CONTENTS

PORT MORESBY
14th October, 2011

1. GENERAL OVERVIEW

Economic indicators available to the Bank of PNG (the Bank) show that domestic economic activity continued to grow in the June quarter of 2011. Higher prices and production of export commodities, the continued construction phase of the PNG LNG Project and its spin-off effects to some sectors, an increase in Government expenditure, and a continued but lower pace of credit growth in the private sector have all contributed to the growth in economic activity and an increase in employment. The consequent increase in aggregate demand, combined with the increase in international food and fuel prices, has subsequently led to an increase in inflation. The annual headline inflation was 9.6 percent in the June quarter of 2011, compared to 9.0 percent in the March quarter. The kina appreciated against all the major currencies, which resulted in the Trade Weighted Index (TWI) appreciating by 3.8 percent in the June quarter. With the rise in the inflation and indications of continued inflationary pressure, the Bank tightened monetary policy by increasing the Kina Facility Rate (KFR) by 25 basis points each in June, July and September to 7.75 percent. This was operationally supported by an increase in the Cash Reserve Requirement (CRR) for the commercial banks by 100 basis points each in July and August to 6.0 percent.

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 0.5 percent in the March quarter of 2011, compared to an increase of 8.3 percent in the December quarter of 2010. Excluding the mineral sector, sales decreased by 4.0 percent in the March quarter of 2011, following an increase of 1.1 percent in the December quarter of 2010. Sales declined in the transportation, retail and manufacturing sectors while it increased in the building and construction, mineral, agriculture/forestry/fisheries, wholesale and, financial/ business and other services sectors. By region, NCD and Morobe recorded declines, while there were increases in the Highlands, Islands, Southern and Momase regions. Over the twelve months to March 2011, total sales increased by 19.9 percent.

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 3.0 percent in the June quarter of 2011, after increasing by 3.1 percent in the previous quarter. Excluding the mineral sector, the level of employment picked up by 3.2 percent in the same quarter, following an increase of 3.1 percent in the previous quarter. By sector, employment increased in the transportation, wholesale, agriculture/forestry/fisheries, financial/business and other services, mineral and manufacturing sectors, while it declined in the building and construction and retail sectors. By region, the level of employment picked up in all the regions. Over the year to June 2011, the total level of employment increased by 7.1 percent, compared to the corresponding period in 2010. Excluding the mineral sector, the level of employment increased by 6.7 percent over the year to June 2011.

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.2 percent in the June quarter of 2011, compared to 3.1 percent in the March quarter. There were increases in most expenditure groups, with the highest price increases recorded in the 'Rents, Council charges, fuel and power', and 'Household Equipment and Operations' expenditure groups. Annual headline inflation was 9.6 percent in the June quarter, higher than the 9.0 percent in the March quarter, mainly reflecting higher international food and fuel prices, combined with strong aggregate domestic demand. The annual underlying inflation as indicated by the exclusion-based inflation rate was 8.5 percent in the June quarter, while the annual trimmed-mean inflation was 7.0 percent in the June quarter. All the surveyed urban areas recorded price increases in the June quarter of 2011.

In the June quarter of 2011, the daily average kina exchange rate appreciated against all the major currencies. It appreciated against the US dollar by 7.9 percent to 0.4130, the Australian dollar by 2.0 percent to 0.3888, the pound sterling by 5.9 percent to 0.2533 and the Japanese yen by 6.9 percent to 33.6925. These movements resulted in the daily average TWI appreciating by 3.8 percent in the June quarter to 32.08, up from 30.96 in the March quarter.

Higher international prices of all minerals and most agricultural exports resulted in a 19.6 percent increase in the weighted average price of exports in the June quarter of 2011, compared to the corresponding quarter of 2010. There was a 18.5 percent increase in the weighted average price of mineral exports, with higher kina prices of all the exports. The weighted average price of agricultural, logs and marine product exports excluding refined petroleum products increased by 24.2 percent and was attributed to higher kina prices of coffee, copra, copra oil, palm oil and rubber. This more than offset the decline in the prices of log and marine product exports.

The overall surplus in the balance of payments for the first six months of 2011 was K359 million, compared to a higher surplus of K471 million in the corresponding period of 2010. This outcome was the result of a surplus in the current account, which more than offset a deficit in the capital and financial accounts.

The current account recorded a surplus of K846 million in the first six months of 2011, compared to a deficit of K657 million in the corresponding period of 2010. The surplus in the current account was due to a higher trade balance and lower net service payments, which more than offset higher net income payments and lower net transfer receipts.

The capital account recorded a net inflow of K54 million in the first six months of 2011, a decline of 33.3 percent from the corresponding period of 2010. This reflected lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K570 million in the first six months of 2011, compared to net inflows of K1,158 million in the corresponding period of 2010. This outcome reflected net outflows mainly from foreign direct investments associated with the purchase of shares by a resident mineral company, purchase of short-term money market instruments, investments in financial derivative instruments through hedge arrangements, combined with higher net loan repayments by the Government. These more than offset net inflows from draw downs in net foreign assets of the banking system.

The level of gross foreign exchange reserves at the end of June 2011 was K8,485.9 (US$3,738.6) million, sufficient for 10.5 months of total and 14.6 months of non-mineral import covers.

The Bank of Papua New Guinea tightened its monetary policy stance by increasing the Kina Facility Rate (KFR) to 7.25 percent from 7.00 percent in June 2011, in response to the high inflation outcomes and expected inflationary pressures arising from strong domestic demand. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter. Domestic interest rates for short-term securities and wholesale deposits showed mixed trends across all maturities during the quarter, compared to the March quarter of 2011.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2011. There were limited Treasury bill auctions during the quarter due to the Government's positive cash-flow position, while Inscribed stock auctions were conducted according to the Government's issuance schedule. As a result, the Central Bank issued CBBs to diffuse some of the excess liquidity from the banking system. Trading in the inter-bank market was active reflecting the uneven distribution of liquidity, as commercial banks borrowed to maintain positive Exchange Settlement Balance (ESA) balances. The Cash Reserve Requirement (CRR) of the commercial banks was maintained at 4.0 percent over the June quarter.

The average level of broad money supply (M3*) increased by 7.7 percent in the June quarter, compared to an increase of 2.2 percent in the March quarter of 2011. This outcome was due to an increase of 3.1 percent in average net foreign assets of depository corporations and an increase of 2.2 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 2.4 percent in the June quarter of 2011, compared to an increase of 2.8 percent in the March quarter of 2011. The average level of monetary base (reserve money) grew by 3.5 percent in the June quarter, compared to an increase of 8.7 percent in the March quarter of 2011.

The net foreign assets of the financial corporations increased by 1.6 percent in the June quarter, compared to a decline of 3.4 percent in the March quarter of 2011, following an increase in holdings by ODCs and OFCs. Net claims on the Central Government increased by 8.4 percent in the June quarter of 2011 compared to an increase of 36.0 percent in the previous quarter. This was influenced by increase in Treasury bills and Inscribe stock holdings by the ODCs.

In the June quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K165.5 million to K8,827.1 million, compared to an increase of K188.4 million in the March quarter of 2011. This was mainly due to an increase of K238.1 million in private sector credit, which more than offset a decline of K72.5 million in advances to public non-financial corporations. The growth in private sector credit reflected advances to the transport and communication, building and construction, mining and quarrying, commerce and hotels and restaurants in other business services sectors.

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2011 showed an overall deficit of K173.5 million, compared to a surplus of K106.7 million in the corresponding period of 2010. This represents 0.6 percent of nominal GDP. The deficit reflected higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, during the first six months to June 2011 was K3,158.2 million, 8.4 percent higher than the receipts collected in the corresponding period of 2010. This represents 33.9 percent of the budgeted revenue for 2011. The increase in revenue mainly reflected higher tax and non-tax receipts combined with higher foreign grants. Total expenditure for the first six months to June 2011 was K3,331.7 million, 18.7 percent higher than in the corresponding period of 2010, and represents 35.7 percent of the budget appropriation for 2011. This outcome mainly reflected higher recurrent expenditure.

The budget deficit of K173.5 million and net repayment of K66.5 million was financed by the domestic sector. The net external loan repayments comprised of K23.2 million to concessionary, K5.4 million to commercial and K37.9 million to exceptional financing sources. The net financing by domestic sources comprised of K77.5 million and K58.8 million in net issuance of Government securities to ODCs and OFCs, respectively. These combined with a net drawdown of Government deposits totalling K205.6 million, mainly from trust account funds at the Central Bank, more than offset K101.9 million in other domestic financing representing cheques presented for payment.

Total public (Government) debt outstanding at the end of the June quarter of 2011 was K6,690.1 million, K110.4 million higher than in the December quarter of 2010. The increase reflected higher domestic debt, which more than offset lower external debt. The increase in domestic debt resulted from net new issuance of Inscribed stocks and Treasury bills, while the decline in external debt reflected lower drawdown of loans, combined with the appreciation of the kina against most of the major borrowing currencies.

The total amount of Government deposits in the depository corporations increased by K53.5 million to K3,315.9 million in the June quarter of 2011, compared to K2,243.6 million in the December quarter of 2010. The balance of trust account funds held at the Central Bank increased by a net of K164.5 million to K377.3 million in the June quarter of 2011, compared to K212.8 million in the December quarter of 2010.

2. INTERNATIONAL DEVELOPMENT

The world economy continues to grow but at a slow pace reflecting a major slowdown in the major industrialized economies. The slowdown was attributed to a number of factors, including the debt crisis in Europe that resulted in budget cuts, earthquake and tsunami in Japan that disrupted production and supply chains and the political turmoil in the Middle-East and North Africa that contributed to the increase in energy prices and higher global inflation. After increasing by 5.1 percent in 2010, global GDP is projected by the IMF, in its July's World Economic Outlook (WEO) update, to grow by 4.3 percent in 2011 and 4.5 percent in 2012. Global growth continues to be unbalanced, with the emerging and developing economies showing strong growth especially in India and China, while growth in the advanced economies remains weak. With the high food prices and possible oil-price hikes there is a downside risk in the growth prospects of the emerging and developed countries.

In April 2011, the World Bank (WB) and the International Monetary Fund (IMF) held their annual spring meeting in Washington D.C., USA. The meeting discussed the progress of the work undertaken by both the Bank and the IMF with respect to the recovery of the world economy and other economic and financial developments. Other pressing issues that were of major concern were the debt crisis in the Euro-zone area and increased debt burden in OECD countries, and its implications on the international financial market.

In June 2011, the members of the Organization of Petroleum Exporting Countries (OPEC) and European Union (EU) met in Vienna, Austria for their eight Joint EU-OPEC Energy Dialogue Ministerial-level meeting. The meeting discussed important developments associated with the debt crisis in the Euro-zone area and increased debt burden in OECD member countries, weakening of the global growth and high global inflation attributed to increased food and fuel prices. Concerns were also raised regarding the heightened political tensions in the Middle East and its impact on oil supplies and prices. As a result of these developments, global growth is expected to moderate. The unrest in some parts of the Middle East-North Africa (MENA) region has influenced energy prices and policies, and threatens global energy security. As a result, the International Energy Agency (IEA) tapped into its strategic oil reserves and released 60 million barrels into the market, which led to a fall in international oil price.

Also in June 2011, the 37th annual meeting between the United Nations Food and Agriculture Administration and the Food and Agriculture Organization (FAO) was held in Rome, Italy. The meeting focused on global food security and poverty alleviation through sustainable agriculture development. The meeting also discussed the current increase in the international food prices and its implications. It was noted that several countries have been buying huge stocks of cereals and other food items to head off any social unrest, which partly contributed to price increases in the food index. The meeting further discussed the policy options outlined in the "Greening the Economy with Agriculture (GEA)" Concept Note. The Concept Note highlights that agriculture is the single largest sector using 60 percent of the world's ecosystems and providing livelihoods for 40 percent of today's global population. The GEA initiative includes measures for sustainable development, improving food security and alleviating poverty through the mobilization of resources to enhance the agriculture sector.

The FAO Food Price Index averaged 234 points in June 2011, which was 1.0 percent higher than in May 2011 and 39.0 percent higher than in June 2010. The high food index for June was associated with an increase in international prices of sugar and rice and all major cereals, except wheat prices.

In the US, real GDP increased by 1.5 percent over the year to June 2011, compared to an increase of 3.3 percent over the same period in 2010. The lower outcome was due to a slowdown in industrial production. The increase in Federal Government spending, improvement in non-residential fixed investment and increase in exports contributed to the growth. The latest IMF forecast is for real GDP to increase by 1.6 percent in 2011.

Industrial production increased by 3.7 percent over the year to June 2011, compared to an increase of 7.8 percent over the same period in 2010, reflecting a slowdown in the US economy and derailing its recovery process. The Institute of Supply Management's Purchasing Managers Index was at 55.3 in June 2011, compared to 61.2 in March 2011. An index below 50 indicates contraction, while an index above 50 indicates an expansion in the manufacturing industry.

Retail sales was up by 8.3 percent over the year to June 2011, compared to 5.3 percent over the corresponding period in 2010 and was supported by a pick up in automotive sales. Consumer confidence picked up despite the sluggish growth and weak employment data. The unemployment rate was 9.2 percent in June 2011, compared to 9.5 percent in June 2010, reflecting a slight increase in the public sector employment level.

Consumer prices increased by 3.6 percent over the year to June 2011, compared to an increase of 1.1 percent over the same period in 2010. The pick up in prices was due to higher food and energy prices. Broad money supply (M2) increase by 6.0 percent over year to June 2011, compared to 1.6 percent over the same period in 2010, as a result of very low interest rates in the US and increase in Government spending. The Federal Reserve Bank through the Federal Money Operations Committee (FMOC) left the Fed fund rate unchanged at 0.0-0.25 percent in June 2011.

The U.S. trade deficit was $US565.5 billion over the year to June 2011, compared to $US592.0 billion over the corresponding period in 2010. A fall in US exports of capital equipment and industrial supplies reflected a slowdown in the global economy.

In Japan, real GDP contracted by 3.2 percent over the year to June 2011, compared to an increase of 1.1 percent over the same period in 2010, due to the impacts of the devastating earthquake and tsunami. There were signs of a recovery in activity as supply-side constraints are being restored through the Government's massive reconstruction program. The disaster directly affected production plants and disrupted supply chains of automobile, electronic and other industries. Consumer spending and exports are slowly picking up. The latest IMF forecast is for real GDP to grow by 1.4 percent in 2011.

Industrial production increased by 3.7 percent over the year to June 2011, compared to an increase of 7.8 percent over the same period in 2010. This outcome reflected the destruction of production plants and disruptions of supply chains by the disasters.

The unemployment rate was at 4.6 percent in June 2011, compared to 5.2 percent in June 2010. Retail sales rose by 1.2 percent over the year to June 2011, compared to an increase of 3.3 percent over the same period in 2010. The increase in sales was associated with higher demand for machines, electrical appliances and electronic equipment as consumer confidence started to pick up.

Consumer prices declined by 0.4 percent over the year to June 2011, compared to a decline of 0.7 percent over the corresponding period in 2010. Broad money increased by 2.3 percent over the year to June 2011, compared to 2.2 percent over the same period in 2010. The increase in the broad money supply was due to increased Government spending associated with the rebuilding program in disasters areas. The Bank of Japan maintained its official call rate at 1.0 percent in the June quarter with the aim to boost economic growth.

Japan's current account balance recorded a surplus of US$168.4 billion over the year to June 2011, compared to a surplus of US$175.2 billion over the corresponding period in 2010. The lower surplus was partly due to a decline in the trade account surplus reflecting the impact of the disasters on the export sector.

In the Euro Area, real GDP increased by 1.7 percent over the year to June 2011, compared to an increase of 2.0 percent over the same period in 2010. The lower growth is associated with the debt crisis as the Governments of Italy, Spain, and other peripheral economies implemented budget cuts to address the debt crisis. A slowdown in Germany, the largest economy in the Euro Zone, also contributed to the lower growth. The latest IMF forecast is for real GDP to increase by 1.6 percent in 2011.

Industrial production declined by 0.6 percent over the year to June 2011, compared to an increase of 0.4 percent over the corresponding period in 2010. The fall reflected the slowdown in economic activity in the Euro Area as a result of the debt crisis. Retail sales increased by 0.7 percent over the year to June 2011, compared to a fall of 0.2 percent in the corresponding period in 2010. The weak sales reflected lower consumer confidence as the debt crisis and budget cuts continued, which adversely affected domestic demand.

The unemployment rate was 9.9 percent in June 2011, compared to 10.2 percent in June 2010. Given the extent of the debt crisis and the reforms undertaken, including cuts in public spending, the high level of unemployment in the private sector may continue for sometime.

Consumer prices increased by 2.7 percent over the year to June 2011, compared to an increase of 1.4 percent over the corresponding period in 2010. Broad money supply increased by 1.9 percent over the year to June 2011, compared to 0.3 percent over the corresponding period in 2010.

The current account recorded a deficit of US$87.8 billion over the year to June 2011, compared to a deficit of US$62.4 billion over the same period in 2010. The increase in the deficit was mainly due to a deterioration of the trade account to US$27.6 billion.

