

# **RESERVE BANK OF FIJI**

## **QUARTERLY REVIEW**

**September 2008**

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## QUARTERLY REVIEW OF THE ECONOMY & FINANCIAL CONDITIONS

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## OVERVIEW

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Global growth is expected to slow significantly in the second half of the year, before recovering gradually in 2009. The slowdown is being led by developed economies although expansions in emerging and developing economies are also expected to lose steam.

The International Monetary Fund (IMF) expects the world economy to grow by 3.9 percent this year, a striking deceleration from last year's growth of 5.0 percent. For 2009, global growth forecast has also been downgraded to 3.0 percent.

With financial risks intensifying in recent months, threats to world growth remain firmly on the downside. Rising corporate losses and failure of many large banks and insurance companies in the United States (US) have already forced several central banks and governments to introduce policies to protect their respective financial sectors. Despite this, there is a strong likelihood that the contagion effect arising from the crisis will continue into the medium term. The policy response to a slower growth is being constrained by global inflationary pressures, which despite having abated a little, remains a concern.

Domestically, following a sharp contraction of 6.6 percent in 2007, Fiji's economy is forecast to grow by 1.7 percent in 2008. In 2009, a modest slowdown to 1.4 percent is projected for the economy - a major risk to this forecast includes the much sharper slowdown that is now expected for the world economy.

So far this year, domestic demand has remained relatively subdued. Partial

indicators of consumption such as Net Value Added Tax (VAT), import of consumption goods and lending for consumption purposes have shown a modest growth on an annual basis. To a large extent, the growth in consumption reflects the high inflation environment, rather than a pick-up in demand.

Similarly, investment activity remained relatively weak in the review period. While new loans for investment purposes and imports of investment goods recorded growth rates, construction activity remained weaker than the comparable period in 2007.

On a sectoral basis, outcomes in the review period were mixed. In the tourism industry, visitor arrivals continued to show healthy growth, while the mining sector posted further gains in the output of gold. Positive outcomes were also achieved in other industries, namely, timber, fisheries and clothing & footwear. In contrast, poor performances were recorded by the cane & sugar and the building & construction sectors. The growth in electricity output was marginal.

Driven by external sources, Fiji continued to experience high inflation in the third quarter. Inflation reached a 20-year high of 9.8 percent in September, from 6.9 percent in the previous quarter. This is mainly attributed to high oil and food prices, which are now having strong second-round effects. The anticipated decline in domestic fuel costs in the final quarter of the year, as well as some moderation in food costs, is anticipated to take the year-end inflation to around 7.5 percent.

In the labour market, consistent with the weak economy, employment conditions remained subdued over the year. This emanated from weak demand for labour in the mining & quarrying, agriculture, forestry & fishing, electricity & water, community, social & personal services and transport, storage & communications sectors.

In the first 6 months, Government managed a tight restraint on expenditure. Coupled with buoyant revenue collections, it consequently recorded a net surplus of \$77.4 million, equivalent to 1.3 percent of GDP. This compares with a deficit of \$26.4 million in the same period last year.

Despite some gain in exports during the review period, the larger growth in imports widened the trade deficit. Accrual data shows that cumulative to August,

merchandise exports rose by 26.2 percent, led by higher earnings from re-exports, sugar, fish, mineral water, timber, gold, sweet biscuits, flour and other domestic exports. During the same period, import payments rose by 23.4 percent, led by an increase in payments for all categories of imports.

Foreign reserves at the end of September were provisionally around \$897.1 million, sufficient to cover 3.6 months of import payments of goods.

Given the continued pressure on foreign reserves, the credit ceiling remained in place during the quarter, while open market operations continue to be suspended. However, various exchange control policies that were tightened in December 2006, were relaxed in September.

## THE INTERNATIONAL ECONOMY

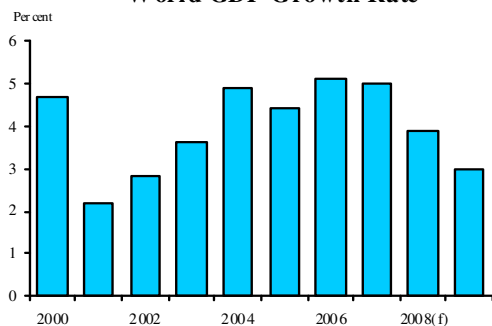
### International Economic Conditions

According to the latest IMF World Economic Outlook (WEO), the US sub-prime mortgage crisis which started in mid 2007 has entered a new troubled phase in the recent months, unfolding as a financial crisis. The current crisis is regarded as the largest financial shock since the Great Depression of the 1930s. The impact has been felt across the global financial system, and is expected to result in a major downturn in the world economy. Intensifying solvency concerns have badly shaken confidence, causing a sell off in major equity markets and leading to emergency resolutions in the many advanced economies.

The IMF has revised world growth down to 3.9 percent this year, and a further slowdown to 3.0 percent in 2009 (Graph 1).

Graph 1

#### World GDP Growth Rate



Source: IMF World Economic Outlook - October 2008

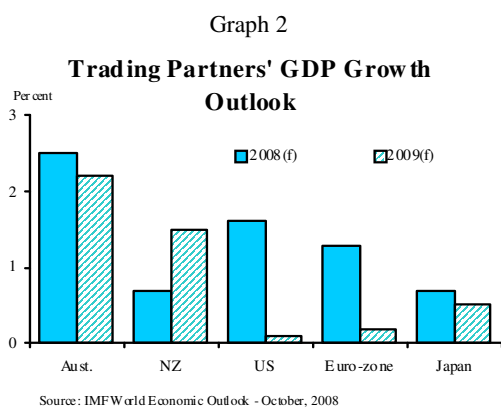
Nevertheless, risks related to global growth remain on the downside. Financial risks are also elevated, as rising losses in US stock markets and failure of many large banks and insurance

companies already have had a huge contagion impact on global financial markets. Moreover, high inflation is still a concern and will constrain the policy response to a slower growth. Inflation is mounting in both advanced and emerging economies despite the global slowdown. The driving force behind higher inflation is higher food and fuel prices. The global economy is thus in a tough spot, caught between sharply slowing demand in many advanced economies and rising inflation everywhere.

In response to the current global imbalance, governments and central banks in major advanced nations are actively pursuing policies intended to stabilise financial conditions. During the review quarter, central banks in Australia and New Zealand reduced their official interest rates, while those in the US and Japan kept theirs unchanged. The Eurozone raised interest rates in July, prior to the eruption of the most recent crisis, to help counter inflation.

Investors generally moved to safe haven investments during the September quarter. The US dollar strengthened against Fiji's major trading partner currencies, except the Japanese Yen. Equity markets weakened, while bond prices continue to rise.

Strong inflationary pressures and a downturn in global demand are deteriorating growth prospects for Fiji's major trading partners. The IMF's WEO indicates further slowdown in growth expectations for Fiji's major trading partners (Graph 2).



The **Australian economy** expanded by 0.3 percent in the second quarter of 2008 compared to a revised 0.7 percent growth in the first quarter. The slowdown is attributed to lower consumption expenditure.

Latest economic indicators are consistent with expectations of a downturn in the economy this year. Business confidence held at a 7-year low in August, while new home sales fell to a 2-year low, as credit growth slowed.

However, on a positive note, wage growth accelerated at the fastest pace in 11-years in the second quarter. In addition consumer confidence improved after the Reserve Bank of Australia (RBA) reduced its key interest rate for the first time in 7 years. Moreover, the unemployment rate fell to 4.1 percent in August, led by recruitments in the mining sector.

The RBA cut its benchmark interest rate by 25 basis points to 7 percent in September, as tight financial conditions, rising fuel costs and falling asset prices reduced the need for restraint on demand.

The economy is expected to slow to a growth of 2.5 percent this year, compared

to a 4.2 percent growth in 2007. For 2009, the Australian economy is expected to slow further to 2.2 percent. Consumer prices are expected to be at 4.6 percent and 3.6 percent in 2008 and 2009 respectively, well above the RBA's target band of 2-3 percent.

**New Zealand's economy** went into a recession after contracting by 0.2 percent in the second quarter after a 0.3 percent decline in the first quarter. The recession was largely attributed to the fall in house prices to its lowest levels in 16 years, increased unemployment and falling dairy production as a result of drought.

Recently released indicators are in line with the depressed outlook for the economy this year. Exports fell by around 4 percent in the second quarter as the drought curbed dairy production. Moreover, retail sales also fell during the second quarter.

However, business confidence rose in August as the reduction in fuel prices and interest rates improved the outlook for corporate profits, employment and investment intentions.

The Reserve Bank of New Zealand (RBNZ) reduced its key interest rate by 50 basis points to 7.5 percent in September as a slowing economy eased inflationary pressures, prompting a move towards a less restrictive monetary policy stance.

The New Zealand economy is projected to record a subdued growth rate of 0.7 percent this year, compared to a 3.2 percent growth in 2007. A marginal recovery of 1.5 percent is envisaged for 2009. Inflation is expected to be around 4.2 percent this year (above the RBNZ target band of 1-3%), before

slowing to 3.8 percent in 2009.

The **US economy** grew by 3.3 percent on an annualised basis in the second quarter of 2008, as rising exports and the temporary stimulus from the tax rebates offset the negative impact from the deteriorating housing market and business investment.

Current economic indicators point towards a gloomy outlook. The trade deficit widened in July after oil imports rose to a record high, while consumer prices rose at its fastest pace in 17 years. Retail sales fell as consumers cut spending in the face of job losses and record foreclosures<sup>1</sup>. Moreover, the unemployment rate rose to a 5-year high of 6.1 percent in August.

The US Federal Reserve kept its benchmark interest rate unchanged at 2 percent over the quarter, citing that upside risks to inflation remained prominent.

In 2008, the US economy is expected to grow by 1.6 percent, compared to an estimated 2.0 percent growth last year. Only a marginal growth of 0.1 percent is expected for 2009. Inflation is projected at 4.2 percent in 2008, before slowing to 1.8 percent in 2009.

The **Euro-zone** economy contracted by 0.2 percent in the second quarter of this year after expanding by 0.7 percent in the first quarter. The negative growth was led by declining investment, consumer spending and exports.

Recent indicators continued to show weak

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<sup>1</sup> Foreclosure is the legal proceeding in which the owner's right to a mortgaged property is terminated because of failure to live up to the obligations agreed to in the loan contract.

results for the Zone. Consumer confidence fell in August while retail sales declined in September for the fourth consecutive month as higher consumer prices and weakening consumer confidence discouraged consumer spending.

The German economy contracted in the second quarter by 0.5 percent from a 1.3 percent growth in the first quarter, led by lower investment and consumer spending. In July, exports fell as a slowing global economy weakened export demand.

On a positive note, however, retail sales rose in August as the recent decline in oil prices encouraged consumer spending.

The French economy contracted by 0.3 percent in the June quarter from a 0.4 percent growth in the March quarter, underpinned by declining exports and investment. Inflationary pressures weakened consumer spending while the rising Euro dollar reduced demand for French exports. In August, consumer spending weakened further as more workers were made redundant.

The European Central Bank raised its benchmark interest rate to 4.25 percent in July, in order to counteract the increasing upside risks to price pressures.

The **Japanese** economy contracted by 0.7 percent in the June quarter from a 1.0 percent growth in the previous quarter, led by declining exports and household spending.

Latest indicators continued to depict sluggish economic activity. In August, export growth slowed, led by a fall in shipments to the US. Furthermore, wages fell leading to reductions in household

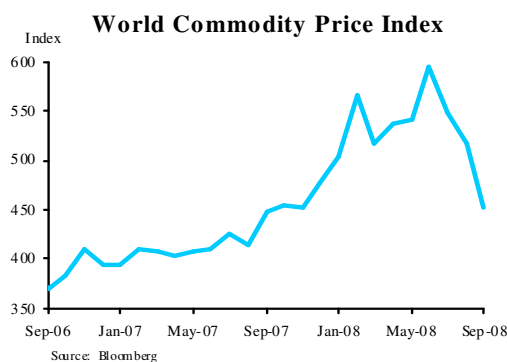
spending.

The Bank of Japan kept its benchmark interest rate unchanged at 0.5 percent throughout the quarter after balancing upside risks to prices and downside risks to economic growth.

Growth in the Japanese economy is projected to slow to 0.7 percent in 2008 and 0.5 percent in 2009, compared to a revised 2.1 percent growth last year. Inflation is estimated to pick up to 1.6 percent in 2008, before moderating to 0.9 percent in 2009. The inflation outlook for both years was revised up.

**World commodity prices** fell by 24.1 percent over the third quarter, led by declines in coconut oil, crude oil and timber prices (Graph 3).

