RESERVE BANK OF FIJI

Monetary Policy Statement
November 2006

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1.0 Executive Summary

Economic growth since 2001 has averaged 2.6 percent reaching a peak of 5.3 percent in 2004. While the Fiji economy posted the fifth consecutive year of growth in 2005, the rate of growth has slowed. Our projections are for a pick up in economic growth this year, and for modest growth over the next three years.

To safeguard the objectives of monetary policy, the Reserve Bank tightened monetary policy during the first half of the year. As such the policy indicator rate was raised by 1 percentage point in February and again in June this year. In addition, effective 8 May 2006, the Reserve Bank raised the statutory reserve deposit ratio from 5 to 7 percent. As a result, liquidity in the financial system has declined, interest rates have risen noticeably and domestic credit has begun to moderate. Furthermore, the Bank has recently reviewed its lending rates and rediscount facility, which became effective from 16 October 2006.

Notwithstanding the forecast modest pick up in economic activity in 2006, the twin objectives of monetary policy remain intact. At the end of September, inflation was 2.8 percent, while foreign reserves at $817 million, were sufficient to cover 3.4 months of imports of goods.

The Reserve Bank will continue to be vigilant and will respond appropriately to any risks to economic prospects. The course of monetary policy in the coming months will be determined by the Bank's assessment of the implications of new developments and information as regards to medium-term prospects for price stability and the sustainability of Fiji's external position.

2.0 Monetary Policy Discussions

2.1 Monetary Policy Issues

Economic growth is expected to pick up this year, with Real Gross Domestic Product (GDP) growth anticipated at 3.6 percent for 2006. This is a substantial improvement compared to the provisional estimate of around 0.7 percent growth in 2005. The community, social & personal services; building & construction and transport & communication sectors are expected to drive growth this year.

More recent information on domestic activity and finance suggests that conditions may have strengthened further over recent months. Employment posted strong gains in September, and business surveys have continued to report above-average trading conditions for the economy. Business investment is also resilient, as depicted by the total value of capital works put-in-place by the private sector. While rising fuel costs may be having a dampening effect on spending, the rise in net Value Added Tax (VAT) collections, higher incomes and strong credit growth, coupled with growing employment, continues to underpin household spending and reflect robust business and consumer confidence.

Sources of finance, in particular domestic credit, while showing signs of slowdown, still remain high. Loans by commercial banks continued to register double-digit growth in the third quarter of this year, however, with slightly lower growth rates noted in the key economic sectors. This reflects largely the effect of the Reserve Bank's monetary policy tightening measures.

Government's fiscal stance continued to be expansionary into the first six months of 2006, with the forecast annual underlying fiscal deficit estimated at 4.0 percent of GDP.

Despite the strong economic conditions prevailing internationally, Fiji's export performance has been disappointing. Recent trade data continue to show declining export revenues. The value of imports, however, has been increasing at a faster pace, partly reflecting the large increase in world oil prices. Combined, these conditions have resulted in worsening trade deficits.

Monetary policy deliberations have had to contend with a range of uncertainties affecting the medium-term outlook. These include the performance of exports, the growth in domestic credit, poor performance of major sectors/industries, the stance of fiscal policy and the trend in global crude oil prices. On balance, with inflation well contained, the primary focus of monetary policy will remain on safeguarding Fiji's external position.

2.2 Monetary Policy Stance

The Reserve Bank's monetary policy stance remained on a tightening bias since the interest rate hike in February 2006. The official Policy Indicator Rate (PIR) was further raised by 1 percentage point to 4.25 percent in June. In addition, the Bank more recently in October, reviewed the interest rates at which commercial banks are allowed to borrow from the Reserve Bank to meet liquidity needs, as well as, reviewed its rediscount facility. However, the Reserve Bank kept the official PIR unchanged at 4.25 percent.

The progressive contractionary monetary policy measures taken over the first six months of the year have already exhibited the expected changes in interest rates. At the same time, there is some sign of a slowing, albeit small, in commercial banks' credit growth. It is expected that there will be a further slowdown in overall lending into next year, as debtors and creditors adjust their borrowing and lending portfolios and decisions, in line with the higher interest rates.