In Germany, real GDP increased by 2.7 percent over the year to June 2011, compared to an increase of 4.0 percent over the same period in 2010. The lower growth by Europe's biggest economy was mainly due to a fall in domestic demand and private sector activity. The latest IMF forecast is for real GDP to grow by 2.5 percent in 2011.

Industrial production increased by 6.7 percent over the year to June 2011, compared to 10.5 percent over the same period in 2010. The lower outcome was mainly associated with a slowdown in activity in the construction sector. Retail sales increased by 1.5 percent over the year to June 2011, compared to an increase of 3.8 percent over the corresponding period in 2010, reflecting a decline in consumer confidence.

Consumer prices increased by 2.2 percent over the year to June 2011, compared to a rise of 0.9 percent over the same period in 2010. Unemployment rate declined to 7.0 percent in June 2011, compared to 7.7 percent in June 2010.

The current account recorded a surplus of US$192.3 billion over the year to June 2011, compared to US$182.7 billion over the corresponding period in 2010. The higher surplus was due to a strong trade account balance of US$197.3 billion.

In the United Kingdom (UK), real GDP increased by 0.7 percent over the year to June 2011, compared to a growth of 1.6 percent over the same period in 2010. The sluggish growth was associated with a slowdown in the manufacturing and services sectors as the euro zone debt crisis deepened and global market turmoil increased. The latest IMF forecast is for real GDP to grow by 1.7 percent in 2011.

Industrial production fell by 0.3 percent over the year to June 2011, compared to an increase of 1.3 percent over the corresponding period in 2010. The decline was attributed to a fall in external demand, while domestic demand remains relatively flat. Retail sales increased by 0.2 percent over the year to June 2011, compared to an increase of 2.4 percent over the same period in 2010. The annual unemployment level rose by 7.9 percent in June 2011, compared to 7.8 percent in June 2010.

Consumer prices increased by 4.2 percent over the year to June 2011, compared to 3.2 percent over the corresponding period in 2010. Broad money supply increased by 4.0 percent over the year to June 2011, compared to 5.8 percent over the same period in 2010. The Bank of England maintained its official interest rate at 0.5 percent over the June quarter of 2011.

The trade account recorded a deficit of US$158.7 billion over the year to June 2011, compared to a deficit of US$135.0 billion over the same period in 2010.

In Australia, real GDP grew by 1.0 percent over the year to June 2011, compared to 3.2 percent over the same period in 2010. The slowdown was associated with a decline of primary exports to Asia due to the floods, which adversely affected coal mines in Queensland. The latest IMF forecast is for real GDP to increase by 3.0 percent in 2011.

Industrial production fell by 3.7 percent over the year to June 2011, compared to an increase of 1.3 percent over the corresponding period in 2010. Retail sales increased by 1.4 percent over the year to June 2011, compared to 2.1 percent over the same period in 2010, reflecting a slowdown in consumer demand. Household spending was weak mainly due to the flood. Unemployment rate was 4.9 percent in June 2011, compared to 5.1 percent in June 2010.

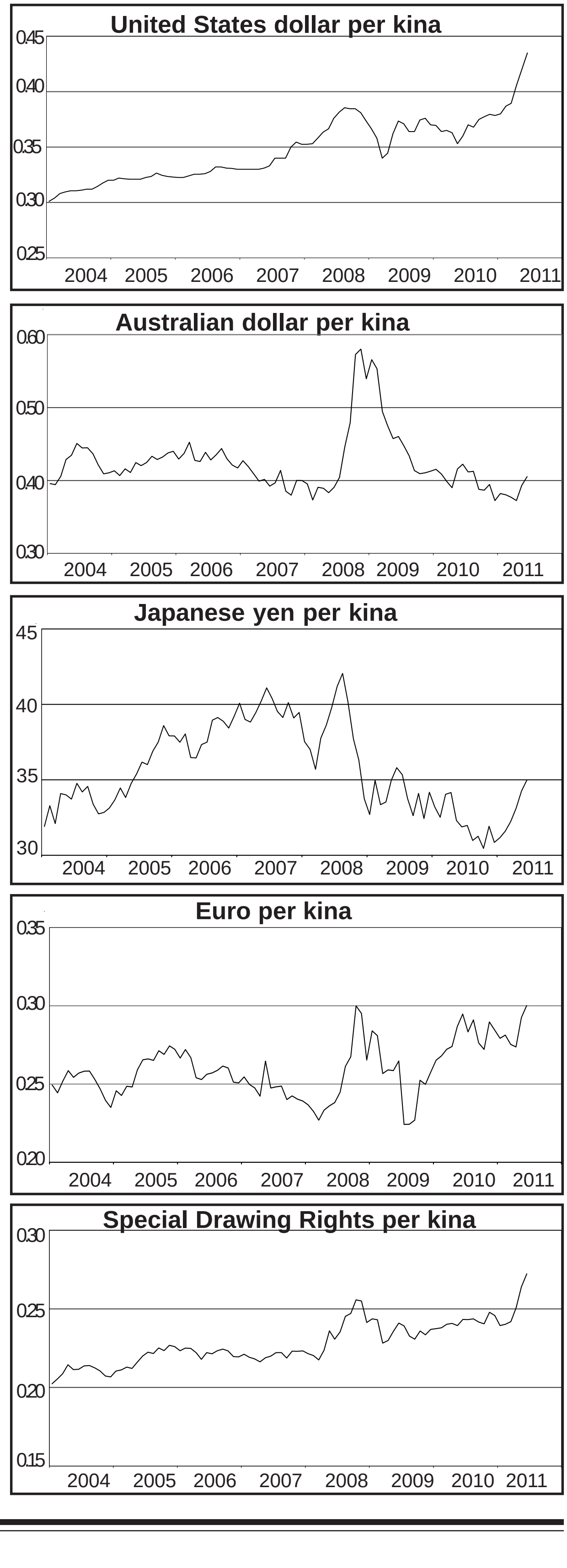
Consumer prices increased by 3.6 percent over the year to June 2011, compared to 3.1 percent increase over the same period in 2010. Broad money supply increased by 9.0 percent over the year to June 2011, compared to 4.2 percent increase over the same period in 2010. The Reserve Bank of Australia maintained its official interest rate at 4.75 percent over the June quarter of 2011.

The trade account recorded a surplus of US$29.2 billion over the year to June 2011, compared to a deficit of US$4.2 billion over the same period in 2010. The surplus was due to high commodity prices.

In the June quarter of 2011, the US dollar depreciated against all major currencies. It weakened against the Australian dollar by 5.8 percent, euro by 5.4 percent, pound sterling by 1.9 percent and yen by 0.9 percent.

In the quarter, the daily average kina exchange rate appreciated against all the major currencies. It appreciated against the US dollar by 7.9 percent to 0.4130**,** the Australian dollar by 2.0 percent to 0.3888**,** the pound sterling by 5.9 percent to 0.2533 and the Japanese yen by 6.9 percent to 33.6925. These movements resulted in the daily average TWI appreciating by 3.8 percent in the June quarter to 32.08 from 30.96 in the March quarter of 2011.

EXCHANGE RATES



3. DOMESTIC ECONOMIC CONDITIONS

DOMESTIC ECONOMIC ACTIVITY

Data from the Bank's Business Liaison Survey (BLS) show that the total nominal value of sales in the private sector declined by 0.5 percent in the March quarter of 2011, compared to an increase of 8.3 percent in the December quarter of 2010. Excluding the mineral sector, sales decreased by 4.0 percent in the March quarter of 2011, following an increase of 1.1 percent in the December quarter of 2010. Sales declined in the manufacturing, retail and transportation sectors while it increased in the building and construction, mineral, agriculture/forestry/fisheries, wholesale and, financial/ business and other services sectors. By region, NCD and Morobe recorded declines, while there were increases in the Highlands, Islands, Southern and Momase regions. Over the twelve months to March 2011, total sales increased by 19.9 percent.

In the manufacturing sector, sales declined by 19.1 percent in the March quarter of 2011, compared to a drop of 3.1 percent in the December quarter of 2010. The decline was mainly due to a fall in the production of sugar and low demand for soft drinks and food products following the end of the Christmas and New year period. Over the twelve months to March 2011, sales increased marginally by 0.7 percent.

In the retail sector, sales dropped by 14.1 percent in the quarter, compared to an increase of 0.4 percent in the December quarter of 2010. The decline reflected destruction of two major retail shops by fire, a slow down in the sales of motor vehicles and ending of a contract by a major white goods retailer. The decline was also due to a low demand for consumer goods following the end of the festive season. Over the twelve months to March 2011, sales increased by 23.8 percent.

Sales in the transportation sector declined by 8.8 percent in the March quarter of 2011, compared to an increase of 3.7 percent in the December quarter of 2010. The decrease was due to a fall in demand for passenger travel and cargo haulage mainly in the sea transportation sub-sector, following the end of Christmas and New Year period. Over the twelve months to March 2011, sales increased by 14.0 percent.

For the mineral sector, sales increased by 4.6 percent in the March quarter of 2011, following a strong growth of 18.2 percent in the December quarter of 2010. The increase was mainly driven by high export prices and increased production of copper and gold by mining companies. Over the twelve months to March 2011, sales increased by 17.5 percent.

In the financial/business and other services sector, sales increased by 5.1 percent in the March quarter of 2011, up from 4.2 percent in the December quarter of 2010. The increase was mainly associated with high demand for banking and security services, combined with strong activity in the real estate market. Over the twelve months to March 2011, sales increased by 14.3 percent.

In the wholesale sector, sales increased by 5.3 percent in the quarter, compared to an increase of 5.2 percent in the December quarter of 2010. The increase was mainly associated with higher demand for fuel products while demand for general consumer goods has generally subsided. Over the twelve months to March 2011, sales increased by 34.5 percent.

In the agriculture/forestry/fisheries sector, sales increased by 10.4 percent in the March quarter of 2011, following a fall of 1.0 percent in the December quarter of 2010. The increase was mainly in the agriculture and fisheries sub-sectors. The increase in the agriculture sub-sector was due to high export prices and production of palm oil and coffee while in the fisheries sub-sector, the increase was driven by higher catches and processing of tuna. Over the twelve months to March 2011, sales increased by 22.5 percent.

In the building and construction sector, sales increased substantially by 70.1 percent in the quarter, compared to a marginal increase of 0.8 percent in the December quarter of 2010. The increase was due to the on-going construction activity associated with the LNG project in the Highlands and Southern regions, various road maintenance work by the Government and donor agencies and building construction undertaken by the private sector in NCD and Islands regions. Over the twelve months to March 2011, sales increased by 89.5 percent.

By region, sales[1] declined in Morobe and NCD, which more than offset the increases in other regions. In Morobe, sales dropped by 20.3 percent in the March quarter of 2011, compared to an increase of 3.3 percent in the December quarter of 2010. There were declines in the manufacturing, wholesale and transportation sectors. In the manufacturing and wholesale sectors, the declines were due to lower demand for food, soft drinks and beverages following the end of the festive season. The drop in sales in the transportation sector was associated with lower demand for passenger travel and cargo haulage reflecting the end of the festive season. Over the twelve months to March 2011, sales declined by 2.4 percent.

In NCD, sales declined by 5.8 percent in the quarter, compared to a fall of 0.2 percent in the previous quarter. The decline was in the manufacturing and retail sectors. In the manufacturing sector, the decline was associated with a slow down of production and sales by a major flour producer due to lower demand. The fall in the retail sector was mainly driven by lower sales of motor vehicles and completion of a contract by a major retail company, combined with a slow down in the demand for consumer goods such as food and beverages following the end of the Christmas and New Year period. Over the twelve months to March 2011, sales increased by 17.4 percent.

Sales in the Momase region grew by 1.3 percent in the March quarter of 2011, compared to an increase of 3.9 percent in the December quarter of 2010. There were increases in the manufacturing sector and fisheries sub-sector. The increase in the manufacturing sector

[1]Some companies engaged in the LNG project are not covered in the BLS and Employment Survey sample.

was associated with higher production of tobacco and cigarettes while in the fisheries sub-sector, the increase was attributed to high tuna harvest. Over the twelve months to March 2011, sales increased by 27.0 percent.

For the Southern region, sales increased by 3.7 percent in the quarter, compared to an increase of 26.8 percent in the previous quarter. The increase was mainly in the mineral sector and the agriculture sub-sector. In the mineral sector, the increase was attributed to higher international prices and production, especially for gold and copper, while the increase in the agriculture sub-sector was due to higher international price of palm oil. Over the twelve months to March 2011, sales increased by 26.2 percent.

Sales in the Islands region grew by 11.2 percent in the March quarter of 2011, compared to an increase of 3.8 percent in the December quarter of 2010. There were increases in the wholesale, mineral, and building and construction sectors. In the wholesale sector, the increase was mainly associated with the expansion of operations by a fuel distribution company. The increase in the mineral sector was due to higher international prices and export of gold. In the building and construction sector, the increase reflected new building and road projects in East and West New Britain provinces. Over the twelve months to March 2011, sales increased by 31.5 percent.

In the Highlands region, sales grew by 12.4 percent in the quarter, compared to an increase of 7.8 percent in the previous quarter. The increase was mainly in the mineral, and building and construction sectors. The increase in the mineral sector was due to higher international prices and production of gold while the increase in the building and construction sector was associated with the LNG project in the Southern Highlands province. Over the twelve months to March 2011, sales increased by 28.0 percent.

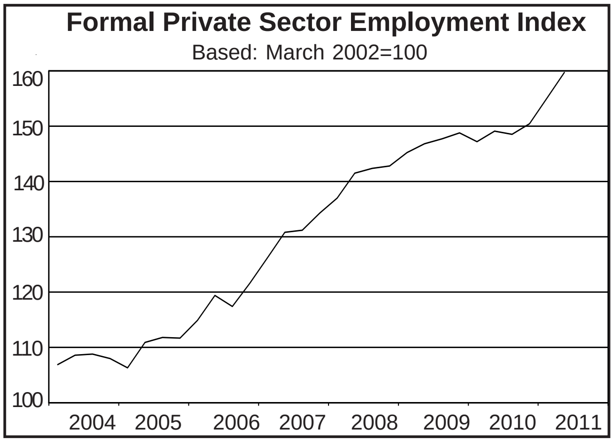
EMPLOYMENT

The Bank's Employment Index shows that the level of employment in the formal private sector increased by 3.0 percent in the June quarter of 2011, after increasing by 3.1 percent in the previous quarter. Excluding the mineral sector, the level of employment increased by 3.2 percent. By sector, employment increased in the transportation, wholesale, agriculture/forestry/fisheries, financial/business and other services, mineral and manufacturing sectors, while it declined in the building and construction and retail sectors. By region, the level of employment increased in all regions. Over the year to June 2011, the total level of employment increased by 7.1 percent, compared to the corresponding period in 2010. Excluding the mineral sector, the level of employment increased by 6.7 percent.

In the transportation sector, the level of employment increased by 13.6 percent in the June quarter of 2011, following an increase of 23.0 percent in the previous quarter. There were increases in all three modes of transportation. An increase in the air transportation sub-sector was driven by the expansion of major airline companies, with purchases of additional aircrafts to cater for increased passenger travel and cargo movements associated with the LNG project as well as higher demand from existing airports and newly serviced routes. The increase in the land transportation sub-sector was due to increased shipment of cargo reflecting expansion of business operations. In the sea transportation sub-sector, the increase was due to the purchase of a new barge by a shipping company to service a major mining operation in the Islands region and the recruitment of casual employees by a shipping company. Over the year to June 2011, the level of employment increased by 23.7 percent.

In the wholesale sector, the level of employment grew by 10.9 percent in the June quarter of 2011, compared to a decline of 1.5 percent in the previous quarter. The increase was mainly attributed to strong growth in business activity and expansion of operations by major agricultural wholesale companies. The increase was also associated with the recruitment of casual employees by coffee buyers during the coffee season. Over the year to June 2011, the level of employment increased by 12.2 percent.

In the agriculture/forestry/fisheries sector, the level of employment increased by 7.3 percent in the quarter, compared to an increase of 6.6 percent in the previous quarter. There were increases in all the sub-sectors. In the agriculture sub-sector, the increase was due to expansion of operations by a major palm oil producer and increased harvest of palm oil in the Islands and Southern regions, and recruitment of seasonal workers for coffee harvest season in the Highlands region. The increase in the forestry sub-sector was due to higher production of logs associated with logging in new areas and favourable dry weather conditions, while the increase in the fisheries sub-sector reflected higher tuna catches



and harvest of other marine products. Over the year to June 2011, the level of employment increased by 6.5 percent.

In the financial/business and other services sector, the level of employment increased by 0.8 percent in the June quarter of 2011, compared to 1.5 percent in the previous quarter. The increase was recorded in the financial, business and other services sub-sectors such as hotels and catering, real estate and other professional services. The increase in the financial sub-sector was due to recruitment of employees by commercial bank and finance companies. The increase in hotels and catering services reflected expansion of major hotels and awarding of new catering contracts for some of the LNG camp sites, respectively. The pick up in the real estate and other professional services reflected a general increase in economic activity. Over the year to June 2011, the level of employment grew by 4.4 percent.