Graph 3

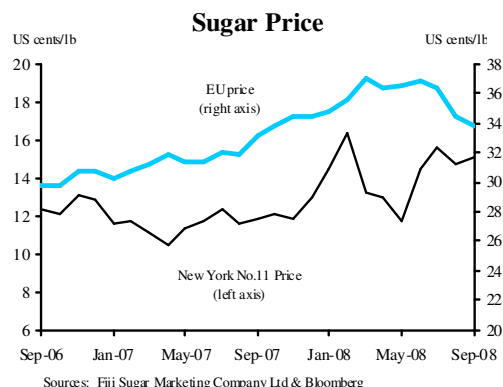


Over the September quarter, world market sugar prices rose by 3.7 percent (Graph 4). During the first month of the quarter, sugar prices rose on speculation that investor demand will rebound resulting from forecasts of reduced output from India and Brazil.<sup>2</sup> However, expectations that a slowing US economy will reduce oil prices and slash the value of alternative

<sup>2</sup> Brazil and India are the top two producers of the sweetener.

fuel made from cane, dragged prices down in August. Nonetheless, prices again rose in September, amid speculation that India, will export less as its cane production declines.<sup>3</sup>

Graph 4



During the coming months, sugar prices are expected to remain high, on expectation that world demand for sugar will exceed supply.

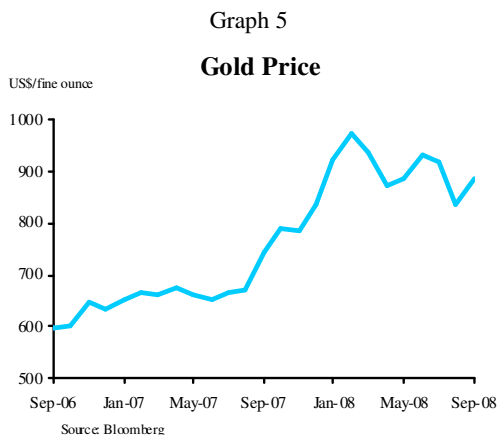
At the end of September, the European Union (EU) sugar price was around US33.8 cents per pound, having fallen by 8.4 percent over the quarter, reflecting a weaker Euro against the US dollar.

Gold prices fell by around 4.9 percent over the September quarter (Graph 5). Prices fell in the first two months, reaching a 9-month low in August, as the stronger dollar against the Euro, eroded the appeal of the US dollar-priced metal.

However, prices rebounded during the last month of the quarter, after an initial

<sup>3</sup> According to the Indian Agriculture Secretary, production is headed for a second-straight drop as farmers shift to more profitable crops such as grains. Another reason for the decline in India's sugar output is inadequate rainfall in Maharashtra state, the country's biggest producer of the sweetener.

rejection of a US\$700 billion bailout bill<sup>4</sup> for the US banking system by the House of Representatives. This stoked fear of a worsening credit crisis, spurring demand for gold assets as an alternative investment.

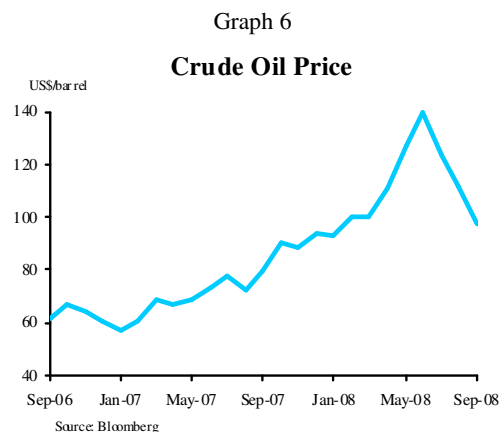


The financial market turbulence coupled with the expected global economic slowdown, is anticipated to maintain the high demand for gold as a safe-haven investment, thus, keeping prices high in the months ahead.

The Brent crude oil price (Graph 6) fell over the third quarter, reaching an 8-month low in September.

Prices fell throughout the quarter, after expectations of a slowing US economy (world's largest consumer), raised concern that demand for the commodity will fall. Moreover, in September, the fall in prices was the largest in 7 years, after US lawmakers

rejected a US\$700 billion financial rescue plan, further increasing anxiety of an economic meltdown.



In the coming months, expectations of a weak US and global economy, is expected to negatively affect demand, as well as the price of oil.

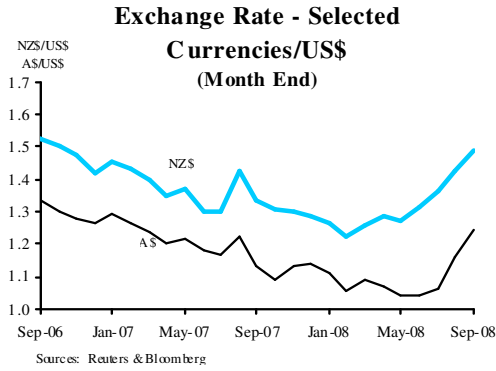
### International Financial Markets

During the quarter, the US dollar generally strengthened against all of Fiji's major trading partner currencies, except for the Japanese yen.

The Australian and New Zealand dollars weakened against the Greenback over the quarter, (Graph 7), after concerns of slowdown in both economies prompted investors to switch from Aussie and Kiwi dollar denominated assets to US dollar assets, some of which were unwinding of carry trades.

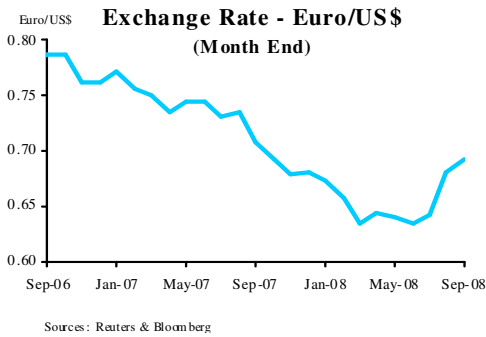
<sup>4</sup> The rescue plan was to make into law a financial package which would enable the US government to spend up to \$700 billion, buying up bad debts from ailing banks in the US. The bail-out is deemed to be the biggest intervention in the markets since the Great Depression in the 1930s.

Graph 7



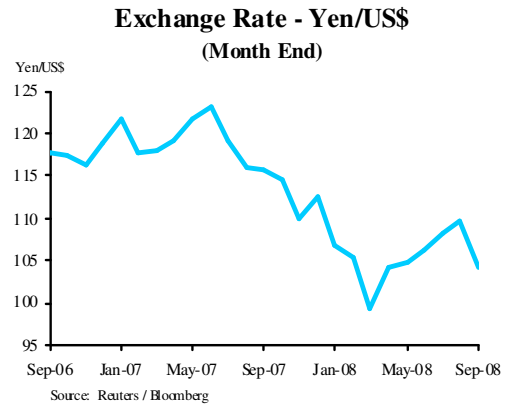
The Euro also weakened against the US dollar over the third quarter, after expectations of a better than expected US economic performance in the second quarter, boosted the appeal of US dollar denominated assets (Graph 8). Similar to the Aussie and Kiwi dollar trend, the Euro fell in all three months of the third quarter.

Graph 8



The Yen strengthened against the US dollar over the September quarter. However, the currency depreciated in the first two months of the quarter, after optimism in the US economy increased the appeal of US dollar denominated assets (Graph 9).

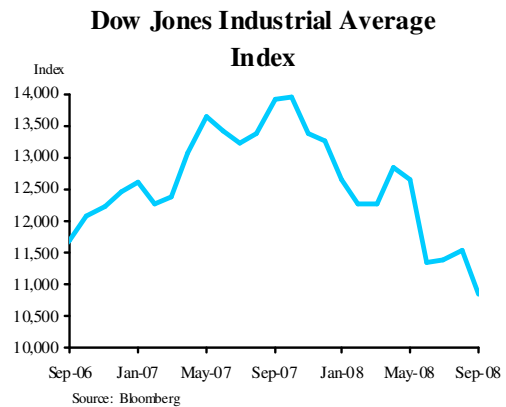
Graph 9



Nevertheless, the Yen appreciated in September, after the US\$85 billion bailout of insurance giant American International Group Incorporation (AIG), as well as, the rejection of the US\$700 billion bank rescue plan by US lawmakers failed to boost confidence in credit markets.

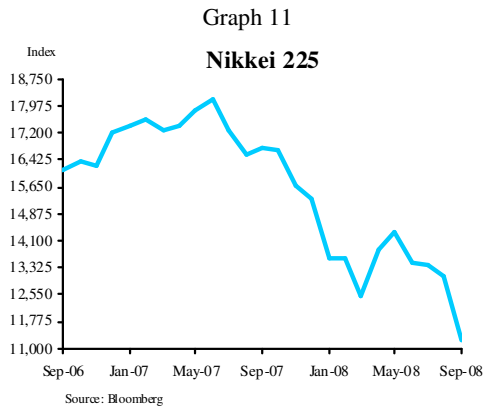
Equity prices generally fell during the three months to September.

Graph 10



The Dow Jones Industrial Average Index fell by around 4.4 percent (Graph 10) over the third quarter, while the Nikkei 225 Stock Average Index fell by 16.5 percent

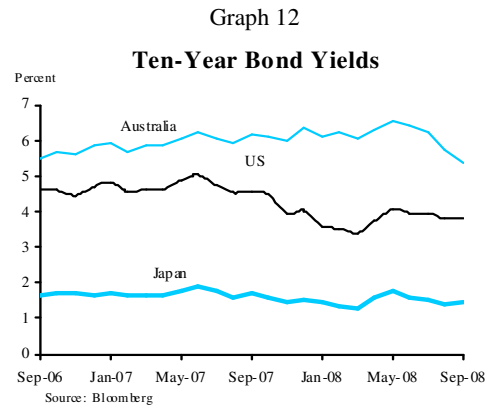
(Graph 11), and declined to more than a 3-year low in September.



This is after a troubled US financial market, as well as the US lawmakers' rejection of the Bush administration's US\$700 billion financial rescue plan, raised concerns that the financial crisis will hurt global growth, compelling investors to sell shares, thus pushing

prices down.

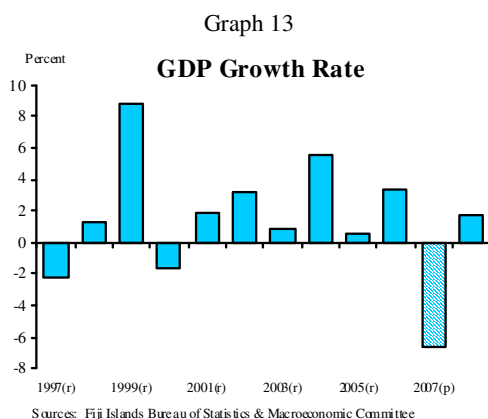
During the September quarter, 10-year bond yields for the US, Japan and Australia generally declined, inversely pushing prices up. This was after credit market turmoil amid a troubled US financial market, boosted the appeal of the government's fixed-return debt instrument (Graph 12).



## THE DOMESTIC ECONOMY

### Domestic Economic Conditions

Economic projections released in August show that Fiji's economy is forecast to grow by 1.7 percent<sup>5</sup> in 2008 (Graph 13). Most sectors are expected to record growth, except the community, social & personal services and finance, insurance, real estate & business services sectors.



For the upcoming year, economic growth is forecast at 1.4 percent. Growth in 2009 is expected to be broad based with most sectors of the economy forecast to grow except the community, social & personal services and building & construction sectors.

### Consumer Spending

While partial indicators of consumption showed some growth in the review period, this is largely influenced by high prices. In the year to September, net VAT

collections<sup>6</sup> rose by 2.7 percent when compared with the corresponding period in 2007. Other partial indicators of consumption such as import of consumption goods and lending by commercial banks for consumption purposes grew by 21.5 percent and 9.1 percent, over the year to August, respectively.

### Production

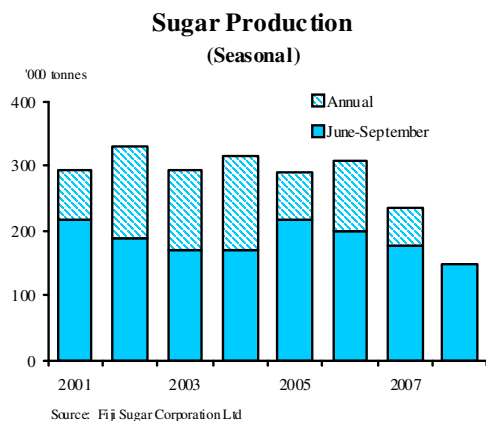
On a sectoral basis, mixed performances were noted in the review period. The tourism, timber, fisheries, copra, mining & quarrying, textile, clothing & footwear and electricity industries registered favourable growth. On the other hand, the cane & sugar and building & construction industries registered poor performances.

