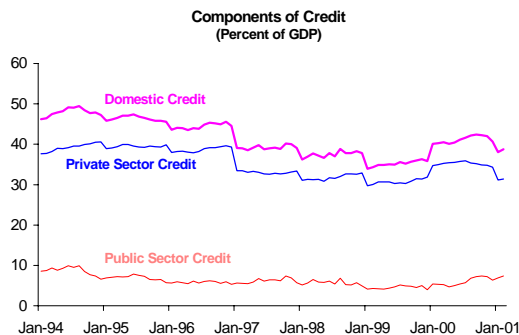


While several factors underpin this development, two more important ones are land issue problems and political uncertainties. Private sector credit growth has been very weak, and more recently, on a decline. Most of the growth in total credit is mainly coming from credit growth to official entities and government (net).

Private sector accounts for the largest portion of total domestic credit in Fiji (Graph 11).

<sup>3</sup> Following the collapse of the local bank, National Bank of Fiji (NBF), NBF was split into NBF and Asset Management Bank (AMB). AMB was specially formed to recover the bad loans of the former NBF. NBF was taken over by Colonial Mutual Life Assurance Society Limited (CMLA) in February 1999, when the bank was re-named Colonial National Bank (CNB). Currently, CMLA holds 51 percent shares in CNB, with the rest being held by the Government.

Graph 11



Overall, money and credit data reflects the weak state of the Fijian economy. The weak growth in money and credit, especially private sector credit, follow on from weak demand for funds for investment in the country. The Asian crisis and the subsequent severe drought conditions of 1998, which affected the sugar industry drastically contribute to this form of development in money and credit growth.

### 7.1.3 Banking

The Banking indicators provided by the Reserve Bank of Fiji mainly relate to the commercial banks that operate in Fiji. The indicators look at the local banks' capital, capital adequacy, growth of assets, asset quality, liquidity and loans to key economic sectors.

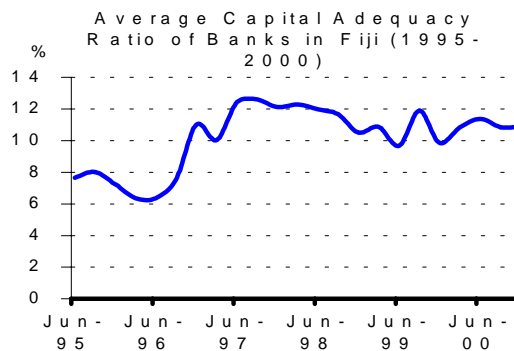
The data is provided on a quarterly basis spanning from March 1995 to December 2000.

These indicators have been produced readily by the Reserve Bank of Fiji for their in-house use prior to this Project. The analysis of these indicators will broadly comprise the following: capital adequacy, asset quality, earnings and liquidity.

### Capital Adequacy

Capital adequacy determines how well financial institutions can cope with shocks to their balance sheets. The capital adequacy ratio provided in the table is the weighted average of the banks' capital adequacy ratio.

Graph 12



Since the second quarter of 1995 to the third quarter of 1996, one would note that the average capital adequacy ratio of the Banks in Fiji was below the 8% minimum ratio recommended by the Basle Committee (Graph 12). Capital adequacy requirements were introduced by the RBF in March 1993 and were not effective until 1997.

When the capital adequacy policy was introduced in 1993, all banks (whether incorporated in Fiji or branches of foreign incorporated banks) were required to progressively build up capital held in Fiji to a capital to risk-adjusted assets ratio of 8% by the end of 1997. Therefore, by the last quarter of 1996, the banks in Fiji recorded capital adequacy ratios above the 8% minimum requirement. The banks in Fiji continued to do so until present. During the various quarters, the ratios tended to fluctuate. The reason being, in the case where banks have recorded profits, that increased the level of capital and hence

increased the ratio. After profits have been audited, foreign bank branches remitted their profits and hence the level of capital drops and the capital adequacy ratio likewise fell.

In 1997, the average capital adequacy ratio recorded by the banks in Fiji was above 12% compared to 1998, 1999 and 2000. The reasons being that the banks during 1997 had capital injection from their head offices to meet their capital requirements while the rate of increase of risk weighted assets was marginal. The negative growth rates recorded in the last two quarters of 1997 and first two quarters of 1998 substantiate this. Also with the capital adequacy requirements coming into force in 1997, foreign branch banks did not repatriate any profits in order to meet the regulatory requirements.

Since 1999 the banks capital adequacy ratio has been hovering around 10% to 12%. Overall the Banks in Fiji are adequately capitalized.

#### *Asset Quality*

The solvency of financial institutions typically is at risk when their assets become impaired. Hence supervisors monitor indicators of the quality of their assets in terms of over exposure to specific risks, trends in non-performing loans and the health and profitability of bank borrowers especially the corporate sector.

Since 1995, the level of non-performing loans in the Fiji banking system was very high and as a percentage of total loans peaked at 11.84% in September 1995. The reasons being, the National Bank of Fiji had accumulated a lot of bad assets due to its imprudent lending practices and its attempt to increase its

market share. Due to the increase in the level of problem loans and the bank's imprudent practices in lending as noted in the on-site examination, RBF formalised a Guideline for Loan Classification and Provisioning for Impaired Assets in July 1996. The Guidelines were first released in July 1995.

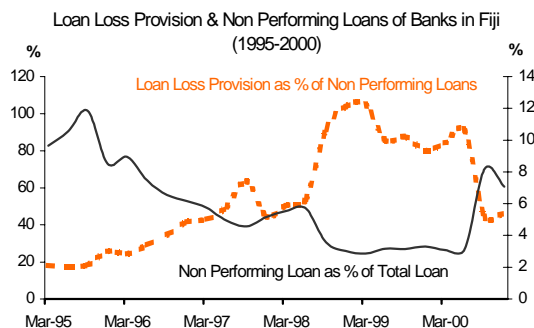
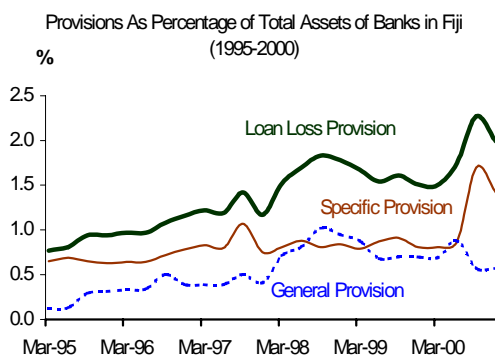
The Guideline outlines prudential standards on the loan classification framework, reviews risk assessment of credit facilities, provisioning, recognition of interest income and security valuation. Furthermore, all the banks were required on a quarterly basis to submit reports to RBF, on the level of impaired assets and provisioning.