In the mineral sector, the level of employment increased by 0.3 percent in the quarter, following an increase of 2.7 percent in the March quarter. The increase was mainly driven by the on-going construction of the LNG project in the Southern Highlands and Gulf provinces, combined with a pick-up in mining and exploration activities by mineral companies. Over the year to June 2011, the level of employment increased by 10.7 percent.

In the manufacturing sector, the level of employment grew by 0.3 percent in the June quarter of 2011, compared to an increase of 0.4 percent in the previous quarter. The increase was associated with higher production of merchandise goods, industrial chemicals and equipment, and concrete products. Over the year to June 2011, the level of employment increased by 13.4 percent.

In the retail sector, the level of employment decreased by 0.6 percent in the quarter, compared to a decline of 2.8 percent in the March quarter. The decline reflected a fall in motor vehicle sales by a major supplier, destruction of two major retail shops by fire in Madang and West New Britain provinces, combined with laying-off of casual employees. Over the year to June 2011, the level of employment increased by 2.2 percent.

In the building and construction sector, the level of employment decreased by 9.1 percent in the June quarter of 2011, compared to a fall of 2.7 percent in the previous quarter. The decline was due to the completion of some building projects in NCD, Islands, Southern and Momase regions and the completion of road maintenance work in the NCD and the Momase regions. Over the year to June 2011, the level of employment declined by 12.2 percent.

By region, the level of employment increased in all regions. In the Momase region, the level of employment increased by 7.1 percent in the June quarter of 2011, compared to a decline of 0.9 percent in the previous quarter. The increase was mainly in the manufacturing sector and the forestry sub-sector. The increase in the manufacturing sector was due to higher demand reflecting expansion by a major corned beef cannery while the growth in the forestry sub-sector was associated with increased logging activity, mainly due to expansion to new areas. Over the year to June 2011, the level of employment increased by 8.7 percent.

In the Southern region, the level of employment increased by 5.0 percent in the June quarter of 2011, compared to an increase of 1.6 percent in the March quarter. There were increases in the transportation, manufacturing and mineral sectors, and the agriculture and forestry sub-sectors. In the transportation sector, the increase was associated with movements of cargo for the LNG project and general merchandising. In the mineral sector, the increase was due to on-going exploration activity and construction of the LNG project, while the increase in the manufacturing sector was associated with the commencement of timber processing by a major logging operator. The increase in the agriculture sub-sector reflected higher number of casual employees engaged by two oil palm estates in Oro and Milne Bay provinces during the harvest period.

The growth in employment in the forestry sub-sector reflected the commencement of logging operations and acquisition of a new logging site. Over the year to June 2011, the level of employment increased by 4.6 percent.

In the Highlands region, the level of employment grew by 4.7 percent in the June quarter of 2011, compared to an increase of 9.6 percent in the March quarter. The increase was in the mineral, manufacturing and wholesale sectors, and the agriculture sub-sector. The growth in employment in the mineral sector was associated with the LNG project and exploration activity by the Porgera Joint Venture mining company. In the manufacturing sector, higher employment was due to an increase in the processing of coffee during the bumper coffee season, while the increase in the wholesale sector was due to high demand associated with the coffee season and high international coffee prices. The increase in the agriculture sub-sector was due to recruitment of casual employees for the coffee harvest season. Over the year to June 2011, the level of employment increased by 1.6 percent.

In the Islands region, the level of employment increased by 3.4 percent in the quarter, compared to an increase of 2.6 percent in the previous quarter. The increase was in the transportation, wholesale and manufacturing sectors, and the agriculture sub-sector. The increase in the transportation sector was due to higher demand for shipping services associated with increased copra production and addition of a new barge to service a mining operation. In the manufacturing sector, the increase was mainly driven by higher production of concrete products, while the increase in the wholesale sector was due to higher demand and expansion of operations. The increase in the agriculture sub-sector was attributed to higher palm oil harvest and expansion of operations by a major palm oil company. Over the year to June 2011, the level of employment increased by 7.6 percent.

In NCD, the level of employment increased by 1.4 percent in the June quarter of 2011, following an increase of 0.2 percent in the March quarter. There were increases in the transportation, wholesale, mineral, manufacturing and financial/business and other services sectors. In the transportation sector, the increase was driven by the expansion of major airline companies, reflecting purchases of additional aircrafts, especially for cargo haulage and passenger travel for the LNG project as well as expansion of services to existing and new domestic routes. The increases in the sea and land transportation sub-sectors were due to the expansion of operations and increased passenger travel and cargo haulage. The growth in the manufacturing sector reflected higher demand and production of consumer goods, and industrial chemicals and equipment, combined with new recruitment by furniture companies. In the wholesale sector, the increase was attributed to higher demand and expansion of operations by a number of companies. In the financial/business and other services sector, the increase was in the financial, business (hotels and catering), and other professional services sub-sectors. The increase in the financial sub-sector was due to the recruitment of casual employees by a commercial bank for its rural banking program and recruitment of staff by finance companies. The increase in the business sub-sector reflected the expansion of operations by major hotels and awarding of new catering contracts for some of the LNG camp sites as well as an increase in real estate services. The increase in other professional services sub-sector reflected a general increase in activity and demand for legal and accounting services. Over the year to June 2011, the level of employment increased by 6.7 percent.

In Morobe, the level of employment increased marginally by 0.4 percent in the June quarter of 2011, following an increase of 7.8 percent in the previous quarter. The increase was mainly in the transportation, wholesale and manufacturing sectors and the agriculture sub-sector. The increase in the transportation sector was driven by higher activity in the sea and land transportation sub-sectors, especially movement of cargo and equipment for the LNG project in the Highlands. There was also increased demand for freight management services. In the wholesale sector, the increase was due to higher demand and expansion of operations. In the manufacturing sector, the increase in employment was attributed to higher demand for kit homes, production of consumer goods and industrial products, and the engagement of casual staff by a cement factory for packing of cement products. The increase in the fisheries sub-sector reflected higher catches of tuna and other marine products. Over the year to June 2011, the level of employment increased by 13.0 percent.

CONSUMER PRICE INDEX

Quarterly headline inflation, as measured by the Consumer Price Index (CPI), was 2.2 percent in the June quarter of 2011, compared to 3.1 percent in the

March quarter. There were increases in most expenditure groups, with the highest price increases recorded in the 'Rents, Council charges, fuel and power', and 'Household Equipment and Operations' expenditure groups. Annual headline inflation was 9.6 percent in the June quarter of 2011, higher than the 9.0 percent in the March quarter. By region, all urban areas recorded price increases in the June quarter of 2011.

The CPI for the 'Food' expenditure group increased by 2.9 percent in the June quarter of 2011, following an increase of 2.3 percent in the March quarter. The increase was in most sub-groups, with the highest price increase of 7.2 percent recorded in the miscellaneous food sub-group. This was followed by the meat and fish sub-group with 2.9 percent and the cereals sub-group with 2.3 percent. The fruit and vegetables sub-group recorded a decrease of 4.0 percent. This expenditure group contributed 1.2 percentage points to the overall movement in the CPI.

Prices in the 'Drinks, tobacco and betelnut' expenditure group increased by 0.4 percent in the June quarter of 2011, following an increase of 4.1 percent in the previous quarter. Most sub-groups recorded price increases, with cigarettes and tobacco recording the highest of 3.9 percent. Prices of soft drinks and alcoholic drinks sub-groups increased by 3.0 percent and 0.7 percent, respectively, while the betelnut sub-group recorded a decrease of 12.7 percent. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

In the 'Clothing and footwear' expenditure group, the CPI increased by 1.4 percent in the quarter, compared to an increase of 3.0 percent in the previous quarter. All sub-groups recorded price increases, with 'other clothing and footwear' sub-group recording the highest of 2.3 percent. This was followed by 'women's and girls' clothing' and 'men's and boys' clothing' sub-groups with 1.4 percent and 0.8 percent, respectively. This expenditure group contributed 0.1 percentage points to the overall movement in the CPI.

The CPI for the 'Rents, Council charges, Fuel/power' expenditure group increased by 4.1 percent in the June quarter of 2011, compared to an increase of 7.7 percent in the previous quarter. The increase was accounted for by the fuel/power sub-group with 6.9 percent. This expenditure group contributed 0.3 percentage points to the overall movement in the CPI.

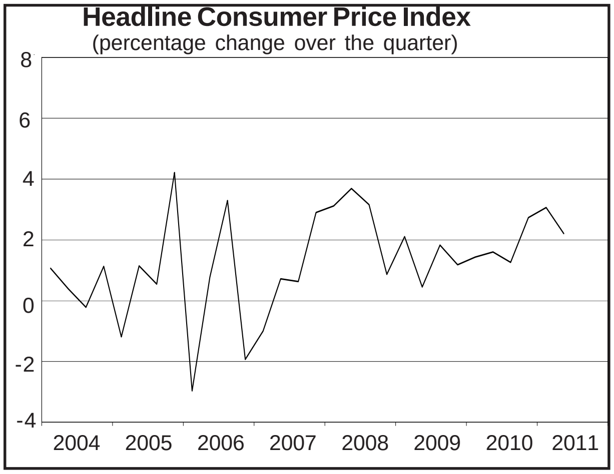
For the 'Household equipment and operations' expenditure group, prices increased by 3.6 percent in the June quarter of 2011, compared to an increase of 0.1 percent in the previous quarter. All sub-groups had price increases, with the durable goods sub-group recording the highest of 5.9 percent. This was followed by the non-durable goods sub-group with 5.3 percent and semi-durable goods sub-group with 0.8 percent. This expenditure group contributed 0.2 percentage points to the overall movement in the CPI.

In the 'Transport and communication' expenditure group, prices increased by 3.7 percent in the June quarter of 2011, following an increase of 3.1 percent in the March quarter. There were increases in all sub-groups, with the motor vehicle purchase sub-group recording the highest of 5.5 percent, followed by the motor vehicle operation sub-group with 1.9 percent. This expenditure group contributed 0.5 percentage points to the overall movement in the CPI.

The CPI for the 'Miscellaneous' expenditure group decreased by 0.1 percent in the June quarter of 2011, compared to an increase of 3.0 percent in the previous quarter. Prices for the medical and health care sub-group increased by 1.6 percent, while those of the other goods sub-group declined by 1.1 percent. The contribution of this expenditure group to the overall movement in the CPI was negligible.

By urban areas, inflation increased in all the surveyed centers in the June quarter of 2011. Goroka recorded the highest increase while Port Moresby recorded the lowest. In Goroka, prices increased by 3.0 percent and contributed 0.4 percentage points to the overall movement in the CPI. Rabaul recorded the second highest of 2.7 percent and contributed 0.3 percentage points to the overall movement in the CPI. This was followed by Madang with 2.5 percent increase and contribution of 0.3 percentage points to the overall movement in the CPI. Lae recorded a price increase of 2.3 percent, while Port Moresby recorded 1.7 percent, each contributing 0.5 and 0.7 percentage points, respectively, to the overall movement in the CPI.

In Port Moresby, prices increased by 1.7 percent in the June quarter of 2011, compared to an increase of 4.8 percent in the March quarter. All expenditure groups recorded increases, except the 'Drinks, tobacco and betelnut' expenditure group, which decreased by 2.9 percent. The 'Household equipment and operations' expenditure group recorded the highest increase of 5.2



percent, followed by 'Rent, council charges, fuel and power' with 4.3 percent, 'Transport and communication' with 3.9 percent, 'Food' with 2.8 percent and 'Clothing and footwear' with 1.2 percent.

Prices increased in Madang by 2.5 percent in the quarter, compared to 4.4 percent in the previous quarter. The increase was in all expenditure groups. The 'Rent, council charges and fuel/power' expenditure group recorded the highest increase of 4.2 percent, followed by the 'Drinks, tobacco and betelnut' expenditure group with 4.0 percent. The 'Transport and communication' increased by 2.6 percent, 'Food' by 2.5 percent, 'Household equipment and operations' by 1.2 percent, and 'Clothing and footwear' by 0.7 percent.

In Goroka, prices increased by 3.0 percent in the June quarter of 2011, compared to an increase of 1.9 percent in the March quarter. The increase was in all expenditure groups, except the 'Clothing and footwear' group which declined by 0.3 percent. The 'Household equipment and operations' expenditure group recorded the highest price increase of 5.1 percent, followed by the 'Rents, council charges, fuel and power' group with 4.4 percent. Prices for the 'Transport and communication' expenditure group increased by 4.3 percent, and for those of the 'Food' group by 2.6 percent.

For Rabaul, prices increased by 2.7 percent in the June quarter of 2011, compared to an increase of 1.1 percent in the previous quarter. There were increases in all expenditure groups, with the 'Rents, council charges, fuel and power' group recording the highest increase of 4.1 percent. This was followed by the 'Food' expenditure group with 3.3 percent, 'Drinks, Tobacco and Betelnut' group with 2.3 percent, 'Transport and communication' group with 2.7 percent, and 'Household equipment and operation' group with 1.2 percent.

In Lae, prices increased by 2.3 percent in the June quarter of 2011, compared to an increase of 0.6 percent in the March quarter. The increase was in all expenditure groups, with the 'Rents, council charges, fuel and power' group recording the highest of 3.8 percent. This was followed by the 'Food' group with 3.0 percent, 'Clothing and footwear' group with 2.4 percent, 'Transport and communication' group with 2.0 percent, and 'Household equipment and operations' group with 2.6 percent. Prices for the 'Drinks, tobacco and betel nut' expenditure group increased by 1.6 percent.

Annual headline inflation was 9.6 percent in the June quarter of 2011, compared to 9.0 percent in the March quarter. There were increases in all expenditure groups. The highest increase came from the 'Drinks, tobacco and betel nut' group with 14.7 percent, followed by 'Rent, Council charges, and fuel/power' group with 12.3 percent, 'Clothing and footwear' group with 12.0 percent, 'Transport and communication' group with 8.5 percent, 'Food' group with 7.7 percent, 'Household equipment and operations' group with 5.9 percent, and 'Miscellaneous' group with 4.2 percent.

The quarterly exclusion-based inflation was 3.5 percent in the June quarter of 2011, compared to 2.5 percent in the March quarter, while the trimmed-mean inflation was 2.4 percent in the June quarter, compared to 2.2 percent in the previous quarter.

The annual exclusion-based inflation rate was 8.5 percent in the June quarter of 2011, compared to 6.6 percent in the March quarter, while the annual trimmed-mean inflation was 7.0 percent in the June quarter, compared to 6.8 percent in the previous quarter.

4. EXPORT COMMODITIES REVIEW

The total value of merchandise exports in the June quarter of 2011 was K4,112 million, 0.7 percent lower than in the corresponding quarter of 2010. The decline in export values were recorded for most export commodities, with the exception of coffee, copra, palm oil, rubber, crude oil and copper. Mineral export receipts, excluding crude oil, were K2,386.9 million and accounted for 58.1 percent of total merchandise exports in the June quarter of 2011, compared to K2,668.9 million or 64.5 percent in the corresponding quarter of 2010. Crude oil exports totalled K770.0 million and accounted for 18.7 percent of total merchandise exports in the June quarter of 2011, compared to K471.4 million or 11.4 percent in the corresponding quarter of 2010.

The value of agricultural, marine products, and other non-mineral exports, excluding forestry and refined petroleum product exports was K730.5 million and accounted for 17.8 percent of total merchandise exports in the June quarter of 2011, compared to K609.2 million or 14.7 percent in the corresponding quarter of 2010. Forestry product exports were K152.5 million and accounted for 3.7 percent of total merchandise exports in the June quarter of 2011, compared to K152.1 million or 3.7 percent in the corresponding quarter of 2010. Refined petroleum product exports were K72.1 million and accounted for 1.8 percent of total merchandise exports in the June quarter of 2011, compared to K236.4 million or 5.7 percent in the corresponding quarter of 2010.

The weighted average price of Papua New Guinea's exports was 19.6 percent higher in the June quarter of 2011, compared to the corresponding quarter of 2010. There was a 18.5 percent increase in the weighted average price of mineral exports, with higher kina prices of all mineral exports. For the agricultural, forestry and marine product exports, excluding refined petroleum product exports, the weighted average price increased by 24.2 percent due to higher kina export prices of most agricultural exports, which more than offset the decline in export prices of logs and marine products. Excluding logs, the weighted average price of agricultural and marine product exports increased by 37.6 percent in the June quarter of 2011, compared to the corresponding period of 2010. The higher kina export prices reflected increases in international prices.

MINERAL EXPORTS

Total mineral export receipts were K3,156.9 million in the June quarter of 2011, a decline of 5.3 percent from the corresponding quarter of 2010. This outcome was due to a decline in the export volumes of gold and copper, which more than offset the increase in export volume of crude oil and the prices of all mineral commodities.

The volume of gold exported in the June quarter of 2011 was 12.6 thousand tonnes, a decline of 26.3 percent from the corresponding quarter of 2010. The decline was due to lower production from Ok Tedi, Porgera, Lihir, Simberi and Hidden Valley mines, which more than offset the increase from Tolukuma mine. The average free on board (f.o.b.) price received for Papua New Guinea's gold exports was K111.9 million per tonne during the June quarter of 2011, an increase of 8.8 percent from the corresponding period of 2010. This outcome was due to higher international prices resulting from increased global demand. The average gold price at the London Metal Exchange increased by 26.2 percent to US$1,505 per fine ounce in the June quarter of 2011, from the corresponding quarter of 2010. The increase was due to higher demand for gold based investments which are considered as a safe haven, supported by high demand in jewellery in India and China. The decline in export volume more than offset the increase in export price resulting in a 19.8 percent decline in export receipts to K1,410.3 million in the June quarter of 2011, from the corresponding quarter of 2010.

