

Barry Whiteside: The credit institutions sector and the Fijian economy

Address by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the launch of Merchant Finance Limited's new name and products, Suva, 3 March 2016.

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The Chairman and Board Members of Merchant Finance Limited

The Chief Executive Officer, Management and Staff of Merchant Finance Limited

Invited Guests

Ladies and Gentlemen

Introductory comments

Bula Vinaka and a very good evening to you all.

This is the second address that I am making this week in regard to developments taking place in our financial services industry. On Monday we had a major Fijian company add their name to the list on the South Pacific Stock Exchange, and today we have Merchant Finance Limited launching a suite of innovative products which have been designed to assist our small and medium enterprises.

I offer both companies my warm congratulations for these spots of bright news which have come during a period of great sadness for all Fijians – a time when we are still grieving our loss of life and counting the deadly costs of TC Winston.

I thank Mr Batimala for his kind invitation to officiate this evening, in both the launching of your new company name, Merchant Finance Limited, and with it, the suite of new products.

Indeed the occasion is one to celebrate for an institution that has continued to strategise its way into the mainstream lending market, servicing a niche sector that directly contributes to the driving of economic activity in our country.

The launching today is also a testament to the confidence of our financial institutions as they continue, like Merchant Finance Limited, to evolve and develop products that specifically meet the needs of a developing market.

Indeed the Board and senior management must be acknowledged for the strategic direction and for rising to the challenge to design and offer products to fit the requirements of their customers. This clearly aligns to your mission of ***“providing innovative solutions that exceed your customers’ expectations.”***

The credit institutions sector

Ladies and Gentlemen, in a developing country like ours, the banking industry (which comprises commercial banks and credit institutions) is crucial in supporting and sustaining economic growth. It plays the vital intermediary role of mobilising the savings of our people for the purpose of lending to productive investments.

Credit institutions in Fiji, like Merchant Finance Limited, have typically operated on a smaller scale when compared to the banks and are relevant to customers in specific sectors – motor vehicles and other transportation equipment and machinery easily come to mind. Their scope of business has tended to be higher risk than the traditional banks and their cost of funds has also been higher. They have to work hard to keep their customers over the longer term as many tend to graduate to the banks as they become more successful. Indeed competition across the whole banking system has noticeably stepped up in the last five years and customer

allegiance is almost a thing of the past. No doubt each bank and credit institution is now being judged by its level of service.

Despite the intense competition, I think it is fair to say that our credit institutions have persevered in their niche areas and continue to perform well, backed by strong capital positions and satisfactory earnings performances. The combined balance sheet of the credit institutions recorded an annual growth of 33 percent over 2015, to reach \$335million, with Merchant Finance Limited contributing almost half. At the end of last year, combined credit institutions' net profit before tax stood at \$18 million with capital and reserves growing 13 percent to \$72 million.

Merchant finance limited

Please allow me to share a brief history of Merchant Finance Limited.

Officially established in 1986 as the Merchant Bank of Fiji, this institution initially operated as a finance company and since it did not take deposits from the public it did not come under the supervision of the Reserve Bank. This all changed in 1992 when we granted the company a licence to operate as a credit institution, enabling it to access public deposits. In 2002 the Merchant Bank of Fiji changed its name to Merchant Finance & Investment Limited. Further approval was granted in late 2014 to make another name change. This is the name we are actually launching tonight – Merchant Finance Limited.

So this year Merchant Finance Limited actually enters its 24th year of serving the people of Fiji as a licensed credit institution. The company has grown significantly, with an asset book of \$21 million in 1992 to a publically reported \$134 million in June 2015. The profitability of the institution has also increased over the years noting an 'all time high' of just over \$8 million in its last financial year.

Ladies and Gentlemen, as the supervisor of the banking industry, the Reserve Bank closely observes the relationships of our licensed financial institutions with the other sectors of the economy. As I alluded to earlier, credit institutions like Merchant Finance Limited play the unique yet important role of servicing customers and sectors which the banks may consider as high-risk.

It is pleasing to see that Merchant Finance Limited's reach as a lender has extended to many key sectors in the economy, such as transport & storage, building & construction, and the agriculture sector. Most notable, however, is its dominant role in servicing private individuals' financing needs for taxis, mini-buses, carriers, tour operators and rental cars-- your typical small and medium business enterprises. These areas often cover the highest risk and are completely reliant on the successful management of the particular business.

