

Savenaca Narube: A brief overview of developments in Fiji's financial system and economy

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the official opening of Bank of South Pacific Limited's new Nadi office, Nadi, 19 February 2008.

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Your Excellency, the Papua New Guinea High Commissioner to Fiji, Mr. Peter Eafeare;
Mr Garth McIlwain, Managing Director, Bank of South Pacific;
Mr Kevin McCarthy, General Manager, Branch Network;
Mr. Greg Watson, General Manager, BSP Fiji;
Distinguished Guests;
Ladies and Gentlemen:

Introductory remarks

Good morning to you all.

It seems just like a few months ago when I had the pleasure to welcome Bank of South Pacific into Fiji at their Renwick Road branch in Suva. I remember that opening very well. It is not often that you are offered a full bowl of kava first thing on a Monday morning. But I remember that occasion well because of what was happening in the country at that time. The Military had taken over government only two weeks before that. The situation in Suva was still tense and no one was really sure what was going to unfold. It was therefore remarkable that BSP made the decision to open its first branch irrespective of what was happening in Fiji. It was a bold but right decision.

It clearly reflects three things.

First, BSP likes to have their official openings in the morning. I have been to many openings of bank branches and agencies. I believe that they were all in the evenings. Somehow, morning works for BSP. Perhaps morning openings signal the new dawn or the new beginning. So, I am pleased to be here in this new dawn to open BSP's first Western branch here on Main Street in the jet-set town of Nadi.

Secondly and on a serious note, this expansion after only one year of setting up shop in Fiji clearly signals BSP's commitment to the country. They have made their intentions clear. They are obviously here to stay. They have a long term view of their presence in Fiji. And I warmly welcome that and congratulate them on their commitment and determination. It's a Vision that we can all embrace. Nothing much is gained from being short term. Visions are realised with courage and by looking far beyond the horizon.

Thirdly, this expansion reflects BSP's continuing confidence in the economic fortunes of this country. We are faced with many challenges at this time. Of course, we must do all we can to overcome them. And I am optimistic that we will. I firmly believe that Fiji has a huge potential and this sentiment has been echoed by many visitors to our country. Just last Wednesday, the CEO of ANZ, Mr. Mike Smith echoed the same view. But unfortunately, we are drifting far behind our potential. It is really up to us in this generation today to rally behind a common Vision and work together to realise that potential. And that common vision should be to build a prosperous economy. Mike Smith also said to me last week that prosperity solves many problems. When a country is prosperous, the differences and the problems seem to melt away.

Greg has been talking to me about this opening for quite some time. I am sure that Greg would not mind me saying that. Obviously, there had been hurdles in opening this Nadi office. I was also told that even this opening was in jeopardy, when just two weeks ago, rain

from Cyclone Gene threatened to flood this building. This kind of situation is somewhat similar to when they set foot on Fiji. So BSP has taught us that universal lesson: **“Where there is a will there is a way”**. They have demonstrated to us that they have the will. It seems to me that when the going gets tough, BSP opens a new office!

Bank South Pacific

In its short presence in Fiji, BSP has clearly demonstrated to us that they will not be content at where they are in the market place. They are serious of becoming a major player. They are steadily expanding their customer base. I know that this is not easy to achieve in normal times but more so at a time when a credit ceiling is in place and the economy is struggling. And I think that they deserve our applause and full support. The entry of another serious player into the banking system will level the playing field a lot more and should be good news for us the customers.

I am also pleased of BSP’s support of the Reserve Bank’s policies. In these difficult times we have had to introduce policies that we would not have done in normal times. These include the credit ceiling, tighter exchange controls and very high levels of liquidity. I know that these policies complicate commercial banking operations. I am however glad to see that BSP has taken all that in its stride. They have wasted no time in integrating fully into all aspects of the banking market in Fiji. I was particularly pleased to see how readily BSP embraced the FIJICLEAR payment system even though they were the newest boy on the block. They are also not holding back on introducing new banking technology. BSP is in the process of installing two ATMs in Suva and another two have been installed here at this branch.