Copper export volumes declined by 7.9 percent to 40.7 thousand tonnes in the June quarter of 2011, from the corresponding quarter of 2010. The decline was due to lower production and shipment from the Ok Tedi mine attributable to lower metal head grades and a month shut down of operations caused by raptures in the pipeline. The average f.o.b. price of Papua New Guinea's copper exports increased by 15.9 percent to K23,214 per tonne in the June quarter of 2011, compared to K20,036 per tonne in the corresponding quarter of 2010. This outcome was mainly due to the higher international prices as a result of strong demand especially from China, India and the strong global economic growth. The increase in export price more than offset the decline in export volume resulting in a 6.7 percent increase in export receipts to K944.8 million in the June quarter of 2011, compared to the corresponding quarter of 2010.

Crude oil export volumes increased by 11.5 percent to 2,374.6 thousand barrels in the June quarter of 2011, from the corresponding quarter of 2010. The increase reflected higher extraction at the Kutubu and Moran oil fields, which more than offset the declines at Gobe Main and South East Mananda oil projects. The average export price of crude oil increased by 46.6 percent to K324 per barrel in the June quarter of 2011, from the corresponding quarter of 2010. This outcome was due to an increase in international prices, resulting from a decline in production by member countries of the Organisation of Petroleum Exporting Countries (OPEC), combined with higher demand from China, India and Brazil. The combined increases in export volume and price resulted in 63.3 percent to K770.0 million in the June quarter of 2011, from the corresponding quarter of 2010.

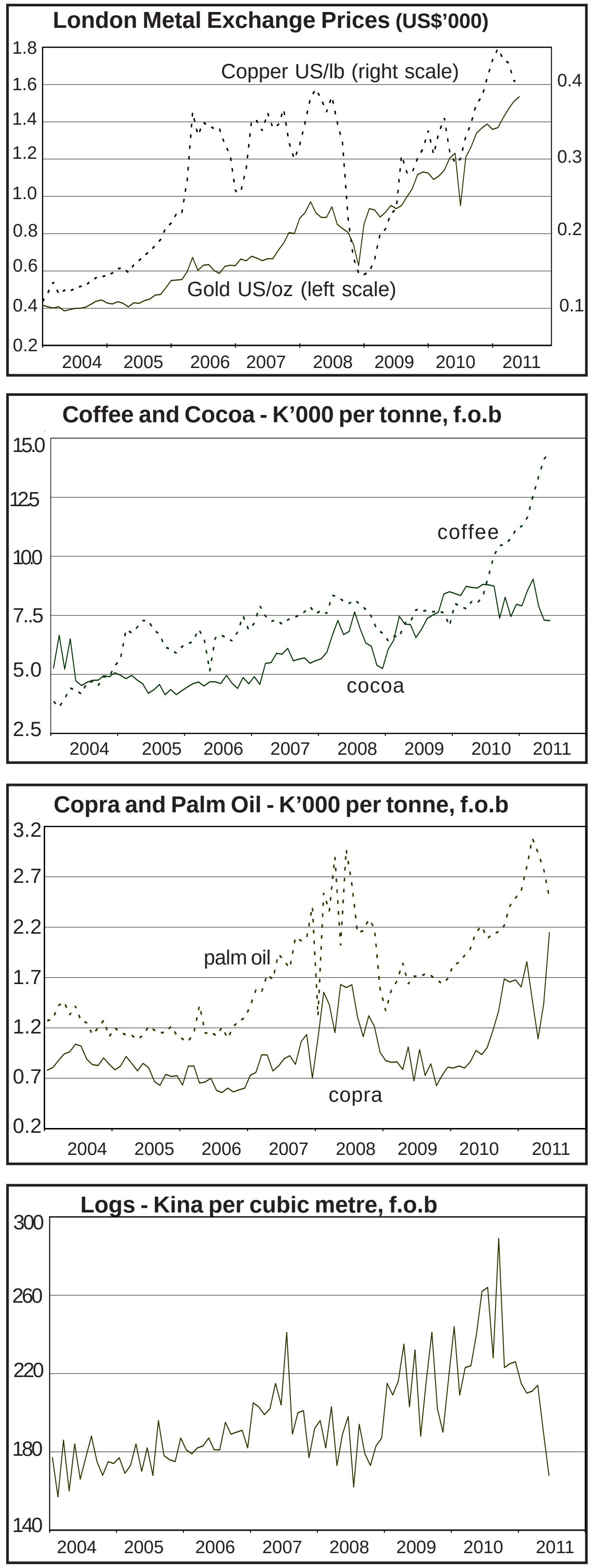
Export receipts of refined petroleum products from the Napanapa Oil Refinery declined significantly by 69.5 percent to K72.1 million in the June quarter of 2011, from the corresponding period of 2010. The outcome was mainly due to lower prices of the different refined petroleum products in the June quarter of 2011, compared to the corresponding period of 2010.

AGRICULTURE, LOGS AND FISHERIES EXPORTS

Export prices of most agricultural export commodities increased in the June quarter of 2011, from the corresponding quarter of 2010. Coffee prices increased by 72.7 percent, copra by 39.3 percent, copra oil by 84.6 percent, palm oil by 33.7 percent and rubber by 42.3 percent. The average export price of logs declined by 17.8 percent to K199 per cubic meter in the June quarter of 2011, from the corresponding quarter of 2010. The average export price of marine products declined by 72.0 percent in the June quarter of 2011, from the corresponding period of 2010. The increase in the export prices of most agricultural export commodities more than offset the decline in the price of log and marine product exports, resulting in a 24.2 percent increase in the weighted average price of agricultural, logs and marine product exports.

The volume of coffee exported increased by 18.2 percent to 16,200 tonnes in the June quarter of 2011, from the corresponding quarter of 2010. The outcome was due to higher production from rehabilitated blocks and the biannual season for the crop, where one season harvest is higher than the other caused by favorable dry weather conditions. The average export price of coffee increased by 72.7 percent to K14,105 per tonne in the June quarter of 2011, from the corresponding quarter of 2010. The increase was associated with higher international prices due to lower production and supply from Brazil and Columbia caused by unfavorable wet weather conditions and the replanting of new crops replacing aged trees damaged by berry borer diseases. The combined increase in export volume and price resulted in a significant increase of

EXPORT COMMODITY PRICES



104.2 percent in export receipts to K228.5 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of cocoa exported declined by 27.0 percent to 7,300 tonnes in the June quarter of 2011, from the corresponding quarter of 2010. This outcome was mainly due to the cocoa pod borer disease affecting small holder blocks given rising costs in maintaining preventive measures and the switch to farming alternative cash crops. The average export price of cocoa declined by 14.7 percent to K7,479 per tonne in the June quarter of 2011, from the corresponding period of 2010. The outcome was due to lower international prices, as a result of higher production from the Ivory Coast, Ghana and Cameroon due to favorable weather of some period of dry and wet condition, good use of fertilizers and pesticides and easing political tension in Ivory Coast. The combined decline in export volume and price resulted in a 37.7 percent decline in export receipts to K54.6 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of copra exported increased significantly by 101.8 percent to 11,500 tonnes in the June quarter of 2011, from the corresponding quarter of 2010. The increase was attributed to supply response associated with higher international prices, creating increased competition among domestic buyers to purchase at higher prices by encouraging more producers to increase production. The average export price for copra increased by 39.3 percent to K1,270 per tonne in the June quarter of 2011, from the corresponding quarter of 2010. The outcome was due to higher international prices caused by lower production and shipment from Philippines due to severe drought. The combined increase in export volume and price resulted in a significant increase of 180.8 percent in export receipts to K14.6 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of copra oil exported declined by 13.9 percent to 9,300 tonnes in the June quarter of 2011, from the corresponding period of 2010. The decline was mainly due to lower shipment associated with logistic problems despite higher domestic productions from producing regions. The average export price of copra oil increased by 84.6 percent to K4,667 per tonne in the June quarter of 2011, from the corresponding period of 2010. The outcome was mainly due to lower production from the Philippines as a result of the effects of the El Nino season. The increase in export price more than offset the decline in export volume, which resulted in a 59.0 percent increase in export receipts to K43.4 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of palm oil exported declined by 6.3 percent to 111,600 tonnes in the June quarter of 2011, from the corresponding period of 2010. The decline was due to lower production from new blocks with lower yields and some areas where old trees were cut down and replaced with new ones. The average export price of palm oil increased by 33.7 percent to K2,779 per tonne in the June quarter of 2011, from the corresponding quarter of 2010. This outcome reflected higher international prices resulting from lower production and shipment from Malaysia and Indonesia due to heavy rainfall combined with strong demand from USA, China and India subcontinent with the Muslim population restocking ahead for Ramadan. The increase in export price more than offset the decline in export volume, which resulted in a 25.2 percent increase in export receipts to K310.1 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of tea exported declined by 28.6 percent to 1,000 tonnes in the June quarter of 2011, from the corresponding quarter of 2010. The decline was due to lower production caused by unfavourable dry weather conditions affecting production during the harvest period and some damages caused during quarantine checks at the Lae port when unloading and loading tea packs for inspection. The average export price of tea declined by 10.0 percent to K3,600 per tonne in the June quarter of 2011, from the corresponding period of 2010. The decline was due to lower international prices attributed to higher production from Uganda and Kenya as a result of higher yields and increase use of fertilizers and pesticides, combined with weaker demand from Egypt due to the political unrest. The combined decline in export volume and price resulted in a 35.7 percent decline in export receipts to K3.6 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of rubber exported increased by 11.1 percent to 1000 tonnes in the June quarter of 2011, from the corresponding period of 2010. The increase was attributed to higher production in the rubber producing regions caused by dry weather conditions suitable for tapping and transportation to the market. The average export price increased by 42.3 percent to K9,800 per tonne in the June quarter of 2011, from the corresponding period of 2010. The increase was due to higher demand from China and India outpacing supply during lower production season. The combined increase in the export volume and price resulted in a 58.1 percent increase in export receipts to K9.8 million in the June quarter of 2011, from the corresponding period of 2010.

The volume of logs exported increased by 9.1 percent to 672.0 thousand cubic metres in the June quarter of 2011, from the corresponding period of 2010. The outcome was attributed to higher shipment from major logging projects due to favourable dry weather conditions. The average export price of logs declined by 17.8 percent to K199 per cubic metre in the June quarter of 2011, from the corresponding period of 2010. This outcome was due to lower international prices reflecting weaker demand for tropical hardwoods, especially from Japan following the earthquake and tsunami. The decline in export price more than offset the increase in volume resulting in a 10.3 percent decline in export receipts to K133.7 million in the June quarter of 2011, from the corresponding period of 2010.

The value of marine products exported declined by a significant 92.5 percent to K2.5 million in the June quarter of 2011, from the corresponding period of 2010. This outcome was a result of a combined decline in export volume and price.

5. BALANCE OF PAYMENTS

The overall surplus in the balance of payments for the first six months of 2011 was K359 million, compared to a higher surplus of K471 million in the corresponding period of 2010. This outcome was the result of a surplus in the current account, which more than offset a deficit in the capital and financial accounts.

The surplus in the current account was due to a higher trade balance and lower net service payments, which more than offset higher net income payments and lower net transfer receipts. The deficit in the financial account is mainly associated with the purchase of shares by a resident mineral company, outflows from portfolio investments reflecting purchase of short-term money market instruments, from financial derivative instruments due to net hedge payments by resident companies, a build up in foreign currency account balances of resident mineral companies, combined with higher net loan repayments by the Government. These more than offset drawdowns in the net foreign assets of the banking system.

The trade account recorded a surplus of K3,699 million in the first six months of 2011, an increase of 28.0 percent from the corresponding period of 2010. The higher surplus was due to an increase in the value of merchandise exports, which more than offset an increase in the value of merchandise imports. The value of merchandise exports in the first six months of 2011 was K8,358 million, an increase of 10.9 percent from the corresponding period of 2010. The increase was attributed to higher values of most export commodities, with the exception of cocoa, tea, refine petroleum products, gold and marine product exports.

The value of merchandise imports increased marginally by 0.2 percent to K4,659 million in the first six months of 2011, from the corresponding period of 2010. The increase was due to higher mining and petroleum sector imports, which more than offset a decline in general imports. Imports by the mining sector increased by 12.0 percent to K885 million in the first half of 2011, from the corresponding period of 2010. The increase reflected higher capital expenditure undertaken by Lihir and Ok Tedi mines, which more than offset a decline in the Porgera mine. Petroleum sector imports increased by 42.6 percent to K426 million in the first six months of 2011, from the corresponding period of 2010. The increase was due to higher capital expenditure by the existing oil projects. General imports declined by 3.6 percent to K3,348 million in the first six months of 2011, from the corresponding period of 2010. This reflected a reduction in domestic demand.

The deficit in the services account was K2,647 million in the first half of 2011, a decline of 24.5 percent from the corresponding period of 2010. This outcome was due to lower payments for transportation associated with lower imports, insurance, other financial, communication, other business, cultural and recreational, construction, refining and smelting and other services, despite lower service receipts, mainly from construction services.

The deficit in the income account was K666 million in the first half of 2011, an increase of 26.6 percent from the corresponding period of 2010. This outcome was due to higher compensation of employees and interest payments, combined with lower interest and income receipts.

The surplus in the transfers account was K460 million in the first half of 2011, a decline of 5.0 percent from the corresponding period of 2010. This outcome was due to lower receipts from superannuation funds, family maintenance, and tax receipts, combined with higher transfer payments.

As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K846 million in the first six months of 2011, compared to a deficit of K657 million in the corresponding period of 2010.

The capital account recorded a net inflow of K54 million in the first six months of 2011, a decline of 33.3 percent from the corresponding period of 2010. This reflected lower transfers by donor agencies for project financing.

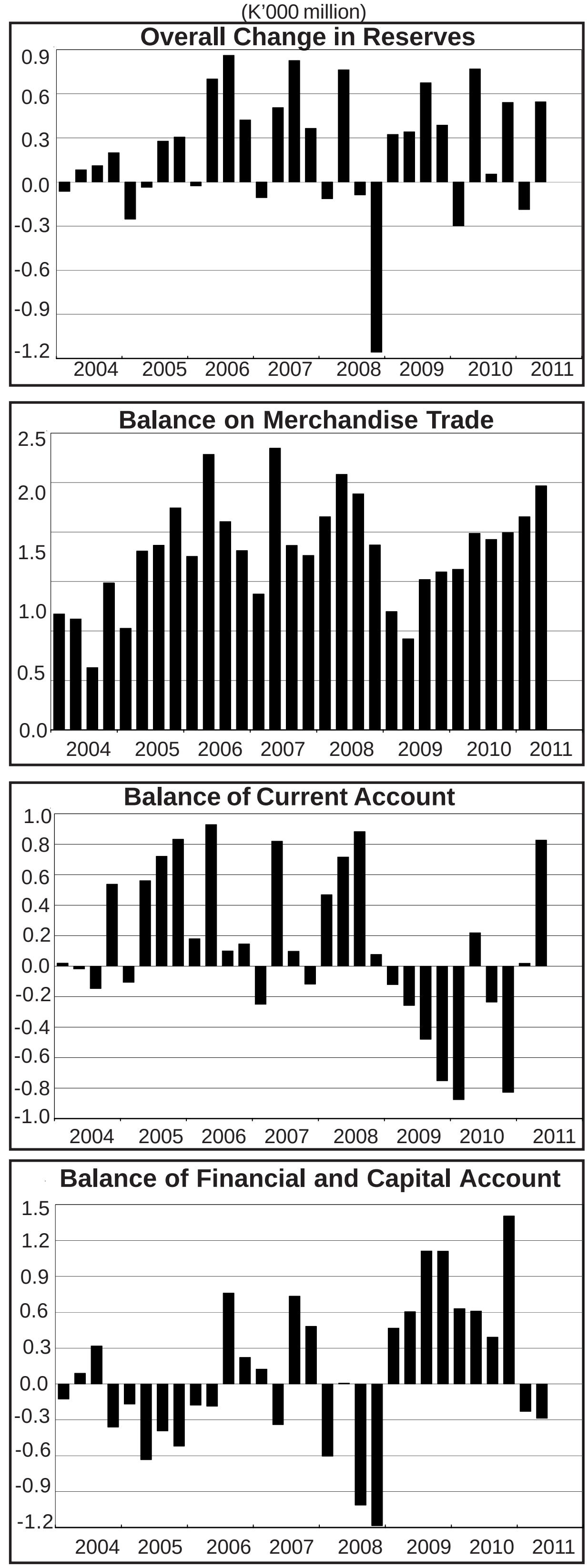
The financial account recorded a net outflow of K570 million in the first six months of 2011, compared to net inflows of K1,158 million in the corresponding period of 2010. This outcome reflected net outflows mainly from foreign direct investments associated with the purchase of shares by a resident mineral company, purchase of short-term money market instruments, investments in financial derivative instruments through hedge arrangements, a buildup in the net foreign assets of the banking system, combined with higher net loan repayments by the Government. These more than offset net outflows from drawdowns in net foreign assets of the banking system.