While risk management is at the forefront of ensuring the soundness of a financial institution, the competitive market in which credit institutions operate calls for continuous innovation in designing products that will be successful.

The potential for increased trade by Fijian entrepreneurs has long been identified and the four trade finance facilities that will be launched by Merchant Finance Limited this evening will complement similar trade finance facilities currently offered by other financial institutions. Perhaps more importantly however, they are specifically designed for small and medium enterprises (SMEs), and small farmers.

I do not wish to delve into the features of these new products as we will shortly be provided with all the details, but I can congratulate Merchant Finance on its product development initiative and thank the company for its continued commitment to better service and innovation.

The Fijian economy

Ladies and Gentlemen, it is somewhat of a tradition on these occasions that I say a few words on our economy. I think it is particularly pertinent at this time in view of what has been happening around us. So please bear with me.

I did mention earlier this week at the Vision Investments Limited listing that it is still too early to come up with firm numbers on the damage caused by TC Winston and that we were still assessing the impact on our projected growth numbers. Before the event, the Fijian economy was forecast to grow 3.5 percent this year, and possibly even a little better.

What I can now say is that while we expect a number lower than 3.5 percent, it is certainly not all doom and gloom. It is still early in the year and we are hopeful that many of our sectors will be able to bounce back quickly if given the right support.

Clearly we have seen through pictures and the media that enormous damage was done to our informal sector private dwellings, mainly in villages that were in the path of the storm, and these will take time to rebuild. Our agriculture sector has also been severely impacted and will need special attention in order to recover. This includes our sugar industry.

Thankfully, in terms of the business sector which drives much of our economic activity, we have noted that the main core of our tourism industry operations, as well as key manufacturing and production centers, and our main commercial areas, have been spared.

There are of course exceptions in one or two areas, but overall, losses may not be very large. Full restoration of electricity supply will naturally be an important element for our industries to bounce back strongly, as will be the public relations campaigns overseas to ensure our potential foreign visitors get the correct message that our tourism sector is already up and running.

It has been extremely pleasing to see our Fiji Electricity Authority playing a key role in working around the clock to give us power. In fact many areas have already been reconnected. We have also seen how our tourism industry has been very proactive, along with Government, in doing whatever is necessary to keep the visitor arrivals momentum going.

Given these positives, I would expect that our key manufacturing and service sectors should continue to support our growth in the short to medium term.

In regard to the Reserve Bank's key objectives, it is likely that we will see some fall in foreign reserves as our domestic exports, including sugar and other agricultural products are impacted and as our importation of reconstruction hardware and other related items rise.

However there will be some offsetting positives in terms of foreign aid and assistance inflows which have already begun to flow in through in-kind grants and even raised levels of remittances from our families abroad. While our reserves levels are currently very comfortable, any signs of sustained pressure on them will be addressed through appropriate measures, including accessing special funding from the International Monetary Fund, which has already indicated its willingness to assist.

On the inflation front, we will likely see a rise in the prices of domestic produce over the next three to six months on account of reduced supply, but this should ease in the second half of the year as supply improves. The timing will depend on how fast our farmers are able to rejuvenate their farms. They will need much assistance with seed material and I very happy to see this has already been activated by our Government with the support of a number of local and foreign agencies.

Also on the positive side, the sustained low oil prices should help cushion the cost of recovery for those affected.

Dear friends there has been so much activity around us in support of our people who have and are still suffering the effects of TC Winston. Some areas, such as housing, will take time to fully recover. But I am confident that the Government is doing all it can, with great assistance

from locals and our foreign friends alike. The assistance coming through is unprecedented and the resilience of our people is without question, but we must continue to all work together to quickly rebuild our nation.

Official launch

Ladies and Gentlemen, I reiterate that it is a pleasure to be with you this evening to celebrate with Merchant Finance Limited. I congratulate the Board, management and staff on this evening's event.

Without further ado, I have much pleasure in officially launching the company's new name "Merchant Finance Limited" and its four new trade finance products:

- Trade Finance Local;
- Trade Finance Import;
- Trade Finance Export; and
- Agri Trade Finance.

I wish Merchant Finance Limited every success for the future.

Vinaka Vakalevu and have an enjoyable evening.