Frequent on-site examinations were conducted on banks where the reports indicated a high level of impaired assets. As a result, the banks in Fiji took prudent actions by revising lending procedures and worked on recovering bad debt. Consequently, the ratio of non-performing loans over total loans began to decline and reached a low of 2.85% in March 1999. However, in the last two quarters of year 2000, the ratio of non-performing loans increased to more than 8%. This was mainly due to the effects of the 19<sup>th</sup> May 2000 coup, which affected the economy of Fiji.

As part of RBF prudential guidelines, banks are required to provide adequate provisions for losses in respect to non-performing loans. Banks are required to maintain general provisions on the good part of the loan portfolio and specific provisions on loans classified as Substandard (70%), Doubtful (50%) and Loss (100%).

The two graphs (Graphs 13 and 14) below showed that since the implementation of the guidelines on loan classification and provisioning, the level of non-performing loans decreased while the level of provisioning (specific and general) increased. This indicated that the banks in Fiji implemented the guidelines issued by the Reserve Bank of Fiji.

Graph 13



Graph 14

Also, one would note that in the latter part of 2000, the ratio of loan loss provisioning as a percentage of non-performing loans fell significantly from 90.82% in July 2000 to 44.41% in September 2000. This reflected the significant increase in the level of non-performing loans. Due to the events of 19<sup>th</sup> May 2000, the Fiji economy was affected.

Subsequently, banks implemented prudent measures to review their loan portfolio and downgraded loans in the sectors of the economy, which were affected and would pose a high risk in the future. Therefore, some loans whereby repayments were still current but future projections of the bank revealed an uncertain future were downgraded to the substandard category even though no loss was anticipated. The banks in Fiji took a conservative step in order to forewarn head office of the situation in Fiji and expect that profits will be restricted by the increase in provisioning.

Asset quality for the banks in Fiji since the last quarters of 2000 and for 2001 is marginal. The level of problem loans is high and this is expected to remain till the end of 2001 due to the current economic condition.

### Earnings/Profitability

The continued viability of any bank or credit institution depends on its ability to earn an appropriate return on its assets and capital. Good earnings performance enables an institution to fund its expansion while remaining competitive in the market and replenish and/or increase its capital funds.

There is only one indicator provided by RBF in this RETA project, however RBF for its supervisory purposes uses various profitability ratios to gauge the profitability of banks.

The indicator Net Profits (after tax) as a percentage of average assets or otherwise known as return on average assets.

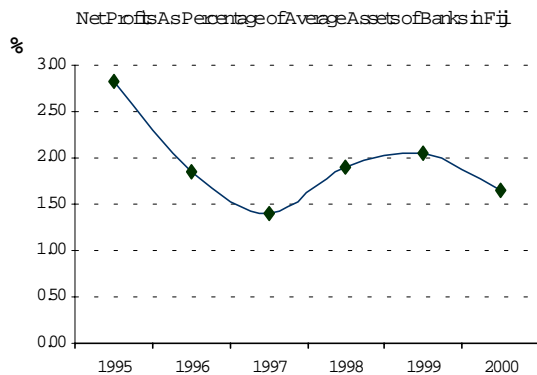
From the standpoint of the bank supervisor, the essential purpose of

bank earnings, both current and accumulated is to provide for absorption of losses. The earnings power of a bank is the initial safeguard against the risks of engaging in the business of banking. Earnings, therefore, represents an institution's first line of defense against capital depletion resulting from shrinkage in asset value.

In order to obtain a better return, the banks undertook cost cutting measures. Interest rates on deposits were reduced which helped reduce interest expenses and increase interest income.

Other cost cutting measures included rationalisation of branch networks, centralising of back office operations and increased emphasis on electronic banking products.

Graph 15



For the next 2 years, in 1998 and 1999, the return on average assets ratio increased and only to fall again in 2000 as profits were reduced by the increase in charges for bad debts and provisions.

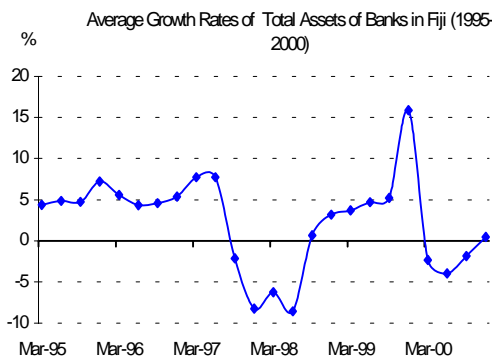
The indicator on Return on Average Assets showed that the ratio increased steadily and reached a peak of 2.82% in 1995 (Graph 15). The ratio then plummeted to a low of 1.4% in 1997, due to the negative growth in assets (Graph 16), low investment opportunities and high operating costs.

With the return of average assets of 1.64%, profits for banks in Fiji still remained at a reasonable level. However, should the economic conditions worsen due to low investment, low export activities and contagion effects of slowdowns in Australia and New Zealand, banks' profits in Fiji is expected to fall further.

*Liquidity*

Liquidity represents the ability to accommodate decreases in deposits and other purchased liabilities and fund increases in assets. Funds must be available at reasonable interest rates relative to competitors and in maturities required to support prudently medium to longer-term assets. Liquidity is essential in all institutions to compensate for expected and unexpected balance sheet fluctuations and to provide asset/liability for growth.

Graph 16

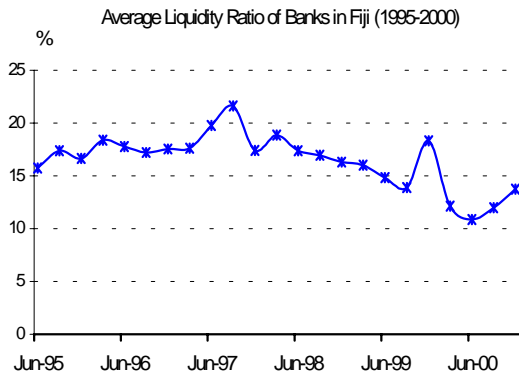


Bank supervisors consider various factors in assessing the adequacy of institutions' liquidity. Various liquidity ratios are analysed apart from concentrating on one or two ratios.

For this project, only one ratio measuring the banks' liquidity has been provided (Graph 17). This ratio measures the level of liquid assets over total liabilities. The ratio indicates that on average the banks maintain 17% of its assets as liquid assets over their total liabilities.

The banks in Fiji under regulatory requirements are subject to maintain 16% in unimpaired liquid assets and 5% in statutory reserve deposits. In addition when the environment is not conducive to lending and where few limited opportunities are available for banks to lend to, the banks simply buy more securities. This was evident in 1997 where the liquidity ratio was at a peak compared to the preceding years and the years following 1997. The ratio began to decrease in 1999 and 2000. The reason being that the ULAR requirement was abolished in 1999 and the SRD requirement was reduced from 6% to 5%. Moreover, since the SRD ratio was required to be held on an average basis, the banks had the flexibility to lower their ratio to 3% at any day to meet funding requirements.