In the June quarter of 2011, the balance of payments recorded an overall surplus of K546 million, compared to a higher surplus of K770 million in the corresponding quarter of 2010.

The value of merchandise exports declined by 0.7 percent to K4,112 million in the June quarter of 2011, from the corresponding quarter of 2010. The decline was due to lower values of cocoa, tea, refine petroleum products, gold, log and marine product exports.

The value of merchandise imports declined by 16.2 percent to K2,137 million in the June quarter of 2011, from the corresponding quarter of 2010. This outcome reflected lower mining and general imports, which more than offset an increase by the petroleum sector. Imports by the mining sector were K384 million in the June quarter of 2011, a decline of 5.4 percent from the

BALANCE OF PAYMENTS
(K'000 million)



corresponding quarter of 2010. This was due to lower capital expenditure by the Porgera mine, which more than offset increases in the Lihir and Ok Tedi mines. General imports were K1,533 million in the June quarter of 2011, a decline of 21.2 percent from the corresponding quarter of 2010. Petroleum sector imports were K220 million in the June quarter of 2011, an increase of 41.0 percent from the corresponding quarter of 2010. This was due to higher capital expenditure by the existing oil projects.

The deficit in the services account was K1,238 million in the June quarter of 2011, a decline of 21.4 percent from the corresponding quarter of 2010. This outcome was due to lower payments for transportation and insurance associated with lower import payments, other financial, communication, other business, cultural and recreational, construction, refining and smelting and other services, despite lower service receipts by resident entities.

The deficit in the income account was K287 million in the June quarter of 2011, an increase of 35.4 percent from the corresponding quarter of 2010. This outcome was due to higher interest and dividend payments, combined with lower interest receipts.

The surplus in the transfers account was K377 million in the June quarter of 2011, a decline of 9.4 percent from the corresponding period of 2010. This outcome was due to lower receipts for superannuation funds, family maintenance, gifts and grants, tax and immigrant funds receipts, despite lower transfer payments. As a result of these developments in the trade, services, income and transfers accounts, the current account recorded a surplus of K827 million in the June quarter of 2011, compared to a surplus of K219 million in the corresponding quarter of 2010.

The capital account recorded a net inflow of K28 million in the June quarter of 2011, a decline of 50.9 percent from the corresponding period of 2010. This outcome was due to lower transfers by donor agencies for project financing.

The financial account recorded a net outflow of K315 million in the June quarter of 2011, compared to a net inflow of K552 million in the corresponding period of 2010. This outcome was due to net outflows from portfolio investments reflecting purchase of short-term money market instruments, investments in financial derivative instruments through hedge arrangements, buildup in foreign currency account balances of resident mineral companies, combined with net loan repayments by the Government. These more than offset net inflow from direct investments in the country by non-residents and drawdown in the net foreign assets of the banking system.

The level of gross foreign exchange reserves at the end of June 2011 was K8,485.9 (US$3,738.6) million, sufficient for 10.5 months of total and 14.6 months of non-mineral import covers.

6. MONETARY DEVELOPMENTS

INTEREST RATES AND LIQUIDITY

The Bank of Papua New Guinea tightened its monetary policy stance in June 2011 by increasing the Kina Facility Rate (KFR) to 7.25 percent from 7.0 percent, in response to high inflation outcomes and expected inflationary pressures arising from strong domestic demand. The dealing margin for the Repurchase Agreements (Repos) was maintained at 100 basis points on both sides of the KFR during the quarter.

Interest rates for short-term securities showed mixed trends across all maturities between end of March 2011 and June 2011. At the Central Bank Bill (CBB) market, the 28-day CBB rate declined from 3.02 percent to 2.85 percent and the 91-day rate from 3.97 percent to 3.66 percent, while the 63-day rate increased from 3.14 percent to 3.16 percent and the 182-day rate from 4.31 percent to 4.42 percent. Government Treasury bill rates also declined during the same period. The 182-day rate declined from 4.33 percent to 4.28 percent and the 365-day rate from 4.81 percent to 4.73 percent, while there was no auction for the 91-day Treasury bill. The weighted average deposit rates offered by commercial banks on wholesale deposits (K500,000 and above) also showed mixed trends across all maturities between end of March 2011 and June 2011. The 30-day rate remained unchanged at 2.20 percent, the 60-day rate increased from 2.13 percent to 2.36 percent, the 90-day rate from 2.49 percent to 2.76 percent, while the 182-day rate declined from 2.71 percent to 2.35 percent. Both the weighted average interest rates on total deposits and on total loans remained unchanged at 1.0 and 10.7 percent, respectively. The commercial banks' Indicator Lending Rates (ILR) spread remained at 10.95 –

11.95 percent following the last change in March 2009.

The Bank continued to utilise its Open Market Operation (OMO) instruments in the conduct of monetary policy over the June quarter of 2011. There was limited Treasury bill auction during the quarter due to the Government's positive cash flow position, while Inscribe stock auctions were conducted according to the issuance schedule. As a result, high liquidity was mainly diffused through net issuance of the CBBs. The level of liquidity in the banking system was high and unevenly distributed. As a result, trading in the interbank market was active during the period as banks borrowed to maintain positive Exchange Settlement Balance (ESA) balances. The Cash Reserve Requirement (CRR) of the commercial banks was maintained at 4.0 percent over the June quarter.

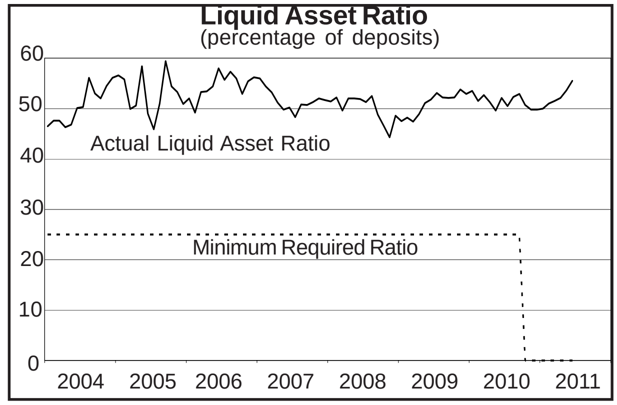
MONEY SUPPLY

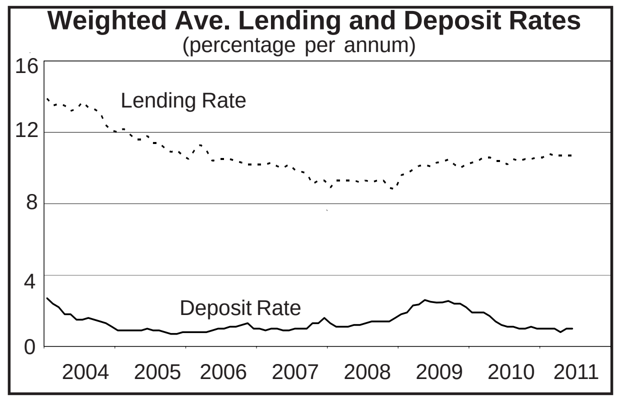
The average level of broad money supply (M3*) increased by 7.7 percent in the June quarter, compared to an increase of 2.2 percent in the March quarter of 2011. This outcome was due to an increase of 3.1 percent in average net foreign assets of depository corporations and an increase of 2.2 percent in average net private sector credit. Average net domestic claims outstanding, excluding net claims on the Central Government increased by 2.4 percent in the June quarter, compared to an increase of 2.8 percent in the March quarter of 2011.

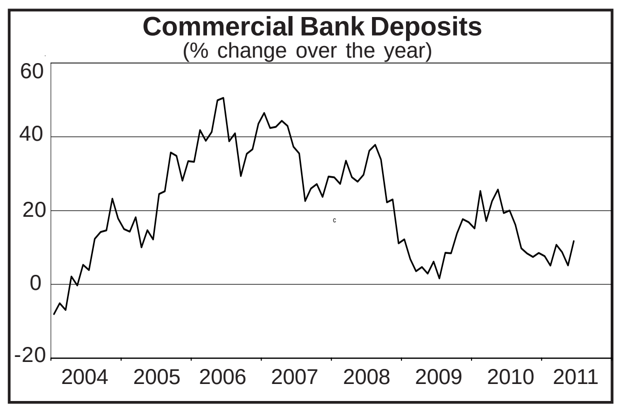
The average level of monetary base (reserve money) grew by 3.5 percent in the June quarter of 2011, compared to an increase of 8.7 percent in the March quarter of 2011. This mainly reflected an increase in average currency in circulation, which more than offset a decline in average deposits of ODCs at the Central Bank.

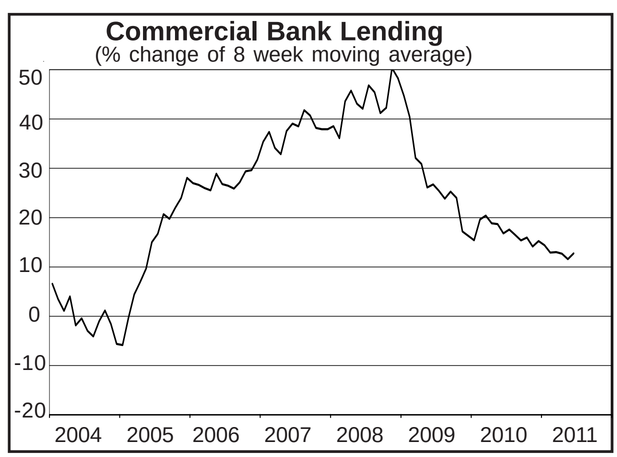
The average level of narrow money supply (M1*) increased by 8.0 percent in the June quarter of 2011, compared to an increase of 5.8 percent in the March quarter of 2011. This was due to increases in both average transferable deposits and currency outside depository corporations. The average level of quasi money increased by 7.4 percent in the June quarter of 2011, compared to a decline of 2.6 percent in the March quarter of 2011, reflecting an increase in average term deposits.

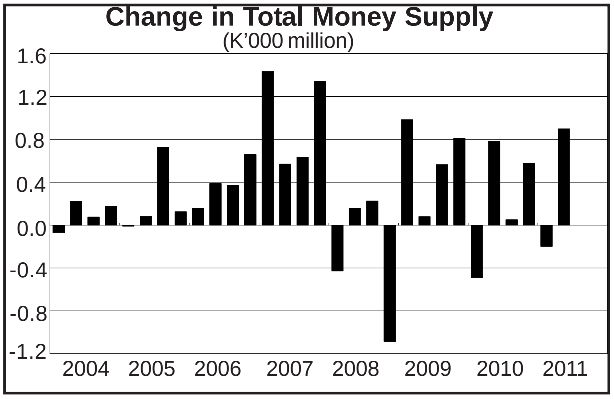
The average level of deposits of the ODCs increased by

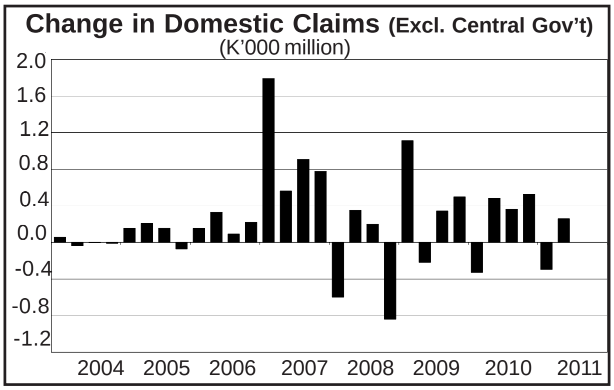


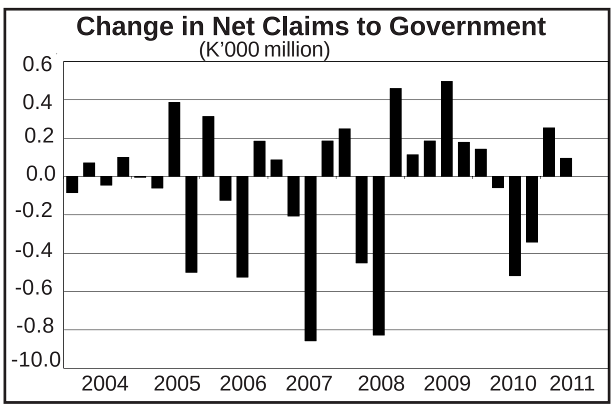


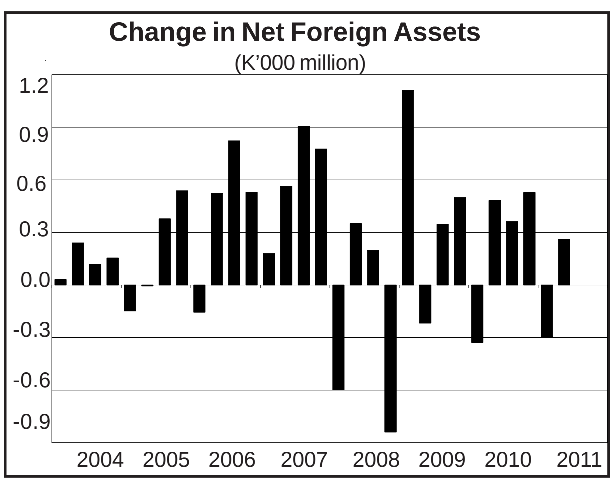












7.2 percent to K15,444.3 million in the June quarter of 2011 from K14,401.5 million in the March quarter of 2011. This reflected increases in transferable and other deposits including Central Government deposits.

The net foreign assets of the financial corporations increased by 1.6 percent in the June quarter of 2011, compared to a decline of 3.4 percent in the March quarter of 2011, following increased holdings by ODCs and OFCs. Net claims on the Central Government increased by 8.4 percent in the June quarter of 2011 compared to an increase of 36.0 percent in the previous quarter. This was influenced by increase in Treasury bills and Inscribe stock holdings by the ODCs.

LENDING

In the June quarter of 2011, total domestic credit extended by financial corporations to the private sector, public non-financial corporations, Provincial and Local Governments, and other financial corporations, increased by K165.5 million to K8,827.1 million, compared to an increase of K188.4 million in the March quarter of 2011. This was mainly due to an increase of K238.1 million in private sector credit, which more than offset a decline of K72.5 million in advances to public non-financial corporations. The growth in private sector credit reflected advances to the transport and communication, building and construction, mining and quarrying, commerce and hotels and restaurants in other business services sectors. The increased in lending is attributed to demand associated with the PNG LNG project. The annualised growth in domestic credit, excluding Central Government was 20.4 percent in June 2011.

7. PUBLIC FINANCE

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2011 showed an overall deficit of K173.5 million, compared to a surplus of K106.7 million in the corresponding period of 2010. This represents 0.6 percent of nominal GDP. The deficit reflected higher expenditure, which more than offset an increase in revenue.

Total revenue, including foreign grants, during the six months to June 2011 was K3,158.2 million, 8.4 percent higher than the receipts collected in the corresponding period of 2010. This represents 33.9 percent of the budgeted revenue for 2011. The increase in revenue mainly reflected higher tax receipts and foreign grants. Total tax revenue amounted to K2,889.7 million, 7.7 percent higher than the receipts collected in the same period in 2010, and represents 39.4 percent of the budget for 2011. Direct tax receipts totalled K2,152.3 million, 14.6 percent higher than the receipts collected during the corresponding period in 2010, and represents 40.7 percent of the 2011 budgeted revenue. This outcome reflected higher personal income and company tax receipts, which more than offset a decline in other direct tax receipts. The increase in personal income tax was due to higher remuneration and employment reflecting growth in domestic economic activity, partly attributed to the LNG related activities, combined with receipt of outstanding taxes. The growth in company tax receipts reflected the strong performance by private sector businesses in an environment of sustained economic activity and high international prices of PNG's exports. The decrease in other direct taxes was related to lower receipts from dividend withholding taxes and sundry items, including stamp duties.

Indirect tax receipts totalled K737.4 million, 8.4 percent lower than in the corresponding period in 2010 and represents 36.2 percent of the budgeted revenue for 2011. The decrease mainly reflected lower collections in Goods and Services Tax (GST) receipts, particularly from major contributing provinces, which more than offset increases in excise and import duties. The decrease in GST reflected lower collections following refunds to major tax payers associated with the PNG LNG project. The increase in excise duties reflected higher consumption of imported and domestically produced items, demand for some of which are price inelastic, while the increase in import duties resulted from high import volumes relating to strong domestic demand.

Total non-tax revenue amounted to K44.8 million, 0.7 percent higher than in the corresponding period of 2010 and represents 10.9 percent of the budgeted amount for 2011. The increase mainly reflected slightly higher collections from services provided by the National Departments. Foreign grants during the first six months to June 2011 totalled K223.7 million, 20.3 percent higher than in the corresponding period of 2010. This represents 14.7 percent of the budgeted amount for 2011 and mainly reflects the AusAID grant funding for projects.

Total expenditure for the first six months to June 2011 was K3,331.7 million, 18.7 percent higher than in the corresponding period of 2010, and represents 35.7 percent of the budget appropriation for 2011. This outcome mainly reflected higher recurrent expenditure.

