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Market vendor in Suva, Fiji.

PACIFIC FINANCE SECTOR BRIEFS

ADB PACIFIC LIAISON AND COORDINATION OFFICE

FIJI

Fiji has one of the most developed economies in the Pacific, with tourism as its main driver. Around 850,000 tourists visit Fiji each year. Although most come from Australia and New Zealand, tourist numbers from the People's Republic of China are growing strongly. Tourism generates about 40% of Fiji's foreign exchange.

Fiji has seen a shift in exports from agricultural commodities to manufactured goods. Sugar was historically the backbone of Fiji's economy, and the main source of growth through the 1970s. Although still a significant source of foreign exchange, the sugar industry has seen a long-term decline as a result of both global market factors and reduced farm and factory productivity. During the 1980s, garments became a key export. But with lower tariffs globally, the value of Fiji's preferential access arrangements with key markets has eroded, making it hard for Fijian manufacturers to compete with countries with lower-cost labor. Fiji has, however, been able to take advantage of a number of high-value niche markets; Fiji Water is now an internationally known brand, and exports of Pure Fiji cosmetics are increasing. There is also a strong export market to other Pacific island countries for Fiji-manufactured basic goods, particularly processed flour and snack products from FMF Foods and Punjas Biscuits.

More inclusive growth and improved service delivery would raise Fiji's longer-term growth potential, build resilience, and reduce vulnerability and poverty, but there are challenges to doing this. Fiji has enjoyed sustained economic growth for many years. Despite growth slowing somewhat as a result of substantial damage and losses sustained from Tropical Cyclone Winston in February 2016 (Table 1), gross domestic product (GDP) growth still averaged 3% per year in the period 2011–2017. The cyclone severely affected public infrastructure and pushed agriculture and forestry into recession. As of 2013–2014, 28% of the population were living below the national poverty line.

FIJI AT A GLANCE

Population
884,900 (2017)[a]

GDP (current $)
$5.47 billion (2018)[b]

GDP per capita
$6,142 (2018)[b]

GNI per capita
$4,970 (2017)[a]

Domestic credit provided by the banking sector (% of GDP)
120.9% (2017)[a]

Financial system assets (% of GDP)
175% (2018)

GDP = gross domestic product, GNI = gross national income.

[a] Source: Asian Development Bank. 2018. *Key Indicators for Asia and the Pacific.* Manila.

[b] Source: Asian Development Bank.

Table 1: Nominal Gross Domestic Product 2011–2017

	2011	2012	2013	2014	2015	2016	2017
GDP ($ million)	3,781.3	3,971.8	4,193.3	4,477.5	4,357.3	4,681.6	4,989.6
GDP growth (%)[a]	2.7	1.4	4.7	5.6	0.7	3.0	3.2
M2 ($ million)	2,428.6	2,584.8	3,045.5	3,279.1	3,368.3	3,552.9	
M2/GDP (%)	64.2	65.1	72.6	73.2	77.3	75.9	
Private sector credit ($ million)	2,851.8	3,050.4	3,140.3	3,521.2	3,687.0	4,171.6	4,594.1
Private sector credit/GDP (%)	75.4	76.8	74.9	78.6	84.6	89.1	92.1

GDP = gross domestic product, M2 = broad money.

Note: Figures were converted from Fijian dollars to United States dollars using the Asian Development Bank-recognized exchange rates for each year.

[a] Source: International Monetary Fund 2018.

Sources: Asian Development Bank and International Monetary Fund.

FINANCE SECTOR OVERVIEW

Fiji's finance sector is expanding, with private sector credit growing consistently. Through 2011–2017, private sector credit grew by an average of 8.3% per year equivalent to 82% of GDP (Table 1). This strong credit growth is partly due to accommodating monetary conditions offset by the Reserve Bank of Fiji (RBF), which kept policy rates at 0.5% since November 2011 (International Monetary Fund [IMF] 2016). Meanwhile, Fiji's economy is highly monetized: the average ratio of broad money (M2) to GDP is around 71.4% and is expected to continue to rise.