Graph 17



Overall the banks in Fiji have sufficient liquidity for their purposes.

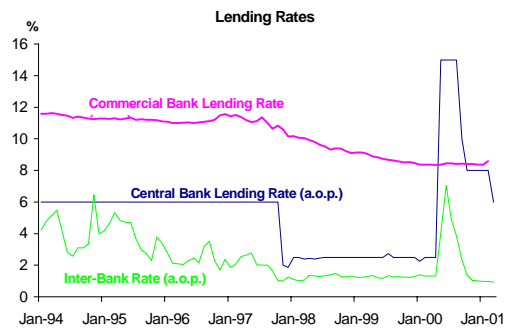
## Interest Rates

### RBF and Commercial Bank Interest Rates

Since October 1997, monetary policy has been implemented through the price of funds (short-term interest rates), rather than the quantity of funds. Monetary policy is conducted using open market operations with central bank securities to influence the level of liquidity in the banking system and thereby short-term interest rates in the economy. The RBF uses the 91-day RBF Notes rate as the operational target for monetary policy.

The gradual fall in the central bank lending rate, the commercial bank lending rate and the inter-bank rate reflects the easier monetary policy stance adopted in October 1997 (Graph 18).

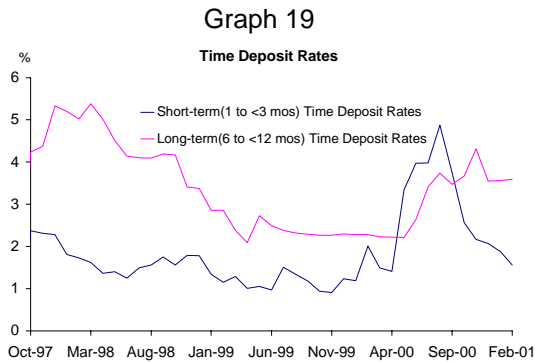
Graph 18



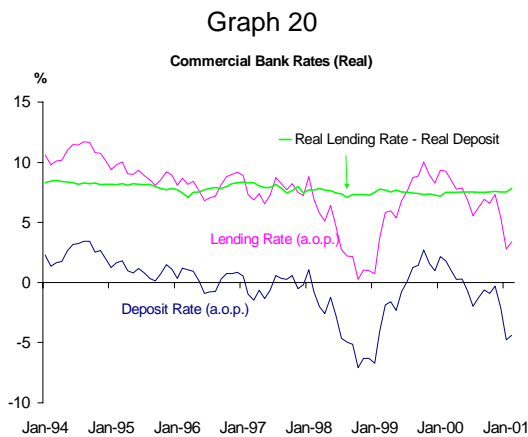
In May 2000 (after the coup), monetary policy was tightened. The RBF increased its minimum lending rate to 15 percent from around 2.5 percent. The inter-bank rate also jumped to around 7 percent from around 1 percent before the coup. Lending rate increased only marginally.

The tighter monetary policy was reflected in the increase in time deposit rates (Graph 19), especially for the

shorter spectrum. Interest rates for maturity 'between 1 and less than 3 months' time deposits peaked at around 5 percent, before cooling off slowly towards the end of the year.



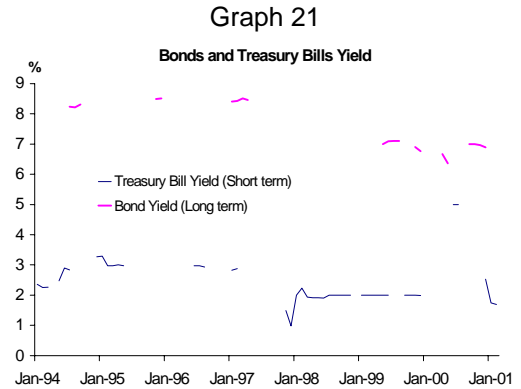
The real rates fell (Graph 20) substantially in 1998 because after the devaluation in January 1998, consumer price index increased strongly. More recently, low commercial bank rates and high domestic inflation is putting downward pressure on real interest rates.



### Yields

The yield on long-term government bonds has fallen recently in line with the uncertainty in the country. The yield on the short-term (91-days) treasury bills had jumped in mid 2000 due to the

monetary policy tightening after the coup in May 2000 (Graph 21).



Interest rates have generally been on a downward trend, especially after October 1997. This is largely a reflection of the weak domestic economy. After the monetary policy tightening in May 2000, interest rates jumped up, but following the progressive set of monetary policy easing beginning September 2000, rates have begun to fall.

### 7.1.5 Stock Markets and Bonds

Given that the Fiji stock market is relatively new, the stock market indicators compiled basically covers four main indicators from 1999 to the first quarter of 2001. This essentially reflects the embryonic stage of the stock market, the type of activity generated, and the nature of the companies listed on the Exchange.

In general the indicators show an increase in the level of activity generated in the Stock Market. Market capitalization increased from \$214m to \$243m in 2000. In the first quarter of 2001, this increased further to \$247m. This was mainly due to the increase in the number of companies listed in the stock market over the year and the

abilities of some companies to generate values in their shares traded. The numbers of shares traded in 2000 was less than that of 1999 mainly due to the events of 19<sup>th</sup> May; however in terms of the total value traded this was almost double of that in 1999.

The stock price earnings ratio or market PER, which provides an indication of earnings per share stabilized over the second half of 2000. Since 1999 the market PER has been fluctuating between 12 [times] to 35 [times] due to the delisting of one company which was later followed by a restructure in the shareholdings. Also contributing to this fluctuation is the loss position recorded by another company for the financial year-end.

The share of the top three traded stocks as a percentage of total volume of trading remained above 80% since 1999 to 2000. However in the first quarter of 2001, the level dropped below 80%. This may have been caused by the increase in the volume of trading and while the top three stocks traded remained almost the same.

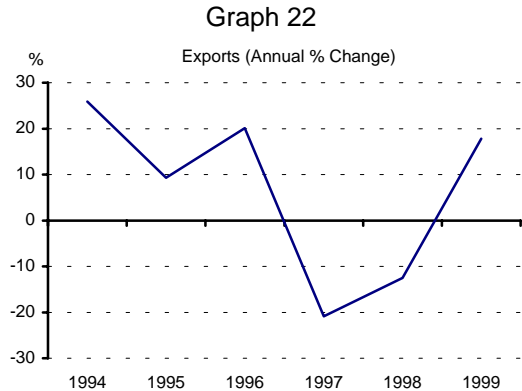
The composite price index in Fiji dollar indicates the steady increase of the index over the year 2000 and continued in the first quarter of 2001. This basically reflects the increase in the value of shares traded.