While the effects of the recent measures by the Reserve Bank of Fiji are slowing filtering through the economy, sustaining Fiji's external position in the medium-term will remain a policy focus. Prospects on the external front are exacerbated by the depressed outlook on export earnings and the sustained growth in imports. Additionally, the surge in international crude oil prices, arising from strong global demand and geo-political concerns in oil producing countries, is fuelling our imports bill. In light of this and moreover to safeguard our monetary policy objectives, prospects for growth in resource-based exports should be assisted by the substantial investment in these sectors accompanied with initiatives to suppress imports demand. Such actions are principally aimed at facilitating a sustainable platform, with exports driving growth.

Looking ahead, the Reserve Bank will continue to monitor developments and make policy adjustments accordingly, to ensure a sustainable platform for growth and more importantly implement policies consistent with the achievement of its monetary policy objectives of maintaining low inflation and an adequate level of foreign reserves.

3.0 Developments and Expectations

3.1 International Developments

The global economic expansion was buoyant in the first half of 2006, with economic activity in most regions exceeding expectations. A strong performance from the US economy, expansions in the Euro Zone and Japan, and the impressive growth performance of emerging markets have driven global activity. Accordingly, the International Monetary Fund expects the global economy to expand by 5.1 percent in 2006. On the downside, the persisting high crude oil prices continue to pose a risk to world economic growth.

The US economy made a strong start with an expansion of 1.4 percent in the first quarter of 2006. However, growth decelerated significantly into the second quarter to 0.6 percent, as enterprises and consumers cut back on expenditure, and business investment slowed. Nevertheless, consumer and business sentiment is expected to improve significantly into the latter half of the year, with the economy forecast to grow by 3.4 percent in 2006. In response to inflationary pressures from the persistently high crude oil prices, the Federal Reserve raised its policy indicator rate eight times in 2005 and three times so far this year. However, the US Federal Reserve maintained the benchmark interest rate unchanged at 5.25 percent in October, amidst a slowing housing market and weak jobs data.

Australian economic growth moderated to 0.3 percent in the second quarter of 2006, after a growth of 0.7 percent in the first quarter. This resulted from a slowdown in consumer spending and depletion of stockpiles by companies. However, the economy is still expected to grow by 3.1 percent in 2006 compared with a growth of 2.5 percent last year, as investment is expected to strengthen in response to capacity constraints and high world commodity prices. The Reserve Bank of Australia (RBA) has increased its benchmark interest rate twice this year, to restrain inflationary pressures. However, the benchmark interest rate was left unchanged at 6.0 percent in October.

New Zealand's economy expanded by around 0.5 percent in the second quarter of 2006, a marginal slowdown from the 0.7 percent growth seen in the first quarter, led by weak consumption. Consequently, growth is expected to slow to 1.3 percent this year, after a 2.3 percent increase in 2005. On recent indicators, business confidence fell to a five-month low in August amid speculation the rising cost of imported gasoline and machinery will cause inflation and reduce profits. On the other hand, it is expected that the near record-low jobless rate and rising wages will support consumer spending. The Reserve Bank of New Zealand (RBNZ) kept its interest rate at a high of 7.25 percent in October 2006, unchanged since December 2005, as rising oil prices continue to fuel inflationary pressures.

Japan's economic growth slowed from 0.5 percent in the first quarter to a more subdued 0.3 percent in the second quarter led by weaker external demand. For this year, Japan's economy is forecast to grow by 2.7 percent, higher than the 2.6 percent growth in 2005. A rise in consumer sentiment together with improved business investment prospects is expected to drive Japan's economy. The Bank of Japan finally ended its zero interest rate policy by raising its key interest rate to 0.25 percent in July, and has kept it at that level as at October.

The Euro zone economy expanded by 0.9 percent in the second quarter, compared with the first-quarter growth of 0.8 percent. The economy is expected to expand by 2.4 percent this year, compared with an expansion of 1.3 percent in 2005. The recovery in growth is attributed to strong global demand, with an increasing contribution from business investment. The European Central Bank (ECB) increased its key interest rate by 25 basis points to 3.25 percent in October, on inflationary concerns.

