



## **Monthly Economic and Financial Developments September 2007**

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

### **Future Release Dates:**

2007: December 3<sup>rd</sup>

## ***1. Domestic Economic Developments***

Indications are that the expansion in the Bahamian economy moderated somewhat during September, amid a leveling off in foreign investment inflow and tourism activity. Strengthened seasonal demand for foreign currency also contributed to a fall-off in both bank liquidity and external reserves.

Total visitor arrivals fell by 7.0% during the first seven months of 2007, in comparison to the previous year, due to contractions in both the air and sea segments, by 8.0% and 6.5%, respectively. All of the major ports registered declines, with the largest decrease noted for the Family Islands of 8.6% to 0.8 million visitors. Similarly, travelers to the Grand Bahama market fell by 8.3% to 0.4 million, and arrivals to New Providence weakened by 5.9% to 1.6 million.

On the fiscal side, the deficit for the first two months of FY2007/08 stood at \$23.2 million, in contrast to a \$0.4 million surplus in the corresponding period of FY2006/07. This outturn reflected a 7.7% rise in expenditure, as current and capital outlays firmed by 4.1% and 25.0%, respectively. Moreover, total revenue moderated by 3.4%, occasioned by a 5.4% contraction in tax receipts which overshadowed the growth in non-tax revenue.

Inflation for the twelve months ending September moved higher vis-à-vis last year by 0.8 percentage points to 2.42%, owing to continuing price pressures from higher fuel costs. The most significant increases were recorded for other goods and services (4.62%), furniture & household operation (3.98%), food and beverages (3.82%), and recreation & entertainment services (3.35%).

## ***2. International Developments***

Based on the September edition of the IMF's "World Economic Outlook", the global economy expanded by a robust 5% in the first half of 2007, mainly reflecting positive developments in China and India, and expectations are for an additional 4.75% advance in the July to December period. However, several risks remain to this outlook, including the adverse impact of the United States mortgage crisis on the global financial system and continuing concerns over oil price induced inflation. Consequently, a number of central banks have adopted a cautious "wait and see" approach to monetary policy, with the exception of the Federal Reserve, which loosened monetary policy to stimulate aggregate demand in the United States' economy.

Conditions in the United States real estate sector continued to be negative during the review month. Housing starts fell by 10.2% to an annual rate of 1.19 million units, the lowest level in over a decade, and building permits contracted by 7.3% to a yearly rate of 1.23 million units. However, other sectors of the economy showed signs of improvement, as the trade deficit narrowed by \$1.4 billion to \$57.6 billion in August, with the decline in the US dollar contributing to the \$0.6 billion expansion in exports, while imports waned by \$0.8 billion. Retail sales in September rose by 0.6% over the previous month. The unemployment rate was relatively unchanged at 4.7%, as gains in non-farm employment of approximately 110,000 negated accretions to the labour force. In response to an appreciable deterioration in financial market conditions during September and the fear that there would be some spill over into the wider economy, the Federal Reserve reduced the federal funds rate for the first time in four years, by 50 basis points to 4.75%. The discount rate was also lowered by a similar magnitude to 5.25%.

The robust growth observed in the Chinese economy during the first half the year continued unabated in the third quarter, as increased investments, retail sales and exports propelled the rise in GDP over the nine month period to 11.5%. Correspondingly, the country's trade surplus rose by 69% to \$185.7 billion, resulting in foreign exchange reserves strengthening by over 45.1% on a year-on-year basis to a record \$1.43 trillion. Buoyed by the rapid rise in foreign and domestic investments, consumer price inflation, on a point-to-point basis, firmed by 5.2% in August. The Central Bank continued its policy of reducing the level of monetary accommodation during the review month, increasing the benchmark deposit and lending rates by 0.27 percentage points each, to 3.87% and 7.29%, respectively. In addition, the Bank raised the commercial banks' reserve requirement ratio by 0.5 percentage points.