It is also extremely encouraging to see a regional bank like BSP making waves in Fiji. We all know that BSP is a strong regional bank with a history going back as far as 1957. BSP is listed on the Port Moresby Stock Exchange and is the largest bank in Papua New Guinea. BSP is expanding its regional footprint with one branch in Niue, one in the Solomon Islands and now two in Fiji. From the Reserve Bank’s viewpoint, well-established and well-capitalised banks like BSP provide greater choice, competition and innovation in the Fiji market. That is a good thing for business and the public, and is therefore good for Fiji.

Every business seems to be heading down the Queens Highway to Nadi. It was a matter of time before BSP took to the highway. It makes good business sense. Nadi town is an excellent location. The town will continue to grow feeding off its tourism base.

Banking industry

Let me say a few more words about the banking sector in Fiji. We have 5 commercial banks right now. Over the years, the number has hovered around this level – it has gone up and come down. Some banks have come and left for one reason or another. Fortunately, their departures have been handled smoothly. Unfortunately, we had to restructure one bank but again that complex operation was well managed. All in all, I believe that our banking system has matured in the last ten years. With that maturity has come greater stability and soundness. And that augurs well for the economy.

And talking about the economy, it appears from some of the comments in the media that many of us do not fully grasp the contribution that the financial system makes to the economy. In 2006, the banking sector in Fiji employed over 1,500 people (and rising) and contributed close to \$40 million in taxes. Clearly, this is a serious and important business sector for Fiji. The banking sector plays a key role in the economic development of this country.

I am sure if you ask BSP, they would tell you that banking business here is hard, not easy. Competition is there. Market share is aggressively contested and hard to secure. Investment is a major input, and advanced technology is a key feature (and expense) of the business.

Fees and charges

Much has also been said about fees and charges. I do not need to defend commercial banks. I, myself sometime wonder the basis of the fees that my bank charges me. What we have not done in the Reserve Bank is to try to regulate fees and charges simply because we do not have the legal authority. But even if we do, we would still need to assess very thoroughly the flow-on implications of such a control on the efficiency of intermediation and other related areas of the commercial banking.

What we have done at the Reserve Bank and will continue to do is to ensure that these fees are clearly disclosed to customers and there are no surprises.

FIJICLEAR

I am glad to say here this morning that our new electronic payment system called **FIJICLEAR** is working well and the number of transactions going through it rising. I would encourage businesses to use this system whenever they can because it is very efficient. You get your funds the same day. The charges levied by commercial banks on using **FIJICLEAR** are obviously critical in promoting its usage. We are therefore monitoring closely the charges that banks are imposing on the use of **FIJICLEAR** and we plan to engage them on this issue in the near future.

Ombudsman and Financial Services Commission

Finally on the financial system, we are working with the Ministry of Finance on implementing Cabinet's decision to establish a Financial Services Ombudsman Scheme and Financial Services Commission. Some of the issues that we will need to consider are the need to clearly identify their roles, their independence, their funding, the key regulatory processes and their structure. Overall, given the small size of the market, I think that it is also important that we ensure that any new agencies will be effective and will make the best use of their resources. In this regard, we will need to learn from our past experiences and from other countries. Moreover, consultations with banks and other financial institutions will be necessary.

The Fiji economy

Let me now turn to the economy. The Fiji economy is provisionally estimated to have declined by 4 percent in 2007. Visitor arrivals dropped by only 1 percent much lower than the 8 percent that we had projected and this is encouraging. However, tourism earnings were lower not only as a result of lower tourist arrivals but more so of the discounts offered by hotels and the reduction in the length of stay. Most other economic sectors declined in 2007. There was a small growth in exports while imports in the January to November period of 2007 declined due to the depressed state of the economy and the restrictive policies that we had put in place.

Foreign reserves

Foreign reserves increased in the second half of 2007 rising to 4.3 months of imports at the end of the year and this is encouraging. However, the major reasons for this performance were the decline in the economy particularly in investment and the credit ceiling which has slowed down credit considerably. We still need to do a whole lot more to get our exports increasing at a respectable rate. But unfortunately we are still not doing enough at this time on this important front. Our balance of payments will continue to come under pressure. Time is clearly not on our side. We must move immediately.