Expansion of the finance sector will entail an active role from the Government of Fiji. The IMF (2018) called for continuing financial sector reforms to be complemented by a more risk-based approach to banking supervision, macroprudential toolkit development, and the adoption of the new Credit Union Act. The IMF underscored the role of the RBF in actively monitoring banks' exposure to interest rate risks, monitoring and assessing systemic risk, and in supervising the lending activities of nonbank financial institutions.

The government has taken steps to broaden and deepen financial inclusion, including through the creation of the National Financial Inclusion Taskforce (NFIT) in 2010 to lead, coordinate, facilitate, and monitor financial inclusion initiatives in Fiji. The NFIT recently implemented the Financial Inclusion Strategy 2016–2020, which followed on from the Financial Inclusion Strategy 2010–2014. Both strategies were designed to address financial exclusion by: expanding account ownership and account use, increasing the range and enhancing the quality of financial services and products, supporting innovation through the creation of an enabling regulatory environment, continuing financial literacy programs, and promoting the development of the micro-, small-, and medium-sized enterprises sector.

Although the banking sector is more competitive in Fiji than most of the Asian Development Bank's other Pacific developing member countries (DMCs), financial access remains limited. The NFIT and the RBF found that more than a third of Fiji's adult population did not have access to formal financial services, with the highest levels of exclusion being among women, youth, and those living in rural areas.

FINANCE SECTOR STRUCTURE

Six commercial banks,[1] one locally owned and five foreign-incorporated, operate in Fiji. The finance sector also features insurance companies, credit institutions, foreign exchange dealers, and the Fiji Development Bank (Table 2). It has one provident fund that provides pension services to its members. Fiji is one of two Pacific DMCs with a stock exchange, the other being Papua New Guinea. The RBF is the central monetary authority and primary regulator of financial institutions in the country.

Table 2: Financial System of Fiji

Type of Institution	Number
Commercial banks	6
Credit institutions	4
Insurance companies	9
Insurance brokers	4
Provident fund	1
Foreign exchange dealers	11
Stock exchange	1
Stockbrokers	3
Unit trusts	2
Corporate investment advisers	7
Other financial institutions	1
Total	**49**

Source: Reserve Bank of Fiji.

1 A seventh bank, Asset Management Bank, is licensed but, as it does not operate like a regular commercial bank, it is not included.

Table 3: Financial System Assets 2011–2018 ($ million)

	2011	2012	2013	2014	2015	2016	2017[a]	2018
Regulated financial entities								
Commercial banks	2,767.6	3,010.6	3,381.5	3,852.4	4,137.1	4,301.4	4,553.1	4,761.1
Credit institutions	250.3	282.7	296.7	133.3	159.5	212.0	240.1	301.9
Insurance companies	583.2	677.1	710.3	712.7	691.0	750.7	756.5	805.8
Fiji National Provident Fund	2,277.7	2,365.9	2,457.1	2,564.0	2,497.1	2,629.7	2,713.0	3,130.3
Insurance brokers	19.0	22.9	33.7	29.1	26.2	23.4	23.7	25.0
Capital markets[b]			79.9	94.7	100.0	112.9	115.0	155.8
Total	**5,897.8**	**6,359.2**	**6,959.2**	**7,386.2**	**7,611.0**	**8,030.1**	**8,401.4**	**9,179.8**
Non-regulated financial entities								
Non-bank financial institutions[c]	346.9	354.7	362.0	347.5	365.4	370.9	381.0	359.6
Total assets	**6,244.7**	**6,714.0**	**7,321.3**	**7,733.7**	**7,976.3**	**8,401.1**	**8,782.5**	**9,539.4**

Note: Figures were converted using Asian Development Bank's 2017 exchange rate.
[a] Fiji changed its fiscal year to 1 August–31 July.
[b] Includes Unit Trusts, South Pacific Stock Exchange, and stock brokers.
[c] Includes Fijian Development Bank, Housing Authority, and Asset Management Bank.
Source: Reserve Bank of Fiji.