Crude oil prices are currently trending downwards. As at 10 October 2006, crude oil prices have significantly dropped to US$59 per barrel. This is compared to the historical high of US$79 reached in early August. The unexpected increase in US gasoline stockpiles, coupled with the subsiding concerns of geo-political tensions in the Middle-East (a key factor underpinning earlier substantial volatility in oil prices) has eased some of the upward pressure on oil prices evident over the previous months. Looking ahead, international crude oil prices are anticipated to remain around US$60 per barrel, on concerns of strong global demand.

Gold prices are also mirroring the trend in crude oil prices. So far in October, gold prices have treaded below US$600 per fine ounce. This compares with prices averaging above US$600 per fine ounce for most of this year, with a historical high of US$660 per fine ounce reached in May. The declining energy costs together with the strengthening US dollar have reduced the appeal of the precious metal as a hedge against inflation.[1]

[1] Record oil prices and speculation of a weak US dollar initially had prompted investors to buy bullion as a hedge against inflation. Prices also rose after geo-political uncertainty fuelled demand for the precious metal as a safe-haven investment.

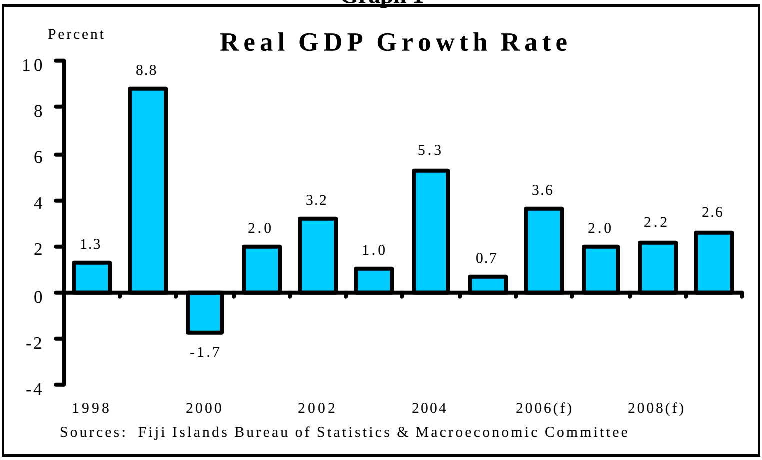
World market sugar prices despite being buoyant for much of this year, have also followed the fate of the other two major commodities (crude oil and gold), with prices plummeting in the second half of the year. Prices increased significantly in the first three months of the year, peaking at a historical high of US19.3 cents per pound in January. This was largely driven by concerns of supply-side shortages in the world market. However, prices have been dipping since the second quarter of 2006, reaching to around US11.5 cents per pound in October, on concerns that supply may outstrip demand.

3.2 Domestic Economic Conditions

In 2005, the domestic economy is provisionally estimated to have expanded by 0.7 percent (Graph 1). Growth last year was largely underpinned by positive performances in the finance, insurance, real estate & business services; building & construction; transport & communication; community, social & personal services; agriculture, forestry, fisheries & subsistence and electricity & water sectors. The positive performances in these sectors more than offset contractions in the mining & quarrying; manufacturing (particularly in the garment industry) and wholesale & retail trade and hotels & restaurants sectors.

For 2006, economic growth is anticipated to be around 3.6 percent with major impetus stemming from the community, social & personal services; building & construction; transport & communication and agriculture, forestry, fisheries & subsistence sectors. Other sectors also expected to contribute positively towards this year's growth are the finance, insurance, real estate & business services, wholesale & retail trade and hotels & restaurants; electricity & water and manufacturing. The mining & quarrying sector and the garment industry are expected to continue to contract this year.

Graph 1



The economy is projected to expand by around 2.0 percent and 2.2 percent, respectively in 2007 and 2008. The growth in 2007, in particular is anticipated to be led by the good performance in the transport & communication; finance, insurance, real estate & business services; manufacturing; and agriculture, forestry, fishing & subsistence sectors. The same sectors are forecast to be the main drivers of growth in 2008 as well. As for 2009, the economy is envisaged to grow by 2.6 percent.

