

Savenaca Narube: Brief overview of the Fiji economy and monetary policy

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the official opening of the Westpac Branch, Port Denarau, 3 September 2007.

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Mr. John Cashmore, Westpac Fiji Chief Manager
Distinguished Guests
Ladies and Gentlemen

Introductory remarks

Good Evening

I am pleased to be here at Port Denarau today for the opening of Westpac's newest branch.

Over the past two years, I have attended a few of Westpac's functions. In October last year, I participated in Westpac's launch of the MoneyGram Worldwide Money Transfer Service with MH Supermarkets. In April, this year, I was also at their launching of the Westpac American Express Credit Card.

I also take this opportunity to congratulate Westpac for its 106 years of service to Fiji – the exact date was 12 August 2007. Westpac is considered Fiji's longest continuing bank. We can see that Westpac has played a valuable role in advancing Fiji's financial system and also its economic development.

Westpac Port Denarau

I am sure that the decision by John and his Westpac team to open a branch in Port Denarau was an easy one to make. The growth and the development in Denarau have been impressive. It makes good business sense to establish a bank branch in Denarau.

This branch is an extension to Westpac's existing facilities in this area – that is a bureau de change and ATMS – at Sheraton Fiji and Westin. I have been informed that this is a fully fledged branch service which also includes a business centre complete with an interview room and a separate business teller's area.

This branch will cater for businesses, Denarau Island residents, local and international visitors and workers of the surrounding island resorts. I am sure that your customers appreciate your presence here – right at their door step.

The new Port Denarau branch is Westpac's 18th branch in Fiji. I have been told that Westpac intends to increase their representation in Fiji. This definitely reflects Westpac's confidence in the country.

As we can see, this branch has a modern look and feel. It has a telephone and internet banking kiosk in-branch for customers who wish to access such services.

This branch is manned by 6 employees and a Customer Service Manager. There will be regular visits from Westpac Corporate, Business and Personal Banking Managers for investment, business and personal loan services.

Real Time Gross Payment System

Technological advancements have assisted in the modernization of our financial system. I must say that Fiji is not too far behind the rest of the world in terms of financial technology and innovation. There is internet banking, telephone banking, ATMS and so on and these services have provided customers easier and faster access to financial services from the comforts of our homes and offices. Westpac has been at the forefront of this innovation. I note that Westpac was the first bank to introduce telephone banking back in 1999.

In modernizing Fiji's financial system, I am pleased to inform you that Fiji's real time automated payments system is now operational. Fiji is the first country in the South Pacific to have such a state of the art payment system. We had a soft launch on 30 August and the system is working well. The system will facilitate faster clearance of cheques amongst banks. This was an important project that has spanned over five years and required a lot of collaboration with commercial banks. I take this opportunity to thank the banks for their cooperation, support and guidance. I am confident that this payment system will be the springboard to other modernisation of the financial system.

The Fiji economy

Let me turn to the economy.

We have released our revised economic projections with a larger economic decline of 3.1 percent this year compared to 2.5 percent expected earlier. All economic indicators support this new forecast.

There are some downside risks to this forecast. These include lower than expected tourist arrivals. What happens to tourism industry has considerable flow on effect to the wholesale & retail trade; hotels & restaurants; and transport & communication sectors. The other risks to this projection are the possible rise in oil prices and of course the weather. On balance however, I think that it is very unlikely that the economic contraction will be worse than what we have announced.

Monetary policy

Let me say a few words on monetary policy.

As you know, we have imposed a ceiling on loans by commercial banks. However, we are allowing banks to exceed this ceiling only for lending to priority areas. This arrangement is working well for us. Since the credit ceiling was imposed in December last year, the Reserve Bank has approved over \$156 million of loans above the credit ceiling. Most if not all of this increase is to the priority areas which we have agreed with commercial banks. This includes lending towards investment and to the micro, small and medium sized enterprises.

The growth in credit is slowing down from around 25 percent annual growth prior to the credit ceiling to about 12 percent now. Imports have declined by 7 percent in the first six months of the year. Exports have shown some encouraging signs. Foreign reserves have stabilized and have even risen lately.

But we are not out of the woods yet – far from it. While exports have increased by 7 percent in the first six months of the year, this was mainly from seasonality in the receipts of sugar export proceeds. We are still expecting exports to decline in 2007. We should therefore re-energize our export drive. It is always far superior to drive the economy through exports rather than what we are doing now in pulling back import demand in order to protect our balance of payments.

With the credit ceiling in place, we have allowed liquidity to build up. This has led to a reduction in lending rates. I expect the high liquidity to remain for some time. The lower

interest rates should support the restoration of economic growth. We expect the economy to grow by around 2 percent next year on the back of growth in the tourism industry. But this growth does not include any mining of gold. The major risks to this projection is the delay in the restructuring of the sugar industry

We are reviewing these economic and monetary conditions on an ongoing basis. The credit ceiling will be lifted as soon as conditions allow us to do so. These enabling conditions hinges on our external financial stability.

You may recall that we had announced earlier this year our intention to reduce the local borrowing allowed by non-resident companies and individuals beginning from next year. We have received many feedbacks on this exchange control policy. As a result, we have reviewed this policy. We acknowledge that some companies may face difficulty in borrowing money from abroad. We have also taken into account that foreign reserves have stabilized. The Board of the Reserve Bank has agreed to the following changes:

- That the requirement that non-resident companies refinance 50 percent of their local borrowing has been dropped;
- The local borrowing by non-resident companies will be governed by the gearing ratio which will depend on the proportion of their local equity. I believe that this will be more transparent and easier to administer.

We will announce details of these changes shortly. I am of the view that these changes meet the concerns that were raised on this policy but at the same time adequately addressing our balance of payments situation. The new policy will still become effective at the beginning of next year.

I must acknowledge the cooperation and support of the commercial banks in the implementation of our monetary policy particularly at these difficult times.

Coin review

I would also like to announce that following the introduction of our new Bank Notes this year, we are now reviewing Fiji's coin structure. We are of the opinion that there is merit in modernizing Fiji's coins and we need to introduce coins that are convenient to handle and cheaper to produce with significant cost savings to the nation. We have conducted a nationwide survey and the views of the public are being considered. This project will take about a year to complete.

Concluding remarks

Finally, I would like to thank Mr. Cashmore for inviting me here this evening. Westpac has played a prominent role in Fiji's economic development through its services, innovative products and towards introducing the latest banking technology.

I congratulate you, John, and your Team on the opening of your 18th branch in Fiji. I wish the Westpac Team all the best in its future endeavours.

Official opening

I now have much pleasure in declaring this Port Denarau branch of Westpac open.

Thank you.