Preliminary data for Japan showed industrial production in August rising by 3.4% on a monthly basis, following a rebound in auto manufacturing in the aftermath of the July earthquake. In addition, the trade surplus strengthened by more than 13.7% from the previous month to ¥892.2 billion, as the 2.4% contraction in imports offset the marginal fall in exports. Average prices in August rose by 0.5% on a monthly basis, but declined by 0.2% over the previous year. Given these developments, the Bank of Japan decided to maintain its benchmark interest rate at 0.5%.

Despite the dislocation in the financial sector in September, caused by the uncertainty surrounding the solvency of a major mortgage lender, indications are that the UK economy continued to strengthen. Preliminary data for the three months ended August revealed that industrial production advanced by 0.4% relative to the previous quarter, and retail sales were 1.3% higher supported by heightened non-food related purchases. The August trade deficit narrowed by £0.5 billion to £4.1 billion, reflecting an improvement in the goods deficit to £6.9 billion from a revised £7.4 billion a month earlier. The unemployment rate steadied at 5.4% in the three-months to August, while consumer prices increased by 1.8% in September, buoyed by higher costs for food products. Meanwhile, in light of the uncertainty surrounding the impact of the financial sector crisis on the wider economy, the Bank of England maintained its main interest rate at 5.75% in September.

Revised second quarter GDP estimates for the euro area showed total output increasing by 0.3%, although 0.5 percentage points lower than the expansion registered in the previous quarter. However, increased production of non-durable consumer goods supported a higher expansion in industrial production of 1.2% in August vis-à-vis 0.7% a month earlier. The unemployment rate was unchanged on a monthly basis at 6.9%; while increased costs for housing, transport and food products led to inflation rising by 0.4 percentage points to 2.1%. At its September meeting, the ECB kept its key interest rates unchanged in the wake of growing uncertainty surrounding the global financial markets.

In September, ongoing geopolitical tensions, combined with production disruptions in the Gulf of Mexico, elevated oil prices by 9.3% above the previous mark to \$78.84 per barrel. Production expanded by 0.24 million barrels per day (mb/d) to 30.6 mb/d, amid a rebound in oil production from Iraq and, in an effort to ensure adequate crude supplies to meet the demand of the upcoming winter season, OPEC agreed to boost its production by 0.5 mb/d beginning November 1<sup>st</sup>, 2007. Given volatile crude oil prices, uncertainty in the financial markets and a depreciating US dollar, investors increased their demand for safer investments. As a result, the price of gold rose by 10.4% to \$743.60 per ounce and silver firmed by 14.0% to \$13.77 per ounce.

The Federal Reserve's decision to cut interest rates to prevent the housing crisis from expanding to the wider economy helped to push global stock indices higher during the review month. In the US, the Dow Jones Industrial Average and the S&P 500 advanced by 4.03% and 3.26%, respectively; while in Europe, the FTSE 100 moved higher by 2.59%, the CAC 40, by 0.94% and the DAX, by 2.92%. Similarly, Japan's Nikkei 225 rose by 1.31%.

### ***3. Domestic Monetary Trends***

During September, monetary and credit trends featured contractions in both liquidity and external reserves, reflecting continued seasonal firming in domestic credit, which outstripped accretions to deposit balances. However, the year-to-date outcome continues to show a comparatively moderated rate of credit growth which, when combined with strong foreign investment inflows, occasioned notable improvements in liquidity and external reserves.

#### ***September 2007 vs. 2006***

During the review period, excess reserves declined by \$28.1 million, reversing the \$50.5 million gain witnessed in 2006 which was boosted by extraordinary real sector transactions. Similarly, excess liquid assets contracted by \$60.4 million, following a \$51.6 million expansion a year earlier.

The fall-off in external reserves broadened to \$86.6 million during from \$18.7 million in 2006, as the Central Bank's net foreign currency sale expanded by \$67.0 million to meet both private and public sector demand. In particular, the Bank's net sale to commercial banks advanced strongly by \$36.3 million, as they facilitated a \$21.2 million hike in their corresponding net sale to the public, to \$49.2 million. Further, the Bank's net sale to the public sector firmed by \$30.6 million to \$32.0 million, following last year's extraordinary purchases associated with the Kerzner privatization transaction.