Sectoral Development

For 2006, the economy is on track to achieve the 3.6 percent growth forecast. Anecdotal evidence and partial indicators continue to support the evidence of resilient domestic demand and strong consumer confidence. Domestic cash VAT collections, a partial indicator of consumer spending, amounted to around $157 million in the year to August, an annualised increase of 12 percent. In line with firm consumption patterns, household income also continues to remain upbeat. Cumulative to August, Pay As You Earn collections, a partial indicator of income, also rose by around 17 percent.

Investment has also been growing steadily. According to the June Quarter Building and Construction Survey[2] report released by the Fiji Islands Bureau of Statistics (FIBOS), the total value of capital work put-in-place by

[2] The survey covers all private sector enterprises engaged in construction work for the private sector or for Government.

the private sector rose significantly by around 38 percent, to $125 million. Public sector projects also recorded an annual increase of 19 percent, to $31 million. It is anticipated that investment will be around 18 percent of GDP this year, up from the 17 percent anticipated earlier.

On a sectoral basis, performances remain mixed. The tourism industry is expected to continue with its growth momentum this year. For 2006, a total of 576,000 visitors are envisaged to visit Fiji, a rise of 4.7 percent over the visitor numbers estimated to have arrived last year. The opening of new resorts is anticipated to increase room inventory to facilitate the increasing number of tourists.

On the contrary, cumulative to September, cane production declined by 5.9 percent over the corresponding level in 2005. Similarly, approximately 199,000 tonnes of sugar was produced during the review period, a decline of 8.6 percent. The performance of the gold industry also remains weak. In the year to August, approximately 29,000 ounces of gold was produced, a decline of 53 percent on an annual basis. Output in the garment industry has also been subdued. Cumulative to March, the value of total garments produced amounted to around $11 million, a 56 percent deterioration over the corresponding 2005 level. The outlook for the garment industry is projected to remain bleak next year.

3.3 Balance of Payments

The overall Balance of Payments (BOP) in the second quarter of 2006[3] recorded a deficit of $146 million, underpinned by a widening of the current account deficit, compared with the previous quarter. The capital and financial accounts, however, improved over the quarter.

The current account deficit for the second quarter of 2006 was $373.7 million, following a deficit of $310.7 million in the previous quarter. The wider current account deficit was due to a larger trade and income account deficit, which more than offset the relatively higher surpluses in the services and current transfers accounts.

The capital account in the June quarter of 2006 recorded a deficit of $2.2 million, after a deficit of $8.6m in the March quarter. The lower deficit was due to a slowdown in capital transfers outflows with declines in migrant transfers and non-residents transfer of funds upon departure from Fiji. The

[3] The actual BOP data released by the FIBOS is up to quarter 2, 2006.

financial account (excluding Reserves Assets) recorded a surplus of $254 million, compared to a deficit of $109.6 million in the previous quarter, resulting from an increase in 'other' investment into Fiji.

According to the FIBOS Trade Release (August), merchandise export earnings over the first eight months of the year rose by around 1.5 percent, compared with a growth of around 8.3 percent in the same period in 2005. The marginal increase in receipts was due to higher proceeds from sugar, fish, mineral water, fruits & vegetables, coconut oil, yaqona and re-exports. The increase in receipts from these sectors offset lower earnings from garments, gold, timber, molasses, footwear, textiles and other domestic exports.

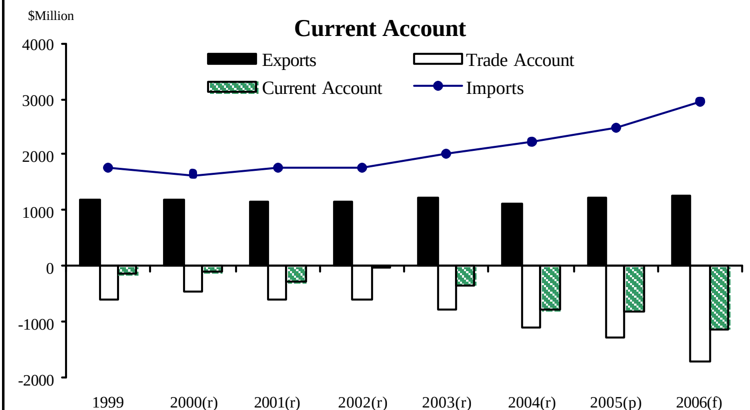
Merchandise imports, on the other hand, rose by a significant 20.1 percent, compared with an 11.1 percent increase in the same period in 2005. Import payments for all three categories: intermediate, investment and consumption type goods rose. For intermediate goods, the increase was largely due to higher mineral fuel payments, reflective of the rising international oil prices. Crude material imports also rose. The increase in investment type goods was driven by machinery & transport equipment and chemicals, while food and manufactured goods underpinned the increased payments for consumption goods. Mineral fuel imports are a significant contributor to Fijis' rising imports payments. For the first eight months of this year, mineral fuel payments accounted for around 33 percent of total imports.

