

Savenaca Narube: Financial innovation and monetary policy in Fiji

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, Westpac American Express® Credit Cards Launch, Suva, 17 April 2007.

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Ms. Jane Kittel, Westpac Pacific Banking General Manager

Ms. Ng Siew Choo, Vice President and Regional Head, Global Network Services, American Express, JAPA

Mr. John Cashmore, Westpac Fiji Chief Manager

Distinguished Guests

Ladies and Gentlemen

Introductory remarks

Good evening.

I am pleased to participate in launching the Westpac American Express® Credit Cards. I also participated in the launching of Westpac's MoneyGram® Worldwide Money Transfer Service in October 2006. A lot has happened since then. This evening, we are celebrating the new partnership between Westpac and American Express. I congratulate Westpac and American Express on this initiative and wish you all the best with this new facility.

Westpac American Express® Credit Cards

Fiji has had a long association with Westpac. It was established in 1901 as the Bank of New South Wales and is the first Australian bank to open a branch in Fiji on 12 August 1901. Westpac is considered as Fiji's longest continuing bank. It was the first bank to introduce telephone banking in Fiji. No doubt, Westpac has played a valuable role in advancing Fiji's financial system and its economic development.

I am told that in April 2006, Westpac Pacific Banking signed an independent Operator Agreement with American Express (Amex). This agreement gives Westpac exclusive license to issue local currency credit cards in the seven locations in the Pacific including Fiji. Fiji dollar credit cards will be issued in Fiji. The other Pacific Island countries where Westpac will be launching the same cards are Vanuatu, Cook Islands, Solomon Islands, Papua New Guinea, Samoa and Tonga.

This agreement also means that Westpac will be the acquirer for Amex local merchants in the seven locations in the Pacific. In Fiji, all Amex transactions will be done through Westpac's systems including transactions made on other banks' EFTPOS and ATMs.

I understand that this product is in response to demand by customers who have made known many times that they need a Fiji dollar credit card. This new Fiji dollar Amex credit card will give Westpac customers a competitive edge against those of other banks that offer Fiji dollar credit cards.

Financial innovation

The Reserve Bank always welcomes the introduction of new financial products into the market. These products add to the services that are available to the customers. I must say that the Fiji has seen many of these products coming on stream in the last ten years. Very quickly we have seen the introduction of ATMs, phone banking, internet banking and other services. I must acknowledge that Westpac has been at the forefront of bringing these new technology and products to Fiji which have helped modernise our financial system.

Later on this year we will launch a new real time gross settlement system which will make the clearance of cheques between commercial banks more efficient.

New currency notes

Let me briefly mention our new currency notes. We put into circulation the new currency notes last Tuesday. They have been well received by the people. The visually impaired welcomed the different lengths of notes so they can easily identify the denomination. There were comments on the difficulty of getting to change the \$100 note. These were the same comments that we got when we introduced the \$50 bill some 13 years ago. Let me say, that even prior to the issue of the new \$100 bill, taxi drivers and market vendors have difficulty breaking even a \$20 bill and that is not in Fiji only. The solution is simple. We do what we have been doing all along – make sure that we have smaller change before getting into a cab or going to the market. The \$100 and the \$50 bills are obviously not meant for small transactions. They make large transactions much easier.

I thank the commercial banks for their support and cooperation in the smooth distribution of Fiji's new design currency notes.

Monetary policy

Let me say something on the economy and monetary policy. We all know that the economy is going through a very difficult time. It is extremely important that everyone understand two things. First, we need to clearly understand the real state of our economy. Only then can we appreciate the urgent need to execute adequate and lasting solutions to these problems. Tinkering at the margin will not work for us any longer. Second, we should also appreciate that the solutions that will last are not without costs. There will always be a cost to correcting economic imbalances particularly of the magnitude that Fiji is facing.

To me the key economic challenge that we face is to correct our widening trade imbalance. Our exports continue to be dismal. Sugar is earning \$100 million less than its peak year. Garment has lost even more than that. Gold production has now disappeared and that's another \$60 million. Tourism numbers and yields have now dropped. Oil price remains at around US\$60 a barrel. The trade deficit continues to widen.

It is therefore essential that the Reserve Bank do all it can to safeguard the external financial position of Fiji. Since May 2004, we had progressively raised interest rate and tightened liquidity. We had also highlighted back then the need to lift our exports. Unfortunately, exports have yet to respond. In fact, with gold production and the sugar reform uncertain, there is still no light in the tunnel.