#### 7.1.6 Trade Exchange and International Reserves

##### *Export Growth (%)*

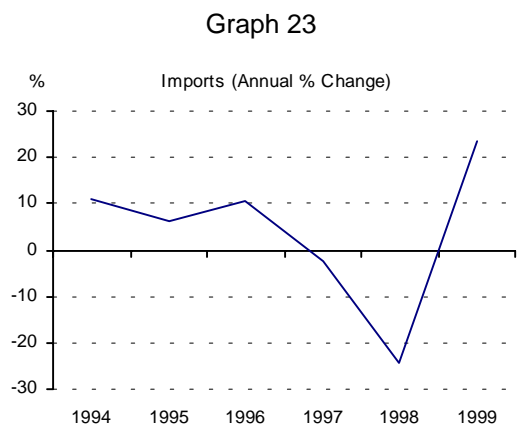
Except for 1997 and 1998, Fiji's export growth has been robust. Although sugar exports has been consistently contributing to the growth in exports, garment exports has been the major

contributor to the growth in exports over these years (Graph 22).



The decline in 1997 reflected a decline in sugar exports as well as no re-exports of aircraft (which was recorded in 1996). The decline in 1998 is mainly a result of the devaluation of the Fiji dollar as the exports figures are quoted in US dollars. Exports in Fiji dollar terms in 1998 actually reported a growth.

##### *Import Growth (%)*

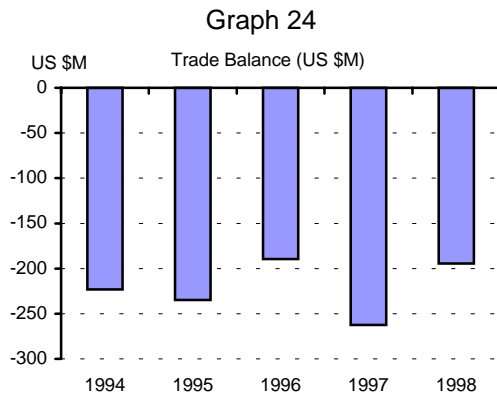


On average, imports (Graph 23) have grown around 4 percent between 1994 and 1999. Imports of manufactured goods (textiles for the garment sector) and mineral fuels have been the main contributors to import growth.

The marginal decline in 1997 is attributed to exchange rate differentials while the decline in 1998 was mainly due to lower imports of mineral fuels (aviation turbine fuel).

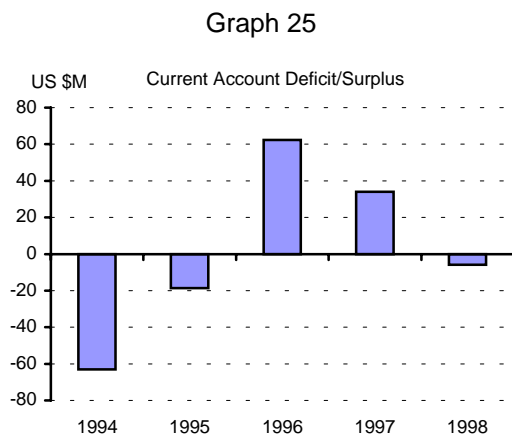
*Trade Balance (US \$M)*

Fiji's trade balance has recorded a deficit between 1994 and 1999 (Graph 24), which reflects more imports than exports. As Fiji is a relatively small economy it depends considerably on imports from its trading partner countries.



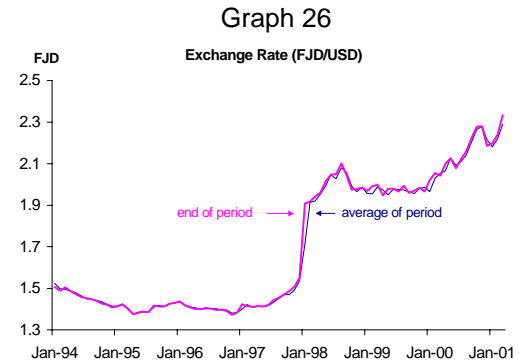
*Current Account Deficit/Surplus (US \$M)*

The current account recorded deficits in 1994, 1995 and 1998 (Graph 25) largely because of higher trade deficits, which more than offset the surpluses recorded for services.

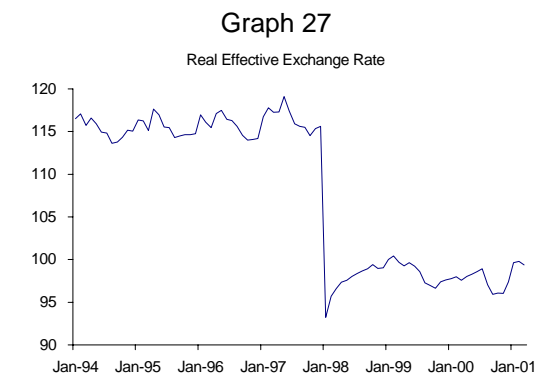


However, this was not the case for 1996 and 1997 where the services' surpluses offset the trade deficit. This was mainly attributed to increased tourism earnings.

*Exchange Rates*



The Fiji dollar (pegged to a basket of trading partner countries) was devalued in January 1998, but since then has continued to lose against the US dollar (Graph 26). This has especially been due to the depreciation of the Australian and New Zealand dollars against the US dollar during the review period. The currencies of these two major trading partner countries comprise almost half of basket to which the Fiji dollar is pegged.



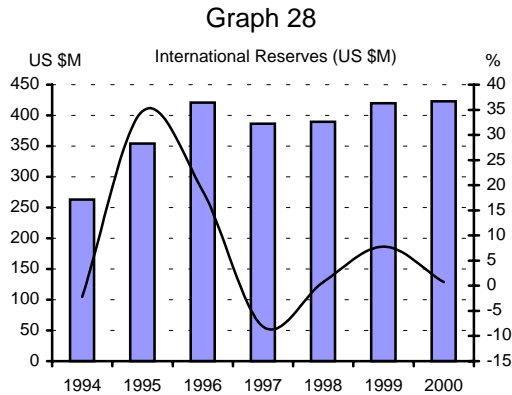
*The Real Effective Exchange Rate*

(REER) Index of the Fiji dollar fell in 1998 after the devaluation (Graph 27).

Compared to then, the REER has been quite competitive. While there has been some fluctuation around a stable level, the more recent pick up in REER has been due to higher domestic inflation (Consumer Price Index).

*International Reserves (US \$M)*

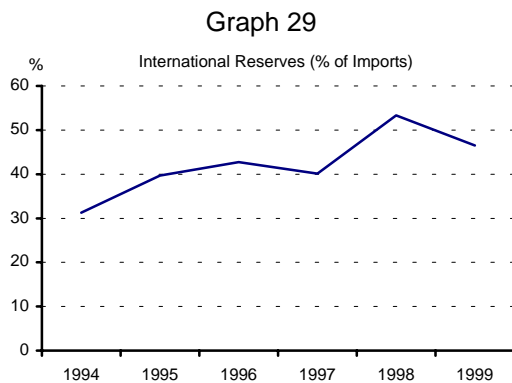
Fiji's international reserves (Graph 28) has been at comfortable levels averaging around US\$380m between 1994 and 2000.