During the review month, Bahamian dollar credit growth surged by \$107.2 million vis-à-vis a \$32.5 million increase last year. Higher borrowings by way of advances and Treasury bill issues led to a reversal in Government's transactions, from a net repayment of \$55.9 million in the previous year, to a net liability of \$58.1 million in the current period. In contrast, private sector credit growth tapered off by more than 40% to \$49.8 million, as accretions to consumer credit and mortgages slowed by \$8.3 million and \$8.4 million, to \$14.7 million and \$24.4 million, respectively. Further, credit to the rest of the public sector fell by \$0.7 million, reversing the 2006 \$3.9 million upturn.

Following a contraction of \$19.2 million in the previous year, foreign currency credit waned by \$4.0 million in the current period. This decrease reflected a \$3.7 million moderation in private sector credit, compared to a downturn of \$17.7 million in 2006. Similarly, occasioned by an increase in deposits, net claims on the Government narrowed by \$0.5 million, while credit to the rest of the public sector recorded a marginal expansion.

Growth in Bahamian dollar deposits strengthened by \$3.2 million to \$14.4 million, and included an apparent shift to longer-term deposits. Specifically, accretions to fixed deposits firmed by \$47.3 million to \$48.2 million in contrast to a \$34.9 million drop in demand balances following a marginal \$0.4 million advance a year earlier. Savings deposit growth moderated by \$8.8 million to \$1.0 million.

The weighted average deposit rate rose by 7 basis points during the review month to 3.75%, with the highest rate registered at 6.75% for fixed maturities over 6-12 months. Conversely, the weighted average loan rate fell by 9 basis points to 10.63%.

### *January - September 2007*

Monetary conditions through the first nine months of 2007 continued to be buoyed by the strong foreign currency inflows in the opening months of the year which augmented both liquidity and external reserves. While growth in excess reserves was slightly lower at \$42.9 million, the broader measure of liquid assets surged by \$125.3 million vis-à-vis \$50.2 million in 2006, as was observed in banks' increased holdings of Government paper.

External reverses posted growth of \$19.4 million during the nine month period, compared to a \$35.2 million reduction a year earlier. Underlying this development was a reversal in the Central Bank's net foreign currency transactions, to a net purchase of \$2.7 million from a net sale of \$51.2 million. This was supported out of a 71% hike in commercial banks' net sale to the Bank to \$171.3 million, as their net purchase from customers doubled to \$158.2 million. However, the Bank's net sale to the public sector strengthened by \$17.8 million to \$168.6 million.

Reflecting a slowdown in private sector credit growth, the accretion to Bahamian dollar credit was lower by 10% at \$471.9 million. The advance in claims on the private sector weakened by 31.8% to \$371.3 million, reflecting the moderation in mortgages and consumer credit growth, by \$35.4 million and \$26.2 million to \$219.8 million and \$143.2 million, respectively. Moreover, credit to the rest of the public sector narrowed by \$60.7 million, a reversal from a \$28.3 million increase noted a year earlier. By contrast, net claims on the Government firmed by \$161.3 million in the current period, a turnaround from the \$48.3 million decline recorded in 2006.

Foreign currency credit fell by \$3.2 million in the January to September period, vis-à-vis a \$73.0 million gain last year. In particular, there was a sharp reduction in private sector credit expansion, from \$36.5 million last year to \$1.2 million, and both net claims on Government and credit to the rest of the public sector fell by \$1.7 million and \$2.8 million, respectively.

Growth in total Bahamian dollar deposits strengthened to \$365.0 million from \$257.6 million in the previous period. Reflecting some shift from demand to higher yielding balances, the accretion to fixed deposits more than doubled to \$294.7 million, and was slightly higher for savings deposits at \$66.2 million. Conversely, gains in demand deposits slackened to \$4.0 million from last year's \$52.2 million rise.

### *4. Outlook*

The Bahamian economy is expected to maintain a moderated growth profile through the balance of this year, supported by stable domestic demand and ongoing activity in the construction sector. However, additional pressure will be exerted on external reserves, based on expectations of continuing higher oil prices and increased imports related to the seasonal build up in inventories.