**Cane and sugar** output has been weak since the start of the crushing season. Cumulative to September, the Fiji Sugar Corporation Limited had crushed 1.5 million tonnes of cane to produce 148,066 tonnes of sugar (Graph 14). This represented an annual decline in cane and sugar production of 14.8 percent and 17.6 percent, respectively. The fall in output was underpinned by harvesting and transportation problems coupled with frequent mill break downs.

<sup>5</sup> Unchanged from that forecasted earlier.

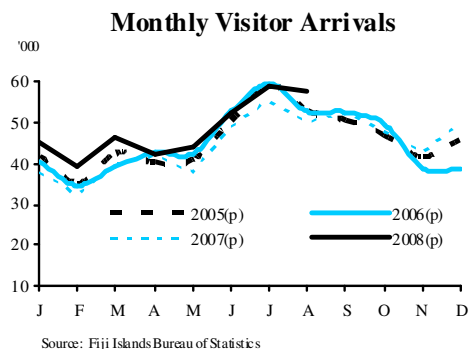
<sup>6</sup> There are 3 broad categories of VAT collections. These include import VAT, cash collections and Government collections.

Graph 14



Looking at the **tourism** industry, provisional data indicated that visitor arrivals totalled 387,464 cumulative to August, an annual increase of 12.2 percent (Graph 15).

Graph 15



Hotel statistics released by the Fiji Islands Bureau of Statistics (FIBOS) confirmed that hotel occupancy last year declined in comparison to 2006. Hotel occupancy in 2007 stood at 49.7 percent, much lower than that recorded in 2006 (56.4%). In the review period, the highest occupancy rate was recorded in Nadi at

61.2 percent.

In addition, room inventory rose by 8.2 percent in 2007 while room nights sold decreased by 4.7 percent in the same period.

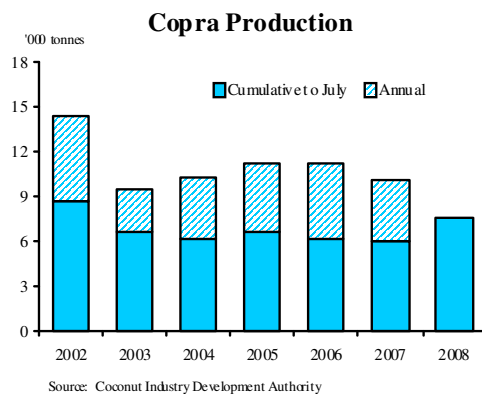
In the **clothing & footwear** industry, export earnings rose by 0.8 percent to \$72.2 million in the year to August. The export earnings for garments alone were \$66.2 million, an annual rise of 3.5 percent.

Performance in the **mining** industry has gained some momentum from last year. This is based on the fact that there was no gold produced in 2007. Over the year to September, the mine produced 11,169 ounces of gold. However, this result was below the targeted production due to insufficient supply of electricity to the mines. The Vatukoula Gold Mines Limited recently hired new generators to meet the required power of 10 mega watts to enable production on a 24 hour basis. Current projections indicate a production of around 25,000 ounces of gold by the end of the year.

The **copra** industry noted favourable performance in the first seven months supported by buoyant world market prices. Cumulative to July, copra production totalled 7,609.1 tonnes (Graph 16), representing a strong growth of 25.6 percent when compared with the corresponding period last year.

In the review period, the minimum mill gate price of copra was at an all time high at \$882.52 per tonne.

Graph 16



Total **electricity** generated by the Fiji Electricity Authority (FEA) stood at 571,611 mega watt hours as at the end of September this year, representing a marginal increase of 0.3 percent on an annual basis.

The FEA entered into a contract with Sinohydro Corporation<sup>7</sup> in September 2008 to construct the Nadarivatu hydro-power plant. The estimated cost of the project is US\$150 million. Upon completion, the scheme is expected to have a power capacity of 41 mega watts with an annual generation of 101 million units of electricity. This is expected to save the FEA F\$44 million in annual fuel costs.

In the **fishing** industry, export earnings rose by 22.2 percent to \$83.8 million in the year to August, when compared with the same period in 2007.

Likewise, **timber** exports performed well cumulative to August. Timber export earnings rose by 30.8 percent to \$36.5 million when compared with the corresponding period in 2007.

<sup>7</sup> A State owned enterprise that is the market leader and largest company in the water conservancy and hydro power industry in China.

Timber production is expected to grow by 10.0 percent this year, largely driven by good prospects for pine log production. The outlook for mahogany has also improved.

The performance of the **building & construction** sector in 2008 continues to underperform 2007 levels. The total value of work put-in-place cumulative to the June quarter totalled \$113.0 million, representing an annual decline of 0.3 percent.

By categories, cumulative to the second quarter, work put-in-place by the private sector registered an increase of 14.6 percent (to \$106.0m) over the same period last year. Nonetheless, the growth registered by the private sector was offset by the significant contraction of 66.3 percent (to \$7.0m) by the public sector over the 2007 comparable period.

Looking at other indicators, cumulative to the second quarter, the number and value of completion certificates issued showed a contraction of 42.4 percent and 41.2 percent, respectively.

Forward looking indicators reveal a pessimistic outlook. Cumulative to the June quarter, the number and value of building permits issued had declined by 16.7 percent and 13.1 percent, respectively on an annual basis.

Major projects that are still ongoing include construction work at the Jetpoint Supermarket, Sheraton Fiji Renovation Project, Tappoo Retail Outlet, Laucala Island Resort and Funworld Centre with on-going finishing touches on the Great Council of Chiefs complex and the Fiji Islands Revenue and Customs Authority's (FIRCA) new headquarters.

## Public Finance

On Government's **fiscal** stance, cash flow data indicated that cumulative to June, Government recorded a net surplus of \$77.4 million, equivalent to 1.3 percent of GDP. This represented an improvement from the same period last year whereby Government recorded a deficit of \$26.4 million. The surplus was underpinned by a decline in operating expenditure and a rise in revenue collections.

Total Government revenue in the year to June amounted to \$657.9 million, an increase of 15.5 percent over the year. This rise was driven by major annual increases in direct tax receipts (\$10.0m), indirect tax receipts (\$57.0m) and VAT receipts (\$37.3m).

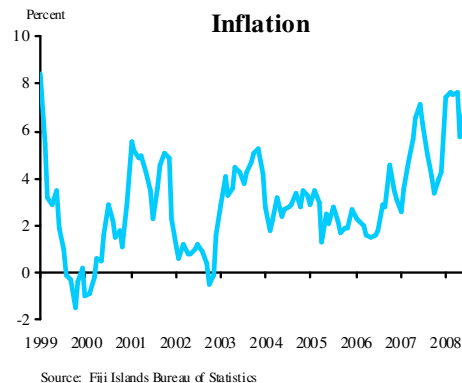
In the same period, Government expenditure stood at \$580.6 million, representing an annual decline of 2.6 percent. This was underpinned by a 4.3 percent decrease in operating expenditure driven mainly by lower annual spending on supplies and consumables (-16.1%), personnel payments (-11.1%), purchase of outputs (-2.9%) and interest (-0.4%). However, investment expenditure in the review period totalled \$51.3 million, an increase of 18.5 percent over the year. This was, nonetheless, below the government's budget target by 70 percent.

## Inflation

Inflation stood at 9.8 percent in September, the highest in two decades. This compares with 6.9 percent recorded in June and more than double the 4.1 percent recorded in the corresponding period last year (Graph 17). On a

quarterly basis, consumer prices grew by 0.9 percent.

Graph 17



Over the quarter, higher prices were recorded in the heating & lighting, transport, miscellaneous items, durable household goods, clothing & footwear, alcoholic drinks & tobacco and housing categories. This was partially offset by lower prices in the food category while charges for services remained unchanged over the quarter.

Over the year, the outturn in inflation was underpinned by high oil and food prices coupled with the realisation of second round effects across all categories. Second round effects included increases in transportation costs and electricity rates.

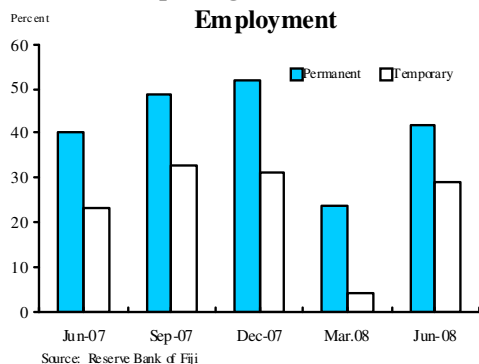
While the new Consumer Price Index basket, which came into effect in July, is a better reflection of current consumption patterns compared to the old basket, the significant increase in weights for food, heating & lighting and transportation has also contributed to the higher inflation rate. The trimmed mean, a measure of underlying inflation, rose to 3.8 percent from 3.5 percent recorded in the June quarter.

### Labour Market

In comparison to last year, partial indicators of employment suggest that conditions in the labour market remain weak. Cumulative to August, around 6,900 employees were registered as taxpayers with the Fiji Islands Revenue & Customs Authority, representing an annualised decline of around 10.8 percent. Sectors which recorded lower registrations include the mining & quarrying; agriculture, forestry & fishing; electricity & water; community, social & personal services and transport, storage & communications.

Looking ahead, the results from the Fiji Employers' Federation Expectations Survey, conducted in June showed that labour market prospects have improved from the March survey. This fell in line with expectations of some improvement in production in the next 12 months (Graph 18).

Graph 18  
**Net Proportion of Respondents Expecting an Increase in Employment**



In total, around 52.0 percent of

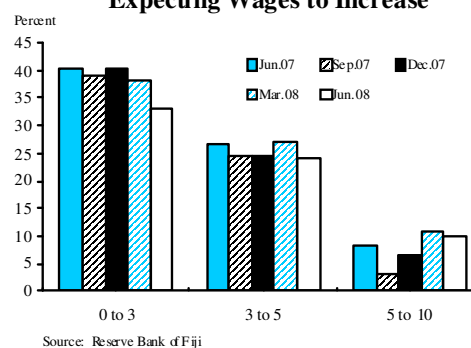
respondents expect employment to rise in the latest survey, compared with 45.0 percent in March 2008.

Moreover, a net of around 42.0 percent and 29.0 percent of respondents expect an increase in permanent and temporary employment, respectively, which is a much higher result than that obtained in the last survey.

On the other hand, a decline has been noted in the respondents' expectations for wage increments across all ranges (Graph 19). Most respondents still anticipate wage increments to be in the range of 0-3.0 percent this year.

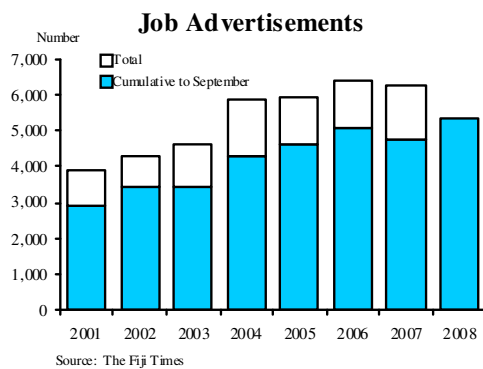
Graph 19

**Net Proportion of Respondents Expecting Wages to Increase**



In terms of recruitment intentions, the Job Advertisements Survey showed that cumulative to September 2008, the number of vacant posts advertised rose by around 13.7 percent on an annual basis. This is led by the mining & quarrying sector followed by the building & construction; community, social & personal services and electricity & water sectors (Graph 20).

Graph 20



Overall, the sentiments provided by the two surveys indicate that employment conditions look favourable in the months ahead.

### The External Sector

The latest accrual trade data shows that cumulative to August, merchandise exports (excluding aircraft) rose by around 26.2 percent on annual basis. This compares with a 0.6 percent growth over the same period last year. Domestic exports rose by 24.7 percent, from a decline of 0.2 percent in the corresponding period in 2007. Overall, domestic exports contributed 16.8 percentage points of the increase in total exports, mainly owing to improved earnings from sugar, fish, mineral water, timber, gold, sweet biscuits, coconut oil, folding cartons/boxes and other domestic exports.

Re-exports made up for the remaining increase, contributing 9.4 percentage points to total exports, which is attributed to predominantly mineral fuel re-exports. Excluding mineral fuel re-exports, total exports rose by 19.3 percent, compared to

1.2 percent in the same period last year.