Table 4: Finance Sector Performance Indicators

	2011	2012	2013	2014	2015	2016	2017
NPL ratio (%)	3.9	4.2	2.7	2.2	1.4	2.3	2.4
Deposits ($ million)	891.4	927.9	1,667.4	1,700.3	1,739.6	1,802.6	2,092.3
Private sector credit ($ million)	2,193.1	2,332.1	2,477.3	2,785.0	2,862.6	3,247.1	3,583.0
Deposit rate (%)	3.7	2.4	2.1	1.9	2.5	2.8	3.3
Lending rate (%)	7.5	7.0	6.1	5.8	5.8	5.9	5.7

NPL = nonperforming loans.
Note: Figures were converted using Asian Development Bank's 2017 exchange rate.
Source: International Monetary Fund.

Fiji's finance sector has grown steadily since before the turn of the century. The sector's assets expanded by an average of 5.9% per year during 2011–2017, reaching $8.8 billion in 2017 (Table 3). Commercial banks remain the biggest component of Fiji's finance sector, representing, on average, 51% of the sector's total assets during 2011–2017, while the provident fund represents the second largest share, averaging 34.8% of total assets. Insurance-related companies and credit institutions have the smallest share of the sector.

Like in other Pacific DMCs, most banks in Fiji are foreign-owned. ANZ Banking Group, Bank of Baroda, Bank of South Pacific, Bred Bank, and Westpac are foreign banks operating in Fiji while Home Finance Company[2] is locally owned. The assets of commercial banks grew at an average of 8.7% per year during 2011–2017, reaching $4.76 billion in 2018.

Fiji has a small capital market, which includes an equity market, a unit trust market, and a bond market. The bond market, which is mostly composed of government debt instruments, accounts for 58.7% of Fiji's capital market, followed by the equity market at 36.3% and the unit trust market at 4.8%. Fiji's South Pacific Stock Exchange, which was established in 1979, had 20 listed companies and a market capitalization of $3.07 billion at the end of 2018 (South Pacific Stock Exchange 2018). The industries of companies listed include insurance, manufacturing, wholesale, retail, forestry, telecommunication and media, automotive, investment, and banking.

FINANCE SECTOR PERFORMANCE AND INCLUSION

Growth in the amount of private sector credit has been aided by declining lending rates. From a high of 7.5% in 2011, lending rates in Fiji have been on a decline, falling to 5.7% in 2017 (Table 4). Meanwhile, the quality of lending in Fiji has been generally stable, with the nonperforming loan ratio consistently below 5% from 2011–2017.

2 Trading as HFC Bank.

Table 5: Financial Access Indicators

Access Indicators	2011	2012	2013	2014	2015	2016	2017
Number of bank branches	63	60	64	71	72	70	70
Number of ATMs	224	227	259	281	292	326	325
Number of deposit accounts with commercial banks	663,457	654,420	701,453	797,124	883,288	996,966	
Number of loan accounts with commercial banks	75,992	78,039	87,624	97,523	113,118	119,764	

Sources: Reserve Bank of Fiji and International Monetary Fund.

Deposits grew during 2011–2017. Excluding 2013, when a reclassification of what constituted a deposit account saw the value of deposits jump,[3] bank deposits have increased by an average of 5.6% per year over 2012–2017.

Although both deposits and loans are growing, many Fijians remain financially excluded. Data from 2015 showed that 27% of adult Fijians did not have access to any financial services, and more than a third were excluded from the formal finance sector, with exclusion more prevalent among women, youth, and rural inhabitants (RBF 2015). Since most financial access points are clustered around urban centers, it is difficult for those living outside urban areas, such as agriculture workers with irregular incomes, to visit formal financial institutions.

Use of credit is low and many Fijians still prefer to save outside the formal sector. In a survey conducted by RBF, only 32% of the respondents took a loan the previous year compared to 37.7% of people in similar countries (NFIT and RBF 2015). Most Fijians rely on informal sources of credit, in particular family, friends, and storekeepers. According to Fiji's 2014 National Demand Side Survey, 60% of Fijians have a bank account, but only 38% of those use their accounts for savings, with more than half of those who have accounts still keeping their savings at home.