The line in the graph depicts the annual percent change or the growth of Fiji's foreign reserves.

*International Reserves (% of imports)*

On average, Fiji's foreign reserves as a percentage of imports (Graph 29) has been around 42 percent.



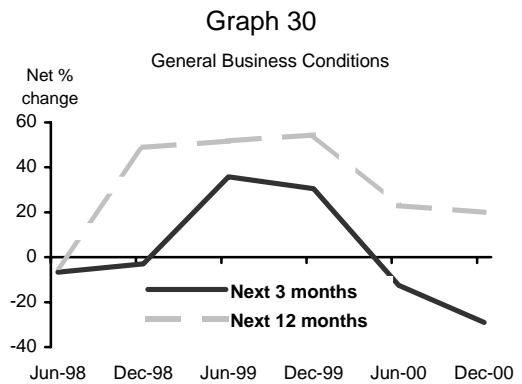
Fiji has always maintained a comfortable level of its foreign reserves in order to meet payments of imports of goods and non-factor services.

7.1.7 Business Survey Data

*General Business Conditions*

General business conditions expectations have closely followed the general trend of Fiji's economic performance. Generally, the short-term outlook (the next 3 months), taken in any one survey, has a more pessimistic or 'less than optimistic' outlook, when compared to the long-term outlook (the next 12 months).

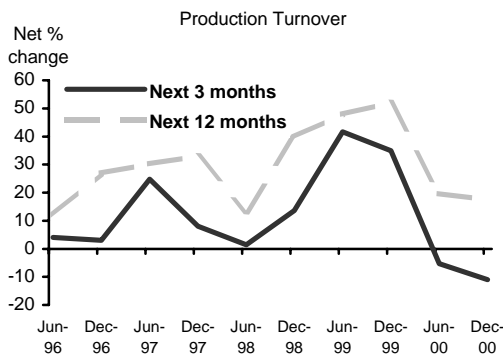
The outlook for business expectations in 1998 was pessimistic (Graph 30) because of the devaluation of the Fiji Dollar. Thereafter, expectations began to improve until June 2000 when the civilian take-over of the Fiji parliament pushed business conditions expectations to an all time low for the short-term.



Production turnover projections (Graph 31) have generally shown optimism except for certain occasions when both the short term and long term projections faced a slump. Firstly, the December 1997 survey revealed a drop in

production turnover projections for the short term because of the difficult conditions caused by the El Nino induced drought. Then projections plunged even further for both the short and long term with the devaluation of the Fiji dollar. Projections picked up after that but took a dive in both the 2000 surveys when the May crisis shook business confidence.

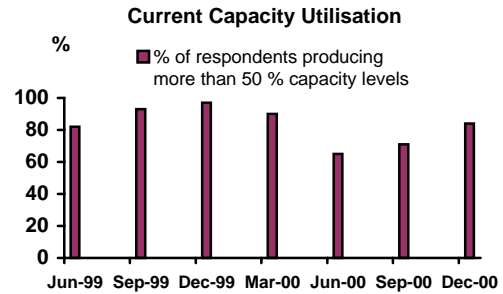
Graph 31



*Capacity Utilisation*

The survey results are over the period May 1999 – Dec 2000 (Graph 32). The results indicate that on average around 91 percent of the respondents were producing more than 50 percent capacity levels before the 19 May political crisis. During the political crisis, overall capacity utilisation seems to have deteriorated. Around 65 percent of respondents produced above 50 percent capacity levels.

Graph 32

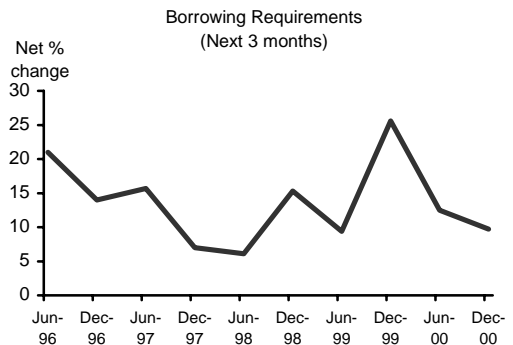


However in the November 1999 and February 2001 survey, results indicate that capacity utilisation seems to have improved. Currently, around 84 percent of the respondents are producing above 50 percent capacity levels. This indicates that the economy is on a slow recovery.

*Borrowing Requirements*

Borrowing requirements projections (Graph 33) generally tended downwards from the 1996 surveys to the June 1998 survey.

Graph 33

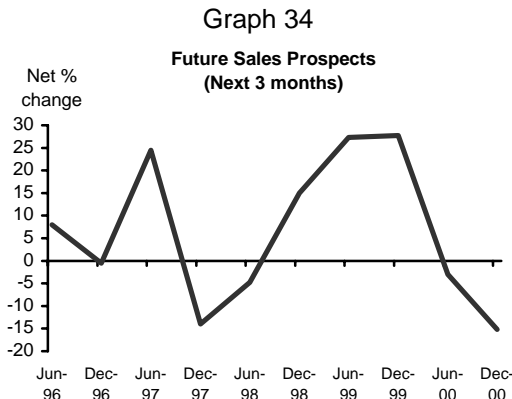


Thereafter, when the devaluation of the local currency took place, businesses have generally expected borrowing requirements of the commercial banks to increase. Expectations of an increase in borrowing requirements reached a peak in the December 1999 survey, after which it declined for both

the surveys in 2000 due to the May coup.

### Future Sales Prospects

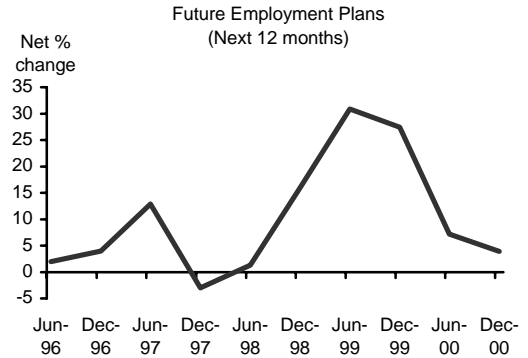
Future sales prospects (Graph 34) have generally followed the direction of the production turnover expectations, generally for the same reasons. The sales projections fell in the December 1997 survey because of the drought and remained weak for the June 1998 after the Fiji dollar devaluation. From then on, sales prospects gradually picked up and peaked in the 1999 surveys. In 2000, future sales prospects took a dive amidst the May coup and the ensuing weakening demand in the economy.