Recurrent expenditure over the six months to June 2011 was K2,523.7 million, 26.7 percent higher than in the corresponding period of 2010, and represents 47.7 percent of the budget appropriation. The increase was due to higher spending by National Departments and Provincial Governments combined with higher interest payments, which more than offset a decline in grants to Statutory Bodies. National Departmental expenditure totalled K1,485.5 million, 27.4 percent higher than the amount spent in the corresponding period of 2010, and represents 43.3 percent of the 2011 budget appropriation. The increase mainly reflected expenditure for general goods and services and personnel emoluments. Provincial Government expenditure amounted to K621.7 million, 30.5 percent higher than in the corresponding period of 2010, and represents 56.0 percent of the 2011 appropriation. This outcome resulted from increases in personnel emoluments and payments for goods and services mainly relating to the health, education and transport sectors in the provinces. Interest payments on Government debt totalled K285.6 million, 40.9 percent higher than in the corresponding period of 2010 and represents 66.4 percent of the 2011 budget appropriation. The increase mainly reflected higher interest payments on domestic debt issued previously at high interest rates and a net increase in Inscribed stock issuance.

Development expenditure for the first six months to June 2011 was K808.0 million, 0.8 percent lower than in the same period of 2010, and represents 20.0 percent of the 2011 budget appropriation. The lower development outlay mainly reflected the on-going capacity constraints relating to the implementation of the Development Budget for 2011 by the Government.
The budget deficit of K173.5 million and net loan repayment of K66.5 million was financed by the domestic sector. The net external loan repayments comprised of K23.2 million to concessional, K5.4 million to commercial and K37.9 million to extraordinary financing sources. The net financing by domestic sources comprised of K77.5 million and K58.8 million in net issuance of government securities to ODCs and OFCs, respectively. These, combined with net drawdown of Government deposits totalling K205.6

million, mainly trust account funds at the Central Bank more than offset K101.9 million in other resident sectors, mainly in cheques presented for payment.

Total public (Government) debt outstanding at the end of the June quarter of 2011 was K6,690.1 million, K110.4 million higher than in the December quarter of 2010. The increase reflected higher domestic debt, which more than offset lower external debt. The increase in domestic debt resulted from net new issuance of Government securities, mainly Inscribed stocks and Treasury bills, while the decline in external debt reflected lower drawdown of loans, combined with the appreciation of the kina against most of the major borrowing currencies. This resulted in the debt to GDP (nominal) ratio decreasing to 23.3 percent from 25.5 percent between the two quarters.

The total amount of Government deposits in the depository corporations increased by K53.5 million to K3,315.9 million in the June quarter of 2011, compared to K3,262.4 million in the December quarter of 2010. Government trust account funds held at the Central Bank increased by a net of K164.5 million to K377.3 million in the June quarter of 2011, compared to K212.8 million in the December quarter of 2010.

PAPUA NEW GUINEA'S TOTAL EXTERNAL EXPOSURE

Papua New Guinea's total external exposure is given by the stock of public and private sector external debt and foreign equity holdings in resident business enterprises by non-resident entities.

This article reviews Papua New Guinea's total external exposure for the period 2008 to 2010. Historically, inflows of loans and equity capital for public and private sector investments have financed the balance of payments gaps as a result of low levels of domestic savings. Papua New Guinea's balance of payments position for the review period as presented in Table 1 indicates that there was a net capital outflow in 2008. This reflects debt service payments mainly by the petroleum, manufacturing, retail and government sectors. In 2009 and 2010, the net capital inflows reflected higher loan draw-downs mainly by the mineral, gas[1], manufacturing, communication, retail and agriculture sectors, combined with equity investments in the mineral and communication sectors. In the same years, the current account recorded deficits reflecting increase in the import value of goods and services, stemming from higher demand associated with the construction of the PNG-LNG project and increased business activity.

Between 2008 and 2010, Papua New Guinea's total external exposure as a percent of nominal Gross Domestic Product (GDP) increased from 51.6 percent in 2008 to 106.8 percent in 2010. This outcome is attributed to an increase in both the external debt outstanding and foreign equity holdings, which more than offset an increase in nominal GDP. As a percentage of nominal GDP, total external debt outstanding increased from 24.7 percent in 2008 to 72.9 percent in 2010, while total foreign equity holdings increased from 26.8 percent in 2008 to 33.9 percent in 2010. At the end of 2010, 91.7 percent of Papua New Guinea's external debt was denominated in Special Drawing Rights (SDR) (35.3 percent), US dollars (31.4 percent) and Japanese Yen (25.0 percent). Between 2008 and 2010, the kina appreciated by 2.6 percent against

Table 1: **Balance of Payments (K'million) (a)**

	2003	2004	2005	2006	2007	2008	2009		2010 (p)
Export of Goods and Services	8,671	9,093	11,229	13,816	15,148	16,655	12,612	r	16,218
Import of Goods and Services	7,323	7,920	8,353	10,603	13,206	13,206	12,979	r	17,094
Current Account Balance (b) (c)	-351	-233	1,206	751	1,942	3,449	-367	r	-876
Capital & Financial Account	-183	-313	-1,714	618	1,001	-2,796	3,294	r	3,055
Foreign Exchange Reserve Level	1,743	2,072	2,368	4,326	5,919	5,322	7,090	r	8,170
Months of Total Import Cover	4.9	5.6	6.0	8.5	9.1	7.5	10.7	r	10.5

Source: Bank of Papua New Guinea.

(a) The BOP format changed in 2002 to conform with the new IMF reporting format (BPM5), refer to "For the Record Note" in the March 2003 QEB for detailed explanations to the changes in the reporting format.
(b) Excludes transfer account transactions. Beginning in 2002, it includes transactions in the Income Account, due to changes in the reporting. Prior to 2002, all Income Account transactions were recorded under Services Account. Refer to footnote (a).
(c) Break in the series in 2006 highlights the exclusion of Income and Transfer accounts from export and import calculations which conforms with the method of calculation of debt-ratios used and the indictors employed in the calculation process. See "For the Record", June 2007 QEB for detailed explanation.

[1]In 2010, the debt inflow was mainly for the gas sector associated with the Government's equity financing in the PNG-LNG project. It does not include the other debt and equity inflows by other project partners due to non availability of data.

Table 2 : External Debt Outstanding and Foreign Equity Holdings (K'million) (a)

	2003	2004	2005	2006	2007	2008	2009	2010 (p)
External Debt								
Official Sector	**4,901.0**	**4,409.5**	**3,855.7**	**3,617.9**	**3,145.7**	**2,853.9** r	**2,863.7** r	**2,751.9**
Commercial	184.0	170.0	133.0	123.9	107.6	108.8	89.5	79.3
Concessional	4,717.0	4,239.5	3,722.7	3,494.0	3,038.1	2,745.1 r	2,774.2 r	2,672.6
Private Sector	**2,380.0**	**2,138.0**	**2,485.0**	**2,986.4**	**2,475.6**	**2,505.7**	**9,315.8** r	**16,079.5**
Mineral (b)	1,383.0	1,161.0	1,559.0	2,130.4	1,610.9	1,804.2	8,337.3 r	14,514.2
Other	930.0	923.0	842.0	840.0	858.0	701.4	978.5 r	1,565.3
Commercial Stat. Authorities.	67.0	53.0	84.0	16.0	6.7	-	-	-
Total Debt Outstanding	**7,281.0**	**6,547.5**	**6,340.7**	**6,604.3**	**5,621.3**	**5,359.6** r	**12,179.5** r	**18,831.5**
As a % of GDP	**57.0**	**47.8**	**41.3**	**38.7**	**30.0**	**24.8** r	**54.8** r	**72.9**
As a % of Export of Goods and Services (c)	**84.0**	**72.0**	**56.5**	**47.8**	**37.1**	**32.2** r	**96.6** r	**116.1**
Foreign Equity Holdings								
Private Sector								
Mineral	2,176.0	2,236.0	2,231.7	3,001.5	3,080.0	4,696.2 r	4,762.5 r	7,531.3
Other	800.0	916.0	1,077.8	1,088.4	1,104.0	1,107.0 r	1,225.4 r	1,225.2
Total Foreign Equity Holdings (d)	**2,976.0**	**3,153.0**	**3,309.5**	**4,089.9**	**4,184.0**	**5,803.1** r	**5,988.0** r	**8,756.5**
As a % of GDP (Nominal terms)	**23.3**	**23.0**	**21.6**	**24.0**	**22.4**	**26.8** r	**27.0** r	**33.9**
Total External Exposure	**10,257.0**	**9,699.0**	**9,650.2**	**10,694.2**	**9,805.3**	**11,162.7** r	**18,167.5** r	**27,587.9**
As a % of GDP (Nominal terms)	**80.4**	**70.8**	**62.9**	**62.7**	**52.4**	**51.6** r	**81.8** r	**106.8**
GDP (Nominal Terms)	**12,765.0**	**13,692.0**	**15,339.2**	**17,050.8**	**18,715.6**	**21,625.8**	**22,207.0** r	**25,837.2**

Source: Bank of Papua New Guinea, National Statistics Office & Department of Treasury.

(a) Figures from 1999-2003 are based on the old CS-DRMS database. Figures for 2004-2009 are from the upgraded database system.
(b) Includes petroleum and Mineral Resources Development Company Pty Ltd (MRDC).
(c) See footnote (c) in Table 1.
(d) There was a reclassification from dividend to equity following the sale by an Australian oil company of its equities in the various oil projects. The equity was purchased by a Japanese company, who was also a stakeholder in the projects.

SDR, while it depreciated by 0.8 percent and 15.9 percent against the US dollar and Japanese yen, respectively. The kina value of total external exposure increased during this period, as a result of an increase in the private sector external debt and total foreign equity holdings, which more than offset a decline in the public sector external debt.

Papua New Guinea's total foreign exposure was K27, 588 million in 2010, 147.3 percent higher than in 2008. This outcome was due to an increase in private sector external debt and total foreign equity holdings, combined with the depreciation of the kina against the US dollar and Japanese yen. The increase in private sector external debt was mainly due to higher loan drawdowns by the mineral and the gas sectors, which partly reflected drawdowns associated with the LNG project. Other loan drawdowns by the agriculture, communication, retail and other sectors also contributed to the increase. Between 2008 and 2010, the total foreign equity holdings increased due to higher investments in the mineral, retail and communication sectors. The decline in public sector external debt resulted from lower loan drawdowns and higher repayment by the Government.

Composition of External Debt Outstanding

As presented in Table 2, Papua New Guinea's total external debt outstanding increased by 252.0 percent to K18,832 million in 2010, from K5,360 million in 2008. Total external debt outstanding, as a percentage of nominal GDP, increased from 24.8 percent in 2008 to 72.9 percent in 2010, mainly as a result of a significant increase in private sector external debt by the mineral and gas sectors. This more than offset the increase in nominal GDP over the same period.

The significant increase in the stock of debt between 2008 and 2010 was mainly due to higher drawdown of loans by the private sector, which more than offset the decline in loan drawdowns by the public sector, and the effects of the depreciation of the kina against the US dollar and the Japanese yen, currencies in which 56.4 percent of total external debt is denominated.

The total stock of private sector external debt outstanding increased by 541.7 percent to K16,080 million in 2010, from K2,506 million in 2008. The increase was due to higher loan drawdowns mainly by the agriculture, communication, retail, mineral and

Table 3: Maturity Structure of Government External Debt Outstanding: 2003 - 2010 (K'million) (a)

Maturity	2003	%	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010 (p)	%
1 to 5 years	41	1	20	1	9	0	0	0	0	0	0	0	0	0	0	0
6 to 9 years	429	9	235	5	102	3	33	1	31	1	41	1	37	1	30	1
Over 10 years	4,431	90	4,155	94	3,745	97	3,585	99	3,115	99	2,813 r	99	2827 r	99	2,721	99
Total	**4,901**	**100**	**4,410**	**100**	**3,856**	**100**	**3,618**	**119**	**3,146**	**100**	**2,854** r	**100**	**2,864** r	**100**	**2,751**	**100**

Source: Financial Evaluation Division, Department of Treasury (DOT).
(a) The maturity intervals have changed as per the data provided by DOT. This is due to an update in the system used by DOT, the CDRMS (Commonwealth Debt Recording and Management System).

gas sectors. In the mineral sector, higher loan drawdowns were recorded in the petroleum and the mining sub-sectors in 2010. The private sector debt outstanding, excluding mineral and commercial statutory authorities, increased by 123.2 percent to K1,565 million in 2010, from 2008. This was mainly due to higher loan drawdowns by the communication, retail and transportation sectors.

The Government's external debt outstanding declined by 3.6 percent to K2, 752 million in 2010 from 2008, and comprised of 14.6 percent of total external debt in 2010, compared to 53.2 percent in 2008. Concessionary loans comprised 97.1 percent of total public external debt in 2010, with commercial loans making up the balance.

The declining trend in the composition of public debt outstanding indicates that the Government is committed to the Medium Term Debt Strategy of reducing the level of public external debt to sustainable levels. This objective is facilitated by retiring foreign currency loans from international agencies and substituting it with financing from domestic sources through increased issuance of Inscribed stocks.

Maturity Structure of Government External Debt Outstanding

Table 3 presents the maturity structure of the Government's external debt, classified by date of maturity from drawdown. At the end of 2010, 1.0 percent of debt stock had original maturities between 6 to 9 years, while the remaining 99.0 percent of debt had maturities over 10 years. The majority of the loans are provided by multilateral agencies to fund development projects.

Table 4: Maturity Structure of Private External Debt Outstanding: 2003 - 2010 (K'million) (a)

Maturity	2003	%	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010 (p)	%
1 to 5 years	135	6	790	37	342	14	314	10	1,244	50	1,209	48	1,145 r	12 r	1,869	12
6 to 10 years	1,010	42	433	20	1,172	47	1,817	61	364	15	546	22	7,378 r	79 r	8,178	51
11 to 15 years	672	28	607	29	577	23	564	19	362	15	303	12	743 r	8 r	333	2
Over 15 years	563	24	307	14	394	16	291	10	505	20	447	18	50 r	1 r	5,699	35
Total	**2,380**	**100**	**2,138**	**100**	**2,485**	**100**	**2,986**	**100**	**2,476**	100	**2,505**	100	**9,316** r	100	**16,080**	100

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.

Table 5: **External Debt Service by Category of Borrower (K'million) (a)**

	2003	2004	2005	2006	2007	2008	2009	2010 (p)
Official Sector	**610**	**567**	**466**	**478**	**614**	**555**	**230**	**228**
Principal	446	435	354	364	501	468	170	185
Commercial	45	27	17	16	16	17	18	19
Concessional	401	408	336	348	485	451	152	166
Interest (b)	164	133	112	114	113	88	59	43
Commercial	4	3	2	2	2	2	2	1
Concessional	160	130	109	112	111	86	58	42
Private Sector	**1,145**	**377**	**663**	**1,034**	**2,513**	**3,062**	**1,505** r	**2,185**
Principal	1,039	316	577	935	2,389	2,976	1,303 r	1,880
Mineral (c)	936	217	499	496	897	856	23 r	211
Other	63	81	23	430	1,483	2,113	1,280 r	1,669
Commercial Stat. Authorities (d)	40	18	55	9	9	7	-	-
Interest (b)	106	61	86	99	124	86	202 r	305
Mineral (c)	64	33	48	83	83	59	155 r	258
Other	39	26	36	16	41	27	47 r	47
Commercial Stat. Authorities (d)	3	2	2	-	-	-	-	-
Total Debt Service	**1,755**	**945**	**1,129**	**1,512**	**3,126**	**3,617**	**1,735** r	**2,413**
Principal	**1,485**	**750**	**931**	**1,299**	**2,889**	**3,443**	**1,473** r	**2,065**
Interest	**270**	**194**	**198**	**213**	**237**	**174**	**261** r	**348**
Total Debt Servicing/Export of Goods and Sevices (%) (e)	**20.1**	**10.6**	**10.1**	**10.9**	**20.6**	**21.7**	**13.8** r	**14.9**
Interest Payments/Export of Goods and Sevices (%) (e)	**3.1**	**2.2**	**1.8**	**1.5**	**1.6**	**1.0**	**2.1** r	**2.1**

Source: Bank of Papua New Guinea & Department of Treasury.
(a) See foot note (a) in Table 2.
(b) From 1999 onwards Other fees and charges are not included.
(c) Includes MRDC, and petroleum and gas.
(d) Includes Bank of Papua New Guinea's debt service.
(e) See footnote (c) in Table 1.

Maturity Structure of Private External Debt Outstanding

As presented in Table 4, the maturity structure of private sector debt, classified by date of maturity from drawdown, shows that in 2010, 63.0 percent of the total stock had original maturities between 1 to 10 years. These are mainly commercial debt owed by the mineral, gas, manufacturing and communication sectors. The remaining 37.0 percent with over 10 years to maturity mainly constitutes inter-company debt, contracted between resident companies and their foreign affiliates.

External Debt Service

Table 5 shows that Papua New Guinea's external debt service payments, comprising of principle and interest, declined by 33.3 percent to K2,413 million in 2010, from 2008. The decrease was in the petroleum, mining, agriculture and forestry sub-sectors, and the manufacturing and retail sectors combined with a decline in the public sector. The external debt service of the mineral sector and other subsectors in the private sector, accounted for 90.1 per cent of the total external debt service payments, with public sector debt service payments making up the balance. The Government's external debt service declined between 2008 and 2010, mainly because in 2008 the Government prepaid some expensive loans from the budget surplus.