# Recent Monetary and Credit Statistics

(B\$ Millions)

<b>SEPTEMBER</b>						
Value		Change		Change YTD		
2006	2007	2006	2007	2006	2007	

## 1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	244.46	179.09	50.49	-28.09	49.08	42.93
1.2 Excess Liquid Assets	162.60	134.77	51.63	-60.36	50.15	125.33
1.3 External Reserves	547.71	471.31	-18.71	-86.55	-35.22	19.40
1.4 Bank's Net Foreign Assets	-653.35	-677.00	33.30	13.34	-83.42	-44.60
1.5 Usable Reserves	221.87	165.30	-40.86	-69.24	-38.25	6.60

## 2.0 DOMESTIC CREDIT

<b>2.1 Private Sector</b>	<b>5,498.81</b>	<b>6,020.54</b>	<b>66.85</b>	<b>46.18</b>	<b>580.95</b>	<b>372.51</b>
a. B\$ Credit	5,000.35	5,524.85	84.54	49.83	544.41	371.27
of which: Consumer Credit	1,819.24	2,029.53	23.04	14.74	169.40	143.18
Mortgages	2,161.55	2,460.08	32.84	24.42	255.16	219.80
b. F/C Credit	498.46	495.70	-17.69	-3.65	36.53	1.24
of which: Mortgages	26.72	40.09	-10.51	3.01	14.43	8.77
<b>2.2 Central Government (net)</b>	<b>601.92</b>	<b>827.65</b>	<b>-57.41</b>	<b>57.64</b>	<b>-32.68</b>	<b>159.61</b>
a. B\$ Loans & Securities	717.13	947.02	-48.54	57.73	-33.78	157.81
Less Deposits	128.83	120.34	7.36	-0.36	14.47	-3.51
b. F/C Loans & Securities	16.48	4.06	0.00	0.00	16.48	-0.90
Less Deposits	2.86	3.10	1.51	0.45	0.91	0.80
<b>2.3 Rest of Public Sector</b>	<b>362.33</b>	<b>310.26</b>	<b>3.86</b>	<b>-0.58</b>	<b>49.14</b>	<b>-63.42</b>
a. B\$ Credit	126.56	71.10	3.86	-0.68	28.26	-60.67
b. F/C Credit	235.77	239.16	0.00	0.10	20.88	-2.76
<b>2.4 Total Domestic Credit</b>	<b>6,463.06</b>	<b>7,158.45</b>	<b>13.31</b>	<b>103.23</b>	<b>597.41</b>	<b>468.70</b>
a. B\$ Domestic Credit	5,715.21	6,422.63	32.50	107.24	524.42	471.92
b. F/C Domestic Credit	747.85	735.82	-19.19	-4.01	72.98	-3.22

## 3.0 DEPOSIT BASE

3.1 Demand Deposits	1,107.78	1,080.75	0.42	-34.87	52.16	3.99
a. Central Bank	8.21	12.72	-4.57	-1.68	-21.66	-4.50
b. Banks	1,099.57	1,068.04	4.99	-33.19	73.82	8.49
3.2 Savings Deposits	943.78	1,016.95	9.80	1.04	60.88	66.24
3.3 Fixed Deposits	2,721.60	3,075.67	0.95	48.22	144.56	294.73
3.4 Total B\$ Deposits	4,773.16	5,173.38	11.17	14.39	257.60	364.96
3.5 F/C Deposits of Residents	158.98	184.68	-3.06	-2.21	9.29	3.77
<b>3.6 M2</b>	<b>4,955.28</b>	<b>5,371.35</b>	<b>5.77</b>	<b>8.65</b>	<b>234.25</b>	<b>337.77</b>
<b>3.7 External Reserves/M2 (%)</b>	<b>11.05</b>	<b>8.77</b>	<b>-0.39</b>	<b>-1.63</b>	<b>-1.29</b>	<b>-0.20</b>
<b>3.8 External Reserves/Base Money (%)</b>	<b>87.32</b>	<b>80.02</b>	<b>-10.06</b>	<b>-9.52</b>	<b>-11.77</b>	<b>-0.37</b>