### Employment Projection

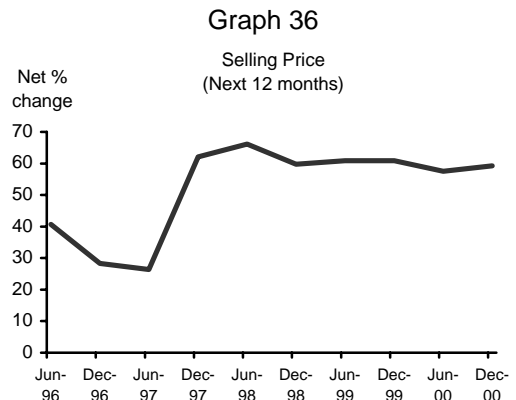
The employment projection (Graph 35) for the long term also follows a similar trend to that of the other projections. Matching future sales prospects, employment projections fell in the December 1997 survey and stayed weak for the June 1998 survey for the same reasons that sales projections weakened. The 2000 surveys also show a decline due to the political instability arising from the May crisis.

**Graph 35**



### Expectations for Input Costs

The expectations of respondents for input costs i.e. labour, raw materials and imported inputs are being used as a proxy for projections of selling prices (Graph 36) of goods and services.



Price expectations for goods and services took a downward trend up till the June 1997 survey, thereafter rising in the December 1997 survey. Since then, the net number of respondents who expect increases in prices remained high.

## **7.2 Problems and Issues**

MPIs are quantitative variables. But the assessment of financial system soundness also requires an ability to couple the analysis of MPIs with informed judgments on the adequacy of the institutional and regulatory frameworks. These frameworks include the structure of the financial system and markets; accounting standards and disclosure requirements; loan-classification, provisioning, income-recognition rules, other prudential regulations; the quality of supervision of financial institutions; the legal infrastructure (including those parts of it covering bankruptcy and foreclosure); incentive structures and safety nets; and liberalization and deregulation of the financial system. The interpretation of MPIs is contingent on these institutional circumstances, and the monitoring of such indicators can only complement, not substitute for, institutional judgment.

More generally, because the relevance of individual indicators may vary from country to country, MPIs cannot be used mechanically or compared simply from one country to another. Assessments need to be based on a comprehensive set of indicators, taking into account the overall structure and economic situation of a country and its financial system. Similarly, the complex reality of financial markets will be hard to capture in a composite indicator of financial system soundness. MPIs should be monitored to assess the soundness not only of the banking system but also if they are systemically relevant of non-bank financial institutions and securities markets.

Likewise economic indicators cannot be studied in isolation. For a small open economy like Fiji, a host of indicators must be studied and policy responses suggested in a broader sense.

Due to these complications, forecasts and policies in Fiji are generally arrived at by committees, which include various institutions specialising in their area of work. As yet, a composite indicator has not been developed by Fiji for assessing the likeliness of a slowdown or crisis. However, such committees usually meet regularly, producing and providing latest information, which are used to prepare new forecasts. Considering these revisions, policies are drawn, recommended and implemented if approved. These policies are aimed at countering the effects of expected adverse influences on the economy.

### **7.2.1 Limitations of Macroprudential Indicators**

Experiences of the international community and the IMF in identifying and using MPIs for analyzing financial sector soundness, and disseminating these indicators to public reveal that:

#### Identification, Analysis and Use of MPIs

- While work on identifying and measuring MPIs has advanced substantially in recent years, knowledge in this area is still limited and more research and analysis is needed. In particular, there is no consensus on a model for determining the vulnerability of a financial system or on a set of widely accepted

- MPIs. Prioritization among MPIs and the selection of a core set of indicators is desirable. Use of a single composite indicator, however, would be overly simplistic and could be misleading.
- Analyses of financial sector vulnerability cannot rely on quantitative indicators alone. To be effective, early warning indicators should also be used in conjunction with professional judgement. Judgement must be exercised in choosing the relevant indicators and in interpreting the qualitative information derived from the early warning measures.
- There is a need to: (1) improve the quality of accounting practices in many countries; (2) assess the health of non-bank financial institutions and of the corporate sector; (3) address the limitations of aggregating microprudential information to obtain MPIs; (4) develop benchmarks and norms for the indicators; and (5) use stress tests as part of a forward-looking approach to macroprudential analysis.

#### Measurement and Data Dissemination Issues

- Efforts should be directed toward a greater harmonization of MPIs in terms of coverage, periodicity, timeliness, and public access.
- No single set of MPIs is currently being disseminated by a group of countries or seen as superior to other sets.
- National authorities differ in their approaches to the dissemination of data on the financial system, and no clearly identifiable set of best practices for dissemination of MPI data has emerged. While there is a presumption that disclosure of information promotes market discipline, there remain inevitable confidentiality concerns, notably about releasing information on individual institutions.

The effectiveness of an early warning indicator also depends on the quality of the data. For example, many deposit-taking institutions that failed over the world had inadequate information systems that generated unreliable data. The inaccurate data led management (and regulators) to believe the institution was healthy, resulted in poor decision making, delayed intervention by regulatory agencies, and eventually led to failure. Also, traditional cost valuation methods for preparing accounting information may not be appropriate for early warning data. For example, a "marked-to-market" valuation of assets and liabilities of financial institutions can lead to sounder decision making and is more appropriate for assets such as marketable securities and derivative products.

In addition to the limitations mentioned above, here at the Reserve Bank the supervision of licensed financial institutions is based on the historical data received. There is a time lag on the information received and the analysis would focus more on what has happened in the past than what can happen in the future. Hence supervision is not forward looking.

### **7.3 Use of Composite Indicators**

The Reserve Bank of Fiji uses the CAMEL framework in the supervision of licensed financial institutions. The CAMEL system has been used to provide a uniform platform in supervising banks and credit institutions. Furthermore the evaluation and rating system was designed to identify those institutions that require more than the normal degree of supervisory concern and oversight, as well as to ensure appropriate supervisory actions are undertaken.

In accordance with the CAMEL system, each institution is assigned a uniform composite rating based on the evaluation of pertinent financial and operational principles, standards and criteria. Before arriving at the overall composite rating of a financial institution, each component of CAMEL is assessed and a rating is assigned. Once all the components have been assigned a rating, the Examiner will then assign a composite rating on the institution. Although the rankings of the individual CAMEL components should bear a close resemblance to the composite rating assigned, the overall composite rating is not derived by merely computing an arithmetic average of the components. Such a mechanical approach may not reflect the real degree of supervisory concern or oversight that the circumstances regarding the institution may demand. For example, it is quite conceivable that a bank may operate with acceptable management, earnings and liquidity, but have an excessive amount of classified assets. A remedial program to address those weaknesses, possibly through the use of an informal written agreement, could be an effective supervisory response. Consequently, a composite rating of “3” might be appropriate, although ratings of “1” or “2” were assigned to a majority of the CAMEL components. In the final analysis, it is important to note that the purpose of the evaluation and rating system is to identify, via the composite rating, those institutions that merit special attention and/or a higher degree of supervisory concern.