Debt Service to Exports Ratio[2]

The debt service to exports ratio is defined as the ratio of external debt service, both principle and interest payment, to the value of exports of goods and services. This ratio is used as an indicator of a country's ability to meet external debt obligations from its export earnings.

As shown in Chart 1, Papua New Guinea's debt service-to-exports ratio declined to 14.9 percent in 2010, from 21.7 percent in 2008. The ratio was lower compared to that of the Latin American and other developing countries. This outcome was due to a decline of 33.3 percent in debt service payments of K2,413 million, despite a marginal decline of 2.6 percent in the export value of goods and services, over the same period. The decline in PNG's debt service to export ratio indicates a reduction in PNG's ability to meet its external debt obligations in the long run.

Debt to Exports Ratio[3]

The debt to exports ratio is defined as the ratio of total outstanding debt to the value of exports of goods and

[2] Refer to "For the Record" in the June 2007 Quarterly Economic Bulletin for detailed explanation.
[3] Refer to foot note above.

services of the economy. This ratio is used as a measure of sustainability and as an indicator of a country's ability to meet its future external debt obligations from its export earnings.

Between 2009 and 2010, Papua New Guinea's ratio of external debt outstanding to exports of goods and services trended upwards, as shown in Chart 2, surpassing the ratios of Latin American, African and other developing economies. The increase was due to a significant increase in private sector debt outstanding from K2,506 million in 2008 to K16,080 million in 2010, combined with depreciation of the kina against the US dollar and the Japanese yen, two of the main currencies in which loans are denominated. The ratio, as a percentage of export receipts of goods and services, increased from 32.1 percent in 2008 to 116.1 percent in 2010. This outcome was mainly due to increased debt in the mineral sector, reflecting investments by mining and petroleum companies on both existing and new projects, while in the gas sector, the drawdown was associated with the construction of the PNG LNG project. The increase in the country's debt to exports ratio indicates the decline in the country's ability to meet external debt obligations from its export earnings.

Debt to GDP Ratio[4]

This ratio is defined as total outstanding external debt to nominal GDP. It is an indication of the country's ability to service external debt by switching resources from production of domestic goods to the production of export commodities.

The ratio of Papua New Guinea's external debt outstanding to nominal GDP, as shown in Chart 3, increased significantly between 2009 and 2010, surpassing Latin America, Africa and other developing countries. The ratio, as a percentage of nominal GDP, increased from 24.7 percent in 2008 to 72.9 percent in 2010. This outcome was mainly due to the significant increase in the private sector debt outstanding, combined with the depreciation of the kina against the US dollar and Japanese yen. This outcome more than offset an increase of 19.5 percent in the nominal GDP to K25,837 million in 2010, from 2008. In the short-run, the overall increase in the debt to GDP ratio indicates a reduction in the country's ability to meet its future external debt obligations. However, the high GDP

Chart 1: Debt Service to Exports Ratio

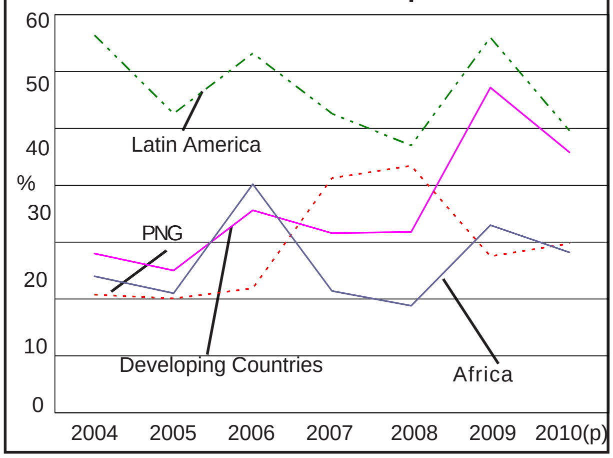


Chart 2: Debt to Exports Ratio

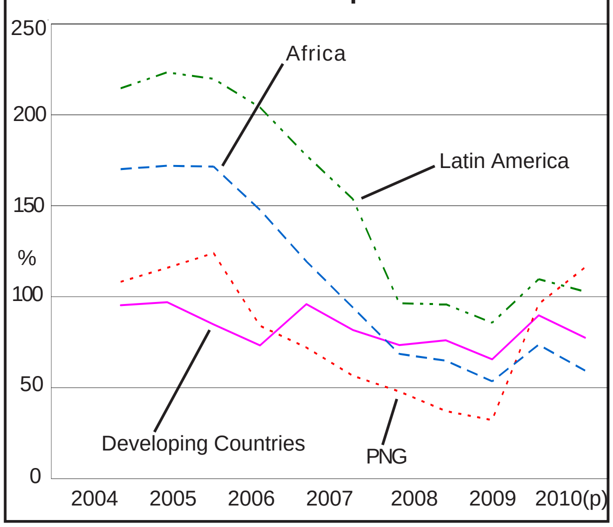
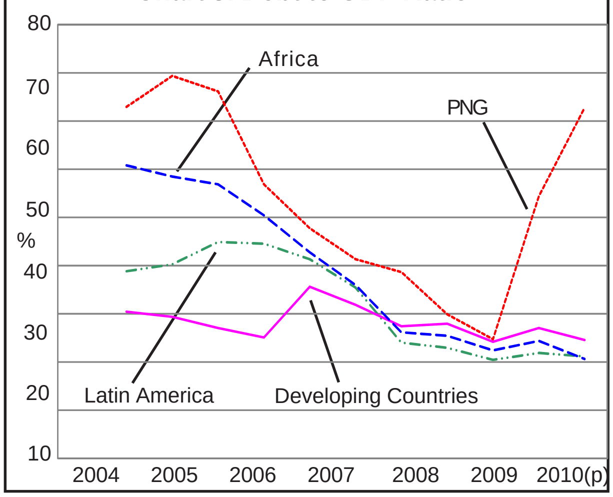


Chart 3: Debt to GDP Ratio



[4]Refer to foot note on page 25.

Table 6: Foreign Equity Holdings by Country of Origin (K'million) (a)

Country	2003	2004	2005	2006	2007	2008 (b)		2009		2010 (p)
Australia	1,612	1,658	1,671	2,280	2,305	2,305	r	2,389	r	5,155
United States	48	48	48	48	48	48		48		48
United Kingdom	158	156	181	181	206	206		206		206
Japan	115	107	107	107	107	1,717		1,717		1,717
Canada	42	42	43	43	98	98		98		98
Singapore	142	155	162	162	162	165		165		165
Hong Kong	52	66	66	70	70	70		69		69
South Korea	64	64	41	41	24	24		24		24
Malaysia	170	170	170	170	170	170		164		164
Bahamas	189	189	189	189	189	189		189		189
Bermuda	66	66	66	66	66	66		66		66
Others	318	431	565	734	740	747		853	r	856
Total Foreign Equity	**2,976**	**3,152**	**3,309**	**4,090**	**4,184**	**5,803**	r	**5,988**	r	**8,757**
As a % of GDP (nominal)	**23.3**	**23.0**	**21.6**	**24.0**	**22.4**	**26.8**	r	**27.0**	r	**33.9**
Gross Domestic Product (GDP) (c)	12,765	13,692	15,339	17,051	18,716	21,626		22,207		25,837

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) See footnote (d) in Table 2.
(c) GDP figures are from various budget documents published by Department of Treasury.

growth rate over the period indicates that the country's ability to meet its future external debt obligation will improve in the long-run.

Foreign Equity Investment in Papua New Guinea

As presented in Tables 6 and 7, foreign equity investment in Papua New Guinea increased by 50.9 percent to K8, 757 million in 2010, from 2008. The increase was mainly due to significant investments in the mineral sector mainly petroleum and gas subsectors. The ratio, as a percentage of nominal GDP, increased from 26.8 percent in 2008 to 33.9 percent in 2010. This outcome was mainly due to the increase in foreign equity investments, which more than offset an increase in nominal GDP, over the same period.

By country of origin, equity investment was led by Australia, Japan, United Kingdom (UK), Bahamas, Singapore and Malaysia, and together accounted for 86.7 percent in 2010, compared to 81.9 percent in 2008. Investments from Australia increased significantly while Hong Kong and Malaysia declined. Equity Investments from the United States of America (USA),

Table 7: Foreign Equity Holdings by Economic Sector (K'million) (a)

Economic Sector	2003	2004	2005	2006	2007	2008 (b)		2009		2010 (p)
Agriculture	194	194	194	194	219	219		219		219
Mineral (c)	2,176	2,237	2,232	3,002	3,080	4,696	r	4,763	r	7,531
Transportation	5	5	5	5	5	5		4		5
Manufacturing	144	214	379	382	382	382		392	r	382
Fisheries	52	52	52	52	52	52		52		52
Bank/Insurance/Finance	113	115	131	131	137	137		137		137
Retail	32	32	31	38	38	38		38		38
Forestry	128	152	130	130	130	134		134		134
Hotel/Restraurant	10	10	10	10	10	10		10		10
Communication	-	-	-	-	-	-		123	r	120
Other	122	141	146	147	131	131		116	r	129
Total Foreign Equity	**2,976**	**3,152**	**3,309**	**4,090**	**4,184**	**5,803**	r	**5,988**	r	**8,757**

Source: Bank of Papua New Guinea.
(a) See footnote (a) in Table 2.
(b) See footnote (d) in Table 2.
(c) Includes petroleum and gas.

Table 8: **Equity Inflows by Country of Origin (K'million) (a)**

Country	2003	2004	2005	2006	2007	2008 (b)	2009	2010 (p)
Australia	-	59	2	609	27	1,610 r	90	2,769
United Kingdom	-	10	-	-	25	-	-	-
Fiji	-	-	-	1	-	-	-	-
Japan	-	40	-	-	-	1,610	-	-
Germany	-	-	-	-	-	-	-	-
Canada	-	-	1	-	55	-	-	-
Singapore	-	13	-	-	-	3	-	-
Hong Kong (PRC)	3	15	-	3	-	-	-	-
Taiwan (PRC)	-	13	-	-	-	-	-	-
Malaysia	44	-	-	-	-	-	-	-
Italy	-	-	-	-	-	-	1	-
British Virgin Islands	-	-	-	-	-	-	120	-
Others	-	78	154	168	7	7	10 r	3
Total Equity Inflows (c)	**47**	**228**	**157**	**781**	**114**	**3,230** r	**221** r	**2,772**

(a) See foot note (a) in Table 2.

(b) See footnote (d) in Table 2.

(c) The large inflows in 2007 was for the manufacturing sector, whereas in 2006, 2008, 2009 and 2010 were mostly for the mineral sector.

United Kingdom (UK), Japan, Singapore, Canada, South Korea, Bahamas, and Bermuda remained stable. In 2009, investment from Japan was significantly high due to the acquisition of equity in the oil project by a Japanese petroleum company from an Australian Gas and Oil company. The increase in 2010 was due to investments in the mining and petroleum subsectors by Australian companies.

Table 7 shows that the mineral sector accounted for 70.1 percent and 86.0 percent of the total foreign equity in 2008 and 2010, respectively, reflecting the dominance of this sector in the economy. Equity in the non-mineral private sector increased by 10.7 percent to K1, 226 million in 2010 from 2008, primarily as a result of investments in the communication sector.

Net Equity Flows

As shown in Tables 8 and 9, the significant increase in equity inflows in 2008 is due to the purchase of shares in the gas subsector by an Australian company, and subsequently sold its interests to a Japanese company in the same year, hence the significant increase in the respective countries equity inflows. The result of the sale is evidenced by the equity withdrawal of the same amount to Australia in the same year. The significant increase in equity inflows in 2010 is due to

Table 9: **Equity Withdrawals /Transfers by Country of Destination (K'million) (a)**

Country	2003	2004	2005	2006	2007	2008 (b)	2009	2010 (p)
Australia	3	-	-	-	2	1,610	5	3
Canada	-	-	-	-	1	-	-	-
Japan	-	48	-	-	-	-	-	-
Korea, Republic of	-	-	-	-	17	-	-	-
Malaysia	-	-	-	-	-	-	6	-
United Kingdom	-	3	-	-	-	-	-	-
United States	65	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	24	-
Others	-	-	-	-	1	-	1	-
Withdrawals/ Transfers (c)	**68**	**51**	**0**	**0**	**20**	**1,610**	**36**	**3**
Net Flows	**-20**	**177**	**157**	**781**	**94**	**1,620** r	**185** r	**2,769**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

(b) See footnote (d) in Table 2

(c) Transfers to other non-residents are treated as withdrawals.

Table 10: Dividend Payments by Country of Destination (K'million) (a)

Country	2003	2004	2005	2006	2007	2008 (b)	2009	2010 (p)
Australia	490	506	449	411	317	528	150	250
United States	219	26	16	4	-	-	1	-
United Kingdom	-	-	-	-	-	13	25	31
Japan	1	3	3	2	-	27	24	1
France	-	-	5	2	-	-	-	-
New Zealand	2	10	12	12	11	5	1	5
Korea, Republic of	12	17	18	13	13	14	14	-
Philippines	-	-	2	11	2	-	-	-
Hong Kong (PRC)	3	3	-	-	3	20	17	9
Italy	-	-	-	64	-	-	-	4
Canada	-	-	-	-	-	-	-	-
Singapore	32	29	774	1,295	1,070	657	255	102
Malaysia	24	26	36	17	26	90	8	2
Others	1	29	17	116	160	4	-	6
Total Dividend Payments	**785**	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**

Source: Bank of Papua New Guinea.

(a) See foot note (a) in Table 2.

(b) See footnote (d) in Table 2

investment in a resident mineral company, combined with investments in the petroleum sector by Australian companies, namely, Lihir Gold Limited, Lavana Limited and Santos Hides Limited.

Dividend Payments

Dividends reflect the cash return to shareholders and are an indicator of the profitability of an enterprise. As shown in Tables 10 and 11, dividend payments trended downwards by 63.6 percent in 2009 to K494 million from 2008, and 17.0 percent in 2010 to K410 million from 2009. The decline between 2009 and 2010 was due to lower dividend payments by the mineral sector, especially the petroleum and mining subsectors, which more than offset an increase in payments by the manufacturing, retail and banking/Insurance/finance sectors.

The consistently high annual dividend payments made to Australia and Singapore between 2008 and 2010 reflects the high shareholding of resident companies by these countries, and their dominance of equity investment in Papua New Guinea (see Table 6).

Table 11: Dividend Payments by Economic Sector (K'million) (a)

Economic Sector	2003	2004	2005	2006	2007	2008 (b)	2009	2010 (p)
Mineral (c)	587	318	1,026	1,663	1,348	981	251	91
Agriculture	21	18	33	-	-	73	-	-
Transportation	17	10	9	12	2	-	2	5
Manufacturing	73	106	72	71	80	197	135	163
Fisheries	-	-	2	11	2	-	-	-
Bank/Ins/Finance	55	136	108	116	54	28	35	90
Retail	4	8	16	14	31	7	17	25
Forestry (d)	1	-	-	-	-	6	4	-
Hotel/Restraurant	-	-	-	-	-	-	-	2
Dredging Construction	2	1	-	4	3	-	-	-
Engineering Construction	-	2	-	-	16	3	-	-
Electricity, Gas and Water	12	17	18	13	13	14	- r	-
Others (e)	13	33	48	42	52	50	50 r	34
Total Dividend Payments	**785**	**650**	**1,333**	**1,947**	**1,601**	**1,359**	**494**	**410**

Source: Bank of Papua New Guinea.

(a) See footnote (a) in Table 2.
(b) See footnote (d) in Table 2.
(c) Includes petroleum and gas.
(d) Inclusion of new sector, hence the revisons for 2001, 2003 and 2008.
(e) Includes dividends from the remaining sectors and from unspecified sectors.

MONTHLY KINA FACILITY RATE ANNOUNCEMENTS

The Central Bank introduced the Kina Facility Rate (KFR) in February 2001 as the official rate to indicate its stance of monetary policy. The KFR is a monthly rate and any changes to it should translate to changes in market interest rates. Changes to the KFR is based on assessment of economic fundamentals consistent with the overall objective of monetary policy of price stability in the economy. From January 2009, the KFR announcements by the Bank were;

2009	05 January	Maintained at 8.00 %
	02 February	Maintained at 8.00 %
	02 March	Maintained at 8.00 %
	06 April	Maintained at 8.00 %
	04 May	Maintained at 8.00 %
	01 June	Maintained at 8.00 %
	06 July	Maintained at 8.00 %
	03 August	Maintained at 8.00 %
	07 September	Maintained at 8.00 %
	05 October	Maintained at 8.00 %
	02 November	Maintained at 8.00 %
	07 December	Reduced to 7.00 %
2010	04 January	Maintained at 7.00 %
	01 February	Maintained at 7.00 %
	01 March	Maintained at 7.00 %
	06 April	Maintained at 7.00 %
	03 May	Maintained at 7.00 %
	07 June	Maintained at 7.00 %
	05 July	Maintained at 7.00 %
	02 August	Maintained at 7.00 %
	06 September	Maintained at 7.00 %
	04 October	Maintained at 7.00 %
	01 November	Maintained at 7.00 %
	04 December	Maintained at 7.00 %
2011	03 January	Maintained at 7.00 %
	07 February	Maintained at 7.00 %
	07 March	Maintained at 7.00 %
	04 April	Maintained at 7.00 %
	02 May	Maintained at 7.00 %
	06 June	Increased to 7.25 %
	04 July	Increased to 7.50 %
	01 August	Maintained at 7.50 %
	05 September	Increased to 7.75 %
	03 October	Maintained at 7.75 %

For details of the KFR, see Table 6.3 (S34) of the QEB.
KFR announcements prior to January 2009 are reported in various bulletins starting with the March 2001 QEB.