Value		Year to Date		Change	
2006	2007	2006	2007	Month	YTD

## 4.0 FOREIGN EXCHANGE TRANSACTIONS

<b>4.1 Central Bank Net Purchase/(Sale)</b>	<b>-21.01</b>	<b>-87.99</b>	<b>-51.17</b>	<b>2.66</b>	<b>-66.98</b>	<b>53.83</b>
a. Net Purchase/(Sale) from/to Banks	-19.68	-56.03	99.60	171.26	-36.34	71.66
i. Sales to Banks	43.65	64.86	229.40	225.55	21.22	-3.85
ii. Purchases from Banks	23.96	8.84	329.00	396.81	-15.13	67.81
b. Net Purchase/(Sale) from/to Others	-1.33	-31.96	-150.76	-168.59	-30.64	-17.83
i. Sales to Others	39.47	41.57	327.06	374.31	2.11	47.24
ii. Purchases from Others	38.14	9.61	176.30	205.71	-28.53	29.41
<b>4.2 Banks Net Purchase/(Sale)</b>	<b>-27.99</b>	<b>-49.18</b>	<b>74.07</b>	<b>158.24</b>	<b>-21.20</b>	<b>84.17</b>
a. Sales to Customers	317.67	285.42	2,463.43	2,558.85	-32.25	95.41
b. Purchases from Customers	289.68	236.23	2,537.50	2,717.09	-53.45	179.59
<b>4.3 B\$ Position (change)</b>	<b>23.36</b>	<b>12.47</b>				

## 5.0 EXCHANGE CONTROL SALES

<b>5.1 Current Items</b>	<b>336.57</b>	<b>294.82</b>	<b>2,631.29</b>	<b>2,547.82</b>	<b>-41.76</b>	<b>-83.47</b>
of which Public Sector	<b>41.91</b>	<b>42.55</b>	<b>389.60</b>	<b>383.57</b>	<b>0.64</b>	<b>-6.03</b>
a. Nonoil Imports	121.97	115.12	1,110.68	1,076.36	-6.85	-34.32
b. Oil Imports	77.22	57.90	424.39	344.92	-19.33	-79.47
c. Travel	23.18	16.41	199.99	195.41	-6.76	-4.58
d. Factor Income	23.40	15.15	112.27	81.47	-8.26	-30.79
e. Transfers	11.99	8.52	61.08	69.34	-3.47	8.26
f. Other Current Items	78.82	81.72	722.88	780.32	2.90	57.44
<b>5.2 Capital Items</b>	<b>27.67</b>	<b>8.41</b>	<b>148.85</b>	<b>82.71</b>	<b>-19.26</b>	<b>-66.14</b>
of which Public Sector	<b>1.27</b>	<b>1.72</b>	<b>24.32</b>	<b>30.21</b>	<b>0.45</b>	<b>5.90</b>
<b>5.3 Bank Remittances</b>	<b>16.00</b>	<b>5.89</b>	<b>43.00</b>	<b>24.87</b>	<b>-10.11</b>	<b>-18.13</b>

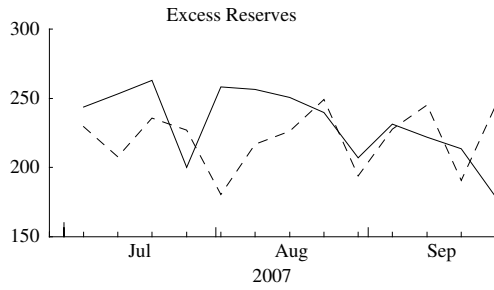
Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: SEPTEMBER 27, 2006 and SEPTEMBER 26, 2007

Exchange Control Sales figures are as at month end.

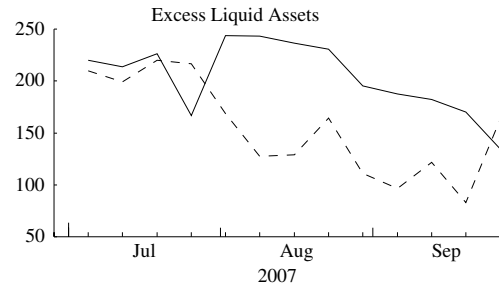
Notes: 1.0, 2.0 and 3.0 YTD change reflects change of current month over previous year end; for 4.0 and 5.0 change is over corresponding period of previous year.