In the case where an institution receives an overall composite rating of 3 [marginal], Banking Supervision conducts an on-site examination of the institution. On the other hand in the case where an overall rating is 2 and a component of CAMEL was rated 3, Banking Supervision will conduct a special on-site examination focussing on that component of that institution.

In assigning ratings under the CAMEL framework, it focuses the Examiners attention on the institution’s risk. Higher risk institutions or areas with higher risk profiles demand greater supervisory attention. While applying this common philosophy to all institutions, the Reserve Bank recognizes the different complexities of risk facing banks and other financial institutions. In that regard RBF is committed to providing high-quality supervision directed at identifying material problems, or emerging problems in individual institutions or the banking system and ensuring that such problems are appropriately corrected. Annex 2 contains an example of how institutions are rated.

For the entire industry, the RBF's *Risk-based Supervision* identifies areas that, in aggregate, pose the potential for presenting an unacceptable level of risk to the banking system. For those high risk activities and/or activities that have become particularly risky because of market conditions, the RBF's goal is to communicate with, and influence, the

industry through direct supervision, policy, and regulation. In situations where an individual bank is not properly managing its risks, the RBF's goal is to use appropriate means to influence bank management to adjust its practices to conform with sound fundamental banking principles.

Risk-based Supervision allocates greater resources to those areas with higher risks. Banking Supervision accomplishes this by:

- Identifying risks using common definitions. This set of risks forms the basis for supervisory assessments and actions.
- Measuring risk based on common evaluation factors. Risk measurement is not always quantified in dollar terms; it is sometimes a relative assessment of exposure. For example, numerous internal control deficiencies may indicate a bank has an excessive amount of operations risk.
- Evaluating risk management to determine if bank systems adequately manage and control the identified risk levels. The sophistication of the systems will vary based on the level of risk present and the size and/or complexity of the institution.
- Assigning greater resources to areas of higher or increasing risk, both within an individual institution and among institutions in general. This is done through the supervisory strategy.
- Using appropriate supervisory tools based on the risks, reaching conclusions on risk profile and condition, and following up on areas of concern.

To accomplish the above tasks, RBF should discuss preliminary conclusions of this risk-based supervisory strategy with bank management and adjust conclusions and strategies based on those discussions, if appropriate. This would then allow supervisory efforts to focus on significant risks, i.e., the areas of highest risk within a bank and within the banking system.

### Categories of Risk

Banking Supervision has defined nine categories of risk for supervision purposes. These risks are: Credit, Interest Rate, Liquidity, Price, Foreign Exchange, Operation, Business/Strategic, Reputation and Compliance/Legal. These categories are not mutually exclusive; any product or service may expose the institution to multiple risks. For analysis and discussion purposes, however, Banking Supervision identifies and assesses the risks separately.

It is assessed as high, moderate, or low for each of the eight categories of risk. The Examiner's assessment of aggregate risk may be impacted by mitigating factors such as insurance. Aggregate risk assessments direct the specific activities and resources outlined in supervisory strategies. A list of evaluation factors supplements the decision process. All these are outlined in the risk based supervision manual.

### *Economics Department*

At present, the Economics Department does not use any composite indicator as such to predict crises etc. However, various indicators, such as foreign exchange reserves and money and credit growth are monitored to identify any abnormal developments in a

broader sense. These indicators are also used to do consistency checks with other indicators.

#### **7.4 Problems of Seasonality**

The growth in all indicators used by the Economics Department for research and analysis is treated on an annual basis. This is expected to discount for seasonal effects.

#### **7.5 Use of Threshold Values**

The Economics Department uses threshold values. During the coup last year, when pressure was expected on foreign exchange reserves, a certain level of foreign exchange reserves (in months of imports) was identified for this purpose.

Similarly, threshold values are identified for other indicators as and when required in order to act on if these values have been reached. These values are specific to economic situation and overall monetary policy objectives.

#### **8.0 International Monetary Fund's Survey**

*(Survey on the Use and Compilation, and Dissemination of Macprudential Indicators)*

At the request of the International Monetary Fund, RBF coordinated the IMF *Survey on the Use and Compilation, and Dissemination of Macprudential Indicators* in Fiji in June 2000. Out of the four user questionnaires that were distributed to prospective respondents, responses were received from only two. The Compilation and Dissemination Questionnaire was completed by the Financial Institutions Department of the Reserve Bank of Fiji.

Apart from RBF, the survey forms were also completed by the Ministry of Finance and the Professor/Head of Accounting and Financial Management of the University of the South Pacific.

The macroprudential indicators comprised of CAELS [capital adequacy, asset quality, earnings/profitability, liquidity and sensitivity to market risk]. The survey covers two main aspects of the macroprudential indicators. This includes:

- 1) Compilation and Dissemination, and
- 2) the use and the frequency required to meet the needs of the user.

The RBF response to the survey was generally in that most of the indicators mentioned in the survey are readily compiled and used by Banking Supervision. In case of Ministry of Finance, the indicators mentioned in the survey were mostly not useful. Indicators which were useful included the ratio of corporate debt to own funds, ratio of liquid assets to liquid liabilities and average daily turnover in the Treasury Bills. The third respondent from the University of the South Pacific, (Professor Michael White) said that while some indicators compiled in the survey were useful others might not be applicable to Fiji because of the nature of its financial system.

## **9.0 Monitoring Process: Coordination Among Various Supervisory Agencies Overseeing Financial Markets**

In Fiji there are only two supervisory agencies i.e. the Reserve Bank of Fiji and the Capital Markets Development Authority [CMDA]. The Reserve Bank of Fiji is mandated to promote a sound financial system under the powers vested in the Reserve Bank of Fiji Act, Banking Act and Insurance Act.

The Capital Market Development Authority is responsible for the development and regulation of the capital market in Fiji. This includes the regulation and supervision of the capital market, which involves licensing and supervising of intermediaries such as brokers, dealers, investment advisers and the South Pacific Stock Exchange.

The legislation governing the supervisory functions of the two agencies clearly define their roles, however the Reserve Bank of Fiji is responsible for the stability of the financial system.

While the roles performed by the two agencies may be similar in nature, the institutions they supervise differ. In cases where licensed financial institutions, are involved in the activities of the capital market, the Capital Market Development Authority is also responsible for supervising these institutions. Hence close cooperation is required of the two agencies. At present no licensed financial institution is involved in the capital market.

## **10.0 Data Dissemination**

The Reserve Bank of Fiji disseminates information through its publications – News Review, Chartbook and Statistical Annex, Quarterly Review, Insurance Report and the Annual Report. Direct consultations with the private sector through industry visits and presentations to various forums, such as the Association of Banks in Fiji (ABIF), also take place. The Bank also issues bi-annual Monetary Policy Statements. See Appendix 2 for details of publications (timeliness, frequency, and timeliness).

Apart from that information requests by the general public are attended to. This is restricted to aggregate information (not on institutions).