In 2008, the economy is expected to grow by 2.2 percent. But that was before Cyclone Gene. We are still evaluating the impact of the cyclone and flooding on the economy. But based on past natural disasters, we can expect a reduction in the modest growth rate projected for 2008 unless there are other offsetting developments. This obviously would frustrate our efforts to restore growth this year.

There is also a real fear that the world economy will enter a recession or even a depression this year. The impact of the sub prime loan in the US is spreading into Europe and is coming down to Asia. How these global developments impact Fiji will depend on how they affect our major markets. Tourism numbers and remittances may be affected. There is also the possible impact of the movements in exchange rate.

Inflation

Inflation is becoming a bit of a worry. Inflation jumped to over 7 percent at the end of last month – the highest since 1998. This was due to the higher oil prices, some increase in duties from the national budget and some disruptions in local supply of vegetables. Furthermore, the disruptions in supply of market items caused by Cyclone Gene are bound to push inflation higher in the next few months. We are therefore revising our inflation projection for the end of this year. We are caught in what economist term “stagflation” where the Fiji economy has declined but inflation is rising. It’s not a good place to be. However, in our view, the fundamental causes of this flare up in inflation should be temporary.

The future path of oil prices will largely determine inflation in the medium term. So if oil prices stay where they are now (and I hope they do), inflation should track back down to a moderate level before year end. What we should firmly avoid though is the vicious cycle of inflation to wages and in turn more inflation. If this happens, prices will permanently rise without any real improvements to the economy – purchasing power will decline, asset prices will erode, investment will suffer and growth will be even more difficult to achieve.

How does one formulate monetary policy at a time like this when the economy is struggling to get up after a sizeable decline, inflation is rising and foreign reserves is still under pressure? If you were in our shoes, what would you do? Wherever you turn, there will be conflict of objectives. You can therefore understand our dilemma. But the Reserve Bank’s mandate is clear and that is inflation and foreign reserves come first and growth later. If we cannot safeguard the first two, growth will virtually be impossible. We are now reviewing our entire monetary policy package which will take into account this difficult balancing act.

Remittances

Let me talk about remittances for a minute. Remittances have generated a lot of interest in Fiji recently. They had shot up since 2001 to a peak of \$320 million in 2006 to become the second biggest foreign exchange earner next to tourism. But last year they declined by about 20 percent. We have identified four possible reasons for this big drop. First, the number of our security personnel in the Middle East has tumbled significantly. Second, families that were receiving remittances may have also migrated. Thirdly, due to high transaction costs, many are resorting to sending money through the mail and friends and these are not captured in the official statistics. Lastly, the exchange rate may also be a contributing factor as the US dollar has weakened against the Fiji dollar. All these reasons however may still not fully account for the \$64 million drop in remittances last year. There may be other technical reasons which we are examining.

The Reserve Bank would really like to see lower remittances charges. These charges do not appear to reflect the actual cost of remitting funds. The sender pays a lot of these charges which ultimately result in the receiver getting less Fiji dollars. And then at some outlets here in Fiji, the receiver gets slammed by another receiving charge. In some cases, the charges amount to 50 percent of the amount sent. Comparison of the charges

internationally shows that it cost US\$10 to send money from the US to Philippines but cost US\$30 to send the same money to the Pacific. In my view, there is no basis of these high charges. We are in the process of collecting information on these charges and we intend to publish them for general information. We are also exploring alternative ways of sending money to Fiji at a more reasonable charge. We are also keen to mount an awareness program to educate our people that are leaving for work overseas and also the Fiji communities abroad on cheaper ways to send money to Fiji.

Conclusion

Let me end by getting back to the business at hand.

It is always pleasing to witness another branch of a bank opening for business in Fiji. It is an impressive achievement for BSP to open a second branch in Nadi today after opening their first branch in Suva in December 2006. I congratulate Greg and the BSP Team on the opening of the Nadi branch and wish them all the best in their future endeavours.

I would like to thank Greg for his kind invitation today.

Official opening

I now have much pleasure in declaring this Nadi branch of Bank South Pacific open.

Thank you.