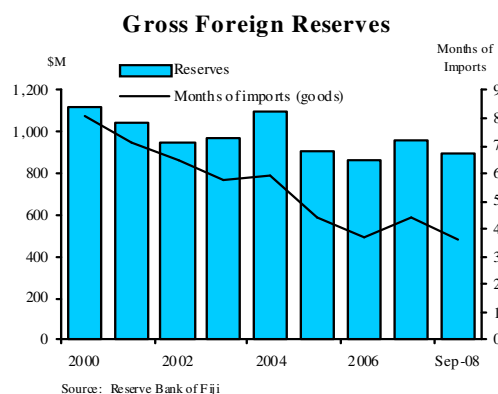
Merchandise import payments (excluding aircraft) rose by around 23.4 percent in the year to August, compared with a decline of 9.3 percent over the corresponding period in 2007. Payments for all the categories of imports rose; intermediate goods (12.5%), consumption goods (8.0%), and investment goods (3.0%).

Despite the relatively higher growth in exports, the trade deficit widened by 21.5 percent (to \$1.3b), in the first 8 months, a reflection of the higher value of imports compared to exports.

Cumulative to July 2008, personal remittances fell by 21.7 percent over the same period last year to \$114.2 million. This is also compared to a 29.5 percent decline in the same period last year.

Foreign reserves at the end of September were provisionally around \$897.1 million, sufficient to cover 3.6 months of import payments of goods (Graph 21).

Graph 21



## Domestic Financial Conditions

### Money Markets

The Reserve Bank of Fiji's monetary policy stance remained unchanged during the third quarter of 2008. The credit ceiling policy was maintained while open market operations remained suspended.

Despite the high level of liquidity in the financial system, a total of \$107 million was traded in the interbank market at a weighted average rate of 0.44 percent in September. The last interbank trade was conducted in March.

Issues of Treasury Bills (T-Bills) by the Government amounted to \$135 million in the third quarter, when compared with \$107 million in the previous quarter. In the same period, the weighted average interest rate on the 91-day T-Bill rose by 18 basis points to 0.28 percent.

### Capital Markets

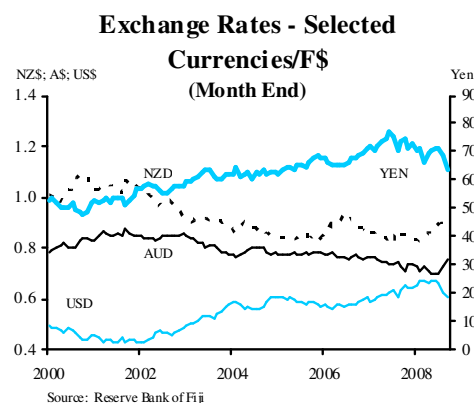
Government issued bonds worth \$90 million in the September quarter, compared with \$50 million in the previous quarter. Maturities ranged from 5 to 20 years, while the weighted average yields ranged from 5.91 percent to 7.36 percent. The weighted average Government bond yield rose by 78 basis points to 6.95 percent in the review period.

Bonds issued by statutory corporations amounted to \$60 million in the September quarter. This compares with \$10 million in the previous quarter. The FEA and Fiji Development Bank (FDB) issued bonds worth \$50 million and \$10 million, respectively. The weighted average interest rate was 5.32 percent.

## Foreign Exchange Markets

Bilateral movements in exchange rates saw the Fiji dollar strengthen on a quarterly basis against the Australian (8.9%) and New Zealand dollars (3.1%) but weaken against the Japanese Yen (10.7%), the US dollar (9.1%), and the Euro (0.7%) (Graph 22).

Graph 22

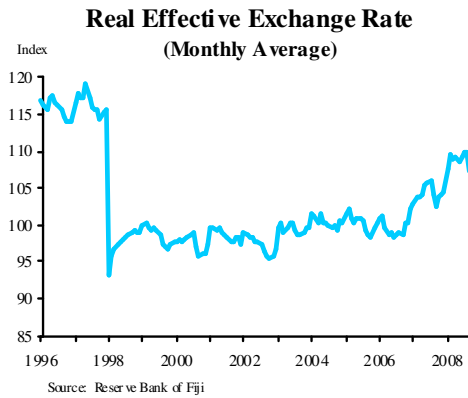


Nominal Effective Exchange Rate (NEER)<sup>8</sup> declined by 1.2 percent over the quarter. The fall in NEER indicates a depreciation of the Fiji dollar against our major trading partner currencies over the quarter.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar fell by 1.7 percent over the quarter (Graph 23). The fall in REER reflects an improvement in Fiji's international competitiveness and was due to a rise in the average trading partner inflation to 4.6 percent over the quarter.

<sup>8</sup> The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

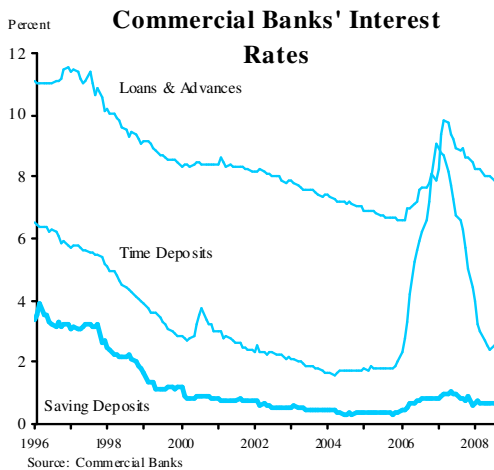
Graph 23



### Financial Intermediaries

Commercial banks' weighted average interest rates remained low in the review period, given the high level of liquidity in the financial system. In August, commercial banks' time deposit rate was 2.24 percent, a decline from the 2.43 percent recorded in June (Graph 24).

Graph 24



Similarly, the new time deposit rate fell to 1.67 percent in August, from 2.94 percent in June. In addition, the savings deposit rate fell by 1 basis point to 0.69 percent in the same period.

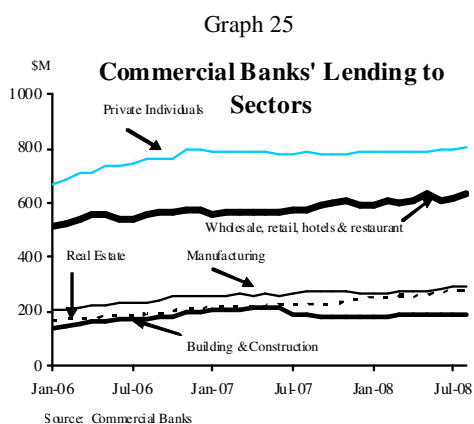
The weighted average lending rate on outstanding loans continued to drop for the eleventh consecutive month, and registered at 7.85 percent in August. However, the lending rate on new loans rose in August to 9.05 percent, from 8.42 percent in June. Movements in the interest rates of Licensed Credit Institutions (LCIs)<sup>9</sup> were mixed in the review period. In August, the weighted average lending rate rose by 6 basis points to 12.37 percent compared to June, while the time deposit rate fell by 34 basis points to 4.90 percent in the same period.

The annual growth in broad money continued to decelerate, reaching 4.9 percent in August (a 4-year low), compared to 5.7 percent in June. The slowdown was led by declining levels of quasi-money, underpinned by the persistent contraction in the time deposit liabilities of commercial banks. Moreover, a slowdown was also evident in the annual growth of narrow money, on account of the slowdown in the build up of demand deposits.

Domestic credit grew by 5.7 percent in August, compared to 3.3 percent in June, tentative signs of an economic recovery. This was underpinned by the increase in lending to the private sector.

On the same note, the outstanding credit by commercial banks grew by 7.1 percent in August, compared to 4.4 percent recorded in June. The growth was underpinned by lending to the wholesale, retail, hotel & restaurants and the real estate sectors (Graph 25).

<sup>9</sup> LCIs' include Merchant Finance Investment Company Limited, Credit Corporation (Fiji) Limited and Home Finance Company Limited.



However, total outstanding loans by LCIs fell, for the eleventh consecutive month, by 13.1 percent in August, compared to a decline of 12.6 percent in June. The contraction was underpinned by the decline in credit to the private individuals, professionals & businesses and the manufacturing sectors.

### Banking Industry Quarterly Condition Report – June 2008

#### Overview – Commercial Banks

The banking industry's performance was assessed as satisfactory for the June quarter. This was a result of continued strong capital levels, and an improvement in liquidity levels and asset quality. Earning was slightly lower than the previous quarter.

Capital adequacy ratios of all banks were above the minimum prudential requirement - the overall banking industry recorded a strong ratio of 13.5 percent.

Asset quality remained at a marginal level. However, a significant decline (\$13.5m) in past due levels was noted while the classified to loans ratio was maintained at March levels (5.0%). The specific

provision coverage ratio also improved to 17.0 percent from 15.7 percent in the previous quarter.

Management was assessed as satisfactory with a satisfactory earnings performance and improvements in liquidity and asset quality position.

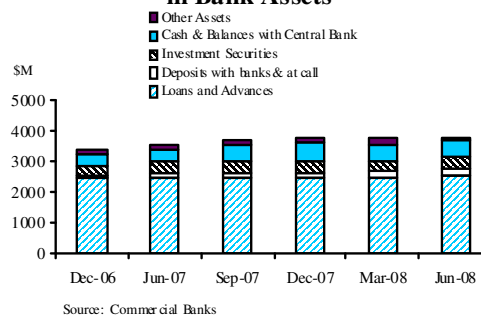
Banks' earnings declined over the quarter with before tax profits of \$33.6 million. Banks' liquidity position remained at a marginal level over the quarter. However liquid assets increased by \$35.3 million leading to an improvement in coverage ratios.

#### Balance Sheet

The banking industry's assets grew by 2.1 percent over the quarter to \$3.8 billion. Over the year, assets rose by \$293.2 million or 8.3 percent (Graph 26).

Graph 26

**Structural Change and Growth in Bank Assets**



The rise in assets over the quarter was driven by a \$67.9 million increase in loans and advances. Due to the low rate of return in investments, matured funds were re-directed towards deposits with banks as evidenced by a drop in investments of \$61.9 million from \$410.4 million last year and an increase in deposits with banks by \$108.5 million over the year.

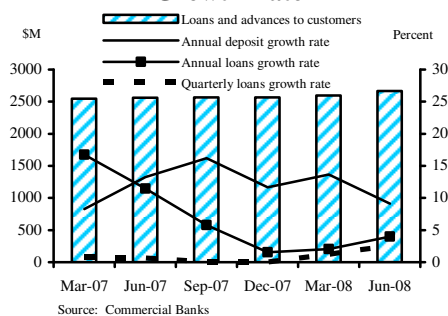
On the liabilities side, total deposits grew by 1.8 percent to \$3.3 billion mainly led by an increase in demand deposits by private sector business entities.

**Lending**

All banks recorded increases in their loan portfolios over the quarter. Total loans for the industry increased by \$67.9 million over the quarter and \$103.4 million over the year, to \$2.7 billion. Quarterly loan growth rate (2.6%) picked up pace in the June quarter (Graph 27).

Graph 27

**Banking Industry's Loans and Growth Rate**



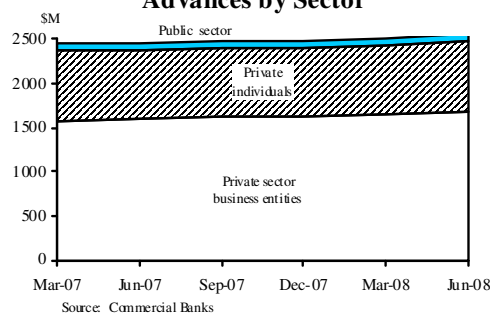
Mixed movements were noted in lending to priority<sup>10</sup> sectors. The priority sectors that recorded increases were manufacturing (\$10.0m), transport and storage (\$8.3m) and public enterprises (\$14.8m) while the electricity, gas & water (\$19.0m) and agriculture (\$0.3m) sectors record decreases (Graph 28).

Most of the low priority sectors recorded increases, with the wholesale/retail sector recording the highest rise of \$12.9 million. Lending to private individuals also grew by \$8.9 million over the quarter, led by growth in loans for housing purposes.

<sup>10</sup> As set out by the RBF Lending Guidelines to banks in early 2006.

Graph 28

**Commercial Banks' Loans and Advances by Sector**



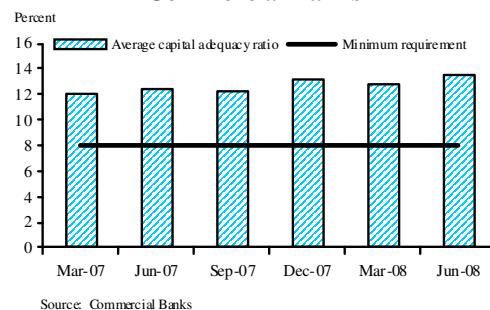
Loans to the public sector also increased by \$18.0 million in the review quarter due to a public enterprise drawing on a large loan.