We have tightened monetary policies progressively. Some say that we should have moved more aggressively at the start. I do not agree with this view. Introducing harsher measures at the beginning would have discouraged growth which was the last thing we need. It would have been an over kill. It makes more sense to tighten progressively and as much as possible allow room for investment and the economy to grow.

In December last year, we had to introduce a ceiling on private sector credit. We also reduced the delegated limits given to foreign exchange dealers on selected overseas transactions. Recently, we announced changes to borrowing guidelines for non-residents individuals and companies.

There have been some concerns on higher interest rates particularly from individual borrowers and investors. We understand these concerns. But again we ask that you appreciate the seriousness of our financial situation. When things are tough, we must safeguard the bigger picture. We cannot be reactionary. If we do not take care of the bigger picture, the smaller picture will suffer even a lot more than what we are facing now. There are lessons from around the world that we should heed.

When we compare the interest rates in Fiji with countries like Australia and New Zealand as well as some of our Pacific Island neighbors it clearly reveals that they are relatively low in Fiji. For example the lending rate in New Zealand is 12.25 percent, in Papua New Guinea 10.7 percent and Samoa 11 percent. This compares with 9.34 percent in Fiji. While these are the weighted average lending rates and the rates will obviously differ for individual borrowers they are the best gauge of the general level of interest rate between countries.

This comparison of interest rates throws up two interesting observations. First, all the countries that I have mentioned are performing better than Fiji including Samoa and Papua New Guinea. Yet their lending rates are higher than us. It implies that there are other factors that are important for investment and growth than interest rates alone. Second and perhaps more pertinent, these countries do not face the degree of economic challenges that we currently face in Fiji. For instance, Papua New Guinea and

Samoa have better levels of foreign reserves in months of imports than Fiji has. Yet their lending rates are higher.

I wish to take this opportunity to thank the commercial banks for their understanding and support in our effort to address the economic challenges before us.

With the credit ceiling in place, the Reserve Bank has allowed liquidity to rise. Liquidity has risen by over \$50 million since February this year. In addition, we are reducing the statutory reserve deposits by one percentage point from 1st of May which should pump an additional \$29 million into the system. This should take liquidity to a very comfortable level.

We are already seeing the impact of this easier liquidity on wholesale deposit rates which have fallen sharply to 5 percent from around 15 percent late last year. With this liquidity condition, one would expect commercial banks and other lending institutions to pass this lower cost of funds through to lending rates. And here I must congratulate Westpac for taking the lead and reducing its lending rates. Lower rates will help support growth and investment in this difficult time.

In support of investment and growth, the Reserve Bank now considers commercial banks' lending to investment, small and medium size businesses and to exporters to be outside the credit ceiling. Since December last year, the Reserve Bank has approved over \$70 million of loans above the credit ceiling.

Economic projection

As you know, we project that the economy will fall by 2.5 percent this year. There are some important factors that will determine the final outcome. First, what happens to tourism is important. There are mixed signals coming from this important industry. The latest visitor arrival figure shows a decline of around 7 percent in January compared to January the previous year. A survey we conducted recently of a few major hotels show a low occupancy rate of around 30 percent and not much higher going into their forward booking.

The second factor is gold. The current forecast does not include any gold production. But with the change in ownership of the Vatukoula mine, we hear that production may commence in June.

The third factor is the possible industrial action by the trade unions. It appears to me that all trade unions are seeking strike mandates. I hope that the situation is amicably settled. The fourth is the uncertainty in the European Union's support for the important sugar industry reform. We all hope that the discussion in Brussels this week is fruitful for Fiji. Lastly, the effects of the recent floods on sugar and other agricultural products will worsen the economic decline projected for this year but their impact is still being assessed.

Looking ahead, for 2008 the economy is expected to rebound by 2 percent. A similar growth rate is expected for 2009. This is encouraging. But we obviously need to grow faster perhaps toward the five percent mark. We can achieve this. We do not lack the potential. But to realise those potential we need to prepare the ground now by accelerating reforms. Some progress has been made. But it is now time to re-energise our resolve to address these long standing issues – like sugar, land lease, public enterprise, public service and resource based industries. If we take action now, we can look forward to a better economic performance than what we currently projecting.

Concluding remarks

Finally, I would like to thank Mr. Cashmore for inviting me here today. I congratulate Westpac and American Express on this joint initiative and wish you both every success.

Official launching

I have much pleasure in launching the Westpac American Express® Credit Card.

Thank you.