For 2006, compared to forecasts earlier in the year, the growth in exports has been revised downwards, while imports growth has been revised upwards.

Exports (excluding aircraft) are projected to expand by 2.8 percent in 2006, compared to the previous forecast of 6.6 percent growth. The anticipated slowdown is driven by lower growth than previously expected (in earnings) from sugar, fish, mineral water, re-exports and declines in earnings from garments, gold, and timber. Imports (excluding aircraft) are projected to grow by 19.7 percent this year, revised upwards from the previous growth projection of 17.5 percent. This increase in imports growth is anticipated to be led by higher payments for mineral fuels, manufactured goods, food and crude materials.

The current account deficit is expected to increase in 2006 (Graph 2) to 22.8 percent of GDP (from a deficit of 20.5 percent of GDP expected previously). This widening of the current account deficit reflects higher trade and investment income imbalances, which are expected to more than offset the higher services and current transfers surpluses, and is to some extent a result of the large errors and omissions of around $542 million (11 percent of GDP), which shows uncategorized inflows. The capital account is anticipated to improve to a deficit of $15.7 million as a result of a reduction in forecast capital transfers outflows. The financial account (excluding Reserves Assets) is forecast to record a higher surplus of $584.2 million. This improvement stems from the increase in portfolio investment, due to Fiji government bond proceeds raised offshore in September this year. Consequently, the overall balance of payment deficit is projected to improve from the previous forecast of 3.6 percent of GDP to 0.1 percent of GDP.

Graph 2



Sources: Fiji Islands Bureau of Statistics & Macroeconomic Committee

The widening current account imbalance continues to put increasing pressure on our foreign reserves. The surpluses on the services and current transfers accounts, to some extent, cushion the impact of the significant trade imbalance. However, their combined surpluses are not sufficient, thus exerting pressure on the foreign reserves level. Gross foreign reserves at the end of September 2006 was $817 million, sufficient to cover 3.4 months of imports of goods.

There is an urgent need to lift export levels. The garment and sugar sectors, our major commodity foreign currency earners are facing challenges, given the erosion of preferential market access. Other traditional exports such as timber, fish, gold, agricultural products, amongst others are still performing below potential. As such, necessary reforms are needed to assist these sectors.

3.4 Fiscal Operations of the Government

The Cabinet has approved that $58.3 million be re-deployed from the existing 2006 budget to meet extra budgetary demands for the current year. Of this, $51.8 million is expected to be used to pay for the Cost of Living Adjustment (COLA) to civil servants.

In addition, as per the Strategic Policy Statement[4], it is anticipated that the 2007 budget strategy will propose a fiscal framework that ensures that Government continues on the path of fiscal consolidation in the medium term, 2007 – 2009. According to the Statement, Government has set a deficit target of 2.0 percent of GDP for 2007, which it intends to progressively reduce to 1.5 percent of GDP in 2008 and to 1.0 percent of GDP in 2009.

The underlying focus of Government's fiscal policy over the medium term is to reduce deficits and constrain the growth in levels of Government debt, whilst supporting investment, exports (growth) and essential services. Government projects its debt to rise from 52.2 percent of GDP this year to 52.8 percent of GDP in 2007 before falling to 50.3 percent in 2008.