### **10.1 Data Dissemination Scheme**

The Economics Department also produces research papers, which are published and available to the general public. The Bank makes a wide use of print media to disseminate information. The News Review, the Chartbook and Statistical Annex and the Monetary Policy Statements are prepared internally. External printers and/or publishers print the rest of the publications.

The Bank also informs public via Press Conferences. Governors and Chief Managers also present at Workshops or Conventions as and when requested to act as resource people.

These publications carry economic commentaries on domestic and international economy together with statistical tables and charts for further information.

The Bank's information is also available on Bloomberg now. In addition, the Reserve Bank launched its website: [www.reservebank.gov.fj](http://www.reservebank.gov.fj) on 26 October 2001 to make its information more accessible to its users word-wide.

Stock Market data on Fiji is also available on the internet now and can be accessed on [www.cmda.com.fj](http://www.cmda.com.fj).

## **11 Emerging Demand for New Indicators and Statistics for Monitoring Financial Markets**

Since the Asian crisis, it has become increasingly important for RBF to study not only the domestic economy and that of its trading partners, but also of the trading partners of Fiji's trading partners. This is due to the fact that globalisation is an imminent reality and the borderless world can be very cruel to some nations. This risk is compounded by the fact that Fiji is a small and open economy. As an illustration, the RBF was forced to devalue the Fiji dollar because the exchange rate was seemingly overvalued for our exports and tourist industry. In this way the crisis in Asia led to devaluation in the Pacific. This portrays the power of globalisation.

In this respect, RBF is more attentive to external developments than it was before. Apart from that, data is now studied more deeply than before – there are several measures of inflation, and banking data is also studied more closely. This includes deposits and credit data for various categories.

With regards to financial monitoring, the Reserve Bank now focuses on the risk profiles of the financial institutions. New indicators are still being developed to indicate the correct level of risk of each financial institution where the Reserve Bank can focus their supervisory attention.

Following the Asian Crisis, the Reserve Bank is ensuring that all licensed financial institutions adhere to the minimum guidelines issued by the Bank especially on classification of problem loans and provisioning. To ascertain that problem loans are classified appropriately, more onsite examinations have been undertaken and the financial institutions are required to submit additional details on their problem loans

## **12.0 Conclusion and Future Plan of Activities**

Early warning indicators of financial distress, at deposit-taking institutions, used in conjunction with professional judgement, should lead to early intervention and help reduce losses to depositors or governments. These indicators should signal areas of potential risks and problems and help focus monitoring efforts and intervention. However, the use of early warning indicators will not prevent failures or problems at institutions from occurring. Central banks must encourage, even pressure banks to develop sound business strategies, to put in place prudent policies that avoid over-concentration and excessive risk taking, and to operate with a strong control and procedure culture.

In developing and monitoring early warning indicators, it is important that we at the Reserve Bank of Fiji understand these indicators and its interpretations with regard to individual institutions and the financial system as a whole. The list should not be exhaustive and should be supplemented by other indicators, specific to areas of potential risks, types of deposit-taking institution, and relevant to the financial and regulatory environment. On-site examinations of financial institutions should be continuous to supplement the indicators but moreover to assist the Reserve Bank in arriving at a professional judgement on the state of an institution and/or the banking industry.

Economic data must also be studied well to see whether economic influences or short-term structural factors are causing developments in these indicators. If necessary, either influence will need a separate form of strategy to counter or minimise the (adverse) impacts arising from it.

Given that the early warning indicators comprised both macroeconomic and microprudential factors, it is essential that the Financial Institutions and Economics Departments work closely together in this area.

The RETA 5869 project has identified various indicators, which were not readily produced by RBF before. With the implementation of this project, these indicators will now be studied more acutely. This will provide the bank with more information and prepare it for making more informed and better decisions.

The RBF will continue to submit data to ADB under this project. This is expected to have several benefits for the Bank:

- Consistent with the Bank's view, RBF will be internationally regarded as a transparent institution and the country can easily be assessed for investment decisions. Economic players can make informed decisions which will protect the health of the economy and the financial system ;
- By comparing across various countries, Fiji's relative position can be assessed. This will allow RBF to formulate policies to stay on track for sustainable economic growth, without diverging from the norm, and
- RBF will be able to build on the expertise and skills under this project to gauge likeliness of financial crisis and to work towards avoiding it.

## **APPENDICES**

**APPENDIX 1: METADATA FOR RETA 5869: FIJI**

**APPENDIX 2: RESERVE BANK OF FIJI DISSEMIANTION OF INFORMATION**

<b>Publication</b>	<b>Timeliness</b>	<b>Frequency</b>	<b>Relevance</b>
News Review	Within 2 working days after month-end	Monthly	Contains a write-up on economic conditions; used widely by financial institutions, public and private organisations and general public as source of economic and financial information.
Chartbook and Statistical Annex	Within 2 working days after month-end	Monthly	Mostly for use by the commercial banks and parties interested in more comprehensive financial and economic information. These monthly updates compensate for the quarterly lag that exists for Quarterly Reviews.
Quarterly Review	5 weeks after end of quarter	Quarterly	Economic information on a broader perspective, detailing economic developments for the quarter.
Monetary Policy Statement	May and October	Bi-annual	Provides how/why monetary policy was conducted and the view of the bank on how it would be conducted for the next six months.
Annual Insurance Report	6 months after year-end	Annual	Contains information pertaining to operations of the insurance industry for the calendar year.
Annual Report	3 months after year-end	Annual	A report on the operations of the Reserve Bank of Fiji. Apart from domestic and international economic developments and outlook, monetary and financial statistics is included in the report.

**APPENDIX 2 (cont): RESERVE BANK OF FIJI DISSEMIANTION OF INFORMATION**

In addition the Banking Supervision Unit disseminates some Banking statistics to licensed financial institutions as outlined in the Table below.

<b>Data Disseminated</b>	<b>Timeliness</b>	<b>Frequency</b>	<b>Relevance</b>
<ul style="list-style-type: none"> <li>• Commercial Banks statement of Assets and Liabilities</li> <li>• Analysis of Deposits of Commercial Banks</li> <li>• Maturity structure of Commercial Banks time deposits</li> <li>• Classification of loans &amp; advances of Commercial Banks</li> <li>• Rates of interest on Commercial Banks loans &amp; advances by industrial classification</li> <li>• Rates of interest on Commercial Banks time and savings deposits</li> </ul>	4 days after receipt of the monthly returns	Monthly	To provide essential information relating to the activities of Commercial Banks and Credit Institutions. This would assist in developing strategies to compete in the market. The information relates to the level of funds and credit in the banking system.
<ul style="list-style-type: none"> <li>• Banks market share figures on loans and deposits</li> </ul>	4 days after receipt of the monthly returns	Monthly	For Commercial Banks to monitor their market share in the banking system