**Capital Adequacy**

The banking industry recorded a strong capital adequacy ratio of 13.5 percent in June. This was an improvement of 75 basis points over the quarter and 109 basis points over the year with all commercial banks complying with the 8.0 percent requirement (Graph 29).

Graph 29

**Capital Adequacy Ratio of Commercial Banks**



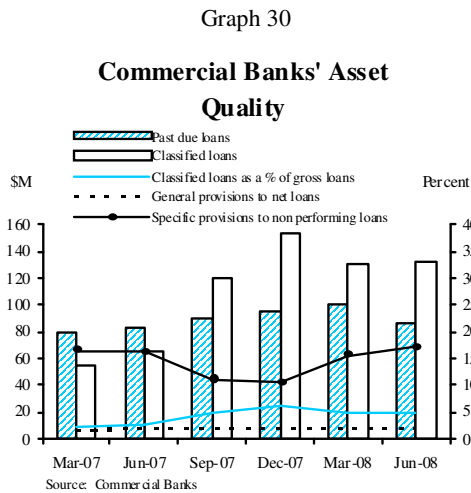
The improvement in capital adequacy over the quarter was due to a higher rate of growth in capital (10.1%), compared with

risk-weighted assets, which grew by 4.0 percent.

The expansion in capital over the quarter was a result of an increase in retained profits. On the other hand, growth in risk weighted assets resulted from an increase in loans and advances.

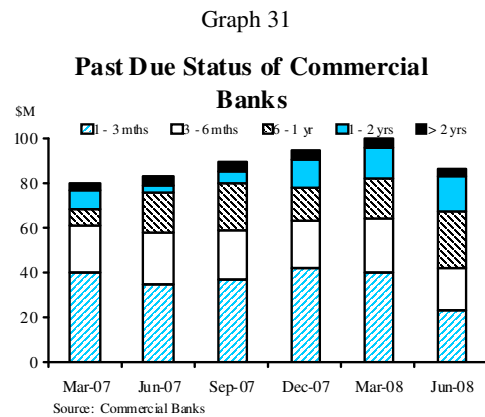
**Asset Quality**

Following periods of high past due levels, asset quality has shown some signs of improvement. However, this, remained marginal over the June quarter. The improvement was characterised by a decline in past due levels and improved provisioning (Graph 30).



The rise in classified loans mainly stemmed from the real estate and manufacturing sectors. However, a major decrease of \$6.3 million was noted for private individuals. A contributing factor was the high number of restructured accounts (109) for the quarter.

Total past due loans dropped significantly by \$13.5 million to \$86.6 million in the June quarter (Graph 31). The decline mainly stemmed from the 1-3 months category (\$16.1m) indicating a general improvement in new accounts moving into past due status. The 3-6 months category also recorded a noted decline of \$5.5 million while the 6 months to 2 years categories recorded increases. The volume of past due accounts in the over 2 years category recorded a decline of \$0.3 million, indicating recoveries/write-offs.



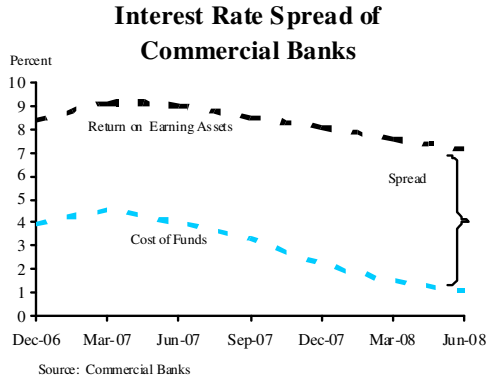
Banks' provisioning levels increased by \$4.1 million to \$73.1 million. In line with the rise in the loan portfolio, general provisions were raised by \$1.9 million to \$50.7 million covering 1.9 percent of gross loans and advances.

Short-term relief measures, such as the restructure of accounts by banks, has resulted in improving asset quality, with the private individuals sector benefiting most from this. However, low property prices and low demand continues to affect the real estate sector.

## Interest Margin and Spread

Return on earnings assets and cost of funds both continued its downward trend. The return on monetary assets reduced at a faster rate (45 basis points) than the cost of funds (38 basis points) causing the overall spread to contract slightly (Graph 32).

Graph 32



The return on earning assets was 7.1 percent, down from 7.6 percent in the previous quarter and 9.0 percent last year. The cost of funds, on the other hand, was 1.1 percent compared with 1.5 percent in March 2008 and 4.0 percent in June last year.

## Income & Profitability

The banking industry recorded profits of \$33.6 million for the June quarter. This was 13.7 percent lower than the previous quarter but higher in the June 2007 quarter (\$26.5m).

The reduction in profits over the quarter was mainly a result of a rise in the level of bad debts and provisions expense recorded this quarter.

Banks' interest income suffered due to an

interest rate reduction on Statutory Reserve Deposits (SRDs). As such, interest income received on SRDs declined by \$2.3 million (3.9%) over the quarter. However, this decline was cushioned by a higher rate of decline (\$3.2m or 26.1%) in interest expenses which led to the overall improvement in the net interest income.

**Table 1: Banks' Combined Income Statement**

				% Change	
	Jun 07	Mar 08	Jun 08	Over Qtr	Over Jun 07
Interest Income	71.0	61.0	58.6	-3.9	-17.4
Interest Expense	30.6	12.2	9.0	-26.1	-70.5
<b>Net interest income</b>	<b>40.3</b>	<b>48.7</b>	<b>49.6</b>	<b>1.7</b>	<b>22.9</b>
<b>Add: Non interest income</b>	<b>21.1</b>	<b>23.9</b>	<b>24.0</b>	<b>0.3</b>	<b>13.7</b>
Income from overseas exchange transactions	9.1	9.8	10.5	8.0	15.6
Commission	2.6	4.2	1.8	-56.0	-29.0
Fee Charges	7.9	10.8	11.5	7.2	46.3
Other income	1.5	-0.8	0.1	-109.0	-95.4
<b>Total operating income</b>	<b>61.4</b>	<b>72.7</b>	<b>73.6</b>	<b>1.2</b>	<b>19.7</b>
Less: Operating expenses	30.1	32.4	35.1	8.4	16.7
Less: Bad Debts & provisions	4.8	1.3	4.8	271.6	0.6
<b>Profit before tax</b>	<b>26.5</b>	<b>38.9</b>	<b>33.6</b>	<b>-13.7</b>	<b>26.6</b>
Less: Tax	8.3	11.6	9.9	-14.7	19.1
<b>Net profit after tax</b>	<b>18.2</b>	<b>27.3</b>	<b>23.7</b>	<b>-13.3</b>	<b>30.0</b>

Source: Commercial Banks

Non-interest income was favourable this quarter mainly due to a rise in income from foreign exchange transactions and fees and charges.

Operating expenses was on the rise mainly due to the increase in personnel expenses by 21.5 percent.

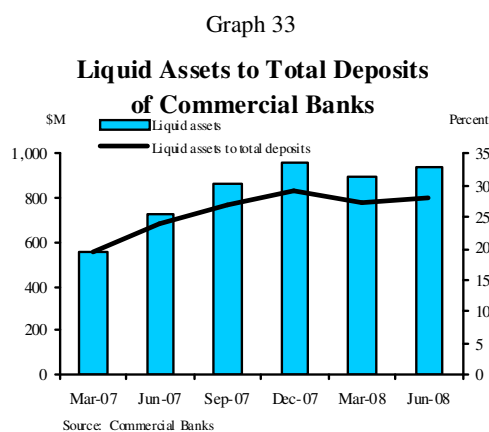
Banks' booked \$4.8 million as provision

for bad and doubtful debts over the quarter, 271.6 percent more than the previous quarter. In the last quarter, two banks had recorded write-backs in provisions.

The decline in pre-tax profits for the quarter also led to a decline in the pre-tax return on assets (annualised) of the banking industry from 4.1 percent to 3.5 percent. Similarly, return on equity (after tax profits) dropped to 30.8 percent from 37.3 percent in the last quarter (June 2007: 27%).

### Liquidity and Funding

Banks' liquidity position improved over the quarter, however, this remained marginal (Graph 33).



Given the faster rate of growth in loans than deposits, the ratio of loans to deposits slightly rose over the quarter to 79.9 percent from 79.3 percent (June 2007: 83.8%).

The maturity analysis for banks showed negative mismatches totalling \$368.4 million for the next 1-12 months. The level of liquid assets held would be able to

cover these outflows.

Large depositors represented 28.9 percent of total deposits in the June quarter compared to 30.6 percent in the previous quarter, indicating a lower concentration of deposits for the 15 largest depositors of banks.

### Overview – Credit Institutions

Credit institutions' operations were also assessed to be satisfactory over the quarter. Capital levels were strong with improved earnings performance, liquidity and asset quality positions.

The combined credit institutions' capital adequacy ratio remained strong at 23.6 percent.

Asset quality of credit institutions improved over the quarter but remained marginal. There was a significant decline in total past due (\$5.1m) and a noted improvement in specific provision coverage ratio, from 35.5 percent in to 65.9 percent over the quarter.

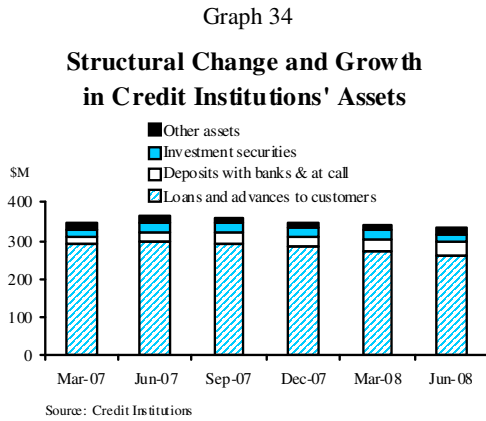
Management of credit institutions was assessed as satisfactory considering improvement in asset quality, liquidity and earnings performance.

Earnings performance improved over the quarter with combined before tax profits of \$4.8 million.

Despite an improvement in credit institutions' liquidity position, this continued to be rated marginal. There was a rise in the level of liquid assets (\$2.5m), which impacted on the liquidity ratios. Concentration in the 15 largest depositors also fell substantially by \$56.8 million in June 2008.

**Balance Sheet**

Credit institutions' total assets recorded a decline for the fourth consecutive quarter. It fell by \$9.4 million (2.7%) over the quarter and by \$29.4 million over the year to \$334.6 million. This was mainly attributed to the decline in loan portfolios (Graph 34).



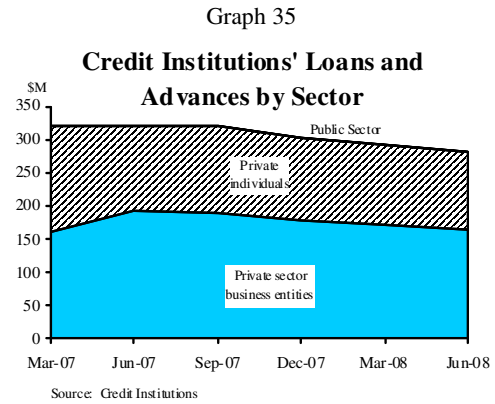
On the liabilities side, while amounts owing to parent companies increased by \$48.2 million (118.8%), term deposits dropped by \$56.8 million over the quarter. This was mainly due to one institution borrowing from its parent company to pay off its maturing deposits.

**Lending**

Negative growth was noted in the credit institutions' loan book for the fourth consecutive quarter. Credit declined substantially by \$10.0 million over the quarter and \$41.2 million over the year to \$280.5 million. Over the last few quarters credit institutions' strategy was to focus more on collections than engaging in new lending which led to the declining trend over the year (Graph 35).

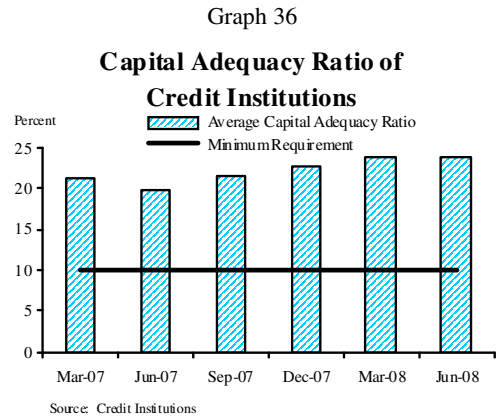
In terms of sectors affected, the drop in credit institutions' loan book was shared

between the private sector businesses (\$4.9m) and private individuals (\$5.0m).