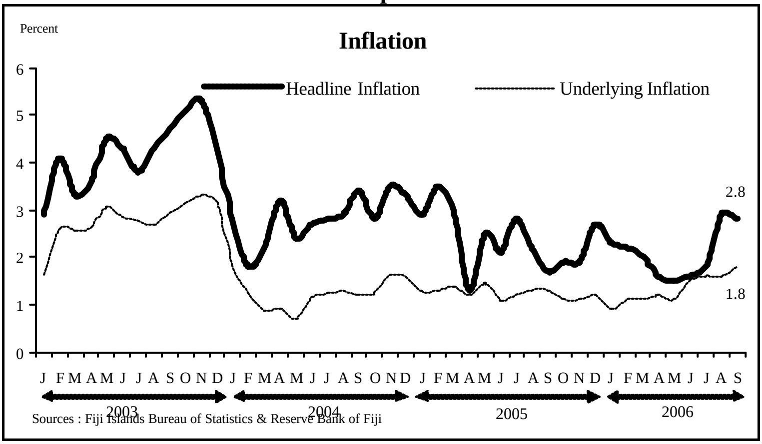
Furthermore, Government carried out its first ever bond issue in the international capital market. The issue size was US$150m and the tenor was 5 years. The bonds were priced with a coupon rate of 6.875 percent. The proceeds of the issue will be used to meet the Government's 2007 budget deficit requirements and, in particular, to finance its capital projects.

3.5 Inflation

Inflation is beginning to exhibit some upward pressures in the third quarter of the year. In September 2006, inflation stood at 2.8 percent (Graph 3), from 2.9 percent in August. The trimmed mean, an underlying measure of inflation, rose to 1.8 percent in September, compared to 1.6 percent in August.

[4] This represents a framework to guide decisions on budget priorities so as to ensure that Budget aligns with Government's medium-term policies and fiscal targets.

Graph 3



Looking ahead, inflation is expected to gather momentum given the recent price developments affecting consumer prices. The increase in prices of flour/sharps and domestic fuel, coupled with the electricity fuel surcharge are expected to exert further inflationary pressures in the approaching months. Nevertheless, domestic employment and wage growth may not exert any immediate pressures since they are generally aligned with the economic growth forecasts for the year.

On the external front, imported prices are likely to rise given the higher trading partner inflation forecast of 3.2 percent compared to the earlier projection of 2.9 percent. The upward revision in the forecast is largely due to persistently higher and volatile global crude oil prices which are currently hovering above the US$60 per barrel mark.[5] The anticipated upward pressures emanating from the external environment, as well as the downward pressures expected to result from the Reserve Bank's policy tightenings have been considered and incorporated, to the extent possible, into the year-end inflation forecast. Furthermore, the tightening measures taken by the Reserve Bank this year are anticipated to impact on domestic demand and eventually inflation. Weighing these, the year-end inflation projection remains unchanged at 3.5 percent.

In the medium term, inflation is expected to pick up on expectations that crude oil prices will remain high and that the recently approved electricity surcharge may spark second round price increases in other industries.

[5] Based on the Brent crude oil futures price.

Therefore, 2007 inflation is projected at 4.0 percent. However, in 2008, consumer prices are anticipated to ease to 3.5 percent. This is on the backdrop of weaker global economic growth, lower trading partner inflation and expectations of stability in the international energy market. Nevertheless, the following potential risks to the above inflation forecasts remain:

Externally:

- Unanticipated increase/decrease in international crude oil prices;
- Adverse currency movements; and
- Any other adverse external shock such as natural disasters.

Domestically:
The current forecast does not include the possibility of other factors influencing the inflation rate in the future. These factors include:

- Natural disasters;
- Extreme one-off price shocks;
- Changes in import duties and tax rates;
- Larger than expected COLA increments to the civil service[6]; and
- Revision of the CPI basket based on the 2002 Household Income & Expenditure Survey.

3.6 Monetary and Financial Market Developments

The Broad Monetary Aggregate

Monetary dynamics remained buoyant during the second half of 2006. Annual money supply growth increased to 19 percent in the second quarter of 2006, compared to 16 percent in the first quarter. In September, annual money supply growth slowed to 15 percent, revealing a pattern of moderation. The sustained solid expansion in money supply reflects the lucrative level of interest rates offered particularly on time deposits, hence

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[6] The Confederation of Public Sector Unions and the government reached an agreement to pay 4 percent COLA to civil servants for each of the years from 2004-2007. This assumes that the civil service may get a total of 12 percent salary increase this year (3% COLA arrears in February, 3% arrears of Galanchini Awards in June, 2% merit based for 2004 in August and 4% COLA for 2005 in December). As per the inflation model, the inflationary impact of this increment is expected to be felt in 2007. The current forecast already incorporates a 12 percent increase in civil servants' salaries this year. All other things held constant, the additional 4 percent COLA for 2006 would be paid out next year. Nevertheless, the inflation forecast for 2007 and 2008 remains at 4.0 percent and 3.5 percent, respectively.

the strong growth in time deposits. Further support is provided by the growth in credit to the private sector.