GLOSSARY OF TERMS AND ACRONYMS

Balance of Payments

A statistical statement that systematically summarises a country's economic transactions with the rest of the world, over a specific time period. It comprises the Current and Capital and Financial Accounts.

Broad Money Supply (M3*)

Total volume of money comprising narrow money (M1*) and quasi money in the economy at a point in time. See 'narrow' and 'quasi' money.

Cash Reserve Requirement (CRR)

A requirement imposed on commercial banks to hold cash as a percentage of total deposits and other prescribed liabilities at all times.

Capital Account

Records all transactions that involves the receipts or transfers of capital and acquisitions/disposal of non-produced, non-financial assets such as purchase of production facilities, i.e. plants and machinery, etc.

Central Bank (CB)

The Bank of Papua New Guinea (BPNG) is the monetary authority in Papua New Guinea (PNG) that has legislative power over the financial system and is responsible for issuing currency, managing international reserves, undertakes transactions with the IMF and providing credit to the commercial banks.

Central Bank Bill (CBB)[5]

A monetary policy instrument of the Bank of PNG used to manage liquidity in the banking system by either injecting or defusing it in order to achieve a desired level of interest rate.

Central Bank Survey (CBS)

The CBS is the balance sheet of the Central Bank, which contains data on all components of the monetary base, comprising of currency in circulation and central bank liabilities to ODCs and other sectors.

Current Transfers Account

Records all foreign transactions that are not transfers of capital and cannot be repaid. This includes donations, gifts and grants, superannuation funds and licensing fees.

Depository Corporations Survey (DCS)

The survey is a consolidation of the CBS and the ODCS, which contains data on all depository corporations' liabilities in the national definition of broad money and data on depository corporations, assts that are claims on (i.e credit) other sectors of the economy, including the external sector.

[5] See 'For the Record' on page 34 in the 2004 September QEB.

Deposits	Deposits include all claims on the Bank of PNG and ODCs. These are further classified into transferable and other deposits. (I). Transferable deposits comprises all deposits that are: a). Exchangeable on demand at par and without penalty or restrictions; b). Directly usable for making payments by cheque, draft direct debit/credit or other direct payment facilities. ii.) Other deposits comprise all claims, other than transferable deposits. These include savings and term deposits and non transferable deposits in foreign currency.
Exchange Settlement Account (ESA)	Accounts of the commercial banks with the Bank of PNG for settlement transactions with each other.
Exclusion-based CPI measure	An underlying inflation measure which involves zero weighting of volatile sub-groups or items such as fruit &vegetables, betelnut and prices that are largely determined by non-market (seasonal) forces, as well as alcoholic drinks, cigarettes & tobacco, etc. See ‘Underlying CPI’.
Financial Account	Records all transactions associated with changes of ownership of foreign financial assets such as holdings of monetary gold, special drawing rights (SDR), claims on non-residents and foreign liabilities.
Financial Corporations Survey (FCS)	The FCS is the broadest set of monetary and financial statistics in terms of institutional coverage. The survey contains consolidated balance sheet data for all institutional units within the financial corporations sector, thereby providing the stock and flow data for analyzing claims on and liabilities to all other sectors of theeconomy, including the external sector.
Financial derivatives	A financial instrument linked to a specific financial instrument, indicator or commodity and through which specific financial risks (such as interest rates, currency equity and commodity price risk, credit risk, etc.) can be traded in their own right in financial markets.
Headline Consumer Price Index (CPI)	A measure of inflation as calculated and published quarterly by the National Statistical Office (NSO), which measures the total price movements in goods and services in the basket.
Income Account	Records transactions such as compensation of employees, which cover wages, salaries, and other benefits in cash and kind, dividends and interest earned on investments between PNG and the other countries.
Inscribed Stock (bond)	A Government debt instrument sold to the public for

a maturity term of one year or longer for Budget financing.

Insurance Technical Reserves

Comprises of (i) net equity of households in life insurance corporations reserves, (ii) net equity of households in superannuation (pension) funds and (iii) prepayment of premiums. This is the major liability item of the superannuation funds and insurance corporations. On the assets side, this category records prepaid insurance premiums, which are relatively small amounts.

Kina Facility Rate (KFR)

Official benchmark rate used by the Bank of PNG to signal its monetary policy stance. The KFR is announced monthly by the Governor and published in the newspapers and on the Bank's website.

Liquid Assets

Assets of the commercial banks, which are in near liquid form, comprising cash, ESA balances, CBBs, Treasury bills and Inscribed stocks less than 3 years to maturity.

Minimum Liquid Asset Ratio (MLAR)

A prudential requirement imposed by the Bank of PNG on commercial banks to hold liquid assets as a percentage of total deposits and other prescribed liabilities at all times.

Monetary Base (or Reserve Money)

Comprised of currency held by the public and liquid assets of the commercial banks, including deposits held with the Bank of PNG under the Repurchase Agreement Facility (RAF) or Repos.

Narrow Money

A component of total money supply that is considered liquid or can be converted easily to cash on demand, and comprises of currency in circulation (held outside the banking system) and demand deposits.

Net Equity of Households in Life Insurance Reserves

Comprises of policyholders claims on the reserves of insurance corporations. These reserves must be ultimately used to provide benefits to policyholders, upon the occurrence of other specified events, or to compensate heirs upon the death of the policyholder. These claims constitute assets of the household sector rather than of insurance corporations.

Net Equity of Households in Pension Funds

Comprises policyholders' claims on pension funds. These reserves must be ultimately used to provide benefits to policyholders upon their retirement or to compensate heirs upon death of the policyholder. Pension funds are considered assets of the household sector rather than assets of the institutional units that manage the funds. Pension funds do not include social security funds, which are considered part of the general government sector.

Open Market Operations (OMO)

Operations of liquidity management conducted by the Bank of PNG with commercial banks and other financial intermediaries involving Government securities, CBB, Repos and foreign exchange trading to influence short-term interest rates.

Other Depository Corporations (ODCs)

The ODC sub-sector in PNG comprises of the commercial banks, finance companies, merchant banks, savings and loans societies and microfinance companies. These financial corporations are mainly engaged in financial intermediation and issue liabilities included in the definition of broad.

Other Depository Corporations Survey (ODCS)

The ODCS shows the consolidated stock and flow balance sheet data for the institutional units covered under the ODC sub-sector.

Other Financial Corporations (OFCs)

The OFC sub-sector is made up of the insurancec orporations, superannuation (pension) funds, other financial intermediaries and financial auxiliaries such as insurance brokers, investment managers and fund administrators.

Other Financial Corporations Survey (OFCS)

The OFCS contains consolidated stock and flow balance sheet data for insurance corporations, superannuation funds, other financial intermediaries and financial auxiliaries.

Over the year CPI

Percentage change in the CPI of a quarter compared to the corresponding quarter of the previous year (Also called 'annual' CPI).

Portfolio Investment

Investments, mainly in equity and debt securities such as bonds and notes, money market debt instruments and financial derivatives, as well as long-term debt, equity and securities.

Prepayment of Premiums and Reserves against Outstanding Claims

These are current claims of policyholders rather than net equity of insurance corporations. Prepayments of premiums, which are made by customers at the beginning of the periods covered by their policies, generate reserves for insurance corporations. Such prepayments are considered to be earned by an insurance corporation on a prorated basis during the policy period. These reserves are assets of policyholders. Reserves against outstanding claims are funds set aside by insurance corporations to cover the amounts that are not settled or claims that may be disputed. Reserves against such outstanding claims are considered to be assets of the beneficiaries and liabilities of the insurance corporation. Policy benefits due to claimants are considered assets of the claimants. Until actually paid, these assets are held by insurance corporations as reserves.

Public non-financial corporations

Public non-financial corporations are resident non-financial corporations and quasi–corporations controlled by government units. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulation that establish specific corporate policy or all the government to appoint the directors. In PNG this would include those institutions that are controlled by the Independent Public Business Corporation (IPBC).

Quasi Money

A component of total money supply that is not easily convertible to cash on demand and comprises of savings and term deposits.

Repurchase Agreement Facility (RAF)

A money market instrument used by Bank of PNG to lend to or borrow from the commercial banks, for liquidity management, and is unwound on maturity. The terms range from overnight to 14 days and can be collateralised, for instance, using Treasury bills.

Securities other than Shares

These are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other items of economic value. Common securities in PNG include treasury bills and inscribed stocks issued by the Government and Central Bank Bills (CBBs) issued by the Bank of PNG.

Shares and Other equity

Shares and other equity comprises all instruments and records acknowledging, after claims of all creditors have been met, claims on the residual value of a corporation. The components of shares and other equity include: (a). Funds contributed by owners; (b). Retained earnings; (c). Current year profit and loss; (d). General and special reserve; and (e). Valuation adjustments.

Tap Facility

A facility conducted by the Bank of PNG for sale of Treasury bills and Inscribed stocks to the public. Temporary Advance Facility A statutory mechanism stipulated under Section 54 of the Central Banking Act 2000, that provides the National Government with access to short-term financing to meet mismatches in revenue.

Trade Account

Records all economic transactions associated with merchandise exports and imports of physical goods.

Trade Weighted Index[6]	The Trade Weighted Index (TWI) measures the value of the kina against a basket of currencies of PNG's major trading partners.
Treasury Bill	Government security or debt instrument sold at a discount value, but redeemed at face value on maturity or purposes of Budget financing. In PNG, Treasury bills are issued for 28, 61, 91, 182 and 364 day maturities.
Trimmed-mean CPI measure	A fixed proportion of prices at each end of the distribution of price changes are zero weighted and the mean of the remaining price changes recomputed. See also 'Underlying CPI'.
Underlying CPI (exclusion-based and Trimmed-mean CPI measures)	A measure of inflation that excludes short-term volatile movements in prices, such as seasonal factors, Government policy decisions and price controlled items.

[6]See 'For the Record' p.24 in the 2005 September QEB.

REFERENCE "FOR THE RECORD"

Some issues of the Quarterly Economic Bulletin (QEB) have 'For the Record' as additional information relating to changes introduced to various statistical tables. The following 'For the Record' have appeared in the QEB since March 2000.

Issue		For the Record
Mar 2001	-	Introduction of Monthly Kina Facility Rate
Jun 2001	-	Changes to Table 10.2: Prices and Wages
Dec 2001	-	Measures of Inflation
	-	Changes to Table 7.1: Commercial Banks Interest Rates
	-	Changes to Table 7.2: Other Domestic Interest Rates
	-	Changes to Table 10.2 Prices and Wages
Jun 2002	-	Exclusion of QEB Tables 4.2: Rural Development Bank of PNG and Table 10.1: Indicators of Economic Activity
Mar 2003	-	Changes to Balance of Payments Tables
	-	Bank of PNG Employment Index: Changes to Table 10.4 and Table 10.5
	-	Regional and Industrial Classifications and Abbreviations
Jun 2003	-	Changes to Open Market Operations Instruments
	-	Directions of Merchandise Trade
Sep 2003	-	Changes to the Treasury Bills Auction Allocation Process
Dec 2003	-	Further Change to the Treasury Bills Auction Allocation Process
	-	Bank of PNG Employment Survey
Sep 2004	-	Introduction of Central Bank Bill (CBB)
Mar 2005	-	Changes to Table 9.5 to include Exports from Napanapa Oil Refinery
	-	Changes to Tables 1.2 and 1.3 'Other Items (Net)'
June 2005	-	Changes to Tables 8.2 and 8.5 'External Public Debt'
Sep 2005	-	Trade Weighted Exchange Rate Index
	-	Employment Index - Changes to Tables 10.4 and 10.5
	-	Central Bank Bill (CBB) Auction - Changes to Tables 3.8 and 7.2
Mar 2006	-	Updated Weights for the Trade Weighted Index (TWI)
June 2006	-	Expansion of Monetary and Financial Data Coverage
	-	Upgrade of PNG's Private Debt and Equity Recording System
Dec 2006	-	Changes to Table 8.1 - Capital Transfers
Jun 2007	-	Revisions to the March Quarter 2007 and December Quarter 2006 Consumer Price Index
Jun 2007	-	Debt Ratios
Sep 2007	-	Revisions to the Consumer Price Indices in June Quarter 2007 back to September Quarter 2005.
Mar 2008	-	Updated Weights for the Trade Weighted Index (TWI)
Mar 2009	-	Changed Monetary Policy Statement release month from January to March
Mar 2009	-	Updated Weights for the Trade Weighted Index (TWI)
Dec 2009	-	New Tables; 8.7, 8.8, 8.9 and 8.10 were included in the December Quarterly Economic Bulletin, resulting in subsequent renumbering of all other tables that follow.
Dec 2009	-	Revisions to Monetary and Financial Statistics tables in the December 2009 Quarterly Economic Bulletin.
Jun 2010	-	Expansion of Monetary and Financial Data Coverage.
Sep 2010	-	Recalculation of months of import cover
Mar 2011	-	Updated Weights of the Trade Weighted Trade (TWI)

REFERENCE

Each issue of the Quarterly Economic Bulletin contains a review of economic conditions for the past quarter and a comprehensive set of updated statistical tables. Articles of special interest to current economic policy are also prepared by Bank staff for inclusion in the Bulletin. The following articles have appeared in the Quarterly Economic Bulletin since December 1998.

Issue	Title
Dec 2000	Semi-annual Monetary Policy Statement, January 2001
Jun 2001	Semi-annual Monetary Policy Statement, July 2001
Dec 2001	Semi-annual Monetary Policy Statement, January 2002
Dec 2001	The 2002 National Budget
Jun 2002	Semi-annual Monetary Policy Statement, July 2002
Sep 2002	The 2002 Supplementary Budget
Dec 2002	Semi-annual Monetary Policy Statement, January 2003
Dec 2002	The 2003 National Budget
Mar 2003	Special article: Export Price Index, Volume Index and Weights Calculations Methodology
Jun 2003	Semi-annual Monetary Policy Statement, July 2003
Dec 2003	The 2004 National Budget
Dec 2003	Semi-annual Monetary Policy Statement, January 2004
Sep 2004	Semi-annual Monetary Policy Statement, July 2004
Dec 2004	Semi-annual Monetary Policy Statement, January 2005
Dec 2004	The 2005 National Budget
Jun 2005	Papua New Guinea's Total External Exposure
Jun 2005	Semi-annual Monetary Policy Statement, July 2005
Dec 2005	The 2006 National Budget
Dec 2005	Semi-annual Monetary Policy Statement, January 2006
Jun 2006	Papua New Guinea's Total External Exposure
Jun 2006	Semi-annual Monetary Policy Statement, July 2006
Dec 2006	The 2007 National Budget
Dec 2006	Semi-annual Monetary Policy Statement, January 2007
Jun 2007	Papua New Guinea's Total External Exposure
Jun 2007	Semi-annual Monetary Policy Statement, July 2007
Jun 2007	Supplement to the July 2007 Monetary Policy Statement
Dec 2007	The 2008 National Budget
Dec 2007	Semi-annual Monetary Policy Statement, January 2008
Jun 2008	Papua New Guinea’s Total External Exposure
Jun 2008	Semi-annual Monetary Policy Statement, July 2008
Dec 2008	The 2009 National Budget
Dec 2008	Monetary Policy Statement, January 2009 Update
Mar 2009	Monetary Policy Statement, March 2009
Jun 2009	Papua New Guinea’s Total External Exposure
Sep 2009	Monetary Policy Statement, September 2009
Dec 2009	The 2010 National Budget
Dec 2009	Monetary Policy Statement, March 2010
Mar 2010	Papua New Guinea’s Total External Exposure
Sep 2010	Monetary Policy Statement, September 2010
Dec 2010	The 2011National Budget
Dec 2010	Monetary Policy Statement, March 2011
Jun 2011	Papua New Guinea’s Total External Exposure

STATISTICAL SECTION

Sources

Statistics for the commercial banks have been derived from returns submitted to the Bank. Statistics on Savings and Loan Societies and Papua New Guinea Government securities are derived from sources within the Bank.

Government financial statistics are supplied by the Department of Finance and Treasury.

Information on prices of Papua New Guinea exports are gathered from marketing boards or export producers; world indicator prices are reproduced from the Public Ledger published in London. Tea prices are from the Tea Market Report, London. The general indices of commodity prices are constructed from data published in The Economist, London.

Most other statistics are published initially by the National Statistical Office.

Symbols used

n.a	not available
..	figure less than half the digit shown
-	nil
e	estimate
f	forecast
p	provisional
r	revised
n.i.e	not included elsewhere