**Capital Adequacy**

Credit institutions also recorded a strong capital adequacy ratio of 23.8 percent. The ratio decreased by 10 basis points when compared to the previous quarter but was 388 basis points higher than the June 2007 quarter (Graph 36).

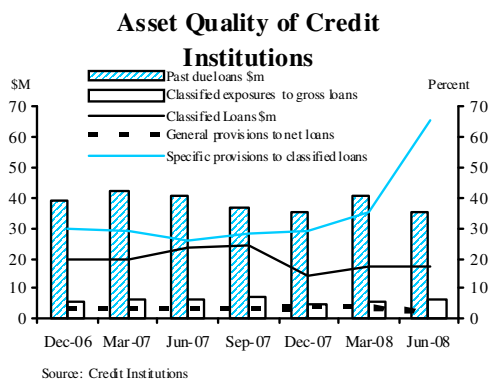


The decline in capital adequacy ratio resulted from a larger fall of 4.6 percent in risk weighted assets while total capital dropped by only 4.3 percent. The decline in total capital was attributed to dividend payouts by two institutions. The decline in risk-weighted assets was a direct result of a decrease in loan portfolios.

## Asset Quality

Similar to banks, credit institutions asset quality improved over the quarter. However, this remained marginal. This was mainly a result of a decline in all institutions' past due levels indicating effective implementation of restructure or collection strategies (Graph 37).

Graph 37



Total classified loans recorded a slight increase of \$0.3 million to \$17.7 million. Past due loans showed a significant decline of \$5.1 million over the quarter, stemming from the 1-3 months and 3-6 months categories.

There was a rise in the number of demand notices issued during the quarter (225 compared to 219 in March 2008) causing a rise in restructured credit facilities from 16 to 18 during the

quarter. In line with decline in total loans, general provisions dropped by \$4.2 million to \$6.9 million.

The amounts that reduced from general provisions were transferred to specific provisions by one institution causing a further increment of \$5.5 million in specific provisions over the quarter to \$11.7 million.

With the increase in specific provisions, coverage stood at 65.9 percent of classified loans in June compared to 35.5 percent in the previous quarter.

Developments in asset quality of credit institutions are largely dependent on individual institution's management strategies.

## Earnings

Earnings performance improved over the quarter with combined before tax profits of \$4.8 million.

This was characterised by a strong efficiency ratio, higher before tax return on profits and marginal return on equity.

Favourable net interest income recorded this quarter was mainly due to a drop in interest expense (8.6%) and a slight rise in interest income (1.1%).

**Table 2: Credit Institutions' Income Statement**

	Jun 07	Mar 08	Jun 08	% Change	
				Over Qtr	Over Jun 07
Interest Income	11.4	11.0	11.1	1.1	-2.4
Interest Expense	5.3	3.5	3.2	-8.6	-39.3
<b>Net interest income</b>	<b>6.1</b>	<b>7.5</b>	<b>7.9</b>	<b>5.6</b>	<b>29.6</b>
<b>Add: Non interest income</b>	<b>0.7</b>	<b>1.1</b>	<b>1.0</b>	<b>-9.6</b>	<b>52.2</b>
Commission	0.1	0.9	0.9	-1.6	-25.8
Fee Charges	0.2	0.5	0.3	-47.0	16.0
Other income	0.3	0.5	0.6	28.9	113.5
<b>Total operating income</b>	<b>6.8</b>	<b>8.6</b>	<b>8.9</b>	<b>3.7</b>	<b>31.8</b>
Less: Operating expenses	3.3	2.7	2.6	-3.9	-21.1
Less: Bad Debts & provisions	0.8	1.4	1.5	10.2	90.8
<b>Profit before tax</b>	<b>2.7</b>	<b>4.5</b>	<b>4.8</b>	<b>6.2</b>	<b>78.4</b>
Less: Tax	2.5	0.8	3.1	285.5	25.1
<b>Net profit after tax</b>	<b>0.2</b>	<b>3.7</b>	<b>1.7</b>	<b>-53.9</b>	<b>661.6</b>

Source: Credit Institutions

With increasing level of service fees and charges, non-interest income also improved over the quarter.

All institutions recorded reductions in their operating expenses which mainly stemmed from decline in personnel and other expenses.

Credit institutions booked \$1.5 million as bad debts and provisions expenses over the quarter. This was 10.2 percent more than the previous quarter. The rise was mainly due to a rise in classified assets.

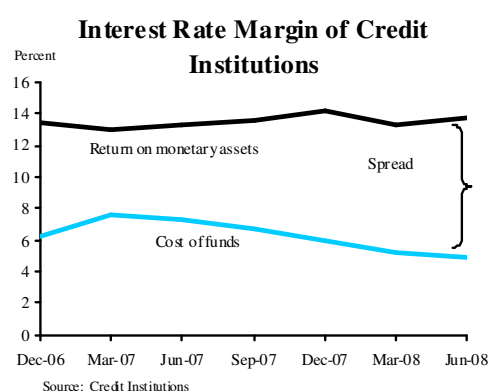
Despite a drop in after tax profits in the June quarter, satisfactory profitability ratios were recorded by credit institutions. Return on assets before tax improved to 5.7 percent from 5.3 percent in the previous quarter (June 2007: 3.0%). Return on equity decreased to 10.9

percent from 24.0 percent in the last quarter.

The increase in operating income and decline in operating expenses led credit institutions to record a superior efficiency ratio (operating cost to operating income) of 28.9 percent in the June quarter, the lowest recorded since June 2002.

Credit institution's spread widened following a contraction in the previous quarter (Graph 38).

Graph 38



Return on monetary assets improved to 13.8 percent from 13.3 in March 2008 and 13.4 in June 2007.

Following a downward trend of cost of funds since March 2007, cost of funds decreased further in the June quarter to 4.9 percent from 5.2 percent.

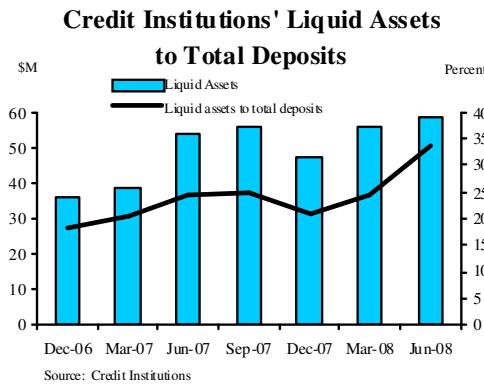
### Liquidity

Liquidity of credit institutions was assessed as marginal in the quarter attributed to unfavourable coverage ratios and negative mismatches in the short-term.

Total liquid assets of credit institutions increased by 4.5 percent to \$58.2 million led by a rise in deposits with other banks. This caused the liquidity ratios to improve as liquid assets to deposits ratio increased to 33.9 percent from 24.4 percent last quarter and liquid assets to total assets ratio rose to 17.4 percent from 16.2 percent (Graph 39).

Despite a 3.4 percent drop in loans and advances, loans to deposits ratio recorded a substantial rise from 127.2 percent in March to 163.4 percent in the June quarter. The increment was mainly due to a faster rate of decline (24.9%) in deposit level.

Graph 39



Maturity profile analysis of combined credit institutions shows negative mismatches for the next 12 months totalling \$74.0 million. This has reduced substantially compared to \$120.1 million recorded in the previous quarter.

Credit institutions' large depositors concentration reduced substantially in the June quarter from \$105.6 million (46.2%) to \$48.8 million (28.5%).

## Insurance Industry Quarterly Condition Report – March 2008

### Overview

The overall performance of the insurance industry for the March 2008 quarter was assessed to be satisfactory.

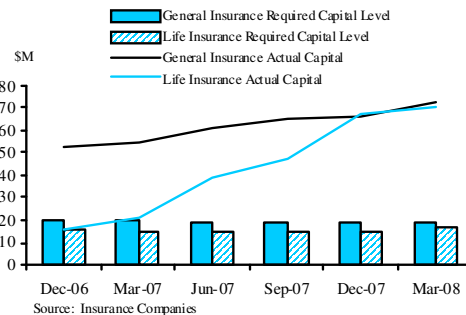
Both the life and general insurance sectors continued to record solvency surpluses on the back of improved underwriting performances over the quarter while liquidity levels remained satisfactory. All licensed insurers met the solvency requirements under the Insurance Act, 1998.

### Licensed Insurers

The consolidated industry capital level strengthened further to \$141.9 million compared to \$132.8 million in the previous quarter (Graph 40). Consequently, the capital requirement for the insurance industry increased slightly to \$35.1 million.

Graph 40

### Insurance Industry Actual Capital & Required Capital Levels



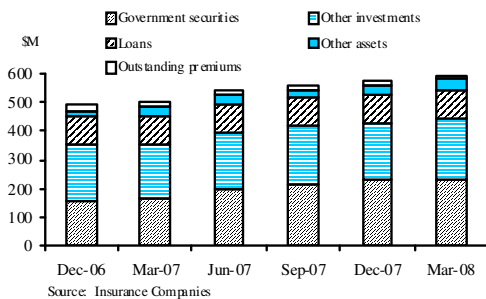
The industry was however, able to

generate a higher solvency surplus of \$106.9 million (December 2007: \$99.3m). The growth was attributed to the increase in available capital for the life insurance sector.

The combined assets of the industry rose to \$830.0 million, increasing by 2.5 percent over the quarter and 15.0 percent over the year. The annual growth was led by an overall increase in the life insurance sector’s investment portfolio particularly in government securities, bank deposits and shares in related persons, and the general insurance sector’s growth in current assets. The former continued to dominate the industry comprising 71.7 percent of the total asset portfolio.

On a sector by sector basis, total assets of life insurers grew by 18.9 percent over the year to \$595.2 million (December 2007: \$574.1m). Investments and loans continued to be the major categories driving the increase and accounted for 91.6 percent of the total assets (Graph 41).

Graph 41  
Distribution of Assets of Life Insurance Companies



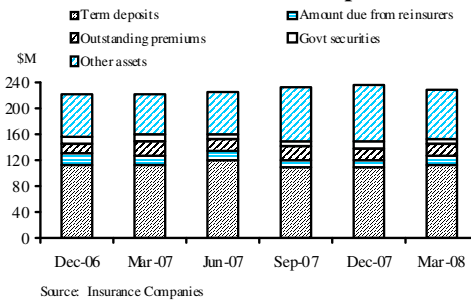
The asset distribution pattern remained unchanged from the same period last year. Government securities continued to form the bulk of the asset portfolio at 39.0 percent or \$232.3 million, followed by

loans to policyholders at 16.4 percent or \$98.4 million. Property accounted for 9.8 percent or \$58.2 million. Of the total loans, 99.0 percent were secured.

Government securities, loans and properties recorded slight growth over the quarter to \$232.2 million, \$98.4 million and \$58.2 million respectively. Term deposits on the other hand recorded the highest increase of 19.9 percent to reach \$48.2 million. Outstanding premiums increased by 2.7 percent to \$15.0 million. Compared to the same period last year, investments recorded an overall increase of 26.3 percent to \$446.8 million with notable increases in government securities, bank deposits, debentures and equity investments. Cash on hand also registered a notable increase over the year by 57.0 percent to \$15.7 million while equity investments increased by \$13.7 million compared to March 2007.

For the general insurance sector, combined assets showed a slight increase of 6.0 percent to \$234.9 million over the year compared to \$221.5 million in 2007 (Graph 42).

Graph 42  
Distribution of Assets for General Insurance Companies



Asset distribution remained largely unchanged. Investments continued to

dominate the asset portfolio comprising 63.4 percent of the general insurers' assets. Approximately three quarters of investments are made up of bank term deposits (\$114.0m).

Other major assets included outstanding premiums, amounts due from reinsurers, government securities, shares in related persons and cash on hand.

All insurers satisfactorily complied with required reinsurance arrangements, which were assessed to be adequate.

The industry's total liabilities increased over the year to \$643.3 million from \$474.0 million in 2007. The growth was underpinned by the continued increase in the life sector's balance of revenue account which formed the bulk of total liabilities at \$490.2 million.

The consolidated after tax profit of insurers was reported at \$15.8 million, a 43.6 percent increase over the corresponding year. The general insurance sector's positive underwriting results, an outcome of lower claims incurred, contributed to this growth supported by lower net policy outgoings from the life sector as well.

The liquidity position of the insurance industry as a whole was considered satisfactory as the major assets continued to be concentrated in bank deposits and government securities. These totalled \$402.0 million which could be easily liquidated should the need arise.

## Insurance Brokers

For the quarter ending March 2008, the insurance broking industry's total earnings decreased from \$4.1 million from the previous quarter to \$2.3 million. This was due to the notable decline of broking revenue and non-insurance related revenue particularly from gains on sale of fixed assets, exchange rates and interest income over the quarter.