Components may not sum to totals due to round-off error.

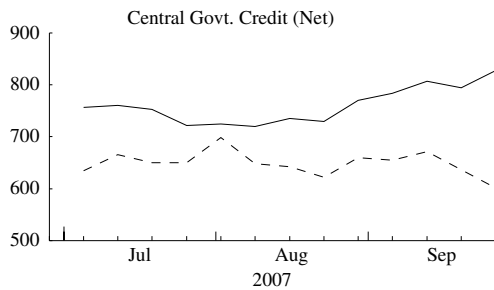
## SELECTED MONEY AND CREDIT INDICATORS (B\$ Millions)



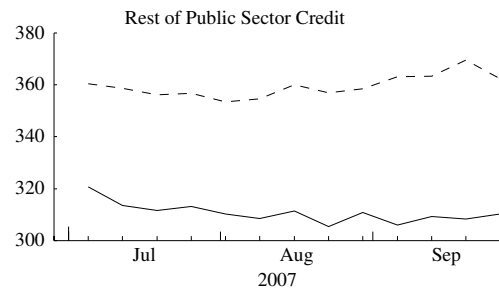
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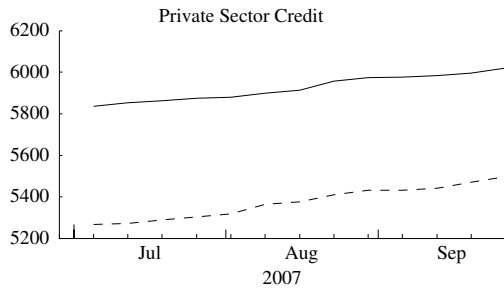
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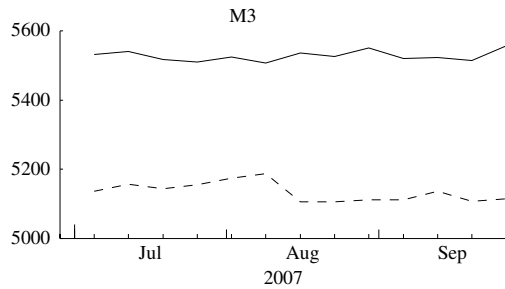
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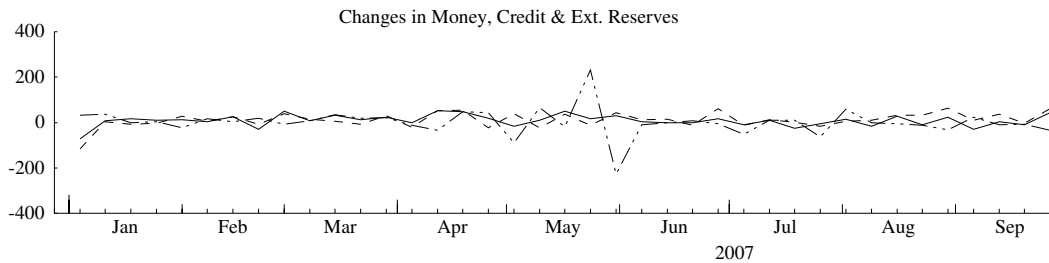
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## Selected International Statistics

<b>A: Selected Macroeconomic Projections (Annual % Change and % of labor force)</b>						
	Real GDP		Inflation Rate		Unemployment	
	2006	2007	2006	2007	2006	2007
Bahamas	4.0	4.5	1.9	1.9	7.6	n/a
United States	3.3	2.0	3.2	1.9	4.6	4.8
Euro-Area	2.8	2.6	2.2	2.0	7.7	7.3
<i>Germany</i>	2.8	2.6	1.8	2.0	8.1	7.8
Japan	2.2	2.6	0.2	0.3	4.1	4.0
United Kingdom	2.8	2.9	2.3	2.3	5.4	5.3
Canada	2.8	2.5	2.0	1.7	6.3	6.2
<i>Sources: IMF World Economic Outlook Update, July 2007 &amp; The Bahamas Department of Statistics.</i>						