Components of Money Supply

Growth in narrow money aggregates slowed during the second half of 2006. The average annual decline in narrow money was around 4 percent during the July – September period, after an average growth of 6 percent in the second quarter of 2006.

The downward trend was driven by significantly lower growth rates of its two key components. The annual decline in demand deposits averaged around 7 percent in the third quarter, after an average growth of 5 percent in the second quarter. There has been a clear shift in preferences towards time deposits. Currency in circulation also grew weakly during the review period.

The increasing money supply reflects largely the stronger accumulation of term deposits, (ranging from less than a month to over 36 months) other than savings deposits, in an environment of rising interest rates by financial institutions. Time deposit rates have been on the rise reflecting the series of interest rate hikes by the Reserve Bank. The annual growth of time deposits rose to 61 percent in September, after recording 57 percent and 26 percent growth in June and March, respectively.

The sectoral breakdown of time deposits reveals a broad-based accumulation of deposits across the private money-holding sector. Both private sector business enterprises as well as private individuals remained the main contributors to the strong growth of time deposits over recent months. At the end of September, the combined sub sectors accounted for 53 percent of total time deposits in the financial system. Further impetus is derived from statutory bodies, which accounted for 44 percent of total time deposits during the same period.

Determinants of Money Supply

On the demand side, total domestic credit recorded a growth of 27 percent in September, after growth rates of 29 percent and 30 percent in June and March, respectively. This moderation in the annual growth rate of credit reflects slowdown in the annual growth of credit to the private and the government sectors compared with previous quarters, while credit to official entities increased further.

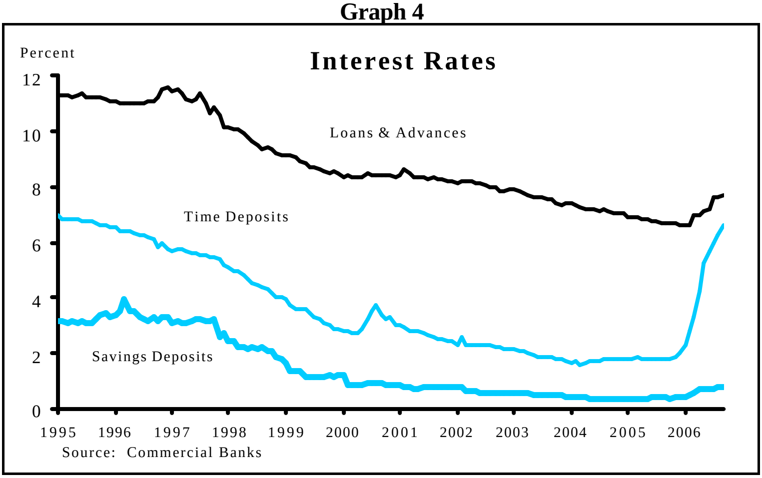
In September, the annual growth rate of credit to the private sector eased further to 28 percent, from 30 percent and 29 percent in the second and first quarters, respectively. The recent decline in the growth of credit to the private sector mirrors divergent developments in the components of credit, with slowdown in commercial bank lending to private individuals and major sectors such as wholesale & retail, manufacturing, real estate, and building & construction. Personal loans, notably loans for housing purposes, grew by 26 percent in September, continuing the downward trend since the March quarter. Looking ahead, credit levels are anticipated to slow further as a result of the interest rate increases.

The annual growth rate of credit to government also slowed to 33 percent in September, from 43 percent and 56 percent in the second and first quarters, respectively.

Interest Rates

Market interest rates continued to rise into the second half of the year. At the end of September, the commercial banks' weighted average lending rate was 7.69 percent, an increase of 52 basis points and 75 basis points, compared to 7.17 percent and 6.94 percent at the end of June and March, respectively (Graph 4). During the same period, the savings and time deposit rates were 0.80 and 6.63 percent, respectively, higher than the previous quarter's levels. Interest rates offered by credit institutions on new loans and on deposit products also increased during this period.