However, when compared to the corresponding period in 2007, the broking industry's total revenue declined marginally.

Expenses decreased by \$0.4 million over the quarter to \$1.9 million, which was similar to the March 2007 level. The composition of expenses remained unchanged over the year with other expenses and salaries & wages making up 49.4 percent and 37.4 percent of the total expenses respectively. The efficiency ratio (total expenses to total revenue) of the insurance broking industry deteriorated to 81.9 percent compared to 70.1 percent in 2007.

As a result of decreased earnings, after tax profit dropped by 69.9 percent to \$0.3 million and halved over the year. The annual decline in after tax profit was directly attributed to the reduction in brokerage revenue while over the quarter, the decrease was due to the combination of lower brokerage/commissions and the absence of any significant revenue recorded under the others category.

The balance of broking account at the end of the review quarter was \$4.0 million, down by 27.1 percent from the same period last year. The reduction was due to a rise in total monies withdrawn in comparison to total monies received into the broking account.

Total premium monies received rose by 4.0 percent over the quarter to \$25.7 million (March 2007: \$24.7m). Of these, premiums received for licensed insurers accounted for 86.4 percent whilst premium received for offshore companies made up 13.2 percent.

Total monies withdrawn on the other hand rose to \$24.1 million compared to \$22.1 million in 2007. This largely resulted from the increase in payments to licensed insurers and self insurers by 20.9 percent (\$3.0m) and 34.5 percent (\$0.8m), respectively.

A total of 167 applications worth \$7.0 million were approved in the first quarter of 2008 compared to 142 applications amounting to \$6.6 million for the same

period in 2007. It was noted that actual offshore premiums remitted and the number of applications grew for the quarter under review.

Material Damage and Business Interruption continued to dominate the offshore placements at \$4.2 million or 59.1 percent of the total premiums remitted offshore (Table 3).

**Table 3: Summary of Offshore Placements for the quarter ended March 2008**

Category by Ins. Class	Mar-08 \$m	Mar-07 \$m	Mar-08 % of Total	Mar-07 % of Total
Term life	0.3	0.4	4.6	5.3
Medical	0.0	0.0	0.0	0.0
Mortgage	0.0	0.0	0.0	0.0
Aviation	0.9	1.3	12.2	0.0
Prof. Indemnity	0.1	0.2	2.0	3.7
Comprehensive/General/Excess/Public Liability	0.4	0.4	5.0	6.5
Material Damage & Business Interruption	4.2	4.2	59.1	64.0
Marine Hull	0.1	0.3	2.1	4.6
Others	1.1	1.0	15.0	15.9
<b>Total</b>	<b>7.1</b>	<b>6.6</b>	<b>100.0</b>	<b>100.0</b>

Source: Insurance Companies

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**ECONOMICS ASSOCIATION OF FIJI SEMINAR SERIES PUBLIC  
PRESENTATION: THE GLOBAL EFFECTS OF RISING PRICES: WHAT  
CAN WE DO?**

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*The Reserve Bank of Fiji (RBF) hosted the second Economics Association forum for 2008 in July. The panelists included; Dr Mahendra Reddy – Associate Professor of Economics, The University of the South Pacific (USP); Mrs Premila Kumar – Chief Executive, Consumer Council of Fiji; Mr N Krishnan – Chief Manager, Life Insurance Corporation of India and Mr Semiti Qalowasa – Programme Coordinator, Ecumenical Centre for Research and Advocacy (ECREA). An abridged version of their discussion is provided below.*

**Dr M. Reddy** emphasised that it was important to establish whether the current rise in prices was a temporary or permanent phenomenon. This would be necessary to prescribe the right set of policy options to tackle the growth in prices. Literature points out four major factors underpinning the current high commodity prices. First, there is an increase in demand for agricultural products being used for bio-fuel production. Secondly, supply side constraints, like the drought in Australia have created shortages in the market, thus raising prices. Thirdly, there has been a notable increase in demand for wheat products, especially in two of the fastest growing economies, China and India. Finally, the outturn also reflects an increase in cost of agriculture inputs such as fertilizers and pesticides.

With a large percentage of the population living below the poverty line in Fiji, reducing hardships on households should

be the priority for policy makers. It was encouraging to note that the Government had taken the leading role in removing Value Added Tax (VAT) and other duties on some essential food items. This is expected to ease price pressures somewhat. However, the reduction in VAT and duty will only create a one-off change in prices.

The only sustainable long term solution to combat price increases is to raise the supply of domestically produced agriculture products. The benefits are two fold; increased supply will lower prices on one hand and on the other hand it will raise farmers' income and profitability.

As such, the first step should be to revitalise the agricultural sector. In order to achieve this, a few impediments need to be dealt with.

First, farmers lacked appropriate technical knowledge in the agriculture sector. Therefore, more rigorous research by relevant officers need to be undertaken so as to assist farmers raise farm productivity.

Although several attempts have been made to rectify the problem, the land tenure system remained a bottleneck in the agriculture sector. This has caused rural depopulation with experienced able-bodied farmers moving to urban areas, making it difficult to sustain the rural economy. Hence, a feasible solution to the land tenure system must be secured early.

There is also a fundamental need to change the mindset of the younger generation. The older generation needs to convince them that agriculture has the potential to shape their future. A broad-based education awareness program on agriculture as a source of livelihood can be a starting point.

In addition, unnecessary subsidies, which can distort market mechanism by creating artificial prices, need to be removed.

Dr. Reddy also suggested that Fiji seriously consider Australia and New Zealand as potential markets for Fiji's agricultural goods for various reasons. He mentioned that the agriculture sector in these countries have been declining as a result of comparatively higher returns in non-agriculture sectors, which have caused farmers in peri-urban areas to shift resources out of agriculture.

Also, their agriculture sector is ageing off as the younger generation generally ignored the sector, leaving the industry with aged farmers.

Furthermore, there is a block of Pacific Islanders in Australia and New Zealand that have similar taste and preferences as Fiji Islanders. This highlights the need to establish effective marketing authorities to organise our small farmers to produce for these targeted markets.

**Ms P. Kumar** stated that no matter what the sources of these prices increases are, it is the consumers who ultimately have to experience the rising shopping bills. This is particularly more pronounced in an environment where salary and wages remained fairly stagnant or have been reduced. Moreover, she stressed that the situation is worsened for those who are below the poverty line.

It is during such times that the role of the Consumer Council becomes more demanding. However, their actions are constrained by the fact that they are not an enforcement agency, but rather an institution that provides external pressure to relevant authorities by acting as a watch dog trying to ensure fair and just delivery of services. Its' role also includes conducting rigorous research on key consumer issues.

In order to address the issue of rising food prices and its impact on the poor, she suggested that Government establish some form of a preferential arrangement such that it can sell groceries to people below the poverty line at relatively lower prices, compared to other traders.

Ms Kumar also raised the issue of correctly measuring the inflation rate in Fiji. This would be important to prescribe the right policy tools to combat inflation. The current inflation calculation has been persistently criticized for not being a good reflection of a modern consumer basket<sup>1</sup>.

**Mr N Krishnan** explained the policies that India had adopted to fight rising food prices and some lessons that Fiji could adopt.

He highlighted that rising demand and supply constraints are the root cause of soaring prices. This was in fact a growing concern world-wide and not only confined to Fiji. A speculative market such as futures commodity prices were also a major contributor to the accelerating inflation. In order to solve these problems in the long run, medium to long term solutions are needed, rather than short term policies.

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<sup>1</sup> In July 2008, the Fiji Islands Bureau of Statistics has revised the Consumer Price Index basket to 2005, from 1993 previously.

With regard to India, Mr Krishnan stated that 26 percent of the 1 billion population lived below the poverty line. The problem of increasing prices and poverty went hand in hand, meaning that the poor suffered the most from higher prices.

After India's independence, a lot of emphasis was placed on food security because it was found that India was importing a lot of food even though it was an agrarian country. Despite around 70 percent of the population being fully dependent on agriculture, food imports were high. This according to Mr Krishnan was due to very low productivity in the agriculture sector.

Nevertheless, India focused on the "green revolution" and "operation flood"<sup>2</sup> that were aimed at agricultural and milk production. He accentuated that 50 years down the line, India is now the largest producer of milk in the world. The food security has been established after a toil of about 30-40 years, which means that "one generation of people has made sacrifices to what India is today."

He also pointed out that the tertiary sector cannot progress without the primary sector being solid. The basic agricultural production needs to be active to take care of basic food security. This brings to light Fiji's situation where the land tenure system is an issue. He suggested that Fiji should look at the long term agricultural sustainability for basic food items. Only then will Fiji have resources coming in for investment in secondary and tertiary sectors.

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<sup>2</sup> "Operation Flood" was a rural development programme started by India's national Dairy Development Board in 1970. The objective of the programme was to create a nationwide milk grid. It resulted in making India one of the largest producers of milk and milk products and hence, is also called the "White Revolution of India".

Inflation in India has reached a high of around 11 percent, which is 3 times higher than the rate last year. He explained that there is a 20 percent increase in money flowing to the country in the form of foreign direct investment (FDI) and its foreign reserves have grown from US\$5.8 billion during 1991 to over US\$312 billion now. The strength of the economy is illustrated by a marked increase in the middle class income earners who are consuming a lot more now.

Mr Krishnan drew attention to the reasons for such high growth in prices of commodities being underpinned by a supplementary issue of the speculative trading in the oil market, as well as, increases in the price of steel and cement.

In regards to what the Indian Government has done and what Fiji can draw from, the speaker revealed that India adopted the food security in the initial years of independence and had a Socialist approach which later changed to Capitalist in the 1990s.

To curtail the effects of higher food prices, the Indian, as well as, the Fiji Government has reduced import duty on basic food items. On the other hand, India has banned the export of most food items, except for basmati rice. Fiji may not be able to do this as it hardly produces enough to meet domestic demand.

The reduction in import duty, which the Government has recently used, is a good short term measure. However, it cannot be kept for long as it will put pressure on financial viability. Moreover, if commodity prices continue to rise in the global market, the reduction in duty will be nullified.

Furthermore, the Government of India has a “Food for Work Program” to help families below the poverty line. In this program, the Government employs poor individuals and pays them food grains, rather than cash.

India has a “Targeted Public Distribution System”, (something similar to Government Supplies in Fiji) which covers almost all individuals below the poverty line. The individuals are issued with a ration card (based on family size) which can be taken to the nearest shop run by local Government and essential food items (rice, wheat, flour, sugar etc) can be bought at below market prices.

Mr Krishnan believes that subsidies should be provided to poor farmers in the initial stages of development for them to establish themselves and move out of poverty. This subsidy, however, can be eliminated later once the agricultural sector has become competitive.

In addition, India runs the “National Rural Employment Guarantee Program” which specifically operates in the rural areas. In this program, 100 days of labour is guaranteed for at least 1 member per family in some Government venture-projects like building & construction, infrastructure development and agriculture. This ensures some form of income for all family members in rural areas where these programs operate.

He recommended given the prevailing low interest rate in the market, this is an ideal time for the Fiji Government to borrow money and invest in infrastructure and development projects. This will help create employment and at the same time kick start the economy.

On what the Indian Government could have done better, Mr. Krishnan argued that since the economy was growing so well, the Government should have abolished subsidies to certain industries which were highly subsidised. For example, the real GDP growth rate was around 9 percent; while the agricultural sector was underperforming despite having almost 70 percent of the population in the industry. In addition, fuel prices were also subsidised which could have been dismantled.

Unlike Fiji, he clarified that India uses a Wholesale Price Index (WPI) to calculate inflation in their country. Similar to Fiji’s Consumer Price Index Basket, India’s WPI basket is outdated (base year 1994). Out of a total of 435 items, approximately 100 items are no longer used. Therefore, the basket is not reflective of true consumption patterns.

For Fiji, he pointed out that despite having an abundance of fertile land and favourable weather conditions, it was still a net importer of around \$300 million worth of food products, of which \$30-\$40 million was vegetable imports that could be grown locally. Growing these vegetables will result in immediately reducing our import bill by \$40 million. In addition, Fiji would not be pressured with the high global food prices. A good example is rice which can be produced locally instead of being imported.

In his conclusion, he suggested that large investment in non-cane agriculture sector is very important to increase food output. This may also assist in minimizing the rural-urban drift. The public distribution system can be started as Fiji already has a Government supply. This scheme can

significantly assist families below the poverty line.

He urged consumers to reduce consumption of imported non essential food items but instead grow and consume local fruits and vegetables.