Most Fijians do not have insurance and do not know what it is. Although the insurance industry grew by an average of 8.1% per year during 2011–2017 (RBF 2018), only around 12% of Fiji's population have some form of insurance (NFIT and RBF 2015). Most of those covered are formally employed and reside in urban areas. Aside from geographical constraints, another significant factor to low insurance coverage is financial literacy; the RBF survey found 25% of the respondents who did not have insurance did not know what insurance is, and 40% said they have no need for it (NFIT and RBF 2015).

Fiji has a pension fund, but less than half of the adult population is actively using it. The Fiji National Provident Fund (FNPF) is Fiji's largest financial institution, accounting for 32.8% of the finance sector's total assets in 2018. FNPF is a defined benefit superannuation fund. It is legally mandated to collect compulsory contributions, from both employees and employers, for the retirement savings of all Fijian workers. However, only 44% of adult Fijians were considered to have active[4] memberships with the FNPF in 2018.

CHALLENGES IN THE FINANCE SECTOR

To assist the 36% of adult Fijians who are excluded from the formal finance sector, the government intends to focus on seven key areas: (i) women, youth, and persons with disability; (ii) financial infrastructure; (iii) digital financial services; (iv) affordable and accessible services and products; (v) financial literacy and consumer protection; (vi) collaboration/partnership between the private and public sector; and (vii) better and credible data.

The government's Financial Inclusion Strategic Plan 2016–2020's stated intention is to "increase the formally served adult population from 64% to 85% (by 130,000 adults), of which at least 50% are women." It states that it will financially empower women, youth, and persons with disability through initiatives that will improve access to, and the quality of, financial services and products. The government will also provide training on financial competency, focused around specific financial products people in these groups need.

Fiji's financial infrastructure needs to be developed and strengthened to improve financial inclusion. The first step is to review and modernize Fiji's regulatory framework to ensure it adequately supports Fiji's financial structure and enables the strengthening of relevant institutions. A modernized regulatory framework would also help enhance the range of financial services and products on offer by strengthening existing financial service providers, while also promoting competition through the entry of new providers. Bringing international best practices to the human resource and capacity training needs of financial service providers is also necessary for institutional strengthening.

[3] In 2013, the Reserve Bank of Fiji revised the definition of savings deposits to "exclude deposits transferable by cheque, draft, direct debit/credit, automatic teller machine, internet banking, or other direct payment facilities. As a result, some savings deposits were reclassified as demand deposits."

[4] Active members are those who have contributed at least once within the past year.

A more inclusive finance sector requires financial services to be more relevant, affordable, and accessible. Collaboration between the private and public sectors will help link up products and channels for delivery of crucial financial services, including insurance, informal sector retirement savings, and credit to micro, small, and medium-sized enterprises. A successful example of this is the Fiji Care bundled microinsurance product, which covers approximately 13% of the population. The product is supported by the Government of Fiji, which extended the policy to all civil servants and welfare recipients. With many Fijians geographically isolated, it is also important to develop a digital financial ecosystem that will enhance the use of digital financial services.

Increasing access to financial services also entails enhancing and expanding financial literacy as well as consumer protection initiatives. One approach to the former is to strengthen and embed financial education in the curriculum of teacher training at the tertiary level. This may involve the development of a curriculum that covers entrepreneurial skills development. Regarding the latter, there is a need to ensure that market conduct measures and consumer protection mechanisms are effective to encourage the participation of more people in the finance sector.

Finally, better data-gathering techniques, such as ensuring the collection of disaggregated data on the finance sector, will enable proper measurement of the outcomes of financial inclusion initiatives. To gather more, better, and credible data, collaboration and engagement should be pursued with relevant stakeholders on data sharing. Additionally, the existing data measurement framework should be regularly reviewed to ensure its relevance.

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