<b>B: Official Interest Rates - Selected Countries (%)</b>					
<i>With effect from</i>	<b>CBOB</b>	<b>ECB (EU)</b>	<b>Federal Reserve (US)</b>		<b>Bank of England</b>
	<b>Bank Rate</b>	<b>Refinancing Rate</b>	<b>Primary Credit Rate</b>	<b>Target Funds Rate</b>	<b>Repo Rate</b>
January 2006	5.25	2.25	5.50	4.50	4.50
February 2006	5.25	2.25	5.50	4.50	4.50
March 2006	5.25	2.50	5.75	4.75	4.50
April 2006	5.25	2.50	5.75	4.75	4.50
May 2006	5.25	2.50	6.00	5.00	4.50
June 2006	5.25	2.75	6.25	5.25	4.50
July 2006	5.25	2.75	6.25	5.25	4.50
August 2006	5.25	3.00	6.25	5.25	4.75
September 2006	5.25	3.00	6.25	5.25	4.75
October 2006	5.25	3.25	6.25	5.25	4.75
November 2006	5.25	3.25	6.25	5.25	5.00
December 2006	5.25	3.50	6.25	5.25	5.00
January 2007	5.25	3.50	6.25	5.25	5.25
February 2007	5.25	3.50	6.25	5.25	5.25
March 2007	5.25	3.75	6.25	5.25	5.25
April 2007	5.25	3.75	6.25	5.25	5.25
May 2007	5.25	3.75	6.25	5.25	5.50
June 2007	5.25	4.00	6.25	5.25	5.50
July 2007	5.25	4.00	6.25	5.25	5.75
August 2007	5.25	4.00	5.75	5.25	5.75
September 2007	5.25	4.00	5.25	4.75	5.75



## Selected International Statistics

<b>C. Selected Currencies (Per United States Dollars)</b>						
Currency	Sep-06	Aug-07	Sep-07	Mthly % Change	YTD % Change	12-Mth% Change
Euro	0.7890	0.7337	0.7009	-4.5	-7.5	-11.2
Yen	118.18	115.78	114.8	-0.8	-3.6	-2.9
Pound	0.5341	0.4958	0.4884	-1.5	-4.3	-8.5
Canadian \$	1.1180	1.0557	0.9923	-6.0	-14.9	-11.2
Swiss Franc	1.2506	1.2085	1.164	-3.7	-4.5	-6.9

*Source: Bloomberg as at September 30 , 2007*

<b>D. Selected Commodity Prices (\$)</b>					
Commodity	Sep 2006	Aug 2007	Sep 2007	Mthly % Change	YTD % Change
Gold / Ounce	598.30	673.40	743.60	10.4	16.8
Silver / Ounce	11.44	12.08	13.77	14.0	6.7
Oil / Barrel	62.57	72.1	78.84	9.3	29.7

*Source: Bloomberg as at September 30, 2007*

<b>E. Equity Market Valuations – September, 2007 (%chg)</b>							
	BISX	DJIA	**S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	1.95	4.03	3.26	2.59	0.94	2.92	1.31
3 month	3.53	5.17	4.36	1.68	-0.62	3.66	-2.69
YTD	13.92	11.49	6.73	3.95	3.14	19.17	-2.56
12-month	17.15	18.98	14.32	8.49	8.87	30.93	4.08

*Sources: Bloomberg and BISX*

<b>F: Short Term Deposit Rates in Selected Currencies (%)</b>			
	USD	GBP	EUR
<b>o/n</b>	5.00	5.75	3.60
<b>1 Month</b>	5.15	5.98	4.32
<b>3 Month</b>	5.33	6.15	4.73
<b>6 Month</b>	5.13	6.15	4.70
<b>9 Month</b>	5.01	6.12	4.64
<b>1 year</b>	4.94	6.02	4.63

*Source: Bloomberg, as at September30 , 2007*

\*\*Revised