The target should be to look at long term measures, rather than short-term policies only. He ended with the remark that “*one generation has to make sacrifices to make the future generation happy!*”

**Mr Semiti Qalowasa** began by quantifying the proportion of people living below the poverty line in Fiji. He informed the audience that ECREA did a joint survey with Father Kevin Barr and Margaret Chute in 2005 which covered the informal settlements in Fiji. Although the results of the survey have not been published, one of the findings was that some of the poor families are barely having 2 meals a day.

He further argued that the main reason why some policies failed was because they were made in isolation, without consulting the people involved. Hence, he suggested that the system of policy making should encourage extensive participation from key stakeholders.

Mr Qalowasa believed no one should be blamed for the current global phenomena of high prices. However, the pressure on poor people is compounded when they still have to meet their social and religious obligations, such as “soli”. Therefore, to develop the community, he stated that there is a need to break the culture of silence and dependency, and free people

from such obligations.

In terms of ECREA’s contribution to assist the disadvantaged population, Mr Qalowasa explained that they run a Budget Workshop where they teach low income earners how to priorities their expenditures. For instance, he said that it was common to find a considerable number of squatters spending a large proportion of their income on cigarettes. He estimated that these individuals who earn approximately \$5,000 per annum would spend around \$1,000 on smoking.

According to him, ECREA started a savings program known as the “People’s Community Network” (PCN) where 45 communities from a total of 79 squatter settlements in the Suva-Nausori corridor were involved. The squatters contributed \$1 a day and in the last 2 years, ECREA has collected around \$67,000. According to Mr Qalowasa, this program has taught people how to be accountable and transparent as they manage the funds themselves. ECREA has also been trying to promote growing of own food and also called for subsidized food for the poor. He summed up that in the current climate of rising prices, the squatters were the most severely affected. However, it was also important for them to be responsible and spend money wisely by prioritising.

In addition, he highlighted that ECREA encouraged individuals to start their own projects and be self-employed to support their families financially. People needed to think and work for themselves. Mr. Qalowasa called for “Action” and less “Talk”!

## For the Record

### RESERVE BANK OF FIJI RELEASES 2007 ANNUAL REPORT

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*Statement by the Governor of the Reserve Bank of Fiji, 27 August 2008*

The Interim Prime Minister and Acting Minister for Finance and National Planning, Commodore Josaia Voreqe Bainimarama tabled the 2007 Annual Report of the Reserve Bank of Fiji in Cabinet on 26 August, 2008. The Report includes the audited accounts and the operations of the Reserve Bank for the year ended 31 December, 2007.

Highlighting developments during the year, the Governor of the Reserve Bank, Mr. Savenaca Narube stated that “the 2007 year was an extremely difficult year for the Fiji economy. The economy contracted, employment conditions were weak, investment declined and the balance of payments continued to come under pressure. To make matters worse, inflation flared up mainly due to world developments which were well beyond Fiji’s control. This harsh climate presented very difficult policy choices between growth and safeguarding the balance of payments.”

The Governor noted that “in a state where the economy is declining, the balance of payments is under pressure and inflation is rising, the Reserve Bank’s focus needed to shift predominantly to the short term objective of protecting foreign reserves and moderating inflationary pressures. Understandably, such a policy stance does not directly promote economic growth. However, safeguarding economic stability now would not only build a much needed foundation for growth in the long term but

one that is more sustainable.”

Mr. Narube explained that “the monetary policy response was concentrated on two fronts. The first was to address the exuberant level of credit growth from 2003 onwards where the commercial banks’ lending to the private sector was growing by over 30 percent. The Reserve Bank had started to reduce this credit overhang since 2004 when we began raising interest rates. In response to the crisis of late 2006, the Reserve Bank decided to put aside its market based approach to implementing monetary policy and instead adopted a pragmatic strategy that is more effective in such a crisis situation. We decided to impose a ceiling on commercial banks’ lending in December 2006. This credit ceiling remained throughout 2007.”

He added that the second policy front was on exchange control. The Reserve Bank of Fiji had been progressively relaxing exchange controls for the last fifteen years. This will continue to be our long term strategy. However, to help stabilise our financial outflows after December 2006, selective tightening of exchange controls was chosen to help retain foreign exchange.

The Governor further highlighted that “in the second half of the year, the monetary policy strategy was having the desired effects. Foreign reserves stabilised and then increased to \$958.6 million up from

\$880.1 million at the end of 2006. Considering the considerable stress that the economy was facing, this was an encouraging result.”

He clarified that due to the stability in our external financial position, the Reserve Bank relaxed a number of its exchange control measures during 2007. At the end of the year, the limits on local borrowing by non resident companies was the only one remaining.

Mr. Narube explained that the credit ceiling and the exchange control limits on local borrowing are clearly short term measures. They are not intended, nor are they appropriate, for the long term. A comprehensive review of monetary policy will be undertaken early in 2008.

On deciding on the components of its monetary policy, the Governor highlighted that “the Reserve Bank was very mindful of the effects of its tight monetary policy on investment. Investment is necessary for growth. Therefore, in applying the credit ceiling, the Reserve Bank opened a window where commercial banks could exceed the ceiling but only in priority areas particularly investment.

This has worked well and approval of the use of this facility for new loans reached \$140.3 million during 2007. Thus the credit ceiling provided the Reserve Bank with an additional lever to steer credit to areas that continue to support growth in the medium term. The credit ceiling is therefore not restraining lending to investment.”

The Governor said that “The rise in inflation is a concern against a backdrop of a declining economy. This combination of economic decline and rising inflation would have a strong

adverse impact on the livelihood of the people particularly those in the lower income range. Rising inflation was clearly a global phenomenon and brought home the fact that Fiji is very much part of the global village. Rising food prices and the persistent high oil prices were the major reasons.”

Clearly, inflationary pressures were beyond the control of domestic demand management. There was very little that monetary policy needed to do in response to the rise in inflation. Monetary policy was already tight and consistent with the demand management strategy to combat inflation. Furthermore, demand was weakening. Therefore, in my view, the most sensible policy option was to prevent the second round effects of inflation on demand through wages and high fiscal deficits.

I am happy to report that Fiji’s financial system is strong and growing. Total assets of the financial system (excluding Reserve Bank of Fiji) increased by 2.7 percent to \$9.3 billion. Overall, non performing loans as a percentage of total loans of commercial banks at 6 percent remained low by international standards. The insurance industry’s performance was satisfactory in 2007 and insurance companies continued to be well capitalised and adequately met solvency requirements. The Bank worked closely with Fiji National Provident Fund’s board and management to strengthen its corporate governance.

Mr Narube also stated that the Reserve Bank had achieved several important milestones in 2007. The new banknotes featuring the new \$100 note and additional security features were unveiled by His Excellency, the President of Fiji, Ratu Josefa Iloilo in March 2007. A review of

our coins was completed in 2007 and the new coins which are generally smaller in size will be in circulation in early 2009. The 1 cent and 2 cents coins will be phased out of circulation and the old coins will be recalled.

The remaining provisions of the Financial Transactions Reporting Act came into force on 1 January 2008. We were very happy to launch the Real Time Gross Settlement System project in October 2007. FIJICLEAR, as the system is called, is operating well.

The Governor further reported that “the Bank’s 2007 financial statements are now compliant with the International Financial Reporting Standards. In 2007, the Bank recorded a profit of \$20.371 million. After transferring \$1 million to General Reserves, \$19.371 million was transferred to Government. This profit is higher than 2006 because of the higher level of foreign reserves and higher interest rates in the international market during 2007.”

In conclusion, the Governor stated that “2008 will again be a challenging year. The world economy is slowing. Commodity prices may rise further pushing domestic inflation higher. While the economy is projected to recover, the rate of recovery is low and will take several years for the country to regain its 2006 position. There are some encouraging signs on exports but this is insufficient to narrow the trade deficit. The pressure on the balance of payments will remain and may well intensify. Thus, the country needs to exert more priority and resources to growing exports, establishing alternative sources of energy and growing its agricultural output to lower the demand on imports. We cannot achieve this without reforms. A program of reform must be an integral part of our national plan to move forward and build a better platform for our future growth. On monetary policy, the focus for 2008 will be on consolidating our external financial stability.”

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**For the Record****RESERVE BANK RELAXES POLICY ON PREPAYMENTS OF IMPORTS**

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*Statement by the Governor of the Reserve Bank of Fiji, 08 September 2008*

Prior approval of the Reserve Bank was required for prepayments of imports of \$50,000 and over. This has now been relaxed. With effect from 8 September 2008, for amounts up to \$1.0 million, importers can make payments directly through their commercial bank and authorised dealer without prior approval from the

Reserve Bank.

In announcing these changes, the Governor, Mr. Savenaca Narube, explained that the gradual recovery in the economy and a more positive outlook is now allowing the Reserve Bank to gradually relax policies to levels prior to January 2002.

## For the Record

### RESERVE BANK COMMENCES PUBLIC AWARENESS ON NEW COINAGE STRUCTURE

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*Statement by the Deputy Governor of the Reserve Bank of Fiji, 11 September 2008*

The Reserve Bank of Fiji today announced the commencement of the public awareness campaign for the nation's new coinage structure as endorsed by Cabinet in March this year. In making the announcement Deputy Governor Mr. Sada Reddy said that Cabinet, on 13 March 2008, approved a new coinage structure for Fiji as follows:

- Withdrawal from circulation of the 1 cent coins in addition to the earlier approval to withdraw the 2 cents from circulation when stocks run out; and
- Introduction of smaller and lighter 5, 10, 20, 50 cent and \$1 coins with new metal composition and edge designs to replace the current circulation coins.

Since March 2008, the Bank had been working closely with the successful tenderer, the Royal Canadian Mint, to finalise production.

Mr. Reddy explained that the changes were necessary in order to take advantage of new technologies in minting coins; achieve cost savings due to rising cost of metals by reexamining the metal composition and the size of our coins, and in doing so aligning the size and weight to value; and taking into account public views and ensure Fiji's coinage meets the needs of the general

public. Implementation of these changes will save the country millions of dollars.

The newer smaller and lighter coins will be issued in January 2009 and further details will be released progressively by the Bank in the near future.

Mr. Reddy also informed that effective from 13 October 2008 the Reserve Bank will commence withdrawing the 1 and 2 cent coins from circulation.

He went on to say that over the past few weeks the Bank has engaged key stakeholders in discussions to ensure that critical issues stemming from the cessation are addressed particularly the issue of rounding to the nearest 5 cents.

Mr. Reddy clarified that the marked prices should not change and that the rounding will only occur at point of sale and for cash transactions only. Mr. Reddy said that it is important that the public realize that current prices should not be affected by this change.

The Reserve Bank will issue guidelines on the rounding as agreed with the Prices & Incomes Board to apply for price controlled items. The Reserve Bank is encouraging all traders to use the same rounding

methodology for non price controlled items and they hope competitive forces will keep this in check. The Reserve Bank acknowledges that the

major concern is for rural areas and the Bank is committed to ensuring that awareness filters down effectively to these areas.

**For the Record****RESERVE BANK ANNOUNCES RELAXATION IN EXCHANGE CONTROL POLICIES**

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*Statement by the Deputy Governor of the Reserve Bank of Fiji, 29 September 2008*

The Reserve Bank has recently reviewed its exchange control policy and has made changes to the current delegation of foreign exchange transactions to Authorised Foreign Exchange Dealers. These come into effect immediately.

The changes include the increase in delegated limits in certain categories and delegation up to certain amounts for transactions that previously required Reserve Bank approval. One of the main relaxations is the increase in travel allowances from \$5,000 to \$10,000 and the increase in credit and debit cards limits

from \$10,000 to \$15,000.

The Deputy Governor of the Reserve Bank, Mr. Sada Reddy, explained that the gradual recovery in the economy this year and further growth expected next year has allowed the Reserve Bank to review and ease exchange control policies this year. The current relaxations are in addition to the relaxation in relation to advance import payments to \$1.0 million announced last month.

Details of the policy changes are attached.

**Details of Relaxation of Exchange Control Policy**

1. Emigration	FNPF funds are fully delegated
2. Travel	Delegated up to \$10,000 for return tickets
3. Credit Cards	Delegated up to \$15,000 per month
4. Debit Cards	Delegated up to \$15,000 per month
5. Merchant Imports	Delegated up to \$50,000 per invoice
6. Services/Fees/Charges	Delegated up to \$100,000 per invoice
7. Medical & Education expenses paid to Institution	Delegated up to \$100,000 for the current year
8. Alimony and Payment under Court Order	Delegated up to \$100,000 per annum
9. Loan Repayments	Delegated up to \$100,000 per scheduled payments
10. Personal payments - Education - Medical	Delegated up to \$1,000
11. Subscriptions	Delegated up to \$1,000