Graph 4



In line with interest rate developments in the banking sector, interest rates also rose in the money and capital markets. At the end of September, the yield on 91 Day T-Bills rose to around 9.33 percent, 93 basis points higher than the rate recorded in August and 183 basis points higher over the second quarter.

The weighted average yields on Government bonds continued to increase in September. The 3, 10 and 15 year bonds recorded yields of 8.80 percent, 9.60 percent and 10.45 percent, respectively.

3.7 Exchange Rates

Bilateral movements in the exchange rates reveal that during the month of September, the Fiji dollar generally strengthened against the Yen, Australian dollars and Euro, while the local currency weakened against the New Zealand and US dollars.

On our measure of competitiveness, in nominal effective terms – as measured against the currencies of Fiji's five major trading partners – the Fiji dollar continued to strengthen in September above its average level in the second quarter.

With regard to indicators of international price competitiveness of the domestic economy, in September 2006, the Real Effective Exchange Rate (REER) Index of the Fiji dollar was 0.1 percent below the June level, based on developments in consumer prices.

4.0 Fiji: Key Economic and Financial Indicators

INDICATOR ($m)	2002	2003	2004	2005	September-06
Broad Money Supply	1582.5	1980.5	2185.7	2513.8	2805.6
Domestic Credit	1391.7	1662.9	1871.2	2368.7	2808.3
Private Sector Credit	1136.1	1326.4	1565.8	1949.3	2307.4
Net Credit to Government	158.0	236.4	178.1	277.5	342.9
Net Foreign Assets	617.1	897.7	1010.1	753.0	741.3
INTEREST RATES (%)					
RBF Policy Indicator Rate	1.25	1.25	1.75	2.25	4.25
Lending rate	7.89	7.39	7.03	6.63	7.69
Savings Deposit Rate	0.57	0.45	0.36	0.40	0.80
Time Deposit Rate	2.17	1.70	1.77	2.03	6.63
New Lending Rate	8.94	7.92	6.91	6.62	9.99
New Deposit Rate	1.38	0.76	1.43	2.23	8.29

INDICATOR	2002	2003	2004	2005	2006(f)
CONSUMER PRICE INDEX (annual % changes)					
Headline	1.6	4.2	3.3	2.7	3.5
Trimmed mean	0.0	3.1	1.6	1.2	-
BALANCE OF PAYMENTS (F$M)					
Current account	-5.7	-330.5	-776.9	-787.6	-1115.8
Capital account	-21.7	-10.8	-8.2	-22.2	-15.7
Financial account (excluding Reserve Assets)	-46.4	70.5	196.3	-248.5	584.2
Overall balance	92.3	-41.5	-102.1	223.4	4.5
Gross Int. Reserve	902.1	943.6	1045.6	822.4	817.2[1/]
Months of Import Cover (Goods)	6.3	5.7	5.7	4.0	3.4
GOVERNMENT FINANCE					
Underlying Balance (F$M)	-286.8	-256.0	-146.6	-168.6	-193.1(b)
% of GDP	-7.3	-6.2	-3.3	-3.7	-4.0
GROSS DOMESTIC PRODUCT (annual % growth)					
Real GDP	3.2	1.0	5.3	0.7(p)	3.6
Nominal GDP	4.9	5.2	8.2	3.1(p)	5.8

Key:
(p) provisional
(f) forecast
(b) As per the 2007 National Budget Estimates

Sources: Fiji Islands Bureau of Statistics, Reserve Bank of Fiji, Ministry of Finance and National Planning, Commercial Banks

Notes:
[1/] Data for 2006 is at end September.

RESERVE BANK OF FIJI

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable craft capable of long voyages. The tagaga (pronounced "tanganga") or masthead, was crucial for holding in place the sails, woven from the leaves of the pandanus tree. It was the tagaga which enabled the navigators to keep their drua sailing towards their destinations.

For the Reserve Bank of Fiji, a logo based on the tagaga masthead, symbolises the Bank's role in contributing towards a sure and steady course for Fiji's economy.